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Direct lenders' first real test

Deloitte Alternative Lender Deal Tracker Spring 2020

Financial Advisory

This issue covers data for 2019 and includes 484 Alternative Lender deals. Whilst this represents a 13% increase in the number of deals from 2018, the 292 deals in H2 2019 represents a 52% increase on H1 2019. Due to COVID-19, this trend is unlikely to continue in H1 2020.

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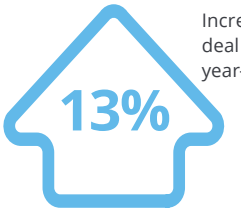
Deloitte Alternative Lender Deal Tracker Introduction

In the previous edition of the Alternative Lender Deal Tracker, it would have been difficult to believe that the next shock to the global economy would come in the form of the COVID-19 virus. While almost all sectors of the economy have been impacted, tourism and transport have been hit especially hard. Compounding the scale of the economic impact is that almost all nations are facing a severe shock and as a result are less able to help one another than in previous crises.

The move by investors out of equities and into the 'safe haven' of government bonds and gold in the last fortnight attests to the severity of this pandemic. The 12th March will go down in history when the longest stock market bull run in history was officially marked over, with COVID-19 ending 11 years of gains made since the Global Financial Crisis. As of the 23rd March, the FTSE and Dow Jones indices were down 34% and 35% year to date respectively. Oil prices plunged with Brent crude touching a two-decade low, trading as low as $16 a barrel and the American WTI benchmark going negative for the first time. According to the Financial Times, the oil industry faces its gravest crisis of the past 100 years, though not wholly due to the effects of COVID-19. A subsequent flooding of oil in the market exacerbated the decline in demand, resulting in price reductions. Whilst reduced energy prices are generally good for industrial economies, there are huge implications on valuations in the domestic energy sector. As a result, it is likely the crisis will be felt most acutely where the oil industry contributes to a large proportion of national economic output.

Policymakers are rushing to ensure that the inevitable recessionary hit to economic activity is controlled and short-lived, avoiding the scenario of a full-blown liquidity crisis in which businesses, banks and households run out of cash. It seems obvious that we are in for a bout of volatility and weaker activity. However, the big unknown is timing. So far the response has been credible, with over $7 trillion of stimulus from governments and central banks around the world, but will it be enough to stem a health emergency turning into a more protracted economic crisis? Initial views of a V-shape have moved to a U-shape recovery of the economy and a recession will hit consumer spending in the medium term.

Central banks have moved quickly to ease short-term pressure. China was the first to act, cutting interest rates, but others including those in Indonesia, Canada and Australia followed suit. The US Federal Reserve demonstrated its determination to support growth with a 0.5% rate cut which took place outside its normal meeting schedule – an action that was last seen in the



Increase in deal flow year-on-year

Deals completed to date

 © Deloitte Alternative Capital Solutions

Global Financial Crisis. On the 10th March the UK followed suit with a 0.5% cut to 0.25%, followed subsequently by a 0.15% cut to 0.1% on the 19th March. The European Central Bank stunned global markets by adding €750bn to its bond purchasing programme and reduced interest to the lowest levels ever offered, at -0.75%.

If there's one thing the market learnt from the last financial crisis, it was that cash is king. As the general public is stockpiling at the supermarket, corporates are stockpiling cash as they fully draw down upon pre-existing revolving credit facilities in order to insulate themselves from a potential liquidity crunch. As an example, Boeing drew down $13.8bn in a bid to shore up cash. Corporates are not the only ones as we understand it, pension fund investors are also facing liquidity challenges to ensure that they can meet the funding requirements of capital calls made to managers of various asset classes, with two European Limited Partners (LPs) defaulting on their commitments according to Private Debt Investor.

As a result, asset managers are mirroring corporates by drawing upon vast quantities of available credit facilities. This is likely to place an overwhelming amount of pressure on the banking sector. In the worst-case scenario, confidence could falter in the interbank lending market, and banks may struggle to place their own funding requirements as their existing facilities mature. However, the banking sector entered this crisis in better shape than in 2007/08 and indeed is being asked by the Government to support the recovery through special lending programmes.

No amount of liquidity and cash will fully counter the impact of consumers staying at home, workplaces staying closed and firms cancelling spending plans. This is an area where fiscal policy can play a role. Healthcare spending is surging across the world and many governments are using fiscal policy to deliver a wider boost. Following his maiden budget, UK Chancellor Rishi Sunak revealed a £350bn stimulus package for UK firms, including £330bn of business loan guarantees, aid to cover a business rates holiday and grants for retailers and pubs, while help for airlines is also being considered. Despite such measures, investors continued flocking to the comparatively safer dollar, leaving the pound at US$1.15 to the dollar on 19th March, its lowest level since 1985. The French, German, Italian and Spanish governments have also introduced similar measures, all of which include: support payments for workers temporarily laid off by crisis-stricken businesses, direct grants to small businesses, state guarantees for banks' lending to larger companies, blanket restrictions over the evictions of tenants, and the deferral of tax payments. In the US, lawmakers agreed a $2tn stimulus deal to provide similar economic relief, in what stands to be the largest congressional bailout in US history.

The leveraged loan markets have not been immune to the selloff across equity and commodity markets, with dramatic corrections mirrored in the secondary leveraged loan markets in the US and Europe. In the year to the 24th March 2020, the US and European Leveraged Loan Indices were down 21% and 19% respectively following a sustained period of losses — dramatic falls for what is usually considered a less-volatile market hovering around par levels. Sectors exposed to discretionary spend particularly consumer retail, travel, restaurants and hotels were hit hardest – with average reductions close to 20% in all markets. The average flow name bid in Europe dropped as low as 78.5, driving yields of close to 10% for investors and which resulted in a number of credit opportunity funds buying strong names at a discount on the secondary market, though there has since been a strong rebound. Ever since, there has been a rapid rebound in the secondary market. Appetite is one thing however, and supply another. At the heart of a well-functioning primary debt market lies a steady supply of M&A, on which the brakes have been firmly hit in recent weeks.

If there's one thing the market learnt from the last financial crisis, it was that cash is king. As the general public is stockpiling at the supermarket, corporates are stockpiling cash as they fully draw down upon pre-existing revolving credit facilities in order to insulate themselves from a potential liquidity crunch.

According to Private Equity News, 90% of transactions in the pipeline have been either cancelled or put on ice over the past week, as sponsors focus on trying to protect their portfolio companies, not to mention being hamstrung by more simple matters of usual deal-making logistics, including the ability to attend management meetings in the face of office closures. As noted by LCD, whilst much of January and early February had seen steadily improving financing conditions for issuers (with pricing tightening, reverse-flexes dominating, and the investor base swallowing a huge amount of supply), the impacts of COVID-19 caused the first deals of the year to be pulled, as repricings from AlixPartners, Messer Industries, and Minimax Viking were cancelled in the face of adverse market conditions. According to LCD, the primary leveraged loan market is now closed, leaving banks long on what is estimated to be €18.75 billion of debt from deals underwritten in the last few months.

Alternative lenders will likely take ownership of a number of more cyclical assets. As a result, LPs should keep a close eye on accounting valuations to spot any hidden losses in direct lenders portfolios, as there is no mark-to-market value for illiquid direct lending debt.

As the banking system adjusts to the new environment, perhaps boardrooms will start to consider what the long-lasting impact of COVID-19 will be on their business models. Following the 2007/08 Global Financial Crisis, banks retrenched from leveraged lending, leaving a void that allowed direct lenders to take market share. It is not inconceivable that this round further dilutes their stake – in previous issues of the Alternative Lender Deal Tracker we commented that credit opportunity funds and direct lenders, with their fundraising structures and deployment mandates, are likely able to provide ongoing liquidity in the event of adverse market conditions in an almost countercyclical fashion. SMBC's injection of $384m of capital into Ares, as reported by the Financial Times, could be the beginning of a trend whereby banks maintain some indirect exposure to the leveraged finance market through equity stakes in direct lenders.

Direct lending deal numbers in Europe for 2020 are expected to be down off the back of a fall in M&A. However during 2019, European direct lenders had a bumper year with 484 deals, a 13.1% increase from the previous year and the highest number recorded since the Deal Tracker's inception, with Germany seeing a 41% increase. There was one +€1bn 'gorilla' deal during the second half of 2019, with HPS refinancing €1.2bn of Fortenova's bank debt as the company comes out of restructuring.

This uptick in deal numbers corresponded with a similar record-breaking year in terms of fundraising with direct lenders raising the equivalent of $32.8bn of capital to deploy, beating the previous peak of $27.0bn in 2017. The trend of top tier managers raising ever-larger funds continued with Arcmont and Alcentra raising €6bn and €5.5bn respectively for their third vintage direct lending funds.

Whilst a large amount of capital waits in earnest, so far most direct lenders have remained cautious on the sidelines, with their primary focus on protecting existing portfolio holdings as they wait for signs of containment of the virus and more broadly understand the wider implications the virus has on the global economy and individual sectors. Exuberant covenant flexibility seen over the last three years will now be tested given the severe immediate hit on cash flows for companies in the 'frontline' sectors (retail, leisure, aviation, oil and gas). Further liquidity will likely be provided by private equity houses, but they are unlikely to support all portfolio companies and will need to be selective. For those businesses with a sustainable growth trajectory after COVID-19, both private equity and direct lenders will be supportive and we would expect limited secondary trading in the mid-market.

Alternative lenders will likely take ownership of a number of more cyclical assets. As a result, LPs should keep a close eye on accounting valuations to spot any hidden losses in direct lenders portfolios, as there is no mark-to-market value for illiquid direct lending debt.

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Expect to see a slight rebranding of new post COVID-19 direct lending funds to Credit Opportunity Funds over the next 12 months...

A lot of this activity will also impact fundraising. For the first time, direct lending managers are not top choice on the menu, and those overweight in their portfolios in sectors adversely impacted by current events will have a harder time raising their next fund. Expect to see a slight rebranding of new post COVID-19 direct lending funds to Credit Opportunity Funds over the next 12 months, with an increase in flexibility of the mandate to take advantage of the current climate.

These are certainly unprecedented times and it is difficult to comprehend the impact of COVID-19, albeit most commentators are now predicting a global recession. Borrowers will need to adjust to the new world post COVID-19 as commercial terms on new transactions might set us back to levels post the credit crunch as the pendulum swings back to the lender again. In the meantime, we take comfort from the easing of restrictions over the Chinese city of Wuhan where COVID-19 first emerged, which has allowed people to leave the area for the first time since it went into lockdown in January. If the experiment of opening up the lockdown in Spain and Italy is successful, then this will be the blueprint for containment of economic damage in the rest of Europe and the US. On this basis, the high yield primary loan markets might open up again in the summer with serial issuers in non COVID-19 sectors being the first out of the gates.

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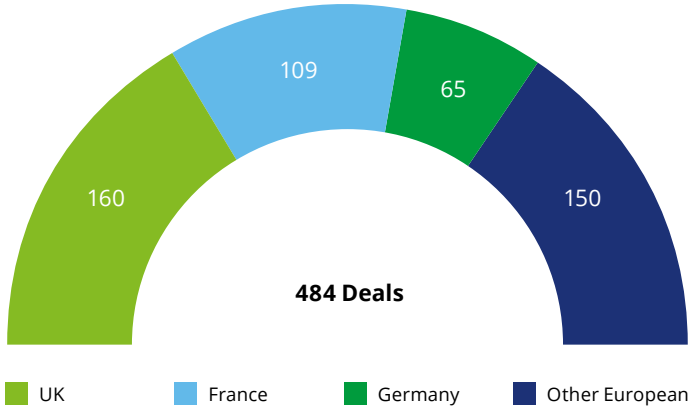
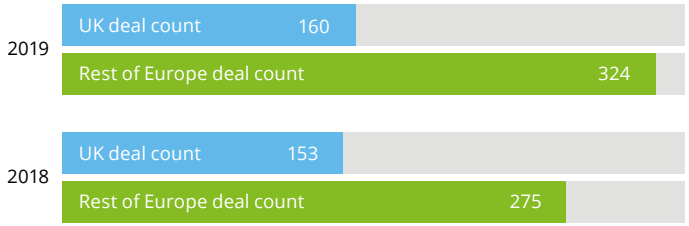
2019 deals completed



Annual headline figures



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 27.

Alternative Lending in action: Case study

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Injection of capital to support Medical Device CRO MCRA

Anthony G. Viscogliosi
Executive Chairman & CEO – MCRA, LLC

Principal – Viscogliosi Bros., LLC

MCRA is a US-based Medical Device CRO and consultancy and a market leader in the specialist area of neuro-musculoskeletal and cardiovascular medical devices. Over the past two decades, the Company has achieved high organic growth helping its bluechip and financial sponsor clients navigate the regulatory landscape for medical devices. Executive Chairman & CEO, Anthony G. Viscogliosi, discusses.

Founding principals of family-office sponsor Viscogliosi Brothers ("VB"), Anthony, John and Mark Viscogliosi, saw an opportunity to create a pre-eminent leading position as a global end-to-end CRO and consultancy focused on the medical device space.

In response to the gap in the market, Viscogliosi Brothers launched MCRA in 2004 to service both other VB portfolio companies, as well as a wider portfolio of mid and large-cap corporates, biotech and not-for-profit companies; achieving significant success servicing this untapped demand, and growing the business at a CAGR of 20.5% on a revenue basis and 31.9% on an EBITDA basis over the last four years.

Following this period of high growth, the company turned its attention to consolidating the fragmented market in therapeutic medical devices and turned to Deloitte as the obvious partner, given their extensive experience in the sector raising debt finance for highly-acquisitive companies.

A cross-border UK/US Deloitte Debt & Capital Advisory team were appointed as the company's advisor in 2019 to refinance the company's existing debt facilities, pay out a material dividend to the shareholders and also finance a European acquisition to complement MCRA's geographic footprint and support its expansion into new therapy areas of cardiovascular and ophthalmology.

Viscogliosi Brothers launched MCRA in 2004 to service both other VB portfolio companies, as well as a wider portfolio of mid and large-cap corporates, biotech and not-for-profit companies...

Anthony Viscogliosi, Executive Chairman & CEO of MCRA, had read a previous edition of the Alternative Lender Deal Tracker, and saw MCRA as a carbon copy of a case study: *"After reading about your success story with Chiltern International in the Alternative Lender Deal Tracker, I saw many similarities with our growth plans for MCRA. The company had reached a phase in its lifecycle where debt financing was crucial, and your team helped us raise a debt facility which reflected our business' plans in terms of both quantum and structuring."*

Anthony was keen to explore the alternative lender landscape across both Europe and the US, *"Deloitte's professionalism, knowledge and experience with a large network of alternative lenders across Europe and the US allowed our business to benefit greatly – had we not hired Deloitte, we would not have realised the recapitalisation of the business and other improvements in commercial terms (including interest cost, upfront fees, prepayment penalties, warrant reductions etc)."*

Local presence in the US provided great comfort for MCRA and VB, *"Having a cross-border team was also very useful for us to have direct contact at any moment."*

Mr Viscogliosi concludes, *"The successful completion of this debt raise will allow MCRA to continue on the most important step-to-date on its journey in becoming the global leader in consultancy and CRO services in medical devices."*

MCRA, LLC

MCRA was founded in 2004 by the Viscogliosi Brothers, a US-based family office sponsor with significant expertise in the theraputic area of neuro-musculoskeletal, having founded and invested in more than 20 companies and 10 investment funds over the last 20 years in the sector.

MCRA chose to initially specialise in neuro-musculoskeletal medical devices as a first step in its goal of becoming a global medical device Clinical Research Organisation ("CRO"), a therapeutic area that covers the spine, small and large joints (hips, ankles, etc.) and maxillofacial.

Today, MCRA is a leading high-growth, specialist CRO and consultancy firm, offering end-to-end preclinical through commercialisation advisory services and has advised over 600 clients, including both the US Food & Drug Administration and China FDA. The business is headquartered in New York City, with two other offices in Washington D.C and Connecticut.

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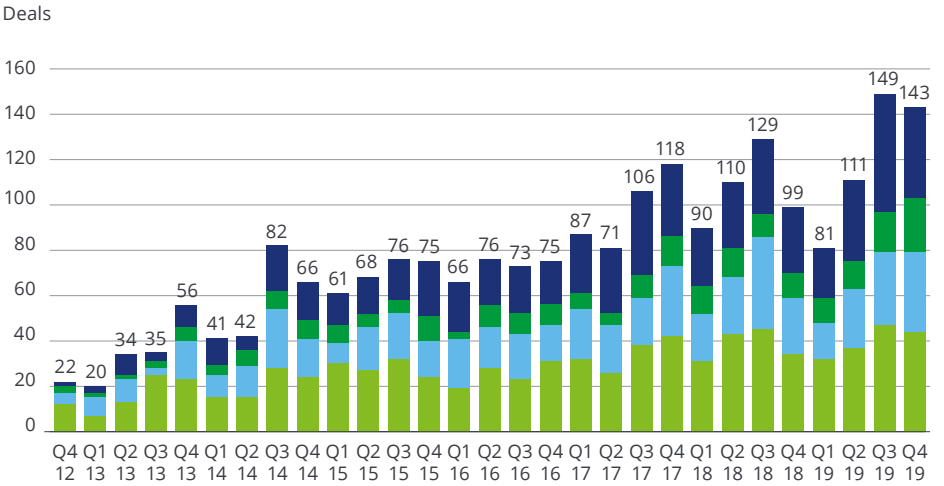
Alternative Lender Deal Tracker 2019 Deals

The Alternative Lender Deal Tracker now covers 57 lenders and a reported 2,272 deals

Alternative Lender Deal Tracker

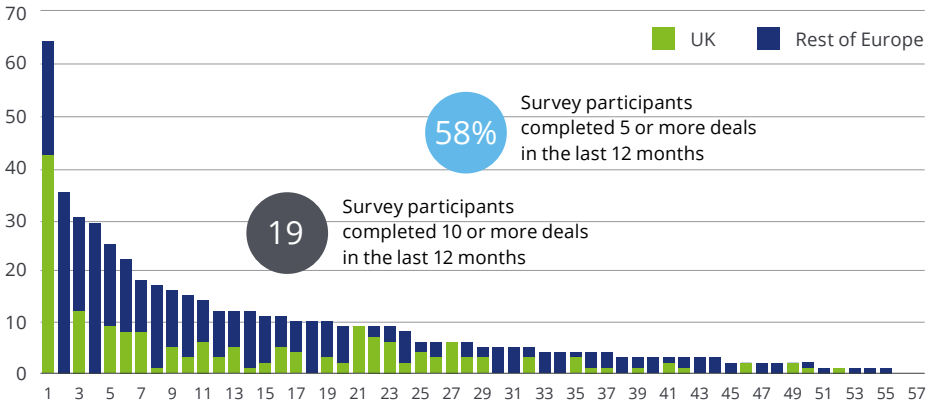
Currently covers 57 leading Alternative Lenders. Only UK and European deals are included in the survey.



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

827
UK deals completed

Deals done by each survey participant (Last 12 months)



1,445
Euro deals completed

2,272
Total deals completed

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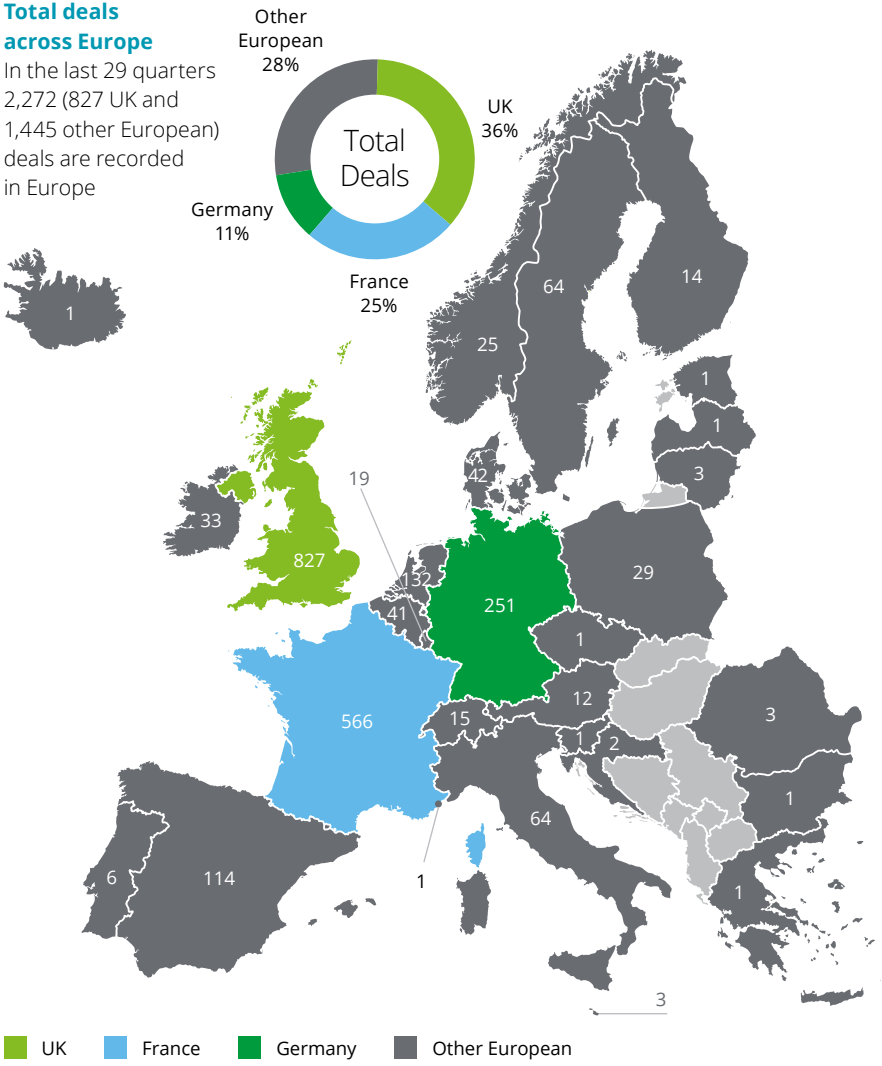
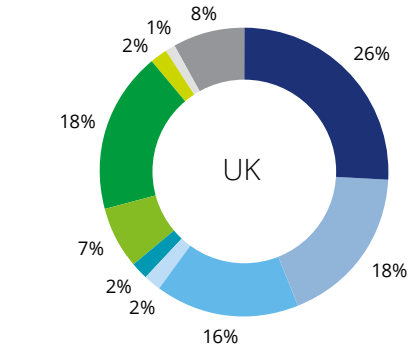
Direct Lenders increasingly diversifying geographies

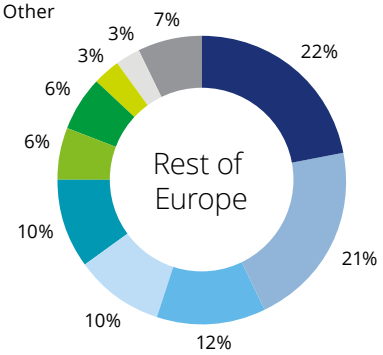
Total deals across Europe
In the last 29 quarters 2,272 (827 UK and 1,445 other European) deals are recorded in Europe



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 18%.



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

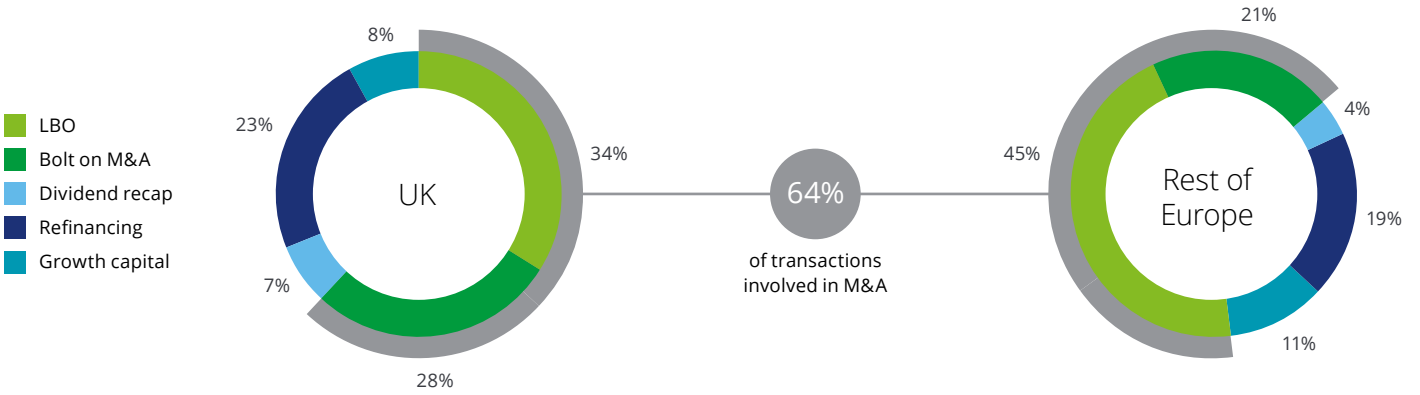


In the rest of Europe there are 5 main industries: Business, Infrastructure & Professional Services, TMT, Financial Services, Healthcare & Life Sciences and Leisure.

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

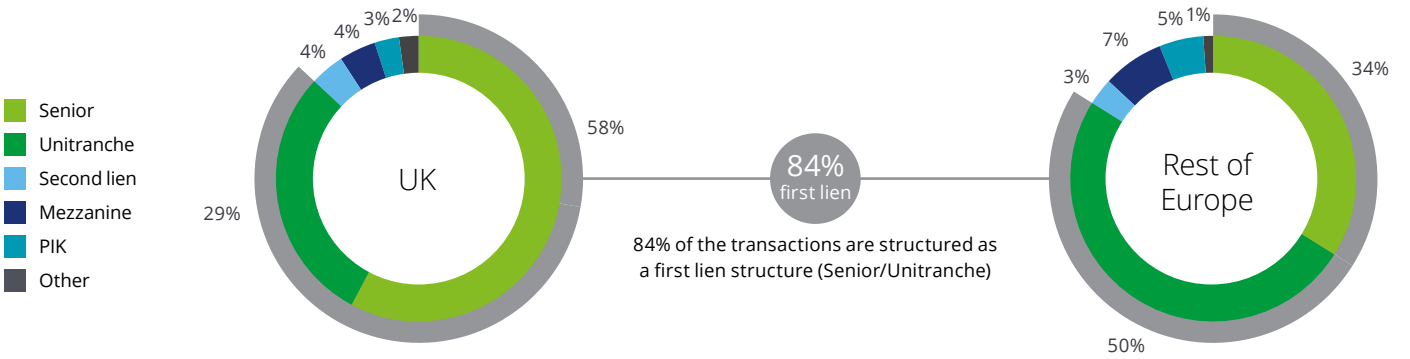
Deal purpose (Last 12 months)

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 484 deals in the last 12 months, 88 deals did not involve a private equity sponsor.



Structures (Last 12 months)

Unitranche is the dominant structure, with 58% of UK transactions and 50% 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.

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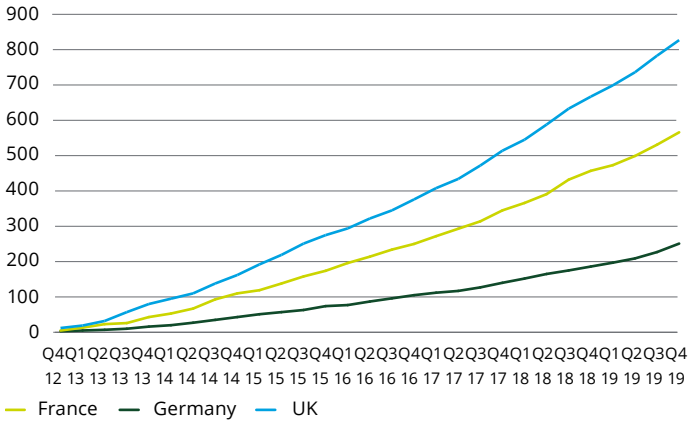
The UK still leading as the main source of deal volume for Direct Lenders in Europe

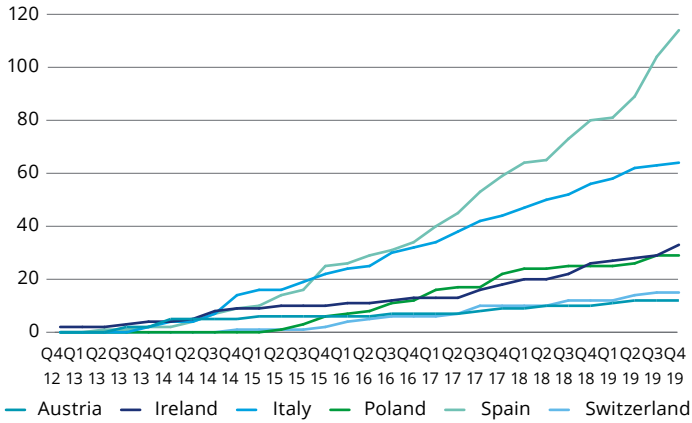
Cumulative number of deals per country

The number of deals is increasing at different rates in various European countries. The graphs below show countries that have completed 5 or more deals up to and including Q4 2019.

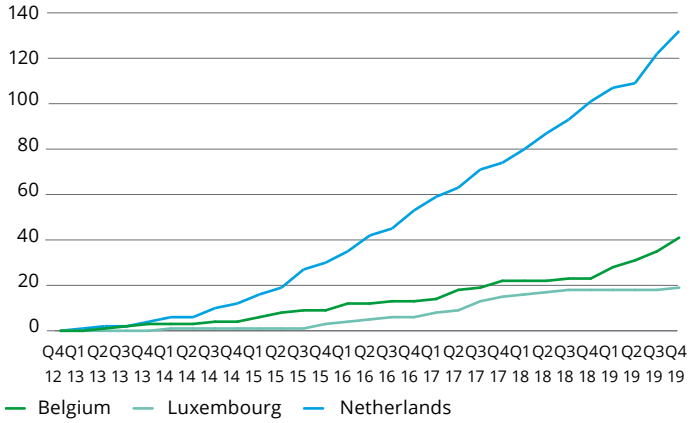
Largest geographic markets for Alternative Lenders



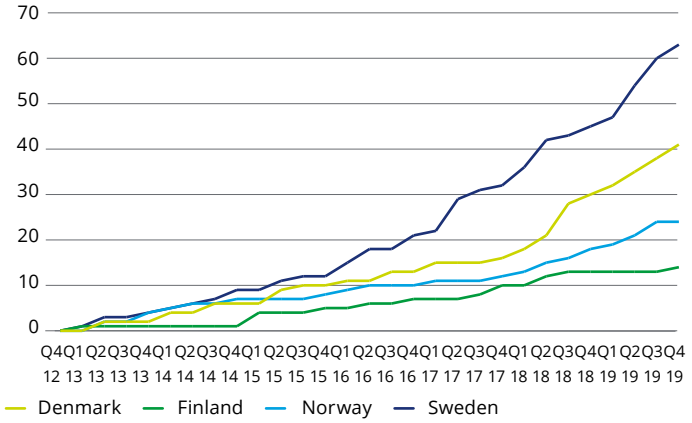
Other European



Benelux



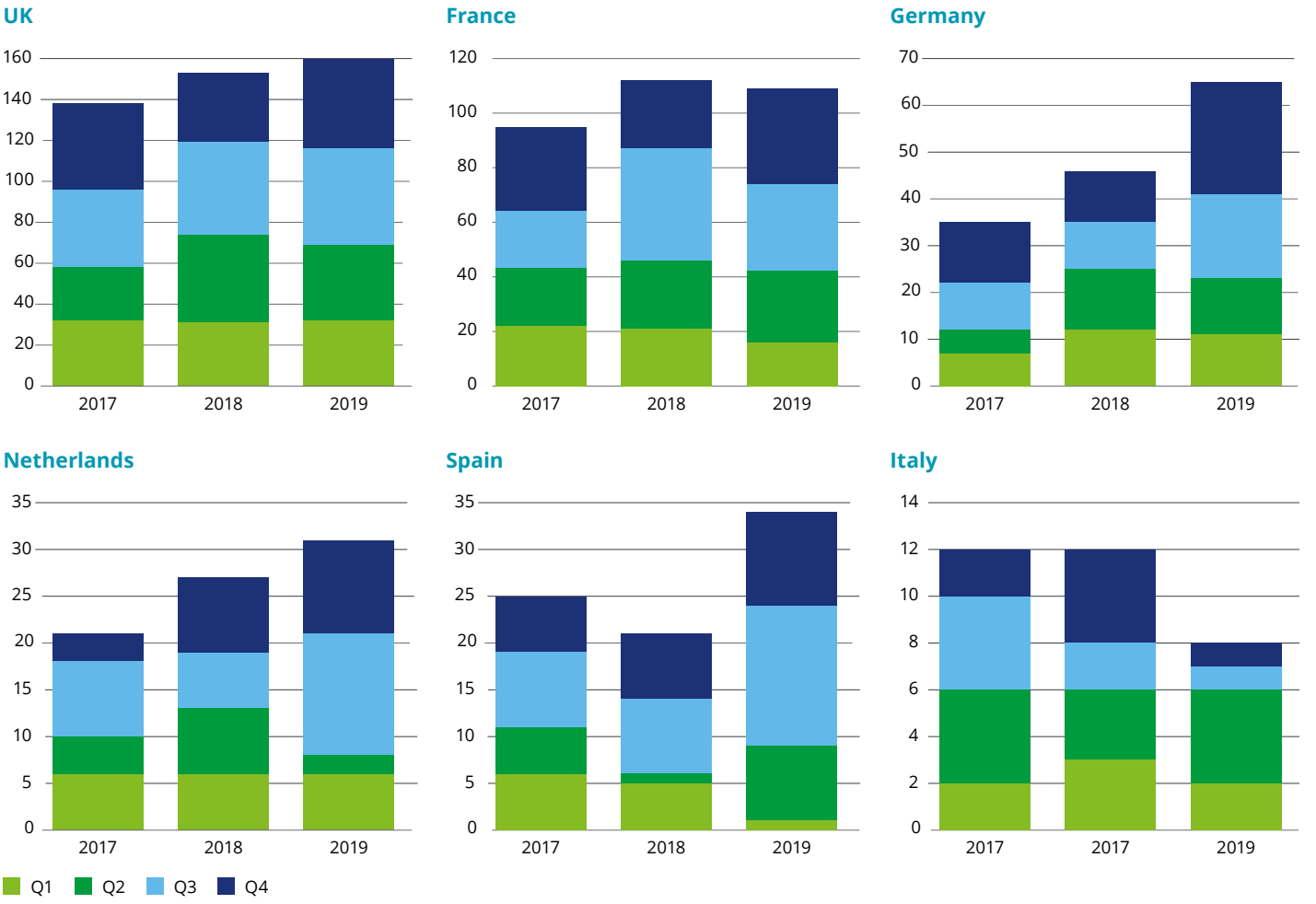
Nordics



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

On average, over time the number of deals is increasing with positive CAGR between 2017 and 2019 in all of the countries shown below.



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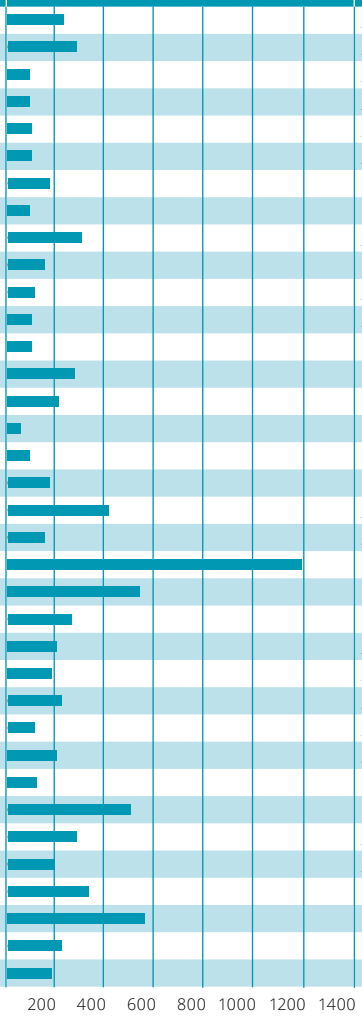
Which landmark unitranche deals have been completed?

Selected Landmark Unitranche Deals (>€90m)

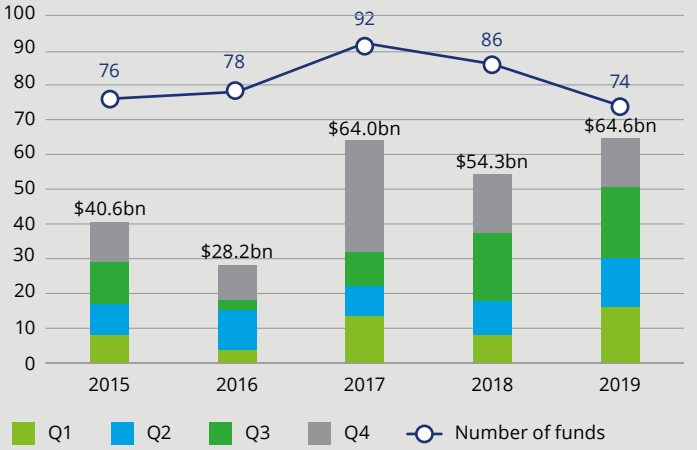
Borrower	Country	Unitranche in €m	Lenders	Sponsor	Date
Circle-BMI Group	UK		Ares	✓	Dec-19
Opus Group	Sweden		Ares	✓	Dec-19
Primonial	France		Ares	✓	Dec-19
Kids Foundation	Netherlands		Ares	✓	Dec-19
Siblu	France		Arcmont	✓	Dec-19
Accelya	Spain		Arcmont	✓	Dec-19
Jane's	UK		Barings	✓	Dec-19
Marie	France		Barings, Capza	✓	Dec-19
Heidelpay	Germany		Alcentra	✓	Dec-19
Sogelink	France		Hayfin	✓	Nov-19
Acuity	UK		Apollo	✓	Nov-19
The Club Company	UK		Apollo	✓	Nov-19
Wilfirst	France		Pemberton, Tikehau	✓	Oct-19
EuroTechnoCom	France		Pemberton, Permira	✓	Oct-19
Looping	France		Hayfin	✓	Oct-19
Valeur & Capital	France		Hayfin	✓	Oct-19
Kerridge Commercial	UK		Guggenheim	✓	Oct-19
Acolad	France		Barings, Idinvest	✓	Oct-19
True Potential	UK		Ares	–	Sep-19
BMS	UK		Ares	✓	Sep-19
Fortenova	Croatia		HPS	–	Sep-19
ION Corporates	Ireland		HPS	–	Sep-19
Quotient Sciences	UK		Pemberton	✓	Sep-19
Oberberg	Germany		Arcmont	✓	Aug-19
Aston Lark	UK		Ares	✓	Aug-19
Addsecure Group	Sweden		Ares	✓	Aug-19
Commify	UK		Ares	✓	Aug-19
PTSG	UK		Ardian, Barings	✓	Aug-19
Vulcain	France		Idinvest	✓	Aug-19
Outcomes First Group	UK		Barings, HPS, Five Arrows, CVC, Apollo	✓	Jul-19
Visolit	Norway		Ares	✓	Jul-19
Vet Partners	UK		Ares	✓	Jul-19
SumUp	Germany		Bain Capital, Golman Sachs, HPS, Sixth Street	–	Jul-19
Acuris	UK		HPS	–	Jul-19
NFA	UK		HPS	✓	Jul-19
Sabena Technics	France		Pemberton	✓	Jul-19



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

Direct Lending fundraising

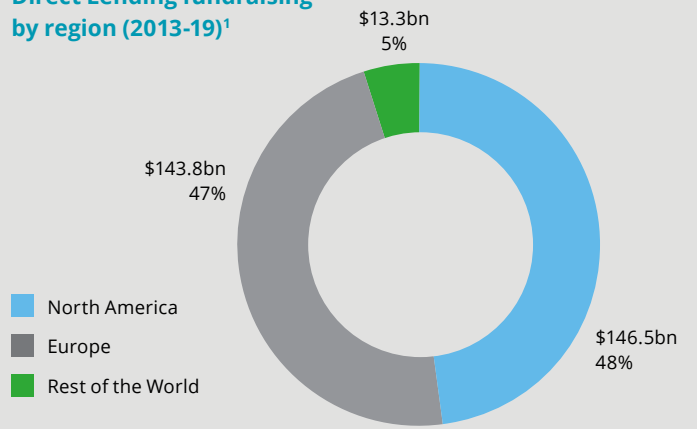
Global Direct Lending fundraising by quarter[1]



Select largest European funds with final closing in 2019[1]

- Arcmont's Direct Lending Fund III **€6,000m**
- Alcentra European Direct Lending Fund III **€5,500m**
- Ardian Private Debt IV **€3,000m**
- Pemberton European Mid-Market Debt Fund II **€2,800m**

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



Select largest US funds with final closings in 2019[1]

- Ares Senior Direct Lending Fund **$3,000m**
- Stira Alcentra Global Credit Fund **$3,000m**
- Twin Brook's Angelo Gordon Direct Lending III **$2,750m**
- Barings Global Private Loan Funds III **$2,412m**

[1] Data sourced from preqin

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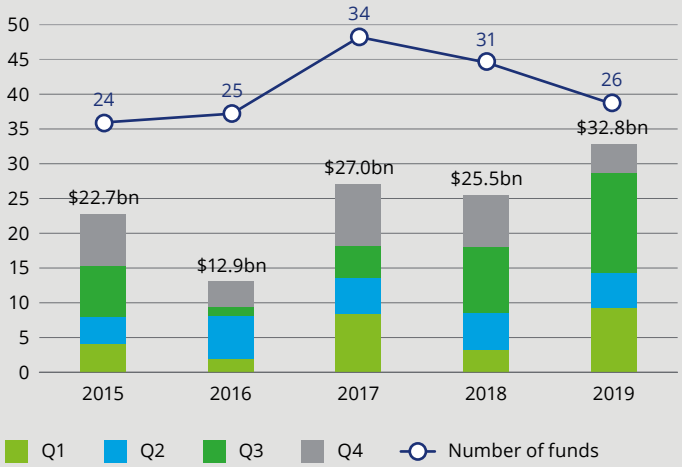
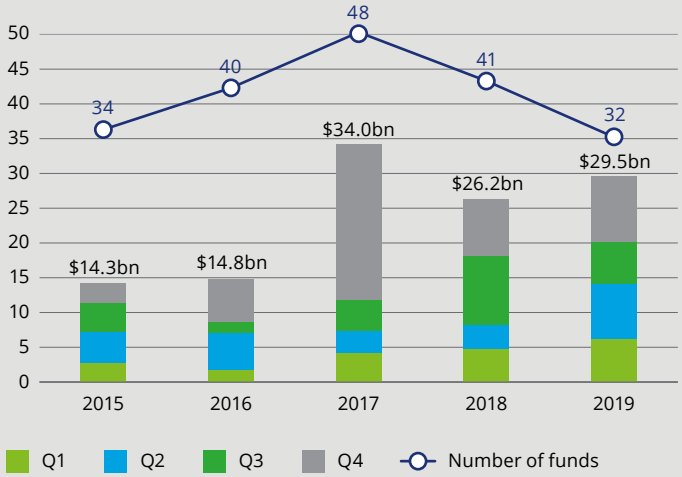
Europe Direct Lending fundraising by quarter[1]



North America Direct Lending fundraising by quarter[1]



Funds closed[1]

- Globally, 2017 saw the peak in terms of the number of funds closing with the number of funds closing in 2018 and 2019 being off the peak of 92 in 2017. Despite this, the $64.6bn of funds raised in 2019 surpassed the previous peak of $64.0bn of 2017. This is in line with the increase in average fund size over the period.

- However, there is a meaningful divergence between US- and Europe-focused funds. European-focused funds went gangbusters by raising $32.8bn during 2019, far surpassing the previous high of $27.0bn in 2017. In contrast, the US-focused funds raised $29.5bn which was far off the 2017 high of $34.0bn. This is the first time since 2015 that Europe-focused strategies raised more than US-focused strategies.

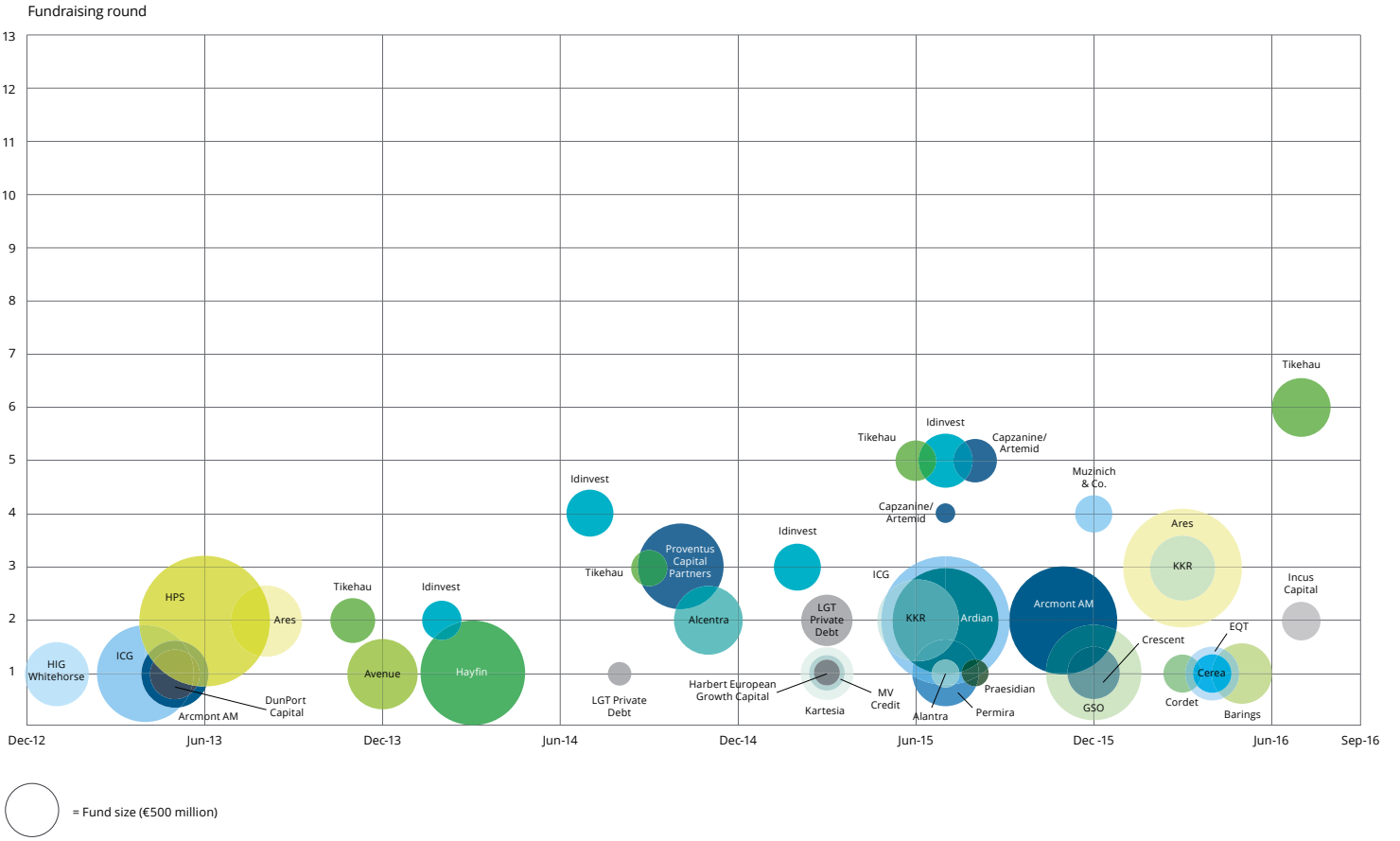
- Notably, the average number of months to final close for US funds stayed relatively constant at 16 or 17 months during 2017-19 while the average number of months to final close for European funds increased from 12 months in 2017 to 20 months in 2019 (though this seems to have reduced to a comparable 16 months for funds closed in 2020 YTD.

Funds in the market[1]

- Globally, there were 222 direct lender funds in the market seeking to raise $96.5bn of capital at the end of March 2020. Of these, 115 are in the US (targeting $46.8bn) and 66 are in Europe (targeting $38.9bn).

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

Senior Direct Lending fundraising focused on the European market



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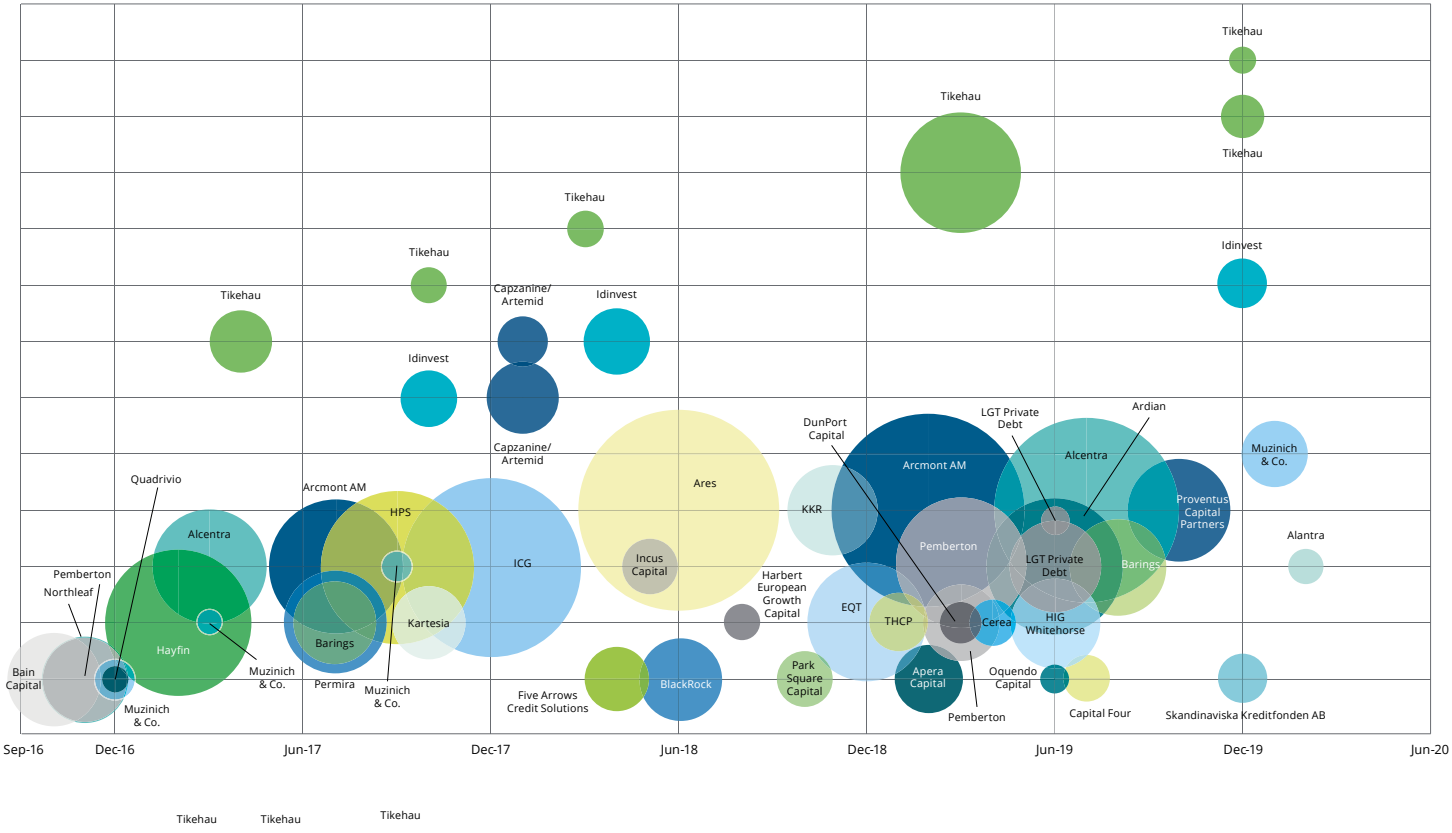
Tikehau
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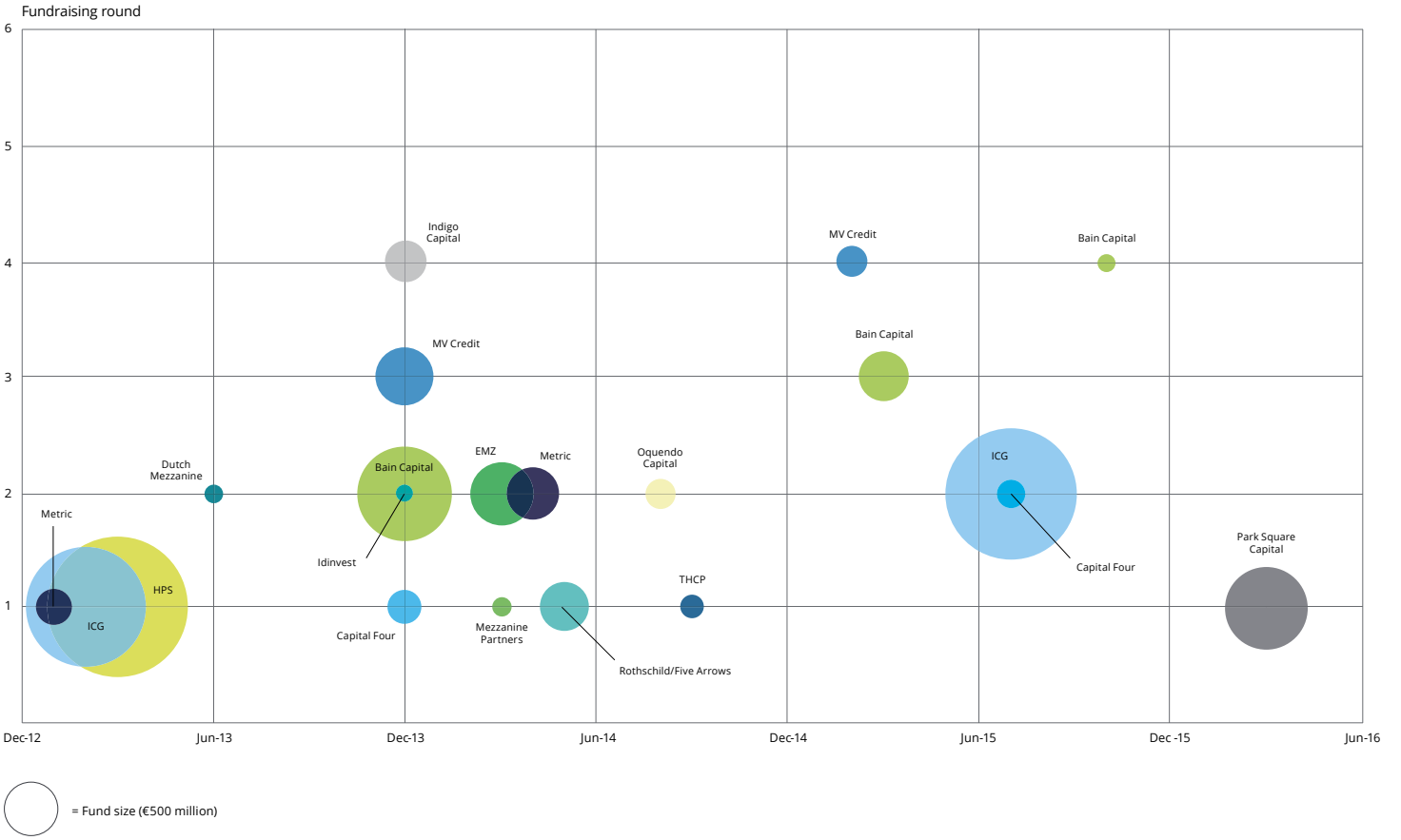
Idinvest
Idinvest
Capzanine/ Artemid
Idinvest
Capzanine/ Artemid
Quadrivio
Arcmont AM
HPS
Alcentra
Pemberton
Northleaf
Hayfin
Barings
Kartesia
ICG
Permira
Muzinich & Co.
Muzinich & Co.
Muzinich & Co.
Bain Capital
Ares
Incus Capital
Five Arrows Credit Solutions
BlackRock
KKR
Harbert European Growth Capital
Park Square Capital
DunPort Capital
Arcmont AM
Pemberton
EQT
THCP
Apera Capital
Cerea
LGT Private Debt
Alcentra
Ardian
LGT Private Debt
HIG Whitehorse
Oquendo Capital
Pemberton
Capital Four
Barings
Proventus Capital Partners
Muzinich & Co.
Alantra
Skandinaviska Kreditfonden AB
Sep-16
Dec-16
Jun-17
Dec-17
Jun-18
Dec-18
Jun-19
Dec-19
Jun-20

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

Junior/Growth Capital Direct Lending fundraising focused on the European market



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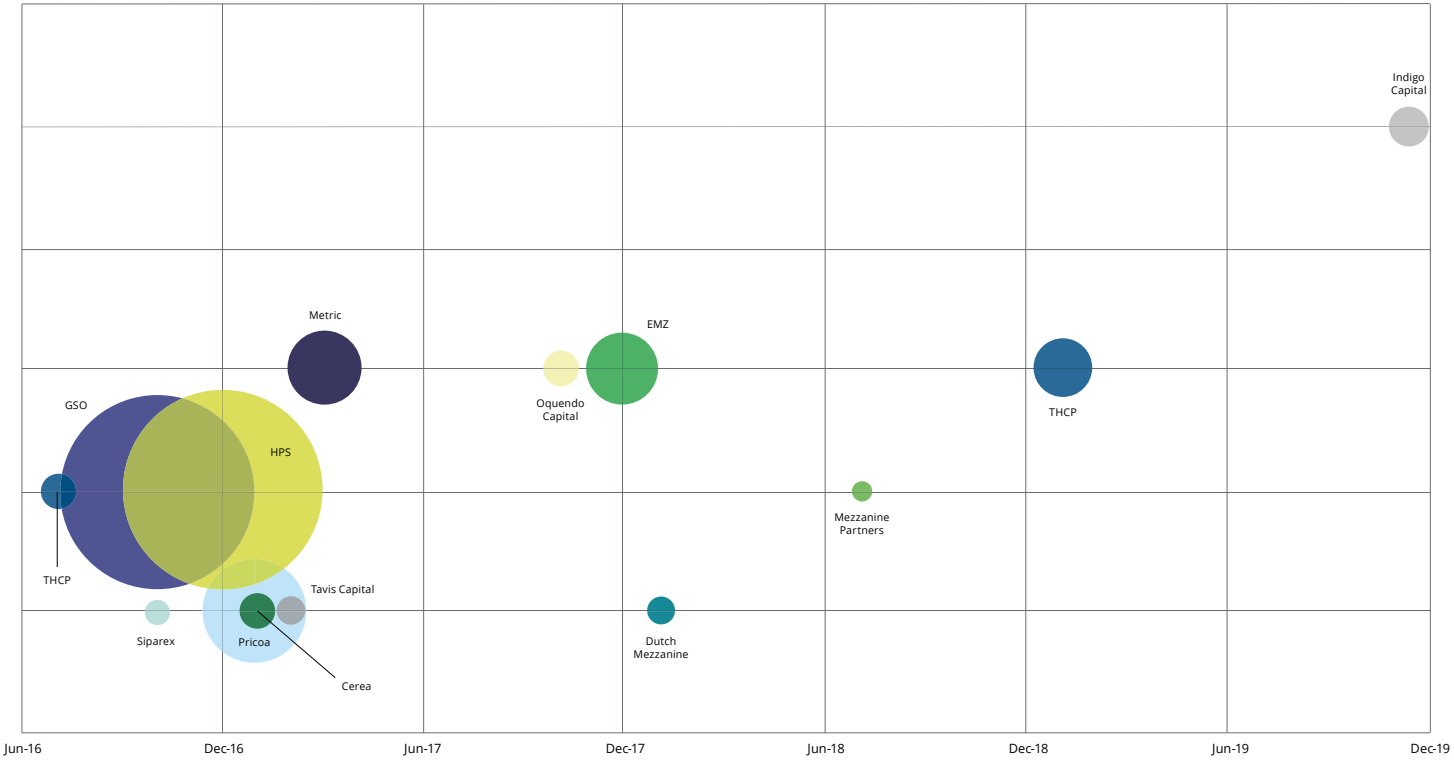
Indigo Capital
Metric
EMZ
Oquendo Capital
GSO
HPS
THCP
Mezzanine Partners
THCP
Tavis Capital
Siparex
Pricoa
Dutch Mezzanine
Cerea
Jun-16
Dec-16
Jun-17
Dec-17
Jun-18
Dec-18
Jun-19
Dec-19

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 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
Apera Capital				
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 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				
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

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Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Blackrock				
BlackRock European Middle Market Private Debt Fund I	Q2 17	€602	Senior	Europe
Capital Four				
Capital Four Strategic Credit Fund	Q3 19	€350	Senior and Junior	Europe
Capital Four Strategic Lending Fund	Q3 15	€135	Junior	Europe
Capital Four Nordic Leverage Finance Fund	Q4 13	€200	Junior	Europe
Capza				
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
Céréa				
Céréa Dette II	Q2 19	€350	Senior	Europe
Céréa Mezzanine III	Q1 17	€200	Junior	Europe
Céréa Dette	Q2 16	€270	Senior	Europe
DunPort Capital Management				
Elm Corporate Credit DAC	Q2 18	€283	Senior and Junior	Europe
Ireland Corporate Credit DAC	Q2 13	€450	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	€2,300	Senior	Europe
EQT Mid Market Lending	Q2 16	€530	Senior	Europe
Five Arrows				
Five Arrows Direct Lending	Q1 18	€655	Senior and Junior	Europe
Five Arrows Credit Solutions	Q2 14	€415	Junior	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

Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
HIG				
H.I.G. Bayside Loan Opportunity Fund V (Europe)	Q2 19	$1,500	Senior and Junior	Europe
H.I.G. Whitehorse Loan Fund III	Q1 13	€750	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
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 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

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Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
LGT Private Debt				
Marina Bay	Q3 19	€130	Senior and Junior	Europe
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
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 Senior	Q2 19	€134	Senior	Europe
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	Q4 19	€1,670	Senior and Junior	Europe
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

Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Siparex				
Siparex	Q4 16	€100	Junior	Europe
Skandinaviska Kreditfonden AB				
Scandinavian Credit Fund I AB	Q4 19	€390	Senior	Europe
Tavis Capital				
Swiss SME Credit Fund I	Q1 17	CHF137	Junior	Europe
Tikehau				
Fund 12	Q4 19	€116	Senior	Europe
Fund 11	Q4 18	€297	Senior	Europe
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

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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

Direct Lending Professionals Key statistics and recent moves

Direct Lending Market Headcount

Following on from H1 2019, the Direct Lending market has continued to expand in Europe. Strong fundraising and deal flow, despite an increasingly competitive market, has resulted in increased headcount in H2.

Figure 1 shows that the total number of investment professionals (IP's) has increased from 572 to 596, marking a 4% rise in personnel. The majority of additions were at the Junior-level, representing 21 of the 24 net-moves into the Direct Lending market. There were only two net additions at the Mid-level and just one at Senior-level.

Figure 1. Graph comparing net moves across different levels of seniority between H1 2019 and H2 2019

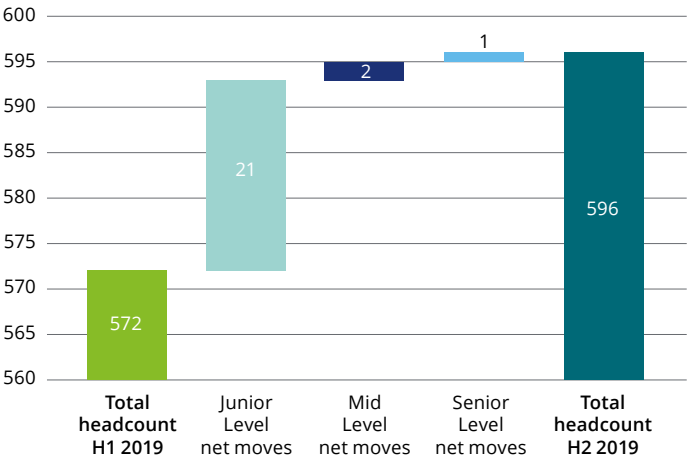
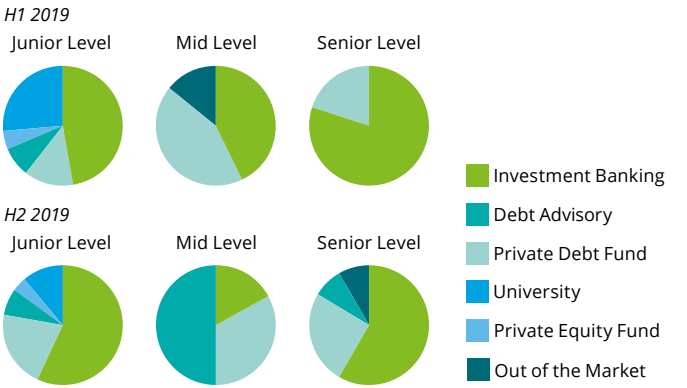


Figure 2. Charts comparing the source of hires into the DL market between H1 2019 and H2 2019 at different levels of seniority



Hiring Trends by Seniority

A trend which was observed in the last report that has carried through to H2 was that net hiring at the Junior-level remained high (+25 in H1; +21 in H2), whereas net moves at the Mid-level (0 in H1; +2 in H2) and Senior-level (0 in H1; +1 in H2) were low.

Whilst net moves at the Mid to Senior-level may appear static, there has been a surprising amount of turnover. In H2, at the Senior-level, there were 12 hires and 11 departures. At the Mid-level, there were 6 hires and 4 departures.

Source of Hires – Breakdown

Figure 2 displays the source of hiring for Direct Lending funds in the European market, comparing H1 and H2 of 2019.

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 large majority of their investment activity 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.

Percentage numbers around rounded to the nearest whole number

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At the Junior-level the only significant change was that there were fewer joiners from University in H2. Most graduates start in September so this observation is not altogether surprising.

At the Mid-level, 50% of hires in H2 were from Debt Advisory, compared with 0% in H1. Other hires came from competitor Private Debt funds (33%) and Investment Banking (17%).

At the Senior-level, 58% of hires came from Investment Banking, down from 80% in H1. The remainder were sourced from Private Debt funds (25%), Debt Advisory firms (8%) and from out of the Market (8%).

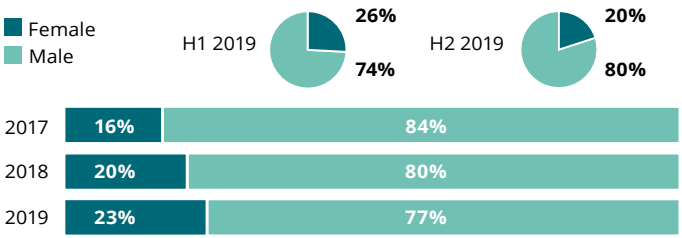
It would appear that over the course of 2019 there had been a shift away from hiring out of Investment Banks and towards Debt Advisory.

Gender diversity

Figure 3 illustrates a steady increase in gender diversity over the last 3 years, with 23% female hires in 2019 compared with 20% in 2018 and 16% in 2017.

That being said, when comparing H1 and H2 of 2019 there was a notable reduction in female hires from 26% to 20%. It remains to be seen whether this is a trend that will continue into 2020.

Figure 3. Chart comparing hires by gender over the last three years and between H1 2029 and H2 2019



Recent Notable Direct Lending Moves

Alcentra	Natalia Tsitoura, Managing Director, left for Apollo
GS PIA	Adel Ghobsi, Executive Director, joins from Kyma Capital
Alcentra	Bastian Stange, Vice President, joins from Houlihan Lokey
HIG Whitehorse	Keith Green, Principal, joins from Lloyds
Alcentra	Pascal Meysson, Managing Director, left TBC
HIG Whitehorse	Herman Vocking, Principal, left for Catalyst Advisors
Apollo	Marc Preiser, Managing Director, left TBC
Kartesia	Charles-Henri Clappier, Director, joins from Bank of Ireland
Arcmont	Christophe Vulliez, Partner, left for TBC
Kreos	Shane Lyons, Vice President, joins from LGT Capital
Ardian	Carsten Stegemann, Investment Manager, joins from Alantra
LGT	Jonathan Smith, Managing Director, joins from Lloyds
Bain Capital	David Brooks, Director, left for Arcmont
M&G	Zachary Webb, Director, joins from Keypoint Financial
Beechbrook	Paul Whitehouse, Investment Director, joins from Lloyds
Park Square	Howard Sharp, Partner, left for Alcentra
Crescent	Graham Infiner, Vice President, left for Verdad Advisors
Pemberton	Nicolas Besson, Director, left for Alcentra
CVC	Hamza Filali, Director, joins from BNP Paribas
DunPort Capital	Conor Gibney, Investment Manager, joins from NTR
Permira	Tom Boden, Associate Director, left TBC
EQT	Rachel Yu, Vice President, left for Regily
Tikehau	Martino Mauroner, Director, joins from Credit Agricole

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

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.

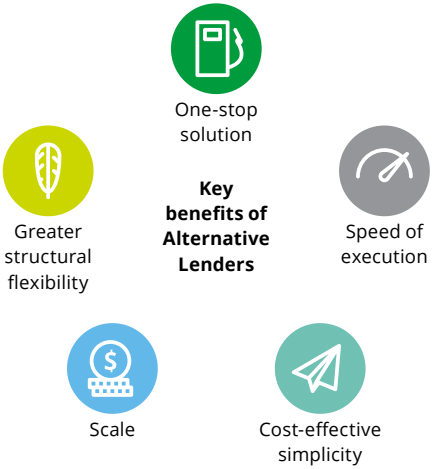
Over the last three years a significant number of new funds have been raised in Europe. Increased supply of Alternative Lender capital has helped to increase the flexibility and optionality for borrowers.

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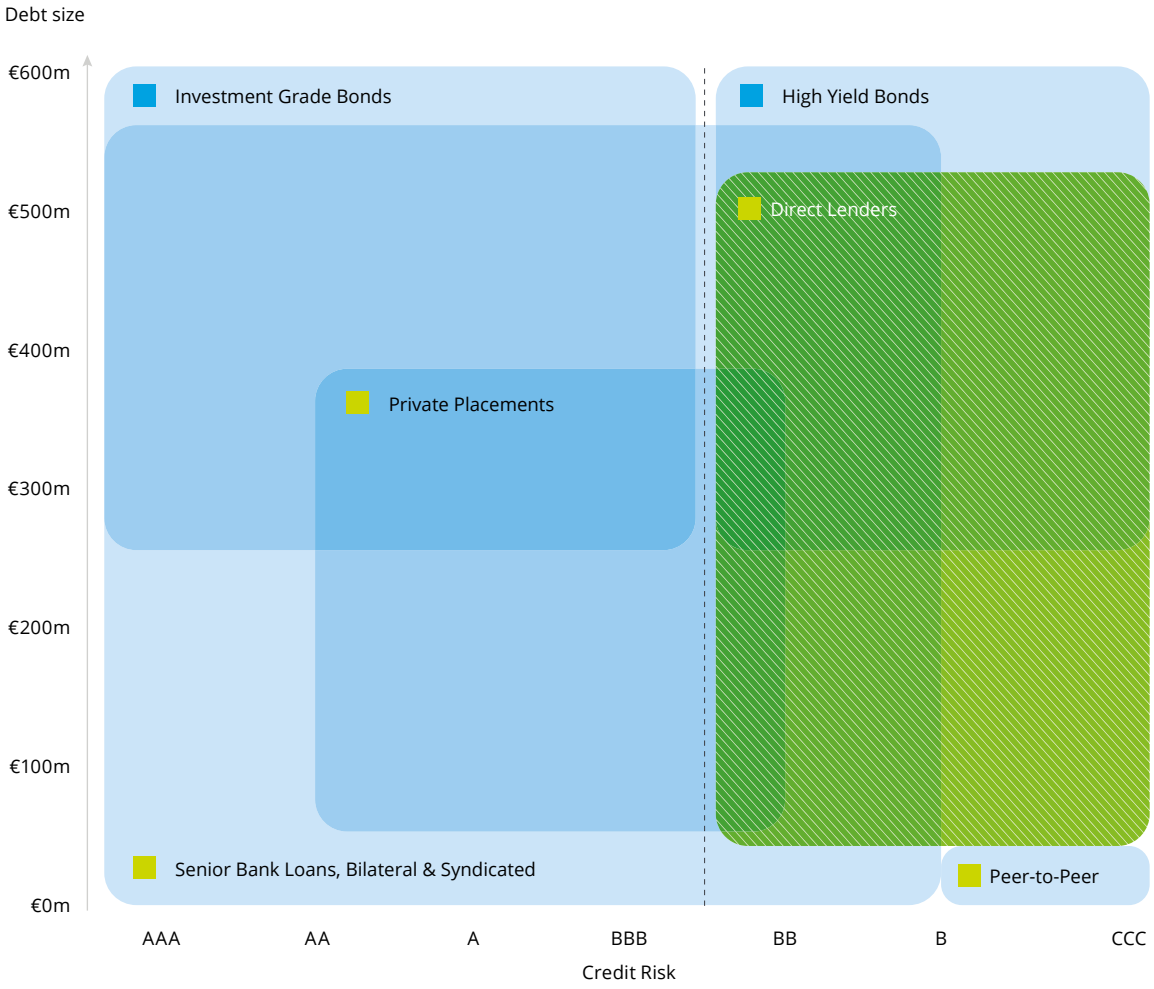
How do Direct Lenders compare to other cash flow debt products?



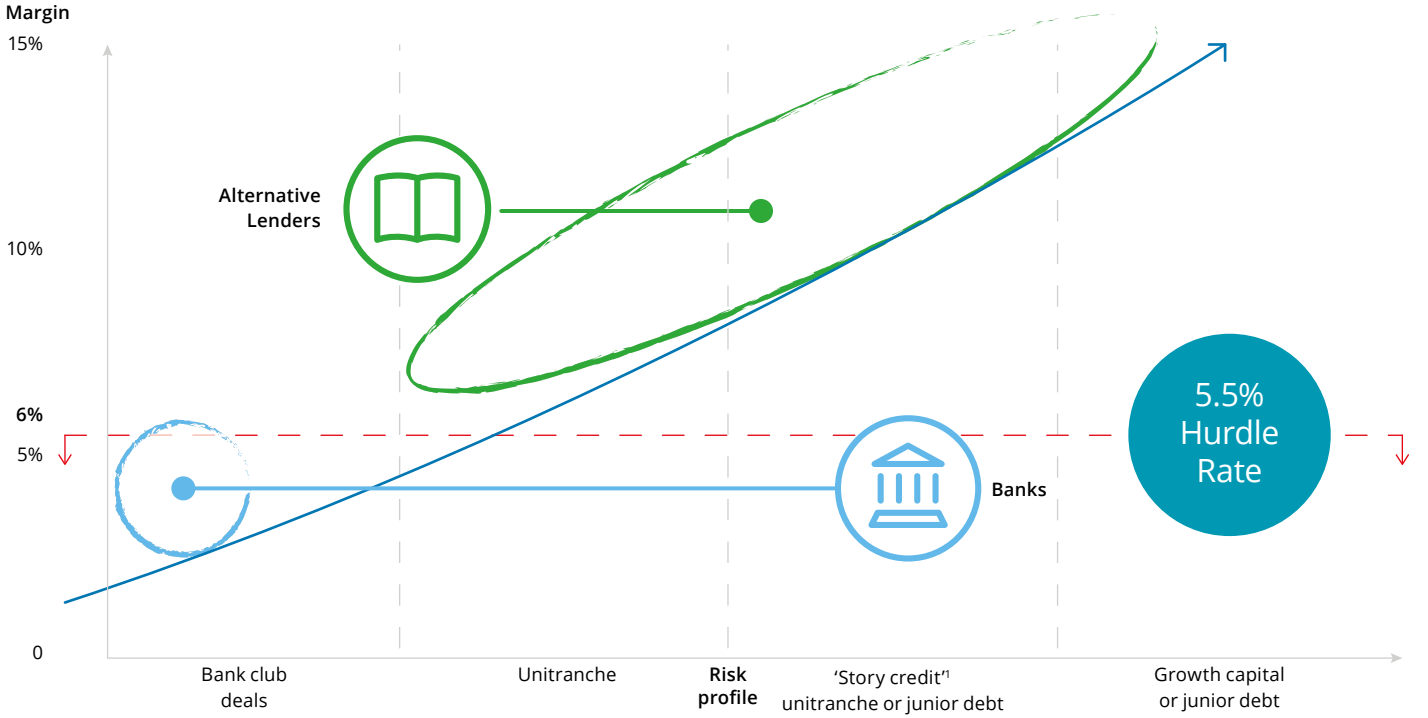
Cash flow debt products

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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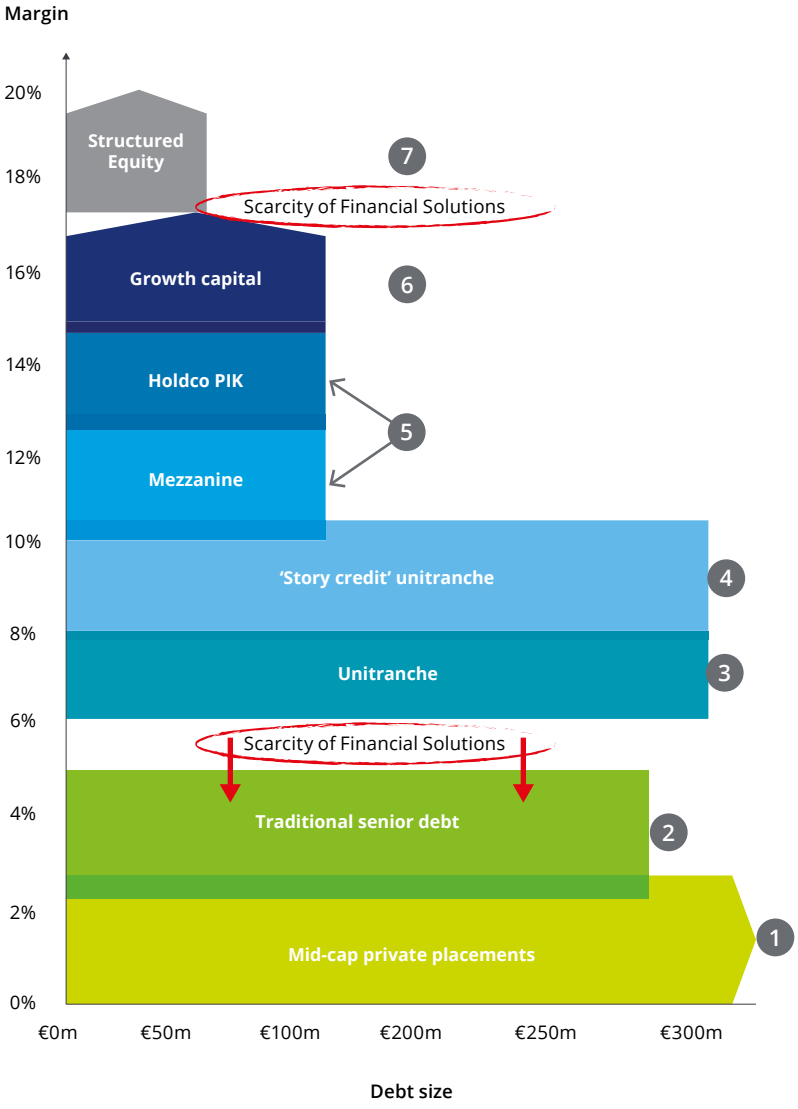
What are the private debt strategies?



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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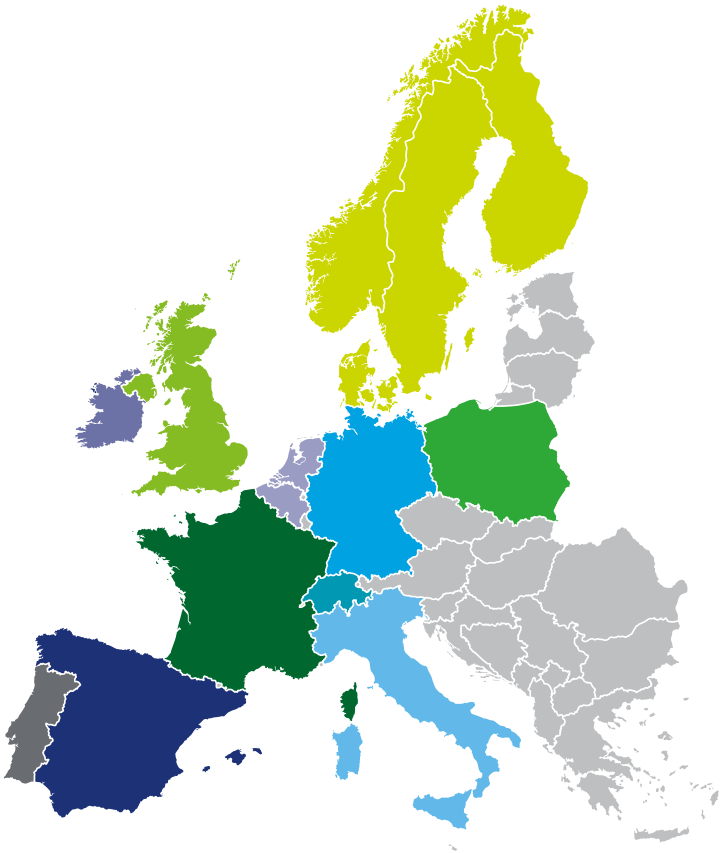
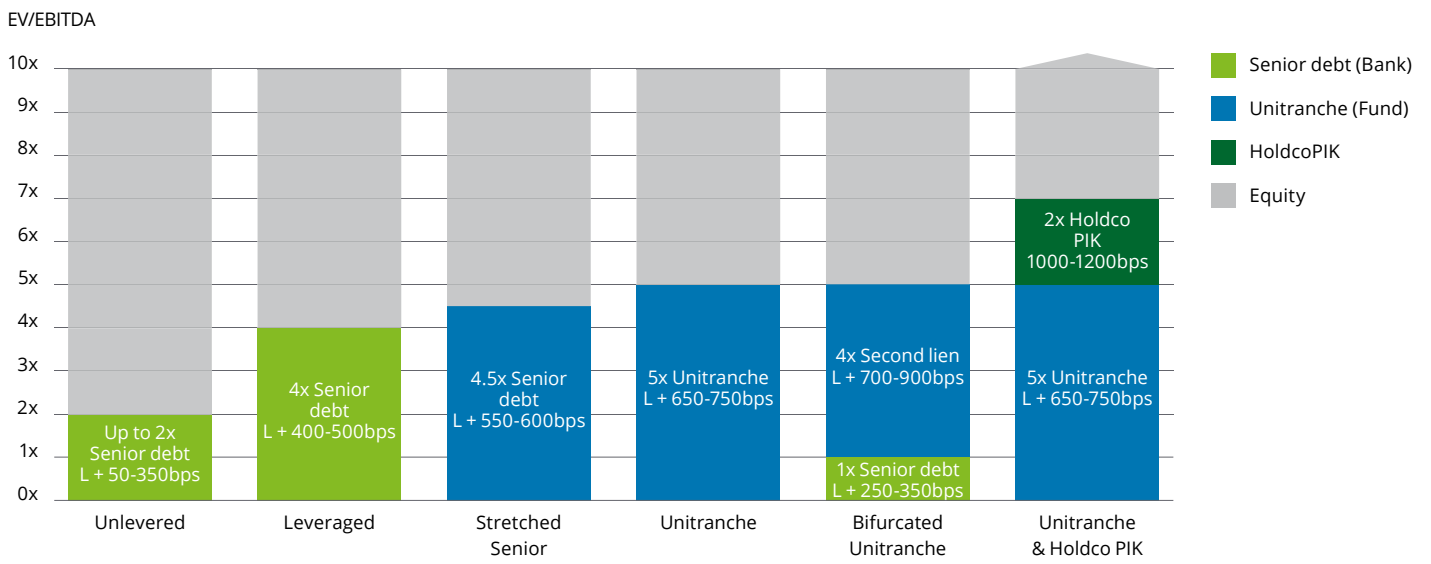
Who are the Direct Lenders?



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	Leveraged	Stretched Senior	Unitranche	Bifurcated Unitranche	Unitranche & Holdco PIK
✓ Lowest pricing ✓ Relationship bank • Low leverage • Shorter tenor (3-5 years)	✓ Increased leverage ✓ Club of relationship banks • More restrictive terms • Partly amortising	✓ Increased leverage ✓ Bullet debt ✓ Lower Equity contribution • More restrictive terms than Unitranche • Higher pricing than bank debt • Need for RCF lender	✓ Stretched leverage ✓ Flexible covenants ✓ One-stop shop solution ✓ Speed of execution ✓ Relationship lender • Higher pricing	✓ Stretched leverage ✓ Flexible covenants ✓ Greater role for bank ✓ Reach more liquid part of the unitranche market • Higher pricing • Intercreditor/AAL	✓ 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.

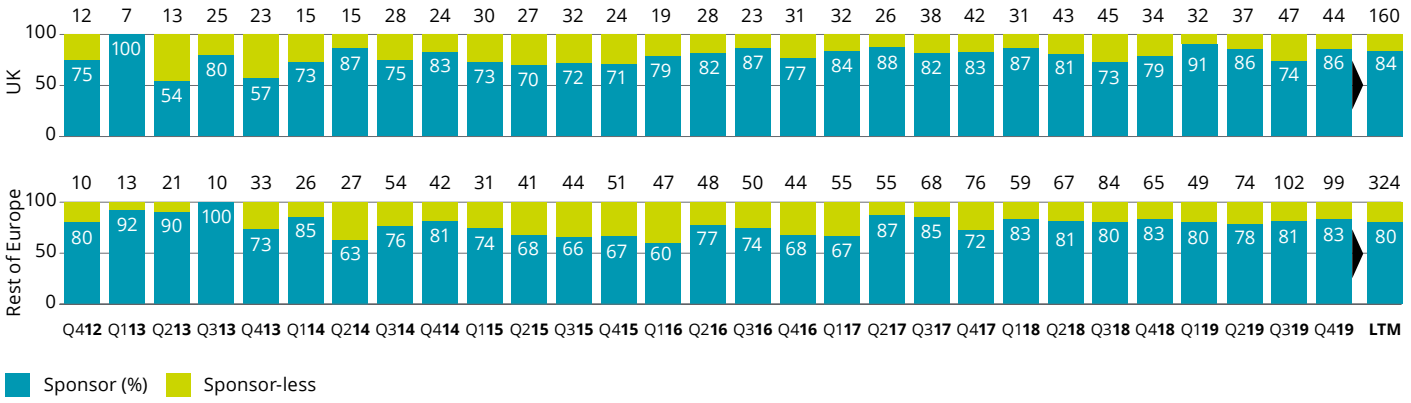
Key advantages

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



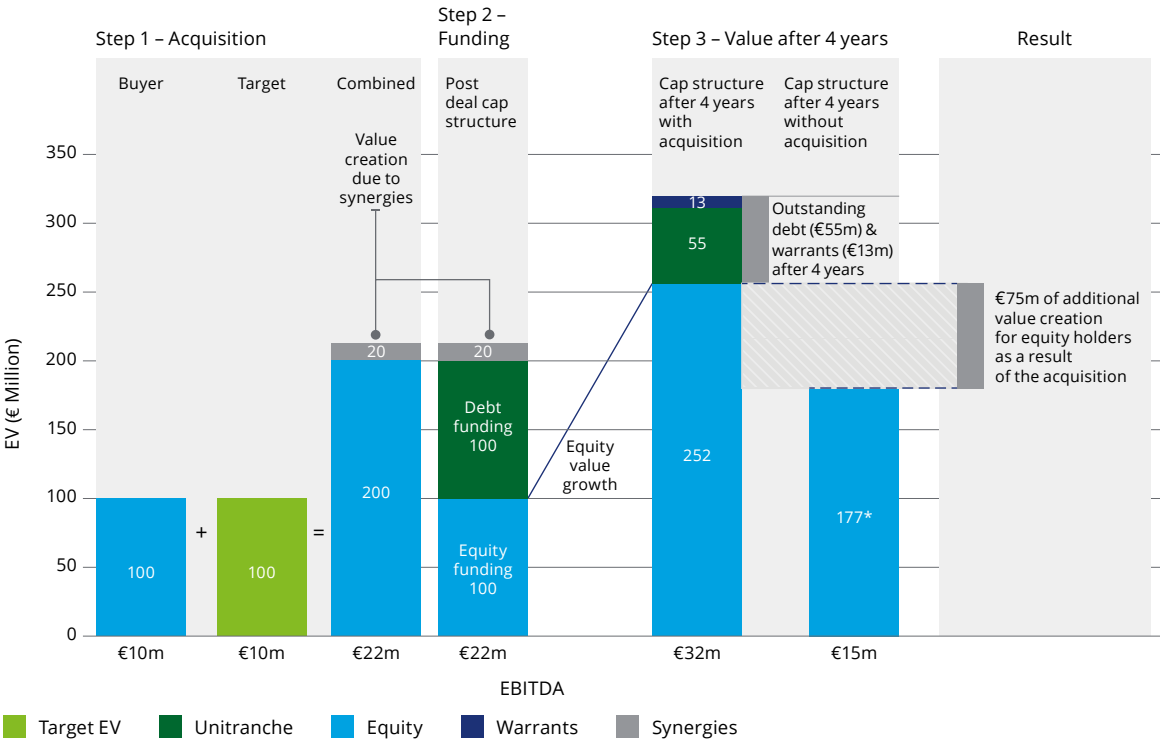
Unlocking transformational acquisitions for privately owned companies

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 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

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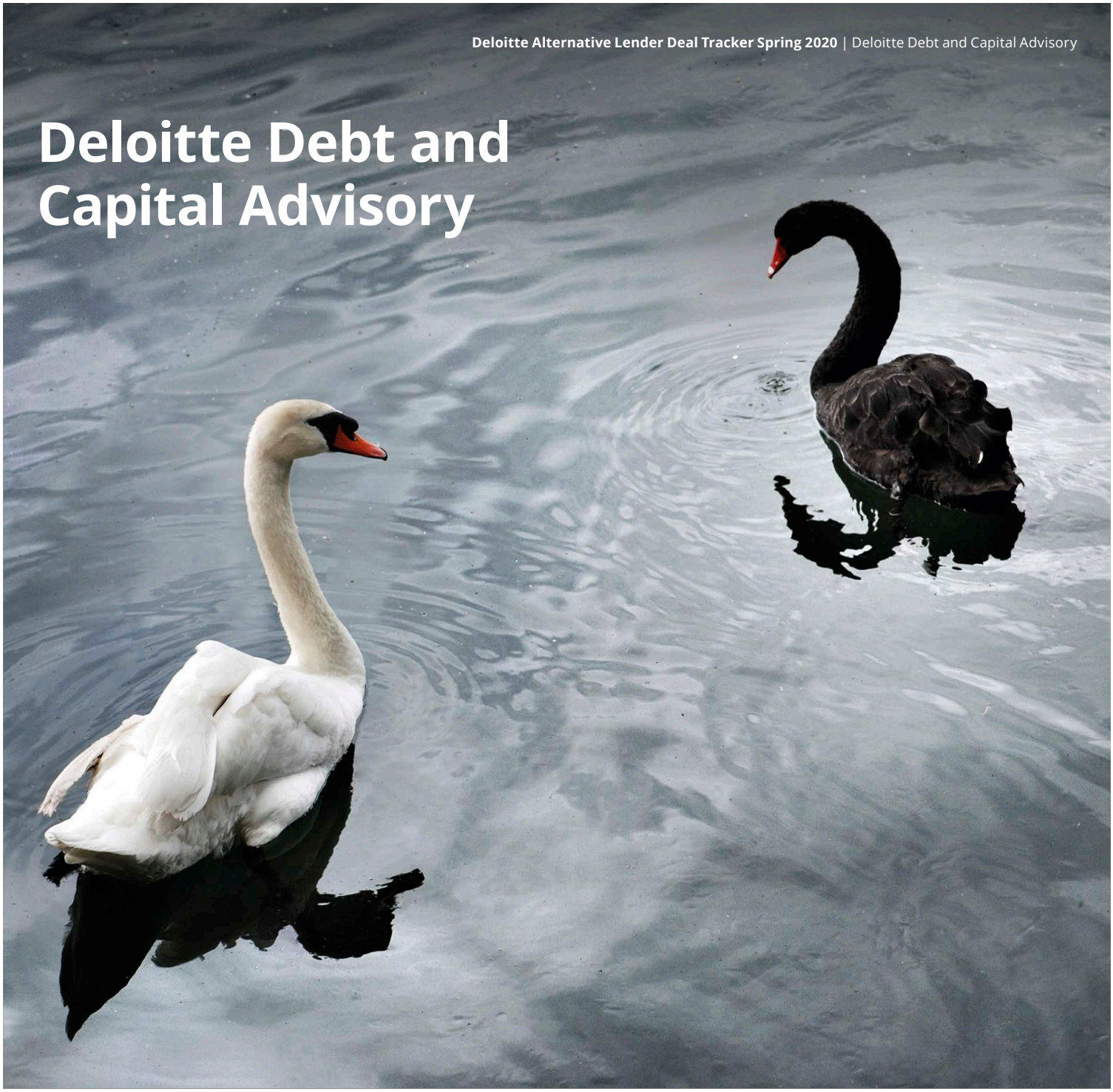
Deloitte Debt and Capital Advisory



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

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

Management, Shareholders & Jurisdiction

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

Financial Performance

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

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Deloitte Debt and Capital Advisory credentials

Selected Global transactions

South Africa	Canada	Poland	UK	UK/US	Poland
Busamed Group *Restructure*	ADP Direct Poultry *Acquisition Financing*	BaseCamp Student *Construction Facility*	Logicalis *Refinancing*	MCRA *Refinancing*	BIK S.A. *Construction Facility*
Feb 2020 Undisclosed	Jan 2020 $49m	Jan 2020 $18m	Jan 2020 $160m	Dec 2019 $49m	Dec 2019 $18m
UK	Netherlands	Netherlands	S.A./UK	Netherlands	Poland
BES Utilities *Refinancing*	Capital A *Acquisition Finance*	Floryn *Senior Secured RCF*	Actis Capital *Transfer Pricing of Debt*	Gryphion *Acquisition Financing*	BaseCamp Student *Top-up Facility*
Dec 2019 Undisclosed	Dec 2019 Undisclosed	Nov 2019 €25m	Nov 2019 €25m	Nov 2019 Undisclosed	Nov 2019 $3m
UK	Italy	Spain	Netherlands	Netherlands	Netherlands
Exercise4Less *Refinancing*	Orienta Partners *Acquisition Financing*	Artá Capital *Acquisition Financing*	Energyst *Lease Financing*	Energyst *Debt Advisory*	Icelake Capital *Acquisition Financing*
Oct 2019 Undisclosed	Oct 2019 €33m	Oct 2019 Undisclosed	Sep 2019 Undisclosed	Sep 2019 Undisclosed	Sep 2019 Undisclosed
UK	Spain/NL	Belgium	UK	UK	S.A./Europe/USA
Access *Incremental Facility*	Birch Ejendomme *Acquisition Financing*	Van Mossel Bruyninx *Refinancing*	Graphite *Acquisition Finance*	Inflexion *Acquisition Financing*	Bell Equipment Limited *Capital Structure Advisory*
Sep 2019 Undisclosed	Aug 2019 €89m	Aug 2019 Undisclosed	Aug 2019 Undisclosed	Aug 2019 Undisclosed	Aug 2019 ZAR1.5bn

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UK	Dem. Rep. Congo	UK/Denmark	South Africa	Poland	N'lands/Spain
AFI *Acquisition Finance*	PPC Limited *Debt Pricing Advisory*	Covidence *Acquisition Finance*	PPC Limited *Credit Rating Advisory*	Basecamp *Refinancing*	The Student Hotel *Development Finance*
Aug 2019 £160m	Aug 2019 $196m	Aug 2019 Undisclosed	Aug 2019 Undisclosed	Aug 2019 $15m	Aug 2019 Undisclosed
Spain	Spain	Netherlands	UK	UK	Poland
Grupo Trebol *Refinancing*	Transport Hub *Refinancing*	Aethon/Mentha Capital *Acquisition Financing*	Leaders Romans Group *Growth Financing*	Cogital *Refinancing*	Vistal Gdynia *Restructuring*
Jul 2019 €15m	Jul 2019 Undisclosed	Jun 2019 Undisclosed	Jul 2019 Undisclosed	Jul 2019 Undisclosed	Jul 2019 $58m
Ireland	Netherlands	Belgium	N'lands/Belgium	Netherlands	Netherlands
Waterland P.E. *LBO*	Aircrete Europe *Acquisition Financing*	Deceuninck *Green Loan Refinancing*	Int. Car Lease Holding *Amendments club deal*	Bakker Bart *Acquisition Financing*	PCI *Refinancing*
Jul 2019 Undisclosed	Jul 2019 Undisclosed	Jul 2019 Undisclosed	Jul 2019 Undisclosed	Jul 2019 Undisclosed	Jul 2019 Undisclosed
Belgium	Belgium	Netherlands	Denmark	UK	UK
DPG Media *Amendment Club Deal*	DPG Media *EU Private Placement*	The Student Hotel *Amendment Club Deal*	Birch Ejendomme *Acquisition Financing*	Hg Capital *Acquisition Financing*	Carlyle Group *Refinancing*
Jun 2019 Undisclosed	Jun 2019 €150m	Jun 2019 Undisclosed	Jun 2019 €138m	Jun 2019 Undisclosed	Jun 2019 Undisclosed

Selected Global transactions

UK	UK	UK	UK	Ireland	Denmark
Telemos Capital *Refinancing*	Francisco Partners *Acquisition Financing*	Hg Capital *Acquisition Financing*	Silverfleet *Acquisition Financing*	Ires *Growth Financing*	CECN ApS *Acquisition Financing*
Jun 2019 Undisclosed	Jun 2019 Undisclosed	May 2019 Undisclosed	May 2019 Undisclosed	Apr 2019 €600m	Apr 2019 €9m
UK	Denmark	Ireland	Denmark	UK	UK
Bowmark Capital *Refinancing*	Hotel Ritz *Acquisition Financing*	Rhatigan Property Group *Acquisition Financing*	Birch Ejendomme *Acquisition Financing*	Hg Capital *Staple Financing*	Ocorian *Refinancing*
Apr 2019 Undisclosed	Mar 2019 €11m	Mar 2019 Undisclosed	Mar 2019 €35m	Mar 2019 Undisclosed	Mar 2019 Undisclosed
UK	UK	Netherlands/UK	Netherlands	France	Ireland
The Entertainer *Acquisition Financing*	Quorn Foods *Refinancing*	Bynder *(Re)financing*	Nedfast Holding B.V. *Refinancing*	SOS Oxygène *Debt Advisory*	Centz/Homesavers *Growth Financing*
Mar 2019 £30m	Mar 2019 £123m	Feb 2019 Undisclosed	Feb 2019 Undisclosed	Feb 2019 Undisclosed	Feb 2019 €9m
UK	Belgium	UK	UK	UK/Germany	Poland
Hg Capital *Refinancing*	Hg Capital *Acquisition Financing*	GHO Capital *Acquisition Financing*	Hg Capital *Acquisition Financing*	Hg Capital *Acquisition Financing*	Biuro Inwestycji Kapitalowych S.A *Bridge Financing*
Feb 2019 Undisclosed	Feb 2019 Undisclosed	Feb 2019 Undisclosed	Feb 2019 Undisclosed	Feb 2019 Undisclosed	Jul 2019 Undisclosed

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UK	UK	UK	Hungary	UK/Romania	UK
Port of Tyne Authority *Refinancing*	Hg Capital *Refinancing*	GHO Capital *Acquisition Financing*	HELL Energy Group *Refinancing*	Chimcomplex *Acquisition Financing*	Aurora *Refinancing*
Jan 2019 £60m	Jan 2019 Undisclosed	Dec 2018 Undisclosed	Dec 2018 €130m	Dec 2018 €164m	Dec 2018 £50m
UK	UK	UK	UK	Ireland	France
Equitix *Refinancing*	Hg Capital *Refinancing*	CBPE *Refinancing*	Five Arrows *Refinancing*	Lonsdale Capital Partners *Acquisition Financing*	Groupe Parot *Debt Advisory*
Dec 2018 £140m	Dec 2018 Undisclosed	Dec 2018 Undisclosed	Dec 2018 Undisclosed	Dec 2018 €22.5m	Dec 2018 Undisclosed
UK	Netherlands	UK	UK	UK/Germany	NL/Curacao
Manx Telecom *Refinancing*	Basecamp –TSH *Growth Financing*	James Grant *Refinancing*	CapVest *Acquisition Financing*	Hg Capital *Acquisition Financing*	Aqualectra *Refinancing*
Nov 2018 £7.5m	Nov 2018 €55m	Nov 2018 £90m	Nov 2018 Undisclosed	Nov 2018 Undisclosed	Nov 2019 ANG325m
UK	UK	Netherlands	France	UK	UK
Dbay Advisors *Refinancing*	Hg Capital *Refinancing*	Nordian – IGS *Refinancing*	DocteGestio *Real Estate Debt Advisory*	Inflexion *Acquisition Financing*	SSP *Refinancing*
Nov 2018 £20m	Nov 2018 £165m	Nov 2018 Undisclosed	Oct 2018 Undisclosed	Oct 2018 Undisclosed	Oct 2018 Undisclosed

Notes

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