



UK & DACH Quarterly Snapshot

Q3 2018



Debt Adviser of the
Year 2018



UK & DACH Quarterly Snapshot

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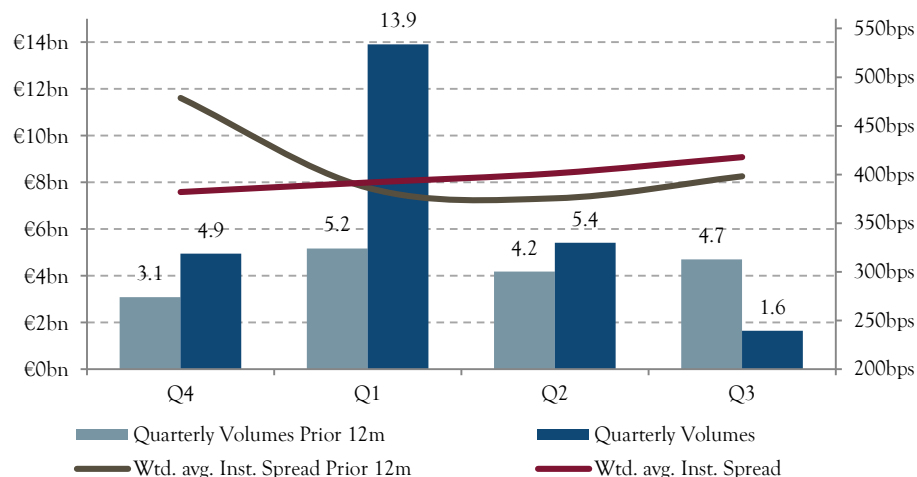


UK Mid-Market Quarterly Snapshot

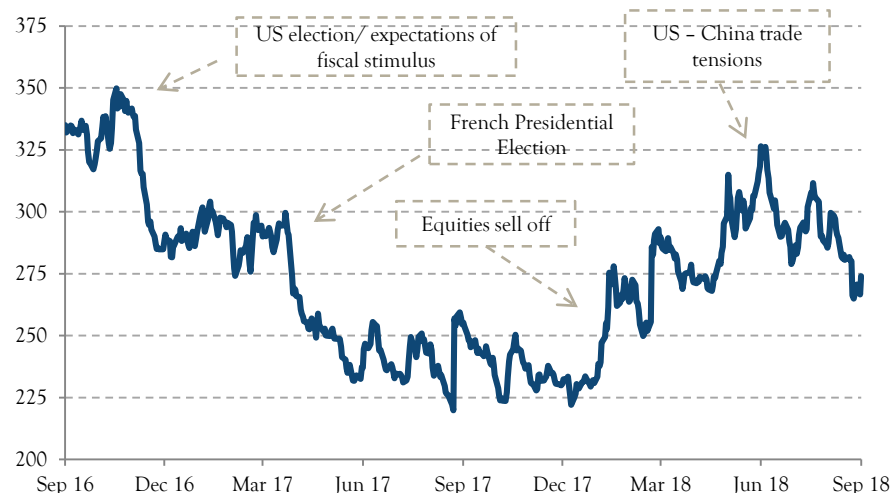
Q3 2018 Review

The UK leveraged loan market has seen a slowdown in activity in Q3'18 despite the year remaining strong overall for loan volume issuance

UK Senior Loan Volume and Pricing



iTraxx Europe Cross-Over (bps)



Key Themes

- ❖ UK leveraged loan volumes were lower at €1.6bn in Q3'18; a 66% decline compared to the same period last year as issuance levels dropped sharply from Q1 and Q2'18. The decrease in volumes for the quarter was primarily driven by several large landmark deals closing in the first half of 2018, with YTD volumes remaining strong at €20.9bn; 48% higher than the same period last year
- ❖ Despite total European leveraged loan volume falling to €20.3bn in Q3'18 from €28.3bn in Q3'17, reflecting a generally slower pace of activity for the quarter, Europe is on track to match record loan volumes achieved in 2017 with YTD issuance broadly flat year-on-year
- ❖ M&A activity has continued to be dominant, accounting for 83% of total European new-issue loan volume for the third quarter; a reflection of consistent deal flow on new money transactions rather than refinancings and repricings throughout 2018
- ❖ The quarter has seen continued market volatility due to political uncertainties, with main market fears including the fragile Italian political situation, uncertainty over Brexit negotiations, and increasing trade tensions between the U.S. and China
- ❖ The iTraxx Crossover was volatile throughout the quarter, underpinned by current market conditions, and traded at c. 275bps as at the end of Q3'18



DACH Mid-Market Quarterly Snapshot

Q3 2018 Review

Lower issuance in Q3 but year-to-date issuance above prior year

Key Themes

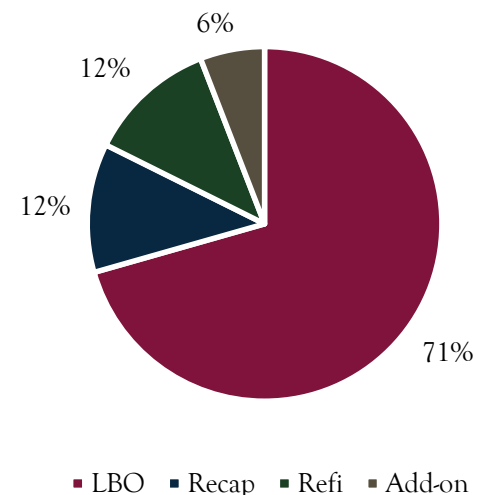
Observations from the third quarter in 2018

- ❖ Q3 2018 showed issuance of 17 deals in the German-speaking LBO market. This was lower than both Q2 2018 issuance (30 deals) and Q3 2017 issuance (20 deals)
- ❖ For YTD Q3 2018, issuance was at 74 deals and significantly above YTD Q3 2017 issuance of 57 deals (+30%)
- ❖ The shares of LBOs in Q3 2018 was in line with the previous quarter (71% vs. 67%). The share of recaps and refinancings was higher (24% vs. 17%)
- ❖ The share of add-on financings was slightly lower (6% vs. 17%)

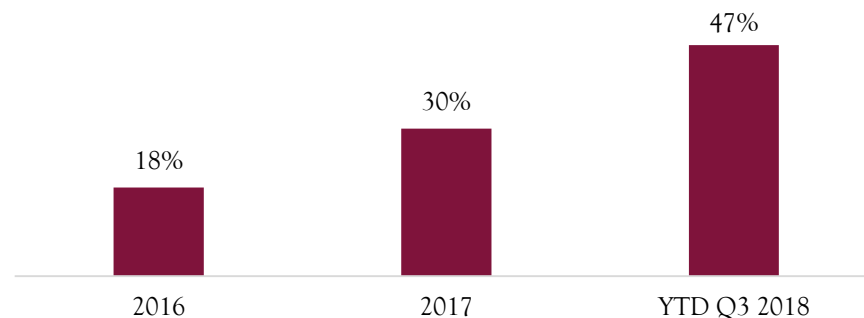
Role of debt funds

- ❖ With 12 out of 17 deals, debt funds were the dominant provider of financing for the DACH market in Q3 2018. 12 deals reflect a share of 71%, the highest share of debt fund financings in the DACH market as of now
- ❖ For YTD Q3 2018, debt fund financings in the DACH market made up 35 out of 74 deals, representing a share of 47% compared to 30% for 2017 and 18% for 2016
- ❖ The most active funds YTD Q3 2018 were Pemberton and Ares with 5 deals each, followed by Alcentra with 4 deals as well as Bluebay and Idinvest with 3 deals each

Type of Deals in DACH Market



Increasing Popularity of Debt Funds in DACH



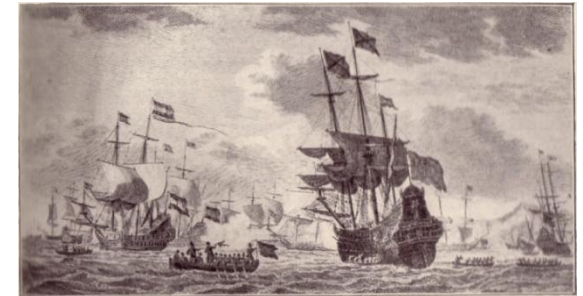


Focus on: Leveraged Lending in Spain's Middle Market

Spain is increasingly becoming a hot spot for Private Equity, including middle market deals. But when coming to financing them, local dynamics may need to be navigated

The residents: local bank dynamics

- ❖ The approach to leveraged lending by the so-called 'G-5' of Spain's largest banks (Santander, BBVA, Caixabank, Sabadell, Bankia) is cautious outside the traditionally strong Infra and Real Estate sectors. This results in structures for corporate acquisitions being conservative, with predominance of TLA tranches, leverage levels usually below 4x and no EBITDA adjustments flexibility. The flip side is that pricing (250bps-450bps) and tenor (6+) may be competitive, covenants mandatory but bespoke, and commercial lines easily granted (usually an important point when finalizing structures). Underwriting appetite is small, given few players and no local syndication base remaining in place
- ❖ Assets in sectors with a track record of loan impairments during the crisis are a difficult play, even if they face bright prospects. Cyclical assets find no appetite. The caveat to this is that any classification needs adequate discussion during the interaction
- ❖ The result is that bank tracks in debt processes have a certain inclination to fall into a club deal or fail to present satisfactory competition if not managed with sufficient care (local-based foreign lenders, new entrants, alternative tracks, and so forth). Failure to educate lenders on an asset and/or inadequate counterpart(s) along the hierarchy line may result in surprising last-minute declines as some can tell



Unitranche & other alternative lending at bay

- ❖ Unitranche reached Spain relatively late in 2015, taking the place of special situations bespoke financing for performing deals, and has been a successful product since, with a deal count of 21. It has been used in both sponsored and sponsorless situations, with sizes up to Eur 200m+. Occasionally, it needs to accommodate local banks' commercial facilities, or Governmental Agencies' debt (ICO, Cofides, Cedeti, Regionals, and so), maintained because of relationships, adequacy, or for other reasons. This requires the debt process to assess/manage any potential breach of existing clauses (negative pledge, pari-passu, privileged security or other). An alternative to avoid this, particularly in the context of companies bidding for public business, is naturally a Holdco-Opco structure with the Unitranche sitting above
- ❖ There has been no pure bifurcated Unitranche structure to date, reflecting the Banks' lack of appetite for Super-Senior, but with adequate education and effort this will reach the market, as it did in other continental jurisdictions, on the basis of its better pricing and adequacy over the deal life. The reaction of the banks to Unitranche has been a move to All-Senior TLA(bank)+TLB(fund) structures (generally 3x-3,5x plus 1x-1,5x). These structures may be considered less optimal, particularly in respect of governance, and are also regarded as a development from their traditional 'distressed refi de-risk' TLA+TLB structure, where the subordinated TLB is provided by a Special Situations fund
- ❖ The underwriting capacity of the Funds is yet to be seen, albeit they occasionally sell small tickets or facilitate re-investment participation by local Private Debt lenders. In this area, Spain presents a reduced but well connected family of discreet (fund size Eur 100-150m) Senior and Mezz Lender funds (Alteralia, Oquendo, Muzinich, Trea, Resilience)
- ❖ Since 2013 there is a local SME bond market (MARF) which has been used to access alternative lending from institutional pockets. Its popularity also lies in the lite new-joiner requirements vs. MBE the standard corporate and financials bond market. MARF currently accounts for #51 bond issues and a volume of Eur 3.01Bn in varied issue sizes (Eur 2m-500m), tenors (up to 40 yrs.), and issuers (corporates, infra, securitization, other)

Mind the Law

- ❖ Albeit most financings are done under local Spanish law, which is generally protective for the borrower when it comes to certain breaches, English law has proven particularly useful in the jurisdiction on occasions; specifically in instances of forced A&E, Scheme of Arrangement (albeit later adaptation of Spanish law). Guarantee docs are in local law obviously, with some regional peculiarities



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