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European Loc Pool (ELP) secured further senior debt financing to fund its impressive constant growth

Swiss based leasing company ELP (www.europeanlocpool.com) provides full-service leasing of modern and innovative locomotives for rail operators and logistics companies across Europe. ELP's focus lies in six-axle hybrid locomotives with up to 2.8MW diesel, 9MW electric and 500kN traction, which can be operated both on electrified and non-electrified lines.

EuroDual

Constant substantial increase of ELP's lease portfolio

Since its establishment as a leasing provider for locomotives in 2018 and due to its constant substantial portfolio growth as a result of its ongoing success, shortly after closing of the first asset based debt financing in 2020, ELP needed additional funds to finance its future growth, which were provided in form of an increase of the existing long-term syndicated credit facility from EUR 260 million to EUR 420 million in the spring of 2022.

Closing of additional long-term debt financing

In the wake of an additional extension of its locomotive portfolio to a new total of 104 locomotives, of which to date 86 are already subject to a signed leasing contract with 30 different clients in 6 different countries, ELP has successfully closed and further increased the existing long-term syndicated credit facility from EUR 420 million to EUR 480 million for the purchase and refinancing of additional EuroDual and Euro9000 locomotives. UBS Switzerland acted as lead arranger for the syndicate of Swiss banks.

AIL's role

As with the previous two successful financing rounds in 2020 and early 2022 respectively, AIL acted again as financial advisor to ELP for the increase of the existing long-term credit facility. AIL advised and supported ELP in structuring the additional financing (including assisting in the revision of ELP's business plan and its underlying financial planning) through to negotiating and completing the relevant loan documentation.

Willem Goosen, CEO of ELP: "We are very happy with the constant evolution of our portfolio and are grateful to have such a reliable financing partner that is determined to help us successfully realize our growth plans and to position ELP as one of the leading leasing providers for locomotives in Europe."

Euro9000

We as AIL are very proud to be a part of this success story and we are looking forward to supporting ELP in its further growth plans.

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SERV and the latest developments in their supporting schemes

In light of the Covid-19 pandemic SERV adopted temporary measures to support Swiss exporters, which were enacted either by the Swiss Federal Council or by the OECD as regulator of the Arrangement on Officially Supported Export Credits. With the return to a certain normality, both the Swiss Federal Council and the OECD decided to review the measures and extend certain of them.

Expiration of Covid-19 measures and amendment of the SERV Ordinance

The temporary measures enacted by the Swiss Federal Council were:

1. Swiss content of an export transaction shall at least amount to 20% of the total order value (instead of 50%)

2. Export transactions with a Swiss content of less than 20% of the total order value can be insured if the export transaction is in line with the objectives and principles of SERV's business policy

3. The maximum cover ratio for working capital insurance is increased from 80% to 95% and the maximum cover ratio for counter guarantees is increased from 90% to 100%

The Swiss Federal Council has decided to indefinitely extend the two first measures relating to the Swiss content of an export transaction and to amend the SERV ordinance accordingly.

The third measure (extension of the cover ratios for working capital insurance and counter guarantee) will not be extended, and the standard cover ratios will return to the same level as they were before. In justified, exceptional cases, however, it is still possible to request cover for up to 95% and 100% respectively.

The reduction to a minimum Swiss content of at least 20% (instead of 50%) is a welcome step towards reflecting the market reality. In the Swiss industry, the trend to separate manufacturing activities between plants and locations in Switzerland and abroad as well as to source components and services from foreign sub-suppliers continues to increase. Activities with the highest added value in many cases remain in Switzerland, but these activities often do not represent a high percentage of the cost of a product. It makes therefore sense to reduce the minimum required Swiss content in a SERV covered transaction in order to maintain the competitiveness of the Swiss industry.

The increase of the cover ratios for the SERV working capital insurance and SERV counter guarantees during the pandemic has been a substantial support in particular for Swiss SMEs. The decision to revert these measures for both these SERV products back to their original parameters make access to working capital financing for export transactions more difficult, more expensive and possibly also less interesting for Swiss SMEs. The ability of SMEs to conclude larger individual export contracts will be restricted and the need to negotiate more favourable payment terms point of view exporter will become more important for them, but difficult when competing with large companies. It is therefore to be hoped that SERV will apply the exemptions for higher cover ratios in a more lenient way.

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Extension of the OECD new down payment requirement for emerging markets

For several years, industrial exporters asked the OECD to re-evaluate the down payment rules and allow non-ECA financed down payment to be reduced from 15% to 5% for sovereign risks in emerging markets. The reason was that certain emerging countries had difficulties to fund the required down payment of 15%. The Covid-19 pandemic gave the opportunity to test the temporary reduction of the required down payment for sovereign risks in emerging markets.

In November 2022, this rule has been extended by one year until November 2023.

Conclusion

In recent times, the applicable SERV provisions and OECD framework for Officially Supported Export Credits have been amended in order to reflect the prevailing market conditions. A certain dynamic is evident in particular in the area of applicable sourcing/minimal Swiss content, minimum down payment requirements and cover ratios.

AIL follows the changes in the framework conditions in connection with the Officially Supported Export Credits in detail and is therefore able to provide Swiss exporters with comprehensive support on how to use the SERV instruments for their cross-border business in the best possible way and to their own benefit.

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