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EUROPEAN HIGH YIELD 2025 YEAR IN REVIEW: HIGH VOLUME, HIGH FLEXIBILITY AS REFINANCINGS FUEL COVENANT CREEP AND NEW MONEY DEALS PUSH BOUNDARIES

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European High Yield 2025 Year in Review: High Volume, High Flexibility as Refinancings Fuel Covenant Creep and New Money Deals Push Boundaries

2025 was another high volume year for European high yield, with gross new issuance second only to 2021's bumper crop, according to LevFin Insights' EMEA HY Review 2025. For another year running, refinancings dominated the deal flow, but new money also featured, including a surge in June that brought a welcome rush of M&A, private-to-public, dividend, and debut deals.

Over the course of the year, European high yield bond issuers generally followed the 2024 playbook: repeat issuers used refinancings to roll forward their existing covenant packages and turn the dial further toward flexibility, while new money deals continued to push boundaries with permissive document features – in other words, for the most part, 2025 was yet another borrower's market when it comes to covenant terms. However, pockets of meaningful buyside pushback forced pre-pricing changes in several deals, while post-restructuring bonds showcased tightened terms and a host of anti-LMT provisions.

Below, we highlight some of the notable covenant themes in the European high yield market in 2025 and look ahead to 2026.

Repeat Issuers Continued to Chip Away at Covenant Protections

As expected, issuers continued to address near-term bond maturities and refinance other debt over the course of 2025. Following the now well-trodden path, most refinancing bonds this year were marketed with a covenant package that matched or (more likely) expanded the flexibility provided by the covenants in the issuer's existing bonds.

Typical covenant loosening in refinancing deals included:

- ***Increased value leakage capacity***

  Refinancing bonds issued this year boosted capacity for value leakage under the build-up basket by adding a starter amount, adding a zero floor in the Consolidated Net Income-based limb of the basket – including aggressive "quarterly floor" versions – and/or loosening conditions for use of the basket.

  In addition, a number of deals included backdated build-up baskets, rolling forward any existing capacity to provide day-one value leakage potential under the new bonds (in some cases, using start dates that match the start date under older bonds that have been, or will be, refinanced). As Altice International made painfully clear this year (following in Altice France's 2024 footsteps), backdated build-up baskets can be hazardous, particularly when combined with weak conditions for use of the basket. While there is some logic behind using a start date that is consistent with

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existing bonds, some users continue to use the older start date long after its other bonds have been repaid

Miller Homes and TeamSystem added an Available Amount basket – a loan-style concept that creates a second cumulative basket that sits alongside the more standard Consolidated Net Income-based build-up basket, while Lottomatica loosened its existing Available Amount basket by allowing it to build from permitted debt and removing the leverage ratio test that previously applied to Restricted Payments fully funded from the Available Amount.

Other issuers enhanced value leakage capacity by upsizing or adding Restricted Payments and Permitted Investments baskets and growers, loosening the tests under ratio-based carveouts, and/or adding “no worse” optionality for ratio-based provisions.

Some deals included new carveouts for uncapped Restricted Payments and/or Permitted Investments in connection with a “Permitted Change of Control” (often defined as a change of control where the portability provision is utilized or where a 101% offer has been made to holders) – an aggressive addition that could allow substantial value leakage in connection with a change of control. Last but not least, a lone deal (Picard) expanded the typical carveout for spin-offs of Unrestricted Subsidiaries to include spin-offs of “Affiliates” – a dangerous, one-word addition to a common provision that would let the company spin off any ***Restricted*** Subsidiary to shareholders, completely undermining the Restricted Payments covenant.

- ***Additional scope for EBITDA addbacks***

  Issuers refinancing bonds this year gave themselves more scope to bump up EBITDA figures, which in turn can provide more capacity under EBITDA-based growers and ratio-based provisions. New deals loosened or removed caps for EBITDA addbacks, more permitted adjustments (including addbacks for new or revised contracts, which allow issuers to pull in predicted future revenues on a run-rate basis), and longer look-forward periods – extending to infinity, in the Miller Homes deal, which gave the issuer permission to include future synergies it believes can be achieved at any point in the future.

- ***Enhanced calculation flexibility***

  Common tweaks for refinancing bonds provided additional calculation flexibility, including permission to cherry-pick the best test dates in order to maximize covenant capacity, as well as new carry-forward / carry-back provisions for annual baskets, making capacity estimates a moving target for investors. On the carry-forward front, special mention goes to Modulaire, who added a provision to its new senior secured notes due 2031 allowing it to carry forward unused capacity from baskets in another debt instrument altogether (namely, its senior secured notes due 2028).

  Some issuers dropped broad categories of debt from ratio calculations, such as (again) Miller Homes, who excluded all revolving debt from calculations under their new notes.

- ***Highest watermark provisions***

  Some issuers added a "highest watermark" provision to their covenant package. This upwards-only mechanic increases the fixed component of any basket with an EBITDA-based grower when the grower provides a higher amount of capacity – but it only goes one way, as there is no reduction of the fixed component if EBITDA subsequently declines.

- ***Increased debt and liens capacity***

  Refinancing deals regularly featured new and/or larger debt baskets, new grower limbs, and more generous thresholds for ratio-based incurrence. Some issuers boosted their potential for new debt by including a choice of ratio tests. Additionally, several refinancing bonds enhanced capacity for secured debt by way of additional Permitted Collateral Liens / Permitted Liens and/or looser ratio tests. Scope for structurally senior debt was also enhanced, with fewer restrictions on structurally senior non-guarantor debt.

  Looser tests for ratio debt also featured, as did new permission to choose between two tests for ratio debt incurrence. Some issuers also enhanced secured debt capacity by including permission to secure additional debt baskets and/or loosening tests for ratio-based liens.

- ***Portability provisions***

  Several issuers added portability provisions, often set in line with or above opening net leverage – and some of which could be used multiple times – allowing them to avoid a 101% put right that would normally result from a Change of Control subject to a leverage ratio test.

- ***Reduced requirements to offer disposal proceeds to bondholders***

  As covenants go, the Asset Sales covenant has long since been a fairly toothless one under most European high yield bonds. Disposals – including sales of collateral assets – are uncapped, and companies have substantial latitude for use of proceeds. Refinancing deals often pushed this flexibility even further, with new leverage-based step-downs featuring in several deals alongside increases in thresholds for offers to holders.

Of course, some refinancing deals served as exceptions proving the rule described above, with new covenants that were tighter, rather than looser, than the covenants under their older bonds. Rekeep sharply curtailed flexibility and capacity compared to its older notes to reassure investors with credit-related concerns. The new notes included a bespoke provision setting out a special regime for liens on receivables assets and mandatory redemption in the case of certain asset sales. In addition, debt baskets were downsized, the ratio test for secured debt was tightened, and a cap on super senior debt was added. Value leakage potential was also dialed back, as the test under the leverage-based Restricted Payments was tightened, a net leverage test was added for dividends and share repurchases made out of the general Restricted Payments basket and build-up basket (which also included the standard coverage test), and a J. Crew blocker was included.

Others balanced out some of the increased covenant flexibility in their new bonds with a handful of tightened terms here and there, such as Ontex, who decreased the size of its Credit Facilities basket and tightened the ratio test under the leverage-based Restricted Payments carveout (although the test was still set outside opening leverage), and Eroski, who limited test-date flexibility and removed permission to ignore fixed basket amounts when calculating capacity under ratio-based provisions. Ardagh Metal Packaging also dialed back some terms, making payment subordination and lien subordination supermajority consent items, adding a J. Crew blocker, limiting investments capacity in Unrestricted Subsidiaries, reducing the 200% equity-credit debt basket to a more standard 100%, and adding a 25% of EBITDA cap on certain cost savings and synergies.

For the most part, however, refinancing deals in 2025 followed the 2024 playbook, with incremental expansion of covenant flexibility.

Permissive Terms Proliferated in New Money Deals

The new money deals that came to market in 2025 tended to include fairly aggressive covenant terms (particularly sponsor-backed deals; corporate new money deals were, on the whole, more restrained). Positively, investor pushback saw off some of the excesses – but plenty of flexible provisions remained. To list but a few examples:

- Opella brought a €7.45 billion equivalent cross-border loan and bond financing to market to back CD&R's acquisition of a 50% stake in the consumer healthcare business, pricing €1.25 billion of 5.5% Senior Secured Notes due 2032 and $1.1 billion of 6.5% Senior Secured Notes due 2032. Like many an LBO bond before it, Opella's covenant package was punchy, including a highest watermark provision, overbroad exclusions from ratio calculations, multiple "no worse" ratio tests and/or flexibility to choose between ratio tests, a loose 1.75x coverage test, enormous debt capacity (including 200% Pick Your Poison and equity-credit debt baskets), oversized capacity to secure debt on non-collateral assets provision, and a permissive Asset Sales covenant. Investors had some success with pushback, with the company striking the highest watermark provision from the bonds but leaving the remainder of the aggressive covenants untouched.

- Debut issuer Urbaser priced €800 million of Senior Secured Notes due 2032 alongside a €1.5 million term loan B, with proceeds funding a €1 billion dividend to sponsor Platinum as well as refinancing existing term loan debt. The covenant package was aggressive even by sponsor standards, including enormous debt capacity – thanks in no small part to a Pick Your Poison basket that builds from all Restricted Payments capacity, including the Available Amount basket, which itself builds, in an absurd circularity, from all permitted debt (as well as from Permitted Investments capacity, an atypical feature for a Pick Your Poison basket). Calculation flexibility also pushed the boundaries, including a tariffs adjustment for EBITDA (discussed in Market Alert: Urbaser Features Big Beautiful Adjustments for Tariffs) that was fortunately removed prior to pricing. Hot on the heels of that June offering, the company returned to the market in August to fund a further distribution with the proceeds of similarly flexible PIK toggle notes. However, the company was forced to make several documentation changes to those notes before pricing, including removal of the Pick Your

Poison debt basket, “no worse” ratio optionality, the leverage-based Restricted Payments carveout for non-opco group members, and the portability provision, addition of an anti-short circuit provision, expansion of the J. Crew blocker to include designation of Unrestricted Subsidiaries, downsizing of the Unrestricted Subsidiary investments basket, and deletion of the backdated limb of the Restricted Payments build-up basket.

- Froneri priced €600 million of 4.75% Senior Secured Notes due 2032 and $580 million of 6% Senior Secured Notes due 2032 in another debut offering. Along with TLB drawings and cash on the balance sheet, the proceeds of the new notes were used to fund a €4.3 billion shareholder distribution. The notes included wildly oversized day-one capacity, an Available Amount “double builder” basket, backdating of multiple baskets to January 2020 (the start date of the company’s senior facilities agreement), and overbroad capacity for effectively senior and structurally senior debt. Additionally, a portability provision was accompanied by permission to incur any debt or pay any dividends “in connection” with a Change of Control where the portability provision is used.

- Boots issued bonds backing Sycamore Partners’ acquisition, pricing €650 million of 5.375% Senior Secured Notes due 2032 and £375 million of 7.375% Senior Secured Notes due 2032 (a dollar-denominated tranche was dropped during syndication). A candidate for the “worst European high yield bond deal of the year” award, the covenant package included day-one debt capacity that was more than double the L6M average for sponsor deals, while day-one investments capacity was nearly triple. Ratio calculations can ignore all other same-day transactions (which could allow the company to exclude other ratio-based incurrences as well as fixed amounts). The build-up basket can be used to make investments with no ratio conditionality (a flexibility used to dramatic effect by Altice France and Altice International), investments in part-owned Unrestricted Subsidiaries or joint ventures (even 99%-owned entities) are uncapped, and non-guarantors can invest amounts equal to their cash flow in entities outside the restricted group. The Asset Sales covenant exempts disposals of assets generating up to 70% of EBITDA annually, and the covenant essentially falls away altogether if the company can meet a 2.6x net first lien leverage ratio test – requiring less than half a turn of deleveraging from opening. The portability test is set 0.35x above opening net leverage, and if amounts are injected to meet the test, they could build Restricted Payments capacity and be round tripped back to the acquirer. Additionally, a 66.67% consent threshold for release of all or substantially all collateral or material adverse changes to lien priority could facilitate liability management maneuvers.

- Kelvion priced €750 million of Senior Secured Floating Rate Notes due 2032 to fund Apollo’s buyout. The preliminary covenant package included a parade of horribles, including an overreaching loan-style “snooze / drag” feature that was scaled back slightly after investor pushback but nonetheless remains highly off-market. The original terms also permitted uncapped structurally senior debt of non-guarantor Restricted Subsidiaries; this too was seen off by investors, but general purpose debt capacity (structurally senior or otherwise) under fixed baskets was still nearly 3x opening LTM EBITDA, with substantial ratio-based headroom on top of this over-generous amount. The company also added a ratio condition for use of the build-up basket, but only for Restricted Payments other than investments – a crucial omission that could permit Patrick Drahi-style maneuvers. Other documentation changes included the addition of a J. Crew blocker and a Chewy blocker (the latter of which was weakened by a "sole purpose" limitation), insertion of a 25% cap and 24-month look forward period for certain EBITDA addbacks, and a tweak to the "highest watermark" provision to limit it to increases in EBITDA as the result of permitted acquisitions or investments. Despite these improvements, the covenants still left the company with plenty of wiggle room, including "no worse" ratio tests, an expansive Available Amount basket that builds from permitted debt, substantial value leakage capacity, and significant calculation flexibility.

- Debut issuer Biffa replaced bank debt and private placement notes with new Senior Secured Notes due 2031 with a very flexible covenant package. Yet again, there was permission to use the build-up basket for investments without meeting a ratio test, creating Altice-style risk. Further, an Available Amount basket provided a second builder – again, with no conditions if used for investments – with capacity building not only from all permitted debt but also from all Restricted Payments and Permitted Investments capacity (turning specific-purpose capacity into general purpose). The notes also included a Pick Your Poison debt basket that builds from all Restricted Payments capacity, including the Available Amount basket, mirroring the absurd circularity seen in Urbaser's notes.

Post-LMT Covenants Aimed to Close the Barn Door

Not surprisingly, bonds issued in a restructuring context this year had noticeably tighter covenants than other primary deals.

In the most comprehensive example, the new second lien notes issued to holders of Ardagh's senior secured notes (issued as part of the company's consensual restructuring) placed a number of controls on value leakage: there was no build-up basket, investments in Unrestricted Subsidiaries were flatly prohibited, and asset transfers to non-guarantor Restricted Subsidiaries required investments capacity. Day-one debt and liens capacity was modest, the Asset Sales covenant was more restrictive than most (including special provisions for the sale of AMPSA equity), and supermajority consent requirements were enhanced. In addition, the notes included a host of blockers and other provisions intended to minimize the risk of future liability management transactions, as we described in our Case Study – Ardagh's Extensive LMT Blockers Show How to Clamp Down on Documentation Risk. Alongside a J. Crew blocker that applies to all material assets, there were provisions aimed at thwarting double dips, payment and lien subordination, Chewy-style guarantee releases, vote-rigging, non-pro rata treatment of holders, and release of credit support.

In addition, an omnibus anti-LMT covenant prohibited virtually any activity undertaken in connection with a "Liability Management Exercise" – a broadly defined term that captures any restructuring, refinancing, exchange, repurchase, or defeasance of the new notes issued in Ardagh's restructuring with other debt that is temporally, contractually, or structurally senior, including in right of payment, lien priority or additional collateral, and debt issued at non-guarantor affiliates (which would include Unrestricted Subsidiaries).

As we regularly note, the devil is in the detail when it comes to the effectiveness of these types of provisions, and no blocker (even a well-drafted one) is foolproof. Nonetheless, they are important enhancements to consider – not only as reactive measures in the post-restructuring context, but also as proactive protective features in new issues.

Look Ahead to 2026

According to LevFin Insight's EMEA HY Outlook 2026, "refinancing will likely still dominate" high yield supply, although "the 2027/2028 maturity wall is smaller than normal," while hope springs eternal for a pick-up in M&A activity and LBOs to drive new money volume.

This points toward more of the same on the covenant front, with repeat issuers continuing their "death by a thousand cuts" approach to ever-increasing flexibility, while terms in sponsor-backed new money deals push boundaries ever further. However, as we saw this year, pushback is possible, and (as always) we will encourage investors to challenge provisions that overreach.

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