European Leveraged Finance Market - September Update

September 2025

Rothschild & Co

European leveraged finance market observations

1. The run of borrower-friendly conditions has continued despite various macro-economic and geopolitical challenges; both TLB and private credit median spreads are c.50bps tighter than pre-tariffs, while general markets have not reacted to major geopolitical events that would have previously closed them

2. Key European macro-economic indicators such as GDP growth and unemployment have shown resilience and central banks remain in an easing cycle, reducing rates, even though sticky inflation indicates limited room for further near-term cuts

3. 2Q25 set a new quarterly high-yield bond issuance record of €45bn (surpassing the previous €39bn peak in 2Q21), while loan volumes remained robust at €32bn. Despite this strength, subdued M&A activity resulted in €12bn of excess liquidity in June alone, further contributing to the persistent supply / demand imbalance

4. European M&A deal flow has continued to disappoint; activity fell from 3,915 deals in Q1 to 3,509 in Q2, the weakest volumes in c.5 years[1]. Capital markets took some solace from several jumbo LBOs such as Boots / Karo Healthcare but the real winners were those recapping assets, with €9.9bn raised YTD vs €6.6bn in the same period last year

5. Credit funds, many feeling the weight of capital from substantial 2024 fundraises, continue their battle to deploy via increasingly competitive economics on highly tailored financings. Success for the multitude of capital solutions funds with high deployment targets will take longer to assess, but most have maintained discipline in their market approach

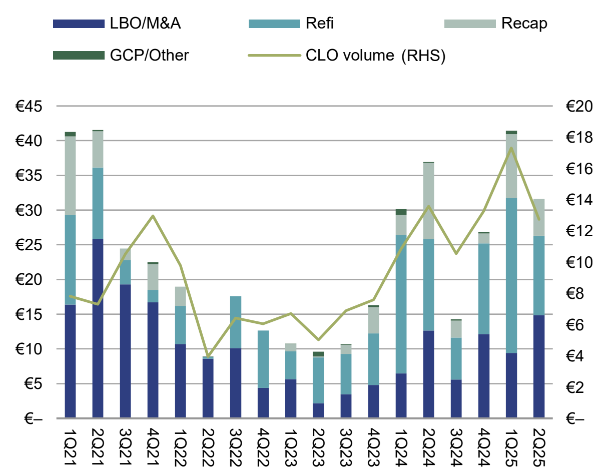
6. While markets remain priced to perfection, many have prioritised speed over perfection in their financing processes given macro-risks; this works for mainstream credits, but several borrowers (and lender deal teams) have been caught out by credit / investment committees calling them on this approach

Sources: Debtwire, LCD, Pitchbook, BofA BBB index
Note: (1) Pitchbook reported deal count, quarterly volumes

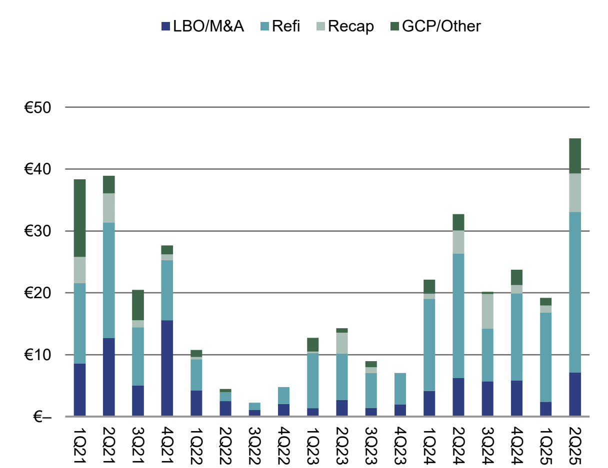
European leveraged finance market metrics

Refinancing and repricing drove activity in the leveraged capital markets, remaining resilient despite Q2 volatility

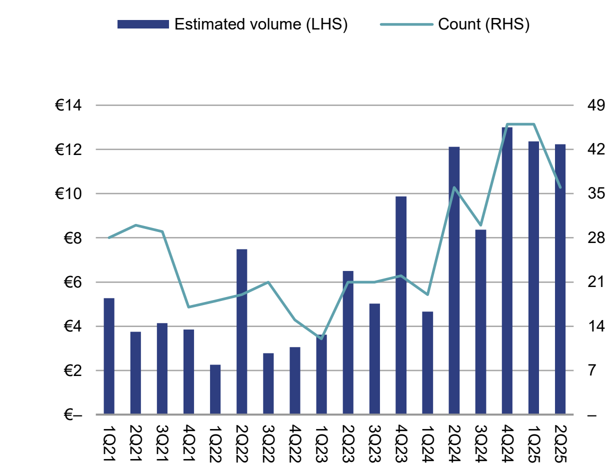
YTD leveraged loan[1] & CLO activity (€bn)



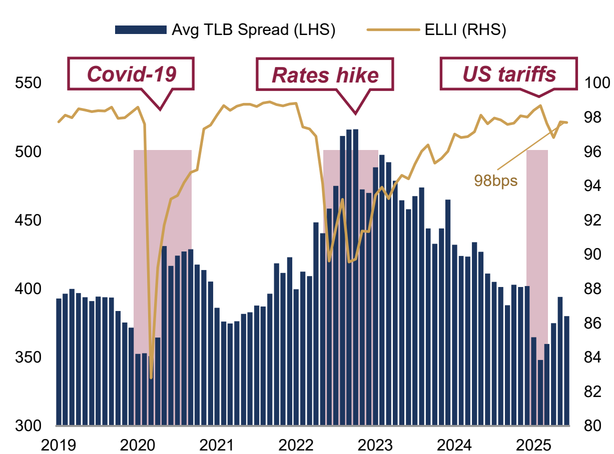
YTD high-yield bonds activity (€bn)



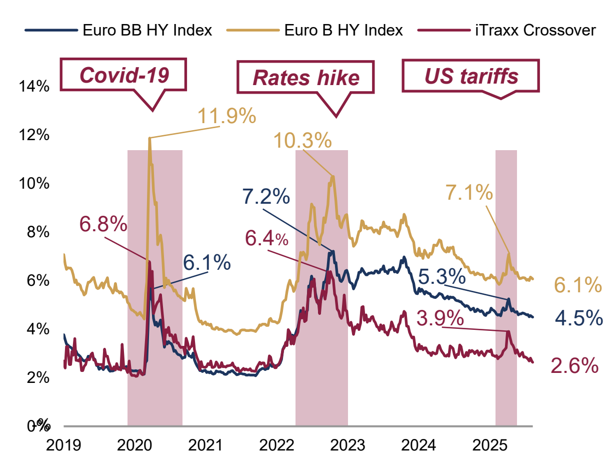
Direct lending deal count & volume (€bn)



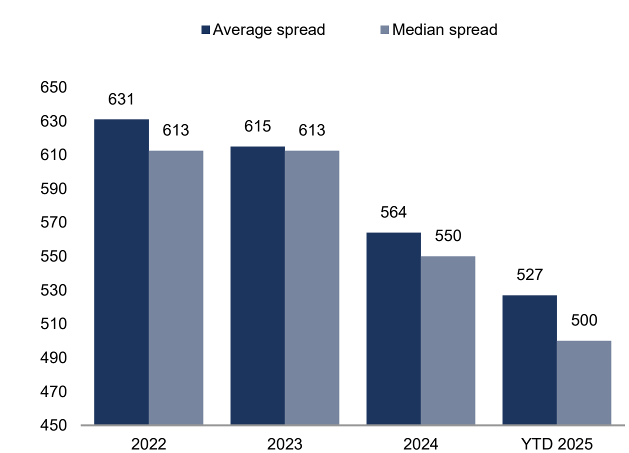
Leveraged loans – rolling new-issue yields[2]



High-yield bonds – key indices[3]



Direct lending average spreads (bps)



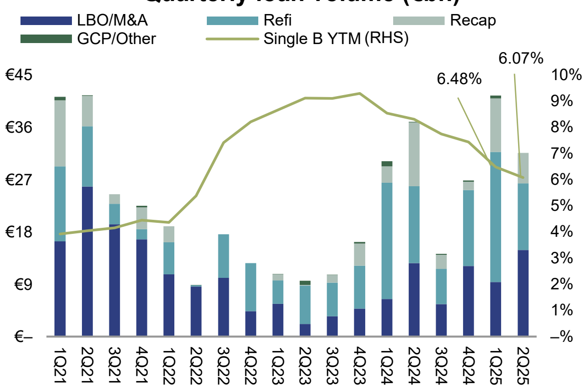
Sources: LCD, Markit, Bloomberg, FactSet, R&Co
Notes: (1) Incl. amendments. Extensions and repricings done via amendment process only; **(2)** Rolling yields consider 3-month average; **(3)** ICE BofAML Euro HY (BB) and ICE BofAML Euro HY (B)

European leveraged finance market update

Refinancing volumes hit record levels, evidencing an extremely resilient market backdrop

Leveraged loans

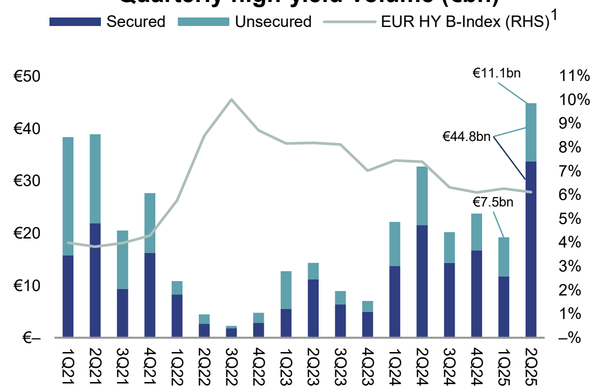
Quarterly loan volume (€bn)



- CLO demand outpaced loan issuance, creating the biggest supply shortage since 2021, with a cumulative €11.6bn deficit in June
- This drove strong 2Q25 issuance reaching €31.6bn, above 4Q24 (€26.8bn) and 3Q24 (€14.3bn), though trailing Q1's €41.4bn peak
- Yields compressed, with euro single-B YTM falling to 6.07% from 6.48% in Q1 and B/B2 credits (Theramex and Group.one) repricing from E+375bps to E+325bps
- As a result, issuers continue to exploit repricing opportunities with €17.3bn in June alone, accounting for the quarter's entire volume
- Boots (B+/B1/BB-) €1.075bn, £375m, and $1.5bn triple currency TLB partly funded the largest UK-centric LBO since 2021, highlighting the depth and flexibility of market liquidity

High-yield bonds

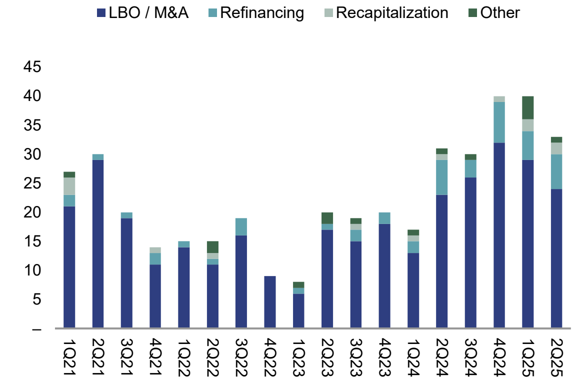
Quarterly high-yield volume (€bn)



- 2Q25 issuance of €44.8bn set a new quarterly record and more than double 1Q25 volume
- Refinancing drove activity, with €25.8bn in Q2 while dividend recap volume reached €6.8bn, the highest since 2021
- Debut issuance surged, with the 2nd highest quarterly count on record (26) as sponsors look to cash out of businesses acquired in near zero interest rate environments through dividend deals
- Unsecured issuance accounted for 37% of May volume – among the highest shares since early 2022, as margins tighten, funds seeking returns are increasingly willing to absorb unsecured risk
- Aggreko (B1/BB-/BB-) €1.3bn and $1.4bn cross border deal helped A&E an existing TLB and support dividend payments at 300bps over the applicable base rate(s)

Private credit

Count of PE-backed DL deals by use of proceeds



- 2Q25 direct lending volume hit €12.23bn[2], supported by landmark transactions including Adevinta's €6.5bn refinancing of its existing €4.5bn unitranche – Europe's largest direct lending deal on record
- Sponsor-led M&A deals remained strong, also supported by jumbo financings, e.g. Karo Healthcare, acquired by KKR via DL club (€1.2bn) rather than going through the BSL market – a trend following April's volatility
- Pricing compressed, with direct lending median spreads at 500bps YTD vs 550bps in 2024 and 613bps in 2023
- YTD sponsored leverage averages 6.12x vs 4.83x syndicated, slightly down from FY24s 6.24x and 4.93x. The gap remains wide, reflecting continued structural differences in deal execution

Sources: Debtwire, LCD, Pitchbook, Bloomberg
Notes: (1) Avg EUR HY B yield at the end of each quarter (weekly); **(2)** As per LCD estimates