

Q1 2023

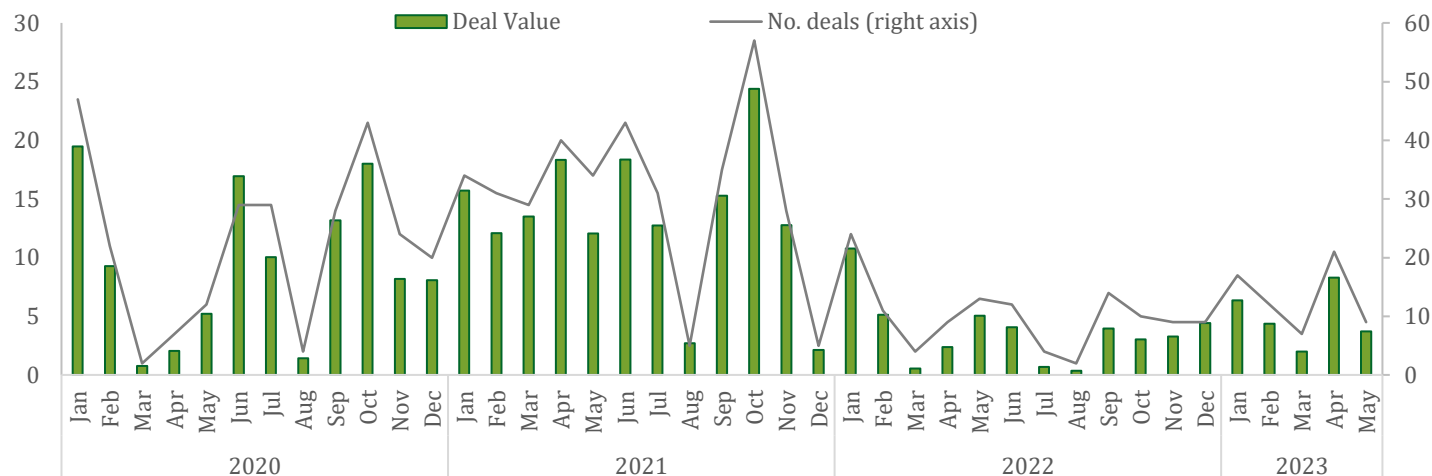
European High Yield and Leveraged Loan Report

European Leveraged Finance

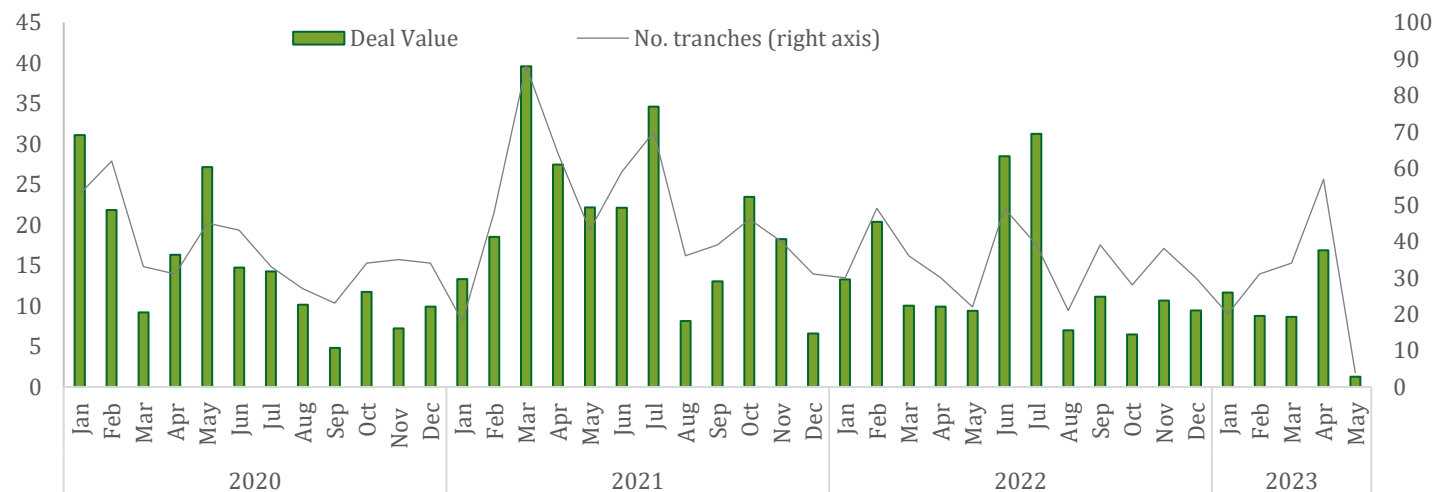


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1.1 European High Yield Bond Issuance (EUR bn)



1.2 European Leverage Loan Issuance (EUR bn)



Source: Dealogic

Primary high yield bond issuance in 1Q'23 increased 18.5% QoQ but decreased 22.7% YoY. (See top chart). The quarterly issued amount stood at €12.7 billion, more than the amount issued in 4Q'22 (€10.7 billion), but below the amount issued in 1Q'22 (€16.4 billion)

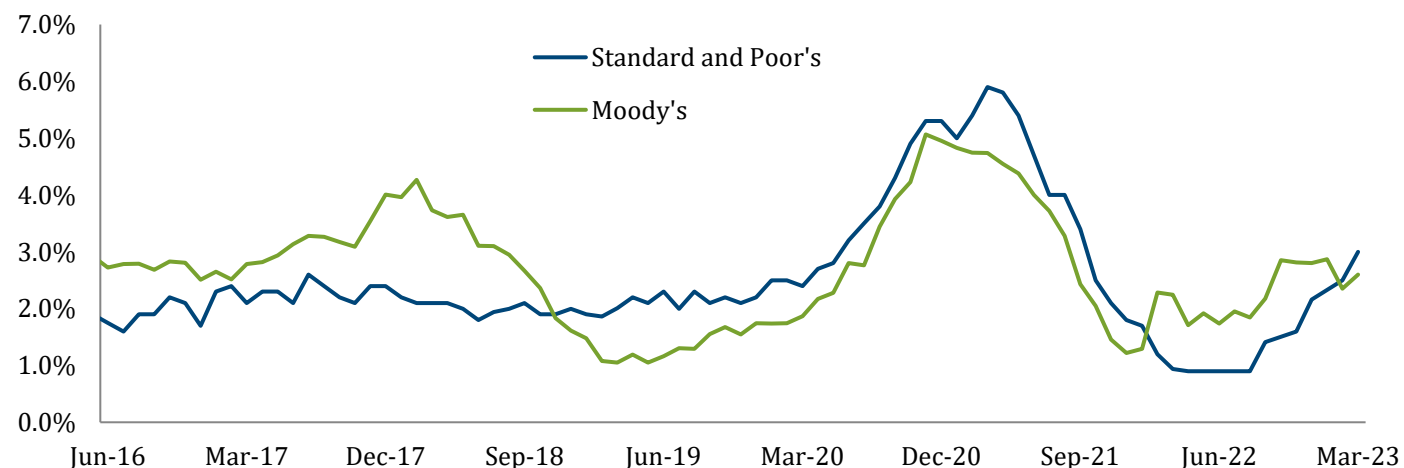
Preliminary data for 2Q'23 as of end May shows that issuance of high yield bonds has recently increased with volumes already close to those issued in the entire first quarter (€8.3 billion in April and €3.7 billion in May), although below the monthly average observed in 2021 (€13 billion).

In 1Q'23, quarterly supply of leverage loans stood at €29.1 bn, an increase of 9.4% QoQ and a decrease of 33.4% YoY (See bottom chart).

1.3 ICE BofA Euro High Yield Index Option-Adjusted Spread (%)



1.4 European High-yield bond default rates



Source: Bank of America [1.3] and Moody's [1.4]

European high yield spreads decreased from 500 bps in 4Q'22 to 480 bps in 1Q'23. Most recently, spreads have further tightened to 450 bps as of end of April 2023.

S&P reported the trailing 12-month speculative-grade bond default rate at 3.0% in March 2023, an increase from 2.2% in December 2022. Moody's reported the speculative-grade default rate at 2.6% in March 2023, down from 2.8% in December 2022.

Fitch reported an increase in European Leveraged Loan default rates (by number of deals) to 1.6% in March 2023 from 1.3% in December 2022.

According to Reorg, all the European leveraged loan deals examined in 1Q'23 were covenant-lite.

Leveraged Finance Overview

Issuance Highlights

European leveraged finance issuance (leveraged loans and high yield bonds) accumulated €41.8 billion in proceeds in 1Q'23, an 11.8% increase from €37.4 billion in 4Q'22 and a 30.5% decrease from €60.2 billion in 1Q'22.

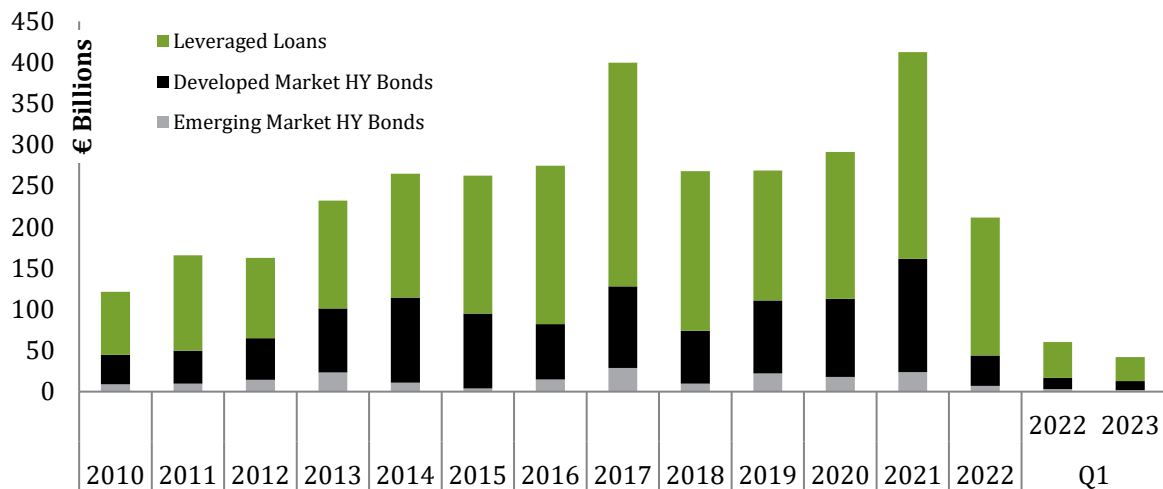
The high yield bond share of European leveraged finance market issuance increased to 30.4% in 1Q'23 from 28.7% in 4Q'22 and up from 27.3% in 1Q'22.

Credit Standards and Loan Demand

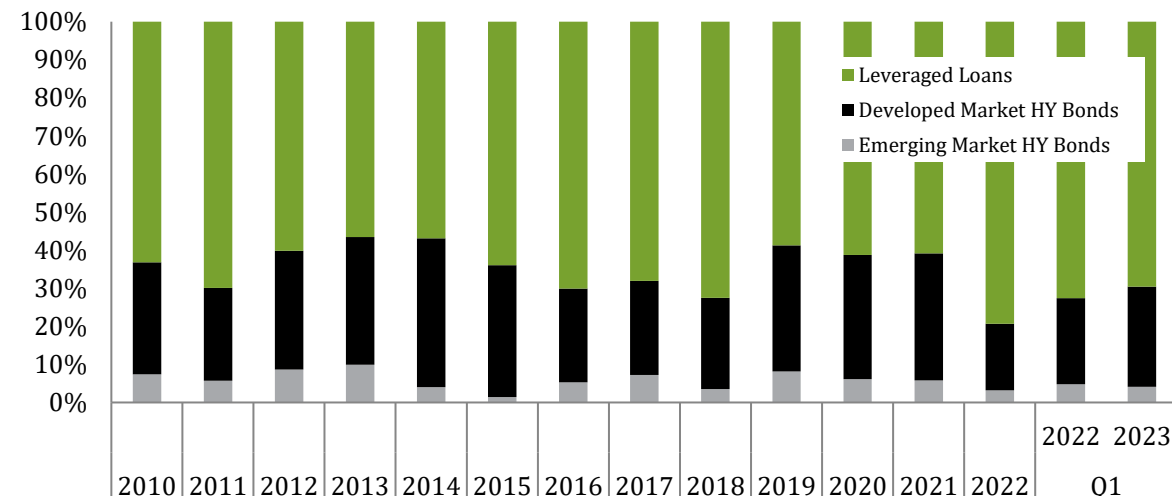
According to the May 2023 European Central Bank lending survey, credit standards for loans have tightened for both large firms and SMEs, compared to the January 2023 survey. The Industry or Firm-Specific Outlook was the most impactful in contributing to tightening, followed by general economic outlook and Bank's Risk Tolerance.

Net demand for loans to enterprises decreased in 1Q'23. The factors contributing to the decrease in loan demand were Interest Rates, Fixed Investments and M&A and Restructuring. The factors partially contributing positively on the demand were Debt Issuance, Debt Restructuring and Equity Issuance.

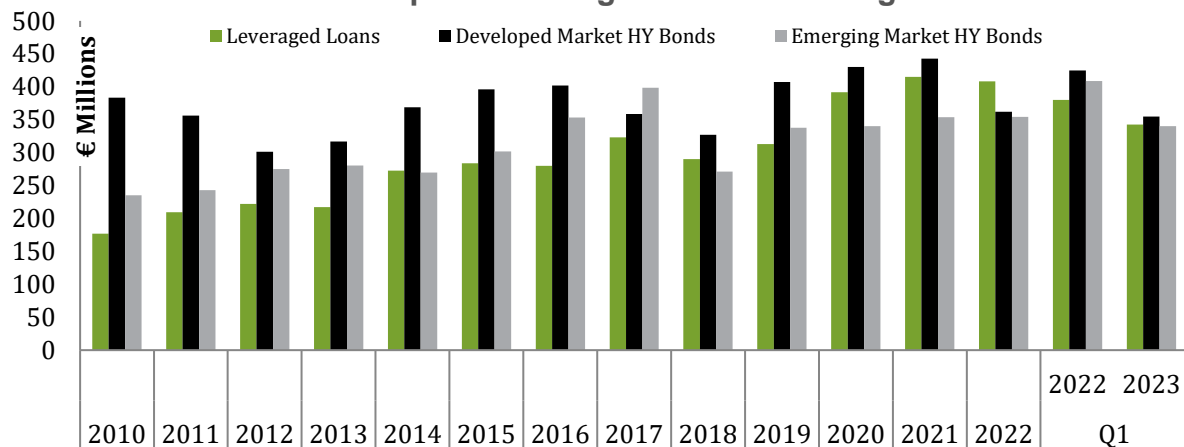
2.1 European Leveraged Issuance by Type



2.2 European Leveraged Issuance Percentage, by type



2.3 European Leveraged Finance Average Deal Size



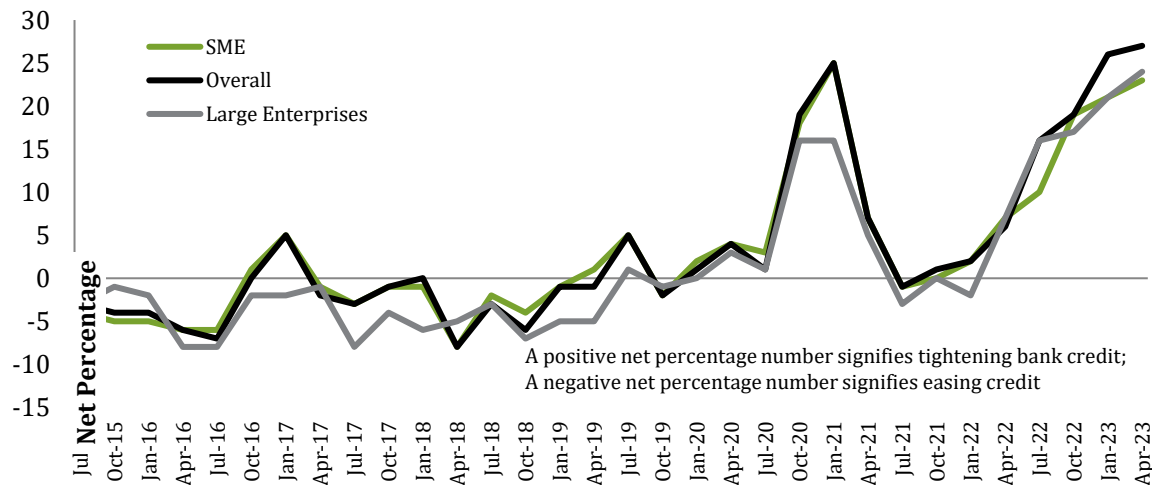
2.4 Global Comparison High Yield Issuance

EUR bln	2023	2022					Prior years					
	Q1	Q1	Q2	Q3	Q4	Full year	2021	2020	2019	2018	2017	2016
United States	33.13	38.3	20.14	18.6	12.3	89.4	340.9	340.8	199.8	115.8	218.3	192.0
Europe	12.72	16.5	11.5	5.0	10.7	43.7	160.8	112.7	110.7	73.5	127.7	82.0
Asia Pacific	2.3	3.4	5.2	8.5	1.4	18.5	56.0	65.2	94.1	49.8	75.8	27.7

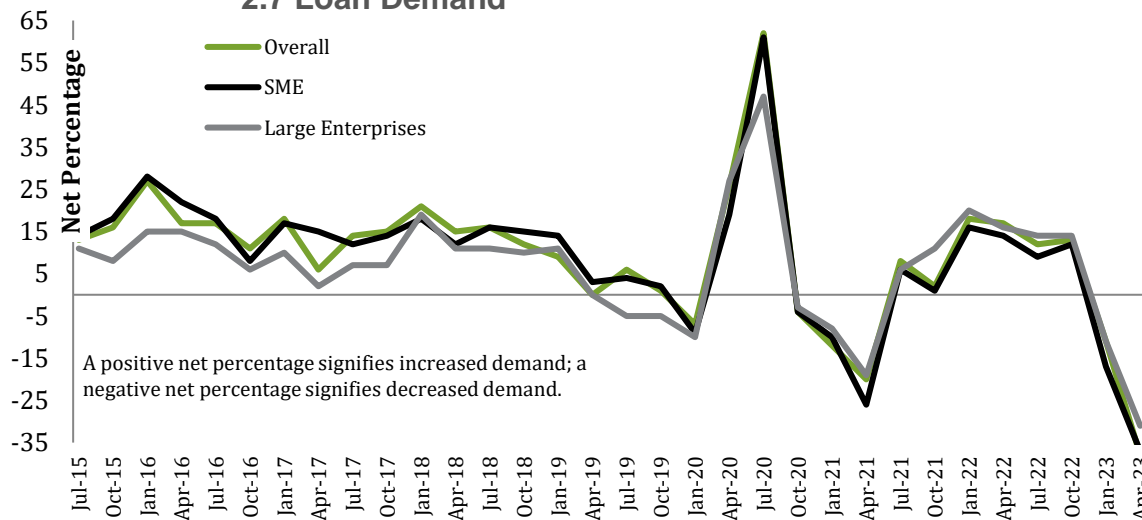
Source: Dealogic

Credit Standards and Loan Demand

2.5 Bank Credit Standards

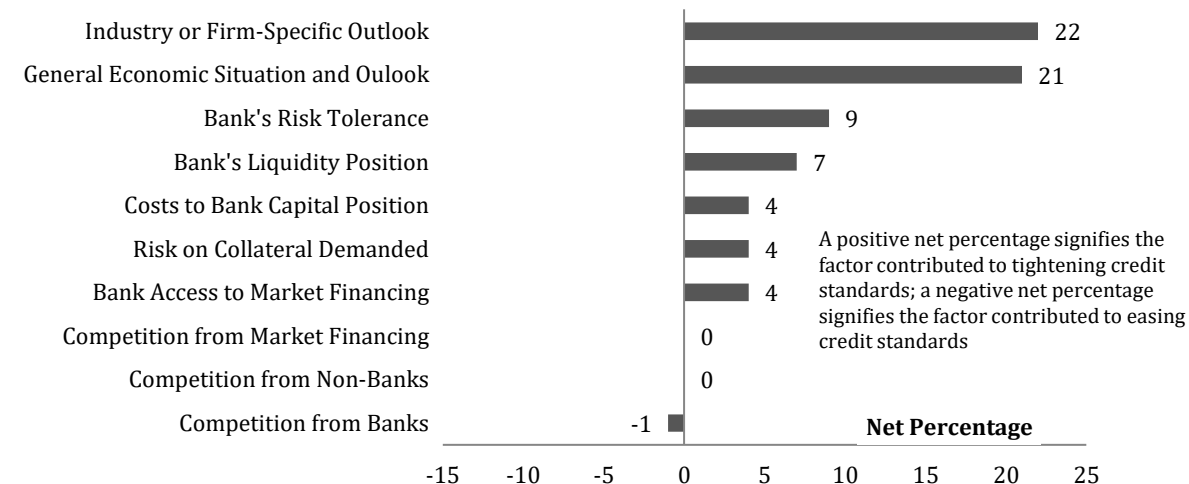


2.7 Loan Demand

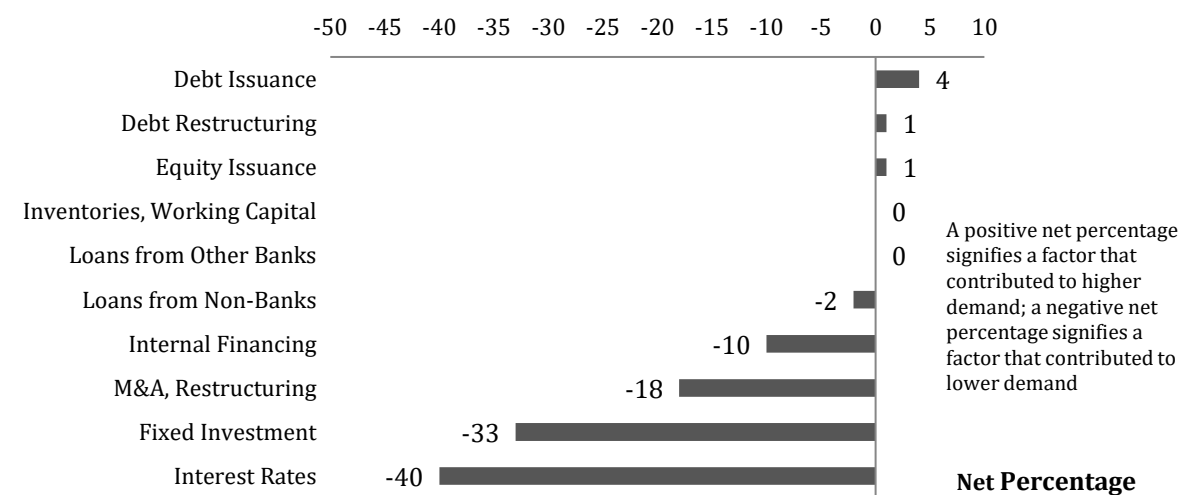


Source: ECB

2.6 Factors Affecting Bank Credit Standards: January 2023



2.8 Factors Affecting Loan Demand: January 2023



Leveraged Loans

Issuance: Leveraged Loans

Leveraged loan issuance, including first lien, second lien, and mezzanine financing, totaled €29.1 billion in 1Q'23, up 9.2% from €26.6 billion in 4Q'22 and down 29.4% from €41.2 billion in 1Q'22.

All the leveraged loans issued in 1Q'23 were 1st lien loans.

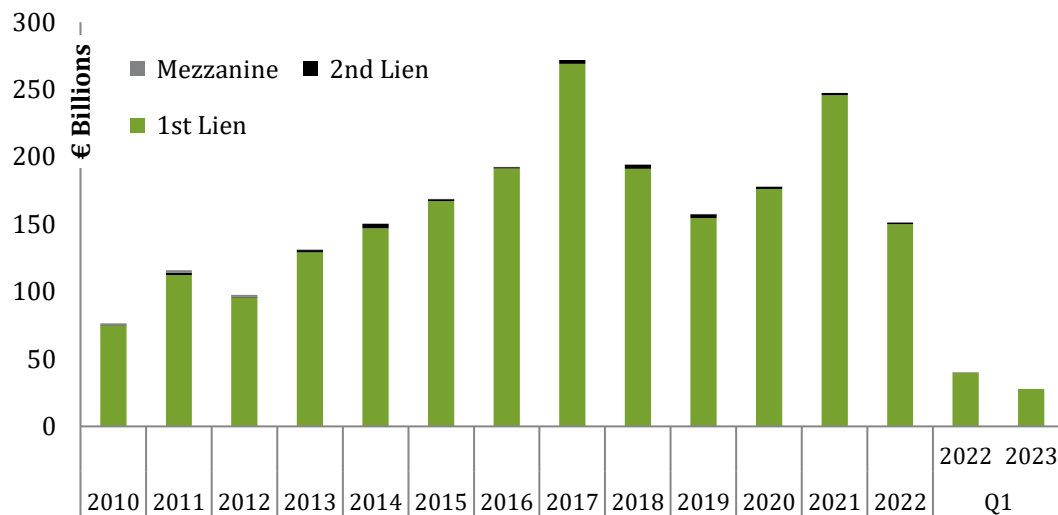
Pricing spreads for institutional loans widened by 27 basis points (bps) q-o-q and 61 bps y-o-y.

70.5% of deals financed in 1Q'23 were issued for refinancing and/or repayment of debt, up from 63.2% in 4Q'22, and from 41.6% in 1Q'22. General Corporate Purposes was the second largest use of proceeds in 1Q'23 with €2.7 billion, followed by Other with €2.6 billion.

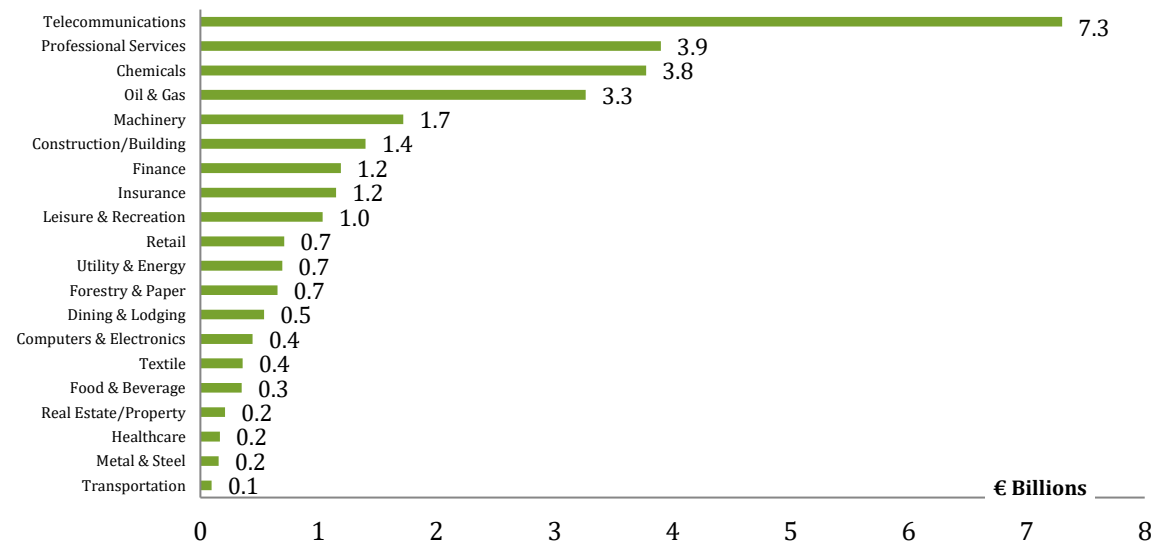
There were €2.1 billion loans amended to reduce pricing ("A&R") in the first quarter of 2023, up from no deals in 4Q'22.

The top three sectors accounted for 51.43% of leveraged loan issuance in 1Q'23. The leading sector was Telecommunications (€7.30 billion or 25.07% of total), followed by Professional Services (€3.9 billion, 13.40%), and Chemicals (€3.8 billion, 12.97%), with the balance split between 17 other sectors.

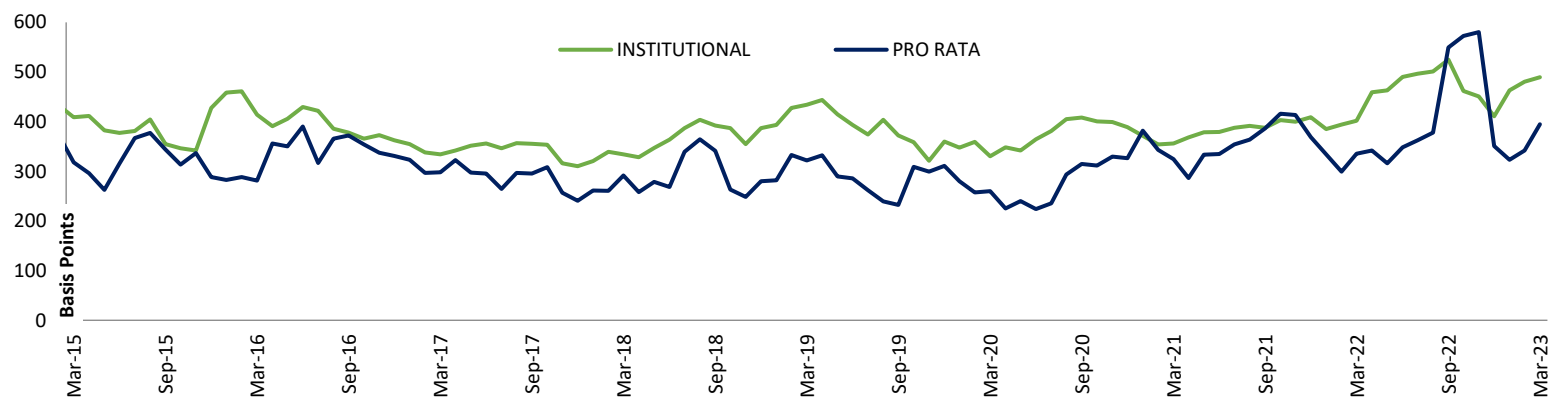
3.1 European Leveraged Loan Issuance By Type



3.2 European Leveraged Loan Issuance by Industry: Q1 2023



3.3 Institutional and Pro Rata Spreads (3-month rolling average)



Source: Dealogic [3.1] and [3.2], S&P LCD [3.3]

High Yield Bonds Overview

Issuance: High Yield Bonds

Primary high yield bond issuance totaled €12.7 billion on 36 deals in 1Q'23, an 18.5% increase from €10.7 billion on 28 deals in 4Q'22 and a 22.7% decrease from €16.5 billion on 39 deals in 1Q'22. Developed market Europe issuance accounted for 86.8% of the 1Q'23 issuance (€11.0 billion on 31 deals) while the rest (€1.7 billion on 5 deals) was issued by Emerging market Europe firms.

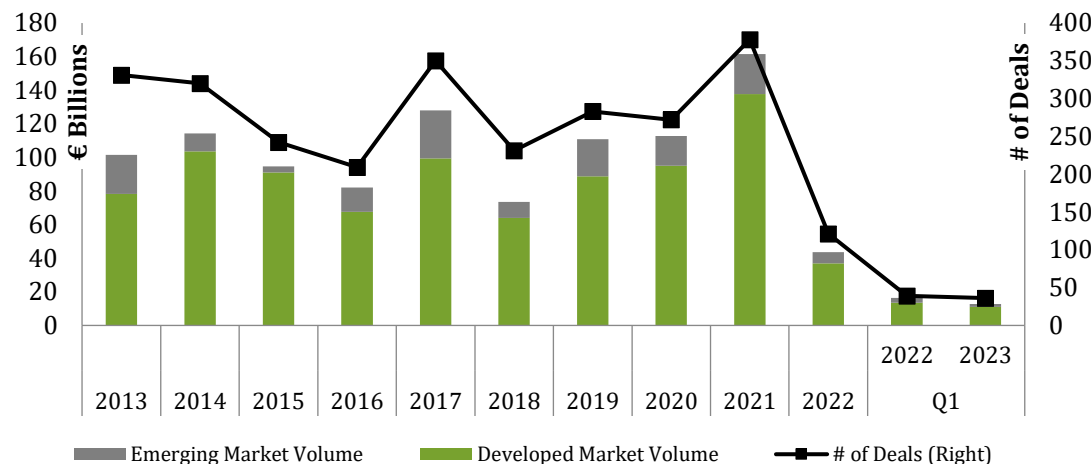
The leading use of proceeds for high yield bond issuance in 1Q'23 was general corporate purposes, at €7.2 billion, which was higher than €6.5 billion in 4Q'22 and than €3.6 billion in 1Q'22.

Three sectors accounted for 45.9% of the total high yield bond issuance volume in 1Q'23 in developed market Europe: the Chemicals sector led issuance with €1.9 billion (17.1% of total), followed by Auto/Truck with €1.84 billion (16.6% of total), and Telecommunications with €1.35 billion (12.2% of total). In Emerging Market Europe, the only sector was Finance (€1.68 billion or 100% of total).

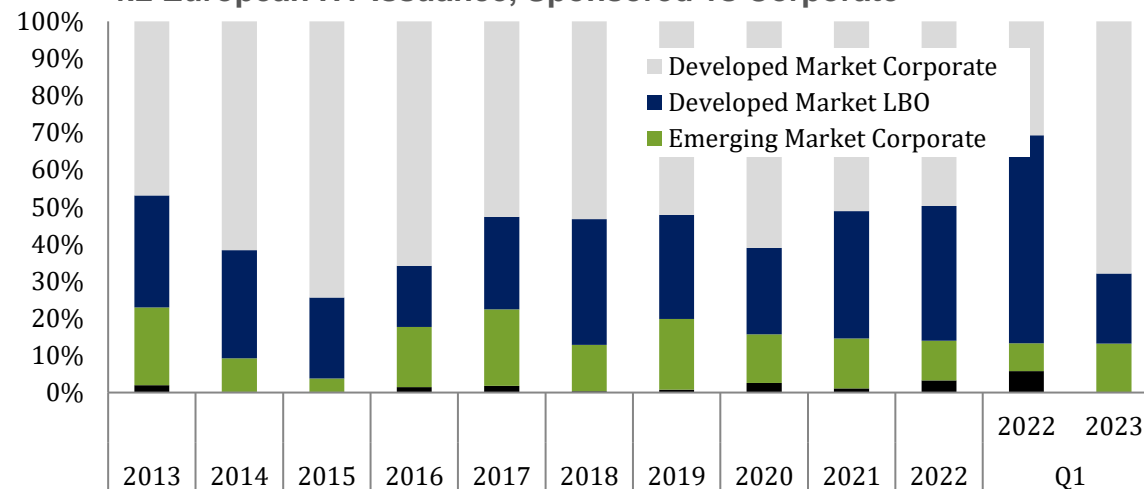
The proportion of USD-denominated issuance increased to 11.2% of all issuance in 1Q'23, up from 5.2% in 4Q'22 but down from 22.3% in 1Q'22.

High Yield Bonds Overview

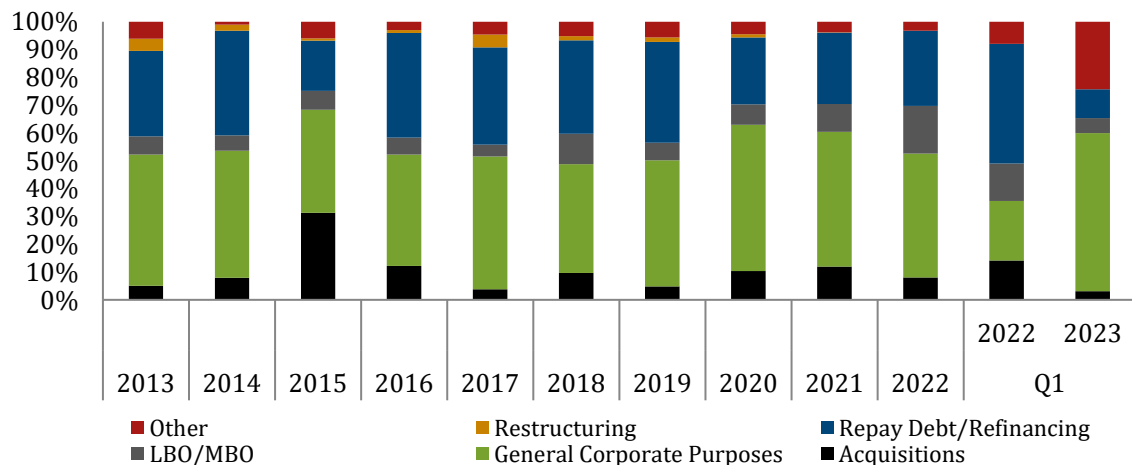
4.1 European HY Issuance, Developed and Emerging Markets



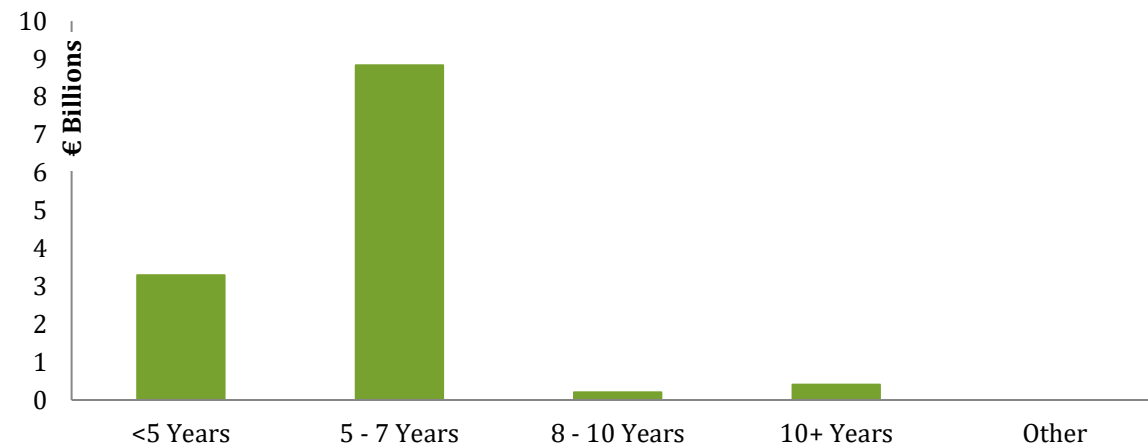
4.2 European HY Issuance, Sponsored vs Corporate



4.3 European HY Issuance, Use of Proceeds

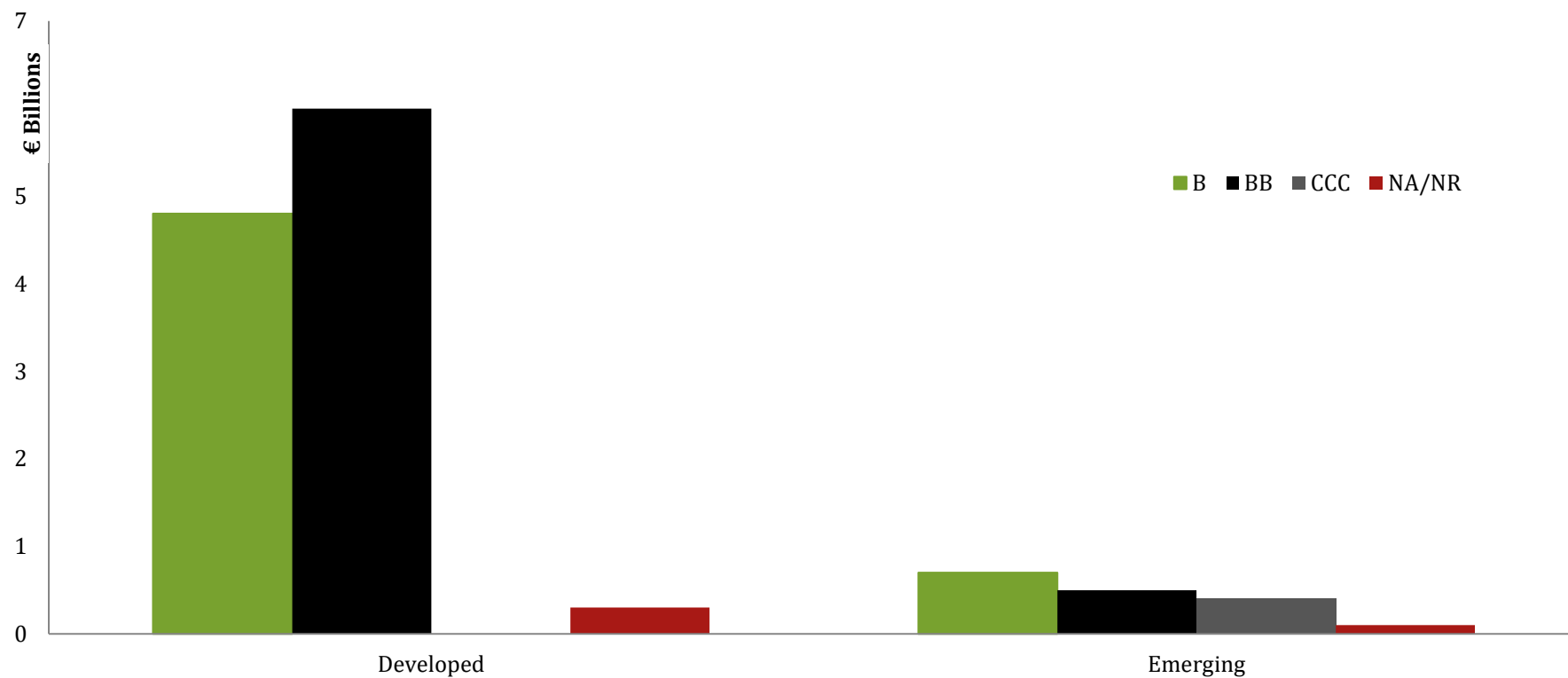


4.4 European HY Bond Issuance by Tenor: Q1 2023



Source: Dealogic

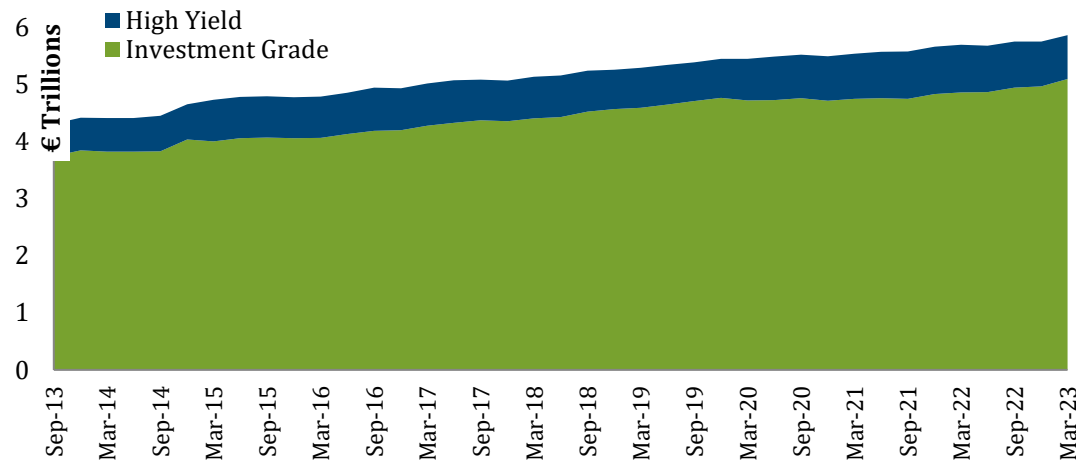
4.5 European High Yield Issuance by Rating: Q1 2023



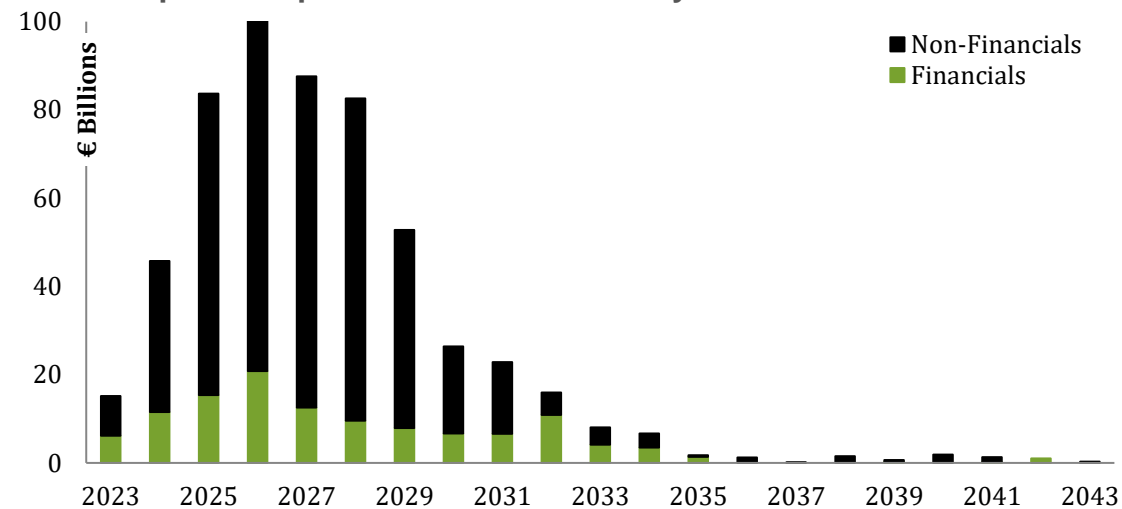
*Corporate Bond Issuance denotes corporate and sponsored bonds, excluding government bonds.

High Yield Bonds Overview

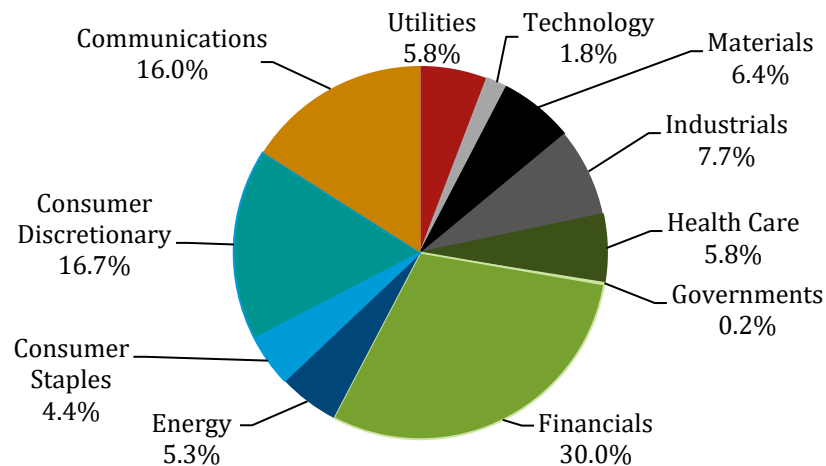
4.6 European Corporate Bonds Outstanding



4.7 European Corporate HY Bonds Maturity Wall

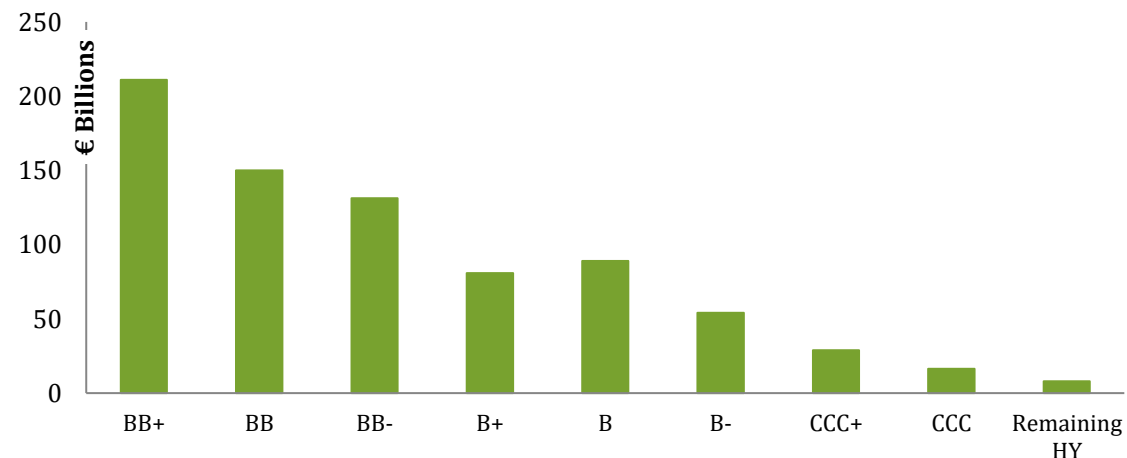


4.8 European Corporate HY Bonds Outstanding by Sector



Source: Bloomberg

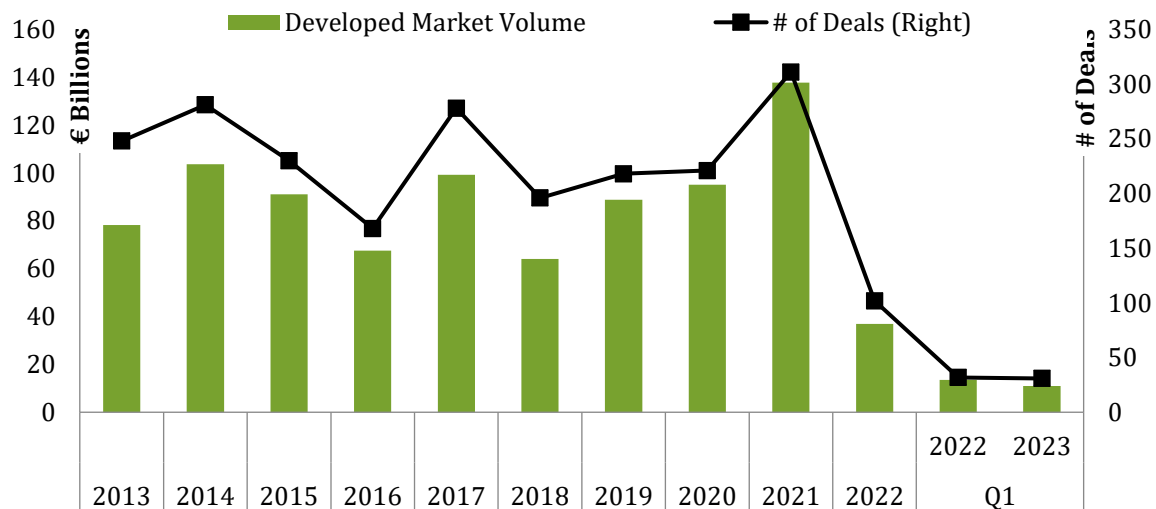
4.9 European Corporate HY Bonds Outstanding by Current Rating



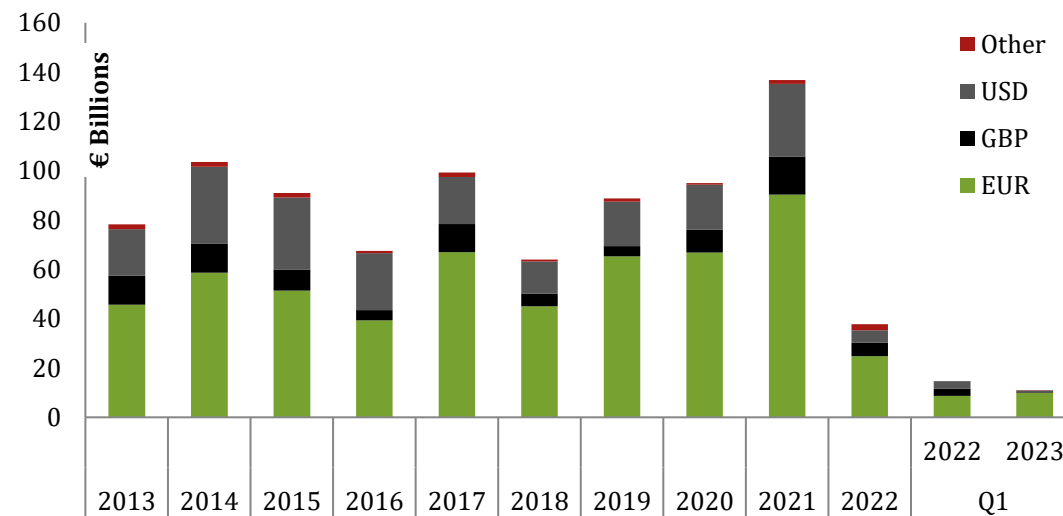
European Developed Market High Yield Bonds

Developed Market High Yield Bonds

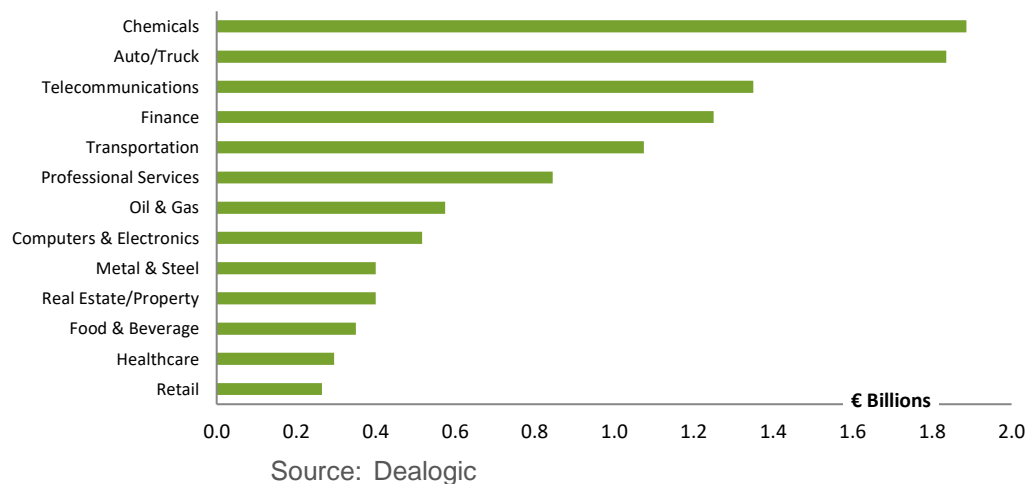
5.1 European Developed Market HY Bond Issuance



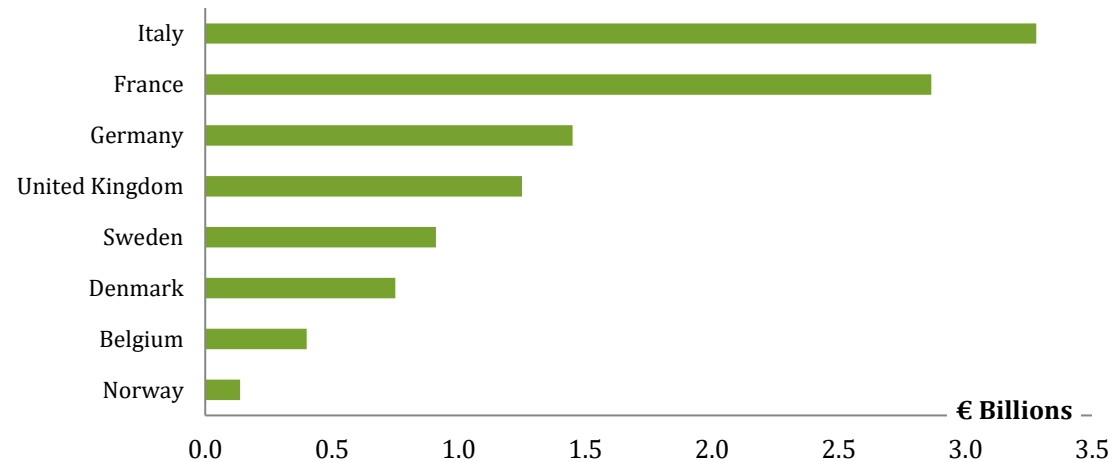
5.2 European Developed Market HY Issuance by Currency



5.3 European Developed Market HY Issuance by Industry: Q1 2023

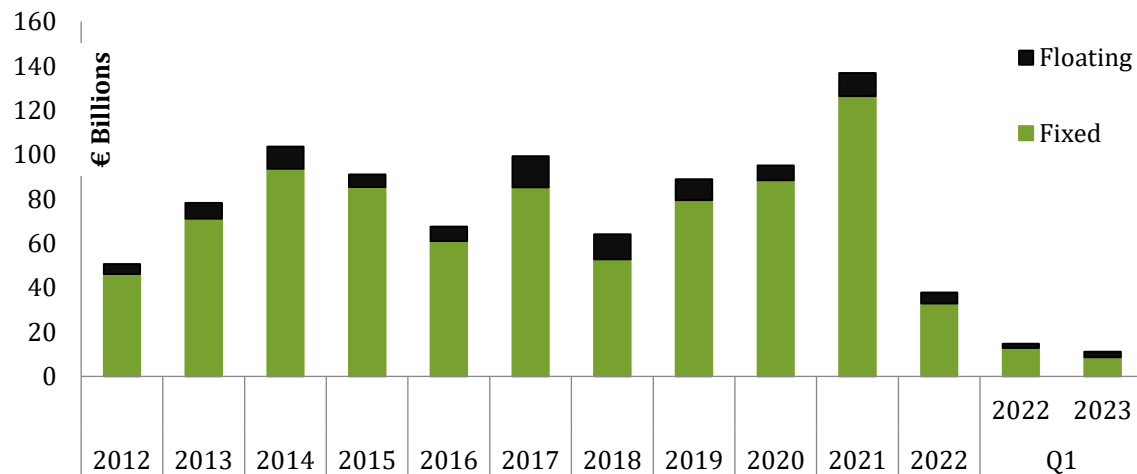


5.4 European Developed Market HY Issuance by Country of Risk: Q1 2023



Developed Market High Yield Bonds

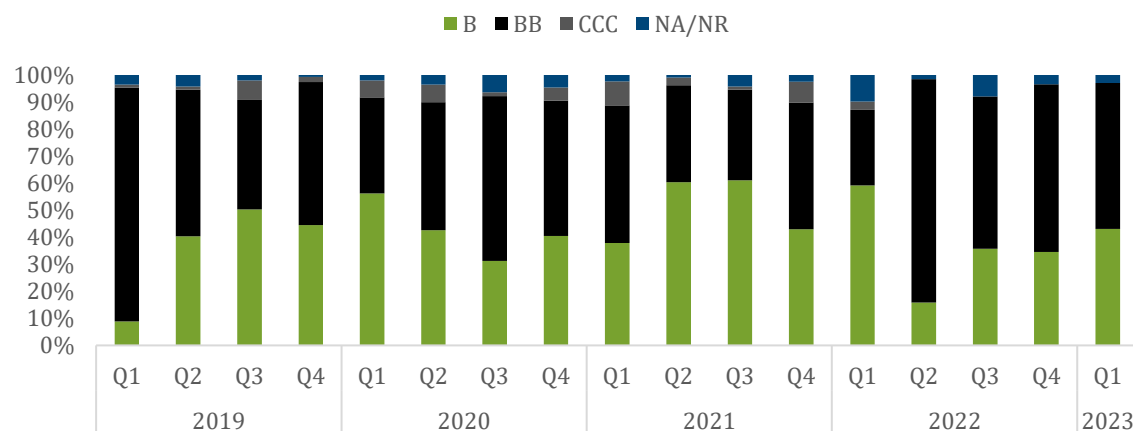
5.5 European Developed Market HY Issuance, Fixed vs. Floating



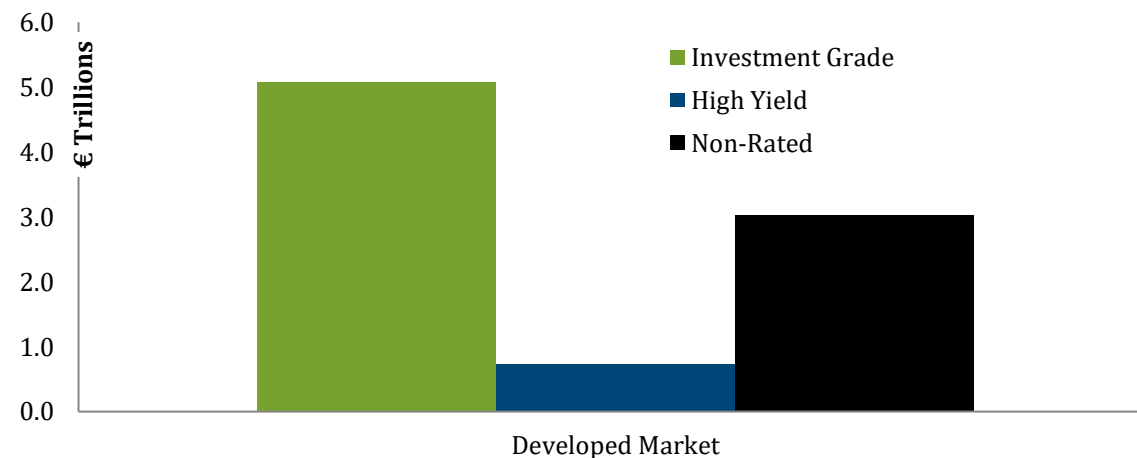
5.6 European Developed Market HY Issuance, Sponsored vs. Corporate



5.7 European Developed Market HY Rating Distribution at Issuance



5.8 European Developed Market Corporate Bonds Outstanding: Q1 2023



Source: Dealogic [5.5], [5.6] and [5.7], Bloomberg [5.8]

5.9 European Developed Market HY Bond Issuance

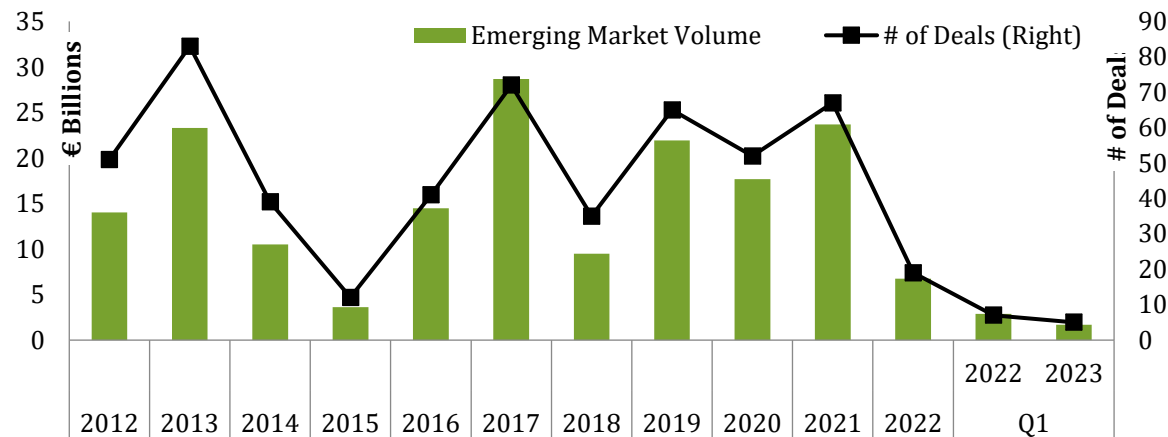
Issuer	Industry Group	Date	Currency	Amount (billion)	Coupon	Moody's	S&P	Fitch
ICCREA Banca SpA	Finance	12-Jan-23	Euro	0.50	6.875		BB+	BB-
Tereos Finance Groupe I SA	Food & Beverage	17-Jan-23	Euro	0.35	7.25		BB-	BB-
Limacorporate SpA	Healthcare	20-Jan-23	Euro	0.30	3-mth Euribor +575	B3	B-	
TIM SpA	Telecommunications	20-Jan-23	Euro	0.85	6.875	B1	B+	BB-
Forvia	Auto/Truck	19-Jan-23	Euro	0.25	7.25	Ba2	BB	BB+
Verisure Holding AB	Professional Services	23-Jan-23	Euro	0.45	7.125	B1	B	
Italmatch Chemicals SpA	Chemicals	26-Jan-23	Euro	0.30	10	B3	B	B
Italmatch Chemicals SpA	Chemicals	26-Jan-23	Euro	0.39	3-mth Euribor +550	B3	B	B
Kapla Holding SAS	Professional Services	24-Jan-23	Euro	0.20	Euribor +550	B2	B+	
ZF Finance GmbH	Auto/Truck	26-Jan-23	Euro	0.65	5.75	Ba1	BB+	
iQera SAS	Computers & Electronics	24-Jan-23	Euro	0.09	3-mth Euribor +650	B2	B+	
iQera SAS	Computers & Electronics	24-Jan-23	Euro	0.41	3-mth Euribor	B2	B+	
Borr Drilling Ltd	Oil & Gas	26-Jan-23	US Dollar	0.14	9.5			
Emeria Europe SAS	Real Estate/Property	31-Jan-23	Euro	0.40	7.75	B2	B	B+
Stena International SA	Transportation	01-Feb-23	Euro	0.33	7.5	Ba3	BB	
Isabel Marant	Retail	07-Feb-23	Euro	0.27	8	B2	B	
INEOS Finance plc	Chemicals	09-Feb-23	Euro	0.40	6.625	Ba2	BB	BBB-
INEOS Finance plc	Chemicals	09-Feb-23	US Dollar	0.40	6.75	Ba2	BB	BBB-
Iliad SA	Telecommunications	08-Feb-23	Euro	0.50	5.625	Baa2	BB	BB
Cerved Group SpA	Professional Services	20-Feb-23	Euro	0.20	3-mth Euribor +525	B3	B	B+
Monte dei Paschi	Finance	23-Feb-23	Euro	0.75	6.75	B1		B+
Geophysical Substrata Ltd	Oil & Gas	08-Feb-23	US Dollar	0.25	8.25		B-	
Volvo Car AB	Auto/Truck	28-Feb-23	Swedish Krona	0.06	5.375	Ba1	BB+	
Volvo Car AB	Auto/Truck	28-Feb-23	Swedish Krona	0.08	3-mth STIBOR +185	Ba1	BB+	
Skill BidCo ApS	Transportation	06-Feb-23	Euro	0.75	3-mth Euribor +675			B+
Azelis Benelux SA/NV	Chemicals	08-Mar-23	Euro	0.40	5.75		BB+	BB+
Waldorf Production UK plc	Oil & Gas	01-Mar-23	US Dollar	0.19	12			
Hurricane Finance plc	Computers & Electronics	14-Mar-23	British Pound Sterling	0.02	8	B3		B+
IHO Verwaltungs GmbH	Auto/Truck	24-Mar-23	Euro	0.50	8.75	Ba2	BB-	BB
Nexans SA	Metal & Steel	29-Mar-23	Euro	0.40	5.5		BB+	
IHO Verwaltungs GmbH	Auto/Truck	30-Mar-23	Euro	0.30	8.75	Ba2	BB-	BB

Source: Dealogic

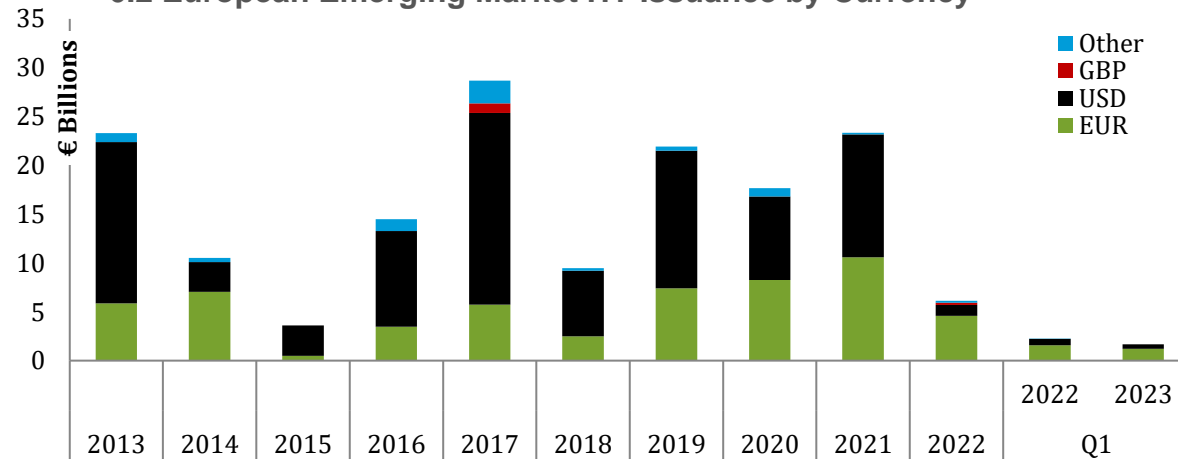
European Emerging Market High Yield Bonds

Emerging Market High Yield Bonds

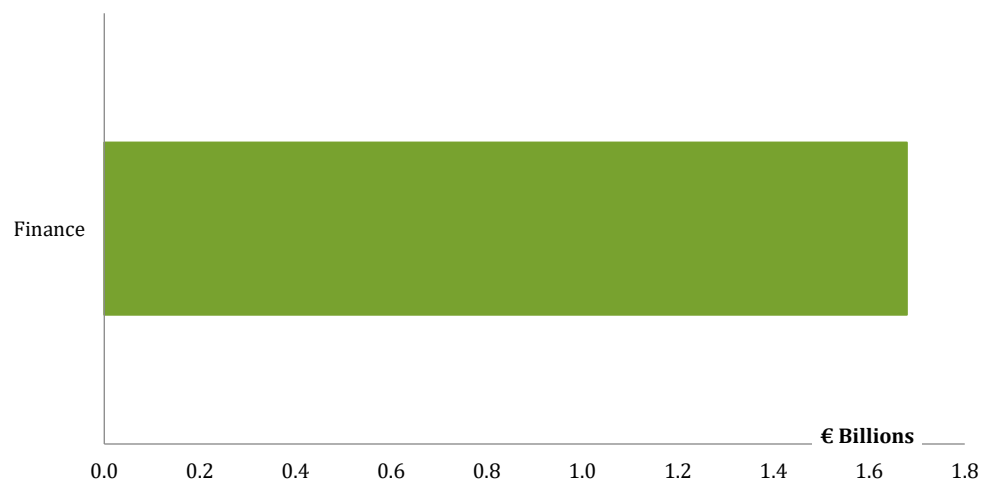
6.1 European Emerging Market HY Bond Issuance



6.2 European Emerging Market HY Issuance by Currency

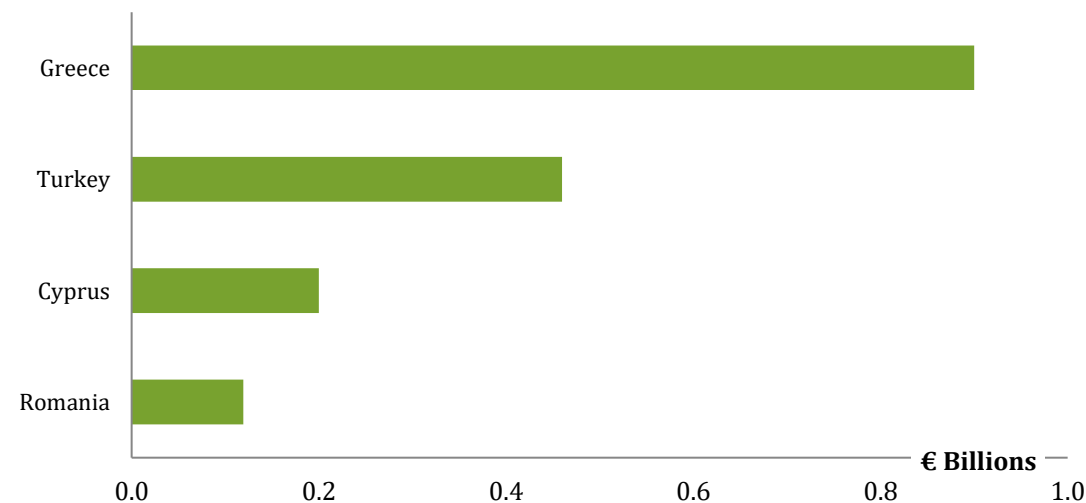


6.3 European Emerging Market HY Issuance by Industry: Q1 2023



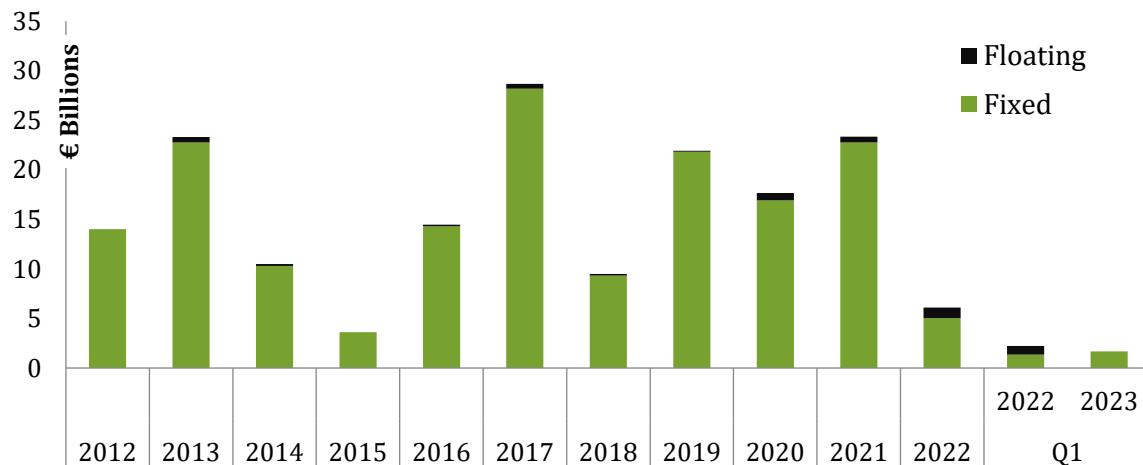
Source: Dealogic

6.4 European Emerging Market HY Issuance by Country of Risk: Q1 2023

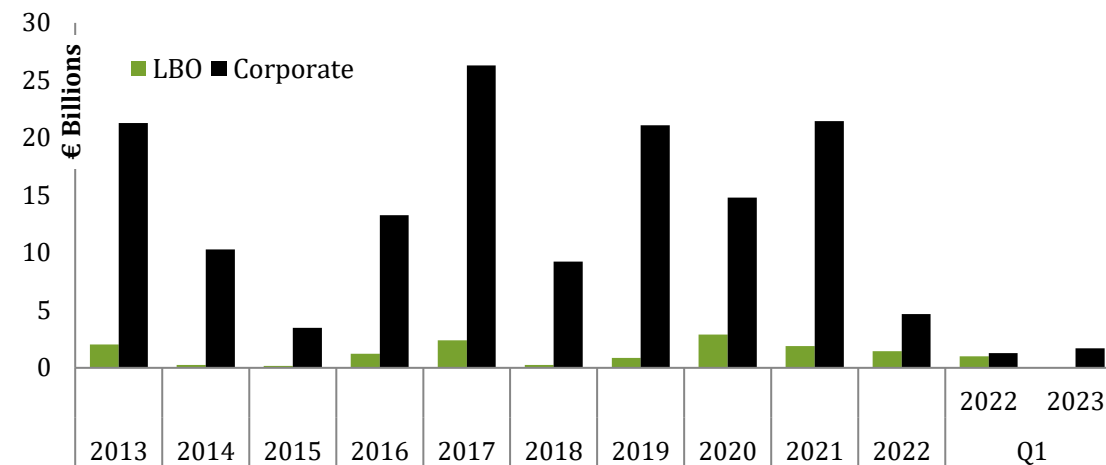


Emerging Market High Yield Bonds

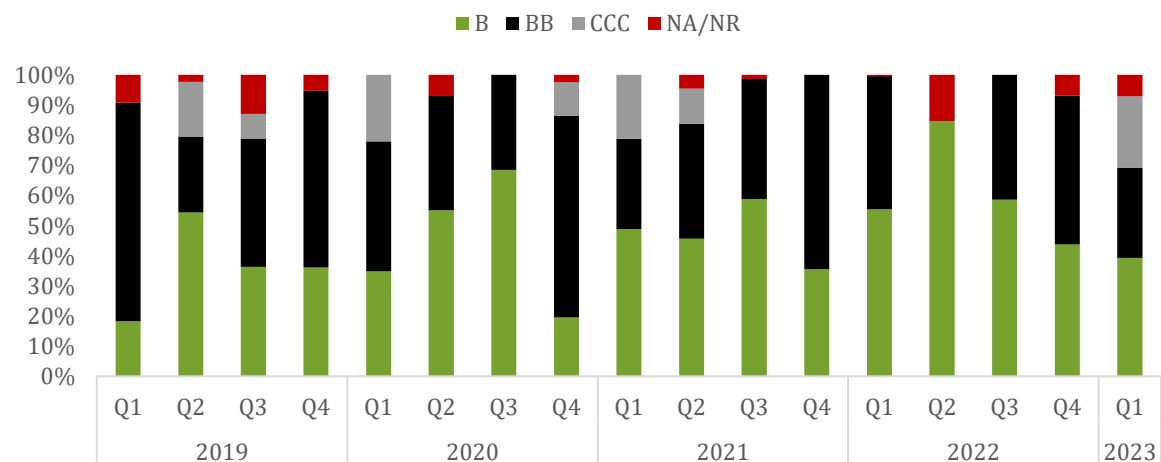
6.5 European Emerging Market HY Issuance, Fixed vs. Floating



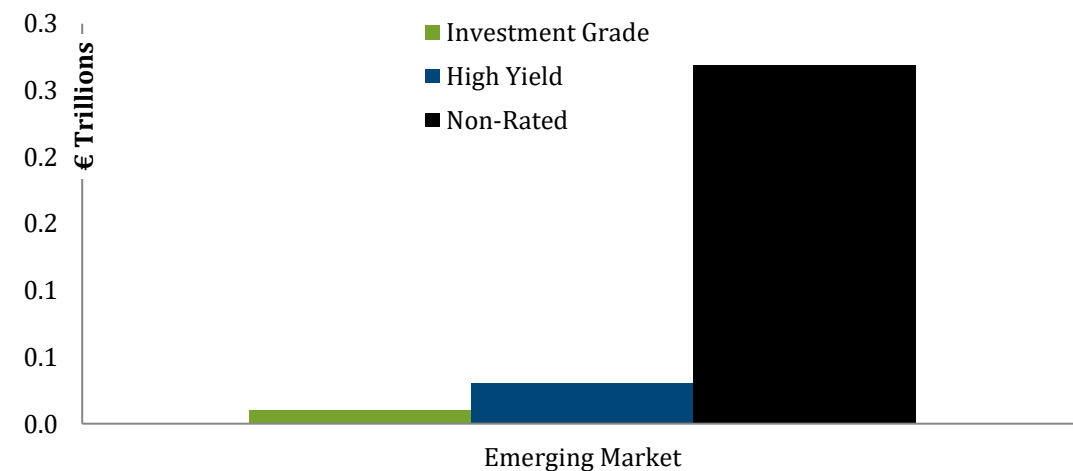
6.6 European Emerging Market HY Issuance, Sponsored vs. Corporate



6.7 European Emerging Market HY Rating Distribution at Issuance



6.8 European Emerging Market Corporate Bonds Outstanding: Q1 2023



Source: Dealogic [6.5], [6.6] and [6.7], Bloomberg [6.8]

6.9 European Emerging Market HY Bond Issuance

Issuer	Industry Group	Date	Currency	Amount (billion)	Coupon	Moodys	S&P	Fitch
Eurobank SA	Finance	19-Jan-23	Euro	0.50	7	Ba3	B+	B+
Turkiye Cumhuriyeti Ziraat Bankasi (London)	Finance	25-Jan-23	US Dollar	0.46	9.5	B3		B-
CEC	Finance	31-Jan-23	Euro	0.12	7.5			
Alpha Services & Holdings SA	Finance	01-Feb-23	Euro	0.40	11.875	Caa1		
Hellenic Bank pcl	Finance	07-Mar-23	Euro	0.20	10.25	B2		B

Credit Quality

Credit Quality

S&P reported the trailing 12-month speculative-grade bond default rate at 3.0% in March 2023, an increase from 2.2% in December 2022. Moody's reported the speculative-grade default rate at 2.6% in March 2023, down from 2.8% in December 2022.

There were 11 bond defaults reported in the 1Q'23 by Standard and Poor's and Moody's. The reasons were missed principal payments (for 6 of them) and distressed exchange (for 5 of them).

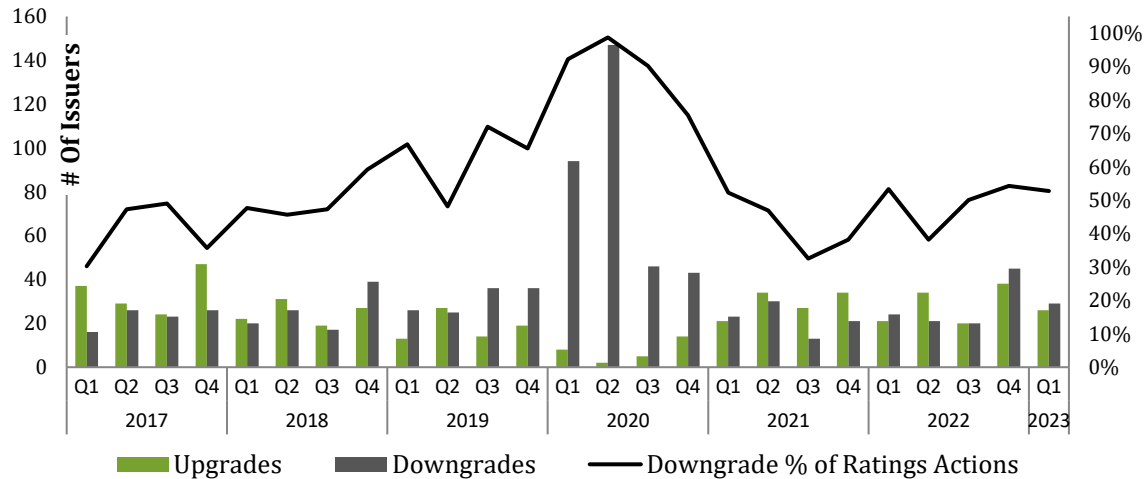
According to S&P, in 1Q'23 downgrades exceeded upgrades in Europe (32 downgrades to 27 upgrades), a slightly better ratio than 51 downgrades to 42 upgrades in 4Q'22.

According to Moody's, in the first quarter of 2023 the number of downgrades in Europe were 31 and the upgrades were 17.

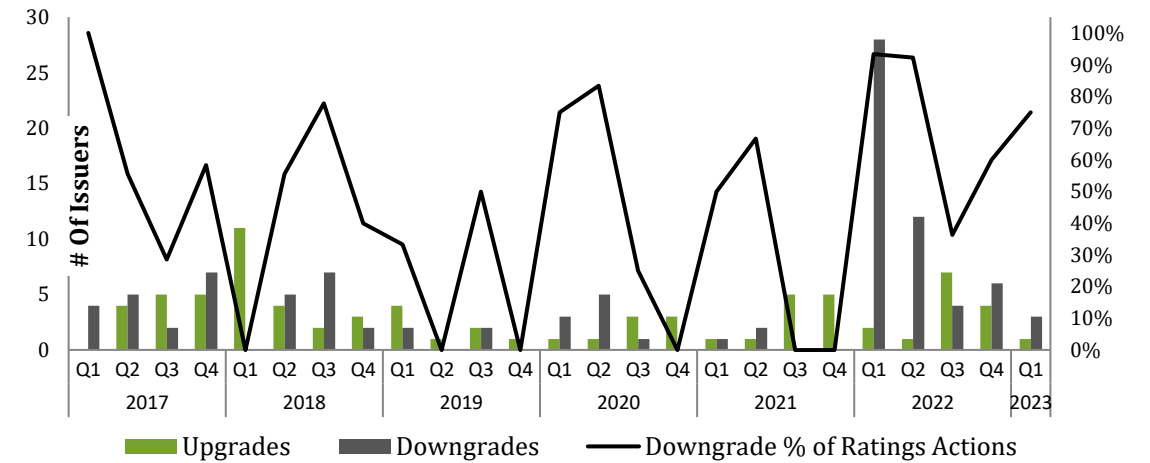
Fitch reported an increase in European Leveraged Loan default rates (by number of deals) to 1.6% in March 2023 from 1.3% in December 2022.

According to Reorg, all the European leveraged loan deals examined in 1Q'23 were covenant-lite.

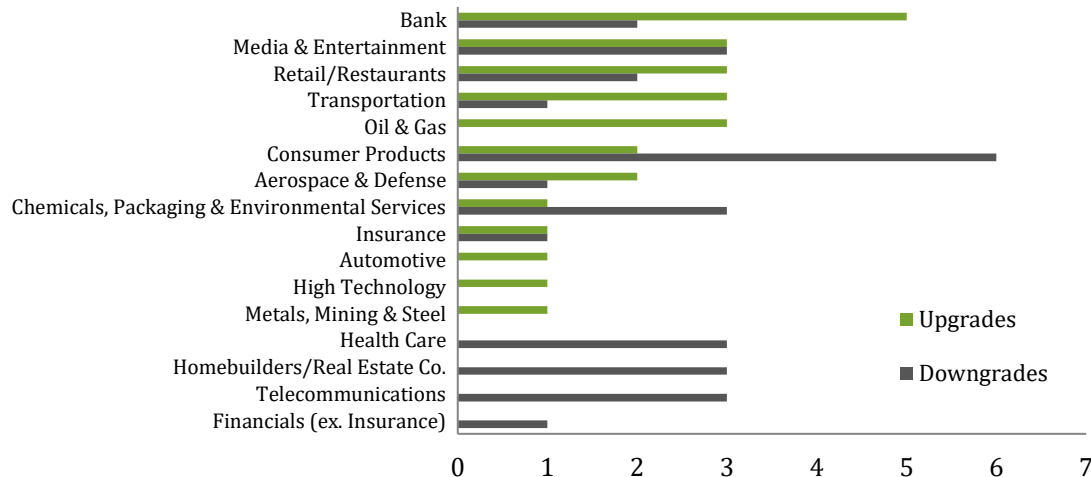
7.1 S&P Developed Europe Issuer Rating Actions



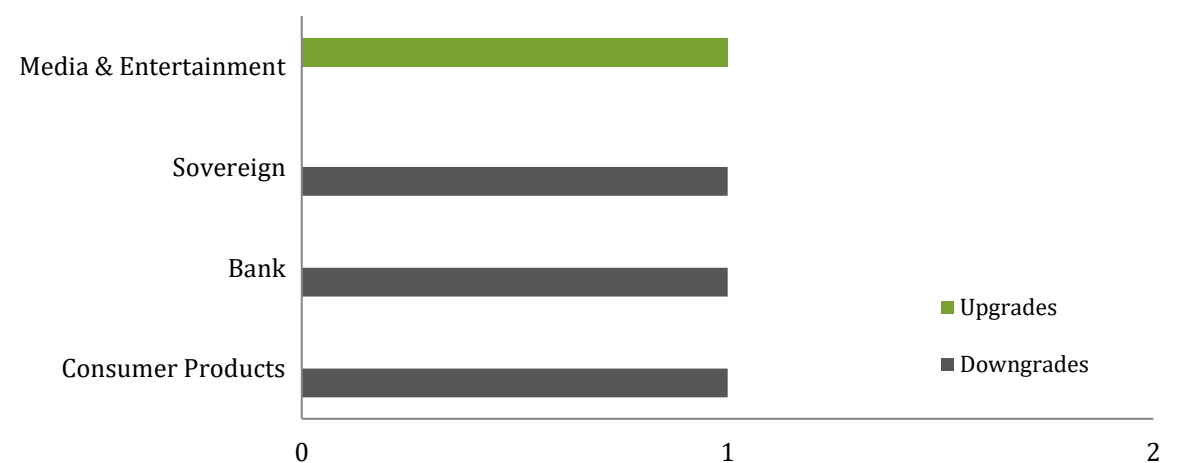
7.2 S&P Emerging Europe Issuer Rating Actions



7.3 S&P Developed European Industry Rating Actions by # of Ratings



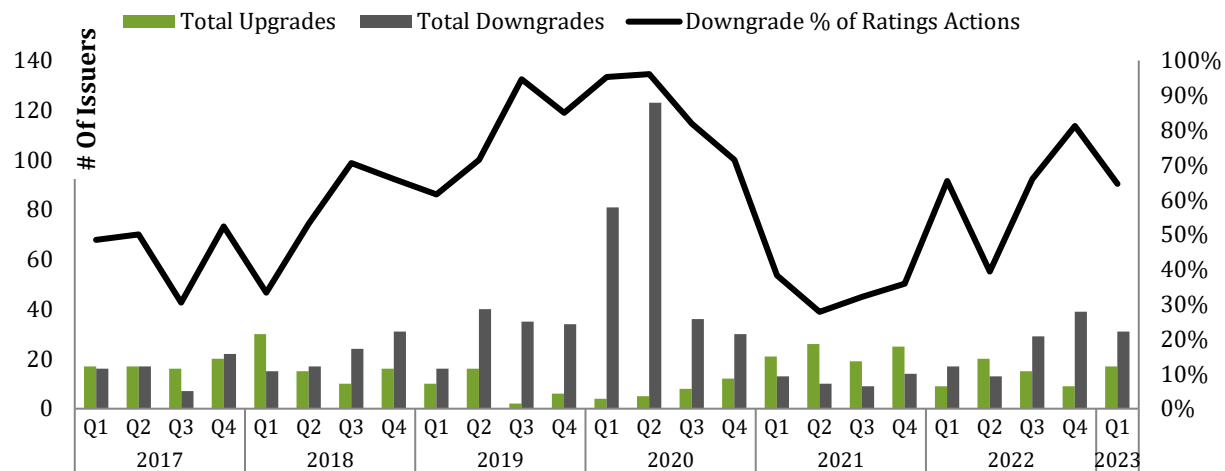
7.4 S&P Emerging European Industry Rating Actions by # of Ratings



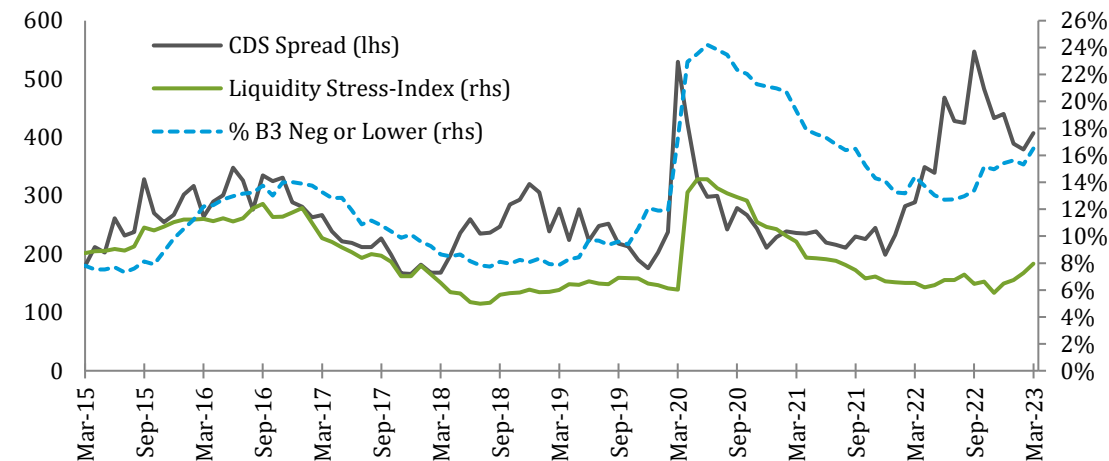
Source: S&P [7.1], [7.2], [7.3] and [7.4]

Adjusted includes c and cc* rated issuers as if those had already defaulted.

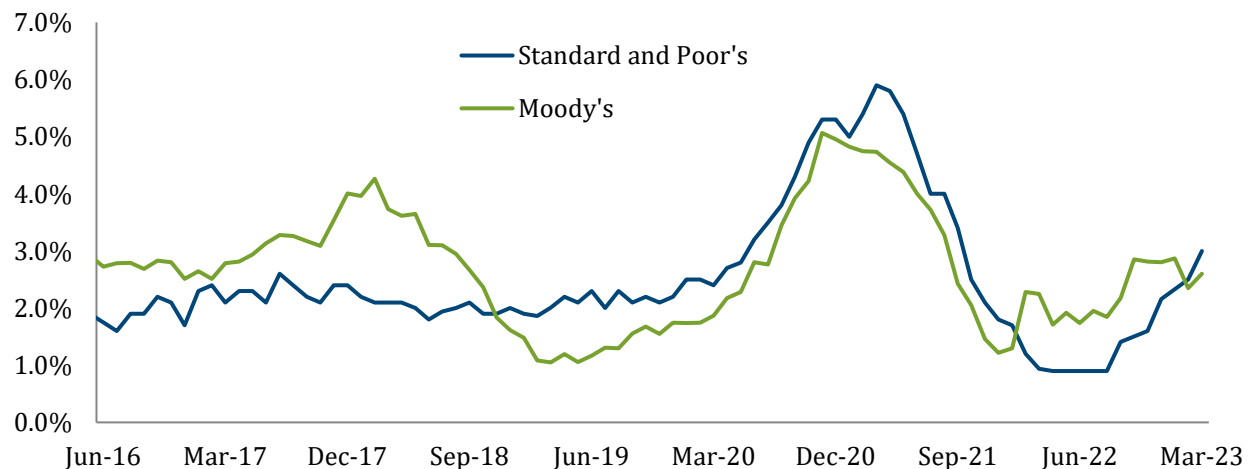
7.5 Moody's: Europe Issuer Rating Actions (corporate)



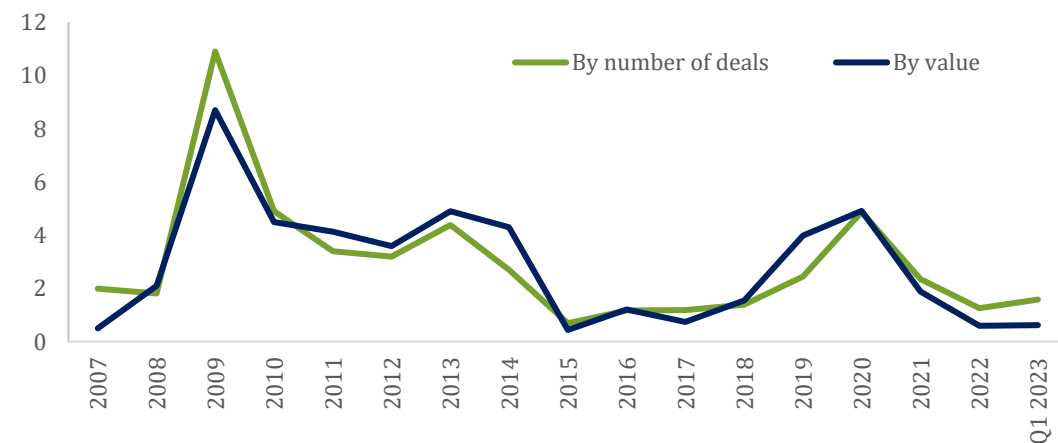
7.6 High-Yield bond CDS spreads vs. liquidity-stress index and HY bonds rated B3 neg and lower in Europe



7.7 European High Yield Default Rates



7.8 Fitch: European Leveraged Loan Default Rates



Source: Moody's [7.5], [7.6] and [7.7], Fitch [7.8], S&P [7.7]

Adjusted includes c and cc* rated issuers as if those had already defaulted.

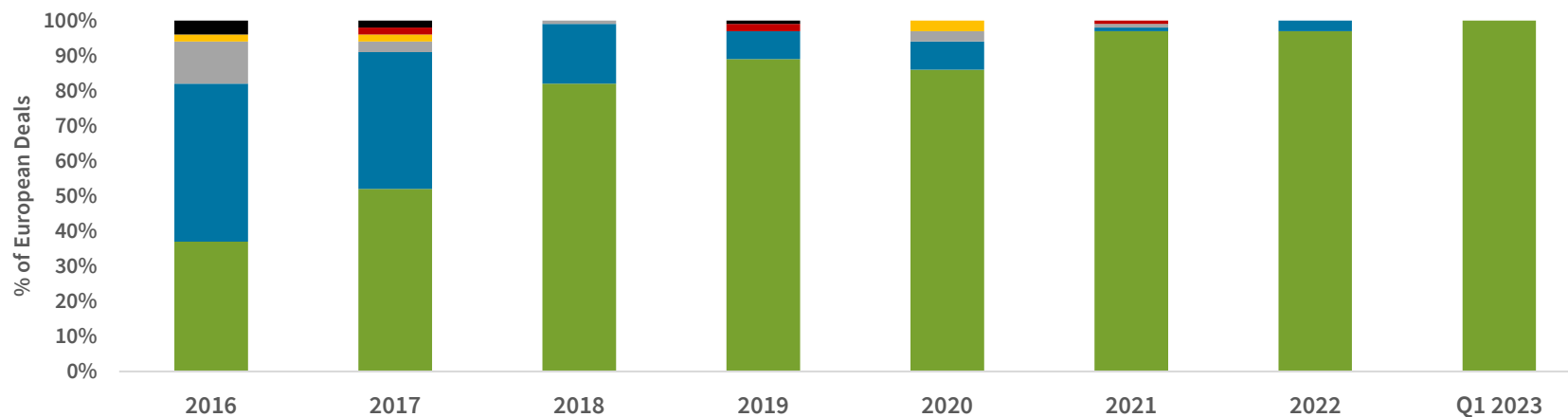
7.9 European Defaults

Issuer	Industry Group	Country	Date	Reported By	Reason
Vue International Bidco plc	leisure & entertainment: movie theatres	U.K.	January 2023	Moody's	Distressed exchange
Missouri TopCo Ltd.	Consumer products	U.K.	January 2023	S&P	Distressed exchange
Altisource Portfolio Solutions S.A.	Financial Institutions	Luxembourg	February 2023	S&P	Distressed exchange
Foodco Bondco, S.A.U.	restaurants: fast food	Spain	February 2023	Moody's, S&P	Missed interest payment
Frigoglass SAIC	manufacturing: finished products	Greece	February 2023	Moody's	Missed principal and interest payments
Technicolor Creative Studios	Media and entertainment	France	March 2023	S&P	Missed interest payments
Mallinckrodt PLC	Health care	Ireland	March 2023	S&P	Distressed exchange
Flint HoldCo S.a.r.l.	Chemicals, packaging, and environmental services	Luxembourg	March 2023	S&P	Missed principal payments
ColourOz MidCo	chemicals: specialty chemical	Luxembourg	March 2023	Moody's	Missed principal and interest payments
Toro Private Holdings II, Limited	technology. services: transaction processors	U.K.	March 2023	Moody's, S&P	Distressed exchange
Wittur Holding GmbH	manufacturing: component	Germany	March 2023	Moody's	Missed interest payment

Source: S&P, Moody's

Credit Quality and European Leveraged Loan Covenants

7.10 Financial Covenant Packages in European Leveraged Loans 2016 - Q1 2023



■ Traditional: 3 or 4 Maintenance Financial Covenants

■ No Financial Covenants

■ Cov-loose: Deals with 1 or 2 Maintenance Financial Covenants for benefit of the RCF and deals which are Cov-loose but may change to Cov-lite

■ Cov-loose: 1 or 2 Maintenance Financial Covenants

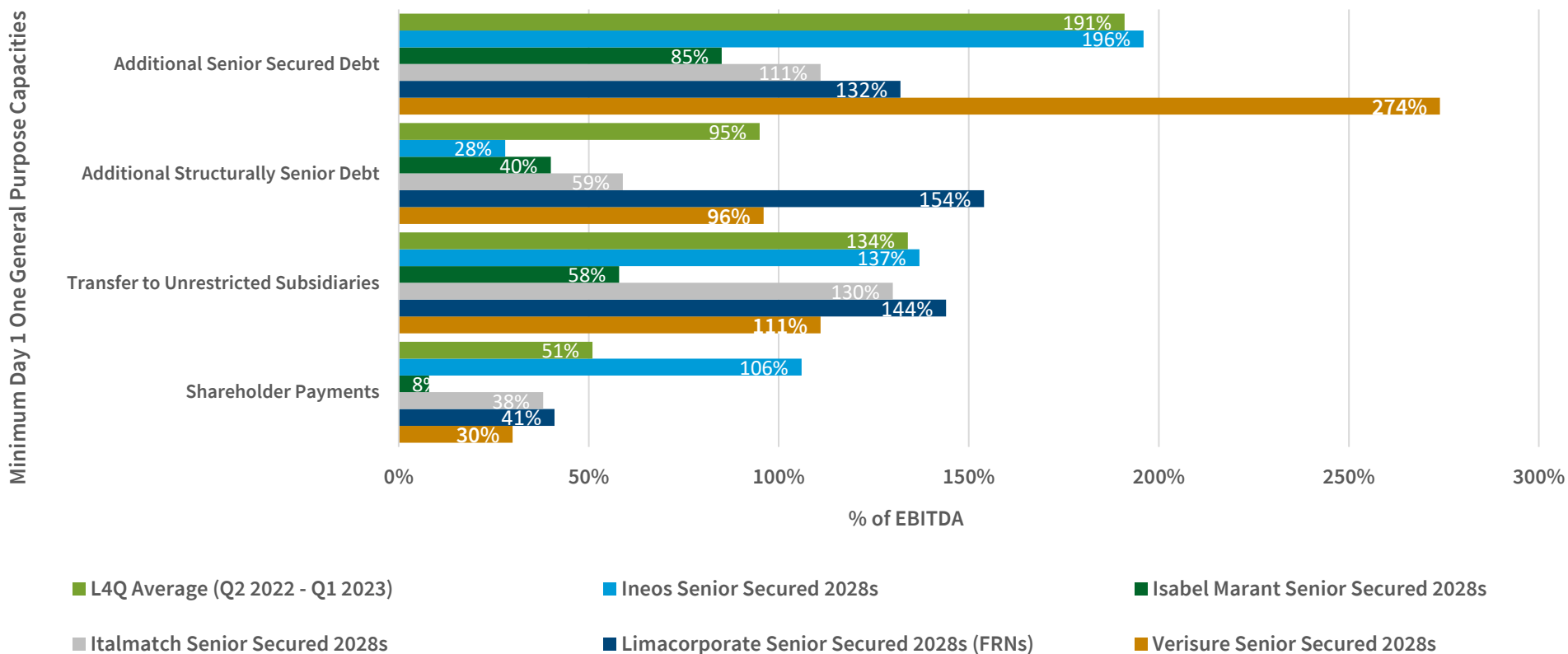
■ Cov-loose: Leverage Maintenance Financial Covenant only

■ Cov-lite: Springing RCF Leverage Maintenance Financial Covenant

*Figures based on Reorg calculations for European deals

High Yield Day-1 Capacity and Investor Pushback

7.11 European High-Yield Key Creditor Risks for Dilutive, Priming Debt and for Value Leakage



Source: EMEA Covenants by Reorg

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Figures based on Reorg calculations for European high-yield bonds (Apr. 2022 - Mar. 31 2023). Figures provide day 1 capacity available at issue aggregating the "general purpose" baskets only (excludes specific purpose baskets). Excludes high-yield lite offerings recorded on Reorg's proprietary database (Market Maker).

Relative Value and Total Return

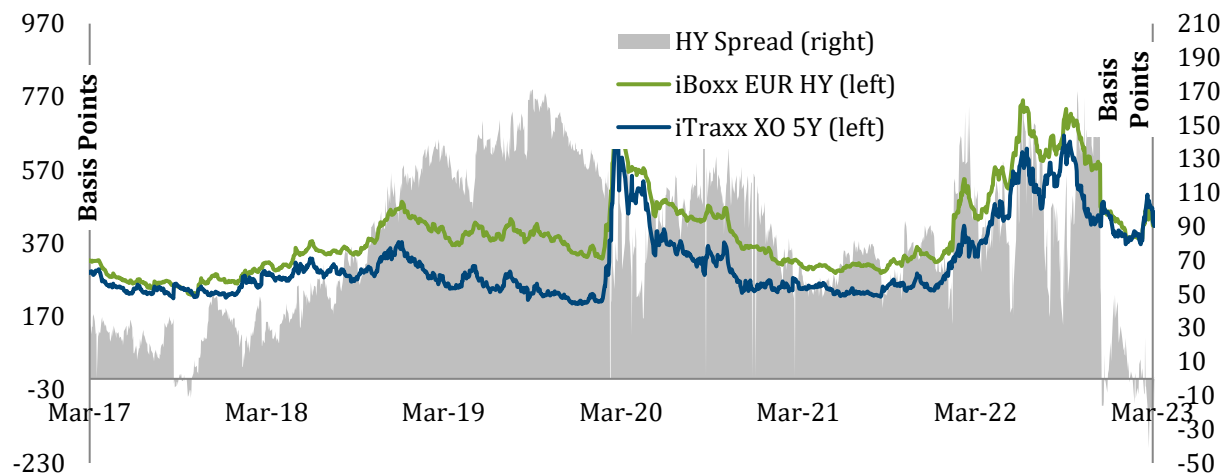
Returns

All 19 asset classes tracked in this report recorded quarter-on-quarter (q-o-q) gains in 1Q'23. The “S&P500” experienced the greatest growth q-o-q at 7.0%. This was followed by “U.S. HY Distressed” at a 4.5% increase and “U.S. HY” with a positive 3.7% q-o-q.

The worst performing asset class was “EMU Covered Bonds” with a gain of 1.0% q-o-q in 1Q'23, followed by “Euro HY CCC and Lower Rated” with a positive 1.1% q-o-q, and “EMU Financial Corporates” with a 1.2% gain q-o-q.

Relative Value and Total Return

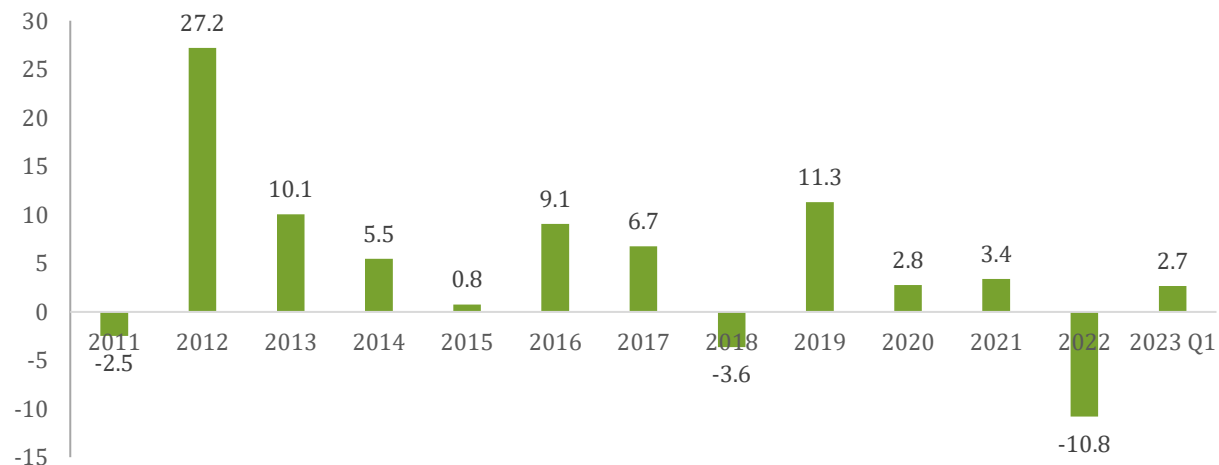
8.1 Relative value: European HY Bonds, Cash vs. Synthetic



8.2 Relative value: European Leveraged Loans, Cash (EURO Lev40)

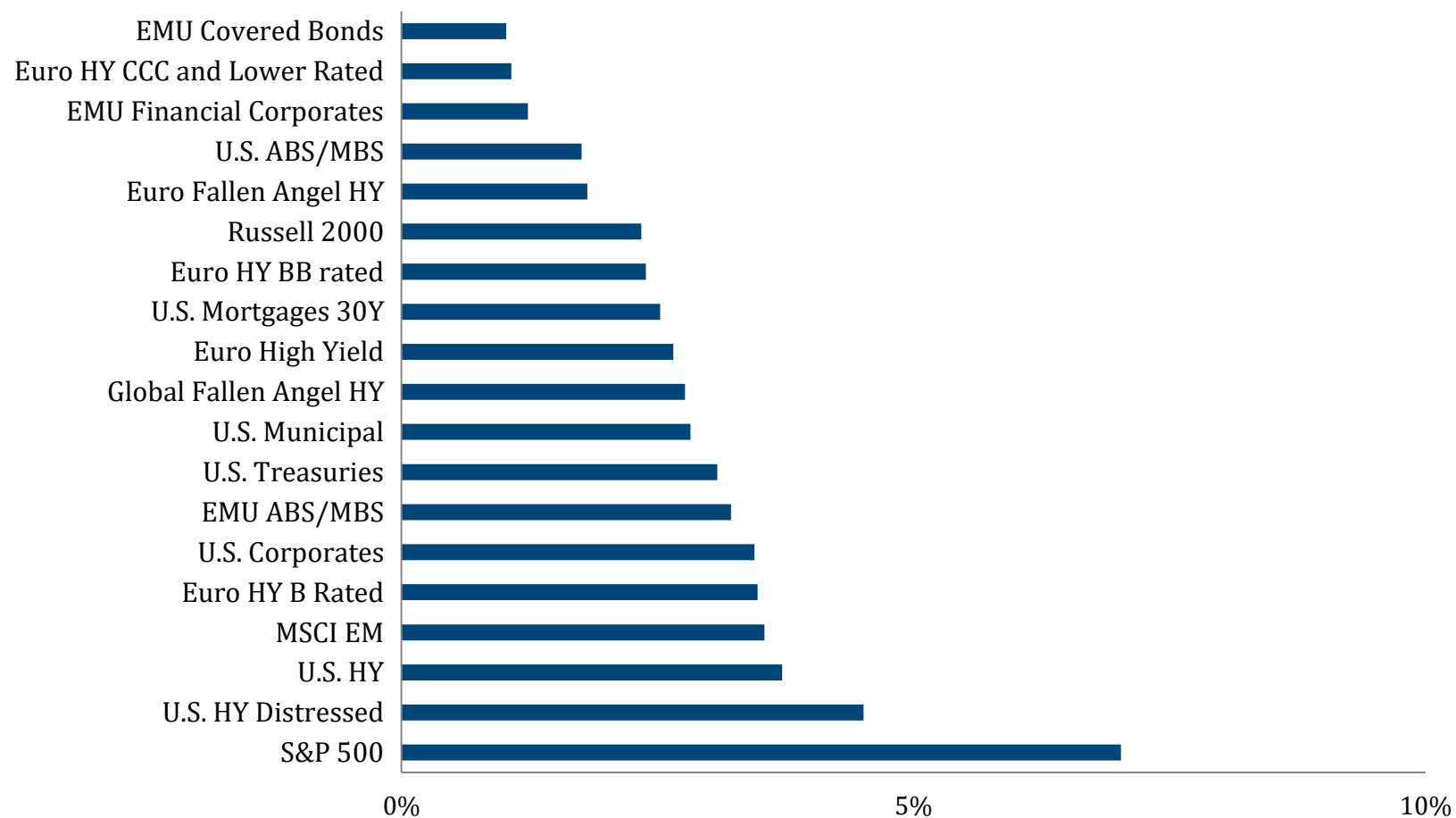


8.3 European HY Bond Total Return



Source: Eikon [8.1] and [8.2], and Bloomberg [8.3]

8.4 Asset Class Total Return: Q1 2023



Source: Eikon and S&P

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