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Direct lenders thrive on market dislocation

Deloitte Alternative Lender Deal Tracker Autumn 2020

This issue covers data for the first half of 2020 and includes 140 Alternative Lender deals, which represents a 29% decrease in the number of deals from H1 2019.

Deloitte Alternative Lender Deal Tracker editorial team

Robert Connold
Director
+44 (0) 20 7007 0479
rconnold@deloitte.co.uk

Andrew Cruickshank
Director
+44 (0) 20 7007 0522
acruickshank@deloitte.co.uk

Tim Mercorio
Manager
+44 (0) 20 7007 6841
timercorio@deloitte.co.uk

Varun Bambarkar
Assistant Manager
+91 22 6185 6311
varbambarkar@deloitte.co.uk

Megan de Jager
Assistant Manager
+44 (0) 20 7007 5914
megandejager@deloitte.co.uk

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Deloitte Alternative Lender Deal Tracker Introduction

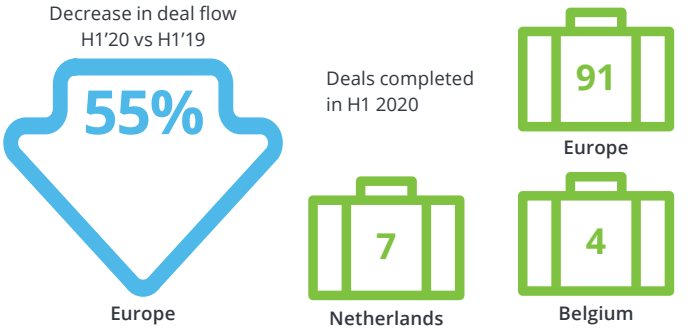
In March of this year, the stability of the global financial system was put to the test. With the arrival of COVID-19, measures of stress in financial markets exceeded 2008 levels. US Treasuries (usually a safe haven asset) experienced sharp falls, and the equity market collapsed on a global basis. Fortunately, financial markets recovered from some early losses and currently remain relatively liquid in the face of a deep recession. Central banks responded at pace and in scale, slashing interest rates and taking a bazooka-style approach to quantitative easing, and there is ongoing speculation of continued market intervention.

In the US, the Federal Reserve delivered a series of measures, going beyond those it took during the financial crisis, including ramping up liquidity injections into the treasury market. In Europe, a historic €750bn stimulus package was agreed in July, financed for the first time by collective EU borrowing. Germany and France announced significant new spending measures and tax cuts. The result was that volatility dissipated and confidence returned, stoking a recovery in global markets. Policymakers effectively tore up the rulebook to counter the crisis, delivering support in new areas, and the fact that financial markets have continued to function testifies to the effectiveness of the government response.

Financial markets aside, the response to the pandemic has been largely national in character, and lockdown restrictions have varied extensively across the globe in terms of both timing and severity. Countries in Western-Europe reacted different to lockdown restrictions needed to slow down the Covid-19 virus imposed on us all. The Belgian government was quite strong in sending a signal to the economy by providing SME's with a flat-rate compensation of €4,000 per month and deferral of loan payments until the end of August. Despite clear efforts to give some breathing space to the economy, real GDP shrunk by 11.8% in Q2 compared to Q1 and growth was 13.9% lower compared to Q2 in the year prior.

In Belgium the job loss was only 37,300 in Q2 compared to Q1, however the volume of work by employees fell by 11.7%. This is the result of the local furlough scheme of technical unemployment. Among the hardest-hit were the temporary workers whose contracts were not extended and the hotel & catering industry. Nevertheless a slow recovery of the Belgian economy is anticipated.

The National Bank of Belgium notes that the recovery has stalled since August and the second lockdown period we are currently facing might make the recovery look like a 'W' shape, thus resulting in a second hit to the Belgian GDP. Rising unemployment is likely the biggest threat to



recovery, at the point the government ends its furlough scheme. The virus has also driven an enormous credit binge, largely underwritten by governments, but eventually this money will need to be repaid and the effects of high indebtedness could weigh on the economy for years to come. It is for that reason that the Chief Economist of the World Bank suggests the global economic recovery from the recession created by COVID-19 will likely take at least five years. This was echoed by US investment firm Blackstone's executive vice-chair Tony James, who said that companies and investors could suffer a "lost decade" for equity returns as global governments grapple with the economic fallout from the first wave of the pandemic, referring to higher taxes, an increase in operating costs, less efficient supply chains and "de-globalisation" that will hurt productivity. Global trade has dropped 20% in the past year. Supply chains have faced bottlenecks as countries imposed travel and lockdown restrictions. Governments are borrowing on a grand scale to subsidise and protect domestic capacity in a way which, in normal times, would be seen as anti-competitive. Due to ongoing fragility, a distancing of the world's two great economies, the US and China further exacerbates this.

As a result, a large number of sectors of the economy will struggle to return to previous levels of profitability in the coming years, and for those with already over-leveraged balance sheets – restructuring of the debt is inevitable. Whilst sticky tape has been applied to help a number of businesses muddle through via access to emergency liquidity from the government, as well as temporary covenant waivers from their lenders, this will ultimately come to a head for a large number of borrowers looking for structural solutions to over indebtedness, including forced sales by creditors, debt for equity swaps, or in extreme cases where there is no residual value, a liquidation.

Turning to the loan markets, in the week to the 18 September, the average bid on the S&P European Leveraged Loan Index (ELLI) broke through 95 for the first time since early March, finishing the week at 95.2. In essence, opportunities to trade in high quality names due to technical dislocation have now dissipated since the lows of 78 in March. Opportunities to deploy in the primary market also remain limited. According to Leveraged Commentary & Data (LCD), when the market re-opened in early September there was no deluge of deals waiting behind the raising curtain. Whilst it is expected that more deals will come, LCD reports that the pipeline is far from full. This is shown quite starkly in the numbers. In September 2019 there was roughly $18.8bn of leverage loans issued in Europe, vs. $4bn to the 18th September 2020. A good gauge of appetite is also highlighted in loan fundamentals, and notably, having hit a floor of 350bps in March 2020, the spread on TLB loans has risen to 450bps in September 2020. YTM for primary deals is also 489bps vs. 369bps and leverage is down to 4.1x on average vs. 4.8x across the same period.

This lack of issuance will be music to the ears of the Private Debt market, as it increasingly becomes viewed as a replacement for an unpredictable syndicated market. Adding to the growing list of managers targeting large cap deals is Apollo, who recently announced their new direct lending platform in conjunction with Mubadala, one that is targeting to deploy roughly $12bn of capital in transactions up to $1bn. This news comes shortly after Mubadala also struck a similar but smaller partnership in September with Barings, and we understand that Credit Suisse, in a similar vein, has teamed up with the Qatar Investment Authority to launch its own direct lending platform. It is not hard to see a world where a number of these sovereign wealth funds eventually begin to set up and deploy into the asset class on their own, as already seen in the case of GIC and Temasek, who are deploying capital in the form of Junior Debt. This trend has also further accelerated growth of direct lending in the mid-market, as banks immediately focused their efforts on supporting existing clients while direct lenders, after a short pause for breath, resumed activity, lending to primary deals and taking further market share. Even well-known First Out Last Out (FOLO) structures, where banks provide the first lien and direct lenders the second lien have become less popular as banks appetite has waned, and certainty of delivery is key in the current climate.

Governments are borrowing on a grand scale to subsidise and protect domestic capacity in a way which, in normal times, would be seen as anti-competitive.

Nevertheless, lockdown has also hurt the asset class. Debt Publisher reports that private debt funds are set to deliver the worst performance since the global financial crisis. According to the report, a number of listed asset managers marked down their credit portfolios aggressively in the first quarter of the year, ranging from 8.1% to 21%. This immediately impacted the market capitalisation of these firms and whilst some have recovered earlier losses, others are still trading below pre lockdown highs. The pandemic has also severely impacted fundraising this year, where global direct lending is on pace for its slowest year since 2015 in terms of capital raised, with fundraising totalling just $18.2bn across 17 vehicles globally. As a comparison, in the first half of last year, 29 funds amassed $52.6bn. Those funds that were able to raise multi-billion plus funds immediately prior to the lockdown will now count themselves lucky in their timing, as this vintage might well become one of the best performing since the last crisis.

Those funds that were able to raise multi-billion plus funds immediately prior to the lockdown will now count themselves lucky in their timing, as this vintage might as well become one of the best performing since the last crisis.

What we have seen in the direct lending market is a real dichotomy for resilient versus COVID-19 impacted assets, which often results in a binary outcome of only backing the least impacted companies. Ironically, given the lack of supply and pressure for funds to deploy; those resilient companies in the Healthcare, Financial Services and Software sectors continue to attract strong demand, and it appears headline commercial terms are not far off from Pre-COVID times, with businesses in these sectors still able to command 5.5x – 6.0x leverage at pricing of 600-650 bps. The main difference has been the focus on Cash EBITDA and limiting the amount of EBITDA adjustments for structuring and financial covenant purposes.

The last crisis accelerated a number of trends and addressed some market imbalances. At the time, Private Debt was in its infancy, before going on to become a trillion-dollar alternative asset class. The reality is, the asset class is likely to retain favour amongst investors as it offers attractive risk adjusted premiums in what will likely continue to be a low-yielding environment for the next decade. Cycle downturns also favour senior secured lenders, so those managers who are successfully able to 'weather the storm' will become the main beneficiaries, further consolidating their position. It is also highly likely that these managers will continue to diversify their product offerings. Obvious areas to diversify and create new funds are in the credit opportunity and distressed fund strategies where we have seen growth over the last nine months. But asset-based finance also does well in uncertain economic times. Boston-based fund manager First Eagle Alternative Credit is the latest to add asset-based lending to its product portfolio. The sheer scale of the market and the structural protections provides a good risk adjusted return for end investors.

What we do also know is that there is a considerable amount of dry powder 'in market', not only for direct lending strategies but also by managers of distressed strategies. Our initial hypothesis was that these funds would act as the 'knight in shining armour' in the immediate period following lockdown across a range of emergency liquidity situations – however, government intervention with cheap lending has stifled that market of its opportunity to deploy in any meaningful way. For reasons mentioned earlier around structural overleveraged sectors we would expect distressed M&A and full-blown restructuring activity to increase over the next 24 months, as borrowers seek long-term solutions to their capital structure.

Whilst it is also too early to call a consensus on how restructurings with direct lenders will differ from the last recession, there is some evidence to suggest that direct lenders have more appetite to call a sponsors bluff and take the keys of an asset, relative to that of their banking counterparts. Following a material reduction in EBITDA, many companies in exposed sectors will find themselves in positions where the value breaks deeply in the debt. Stuck in this scenario, there is no incentive for shareholders to put more money in without a significant debt write down. Previously, banks were hesitant to take control of underperforming businesses given the accounting balance sheet consolidation issue and associated reputational risk when implementing uncompromising operational restructurings.

There is some evidence to suggest that direct lenders have more appetite to call a sponsors bluff and take the keys of an asset, relative to that of their banking counterparts.

In the old days this often resulted in shareholders putting more money into businesses in exchange for debt write downs and giving a share of the upside to the lenders. Many direct lenders however will find it difficult to write off their debt and have to decide if they want to take control of the company, becoming the funder of last resort and potentially throwing good money after bad. However, the silver lining for taking this risk is the potential for outsized returns beyond that of their typical debt yield, if and when the recovery takes place. It might therefore take some time before we find out who the real winners will be amongst the direct lending funds.

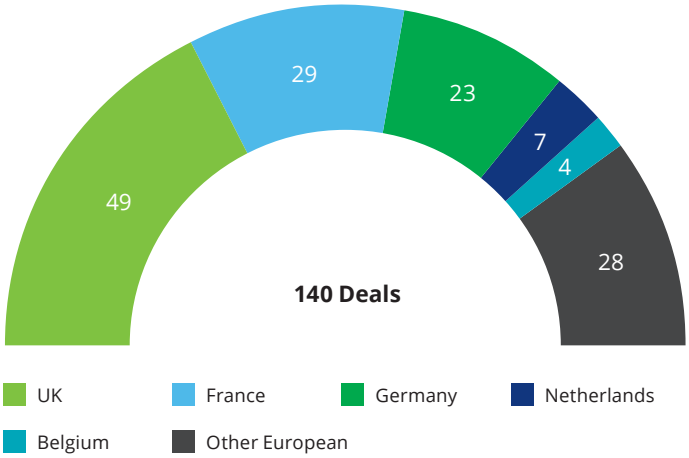
Robert Connold
Director – Alternative Lender Deal Tracker
Tel: +44 (0) 20 7007 0479
Email: rconnold@deloitte.co.uk

Sebastiaan Preckler
Director – Head of Debt & Capital Advisory Belgium
Tel: + 32 2 800 28 35
Email: spreckler@deloitte.com

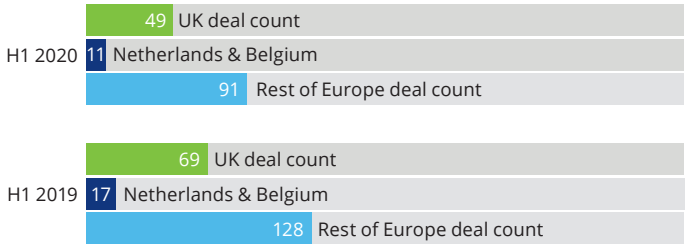
Andrew Cruickshank
Director – Alternative Lender Deal Tracker
Tel: +44 (0) 20 7007 0522
Email: acruickshank@deloitte.co.uk

Alexander Olgers
Partner – Head of Debt & Capital Advisory EMEA | The Netherlands & Belgium
Tel: +31 88 288 6315
Email: aolgers@deloitte.nl

H1 2020 deals completed



H1 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.

Deloitte Debt and Capital Advisory – The Netherlands & Belgium

Alexander Olgers
Partner Head of DCA EMEA & NeBe

Karel Knoll
Partner

Sebastiaan Preckler
Director Head of DCA Belgium

Martijn Nijland
Director

Thomas Schouten
Director

Jeroen Verstappen
Senior Manager

Charles Cornelis
Senior Manager

Anique Huizinga
Senior Manager

Maarten van der Valk
Senior Manager

Ward Wolters
Manager

Laurens van der Sijp
Manager

Tim van Hoff
Manager

Ben Leonard
Manager

Willem Hasenaar
Senior Consultant

Mark van Ginkel
Senior Consultant

Rebecca Rosegg
Senior Consultant

BramS'heeren
Senior Consultant

Stefaniede Waard
Senior Consultant

Lucas van de Ven
Senior Consultant

Michael Steenkist
Senior Consultant

Ardor Collaku
Consultant

Stefan Verberne
Consultant

Alyssa Jourdan
Consultant

Niels Verlinden
Consultant

Jeroen Kessels
Business Analyst

Joris Motte
Business Analyst

Lotte van Hoek
Business Analyst

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Benelux credentials

Debt & Capital Advisory

Acting as debt advisor to

Gilde Buy Out Partners

In providing acquisition financing to acquire

CORILUS Connecting Care

2020 Deloitte.

Debt & Capital Advisory

Acting as debt advisor to

INTERNATIONAL CAR LEASE HOLDING always in motion

in the set-up of a new STS compliant Belgian auto lease securitisation program

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Debt & Capital Advisory

Acting as debt advisor to

Capital-A INVESTMENT PARTNERS

In providing acquisition financing to acquire

openline

2020 Deloitte.

Debt & Capital Advisory

Acting as debt advisor to

Etos Vos Goll&Goll

In arranging real estate financing

2020 Deloitte.

Debt & Capital Advisory

Acting as debt advisor to

PLAIN VANILLA INVESTMENTS

In providing acquisition financing to acquire

begra

2020 Deloitte.

Debt & Capital Advisory

Acting as debt advisor to

sendcloud

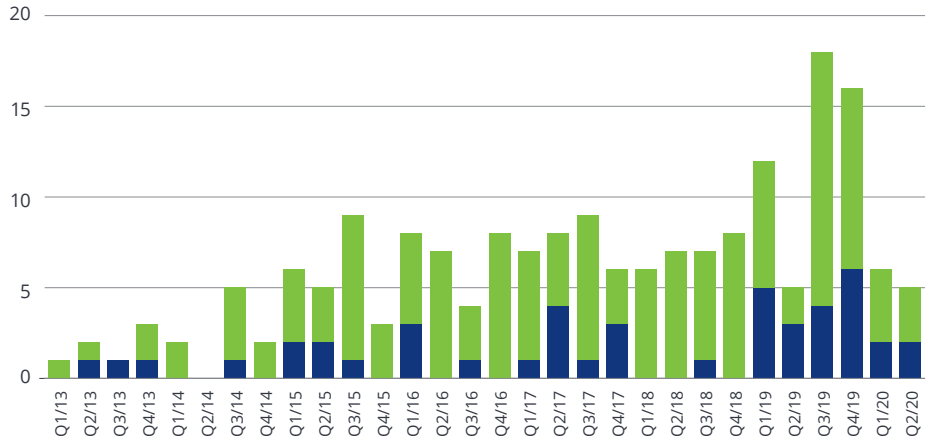
In arranging growth financing

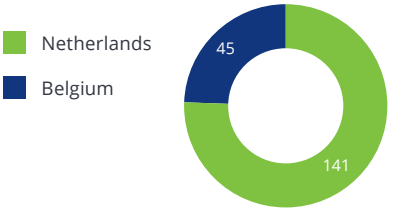
2020 Deloitte.

The interest of alternative lenders in the Dutch and Belgian market has remained solid, although activity decreased slightly due to C-19

Alternative Lender Deal Tracker

Deals





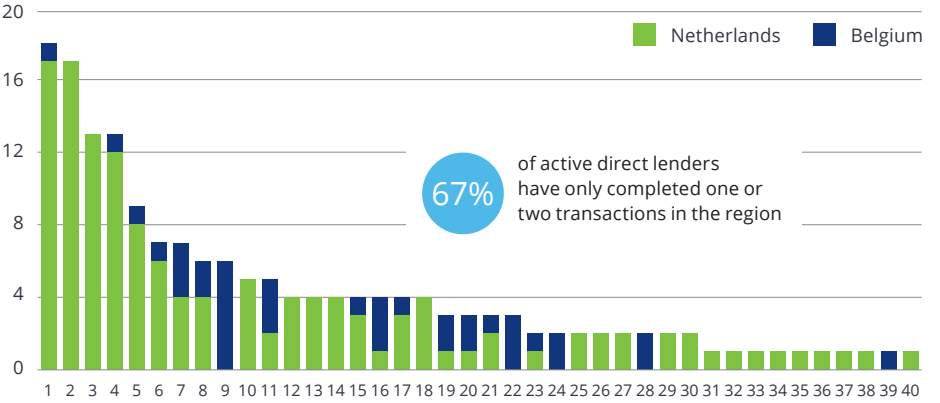
Data in the Alternative Lender Deal Tracker is retrospectively updated for any new participants.

45
deals completed in the LTM

186
total NL & BE deals completed to date

40
different lenders invested in NL & BE

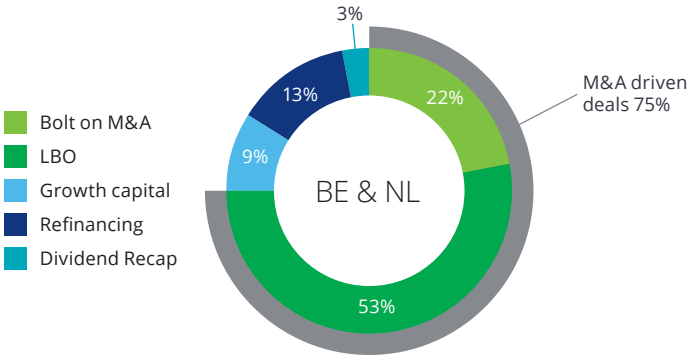
Deals done by each survey participant in the past 5 years (H2 2015 to H1 2020)



67% of active direct lenders have only completed one or two transactions in the region

while the alternative lenders their focus has continued to target M&A driven deals structured as First lien solutions

Deal purpose (Last 12 months)

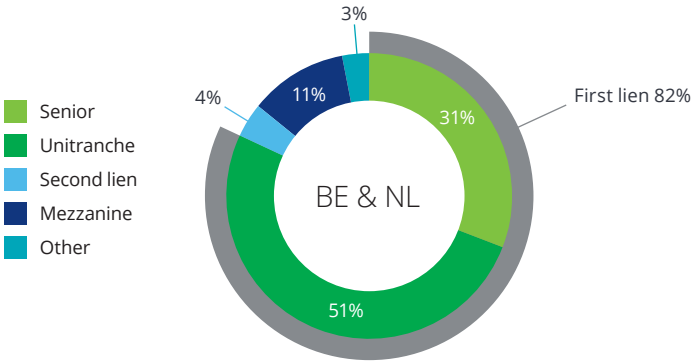


The majority of deals in the Benelux region in the last twelve months were M&A related (75%). This is higher compared to the rest of Europe including the UK where 67% of transactions are M&A related. The difference is largely attributed to the increasing presence of direct lenders in the Benelux leveraged loan market.

67%
Of transactions involved in M&A in UK and Europe

75%
Of transactions involved in M&A in the Benelux region

Deal structures (Last 12 months)



The majority of deals in the Benelux region in the last twelve months were structured as First lien solutions (83%). This is slightly lower compared to the rest of Europe where 88% of transactions were structured as First lien solutions.

88%
First lien in Rest of Europe (incl. UK)

83%
First lien in Benelux region

Alternative Lending in action: Case study

Direct lenders provide innovative hybrid facility to fund Silverfleet's acquisition of Collectia

Collectia your money

Silverfleet

Mark Piasecki
Partner – Silverfleet Capital

Robert Knight
Principal – Silverfleet Capital

Acquired by Silverfleet in February 2020, Collectia A/S is a leading credit management services provider based in Denmark. Collectia's proprietary technology-enabled platform has supported the business' rapid historical growth and, supported by Silverfleet's investment, will enable the Company to continue this growth trajectory and expansion.

Founded in 1998, and headquartered in Brøndby, Collectia is a leading credit management services provider based in Denmark. The Company has both debt collection and debt purchase businesses, and operates primarily in Denmark, with a niche presence in Sweden, Norway and Germany. Collectia employs over 175 staff and serves approximately 13,000 corporate customers, across over 600,000 active cases.

Collectia is a highly differentiated business, with its proprietary technology platform, credit database and advanced data analytics capabilities, and has experienced strong top-line growth as a result. This has translated into a more-than-doubling of EBITDA from 2017 to 2019 due to the business' scalable operational platform. These characteristics, along with attractive macro dynamics in the debt collection sector, mean that Collectia has significant potential to build market share in both existing and new markets. In recent years, Collectia has diversified beyond its core debt collection business by increasing its exposure to debt purchasing. It is also launching a credit control service for the Danish market, where the Company provides credit score information to its customers. In addition, Collectia has made several strategic acquisitions to expand its presence across the Nordic region and in Germany.

Due to the unusual dual nature of the business with both debt collection ("DC") and debt purchase ("DP"), Silverfleet recognised they would need a unique financing structure and appointed the Deloitte Debt & Capital Advisory team as advisors to explore potential financing options. The primary objective was to provide a bespoke structure with flexibility to support the Company's growth strategy across both debt collection and debt purchase. Prior to Silverfleet's acquisition, the Company's debt had been provided exclusively by a local Danish bank on an ad-hoc need-based-basis, with funding needs being assessed on the Company as a whole rather than separating the DC and DP businesses. The Company's rapid growth and the varying funding needs of the debt purchase and debt collection sides of the business meant that the company required a financing structure that reflected and supported this dynamic.

Collectia's scalable business model and impressive financial profile naturally lent itself to a debt structure including favourable and flexible acquisition criteria, both for the acquisition of new loan books and traditional M&A, with the ability to debt fund a strong pipeline of opportunities. Coupled with this was the requirement for a covenant suite that protected both parts of the business, segregated for the purposes of testing, but maintaining the flexibility to utilise cash across both businesses.

With this objective in mind, Silverfleet and Deloitte worked collaboratively to devise a funding structure that would work for the growth objectives of the business, and give lenders appropriate protection across the two aspects of the business. Given the unique nature of the business, a bespoke financing structure was designed to fund both the DC piece, with a cashflow-type facility, and the DP piece, with an Asset Based Lending type facility. The complexity of the chosen structure immediately moved the preferred lending partner away from banks to a direct lender, with the preference of a single lender to provide all of the funding.

The standout difference between the banks and direct lenders was the ability to provide asset backed financing alongside a more traditional cashflow lend..

Rob Knight, Principal, Silverfleet on Deloitte Debt & Capital Advisory's value add through the auction process – "There are many well-known differences between direct lenders and the banks, but there are also huge differences among the direct lenders themselves. This was particularly apparent in this transaction, with several lenders being able to provide either the cashflow lend or Asset Based Lend, but not both. Deloitte's knowledge and experience of direct lenders allowed us to identify those parties that met the desired criteria, whilst also exploring other viable options, in a lending market where Collectia had no previous experience"

Another reason for selecting a direct lender was the ability to provide further capital and a greater desire to deploy in larger quantities.

The process continued with the Deloitte Debt & Capital Advisory team supporting negotiation of terms, documentation, and working closely with the due diligence providers and lawyers to ensure the efficient completion of the transaction. This included the design of proprietary financial covenant technology whereby secondary conditions enabled cash sweeping between the two parts of the business whilst still keeping them segregated. Each part of the Company was assessed on a standalone basis, with Net Leverage or LTV covenants for the DC and DP businesses, respectively, with an overarching Group covenant in place to track the potential future shift in weighting of the two parts of the business.

Mark Piasecki on deal close said of the Deloitte team "The attitude and level of professionalism you approach every deal with us is stand out."

Collectia A/S

Founded in 1998 and headquartered in Brøndby, Collectia is a fast-growing debt collection and debt purchase business operating primarily in Denmark with a niche presence in Sweden, Norway and Germany. The Company employs over 175 staff and serves approximately 13,000 corporate customers across over 600,000 active cases.

Silverfleet's investment in Collectia builds on Silverfleet's extensive experience in the Financial Services sector and complements the firm's strategy of leveraging attractive macro dynamics – in this case increasing regulation. New Danish and EU-wide regulation is driving continued outsourcing of debt collection to specialist service providers such as Collectia.

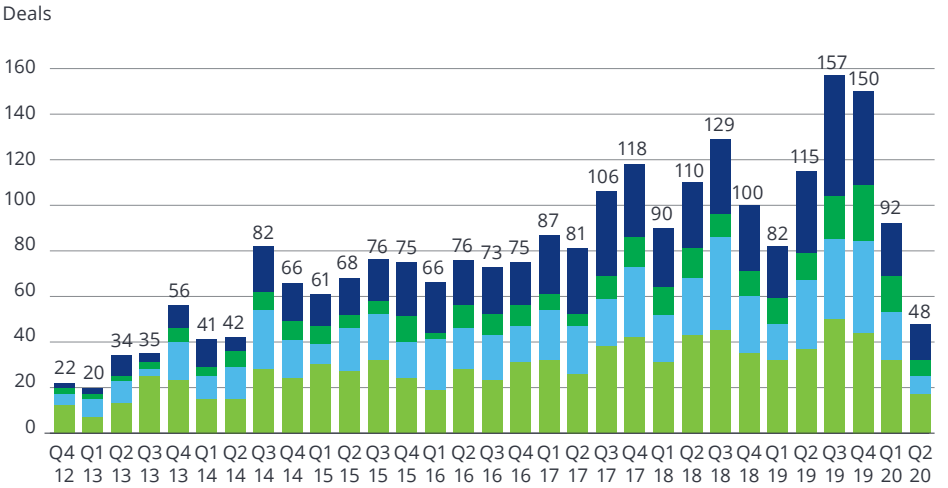
Silverfleet's investment will enable Collectia to accelerate its growth trajectory by using its superior technology to develop further its debt collection processes; scale its debt purchase operations; and continue its expansion internationally through selective acquisitions in attractive niche verticals.

Alternative Lender Deal Tracker H1 2020 Deals

The Alternative Lender Deal Tracker now covers 60 lenders and a reported 2433 deals

Alternative Lender Deal Tracker

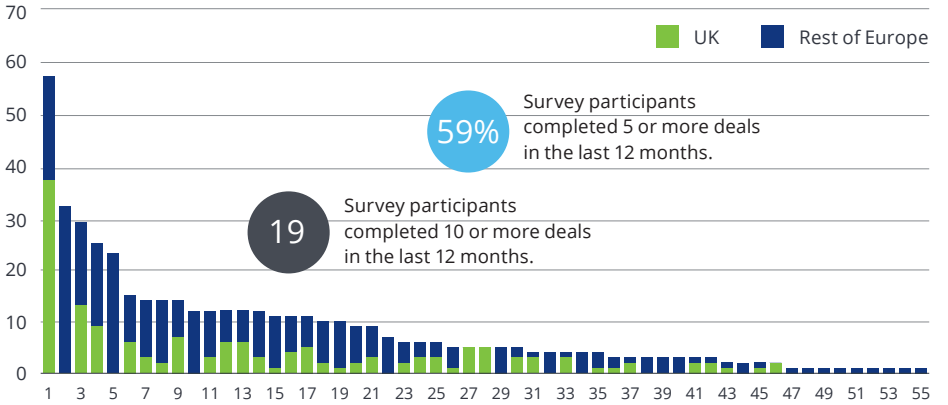
Currently covers 60 leading Alternative Lenders. Only UK and European deals are included in the survey.



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

880
UK deals completed

Deals completed by each survey participant (Last 12 months)



59% Survey participants completed 5 or more deals in the last 12 months.

19 Survey participants completed 10 or more deals in the last 12 months.

1,553
Euro deals completed

2,433
Total deals completed

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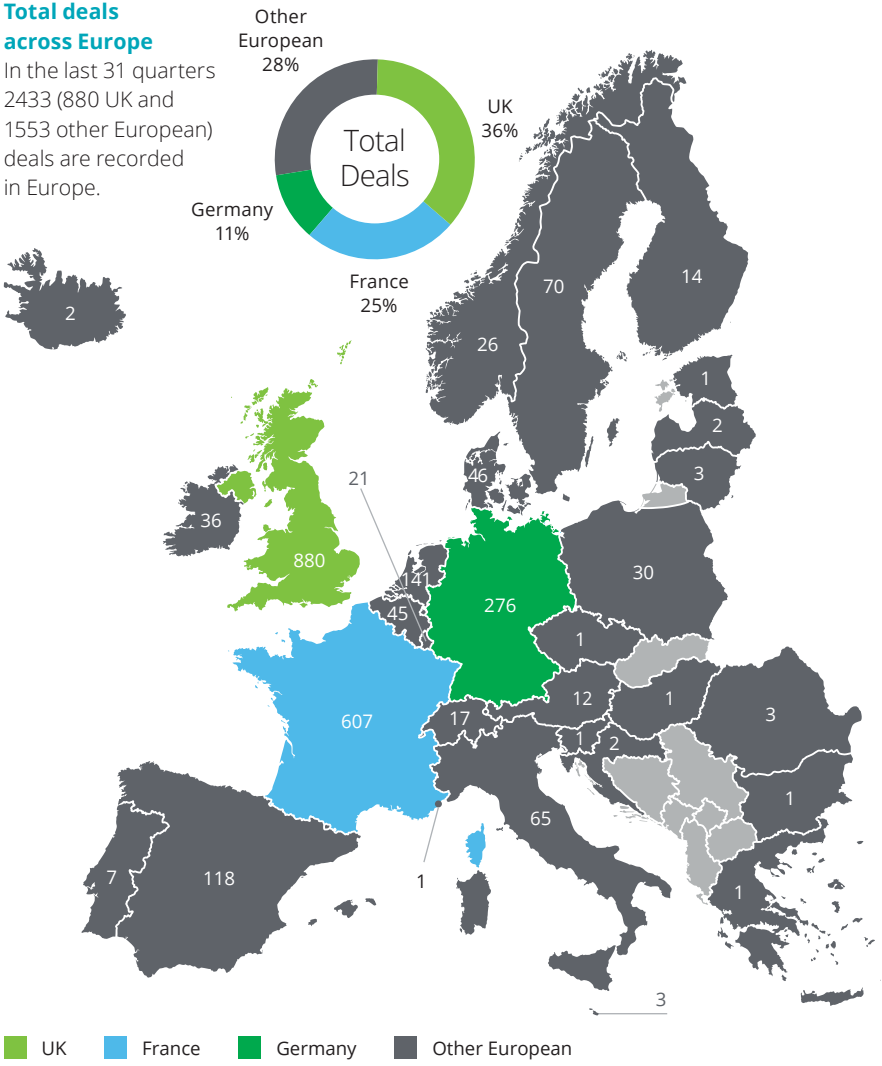
Direct Lenders increasingly diversifying geographies

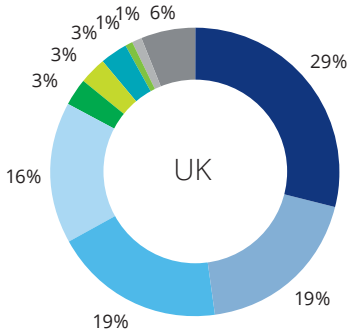
Total deals across Europe

In the last 31 quarters 2433 (880 UK and 1553 other European) deals are recorded in Europe.

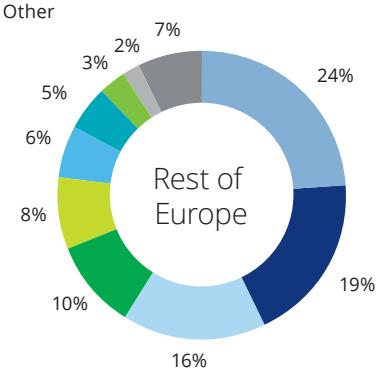


Total deals across industries (Last 12 months)

Within the UK, the the Business, Infrastructure & Professional Services industry has been the dominant user of Alternative Lending with 29% followed by TMT with 19%.



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

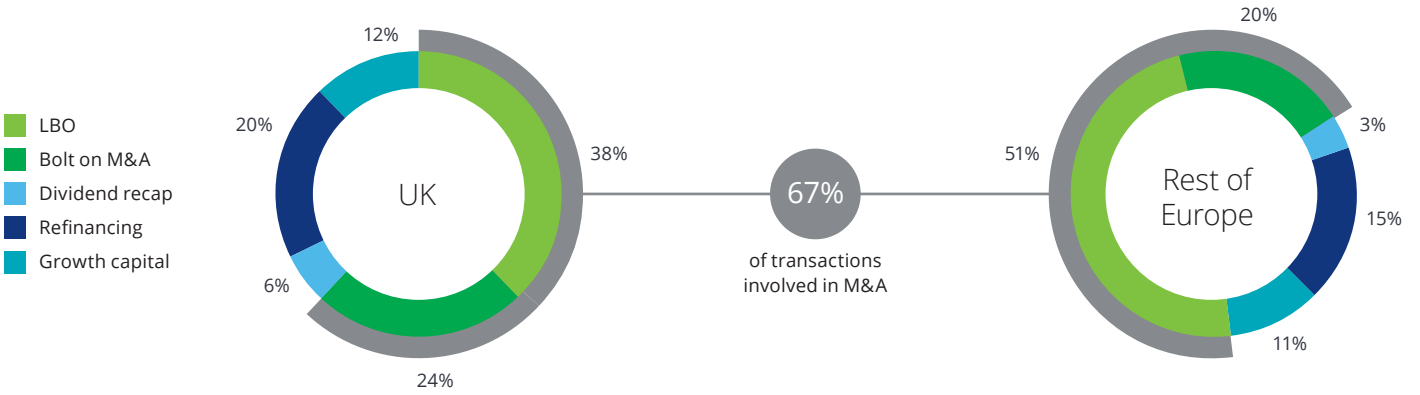


In the rest of Europe there are 5 main industries: TMT, Business, Infrastructure & Professional Services, Healthcare & Life Sciences, Manufacturing and Consumer Goods.

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

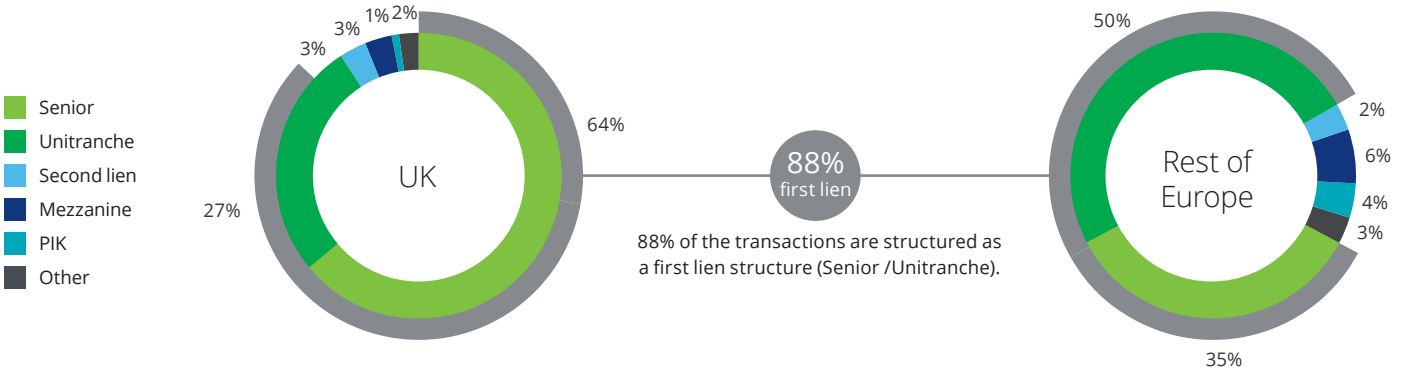
Deal purpose (Last 12 months)

The majority of the deals are M&A related, with 67% of the UK and Euro deals being used to fund a buy out. Out of the 447 deals in the last 12 months, 83 deals did not involve a private equity sponsor.



Structures (Last 12 months)

Unitranche is the dominant structure, with 64% of UK transactions and 50% of European transactions. Subordinate structures represent only 12% 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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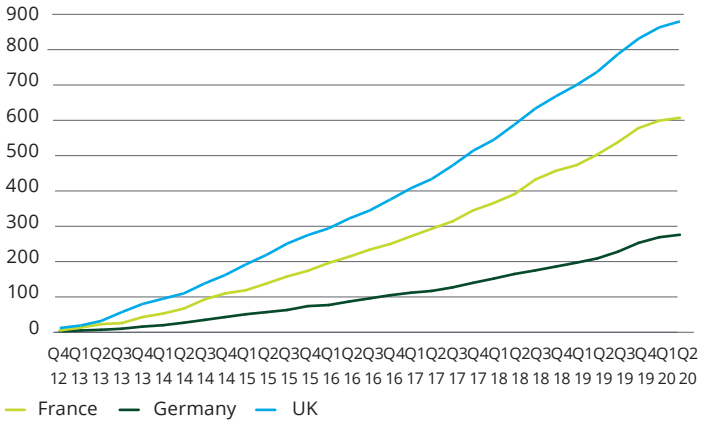
The UK still leading as the main source of deal volume for Direct Lenders in Europe

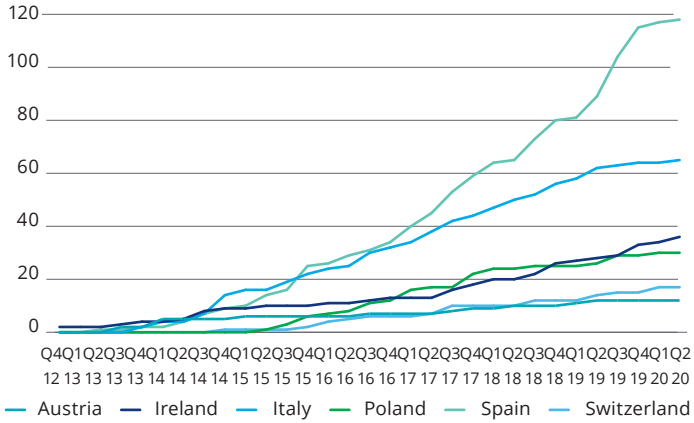
Cumulative number of deals per country

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 H1 2020.

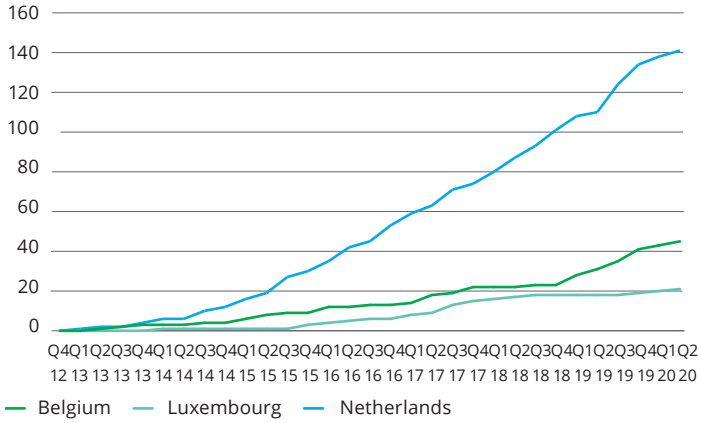
Largest geographic markets for Alternative Lenders



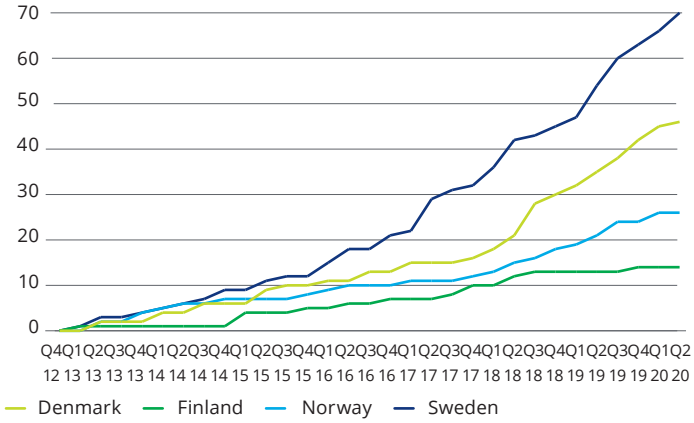
Other European



Benelux



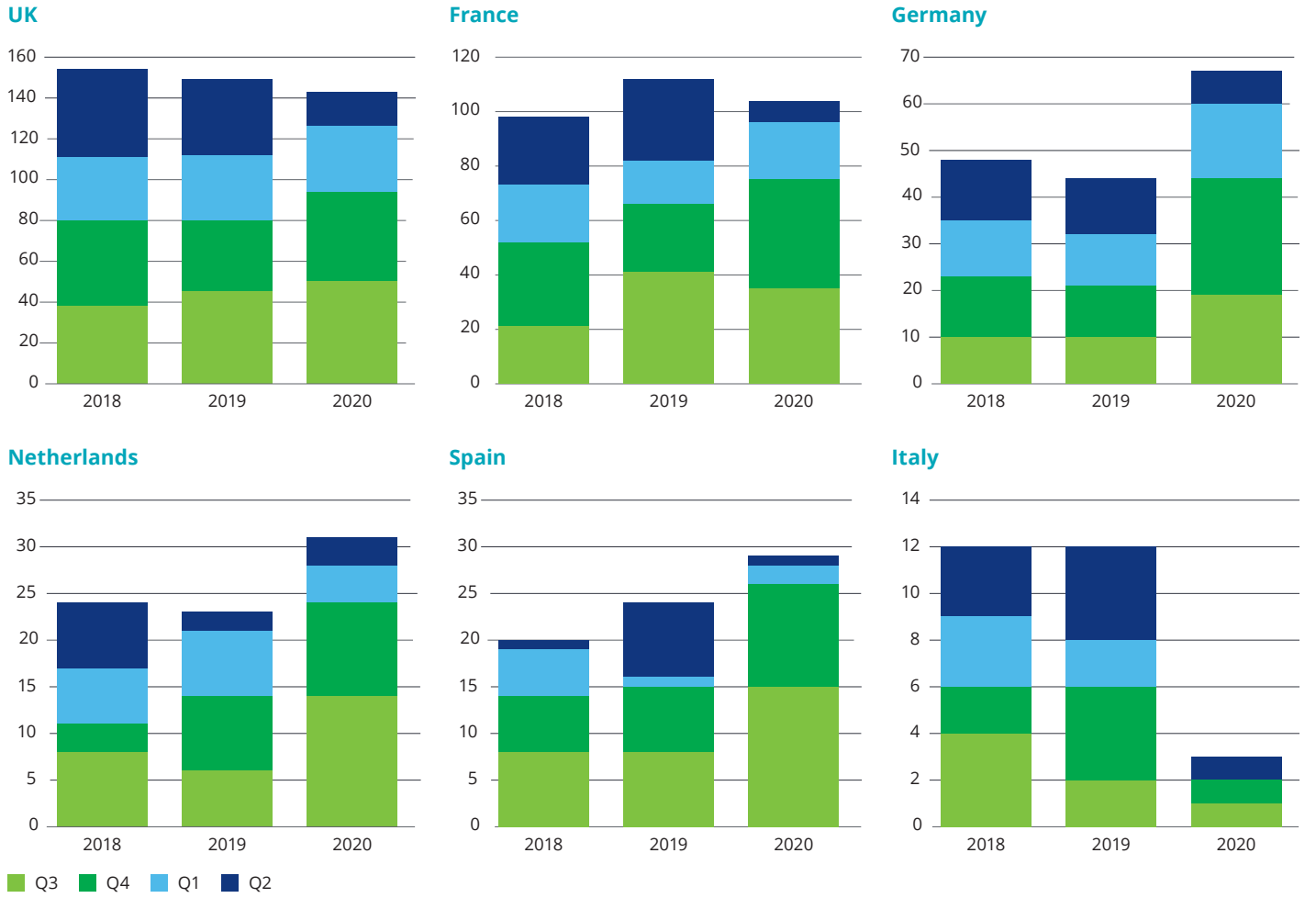
Nordics



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 2018 and 2019 in all of the countries shown below. Volatility in H1 2020 may disrupt this trend but it is too early to determine the long-term impact.



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Which landmark unitranche deals have been completed?

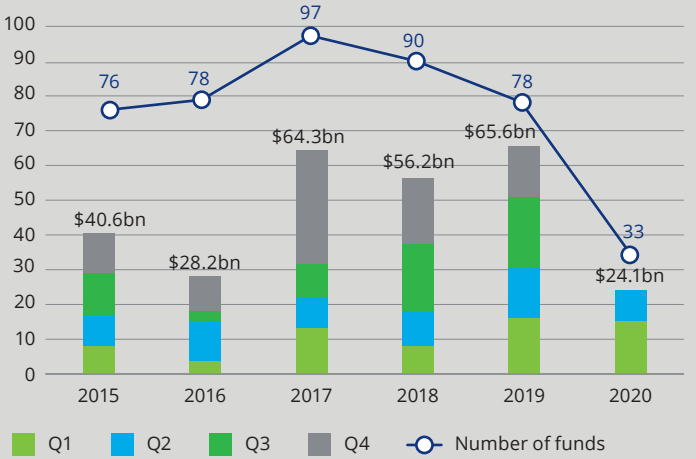
Selected Landmark Unitranche Deals (>€90m)

Borrower	Country	Unitranche in €m	Lenders	Sponsor	Date
TSG Solutions	France	350	ICG	✓	Jun-20
Vision Healthcare	Belgium	150	Hayfin	✓	Jun-20
Weka	Germany	160	Hayfin	✓	Jun-20
Laboratoire X.O (Proton)	France	250	Ares	✓	Jun-20
EuroParcs	Netherlands	150	Ares	✓	Jun-20
Eleda	Sweden	300	Ares	✓	Jun-20
Rosemont/ Primrose	UK	200	Ares	✓	Jun-20
Ardonagh	UK	1000	Ares	✓	Jun-20
BBI Group	UK	250	Ares	✓	May-20
Dedalus	Italy	250	Tikehau Capital, THCP	✓	May-20
Polyplus	France	240	Tikehau Capital, Goldman Sachs Private Debt	✓	Apr-20
Schuelke	Germany	450	HPS	✓	Apr-20
Fishawack	UK	300	Arcmont, Goldman Sachs Private Debt	✓	Mar-20
QSPR	Germany	600	Ares	✓	Mar-20
M247 Group	UK	180	Ares	✓	Mar-20
Collectia	Denmark	150	Alcentra	✓	Mar-20
Marston Group	UK	300	Alcentra, Arcmont	✓	Mar-20
Auction Technology Group	UK	150	Crescent	✓	Feb-20
GRP Group	UK	500	Ares	✓	Feb-20
Mark System	France	300	Ares	✓	Feb-20
Lumenis	Netherlands	550	Alcentra	✓	Feb-20
Destiny	Belgium	160	Tikehau Capital	✓	Jan-20
Aspen Pumps	UK	350	Park Square, SMBC	✓	Jan-20
Ocorian / Estera	UK	700	Ares	✓	Jan-20
Circle-BMI Group	UK	400	Ares	✓	Dec-19
Opus Group	Sweden	450	Ares	✓	Dec-19
Primonial	France	150	Ares	✓	Dec-19
Kids Foundation	Netherlands	150	Ares	✓	Dec-19
Wifirst	France	160	Pemberton, Tikehau	✓	Dec-19
EuroTechnoCom	France	450	Pemberton, Permira	✓	Dec-19
Looping	France	350	Hayfin	✓	Dec-19
Sogelink	France	250	Hayfin	✓	Dec-19
Valeur & Capital	France	100	Hayfin	✓	Dec-19
Kerridge Commecial Systems	UK	150	Guggenheim	✓	Dec-19
Siblu	France	160	Arcmont	✓	Dec-19
Accelya	Spain	150	Arcmont	✓	Dec-19

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

Direct Lending fundraising

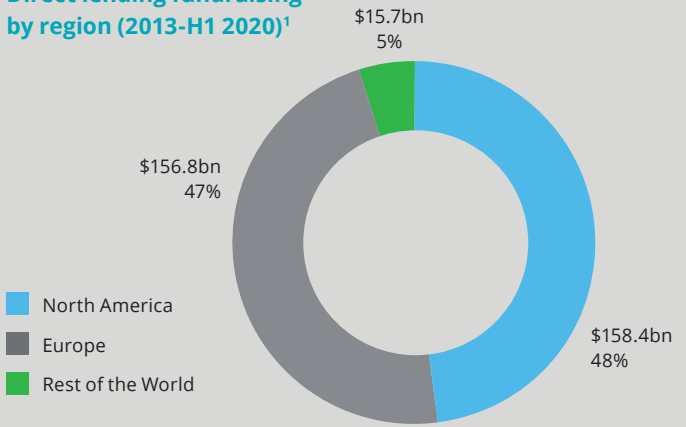
Global Direct Lending fundraising by quarter[1]



Select largest European funds with final closing in 2020[1]

- GSO European Senior Debt Fund II – **$4,550m**
- Permira Credit Solutions Fund IV – **€3,400m**
- Crescent European Specialty Lending Fund II – **€1,600m**
- Tresmares Direct Lending I – **€900m**

Direct lending fundraising by region (2013-H1 2020)[1]

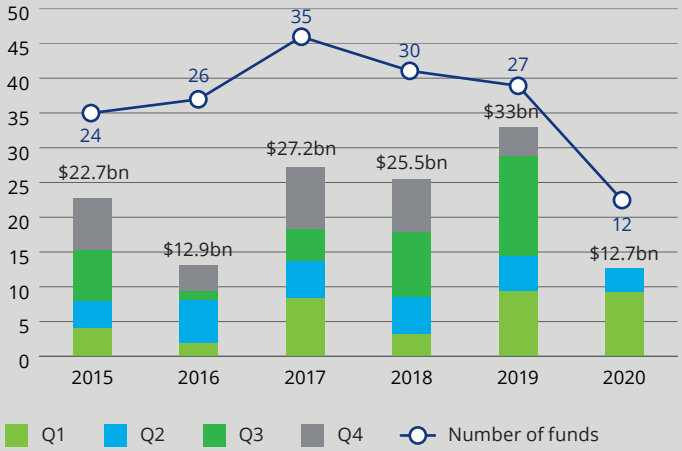


Select largest US funds with final closing in 2020[1]

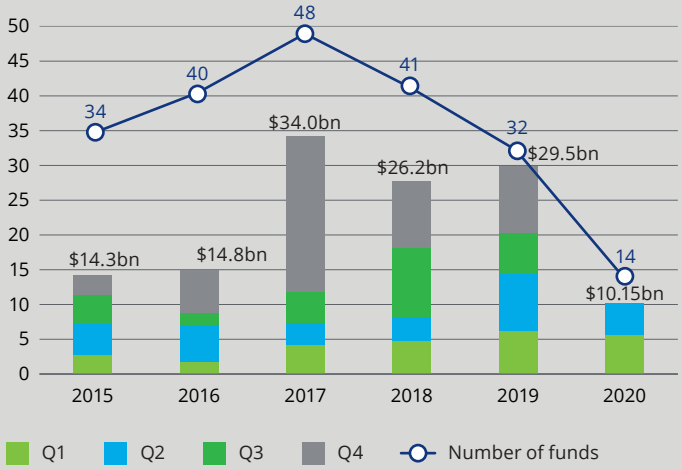
- Antares Senior Loan – **$3,000m**
- Churchill Middle Market Senior Loan Fund II – **$2,000m**
- H.I.G. WhiteHorse Principal Lending Fund – **$1,100m**
- AEA Middle Market Debt Fund IV – **$1,064m**

[1] Data sourced from preqin

Europe Direct Lending fundraising by quarter[1]



North America Direct Lending fundraising by quarter[1]



Global Trends[1]

- Demand for private debt remains strong, as companies around the world refinance legacy debt, often extending maturities at significant discounts. Firms with solid underlying businesses may be experiencing short-term COVID-19 induced cash flow issues and the private debt market is well-placed to step-in and alleviate these pressures, often using varying structures, depending upon the nature of the business.

- Companies are also becoming increasingly creative in their search for financing, with asset-backed deals on the rise.

- In-line with other asset classes, the private debt market is experiencing a process of capital consolidation, with the largest fund managers and large-scale funds benefiting, at the expense of new fund managers. Where large fund managers have existing relationships, they can be leveraged, particularly in times such as now, when cultivating new relationships can be difficult.

European Market[1]

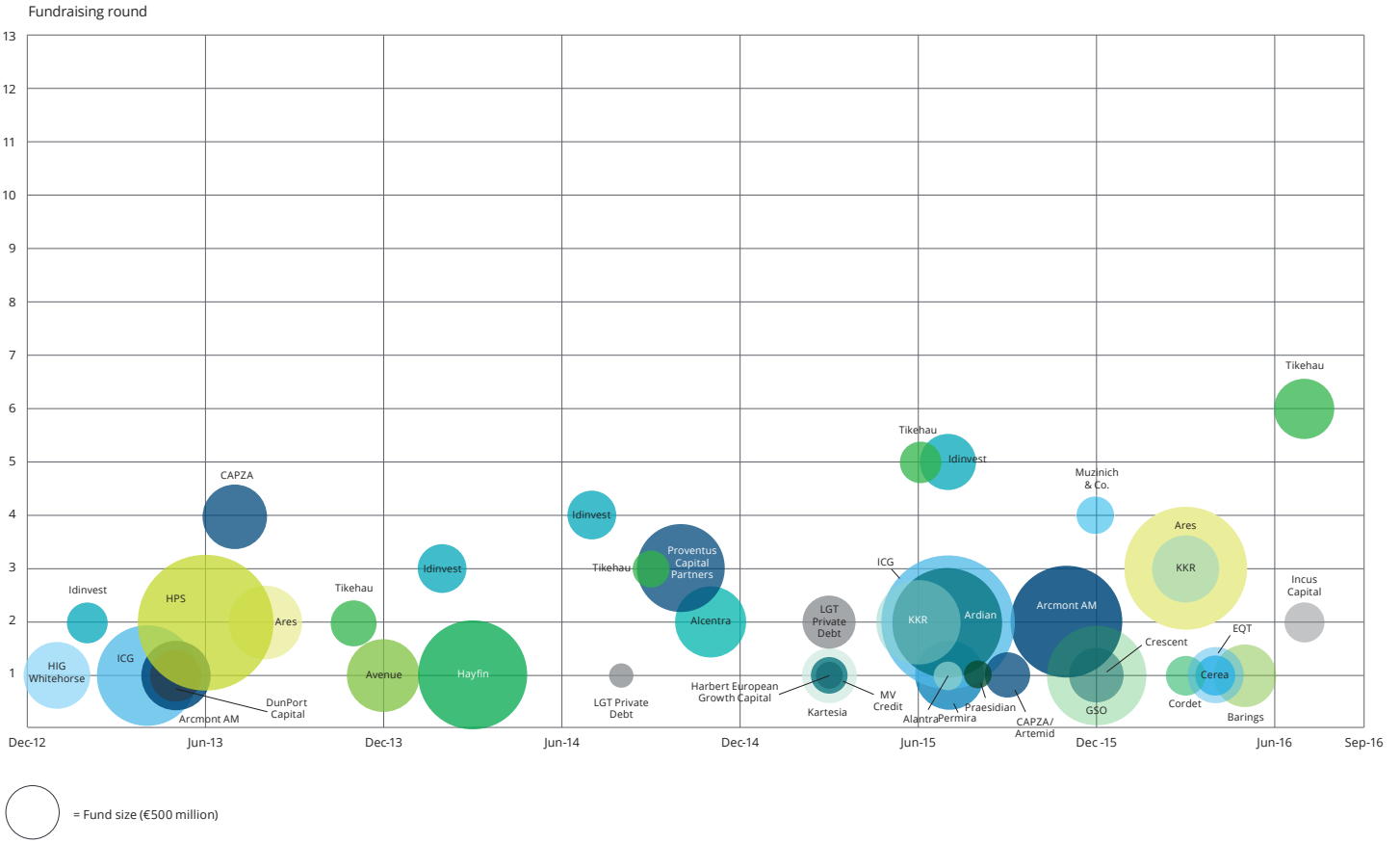
- Average fund sizes in 2019 and YTD 2020 are above $1bn, indicating demand for allocations to the largest funds.

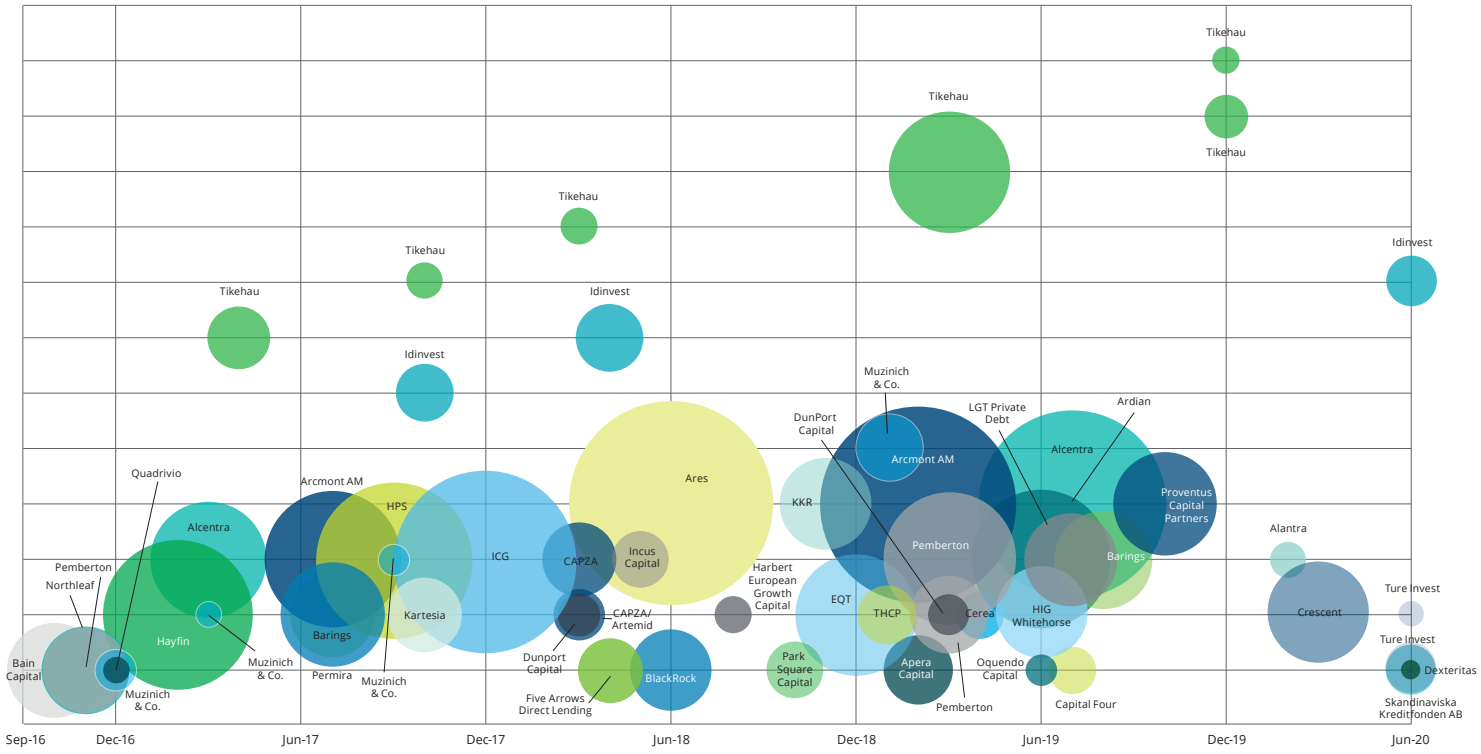
US Market[1]

- Both aggregate capital and the number of funds closed peaked during 2017, yet since then aggregate capital raised has remained elevated, while the number of funds closed has gradually fallen.

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

Senior Direct Lending fundraising focused on the European market




Tikehau
Tikehau
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Idinvest
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Idinvest
Tikehau
Idinvest
Muzinich & Co.
DunPort Capital
LGT Private Debt
Ardian
Arcmont AM
Alcentra
Ares
Quadrivio
Arcmont AM
HPS
KKR
Proventus Capital Partners
Alcentra
Pemberton
Northleaf
ICG
CAPZA
Incus Capital
Pemberton
Barings
Alantra
Harbert European Growth Capital
EQT
HIG Whitehorse
Ture Invest
Hayfin
Kartesia
CAPZA/ Artemid
THCP
Cereal
Crescent
Ture Invest
Bain Capital
Muzinich & Co.
Barings
Permira
Muzinich & Co.
Dunport Capital
Five Arrows Direct Lending
BlackRock
Park Square Capital
Apera Capital
Oquendo Capital
Pemberton
Capital Four
Dexteritas
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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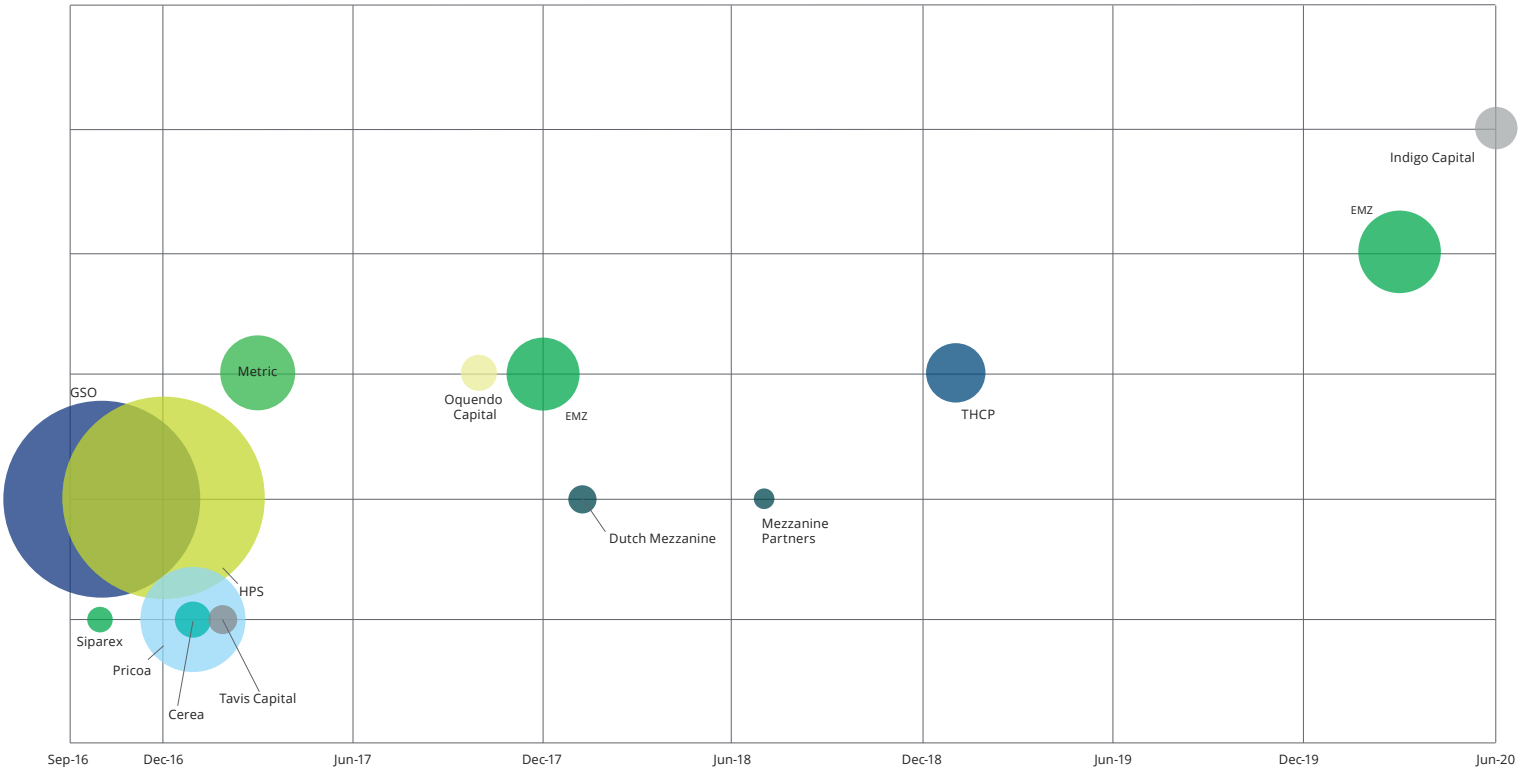

Indigo Capital
EMZ
Metric
GSO
Oquendo Capital
EMZ
THCP
Dutch Mezzanine
Mezzanine Partners
HPS
Siparex
Pricoa
Cerea
Tavis Capital
Sep-16
Dec-16
Jun-17
Dec-17
Jun-18
Dec-18
Jun-19
Dec-19
Jun-20

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

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
Capzanine				
Capzanine 4 Private Debt	Q1 18	€850	Senior and Junior	Europe
Artemid Senior Loan 2	Q1 18	€413	Senior	Europe
Artemid CA	Q3 15	€70	Senior	Europe
Artemid Senior Loan	Q3 15	€345	Senior	Europe
Capzanine 3	Q3 12	€700	Senior and Junior	Europe
Capzanine 2	Q3 07	€325	Senior and Junior	Europe
Capzanine 1	Q1 05	€203	Senior and Junior	Europe
Céréa				
Céréa Dette II	Q2 19	€350	Senior	Europe
Céréa Mezzanine III	Q1 17	€200	Junior	Europe
Céréa Dette	Q2 16	€270	Senior	Europe
Dexteritas				
Dexteritas Dutch Credit Opportunities Fund	Q4 20	€55	Senior	Europe
Dunport Capital Management				
Elm Corporate Credit DAC	Q1 20	€450	Senior and Junior	Europe
Ireland Corporate Credit DAC	Q2 13	€283	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 9	Q1 20	€1,043	Junior	Europe
EMZ 8	Q4 17	€815	Junior	Europe
EMZ 7	Q1 14	€695	Junior	Europe
EMZ 6	Q1 09	€640	Junior	Europe
EQT				
EQT Mid-Market Credit II	Q2 20	€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

Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Hayfin				
Direct Lending Fund II	Q1 17	€3,500	Senior	Europe
Direct Lending Fund I	Q1 14	€2,000	Senior	Europe
HIG				
H.I.G. Whitehorse Loan Fund III	Q1 13	€750	Senior and Junior	Europe
H.I.G. Bayside Loan Opportunity Fund V (Europe)	Q2 19	$1,500	Senior and Junior	Europe
HPS Investment Partners				
Speciality Loan Fund 2016	Q3 17	$4,500	Senior	Global
Mezzanine Partners Fund III	Q4 16	$6,600	Junior	Global
Highbridge Speciality Loan Fund III	Q2 13	€3,100	Senior	Global
Mezzanine Partners Fund II	Q1 13	$4,400	Junior	Global
Highbridge Speciality Loan Fund II	Q2 10	€1,100	Senior	Global
Mezzanine Partners Fund I	Q1 08	$2,100	Junior	Global
ICG				
Senior Debt Partners III	Q4 17	€5,200	Senior	Europe
Senior Debt Partners II	Q3 15	€3,000	Senior	Europe
ICG Europe Fund VI	Q1 15	€3,000	Junior	Europe
Senior Debt Partners I	Q2 13	€1,700	Senior	Europe
ICG Europe Fund V	Q1 13	€2,500	Junior	Europe
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

Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
KKR				
KKR Lending Partners III L.P. ("KKRLP III")	Q4 18	$1,498	Senior	Global
Fund Lending Partners Europe	Q1 16	$850	Senior and Junior	Europe
Fund Lending Partners II	Q2 15	$1,336	Senior and Junior	Global
Fund Lending Partners I	Q4 12	$460	Senior and Junior	Global
LGT Private Debt				
CEPD II	Q3 19	€1,350	Senior and Junior	Europe
Private Debt Fund	Q1 15	€474	Senior and Junior	Europe
UK SME Debt	Q3 14	€100	Senior and Junior	Europe
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	€155	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	Q2 19	€1,235	Juniot	Europe
Park Square Capital European Loan Partners, LP Inc.	Q4 18	€502	Senior	Europe
Park Square Capital Partners III LP	Q1 16	€1,185	Junior	Europe
Pemberton				
Pemberton European Strategic Credit Opportunities Fund	Q1 19	€942	Senior and Junior	Europe
Pemberton European Mid-Market Debt Fund II	Q1 19	€2,740	Senior	Europe
European Mid-Market Debt Fund	Q4 16	€1,140	Senior	Europe
Permira				
Permira Credit Solutions III	Q2 17	€1,700	Senior and Junior	Europe
Permira Credit Solutions II	Q3 15	€800	Senior and Junior	Europe

Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
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
Siparex				
Siparex	Q4 16	€100	Junior	Europe
Skandinaviska Kreditfonden AB				
Scandinavian Credit Fund I AB	Q2 20	€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 19	€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
Ture Invest				
Ture Invest Fund I	Q2 20	€400	Senior	Europe
Hedda Credit Fund I	Q2 20	€100	Senior	Europe

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

Despite all that has happened so far this year, the Direct Lending market has continued to expand in Europe. Figure 1.0 (below) shows that the number of investment professionals (IPs) has increased from 603 to 632, marking a 5% rise in personnel.

This increase may seem odd given the presence of COVID-19 this year but the virus didn't have a strong impact on the market until March. Notice periods of IPs range between 1 – 6 months so it is likely the effect of COVID-19 on headcount in the Direct Lending market wont be made apparent until H2 this year.

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

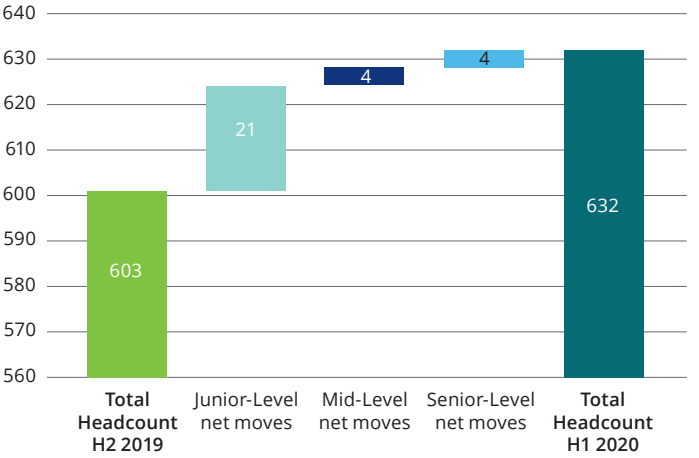
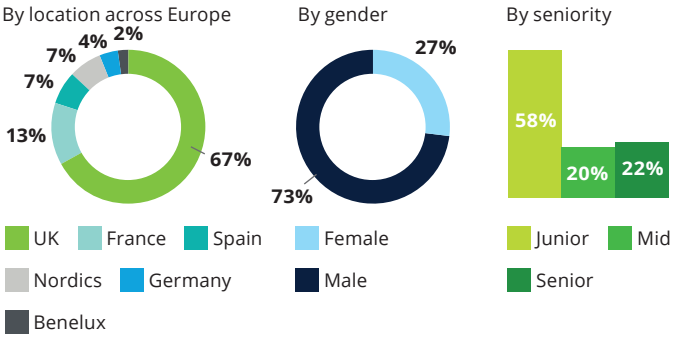


Figure 2. Breakdown of hiring



Breakdown of Hiring

Figure 1 (above) shows the percentage of hires across different geographies in Europe within the Direct Lending market. 67% of hires were in the UK, which is no surprise given the majority of European funds are based in London. France was the location for 13% of hiring, with Spain and the Nordic region accounting for 7% each. 4% of hires were in Germany, and 2% of hires in the Benelux region.

A net addition of 4 IPs was seen at both the Mid and Senior-level. Last year, H1 2019 saw 25 net additions, all at the Junior-level. Gender diversity of hiring into the Direct Lending market continues to improve. So far this year 27% of all hires have been female. This compares to 23% in 2019, 20% in 2018 and 16% in 2017. A clear sustained increase in gender diversity of hires is being observed year on year.

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

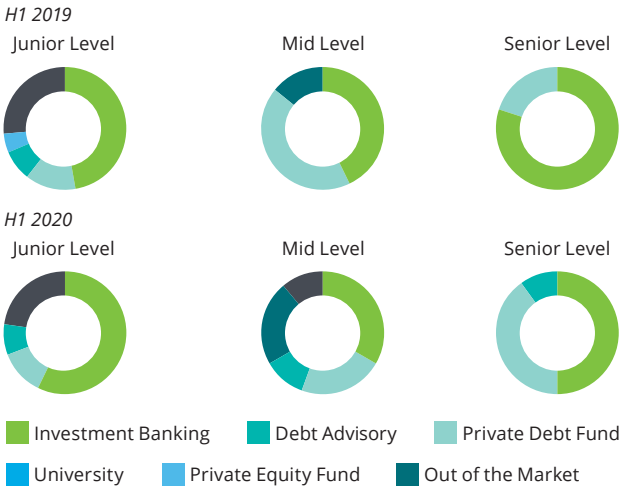
Source of Hires – Breakdown

Figure 3 (below) compares the source of hiring at different levels of seniority in H1 2019 and H1 2020. This year, investment banks have been the most popular source of hiring at all levels of seniority: 58% at the Junior-level; 33% at the Mid-level; 50% at the Senior-level.

Competitor private debt funds have been the second most popular source for hiring. This year it accounted for 12% at the Junior-level, 22% at the Mid-level and 40% at the Senior-level.

When comparing H1 2019 and H1 2020, there are no substantial differences observed across any levels. Given volume of hires at the Mid and Senior-level is much lower than at the Junior-Level there tends to be more fluctuation in the data observed when comparing with previous years.

Figure 3. Pie charts displaying the source of hiring at different levels of seniority in H1 2019 and H1 2020



Recent Notable Direct Lending Moves

Alcentra	Graeme Delaney Smith, Co-Head of European Direct Lending, left TBC
Alcentra	Howard Sharp, Head of European Origination, joins from Park Square
Alcentra	Timothee Delisle, Assistant Vice President, joins from Blackrock
Apollo	Natalia Tsitoura, Head of European Private Debt, joins from Alcentra
Ardian	Florian Haas, Director, joins from Apera Capital
Ares Management	James Cumming, Principal, left TBC
Ares Management	Tom Forrest, Vice President, joins from JP Morgan
Ares Management	Gonzalo Echevarria Rivero, Director, joins from ING
EQT Partners	Alessandro Frau, Vice President, joins from Apollo
GIC	Raymond Tie, Assistant Vice President, joins from MBA
Golub Capital	Tara Moore, Head of European Origination, joins from Guggenheim
H.I.G Whitehorse	Rob de Bruin, Principal, joins from NIBC
HPS Investment Partners	Jean Baptiste Guille-Biel, Vice President, left TBC
HPS Investment Partners	Sagar Kandhari, Vice President, left TBC
Kartesia Advisors	Nick Holman, Director, joins from Santander
KKR	Thierry Aoun, Principal, left for IK Investment Partners
LGT European Capital	Nadine Henker, Managing Director, joins from Bank of Ireland
Proventus	Gabriella Sahlman, Investment Director, left TBC

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.

Office telephone number +44 (0) 20 7717 5000

Bruce Lock
Managing Director
lockb@paragonsearchpartners.com

Andrew Perry
Managing Director
aperry@paragonsearchpartners.com

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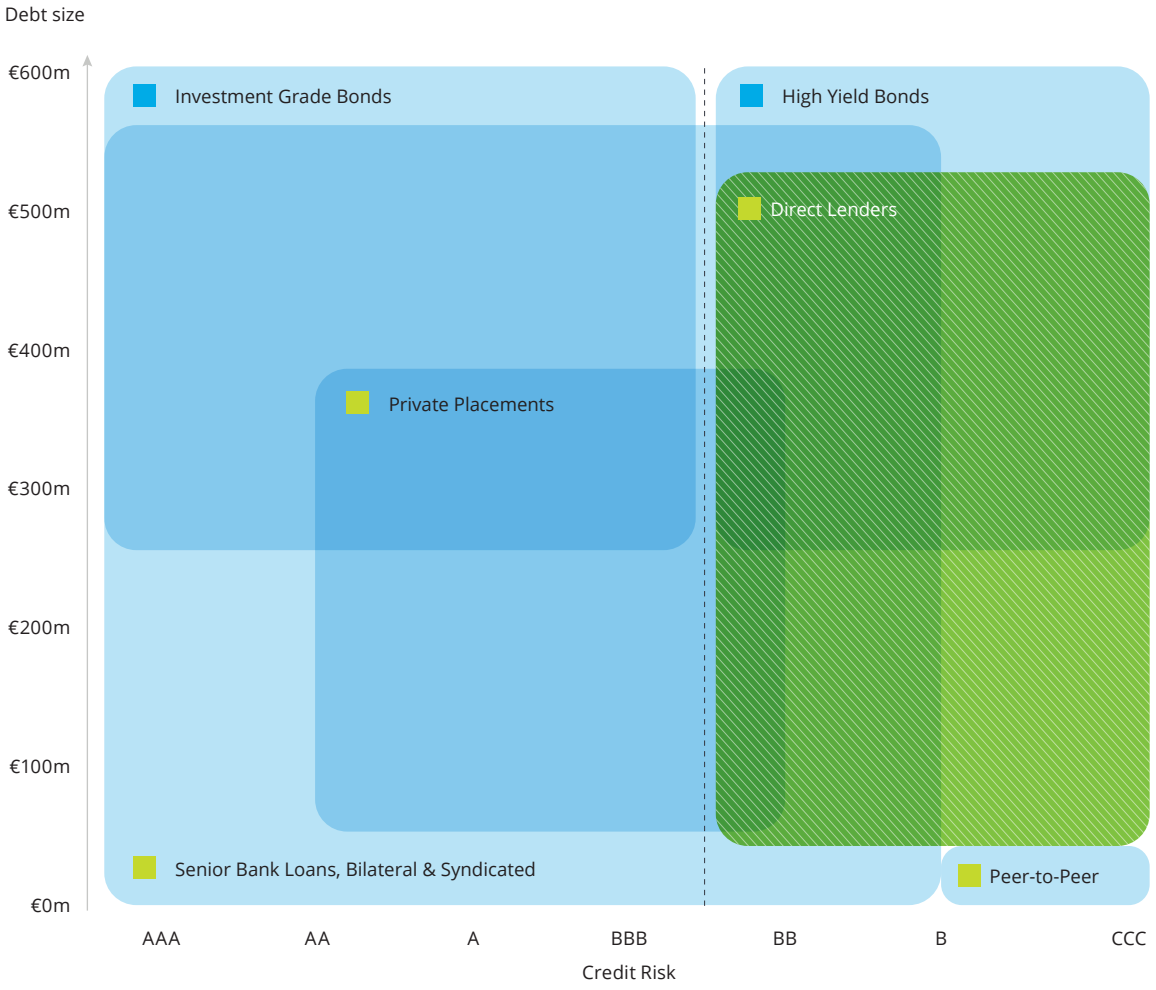
How do Direct Lenders compare to other cash flow debt products?



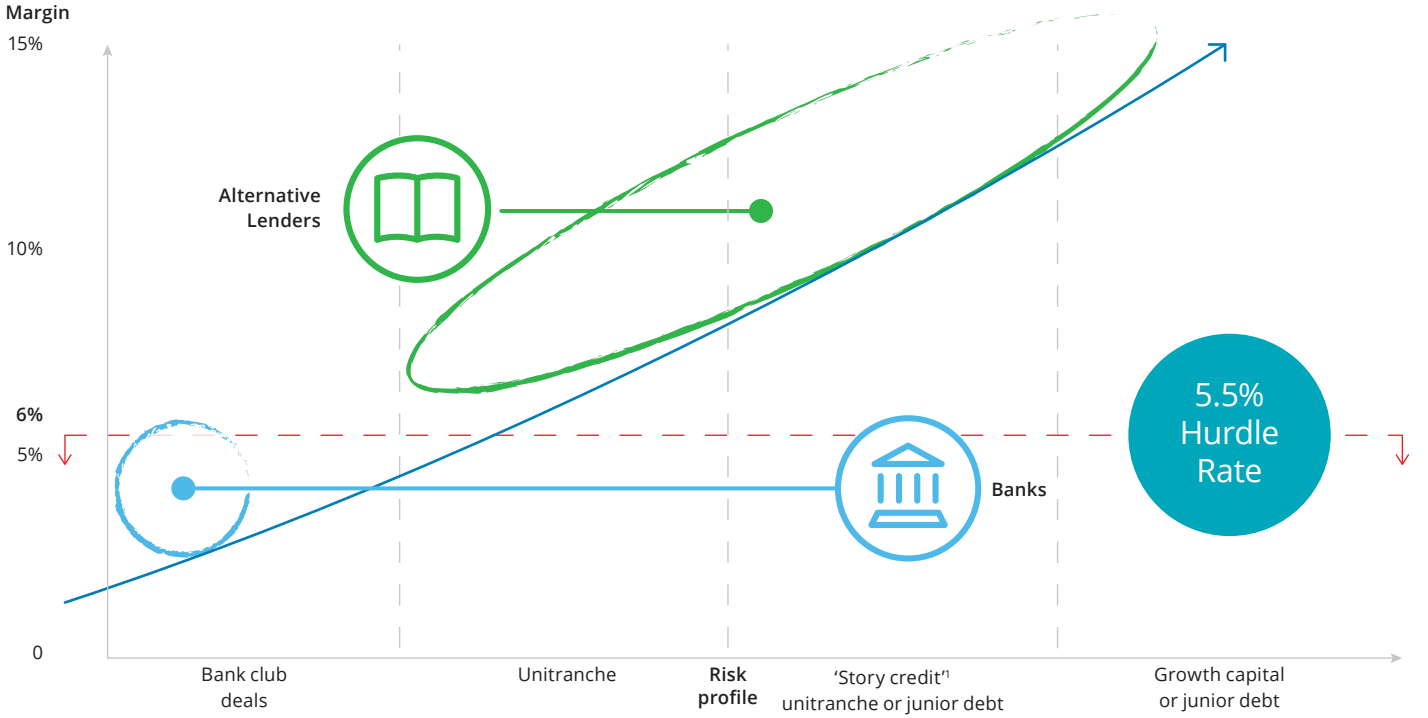
Cash flow debt products

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.

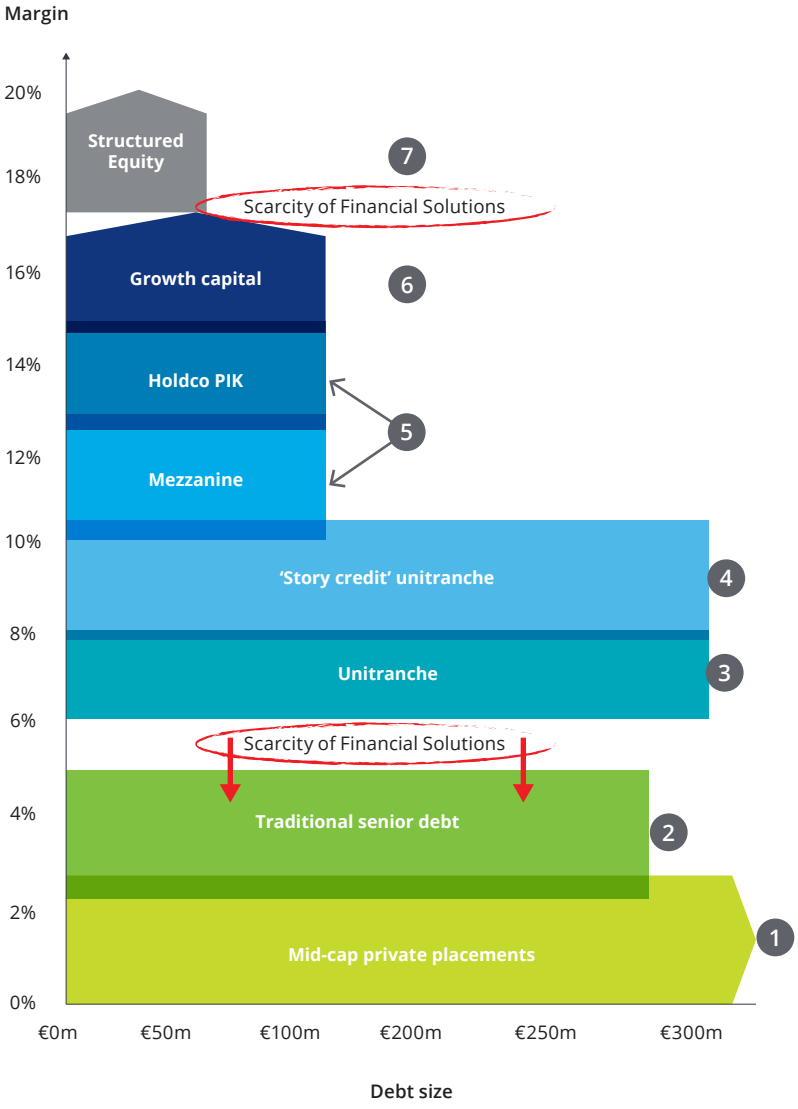
Majority of the Direct Lenders have hurdle rates which are above L+550bps margin and are mostly involved in the most popular strategy of 'plain vanilla' unitranche, which is the deepest part of the private debt market. However, Direct Lenders are increasingly raising senior risk strategies funds with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

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?

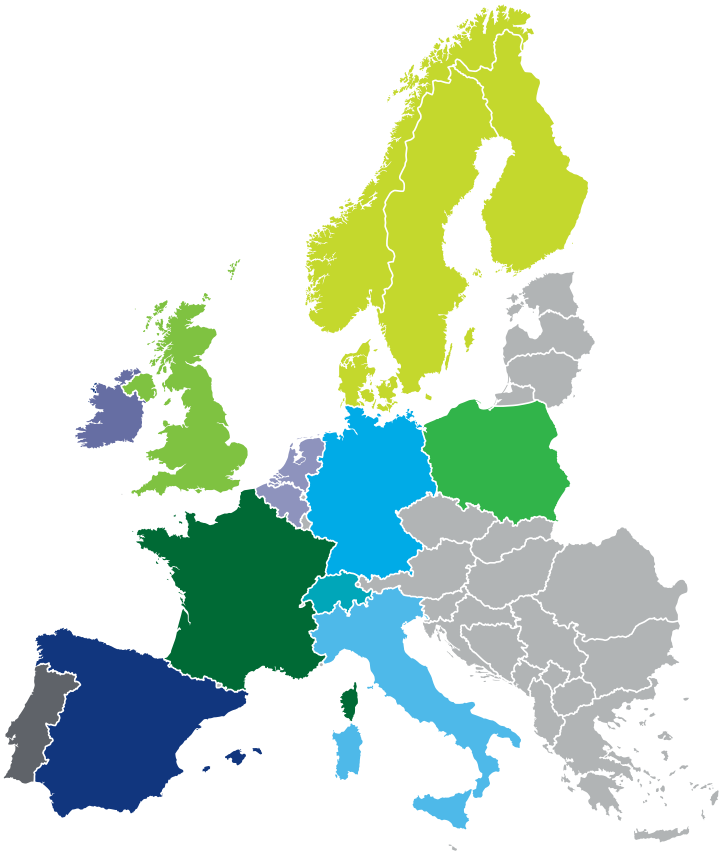
Fund strategy	Description	Target return (Gross IRR)	Investment period	Fund term	Management fee	Preferred return	Carried interest
Direct senior lending	Invest directly into corporate credit at senior levels of the capital structure	5-10%	1-3 years	5-7 years (plus 1-2 optional one year extensions)	Typically around 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.

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.

United Kingdom

Alcentra, aperacapital, ARDIAN, ARES, Arcmont, BainCapital, BARINGS, BANTRY BAY, BEECHBROOK, BLACKROCK, citi, CORDET, CRESCENT, CVC, DUNPORT, EQT, eso, GSO CAPITAL PARTNERS, GUGGENHEIM, HARWOOD, HAYFIN, HERMES, ICG, KARTESIA, KKR, M&G, MACQUARIE, MAGNETAR CAPITAL, Munich & Co, MV|Credit, Njord, Northleaf, Partners Group, PERMIRA, PEMBERTON, Præsidian capital, ROTHSCHILD, SMBC, THCP, TDC, SIXTH STREET PARTNERS, terra firma

Germany

aperacapital, ARDIAN, ARES, BLACKROCK, CAPZA, EQT, HAYFIN, ICG, idinvest, KARTESIA, PEMBERTON, pride, PERMIRA

Poland

CVI

Spain

ALANTRA, ARES, ICG, idinvest, KARTESIA, CAPZA, HAYFIN, KKR, PEMBERTON, Munich & Co, TREA, INCUS CAPITAL, MAGNETAR CAPITAL, oquendo

Nordics

CAPITAL FOUR, ARES, CORDET, Kreditfonden, TURE INVEST, PROVENTUS

Italy

AZIMUT, ARES, Arcmont, BLACKROCK, CAPZA, Blackstone, green arrow, EQUITA, GSO CAPITAL PARTNERS, SIXTH STREET PARTNERS, PERMIRA

Benelux

CORDET, CVC, DUTCH MEZZANINE FUND, Dexteritas, HAYFIN, ICG, KARTESIA, NIBC, PMV, pride, THCP, KO

Ireland

ActivateCapita, Arcmont, BainCapital, CARDINAL CAPITAL GROUP, EARLSFORT CAPITAL

Portugal

INCUS CAPITAL

Switzerland

taviscapital, CREDIT SUISSE, eso, Partners Group

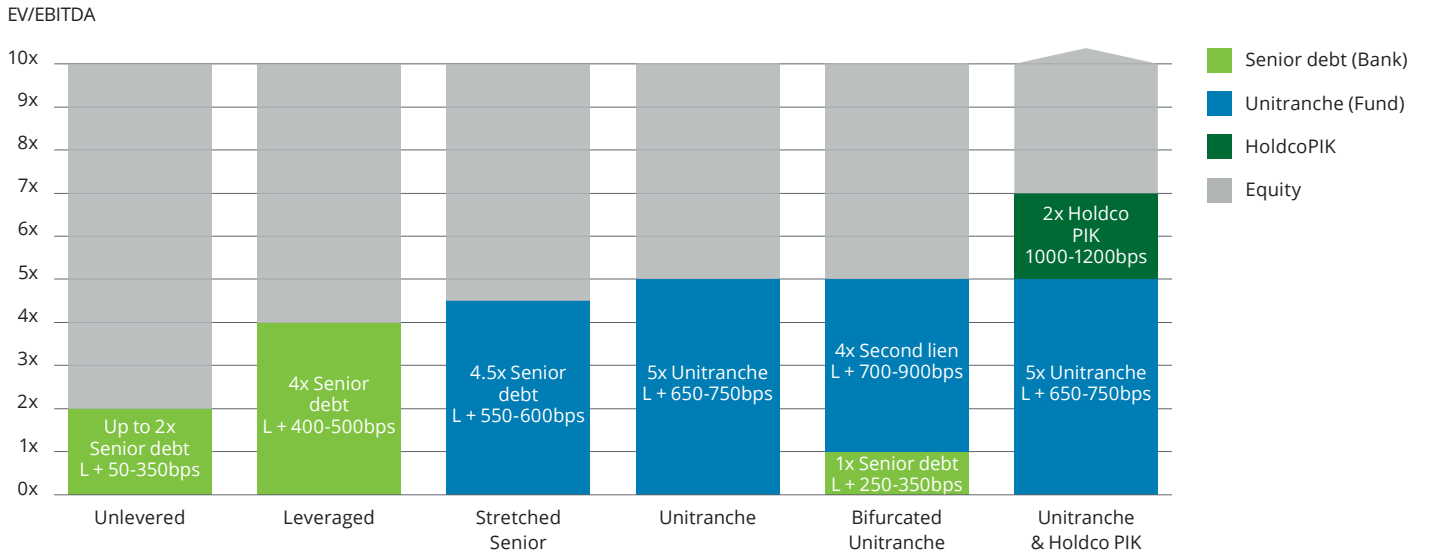
France

aperacapital, ARDIAN, ARES, bpifrance, CVC, BLACKROCK, cerea PARTNERS, emz, HAYFIN, CAPZA, GSO CAPITAL PARTNERS, KARTESIA, INCUS CAPITAL, ICG, idinvest, KKR, PEMBERTON, PERMIRA, Partners Group, ROTHSCHILD

Especially focused on Euro PP: Amundi, Artemid, cerea PARTNERS, idinvest

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.

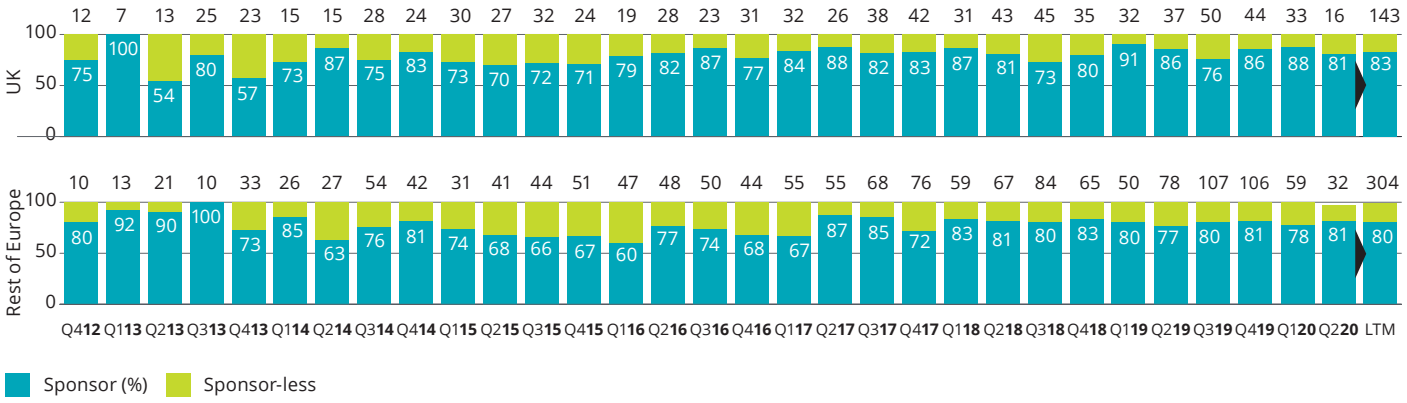
Key advantages

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



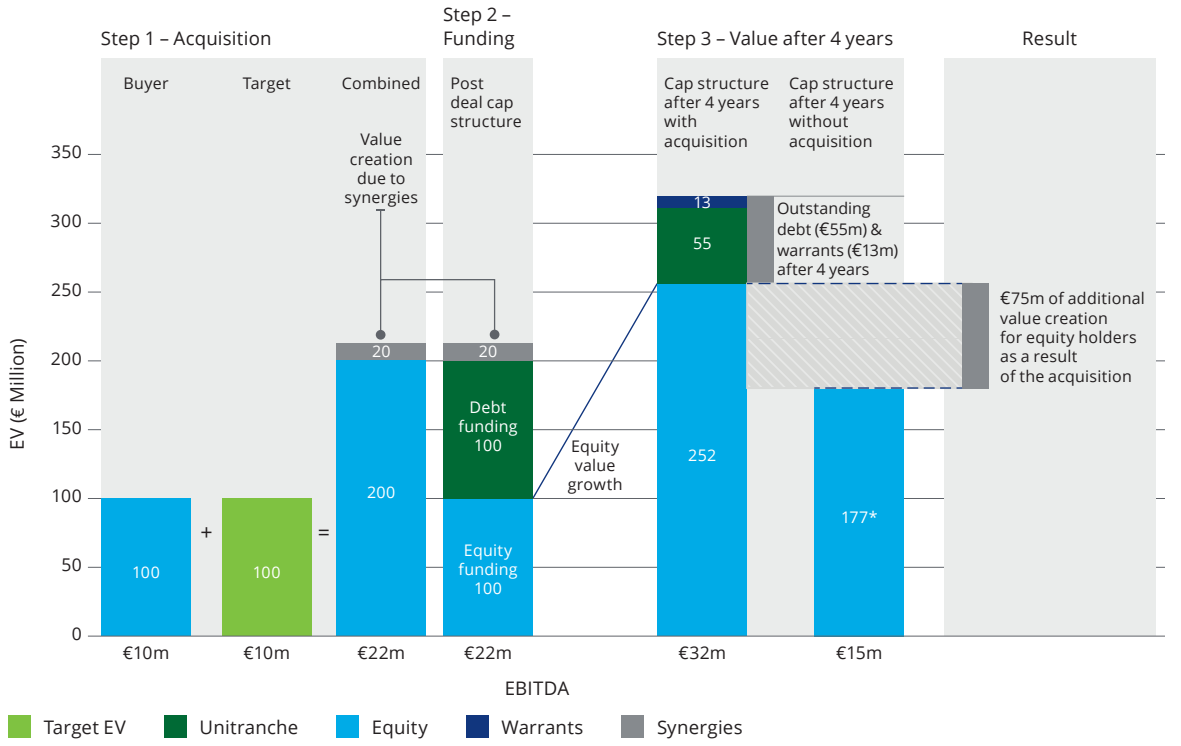
Unlocking transformational acquisitions for privately owned companies

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

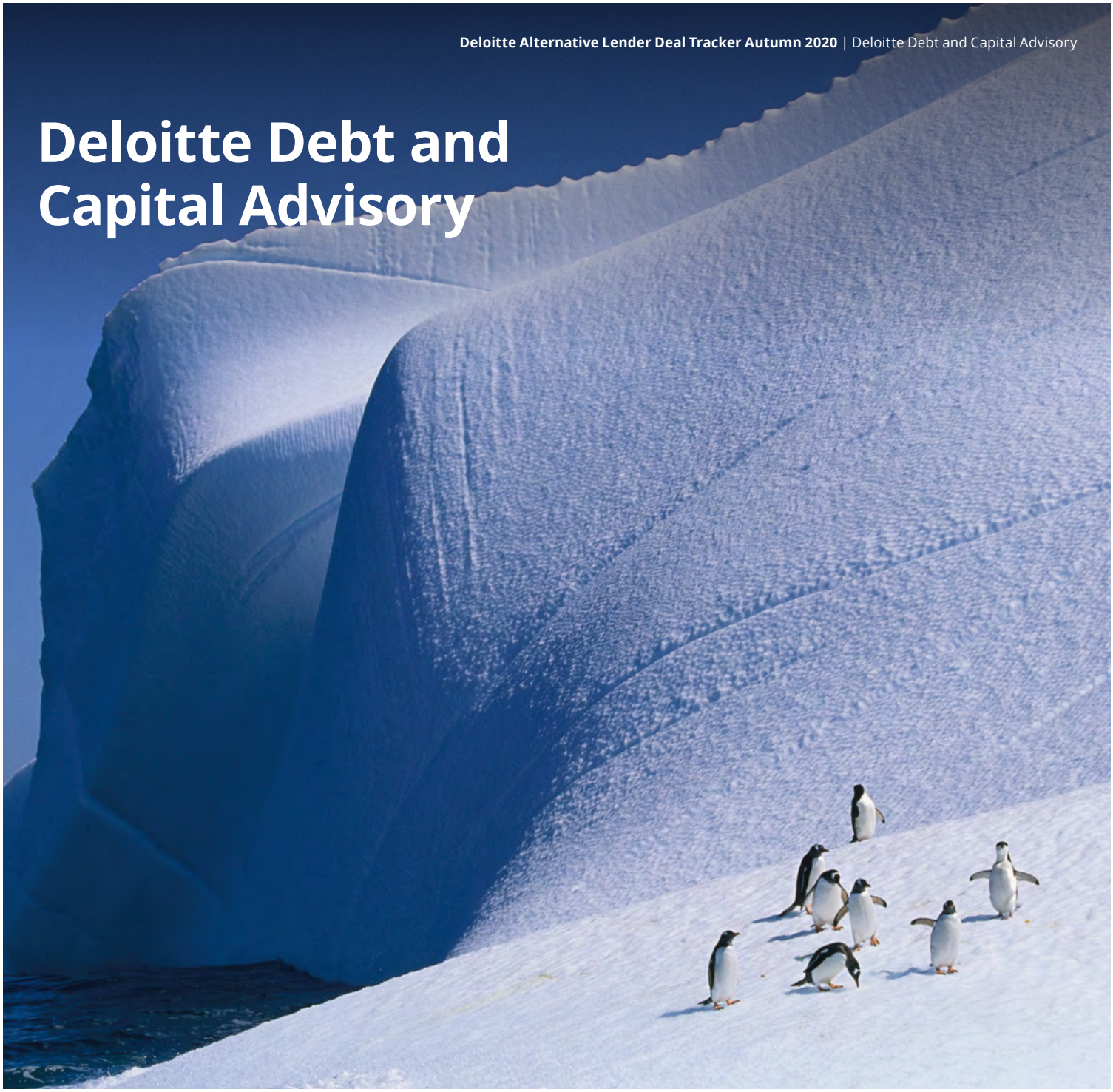


*EV is c.€147m and with c.€30m cash on balance sheet brings the equity value to c.€177m.

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

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

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	

Global Deloitte Debt and Capital Advisory

One of the most successful Debt and Capital Advisory teams

UK Partners

Chris Skinner
Partner, Head UK Debt & Capital Advisory
+44 (0) 20 7303 7937
chskinner@deloitte.co.uk

John Gregson
Partner
+44 (0) 20 7007 1545
jogregson@deloitte.co.uk

Karlien Porre
Partner
+44 (0) 20 7303 5153
kporre@deloitte.co.uk

Nick Soper
Partner
+44 (0) 20 7007 7509
nsoper@deloitte.co.uk

Phil Adam
Partner
+44 (0) 20 7007 0308
pdadam@deloitte.co.uk

UK Team

Mark Beckett
Director
+44 (0) 20 7303 7849
mbeckett@deloitte.co.uk

Robert Connold
Director
+44 (0) 20 7007 0479
rconnold@deloitte.co.uk

Andrew Cruickshank
Director
+44 (0) 20 7007 0522
acruickshank@deloitte.co.uk

Alex Dugay
Director
+44 (0) 20 7007 9593
adugay@deloitte.co.uk

Paolo Esposito
Director
+44 (0) 20 7007 8964
pesposito@deloitte.co.uk

Steve Mowll
Director
+44 (0) 20 7303 4099
smmowll@deloitte.co.uk

Henry Pearson
Director
+44 (0) 20 7303 2596
hepearson@deloitte.co.uk

Carl Sharman
Director
+44 (0) 20 7007 7128
casharman@deloitte.co.uk

Adam Sookia
Director
+44 (0) 113 292 1927
asookia@deloitte.co.uk

Priya Veerapen
Director
+44 (0) 20 7007 7339
pveerapen@deloitte.co.uk

Tao Foo
Assistant Director
+44 (0) 20 3741 2135
taofoo@deloitte.co.uk

Ben James
Assistant Director
+44 (0) 20 7303 2467
benjames@deloitte.co.uk

Michael Keetley
Assistant Director
+44 (0) 20 7303 0384
mikeetley@deloitte.co.uk

Alice De Lovinfosse
Assistant Director
+44 (0) 20 7007 6220
adelovinfosse@deloitte.co.uk

Ikaros Matsoukas
Assistant Director
+44 (0) 20 7303 5841
imatsoukas@deloitte.co.uk

Alex Skeaping
Assistant Director
+44 (0) 20 7007 7881
askeaping@deloitte.co.uk

Carl Stevenson
Assistant Director
+44 (0) 20 7007 7672
carlstevenson@deloitte.co.uk

Allen West
Assistant Director
+44 (0) 20 7303 0997
allenwest@deloitte.co.uk

Sam White
Assistant Director
+44 (0) 113 292 1224
sawhite@deloitte.co.uk

Luka Bankovich
Manager
+44 (0) 20 7007 7480
lbankovich@deloitte.co.uk

James Blastland
Partner
+44 (0) 20 7303 7502
jblastland@deloitte.co.uk

Anil Gupta
Partner
+44 (0) 113 292 1174
anilgupta@deloitte.co.uk

George Fieldhouse
Director
+44 (0) 20 7007 2612
gfieldhouse@deloitte.co. uk

Zoe Harris
Director
+44 (0) 20 7007 9723
zzharis@deloitte.co.uk

Louise Harvey
Director
+44 (0) 20 7303 3476
louiseharvey@deloitte.co.uk

Roger Lamont
Director
+44 (0) 20 7007 7731
rolamont@deloitte.co.uk

Jamie Mehmood
Director
+44 (0) 20 7007 7818
jmehmood@deloitte.co.uk

Adam Worraker
Director
+44 (0) 20 7303 8347
aworraker@deloitte.co.uk

Naeem Alam
Assistant Director
+44 (0) 20 7007 3655
nalam@deloitte.co.uk

Tom Birkett
Assistant Director
+44 (0) 20 7007 9758
tbirkett@deloitte.co.uk

Helen Dunmore
Assistant Director
+44 (0) 113 292 1871
hdunmore@deloitte.co.uk

Lucy Fall
Assistant Director
+44 (0) 20 7007 2472
lfall@deloitte.co.uk

John Pardoe
Assistant Director
+44 (0) 20 7007 4154
jpardoe@deloitte.co.uk

Shefali Prakash
Assistant Director
+44 (0) 20 7007 5826
shefaliprakash@deloitte.co.uk

Holly Rainford
Assistant Director
+44 (0) 161 455 6497
hrainford@deloitte.co.uk

Gareth Read
Assistant Director
+44 (0) 20 7303 7517
gdread@deloitte.co.uk

Svenja Schumacher
Assistant Director
+44 (0) 20 7007 9363
sschumacher@deloitte.co.uk

Louis-Ferdinand Bravard
Manager
+44 (0) 20 3741 2742
lbravard@deloitte.co.uk

Laurence Brunt
Manager
+44 (0) 20 7007 4381
lbrunt@deloitte.co.uk

Adina Dumitru
Manager
+44 (0) 20 7007 4064
adumitru@deloitte.co.uk

Will Durgan
Manager
+44 (0) 20 7007 1618
wdurgan@deloitte.co.uk

Hamish Elsey
Manager
+44 (0) 20 7303 5916
haelsey@deloitte.co.uk

UK Team

Anni Gibson
Manager
+44 (0) 20 7303 0153
anngibson@deloitte.co.uk

Varun Goel
Manager
+44 (0) 78 8100 8460
varugoel@deloitte.co.uk

Ankush Gupta
Manager
+44 (0) 20 7303 2330
ankushgupta@deloitte.co.uk

Manuel Hamel
Manager
+41 58 279 6373
manhamel@deloitte.ch

Emily Harvey
Manager
+44 (0) 20 7303 4814
emiharvey@deloitte.co.uk

Otto Jakobsson
Manager
+44 (0) 20 7007 3028
ojakobsson@deloitte.co.uk

Shazad Khan
Manager
+44 (0) 20 3741 2051
stkhan@deloitte.co.uk

Wangyu Kim (Q)
Manager
+44 (0) 20 7303 8248
wakim@deloitte.co.uk

Tyler Lovas
Manager
+44 (0) 20 7303 2092
tylerlovas@deloitte.co.uk

Ernesto Martínez
Manager
+44 (0) 20 7007 2724
ernestomartinez@deloitte.co.uk

Tim Mercorio
Manager
+44 (0) 20 7665 1801
timercorio@deloitte.co.uk

Dimitris Pantermalis
Manager
+44 (0) 20 7303 5047
dpantermalis@deloitte.co.uk

Goutham Panthulu
Manager
+44 (0) 20 7303 7636
gpanthulu@deloitte.co.uk

Tomas Reto
Manager
+44 (0) 1727 885221
treto@deloitte.co.uk

Alexis Santis
Manager
+44 (0) 20 7007 8062
alsantis@deloitte.co.uk

Rishabh Shah
Manager
+44 (0) 20 7007 5869
rishshah@deloitte.co.uk

Tom Spellins
Manager
+44 (0) 20 7007 1774
tomspellins@deloitte.co.uk

June Shi
Manager
+44 (0) 20 7007 5195
juneshi@deloitte.co.uk

Tom Tarrant
Manager
+44 (0) 20 7007 6247
ttarrant@deloitte.co.uk

Joe Tipton
Manager
+44 (0) 20 7303 0428
jtipton@deloitte.co.uk

Sam Adejumo
Assistant Manager
+44 (0) 20 7007 8208
saadejumo@deloitte.co.uk

Tinu Fagbohun
Assistant Manager
+44 (0) 20 7007 9962
tfagbohun@deloitte.co.uk

Aleks Jaunkains
Assistant Manager
+44 (0) 20 7303 4680
ajaunkains@deloitte.co.uk

Hannah Kirkup
Assistant Manager
+44 (0) 113 292 1564
hkirkup@deloitte.co.uk

Lynn Li
Assistant Manager
+44 (0) 161 455 6569
yingli@deloitte.co.uk

Mishka Lalla
Assistant Manager
+44 (0) 20 7007 0061
mlalla@deloitte.co.uk

Philippa Raal
Assistant Manager
+44 (0) 20 7007 3829
praal@deloitte.co.uk

Megan de Jager
Assistant Manager
+44 (0) 20 7007 5914
megandejager@deloitte.co.uk

Harry Nicholas
Assistant Manager
+44 (0) 20 7303
hanicholas@deloitte.co.uk

Ryan Pammen
Senior Associate
+44 (0) 20 3741 2310
rpammen@deloitte.co.uk

Global senior team

Australia

Amber Faulkner-Shotter
+61 (2) 9322 7702
afaulkner-shotter
@deloitte.com.au

Austria

Thomas Lahmer
+43 15 3700 2722
tlahmer@deloitte.at

Belgium

Sebastiaan Preckler
+ 32 2 800 28 35
spreckler@deloitte.com

Brazil

Reinaldo Grasson
+55 11 5186 1763
rgoliveira@deloitte.com

Canada

Andrew Luetchford
+1 41 6601 5277
aluetchford@deloitte.ca

Chile

Jaime Retamal
+56 22 729 8784
jaretamal@deloitte.com

China

Patrick Fung
+852 2238 7400
pfung@deloitte.com.hk

Czech Republic

Radek Vignat
+420 246 042 420
rvignat@deloittece.com

Denmark

Morten Husted Permin
+45 61 55 26 70
mpermin@deloitte.dk

France

Olivier Magnin
+33 1 4088 2885
omagnin@deloitte.fr

Germany

Axel Rink
+49 (69) 75695 6443
arink@deloitte.de

Greece

Ioannis Apostolakos
+30 210 678 1348
iapostolakos@deloitte.gr

India

Vishal Singh
+91 22 6185 5203
vvsingh@deloitte.com

Ireland

John Doddy
+353 141 72 594
jdoddy@deloitte.ie

Israel

Joseph Bismuth
+972 3 608 5554
jbismuth@deloitte.co.il

Italy

Andrea Azzolini
+39 283 325 700
aazzolini@deloitte.it

Japan

Haruhiko Yoshie
+81 80 443 51 383
haruhiko.yoshie
@tohmatsu.co.jp

Luxembourg

Pierre Masset
+352 45145 2756
pmasset@deloitte.lu

Mexico

Jorge Schaar
+52 55 5080 6392
jschaar@deloittemx.com

Netherlands

Alexander Olgers
+31 8 8288 6315
aolgers@deloitte.nl

Norway

Andreas Enger
+47 23 279 534
aenger@deloitte.no

Poland

Michal Lubieniecki
+48 22 5110 010
mlubieniecki
@deloittece.com

Portugal

Antonio Julio Jorge
+351 210 422 524
ajorge@deloitte.pt

Singapore

Richmond Ang
+65 6216 3303
rang@deloitte.com

South Africa

Brad Mc Dermott
+27 (0) 83 307 3277
brmcdermott
@deloitte.co.za

Spain

Aitor Zayas
+34 911 578 945
azayas@deloitte.es

Switzerland

Peter Nobs
+41 58 279 6065
panobs@deloitte.ch

Turkey

Başak Vardar
+90 212 366 60 94
bvardar@deloitte.com

UAE

Robin Butteriss
+971 4506 4857
robutteriss@deloitte.com

UK

Chris Skinner
+44 (0) 20 7303 7937
chskinner@deloitte.co.uk

USA

John Deering
+1 70 4333 0574
jdeering@deloitte.com

Deloitte UK/US Joint Venture

David Flemming
Senior Vice President
+1 (212) 313 1908
davfleming@deloitte.com

Deloitte Debt and Capital Advisory credentials

Selected Global transactions

UK Camira Fabrics *Amend & Extend* Sept 2020 Undisclosed	UK Phoenix Equity Partners *Acquisition Financing* Aug 2020 Undisclosed	UK A-Plan *Acquisition Financing* Aug 2020 Undisclosed	UK Accrol Group Holdings Plc *Refinancing* Aug 2020 $35m	UK NorthEdge Capital *Covid-19 support* Jul 2020 Undisclosed	South Africa Ndalamo Resource Pty Ltd *Debt Capacity Analysis* Jul 2020 Undisclosed
France Telenco *LBO Financing* Jul 2020 €105m	Belgium Glide Buyout Partners *Acquisition Financing* Jul 2020 Undisclosed	UK Confidential Norton *Covid-19 support* Jul 2020 £225m	UK Confidential Project Lexus *Subscription line Financing* Jun 2020 Undisclosed	UK Confidential Project Kite *Distressed Financing* Jun 2020 Undisclosed	UK Matalan *Refinancing* Jun 2020 Undisclosed
Belgium Galeria *C-19 Loan* Jun 2020 Undisclosed	UK Confidential Monaco *Covid-19 support* Jun 2020 £800m	UK Confidential Project Orchard *Acquisition Financing* Jun 2020 £11m	UK Horizon *Acquisition Financing* Jun 2020 Undisclosed	UK Confidential Project Galaxy *Liquidity Support* Jun 2020 Undisclosed	UK Livingbridge *Acquisition Financing* Jun 2020 £26m
UK Inflexion *Acquisition Financing* Jun 2020 Undisclosed	UK Halfords *COV-19* Jun 2020 £225m	UK Celsa *COV-19* Jun 2020 Undisclosed	UK Francisco Partners *Refinancing* May 2020 Undisclosed	UK Confidential Project Best *Covenant Amendment* May 2020 Undisclosed	NL & BEL acquiring Glide Buy Out Partners *Acquisition Financing* May 2020 Undisclosed

UK Confidential Lloyd *Covid-19 support* May 2020 £200m	UK Confidential Boron *Amend & Extend* May 2020 £250m	France Gifi Tati *Debt Advisory* May 2020 Undisclosed	UK Project Rocket Hg *Refinancing* May 2020 Undisclosed	Belgium Castelmore Group *Acquisition Financing* May 2020 Undisclosed	South Africa ABB South Africa (PTY) Ltd *Transfer Pricing of Debt* May 2020 Undisclosed
UK Hg *Incremental Facility* Apr 2020 Undisclosed	UK Confidential Violet *Amend & Extend* Apr 2020 €550m	UK Confidential Spring *Refinance* Apr 2020 £500m	UK Confidential Valentine *Amend & Extend* Apr 2020 £180m	UK Confidential Caspian *Refinance* Apr 2020 £80m	CH/UK/GER Gov of Switzerland *Refinancing* Apr 2020 Undisclosed
Ireland Travelwin Group DAC *Growth Financing* Apr 2020 Undisclosed	UK Confidential Windsor *Covid-19 support* Mar 2020 £320m	UK Confidential Steel *Covid-19 support* Mar 2020 £100m	Canada Espresso *Senior Debt* Mar 2020 C$60m	Canada Prompt *Senior Debt* Mar 2020 C$20m	France CDC *Project Finance* Mar 2020 Undisclosed
Belgium acquiring RVM Invest *Acquisition Finance* Mar 2020 Undisclosed	Germany Confidential Project Clipper *Refinancing* Mar 2020 €100m	US/UK Two Circles *Acquisition Financing* Mar 2020 Undisclosed	UK Marston Holdings *Acquisition Financing* Mar 2020 Undisclosed	UK Ergomed *Refinancing* Mar 2020 £15m	UK Doncasters *Refinancing* Mar 2020 £70m

Selected Global transactions

UK/Germany	UK/Denmark	NL/BE	Belgium	South Africa	Canada
Medifox *Refinancing*	Collectia *Acquisition Financing*	Int. Car Lease Holding *Refinancing*	Van Mossel *Acquisition Finance*	Busamed Group *Restructure*	ADP Direct Poultry *Acquisition Financing*
Feb 2020 Undisclosed	Feb 2020 Undisclosed	Feb 2020 Undisclosed	Feb 2020 Undisclosed	Feb 2020 Undisclosed	Jan 2020 $49m

Poland	UK	India	UK/US	Poland	UK
BaseCamp Student *Construction Facility*	Logicalis *Refinancing*	AGP CGD India Pvt Ltd *Project Finance*	MCRA *Refinancing*	BIK S.A. *Construction Facility*	BES Utilities *Refinancing*
Jan 2020 $18m	Jan 2020 $160m	Dec 2019 $70m	Dec 2019 $49m	Dec 2019 $18m	Dec 2019 Undisclosed

Netherlands	Netherlands	S.A./UK	Netherlands	Poland	UK
Capital A *Acquisition Finance*	Floryn *Senior Secured RCF*	Actis Capital *Transfer Pricing of Debt*	Gryphion *Acquisition Financing*	BaseCamp Student *Top-up Facility*	Exercise4Less *Refinancing*
Dec 2019 Undisclosed	Nov 2019 €25m	Nov 2019 Undisclosed	Nov 2019 Undisclosed	Nov 2019 $3m	Oct 2019 Undisclosed

Italy	Spain	Netherlands	Netherlands	Netherlands	UK
Orienta Partners *Acquisition Financing*	Artá Capital *Acquisition Financing*	Energyst *Lease Financing*	Energyst *Debt Advisory*	Icelake Capital *Acquisition Financing*	Access *Incremental Facility*
Oct 2019 €33m	Oct 2019 Undisclosed	Sep 2019 Undisclosed	Sep 2019 Undisclosed	Sep 2019 Undisclosed	Sep 2019 Undisclosed

Spain/NL	Belgium	UK	UK	S.A./Europe/USA	UK
THE STUDENT HOTEL	Van Mossel BRUYNINX	GraphiteCapital	Marley	BELL	AFI group of companies
The Student Hotel ***Refinancing & Growth Financing***	Van Mossel Bruyninx ***Refinancing***	Graphite ***Acquisition Finance***	Inflexion ***Acquisition Financing***	Bell Equipment Limited ***Capital Structure Advisory***	AFI ***Acquisition Finance***
Aug 2019 €89m	Aug 2019 Undisclosed	Aug 2019 Undisclosed	Aug 2019 Undisclosed	Aug 2019 ZAR1.5bn	Aug 2019 £160m

Dem. Rep. Congo	UK/Denmark	South Africa	Poland	N'lands/Spain	Spain
PPC CEMENT	EMK Capital Enterprise Management Knowledge	PPC CEMENT	BASE CAMP	THE STUDENT HOTEL	Trebol CENTER
PPC Limited ***Debt Pricing Advisory***	Covidence ***Acquisition Finance***	PPC Limited ***Credit Rating Advisory***	Basecamp ***Refinancing***	The Student Hotel ***Development Finance***	Grupo Trebol ***Refinancing***
Aug 2019 $196m	Aug 2019 Undisclosed	Aug 2019 Undisclosed	Aug 2019 $15m	Aug 2019 Undisclosed	Jul 2019 €15m

Spain	Netherlands	UK	UK	Poland	Ireland
Confidential	Aethon Mentha Capital acquiring samen professionals	LEADERS ROMANS GROUP	Cogital GROUP	VISTAL GDYNIA S.A.	WATERLAND PRIVATE EQUITY INVESTMENTS
Transport Hub ***Refinancing***	Aethon/Mentha Capital ***Acquisition Financing***	Leaders Romans Group ***Growth Financing***	Cogital ***Refinancing***	Vistal Gdynia ***Restructuring***	Waterland P.E. ***LBO***
Jul 2019 Undisclosed	Jun 2019 Undisclosed	Jul 2019 Undisclosed	Jul 2019 Undisclosed	Jul 2019 $58m	Jul 2019 Undisclosed

Netherlands	Belgium	N'lands/Belgium	Netherlands	Netherlands	Belgium
AIRCRETE	deceuninck	INTERNATIONAL CAR LEASE HOLDING always in motion	bakker bart Bakkerstreet	pci	media dpg
Aircrete Europe ***Acquisition Financing***	Deceuninck ***Green Loan Refinancing***	Int. Car Lease Holding ***Amendments club deal***	Bakker Bart ***Acquisition Financing***	PCI ***Refinancing***	DPG Media ***Amendment club deal***
Jul 2019 Undisclosed	Jul 2019 Undisclosed	Jul 2019 Undisclosed	Jul 2019 Undisclosed	Jul 2019 Undisclosed	Jun 2019 Undisclosed

Notes

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