

Focus on: Credits

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Corporate Schuldschein: Burgeoning diversity creates new options for investors



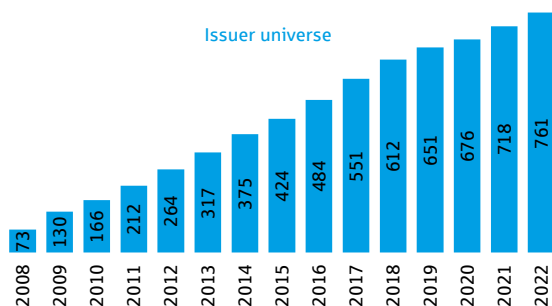
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A large number of first-time issuers continues to fuel vigorous growth on the Schuldschein market. Never before have investors had so many opportunities to further diversify their exposure and optimise portfolios. Our expectation is that the pool of issuers will continue to expand in the future. Notably, an increasing number of non-German corporates are also taking an interest in the segment. Based on our research, the frequency with which companies on the SSD market utilise this segment varies, with sector affiliation seemingly playing a significant role. What is more, major publicly listed issuers with a greater volume of financial liabilities are more likely to make recurring appearances on the Schuldschein market, whereas smaller firms with lower financial debt in private ownership are generally less regular participants. We believe that, given the proliferation of investment options available, selection criteria that can aid investors' decision-making processes are likely to become ever more important.

Last year saw a further increase in the overall number of active Schuldschein issuers. Every year, the market attracts a significant number of newcomers which, to a large extent, is driven by keen interest from non-German companies. In 2022, the proportion of debut issuers stood at just under an impressive 25 %. Altogether, since 2008 the issuer universe has ballooned from around 70 to over 700 companies; albeit several have only made one foray into the market that, in some cases, was a long time ago and can therefore not be described as active issuers. But with the issuer universe having meanwhile expanded significantly, it is now easier for investors to optimise their portfolios. For instance, the selection criteria for an investment decision can include, among others, the relative transaction frequency. That is why we have classified Schuldschein issuers over the last 15 years on the basis of their sector affiliation, total sales, debt levels and private/publicly listed status. Our analysis reveals marked differences in market activity for each cluster.

Steady growth in universe provides more choice

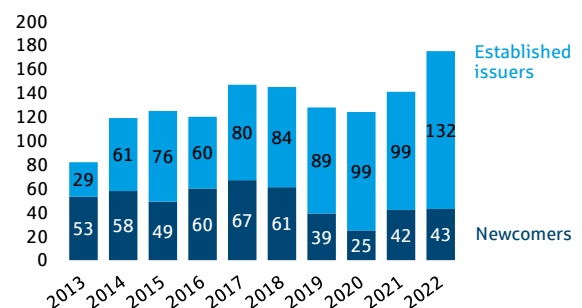
Corporate SSD: cumulated number of issuers



Sources: Bloomberg, Helaba Research & Advisory

As many as one in four deals from debut issuers

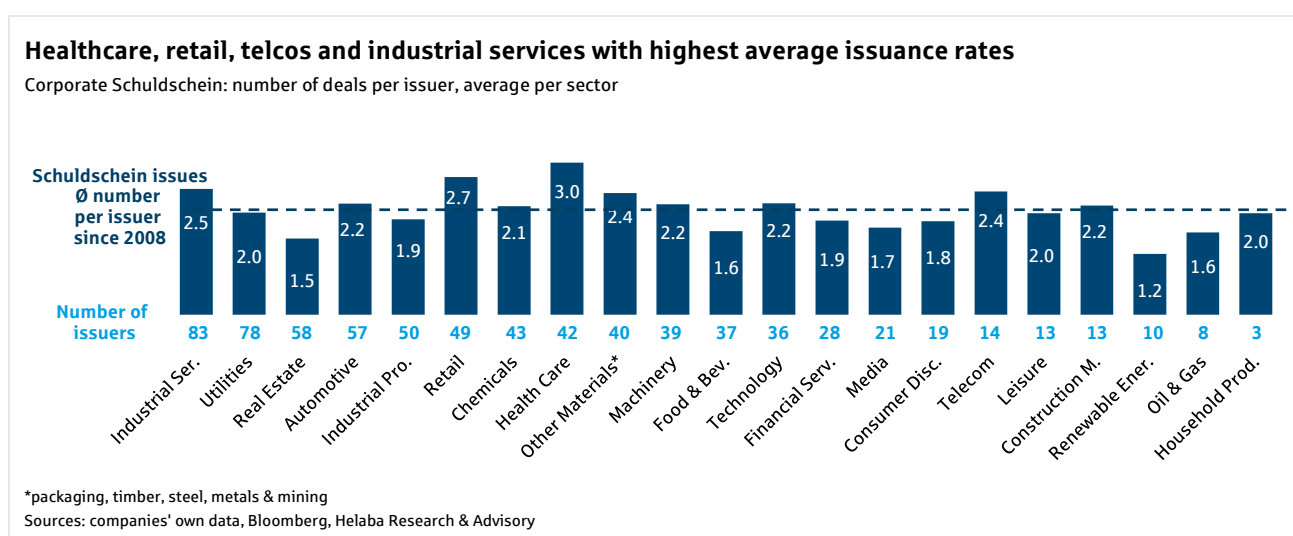
Corporate SSD: number of issuers



Sources: Bloomberg, Helaba Research & Advisory

Significant differences among sectors

In a breakdown of issuance by sector, it is evident that certain industries feature much more prominently than others. For instance, half of all issuers hail from the industrial goods & services, utilities, real estate, automotive and retail sectors alone. Conversely, the Schuldschein market has been somewhat less popular among companies from the renewable energy, household goods and oil & gas industries. In terms of the average number of successful placements per issuer, the healthcare, retail, industrial services and telecommunication sectors take the top spots. At the same time, the proportion of one-time issuers in these industries is below 50 %, indicating that higher average scores are not solely attributable to a few frequent borrowers. These statistics may be of interest to investors that have to dedicate their limited analytical capacities to groups of companies that are more likely to make a more frequent appearance on the market. Companies from smaller sectors with fewer issuers, however, have also tended to be less prevalent in the market to date. By way of example, the issuance frequency of the ten SSD issuers in the renewable energy sector is only 1.2x compared with an overall average of 2.1x. That is why the latter group of issuers is particularly well suited to further enhancing the degree of diversification within portfolios.

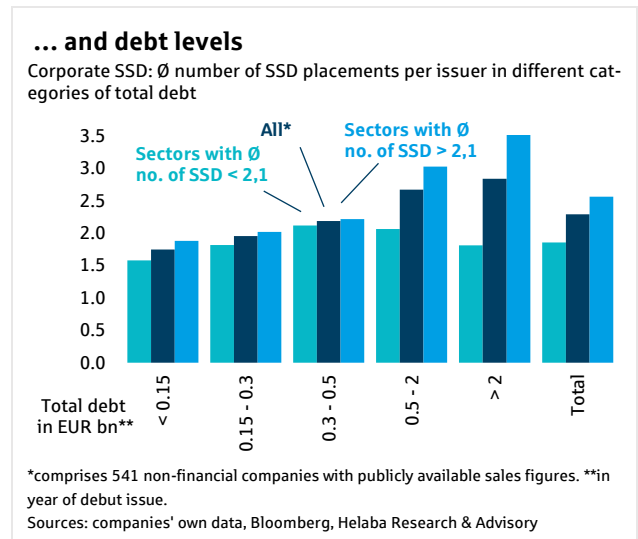
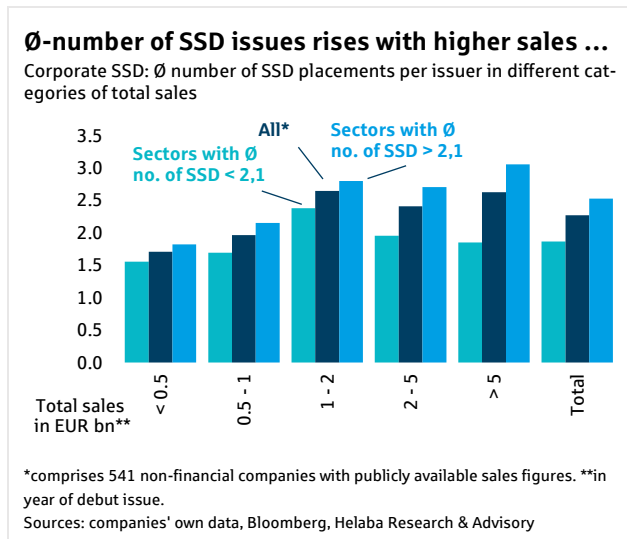


Probability of new SSD issues rises with higher sales and debt levels

A company's size as well as its total financial liabilities can also have a bearing on the frequency with which it accesses the capital markets. The positive characteristics of the Schuldschein market, such as lower minimum volumes, streamlined documentation and the opportunity to execute a placement even without an issuer rating, make it particularly appealing to midcaps. Indeed, more than a third of all issuers only exhibited total sales of less than one billion euros at the time of their first SSD placement. The reality is, though, that the funding requirements of companies in this segment are often limited and, for that reason, they are less frequent borrowers on the market. It is not until sales exceed the one-billion euro mark that the likelihood of their returning to the Schuldschein market increases significantly.

A similar correlation can be observed when it comes to a company's financial liabilities. Those with total debt exceeding EUR 500 million are more likely to tap the market again. The Schuldschein is typically not a flash in the pan for the segment of major frequent borrowers either, who generally have well-established access to other capital market segments and can therefore take an opportunistic approach. In contrast, those with only modest financing needs tend to be something of a rarity on the Schuldschein market.

In combination, the findings that our analysis has yielded so far enable us to gain even more in-depth insights into the DNA of the Schuldschein market. One notable observation is that large issuers with higher debt levels from sectors with an issuance rate of $> 2.1x$ are, on average, significantly more frequent market participants. This contrasts with companies exhibiting relatively low sales volumes or limited levels of debt from the lower quartiles, which are typically less active issuers.



However, the differences between the frequency of placements are less pronounced when looking at the leverage ratio (financial liabilities to EBITDA) instead of the absolute level of debt. In this case, even issuers with only modest levels of debt relative to profitability make, on average, at least a second appearance on the SSD market. Despite this, companies with a leverage ratio in a range of $2.0x$ to $3.0x$, which is commensurate with an investment grade rating, are still typically the most active Schuldschein issuers. This phenomenon can arguably be explained, in particular, by the fact that many investors focus on issuers with robust credit quality profiles.

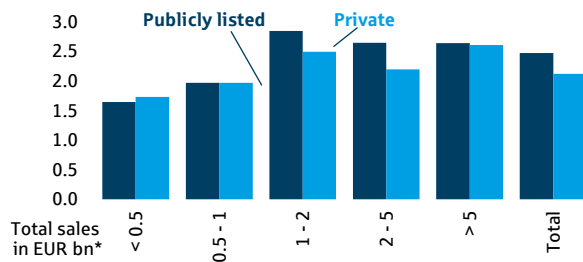
Publicly listed companies more likely to remain loyal to SSD market - more exclusivity among private firms

When considering companies' ownership structure, however, considerable differences in issuance behaviour emerge. Publicly listed companies, for instance, are more frequent SSD issuers, having placed an average of 2.5 Schuldschein loans over the last 15 years. This contrasts with privately held firms with a placement rate of only 2.1. In our view, this is most likely due to the greater inclination of listed companies to tap the capital markets. Additionally, listed corporates generally provide more publicly available financial information, which in turn makes it easier for investors to conduct an initial assessment and to continuously monitor the issuer's performance. However, privately-owned companies are not only less frequently active on the Schuldschein market but, in many cases, do not issue any corporate bonds either. Consequently, they tend to offer investors the opportunity to diversify their portfolios with companies that they would otherwise not be able to invest in.

Superimposing these findings onto the distribution patterns described above reveals a number of other useful insights. On the one hand, if an issuer is listed on the stock exchange and has total sales of at least EUR 1 billion in the year of its debut issue or has gross liabilities exceeding EUR 300 million, it is considerably more likely that it will return to the Schuldschein market after its first-ever issue to raise additional funds. On the other hand, smaller privately run firms with lower levels of debt are less likely to make a follow-up appearance on the Schuldschein market.

Higher issuance rates among major listed firms ...

Corporate SSD: Ø number of SSD placements per issuer in different categories of total sales

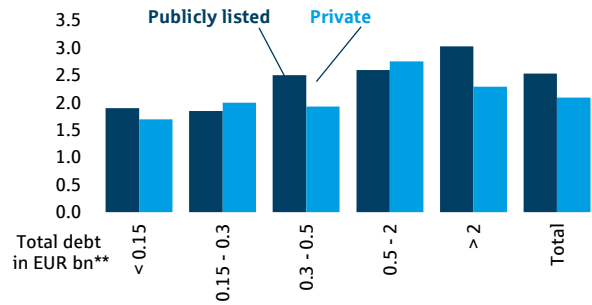


*in year of debut issue.

Sources: companies' own data, Bloomberg, Helaba Research & Advisory

... with more financial liabilities

Corporate SSD: Ø number of SSD placements per issuer in different categories of total debt



*in year of debut issue.

Sources: companies' own data, Bloomberg, Helaba Research & Advisory

Our findings only represent a general, average assessment and it is important to bear in mind that issuers may have numerous reasons for using certain debt instruments. What we have shown, though, is that investors can draw on a wide variety of criteria when making investment decisions, further diversifying their portfolios or optimising their portfolio workload, including sector affiliation, total sales, debt levels and private/publicly listed status. However, only investors themselves can decide what their preferred goal is and the answer is likely to vary over time. While "a new broom sweeps clean" is one old adage, "the cobbler should stick to his last" is another.



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