

ALIXPARTNERS EUROPEAN MID-MARKET DEBT SURVEY

Senior banks fought back in 2016, but private debt is expanding

Continued buoyant conditions drove increasingly borrower friendly terms for European mid-market debt financing in 2016

Despite political and macroeconomic uncertainty, debt markets remained buoyant in 2016, supporting increasingly borrower-friendly terms with downward pressure on pricing and credit protection.

As the supply-and-demand imbalance continues, there are few signs of the market softening. However, we are seeing increased caution in certain sectors such as consumer and retail, and we believe default levels are likely to rise in the mid-term.

60%

Tikehau, Alcentra, Ares, and Muzinich were the most active non-bank lenders, with the top 10 credit funds increasing overall market share from 51 to 60%.

AT A GLANCE

- 1** Overall debt transaction count increased 1% to 460 in 2016, but UK lending volumes were subdued.
- 2** Senior debt structures prospered as borrowers traded leverage for increasingly competitive senior terms.
- 3** Unitranche volumes were down in the UK and overall, but France grew year-on-year.
- 4** The number of private debt funds increased in terms of quantum and fund size—with an estimated European dry powder of €55 billion.

49%

HSBC and RBS grew UK volume in 2016 by taking market share, accounting for 49% of UK leveraged bank participations that our survey tracked.

Notwithstanding a senior-led bank fightback, the proliferation of private debt funds in the European mid-market (with deals valued up to €300 million) continued to grow in 2016. Although unitranche volumes were down, this may have been a function of borrowers taking a more cautious approach to leverage because of economic uncertainty, coupled with banks seeking to preserve market share.

Nevertheless, larger credit funds have maintained deployment by providing larger €200+ million unitranche structures on a sole or club basis, encroaching on the larger syndicated market.

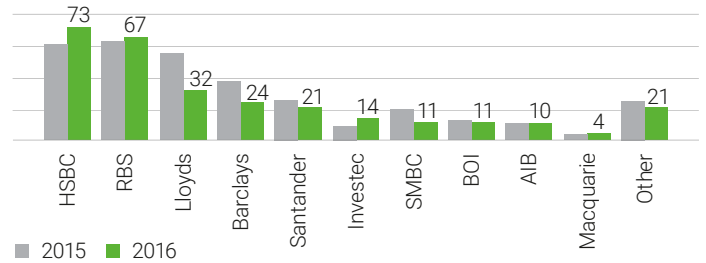
SENIOR BANK DEBT BACK IN VOGUE...

UK bank deal count decreased 11% to 288 in 2016. Including Europe, however, overall bank deal count increased by 5% to 540 as focus shifted to continental Europe.

HSBC completed the most UK deals (73), 65 on a senior basis and eight on a super senior basis, closely followed by RBS (67).

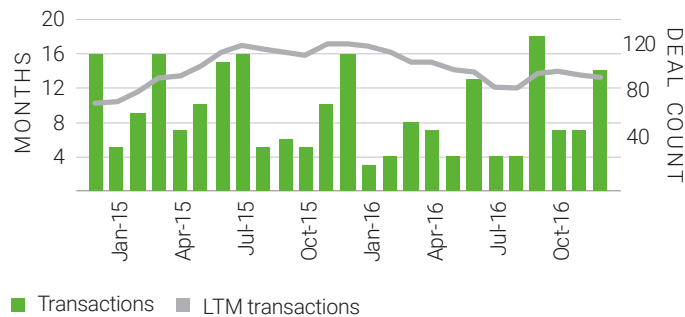
Despite strong results for HSBC and RBS, deal count among other UK lenders fell by 25%.

FIGURE 1: UK MID-MARKET BANK DEAL COUNT (2016)



Source: AlixPartners European mid-market debt survey 2016

FIGURE 2: TRAILING LAST 12 MONTHS UNITRANCHE DEAL COUNT



Source: AlixPartners European mid-market debt survey 2016

...AND TAKING SHARE FROM THE UNITRANCHE PRODUCT...

There was a significant increase in use of the unitranche product in 2015, as a myriad of non-bank lenders gained traction in Europe.

Despite a late summer rally, activity was more muted in 2016 as borrowers traded leverage for more competitive terms that bank-led deals offered.

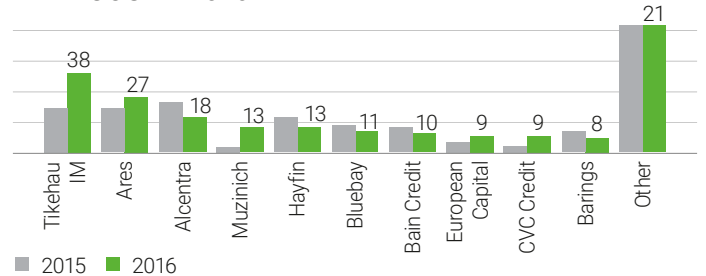
Availability of and appetite for the product remains strong. Alcentra, Ares, and Permira Debt Managers were most active in 2016.

...BUT PRIVATE DEBT HAS CONTINUED TO EXPAND

Across Europe, Tikehau IM was the most active non-bank lender (38 deals), followed by Ares (27), Alcentra (18), while Muzinich and HayFin (13 each) were also prolific players in 2016.

With ever-increasing competition in the non-bank lending space, certain funds have sought to differentiate through specialization, including Beechbrook (UK sponsorless SME), IPF Partners (healthcare) and others examining asset-backed strategies.

FIGURE 3: EUROPEAN MID-MARKET NON-BANK DEAL COUNT 2016



Source: AlixPartners European mid-market debt survey 2016

1. AlixPartners mid market debt survey 2016 – a bi-annual survey covering over 80 bank and non-bank lenders active in the European mid market (debt transactions valued up to €300 million)

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