

Promissory note loan 2023 & outlook

Market for promissory note loans
2023 & Outlook |
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On the relevance of SSD as a source of financing for SMEs

« *The resilience of Promissory note investors once again demonstrated the stability and attractiveness of this source of financing in the past year. The SSD also remains interesting for smaller companies or SMEs with a weaker credit rating from a financing requirement of EUR 5-10 million. The promissory note loan also benefits from favorable refinancing conditions with the ECB.* »

KEY FACTS PROMISSORY NOTE LOAN MARKET 2023

105

ACTIVITY IN 2023 VS. 140 IN 2022

22,2
EUR bn

SSD PRIMARY MARKET VOLUME EXCEEDED TEN-YEAR AVERAGE BY 7%. 27% LOWER COMPARED TO THE RECORD YEAR 2022

68%
DE share

HIGHER PROPORTION OF SSD ISSUERS FROM GERMANY

12
Branches

DIVERSIFIED SSD INDUSTRY DISTRIBUTION IN PRACTICALLY ALL SECTORS

SHARP DECLINE IN DEMAND ON THE SSD MARKET IN 2023?

Over the course of 2023, the issue volume decreased by 34%, but still reached a considerable EUR 22.2bn, while the number of transactions fell by 34% to 105. In the record year 2022, the SSD issuance volume had reached an impressive EUR 29.8bn. Interestingly, last year's total exceeded the average value of the previous ten years by 7%.

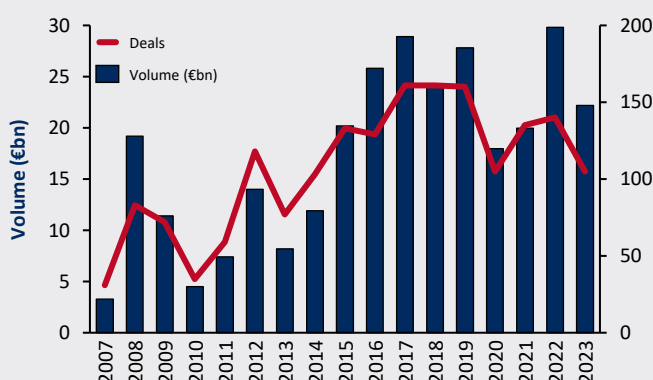
1 View of the SSD market in 2023

In 2023, the market for corporate Promissory note loans (SSD) normalized following the record performance in the previous year, and this trend continued in the fourth quarter. Activity in the SSD market remained robust overall despite a challenging environment in 2023, driven by stable investor demand. Large corporates with external investment grade ratings showed significantly lower participation in the SSD market with 12 transactions compared to the 33 transactions in 2022. From the second quarter of 2023, they tended to increasingly utilize the more competitive bond market, resulting in a lower foreign share compared to the previous year. In addition, fewer debut transactions were recorded in 2023, although some significant transactions by new companies on the SSD market underlined the positive response from investors. At the same time, the market leaves enough room for individualized regulations in the individual companies.

2 Analysis Q4-Volume

In the fourth quarter of 2023, the SSD market recorded a new volume of around EUR 6 billion, based on valuations. This represents a decline of 25% compared to the record quarter of 2022 with EUR 7.5 billion. At the same time, the number of transactions fell to 28 new SSDs, which also represents a year-on-year decline of 14%.

Compared to the fourth quarters of the past ten years (2013 to 2022), the volume in the final quarter of 2023 was around 16 % below average, both in terms of volume and the number of transactions. Historically, Q2 and Q4 2022 clearly stand out with high volumes.



Source: LSEG, LBBW, FINANCE-Magazin, CMI analysis

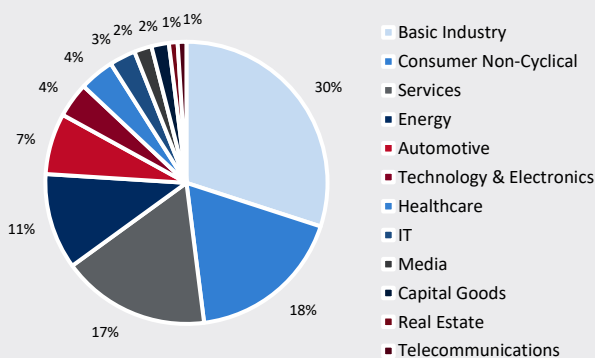


INDUSTRY DIVERSIFICATION AND COUNTRIES OF ORIGIN

The sector diversity was broadly diversified throughout 2023. This gave investors a wide choice & diversification.

The share of SSDs issued by German companies was 68% in 2023, which was slightly higher than in 2022 and roughly the same as in 2021.

Sector diversification SSD number

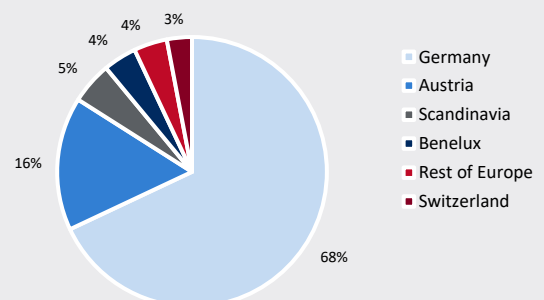


Source: LBBW, LSEG, CMI analysis

The dominant share of new promissory note loans (SSD) was attributable to the basic industry sector (basic materials, chemicals, construction, etc.) and accounted for 30% of transactions. Manufacturers of non-cyclical consumer goods, such as food or everyday items, followed in second place with 18%. The services sector contributed 17% to the total number of SSDs, while energy and automotive were next with 11% and 7% respectively. The technology/electronics, healthcare and IT sectors also recorded significant shares of 3-4%.

Media and mechanical engineering each accounted for 2%, while property and telecommunications were comparatively underrepresented. Property companies, which made greater use of the SSD market in previous years, were affected by higher interest rates and a difficult market situation.

Countries of origin SSD companies



Source: LBBW, LSEG, CMI analysis

Austria contributed 16% to the SSD, while Switzerland accounted for 3%. Countries outside the DACH region accounted for only 13%. It was striking that there was only one SSD from France in 2023.

SUSTAINABILITY, ATTRACTIVENESS & OUTLOOK 2024

It is true that borrowers use SSD as a financing instrument, especially if their financial ratios meet the requirements for an investment grade rating. However, there are also **attractive opportunities for smaller or less creditworthy companies to take out loans from a volume of around EUR 5-10 million**. Investors are also increasingly focusing on sustainability, with **ESG-related or green transactions being in particularly high demand**.

1 Advantages

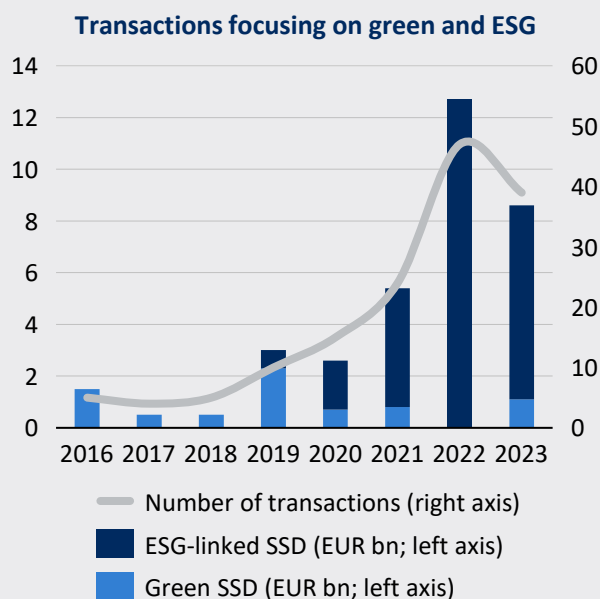
Promissory notes remain attractive for companies due to their **flexible terms**, a **lower documentation burden** compared to the capital market and **attractive pricing**. As financing is often provided by several lenders, high loan amounts are also possible. The motivations for issuing promissory notes range from purely securing liquidity and refinancing to investments and acquisitions, which covers a broad spectrum.

2 Sustainability

A clear majority of the newly issued SSDs in 2023, as in previous years, were ESG-related with 33 units. Part of the margin or coupon is linked to the company's external sustainability rating or specific sustainability indicators. Companies particularly value the flexibility in the use of funds as a significant advantage, as the sustainability aspect goes hand in hand with general performance. As in previous years, green SSDs were only marginally present with a share of just 5% of the total volume. A specific sustainable purpose is defined here, which indicates a corresponding green project with a CO2 impact.

3 Outlook 2024

In the current year, the German economy is expected to emerge from recession, albeit with **low GDP growth** of 0.3%, as companies are likely to be reluctant to invest due to political uncertainties at home and abroad. Falling inflation opens the possibility of a somewhat **less restrictive monetary policy for central banks**. Over the course of the year, increased M&A activity and increased expansion investments could increase companies' financing requirements, meaning that LBBW's experts anticipate an expected volume of around EUR 23 billion. In addition, numerous maturities of outstanding SSD tranches are due this year.



Source: LBBW, CMI analysis

















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Capitalmind Investec has extensive experience in advising on financing solutions. With dedicated financing experts across Europe, we can help you achieve your strategic goals.

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We are currently working on several financing mandates

Selected SSD/IHS transactions from Capitalmind Investec

  Promissory note with a volume of €20m	  €20m Bearer bond	  €20m bearer bond and €20m promissory note loan	  €60m Bearer bond
Real Estate Holding	Renewable energy	Real Estate Holding	Renewable energy
  €20m Secured bearer bond	  €30m Bearer bond	  Promissory note with a volume of €10m	  €20m Bearer bond
Investment firm	Real Estate Holding	Real Estate Holding	Real Estate Holding



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