S&P Global Market Intelligence

LCD European Weekly

Winding down

Concerns over the spread of the Omicron variant of COVID-19 made for choppy conditions in the European high-yield market, which shut the door for opportunistic issuers and forced a number of names to postpone deals. While insulated from the full force of the volatility, the primary loan market now looks set to close out the year without the big-ticket activity that was previously anticipated, while recent widening at both ends of the capital stack in the CLO market has strengthened the case for a quieter end to the year.

Loan volume for the last 30 days is €8.17 billion from 13 deals; high-yield volume is €8.54 billion from 20 deals.

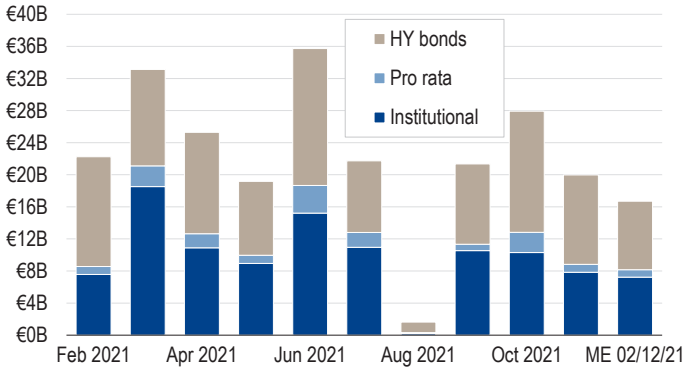
Inside

Secondary loan stats

	All loans	Euro denominated	BB	B
Total returns				
Week ended 12/1/21	-0.12%	-0.13%	-0.06%	-0.07%
Week ended 11/24/21	0.05%	0.05%	0.05%	0.07%
Month to date 12/1/21	0.01%	0.01%	0.01%	0.01%
Year to date 12/1/21	4.41%	4.26%	2.48%	4.19%
Year to date 12/1/20	2.28%	2.28%	1.92%	1.48%
Market value returns				
Week ended 12/1/21	-0.19%	-0.20%	-0.12%	-0.15%
Week ended 11/24/21	-0.02%	-0.02%	-0.00%	-0.00%
Month to date 12/1/21	-0.00%	-0.00%	-0.00%	0.00%
Year to date 12/1/21	0.94%	0.83%	-0.20%	0.65%
Year to date 12/1/20	-1.30%	-1.24%	-0.65%	-2.20%
Average discounted loan spread (E+)				
As of 11/30/21	456.52	450.71	368.47	452.39
As of 11/26/21	455.21	449.40	367.31	451.12
Average bid				
As of 11/30/21	98.73	98.77	99.35	99.13
As of 11/26/21	98.78	98.82	99.40	99.18

Sources: Leveraged Commentary & Data (LCD)
S&P European Leveraged Loan Index

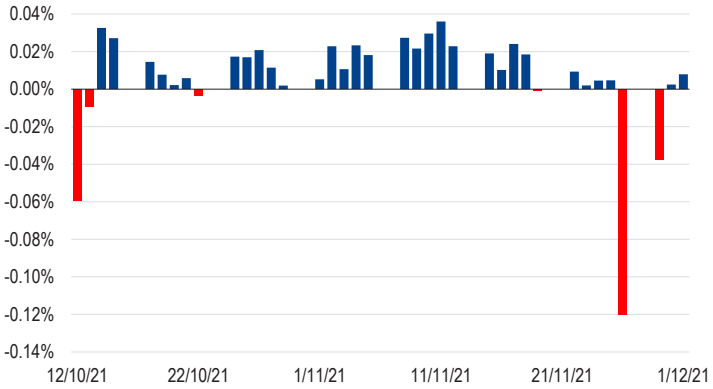
New-issue leveraged finance volume



*Data is through last 30 days

Source: Leveraged Commentary & Data (LCD)

Daily leveraged loan returns



Sources: Leveraged Commentary & Data (LCD); S&P European Leveraged Loan Index

Average institutional flow-name loan bid

Sources: Leveraged Commentary & Data (LCD); Markit

Primary markets: The gentle touch

Europe's primary loan market looks to be on course for a gentle end to the year, as a mix of volatility and risk aversion has almost certainly brought big-ticket activity for 2021 to a close.

That said, European loans remain open, and — in contrast to extremely choppy conditions over in high yield — the market is still delivering decent prints for the right names. For the moment the right names appear to be tested borrowers in well-known sectors, leaving the outlook for new names less clear.

"There is less volatility in loans but investors are being more selective on the deals they want to invest in," said a leading arranger. As a result the expected £2 billion-equivalent loan portion of the £5.4 billion debt package backing CD&R's buyout of supermarket group Morrisons will almost inevitably now be a 2022 affair, despite earlier expectations of a November launch.

New-issue loan market, by the numbers

	Month ended 2/12/21	Nov-21	Oct-21	Last 7 deals
Spread (E+)	401	392	435	420
Floor (bps)	0	4	3	0
OID	99.55%	99.58%	99.06%	99.33%
Yield	4.18%	4.11%	4.64%	4.42%
Observations	12	14	27	7

Source: Leveraged Commentary & Data (LCD)

Adding up

The market is still there for add-on supply, however. This week, for example, KKR-backed **Exact Software** priced a €350 million term loan add-on well through initial guidance at E+400 with a 0% floor offered at 99.75. The deal was initially guided as a fungible add-on but allocated as a standalone tranche after the margin was revised down from talk of E+425. Proceeds are earmarked to repay a second lien loan and support a shareholder dividend, and the new tranche will sit alongside a term loan B1 paying E+375 and the B2 facility at E+425.

Also this week, family- and KKR-owned IT services firm **Devoteam** priced a €265 million fungible add-on to its E+450 term loan at par, from initial price talk of 99.5. Among buyout deals, a group led by left-lead bookrunner BNP Paribas allocated the €340 million term loan backing CVC's buyout of French packaged food company **Panzani** at the tighter end of initial guidance of E+425 with a 0% floor offered at 99.5. The B/B2 rated deal brings a new name to the market, but one that sources note benefits from stable earnings, a strong brand roster and the backing of a popular sponsor. CVC announced in July that it had agreed to buy Panzani — a maker of dried pasta, sauces, couscous and semolina — from Spanish-listed Ebro Group for €550 million.

As these deals suggest, there is still cash to put to work in the early December market. Europe's CLO space continues to be active, and sources point out that triple-A notes on European CLOs are still pricing in the mid-high 90s. This is somewhat offset, these sources add, by some widening in the lower-mezzanine tranches.

Stress signs

There are also some undoubtable signs of stress in loans, and investors appear less willing to take chances on untried names. This is especially the case after a strong year during which loans have outpaced expectations by all measures with total returns excluding currency in the S&P Leveraged Loan Index running higher than bonds, at 4.41%. "Returns this year have been remarkably steady in loans at coupon plus a little capital appreciation," said one manager. "No one wants to risk that at this stage," he added.

Indeed, other names found the market tougher going this week than existing borrowers such as Exact or Devoteam. German education firm **IU Group**, for example, sweetened terms on its €500 million term loan recap to leave final

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

Total volume	2021	2020	YoY Change
Buyout	46.72B	20.53B	128%
M&A (non-LBO)	30.68B	17.71B	73%
Total M&A	77.40B	38.24B	102%
Refinancing	28.36B	15.32B	85%
Dividend	21.46B	6.34B	238%
Other	1.46B	4.21B	-65%
Total	128.68B	64.11B	101%

Institutional volume	2021	2020	YoY Change
Buyout	38.86B	17.37B	124%
M&A (non-LBO)	28.74B	13.72B	110%
Total M&A	67.59B	31.08B	117%
Refinancing	24.42B	13.06B	87%
Dividend	17.87B	4.10B	336%
Other	1.23B	2.82B	-56%
Total	111.12B	51.06B	118%

Sponsored volume	2021	2020	YoY Change
Buyout	46.72B	20.53B	128%
M&A (non-LBO)	21.27B	9.58B	122%
Total M&A	67.99B	30.11B	126%
Refinancing	18.15B	8.83B	106%
Dividend	20.46B	2.57B	695%
Other	1.46B	1.91B	-23%
Total	108.06B	43.41B	149%

Source: Leveraged Commentary & Data (LCD)

pricing at E+500 with a 0% floor offered at 98.5, from initial talk of E+450 with a 0% floor at 99.5. The borrower also tightened docs and extended soft-call protection to a year, with the final OID coming in from an initial revision to 98. IU Group is backed by Oakley Capital which is a sponsor less well known in the large-cap space. The deal also both refinances debt and provides a dividend for the first-time borrower in the widely syndicated space. "Oakley is taking out all of its initial investment and though there is still significant implied equity this is an aggressive ask for a borrower without any track record in the market," said one account. The sponsor first invested in IU back in 2017 in a deal backed by a unitranche financing.

This all means add-ons are likely to form the mainstay of the year's remaining supply, with the window now probably closed for a full-scale syndication. Last year bank meetings continued until Dec. 11, with replies stretching through to Dec. 17 — although the final deals of 2020 did include some chunky repricings. The volatility of the past week suggests such deals are almost certainly not possible for the remainder of 2021, which should leave investors and bankers time to enjoy some gentle relaxation ahead of the Christmas break.

Recent institutional price flexes

	Pricing (spread/floor/OID)		Post-flex
Name	Original	Post-flex	YTM
Devoteam SA	E+450 / 0% / 99.5	E+450 / 0% / 100	4.58%
Exact Holding NV	E+425 / 0% / 99.5	E+400 / 0% / 99.75	4.13%
IU Group NV	E+450 / 0% / 99.5	E+500 / 0% / 98.5	5.37%

Source: Leveraged Commentary & Data (LCD)

Environmentally speaking

If there is one trend that has changed the market in 2021 it is the rise of environmental, social and governance (ESG) clauses and concerns that are now solidly embedded across the European leveraged finance market.

In all, LCD data shows that in the year to Nov. 23, sustainability-linked leveraged loans — i.e. those that carry a margin ratchet linked to ESG-related targets — accounted for nearly a quarter of the year's total European issuance by deal count, or more than a fifth by volume.

But while ESG factors have become a key consideration for borrowers and lenders there is still plenty of work to be done on how deals incorporate them, while the market is also at a critical point in terms of ensuring that the enthusiastic adoption of ESG provisions does not tip over into "greenwashing", whereby an issuer overstates its green credentials to obtain better financing terms.

But as the use of these provisions becomes more widespread, fears of greenwashing have crept into some sections of the marketplace. There is a long way to go to ensure that the ESG-related targets used for leveraged finance deals are standardized and as transparent as they can be, and market participants point to this current phase as a crucial one for the development of this sector.

"We no longer have to persuade anybody that ESG is important, that's pretty clear," says Sabrina Fox, CEO of the European Leveraged Finance Association (ELFA). "But we're now at this 'adolescent' stage, and we need to make sure the market doesn't go off the rails. We have to be so careful with these provisions. They need to be embraced in a healthy way for the market, and we don't want issuers to be seen to be taking advantage of this trend."

Others agree that the speed at which ESG pricing mechanisms have been introduced to the market means there are specific worries that issuers may be setting targets that are not ambitious enough, or that they are not verifying their KPIs in a suitable way.

In European leveraged loans specifically, there is a sense that this product is still developing and may not yet be in its final form. For some time, investors have said they would prefer issuers to face more of a downside if they miss

TLB primary issuance

Issuer name	Launch date	TLB size (million)	TLB spread (E+)	Offer price	YTM %	Total/1st Lien leverage
Panzani SA	Nov 22, 2021	€340	425.0	99.50%	4.41%	N/A / N/A
Exact Holding NV	Nov 18, 2021	€340	400.0	99.75%	4.13%	N/A / N/A
Dedalus Italia S.p.A.	Nov 17, 2021	€150	375.0	99.50%	3.91%	N/A / N/A
Devoteam SA	Nov 17, 2021	€265	450.0	100.00%	4.58%	N/A / N/A
Casino Guichard-Perrachon	Nov 16, 2021	€425	400.0	99.25%	4.29%	N/A / N/A
IU Group NV	Nov 16, 2021	€500	500.0	98.50%	5.37%	N/A / N/A
Syntegon	Nov 11, 2021	€1030	400.0	100.00%	4.06%	N/A / N/A

Leverage is based on public sources

Source: Leveraged Commentary & Data (LCD)

their sustainability performance targets than the potential upside if they achieve them. "There's a question mark over whether we've got it right at the moment by using both a carrot and stick on ESG margin ratchets for loans," said one senior investor. "I don't know whether we might go back on that."

CLO round-up: Open for business

While the new-issue CLO market remains open for business — with four deals pricing between Nov. 29 and Dec. 2 — there was further evidence that the cost of liabilities is widening, with triple-A notes moving towards the high-90 bps region, and lower-mezzanine notes continuing to trend wider.

As the end of the year fast approaches, triple-A pricing has moved away from the 94-95 bps post-summer tight, with this week's new-issue offerings coming in 96-98 bps, and resets at 98-99 bps.

Further down the stack, lower-mezzanine notes continue to drift wider. Since Nov. 26, four deals — including three new issues and one reset — have priced with a single-B discount margin of 970 bps or more, with sources commenting that the challenge for managers recently has been to lock down accounts at the lower-mezzanine level.

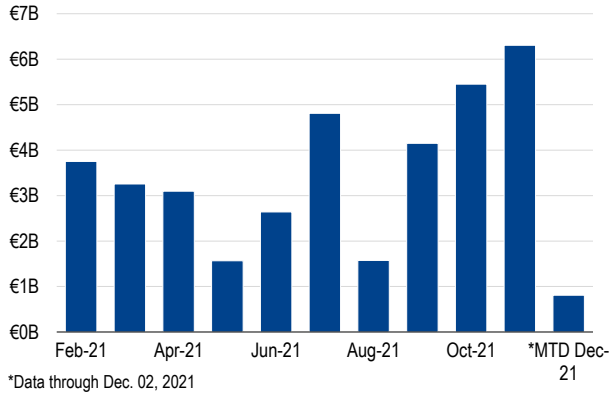
The weighted average cost of capital (WACC) on the four deals to have priced this week (as of Friday morning) came in at around 186-190 bps, according to LCD.

This widening has coincided with broader market disruption from the Omicron variant of COVID-19, but also comes at the tail-end of a record-breaking year for issuance, with year-to-date new-issue European CLO volume standing at €38.22 billion from 93 transactions.

"It seems like issuance is slowing down a bit now and people are trying to close their books, hoping for a vacation soon," commented one CLO note investor.

General uncertainty around the Omicron variant, widening liability spreads and a primary loan market that appears likely to remain quiet for the remainder of December are factors supporting the view that the CLO market will now begin to wind down for the year.

Monthly CLO volume



Source: Leveraged Commentary & Data (LCD)

On the new-issue front, Tikehau, Fair Oaks, Blackstone and Hayfin priced new-issue CLOs totalling €1.62 billion. For Tikehau, it was the manager's first new-issue European CLO since July 2019. The €408 million Tikehau CLO VI priced at 98 bps across the triple-A notes and 178/240/360/660/975 bps from the double-A to single-B notes on a discount-margin basis.

Fair Oaks priced its fourth vehicle overall and first new issue of 2021, having reset its prior three deals earlier in the year. The deal has the tightest WACC (on a coupon-only basis) of the deals to price this week, at 186.22 bps, according to LCD. On a discount-margin basis, the deal priced at 97/178/235/350/660/970 bps from the triple-A to single-B notes.

The tightest triple-A print this week was observed on the €403.7 million Hayfin Emerald CLO VIII, which came in at 96 bps, however the deal also includes a class of A-2, triple-A rated notes priced at 125 bps. The CLO — Hayfin's third new issue of the year — priced at 175/240/350/660/940 bps from the double-A to single-B notes on a discount margin basis.

Priced European CLOs

Priced CLO	Arranger	Size (€)	Priced date	AAA (Coupon)	Risk retention
Cabinteely Park CLO	Credit Suisse	404.2	12/1/2021	E+97	
Hayfin Emerald CLO VIII	Goldman Sachs	403.7	12/1/2021	E+96	Vertical slice
Fair Oaks Loan Funding IV	Barclays Capital	404	11/30/2021	E+97	Originator/Horizontal slice
Tikehau Capital Europe VI	Natixis	408	11/29/2021	E+98	Originator/Horizontal slice
Barings Euro CLO 2021-3	Jefferies LLC	407.45	11/26/2021	E+96	Originator/Vertical slice
Invesco Euro CLO VII	BNP Paribas	407.45	11/26/2021	E+99	
Carlyle Euro CLO 2021-3	Jefferies LLC	408.6	11/24/2021	E+95	Originator/Vertical slice
Palmer Square European CLO 2022-1 DAC	Goldman Sachs	405.9	11/18/2021	E+97	
Bridgepoint CLO 3 DAC	Jefferies LLC	407.9	11/17/2021	E+94	
Ares European CLO XV	Citigroup	511.05	11/15/2021	E+95	

Source: Leveraged Commentary & Data (LCD)

Meanwhile, Blackstone priced its fourth new-issue European CLO of 2021, the €404.2 million Cabinteely Park CLO, taking the manager's total priced volume for the year to €1.62 billion in Europe. The latest vehicle priced at 97/180/230/335/640/950 bps from the top to the bottom on a discount margin basis.

Fortune telling

Looking ahead to 2022, analysts at BofA Securities forecast €37 billion of new CLO issuance and €35 billion of refinancings and resets in the coming year, according to a research report dated Dec. 2. In the report, the bank's analysts note that a "Positive economic outlook, lower default rate, and no maturity wall are all supportive of CLO credit performance. With rates rises, demand for floaters and carry will favour [the] CLO product."

Analysts at the bank see spreads as range-bound for the year, but wrote that they do not rule out early-year spread compression to reflect new allocations, lower expected supply and demand for stable returns.

WhiteStar gravitates to Europe

WhiteStar Asset Management has announced the launch of its European CLO business — WhiteStar Asset Management Europe — with the hire of Brian McNamara and Conor Power from MacKay Shields.

WhiteStar Asset Management Europe will also assume management of MacKay Shields Europe CLO 1 and 2, which total €560 million in assets under management. In addition, the MacKay Shields European loan investment and operations team is expected to join the new platform, forming an eight-person group based in Dublin and London.

The platform is expected to issue new CLOs under the Trinitas Europe brand, and will launch a credit opportunities fund.

WhiteStar today also announced that it is seeking to assume the rights and obligations under the investment management agreements related to MacKay Shields US CLO 1 and 2. As a result, WhiteStar Asset Management will have approximately $10 billion in CLO assets under management through 18 CLO vehicles, hedge funds, and separate account offerings.

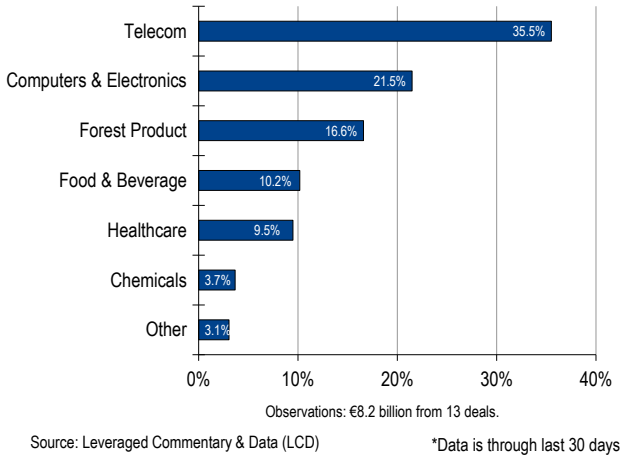
WhiteStar is the CLO, structured products, and broadly syndicated credit arm of Clearlake Capital.

Mid-market and direct lending

Banks have become less willing to provide revolvers to mid-market borrowers over the past 12 to 18 months, according to market players.

This reticence to lend to new-money revolvers reflects banks' focus on their existing portfolios during the pandemic, said Aymen Mahmoud, Partner at McDermott Will & Emery. Banks are also looking for higher returns by lending to the drawn portion of the capital structure, even if revolver participation is a key to wider ancillary business opportunities.

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



There has also been a general relaxation over the last few years of banking monopoly rules which restricted the involvement of direct lenders in certain jurisdictions. Some direct lenders are able to provide revolvers although the unitranche lender and may not be willing to underwrite the revolver for the life of the deal, but rather only for a fixed period. This reflects the practical difficulties for many credit funds in providing undrawn lines.

In these cases, the undrawn portion of the revolver is typically cancelled after six months with the drawn balance automatically termed out to become part of the main loan. "The 'one-stop-shop' gives certainty that on day one, there is an RCF quantum that is deliverable if the business has working capital needs," Mahmoud explains. "Sponsors would ideally hope that they can use that 6 months period to bring in a more traditional RCF lender," he added.

Obtaining revolvers from clearing banks has become challenging as they have increasingly struggled to make them work from a return-on-risk perspective coupled with the impact of the European Central Bank's imposed total gross leverage caps, explains Jacco Brouwer, Partner at Duff & Phelps. "This led to several fund-underwritten bridge facilities and created some opportunities for asset-based loan lenders and specialist banks to step into this gap," he says.

The concern over leveraged lending limits comes when banks provide a super-senior revolver at half-a-turn to a turn of EBITDA, and they still record leverage at the total amount of the deal at 5x-6x or more. "This is where it goes wrong because you are only taking the risk on a turn of leverage, but

then saying the business is still five or six times levered and therefore the risk rating still reflects that — and that makes a big difference in the numbers that come out," Brouwer added.

What's more, revolvers are becoming less frequently used. This is because many of the businesses in the mid-market are cash-generative, but without an amortising tranche to soak up this liquidity (unitranche loans are typically bullet facilities), the revolver generally doesn't get drawn. This means unless there is other ancillary business, like hedging, active international payments banks are reliant on the commitment fees of 35% or 40% of the drawn margin, which are typically 300 bps to 350 bps.

"There are not always a lot of ancillary services, therefore the economics are not that great for them," Brouwer said, noting these loans also get a high risk-rating. "I think that is probably one of those two key factors that I've seen and in Europe," said Brouwer.

In terms of their return requirements, some direct lenders will price at unitranche levels rather than revolver prices, because they can't lend any more cheaply. That said, some direct lenders have access to subscription lines that enable them to provide the revolver at a lower price, either for a limited period or indefinitely.

"Some direct lenders are able to lend at super-senior levels and will deal with the 'syndication' of that piece themselves, and some can actually lend at super-senior levels, but will only underwrite for an initial period before terming out," Mahmoud said.

Benelux deals

Two deals from the Benelux region have emerged this week, confirming the inexorable spread of direct-lending financings over bank-led transactions across the European mid-market.

While the Netherlands is the main driver in terms of deal flow in Benelux, Belgium has a similar market model to that found in France and is often included in French deals from an origination standpoint, whether it is for sponsors or direct lenders. As for Luxembourg, its market is often used to create capital structures to provide better credit protection for companies all around Europe.

The first deal that stood out came from **Techone BV**, a service provider in the field of cloud services and telecommunication for small- and medium-sized enterprises, which is refinancing its bank debt with direct lender Barings. The deal comprises the debt refinancing as well as the financing of two add-ons and an acquisition line. Techone acquired Lagarde Groep, a player in the field of ICT, communications and security, in November. Nedvest Capital-owned Techone comprises 21 companies offering various IT services.

LCD Leveraged Loan Stats: Europe (rolling three months)

Leveraged loans	3ME 02/12/21	Nov 2021	Oct 2021
First lien debt to EBITDA	5.1x	5.1x	5.1x
First+second lien debt to EBITDA	5.2x	5.2x	5.2x
Total debt to EBITDA	5.8x	5.8x	5.8x
Sponsored loans			
First lien debt to EBITDA	5.1x	5.1x	5.1x
First+second lien debt to EBITDA	5.2x	5.2x	5.2x
Total debt to EBITDA	5.9x	5.9x	5.9x

Source: Leveraged Commentary & Data (LCD)

The second transaction came from **KidsKonnect BV** — a Netherlands-based software provider for childcare companies — which has signed with Five Arrows, with Permira providing the financing and Baird conducting the sale process. The company was marketed off EBITDA of €7 million to €8 million, sources said, with the financing levered at roughly 6x. The company's turnover is expected to reach €20 million in 2021, and it has about 150 employees.

According to GCA Altium's latest MidCap Monitor survey, the Benelux mid-market remains one of the most active in Europe, with 22 transactions closed in the third quarter, while the 54 deals executed in the first nine months of 2021 mark a record for the region in terms of deals closed. The key driver of this trend was a strong performance in the Netherlands, representing roughly 81% of all completed Benelux deals, says GCA Altium. The survey also found that debt funds dominate the market, having closed 65% of all completed transactions in Benelux — a trend also seen in other key European markets. As for deal types, the combined share of add-on financings and refinancings in the region increased by 14% from 2020 to 58% to date in 2021, according to the MidCap Monitor.

"Benelux is economically and politically stable, offers a great network of SMEs and has a high rate of private equity-led deals," said one market player. "If you add increasing consolidation in the banking sector to this mix, you get a golden path that's open to direct lenders."
— David Cox, Francesca Ficai, Nina Flitman, Michael Rae

High-yield market: Expect delays

European high-yield issuers produced €604 million-equivalent of paper across two deals this week, with deteriorating market conditions prompting two borrowers — family-owned German pharmaceutical group **Phoenix Pharmahandel** and Norwegian consumer lender **B2 Holding** — deciding not to proceed with five-year bond sales as concerns over the spread of the omicron variant of COVID-19 continued to weigh on market sentiment.

Amid volatility on Monday, Phoenix Pharma put plans for a €300 million deal on ice until the new year. Despite a slight easing in credit spreads and a notable rally in COVID-19-sensitive travel names, primary market conditions did not improve later in the week, forcing B2 Holding on Thursday to suspend its planned €300 million refinancing exercise.

Prior to this week, investors had been positive on the Phoenix deal, with one investor who had a position in the company's outstanding bonds describing the group as a "very stable business with a strong shareholder behind it." He also said the company's decision to suspend dividend payments until S&P Global Ratings has removed its negative outlook was an additional positive for debt investors.

Proceeds from the transaction were earmarked to take out a chunk of a €1 billion bridge backing the company's takeover of the European operations of U.S. peer McKesson. But with the takeover not expected to close until 2022 and the deal yet to gain regulatory approval, the issuer and its bank remain in a position to wait for greener pastures.

According to LCD data published Dec. 1, the deal was only the sixth trade in the European high-yield space to be cancelled of postponed for a prolonged period since the start of the pandemic. B2 Holding therefore took that total to seven.

Package delivered

Italian packaging group **Reno De Medici** (RdM) did however get its €445 million of five-year (non-call one-year) floating-rate notes over the line, albeit with a two-day delay and at a deeper discount to initial price thoughts. Having last week been advertised at E+500-525 with a 0% floor at 99.5, the deal eventually priced at the wide end of the margin range at E+525, but with a 98.5 original issue discount.

Although the company is relatively defensively positioned, with over 60% of its revenue derived from the non-cynical food sector, the deal comes with punchy leverage, which will peak at 9x this year on an S&P Global Ratings-adjusted basis, according to a report from the ratings agency.

The bonds are rated B/B2/BB-, and even at IPTs they offered an eye-catching yield for the ratings bracket compared to recent deals, accounts noted. Although single-B new-issue yields for European high-yield bonds rose slightly in the third quarter to 4.93%, the majority of deals have landed comfortably below the symbolic 5%-handle.

High-yield stats

€ billion	This week	Last week	Change
Volume (pro forma)	€ 0.45	€ 0.93	€ -0.49
Trailing 4-week average	€ 1.18	€ 2.67	€ -1.49
Flow-name price	102.45	102.67	-0.22
Flow-name yield (%)	3.50	3.36	0.14
YTD issuance	**2021**	**2020**	**Change**
Volume	€ 123.26	€ 78.69	€ 44.56

Source: Leveraged Commentary & Data (LCD)

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

While there was a compromise over pricing, and an indifferent performance in secondary, RdM at least showed deals can still be done. "It is fairly clear that for an opportunistic issuer it was a no-go week, but if a deal needs to be done, it is still possible," said one leveraged finance head.

Driven offshore

Another borrower which certainly falls into this latter category is **Altera Shuttle Tankers**, the ring-fenced vessel division of offshore infrastructure group Altera Infrastructure, formerly known as Teekay Offshore Partners. The ring-fenced segment provides transportation services to mostly investment-grade oil and gas clients, but its parent group has been suffering under an increasing unsustainable debt burden thanks excessive secured debt at the operating company.

The company was in the market looking for a maximum of $250 million to replace 7.125% secured bonds due 2022, in an exercise that Fitch said represented a "major refinancing the company needs to complete." Altera eventually secured $180 million of its target amount, but paying a heavy price amid poor conditions — both for its sector and high-yield across the board — landing the four-year paper with a 9.5% coupon and a chunky 97 offer price.

A revision of terms was also necessary, with the non-call period extended by half a year to give the bond a four-year (non-call three-year) structure, and a clause added meaning that the bonds can only be tapped at the issue price or higher, in a similar feature to what is known in loan market parlance as a most favoured nation, or MFN, clause.

Concerns regarding structural subordination were also addressed, with a revision to terms meaning that additional debt from affiliates will be fully subordinated, unless used exclusively to refinance existing debt.

— Thomas Beeton

Secondary markets: Volatility bites

A week on from the discovery of the Omicron variant of COVID-19, the European high-yield bond market seems no closer to deciding how this big development should impact prices. Investors meanwhile appear happy to book their returns for the year, sell risk and hope science will offer the answer in the new year.

According to research from BofA published this morning, November saw the end of what the report described as the longest period of ultra-low credit volatility in the post-global financial crisis era, which the bank's analysts characterise as a movement in euro high-yield credit spreads which is less than 10 basis points.

After ballooning by 22 bps on Nov. 26, as the market first reacted to the emergence of Omicron, trading in the iTraxx Europe CDS index has been erratic ever since. The index is ending the week roughly 10 bps inside last Friday's wide at 282, but at least three days this week have seen daily moves of between 9 bps and 10 bps in the cost of insuring against default.

Looking at individual names, the biggest movers were again in the travel sector, where buyers of a mid-week dip have enjoyed the best returns this week. **Lufthansa**'s widely watched 2.875% unsecured paper due 2027 — which was only issued last month — is ending the week in a 97.6/98.3 market, according to Tradeweb prices, having sunk to around 94.7/95 on Tuesday.

Similarly, **Air France-KLM**'s July-issued 2024 and 2026 notes are up at around 97.5 and 96.125, higher by nearly two and three points respectively from their mid-week lows. This is despite the Franco-Dutch airline holding company considering a delay of a planned capital increase on fears of fresh restrictions on air travel, according to a Reuters report.

Earnings calendar

Meanwhile, a packed third-quarter earnings calendar has added to the excitement. Of the many names to publish third-quarter numbers this week, none was more widely watched in European high-yield than German real-estate group **Adler**, which hosted its first meeting with fixed-income investors since the publication of a short-seller report in October.

As reported, the group's bonds suffered their biggest sell-off across its debt curve since October following Tuesday's investor call on which management declined to take questions, only to rebound on Wednesday after Adler announced asset sales translating to net cash proceeds of €1.65 billion, which included the sale of around 15,500 residential units to rival property firm LEG.

High-yield break prices

Name	Issue	Issue price	Break price	New-issue yield	Break yield
Reno de Medici	Secured FRN	98.50	98.50	-	-
90-day average		**99.98**	**100.45**	**4.18%**	**100.00%**

Source: Leveraged Commentary & Data (LCD)

Market sources have said that an apparent €200 million discrepancy between the two parties' valuation of the assets is an area of concern, and the announcement was music to the ears of bondholders, especially at the front end of the borrower's curve.

Subsidiary company Adler Real Estate's 1.5% notes due 2022 are ending the week at 98 on the bid, according to Refinitiv prices, which is two points higher than Monday's level. Further out, the group's 2.25% notes due 2029 were bid around 84, according to Tradeweb prices — down nearly a point on the week but more than four points up on the lows following Tuesday's call.

Also reporting this week was Belgian bathroom fittings group **Ideal Standard**, which reported disappointing results showing a 5% decline in revenue year-on-year, thanks to a weak performance in French and German markets, according to market sources.

The group's €325 million of 6.375% notes due 2026, which have struggled since pricing in July, have lost more than a point on the week and were today in a 93.1/93.6 market, according to Tradeweb figures. This is still off the October lows around 91.5.

Loans catch CLO bid

European leveraged loans also suffered from some volatility in the secondary market early in the week, though this was largely taken as a buying opportunity by Europe's CLO community, meaning levels have since largely recovered.

In the main, the market fell by no more than three eighths of a point across the board through the initial volatility, with CLOs on hand to snap up any lower offers. That said, though there were plenty of buyers about, trading sources did see some signs of minor dislocation with price differentials widening by around 50 bps between desks, while end-of-

Loan break prices during the week

Issuer	Tranche	Break	Spread to maturity (E+) Primary	Spread to maturity (E+) Secondary
IU Group (TL 12/21)	TLB	99.00	537.31	528.03
Devoteam (Add-on 12/21)	TLB	100.31	457.68	450.28

Source: Leveraged Commentary & Data (LCD)

year risk aversion means fewer players are willing to take significant new positions as liquidity starts to drain away from non-CLO buyers. "It's been a good year so no one wants to risk that now," said one trader.

The volatility also looks to have put paid to any significant further issuance this year, meaning secondary will be the main source of paper for accounts until New Year deals start to allocate from the mid-part of January. Wider market jitters did little to stop CLO activity, however, with LCD data showing four deals priced between Nov. 29 and Dec. 2, although the pace here is now expected to slow markedly as fatigue creeps in, with spreads pushing wider in triple-As and especially the lower-mezzanine tranches.

There were also some undoubted patches of weakness in the market, with pandemic-exposed names taking a hit of up to a point and finding little in the way of support. This dynamic helped lead the average bid in the S&P European Leveraged Loan Index down from its November high of 98.90, to close at 98.66 on Thursday.

Travel names, for example, were back in the crosshairs with **HotelBeds**' term loan C due September 2027 lilting into the high-80s on the bid, from the low-90s in early November. **B&B Hotels**, meanwhile, is down roughly a point into a mid-90s bid, and **Vue Cinemas** is firmly in the low-90s, having been in the mid-90s at the start of November.

Smooth operators

The week did see a smattering of new deals break into the secondary market. **Exact Software** found little trouble in clearing the market, with its €340 million add-on that closed at E+400 with a 0% floor offered at 99.5, with little movement on the break. **Devoteam** had a smooth ride too, with its €265 million E+450 add-on that closed at par. On the follow, Devoteam's undrawn term loan was quoted at 100.25, with the drawn paper roughly an eighth higher.

Largest institutional loan bid advancers and decliners

Nov 25 to Dec 2

Issuer	Facility	Average bid: Current week	Average bid: Prior week	Change
Biggest advancers				
Bright Bidco Bv	TLB	76.30	74.38	1.92
Obol France 3	TLB	98.16	96.60	1.56
Phm France Holdco 19	TLB1	98.16	96.60	1.56
Caldic Invts Bv	TLB	99.50	98.10	1.40
Placin Sa Rl	TLB	98.75	97.40	1.35
Eagle Bidco Ltd	TLB	99.13	98.38	0.75
Sixteen Gooseberry Sa Rl	TLB1	79.34	79.00	0.34
Sixteen Gooseberry Sa Rl	TLB2	79.34	79.00	0.34
Samsonite Intl Sa	TLB	97.45	97.13	0.33
Archroma Fin Sarl	TLB1	100.00	99.78	0.22
Biggest decliners				
Pax Midco Spain, S.L.U.	TLB	89.27	91.82	-2.55
Vue Intl Bidco Plc	TLB1	91.89	94.25	-2.36
Vue Intl Bidco Plc	TLB2	91.89	94.25	-2.36
Hnvr Holdco Ltd	TLD	89.79	92.07	-2.29
Silk Bidco As	TLB	92.64	94.80	-2.16
Hnvr Holdco Ltd	TLC	88.46	90.51	-2.05
Erpe Bidco Ltd	TLB	88.15	90.18	-2.03
Hnvr Holdco Ltd	TLB	88.50	90.35	-1.85
Casper Bidco Sas	TLB	94.86	96.06	-1.20
Casper Bidco Sas	TLB2	94.86	96.06	-1.20

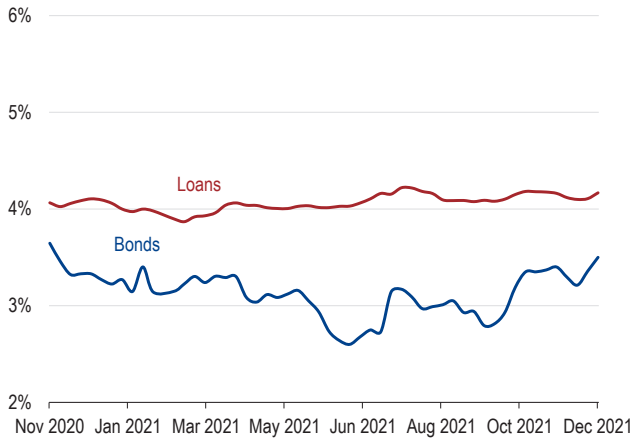
Sources: Leveraged Commentary & Data (LCD); IHS Markit

Offers on both issues — where they existed — came around the 100.625 area.

On the buyout side, the €340 million term loan backing CVC's acquisition of French packaged food company **Panzani** closed in line with talk at E+425 to be quoted in a 99.875/100.250 market, from 99.5 reoffer. Tougher going was the €500 million recap loan from German education group **IU** that closed well wide of talk at E+500 with a 0% floor and was then quoted in a 98.75/99.25 market, from 98.5 reoffer.

— Thomas Beeton, David Cox

Average yield: bond vs. loan flow names



Sources: Leveraged Commentary & Data (LCD); Bloomberg; Markit

iTraxx Europe Crossover Index

Source: Markit

S&P European Leveraged Loan Index (ELLI)

Total returns *	ALL	LBO	€	€ LBO	BB	B
Week ended 26/11/21	-0.13%	-0.14%	-0.08%	-0.09%	-0.04%	-0.08%
Week ended 19/11/21	0.17%	0.18%	0.09%	0.08%	0.13%	0.17%
31/12/2019 - 26/11/2021	4.73%	5.19%	4.27%	4.64%	2.66%	4.52%
31/12/2018 - 25/11/2020	1.70%	1.80%	2.03%	2.21%	1.60%	0.89%
Market-value returns						
Week ended 26/11/21	-0.15%	-0.16%	-0.15%	-0.17%	-0.07%	-0.11%
Week ended 19/11/21	0.02%	0.01%	0.02%	0.01%	0.03%	0.02%
31/12/2019 - 26/11/2021	1.00%	1.23%	0.89%	1.10%	-0.16%	0.69%
31/12/2018 - 25/11/2020	-1.49%	-1.55%	-1.42%	-1.45%	-0.75%	-2.36%
Interest returns						
Week ended 26/11/21	0.07%	0.07%	0.07%	0.07%	0.06%	0.07%
Week ended 25/11/20	0.07%	0.08%	0.07%	0.07%	0.06%	0.07%
31/12/2019 - 26/11/2021	3.38%	3.53%	3.35%	3.50%	2.65%	3.46%
31/12/2018 - 25/11/2020	3.56%	3.77%	3.50%	3.71%	2.54%	3.70%
Weighted average discounted STM (bps)						
26/11/21	455.21	471.18	449.40	464.50	367.31	451.12
31/12/20	481.70	508.78	473.19	498.70	349.86	467.09

Weighted avg. bid	ALL	LBO	€	€ LBO	BB	B
As of 26/11/21	98.72	98.70	98.75	98.74	99.40	99.18
As of 19/11/21	98.89	98.85	98.92	98.89	99.53	99.29
As of 25/11/20	97.16	96.77	97.31	96.95	99.57	98.13
Par outstanding (in billions)						
As of 26/11/21	€ 259.6	€ 206.9	€ 246.1	€ 194.6	€ 34.4	€ 198.0
As of 19/11/21	€ 262.5	€ 204.3	€ 248.9	€ 191.8	€ 38.0	€ 197.8
As of 25/11/20	€ 233.9	€ 171.8	€ 220.4	€ 159.8	€ 32.0	€ 172.7
Market value (in billions)						
As of 26/11/21	€ 256.3	€ 204.2	€ 243.0	€ 192.1	€ 34.2	€ 196.4
As of 19/11/21	€ 259.6	€ 201.9	€ 246.2	€ 189.7	€ 37.8	€ 196.4
As of 25/11/20	€ 227.2	€ 166.3	€ 214.5	€ 154.9	€ 31.8	€ 169.5
Number of facilities						
As of 26/11/21	420	338	387	308	55	295
As of 19/11/21	417	332	384	302	54	294
As of 25/11/20	402	314	364	280	45	285
Average tenor						
As of 26/11/21	4.80	4.77	4.86	4.83	5.05	4.88
As of 31/12/20	4.61	4.54	4.64	4.57	4.92	4.63

* 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 — fell to 1.88% in November, from 2.47% in October. At the end of 2020, the ratio stood at 3.42%. Using a start date of Dec. 31, 2003, the Sharpe ratio for the ELLI (based on total return excluding currency) was 0.56 at the end of November, steady from October's level.

The Sharpe ratio for the MLEHY at the end of November was 0.64, also steady from October's level.

LCD European flow names

The average bid of LCD's European loan flow-name composite fell 20 basis points during the week ended Dec. 2, to 98.52% of par. The average is now 9 bps below 2020's closing level.

LCD's broad secondary composite — which reflects a wider universe of deals — fell 23 bps in the week ended Dec. 2, to 97.03%, and is now up 399 bps in the year to date..

U.S./Europe comparison

The average bid of LCD's U.S. loan flow-name composite decreased 41 bps during the week ended Dec. 2, to 98.78% of par. The average bid is 22 bps below the final reading of 2020.

The gap between the average bids of the U.S. and European flow-names narrowed 21 bps, with European names trading at a discount to U.S. names since the May 13 reading.

The average bid/ask spread for the U.S. flow names widened 7 bps to 42 bps, while the average spread to maturity across the U.S. flow-name composite widened 11 bps, to L+316.

The average spread to maturity of the European composite currently leads its U.S. counterpart by 101 bps.

The U.S. flow names are **Akzo Nobel**, **Avolon Aerospace**, **BMC Software**, **Asurion**, **CenturyLink**, **Charter Communications**, **Grifols**, **Hub International**, **ICON**, **Pilot Travel Centers**, **Scientific Games**, **Univision**, **Valeant Pharma**, **Virgin Media** and **Zayo Group**.

The European flow names are **AkzoNobel**, **Cerba**, **EG Group**, **Flora Food**, **Merlin**, **Numericable**, **Sivantos**, **Techem**, **TK Elevator** and **Verisure**.

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