PILFOR
LENDING SOUNDNESS

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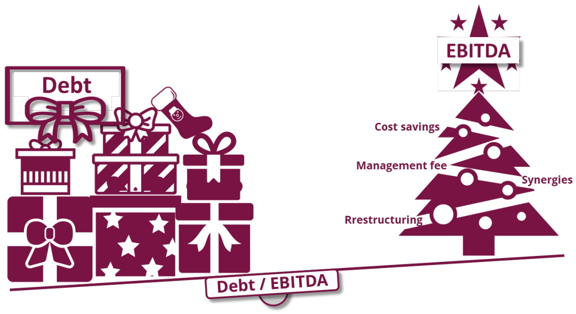
Monthly Market Insights

Leveraged buyout market & EBITDA add-backs

EBITDA add-backs continue to be substantial and overstated up to date. In fact, add-backs have witnessed an unseen growth as the current credit cycle extends. A very large portion of EBITDA add-backs is weighted towards “B” rated issuers fueled by LBO and M&A activity. Aggressive EBITDA engineering has understated high purchase price multiples and leverage levels. Combined with cov-lite loans where the often only remaining debt / EBITDA covenant stands in the spotlight, this development proves a fragile combination. Add-backs accounted for more than 30% of adjusted EBITDA at deal inception in 2018 according to S&P. Synergies and cost savings represent the largest component of add-backs accounting for nearly a third. EBITDA add-backs will have to stand the test of time when the credit cycle turns and companies with high add-backs need to proof their quality of their undecorated EBITDA. The past however shows that 35% of EBITDA add-backs are sub projection already after 1 year.

35% of EBITDA add-backs below projections after 1 year



Source: S&P

Private real estate

Private real estate continued its impressive growth journey in 2019 and recorded total fundraising north of USD 150bn with average fund size of USD 510m, up 68% YoY and dwarfing past levels. Dry powder remains well above USD 300bn, with funds in market targeting north of USD 280bn thereby adding to the dry powder build-up and likely fueling valuations to the dismay of asset returns. Real estate (construction and maintenance) represents the largest source of CO_2 emissions globally. At the same time, real estate asset values are highly exposed to climate change risks. In this context, we see a very strong momentum in the sector for ESG initiatives and standards like GRESB or GRI that are quickly endorsed by a rapidly growing number of asset owners and managers spurred by investors such as pension funds, anticipating tighter emission regulations. On the other hand, this also has a positive impact across the life cycle of real estate assets.

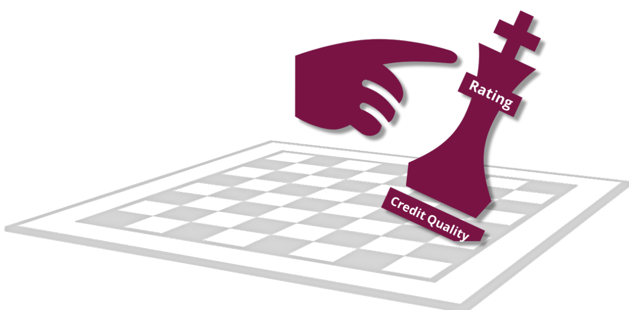
USD 151 bn of private real estate capital raised in 2019

Source: Bloomberg

Rating market

Risks related to sustainability have long been incorporated in traditional credit ratings. However, all three major rating agencies have boosted their efforts to capture ESG risks as market demand for sustainable investments is surging. Given the increasing attention for ESG positioning and readiness, issuers’ boards and management teams are well advised to have an appropriate ESG strategy high up on the agenda to prevent being checkmated by neglected or ill-defined ESG risks. Rather than assessing the nearer-term recovery values as reflected by traditional credit analysis, ESG evaluation scrutinizes a company’s longer-term survivability within its future environment and economy. Investors benefit from a more expanded view on a company’s cash flow generation capacity and likelihood to obtain adequate fundraising via banks and capital markets

Rating agencies are assessing long-term ESG Survivability



PILFOR is an independent and specialized debt & capital advisor establishing and optimizing
funding access - financial flexibility - financing costs

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