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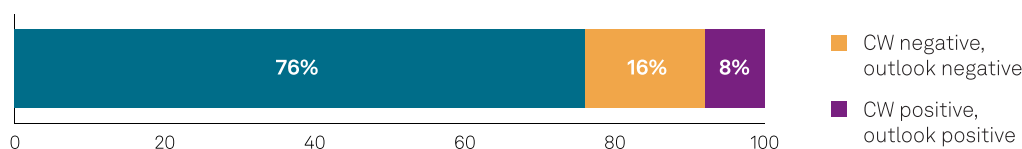
# European Summary Report

Oct. 16, 2023

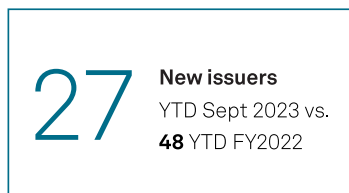
## The September Snapshot

Sluggish earnings growth and higher-for-longer interest rates continue to pressure lower-rated issuers.

### Outlook distribution



### Three new speculative-grade issuers in September



#### Top sectors



Business and consumer services



Media, entertainment, and leisure



Restaurants and retail

### Primary leveraged loan issuance increasing in September, after reaching lowest level in 2023



### Despite the slow pace in the summer, issuance in the European primary CLO market is picking up



Note: Data above is year-to-date (YTD) except for the outlook distribution. CW--CreditWatch. CLO--Collateralized loan obligations. Outlook distribution rounded to a whole number and only includes European corporate ratings (excluding utilities sector). Source: S&P Global Ratings. Leveraged loan and CLO data is sourced from PitchBook LCD. This report covers issuers incorporated in: Bulgaria, Cayman Island, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Gibraltar, Greece, Guernsey, Hungary, Iceland, Ireland, Isle of Man, Italy, Jersey, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, Netherlands, Norway, Poland, Portugal, Romania, Spain, Sweden, Switzerland, United Kingdom.

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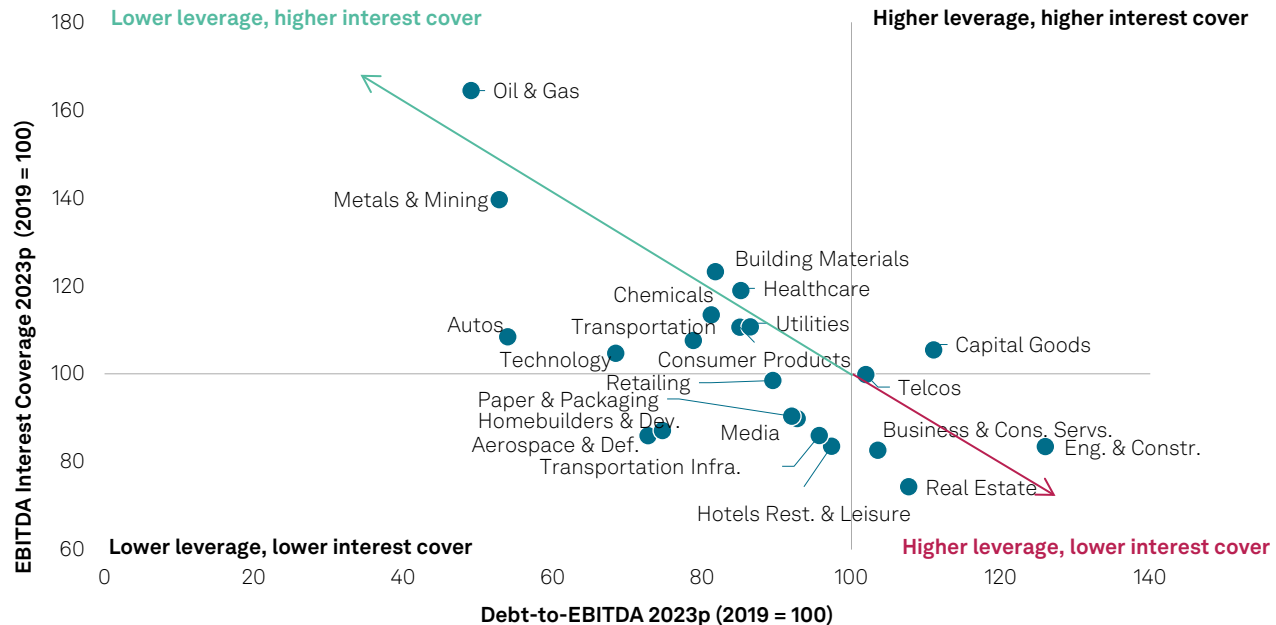
## Key Insights

1. The positive trend in rating actions has reversed in the last two months. We expect downgrades among speculative-grade issuers will increase in the fourth quarter and in 2024. The chemical, industrial, and cap goods sectors face tougher conditions as volume drops outpace cost-saving measures, though buffers from previous strong years remain. Smaller IT service providers experience slower-than-expected growth, continued supply chain pressures, and rising costs.
2. Near-term refinancing risk is limited but more challenging for smaller and lower-rated issuers that lack the flexibility to right-size their capital structure. High-for-longer interest rates bring upcoming maturities into view, with speculative-grade maturities peaking at 25% in 2026, though rate stability and strong debt market momentum to date could help mitigate these maturities.
3. We expect the European trailing 12-month speculative-grade corporate default rate to reach 3.75% by June 2024, from 3% (actual) as of June 2023. Our best-case scenario is that the default rate declines if growth, market issuance, and owner support remain resilient and inflation falls. On the other hand, if Europe enters a prolonged period of low growth or recession, particularly if inflation and interest rates stay high, our pessimistic 5.5% default rate (41 defaults) could transpire.

## Monthly Highlight

### Leverage is reducing, but in some sectors interest coverage is weakening

Forecast 2023 leverage and interest cover by sector, relative to 2019



Source: S&P Global Ratings.

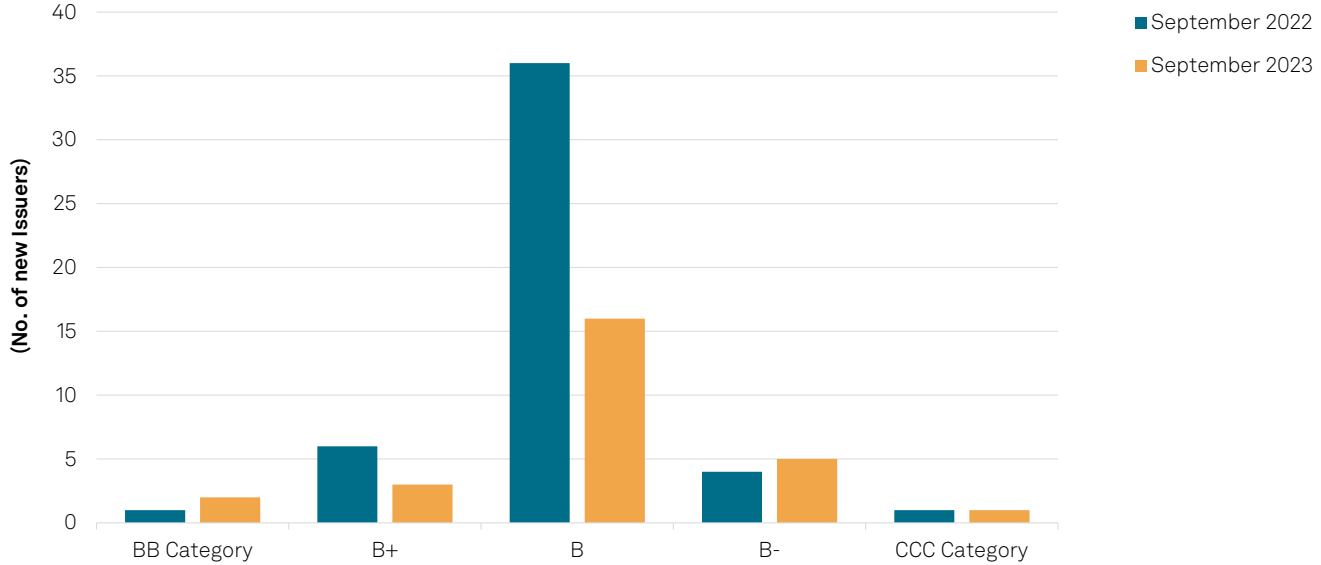
The impact of higher interest rates on debt-servicing costs is gradually materializing. Among the 22 corporate sectors, 17 currently have lower leverage than in 2019. The increase in EBITDA is outpacing the rise in debt-servicing costs and has bolstered interest coverage for 11 of these sectors, relative to 2019 levels. Real estate, business and consumer services, and engineering and construction are emerging as the worst affected sectors because they have higher debt burdens and so grapple with more substantial interest obligations relative to their EBITDA.

[Read The Full Report >>](#)

# YTD Speculative-Grade New Issuers

Chart 1

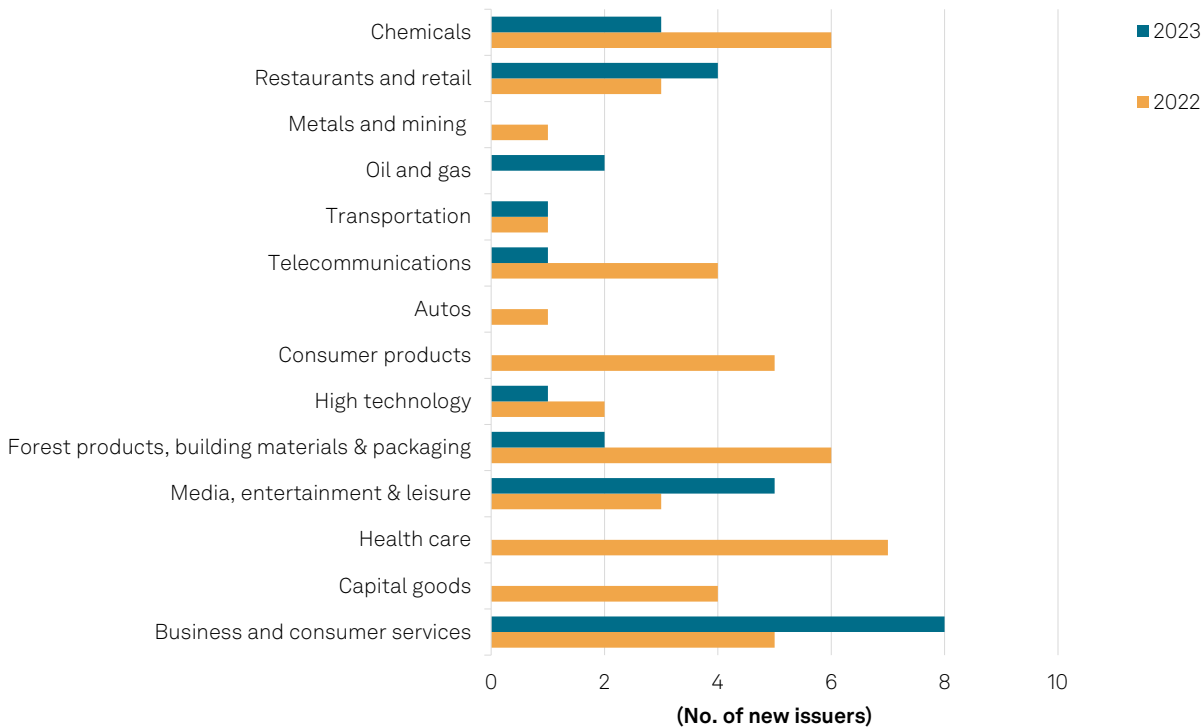
## New issuers by rating



Note: Data represents new issuers as of Sept. 30, 2022, and 2023. Includes European corporate ratings and excludes confidential issuers. Source: S&P Global Ratings.

Chart 2

## New issuers by industry group



Note: Data represents new issuers as of Sept. 30, 2022, and 2023. Includes European corporate ratings and excludes confidential issuers. Source: S&P Global Ratings.

## Defaults

Chart 3

Downgrade to 'SD'/'D'



Table 1

Ratings raised after selective default ('SD') and default ('D')

Issuer name	Prior rating	Rating raised to	Sector	Reason for default
Cineworld Group PLC*	D	B-/Stable	Media and entertainment	Bankruptcy
Technicolor Creative Studios§	D	CCC/Negative	Media and entertainment	Missed interest payments
Toro Private Holdings I, Ltd	SD	CCC+/Negative	Transportation	Distressed exchange
Covis Finco S.a.r.l.	D	B-/Negative	Healthcare	Distressed exchange
Ideal Standard International S.A.	SD	CCC/Developing	Building materials	Distressed exchange

- Covis Finco and Cineworld Group are the two defaults where we saw debt haircuts, with Cineworld finally emerging from restructuring in September, nearly a full year after filing its Chapter 11 petition. Travelport (Toro Private Holding) saw de facto priming of its first-lien term loans via exchange to junior priority loans. While Travelport's emergence from restructuring was supported by a \$200 million equity holder injection, Covis on the other hand was facilitated through Apollo relinquishing part of its equity ownership to lenders, though remaining in control.
- Ideal Standard had battled with inflationary pressures on its cost base, coupled with severely impacted revenues and cash flows leading to a downgrade to 'CCC' in July. Following this, the company announced an exchange offer suggesting leaving par intact for lenders, in the short term at least, and altering potential recovery upon change of control to at least 72% of the face value, compared to 101% originally. Upon completion of the €325 million senior secured notes exchange, the company announced the signing of a binding sale agreement to Villeroy & Boch. The diminished financial flexibility, as the majority of its liquidity sources have been utilized, and uncertainty regarding the final capital structure post-merger, capped the post-default emergence rating to 'CCC' with a developing outlook.

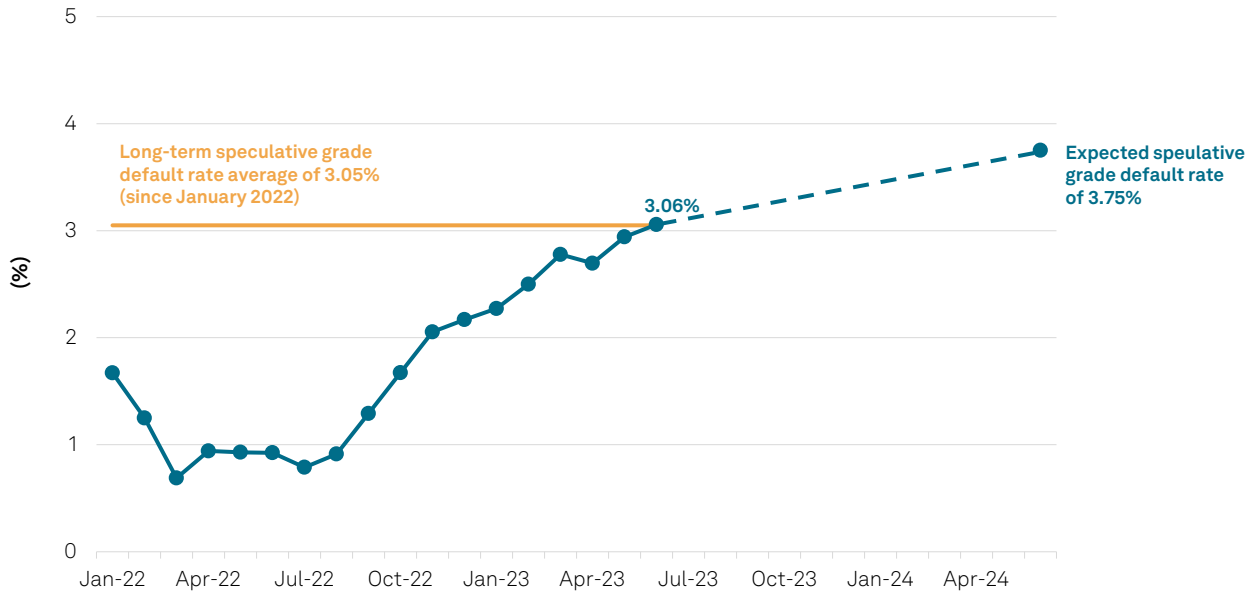
\*Cineworld Group PLC has been re-rated as New Cineworld Midco Limited

§Rating has been withdrawn

Note: Data as of YTD Sept. 30, 2023. Includes European corporate ratings. SD--Selective default. Source: S&P Global Ratings. For more information on European defaults, refer to our monthly publication, "[Corporate Defaults Record Highest August Total since 2009](#)," published Sept. 12, 2023.

Chart 4

European trailing-12-month speculative-grade default rate

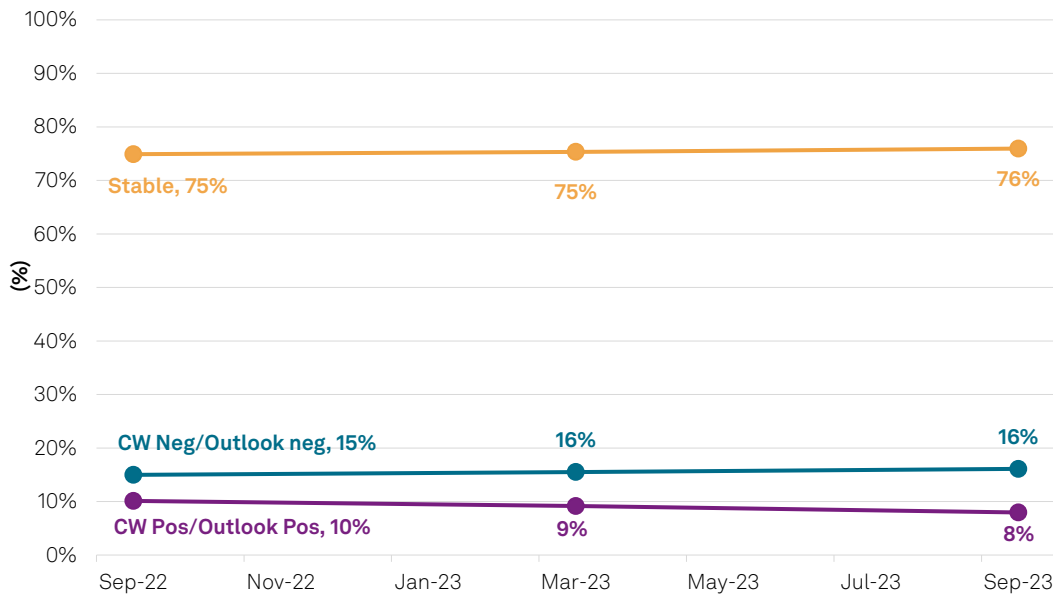


Note: Data as of June 30, 2023. The long-term average dates back to January 2002. Source: S&P Global Ratings. See ["Defaults Record Highest August Total Since 2009,"](#) published Sept. 12, 2023.

## Speculative-Grade Rating Outlook Mix

Chart 5

September 2022/2023 speculative-grade CreditWatch/Outlook distribution

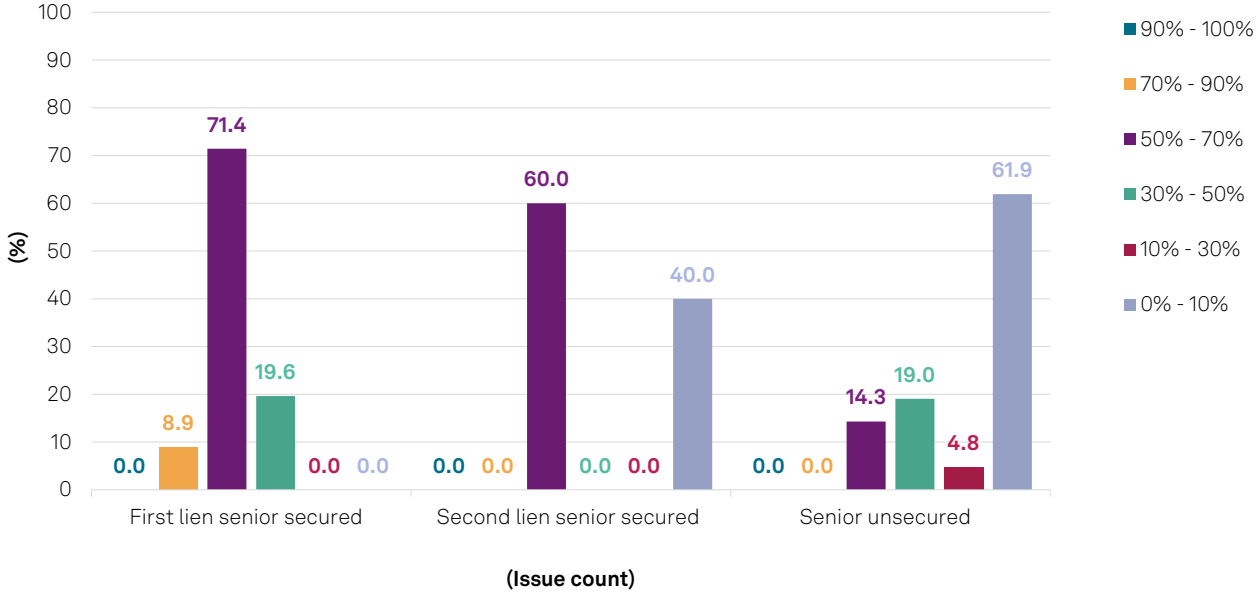


Note: Data as of Sept. 30, 2022, and 2023. CreditWatch/outlook distribution includes all European corporate ratings. Does not include investment-grade issuers. Source: S&P Global Ratings.

# Recovery Ratings

Chart 6

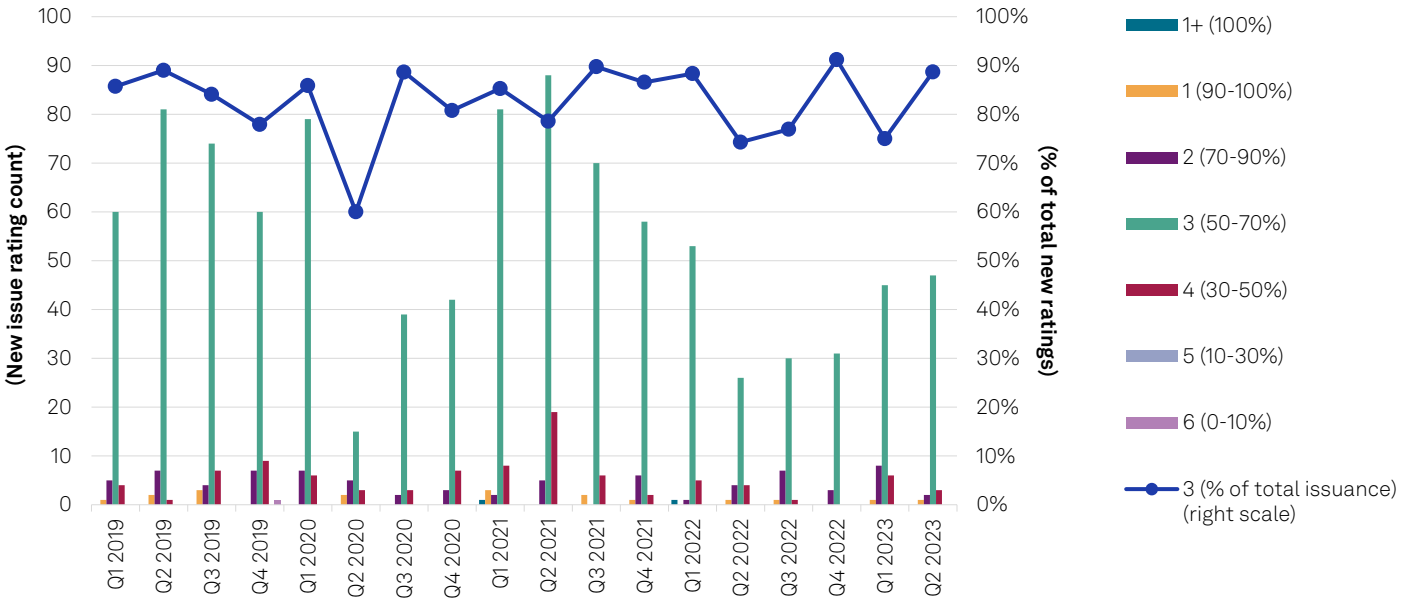
Recovery rating distribution for 'Weakest Links'



Note: Data as of June 30, 2023. Weakest Links--Issuers rated 'B-' and below with either negative outlooks or on CreditWatch negative. Source: S&P Global Ratings.

Chart 7

Recovery ratings distribution of first-lien new issues (Europe)



Source: S&P Global Ratings.

## CLOs

Table 2

## Top 10 obligors held in Europe

Rank	Obligor	Rating & CW/Outlook	GIC Code
1	Liberty Global PLC	BB-/Stable	Diversified telecommunication services
2	Altice Europe N.V.	B-/Stable	Diversified telecommunication services
3	Ineos Ltd.	BB/Stable	Chemicals
4	Lorca Telecom Bidco S.A.U.	B/WatchPos	Capital markets
5	Verisure Midholding SD	B+/Stable	Diversified telecommunication services
6	Nidda German Topco GmbH	B/Stable	Pharmaceuticals
7	Chrome HoldCo SAS	B/Stable	Health care providers and services
8	Peer Holding III B.V.	BB-/Stable	Multiline retail
9	Laboratoire Eimer SELAS	B/Stable	Food and staples retailing
10	EG Group Ltd.	B-/Positive	Specialty retail

Note: Ratings and CreditWatch/outlooks as of Sept. 30, 2023. Source: S&P Global Ratings.

## Sources

- [Resilience Under Pressure Amid Tighter Financial Conditions](#), Sept. 26, 2023
- [Corporate Defaults Record Highest August Total Since 2009](#), Sept.12, 2023
- [The European Speculative-Gare Corporate Default Rate Could Rise to 3.75% By June 2024](#), Aug. 18, 2023

## Related Research

- [CLO Pulse Q2 2023: 'The Snooze Drag' Takes Hold In Europe](#), Sep. 2, 2023
- [A Rise In Selective Defaults Presents A Slippery Slope](#), June 26,2023
- [European Corporate Recoveries 2003-2022: Recoveries Stable Despite Few Defaults](#), July 5, 2023
- [European Secured Debt Recovery Expectations Second-Half 2022 Update: Downgrades Drive Rising 'B-' Debt](#), Jan. 30,2023

Articles are available at [Corporate Research | S&P Global Ratings \(spglobal.com\)](#).

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