



EUROPEAN ACQUISITION FINANCE DEBT REPORT 2016



EXECUTIVE SUMMARY

Welcome to DLA Piper's European Acquisition Finance Debt Report 2016. This report, now in its seventh year, presents detailed results of our survey of 300 participants active in the European acquisition finance debt market. It also includes extracts from interviews with a number of senior dealmakers.

2015 was yet again an active year in Europe's acquisition finance debt market, with survey respondents and our colleagues reporting an increase in deal activity of varying degrees. The first finding from our survey is good news – 94% expect the volume of transactions to increase or at least remain stable in 2016, indicating it will yet again be a busy year. That said, it should be noted that only 47% of survey respondents specifically forecast an actual increase in activity, down from 54% in last year's survey and 70% the year previously.

Deal activity is expected to be robust, in part due to the abundance of liquidity provided by the huge number of alternative lenders that entered the market last year and those already active that raised new funds during 2015. This capital is captive so will be hunting for deals in the next two to three years.

Excitingly for borrowers, alternative lenders don't just create more favourable borrowing conditions in terms of leverage, pricing and fees, but also bring a whole range of new structures that simply weren't on offer a few years ago. Alternative lenders are also increasingly investing in bigger deals so are becoming a genuine alternative to conventional financing sources at the larger end of the mid-market. Put simply it's a great time to be a borrower.

Despite the influx of alternative lenders, traditional banks continue to play a major role in this market. The consensus amongst survey respondents is that senior-only structures will be the most common mid-market debt structure in Europe in 2016.

We always try to take a balanced view in this report, so mention should be given to the deterioration of the US and high yield markets as a compelling source of finance for European borrowers. Events in the US have triggered a discussion about whether we are approaching the end of the current credit cycle and whether tougher borrowing conditions are just around the corner. That's not to mention the slowdown in China, declining oil prices, ongoing terrorism fears, the potential for Brexit and the stronger dollar. All of this put a dampener on deal activity in January 2016 and so it may prove that 2015 was the high point for borrower friendly terms.

How these trends will play out this year is explored in depth in this report. If you have any questions about the findings, or would like to understand how DLA Piper can assist your organisation, please feel free to contact any of the DLA Piper Debt Finance Partners, whose details are listed at the end of this report.



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David Miles

Head of London Debt Finance

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MARKET REFLECTIONS ON 2015

HEIGHTENED ACTIVITY IN 2015

The acquisition finance debt market had a bumper year in 2015, with deal activity across Europe registering a significant increase on 2014, according to the market commentators at banks, alternative lenders and advisory firms we spoke to.

This increase in deal activity was underpinned by growth in primary, secondary and tertiary mid-market buyouts, which in turn was driven by strong levels of liquidity, enabling sellers' price expectations to be met for the right assets.

Market participants report that there were still a robust number of refinancing transactions, but significantly less than in 2014. This is because the so called refinancing wall—the large number of leveraged buyouts structured in 2006-2008 with five to seven year debt terms—has now passed.

While overall deal activity was up, anecdotal evidence suggests transactions in the upper mid-market slightly decreased, primarily due to the volatility that beset the high-yield market in the second half of last year.

“Across Europe the mid-market was definitely up, both in terms of acquisition financings and refinancings, to the extent that some lenders were bursting at the seams and couldn't really process much more,” explained David Parker, Partner at Marlborough Partners. “The large market was down because, while acquisition finance was stable, refinancing decreased. It got a bit choppy

in the large market towards the back end of last year which meant that fewer refinancings were done and the market came in down. This happened across many countries.”

ROBUST LEVELS OF ACTIVITY FORECAST FOR 2016

Survey respondents expect the strong level of deal activity to be maintained in 2016. Some 94% of survey participants expect deal activity to increase or be at a similar level to 2015. That said, the unbounded optimism amongst market participants two years ago has waned somewhat. Only 47% of survey respondents forecast an annual increase in deal activity in 2016, compared with 54% in last year's survey and 70% a year previously.

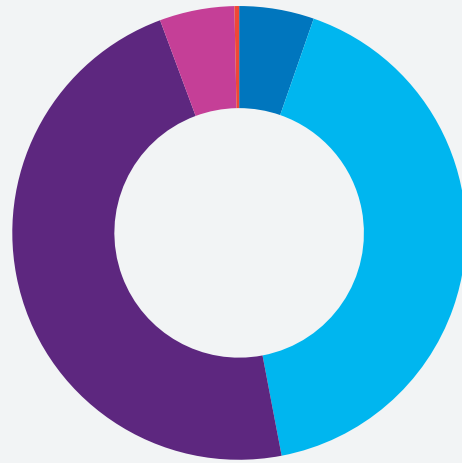
This is partly because there were so many deals last year, meaning there is less scope for an increase in 2016, but also because the macroeconomic outlook is less certain than 12-18 months ago. This may impact the supply of transactions, particularly M&A deals.

“There is likely to be continued volatility that will impact M&A activity, driven by macroeconomic headwinds and potentially the European referendum in the UK,” explained Jon Ferguson, Head of UK Origination of the Private Capital team at Goldman Sachs. “But there are also strong technical tailwinds, particularly excess institutional liquidity in the mid-market which could outweigh the macro piece. 2016 should remain a sellers' market for good assets.”

Survey data suggests the market will continue to increasingly be characterised by M&A activity instead of refinancings – 33% expect secondary and tertiary buyouts to be the most common deal type in 2016, almost double the number forecasting bolt-on acquisitions (19%), buyouts (18%), and refinancings (17%), to be the most common deal type.

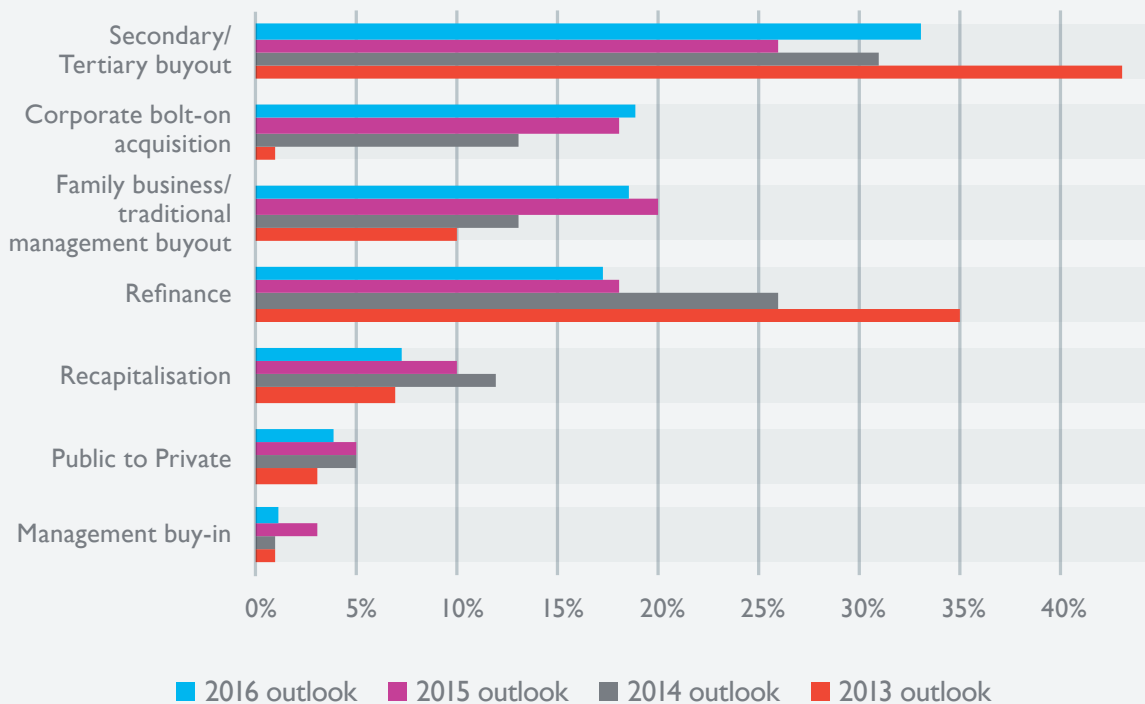
“Last year there was a real pick up in M&A financing across Europe and that was driven by both private equity funds and large corporates,” said Mathieu Dartayet, Assistant Director, Debt Advisory at Rothschild. “Looking ahead to the rest of 2016, there is a backlog of larger deals that need to go on the market. We expect the mid-market to

HOW ACTIVE DO YOU EXPECT THE ACQUISITION FINANCE DEBT MARKET TO BE IN THE COUNTRY WHERE YOU ARE LOCATED IN 2016?



- Significantly more active than in 2015
- More active than in 2015
- Similar in terms of market activity to 2015
- Less active than in 2015
- Significantly less active than in 2015

WHICH OF THE FOLLOWING DEAL TYPES DO YOU EXPECT TO BE THE LARGEST BY VOLUME (DEAL NUMBERS) IN 2016?



remain busy as it is less sensitive to the volatility in debt capital markets and is supported by direct lending fund liquidity.”

GREATER OPTIMISM IN SOUTHERN EUROPE

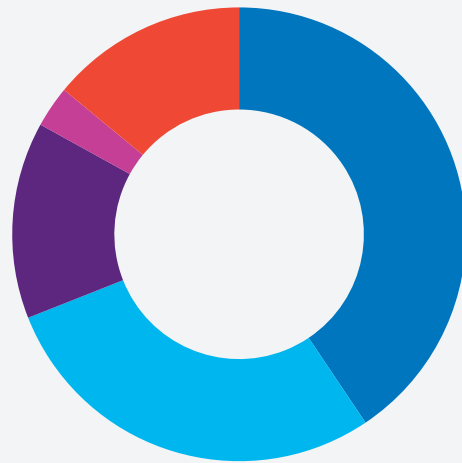
The survey data clearly indicates that growth in deal activity will be uneven across Europe. Some 77% of respondents based in Spain expect deal activity to increase in 2016, while 69% of Dutch and 68% of Italian survey respondents forecast an increase in deal activity. In contrast less than half of German and UK respondents expect deal activity to increase and only 27% of survey participants located in Belgium predict an increase in deal activity. That said, the remainder of Belgian respondents predict no change in deal activity compared with the high levels in 2015.

The acquisition finance debt markets in individual countries are explored in the second half of this report.

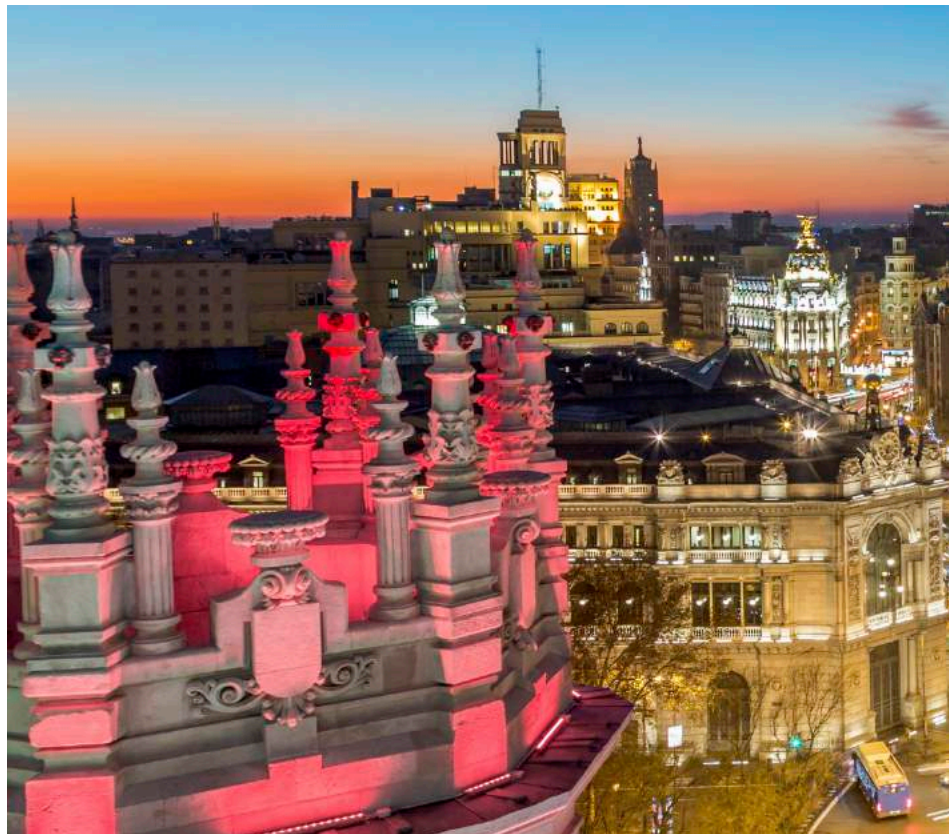
In terms of deal size, respondents expect transactions with an enterprise value of less than €200 million to dominate.

“2015 was very active and the third year in a row in which there was a step up in deal activity,” explained Graeme Delaney-Smith, Head of Mezzanine and Direct Lending at Alcentra. “I expect this to continue this year with the mid-market remaining much more active than the larger end. Of course there will be variations in deal activity across Europe. There was a big pick up in deals in the UK a few years ago, followed by France. More recently we’ve seen Germany pick up as well.”

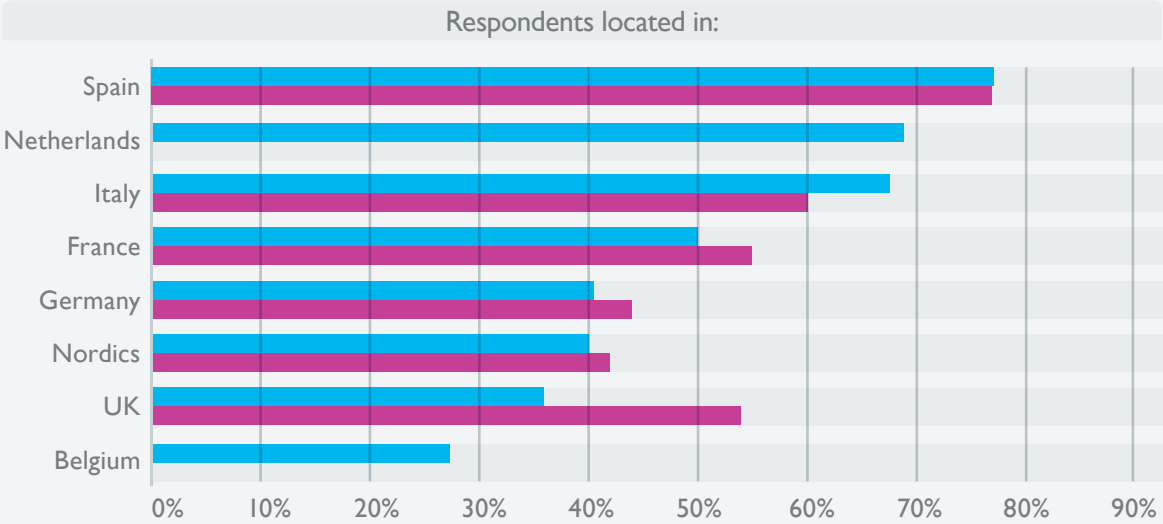
WHICH DEAL CATEGORY RANKED BY ENTERPRISE VALUE WILL BE THE MOST ACTIVE IN 2016?



- Less than €100 million
- Between €100 million and €200 million
- Between €200 million and €300 million
- Between €300 million and €400 million
- More than €400 million



HOW ACTIVE DO YOU EXPECT THE ACQUISITION FINANCE DEBT MARKET TO BE IN THE COUNTRY WHERE YOU ARE LOCATED IN 2016?



Percentage forecasting their acquisition finance debt market to be more active than in 2015

■ 2016 outlook ■ 2015 outlook

Note. Individuals in The Netherlands and Belgium were not surveyed last year



ALTERNATIVE LENDERS REDEFINE THE DEBT LANDSCAPE

ALTERNATIVE LENDERS ON THE MARCH

Alternative lenders have now firmly planted their flag in Europe's acquisition finance debt market. These investors completed 173 primary mid-market deals in Europe in the first three quarters of 2015, a 14% increase on the 152 deals executed in the first three quarters of 2014, according to data compiled by Deloitte¹. This is also more than double the 85 deals

“

There is over €250 billion of private equity dry powder to be deployed and debt providers are awash with liquidity. A lot of it has come from the rise of private debt funds. There are now over 60 funds in Europe focusing on private debt.”

Callum Bell

Head of Corporate & Acquisition Finance
Investec Bank plc



¹ Deloitte Alternative Lender Deal Tracker Q3 2015

structured in the corresponding period in 2013.

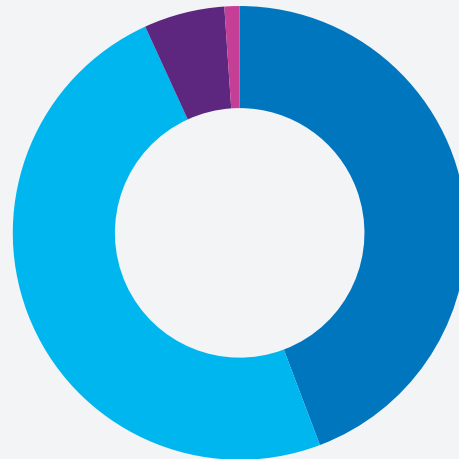
This resulted in an intensification of competition between lenders and the growing number of debt products they offer. Over 90% of survey respondents believe competition between lenders increased in 2015 while 85% believe competition between debt products increased.

“Alternative lenders have now really arrived and there are opportunities to put institutional money to work on nearly all deals,” confirmed Neale Broadhead, Managing Director and Portfolio Manager at CVC Credit Partners. “Alternative lenders are gaining traction because they offer more flexibility and non-amortisation. Importantly, everyone from the borrowers to the advisors has now been educated and they get it.”

This competition shows no signs of decreasing, not least because most lenders have increased their lending targets for 2016. 55% of surveyed banks and 63% of surveyed direct lending funds have higher acquisition finance lending targets this year compared with 2015.

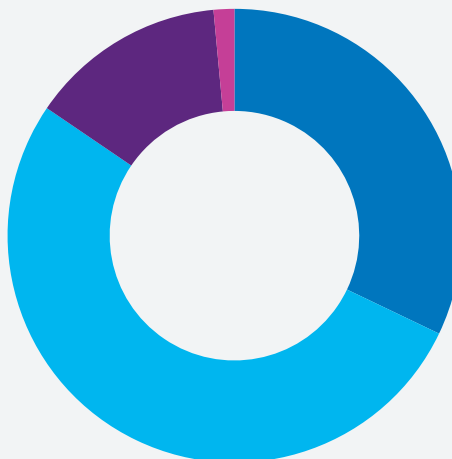
For borrowers, the sheer increase in the number of alternative lenders in the market is not the most notable development in the last two years, but rather the rise in the number of products they now offer. Indeed when the new wave of direct lenders broke onto the market two to three years ago, borrowers were typically faced with a choice of a senior structure provided by a club of banks or the unitranche offering supplied by funds. Now, mid-market borrowers potentially have an à la carte menu of financing options including senior only structures, term loan B tranches, unitranche, second lien, mezzanine, first loss/ second loss, holdco PIKs and various combinations of these products.

TO WHAT EXTENT DO YOU AGREE THAT COMPETITION BETWEEN LENDERS INCREASED DURING THE PAST 12 MONTHS?



- Strongly agree
- Agree
- Disagree
- Strongly disagree

TO WHAT EXTENT DO YOU AGREE THAT COMPETITION BETWEEN DEBT PRODUCTS INCREASED DURING THE PAST 12 MONTHS?



- Strongly agree
- Agree
- Disagree
- Strongly disagree



As an industry we need to continue the move we've seen recently, whereby the financing structure is driven by the needs of the borrower, rather than the needs of the provider."

Chris Skinner

Partner

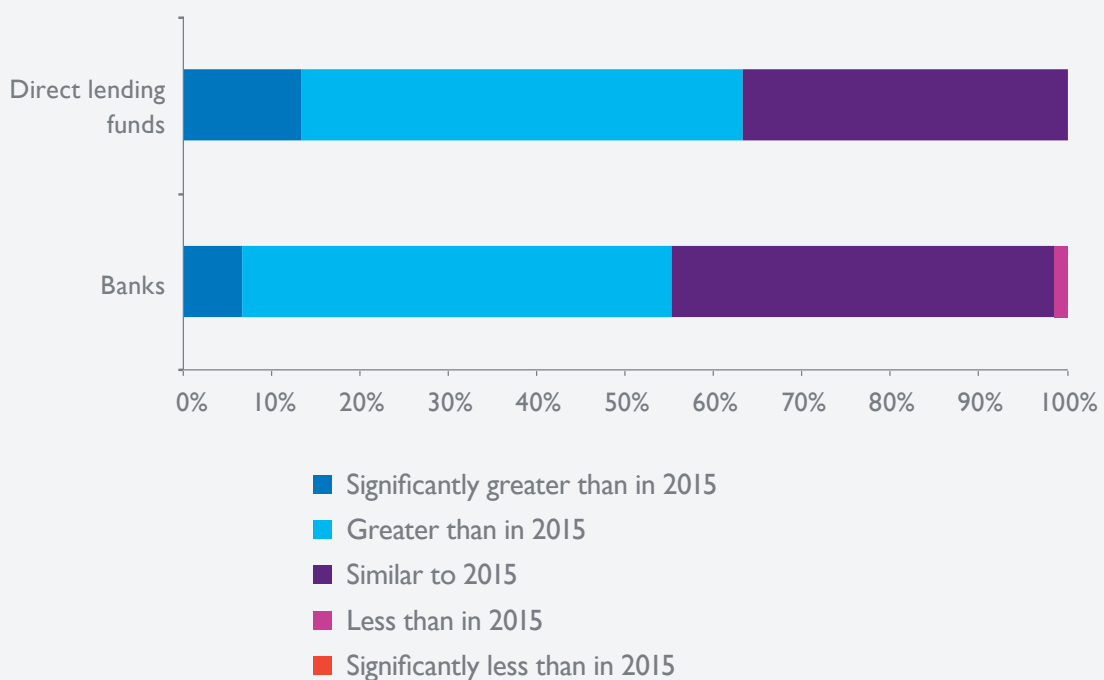
Deloitte Debt Advisory

"We are continuing to see the transition from a very bank-dominated European corporate funding environment to a more balanced market with non-bank lenders taking a more significant market share," explained Max Mitchell, Head of Direct Lending at ICG. "It's important to remember that non-bank lenders cover a very wide category from people doing what the banks also do, and these funds might compete against them on some

deals and work with them on others, to more distressed lenders that will do things the banks are not doing."

What non-bank structures will be most prominent this year? Unsurprisingly, half of survey respondents expect unitranche to be the most common non-bank lender acquisition finance debt structure in 2016, more than double the number that expect mezzanine (17%) and high

HOW DO YOUR INSTITUTION'S ACQUISITION FINANCE LENDING TARGETS FOR 2016 COMPARE WITH 2015?



yield bonds (17%) to be the most common non-bank product.

Looking at the wider range of structures available to mid-market borrowers, including those provided by banks and clubs of funds and banks, senior-only structures are expected to dominate. Some 47% of survey respondents expect senior-only structures to be the most common mid-market structure in 2016, more than double the number that expect any other structure to be most common.

ALTERNATIVE LENDERS BROADENING THEIR SCOPE...

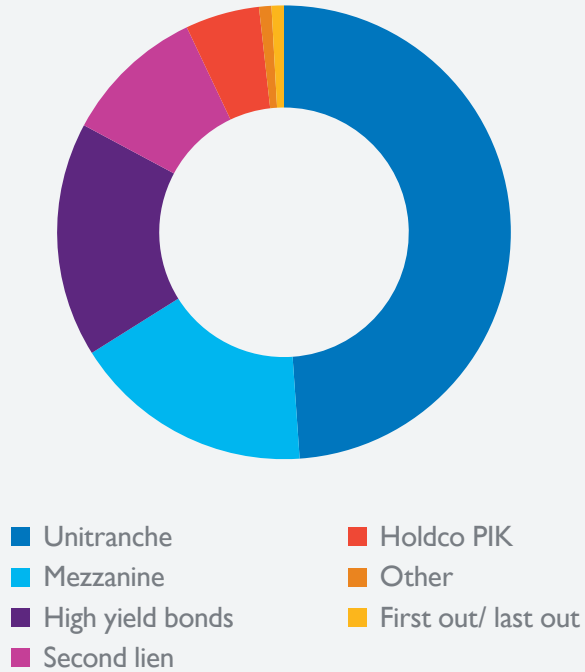
A number of alternative lenders raised particularly large funds in the last 12 months, indicating they will be able to invest much greater sums than previously. Funds that closed in 2015 or are in the process of closing funds targeted at this market include ICG (€3 billion), GSO (€2.5 billion), BlueBay (€2.1 billion) Ardian (€2 billion), Crescent Capital (€500 million) and EQT (€500 million).

Survey respondents believe this will enable funds to invest larger sums – 85% believe alternative lenders will invest in larger transactions in the next 12 months.

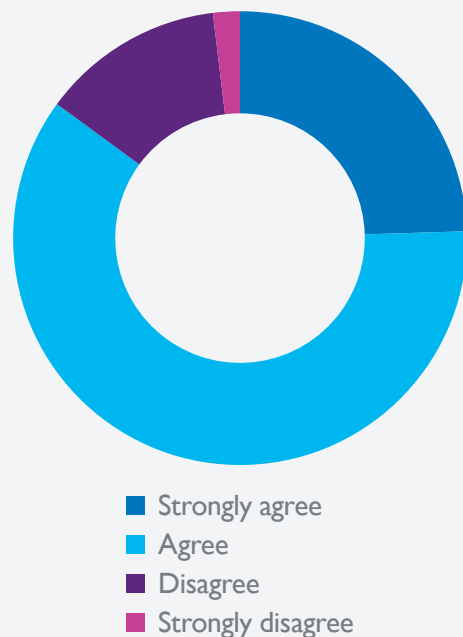
Illustrating this trend, Ares provided a €250 million unitranche facility as part of a €300 million finance package to fund Eurazeo’s acquisition of Fintrax in November 2015. It is the largest deal underwritten and financed by a debt fund in Europe. Another example of this trend is the financing package provided by Hayfin, ICG, Highbridge and Sankaty to Chiltern International to fund its acquisition of Theorem in September 2015. The deal, which included a super-senior RCF by Lloyds, was at the time the largest European US dollar denominated unitranche facility in 2015.

“The trend of direct lenders leading

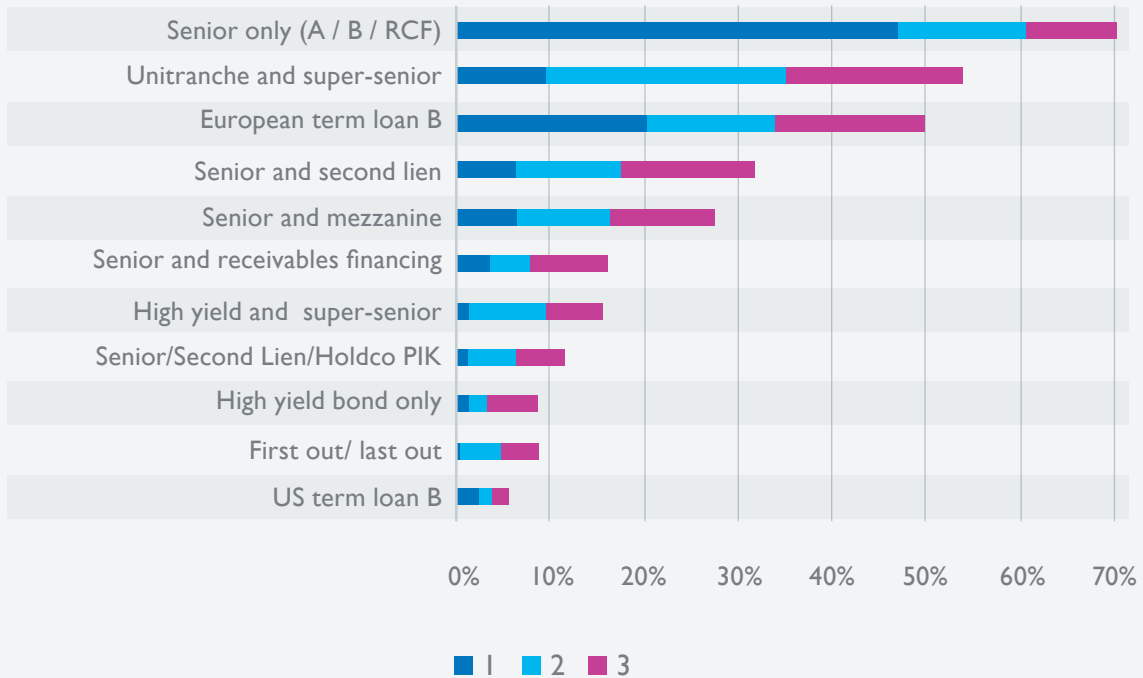
WHICH OF THE FOLLOWING NON-BANK LENDER ACQUISITION DEBT FINANCING STRUCTURES DO YOU THINK WILL BE THE MOST COMMON IN 2016?



TO WHAT EXTENT DO YOU AGREE THAT ALTERNATIVE LENDERS WILL INVEST IN LARGER TRANSACTIONS IN THE NEXT 12 MONTHS?



WHICH OF THE FOLLOWING ACQUISITION FINANCE DEBT STRUCTURES DO YOU THINK WILL BE THE MOST COMMON MIDDLE-MARKET STRUCTURE IN 2016?



Note. Respondents were asked to select their top three debt structures, with one being the most common

larger deals will continue in 2016,” predicts Mike Dennis, Partner, Direct Lending Group at Ares Management. “As a few managers have been able to raise larger funds, they have been able to make larger investments without compromising fund diversity. Ares did several deals in the fourth quarter of 2015 that had an investment size of more than €200 million. A couple of years ago, no one would have been able to contemplate underwriting facilities of such size.”

The offering from direct lenders is advantageous to borrowers compared with traditional sources of finance for deals of this size – underwritten deals and high yield – because they can be executed swiftly, there is no need to secure a rating and there is no syndication risk. The obvious drawback is that it is typically more expensive.

That said, various indexes show high yield is now priced around 100 bps

higher than at the beginning of 2015 and anecdotal evidence suggests CLO pricing has increased. Some lenders have also started to lever their funds, meaning they can offer cheaper pricing. “Volatility in the global credit markets makes our product even more relevant, especially for deals in the €200 million to €400 million range, where there isn’t the same depth of liquidity available,” continued Mike Dennis. “Banks are increasingly hesitant to underwrite deals of this size and even if they do so, they protect themselves by introducing market flex. Flex isn’t attractive to borrowers as it creates risk and uncertainty. While the direct lending product comes at a premium, it is increasingly being seen as a valuable alternative because of the certainty of execution without the risk of sell down.”

Alternative lenders are not only financing larger deals, but also exploring different structures at both ends

of the capital stack. For example a small number of banks have formed relationships with alternative lenders capable of investing senior debt pari passu with banks.

One of these is RBS, which established a partnership with Hermes, AIG and M&G in December 2015. Richard Roach, Managing Director, Financial Sponsors UK at RBS, explains how it works. “Our arrangement is a straight senior debt partnership where we all invest on the same footing,” he said. “We are typically able to speak on behalf of our partners and ourselves for up to £100 million of senior debt combined. This benefits our sponsors because they just negotiate the deal with RBS. It benefits us because we can write more deals as a result of that partnership than if we didn’t have it. It benefits the funds because they get access to our deal flow, which is important as they don’t currently operate in this market.”

...BUT BANKS ARE FIGHTING THEIR GROUND

Partnering with funds is just one way banks are attempting to counter the encroachment of alternative lenders. Some are instead attempting to underwrite more deals and do bigger holds, while others now offer more term loan B structures or looser covenant packages, often with just one financial covenant.

Over two thirds of survey respondents believe traditional banks will increase underwriting activity this year. “In 2015, banks regained their appetite for underwriting for a number of reasons,” explained Owen Verrier Jones, Head of Sponsor Coverage and Origination at SMBCE. “Firstly, underwriting enables banks to take fees without committing significant long term capital, so you improve your return equation. Secondly there is a desire amongst senior bank management to compete on service



Funds are definitely targeting larger deal sizes because they believe their ability to put out more capital per transaction can be competitive with the more volatile bond or syndicated loan markets. But this needs to be put into context. There are only a dozen or so funds that have the firepower to do this.”



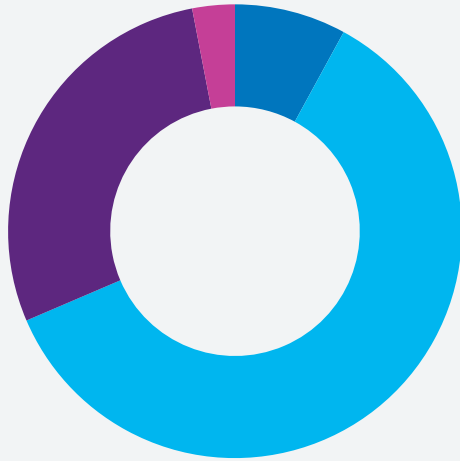
Philip Butler
Debt Finance Partner
DLA Piper, London



There is plenty of liquidity, plenty of flexibility and plenty of products. Two similar businesses can now have very different terms from each other due to this increase in choice. Private debt funds’ focus on providing the right structure for the company, rather than what suits them, has enabled this diversity of terms in the market.”

Dan Hatcher
Investment Director
Permira Debt Managers

TO WHAT EXTENT DO YOU AGREE THAT TRADITIONAL BANK LENDERS WILL INCREASE UNDERWRITING ACTIVITY IN THE NEXT 12 MONTHS?



- Strongly agree
- Agree
- Disagree
- Strongly disagree

rather than on big holds and going through a distribution process enables the bank to hold less. Finally banks had confidence that if they go down an underwritten route they won't be stuck. This confidence comes from the large number of funds that have raised money to target the mid-market, be it CLOs or specific side cars or other funds. The outlook for 2016 is less clear as new CLO issuance is down and the cost of CLO AAAs is up."

These strategies should not be interpreted as a sign that banks are under immense competitive pressure from alternative lenders across the entire deal spectrum. Indeed, despite the increase in the number of alternative lenders and the diversity of products they offer, many deals remain more relevant to senior-only structures more often still provided by traditional banks.

This could either be because the sponsor values its relationship with a bank or because the deal does not require leverage beyond what a senior-

only bank-lead structure can provide. It's worth remembering that despite the influx of alternative lenders during the last three years, almost half of survey respondents expect senior-only structures to be the most common mid-market structure in 2016, more than double the number that expect any other structure to be most common.

"Banks remain highly relevant and still account for c. 50% of mid-market debt financings," confirmed Ian Tetsill, Head of Debt Finance Originations at Barclays. "In certain situations, leverage/pricing/structure dynamics will mean that deals will not suit funds and a bank(s) solution will be more appropriate. Sometimes banks will have more appetite to support their existing clients and of course at the large cap end the dynamics are different, where the model is very much about banks arranging and distributing into the institutional market."

"Funds aren't the enemy, and that's speaking as a bank," added Andrew Tully, Head of Corporate & Structured Finance at Santander. "Of course, there will be times when they compete with us and there are situations where a fund might win, for example if you are a borrower wanting to raise £200 million in a change of control deal, then perhaps to have one institution that can do all of that is attractive. But where there is a fund there is always a bank, you need banks to come in and do the working capital funding, provide facilities for capital expenditure or acquisitions, so there are plenty of opportunities to work together. Also, two years down the road and things might be different so we then see opportunities that come out of the deals that were originally done by a fund."

THE MATURING UNITRANCHE OFFERING

The unitranche structure continues

to evolve, with first out/last out structures increasingly being an option for borrowers. Unitranche/super-senior products typically include a revolving credit facility provided by banks, with the super-senior facility typically accounting for under 10% of the capital structure.

First out/last out structures are similar but the first out tranche (which has super-senior like characteristics) accounts for a larger percentage of the capital structure because a capex line or part of a term facility is also provided. In both cases, the bank is 'first out', so is repaid first upon enforcement.

Survey respondents expect unitranche/super-senior deals to be the third most common mid-market deal structure in 2016, behind only senior-only deals and European term loan B products. And while survey participants are not bullish on the prospects for first out/last out structures becoming mainstream – only 9% of respondents expect this structure to be amongst the three most commonly used in the mid-market – anecdotal evidence suggests they will be more frequently used this year.

“We didn't see a great deal of first out/last out in 2015 but that said it did start to creep in towards the end of last year,” explained Ian Crompton, Deputy Head of Leveraged Finance at HSBC. “People are talking about them a lot and they will increasingly become a feature in 2016.”

These structures are expected to be more widely used because they offer a number of advantages to banks, funds and borrowers. For funds, these structures enable a cheaper blended price to the borrower. For banks, it enables them to retain a material hold and economics in deals they might not otherwise have been able to do.

A number of banks and alternative lenders have formed partnerships to offer unitranche and super-senior or first out/last out structures. A recent notable example is the partnership



Intercreditor positions are fundamental and really can get in the way of speedy deal execution. Often people think the intercreditors will be relatively straightforward to agree because a two-page heads of terms is in place for a first loss/second loss piece. But it's not necessarily so easy when you get into the detail. People shouldn't underestimate the practical implications of executing new structures.”



David Miles

Head of London Debt Finance
DLA Piper, London

established in December 2015 between Barclays Corporate Banking and Ares Management to jointly provide financing for UK mid-market financial-sponsor backed companies.

A crucial advantage of these partnerships is that they ease the process of agreeing full form intercreditor agreements if they have been structured in detail at the outset. Partnerships also allow both banks and funds to tap into each other's relationships and deal origination platforms.

However, despite the large number of these partnerships being formed and the increasing talk of these deals, not everyone is convinced these structures will continue to gain market share. “There has been a lot of talk about first out/last out and we have formed partnerships with banks to do this but there has not been much action,” commented Neale Broadhead, Managing Director and Portfolio Manager at CVC Credit Partners. “It's more cumbersome and complex to do these structures so direct lenders will just do a straightforward unitranche if they can. They would offer the bifurcated structure if it helps win the deal.”



Banks and funds are collaborating more than they ever have, but the nature of the collaboration is a bit different to what it was a few years ago. There are fewer exclusive arrangements now and many more examples of banks taking the first turn or two of a unitranche on a first out basis in addition to the ancillary facilities. Most people are willing to work with most people.”

Philip Fretwell

Partner

TPG Speciality Lending

Sponsor backed companies are undoubtedly the largest users of unitranche structures. However, the ability of alternative lenders to lend across the capital structure coupled with their large hold sizes is increasingly making them attractive to private companies. According to data compiled by Deloitte, 25% of direct lending deals structured in the third quarter of 2015 were for private companies. In contrast, only 12% of direct lending deals involved private companies in the third quarter of 2013².

ANOTHER YEAR OF TWO HALVES FOR HIGH YIELD

As with the year before, the high yield market was a viable source of finance for borrowers in the upper mid-market in the first half of last year due to the relatively benign economic conditions and the expansionary policies of the European Central Bank. But this all changed after the summer following the issues in Greece, China's equity collapse and uncertainty about the direction of the U.S. Federal Reserve's rate policy, all factors exacerbated by the continuing decrease in commodity prices.

The tough market conditions in the second half of the year expectedly impacted deal activity, but even in the first half of the year high yield issuances to fund acquisitions were limited.

“In the first half of 2015 there was almost unlimited liquidity for deals but unfortunately not a lot of leveraged buyouts actually happened,” explained Henrik Johnsson, Head of EMEA Debt Syndicate at Deutsche Bank. “This is because most private equity houses at that time were selling instead of buying and, because the equity markets were very strong, a lot of the deals that were dual track options ended up listing. Secondly, corporates were extremely well capitalised having been very conservative in managing their cash in the previous three to four years. So while there were a few notable LBOs, overall volumes were down on a year-on-year basis. This meant investors were very reliant on refinancings.”

Survey respondents are not optimistic of a resurgence in high yield issuances in 2016 in the mid-market. Only 17% of survey respondents expect secured high yield bonds to be the most common non-bank acquisition finance debt structure in 2016, making it the anticipated third most common structure behind unitranche and mezzanine. Three years ago, survey respondents expected high yield bonds to be the most common non-bank structure.

That said, there are some reasons for optimism. “I think that deal activity will be robust in 2016, partly because a lot of private equity houses that were selling last year when the equity markets were hot are now buying assets again,” predicts Johnsson. “Volatile equity markets improve the prices at which assets can be bought and this will drive LBO volume. So even though it is scary to see what the equity markets are doing, it doesn't hurt for the high yield market.”

Although there was some talk that high yield might be a viable option for mid-market borrowers two years ago, this has not materialised to any great extent. For a start, high yield issuers typically

² Deloitte Alternative Lender Deal Tracker Q3 2015

require EBITDA of between €50-€75 million, which rules out much of the mid-market. More importantly the influx of alternative lenders to the mid-market made high-yield relatively less attractive. That said, high-yield is compelling in certain scenarios at the upper end of the mid-market, particularly for companies that are considering an IPO at some point in the future.

SECOND LIEN AND HOLDCO PIK: BECOMING AN OPTION

These structures have been used on some deals and are discussed more frequently than 24 months ago. But, unsurprisingly, survey respondents do not expect second lien or Holdco PIK products to become particularly common acquisition finance debt structures in 2016 in the mid-market.

Second lien typically enables large borrowers (with EBITDA in excess of €50 million) to inject more leverage than senior debt can provide. The abundance of liquidity at the large end of the market in the first half of the year meant desired leverage levels could be achieved with senior or unitranche structures, limiting the opportunity for second lien.

“In the large market there was less second lien than expected because at the beginning of last year the market was frothy so people could just stretch senior leverage and do away with second lien,” explained David Parker, Partner at Marlborough Partners. “At the back end the market deteriorated to the extent that lenders didn’t want to do many second lien deals, the investor base wasn’t there. There have been some PIK notes in the mid and large market but there was no massive shift as there was in 2006 and 2007 when everything had a bit of PIK. We are more finding that direct lenders will give you a toggle on some of it but it is not typical to have a full PIK.”



2015 was not overly active in the acquisition space for high yield. A lot of high yield bonds were put in place in ‘bank-to-bond’ refinancings during the recovery from the financial crisis. Those are reaching maturity or cost-effective call dates, so refinancing will continue to be the dominant activity for high yield during the coming year. How much of that refinancing activity will take the form of ‘bond-to-bank’ reversions is an open question, but the trend looks strong.”



Tony Lopez

Debt Capital Markets Partner
DLA Piper, London

HOW IS THE US MARKET IMPACTING EUROPE?

The acquisition finance debt market is increasingly global, particularly at the upper end of the market, so naturally events in the US will impact lending dynamics in Europe. A few years ago the US market was happy hunting ground for European borrowers because market terms were much more attractive than in Europe. However in the last 24 months pricing in Europe has tightened and covenant packages loosened, making borrowing in the US less attractive.

Since the summer of last year volatility in US equity and high yield markets has further tipped the balance to the extent that borrowing is now relatively more attractive in Europe, even for some US borrowers. “Since the summer the US has got incredibly expensive, so if you are borrowing you are looking to borrow in Europe, but even then it is still expensive,” explained David Parker, Partner at Marlborough Partners. “The amount of European borrowers borrowing in the US on a cov lite basis dropped off a cliff in 2015. For

the first time in ages there are reverse Yankee loans, where US borrowers have borrowed in Europe because on a relative value basis it's more attractive."

Although US lenders are now less active in Europe, the looser covenant packages and generally more borrower friendly packages that originated in the US look likely to remain a permanent feature of the European mid-market. Of course the strong presence of private debt funds as a genuine alternative to banks that has only recently materialised in Europe has long been a feature of the US market.

Yet despite some similarities it is worth remembering that the US market is still fundamentally different in many ways. "The UK market in particular is transforming towards a US-style market but is not there yet," confirmed Floris Hovingh, Head of Alternative Lender Coverage at Deloitte Debt Advisory. "There are probably 60 direct lending funds in the UK but 300 in the US, partly because the US is a more mature and larger market. The UK also doesn't have any retail money like in the US, where there are tax-efficient listed business development companies that raise money from individuals to lend on to private companies. In contrast to the UK, the US direct lending market has been through economic cycles and multiple vintages of fund raising, hence managers have learned from past mistakes. As such, the US market is more disciplined in terms of pricing, leverage and other terms. Our first-hand experience on US transactions is that feedback from lenders on transactions is much closer aligned than in Europe."

The US is also impacting the European market through FED guidance that leverage should not exceed six times earnings and that debt should be able to be repaid within a reasonable timeframe.

"The FED guidelines relative to leverage and cash flow recommendations are important and have resulted in leverage levels falling materially in the



The US acquisition debt finance market has impacted underwritten deals in Europe but less so for club deals. Certain investors that would buy underwritten leveraged loans also look at the relative value of European leveraged loans compared with the US market."

Simon Chambers

Managing Director

Altium

US, particularly in the large cap space," explained Richard Roach of RBS. "The FED has said a maximum of 6x leverage and US banks have taken heed of this. While these principles have not been put across in the UK or Europe yet, they are principles that regulators are aware of. This is maybe something to look for going forward from a regulatory perspective as what happens in the US tends to filter out globally."

TERMS NOW MAIN NEGOTIATING POINT

MARGINS AND FEES SLOW PACE OF DECLINE

There was no material change in margins or fees last year despite the increase in liquidity. On average, survey respondents and interviewees report a 25 bps decrease in margins and fees combined. This is for two reasons. Firstly, deal activity increased last year so could absorb the extra liquidity without significant margin or fee compression. Secondly, lenders are reluctant to further reduce pricing or fees because they have already decreased so much in the past three years.

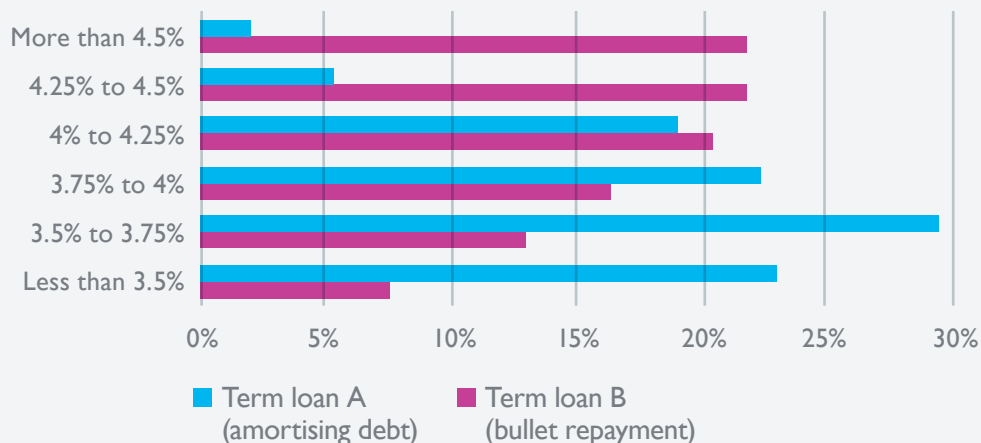
Survey respondents do not expect margins to decrease next year – 52% expect senior term loan A debt margins to be less than 3.75% in 2016, less than the 58% forecasting sub-3.75% margins last year. Survey participants predict alternative debt products will be priced at a significant mark-up to senior in 2016.

“The cost has gone up since the first half of last year and at the beginning of 2016 your average high yield is yielding four and three quarters,” explained Henrik Johnsson, Head of EMEA Debt Syndicate at Deutsche Bank. “There is a massive gap up to the US market, probably the biggest it has ever been. Sterling is priced between the Euro and the dollar but there isn’t that much sterling currency high yield issuance.”

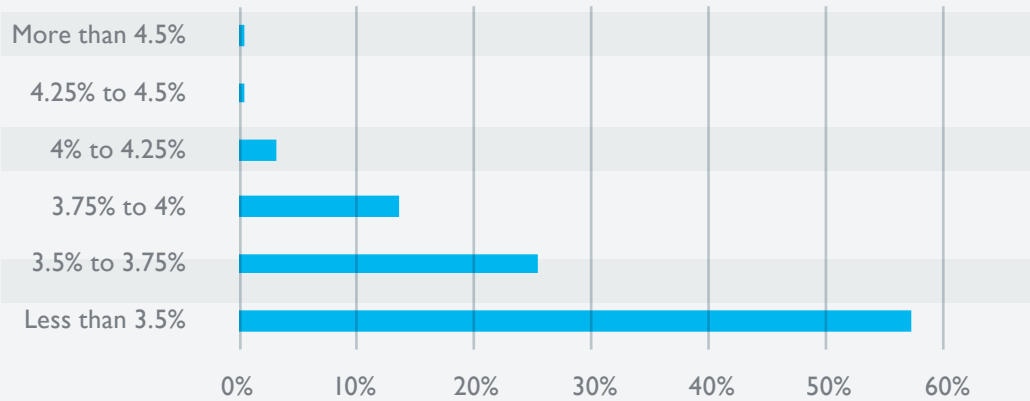
Pressure on arrangement fees looks set to intensify through 2016 – 57% of survey respondents expect senior debt arrangement fees to be less than 3.5% in 2016. Only 48% forecast sub-3.5% fees last year. Fees for alternative products are expected to be 3.0%-3.5% in 2016. The exception is high yield bonds, for which fees of around 2.5% are forecast.

“In terms of pricing, upfront fees tended to be c. 4% not so long ago, this is now c. 3%,” confirmed Tara Moore, Managing Director at Guggenheim Partners. “This is now seen as pretty normal

WHAT DO YOU THINK WILL BE THE TYPICAL SENIOR DEBT MARGIN FOR A TRANSACTION IN 2016?



WHAT DO YOU THINK WILL BE THE TYPICAL SENIOR DEBT ARRANGEMENT FEE FOR A TRANSACTION IN 2016?



across the market. Plus documentation has loosened on a number of fronts including the number of financial covenants included. New funds are coming to the market constantly and as a result terms and pricing are key competitive factors when looking at quality transactions.”

LEVERAGE NEARING ITS PEAK

Market participants report that leverage notched up around a quarter of a turn of EBITDA in 2015, less than the half turn increase in 2014. The survey data indicates there may be some further pressure on leverage next year – 44% of respondents expect leverage to be over 4x on senior deals in 2016 compared with 33% last year.

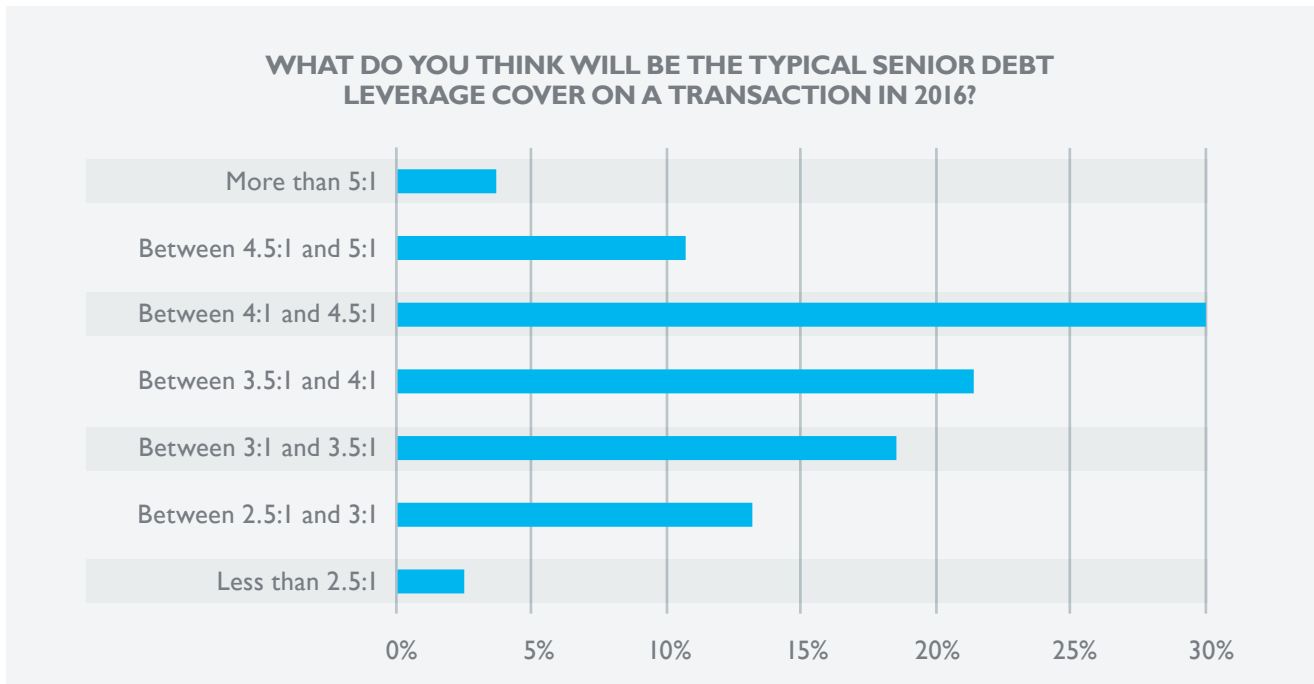
However there is also a strong view that leverage is close to hitting its peak. “Leverage has definitely hit a ceiling,” confirmed Floris Hovingh, Head of Alternative Lender Coverage at Deloitte Debt Advisory. “Most unitranche transactions are being done at 5.0x or 5.5x. We have seen lenders becoming more cautious as there is a

high likelihood that the European loan market will follow soon the US loan and the global equity market adjustments.” Survey respondents expect alternative debt products to provide significantly more leverage.

COVENANT EROSION CONTINUES

All interviewees report that the intensification of competition amongst lenders resulted in the continued erosion of covenant packages. Covenant loose structures have long been a feature of the large cap market, but last year they also entered the mid-market. According to a Moody’s report, over half of speculative-grade bullet repayment loans in Europe were covenant loose in 2015, compared with only 43% in 2014 and 17% in 2013³. The majority of covenant loose loans only contained one financial maintenance covenant.

“The biggest shift for the heavily competed, advised led transactions was in documentation and terms,” explained Mark Bickerstaffe, Managing



Director at Hayfin Capital Management. “Four covenants were historically very common and standard in the mid-market. Now you are seeing a lot of the big cap single to three-covenant packages pushing down into unitranche and larger mid-market structures. This clearly wasn’t the case 12-18 months ago. Interest cover and cash flow cover are the first to drop. Leverage is the last to go.”

Other parts of the loan documentation also became significantly more borrower friendly in 2015. “In certain deals borrowers will seek to water down covenant definitions, so the covenants may look reasonably comprehensive but if you pick apart the language that has been negotiated there is much more flexibility baked into the covenants than historically,” explained James Ranger, Head of Mid Markets, Acquisition Finance at Lloyds Bank. “Across the board terms have come under pressure, with certain lenders prepared to concede looser EBITDA definitions and wider synergy baskets. Borrowers are being granted more

flexibility to execute strategy beyond the financing plan including acquisitions. Lenders who are prepared to accept weak terms and high leverage may find that they are delayed in coming to the table in a distressed situation and, by the time they do, find themselves facing a very different business and credit from the borrower they originally backed.”

³ Moody’s: Covenant-loose to remain the norm in 2016 for European leveraged loans

UK

HEADWINDS AND TAILWINDS IN EUROPE'S LARGEST MARKET

Deal makers report an increase in transaction volumes last year and a healthy mix of acquisition financings, refinancings and recapitalisations. Deal activity growth was catalysed by the abundance of private equity firepower and debt liquidity. The encouraging outlook for economic growth at the beginning of the year – the IMF forecast 2.7% GDP growth at the beginning of 2015 – also created a positive environment for M&A activity. That said, there is a sense that M&A activity was quieter than anticipated at the beginning of 2015.

Survey respondents expect this level of deal activity to be maintained this year – 94% expect transaction volumes to increase or remain stable in 2016. In addition, survey participants expect the UK to be the most active market in Europe – 66% expect the UK to be the most active market in 2016, significantly more than the number that expect Germany (15%) or France (4%) to dominate.

However, the survey data also offers a note of caution. Only 36% of participants predict an increase in deal activity in 2016 compared with 54% last year. This is partly a natural consequence of the large increase in deal activity last year, but also because the UK economy is perhaps not as healthy as previously thought. Indeed in December 2015 the Office for National Statistics (ONS) revised down third quarter GDP growth from 0.5% to 0.4% and second quarter growth from 0.7% to 0.5%. Borrowing figures were also much worse than expected. Survey respondents might also be less bullish on UK deal activity due to the

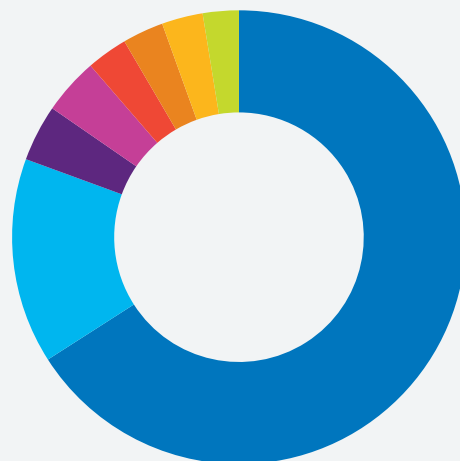


While deal activity started relatively slowly in January, lenders currently remain positive overall about the year ahead, notwithstanding the macroeconomic conditions.”



Julie Romer
Debt Finance Partner
DLA Piper, London

WHICH EUROPEAN JURISDICTION RANKED BY VOLUME (DEAL NUMBERS) IN THE EUROPEAN ACQUISITION DEBT MARKET WILL BE THE MOST ACTIVE IN 2016?



- UK
- Germany
- Other
- France
- Italy
- Benelux
- Nordics
- Spain

uncertainty that might result from the Brexit vote in June this year.

Deal activity aside, the UK market is notable for the large presence of alternative lenders. Some 45% of European mid-market deals involving alternative lenders in the last three years were executed in the UK, significantly more than the 25% executed in France and the 12% recorded in Germany, according to Deloitte⁴. A new feature of the market in 2015 was that a number of debt funds established outside London. For example Toscafund, Muzinich & Co and Infinity Debt Fund all opened in Manchester in the second half of 2015.

The growing presence of alternative lenders means that UK borrowers potentially have much more product options including senior, unitranche, mezzanine, high yield and second lien in a variety of combinations compared with borrowers in other European countries. Tellingly, 59% of UK respondents expect non-senior only structures to be the most common mid-market acquisition finance deal type in 2016. On average, 49% of survey respondents outside the UK expect non-senior only structures to be most common.

At the upper end of the mid-market, the retrenchment of US lenders resulting from the increase in US yields might cause some liquidity to exit the market. This is because the UK has historically benefited more than other European countries from an influx of US lenders and products. Indeed 56% of UK-based survey respondents stated their market is significantly influenced by US lenders, products and the high yield market, significantly more than the 22% of non-UK respondents that believe this to be the case.

⁴ Deloitte Alternative Lender Deal Tracker



Whilst last year saw increased levels of M&A activity and there was plenty of private equity dry powder and debt liquidity, corporates have been conserving cash and have been competing alongside private equity in auction processes, often successfully. There were also dual track processes being run and many private equity sponsors saw better valuations through an IPO. Both of these factors took away some of the supply of leveraged loan backed buyouts.”



Andy Kolacki

Debt Finance Partner
DLA Piper, London



GERMANY

ALTERNATIVE LENDERS MAKING INROADS



Acquisition finance debt deal activity increased in Germany last year due to an uptick in M&A and refinancing activity. This was caused by an improvement in liquidity leading to lower margins and more borrower friendly structures and covenant packages. Wolfram Distler, Partner at DLA Piper Frankfurt, believes margins decreased by 50-100 bps during the first half of last year, depending on the deal and financing structure. In the second half of the year margins increased slightly.

Liquidity improved due to an increase in participation from banks located in Germany, across continental Europe, the UK and the US, and also direct lending funds. When direct lending funds first entered the German market two to three years ago they were typically significantly more expensive than banks. But market participants report funders have since lowered their pricing to the extent that they are securing market share



Lots of M&A is not financed by acquisition finance in Germany, but by strong strategic investors using available cash or general corporate lending facilities. Still, we did see an increase in structured financings last year, caused by strong liquidity and attractive pricing. This came from both banks and debt funds. Debt funds have huge liquidity and are looking for financings and opportunities. They used to be very expensive when they entered the German market but since then margins have come down significantly. This is why they closed more deals than ever before in the German market. That said the percentage of deals done by debt funds is still much lower than in the UK.”



Wolfram Distler

Partner
DLA Piper, Frankfurt



and providing genuine competition to traditional bank lenders.

As mentioned in last year's report, another factor that was hindering alternative lenders in Germany was the ongoing speculation about tighter regulation of alternative lenders, which would have made it more difficult to operate. This is no longer a fear as the German regulator has since stated that it will accept debt funds.

Survey respondents expect the growing presence of direct lenders will result in more alternative structures being used. Around half of respondents expect senior-only structures to be most common in 2016. Last year every German respondent expected senior-only structures to dominate.

Deal activity was also robust due to the solid economic performance. Initial estimates from Germany's Federal Statistical Office indicate the economy grew by 1.7% in 2015. GDP growth of 1.8% is forecast for 2016.

The factors that caused deal activity to increase in 2015 are still in place. This is why all survey respondents expect the volume of deals to increase or at least remain constant in 2016. Like previous years, survey respondents expect Germany to be the second largest European market for acquisition finance debt, behind the UK.

However, despite the increase in transaction volume, dealmakers remain frustrated that the volume of deals is not particularly large relative to the size of the German economy. This is primarily because many large and medium-sized German corporates are cash rich and have deleveraged since the crisis, meaning they can finance acquisitions without additional debt. There are many private equity houses in Germany, but they are often hamstrung by a cultural preference to sell to corporates. This also reduces the volume of leveraged buyout activity.

FRANCE

BORROWERS DEMAND FLEXIBILITY AS LIQUIDITY IMPROVES

2015 was a very busy year in France's acquisition finance debt market. This was driven by an improvement in liquidity resulting from a surge in alternative lenders providing financing. Indeed, outside the UK, alternative lenders have the largest presence in France – 138 alternative credit provider-lead financings were structured in France in the last three years, accounting for 25% of all investments made by alternative lenders across Europe⁵.

2016 looks set to be another active year – 88% of survey respondents expect deal activity to increase or at least be at a similar level to 2015. This bullish outlook is despite the country's relatively poor economic performance. Various banks estimate that GDP grew by a miserly 1% last year.

Although alternative lenders are gaining market share, banks are still active, particularly in deals requiring less than €200 million of debt, where banks are often cheaper and are preferred by sponsors.

The overall increase in liquidity resulted in competitive pressure on pricing, with unitranche now priced around 7%, depending on the specifics of the deal, and senior at around 4%. But the greatest pressure has been on deal terms, with borrowers now demanding and securing flexible terms relating to capex, portability provisions and many other aspects of the loan documentation.

Direct lenders have been active in France for at least two years now, so the unitranche structure is well

understood and widely used. In addition, market participants report that a small number of second lien deals were structured last year.



Second lien, which is usually used by Anglo-Saxon debt providers, is actually the new fashionable name for mezzanine. More generally I think that the coming years will be challenging because there are so many debt providers and there is so much equity to be invested. Market players are more and more concerned about a key question-how further can we go in terms of price, leverage and aggressive structures? Many are betting on having time to exit before the new restructuring wave and that the underlying businesses are strong enough to avoid impacts of an economic reversal.”



Maud Manon
Partner
DLA Piper, Paris



⁵ Deloitte Alternative Lender Deal Tracker

THE NORDICS

LOW OIL PRICES CREATE UNCERTAIN MARKET OUTLOOK



Acquisition finance debt deal activity decelerated in 2015 due to a slowdown in Norway and Sweden, the two largest markets in the region. In Norway, ongoing low oil prices coupled with volatility of the Norwegian Kroner caused investors to hold back. Oil and gas exploration and services businesses account for a sizeable chunk of Norway's economy, so uncertainty in this industry has a large impact on overall deal activity. In Sweden, acquisition finance transactions were held back by the attractiveness of the IPO market, meaning many companies elected to list rather than sell to a private equity house.

Survey respondents have mixed views on the outlook for deal volumes in 2016 – 40% of respondents located in the Nordics forecast an increase, 53% forecast no change and 7% expect a decrease.

“

The high yield bond market has been dead for some time now for Norwegian issuers. Norwegian banks or branches of international banks operating in Norway are certainly active but are being pickier. There is also more competitive pressure from alternative lenders. However foreign alternative lenders which are not required to hold a lending permit in their local market are generally restricted from actively marketing their services in Norway due to stricter licencing requirements. If you do not have an existing permit to passport from, for instance, the UK or Sweden, it takes a lot of time and money to get a permit and is a lot of hassle.”



Dag Thomas Hansson

Partner
DLA Piper, Norway

A number of factors might contribute to an increase in transactions volumes. Firstly, the volatility in the equity markets has resulted in company sales becoming relatively more attractive than IPOs. This may trigger an increase in acquisition finance debt transactions this year. In addition, the strong performance of Sweden's economy should create an environment conducive to an upturn in deal activity. The IMF forecasts GDP growth of 3% in Sweden in 2016 compared with 2.9% in 2015.

The high-yield market is not currently an option for borrowers. But despite this, there is plenty of bank liquidity for sponsors seeking acquisition finance. This has resulted in pressure on margins and leverage and the loosening of covenant packages. That said banks are increasingly focusing on higher quality credits.

Alternative lenders failed to gain market share in the Nordics last year although are executing a handful of deals. Deal makers report that general sentiment towards debt funds is gradually improving, indicating they may grab more market share this year. Norway may prove challenging for alternative lenders to penetrate, simply because of the time, cost and effort needed to secure a permit to lend.



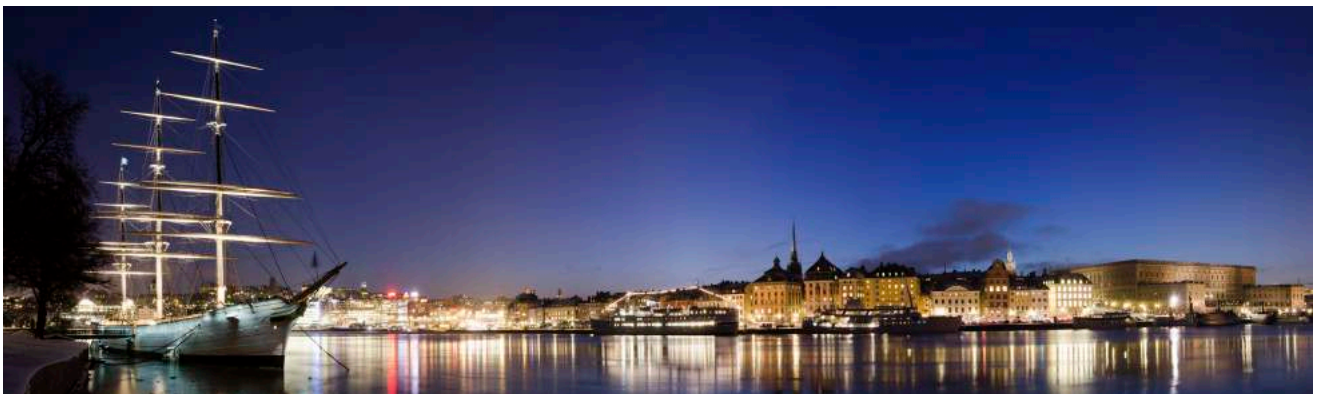
I think there will be an uptick in private M&A activity in 2016 because the IPO market has been open for such a long time and it seems like it should be coming to a close given the volatility we have seen at the start of the year. Anecdotal evidence speaks to several offerings being cancelled or deferred. Also, quite a few high yield bonds structured in the last cycle are about to run into trouble and will be in need of restructuring. These two factors should create ample opportunity for traditional bank and alternative lending in 2016.”



Björn Sjöberg

Partner

DLA Piper, Sweden



SPAIN

MID-MARKET DEAL ACTIVITY ON THE RISE

Spain's acquisition finance debt market has truly recovered following a long period of subdued activity after the financial crisis. Deal makers report a significant increase in deal activity last year, driven by a surge in primary mid-market transactions.

The increase in deal activity was underpinned by an improved economic performance. GDP grew by 3.2% in 2015 and is forecast to grow by 2.8% in 2016, according to The Bank of Spain. Furthermore, bank liquidity has improved and traditional lenders that were dominant in the pre-crisis days, including Bankinter, BBVA, Caixabank, Banco Sabadell and Banco Santander, are now active again.

Survey respondents are confident that this growth will be maintained in 2016. Some 77% of Spanish survey respondents expect deal activity to increase in 2016. This is a larger number than in any other European country.

International banks are currently not particularly active in Spain because most deals require less than €80 million of debt so are too small. For this reason, and also because banks are able to lend at margins of 200-250 bps, alternative lenders have struggled to make a material impact. That said, several unitranche and mezzanine deals did close in 2015.

While competition between banks has intensified, there is a sense that banks have adopted a prudent approach and are not lending on terms that are anywhere near as aggressive as during the pre-crisis days. According to Cesar Herrero, Partner at DLA Piper Madrid, debt to equity ratios are around 55/60:45/40, compared with 80:20 in 2005 and 2006.



We expected 2015 to be a busy year and it was. Driven by more liquidity and improved economic confidence, deal activity definitely increased. Most financings are senior only structured with acquisition related and refinancing tranches and, in some cases, revolving and capex facilities. It is challenging for alternative capital providers to be as active as they are in other European jurisdictions since bank lenders have increased their lending targets. Also, we are starting to see appetite to fund LBO transactions through bonds.”



Cesar Herrero

Partner
DLA Piper, Madrid

ITALY

DEAL ACTIVITY TICKS UP AS LEGISLATION OPENS THE GATE TO ALTERNATIVE LENDERS

Market participants report a moderate increase in deal activity last year resulting from an increase in mid-market M&A activity. As in other countries this was caused by an improvement in economic conditions and greater bank liquidity. However there remains an absence of large-cap deals in the Italian market, with only a few reaching completion last year.

The survey data suggests transaction volumes will increase in 2016 – 68% forecast an increase in deal numbers this year. The improved outlook for economic growth is no doubt behind some of this optimism. The Bank of Italy forecasts 1.5% economic growth in 2016 compared with 0.8% in 2015.

The increase in liquidity primarily came from Italian banks ramping up their lending appetite. In contrast, few international banks and even fewer alternative lenders are active in Italy. This is due to a number of long-standing regulatory issues that hinder international investors in Italy. But during the course of this year legislation is expected to be enacted that will ease international and alternative lenders' entry into Italy.

The improvement in liquidity put pressure on margins, leverage and covenants, but deal makers report only a minor decrease in margins, primarily because banks are still cautious.



The regulatory and tax restrictions that Italy traditionally presented for foreign and non-bank credit providers have partially been removed during the past two years. Some restrictions still apply, depending on the financing instrument, but the process of opening the market to a wider range of finance players and products is expected to continue in the immediate future, as also evidenced by the recently enhanced Law Decree 18/2016 authorising in Italy the direct lending of EU alternative investment funds. In particular, substantially shorter timings for court judgments and clearer rules on tax regimes would help. The acquisition finance market has improved in 2015 but still suffers from low investment return rates and a real economy that - caught between a global recession and the current domestic bank crisis - struggles to grow. In the next two years this improvement is expected to continue.”



Mario D'Ovidio

Partner
DLA Piper, Milan



2015 was more active than 2014. Most deals are for mid-market targets and involve industrial strategics rather than fund investors. Bank liquidity significantly increased last year. There is currently very strong competition among bank players on acquisition finance products for a restricted number of strategic/credit worthy corporate clients.”



Ugo de Vivo

Senior Counsel
DLA Piper, Milan

THE NETHERLANDS

ECONOMIC OPTIMISM DRIVES SURGE IN DEAL ACTIVITY

Acquisition finance debt transaction volumes increased significantly in The Netherlands last year due to a surge in M&A activity, driven by an increase in (economic) optimism. The Netherlands experienced GDP growth of 2% in 2015, according to the Bureau for Economic Policy Analysis. 2.1% growth is forecast for 2016. The increase in deal activity was aided by an improvement in bank liquidity.

Deal makers report that liquidity improved to the extent that borrowers are now able to dictate borrowing terms, resulting in much looser covenant packages. The liquidity improvement also put pressure on pricing, leverage and equity contributions. Indeed equity contributions are now under 45%, compared with around 60% in 2012.

Survey respondents expect the acquisition finance debt market to remain buoyant in 2016 – 94% expect deal activity to increase or remain constant this year.

Unlike in other European countries, alternative lenders have failed to make inroads, at least not in any significant way. Instead the majority of financings are senior-only structures and are dominated by Dutch banks. Survey respondents don't expect this trend to reverse any time soon – only 17% expect unitranche structures to be the most common mid-market acquisition finance debt structure in 2016.

“

The developments in the macro-economic situation has resulted (and is expected to continue to result) in increased M&A and leveraged finance activity. There is more liquidity in the market, which impacts on the willingness of lenders to finance transactions but also puts downward pressure on margins. In addition, sponsors (in larger transactions) are becoming more demanding in terms of covenants with lenders often being requested to conclude transactions on the basis of sponsor side documentation. Unitranche financing structures are relatively uncommon but are increasing and are expected to increase in popularity.”



**Gerard Kneppers
and Lex Oosterling,**

Partners

DLA Piper, Amsterdam



BELGIUM

PROMISING SIGNS OF DEAL ACTIVITY

A cocktail of abundant liquidity and strong economic growth caused M&A activity to increase significantly in Belgium last year. Around half of acquisitions are financed using debt, so this caused a surge in related financing activity.

Economic confidence has not deteriorated – 1.3% GDP growth is forecast for 2016 and 1.4% growth was recorded in 2015 according to the National Bank of Belgium – so deal activity should remain robust this year. Every surveyed individual located in Belgium expects deal activity to increase or at least remain stable in 2016.

One reason why the acquisition finance market is so robust is the presence of a large number of SMEs that represent attractive targets for private equity funds pursuing a buy and build strategy including bolt on acquisitions.

Another distinguishing feature of the Belgian market is the small size of most transactions. Indeed the majority of deals require €30-€100 million of debt, which is small by European standards.

Alternative debt funds have failed to make an impact. This is partly because deal sizes are relatively small, meaning the unitranche offering is less compelling, and also because Belgian banks are very active.



Acquisition financings started to increase in late 2014 and this continued throughout 2015. Debt is very cheap and there is lots of appetite for transactions because of increased liquidity. I expect deal activity to remain at the high levels we saw in 2015, which was a big increase on previous years. More banks are now active in Belgium but, while there is a lot of talk about alternative lenders, we haven't seen them close many deals. Some terms such as accordion features are now pretty common as banks are prepared to support buy and build strategies.”



Johan Mouraux
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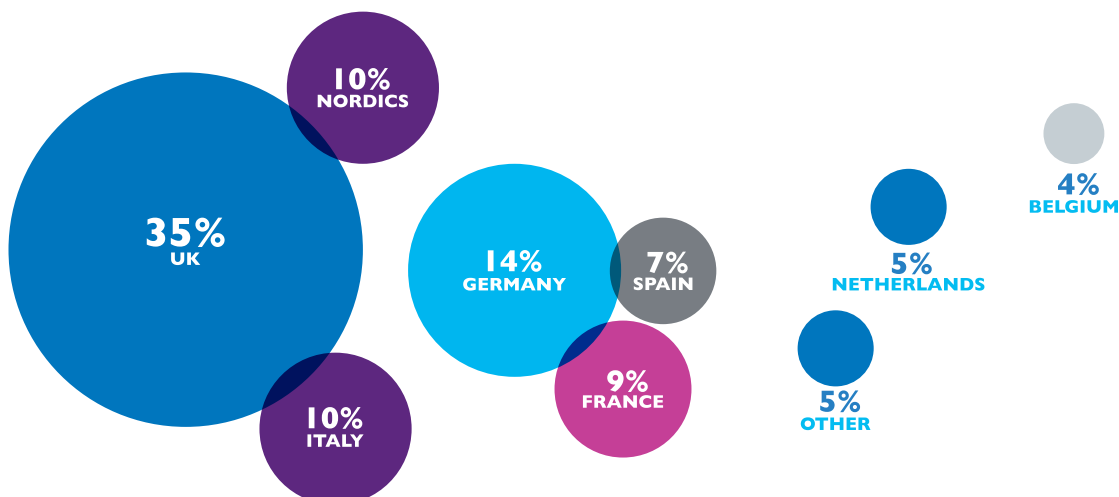
ABOUT THE RESEARCH

The survey and report were written in collaboration with The Lawyer Research Service, a division of The Lawyer. The survey was undertaken in December 2015 and January 2016, and was completed by over 300 debt providers, advisors, sponsors and corporates across Europe. Survey respondents include: Alcentra, Ares Capital Europe, Armada Mezzanine Capital Oy, Babson Capital Europe Ltd, Barclays Bank PLC, Beechbrook Capital LLP, Canaccord Genuity Group Inc, CVC Credit Partners, Danske Bank A/S, DC Advisory Ltd, Deloitte LLP, Ernst & Young LLP, GE Capital, HSBC Bank plc, ICG plc, ING Groep N.V., Investec Bank PLC, KPMG LLP, Leonardo & Co, Livingstone Partners LLC, Lloyds Banking Group plc, Marlborough Partners, NAB Group, NIBC Bank N.V., Nordea Bank AB, PwC LLP, The Royal Bank of Scotland Group plc, Banco Santander S.A., SEB AB, Swedbank AB and UniCredit Bank AG.

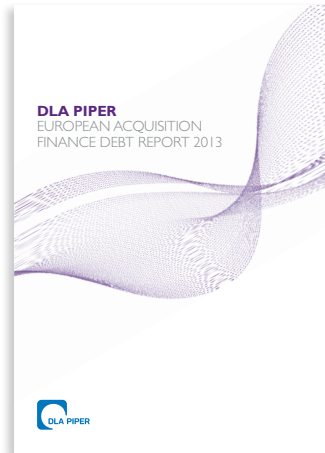
To supplement the survey, interviews were conducted with the following individuals:

- Graeme Delaney-Smith, Head of Mezzanine and Direct Lending, Alcentra
- Mike Dennis, Partner, Direct Lending Group, Ares Management
- Ian Tetsill, Head of Debt Finance Originations, Barclays Bank
- Neale Broadhead, Managing Director and Portfolio Manager, CVC Credit Partners
- Floris Hovingh, Head of Alternative Lender Coverage, Deloitte Debt Advisory
- Chris Skinner, Partner, Deloitte Debt Advisory
- Henrik Johnsson, Head of EMEA Debt Syndicate, Deutsche Bank
- Jon Ferguson, Head of UK Origination, Private Capital team, Goldman Sachs
- Tara Moore, Managing Director, Guggenheim Partners
- Mark Bickerstaffe, Managing Director, Hayfin Capital Management
- Ian Crompton, Deputy Head of Leveraged Finance, HSBC Bank
- Max Mitchell, Head of Direct Lending, ICG
- Callum Bell, Head of Corporate & Acquisition Finance, Investec Bank
- James Ranger, Head of Mid Markets, Acquisition Finance, Lloyds Bank
- David Parker, Partner, Marlborough Partners
- Dan Hatcher, Investment Director, Permira Debt Managers
- Richard Roach, Managing Director, Financial Sponsors UK, RBS
- Mathieu Dartayet, Assistant Director, Debt Advisory, Rothschild
- Andrew Tully, Head of Corporate & Structured Finance, Santander
- Owen Verrier Jones, Head of Sponsor Coverage and Origination, SMBCE
- Philip Fretwell, Partner, TPG Speciality Lending

RESPONDENT BREAKDOWN BY COUNTRY



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