

Deloitte Alternative Lender Deal Tracker

Focussed on primary deal flow in the European mid market



Deloitte Alternative Lender Deal Tracker

Welcome to the fourth issue of the Deloitte Alternative Lender Deal Tracker that has now been extended to cover 34 leading alternative lenders with whom Deloitte is tracking primary mid-market deals across Europe with up to €350m of debt.

The number of deals covered in this edition has increased to over 228 transactions across the past 21 months.

In this edition, we have included an alternative lender “101” guide. We have also included the key outputs of the Deloitte Q2 2014 CFO survey.

Key headlines of the Alternative Lender Deal Tracker

- Continued strong momentum in private debt fund raising and alternative deal flow.
- Excess liquidity and increased appetite from banks to provide flexible terms have resulted in lower pricing for borrowers.
- A higher proportion of transactions in the deal tracker relate to M&A (59% of total deals in Q2 14 vs low point of 38% in Q2 13).
- The UK remains the largest market for alternative lenders with 47% of the transactions, followed by 25% in France and 12% in Germany.
- There is a clear distinction in the market between established private debt lenders with significant deal flow and smaller newly set up funds.
- An increasing number of CFO's and management teams are considering alternative lenders as a funding source.



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Key trends in the alternative lending market

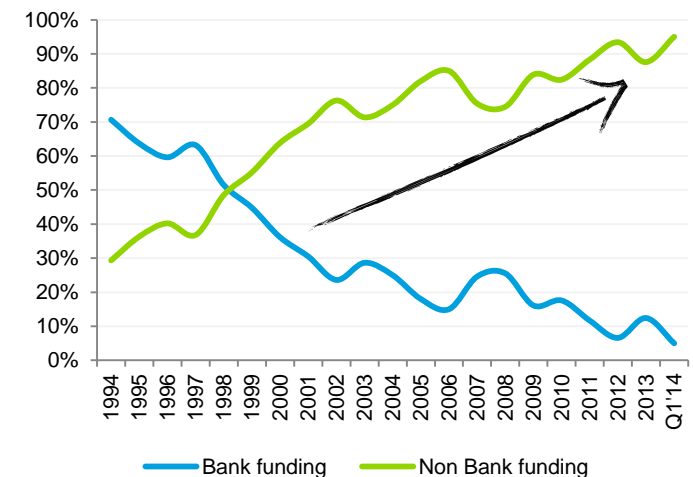
- The European alternative lender market continues to grow. The Deal Tracker records a 6% year on year increase in Q2 deal flow compared to 2013.
- We have recorded 228 transactions completed by 34 alternative lenders in our survey since October 2012.
- In response to increasing alternative lender liquidity, a small number of European banks have increased their flexibility to provide and underwrite structures that are similar to those provided by alternative lenders.
- Increased liquidity from mainly leveraged US funds entering the European alternative lender market combined with banks' ability in 2014 to lend on more flexible terms has resulted in more competitive unitranche yields for the better credits with increasing numbers of transactions being structured below L+700bps.
- In Q2 2014, the trend for non-amortising, senior 'Term Loan B' debt structures (interest only) at premium senior pricing (c. L+550bps) has continued with a number of banks providing this product alongside alternative funds which has taken some market share away from the unitranche product.
- There is reported strong momentum in fund raisings for newly set up private debt teams including, amongst others, CVC, Crescent, EQT, Fortress, Muzinich, Pemberton, Park Square and TPG.
- Funds which can differentiate in terms of (i) scale, (ii) geographic reach (iii) niche sector or (iv) flexible capital have a competitive advantage.
- High profile transactions have significantly raised awareness of the Unitranche product in mainland Europe, including reported transactions for the French registered international industrials company Flexitallic Group, Italy's global fan manufacturer Nicotra Gerhardt and the Netherlands based international Dutch Ophthalmologic Research Centre (DORC). As a result, over the next six months, we expect a number of funds to continue to augment their European origination resource.
- Importantly, a higher proportion of transactions in Q2 2014 relate to M&A (59% of total deals compared to a low point of 38% in Q213) and we anticipate that this trend will continue over the next six months.
- The UK remains the largest market for alternative lenders with 48% of the transactions, followed by 25% in France and 12% in Germany.

Alternative lender outlook

Based on our analysis, we predict a number of key European market developments that will occur in the second half of 2014, specifically:

- The number of alternative lender transactions will continue to increase, but at a slower phase than in 2013
- More debt funds will be able to attract leverage at fund level which will enable them to provide lower pricing
- The hold size of loans by funds will continue to increase
- Increased TLB issuance in the mid-market
- More funds targeting the smaller end of the mid-market
- Increased deal origination in the European market
- Stronger collaboration between banks and alternative lenders
- A number of larger funds being able to provide an underwritten option
- Continued inflow of US liquidity
- More debt funds looking to diversify outside of Europe, transforming into global private debt players

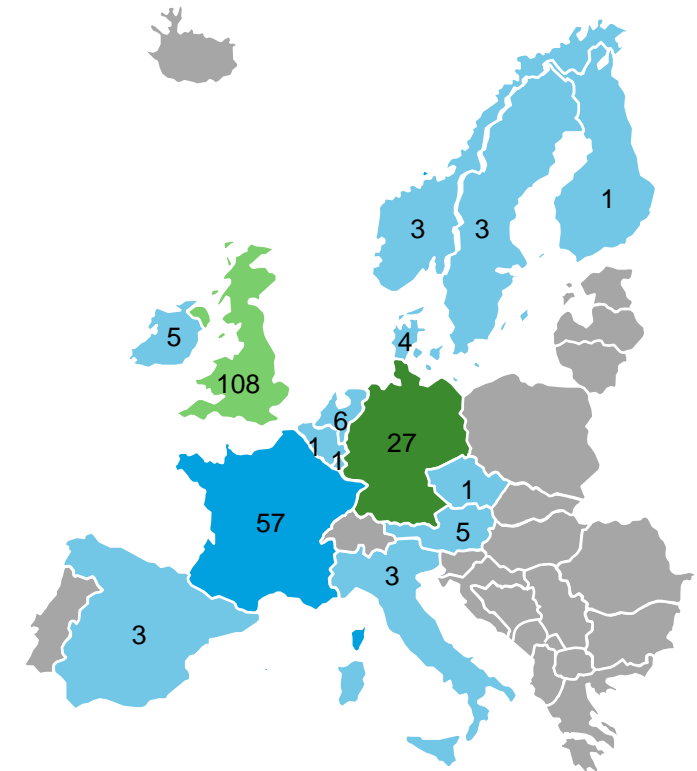
Evolution of the US leveraged debt market



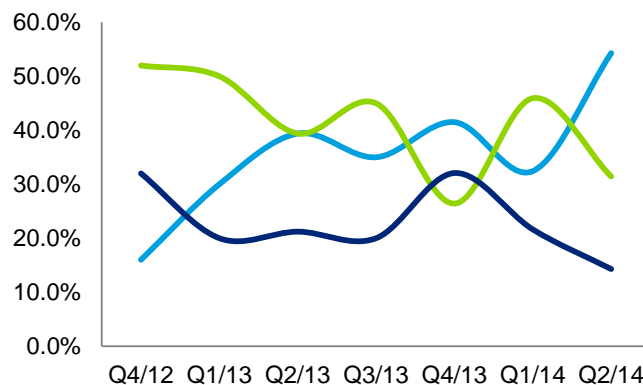
Alternative lenders increasingly targeting deals in Western Europe

- UK, France and Germany cover **84%** of the deal flow.
- 47%** of the transactions were in the UK, **25%** in France and **12%** in Germany.
- Out of the **34** lenders surveyed only **2** lenders have not completed a deal and a further **3** lenders have not completed deals outside of the UK.
- Unitranche product (46% of deals) **is more popular in UK**, while on the continent the senior product (40%) is dominant.
- In the UK **42%** of transactions were related to LBO financing, in line with number of deals in Europe.
- 10%** of deals in Europe relate to bolt on M&A compared to **5%** in the UK.

Deal volume main geographies

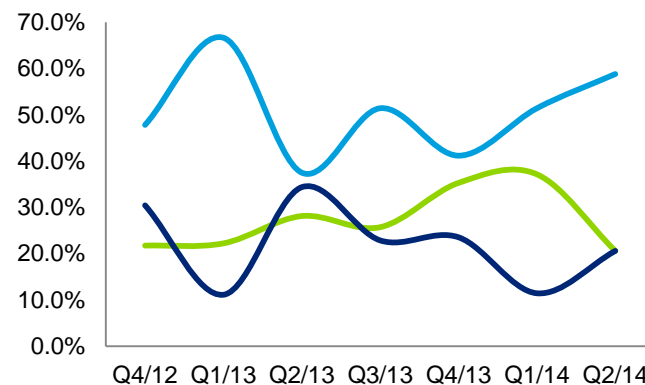


Structures (UK & Europe)



— Senior — Unitranche — Other*

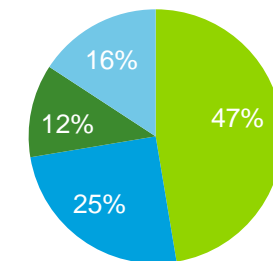
Deal purpose (UK & Europe)



— M&A — Refinancing — Other*

* Other includes 2nd lien, Mezzanine and PIK / other.

* Other includes dividend recapitalisation and growth capital.



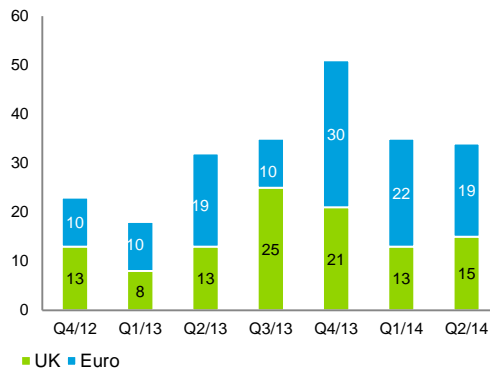
■ UK ■ France ■ Germany ■ Rest of Europe

Alternative lenders continue to increase their deal flow...

Alternative Lender Deal Tracker

- Covers 34 leading alternative lenders, who have participated in 108 UK and 120 European mid market deals in the last 7 quarters.
- Only primary mid market UK and European deals with debt up to £300m or €350m are included in the survey.
- Q4 2013 had the highest deal flow with 51 deals.

Number of deals completed



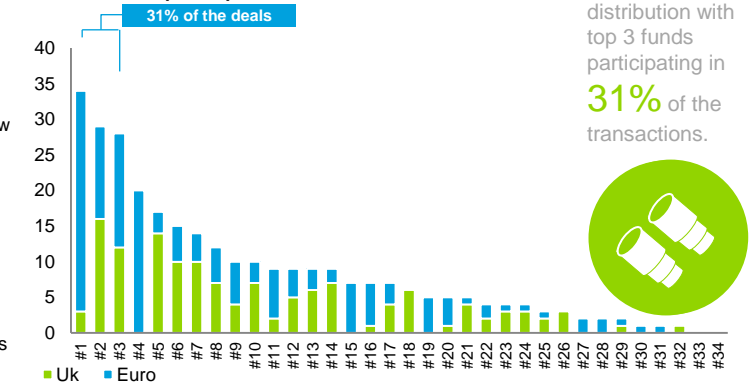
6% increase in deal flow Q2'14 compared to Q2'13



Survey participants

- The most active alternative lender participated in 34 transactions.
- The top 3 lenders by deal flow have participated in 31% of the transactions included in our survey.
- Only 25% of transactions involved multiple alternative lenders.
- 24% of the participating funds have completed 2 or less transactions in the last 7 quarters.

Number of completed per lender

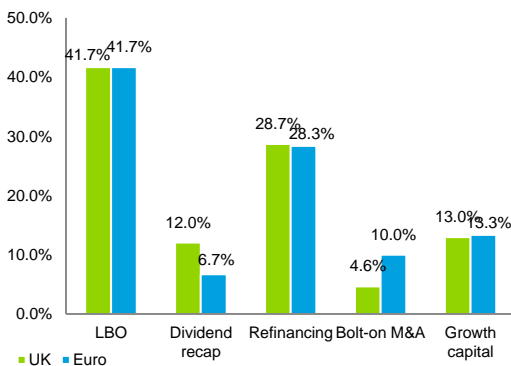


...providing bespoke structures for mainly “event financing” situations

Deal purpose

- The majority of the deals are LBO related, with both 42% of UK and Euro deals being used to fund a buy out.
- 29% of UK and 28% of Euro deals surveyed related to refinancing, while only 12% of UK and 7% of Euro related to a dividend recap.
- Of the 228 deals, 47 deals did not involve a private equity sponsor.

Deal purpose overview



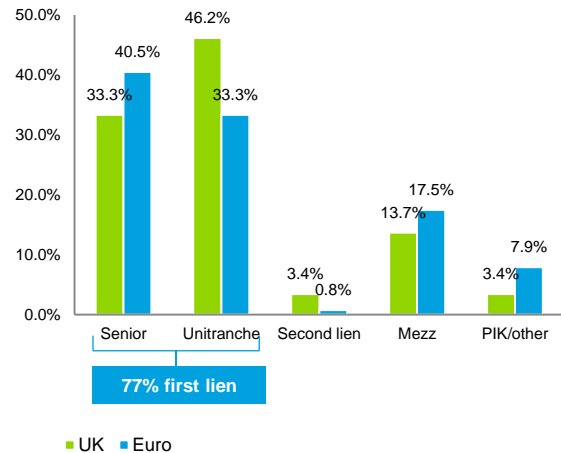
49% of the transactions involve M&A.



Structures

- “Unitranche” is the dominant structure, with (46% of UK and 33% of Euro) of the transactions classified as a Unitranche structure.
- Alternative lenders are mainly competing with banks, as 77% of the transactions are structured as a first lien structure (Senior / Unitranche).
- Subordinated structures represent only 23% of the transactions.
- The mezzanine product is more popular outside UK.
- Second lien volume remained low.

Deal structure overview



77% of the transactions are structured as first lien Senior or Unitranche.



* 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

Results from Deloitte's CFO survey, Q2 2014

Great optimism

CFO optimism has eased slightly in the second quarter but continues to run well above its long-term average.

Chart 1. Business confidence



Net % of CFOs who are more optimistic about the financial prospects for their company now than three months ago

CFO perceptions of economic uncertainty have continued to fall.

49% of CFOs now rate the level of financial and economic uncertainty facing their business as above normal, high or very high – the lowest reading in four years.

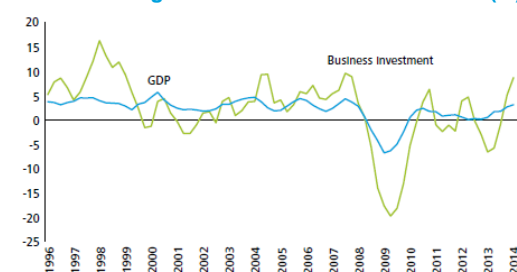
Chart 2. Uncertainty



% of CFOs who rate the level of external financial and economic uncertainty facing their business as above normal, high or very high

Official data shows that investment is outpacing GDP growth. Business investment has risen by 10.6% over the last year.

Chart 3. GDP growth and business investment (%)



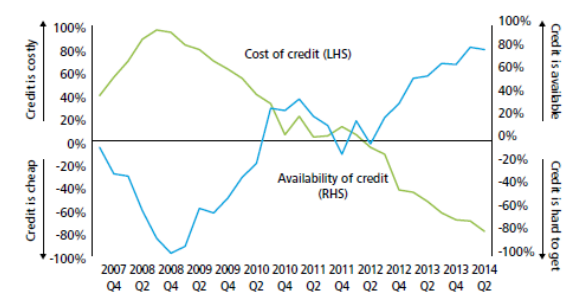
UK GDP growth (% YoY) and growth in business investment (% YoY, 2Q moving average)

Easy credit

Financing conditions remain benign for the large corporates on our survey panel.

CFOs report that the cost of credit has fallen to a seven-year low in the second quarter while credit availability is close to the highest level in seven years.

Chart 4. Cost and availability of credit

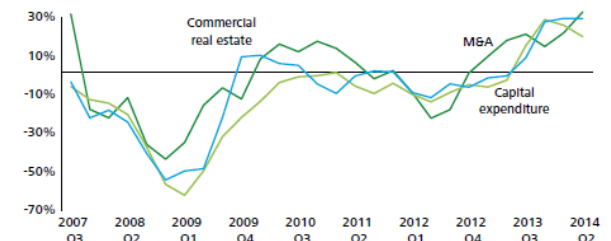


Net % of CFOs reporting credit is costly and credit is easily available

Bank lending to corporates rose by 1% in the year to May, the first increase in five years.

The Bank of England's Credit Conditions Survey reveals that mergers and acquisitions, investment into commercial real estate and capital expenditure have been major drivers of corporate demand for loans.

Chart 5. Factors supporting demand for loans from corporates

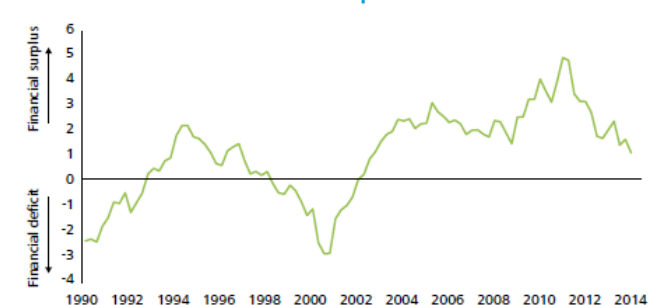


Net % of banks reporting each of the following factors as a contributor to changes in corporate demand for lending over the past three months (2Q moving average)

In the aftermath of the financial crisis, corporates paid down debt, cut costs and held on to cash, realising a huge financial surplus.

Reflecting on greater confidence on the strength of their balance sheets, corporates have narrowed this surplus during the last two years.

Chart 6. Financial balance of corporate sector



Financial balance of UK private non-financial corporations as a % of GDP

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 two 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 €200m).
- 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.
- Untested behaviour of funds throughout the cycle.

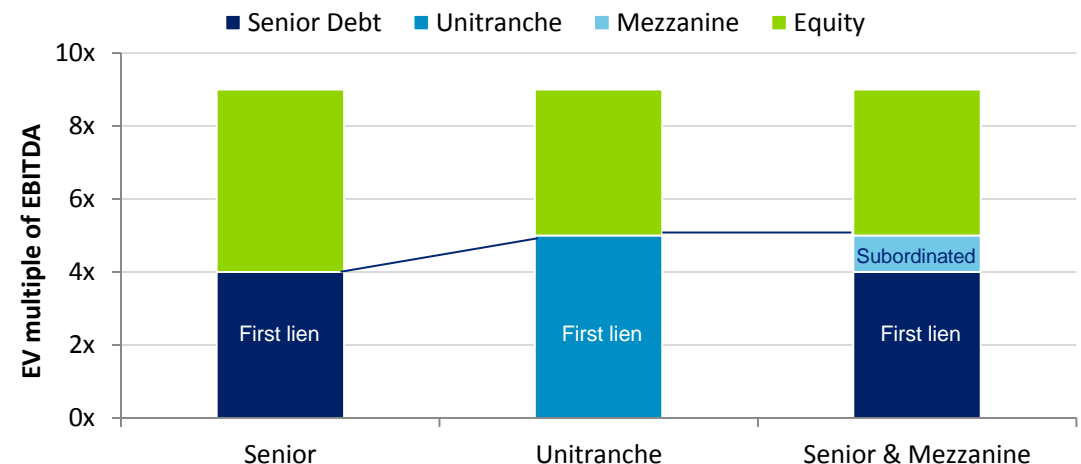
Three key questions to ask when dealing with alternative lenders:

1. What type of fund am I dealing with and what strategy do they employ?
2. What is the track record, sustainability of the platform, and reputation of the fund and the individuals working within the fund?
3. What is the current stage of the fund's lifecycle?

What type of alternative lenders are active in the European mid market?

Type of fund	Type of loans	Typical yield requirement	Number of funds targeting the European mid market
Leveraged private debt funds	Senior / Unitranche loans	Below L + 7.0%	< 10
Unlevered private debt funds	Senior / Unitranche loans	Above L + 7.0%	> 40
Mezzanine funds	Subordinated loans	Coupon of 10% -15%	> 30
Quasi equity funds	Senior and subordinated loans	Target IRR of 15% -20%	> 30
Special situations / distressed funds	Senior and subordinated loans	Target IRR of 10% -20%	> 30
Hedge funds	Senior and subordinated loans	Varies with risk profile	> 40

Unitranche structure compared to traditional LBO structures



Key differences of Unitranche compared to traditional LBO structures

- Unitranche debt is senior plus mezzanine debt combined into one tranche with a blended pricing.
- Banks typically require the senior debt to carry 30 – 40% amortisation whereas Unitranche has a bullet maturity.
- Unitranche increases the total debt capacity to c. 5 – 5.5x EBITDA without having the complexity of a subordinated mezzanine tranche.

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The most successful and geographically diverse Debt Advisory team

Deloitte Alternative Lender Deal Tracker Focussed on primary deal flow in the European mid market | 8



Recent Debt Advisory Credentials

Extensive experience across a range of industries and debt structures

2014 UK deals	Rutland Partners Dividend recap	Tarsus Group plc Amend & Extend	Mitie plc Refinancing	HgCapital Refinancing	Chiltern Acquisition financing	WH Smith Plc Refinancing	Equistone Acquisition financing	DMGT Plc Refinancing
	August 2014	August 2014	August 2014	July 2014	July 2014	July 2014	July 2014	June 2014
	Baxters Food Group Refinancing	Inflexion Refinancing	Inflexion Refinancing	HgCapital Refinancing	Bridgepoint Refinancing	Exponent Acquisition financing	HgCapital Refinancing	McColl's Retail Group IPO facility
	May 2014	May 2014	April 2014	April 2014	March 2014	February 2014	February 2014	February 2014
	HgCapital Refinancing	HgCapital IPO facility	Cape Plc Refinancing	Shanks Group Refinancing & retail bond	Alternative Networks Acquisition financing	Xchanging Refinancing	Mears Group Refinancing	Camden Lock Real Estate Refinancing
	February 2014	February 2014	February 2014	February 2014	January 2014	January 2014	January 2014	January 2014

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 and execution expertise

- A leading team of **140 debt professionals** based in **30 countries** including Europe, North America, Africa and Asia
- Our expertise ranges from the provision of **strategic advice** through to the **execution of raising debt**

Market leading team in the UK

- Widely recognised as a UK leader with one of the **largest Debt Advisory teams** in the London market (30 professionals)
- We pride ourselves on our **innovative approach** to challenging transactions

Demonstrable track record

- We have **advised on over 24 transactions** in 2014 alone
- Our target market is transactions ranging from **£20m up to £500m**

Alternative lenders

- Deloitte Debt Advisory is the **market leader** for mid market alternative lender transactions, having completed over 20 alternative lender transactions in UK since 2012
- We provided unparalleled access to global liquidity through our dedicated global Alternative Lender coverage teams in key financial centres



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