

## Defensive or Finding Excess Beta Return

The European HY market continues its relentless rally, attempting to surpass prior records in both monthly issuance volumes and YoY supply statistics. The April reopening initially favoured higher-quality BB issuers before progressively shifting into single-B risk—a typical sequencing following the softer market backdrop experienced in February and March. The persistence of the 5–7 year and longer-dated tenors remains notable, a structural trend in HY I highlighted already two years ago and which continues to dominate the refinancing landscape in a flat credit spread curve as far as bonds are concerned.

May has extended this dynamic, with primary activity broadening materially across new-money financings, fungible add-ons, amend-and-extend transactions, maturity extensions, and opportunistic liability management exercises. Some transactions had been extensively pre-marketed over recent months and therefore arrived with relatively stable syndication outcomes, while others required documentary flex and covenant recalibration to secure execution.

My overall assessment remains that a significant portion of the market is mispricing credit risk, with spread compression increasingly disconnected from underlying leverage profiles and cash flow generation capacity. Technicals (you can read here “carry” if you like) continue to dominate fundamentals. The persistent CLO bid remains one of the key drivers supporting execution, both through primary warehouse demand and through the refinancing of existing underwater positions in order to avoid the crystallization of haircuts. Simultaneously, the relative scarcity of supply during previous months, combined with increasingly constructive risk appetite and renewed demand for fixed-rate duration, has materially tightened financing conditions across the sub-investment-grade spectrum.

Another element I have repeatedly highlighted is the growing importance of investor base composition within transactions: the identity of anchor accounts, their positioning across the capital structure, crossover participation between secured and unsecured tranches, and the degree of concentration among CLOs, opportunistic credit funds, and long-only accounts. These dynamics are becoming increasingly relevant in refinancing outcomes, particularly where capital structures remain burdened by sizeable unsecured debt stacks,

elevated leverage multiples, and deteriorating operational metrics. Cross-holdings and extension incentives are materially influencing liability management decisions and, in some cases, reducing the market discipline that would otherwise emerge from standalone credit analysis.

Now that several transactions have priced, it is possible to comment more specifically on BioGroup and DomusVi, two situations that demonstrated a notable divergence in investor behaviour despite relatively similar underlying credit concerns.

From a fundamental perspective, both names continue to exhibit elevated leverage profiles, aggressive EBITDA add-backs, constrained FCCR metrics, structurally weak free cash flow generation, and limited deleveraging visibility amid uneven operational performance.

In BioGroup's case, leveraged 5.6X net debt, investor caution regarding all above, was amplified by read-across concerns from Cerba HealthCare, which continues to trade in secondary under pressure, as well as ongoing uncertainty surrounding regulatory tariff negotiations and reimbursement visibility within the diagnostics sector. As a result, accounts approached the BioGroup transaction with greater scrutiny regarding sources and uses, timing, sustainability of margins, sponsor role, and an increasing medium-term restructuring risk depending on the evolution and ultimate shape of the future capital structure of its peer Cerba. In my view, probably not fully aligned with market consensus, the risks associated with BioGroup appear today reasonably priced across both the loan and bond instruments.

Conversely, DomusVi (6.4x net leverage, or above 7.0x excluding adjustments) managed to price inside IPTs at levels which, in my opinion, do not adequately compensate investors for the underlying business and financial risks associated with a highly levered French nursing home operator that remains exposed to regulatory, reputational, labour cost, inflationary and occupancy pressures. The degree of spread compression achieved on the existing and refinanced Term Loan B due 2029, appears driven more by technical oversubscription dynamics and scarcity value than by any meaningful improvement in enterprise fundamentals or credit metrics. Looking at 2024 credit KPIs, I would invite current and potential investors to explain what has fundamentally changed in the borrower credit profile to justify such aggressive repricing; meanwhile, the sector itself has hardly experienced an easy operating environment over the past fifteen months. Why are the credit portfolio managers adopting a more constructive view on the name?

At present, in discussions with investors regarding participation versus abstention in recent transactions—with the two aforementioned credits

serving merely as examples—several recurring bottom-up questions consistently emerge about a generic investment thesis (the questions should help to understand how funds headed into recent volatility and how much risk, remunerated or not, they are taking in the future):

1. Are we genuinely facing an improved credit profile, and if not, why should investors accept an aggressive spread tightening absent evidence of sustainable deleveraging, stronger cash flow generation, or a structurally improved earnings profile? Relative to prior deal executions, do current spread levels still adequately cover credit risk?
2. Will the borrower ultimately be able to service the new debt burden if current trading performance has been materially adjusted, normalised, or otherwise presented in a more favourable manner to facilitate the A&E, while the broader capital structure increasingly appears unsustainable over the medium term?
3. To what extent are sponsors willing to demonstrate governance discipline and provide timely financial support to the business, particularly in an environment where valuation multiples have materially compressed over the last two years? Equally important, in what form would such support realistically materialise: incremental equity injections PIK instruments, liability management exercises, priming existing balance sheet debt?
4. What covenant protections are investors actually receiving under the old and new credit facilities, and do documentation terms adequately compensate for the operational and financial risks embedded in the capital structures?
5. In the event of another let down in credit markets, should investors favour shorter-dated credits offering higher convexity and refinancing optionality, or longer-duration debt profiles more exposed to mark-to-market volatility or credit market repricing?

IASON Company is successfully advising financial institutions on many market risks and cooperate with the main actors for implementing the most convenient and advantageous policies that fit and exploit market circumstances and volatility.

FOLLOW US!

