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Celebrating our 10th anniversary with a record year for alternative lending deals

Deloitte Alternative Lender Deal Tracker Spring 2022

Our debt advisory team has been in active dialogue with a number of leading European private debt funds for over 10 years, monitoring their deal activity predominantly in mid-market leveraged lending. Our database now covers 3,533 transactions and gives us unrivalled insight and the ability to provide independent views on trends in European direct lending.

This issue covers data for the second half of 2021 and includes 443 Alternative Lender deals. This represents a 79% increase in the number of deals from H2 2020, and a 30% increase from H1 2021.

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Deloitte Alternative Lender Deal Tracker Introduction

In this twenty-seventh edition of the Deloitte Alternative Lender Deal Tracker, we report that during 2021, there was an 89% increase in Alternative Lending deals compared to 2020. Lending in the 6 months of H2 2021 was up 30% compared with the preceding 6 months. Our report covers 68 major Alternative Lenders with whom Deloitte is tracking deals across Europe. This edition also marks our tenth anniversary and features a special report on ten observations that we – and leading fund managers – have made in the ten years of tracking the Alternative Lending market.

Increase in deal flow H2'21 vs H1'21

Deals completed to date

After blistering gains in 2021, global equity markets have had a shaky start to 2022. The FTSE All-World index has dropped almost 7% so far this year, with technology stocks in particular underperforming. Low interest rates and quantitative easing have fuelled a long period of sustained growth, but the revival of inflation has raised concerns that the era of 'easy money' may be coming to an end. As we write, Russia's invasion of Ukraine has further rattled global equity markets. The mantra in financial markets for the past 40 or so years has been "don't fight the Fed". Since the Fed can print money without limit and reduce interest rates, it controls asset prices. Woe betide an investor seeking to stand in its way. This process was at work during both the financial crisis and the COVID pandemic. Huge rate cuts and quantitative easing helped reverse initial equity sell-offs even though the economy was in intensive care. Investors believed that the Fed would prevail and started buying equities well before recovery was entrenched. This view, also encapsulated in the notion that investors should 'buy the dip' in equity markets, has taken a knock in recent months. Now investors are worrying about the prospect of the Fed raising interest rates more rapidly, and with less regard to the consequences for equities.

William McChesney Martin, a former chairman of the Fed in the 1950s and 1960s, once remarked that it is the job of central bankers to "take away the punch bowl just when the party gets going". In the US today, with equity markets not far off all-time highs, inflation at 7.0%, and the jobs market running hot, the party is in full swing. There may not have been a time when the case for raising interest rates was stronger than it is today. The current Fed chair, Jay Powell, clearly feels that the time for action has come. His comments at the press conference following a meeting of the Fed's rate setting committee on 25 and 26 January were more hawkish than the markets had expected. In the wake of Mr Powell's press conference, the financial markets priced in five 25bps rate rises in 2022, taking US rates from 0.25% to around 1.5%.

The Bank of England also wrong-footed markets by raising UK rates by 15bps just before Christmas, at a time when the full effects of the Omicron wave of COVID-19 were unknown. Six weeks later, the Bank raised its interest rate another 25bps, to 0.5%. The third rate increase on 17th March to 75bps, has led Markets to expect UK rates to end the year around the 2% mark. The euro area, which has exhibited more deflationary tendencies than the US and UK over recent years, is on a much slower track. The European Central Bank insists it will freeze rates at the current -0.5% through this year; however markets have become less convinced that the ECB will be able to hold out against the global trend and are now pricing in a 25bps hike in the course of this year. Yet with inflation in the US and Europe at or heading to the 6.0%–8.0% mark (UK inflation reached its highest level in 30 years, with the Consumer Price Index up 5.5% in the 12 months to January), it is appropriate to contemplate a more alarming outcome, in which an upward wage-price spiral keeps the level of inflation high.

In that world, central banks would need to tighten policy much more aggressively, shocking the economy with higher interest rates and a rapid unwinding of quantitative easing. Similar policies crushed runaway inflation in the early 1980s and early 1990s – but at the cost of putting the global economy into recession. It was, perhaps, such thoughts that motivated comments by the Bank of England governor, Andrew Bailey, who stated that it would be “painful” for workers to accept that prices would rise faster than wages, but that some “moderation of wage rises” was necessary to prevent inflation becoming entrenched.

The leveraged loan market has also seen a slower and more volatile start to the year, similarly driven by a combination of central bank policy and the likely fatigue from a record breaking 2021. So far the market has seen two instances of a sell-off in high yield credit. As of 22nd February, the average flow name bid stood at 98.32, driving the average yield on Term Loan B loans to 4.65%, compared to 3.92% in February 2021. And according to LCD, in 2021 the volume of sponsored dividend recaps in Europe reached €20.5bn, accounting for almost 20% of the total volume of sponsored loans reported in the year. This also marked the highest level of issuance and the highest levels of cash returned to shareholders (almost €8bn) since 2007. Another record-setting trend last year reported by LCD was that a staggering 44% (or $147bn) of the unprecedented $331bn in M&A-related loan issuance went to companies rated B-minus by at least one rating agency. By comparison, B-minus rated loans accounted for just 31% of the total in 2019 and 16% in 2007. Fears of declining credit quality suddenly don’t seem so far-fetched, in the public markets at least.

Turning to the private markets, this year marks the tenth anniversary of the Deloitte Alternative Lender Deal Tracker. One observation might be that its title requires a refresh, since for the most part non-bank lending solutions have become the mainstream in the mid-market, something Martin Hook at Five Arrows Principal Investments comments on in our special report. To help assess the state of direct lending today, let’s start with a tale of nostalgia: – in early 2013, one mid-market participant went on record to say that the emergence of private debt solutions, particularly unitranche, was merely a fad and that whilst it suited some situations, wouldn’t receive mass following because it ultimately came at a more prohibitive cost that borrowers would struggle to swallow. Furthermore, there was a suggestion that the bubble would burst on such higher leveraged structures once the asset class experienced its first ‘cycle’. As we stand today that prediction couldn’t be further from reality. The asset class has grown in Europe from about $36.2bn of AuM in 2012 to around $165.1bn today, shrugging off a global pandemic on the way. Whilst there are exceptions, discipline has been maintained in structuring (e.g. with 40-50% equity cushions), and documentation remains much more onerous than in the public markets. Whilst pricing is lower for the strongest credits, it is still an expensive albeit much more flexible alternative to bank capital.

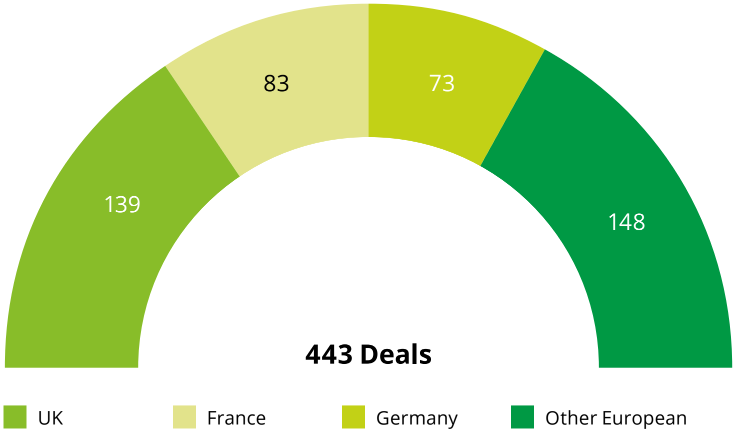
As Michael Dennis from Ares Management alludes, the opportunities for direct lenders have increased significantly. Data from LCD suggests that in 2012, the average deal size across loans and bonds for US and European borrowers in the broadly syndicated market was $655m, with a maximum deal size of $11bn. In 2021, the average deal size was $856m, and the maximum deal size was $15.7bn. In 2009 in the broadly syndicated loan market, tickets sized under €250m represented 79% of all deals, with those between €500m and €999m accounting for only 5%, and there were none at more than €1bn. Fast-forward to 2021, and tickets of less than €250m represented just 8% of transactions, with the bulk of deals (40%) falling in the €500m to €999m band, and a significant portion (20%) sized at more than €1bn. The opportunities haven't disappeared: direct lending is plugging the gap.

Whilst growth in the asset class has accelerated far more quickly than we perhaps expected (and driven by events least expected!) it is still some way off having matured. Broadly speaking, private debt managers have so far pivoted upwards from both a sizing and a returns perspective, as they look to diversify their offerings to include more hybrid solutions that often involve quasi-equity instruments. What they haven't done, from a returns perspective, is pivot down in any meaningful way – the expected large scale movement toward more lowly levered situations has not occurred. So there remains a scarcity of solutions in the 250-500 bps range that could create an additional opportunity set for direct lenders.

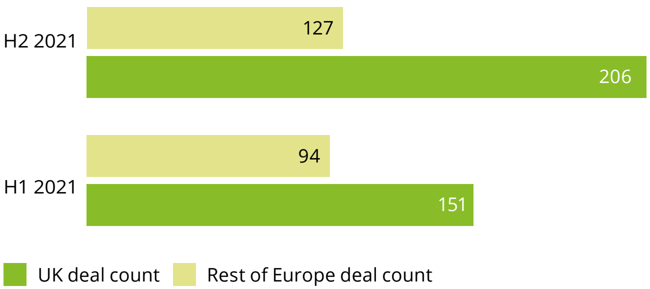
Some will argue that the reason this hasn't occurred is that returns are insufficient for investors. However this argument doesn't hold in the interest rate environment we have been living in for the past decade, in addition to the fact that pension funds have been investing in private placements for quite some time. There are two other trends that we can expect. As companies look to respond to some of the prevailing inflationary, interest rate and supply chain concerns, it will likely drive pockets of earnings volatility and put pressure on debt serviceability in 2022. As a result, borrowers in non-cyclical, service-oriented sectors with recurring revenue models that can demonstrate cash flow stability over time will continue to attract interest, thereby reducing sector diversification. So far as interest rates are concerned, the asset class will continue to draw fresh capital from investors attracted to floating rate strategies and looking to combat the threat of inflation.

We look forward to another ten years of growth, diversification and loyal readership – and with that we thank you for the time you have given to following our publication. Special thanks also go to all of our external contributors in this edition for their thought-provoking insights – without their input, this publication wouldn't be possible.

H2 2021 deals completed



H2 2021 headline figure



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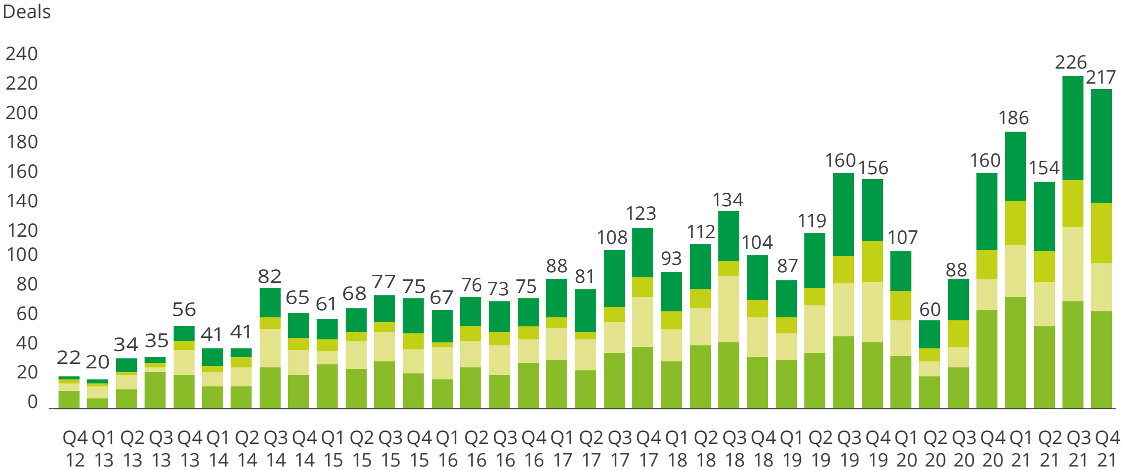
Alternative Lender Deal Tracker H2 2021 Deals

The Alternative Lender Deal Tracker now covers 68 lenders and a reported 3,533 deals

Alternative Lender Deal Tracker

Currently covers 68 leading Alternative Lenders. Only UK and European deals are included in the survey.



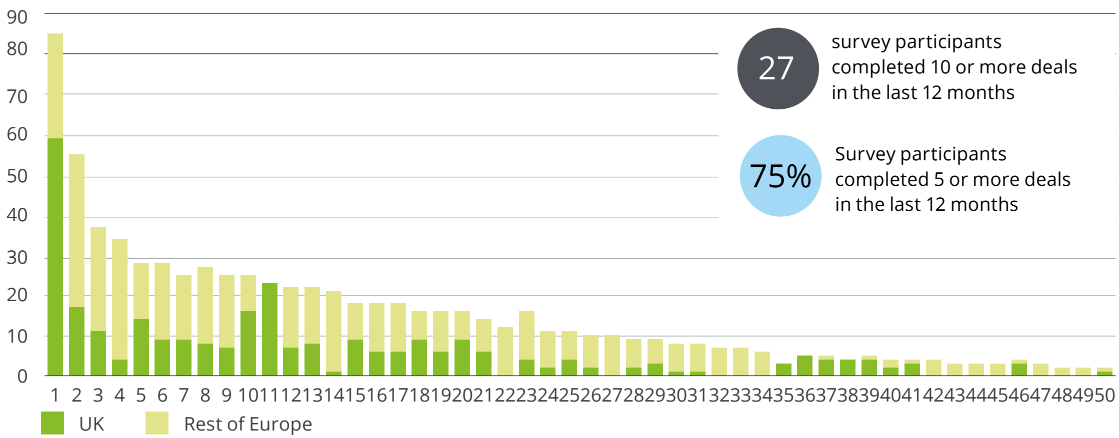
Data in the Alternative Lender Deal Tracker is retrospectively updated for any new participants.

1,259
UK deals completed

2,274
Euro deals completed

3,533
Total deals completed

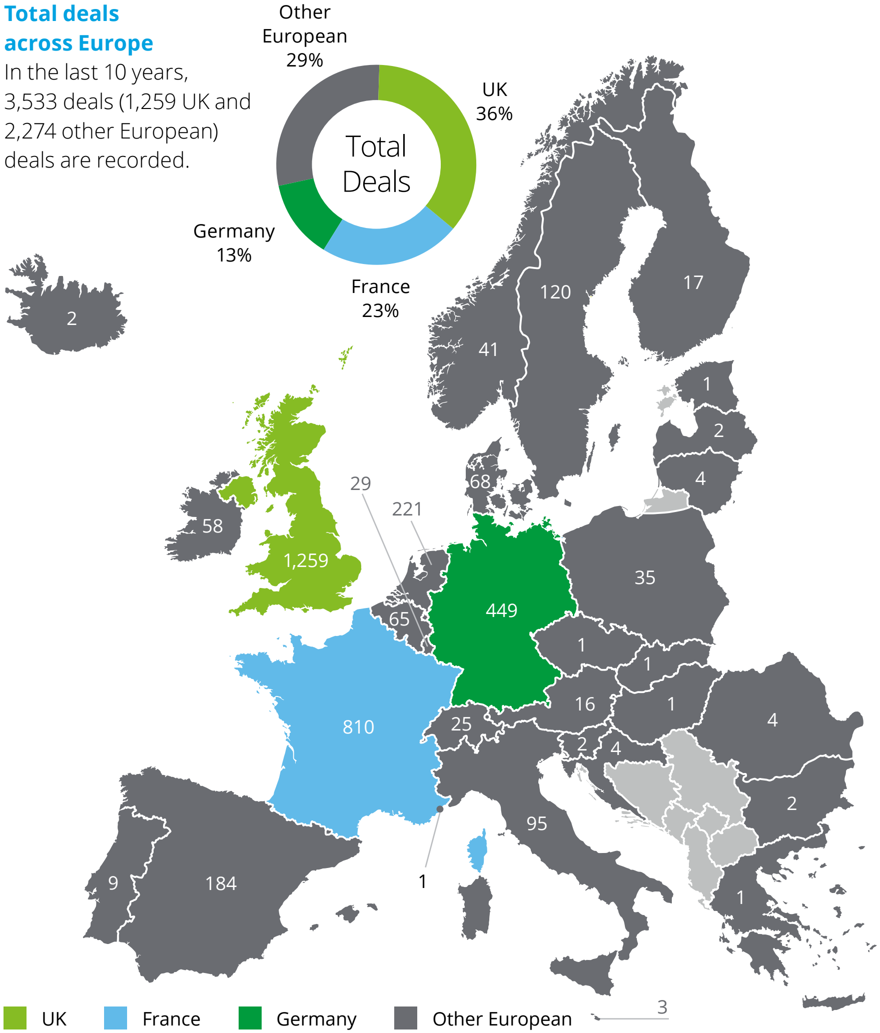
Deals completed by each survey participant (Last 12 months)



Direct Lenders increasingly diversifying geographies

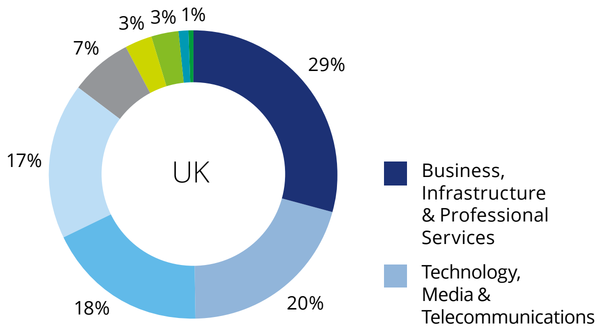
Total deals across Europe

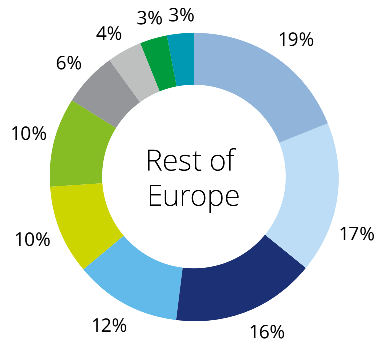
In the last 10 years, 3,533 deals (1,259 UK and 2,274 other European) deals are recorded.



Total deals across industries (Last 12 months)

Within the UK, the Business, Infrastructure & Professional Services and TMT industries have been the dominant users of Alternative Lending.



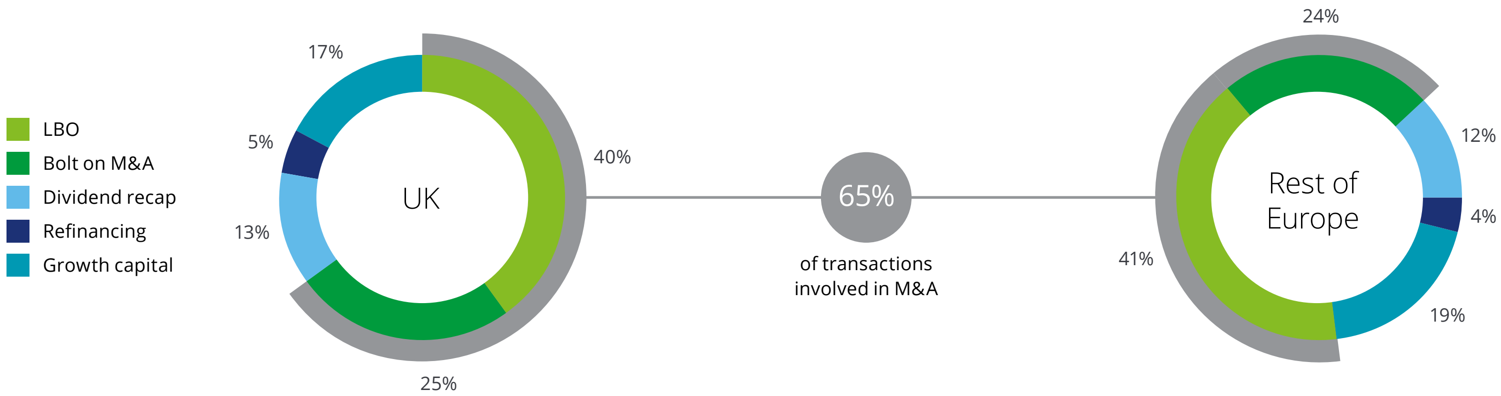


In the rest of Europe there are 5 main industries: TMT, Business, Infrastructure & Professional Services, Healthcare & Life Sciences, Manufacturing and Consumer Goods

M&A activity still the key driver for Direct Lending Deals

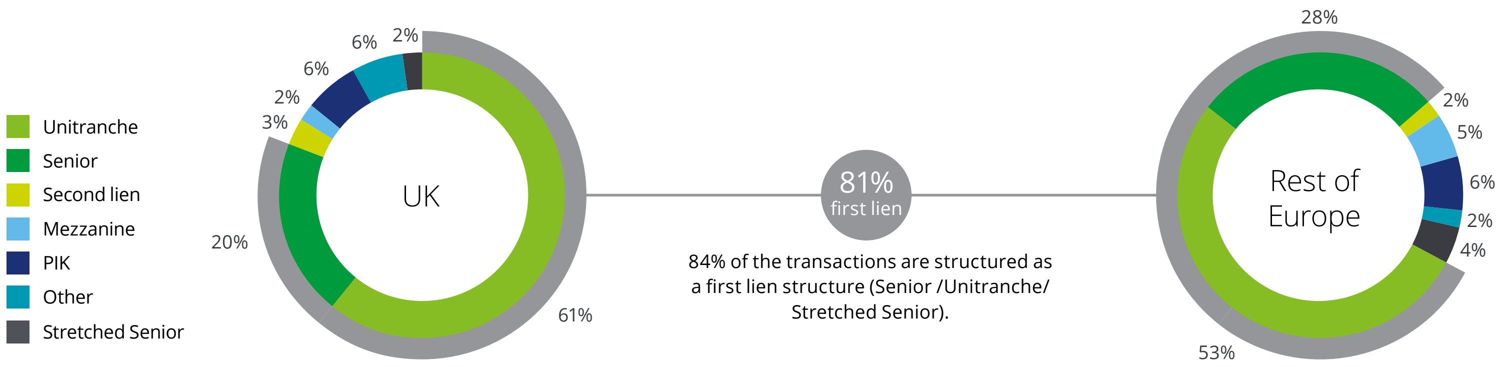
Deal purpose (Last 12 months)

The majority of the deals are M&A related, with 65% of the UK and Euro deals being used to fund an acquisition. Of the 785 deals in the last 12 months, 96 deals did not involve a private equity sponsor.



Structures (Last 12 months)

Unitranche is the dominant structure, with 61% of UK transactions and 53% of European transactions. Subordinate structures represent only 16% of the transactions.



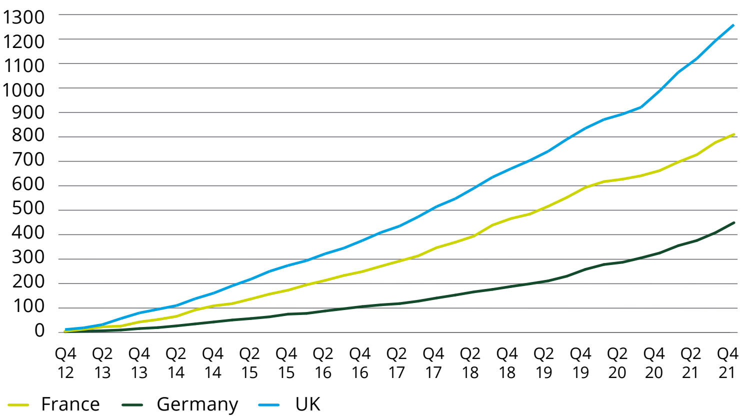
*For the purpose of the deal tracker, we classify senior only deals with pricing L + 650bps or above as unitranche. Pricing below this hurdle is classified as senior debt.

The UK still leading as the main source of deal volume for Direct Lenders in Europe

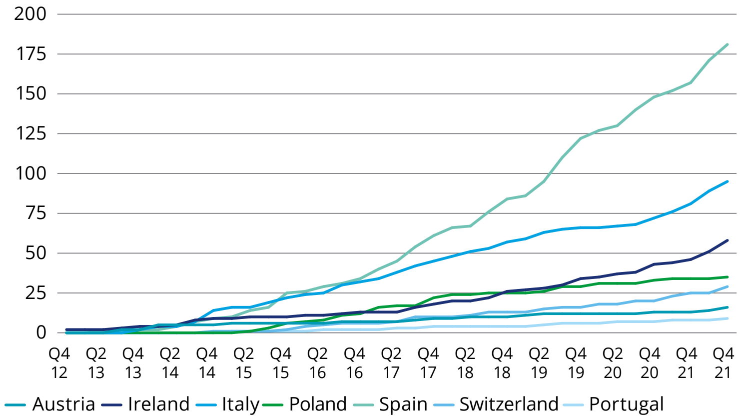
Cumulative number of deals per country

The number of deals is increasing at different rates in various European countries. The graphs below show countries that have completed 5 or more deals till June 2021.

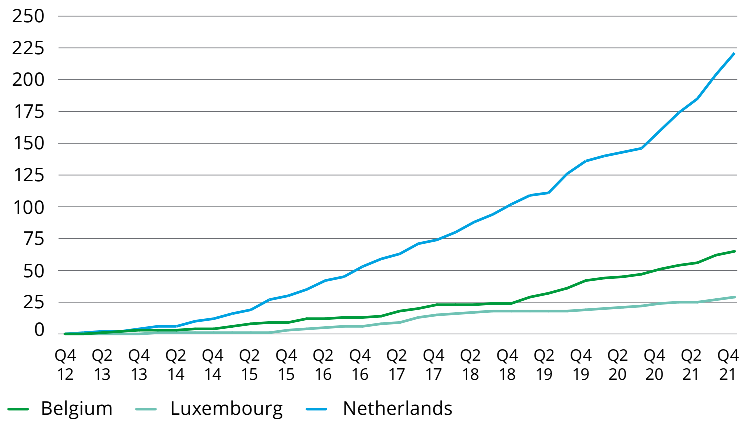
Largest geographic markets for Alternative Lenders



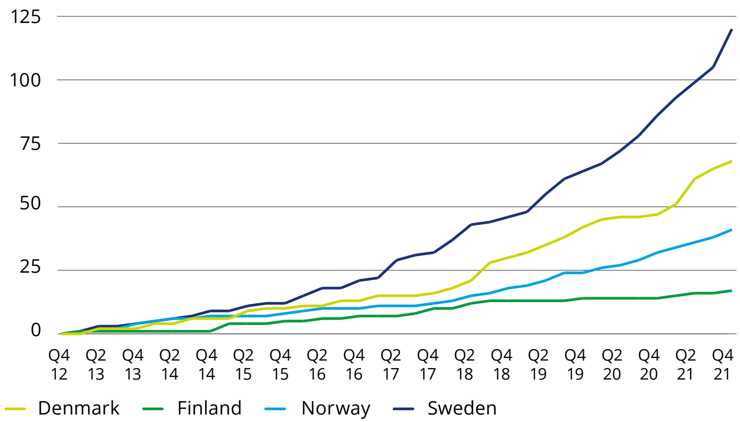
Other European



Benelux

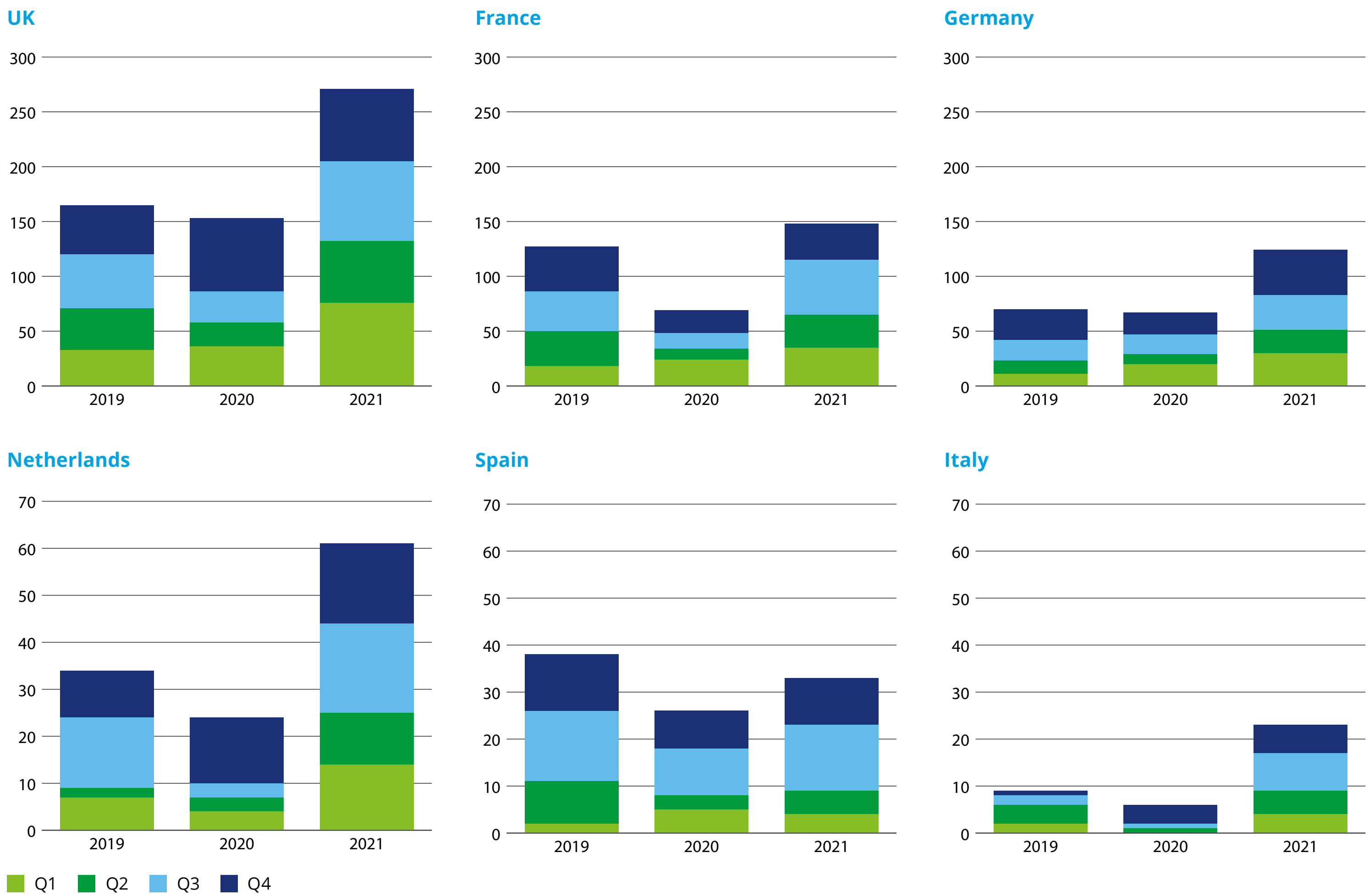


Nordics



Direct Lending is growing in each of the main European markets

Comparison of deals for the last three years on a LTM basis for selected European countries



Which landmark unitranche deals have been completed?

Selected Landmark Unitranche Deals (>€90m)

Borrower	Country	Unitranche in €m	Lenders	Sponsor	Date
FNZ	UK		Goldman Sachs Private Debt, HPS Partners, Arcmont, Hayfin	✓	Dec-21
Flowbird	France		Arcmont, Ares	✓	Nov-21
RSK	UK		Ares	–	Jul-21
ISP	Spain		Arcmont	✓	Jul-21
Charles Taylor	UK		Ares	✓	Jul-21
Acqua & Sapone	Italy		Pemberton	✓	Oct-21
Portman Dental Care	UK		Ares	✓	Dec-21
CaseKing	Germany		Arcmont	✓	Oct-21
ECG	France		Ares, Tikehau IM	✓	Sep-21
Enterprise Software Holding	Germany		Ares	✓	Nov-21
Witherslack	UK		Ares	✓	Jul-21
VetPartners UK Ltd	UK		Ares	✓	Dec-21
Lloyd's Register Quality Assurance	UK		Park Square, SMBC, KKR	✓	Sep-21
Odevo	Sweden		Ares	✓	Dec-21
Relife	Italy		Pemberton	✓	Jul-21
Aroma Zone	France		Pemberton	✓	Jul-21
Lagarrigue	France		Ardian	✓	Jul-21
Iver	Sweden		Ares	✓	Sep-21
Suanfarma	Spain		Ares	✓	Oct-21
EDCO	Netherlands		Pemberton, Tikehau IM	✓	Aug-21
Medivet	UK		Apollo	✓	Oct-21
Funeral Partners	UK		Ares	✓	Nov-21
Photonis	France		Pemberton	✓	Jul-21
Questel	France		Barings, Bridgepoint Credit, Park Square, SMBC	✓	Sep-21
Aspire Pharma	UK		Ares	✓	Sep-21
ESS	UK		Ares	✓	Jun-21
Aspris	UK		Ares	✓	Aug-21
Ardonagh	UK		Ares	✓	Aug-21
Teufel	Germany		Arcmont	✓	Dec-21
Conet	Germany		Ardian, Arcmont	✓	Dec-21
Dantherm	Germany		Hayfin	✓	Dec-21
KME Special	Germany		Hayfin	✓	Dec-21
Zentrum Gesundheit+Real Eyes	Germany		Hayfin	✓	Dec-21
Pirum	UK		Hayfin	✓	Dec-21

0 300 600 900 1200 1500

Borrower	Country	Unitranche in €m	Lenders	Sponsor	Date
Pet Networks	Croatia		Arcmont	✓	Sep-21
Quick	France		Ares	✓	Oct-21
Element Logic	Norway		Ares	✓	Jul-21
Groupe Carso	France		Tikehau IM	✓	Nov-21
Generalife	Spain		Pemberton, Goldman Sachs Private Debt	✓	Aug-21
Astek	France		HIG Whitehorse	–	Aug-21
SLR	UK		Ares	✓	Sep-21
Planethome	Germany		Kartesia	–	Aug-21
Evariste	France		Hayfin	✓	Dec-21
Trackunit	UK		Park Square, SMBC	✓	Dec-21
Engel & Voelkers	Germany		Hayfin, Park Square	✓	Sep-21
SLG	Netherlands		Hayfin	✓	Sep-21
Smile Eyes	Germany		Arcmont	✓	Jul-21
Casa A/S	Denmark		Pemberton	✓	Jul-21
Destiny	Belgium		Tikehau IM	✓	Jul-21
Recoletas	Spain		HIG Whitehorse	–	Jul-21
K2 Partnering	UK		Pemberton	✓	Sep-21
Grant & Stone	UK		Ares	✓	Sep-21
Plixxent	Germany		Pemberton	✓	Dec-21
Artefact	France		Eurazeo Private Debt	✓	Sep-21
Multi-Wing	Denmark		Ares	✓	Aug-21
McLarens	UK		Park Square	✓	Dec-21
European Dental Group	Netherlands		Ares	✓	Sep-21
BioSynth Carbosynth	UK		Park Square	✓	Dec-21
Freepik Company SL	Spain		Pemberton	✓	Dec-21
Adista	France		Eurazeo Private Debt	✓	Oct-21
Orbis	UK		Ares	✓	Dec-21
Aker	UK		Ares	✓	Sep-21
Southern Communications	UK		Ares	–	Aug-21
System C	UK		Apollo	✓	Nov-21
Bellrock	UK		Ardian	✓	Nov-21
X1F	Germany		Ares	✓	Nov-21
BMS	UK		Ares	✓	Jul-21
Themis Risk	UK		Ares	✓	Sep-21

0 300 600 900 1200 1500

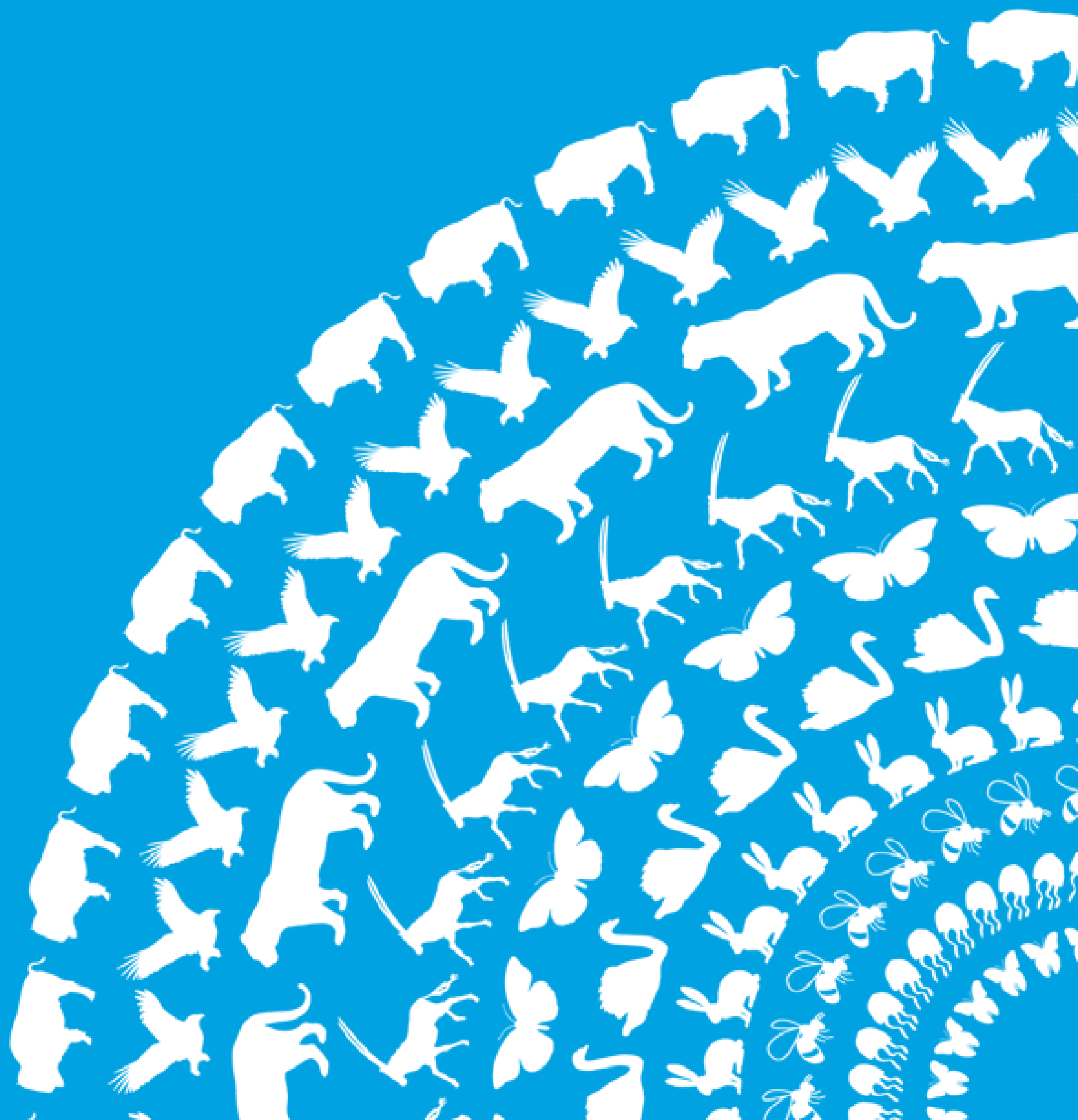
Source: LCD, an offering of S&P Global Market Intelligence, Deloitte research and other publicly available sources

Sponsor-backed opportunities make up the majority of Alternative Lending deals

Sponsor backed versus private Direct Lending deals

As % of total deals per quarter

10 observations in 10 years of the ALDT



10 years of the ALDT – Introduction

In 2012, we set out to track the emergence of a financing solution that had grown in popularity in the aftermath of the 2008/09 Global Financial Crisis ("GFC"). Banks, constrained by capital reserve requirements and a more conservative outlook on risk, began to vacate the mid-market, leaving a door open for direct lenders in the shape of asset managers, pension and insurance funds and sovereign wealth funds looking for yield in a low interest rate environment.

By December 2021, the Alternative Lender Deal Tracker had amassed over 3,500 deals submitted by 68 of the most active lenders in Europe and continues to be the leading voice within Private Debt. In this edition, we reflect on the development of the market, exploring 10 observations in 10 years gathering the thoughts of some of our participants who have shaped the landscape of Alternative Lending.

2012
Deloitte begins collecting data from 20 non bank lenders.

Direct lending AuM in Europe amounts to $36.2bn, with an average fund size of $298m.

2013
The inaugural edition of the Deloitte Alternative Lender Tracker launches in November, reflecting the increasing relevance of alternative lenders for the mid-market corporate landscape.

Direct Lending AuM reaches $53.2bn.

2014
The European direct lending market continues to grow from strength to strength, reaching a value of over €10bn across more than 200 deals in 2014, up from c.€5bn a few years ago.

2015
Unitranche enters the mainstream with the market's largest Euro unitranche to date – €400m provided by Hayfin, ICG, HPS and Bain in the debt funded acquisition of Theorem Clinical Research Inc., by Chiltern International Limited.

AuM grows to $65.3bn.

2016
The UK vote to leave the EU in the Brexit Referendum resulting in a 13% reduction in deal volumes in the UK in H1. UK Direct Lending deal activity bounces back late in 2016 with a 48% increase in transactions closed in Q4 compared with the previous quarter.

The €625m financing by GSO for the acquisition of Polynt S.p.A by Reichold Inc. represents the first bilateral unitranche in excess of €500m.

2017
Throughout the year 36 funds raise a total of $17.2bn with AuM totalling $88.7bn. The share of non-bank lending deals in the mid-market increases to c.40%.

2018 Ares close its largest fund to date at €6.5bn (Ares Capital Europe IV).

European AuM increases to $113.6bn.

2019
The first unitranche in excess of €1bn enters the market with Fortenova Group's €1.2bn refinancing, led by HPS.

2020
The Coronavirus pandemic hits, representing the first real "test" for the asset class. Remarkably, as of today, portfolios have emerged unscathed.

Ares enter into a £1.875bn financing commitment with the Ardonagh Group, representing the largest ever sterling unitranche at almost £2bn.

2021
Unitranche facilities in excess of €200m are common, reaching a number in excess of 50 per annum by 2021.

Whilst we predicted that the proportion of sponsorless deals would increase significantly over time in line with increasing AuM, only 12% of the deals reported to Deloitte in 2021 were sponsorless, vs a 10 year average of almost 20%.

Average fund size reaches $1.2bn with AuM totalling $165.1bn.

2022
On the 10th anniversary of tracking the Alternative Lender market, 68 lenders now contribute to the publication.

Private debt is considered a major asset class in its own right with the share of non-bank vs bank lending swinging from a 20:80 split in 2012 to roughly 80:20 in 2021.

Over the last 10 years, the average fund size has increased by a staggering 513% to $1.9bn.

10 observations in 10 years

1. In a (asset) class of its own

Non-bank lending can no longer be seen as a sub-class of the wider alternatives/fixed income investment buckets as investors earmark capital for Private Debt funds.

At the inception of the ALDT, we typically saw investments in Private Debt funds forming a small part of an allocation within a much broader strategy such as alternative investments or fixed income. Today, Private Debt is seen as an investment strategy in its own right, evidenced by the sheer scale of fundraising in Europe ($44.2bn raised in 2021).[1]

Over time, Private Debt has itself become an attractive investment for LPs with a balanced risk / reward profile, largely the result of a combination of yield and robust downside protection. What is clear is that the asset class lends itself well to opportunities across the risk spectrum. This is showcased by managers holding about €300bn in AuM today compared to around €60bn in December 2012, and by the number of Sovereign Wealth Funds – such as GIC and Temasek – that have set up their own platforms to invest in the asset class directly. This development has been helped by a conducive regulatory environment that has tied the hands of traditional banks in servicing the mid-market, notably Basel III, UK ring-fencing laws, and the ECB leveraged lending guidelines, creating a vacuum for debt products that has been filled by private funds.

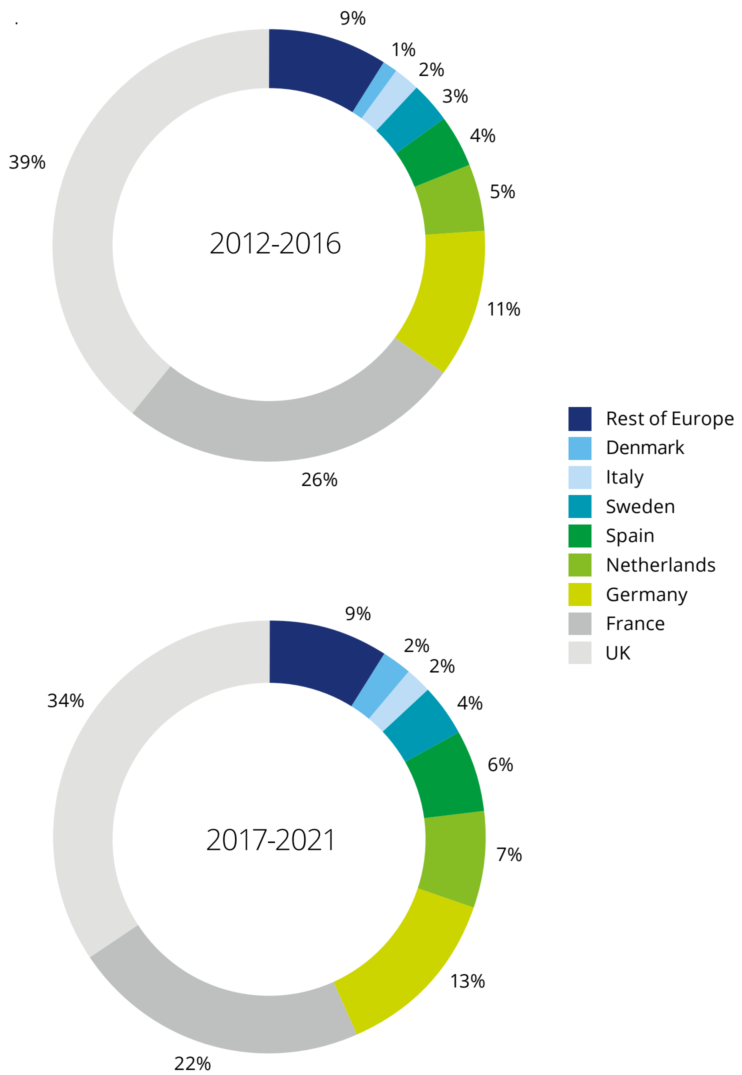
The UK, France and Germany have been the most popular destinations for Alternative Lending; however, the sophistication and deliverability of debt products across the rest of Europe has led to a decline in the average share of deals held by the top three countries, from 75.5% in 2012-2016 to 70.0% in 2017-2021. The regions that have seen the largest growth in the past ten years include the Nordic countries (Sweden, Denmark, Norway, Finland) whose share increased from 5.2% in 2012-2016 to 7.6% in 2017-2021 and the BENELUX markets (Belgium, Netherlands and Luxembourg) whose average deal share has increased from 7.4% in 2012-2016 to 9.4% in 2017-2021.

[1] Preqin Data

"Growth in the asset class has been driven by a powerful combination of supply and demand side drivers. On the supply side, traditional mid-cap corporate lenders, European banks, became subject to higher capital charges, more burdensome lending rules, and the desire by regulators for less risk in taxpayer-backed institutions which decreased the supply of loans. Debt providers who started out as mezzanine funds or CLO managers looking to escape a shrinking product or add diversity to their fund line-ups offset this. Many larger PE players that had or have ambitions of going public aggressively bolted on debt platforms to provide scale and growth to their alternative asset platforms. Pure alternative credit platforms like Pemberton saw the market potential to fill the void created by banks withdrawing from mid-market corporate lending and built large sale lending businesses. On the investor demand side, over time, Private Debt markets were found to offer low volatility, higher yields, and low default rates. This increased their appeal to insurance companies and pension funds. All these factors have resulted in increased investor allocations to the Private Debt asset class."

Eric Capp, Partner & Head of UK, Pemberton Capital Advisors LLP

Average country % 2012-2016 and 2017-2021



"Private Debt initially gained the most traction in the UK and Germany, mirroring levels of activity in the two most mature markets in Europe for the Private Equity industry. In the past decade however the internationalisation of Private Debt managers has seen many open up in other areas in mainland Europe. This has resulted in the largest players being truly pan-European in their approach. At Arcmont we are organised across four regions (the UK, DACH, France and Southern Europe), each with a deep bench of highly experienced local market professionals.
This ensures we have excellent origination networks across Europe, with a deep understanding for the nuances and commercial dynamics in local markets, while maintaining a collegiate approach and a common investment DNA across the entire team."

Ben Harrild, Partner, Arcmont Asset Management

10 observations in 10 years

2. Uncertainty begets opportunity

Market shocks have provided a platform for Alternative Lending to thrive. Initially, Private Debt funds sought to differentiate themselves from traditional bank lenders, and subsequently from each other.

Direct lending is not a particularly new invention, but the sheer volume of capital raising and deployment is a recent phenomenon. Lending to companies has never been more exciting and hotly contested. There has been a surge in the popularity of these deals in the aftermath of market shocks and events of great uncertainty, pointing to an ever-growing appetite.

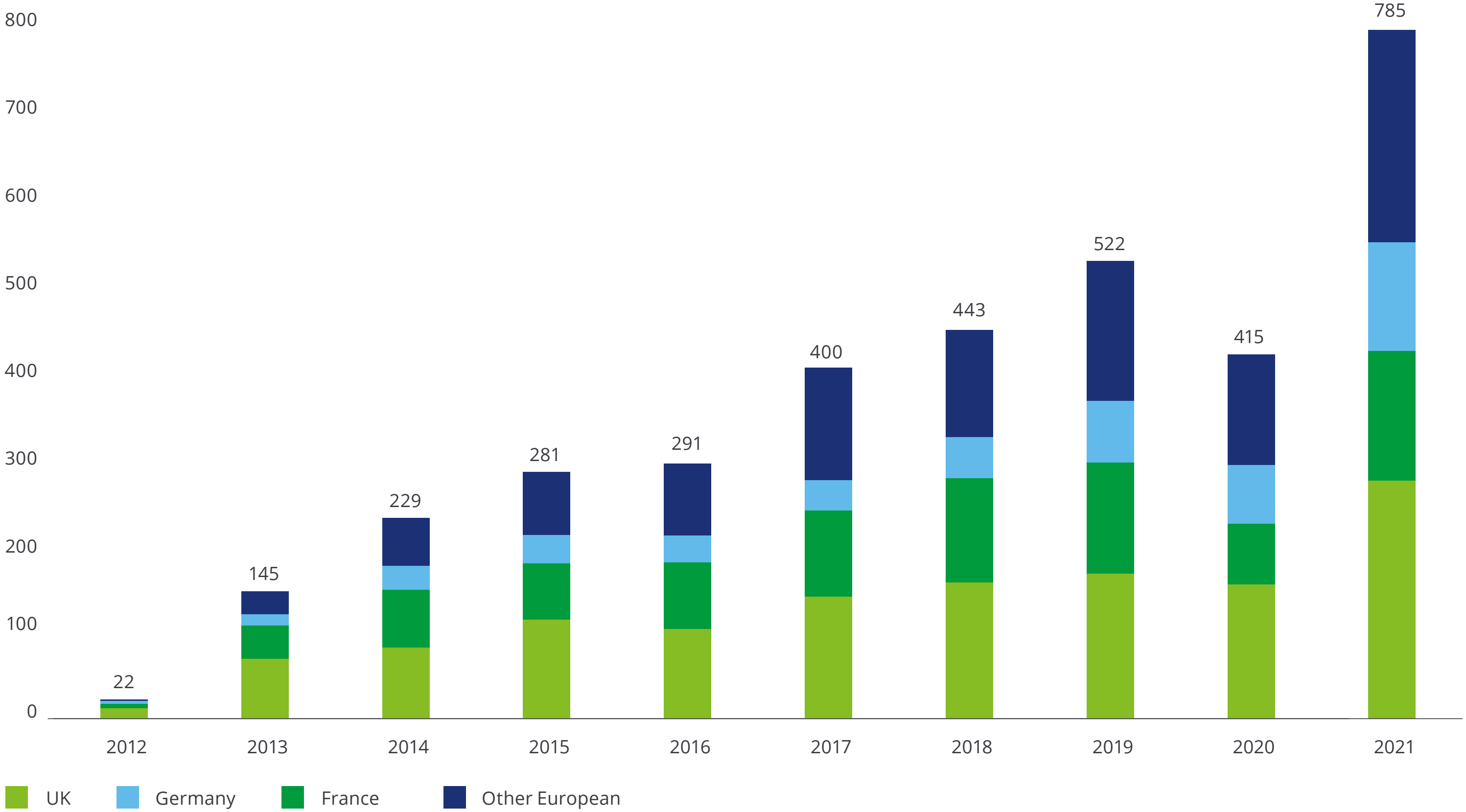
The 2008-09 GFC is widely 'credited' – for lack of a better word – as the catalyst for the adoption of Private Debt globally. In Europe, the Basel III capital requirements introduced in response to the crisis forced banks to take a more cautious view of investments and lending strategies, leading to a reduction in riskier assets across their balance sheets, to the detriment of potential borrowers in the mid-market. This is evidenced by banks providing approximately 80% of the lending to the European mid-market in 2012, compared to about only 20% today.

There was a surge in Alternative Lending activity following the 2016 Brexit referendum too – annual deal volume growth was 37.5% in 2017 compared to 3.6% in 2016 and 10.8% in 2018. While the full extent of the impact from COVID-19-related restrictions is still to be seen, 2021 saw a year-on-year growth in deals of 89.2%. We would expect, however, that with the withdrawal of the unprecedented levels of government support and maturing of facilities taken out in response to the pandemic, there will be a further increase in demand 2-3 years down the line for debt products from alternative lenders.

"Direct lenders have filled a necessary and critical gap in the market by providing flexible capital solutions, allowing them to develop long-term, strategic relationships with management teams and sponsors. At Hayfin, we have established partnerships with borrowers and sponsors that we have backed throughout the last ten years, helping them find a range of financing solutions to strategic issues including M&A, changes in ownership and external shocks such as Brexit and COVID. This partnership-based approach combined with an ability to grow and adapt with our borrowers is a core part of our philosophy."

Mark Bickerstaffe, Managing Director (Private Credit), Hayfin

Yearly deal count indicating Brexit referendum and COVID-19 pandemic



10 observations in 10 years

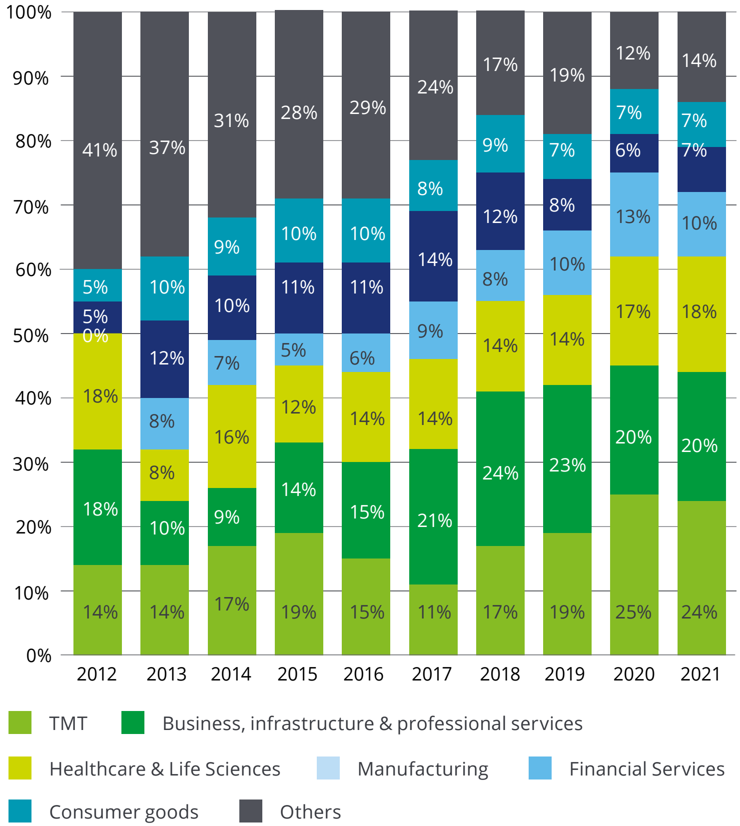
3. Captains of Industry

TMT, Healthcare & Life Sciences, and Business & Professional Services have proved the most popular sectors.

The uncertainty that begets the opportunity may drive overall deal volume to new heights, but it has also led alternative lenders to consolidate their investments in perceived quality assets within three sectors in particular – TMT, Healthcare & Life Sciences, and Business & Professional Services. In general, these sectors are attractive for lenders as their businesses are typified by higher quality, recurring revenue with market tailwinds that support future growth. This is further observed by landmark unitranche deals in these spaces, notably:

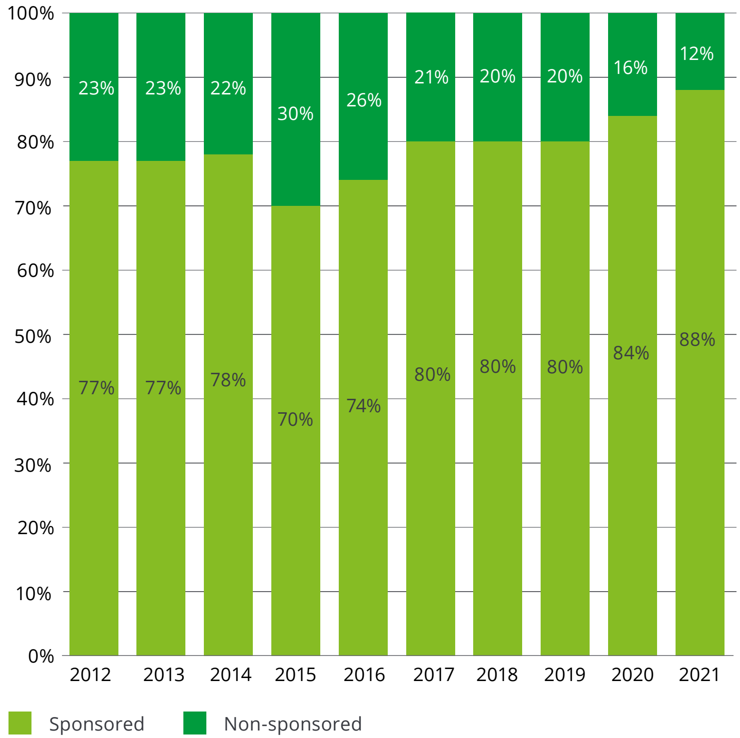
- the largest Euro unitranche to date occurring in 2015: Hayfin, ICG, HPS and Bain provided €400m to support Chiltern Capital's acquisition of Theorem Clinical Research
- £1bn refinancing by Ares of the British telecoms company, Daisy Group, in 2019
- £1.5bn unitranche refinancing facility by HPS, Goldman Sachs Asset Management and Hayfin for FNZ, a British wealth management technology company, in November 2021.

Sector split % over time



Increased Alternative Lending activity in these sectors can be observed in the flourishing M&A activity in these spaces – Mergermarket reports that in 2021, Private Equity acquisitions in Europe surged by nearly 80% to a record €249.4bn with TMT accounting for 40% of the total, Healthcare for 14%, and Professional Services for 9%. Now more than ever lenders are opting for sponsor-backed opportunities: these deals have increased steadily since 2012 and made up 88% of the overall volume in 2021. Not only do the economics of a supportive, deeply pocketed owner make sense for a deal, but the prospect of partnering with a reputable PE house could yield repeat business in the longer term, as PE appetite shows no signs of abating. Such is the scale of opportunities, Private Equity houses have increasingly set up their own Private Debt platforms, as seen with Bridgepoint establishing Bridgepoint Credit in 2010.

Sponsor backed deal % over time



10 observations in 10 years

4. Win-Win

Borrowers caught short by bank retrenchment have benefitted from the rise of Alternative Lending.

While most of the spotlight has been focused on the successes of the lenders and the LPs behind them, attention should be paid to borrowers as the other beneficiaries of the rise in Alternative Lending. Borrowers are typically mid-market corporates wanting to access products no longer available from banks or to obtain funding that might not have been provided by banks in the first place as direct lenders are able to lend deeper into the capital structure. This has enabled companies to pursue accretive growth opportunities which otherwise may have been forgone – see page 59 for a worked example of this.

The increased flexibility, speed and certainty of execution and an ability to obtain funding at higher leverage multiples are a result of the increased sophistication, track record, and competitive environment that direct lenders have developed over the years. In order to broaden their appeal to a more diverse range of borrowers, incumbent players have also sought to broaden their suite of direct lending strategies and products, from more liquid senior debt strategies to hybrid asset-based lending (ABL) and specialty finance.

Borrowers (and sponsors) have also pointed to the increased potential for a closer relationship with direct lenders compared to the liquid credit markets. This is aided perhaps by the information asymmetry that forces lenders to insist on more comprehensive diligence requirements, thereby allowing for a greater understanding of the borrower's business and its 'soft' information factors, as opposed to relying on external ratings agencies or investment bank research. These relationships could lead to favourable terms and a 'route-in' for additional facilities, as well as increasing the likelihood of an amicable way forward following a credit event.

Finally, as we move to an increasingly competitive landscape in which lenders are vying to deploy the record level of 'dry powder' built up throughout 2020 and 2021, borrowers are able to benefit from higher leverage multiples, more modest pricing and less restrictive covenants.

"The development of the direct lending market during the ten years since the inception of the Deloitte deal tracker has been quite remarkable. What started as a solution to replace traditional (or what I guess we would now call 'old-fashioned') senior and mezzanine deals in select situations where borrowers were looking to stretch leverage that little bit further, has now become the de facto instrument of choice for the financing of private equity transactions. Flexibility, deliverability, creativity and a partnership-oriented approach have been key to this, and these attributes look set to sustain continued growth in the asset class for the foreseeable future."

Martin Hook, Co-Head of Five Arrows Direct Lending, Rothschild & Co

5. Revenge of the banks

Not content with sitting on the sidelines, banks have responded to the reduction in their market share, most recently through clever positioning of their in-house asset management businesses.

Although alternative lenders have stepped in in to fill a vacuum of funding left behind by banks, some banks have responded to the regulatory measures designed to curb (deemed) excessive risk-taking, and in part have reassessed their own risk appetites. These lenders have typically been independent fund managers, but over the past decade the asset management arms of the more recognisable retail and investment banks (Bank AMs), such as Goldman Sachs, HSBC, and Investec, have sought aggressively to build deal share as well as compete for institutional investment, in order to bolster their reduced firepower from traditional balance sheet lending practices.

Bank AMs are able to make use of their brand and reputation built up over many decades, which may allow them to gain trust more easily from mid-market corporates whose management may not be as familiar with other players in the private fund universe. They are also able to capitalise on the vast centralised resources that their wider banking group has to offer, which could make origination and research processes more efficient.

10 observations in 10 years

6. The ESGeneration

Sustainability-linked loans are here to stay.

Participants in public and private financial markets globally have woken up to Environmental, Social and Governance-related issues that could disrupt the way their businesses operate and become top priorities for lenders and borrowers alike. The most prevalent examples are climate change and gender and race inequality, but other issues include business ethics and culture, product safety, and selling practices.

ESG-Loans or Sustainability Linked Loans underpin the mid-market ESG lending space. Introduced in 2017, these facilities align a borrower's financing to one or more ESG performance targets by offering an incentive in the form of downward margin ratchets should the targets be met. Private Debt has been slightly slower to expand its presence in sustainable finance, but a new era began in Q3 2020 when Barings provided Europe's first ESG unitranche facility of €130m to back Eurazeo's acquisition of UTAC-CERAM. More recently in August 2021, Ares announced that it would provide a £1bn financing package for the RSK Group, the UK's largest privately owned multi-disciplinary environmental business – the facility includes an annual margin review based on the achievement of certain sustainability performance targets.

With Private Debt on track to be the fastest-growing asset class from 2021-2026, it's clear that ESG-related financing will contribute a significant portion of that growth, particularly as governments, markets and societies turn their attention – and their resources – to solving the most pressing issues of our time.

"ESG is an increasingly important element in our overall credit analysis for any new transaction. In addition we have recently started to provide ESG-based portfolio reporting. With regard to ESG-linked margin ratchets, we think that they should be based on trackable performance indicators. These ratchets should include both margin decreases and increases depending on whether targets are met or not."

Nicole Waibel, Managing Director, Crescent Credit Europe

7. Alternative by nature

Alternative Lending has proven to be a viable alternative to the syndicated market, and the opportunities continue to increase.

The Private Debt market has increasingly been seen as a replacement to the often-unpredictable syndicated market, not least because alternative lenders are becoming ever more capable of writing tickets of similar size to a typical syndicated loan deal, with unitranche deals over €/£1bn often making headlines. A combination of greater speed and certainty of execution, greater flexibility with respect to terms and structuring to match business needs, and the absence of rating requirements provide borrowers with a persuasive argument for considering a direct lending solution.

As the asset class has attracted ever larger quantities of funding from LPs, the market has become more hotly contested, and a consequence has been that a number of managers have looked to infiltrate other markets. For those that have raised larger funds, the inclination may be to compete head on with the large cap syndicated markets. However, rather than making a wholesale change in strategy, stronger managers have retained a focus on their traditional mid-market 'bread and butter' whilst at the same time expanding their opportunity set. Having then proven the success of this model, they have been able to raise ever larger funds, as large LPs give preference to managers with the strongest track records. As a result, we appear to have reached a stage in the market where newcomers are finding it increasingly difficult to raise enough to compete in the mid-market. Instead, new platforms tend either to focus on hybrid credit opportunities, or to operate in the lower mid-to-small cap markets where a scarcity of solutions remains.

"Over the past decade, direct lenders who have been able to gain scale have seen a significant expansion in their addressable markets. Specifically, a small number of direct lenders have been able to provide borrowers a real and credible financing alternative to the broadly syndicated loan or high yield market. In certain situations, this alternative has clear advantages to the borrower, including: speed of decision making, flexibility, confidentiality and deliverability of execution. A number of recent transaction examples highlight this trend including the £1.9 billion financing commitment to Ardonagh, the UK's leading insurance broker. We believe this convergence trend between the private and public debt markets is set to continue."

Michael Dennis, Partner and Co-Head of European Credit, Ares Management

10 observations in 10 years

8. Documentation irritation

Increased flexibility comes at an A4-sized cost.

Legal documentation for the most part remains onerous. Whilst documentation may have become more standardised over the years thanks to industry bodies such the LMA, a mid-market leveraged finance agreement can span on average hundreds of pages. This is in stark contrast to other alternative assets, such as real estate, where the average agreement amounts to significantly fewer pages. Not only is this a bugbear for many management teams, it also translates into increased advisory fees and legal fees, not least because lender's counsel is typically paid for by the borrower.

One likely reason for the extensive documentation is the additional operational flexibility sought by lenders and companies in negotiation. Implementing new covenant regimes, for example with the advance of recurring revenue-based facilities and ESG margin ratchets, come at the cost of word count. As borrowers (and ticket sizes) get larger, operational complexity increases and such flexibility does not scale as well with regard to the documentation, which becomes even more cumbersome.

"Documentation for Private Debt deals still remains lengthy compared to other classes of investments, but this is reflective of the fact that Private Debt is secured illiquid lending which will often centre around a complex deal structure and covenants (maintenance or otherwise) that have, to an extent, become more flexible but are actually a lot more focused and tailored to the specific business and its growth needs – there is nothing 'vanilla' about Private Debt."

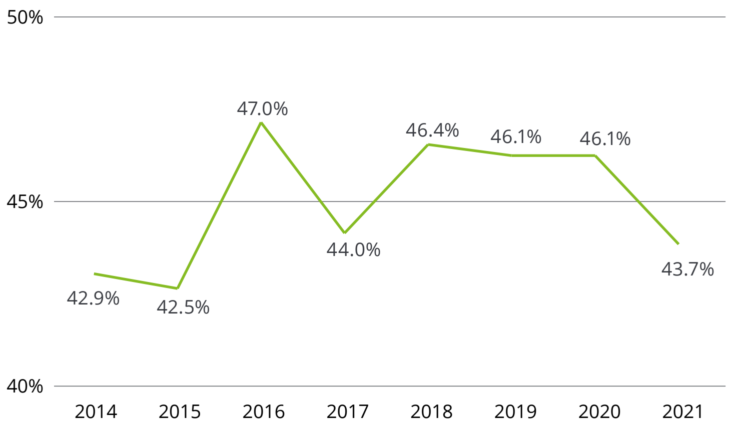
Smridhi Gulati, Partner, Dechert LLP

9. Cheque please

Equity cheques have remained high as lenders maintain discipline.

Pre-GFC, there was an abundance of deals with equity contributions as low as 30% of the overall deal value, often leaving lenders with a significant exposure to less liquid investments. In the immediate aftermath, markets considered this to be too risky, and equity contributions on average have recovered to between 40% and about 50% (not to say that 30% equity-funded deals do not exist, but they are far and few between, or feature a hybrid debt/equity component). Clearly, some hard lessons were learned by lenders, which should be commended for maintaining discipline, as it has helped them to weather the storms of subsequent market shocks such as the Brexit referendum in 2016 and the onset of the COVID-19 pandemic.

Average Equity Contribution



Source: S&P Leveraged Commentary & Data

10. Not-so-deeply floored

The increasing allocation by institutions towards direct lending hasn't caused the expected pivot down towards the private placement market.

The attractiveness of direct lending to insurance and pension funds comes as no surprise. The shift in portfolio allocation to the asset class follows an established trend of institutional investors seeking higher returns in a historically low-yield environment. Whilst a fiercely competitive environment has created some pressure on returns to investors, thereby reducing costs to borrowers of Private Debt products, there hasn't been any meaningful pivot down towards the pricing levels on offer from traditional bank lenders. As such, there remains a scarcity of solutions in the 250-500 bps range that could create an additional opportunity set for direct lenders. Some will argue that the reason this hasn't occurred is precisely that returns are not sufficient for investors; but this argument does not hold in the interest rate environment of the past decade, in addition to the fact that pension funds have been investing in private placements for quite some time.

10 observations in 10 years

When asked about Europe's escape from austerity in the aftermath of the GFC in a 2012 interview with The Guardian, Christine Lagarde, then head of the IMF declared: "I'm not in the business of reading tea leaves. I don't have a crystal ball." Just as well: in the decade following the interview, Europe eventually did escape from the grips of economic destitution but walked into events that – at the time – were unforeseeable: the fracturing of the European project, a once-in-a-century pandemic; and the return of war in Europe. Throughout all this, we have seen Alternative Lending grow into the asset class that dominates the European mid-market today.

The next decade will pose even further challenges and opportunities for investors, managers and borrowers alike, notwithstanding the fallout from these events continuing. How geopolitics and the regulatory environment will change is anyone's guess. The only certainty is that there will be more uncertainty. Time to get rid of the tea leaves and crystal balls, if you haven't done so already. Here's to ten more years.

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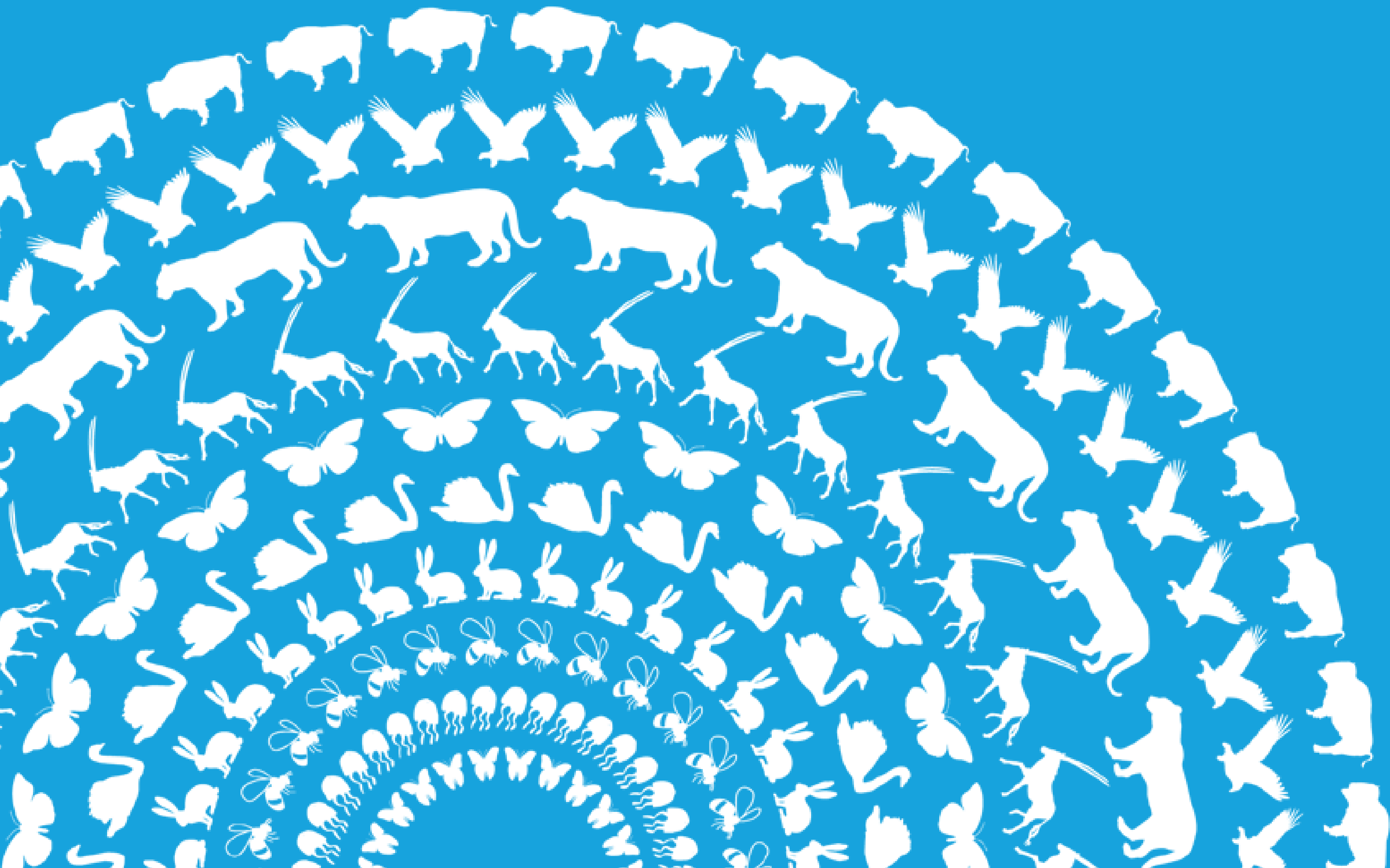
Structuring your next European Credit fund



Structuring your next European Credit fund – where to put the fund investing special purpose vehicle, i.e., the "Box"?

With both investors and tax authorities increasingly focused on fund structures, the domicile of the 'Box' is an important structuring decision for any fund manager establishing a European Credit fund.

With investor appetite for Credit as an asset class remaining strong, 2022 is expected to be another buoyant year for fundraising and deployment.

The choice of holding company jurisdiction is an important decision for fund managers when structuring their European Credit fund. Dubbed the "UK's answer to the LuxCo", and with generous tax benefits including no withholding tax on interest payments, the UK's new Asset Holding Company Regime (the "UK Regime") for fund managers and certain institutional investors is a potential game-changer for the funds industry. Fund managers will be able to manage fund and investment decisions more efficiently where assets are held within the UK Regime.

The UK Regime becomes effective on 1 April 2022, but by considering the opportunities and practical challenges of the regime now, UK-based fund managers can ensure they are ready to take full early advantage of its benefits in a way that is appropriate for their existing strategies, investor base, and governance frameworks.

A viable alternative to Luxembourg and Ireland?

HM Treasury and HMRC have done an excellent job in engaging with the advisory community and industry stakeholders on the design of the UK Regime, and HM Treasury's latest consultation, together with the publication this month of helpful HMRC guidance on the UK regime, enforces the UK Government's policy objective of delivering an effective and internationally competitive tax regime.

Put simply, the UK is positioning itself as a viable and compelling alternative to Ireland and Luxembourg, jurisdictions which have historically been favoured by fund managers when structuring their European Credit funds.

Feasibility studies

Unlike the equivalent regimes in Luxembourg and Ireland, eligibility for the UK Regime depends on meeting certain ownership conditions. At Deloitte, we have been working with fund managers to examine their existing arrangements so that they have a clear view on how best to make use of the UK Regime within their investment strategy when the rules come into effect.

These 'feasibility studies' have provided fund managers with greater:

- certainty in the event they choose to use the UK Regime
- flexibility in the way they approach their fund structuring, including the description of the intended fund structure in the Private Placement Memorandum
- clarity when responding to investor due diligence questionaries regarding the intended investment structure.

> "It won't be for everyone, at least not immediately; but for certain fund managers, the UK Asset Holding Company Regime is a clear opportunity to reduce fund expenses and deliver operational simplification."

For some fund managers, feasibility studies have been an opportunity to examine their existing governance procedures and physical/economic footprint in Luxembourg and Ireland against the backdrop of various EU initiatives such as the EU's Unshell Directive. These initiatives have generally resulted in fund managers increasing their headcount, with fund returns reduced by the resulting increase in costs, exacerbated by wage inflation and a restricted labour market, particularly in Luxembourg. By asking "How are decisions made?", we have been working together with fund managers to test the robustness of their Box decision-making procedures, and whether that might improve under the UK Regime.

Faced with the choice between investing in and maintaining a credible EU platform or setting up the Box in the same jurisdiction as the UK management team, some fund managers are closely examining their regulatory and operating model. It won't be for everyone, at least not immediately; but for certain fund managers, the UK Regime is a clear opportunity to reduce fund expenses and deliver operational simplification. In particular, the flexibility to manage investment decisions for the Box in the UK will appeal to some UK-based fund managers.

We have also seen certain tax-exempt institutional investors that have historically invested through Luxembourg and Ireland for their separately managed accounts (i.e., 'fund of one') looking to pivot to the UK Regime, as they continue to focus on the symmetry of the Box with the domicile of the investor or with the primary location of the fund manager.

Key challenges and practical considerations

One of the key drivers for choosing Luxembourg or Ireland as the domicile for the Box is the stability of their political regimes and their commitment to being a holding company jurisdiction, and more recently, fund domicile.

Another key driver is the certainty and familiarity among all key stakeholders in the fundraising process – everyone knows how it works. A key challenge for the UK will be to offer the same level of certainty. At Deloitte, we continue to work with relevant government stakeholders and believe that the advisory community will play an important role in administering the UK Regime.

Finally, the attractiveness and usability of the UK Regime will depend to a significant degree on how easy it is to navigate the eligibility criteria, and to gather and administer the information on investor tax status from investors (who may not be familiar with the Regime rules and concepts). We are in the process of developing model governance systems (including repurposing existing investor reporting systems) to make this process as painless as possible.

While many advisors have written about the UK Regime, they often do not cover the operational aspects associated with it. We have been working with CFOs and fund administrators to work through operational issues of the UK Regime including how the UK Regime will be recognised in EU jurisdictions; possible regulatory issues; transfer pricing and accounting policies; discussions with banks regarding third party leverage; carried interest and co-investment, and cash repatriation mechanics to the fund.

Why choose Deloitte as your advisor for your next European Credit Fund?

Founded with deep industry experience and a cycle-tested leadership team, Deloitte is a partner of choice for alternative asset managers establishing European Credit Funds. Offering 'end-to-end' advice, including fund governance and operational aspects, our advisory practice is built on trust and "applied taxation", across the UK and the EU.

About the authors

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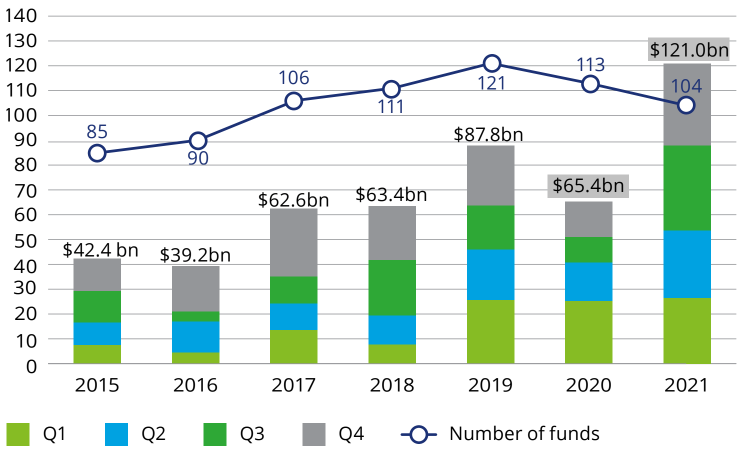
Joe Macklin-Gray is a Director in the Private Market Funds team at Deloitte, leading our offering in relation to the UK Asset Holding Company regime. Joe has been heavily involved in the consultation process for the Regime, including the working group reviewing the Draft Guidance, drawing on over 15 years' experience advising private fund managers and their investors on structuring and transactional tax matters across asset classes.

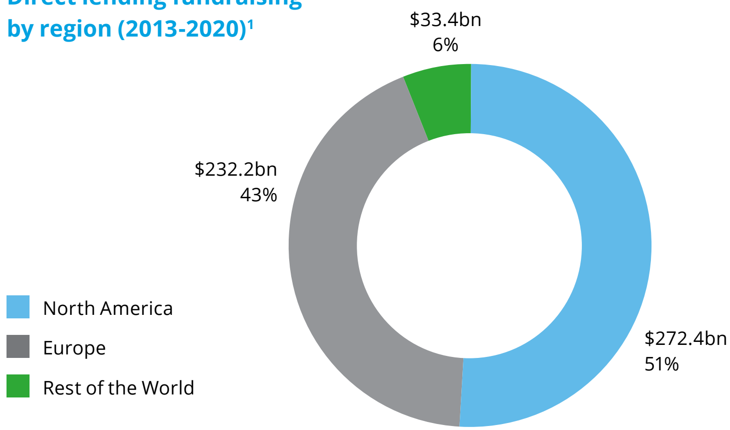
Direct Lending Fundraising

Direct Lending fundraising

Global direct lending fundraising by quarter[1]



Direct lending fundraising by region (2013-2020)[1]



Select largest European funds raised in 2021[1]

- Ares Capital Europe V **– $13,237m**
- Arcmont Senior Loan Fund II **– $5,843m**
- Strategic Value Special Situations Fund V **– $5,000m**
- Ares Pathfinder **– $3,600m**
- Park Square Capital Partners IV **– $2,676m**

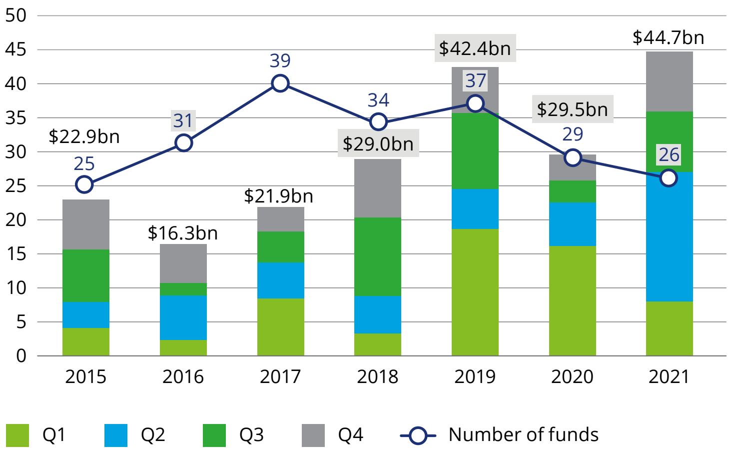
Select largest US funds raised in 2021[1]

- Oaktree Opportunities Fund XI **– $15,900m**
- HPS Specialty Loan Fund V **– $11,700m**
- Ares Senior Direct Lending Fund II **– $8,000m**
- Ares Private Credit Solutions II **– $5,100m**
- Broad Street Loan Partners IV **– $4,445m**

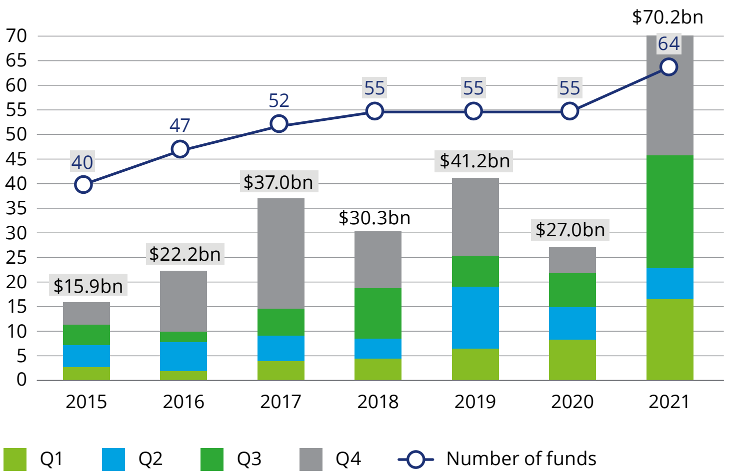
[1] Data sourced from Preqin

Direct Lending fundraising

Europe Direct Lending fundraising by quarter[1]



North America Direct Lending fundraising by quarter[1]



Global Trends[1]

- Private debt continued to do well in post-covid recovery period, with future AUM growth to be driven by investors' search for yield and higher returns
- PD AUM passed the 1 trillion mark at the end of 2020 and stood at $1187bn as of June 2021, having increased every year for two decades
- Preqin predicts that Private Debt AUM will rise to $2.69tn from 2021 to 2026, a CAGR of 17.4%, expected to make private debt the fastest growing asset in private capital
- Fundraising in PD was very strong over 2021, with 202 funds closed raising an aggregate $193.4 bn, up from $169.1bn in 2020
- Direct lending funds in market continue to increase, with 374 currently on the road, compared to 270 on January 2021

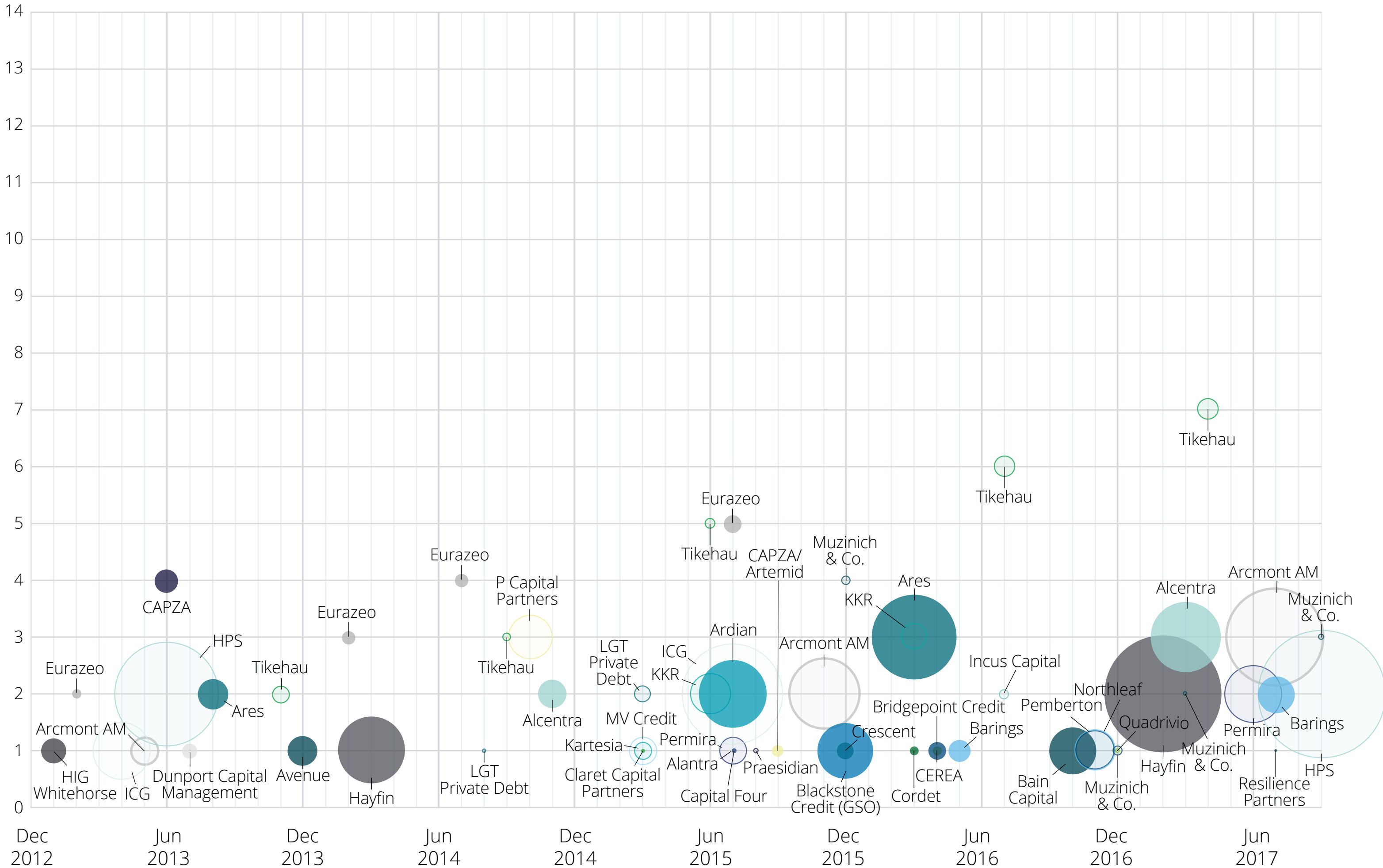
European Market[1]

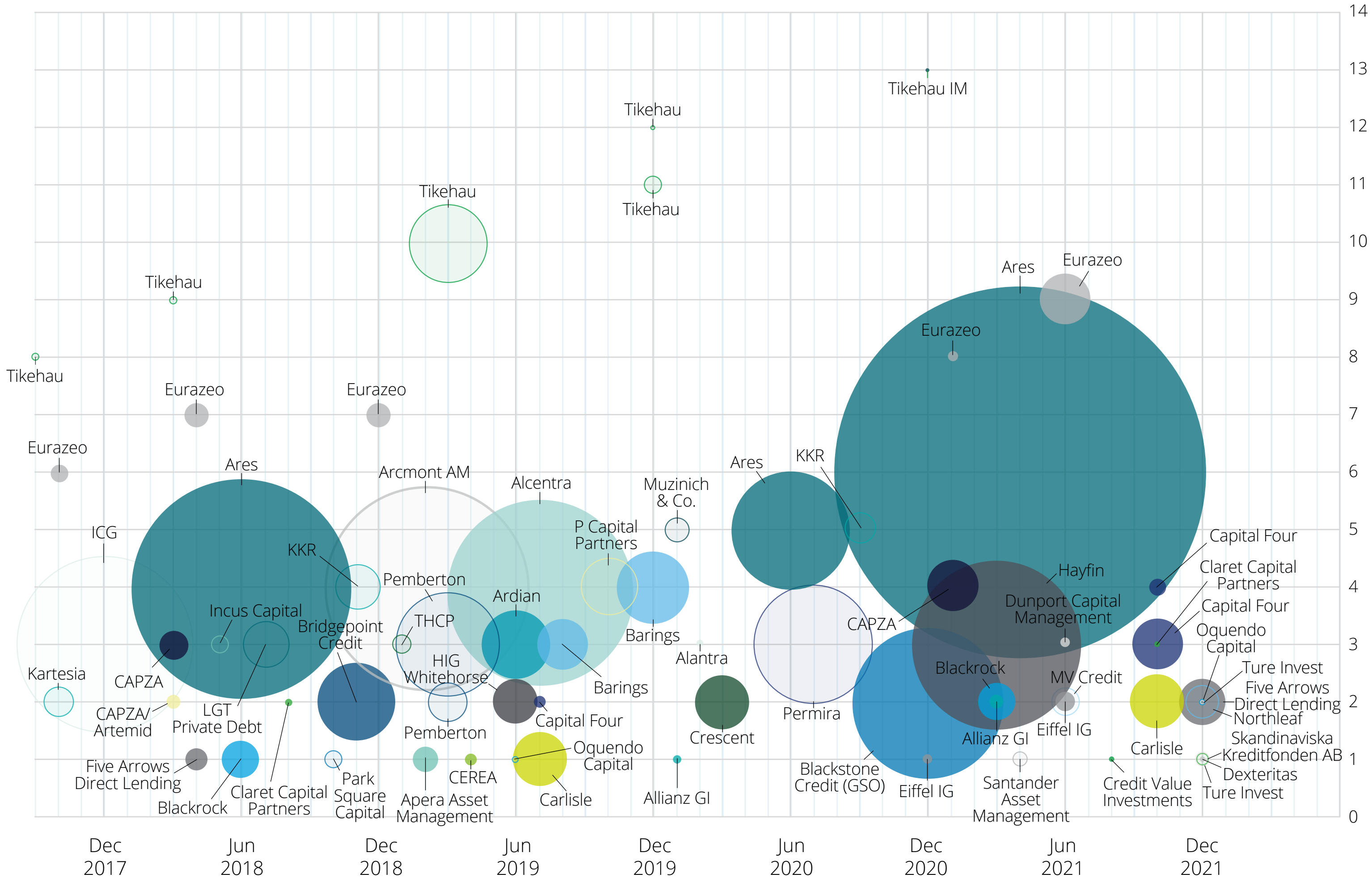
- Fundraising growth in Europe was weaker than in the US, with 44 funds closed, raising $57.3bn. The equivalent figures for 2020 were 55 funds closed and $50.9bn raised
- With stronger fundraising activity during this year, AUM increased from $318bn in December 2020 to $351bn as of June 2021
- Direct Lending funds dominated closures in Europe, with 22 funds closing and raising $38.3 bn of capital, accounting for 50% of fund closures but 67% of total capital raised.
- With rates beginning to creep up, private debt will still look attractive, and it is likely that many more European investors will increase allocations towards the asset class

US Market[1]

- North American focused Private Debt fundraising hit $125.4bn in 2021 – up from $105.7bn in 2020. 123 funds closed in 2021, down from 133 funds closed during 2020
- Largest North America focused fund closed in 2021 and on record was Oaktree Opportunities Fund XI which raised 15.9bn and is focused on distressed debt
- North America-focused AUM reached $716bn as of June 2021 (the most recent data available) – up from $638bn in December 2020
- Direct Lending was the most popular strategy in terms of funds closed (58) and aggregate capital raised – just ($69.1bn)
- Distressed funds had another strong year and raised a total of $34.1bn, with 20 funds closed. Mezzanine had a relatively quiet year after a strong 2020, with only 6bn raised by 14 funds closing in 2021, compared to 23.6bn raised by 24 funds in 2020

Senior Direct Lending fundraising by manager and vintage

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Alcentra
Muzinich & Co.
P Capital Partners
Pemberton
Pemberton
Incus Capital
Bridgepoint Credit
THCP
HIG Whitehorse
Ardian
Barings
Barings
Alantra
Crescent
Permira
CAPZA
CAPZA
CAPZA/ Artemid
Kartesia
LGT Private Debt
Five Arrows Direct Lending
Blackrock
Blackrock
Claret Capital Partners
Park Square Capital
Apera Asset Management
CEREA
Capital Four
Oquendo Capital
Carlisle
Allianz GI
Allianz GI
Blackstone Credit (GSO)
Eiffel IG
Eiffel IG
Hayfin
Dunport Capital Management
MV Credit
Santander Asset Management
Credit Value Investments
Carlisle
Capital Four
Claret Capital Partners
Capital Four
Oquendo Capital
Ture Invest
Five Arrows Direct Lending
Northleaf
Skandinaviska Kreditfonden AB
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Dec 2017
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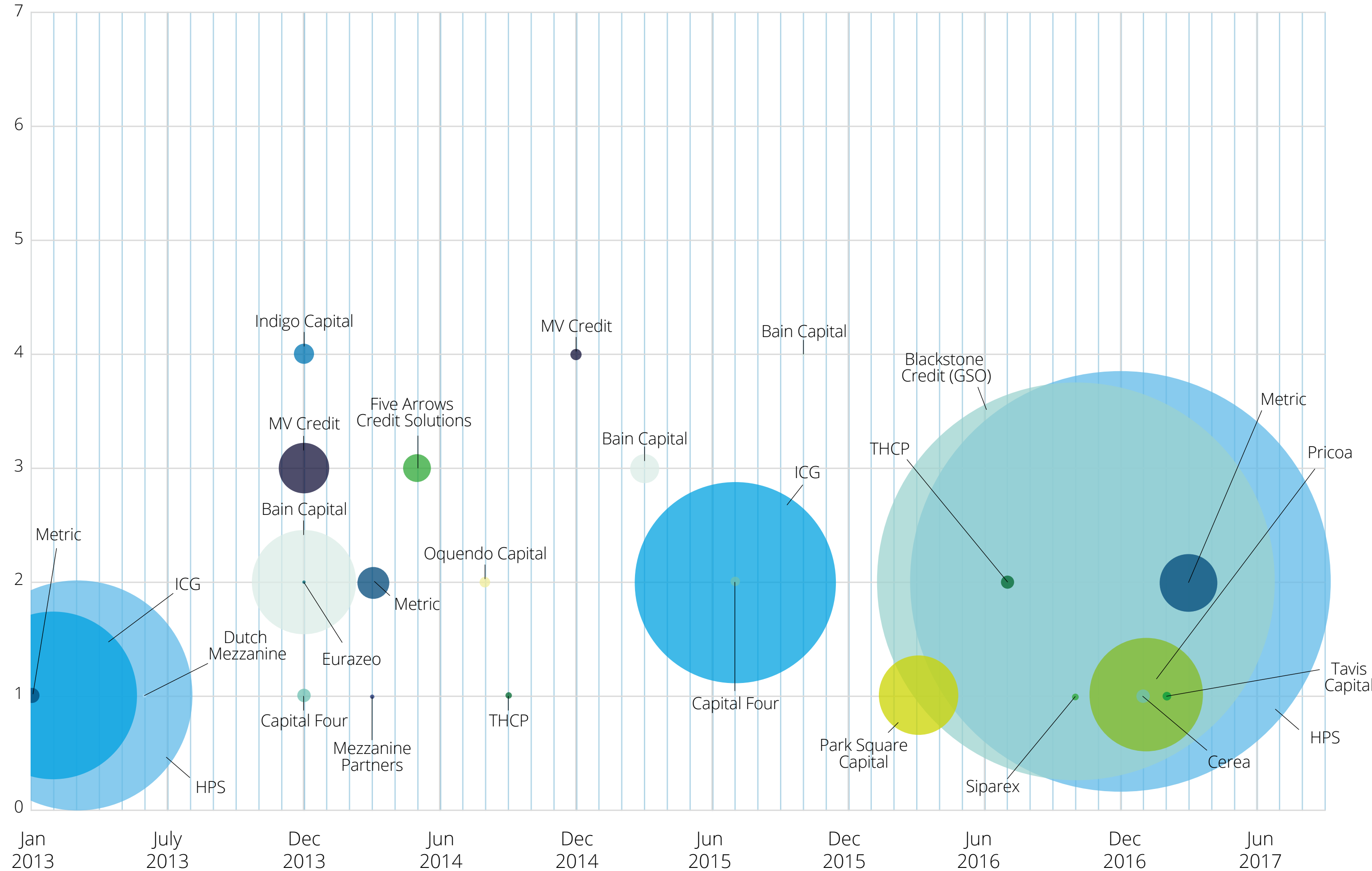
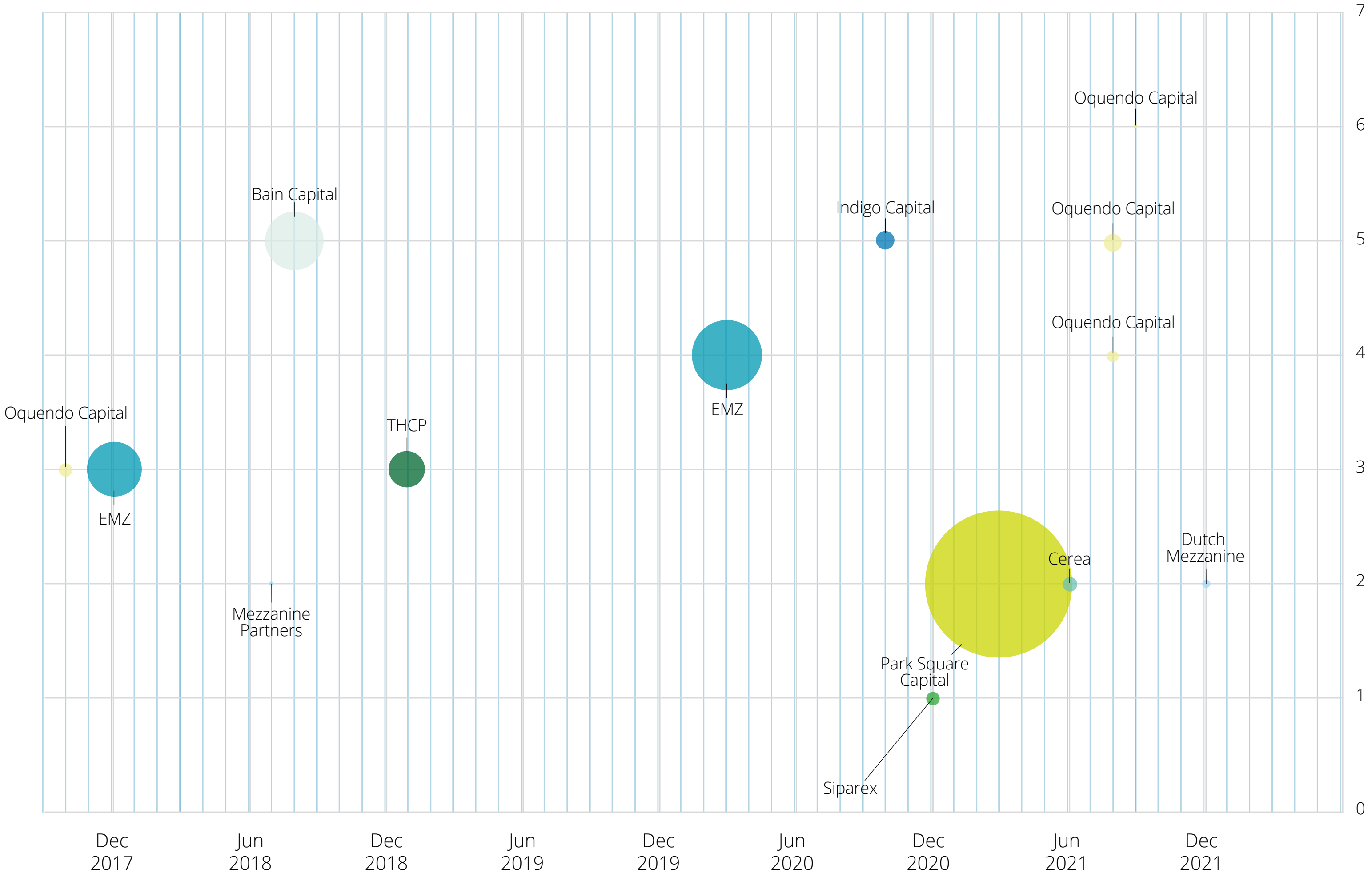
Junior Direct Lending fundraising by manager and vintage




Oquendo Capital
Bain Capital
Indigo Capital
Oquendo Capital
Oquendo Capital
EMZ
Oquendo Capital
THCP
EMZ
Dutch Mezzanine
Cerea
Mezzanine Partners
Park Square Capital
Siparex
7
6
5
4
3
2
1
0
Dec 2017
Jun 2018
Dec 2018
Jun 2019
Dec 2019
Jun 2020
Dec 2020
Jun 2021
Dec 2021

How much funds have been raised by which Direct Lending managers?

An overview of some of the largest funds raised in the market

Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Alantra				
Alteralia SCA SICAV RAIF	Q1 20	€ 200	Senior	Europe
Alteralia SCA SICAR	Q3 15	€ 139	Senior	Europe
Alcentra				
European Direct Lending Fund III	Q3 19	€ 5,500	Senior and Junior	Europe
Direct Lending Fund	Q1 17	€ 2,100	Senior and Junior	Europe
European Direct Lending Fund	Q4 14	€ 850	Senior and Junior	Europe
Direct Lending Fund	Q4 12	€ 278	Senior and Junior	Europe
Allianz Global Investors				
AZ EPC II	Q1 21	€ 410	Senior	Europe
AZ EPC I	Q1 20	€ 248	Senior	Europe
Apera Asset Management				
Apera Capital Private Debt Fund I	Q1 19	€ 750	Senior and Junior	Europe
Arcmont Asset Management				
Arcmont Senior Fund III	Q1 19	€ 6,000	Senior and Junior	Europe
Arcmont Senior Loan Fund I	Q3 17	€ 2,900	Senior	Europe
Arcmont Direct Lending Fund II	Q4 15	€ 2,100	Senior and Junior	Europe
Arcmont Direct Lending Fund I	Q2 13	€ 810	Senior and Junior	Europe
Ardian				
Axa Private Debt Fund IV	Q2 19	€ 3,300	Senior and Junior	Europe
Ardian Private Debt Fund III	Q3 15	€ 2,026	Senior and Junior	Europe
Axa Private Debt Fund II	Q2 10	€ 1,529	Senior and Junior	Europe
Ares				
ACE V	Q2 21	€ 11,000	Senior	Europe
Ares Special Opportunities Fund, L.P.	Q2 20	€ 3,500	Senior	Europe
ACE IV	Q2 18	€ 6,500	Senior	Europe
ACE III	Q2 16	€ 2,536	Senior and Junior	Europe
ACE II	Q3 13	€ 911	Senior and Junior	Europe
ACE I	Q4 07	€ 311	Senior	Europe

Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Bain Capital				
Bain Capital Middle Market Credit 2018	Q3 18	€ 870	Junior	Global
Bain Capital Specialty Finance	Q4 16	€ 1,406	Senior	Global
Bain Capital Direct Lending 2015 (Unlevered)	Q4 15	€ 56	Junior	Global
Bain Capital Direct Lending 2015 (Levered)	Q1 15	€ 433	Junior	Global
Bain Capital Middle Market Credit 2014	Q4 13	€ 1,554	Junior	Global
Bain Capital Middle Market Credit 2010	Q2 10	€ 1,017	Junior	Global
Barings				
Global Private Loan Fund III	Q4 19	$2,400	Senior and Junior	Europe
European Private Loan Fund II	Q3 19	€ 1,500	Senior and Junior	Europe
Global Private Loan Fund II	Q3 17	$ 1,300	Senior and Junior	Global
Global Private Loan Fund I	Q2 16	$ 777	Senior and Junior	Global
Blackrock				
BlackRock European Middle Market Private Debt Fund II	Q1 21	€ 2,100	Senior	Europe
BlackRock European Middle Market Private Debt Fund I	Q2 18	€ 1,100	Senior	Europe
Blackstone Credit				
GSO European Senior Debt Fund II	Q4 20	$6,102	Senior	Europe
Capital Opportunities Fund II	Q4 16	$6,500	Junior	Global
European Senior Debt Fund	Q4 15	$1,964	Senior	Europe
Capital Opportunities Fund I	Q1 12	$4,000	Junior	Global
Bridgepoint Credit				
Bridgepoint Direct Lending II	Q4 20	€ 2,300	Senior	Europe
Bridgepoint Direct Lending I	Q2 16	€ 530	Senior	Europe
Capital Four				
Capital Four – Private Debt IV	Q4 21	€ 500	Senior and Junior	Europe
Capital Four – Private Debt III - Senior	Q4 21	€ 1,500	Senior	Europe
Capital Four Strategic Credit Fund	Q3 19	€ 350	Senior and Junior	Europe
Capital Four Strategic Lending Fund	Q3 15	€ 135	Junior	Europe
Capzanine				
Capza 5 Private Debt	Q1 21	€ 1,516	Senior and Junior	Europe
Capzanine 4 Private Debt	Q1 18	€ 850	Senior and Junior	Europe
Artemid Senior Loan 2	Q1 18	€ 413	Senior	Europe
Artemid CA	Q3 15	€ 70	Senior	Europe
Artemid Senior Loan	Q3 15	€ 345	Senior	Europe
Capzanine 3	Q3 12	€ 700	Senior and Junior	Europe
Capzanine 2	Q3 07	€ 325	Senior and Junior	Europe
Capzanine 1	Q1 05	€ 203	Senior and Junior	Europe
Carlyle				
Carlyle Credit Opportuniites Fund, L.P.	Q4 21	€ 3,520	Senior and Junior	Global
Carlyle Credit Opportuniites Fund, L.P.	Q2 19	€ 1,998	Senior and Junior	Global

Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Céréa				
Céréa Mezzanine IV	Q2 21	€ 215	Junior	Europe
Céréa Dette II	Q2 19	€ 350	Senior	Europe
Céréa Mezzanine III	Q1 17	€ 200	Junior	Europe
Céréa Dette	Q2 16	€ 270	Senior	Europe
Claret Capital Partners				
Claret European Growth Capital Fund III, SCSp	Q4 21	€ 167	Senior and Junior	Europe
Claret European Growth Capital Fund II SCSp	Q3 18	€ 215	Senior and Junior	Europe
Claret European Growth Capital Fund I	Q1 15	€ 122	Senior	Europe
Credit Value Investments				
CVI CEE Private Debt Fund	Q3 21	€ 80	Senior and Junior	Europe
Dexteritas				
Dexteritas Dutch Credit Opportunities Fund	Q4 20	€ 55	Senior	Europe
Dunport Capital Management				
Oak Corporate Credit Fund	Q2 21	€ 300	Senior and Junior	Europe
Elm Corporate Credit DAC	Q1 18	€ 283	Senior and Junior	Europe
Ireland Corporate Credit DAC	Q3 13	€ 450	Senior and Junior	Europe
Dutch Mezzanine				
Dutch Mezzanine Fund II	Q4 21	€ 122	Junior	Europe
Dutch Mezzanine Fund I	Q1 13	€ 60	Junior	Europe
Eiffel Investment Group				
Eiffel 4	Q2 21	€ 300	Senior	Europe
Eiffel 5	Q4 20	€ 278	Senior	Europe
EMZ				
EMZ 9	Q1 20	€ 1,043	Junior	Europe
EMZ 8	Q4 17	€ 815	Junior	Europe
EMZ 7	Q1 14	€ 695	Junior	Europe
EMZ 6	Q1 09	€ 640	Junior	Europe
Eurazeo				
Eurazeo Private Debt V	Q1 21	€ 1,500	Senior and Junior	Europe
Eurazeo Senior Debt 5	Q1 21	€ 300	Senior	Europe
Eurazeo Private Debt IV	Q2 18	€ 715	Senior and Junior	Europe
Eurazeo Dette Senior 4	Q4 16	€ 300	Senior	Europe
Eurazeo Dette Senior 3	Q3 15	€ 530	Senior	Europe
Eurazeo Dette Senior 2	Q3 14	€ 400	Senior	Europe
Eurazeo Private Debt III	Q1 14	€ 400	Senior and Junior	Europe
Eurazeo Private Value Europe II	Q4 13	€ 50	Junior	Europe
Eurazeo Dette Senior	Q1 13	€ 280	Senior	Europe
Eurazeo Private Value Europe	Q2 12	€ 65	Junior	Europe
Eurazeo Private Debt	Q3 07	€ 290	Senior and Junior	Europe
Five Arrows				
Five Arrows Debt Partners III	Q3 21	€ 1,368	Senior and Junior	Europe
Five Arrows Direct Lending	Q1 18	€ 655	Senior and Junior	Europe
Five Arrows Credit Solutions	Q2 14	€ 415	Junior	Europe

Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Hayfin				
Direct Lending Fund III	Q1 21	€ 5,000	Senior	Europe
Direct Lending Fund II	Q1 17	€ 3,500	Senior	Europe
Direct Lending Fund I	Q1 14	€ 2,000	Senior	Europe
HIG				
H.I.G. Whitehorse Loan Fund III	Q1 13	€ 750	Senior and Junior	Europe
H.I.G. Bayside Loan Opportunity Fund V (Europe)	Q2 19	$1500	Senior and Junior	Europe
HPS Investment Partners				
Specialty Loan Fund 2016	Q3 17	$4,500	Senior	Global
Mezzanine Partners Fund III	Q4 16	$6,600	Junior	Global
Highbridge Specialty Loan Fund III	Q2 13	€ 3,100	Senior	Global
Mezzanine Partners Fund II	Q1 13	$4,400	Junior	Global
Highbridge Specialty Loan Fund II	Q2 10	€ 1,100	Senior	Global
Mezzanine Partners Fund I	Q1 08	$2,100	Junior	Global
ICG				
Senior Debt Partners III	Q4 17	€ 5,200	Senior	Europe
Senior Debt Partners II	Q3 15	€ 3,000	Senior	Europe
ICG Europe Fund VI	Q1 15	€ 3,000	Junior	Europe
Senior Debt Partners I	Q2 13	€ 1,700	Senior	Europe
ICG Europe Fund V	Q1 13	€ 2,500	Junior	Europe
Incus Capital				
Incus Capital European Credit Fund III	Q2 18	€ 500	Senior and Junior	Europe
Incus Capital Iberia Credit Fund II	Q3 16	€ 270	Senior and Junior	Europe
Incus Capital Iberia Credit Fund I	Q4 12	€ 128	Senior and Junior	Europe
Indigo Capital				
Fund V	Q3 07	€ 220	Junior	Europe
Fund IV	Q3 03	€ 200	Junior	Europe
Fund III	Q3 00	€ 100	Junior	Europe
Kartesia				
Kartesia Credit Opportunities IV	Q4 17	€ 870	Senior and Junior	Europe
Kartesia Credit Opportunities III	Q1 15	€ 508	Senior and Junior	Europe
KKR				
KKR Lending Partners Europe II	Q3 20	€ 895	Senior	Europe
KKR Lending Partners III L.P. ("KKRLP III")	Q4 18	$1,498	Senior	Global
Fund Lending Partners Europe	Q1 16	$850	Senior and Junior	Europe
Fund Lending Partners II	Q2 15	$1,336	Senior and Junior	Global
Fund Lending Partners I	Q4 12	$460	Senior and Junior	Global
LGT Private Debt				
CEPD II	Q3 19	€ 1,350	Senior and Junior	Europe
Private Debt Fund	Q1 15	€ 474	Senior and Junior	Europe
UK SME Debt	Q3 14	€ 100	Senior and Junior	Europe

Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Metric				
MCP III	Q1 17	€ 860	Special Situations	Europe
MCP II	Q2 14	€ 475	Special Situations	Europe
MCP I	Q1 13	€ 225	Special Situations	Europe
Mezzanine Partners				
Mezzanine Partners II	Q3 18	€ 65	Junior	Europe
Mezzanine Partners I	Q1 14	€ 65	Junior	Europe
Muzinich & Co.				
Muzinich Pan-European Private Debt Fund	Q1 19	€ 707	Senior and Junior	Europe
Muzinich French Private Debt Fund	Q3 17	€ 153	Senior	Europe
Muzinich Iberian Private Debt Fund	Q1 17	€ 104	Senior and Junior	Europe
Muzinich Italian Private Debt Fund	Q4 16	€ 268	Senior and Junior	Europe
Muzinich UK Private Debt Fund	Q4 15	€ 250	Senior and Junior	Europe
MV Credit				
MV Senior II	Q2 21	€ 526	Senior	Europe
MV Subordinated IV	Q4 18	€ 835	Junior	Europe
MV Senior Strategies	Q1 15	€ 815	Senior and Junior	Europe
MezzVest III	Q4 13	€ 752	Junior	Europe
Northleaf				
Northleaf Senior Private Credit	Q2 21	$1,009	Senior	Global
Northleaf Private Credit	Q1 14	$1,400	Senior and Junior	Global
Oquendo Capital				
Oquendo Senior II	Q4 21	€ 161	Senior	Europe
Impulsa I	Q3 21	€ 60	Junior	Europe
Oquendo IV	Q3 21	€ 268	Junior	Europe
Oquendo Senior	Q2 19	€ 173	Senior	Europe
Oquendo III	Q4 17	€ 200	Junior	Europe
Oquendo II	Q3 14	€ 157	Junior	Europe
Oquendo I	Q4 09	€ 50	Junior	Europe
Park Square Capital				
Park Square Capital Partners IV SCSp	Q2 21	€ 2,188	Junior	Europe
Park Square Capital European Loan Partners, LP Inc.	Q4 18	€ 502	Senior	Europe
Park Square Capital Partners III, LP	Q1 16	€ 1,185	Junior	Europe
Pemberton				
Pemberton European Strategic Credit Opportunities Fund	Q1 19	€ 942	Senior and Junior	Europe
Pemberton European Mid-Market Debt Fund II	Q1 19	€ 2,740	Senior	Europe
European Mid-Market Debt Fund	Q4 16	€ 1,140	Senior	Europe

Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Permira				
Permira Credit Solutions IV	Q3 20	€ 3,500	Senior and Junior	Europe
Permira Credit Solutions III	Q2 17	€ 1,700	Senior and Junior	Europe
Permira Credit Solutions II	Q3 15	€ 800	Senior and Junior	Europe
Pricoa				
Pricoa Capital Partners V	Q1 17	€ 1,692	Junior	Global
P Capital Partners				
P Capital Partners	Q4 19	€ 1,670	Senior and Junior	Europe
P Capital Partners III	Q4 14	€ 1,300	Senior and Junior	Europe
P Capital Partners II/IIB	Q2 11	€ 835	Senior and Junior	Europe
P Capital Partners I	Q3 09	€ 216	Senior and Junior	Europe
Resilience Partners				
Resilience Partners Fund I	Q3 17	€ 50	Senior and Junior	Europe
Skandinaviska Kreditfonden AB				
Scandinavian Credit Fund I AB	Q2 21	€ 340	Senior	Europe
Siparex				
Siparex Intermezzo II	Q4 20	€ 200	Junior	Europe
Siparex Intermezzo I	Q4 16	€ 100	Junior	Europe
Tavis Capital				
Swiss SME Credit Fund I	Q1 17	CHF137	Junior	Europe
Tikehau				
Tikehau Corporate Lending fund 6	Q4 20	€ 114	Senior	Europe
Tikehau Corporate Lending fund 5	Q4 19	€ 116	Senior	Europe
Tikehau Senior Loan III	Q4 19	€ 507	Senior	Europe
Tikehau Direct Lending IV	Q1 19	€ 2,200	Senior and Junior	Europe
Tikehau Corporate Lending fund 4	Q1 18	€ 212	Senior	Europe
Tikehau Fund	Q4 17	€ 205	Senior and Junior	Europe
Tikehau Senior Loan II	Q2 17	€ 615	Senior	Europe
Tikehau Direct Lending III	Q3 16	€ 610	Senior and Junior	Europe
Tikehau Corporate Lending fund 3	Q3 15	€ 290	Senior and Junior	Europe
Tikehau Corporate Lending fund 2	Q3 15	€ 19	Senior and Junior	Europe
Tikehau Corporate Leveraged Loan Fund	Q3 14	€ 230	Senior	Europe
Tikehau Corporate Lending fund 1	Q4 13	€ 355	Senior and Junior	Europe
Tikehau Preferred Capital	Q2 12	€ 134	Senior	Europe
Ture Invest				
Ture Invest Fund I	Q4 21	€ 400	Senior	Europe
Hedda Credit Fund I	Q4 21	€ 100	Senior	Europe

Direct Lending
H2 2021 Key Statistics & Notable Moves

Direct Lending Market Headcount

As capital continues to flow into the asset class, more funds are raised and new entrants emerge, the second half of 2021 saw an uptick in hiring compared to the first six months of 2021, and the highest amount of hires in several years. After the stunted headcount growth we saw throughout 2020, we are now experiencing a return to full hiring mode, particularly at the junior levels.

Figure 1 below shows the net increase of 42 IPs between the months of July and December. This is compared to a net increase of 20 in H1 2021, 6 in H2 2020, and 29 in H1 2020. Departures from the market are still prevalent at different seniority levels (into corporate finance, private equity, and special situations) but departures are negated by mass hiring at a junior level, as well as funds focusing on regional markets (such as France in H1 and the DACH region in H2).

Figure 1. Graph comparing net moves across different levels of seniority between H2 2020 and H1 2021

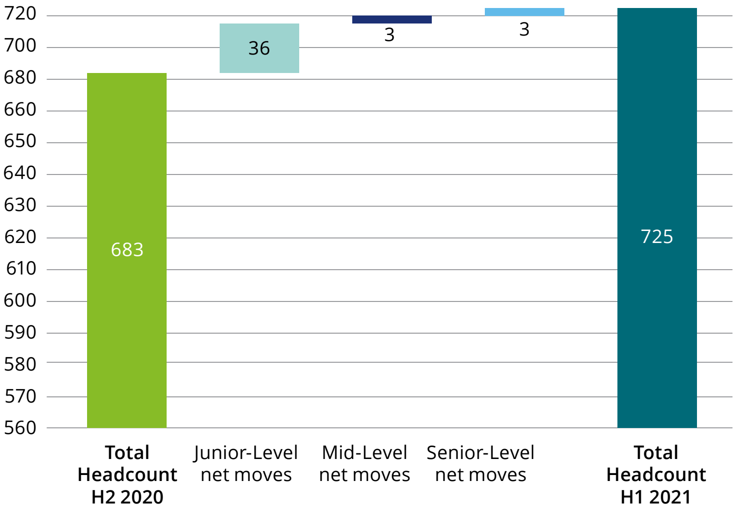
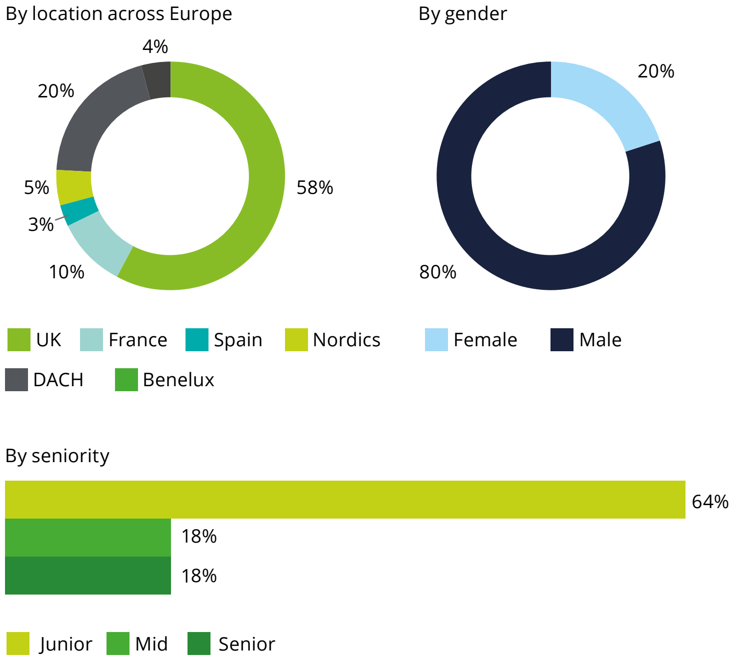


Figure 2. Breakdown of hiring



Breakdown of Hiring

Geography In H2 we have seen resumption to the norm: London-heavy hiring patterns. H1 was an exception to the rule with Paris constituting a majority of all European recruitment efforts, but is only responsible for 10% of all hires in H2. In H2, the DACH region (predominately Germany; Frankfurt then Munich) made up 20% of all hires, marking a significant uptick when compared to the 9% figure in H2 2020. There was a significant increase in the hires of German-speaking IPs into London teams which is not reflected in the pie chart. In 2021 overall, UK made up only 41% of hires, followed by France (22%) and the DACH region (20%), supporting the notion that funds are moving away from a predominantly London-based model, arguably due to the benefits that a more localised approach may bring to origination.

Gender diversity stats in H2 bucked the trend of steadily improving female representation in the market. The average in 2021 was 24%, down from 28% 2020, but remains an improvement on 22% in 2019.

Seniority of hires in H2 was more concentrated at the junior level suggesting that as deal flow increased throughout 2021, funds looked to bolster their junior ranks to accommodate higher execution requirements. Senior hires made a notable drop from H1 2021 and H2 2020 – 29% – to 18% in H2 2021.

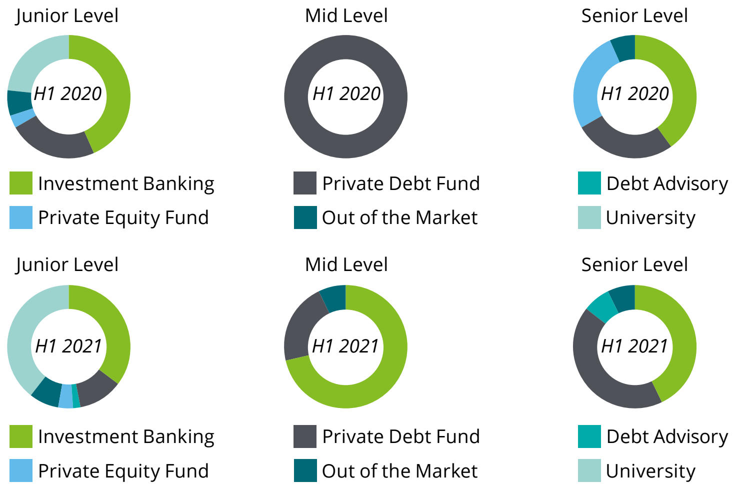
Notes:
For the purpose of this analysis, we have included the total investment team headcounts at c. 35 combined Mezzanine / Direct Lending funds (such as Park Square, Crescent Capital). We have excluded investment teams where the majority of their investment activity is in special situations lending, or minority equity. We have also excluded teams whose main activity is in the corporate private placement market. When analysing seniority, junior-level IPs are those with less than 6 years relevant experience, mid-level constitutes 6-10 years experience, and senior is more than 10 years experience.

Percentages are rounded to the nearest whole number.

Source of Hires & Hiring Patterns

Figure 3 compares the source of hires between H2 2020 and H2 2021 across three categories of seniority. At the junior level, university/internships represent the largest source of hiring for the first time as funds attempt to increase numbers at a junior level whilst avoiding competitive fund-to-fund hires and expensive investment banking candidates. With investment banking salaries increasing dramatically, this trend may well continue in 2022 and beyond. Fig 3 also indicates a lack of fund-to-fund hiring compared to previous years. This may be attributed to expensive carry allocations making it untenable to buy IPs out, or growing cash compensation at funds to retain talent. Correspondingly, 2021 saw a resurgence in hiring from investment banking, particularly at the mid level. Several of these hires were from bulge bracket banks, which may be a reflection of direct lenders investing in larger deals, or simply that funds are expanding their hiring parameters in search for talent.

Figure 3. Pie charts displaying the source of hiring at different levels of seniority in H1 2020 and H1 2021



Recent Notable Direct Lending Moves – June 2021 to December 2021

Apollo Global Management	Patrick Johnson has moved to Apollo European Private Credit from Partners Group. He has joined as a Principal focused on the UK market.
Arcmont Asset Management	Marc Spangenberg has left Alcentra to join Arcmont as an Associate Partner covering the DACH region.
Ardian	Joe Plank has joined Ardian Private Debt from SMBC to cover the UK and Northern European markets.
Ares Management	Samer Cortas has joined as a Managing Director from Apollo European Private Credit. Axel Cordonnier, Arnaud Gayet and Hugo Campagnoli have left Ares Paris. Hugo has joined Kartesia where he will invest out of their impact fund in France.
Barings	Magnus Lilja has joined Barings as a Managing Director from SEB leveraged finance in Frankfurt to lead their DACH efforts.
BlackRock	Peter Carnesjo has joined BlackRock as a Director in Stockholm from SEB where he will be responsible for Nordic direct lending.
CVC Credit	Christine Weis has joined from Lincoln Advisory to lead the German business out of Frankfurt.
GIC	Philipp Eglseer has joined GIC Private Credit London from the JP Morgan leveraged finance team.
Hayfin Capital	Rehan Jiwani has joined Hayfin as a Director from Goldman Sachs leveraged finance. Fabrice Damien, former head of European origination, has left, whilst Cecile Ferrie Davies has moved to join PIMCO.
ICG	Max Mitchell, former Head of ICG Direct Lending, has left the business but will stay on in an advisory capacity. Steffen Böhmert has left ICG Frankfurt where he was responsible for DACH investing. Vladimir Bondarenko has been hired in London as an Associate Director, joining from Morgan Stanley leveraged finance.
KKR & Co.	Ana Brajovic has left the Bridgepoint Credit CLO team to join KKR private credit in London.
Macquarie Group	Peter Glaser has moved to Macquarie in a senior capacity, joining from Alcentra where he was Head of Direct Lending.
Pemberton Asset Management	Matthew Kirsch has joined Pemberton as a Managing Director for the UK direct lending market.
Permira Credit	Thomas Kyriakoudis has left Permira Credit and has since joined LGT Private Debt where he is responsible for their Credit Solutions business.

About Paragon Search Partners:

Bruce Lock and Andrew Perry are co-Managing Partners of Paragon Search Partners, a London-headquartered search firm focused on the global credit and alternative asset markets.

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Insights into the European Alternative Lending market

Alternative Lender '101' guide

Who are the Alternative Lenders and why are they becoming more relevant?

Alternative Lenders consist of a wide range of non-bank institutions with different strategies including private debt, mezzanine, opportunity and distressed debt.

These institutions range from larger asset managers diversifying into alternative debt to smaller funds newly set up by ex-investment professionals. Most of the funds have structures comparable to those seen in the private equity industry with a 3-5 year investment period and a 10 year life with extensions options. The limited partners in the debt funds are typically insurance, pension, private wealth, banks or sovereign wealth funds.

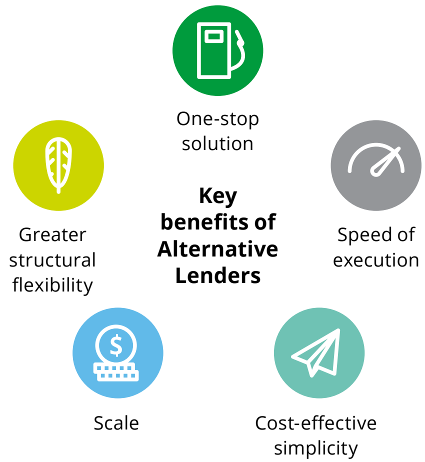
Over the last three years a significant number of new funds has been raised in Europe. Increased supply of Alternative Lender capital has helped to increase the flexibility and optionality for borrowers.

Key differences to bank lenders?

- Access to non amortising, bullet structures
- Ability to provide more structural flexibility (covenants, headroom, cash sweep, dividends, portability, etc.).
- Access to debt across the capital structure via senior, second lien, unitranche, mezzanine and quasi equity.
- Increased speed of execution, short credit processes and access to decision makers.
- Potentially larger hold sizes for leveraged loans (€30m up to €300m).
- Deal teams of funds will continue to monitor the asset over the life of the loan.

However

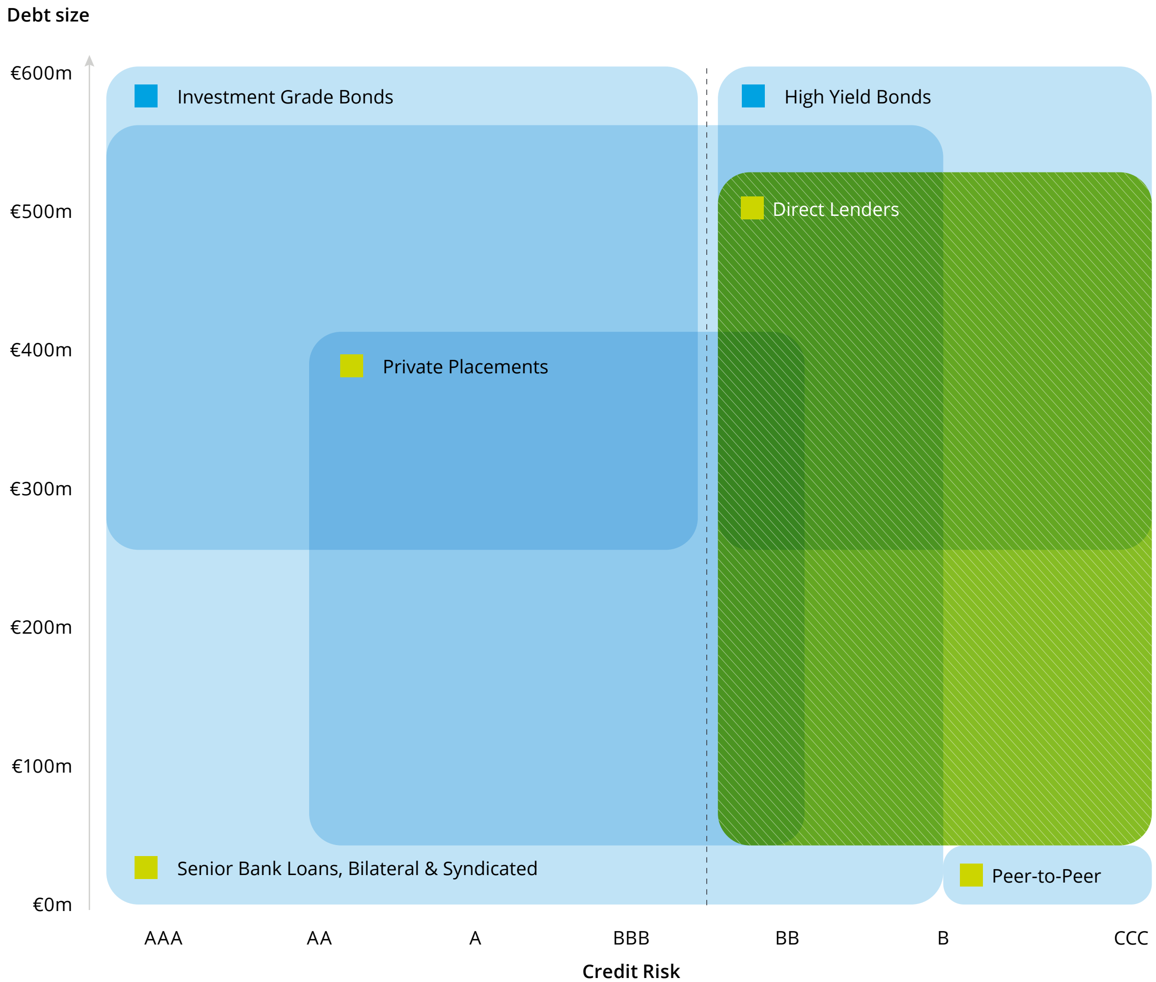
- Funds are not able to provide clearing facilities and ancillaries.
- Funds will target a higher yield for the increased flexibility provided.



When to use Alternative Debt?

1	Private Equity acquisitions	Reduce equity contribution and enable more flexible structures
2	Corporates making transformational/ bolt-on acquisitions	Enable growth of private companies with less/no cash equity
3	Growth capital	Enable growth opportunities
4	Consolidation of shareholder base	Enable buy-out of (minority) shareholders
5	Special dividend to shareholders	Enable a liquidity event
6	To refinance bank lenders in over-levered structures	Enable an exit of bank lenders
7	Raising junior HoldCo debt	Increase leverage for acquisitions/ dividends

How do Direct Lenders compare to other cash flow debt products?

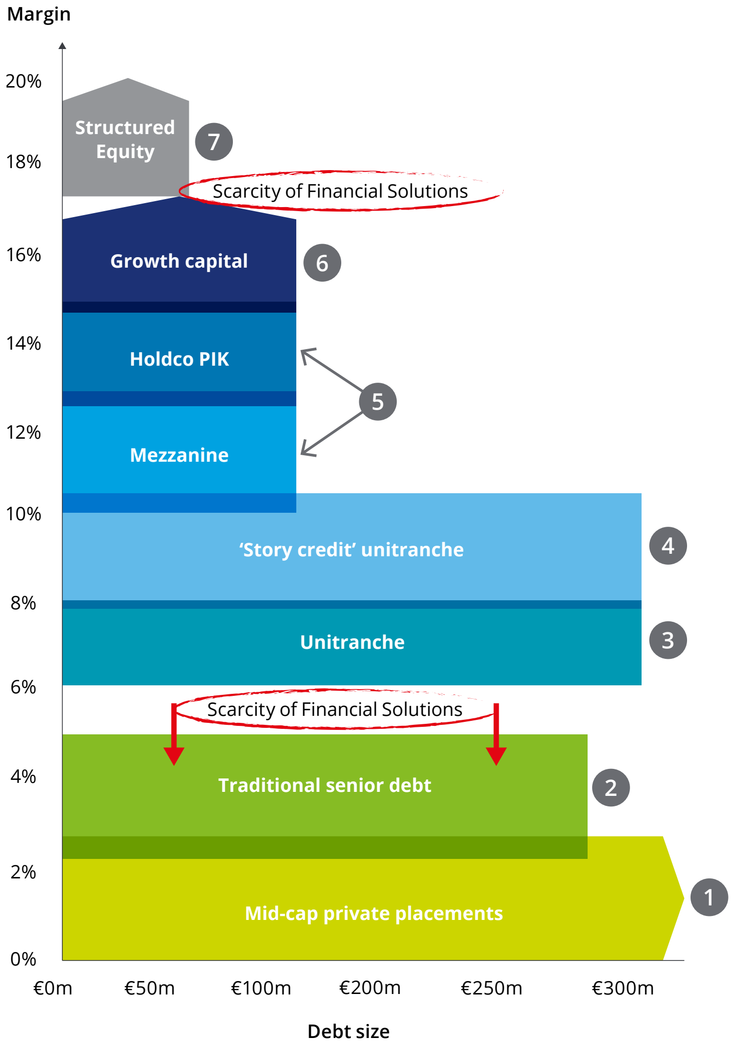


Cash flow debt products

The overview on the left focuses on the debt products available for Investment Grade and Sub-Investment Grade companies.

- Private Instrument
- Public Instrument

What are the private debt strategies?



Note: Distressed strategies are excluded from this overview

We have identified seven distinctive private debt strategies in the mid-market Direct Lending landscape:

1. Mid-cap Private Placements
2. Traditional senior debt
3. Unitranche
4. 'Story credit' unitranche
5. Subordinated (mezzanine/PIK)
6. Growth capital
7. Structured equity

There is a limited number of Alternative Lenders operating in the L+450bps to L+600bps pricing territory.

A number of large funds are now actively raising capital to target this part of the market.

Direct Lenders approach the mid-market with either a niche strategy (mainly new entrants) or a broad suite of Direct Lending products to cater for a range of financing needs.

The latter is mostly the approach of large asset managers.

How do Direct Lenders compare to other cash flow debt products?

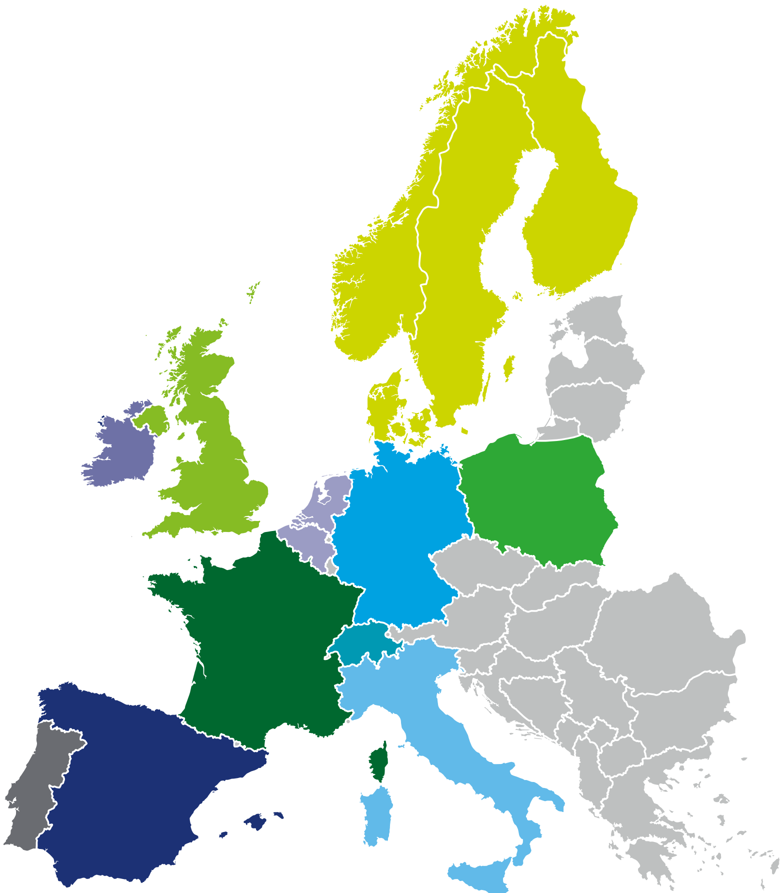
Fund strategy	Description	Target return (Gross IRR)	Investment period	Fund term	Management fee	Preferred return	Carried interest
Direct senior lending	Invest directly into corporate credit at senior levels of the capital structure	5-10%	1-3 years	5-7 years (plus 1-2 optional one year extensions)	Typically around 1% on invested capital	5-6%	10%
Specialty lending/credit opportunities	Opportunistic investments across the capital structure and/or in complex situations Typically focused on senior levels of the capital structure	12-20%	3-5 years	8-10 years (plus 2-3 optional one year extensions)	Typically 1.25 – 1.50% on invested capital or less than 1% on commitments	6-8%	15%-20%
Mezzanine	Primarily invest in mezzanine loans and other subordinated debt instruments	12-18%	5 years	10 years (plus 2-3 optional one year extensions)	1.50 – 1.75% on commitments during investment period, on a reduced basis on invested capital thereafter	8%	20%
Distressed	Invest in distressed, stressed and undervalued securities Includes distressed debt-for-control	15-25%	3-5 years	7-10 years (plus 2-3 optional one year extensions)	Various pending target return and strategy: 1.50 – 1.75% on commitments or 1.50% on invested capital	8%	20%

Management fee – an annual payment made by the limited partners in the fund to the fund's manager to cover the operational expenses.

Preferred return (also hurdle rate) – a minimum annual return that the limited partners are entitled to before the fund manager starts receiving carried interest.

Carried interest – a share of profits above the preferred return rate that the fund manager receives as compensation which is based on the performance of the investment.

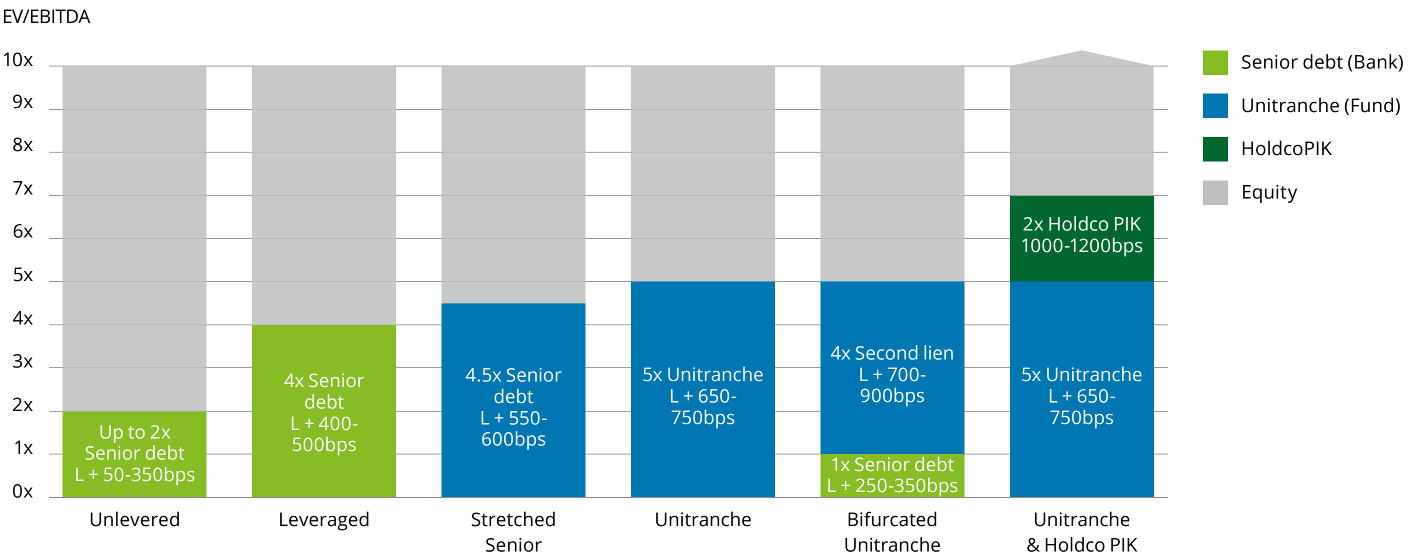
What are the private debt strategies?



Note: offices included with at least one dedicated Direct Lending professional.
The graph does not necessarily provide an overview of the geographical coverage.

What debt structures are available in the market?

Structures



Weighted Average Cost of Debt (WACD) – based on mid-point average range

Unlevered	Leveraged	Stretched Senior	Unitranche	Bifurcated Unitranche	Unitranche & Holdco PIK
L + 50-350bps	L + 450bps	L + 575bps	L + 700bps	L + 700bps	L + 815bps

Note: The structures and pricing presented are indicative and only for illustrative purposes.

Pros and Cons per structure

Unlevered	Leveraged	Stretched Senior	Unitranche	Bifurcated Unitranche	Unitranche & Holdco PIK
✓ Lowest pricing ✓ Relationship bank	✓ Increased leverage ✓ Club of relationship banks	✓ Increased leverage ✓ Bullet debt ✓ Lower equity contribution	✓ Stretched leverage ✓ Flexible covenants ✓ One-stop shop solution ✓ Speed of execution ✓ Relationship lender	✓ Stretched leverage ✓ Flexible covenants ✓ Greater role for bank ✓ Reach more liquid part of the unitranche market	✓ Stretched leverage ✓ Flexible covenants ✓ Lower equity contribution ✓ No Intercreditor
• Low leverage • Shorter tenor (3-5 years)	• More restrictive terms • Partly amortising	• More restrictive terms than Unitranche • Higher pricing than bank debt • Need for RCF lender	• Higher pricing	• Higher pricing • Intercreditor/AAL	• Higher pricing

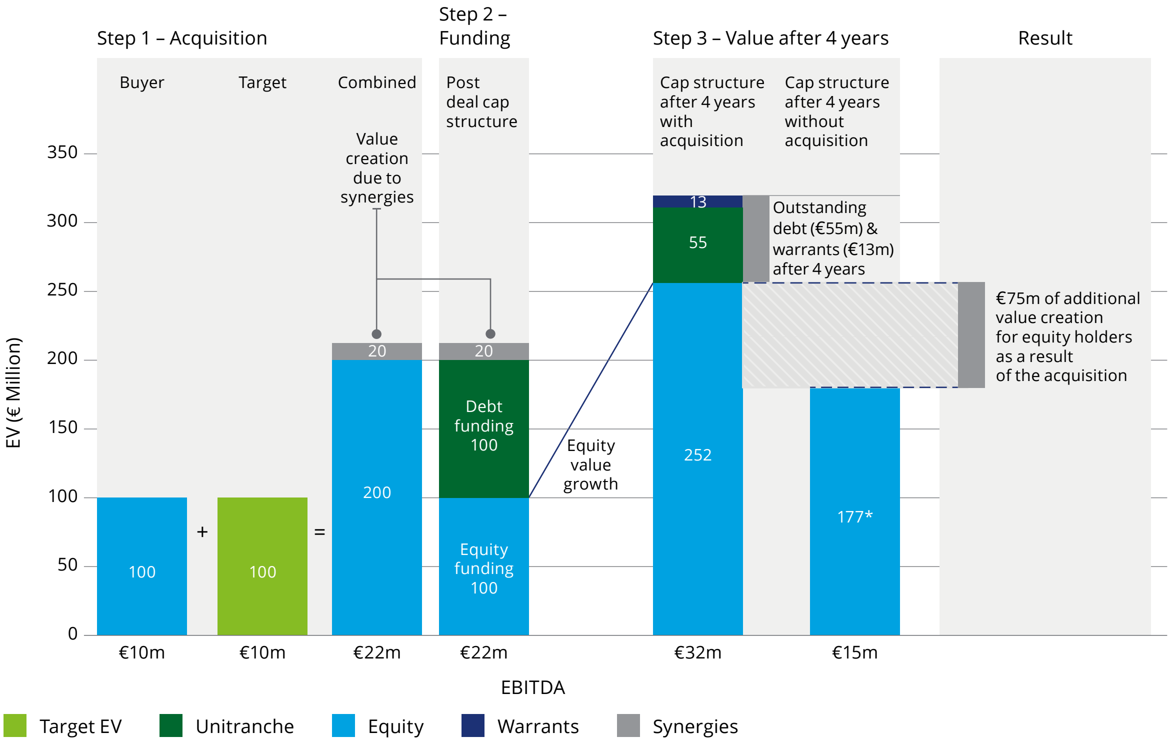
Unlocking transformational acquisitions for privately owned companies

Indicative calculations

- The calculations on this page illustrate the effect of value creation through acquisitions financed using Alternative Lenders.
- In this example the equity value is growing from €100m to €252m in 4 years time. Without the acquisition, the equity value would have been only €177m, using the same assumptions and disregarding any value creation as a result of multiple arbitrage.

Value creation through M&A

Indicative calculations



*EV is c.€147m and with c.€30m cash on balance sheet brings the equity value to c.€177m.

Assumptions

- Both businesses generate €10m EBITDA with €2m potential synergies
- No debt currently in the business
- Cost of debt is 8% with 5% penny warrants on top
- 10% EBITDA growth pa; 75% Cash conversion; 20% Corporate tax rate
- No transaction costs

© Deloitte Alternative Lender Deal Tracker 59

Deloitte Debt and Capital Advisory

What do we do for our clients?

Debt and Capital Advisory

Independent advice

- We provide independent advice to borrowers across the full spectrum of debt markets through our global network.
- Completely independent from providers of finance – our objectives are fully aligned with those of our clients.

Global resources & execution expertise

- A leading team of 200 debt professionals based in 30 countries including Europe, North America, Africa and Asia, giving true global reach.
- Our expertise ranges from the provision of strategic advice on the optimum capital structure and available sources of finance through to the execution of raising debt.

Market leading team

- Widely recognised as a Global leader with one of the largest Debt Advisory teams.
- We pride ourselves on our innovative approach to challenging transactions and the quality of client outcomes we achieve, using our hands on approach.

Demonstrable track record

- In the last 12 months, we have advised on over 100 transactions with combined debt facilities in excess of €10bn.
- Our target market is debt transactions ranging from €25m up to €750m.

Debt and Capital Services provided

Refinancing

- Maturing debt facilities.
- Rapid growth and expansion.
- Accessing new debt markets.
- Recapitalisations facilitating payments to shareholders.
- Asset based finance to release value from balance sheet.
- Off balance sheet finance.
- Assessing multiple proposals from lenders.

Acquisitions, disposals, mergers

- Strategic acquisitions, involving new lenders and greater complexity.
- Staple debt packages to maximise sale proceeds.
- Additional finance required as a result of a change in strategic objectives.
- FX impacts that need to be reflected in the covenant definitions.
- Foreign currency denominated debt or operations in multiple currencies.

Restructuring or negotiating

- New money requirement.
- Real or potential breach of covenants.
- Short term liquidity pressure
- Credit rating downgrade.
- Existing lenders transfer debt to an Alternative Lender group.
- Derivatives in place and/or banks hedging requirements to be met.

Treasury

- Operations in multiple jurisdictions and currencies creating FX exposures.
- Develop FX, interest rate and commodity risk management strategies.
- Cash in multiple companies, accounts, countries and currencies.
- Hedging implementation or banks hedging requirements to be met.

Depth and breadth of expertise in a variety of situations

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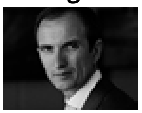

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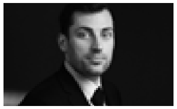

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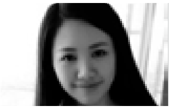

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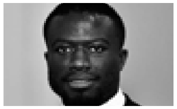

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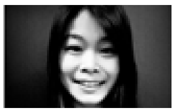

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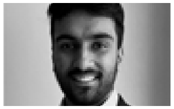

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Deloitte Debt and Capital Advisory credentials

Recent Debt and Capital Advisory Transactions

Country	Sponsor	Transaction	Date	Size
Poland	Private	*Growth Financing*	Jan 2022	zł53m
Ireland	Private	*Refinancing*	Jan 2022	€120m
Netherlands	5square	*Acquisition Financing*	Jan 2022	Undisclosed
Netherlands	Plain Vanilla Investment	*Acquisition Financing*	Jan 2022	Undisclosed
UK	Fremman Capital	*Acquisition Financing*	Dec 2021	Undisclosed
UK	Inflexion	*Refinancing*	Dec 2021	Undisclosed
UK	BDC	*Acquisition Financing*	Dec 2021	Undisclosed
UK	LGP	*Preferred Equity*	Dec 2021	Undisclosed
UK	EMK Capital	*Refinancing*	Dec 2021	Undisclosed
UK	Gyrus Capital	*Refinancing*	Dec 2021	Undisclosed
France	Private	*Refinancing*	Dec 2021	€130m
Ireland	Private	*Refinancing*	Dec 2021	€450m
Ireland	Private	*Refinancing*	Dec 2021	€102m
Ireland	Private	*Growth Financing*	Dec 2021	€25m
Ireland	Private	*Dividend Recap*	Dec 2021	Undisclosed
Netherlands/Italy	Private	*Hotel Development Fina.*	Dec 2021	Undisclosed
Netherlands	Private	*Asset Based Financing*	Dec 2021	Undisclosed
Netherlands	Nordian Capital Partnership	*Acquisition Financing*	Dec 2021	Undisclosed
Belgium	Private	*Refinancing*	Dec 2021	Undisclosed
South Africa	Private	*Debt Advisory*	Dec 2021	Undisclosed
UK	Private	*Refinancing*	Nov 2021	Undisclosed
UK	Private	*Refinancing*	Nov 2021	Undisclosed
UK	Private	*Refinancing*	Nov 2021	Undisclosed
UK	Private	*Refinancing*	Nov 2021	Undisclosed

Deloitte Debt and Capital Advisory credentials

Recent Debt and Capital Advisory Transactions

UK	Private	*Amend & Extend*	Nov 2021	Undisclosed
UK	Private	*ABL Refinance*	Nov 2021	Undisclosed
Romania	Private	*Preferred Refinancing*	Nov 2021	€90m
Ireland	Private	*Preferred Refinancing*	Nov 2021	€49m
UK/Ireland	Elysian Capital	*Growth Financing*	Nov 2021	€100m
Netherlands	Private	*Credit Card Securitisation*	Nov 2021	Undisclosed
UK	Private	*Real Estate Financing*	Nov 2021	Undisclosed
UK	Private	*Acquisition Financing*	Oct 2021	Undisclosed
UK	Private	*Refinancing*	Oct 2021	Undisclosed
Netherlands/UK	Private	*Hotel Development Fina.*	Oct 2021	Undisclosed
South Africa	Private	*Transfer Pricing of De.*	Oct 2021	Undisclosed
UK	Inflexion	*Debt Refinancing*	Sep 2021	Undisclosed
Netherlands	Private	*Asset Based Financing*	Sep 2021	Undisclosed
Netherlands	Avedon Capital Partner.	*Acquisition Financing*	Sep 2021	Undisclosed
UK	Private	*Refinancing*	Sep 2021	Undisclosed
Poland	Private	*Growth Financing*	Aug 2021	z13m
US/UK	Bruin Caital	*Growth Financing*	Aug 2021	Undisclosed
US/UK	GHO	*Acquisition Financing*	Aug 2021	Undisclosed
Ireland	Private	*Dividend Recap*	Aug 2021	€5m
UK	Bridgepoint (Main)	*Securitisation*	Aug 2021	£550m
UK	Maguar Capital	*Acquisition Financing*	Aug 2021	Undisclosed
UK	Inflexion	*Refinancing*	Jul 2021	Undisclosed
Netherlands	Ardian	*Acquisition Financing*	Jul 2021	Undisclosed
UK	Phoenix Equity Partnership	*Acquisition Financing*	Jul 2021	Undisclosed

Deloitte Debt and Capital Advisory credentials

Recent Debt and Capital Advisory Transactions

Country	Company	Sponsor	Transaction	Date	Value
UK	emerald PUBLISHING	Private	*Refinancing*	Jul 2021	£37.5m
UK	CarNext	TDR	*Refinancing*	Jul 2021	Undisclosed
Netherlands	IGS / Smile Invest	Ardian Expansion	*Acquisition Financing*	Jul 2021	Undisclosed
UK	WEALTH at work	Equistone	*Lender Education*	June 2021	Undisclosed
Poland	CCC	Private	*Growth Financing*	Jun 2021	z71.3m
Netherlands	HPI GROUP	Private	*Acquisition Financing*	Jun 2021	Undisclosed
UK	VPS	PAI	*Refinancing*	Jun 2021	Undisclosed
UK	MyHeritage	Francisco Partners	*Acquisition Financing*	Jun 2021	£214m
UK	Centric Health	Five Arrows Principal .	*Refinancing*	Jun 2021	£37m
UK	SSE Contracting	Aurelius	*ABL*	Jun 2021	£20m
Italy	PEAK ROCK CAPITAL	N/A	*Acquisition financing*	Jun 2021	€95m
UK	TED BAKER	Public	*Refinancing*	May 2021	£129m
South Africa	ABB	Private	*Financial Model Build*	May 2021	Undisclosed
South Africa	Agri	Private	*Financial Model Build*	May 2021	Undisclosed
UK	McBride	Public	*Refinancing*	May 2021	£118m
UK	itm Solution delivered...	Inflexion	*Acquisition Financing*	Apr 2021	Undisclosed
South Africa	BELL	Private	*Financial Model Build*	Apr 2021	Undisclosed
US	**More Cowbell I LLC & its subsidiaries**	N/A	*Refinancing*	Apr 2021	Undisclosed
UK	Velocity CLINICAL RESEARCH	GHO	*Acquisition Financing*	Apr 2021	Undisclosed
UK	DISYS	N/A	*Growth financing*	Apr 2021	Undisclosed

Notes

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