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Davy Corporate Finance

2024 Irish Credit
Market Survey

Introduction

Davy Corporate Finance Unlimited Company (“Davy Corporate Finance”) is pleased to share the results of our 2024 Credit Funding survey. Fundraising on behalf of our clients is a core function of Davy Corporate Finance.

Davy Corporate Finance advises companies at different stages of development on a range of potential debt capital options including senior secured, junior and equity-linked debt products. The recent rising interest rate environment, along with the exit of a number of bank funders from the market, has increased the importance of new credit options and diversified funding sources.

In January 2024 we surveyed a combination of domestic and international banks, SME and property-related credit funds, venture debt providers and special situations funders, all of whom we interact with about Irish funding opportunities – reflecting the depth of appetite for funding Irish credit risk. Feedback on the Irish credit appetite is very positive. Despite geopolitical and macroeconomic headwinds, this demonstrates the strength of the Irish economy, as well as confidence in entrepreneurs, management teams and our legal framework.

Importantly, the range of funders surveyed is evidence of the appetite for funding across the capital spectrum, with increasing options available for stretched senior and junior funding for the right transactions. Credit stress to date appears manageable and the volume of capital available to Ireland ensures that there are more refinancing options available going into 2024 than there would have been in the past.

We would like to thank all participants of the survey and we hope you find the results interesting and worthwhile.




Shane O'Neill
Head of Debt Advisory
Phone: +353 86 828 7453
Email: Shane.Oneill@davy.ie



Brendan Boylan
Associate Director
Phone: +353 83 049 0296
Email: Brendan.Boylan@davy.ie



Sophie Collins
Senior Associate
Phone: +353 (1) 6724276
Email: Sophie.Collins@davy.ie



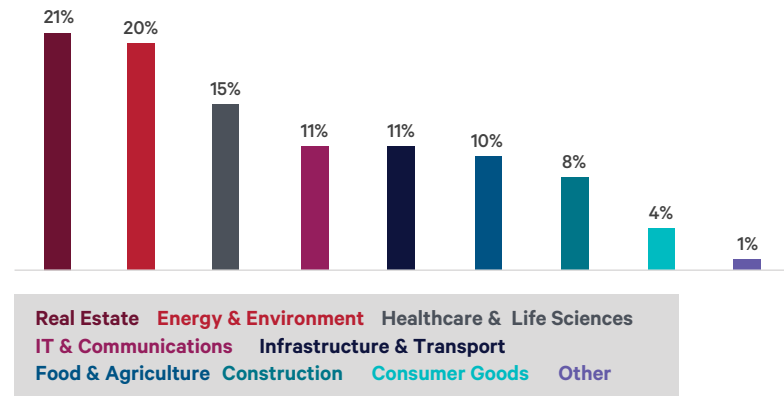
The key takeaways of the survey include:

- **69%** of respondents think demand for private credit in Ireland will increase throughout 2024
- **92%** of respondents are seeking to increase their exposure to Irish credit
- Lenders see Real Estate and Energy & Environment as most active sectors in Irish credit in 2024
- **44%** of lenders see credit stress increasing in the Irish market in 2024, with only **10%** seeing credit stress falling
- **61%** of lenders have an environmental, social and governance (ESG) lending framework in place
- Most respondents target credit transactions in the **€20m - €75m** range
- Median deal sizes are in the **€40m** area which aligns with the mergers and acquisitions (M&A) market
- **62%** of respondents believed yield / returns in the Irish credit market are similar to Europe
- Respondents appeared to underestimate the return profile of the Irish credit market relative to Europe, with only **15%** of respondents believing Ireland had a higher return profile to Europe
- Banks target **2-4%** credit margins; majority of non-banks target **6-8%**
- **1/4** respondents report that over **75%** of their loan transactions are introduced to them by a corporate finance advisor

2024 Outlook

As lenders evaluate their outlook for 2024 they see Real Estate and Energy & Environment being the most active sectors within Irish credit.

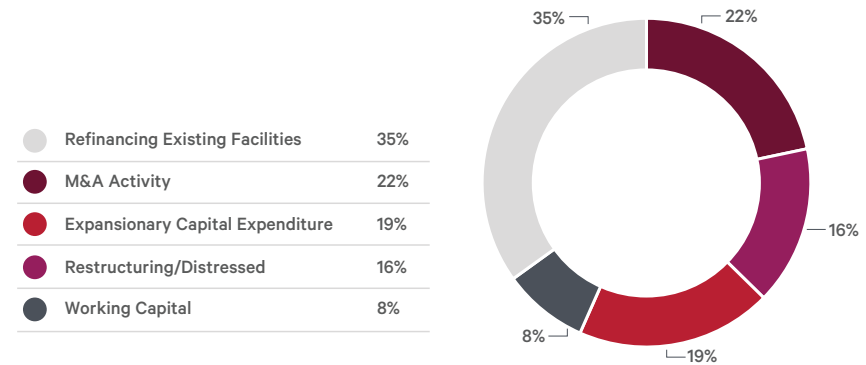
In the Irish market, what sector(s) do you think will be most active in credit markets in 2024?*



* Respondents could select multiple options

Refinancing of existing facilities is expected to be the most prominent activity within Irish private credit markets in 2024.

In the Irish market, what funding activities do you see being most active for private credit in 2024?*



* Respondents could select multiple options

69% of lenders think demand for private credit in Ireland will increase in 2024

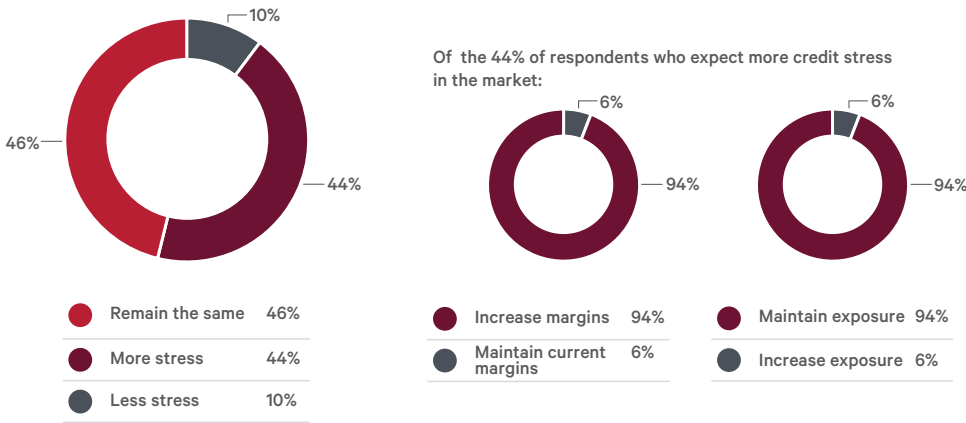
92% of lenders are seeking to increase exposure to Irish credit

Lenders have an overwhelmingly positive view of demand for private credit in the Irish market.

Subsequently, lenders are seeking to meet this expected rising need with 92% of lenders surveyed planning on increasing exposure to Irish credit opportunities this year.

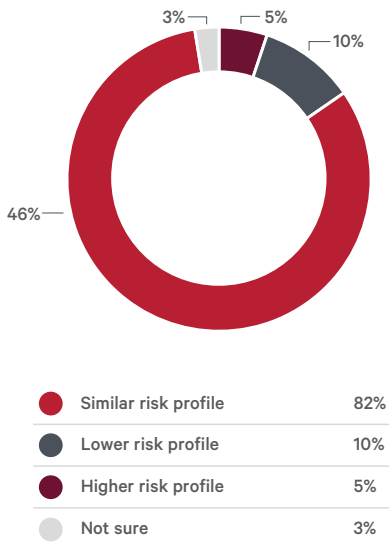
Views on Credit Quality and Stress

How do you expect credit conditions to progress in 2024?

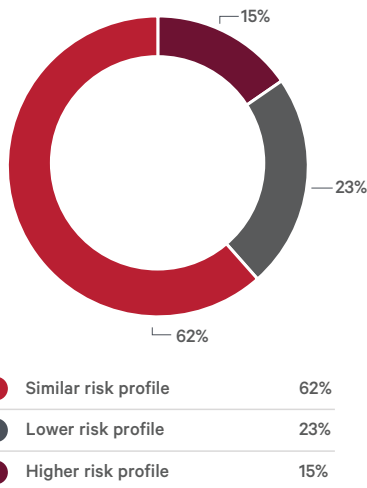


Among those anticipating heightened credit stress in 2024, **less than 6%** are considering margin increases as a means to offset the escalated risk levels.

Perception of Irish Credit Risk vs Europe



Perception of Irish Yield/Return vs Europe

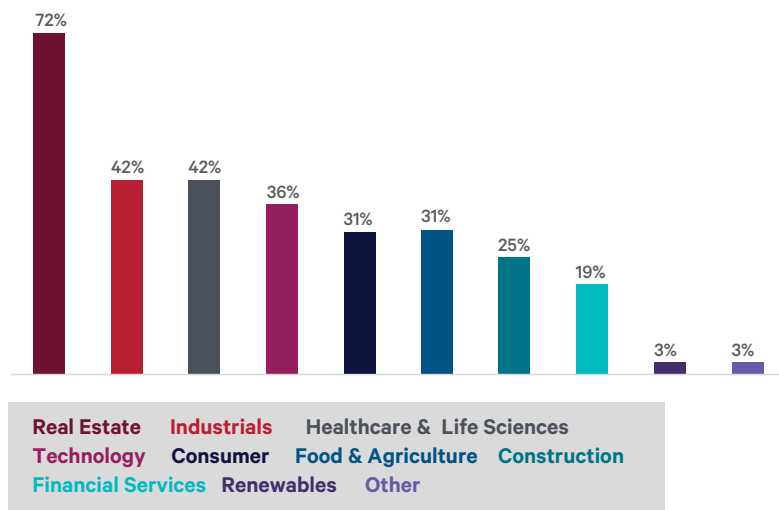


Survey participants provided insights into their perceptions of the Irish credit market. The data revealed that **82%** of respondents perceive Irish credit risk to be comparable to that of European counterparts, whereas a distinct subset of **10%** holds the belief that Irish credit risk exhibits a lower profile compared to Europe. In contrast, when evaluating the perception of Irish yield/return, only **62%** of participants indicated similarity to European levels, with **23%** expressing the view that Ireland offers a lower yield/return profile compared to Europe.



Lending Criteria in Ireland

What sectors are you active in within Irish credit? *

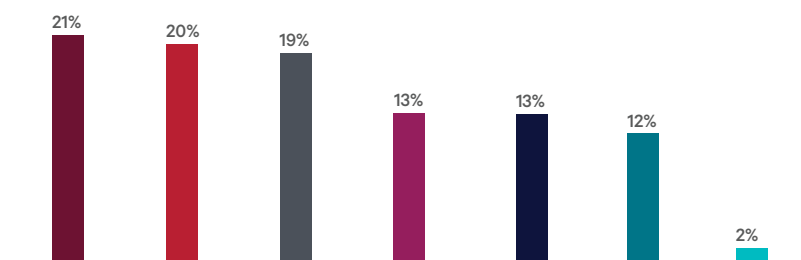


* Respondents could select multiple options

Real Estate topped the rankings for lender activity by sector with **72% of respondents** indicating they were active in lending against Real Estate opportunities. Industrials and Healthcare were the joint second most active sectors for respondents.

The renewables sector lags far behind with only **3% of respondents** currently active in the sector in the Irish market, despite **20% of respondents** expecting Energy & Environment to be one of the most active sectors in Irish credit in 2024.

What factors are most important to your credit/investment committee when considering a new credit opportunity? *

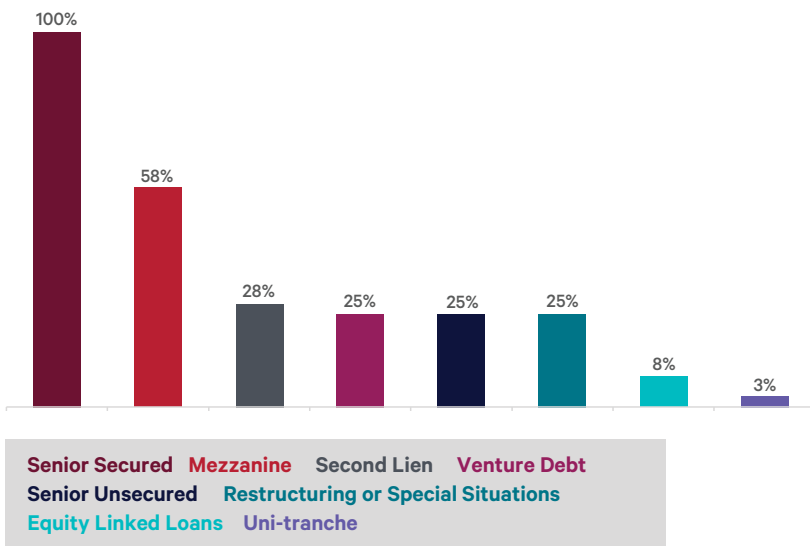


* Respondents could select multiple options

- Leverage**
- Management Team**
- Free Cashflow/EBITDA**
- Available Security**
- Forecasted Trading**
- Industry**
- Other**

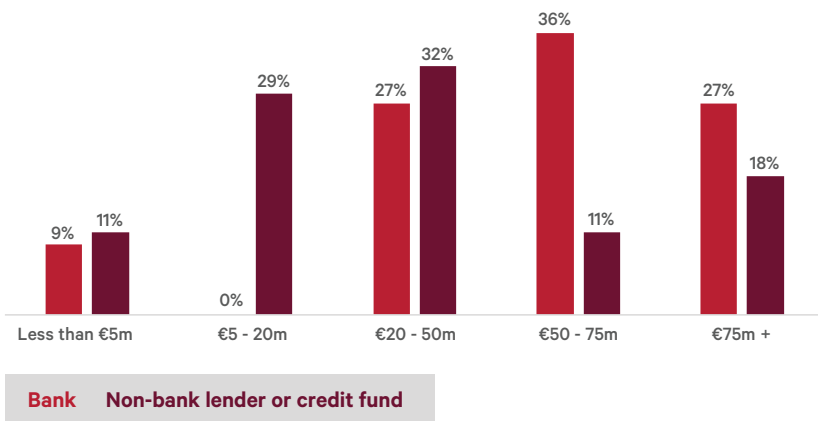


Types of loans offered *



In assessing lending criteria within the Irish market, it was observed that all respondents offered senior secured loans, followed by mezzanine loans, which were provided by **58%** of participants. Equity-linked and unitranche loans were less commonly offered.

* Respondents could select multiple options



Regarding loan size and target transactions, traditional bank lenders demonstrated a consistent distribution across various loan size bands exceeding **€20 million**. In contrast, non-bank lenders exhibited a preference for the **€5-20 million** and **€20-50 million** bands.

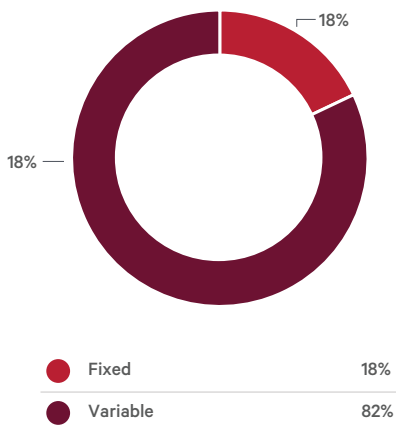
Notably, most respondents target credit transactions in the **€20m -75m** range. We note this is similar to the M&A market, where median deal sizes are in the **c.€40m** range.



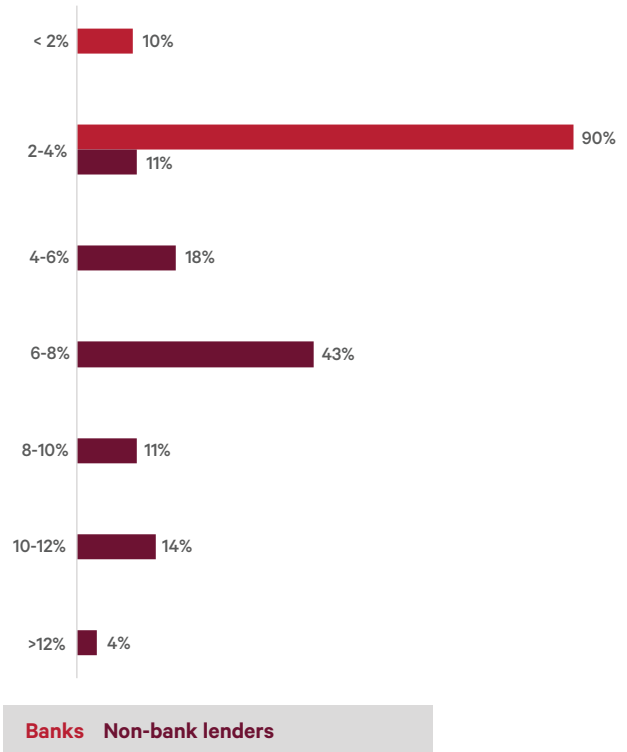
Non-bank lenders typically seek a higher margin which often compensates for greater risk profile. Loan structures may have reduced amortization or higher leverage than traditional banks.

It is also noteworthy that non-bank lenders are active across a range of margins and are meeting the demand for credit that traditional banks are not covering.

Are your typical loans priced at a fixed or variable rate?

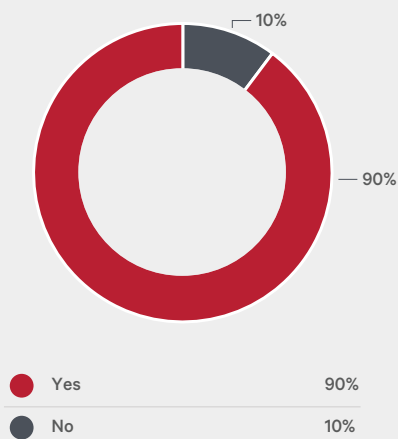


Target credit margin (excl. benchmark)

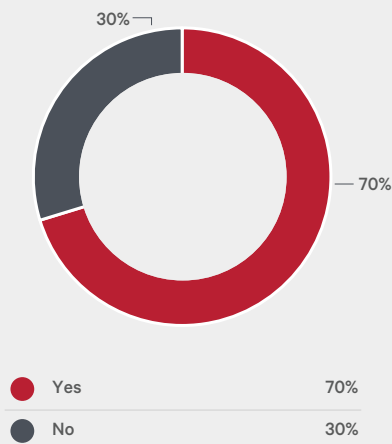


Covenants and Fees

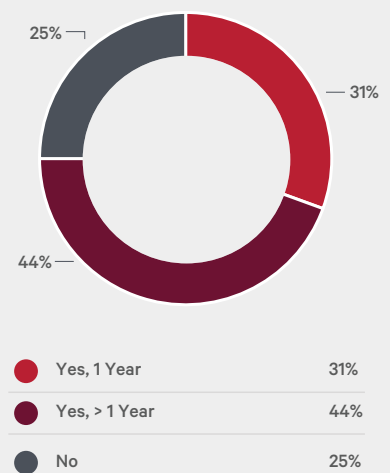
Do your typical loans contain financial covenants?



Do your typical loans include prepayment / exit fees?



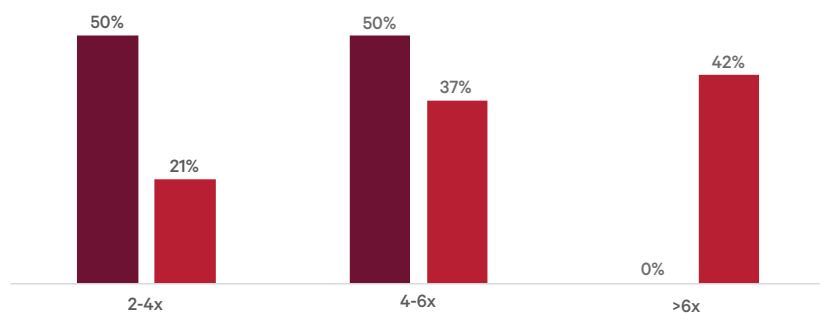
Do your typical loans include make whole provisions?





Leverage Considerations

Max leverage (Net Debt : EBITDA) on cashflow business loan

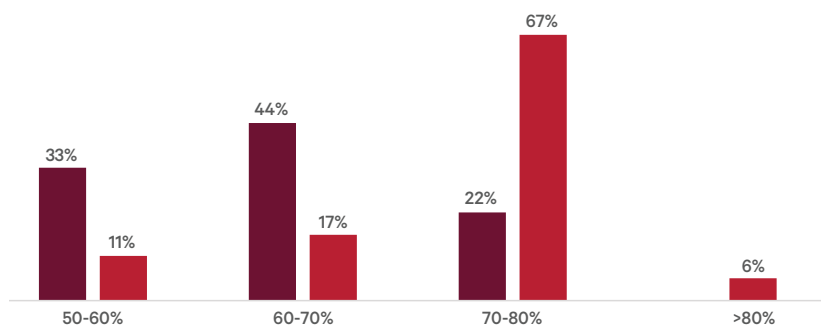


Banks **Non-bank lenders**

42% of non-bank lenders indicated a willingness to lend >6x leverage, whereas none of the banks surveyed are prepared to lend at that level.

It is not surprising that traditional banks (Irish and International) are not seeking to lend above 6x EBITDA, however with **42% of non-bank lenders** active in this market, there is clear demand for higher levered debt for cashflow businesses.

Max LTV on Real Estate loans



Banks **Non-bank lenders**

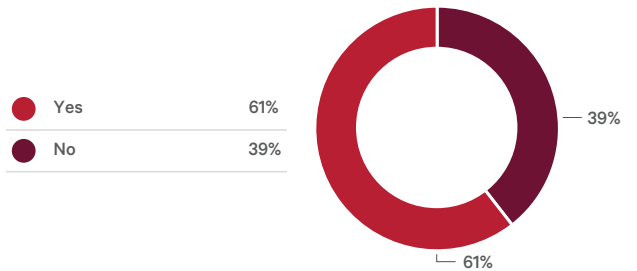
Non-bank lenders are more likely to offer higher leverage with **73%** able to offer loans at **>70% loan-to-value (LTV)** while **33% of banks** are limited to **<60% LTV**.



ESG

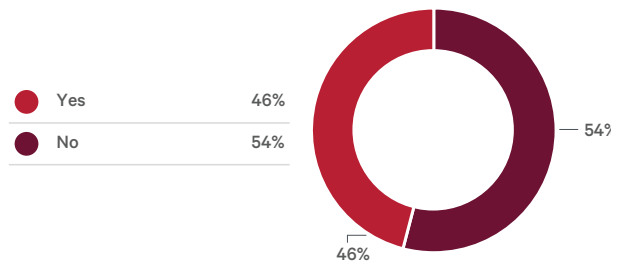
ESG considerations have been of increasing importance to lenders for a number of years and this trend appears to be continuing. Larger institutions often being the first to adopt an ESG Framework.

Do you have a ESG Lending Framework or specific Green, Social or ESG Fund?



100% of bank respondents indicated they had an ESG Lending Framework or fund in place

Do you offer sustainability-linked loans or preferential margins for ESG-linked loans?

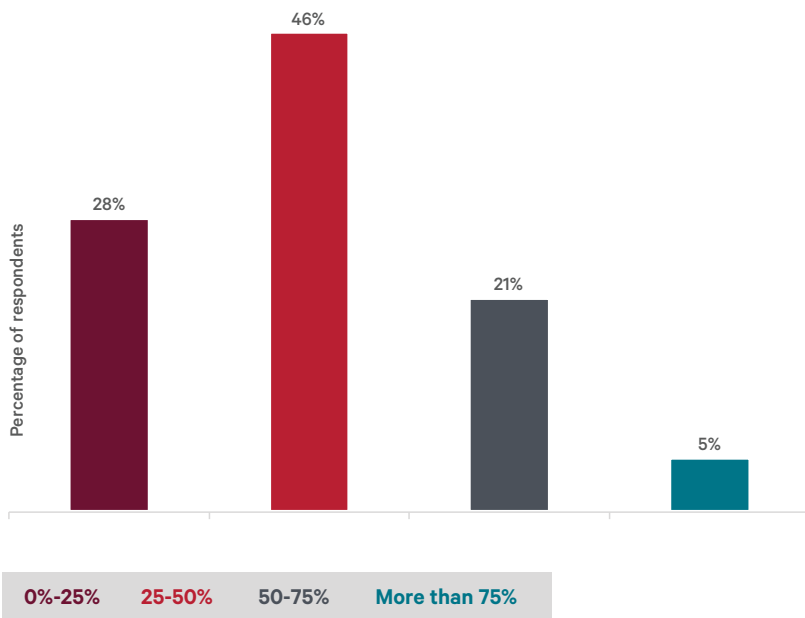


While more lenders are aligning their loan criteria to ESG Frameworks, borrowers are not always rewarded with preferential rates with 61% of lenders employing an ESG Framework but only 46% offering preferential margins or sustainability linked loans.



Advisory

What percentage of your loan transactions are introduced to you by a debt or corporate finance advisor?



2/3 of respondents report that 25-75% of their loan transactions are introduced to them by a corporate finance advisor.

Additionally, **78%** of participants expressed a preference for engaging with an Irish financial advisory firm for advisory services, while **63%** stated a preference for utilizing the services of an Irish law firm for legal matters.

Financial Advisor Preference



Legal Advisor Preference



Dublin Office
Davy House
49 Dawson Street
Dublin 2
D02 PY05
Ireland
+353 1 679 7788
dublin@davy.ie

London Office
Dashwood House
69 Old Broad Street
London EC2M 1QS
United Kingdom
+44 207 448 8870
london@davy.ie

www.davy.ie



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