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EUROPEAN LOANS MARCH WRAP-UP:

With Market Volatility and Low Volumes, Tolerance for Flexibility Remains for a Favoured Few with Overall Tightening

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As LevFin Insights set out in their [EMEA Secondary Monthly report](#), with attacks in the Middle East persisting and the Strait of Hormuz remaining closed, the loan market continued to see an extremely weak, almost suspended performance in March. The JP Morgan [Leveraged Loan Index](#) recorded a 194bps drop in average price to 94.41 over the quarter, with a significant 59bps of the move occurring in March.

As headlined by our sister company [LevFin Insights](#), numbers for European leveraged loan issuance in Q1 2026 are the highest since the first quarter of last year (with €71.5bn of paper from 81 primary deals), however, this masks a highly volatile quarter due to the outbreak of war in the Middle East at the end of February, as the JP Morgan European Leveraged Loan Index returned negative 0.95% - the worst first quarter since 2020, and new issue volumes have crumbled - March's €5.28bn issuance was the smallest month since April 2025 when Trump's tariff announcements upended global markets.

Refinancings and add-ons dominated the stagnant market, with one add-on to an existing facility to finance the acquisition of a majority stake in the relevant business – otherwise, and unsurprisingly, due to current hostilities in the Middle East, the markets have been deprived of meaningful LBO activity in the European loans market.

During the month, Covenant Review published reports on the following deals: [LRQA](#), [TSG](#), [PHM Group](#), [European Camping Group](#), [Ramudden](#), [Rodenstock](#), [All3Media](#), [Exact](#), [Kantar](#), [OCS Group](#), [Arxada](#), [eir](#) and [Idemia](#).

Documentation Scores and Covenant Trends

The Key Covenant Benchmarks table (set out below) shows a continued overall reduction in metrics, indicative of a direction of travel towards improved covenants. In particular, we saw significant reductions in March in minimum day-one capped basket capacity for all three of general purpose debt, general restricted payment and unrestricted subsidiary investment capacity (over 2x reduction in capacity in aggregate across these three baskets), almost 50% decrease in the number of deals with uncapped EBITDA adjustments (the absence of such is a good indicator of better covenant quality), decrease in percentage of deals with asset sale sweep step downs, reduction in MFN carve outs, in particular MFN maturity carve outs, and fewer deals with inside maturity baskets. These reductions in key benchmarks indicate overall tightening of covenants and reduction of potential leakage, hence a positive although measured trend towards stronger covenants. However, as set out below, stronger credits get better terms and sponsor precedents generally continue to drive looser terms (especially in a refinancing and add-on driven phase). As ever, investor pushback helps.

With respect to documentation scores, our [Monthly Documentation Score Sheet](#) has introduced Statistics by Covenant Score and their flex, focusing on the prevalence of the most permissive provisions in the market, and the extent to which such terms are flexed. Year-to-date, the introduction of a J. Crew Blocker has been the most common ask (27% of deals), thereafter, a cap on EBITDA adjustments and the removal of a high watermark provision (both at 19%), followed by flex of Pick-Your-Poison provisions (7%). With market volatility subsisting, documentation scores continued to see a slight but steady improvement in the overall Composite Score across the European market for the successive third month, from 3.79 on a rolling three-month basis ending February 2026 to 3.76 as of the end of March. Composite Scores are derived from six subscores: Collateral Protection, Default Protection, Lenders' Repricing Optionality, Liquidity Protection, Reporting Protection, and Value Leakage. All of these subscores showed a tightening of terms (with Default Protection, Value Leakage and Lenders Repricing Optionality showing the highest number of improvement of terms), with the Liquidity Protection subscore remaining unchanged at 3.46 and Collateral

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Protection showing a minor worsening of terms (from 3.84 to 3.85).

More Frequent Improvements Achieved via Flex but Often Cosmetic

Covenant Review tracks all flex across all European loans since 2017 at every stage of the syndication. Looking across March, successful investor flex remained a continued trend and an extensive list of flex points were secured (as we are seeing a gradual trend towards tightening of covenant terms), including the below points:

- Debt:
 - o “Pick your Poison” flexibility (dividends-to-debt toggles) removed
 - o Non obligor debt cap introduced
- Restricted payments:
 - o Annual general restricted payments amended to a life of the facilities general basket
 - o CNI starter basket to be subject to a no default condition and ratio test (from being entirely available without ratio test or other conditionality for dividends)
 - o A ratio test added to the available amount basket
 - o Subordinated debt prepayment basket to be subject to no default condition
- Asset sales:
 - o Asset sales covenants being tightened (in terms of terms applicable to excess proceeds offer or pro rata offer to TLB lenders)
- Blockers:
 - o Strengthening of deficient J. Crew blocker provisions
 - o Strengthening of deficient Serta blocker provisions
- EBITDA add-backs and adjustments:
 - o EBITDA adjustments cap added to be applicable to “specified transactions” (in addition to group initiatives, acquisitions, disposals)
- Ratio calculations:
 - o Flexibility to exclude working capital debt from ratio testing removed
- Basket flexibility:
 - o Highest watermark provisions removed
- Additional debt incurrence:
 - o Inside maturity basket applying on an aggregate basis (as opposed to per facility basis), or halved
 - o The addition of a no default conditionality to the additional facility incurrence provisions
- Pricing:
 - o Voluntary compliance test flexibility applicable to the margin ratchet removed
- Transfers:
 - o Pre-notification requirements applicable to transfers removed

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- Company consent not to be unreasonably withheld or delayed added
- Fall away added for restriction on transfers to loan to own investors while a material EoD is continuing
- Concentration limit removed
- Bilateral buybacks before solicitation / open order process removed
- Minimum transfer amounts reduced

Although the above list is lengthy (and non-exhaustive), only a couple of credits conceded to documentation points that would materially change covenant capacity such as Pick-Your-Poison or high watermark flexibility. The overriding flex trends focused on cosmetic improvements (terminology, limited caps, and narrower definitions) while preserving the underlying economics of flexibility. Last but not least, March saw sustained focus on transferability, including reduced minimum holds, removed concentration limits, removal of pre-notification requirements, and the relevance of secondary-market frictions.

Event-Driven Default Relief Becoming a Structural Feature

A notable theme in March is the continued normalisation of event-driven default relief. What began as pandemic-specific accommodations has evolved into standing provisions that extend grace periods, suspend reporting obligations, carve out broad categories of “shock events” from “Material Adverse Effect” definitions, or exclude entire classes of breaches from constituting defaults. In more aggressive (but not yet cleared) formulations, all grace periods may be tolled during wide-ranging external disruptions, effectively freezing default escalation at precisely the point when credit risk may be rising. These provisions materially constrain enforcement optionality, delay default recognition, and shift negotiating leverage toward borrowers in stressed environments. We refer readers to our special report published in March on this topic ([Out of Control? Event-Driven Default Relief Under European Leveraged Loans](#)).

The Permitted Business Line Distribution Carve-Out From Across the Atlantic – a Timely Halted New PetSmart / Chewy Maneuver

We have been monitoring, via our sister company LevFin Insights, a newly emerged carve-out in the Sealed Air loan agreements and bonds which are being issued in the US. Per LevFin Insights, the carve-out was ultimately flexed out.

An egregious restricted payments carveout that would have allowed the borrower to spin off a business line subject to an egregious test was successfully removed ([Sealed Air details changes to documentation ahead of pricing today of take-private deal - Update](#)) from the NY law governed credit facilities and their secured and unsecured notes, entered into in connection with the LBO by Clayton, Dubilier & Rice following this issue being raised in a market alert by our US team ([Market Alert: CD&R Relents on the Business Line Spin-Off Carveout](#)) at the end of the month. The carve-out would have allowed the borrower to spin off any business line that is less than 50% of EBITDA if it can meet a 5.5x net first lien leverage ratio or “no worse” test pro forma, which could greatly enhance the borrower’s ability to divert valuable assets to the sponsor. Selling off a negative EBITDA business will always result in the leverage ratio being “no worse” pro forma for the spin-off without regard to any lost asset value that underpins ultimate recovery rates.

For example, this provision could have allowed Sealed Air to pull a PetSmart / Chewy maneuver, allowing any negative EBITDA or pre-revenue business to be spun off to the sponsor at any time, regardless of the growth potential or dollar value of the business line.

Due to the US / Europe markets convergence, and cross-pollination of legal concepts in Europe from the US institutional loan market, loosening traditional restrictions, investors across the pond should also reject similar provisions.

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Permissive Terms Remain Open for Favoured Names

Stronger credits obtain better terms and sponsor precedents dictate looser terms in particular in the current refinancing and add-on driven market. EBITDA adjustments and ratio mechanics remain a central pressure point.

EBITDA adjustments

March documentation continued to feature highly permissive EBITDA adjustment regimes, with sponsors continuing to attempt uncapped or quasi-uncapped pro forma adjustments in a few popular refinancing paper. While nominal 25% caps on synergies (on a post-adjustment basis) remain common, these are frequently diluted by broad carve-outs for “specified transactions,” group initiatives, or adjustments “consistent with” diligence or base-case models. Separately, drafting of horizon periods frequently ties the start of that period to flexible or subjective reference points (such as a determination date or applicable test date), weakening the intended temporal constraint.

We refer readers to our Worst, Better Best series articles published in March on the horizon period applicable to EBITDA adjustments ([Worst, Better, Best: The Horizon Period for Projected Synergies, in Respect of Which EBITDA may be Adjusted](#)) and scope of synergies ([Worst, Better, Best: EBITDA Adjustments - The Scope of Projected Synergies](#)) for a greater understanding on how these drafting weaknesses may be addressed.

Ratio calculations

Equally, for a favoured few, ratio calculations remain softened by exclusions of working capital debt (except in one credit, where this has been flexed), revolving drawings, capital leases or IFRS-related liabilities, creating recurring debt / EBITDA mismatches. In some cases, leverage ratios labelled as “net total” or “net secured” are effectively tested only when debt is secured on transaction collateral, leaving unsecured or non-collateral debt largely uncounted.

CR Key Market Benchmarks

Covenant Review's TrendLines set out key new-issue covenant benchmarks in Europe on a month-on-month basis. The following data is based on the last three months.

Loan Covenant Trend Summary Table										
As of: 31/03/2026	2018	2019	2020	2021	2022	2023	2024	2025	2026 Q1	Increase / Decrease
Credit Stats										
Percentage with Uncapped EBITDA Adjustments	21%	22%	21%	28%	22%	19%	15%	15%	8%	↓
Accordion Free-and-Clear Tranche										
Avg. Hard Cap/Pro Forma Adj EBITDA (M&A-related)	0.77x	0.78x	0.88x	0.95x	0.86x	0.66x	0.83x	0.89x	0.78x	↓
Percentage with Hard Cap > 0.9x PF Adj. EBITDA	46%	38%	57%	75%	50%	33%	49%	58%	32%	↓
Percentage with Growers	83%	81%	100%	98%	97%	92%	97%	97%	100%	↑
Percentage with Inside Maturity	17%	25%	48%	60%	56%	38%	54%	61%	56%	↓
MFN										
Percentage with MFN Sunset	87%	85%	95%	98%	100%	83%	79%	66%	48%	↓
Count with MFN Sunset	68	62	40	86	32	40	70	67	12	-
Percentage with MFN Carveouts	37%	52%	86%	88%	94%	71%	78%	66%	48%	↓

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Fixed Amount Exclusion	5%	5%	12%	51%	56%	23%	43%	37%	32%	↓
Maturity	24%	45%	69%	73%	78%	54%	69%	54%	36%	↓
Acquisition	6%	10%	38%	53%	59%	31%	43%	29%	20%	↓
Mandatory Prepayments										
Percentage with Asset Sale Sweep Step-downs	24%	38%	64%	80%	81%	58%	75%	78%	72%	↓
Minimum Day-One Capped Basket Capacity										
General Purpose Debt	1.04x	1.17x	1.62x	1.99x	2.44x	1.62x	2.07x	3.14x	2.05x	↓
General Restricted Payments	0.25x	0.31x	0.39x	0.55x	0.70x	0.64x	0.57x	0.90x	0.64x	↓
Unrestricted Subsidiary Investments Capacity	0.73x	0.99x	1.07x	1.38x	1.64x	1.34x	1.44x	1.79x	1.44x	↓

Disclosures

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