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European deals buffeted by adverse backdrop

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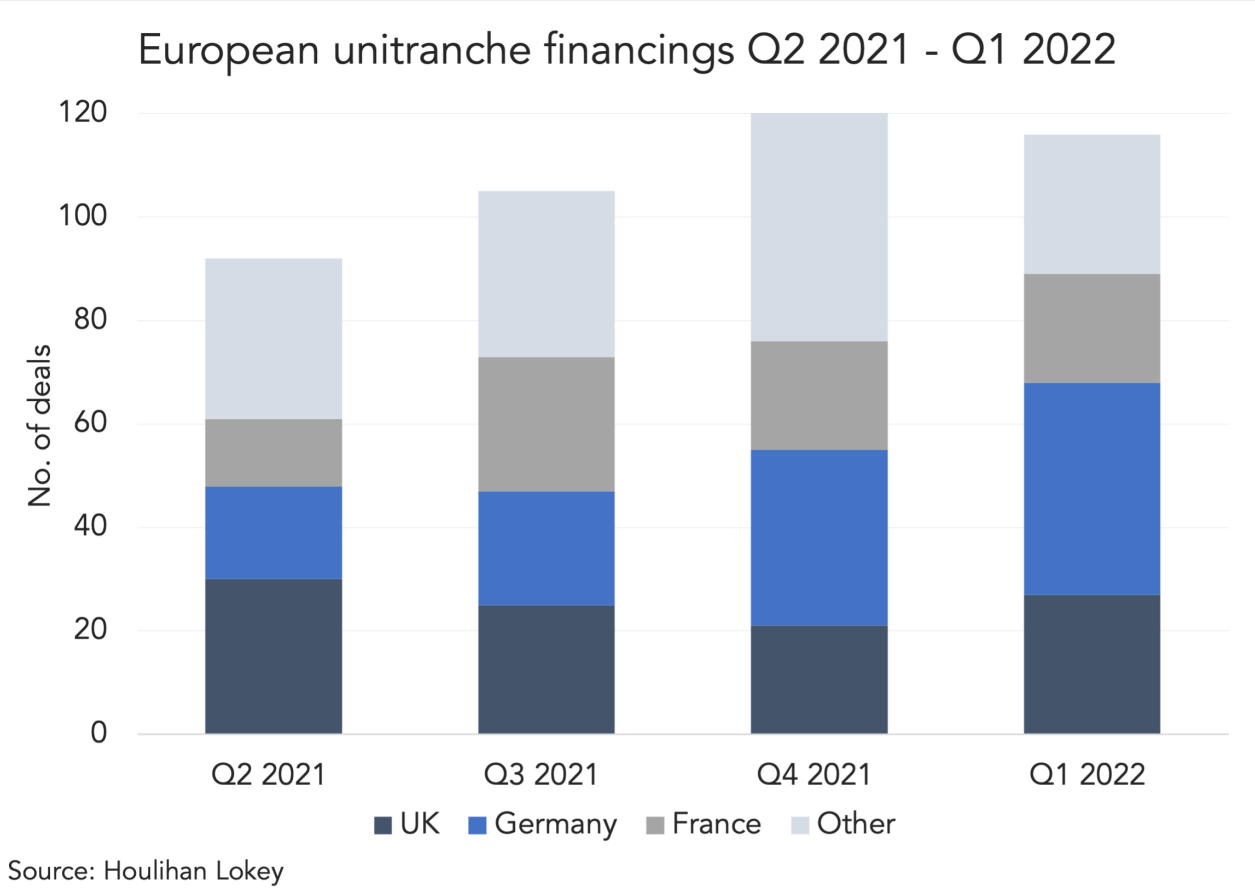

Unitranche transactions in the region fell back in Q1 2022 as economic headwinds reverse the growth seen through 2021.

In its latest *MidCapMonitor*, Houlihan Lokey recorded 103 unitranche deals in Europe during the first quarter of the year, down from 143 seen in the final quarter of 2021. Despite the fall, activity is still considered strong judged by historic levels.

The report said: “Activity in the first quarter slowed down somewhat as many adverse events, such as the Ukraine war, the increasing cost of raw materials and energy, global supply chain issues, high inflation and rising interest rates took their toll on the number of closed deals.”

The UK and Germany continue to dominate the European market despite a fall in deal numbers of more than a quarter in each market. The two markets combined accounted for more than half of all deals in Q1 2022.

In Germany debt funds continue to maintain a larger share of senior and unitranche deals than banks, with 25 deals in Q1 2022 versus just 12 for banks, a trend that has been maintained since 2019. Most new financings in

Germany during the quarter were from add-on acquisitions as banks continue to struggle to extend further loans to existing portfolio companies.

In the UK, debt funds also had a larger market share than banks with 57 percent. However, financing in the UK market remained heavily weighted towards LBOs, accounting for 45 percent of deals, while add-ons made up just 30 percent. France also saw more deals focused on the LBO space, making up 57 percent of activity, versus 27 percent for add-ons.

Benelux countries saw strong demand for private debt unitranche loans, which made up 76 percent of deals completed in Q1, with the vast majority taking place in the Netherlands. Add-on financing was a major driver for demand in Benelux, making up 37 percent of the market. Nordic private debt, while still very small, accounted for 80 percent of transactions in the region, with most activity in Sweden and Denmark.

(Past performance is no guarantee of future results.)