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Private debt activity bounces back in Q4 at the prospect of softer interest rates

Deloitte Private Debt Deal Tracker Spring 2024



This issue covers data for the second half of 2023 and includes 330 new private debt deals.

This represents a 25% increase in activity from H1 2023, however, when annualised, reflects a 20% decrease in activity compared to 2022.

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Private Debt Deal Tracker: Introduction



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Private debt lenders
contributing to data



Deals completed
to date

The topic at the forefront of most minds is whether 2024 will see a return to levels of deal activity observed in 2022. Predicting that outcome is possibly harder than ever – with recent macroeconomic datapoints often either reversing prior month trends or contradicting related figures. In January, most economic indicators were flashing green – but, if the latter half of 2023 is anything to go by, it is hard to say whether January’s gains are truly indicative of an improving economy. Starting with the positives – in the UK, the housing market rose by 1.3% between December and January, reaching levels last seen in October 2022, and mortgage approvals rebounded to a 5-month high, as mortgage rates fell in anticipation of potential interest rate cuts later this year. Inflation also dropped from an October 2022 peak of 11.1% to 3.9%, and the unemployment rate fell to 3.8% in Q4 2023. As we touch on later in this edition, sentiment amongst UK CFOs also rose to an 18-month high. Despite this, the UK fell into a ‘technical’ recession at the end of 2023.

Similar trends were observed in the US, with mortgage applications up 7.3% in January – as demand for housing picked up, – inflation falling to 3.1%, 200k new jobs being added in December, but output in the manufacturing sector contracting for the 4th consecutive month. At the heart of it all is geopolitics – continued tension between the US and China, ongoing conflict in Ukraine and the Middle-East, and a series of national elections in 2024 all offer multiple opportunities to derail January’s good news. Much like the lag in the impact of changes to interest rates, conflict in the Red Sea is yet to filter through in corporate earnings, but the effects are real for many who are reliant upon it as a route of

supply – container freight rates have doubled in the year-to-date, and shipping times have increased by 20 days.

So, that's a high-level view of the macroeconomic picture. But what does our deal data tell us?

Well, taken cold, volumes reported to Deloitte suggest 2023 was a challenging year for the non-bank lending market and borrowers of its capital. Deal count was just shy of 600, down 20% from 2022, and 50% of those with a reported leverage were struck below 4x (by contrast, leverage above 4x accounted for 62% of deals in 2022)¹. Similar to the macro assessment, this isn't necessarily a true reflection of the state of the market, and there is reason for optimism within the data. Firstly, deal volumes increased by 34% from Q3 to Q4, resulting in 330 deals being completed in H2 vs. 263 in H1 (+25%). Secondly, 33% of deal activity related to leveraged buyouts – down from 40-45% (based on recent averages) but still reflective of almost 200 LBOs in Europe. So, with some green shots – and if H2 is anything to go by – 2024 could potentially be a much more promising year.

The public loan markets also opened strongly in 2024, with a wall of repricing's hitting the market in January and February. Ironically, a number of large direct lending deals struck in 2022 and early 2023 acted as an origination pipeline for underwriting banks pitching cheaper, syndicated refinancings following the expiry of non-call periods. And for good reason – according to LCD, single B credits are clearing at E+400 in the public market (a c.75bp margin saving on average from the same point last year) and with little OID. Despite what was widely touted as an expanding opportunity set for direct lenders, the large-cap end of the market is now highly-competitive, though whether that remains consistent

is the question given how unpredictable the public market has been in recent years.

What we do know is that many of these arrangers have, in recent years, formed highly-credible direct lending vehicles of their own – and now Goldman Sachs, Morgan Stanley and JP Morgan, as notable examples, can service borrowers across size and product depending upon their needs. Indeed, credible examples of the public and private markets working together harmoniously to provide a flexible and diverse source of funding are emerging – Ardonagh most recently pricing a unitranche and bond refinancing where the two main tranches of debt ranked *pari passu*. This is innovative in the sense that it allows the borrower to access either (or both!) markets when it looks to raise further capital for acquisitions or to refinance. Irrespective, there will always remain a need for the public markets – both debt and equity – when it comes to scale. There was talk of the first 10bn private credit deal at IPEM in Cannes this January, which in itself is probably a good example – let's say, for argument's sake, there is a 40% equity cushion in that deal, that would imply a c.17bn market cap business. The exit routes available in deals of this scale are far reduced and most likely rely on an IPO.

The private markets' ability to adapt and provide innovative solutions in nuanced times is also evident in the secondaries market. According to a report by Bloomberg, private equity LPs had the lowest amount of cash returned to them from their investments in 2023 since the Global Financial Crisis ("GFC") – distributions to LPs totalled 11.2% of funds' net asset value (the lowest since 2009), below the 25% median figure over the past 25 years. Enter the secondaries market

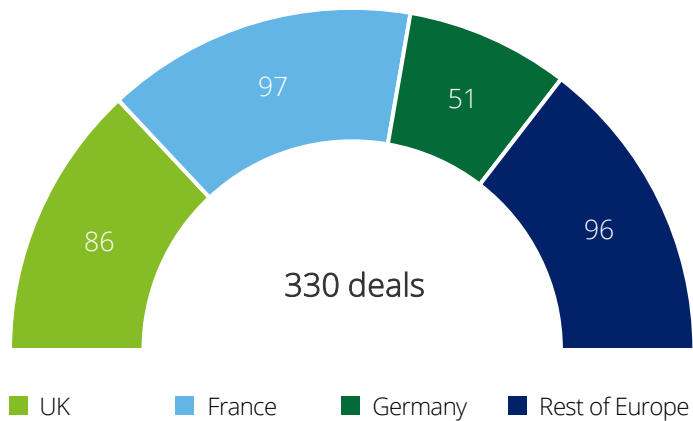
¹where leverage is reported to us (c.35% of deals)

which, to a degree, stepped in to fill this void, providing a reliable source of liquidity to investors looking to free up capital for new commitments. Despite some alleviation of pressure, the ability to commit to new funds remains a challenge, resulting in continued concentration to the largest firms in both the PE and private debt markets. Indeed, competition amongst the top tier will remain rife, and as we touch on later in the edition, a number of GPs have pivoted to fee-only based revenue models in response. Only time will tell if underwriting standards can be maintained vs. today's predominant carry-based model.

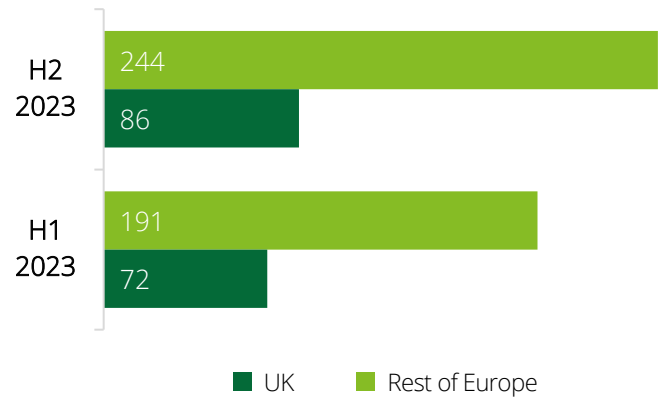
As the market continues to innovate, with it comes the risk of regulation, and private markets may eventually have to come to terms with increasing regulatory oversight as the banks did post-GFC. In recent months, the ECB, BoE and FCA all announced their review of the non-bank lending market, having warned it could pose a risk to financial stability. Whilst the regulators appear to acknowledge that private credit is somewhat more compartmentalised – on the basis that assets are valued quarterly and, possibly subjectively, there is the potential risk of “sharp revaluations” akin to that observed during the LDI crisis. Absent a black swan event, our view is that a perfect storm of issues (e.g., defaults, no exit route, and LP cross-holdings in both the equity and debt) would be required across a number of large portfolios for that to materialise. Whilst on the subject of valuation, Jefferies recently reported that Global Private Credit secondaries on average traded at 77 cents on the dollar in 2023. Absent a skew towards LPs reducing their exposure to poorly performing funds, this might suggest that either investors really are desperate for liquidity and are opting to limit exposure to vehicles where their upside is capped,

favouring those with the potential for higher returns, and / or the value of credit portfolios is overstated. Liquidity premium granted, in contrast the European Leverage Loan Index traded at 97as of the 21st February. Only time will tell, but if liquidity was the theme in 2023, it feels likely that valuation might dominate in 2024.

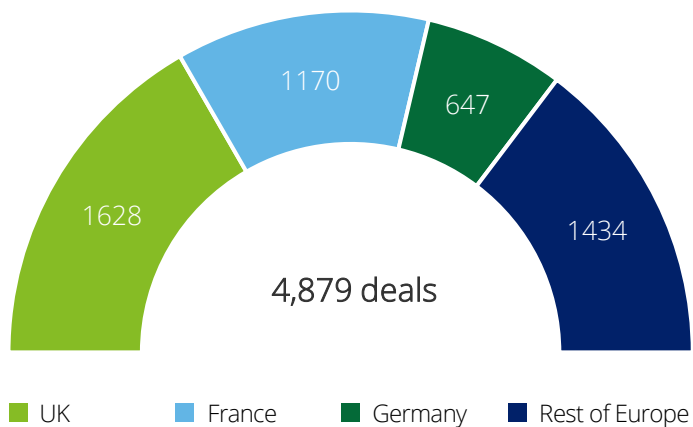
Total Deals Reported in H2 2023



H2 2023 vs. H1 2023 Comparison



Total Deals Reported Since Deal Tracker Inception



Borrowers access private debt 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. Private debt 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.

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Debt and Capital Advisory Credentials

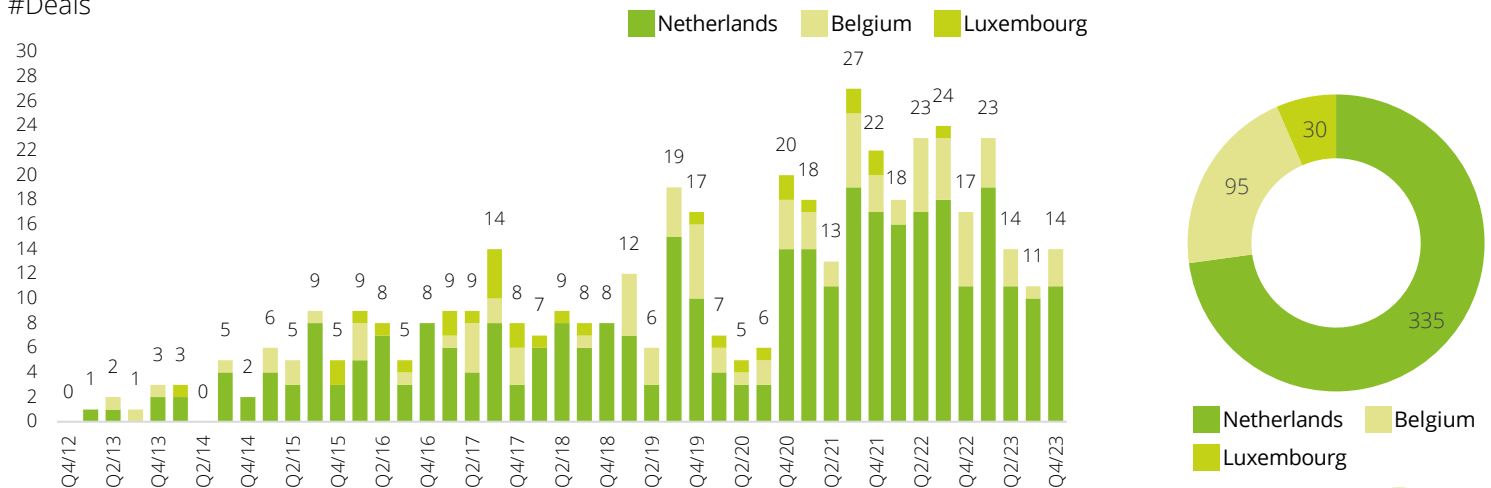
Recent Debt and Capital Advisory Transactions The Netherlands and Belgium

<p>Vendis Capital Acquisition Financing</p>   <p>2024 Undisclosed</p> <p>Netherlands</p>	<p>Rivean Capital Acquisition Financing</p>   <p>2023 Undisclosed</p> <p>Netherlands</p>	<p>everphone Structured Financing</p>  <p>2023 Undisclosed</p> <p>Netherlands</p>	<p>NPM Capital Acquisition Financing</p>   <p>2023 Undisclosed</p> <p>Netherlands</p>	<p>H.Essers Refinancing</p>  <p>2023 Undisclosed</p> <p>Netherlands</p>	<p>Group de Ceuster Acquisition financing</p>   <p>2023 Undisclosed</p> <p>Netherlands</p>
<p>Nordian Acquisition financing</p>   <p>2023 Undisclosed</p> <p>Netherlands</p>	<p>Smile Invest Acquisition financing</p>   <p>2023 Undisclosed</p> <p>Netherlands</p>	<p>Strada Acquisition financing</p>   <p>2023 Undisclosed</p> <p>Belgium</p>	<p>Icelake Acquisition financing</p>   <p>2023 Undisclosed</p> <p>Netherlands</p>	<p>Avedon Acquisition financing</p>   <p>2023 Undisclosed</p> <p>Netherlands</p>	<p>Gilde Equity Managem. Acquisition financing</p>   <p>2023 Undisclosed</p> <p>Netherlands</p>
<p>Smartfin Acquisition financing</p>   <p>2022 Undisclosed</p> <p>Belgium</p>	<p>Icelake Acquisition financing</p>   <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>3d_investors Acquisition financing</p>   <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Gilde Healthcare Acquisition financing</p>   <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>EAG Acquisition financing</p>   <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Bluecrux Refinancing</p>  <p>2022 Undisclosed</p> <p>Belgium</p>
<p>Capital A Refinancing</p>   <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Wajer Yachts Lender education</p>  <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Core Equity Holdings Acquisition financing</p>   <p>2022 Undisclosed</p> <p>Belgium</p>	<p>BearingPoint Caribb. Refinancing</p>  <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Bencis Capital Partners Acquisition financing</p>   <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Around Refinancing</p>   <p>2022 €50m</p> <p>Belgium</p>
<p>Rivean Capital Acquisition financing</p>   <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>BB Capital Acquisition financing</p>   <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>NPM Capital Acquisition financing</p>    <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Strikwerda Investments Acquisition financing</p>   <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Inflexion Acquisition financing</p>   <p>2022 €105m</p> <p>Netherlands</p>	<p>Arcline Acquisition financing</p>   <p>2022 Undisclosed</p> <p>Netherlands</p>

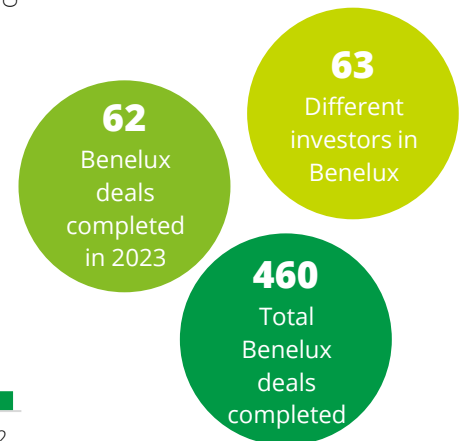
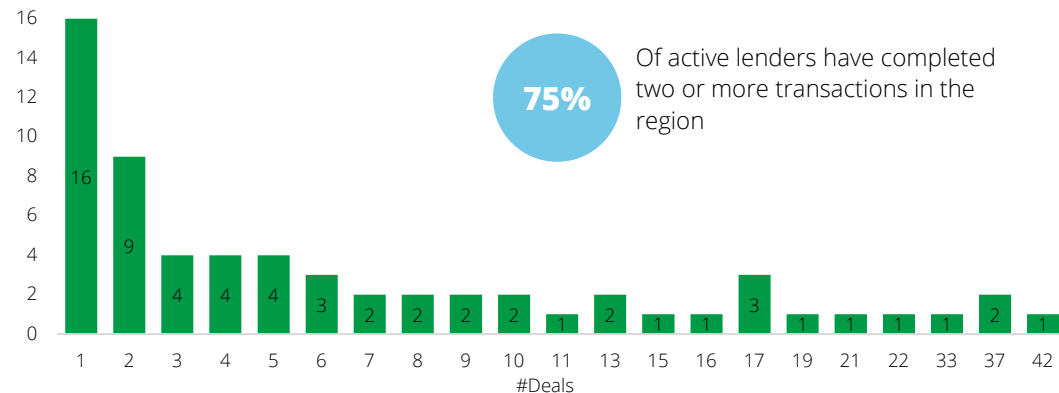
The interest of alternative lenders in the Benelux market has remained resilient in 2023

Private Debt Deal Tracker

#Deals



Deals completed by survey participants

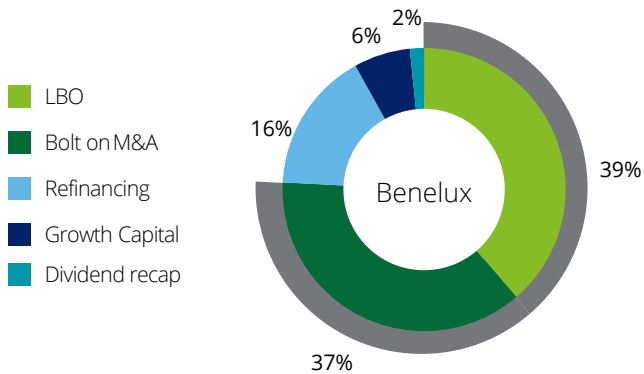


Source: Deloitte Analysis

Note: the number of contributors in the Deal Tracker varies quarter-by-quarter, implying that movements in Deal Volumes occur as a result of both minor variations in the number of Lenders contributing deal data, as well as underlying market conditions.

M&A remains the key driver for private debt deals in the Benelux, gaining importance compared to 2021

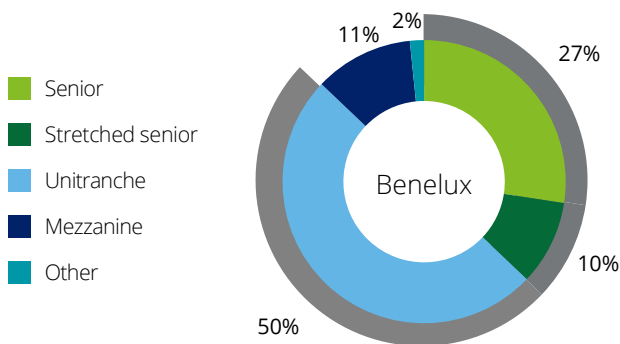
Deal purpose (2023)



The majority of deals in the Benelux region in 2023 were M&A related (76%), up from 61% in 2021. This is slightly higher than the levels in the UK and the rest of Europe where 70% of transactions were M&A related.



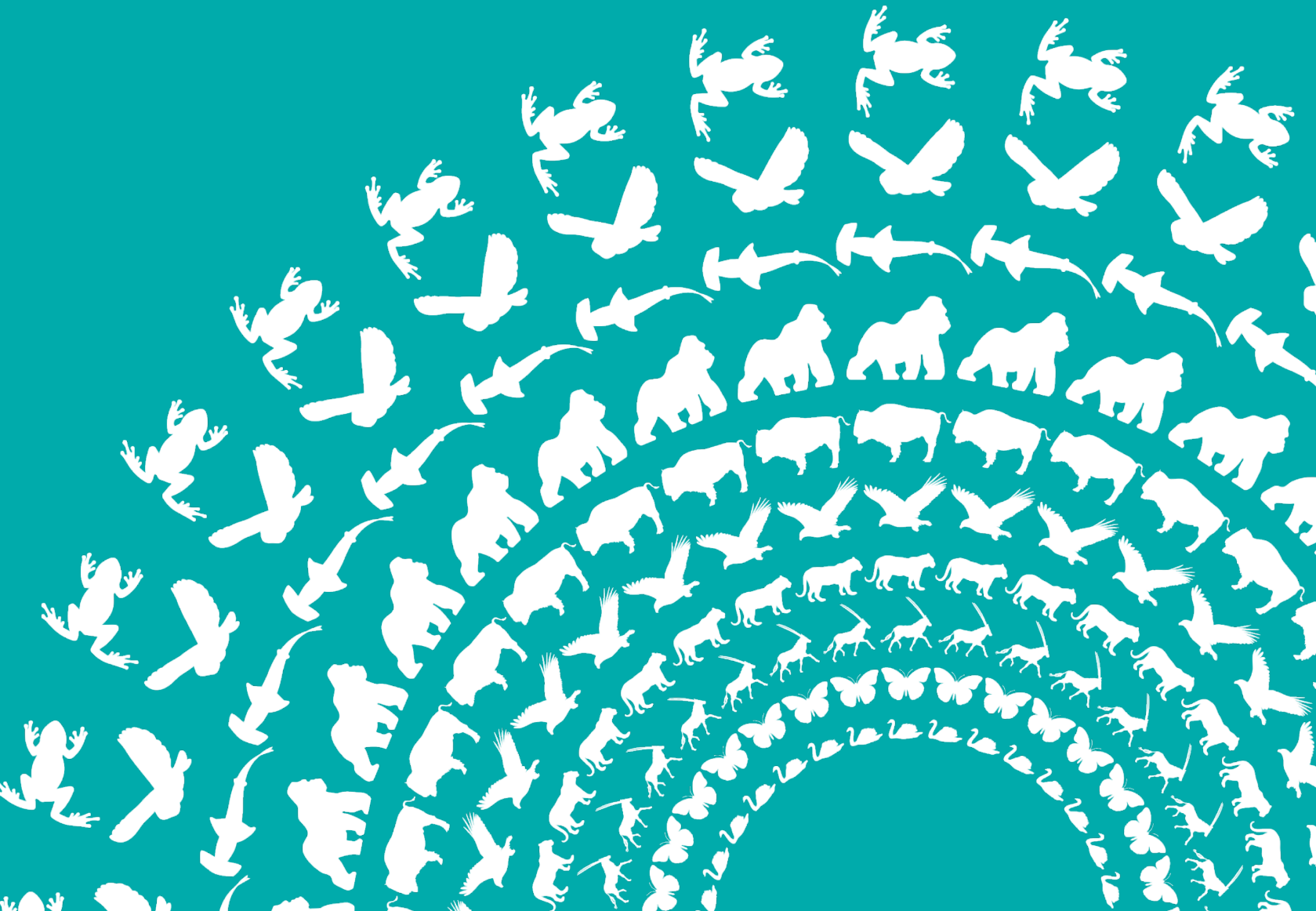
Deal structures (2023)



Half of the deals in the Benelux region in 2023 were structured as Unitranche. This is lower compared to the UK (67%), but in line with the rest of Europe (49%)



Interest Rate Risk Management – Navigating Through Conflicting Market Information



Interest Rate Risk Management – Navigating Through Conflicting Market Information

Could disinflation spark an end to hawkish monetary policies, or are market expectations of interest rate cuts in 2024 too optimistic?

'Interest rates will have to stay high enough for long enough' - Andrew Bailey, Governor of the Bank of England (20 Nov. 2023)

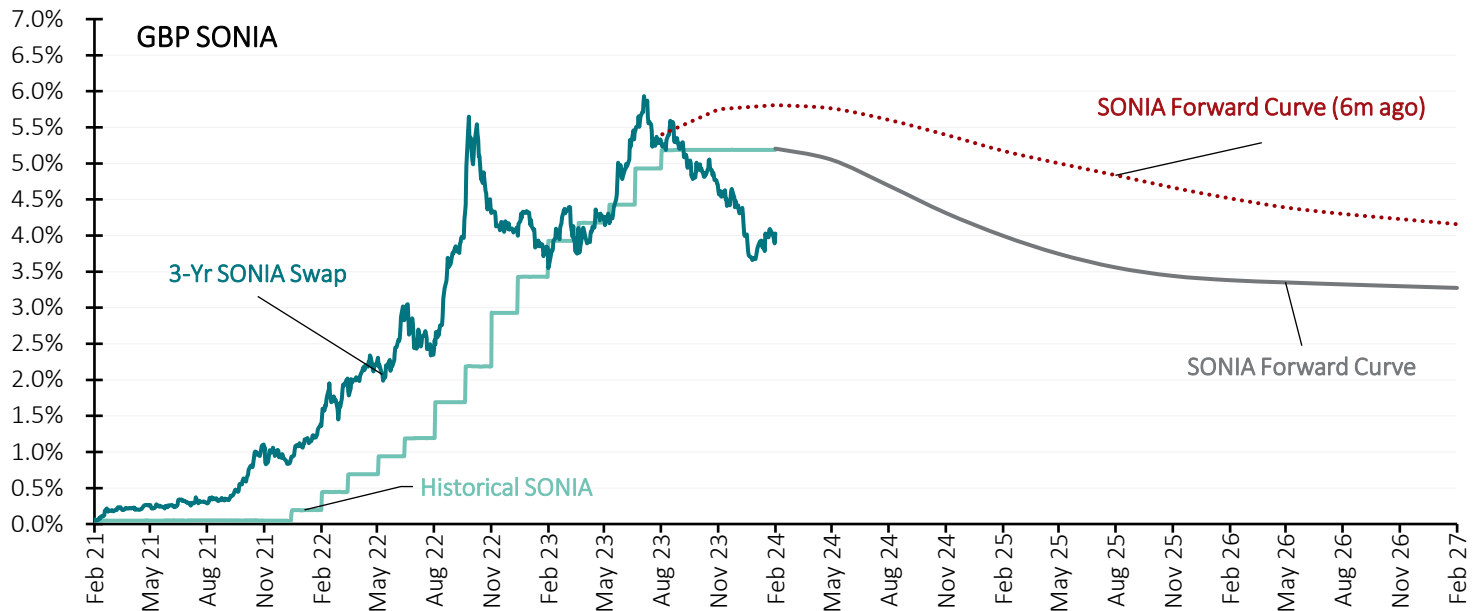
Reflections – What has happened in the markets?

Since December 2021, central banks across the G10 have been steadily raising rates in a bid to manage inflationary pressures. This has led to a period of record high interest rates across the globe, not seen since the Global Financial Crisis. However, by the end of Q3 2023 headline CPI appeared to plateau and, in some cases, began to decline – edging closer to the target of 2%. As such, both the Bank of England (“BOE”) and the Federal Reserve Board (“FED”) led the charge in breaking a cycle of rate hikes, and instead opting to maintain base rate levels (5.25% and 5.25-5.50% respectively); the European Central Bank (“ECB”) followed suit shortly thereafter (remaining at 4.00%).

The UK, US and Eurozone central banks have remained largely tight-lipped indicating their intention to adhere to a data-driven approach to setting policy rates – suggesting there is “still a long way to go.” Meanwhile, fuelled by month-on-month drops in inflation data throughout the course of last year, markets have continued to anticipate that central banks will begin adopting a more dovish monetary policy and thus begin to cut rates at a quick pace, initially pricing in cuts as early as Q3 2023 – a target which has been continuously shifting further out in response to sticky inflation not allowing central banks to cut rates sooner.



Reflections – What has happened in the markets? *(continued)*



Where does that leave us today? As can be seen from the forward curve, markets are continuing to price in steep rate cut expectations of up to 150bps for 2024. This reflects the slight easing in narrative from the central banks, with Jerome Powell signalling that rate cuts were on the horizon. However, all 3 central banks have erred on the side of caution stating that “policy rates will be set at sufficiently restrictive levels for as long as necessary”, thus suggesting rate cuts may not crystallise as soon as markets or investors are hoping.

Source: ICE and Refinitiv, 02 February 2024

What does the current environment mean for managing interest rate risks?

The downward sloping interest rate curve for the UK, US and Eurozone is based on the assumption that the central banks will cut rates. As a consequence, this opens up several opportunities and tactics for interest rate risk management:

a) Hedging your interest payments using an interest rate swap allows you to not only have certainty over future cashflows, but also lock in a rate at a discount to the current floating rate, lowering cash outflows in the short term. For example, the 4-year SONIA swap rate is 3.880% vs the underlying SONIA rate of 5.189%, a discount of over 130bps. Depending on inflation numbers and the wider economic performance, if the respective central banks do not implement the rate cuts priced in the curve, then the hedges executed now would become assets, and locking in rates would have been more advantageous compared to remaining floating.

b) Longer term hedges are cheaper than shorter term hedges: taking advantage of the current market environment, where corporates are due to refinance or raise new debt in the foreseeable future, pre-hedging future debt (for example through interest rate swaptions or interest rate swaps with a mandatory break) is cheaper than current hedge rates. For example, a 4-year interest rate swap starting today on £100m notional, prices at 3.88%. If this same structure has a start date in 9 months, the swap prices at 3.49%, almost a 40bps saving.

c) Existing derivative asset positions can be used to lower future cash flows: following the substantial rise in interest rates over the last two years, those who elected to hedge earlier on and are still in possession of the interest rate swap may find themselves holding a large asset. These conditions present an opportunity for borrowers to consider “blend and extend” strategies, whereby they can leverage the mark-to-market of their existing swap to immediately extend the tenor at favourable hedge rates and therefore minimise the strain on future cash flow. This is particularly useful where companies are looking to extend their debt or have underlying debt running for longer than their current hedge.

d) Use of a Step-down Cap: as the cost of Interest Rate Caps reflects the volatility in future rate movements, such hedge products have historically been expensive in periods of market uncertainty, often resulting in Cap strikes needing to be placed significantly out-of-the-money (OTM) to reduce upfront premia. Interest Rate Caps are particularly popular amongst corporates with debt from alternative lenders given their lack of credit requirement (unlike swaps) and the possibility to purchase from 3rd party bank counterparties.

In recent times, given the expectations of future rate cuts – striking on a single OTM level does not provide significant protection in the longer term. The use of a Step-down Cap allows corporates to apply varying strike levels closer to that of the rate expectations presented in the forward curve whilst remaining OTM to reduce the option premium over the life of the Cap.

How can Deloitte help?

Alternative lenders are limited in their ability to provide a substantial range of hedge products. As such, borrowers that consider hedging via a swap may have to leverage existing bank relationships with a credit line – owing to the credit intensive nature of such a product. Where borrowers do not have existing credit relationships, the use of external advisors, can be helpful in finding suitable additional hedge counterparties. Our Hedging Advisory team is ideally positioned in the marketplace, between alternative lender and borrower, to give expert advice on structuring a derivative to match the underlying debt profile and risk appetite of the client. Additionally, our debt advisory team can assist with ensuring a debt facility has sufficient capacity to fund any upfront premiums relevant to Interest Rate Caps.

Deloitte Hedging Advisory

Deloitte's [Hedging Advisory and Derivative Execution](#) team has vast experience advising clients on the use of financial derivatives, and collectively executing billions of pounds' worth of hedging transactions for some of the largest private credit fund managers globally. This, coupled with the broader Deloitte service offerings, allows for an integrated approach to managing our clients' risk management requirements.

Authors

Nishma is a Manager in the Hedging Advisory and Derivatives Execution team based in London. She has over 5 years of experience working across a range of roles in Treasury in both banking and corporate environment operating in Europe, Asia and the US. Nishma has a wealth of knowledge pertaining to use of financial risk management derivatives, including FX, Interest Rates and Commodity.

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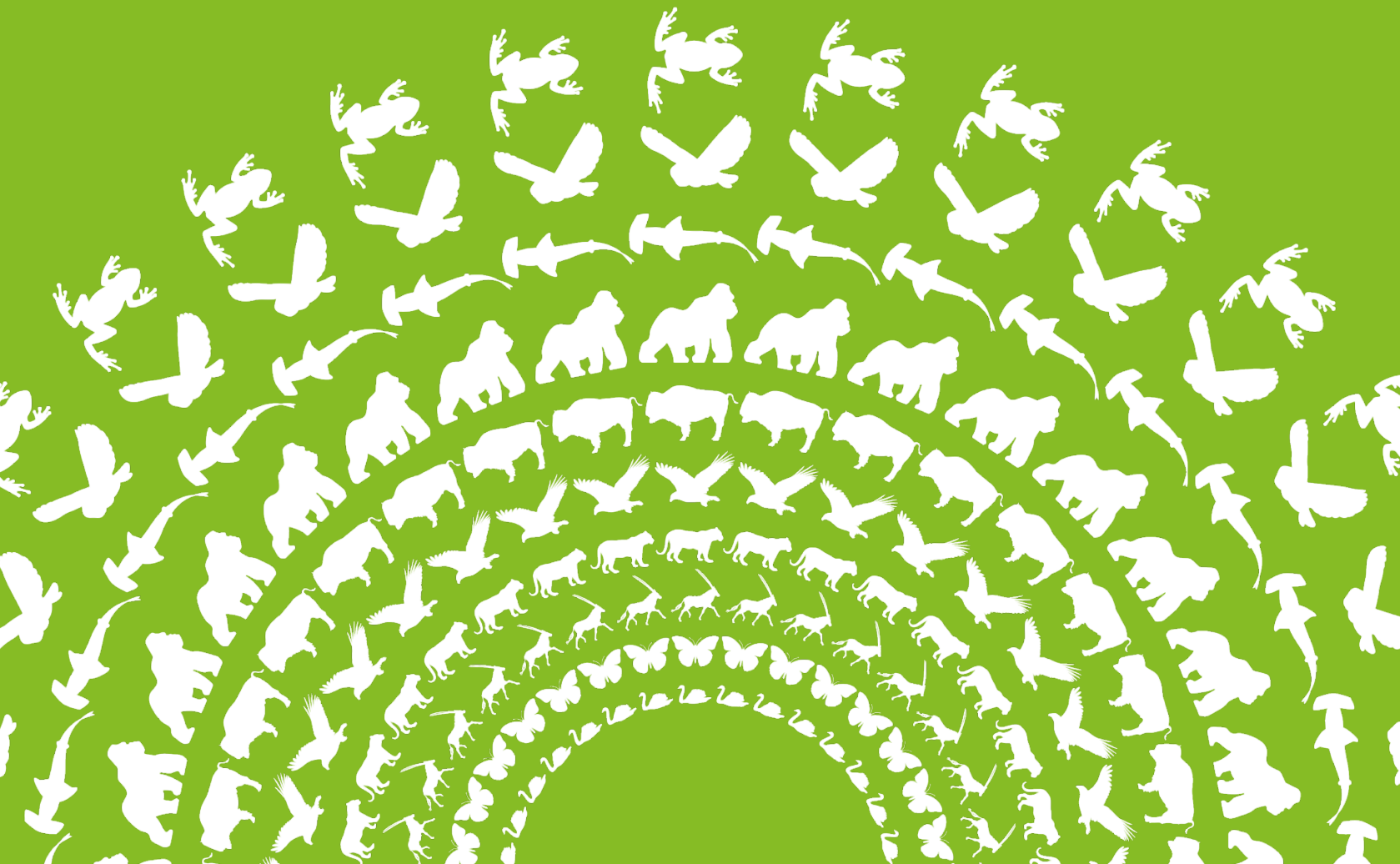
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Private Debt Deal Tracker

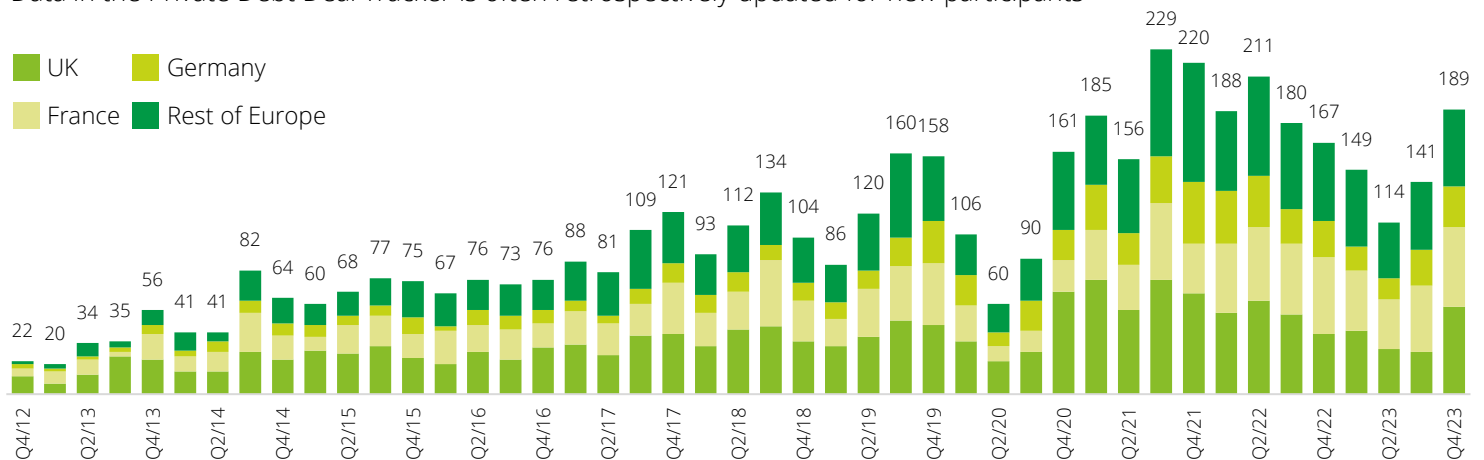
H2 2023 Deals



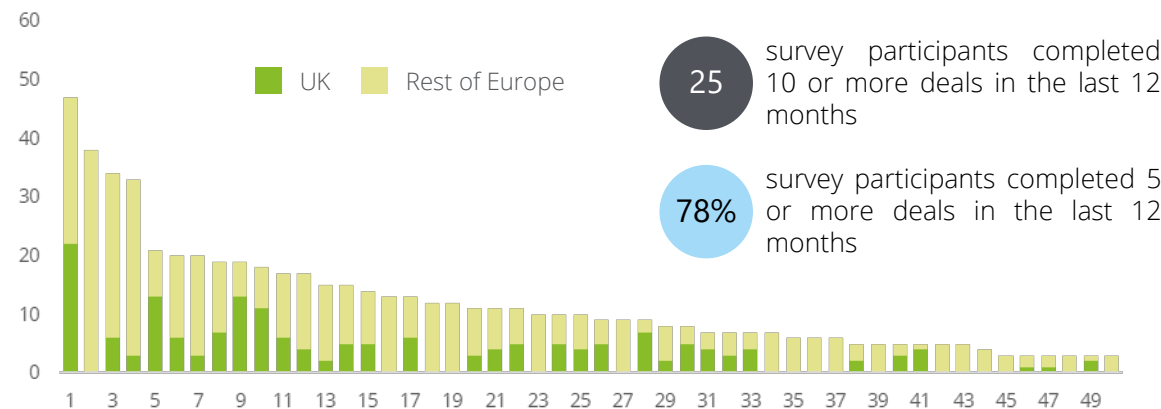
The Private Debt Deal Tracker now covers 78 lenders and a reported 4,879 deals

Private Debt Deal Tracker

Currently covers 78 leading private debt lenders. Only UK and European deals are included in the survey. Data in the Private Debt Deal Tracker is often retrospectively updated for new participants



Deals completed by survey participants (Last 12 months)



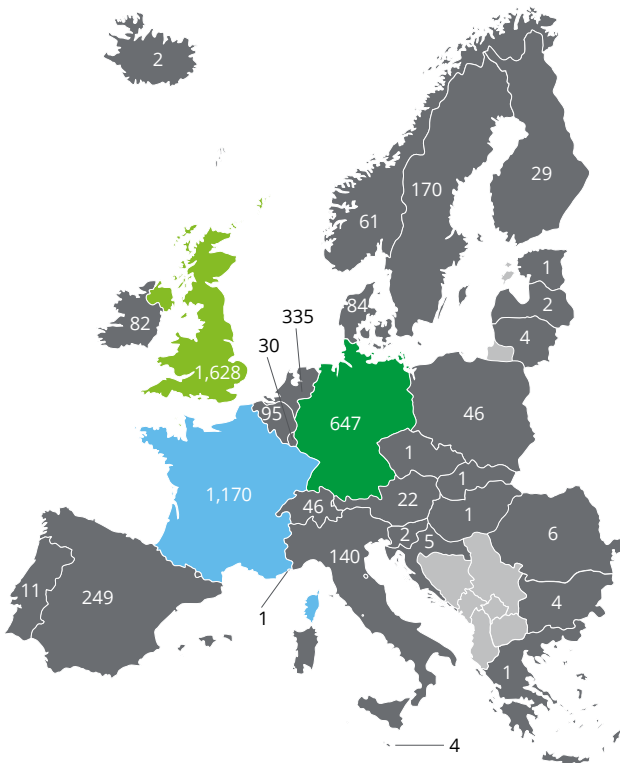
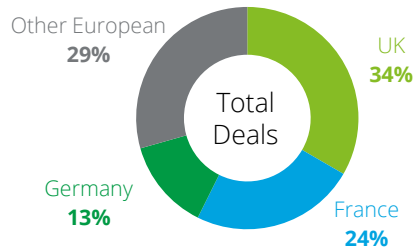
1,628
UK Deals

3,251
European Deals

Private debt lenders continue to increasingly seek to diversify geographies

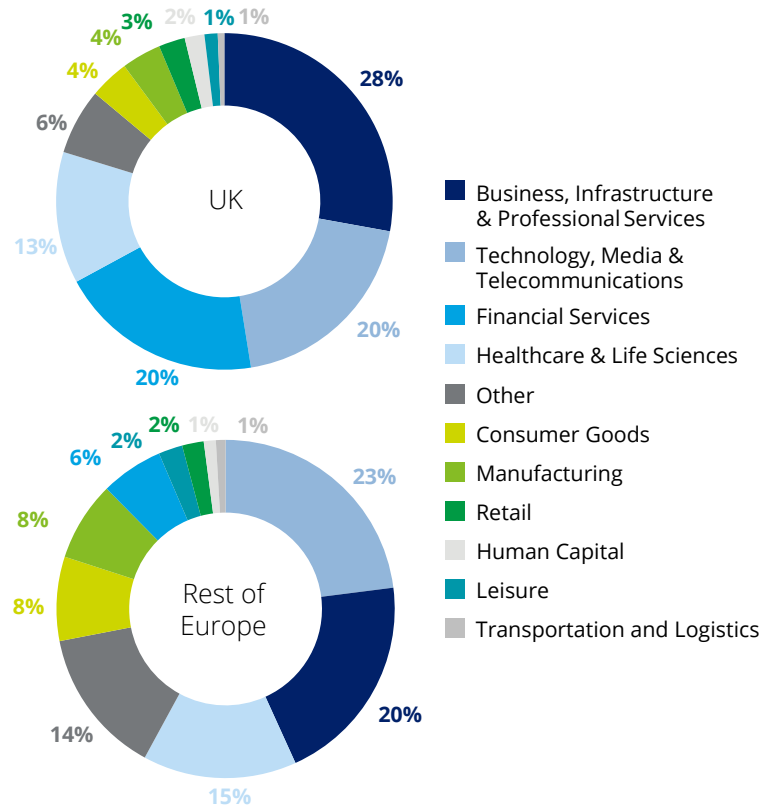
Europe

In the last 45 quarters 4,879 (1,628 UK and 3,251 other European) deals were recorded in Europe



Industries (LTM)

Within the UK, the *Business, Infrastructure & Professional Services* and *TMT* industries have predominantly been the dominant adopters of private debt solutions.

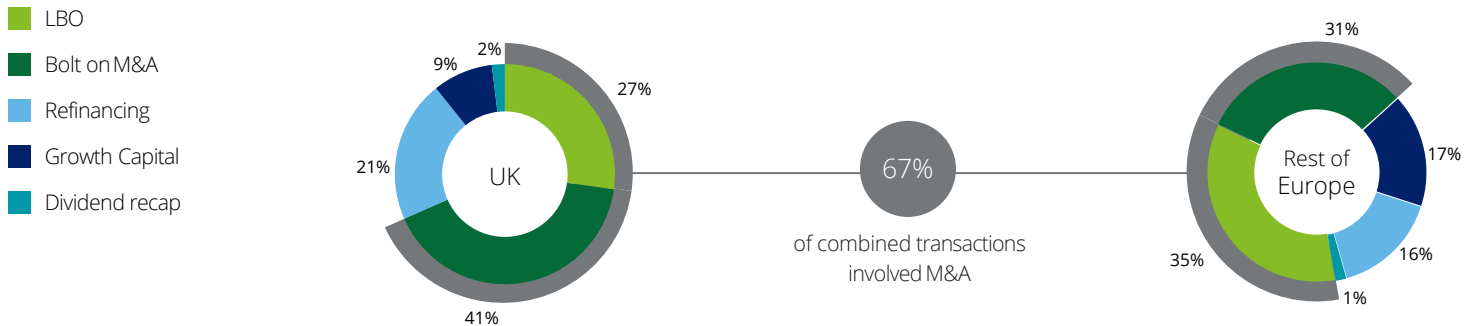


Across the rest of Europe, private debt has typically been concentrated across four industries: *TMT*, *Business, Infrastructure & Professional Services*, *Healthcare & Life Sciences* and *Financial Services*.

M&A remains the key driver for private debt deals following a notable increase in bolt-ons

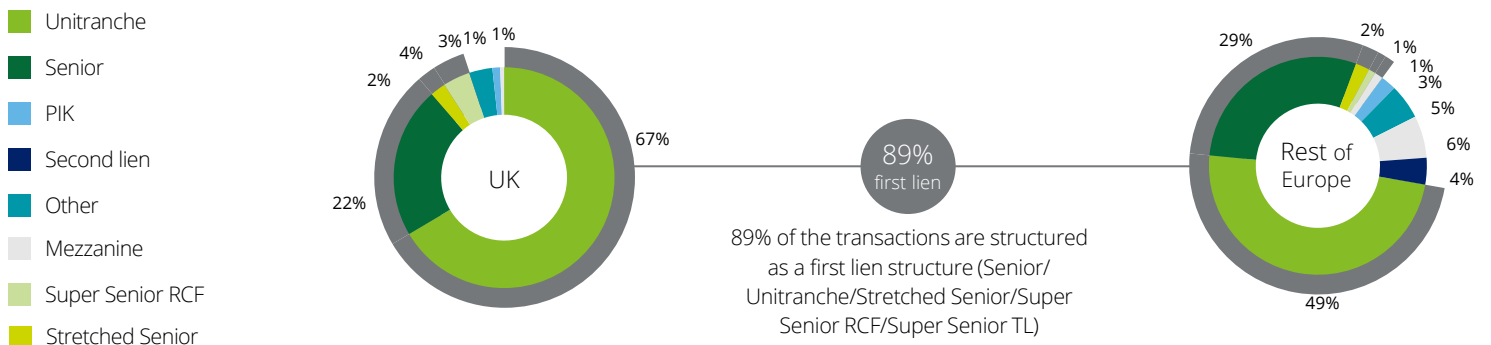
Deal Purpose (LTM)

The majority of deals remain M&A focused, with 67% of activity revolving around an acquisition. Of the 593 deals in the last 12 months, only 95 did not involve a private equity sponsored asset.



Structures (LTM)

Unitranche is the dominant structure, representing 67% of UK transactions and 49% of European transactions. Subordinate structures represent only 11% of total transactions.



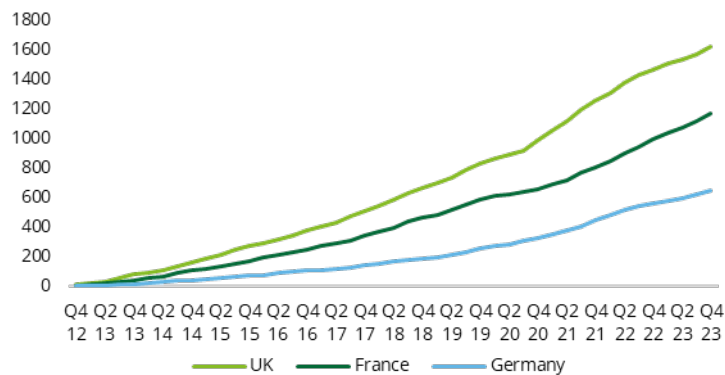
*For the purpose of the deal tracker, we classify senior only deals with pricing L + 650bps or above as unitranche. Pricing below this hurdle is classified as senior debt.

The UK still leads as the main source of deal volume for private debt lenders in Europe...

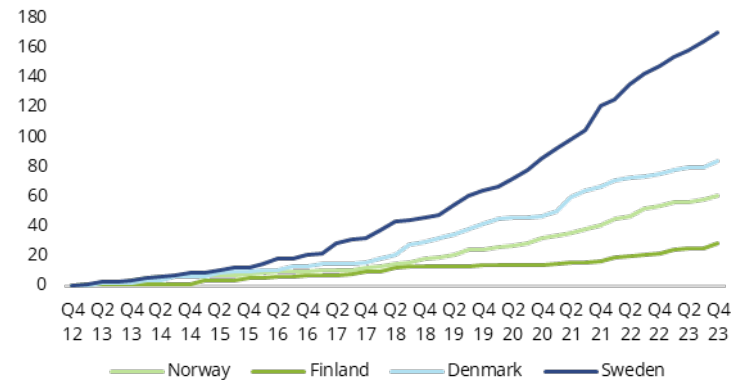
Cumulative Number of Deals per Country

The number of deals is increasing at different rates across Europe. The graphs below show countries that have completed 5 or more deals until December 2023

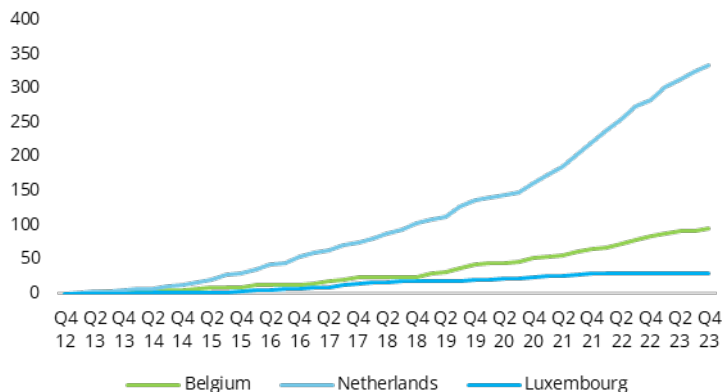
Largest Markets



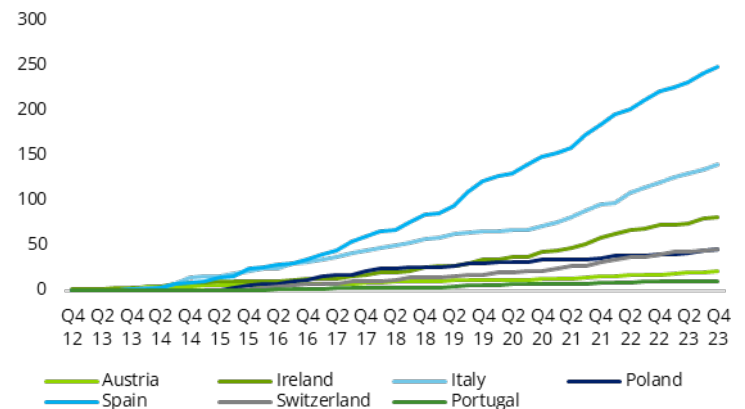
Nordics



Benelux



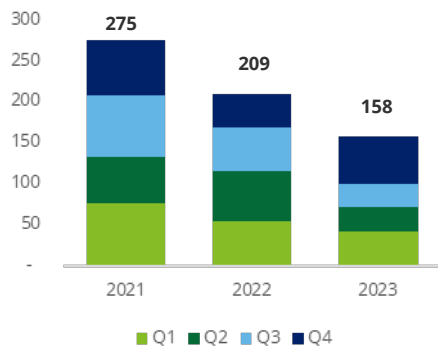
Other European



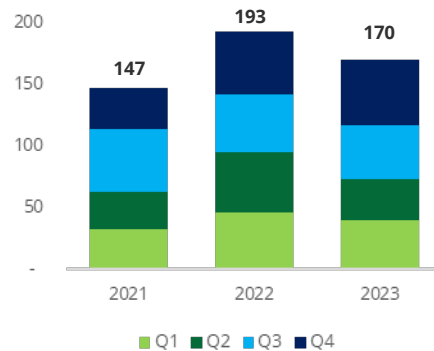
...however, its prevalence has slowly declined over time following stiff competition for new opportunities in other European jurisdictions

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

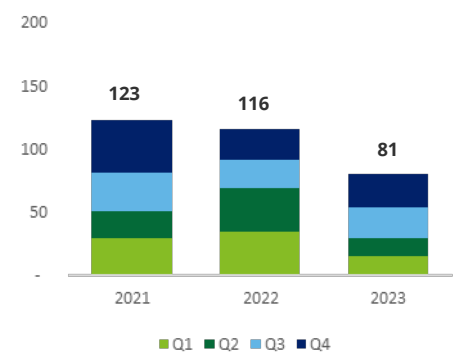
UK (LTM December)



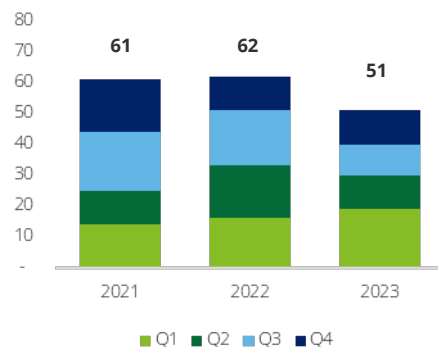
France (LTM December)



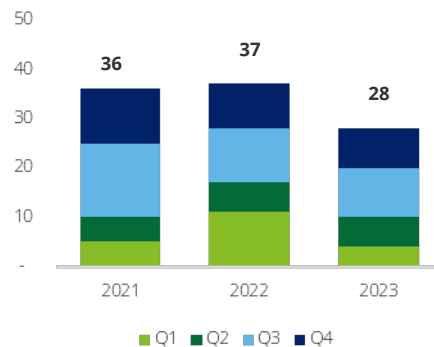
Germany (LTM December)



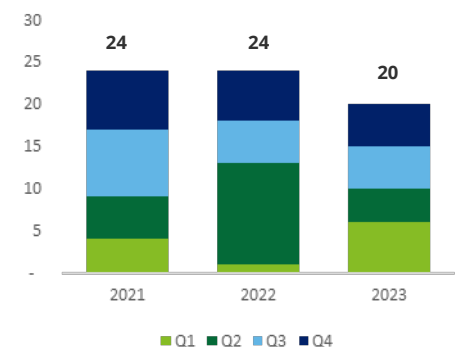
Netherlands (LTM December)



Spain (LTM December)



Italy (LTM December)



Landmark unitranche deals reported since Deal Tracker inception

Selected Landmark Unitranche Deals (> EUR/GBP 450m)

Borrower	Country	Unitranche in €m	Private Debt Lenders	Sponsor	Date
Adevinta	Norway	~4,500	Arcmont, Blackstone Credit	✓	Dec-23
Access	UK	~4,000	Park Square, SMBC, Bain, Blackstone, Apollo, HPS, Arcmont, CVC, Golub	✓	Jun-22
Envalior	Germany	~3,500	CVC, Pemberton	✓	May-23
ISP	Spain	~2,500	Arcmont, Macquarie, SMBC	✓	Jul-21
Dechra	UK	~2,000	Blackstone Credit, Guggenheim, SMBC, Park Square, Permira Credit, KKR	✓	Jun-23
ETC	France	~1,800	Pemberton, CVC, Permira Credit	✓	Oct-22
FNZ	UK	~1,500	Goldman Sachs Private Debt, HPS, Arcmont, Hayfin, Bain Capital	✓	Dec-21
Vetpartners	UK	~1,200	Ares	✓	Oct-23
PIB	UK	~1,000	KKR, Apollo, Bain Capital, Golub	✓	Mar-21
Ardonagh	UK	~800	Ares, KKR	✓	Jun-20
Datix	UK	~700	Bain Capital, Golub Capital	✓	Sep-18
CFC Underwriting	UK	~600	Park Square, KKR, Blackstone Credit	✓	May-22
Civica	UK	~500	Macquarie, KKR, Golub Capital, SMBC, Guggenheim, CVC	✓	Sep-23
Fortenova	Croatia	~400	HPS	-	Sep-19
Corden Pharma	Germany	~300	Arcmont, MV Credit, SMBC, KKR	✓	Aug-22
Hermes UK	UK	~250	KKR	✓	Jul-21
Fidelis	UK	~200	Blackstone Credit	✓	Jan-23
IRCA	Italy	~150	Carlyle, CVC, Goldman Sachs Private Debt	✓	Sep-22
Envirotainer Ltd	Sweden	~100	Blackstone Credit, CVC, Goldman Sachs Private Debt, KKR	✓	Jul-22
IVIRMA	Spain	~100	Park Square, SMBC, Guggenheim	✓	Sep-22
April	France	~100	Park Square, SMBC, Apollo, CVC, Permira Credit	✓	Dec-22
Ideagen	UK	~100	Golub Capital, Hayfin, Five Arrows, Bridgepoint Credit	✓	Sep-23
Davies	UK	~100	Blackstone Credit	✓	Aug-21
European Camping Group	France	~100	Ares, Tikehau	✓	Sep-21
One.com	Sweden	~100	CVC, MV Credit, SMBC	✓	Apr-23
Phenna	UK	~100	Arcmont	✓	Dec-22
Doc Generici	Italy	~100	CVC, KKR, Blackstone Credit, HPS	✓	Oct-22
European Dental Group	Netherlands	~100	Ares	✓	Dec-23
Sanoptis	Germany	~100	Arcmont, Barings	✓	Jul-22
Reconomy	UK	~100	Bain Capital, Hayfin, Macquarie	✓	Jun-22
Azets	UK	~100	Hayfin, Deutsche, Permira Credit	✓	Oct-22
ESDEC	Netherlands	~100	Blackstone Credit, Apollo	✓	Aug-23
Neopharmed Gentili	Italy	~100	Macquarie, Arcmont, CVC	✓	Mar-23
Asda	UK	~100	Apollo	✓	Oct-23
EuroTechnoCom	France	~100	Pemberton	✓	Sep-23

- 1,000 2,000 3,000 4,000 5,000

 Add-ons

Landmark unitranche deals reported since Deal Tracker inception

Selected Landmark Unitranche Deals (> EUR/GBP 450m)












Borrower	Country	Unitranche in €m	Private Debt Lenders	Sponsor	Date
Sitecore	Denmark		Guggenheim	✓	Nov-23
Biofarma	Italy		CVC	✓	Jul-23
Acrotec	Switzerland		Blackstone Credit, CVC	✓	Apr-23
SumUp	Germany		Bain Capital, Goldman Sachs Private Debt	-	Feb-21
Industria Chimica Emiliana Srl	Italy		KKR	✓	Sep-19
Daisy	UK		Ares	-	Jan-19
Eureka	France		Barings	✓	Sep-23
Sykes Holiday Cottages	UK		Ares	✓	Apr-22
Dojo	UK		CVC	-	Oct-23
Forterro	Sweden		Arcmont, CVC, Blackstone Credit, Macquarie	✓	Jul-22
Polynt Reichhold	Italy		Blackstone Credit	✓	May-16
Trescal	France		KKR, Park Square, SMBC, Apollo, CVC	✓	Mar-23
Flowbird	France		Arcmont, Ares	✓	Nov-21
BMS	UK		Ares	✓	Mar-23
Parkdean	UK		Ares	✓	Mar-23
Odealim	France		Arcmont, Goldman Sachs Private Debt, Macquarie	✓	Sep-22
Theramex	UK		CVC, SMBC	✓	Aug-22
ASPI	Italy		Blackstone Credit	✓	Apr-22
Vizrt	Norway		Blackstone Credit	✓	Mar-22
Gruppo Florence	Italy		Apollo	✓	Oct-23
EG Group	UK		Apollo	✓	Nov-23
Madison	UK		Carlyle	✓	Mar-23
ECF	France		SMBC, Ares	✓	Oct-23
Acuris	UK		HPS	-	Sep-19
Questel	France		SMBC, Park Square, Barings, Bridgepoint Credit, Capza	✓	Dec-20
Zenith	UK		Goldman Sachs	✓	Mar-17
ION Corporates	Ireland		HPS	-	Sep-19
Unither	France		Barings, Arcmont	✓	Mar-23
Open Health	UK		MV Credit, CVC	✓	Sep-22
Markerstudy	UK		CVC	✓	Oct-23
Audiotonix	UK		Alcentra, Arcmont	✓	Sep-22
A2Mac1	France		Macquarie, Arcmont	✓	Mar-23
DWS	UK		Ares	✓	Dec-20
MRHT	Germany		Macquarie, Bain Capital	✓	Mar-23
Outcomes First Group	UK		Barings, HPS, Five Arrows, CVC, Apollo	✓	Sep-19

- 1,000 2,000 3,000 4,000 5,000

Add-ons

Landmark unitranche deals reported since Deal Tracker inception

Selected Landmark Unitranche Deals (> EUR/GBP 450m)

Borrower	Country	Unitranche in €m	Private Debt Lenders	Sponsor	Date
BPP	UK		Blackstone Credit	✓	Jun-23
WFC	France		Barings	✓	Nov-18
Kyriba	France		Sixth Street	✓	Apr-19
Ocorian / Estera	UK		Ares	✓	Jan-20
IDH Group	UK		Ares	✓	May-21
TES Global	UK		Macquarie, Bain Capital, Deutsche	✓	Feb-22
QSPR	Germany		Ares	✓	Mar-20
D&B Audiotechnik	Germany		Hayfin, Arcmont	✓	Aug-23
Aareon	Germany		KKR, Pemberton	✓	Sep-23
Acqua & Sapone	Italy		Pemberton, Carlyle	✓	Oct-21
HKA	UK		Park Square, SMBC, KKR	✓	Sep-22

- 1,000 2,000 3,000 4,000 5,000

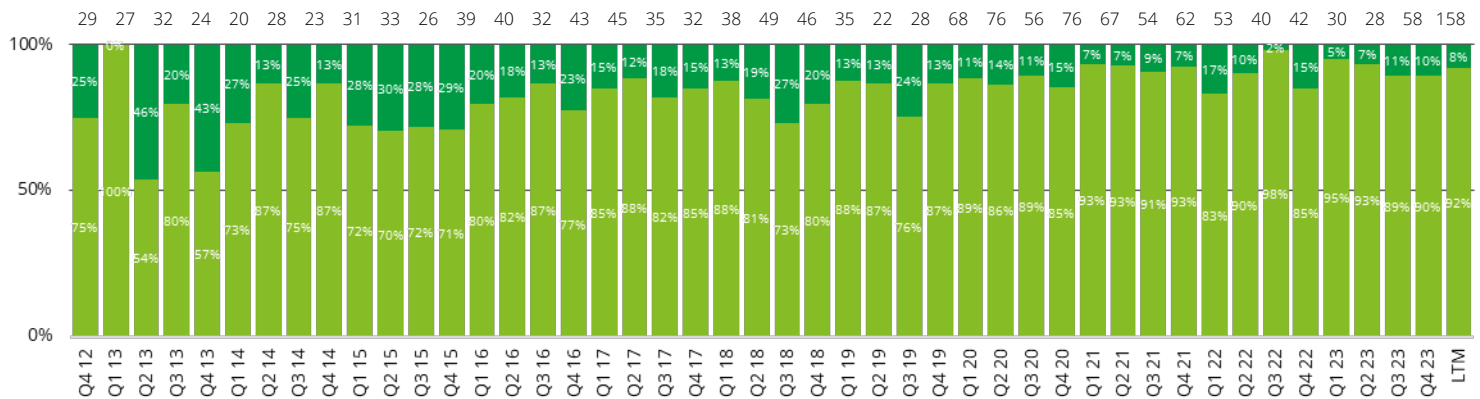
 Add-ons

Sponsor-backed opportunities continue to make up the majority of private debt deals

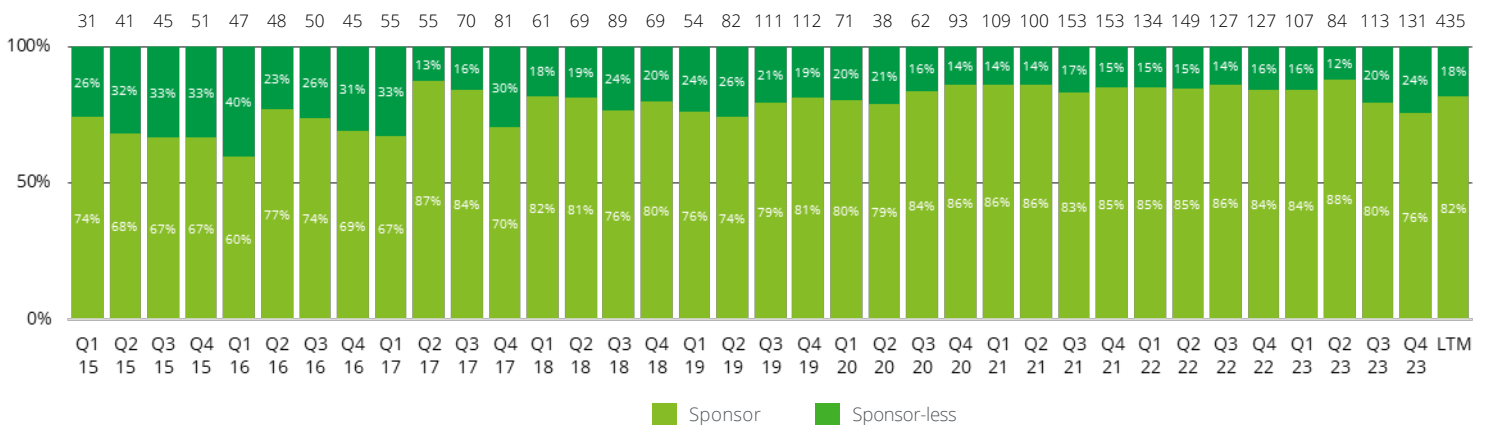
Sponsor backed versus private deals

As % of total deals per quarter

UK



Rest of Europe



■ Sponsor ■ Sponsor-less

“Green Shoots” & Innovation: Fund Finance Market Update



“Green Shoots” & Innovation: Fund Finance Market Update

“Green Shoots” & Innovation

The last year has been one of marked evolution in Fund Finance driven by a number of macro factors.

It has been well documented that fundraising has slowed significantly for most GPs over the last couple of years, with funds taking on average 21 months to close in 2023, compared to 13 months in 2019. Alongside this, many funds that closed in 2023 did so at lower levels than expected, hitting – rather than exceeding – their fundraising targets. These trends have been broadly experienced across the spectrum of managers regardless of size or track record, with the amount of capital raised becoming increasingly concentrated amongst the largest and most well-established names in the industry.

Longer periods to final fund close have not, however, necessarily been an obstacle to fund deployment as the private capital opportunity has continued to grow; an example being Arcmont’s recently-reported final close for its fourth Direct Lending fund, with the fund already c.55% committed.

In this environment of slower fundraising, we are seeing a rising trend of funds using NAV financing to bridge the gap between new vintages, allowing for continued investment in prior funds before new vintages come online. We have consequently seen the long-term increase in the take-up of NAV facilities in the market accelerate in the second half of 2023. This was tempered slightly towards the end of the year by some of the commentary around NAV, which elevated

this on LPs’ radars. We have increasingly seen a greater proportion of NAV financings being used to “downstream” proceeds to support the growth of PE portfolios and anticipate the usage of NAV facilities to continue to grow in Private Equity given the flexibility of the product and breadth of applications, with the alignment of LP and GP interests over the use of NAV facilities remaining central.

To fulfil the rising demand for NAV facilities there has been an influx of liquidity into the space from debt funds, institutional lenders and investment banks. This has resulted in highly competitive terms being offered and a depth of debt solutions across a range of deal sizes, structures and situations. It is worth noting that in recent months we have seen an expansion in the liquidity available for debt transactions in the €20-€50m space, an area of the market less well served historically, with most incoming liquidity typically targeting a €50-€100m minimum ticket size.

Alongside the fundraising headwinds, two other macro trends have been shaping the Fund Finance market: the marked growth in fund sizes and trend for managers to hold onto prize assets for longer in order to optimise value. These two trends have given rise to an increased interest in GP finance solutions given the requirement for larger GP commitments and potential delays in carry payments, with an increase in managers’ use of continuation vehicles and NAV financing as a solution to the latter.

Subscription line financing – usually the steady backbone of the Fund Finance market – has also seen increased levels of volatility over the last 18 months. Tightening liquidity, largely triggered by a number of global events (conflict in Ukraine, the UK “mini budget”, and the US regional banking crisis), pushed the pendulum firmly in lenders’ favour over the course of the last year. Whilst this resulted in increased margins on these facilities, which coupled with rapidly rising base rates led to a significant increase in the “all-in” cost, solving for liquidity has been more of a primary focus for managers. Green shoots have however been starting to appear as we have moved into 2024, with early signs that constraints around liquidity are starting to ease.

Today, the focus for managers remains on locking in liquidity and broadening lender relationships, whether through the subline or NAV markets, albeit with a more innovative range of debt solutions available to them as the market has continued to evolve.

Authors

Jamie is a Partner and Head of [Fund Finance Advisory](#) within Deloitte Debt, Capital & Treasury Advisory. As Head of Fund Finance Advisory, Jamie is involved in a range of financings across the full breadth of Fund Finance in terms of both product and sector, as well as the strategic build-out of the team in this growing part of the market across global geographies. Prior to joining Deloitte in January 2020, Jamie worked at RBS for 19 years in a range of roles around Fund Finance covering debt structuring and execution as well as more latterly co-head of the Funds Banking relationship coverage team in London.

Georgina is an Assistant Director in the [Fund Finance Advisory](#) team of Deloitte UK’s wider Debt, Capital & Treasury Advisory business. Prior to joining Deloitte, she worked in the Fund Finance team at Citi. Since joining Deloitte, Georgina has been involved in a number of transactions, raising fund-level debt through subscription lines, NAV and GP financings across a range of sectors.



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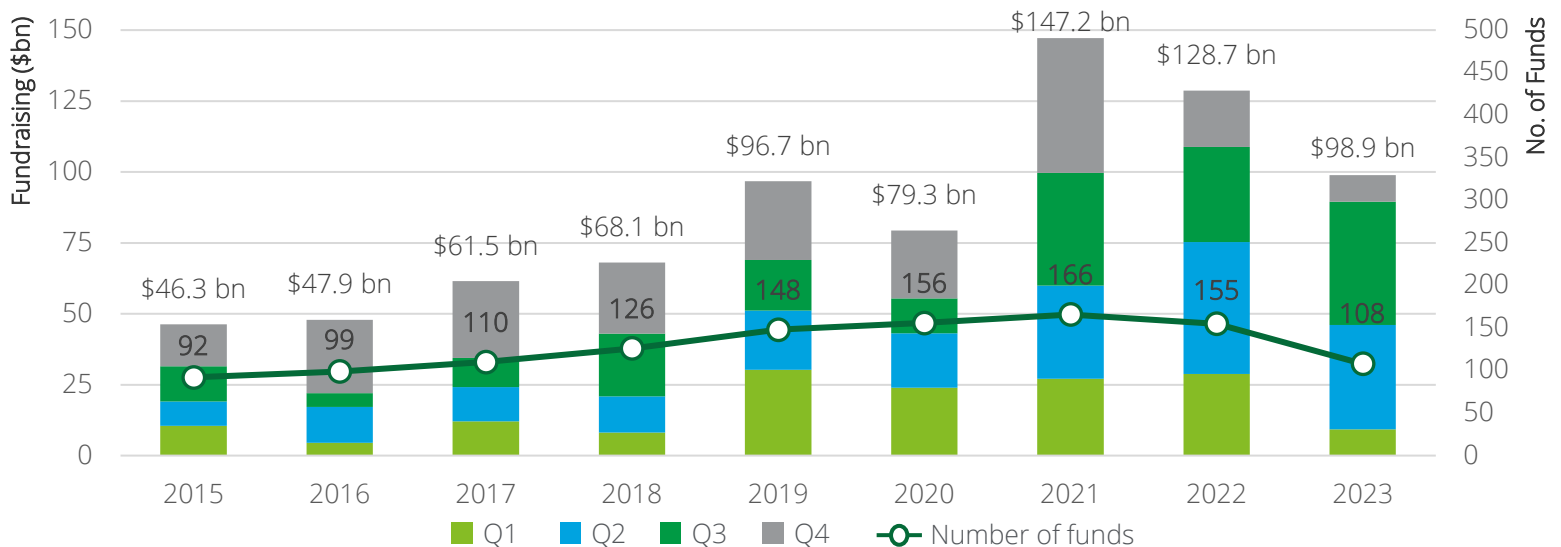
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Private Debt Fundraising



Global direct lending fundraising by quarter¹



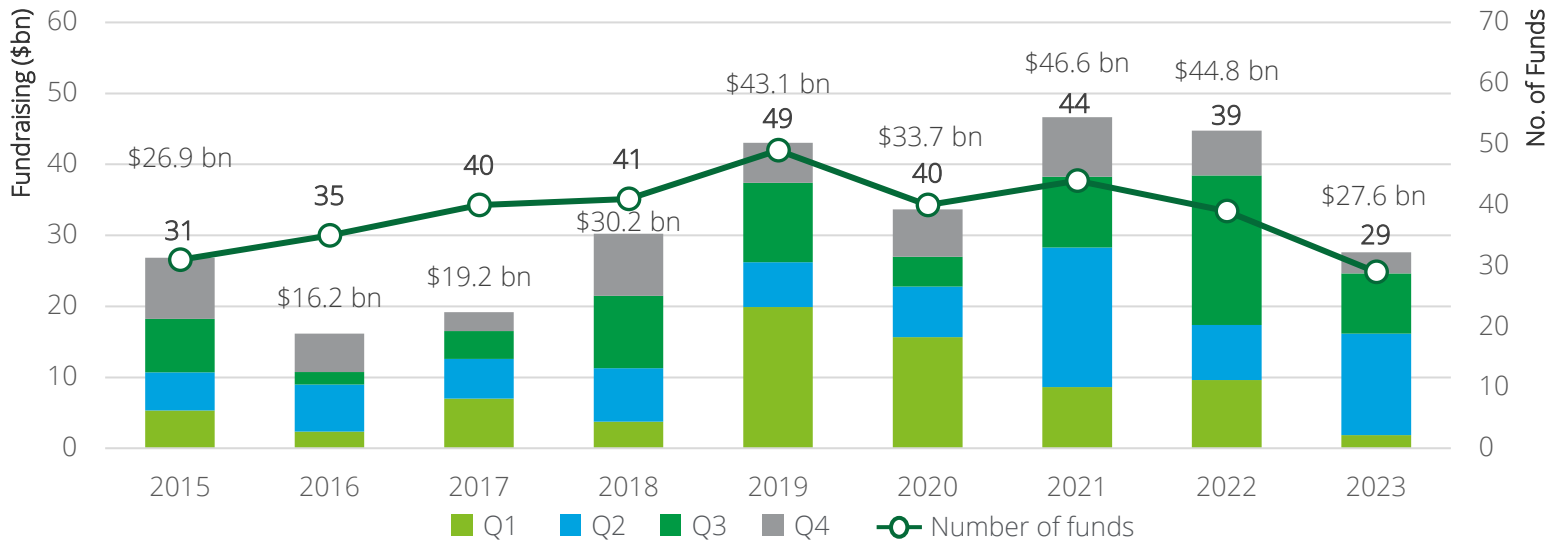
Global trends: fundraising¹

- Direct lending fundraising was strong in Q3 (\$43.5bn) but tapered in Q4 (\$9.4bn)^{1,2}
- Despite this, on a full-year basis, 2023 was direct lending's third-best year to-date for fundraising, underpinned by favourable investor sentiment towards the asset class
- North America continues to remain the preferred region for investors, accounting for c.68% of 2023 fundraising across direct lending
- There continues to be increased appetite for fundraising, both in terms of the number of active funds in the market, in addition to aggregate capital being targeted
- Investors remain keen to continue sticking with direct lending, as well as wider private debt strategies, underpinned by the relative reliability associated with its periodic income stream
- Indeed, 90% of investors find private debt strategies continue to meet their returns expectations; 45% of investors expect it to perform better in the next 12 months
- The higher floating-rate coupon associated with private debt continues to buoy investors' return on capital and compared to other asset classes, it has relatively more robust downside protections

¹ Data sourced as of 15 January 2024 from Preqin

² Based on first cut of Q4 data – subject to increase further as fund close numbers are updated in Preqin's database

Europe direct lending fundraising by quarter¹



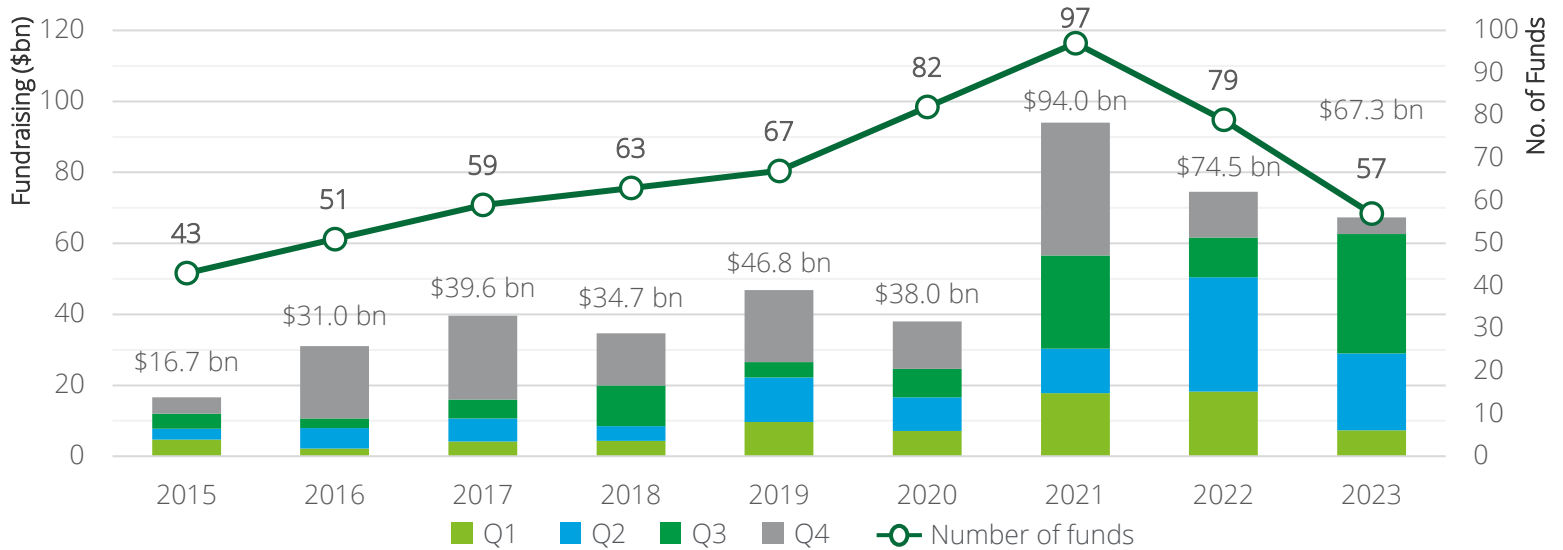
Select largest European funds raised in 2023¹

- Hayfin Direct Lending Fund IV — **\$6,525m**
- Permira Credit Solutions V — **\$4,588m**
- Bridgepoint Direct Lending III — **\$3,678m**
- BlackRock European Middle Market Private Debt Fund III — **\$3,446m**
- Eurazeo Private Debt VI — **\$2,502m**

¹ Data sourced as of **15 January 2024** from Preqin

² Based on first cut of Q4 data – subject to increase further as fund close numbers are updated in Preqin’s database

North America direct lending fundraising by quarter¹



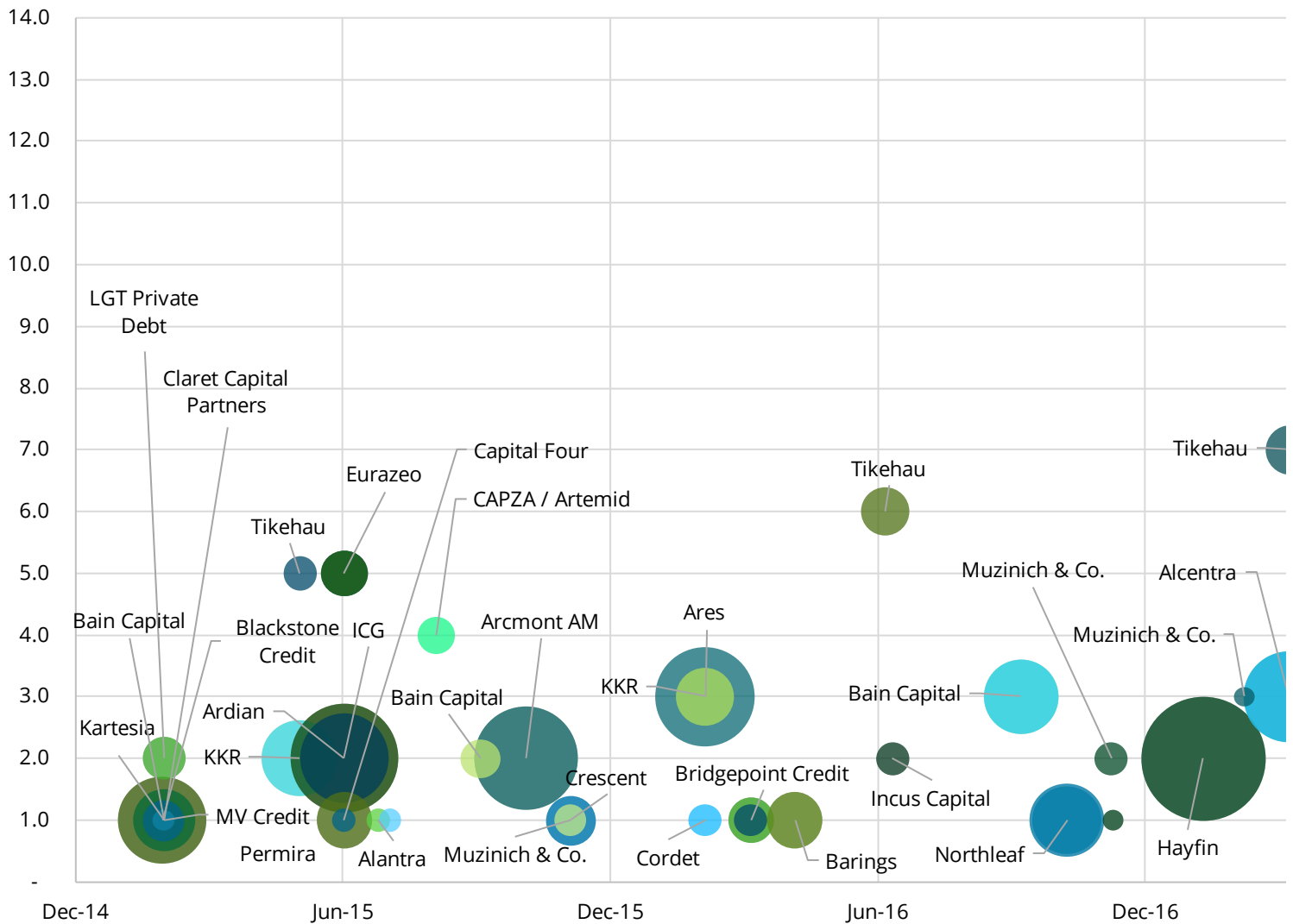
Select largest North American funds raised in 2023¹

- HPS Core Senior Lending Fund II — \$10,000m
- Blackstone Green Private Credit Fund III — \$7,100m
- Antares Senior Loan II — \$6,000m
- Whitehorse Liquidity Partners V — \$5,300m
- Blackrock Global Credit Opportunities Fund II — \$2,731m

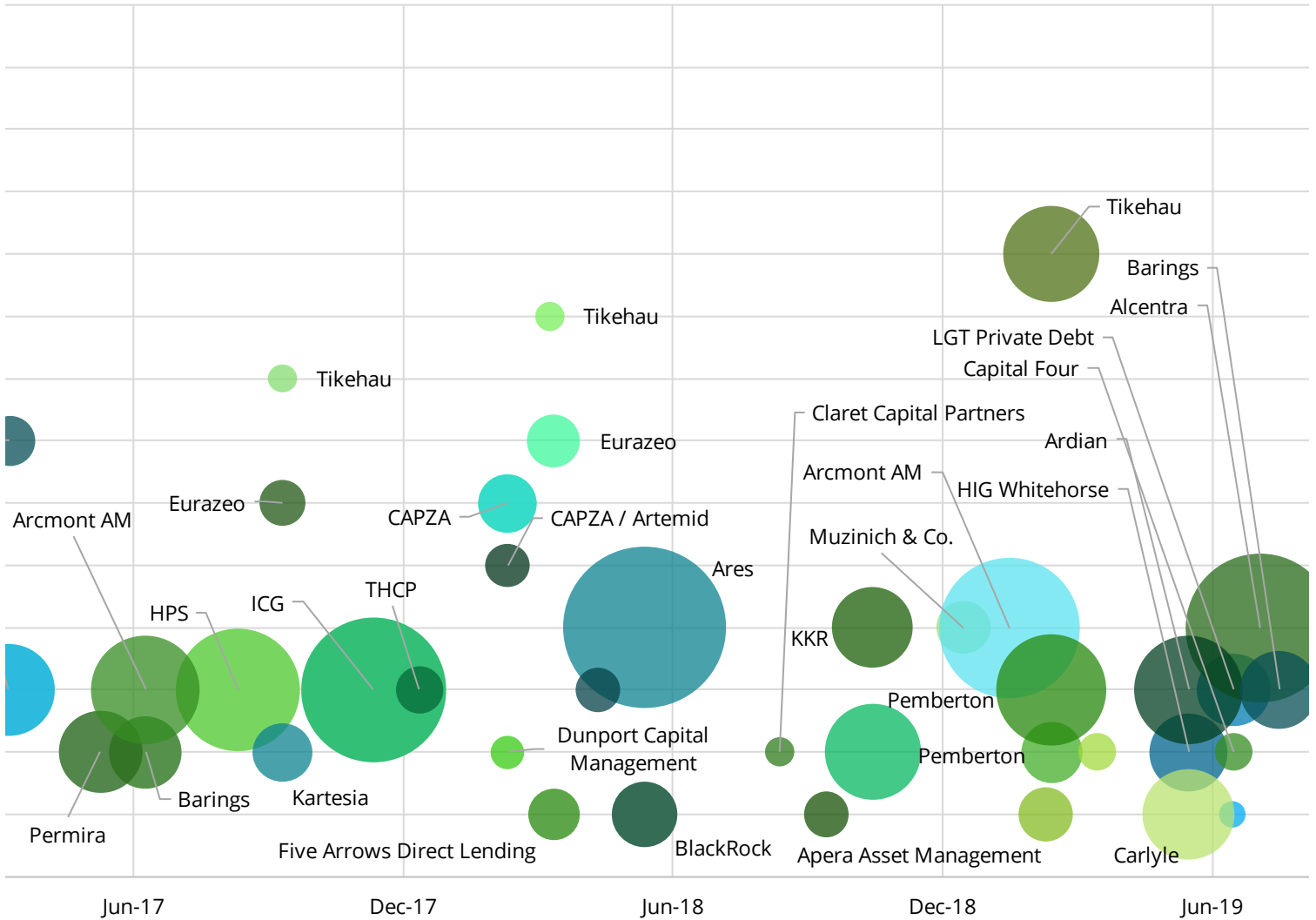
¹ Data sourced as of 15 January 2024 from Preqin

² Based on first cut of Q4 data – subject to increase further as fund close numbers are updated in Preqin’s database

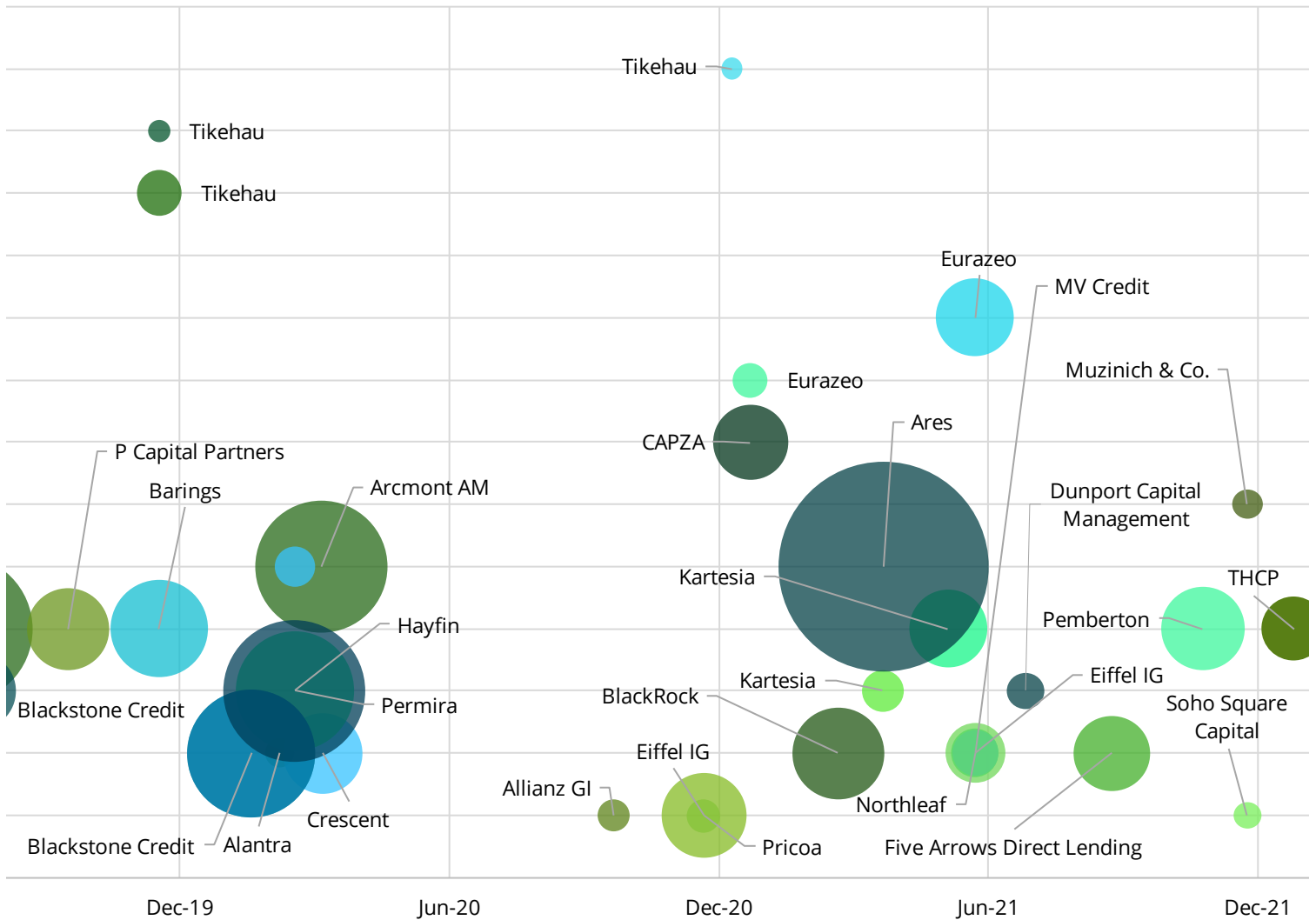
Senior Direct Lending fundraising by vintage and manager



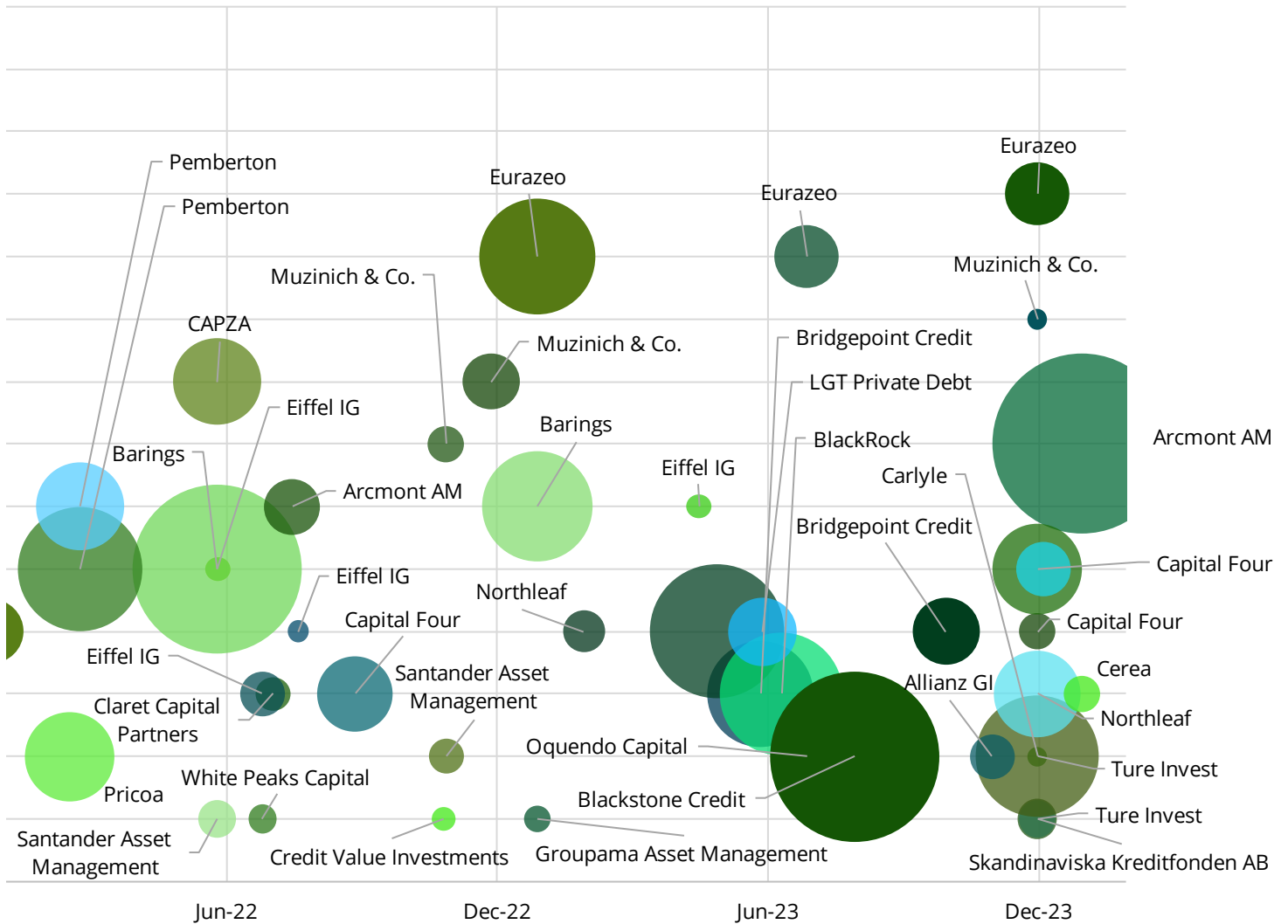
Senior Direct Lending fundraising by vintage and manager



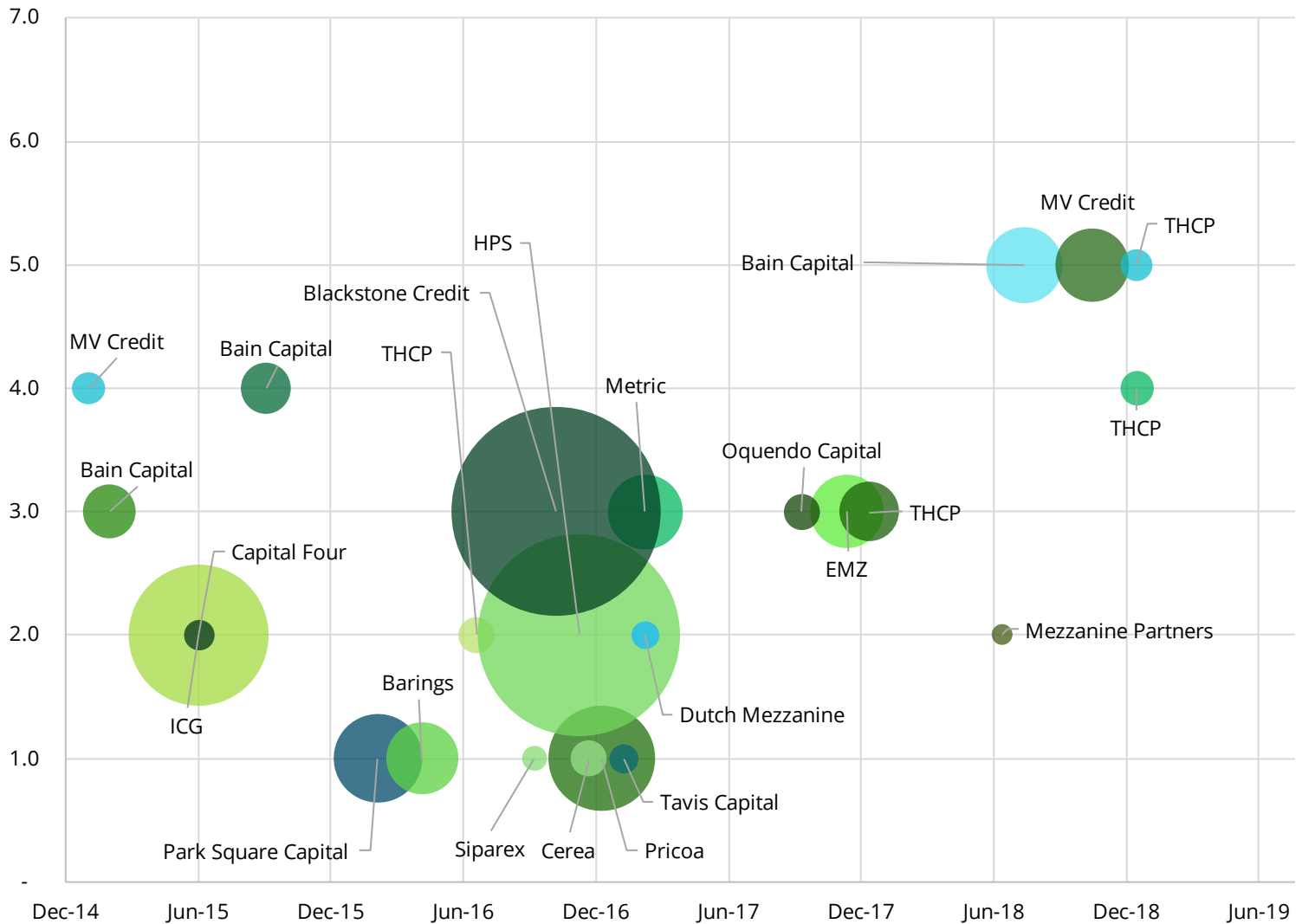
Senior Direct Lending fundraising by vintage and manager



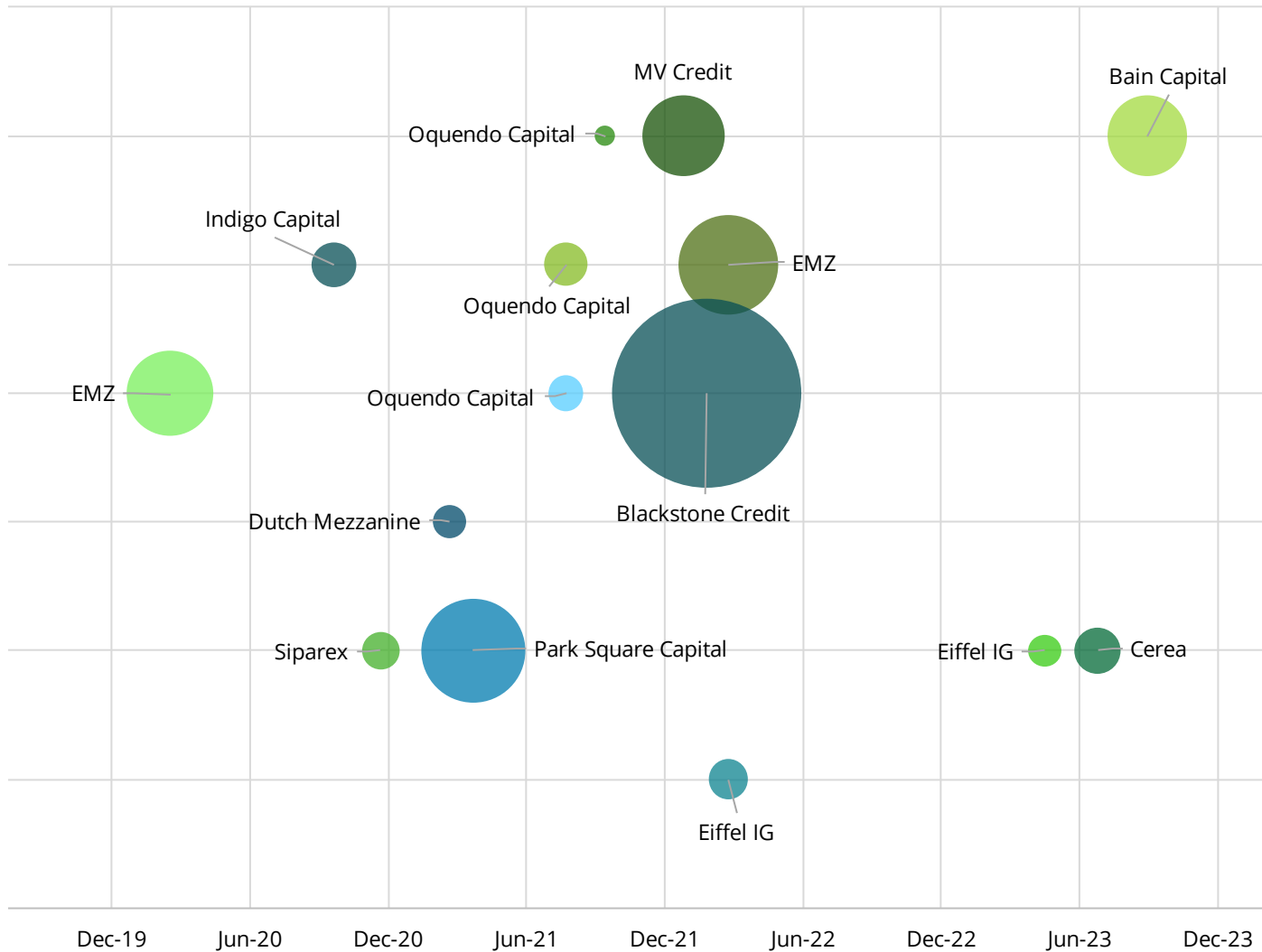
Senior Direct Lending fundraising by vintage and manager



Junior Direct Lending fundraising by vintage and manager



Junior Direct Lending fundraising by vintage and manager



What funds have been raised by private debt managers?

An overview of some of the largest funds (> 1bn) raised in the market

Private Debt Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
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
Arcmont Asset Management				
Arcmont Direct Lending Fund IV	Q4 23	€ 5,500	Senior and Junior	Europe
Arcmont Senior Fund II	Q1 20	€ 4,400	Senior	Europe
Arcmont Direct Lending Fund III	Q1 19	€ 4,900	Senior and Junior	Europe
Arcmont Senior Loan Fund I	Q3 17	€ 2,900	Senior	Europe
Arcmont Direct Lending Fund II	Q4 15	€ 2,700	Senior and Junior	Europe
Ardian				
Ardian Private Debt Fund V	Q4 22	€ 3,962	Senior and Junior	Europe
Ardian Private Debt Fund IV	Q2 19	€ 3,000	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 VI	[Ongoing]	€ 15,000	Senior	Europe
ACE V	Q2 21	€ 11,000	Senior	Europe
Ares Special Opportunities Fund, L.P.	Q2 20	€ 3,500	Senior	Europe
ACE IV	Q2 18	€ 6,500	Senior	Europe
ACE III	Q2 16	€ 2,536	Senior and Junior	Europe
Bain Capital				
Bain Capital Middle Market Credit 2022	Q3 23	\$ 1,000	Junior	Global
Bain Capital Middle Market Credit 2018	Q3 18	\$ 1,000	Junior	Global
Bain Capital Specialty Finance	Q4 16	\$ 1,406	Senior	Global
Bain Capital Middle Market Credit 2014	Q4 13	\$ 1,382	Junior	Global
Bain Capital Middle Market Credit 2010	Q2 10	\$ 1,017	Junior	Global
Barings				
Global Private Loan Fund IV	Q1 23	\$ 3,000	Senior	Global
European Private Loan Fund III	Q2 22	€ 5,900	Senior	Europe
Global Private Loan Fund III	Q4 19	\$ 2,400	Senior and Junior	Global
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

Private Debt Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Blackrock				
BlackRock European Middle Market Private Debt Fund III	Q2 23	€ 3,677	Senior	Europe
BlackRock European Middle Market Private Debt Fund II	Q1 21	€ 2,100	Senior	Europe
BlackRock European Middle Market Private Debt Fund I	Q2 18	€ 1,100	Senior	Europe
Blackstone Credit				
Capital Opportunities Fund IV	Q1 22	\$ 5,017	Junior	Global
GSO European Senior Debt Fund II	Q1 20	€ 4,088	Senior	Europe
Capital Opportunities Fund III	Q4 16	\$ 6,639	Junior	Global
European Senior Debt Fund	Q4 15	€ 1,965	Senior	Europe
Capital Opportunities Fund II	Q1 12	\$ 4,120	Junior	Global
Bridgepoint Credit				
Bridgepoint Direct Lending II	Q4 20	€ 2,300	Senior	Europe
Bridgepoint Direct Lending III	Q2 23	€ 2,749	Senior	Europe
Capital Four				
Capital Four—Private Debt III—Senior	Q2 22	€ 1,440	Senior	Europe
Capzanine				
Capza 5 Private Debt	Q1 21	€ 1,414	Senior and Junior	Europe
Capza 6 Private Debt	Q2 22 (first close)	€ 1,700	Senior and Junior	Europe
Carlyle				
Carlyle Credit Opportunities Fund II, L.P.	Q2 23	€ 3,674	Senior and Junior	Global
Carlyle Credit Opportunities Fund, L.P.	Q2 19	€ 2,093	Senior and Junior	Global
EMZ				
EMZ 10	Q1 22	€ 1,179	Senior and Junior	Europe
EMZ 9	Q1 20	€ 1,043	Senior and Junior	Europe
Eurazeo				
Eurazeo Private Value Europe 3	Q4 23	€ 1,000	Senior and Junior	Europe
Eurazeo Private Debt VI	Q123	€ 3,300	Senior and Junior	Europe
Eurazeo Private Debt V	Q1 21	€ 1,500	Senior and Junior	Europe
Five Arrows				
Five Arrows Debt Partners III	Q3 21	€ 1,420	Senior and Junior	Europe
Hayfin				
Direct Lending Fund III	Q1 20	€ 5,000	Senior	Europe
Direct Lending Fund II	Q1 17	€ 3,900	Senior	Europe
Direct Lending Fund I	Q1 14	€ 3,000	Senior	Europe
HIG				
H.I.G. Bayside Loan Opportunity Fund V (Europe)	Q2 19	\$ 1500	Senior and Junior	Europe

Private Debt Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
HPS Investment Partners				
Specialty Loan Fund 2016	Q3 17	\$ 4,500	Senior	Global
Mezzanine Partners Fund III	Q4 16	\$ 6,600	Junior	Global
Highbridge Specialty Loan Fund III	Q2 13	€ 3,100	Senior	Global
Mezzanine Partners Fund II	Q1 13	\$ 4,400	Junior	Global
Highbridge Specialty Loan Fund II	Q2 10	€ 1,100	Senior	Global
Mezzanine Partners Fund I	Q1 08	\$ 2,100	Junior	Global
ICG				
Senior Debt Partners III	Q4 17	€ 5,200	Senior	Europe
Senior Debt Partners II	Q3 15	€ 3,000	Senior	Europe
ICG Europe Fund VI	Q1 15	€ 3,000	Junior	Europe
Senior Debt Partners I	Q2 13	€ 1,700	Senior	Europe
ICG Europe Fund V	Q1 13	€ 2,500	Junior	Europe
Kartesia				
Kartesia Senior Opportunities II	Q1 24	€ 1,034	Senior	Europe
Kartesia Credit Opportunities V	Q2 21	€ 1,500	Senior and Junior	Europe
KKR				
KKR Lending Partners III L.P. ("KKRLP III")	Q4 18	\$ 1,606	Senior	Global
KKR Lending Partners II L.P. ("KKRLP II")	Q2 15	\$ 1,452	Senior	Global
LGT Private Debt				
CEPD III	Q2 23	€ 1,166	Senior and Junior	Europe
CEPD II	Q3 19	€ 1,350	Senior and Junior	Europe
Northleaf				
Northleaf Senior Private Credit	Q2 23	\$ 1,009	Senior	Global
Northleaf Private Credit	Q1 14	\$ 1,400	Senior and Junior	Global
Park Square Capital				
Park Square Capital Partners IV SCSp	Q2 21	€ 1,513	Junior	Europe
Park Square Capital Partners III, LP	Q1 16	€ 1,185	Junior	Europe
Pemberton				
Pemberton Senior Loan Fund	Q1 22	€ 1,920	Senior	Europe
Pemberton European Mid-Market Debt Fund III	Q1 22	€ 3,803	Senior	Europe
Pemberton European Strategic Credit Opportunities Fund II	Q4 21	€ 1,742	Senior and Junior	Europe
Pemberton European Mid-Market Debt Fund II	Q1 19	€ 3,056	Senior	Europe
European Mid-Market Debt Fund	Q4 16	€ 1,195	Senior	Europe
Permira				
Permira Credit Solutions V	Q2 23	€ 4,500	Senior and Junior	Europe
Permira Credit Solutions IV	Q3 20	€ 3,500	Senior and Junior	Europe
Permira Credit Solutions III	Q2 17	€ 1,700	Senior and Junior	Europe

Private Debt Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Pricoa				
PGIM Senior Loan Opportunities I	Q1 22	€ 1,985	Senior	Global
PGIM Capital Partners VI, L.P.	Q4 20	€ 1,819	Senior and Junior	Global
Pricoa Capital Partners V	Q1 17	€ 1,696	Senior and Junior	Global
P Capital Partners				
P Capital Partners	Q4 19	€ 1,670	Senior and Junior	Europe
P Capital Partners III	Q4 14	€ 1,300	Senior and Junior	Europe
Tikehau				
Tikehau Direct Lending V	Q3 22	€ 3,300	Senior and Junior	Europe
Tikehau Direct Lending IV	Q1 19	€ 2,300	Senior and Junior	Europe

Deloitte CFO Survey: 2023 Q4



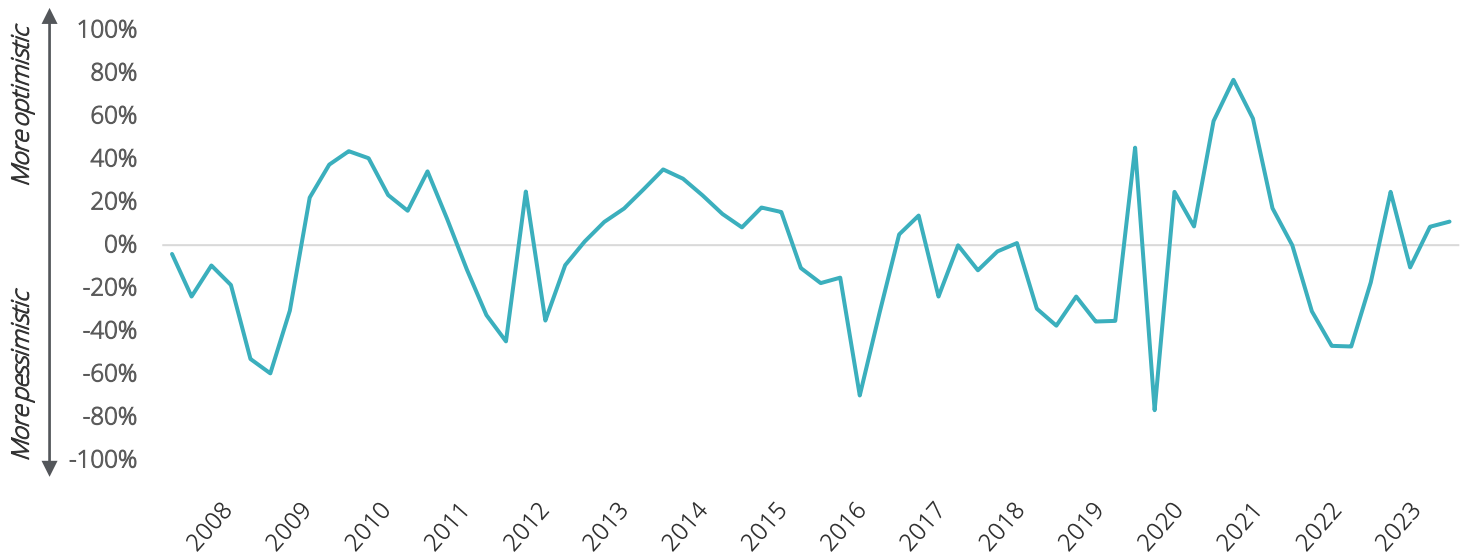
Deloitte CFO Survey: 2023 Q4

A positive start to the year

Deloitte's latest [CFO Survey](#) casts an optimistic tone amongst UK CFOs for the second consecutive quarter, with many feeling confident about business prospects moving into 2024 (Figure 1). These findings may seem at odds with more-recent official data that showed the UK economy fell into a 'technical' recession at the end of 2023. Part of the explanation is that CFO concerns about inflation and interest

rates, which have dominated the CFO Survey for much of the last two years, have eased since Deloitte's last survey in September. Nonetheless, CFOs continue to see significant near-term risks and they are focused on defensive balance sheet strategies. Perceptions of external financial and economic uncertainty have risen and are running at above-average levels.

Figure 1: Business optimism (net % of CFOs who are more optimistic about the financial prospects of their business versus three months ago)



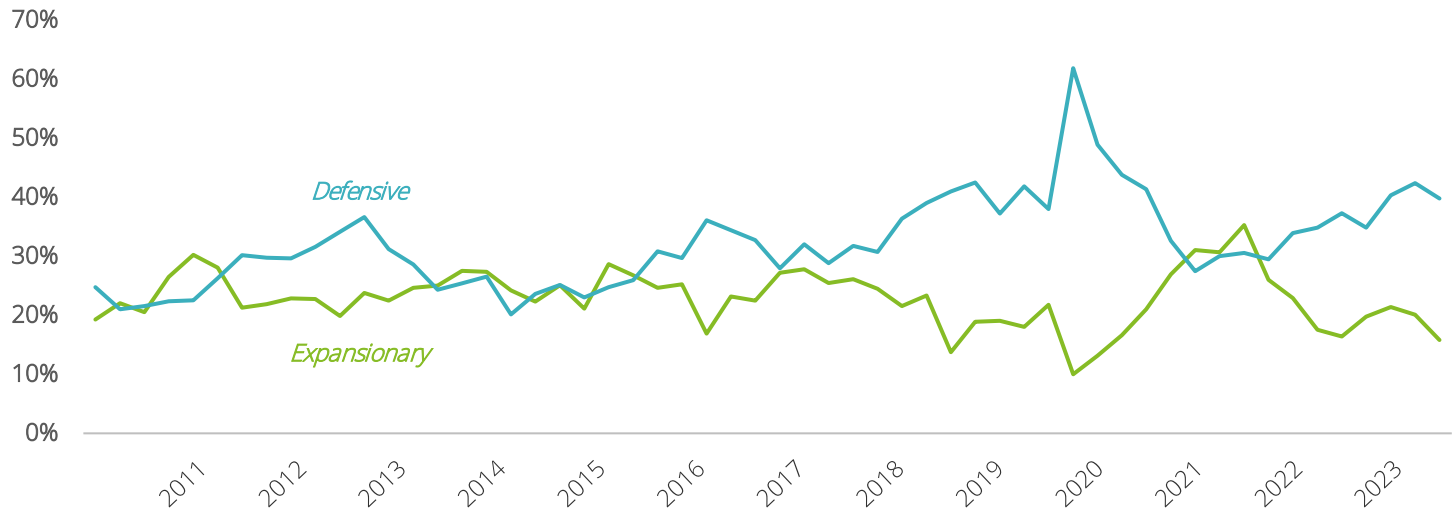


Figure 2: Arithmetic average of the % of CFOs who rate expansionary and defensive strategies as a strong priority for their businesses in the next 12 months

Despite these factors, CFOs anticipate growth, albeit not immediately in the short-term. The majority continue to prioritise defensive strategies (Figure 2) in the near-term (i.e., next 12 months) – such as cost reduction, increasing cash balances and deleveraging the capital structure – over expansionary strategies such as increasing capex, financing acquisitions and expanding into new products, services and markets.

What are CFOs concerned about?

For the second consecutive quarter, as highlighted in Figure

3, geopolitical risk has topped the chart as the leading cause for concern amongst UK CFOs. This is the result of continued conflict and uncertainty in the Middle East and Ukraine; more recently, it is also a function of significant elections upcoming in 2024. CFOs have started to turn their focus towards shoring up supply chains, with the overarching aim being to near-shore and diversify to de-risk their exposure.

Concerns around energy costs continue to remain high; more noticeably, however, there has been a notable uptick in concerns around labour shortages, productivity and the impact on labour costs. There is an expectation that there will be a structural shift in the supply of external labour to

the UK, with a long-term decrease in high-skilled immigration from the EU and an increase in high-skilled immigration from other jurisdictions. CFO expectations are that wage growth will slow to 4.4% over the next 12 months, well above pre-pandemic levels. As a result, CFOs anticipate increased investment in new technology over the short-to-medium term.

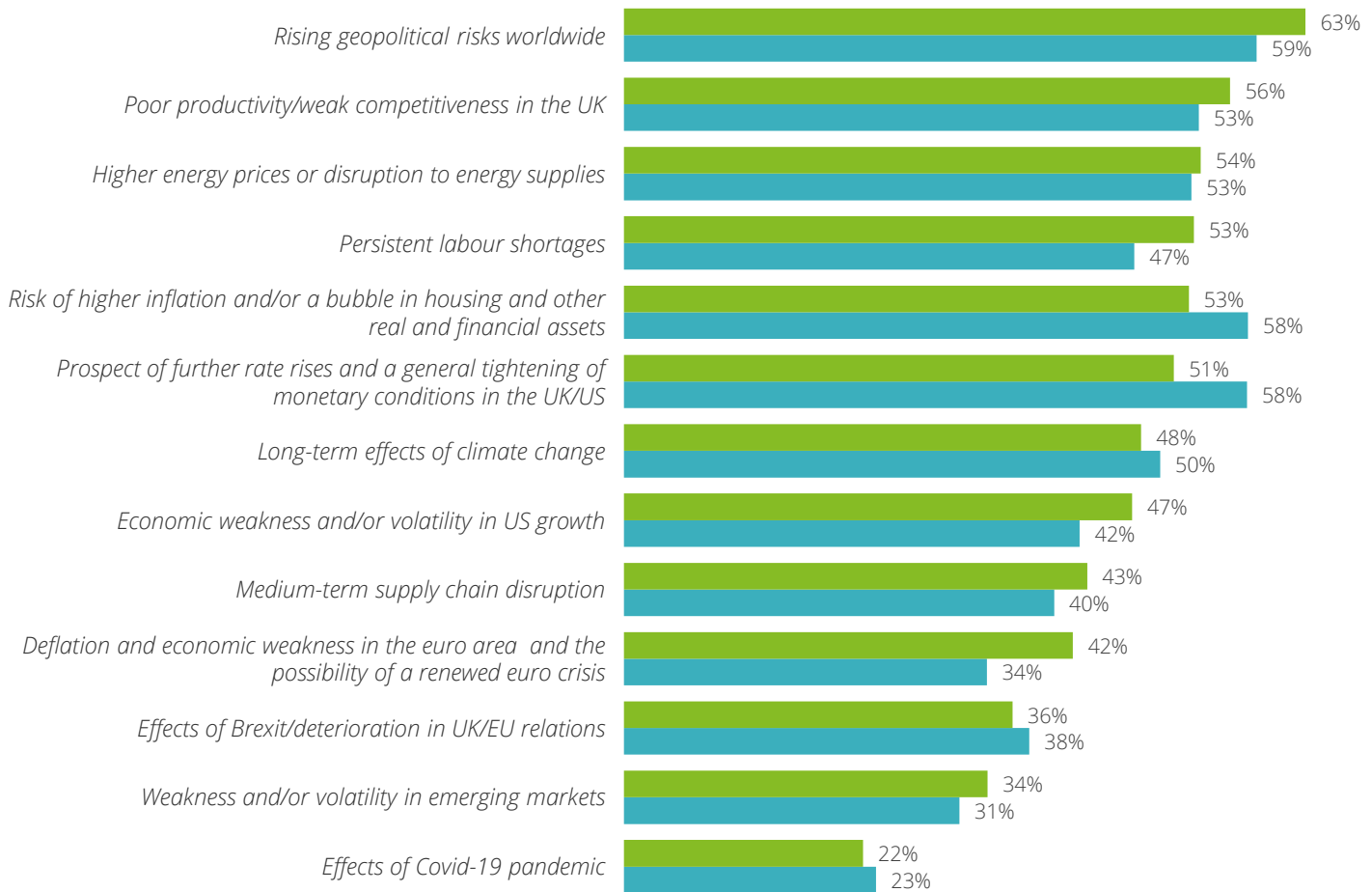


Figure 3: weighted average ratings on a scale of 0-100 where 0 stands for no risk and 100 stands for the highest possible risk

What about interest rates and inflation?

Interest rates and inflation have both slipped down CFOs' lists of concerns. CFOs expect UK inflation to continue declining slowly over the next couple of years, reaching 3.1% in 12 months and ultimately landing at 2.9% in 24 months – still above the Bank of England's 2.0% target.

In a similar vein, given the gradual ease in pricing pressures and the ensuing slowdown in Central Bank rate hikes, concerns around the impact of higher-for-longer interest rates have also started to abate. Financial market expectations are that interest rate cuts are expected throughout 2024, a view shared by UK CFOs – in 12 months, their expectation is that the base rate will drop by 50bps from 5.25% to 4.75%. In the medium term, over the next five years, expectations are that the base rate will drop to 3.5%. CFOs continue to report that credit is expensive (Figure 4) – at near its highest level since the financial crisis in 2008. Its availability (Figure 4), however, is perceived to have increased.

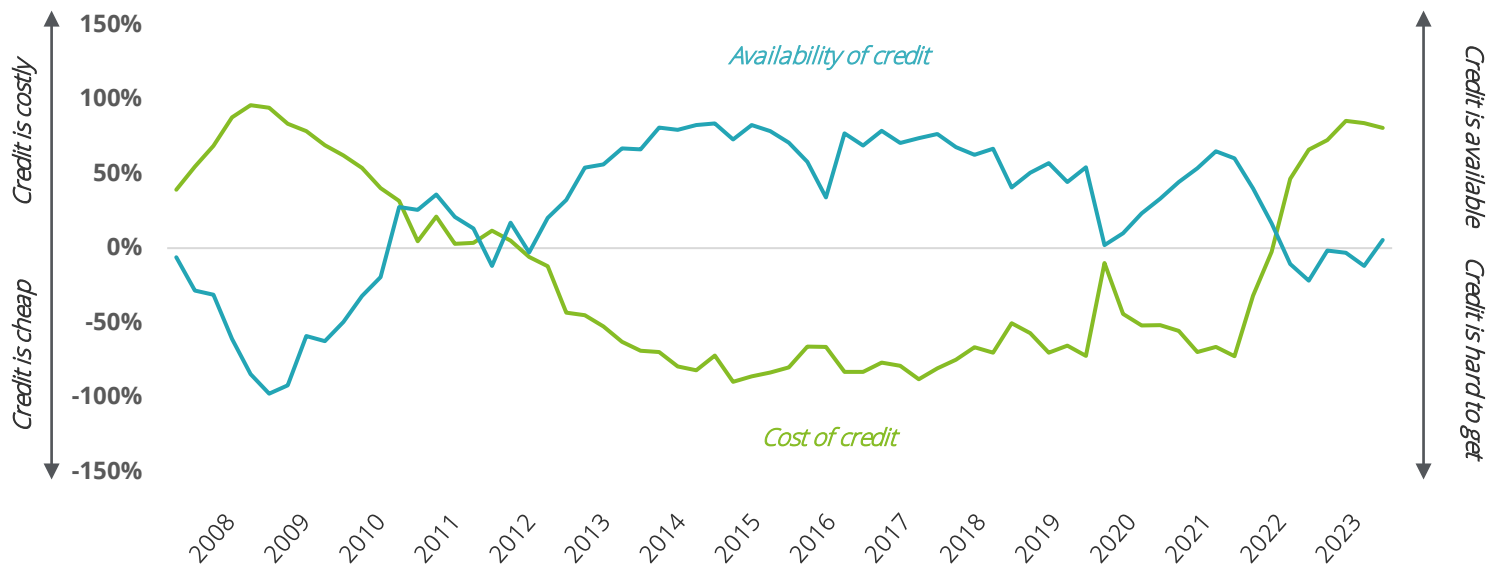


Figure 4: net % of CFOs reporting credit is costly and credit is easily available

About the Survey

This is the 66th quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. The 2023 fourth quarter survey took place between 28th November and 12th December.

Overall, 72 CFOs participated, including the CFOs of 12 FTSE 100 and 26 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 35 UK-listed companies surveyed is £328 billion, or approximately 13% of the UK quoted equity market.

The Deloitte CFO Survey is the only survey of major corporate users of capital that gauges attitude to valuations, risk, and financing. To join our panel of CFO respondents and for additional copies of this report, please contact Elaine Hoang on 020 7007 4717 or email ehhoang@deloitte.co.uk

Results of the upcoming Q1 2024 survey are due to be released in April 2024.

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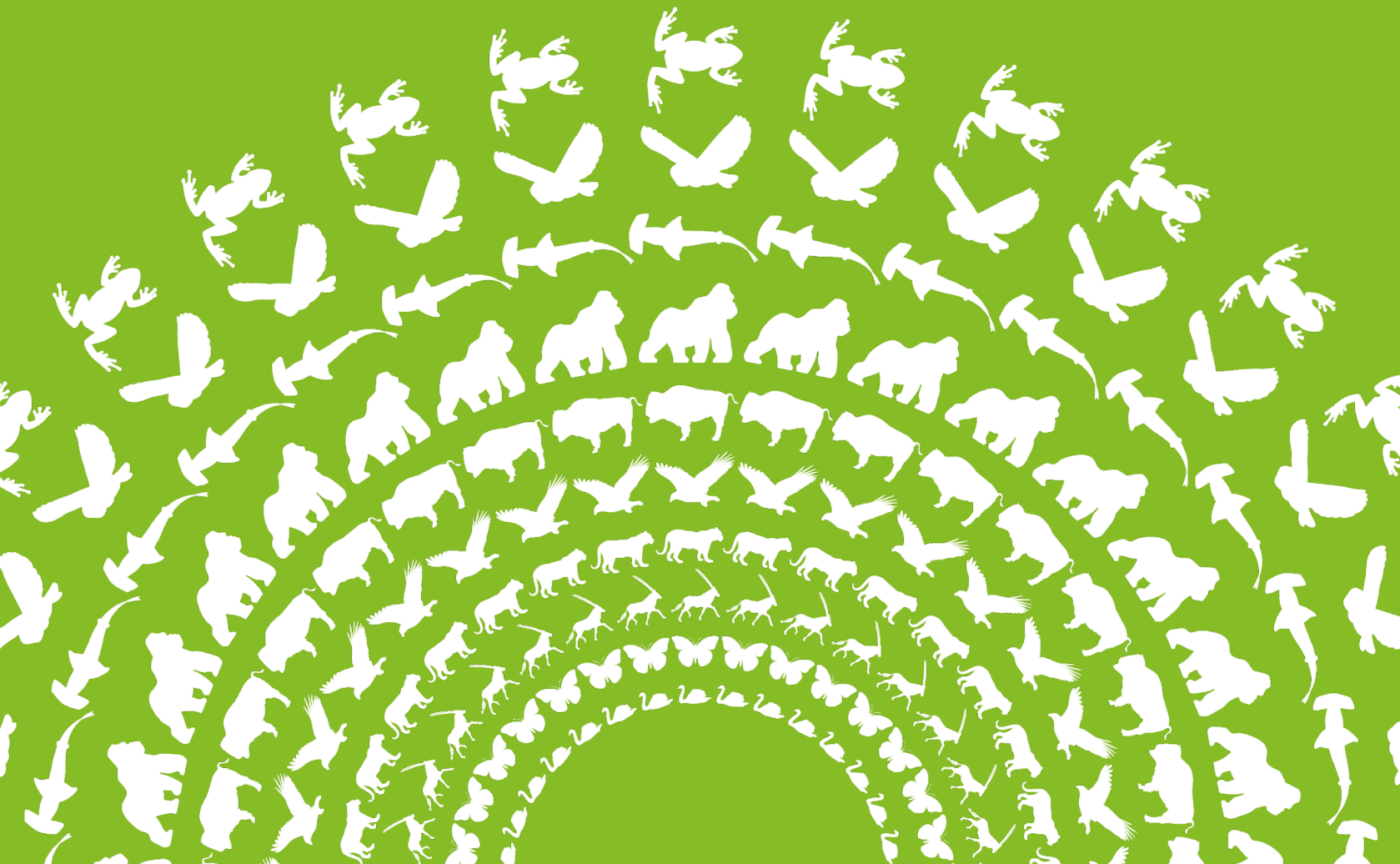


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Private Debt Market Trends, Themes & Human Capital



Market / Regulatory landscape

2023 was somewhat of a transitional year, with private debt experiencing – first-hand – the combined challenge of both a volatile macroeconomic landscape and an increasingly-competitive and saturated marketplace. On reflection, the asset class has done well to stand up to these headwinds, for the most part, with limited hard defaults materialising within institutional portfolios. With market participants hopeful that 2024 will be a more prosperous year for private debt, the following structural factors look set to impact the market moving into 2024:

1. Proliferation of New Specialist Lending Strategies

The previous 12-24 months have seen the rapid emergence of new, increasingly sophisticated, financing strategies which have started to directly eat into private debt's market share and hiring pool. Moving into 2024, this trend looks set to continue, notably amongst asset-based finance ('ABL'), CLO, Secondary, RegCap/SRT and Special Situations strategies.

2. Market Consolidation

Consolidation of industry participants has started to occur over the previous two years and looks set to continue as non-domestic and traditional asset managers diversify through acquisitions, team lifts and strategic joint ventures. Large fund managers are expected to maintain advantage over smaller ones due to the benefits enjoyed from scale – including capital raising, risk management and restructuring expertise – in combination leading to potential bifurcation in fund performance.

Private debt firms have been particularly attractive as acquisition targets, despite their high valuations – including names such as Oak Hill, CarVal, Kreos, AlbaCore, Iron Park, Angelo Gordon etc.

3. LP Considerations

LPs continue to maintain confidence in private markets, including the private debt asset class. Scale and in-house restructuring expertise have climbed their priority lists, however, as funds seek to support stressed assets through challenging market conditions. This has put increased pressure on funds to hire local boots on the ground – in order to work more closely with management teams in helping their businesses navigate periods of volatility.

4. Regulation

Wider regulation continues to be a hot discussion topic with implications on the private debt market, most notably:

Basel IV (EU): despite being focused on banking institutions, the subsequent changes to risk sensitivities, RWA weightings and increasing capital requirements is likely to create opportunity for funds to step into markets where banks will be less competitive;

ELTIF 2.0: the expansion of private markets into the wealth channel in Europe has been muted compared with its growth in the US. The revised regulation and scope for semi-liquid structures is expected to provide easier access to private assets and will hopefully see a pickup in capital raised from the European channel; and

Fund Regulation: already creating upheaval in the US, greater regulatory scrutiny of private markets funds will likely create management headaches moving forwards and may influence which strategies are prioritised moving forward.

About Sheffield Haworth:

Sheffield Haworth is an industry-leading Executive Search Firm & People Consultancy, headquartered in London with 12 global offices and over 30 years of Experience.



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5. Fees

As direct lending continues to mature as an asset class, it is becoming more apparent that management fees are being squeezed and, in some instances, performance fees are being waived – especially at larger firms securing sizeable allocations. Co-invest and evergreen capital structures are also used as a workaround, but typically only enjoyed by larger businesses.

As more traditional managers enter the space, this trend looks set to continue, in particular across senior lending, with something of a race to the bottom as far as fees are concerned. Smaller managers and more niche yielding strategies will likely continue to lean towards performance fee models.

6. Compensation

2023 bonuses are expected to remain flat +/-10%. Individuals with carry may see significant reductions in valuations, but this is only likely to materialise through the end of 2024. Capital raisers remain in hot demand and will likely be paid despite a challenging 2023, if only in an effort to retain talent.

Carry in direct lending has historically been a contentious point, with many investors preferring cash compensation to carry, in particular with debt carry being more akin to a bond with limited upside and potentially significant downside. LPs remain, however, overwhelmingly pro- the carry model as a means of ensuring interests remain aligned

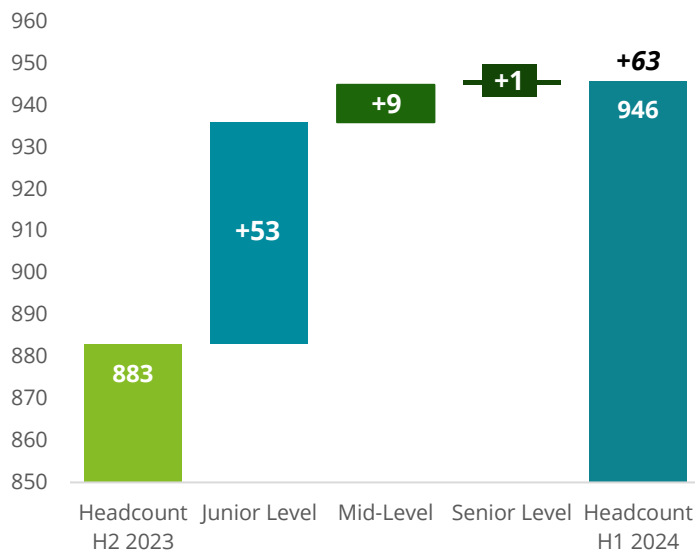
Direct lending market headcount

Summary—2023 in review

European alternative lending suffered throughout 2023 with a tougher fundraising climate and lower deal volumes. However, headcount growth was resilient, driven by new entrants, as well as teams continuing to hire at the Junior level (individuals with < 5 years of relevant experience).

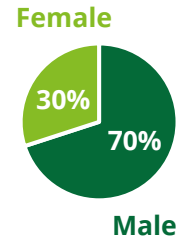
Analyzing the number of market ‘joiners’, those coming into direct lending seats for the first time (leveraged finance, advisory, university, the US) minus the number of those leaving the market, showed a net increase of **+62** investment professionals across Europe. The bulk of these hires were junior, with Analysts / Associates landing from university, leveraged finance and investment banking advisory.

Several mid-level (individuals with 5-10 years of relevant experience) hires came from other direct lending funds, leading to a **small net increase**. At a senior level (individuals with 10+ years of relevant experience), the market only **grew by 1**; 10 left the market altogether, 11 joined, and there were 10 moves between funds.

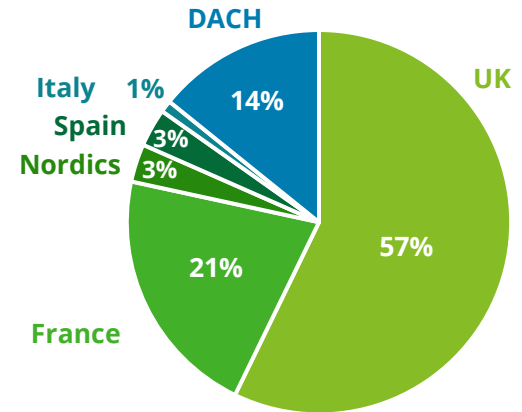


Net Change of Direct Lending IPs in H1 2023

Gender



Geography



Breakdown of hiring

Geography: London-based hires once again comprised the majority of hires. Across 2023, **57%** of hires were London based (including IPs covering different geographies out of London). DACH hiring remained the same as last year at **14%**. Conversely, French hiring comprised a larger share – **21%** this year compared to **13%** in 2022. Italy, Spain, Benelux and Nordics made up the remaining **7.5%** of all hiring, compared to **10%** in 2022.

Gender: diverse hiring continued to climb in 2023 compared to prior years. The average in 2023 of **30%** is considerably higher than previous years:

- 2022 – 21%
- 2021 – 24%
- 2020 – 28%
- 2019 – 22%

Seniority: Junior hiring continued to dominate the diversity stats: **36%** of junior hires were female; compared to **25%** of mid-level hires and **17%** of senior hires. All four of the 'Head of Europe' hires made in 2023 were male.

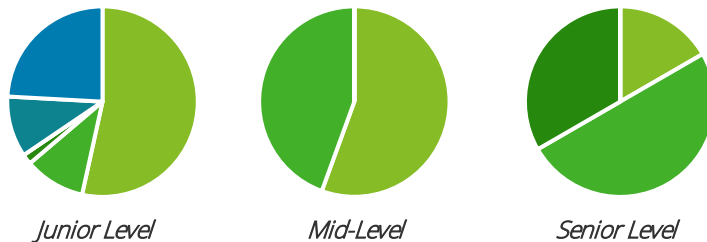
Source of hires & hiring patterns

The charts below compare the source of hires in 2022 across the three seniority brackets. University & leveraged finance comprise the majority of junior hiring, as usual. **36%** of all hiring across seniority levels was made from leveraged finance teams. Hiring from out of the market (i.e.; PE, special sits, accountancy) was **7%** of overall hires. **28%** of hires were made from other direct lending funds (i.e.; fund-to-fund). Our 'people moves' report details some of these notable moves up to Dec 2023, for the latest proprietary intel for 2024, please reach out.

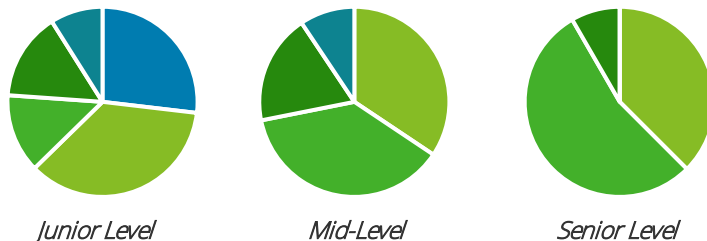
Hires this year have been more evenly dispersed across seniority levels. In 2022, **63%** of hires were junior, **13%** were mid-level, **24%** were senior. This year shows fewer junior hires as a percentage of overall hires.

Diversity Levels (%)

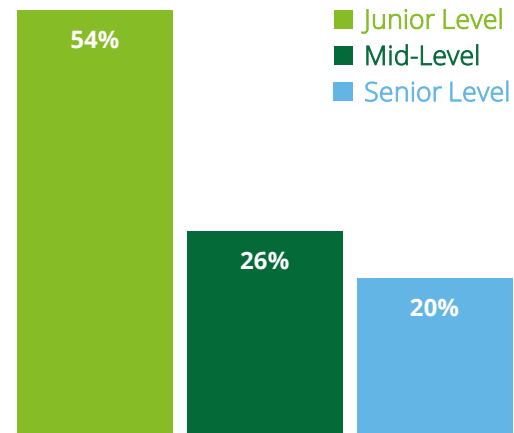
H1 2023



H2 2023



Spread of Hires at Different Seniority Levels (%)



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

<u>Notable Market Movers</u>	<u>From</u>	<u>To</u>	<u>Quarter</u>	<u>Role</u>
Carles Pol	Goldman Sachs	AlphaWave	Q1	Head of Europe
Daniel Crommen	ING	Ares Management	Q1	MD, DACH
Eric Ostermann	Tikehau Capital	Generali	Q2	Head of DACH
Jacob Ucar	Park Square	Kinnerton Hill	Q2	Partner
Jaime Prieto	Kartesia Advisors	Out of the market	Q2	Managing Partner
Jeppe Gregersen	CPP Investments	Ontario Teachers	Q2	MD, Head of Europe
Johannes Vavrovsky	Barclays	Sixth Street	Q2	MD
Kirsten Winterhager	ICG	Pictet	Q2	Head of UK
Matthew Cestar	Credit Suisse	ICG	Q3	MD, Head of Europe
Matthieu Boulanger	KKR	HPS	Q3	MD, Head of Europe
Mike Carruthers	Blackstone Credit US	Blackstone Credit Europe	Q3	Co-CIO Europe
Paulo Eapen	Blackstone Credit	Out of the market	Q4	Head of Europe
Pierre Grandjean	Goldman Sachs	Sixth Street	Q4	Principal
Simon Baccelli	Cerea Partners	Generali	Q4	Head of France

About Paragon Search Partners:

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



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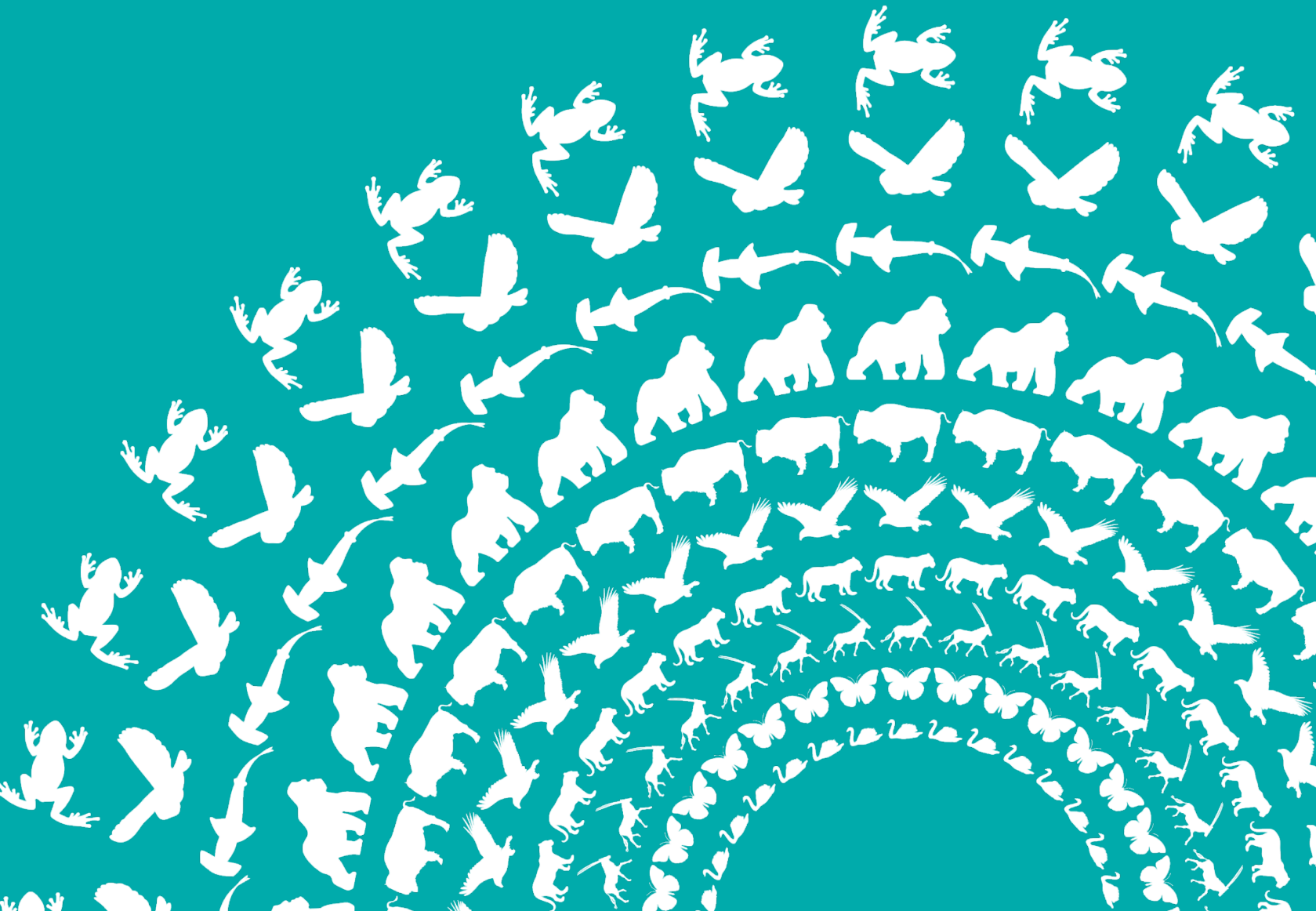


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Insights into the European Private Debt Market



Private debt '101' guide

Who are private debt providers and why are they becoming more relevant?

Private debt consists of a wide range of non-bank institutions with different strategies including direct lending, mezzanine, opportunity and distressed debt.

Who are private debt providers?

These institutions range from larger asset managers diversifying into private 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 Private Debt capital has helped to increase the flexibility and optionality for borrowers.

Key differences to bank lenders?

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

However

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



When to use private debt?

Situations

1 Private Equity acquisitions

2 Corporates making transformational/bolt-on acquisitions

3 Growth capital

4 Consolidation of shareholder base

5 Special dividend to shareholders

6 To refinance bank lenders in over-levered structures

7 Raising junior HoldCo debt

Advantages

Reduce equity contribution and enable more flexible structures

Enable growth of private companies with less/no cash equity

Enable growth opportunities

Enable buy-out of (minority) shareholders

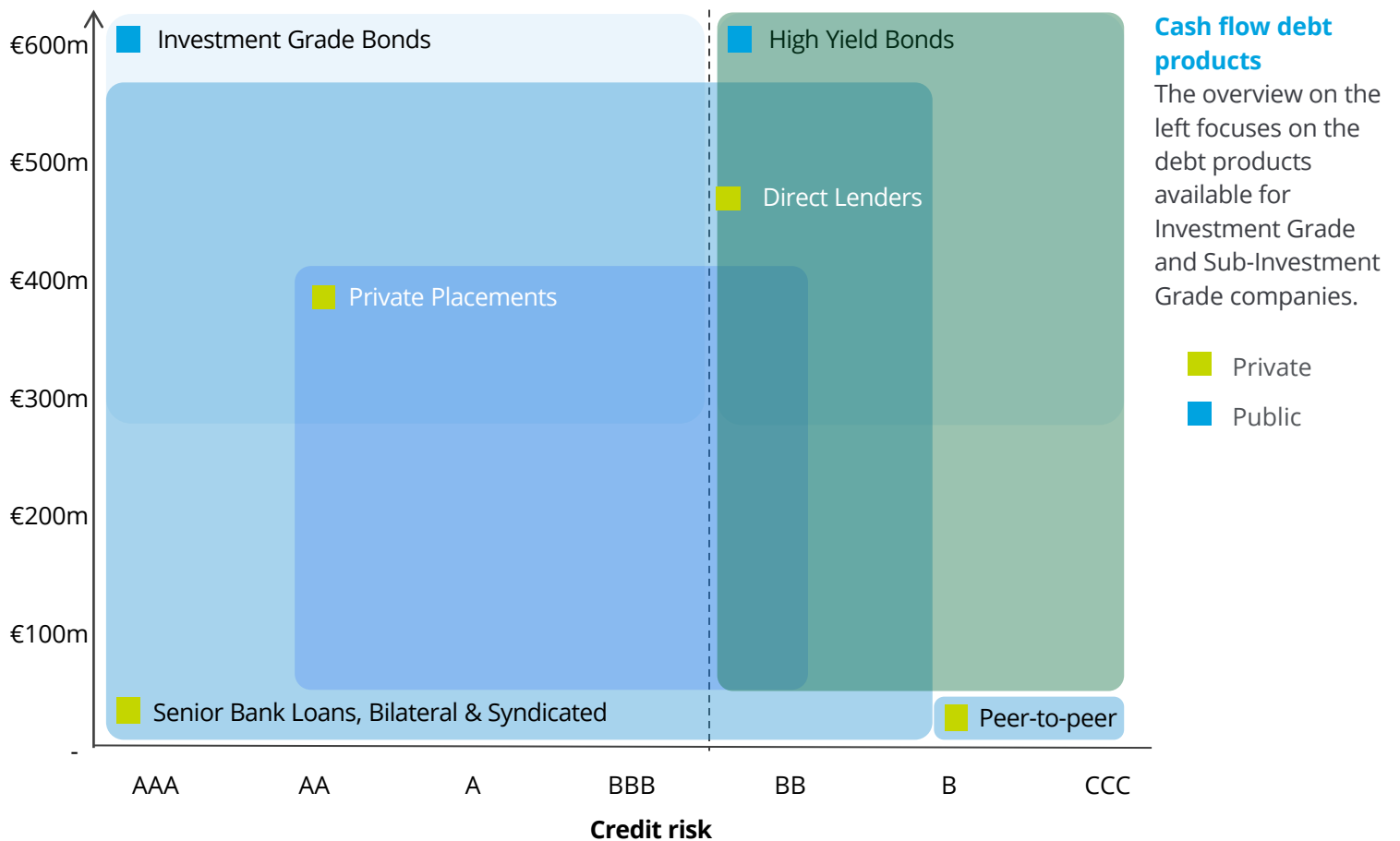
Enable a liquidity event

Enable an exit of bank lenders

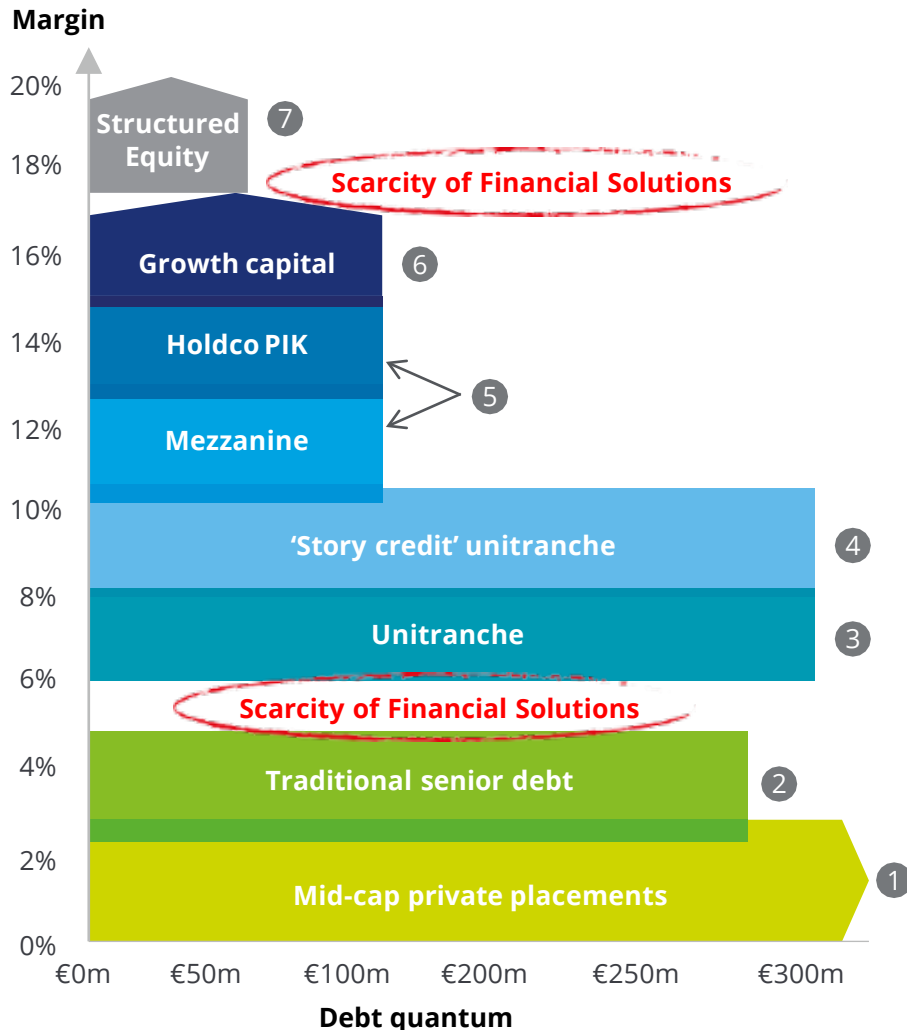
Increase leverage for acquisitions/dividends

How do private debt providers compare to other cash flow debt products?

Debt size



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 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 Lenders operating in the L+450bps to L+600bps pricing territory.

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

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

The latter is mostly the approach of large asset managers.

How do private debt investment strategies compare to one another?

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 private debt providers?

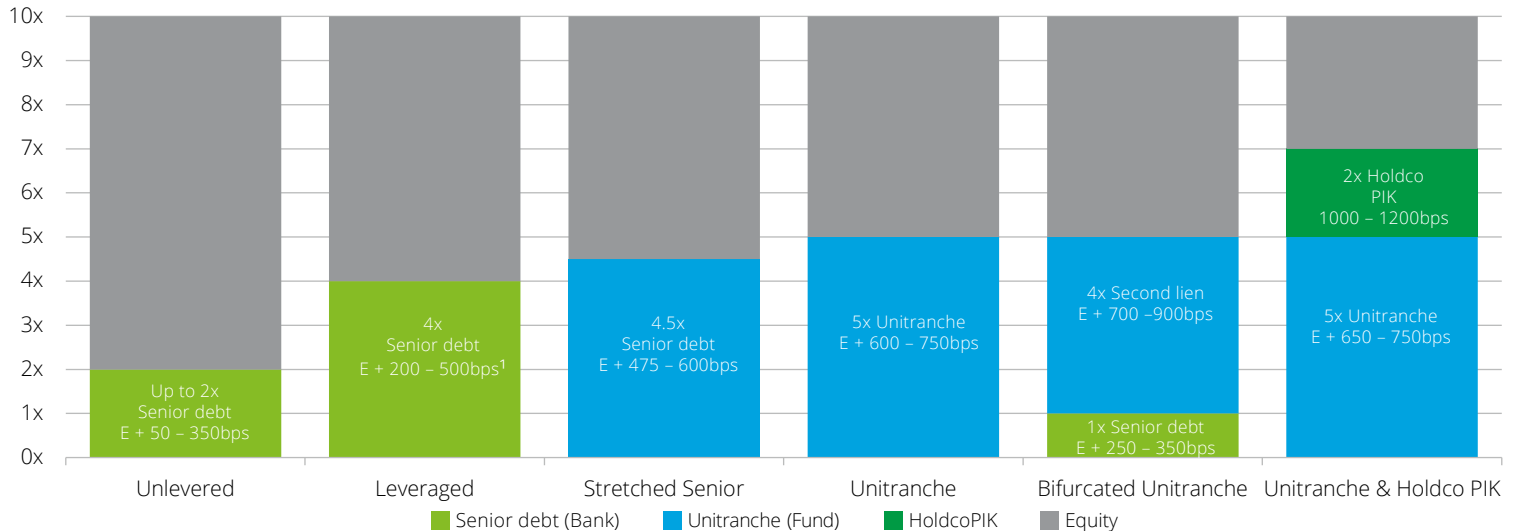


Note: offices included with at least one dedicated private debt professional. The graph does not necessarily provide an overview of the geographical coverage.

What debt structures are available in the market?

Structures

EV/EBITDA



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



Pros and Cons per structure

- | | | | | | |
|--|---|--|---|---|--|
| <ul style="list-style-type: none"> ✓ Lowest pricing ✓ Relationship bank ✗ Low leverage ✗ Shorter tenor (3-5 years) | <ul style="list-style-type: none"> ✓ Increased leverage ✓ Club of relationship banks ✗ More restrictive terms ✗ Partly amortising | <ul style="list-style-type: none"> ✓ Increased leverage ✓ Bullet debt ✓ Lower Equity contribution ✗ More restrictive terms than Unitranche ✗ Higher pricing than bank debt ✗ Need for RCF lender | <ul style="list-style-type: none"> ✓ Stretched leverage ✓ Flexible covenants ✓ One-stop shop solution ✓ Speed of execution ✓ Relationship lender ✗ Higher pricing | <ul style="list-style-type: none"> ✓ Stretched leverage ✓ Flexible covenants ✓ Greater role for bank ✓ Reach more liquid part of the unitranche market ✗ Higher pricing ✗ Intercreditor/AAL | <ul style="list-style-type: none"> ✓ Stretched leverage ✓ Flexible covenants ✓ Lower equity contribution ✓ No Intercreditor market ✗ Higher pricing |
|--|---|--|---|---|--|

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

1) Significant pricing difference between Dutch and Belgian banks continues to exist

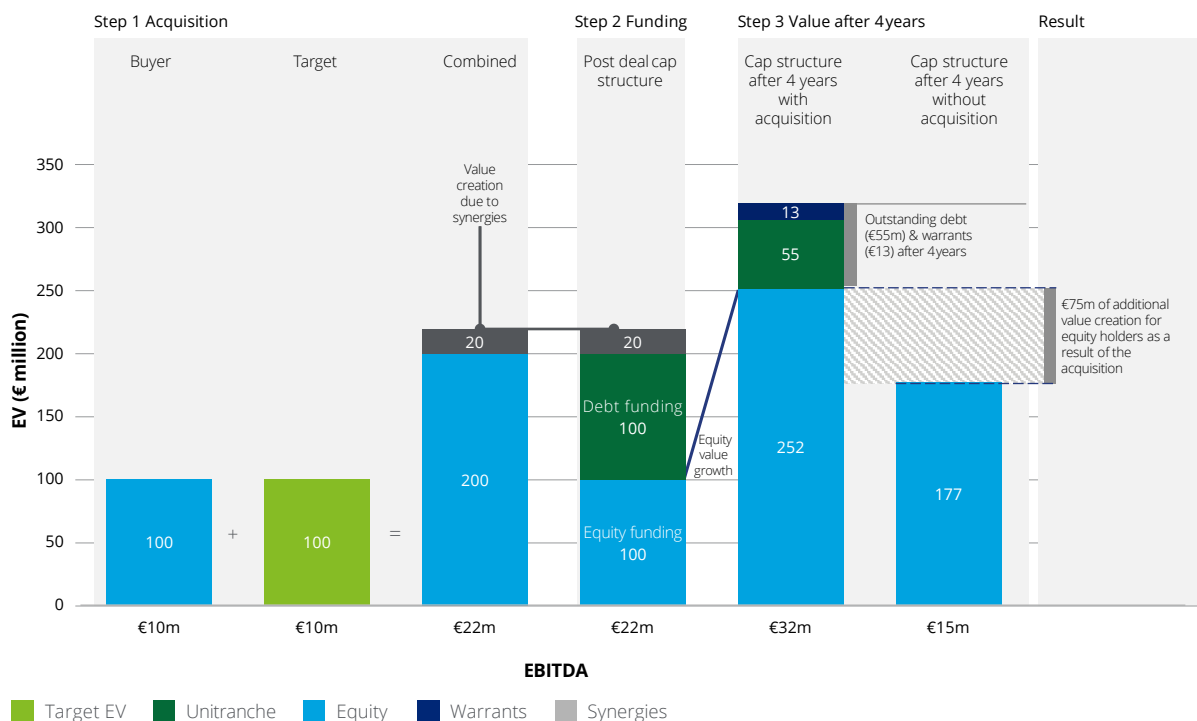
Unlocking transformational acquisitions for privately owned companies

Indicative calculations

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

Value creation through M&A

Indicative calculations



Assumptions

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





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

Deloitte Debt, Capital & Treasury Advisory







What do we do for our clients?

Debt and Capital Advisory

<p>Independent advice</p> 	<p>Global resources & execution expertise</p> 	<p>Market leading team</p> 	<p>Demonstrable track record</p> 
<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • A leading team of over 200 debt professionals based in 31 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 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • In the last 12 months, we have advised on over 130 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

<p>Refinancing</p> 	<p>Acquisitions, disposals, mergers</p> 	<p>Restructuring or negotiating</p> 	<p>Treasury</p> 
<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • New money requirement • Real or potential breach of covenants • Short term liquidity pressure • Credit rating downgrade • Existing lenders transfer debt to a private debt group • Derivatives in place and/or banks hedging requirements to be met 	<ul style="list-style-type: none"> • Operations in multiple jurisdictions and currencies creating FX exposures • Develop FX, interest rate and commodity risk management strategies • Cash in multiple companies, accounts, countries and currencies • Hedging implementation or banks hedging requirements to be met

Depth and breadth of expertise in a variety of situations

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United Kingdom

<p>Synova Refinancing</p>  <p>Dec 2023 Undisclosed</p> <p>UK</p>	<p>Inflexion Acquisition Financing</p>  <p>Dec 2023 Undisclosed</p> <p>UK</p>	<p>CGE Partners Refinancing</p>  <p>Dec 2023 Undisclosed</p> <p>UK</p>	<p>Inflexion Refinancing</p>  <p>Oct 2023 Undisclosed</p> <p>UK</p>	<p>Inflexion Refinancing</p>  <p>Oct 2023 Undisclosed</p> <p>UK</p>	<p>Private Refinancing</p>  <p>Sep 2023 £115m</p> <p>UK</p>
<p>Connell Renewables Ltd M&A Acquisition Financing</p>  <p>Sep 2023 c.£30m</p> <p>UK</p>	<p>PLC Refinancing</p>  <p>Sep 2023 £250m</p> <p>UK</p>	<p>PLC Debut Financing</p>  <p>Sep 2023 €180m</p> <p>UK</p>	<p>PLC Amend & Extend</p>  <p>Sep 2023 £250m</p> <p>UK</p>	<p>Livingbridge Refinancing</p>  <p>Aug 2023 Undisclosed</p> <p>UK</p>	<p>Onebright/EMK Capital Bolt-on Acquisition</p>  <p>Aug 2023 Undisclosed</p> <p>UK</p>
<p>Gyrus Capital Acquisition Financing</p>  <p>Jul 2023 Undisclosed</p> <p>UK / Germany</p>	<p>Port of Tyne Authority Refinancing</p>  <p>Jun 2023 £110m</p> <p>UK</p>	<p>PLC Amend & Extend</p>  <p>Jun 2023 £55m</p> <p>UK</p>	<p>Phoenix Equity Partners Refinancing</p>  <p>May 2023 Undisclosed</p> <p>UK</p>	<p>Inflexion Refinancing</p>  <p>May 2023 Undisclosed</p> <p>Finland</p>	<p>DIF Capital Partners Greenfield</p>  <p>Apr 2023 £25m</p> <p>UK</p>
<p>PLC Refinancing</p>  <p>Apr 2023 £80m</p> <p>UK</p>	<p>PLC Acquisition Financing</p>  <p>Apr 2023 £110m</p> <p>UK</p>	<p>Ashridge Capital Refinancing</p>  <p>Apr 2023 Undisclosed</p> <p>UK</p>	<p>PLC Corporate</p>  <p>Mar 2023 £167m</p> <p>UK</p>	<p>Equitix & Albion Greenfield</p>  <p>Mar 2023 £40m</p> <p>UK</p>	<p>Pricoa Amend & Extend</p>  <p>Mar 2023 Undisclosed</p> <p>UK</p>
<p>Hanover Refinancing</p>  <p>Feb 2023 Undisclosed</p> <p>UK</p>	<p>Tenzing Private Equity Refinancing</p>  <p>Feb 2023 Undisclosed</p> <p>UK</p>	<p>CGE Partners Refinancing</p>  <p>Jan 2023 Undisclosed</p> <p>UK</p>	<p>PLC Amend & Extend</p>  <p>Jan 2023 £170m</p> <p>UK</p>	<p>PLC Amend & Extend</p>  <p>Jan 2023 £175m</p> <p>UK</p>	

Debt and Capital Advisory Credentials

Recent Debt and Capital Advisory Transactions
















Mainland Europe

<p>Private Growth Financing</p> <p>Confidential</p> <p>Dec 2023 Undisclosed</p> <p>France</p>	<p>Private Growth Refinancing</p> <p></p> <p>Dec 2023 Undisclosed</p> <p>Ireland</p>	<p>Private Refinancing</p> <p></p> <p>Dec 2023 Undisclosed</p> <p>Ireland</p>	<p>Rivean Capital Acquisition Financing</p> <p></p> <p>Dec 2023 Undisclosed</p> <p>Netherlands</p>	<p>Private Structured Financing</p> <p></p> <p>Dec 2023 Undisclosed</p> <p>Netherlands</p>	<p>Creagh Concrete Refinancing</p> <p></p> <p>Nov 2023 Undisclosed</p> <p>Ireland</p>
<p>Erisberg Acquisition Financing</p> <p></p> <p>Oct 2023 Undisclosed</p> <p>Ireland</p>	<p>Dopravní Podnik Praha Capital Raise</p> <p></p> <p>Oct 2023 Undisclosed</p> <p>Czech Republic</p>	<p>Erisberg Acquisition Financing</p> <p></p> <p>Oct 2023 Undisclosed</p> <p>Ireland</p>	<p>MBH Bank Bond Issuance</p> <p></p> <p>Oct 2023 €350m</p> <p>Hungary</p>	<p>NPM Capital Acquisition Financing</p> <p></p> <p>Oct 2023 Undisclosed</p> <p>Netherlands</p>	<p>The Carlyle Group Refinancing</p> <p></p> <p>Sep 2023 Undisclosed</p> <p>Czech Republic</p>
<p>Private Acquisition Financing</p> <p></p> <p>Sep 2023 Undisclosed</p> <p>Ireland</p>	<p>Lugus Capital Growth Financing</p> <p></p> <p>Aug 2023 Undisclosed</p> <p>Ireland</p>	<p>Private Refinancing</p> <p></p> <p>Aug 2023 Undisclosed</p> <p>Ireland</p>	<p>IceLake Capital Refinancing</p> <p></p> <p>Aug 2023 Undisclosed</p> <p>Netherlands</p>	<p>August Equity Acquisition Financing</p> <p></p> <p>Jul 2023 Undisclosed</p> <p>Ireland</p>	<p>Rhatigan Growth Financing</p> <p></p> <p>Jul 2023 Undisclosed</p> <p>Ireland</p>
<p>Private Capital Raising</p> <p></p> <p>Jun 2023 Undisclosed</p> <p>Poland</p>	<p>Private Acquisition Financing</p> <p></p> <p>Jun 2023 Undisclosed</p> <p>Portugal</p>	<p>Private Feasibility Study</p> <p>Confidential</p> <p>May 2023 Undisclosed</p> <p>Germany</p>	<p>IceLake Capital Acquisition Financing</p> <p></p> <p>May 2023 Undisclosed</p> <p>Netherlands</p>	<p>Private Refinancing</p> <p></p> <p>Apr 2023 Undisclosed</p> <p>Netherlands</p>	<p>Avedon Acquisition Financing</p> <p></p> <p>Apr 2023 Undisclosed</p> <p>Netherlands</p>
<p>Private Acquisition Financing</p> <p>Confidential</p> <p>Apr 2023 Undisclosed</p> <p>Germany</p>	<p>Private Growth Financing</p> <p></p> <p>Mar 2023 £167m</p> <p>Ireland</p>	<p>Private Refinancing</p> <p></p> <p>Mar 2023 Undisclosed</p> <p>Ireland</p>	<p>Gilde Healthcare Acquisition Financing</p> <p></p> <p>Mar 2023 Undisclosed</p> <p>Netherlands</p>	<p>The Carlyle Group Capital Raise</p> <p></p> <p>Feb 2023 Undisclosed</p> <p>Czech Republic</p>	<p>Private Refinancing</p> <p></p> <p>Jan 2023 Undisclosed</p> <p>Ireland</p>

Debt and Capital Advisory Credentials

Recent Debt and Capital Advisory Transactions

Other International

<p>Mahle Behr <i>TPOD</i></p>  <p>Dec 2023 Undisclosed</p> <p>South Africa</p>	<p>Kerry Ingredients <i>TPOD</i></p>  <p>Dec 2023 Undisclosed</p> <p>South Africa</p>	<p>Private <i>Refinancing</i></p>  <p>Dec 2023 INR 1860Cr</p> <p>India</p>	<p>Private <i>Growth Financing</i></p>  <p>Sep 2023 INR 3485Cr</p> <p>India</p>	<p>Private <i>Growth Financing</i></p>  <p>Sep 2023 INR 2580Cr</p> <p>India</p>	<p>Private <i>Growth Financing</i></p>  <p>Sep 2023 INR 3081Cr</p> <p>India</p>
<p>Scotiabank <i>Capital Raise</i></p>  <p>Aug 2023 CAD 47m</p> <p>Canada</p>	<p>Paz Ashdod Refinery <i>Bank Financing</i></p>  <p>Aug 2023 NIS 3bn</p> <p>Israel</p>	<p>Paz Ashdod Refinery <i>Public Bond Issuance</i></p>  <p>Aug 2023 NIS 580m</p> <p>Israel</p>	<p>Interland Group <i>BESS Financing</i></p>  <p>Jul 2023 NIS 1bn</p> <p>Israel/UK</p>	<p>Kalkan Capital <i>Public Bond Offering</i></p>  <p>Jul 2023 NIS 160m</p> <p>Israel</p>	<p>TD Bank <i>Capital Raise</i></p>  <p>May 2023 Undisclosed</p> <p>Canada</p>
<p>Private <i>Advisory</i></p>  <p>May 2023 Undisclosed</p> <p>South Africa</p>	<p>Private <i>Transfer Pricing of De.</i></p>  <p>Feb 2023 Undisclosed</p> <p>South Africa</p>	<p>Private <i>Refinancing</i></p>  <p>Feb 2023 Undisclosed</p> <p>Aruba</p>			

Notes



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Designed and produced by 368. J31803