BOSTON CONSULTING GROUP

BCG Transform & Special Situations Index 2024 -TSS Index-

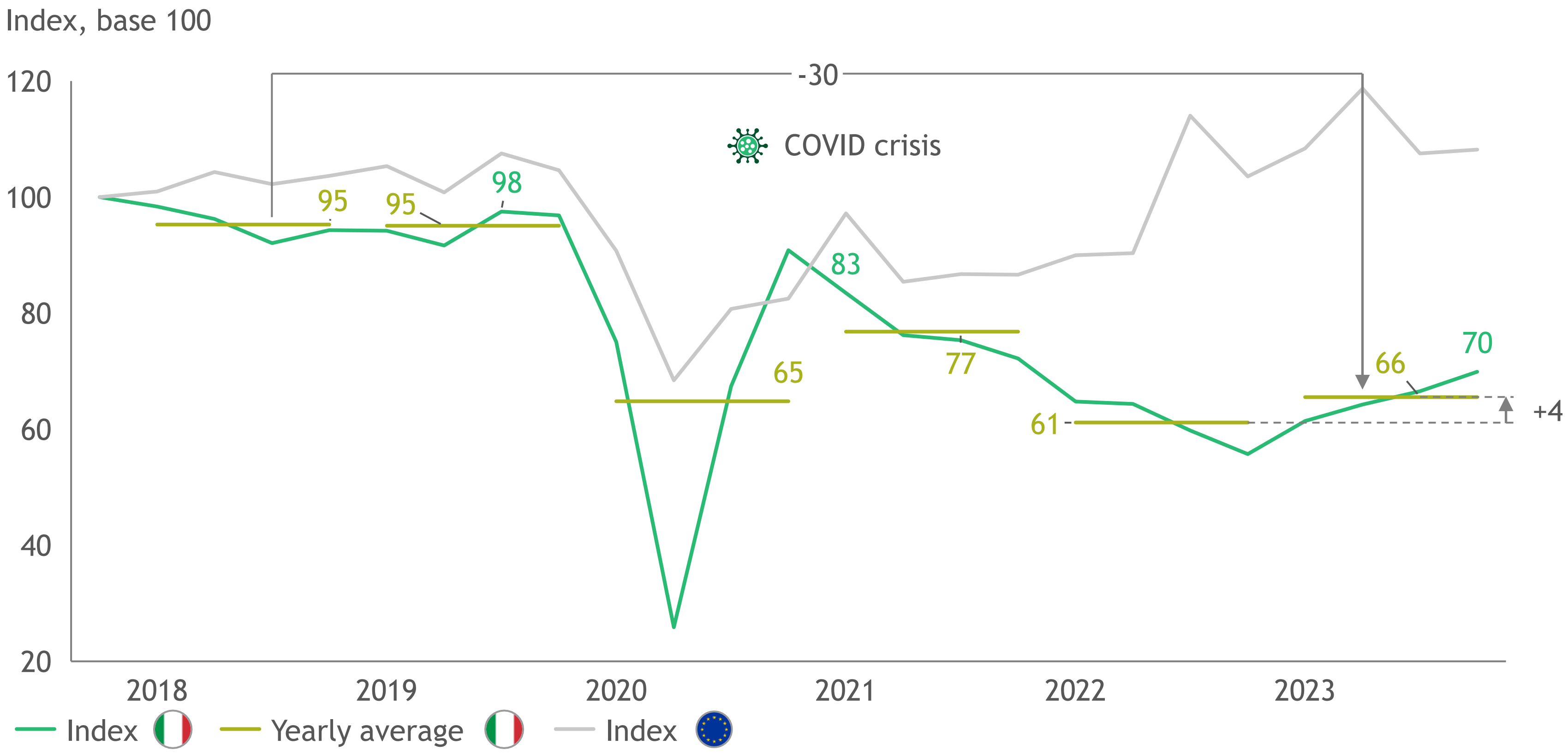
Italy/Southern Europe

JUNE 2024

+4pp in insolvencies over last year, below pre-COVID level and European average

Insolvency filings: Q1 2018 through Q4 2023

Indexed development of the number of insolvencies (2018 at 100)



1. NPE = nonperforming exposure. 2. GBV = growth book value.
Sources: Eurostat; International Monetary Fund; BCG analysis.

+4pp +11pp

insolvencies 2023 vs. 2022

-30pp +8pp

insolvencies vs. pre-COVID period

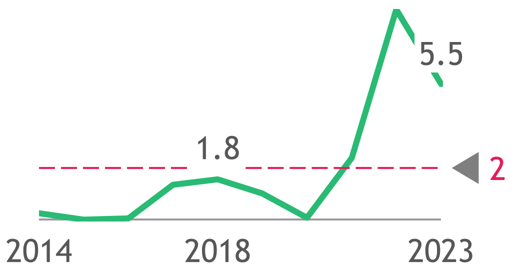
- Italy with very limited increase in insolvencies (+4pp vs. 2022) also due to highest liquidity support through COVID crisis (35% of GDP vs. 7% for EU)
- A new corporate restructuring code finally came into force in 2022, fostering early resolution of corporate crisis and debtor-friendly solutions
- High level of debt, increasing default risk for upcoming years (total NPE[1] stock on banking books remains significant with €311 billion GBV[2] in December 2023)

Continuing macroeconomic headwinds suggest that transformation and restructuring pressures will stay strong in the next 24 months

Inflation tripled vs. pre-COVID

Consumer inflation/PPI in Eurozone (Mar 2024)

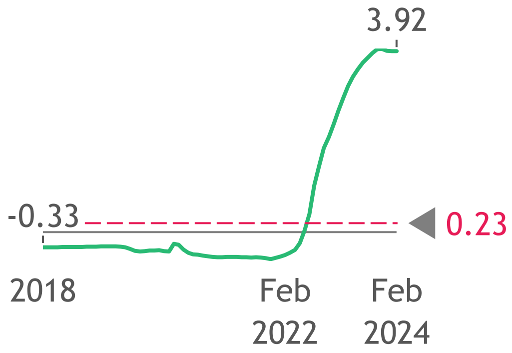
10-year average, 2014–2023



Interest rates have skyrocketed for last 2 years

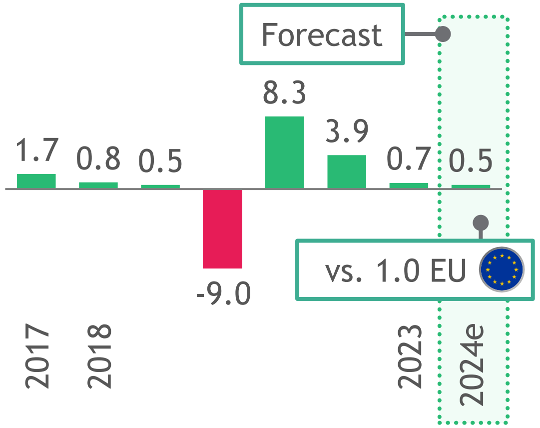
3-month Euribor rate (%)

10-year average, 2014–2023



GDP growth halved vs. pre-COVID

Real GDP (% change p.a.)

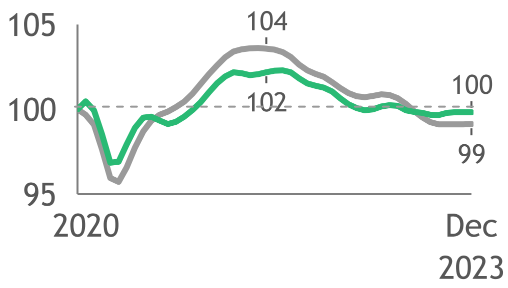


Business confidence decreasing

OECD business confidence index

Business confidence France

Business confidence index EU



Geopolitical instability: conflicts and tensions in Eastern Europe, Middle East, and Asia; >50% of worldwide population electing new government in 2024

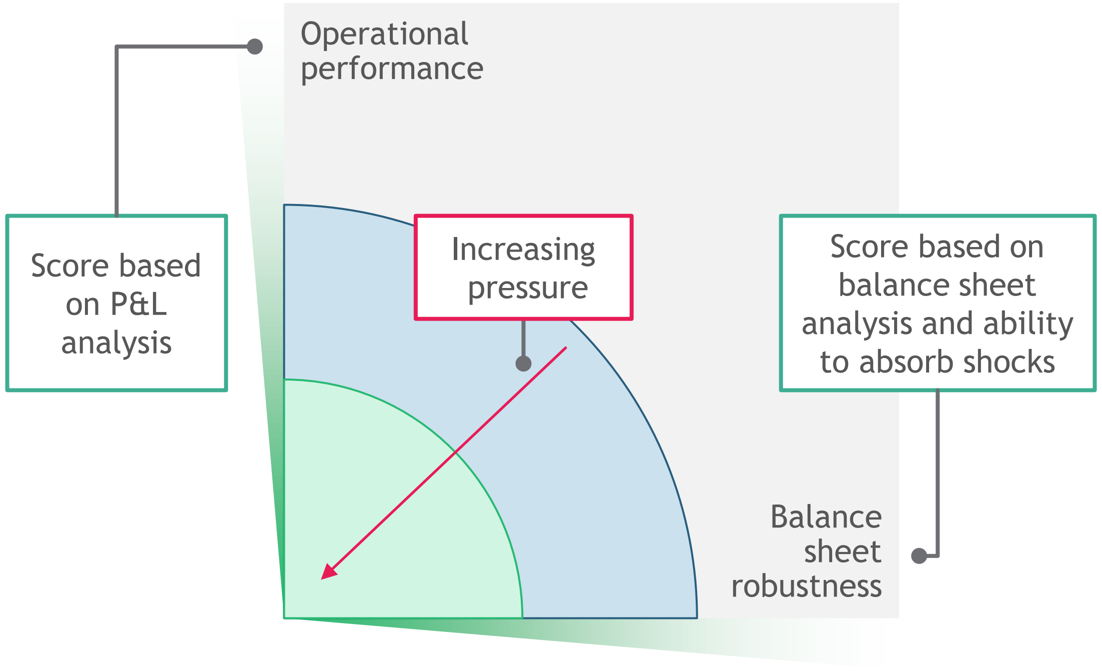
High public debt; midmarket economy driven by bank financing, tourism recovery

Note: Latest data available as of March 13, 2024.
Sources: Eurostat; European Central Bank; Oxford Economics; OECD; BCG analysis.

BCG Transform and Special Situations (TSS) Index identifies companies showing signs of weak operational performance and undercapitalization

1 Transformation and restructuring pressures by sector

Assessment of about 2,000 European public companies and analysis of 12 performance and financial stability KPIs



Transformation pressure | Restructuring pressure

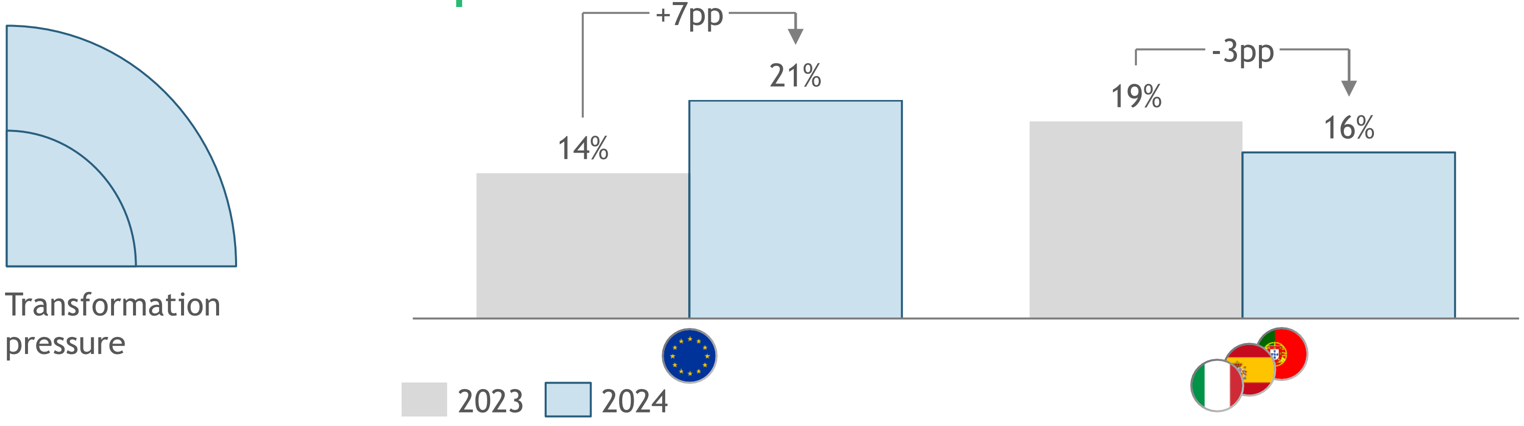
2 Forward-looking view

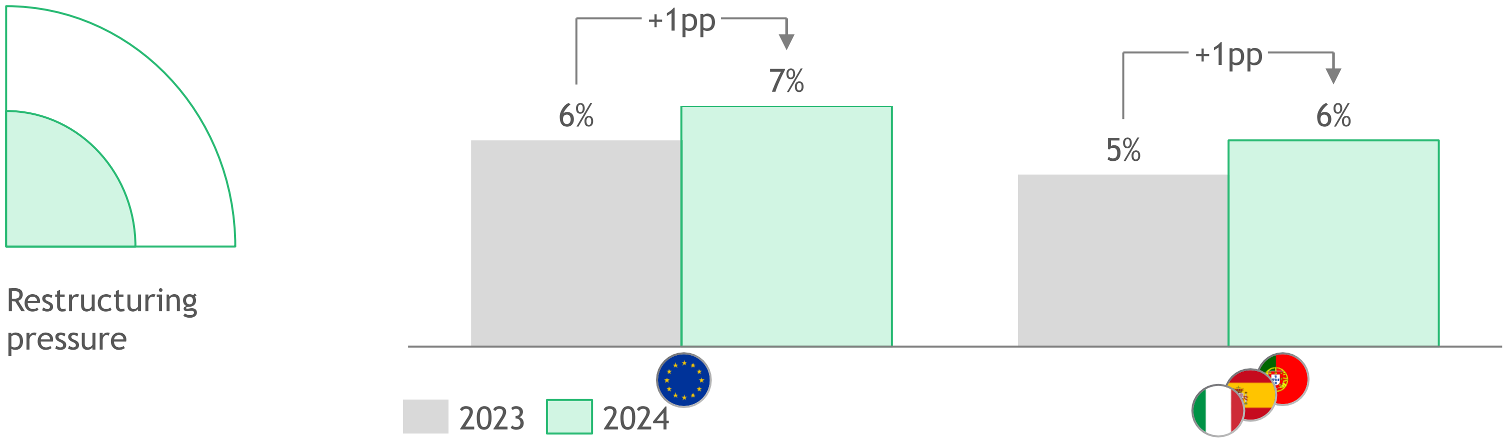
Assessment of sector dynamics based on AI-powered sentiment analysis and insights from sector experts

- AI-powered sentiment analysis to synthesize insights from market and company documents (including earnings calls transcripts) and all publicly available materials
- Targeted in-depth interviews with industry experts
- 200+ European executives surveyed on their perspectives, priorities, and challenges for 2024

Note: Transformation pressure—initial signs of weakening operational performance and financial stability require optimization. Restructuring pressure—clear signs of weak or negative operational performance and undercapitalization require more structural steps to recover.
Source: BCG analysis.

In Southern Europe, restructuring pressure has increased in 2024 despite decline in overall transformation pressure





About 1 in 6 companies face significant transformation pressure in Southern Europe

About 1 in 17 companies face significant restructuring pressure in Southern Europe

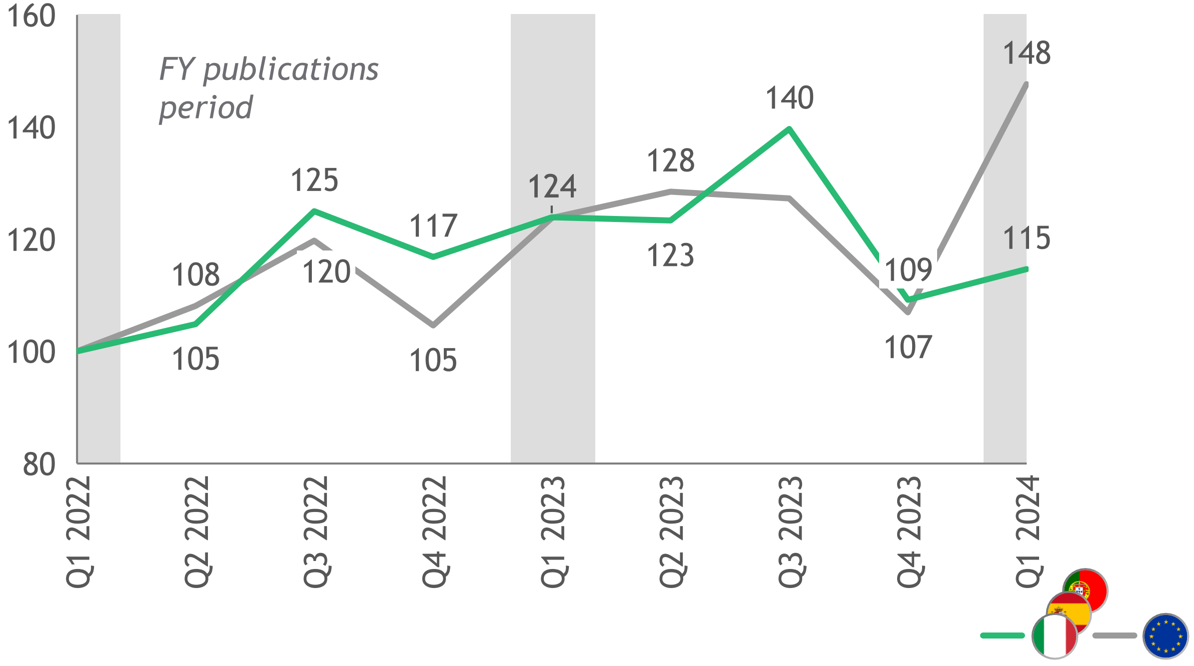
Note: The BCG Transform and Special Situations Index is based on share of revenue. Southern Europe comprises Italy, Spain, and Portugal.
Sources: S&P Capital IQ; BCG analysis.

AI-powered sentiment analysis shows transformation topics are currently gaining momentum while restructuring is being discussed on 2022 level

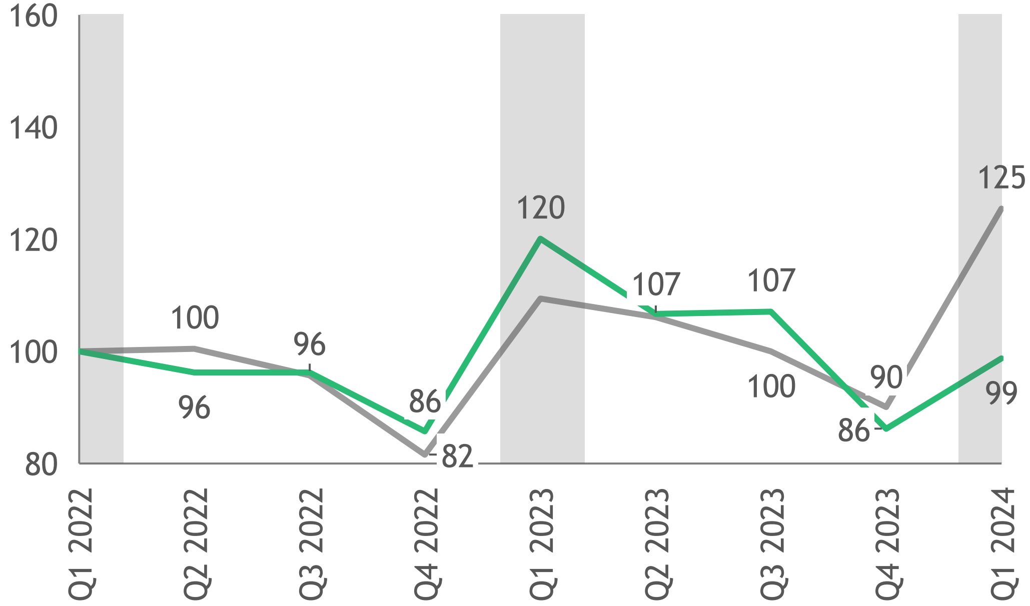
Development of transformation and restructuring citations in public company documents

Q1 2022 through Q1 2024, index, base 100 = Q1 2022

Relative frequency[1] of transformation-related company talks



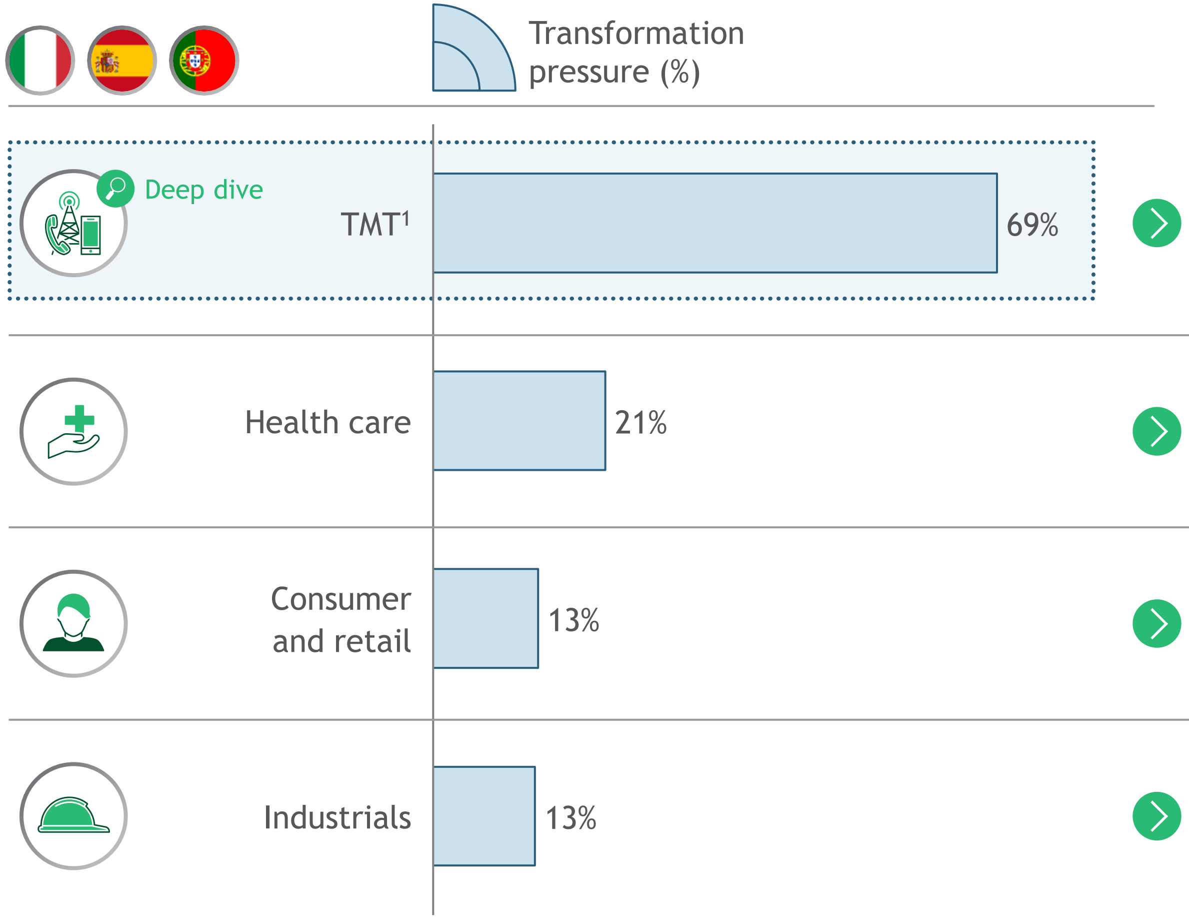
Relative frequency[1] of restructuring-related company talks



1. Alphasense trend score (based to 100 for Q1 2022), calculated based on all publicly available documents (company documents, research documents, transcripts), smoothed quarterly data.

Sources: AlphaSense; BCG analysis.

Transformation pressure on TMT is peaking, while pressure on health care and consumer and retail is expected to be strong



TMT

- Cost pressure and demand decline is driving consolidation tendencies in telecom business, with recent major deals splitting ServCo and NetCo
- Increase in interest is a burden on next refinancing for asset-heavy telecom infrastructure companies (e.g., rollout of FTTH)
- Nonlinear as new way of consuming entertainment and arrival of digital players is weakening traditional media players

Health care

- Health care system requiring investments for modernization
- Global API shortages disrupting supply chain of pharmaceutical companies
- Aging population and increasing chronic diseases putting pressure on health services and public system

Consumer and retail

- Underperforming retail sector weakening consumer main distribution channel
- Demand decline for retail with lower consumer confidence level and proliferation of pure digital players

Industrials

- Geopolitical tensions putting continued pressure on costs (e.g., labor, energy, steel, aluminum) and supply chain
- Competition from China (e.g., in automotive and mechanical engineering) that floods markets with lower-priced goods (overcapacity)
- ESG regulations (e.g., net zero strategy) requiring large investments for SMEs

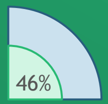
1. TMT = technology, media, and telecommunications.
Note: Sectors with more than ten companies in scope.
Source: S&P Capital IQ; BCG analysis.

TMT[1]

Key figures

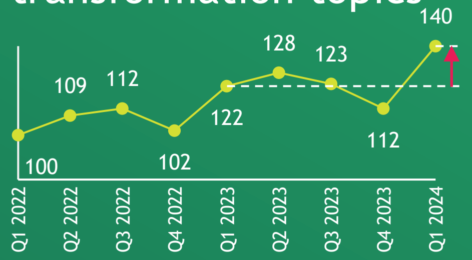
69% vs. 18% in 2023

Restructuring pressure



Transformation pressure

Restructuring and transformation topics[2]



+18pp vs. 2023[3]

Top executive views

59% vs. 34% in — Worried about uncertain economic outlook

25% vs. 18% in — Worried about human capital and talent accessibility

65% vs. 10% in — Have margin enhancement as their top priority for 2024

Key trends and challenges in Southern Europe

Demand decline

Inflationary pressure on both households' and companies' expenses leading to decrease in media and telecom spending

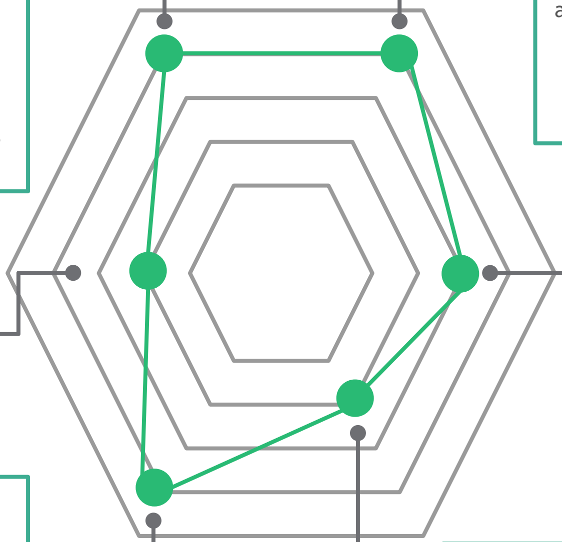
Risk of commoditization of telecom business driving operators to look for differentiation (e.g., bundling content into unique offering with external partnerships)

Nonlinear consumption of media content inducing sectorial transformation with traditional players/broadcasters losing market share vs. digital players (e.g., GAFAM) and OTT services

Cost pressure

Inflation pressure on high fixed cost base (e.g., energy costs for energy intensive telecom networks, labor costs)

Moving from **revenue growth to cost avoidance** leading to consolidation tendencies in media and telecom industries



Supply chain disruption

Debt/financing costs

Increase of interest rates (4.0% in Feb 2024 vs. -0.5% in Feb 2022) in conjunction with high capex requirements for network upgrades (e.g., fiber and 5G) or development (buying of frequencies) with unclear return on investment

Lack of attractiveness for investors leading to **separation of telcos into NetCo and ServCo entities**

Technological disruption

AI and GenAI game-changing impact:

- Improvement of telecom network efficiency
- Hyperpersonalization of content for marketing/advertising for media players

Continued expansion of connectivity, **5G-enabled use cases**—including autonomous vehicles—and 6G future rollout (from 2030)

Increased cybersecurity threats

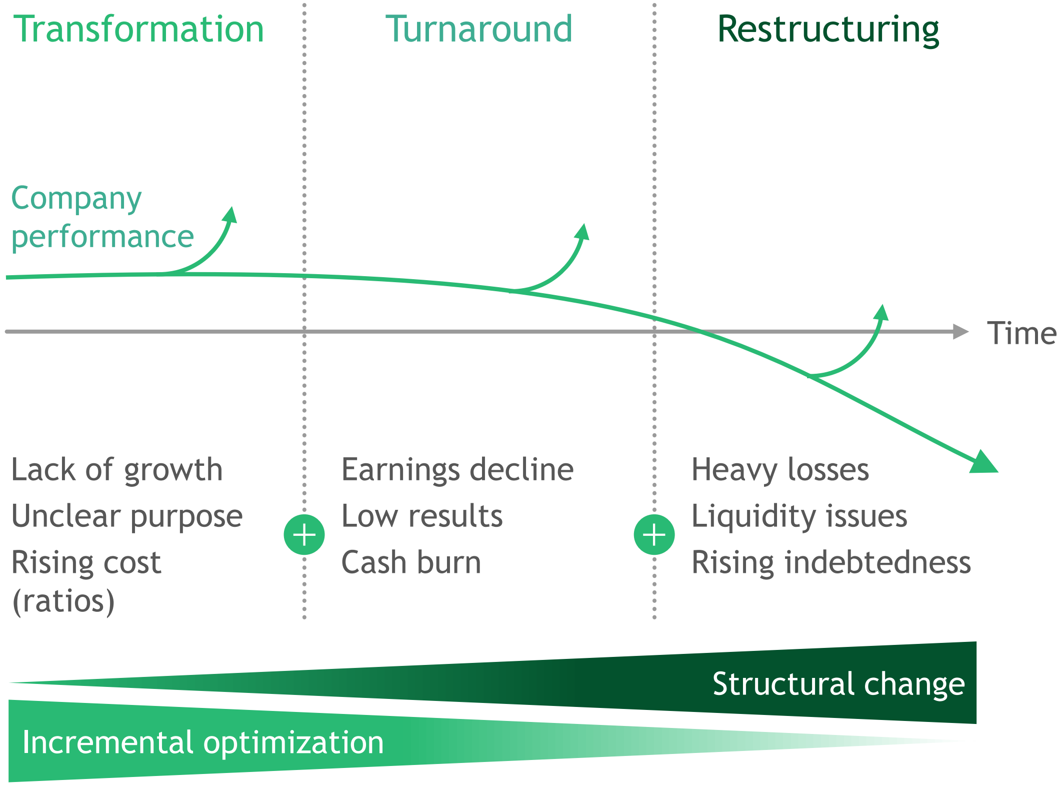
Regulatory pressure

Intent of recent EU initiatives (e.g., Digital Markets Act) to **limit the dominance of big tech** and deter anticompetitive conduct

Enforcement of EU Gigabit Infrastructure Act, first step toward a **single market for telecom industry** to maintain EU competitiveness

1. TMT = technology, media, and telecommunications. 2. Relative frequency of restructuring and transformation topics via public citations. 3. Comparing Q1 2023 with Q1 2024.
Sources: S&P Capital IQ; AlphaSense; BCG analysis and BCG expert views; BCG C-Suite survey 2024.

BCG Transform assists companies for transformation, turnaround, and restructuring



Typical transformation offering

Full potential plan (FPP)
FPP development includes cost efficiency, NWC optimization, and CTO offering

Execution support/ transformation office (TO)
Aligning, monitoring, and steering large-scale transformation programs

Typical special situations offering

Strategic options review
Evaluation of options afforded by local restructuring legislation and other statutes for maximizing residual going concerns

Cash office
Establishing 13-week as well as midterm liquidity planning and actively managing cash

Source: BCG.

Your BCG special situations local experts to assist you along your journey

Lamberto Biscarini
Managing Director & Senior Partner
Milan

Giuseppe Farinacci
Partner & Director
Milan

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