

European High Yield & Leveraged Loan Report

European Leveraged Finance

Q2: 2019



Table of Contents

Table of Contents	2
Highlights and Market Environment.....	4
Issuance Highlights.....	4
Market and Economic Environment.....	4
Issuance: Leveraged Loans.....	5
Issuance: High Yield Bonds	6
Returns & Credit Quality	7
1 Leveraged Finance Overview	8
1.1 European Leveraged Issuance by Type.....	8
1.2 European Leveraged Issuance Percentage	8
1.3 European Leveraged Average Deal Size	8
1.4 Bank Credit Standards	8
1.5 Factors Affecting Bank Credit Standards: July 2019	8
1.6 European Leveraged Issuance Percentage	8
1.7 Factors Affecting Loan Demand: July 2019.....	9
1.8 Global Comparison – High Yield Issuance	9
2 Issuance – Leveraged Loans	10
2.1 European Leveraged Loan Issuance By Type	10
2.2 European Leveraged Loan Issuance by Industry: 2Q 2019	10
2.3 Forward Pipeline of Leveraged Loan Market.....	10
2.4 ELLI Total Institutional Loans Outstanding.....	10
2.5 ELLI Ratings Diversification.....	10
2.6 Institutional, Pro Rata and Mezzanine Spreads	10
3 Issuance – High Yield Bonds Overview.....	11
3.1 European High Yield Issuance.....	11
3.2 European High Yield Issuance by Sponsor.....	11
3.3 European Corporate Bonds Outstanding (IG and HY only)	11
3.4 European Corporate Bonds HY Maturity Wall: 2Q 2019	11
3.5 European Corporate HY Bonds Outstanding By Sector: 2Q 2019.....	11
3.6 European Corporate HY Bonds Outstanding by Current Rating: 2Q 2019.....	11
3.7 European Corporate Bond Issuance by Rating: 2Q 2019.....	12
3.8 European Corporate Bond Issuance by Tenor: 2Q 2019.....	12
3.9 European HY Use of Proceeds	12
4 Issuance – European Developed Market High Yield Bonds	13
4.1 European Developed Market HY Bond Issuance	13
4.2 European Developed Market HY Issuance by Currency.....	13
4.3 European Developed Market HY Issuance by Industry: 2Q 2019	13
4.4 European Developed Market HY Issuance by Country of Risk: 2Q 2019.....	13
4.5 European Developed Market HY Issuance, Fixed vs. Floating.....	13
4.6 European Developed Market HY Issuance, Sponsored vs. Corporate	13
4.7 European Developed Market HY Rating Distribution at Issuance	14
4.8 European Developed Market Corporate Bonds Outstanding: 2Q 2019.....	14
4.9 European Developed Market HY Bond Issuance.....	15
5 Issuance – European Emerging Market High Yield Bonds	16
5.1 European Emerging Market HY Bond Issuance	16
5.2 European Emerging Market HY Bond Issuance by Currency.....	16
5.3 European Emerging Market HY Issuance by Industry: 2Q 2019	16
5.4 European Emerging Market HY Issuance by Country of Risk: 2Q 2019	16
5.5 European Emerging Market HY Issuance, Fixed vs. Floating	16
5.6 European Emerging Market HY Issuance, Sponsored vs. Corporate	16
5.7 European Emerging Market HY Rating Distribution at Issuance	17
5.8 European Emerging Market Corporate Bonds Outstanding: 2Q 2019.....	17
5.9 European Emerging Market HY Bond Issuance	17
6 Credit Quality	18
6.1 Developed Europe Issuer Rating Actions	18
6.2 Emerging Europe Issuer Rating Actions	18
6.3 Developed European Industry Rating Actions by Number of Ratings: 2Q 2019	18
6.4 Emerging European Industry Rating Actions by Number of Ratings: 2Q 2019	18
6.5 European High Yield Default Rates	18
6.6 European Leveraged Loan Default Rates.....	18
6.7 European Defaults.....	19
7 Relative Value and Total Return	20

7.1	Relative value: European HY Bonds, Cash vs. Synthetic.....	20
7.2	European HY Bond Total Return.....	20
7.3	European Leveraged Loan Total Return.....	20
7.4	Asset Class Total Y-o-Y Return: 2Q 2019.....	20
	Summary of the Methodologies Adopted for this Report.....	21
	Annex	25



Highlights and Market Environment

Highlights

Issuance Highlights

European leveraged finance issuance (leveraged loans and high yield bonds) increased to €59.9 billion in 2Q'19, a 31.6% increase from €45.5 billion in 1Q'19 but a 21.4% decrease from €76.2 billion in 2Q'18. This quarterly increase was driven mainly by a large increase in high yield bonds issuance in developed market Europe. The high yield bond share of leveraged finance market issuance increased to 48.4% in 2Q'19, up from 37.6% in 1Q'19 and up from 33.3% in 2Q'18.

Market and Economic Environment

According to the July 2019 European Central Bank lending survey, credit standards tightened for loans to enterprises in 2Q'19. Banks' risk perceptions, risk tolerance, cost of funds and balance sheet constraints all contributed to a tightening of credit standards for loans to enterprises. Across firm size, credit standards tightened for loans to small and medium-sized enterprises (SMEs) and remained broadly unchanged for loans to large firms in 2Q'19.

Credit standards for consumer credit loans tightened as well in 2Q'19, mainly due to banks' risk tolerance. Net demand for consumer credit loans increased in 2Q19.

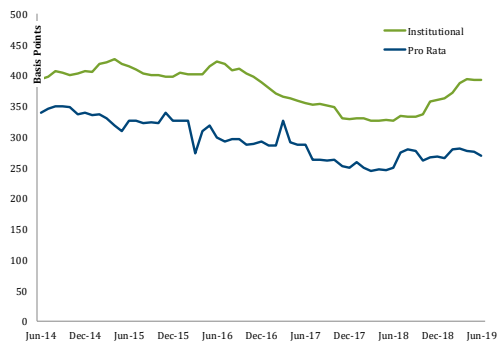
Credit standards for housing loans remained broadly unchanged in 2Q'19. Banks reported an above historical average demand for housing loans in 2Q'19.

Net demand for loans to enterprises increased in 2Q19; demand increased for loans to SMEs but decreased for loans to large firms.

“European leveraged finance issuance (leveraged loans and high yield bonds) totaled €59.9 billion in 2Q'19”

“Leveraged loan issuance totaled €30.9 billion on 58 deals in 2Q’19”

Leveraged Loan Spreads



Source: Dealogic, AFME, SIFMA

Issuance

Issuance: Leveraged Loans

Leveraged loan issuance, including first lien, second lien, and mezzanine financing, increased to €30.9 billion on 58 deals in the second quarter of 2019, an 8.8% increase in volume from €28.4 billion on 55 deals in 1Q’19 but a 39.2% decrease from €50.9 billion on 96 deals in 2Q’18.

All but three of the leveraged loans issued in 2Q’19 were 1st lien loans (€30.6 billion or 98.9% of total). Three 2nd lien loan (€0.3 billion) and no mezzanine loans were financed in 2Q’19.

Pricing spreads for institutional loans widened by 6 basis points (bps) q-o-q and by 66 bps y-o-y while spreads for pro rata loans tightened by 11 bps q-o-q but widened by 20 bps y-o-y.

In 2Q’19, €2.0 billion of amend-and-extend (“A&E”) loans were financed, down 73.0% from €7.4 billion in 1Q’19 and by 59.7% from €5.0 billion in 2Q’18. No loans has been amended to reduce pricing (“A&R”) in the second quarter of 2019, unchanged from 1Q’19 and down from €8.2 billion in 2Q’18.

The top three sectors accounted for over half of leveraged loan issuance in 2Q’19; the leading sector was healthcare (€7.5 billion or 24.4% of total), followed by telecommunications (€4.9 billion, 15.8%), and oil & gas (€3.9 billion, 12.6%), with the balance split between 16 other sectors.

Over three quarters (77.8%) of deals financed in the second quarter of 2019 were issued for refinancing and/or repayment of debt, up from 40.0% in 1Q’19 and up from 47.3% in 2Q’18. Refinancing and/or repayment of debt were the largest use of proceeds in 2Q’19 with €24.1 billion, followed by leveraged buyouts with €4.6 billion or 14.7% of the total, and other uses with €1.6 billion or 5.2% of the total.

“Primary high yield issuance totaled €29.0 billion on 69 deals in 2Q’19”

Issuance: High Yield Bonds

Primary high yield issuance totaled €29.0 billion on 69 deals in 2Q’19, a 69.5% increase from €17.1 billion on 39 deals in 1Q’19 and a 14.2% increase from €25.4 billion on 61 deals in 2Q’18. In developed market Europe, €26.0 billion of high yield bonds were issued, up 151.0% from €10.4 billion in 1Q’19 and up 10.4% from €23.6 billion in 2Q’18. In emerging market Europe €2.9 billion in high yield bonds were issued in 2Q’19, down from €6.7 billion in 1Q’18 but up from €1.8 billion in 2Q’18.

In the second quarter of 2019, average deal size in developed market Europe decreased by 6.4% to €441.3 million from €471.5 million in 1Q’19 but increased by 6.7% from €413.7 million in 2Q’18. Average deal size in emerging market Europe was €294.1 million in 2Q’19, down 25.7% from €395.6 million in 1Q’19 and down 34.3% from €447.7 million in 2Q’18.

The leading use of proceeds for high yield bonds issuance in 2Q’19 were general corporate purposes with €14.9 billion, which was up 31.4% from €11.4 billion in 1Q’19 and up 25.9% from €11.9 billion in 2Q’18. In developed market Europe, the leading use of proceeds for high yield issuance in 2Q’19 was general corporate purposes with €13.3 billion, followed by refinancing and/or repayment of debt with €7.1 billion and acquisitions with €2.7 billion. In emerging market Europe, €1.6 billion was issued for general corporate purposes in 2Q’19, followed by €0.9 billion for LBO/MBO and €0.3 billion for refinancing and/or repayment of debt.

Three sectors accounted for almost half (44.7%) of the total high yield issuance volume in 2Q’19 in developed market Europe: the telecommunications sector led issuance with €6.9 billion (26.6% of total), followed by oil & gas with €2.7 billion (10.2% of total), and machinery with €2.1 billion (7.9% of total). In emerging market Europe the top three sectors were: finance (€1.4 billion or 46.0% of total), followed by telecommunications (€1.1 billion, 35.9%) and agribusiness (€0.3 billion, 9.1%).

The proportion of USD-denominated issuance decreased to 28.4% of all issuance in 2Q’19, down from 34.8% in 1Q’19 but up from 21.5% in 2Q’18. USD-denominated issuance in developed market Europe increased to €6.4 billion, or 24.7% of issuance, up 7.5 times from €0.8 billion (7.2% of total) in 1Q’19 and by 56.9% from €4.1 billion (17.4% of total) in 2Q’18. Of high yield bonds issued in emerging market Europe, €1.8 billion (61.1% of total) was denominated in USD, down 65.5% from €5.2 billion (77.4% of total) in 1Q’19 but up 34.0% from €1.3 billion (74.9% of total) in 2Q’18.

“U.S. Corporates Index led returns in 2Q’19 with 10.6% y-o-y”

“Three European high yield bond issuers defaulted in 2Q’19”

Returns & Credit Quality

Of the 20 analysed asset classes, 16 recorded positive year-over-year (y-o-y) returns in the second quarter of 2019. U.S. Corporates Index led y-o-y returns with an increase of 10.6% in 2Q’19, followed by S&P 500 Index with a 8.2% gain y-o-y and Global Fallen Angels Index with a 7.7% gain y-o-y. The worst performing asset class was the U.S. HY Distressed Index with a loss of 13.3% y-o-y in 2Q’19, followed by Russel 2,000 Index with a 4.7% loss y-o-y, and MSCI EM Index with a 1.4% decrease y-o-y.

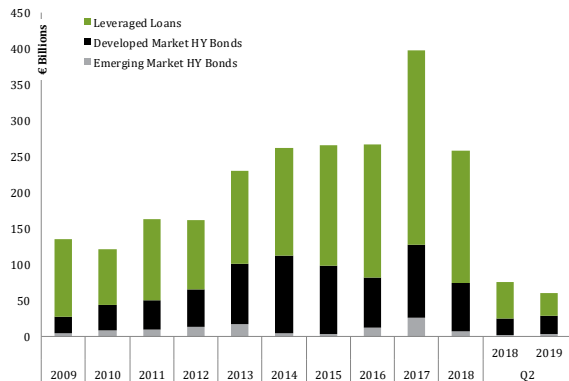
As of June 2019, S&P reported the trailing 12-month speculative-grade default rate at 2.3%, an increase from 2.0% in March 2019 and an increase from 1.8% in June 2018.

Three bond-related defaults were reported in the second quarter of 2019, all in developed market. Two firms defaulted due to missed interest payment and one due to distressed exchange.

According to Standard and Poor’s, in 2Q’19 upgrades exceeded downgrades in developed market Europe (27 upgrades to 25 downgrades), a much better ratio than 13 upgrades to 26 downgrades in 1Q’19 but slightly worse than 31 upgrades to 26 downgrades in 2Q’18. In emerging market Europe, there was only 1 upgrade and no downgrades by S&P in 1Q’19 compared to 4 upgrades and 2 downgrades in 1Q’19 and 4 upgrades and 5 downgrades in 2Q’18. Three sectors accounted for over a third (35.8%) of all the rating actions in 2Q’19: banks led the number of rating actions (7 upgrade, no downgrades), followed by capital goods (no upgrades, 6 downgrades), and media and entertainment (2 upgrades, 4 downgrades).

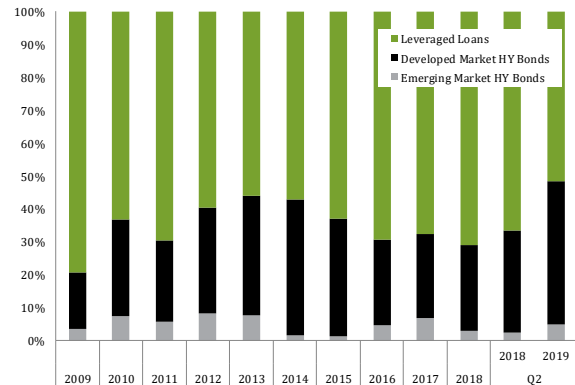
1 Leveraged Finance Overview

1.1 European Leveraged Issuance by Type



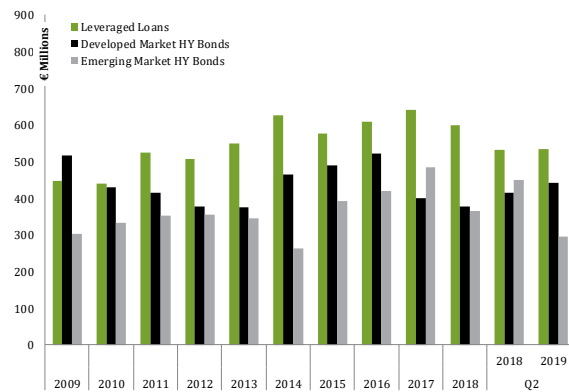
Source: Dealogic

1.2 European Leveraged Issuance Percentage



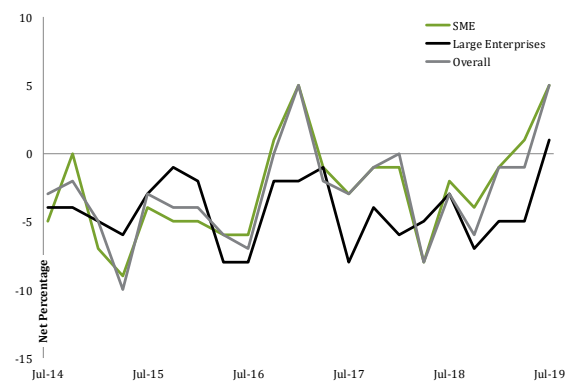
Source: Dealogic

1.3 European Leveraged Average Deal Size



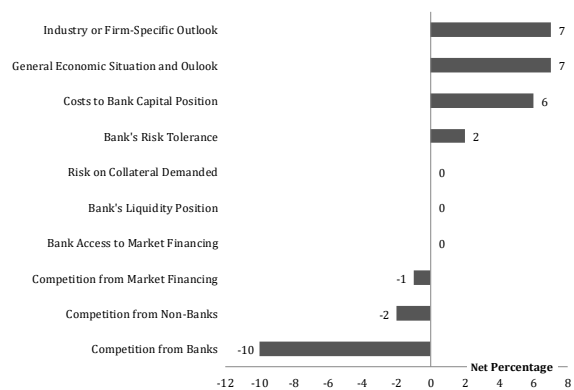
Source: Dealogic

1.4 Bank Credit Standards¹



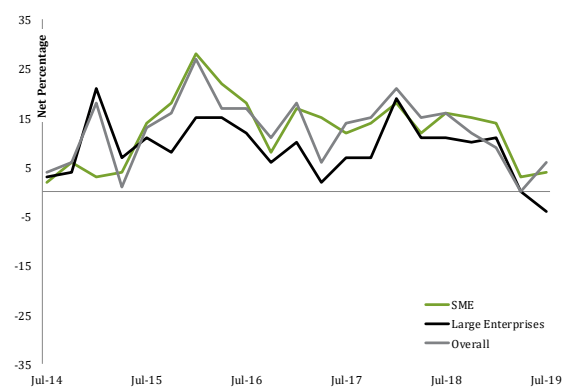
Source: European Central Bank

1.5 Factors Affecting Bank Credit Standards: July 2019²



Source: European Central Bank

1.6 European Leveraged Issuance Percentage³



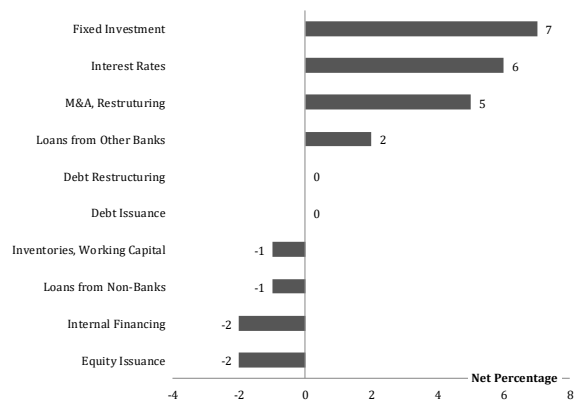
Source: European Central Bank

¹ A positive net percentage number signifies tightening bank credit; a negative net percentage number signifies easing credit.

² A positive net percentage signifies the factor contributed to tightening credit standards; a negative net percentage signifies the factor contributed to easing credit standards.

³ A positive net percentage signifies increased demand; a negative net percentage signifies decreased demand.

1.7 Factors Affecting Loan Demand: July 2019⁴



Source: European Central Bank

1.8 Global Comparison – High Yield Issuance

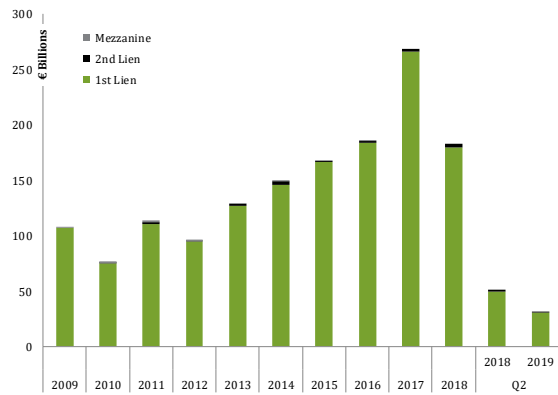
	2019		2018					2017					Prior Years		
	Q1	Q2	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3	Q4	Full Year	2016	2015	2014
€ Billions															
United States	48.0	49.0	38.4	32.1	34.9	10.4	115.8	58.5	62.6	51.2	48.0	220.3	192.0	187.6	164.4
Europe	17.1	29.0	24.9	25.4	17.7	6.9	74.9	35.3	34.5	19.4	38.6	127.9	82.1	97.8	112.4
Asia Pacific	29.1	26.3	18.3	12.7	8.2	11.3	50.5	20.2	23.2	21.7	11.5	76.6	27.1	25.2	27.1

Source: Dealogic

⁴ A positive net percentage signifies a factor that contributed to higher demand; a negative net percentage signifies a factor that contributed to lower demand.

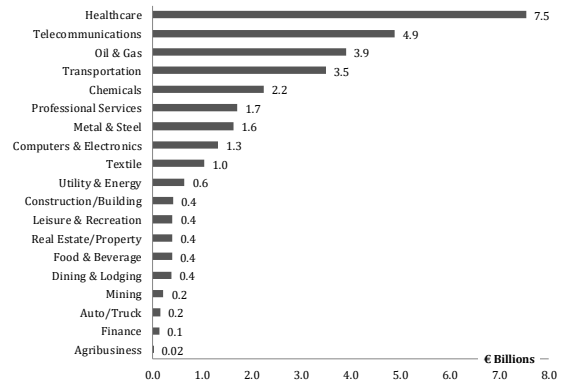
2 Issuance – Leveraged Loans

2.1 European Leveraged Loan Issuance By Type



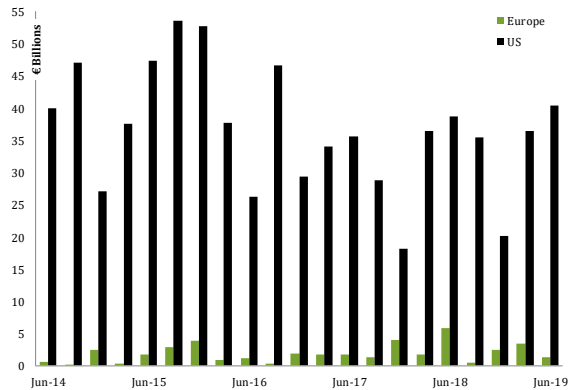
Source: Dealogic

2.2 European Leveraged Loan Issuance by Industry: 2Q 2019



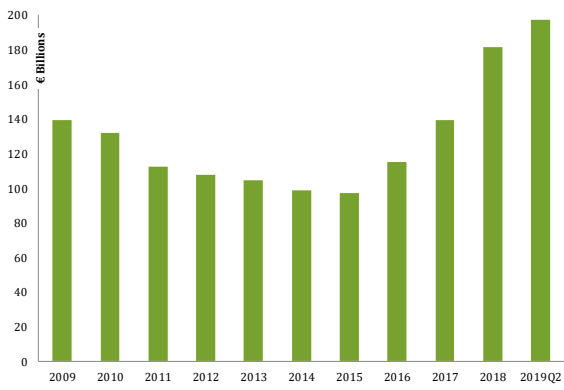
Source: Dealogic

2.3 Forward Pipeline of Leveraged Loan Market



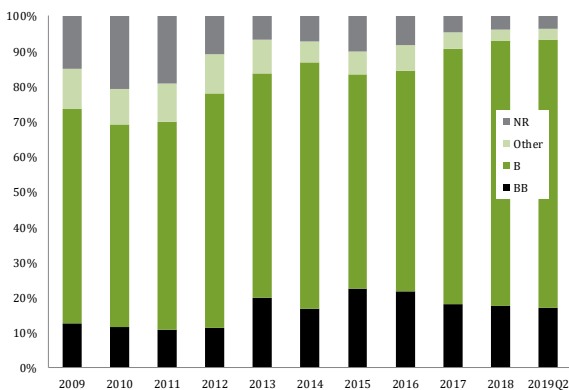
Source: Standard & Poor's LCD

2.4 ELLI Total Institutional Loans Outstanding



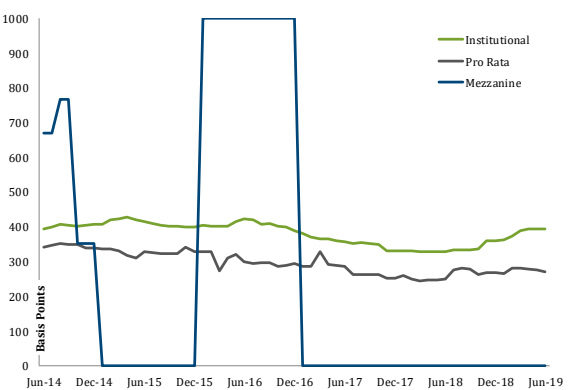
Source: Standard & Poor's LCD

2.5 ELLI Ratings Diversification



Source: Standard & Poor's LCD

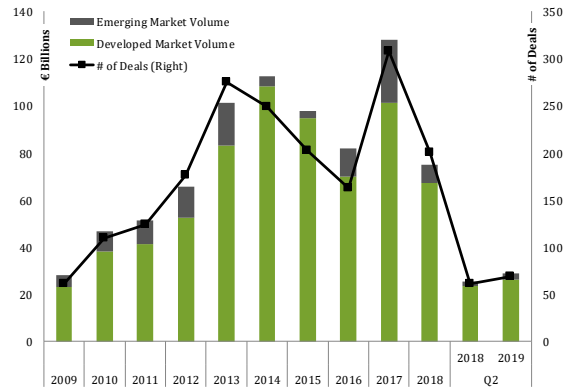
2.6 Institutional, Pro Rata and Mezzanine Spreads



Source: Dealogic, AFME, SIFMA

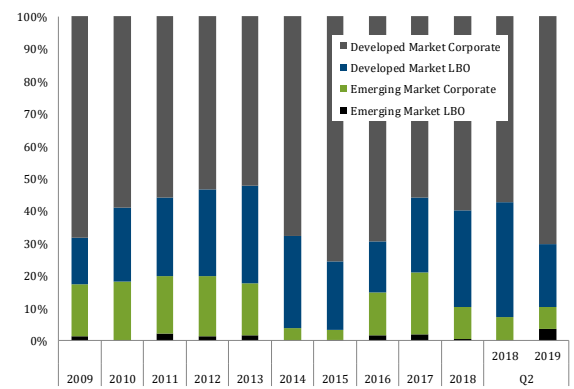
3 Issuance – High Yield Bonds Overview

3.1 European High Yield Issuance



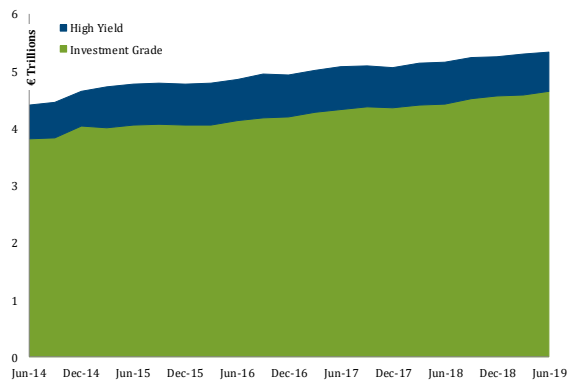
Source: Dealogic

3.2 European High Yield Issuance by Sponsor



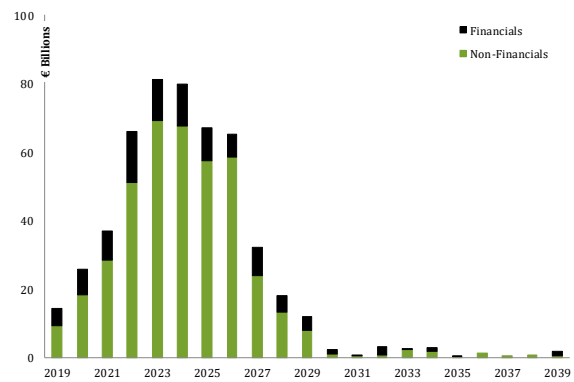
Source: Dealogic

3.3 European Corporate Bonds Outstanding (IG and HY only)



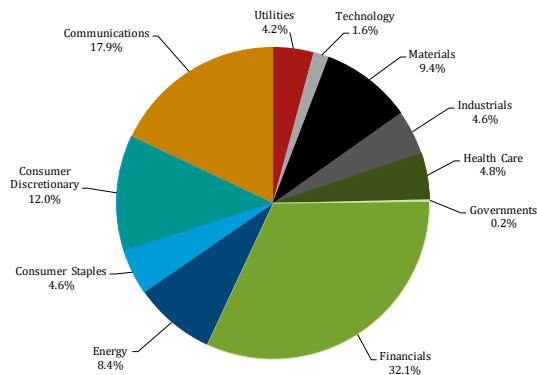
Source: Bloomberg, AFME, SIFMA

3.4 European Corporate Bonds HY Maturity Wall: 2Q 2019



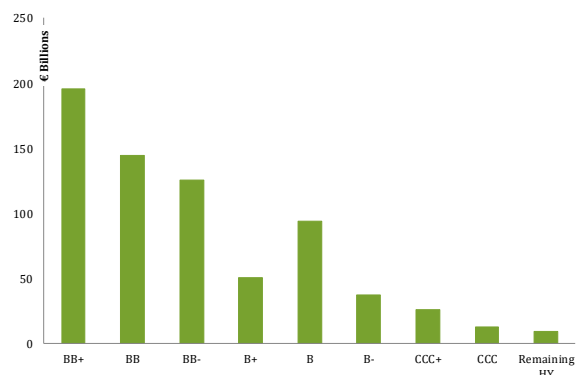
Source: Bloomberg, AFME, SIFMA

3.5 European Corporate HY Bonds Outstanding By Sector: 2Q 2019



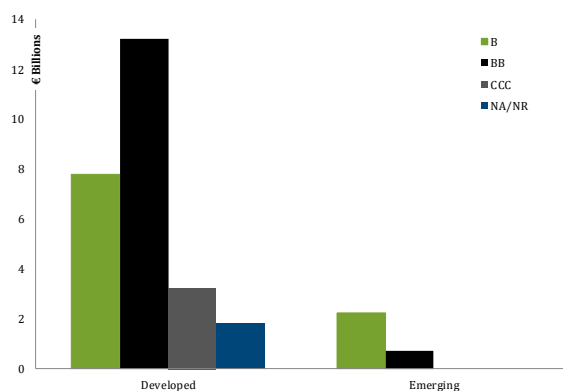
Source: Bloomberg, AFME, SIFMA

3.6 European Corporate HY Bonds Outstanding by Current Rating: 2Q 2019



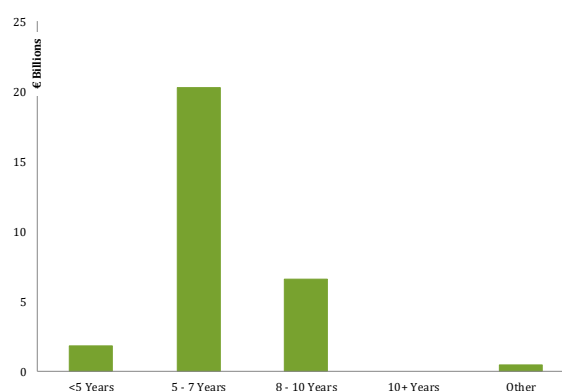
Source: Bloomberg, AFME, SIFMA

3.7 European Corporate Bond Issuance by Rating: 2Q 2019



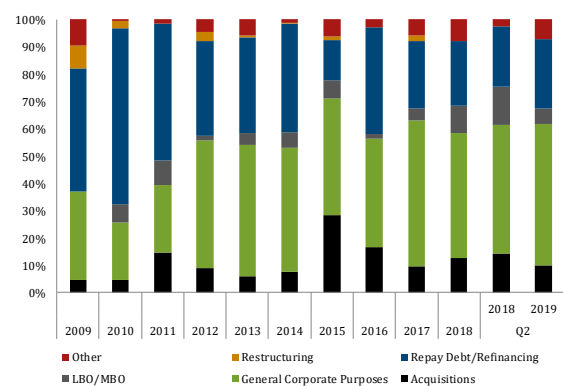
Source: Dealogic, AFME, SIFMA

3.8 European Corporate Bond Issuance by Tenor: 2Q 2019



Source: Dealogic, AFME, SIFMA

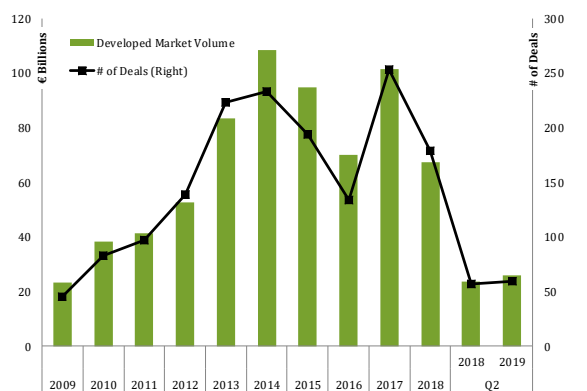
3.9 European HY Use of Proceeds



Source: Dealogic, AFME, SIFMA

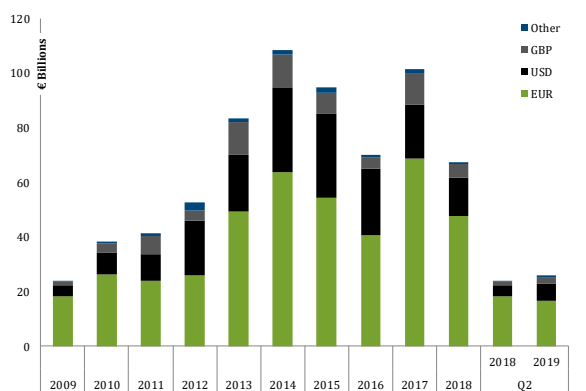
4 Issuance – European Developed Market High Yield Bonds

4.1 European Developed Market HY Bond Issuance



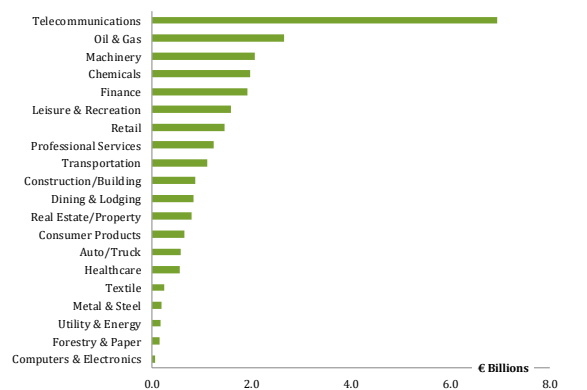
Source: Dealogic

4.2 European Developed Market HY Issuance by Currency



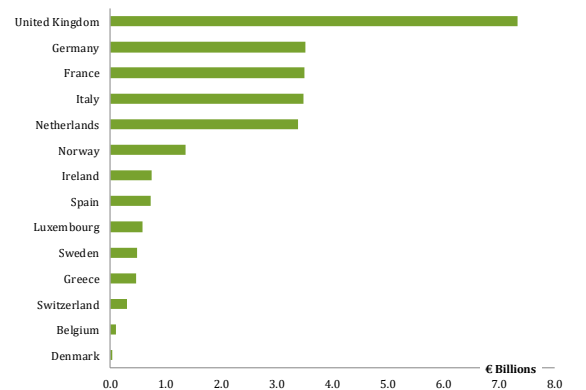
Source: Dealogic

4.3 European Developed Market HY Issuance by Industry: 2Q 2019



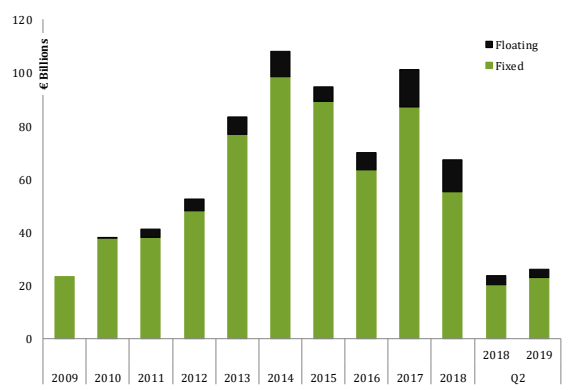
Source: Dealogic

4.4 European Developed Market HY Issuance by Country of Risk: 2Q 2019



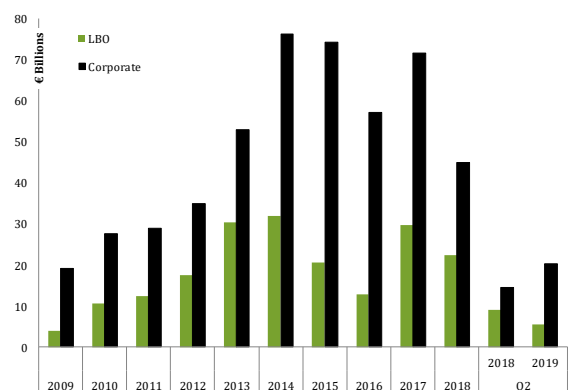
Source: Dealogic

4.5 European Developed Market HY Issuance, Fixed vs. Floating



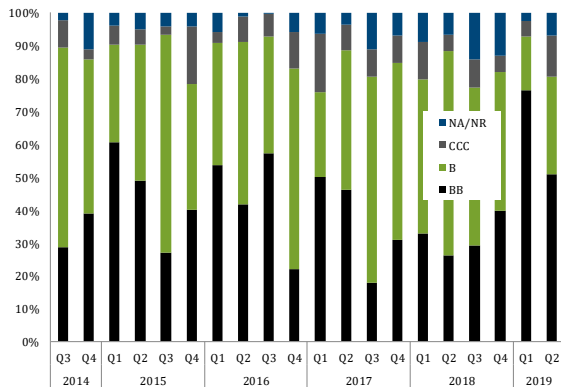
Source: Dealogic

4.6 European Developed Market HY Issuance, Sponsored vs. Corporate



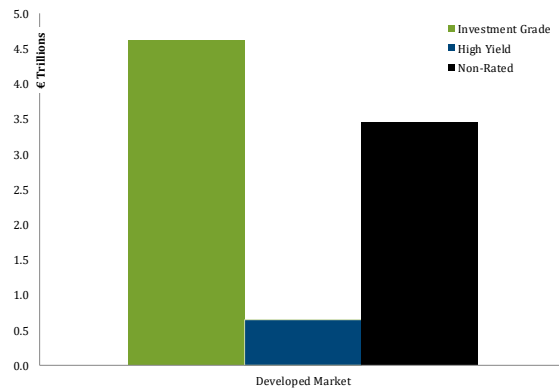
Source: Dealogic

4.7 European Developed Market HY Rating Distribution at Issuance



Source: Dealogic, AFME, SIFMA

4.8 European Developed Market Corporate Bonds Outstanding: 2Q 2019



Source: Bloomberg, AFME, SIFMA

4.9 European Developed Market HY Bond Issuance

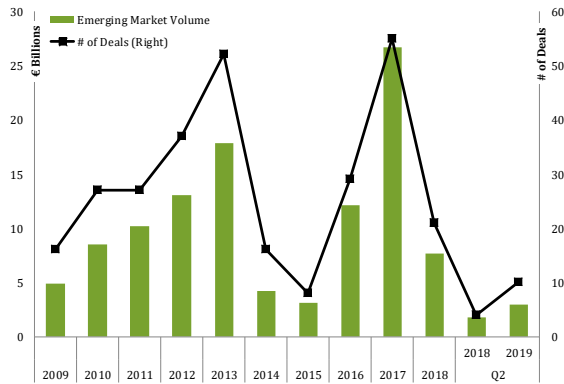
Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moody's	S&P	Fitch
Aston Martin Capital Holdings Ltd	Auto/Truck	01/04/2019	USD	190	6.50 B3	B	NR	NR
Elis Services SA	Professional Services	02/04/2019	EUR	500	1.75 NR	BB+	BB	BB
DDM Debt AB	Finance	02/04/2019	EUR	100	3M EURIBOR +925 NR	NR	NR	NR
SGL Carbon SE	Chemicals	03/04/2019	EUR	250	4.63 B2	B	NR	NR
Loxam SAS	Professional Services	03/04/2019	EUR	300	2.88 NR	BB-	NR	NR
Loxam SAS*	Professional Services	03/04/2019	EUR	200	4.50 NR	B	NR	NR
Adler Real Estate AG	Real Estate/Property	08/04/2019	EUR	400	1.50 NR	BB+	NR	NR
INEOS Finance plc	Chemicals	08/04/2019	EUR	770	2.88 Ba1	BB+	BBB-	BBB-
Telecom Italia SpA	Telecommunications	09/04/2019	EUR	1,000	2.75 Ba1	BB+	BB+	BB+
Orano SA	Chemicals	09/04/2019	EUR	750	3.38 NR	BB+	NR	NR
Fire (BC) SpA	Chemicals	10/04/2019	EUR	200	3M EURIBOR +475 B3	B	NR	NR
Banco BPM SpA	Finance	11/04/2019	EUR	300	8.75 B3	NR	NR	NR
Europcar Mobility Group SA	Transportation	17/04/2019	EUR	450	4.00 B3	B	NR	NR
Co-operative Bank Finance plc	Finance	17/04/2019	GBP	200	9.50 NR	NR	NR	NR
Tesco Corporate Treasury Services plc	Retail	24/04/2019	GBP	400	2.50 Baa3	BB+	BBB-	BBB-
Fnac Darty SA	Retail	25/04/2019	EUR	350	2.63 Ba2	BB+	NR	NR
Fnac Darty SA*	Retail	25/04/2019	EUR	300	1.88 Ba2	BB+	NR	NR
William Hill plc	Leisure & Recreation	26/04/2019	GBP	350	4.75 Ba1	BB	NR	NR
Tasty Bondco 1 SAU	Dining & Lodging	26/04/2019	EUR	335	6.25 B2	(P)B	NR	NR
Eircom Finance dac	Telecommunications	26/04/2019	EUR	750	3.50 B1	B+	BB-	BB-
Kistefos AS	Finance	29/04/2019	NOK	1,000	3M NIBOR +500 NR	NR	NR	NR
Dometic Group AB	Consumer Products	29/04/2019	EUR	300	3.00 Ba3	BB	NR	NR
EG Global Finance plc	Oil & Gas	02/05/2019	EUR	670	4.38 B2	B	B+	B+
EG Global Finance plc*	Oil & Gas	02/05/2019	USD	750	6.75 B2	B	B+	B+
EG Global Finance plc*	Oil & Gas	02/05/2019	EUR	300	3.63 B2	B	B+	B+
Drax FinCo plc	Utility & Energy	02/05/2019	USD	200	6.63 NR	BB+	BB+	BB+
Consus Real Estate AG	Real Estate/Property	03/05/2019	EUR	400	9.63 NR	B-	B	B
Altice Luxembourg SA	Telecommunications	03/05/2019	USD	1,600	10.50 Caa1	B-	NR	NR
Altice Luxembourg SA*	Telecommunications	03/05/2019	EUR	1,400	8.00 Caa1	B-	NR	NR
Virgin Media Secured Finance plc	Telecommunications	08/05/2019	USD	825	5.50 Ba3	BB-	BB+	BB+
Virgin Media Secured Finance plc*	Telecommunications	08/05/2019	GBP	300	5.25 Ba3	BB-	BB+	BB+
Millicom International Cellular SA	Telecommunications	08/05/2019	SEK	2,000	3M STIBOR +235 NR	NR	NR	NR
Co-operative Group Ltd	Retail	08/05/2019	GBP	300	5.13 NR	BB	NR	NR
Cirsa Finance International SARL	Leisure & Recreation	08/05/2019	EUR	390	4.75 B2	B+	NR	NR
Ziggo Bond Co BV	Telecommunications	09/05/2019	EUR	550	4.63 B3	B-	B-	B-
Verisure Holding AB	Professional Services	13/05/2019	EUR	200	3.50 B1	B	NR	NR
VistaJet Malta Finance plc	Transportation	14/05/2019	USD	550	10.50 B3	(P)B-	NR	NR
GasLog Ltd	Transportation	14/05/2019	USD	75	8.88 NR	NR	NR	NR
GG St Kongensgade 100 og 106 P/S	Finance	16/05/2019	EUR	32	3M EURIBOR +700 NR	NR	NR	NR
EXMAR Netherlands BV	Transportation	16/05/2019	NOK	650	3M NIBOR +875 NR	NR	NR	NR
DNO ASA	Oil & Gas	16/05/2019	USD	400	8.38 NR	NR	NR	NR
B2Holding ASA	Finance	16/05/2019	EUR	200	3M EURIBOR +635 NR	BB-	NR	NR
Pinnacle Bidco plc	Leisure & Recreation	17/05/2019	GBP	40	6.38 B2	B	B+	B+
IHO Verwaltungs GmbH	Machinery	22/05/2019	EUR	800	3.63 Ba1	BB+	BB+	BB+
IHO Verwaltungs GmbH*	Machinery	22/05/2019	EUR	500	3.88 Ba1	BB+	BB+	BB+
IHO Verwaltungs GmbH*	Machinery	22/05/2019	USD	450	6.00 Ba1	BB+	BB+	BB+
IHO Verwaltungs GmbH*	Machinery	22/05/2019	USD	400	6.38 Ba1	BB+	BB+	BB+
Novem Group GmbH	Auto/Truck	23/05/2019	EUR	400	3M EURIBOR +525 Ba3	B+	BB-	BB-
Bilfinger SE	Construction/Building	06/06/2019	EUR	250	4.50 NR	BB	NR	NR
Gruppo PSC SpA	Construction/Building	07/06/2019	EUR	25	5.50 NR	NR	NR	NR
SPIE SA	Construction/Building	11/06/2019	EUR	600	2.63 NR	BB	NR	NR
Progroup AG	Forestry & Paper	11/06/2019	EUR	150	3.00 Ba3	BB-	NR	NR
International Game Technology plc	Leisure & Recreation	11/06/2019	EUR	750	3.50 Ba2	BB+	NR	NR
Aker BP ASA	Oil & Gas	12/06/2019	USD	750	4.75 Ba1	BB+	BBB-	BBB-
Diocle SpA	Healthcare	13/06/2019	EUR	470	3M EURIBOR +387.5 B2	(P)B	NR	NR
Benchmark Holdings plc	Healthcare	13/06/2019	NOK	850	3M NIBOR +525 NR	NR	NR	NR
Golden Goose SpA	Textile	14/06/2019	EUR	240	3M EURIBOR +675 NR	NR	NR	NR
Euronav Luxembourg SA	Transportation	14/06/2019	USD	50	7.50 NR	NR	NR	NR
Banco BPM SpA	Finance	14/06/2019	EUR	500	2.50 Ba2	NR	NR	NR
SSAB AB	Metal & Steel	18/06/2019	SEK	1,400	3M STIBOR +270 NR	NR	NR	NR
SSAB AB*	Metal & Steel	18/06/2019	SEK	600	2.75 NR	NR	NR	NR
Gamigo AG	Computers & Electronics	18/06/2019	EUR	8	3M EURIBOR +775 NR	NR	NR	NR
Piraeus Group Finance plc	Finance	19/06/2019	EUR	400	9.75 Caa3	CCC	NR	NR
OTIGA Group AS	Professional Services	19/06/2019	NOK	315	3M NIBOR +900 NR	NR	NR	NR
Louvre Bidco SAS	Finance	19/06/2019	EUR	55	3M EURIBOR +537.5 B2	BB-	NR	NR
CentralNic Group plc	Computers & Electronics	24/06/2019	EUR	50	3M EURIBOR +700 NR	NR	NR	NR
Virgin Media Secured Finance plc	Telecommunications	25/06/2019	USD	600	5.50 Ba3	BB-	BB+	BB+
Avon International Capital plc	Consumer Products	25/06/2019	USD	400	6.50 Ba1	BB-	BB+	BB+
TVL Finance plc	Dining & Lodging	28/06/2019	GBP	440	3M LIBOR +537.5 B3	B-	NR	NR

* denotes multiple tranches of the deal

Source: Dealogic

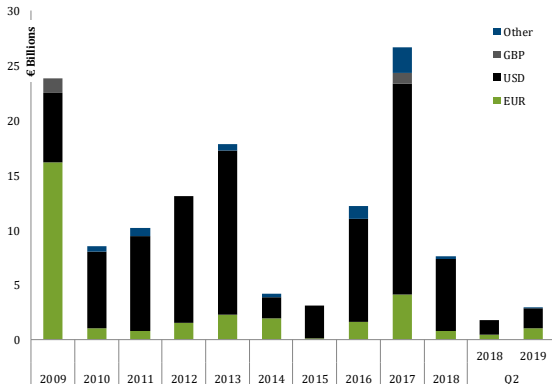
5 Issuance – European Emerging Market High Yield Bonds

5.1 European Emerging Market HY Bond Issuance



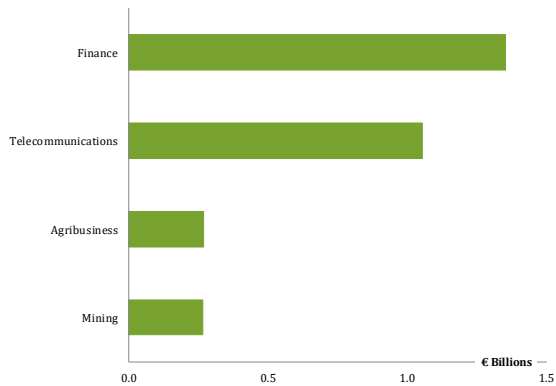
Source: Dealogic

5.2 European Emerging Market HY Bond Issuance by Currency



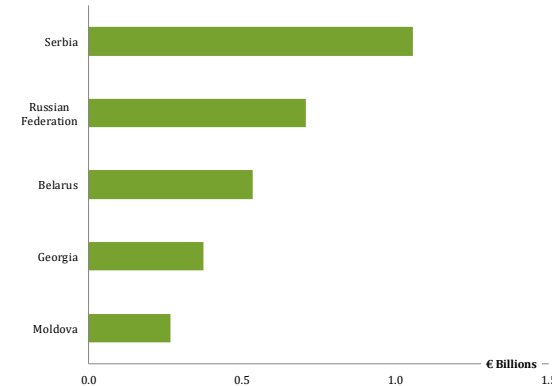
Source: Dealogic

5.3 European Emerging Market HY Issuance by Industry: 2Q 2019



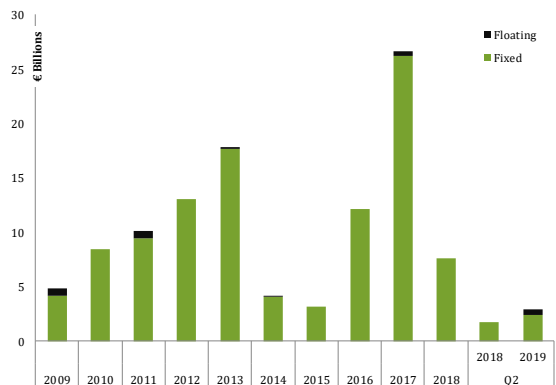
Source: Dealogic

5.4 European Emerging Market HY Issuance by Country of Risk: 2Q 2019



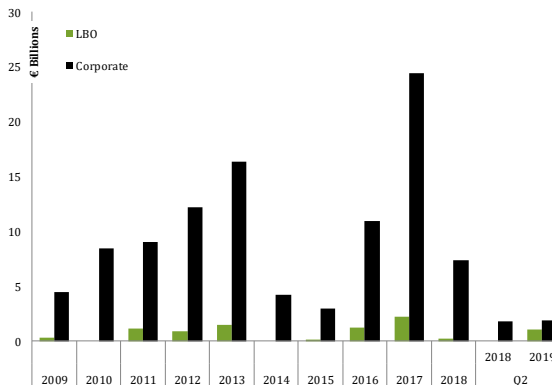
Source: Dealogic

5.5 European Emerging Market HY Issuance, Fixed vs. Floating



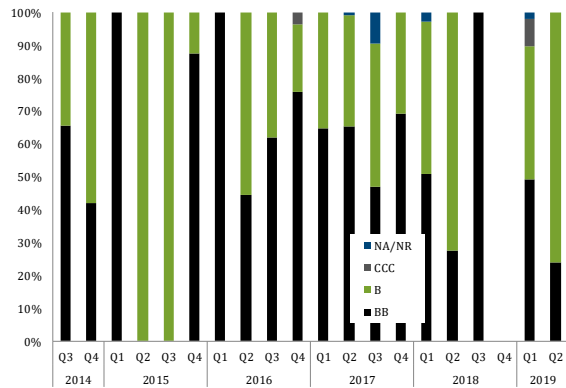
Source: Dealogic

5.6 European Emerging Market HY Issuance, Sponsored vs. Corporate



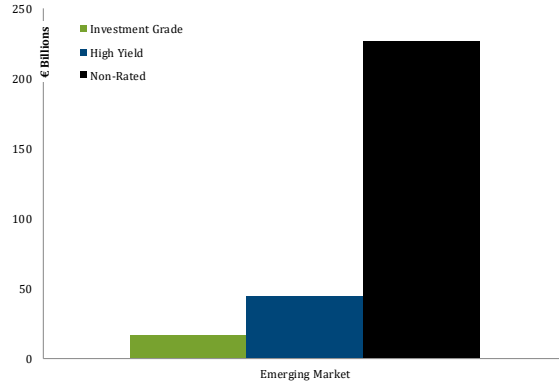
Source: Dealogic

5.7 European Emerging Market HY Rating Distribution at Issuance



Source: Dealogic, AFME, SIFMA

5.8 European Emerging Market Corporate Bonds Outstanding: 2Q 2019



Source: Bloomberg, AFME, SIFMA

5.9 European Emerging Market HY Bond Issuance

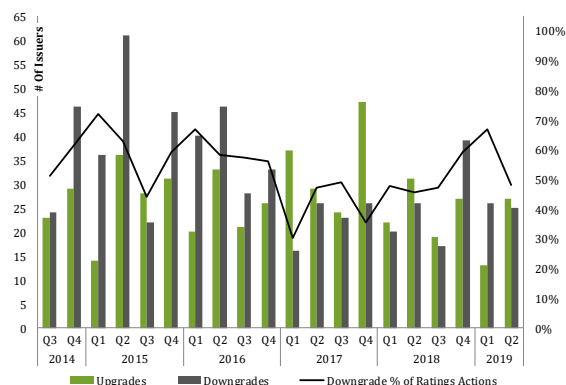
Issuer	Industry Group	Date	Currency	Amount (Millions)	Coupon	Moody's	S&P	Fitch
Aragvi Finance International DAC	Agribusiness	01/04/2019	USD	300	12.000	B-	B	B
GTLK Europe dac	Finance	10/04/2019	USD	500	5.950	NR	BB	BB
Belinvestbank	Finance	24/04/2019	USD	500	6.750	B	B	B
Belinvestbank	Finance	08/05/2019	BYR	210	12.000	B	B	B
United Group BV	Telecommunications	10/05/2019	EUR	550	3M EURIBOR +412.5	B	NR	B
Summer BidCo BV	Telecommunications	10/05/2019	EUR	306	9.000	B-	NR	B-
Karlou BV	Mining	11/06/2019	USD	300	7.750	B+	B+	B+
TBC Bank JSC	Finance	12/06/2019	USD	300	5.750	NR	BB-	BB
United Group BV	Telecommunications	24/06/2019	EUR	200	4.875	B	NR	B
TBC Bank JSC	Finance	27/06/2019	USD	125	10.750	NR	B-	B-

* denotes multiple tranches of the deal

Source: Dealogic

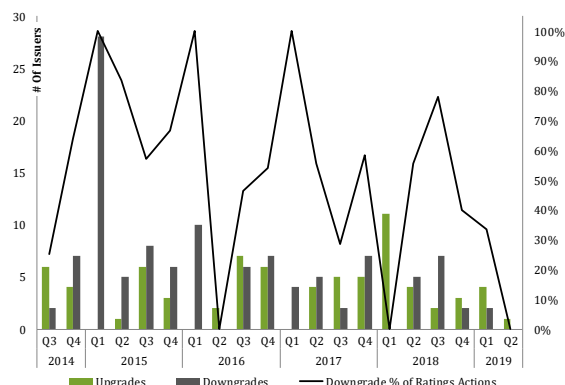
6 Credit Quality

6.1 Developed Europe Issuer Rating Actions⁵



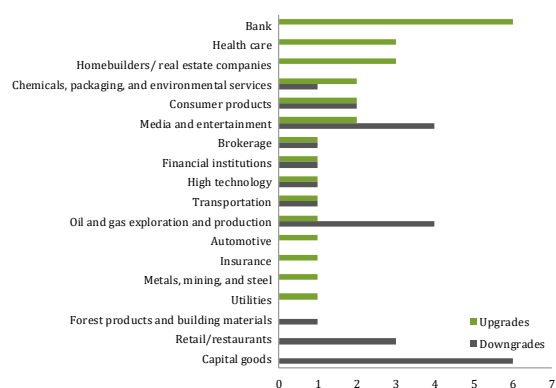
Source: Standard and Poor's

6.2 Emerging Europe Issuer Rating Actions⁶



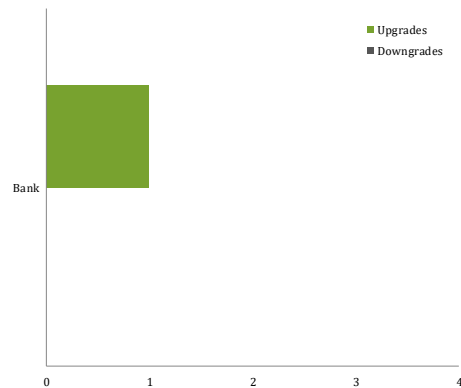
Source: Standard & Poor's

6.3 Developed European Industry Rating Actions by Number of Ratings: 2Q 2019



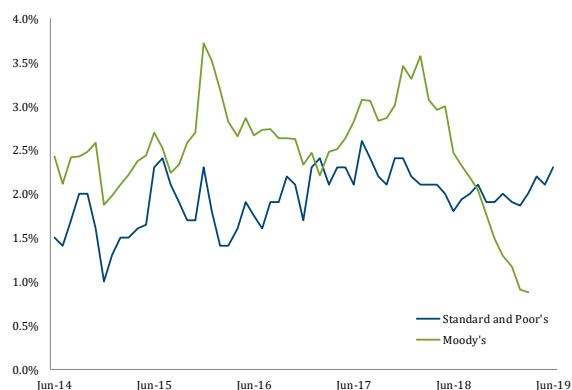
Source: Standard & Poor's

6.4 Emerging European Industry Rating Actions by Number of Ratings: 2Q 2019



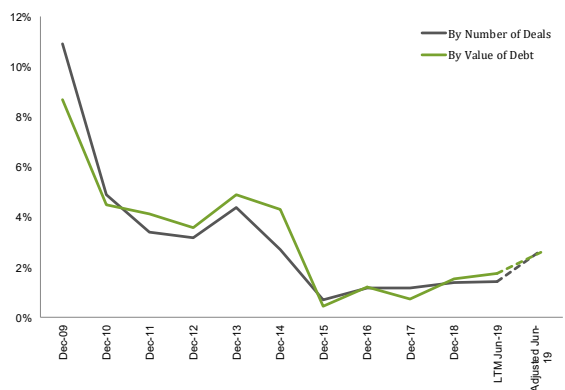
Source: Standard & Poor's

6.5 European High Yield Default Rates



Source: Standard & Poor's, Moody's

6.6 European Leveraged Loan Default Rates⁷



Source: Fitch Leveraged Credit Database

⁵ Numbers include both corporate and sovereigns.

⁶ Numbers include both corporate and sovereigns.

⁷ Includes c* and cc* rated issuers as if those had already defaulted.

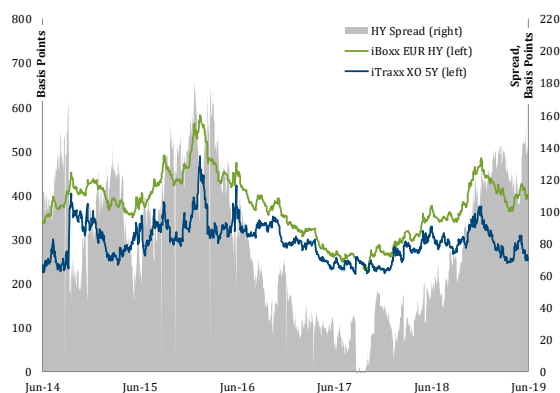
6.7 European Defaults

Issuer	Industry Group	Country	Date	Reported By	Reason
Debenhams PLC	Retail/restaurants	U.K.	April 2019	S&P	Distressed exchange
Senvion Holding GmbH	Capital goods	Germany	May 2019	Moody's, S&P	Missed interest payment
Galapagos Holding S.A.	Capital goods	Luxembourg	June 2019	S&P	Missed interest payment

Source: Standard & Poor's, Moody's

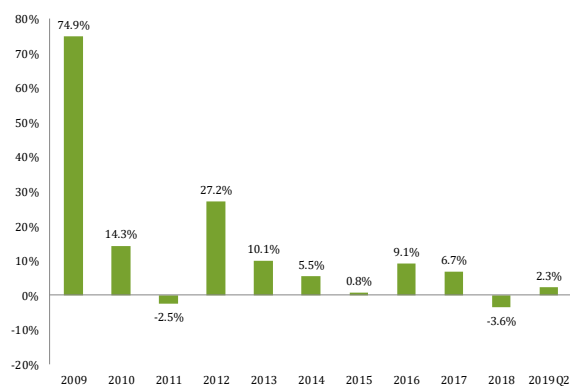
7 Relative Value and Total Return

7.1 Relative value: European HY Bonds, Cash vs. Synthetic



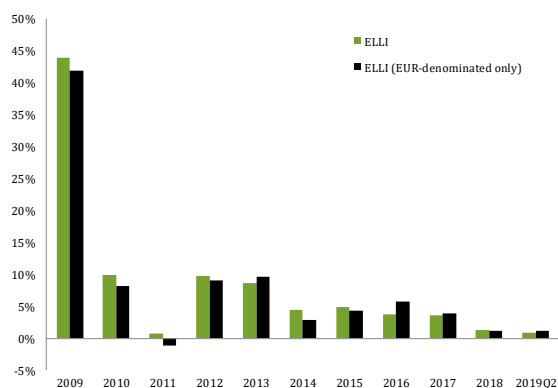
Source: Thomson Reuters Eikon, Markit

7.2 European HY Bond Total Return



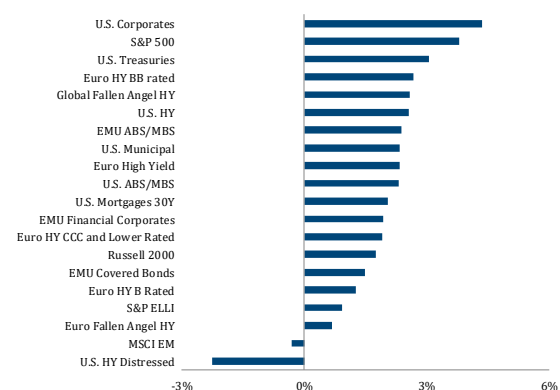
Source: BAML

7.3 European Leveraged Loan Total Return



Source: Standard & Poor's LCD

7.4 Asset Class Total Y-o-Y Return: 2Q 2019



Source: BAML, Bloomberg

Summary of the Methodologies Adopted for this Report

1. Leveraged Issuance – Overview

1.1. – 1.3. Leveraged Loans and High Yield Bonds

Leveraged loan data are sourced from Dealogic. Leveraged loan data are defined primarily as coming from a leveraged or highly leveraged European deal; loan tranches must have sub-investment grade ratings, or, if unrated, a margin spread minimum of 125 basis points over a benchmark (e.g., Euribor, LIBOR). Under these guidelines, sub-investment grade-rated loans with a margin spread of less than 125 basis points are included. Deals must be European and are inclusive of both developed and emerging market Europe as defined in high yield criteria in Section 3. Deals must also be marketed either in Europe or in the United States. Loans not EUR-denominated are converted to EUR as of credit date for purposes of aggregation. Aggregates include new money as well as non-new money deals.

Criteria for high yield bond transactions can be found in Section 3, 4, and 5.

1.4. – 1.7. Bank Lending Surveys

Data for loan demand and credit standards are sourced from the ECB's bank lending survey. Graph numbers are net percentages of reporting banks.

1.8. Global Comparison – High Yield Issuance

Data for global high yield issuance are sourced from Dealogic. Asian deals are inclusive of Japan and Australia. Totals include issues having a Dealogic “deal nationality/region” as well as “nationality/region of risk” within US, Europe or Asia Pacific. Sovereign, sub-sovereign, and supranational parent issuers are excluded from issuance, as well as ABS/MBS issuers.

2. Issuance – Leveraged Loans

2.1. – 2.2. Leveraged Loan Issuance

Leveraged loan issuance data are sourced primarily from Dealogic and Thomson Reuters LPC. For more details on qualifying criteria, please refer to section 1.

2.3. Forward Pipeline of Leveraged Loan Market

Forward leveraged loan pipeline data are sourced from S&P LCD.

2.4. S&P ELLI Total Institutional Loans Outstanding

Total institutional loan outstanding data are sourced from S&P LCD and are outstanding loans in the S&P ELLI index.

2.5. S&P ELLI Ratings Diversification

S&P ELLI ratings diversification are the percentages of currently outstanding loans in S&P's ELLI index that are rated accordingly. Data are provided by S&P LCD.

2.6. – 2.7. Loan Spreads

Loan spread data are sourced from Dealogic under our criteria for leveraged loans (see Section 1). For purposes of loan spread calculations, deals marketed in the US are excluded. Spreads are a weighted average of spread margin on new leveraged issuance on a rolling twelve months basis, and are typically benchmarked to LIBOR or EURIBOR. Institutional loan spread data are inclusive of 2nd lien; pro rata spreads include all revolvers and term loan A (T1a).

3. Issuance – High Yield Bonds Overview

High yield bond transactions are sourced primarily from Dealogic, with supplemental information sourced from Bloomberg. High yield transactions are defined as transactions with a Dealogic “effective” rating of equal or less than BB+, and may include unrated transactions based on issuer and desk notes. Split-junk rated transactions are generally excluded.

European issuance, inclusive of both emerging market Europe and developed market Europe, are defined as an issue having a Dealogic “deal nationality” as well as “nationality of risk” within Europe issued in the euro, foreign, and global markets; deals marketed locally are excluded. Sovereign, sub-sovereign, and supranational parent issuers are excluded from issuance, as well as ABS/MBS issuers.

Emerging market Europe and developed market European issuance are defined by nationality of risk, rather than nationality of deal, and although primarily sourced from Dealogic, are ultimately subject to AFME's discretion. Emerging and developed market issuances are mutually exclusive and will contain no overlap unless otherwise mentioned.

European emerging market bonds are further defined with having a minimum deal size of €75.0 million; deals on the same day from the same issuer are aggregated for the purpose of meeting this minimum. Deals are shown in EUR amount but

include deals originated in other currencies and are converted to EUR at the exchange rate on the day of the deal. Russian ruble (RUB)-denominated issuance are excluded due to differences in terms and documentation; as of 4Q'10 this criteria no longer applies and may be included on a case by case basis.

3.2. European HY Issuance by Sponsor

Data for high yield issuance by sponsor are sourced from Dealogic. LBO deals are defined as all high yield transactions whose issuer parent is a public or private finance entity (i.e., a financial sponsor), regardless of use of proceeds.

3.3. – 3.6. European Corporate Bonds Outstanding

Data for European corporate outstanding are sourced from Bloomberg and AFME/SIFMA estimates. Criteria for European corporate bonds are: bonds must be placed in the domestic, euro, foreign and global markets with nationality of incorporation from a European developed or emerging market country as defined by AFME. Corporate bonds exclude non-Bloomberg verified securities, all structured notes, covered bonds, warrants, deposit notes, receipts, and certificates of deposit. All currencies are included and have been converted to EUR at time of pricing and/or issue.

High-yield ratings are sourced from Bloomberg's composite rating, which is an average of all available ratings from four rating agencies: Moody's, Standard and Poor's, Fitch Ratings, or DBRS. Split-rated securities may be included in high yield numbers due to this.

Corporate bonds outstanding include certain securities that may be considered corporate securitisations or structured finance securities; while all effort is made to exclude the latter, the former will be counted toward the corporate bonds outstanding total, and will subsequently overlap to some extent to AFME structured finance outstanding numbers. Excludes unrated securities.

3.7. European Corporate Bond Issuance by Rating

Data for HY issuance by rating are sourced from Dealogic, Bloomberg, and the three rating agencies. The composite rating is determined by the lowest rating assigned by either Moody's, Standard and Poor's, or Fitch Ratings.

3.8. European Corporate Bond Issuance by Tenor

Data for HY issuance by tenor are sourced from Dealogic. "Other" includes perpetuals.

3.9. European HY Issuance By Use of Proceeds

Data for HY issuance by use of proceeds are sourced from Dealogic and aggregated for the purposes of this calculation. Please refer to Section 3 for criteria on high yield issue inclusion.

4. Issuance – European Developed Market High Yield Bonds

4.1. – 4.7., 4.9 European Developed Market HY Bond Issuance

High yield bond issuance data are sourced from Dealogic. For further criteria on how high yield issuance are defined, please refer to section 3.

Developed European issuance are deals predominantly from western Europe and includes deals from Andorra, Austria, Belgium, Bulgaria, Cyprus, Switzerland, Germany, Denmark, Spain, Estonia, Finland, France, Faroe Islands, United Kingdom, Guernsey, Gibraltar, Greenland, Greece, Isle of Man, Ireland, Iceland, Italy, Jersey, Liechtenstein, Luxembourg, Monaco, Malta, Montenegro, Netherlands, Norway, Portugal, San Marino, and Sweden.

4.8. European Developed Market Corporate Bonds Outstanding

Data for corporate bonds outstanding are sourced from Bloomberg. Please refer to Section 3 for criteria and methodology.

5. Issuance – European Emerging Market High Yield Bonds

5.1. – 5.7., 5.9. European Emerging Market HY Bond Issuance

High yield bond issuance data are sourced from Dealogic. Criteria for all high yield issuance are found in section 3.

Emerging market European issuance deals are predominantly from Eastern Europe but will also additionally include Turkey, the Russian Federation, Kazakhstan, Turkmenistan, Uzbekistan, Tajikistan, Azerbaijan, and Kyrgyzstan. Certain sub-investment grade countries are not included in the emerging market total, including, among others, Iceland and Greece.

5.8. European Emerging Market Corporate Bonds Outstanding

Data for corporate bonds outstanding are sourced from Bloomberg. Please refer to Section 3 for criteria and methodology.

6. Credit Quality

6.1. – 6.2. European Issuer Rating Actions

European issuer upgrades and downgrades are sourced from S&P. The breakdown by emerging market and developed Europe are from AFME's definition of developed and emerging markets and would be, under S&P's guidelines, a combination of both European and EMEA rating actions. Multiple downgrades of a single issuer are counted separately. Rating actions are inclusive of both corporate (both credit and merger-related) as well as sovereign ratings.

6.3. – 6.4. European Issuer Rating Actions by # of Ratings

Rating actions are sourced from S&P. Breakdown by emerging market and developed Europe are from AFME's definition of developed and emerging markets and would be, under S&P's guidelines, a combination of both European and EMEA rating actions.

6.5. European High Yield Default Rate

European HY bond default rates are sourced from Standard and Poor's and Moody's, calculated on a trailing 12 month basis.

"Europe" for the S&P default rate is defined to include Austria, Belgium, Bulgaria, Channel Islands, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland and the United Kingdom. Countries are subject to revision.

6.6. – 6.7. European Leveraged Loan Default Rate

European LL default rates are sourced from Fitch Leveraged Credit Database, calculated on a trailing 12 month basis.

6.8. Leveraged Loan Recovery Rates

European LL recovery rate are sourced from Fitch Leveraged Credit Database, calculated on a trailing 12 month basis. Recovery rates are based on median cash realised (cash or cash-pay debt received) recoveries for senior loans and on average cash realised recoveries (excluding any equity/warrants given in a debt exchange) for mezzanine loans.

6.9. HY CDS spreads vs. liquidity-stress index and HY bonds rated B3 negative and lower in Europe

The liquidity stress index is calculated by Moody's Investor Services as the percentage of speculative

grade companies with the weakest liquidity profile in EMEA. Speculative grade liquidity is categorised in one of four ways: SGL 1: Very good liquidity. Most likely to meet obligations over the coming 12 months through internal resources without relying on external sources of committed financing. SGL 2: Good liquidity. Likely to meet obligations during the coming 12 months through internal resources but may rely on external sources of committed financing. The issuer's ability to access committed financing is highly likely, based on Moody's evaluation of near term covenant compliance. SGL3: Adequate liquidity. Expected to rely on external sources of committed financing. Based on Moody's evaluation of near term covenant compliance there is only a modest cushion, and the issuer may require covenant relief in order to maintain orderly access to funding lines. SGL4: Weak liquidity. Relies on external sources of financing and the availability of that financing is, in Moody's opinion, highly uncertain. The percentage of bonds rated B3 negative or lower is sourced from Moody's

6.10. European Defaults

Defaults reported by either Moody's or Standard and Poor's in the European bond markets and loan markets, when available.

7. Cash and Synthetic

7.1. Loans and Bonds, Cash and Synthetic

Data are sourced from Markit and Thomson Reuters LPC. High yield bond cash and synthetic spreads from Markit; European leveraged loan cash bid prices from Thomson Reuters LPC, and European leveraged loans synthetic prices from Markit.

7.2. European HY Bond Total Return

European HY bond total return data are sourced from the Bank of America-Merrill Lynch's Euro High Yield Index (HE00). The index tracks the performance of EUR-denominated below-investment-grade corporate debt publicly issued in the euro domestic or Eurobond markets. Qualifying securities must have a below-investment-grade rating and an investment-grade rated country of risk. Qualifying securities must have at least one year remaining term to maturity, fixed coupon schedule and minimum amount outstanding of €100 million. Original issue zero coupon bonds, "global securities" (debt issued simultaneously in the Eurobond and euro domestic markets), 144a securities and pay-in-kind securities, including toggle notes, qualify for inclusion in the index. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they

are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Defaulted, warrant-bearing and euro legacy currency securities are excluded from the index.

7.3. European Leveraged Loan Total Return

Total return data are provided by S&P LCD and are total returns from S&P's ELLI index, both ELLI and EUR-denominated ELLI. Total returns for ELLI EUR-denominated data are unavailable for 2003 and 2004.

7.4. Asset Class Total Return (Cash Basis)

Total returns are sourced from respective index owners and Bank of America-Merrill Lynch's indice

Annex

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