Banking & Finance

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Current Forces of Debt Finance in Europe

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Introduction

A strong European debt finance market in Q3 2024 was primarily due to the expected rise in refinancings, which was bolstered by falling costs due to the ECB's third cut this year – the first back-to-back cut in 13 years.

Loan Markets Revived by Refinancings

European and US markets are enjoying near-triple-digit increases in issuances, bringing leveraged loan activity in the US and Europe back to life. As in the US, refinancing activity catalyzed Europe's strong recovery in leverage loan issuances in H1 2024. Year-on-year, refinancings were up by more than two-thirds from US$54.3 billion in H1 2023 to US$90.7 billion in H1 2024. European borrowers have especially benefitted from cuts to base rates in the European Union and in the UK.

The overall issuances in the European market increased 96.5% from US$91.8 billion in H1 2023 to US$180.4 billion in H1 2024. European borrowers have also had access to higher levels of leverage. Average gross and net leverage multiples were 5x and 4.6x respectively in H1 2024, up from 4.3x and 3.9x respectively in H1 2023.

Similar trends were observed in the German market.

High Yield Issuance Climbs, But Markets Still Seek Direction

High yield activity in the US, Europe and APAC revives after a tricky period, but markets remain uncertain moving into the final months of 2024. However, issuance levels are still well below those recorded at the peak of the market in 2021, although they have started to move in the right direction again.

The cost of capital in European high yield markets has also gradually shifted in favor of issuers. Average yields to maturity across senior secured and senior unsecured high yield bonds stood at 6.95% in June, down from the recent high of 11.25% recorded in October 2023. Although the outlook for European high yield is improving, geopolitical uncertainty and concern that the market has not fully priced the risk of recession are factors that investors and issuers must consider.

Sanctions Move Up the Agenda

Compliance with sanctions regimes is currently a priority for debt markets. With geopolitical tensions on the rise, the stakes for lenders and borrowers are higher than ever. Banks, non-bank lenders and borrowers have had to adapt their syndication and risk assessment processes to reflect the changing sanctions and export control environment.

In the future, loan documentation is expected to include more detailed covenants, representations and warranties confirming that no part of the loan proceeds provided by lenders will be distributed to, or involve, a country or territory subject to comprehensive sanctions.

Outlook

Although the market is improving for borrowers, this is not the time to get carried away. A cluster of shelved repricing deals – in which borrowers seek to negotiate lower margins on existing facilities rather than replace financing with new debt – demonstrate that there are still limits to the cost of capital that borrowers can reasonably expect when coming to market. In Germany we have observed a re-start of M&A activity, which attracts new LBO financings and note that borrowers are cautious when selecting their loan product as they consider pros and cons to bank club deals, private credit deals and institutional TLBs. Ultimately the selection will depend on size, speed, appetite and market conditions at the relevant time.

Practice Area News

Europe's Banks Restructure, Consolidate and Partner in a Bullish M&A Market. M&A activity is expected to increase, with a focus on more complex cross-border tie-ups. Challenger banks in the UK and Western Europe are more mature and are likely to come under significant pressure to deliver exits and/or transformational transactions for financial sponsors who have remained patient over the past 5 years. Instead, Europe's banking sector is expected to see **consolidation driven by financial and digitalization pressures.**

Silver Linings for Refinancing in Europe's Renewable Energy Industry. Despite the financing backdrop for renewable energy projects, the sector's strong fundamentals and supportive investor community mean the industry is well-placed to navigate current headwinds. **The EU sees renewable energy as crucial to the region's long-term energy security and net-zero carbon emissions** objectives and is investing accordingly, e.g., the **EIB** provided a €50 million green loan to the Spanish company, Matrix Renewables, to build new solar photovoltaic plants in Spain.

Evolving Times for European Non-Performing Loans (NPL). Elevated interest rates have led to an **increase in European non-performing loan (NPL)** volumes, although the annual deal volumes decrease simultaneously. Given that banks are not under the same commercial and regulatory pressure to get rid of their NPL portfolios compared to the early 2010s, the market presents opportunities for players who can adapt and evolve their strategies accordingly, e.g., by having their own captive servicers to achieve the necessary ROI.

EU Listing Adopted by the Council of the EU. The Council of the EU adopted the EU Listing Act, aimed at **making EU public capital markets more attractive and facilitate listings on European stock exchanges**. Key amendments affect the EU Prospectus Regulation, EU Market Abuse Regulation, as well as MiFID II and MiFIR. The act will enter into force 20 days after its publication in the Official Journal of the EU, with certain other provisions subject to a 15-to-18-month transitional period.

In the Firm

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- **Our Clients' View**

Vanessa Schürmann

"Technically excellent, very service-orientated, very good product knowledge, very present at transactions"
JUVE 2024/2025.

Andreas Lischka

"In-depth specialist knowledge, pragmatic, target-orientated, experienced, well networked and always available"
JUVE 2024/2025.

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