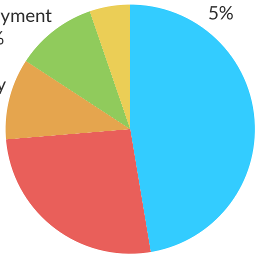
European At-Risk Leveraged Credit – October 2022

Monthly Digest of Migrating, Defaulted and Distressed Credits

EMEA Defaulted Credits
Over the last 12 months; issuer equal weight



Source: Fitch Ratings

Loan Defaults to Rise on A&E DDEs

European leveraged loan trailing-twelve-month (TTM) default rates rose to 1.4% in September 2022, from 0.9% in August 2022. We expect loan market defaults to continue rising toward 3% in 2023, principally through issuers carrying high leverage relative to the primary market, and with looming 2023 and 2024 maturities.

Many of these issuers maintain adequate business profiles and liquidity positions. However, lack of refinancing alternatives and challenging operating and capital market conditions into 2023 will lead them to engage lenders in amend-and-extend (A&E) transactions that are likely to trigger our Distressed Debt Exchange (DDE) criteria.

We treat DDEs as restricted default (RD) upon completion of a transaction: that results in a material reduction of terms, such as an extension of maturity or converting a portion of the coupon into payment-in-kind (PIK); and where we determine the transaction is undertaken to avoid imminent (within 12 months) default.

Liability Management to Increase

Developed market TTM high-yield bond default rates remained below 1% in September 2022. However, we expect bond default rates to rise towards 2.5% in 2023, as our 'Bonds of Market Concern' list remains elevated.

In addition to corporate credit stress implied by rising default rates and deeply discounted secondary market prices, the outlook for credit migration has shifted down. Specifically, the threat of weaker volumes and rising interest expenses to operating profit and free cash flow profiles limits the scope and pace of deleveraging.

Recession and restricted primary markets will compel even performing credits with high legacy leverage to adjust their financial policies towards lower gross and net debt multiples. We expect active liability management exercises for almost all borrowers in addition to cost-reduction measures.

Few issuers have the capacity to deleverage by increasing operating profits. Issuers with long-term debt maturity profiles will attempt to protect margins and reduce leverage by making savings, reductions in capital expenditure and curtailment of acquisitions.

We expect issuers with medium-term debt maturity (in 2025 and 2026) to undertake debt-buybacks, asset sales with proceeds to reduce debt, and bond exchanges with existing investors to deleverage at refinancing. These will not be treated as DDE's if we determine they are opportunistic and within the bounds of documentation, rather than to avoid imminent default.

Related Research

Limited Refinancing Risk in European CLOs (October 2022)
French High Yield and Leveraged Finance Stand Out in Europe (October 2022)
European High-Yield Outlook Remains Challenged (October 2022)
DACH Region High-Yield and Leveraged Finance Distinct in Europe (October 2022)
Fitch Ratings Slashes Global GDP Forecasts on Supply Shocks, Faster Rate Rises (September 2022)
Fitch Ratings Slashes Global GDP Forecasts on Supply Shocks, Faster Rate Rises (September 2022)
Italian High Yield and Leveraged Finance Distinct in Europe (September 2022)
Sustainable Fitch Launches Leveraged Finance ESG Scores (September 2022)
European Leveraged Primary Market Falls Belie 1H22 Credit Performance (August 2022)

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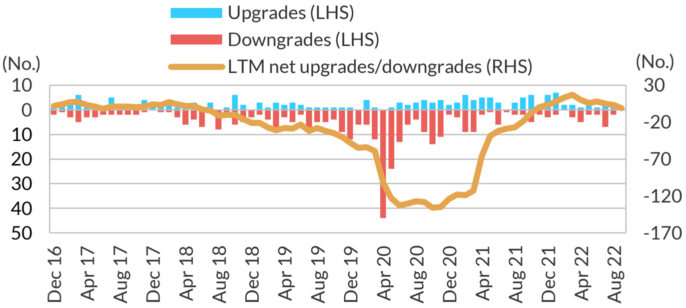
Downward Rating Migration

Fitch's latest Global Economic Outlook assumes benchmark floating and fixed rates will continue rising into 2023 as Europe enters recession in 4Q22. We expect Europe to register negative 0.1% GDP in full year 2023. Tightening monetary policy and weaker demand will challenge issuer attempts to protect margins, as well as volumes and market positions.

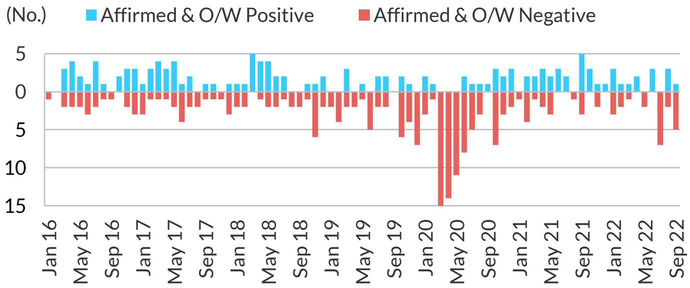
Leveraged Finance Downgrades/Upgrades



Source: Fitch Ratings

We will downgrade or apply negative outlooks to credits that struggle to deleverage or maintain leverage within stated sensitivities for their rating categories. As 2024 and 2025 maturities approach our 18- to 24-month outlook horizon, we will take a conservative approach to refinancing risk.

Leveraged Finance Affirmations and New Outlooks



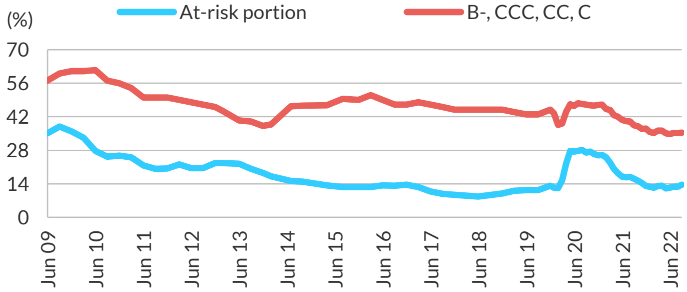
Source: Fitch Ratings

At-Risk Portfolio at Inflection Point

We expect an increase in our "at-risk" portfolio: credits rated 'B-'/ 'b-*' with a Negative Outlook and below. The share of at-risk credits in the Fitch leveraged credit portfolio rose to 13.6% at end-September 2022, from 12.8% earlier in August and 13.1% at end-2021. This was the lowest level since December 2019 (13.2%).

We expect the pandemic recovery to fade further into 4Q22 and 2023, with cyclical issuers compelled to choose between protecting margins or volumes and market share through pricing strategies.

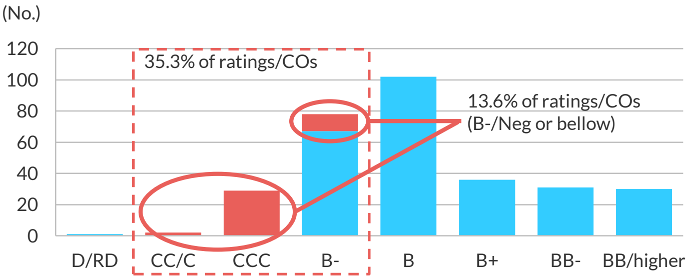
Evolution of the At-Risk Portion of the Portfolio



Source: Fitch Ratings

At-Risk Portion of Portfolio

Of the portfolio, 35.3% of ratings and Credit Opinions are 'B-'/'b-' or lower



Source: Fitch Ratings

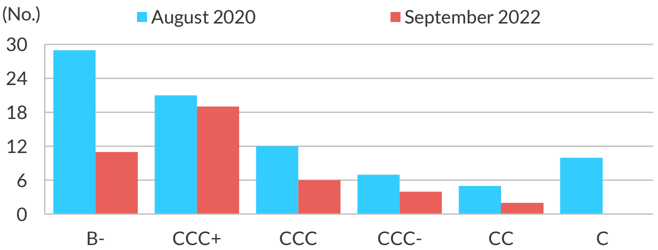
Free Cash Flow Margins, Maturities Weigh

The largest portion of at-risk credits are "zombies", typically credits rated 'B-'/Negative or 'CCC+'. High debt and uncertain or weak cash generation are often offset by adequate access to cash for short-term liabilities and long-term maturities. Rising leverage and weaker free cash flow margins will lead to the placing of more 'B-'/'b-*' credits on Negative Outlook.

Encroaching refinancing risk will lead to the Downgrade of more 'CCC+' credits to 'CCC', as coerced A&E exercises trigger our DDE criteria.

We treat an A&E exercise as a default if two conditions are present: 1) a material reduction of terms such as maturity extension or PIK-ing of interest; and, 2) we determine the transaction is undertaken to avoid default. The direct or indirect threat of formal judicial process in the absence of the A&E will lead to DDE.

Rating Distribution of the Portfolio's At-Risk Portion



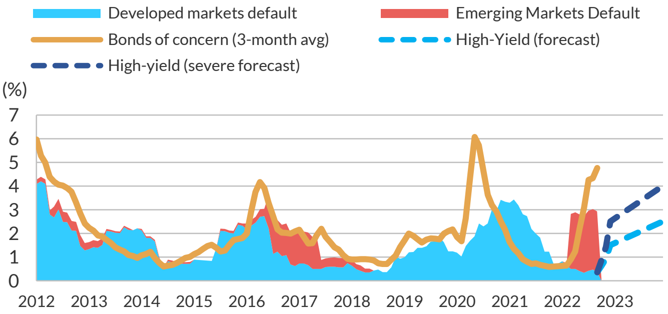
Source: Fitch Ratings

High-Yield Concern Lists Spiking

High-yield bonds of market concern rose to 5.6%, the highest share of our Index since April 2020, exceeding the previous 4.8% peak of July 2022 and increasing the number of these bonds. We derive our market concern lists from weighted aggregate scores of instrument ratings, discounted secondary market prices and upcoming maturities.

A combination of downward rating actions and approaching maturities contributed to a modest month-on-month increase from August to September, with the three-month moving average increasing to 4.8%. We expect downward rating actions to ensure that concern list levels remain elevated into 2023, even if secondary market prices stabilise.

EMEA High-Yield Bonds



Source: Fitch Ratings

Bonds of Market Concern

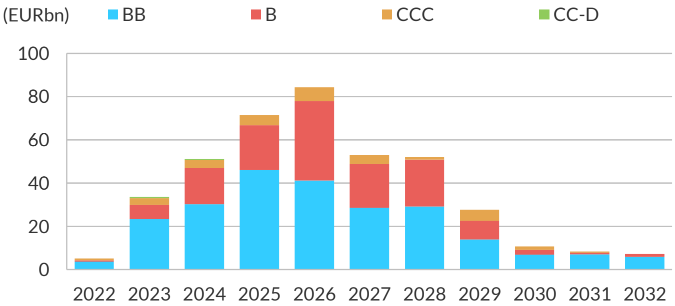
Tier	Issuer	Original amount (m)		Maturity	Avg. Price
Top	Corestate Capital Holdings	EUR	300	Apr 23	22.8
Top	Matalan Finance plc	GBP	350	Jan 23	77.8
Top	Adler Group S.A.	EUR	500	Apr 27	55.8
Top	Adler Group S.A.	EUR	400	Nov 26	56.5
Top	Adler Group S.A.	EUR	800	Jan 29	54.3
Top	Adler Group S.A.	EUR	700	Jan 26	57.5
Top	Frigoglass Finance B.V.	EUR	260	Feb 25	52.3
Tier 2	Banca Monte dei Paschi	EUR	300	Jul 29	56.8
Tier 2	Metro Bank Plc	GBP	250	Jun 28	55.9
Tier 2	Banca Monte dei Paschi	EUR	400	Jan 30	54.1
Tier 2	Banca Monte dei Paschi	EUR	750	Jan 28	52.0
Tier 2	Carnival Plc	EUR	600	Oct 29	52.9
Tier 2	Banca Monte dei Paschi	EUR	300	Sep 30	54.8
Tier 2	Ideal Standard Intl NV	EUR	325	Jul 26	58.3
Tier 2	Adler Group S.A.	EUR	400	Jul 24	65.9
Tier 2	Casino Guichard Perrachon	EUR	460	Aug 26	55.2
Tier 2	Adler Real Estate AG	EUR	500	Apr 23	84.3
Tier 2	ARD Finance S.A.	EUR	796	Jun 27	72.6
Tier 2	Casino Guichard Perrachon	EUR	400	Jan 26	58.4
Tier 2	Kleopatra (Klöckner Pent)	EUR	300	Sep 26	68.1
Tier 2	Herens Midco S.a.r.l.	EUR	460	May 29	69.5
Tier 2	Kirk Beauty (Douglas)	EUR	498	Oct 26	65.4
Tier 2	Casino Guichard Perrachon	EUR	525	Apr 27	53.8
Tier 2	Haya Holdco 2 plc	EUR	368	Nov 25	64.3

Bonds of Market Concern

Tier	Issuer	Original amount (m)		Maturity	Avg. Price
Tier 2	Novafives S.A.S.	EUR	325	Jun 25	67.0
Tier 2	Adler Group S.A.	EUR	400	Aug 25	60.0
Tier 2	Sigma Holdco BV	EUR	677	May 26	69.8
Tier 2	Novafives S.A.S.	EUR	275	Jun 25	67.3
Tier 2	Pro-Gest S.p.A.	EUR	250	Dec 24	72.6
Tier 2	Adler Real Estate AG	EUR	300	Feb 24	80.8
Tier 2	Olympus Water US Holding	EUR	265	Oct 29	76.2
Tier 2	Casino Guichard Perrachon	EUR	558	Mar 24	70.0
Tier 2	Mangrove Luxco III S.a r.l.	EUR	372	Oct 25	79.1
Tier 2	CTEC II GmbH	EUR	465	Feb 30	76.0
Tier 2	Foodco Bondco S.A.U.	EUR	335	May 26	74.3
Tier 2	Adler Real Estate AG	EUR	300	Apr 26	73.9
Tier 2	Casino Guichard Perrachon	EUR	357	Feb 25	63.1
Tier 2	Codere Finance Lux 2 S.a.r.l	EUR	140	Nov 27	88.4
Tier 2	Raffinerie Heide GmbH	EUR	250	Dec 22	98.2
Tier 2	Selecta Group B.V.	EUR	276	Jul 26	87.6
Tier 2	Boparan Finance Plc	GBP	475	Nov 25	70.0
Tier 2	Standard Profil Automotive	EUR	275	Apr 26	62.4
Tier 2	Oriflame Invt Holding Plc	EUR	250	May 26	59.3
Tier 2	Verisure Midholding AB	EUR	1,175	Feb 29	78.2
Tier 2	TUI Cruises GmbH	EUR	524	May 26	80.2
Tier 2	Chrome HoldCo	EUR	525	May 29	78.5
Tier 2	Diebold Nixdorf	EUR	350	Jul 25	81.6
Tier 2	Paper Industries (Lecta)	EUR	200	Mar 25	82.7
Tier 2	Laboratoire Eimer Selas	EUR	250	Feb 29	76.4
Tier 2	Titan Holdings II B.V.	EUR	375	Jul 29	82.2
Tier 2	Motion Bondco DAC	EUR	370	Nov 27	81.5
Tier 2	Picard Bondco S.A.	EUR	310	Jul 27	79.1
Tier 2	BCP V Modular Services	EUR	435	Nov 29	73.5
Tier 2	Intralot Capital Lux SA	EUR	382	Sep 24	92.8
Tier 2	Ardagh Pkg Fin/Hldgs USA	GBP	400	Jul 27	70.9
Tier 2	WP/AP Telecom Holdings	EUR	550	Jan 30	79.3
Tier 2	Summer BC Holdco A Sarl	EUR	428	Oct 27	84.1
Tier 2	Compact Bidco BV	EUR	300	May 26	74.1
Tier 2	Flamingo Lux II (Foncia)	EUR	250	Mar 29	77.6

Note: Average prices as of September 2022
Source: Fitch Ratings High-Yield Insight Index

High-Yield Maturity Profile



Source: Fitch Ratings European High-Yield Insight Index

Bonds of Concern Highlights

Corestate Capital is seeking permission for a capital increase of up to 200 million new shares, which would contribute to a debt-for-equity restructuring. The company is looking to refinance its EUR300 million 3.5% senior unsecured note due in April 2023, which is marked in the low 20s. Management advised that securing liquidity and reducing debt will be a top priority.

Recently released 1H22 results reported a 76.7% decline in aggregate revenue and gains as well as a negative EBITDA of EUR125 million versus a positive EBITDA figure of EUR35.7 million last year. Sale proceeds of its shopping centre are expected to restart in 4Q22. Cost-cutting measures are also being intensified.

The company is working with advisers Rothschild and Weil Gotshal, and a bondholder group is working with Houlihan Lokey and Milbank.

Matalan has agreed the main terms of a recapitalisation with noteholders, including a proposal to extend its GBP350 million 6.75% senior secured note due in January 2023 for an additional six months to help facilitate the sale of the business.

With stakeholders accepting that the notes cannot be repaid at maturity, first-lien bondholders, who effectively control the company, are now running the sale as a proper M&A rather than a valuation. First-round bids are due in a month. Matalan's chairman John Hargreaves is stepping down so he can bid for the retailer.

The Hargreaves family is being advised by Lazard, while Teneo is handling the sale and Perella Weinberg Partners is advising the first-lien lenders.

With a normal market refinancing unlikely, potential outcomes include an amend and extend transaction, some kind of exchange offer or a debt-for-equity restructuring.

Adler Group - An AGM approved the sale of 95% of the company's housing stock to reduce its debt and a sale of two of its QH projects was confirmed earlier in September between German property development, investment company Aggregate Holdings and Vivion Investments.

The deal will reduce gross debt by about EUR440 million and lower the LTV by 270bp to 57.1% pro forma in 2021.

After its request was rejected at the AGM, German investor association SdK is seeking to enforce , through the courts, a special audit into the company's transactions, following a report published from short-seller Viceroy Research into the group in October 2021, alleging, among other things, fraud, deception and financial misrepresentation at the group.

KPMG has also pointed out documentation deficiencies, prevention in obtaining appropriate evidence and a high level of distrust. A EUR3.0 billion bondholder group advised by Houlihan Lokey and Hengeler Mueller has intensified its pressure on the company, seeking clarification on those transactions.

Frigoglass's bond prices were steady at 48.6% of par in late September after a proposed EUR30 million senior secured note funding was expected to be agreed to bridge is short-term funding needs, according to the company. Main shareholder Traud Verwaltungs indirectly owns 48.55% of the company

The bonds became distressed when it was revealed that Russia and Ukraine accounted for 14.5% and 2.4%, respectively, of its FY21 sales. The company purchases raw materials in Russia, which represents around 23% of commercial refrigeration purchases in 2021. The group's Russian factory has become its main production facility in Europe.

It has agreed to receive EUR61.6 million in compensation for a fire at its Romanian plant in June 2021, which is due to operate again in Q1 2023.

Frigoglass is working with Perella Weinberg and Milbank to improve its liquidity and capital structures.

Carnival Corp and Plc reached an agreement to extend its USD339 million 5.75% convertible notes to 2024, following a share offering in July that raised USD1.0 billion of gross proceeds. This is intended for general corporate purposes, which could include addressing 2023 debt maturities, said the company. Carnival reported a loss of USD770 million for 3Q ending in August 2022.

The EUR600 million 1% senior unsecured due 2029 note was traded at 44.4% to par in early October, down from 54.9 earlier in September. The company has now reported a loss in every quarter since the fiscal second quarter ended in May 2020, with revenue missing expectations for 10 straight quarters.

Diebold Nixdorf announced, at the end of October, a new USD400 million super senior term loan, maturity extensions and debt exchanges for asset-based lending and equity. The transaction is likely to be seen as a DDE and will move to the default list in November.

Raffinerie Heide's chief financial officer (CFO) outlined the base scenario of a full cash repayment or an alternative option combining cash with an additional small credit facility for the EUR250 million 6.375% senior secured bonds due December 22. Strong liquidity and high forward 2022 margins provided flexibility for the settlement.

The note was trading steadily at around 98 in September and October and the company reported exceptional Q2 2022 results, with revenue up 149% and an EBITDA balance of EUR117.9 million versus EUR 8.6 million last year. Cash balance rose to EUR200.1 million at end-June from EUR121.9 million at end-March.

Kloeckner Pentaplast's (Kleopatra) approached its US lenders to amend its term loan and revolver using the SOFR benchmark offering the lenders a 5bp amendment fee, with JP Morgan running the amendment. Bonds have been distressed since early March, when oil prices jumped at the onset of the Russia-Ukraine war.

Pro-Gest Revenue and EBITDA climbed 52.3% and 82.7% to EUR489.8 million and EUR103.2 million, respectively, according to the recently released H1 2022 results. The company will continue to pass on cost increases to customers, however consumption by industry and households had already slowed significantly.

Soaring energy costs are attenuating the H2 forecast. Despite the challenges, net leverage declined to 3.46x on an adjusted basis and 3.75x on reporting figures from 4.83x and 5.53x, respectively.

Casino Group has launched a bondholder identification exercise focusing on 2024 and 2025 bonds as it seeks to manage a EUR6.4 billion debt pile.

The bonds remain under pressure in secondary markets, with the EUR900 4.498% senior unsecured 2024 note trading at around 67% to par in October, while the EUR900 million and EUR525 million 4.048% and 5.25% due in 2026 and 2027were trading at around 44% and 42%, respectively.

In September, Casino agreed a EUR350 million 30-day financing facility with Farallon Capital Management to capitalise part of the EUR600 million sale proceeds of a majority stake in Green Yellow, its renewable energy business, to Adrian, allowing it more capacity to buy back its debt.

Douglas's CFO stated no major disruption in sales and margins for Q4, with adjusted EBITDA of 7.5% for Q3 to EUR64 million from EUR24 million, sales up 28.8% and quarterly like-for-like sales 21% higher than pre-Covid levels. Its Fitch rating was affirmed at 'B-'at end-July but its Outlook was revised to Negative.

Fitch Ratings reported a deterioration in leverage due to increased inflationary pressure on costs and the effect of the economic slowdown on its sales. Its EUR498 million 8.25%/9% due 2026 PIK notes fell to 59 in October, from 66 earlier in September. Management noted in August that there are no plans to buy back any of the PIK notes, despite the discounted trading price.

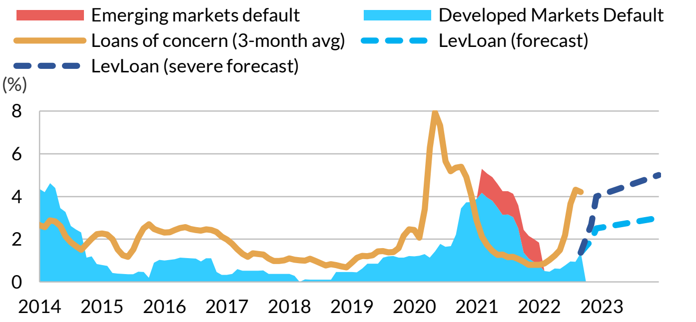
Source: Fitch Ratings, LevFin Insights

Loans of Market Concern Increase

Leveraged Loans of Concern declined slightly to 3.4% in September 2022, from 3.6% in August, and have averaged 4.2% over the last three months. The concern is lower than for bonds given the absence of duration risk in floating-rate loan instruments.

We expect downward rating migration to support elevated loans of market concern levels into 2023. Issuers on the lists are more likely to hire restructuring advisers and solicit material amendments under the threat of entering court processes.

EMEA Leveraged Loans



Source: Fitch Ratings

Loans of Market Concern

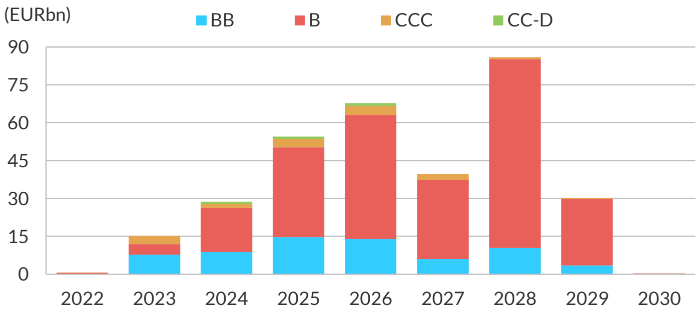
Tier	Issuer	Original amount (m)		Maturity	Average Price
Top	Arvos	EUR	289	Aug 23	59.6
Top	Schur Flexibles	EUR	100	Sep 27	52.5
Top	Schur Flexibles	EUR	475	Sep 28	39.2
Top	PlusServer	EUR	260	Aug 24	39.1
Top	Pronovias	EUR	154	Oct 24	69.9
Top	NorthPole/NSO Group	EUR	101	Mar 25	12.5
Tier 2	Hotelbeds	EUR	175	Sep 23	83.3

Loans of Market Concern

Tier	Issuer	Original amount (m)		Maturity	Average Price
Tier 2	Flint Group	EUR	150	Sep 23	83.1
Tier 2	Genesis Care	EUR	507	May 27	44.7
Tier 2	Flint Group	EUR	150	Sep 24	83.0
Tier 2	Keter	EUR	100	Oct 22	86.5
Tier 2	Dummen Orange	EUR	196	Sep 26	79.5
Tier 2	Genesis Care	EUR	400	Oct 25	44.9
Tier 2	Flint Group	EUR	100	Sep 23	83.1
Tier 2	Flint Group	EUR	625	Sep 23	83.1
Tier 2	Clarion Events	GBP	315	Sep 24	77.0
Tier 2	Wittur	EUR	240	Sep 27	67.9
Tier 2	ASK Chemicals	EUR	190	May 23	85.7
Tier 2	Areas Worldwide	EUR	125	Jan 26	77.9
Tier 2	Flakt Woods	EUR	300	Oct 23	85.8
Tier 2	Wittur	EUR	565	Oct 26	70.8
Tier 2	Park Resorts/Parkdean	GBP	100	Mar 23	89.2
Tier 2	Areas Worldwide	EUR	150	Jul 26	79.9
Tier 2	Betafence/Praesidiad	EUR	290	Oct 24	84.9
Tier 2	Diebold	EUR	415	Nov 23	85.7
Tier 2	Biscuit International	EUR	490	Feb 27	77.2
Tier 2	Hotelbeds	EUR	150	Sep 24	84.3
Tier 2	Biscuit International	EUR	205	Feb 27	77.2
Tier 2	Euro Garages/EG Group	GBP	250	Nov 22	88.3
Tier 2	Biscuit International	EUR	110	Feb 27	64.8
Tier 2	Hurtigruten	EUR	105	Jun 23	92.3
Tier 2	Stonegate Pub	GBP	400	Mar 28	87.6
Tier 2	SGB-SMIT	EUR	360	Jul 24	81.4
Tier 2	Euro Garages/EG Group	EUR	610	Apr 27	88.9
Tier 2	Constellation Auto	GBP	325	Jul 29	82.6
Tier 2	Hurtigruten	EUR	655	Feb 25	84.0
Tier 2	Madrid	EUR	300	Jan 26	76.9
Tier 2	Flora Food	EUR	700	Jan 25	78.8
Tier 2	Prosol	EUR	250	Jan 28	77.9
Tier 2	Prisa	EUR	1,079	Mar 25	82.8
Tier 2	Imagina	EUR	180	Dec 25	85.0

Note: Average prices as of September 2022
Source: Fitch Ratings LevLoan Insight Index

Leveraged Loan Index Maturity Profile



Source: Fitch Ratings European Leveraged Loan Insight Index

Loans of Concern Highlights

Arvos Group amended and extended its EUR288 million term loan B (TLB) to E+550bp due August 2023 (from E+450bp due August 2021) in early 2021. Its TLB joined the Loans of Market Concern Tier 2 list in March 2020, topping it in August 2021. Its net leverage covenant was replaced with a minimum EBITDA and liquidity covenants. The USD term loan traded at around 58 in mid-October,

PlusServer hired a new CEO in July 2021 after nearly two years of high volatility in its secondary market loan prices. These improved materially from 39 in July 2020 to almost 70 in March-August 2020, before falling back and "stabilising" at 38 from January 2022. In September 2017, the cloud company secured a senior loan package backing its buyout by BC Partners from GoDaddy.

Schur Flexibles's restructuring was completed on 28 September 2022, with ownership moving to lenders led by Apollo Global Management. The company will operate under the name Adapa. A new, EUR168 million due September 2026 loan is in place paying E+550bp cash + 4% PIK, alongside EUR147 million of reinstated debt due September 2027 paying E+550bp.

The reinstated debt comprises 25% of its EUR475 million TLB and the EUR15 million that it had drawn on its revolving credit facility (RCF), along with 35% of its EUR70 million supply chain facilities.

Pronovias' (CatLuxe) first-lien loans rose from record lows of 24-32 in April 2020 to 68-70.5, bid-ask, in October 2022. The luxury wedding dress company amended its second-lien term loan to PIK notes and received a EUR21.5 million equity injection from BC Partners in February 2021.

NSO Group's EUR100 million E+700bp term loan due 2025 has traded in the low 10-15 (bid-ask) since early September 2022, according to IHS Markit. The company has faced scrutiny since 2019 for its spyware software Pegasus, which is classified as a weapon by the Israeli government, and faces law suits by Apple and Meta Platforms.

Berkeley Research Group, which owns 70% of NSO Group, raised concerns after scrutiny questions about management's lawful operations and sharing of material information of the group's activities with the owners was obstructed.

Genesis Care Concerns were aroused early in October as lenders tried to work out whether a USD50 million repayment had been made to KKR following the sale of the company's cardiology business in August, which could have a significant impact on its liquidity.

This led loans to tumble over the last three months amid continuing concerns over the company's bounce back and operational expansion, which resulted in over-leverage.

The E+475bp term loan maturing at 2027 fell to 32 from 77 earlier in June and 96 at the start of 2022. The senior secured 3.5% term loan maturing at 2025 plunged to 35% of face value compared to 76% in June and 93% at the beginning of 2022.

The company has USD 1.6 billion equivalent of loan debt and is between 18x and 20x leveraged, based on its EBITDA. It operates under stable liquidity and does not face maturities or covenant triggers this year. However, management has started to implement a recovery plan with the aim of significantly deleveraging the business over the next 12-24 months, ahead of looming maturities.

EG Group's E+300bp RCF fell to 82 in October, from 90 in August. The group capitalised its 2021 UK acquisitions and reported a 23.7% increase in revenue to USD8.3 billion and adjusted EBITDA before IFRS 16 down 6.6% to USD355 million.

As at end-June, net debt was USD9.4billion, with cash and cash equivalents at USD418 million and net leverage of 5.9x, flat on the March year-end.

Hurtigruten's lenders have organised and held financial advisory pitches for a deal with upcoming debt maturities, especially focusing on its 2023 maturities of EUR105 million and EUR46.5 million TLC and TLD. Shareholders have agreed to increase a recently arranged subordinated loan facility to EUR75 million from EUR55 million.

A UK Scheme of Arrangement to deal with the maturity extension has been promoted as a likely scenario, with TLB lenders involved to ensure enough support. However, support levels were not seen as sufficient for the success of a Scheme, which needs 75% creditor backing.

The company reported a strong Q2 2022 financial performance with revenue up 200% and positive EBITDA of EUR 0.6 million versus a negative EUR 7.3 million in the previous year. Bids for the EUR655 million E+400bp TLB jumped from 70 in July to 80 in October, while the EUR105 million E+800bp term loan is currently trading at 90. Hurtigruten has also obtained covenant relaxations.

Upfield (Flora Food) has agreed to implement price increases across the majority of accounts. The company has been hit by exceptional costs relating to its separation from Unilever, pushing up its leverage, as well as by inflationary pressures and supply-chain disruption caused by the war in Ukraine.

Net debt was EUR5,67 billion at 31 March 2022, with the leverage ratio down at 8.7x from at 8.9x at end-March. Under the covenant calculation, leverage was 6.6x versus 8.5x test.

Keter has proposed an amend-to-extend request to move its maturities to 2025. The deal involves a partial repayment at par and a 100bp uplift to E+525bp on the margin, which will result in loan-to-maturity (LTM) senior leverage falling to 4x from 4.9x. Keter will issue a new USD250 million pari passu TLB to the existing euro term loan, together with a EUR200 million of second lien and EUR50 million of fresh equity, to fund the repayment.

The company and its shareholders are aiming for at least an 80% consent from lenders, but, if this is not agreed, the extension could be carried out through a Scheme of Arrangement.

The proposal has attracted mixed views and is considered aggressive, according to some traders, as it can remove the security and covenant protection, leaving those not consenting with shorter-dated unsecured debt.

Lenders are taking a pragmatic view, as the extension request is preferable to the alternative of leaving a EUR 1.2 billion TLB to mature in 2023 and run the risk of restructuring in the future. The EUR100 million E+425bp RCF is currently bid at 80% from 87% of par earlier in September.

"Exit consent transactions" are common in the US but rare in Europe, according to Covenant Review.

Source: Fitch Ratings, LevFin Insights

Overview of Recent Defaults

The TTM leveraged loan default rate increased to 1.4% in September, from 0.9% in August 2022, down from 2.0% at end-2021, and we affirm our expectation that it will rise towards 2.5% at end-2022. The TTM EMEA bond default rate (including Russia, Ukraine and emerging Europe) was 2.9% in September. The developed-market, high-yield bond default rate was only 0.4% and we estimate that it will be 1.5% at end-2022.

Recent Defaulted Credits

Default Date	Issuer Name	Instrument	Issuance (m)	Default Type	Post-Default Price/ Settlement (%) [a]	Default Date
Sep 22	Cineworld	Term loan	EUR	608	Bankruptcy	N/A
Sep 22	Holland & Barrett	Term loan	EUR	933	DDE	75-80
Jul 22	Kondor (Naftogaz)	Bond	EUR	600	DDE	22
Jul 22	Matalan Finance	Bond	GBP	96.3	Downgrade	0
Jul 22	Vue Cinemas	Term loan	EUR	860	DDE	75
Jun 22	Schur Flexibles	TLB/RCF	EUR	575	DDE	25
Apr 22	DTEK Renewables	Bond	EUR	325	DDE	N/A
Mar 22	Gazprom	Bond	EUR	9,220	Downgrade	N/A
Mar 22	Russian Rail	Bond	EUR	2,174	Missed payment	16.5
Feb 22	Credito Real SAB	Bond	EUR	520	Missed payment	6
Feb 22	Yell Bondco Plc	Bond	GBP	214	DDE	71
Jan 22	Mulhacen Pte Ltd	Bond	EUR	537	DDE	55
Dec 21	Safari Verwaltungs	Bond	EUR	350	Restructuring	91
Oct 21	GTT	Term loan	EUR	750	Bankruptcy	100

[a] Estimated based on CDS auctions and secondary market prices. Debt-for-equity swaps are considered zero if illiquid. Numbers may change if new information is made available.
Source: Fitch Ratings

Recent Defaults Highlights

Cineworld's debtors filed for a lease rejection motion seeking authority to reject 20 unexpired leases earlier in October. Debtors filed for Chapter 11 in the US bankruptcy court. The ad hoc legacy/debtor-in-possession (DIP) lender group members hold 53% of debtors priming facilities and 64% of the legacy loan debt.

Of the USD5.35 billion funded debt, USD5.1 billion is held by debtor entities. Debtors were authorised to use USD1.785 billion of their USD1.935 billion senior secured multi-draw credit facility (S+1000 (1% floor), payable monthly in arrears, 12-month maturity, subject to three possible one-month extensions).

According to debtors, the company's enterprise value does not exceed the USD5.1 billion of secured debt, which means that unsecured creditors and equity stakeholders would not get any recovery. There is no restructuring support agreement or a firm exit plan in place. The EUR 608 million term loan due 2025 (E+ 263bp) was quoted around 38-40 in October, following the bankruptcy filing, versus 63-64 earlier in September.

The debtors are advised by Kirkland & Ellis and Jackson Walker, as co-US bankruptcy counsel; Slaughter & May as English counsel; PJT Partners as investment bank; and AlixPartners as financial advisor.

Holland & Barrett - More than 99% of lenders have taken up the company's tender offer, according to a statement from sponsor LetterOne. The sponsor will purchase all the debt tendered at 75-80 cents on the dollar.

Russian investors Mikhail Fridman and Petr Aven stepped down from LetterOne's board on 3 March, having been subject to EU sanctions. Both the EUR415 million E+425bp and GBP450 million E+525bp senior secured term loan were quoted at around 72-76 in September, from 58 in August.

Fridman and Aven owned less than 50% of LetterOne shares, according to a statement from the private equity company's chairman.

Kondor Finance plc (NAK/Nafatogaz) was downgraded to 'C' from 'CCC' in July by Fitch Ratings following a consent solicitation to defer the debt servicing of the company's Eurobond. The proposed restructuring would involve a material reduction in terms and is being conducted to avoid insolvency.

At end-July, Fitch downgraded the company to 'RD' following the expiry of the grace period on its missed Eurobond repayment, which was due on 19 July 2022.

Matalan agreed the main terms of a comprehensive recapitalisation with the ad hoc group of its first-lien noteholders, with a proposed extension of the bond maturity for at least six months to help facilitate the sale of the business.

With stakeholders accepting the notes cannot be repaid at maturity, first-lien bondholders, who effectively control the company, are now running the sale as a proper M&A rather than a valuation. Matalan's founder is stepping down so he can bid for the retailer. The EUR 96 million 9.5% senior secured note was seen trading at 45% in September.

Vue Cinemas's lenders voted unanimously, on 26 August, for a scheme that would include GBP75 million of super senior new money in a proposed debt restructuring. The deal would see GBP550 million of its debt reinstated as a revised five-year loan maturing in December 2027, paying 6% cash with a 2%/2.5% PIK loan toggle. The company's EUR748 million senior secured loans jumped to 74.5 after the announcement, from 65 earlier in July.

Holders of the GBP 775 million first-lien loans will take over the business in return for providing new money. Vue's outstanding first-lien debt will be written down by GBP225 million and around GBP240 million of second-lien debt will be written off, along with GBP1.1 billion of shareholder loans. The restructuring is being implemented through an enforcement provision in the existing loan documentation, which needs simple majority creditor support.

Schur Flexibles has proposed a restructuring that would write off 75% of its TLB and RCF in exchange for a 39% equity stake in the company. In July, the Düsseldorf Regional Court froze assets of Germany-based Lindsay Goldberg subsidiary that sold Schur Flexibles to B&C Group in May 2021.

The European Commission has approved, under the EU Merger Regulation the acquisition of Schur Flexibles by Apollo Capital Management L.P. The commission concluded that the proposed acquisition would raise no competition concerns given its very limited impact on the market structure.

B&C Group said, in June, that it would attempt to recover damages incurred as a result of the "falsified financial statements and other criminal acts" that led to its restructuring and change of ownership.

DTEK Renewables has agreed with holders of its EUR325 million 8.5% due in 2024 senior secured note to secure the required consents to waive any event of default that might occur due to failing to maintain sufficient funds in the interest reserve account.

The company obtained lenders' agreement to use debt service reserve accounts to pay interest and debt repayments due in March to preserve other remaining liquidity and reflecting the moratorium on foreign-currency payments issued by the National Bank of Ukraine.

PJSC Gazprom, the Russian natural resources company, was downgraded by Fitch to 'CC' in March, with the rating withdrawn on 1 April. The downgrade reflected new restrictions that impair the company's ability to service debt, and follows Fitch's downgrade of the Russian sovereign rating on 8 March 2022.

JSC Russian Railways, the Russian rail network operator, was also downgraded by Fitch, to 'C', before the rating was withdrawn, on 1 April, for the same reasons.

Yell (Owl Finance) reached an agreement-in-principle for a restructuring that will exchange its GBP214 million 8.5% senior secured notes due May 2023 for GBP65 million of bonds due 2027 and 95% of the company.

A coupon on the existing note coupon, which is due on 15 March, will be waived and the company will have an option to capitalise the coupon for the year to March 2023 by adding it to the principal amount of the amended notes instead of paying it in cash.

Yell has been on our Bonds of Market Concern List since January 2020.

Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Multiple, Entidad No Regulada was downgraded to 'B-' in January, to 'CC' in early February, and to 'RD' on 9 February. Fitch also assigned 'RR4' and 'RR6' Recovery Ratings to the company's senior unsecured notes and hybrid notes, respectively.

The downgrades reflect the Mexican company's default on a principal payment of its CHF170 million debt due on 9 February, reflecting worsening business flexibility and a very weak funding and liquidity profile amid rapidly deteriorating refinancing risk.

Mulhacen Pte Ltd's rating downgrade to 'RD' and simultaneous withdrawal on 21 January followed its announcement, on 20 January, that it had entered a binding lock-up agreement with a majority of existing bondholders. The agreement involves a proposed 45% writedown of the notes and a maturity extension to December 2026 from August 2023.

Fitch views the proposed transaction as a DDE, as it meets both conditions outlined in Fitch's *Non-Bank Financial Institutions Rating Criteria*. It represents both a material reduction in terms and has been carried out, in our view, to avoid Mulhacen's bankruptcy, a similar insolvency or intervention proceedings, or a traditional payment default.

GTT Communications's debtors have received a third extension of their exclusive periods to file for Chapter 11 bankruptcy to December 2022 and March 2023 from October and November 2022, respectively. This is the company's third effort to create a Chapter 11 plan reorganisation. No objections were filed in opposition to the relief sought.

The company has said that it would restructure under Chapter 11 and is seeking to implement a restructuring support agreement. This includes a USD1.659 billion sale of assets to pay down debt pro rata, followed by creditors taking over the company (88% for secured term loan holders and 12% for unsecured bondholders).

Fitch withdrew its rating for the entity in March 2021, due to insufficient information and the New York Stock Exchange's announcement that it had suspended trading of GTT common stock and begun the process of delisting the company.

Safari Verwaltungs (Löwen Play) has reported revenue up EUR11.4 m versus EUR18.7 m in the previous year and adjusted EBITDA of EUR15.7 m from negative EUR 25.2 m last year. The company has executed a lock-up agreement, with noteholders receiving a consent fee of 0.25%, given waivers and forbearances in connection with the transaction, and agreeing not to take any enforcement action, according to the company.

Implementation could be by means of a consent solicitation or exchange offer process or through an English law scheme of arrangement, depending on factors such as the take-up of lock-ups by existing holders of senior secured notes.

The restructuring proposes exchanging the EUR350 million 5.375% November 2022 SSN for EUR220 million of OpCo bonds due 2025 and EUR130 million of HoldCo PIK notes due 2026. It also features EUR30 million of new money and will see control transferred to the bondholders.

Source: Fitch Ratings, LevFin Insights

Definitions

Market Concern List: Based on a concern score that we calculate at the end of each month as a weighted summation of factors that includes:

- Credit rating, in which high or low ratings account for positive or negative scores, respectively;
- Prices, in which we consider volatility to be a concern depending on its magnitude and frequency;
- Maturities, where we consider high spreads combined with very short-term maturity as an inversely increasing risk.

Tier: Where "Tier 1" or "top tier" stand for those most at risk and "Tier 2" for the second riskiest.

Prices: Calculated as a monthly average.

Default Rate: We treat bonds and loans rated 'CC' and below as defaults.

Insight Index Methodology

Fitch Ratings European High-Yield Insight Index

Currency	CHF, DKK, EUR, GBP, NOK, SEK
Term	Minimum one year, maximum 15 years
Minimum issue size	EUR100m
Credit quality	Additions, from 'BB+' to 'CCC–'
	Holdings, from 'BB+' to 'D'
Weighting	Market value
Rebalancing	Once a month at the end of the month
Exclusions	Asset-backed, covered bonds, government, special-purpose bank, structured notes

Source: Fitch Ratings

Fitch Ratings European Leveraged Loan Insight Index

Currency	CHF, DKK, EUR, GBP, NOK, SEK
Term	Minimum one year, maximum 15 years
Minimum issue size	EUR100m
Credit quality	Additions, from 'BB+' to 'CCC–'
	Holdings, from 'BB+' to 'D'
Weighting	Market value
Rebalancing	Once a month at the end of the month

Source: Fitch Ratings