Alternative Lenders: UK Deal Flow Bounces Back?
Deloitte Alternative Lender Deal Tracker Q4 2016

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This issue covers data for the fourth quarter of 2016 and includes 68 Alternative Lender deals, representing an increase of 2% in deal flow on a last 12 months basis in comparison with the previous year.
Introduction

Deloitte Alternative Lender Deal Tracker 4
Leveraged loan mid-market trends for Direct Lenders 6
Alternative Lenders support Win Systems’ growth initiatives 8
Alternative Lender Deal Tracker Q4 2016 10
Deloitte’s CFO survey 24
Insights into the European Alternative Lending Market 28
Deloitte Debt and Capital Advisory 43
The uncertainty caused by political events in the preceding quarters of 2016 has had little effect on the overall performance of the UK economy, with GDP growth coming in at 2% for the year, the highest of the G7 countries. Similarly, in the US, the new Administration's pro-business fiscal policy has accelerated growth expectations and increased the potential for further interest rate rises in 2017. The UK deal count in Q4 2016 increased by 48% compared to the previous quarter, marking a bounce-back in transaction activity following a wait-and-see period in Q3 after June's Referendum result.

Loan issuance was up as investors continued to pursue yield in a low interest rate environment, which underpinned new highs in valuation levels in Europe, reaching 9.6x EBITDA for the first time in 10 years according to S&P LCD. On the whole, Alternative Lenders increased their deal flow in 2016, with a total of 267 deals completed, up 2% on 2015. This was driven by an increased penetration throughout the rest of Europe, offsetting a 13% decline in the UK on a LTM basis, mainly caused by subdued volumes seen in H1 2016 and the aftermath of the Brexit Referendum during the summer.

Despite such evidence of positivity, European M&A volumes were down 23% in 2016 according to the Deloitte M&A Index. Results from our UK CFO survey also captured a continuing caution in corporate risk attitude, with only 21% of participants believing now is an appropriate time to be increasing the risk profile of their companies' balance sheets.
Whilst Direct Lending fundraising returned to growth in Q4, 2016 as a whole closed down almost 40% lower than in the previous year, at US$23bn. This trajectory was more pronounced in Europe, down 50% to US$10bn, primarily driven by smaller average target sizes of European funds in the market compared to 2015. This trend was also in part due to a weaker fund raising climate in 2016, reflecting market uncertainty and the effects of a bumper year in 2015. We understand that there are currently c.125 Direct Lending funds in the market, seeking aggregate commitments of c.US$50 billion, of which US$17bn is in Europe.

Finally, although the market has seen some consolidation, we expect institutional investors will continue to increase their asset allocation to Direct Lending strategies. They will do this through a continued expansion of product penetration in Europe but also via product diversification, in targeting senior debt risk strategies at lower returns to compete more directly with bank clubs and the syndicated market. This is also likely to accelerate the convergence between the high yield bond and loan markets.

Q4 2016 deals completed

Q4 headline figures (last 12 months)

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<tr>
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<th>Q4 2015 (LTM)</th>
<th>Q4 2016 (LTM)</th>
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<tbody>
<tr>
<td>Belgium deal count</td>
<td>4</td>
<td>4</td>
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<tr>
<td>UK</td>
<td>110</td>
<td>96</td>
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<tr>
<td>Rest of Europe</td>
<td>149</td>
<td>167</td>
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Leveraged loan mid-market trends for Direct Lenders

To date, the economic impact in the UK of the Brexit Referendum result has been muted. Despite many market commentators reducing their UK growth forecasts in the immediate aftermath of the June 2016 referendum result, actual economic performance has continued to drive ahead of predictions with UK GDP growth being 2% for the year to December 2016 and the highest of the G7 countries. Subsequently, the UK’s National Institute of Economic and Social Research (NIESR) has upgraded its annual UK growth forecast for 2017 from 1.4% in November 2016 to 1.7% in February 2017. More broadly, a fall in the value of Sterling and pro-business expectations of the new US Administration has led to equities hitting record highs in London and on Wall Street. However, UK corporate risk appetite remains subdued and below long term average levels. According to the quarterly Deloitte survey, only 21% of UK CFO’s believe that now is an appropriate time to be increasing the risk profile of their companies’ balance sheets. This neutral to ‘risk off’ UK corporate sentiment was reflected in the total volume of UK M&A activity for 2016 that was 46% down on the year, according to the Deloitte M&A Index.

Conversely, in the US, the new Administration’s initial period in office has fuelled expectations around the implementation of a broad pro-business fiscal policy. The market expectation is for further rises in US interest rates in 2017 as the Federal Reserve normalises benchmarks towards long term averages off the back of accelerating US economic growth.

Such policies contrast markedly to Europe, where the European Central Bank continues to seek to ‘pump prime’ economic recovery. It was confirmed in December 2016 that the stimulus programme will continue beyond March 2017, albeit at a reduced level and likely through to at least the year end.

In the leveraged loan markets, investors continued to pursue yield in a low interest rate environment. European CLO issuance closed the year at just over €16.8 billion compared to €13.6 billion in 2015 according to S&P LCD, exhibiting a positive growth in issuance volumes. Strong levels of liquidity continue to both underpin historically high valuation levels and to drive loan pricing lower. According to data from S&P LCD, the average European LBO purchase price as a multiple of EBITDA exceeded 9.6x for the first time in 2016 up from 8.7x in 2015. Additionally, on pricing, LCD reported a three year record low for the average yield to maturity for B rated credit, reducing to 4.50% in Q4 2016 from 5.77% in Q4 2015.
Leveraged loan mid-market trends for Direct Lenders

Higher valuation multiples and a 23% slowdown in European M&A volumes in 2016, according to the Deloitte M&A Index, have also continued to drive private equity sponsors to focus on opportunistic repricing and dividend recapitalisations.

With stronger refinancing demands, European direct lenders saw stable deal flow in 2016 with 267 transactions being completed, an increase of 2% compared to 2015. However, this was primarily driven by an increase in deal flow in continental Europe of 12% whilst UK activity reduced by 13% in 2016 as a result of subdued volumes in H1 2016 in anticipation of the Brexit Referendum.

Having said that, UK Direct Lending deal activity bounced back late in 2016 with a 48% increase in transactions closed in Q4 vs previous quarter. Deal flow has benefited from a resilient UK economy since the Referendum. However, the majority of these transactions relate to refinancing or dividend recapitalisations as opposed to LBO or Bolt-On M&A transactions. This would indicate that the bounce-back may only be temporary and driven by private equity sponsors taking advantage of the strong liquidity in the debt market.

The potential for alternative asset management consolidation in the European direct lending market was a development flagged in our Q3 report. British Columbia Investment Management Corporation’s investment in Hayfin Capital Management is a precursor to what we see as a likely larger amount of roll up and consolidation activity in the industry in 2017, driven by the natural advantages of scale in a gradually maturing market.

In addition, in 2017, we predict more second and third generation larger direct lending funds being raised with dedicated capital targeting slightly lower leverage levels with lower pricing margin strategies built around target levels of c.E+500 bps p.a.

In summary, we see the European direct lending market continuing to evolve and expand in 2017, driven by investors’ demand for yield in a highly competitive landscape.

Historically only seen in bank-driven transactions. Such developments are also likely to accelerate the convergence between the high yield bond and loan markets and importantly the penetration of direct lending product across Continental Europe.
Alternative lenders support Win Systems’ growth initiatives

With the acquisition of international gaming software and hardware provider Gold Club, Win Systems executes its long-term strategy to create a fully integrated, omni-channel platform of systems solutions for the global casino, gaming, and lottery industries.

The regulatory environment for casino and gaming operators is characterised by increasing regulatory requirements. In order to comply, casino operators increasingly rely heavily on Casino Management Systems (“CMS”) that track player behaviour, monitor winnings and payouts, and ensure tax and regulatory compliance. Leveraging their combined decades of experience in designing and operating mission critical systems, Dario Zutel, co-founder and executive chairman, and Eric Benchimol, co-founder and CEO, identified the need for a trusted and reliable solutions provider to the gaming industry and created Win Systems.

Since founding Win Systems, Dario and Eric have successfully grown the company by broadening the customer base, expanding the product suite, and entering new geographies. In order to continue on this growth trajectory, Win Systems began exploring acquisition opportunities for companies in adjacent product markets. Dario Zutel explains “Through this search, we identified Gold Club, an international provider of gaming content and hardware, as the ideal partner. The opportunity aligned with Win Systems’ strategic vision and provided the company with a more comprehensive offering that included software, hardware, and content components.”

Eric Benchimol added, “In addition to the numerous synergies and cross-selling opportunities, we wanted to integrate Gold Club’s machines into our existing cloud-based systems infrastructure to create a comprehensive solution for gaming content, player tracking, and general systems management for industry operators.”

Discussions with Gold Club quickly progressed and Win Systems engaged Deloitte to assist with acquiring Gold Club and to secure the financing. With a short timeframe to close, Deloitte was tasked with running a comprehensive process to identify a partner that would not only be
supportive of the acquisition, but also of the company’s long-term growth initiatives.

After discussions with a variety of alternative capital providers, Win Systems decided to select Metric Capital Partners as the preferred partner combining debt and equity products. Due to its flexible mandate and industry expertise, Metric was able to quickly progress through the financing process. Dario Zutel explains, “The speed of execution, certainty of delivery, and professionalism of the Metric team really impressed us. Metric presented a flexible financing solution that primed the company for future growth.” Eric Benchimol added, “We did not want to go down the traditional route of private equity as we wanted to keep control of our company. Alternative capital allowed us to retain control and at the same time double the size of our business by acquiring Gold Club.”

“The contemplated acquisition was complex: it involved multiple geographies, including Slovenia and Mexico; the two companies were similar in size; the transaction involved three different currencies; timelines were very tight and we encountered some market volatility due to the US election, however Dario and Eric did an amazing job getting

“With Metric Capital, we believe we have found the ideal partner to support Win Systems in realising its growth ambitions.”

the vision of the company and their risk management strategy across to all parties, enabling a timely close of the transaction. We were delighted to help Win Systems secure the Gold Club acquisition and find the strategic partner to continue its growth and success” said Nedim Music, senior vice president, Deloitte Corporate Finance LLC and lead banker on the transaction.

Win Systems finalised its financing with Metric Capital Partners in December 2016 and consummated the acquisition of Gold Club shortly thereafter. Dario and Eric are excited about their new partnership with Metric and believe that they have the necessary support to continue growing the company.

After reflecting on the process, Dario and Eric would strongly encourage other business owners to explore alternative lending options for their acquisition and growth capital needs. Dario added, “It is crucial to have an experienced advisor to help navigate the alternative lender landscape.”
Alternative Lenders continue to increase their deal flow...

Alternative Lender Deal Tracker
Currently covers 55 leading Alternative Lenders. Only primary mid-market UK and European deals are included in the survey.

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

UK deals completed: 368
Euro deals completed: 557
Total deals completed: 925

UK
France
Germany
Other European

Number of lenders per transaction (Last 12 months)
84% of the transactions in the last 12 months were bilateral deals between borrower and Direct Lender (excluding RCFs provided by banks)

9 of survey participants completed 10 or more deals in the last 12 months
49% of survey participants completed 5 or more deals in the last 12 months

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...across Europe and across industries...

**Total deals across Europe**
In the last 17 quarters 925 (368 UK and 557 other European) mid-market deals are recorded in Europe.

**Total deals across industries (Last 12 months)**
Within the UK the TMT industry has been the dominant user of Alternative Lending with 19% followed by Business, Infrastructure & Professional Services with 16%.

In the rest of Europe there are 5 main industries: TMT, Consumer Goods, Healthcare, Business, Infrastructure & Professional Services and Leisure.
...providing bespoke structures for mainly “event financing” situations

**Deal purpose (Last 12 months)**
The majority of the deals are M&A related, with 48% of UK transactions and 56% of Euro deals being used to fund a buy out. Of the 267 deals in the last 12 months, 65 deals did not involve a private equity sponsor.

**Structures (Last 12 months)**
“Unitranche” is the dominant structure, with 50% of UK transactions whilst senior structure is more dominant in Europe with 41%. Subordinate structures represent only 21% 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.*
They become more prominent in all European countries...

**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 Q4 2016 have completed 5 or more deals.

**Largest geographic markets for Alternative Lenders**

**Other European countries**

**Benelux**

**Nordics**

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...with a steady growth in number of completed deals

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

In all countries shown below, except Italy which completed a record number of deals in Q4 2014, the compound annual growth rate (CAGR) presented in the graphs over the two years has increased.
Alternative Lending in action: Spotlight on the French market

Olivier Magnin, Head of Debt & Capital Advisory France and Guillaume Leredde, Assistant Director in the Alternative Capital Solutions team share their views on developments and opportunities in the French market.

French Euro Private Placement

The French Euro private placement (PP) market has grown rapidly since its inception in September 2012. This was made possible following an amendment to the French insurance code allowing insurers, pension funds and asset managers to provide direct, unlisted loans to corporates. The development of this instrument has been further facilitated by the introduction of a standardised documentation template with the publication in March 2014 of the Euro PP Charter commissioned by the French Central Bank and the Paris Chamber of Commerce, followed by a similar LMA template early 2015. Please refer to our Euro Private Placement ‘101’ Guide on p.30. Cumulated issuance volumes have reached c.USD16bn to date including c.USD2.5bn in 2016, a slight decline on the prior year.

The typical size of investment vehicles on the French Euro PP market has been €150-250m historically with average individual tickets of €10-50m. 2016 statistics show that the bulk of issuers (>70%) were able to secure fixed coupons on average between 3% and 4%.

“...The French Euro private placement (PP) market has grown rapidly since its inception in September 2012.”


2016: c.€2.5bn

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<td>First Euro PP on the French market issued by Bonduelle (€145m)</td>
<td>Amendment to the French Insurance Code allowing insurers to invest up to 5% of policyholders’ savings in debt products, including through direct loans to corporates</td>
<td>Publication of the Euro PP Charter commissioned by the French Central Bank and the Paris Chamber of Commerce; provides a non-binding framework of best practices in relation to issuance process and documentation</td>
<td>Publication of the European Corporate Debt Private Placement Guide commissioned by the ICMA and building upon the French Euro PP Charter with a view to facilitate the creation of a pan European Euro PP market</td>
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Whilst mid-range corporates with strong credit metrics represented the primary targets for Euro PP, recent developments show that the market is opening up for a broader issuer base.

Damien Guichard, PM Private Debt at Allianz Global Investors, has seen this trend gaining momentum in the past 18 months: “Mid-sized corporates with an investment grade profile looking for an alternative source of financing to listed bonds have historically made up the core market at the beginning of Euro PP. Besides this segment, we have now for several quarters been actively looking at crossover investment opportunities offering a relatively higher yield to risk ratio. The market is increasingly accessible to below investment grade issuers (BB equivalent).”

Credit quality has not been the only variable in the equation. Florent Hamard, Investment Manager, Private Debt at La Banque Postale AM, comments: “We have seen a steady number of transactions in 2016 however the lower volumes factor in the emergence of smaller issuers generating a turnover of €250m or below.”

Increasingly smaller companies at an earlier stage of development looking to raise typically €10m in a first stage are now credible candidates. Florent adds: “Whilst originally we were essentially asked to fund organic capex, issuers are now also looking at external growth. Smaller issuer size and wider purpose of funds comes with tighter structures and stronger documentation, more aligned to that of banking facilities. This also means that we need to allocate more follow-up time across the life of the investment.”

Importantly, the market segmentation between banks and Direct Lenders has faded. Some pure players are broadening their investment criteria outside the sponsorless segment and are now able to look at relatively more leveraged companies or selected sponsor deals. Equally the ability and willingness of banks to offer competitive terms for sub investment grade leveraged companies heightens competition to the benefit of issuers.

More tailored options are also available to corporate issuers looking to tap the Euro PP market, notably two government-backed investment schemes targeting French SMEs.

First established by CDC, the investment arm of the French state in August 2013, and now sponsored by a group of institutional investors (€1.4bn raised to date), NOVO funds provide dedicated growth financing solutions through €10-50m tickets in 5-7 year fixed rate bullet loans.

“The Euro PP market is increasingly accessible to below investment grade issuers (BB equivalent).”

Damien Guichard, Allianz Global Investors

In addition to the original NOVO funds, NOVI funds were launched in July 2015 with a similar purpose, aiming to bolster liquidity of SMEs under majority or partial management ownership and with emphasis on innovation.

With €580m raised to date and the support of 23 investors, NOVI funds represent a slightly more flexible instrument, as amounts can be invested in either debt alone or a combination of debt and equity. In the current low yield environment, NOVO and NOVI funds mean for insurers and pensions funds a relatively safe opportunity to diversify into the SME space and secure coupons of 4% on average.

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French Direct Lending Sponsor Market

France is the second largest Direct Lending market in Europe after the UK with 57 sponsor backed transactions closed by direct lenders over the past twelve months. Whilst direct lenders arrived in the French LBO market at the same time as the UK in 2007, their recent evolution has been impacted by a strong resistance of local banks which remain active in this market and typically offer highly competitive pricing. Indeed, banks typically offer 7 year senior term loans, at margins between E+3.75% and E+4.50%, which is typically 0.50% to 0.75% cheaper than that generally seen in the UK mid-cap LBO market.

Despite this low-margin environment, Direct Lenders have successfully penetrated the French market, providing a range of tangible benefits over their banking counterparts, including speed of execution, enhanced discretion, larger hold sizes and structural flexibility. Igor Suica of Alcentra comments “funds cannot compete with banks on pricing but they make a difference on execution and can handle more complex situations”. Some examples of this success are illustrated by recent wins from Direct Lenders such as the acquisition of Jacques Boulard by AssurCopro which was financed by >€100m Unitranche from Tikehau and Alcentra, and the acquisition of InfoVista by Apax Partners, financed by a €150m Unitranche loan from Ares. Direct lenders active in the French market include, amongst others, Idinvest, Tikehau, Capzanine, Alcentra, Ares, Ardian, Hayfin and ICG.

Over the past two years, we have also observed an increase in competition between funds, especially where the debt requirement is below €80m. However, the French Direct Lending market is more concentrated than its European peers, where 62% of the sponsor transactions completed in 2016 were financed by the top 5 Direct Lenders, compared to 45% in the UK and 40% in continental Europe. This trend can be explained by the importance of embedded relationships within the PE community and the wider corporate lending market in France. Cécile Mayer-Lévi of Tikehau Investment Management comments “nearly all Direct Lenders want to cover France but we do not see it as a threat given our established private debt platform which gives us access to a very deep pocket of proprietary situations and is in line with our principle of being a partner to our borrowers”.

Sponsor transactions: Alternative lenders have strongly increased their market share

The chart shows the quarterly number of deals and LTM number of deals for the period Q4 2012 to Q4 2016.
The competition is however less fierce at the upper-end of the mid-market (>€100m), “today only a few players are able to do tickets over €100m”, adds Igor. The ability of taking larger hold sizes is particularly appealing to sponsors with buy and build strategies. Aurélien Loszycer of Ares Management says “being able to provide up to €400m on a sole basis provides ample room for follow-on capital and is a key advantage when competing against a syndicate of banks where the approval requirements can prove long and difficult under certain circumstances”.

Whilst sector concentration reflects that of the wider LBO market in Europe, with healthcare and TMT being the most active sectors, Alternative Lenders in France are typically sector agnostic.

Unitranche and senior structures remain the most common preference in the French market, in proportion similar to European peers. However, the use of senior financing is less prevalent with 25% of deal activity vs 35% in the UK and 33% in continental Europe.

Looking ahead into 2017, we expect pricing and terms to remain borrower-friendly despite the uncertainties surrounding the broader global macroeconomic and political environment. In short, the Direct Lending market in France continues to evolve and the most recent funds raised incorporate the level of flexibility needed to navigate the French market.

That said, the majority of Alternative Lenders adopt a pragmatic view on balancing risk and reward return and therefore prefer not to push leverage or pricing just to win market share. As such, we anticipate the choice between senior bank debt or unitranche will remain mainly driven by the nature of the transaction rather than competition on terms.
Direct Lending Fund raising

**Largest funds with final closings in 2016**
- Ares Capital Europe III €2,500m (Europe)
- Barings Global Private Loan Fund $2,000m (Global)
- SJC Direct Lending Fund III $1,738m (North America)
- Pemberton European Mid-Market Debt Fund €1,200m (Europe)
- White Oak Summit Fund $1,330m (North America)

**Largest funds with final closing in 2015**
- Ares European Loan Programme €3,300m (Europe)
- ICG Senior Debt Partners II €3,000m (Europe)
- Park Square Capital Credit Opportunities Fund II €2,000m (North America, Europe)
- Ardian Private Debt III €2,000m (North America, Europe, Asia)
- BlueBay Direct Lending Fund II €2,000m (Europe)

1 Preqin, 2017.
Key takeaways

- Fundraising for Direct Lending in 2016 is down from the heights of 2015 and is more in line with figures seen in 2013-14
  - Fundraising was weaker in Q1 and Q3, with Q2 and Q4 both performing more robustly
  - The year ended on a high (strongest Q4 since 2013), driven primarily by a strong US showing

- Europe saw a sharper decline in fundraising volumes than the US
  - Primarily driven by there being smaller European funds in the market in 2016 (funds closed had an average target size of $714m in 2016 vs. $1,087m in 2015)

- Note though that strong investor interest in separately managed accounts means that not all capital committed to the Direct Lending space is easily captured

- c. 125 Direct Lending funds seeking aggregate commitments of c. $50 billion remain in the market as of February 2017
  - North American funds represent the majority of that market (c. 65 funds targeting c. $30 billion) with c. 40 European funds making up c. $17 billion. Average sizes of European and US funds in the market are now similar, breaking the previous trend of European-focused funds being larger on average

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1 Preqin, 2017.
2 Credit Suisse Private Fund Group market knowledge.
Disclaimer: See page 51
Direct Lending Professionals – Key statistics and recent moves

Market Headcount & People Moves Analysis
At the end of Q4 2015, there were a total of 366 Investment Professionals in the European Direct Lending market. As of the end of Q4 2016, there were 398, meaning that the total market headcount increased by 32 (which equates to c. 9%) over the course of this one year period.

This increase constituted a net increase of 27 junior-level, 2 mid-level and 3 senior moves, illustrated below:

When breaking this data set down by seniority, we have opted to define the three categories as follows; junior (IPs with less than 6 years’ experience), mid-level (IPs with 6-10 years’ experience) and senior (IPs with more than 10 years’ experience), which will give clarity as to which demographic has been most dynamic in the churn of human capital.

Hiring Trends – Sourcing Talent
Focusing purely on the hires, we see that 63% of the hires were junior, 28% senior and only 9% mid-level hires.

The main source of incoming junior-level talent, which we have come to see as the norm due to the low relative cost and strong technical grounding, is from the Investment Banks (c. 50%) with only 18% of junior hires coming from competing funds.

There has also been a significant amount of movement at the senior level, with almost half of senior hires being sourced from Investment Banking divisions. As the market continues to grow however, we are increasingly seeing direct lending funds sourcing talent from their buy-side competitors (33% of all senior hires) and we expect this trend to continue, as the sell-side becomes increasingly depopulated in the pursuit of top senior talent.

Origin of hires by seniority

*Please note: For the purposes of this analysis we have included the total investment team headcounts at c. 45 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.
## Recent Notable Direct Lending Hires

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<tr>
<th>Company</th>
<th>Name</th>
<th>Position/Role</th>
<th>Details</th>
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<tbody>
<tr>
<td>Apera Capital</td>
<td>David Wilmot</td>
<td>Partner, joined Klaus Petersen’s new fund</td>
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<tr>
<td>Conduction Capital</td>
<td>Felix Eisel</td>
<td>Founder, joined from Rantum Capital</td>
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<tr>
<td>Five Arrows Credit Solutions</td>
<td>Edouard de la Rochefoucauld</td>
<td>Senior Associate, joined from Ares</td>
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<tr>
<td>HIG Whitehorse</td>
<td>Ken Borton</td>
<td>Managing Director, joined from Citi</td>
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<tr>
<td>KKR</td>
<td>Mathieu Boulanger</td>
<td>Global Head of Direct Lending, joined from HPS</td>
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<tr>
<td>Permira Debt Managers</td>
<td>Karl Bagherzadeh</td>
<td>Junior Investment Professional, joined from Tikehau</td>
<td>Claire Harwood, Director, joined from HIG Whitehorse</td>
</tr>
<tr>
<td>PSP Investments</td>
<td>Cathy Hu</td>
<td>Associate, joined from RBC</td>
<td>Anita Das, Associate, joined from Goldman Sachs PIA</td>
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### Paragon Search Partners

Bruce and Andrew are co-Managing Partners of Paragon Search Partners, a London based search firm focused on the global credit markets, leveraged and acquisition finance, investment banking and private equity. To contact Bruce Lock at Paragon by email, use lockb@paragonsearchpartners.com. To contact Andrew Perry at Paragon by email, use aperry@paragonsearchpartners.com. Or to contact by phone the office telephone number is +44 (0) 20 7717 5000.
Deloitte’s CFO Survey
Results from Deloitte’s CFO Survey Q4 2016

The survey covers Chief Financial Officers and Group Finance Directors of major companies in the UK and took place between 29th November and 12th December 2016. 119 CFOs participated, including the CFOs of 25 FTSE 100 and 43 FTSE 250 companies. The rest were CFOs of other UK-listed companies, large private companies and UK subsidiaries of major companies listed overseas. The combined market value of the 81 UK-listed companies surveyed is £396 billion, or approximately 17% of the UK quoted equity market.

Despite edging up in the fourth quarter corporate risk appetite remains depressed.

Just 21% of CFOs think that now is a good time to take greater risk onto their balance sheets, a reading well below the long-term average.

CFOs see the effects of Brexit as the top risk facing their businesses and their concerns have risen since the last survey, in the third quarter.

Weak demand in the UK ranks as the second-highest risk. Interest rates on government bonds rose sharply in the fourth quarter driven in part by US Administration’s pledges to raise government spending. CFOs have taken notice and their concerns about the prospect of tighter monetary policy in the US and the UK have mounted.

By contrast, concerns over weak growth in emerging markets have continued to ease.

Corporate risk appetite

% of CFOs who think this is a good time to take greater risk onto their balance sheets

Source: Deloitte publication “The Deloitte CFO Survey Q4 2016: Greater optimism yet to ignite risk appetite”
The outlook for capital expenditure, hiring and discretionary spending improved again in the fourth quarter. But, on balance, CFOs still expect UK corporates to decrease spending in each area over the next year.

CFOs expect Brexit to reduce their own spending, though they are rather less negative than in the second and third quarters.

Debt finance – bank borrowing and bond issuance – remain the most attractive source of funding for CFOs.

Equity issuance continues to be less appealing, with its attractiveness edging lower in the fourth quarter.

**Effect of Brexit on own spending and hiring decisions**

% of CFOs who expect M&A activity, capital expenditure, hiring and discretionary spending by their business to decrease over the next three years as a consequence of Brexit

**Favoured source of corporate funding**

Net % of CFOs reporting the following sources of funding as attractive

Source: Deloitte publication “The Deloitte CFO Survey Q4 2016: Greater optimism yet to ignite risk appetite”
Financing conditions remain benign for the large corporates on our survey panel.

On balance, CFOs view credit as being cheap and easily available, despite a modest fall in availability in the fourth quarter.

CFOs have brought forward their rate rise expectations. A majority – 61% – now expect the Bank of England’s base rate to be above its current level of 0.25% in a year’s time.

**Cost and availability of credit**

Net % of CFOs reporting credit is costly and credit is easily available.

**Interest rate expectations**

% of CFO who expect the Bank of England’s base rate to be at the following levels in a year’s time.

Source: Deloitte publication “The Deloitte CFO Survey Q4 2016: Greater optimism yet to ignite risk appetite”
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 extension 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
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+600bps 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 strategy funds with lower hurdle rates.

Other Direct Lending funds focus on higher yielding private debt strategies, including: ‘Story credit’ 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 European economies and high 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.
What are the private debt strategies?

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?

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

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

Direct Lending fund raising focused on the European market

<table>
<thead>
<tr>
<th>Fundraise</th>
<th>Jan 13</th>
<th>Jun 13</th>
<th>Dec 13</th>
<th>Jan 14</th>
<th>Jun 14</th>
<th>Dec 14</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Alcentra</td>
<td>Avenue</td>
<td>ICG</td>
<td>HPS Investment Partner¹</td>
<td>Proventus</td>
<td>CVC Credit Partners</td>
</tr>
<tr>
<td>4</td>
<td>Ares</td>
<td>BlueBay²</td>
<td>Idinvest¹⁰</td>
<td>MV Credit</td>
<td>Idinvest¹⁰</td>
<td>European Capital</td>
</tr>
<tr>
<td>3</td>
<td>Bain Capital³</td>
<td>Idinvest¹⁰</td>
<td>Tikehau Indigo</td>
<td>Hayfin</td>
<td>EMZ⁶</td>
<td>THCP⁶</td>
</tr>
<tr>
<td>2</td>
<td>Alcentra</td>
<td>Idinvest</td>
<td>BlueBay</td>
<td>Ares</td>
<td>Hayfin</td>
<td>Proventus</td>
</tr>
<tr>
<td>1</td>
<td>Alcentra</td>
<td>Avenue</td>
<td>ICG</td>
<td>Bain Capital³</td>
<td>Tikehau</td>
<td>Harbert</td>
</tr>
</tbody>
</table>

¹ Excluding €700m of managed accounts/overflow vehicles
² Excluding €2.5bn of leverage, total fund capacity of €5bn
³ Global investment focus with significant allocation to the European market.
⁴ Excluding credit facilities and European Direct Lending separately managed accounts
⁵ $5.6bn in current total commingled fund commitments net of repayments and without including managed accounts; including which they have global funds with equity commitments of $12.9bn
⁶ Fund focussed on junior debt structures
⁷ Excluding €145m of managed accounts/overflow vehicles
⁸ Excluding €100m of managed accounts/overflow vehicles
⁹ Global investment focus with significant allocation to the European market
¹⁰ Subsequent fundraise of the funds with the same investment focus

- Alcentra
- Ardian
- Bain Capital
- Capzanine
- CVC Credit Partners
- Crescent
- EMZ
- GSO
- Harbert
- ICG
- Idinvest
- Idinvest
- Indigo
- KKR
- Pemberton
- Permira
- Pricoa
- Proventus
- European Capital
- THCP
1 Excluding €700m of managed accounts/overflow vehicles
2 Excluding €2.5bn of leverage, total fund capacity of €5bn
3 Global investment focus with significant allocation to the European market. The amount includes leverage and managed accounts
4 Excluding credit facilities and European Direct Lending separately managed accounts
5 $5.6bn in current total commingled fund commitments net of repayments and without including managed accounts, including which they have global funds with equity commitments of $12.9bn
6 Fund focussed on junior debt structures
7 Excluding €1.45bn of managed accounts/overflow vehicles
8 Excluding €1bn of managed accounts/overflow vehicles
9 Global investment focus with significant allocation to the European market
10 Subsequent fundraise of the funds with the same investment focus
### When to use Alternative Debt?

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

**Structures**

<table>
<thead>
<tr>
<th>EV/EBITDA</th>
<th>Unlevered</th>
<th>Leverage</th>
<th>Unitranche</th>
<th>Bifurcated Unitranche</th>
<th>Unitranche &amp; Holdco PIK</th>
</tr>
</thead>
<tbody>
<tr>
<td>10x</td>
<td>4x Senior debt L + 50 - 350bps</td>
<td>5x Unitranche L + 650 - 750bps</td>
<td>4x Second lien L + 700 - 900bps</td>
<td>5x Unitranche L + 650 - 750bps</td>
<td>2x Holdco PIK 1000 - 1200bps</td>
</tr>
<tr>
<td>9x</td>
<td>4x Senior debt L + 50 - 350bps</td>
<td>5x Unitranche L + 650 - 750bps</td>
<td>4x Second lien L + 700 - 900bps</td>
<td>5x Unitranche L + 650 - 750bps</td>
<td>2x Holdco PIK 1000 - 1200bps</td>
</tr>
<tr>
<td>8x</td>
<td>4x Senior debt L + 50 - 350bps</td>
<td>5x Unitranche L + 650 - 750bps</td>
<td>4x Second lien L + 700 - 900bps</td>
<td>5x Unitranche L + 650 - 750bps</td>
<td>2x Holdco PIK 1000 - 1200bps</td>
</tr>
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</tr>
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<tr>
<td>2x</td>
<td>4x Senior debt L + 50 - 350bps</td>
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<td>4x Senior debt L + 50 - 350bps</td>
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<td>4x Second lien L + 700 - 900bps</td>
<td>5x Unitranche L + 650 - 750bps</td>
<td>2x Holdco PIK 1000 - 1200bps</td>
</tr>
</tbody>
</table>

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

- L + 50 - 350bps
- L + 450bps
- L + 700bps
- L + 700bps
- L + 815bps

**Pros and Cons per structure**

- **Unlevered**
  - Lowest pricing
  - Relationship bank
  - Bullet RCF
  - Lower leverage
  - Shorter tenor (3-5 years)
  - More restrictive terms
  - Partly amortising

- **Leverage**
  - Increased leverage
  - Club of relationship banks
  - Stretched leverage
  - Flexible covenants
  - One-stop shop solution
  - Speed of execution
  - Relationship lending

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

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

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

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Which landmark unitranche deals have been completed?

### Selected Landmark Unitranche Deals (>€90m)

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Country</th>
<th>Unitranche in €m</th>
<th>Lenders</th>
<th>Sponsor</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dentix</td>
<td>Spain</td>
<td></td>
<td>KKR</td>
<td></td>
<td>Dec - 16</td>
</tr>
<tr>
<td>Paymentsense</td>
<td>UK</td>
<td></td>
<td>CVC, EQT</td>
<td></td>
<td>Nov - 16</td>
</tr>
<tr>
<td>Roompot</td>
<td>Netherlands</td>
<td></td>
<td>KKR</td>
<td></td>
<td>Nov - 16</td>
</tr>
<tr>
<td>HCS Group</td>
<td>Germany</td>
<td></td>
<td>GSO</td>
<td></td>
<td>Nov - 16</td>
</tr>
<tr>
<td>Lifetime Training</td>
<td>UK</td>
<td></td>
<td>Alcentra</td>
<td></td>
<td>Oct - 16</td>
</tr>
<tr>
<td>Lumenis</td>
<td>Netherlands</td>
<td></td>
<td>Alcentra</td>
<td></td>
<td>Oct - 16</td>
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<tr>
<td>Mallinckrodt</td>
<td>UK</td>
<td></td>
<td>GSO Capital</td>
<td></td>
<td>Aug - 16</td>
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<tr>
<td>Mater Private Hospital</td>
<td>Ireland</td>
<td></td>
<td>Macquarie, Goldman Sachs, KKR</td>
<td></td>
<td>Aug - 16</td>
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<tr>
<td>Laureate Education</td>
<td>Switzerland</td>
<td></td>
<td>ICG, Credit Suisse</td>
<td></td>
<td>Jun - 16</td>
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<tr>
<td>Marlink</td>
<td>Norway</td>
<td></td>
<td>Ares, Tikehau</td>
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<td>Jun - 16</td>
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<td>Groupe Bertrand</td>
<td>France</td>
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<td>BlueBay Asset Management</td>
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<td>Jun - 16</td>
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<td>Dobbies Garden Centres</td>
<td>UK</td>
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<td>Ares</td>
<td></td>
<td>Jun - 16</td>
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<tr>
<td>InfoVista</td>
<td>France</td>
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<td></td>
<td>May - 16</td>
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<td>Marle</td>
<td>France</td>
<td></td>
<td>Capzanine, Barings</td>
<td></td>
<td>May - 16</td>
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<tr>
<td>Polynyt and Reichhold</td>
<td>Italy</td>
<td></td>
<td>GSO</td>
<td></td>
<td>May - 16</td>
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<td>OpenBet</td>
<td>UK</td>
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<td>Ares</td>
<td></td>
<td>Apr - 16</td>
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<td>Petainer</td>
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<td></td>
<td>KKR</td>
<td></td>
<td>Apr - 16</td>
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<tr>
<td>Citation</td>
<td>UK</td>
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<td>Alcentra</td>
<td></td>
<td>Apr - 16</td>
</tr>
<tr>
<td>Delsey</td>
<td>France</td>
<td></td>
<td>Avenue, Pemberton, Permira</td>
<td></td>
<td>Nov - 15</td>
</tr>
<tr>
<td>Verastar</td>
<td>UK</td>
<td></td>
<td>Ares</td>
<td></td>
<td>Nov - 15</td>
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<td>Ireland</td>
<td></td>
<td>Ares</td>
<td></td>
<td>Nov - 15</td>
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<td>Oberscharrer</td>
<td>Germany</td>
<td></td>
<td>BlueBay</td>
<td></td>
<td>Nov - 15</td>
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<tr>
<td>ESE</td>
<td>Netherlands</td>
<td></td>
<td>Avenue, BlueBay</td>
<td></td>
<td>Nov - 15</td>
</tr>
<tr>
<td>Bibliotheca</td>
<td>Switzerland</td>
<td></td>
<td>BlueBay</td>
<td></td>
<td>Oct - 15</td>
</tr>
<tr>
<td>Gala Bingo</td>
<td>UK</td>
<td></td>
<td>ICG</td>
<td></td>
<td>Oct - 15</td>
</tr>
<tr>
<td>Chiltern / Theorem</td>
<td>UK/USA</td>
<td></td>
<td>Hayfin, ICG, HPS Investment Partners, Bain Capital</td>
<td></td>
<td>Sep - 15</td>
</tr>
<tr>
<td>Currencies Direct</td>
<td>UK</td>
<td></td>
<td>Acentra, CVC, HPS Investment Partners</td>
<td></td>
<td>Sep - 15</td>
</tr>
<tr>
<td>TracsCare Group</td>
<td>UK</td>
<td></td>
<td>BlueBay</td>
<td></td>
<td>Jul - 15</td>
</tr>
<tr>
<td>Ezentis</td>
<td>Spain</td>
<td></td>
<td>HPS Investment Partners</td>
<td></td>
<td>Jun - 15</td>
</tr>
<tr>
<td>MH Group</td>
<td>Denmark</td>
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<td>Alcentra</td>
<td></td>
<td>Jun - 15</td>
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<tr>
<td>Shintech Industries</td>
<td>UK</td>
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<td>Ares</td>
<td></td>
<td>May - 15</td>
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<tr>
<td>Ainscough Crane Hire</td>
<td>UK</td>
<td></td>
<td>GSO</td>
<td></td>
<td>Mar - 15</td>
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<tr>
<td>Big Bus Tours</td>
<td>UK</td>
<td></td>
<td>Ares</td>
<td></td>
<td>Feb - 15</td>
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<tr>
<td>CRH</td>
<td>Ireland</td>
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<td>GSO</td>
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<td>Dec - 14</td>
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<tr>
<td>IMV Technologies</td>
<td>France</td>
<td></td>
<td>Ardian</td>
<td></td>
<td>Dec - 14</td>
</tr>
<tr>
<td>Groupe Salins</td>
<td>France</td>
<td></td>
<td>Tikehau, Macquarie, Hayfin</td>
<td></td>
<td>Dec - 14</td>
</tr>
</tbody>
</table>

Source: LCD, an offering of S&P Global Market Intelligence, Deloitte research and other publicly available sources
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, revenue 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 4.5-5.5x 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**

<table>
<thead>
<tr>
<th>UK</th>
<th>Rest of Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sponsor</td>
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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

<table>
<thead>
<tr>
<th>Assumptions</th>
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<tbody>
<tr>
<td>- Both business generate £10m EBITDA with £2m potential Synergies</td>
</tr>
<tr>
<td>- No debt currently in the business</td>
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<tr>
<td>- Cost of debt is 8% with 5% penny warrants on top</td>
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<tr>
<td>- 10% EBITDA growth pa; 75% Cash conversion; 20% Corporate tax rate</td>
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<td>- No transaction costs</td>
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* EV is c.£147m and with c.£30m cash on balance sheet brings the equity value to c.£177m
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 180 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
How complex is your credit?

Sector

- Growth
- Cyclical
- Seasonal
- Scarcity of product
- Changing regulatory environment

Market position & Clients

- Low
- Many
- High
- Few
- Few
- Many

Management, Shareholders & Jurisdiction

- Low
- Weak
- Low
- Difficult

Financial Performance

- Volatile
- High
- Low
- High

Complexity:

- High quality credit
- Low complexity
- Complex
- Complex

Management Quality:

- High
- Strong
- High
- Easy

Corporate Governance:

- High
- Strong
- High
- Easy

Shareholder Commitment:

- High
- Strong
- High
- Easy

Jurisdiction:

- High
- Strong
- High
- Easy

Stable performance
Cash generation
Leverage
Asset coverage
## Deloitte Debt and Capital Advisory credentials

Our UK team has completed over 60 transactions in the last 24 months

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One of the most successful Debt and Capital Advisory teams

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Austria

Belgium

Brazil

Canada

Chile

China

Americas

Czech Republic

Denmark

France

Germany

India

Ireland

Israel

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Italy

Japan

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## Deloitte Debt and Capital Advisory credentials

### Selected Global transactions

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<td><strong>Every Angle</strong> Elii Financing</td>
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<td><strong>Bain Capital Credit</strong> Debt Advisory</td>
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Notes
Important Notice in relation to page 20-21

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