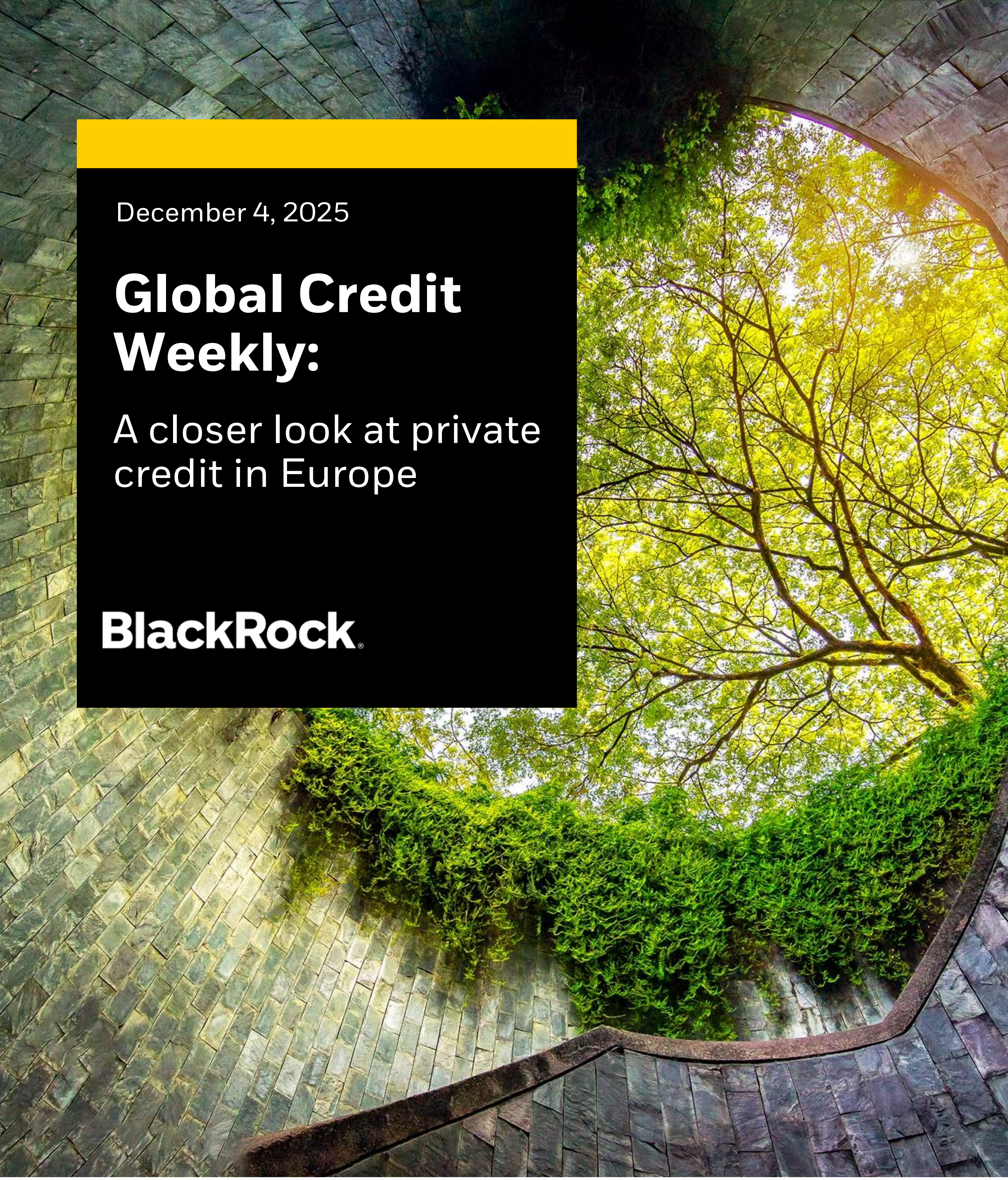

December 4, 2025

Global Credit Weekly:

A closer look at private credit in Europe

BlackRock

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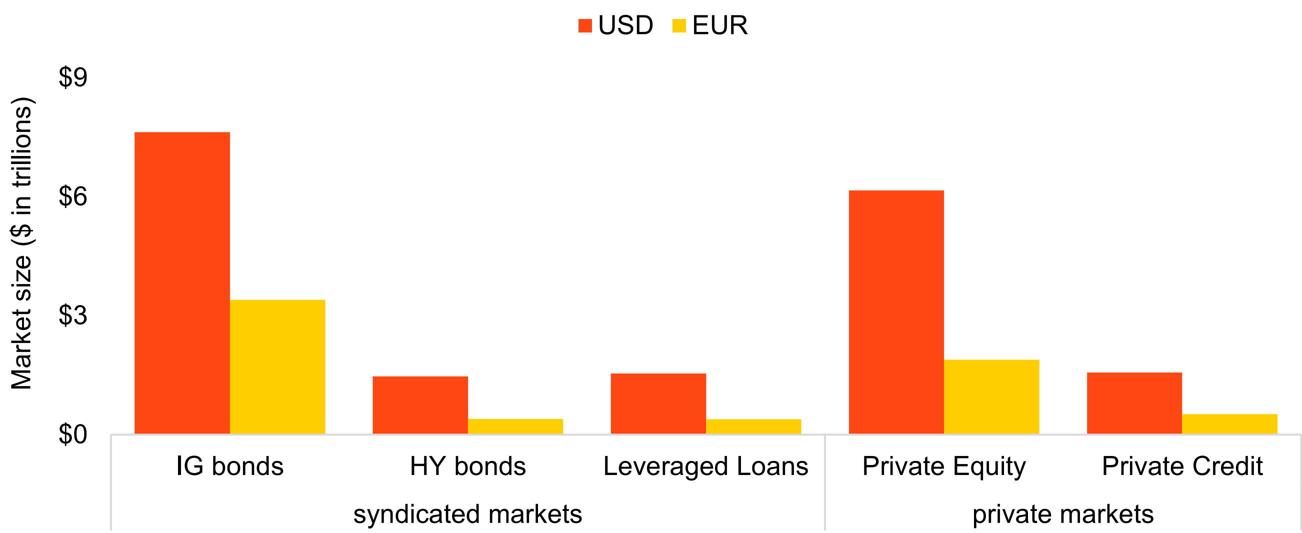
Key takeaways

- Two weeks ago, we explored fundamental trends in the U.S. private credit market. The takeaway was that 3Q2025 data highlighted incremental improvement across a range of *aggregate* metrics, including covenant defaults and interest coverage ratios. That said, under the surface, dispersion was evident across various dimensions, including borrower size, sector, and vintage.
- In this *Global Credit Weekly*, we undertake a similar analysis of the European private credit market and find that many of the high-level conclusions are consistent with its U.S. peer. We observe incremental improvement in aggregate interest coverage and covenant default metrics, while also noting significant dispersion (in EBITDA growth, as one example) across the size and sector dimensions. Instances of covenant 'holidays' and 'bad PIK' – which have increased modestly in recent quarters, but remain largely contained – warrant monitoring, in our view, and underscore the importance of manager underwriting experience and restructuring expertise.
- The diverse country mix of the European private credit market is unique and highlights the value of regional expertise and the need for a local presence in sourcing and underwriting. At the same time, a broad geographic footprint can help allocators deploy capital tactically, as country-specific tailwinds change over time.
- The European economy is more reliant upon bank lending relative to the U.S., which has large and well-developed syndicated and private financing markets (Exhibit 1). As we have outlined previously, we see scope for the financing mix in the Euro Area to become more diversified over time, which suggests additional room for growth in private markets.

Exhibit 1: Syndicated and private financing markets in Europe have room to grow, in our view
Market sizing of select financing markets in North America and Europe



Source: Bloomberg, Cliffwater, PitchBook LCD, Morningstar, Preqin, Blackrock. IG, HY and Loans capture index-eligible debt only. Private equity figures reflect North American and Europe AUM (inclusive of dry powder) as of March 2025 (most recent), per Preqin. Private credit figures reflect North American and Europe AUM (inclusive of dry powder) as of March 2025 (most recent), per Preqin, and North American BDC AUM per Cliffwater. USD and EUR IG and HY reflect par amount outstanding for the Bloomberg USD and Pan-Euro IG and HY Corporate indices, as of December 3, 2025. USD and EUR leveraged loans reflect par amount outstanding for the Morningstar indices, as of December 3, 2025.

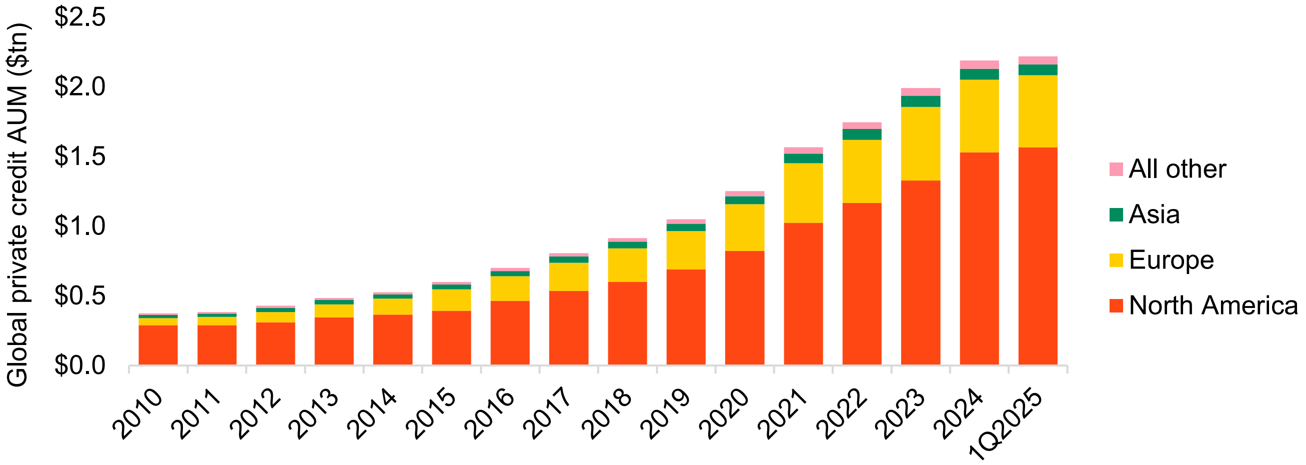
A focus on fundamentals: European private credit

Two weeks ago, we explored fundamental trends in the U.S. private credit market. The takeaway was that 3Q2025 data highlighted incremental improvement across a range of *aggregate* metrics, including covenant defaults and interest coverage ratios. That said, under the surface, dispersion remains evident across various dimensions, including borrower size, sector, and vintage year. In this *Global Credit Weekly*, we undertake a similar analysis of the European private credit market and find that many of the high-level conclusions are consistent with its U.S. peer.

Framing the market

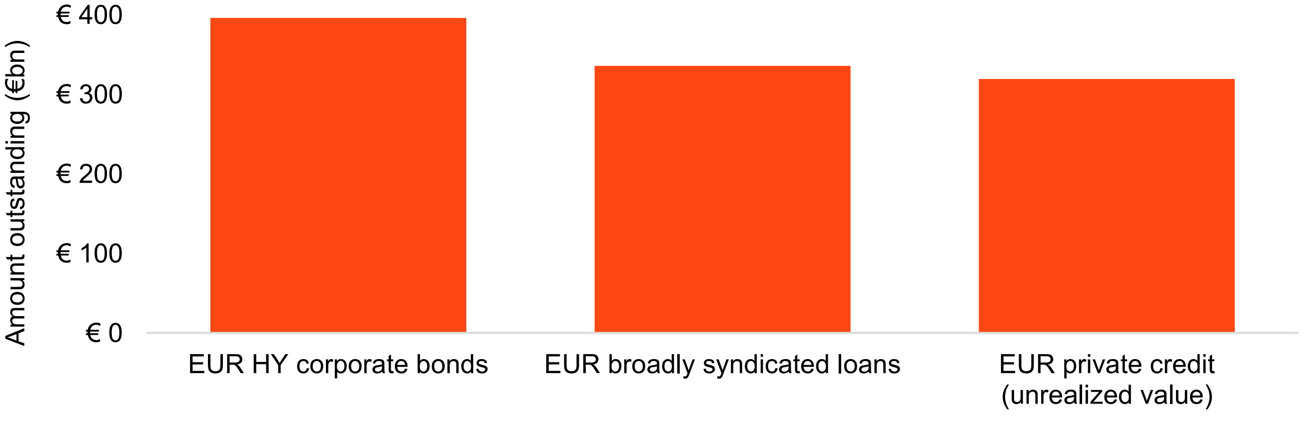
We begin by framing European private credit markets. As of 1Q2025 (most recent available), Europe's private credit assets under management (AUM; including both unrealized value and dry powder) totaled more than $500 billion. This represents 23% of global private credit AUM, making it the second largest regional market behind North America (Exhibit 2). When focusing solely on unrealized value (i.e., capital already invested), European private credit is comparable in size to the region's public credit markets (Exhibit 3).

Exhibit 2: Europe represents roughly 23% of total private credit AUM
Global private credit assets under management (including unrealized value and dry powder), by region



Source: Preqin, Cliffwater, BlackRock. As of March 31, 2025 (most recent available for Preqin). North America includes BDC AUM from the Cliffwater Direct Lending Index. All other includes Latin America / Caribbean, Africa, Australia / New Zealand, Middle East & Israel, and Diversified / Multi-Regional.

Exhibit 3: European high yield bonds, syndicated loans, and private credit are similar in size
Relative size of select European financing markets, including HY corporate bonds, broadly syndicated leveraged loans, and private credit



Source: Preqin, Bloomberg, Pitchbook LCD, Morningstar, BlackRock. European private credit AUM includes only unrealized value (and excludes dry powder) and is as of 1Q2025 (most recent available). EUR broadly syndicated leveraged loans is based on par amount outstanding for the Morningstar European Leveraged Loan Index and is as of December 2, 2025. EUR High Yield corporate bonds is based on the par amount outstanding of the Bloomberg Pan-European High Yield Index and is as of December 2, 2025.

While we discuss European private credit at the regional level, it is important to note the diverse country mix of the asset class. Exhibit 4 highlights the variation in direct lending activity across countries, by year.

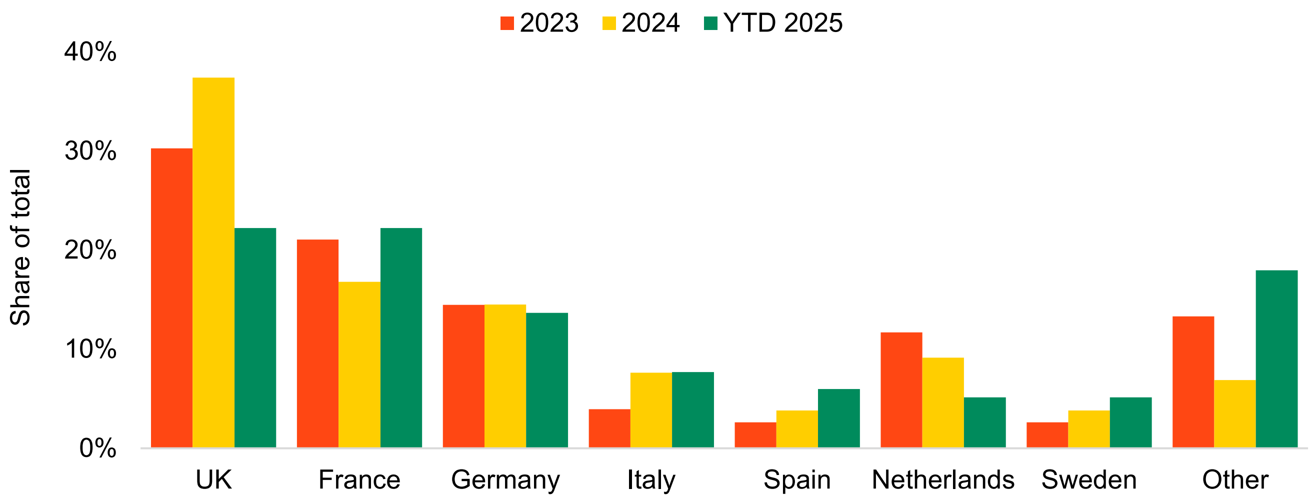
The heterogeneity of these markets underscores the value of regional expertise and the need for a local presence in sourcing and underwriting. At the same time, the year-over-year (YoY) variation across the countries reinforces the value of a broad geographic footprint, which helps allocators deploy capital tactically, as country-specific tailwinds evolve over time.

Scope for diversification across financing markets

Another defining characteristic of European financing markets is the relatively large share serviced by bank lending. As of March 31, 2025, banks represented 50% of total credit extended to the private non-financial sector in the Euro Area and 55% in the United Kingdom (Exhibit 5). This is notably above the U.S., in which banks represented only 31%.

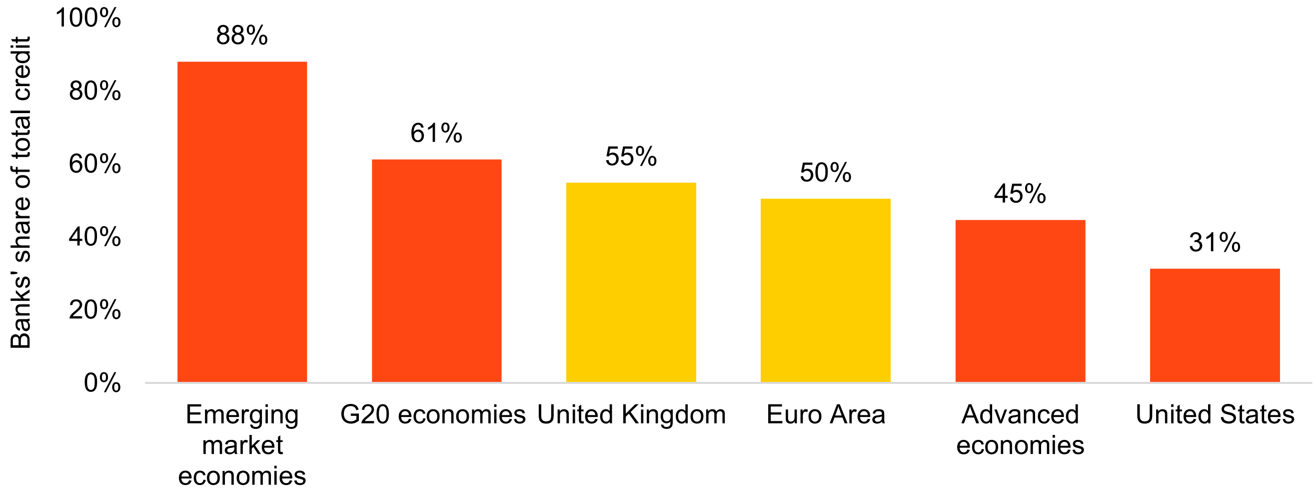
As we have outlined previously, we believe this directly reflects the large size and scale of North America's well-developed capital markets (inclusive of debt and equity) as well as the region's private financing markets (including private credit, private equity, etc.). We see scope for the financing mix in the Euro Area to become more diversified over time, as well. This suggests additional room for growth in private markets.

Exhibit 4: France has captured the largest share of deal activity year-to-date
European direct lending deal share, by country, per year



Source: PitchBook LCD, BlackRock. Data through September 30, 2025. Analysis based on transactions covered by LCD News; share is by deal count.

Exhibit 5: Banks represent a larger share of credit in the Euro Area and the U.K. vs. the U.S.
Banks' share of total credit provided to the private non-financial sector - select regions



Source: Bank for International Settlements, BlackRock. As of March 31, 2025 (most recent available).

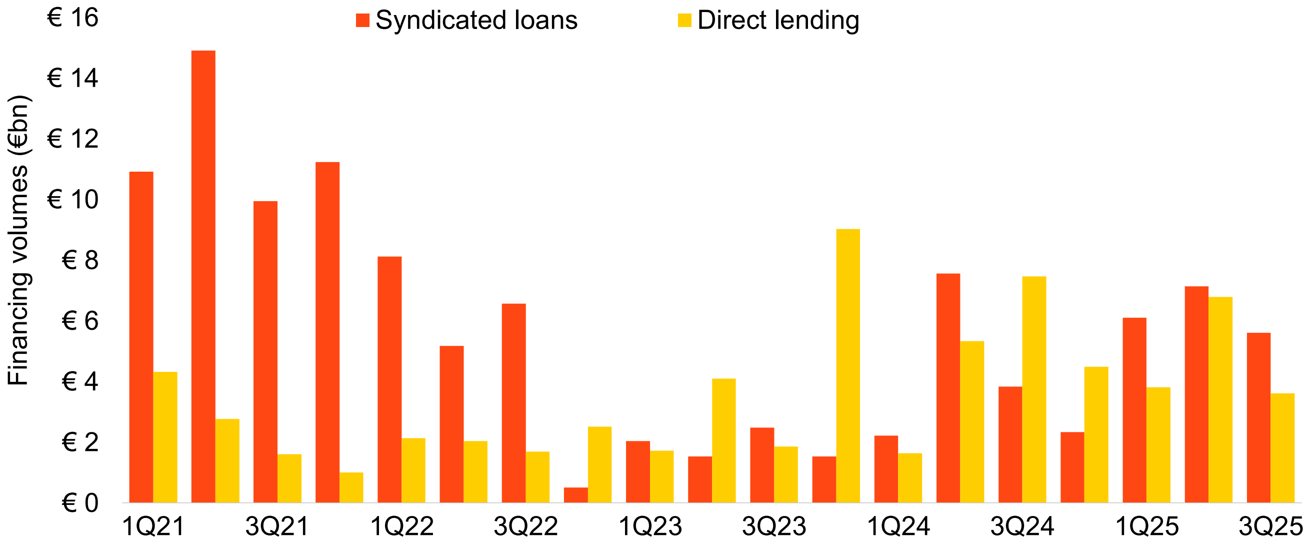
The financing 'mix shift' ebbs and flows

When shifting away from the bank lending channels and focusing exclusively on the corporate liquid and private credit markets, we find that the 'mix shift' of EUR financing activity ebbs and flows between the two funding channels, depending on market conditions. This is consistent with the pattern in the USD market.

Exhibit 6 illustrates this dynamic, tracking the volume of LBO financing serviced in each market. We also track refinancing activity *from the same issuer* across the two markets (known as 'takeouts'). As of October 21, 2025, KBRA DLD has tracked nine deals refinanced from the European syndicated leveraged loan market into private credit this year, and 12 moving in the opposite direction.

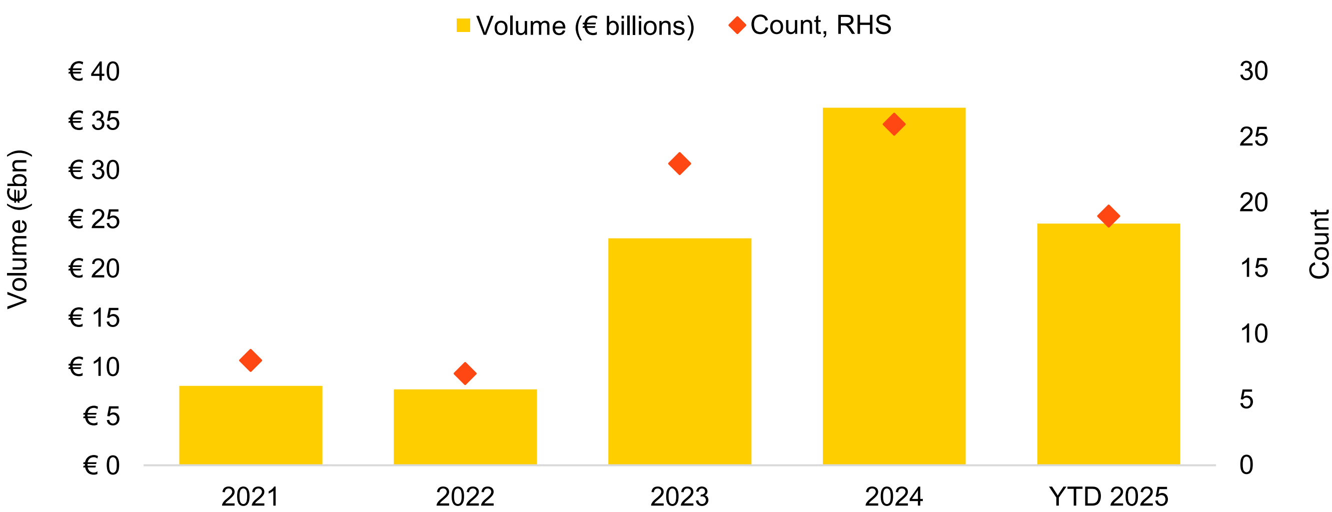
The increased fluidity between the private and syndicated credit markets is driven, in our view, by the growth of 'jumbo' EUR private credit loans in recent years (Exhibit 7). These larger private credit loans can address the financing needs of large borrowers – many of whom have demonstrated access to syndicated debt markets.

Exhibit 6: Both syndicated loans and direct lending are active in EUR LBO financing
New-issue volume of European leveraged buyouts (LBOs) financed via broadly syndicated loans versus direct lending



Source: PitchBook LCD, BlackRock. Data through September 30, 2025. Direct lending data is based on transactions covered by LCD News.

Exhibit 7: European private credit 'jumbo' loans have grown over time
Annual volume and count (RHS) of private credit jumbo loans (defined as loans greater than $1 billion)



Source: KBRA DLD, BlackRock. As of November 25, 2025. Includes incremental amounts to existing financings that total $1 billion+.

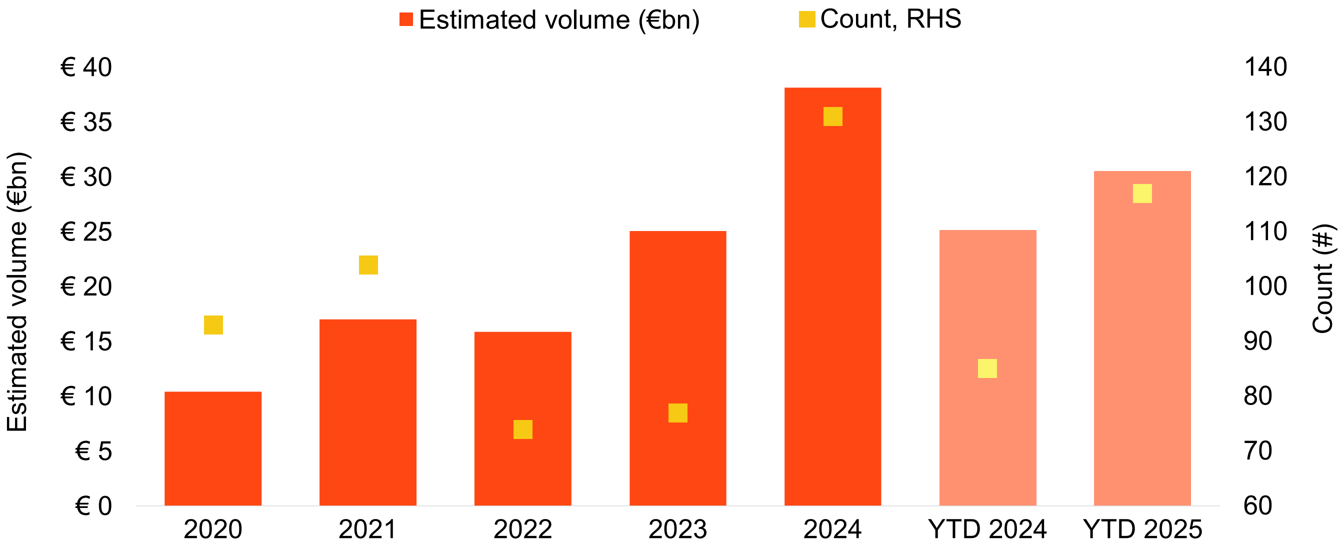
A more constructive macro backdrop supports direct lending deal activity

In October, we highlighted the rebound in European financial sponsor-related deal activity, attributing the recent momentum to a few factors, including: the cumulative impact of the ECB's prior rate cuts, incremental clarity on trade policy, and expectations of a boost from future fiscal spending plans.

The momentum is also visible in European direct lending volumes, as illustrated in Exhibit 8. Year-to-date (YTD) volumes are tracking ahead of the same period last year and have already exceeded the *full year* totals for 2020-2023. Further, commentary from KBRA DLD notes that, as of 3Q2025, there was a robust pipeline of deal activity, which could further boost totals in the months ahead.

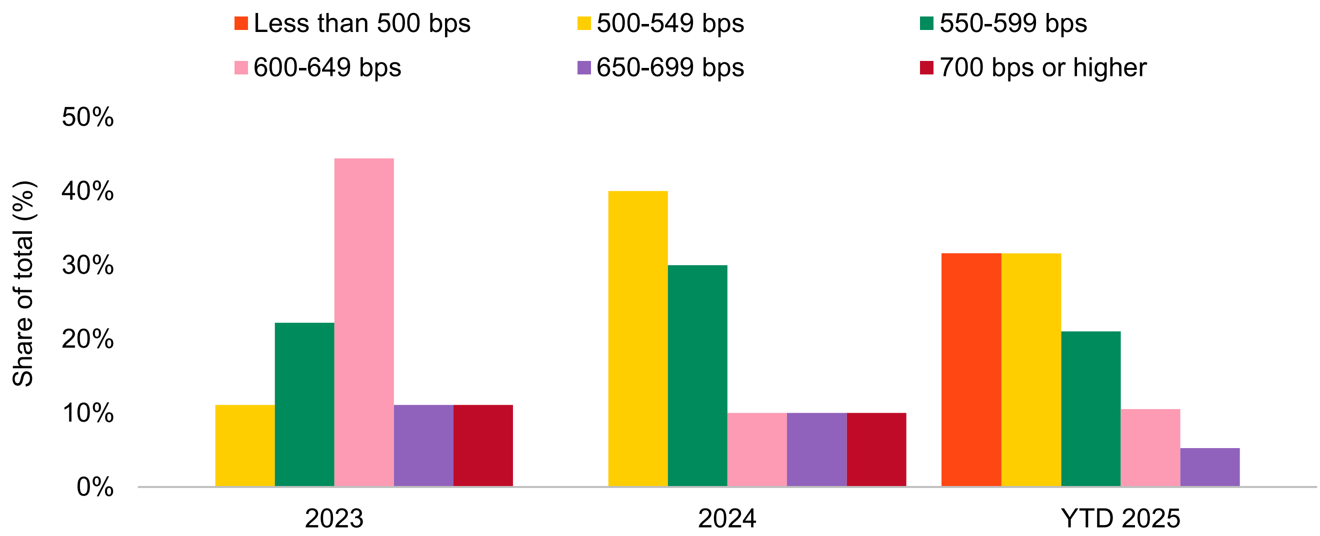
This supportive macro backdrop has also influenced pricing. As shown in Exhibit 9, spreads on LBOs financed by direct lending have tightened over the past three years. We believe the supportive risk appetite in the EUR syndicated credit market – which is illustrated by most spread cohorts hovering near the tight end of the historical range – has also influenced new issue pricing in the EUR direct lending market, especially for larger borrowers with a viable path to financing in either channel.

Exhibit 8: Direct lending volume has been robust YTD
Annual European direct lending estimated volume and deal count (RHS)



Source: PitchBook LCD, BlackRock. Data through September 30, 2025. Count based on transactions covered by LCD News.

Exhibit 9: New-issue spreads have trended lower over the past three years
New-issue spread distribution of LBOs financed in the European direct lending market



Source: PitchBook LCD, BlackRock. Data through September 30, 2025. Direct lending spread data reflects senior secured first-lien loans and unitranche facilities.

Incremental improvement in private credit coverage ratios

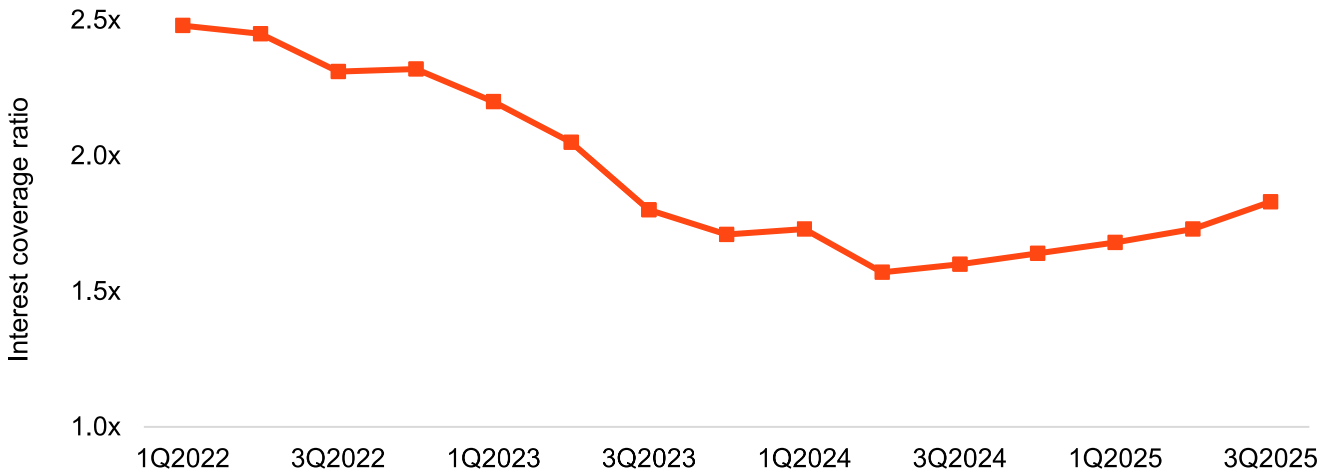
Further, data from Lincoln International's universe of more than 400 European private credit borrowers shows that, in aggregate, certain key fundamental coverage metrics continued to improve in 3Q2025.

Exhibits 10 and 11 illustrate the trends for aggregate interest coverage and fixed charge coverage (FCCR) ratios. The metrics have recovered from their 2Q2024 troughs as the European Central Bank's (ECB) monetary policy rate has declined from its mid-2024 peak. These trends mirror those observed in the U.S. private credit market, as well.

There is room for additional improvement, as both metrics remain below their 1Q2022 levels (before the ECB began rate hikes in July 2022). That said, and as we have highlighted, we expect that with the cumulative 200 basis points of rate cuts the ECB has *already* delivered since 2024, the Governing Council will be on hold for the foreseeable future. This suggests that the bulk of any future improvements in interest and fixed charge coverage ratios will need to be driven by borrower financial (EBITDA) performance, rather than lower interest rates.

Exhibit 10: The aggregate interest coverage ratio continues to improve…

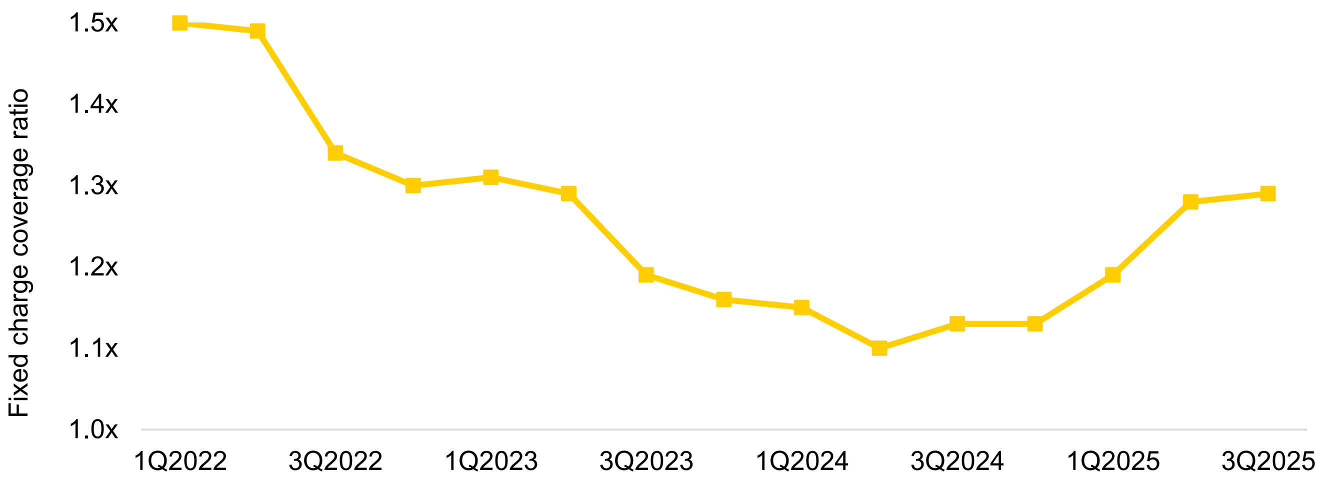
European private credit interest coverage ratio



Source: Lincoln International, BlackRock. Calculation of Interest Coverage = PF LTM EBITDA / Interest. Note: Interest calculations exclude companies using Payment-in-Kind (PIK) interest if cash interest is not being paid. Adjusted EBITDA, rather than reporting EBITDA, was utilized within the analysis.

Exhibit 11: …in parallel with the fixed-charge coverage ratio

European private credit fixed-charge coverage ratio (FCCR)



Source: Lincoln international, BlackRock. Calculation of fixed charge coverage ratio = (PF LTM EBITDA – Taxes - Capex) / (Interest Expense + (1% * Total Debt). Capital Expenditures ("Capex") utilizes LTM Capex by default. If LTM Capex is unavailable, a proxy is determined using either NFY Capex, LFY Capex, or by estimating it as a percentage of revenue. Note: Interest calculations exclude companies using Payment-in-Kind (PIK) interest if cash interest is not being paid. Adjusted EBITDA rather than reporting EBITDA was utilized within the analysis.

Dispersion is evident, however

Despite the improvement in aggregate coverage metrics, dispersion is evident when assessing EBITDA and watchlist trends.

Exhibit 12 highlights the variation in year-over-year (YoY), last-twelve-month (LTM) EBITDA growth by borrower size. The smallest borrower cohort (€0-€10 million in annual EBITDA) has recorded negative YoY growth for the past two years, while larger borrowers have grown. The largest cohort (>€30 million in annual EBITDA) has demonstrated the most consistent performance, while the mid-sized group has shown more variability.

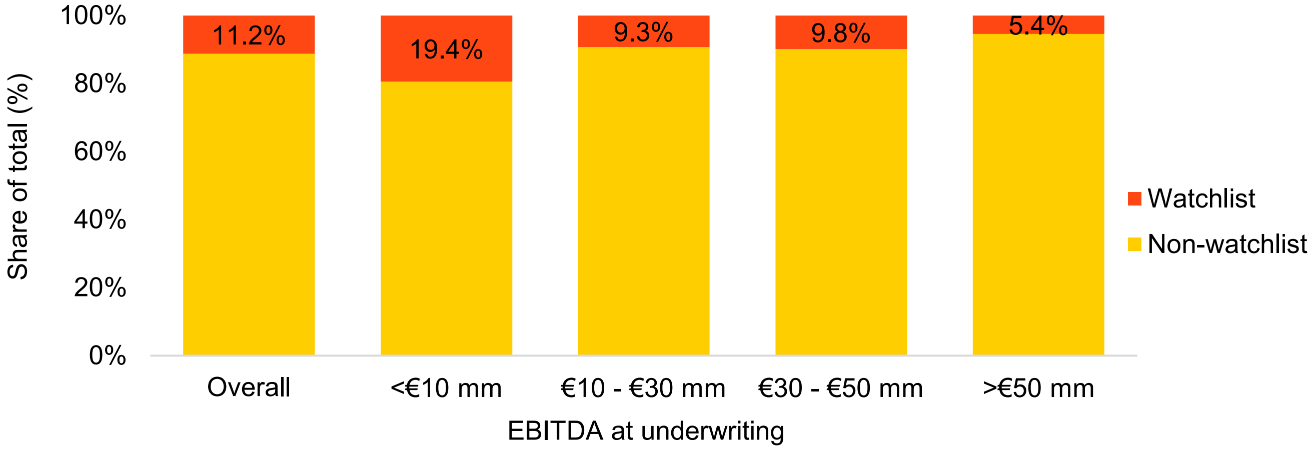
Lincoln International's European 'watchlist' – which tracks loans valued below 90% of par – shows a similar pattern using the most recent 3Q2025 data. As illustrated in Exhibit 13, watchlist names disproportionately skew toward the smallest borrower cohort.

These patterns reflect the fact that smaller companies may have thinner financial cushions, less diversified business models, and weaker pricing power, while larger borrowers generally possess greater flexibility and a broader set of operational levers to support performance.

Exhibit 12: Considerable dispersion across the size dimension
Year-over-year, last-twelve-months' adjusted EBITDA growth, by company size (annual EBITDA) for European companies in the Lincoln International Proprietary Private Market database

Source: Lincoln International Proprietary Private Market Database, BlackRock. As of 3Q2025.

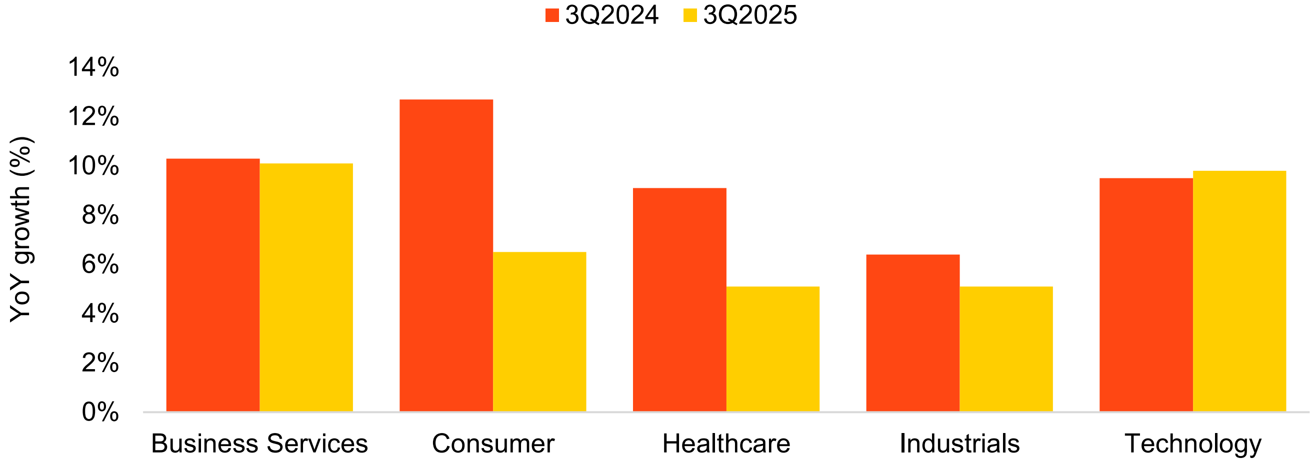
Exhibit 13: Watchlist names exist across the size spectrum, but skew toward small borrowers
3Q2025 watchlist names, segmented by EBITDA at underwriting, for European companies in the Lincoln International Proprietary Private Market database



Source: Lincoln International, BlackRock. As of 3Q2025. Watchlist companies included 47 firms with loans in the capital structure from Lincoln's Proprietary Database valued below 90% of par (fair value midpoint), based on debt valuations performed in Q3 2025. This analysis considers both senior debt and subordinated debt valued during the quarter, using the most senior loan in the capital structure as the basis for a company-level assessment.

Dispersion is also evident across the dimension of sectors (Exhibit 14), with some industries exhibiting strong and consistent EBITDA growth (Business Services, Technology), and others growing at a slower or less consistent pace (Industrials, Consumer). This likely reflects sector-specific nuances, such as industry growth tailwinds or consumer end-market profiles (given the bifurcation we have previously highlighted).

Exhibit 14: Growth has been positive across sectors, though to varying degrees
Year-over-year, last-twelve-months' adjusted EBITDA growth, by industry for European companies in the Lincoln International Proprietary Private Market database



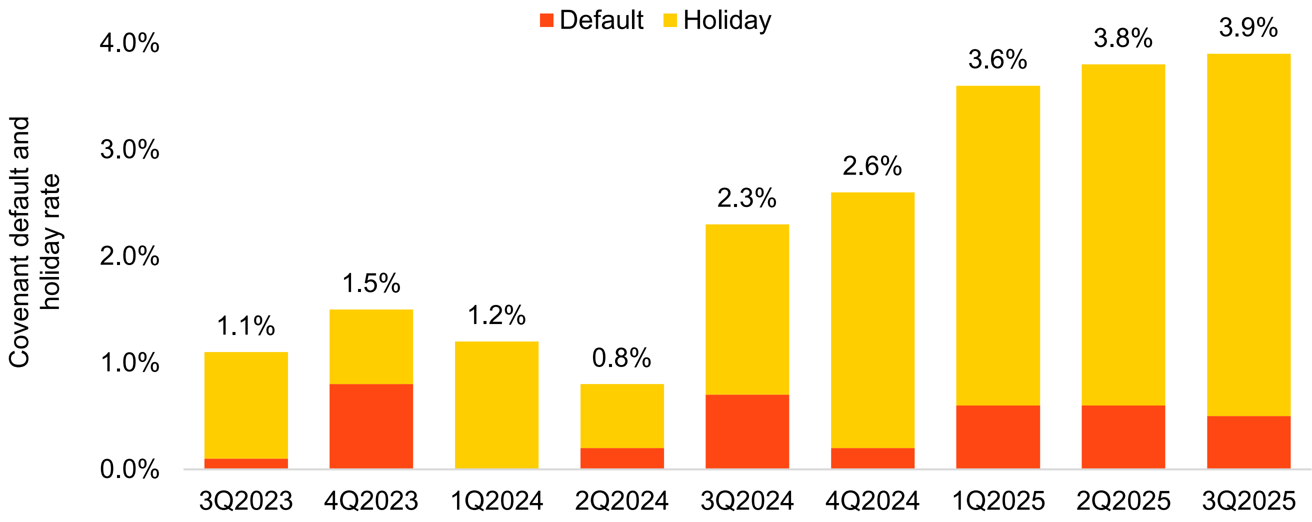
Source: Lincoln International Proprietary Private Market Database, BlackRock. As of 3Q2025.

Monitoring covenant defaults, 'holidays', and 'bad' PIK

Alongside these dimensions of dispersion, we also continue to closely monitor metrics aligned to potential financial stress, including covenant defaults, covenant 'holidays,' and a specific type of payment-in-kind (PIK) utilization.

To start, we find that the covenant default rate for European companies in the Lincoln International database has remained steady over the last three quarters (red bar of Exhibit 15) and *declined* slightly in 3Q2025. But covenant 'holidays' – which are agreements to suspend testing of one or more covenants, usually for a period of time – have grown (yellow bar of Exhibit 15).

Exhibit 15: Covenant events have increased
Size-weighted covenant default and holiday rate for European companies in the Lincoln International Proprietary Private Market database



Source: Lincoln International, BlackRock. 2Q2025 and 3Q2025 data are preliminary and remain subject to change in upcoming market insights as incremental information is received post-quarter end. A covenant holiday is an agreement (often time-bound) to not test one or more covenants.

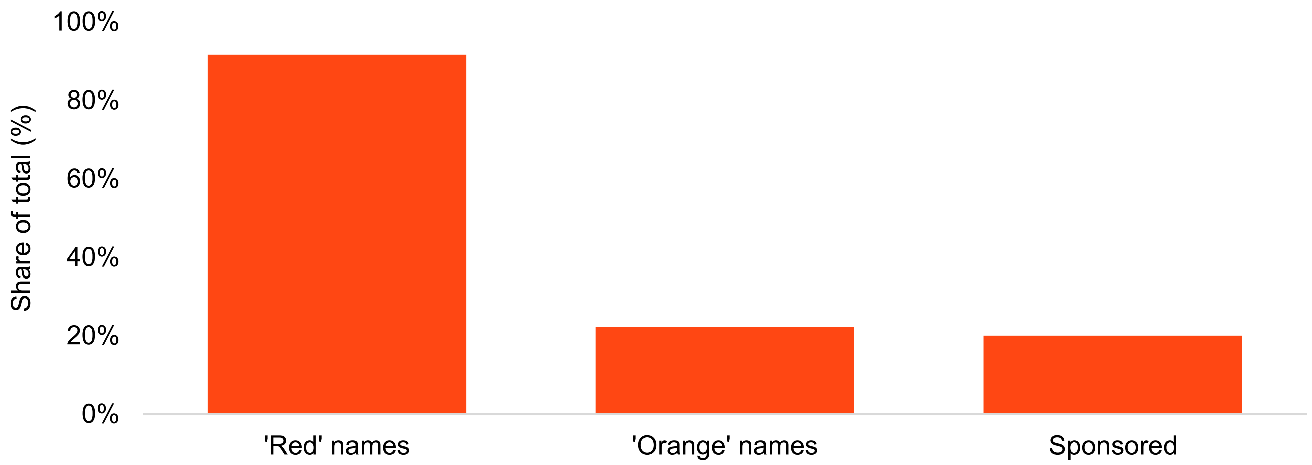
While each case can be nuanced, the effectiveness of holiday or amendment activity in resolving borrower stress (and maximizing capital returns) largely depends on lenders' expertise and the underlying viability of the borrowers' business, in our view.

Exhibit 16 highlights the prevalence of PIK interest among stressed borrowers in the KBRA DLD European universe. A majority of issuers on KBRA's Default Radar 'Red' list, which captures issuers whose stress is considered most concerning, are currently paying some amount of PIK interest. That share declines for 'Orange' names on the Default Radar and for the broader sponsored universe. (Note: As of October 15th, KBRA DLD's European Default Radar captured only 21 issuers.)

Data from Lincoln International provides another perspective, showing the rising share of companies paying PIK interest, including both 'good' PIK (i.e., PIK included at underwriting) and 'bad' PIK (i.e., PIK added through amendments, after origination; Exhibit 17). Notably, the share of companies with PIK (both 'good' and 'bad') has grown over time. PIK usage, especially in response to financial strain, can be a sign of emerging stress, and we view it as an important metric to track across markets. That said, it is only one of several indicators that collectively inform our perspective on credit health.

Exhibit 16: 92% of the most stressed European issuers tracked by KBRA DLD have PIK

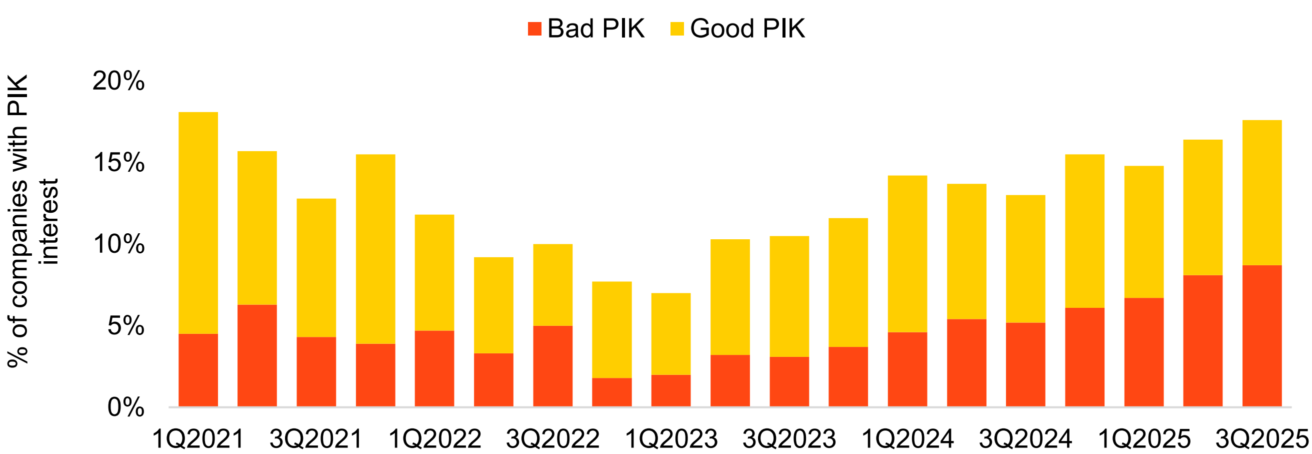
Share of European issuers, by count, in KBRA DLD's 'Default Radar' (including 'Red' and 'Orange' names) and broader sponsored index, currently paying a portion of interest as 'PIK'



Source: KBRA DLD Default Research - Europe, BlackRock. As of October 15, 2025. KBRA DLD's Default Radar flags troubling credits as either Red or Orange, depending on severity of the situation. The most concerning are assigned to the Red tier, while less problematic circumstances are placed on the Orange tier. Borrowers outside the Index are added to Default Radar when information is available. There are currently 21 issuers on the default radar, representing about 7.3% of KBRA DLD's European Index volume. More than 90% of KBRA DLD's European index are sponsored borrowers.

Exhibit 17: 'Bad' PIK in the EUR private credit market has increased modestly

Share of companies using payment-in-kind (PIK) interest based on PIK classification ('good' PIK, 'bad' PIK) for European companies in the Lincoln International Proprietary Private Market database



Source: Lincoln International, BlackRock. As of 3Q2025. Bad PIK is defined as PIK that is amended into existing credit agreements. Good PIK is defined as PIK which is included in initial agreements at underwriting.

Unless otherwise stated, all reference to $ are in USD.

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