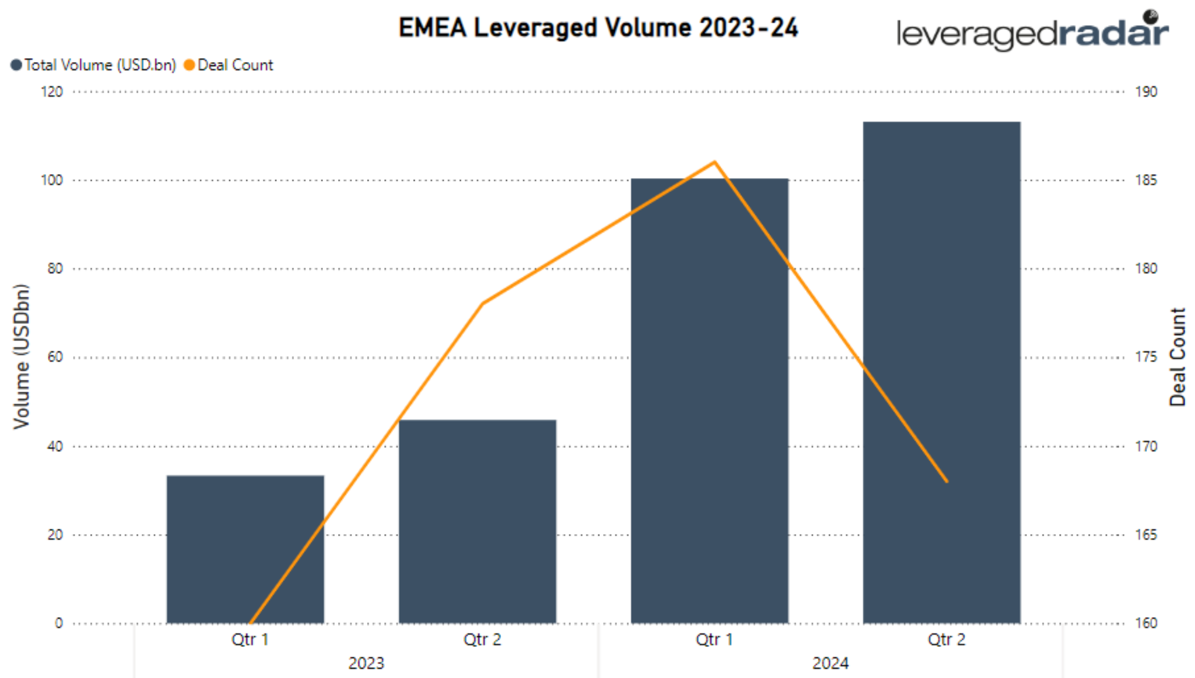
The BSL Market in EMEA: 2024 so far

Positive Start

Looking back to the first half of 2024, the European broadly syndicated loan (BSL) market has experienced a positive start.

Ross Curran, Liquid Credit Portfolio Manager at Alcentra, has referred to this market as "attractive right now," especially when compared to similar asset classes and the US loan market, explaining that, currently, his "highest allocation by a significant margin is to European loans."

Deal volume has increased by 42% year-on-year. In H1 2024, 206 deals priced in EMEA, compared to the 145 deals which priced in H1 2023.



1 In H1 2024, USD214.43bn was issued in EMEA. This is a 168% increase from H1 2023, in which USD79.78bn was issued.

Europe's BSL market stress levels have been significantly decreasing, as default rates have been declining over the past six months. Whilst macroeconomics in the US may be considered stronger, there is double the amount of stress in the US loan market than EMEA. Currently, CCCs in Europe are staying relatively low at about 4%, whilst CCCs in America are sitting at nearly 10%.

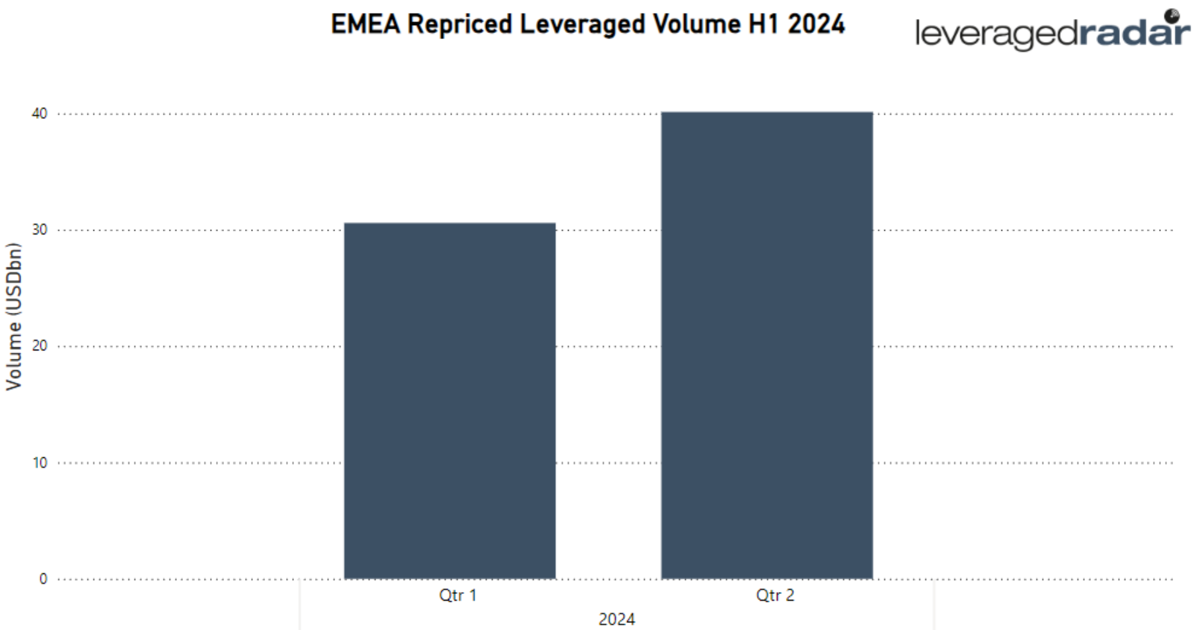
With CLO issuance looking to hit a record high and a strong level of inflows, it is clear there is an extremely high level of demand for loans in EMEA right now.

	2024 inflows	2024 outflows
High Yield Bond Funds	20	9
Leveraged Loan Funds	26	3

As one market participant put it, "markets are active, we can raise money, we can raise CLOs, we can print deals, so what's not to like?"

Repricings

After limited deal opportunities throughout 2023, the leveraged loan market has seen increased activity in H1 2024. However, this so-called activity has been majorly dependent on existing deals being repriced, meaning that the liveliness of the market does not represent new money supply meeting the currently high demand.



2 *Around USD70bn has been repriced in EMEA throughout H1 2024.*

In the first week of July, the repricing trend presented an interesting turn in Europe, as three deals ready to reprice were withdrawn. Archroma, the Swiss chemicals company, set out to reprice a EUR455m TLB from an existing margin of E+550bp to E+475bp-500bp, however had to withdraw the deal from syndication due to market conditions.

Similarly, Odido, the Dutch mobile operator, withdrew an attempt to reprice an existing EUR2.4bn TLB (by 40bp, from E+390bp to E+350bp) from the market and, on the same day, Dutch business services company TMF Group withdrew a EUR1.055bn TLB repricing. Interestingly, TMF Group did manage to reprice the USD399m tranche of the facility, reducing the margin to S+350bp from an existing S+400bp.

These cancellations could perhaps suggest that repricings will not be as prevalent in EMEA in H2 2024 as they have been in H1. However, it is important to note that, contrary to the constant stream of repricing activity in the US, the European loan market seems to have experienced its repricing activity in waves.

Liquid Credit Portfolio Manager Ross Curran has mapped the waves out, saying to *LeveragedRadar* that "repricings picked up in January and February, because there wasn't a huge amount of new loan supply and demand was strong, leading to tighter secondary market pricing. When you have a lot more demand than you have supply that technical dynamic puts pressure on market spreads…but then in late February we started seeing a little bit more new loan issuance…then it (repricing) paused for quite a bit. We had another pickup in repricings in late April and May because of a similar trend. But again, in June, there was another decent-sized pickup in new loan issuance and again, we saw push back on the repricings."

Therefore, despite some withdrawal from market at the beginning of H2, repricings may continue well into the back end of 2024.

LBO Activity

Although much of the activity in the market has been repricings, EMEA has also seen pickup in LBO transactions. This is most likely due to a combination of sponsors being under pressure to pay investors and the ongoing expectation that rates will be cut. In fact, there has been a significant increase of 223%, with LBO transactions totalling USD23.48bn in H1 2024.

One of the most notable LBO transactions in H1 2024 has been the Telecom Italia EUR10.5bn loan, secured to support the sale of FiberCop and NetCo to KKR. The Italian state approved the sale in January and on 10 June, a multi-tranche facility was signed. The deal comprised a five-year EUR4.7185bn term loan; a five-year EUR2bn revolver; and a two-year EUR3.7185bn bridge loan.

Other buyout deals include a USD1.15bn TLB secured by Rosen Group, the Swiss oil and gas pipeline inspection service provider, to support its acquisition by Partners Group. The loan priced at S+350bp and was issued at 99.75, after tightening from 99.50.

In May, Alter Domus issued a multi-currency facility for the acquisition of a majority stake in the company by Cinven. The facility included a EUR640m TLB, which tightened in guidance during syndication and finally priced at E+375bp/Par.

On the Alter Domus transaction, one market participant who spoke to *LeveragedRadar* noted that, within LBO deals this year, "we are seeing a lot more examples of deals where the seller stays in with a much more sizeable minority stake, in order to not give up all the additional upside."

The market saw this again more recently in July, with Kuhne Holding's buyout of German pharmaceutical company Aenova, in which BC Partners will remain as a minority stakeholder.

Despite this significant increase in buyout activity, it is fair to say that repricing transactions are dominating the market this year so far. This means that, despite huge demand, there is still a severe lack of new money supply in the BSL market.

Some of the larger LBO deals that have priced in the market are responsible for large quantities of the current new money supply, for example the EUR10.5bn Telecom Italia loan makes up 45.65% of all buyout transactions within H1 2024. As LBOs are not the only option that investors look at to deploy capital, for example IPOs are one attractive alternative, deals that launch are not always guaranteed to stay in the market. One market participant who spoke to *LeveragedRadar* about this described the market as currently facing a lot of "single-situation risk."

Looking Ahead

As we move well into H2 2024, it looks as though the BSL market in EMEA has no intention of slowing down. CLO issuance is expected to continue at the same rate that it has been, another wave of repricing is to be expected as borrowers continue to try and reduce their financing costs and, aside from refinancing, so far there have been multiple new money deals that have priced in H2 already.

In July alone, EMEA saw several LBO transactions, including Vodafone Spain's buyout by Zegona, Darktrace's USD1.4bn TLB to support its acquisition by Thoma Bravo and Madrid-listed Applus being bought out by TDR Capital and I Squared.

Currently in the pipeline, privately-owned Swedish enterprise software company IFS is holding price talks on a EUR400m TLB to partly finance the payment of the purchase price of Copperleaf Technologies.

The steady flow of M&A prospects suggests that new money may continue to trickle into the BSL market as the year continues.

All data, unless otherwise stated, sourced from the Bond Radar Ltd Data Wizard and API.

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