Irish Corporate Lending Survey

April 2024

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Introduction

We are pleased to present the KPMG Ireland Corporate Lending Survey for 2024. This report provides insights on the lending landscape for Irish Corporates, covering topics such as:

- Lender sector appetite and preferences;
- Expected lending activity;
- Market metrics and terms available; and
- Insights on key issues such as interest rate risk and ESG requirements.

This survey was undertaken in Q1 2024, a period in which the general consensus within financial markets was that the interest rate cycle had reached its peak and that interest rate cuts were imminent. While it now appears that interest rates globally will begin to reduce as inflation retrenches, the timing of these interest rate cuts will likely be later than initially expected.

It is interesting to note the variation of responses across the participants in relation to expected areas of activity for new business in 2024. The survey results reflect the participants' own lending offering as well as risk appetite against the backdrop of a continued rebounding of the M&A market and expected reduction of inflation and interest rates.

We would like to take this opportunity to thank all of those who participated in this survey. Their cooperation was key to the success of this report.

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Contents

This report provides insights on the Irish Corporate Lending market across the following subsections:

01

Lending Appetite

Lenders were asked to select the **top sectors** which they expected their institution to have the **most appetite to lend** into in 2024.

1 Healthcare and Pharmaceuticals

2 Technology

3 Agribusiness and Food

4 Industrials

5 Energy and Infrastructure

6 Financial services

7 Renewables

8 Retail and Food Service

9 Media and Communications

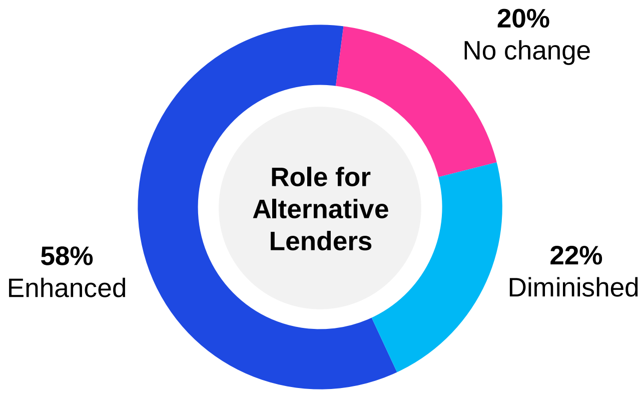
10 Aviation

01

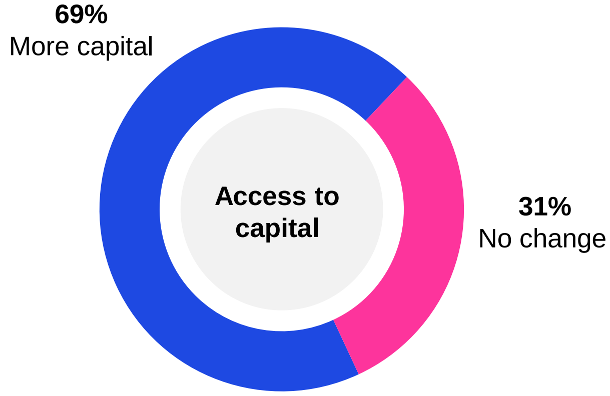
Lenders were asked if they expected there to be an **enhanced or diminished role for Alternative Lenders in 2024**. The majority of respondents believed that there would be an enhanced role.

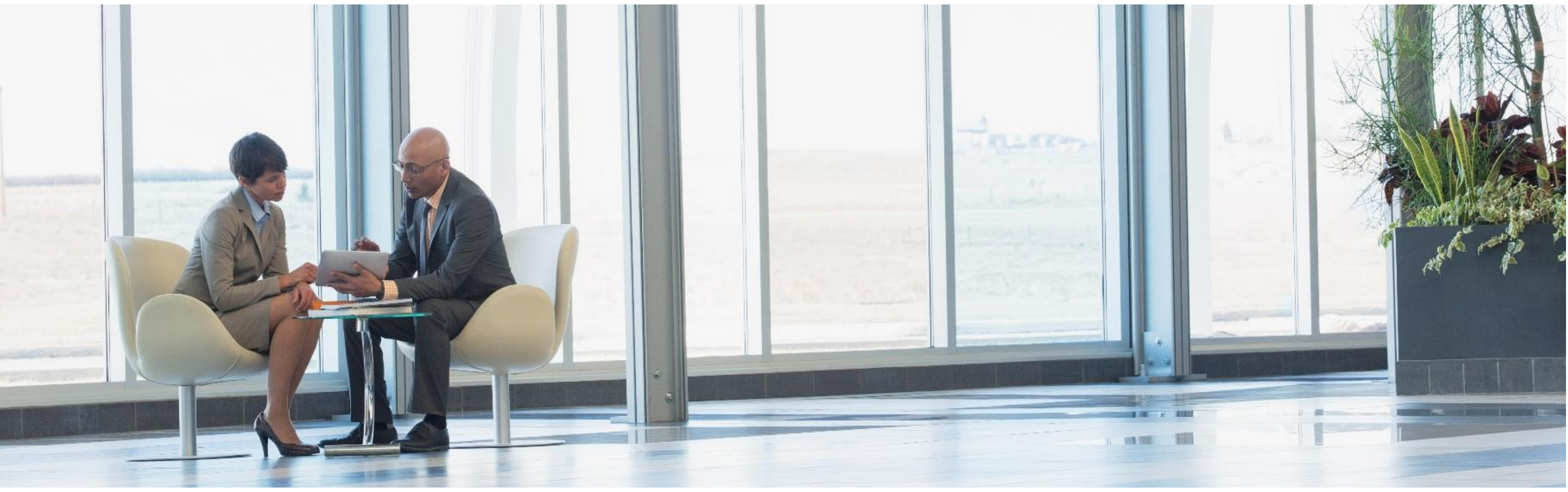
Lenders were asked whether they expected to have **access to more or less capital to deploy in 2024 compared to 2023**, with the majority estimating they would have more capital to deploy.

Role for Alternative Lenders in 2024



Access to capital in 2024





Lenders were asked whether there is an expectation that margins will rise in 2024 relative to 2023. While only 25% of respondents anticipate an increase in margin, for Bank Lenders this increases to 50% compared to only 15% and 20% of Alternative Lenders and Asset Based Lenders respectively.

Expectation whether margins will increase in 2024

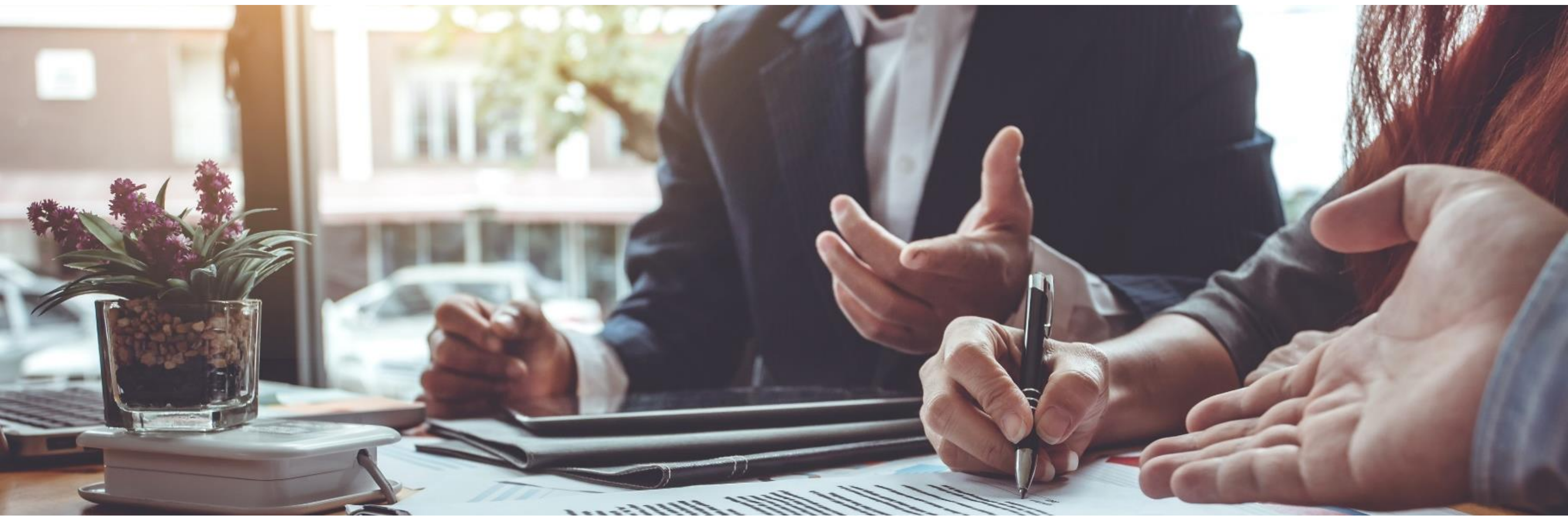
75% No

25% Yes

02

Bank Lenders

Bank Lenders were asked where they expect to see the most **new lending activity** in 2024.



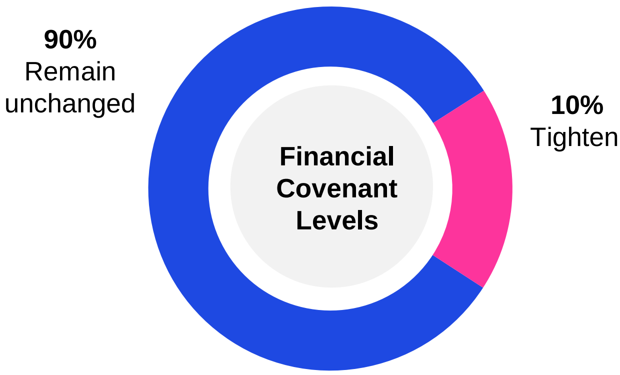
Bank Lenders were asked to select **areas of importance and focus for their institution's credit committee** when assessing credit applications. Answers were selected from a pre-set list of criteria. The areas shown below accounted for 73% of top three answers provided by Bank Lenders.

Cashflow / Debt Service Capacity

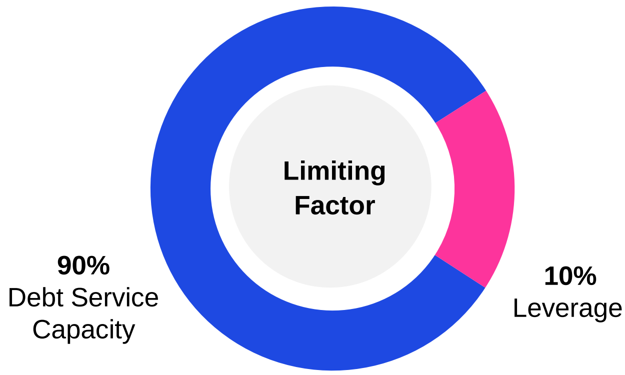
Historical Trading

Management

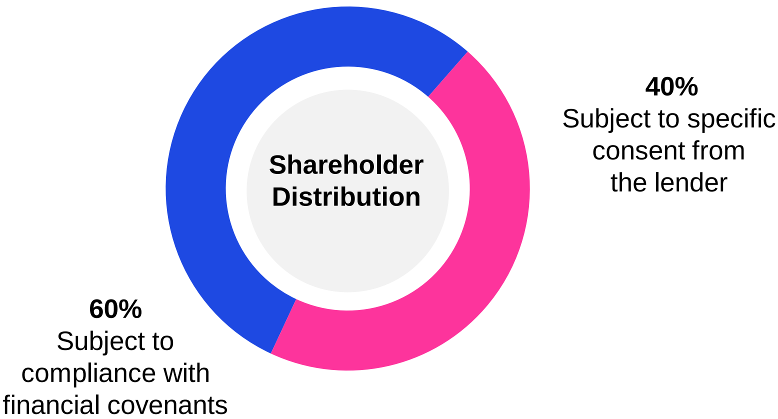
Bank Lenders were asked what they expected to happen to their **financial covenant** levels in 2024 compared to 2023.



Bank Lenders were asked whether they considered **debt service capacity** or **leverage** to be a more **limiting factor** when providing funding.



Bank Lenders were asked what allowances for **shareholder distributions** would be in place for a typical lend in their institution.



Bank Lenders were asked what they considered to be the **maximum leverage level** *(based on a multiple of EBITDA)* that their institution would be comfortable in providing.

80% 3.0x to 4.0x

20% Greater than 5.0x

Bank Lenders were asked what they considered to be the **average leverage level** *(based on a multiple of EBITDA)* in a typical lend by their institution.

10% 1.0x to 2.0x

60% 2.0x to 3.0x

20% 3.0x to 4.0x

10% 4.0x to 5.0x

02

Bank lenders were asked what the **lowest level** of **debt service cover** that their institution would be comfortable in lending against.

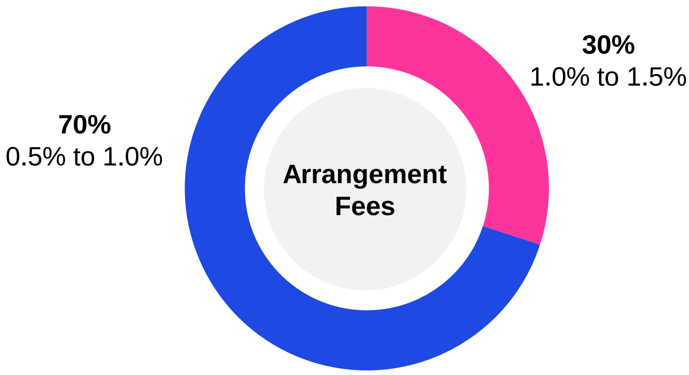
20%	1.1x
60%	1.2x
10%	1.3x
10%	1.5x or Greater

Bank lenders were asked what level of **debt service cover** would be required by their institution for a **typical lend**.

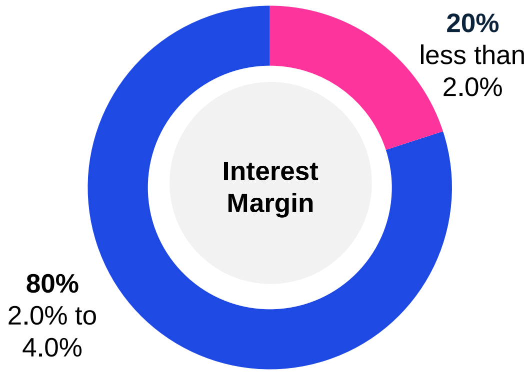
10%	1.2x
10%	1.3x
50%	1.4x
30%	1.5x or Greater

02

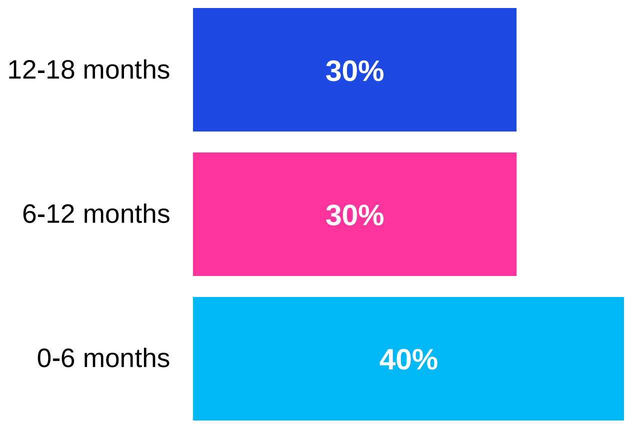
Bank Lenders were asked what are the typical **arrangement fees** charged on new lends by their institution.



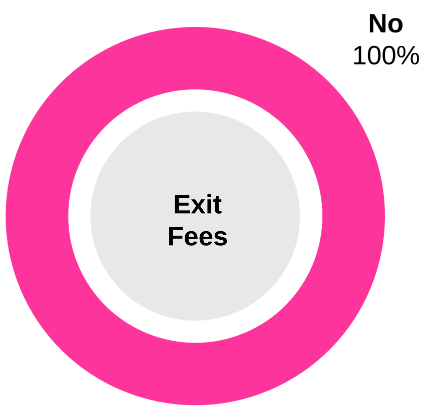
Bank Lenders were asked what the typical **interest margin** is on new lends by their institution.



Bank Lenders were asked the typical length of time, after which **early redemption fees** typically cease.



Bank Lenders were asked whether on typical lends **exit fees** would be payable by borrowers upon maturity.



03

Alternative Lenders

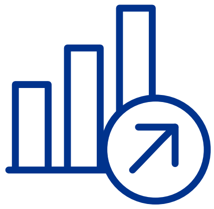
Alternative Lenders were asked where they expect to see the most **new lending activity** in 2024.

03

Alternative Lenders were asked to select **areas of importance and focus for their credit / investment committee** when assessing credit applications. Answers were selected from a pre-set list of criteria.

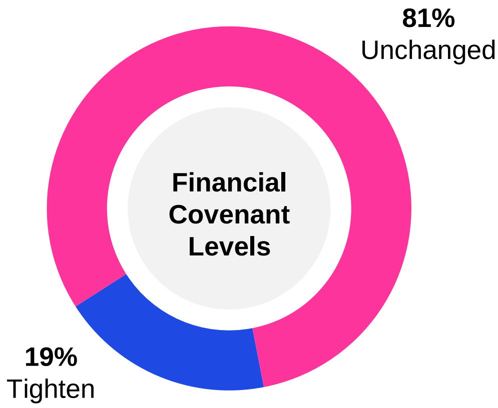
Cashflow / Debt Service Capacity

Industry

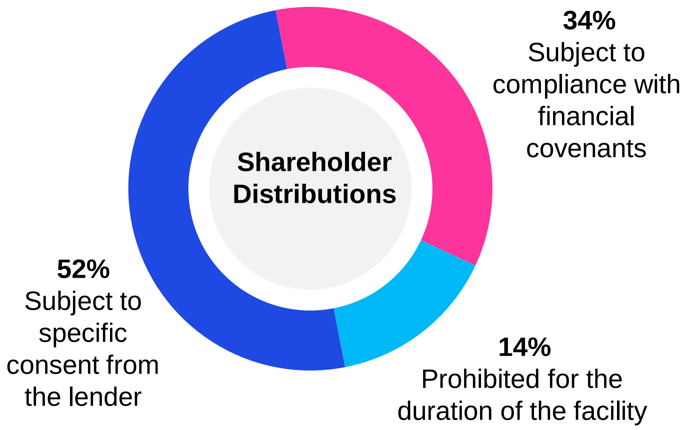


Historical Trading

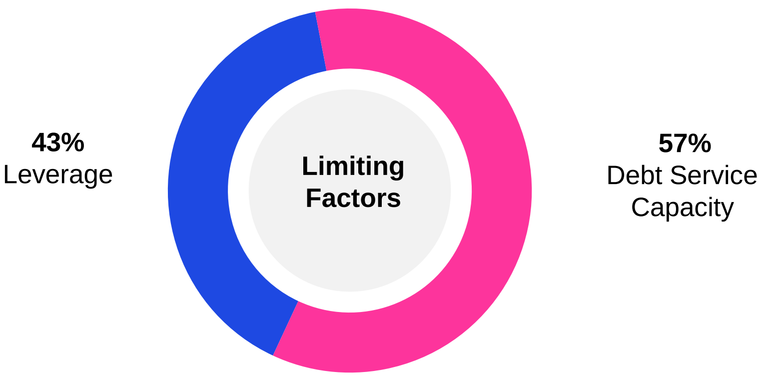
Alternative Lenders were asked what they expected to happen to their **financial covenant** levels in 2024 compared to 2023.



Alternative Lenders were asked what allowances for **shareholder distributions** would be in place for a typical lend in their institution.



Alternative Lenders were asked whether they considered **debt service capacity** or **leverage** to be a more **limiting factor** when providing funding.



03

Alternative Lenders were asked what they considered to be the **maximum leverage level** *(based on a multiple of EBITDA)* that they would be comfortable in providing.

19%
3.0x to 4.0x

38%
4.0x to 5.0x

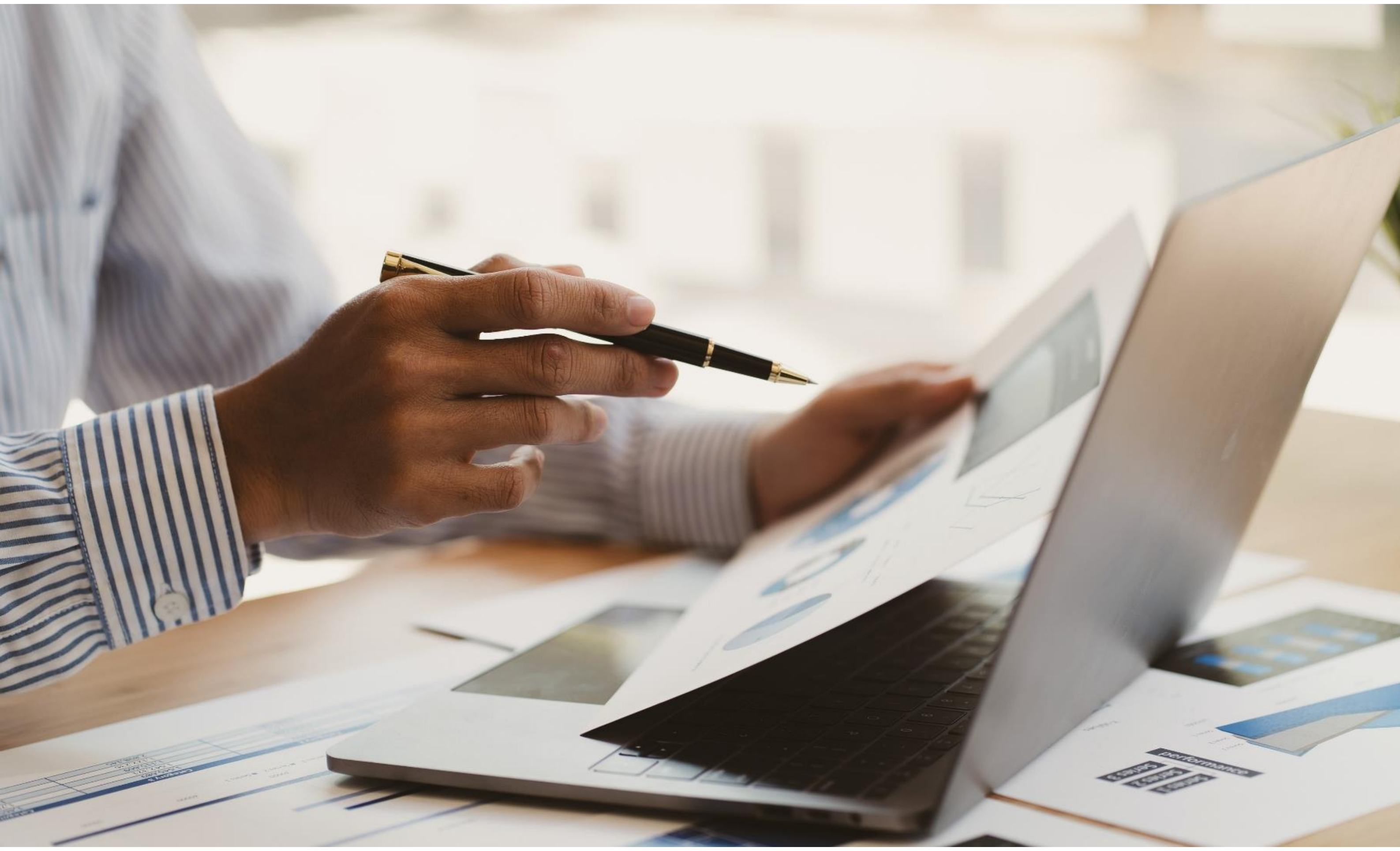
43%
Greater than 5.0x

Alternative Lenders were asked what they considered to be the **average leverage level** *(based on a multiple of EBITDA)* in a typical lend by them.

62%
3.0x to 4.0x

9%
4.0x to 5.0x

29%
Greater than 5.0x



03

Alternative Lenders were asked what the **lowest level** of **debt service cover** that they would be comfortable in lending against.

10%	10%	28%
1.0x	1.1x	1.2x
19%	5%	28%
1.3x	1.4x	1.5x

Alternative Lenders were asked what level of **debt service cover** would be required by them for a **typical lend**.

5%
1.0x

5%
1.1x

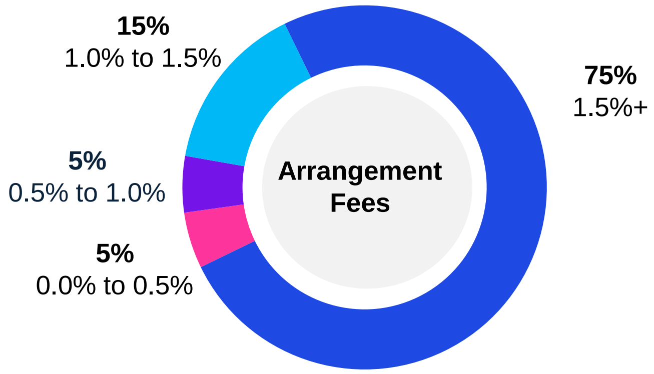
19%
1.2x

14%
1.3x

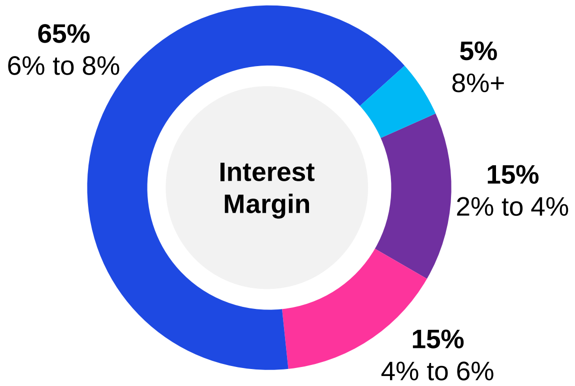
14%
1.4x

43%
Greater than 1.5x

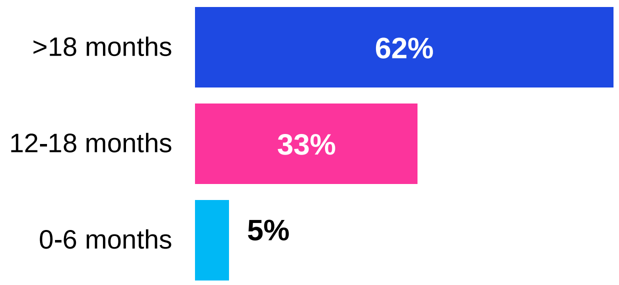
Alternative Lenders were asked what are the typical **arrangement fees** charged on new lends.



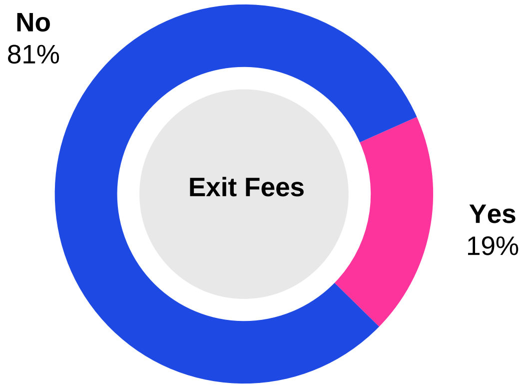
Alternative Lenders were asked what the typical **interest margin** is on new lends.



Alternative Lenders were asked the typical length of time, after which **early redemption fees** typically cease.



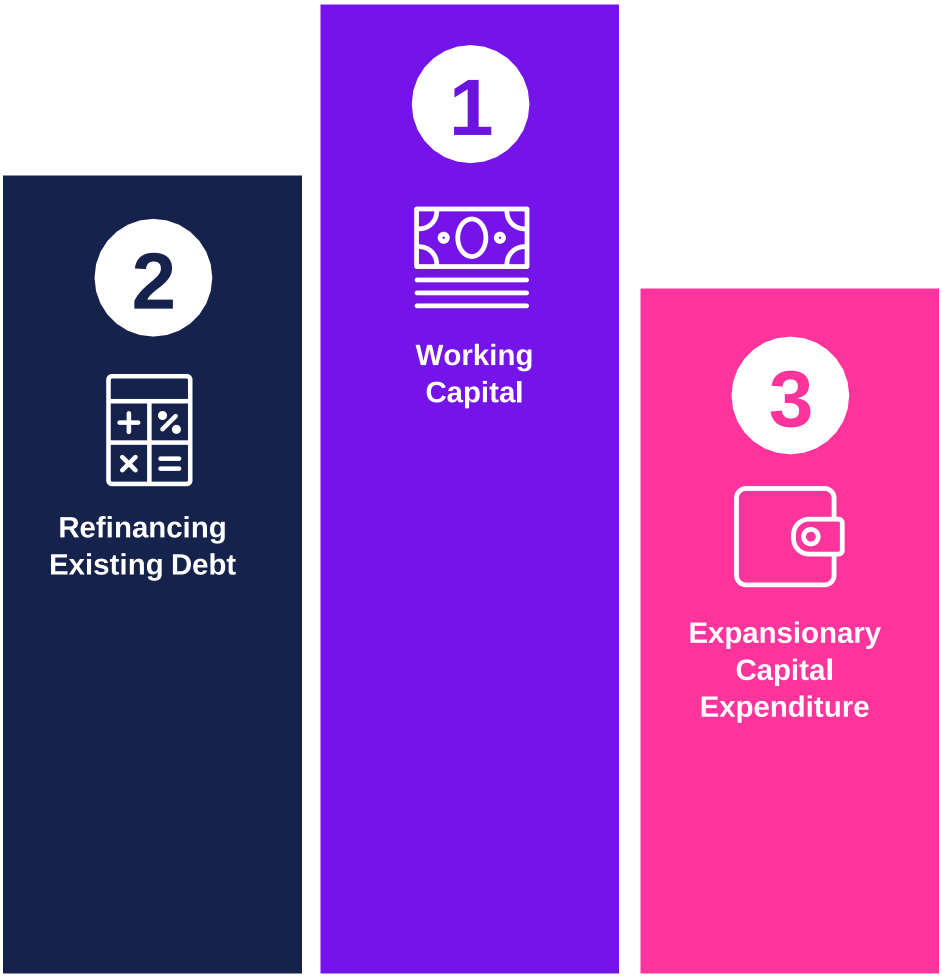
Alternative Lenders were asked whether on typical lends **exit fees** would be payable by borrowers upon maturity.



04

Asset Based Lenders

Asset Based Lenders were asked where they expect to see the most **new lending activity** in 2024.



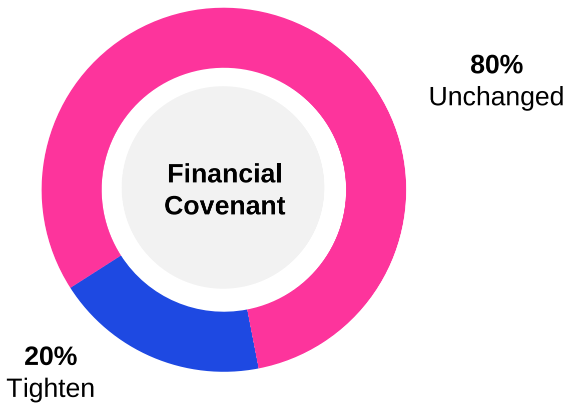
Asset Based Lenders were asked to select **areas of importance and focus for their credit committee** when assessing credit applications. Answers were selected from a pre-set list of criteria.

Cashflow / Debt Service Capacity

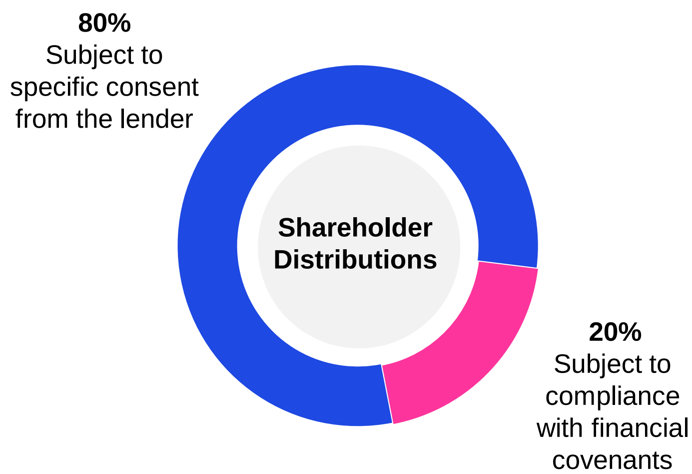
Available Security

Management Team

Asset Based Lenders were asked what they expected to happen to their **financial covenant** levels in 2024 compared to 2023.



Asset Based Lenders were asked what allowances for **shareholder distributions** would be in place for a typical lend in their institution.

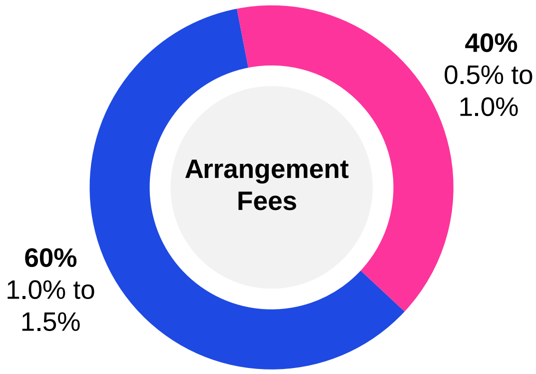


Asset Based Lenders were asked what **Loan to Value ("LTV") percentage** they would be willing to lend against certain categories of assets.

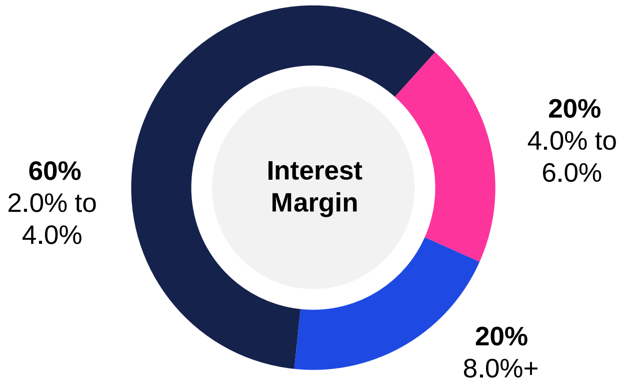
Asset				
Debtors	100% 80-100% LTV			
Inventory	40% 80-100% LTV	40% 70-80% LTV	20% 50-60% LTV	
Plant & Machinery	40% 80-100% LTV	20% 70-80% LTV	20% 50-60% LTV	20% 0% LTV
Real Estate	20% 70-80% LTV	20% 60-70% LTV	40% 50-60% LTV	20% 0% LTV
Brand & Intellectual Property	20% 50-60% LTV	80% 0% LTV		

04

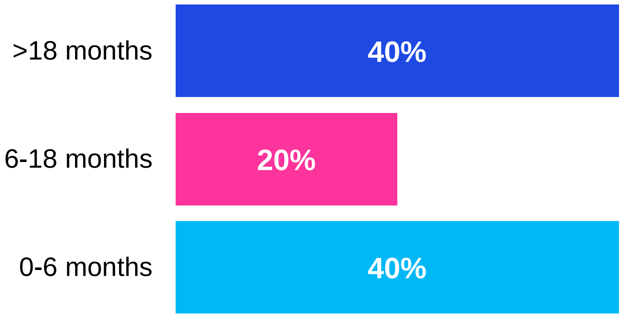
Asset Based Lenders were asked what are the typical **arrangement fees** charged on new lends.



Asset Based Lenders were asked what the typical **interest margin** is on new lends.



Asset Based Lenders were asked the typical length of time after which **early redemption fees** typically cease.

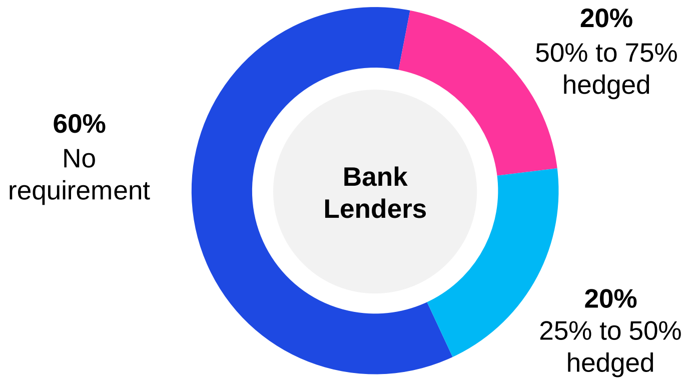


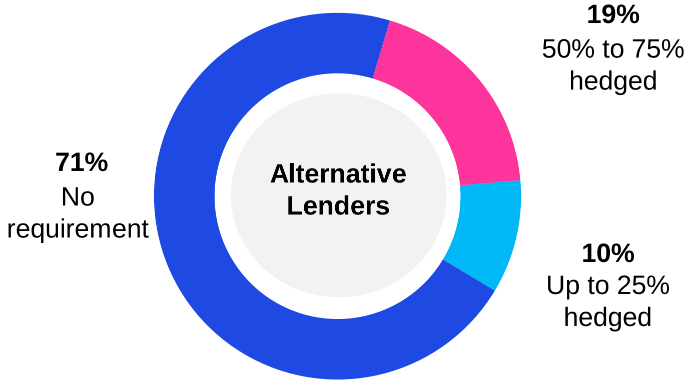
Asset Based Lenders were asked whether on typical lends **exit fees** would be payable by borrowers upon maturity.

05

Interest Rate Risk Management

Bank Lenders and Alternative Lenders were asked what level of interest rate hedging do they currently require borrowers to enter into for new loans.





Bank Lenders and Alternative Lenders were asked what the most common type interest rate hedging instrument was that borrowers put in place with them.

1 Interest Rate Swap

2 Interest Rate Cap

3 Fixed Rate Agreement

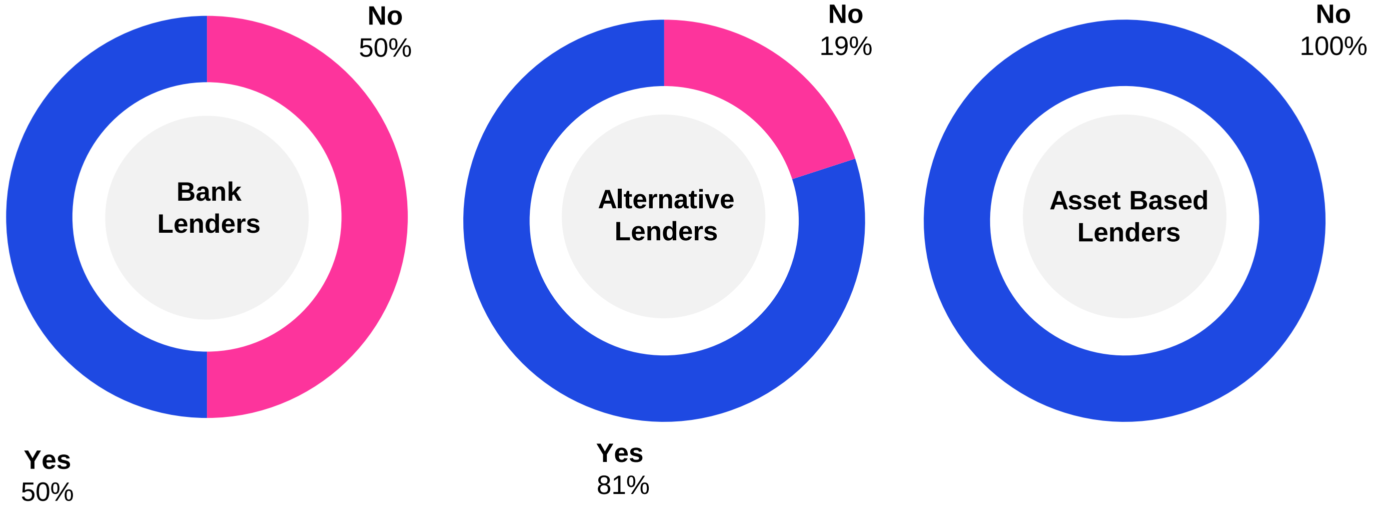
06

ESG

ESG continues to play a prominent role in the Irish corporate lending landscape, with nearly **80% of lenders** surveyed confirming that they were **actively looking for ESG linked lending opportunities**.

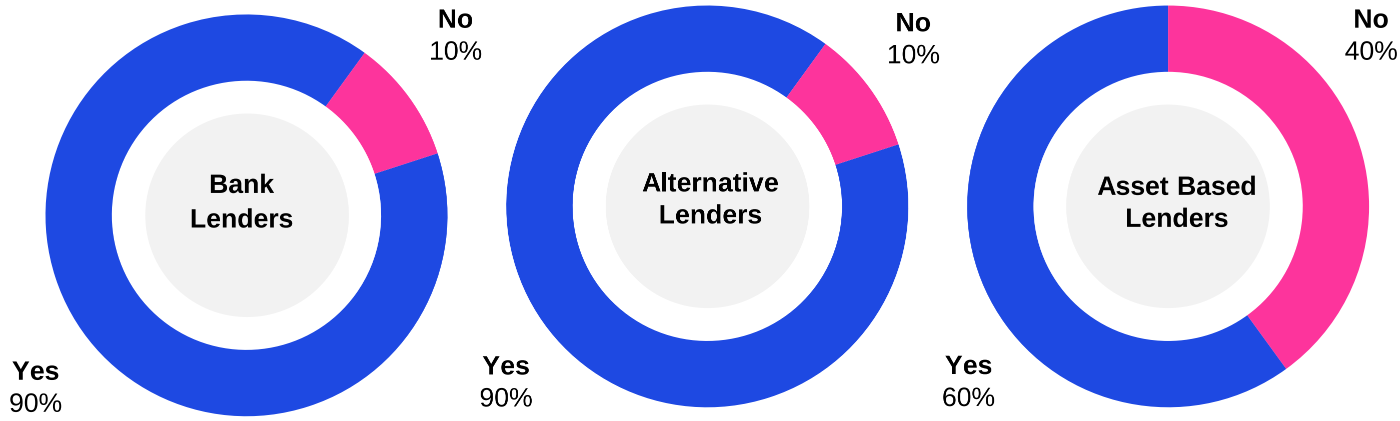
100% of **Bank Lenders** confirmed that their institution have established **ESG lending frameworks** in place, compared to **86%** of **Alternative Lenders** and **60%** of **Asset Based Lenders**.

Lenders were asked whether since January 2023 they had **declined a funding proposition** based primarily on ESG reasons.

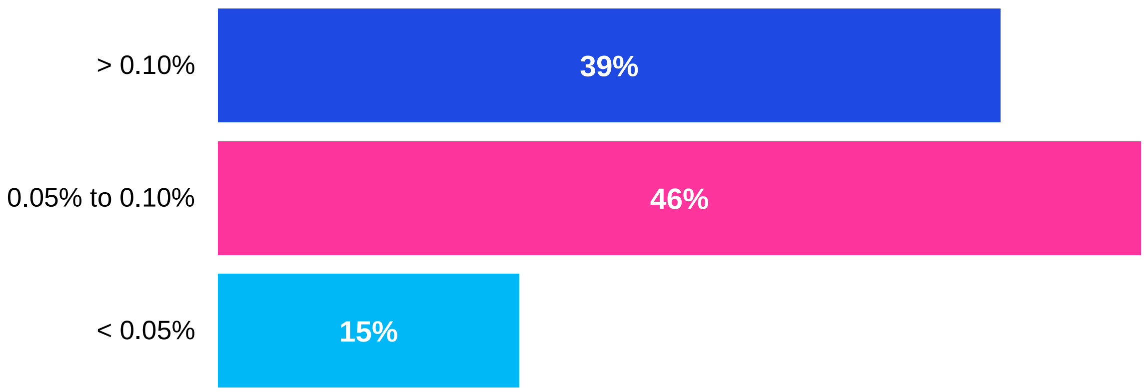


06

Lenders were asked whether they were willing to **link pricing to ESG targets**, with nearly 90% of Bank Lenders and Alternative Lenders confirming that they were willing to do so.



In cases where lenders were willing to link pricing to ESG targets, lenders were asked to outline the **amount by which margin could be impacted** by these targets.



Macro Environment

Lenders were asked which of the following factors they considered to be the **biggest challenge for lending over the next 12 months**. Answers were selected from a pre-set list of criteria and are ranked by degree of challenge.

1 Impact of inflation on borrower margins

2 Interest rate volatility

3 Geopolitical issues

4 Covenant and loan servicing issues

5 Supply chain issues

6 Repayment of warehoused debt

7 ESG requirements

KPMG Insight

Despite significant changes in the wider macro environment over the last number of years, there remains strong appetite amongst lenders to provide funding for M&A transactions. This, combined with the fact that nearly 70% of respondents believe that they will have access to increased amounts of capital in 2024, points to there being readily available funding for quality M&A transactions.

David O'Kelly, Partner
Corporate Finance - M&A

Reflective of the higher interest rate environment, the majority of lenders surveyed now view debt service capacity as a greater limiting factor than leverage when assessing what quantum of debt that they are willing to extend to borrowers. This heightened emphasis on borrowers' ability to service debt is likely to remain a key area of focus for lender credit and investment committees.

Jeremy Hoare, Director
Corporate Finance - Debt Advisory

KPMG Insight

"Emphasising ESG's prominent role within the Irish corporate lending landscape, the majority of respondents confirmed that they have established ESG lending frameworks and are actively seeking ESG linked opportunities. Importantly, we are also seeing increased willingness on the part of lenders to link pricing to ESG targets, which should serve as a further incentive to borrowers to ensure that their businesses keep ESG considerations front of mind."

Russell Smyth, Partner
Corporate Finance - Sustainable Futures

"Despite the exit of a number of the traditional bank lenders from the Irish market over the last number of years, we continue to see significant depth and diversity of lenders across the Irish corporate lending landscape who are willing to deploy their capital in support of borrowers."

Ciaran Scally, Managing Director
Corporate Finance - Deleveraging

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