



# How will European companies ever catch their US peers?

August 11, 2025

Europe's financial markets have been losing ground to the US for well over a decade. Concerns about this have recently grown to a crescendo as companies with European listings have moved them to the US to take advantage of higher valuations and deeper capital markets. Despite the recent questions about the decline of US exceptionalism, the appeal of US markets does not appear to be waning.

The problem for Europe is two-fold. First, European companies routinely generate thinner returns than US companies. Second, several megatrends are set to hurt the continent's companies more than their US peers. They include being caught in the middle of trade and military geopolitical conflicts, the domestic political shift to the hard-right, concerns about rising sovereign debt, and ageing populations.

Fixing the crisis of European underperformance is all the more urgent as we enter a new corporate age. In this age, the prior tailwinds of rising profit margins and cheap debt have died down. That is forcing companies to find new sources of value. This is a particular problem for European companies as many do not have business models that allow them to scale in the same way as many US companies.

So, what can European chief executives do to catch up to US companies? This paper aims to answer this question by focusing on the one thing that is well-and-truly within their control – making their companies more efficient.

Efficiency is not a nebulous term. We show the hard financial logic behind what efficiency actually means and how it translates into higher share prices. We also present two case studies of companies that were in trouble, pivoted, and have since reaped the rewards.

## European companies underperform their peers in the US

Many European companies sell world-leading goods and services. This is not in question. But, European companies are frequently much better at creating their products than they are at designing businesses around them.

The most telling metric that demonstrates how European companies underperform their US peers is return on equity. This shows how much profit a company generates as a percentage of the equity that shareholders have given it. The chart below shows how US companies are extending their lead over their underperforming peers across the Atlantic.

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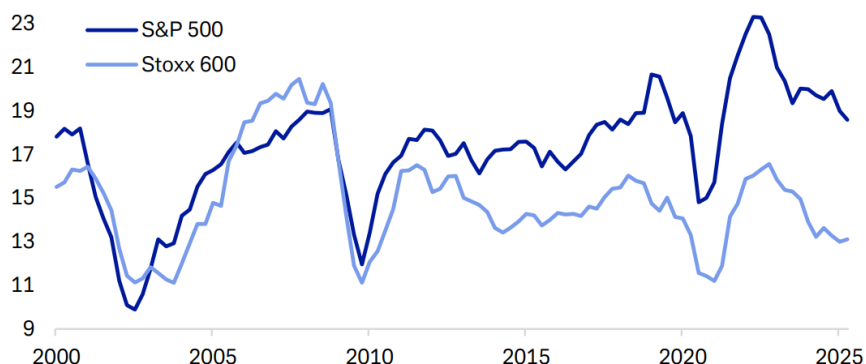
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**Figure 1: Median return on common equity (%) \***



Source : Bloomberg Finance LP, Deutsche Bank. \* Note: excluding financials, real estate and utilities.

Indeed, US companies have increased their RoE lead over European companies since the '08-'09 financial crisis. As the above chart shows, the gap today sits at almost six percentage points (19% compared with 13%). And, even though companies on both sides of the Atlantic have seen their RoE drop since the 2022 peak, the gap that built up during the covid-stimulus period has broadly been maintained as the US has generally made a better recovery than have many European countries.

### **Why are European companies underperforming those in the US?**

Explanations for US business exceptionalism tend to involve factors like the regulatory environment, the internal market, and capital pools. Of course, these things are all part of an important conversation, but they are factors are usually external to the company. They cannot be affected by management.

So, European chief executives need to focus on what they can control. And, the main thing they can do is make their companies more efficient. Efficiency is not a nebulous concept – it is a financial measure of how much revenue a firm generates from its assets, and it can be achieved with mathematical precision. This is the easiest way forward for European firms, in our view.

The need for change is urgent. Indeed, if European companies do not adjust their operations in short order, the gap between them and their US peers is likely to widen. When that critical point is reached, the flow of companies and capital towards the US will likely become a flood and Europe's capital markets may be irreparably damaged.

### **The old tailwinds are gone – that makes efficiency the most important corporate growth driver**

For a chief executive to grasp the opportunity to make their company more efficient, they must let go of the strategies they have previously relied upon – at least those that are less relevant than in the past.

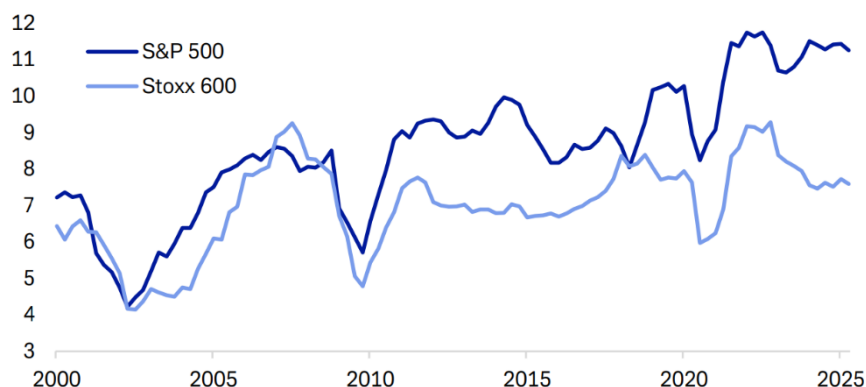
What are these 'less relevant' strategies? When we look at how companies have performed through most of the course of this century, there have been two big tailwinds to growth. These have been around for so long that many investors now take them for granted. Yet, these tailwinds have now calmed and, in some cases, are reversing, particularly for European companies.



## 1. Profit margins

Both US and European companies have relied on rising profit margins to generate returns over the course of this century. Yet, the following chart shows how, in the last three years, these margins have plateaued in the US among S&P 500 companies and fallen in Europe among the Stoxx 600. As profit margins directly feed into RoE, this widening gap has helped drive Europe's underperformance.

**Figure 2: Median net income margin (%) \***



Source : Bloomberg Finance LP, Deutsche Bank. \* Note: excluding financials, real estate and utilities.

There are various explanations for why large US companies have higher profit margins than large European companies. For one, there are more large technology firms in the US and these firms typically have higher margins. However, even adjusting for this, US companies maintain their dominance. Other likely factors include higher industry concentration as mergers and acquisitions have created industry titans, greater economies of scale, more flexible labour laws, better access to funding, and a more widespread culture of entrepreneurship.

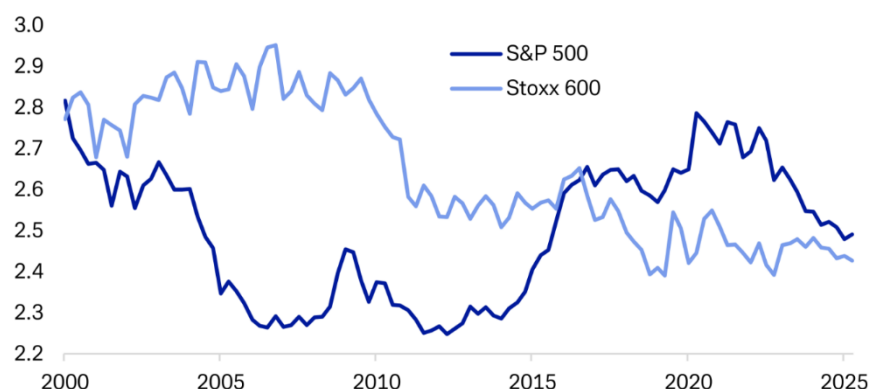
A host of issues now exert significant downward pressure on profit margins in both the US and Europe. Just a few include: rising wage demands and input costs, political pressure to restrict price increases passed onto customers, the worsening perception of business by the general public, and governments putting more emphasis on boosting competition. Hence, the recent plateau in US margins and the decline in Europe.

## 2. Leverage

Debt allows a company to generate higher returns because, simplistically, it allows it to buy more assets that generate profit. This is an easy lever to pull and it is one that chief executives on both sides of the Atlantic have used enthusiastically this century. The following chart shows corporate leverage as a multiple of assets over equity. This is a form of leverage that is hard to fudge unlike some metrics that involve comparing, for example, ebitda.



**Figure 3: Median Financial leverage \***



Source : Bloomberg Finance LP, Deutsche Bank. \* Note: excluding financials, real estate and utilities.

The chart shows European companies aggressively used debt in the early part of the 2000s while US companies were more likely to take advantage of cheap debt after the financial crisis. This allowed companies to lever up and buy assets, pay dividends, or fund buybacks.

Debt, though, is not the driver of returns it once was. In the post-covid era, we expect inflation to remain at more 'normal' levels and above those of last decade. As such, global interest rates, which rose aggressively in 2022, are likely to remain at higher levels into the medium term. Higher interest rates make debt less attractive and have led to deleveraging at most firms.

The upshot is that the era of 'cheap money' is now over. Thus, debt will not be the driver of RoE that it once was even if credit spreads remain low. That will particularly be the case for European firms, which have deleveraged more than US firms. Indeed, European firms have been growing more conservative for some time, having come from a much more aggressive point compared with US firms. Also, consider that the European lending market is more dominated by banks than in the US and, following the European sovereign debt crisis, the continent's financial institutions have implemented tighter lending standards.

### **With the tailwinds waning, companies must become more efficient**

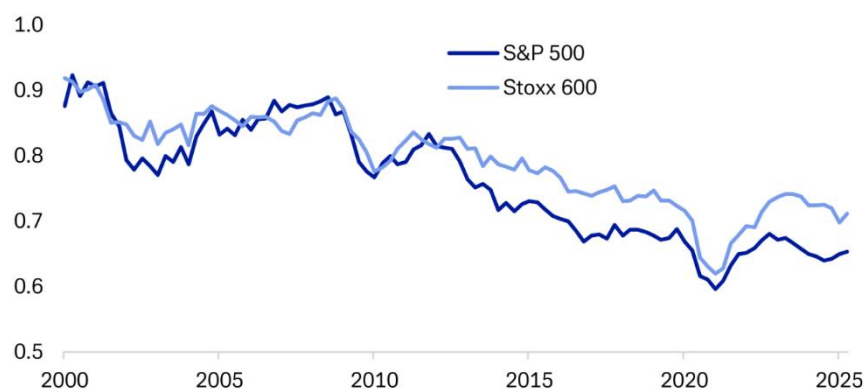
With the era of rising profit margins and cheap debt behind us, there remains one final way in which companies can continue to boost their returns – by making themselves more efficient.

But what exactly does 'efficient' mean? One of the best ways to judge efficiency is to check the amount of sales a company generates from its assets. In other words: How much stuff (equipment, intangibles, working capital etc) does a company need in its operations to generate its revenue?

This tell-all metric is 'asset turnover'. It is one of the purest measures of corporate efficiency and it has been falling for years as companies have let their operations become more bloated.



**Figure 4: Median asset turnover \***



Source: Bloomberg Finance LP, Deutsche Bank. \* Note: excluding financials, real estate and utilities.

The key takeaway is that, in the late 1990s, large European companies generated almost 1 euro (equivalent) in sales for every euro of assets they held. Now, they generate just 72 cents. Just as striking in the chart is the fact that US companies have let their efficiency drop even further. Today, they generate just 66 cents of sales for every dollar of assets. Quite simply, companies on both sides of the Atlantic are becoming less and less efficient.

Most investors have ignored the decline in asset turnover. It is the least discussed component of the famous 'DuPont formula' and is usually glossed over (if stated at all) when companies discuss their quarterly results. Earnings presentations frequently refer to profit margins and leverage, but rarely is asset turnover deemed worthy of comment, perhaps because the metric usually moves far more slowly than the other two.

### Greater efficiency drives higher share prices

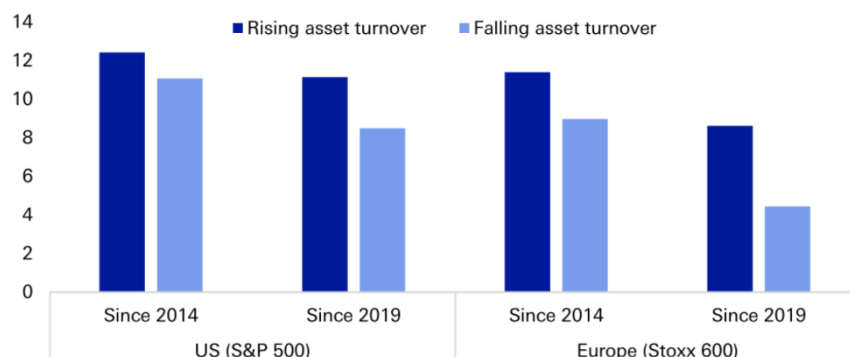
It may seem obvious to say that if a company improves its efficiency, then it will be rewarded by investors. But, given that so few companies have focussed on their efficiency this century, it is important to look at the actual market impact.

If we look back to 2014 when the Fed began to taper its QE programme (reducing the availability of cheap money), US companies that increased their asset turnover added a full percentage point per annum to their share price (in total return terms) over and above that of companies that decreased their asset turnover. The effect since covid is even more pronounced. Since 2019, the outperformance of 'higher asset turnover' companies is 2.5 percentage points.

In Europe, there is a similar trend. Since 2014, 'higher asset turnover' companies have outperformed by 2.4 percentage points and, since covid, have outperformed by 3.5 percentage points.



**Figure 5: Total return of companies\* with rising vs falling asset turnover over the period (pp)**



Source : Bloomberg Finance LP, Deutsche Bank. \* Note: excluding financials, real estate and utilities.

## Myths about asset turnover

From one point of view, it is surprising that asset turnover has steadily fallen over the last two decades. After all, this period has seen the emergence of asset-lite business models and the increase in prominence of technology stocks with limited physical assets. Indeed, in the US, the median S&P 500 company has gross property, plant, and equipment equal to one-third of its assets. That is down from over half its assets 25 years ago, on Bloomberg data.

Yet while the proportion of tangible assets is falling, overall assets are still expanding relative to sales. Two reasons are commonly cited. The first is that corporate balance sheets hold large amounts of cash, thereby inflating their asset figures. Yet, when we compare the decline in asset turnover with the same ratio excluding cash, we can see the rate of decline is almost identical. This is the case in both the US and Europe.

Others say declining asset turnover is the result of all the mergers and acquisitions that have taken place over the last few decades. The argument goes that all the extra goodwill (and other intangibles) on company balance sheets should be ignored for the purpose of calculating returns. This is worth challenging. Certainly, goodwill on corporate balance sheets has greatly expanded over the last two decades. However, when we compare the decline in overall asset turnover with the same ratio excluding goodwill, we can see the rate of decline is very close in both the US and Europe. In other words, goodwill is not skewing the overall trend of falling asset turnover.

## Why are companies so inefficient?

In part, it is understandable that managers let asset turnover slide. After all, over the last few decades, business conditions have made it easy to generate returns in other ways. Aside from rising profit margins and cheap money, corporates have benefited from supportive governments and relative geopolitical peace. This all incentivised companies to borrow money, bloat their balance sheets with M&A, and outsource operations to boost profits. Share buybacks have also helped inflate earnings-per-share figures. As a result, balance sheets suffered, assets were used less efficiently, and asset turnover fell.

## Entering the efficiency era

It is normal for corporate eras to come and go. The 1970s and 80s were the conglomerate era of corporate expansion. In the 1990s, this turned into the specialisation era where companies such as GE dominated. In the late 1990s-

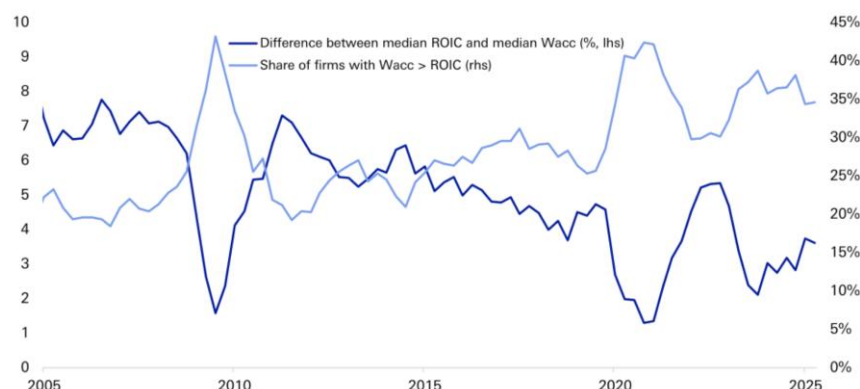




early 2000s, the internet age emerged, and then the mid-2000s to early 2020s was the era of cheap money and rising profit margins.

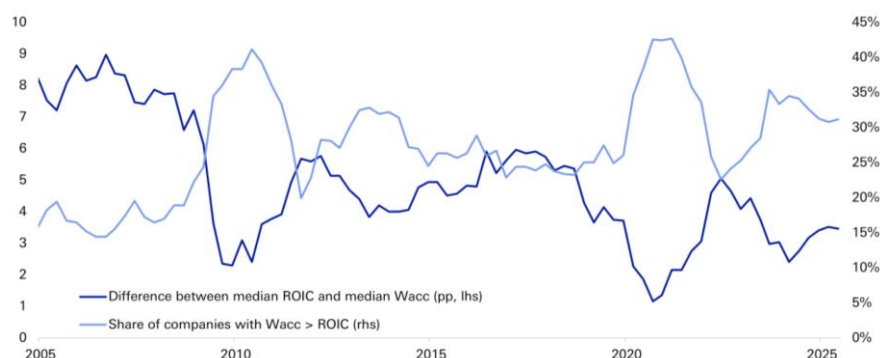
The end of the latest era means the dawn of a new one. Today, we are entering the 'efficiency era'. Whether or not companies like it, they will likely be forced to adapt or witness their own decline. Indeed, this new era has already exposed many companies which have less efficient business models. A stark way to view this is to look at the number of companies that have, in recent years been unable to cover their cost of capital.

**Figure 6: A growing share of corporates return less than the Wacc – Russell 1000 \***



Source : Bloomberg Finance LP, Deutsche Bank. \* Note: excluding financials, real estate and utilities.

**Figure 7: ... It is a similar trend in Europe – Stoxx 600 \***



Source : Bloomberg Finance LP, Deutsche Bank. \* Note: excluding financials, real estate and utilities.

As the above charts show, the proportion of both US and European companies where their cost of doing business (WACC) is greater than the returns from their business (ROIC) has grown over the last decade, on Bloomberg data. In the US, this effect has been particularly noticeable since the Fed began to taper its QE programme in 2014. Similarly, in Europe, the post-covid jump in troubled businesses coincided with the ECB raising its interest rates in 2022 after a decade close to zero.

### Why European companies should care more about efficiency

Corporate efficiency is more important for European companies than it is for US companies because the big companies in Europe tend to lean more towards being 'traditional' companies. These are companies that fall under, for example, the 'industrials' banner. They are companies that make things and have processes that lend themselves to being optimised. That is a contrast to the US where there are relatively more companies that run business models that are designed to 'scale'. These are companies that are looking to grow by selling to the

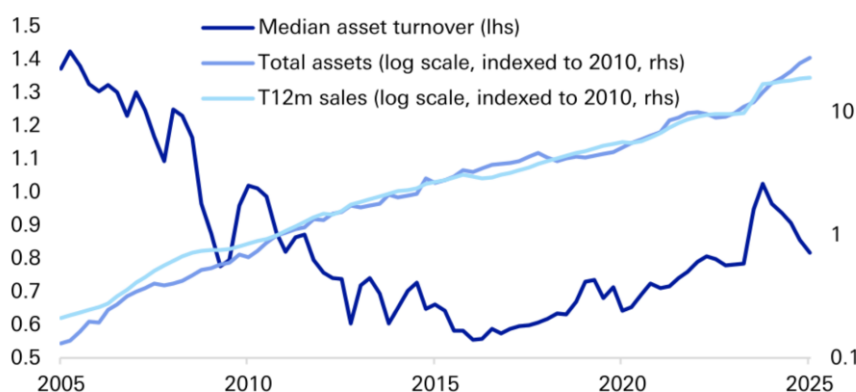


very large internal market. Optimising business processes for these companies is, thus, relatively less important.

### What the Mag-7 tell us

The Magnificent-7 technology companies, which include Nvidia, Microsoft and Apple, illustrate this US-Europe divide. These are the biggest companies that power the US stock market and they are, with some exceptions, the beneficiaries of business models that are based on scale. In other words, they create a product and then sell it to many people around the world for relatively little additional cost.

**Figure 8: Median metrics for Mag-7 companies\***



Source: Bloomberg Finance LP, Deutsche Bank. \* Note: data for Tesla and Meta since 2010.

As a result of the Mag-7's scale-based businesses, and the fact that some of them operate in a winner-takes-most environment, they have been able to generate additional sales even as their asset base has grown. Hence, their asset turnover has continued to climb over the last decade even as most other companies have struggled. Most large European companies cannot compete in this way.

### What can companies do? Two case studies

How do companies generate more revenue from fewer assets? There is no magic formula – the answer will differ from company to company. However, there are some avenues that all companies should explore as they strive to become more efficient. Below, are two case studies of companies that boosted their asset turnover and reaped the rewards. The first is from the US and the second from Europe.



## 1. A O Smith (US) – “Less is more” through acquisitions

A O Smith is an American capital goods company focused on water heaters and boilers as well as water treatment solutions. The firm traces its origins to a Milwaukee machine shop established in 1874.

Throughout the 2000s, the company made several acquisitions in the water heating and treatment sector which included the purchase of GSW for \$340mn in 2006, the largest deal in the company’s history. As a result, the company’s asset base grew 69% between 2000 and 2008, in tandem with its revenues (66%).

A tipping point came in 2011 when A O Smith decided to focus solely on the water business where management determined longer-term demand projections were often underpinned by greater access to clean water and an increased focus on energy efficiency. As a result, the company divested its motor business. Even though it continued to acquire new capabilities through M&A, it consolidated its business strategy around the stable, recurring revenues of the water business, mainly in North America (74% of revenues today) but also via growth opportunities in China and India.

The decision to focus on the water business reaped steady rewards. In terms of corporate efficiency, since the motor business was sold in 2011, A O Smith’s asset turnover improved from 0.74x to as much as 1.23x in 2024 (it sits just below this level now). That improvement was driven by sales more than doubling over the period, offsetting a 40% increase in its assets. The company joined the S&P 500 in 2017.

The focus on one business also helped the company improve its normalised profit margin from an average of about 6% in 2011 to about 14% in 2024. Meanwhile, its normalised RoE jumped from about 10% to 30%. That was all despite its leverage falling from 2.2x to 1.7x over the period.

**Figure 9: AO Smith's asset turnover and relative performance**



Source: Bloomberg Finance LP, Deutsche Bank.

A more stable revenue base combined with a strong credit profile allowed the company to focus on shareholder payouts – its dividends have grown at an average rate of 8% over the last five years. Indeed, A O Smith’s share price has risen 9.9x on a total return basis since the strategic pivot. That has comfortably outpaced the 6.3x return on the S&P 500.

## 2. Bilfinger (Germany) – Efficiency focus through divestments

Bilfinger is a German industrial services company that helps business customers from industries including chemicals, energy and pharma with technical maintenance, manufacturing, engineering, and consulting services. It splits its business across “engineering & maintenance” and “technologies” segments, with the former generating 85% of revenues (71% in Europe). Its corporate history can be traced back to 1880s and three construction companies that later merged in 1969 and 1975.

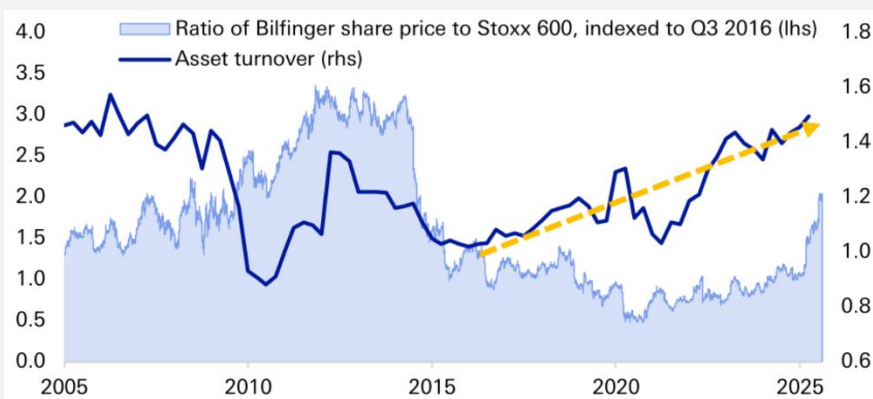
Bilfinger’s transition from construction to services started in 2002. In 2014, troubles in certain divisions led to impairments, restructuring, and profit warnings. The internal turmoil weighed heavily on the company’s financial results and share price for several years.

In 2016, Bilfinger made a pivot. Management decided to focus solely on industrial services and it divested its real estate services and construction activities.

This more focused, asset-light business model helped Bilfinger lift its asset turnover from 0.96x in 2016 (when the real estate services sale was finalised) to 1.58x in 2025. Much of that gain in corporate efficiency was due to the company simply generating more revenue with fewer assets – the growth rates of the two have sustainably decoupled this decade. To illustrate, sales are now 24% higher than in 2016, while assets are down by 16%.

The focus and efficiency drive is helping the company rebuild its profitability after the drop in the late 2010s. Indeed, its operating margin has risen from - 5.6% in 2016 to 5.1% in 2024. Financial leverage has also declined and the company has no net debt. This all helped rebuild its RoE back to mid-teens.

**Figure 10: Bilfinger's asset turnover and relative performance**



Source: Bloomberg Finance LP, Deutsche Bank.

After years of Bilfinger’s share price moving sideways following the 2014 slump, investor confidence in the company may be finally recovering. Bilfinger’s share price has now surpassed its previous record high from 2014. And since its real estate-services divestment in 2016, the company has delivered a total return of 393%, outpacing both the Stoxx 600 (115%) and the MDAX (46%), where it is an index member.



## What to do? Spin-offs

A clear commonality between the two case studies is that both companies boosted their value after deciding to focus on a smaller number of business segments. This involved selling non-core business divisions. That can mean a smaller company and lower headline revenues – something that goes against the grain of the big corporate trends of this century.

Given that the new ‘efficiency era’ is causing investors to care more about corporate yield than company size, we expect spin-offs to become more commonplace. We want European companies to be ruthless with their focus. We would rather them be world-class at just a couple things rather than merely being ‘good’ at many things – even if that means being a smaller company with lower revenue and profits.

There has never been a better time in history for a corporate to be selling a division. That is because private equity is cashed up and ready to buy. Indeed, the bread-and-butter of the private equity industry is buying unloved, non-core divisions from corporate sellers. Based on our estimates, there is currently around \$2tn of dry powder that managers are desperate to deploy and spin-offs are amongst their favourite targets. As such, corporate sellers should expect good prices for assets that they wish to sell.

## What to do? Technology

Europe underperforms the US at technology and has been slow to adopt AI. This is such a big problem that former European Central Bank President Mario Draghi in his report on EU competitiveness identified technology as one of the most crucial pieces of the European economic puzzle. He noted that “70% of new value created in the world economy in the next ten years will be digitally enabled”. That further increases the “risk of value loss for the EU”, given Europe’s widening technology deficit. The EU’s share of global revenues in information and communication technology (ICT) dropped from 22% to 18% in the decade to 2023 while the US share increased from 30% to 38%, and China’s from 10% to 11%<sup>1</sup>.

The application of AI and other technology to a company’s operations will differ by company but there is no question it will be crucial. Already there is some good news. Private research & development spending in the EU jumped 9.8% in 2023 (the latest available data). That was well above the 5.9% growth in the US and on par with the 9.6% growth in China. That growth is welcome, but European growth comes from a smaller base and the US spend of €532bn is still more than double that in the EU<sup>2</sup>. European companies have more work to do.

## What to do? Management

There is an unlimited supply of literature on the traits of good and bad management. Much of it is an art and it is certainly not up to us to recommend one management style or another. But we are very conscious that the choice of management (particularly at the mid-career level) is something that a company has firmly under its control. Yet many companies do not put enough emphasis on quality people.

There are many ways to judge the effects of good management. Just one comes from a study that surveyed manufacturing plants in the US, asking about their use of various performance-orientated management techniques. It found that

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<sup>1</sup> [The future of European competitiveness report, European Commission](#)

<sup>2</sup> [The 2024 EU Industrial R&D Investment Scoreboard](#)



only about 20% of these plants used a large number of these techniques but the ones that did had substantially better performance than their peers. Translating this into quantitative terms, a 10% increase in a plant's 'management index' coincided with a 14% increase in labour productivity<sup>3</sup>.

There is also evidence that European management techniques lag those in the US. For example, the most recent World Management Survey looked at the manufacturing sector and found a strong link between its 'management score' and ten-year GDP per capita. The US topped the management ranking and was only just behind Singapore and Ireland for economic growth<sup>4</sup>. Various reasons for the differences between the US and most of Europe include ownership structures, competition, education, and labour market laws.

### **Conclusion: The future of European corporates**

In the coming years, headwinds from various global megatrends will likely buffet European companies more forcefully than they will their US peers. The worsening fiscal situation in many European countries raises the likelihood of a sovereign risk event affecting markets, in turn, making life difficult for local companies. That could be exacerbated by the way growing levels of societal discontent is driving the trend towards populist politicians, some of whom have policies that are very detrimental to corporate growth. Already this year, the UK, Portugal, Poland, and the Netherlands have been roiled by the success of populists.

Hardening geopolitical tensions and the growth of mercantilist trade policy will be perhaps the most defining trend of the rest of the 2020s and it will feature heavily in the considerations of European corporates. Indeed, they are increasingly likely to be stuck in the middle of the escalating US-China trade conflict. At the same time, the numerous military conflicts surrounding Europe provide an additional source of corporate tension. And this is all occurring all against the backdrop of an ageing population that will reduce the dynamism of Europe's workforce relative to the US.

There is no magic bullet to help European companies. That means chief executives need to roll up their sleeves and make their companies more efficient. In effect, they must implement strategies to boost their asset turnover. Remedies would include spinning-off underperforming divisions, aggressively embracing AI, and adopting more sophisticated management techniques used by their peers.

At the same time as chief executives adjust, policymakers can also play their part. Europe needs to encourage M&A amongst its myriad of mid-market firms. This will help companies shift resources to the managers who can best take advantage of them. Meanwhile, there needs to be more encouragement for R&D and appropriate moves towards greater market integration.

The last two-three decades of corporate returns were based on assumptions of geopolitical liberalism, cheap leverage, and the phenomenon of strong profit margins. This era is over. The new corporate era will be based on efficiency and that means Europe needs old-school managers to whip its companies back into shape.

Efficiency, as proxied by asset turnover, will be how the continent's best companies deliver value over the coming years, in our view. Indeed, it is possibly the only way Europe's companies can catch up with those of the US and, in turn, save Europe's capital markets from losing even more ground in an America-First world.

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<sup>3</sup> [The Centre of Economic Performance](#)



## Appendix 1

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