WHITE & CASE

European leveraged finance: A market reawakened

After a challenging period of elevated rates, Europe's leveraged finance markets are poised for growth in 2025, with stabilising costs, rising competition and renewed opportunities for dealmakers.

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Avenue des Champs-Élysées and
skyscrapers of La Défense, Paris

Foreword: European leveraged finance markets back on track

European leveraged finance markets rallied strongly in 2024, with momentum for new deals and opportunities for borrowers and lenders alike in 2025

Europe's leveraged finance markets enter 2025 following a solid performance in 2024, with the syndicated loan and high yield bond markets rallying and private debt remaining active. European loan and bond issuance nearly doubled year-on-year. Refinancing and repricing drove activity, as issuers returned to the market to take advantage of lower interest rates and bring down borrowing costs. With base rates falling, investors with a renewed appetite for yield have been eager to provide their support.

Moreover, with the revival of the loan and bond markets, borrowers have jumped at the opportunity to push out maturities and lower financing costs, and have in some cases taken the opportunity to refinance pricier unitranche structures provided by private debt players with cheaper loan and bond options.

This has created a fluid market where quality borrowers have had a broader range of products to choose from and the ability to select the best possible financing options to match their specific requirements.

Although public debt markets have regained market share, private debt players remain as relevant and active as ever, with their ability to price risk and deliver rapid deal execution.

With all the lending channels open again, the competitive dynamic between public and private debt providers has intensified to the benefit of the borrowers. Private debt players have tightened margins and offered more covenant flexibility to win new business. Public debt markets have sharpened execution and broadened the types of facilities they offer.

The only missing piece of the puzzle in 2024 has been a steady pipeline of new M&A and leveraged buyout financing opportunities.

This has been more of a function of an only moderately improving M&A deal market than a lack of investor and lender appetite. However, there is a growing optimism that deal activity will grow within the next 12 months, as interest rates come down and vendors and buyers align on valuation.

If and when the M&A market picks up, financing markets will be well positioned to support dealmakers.

European leveraged finance overview

HEADLINES

■ Leveraged finance markets rallied in 2024 to record remarkable year-on-year gains ■ Interest rate cuts and tighter margins generated a surge in refinancing, as borrowers leapt at the chance to bring down financing costs ■ Bumper CLO issuance drove demand, with investors seeking yield as rates came down ■ A dynamic interplay between private debt and public debt continues to develop, with the two markets competing and, in some instances, collaborating

European leveraged finance sprang back to life in 2024, as falling interest rates and a growing investor appetite laid the foundation for a return to a healthier market.

The aggregate value of leveraged loan issuance in Europe in 2024 (€307.4 billion) was almost double the annual total recorded in 2023 (€161.1 billion), with Q2 2024 generating the highest single-quarter total on record (€103.2 billion).

Europe's high yield bond markets were equally lively—indeed, issuance in H1 alone (€76.1 billion) surpassed the full-year sum recorded in 2023 (€73.2 billion), before rounding out to €137.6 billion for 2024 as a whole.

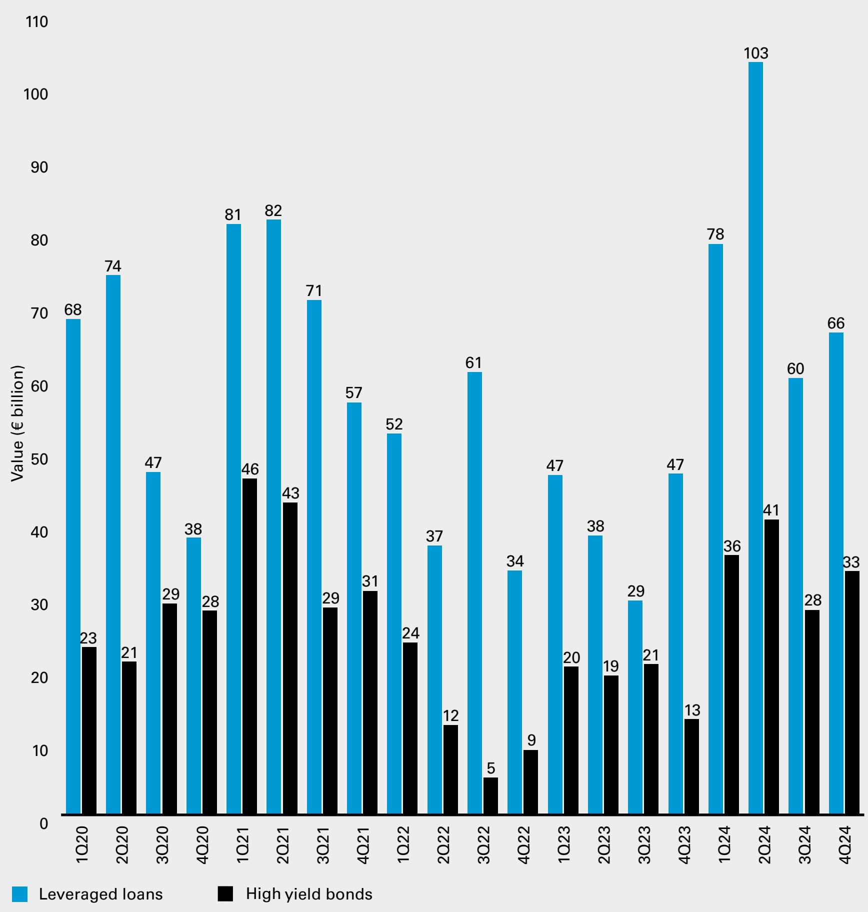
Rate cuts put financing markets back on track

Falling interest rates have been the primary catalyst for the market's revival, with both the European Central Bank and Bank of England making interest rate cuts in 2024 for the first time in two and two-and-a-half years, respectively.

Lower rates have spurred activity in the collateralized loan obligation (CLO) space.

According to *Debtwire*, new euro CLO issuance was up 79.7 per cent year-on-year to €48.4 billion in 2024, as lower base rates pushed fixed-income investors to take on more risk to secure yield.

European leveraged loan vs. high yield bond issuance (quarterly)



Source: *Debtwire Par—figures rounded up to nearest whole number*

Lower base rates have also caused borrowing costs to fall, as have tighter margins in the leveraged loan markets and lower yields to maturity in the high yield space. Borrowers have jumped at the opportunity to refinance existing capital structures at lower prices.

In loan markets, refinancing issuance in 2024 was up 46 per cent year-on-year, reaching €161 billion and accounting for more than half of the overall issuance. In the high yield market, refinancing climbed to €85.1 billion, more than doubling last year's output, and generated almost two-thirds of the overall issuance in 2024.

Repricing activity has also ramped up, with anecdotal accounts of some issuers repricing loans up to two or three times during the year. Indeed, in 2024 syndicated loan repricing reached €80.5 billion, exceeding the total annual issuance for any year on record, eclipsing the previous high achieved in 2017 (€60.5 billion).

Private and public debt: A new dynamic

Lower pricing in the broadly syndicated loan (BSL) and high yield markets has tipped the balance between public and private debt back in favour of public debt markets. Credits financed with more expensive private debt unitranche structures in some cases flipped back to BSL and high yield options over the course of 2024, as borrowers capitalised on lower costs during the year.

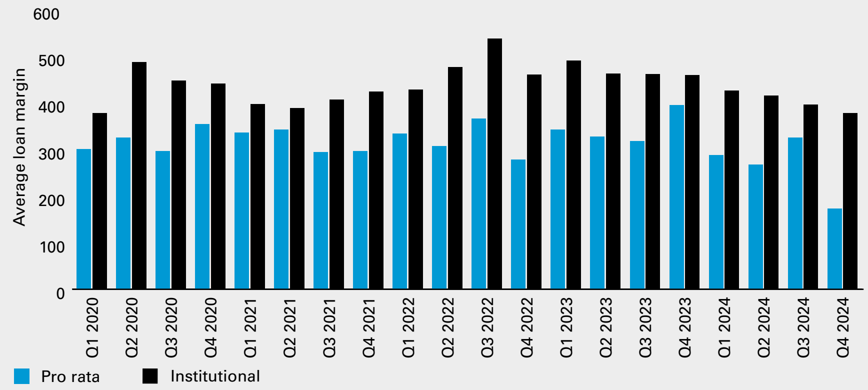
Phenna Group, backed by Oakley Capital, and Deutsche Fachpflege, a portfolio company of Advent International, are among the borrowers that have taken out private credit facilities with cheaper BSL borrowings. In early 2024, Neopharmed Gentili issued a €750 million senior-secured high yield bond to refinance a unitranche loan raised in 2022.

The increasing competition between BSL and private debt has directly benefitted borrowers. In addition to refinancing in the public debt markets, borrowers have been able to negotiate lower margins with incumbent private credit providers.

However, the dynamic between private debt and the BSL markets has not been an exclusively competitive one—some issuers are opting to include tranches of financing from both sources in their capital structures.

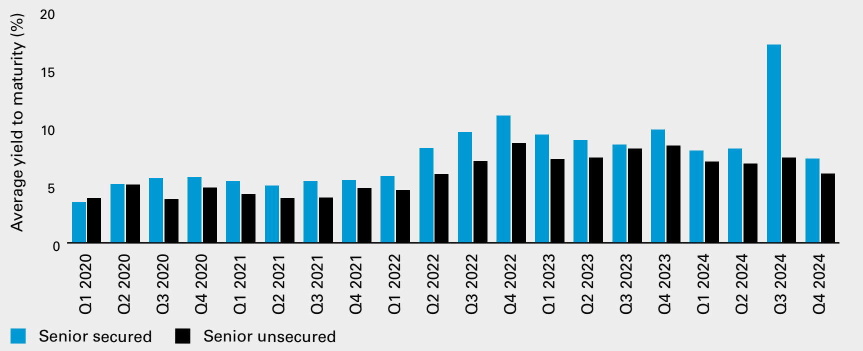
Some banks and private debt managers have formalised these relationships by establishing partnerships where banks leverage their branch networks and geographic footprints to originate loans. They can then be shared with private credit partners, so that banks do not have to hold the full loans on their own balance sheets. Citigroup and Apollo, and Lloyds Bank and Oaktree Capital Management, are among the lenders that have announced such partnerships.

Average leveraged loan margin—pro rata vs. first-lien institutional



Source: *Debtwire Par*

Average yield to maturity (%)—quarterly



Source: *Debtwire Par*

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A mature, sophisticated market

2024's wave of repricing and refinancing activity, in addition to the evolving relationship between public and private debt markets, is reflective of an increasingly sophisticated European loan market that is better able to respond quickly to changes in the business environment.

Investment banks, investors and borrowers were ready to spring into action as soon as interest rates began to recede, while remaining sensitive to any lingering concerns around risk. Few deals have priced outside of initial guidance, with all parties focused on seamless execution and completing deals with minimal disruption.

The only piece of the puzzle missing from the market in 2024 was a full recovery in M&A and buyout transaction volumes. But, if the speed of the market's response to an improving interest rate environment is anything to go by, chances are that lenders and borrowers will be ready to spring into action as soon as the first signs of a much-anticipated M&A revival materialise.

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Old dog, new tricks: The evolution of syndicated loan markets

HEADLINES

■ Broadly syndicated loan (BSL) markets have bounced back following a slowdown, regaining market share from private debt ■ Lower pricing has drawn sponsor-backed borrowers back to BSL financing options ■ Arrangers have kept a close eye on pricing, limiting the risk of flex and improving execution ■ BSL markets are increasingly offering flexible financing packages, including delayed draw optionality

After a lengthy hiatus between H2 2022 and the end of 2023, BSL markets are back and hungry to finance deals. In 2024, European syndicated loan issuance nearly doubled the full-year figures the market recorded in 2023, driven by interest rate cuts in Europe and the UK, and tightening margins. This brought down financing costs for many borrowers, spurring a wave of refinancing activity.

Pricing play

Lower financing costs have enabled arranging banks to become more assertive when competing for business with direct lenders. The latter were able to win market share during the initial period of interest rate disruption in 2022, when syndicated loan markets activity had cooled.

With BSL markets in better health, we have seen some borrowers actively looking at the opportunity to refinance private debt facilities—which they had arranged when interest rates were climbing—with materially cheaper syndicated loans.

According to the S&P, approximately €10.5 billion of private debt in Europe was refinanced in the BSL and high yield bond markets during the first nine months of 2024, with companies securing median reductions to interest costs between 138 and 150 basis points.

Lower financing costs have also boosted the role of BSLs in leveraged buyouts (LBOs). The ratio of private debt-financed European LBOs to syndicated loan-financed LBOs narrowed from 10.5:1 in Q4 2023 to just 1.5:1 in Q2 2024, according to Deloitte.

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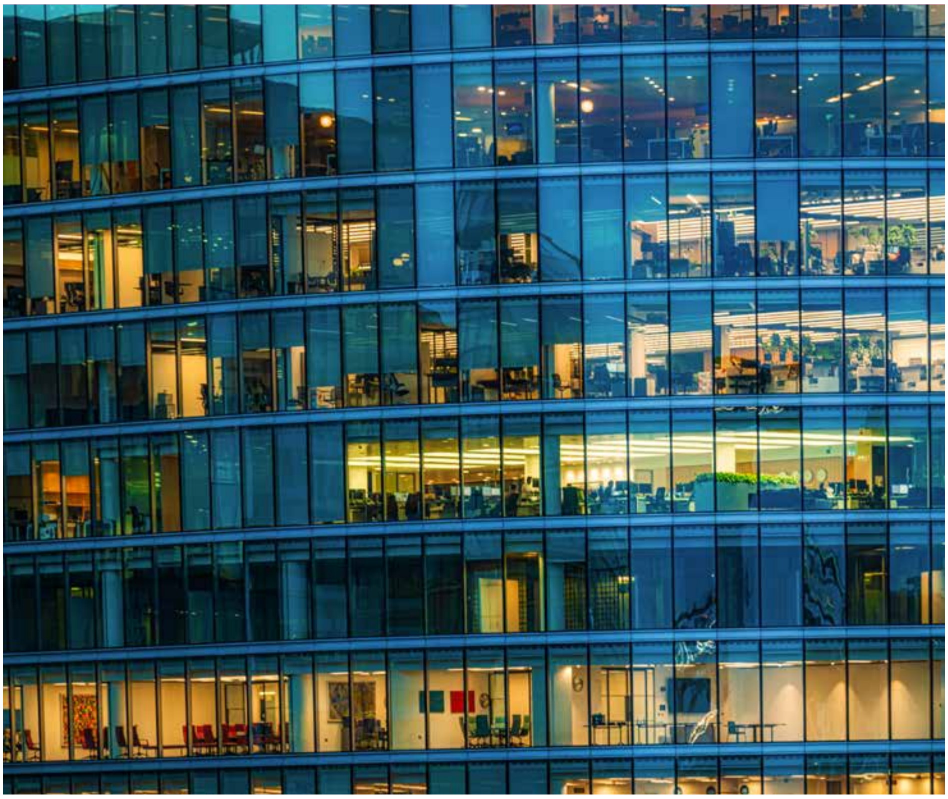
BSL comes back better

While pricing has undoubtedly played a key role in the comeback of BSLs, other factors have also contributed to the syndicated loan market's competitive edge.

BSL arrangers, underwriters and investors have emerged from the cycle of rising interest rates sharper, stronger and better attuned to borrower and market requirements.

Investment banks have focused relentlessly on deal execution when underwriting and syndicating deals to avoid the risk of failed syndications and pricing flex. Indeed, *Debtwire* records show that no European leveraged loan deals experienced upward pricing flexes in either Q2 2024 or Q3 2024, following six consecutive quarters that all saw upward pricing flex between Q4 2022 and Q1 2024. Moreover, reverse flexes remained prevalent throughout 2024, with ten deals recorded in Q4 with an average cut of 25 basis points, demonstrating sustained market positivity as the year drew to a close. The improved visibility and certainty for pricing a BSL deal has aligned syndicated loans more closely with private debt, which has traditionally held an edge over the BSL markets in these areas.

'The Gherkin' building among high rise towers in London



New tricks

The BSL market has also become more flexible, with many stakeholders now offering features such as delayed-draw facilities in BSL loan packages.

This marks a significant evolution of the BSL product, with ratings agency Moody's noting that the shift in the terms offered is eroding the traditional distinctions between BSL deals and private debt.

The use of the delayed draw offer within the BSL structure illustrates how far the market has come to make its proposition more competitive. A delayed draw facility is a committed, unfunded term loan B debt facility that allows a borrower to draw down over an extended availability period rather than borrowing the entire amount at once. This appeals to borrowers, as they do not have to pay interest on debt that they are not using but have the comfort that (in exchange for a ticking fee or commitment fee) financing is available as soon as it is needed to fund capital expenditure or acquisitions. In some circumstances, this can be preferable to having to raise an additional or incremental facility on short notice. There are, however, some nuances that have arisen in the deployment of this type of facility in BSLs.

Although delayed draw has long been a feature of the private debt market, it has been more challenging to adapt to the BSL space. Syndicated loan investors prefer to put money to work immediately rather than commit to facilities that may only be drawn down later, if at all. As a result, selling committed but unfunded debt posed a challenge for banks that steered away from these structures due to the complexities of syndicating delayed draw debt.

To make the product more palatable to investors, banks have adapted delayed draw terms. Availability periods can be capped at 12 or 24 months, while ticking fee structures (where fees on the delayed draw facility, expressed as a percentage of the applicable margin, increase the longer a borrower waits to use it) reward investors if borrowers wait for a prolonged period before tapping into the facility. This is distinguishable from the private debt variant of delayed draw facilities where the commitment fee construct is typically more borrower-friendly and accrues at a (static) agreed percentage of the margin applicable to the delayed draw facility.

These adjustments mitigate the risk for investors of losing yield on undrawn facilities, and provide borrowers with confidence as they have access to long-term committed financing if required (albeit at a price). The value of this flexibility has been especially evident during the recent disruption in loan markets. Issuers have appreciated the security that a committed but unfunded facility offers, as it provides certainty when markets may be closed at the time of a bolt-on acquisition or major capital expenditure.

A more dynamic market

The way that BSL markets interface with private debt has also become more dynamic, as have the pathways to loan syndication. While BSL and private debt markets do compete with each other, syndicated markets have recognised the value of partnering with private debt players in certain circumstances.

For example, private debt providers can help enhance a capital structure by providing second-lien debt behind the first-lien financing raised in the BSL market. Meanwhile, the delta between the sterling and euro overnight lending rates has seen some private debt players fund the sterling-denominated portion of a loan, with the BSL market funding the euro-denominated portion.

Regarding the various routes to a syndicated loan, a select group of large-cap sponsors with the necessary scale and consistent deal flow have fleshed out their own syndication desks. These sponsors have found success in structuring and syndicating loan packages for their own deals directly, further enhancing the BSL market's functionality.

Despite facing challenges in recent years, the BSL market has demonstrated its ability to improvise, adapt and remain relevant, and enters 2025 stronger than ever.

Keynote Q&A: Private debt in a competitive market

HEADLINES

■ As rates fluctuate, private debt managers must adapt their investment strategies and risk management practices to navigate changing market conditions ■ Despite increased competition, private debt's ability to provide flexible solutions and focus on deep borrower relationships, and its active portfolio management, still set it apart from traditional lending ■ As the industry matures, strategic alliances between banks and private debt funds are slowly emerging to expand market reach

Over the past few years, private debt has benefitted from higher interest rates that boosted the asset class's returns and default levels that remained in the low-to-mid single digits. Limited activity in the broadly syndicated loan (BSL) market allowed private debt managers to handpick the highest-quality credits for their portfolios.

However, market dynamics have recently evolved, reflecting a more competitive environment—base rates are falling and BSL markets have reopened. Competition for deals has intensified, and returns have decreased slightly as margins narrow and rate conditions loosen.

In this Q&A primer, White & Case provides an in-depth analysis of what lower interest rates and increased competition mean for private debt in 2025.

The European Central Bank and Bank of England both cut base rates for the first time in almost two years in 2024. What do lower rates mean for private debt?

Although base rates have declined, private debt's ability to provide tailored solutions has ensured it remains a cornerstone of financing strategies.

Moreover, Europe's rate hikes in 2022 and 2023, though notable, were not historically significant. At their peak, base rates were still moderate by long-term standards, and central banks issued clear forward guidance that rates would be elevated for only a short period of time. Now, rates are coming down slowly and in small increments. Throughout these fluctuations, private debt has continued to attract significant capital inflows and reinforce its position as a reliable alternative form of financing.

Will private debt have to accept lower returns given the lower base rates?

When speaking about returns, it is important to focus on risk-adjusted performance rather than absolute figures. When rates are elevated, lenders can tell investors that total returns have increased, but this is typically offset by the rising risk-free rate. The spread over the risk-free benchmark, as a measure of relative performance, remains stable in those circumstances.

In a mature, liquid and competitive market, the risk-adjusted return across all assets tends to converge over the long term. In the early days of private debt, the risk-adjusted return was at a premium compared to other asset classes. But now, with the market becoming significantly more competitive, that premium is no longer available. Instead, investors today are attracted to private debt because the asset class presents less risk than, for example, public equities but continues to offer a premium over treasuries and bonds.

> “Rates are coming down slowly and in small increments. Throughout these fluctuations, private debt has continued to attract significant capital inflows and reinforce its position as a reliable alternative form of financing.

How has the competitive landscape shifted during the past 12 months?

Following a four-to-five-month hiatus, the reopening of the BSL market has introduced new dynamics, which has required private debt managers to adapt and become even more innovative. In early 2024, several private debt deals were being repriced into the syndicated market, prompting private managers to respond. Unitranche pricing has adjusted and margins have narrowed slightly, from five-and-a-half or five-and-three-quarter points above the base rate to approximately five percentage points over. Moreover, several private debt managers have been offering borrowers the option to extend non-call periods in exchange for a margin reduction, which lowers the coupon for the private debt provider but secures a longer-term lender position.

Of course, private debt managers can only afford to lower margins to a certain extent, but they are focusing more intensely on financing deals where their expertise and flexibility create the most value. For instance, a large-cap sponsor that is looking to acquire a European business with a strong credit profile using an entirely euro-denominated debt package is likely to raise a loan or a bond to finance the acquisition.

But for deals involving more complex credit profiles—such as those that require a large quantum of sterling-denominated debt, a large-delayed draw facility or payment-in-kind (PIK) flexibility—private debt is especially well positioned. Depending on the loan requirement, and as long as the pricing between the BSL offerings and private debt is not intolerably wide, there are still numerous reasons for sponsors to go private.

Defaults have increased, but only marginally. Has this come as a surprise given the elevated interest rates?

The rise in defaults has been modest and broadly in line with long-term averages. Although base rates have increased by around a factor of ten, they remain well below their historical high points. Given the sufficient forward guidance from policymakers and with careful planning, strong credits have been more than able to weather these conditions.

Moreover, the private debt community benefits greatly from its ability to grant PIK flexibility and waive cash coupons in circumstances where managers are convinced of the borrower's long-term business prospects. This flexibility and the absence of covenants, especially in larger deals, helps to ease the pressure on borrowers.

Private debt managers pride themselves on understanding the businesses they finance, poring over monthly and quarterly reports, engaging with sponsors and holding regular management meetings to obtain a comprehensive understanding of the business. This attention to detail enables private debt managers to respond swiftly and effectively to sponsors' requests, provided that sponsors continue to provide the detailed reporting that lenders expect.

In comparison to BSL managers, private debt managers typically oversee smaller portfolios comprising fewer, better-understood loans that they proactively manage. When borrowers encounter challenges, an informed private debt manager is on call to make quick decisions and offer support. By contrast, syndicated deals can be significantly more cumbersome given the large number of different lenders that are typically involved.

What are we to make of partnerships between banks and private debt funds? How do the parties benefit from this?

This trend is beginning to emerge. In theory, these partnerships present interesting possibilities. Large banks leverage their existing branch networks and broader geographical coverage to structure deals without committing large sums of their own capital.

For the private debt managers, who usually do not have a large footprint across multiple jurisdictions, these partnerships facilitate enhanced deal origination. And among the borrowers, these partnerships can improve execution timelines, while also reducing syndication and flex risk. How this evolves in practice over the coming year will need to be closely observed.

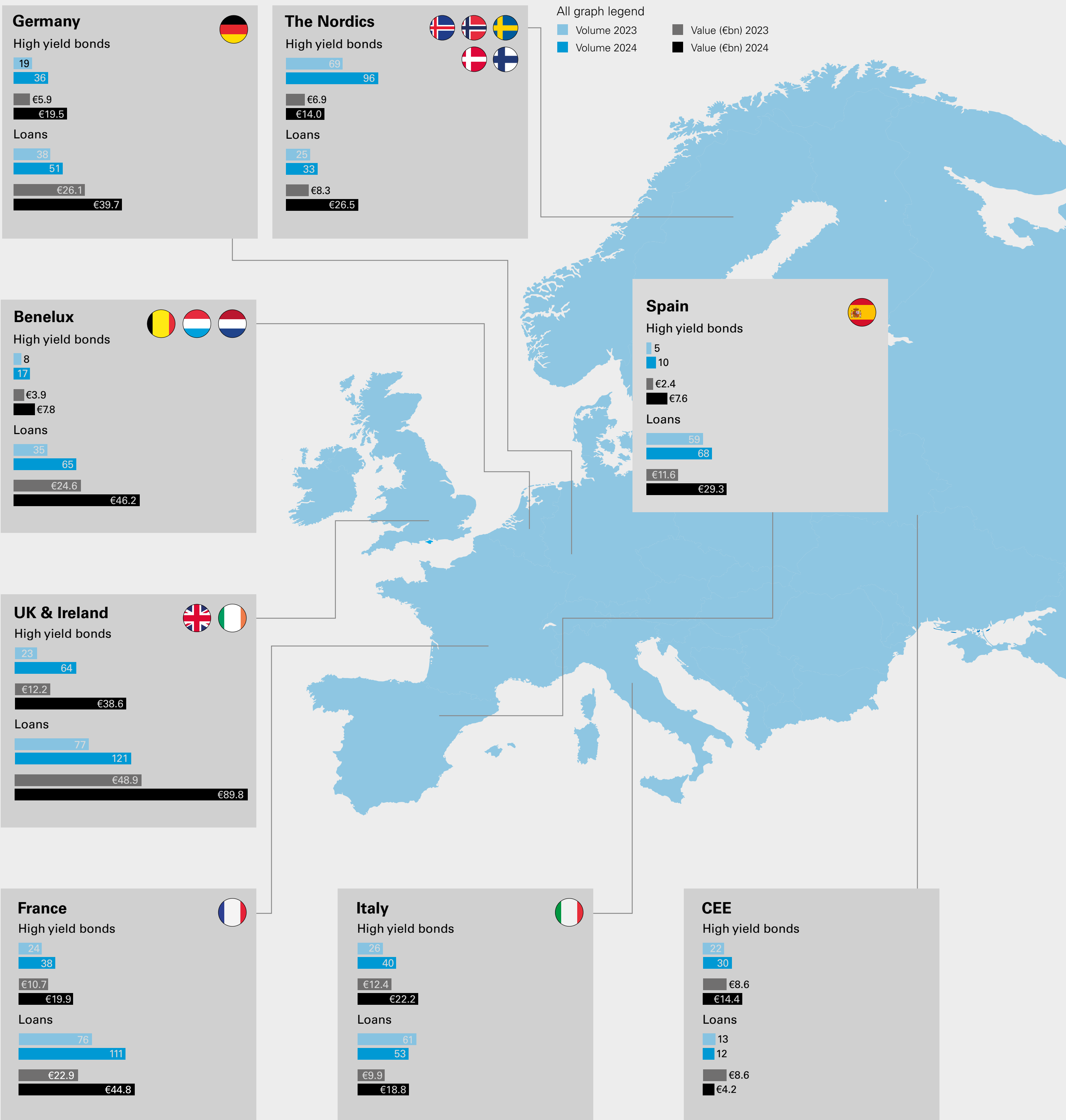
Looking ahead to 2025, what will private debt managers be prioritising?

Private debt players will focus on their core competencies. Specifically, rapid decision-making, competitive pricing and their deep relationships with borrowers. Those qualities will be especially important if the much-anticipated revival of the M&A and leveraged buyout markets materialises in 2025.

Overall, private debt managers are well positioned to capitalise on the forecasted uptick in dealmaking, underlining their relevance in the evolving financial landscape.

European leveraged debt in focus

Selected European leveraged loan and high yield bond markets by volume and value



French and German debt markets defy challenging environment

HEADLINES

■ Despite volatile political conditions and weak GDP growth, debt markets in Germany and France outperformed expectations in 2024 ■ Falling interest rates drove a surge in loan issuance in both countries ■ Private credit firms continue to underwrite landmark unitranche financings ■ Borrowers and sponsors are collaborating on hybrid structures to optimise pricing and terms

Despite political uncertainty and fragile GDP growth, debt markets in continental Europe's two largest economies—France and Germany—made strong gains in 2024.

A hung parliament in France following snap elections in the summer left the country unable to pass a budget, while Germany will hold new elections in 2025 after its incumbent coalition fractured in November. This political uncertainty has been compounded by weak economic growth forecasts. Both the French and German economies are expected to expand by less than one per cent in 2025, according to OECD forecasts.

Rate cut relief

Amid the macroeconomic turmoil, capital markets in both France and Germany outperformed expectations in 2024. A series of four interest rate cuts by the European Central Bank throughout the year—with base rates falling from a record four per cent in June to three per cent in mid-December—gave markets enough momentum to persevere.

Syndicated leveraged loan issuance in Germany rose by 52.2 per cent year-on-year in 2024, climbing from €26.1 billion in 2023 to €39.7 billion. Meanwhile in France, leveraged loan issuance almost doubled year-on-year, reaching €44.8 billion in 2024.

High yield markets in each country were equally robust. German high yield issuance reached €19.5 billion in 2024, more than three times the figure recorded the year prior (€5.9 billion). French high yield markets also performed very strongly, with issuance of €19.9 billion representing an 86 per cent increase over 2023's total of €10.7 billion.

Window for opportunity

Similar to other European countries, French and German issuance has been spurred by refinancing and repricing activity. As base rates were trimmed and margins tightened, issuers leapt at the opportunity to decrease their borrowing costs.

In Germany, refinancing issuance of €24.9 billion in 2024 accounted for more than three-fifths of the overall issuance. In France, refinancing came in at €21.2 billion last year, representing just under half of the overall issuance.

Lower rates and the reopening of broadly syndicated loan (BSL) markets have introduced a competitive impetus in both countries, where alternative financing options became more prominent during the cycle of climbing interest rates. As rates began to increase in 2022, private debt players gained considerable market share in France and Germany, as the BSL and bond markets became more constrained.

Bank club financings and Schuldscheine (privately placed debt instruments, often used by large corporates on an unsecured basis or for real estate financings on a secured basis) are additional alternative financing sources used by many borrowers in 2022, 2023 and at the start of 2024. Sparkassen, Germany's regional savings banks, expanded their buyout financing footprints during this period for small and mid-cap financings.

The revival of the bond and BSL markets in 2024 has squeezed private debt players, with clients choosing to refinance unitranche facilities through cheaper loan and bond markets.

Some borrowers have retained unitranche facilities but have leveraged favourable market conditions to negotiate lower coupons with private debt managers in exchange for extending non-call periods. French calibration and testing laboratory group Trescal and Paris-based pharmaceuticals group Unither are among the borrowers who have been able to reprice existing unitranche loans in this way.

Mix, match and maximise

Although alternative financers have faced more competition from public debt markets, they remain open for business. Germany's Sparkassen are still active in the acquisition finance space, clubbing together to provide customised packages for M&A transactions. Likewise, the investment-grade Schuldscheine market always retains liquidity for the right type of borrower, even during periods of economic volatility.

Large unitranche packages financed by direct lending have also continued. For example, German payments company SumUp landed one of the largest-ever European private credit deals in 2024 when it secured €1.5 billion from a group of lenders led by Goldman Sachs, while German property-management software company Aareon took on a €1.35 billion Blackstone Credit–led private debt financing. Overall, France and Germany are now firmly established as the second- and third-largest private debt markets in Europe, behind only the UK.

For borrowers, the reopening of all these various financing channels has presented a unique window of opportunity to mix and match different borrower groups and tailor the most attractive and flexible financing packages.

Many deals that would once have gone directly through the BSL or bond markets due to their pricing advantages are now running dual-track processes. This allows borrowers to compare offers from various providers and potentially incorporate different lenders in hybrid structures, capitalising on the pricing benefits of syndicated options and the flexibility of private credit.

Although geopolitical and macroeconomic conditions are likely to remain challenging for French and German companies in 2025, debt markets are expected to stay open for business, offering a diverse range of financing options to support borrowers.

Porta Nuova district, Milan

Pole position: Sponsors to take full advantage of active debt markets

HEADLINES

■ The full array of financing options is finally available again for financial sponsors ■ Financing new deals will take centre stage as M&A markets show signs of recovery ■ Sponsors will curate bespoke loan packages to maximise flexibility and pricing ■ Sponsors will capitalise on opportunities to bring down financing costs across their portfolios

Private equity sponsors enter 2025 with a strong appetite to strike deals and take advantage of fully functioning debt markets.

The post-pandemic cycle of high inflation and rising interest rates caused private equity and broader M&A deal activity to wane. As a result, a valuation gap has emerged—vendors have been reluctant to sell assets during the downturn, while bidders remain cautious about overpaying in an uncertain economic environment.

Europe recorded two years of rapidly declining private buyout dealmaking in 2022 and 2023, according to *Mergermarket*. Although activity has improved in 2024—the aggregate value of all private equity M&A in EMEA in 2024 (€268 billion) was up by approximately a third year-on-year from 2023's total (€201.6 billion)—there is still a lot of ground to make up, particularly in terms of deal volume.

The pause in buyout deal activity has created a backlog of unexited assets, which are sitting in portfolios as sponsors wait for market conditions to improve. According to Bain & Co, buyout sponsors are holding approximately US$3.2 trillion of unsold assets in their portfolios, a record high.

Pent-up demand to spur sponsors and lenders

Dealmakers are increasingly optimistic about a rebound in European buyout activity in 2025, propelled by pent-up demand, falling interest rates and, crucially, more stable valuations.

According to Dealsuite, the average European mid-market EBITDA multiple moved up for the first time in two years during H1 2024, supporting a corresponding uptick in M&A activity, which was especially pronounced in Q2 2024. As momentum builds, sponsors will take advantage of the reopened debt markets to negotiate optimal financing packages for new transactions.

Europe's cycle of rising interest rates between July 2022 and September 2023 effectively shuttered broadly syndicated loan (BSL) markets, forcing sponsors to rely on private credit and alternative solutions, such as NAV loans, to finance deals and portfolios.

However, confidence returned to the BSL markets and high yield in 2024, offering sponsors a broad array of financing options besides private credit and fund finance. Overall, both European syndicated loan issuance and high yield bond issuance nearly doubled year-on-year in 2024. Combined issuance for buyout deals also improved, reaching €40.5 billion, surpassing the total logged in 2023 (€21.5 billion), though still far below pre-pandemic levels.

> **"The pause in buyout deal activity has created a backlog of unexited assets, which are sitting in portfolios as sponsors wait for market conditions to improve.**

Financing tailored to fit

With all the financing channels reopened, sponsors are focussing on aligning deals with optimal funding sources.

High-quality borrowers requiring a substantial amount of debt will often find the best fit in the BSL and high yield bond markets, which can efficiently handle large-scale financings. Meanwhile, more complex or higher-risk borrowers—whether due to their higher levels of leverage or operational complexity—might prefer private credit, where lenders undertake more detailed due diligence (and can do so in relatively compressed timeframes) and are prepared to price in additional risk.

Sponsors will also increasingly blend different sources of debt to optimise capital structures. For example, in a BSL, a sponsor-backed borrower/issuer could raise euro-denominated debt in public markets and rely on private lenders to pick up sizeable tickets in any sterling-denominated debt they may require.

As sponsors select ideal structures for deals, competition among lenders will intensify. The BSL markets are sharpening execution and offer more flexibility, while private credit players are tightening their margins and offering increasingly flexible covenants to win over borrowers.

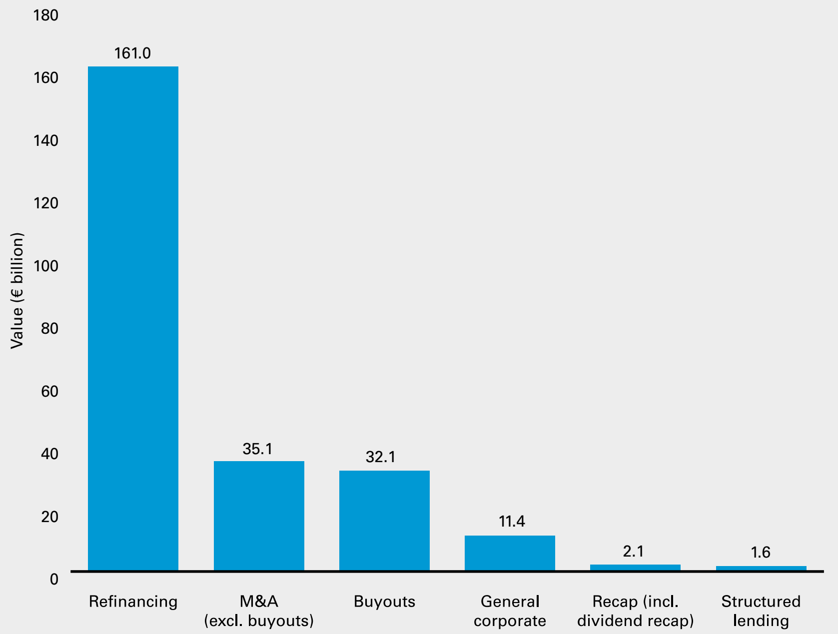
Portfolio priorities

Kickstarting buyout deal activity will be the primary objective of sponsors in 2025, but private equity firms are also keeping a close eye on existing portfolios. As interest rates continue to fall in Europe, refinancing or repricing borrowings at more favourable rates is high on the agenda.

European loan refinancing and repricing deal flow surged in 2024, driven by lenders' willingness to put money to work, even at tighter margins compared to the prior year. During the past 12 months, sponsors have increasingly pivoted from more costly private credit facilities towards lower-margin BSL products, and have leveraged falling interest rates to negotiate coupon discounts with incumbent private credit providers.

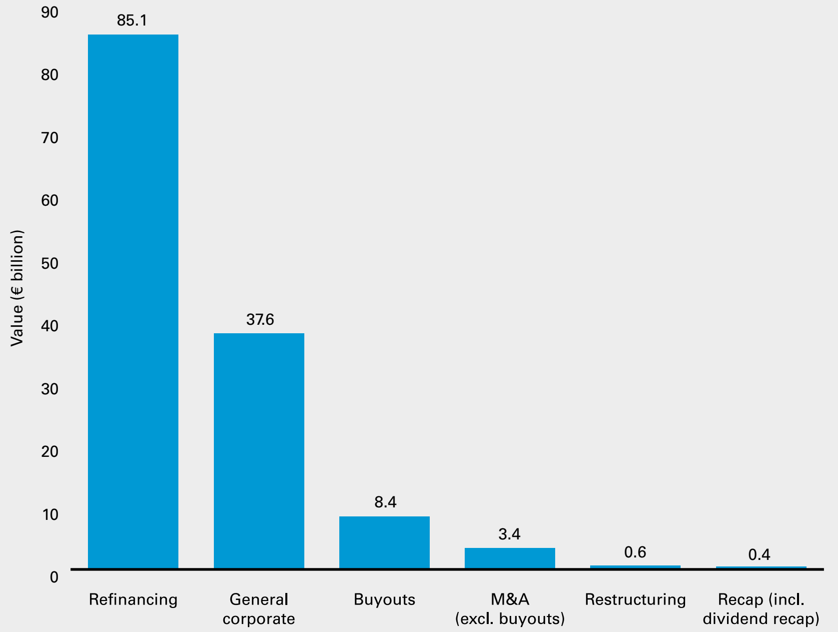
One can expect sponsors to continue seizing opportunities to cut borrowing costs as market conditions improve. After more than two years of relatively limited financing options, sponsors are eager to get back to striking deals and maximising their portfolio companies' value. Debt markets are well equipped to support those ambitions in 2025.

European leveraged loan use of proceeds (2024)



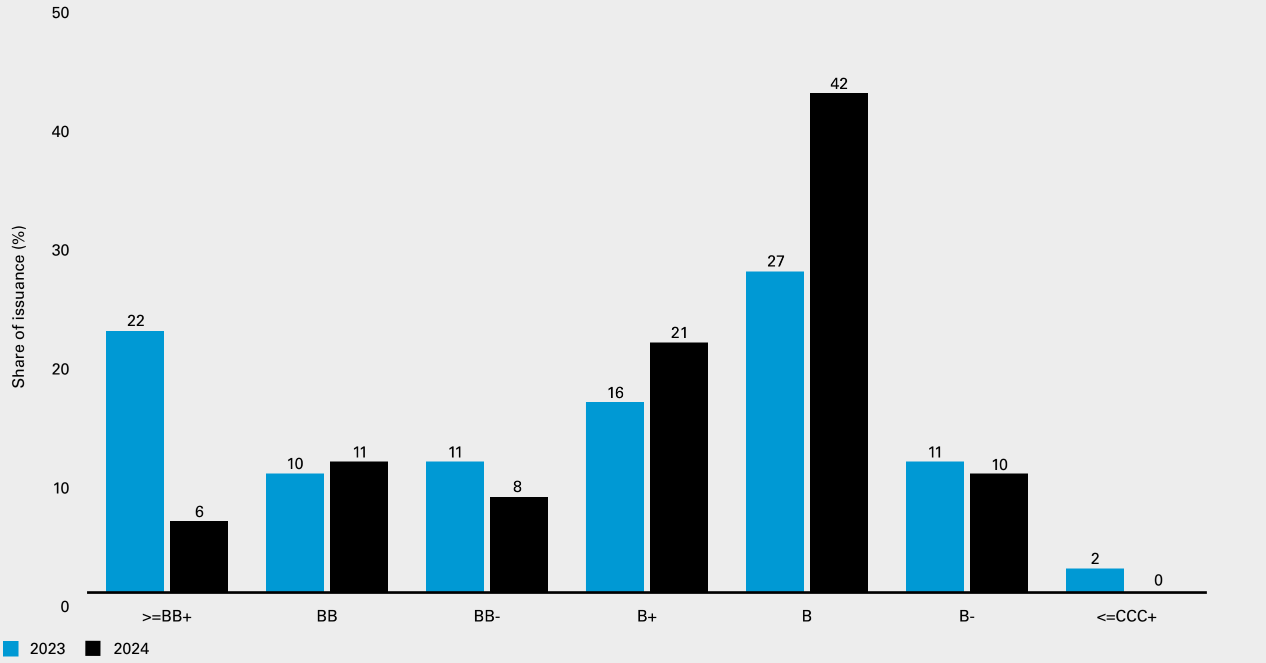
Source: *Debtwire Par*

European high yield bond use of proceeds (2024)



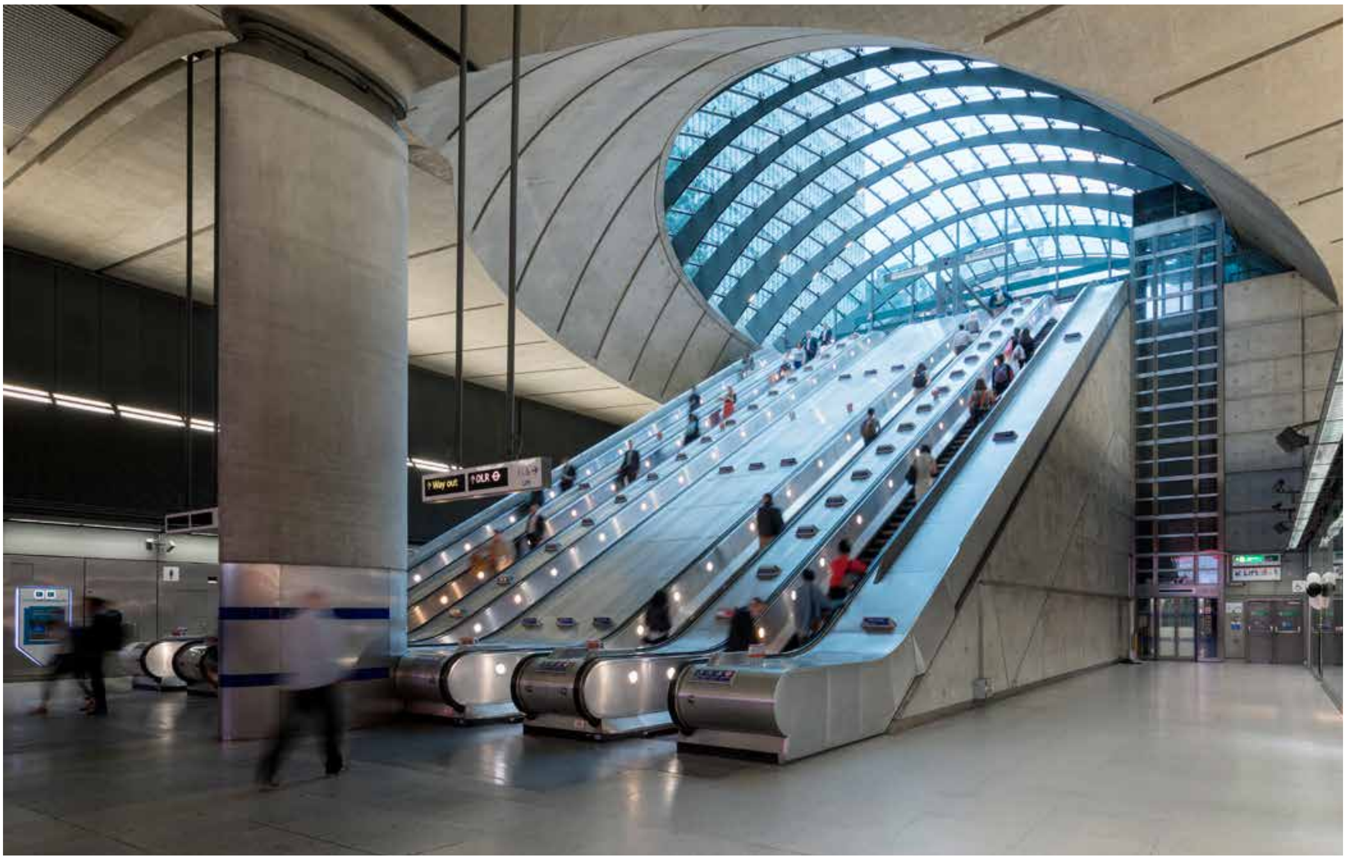
Source: *Debtwire Par*

European leveraged loan issuance by rating*



Source: *Debtwire*

* *Based on universe of loans that are rated. Where split-rated, higher rating is used. Only Moody's and S&P ratings are considered.*



Five key stakeholders and their priorities in 2025

HEADLINES

■ Investment banks will leverage their networks and multidisciplinary expertise to execute deals ■ Private debt players will remain nimble to offer solutions in a dynamic market ■ Borrowers will stay prepared to move quickly to capitalise on increasingly supportive conditions in financing markets ■ Private equity sponsors will see a mix of providers of financing for new deals ■ Emergent US-style liability management transactions will reshape the way European credit managers operate

European leveraged finance markets enter 2025 on firmer footing than a year ago, and will present borrowers and lenders with a dynamic mix of opportunities and risks. Below, White & Case reflects on how five key stakeholder groups will approach leveraged finance this year.

1

Investment banks

Investment banks played a fundamental role in the reopening of the leveraged finance markets in 2024 after two years of reduced activity, and will continue to prioritise deal execution and syndication stability in the year ahead.

Keeping a close watch on the changing market dynamics and aligning terms and pricing strategies will be crucial to minimising pricing flex and avoiding failed syndications. Rather than pushing investors to their limit, banks will focus on identifying pressure points and adopting pragmatic approaches to close deals for their clients.

Bankers will endeavour to maintain stability in the face of geopolitical uncertainty, global conflicts and escalating trade tensions by leveraging their networks and multidisciplinary teams. Expect investment banks to adopt more dual-track processes and craft bespoke debt packages that combine traditional public capital markets with private debt and other alternative financing providers. Sizable back-office teams and robust information flows will enable banks to provide precise guidance amid challenging market conditions.

2

Private credit funds

Private debt funds will face stiff competition from re-energised broadly syndicated loan (BSL) markets for large-scale financings in 2025. To remain competitive, they will again emphasise their core strengths, offering flexible and bespoke financing solutions.

In response to certain borrowers refinancing in the BSL markets to secure better pricing, private debt players in 2025 may look to retain borrowers by offering margin reductions.

However, private debt will not be entirely on the defensive in 2025. It will remain the primary source of financing for mid-market buyouts, and the preferred option in large, intricate deals that may be challenging for BSL markets to digest or fully cover due to elevated levels of leverage or higher perceived operational risk.

> **“Expect investment banks to adopt more dual-track processes and craft bespoke debt packages that combine traditional public capital markets with private debt and other alternative financing providers.**

Private debt has demonstrated its ability to deliver financing for big-ticket transactions during the recent interest rate cycle. With their focus on comprehensive due diligence and tailored financing packages, private debt managers will be able to position themselves as the go-to solution for loans deemed too risky or complicated for BSL markets.

3

Borrowers

BSL markets are again open for business, while private debt players continue to offer a valuable alternative path to financing. For borrowers, 2025 will present many opportunities to procure attractive financing deals as various lenders compete for their business.

Borrowers have already taken advantage of the reopening of the BSL markets by securing lower prices. Refinancing and repricing activity in Europe recorded significant year-on-year gains in 2024. With further interest rate cuts forecast for 2025, borrowers will be in an enviable position to further reduce financing costs by optimising deal timing. Flexibility and preparation will be key to ensuring that all financing routes are available to borrowers and to allow them to pivot to new options if any one market experiences a slowdown.

4

Private equity sponsors

Private equity sponsors enter 2025 confident that debt markets will be able to deliver acquisition financing when deal opportunities arise. Sponsors will mix public and private debt sources to optimise capital structures. For instance, more deals may see banks and syndicated markets provide senior loans, while private debt players contribute payment-in-kind debt and preferred equity tranches.

The most important catalyst for increased sponsor activity will be the long-anticipated revival of M&A and buyout markets, with the gap between the buyer's and seller's price expectations beginning to narrow. The Argos Index, which tracks the multiples paid for European private M&A targets, recorded improving deal multiples in Q3 2024 after three years of decline.

These data points are indicative of a market primed for dealmaking, with financing markets ready to meet that demand.

5

Hedge funds

Although European non-investment-grade default rates remain elevated relative to historical levels, they have not exceeded five per cent, and credit trends remain broadly supportive. Sponsors and lenders have taken crucial steps to prevent defaults and avoid major debt restructurings, employing a variety of tools such as covenant waivers, equity cures, interest payment holidays and maturity extensions to disrupt the normal default cycle.

Perhaps the most important driver of this shift in 2025 will be the increasing prominence of US-style liability management deals in Europe. These deals, which involve strategic restructurings of debt hierarchies—with opportunistic lenders moving to the top of the capital structures by 'up-tiering,' or carving out certain assets from company balance sheets to serve as security for new money—have been commonplace in the US, but remained quite novel on this side of the Atlantic.

However, in 2024, the first few high-profile liability management deals were executed in Europe. Although potentially controversial, and notwithstanding the 31 December 2024 New York court decisions with respect to Serta and Mitel, it is likely that this trend will continue to grow, which may be a boon for opportunistic credit investors.

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