Leveraged Finance – EMEA

2022 Outlook – Issuance to normalise after a record year, supported by M&A
Agenda

1. Issuance levels in 2021 and expectations for 2022
2. Macro update
3. Evolution of credit quality in EMEA since 2019 and per industry
4. Covenant protection trends
2022 leveraged finance issuance will stabilise

Issuance for high-yield bonds and leveraged loans in Europe, the Middle East and Africa will remain solid supported by M&A activity but below the record year in 2021

Loan and bond issuance volume from 2014 to September 2021

Source: Moody's Investors Service
EU and UK economies will continue to recover in 2022

Economic recovery will continue in 2022 despite higher risks from inflation and supply chain disruption

Global macroeconomic outlook for the Euro Area and United Kingdom

Source: Moody's Investors Service
Default rate to remain close to pre-pandemic level

Most of our indicators, which provide a road map for monitoring fundamental credit conditions, signal a continued recovery in speculative-grade credit quality.

The default rate, liquidity stress indicator and % of issuers rated B3 negative or lower

Source: Moody’s Investors Service
Most rating actions have been positive over 2021

Nearly 60% of rating actions on EMEA speculative-grade companies largely driven by better-than-expected operating performance

Split of positive, neutral and negative rating actions
YTD September 2021

- Positive: 58%
- Neutral: 22%
- Negative: 20%

Overview of key drivers of positive rating actions
YTD September 2021

- Operating Performance: 66%
- Refinancing/Debt Repayment: 13%
- M&A: 8%
- Restructuring: 6%
- IPO: 4%
- Other: 3%

Source: Moody’s Investors Service
Credit quality in EMEA is slowly recovering

Slower rating level recovery in EMEA compared to the US market where share of low ratings is already in line with pre pandemic levels

**CFR Distribution in EMEA as of December 2019 and September 2021**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Dec-19</th>
<th>Sep-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>B1 - Ba</td>
<td>41%</td>
<td>34%</td>
</tr>
<tr>
<td>B2</td>
<td>31%</td>
<td>29%</td>
</tr>
<tr>
<td>B3</td>
<td>20%</td>
<td>24%</td>
</tr>
<tr>
<td>Caa-C</td>
<td>8%</td>
<td>13%</td>
</tr>
</tbody>
</table>

**CFR Distribution in US as of December 2019 and September 2021**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Dec-19</th>
<th>Sep-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>B1 - Ba</td>
<td>37%</td>
<td>36%</td>
</tr>
<tr>
<td>B2</td>
<td>24%</td>
<td>25%</td>
</tr>
<tr>
<td>B3</td>
<td>28%</td>
<td>30%</td>
</tr>
<tr>
<td>Caa-C</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Note: include CFR = Corporate Family Rating
Source: Moody’s Investors Service
Credit weakness remains concentrated in several sectors

Liquidity has improved significantly compared to 2020 thanks to accommodative markets and ongoing economic recovery

Share of B3 negative and lower CFRs and SGL-4s across sectors as of September 2021

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share of B3 neg</th>
<th>Share of weak liquidity</th>
<th>Median rating change since 2019, # notches</th>
<th>Median rating</th>
<th>Total number of issuers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leisure and Lodging</td>
<td>63.2%</td>
<td>36.8%</td>
<td>-1.5</td>
<td>Caa1</td>
<td>19</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>42.1%</td>
<td>10.3%</td>
<td>0.0</td>
<td>B2</td>
<td>39</td>
</tr>
<tr>
<td>Transportation and Aircraft</td>
<td>32.7%</td>
<td>30.0%</td>
<td>0.5</td>
<td>B2</td>
<td>30</td>
</tr>
<tr>
<td>Energy</td>
<td>28.0%</td>
<td>12.0%</td>
<td>-0.5</td>
<td>B2</td>
<td>25</td>
</tr>
<tr>
<td>Gaming</td>
<td>26.9%</td>
<td>18.2%</td>
<td>-0.7</td>
<td>B2</td>
<td>11</td>
</tr>
<tr>
<td>Forest Products</td>
<td>20.0%</td>
<td>10.0%</td>
<td>-0.6</td>
<td>B2</td>
<td>10</td>
</tr>
<tr>
<td>Services</td>
<td>19.3%</td>
<td>7.1%</td>
<td>-0.3</td>
<td>B2</td>
<td>112</td>
</tr>
<tr>
<td>Technology</td>
<td>20.0%</td>
<td>8.7%</td>
<td>0.0</td>
<td>B2</td>
<td>23</td>
</tr>
<tr>
<td>Automotive</td>
<td>17.2%</td>
<td>5.9%</td>
<td>-0.4</td>
<td>Ba3</td>
<td>17</td>
</tr>
<tr>
<td>Healthcare</td>
<td>13.0%</td>
<td>0.0%</td>
<td>-0.3</td>
<td>B2</td>
<td>27</td>
</tr>
<tr>
<td>Chemicals</td>
<td>12.5%</td>
<td>2.5%</td>
<td>-0.3</td>
<td>B1</td>
<td>40</td>
</tr>
<tr>
<td>Consumer products</td>
<td>8.9%</td>
<td>0.0%</td>
<td>-0.3</td>
<td>B2</td>
<td>45</td>
</tr>
<tr>
<td>Retail</td>
<td>5.9%</td>
<td>5.9%</td>
<td>0.5</td>
<td>B1</td>
<td>34</td>
</tr>
<tr>
<td>Other</td>
<td>5.6%</td>
<td>2.1%</td>
<td>-0.2</td>
<td>B1</td>
<td>144</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16.5%</strong></td>
<td><strong>7.5%</strong></td>
<td><strong>-0.2</strong></td>
<td><strong>B2</strong></td>
<td><strong>576</strong></td>
</tr>
</tbody>
</table>

Source: Moody’s Investors Service
Positive rating actions covered a wide range of sectors

Chemicals, services and consumer products represented the sectors with more positive actions

Source: Moody's Investors Service
Rating outlooks increasingly stable

Outlook distribution in line with pre-pandemic levels

Ratings outlook distribution in EMEA as of September 2021

Source: Moody's Investors Service
Covenant protection remains weak

EMEA high-yield bond covenant quality indicator and its three-quarter average

CQS stands for covenant quality score; eCQI stands for European covenant quality indicator, which is an average of the last three quarters of CQS. The scale ranges from 1, meaning strong covenant protection to 5, meaning the weakest protection.

Source: Moody's Investors Service
Key takeaways

» 2022 issuance to be solid, below the 2021 record year, supported by continued strong M&A flow but with lower refinancing activity

» Growing inflation levels and supply chain disruption have slowed the economic growth, but will likely fade out by mid-2022

» Default rates to remain low and close to pre-pandemic levels of around 2%

» Leisure and lodging, airlines and gaming have been the most affected sectors and face the slowest recovery

» No improvement to the weak level of covenant protection
EMEA Leveraged Finance 2022 Outlook – November 2021

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