

Leveraged Finance Chart Book

Europe 4Q/2019

Bloomberg

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4Q19 Summary

Bond Boost Lifts Primary Leveraged Finance Volume

New-issuance in Europe's leveraged finance market climbed to EU147b in 2019, a 6% increase on the previous year although still behind the post-crisis record set in 2017.

The high-yield market took the lion's share, with bonds outstripping loan issuance especially in the fourth quarter. By end-2019, bond sales amounted to EU79.8b, just over half of 2019's total debt raising, versus EU67.4b of loans sold to institutional investors.

The slower pace on the loan side was mainly due to fewer M&A transactions coming to market. Private equity sponsors pursued some large deals and made numerous bolt-on acquisitions, but dealflow still lagged 2018, held back by high valuations. M&A loan volume of EU37.1b was down 34% year on year.

Demand for high-yield was boosted by the ECB's renewal of its bond-buying program, and new-issue spreads fell, encouraging some borrowers to refinance loans with bonds in the late months of the year.

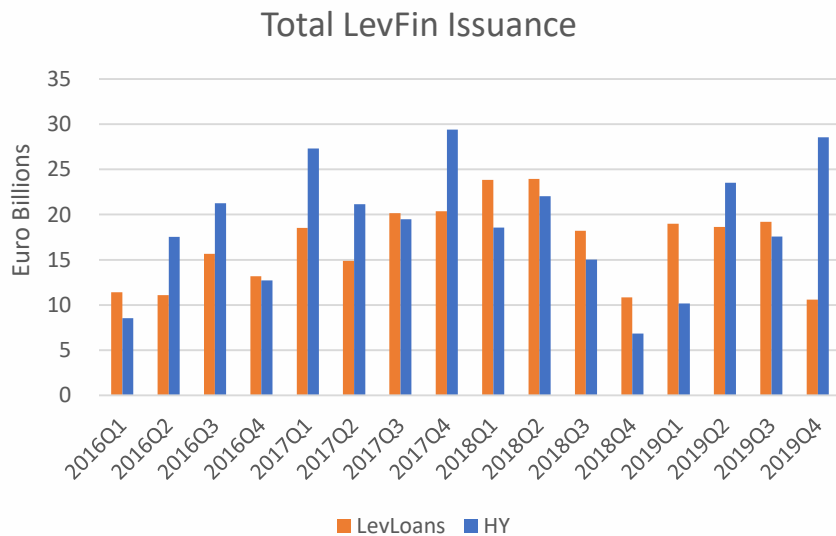
Loan spreads meanwhile did tighten through the second half of the year, and cautious investors saw to it that some single-B borrowers paid spreads of just 300-325bps and others well over 500bps.

Tighter pricing and a lack of M&A activity during the fourth quarter opened the way for borrowers to reprice and raise dividends in the loan market.

High Yield Heroics

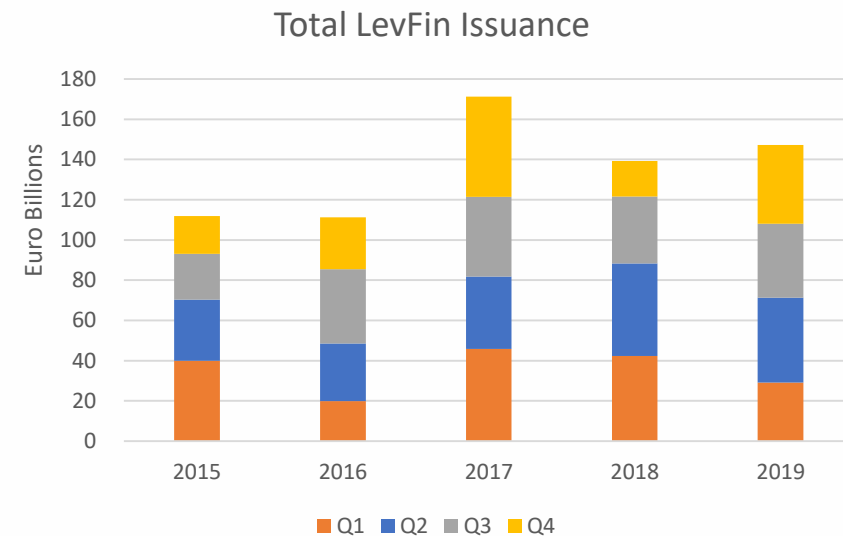
Bond sales reach EU79.8b at end-2019, loan volume lags at EU67.4b

A surge in activity during the fourth quarter saw Europe's high-yield bond market surpass leveraged loan issuance for the full year. Bond financing was boosted by the ECB's renewal of its bond-buying program, leading to tight spreads, while loan issuance was slower especially given the lack of new LBOs in the latter part of the year.



EUR/GBP 1L/2L institutional loans (excludes repricings) and European HY corporate bonds.

Fourth-quarter 2019 bond volume far outstripped loans at EU28.5b versus EU10.6b, with bond issuance bolstered by loan-to-bond refinancings including Kiloutou and Berry Global.



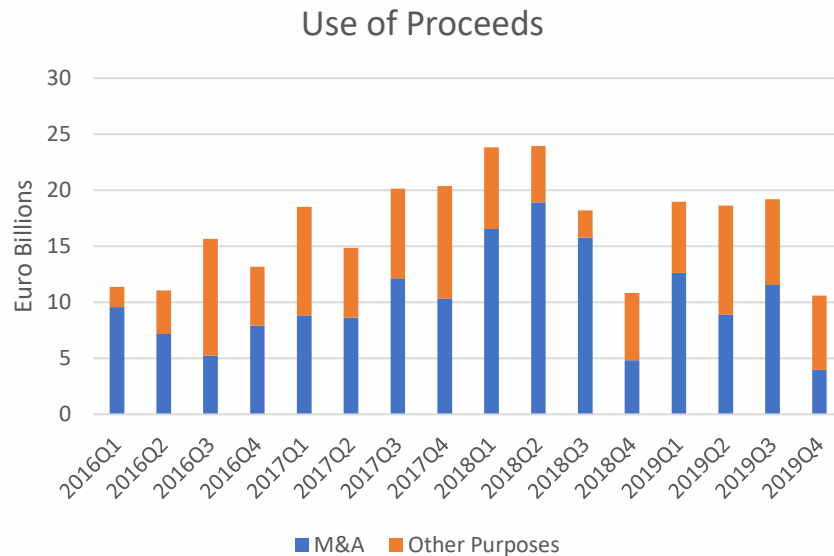
EUR/GBP 1L/2L institutional loans (excludes repricings) and European HY corporate bonds.

European high-yield volume amounted to EU79.8b in 2019, up 28% on 2018. Institutional loan volume trailed 2019 by 12% at EU67.4b, the lowest since 2016.

Missing M&A

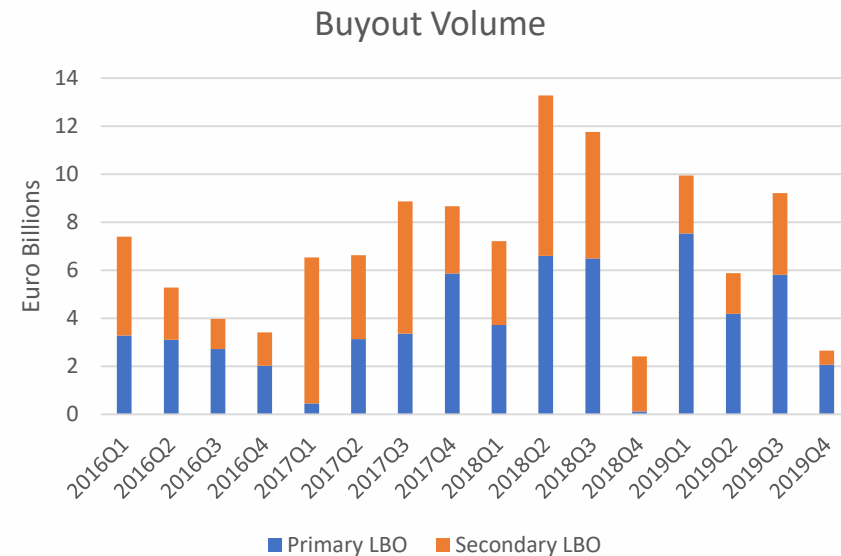
Trailing acquisition financing depresses Europe's primary loan activity

The year's larger M&A deals included public to private buyouts and corporate divestments, but there were no super-sized buyouts as there were in 2018 and high valuation expectations among vendors continued to create hurdles for dealmaking. As a result, M&A financing was lower this year, weighing on overall volume.



EUR/GBP 1L/2L institutional loans.

M&A loan volume stood at EU37.1b at end-2019 in a 34% decline from the previous year after a particularly weak fourth quarter. Prospects for 1Q20 are much more promising however.



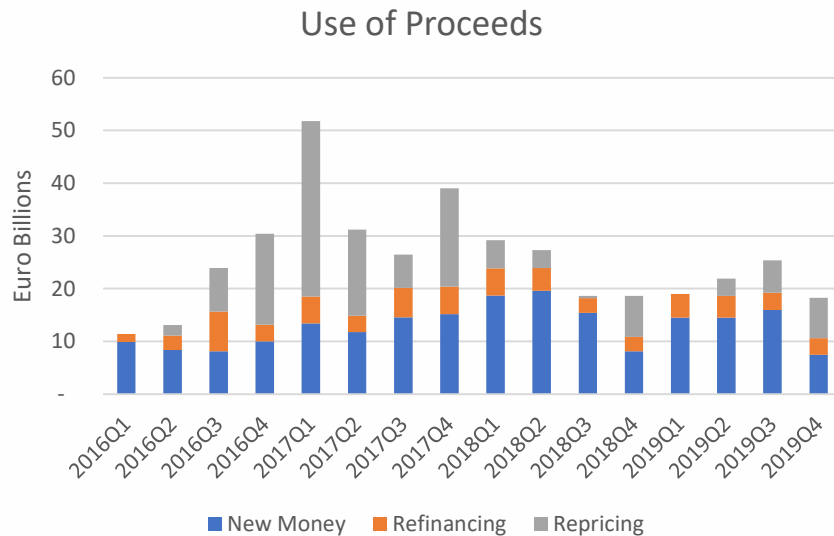
EUR/GBP 1L/2L institutional loans.

Private equity sponsors found targets in the public equity markets and bought assets from divesting conglomerates, but sponsor-to-sponsor M&A buyouts were scarce.

Room for Opportunists

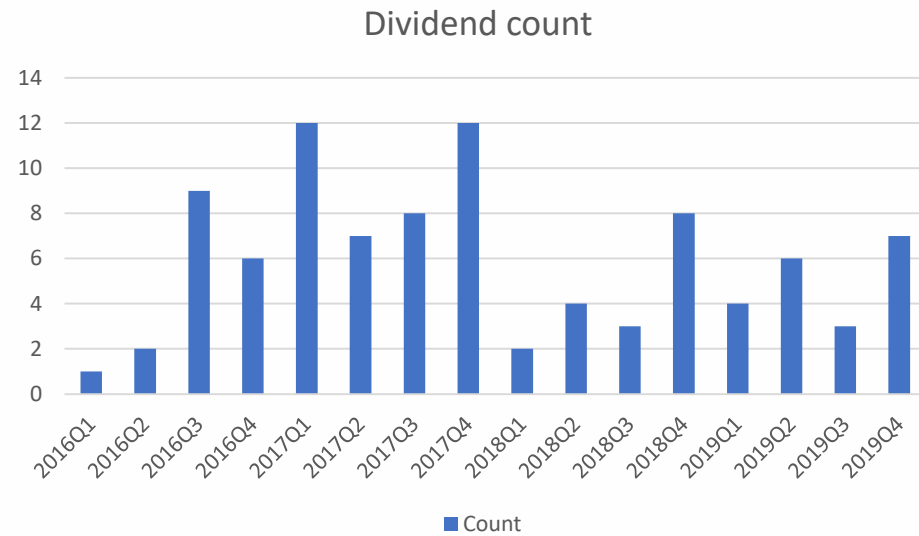
Strong demand for loans keeps the door open for refinancing, dividends

New CLO managers arriving in Europe and continued demand from existing managers, plus appetite from non-CLO funds, kept appetite for loans high throughout the year. That allowed existing borrowers to bolt on new money for dividends, and to reprice existing loans. Late in the year repricings picked up and more are expected in the 2020 unless heavy M&A issuance keeps the trend at bay.



EUR/GBP 1L/2L institutional loans.

4Q19 was the busiest quarter for repricings in two years, at EU7.7b. Borrowers also continued to refinance, helping to keep the maturity wall in Europe at a comfortable distance.



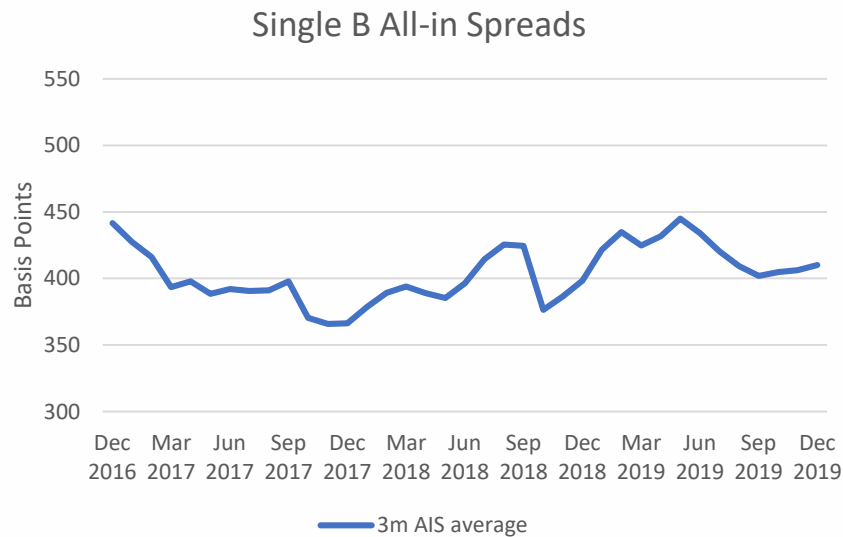
EUR/GBP 1L/2L institutional loans.

Seven borrowers tapped the loan market for debt-funded distributions to shareholders in the fourth quarter, making a total of 20 for the year, ahead of 2018.

Divergent Trends

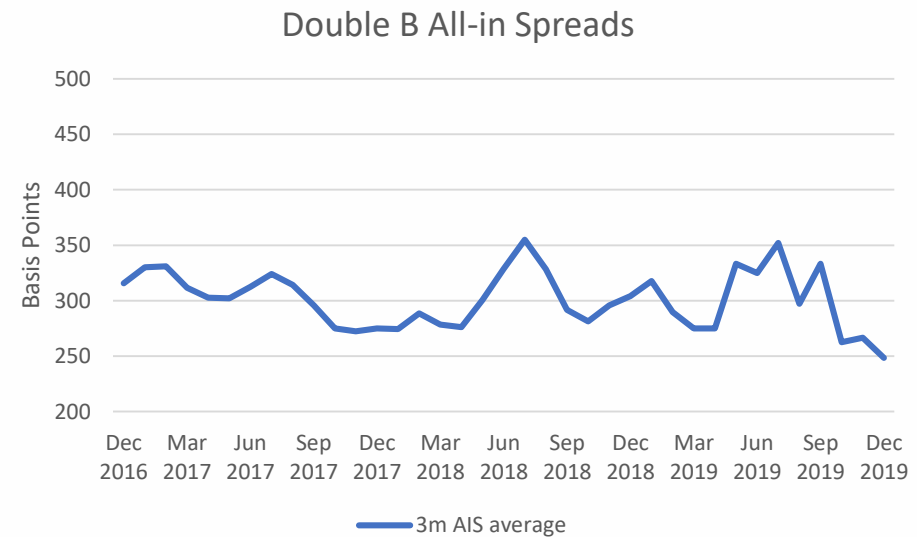
Wary investors cause pricing range to widen between easier and tougher credits

Lenders remained eager to book new loans but became increasingly cautious on cyclical or overlevered credits during the year, leading to a widening gap between the spreads on popular and difficult deals. From E+300 to well over E+500, the range reflects lenders getting better at pricing risk, and is a warning to arrangers to take care how they underwrite in the coming year.



EUR 1L institutional loans. Single B and unrated issuers.

Average single B EUR spreads shifted wider to 410bps in 4Q19, having been down at 402bps in 3Q19. But overall, spreads were tighter in the second half of the year and this allowed borrowers to reprice.



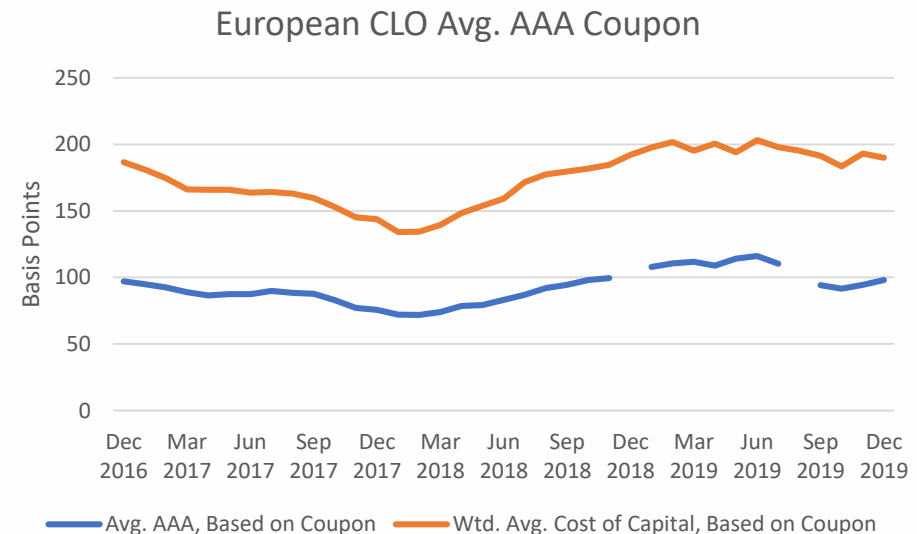
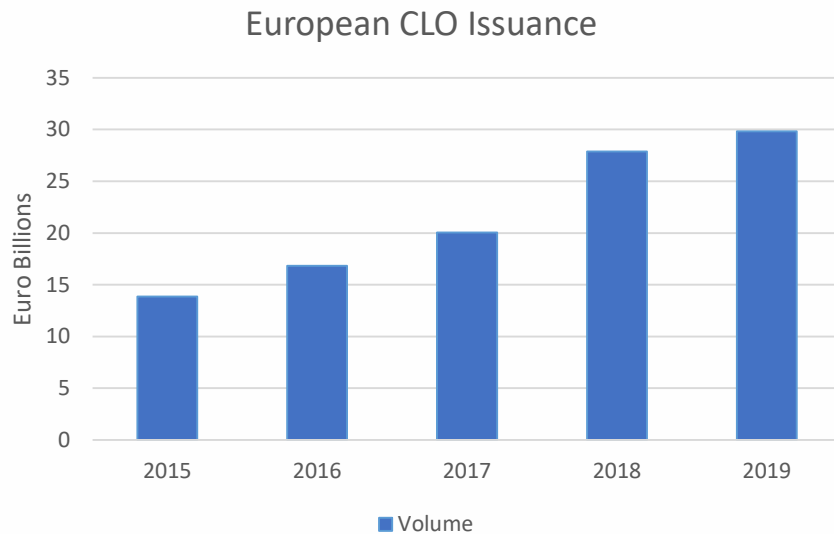
EUR 1L institutional loans. Double B issuers.

Spreads for double B issuers crunched down through the second half of the year. These issuers are scarce in Europe's LBO-centric market and may become more so if 4Q19's loan-to-bond refinancing trend continues.

CLO Expansion

New managers helped drive the European CLO market to another record

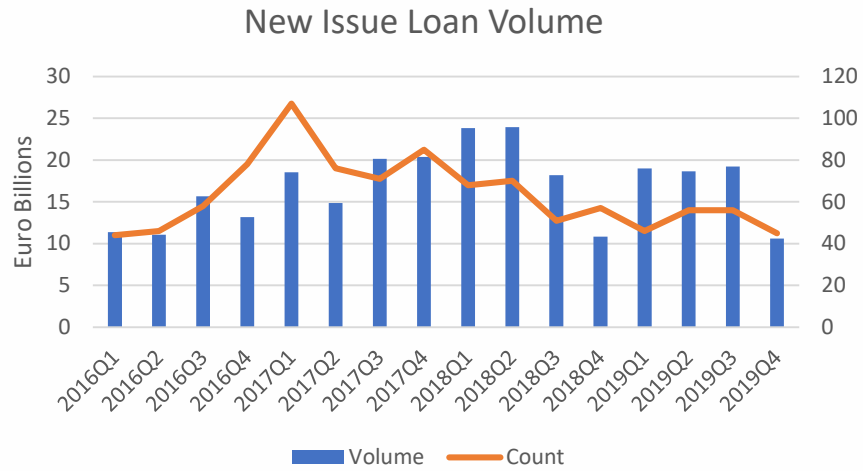
At nearly EU30b, CLO issuance for 2019 in Europe was the highest since the crisis, building on the growth of the past four years. Eight newcomers swelled the ranks of managers while existing managers worked to build their AUM. Despite the headline number, it was a tough year for the arbitrage and loan supply fell short of managers' hopes.



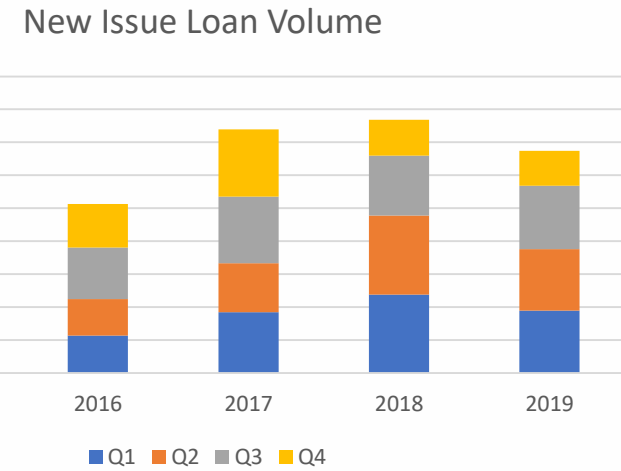
Based on coupon.

2019's new-issue CLO activity amounted to EU29.8b from 72 deals by 50 managers, showing an increase over 2018. Analysts' forecasts for 2020 are mostly for a thinner year.

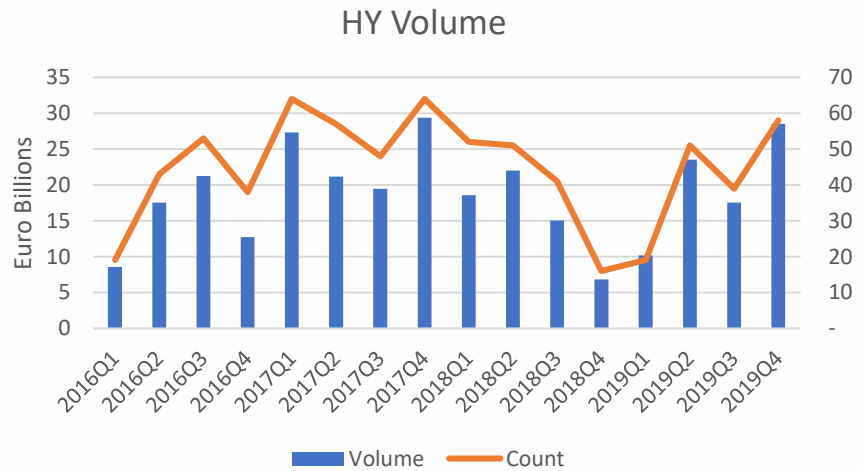
CLO triple-A spreads edged wider in the final months of the year after tracking tighter over the summer, ending the year just inside the 100bps mark.



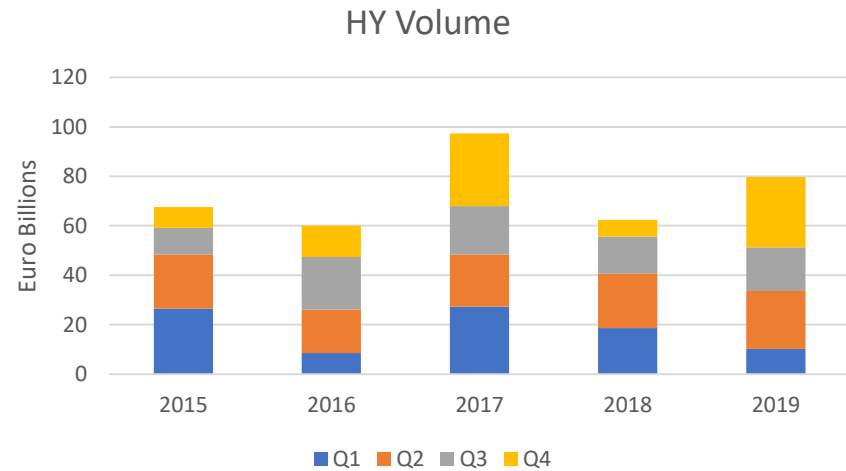
EUR/GBP 1L/2L institutional loans. Excludes repricings. Historical volumes revised to account for funged add-on tranches.



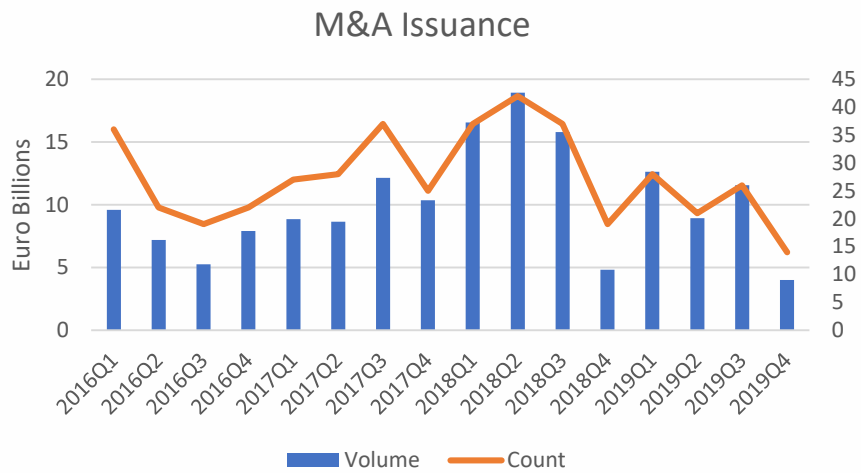
EUR/GBP 1L/2L institutional loans. Excludes repricings.



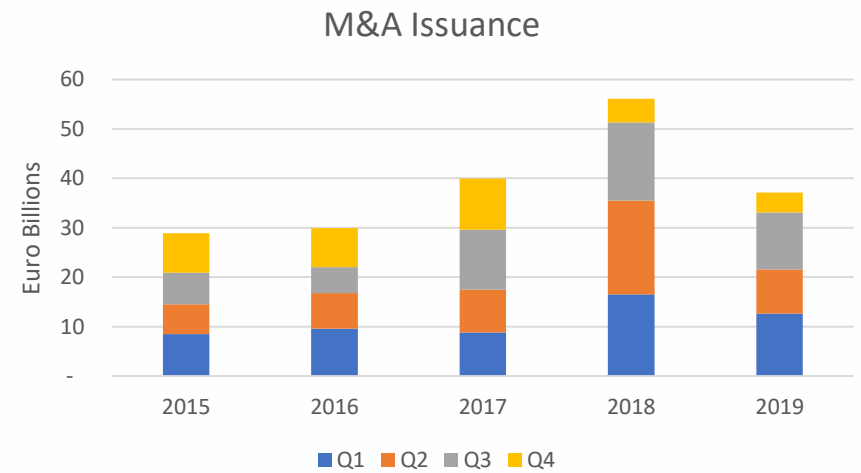
HY corporate bonds.



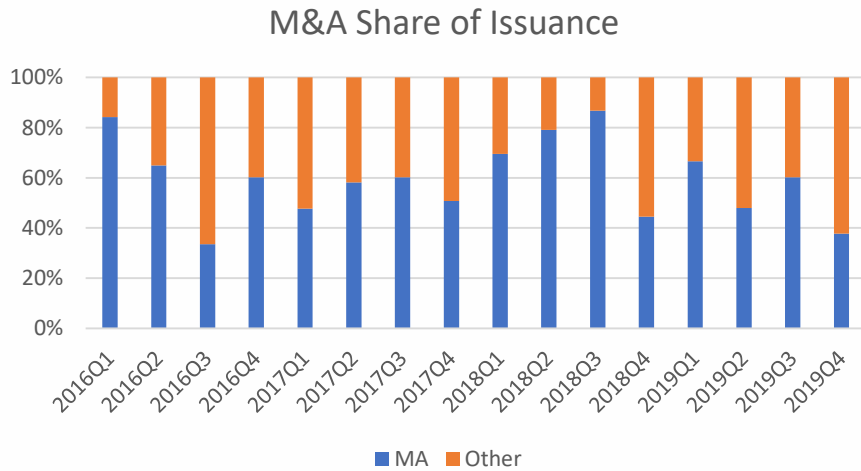
HY corporate bonds.



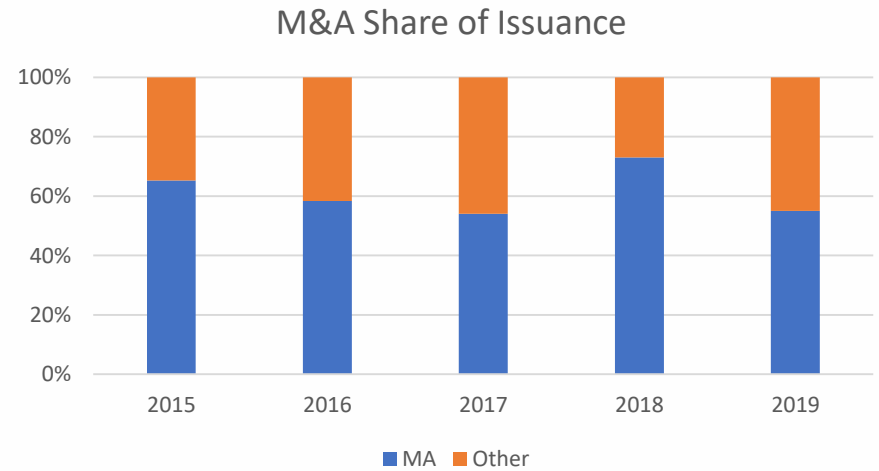
EUR/GBP 1L/2L institutional loans. Excludes repricings.



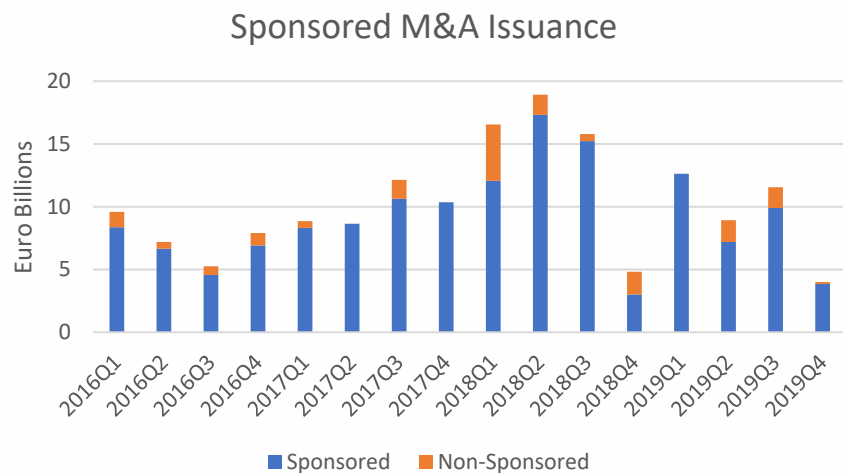
EUR/GBP 1L/2L institutional loans. Excludes repricings.



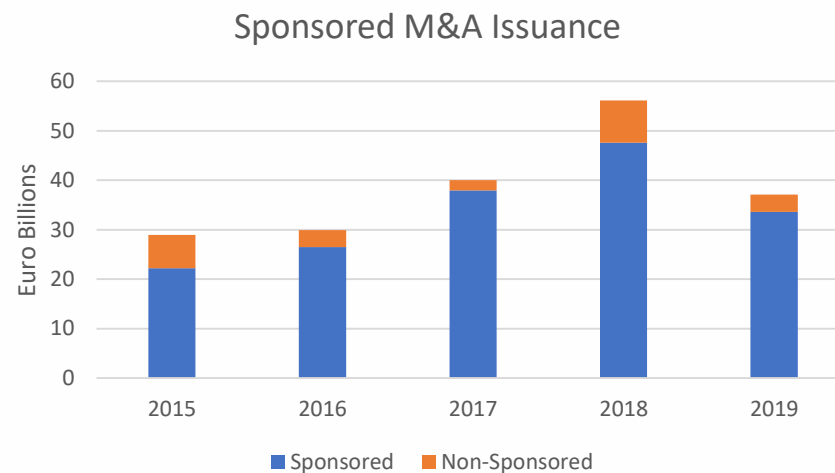
EUR/GBP 1L/2L institutional loans. Excludes repricings.



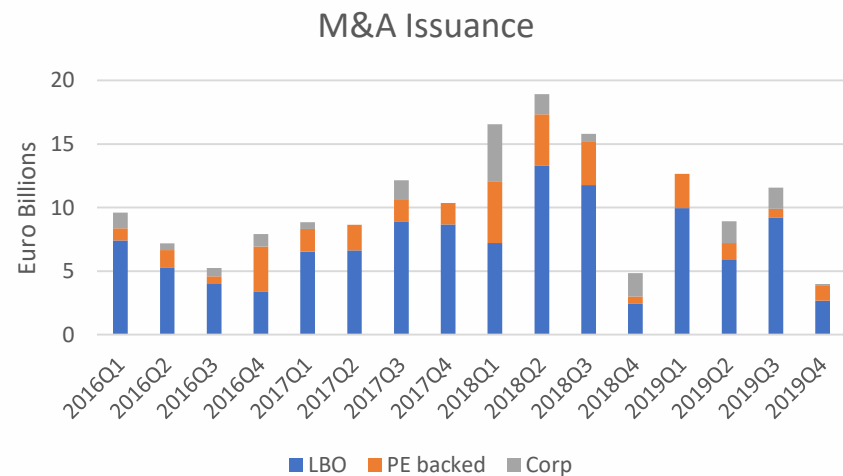
EUR/GBP 1L/2L institutional loans. Excludes repricings.



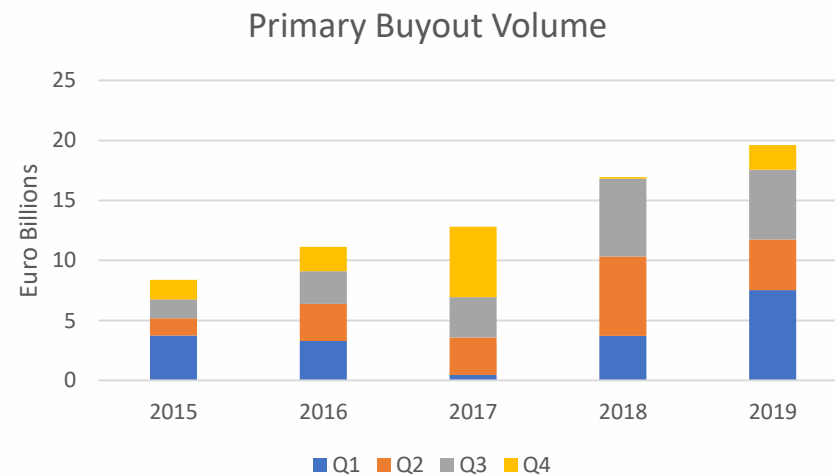
EUR/GBP 1L/2L institutional loans. Excludes repricings.



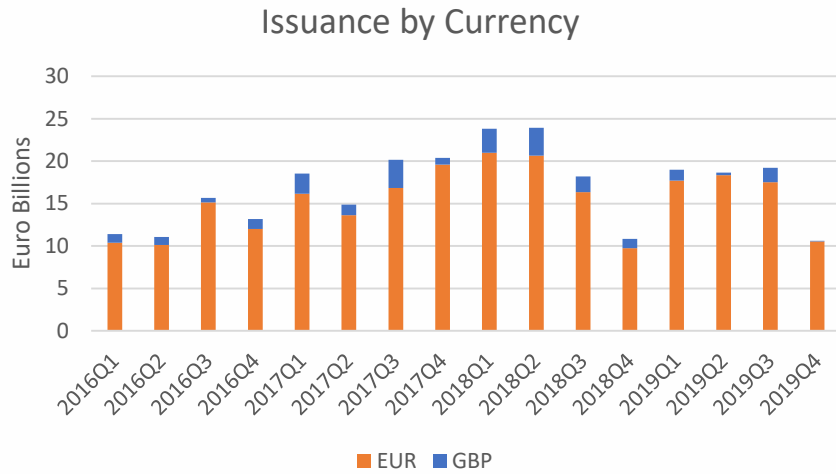
EUR/GBP 1L/2L institutional loans. Excludes repricings.



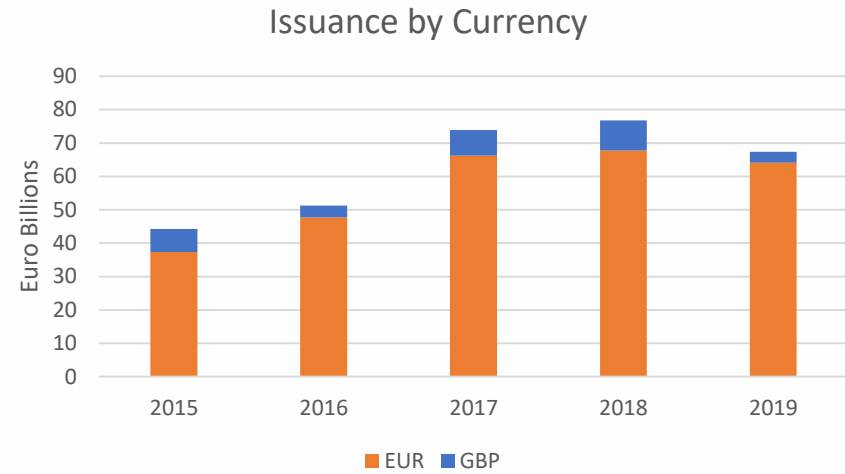
EUR/GBP 1L/2L institutional loans. Excludes repricings.



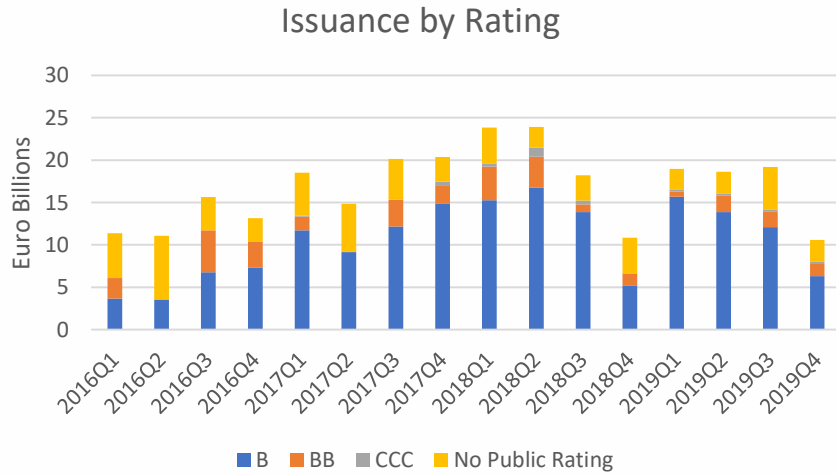
EUR/GBP 1L/2L institutional loans. Excludes repricings.



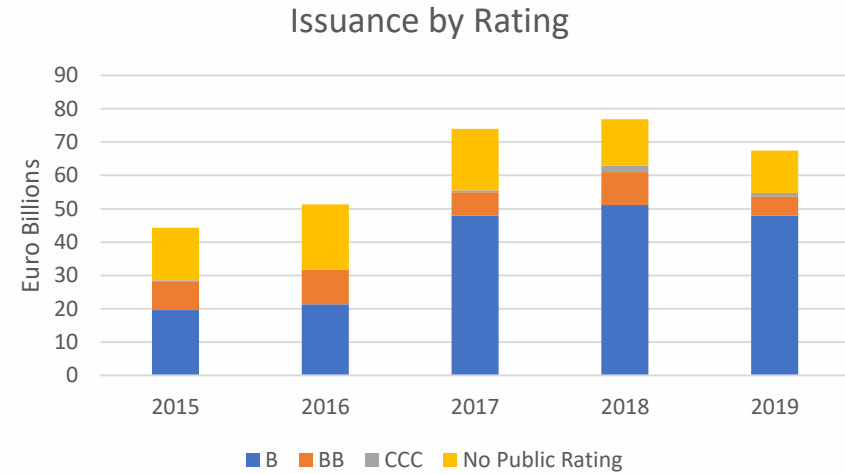
EUR/GBP 1L/2L institutional loans. Excludes repricings.



EUR/GBP 1L/2L institutional loans. Excludes repricings.

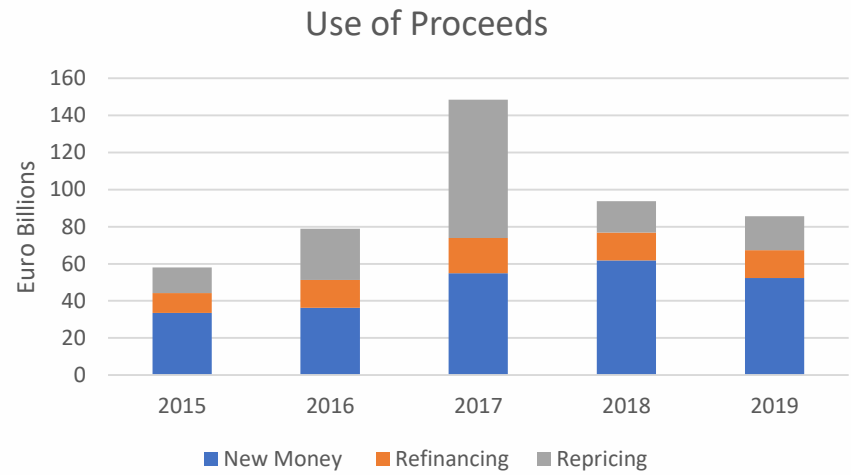
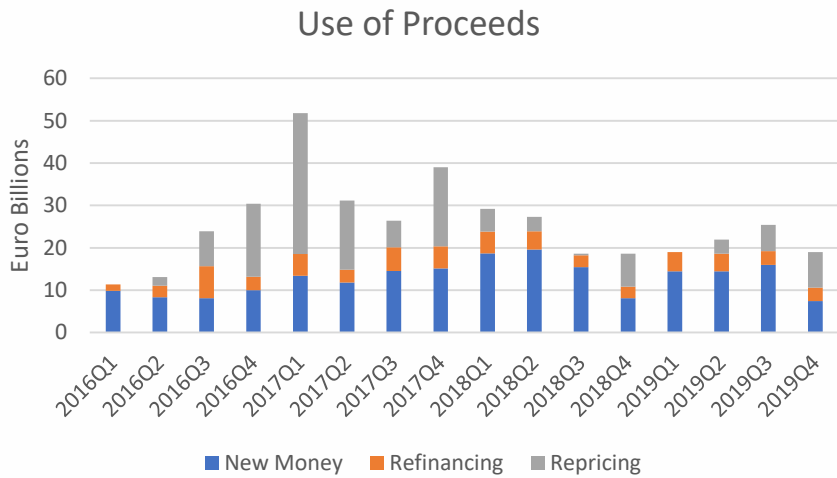


EUR/GBP 1L/2L institutional loans. Excludes repricings.



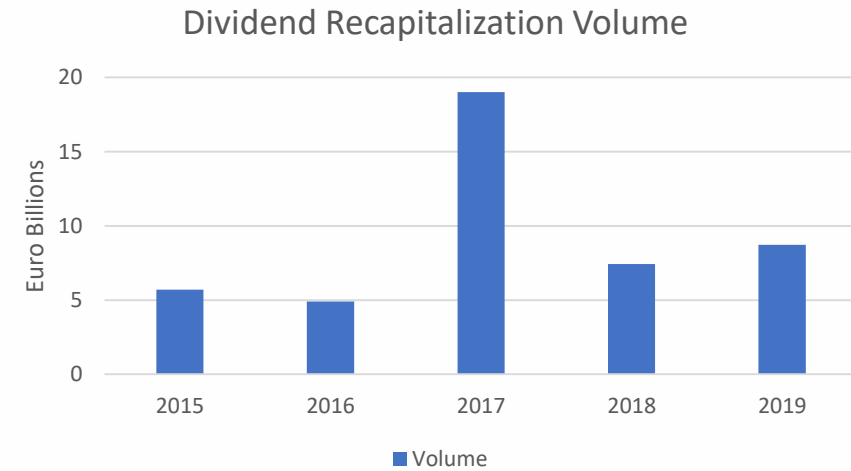
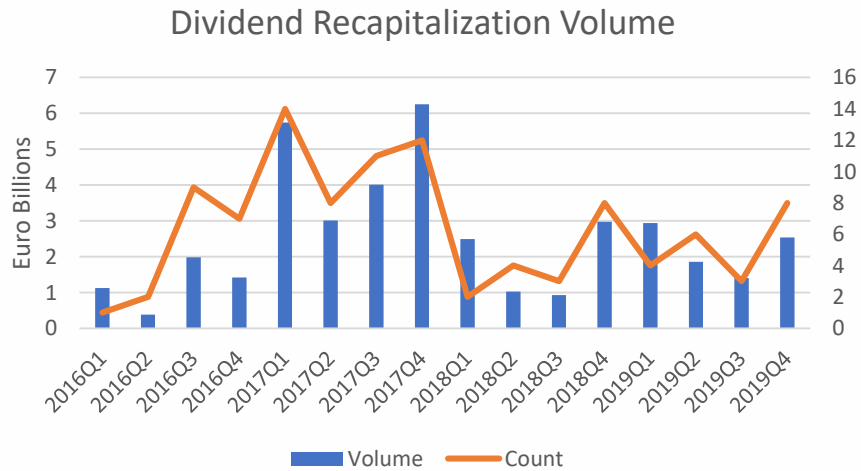
EUR/GBP 1L/2L institutional loans. Excludes repricings.





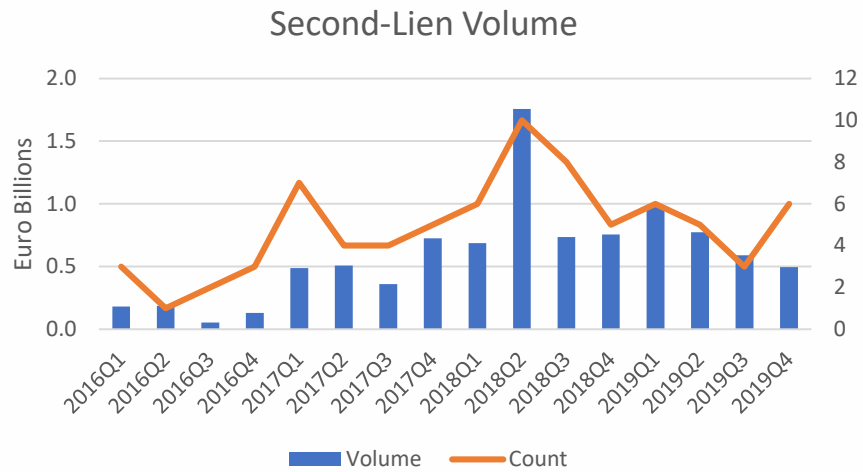
EUR/GBP 1L/2L institutional loans.

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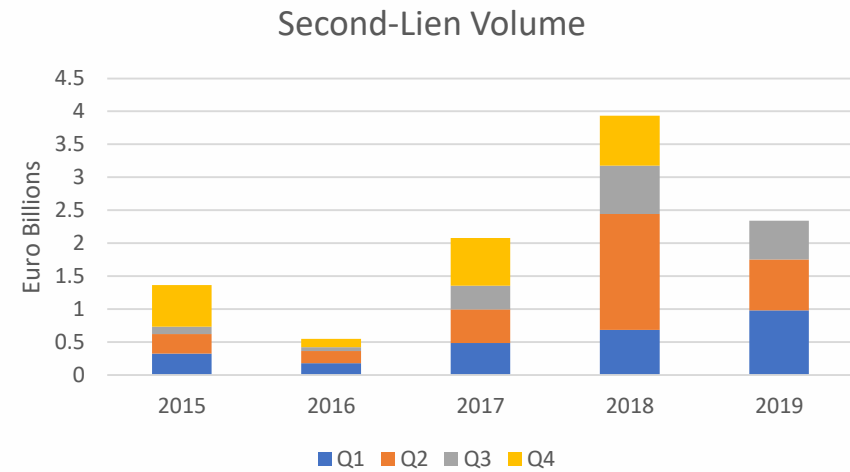


EUR/GBP 1L/2L institutional loans.

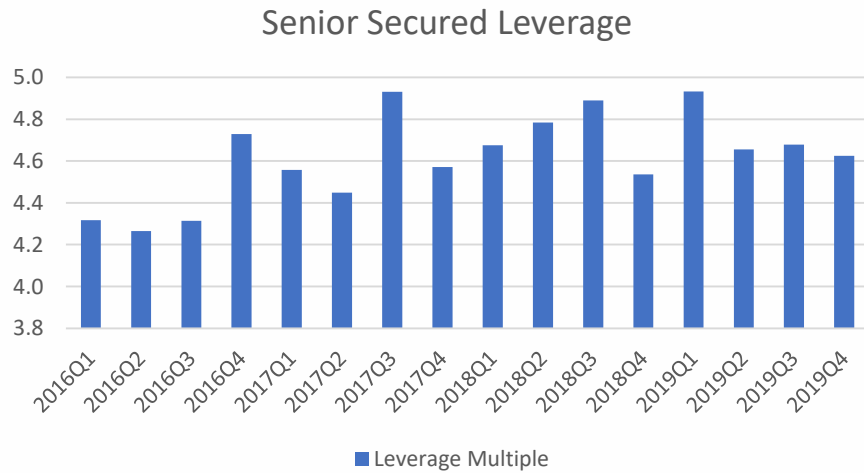
EUR/GBP 1L/2L institutional loans.



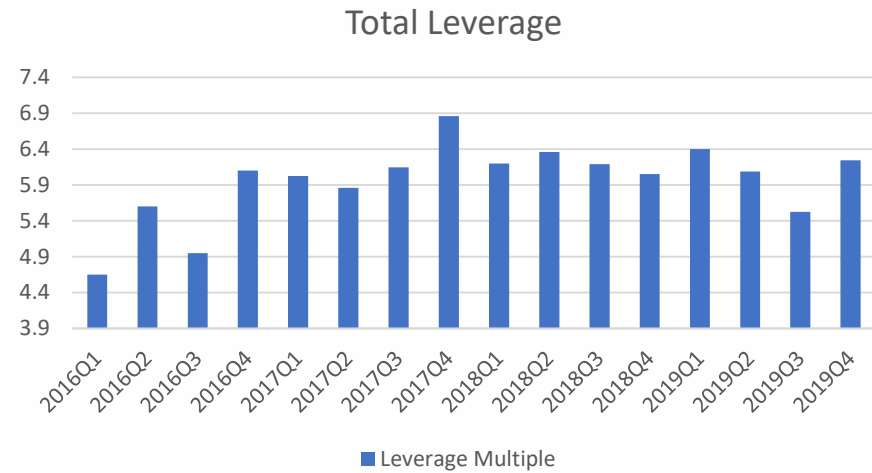
EUR/GBP 2L institutional loans. Excludes repricings.



EUR/GBP 2L institutional loans. Excludes repricings.

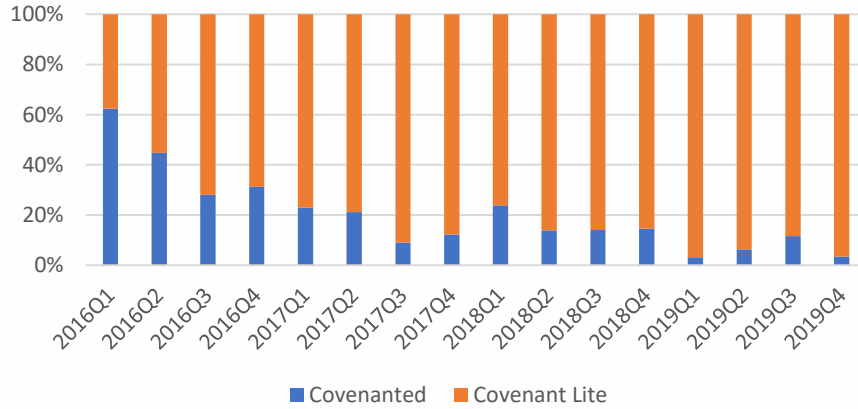


EUR/GBP 1L institutional loans. Excludes repricings.



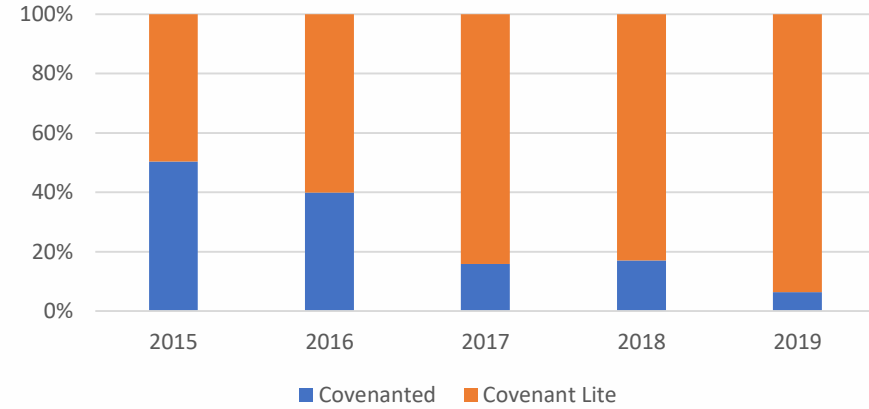
EUR/GBP institutional loans. Excludes repricings.

Covenant-Lite Issuance



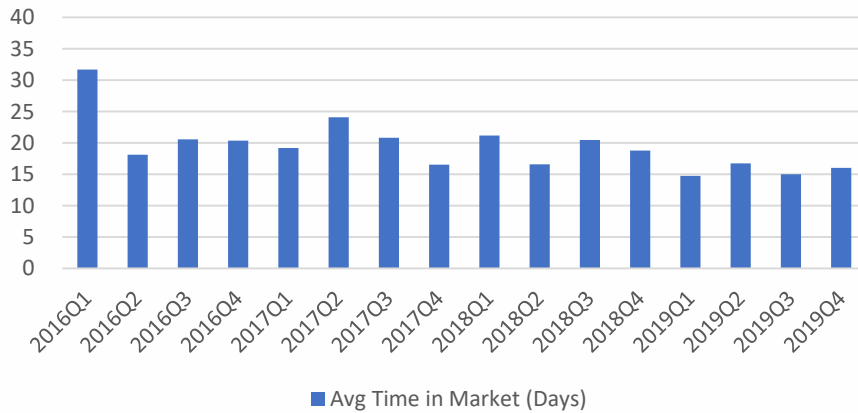
EUR/GBP 1L/2L institutional loans. Excludes repricings.

Covenant-Lite Issuance



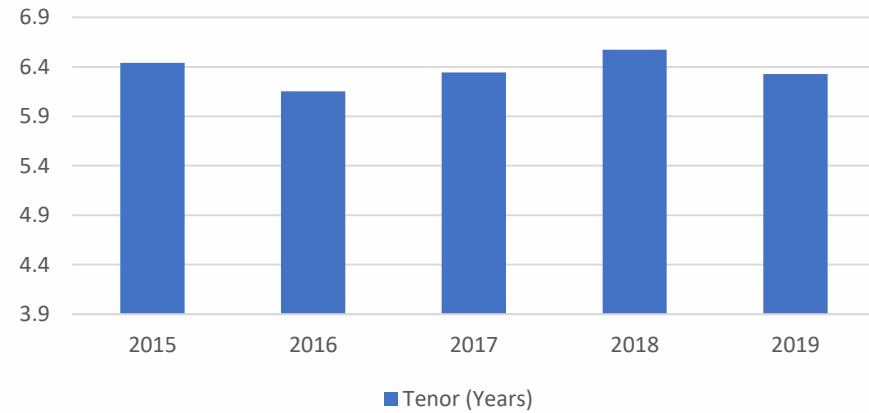
EUR/GBP 1L/2L institutional loans. Excludes repricings.

Average Time in Market

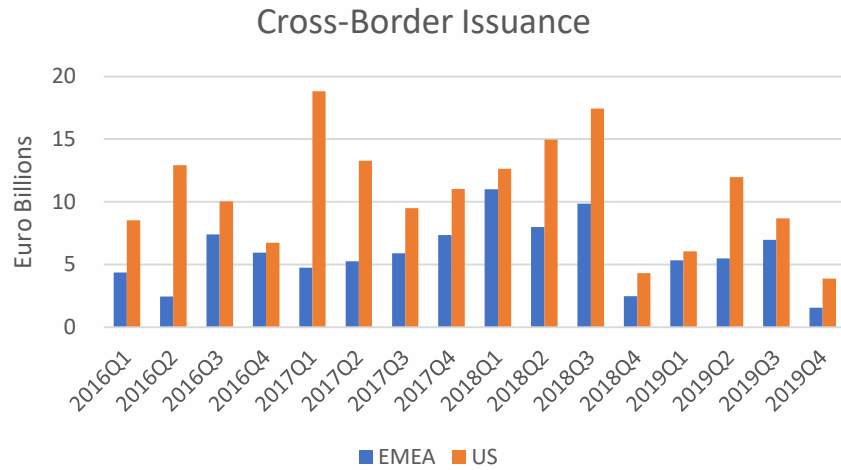


EUR 1L institutional loans. Excludes repricings. Average Time in Market calculated as time elapsed between Launch and Pricing.

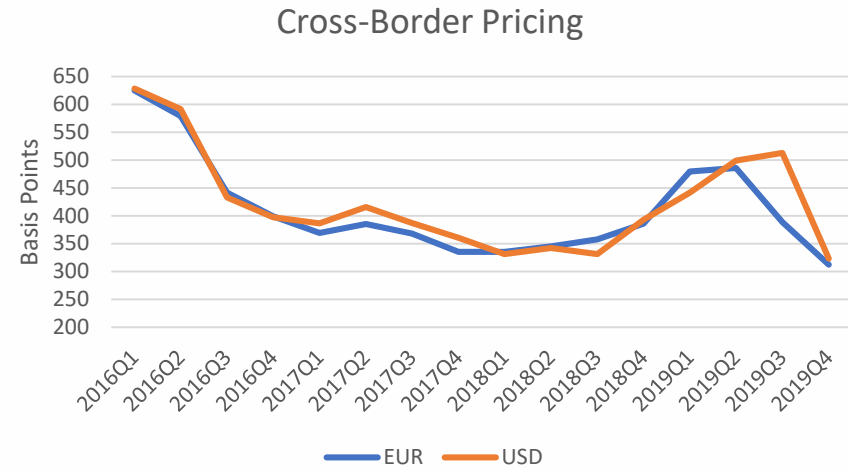
Average Tenor



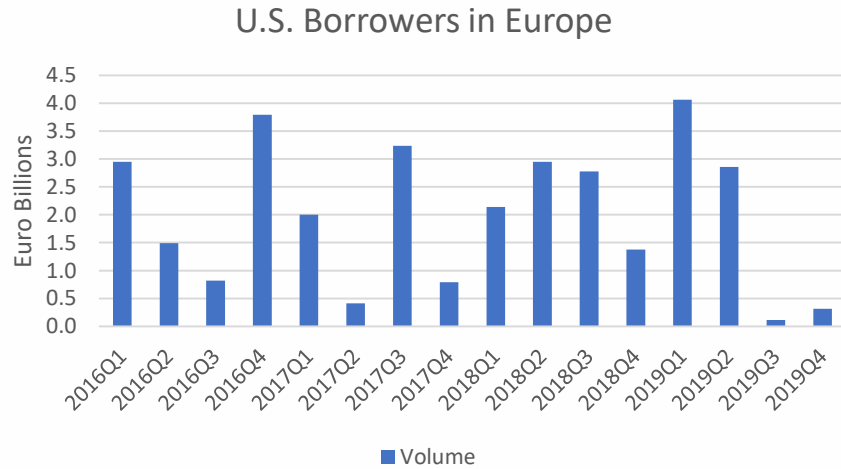
EUR 1L institutional loans.



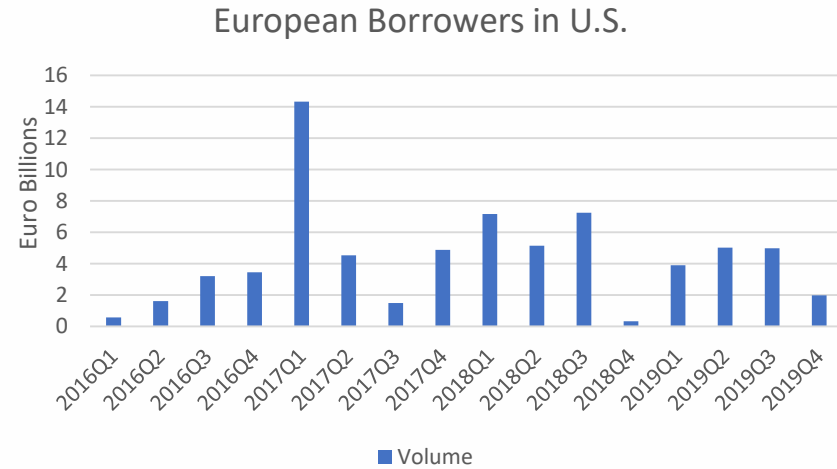
EUR/GBP & USD 1L/2L institutional loans. Excludes repricings.



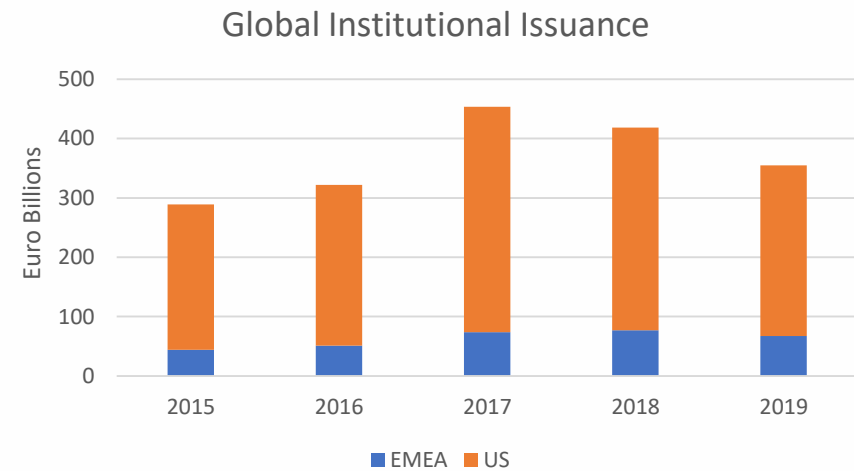
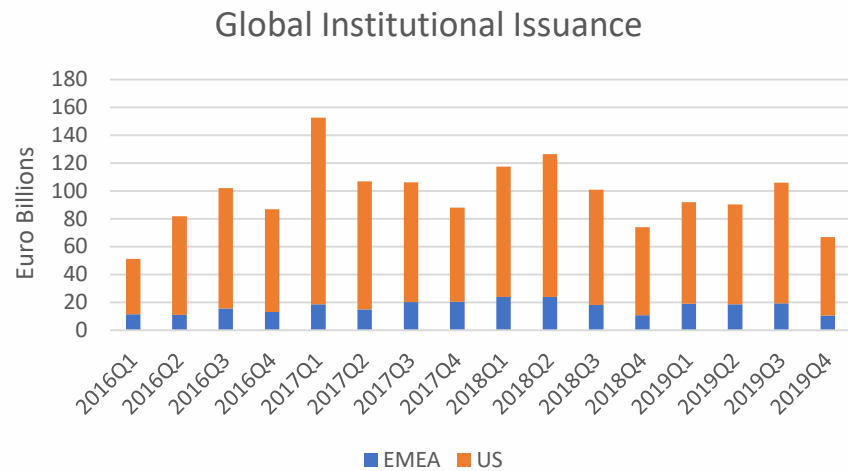
EUR & USD 1L/2L institutional loans. Excludes repricings.



EUR/GBP 1L/2L institutional loans. Excludes repricings.

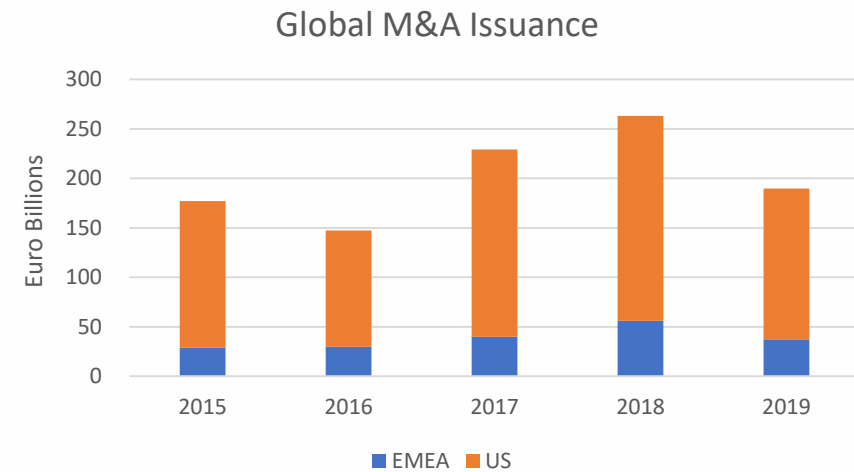
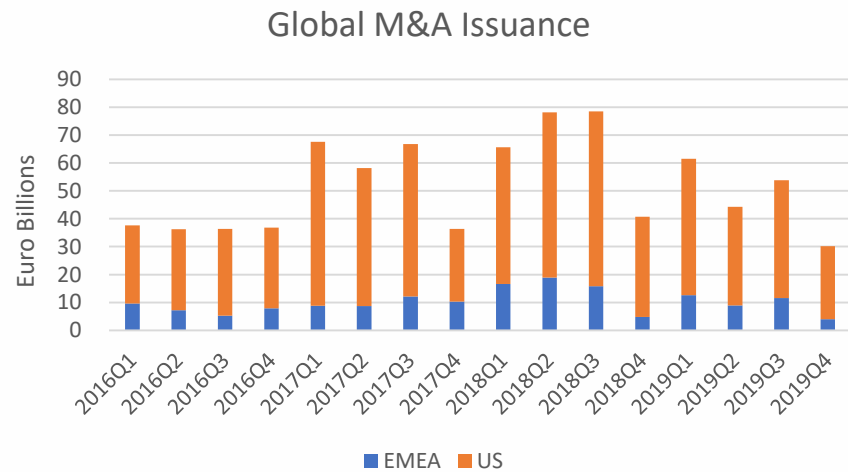


USD-denominated 1L/2L institutional loans. Excludes repricings.



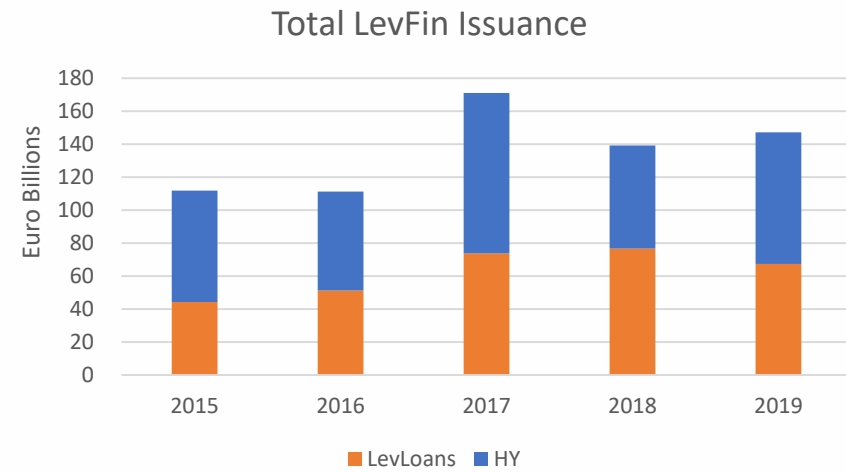
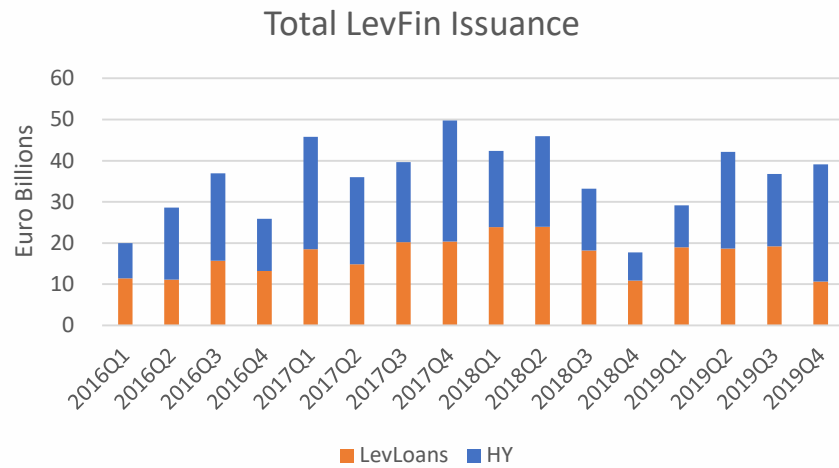
EUR/GBP & USD 1L/2L institutional loans. Excludes repricings.

EUR/GBP & USD 1L/2L institutional loans. Excludes repricings.



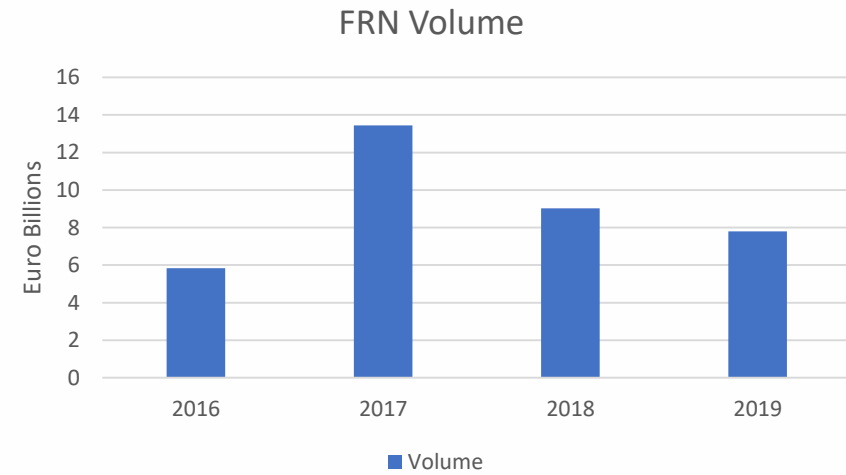
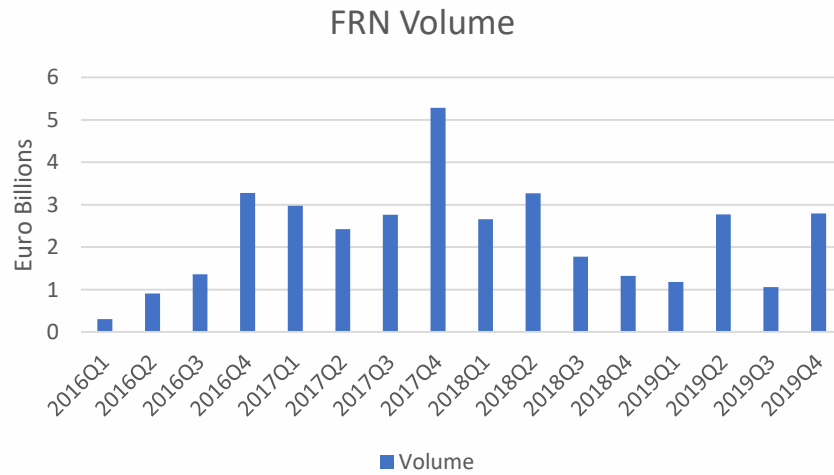
EUR/GBP & USD 1L/2L institutional loans. Excludes repricings.

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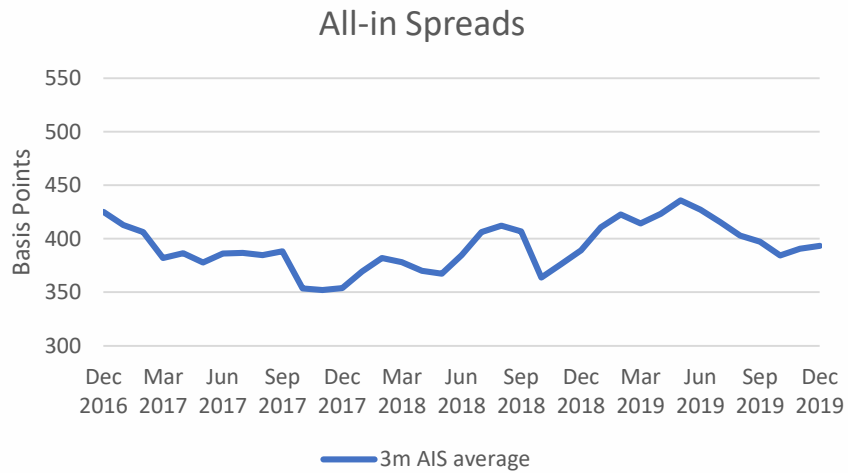
EUR/GBP 1L/2L institutional loans(excludes repricings) and European HY corporate bonds.

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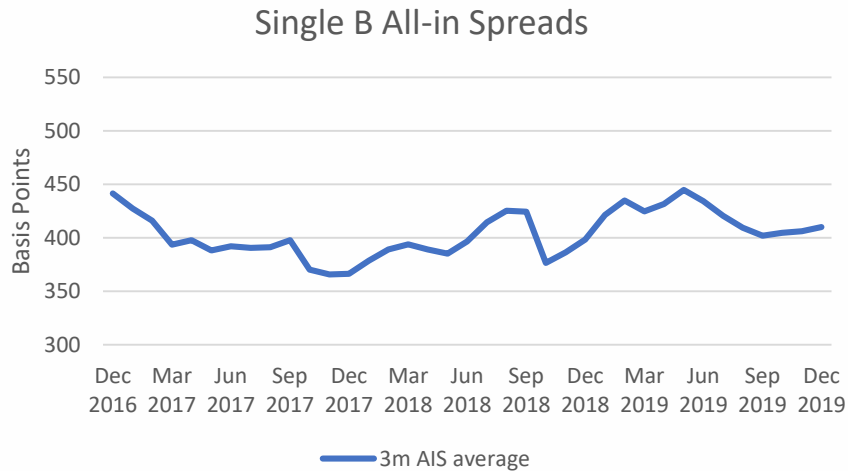


FRN corporate bonds.

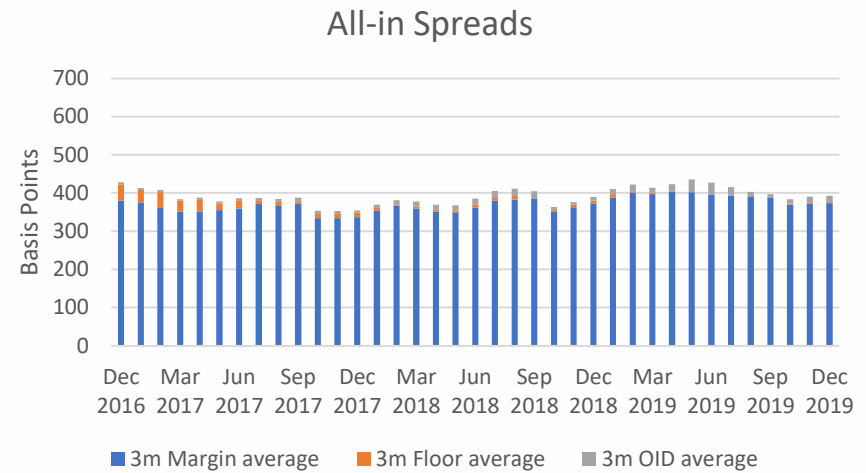
FRN corporate bonds.



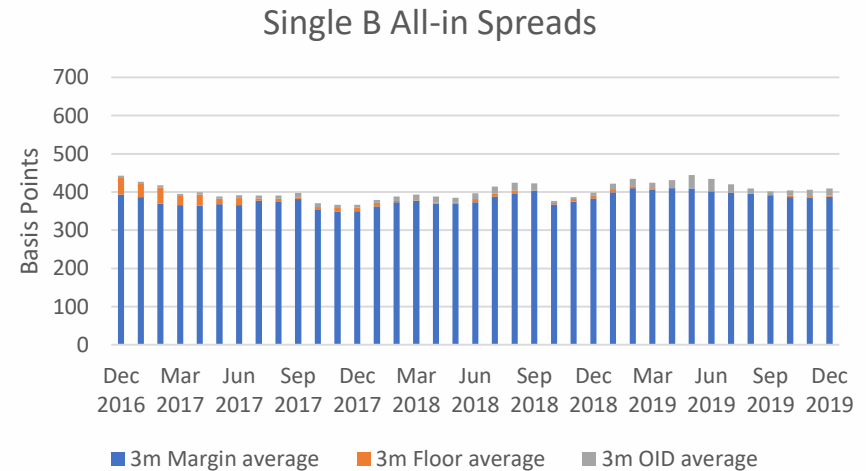
EUR 1L institutional loans.



EUR 1L institutional loans. Single B and unrated issuers.



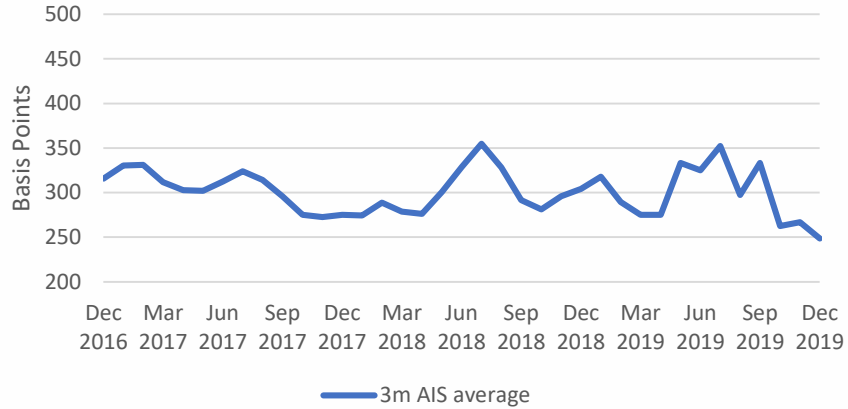
EUR 1L institutional loans.



EUR 1L institutional loans. Single B and unrated issuers.

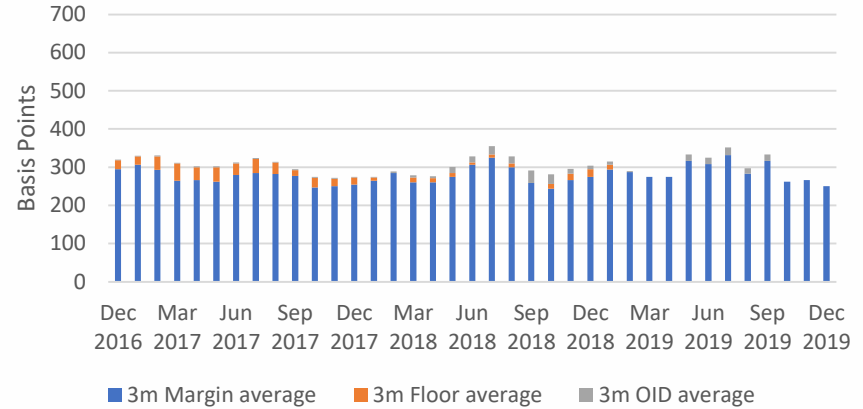


Double B All-in Spreads



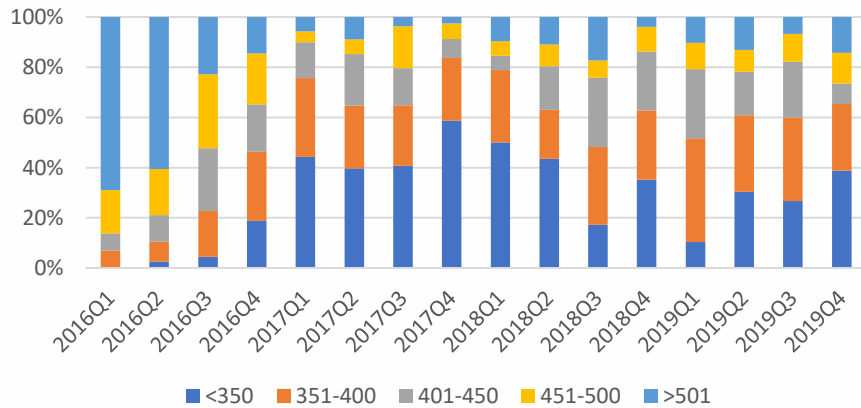
EUR 1L institutional loans. Double B issuers.

Double B All-in Spreads



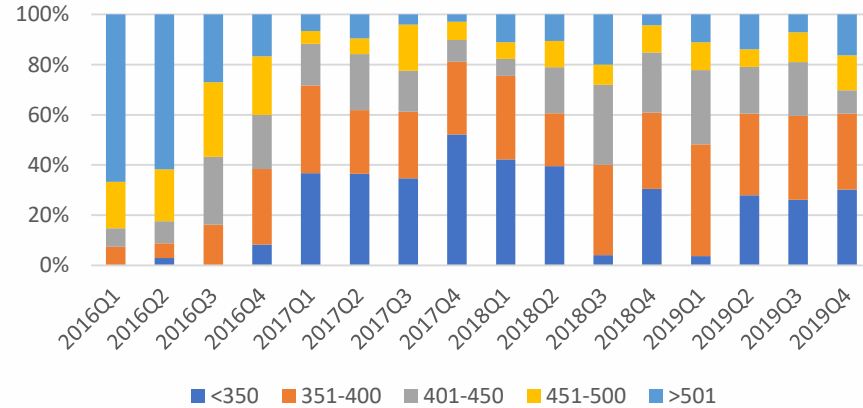
EUR 1L institutional loans. Double B issuers.

Distribution of All-in Spreads

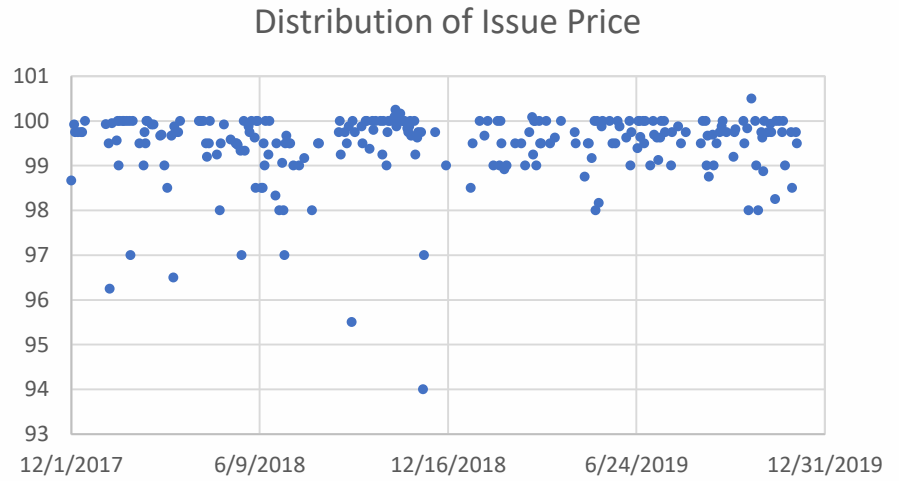
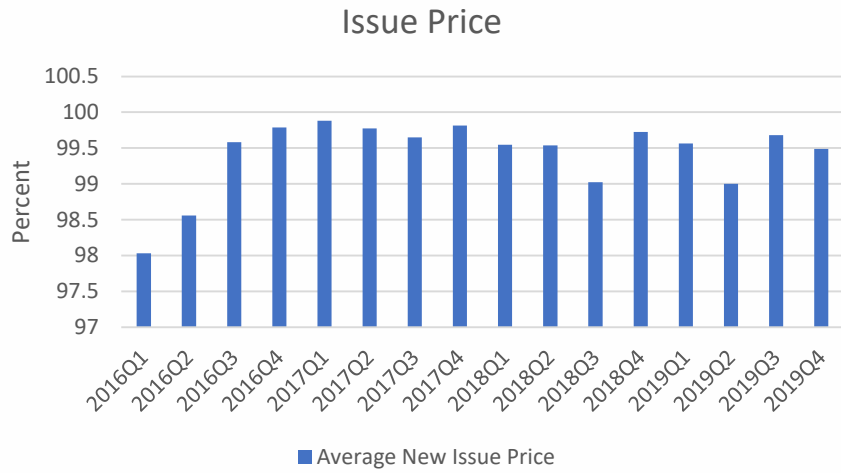


EUR 1L institutional loans.

Distribution of Single B All-in Spreads

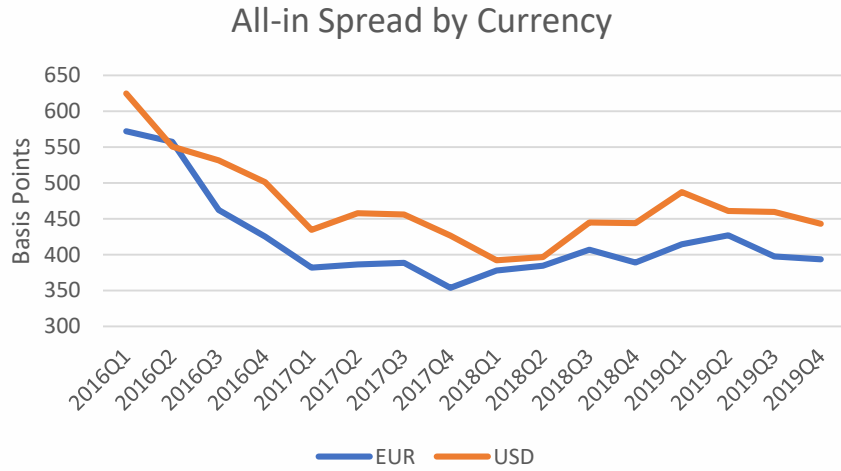


EUR 1L institutional loans. Single B and unrated issuers.

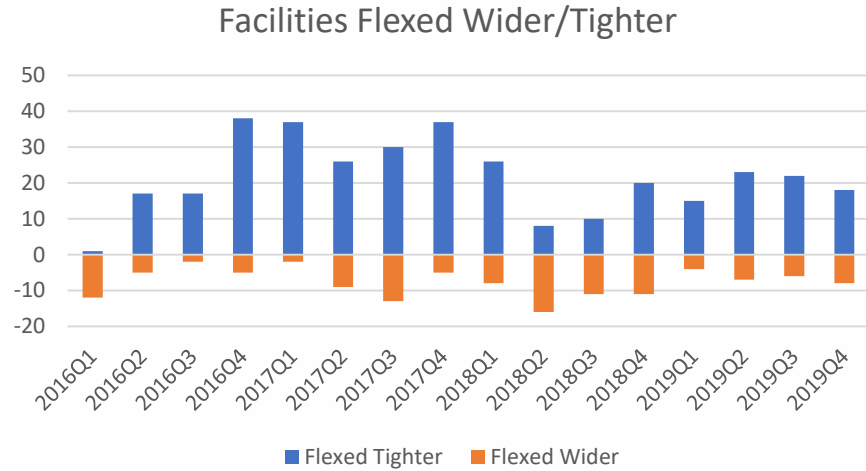


EUR 1L institutional loans.

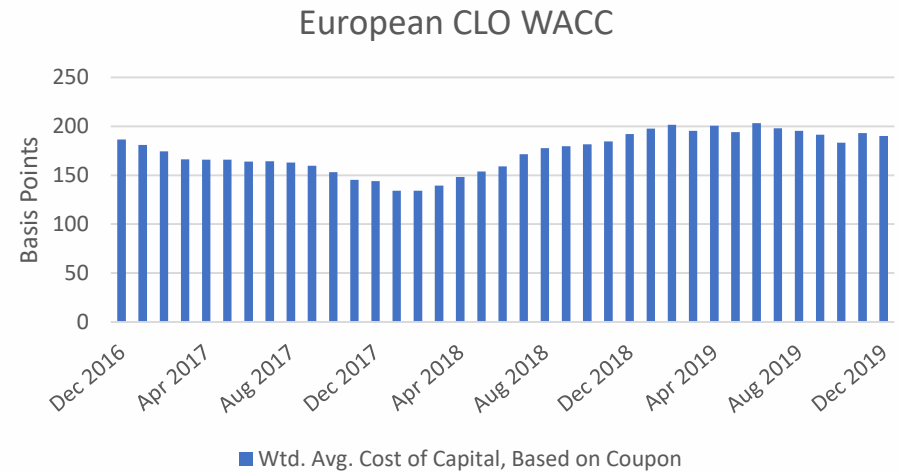
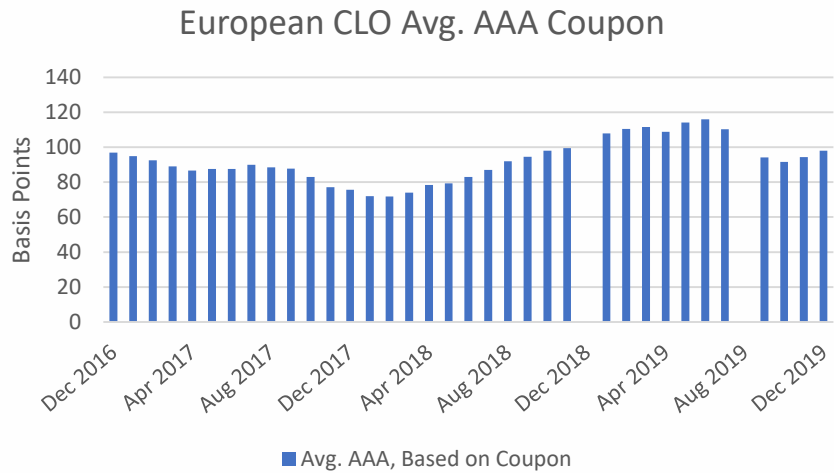
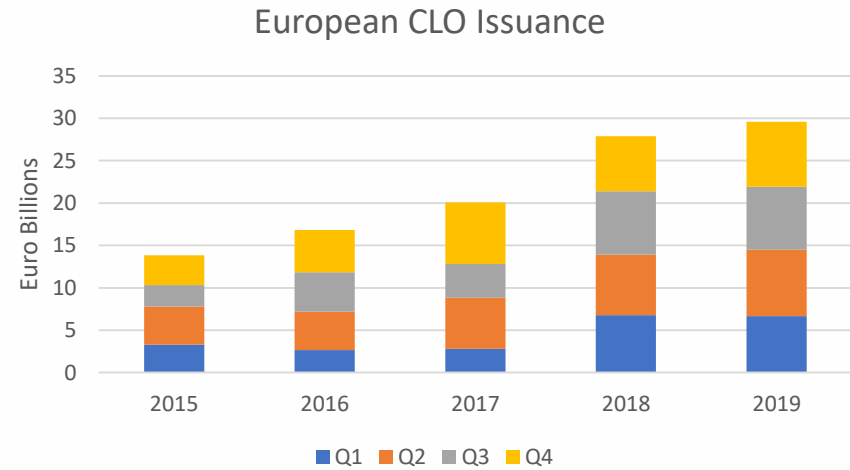
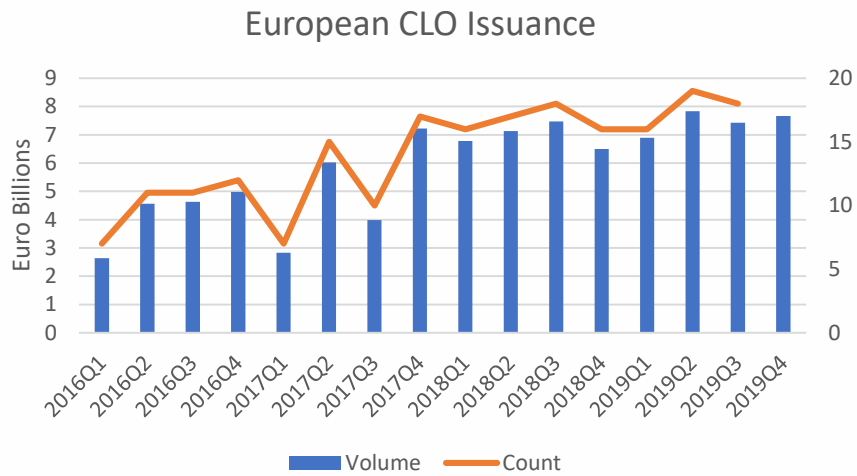
EUR 1L institutional loans.



EUR/GBP/USD 1L institutional loans.

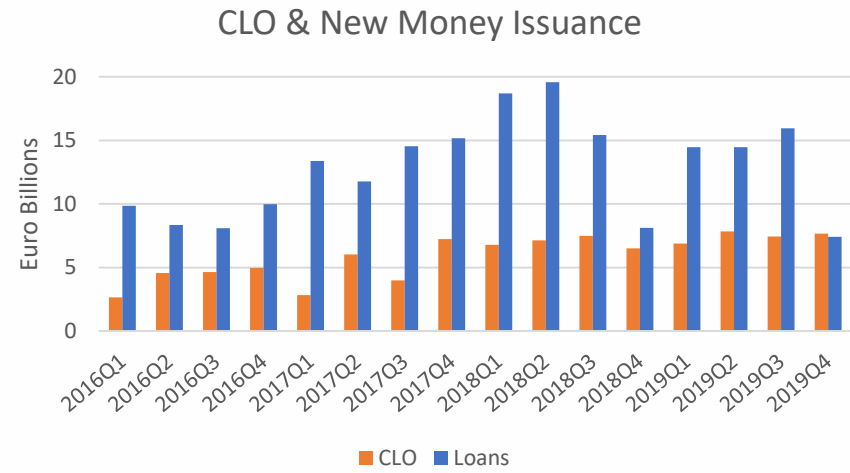
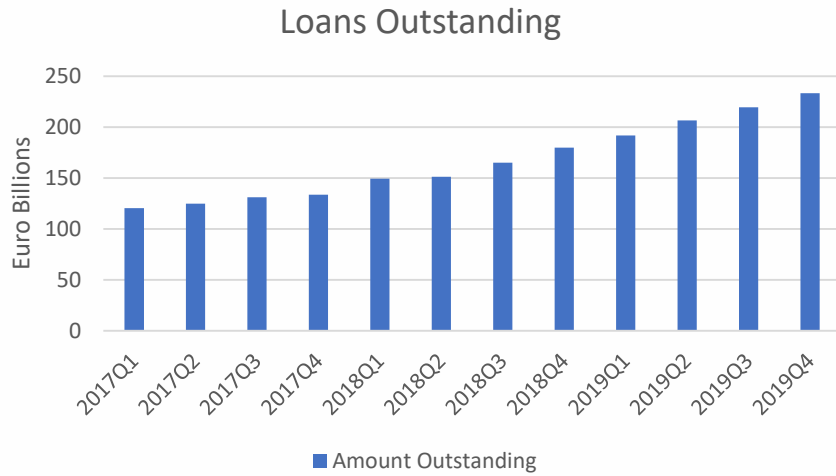


EUR/GBP 1L/2L institutional loans.

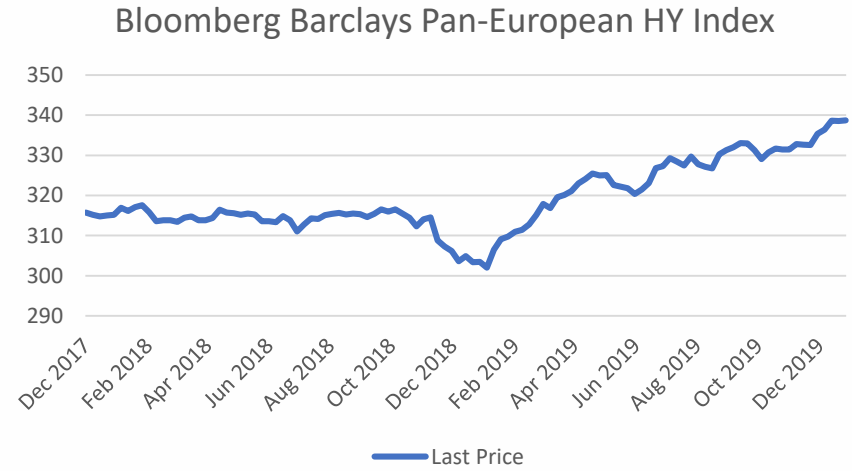
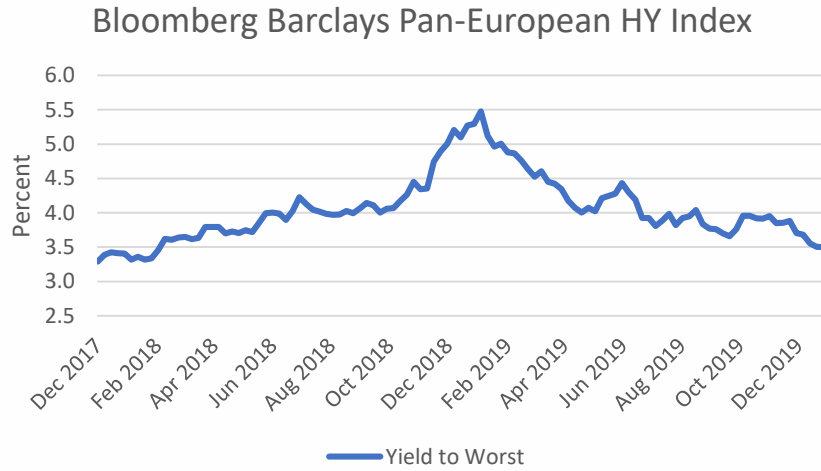


Based on coupon.

Includes deals that had no single B tranche; the average is higher if these deals are excluded (201bps for March).



New loan issuance, excluding repricings/refinancings.



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