



INDEX AETHER FS UNITRANCHE FRANCE

SECOND QUARTER
2023 EDITION

THE FIRST
BENCHMARK
PRIVATE DEBT INDEX
IN FRANCE

JULY 2023



AETHER
FINANCIAL SERVICES

AETHER FS UNITRANCHE FRANCE

I N D E X

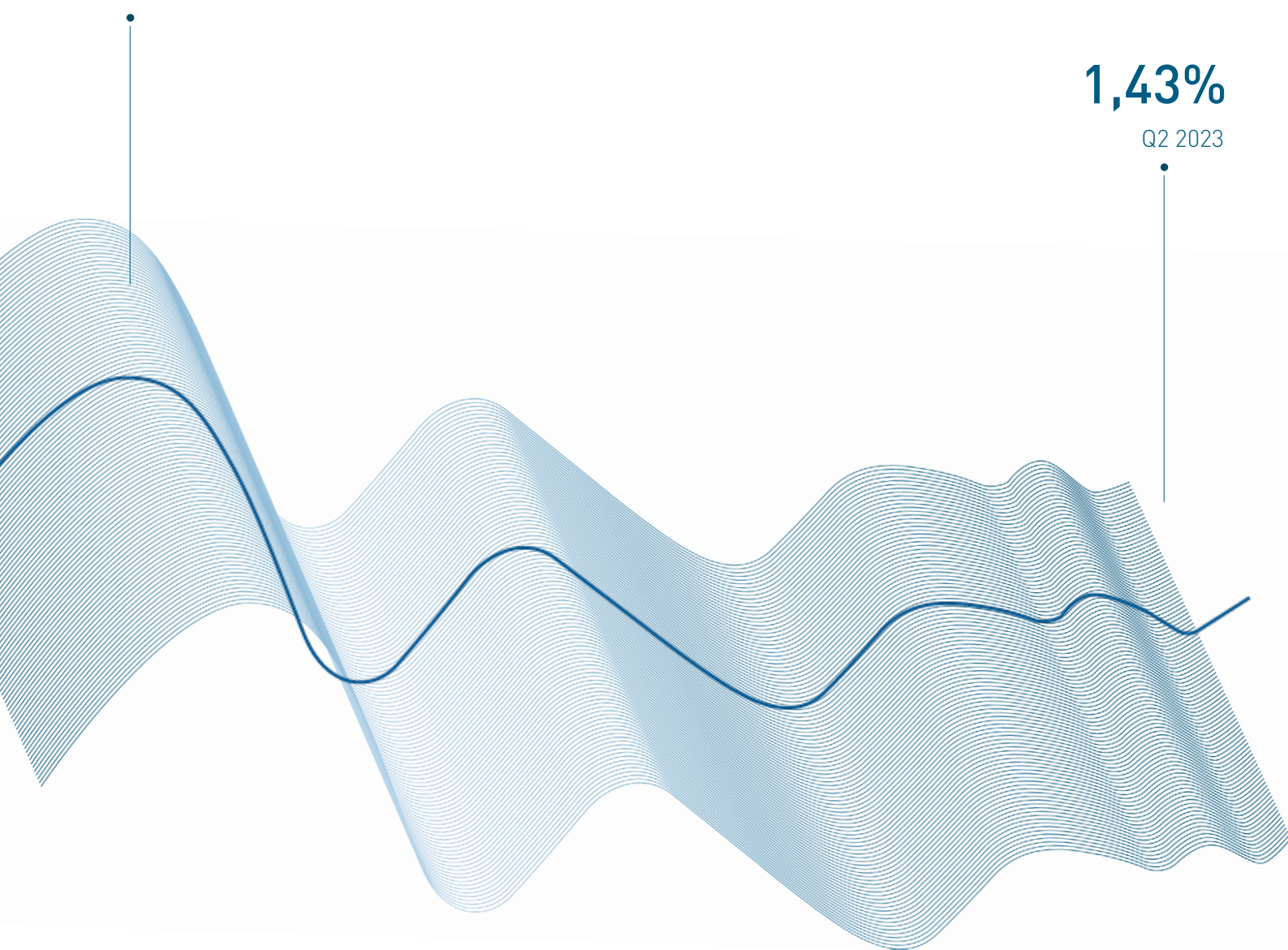
Source : Aether Financial Services

1,85%

Q2 2018

1,43%

Q2 2023



METHODOLOGY AND CONTRIBUTORS

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 focused on French market, Aether Financial Services is pleased to work once again on with **Kerius Finance**¹ and welcomes the contribution of this independent player to enrich Aether FS's database.



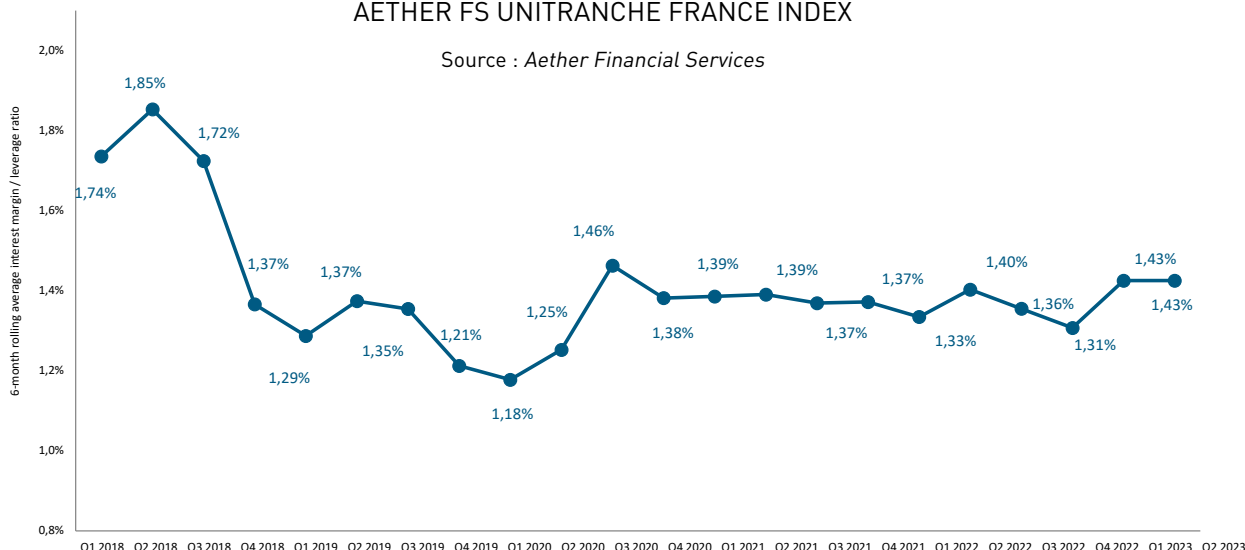
¹ Kerius Finance (www.kerius-finance.com) is an independent consulting firm specialising in managing and hedging interest-rate, currency and commodity risks.

INDEX AS OF Q2 2023

Chart 1

AETHER FS UNITRANCHE FRANCE INDEX

Source : Aether Financial Services



In the second quarter of 2023, the Aether FS Unitranche France index stabilized displaying a 1.43% margin per leverage round, with a joint increase in leverage and average margins at closing.

The second quarter of 2023 confirms the sharp market decline compared to previous years (15 transactions analysed in Q2 2023 vs. 36 in Q2 2022). This can be observed across the non-listed industry with a 29% drop in the M&A market in France in the first 2023 semester (source Refinitiv).

In addition, banks are gradually regaining market share on LBO financing, now being able to position themselves on leverage levels comparable to those offered by private debt funds (to compensate the interest rate rise). The real explosion of base rates pushes arrangers to structure transactions with reasonable leverages to secure future debt servicing.

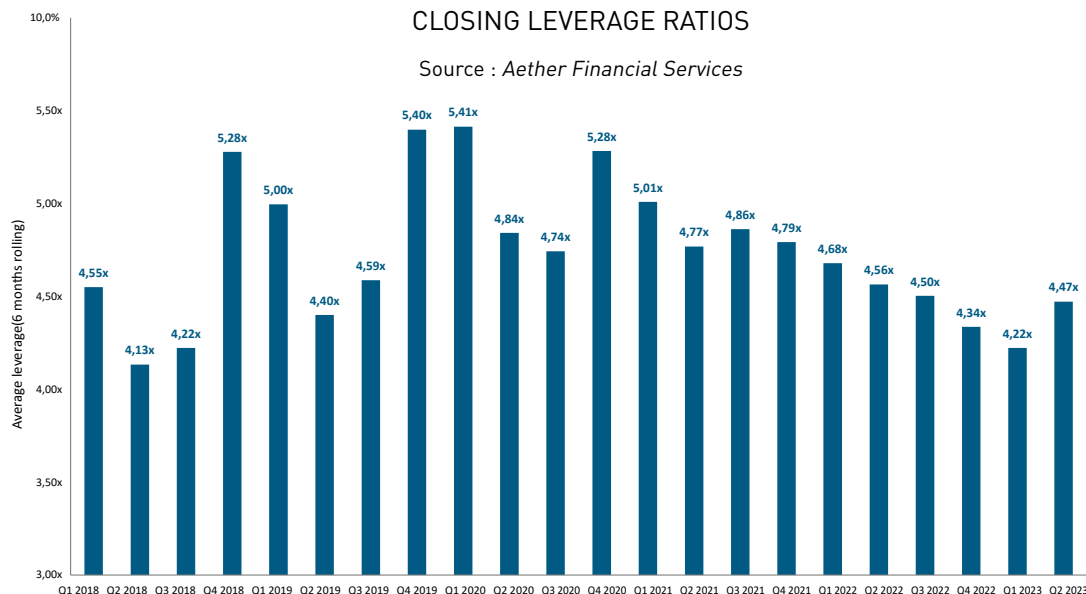


INDEX COMPONENTS

Chart 2

CLOSING LEVERAGE RATIOS

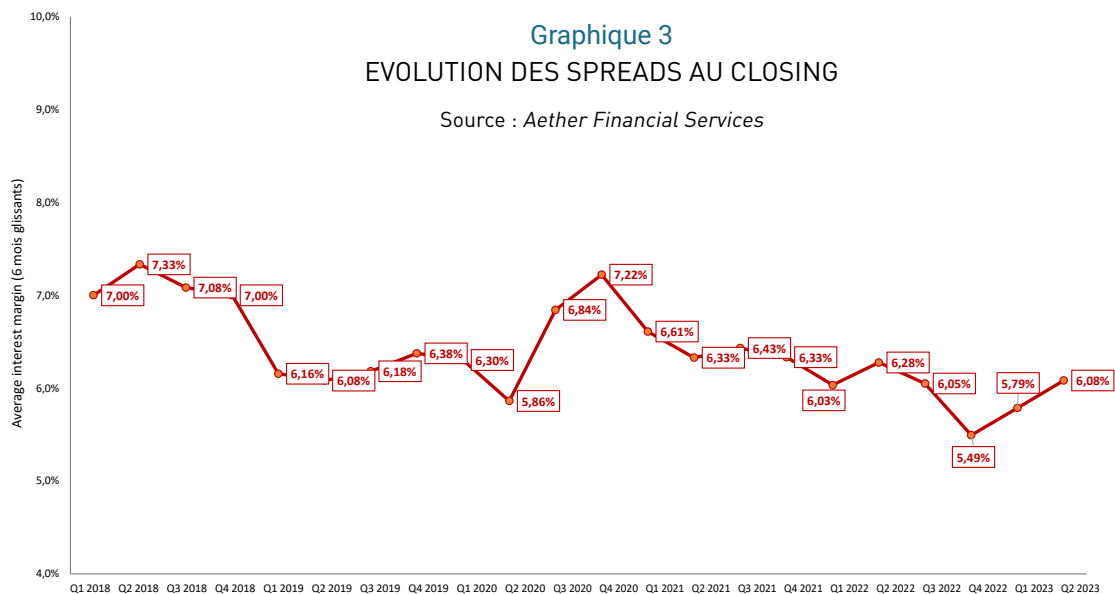
Source : Aether Financial Services



Graphique 3

EVOLUTION DES SPREADS AU CLOSING

Source : Aether Financial Services



Cash management is at the heart of companies' concerns since the end of the first quarter of 2022. As base rates have soared, debt service has a significant impact on borrowers' P&L.

Leverages at closing are therefore overall, more cautious than in 2022 even if there is a slight increase of 6% compared to the previous two quarters (4.47x in Q2 2023 vs. 4.22x in Q1 2023).

Average margins at closing have also increased by 5% compared to the previous quarter to reach 6.08% in Q2 2023.



THE INCREASING ATTRACTIVENESS AND POPULARITY OF THE PIK TOGGLE

In a context of continuous rise in base rates for a year and a half now, issuers must keep a very close eye on the management of their cash in hand.

Without a clear correlation between issuers that did not contract rate hedging at the time of closing and those that did, we see an increasing trend to exercise such clause.

The Toggle clause is the option for an issuer not to pay all or part of its cash interest at the end of the relevant period. This unpaid interest is then capitalized (added to the principal).

These clauses appeared first back in 2015 but their generalization in Unitranche documentation took place at the time of the Covid crisis.

These mechanisms, very rarely used until 2022, have widely risen in popularity since June 2022.

In the first half of 2023 alone, 9% of our Unitranche portfolio, for which we act as agent, exercised this clause to avoid paying its cash interest.

The most common terms are:

- No possibility to capitalize 100% of cash interest;
- Premium PIK between 25 bps and 50 bps;
- Start of the PIK retroactive period to the beginning of the current cash interest period;
- Number of possibilities to exercise the Toggle clause limited either (i) within one year or (ii) during the life of the transaction.

Nevertheless, some more specific clauses provide for capitalization through the issuance of new bonds or the possibility of using this option several times in a row.

Given the current interest rate environment, issuers have recently submitted applications for authorization to:

- Capitalize 100% of the cash margin;
- Capitalize the reference rate, i.e. 100% of the interest amount to be paid at the end of the period..

This option given to issuers is very useful in a context of uncertainty in short-term cash positions. However, issuers must not forget that the double counterparty is that they have an associated premium as well as an increasing principal on which future cash interest will be calculated.

The toggle is therefore like good wine, essential, but to consume with moderation.

PRESENTATION OF AETHER FINANCIAL SERVICES

An independent French leader in execution services for financial transactions, Aether Financial Services was founded in 2015 by Edouard Narboux and Henri-Pierre Jeancard.

Based in Paris and London, Aether Financial Services consists of a 20-person-plus multi-cultural team, who are experts in three business lines.



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 and 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 protecting 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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INDICE AETHER FS

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ÆTHER
FINANCIAL SERVICES

info@aetherfs.com



FR
36, rue de Monceau – 75008 Paris
France



UK
28 Queen street – EC4R 1BB London
United Kingdom