European Corporate Recoveries 2003-2021: Stability Prevails Despite The Pandemic

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This report does not constitute a rating action.

S&P Global
Ratings

Key Takeaways

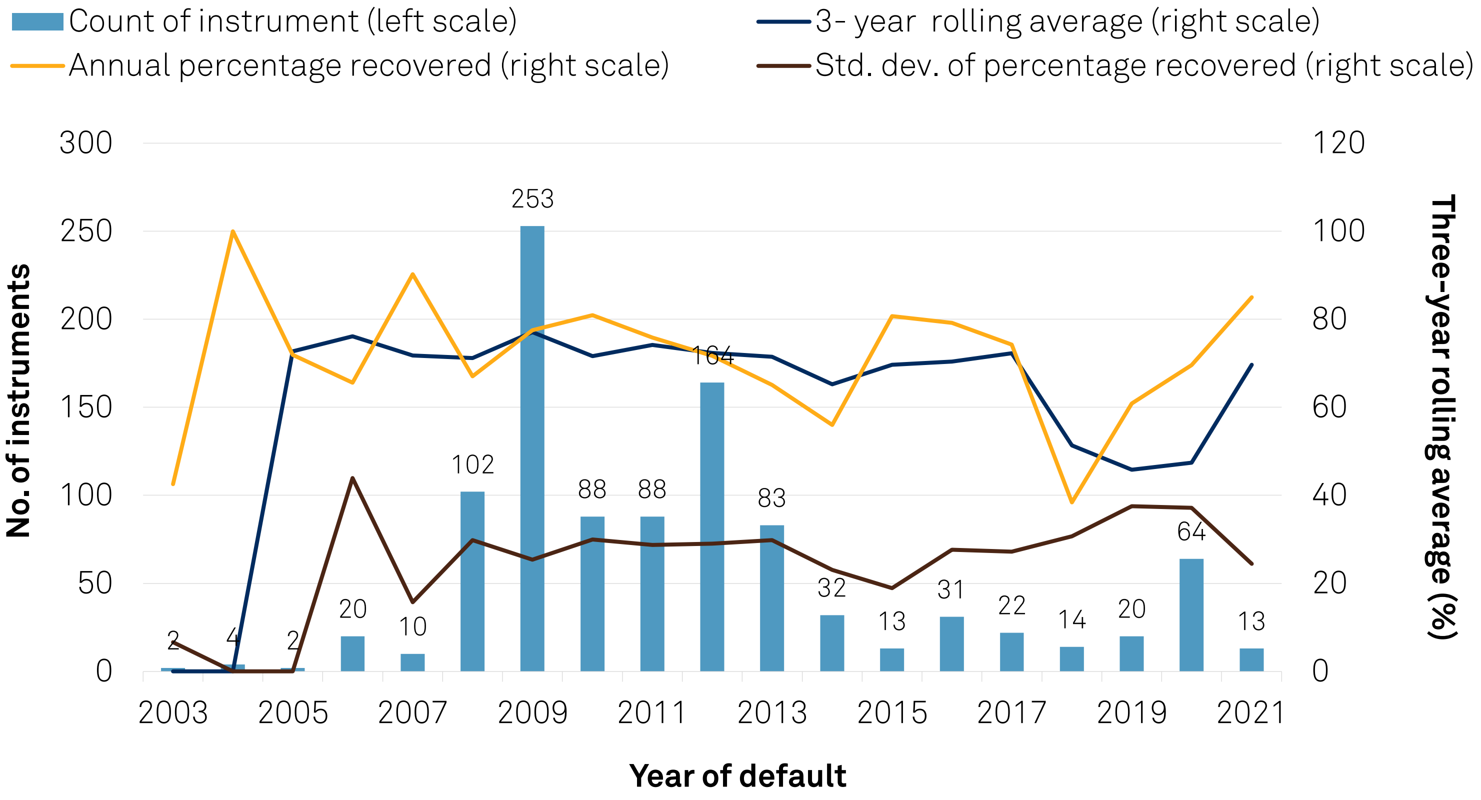
- The long-term average recovery on first-lien corporate debt in Europe remained broadly stable between 2003 and 2021, at 72.5%.
- In 2021, first-lien debt recoveries on defaulted corporate debt had a three-year rolling average of 70%, influenced by the higher volume of low recovery defaults in 2020.
- Second-lien recoveries average 34%, which is lower than mezzanine recoveries of 39%. As there are well over 100 defaulted instruments for each category, and first-lien recoveries remain above 70%, second-lien debt would appear to be cheap mezzanine rather than stretched senior debt.

Note: We looked at the defaulted debt instruments of corporates rated by S&P Global Ratings in Europe, the Middle East, and Africa (EMEA) in 2003-2021.

First-Lien Recovery | Year Of Default

Average First-Lien Recovery

By default year

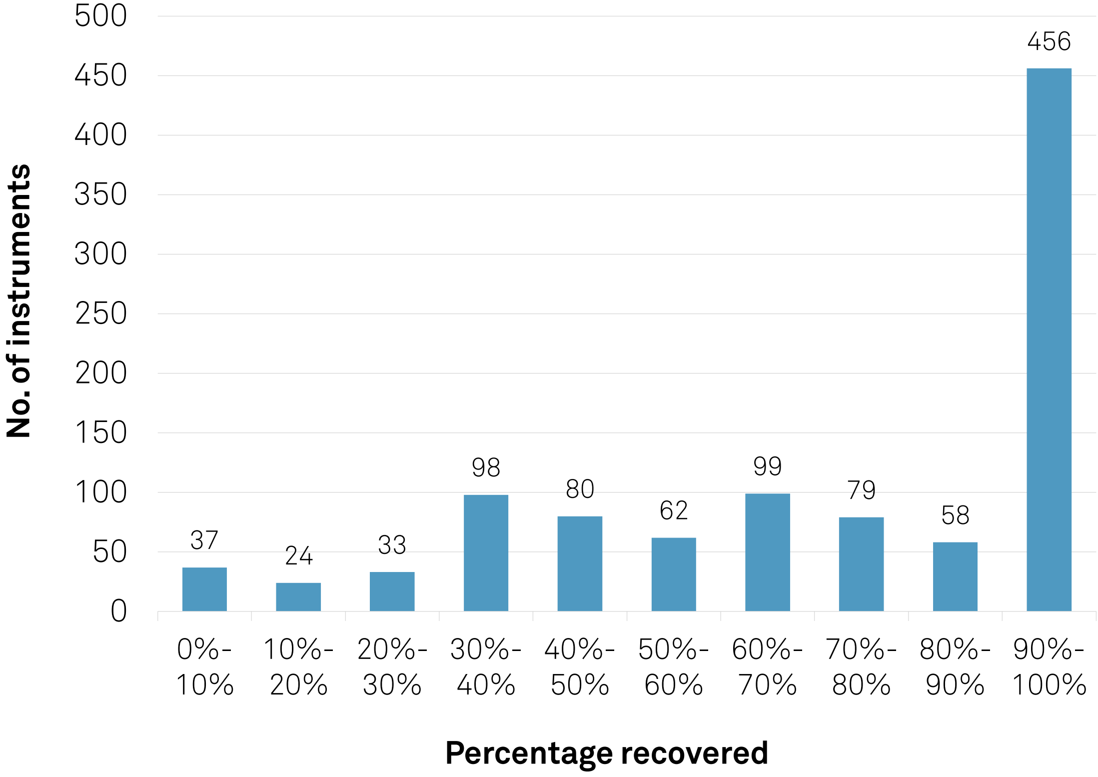


Std. dev.--Standard deviation. Source: S&P Global Ratings.

- Average recoveries were lower in 2020, at 70%, versus the historical average of 72.5% for 2003-2021, a drop driven by the pandemic-led economic downturn.
- However, we saw a bounce-back in recoveries in 2021 to 86%, albeit based on only 13 defaulted/restructured instruments.
- We saw full recovery in nine out of 13 non-bankruptcy restructurings, with a couple of cases of super-priority debt and new prior-ranking money being introduced with no debt write-offs.
- In 2020-2021, the media, entertainment, and leisure sector had the highest number of defaulted instruments (19), with an average recovery around 83%, while retail/restaurants and oil/gas recovered to slightly above 70%.

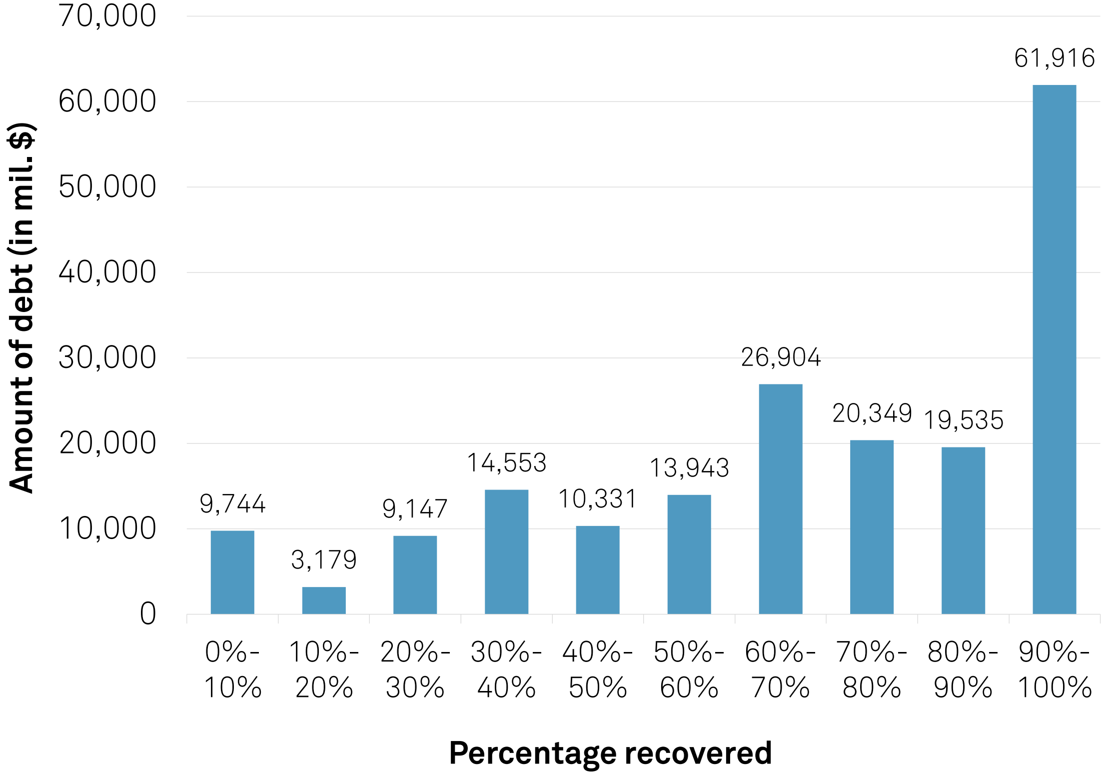
First-Lien Recovery | By Volume And Value

By Volume, 41% Of Defaulted First-Lien Debt Tranches Get Full Recovery, With A Wide Spread Of Recoveries Between 30% And 90%.



Source: S&P Global Ratings.

By Value, 47% Of Defaulted First-Lien Debt Recovered More Than 70%.



Source: S&P Global Ratings.

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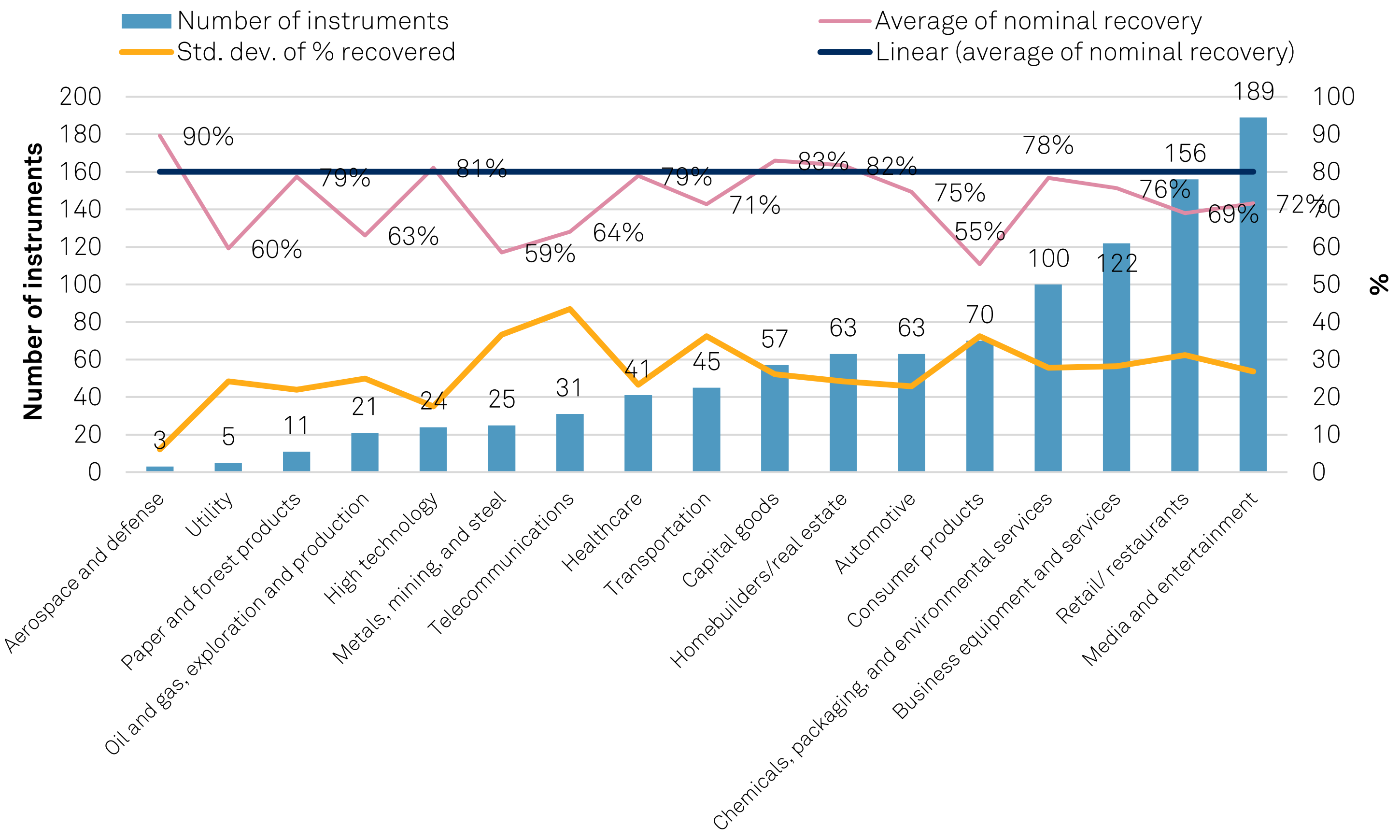
First-Lien Recovery | By Industry

- In 2017-2021, the retail sector had the highest number of defaults, followed by media and entertainment.
- Unsurprisingly, the oil and gas sector had twice the defaults it had in 2003-2016, due to volatile downward swings in oil and gas prices. This was much lower than in the U.S. in the same period, primarily because there were far fewer rated oil and gas companies in Europe.
- The consumer products sector has not had any defaults in the past five years. Business equipment and services also had lower defaults than historical trends, albeit with lower recoveries (~50%). All the defaulted instruments were bank facilities.
- The retail and restaurant sector has seen a rebound in the past two years, with an average recovery of more than 70%. This trend was apparent before 2014 in EMEA retail. Recoveries are higher than those in the U.S. given the absence of significant priority debt (typically asset-backed loans in the U.S.).

Average Of Nominal Recovery For First-Lien Debt By Industry – Chart 4



Std. dev.--Standard deviation. Source: S&P Global Ratings.

First-Lien Recovery | By Country

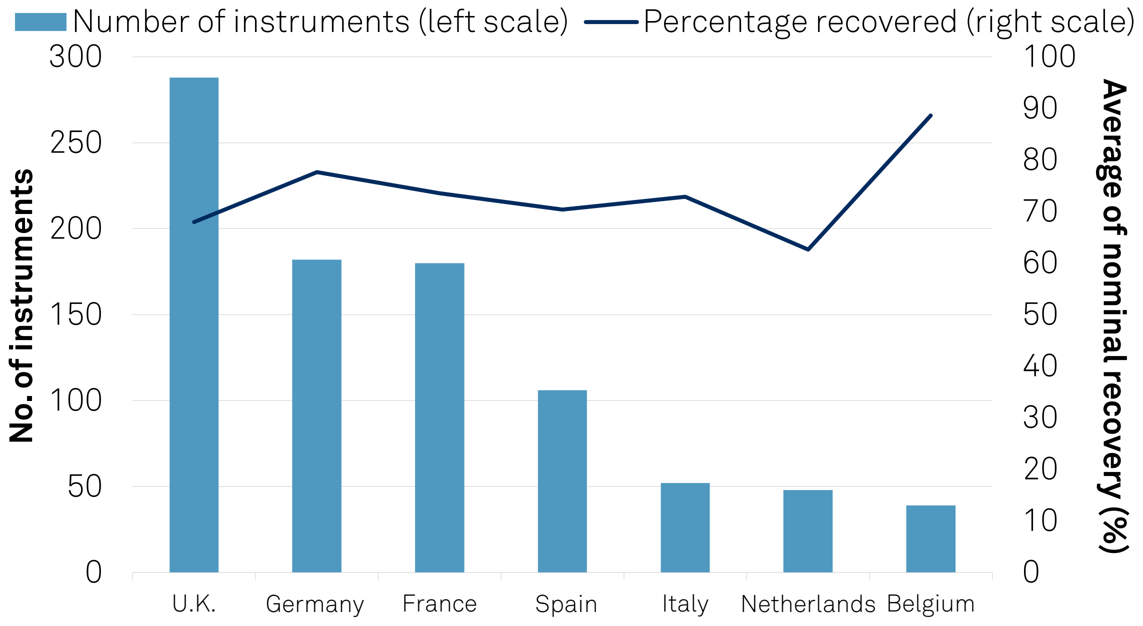
- The top five countries by volume of defaults account for 79% of defaulted instruments.
- Broadly, there hasn't been any significant movement in average recoveries by country, with an average change of around 0.5%-0.75% in both directions. Again, this is largely due to the low recent volumes of defaults.

Top Seven Countries By Volume Of Defaults (2003-2021)

	Average of nominal recovery	Standard deviation of nominal recovery	No. of instruments
U.K.	68%	29%	288
Germany	78%	32%	182
France	74%	30%	180
Spain	70%	27%	106
Italy	73%	23%	52
Netherlands	63%	25%	48
Belgium	89%	21%	39
Grand total	73%		895

Source: S&P Global Ratings.

Top Seven Countries By Number Of Instruments (2003-2021)

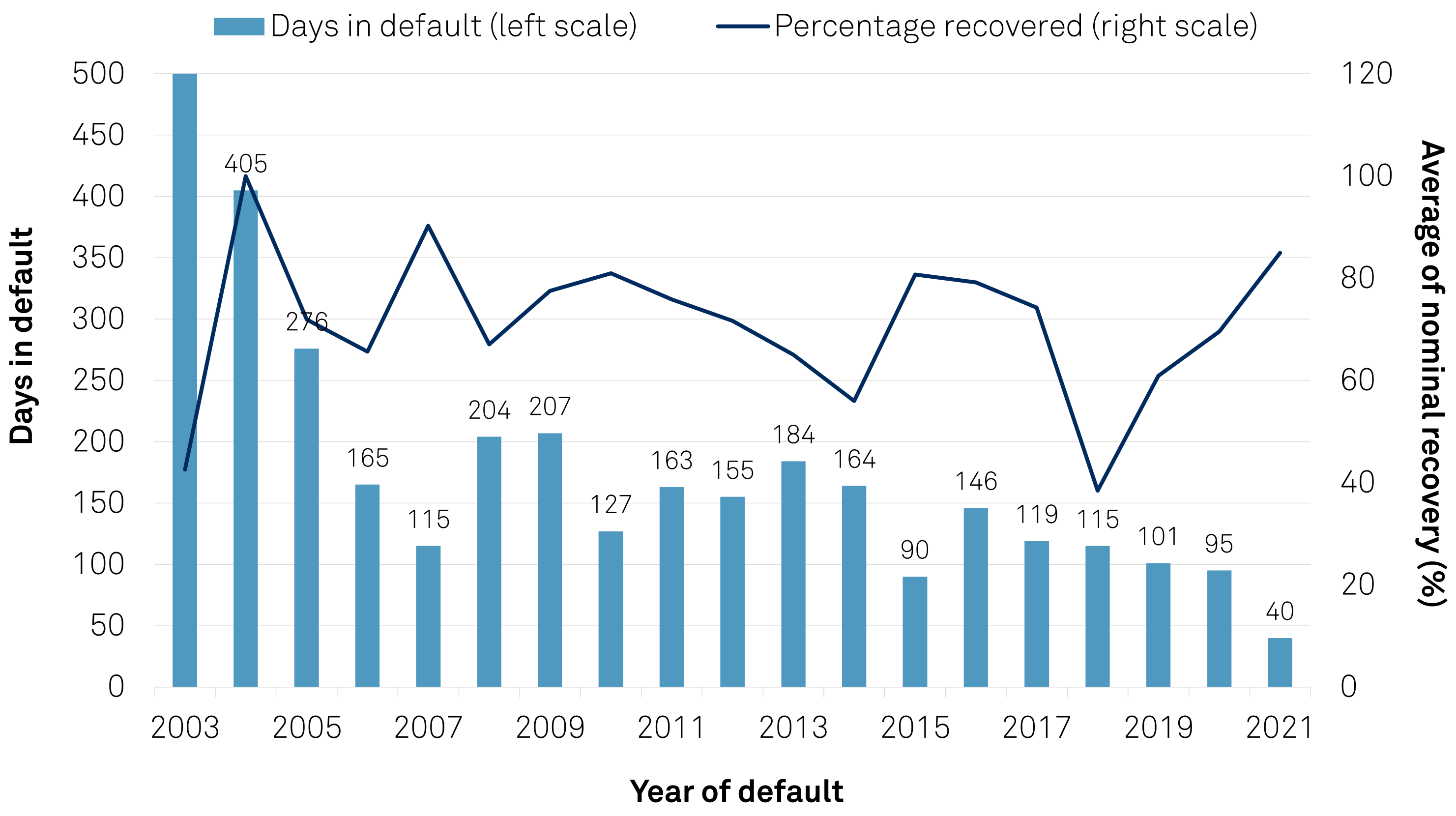


Source: S&P Global Ratings.

Days In Default | Recovery By Year Of Default

- There appears to be an inverse relationship between the number of days in default and the average recoveries. This is largely due to the lack of outright bankruptcies and liquidations in recent years, as most defaults have been debt exchanges and restructurings, which tend to occur more quickly.

Days In Default Versus Average Recoveries



Source: S&P Global Ratings.

Recovery, Standard Deviation | By Debt Type

2003-2021 Recovery Data Snapshot

Type of debt	No. of instruments	Increase in no. of instruments	Average recovery (%)	Median recovery (%)	Standard deviation (%)
First lien	1026	87	72.5%	80.4%	30.0%
Second lien	128	30	33.7%	17.5%	42.0%
Mezzanine	169	1	39.2%	1.5%	43.3%
Senior unsecured	150	47	51.8%	49.1%	36.5%
Subordinated	49	3	26.8%	0.0%	39.3%
Total	1522	168	61.9%	68.1%	37.4%

Source: S&P Global Ratings

- The average recovery for the first-lien debt has remained broadly flat at 72.5% since 2003.
- The median recovery for the first-lien debt (including super-priority debt) has also remained flat at 80%.
- For 2020-2021, the standard deviation was 36%, significantly higher than the historical average of 30%.
- The main driver was the broad distribution of first-lien debt recoveries following the restructurings in 2020, particularly in oil and gas.

Recovery By Debt Type | 2020-2021

- Unsecured debt has had similar recoveries to secured debt in the past two years.

Recoveries By Debt Type

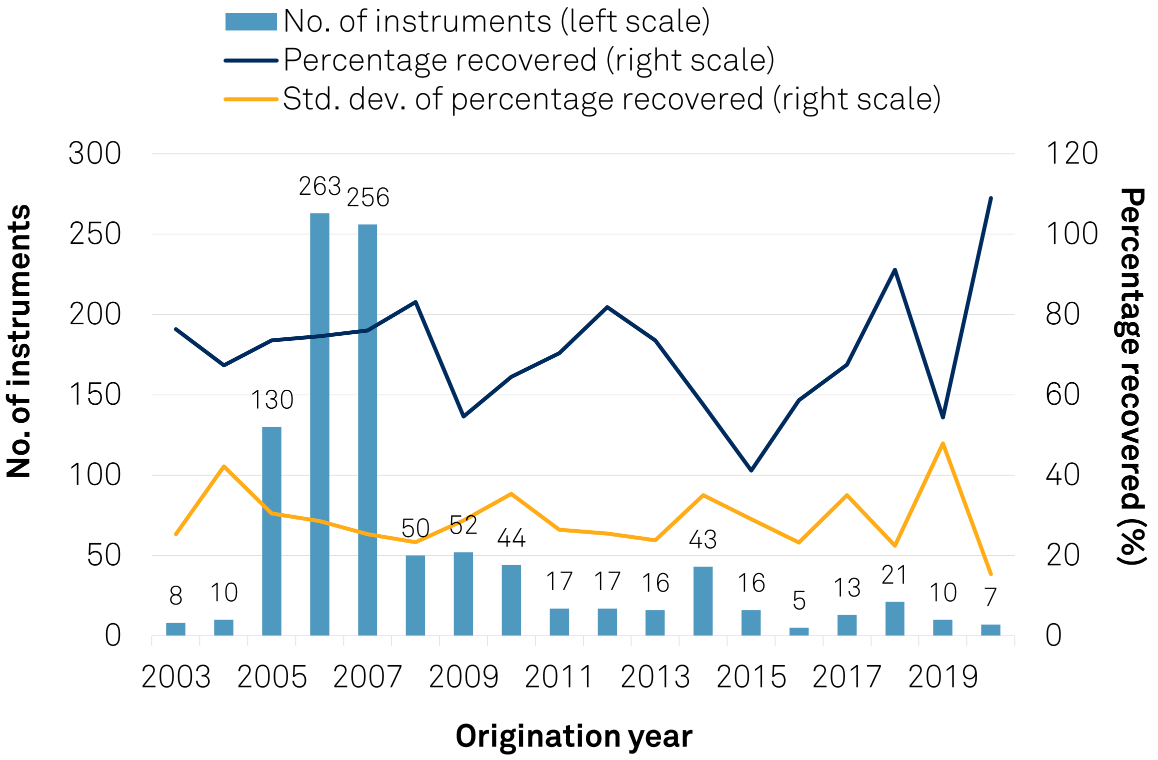
Type of debt	No. of instruments	Average recovery (% par)	Standard deviation (%)
Super senior RCF	7	95%	44%
RCF	22	73%	28%
First lien	77	72%	36%
Mezzanine	1	99%	-
Second lien	29	49%	39%
Senior unsecured	43	72%	34%
Subordinated unsecured	3	19%	34%

RCF– Revolving credit facility. Source: S&P Global Ratings.

Recovery By Year Of Default And Emergence Year

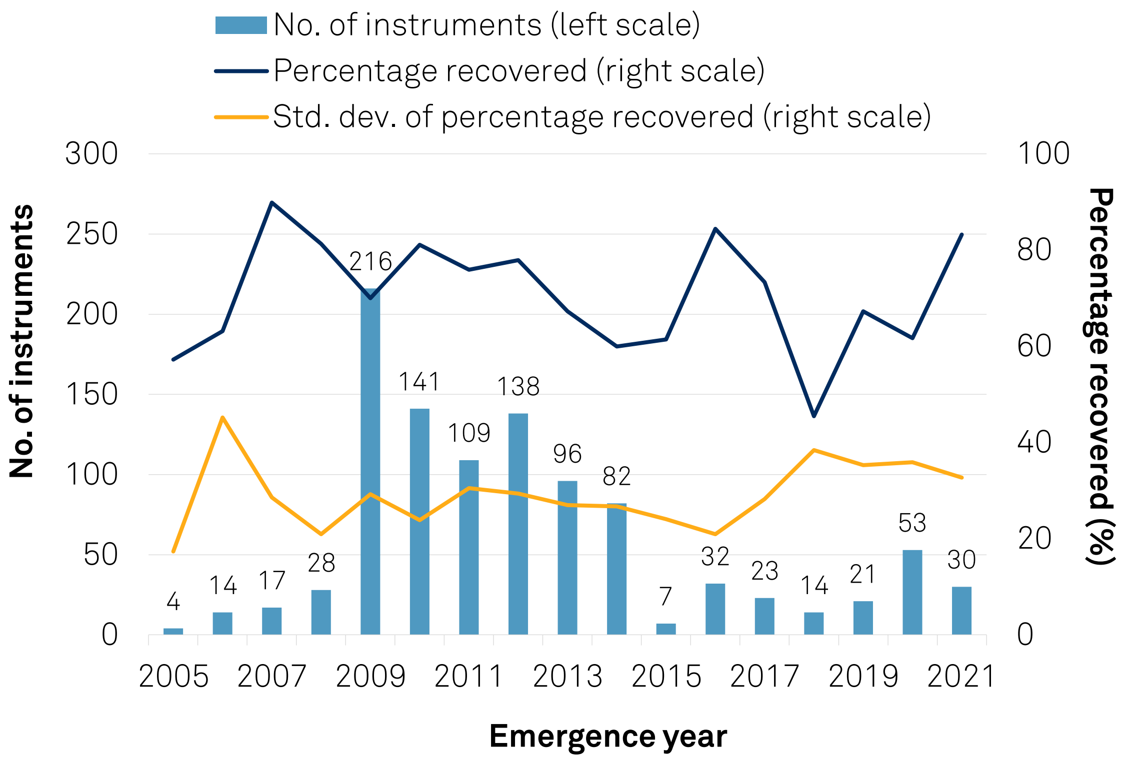
– Companies that have emerged from default in the past couple of years have higher recoveries, as they spent less time in default.

First-Lien Debt By Origination Year



Std. dev.--Standard deviation. Source: S&P Global Ratings.

First-Lien Debt By Emergence Year



Std. dev.--Standard deviation. Source: S&P Global Ratings.

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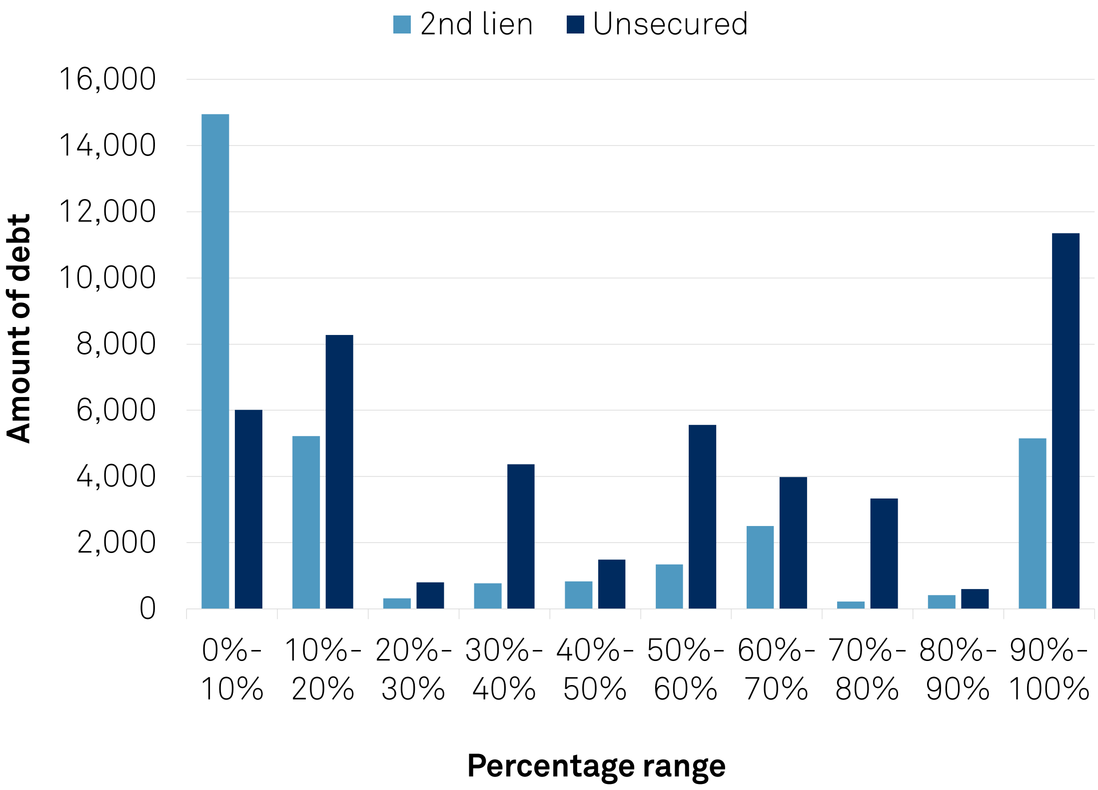
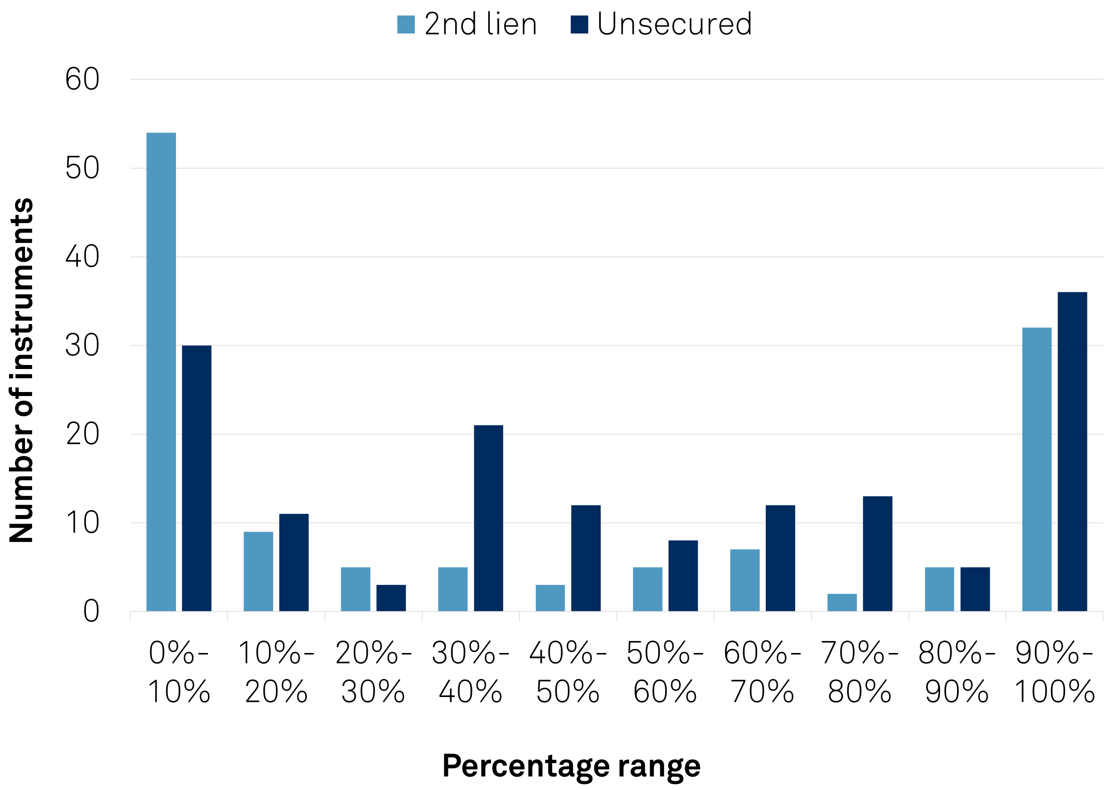
Second-Lien Versus Unsecured Recoveries

By Value



Source: S&P Global Ratings.

By Volume

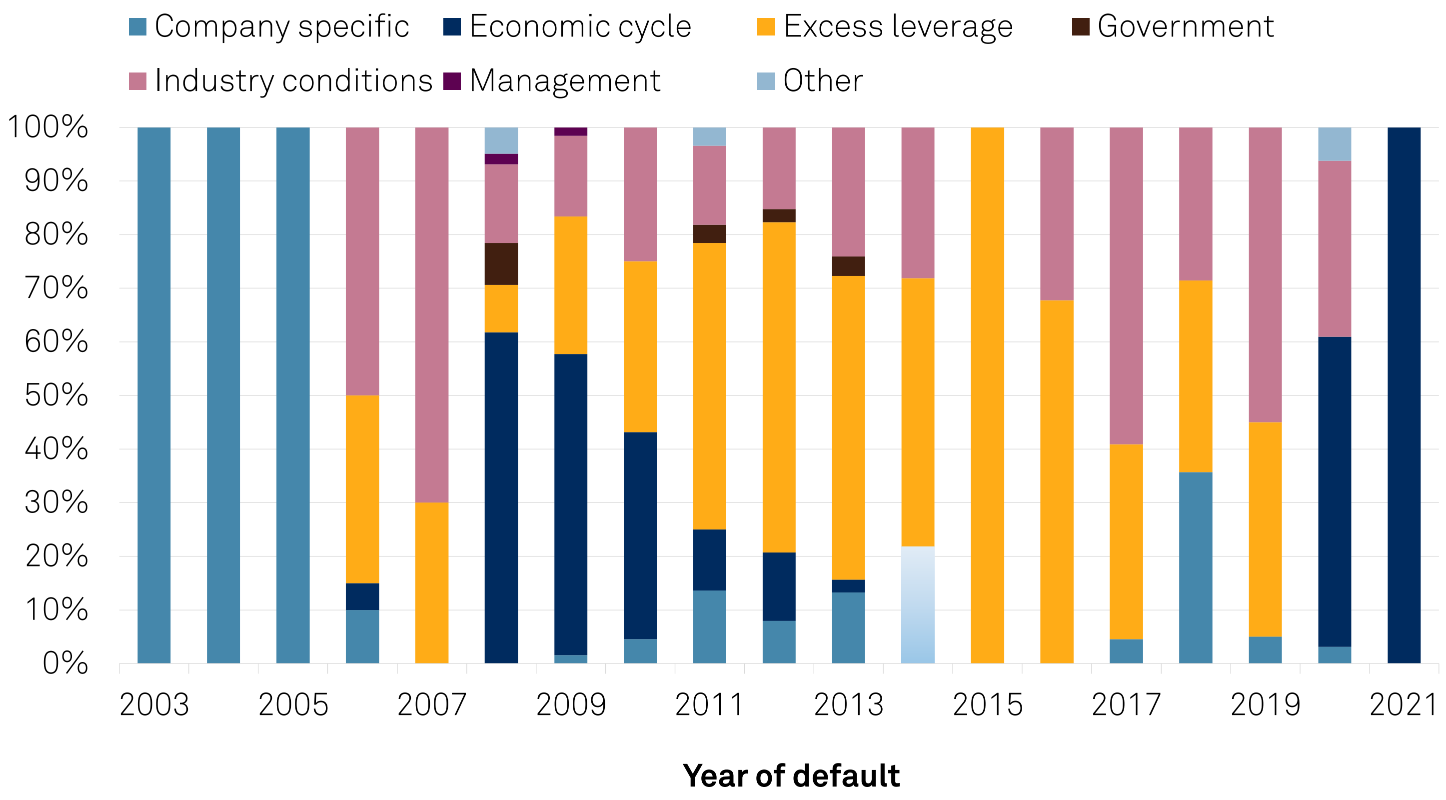


Source: S&P Global Ratings.

First-Lien Defaults | By Reason For Default

- The pandemic-driven economic downturn remains the major reason for defaults in 2020-2021.
- In previous downward cycles in 2008-2010, defaults were driven by the economic cycle and excess leverage.
- In truth, this is a difficult metric to unpick as there are often multiple reasons for a company default.

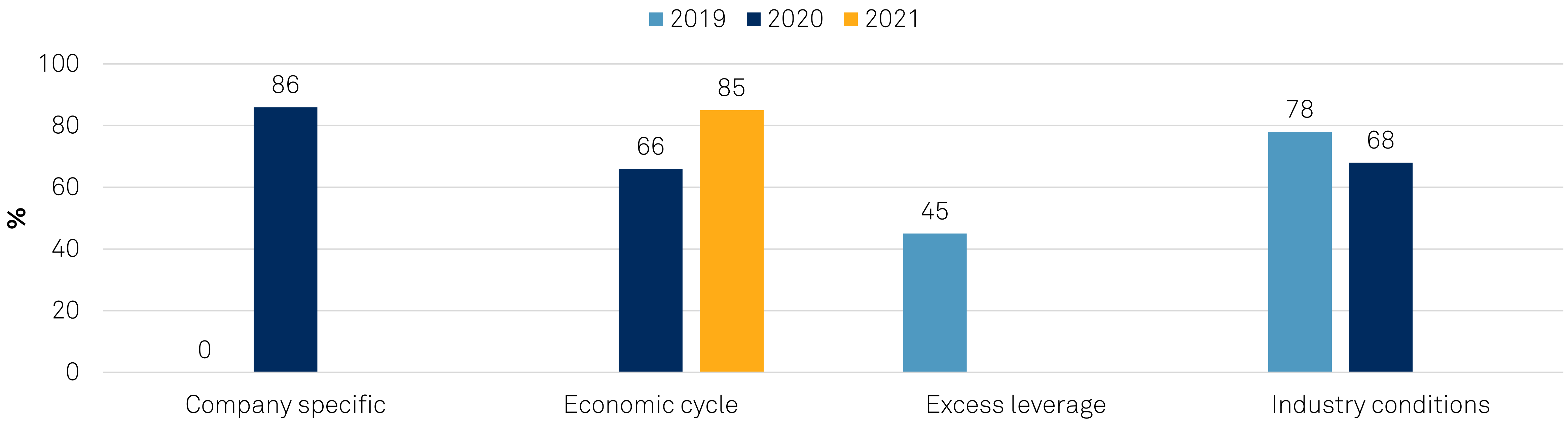
Recovery Percentage By Default Reason



Source: S&P Global Ratings

First-Lien Recovery | By Reason For Default

Average Percentage Recovered For First-Lien Debt - By Default Reason



Source: S&P Global Ratings.

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