



INDICE AETHER FS UNITRANCHE FRANCE

2022 REPORT

THE FIRST BENCHMARK
PRIVATE DEBT INDEX IN FRANCE

FEBRUARY 2023



AETHER
FINANCIAL SERVICES

EDITORIAL

2022 will not go down in the annals of financing as a great vintage: Falling M&A transactions, reduced access to credit for leveraged financing, LPs forced to review their strategy between listed and unlisted investments and private equity funds more concerned with valuations.

This is the result of combined factors that occurred during the year, namely the war in Ukraine and the rise in reference rates. While the first one impacted the costs of numerous raw materials alongside energy directly weighing significantly on companies' P&L, the second one also had a detrimental effect if companies had not implemented interest rate hedging. Those borrowers are unlikely to have been able to fully offset such increase of charges through their sales (pricing and/or volume).

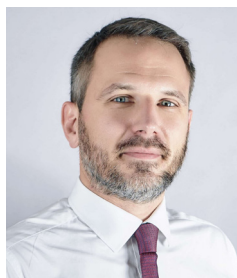
The two topics mentioned above have been in everybody's mind during the last three quarters and they have somewhat hidden the consequences of the Covid crisis. With the rise of corporate debt incurrence over the last two years, benefiting from Government support, ultimately the burden of additional debt in the medium term must be addressed.

While all Private Debt funds have played their part this year (again) by supporting their current investments and financing new projects, they have stepped up to address banks' withdrawal in this asset class. PE funds were thus able to maintain an acquisition momentum even with more expensive funding.

After two years, the Aether FS Unitranche France Index has established itself as a trustworthy and reliable indicator in this utmost uncertain economic context. It provides a reference on current market conditions and provides visibility on transactions' rates (excluding base rates) or credit risk remuneration for the French Unitranche market.

2023 should be a better vintage. While Private Equity players are still waiting to fully grasp the actual impact of the past events on valuations, they can rely on Private Debt funds always present during crisis (Covid, war) as well as during sunnier days.

The following pages provide a retrospective of our Index in 2022 with some key elements to keep in mind. We also take this opportunity to thank all our partners who, daily, entrust us with their transactions and we look forward to revealing later in 2023 the opportunity to work even closer alongside you. As a clue: hail the Access to Compute Paying Ratio... !



Edouard Narboux
Managing Director
Co-founder

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INDEX PERCEPTION

AETHER FINANCIAL SERVICES PRESENTATION

I N D E X

AETHER FS UNITRANCHE FRANCE

Source : Aether Financial Services

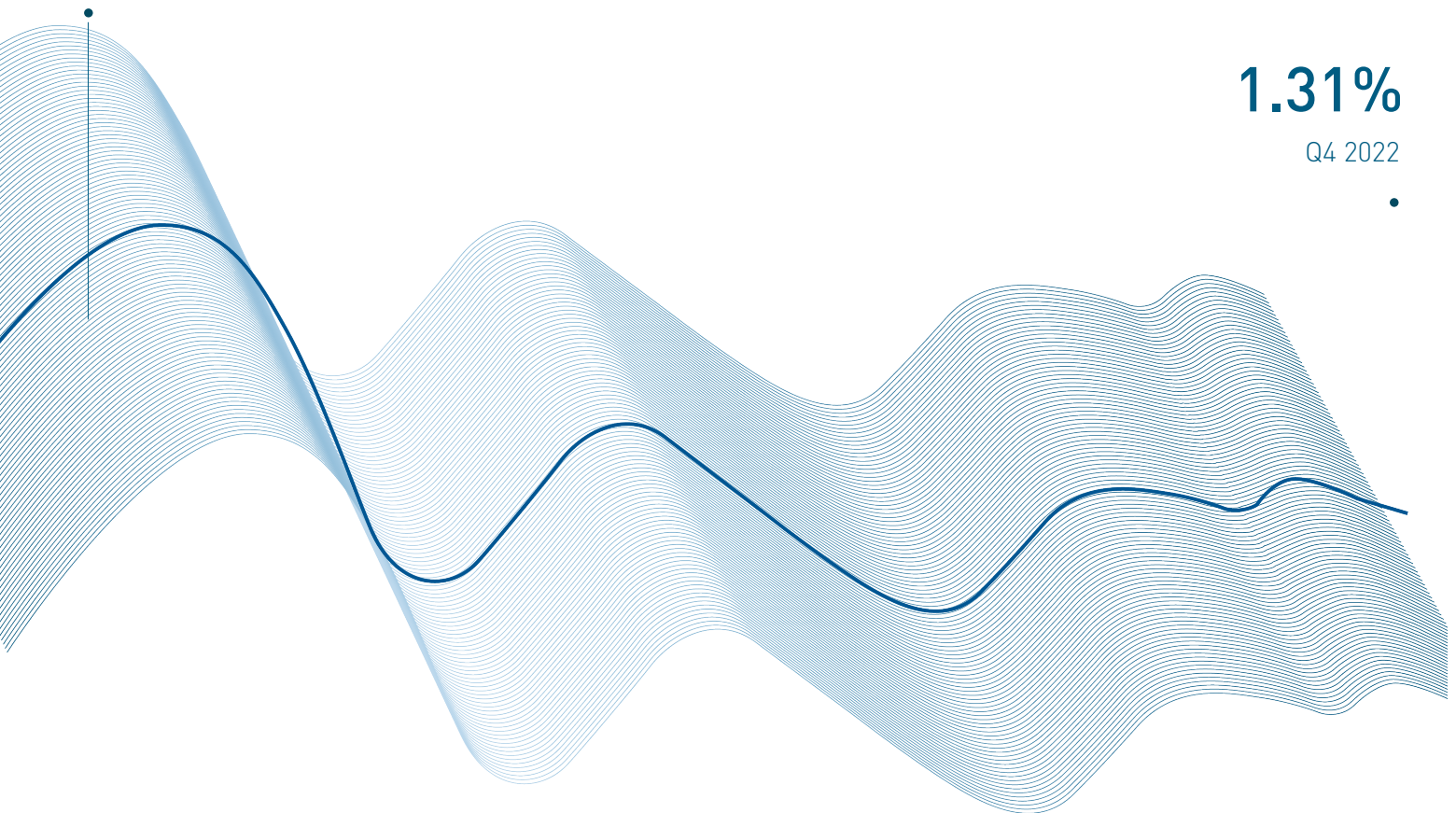


1.85%

Q2 2018

1.31%

Q4 2022





METHODOLOGY AND CONTRIBUTIONS

The Aether FS Unitranche France index is calculated on the basis of the ratio between interest margin and leverage at a deal's closing on a six-month rolling average (see formula below):

$$\text{Aether FS Unitranche France Index} = \text{6-month moving average} \left(\frac{\text{interest margin}}{\text{leverage}} \text{ closing data} \right)$$

For the fourth publication of “Private Debt benchmark focus on French market”, Aether Financial Services is pleased to work once again with **Kerius Finance**² welcoming the contribution of this independent player to enrich Aether FS's database.



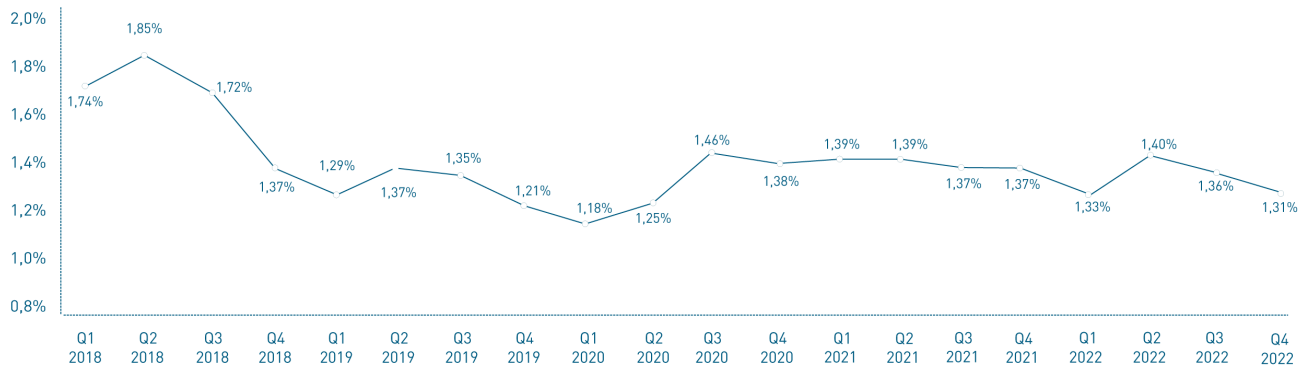
² Kerius Finance (www.kerius-finance.com) is an independent consulting firm specialising in managing and hedging interest-rate, currency and commodity risks.

INDEX AS OF Q4 2022

Chart 1

INDICE AETHER FS UNITRANCHE FRANCE

Source : Aether Financial Services



The return of positive key rates in 2022 had a direct impact on the debt market, its cost and lenders' remuneration.

Since mid-2022, when the 12-month Euribor returned positive, the pressure on margins at closing has been offset by rising rates. Moreover, in an uncertain economic context, maybe as sign of caution, transactions are less leveraged than in the past.

Consistent with the trend recorded in Q3 2022, the Aether FS Unitranche France Index recorded another decline in Q4 with a margin at closing standing at 1.31% per leverage for the 32 tranches analysed.

INDEX COMPONENTS

Graphique 2
CLOSING LEVERAGE RATIOS

Source : Aether Financial Services

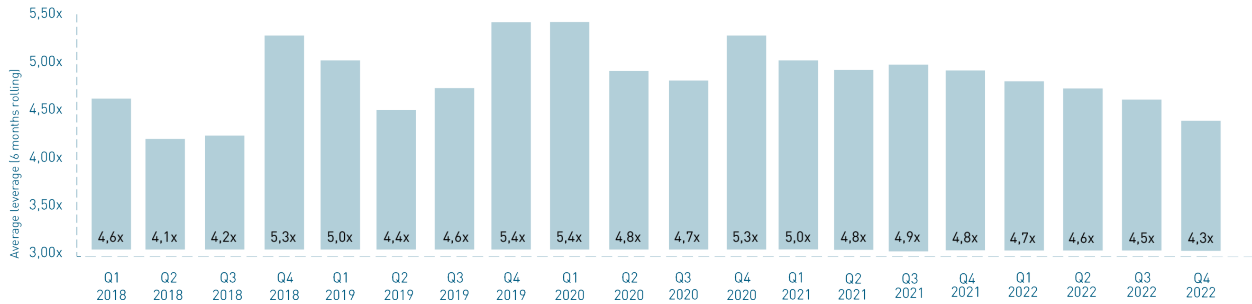
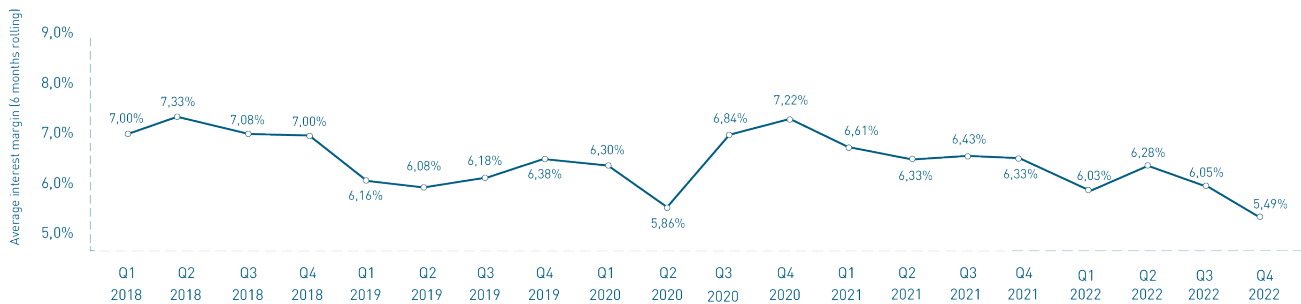


Chart 3
CLOSING SPREADS

Source : Aether Financial Services

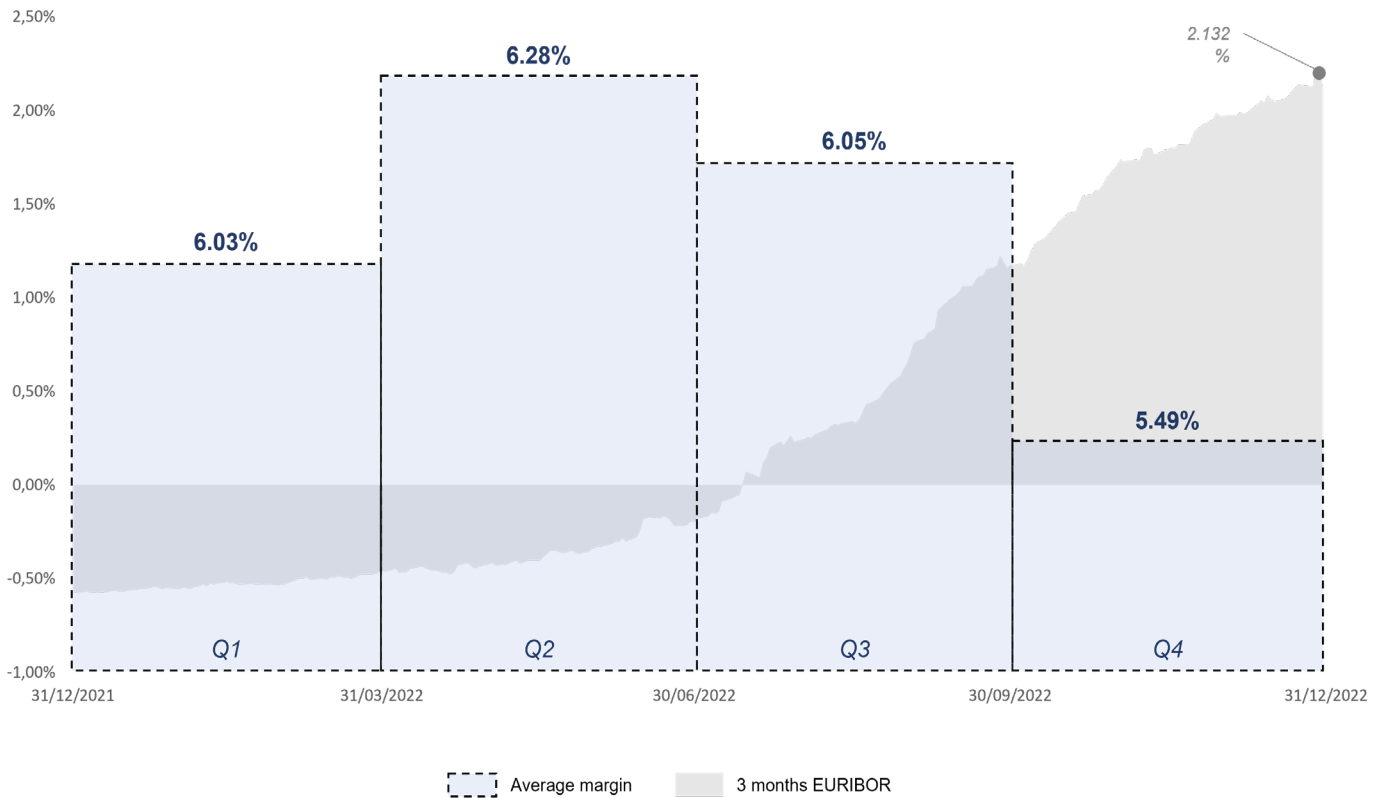


Usually, the last quarters, see leverage ratios at their highest level throughout the year, as shown in 2018, 2019 and 2020. On the contrary, in 2022, the last quarter saw the lowest average leverage (4.34x) and average closing margins (5.49%) of the year.

Debt funds have managed to maintain an attractive risk-return correlation without impacting the IRR expected from their investors. This translates into a more significant “base rate effect” during Q4 2022.

Chart 4
CORRELATION BETWEEN AVERAGE CLOSING MARGINS AND THE EVOLUTION OF
BASE RATES IN 2022

Source : Aether Financial Services





ANALYSIS N°1

NON-CALL CLAUSES IN UNITRANCHE FINANCING

The vast majority of Unitranche financing includes what is known as a «no-call» clause. This clause sets out a period during which the issuer is prohibited to make an early repayment (named «hard» non-call) or a strong financial incentive not to do so (named «soft» non-call), taking the form of an early repayment penalty.

The portfolio review of the Unitranche financing on which Aether Financial Services acts as an agent shows that **the “non-call clause” insertion is systematic**. The main findings are as follows:

- All “non-call clause” are soft ones, no “hard non-call”,
- The average duration of the non-call period is 21 months (between 18 and 24 months in most cases),
- The structure of the prepayment penalty is as follows:
 - ◊ For 75% of cases, it corresponds to the higher amount between (i) 1 or 2% of the principal prepaid and (ii) the total of all outstanding interest until the end of the non-call period,
 - ◊ For 15% of cases, it corresponds to the interest amount remaining until the end of the non-call period only,
 - ◊ For 10% of cases, it corresponds to 1 or 2% of the principal prepaid only.
- Most of the time, the prepayment penalty structure evolves according to the number of months remaining in the non-call period. Example: during the first year, the penalty equals 2% of the prepayment then during the second year, the penalty equals 1% of the amount prepaid,
- 85% of Unitranche financings include a «freebie amount», i.e. an amount exempt from the prepayment penalty. The freebie amount gives flexibility to the borrower/issuer for partial prepayments and is usually set at 10% of the total amount of the financing.

As a conclusion, if Unitranche lenders wish to protect themselves from early repayment, issuers and sponsors still have some flexibility if they are willing to “pay the price”, which is consistent with the very principle of this asset class.

ANALYSIS N°2: A CONTEXT OF OPPORTUNITIES FOR DIRECT LENDING

Prevention is better than cure. The LBO world seems to be alert to this maxim which has, in the past, prevented many defaults.

Due to COVID, PE and debt funds have displayed a mood of anticipation with sound discussions on future defaults (covenant breaches) and the setting up of EMPs (PGE) largely ratified by all parties.

2022 brings its share of uncertainties. The geopolitical and economic context leads to great caution in the management of portfolio. In addition to the amounts available and not yet drawn down (approximately €820m spread across 35 deals), the structures put in place since the beginning of the year largely include available, non-committed lines.

Debt funds still have significant dry powder that they can make available for new deals as well as for portfolio management purposes. One of the growth drivers for debt funds is the BLT market. Banks have significantly withdrawn from this market due to European authorities' constraints. With more favourable market conditions debt funds could step up in this market.

In terms of portfolio management, issuers took advantage of the first half of the year to increase their financing capacities. Although there were no "pre-baked" tranches initially planned, this was mainly done by implementing additional tranches to re-leverage at still acceptable market conditions (23% of AFS deals under monitoring). Refinancing to extend the maturity of current debt was the alternative strategy (6% of AFS deals under monitoring).



ANALYSE N°3: ESG, MORE AND MORE CONCRETE!

Regarding ESG, the market has moved from an information system based on general criteria to a system of positive incentives and rewards.

ESG revolves around three pillars: Environmental, Social and Corporate Governance.

- Environment includes (*but is not limited to*) carbon emissions calculation, water management and biodiversity.
- Social focuses on employment in companies, people's inclusion and diversity and equality between men and women.
- Governance encourages transparency in executive directors' compensation and parity in management bodies (board of directors, supervisory board, etc.).

In addition to their measurement, the evolution of these criteria is closely monitored by investors.

The European authorities aim to harmonize this fundamental trend (*SFDR regulation entered into force in 2021, and, more recently, Taxonomy on 1 January 2022*) and to guide the finance world towards green and virtuous investments.

But between finance or regulation, which one is ahead of the other?


In 2017, the first ESG criteria appeared in Unitranche documentations. If these criteria were purely informative then, since 2019 they are linked to margin reductions if said criteria are met. Since 2021, things are moving a step further, with penalties triggered by the non-achievement of ESG criteria.

Margin reductions and penalties are genuine incentives for the borrower. Indeed, with an average of four ESG criteria per document, margin reductions can reach up to 25 bps in total and 5 to 10 bps per criterion met. Conversely, penalties are also dissuasive, leading to an average margin increase between 5 and 10 bps.

The movement initiated in 2017 will accelerate, and this trend has been witnessed by Aether FS. If 33% of the overall transactions for which Aether FS is an agent today include these ESG criteria, the proportion rises to 45% for financing implemented since January 2021. Still room for improvement, but recent findings are more than encouraging.

At the same time, fundraising dedicated to green projects is growing fast and will become a growth driver for management companies.

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 APPENDICES

TESTIMONIALS¹

« THE AETHER FS UNITRANCHE INDEX ALLOWS US TO MEASURE TRENDS IN PRACTICE. IN THAT SENSE, THE INDEX IS VERY USEFUL. »

« Interesting to see the evolution of this index which has seen the Covid crisis and the rise in rates in such a short time. »

« We have integrated the index into some of our internal presentations to allow regular monitoring of developments in our market. »

« THE INDEX HAS THE ADVANTAGE OF CONSOLIDATING DATA FROM A NUMBER OF PLAYERS, WHICH ALLOWS US TO BENCHMARK OURSELVES EVERY QUARTER »

NEW MEMBERSHIP



¹ The testimonies are collected by Aether Financial Services since its release in March 2021. Witnesses include investors, bankers, private equity funds, etc

IN THE PRESS



Financement - Le vent tourne

Alors que l'ensemble des pays a connu ces derniers jours une envolée des rendements, les taux d'intérêt ont brutalement remonté, tandis que l'indice de l'obligation a subi une chute de 1,31%.

Une baisse des marges en trompe-l'œil

Plus de 10 sept 2022 à 11h23

Unitranché

En plein essor depuis plusieurs années dans l'univers non coté, la dette unitranchée (combinaison d'une dette senior et d'une dette subordonnée) reste « attractive ». Selon l'indice de référence publié par Aether Financial Services, les marges des financements bouclés à la fin du premier trimestre se sont établies en moyenne à 6,03 %, contre 6,33 % trois mois plus tôt. D'après le spécialiste des services post-transactionnels, il s'agit toutefois d'une baisse en trompe-l'œil, qui s'explique par la prise en compte d'un échantillon de près de 30 tranches liées aux transactions ayant été structurées et/ou « spinnées » bien avant le déclenchement de la guerre en Ukraine et de l'envoie de l'inflation. Ainsi, Aether Financial Services prévient que la dégradation récente des conditions de financement sera perceptible sur le niveau des spreads dans les indices des deuxième et troisième trimestres.

Dernière vidéo AOF

Une hausse de 23% de l'indice de la dette bouclée depuis le début du Covid 19 en France

DETTE PRIVÉE - Le coût de l'unitranché repart à la hausse

Qu'indiquent-ils en place dans le cadre d'un LBO, le dette privée unitranché a vu son coût augmenter au deuxième trimestre 2022. Selon la société de services financiers Aether, qui publie un indice consacré cette dette, la marge d'intérêt moyenne (spread) par rapport au taux à trois mois a atteint 6,28 % au cours des trois derniers mois de 2021, contre 6,05 % lors du trimestre précédent. Un pic de 7,22 % avait été atteint fin 2020. A cette hausse des marges moyennes s'ajoute la remontée des taux de base. Le nombre d'opérations n'a cependant pas été affecté pour l'instant.



La dette privée plus que jamais au centre du jeu

Les acteurs de la classe d'actifs sont sur le pied de guerre pour supplanter les banques dans les financements LBO. Mais à quel prix ?

Publié le 30 sept. 2022 à 11h12

Certes, l'opération est hors normes. Mais elle décrit bien à quel point les lignes sont en train de bouger sur le marché du LBO. La prise de contrôle de l'éditeur de logiciel californien Anaplan par Thoma Bravo pour une valorisation de 10,7 Mds, qui avait été annoncée en début d'année, s'appuie sur un financement en private debt d'une enveloppe inédite (2,2 Mds) fourni par Blackstone Credit, Apollo, Golub Capital et Owl Rock Capital. Les acteurs du direct lending montrent ainsi qu'ils peuvent très bien prendre le relais des banques (et d'un marché des « leveraged loans » entré en déclin à l'ouverture ambulatoire) pour financer les LBO.



Horizons ON EN PARLERA DEMAIN

1,31 %

C'est le coût de la dette unitranchée libas base de base par tour de levier en France à fin 2022, selon l'indice Aether FS unitranché France. Il s'agit du deuxième trimestre consécutif de baisse après le pic haut de l'année atteint au deuxième trimestre à 1,40 %. Le retour de l'Eurobar en territoire positif depuis avril a conduit les marges de l'unitranché à devenir plus compétitives pour compenser la hausse des taux, et, dans un contexte de baisse des valorisations, les opérations ont vu leur levier financier baisser par rapport aux mois précédents.

L'AGEFI

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La dette unitranchée sous pression

Florent Le Quintrec | 01/12/2022 | L'AGEFI | feed

Effet rareté. De manière contre intuitive, le niveau de marge des dettes unitranchées en France a reculé au troisième trimestre, d'après l'indice Aether FS Unitranché de novembre. Il est

La dette privée ne relance pas le private equity

Malgré des « marges au closing » plus taibles, la dette privée subit elle aussi l'attente des acteurs du non coté.

Publié le 08 Nov. 2022 à 10h06 | 104 476 16 016 16 022 10 021

Une dernière baisse, un début de qui m'angoisse même. Les valeurs de l'indice de la dette unitranchée ont baissé de 1,31% au troisième trimestre 2022. L'indicateur qui mesure le prix de l'unitranché par tour de levier a reculé à 6,31% au cours du trimestre. Constaté mesuré sur l'indice de référence à 6,33% sur les trois derniers mois de l'année. C'est 6 points de base de moins qu'au trimestre précédent, et un plus bas depuis 2020.

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domosFS

The power to drive your Alternative Investments

LES PLUS LUS

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PRESENTATION OF AETHER FINANCIAL SERVICES

Aether Financial Services is the leading French independent firm in financial transaction execution services. It was founded in 2015 by Edouard Narboux and Henri-Pierre Jeancard.

Aether Financial Services is a pioneer in this field and is now the French benchmark in post-transaction execution services.

Based in Paris and London, Aether Financial Services consists of an expert and multinational team of about 30 persons who combine financial and legal skills.



Corporate Finance Agency

Aether Financial Services works in the private debt and capital markets, covering all agency roles, including loan agent, bond agent, administrative agent, calculation agent, and security agent.



Valuation & Calculation

Aether Financial Services runs valuations on all types of financial instruments and securities, from the most « vanilla » to the most highly structured for recurring, specific or one-off needs.



Corporate & Issuer Services

Aether Financial Services offers an entire range of digital solutions for administrative management of corporate actions, such as recapitalisations, AGMs, and account-keeping.



Aether Financial Services' solidarity commitment

For several years now, Aether Financial Services has been involved in associations via Social-Impact Contracts, including **Cravate Solidaire**, the **Fondation Auteuil** and **Article 1**.

In 2021, Aether Financial Services pledged to help protect the environment through reforestation and preservation of forests, alongside **Reforest'Action**. This partnership reflects Aether Financial Services' environmental commitment and its determination to take part in combating climate change.

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