WHITE & CASE

European leveraged finance: Competition sets the pace

Rival market dynamics between lenders drives innovation and competition across Europe's leveraged finance markets, opening new doors to sponsors as transaction activity accelerates

Contents

Foreword: Market dynamics reshape borrower choices

Competition between lending channels intensified in 2025, as leveraged finance markets in Europe saw lenders vying for deals and offering borrowers greater flexibility ahead of an anticipated surge in activity in 2026

In Europe, the traditional boundaries between broadly syndicated loans (BSLs), high yield bonds and private credit have become less distinct. Competition for deals intensified throughout 2025, reshaping the landscape for sponsors and issuers.

Refinancing dominated European lending activity, accounting for the overwhelming majority of issuance. But this was far from a defensive manoeuvre. Instead, issuers used the window strategically—extending maturities, embedding portability features and optimising capital structures in anticipation of the improved exit opportunities that dealmakers expect to emerge in 2026.

Private credit players compressed margins below 5 per cent to compete with BSL financing, and increasingly deployed covenant-lite structures. Meanwhile, BSL lenders cut fees and increased flexibility to retain market share. The result has been an environment in which sponsors can have real optionality between channels based on execution speed, pricing and structural requirements. This competitive dynamic has been underpinned by abundant capital. Private credit fundraising remained robust, CLO formation stayed active and insurance capital continued flowing into the asset class.

The pressure to deliver exits has clearly intensified. Private equity holding periods have reached record highs, as managers waited for market conditions to improve. While dividend recaps, NAV loans and secondary market transactions provided some relief, institutional investors are demanding orthodox exits and capital distributions. The refinancing activity in 2025 has positioned portfolio companies to capitalise on an expected near-term increase in M&A and exit activity.

Europe's leveraged finance market entered 2026 not merely open for business but optimised for it. Lenders are well capitalised, competition is fierce and issuers have used the past 12 months to put themselves in a position of maximum preparedness. If the anticipated rebound in dealmaking materialises, the lending market is more than ready to support it.

European issuers optimise debt facilities as exit window opens

HEADLINES

■ European leveraged finance markets steered through a volatile year to provide borrowers with a consistent source of liquidity at attractive prices ■ With M&A still intermittent, refinancing activity accounted for the bulk of issuance
■ Refinancing took on a broader strategic context, as issuers lay the groundwork for exit opportunities expected to emerge in 2026
■ Leveraged finance providers enter the new year well capitalised and ready to finance a new cycle of transaction flow

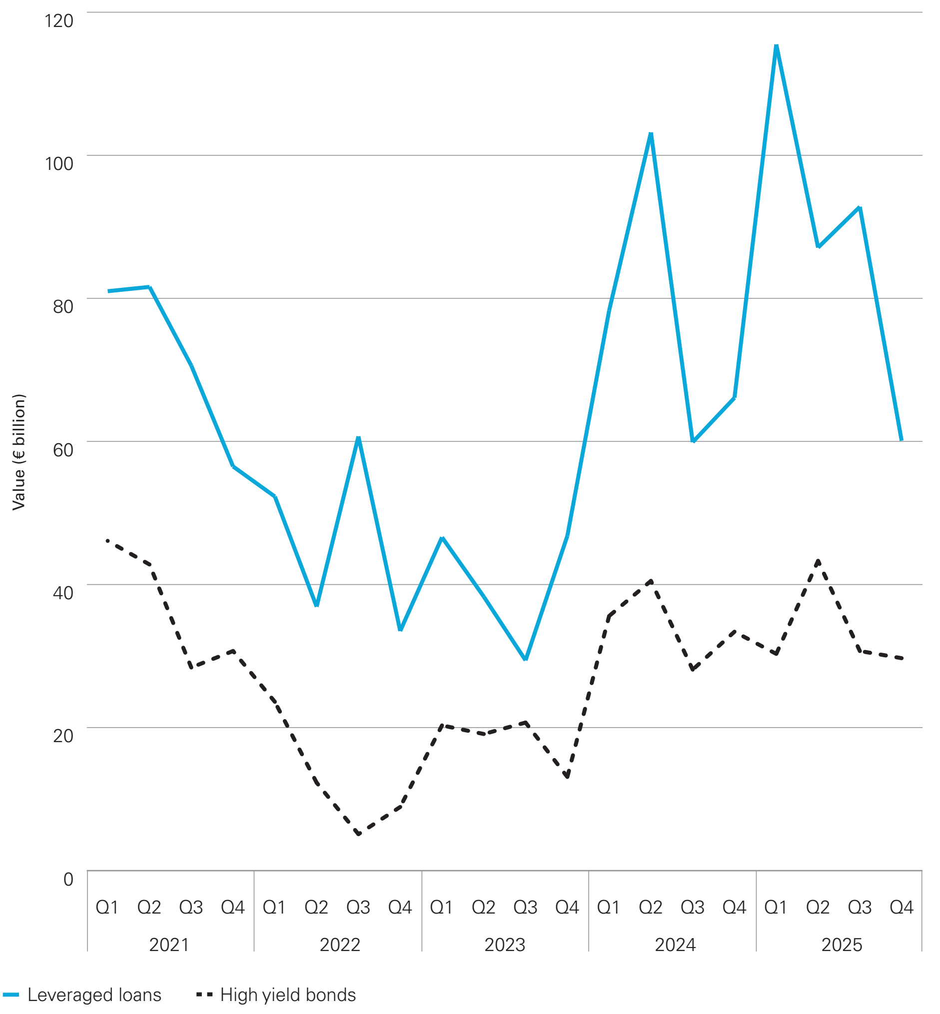
Europe's leveraged finance markets have given issuers sufficient space to navigate macroeconomic headwinds and prepare for an increase in deals in 2026.

Through periods of uncertainty, the system has slowed but not stalled. Defaults have been benign, sector-specific challenges have not deepened, and issuance across BSL, high yield and private credit markets has been strong. This has afforded lenders the opportunity to lay the foundation for exit opportunities in the coming 12 to 18 months.

In 2025, European leveraged loan issuance posted year-on-year gains of 15.6 per cent, totalling €355.6 billion. High yield activity reached €134 billion over the same time period, falling marginally, by 2.7 per cent, from 2024 levels. Direct lending issuance reached €84.9 billion from Q1 to Q3 2025, up 14 per cent compared to the same period the year prior.

Refinancing drives activity
Across all markets, issuance has been dominated by refinancing. Leveraged loan and high yield issuance for refinancing, repricing and amendments reached €283.2 billion and €82.5 billion, respectively, through 2025. This represented almost 80 per cent of all leveraged loan activity and more than 60 per cent of high yield issuance. In the direct lending

European leveraged loan vs. high yield bond issuance (quarterly)



Source: *Debtwire—figures rounded up to nearest whole number* arena, refinancing accounted for approximately 45 per cent of overall proceeds between Q1 and Q3 2025.

Absent a full recovery in M&A activity and new money transactions, issuers took advantage of liquidity in leveraged finance markets to refinance and reprice borrowing costs at lower margins.

In the leveraged loan space, margins on first-lien institutional loans came in at 3.75 per cent in Q4 2025, according to *Debtwire*. Meanwhile, direct lending margins averaged 6.59 per cent by the end of Q3, as certain borrowers secured some of the lowest financing costs observed in the history of Europe's private debt market.

For high yield bonds, average yields to maturity for senior secured loans narrowed to 6.58 per cent by December 2025, and to 5.34 per cent for senior unsecured loans. Both figures are the lowest levels recorded since Q1 2022, reflecting price normalisation as issuer costs and investor risk-return expectations began to converge.

A strategic play

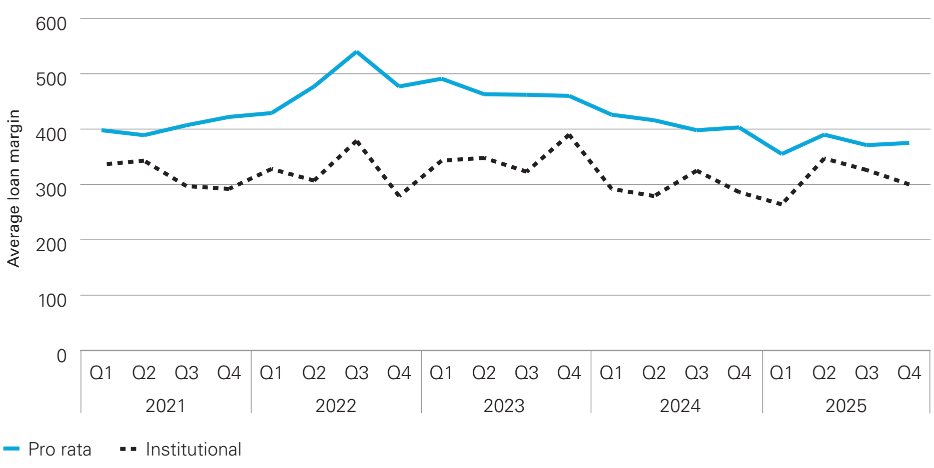
Besides lowering debt servicing costs, the refinancing window also afforded dealmakers the opportunity to extend maturities in loan and bond markets.

Crucially, this was not a short-sighted, opportunistic play to defer maturity walls, but a strategic step by issuers to establish a solid foundation in anticipation of credible medium-term exit and liquidity events in 2026.

Issuers, lenders and dealmakers had hoped that 2025 would be the year that M&A markets reopened—but tariff-related disruption in Q2 2025 put the M&A rebound on hold. However, there are signs that 2026 could finally be the year that European M&A markets truly bounce back.

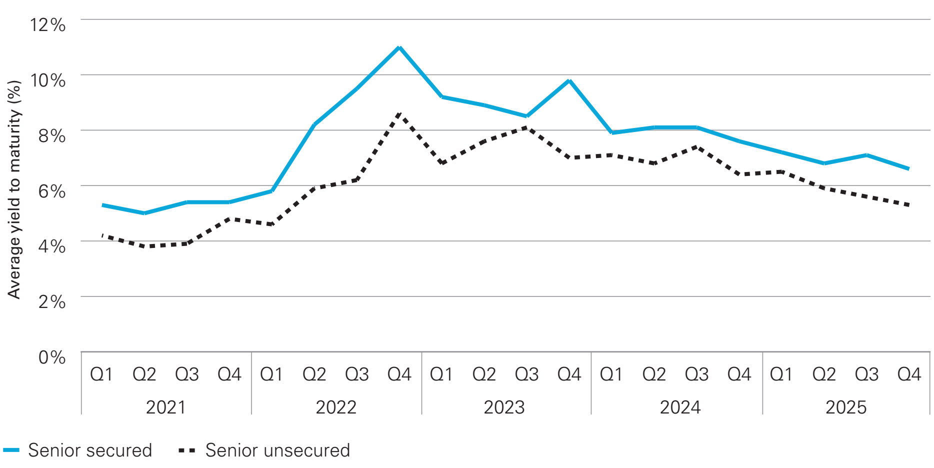
In Q3 2025, Europe posted its best quarter for aggregate M&A deal value in more than three years, though momentum did cool in Q4. Nevertheless, bankers anticipate that the ramp-up in global M&A observed through 2025 (up 41 per cent year-on-year) could herald a record year for deal activity in 2026.

Average leveraged loan margin—pro rata vs. first-lien institutional



Source: *Debtwire*

Average yield to maturity (%)—quarterly



Source: *Debtwire*

For private equity managers, 2026 could mark a turning point, as the structural imperative to exit portfolio companies, make LP distributions and free up liquidity for the next vintage of fundraising continues to intensify. Median private equity holding periods have climbed to 5.8 years, the highest level recorded by data company *Private Equity Info*.

Holds have stretched as buyout firms have opted to wait out the market dip before divesting assets. Managers have been able to ease liquidity constraints through dividend recaps, secondary markets, NAV loans and minority

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deals. But demand is building among investors for dealmakers to deliver orthodox exits.

It is against this backdrop that issuers have been able to take advantage of the willingness of the leveraged finance ecosystem to accommodate equity injections, maturity extensions and refinancings. With an exit window emerging, issuers are trying to buy a little extra time to refine their asset-exit positions.

For example, refinancings across BSL and private credit markets frequently incorporated portability terms in 2025. These enabled vendors to sell companies without having to raise new debt, which in the months to come could simplify the deal financing process for potential bidders.

The flexibility and liquidity of the high yield bond market have proven particularly valuable in this context, offering covenant-lite packages. These could benefit future owners and dovetail with the alternative exit routes that issuers have used to retain prized assets for longer.

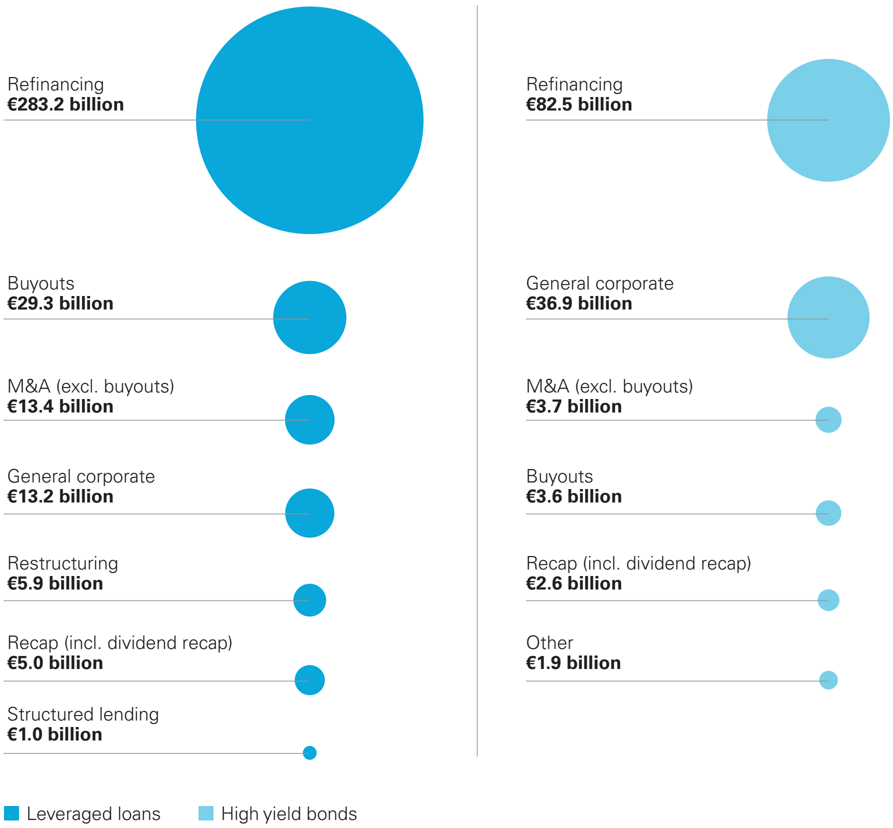
For instance, the high yield market has been able to accommodate the rising volumes of continuation-vehicle deals (where sponsors roll portfolio companies out of an existing fund into a new vehicle) relatively easily, as portability features are standard in high yield terms.

A similar focus on flexibility has also propelled the growth of the Nordic high yield space. This distinct fixed income market first emerged in the late 1990s to finance the Norwegian oil industry, but has since grown into a popular financing option for issuers from a wide range of countries and sectors. With appetite to underwrite smaller deals, provide long-term maturities and offer less-stringent reporting obligations, Nordic bond issuance climbed to record levels in 2025, with issuers refinancing into Nordic bonds to put portfolio company capital structures in prime position for transactions.

Optimisation rather than maintenance

Europe's leveraged finance markets are primed for growth in 2026, fuelled by fresh liquidity and greater resilience.

European leveraged loan and high yield bond use of proceeds (2025)



Source: *Debtwire*

Refinancing and maturity extensions have been the main drivers of issuance, but this activity has not been propelled by a "maintenance mode" mentality. Instead, issuers are adopting a forward-looking mindset, preparing themselves for a more favourable exit environment in 2026.

Lenders themselves are ready to support increasing deal flow. Liquidity is abundant thanks to strong private credit fundraising and active CLO formation. Capital pools will deepen further as the flows of insurance and retail cash moving into private credit increase.

Private credit firms are building up their own insurance divisions in response to growing demand from insurers for private credit exposure. Further inflows into private credit are expected from non-institutional investors, as evidenced by the growth of "evergreen" funds, which offer individual investors a pathway for building their exposure to private assets.

These capital inflows will not only encourage ongoing activity in the sectors where there has been a heavy focus in recent years—such as software, business services and healthcare—but other overlooked industries such as defence, where a funding gap has emerged as European governments move to increase security investments.

BSL, high yield and private debt lenders have provided issuers with the capital and flexibility to begin 2026 in a state of maximum readiness, and now stand prepared to support the next cycle of dealmaking and investment as transaction markets turn a corner.

Sponsor focus: PE maximises optionality as M&A green shoots emerge

HEADLINES

■ Demand for deal financing still trails supply ■ Competition between syndicated loan, high yield bond and private credit markets has intensified ■ Sponsors negotiate narrower margins, lower fees and greater flexibility ■ Private debt and syndicated loans increasingly viewed as interchangeable

In an improving but still challenged M&A market, private equity sponsors are taking advantage of increasingly flexible leveraged lending markets to negotiate lower borrowing costs and create bespoke deal structures.

European leveraged loan issuance for buyouts reached €29.3 billion in 2025—just trailing the €32.1 billion recorded in 2024, according to *Debtwire*.

Meanwhile, European private credit deployment for buyouts made year-on-year gains, with their total value rising to €84.9 billion through the first nine months of 2025, up 14 per cent compared to the same period in 2024, per *Debtwire*.

Intensifying competition as debt supply outstrips demand

Robust leveraged buyout (LBO) as well as private credit issuance tracked a noticeable increase in European buyout-backed M&A. The latter reached almost US$284.1 billion in 2025, up 13.7 per cent on the US$249.9 billion recorded the year prior, according to *Mergermarket*.

However, the rise in M&A activity has been intermittent. European deal markets enjoyed a positive start to 2025, before falling back in Q2 amid tariff and global trade uncertainty. Deal flow picked up again in Q3, which ultimately helped M&A to exceed 2024's levels. However, activity cooled off in Q4, and overall there has not been enough of an uplift to absorb the abundant liquidity in the system.

In the private credit space, direct lending fundraising climbed to €58 billion in the first nine months of 2025, handily exceeding the €42 billion total raised in 2024, according to *Debtwire*. European private credit assets under management now sit at approximately US$500 billion.

Capital flows into European BSL markets have been equally robust, with *Debtwire* recording €56.8 billion of new European CLO issuance in 2025, up 16.5 per cent on the €48.8 billion total logged in 2024. European high yield bond issuance has also remained active, providing sponsors with additional capital market access.

With these markets replete with capital and M&A volumes still patchy, options for deployment have been limited. In turn, competition between BSL markets and private credit has intensified—not only for new deal financing opportunities, but also in refinancing and repricing situations.

These dynamics drove convergence between BSLs, high yield bonds and private credit throughout 2025.

For example, private credit players compressed pricing to compete with BSL financing, with margins below 5 per cent increasingly frequent. Similarly, ratings agency Moody's notes that covenant-lite structures, once the preserve of BSL markets, are becoming more common in the private credit space. Private credit call-protection terms also softened to make the product more competitive, though these still usually feature longer call periods than BSL structures and apply more broadly than only to repricings.

Meanwhile, BSL markets trimmed fees, took on larger underwrites and lowered term loan margins to lure borrowers. Banks have even been able to offer BSL borrowers delayed-draw facilities (committed, unfunded term-loan facilities that offer borrowers the option of drawing down on a facility over an extended period of time), even though the institutional investors and CLOs that invest in BSL debt prefer committed facilities to be fully drawn upfront. Although delayed-draw facilities are rarer in Europe, US case studies highlight the flexibility that BSL markets can offer when needed.

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Deal financing cherry picking
The convergence of private credit and BSL lending has enabled buyout firms to structure creative financing packages and make full use of the increasing optionality available through both lending channels.

With BSL and private credit increasingly seen as interchangeable, sponsors have been able to switch between the two and select the options best suited to specific deals.

Private credit continues to offer speed, certainty of execution and bespoke structures. These include undrawn capital expenditure lines and PIK toggle flexibility, which is now offered as standard for most direct lending structures, even if sponsors do not necessarily require it. Meanwhile, BSL markets can absorb large underwrites and syndications at highly attractive prices.

It is now common for buyout firms, especially large-cap managers with in-house capital markets teams, to evaluate opportunities in both markets simultaneously. They then choose the option that provides the best balance between final pricing (including after any flex), deal execution, call protection and flexibility around structure.

Private credit funds are also increasingly participating in BSL structures themselves, offering elements that traditional lenders are more reticent to offer. These include, for example, delayed-draw facilities and term loan tranches in less common currencies. Though these may involve higher pricing, they enable sponsors to implement their preferred structure at an acceptable, blended cost.

This dynamic evolved over 2025. Sponsors preferred the execution certainty of private credit in Q2 amid tariff turmoil but swung back towards BSL debt later in the year to take advantage of highly attractive pricing.

Sponsors are also leveraging the convergence between private credit and BSLs to use debt structures in novel ways to amplify returns and unlock liquidity.

For example, following its successful IPO of security company Verisure in Stockholm, private equity firm Hellman & Friedman was able to unlock an additional €1 billion payout by putting a holdco payment-in-kind (PIK) structure in place as part of the deal. The structure utilised high yield bonds at the holdco level.

Holdco PIK structures have been a common feature of private credit markets for years but are not often seen in public deals. Employing the structure in a new setting has enabled sponsors to utilise more leverage without adding debt at the operating company level.

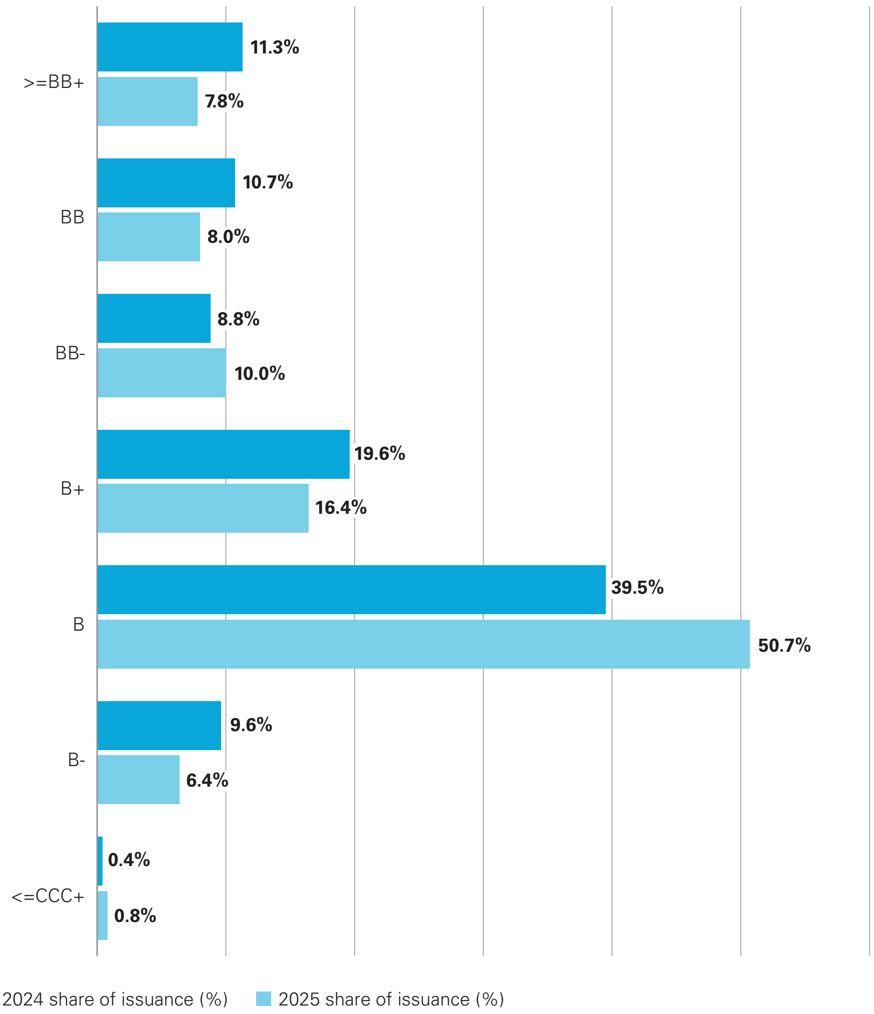
For sponsors leading IPOs, the holdco PIK structure allows them to release capital early, rather than having to endure lock-up periods before they can sell down remaining stakes in businesses once listed in order to access liquidity.

Serving sponsor priorities
The interplay between BSLs, high yield bonds and private credit will remain a key feature of deal financing in 2026, as both segments of the market compete to win business from sponsors.

Sponsor priorities have always been the same when it comes to financing structures: maximising leverage, low pricing, flexible structures and certainty of execution.

As the new year gets underway, Europe's leveraged finance ecosystem has seldom been better placed to meet these requirements.

European leveraged loan issuance by rating*



Source: *Debtwire*
**Based on universe of loans that are rated. Where split-rated, higher rating is used. Only Moody's and S&P ratings are considered.*

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Keynote Q&A: Private credit evolves as competition intensifies

HEADLINES

■ Increase in capital in the financial system has put downward pressure on private credit pricing ■ Absolute returns on private credit funds remain very attractive ■ Managers pursue strategic diversification to maintain deployment

The private credit industry entered 2026 in a robust position, having delivered consistently good risk-adjusted returns and secured strong fundraising support from investors.

However, M&A financing opportunities remain in short supply. In response, private credit players have had to tighten margins and loosen terms to win new deals and protect existing portfolios in an increasingly competitive market.

In this Q&A, we provide an in-depth analysis of how chilly M&A conditions, competition from BSL markets and lower interest rates will shape private credit deployment in the year ahead.

Private credit lenders have had to narrow margins and price capital more strategically in a competitive market. What does this mean for returns?

Private credit pricing has come down during the past 12 months. Dealmakers have consistently priced at margins less than 5 per cent, and there have been fewer deals pricing at margins above 6 per cent.

There are two macroeconomic factors that have placed downward pressure on pricing.

First, there is still a large amount of private credit dry powder available to finance deals, but there have not been many deals in a quiet M&A market. When there is abundant credit chasing a smaller number of deals, the result is greater price competition.

Second, the BSL market is back and open for business, providing finance very cheaply, at margins of 3 per cent, or even as low as 2.75 per cent, depending on the currency of issuance. Private credit must compete with that.

When private credit pricing was higher, the context was different. The BSL market was not open and there was less dry powder available. It is normal and natural for pricing to come down when there is more capital in the system, and additional financing options are available.

What do these pricing conditions and interest rate cuts mean for the private credit returns outlook?

There are senior industry leaders who argue that the new normal of lower pricing means that the era of excessively high private credit returns has passed.

That is a reasonable assessment. Naturally, lower pricing will have an impact on the returns available to investors. However, it remains the case that an investor with exposure to a European credit fund can still expect an annual return of approximately 8 to 9 per cent by taking senior secured risk (albeit with some leverage), with the return paid in cash.

When you compare that to the expected long-term returns from stocks—especially when equities are as highly valued as they are now—you can still reasonably expect, on average, to receive a better return from private credit, even though you are taking less risk. That is a compelling position to be in as an investor, notwithstanding recent pricing declines.

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Regarding how changes in interest rates impact private credit returns, private credit can advertise higher returns when base rates go up but must advertise lower returns when they come down. In neither case does that say anything about the relative return you are making compared to risk-free assets.

The relevant measure for a savvy investor should not be the absolute number. It should be the spread over treasuries or over an equivalent risk-free asset. Risk-free assets move in line with interest rates too, and the spread between private credit and the risk-free rate has not narrowed very much since the market was in a high-rate environment.

How are private credit players thinking about deployment in 2026? Is there confidence that the M&A market will rebound, increasing the flow of financing opportunities? Are there any other levers private credit players can pull to increase deployment?

The M&A rebound will come. The question is when, and no one can predict that. Analysts have been predicting a bounce-back for several years now, and it has yet to materialise.

If M&A activity does increase, it will be good for everyone. But most private credit stakeholders—whether private credit firms, banks or advisers—will be focusing on ways to be profitable and do business even if that does not happen. We see private credit managers pulling different levers, rather than waiting for M&A volumes to rebound.

Private credit firms are broadening the types of investments they make beyond sponsor-backed LBOs. Some options are sponsorless corporate deals, private infrastructure lending, high-grade asset-backed finance, real estate and data centres. We have seen private credit funds move into these areas and others.

A safe prediction is that over the next 24 months, most of the big private credit platforms will do more lending in non-LBO channels. LBO lending will still be an active area, but managers will see growth in these adjacent credit channels.

In many cases, the broadening of the addressable market for private credit has been driven by the new pools of capital that have flowed into the asset class. Some of the largest asset managers are now deploying credit as part of an insurance strategy. Apollo, for instance, merged with insurance company Athene, while Blackstone Credit is now part of a larger Blackstone Credit & Insurance unit. These platforms exemplify this shift but are not unique in pursuing this model.

Insurance businesses require predictable, low-risk long-term returns. They do not want to lend for five years at an interest coupon of 10 per cent; but they are happy to lend at coupons in the 4 to 5 per cent range that are locked in for more than 25 years.

Different sources of capital drive different investment philosophies, and we see that playing out in the market now.

How are managers approaching portfolio diversification?

If you are a borrower, CFO, capital markets professional or sponsor, when you look at your lending options, there is a very broad menu from which to choose.

Not every private credit lender is the same; there is a wide spectrum of investment philosophies. Some managers have always operated at different points along the credit spectrum, while others are very conservative. The mix of approaches may shift slightly as the market evolves, which is natural.

It is important to emphasise that underwriting standards remain robust across the market. This diversity has always characterised private credit, with managers maintaining disciplined processes appropriate to their individual strategies.

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