CLEARWATER

Debt Advisory Lender Survey

European leveraged finance market

2025

Clearwater surveyed 125 lenders across Europe and the UK to determine what recent macroeconomic, political, and competitive changes in the market mean for borrowers.

Executive summary

The lenders surveyed were spread across banks and debt funds, covering a wide range of ticket sizes and regions, providing a comprehensive view of the European leveraged finance market.

Over the past year, the European leveraged finance market has experienced favourable shifts amid a more stable economic environment, decreasing inflationary pressures, and gradually declining base rates. Competition amongst lenders has also increased, which has only been heightened by the closure of some of the largest direct lending fundraises in history. The resurgence of the broader syndicated loan market has further prompted banks and credit funds to reduce their spreads to remain competitive. The convergence of these factors has compounded optimism and bolstered confidence in the market for the year to come.

In 2024, we expanded our debt advisory presence, with new specialist teams now operating in Sweden, Denmark, Finland, and Ireland. **Over the last 12 months, we have successfully completed 68 debt advisory transactions across Europe.** As we move into 2025, the deal pipeline remains robust, driven by a strengthening M&A market, increasing demand for funding, and improving credit appetite from lenders.

Key highlights

52%

of participants reported an increase in the number of transactions in the last 12 months.

66%

of participants reported debt funds, including new entrants, were the primary source of competitive tension in the market.

80%

of debt funds raised new funds in the last 12 months.

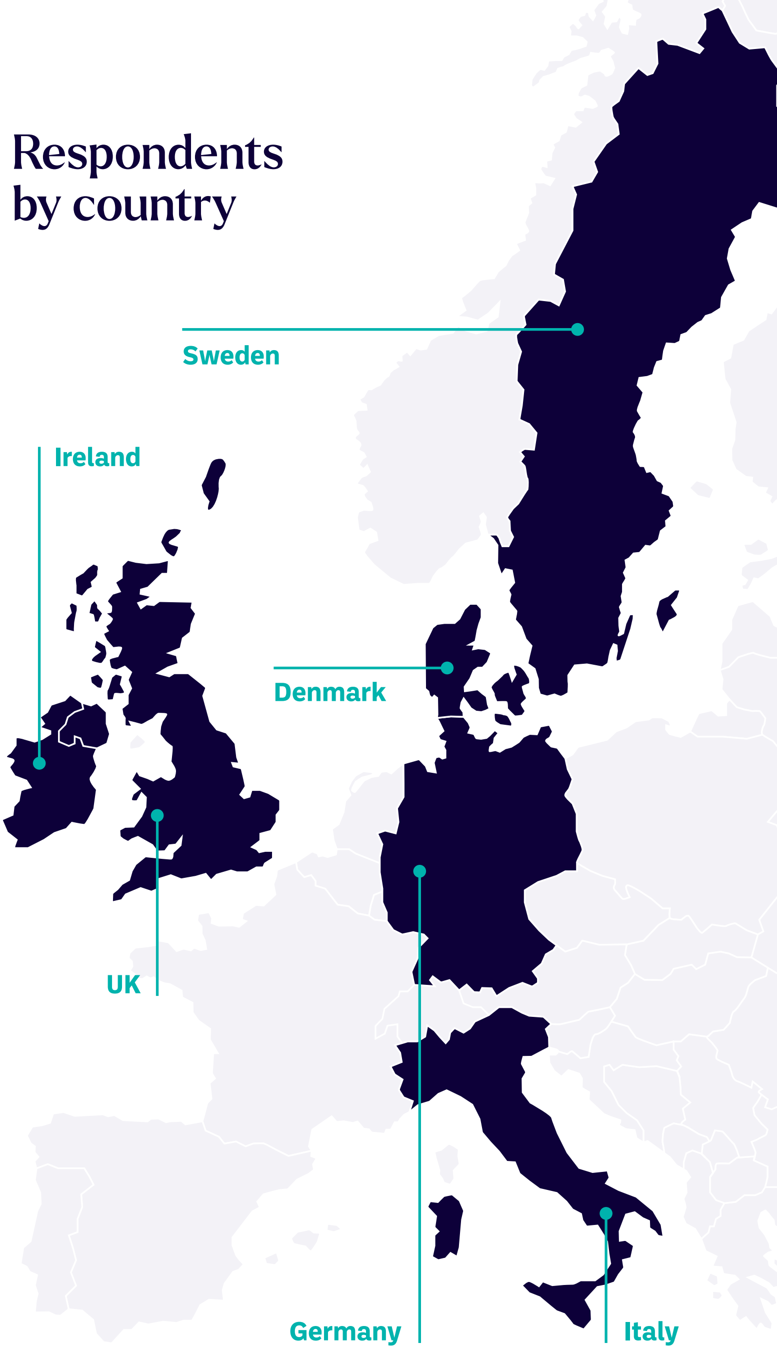
54%

of participants reported a reduction of at least 25bps in margins, with 30% observing a reduction of at least 50bps in margins in the last 12 months. This compares to only 2% of participants reported an increase in margins.

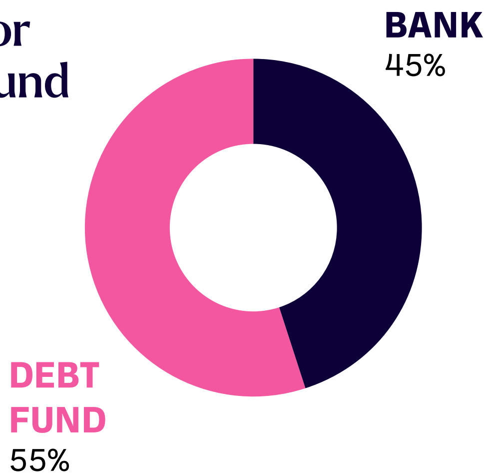
42%

of debt funds indicated a reduction of at least 25bps in arrangement fees in the last 12 months.

Respondents by country



Bank or debt fund



Margins

54% of respondents reported a reduction in pricing, with 26% reporting a reduction of up to 25bps and 24% reporting a reduction of up to 50bps.

This contrasts the trend observed in last year's survey, where 43% of respondents observed an increase in pricing of up to 50bps and 10% of respondents observed an increase in pricing of up to 100bps.

Debt funds typically reported reducing margins with 71% of respondents reporting a decrease in margins, with 7% decreasing margins by more than or equal to 100bps.

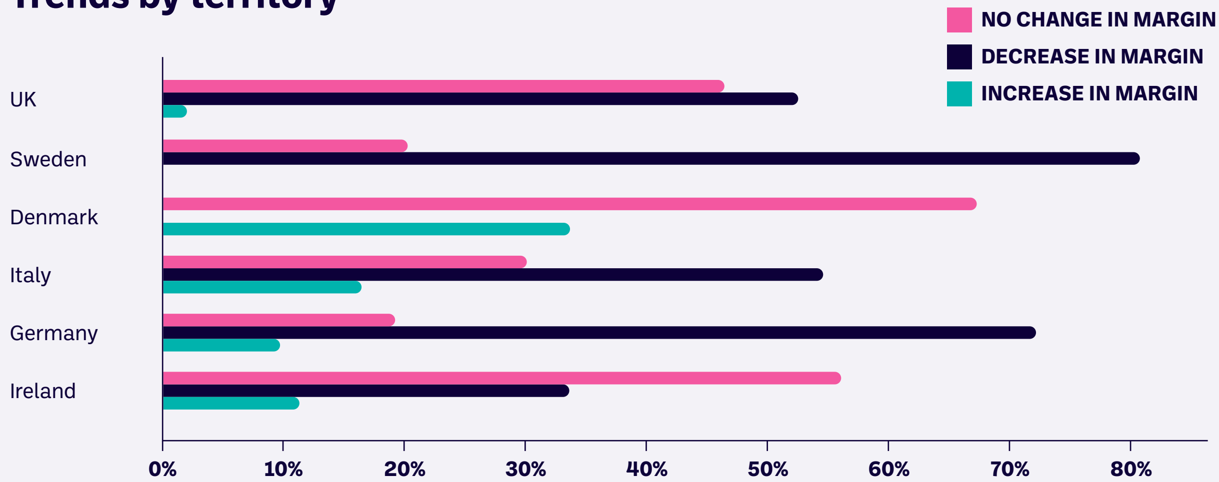
Bank respondents have also shown a propensity for lower margins compared to last year, albeit to a lesser extent, with 30% of bank respondents reporting a decrease in margins of up to 25bps, compared to 7% last year.

Responses across territories consistently show a downward trend in pricing. In all territories except Ireland, the majority of lenders reported a decrease in margin.

The responses largely align with what we have seen in our transactions over the last 12 months, with pricing trending downwards for both debt funds and banks spanning sector, company size, and credit quality.

How have margins changed in the last 12 months?

Trends by territory

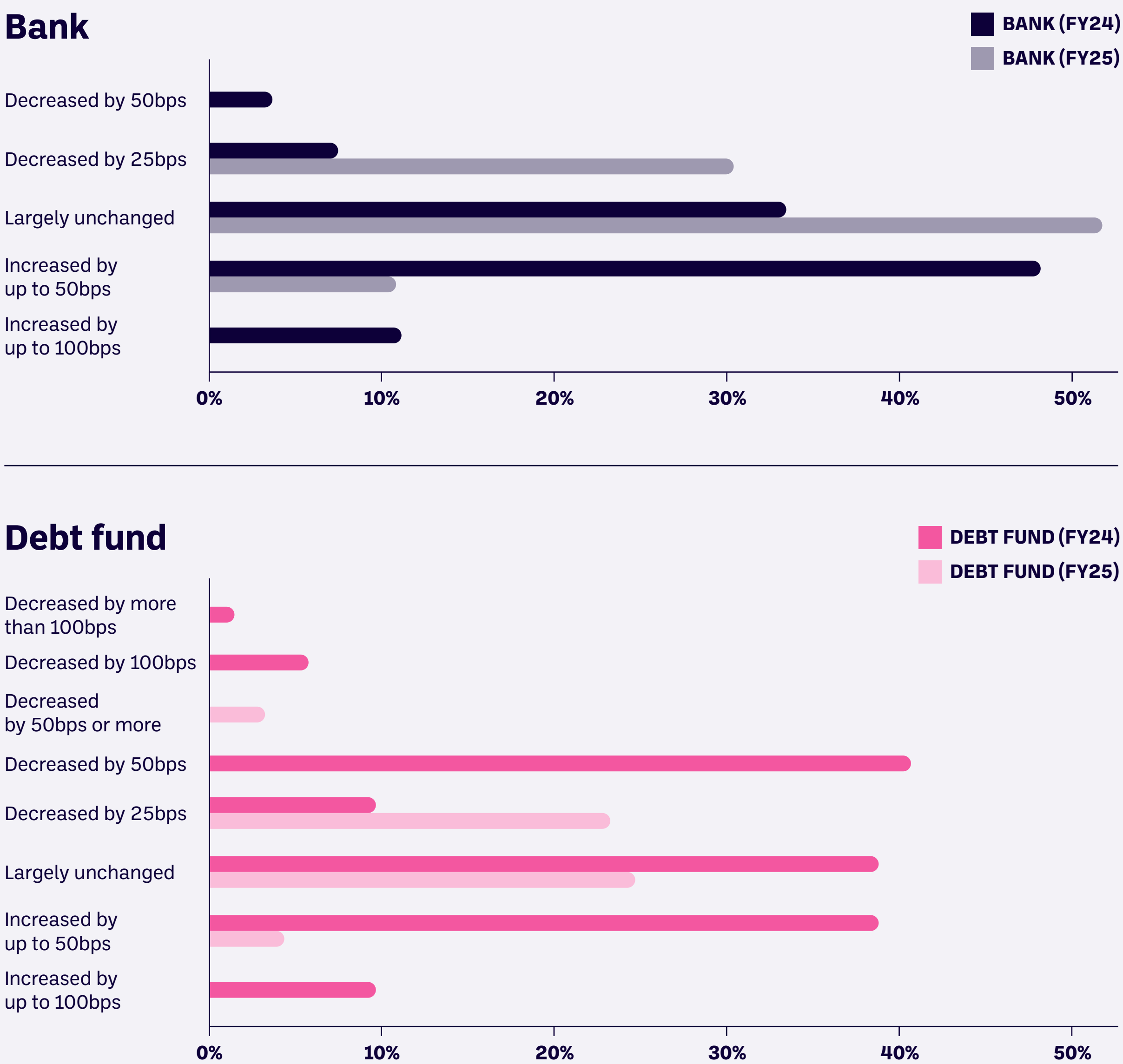


Pricing reductions in the market over the last 12 months are attributable to several key factors:

Benchmark rate reductions as the UK and Europe trend towards a more stable inflationary environment; as of December 2024 SONIA and EURIBOR rates fell to 4.85% and 2.71% respectively. Falling swap rates from Q3 to Q4 of 2024, and relative to the previous year are also a positive indication that benchmark rates are anticipated to continue to fall throughout 2025.

The increased number of financial institutions in the market alongside the closure of some of the largest direct lending funds is increasing competition and putting downward pressure on prices. Pricing is likely to continue to tighten as those newly closed funds compete with incumbent funds to deploy capital and utilise dry powder.

How have margins changed in the last 12 months?



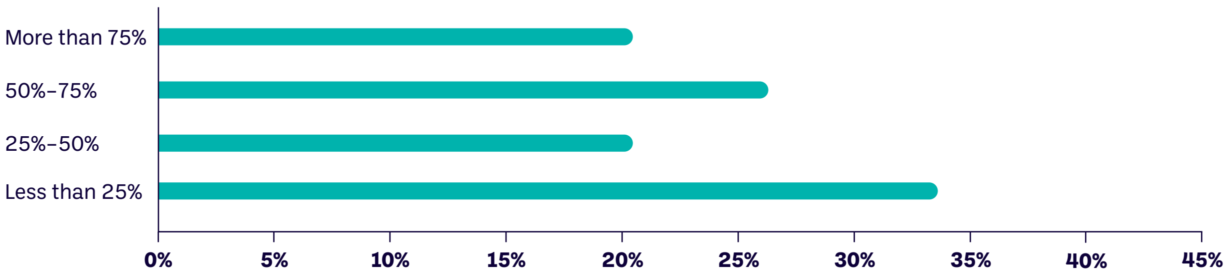
PIK

More than 65% of debt fund respondents incorporate PIK options into over a quarter of their deals, with 46% of total respondents doing so in the majority of their deals. This represents an increase from the 52% of respondents incorporating PIK into deal structures in 2024.

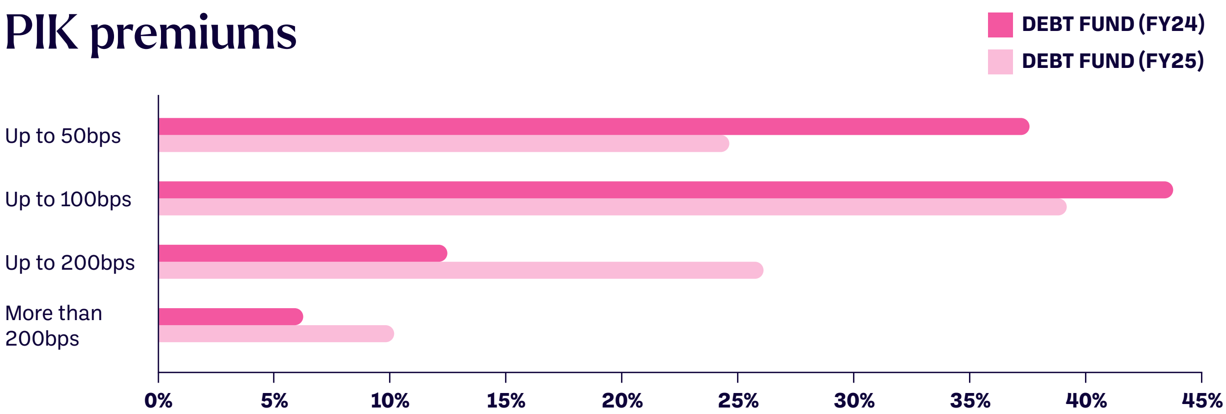
PIK options have become more commonplace in recent times as benchmark rates have increased, helping leveraged businesses continue to service their debt.

We do see PIK options being the norm at the larger end of the market and expect to see them in more transactions in the future.

Percentage of transactions incorporating PIK options into deal structures



PIK premiums

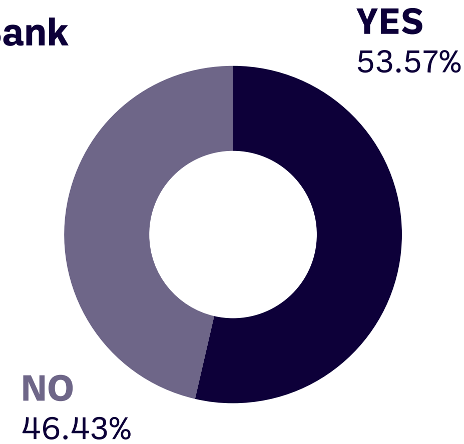


ESG margin ratchets

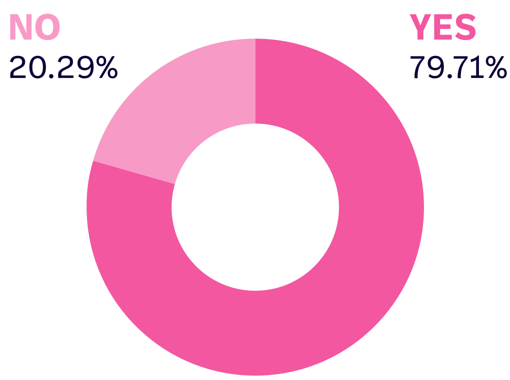
68% of respondents reported that they have introduced ESG ratchets into their term sheets. Debt fund respondents lead this trend, with 80% confirming the inclusion of ESG ratchets compared to 54% of bank respondents.

Have you introduced ESG ratchets into your term sheets?

Bank



Debt fund



On average, 89% of debt funds offering ESG ratchets report an available 10bps – 15bps reduction in margins from ESG ratchets. 70% of banks reported that 10bps – 15bps of margin saving was available through ESG margin ratchets, with the remainder reporting available margin reduction of more than or equal to 15bps.

The criteria for margin ratchets were not targeted towards specific metrics with ratchet criteria being bespoke to the borrower.

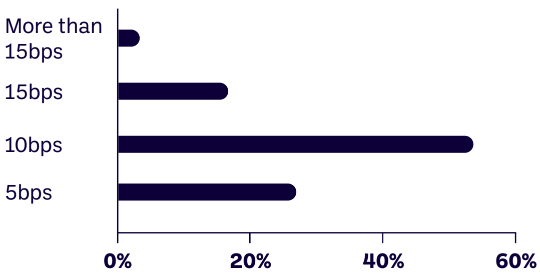
73%

of lenders who incorporated an ESG ratchet into their term sheet reported that they require independent verification of reporting.

This aligns with our experience of the deal market over the last year, where we have observed the gradual introduction of ESG ratchets into term sheets, especially from debt funds.

What is the maximum discount availability on ESG ratchet loans?

Bank



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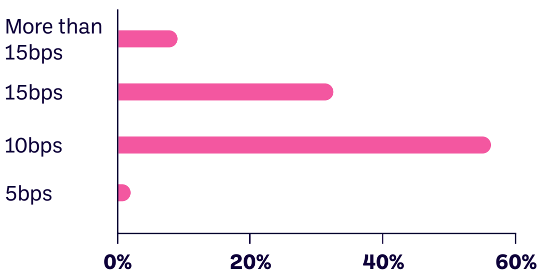
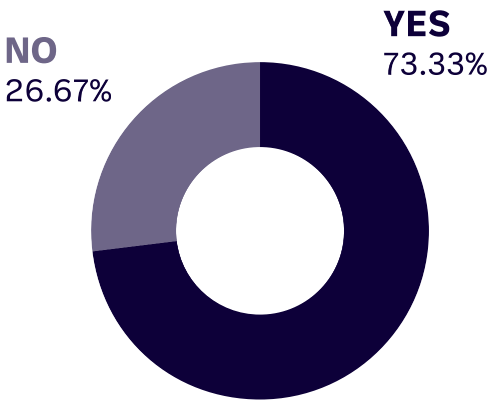


Percentage of ratchets subject to independent verification

Bank



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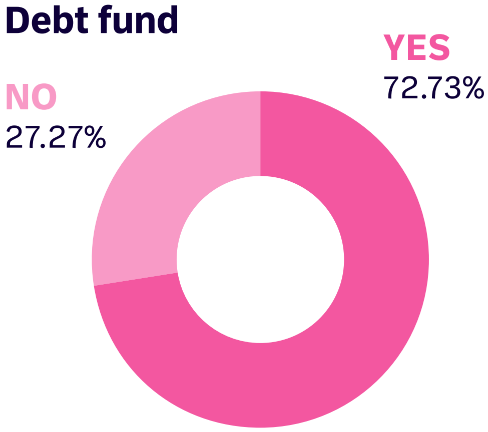


Financial covenant requirements

The number of covenants required by both debt funds and banks remains consistent with prior years.

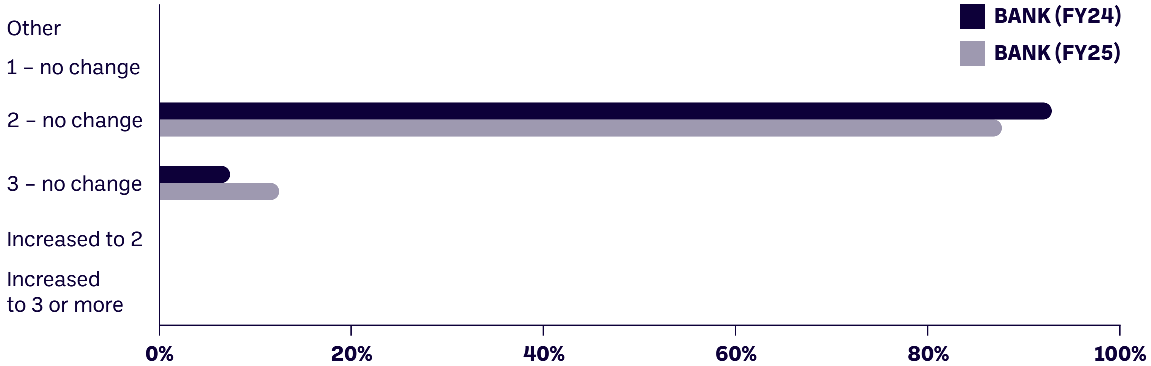
Historically, our survey last year indicated the number of covenants was not responsive to a downturn in the economy with banks and debt funds, on average, requiring 2 and 1 covenants respectively – unchanged from prior periods. This trend has continued into the current year.

Those who responded "Other", acknowledged that covenants are not always required, particularly in transactions where junior debt is provided by the lender.

In practice, we have acknowledged a reduction in the number of covenants required by lenders, with some banks reducing covenant requirements to 1 covenant.

How many covenants do you now require?

Bank



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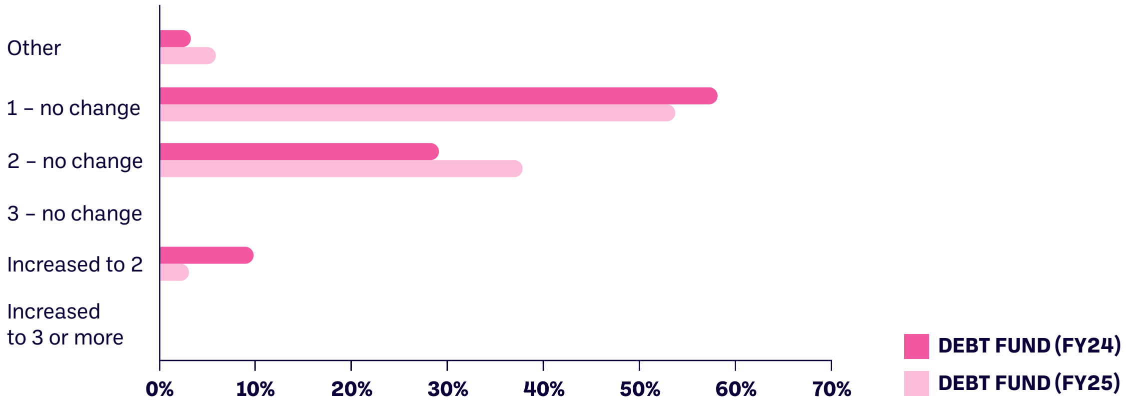


Financial covenant headroom

Banks have trended upwards in headroom for leverage covenants, compared to last year's survey, where respondents were evenly distributed across headroom of more than or equal to 25%, 27.5%, and 30%.

50%

of banks have indicated headroom of more than or equal to 30%, being a key non-financial element of differentiation.

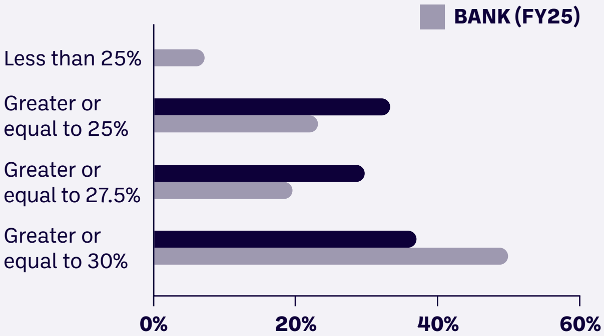
26%

of lenders now provide headroom of more than or equal to 35%, compared to 22% last year.

The upward trend in headroom, particularly from bank respondents, is likely a consequence of the increasing competition in the market, with banks requiring more flexible terms to compete with the increasing number of debt funds in the market. The increased headroom also indicates that lender confidence in credit quality has likely arisen from the improved macroeconomic circumstances in Europe.

What is the EBITDA headroom you typically agree?

Bank



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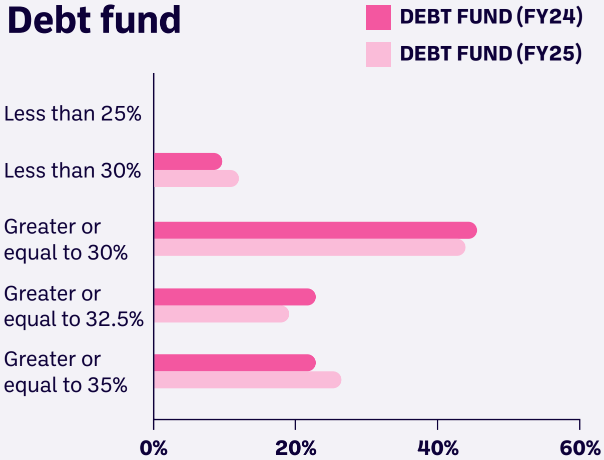


Leverage appetite

Respondents have indicated a favourable shift towards increased leverage appetite, with 25% of respondents indicating an increase in appetite, compared to only 3% last year. Similarly, only 13% of respondents indicated a preference for decreased leverage, compared to 62% last year.

Of the bank respondents, 29% indicated an increased appetite for leverage over the last 12 months, compared to 4% of respondents in last year's survey. Similarly, only 11% of bank respondents indicated a reduced appetite for leverage compared to 44% in the prior year's survey.

Of debt fund respondents, 22% reported an increase in leverage appetite compared to 3% last year.

The growing leverage appetite from banks aligns with the notion of increased competitive tension in the market, with the increased volume of debt funds, and the material growth in funds to deploy, banks are increasing their leverage appetite to remain competitive. However, the continued presence of banks with a reduced leverage appetite speaks to the bifurcation in the market whereby lenders are offering increasingly aggressive terms for strong credits, but are also increasingly cautious for perceived weaker credits.

An increase in leverage appetite was consistently observed across all territories, in excess of any propensity towards a downward trend in leverage appetite.

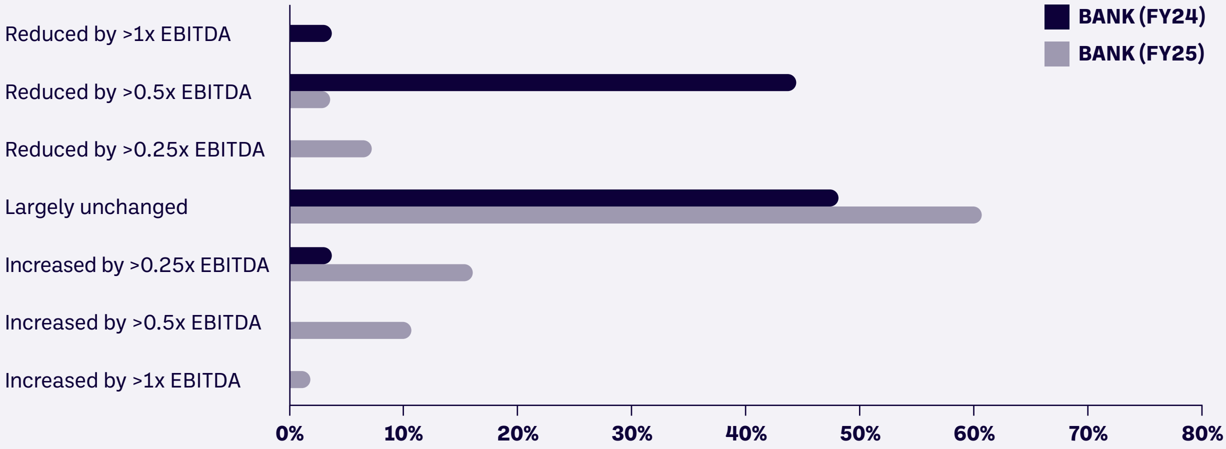
The overall increase in leverage appetite signals increased confidence from lenders as the European macro-economy stabilises, inflation rates fall, and benchmark rates continue to decrease.

5.0x–6.0x

Clearwater has seen appetite for leverage of up to 5.0x - 6.0x increase over the last 12 months, a continued upward trend from the levels observed in the previous 12 months.

How have you seen leverage appetite change over the last 12 months?

Bank



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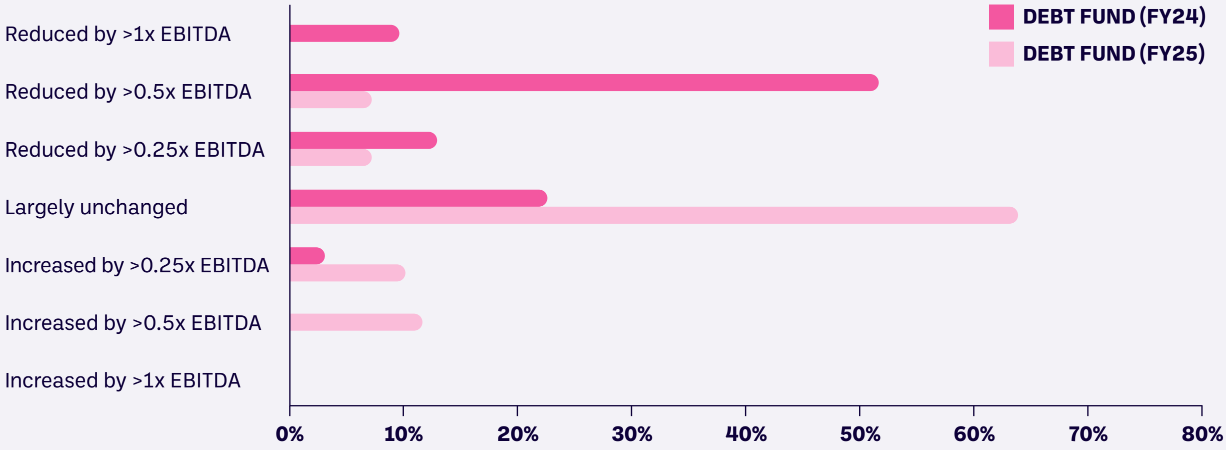


Trends by territory

Arrangement fees

24%

of respondents reported a decrease in arrangement fees over the last 12 months.

This is a significant shift when compared to last year, where no decreases were reported and 24% of respondents reported an increase in pricing.

The trend towards reduced arrangement fees is driven by the debt fund respondents, of which 36% reported a decrease in arrangement fees, compared to 9% of bank respondents.

All territories reported, on average, that arrangement fees trended downwards, reversing the trend observed in prior periods. Decreases were consistently reported in the region of 25-50bps across all territories.

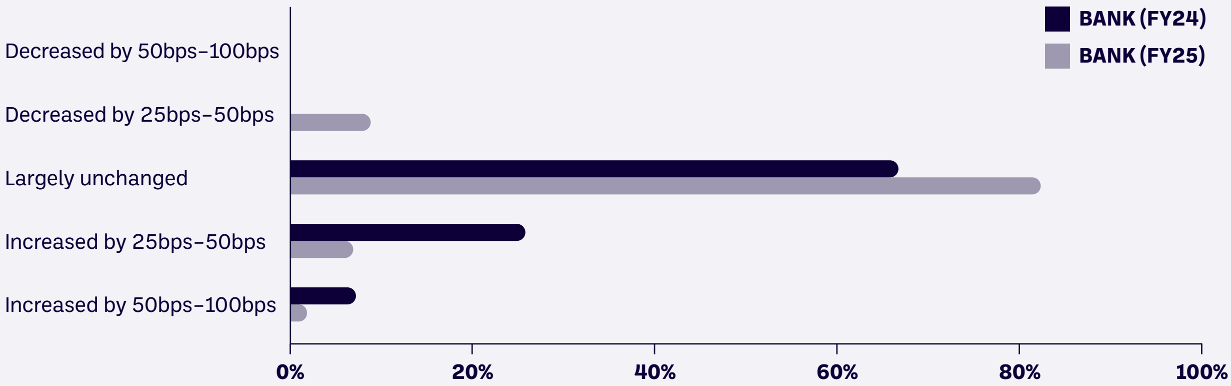
With transaction volumes increasing over the last 12 months and competition between debt funds and banks heightened, reductions in arrangement fee prices are likely being used as a tool to win mandates in an increasingly competitive market.

Have there been any changes to arrangement fees?

Trends by territory

Have there been any changes to arrangement fees?

Bank



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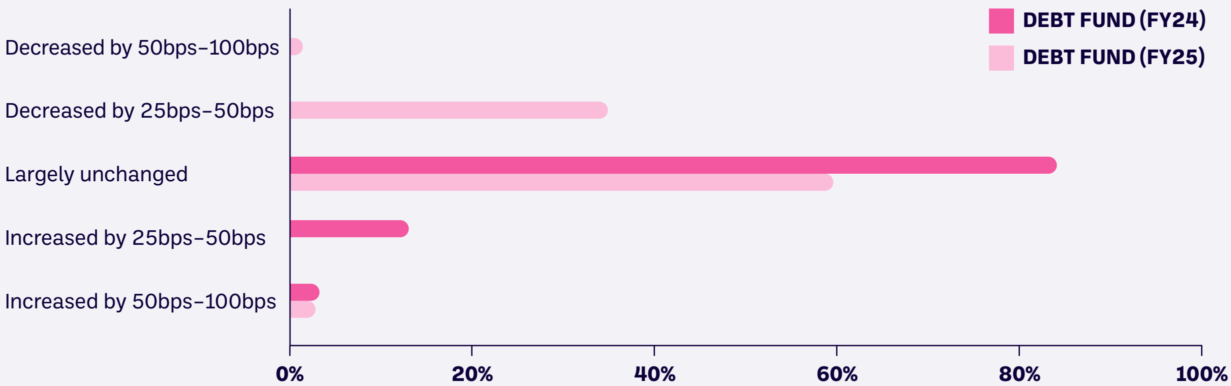


Credit processes

Aligned with the prior year's survey, 79% of respondents have observed no change in the length of the credit committee process, compared to 66% last year.

Last year's survey acknowledged that some credit committee processes were taking longer than historically observed, 26% of banks and 32% of debt funds.

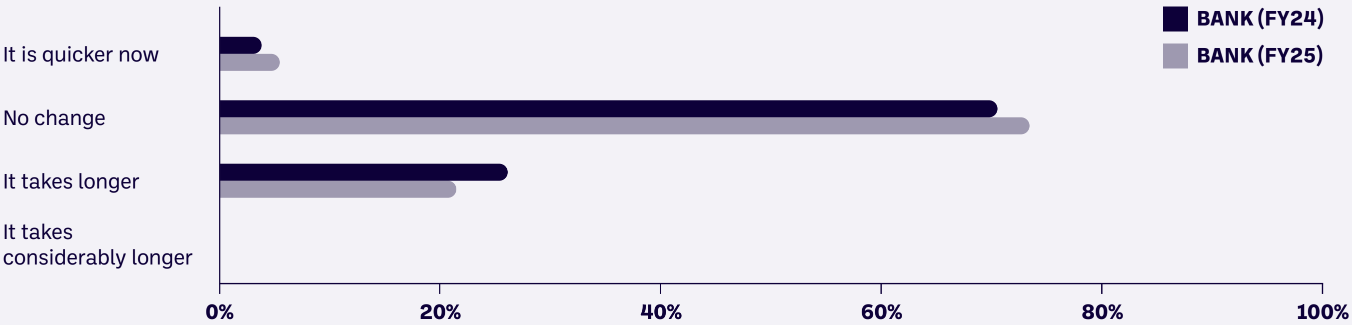
16%

of respondents reported an increase in the credit committee process.

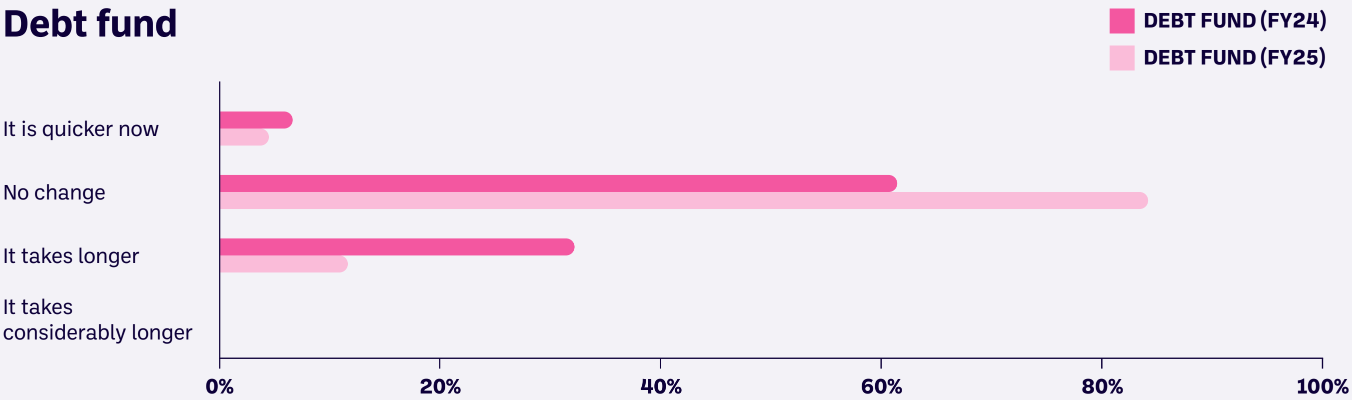
The reasons cited for longer credit committee processes included increasing DD requirements and longer DD processes, in general.

How do you feel the investment or credit committee process has changed in the last 12 months?

Bank



Debt fund



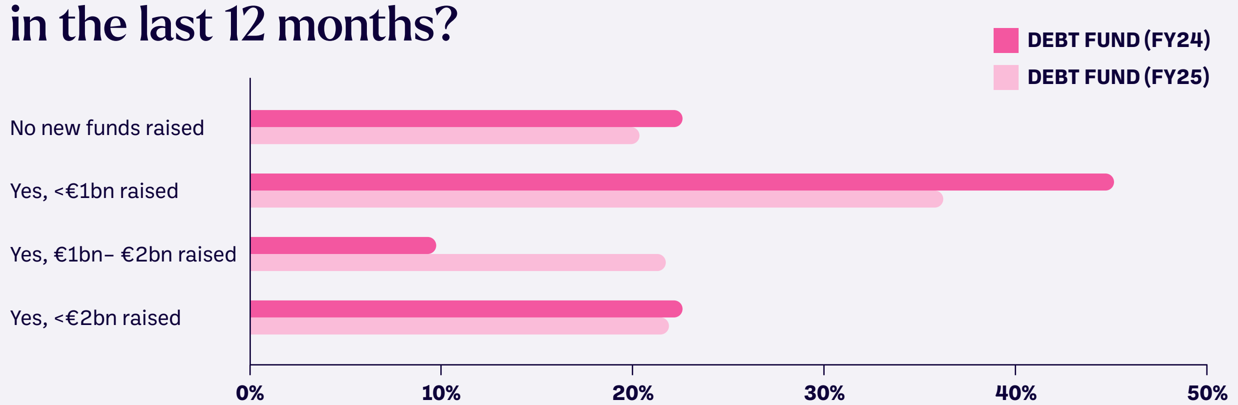
Fundraising

Of the debt fund participants surveyed, 80% reported they had raised new funds in the last 12 months, a level similar to last year, 77%.

Compared to last year, the quantum of funds raised by private lenders has shifted upwards, 44% of lenders reported fundraises of more than €1bn compared to 32% of lenders last year.

This aligns with our observations of the market in terms of the total quantum of capital raised and the average fund size. As of Q3 2024, $208bn of funds had been raised compared to $194bn in the prior period[1]. Similarly, the average fund size as of Q3 2024 was $1,177m compared to $878m in the prior year[1].

Have you raised any new funds in the last 12 months?



1. Private Debt Investor, Fundraising sees Q3 revival

Cost of funds

Stress testing the resilience of business forecasts and downside scenarios is a key focus for credit committees, particularly on whether the business can withstand further interest rate increases.

To test this resilience, and ensure the borrower can continue to service its debt obligations, most lenders have reported the following interest rate sensitivities:

Bank

5%	5%	6%
SONIA	EURIBOR	SOFR

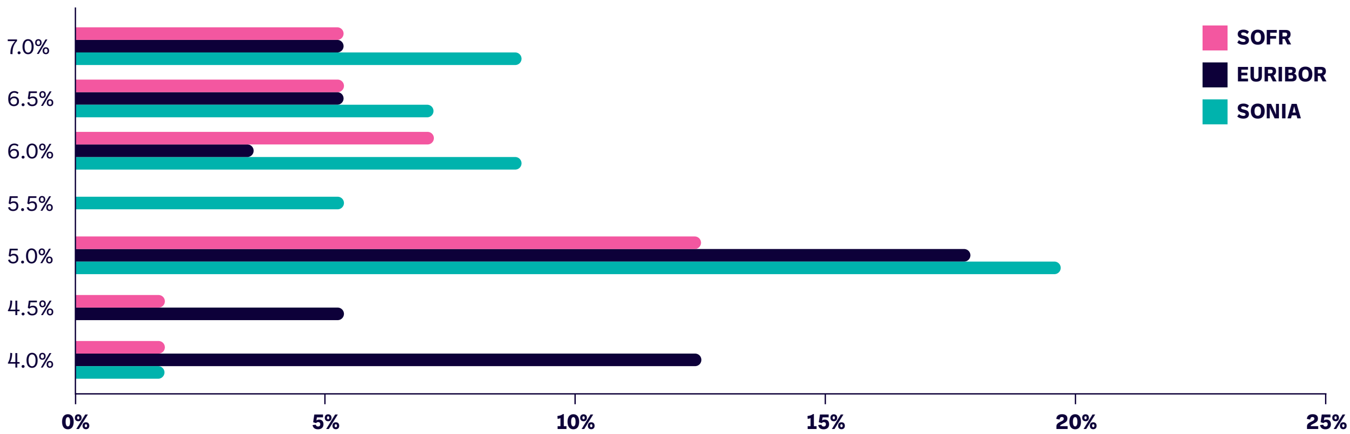
Debt fund

5%	4%	5%
SONIA	EURIBOR	SOFR

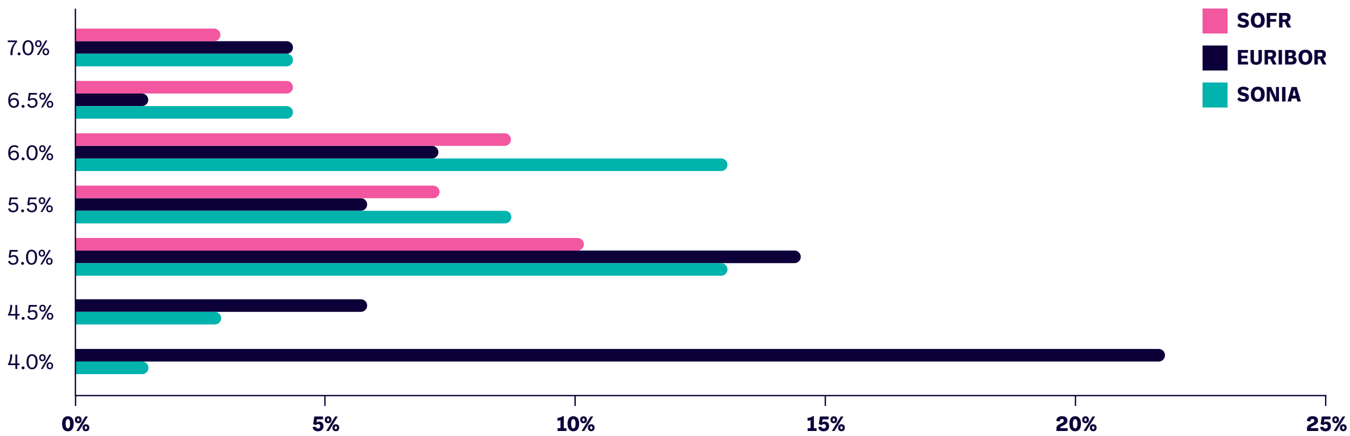
Compared to last year's survey, we have noted a downward trend in benchmark rates used to stress test forecasts, which is to be expected in a reducing rate environment.

Stress test sensitivity rates in FY25

Bank



Debt fund

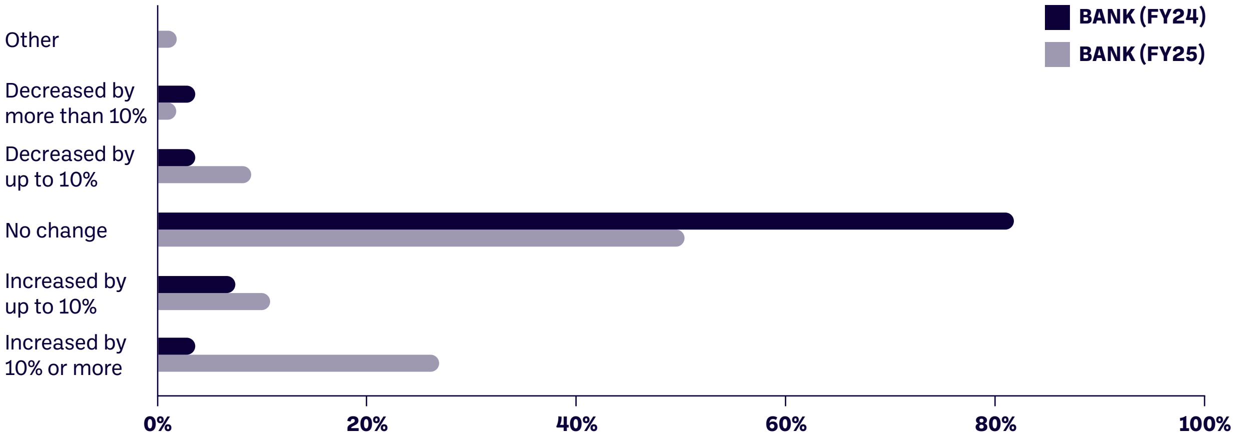


Hold levels and club deals

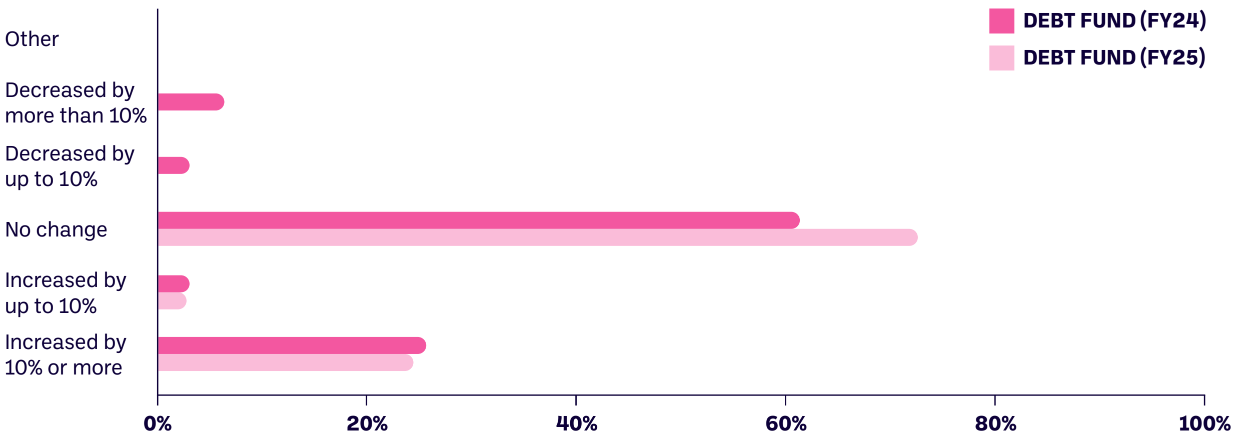
Banks and debt funds have both reported an overall increase in hold levels, 38% of banks reported an increase in hold levels, compared to the 6% that reported a decrease. Similarly, 28% of debt funds reported an increase in hold levels and no funds reported a decrease.

Have there been any changes to your hold levels?

Bank



Debt fund

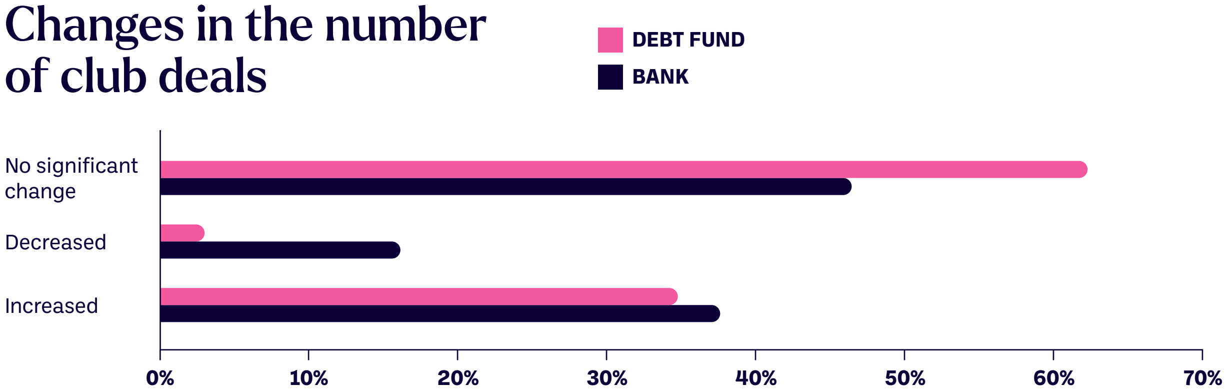


Increases in hold levels across banks and debt funds indicate restored and growing market confidence in borrower creditworthiness. Correspondingly, 36% of respondents, 38% of banks and 35% of debt funds, reported an increase in club deal volumes over the last 12 months. This suggests that hold levels may not have increased at the same level as deal quantum, leading to a higher propensity for club deals. The rise in club deal volumes also highlights the creditworthiness of borrowers, as both debt funds and banks are participating in larger deals within the limits of their hold levels.

36%

of respondents, 38% of banks and 35% of debt funds, reported an increase in club deal volumes over the last 12 months.

Changes in the number of club deals



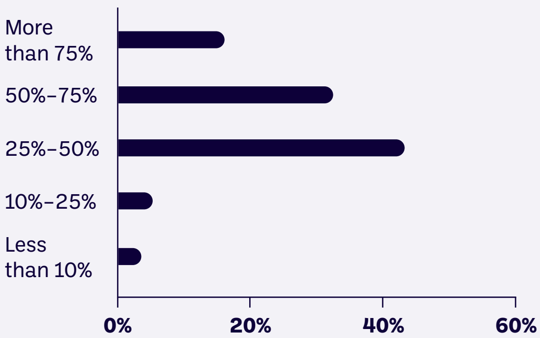
Transaction types

Debt fund respondents indicated that PE buyouts and first-time debt raises were the most prominent transactions in this year's survey.

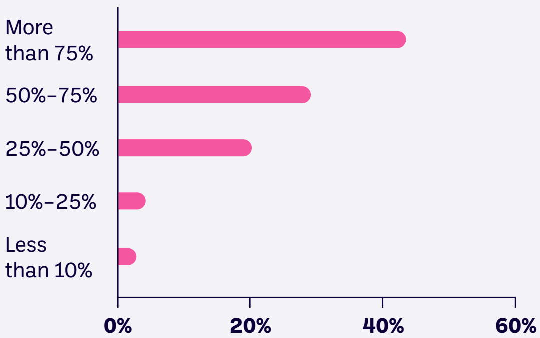
For banks, PE buyouts and refinances were reported as the most common transaction types.

Percentage of PE buyout transactions

Bank

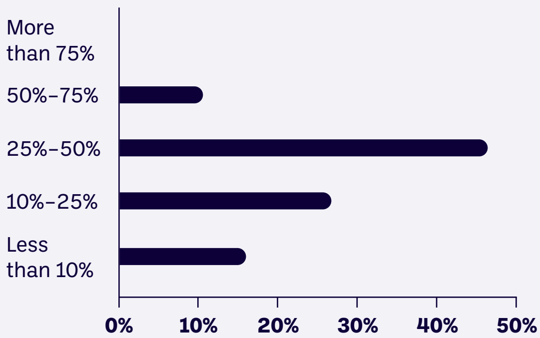


Debt fund

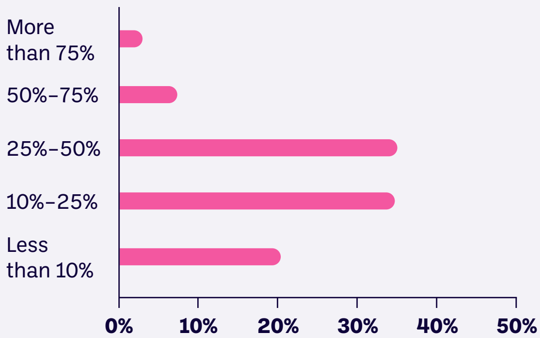


Percentage of refinance transactions

Bank

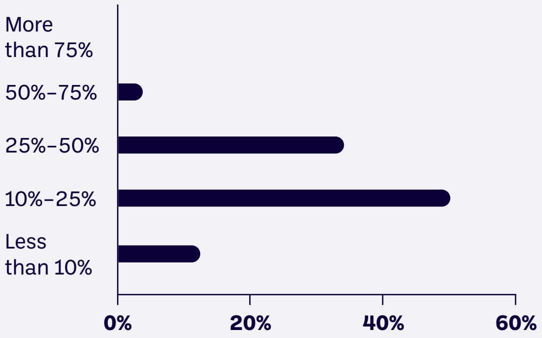


Debt fund

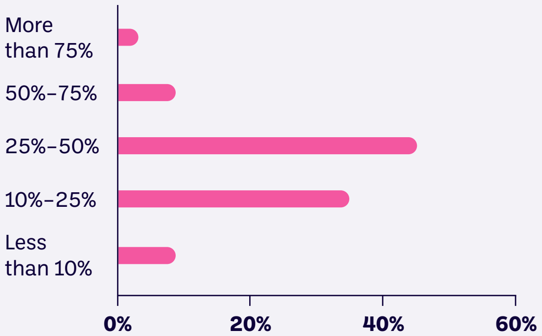


Percentage of portfolio company acquisitions

Bank

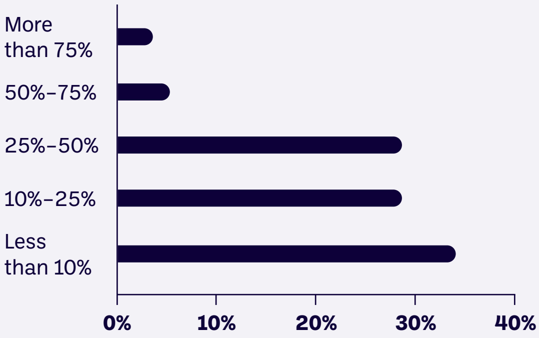


Debt fund

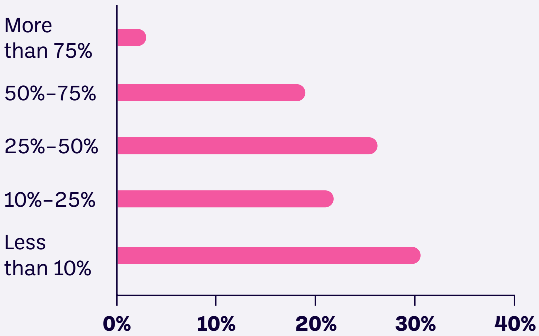


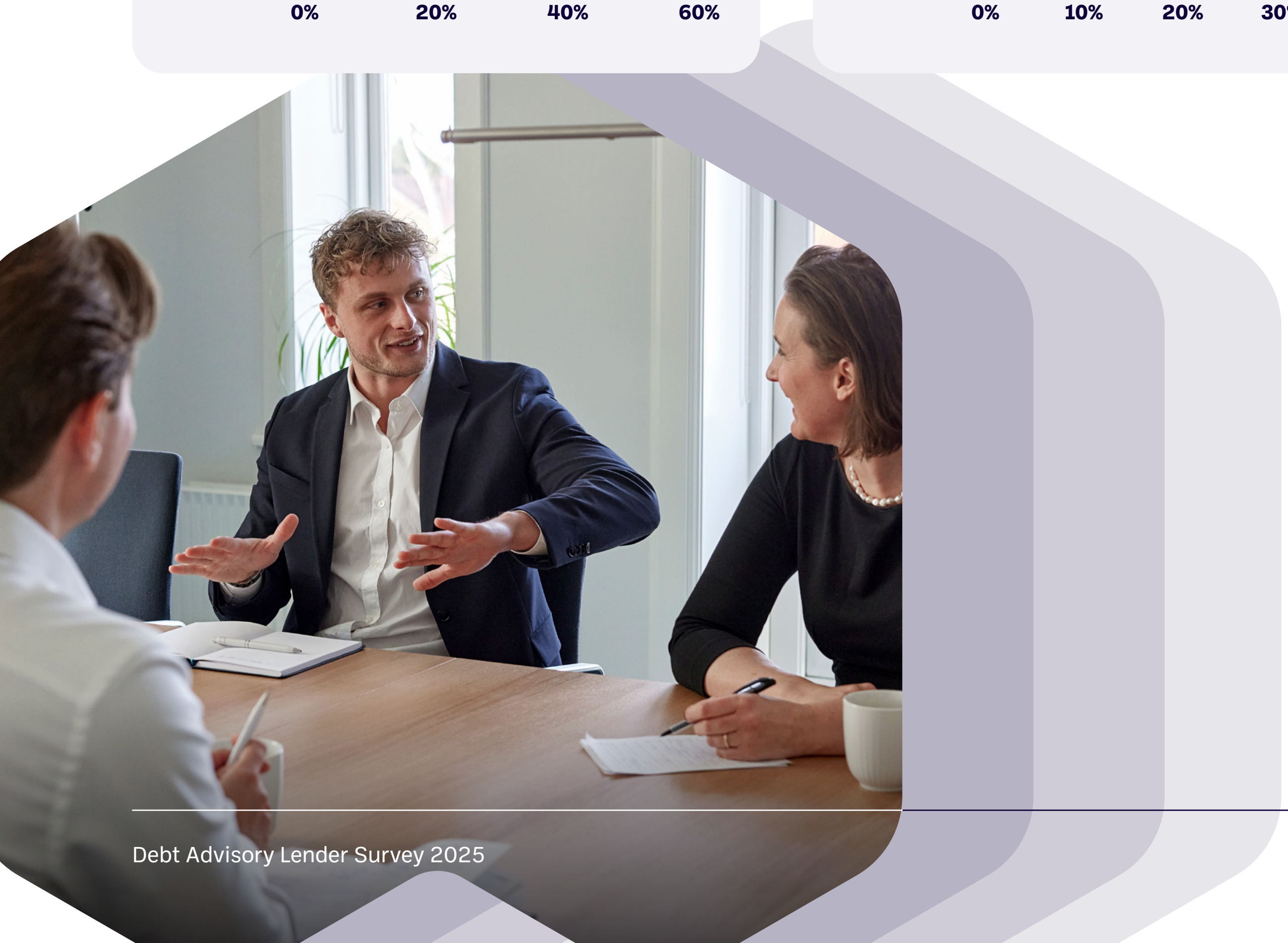
Percentage of first-time debt raise

Bank



Debt fund





Conclusion

Our Debt Advisory 2025 Lender Survey highlights significant trends and shifts within the European leveraged finance market.

Over the past year, we have observed a notable reduction in pricing, driven by a more stable inflationary environment and increased competition among financial institutions, as indicated by our respondents – 66% of which agreed that debt funds, including new entrants, are the primary driver of competition in the market.

This trend is reflected in the decreased margins reported by both banks and debt funds, with a substantial portion of respondents indicating reductions of up to 50bps or more.

Our transactions over the last 12 months align with the reported decline in pricing; this financial year, we have observed margins starting with 5% for debt funds and sub-4% for bank deals, respectively. Similarly, arrangement fees have been observed as low as 2% on recent transactions.

Reduced pricing is consistent across all European territories, albeit the UK and Ireland appear slightly more conservative in their attitude towards reduced margins and increased leverage appetite. In the UK, this is likely due to the denomination of a large portion of debt funds being in euros and the inclusion of SWAP rates in margin prices when lending to the UK. The Irish leverage finance market is somewhat smaller than its European counterparts and higher pricing is likely due to lower competition.

The leveraged finance market has shown resilience and adaptability in the face of evolving economic conditions. The incorporation of Payment-in-Kind (PIK) structures has become more commonplace and ESG margin ratchets have gained traction, particularly among debt funds, indicating a growing emphasis on sustainability. This aligns with the broader market movement towards responsible investing and the integration of environmental, social, and governance factors into financial decision-making.

Arrangement fees have generally decreased, especially among debt funds, as they strive to remain competitive in a highly dynamic market. The length of credit committee processes has largely remained unchanged, although some respondents have noted longer processes due to increased due diligence requirements. This reflects the market's commitment to thorough risk assessment and prudent lending practices.

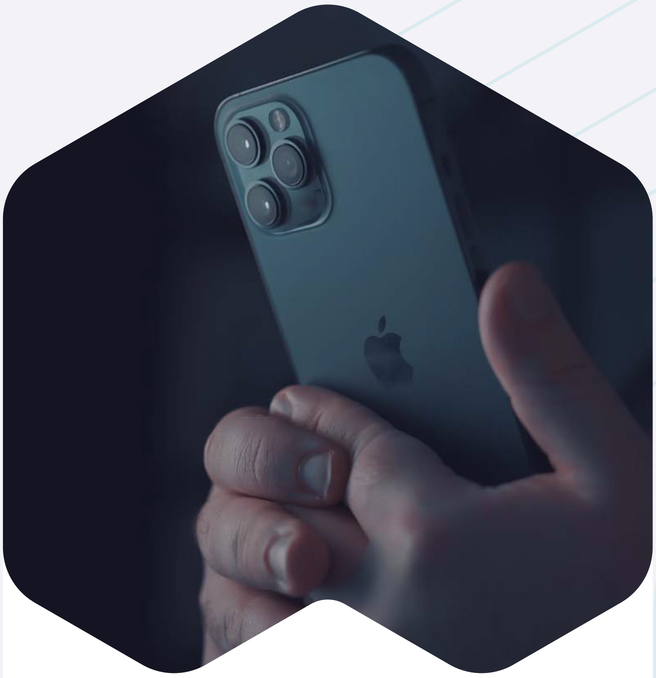
We anticipate these trends to continue in the year to come. With interest rate improvements and pressure from investors to deploy dry powder across the private equity market, M&A activity is expected to accelerate. With it, the demand for leverage finance is further expected to improve, and we anticipate a strong year ahead for lending volumes.

In conclusion, the European leveraged finance market demonstrated a shift to more borrower-friendly terms, in the context of a more competitive marketplace. These trends reflect a market that is adapting to a stable economic environment and increased competition, positioning itself for continued growth and innovation in the years to come.

Competition in the leverage finance market

Our transactions

Clearwater's European Debt Advisory team has over **35 experienced professionals completing over 68 transactions** this year. These transactions range across primary debt raises, acquisition finance, refinances, amendments and restructurings for a wide range of borrowers, providing accurate and up-to-the-minute market intelligence.



Daisy Group on its refinancing

Ardent Management on its financing process to acquire **SteelTank**

Platinum Equity on raising finance to complete the acquisition of **Fratelli Polli**

Gruppo SAE on raising finance to complete the acquisition of **Next14** and **Different**

Lanes Group on its lender education process

Our transactions (continued)

LED Group on its lender education process

Imker acquired a majority stake in **AVM** including an arrangement of related acquisition financing

Mail Metrics on raising finance from **Bank of Ireland** and **Allied Irish Bank** to support its acquisition of **Adare SEC**

Teleste on its syndicated loan

Armira raised finance to support its partnership with **almapharm**

Inflexion-backed **Celnor** on its refinancing

Pihlajalinna Plc on its debt refinancing

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Methodology: Research was conducted by survey platform Qualtrics by Clearwater among 125 senior decision makers across banks and debt funds, from across the UK and Europe during the 16th December 2024 – 15th January 2025

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