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Direct lenders deployment keeps pace with exponential fundraising

Deloitte Alternative Lender Tracker Autumn 2019

Financial Advisory

This issue covers data for the first half of 2019 and includes 178 Alternative Lender deals. While this represents a 3% decrease in the number of deals on an LTM basis, the average deal value more than offsets this as evidenced by the strong growth in deployment.

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Contents

Deloitte Alternative Lender Deal Tracker Introduction	**02**
Alternative Lending in action: Case study	**06**
Alternative Lending in action: This time it's different	**10**
Alternative Lender Deal Tracker H1 2019 Deals	**13**
Direct Lending fundraising	**20**
Insights into the European Alternative Lending market	**32**
Deloitte Debt and Capital Advisory	**43**

Deloitte Alternative Lender Deal Tracker Introduction

In this twenty-second edition of the Deloitte Alternative Lender Deal Tracker, we report that in the 12 months to the end of the first half of 2019, there was a 3% decrease in Alternative Lending deals compared to the previous year. However, the average deal value more than offsets this as evidenced by strong growth in deployment. Our report covers 55 major Alternative Lenders with whom Deloitte is tracking deals across Europe.

The global economy has been slowing for some time. The question is, are we are heading for a soft landing or something worse? Since the start of this year financial markets have become increasingly edgy, though in early August all signs pointed to "something worse". The S&P 500 suffered its biggest one-day fall (3%) in two years and sterling fell to a two-and-a-half-year low of 1:1.22 against the dollar and the euro. Trade tensions are at the heart of this increasing edginess, particularly those between the US and China, though in part these movements were also due to a reduction in US interest rates, with the Fed implementing not one but two 25 basis point cuts to 2.00%, in addition to announcing it was ending the wind down of its balance sheet. Another effect of this action was that the US and UK yield curves inverted, suggesting investors expect continued easing of monetary policy in the future. This drove investors to swap riskier assets, including equities, for safe havens such as gold and government bonds. Whilst the US and China are due to re-start negotiations in October, the wide-ranging nature of the disagreement means a comprehensive solution seems unlikely and it seems sadly ironic that the economic and political networks created during the era of globalisation and global growth are now acting as a conduit for slower growth. The effects are particularly pronounced in the manufacturing sector, where more than 60% of countries around the world are experiencing contraction, according to IHS Markit data. Europe's powerhouse, Germany, the world's third biggest exporter, is especially exposed as it runs the largest trade surplus globally. German business confidence has slumped and manufacturing output has contracted since the start of the year. The economy shrank in the second quarter by 0.1% meaning annualised output growth slowed to 0.4% in the year to June, its slowest for six years. There is a fair chance this will continue in the third quarter, which would put Germany in a technical recession. Elsewhere in Europe, Italy is already in its fifth recession in two decades with its problems compounded by the resignation of Giuseppe Conti as prime minister and the country narrowly avoiding a credit downgrade by Fitch Ratings. Amongst this backdrop, it therefore comes as no surprise that in July the IMF cut their global GDP growth forecasts from start of the year and now forecast the weakest levels of growth since the financial crisis.

Decrease in deal flow on an LTM basis

Deals completed to date

 © Deloitte Alternative Capital Solutions

A number of indicators therefore point towards a global downturn. As history shows us, yield curve inversions often occur before recessions. As of today, financial markets assume that central banks will come to the rescue by easing monetary policy and with the Federal funds rate at 2.00%, the US has scope to do so. Further lowering rates in Europe is however a lot more problematic. On the 12th September Mario Draghi, the ECB's outgoing president, announced an additional 10 basis point cut to its benchmark rate from -0.4% to -0.5%, the lowest on record. It is for this reason that the ECB also announced that it would restart its quantitative easing programme, buying €20bn of bonds every month from November until inflation expectations came "sufficiently close to, but below, 2 per cent", having called a halt to this last December. Alternatively, growth may also get a helping hand from local government. The mood among politicians and policymakers on public sector austerity seems to be turning – both Mario Draghi and his successor Christine Lagarde, have urged euro area countries to use fiscal policy to boost spending. As a consequence, governments are likely to face growing pressure to act against the downturn by increasing public spending and cutting taxes. In late August the new UK government announced significant increases in public spending and a review of the borrowing rules which many believes signals the end of a ten-year programme of debt reduction. As we all know, the UK is not without its problems and remains deep in political crisis. Just two weeks into the job, the country's new prime minister, Boris Johnson, lost his parliamentary majority and suffered a major defeat in his efforts to extract the UK from the EU when a bill was passed to end the option of a no-deal Brexit on 31st October.

So how long have we got? Difficult to say, though all of the hallmarks of a fragile market are starting to emerge in anger. According to the Financial Times, around 30% of the bonds issued by governments and companies worldwide are trading at negative yields and therefore c.$17tn of outstanding debt is being paid for by its own creditors. The concept of making an investment where you are certain to get back less than you paid via the present value of interest and principal if held to maturity doesn't sound like an attractive thesis. But it is now a fact of life in the fixed income market. Investors are in effect paying to have someone look after their money. When this many are willing to pay for the "security" of losing only a little bit of money as a hedge against losing quite a lot, you know there's something deeply wrong in the world.

Investors nonetheless remain hungry for yield. Whilst on the subject of leveraged loans, despite the volatility amongst other asset classes, the market charged on unperturbed through the summer period with roughly €13.6bn of pipeline issuance in August. July was also the busiest month in the YTD period with total loan volumes reaching €9.1bn in the month alone. What is interesting is that according to LCD, the size of Europe's leveraged loan market has doubled in less than five years, now standing at €201bn. European loans remain attractive then, though there are some signs of stress. Whilst this is not evidenced in the default rate of LCDs European Leveraged Loan Index (which remains at zero as of August) the secondary market, which as of the 5th September stood at 94.3%, paints an increasingly negative picture. In the main this is currently limited to a number of sectors, including the casual dining and retail subsectors of the service industry, though no surprise that the manufacturing sector has borne the majority of the initial brunt, including Aston Martin, Lecta, Pro-Gest, Schmolz & Bickenbach and Thyssenkrupp, all of which have suffered from ratings downgrades and pricing pressure.

Turning to the Direct Lending market, Alcentra continued the trend of private debt managers on the crusade for ever larger AuM, reaching €5.5bn in its latest round of fundraising. Pemberton also joined the ranks, closing its latest €3.2bn fund in July. As we have previously commented, direct lenders continue to take market share in Europe. This in itself is not new, but what is interesting is that they are beginning to seriously penetrate markets that are dominated by traditional bank lenders. A good example is Permiras recent €320m unitranche financing in support of Francisco Partners acquisition of Denmark's EG software, a market where Danish banks have notoriously defended their patch.

Furthermore, independent research performed by Deloitte from 50 senior direct lending managers shows that whilst the number of direct lending deals declined by 4% on an LTM basis to Jun 2019, deployment numbers remained steady at c. €22.6bn in H1 2019. This follows an exponential increase in direct lending deployment of €16.7bn, €26.8bn and €38.1bn in 2016, 2017 and 2018 respectively. This data potentially puts cold water on the fears that there is currently an overhang of un-deployed direct lending capital. In fact, the data support quite the opposite. Not only has deployment remained in lockstep with

fundraising, as private debt funds continue to raise record amounts of capital even as the economic warning signs are flashing but the asset class is likely to provide a useful source of counter-cyclical credit at the time banks and traditional capital markets players withdraw from the high yield market due to punitive capital retention requirements. Add to this, new funds are entering both the top and bottom of the European market including Golub capital, the US heavy weight looking to set up an office in London, and smaller funds like Alvin and Allseas capital, joining the ranks of Prefequity and Harwood capital offering smaller tickets but flexible capital crossing debt and equity risk.

Invariably, more risk has been taken on by some direct lenders in order for deployment to remain in lockstep with funds raised, though in the main, a number of accomplished managers have raised lower yielding senior opportunity funds to deploy in the more liquid large cap market. These transactions are effectively eating the lunch of the traditional syndicated bank market. Large number of LPs currently prefer senior debt focussed funds as they avoid the natural trap to overleverage at this point in the cycle. From a borrowers' perspective, the reality is that from a pricing, leverage and documentation perspective the direct lending market is as attractive as it has been in recent years in Europe. Undoubtedly, these attractive conditions will likely be subject to change in the event of further economic deterioration, and we therefore expect borrowers will continue to take advantage of this positive environment over the next 6 months.

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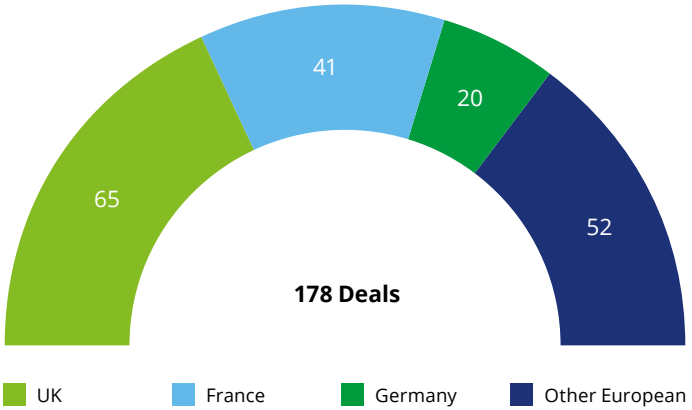
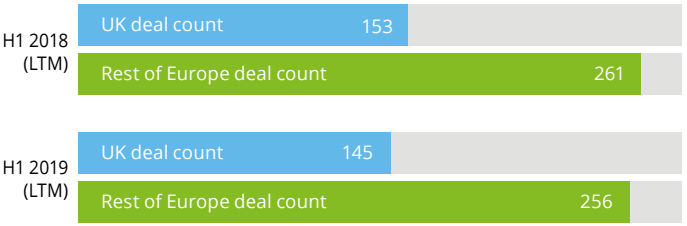
H1 2019 deals completed



H1 headline figures (last 12 months)



Borrowers: Access Direct Lending to power growth
Businesses rely on access to growth capital, yet due to risk appetite and stringent regulation, banks are more constrained. Bringing in alternative and flexible capital allows companies to grow, yet the market can be overwhelming with numerous complex loan options offered to borrowers. Direct Lenders can offer effective rates with little or no equity dilution of your business, enabling businesses to make acquisitions, refinance bank lenders, consolidate the shareholder base, and grow activities.
To read more, turn to our Direct Lending guide on page 09.

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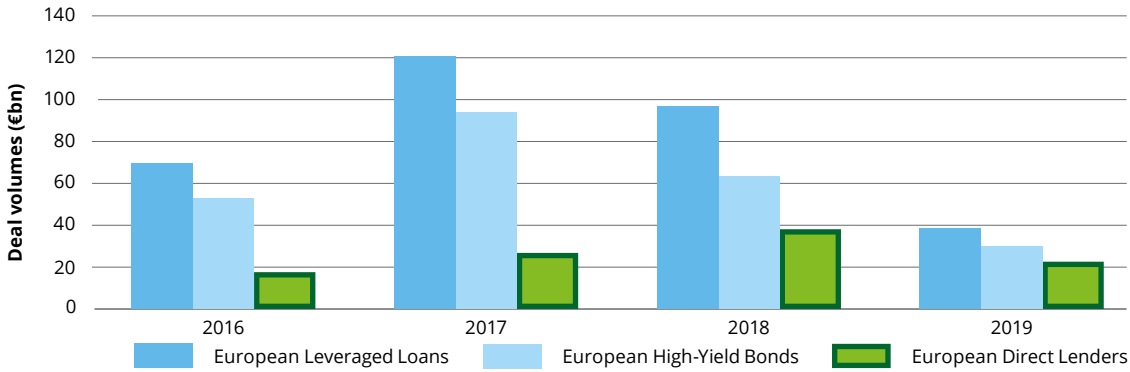
European Leveraged Finance Market: Direct Lending is growing rapidly into an asset class of its own

Direct lending has consistently been the fastest growing asset class between 2016 and 2018 with deal volumes growing at a CAGR of 29%.



CAGR 2016-18	
Leveraged Loans	12%
High-Yield Bonds	6%
Direct Lenders	29%

	European Leveraged Loans	European High-Yield Bonds	European Direct Lenders
2016	€69.6 billion	€53.0 billion	€17.6 billion
2017	€120.4 billion	€93.7 billion	€26.8 billion
2018	€96.9 billion	€63.5 billion	€38.1 billion
H1 2019	€38.5 billion	€29.7 billion	€22.6 billion

Source: LCD and Deloitte

- Deloitte gathered European capital deployment data from 50 Direct Lenders*.
- When compared with Leveraged Loan and High-Yield Bond data from S&P's LCD it clearly shows that Direct Lending is the fastest growing asset class.
- The growth in the Direct Lending asset class has been driven by Direct Lender raising consistently larger funds from LPs.
- With more capital to deploy Direct Lenders are now writing larger tickets and expanding into areas previously dominated by the banks.

*The difference between the 55 lenders providing data on the number of deals and the 50 lenders providing data on deal deployment is primarily due to subordinated lenders being excluded in the deployment data set.

Alternative Lending in action: Case study

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Direct lenders support PIB's success

pib Group

Ryan Brown
CFO – PIB Group Limited

Launched in 2015, PIB Group (PIB) has grown rapidly both organically and through acquisition to become one of the UK's leading insurance advisors with revenue in excess of £100m. CFO, Ryan Brown, discusses the advantages of Direct Lenders.

Ryan, along with the other founding members of PIB and the Carlyle Group as financial sponsor, saw an opportunity to create a market leading independent diversified specialist insurance intermediary group of businesses – achieved through hiring outstanding individuals to drive organic growth, acquiring and integrating very focused specialist businesses with great leadership, and putting collaboration with colleagues across PIB, as well as their insurer partners, at the core of everything they do.

Ryan appointed Deloitte's Debt & Capital Advisory team as the company's advisor in 2019 to explore the options to refinance and expand the company's existing debt facilities, seeking a structure that was appropriate for the business and its future aspirations. Despite having raised debt from bank lenders in 2017, Ryan felt that the company's rapid expansion, including 18 acquisitions, meant that the company had matured significantly over a short period of time and that its financing should reflect this, ***"The company had grown from a start-up over a short period and I wanted a debt facility which reflected that in terms of both quantum and flexibility."***

PIB's rapid and relentless growth, both organically and via M&A, naturally lent itself to a debt structure including favourable and flexible acquisition criteria with the ability to debt fund a robust pipeline of opportunities. In addition, it was important to have a group of supportive lenders with whom PIB could build a close strategic relationship and who would be able to significantly expand the amount of capital made available to the company over a sustained period of time. Based on this, the Deloitte team presented a summary of the bank and direct lending markets to the PIB team, gave them insights into the markets and discussed the options available.

Ryan appointed Deloitte's Debt & Capital Advisory team as the company's advisor in 2019 to explore the options to refinance and expand the company's existing debt facilities...

Ryan described his view of the direct market as being one which is massively diverse, *"Direct lenders are different from the banks but there can be just as big differences between the direct lenders themselves… Deloitte's knowledge, understanding of and experience with direct lenders allowed our business to identify those parties that met our key criteria in a lending market where we had no previous experience."*

During the debt raise process that followed, Ryan noted that the standout difference between the direct lenders and the banks approached during the transaction was that the direct lenders *"simply have more available capital and a greater appetite and desire to deploy it… our experience highlighted that funds are generally willing to write bigger cheques with greater flexibility tailored to our particular needs."*

The process continued with the Deloitte Debt & Capital Advisory team taking much of the heavy lifting in terms of negotiation and documentation off the management team as well as working closely with the due diligence and legal teams to ensure that the transaction proceeded efficiently. Ryan noted that, *"our counsel worked hand in glove with the Deloitte team and this made a huge difference with the documentation process and the terms which we were able to negotiate."*

When asked what advice he would give to another investor or company considering their finance options Ryan recommended, *"By hiring an advisor you will save yourself significant interest costs and secure terms which will far outweigh the associated advisory fees you will pay. The market changes so quickly, that it is invaluable having advice from a specialised advisor like Deloitte who is in the market on a daily basis comparing transactions and who has a team with the breadth to support you through the entire transaction."*

PIB Group Limited

PIB's story began in 2015 as a start-up insurance advisory business with a core of industry experts. Having secured the backing of the Carlyle Group, PIB pursued a rapid expansion growth strategy through organically building expertise and making acquisitions.

Today, PIB is a market-leading specialist and diversified insurance intermediary and advisor with expertise across both the retail and wholesale insurance markets and covering the breadth of the UK, Ireland and Channel Islands with a network of 40 offices.

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When to use Alternative Debt?

Situations	Advantages
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

Alternative Lending in action: This time it’s different

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Risk, Reward and the Credit Cycle: This time it's different

Our hypothesis

Regular readers of the Deloitte Alternative Lender Deal Tracker will appreciate how rapidly the European private debt markets have grown recently, fuelled by quantitative easing, investor demand for higher-yielding paper, and market share gains at the expense of banks' leveraged finance desks.

Lending appetite in the direct lending market remains high, despite increasing concerns about the length of the current credit cycle and the terms on which private debt is currently being deployed. We have been considering how the current cycle will play out, and have concluded that ***evolving deal terms and changing participants mean that the next wave of restructurings will be very different to the last downturn.***

Why is this?

Bilateral relationship between sponsor and lender. The last downturn in the leveraged loan market in 2008-10 featured contentious multi-bank workouts, significant levels of secondary debt trading and protracted intercreditor discussions between senior, second lien and mezzanine lenders. In today's private debt deals, there is a closer relationship between a sponsor and a single lender; negotiations can proceed more efficiently and take place in a context where protection of that relationship is an important consideration for participants with long-term commitments to the market. This is reflected in that fact that the original deal team will probably stay involved throughout the lifecycle of an investment, even though some lenders are beginning to add specialist turnaround and workout experts to their portfolio teams.

Sponsor-friendly debt documentation. Many commentators have remarked on the dilution of standard creditor protections in the syndicated TLB market, where most deals are now cov-lite and only the RCF benefits from a springing covenant. In the direct lending market, it is still common to find a leverage covenant, and capital intensive businesses may also bear a capex covenant. However, covenant headroom can be huge due to EBITDA add-backs and flexible definitions, which – combined with watered-down default clauses – means that the triggers available for a lender to take action are increasingly late.

Sponsors have far more options. The absence of early triggers noted above means that a lender may only be notified of problems so late that its own room for manoeuvre may be curtailed. This is a potential source of frustration, particularly where a facility agreement may prevent a lender from selling or sub-participating its debt. Furthermore, increasingly large and flexible basket provisions may allow a sponsor to layer in additional debt ranking alongside the existing lender. Non-comprehensive security packages may even allow additional debt to prime the existing lender by re-gearing unrestricted subsidiaries, or by using unsecured property, IP, stock or receivables as collateral for new money.

What can lenders do?

Strictly speaking, many newer facility documents fail to provide lenders with meaningful protections prior to a payment default, although information rights remain very important and should be explored immediately. However, we believe lenders will look beyond the letter of the contract and seek to leverage their sponsor relationships by taking a more collaborative approach, thereby improving the lender's recovery prospects whilst protecting the sponsor relationship if possible.

More recently we have seen larger debt funds focus more carefully on legal protections when negotiating documentation. Some debt funds are also pushing to take the agency role to increase their control of the situation, and in response borrowers are trying to minimise the risk of future disputes by ensuring that key lenders do not become loan agents.

In the current cycle, sponsors and direct lenders appear more willing to work together to resolve a shared problem.

How can sponsors and lenders work together?

In the last cycle, financial advisers were extensively used to coordinate multiple stakeholders through a work-out process, produce a review of the latest business plan to support banks' credit committee discussions, and to provide individual stakeholder groups with negotiation support. Those stakeholder groups and relationships subsequently fragmented as debt traded to distressed investors and participants exited the market, leading to long, fraught and expensive workout processes.

In the current cycle, sponsors and direct lenders appear more willing to work together to resolve a shared problem. There are a number of reasons for this:

- Direct lenders are generally willing to look at amending and extending terms alongside re-pricing to reflect increased risk, particularly as many funds have a 10% allocation to provide additional liquidity into existing deals.
- Direct lenders rarely look to take ownership of assets; we have only seen a handful of deals where lenders have taken the equity, and these cases are restricted to situations where sponsors have been unwilling or unable to invest new money.
- Concentration risk is also a factor: unlike banks, many funds can invest from 5% to 8% of their lending capacity into a single credit, which means that preservation of capital is key. In practice this means (i) direct lenders are more likely to support a sponsor-led deal; in the interests of protecting value; and (ii) direct lenders are less likely to sell their debt in the secondary market because they will be more sensitive to near-term crystallisation of losses.

This lending landscape has led to a shift in the demands made on external advisers. In the future we believe there will be more situations where a single adviser is involved, at significantly lower cost than traditional multilateral, adviser-dominated work out processes, who can provide:

- Hands-on help for management in producing (rather than reviewing) a robust business plan, supported by specialist sector expertise;
- Functional expertise in working capital management to support the CFO and maximise the available liquidity runway in situations where distress is imminent;
- Operational and analytical insight to help identify and deliver the actions required to restore the desired earnings trajectory ('course correction');
- Strategic restructuring expertise in assessing the available options on a consensual or non-consensual basis;
- Access to specialist expertise in pensions or tax;
- Advice which is objective and independent of capital in situations where there has been a loss of trust between management, sponsor and lender;
- Implementation support to ensure delivery of the desired outcome including, where necessary, accelerated M&A capabilities or provision of an appointment-taker to deliver a prepack transaction.

This time it really will be different.

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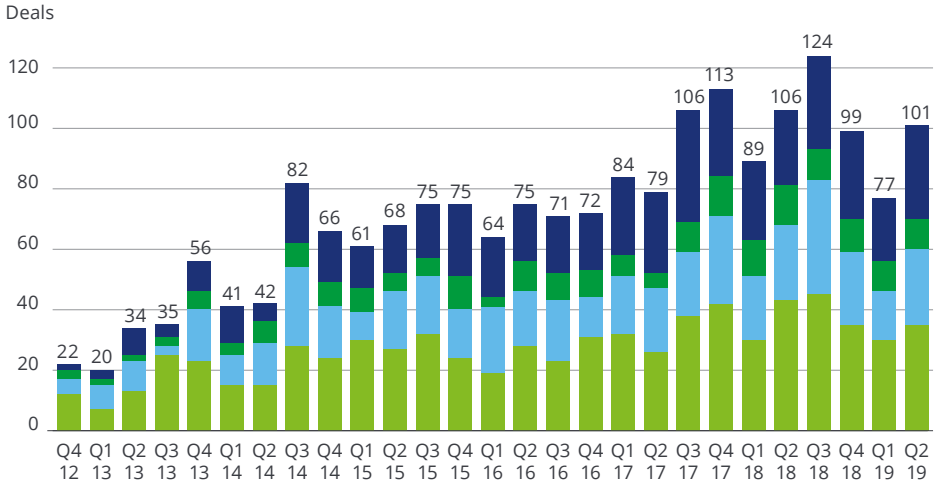
Alternative Lender Deal Tracker H1 2019 Deals

The Alternative Lender Deal Tracker now covers 55 lenders and a reported 1937 deals

Alternative Lender Deal Tracker

Currently covers 55 leading Alternative Lenders. Only UK and European deals are included in the survey.



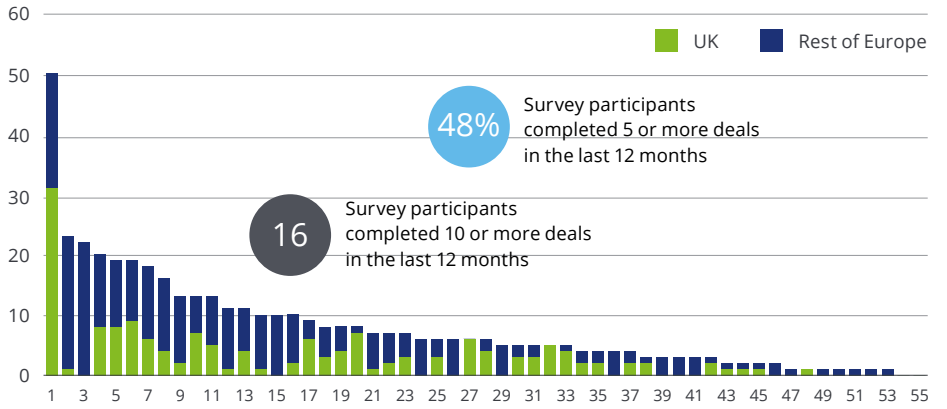
Data in the Alternative Lender Deal Tracker is retrospectively updated for any new participants

732
UK deals completed

1205
Euro deals completed

1937
Total deals completed

Deals done by each survey participant (Last 12 months)



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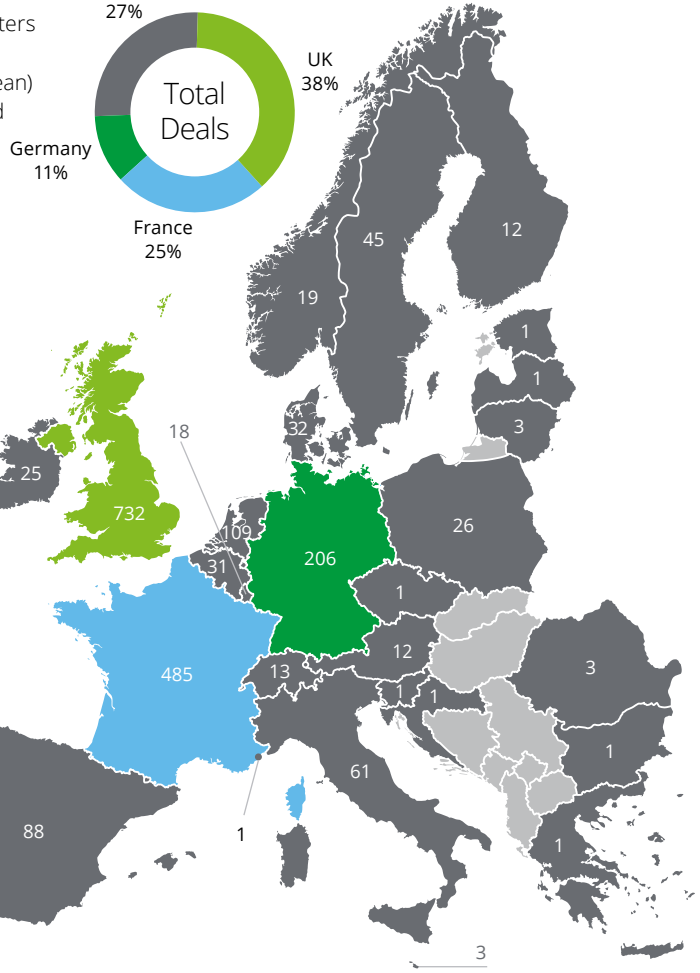
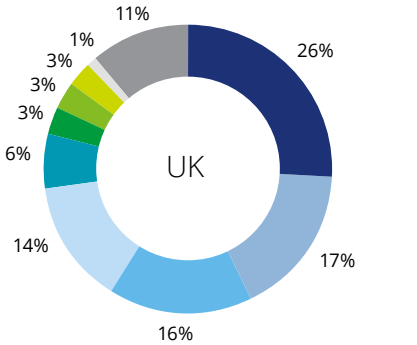
Direct Lenders increasingly diversifying geographies

Total deals across Europe
In the last 26 quarters 1937 (732 UK and 1205 other European) deals are recorded in Europe

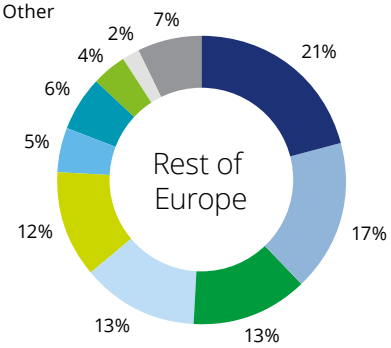


UK France Germany Other European

Total deals across industries (Last 12 months)
Within the UK the Business, Infrastructure & Professional Services industry has been the dominant user of Alternative Lending with 26% followed by TMT with 17%.



- Business, Infrastructure & Professional Services
- Technology, Media & Telecommunications
- Financial Services
- Healthcare & Life Sciences
- Leisure
- Manufacturing
- Retail
- Consumer Goods
- Human Capital
- Other

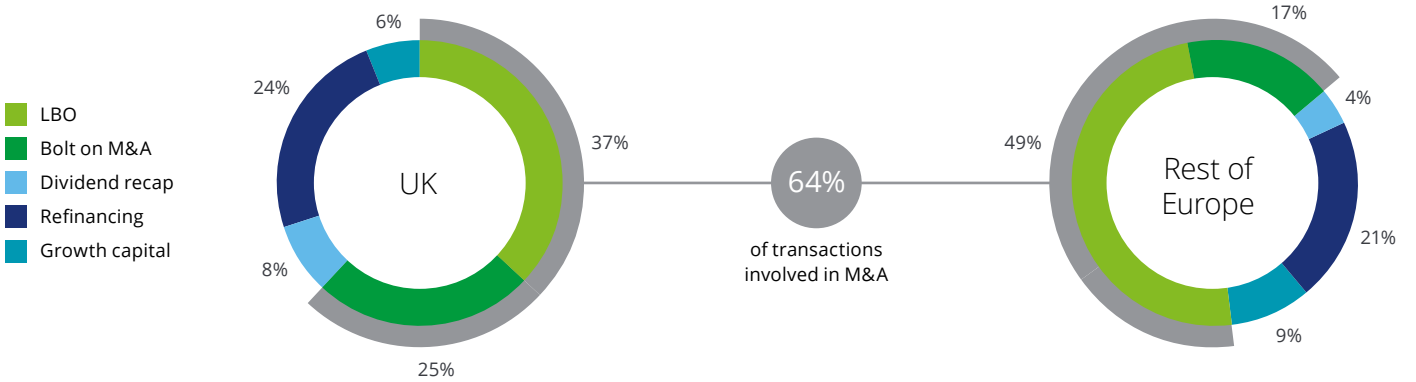


In the rest of Europe there are 5 main industries: Business, Infrastructure & Professional Services, TMT, Manufacturing, Healthcare & Life Sciences and Consumer Goods.

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

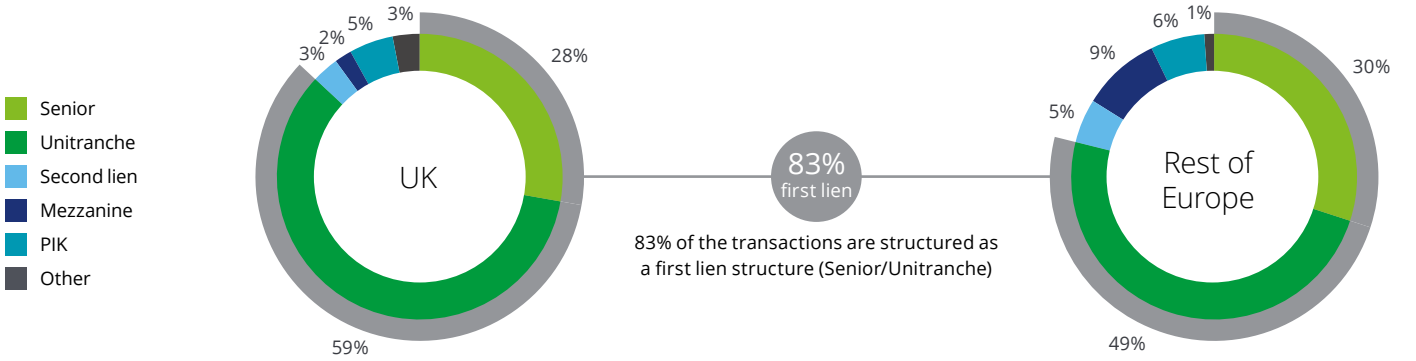
Deal purpose (Last 12 months)

The majority of the deals are M&A related, with 64% of the UK and Euro deals being used to fund a buy out. Of the 401 deals in the last 12 months, 76 deals did not involve a private equity sponsor.



Structures (Last 12 months)

Unitranche is the dominant structure, with 59% of UK transactions and 49% of European transactions. Subordinate structures represent only 17% 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.

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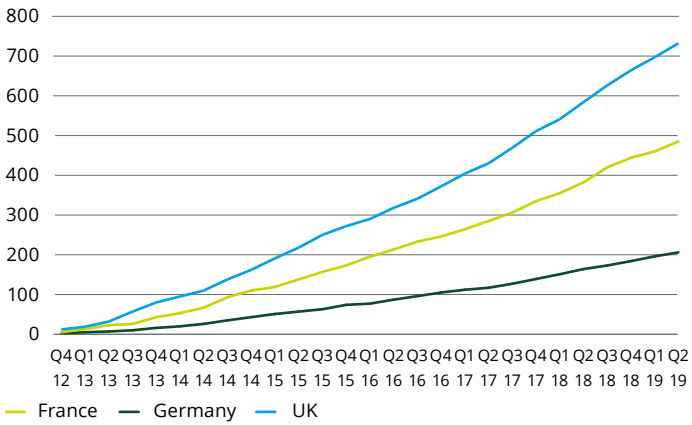
The UK still leading as the main source of deal volume for Direct Lenders in Europe

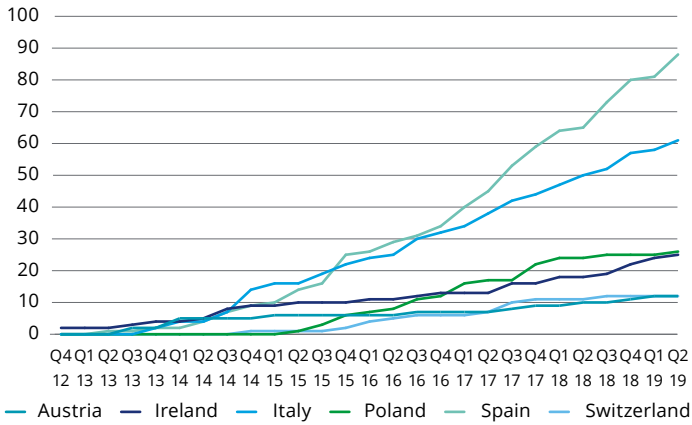
Cumulative number of deals per country

The number of deals is increasing at different rates in various European countries. The graphs below show countries which as of H1 2019 have completed 5 or more deals.

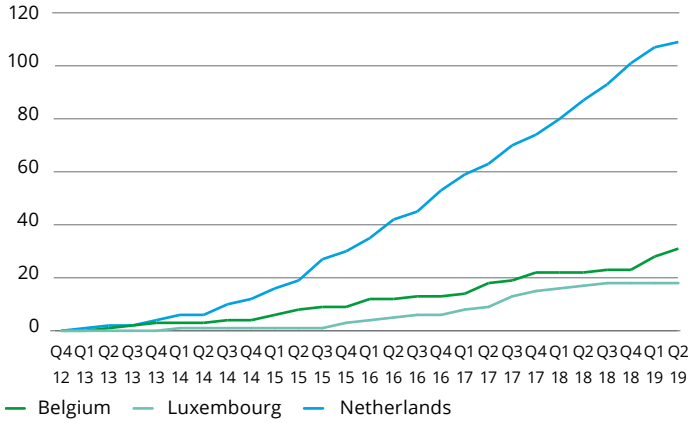
Largest geographic markets for Alternative Lenders



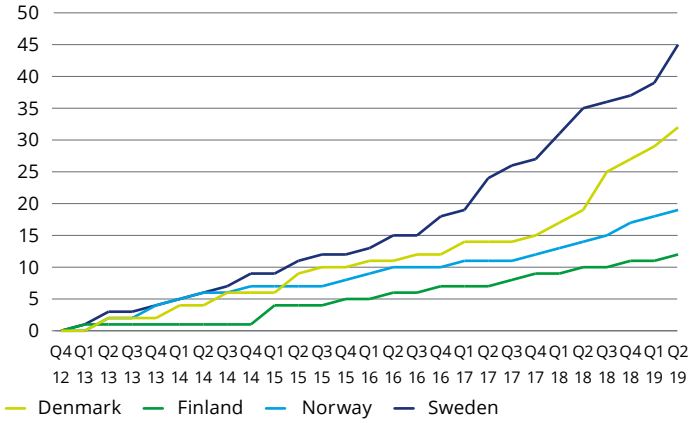
Other European



Benelux



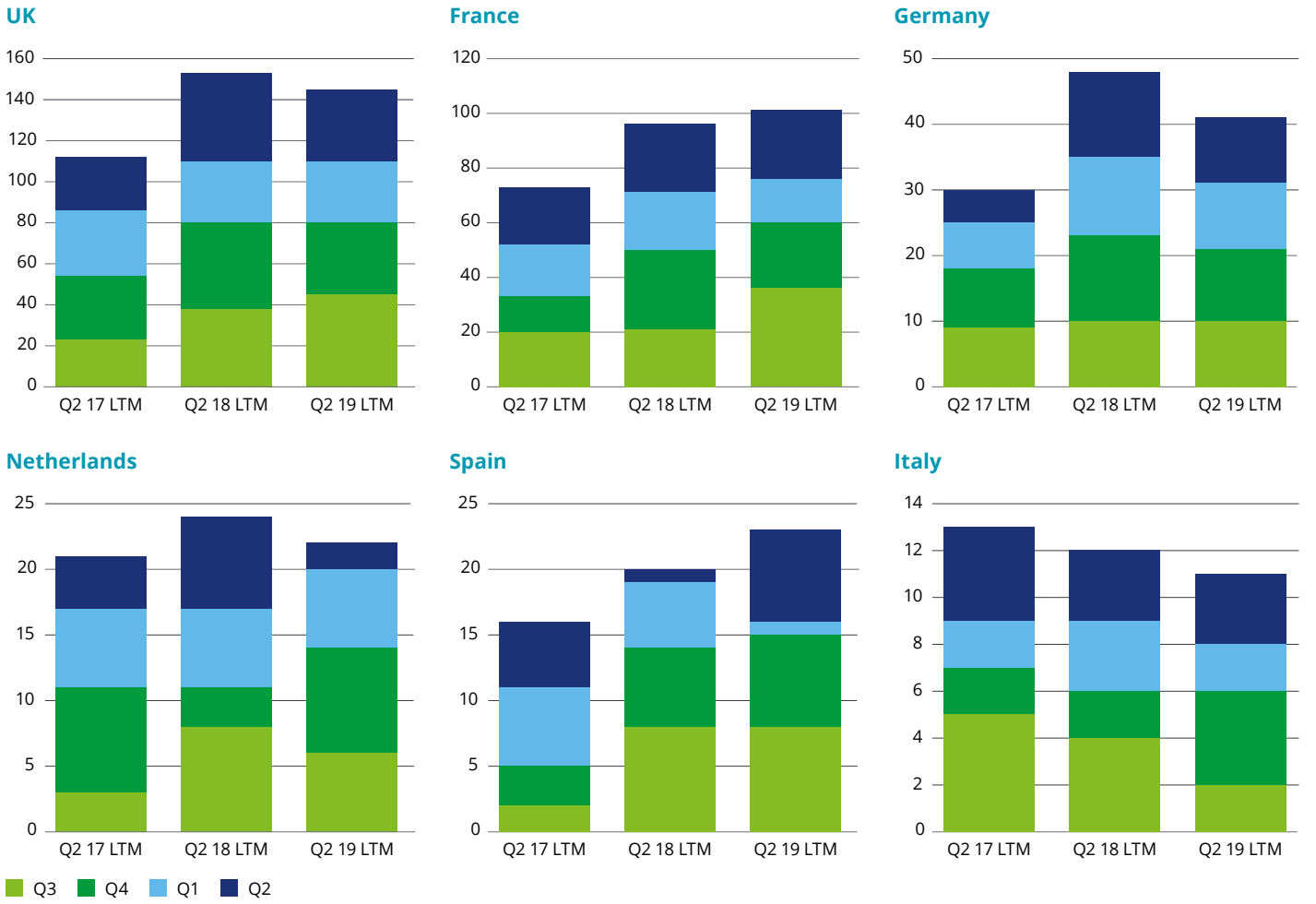
Nordics



Direct Lending is growing in the main European markets

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

On average, over time the number of deals is increasing with positive CAGR between 2016 and 2019 in all of the countries shown below.



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Which landmark unitranche deals have been completed?

Selected Landmark Unitranche Deals (>€90m)

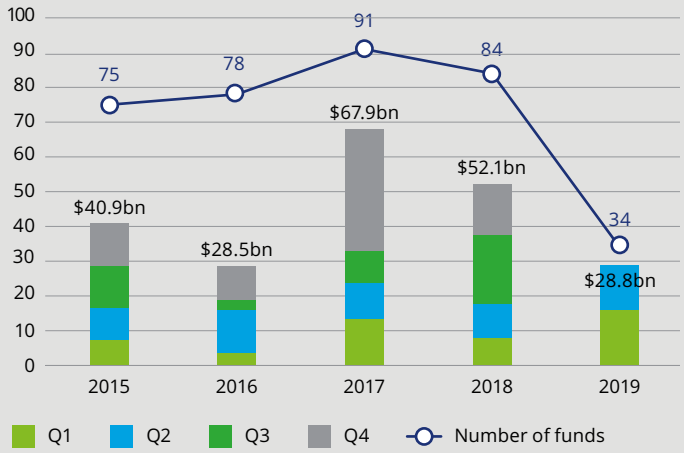
Borrower	Country	Unitranche in €m	Lenders	Sponsor	Date
Astek	France		Tikehau Capital	✓	Jun-19
OAG	UK		Park Square, SMBC	✓	Jun-19
Golden Goose	Italy		Bluebay	✓	Jun-19
Primonial	France		Ares	✓	Jun-19
Synthon	Netherlands		Ares	✓	Jun-19
Baltic Classifieds Group	Lithuania		Ares	✓	Jun-19
Doobies	UK		Ares	✓	May-19
Mecalux	Spain		Tikehau Capital	✓	Apr-19
Revima	France		Permira Debt Managers, Tikehau Capital	✓	Apr-19
Hana	France		Bluebay	✓	Apr-19
IRS	Germany		Ares	✓	Apr-19
Conscia	Denmark		Ares	✓	Apr-19
Arlington	UK		Apollo	✓	Apr-19
Kyriba	France		TPG	✓	Apr-19
Outcomes First	UK		Bluebay	✓	Mar-19
ICS	UK		Permira Debt Managers	✓	Mar-19
Transporeon	Germany		Bluebay	✓	Mar-19
Six Degrees	UK		Ares	✓	Mar-19
DMC	UK		Apollo	✓	Mar-19
Sterling Pharma	UK		Permira Debt Managers	✓	Feb-19
TAF	Netherlands		Ares	✓	Jan-19
Daisy	UK		Ares	–	Jan-19
Cherry	Sweden		Ares	✓	Jan-19
HTL	France		Bluebay, Idinvest, Barings	✓	Dec-18
Coyote	France		Tikehau Capital	✓	Dec-18
Deltatre	UK		Permira Debt Managers	✓	Nov-18
Medifox	Germany		Ardian, EQT	✓	Oct-18
Link Mobility	Norway		Barings, ICG	✓	Sep-18
Ipsen	Germany		Barings	✓	Sep-18
HTL	France		Barings, Bluebay, Bridgepoint Credit, Idinvest	✓	Sep-18
HSS Hire	UK		HPS	–	Sep-18
FNZ	UK		HPS	✓	Sep-18
Getronics	Netherlands		Permira Debt Managers	–	Sep-18
Besson Chaussures	France		Apera, Idinvest	✓	Sep-18
Remade in France	France		Idinvest, LGT European Capital	✓	Sep-18
Technicis	France		Idinvest, Barings	✓	Sep-18

100 200 300 400 500 600 700 800

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

Direct Lending fundraising

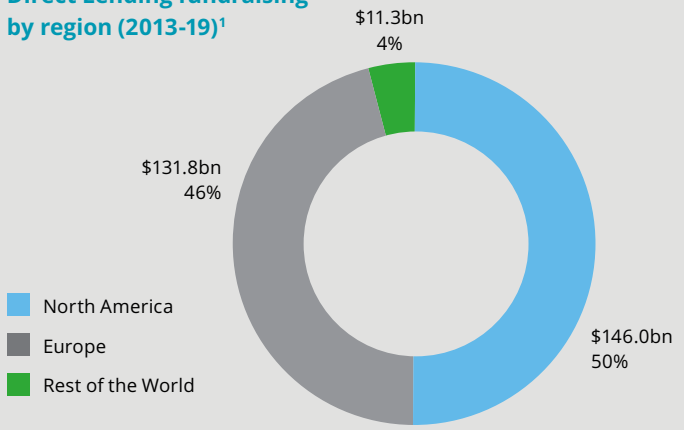
Global Direct Lending fundraising by quarter[1]



Select largest funds with final closing in 2019[1]

- Bluebay Direct Lending Fund III **€6,000m** *(Europe)*
- Alcentra European Direct Lending Fund III **€5,500m** *(Europe)*
- Ares Senior Direct Lending Fund **$3,000m** *(North America)*
- Angelo Gordon DLI III **€2,750m** *(North America)*
- Twin Brook Direct Lending Fund III **$2,750m** *(North America)*

Direct Lending fundraising by region (2013-19)[1]



Select largest funds with final closings in 2018[1]

- Ares Capital Europe IV **€6,500m** *(Europe)*
- Kayne Senior Credit Fund III **$3,000m** *(North America)*
- White Oak Yield Spectrum Fund **$2,120m** *(North America)*
- EQT Mid-Market Credit Fund II **€1,800m** *(Europe)*
- Golub Capital Partners II **$1,860m** *(North America)*

[1] Preqin, Credit Suisse market intelligence, 2019.

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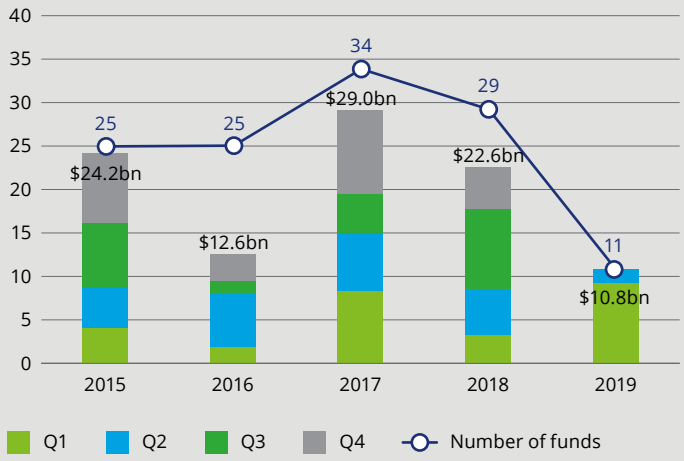
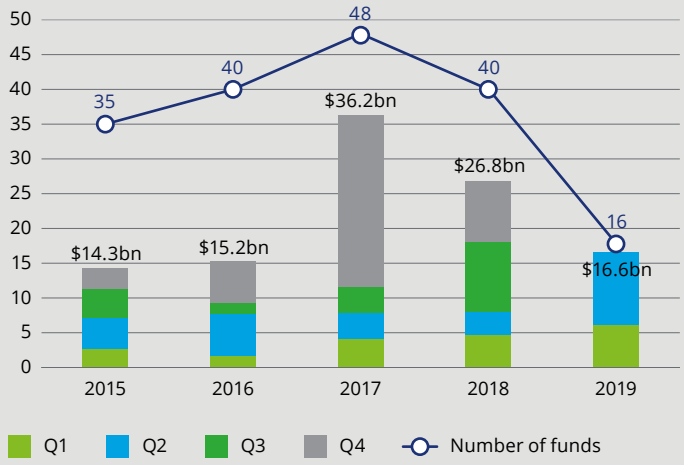
Europe Direct Lending fundraising by quarter[1]



North America Direct Lending fundraising by quarter[1]



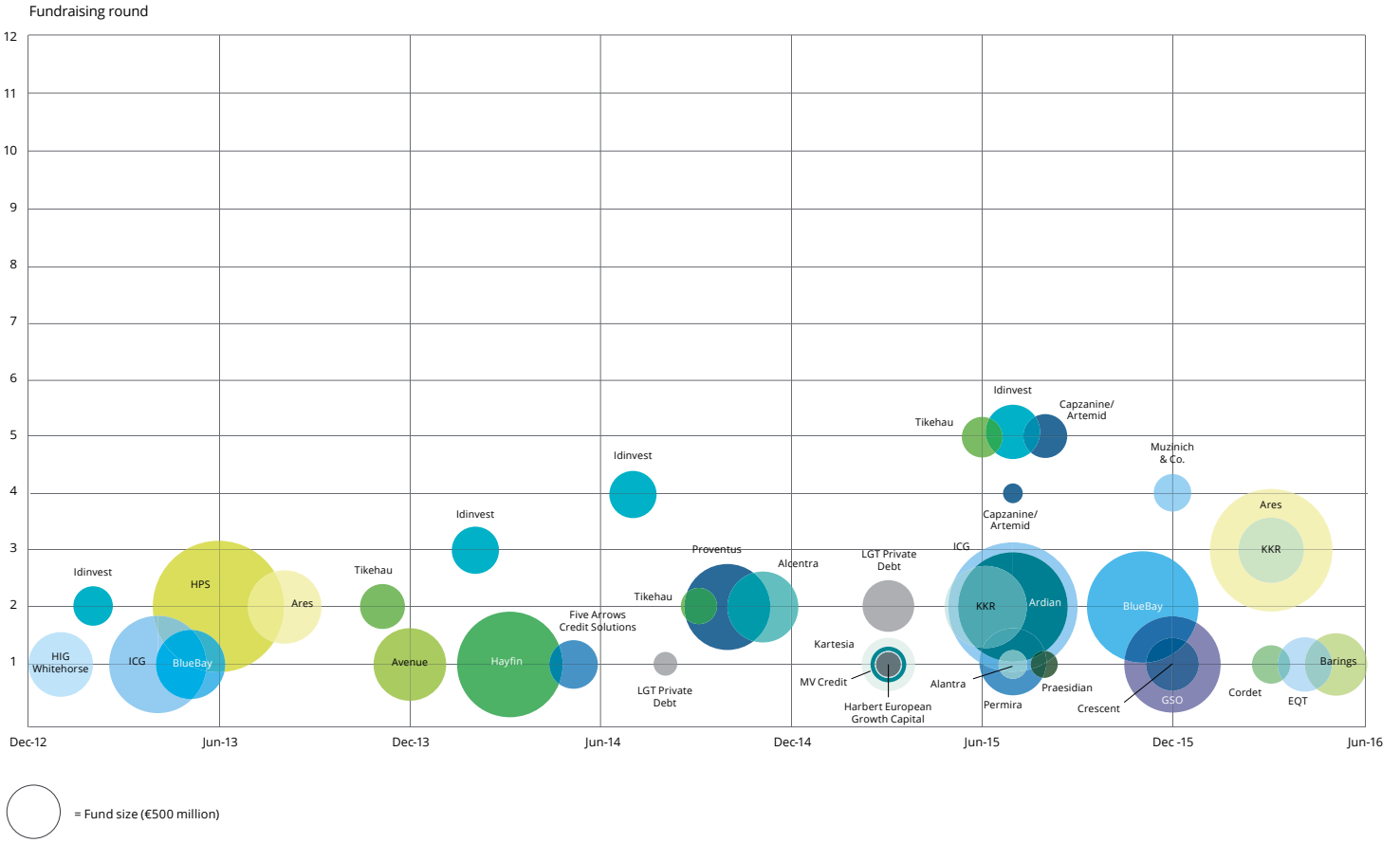
Key takeaways

- 2018 saw a step down in fundraising volumes in both Europe and North America compared to the record year in 2017.[1]
  - In Europe, volumes fell by c. 25%, with volumes in North America seeing a steeper 30% fall, though nonetheless North American fundraising continues to outpace Europe overall.[1]
- H1 2019 saw strong fundraising in both Europe and North America, with both regions seeing volume ahead of 2018.
  - North American performance is the strongest on record.
  - European performance was the strongest since 2017; however, Europe is looking to have a very strong Q3 2019, with several significant funds closing.
- Strong investor interest in separately managed accounts continues, meaning that not all capital committed to the direct lending space is easily captured.[2]
- c. 200 Direct Lending funds seeking aggregate commitments of c. $95 billion remain in the market as of August 2019.[1]
  - North American funds represent around half of those in market by number (c. 100 funds targeting c. $40 billion) but European funds represent the plurality by capital sought (c. 65 funds targeting c. $45 billion).

[1] Preqin, 2019.
[2] Credit Suisse Private Fund Group market knowledge.

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

Senior Direct Lending fund raising focused on the European market



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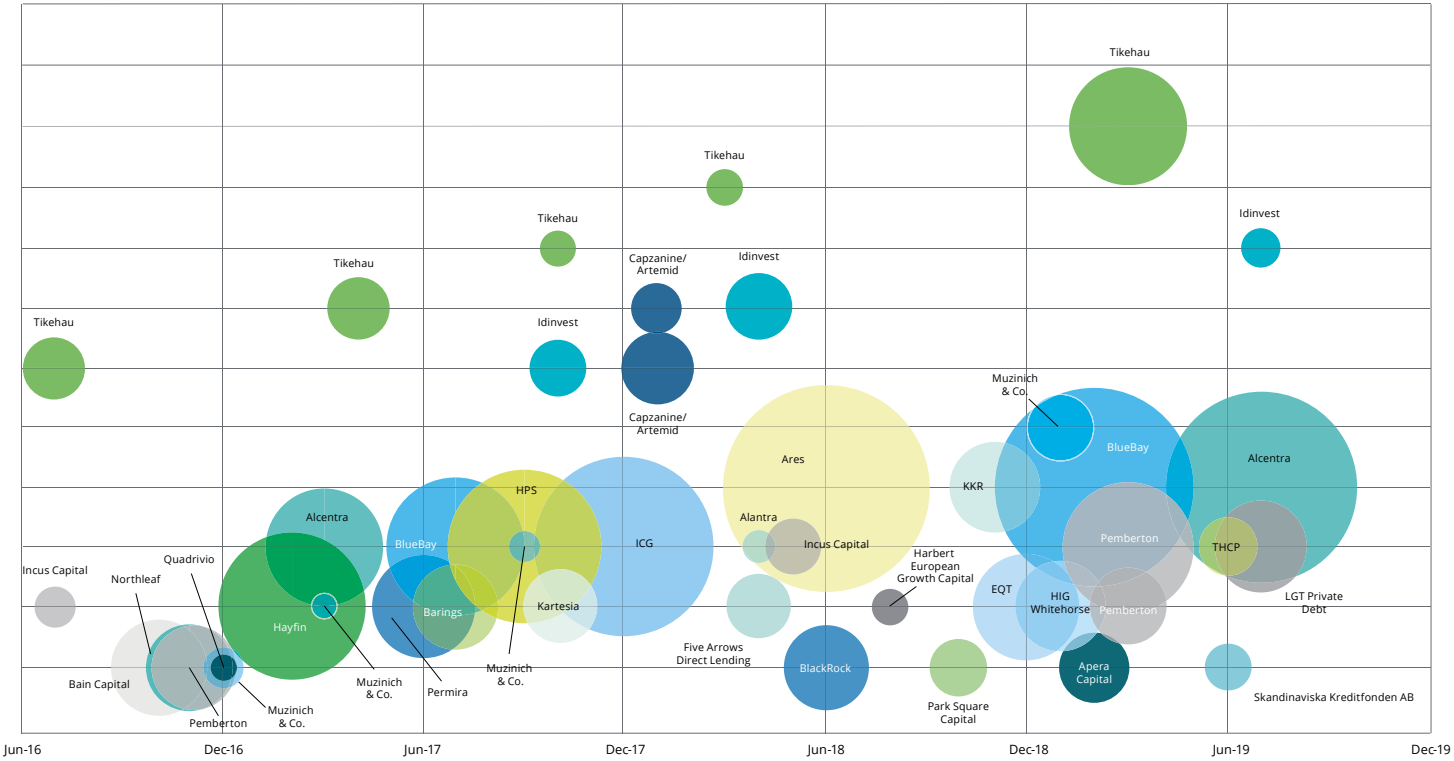
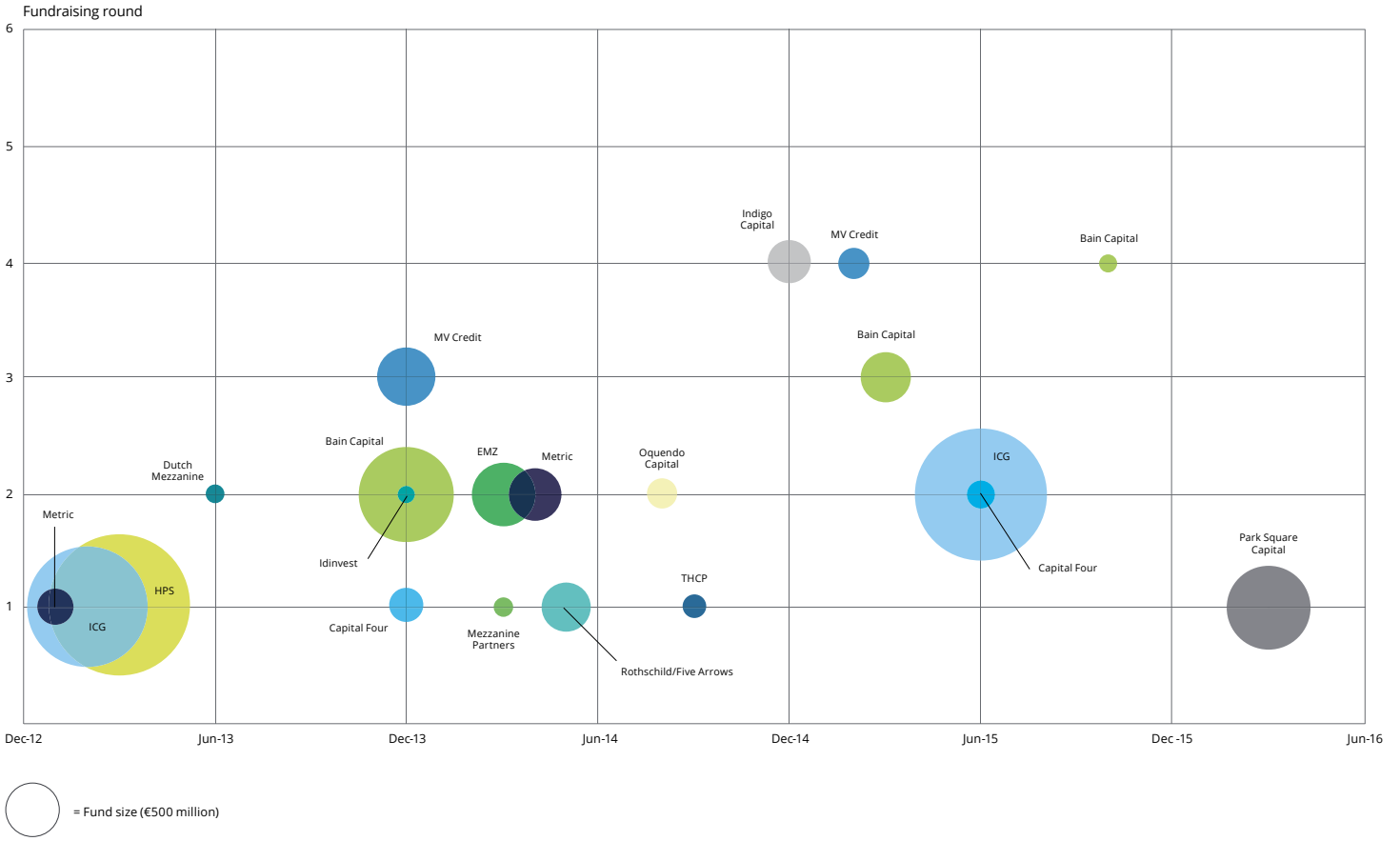

Tikehau
Tikehau
Tikehau
Tikehau
Tikehau
Idinvest
Idinvest
Capzanine/ Artemid
Capzanine/ Artemid
Idinvest
Muzinich & Co.
BlueBay
Alcentra
Ares
KKR
HPS
Alcentra
Alantra
ICG
BlueBay
Incus Capital
Pemberton
THCP
Incus Capital
Quadrivio
Northleaf
Harbert European Growth Capital
EQT
HIG Whitehorse
Pemberton
LGT Private Debt
Barings
Kartesia
Hayfin
Five Arrows Direct Lending
BlackRock
Apera Capital
Bain Capital
Muzinich & Co.
Permira
Muzinich & Co.
Pemberton
Muzinich & Co.
Park Square Capital
Skandinaviska Kreditfonden AB
Jun-16
Dec-16
Jun-17
Dec-17
Jun-18
Dec-18
Jun-19
Dec-19

Junior/Growth: How much funds have been raised by which Direct Lending managers?

Junior/Growth Capital Direct Lending fund raising focused on the European market



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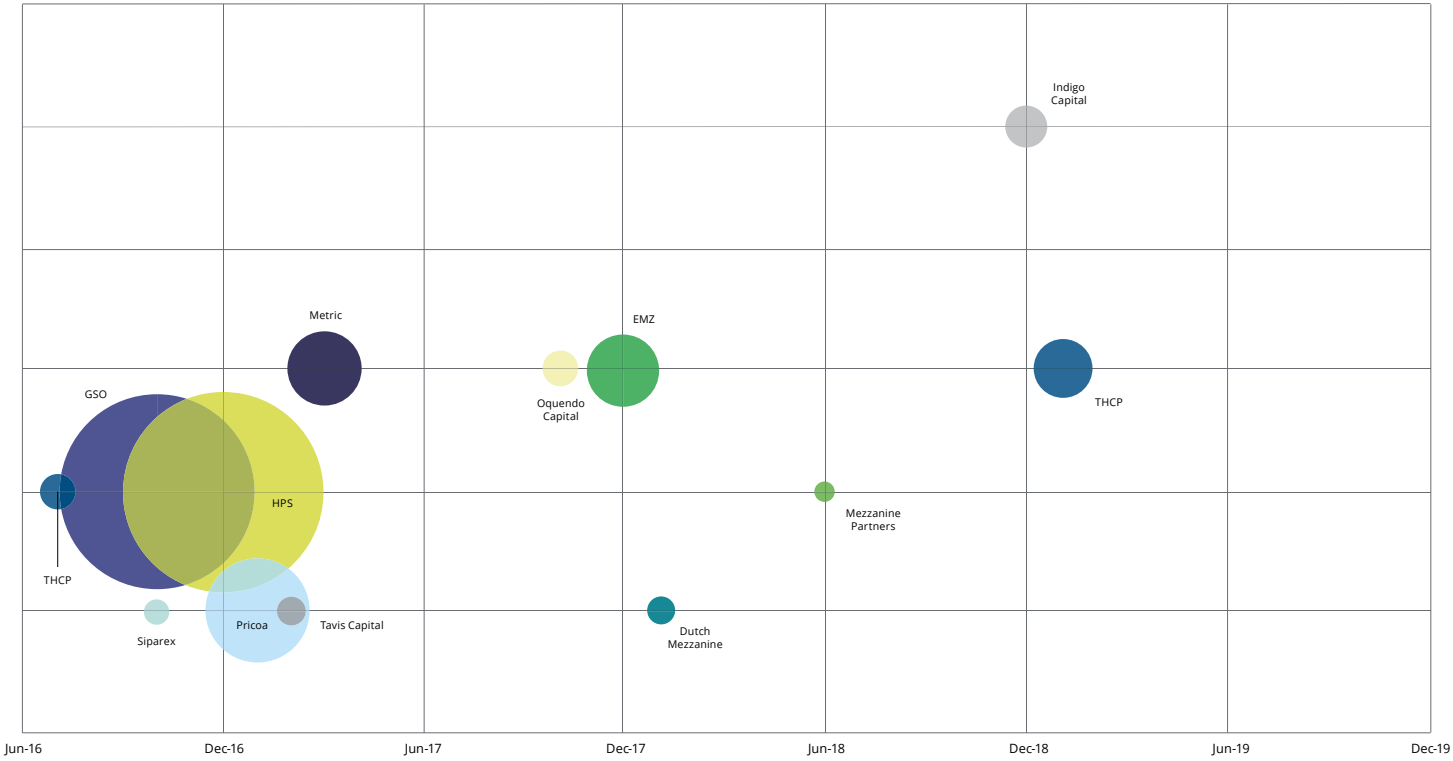
Indigo Capital
Metric
EMZ
GSO
Oquendo Capital
THCP
HPS
Mezzanine Partners
THCP
Pricoa
Tavis Capital
Siparex
Dutch Mezzanine
Jun-16
Dec-16
Jun-17
Dec-17
Jun-18
Dec-18
Jun-19
Dec-19

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 18	€164	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
Apera Capital				
Apera Capital Private Debt Fund I	Q1 19	€750	Senior and Junior	Europe
Ardian				
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 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
Bain Capital				
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 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 I	Q2 17	€602	Senior	Europe
BlueBay				
BlueBay Senior Loan Fund III	Q1 19	€6,000	Senior and Junior	Europe
BlueBay Senior Loan Fund I	Q3 17	€2,900	Senior	Europe
BlueBay Direct Lending Fund II	Q4 15	€2,100	Senior and Junior	Europe
BlueBay Direct Lending Fund I	Q2 13	€810	Senior and Junior	Europe
Capital Four				
Capital Four Strategic Lending Fund	Q3 15	€135	Junior	Europe
Capital Four Nordic Leverage Finance Fund	Q4 13	€200	Junior	Europe

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Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Capzanine				
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
Dutch Mezzanine				
Dutch Mezzanine Fund II	Q1 18	€122	Junior	Europe
Dutch Mezzanine Fund I	Q1 13	€60	Junior	Europe
EMZ				
EMZ 8	Q4 17	€815	Junior	Europe
EMZ 7	Q1 14	€695	Junior	Europe
EMZ 6	Q1 09	€640	Junior	Europe
EQT				
EQT Mid Market Credit Fund II	Q4 18	€1,800	Senior	Europe
EQT Mid Market Lending	Q2 16	€530	Senior	Europe
GSO				
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
Harbert European Growth Capital				
Harbert European Growth Capital Fund II SCSp	Q3 18	€215	Senior and Junior	Europe
Harbert European Growth Capital Fund I	Q1 15	€122	Senior	Europe
Hayfin				
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	$1,500	Senior and Junior	Europe
HPS Investment Partners				
Speciality Loan Fund 2016	Q3 17	$4,500	Senior	Global
Mezzanine Partners Fund III	Q4 16	$6,600	Junior	Global
Highbridge Speciality Loan Fund III	Q2 13	€3,100	Senior	Global
Mezzanine Partners Fund II	Q1 13	$4,400	Junior	Global
Highbridge Speciality 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

Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Idinvest				
Idinvest Senior Debt 5	Q3 19	€250	Senior	Europe
Idinvest Private Debt IV	Q2 18	€715	Senior and Junior	Europe
Idinvest Dette Senior 4	Q4 16	€300	Senior	Europe
Idinvest Dette Senior 3	Q3 15	€530	Senior	Europe
Idinvest Dette Senior 2	Q3 14	€400	Senior	Europe
Idinvest Private Debt III	Q1 14	€400	Senior and Junior	Europe
Idinvest Private Value Europe II	Q4 13	€50	Junior	Europe
Idinvest Dette Senior	Q1 13	€280	Senior	Europe
Idinvest Private Value Europe	Q2 12	€65	Junior	Europe
Idinvest Private Debt	Q3 07	€290	Senior and 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 VII	Q4 18	€300	Junior	Europe
Fund VI	Q3 14	€320	Junior	Europe
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 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 European Capital				
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
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

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Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Muzinich Italian Private Debt Fund	Q4 16	€ 268	Senior and Junior	Europe
Muzinich UK Private Debt Fund	Q4 15	€ 250	Senior and Junior	Europe
Northleaf				
Northleaf Private Credit	Q1 14	$1,400	Senior and Junior	Global
Oquendo Capital				
Oquendo III	Q4 17	€200	Junior	Europe
Oquendo II	Q3 14	€157	Junior	Europe
Park Square Capital				
Park Square Capital Partners IV SCSp	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
Permira				
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
Proventus				
Proventus Capital Partners III	Q4 14	€1,300	Senior and Junior	Europe
Proventus Capital Partners II/IIB	Q2 11	€835	Senior and Junior	Europe
Proventus Capital Partners I	Q3 09	€216	Senior and Junior	Europe
Rothschild/Five Arrows				
Five Arrows Direct Lending	Q1 18	€655	Senior & Junior	Europe
Five Arrows Credit Solutions	Q2 14	€415	Junior	Europe
Siparex				
Siparex	Q4 16	€100	Junior	Europe
Skandinaviska Kreditfonden AB				
Scandinavian Credit Fund I AB	Q2 19	€350	Senior	Europe
Tavis Capital				
Swiss SME Credit Fund I	Q1 17	CHF137	Junior	Europe
Tikehau				
Fund 10	Q1 19	€2,200	Senior and Junior	Europe
Fund 9	Q1 18	€212	Senior	Europe
Fund 8	Q4 17	€205	Senior and Junior	Europe
Fund 7	Q2 17	€615	Senior	Europe
Fund 6	Q3 16	€610	Senior and Junior	Europe
Fund 5	Q3 15	€290	Senior and Junior	Europe
Fund 4	Q3 15	€19	Senior and Junior	Europe
Fund 3	Q3 14	€230	Senior	Europe
Fund 2	Q4 13	€134	Senior and Junior	Europe
Fund 1	Q4 13	€355	Senior	Europe

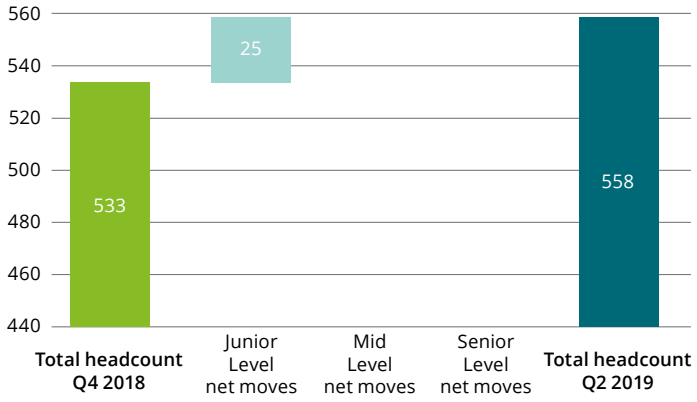
Direct Lending Professionals – Key statistics and recent moves

Direct Lending Market Headcount

Following on from last year, the Direct Lending market has continued to expand in Europe. Despite a slight reduction in fund raising in 2018, versus 2017, deal flow has remained strong, still showing an increase in volume year-on-year.

Figure 1 shows that the total number of investment professionals (IP's) has increased from 533 to 558, marking a 5% rise in market personnel over the last 6 months. All net additions have been at the Junior-level (<6 years of industry experience).

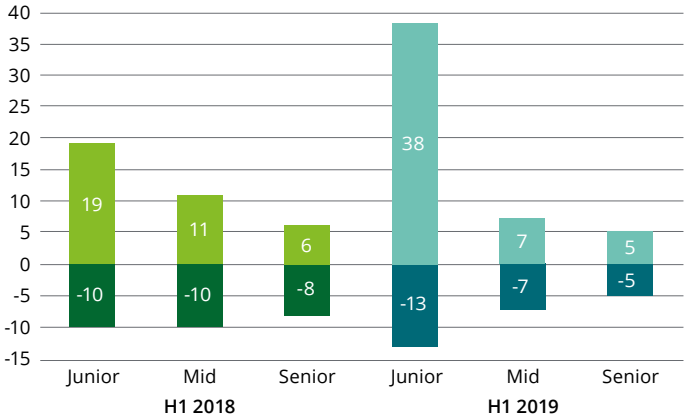
Figure 1. Graph comparing net moves across different levels of seniority between Q4 2018 and Q2 2019



Hiring Trends by Seniority

Comparing data from H1 of 2018 and H1 of 2019, we can see from Figure 2 that in the first half of this year, whilst there has been no net change at the Mid and Senior-level, there has still been movement between the funds, albeit slightly down on the previous year.

Figure 2. Graph comparing the total hires and departures across different levels of seniority from the first half (H1) of 2018 and 2019



We have witnessed a clear shift in focus towards junior hiring. 38 of the 50 hires (76% of total hires) made in H1 2019 occurred at the Junior-level compared with 19 of the 36 hires (53% of total hires) in H1 2018.

With several major managers having recently closed very sizeable funds, there is plenty of capital to be deployed in an increasingly competitive market. Funds are responding to this by bolstering their execution capabilities.

Source of Hires – Breakdown

Figure 3 shows that so far this year, the majority of Junior hires have come from Investment Banking (47%) and University (26%). At the Mid-level, the leading source of hiring is shared between competitor Private Debt funds (43%) and Investment Banking (43%).

Notes

For the purposes 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 the Mezzanine/Minority Equity teams at ICG, on the basis that much of their investment now is in minority or majority 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 those with more than 10 years' experience.

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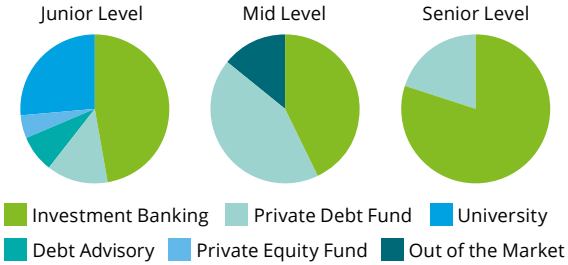
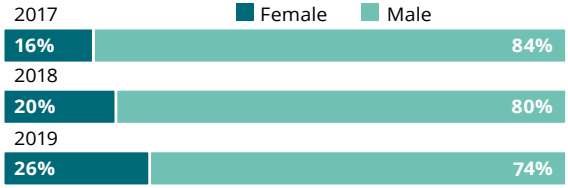
Figure 3. Charts displaying the source of hires into the DL market in H1 2019 at different levels of seniority



The majority of Senior hires have come from Investment Banking (80%) as opposed to competitor Private Debt funds, which account for just 20%. This is a departure from the trend we have seen in previous reports, as historically the majority of Senior hires have been sourced from competitor Private Debt funds.

Figure 4 (below) compares hiring by gender in 2019 so far, with previous years. Over the last 6 months, 26% of hires made have been female. There has been a concerted effort made by firms in order to improve gender diversity, as a result we have seen more than a 50% increase of female hires in the DL market when comparing with 2017.

Figure 4. Chart comparing hires by gender across 2017, 2018 and H1 of 2019



Recent Notable Direct Lending Moves

Ares Management	Joost De Pauw, Principal, joins from ING
Bain Capital	Alberto Ceron, Associate, joins from Partners Group
Beechbrook Capital	Matthew Kenny, Director, left for Start-up
Cordet Capital Partners	John Sealy, Senior Credit Professional, joins from Five Arrows
CVC Credit Partners	Andrew Tully, Managing Director, joins from Santander UK
Five Arrows	Benjamin Pitoun, Investment Manager, left for Cambon Partners
Goldman ESSG	Annabel Downs, Executive Director, joins from GS Trading Desk
Goldman ESSG	Jonathan Ferguson, Head of Origination, left for TBC
Goldman ESSG	Charmaine Chow, Executive Director, left for TBC
Hermes Investment Management	Carina Spitzkopf, Director, joins from UBS
Hermes Investment Management	Kevin Roche, Director, joins from Allied Irish Bank
HPS Investment Partners	Emmanuel Bresson, Partner, left for TBC
ICG	Lili Jones, Associate, joins from Ares Management
Kreos Capital	Nick Gainsley, Principal, left for OneVentures
Pemberton Asset Management	Boris Harmsen, Head of Benelux, joins from IKB
Proventus Capital Partners	Philip Reibel, Associate, left for Start-up
PSP Investments	Tim Ellwood, Vice President, joins from Bank of Ireland
Tikehau Capital	Mathieu Fradette, Manager, joins from CPPIB
TPG Capital	Dhruwil Parikh, Vice President, joins from Och-Ziff

Paragon Search Partners

Bruce and Andrew are co-Managing Partners of Paragon Search Partners, a London-headquartered search firm focused on the global credit markets, leveraged and acquisition finance, investment banking and private equity.

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Insights into the European Alternative Lending market

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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.

Euro Private Placement '101' guide

Euro PP for mid-cap corporates at a glance

Since its inception in July 2012, the Euro Private Placement (Euro PP) volumes picked up significantly. After the amendment in the insurance legislation in July 2013, the majority of Euro PPs are currently unlisted. The introduction of a standardised documentation template by the Loan Market Association (LMA) in early 2015 is supportive of a Pan-European roll-out of this alternative source of financing.

Key characteristics of the credit investor base

- Mainly French insurers, pension funds and asset managers
- Buy and Hold strategy
- Target lending: European mid-cap size, international business exposure, good credit profile (net leverage max. 3.5x), usually sponsor-less

Main features of Euro PP

- Loan or bond (listed or non-listed) – If listed: technical listing, no trading and no bond liquidity
- Usually Senior, unsecured (possibility to include guarantees if banks are secured)
- No rating
- Minimum issue amount: €10m
- Pari passu with other banking facilities
- Fixed coupon on average between 3% and 4.5% – No upfront fees
- Maturity > 7 years
- Bullet repayment profile
- Limited number of lenders for each transaction and confidentiality (no financial disclosure)
- Local jurisdiction, local language
- Euro PPs take on average 8 weeks to issue

Pros and Cons of Euro PP

- ✓ Long maturity
- ✓ Bullet repayment (free-up cash flow)
- ✓ Diversification of sources of funding (bank disintermediation)
- ✓ Very limited number of lenders for each transaction
- ✓ Confidentiality (no public financial disclosure)
- ✓ Covenant flexibility and adapted to the business
- ✓ General corporate purpose
- ✗ Make-whole clause in case of early repayment
- ✗ Minimum amount €10m
- ✗ Minimum credit profile; leverage < 3.5x

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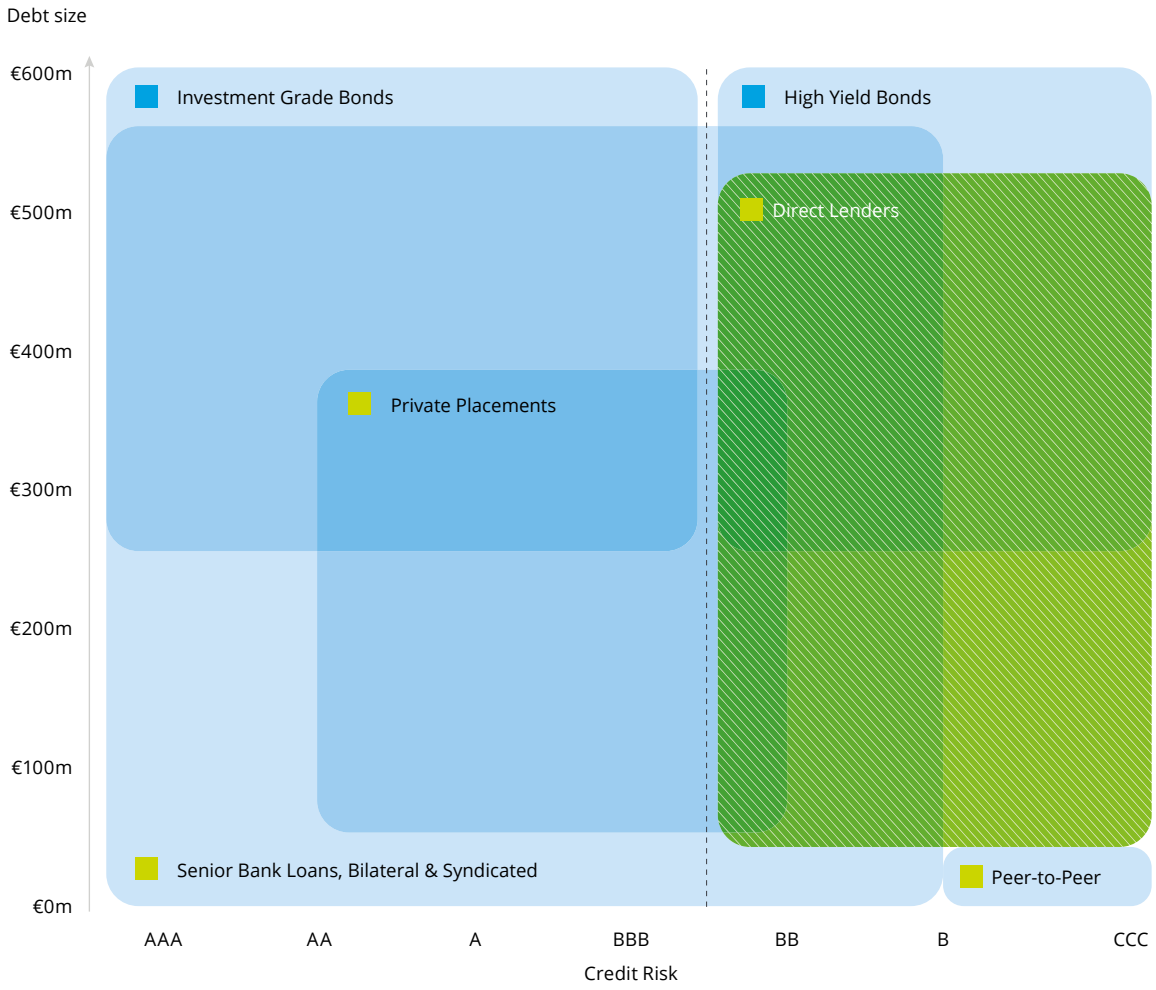
How do Direct Lenders compare to other cash flow debt products?



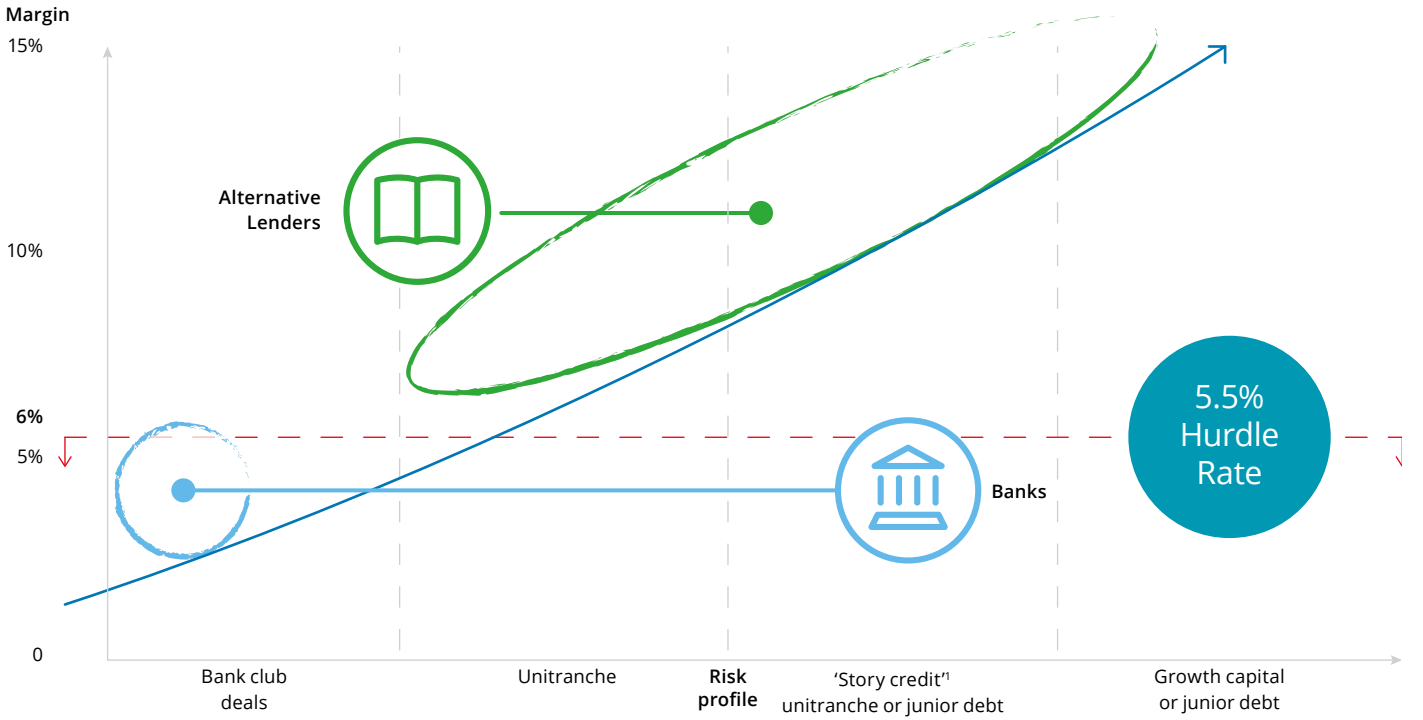
Cash flow debt products

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

Private Instrument

Public Instrument

How do Alternative Lenders compete with bank lenders?



Leveraged loan banks operate in the 350bps to 600bps margin range providing senior debt structures to mainly companies owned by private equity.

Majority of the Direct Lenders have hurdle rates which are above L+550bps margin and are mostly involved in the most popular strategy of 'plain vanilla' unitranche, which is the deepest part of the private debt market. However, Direct Lenders are increasingly raising senior risk strategies funds with lower hurdle rates.

Other Direct Lending funds focus on higher yielding private debt strategies, including: 'Story credit'[1] unitranche and subordinated debt or growth capital.

Similar to any other asset class the risk return curve has come down over the last 3 years as a result of improvements in the economy and excess liquidity in the system.

[1] 'Story Credit' – unitranche facility for a company that historically was subject to a financial restructuring or another financial difficulty and as a result there is a higher (real or perceived) risk associated with this investment.

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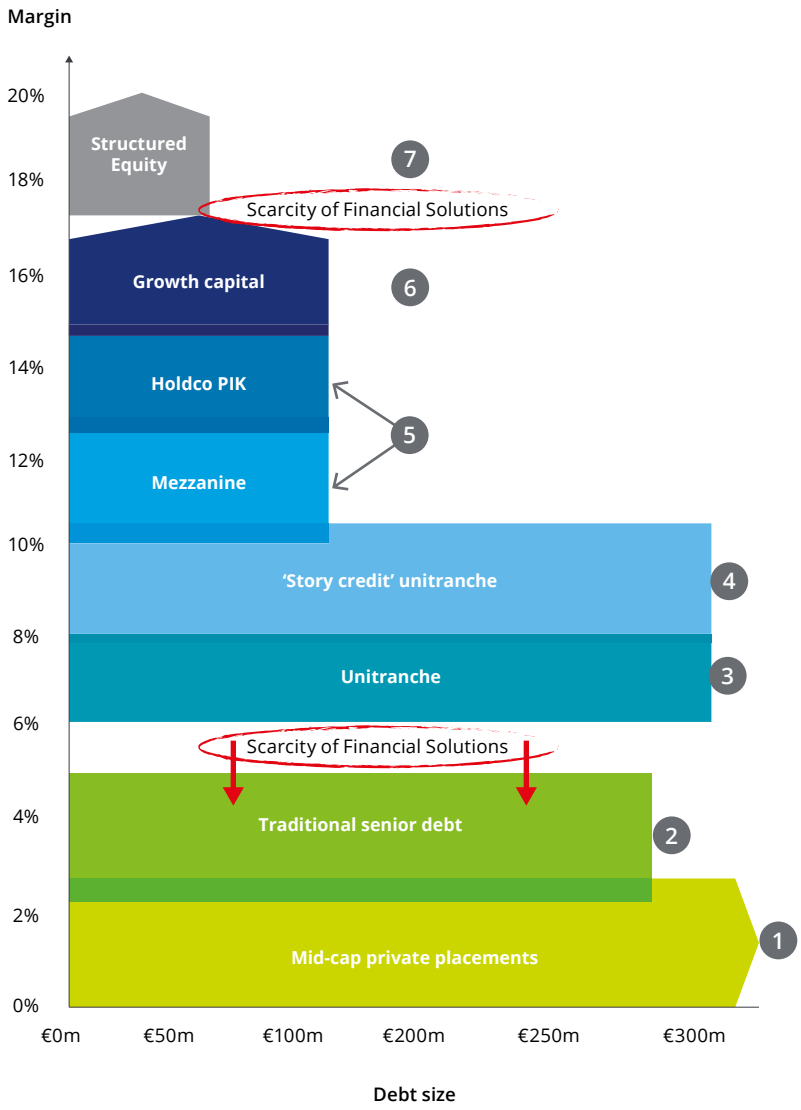
What are the private debt strategies?



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 does the Direct Lending investment strategy compare to other strategies?

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 0.6 – 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.

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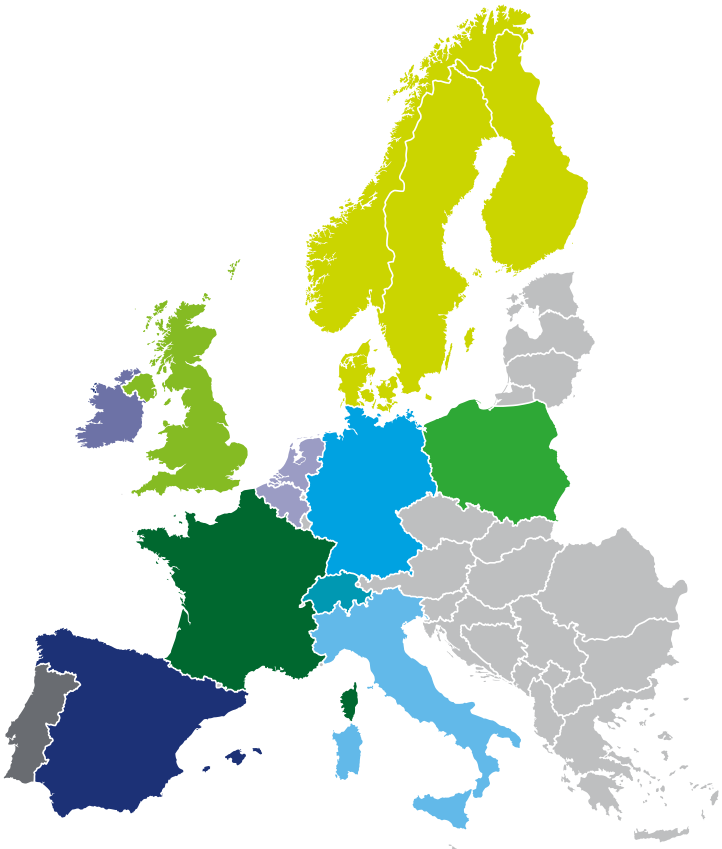
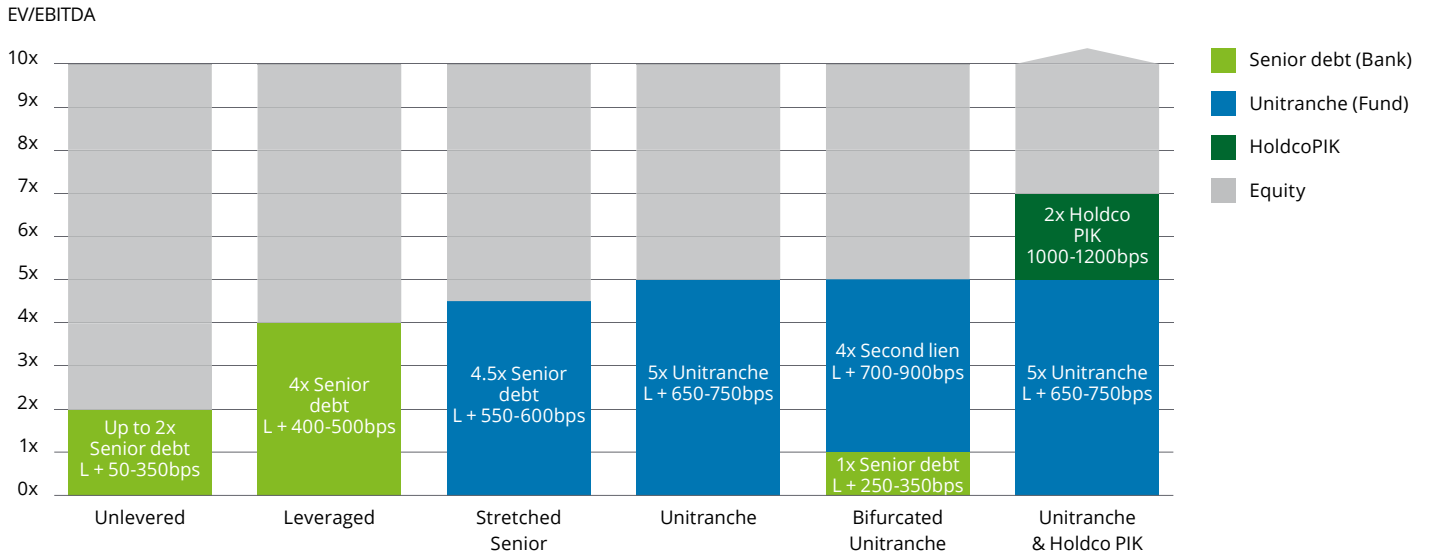
Who are the Direct Lenders?



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
- ✓ Lowest pricing
- ✓ Relationship bank
- • Low leverage
- • Shorter tenor (3-5 years)

Leveraged
- ✓ Increased leverage
- ✓ Club of relationship banks
- • More restrictive terms
- • Partly amortising

Stretched Senior
- ✓ Increased leverage
- ✓ Bullet debt
- ✓ Lower Equity contribution
- • More restrictive terms than Unitranche
- • Higher pricing than bank debt
- • Need for RCF lender

Unitranche
- ✓ Stretched leverage
- ✓ Flexible covenants
- ✓ One-stop shop solution
- ✓ Speed of execution
- ✓ Relationship lender
- • Higher pricing

Bifurcated Unitranche
- ✓ Stretched leverage
- ✓ Flexible covenants
- ✓ Greater role for bank
- ✓ Reach more liquid part of the unitranche market
- • Higher pricing
- • Intercreditor/AAL

Unitranche & Holdco PIK
- ✓ Stretched leverage
- ✓ Flexible covenants
- ✓ Lower equity contribution
- ✓ No Intercreditor
- • Higher pricing

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More sponsor-less companies are turning to Direct Lenders to finance growth

Background

- Traditionally private companies without access to further shareholder funding lacked the ability to make transformational acquisitions.
- Bank lenders are typically not able to fund junior debt/quasi equity risk and would require a sizable equity contribution from the shareholders to fund acquisitions.
- Cost savings, revenues synergies and ability to purchase bolt on acquisitions at lower EBITDA multiples makes a buy and build strategy highly accretive for shareholder's equity.

Opportunity

- Alternative Lenders are actively looking to form longer term partnerships with performing private companies to fund expansion.
- Recent market transactions have been structured on Debt/EBITDA multiples as high as 4.5-5.0x including identifiable hard synergies. Typically, this is subject to c.30 – 40% implied equity in the structure, based on conservative enterprise valuations.
- A number of Alternative Lenders are able to fund across the capital structure from senior debt through minority equity.

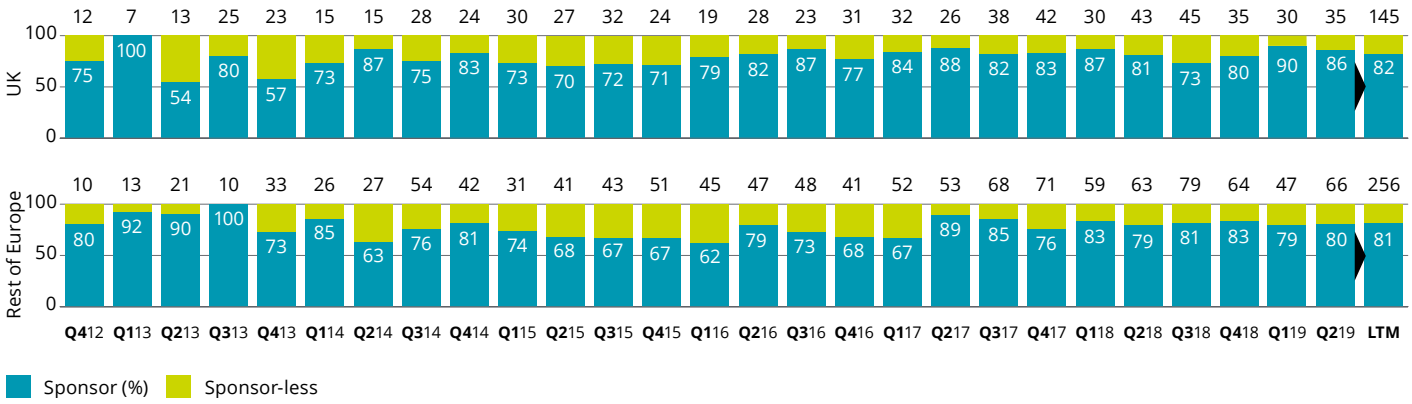
Key advantages

Key advantages of using Alternative Lenders to fund a buy and build strategy may include:

- Accelerate the growth of the company and exponentially grow the shareholder value in a shorter time period.
- No separate equity raising required as Alternative Lenders can act as a one stop solution providing debt and minority equity.
- Significant capital that Alternative Lenders can lend to a single company (€150-300m) making Alternative Lenders ideal for long term partnership relationships and follow on capital for multiple acquisitions.

Sponsor backed versus private Direct Lending deals

As % of total deals per quarter



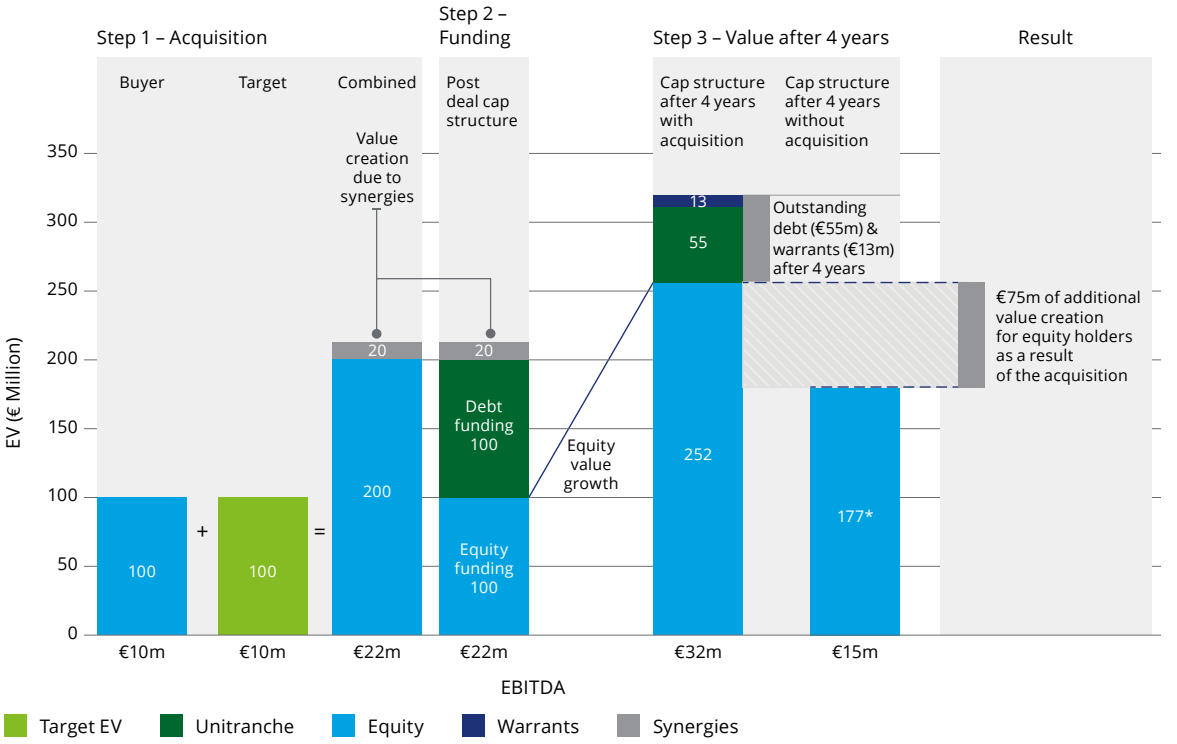
Unlocking transformational acquisitions for privately owned companies

Indicative calculations

- The calculations on this page illustrate the theoretical effect of value creation through acquisitions financed using Alternative Lenders.
- In this example equity value grows 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 business 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

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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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How complex is your credit?

Sector

Growth	Volatile	Stable
Cyclicality	High	Low
Seasonality	High	Low
Scarcity of product	Commodity	High value-add
Changing regulatory environment	High	Low

Market position & Clients

Market share	Low	High
Competitors	Many	Few
Barriers to entry	Few	Many
Customer concentration	High	Low
Supplier concentration	High	Low

Management, Shareholders & Jurisdiction

Management quality	Low	High
Corporate Governance	Weak	Strong
Shareholder commitment	Low	High
Jurisdiction	Difficult	Easy

Financial Performance

Stable performance	Volatile	Stable
Cash generation	Low	High
Leverage	High	Low
Asset coverage	Low	High

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Deloitte Debt and Capital Advisory credentials

Selected Global transactions

Region	Company	Deal	Date	Size
S.A./Europe/USA	Bell Equipment Limited	*Capital Structure Advisory*	Aug 2019	ZAR1.5bn
UK	AFI	*Acquisition Finance*	Aug 2019	£160m
N'lands/Spain	The Student Hotel	*Development Finance*	Aug 2019	Undisclosed
Dem. Rep. Congo	PPC Limited	*Debt Pricing Advisory*	Aug 2019	$196m
UK/Denmark	Covidence	*Acquisition Finance*	Aug 2019	Undisclosed
Poland	Basecamp	*Refinancing*	Aug 2019	$15m
UK	AFI	*Refinancing*	Aug 2019	Undisclosed
South Africa	PPC Limited	*Credit Rating Advisory*	Aug 2019	Undisclosed
UK	Leaders Romans Group	*Growth Financing*	Jul 2019	Undisclosed
UK	Cogital	*Refinancing*	Jul 2019	Undisclosed
Poland	Vistal Gdynia	*Restructuring*	Jul 2019	$58m
Ireland	Waterland P.E.	*LBO*	Jul 2019	Undisclosed
Netherlands	Aircrete Europe	*Acquisition Financing*	Jul 2019	Undisclosed
Belgium	Deceuninck	*Green Loan Refinancing*	Jul 2019	Undisclosed
Netherlands	Bakker Bart	*Acquisition Financing*	Jul 2019	Undisclosed
Netherlands	PCI	*Refinancing*	Jul 2019	Undisclosed
UK	Francisco Partners	*Acquisition Financing*	Jun 2019	Undisclosed
Belgium	DPG Media	*EU Private Placement*	Jun 2019	€150m
Netherlands	The Student Hotel	*Amendment Club Deal*	Jun 2019	Undisclosed
Denmark	Birch Ejendomme	*Acquisition Financing*	Jun 2019	€138m
UK	Hg Capital	*Acquisition Financing*	Jun 2019	Undisclosed
UK	Carlyle Group	*Refinancing*	Jun 2019	Undisclosed
UK	Telemos Capital	*Refinancing*	Jun 2019	Undisclosed
Belgium	DPG Media	*Amendment Club Deal*	Jun 2019	Undisclosed

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UK	UK	Ireland	Denmark	UK	Denmark
Hg Capital *Acquisition Financing*	Silverfleet *Acquisition Financing*	Ires *Growth Financing*	CECN ApS *Acquisition Financing*	Bowmark Capital *Refinancing*	Hotel Ritz *Acquisition Financing*
May 2019 Undisclosed	May 2019 Undisclosed	Apr 2019 €600m	Apr 2019 €9m	Apr 2019 Undisclosed	Mar 2019 €11m
Ireland	Denmark	UK	UK	UK	UK
Rhatigan Property Group *Growth Financing*	Birch Ejendomme *Acquisition Financing*	Hg Capital *Staple Financing*	Ocorian *Refinancing*	The Entertainer *Acquisition Financing*	Quorn Foods *Refinancing*
Mar 2019 Undisclosed	Mar 2019 €35m	Mar 2019 Undisclosed	Mar 2019 Undisclosed	Mar 2019 £30m	Mar 2019 £123m
Netherlands/UK	Netherlands	France	Ireland	UK	Belgium
Bynder *(Re)financing*	Nedfast Holding B.V. *Refinancing*	SOS Oxygène *Debt Advisory*	Centz Homesavers *Growth Financing*	A-Plan *Refinancing*	Combell *Acquisition Financing*
Feb 2019 Undisclosed	Feb 2019 Undisclosed	Feb 2019 Undisclosed	Feb 2019 €9m	Feb 2019 Undisclosed	Feb 2019 Undisclosed
UK	UK	Germany	Poland	UK	UK
Sterling Pharma *Acquisition Financing*	Access *Acquisition Financing*	Mobility Concept *Acquisition Financing*	Biuro Inwestycji Kapitalowych S.A *Bridge Financing*	Port of Tyne Authority *Refinancing*	Commify *Refinancing*
Feb 2019 Undisclosed	Feb 2019 Undisclosed	Feb 2019 Undisclosed	Jul 2019 Undisclosed	Jan 2019 £60m	Jan 2019 Undisclosed

Selected Global transactions

Region	Deal	Type	Date	Amount
UK/US	GHO Capital LLP	*Acquisition Financing*	Dec 2018	Undisclosed
Hungary	HELL Energy Group	*Refinancing*	Dec 2018	€130m
UK/Romania	Chimcomplex	*Acquisition Financing*	Dec 2018	€164m
UK	Aurora	*Refinancing*	Dec 2018	£50m
UK	Equitix	*Refinancing*	Dec 2018	£140m
UK	Citation	*Refinancing*	Dec 2018	Undisclosed
UK	Xceptor	*Refinancing*	Dec 2018	Undisclosed
UK	Centric Health	*Refinancing*	Dec 2018	Undisclosed
Ireland	Lonsdale Capital Partners	*Acquisition Financing*	Dec 2018	€22.5m
France	Groupe Parot	*Debt Advisory*	Dec 2018	Undisclosed
UK	Safestyle UK	*Refinancing*	Nov 2018	£7.5m
Netherlands	Basecamp –TSH	*Growth Financing*	Nov 2018	€55m
UK	James Grant	*Acquisition Financing*	Nov 2018	£90m
UK	Core Assets Group	*Acquisition Financing*	Nov 2018	Undisclosed
UK/Germany	STP	*Acquisition Financing*	Nov 2018	Undisclosed
NL/Curacao	Aqualectra	*Refinancing*	Nov 2019	ANG325m
UK	Dbay Advisors	*Refinancing*	Nov 2018	£20m
UK	Hg Capital	*Refinancing*	Nov 2018	£165m
Netherlands	Nordian – IGS	*Refinancing*	Nov 2018	Undisclosed
France	DocteGestio	*Real Estate Debt Advisory*	Oct 2018	Undisclosed
UK	Inflexion	*Acquisition Financing*	Oct 2018	Undisclosed
UK	SSP	*Refinancing*	Oct 2018	Undisclosed
UK	Safestyle UK	*Refinancing*	Oct 2018	£7.5m
Netherlands	Five Degrees	*Growth Financing*	Oct 2018	Undisclosed

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UK	UK	UK	UK	UK	UAE/UK
Medifox *Acquisition Financing*	SJP *Securitisation*	Card Factory *Amend & Extend*	Pets at Home *Refinancing*	Sequence Healthcare *Refinancing*	Undisclosed *Acquisition Financing*
Oct 2018 Undisclosed	Sep 2018 Undisclosed	Sep 2018 £200m	Sep 2018 £260m	Sep 2018 £22.5m	Sep 2018 Undisclosed
UK/US	UAE/UK	UK	UK	UK	UK/Denmark
Sovos Compliance *Acquisition Financing*	Undisclosed *Acquisition Financing*	ByBox *Acquisition Financing*	Education Personnel *Refinancing*	Phoenix Equity Partners *Debt Advisory*	It Relation A/S *Acquisition Financing*
Sep 2018 Undisclosed	Sep 2018 Undisclosed	Sep 2018 Undisclosed	Sep 2018 Undisclosed	Aug 2018 £20m	Aug 2018 Undisclosed
UK	France	Canada	Ireland	UK/Ireland	UK/Italy
Macquarie Group *Acquisition Financing*	Latécoerè *Debt Advisory*	Canaccede Financial *Sub-Debt Financing*	Lonsdale Capital Partners *Acquisition Financing*	Applegreen *Acquisition Financing*	Dada *Refinancing*
Aug 2018 Undisclosed	Aug 2018 Undisclosed	Jul 2018 Undisclosed	Jul 2018 Undisclosed	Jul 2018 €300m	Jul 2018 Undisclosed
UK	UK	UK	UK	UK	Netherlands
Bridgepoint *Acquisition Financing*	Gala Bingo *Refinancing*	Wood *Receivables Refinancing*	Carpetright *Amend & Extend*	Auto Trader *Amend & Extend*	Egeria – JET Group *Refinancing*
Jun 2018 £62m	Jun 2018 Undisclosed	Jun 2018 Undisclosed	Jun 2018 £90m	Jun 2018 £400m	Jun 2018 €105m

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Important Notice in relation to page 20-21

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