November 13, 2020

S&P Global Market Intelligence

LCD European Weekly

Risky business

The Pfizer vaccine news was the catalyst for a risk-on mood this week, leading fund managers to chase COVID-impacted names both in primary and secondary. **PureGym** finally got its bond away at least 5-6 points higher than it envisaged, and a raft of sterling bonds then priced in many cases 50 bps or more tighter than they had guided. Loan primary was slower, with just two new issues launching, but again pricing looks to have tightened here too. It was though secondary that witnessed the biggest movers, with some pandemic-impacted names rallying close to eight points.

Loan volume for the last 30 days is €5.25 billion from 14 deals; high-yield volume is €12.01 billion from 25 deals.

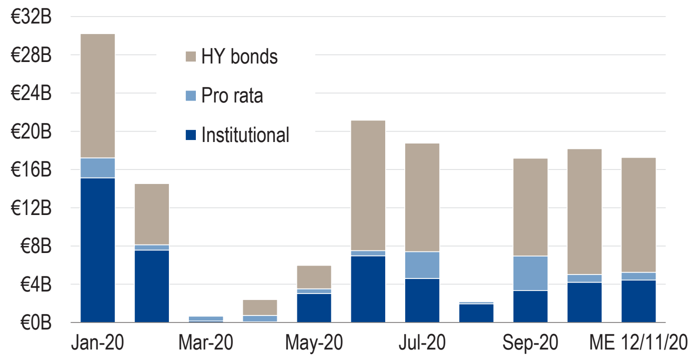
Inside

Secondary loan stats

	All loans	Euro denominated	BB	B
Total returns				
Week ended 11/11/20	1.37%	1.39%	0.79%	1.22%
Week ended 11/4/20	-0.19%	-0.19%	-0.10%	-0.16%
Month to date 11/11/20	1.41%	1.42%	0.84%	1.28%
Year to date 11/11/20	0.82%	0.84%	1.16%	0.18%
Year to date 11/11/19	3.52%	3.59%	3.64%	3.63%
Market value returns				
Week ended 11/11/20	1.30%	1.32%	0.74%	1.14%
Week ended 11/4/20	-0.26%	-0.26%	-0.16%	-0.24%
Month to date 11/11/20	1.29%	1.31%	0.75%	1.16%
Year to date 11/11/20	-2.51%	-2.44%	-1.23%	-3.25%
Year to date 11/11/19	0.23%	0.37%	1.23%	0.18%
Average discounted loan spread (E+)				
As of 11/6/20	537.67	527.74	372.53	516.63
As of 10/30/20	546.39	536.65	377.14	529.60
Average bid				
As of 11/6/20	95.42	95.58	98.58	96.49
As of 10/30/20	95.07	95.22	98.34	96.01

Sources: LCD, an offering of S&P Global Market Intelligence
S&P European Leveraged Loan Index

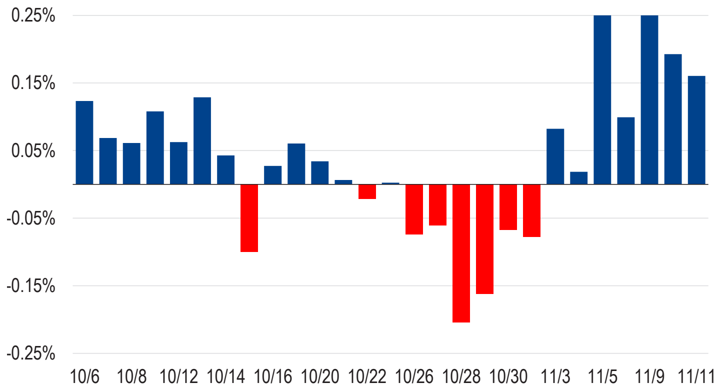
New-issue leveraged finance volume



*Data is through last 30 days

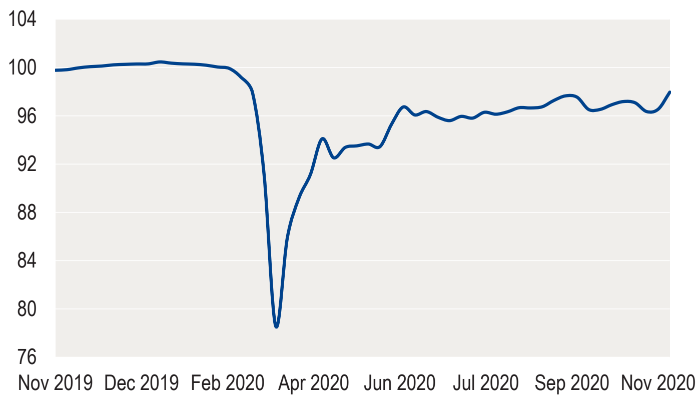
Source: LCD, an offering of S&P Global Market Intelligence

Daily leveraged loan returns



Sources: LCD, an offering of S&P Global Market Intelligence; S&P European Leveraged Loan Index

Average institutional flow-name loan bid



Sources: LCD, an offering of S&P Global Market Intelligence; Markit

Primary markets: Cash and confidence

After the uncertainty that characterized markets in October, there was a renewed sense of hope — and a refreshed calendar of issuance — in the European leveraged primary space this week. New M&A deals were launched, with more on the way, and bankers are now expecting to see a boost in opportunistic deals before the end of the year.

New-issue loan market, by the numbers				
	Month ended 12/11/20	Oct-20	Sep-20	Last 7 deals
Spread (E+)	424	420	N/A	445
Floor (bps)	7	4	N/A	13
OID	98.55%	98.73%	N/A	98.54%
Yield	4.69%	4.59%	N/A	4.88%
Observations	17	14	0	7

Source: LCD, an offering of S&P Global Market Intelligence

"We've reached the sunny uplands," said one market participant. "We've got a presidential result, there's a light at the end of the COVID-19 tunnel, and we still have the support of a government bazooka trained on the economy. The debt markets are suddenly more optimistic — we have cash, and we have confidence."

This confidence has not yet brought a huge amount of supply to the leveraged loan market — with only M&A transactions from **Kersia** and **Barentz** launched this week — but more is set to be on the way.

There are already some sizeable transactions in the pipeline, not least the €4 billion bond and loan package backing the takeover of U.K. supermarket chain **ASDA** by the Issa brothers and TDR Capital, which is expected to launch later this month, according to sources. Other deals such as the debt backing Carlyle's €2.025 billion acquisition of **Flender**, which manufactures mechanical and electrical drive systems from Siemens, is on the way, while the $4.5 billion financing backing the takeover of BP's Petrochemical business by **INEOS Styrolution Group** is due in the New Year.

"While people are waiting for the pipeline, we will definitely see some opportunistic deals come through," said one banker. Market participants anticipate a pick-up in dividend recapitalizations, refinancings to replace subordinated debt, and deals to pay down borrowings made under revolving credit facilities.

So far though, the only deals out to market are the buyout debt from Kersia, and a new €585 million-equivalent term loan supporting Cinven-backed Barentz BV's acquisition of Maroon.

The latter's seven-year term loan financing includes a €325 million euro-denominated facility, a €220 million-equivalent, dollar-denominated tranche, and a €40 million-equivalent, pre-placed sterling-denominated term loan. Pricing on the euro piece has been talked at E+425-450 with a 0% floor offered at 98, to yield 4.68%-4.94%, while the dollars are guided at L+450, 0.75%, 98, to yield 5.73%. The sterling debt was priced at L+500 with a 0% floor.

Cinven bought Barentz, a Netherlands-based distributor of life-sciences ingredients, in the fourth quarter of 2019. The acquisition of North America-based Maroon is designed to create a global and leading life-sciences specialty distribution platform. The acquisition is due to close in the fourth quarter.

Green fingers

Meanwhile, the new senior facilities backing the takeover of biosecurity and food safety group Kersia by IK Investment this week includes a margin ratchet linked to environmental, social, and governance criteria, providing the latest example of how sustainability may be worked into the institutional debt market, with some participants saying it may become the norm.

European loan volume and change — total, institutional, and sponsored

Total volume	2020	2019	YoY Change
Buyout	18.79B	25.88B	-27%
M&A (non-LBO)	16.67B	15.88B	5%
Total M&A	35.45B	41.77B	-15%
Refinancing	14.68B	26.16B	-44%
Dividend	6.34B	7.72B	-18%
Other	4.03B	1.56B	158%
Total	60.50B	77.21B	-22%

Institutional volume	2020	2019	YoY Change
Buyout	15.89B	21.68B	-27%
M&A (non-LBO)	12.77B	14.11B	-10%
Total M&A	28.66B	35.79B	-20%
Refinancing	12.60B	22.01B	-43%
Dividend	4.10B	7.33B	-44%
Other	2.64B	1.28B	107%
Total	48.00B	66.41B	-28%

Sponsored volume	2020	2019	YoY Change
Buyout	18.79B	25.88B	-27%
M&A (non-LBO)	8.63B	7.71B	12%
Total M&A	27.42B	33.59B	-18%
Refinancing	8.27B	11.63B	-29%
Dividend	2.57B	4.48B	-43%
Other	1.73B	0.91B	91%
Total	39.99B	50.61B	-21%

Source: LCD, an offering of S&P Global Market Intelligence

The ratchet proposed will see the margin on the term loan, delayed-draw term loan, and revolving credit facility flex tighter by up to 0.075% if the firm performs well under three criteria, namely implementing systems for collecting and recycling packaging from customers; increasing the share of green products; and ensuring that a percentage of employees are given the opportunity to become shareholders in the firm.

As with other recent ESG-linked transactions, Kersia already tracks its sustainability criteria and has been measuring these KPIs since last year. The firm has also been ambitious in its targets and must make headway with its sustainability goals even to avoid the margin on its senior debt ratcheting wider — if there is no tangible improvement year on year, a malus of up to 0.075% applies.

While there is no sign yet that sustainability-linked pricing is going to become the norm in the European leveraged loan market — participants stress that the mechanisms remain bespoke to individual issuers, and criteria cannot simply be laid on top of any business model — there are likely to be more on the way. Fund managers say they receive lots of enquiries from their own investors about ESG-linked assets, and as long as the ESG focus shifts the final risk/reward calculation, they are positive about the growth of the market.

"It will become more typical," said one senior banker this week. "We're still in a stage of working out how it works, but sponsors and investors are all interested in doing something there, so we're all congregating in that space."

Last year, Spanish telco **Masmovil** became the first leveraged loan borrower in Europe to incorporate ESG criteria into its financing, with a €100 million revolver and a €150 million capex line both including an ESG rating from a third-party provider with a linked margin ratchet. Following that, a funded term loan backing The Carlyle Group's takeover of a minority stake in Spanish-based **Jeanologia** marked Europe's first sponsored transaction with ESG-linked pricing. Earlier this year, packaging firm **Logoplaste** amended its outstanding term loan to include a pricing ratchet linked to ESG factors, making it the first institutional transaction to include sustainability language.

Both Jeanologia and Logoplaste are backed by Carlyle, while Kersia marks the first syndicated institutional transaction from a firm in the IK Investment stable to include sustainability language.

Last month, the financing backing Baring's takeover of **Utac Ceram** included the first ESG-linked unitranche financing, with pricing reviewed annually based on the achievement of five pre-defined ESG criteria.

"It's very high on the list of priorities for investors," said one market participant this week. "There have been very few deals so far in leveraged finance with this structure. I think it's an admirable idea, although I wait to see how it works in practice."

Indeed, some cynicism remains about adding sustainability-linked ratchets to debt, with some market participants calling them a gimmick, and noting a preference for structures where ESG criteria are worked into every part of the financing.

"Green bonds have a very clearly defined purpose and a material benefit," said one source. "I feel more cynical about just including a small ratchet for sustainability-linked pricing. The parameters are self-defined and self-fulfilling, and I can't help but feel it will have less impact."

Others say that the pricing ratchet is less important to them, as ESG is central to their investment policy.

"Every company we invest in should be striving to improve their ESG," said one fund manager. "We're not going to change our view or go into a deal for the sake of 7.5 bps."

The senior debt package backing the buyout of Kersia by IK Investment comprises a €350 million seven-year term loan B and a €70 million delayed-draw TLB, and a €100 million 6.5-year revolving credit facility.

TLB primary issuance

Issuer name	Launch date	TLB size (million)	TLB spread (E+)	Offer price	YTM %	Total/1st Lien leverage
Hypred SA	Nov 12, 2020	€350	412.5	98.00%	4.46%	N/A / N/A
Barentz	Nov 11, 2020	€325	437.5	98.00%	4.81%	N/A / N/A
Sapec Agro SA	Oct 22, 2020	€80	450.0	98.75%	4.81%	N/A / N/A
Konecta	Oct 21, 2020	€100	500.0	98.00%	5.57%	N/A / N/A
ANGUS Chemical Company	Oct 20, 2020	€300	400.0	99.00%	4.24%	N/A / N/A
CRH European Distribution	Oct 20, 2020	€220	500.0	98.50%	5.41%	N/A / N/A
Ineos Group Ltd	Oct 19, 2020	€375	300.0	99.00%	3.72%	N/A / N/A

Leverage is based on public sources

Source: LCD, an offering of S&P Global Market Intelligence

The term loan is talked at E+400-425 offered at 98.5, to yield 4.33%-4.59%. The term loans are cov-lite and have six months of 101 soft-call protection, while the RCF carries a springing covenant. Commitments are due on Nov. 25.

The takeover is also backed by a €50 million PIK tranche held at the holdco level. This tranche has been provided by two investors, sources note, and is priced at E+975.

IK Investment announced its acquisition of Kersia from Ardian in October. The group was previously funded through an unrated facility provided by a group of relationship banks and institutional investors.

CLO round-up: Shake out

With just over a month or so of potential issuance remaining before the year-end, it remains to be seen where liabilities further down the stack will shake out following October's flurry of deals that pushed spreads a touch wider.

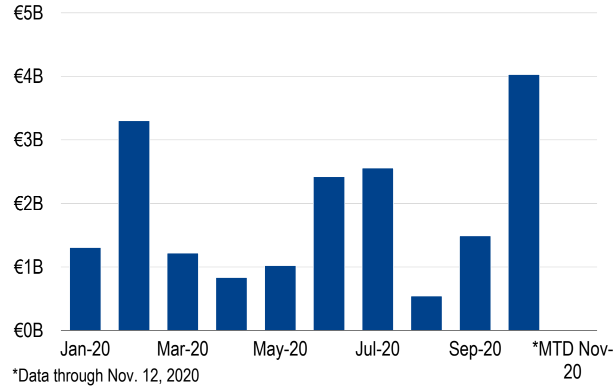
Pricing appears to be contained at 110 bps on triple-A notes, as evidenced by the 110 bps guidance released by Goldman Sachs this week for Bain's first European CLO of the year, the €304.4 million Bain Capital Euro CLO 2020-1.

"The CLO market had a very good October," said one CLO manager away from that transaction. "Now in November, triple-As were 115 bps, but are now 110 again — there is a lot of demand for triple-A paper," they added.

Bain comes to the primary market following a one-year absence. The manager's last new issue was the €405 million Bain Capital Euro CLO 2019-1, which priced in November 2019, via Natixis. That said, the manager issued one CLO only last year and in 2017 too.

Lower down the stack, pricing is guided at 175-185/270-285/L400s/700-750/900-950 bps from the double-A to single-B floating rate notes. "Lower down the stack is tricky as the buyer base is so thin and there was so much supply in October that it became saturated," commented the first manager.

Monthly CLO volume



Source: LCD, an offering of S&P Global Market Intelligence

Support level

The conclusion of the U.S. election and Pfizer Inc.'s announcement this week that it has created a vaccine with 90% efficacy could well provide another market support level, alongside central bank stimulus.

Consequently, no one expects markets to trade off aggressively now, and this positive news provides further much needed macroeconomic support for credit, all of which "bodes well for a healthy pipeline in loan new issuance into the year end, and confidence for CLO liability investors to deploy before the year is over," comments a CLO manager.

As regards liability costs, "The vaccine has impacted all markets and mezzanine has been tighter in secondary since the announcement, although not much has traded," noted a second manager.

Indeed, on the secondary side, TwentyFour Asset Management wrote on November 11 that it had observed a rally in spreads since the Pfizer vaccine news as well as the

Priced European CLOs

Priced CLO	Arranger	Size (€)	Priced date	AAA (Coupon)	Risk retention
Dryden 79 Euro CLO 2020	Credit Suisse	351	10/9/2020	E+120	Originator/Vertical slice
Bastille Euro CLO 2020-3 DAC	Citigroup	301.225	10/9/2020	E+115	
Ares European CLO XIV	Goldman Sachs	306.7	10/9/2020	E+112	
Henley CLO III	BNP Paribas	353	10/14/2020	E+110	Originator/Horizontal slice
Sculptor European CLO VII	Barclays Capital	315.75	10/22/2020	E+110	Originator/Vertical slice
Voya Euro CLO IV DAC	JP Morgan	253.00	10/23/2020	E+115	Originator/Vertical slice
Penta CLO 8	Credit Suisse	350.95	10/23/2020	E+115	Originator/Horizontal slice
Sound Point Euro CLO IV	Citigroup	340.2	10/26/2020	E+110	
Hayfin Emerald CLO V	Goldman Sachs	345.6	10/28/2020	E+110	Originator/Horizontal slice
Palmer Square European Loan Funding 2020-2	JP Morgan	299.9	10/29/2020	E+87	Originator/Horizontal slice

Source: LCD, an offering of S&P Global Market Intelligence

US election, with double-B notes tightening up to 80 bps in the two days prior.

Further, in a report published today, analysts at Deutsche Bank observed that spreads had tightened throughout the stack following the U.S. election result. Analysts observed that triple-As had tightened by 10 bps to 142 bps, double-As by 25 bps to 205 bps, single-As by 40 bps to 265 bps, and triple-Bs by 65 bps to 375 bps.

"BB/Bs are also materially tighter at 650/930 bps for similar expected duration versus 765/1025 bps preelection in late October," the Deutsche Bank report said, which looked at generic levels for tranches with two years to the end of their reinvestment period.

Meanwhile, new European CLO issuance currently stands at €18.7 billion from 56 transactions, with a further five to seven deals expected to add to that total before year end, including the aforementioned Bain deal as well as Bridgepoint's debut which is being marketed by Barclays.

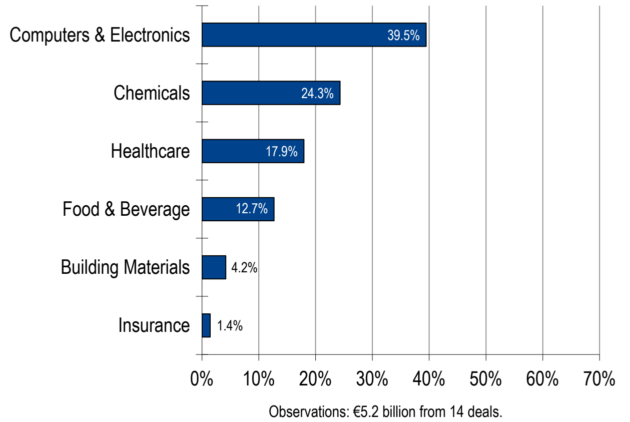
This compares to €27.8 billion from 67 deals priced during the same period last year. The total for 2019 was €29.82 billion from 72 deals.

However, indicative forecasts point to an increase in CLO supply next year. On November 8, analysts at J.P. Morgan forecast new European CLO supply of €25 billion in 2021.

In a research note published this morning, analysts at Barclays forecast €25-30 billion in primary CLO supply in 2021, comprising roughly €15-20 billion in net new supply and €10-15 billion of refinancings and resets.

"We think primary CLO supply will continue to improve as CLO investors now have more clarity around large macro events, but a combination of lower loan supply (versus 2017/2018 levels), further difficulties in raising outside equity capital and a potential floor on AAA spread tightening due to refi/reset supply should keep new issue CLO supply from surpassing recent annual highs," Barclays' analysts wrote.

European leveraged loan issuance, by industry (last 30 days)



Source: LCD, an offering of S&P Global Market Intelligence *Data is through last 30 days

Barclays also estimates that leveraged loans will recover to 2018-2019 levels, forecasting €75 billion of gross issuance and €23 billion of net issuance for 2021.

Mid-market and private debt: Strong hand

In uncertain times, direct lenders are playing a skillful hand to win market share as banks withdraw from the main game to focus on their portfolios rather than providing new money.

"Private debt lenders are more patient than lending banks, and in March/April everybody was working on their portfolio's liquidity, with banks not having the manpower to also chase deals," said Aymen Mahmoud, partner and McDermott Will & Emery.

"If you couple this with the fact that private credit funds continue on deployed capital, there is likely to be continued a desire to transact, and as a result there is a greater advantage in the current context for direct lenders," he added.

GCA Altium highlighted this bank withdrawal in its Q3 MidCap Monitor, released on Nov. 6.

In the UK, direct lending funds have taken significant market share and completed more than 70% of deals in year-

Recent Amendments – Europe

Issuer	Amend date	Original loan date	Sector	Sponsor	S&P ratings outlook	Amendment type
Ponroy Sante	15/10/2020	28/03/2018	Healthcare	3i plc	N/A	A-E
Vue Entertainment	29/09/2020	27/11/2018	Entertainment & Leisure	OMERS Capital Partners	Negative	Cov Relief
AS Adventure	23/09/2020	13/03/2015	Retail	PAI Management	N/A	Cov Relief
Kion	15/09/2020	14/02/2018	Manufacturing & Machinery	Not Sponsored	Stable	Cov Relief
Vistra	15/09/2020	14/11/2018	Services & Leasing	Baring Private Equity	Stable	A-E
TI Automotive	14/09/2020	18/06/2018	Automotive	Bain Capital	Negative	A-E
Pure Gym	10/09/2020	16/01/2018	Entertainment & Leisure	Leonard Green	N/A	A-E

Source: LCD, an offering of S&P Global Market Intelligence

to-date 2020, compared with just under 50% in the first three quarters of 2019, found the survey. Banks are more cautious meanwhile, especially with new-to-bank clients. They are monitoring their portfolios closely, says GCA Altium, and in some instances have provided additional capital to companies that have performed strongly, to fund add-on acquisitions

In France, of the 20 deals closed, 11 were funded by bank lenders, with the remainder financed by direct lending funds. Some 69% of the transactions completed in 2020 so far were LBOs, with 16 in Q3'20. Meanwhile, some 59% of deals in 2020 so far have been bank deals, says GCA Altium, compared to 64% over the same period last year.

While banks have dominated the French market historically, direct lending funds are steadily increasing their market share, demonstrating their resilience and commitment, while credit funds have demonstrated their competitiveness by pricing at pre-pandemic levels for the right high-quality assets. Senior lenders continue to look for new deals, but have shifted their appetite toward more recession-proof credit stories.

In Germany, banks have fought back over the third quarter, found GCA Altium. Banks there completed very few deals in the second quarter — mainly due to general institutional caution and the fact that teams were focused primarily on their existing portfolio companies — but there was a good level of activity in the third quarter, with banks financing 11 transactions, and the same number funded by direct lenders.

"It is not the best time for us, but we are not going anywhere," one Paris-based banker said. "If you see a Tech [sector] auction with an EV of 20x you won't see us there, but for companies with lower EVs and a steady credit story, it would not be a good idea to get an expensive credit."

Deal activity

As flagged by the GCA Altium survey, Germany saw some activity this week. Sponsor TA Associates has put German construction-software company **thinkproject** up for sale, for example, with Arma Partners conducting the process. The company will be marketed off EBITDA in a high-20s (million euros) to €30 million context.

TA Associates acquired thinkproject in 2017, backed by an all-senior debt package provided by NIBC, SEB and Northleaf. There was a recap process over the spring.

Sponsor TSG Consumer has put German cycle manufacturer Canyon Bicycles GmbH up for sale. The company is attracting a lot of interest from sponsors, with sources explaining that the COVID-19 pandemic has put many people off using public transport, and led them to buy bicycles.

LCD Leveraged Loan Stats: Europe (rolling three months)

Leveraged loans	3ME 12/11/20	Sep 2020	Aug 2020
First lien debt to EBITDA	4.8x	4.8x	4.5x
First+second lien debt to EBITDA	4.9x	4.8x	4.5x
Total debt to EBITDA	4.9x	4.9x	5.1x
Sponsored loans			
First lien debt to EBITDA	5.3x	5.0x	5.0x
First+second lien debt to EBITDA	5.5x	5.0x	5.0x
Total debt to EBITDA	5.5x	5.0x	5.3x

Source: LCD, an offering of S&P Global Market Intelligence

The EBITDA calculation could be an issue however, as the figure could be anything between €50 million and €70 million, depending on how it is budgeted. In addition, the company does not address a massively differentiated market. Baird is conducting the sale. Lenders are working on a debt quantum of roughly €400 million, including a revolving credit facility, sources said.

In France, sponsor Eurazeo has mandated Macquarie Capital to conduct a sale of French hairdressing group **Dessange International**. The company is marketed off EBITDA of €14 million. Teasers have already been sent to prospective buyers.

Sources have expressed surprise about the timing of the sale as consumer-facing brick-and-mortar assets are not very attractive amid the COVID-19 pandemic. However, the market is looking at the asset with interest, they note.

Sponsor Naxicap is planning to refinance the debt of **Altares**, a French data management company. Lazard is advising the process. The company is marketed off an EBITDA of around €18 million, but only has around €6 million of capitalized R&D, which worries potential lenders, as it implies a relatively low cash flow. The company is looking to refinance at around 5x EBITDA. Lender education was held recently. The incumbent lender is Alcentra.

Finally, people moves are generally a sign of market strength, and news emerged this week that Floris Hovingh has left Deloitte to join Alvarez & Marsal's European debt advisory unit in May as managing director. Hovingh was partner and head of alternative capital solutions at Deloitte. Alvarez & Marsal launched its new debt advisory practice in Europe earlier this year with the appointment of Tim Metzgen as London-based managing director to lead the unit.

— David Cox, Francesca Ficai, Nina Flitman, Luke Millar, Michael Rae, Isabell Witt

High-yield market: Shot in the arm

Monday morning hosted a small flurry of new deal launches, indicating recognition that market conditions were good in the wake of greater clarity as to whom the winner of the U.S. election was. Little did leads know that they were about to receive a monumental shot in the arm that would support their deals significantly, but once news broke from Pfizer that it has developed a COVID-19 vaccine with 90% efficacy it was clear that market conditions were far stronger than they could have envisaged.

The improved tone and conditions were most clearly highlighted by PureGym. Leads have been on the cusp of launching the €445 million transaction many times, firstly just before COVID-19 hit, and in recent weeks there had been many "go, no-go calls," only for lockdown measures and softening markets to scupper the launch.

Finally there was what looked a stable window, and leads went out with initial price thoughts (IPTs) of 5.5% coupon (this was set as it is an underwritten deal) and an OID in the high-80s. Less than a few hours later, the leads received news they could only have wished for, and that set the scene for significant tightening in guidance.

Vaccine news is a key development for PureGym as it has been buffeted by lockdown measures in the U.K., which have led to closures for its gyms, and investor feedback has regularly been, in a nutshell, that it is a "great credit in a struggling industry." Now there is a path to normality, and suddenly real-money accounts were clamouring to add risk, more specifically COVID-impacted names, to their portfolios to try and cash in on the rally in secondary.

Consequently, this primary transaction was suddenly much more appealing, and orders started rolling in. This led to a procession of reverse-flexes, first to 90-92, then to 92-94, and finally to 94-95. The 95 price felt to be as much as leads could push it though, even here the book was roughly €1.2 billion. This price action was also supported by a rally in its sterling 6.375% notes, with the same maturity date as the new bonds (February 2025), which rose four points to 92.75 yielding 8.6% (they are now 94.5).

Some real-money accounts comment they chased the new deal, and while they were obviously less keen at 95, they admit they have a decent deal as the first call is January 2022 at 102.75, meaning there is close to eight points of upside should the credit emerge from the crisis, perform, and then refinance. Naturally that is a lot of "ifs" to consider, but the very fact that this is how people are looking at the trade is an indication of the marked change in attitude over recent days.

High-yield stats			
€ billion	This week	Last week	Change
Volume (pro forma)	€ 2.06	€ 0.08	€ 1.98
Trailing 4-week average	€ 1.80	€ 2.49	€ -0.69
Flow-name price	100.41	101.27	-0.86
Flow-name yield (%)	4.19	3.98	0.21
YTD issuance	**2020**	**2019**	**Change**
Volume	€ 74.06	€ 64.85	€ 9.22

Source: LCD, an offering of S&P Global Market Intelligence

Note: Current week is pro forma for any paper expected to price on Friday

Proceeds from the new B3/B- rated bonds repay the bridge placed to support its acquisition of Fitness World.

Sterling silver

Meanwhile, there was a distinct U.K. make-up to high-yield primary activity this week, with five of the six borrowers all stemming from these shores. Indeed, sterling bond supply mirrors the classic English saying about London buses — you wait ages for one, and then a flurry comes at once (though only three of the four UK names are issuing in their domestic currency).

In fairness, there were two sterling issuers last month, namely Rolls-Royce and Lowell, helping to push the year-to-date sterling volume to €6.5 billion-equivalent and beating full-year volumes for the last two years. Nevertheless, 2013, 2014, 2015 and 2017 all recorded notably more than this, for an average of €11.5 billion. In short then, 2020 might be better for sterling issuance, but it is far from a stellar year.

This is also evident in the sterling bond count for the year, which was 12 coming into this week. At this same point in the year, only 2019 and 2012 had a lower count in the period stretching back to 2010. The average for the four aforementioned years at this point was 36.

The volume and bond count were boosted this week though, as Travis Perkins and Thames Water both raised £250 million each, Encore took down an increased £300 million, while Marks & Spencer also issued £300 million as it uses proceeds to finance a tender offer for its £300 million of 6.125% notes due 2021.

This was the first new issue from M&S since becoming a fallen angel in March and it raised a book of more than £2.1 billion, indicating hefty demand. This enabled pricing to tighten markedly, from 4.75% IPTs to a final print of 3.75%.

Elsewhere, Travis Perkins raised a book of more than £1.6 billion (pre-reconciled), and priced its 5.25-year offering at the tight end of 3.750%-3.875% price guidance, which is tighter than where its 2023s were trading before the new-issue announcement (101.4 yielding 3.96%).

Despite the secondary pricing point, some commented the bonds still looked cheap versus other five-B or high-double-B rated issuers, with Drax for example pricing at 2.625% late last month.

Either way, the British builders' merchant and home-improvement retailer, with a market cap of roughly £3.1 billion, is using proceeds from the new bonds for general corporate purposes, which may include repaying upcoming debt maturities.

Meanwhile, Thames Water slashed its cost of capital significantly with £250 million of 4.625% notes due 2026, which will refinance 5.875% notes due 2022. This was tighter than guidance of 4.75%-5%, and from IPTs of low-5% area. The 2022 bonds are not callable so will be taken out via a tender offer, at a tender price of 104.5. The new notes are rated B1/B+.

The final sterling deal of the week also benefitted from strong demand, with Encore Capital able to both increase the size of the 5.25-year, Ba3/BB+ rated, bonds by £50 million and print at 5.375% versus guidance of 5.625% area. Total proceeds will be used to part-refinance the borrower's £512.5 million of 7.5% secured notes due 2023 at 101.875.

This was the company's second deal in a few months, having in September issued €350 million of 4.875% secured notes due 2025 at 98.889, which were up at 101, yielding 4.6% ahead of the new issue, and consequently the new sterling bonds come in line with what bankers say is a more typical 75 bps pick up between sterling and euro bonds (though the sterling are longer-dated).

A flurry of U.K. names in a week is eye-catching, but bankers say this is coincidental and a consequence of the tight window to year-end.

Indeed, Travis Perkins and M&S are beholden somewhat to the fact they are PLCs, and needed to put out trading updates to a strict calendar first. Thames Water is understood to have moved more quickly because the window is too attractive to miss, while PureGym presumably needed the U.S. election out the way to ensure it was not hit by volatility.

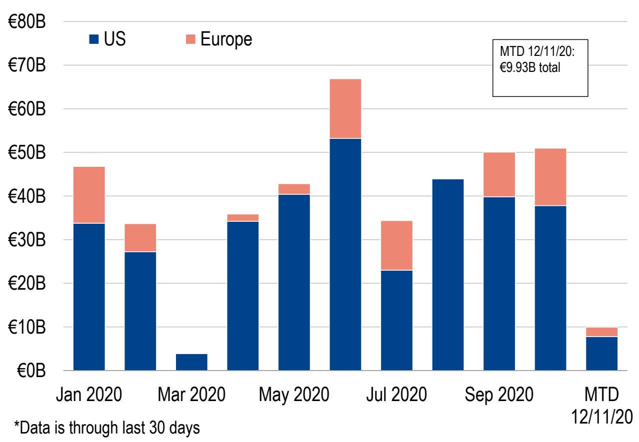
The one non-U.K. deal this week was ADLER Group, which was also the first to highlight the benefit of the Pfizer breakthrough as it launched on Monday before the news, and priced at the end of that day.

It launched with IPTs at 3.625% area, with guidance tightened after the news to 3.25% area, which is a larger-than-typical jump, even when taking into consideration the usual syndication tactic of starting with wide IPTs to generate demand and then cutting pricing. Final pricing here was a yield of just 3%.

Granted, a roughly €1.8 billion book for a €400 million deal means a cut to pricing is merited, but even so one of this size is rare, though as the week progressed others followed suit to similar degree.

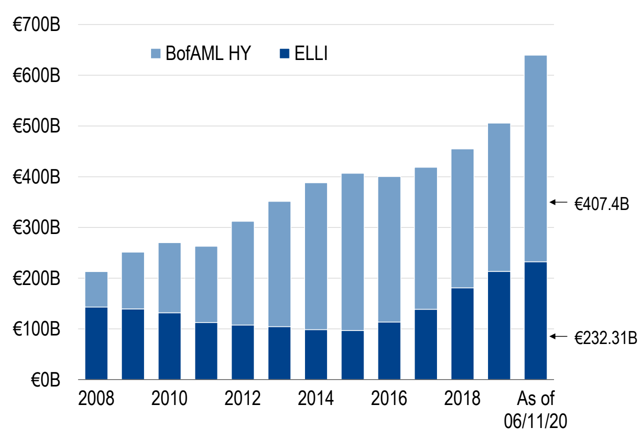
— Luke Millar

Global high-yield volume by month, U.S. versus Europe



Source: LCD, an offering of S&P Global Market Intelligence

Par amount outstanding, ELLI versus MLHY



Sources: S&P European Leveraged Loan Index; BAML European HY Index

Distressed: Chasing normality

News about a potential breakthrough for a vaccine for COVID-19 had markets generally rallying this week, with those pandemic-exposed and distressed names that had been badly beaten up in recent months trading higher, amid hopes of a return to normal life and business conditions.

Cineworld loans, for example, shot up 10 points on Monday to 65-bid, from 55 last week, and by Thursday rose close to 67, even though the cinema group has already commenced restructuring discussions with lenders. **Vue International** loans, which were already better-bid last week after receiving close to £100 million of new liquidity, continued to rise to around 84-bid this week, from around 78 last week. Theme park operator **Parques Reunidos** loans rose to 88.5 by Thursday from 81 last week. Even heavily punished names such as bridal wear company **Pronovias**, which traded in the low-30s earlier this year, rose to 65.5 this week, from 57.75 last week.

Not all names reacted as dynamically. Tech services firm **Comdata** was in focus this week amid talk that owner Carlyle tabled a restructuring proposal that includes a write-down on the debt. Its TLB moved slightly higher to 58 from 56 last week. PAI-backed AS Adventure remains bid around 43.5, in line with the last two. It had dropped from 50.5 at the end of October, as lenders and PAI are engaged in negotiations to find a solution to restructure the group and inject liquidity.

While financial market sentiment has improved this week on the back of the Pfizer/BioNTech vaccine news, it is uncertain exactly when the current second wave of the pandemic will be contained. “Macro-economic trends and market conditions could turn adverse if infection rates rise significantly and put a brake on recovering economic activity before a vaccine is widely available,” Moody’s said in its October 2020 Default Report, in which it notes that global default rates are at 6.5%. S&P Global Ratings default rate number is slightly lower at 5.1% globally.

Still, while some investors are hopeful that the vaccine news will keep defaults fairly low, both Moody’s and S&P expect the rate to rise next year. S&P Global Ratings commented on Nov. 2 that it expects the S&P/LSTA Leveraged Loan Index lagging 12-month default rate (by number of issuers) to increase to 8% by June 2021. Meanwhile, the European trailing-12-month speculative-grade corporate default rate could rise to 8.5% by June 2021, S&P Ratings estimated in August.

Moody’s forecasts that the global default rate will rise to 7.2% at the end of 2020, up from the long-term average of 4.1%, and peak at 8.1% in March 2021 before dropping back to 6.3% by October 2021. These forecasts incorporate ongoing economic recovery expectations under the Moody’s baseline macroeconomic scenario.

Debt restructurings

In other credit-specific news from the last seven days, **PizzaExpress** and **New Look** have completed their debt restructurings, and both borrowers have handed keys to bondholders as new owners of the business and obtained new financing.

PizzaExpress’ transaction cuts debt from £735 million to £319 million, and includes the immediate injection of £40 million of new capital from existing secured creditors. In addition, the business has a further £90 million tranche available from the new owners. The funds are expected to get the company through a second lockdown. The existing 6.625% of notes due 2021 issued by PizzaExpress Financing 2 and 8.325% notes due 2022 issued by PizzaExpress Financing 1 PLC have been delisted from Euronext Dublin. The firm is also the first leveraged finance borrower to have tested the U.K.’s new Restructuring Plan procedure, which the government introduced over the summer.

The debt-for-equity swap for New Look was implemented via a scheme of arrangement and Company Voluntary Arrangement, and cuts the firm’s senior debt to roughly £100 million from £550 million. This involved an exchange of the firm’s £440 million of secured notes due 2024 into a £40 million subordinated shareholder loan due 2029 (no interest), as well as 20% of non-voting equity interest.

In addition, secured noteholders provided a new £42 million, seven-year junior capital tranche at holding company level (paying 16.5%, issued at a price of 95), in return for the remaining 80% equity in the company. Tenors on the firm’s primary working capital facilities have been extended, releasing the company from the pressure of near-term maturities.

Meanwhile, Spanish supermarket chain **Distribuidora Internacional de Alimentación SA**, also known as DIA Group, looks set to undergo its second restructuring, only 16 months after completing its last. The firm this week announced a 2.5% increase in Q3’20 net sales and a 6.3% growth in like-for-like sales. However discussions with shareholder LetterOne Group and lenders to address a long-term financing and capital structure are underway again, amid its €302.1 million bonds becoming due in April 2021. DIA’s adjusted EBITDA was up at €32 million in Q3’20, versus €16 million in the same quarter last year. Net profit remains negative €58 million, compared to negative €86 million last year, with the measure impacted by currency effects in Brazil. Net financial debt was €1.25 million, with cash of €414 million.

— Isabell Witt

Secondary markets: Risk on

Bond investors are clamouring to add risk, fund managers say, mindful that the Pfizer vaccine news has left some portfolios undercooked in terms of COVID-19-impacted names. The "dash for trash" sees accounts trying to rotate out of tight double-Bs and COVID-winning names, while hunting underperformers that are arguably no longer underperforming. This is also putting the heat under primary, with PureGym the flagship deal this week, and the perfect example of how the current technical has boosted certain sectors.

PureGym this week priced its €445 million bond issue at 95, having gone out with IPTs in the high-80s just before the vaccine news broke. At final pricing the book is understood to have been in the region of €1.2 billion, and the excess demand led the bonds to rally to 96.25-bid on the break, edging higher to 96.50.

Even at 95, some real-money accounts say they have a decent deal as the first call is January 2022 at 102.75, meaning there is close to eight points of upside should the credit emerge from the crisis, perform, and then refinance. They also admit they chased the deal to get into the book on Monday as they seek to add COVID-19-exposed risk to portfolios, and the very fact that this is how people are looking at the trade is an indication of the marked change in attitude over recent days.

Another indicator of this dynamic is names that have underperformed and outperformed in secondary. **SIG Combibloc**, for example, priced 1.875% notes due 2023 earlier this year at par. They have shed close to a point to 102.6 over the three days through Thursday. Likewise, **Crown Holdings** 2.875% notes due 2026 are down nearly a point at 106.7. Both are from the typically much-loved packaging sector, but such names are now the ones being squeezed out — partly due to a move in rates, and partly to make room for names with more upside potential.

Then there are the "COVID winners" that had still done well amid concerns about the impact of the pandemic and lockdowns on economies, and which will now see the wind come out their sales a little. **Netflix** is one such example, with its 3% notes due 2025 down close to a point over three days to 106.1.

In contrast, riskier names in the COVID-impacted world have rocketed. **Merlin** issued 7% notes due 2025 as the first deal out after COVID hit, and they are up 6.5 points over the last week to 103.8. **Stonegate** meanwhile was dragged over the coals in the summer, pricing 8.25% notes due 2025, which have soared 7.5 points to 100.5. And **Carnival Corp** effectively needed rescue financing from all corners, pricing 10.125% notes due 2026 (the highest-yielding euro bonds in four years), which are up roughly five points at 112.5.

High-yield break prices

Name	Issue	Issue price	Break price	New-issue yield	Break yield
Encore Capital Group	Senior Secured Notes	100.00	100.50	5.38%	-
Marks and Spencer	Senior Notes	100.00	100.50	3.75%	-
Pure Gym	Senior Secured Notes	95.00	66.63	6.88%	-
Thames Water	Senior Secured Notes	100.00	100.75	4.63%	-
90-day average		**99.57**	**98.55**	**4.15%**	**N/A**

Source: LCD, an offering of S&P Global Market Intelligence

In reality though, while some names have softened a touch, what fund managers by and large all agree on is that it is hard to be anything but very constructive on credit. Central bank and government stimulus is here to stay for some time, and defaults will likely now be lower, as a path to normality can be seen.

Moreover, as we head towards the winter months there had been question marks around companies that raised liquidity six months ago but need more now to keep going, and whether they could raise that extra money. This week's news makes it much more likely they will be given it. This may lead to more primary supply too, as relationship banking lines and government handouts only have so much dry powder.

A sobering thought — albeit looking ahead to 2022/23 — was raised by one investor source, who noted that refinancing deals at that point will be fraught, as companies are likely to have sky-high leverage by then. For now though, primary and secondary markets are extremely well supported technically, and eight months since the world looked a very scary place, some investors are now actively trying to add more risk to their portfolios.

Performing names

For now, new issues are pricing notably tighter than guidance and still performing. Away from PureGym, **Marks & Spencer** issued its first bond as a fallen angel, with the £300 million of 5.5-year bonds generating a near 7x covered book. They priced 25 bps inside fair value, according to a lead, with the 3.75% notes rising breaking at 100.5, half a point above re-offer. The issue then edged higher to 100.625.

Encore priced its upsized (by £50 million), £300 million issue of 5.25-year bonds at 5.375% and par, versus guidance of 5.625%. This slash in yield did not affect its performance on the break, as it also rose to 100.5. A softer market on Friday morning though had the paper back at 100.25.

A month in loans

The week in loans felt more like a month at times, as markets surged on the vaccine news to take returns in the European Leveraged Loan Index (ELLI) into positive territory for the year. The average bid on the ELLI also broke into a post-COVID record on Monday to finish the week at 96.27, or less than two points away from its 2020 high reached in January.

The market was already in a buoyant mood on Monday following confirmation over the weekend of a result in the U.S. presidential election, when news of the vaccine broke. And as equities surged much of the credit market immediately turned bid-only as accounts began to digest the implications of the Pfizer news.

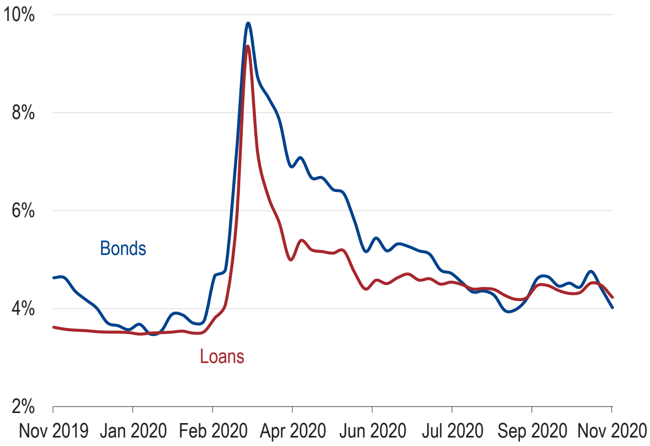
The primary beneficiaries were discounted names across COVID-exposed sectors such as theme parks, tourism, cinemas and aerospace, which all moved up between five and 10 points on average. Offers were also adjusted up and the week saw some decent trading, with signs of profit-taking from distressed investors starting to appear by Thursday.

This still left accounts gasping at the performance of individual names. In theme parks, for example, **Parques Reunidos** moved up by 10 points into a rough 90 bid, while **PortAventura** was stronger by around five points, also in the low-90s. Merlin, meanwhile, was up by six points or so to a rough 93 bid before stepping back a little on Friday.

In the cinema sector **Vue** consolidated and added to gains that came last week after it disclosed a new £93.75 million liquidity financing. This took total gains on the borrower's E+475 term loan to 12 points to leave it in the mid-80s by Friday. Sector peer **Cineworld**, meanwhile, was up 12 points to a high-mid-60s bid amid a strong showing from the group's London-listed shares.

These, however, are just a selection of the moves that sent names moving with a velocity unseen since prices collapsed back in March. For some the speed was overdone given the clear challenges that remain in terms of both vaccine deployment and the longer-term economic impact of the pandemic. Indeed, more than one account said the strength could be an opportunity to exit some more vulnerable names. Others countered and said the news marked the beginning to the end of the disruption. "For large cap European corporates this crisis has always been about liquidity and a vaccine," said one manager.

Average yield: bond vs. loan flow names



Sources: LCD, an offering of S&P Global Market Intelligence; Bloomberg; Markit

iTraxx Europe Crossover Index

Source: Markit

Par names also strengthened, though their room for gains is clearly more limited. Even so, these were up generically by 0.5-1 points on the bid, with good two-way flow and a slight skew to selling of high cash priced names, sources noted. **Ineos**' latest loan, for example, was up back up to its 99 reoffer after what has been a generally weak performance since allocations. **Virgin Media**'s E+325 2029 loan was back through its 99 issue price to be up by around a point on the week into a rough 99.75 bid.

Single-name news came this week from **EG Group**, which updated investors on its Q3'20 results on a call on Thursday. Before this it emerged the firm had received investment from Abu Dhabi sovereign wealth fund ADIA alongside Canadian pension funds AIMCo and PSP through new preference shares.

The deal is said to value the group at more than $20 billion, with shareholders Issa brothers and TDR expected to use the proceeds to support their acquisition of U.K. supermarket Asda. In a statement, EG said the proceeds will not be for use by, or change the ownership of, the group.

On the call the firm laid out a positive set of results, with a record quarterly EBITDA up 90% on a reported basis and up 54% on a like-for-like basis. Net debt stands at $8.483 billion with a liquidity headroom of $1.382 billion. EG Group also confirmed the hire of John Carey, a former executive at both BP and ADNOC, as a non-executive director as it moves to address governance concerns.

Through the week, EG's euro term loan was marked up by as much as three points to around 97.875 on the bid, before stepping back to a 97.50/98.375 market by Friday.

— Luke Millar, David Cox

S&P European Leveraged Loan Index (ELLI)

Total returns *	ALL	LBO	€	€ LBO	BB	B
Week ended 6/11/20	0.43%	0.44%	0.45%	0.48%	0.29%	0.45%
Week ended 30/10/20	-0.51%	-0.54%	-0.56%	-0.61%	-0.38%	-0.51%
31/12/2019 - 6/11/2020	-0.55%	-0.58%	-0.14%	-0.07%	0.40%	-1.09%
31/12/2018 - 6/11/2019	3.82%	3.81%	3.57%	3.57%	3.75%	3.98%
Market-value returns						
Week ended 6/11/20	0.37%	0.39%	0.38%	0.40%	0.24%	0.39%
Week ended 30/10/20	-0.62%	-0.66%	-0.63%	-0.68%	-0.46%	-0.63%
31/12/2019 - 6/11/2020	-3.40%	-3.55%	-3.33%	-3.45%	-1.73%	-3.99%
31/12/2018 - 6/11/2019	0.27%	0.06%	0.41%	0.24%	1.23%	0.24%
Interest returns						
Week ended 6/11/20	0.07%	0.08%	0.07%	0.08%	0.06%	0.08%
Week ended 6/11/19	0.07%	0.08%	0.07%	0.07%	0.05%	0.07%
31/12/2019 - 6/11/2020	3.36%	3.56%	3.30%	3.50%	2.38%	3.49%
31/12/2018 - 6/11/2019	3.23%	3.40%	3.16%	3.33%	2.34%	3.38%
Weighted Average Discounted STM (bps)						
6/11/20	537.67	574.10	527.74	562.16	372.53	516.63
31/12/19	442.13	473.99	432.23	462.97	298.88	451.66

Weighted avg. bid	ALL	LBO	€	€ LBO	BB	B
As of 6/11/20	95.28	94.80	95.43	94.98	98.58	96.37
As of 30/10/20	94.90	94.42	95.04	94.59	98.30	95.94
As of 6/11/19	97.86	97.38	98.00	97.56	99.85	98.00
Par outstanding (in billions)						
As of 6/11/20	€ 233.7	€ 171.4	€ 220.4	€ 159.6	€ 32.0	€ 174.6
As of 30/10/20	€ 232.0	€ 171.0	€ 218.7	€ 159.1	€ 30.7	€ 174.9
As of 6/11/19	€ 209.7	€ 154.5	€ 195.1	€ 141.7	€ 31.7	€ 159.1
Market value (in billions)						
As of 6/11/20	€ 222.6	€ 162.5	€ 210.3	€ 151.6	€ 31.5	€ 168.3
As of 30/10/20	€ 220.1	€ 161.5	€ 207.8	€ 150.5	€ 30.2	€ 167.8
As of 6/11/19	€ 205.2	€ 150.5	€ 191.2	€ 138.2	€ 31.7	€ 156.0
Number of facilities						
As of 6/11/20	402	313	364	279	45	288
As of 30/10/20	399	312	361	278	43	289
As of 6/11/19	374	299	328	258	42	272
Average tenor						
As of 6/11/20	4.72	4.61	4.73	4.64	5.07	4.72
As of 31/12/19	5.10	4.97	5.10	4.96	5.22	5.15

* The total returns for the multicurrency indexes are composed of market value, interest and currency components.

Source: S&P European Leveraged Loan Index

The ELLI distress ratio — defined as the share of performing loans trading below 80 — was 6.67% for October, down from 6.83% for September. At the end of 2019, the ratio stood at 3.4%.

Using a start date of Dec. 31, 2003, the Sharpe ratio for the ELLI (based on total return excluding currency) was 0.51 at the end of October, down from 0.63 at the end of October 2019. The Sharpe ratio for the MLEHY at the end of September was 0.61, lower than 0.67 at the end of October 2019.

LCD European flow names

The average bid of LCD's European loan flow-name composite rose 141 bps during the five trading days ended November 12, to 97.96% of par. This week, LCD replaced Verisure's €1.7 billion TLB due 2022 with MasMovil's €2.2 billion TLB due 2027. The average is now 233 bps below 2019's closing level.

LCD's broad secondary composite — which reflects a wider universe of deals — rose 216 bps during the week ended November 12, to 91.73%, and is now 219 bps below the 2019 closing bid.

U.S./Europe comparison

The average bid of LCD's U.S. loan flow-name composite gained 77 bps during the week ended November 12, to 98.27% of par. The average bid is 191 bps below the final reading of 2019.

The gap between the average bids of the U.S. and European flow-names narrowed 64 bps this week. This is the seventh-consecutive week the European names have traded at a discount to the U.S. names.

The average bid/ask spread for the U.S. flow names widened five basis points to 66 bps, while the average spread to maturity across the U.S. flow-name composite tightened 19 bps, to L+326. The average spread to maturity of the European composite currently leads its U.S. counterpart by 97 bps.

The U.S. flow names are **Avolon Aerospace**, **BMC Software**, **Change Healthcare**, **Charter Communications**, **Cineworld**, **Dell**, **Grifols**, **Intelsat Jackson**, **Nielsen**, **Reynolds Group**, **Scientific Games**, **Univision**, **Valeant Pharma**, **VICI Properties**, and **Virgin Media**.

The European flow names are **AkzoNobel**, **Ceva Sante Animale**, **Flora Food**, **Merlin**, **Numericable**, **Refinitiv**, **Sivantos**, **TDC**, **Techem**, and **Verisure**.

Leveraged Commentary & Data

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