Deloitte.

Press release

Contact: Isabel Box
Title: Marketing & Communications Manager
Tel: +32 (0)2 302 25 51
Mobile: +32 (0)485 31 79 63
Email: ibox@deloitte.com

Belgium lags behind in direct lending

In contrast, deals skyrocket in UK, France, and the Netherlands

Brussels, Belgium – 2 May 2019

The Deloitte Alternative Lender Tracker report shows that non-bank lenders are on the rise. As a result of banks being subject to increasingly strict regulation and hence changed lending strategies in the aftermath of the financial cricis more and more companies in Belgium's neighbouring countries such as the UK, France and Germany rely on direct lending, or lending provided by a wide range of non-bank institutions with different strategies. In one year (2018), the number of deals in the UK increased with 10% to 153 transactions representing 37% of all new deals recorded in 2018 in the EU.

In Belgium, the emergence of direct lending has been rather limited due to the more conservative approach of companies and shareholders to financing, and fierce competition among the four large Belgian banks active in the segment. "*Yet, looking at ongoing trends in the larger Western European financing markets, direct lending is expected to also be on the rise in Belgium. With the introduction of further regulation, such as Basel IV, the lending and pricing policy of the Belgian banks for higher risk-bearing loans is not expected to be sustainable in the long term*, " said **Sebastiaan Preckler**, **Deloitte Belgium Head of Debt and Capital Advisory**.

No longer sustainable

In Belgium, the supply/demand dynamics are still very much in favour of corporate borrowers. Loans are easy to come by, as four main domestic banks compete in a relatively small market. In comparison, in France, the same number of banks are active.

This is also true for the riskier high yield segment of the financing market in which the direct lenders are active. As the Belgian banks have ample liquidity available, but lack sufficient investment opportunities to generate additional interest income, the fierce competition among banks to finance LBOs or leveraged buy-outs in the Belgian mid-market is currently driving the favourable lending conditions for the borrowers.

The highly competitive banking landscape results in limited direct lending deal flow in Belgium with only 23 deals recorded since the inception of the Deloitte Alternative Deal tracker in 2012. The UK accounts for 38 percent (or 664 deals) of the total deal flow of direct lending deals in the EU, followed by France and Germany

representing 25 percent (382 deals) and 11 percent respectively. In the Netherlands, direct lending is increasingly present with 101 deals recorded to date.

"*We still see a gap in pricing between traditional bank and direct lenders of more than 1.5 to 2.0 percent, which means that bank lending remains very competitive and attractive for most transactions in which the direct lenders are active,*" said **Preckler**. "*But if this changes and we get closer to the European credit conditions with higher pricing and less credit offer, direct lending will become a competitive, relevant and valid alternative to traditional bank financing in Belgium*."

Relationship-driven or rational financing?

Diversification of finance providers would create more buffers in the Belgian economy. More parties providing liquidity and lending alternative ensures that there is more loss-absorbing capacity for the wider economy.

"*For most Belgian companies, financing is still very relationship driven. They know their bankers well, who are important long term partners in developing their businesses,"* said **Preckler**. *"In our neighbouring countries, such as the Netherlands and the United Kingdom, for example, entrepreneurs are often more rational with regard to the use of financing to help them achieve growth and international ambitions*,".

Direct lenders can however turn things around for companies in a highly leveraged environment that the banks are not comfortable with, assist in realising transforming – albeit riskier - acquisitions, finance in sectors that are more difficult for banks (e.g. retail, online gaming, casino, emerging markets, etc.), and support aggressive growth and acquisition strategies, often teaming up with the more traditional financing providers.

They can also help in a partial buy-out of family businesses where some family shareholders lack the necessary funds to finance the buy-out of other shareholders. Compared to banks - and beside their higher leverage tolerance - direct lenders offer in general more flexibility when it comes to the repayment schedule of the financing (mostly fully back-ended in a bullet structure), the financial covenants that need to be respected, the conditions to realise further acquisitions and the incurrence of additional financial indebtedness.

"*In Belgium, banks have a privileged relationship with business leaders and they will remain key strategic partners of our corporates going forward. Nevertheless there is room for direct lenders not only in the current environment when the context is right but for sure going forward when lending policies of the banks in Belgium will converge more to what we see elsewhere in Europe. Entrepreneurs and their shareholders should consider all available financing options and choose the most optimal for them*," concluded **Lieve Creten, Deloitte Belgium Managing Partner Financial Advisory**.

For more information about the study, please visit:
https://www2.deloitte.com/be/en/pages/finance/articles/the-deloitte-alternative-lender-deal-tracker---deloitte---financ.html

***

Deloitte in Belgium

A leading audit and consulting practice in Belgium, Deloitte offers value added services in audit, accounting, tax and legal, consulting and financial advisory services.

In Belgium, Deloitte has more than 4,000 employees in 12 locations across the country, serving national and international companies, from small and middle-sized enterprises, to public sector and non-profit organisations. The turnover reached 510 million euros in the financial year 2018.

Deloitte Belgium CVBA is the Belgian affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited. Deloitte is focused on client service through a global strategy executed locally in more than 150

Deloitte.

countries. With access to the deep intellectual capital in the region of 286.000 people worldwide, our member firms (including their affiliates) deliver services in various professional areas covering audit, tax, consulting, and financial advisory services. Our member firms serve over one-half of the world's largest companies, as well as large national enterprises, public institutions, and successful, fast-growing global companies. In 2018, DTTL's turnover reached over $43.2 billion.