PRIME CAPITAL

Corporate Debt

Newsletter Q2 2022

Corporate Debt Markets in Q2 2022 – Overview

> Deal activity in Q1 2022 decreased by more than half the volume compared to the previous quarter and the market volatility increased as a result of the war in Ukraine and rising inflation.

> PWC reports that deal activity levels dropped to 43 deals for Q1 2022 amounting to EUR 22bn (QoQ: -51%) as compared to the previous quarter with 78 deals and EUR 45bn raised. Q1 2022 recorded the worst quarter since Q4 2018.

> Driven by the EUR 2.1bn issuance by VZ Secured Financing BV, the EUR 1bn Cellnex Finance Co SAU, and the EUR 1bn United Group BV, the Telecommunications sector registered significant growth of market share of 25%.

> The German senior and unitranche debt market was very active with 37 transactions in the first quarter of 2022. Although there was a reduction of 34% compared to the previous quarter, the transaction volume is very solid given the political developments.

> Lending standards on balance further tightened according to the latest ECB bank lending survey of April 2022.

European Sub-IG Market

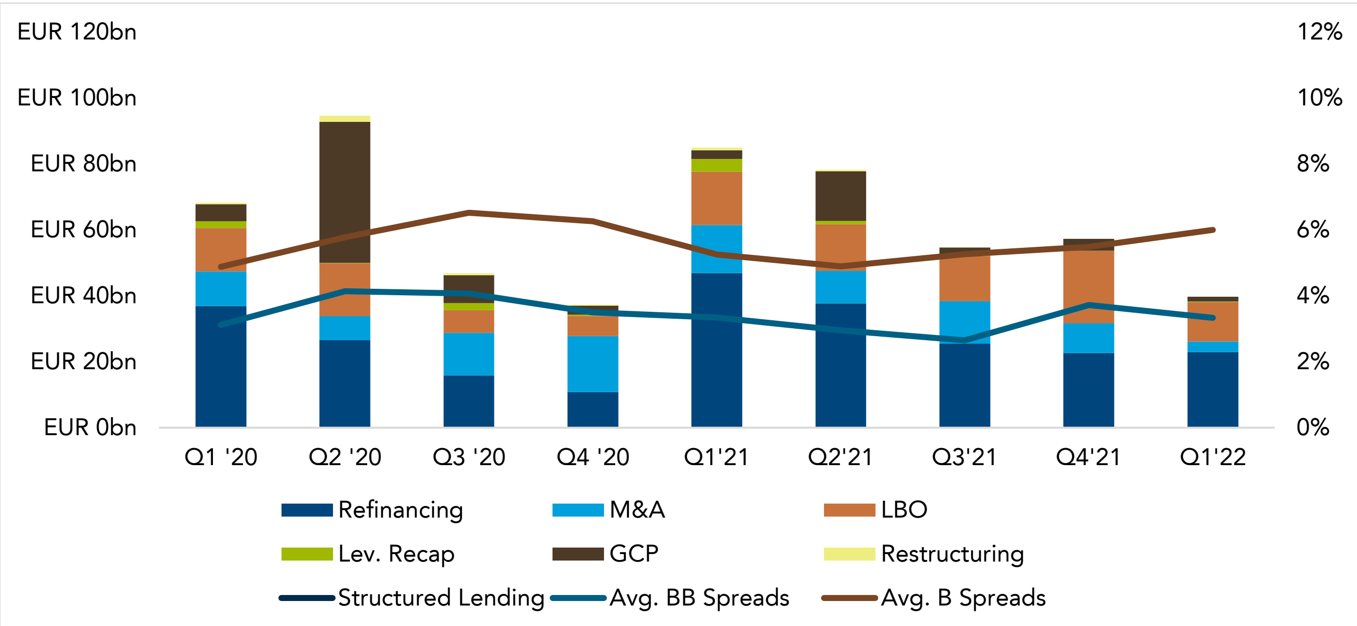

Figure 1: Volume of Sub-IG European debt markets (incl. leveraged loans and bonds) and average spreads.
Source: White & Case (Debt Explorer), PwC Debt Watch Europe Q1 2022

PRIME CAPITAL

Corporate Debt Market Europe

European Debt Market

According to Debtwire, the deal values amounted to EUR 40.4bn for the leveraged loans issuances, which has been a weak quarter compared to Q4 2021 (QoQ: -38%). This decrease was driven due to high levels of inflation, tightening of the monetary policy and the stop of issuances for over one month as a result of the war in Ukraine. The refinancing activity has increased in Q1 with a deal value of EUR 22.9bn (QoQ: 1.3%) and acquisition finance has been significantly lower with a total value of EUR 35.1bn compared to EUR 51.7bn the year before (YoY: -32.1%). Buyout financing remained very strong in the last year with a total value of EUR 61.7bn (YoY: +36.4%) although it decreased in Q1 2022 with a deal volume of EUR 12bn compared to EUR 21.9bn in Q4 2021 (QoQ: -51%). However, through Q2 2021 to Q1 2022 it remained the dominant use of the leveraged loans with a total value of EUR 108.7bn (YoY: 8.5%).

In the Q1 2022 bank lending survey published by the ECB, the banks reported that on balance the credit standards in Europe tightened compared to previous quarters. The central bank cited an increased risk due to supply chain disruptions, high energy- and input prices as factors behind the net tightening of credit standards.

According to S&P the spreads for European issued leveraged loans in the first quarter decreased to E+413bps and the average yield decreased to 4.36%. There is no significant change in the spreads of the previous quarter with E+423 and average yields of 4.45%.

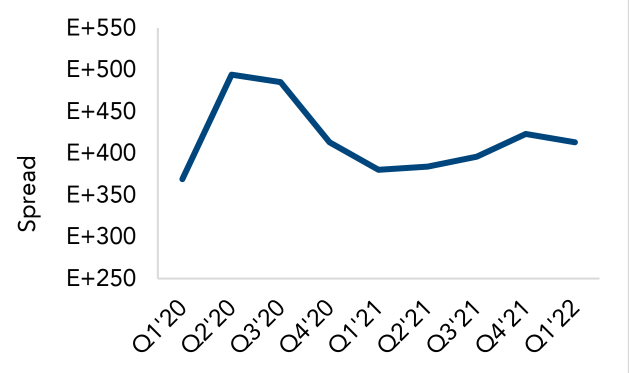

Figure 2: European new issue loan spreads
Source: S&P Global Market Intelligence

Overall, private equity-backed activity remains at a high level with a total of 103 transactions in Q1 2021. Compared to the record quarter Q4 2021, there is a decline of 40 transactions, which is however low in consideration of the political developments. Overall, it is clear that the impact of the pandemic on deal-making quickly subsided. The market has adapted appropriately and continues to demonstrate resilience.

In Q1 2022 the new issuances in the European high yield markets decreased to the lowest level since 2018, with only EUR 22bn (QoQ: -51%) and 43 deals for the full quarter compared to EUR 45bn and 78 deals in Q4 2021. PWC expects the high yield bond market to stabilise in Q2 2022 as the hike in interest rates and the uncertainty around the war in Ukraine have now been priced into the market. With the tightening of monetary policy, yields are expected to rise throughout 2022. Margin tightening was much more prevalent during January and began widening in February with the start of the war in Ukraine.

DACH Debt Market

In Q1 2022 credit standards tightened equally for SME loans and large company loans, for both short and long-term loans. Overall, Banks are affected by increasing credit risk through high energy and other input prices and corporate exposure to the geopolitical conflict in Ukraine, Russia and Belarus. However, the cost of funds for banks remained broadly neutral. Therefore, the credit standard tightening contribution of the banks' funding costs is very small compared to the higher-than-expected inflation levels.

According to the Houlihan Lokey MidCap Monitor the German senior and unitranche debt market was very active. 37 transactions were completed in Q1 2022, the best start to the year since the launch of the MidCap Monitor in 2013. Although this was QoQ: -34% from the record quarter Q4 2021 with 56 transactions, this is very solid given the adverse circumstances such as the war in Ukraine, rising commodity and energy costs, global supply chain issues, high inflation and rising interest rates. Both debt funds and banks were very active in Q1 2022. The market share of debt funds continued to increase slightly from 63% to 68% compared to Q4 2021. The software and technology sector was considered a safe investment in 2021 and this trend has continued in Q1 2022 with about 42% of transactions in this sector. Add-on financings compared to Q4 2021 also increased significantly and accounted for 45% of all LBO financings. Overall, high quality companies, especially in the software, technology and healthcare sectors were almost unaffected by the Ukraine war and its aftermath. On the other hand, lenders are more cautious on assets that could be affected from these developments, e.g. companies from the consumer, industrial and manufacturing sectors.

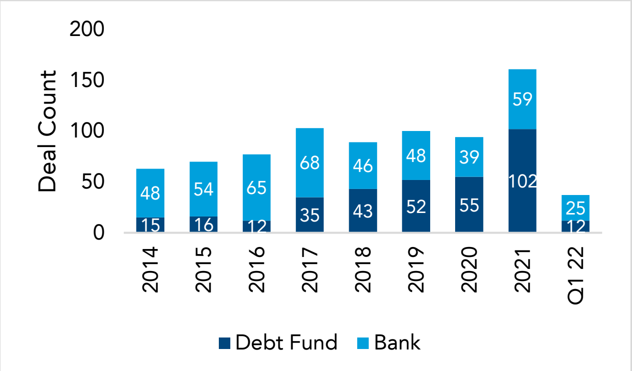

Figure 3: German mid-market financings 2022
Source: Houlihan Lokey MidCap Monitor Q1 2022

Financing activity remained strong in Q1 2022 with 103 unitranche transactions completed this period. However, compared to the record 143 deals in Q4 2021, activity in

PRIME CAPITAL

Q1 2022 has decelerated (QoQ: -28%) as many negative events such as the Ukraine war and high inflation and rising interest rates have occurred. The UK remains the most active region in terms of unitranche issuances, followed by a strong activity in Germany, France and a solid deal flow in BeNeLux.

Debt funds were able to defend and increase their market share against banks in most of the key regions mentioned above and actively made additional acquisitions in Q1 2022 with overall 43 transactions. This was driven by sponsors looking to create additional value through buy-and-build deals.

Financing Conditions

At the beginning of 2022, the European loan market remained strong pushed by the pace of activity in the end of 2021. In the first quarter of 2022 several central banks tried to curb inflation levels by increasing the cost of borrowing for issuers. The Bank of England approved a rise of interest rates by a total of 0.5% in February and March to combat the rising inflation level which reached a 30-year high with 7% in March 2022.

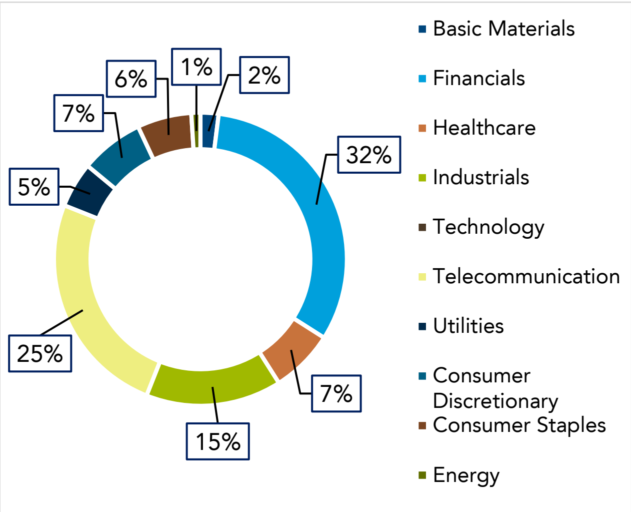

Figure 4: High Yield Volume Europe, Q1 2022 Sectoral Split
Source: PwC Debt Watch Europe Q1 2022

The first quarter of 2022 saw an increase in the Telecommunication sector's share of new issuance, up 12% from 13% in Q4 2021 to 25% in Q1 2022, even though the total amount of the Telecommunication sector did not significantly increase. Hence, all other sectors decreased in total value. The issuance of the Consumer Discretionary sector decreased to half of the market share in the previous quarter from 14% in Q4 2021 to 7% in Q1 2022 (QoQ: -7%) and the financial sector still dominates the high yield bond market with 32% market share. In terms of market share, other sectors beside Telecommunication and Consumer Discretionary remain mainly unchanged.

Impact of the Monetary Policy and Inflation

Many investors are struggling to identify potential default candidates even though they are concerned about credit risks tied to the monetary policy, the inflation rate or the geopolitical conflict in the Ukraine. The future of the high yield market is still uncertain, but after the shock in February with the war starting in Ukraine, the high yield bond issuances continued in March. Some market players do have a positive view on the corporate debt market since the default rates of high yield bonds are on a very low level and the ECB continues its asset purchase programme, for the time being.

As a result of the geopolitical conflict and rising food, oil, and energy prices, the inflation increased to a long term high. According to the ECB, the flash estimate of the inflation rate reached 7.5% in April 2022. PWC also reports an increase of the inflation rate in UK, hitting a 30-year high, of 7%. Therefore, the Bank of England increased their interest rates by 0.25% to 0.5% in February and again by 0.25% to 0.75% in March 2022.

The central mandate of the ECB is to maintain stability of the monetary system. Their goal is to preserve the value of the euro and keep the inflation levels under control. Currently, the ECB takes actions to fight the increase in inflation rate levels. As the first step Christine Lagarde, the president of the ECB, announced to stop the bond purchase programme during 2022. Further steps include the increase in interest rate levels and a reduction of the balance sheet. This would lead to a sale of the purchased bonds and therefore reduce the liquidity in the market.

So far, the ECB is still a long way off reducing their balance sheet. In contrast the decision to stop the bond purchase programme is already announced and the acquisition of European government bonds within the Pandemic Emergency Purchase Programme (PEPP) stopped by the end of March. However, it is still planned to continue the purchase of government bonds with a total amount of EUR 40bn in April, EUR 30bn in May and EUR 20bn in June. It is currently expected that all the bond purchase programs, the government bond purchase programme and the regular asset purchase programme (APP) will stop in the summer 2022. The first interest rate hike by the ECB is currently expected for July.

With a view to the risks of inflation, rising inflation rates could harm corporate margins, decrease consumer spending, and slow down the GDP growth. It is also possible that the slow down induced by inflation could reduce rising inflation levels itself. Additional to the rising inflation levels, rising interest rates based on the monetary policy of the ECB is an important risk factor for corporate debt as rising interest rates will also impact the prices of fixed income investments. On the other hand central banks need to keep an eye on economic growth, which could be choked if interest rates rise too quickly.

Generally, it is likely that markets will see an increased volatility. This already manifested itself in the form of the temporary stop of high-yield issuances in February 2022 and higher market fluctuations. In the short-term borrowing is expected to slow down, due to rising interest rates and general economic uncertainty. This combined with rising input costs could impact corporate profitability. Hence risks remain elevated for the foreseeable future. On the other hand, yields are expected to increase and offer more attractive returns to investors. These however need to be priced against the respective risks.

About Prime Capital's Private Debt Team

Our corporate debt team has accompanied and executed transaction in excess of EUR 700m. Our Private Debt Team additionally invests into Aviation Debt, Infrastructure Debt and Commercial Real Estate Debt. We expect significant further growth in these areas, which provide attractive risk-adjusted returns to our investors.

Prime Capital's Private Debt Team manages assets in excess of EUR 2bn across the aforementioned asset classes on behalf of institutional investors. Further information about Prime Capital AG can be found on our website www.primecapital-ag.com.

Contact:

Julius Hünnemeyer, CFA
Executive Director
Private Debt

Prime Capital – Investment Management Private Debt
impd@primecapital-ag.com

Prime Capital Corporate Debt Expertise

> Advice and support for corporate debt investments, portfolio strategy and sector allocation

> Managed accounts and funds with investment expertise in various jurisdictions and markets

> Unique "multi-channel sourcing" with access to transactions via direct lending, bank and advisor sourcing on the basis of longstanding relationships to sponsors, advisors and leading banks

PRIME CAPITAL

Further information about Prime Capital AG can be found on the web site

www.primecapital-ag.com

Disclaimer:

*The information and opinion contained in this document (hereinafter "**Information**") is provided only for advertising purposes, and is not construed as a solicitation or an offer to buy or to sell any securities or financial instruments in any jurisdiction whatsoever. It does not constitute an official confirmation, invitation, solicitation or offer to subscribe for or purchase or sell any of the products or services of Prime Capital AG, Frankfurt am Main. No investment decision should be made on the basis of this document. The Information contained herein may not be complete and may not contain all relevant material information related to any (financial) instrument presented. No representation or warranty is made or implied concerning, and Prime Capital AG assumes no responsibility for, the accuracy, completeness, reliability or comparability of the information contained herein relating to third parties.*
The Information contained in this document was obtained in good faith from sources considered to be reliable, but its accuracy, completeness, reliability, or comparability is not guaranteed or otherwise warranted or represented by Prime Capital AG. Specifically, the Information contained herein has been obtained from third party sources, which is based solely on publicly available information. Prime Capital AG makes no representation, express or implied, as to the accuracy, correctness, suitability or timeliness of such data. In particular, Prime Capital AG is not obligated to update information provided in this document or to delete obsolete information from this document. The information provided in this document may change at any time without prior notification. As a result, information once published in this document may not be understood to mean that matters have remained the same since publication or that the information is still up-to-date following its publication. The validity of the information is limited to the point in time of their being issued and may change based on market developments. This document and the Information contained herein is confidential and intended only for the person to whom it has been provided and under no circumstance may a copy be shown, copied, transmitted, or otherwise given to any person other than the authorized recipient without the prior written consent of Prime Capital AG.

The content of this document is protected by intellectual property rights owned by Prime Capital AG. The reproduction, transmission (electronically or by other means), linking, alteration, storage, archiving or other uses for public or private use of information or data, in whole or in parts, in particular, the use of texts, portions of texts or images requires the prior consent of Prime Capital AG. In particular, you are prohibited from:

- *i. copying this document in whole or in parts (whether by printing them on paper, saving them to a file or otherwise);*
- *ii. removing, changing or otherwise making the content of this document incomprehensible or using the material contained on this document in a manner other than intended in these legal notices and terms of use;*
- *iii. using this document or the information it contains for unlawful purposes.*

The Information provided herein is not taking into account any particular person's objectives, financial situation or needs. Investors should before acting on the information provided in this document, consider the appropriateness of the information having regard to their individual objectives, financial situation or needs.

Please bear in mind, that any forward looking statements re targets and achieving such targets is subject to unexpected risk and uncertainties and cannot be guaranteed in any way.

Privacy:

Prime Capital AG is committed to protecting your privacy. The types of personal information we collect about you depends on the relationship with us. They include (i) your personal contact details such as name, title, postal addresses, email addresses and telephone numbers, (ii) the company you work for and your position, (iii) identification and background information we may collect about you as part of our business acceptance procedures, (iv) technical information such as information from your visits to our website or relating to the event invitations, updates, marketing material, and other communication we send to you electronically, (v) your communication preferences regarding marketing materials or (vi) any other personal information you provide to us during your relationship with us, such as dietary requirements, any physical disability and your views and comments.
They ways in which we collect personal information about you may include the following: (i) in the course of our business acceptance procedures, (ii) through your general use of our website. In particular, we collect personal information about you if you complete forms on our website and if you send emails to firm personnel, (iii) through your responses to our emails asking that you confirm and update information we maintain about you, or that you provide your consent for us to communicate with you, or (iv) through information you may provide to representatives of our firm at conferences or similar events.