



DC Advisory's

European Debt Market

Monitor: 2021 & 2022 Outlook

April 2022

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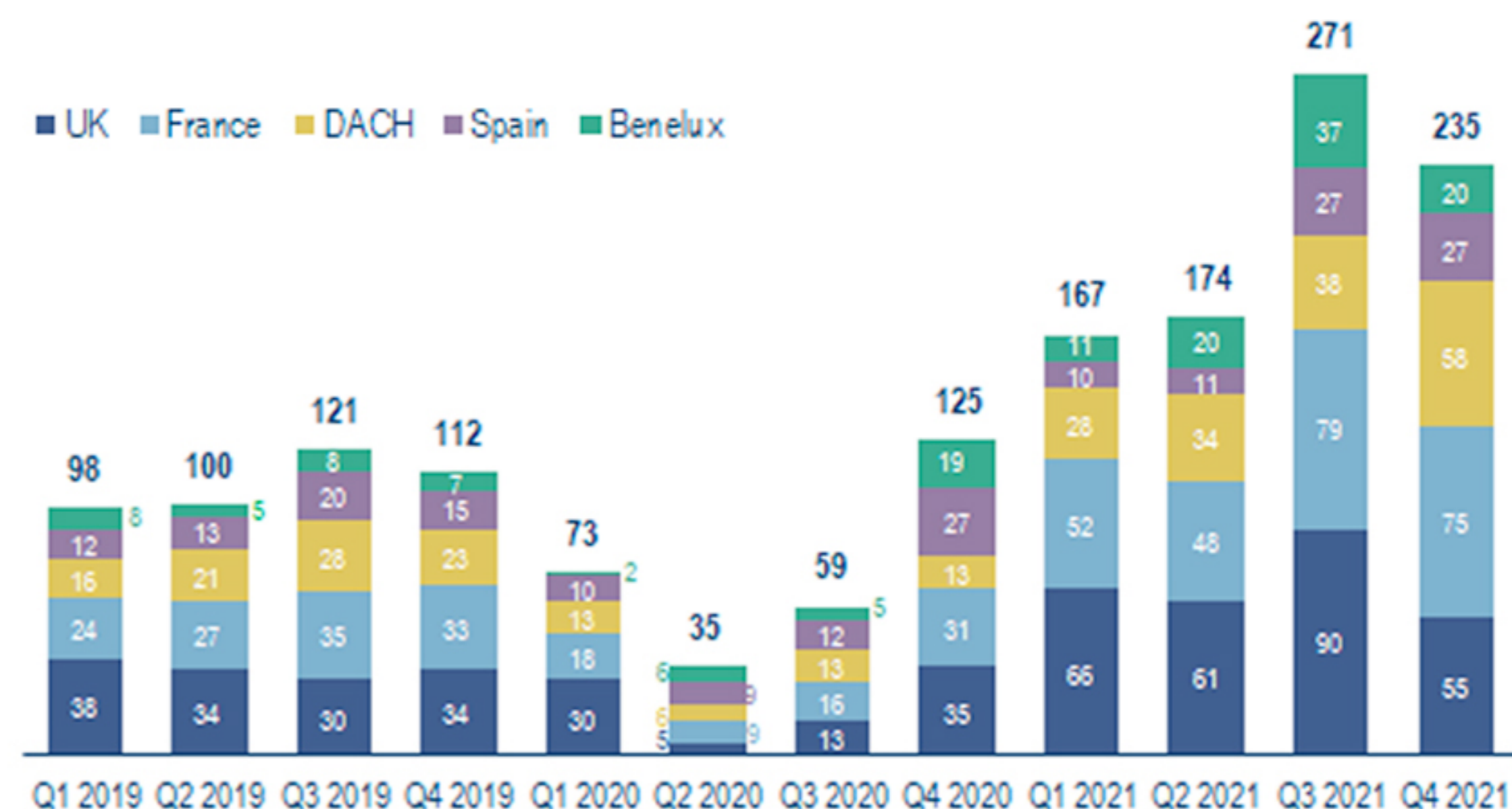
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European Debt Market Monitor – 2021 & 2022 Outlook

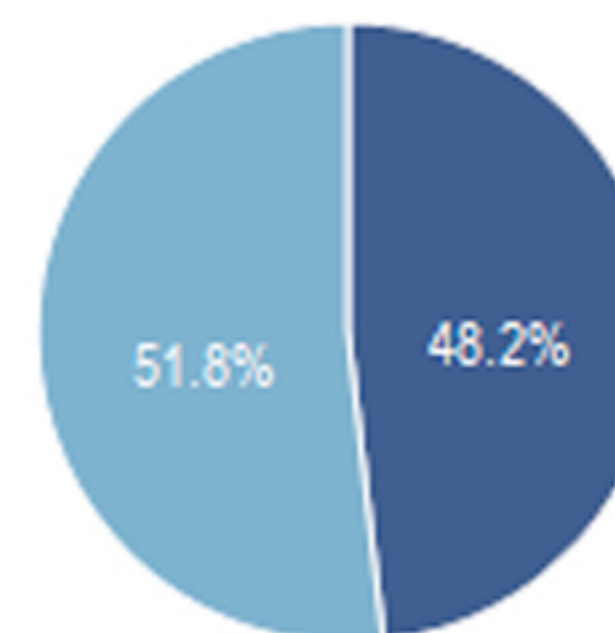
European Economic Outlook

- 2021 saw a 190% increase in debt deals vs 2020, with over 847 debt deals closed (506 of those in Q3 and Q4)¹
- We have witnessed this cause a rebound in M&A and refinancing – causing an uptick in activity levels
- This was supported by significant liquidity, particularly from direct lenders increasing their market share from 30% in 2020 to 39% in 2021¹
- Looking ahead, the geopolitical turbulence will likely impact market activity with both high yield and liquid loan markets resetting to the new macro dynamics
- As well as assessing the impact of the wide-ranging and evolving geopolitical volatility, corporates are already navigating a number of other headwinds, including:
 - persistent inflation - particularly across energy and commodities;
 - supply chain disruption;
 - labour market squeeze; and
 - rising interest rates
- These headwinds may trigger higher levels of stressed activity, particularly in sectors that are seeking to adapt to a post-pandemic world, some with overleveraged capital structures
- Conditions for supply in the market are expected to remain broadly supportive, although lenders will be paying close attention to the direct and indirect impact from the macro-political backdrop
- Terms are expected to remain bifurcated based on credit quality, with lenders reserving more attractive terms for those that have demonstrated resilience
- ESG is also expected to remain a key focus area for lenders in the coming year, both in terms of screening deals and throughout a deal lifecycle

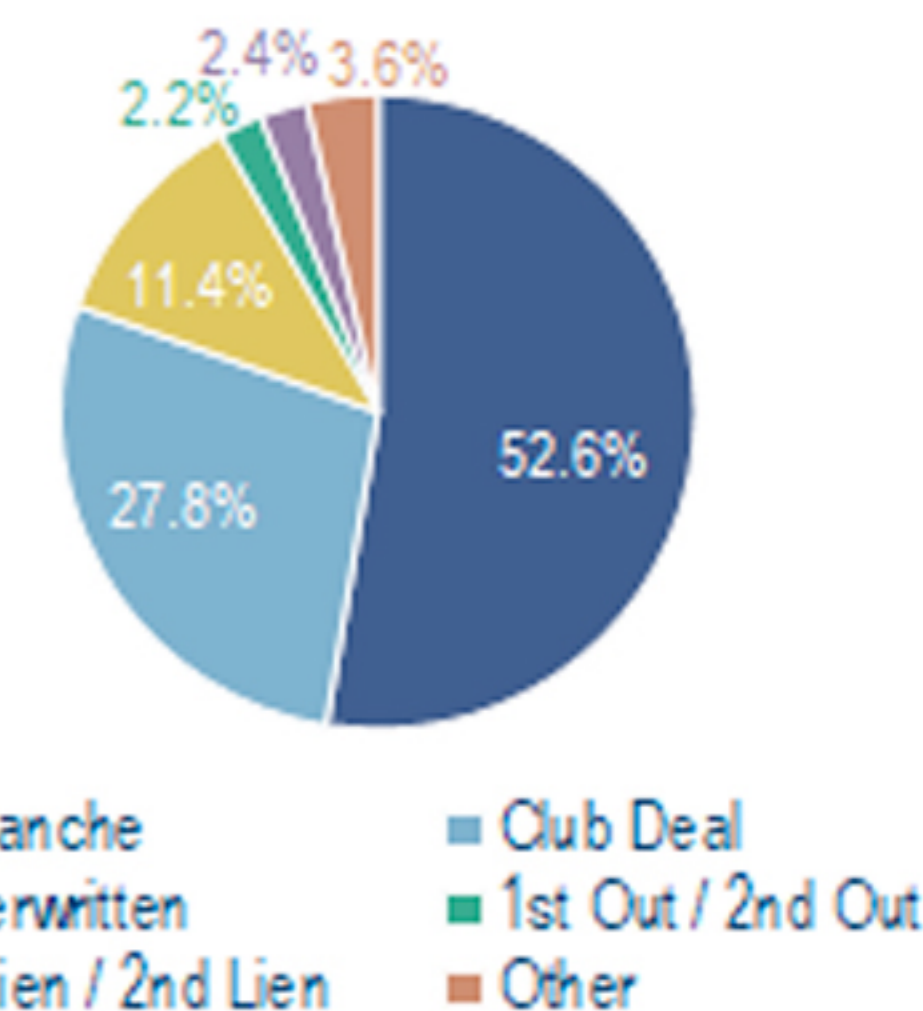
Deal volumes by region



Deal purpose



Deal structure



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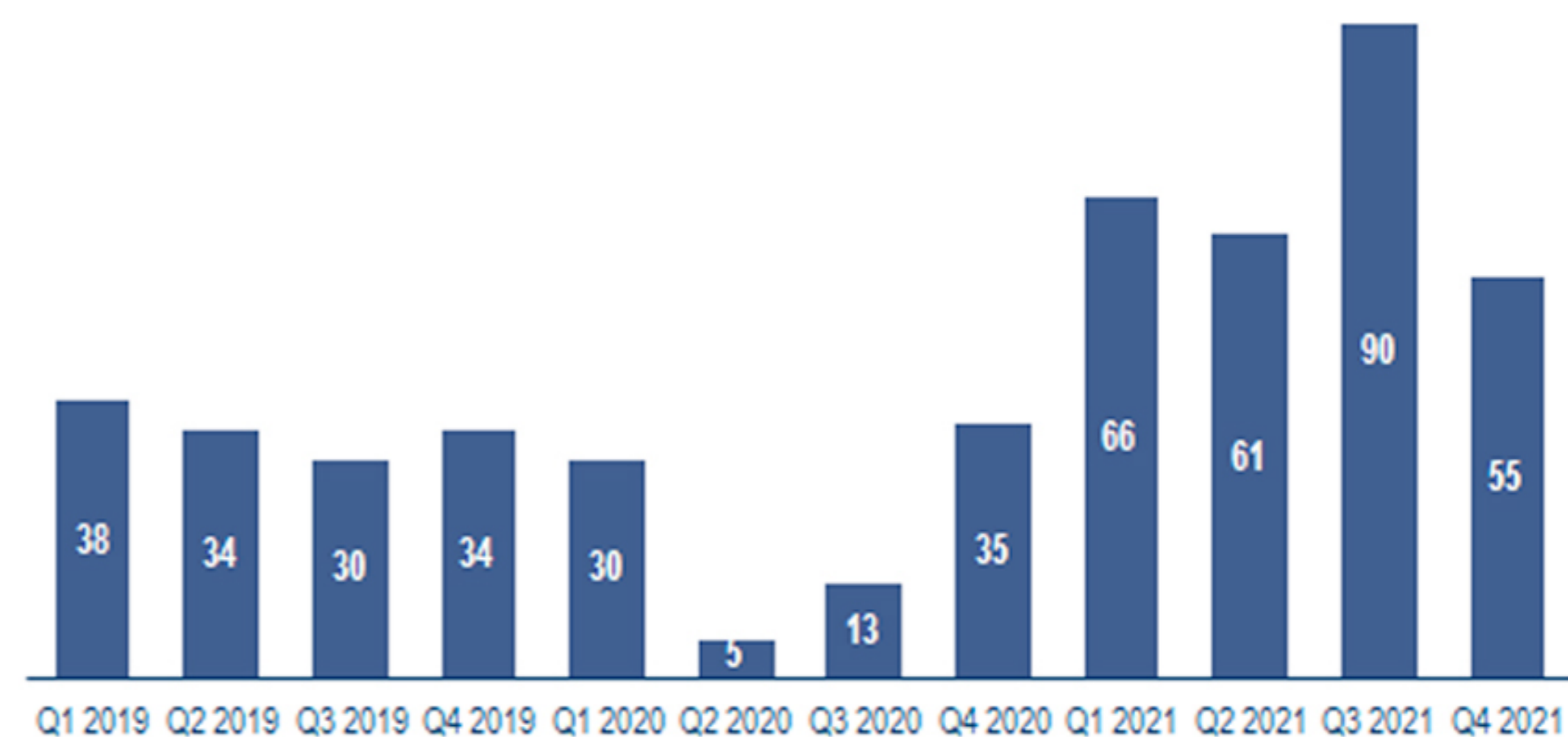
UK highlights

- Deal flow in the UK remained strong in H2, with 145 debt deals closed in H2 compared to 127 in H1,¹ underpinned by a buoyant M&A market and high levels of refinancing activity
- However, we did see a slowdown in activity levels in Q4 compared to the high base set in Q3, with 60 debt deals completed in Q4 2021 vs. 90 completed in Q3 2021¹
- Direct lenders were the most active source of financing during 2021, with 53% market share, up from 52% in 2020¹
- Direct lenders are expected to remain the key source of liquidity during 2022, particularly for M&A, with significant dry powder being raised and still available
- We expect banks to remain focused on supporting existing clients and a continuation of the smaller average hold positions seen recently
- Given interest rate outlook, we expect borrowers to be managing for volatility in the medium term

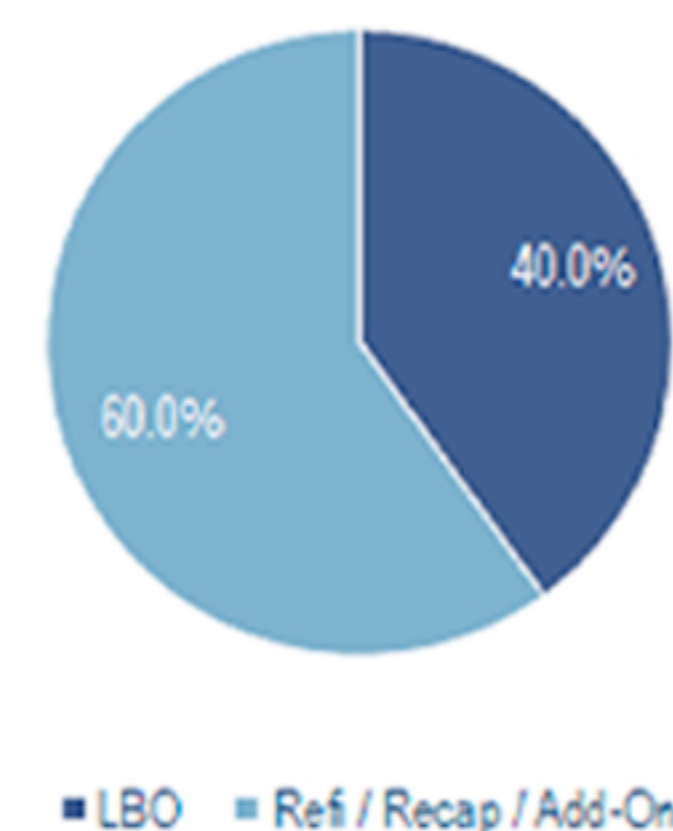
UK lender league tables

Banks	LTM	Funds	LTM
HSBC	58	Ares	52
Natwest	37	Barings	18
Barclays	24	CVC	16
Santander	23	Crescent	13
Investec	17	Pemira	11
Lloyds	16	Pemberton	10
Bank of Ireland	11	Bridgepoint	10
Siemens	4	HPS	9
Rabobank	3	Arcmont	8
Credit Agricole	3	Pricoa	8

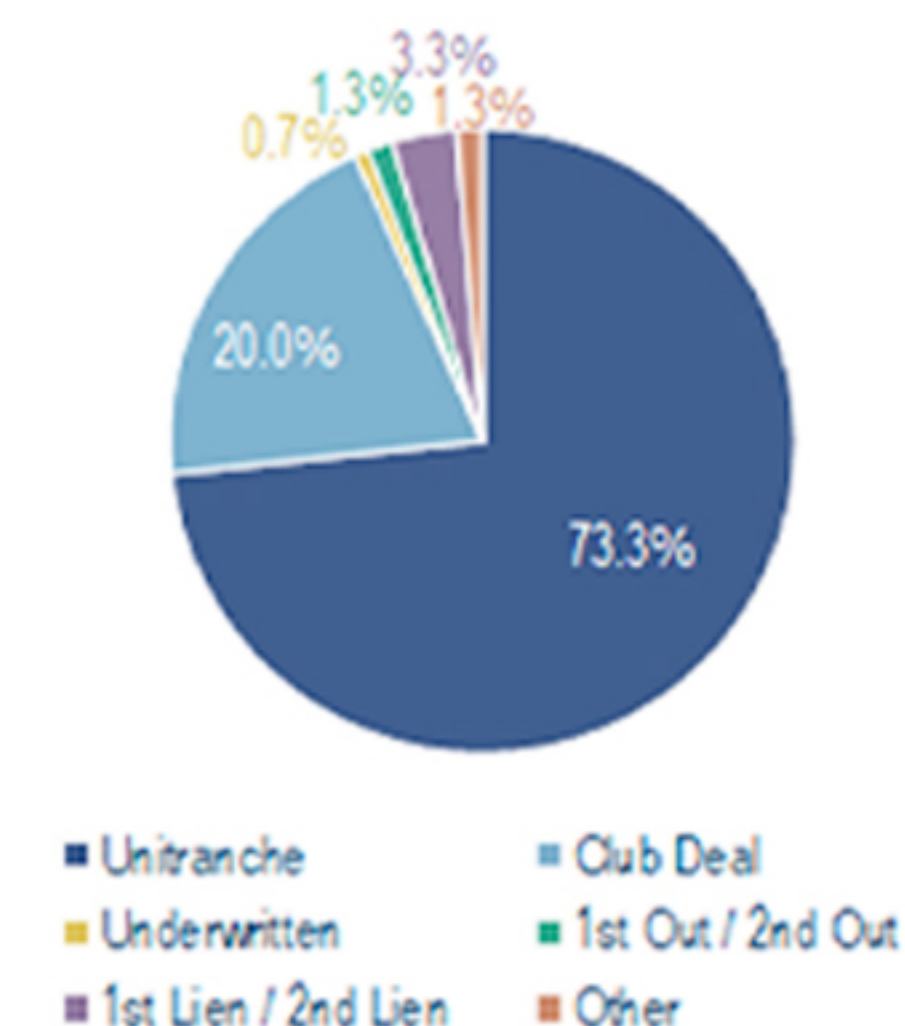
Deal volumes



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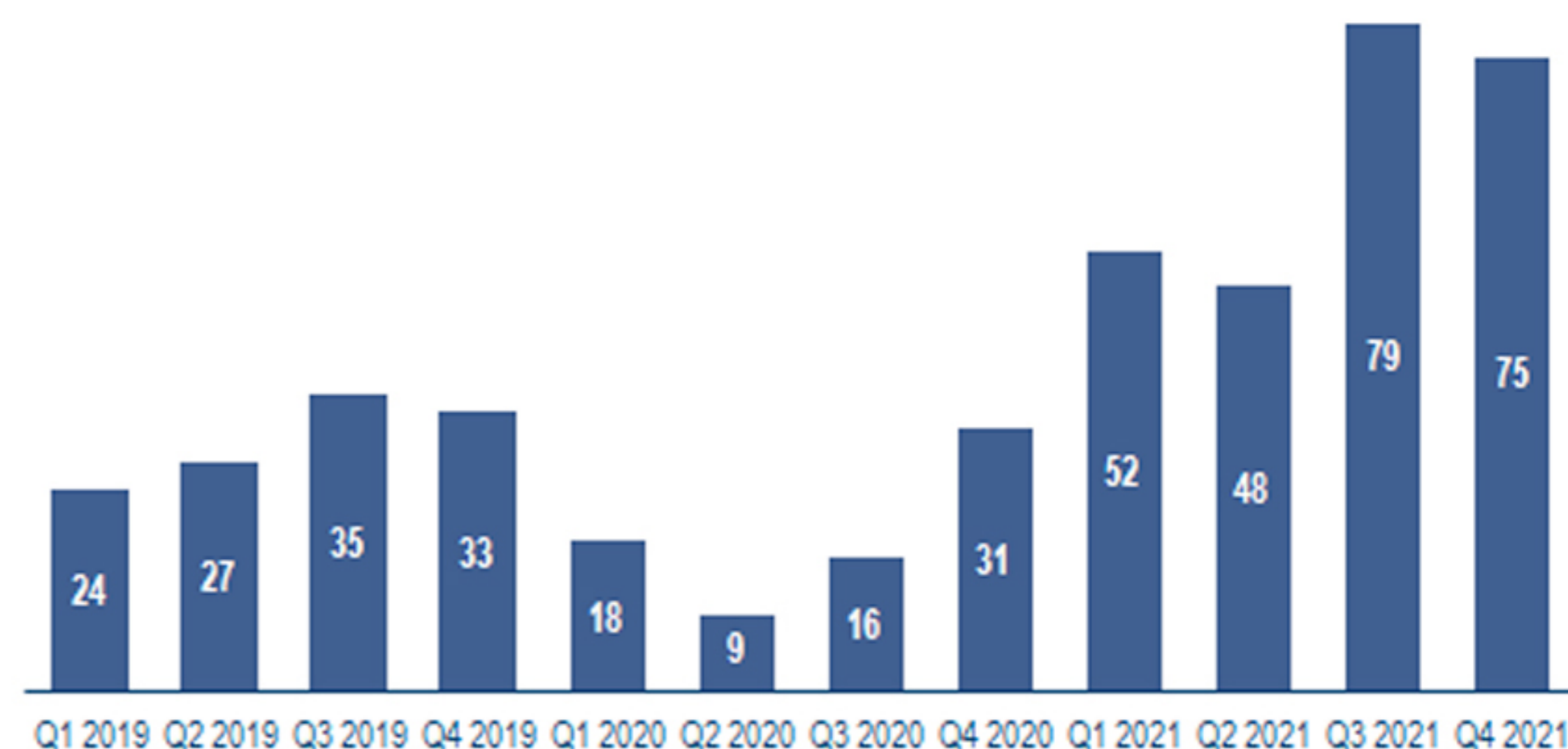
France highlights

- Valuations remained very high throughout 2021, with multiples beyond 20x in sectors enjoying substantial organic growth. We saw leverage loans on the rise, with increasing senior or unitranche complemented with Payment-In-Kind (PIK) structures
- We believe deal flow has been robust on both sell-side and refinancing as favourable market conditions continue, with notably quite tight pricing on direct lending side
- We also see sponsors preferring to optimize IRR (internal rate of return) with a dividend recap, and keep benefiting from further EBITDA expected growth
- We have seen notable shifts at the end of 2021 in relation to key investment committee challenges for lenders, further exacerbated by recent developments, with margin sustainability and exposure to input price rises being closely monitored

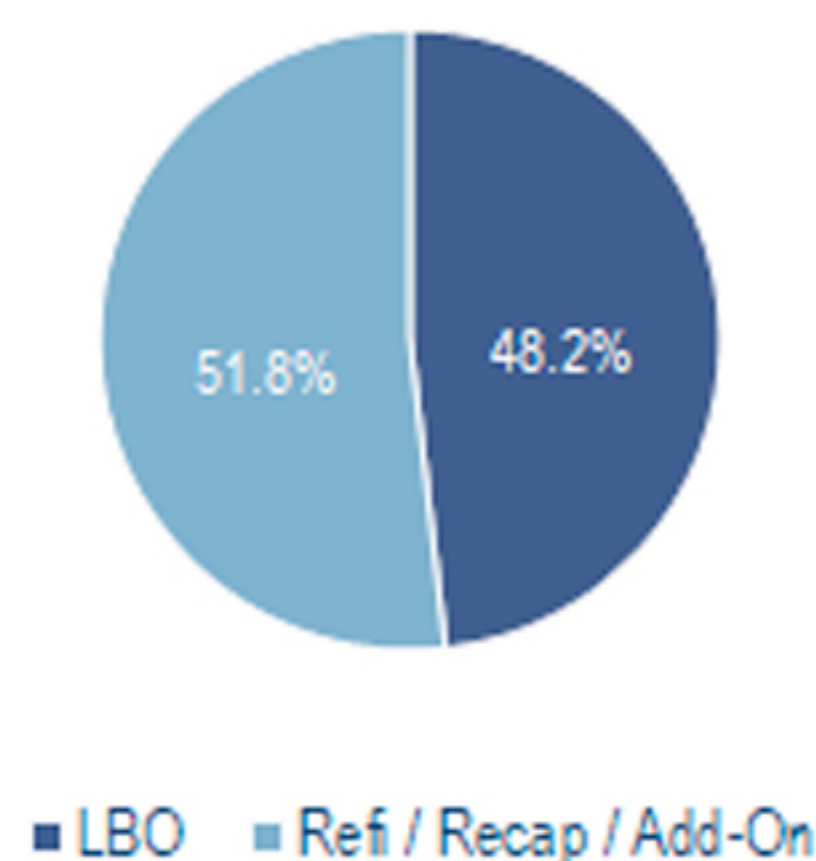
France lender league tables

Banks	LTM	Funds	LTM
BNP Paribas	70	Tikehau	25
LCL	57	Schelcher Prince Gestion	17
Société Générale	49	CAPZA / Artemid	15
CIC	42	Eurazeo	15
CA-CIB	28	Barings	14
Banque Populaire	26	Bpifrance Investissement	11
Caisse d'Épargne	24	Eiffel	10
La Banque Postale	16	Pemberton	6
Banque Palatine	13	Lyxor	6
Arkea	10	Allianz Global Investors	6

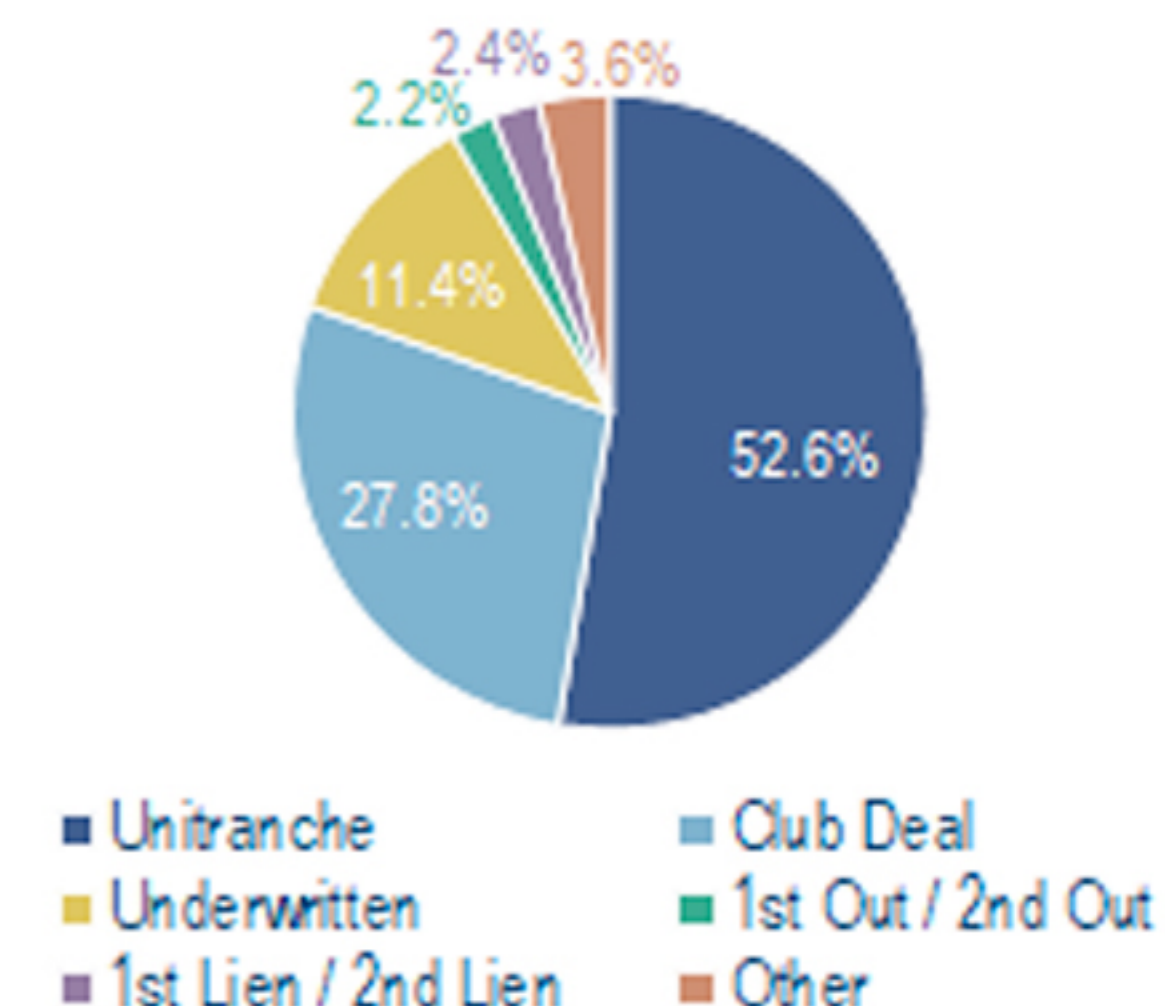
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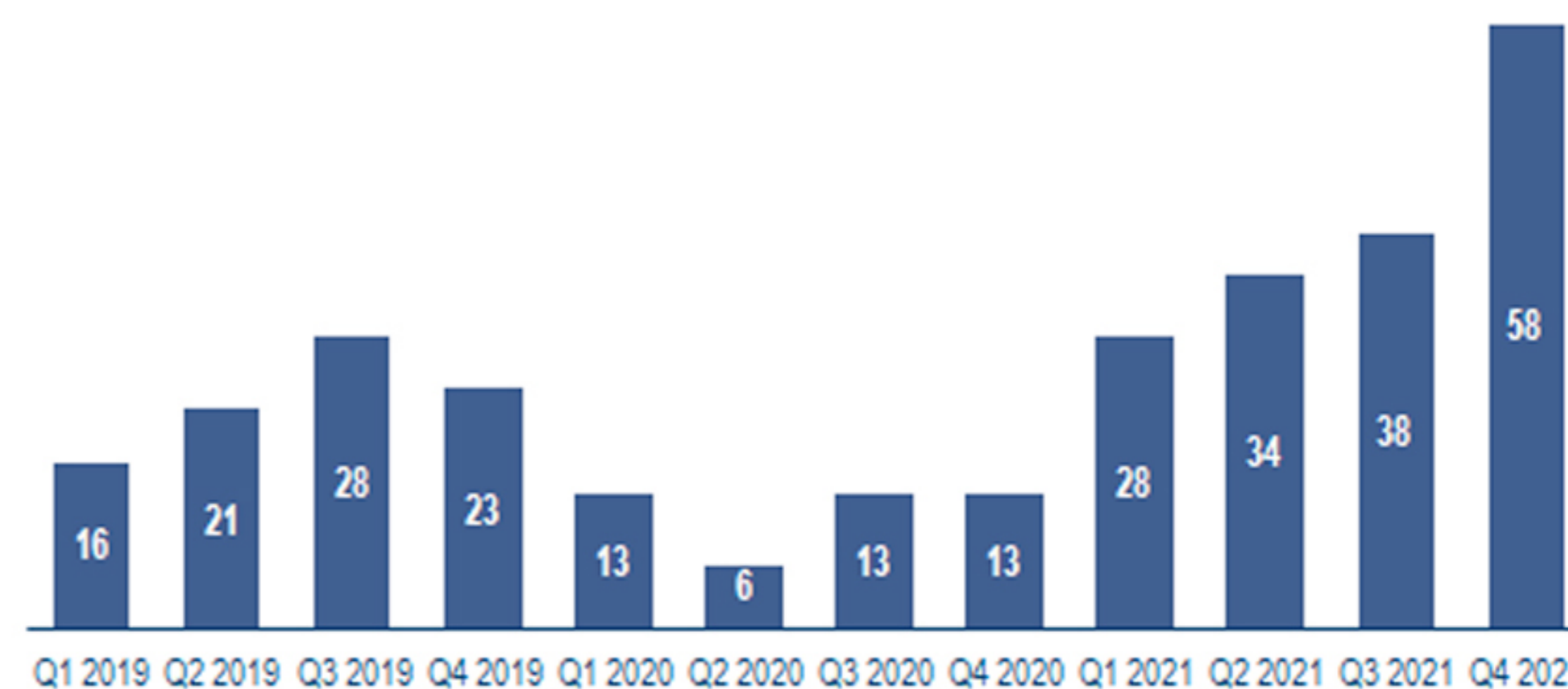
DACH highlights

- As in the other markets, we have seen deal flow remain strong throughout Q3 and Q4, with higher purchase prices and leverage levels driving aggressive terms in M&A and LBO markets
- Debt funds have been showing a strong appetite for larger financings, due to growing firepower and the market being supported by high levels of government funding to support companies in the pandemic. We believe this has created strong competition for deals
- We are seeing various impacts of the current geopolitical climate on markets as lenders monitor existing credit exposure to high risk countries more closely, and do not take on new exposures in those regions

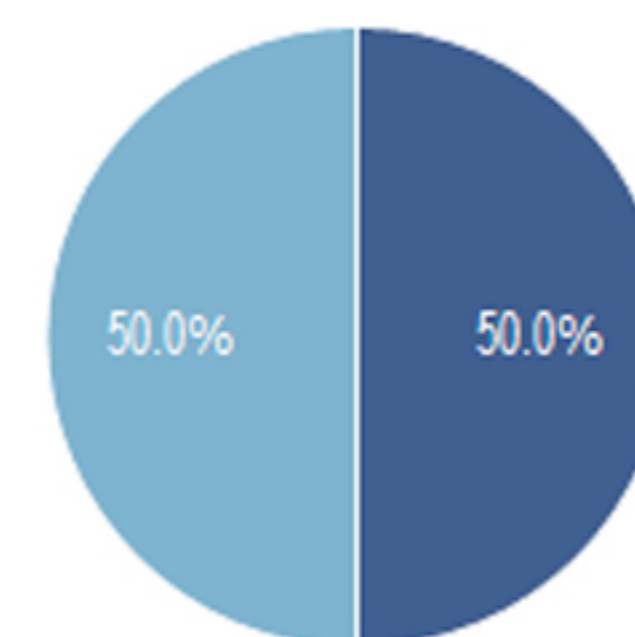
DACH lender league tables

Banks	LTM	Funds	LTM
Berenberg	33	Blackrock	22
LBBW	28	Arcmont	18
Unicredit	27	Eurazeo	14
OLB	21	Barings	11
Siemens Bank	16	Allianz GI	10
DZ Bank	14	Bain Capital Credit	9
SMBC	13	Pemberton	9
Sparkasse	11	Ares	8
Bank of Ireland	11	Bridgepoint Credit	8
Nord LB	10	ODDO Private Debt	8

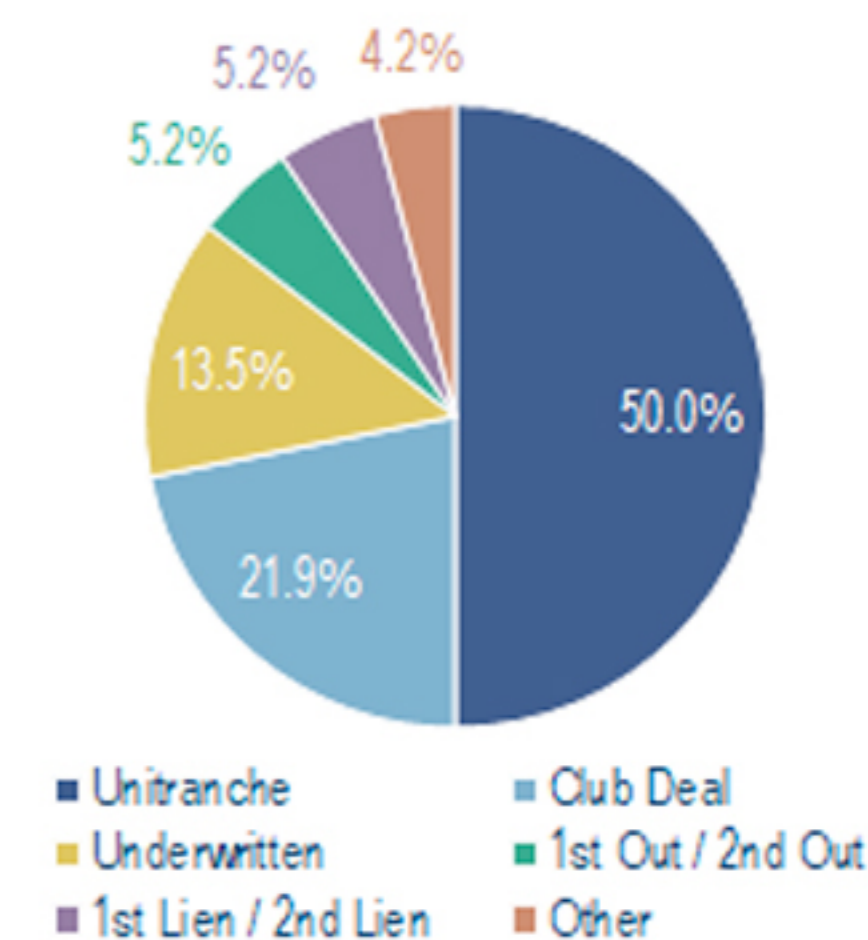
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Spain highlights

- After a buoyant H1, activity in H2 remained strong with 54 deals completed, confirming the trends we witnessed in the first half of 2021

- In Q4, we observed the first signs of deceleration, resulting in a difficult year-end due to several factors, including an increase in raw material prices and energy costs, supply chain issues, and the Omicron variant that affected the general economic outlook

- With LBOs and ‘healthy’ refinancing still accounting for the majority of the activity in 2021, we expect stressed deals to progressively rise in the coming months as government support initiatives come to an end

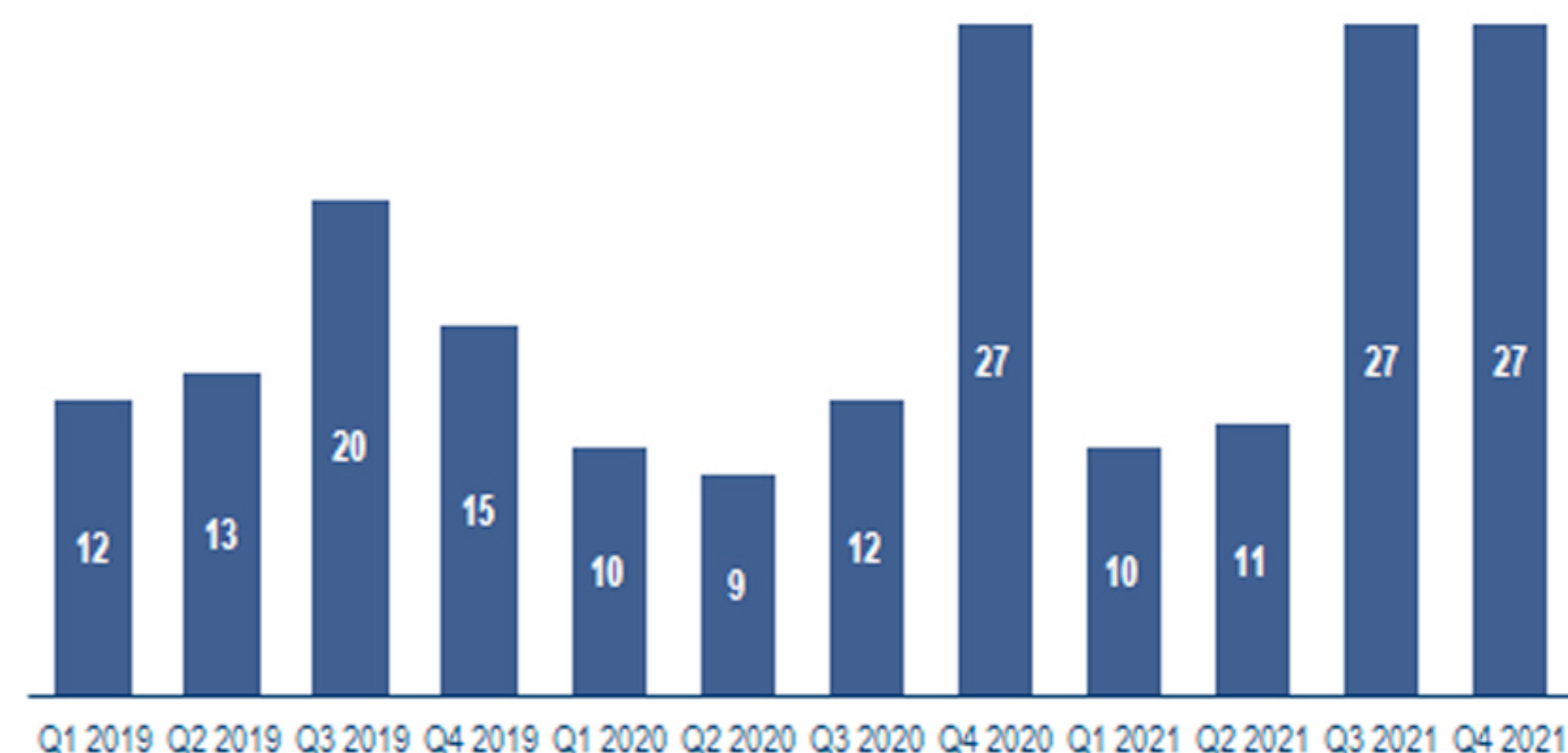
- In terms of financing conditions, we observed some lenders becoming more selective after the first quarter of intense activity. ESG remains a key focus area, with an increasing number of lenders addressing the topic in the IC submissions

- Looking ahead, a potential increase of interest rates may be expected in case inflation exceeds the ECB’s 2% target.² This may result in a tightening of credit conditions and an increase in stressed refinancing activity

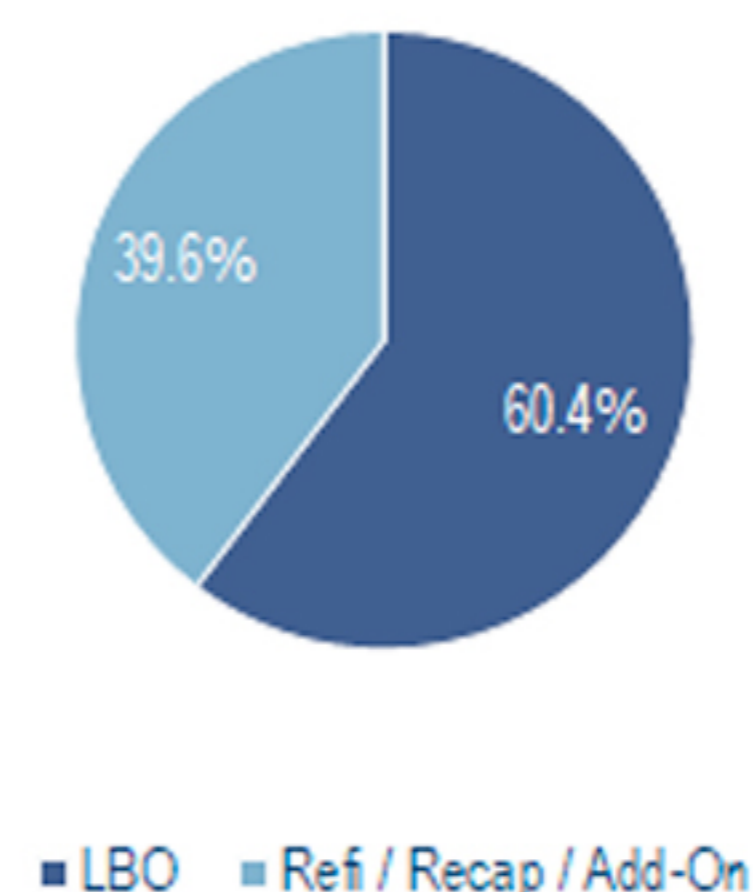
Spain lender league tables

Banks	LTM	Funds	LTM
CaixaBank	60	Tresmares	16
Santander	54	Muzinich	12
BBVA	50	Oquendo	10
Sabadell	24	Goldman Sachs	10
Deutsche Bank	10	Pemberton	6
Bankinter	10	Ares	6
Targobank	8	Arcmont	4
Banco Pichincha	8	Alantra	4
Banca March	6	Tikehau	5
Ibercaja	6	Scor	2

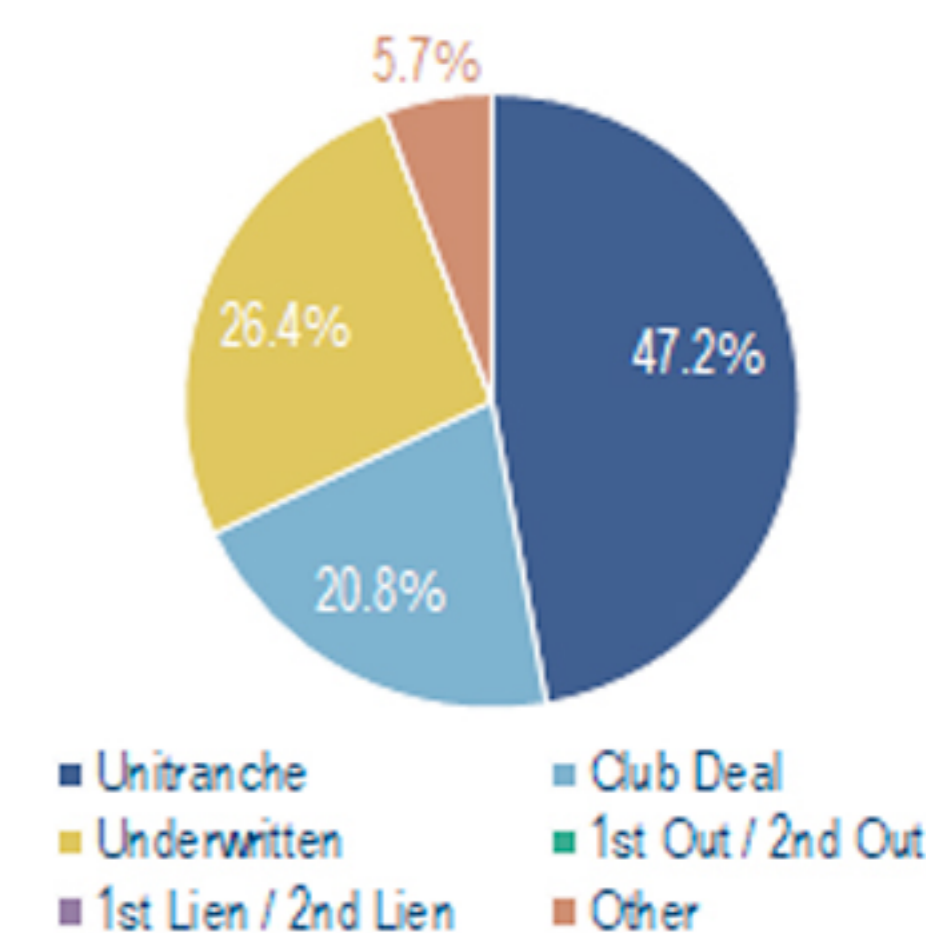
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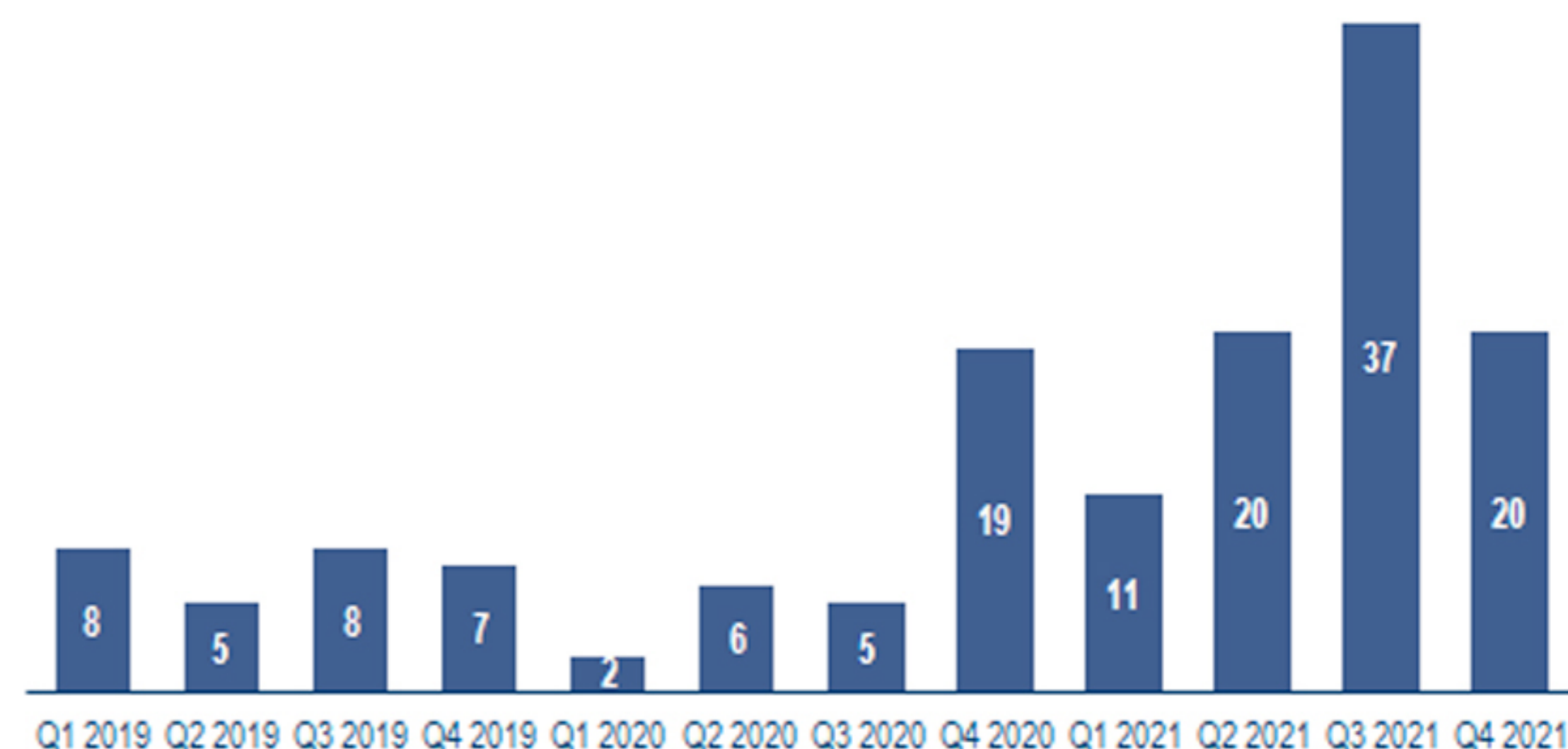
Benelux highlights

- In the Benelux, we saw a strong return in deal activity in Q4 2021 following a quiet Q2/Q3 in the region
- Notwithstanding the macro-political climate, we predict dry powder from sponsors will drive demand, although geographical turbulence and the general market uncertainty may bring some headwinds
- As in other European markets, we have seen private credit funds steadily take market share from the traditional bank lending market aided by their ability to deliver large hold levels with streamlined investment committee processes – both of which are clear competitive advantages over the commercial banks
- Appetite for software, healthcare, and technology-driven services remains strong. However, traditional industries are likely to remain of interest to local debt funds, and Dutch sponsors are increasingly looking to international opportunities
- For some other industries such as human capital management and building supplies, cycle risks are likely to remain a barrier to financing

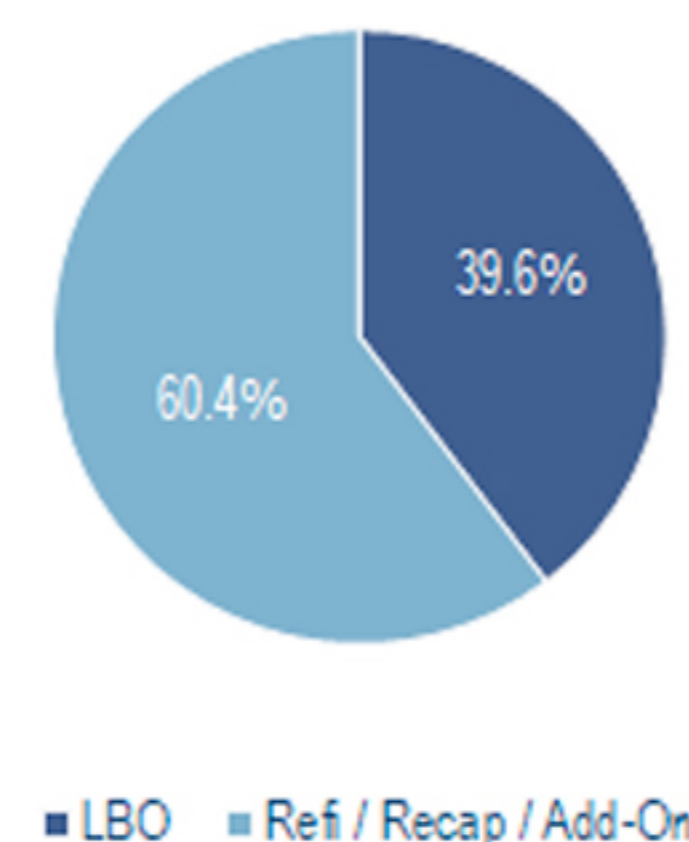
Benelux lender league tables

Banks	LTM	Funds	LTM
ING	19	Barings	10
Rabobank	15	Crescent	10
ABN Amro	13	Alcentra	6
Investec	8	Tikehau	6
SMBC	8	CVC	5
NIBC	8	Kartesia	5
Bank of Ireland	6	Arcmont	4
Siemens	6	Deutsche Bank	4
Berenberg	5	Ares	4
BNP Paribas	4	Pemberton	3

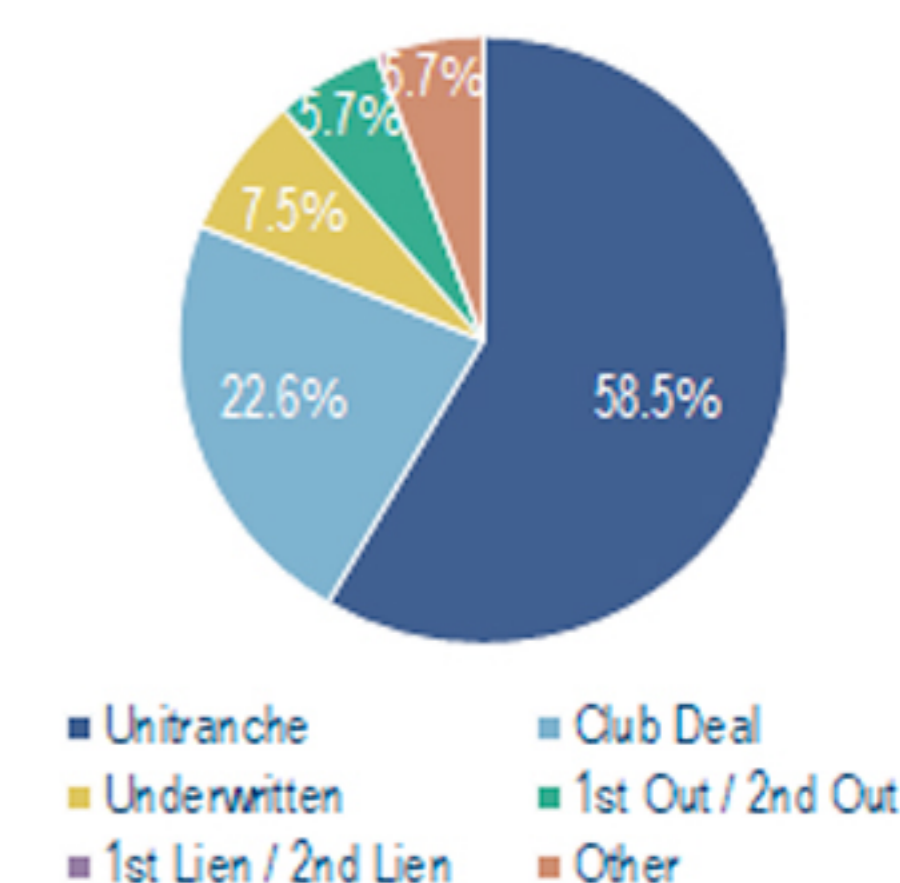
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Italy highlights

- As in other European markets, private debt is becoming increasingly appealing to investors given the greater flexibility and transaction customisation they can facilitate
- Italy faced a third wave of Covid infections during Q4, resulting in a vast number of firms, including the leisure and travel sectors, unable to operate normally. As a result, the economy is still reliant upon policy support to prevent corporate insolvencies and economic contractions
- Nonetheless, vaccination programmes are advancing and have offered an exit route creating greater optimism at the start of 2022 - this is boosted by a pipeline of transactions announced but not yet finalised amounting to c.€40BN.³ However, the current macroeconomic and political uncertainty will undoubtedly impact that market throughout 2022



<p>Advised the sponsor on its refinancing</p> <p>March 2022</p>	<p>Advised the company on a state-guaranteed refinancing</p> <p>February 2022</p>	<p>Advisor to sponsor on acquisition financing</p> <p>February 2022</p>	<p>Advisor to sponsors on dividend recapitalisation</p> <p>January 2022</p>	<p>Advised the company on a staple financing</p> <p>January 2022</p>
<p>Advisor to sponsor on acquisition financing</p> <p>December 2021</p>	<p>Advised the sponsor on acquisition financing</p> <p>November 2021</p>	<p>Advised the sponsor on the company's refinancing</p> <p>October 2021</p>	<p>Advised the sponsor on acquisition financing</p> <p>October 2021</p>	<p>Advised the company on refinancing</p> <p>October 2021</p>
<p>Advised the sponsor on the company's refinancing</p> <p>October 2021</p>	<p>Advised Breeze Three Energy on the sale and financing of its onshore wind farm portfolio</p> <p>October 2021</p>	<p>Advisor to Sponsor on Acquisition Financing</p> <p>September 2021</p>	<p>Advisor to sponsor on dividend recapitalisation</p> <p>August 2021</p>	<p>Advised the sponsor on acquisition financing</p> <p>July 2021</p>
<p>Advised the sponsor on the acquisition and financing of the company</p> <p>July 2021</p>	<p>Advised the sponsor on acquisition financing</p> <p>July 2021</p>	<p>Advised the company on a staple financing</p> <p>June 2021</p>	<p>Advised the company on the acquisition financing of add-ons</p> <p>May 2021</p>	<p>Advised the sponsor on acquisition financing</p> <p>May 2021</p>
<p>Advised the company on refinancing of existing debt facilities</p> <p>April 2021</p>	<p>Advised the sponsor on the acquisition and financing of the company</p> <p>April 2021</p>	<p>Advised the company on refinancing and acquisition financing</p> <p>April 2021</p>	<p>Advised the Sponsor on Acquisition Financing</p> <p>April 2021</p>	<p>Advised the sponsors on the financing of Cargounit</p> <p>March 2021</p>
<p>Advised the company on refinancing of existing debt facilities</p> <p>March 2021</p>	<p>Advised Rutland Partners on acquisition financing</p> <p>February 2021</p>	<p>Advised the company on acquisition financing</p> <p>February 2021</p>	<p>Advised Ambianta on acquisition financing</p> <p>February 2021</p>	<p>Advised the company on its refinancing</p> <p>February 2021</p>
<p>Advised the sponsor on the acquisition and financing of the company</p> <p>January 2021</p>	<p>Advised the company on refinancing of existing debt facilities</p> <p>January 2021</p>	<p>Advised the sponsor on the acquisition of a majority in TNG & raising of a capex facility</p> <p>December 2020</p>	<p>Advised on the acquisition financing of Mehler Vario System Group</p> <p>December 2020</p>	<p>Advised ICG on acquisition financing</p> <p>November 2020</p>

Pan-European sector contacts

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References

[1] January 2022 DC Advisory Lender Survey - DC Advisory's independent survey of 93 European banks and direct lenders, which was completed in January 2022 (conducted across UK, France, Germany, Austria, Switzerland, Spain, Belgium, Netherlands and Luxembourg) (referred to herein as the "The January 2022 DC Advisory Lender Survey"); All data in the tables in this piece have been collected via the January 2022 DC Advisory Lender Survey.

[2] European Central Bank (ECB). www.ecb.europa.eu. (2021). Monetary policy decisions. [online] Available at: <https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.mp211216~1b6d3a1fd8.en.html>

[3] Deloitte. www.deloitte.com. (2022). Italy Private Equity Confidence Survey. [online] Available at: <https://www2.deloitte.com/content/dam/Deloitte/it/Documents/strategy/PrivateBrochure/DeloittePrivatePESurvey1S2022.pdf>

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