S&P Global data shows ESG-related leveraged finance issuance has increased substantially in Europe

First half of 2021 saw €16.6 billion of leveraged term loan issuance with margin ratchets linked to ESG-related KPIs, equating to 24% of the market

LONDON, July 29, 2021 /PRNewswire/ -- S&P Global Market Intelligence analysis reveal the global leveraged finance markets are embracing the concept of Environmental, Social and Governance (ESG) linked transactions, with the first half of 2021 featuring a marked uptick in sustainability-linked issuance across the leveraged loan and high-yield bond products, particularly in Europe.

The analysis is based on a recently launched ESG Leveraged Finance dataset from Leveraged Commentary & Data (LCD), an offering of S&P Global Market Intelligence. The dataset includes tracker of new-issue loans and high-yield bonds in the U.S. and Europe that have an ESG component.

According to the LCD analysis, the volume of term loans completed with margin ratchets linked to ESG-related key performance indicators, or KPIs, has grown to about a quarter of the market. Meanwhile about 14% of bond issuance by volume was ESG-related in 2021, up from only 2% in 2020.

Marina Lukatsky, head of research for LCD, part of S&P Global Market Intelligence , said: "ESG is gaining traction across leveraged finance. We can see the global leveraged finance markets are embracing the concept of ESG-linked transactions. In Europe in particular, loan issuance linked to ESG-related KPIs has skyrocketed and the pricing mechanism has become more mainstream. Similar margin ratchet structures are being included in a growing number of unitranche financings and even Schuldschein products."

In Europe, there was €16.6 billion of leveraged term loan issuance with margin ratchets linked to ESG-related KPIs, equating to 24% of the market. This compares with only €2.4 billion in 2020 (5%) and €1.5 billion in 2019 (2%). European ESG high-yield bond issuance (including sustainability-linked notes, sustainability bonds or green bonds) totaled €10 billion, or 14% of the market by volume. This compares with €2 billion (2%) in 2020 and €1.5 billion 2019 (2%).

In the U.S. market, the first sustainability-linked notes were completed in January by a telecommunications firm Level 3 Financing Inc., which placed a $900 million offering of notes with a coupon step-up linked to ESG-linked KPIs. Through June 30, some $2.75 billion of sustainability-linked notes were completed in the market, in addition to $6.2 billion of green bonds. While this is a marked step-up, in the much larger U.S. high-yield bond market, ESG-related issuance still only accounts for 3% of activity.

LCD is part of S&P Global Market Intelligence and not by S&P Global Ratings, which is a separately managed division of S&P Global.

Editors' Note:

S&P Global Market Intelligence's LCD research unit provides highly differentiated and proprietary research on the U.S. and European leveraged loan, high-yield bond, collateralized loan obligation (CLO) and mid-market/direct lending markets. This research offering complements S&P Global Market Intelligence's broad universe of research sector coverage including energy, enterprise technology, financial institutions groups, metals & mining and TMT (Technology, Media and Telecom).

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