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Evolving from the Alternative Lender Deal Tracker as deal volume holds strong in H1

Deloitte Private Debt Deal Tracker Autumn 2022

This issue covers data for the first half of 2022 and includes 423 Private Debt deals. This represents a 23% increase in the number of deals from H1 2021, and a 6% decrease from H2 2021.

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Contents

Deloitte Private Debt Deal Tracker: Introduction

In this twenty-eighth edition of the Deloitte Private Debt Deal Tracker (previously Alternative Lender Deal Tracker), we report that in H1 2022, there was a 23% increase in Private Debt deals compared to H1 2021. Lending in the 6 months of H1 2022 was, however, down 6% compared with the preceding 6 months which may be an indicator of a tougher H2. Our report covers 68 major Private Debt lenders with whom Deloitte is tracking deals across Europe.

Increase in deal flow H1'22 vs H1'21

Deals completed to date

On the 4th of August 2022, the Bank of England resolved the hottest debate in economics, warning that the UK would fall into a recession later this year. As central bank announcements go, this was a bombshell. Until that day all but 2 of 27 forecasters surveyed by Consensus Economics were forecasting that the UK economy would expand next year. The Office for National Statistics has since estimated that GDP shrunk by 0.3% in August, further strengthening the Bank's predictions. With its forecast of a 1.5% contraction in GDP in 2023 and a five-quarter recession thereafter, the Bank has rewritten the future, warning that the UK is heading for a downturn on the scale of the 1990-1992 recession. The Bank's new forecasts show inflation, which is currently 9.9%, peaking at 11% in October 2022 and remaining above 10% through the fourth quarter of this year as energy bills rise by 75% with the reset of the price cap. The announcement coincided with a 50 basis point hike in interest rates, the biggest rise in 27 years, and was followed by a further 50 basis point increase on the 22nd of September making this the 7th consecutive increase since December 2021, and leaving the base rate at the highest level since November 2008.

In late September, the surge in yields on long-dated UK government debt sparked in part by the new Government's "mini-budget" led to a vicious cycle of collateral calls and forced gilt sales. The "significant repricing of UK financial assets" that occurred necessitated the Bank's intervention to prevent the sell-offs from causing contract defaults across UK pension funds and to prevent contagion of worsening credit conditions for UK businesses. Where the Bank had been expected to start the process of quantitative tightening, including selling down its stock of government bonds, the Bank announced a temporary programme of bond purchases until 14 October. The Bank insists this has no bearing on the planned £80bn stock reduction over the next twelve months. The Bank will also be reluctant to cut rates until it sees a pronounced weakening of headline inflation and wider wage and price pressures - conditions that may only emerge in the latter part of next year.

The UK economy has weathered two exceptionally deep recessions in the last 15 years involving a contraction in GDP of 6.0% during the financial crisis of 2008-09 and a record-setting 22% during the pandemic. This time, the downturn will be driven by a major squeeze on consumer spending power and, on the Bank's forecasts, is likely to lead to a marked rise in unemployment. Such a recession is not likely to be mild.

Temperatures in July-August 2022 were anything but mild in the UK, with most of the country experiencing a heatwave (including the UK's hottest temperature ever recorded), eventually culminating in a hosepipe ban. Parallels around turning the taps off could be drawn to the large cap leveraged finance market, where liquidity remained extremely thin. After seeing a strong recovery from the COVID-19 pandemic in 2021, deal volumes fell aggressively as concerns about the Russia-Ukraine conflict and inflation hit markets. For context, total YTD (to the 14th October 2022) volume in Europe is down 61% to €45.4bn, vs €115.8bn in 2021. Whilst market commentators remained cautiously optimistic of an Autumn return, such a comeback remains yet to be seen and many believe the drought could continue for some time as tens of billions of debt remains stuck on underwriting bank balance sheets, an overhang from financings that had been struck before a sell-off rattled financial markets and a slowdown gripped the global economy. Most notably in the UK, a group of 16 banks are said to have taken more than £200m of gross losses on selling debt from CD&R's £10bn takeover of UK grocer WM Morrison, the Financial Times reported. Bank desks have been trying to address the backlog by any means possible, by selling loans at substantial discounts to private lenders – on the 7th October the average flow name bid was 89.6% of par, with some well known names dropping into the low 80's.

Whilst a potentially lucrative short term move, this is likely to irritate LPs who are arguably not receiving the product that they have mandated GPs to execute, "relative value" or not.

Such famine in the public markets has been music to the ears of the larger private debt managers, who swooped in on a string of jumbo deals this summer, including Europe's largest ever unitranche financing, which saw Hg and TA Associates raise over £3bn for Access, including over £1bn of committed acquisition facilities. Other notable deals include CD&R's acquisition of French multinational services group Atalian and merger with U.K. contractor OCS, backed by financing co-led by Carlyle and HPS, which replaced Atalian's all-bond capital structure. Amidst this backdrop, a number of managers continued to future proof their investment platforms, making key hires in Capital Markets roles in a way that drive some to question whether many funds are transforming into quasi-banks, able to provide a one stop shop solution to borrowers, reducing execution risk by underwriting large commitments, and subsequently selling down stakes to avoid concentration risk.

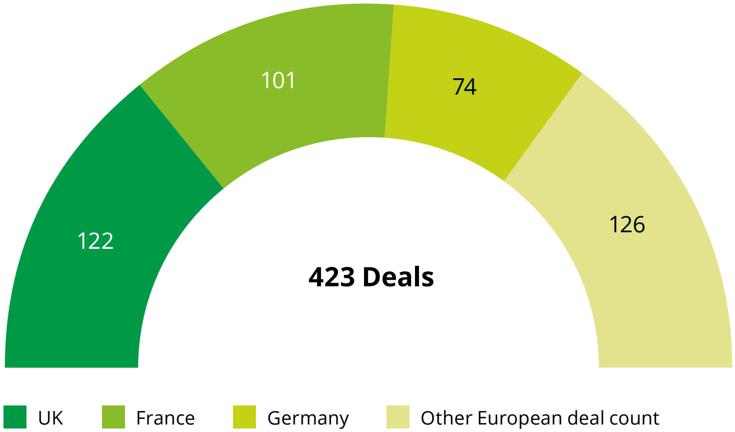
But its not all rosy in Private Capital. Private Equity investors in Europe face a set of challenges not seen for a generation as they deal with rising interest rates, dislocating capital markets and geopolitical uncertainty. Commentators expect fewer deals in the second half of the year, and even fewer next year. Walgreens Boots Alliance – in the most high-profile example of a failed auction so far this year – decided against selling the UK's largest chemist at the end of June after bids failed to meet expectations. Earlier in the process, some high-profile private equity bidders dropped out amid talk of financing difficulties.

Fundraising has been difficult in H1, and pension and sovereign wealth funds were among those that sold $33bn worth of stakes in private funds in the first six months of the year, up from $19bn in the same period in 2021 according to Jefferies. Pension funds say the move to ditch stakes has been partly triggered by the steep decline in equity markets, leading to a mismatch in allocations to Private investments, whose value has not been marked down in the same way. At the same time, LPs that committed capital but did not expect such a rapid drawdown profile amidst the deal frenzy of the last 24 months have been forced to find liquidity by selling commitments to other investors in the secondary market.

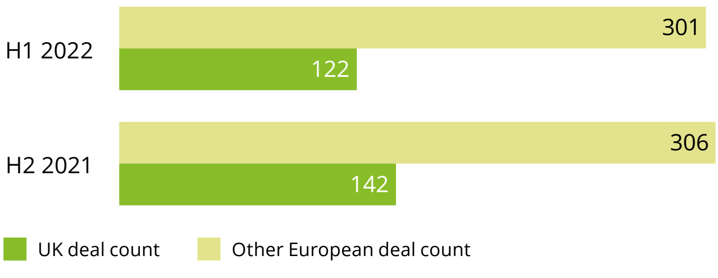
This is likely to weigh on the Private Debt asset class, which continues to rely heavily on deal flow from Private Equity sponsors. Fundraising for the asset class has also seen a weak start to 2022, with H1 totals lower than seen during the height of the COVID-19 pandemic. According to Private Debt Investor, Europe has seen very few fund closes in the first six months of the year, with just $5.36 billion raised, vs. $48bn in the US. It is no surprise that those funds that have closed a 2022 vintage are established platforms of scale - Private Debt remains dominated by larger funds, and this trend is being encouraged as large investors look for similarly large fund managers that can deploy large sums. As LPs become advanced in their investment programs, it can be increasingly attractive for them to recycle capital distributions into existing relationships – making it increasingly hard for up and coming GPs to establish new relationships. Case in point, according to data provided by Preqin, 93 funds are currently “in market” in Europe with an aggregate target size of $51.4bn. 27 of those are first time funds, and of the 93, only 6 have hit a first close, at 46% of their target size, an expectation that it will take a further 25 months to final close, and reach 91% of target size. These numbers are markedly different from 2019, where only 3 months elapsed prior to first close, 19 months to final close, and where fundraising was 110% of target size.

Despite such a challenging backdrop, Private Debt is likely to remain in favour with investors in light of central bank rate increases, since they benefit from a floating rate element, unlike fixed coupon high yield bonds. But how will borrowers adapt to the rise in borrowing costs? Whilst traditionally borrowers were required to hedge up to two-thirds of the principal amount of loans, after a sustained period of low interest rates, mandatory interest rate hedging on deals has become a thing of the past, with responsibility for hedging instead left to the discretion of management teams. Supply-chain delays have already started to bite, putting cashflow and sales under pressure, and making it harder for businesses to grow. Rising inflation thanks to higher energy, materials and transport costs and wage increases due to staff shortages in some sectors, will only add to the strain on working capital. Noticeably, Corporate insolvencies in England and Wales increased by 13% in the second quarter (Apr-Jun 2022) from the preceding quarter. However, with many deals no longer including an interest cover covenant, combined with a rise in flexible interest terms such as payment-in-kind toggles, there may be a delay before the rise in borrowing costs has a real impact on loan covenants. We talked about the COVID period being the first real test for the asset class, but in reality, it’s only just beginning.

H1 2022 deals completed



H1 2022 headline figures



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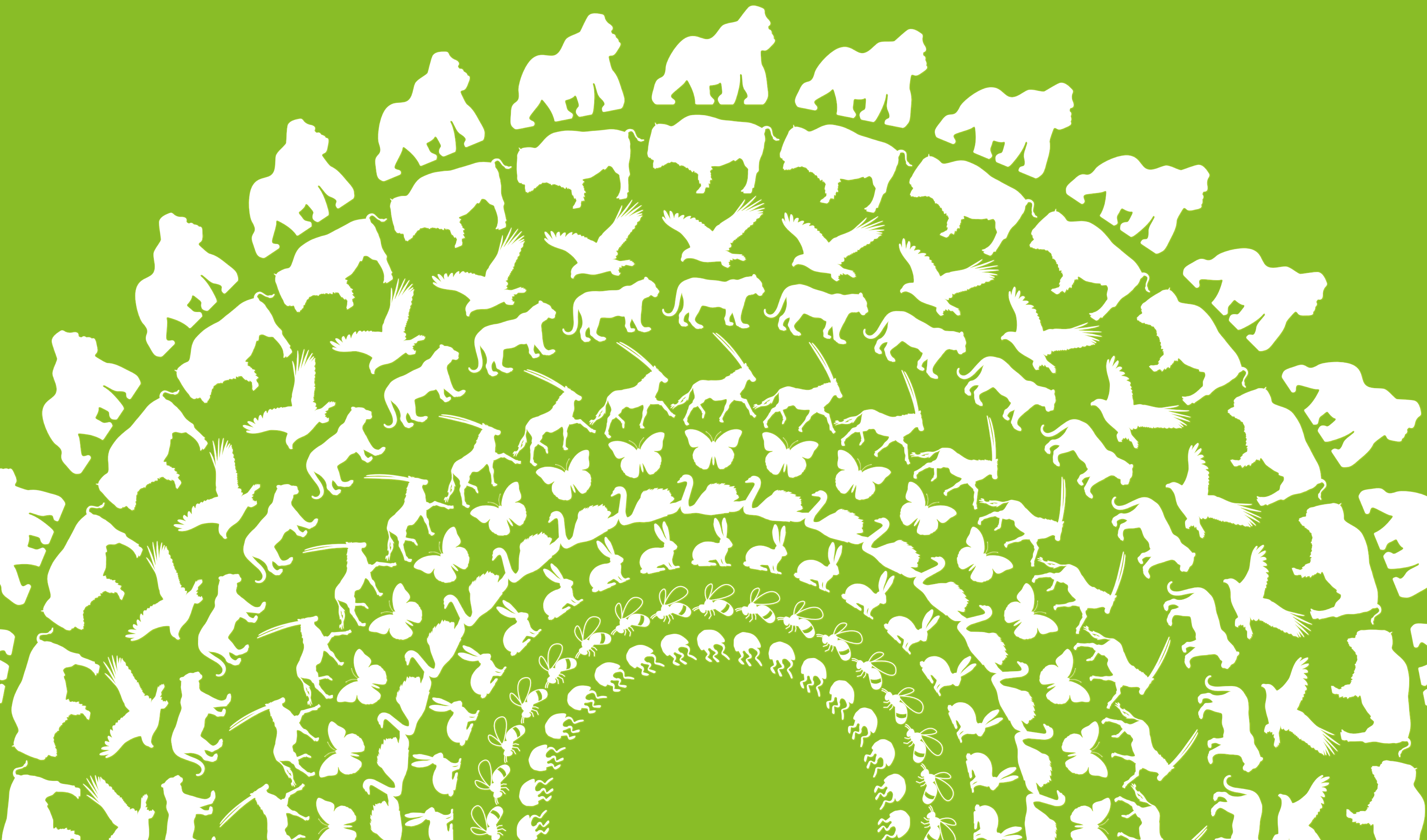
Borrowers access Direct Lending to power growth
Businesses rely on access to growth capital, yet due to their risk appetite and stringent regulation, banks are constrained. Alternative and flexible sources of capital allow companies to grow, although the market can be overwhelming, with numerous complex loan options available to borrowers. Direct Lenders can offer attractive rates with little or no equity dilution of your business, enabling you to make acquisitions, refinance bank lenders, consolidate your shareholder base, and invest in growth. To read more, turn to our Direct Lending guide on page 40.

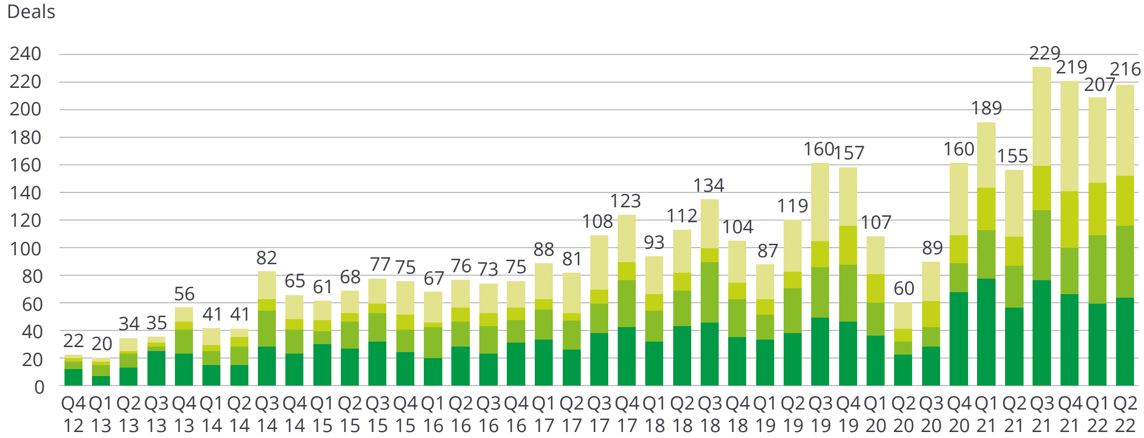
Private Debt Deal Tracker
H1 2022 Deals



The Private Debt Deal Tracker now covers 68 lenders and a reported 3,965 deals

Private Debt Deal Tracker

Currently covers 68 leading Private Debt lenders. Only UK and European deals are included in the survey.



UK
Germany
France
Other European

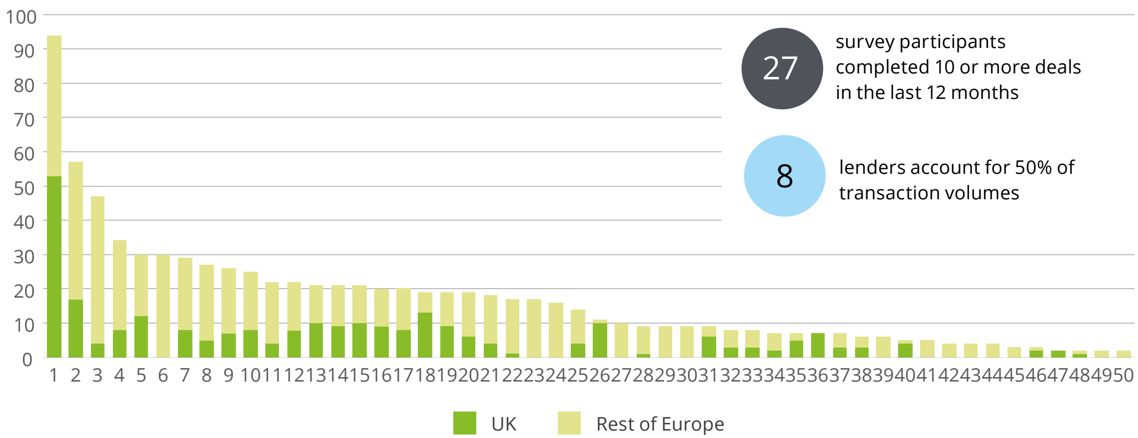
Data in the Private Debt Deal Tracker is retrospectively updated for any new participants

1,386
UK deals completed

2,579
Euro deals completed

3,965
Total deals completed

Deals completed by survey participants (last 12 months)



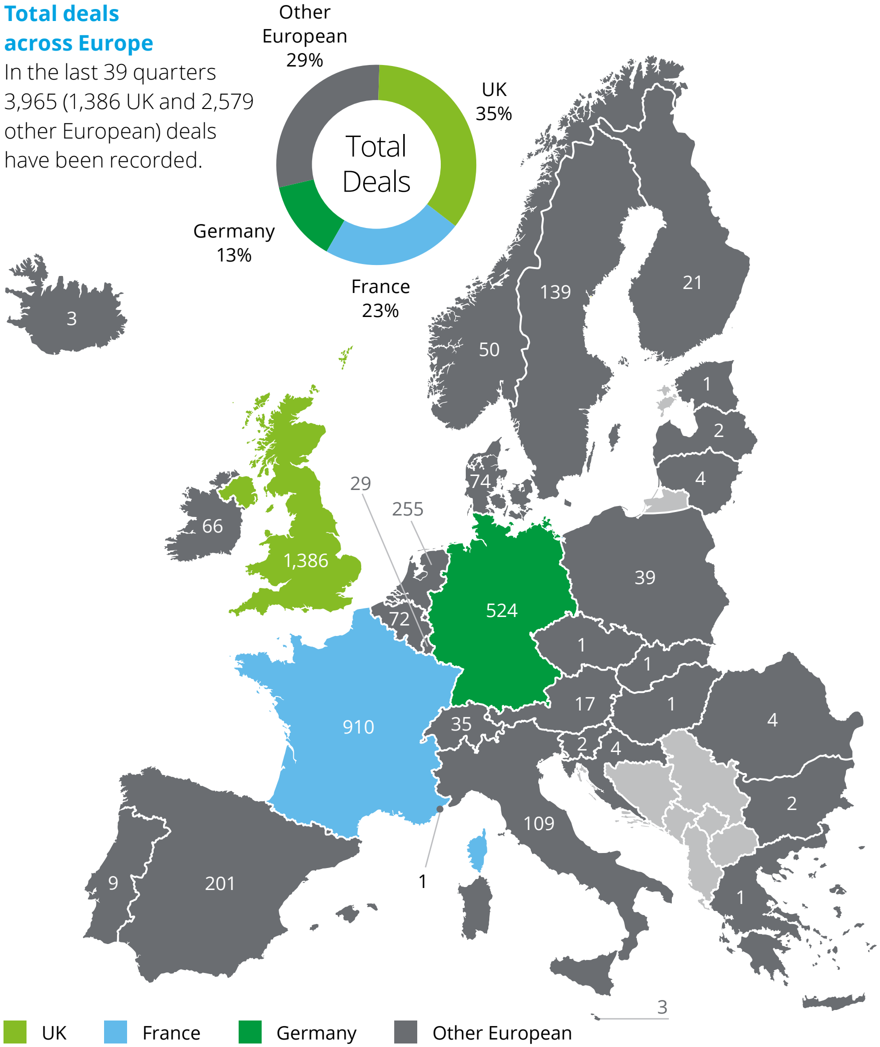
27 survey participants completed 10 or more deals in the last 12 months

8 lenders account for 50% of transaction volumes

Direct Lenders increasingly diversifying geographies, yet consolidating industry exposure

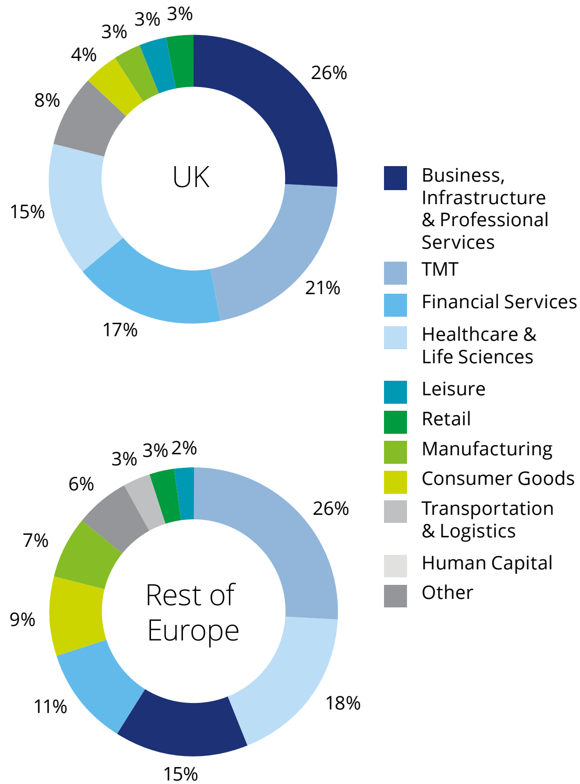
Total deals across Europe

In the last 39 quarters 3,965 (1,386 UK and 2,579 other European) deals have been recorded.



Total deals by industry (last 12 months)

Within the UK, the Business, Infrastructure & Professional Services and TMT industries have been the dominant users of Private Debt, accounting for 47% in aggregate.

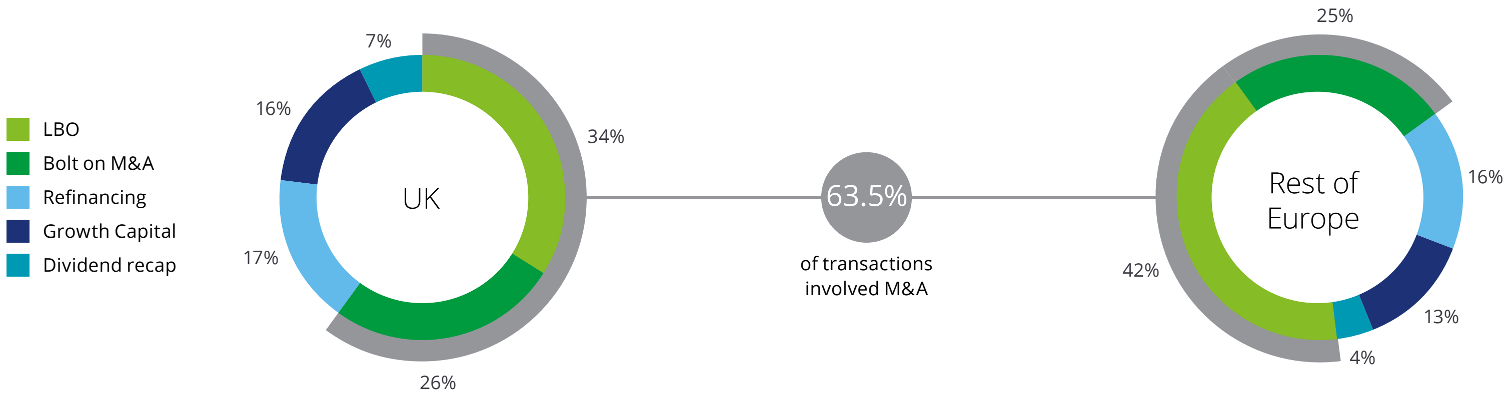


Across the rest of Europe the five main industries have been TMT, Business, Infrastructure & Professional Services, Healthcare & Life Sciences, Manufacturing and Consumer Goods.

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

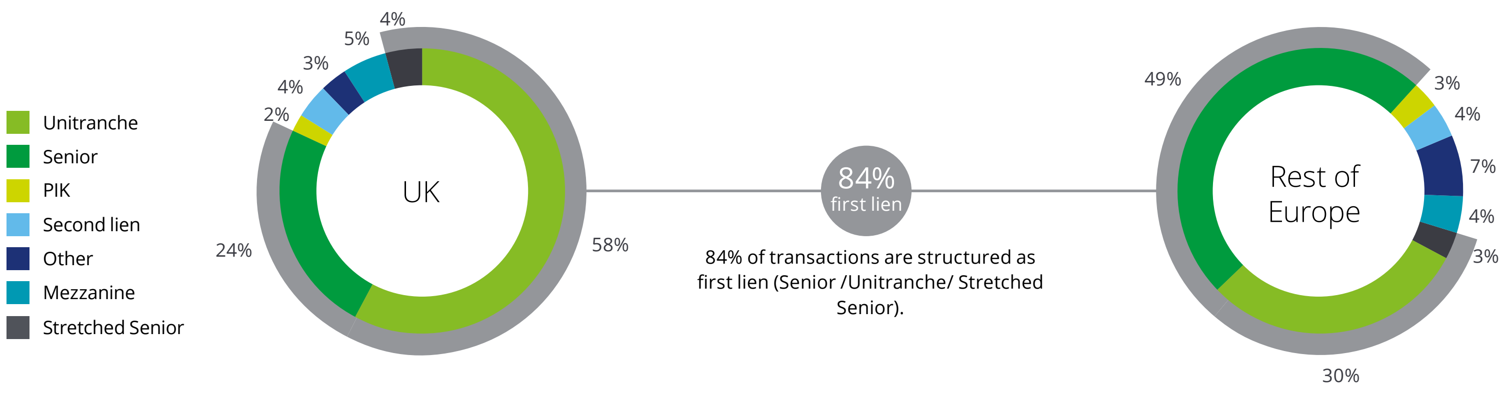
Deal purpose (last 12 months)

The majority of deals are M&A related, with 63.5% being used to fund an acquisition. Of the 871 deals in the last 12 months, 119 did not involve a private equity sponsor. The appetite for dividend recaps has reduced from 10% (2012-2016) to 4.5% (2018-2022).



Deal structures (last 12 months)

Unitranche remains the dominant structure, associated with 58% of UK transactions and 49% of European transactions. Subordinate structures represent only 16% of transactions.

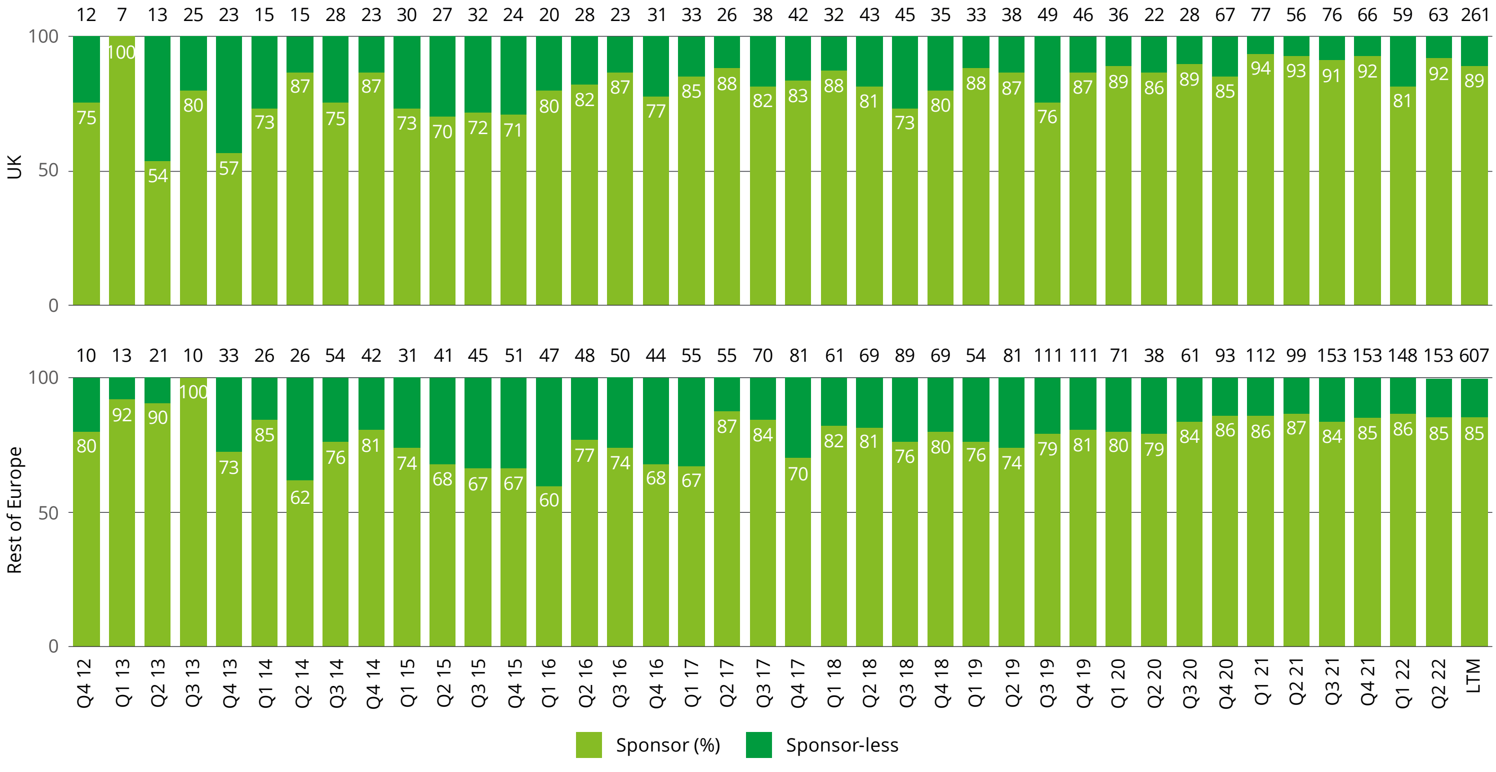


*For the purpose of the deal tracker, we classify senior only deals with pricing L + 650bps or above as unitranche. Pricing below this hurdle is classified as senior debt.

Sponsor-backed opportunities make up the majority of Private Debt deals, despite growing acceptance of Private Debt amongst Corporates

Proportion of sponsor-backed Direct Lending deals

As % of total deals per quarter

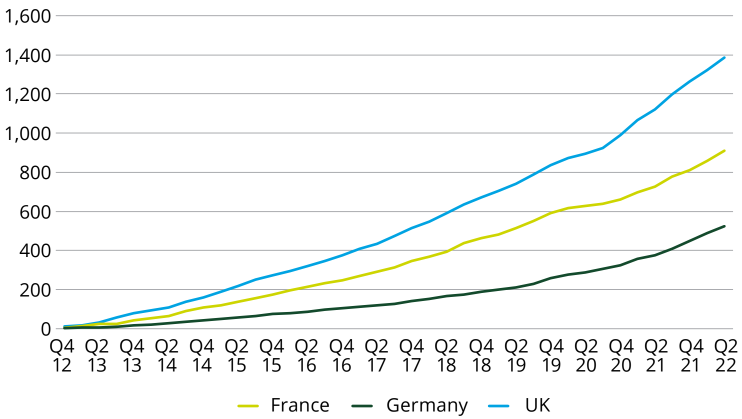


The UK still leads as the main source of deal volume for Direct Lenders in Europe

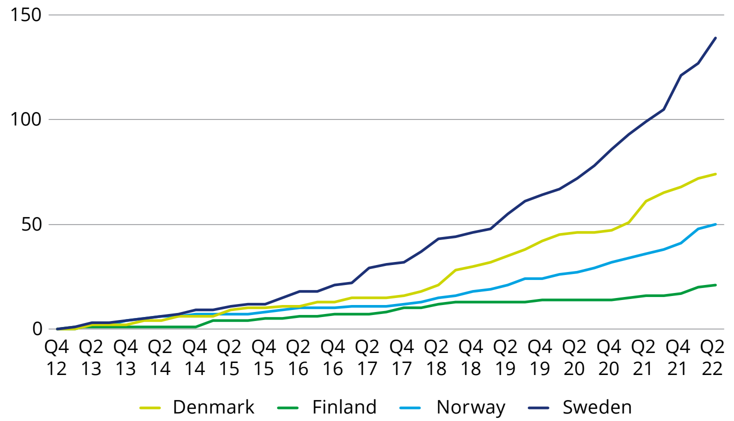
Cumulative number of deals per country

The number of deals is increasing at different rates in various European geographies.

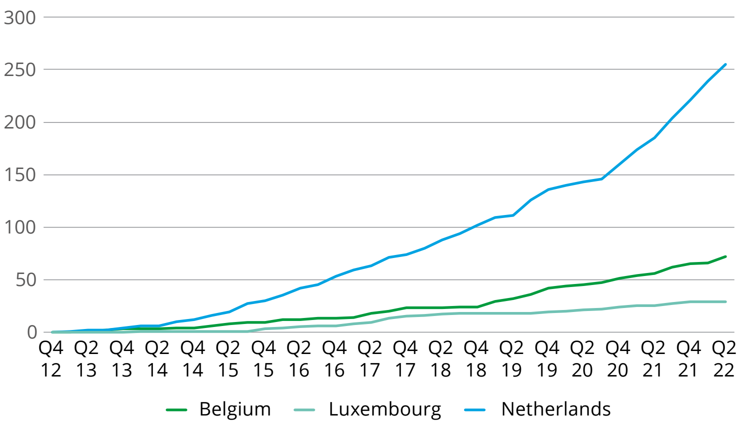
Largest geographic markets for Private Debt Lenders



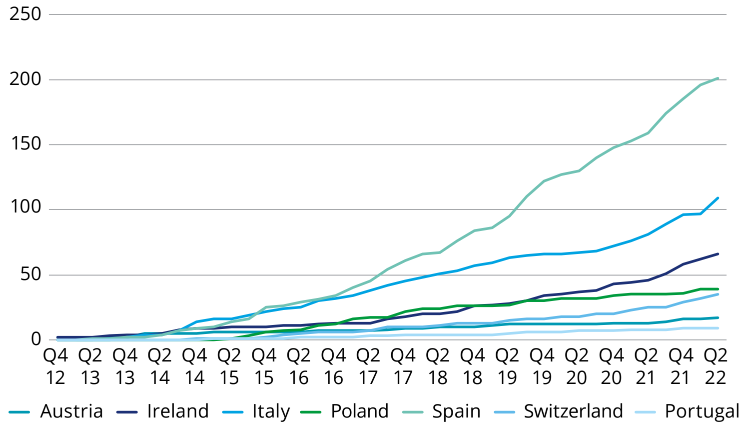
Nordics



BENELUX

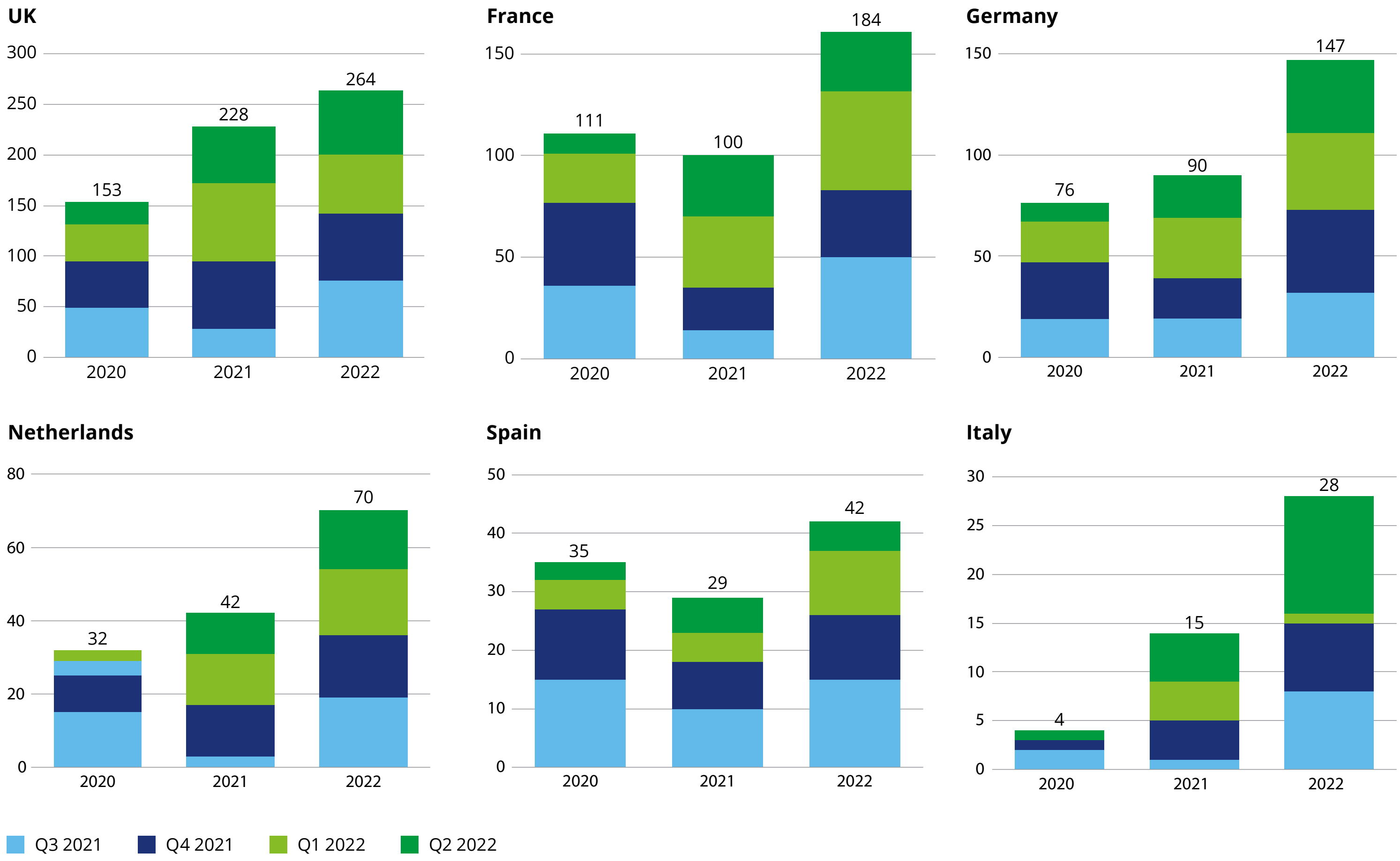


Other European



Direct Lending has rebounded in each of the main European markets following the worst of the COVID-19 pandemic

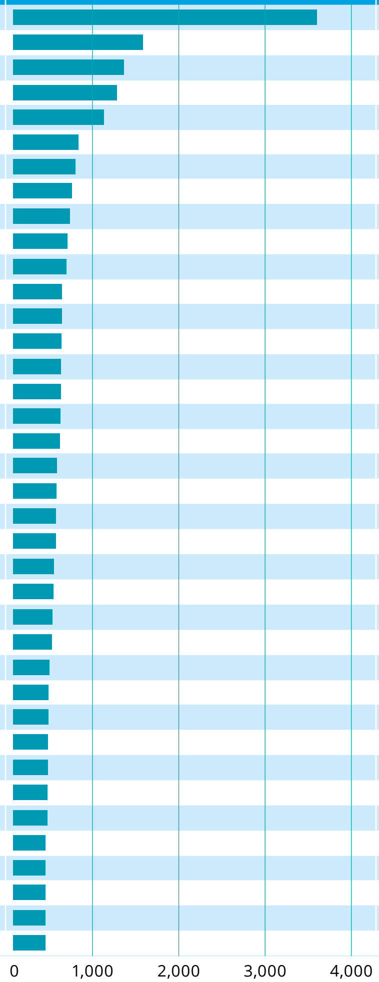
Comparison of deals for the last three years on a LTM basis to June 2022 for selected European countries



Which landmark unitranche deals have been completed?

Selected Landmark Unitranche Deals since PDDT inception (>€350m)

Borrower	Country	Unitranche in €m	Alternative Lenders	Sponsor	Date
Access	UK		Park Square, Bain, SMBC, Blacstone Credit, Apollo, HPS	✓	Jun-22
FNZ	UK		Goldman Sachs Private Debt, HPS Partners, Arcmont, Hayfin	✓	Dec-21
Corden Pharma	Germany		Arcmont	✓	Jun-22
Fortenova	Croatia		HPS	–	Sep-19
Ardonagh	UK		Ares	✓	Jun-20
SumUp	Germany		Bain Capital, Goldman Sachs Private Debt	–	Feb-21
Daisy	UK		Ares	–	Jan-19
Sykes Holiday Cottages	UK		Ares	✓	Apr-22
Schwind	Germany		Arcmont	✓	Feb-22
Polynt and Reichhold	Italy		GSO	✓	May-16
Flowbird	France		Arcmont, Ares	✓	Nov-21
Acuris	UK		HPS	–	Sep-19
CFC	UK		Park Square, KKR	✓	May-22
Questel	France		SMBC, Park Square, Barings, Bridgepoint Credit, Capza	✓	Dec-20
ISP	Spain		Arcmont	✓	Jul-21
Getronics	Netherlands		Permira Debt Managers	–	Sep-18
Zenith	UK		Goldman Sachs	✓	Mar-17
ION Corporates	Ireland		HPS	–	Sep-19
DWS	UK		Ares	✓	Dec-20
Outcomes First Group	UK		Barings, HPS, Five Arrows, CVC, Apollo	✓	Sep-19
Kyriba	France		Sixth Street	✓	Apr-19
Ocorian / Estera	UK		Ares	✓	Jan-20
IDH Group	UK		Ares	✓	May-21
QSPR	Germany		Ares	✓	Mar-20
Acqua & Sapone	Italy		Pemberton	✓	Oct-21
IBA Molecular	France		GSO	✓	Aug-16
GRP Group	UK		Ares	✓	Feb-20
True Potential	UK		Ares	–	Sep-19
CaseKing	Germany		Arcmont	✓	Oct-21
Lumenis	Netherlands		Alcentra	✓	Feb-20
Cherry	Sweden		Ares	✓	Jan-19
HKA	UK		Park Square	✓	Jun-22
ECG	France		Ares, Tikehau IM	✓	Sep-21
Fusion	UK		Barings	✓	Jun-22
Caffe Nero	UK		Carlyle	–	Jan-22
Industria Chimica Emiliana Srl	Italy		KKR	✓	Apr-22
Williams Lea Tag	UK		Pemberton	✓	May-22
Schuelke	Germany		HPS	✓	Apr-20



Note: Table does not include deals for which a lender has not granted permission to publish in this forum

Hedging in a Volatile Interest Rate Environment

Interest Rate Risk Management – Hedging in a Volatile Interest Rate Environment

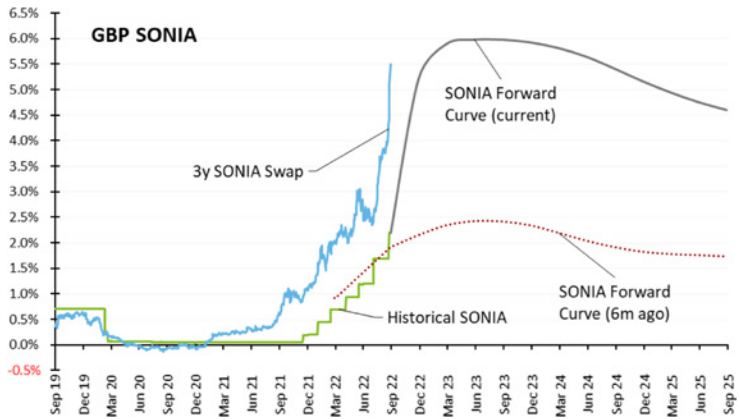
"Our job is to hit the inflation target of 2%."

Andrew Bailey – Governor, Bank of England (19 July 2022)

With interest rates rising from their historical lows, how high can they realistically go?

That, contrary to Shakespearean prose, is the question; and is one for which no certain answer exists. The directionality, and speed, of change in interest rates is a critical consideration for all borrowers and views on potential levels of rates are often guided by our experience of them; but hindsight only gets us so far in this decision-making paradigm. Many have viewed the recent levels of 2%, 3%, then 4%, and now over 5%, as extraordinarily high; and relative to 13 years of near zero rates, they are! Others have managed risk prior to the global financial crisis, when rates were 4-7%; and dealt with the aftermath. Some may even have direct experience of rates over 15% in the late 80s/early 90s. The question then is: as of now, what is the likely 'new normal'?

As the chart shows, underlying SONIA interest rates in the UK have risen circa 2.15% since December 2021, when the Monetary Policy Committee first lifted the Bank rate from its low of 10 basis points ("bps"). Meanwhile, Swap rates, which represent the markets prevailing sentiment on the future evolution of the underlying rates, have been rather unidirectional. The pace of rate change has been rapid, not least since early August with rates increasing 3.0% since. Additionally, the magnitude of intraday changes in these rates is far higher now, at ~16 bps, than the typical averages of ~5 bps.



Source: Refinitiv, 26 September 2022

The last time inflation in the UK was at the current levels of 9.9%, interest rates were over 13%, and raising rates remains the central bank's key tool to impacting it; as such it is feasible that rates will continue to climb. The current forward curve anticipates SONIA topping out at 6.0% in Q4 next year, though this could certainly change; six months ago the peak was projected to be only 2.4%. The downward sloping trajectory of rates that follows is reliant upon Inflation responding to such monetary tightening by the Bank of England. A statistical evaluation of the present rate environment suggests that SONIA could readily continue to rise to over 11% over the coming 2 years (with a 68% confidence level); a situation deemed more probable, the longer inflation maintains such high levels. Two months ago, the equivalent maximum level was deemed to be 4.1%, such a level is now expected to be seen by December this year.

What are people doing to mitigate the risk of rates rising?

Clients are rightly concerned about the prospect of rates rising to levels that could make their interest expense unaffordable, their debt covenants stressed, or their overall Private Equity transactions unprofitable, and are pressing ahead with getting protection in place. For the borrowers that adopted a "wait and see" attitude in the past 6 months, the delayed decisions have now resulted in considerably higher costs (for interest expense and/or for hedges), given the continued upward movements in rates, and volatility, experienced this year.

The increase in hedging activity relates not only to new M&A transactions and new debt facilities, but also to clients revisiting their original risk management decisions to leave previous debt packages unhedged.

Over the last 6 months, Interest Rate Caps have been popular as clients rush to place protection, since Swap trades require longer lead time to arrange credit lines and ISDA documentation. Caps also permit borrowers to continue paying the underlying interest rate and benefit if this stays low, or if it increases less than anticipated. The Swap premium, or rate gap between the fixed rate achievable and the underlying floating rate, is large now, due to the steepness of the forward curve. However, if the MPC increases their Bank rate as currently expected, this gap will close again which may make Swaps appear less expensive; not least because Cap transaction pricing is directly impacted by the underlying volatility, which has been higher than usual in recent months.

Hedging debt from Private Debt providers

Private debt lenders are not banks and, as such, are generally limited in their ability to offer hedging products. Hedging the debt issued by private debt lenders will, therefore, likely require the borrower to use new or existing bank relationships. Whilst this can be a rewarding business opportunity for a financial institution not previously connected to the debt, there are, however, considerations to account for when using a third-party hedge provider who is not a lender. The key ones are the overall economic incentive for the hedge provider to take part in the hedging, and the time that it takes to set up the ability to transact.

It should be noted that hedge providers are not all the same and that, at any given time, a specific institution may have a greater appetite for one type of trade or another. This has always been true, but in the current rapidly changing market, it manifests itself in a broad spectrum of prices and requirements for a given hedge solution. It is, therefore, important to understand the dynamics associated with each transaction, which banks are best placed to offer competitive hedge terms, and to start the onboarding process early.

Additionally, since identifying a suitable hedge counterparty is not always straight forward, it is advisable to retain flexibility within the loan documentation to allow the borrower to hedge in a sensible manner. For example, certain specific restrictions would ideally be avoided, such as timing- or rate-based triggers; examples seen recently include: "hedging within a [defined timeframe] of closing", "hedging at or below X%", or even a combination of "hedging within X days of rates rising above Y".

Interest Rate Risk Management – Hedging in a Volatile Interest Rate Environment

Why choose Deloitte as your advisor for your next Hedging analysis and execution?

Deloitte's Hedging Advisory and Derivatives Execution team has an average of over 15 years of experience advising clients on the use of financial derivatives and executing hedging transactions in the market; pairing this experience with the broader Deloitte service offerings allows for an integrated approach to managing our clients' risk management requirements.

About the author

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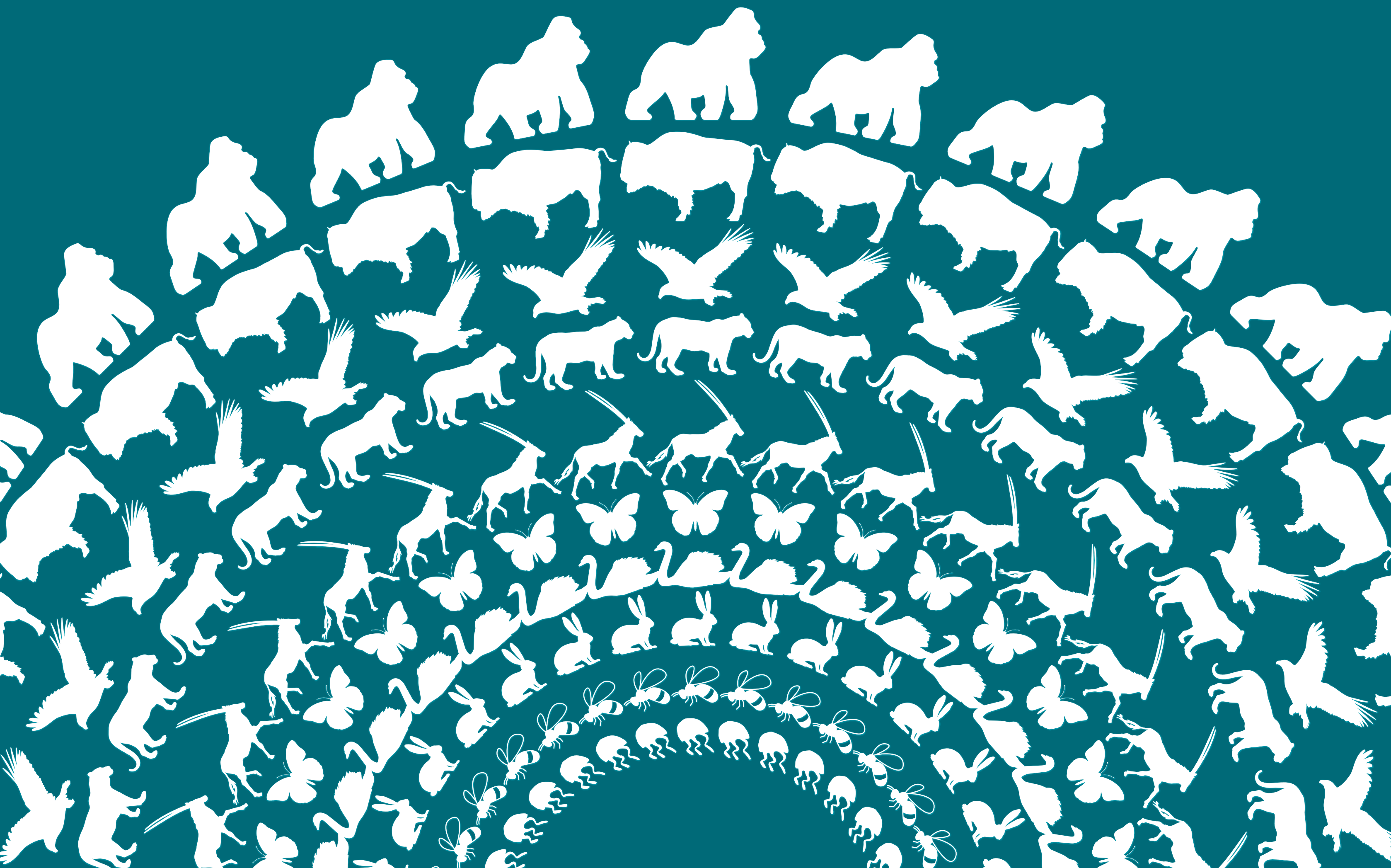
Written as at: 26 September 2022

The Evolution of NAV Financing against the Current Market Outlook



The Evolution of NAV Financing against the Current Market Outlook

2022 has not been the year that we all expected. From war in Europe to the global macroeconomic and social challenges we now face, we have all had to adapt to this new outlook.

Setting the Scene

The Fund Finance market is no exception to this and the Net Asset Value ("NAV") financing market has been quick to assert its relevance against this evolving backdrop.

NAV financing – more specifically fund-level or SPV-level financing secured against a portfolio of underlying assets – has gained significant momentum over the last 2-3 years, in large part driven by the challenges of uncertainty and stressed valuations brought about by COVID-19. It has shown itself, during this time, to be applicable for a range of purposes: be it downstream to support bolt-on acquisitions at the portfolio company level or to upstream proceeds to return capital to investors. This momentum has resulted in increased awareness and acceptance by both managers and Limited Partners ("LPs") for NAV financing as a flexible and well-priced tool for funds to consider having to hand.

In terms of structure, fund-level NAV financings tend to centre around a modest Loan to Value (around 20% for private equity transactions), as well as the diversity of the underlying portfolio, with covenants and/or cash sweeps linked to both. Given this, NAV financings tend to be more relevant towards the end of the investment period of a fund as it moves to the value creation stage.

As this market has evolved, we have seen alternative structures being financed with increased levels of flexibility around covenants and/or security.

The market has shown itself to also have a depth of liquidity that can accommodate these sensitivities. This has been largely supported by the influx of fresh liquidity from debt funds and institutional players due to the pricing and returns that can be achieved against the attractive underlying portfolio-based risk profile. This influx has consequently driven further innovation in lending technology in this part of the Fund Finance market.

The Current Drivers for NAV Financing

Over the last 20 years the alternative funds market has seen an increased take-up of fund finance. 17Capital has estimated that the take-up of private equity funds[1] using subscription facilities hit 80% by 2015 after a steady trajectory of adoption over the preceding decade, and that a similar rate of take-up has been since been seen in mid-large cap manager GP-led transactions (currently at c.50%+ at the end of 2021 and anticipated to hit the 80% threshold by 2025). It is anticipated that NAV financing will follow a similar trajectory, with 17Capital predicting that it will grow from its current level of c.15% in 2021 towards this threshold towards the end of this decade.

[1] Private equity funds >$500m in Europe and North America

The current macroeconomic outlook is continuing to accelerate this take-up, as it did in 2020. There are a number of specific factors that are driving this.

The first of these drivers is stress at the underlying portfolio company level. Be it around performance against the current macroeconomic backdrop or the tightening of liquidity, fund-level NAV finance structured against a wider portfolio of assets provides access to an additional pool of liquidity that can be downstreamed with flexibility to support individual assets across a range of scenarios.

The second factor is an ability to return capital back to LPs. With managers increasingly looking to keep hold of their star assets for longer, NAV financing provides a means to make timely distributions to investors. This shift towards assets being "in the ground" for longer, whether through the use of a continuation vehicle or retention in the fund, combined with the growth in the size of funds raised across 2021/22, has also increased pressure on managers' ability to finance General Partner commitments to the fund. NAV financing can also be applied in this context, providing support for the financing of these GP commitments, with this being a particularly active space in the US market currently.

The third consideration is the innovation that the NAV finance market is seeing. The influx of liquidity from private debt funds and institutional players since 2020 has driven a step-change in innovation in the NAV finance market, with more flexibility available from debt solutions (at an increased price) that is able to cater for a broad range of sensitivities and scenarios. This is expected to continue as banking liquidity continues to tighten; indeed NAV financing is emerging as a fifth strategy that is growing in prominence within private debt alongside direct lending, special situations, distressed debt and mezzanine finance.

Looking Forwards

Whilst the outlook is challenging, NAV financing has shown itself to be a versatile solution for a broad range of fund-level financing requirements. Indeed 17Capital has seen a 35% increase in the volume of NAV finance in the eight months to August 2022 compared to the same period in the prior year, which gives an indication of the counter-cyclical relevance of this product.

The size of the potential market for NAV is significant, with Preqin having put global AUM of private equity funds at $8.3tn (as at the time of writing). As referenced and in contrast to other Fund Finance products, this product is currently not a staple used by the majority of funds, albeit take-up is expected to increase significantly, accelerated by the current market headwinds.

The European market has shown itself to be at the forefront of the global development of NAV financing, with wider adoption of this in the US expected to be a key medium-term theme.

With the influx of liquidity to this part of the Fund Finance market since 2020 and the innovation we have seen as a result, we expect NAV financing to continue to grow in relevance and adapt to funds' evolving needs.

The Evolution of NAV Financing Against the Current Market Outlook

About the author

Jamie is a Director and Head of the Fund Finance Advisory business within the Debt, Capital & Treasury Advisory team at Deloitte. As Head of the 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.

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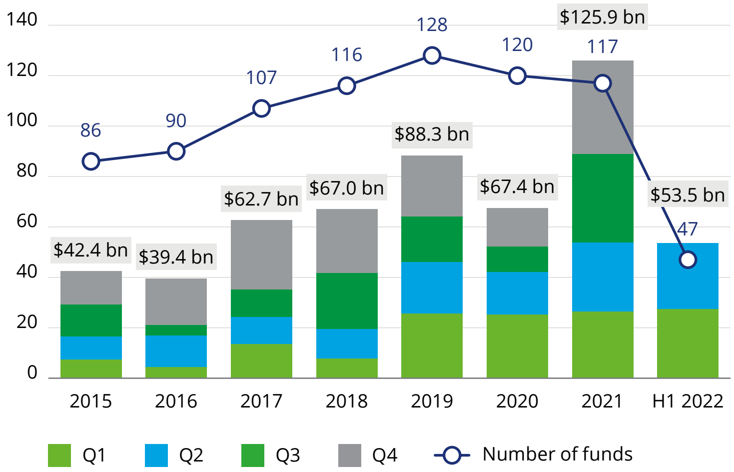
Direct Lending Fundraising

Direct Lending Fundraising

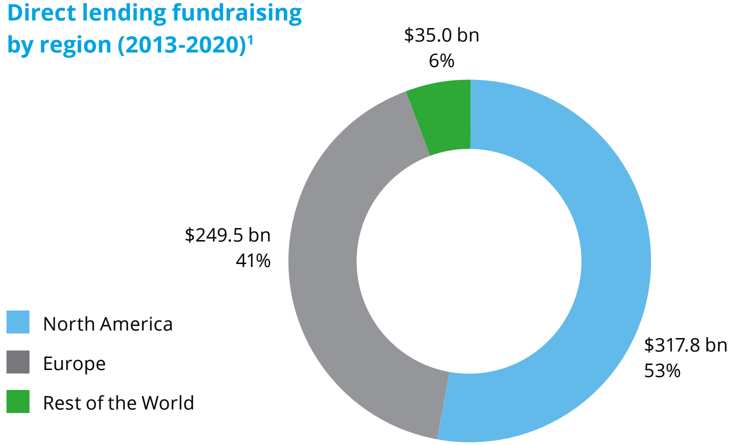
Global direct lending fundraising by quarter[1]



Select largest European funds raised in 2021[1]

- ICG Senior Debt Partners 4 – **€8,100m**
- 17Capital Credit Fund – **€2,600m**
- Lynstone Special Situations Fund II – **$2,400m**
- ILX Fund I – **$1,050m**
- Artemid Senior Loan III – **$620m**

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

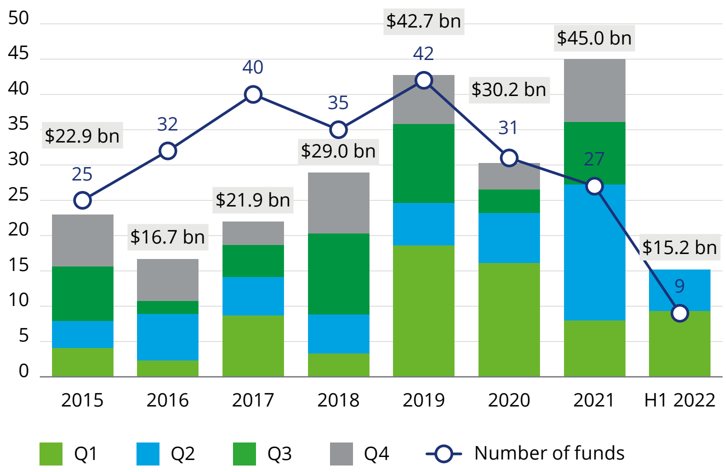


Select largest US funds raised in 2021[1]

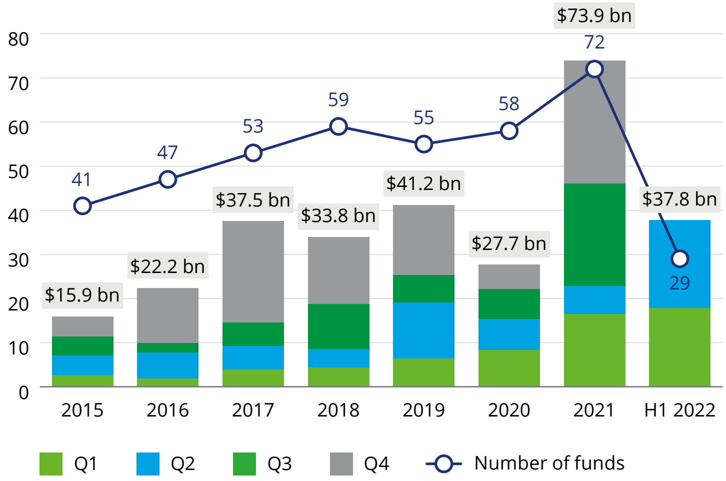
- Clearlake Capital Partners VII – **$14,100m**
- GSO Capital Opportunities Fund IV – **$8,750m**
- Crescent Direct Lending Fund III – **$6,000m**
- Barings North American Private Loan Fund II – **$4,652m**
- Carlyle Credit Opportunities Fund II – **$4,600m**

[1] Data sourced from Preqin

Europe direct lending fundraising by quarter[1]



North America direct lending fundraising by quarter[1]



[1] Commentary from Preqin

Note: Private Debt includes Direct Lending, Mezzanine, Special Situations and Credit Opportunities

Global Trends[1]

- Private Debt Year-to-Date Fundraising reaches $93bn in Q2 2022.
- 2021 was a record-breaking year for private debt fundraising, with the highest annual aggregate capital raised on record, at $214bn.
- Despite this challenging comparator, and the upheaval in public markets, year-to-date fundraising of $93bn is on track to be a close second.
- Aggregate capital raised in special situations funds rose from $2.4bn in Q1 2022 to $25.7bn in Q2 2022. While direct lending fundraising reached $24.6bn of aggregate capital raised in Q2 2022, compared with $19.6bn in Q1 2022.
- Investor demand: 56% of investors will target direct lending strategies over the next 12 months, compared with 43% selecting distressed debt, and 48% mezzanine.

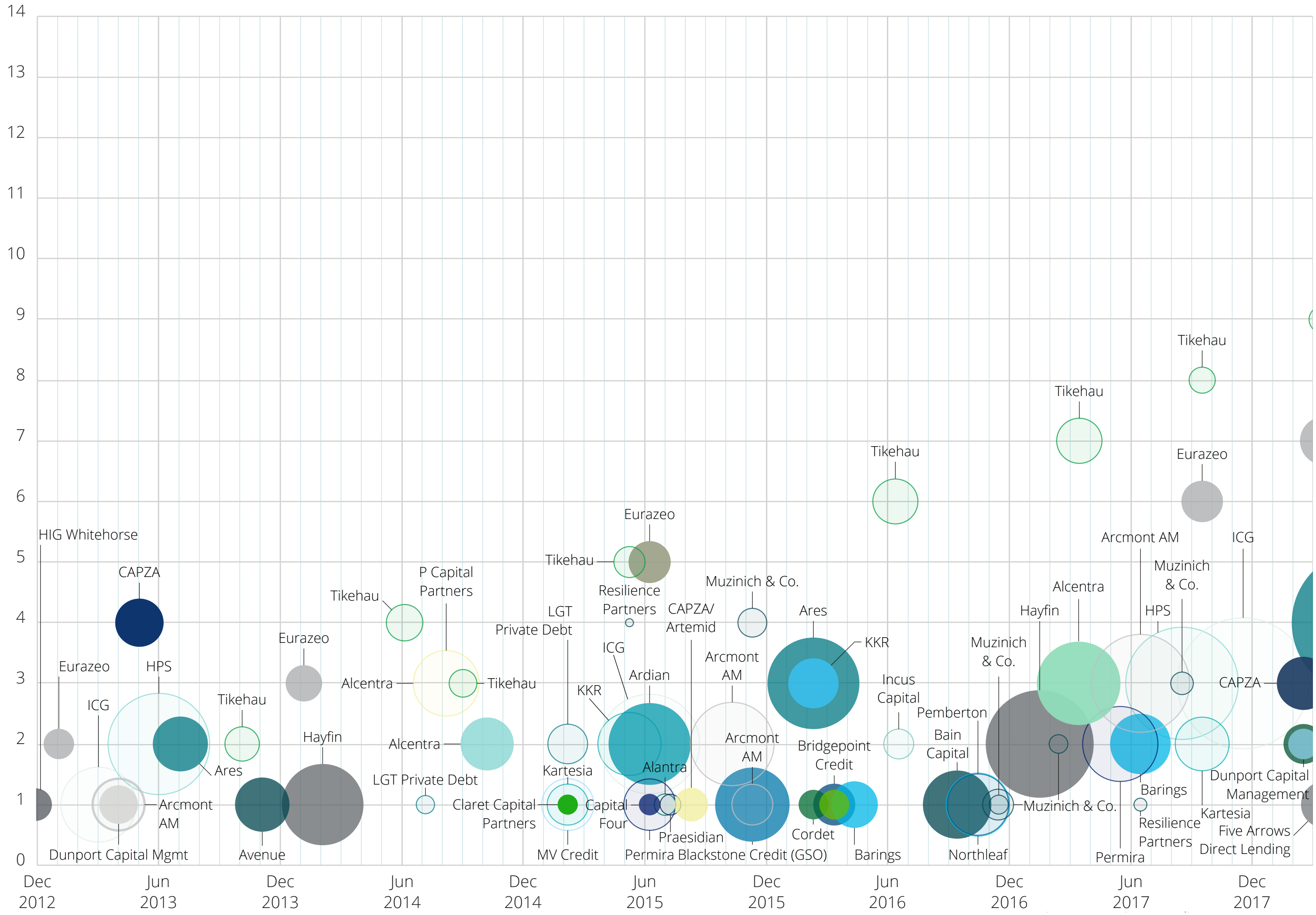
European Market[1]

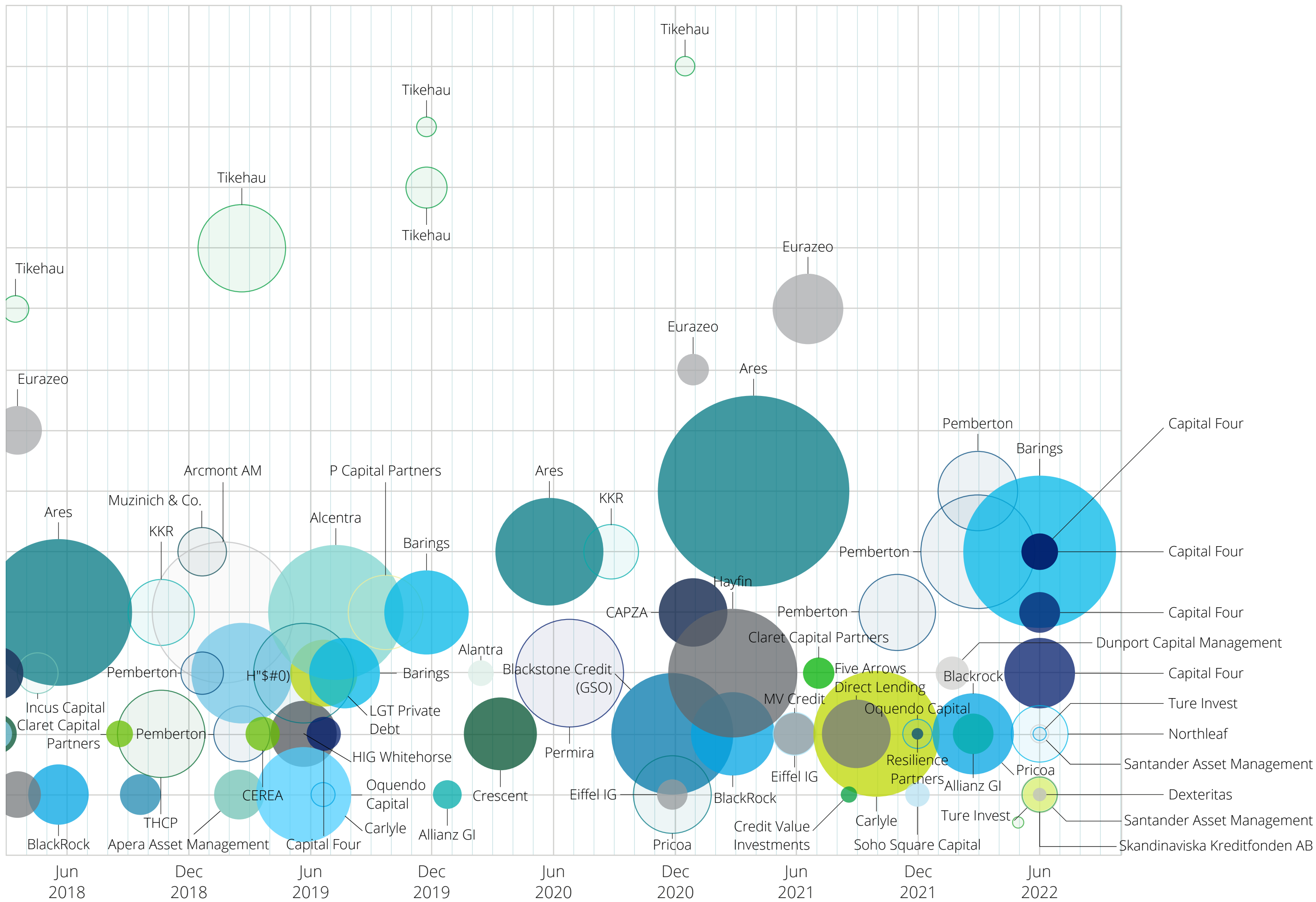
- European private debt funds managed to raise $8.2bn over Q2 2022.
- In Europe, 17Capital's inaugural 17Capital Credit Fund closed after raising EUR 2.6bn ($2.9bn) – the fund will provide loans to private equity managers.
- Raising an inaugural fund of this size is quite an achievement, particularly given the market backdrop. The fact that the fund will provide loans to private equity managers stood in its favor.
- Interest in European private debt has been rising in recent months, with European rates bouncing off historic lows. Absolute return levels will probably increase in tandem with Europe's rising rates, making it likely that more capital will flow into the region.

US Market[1]

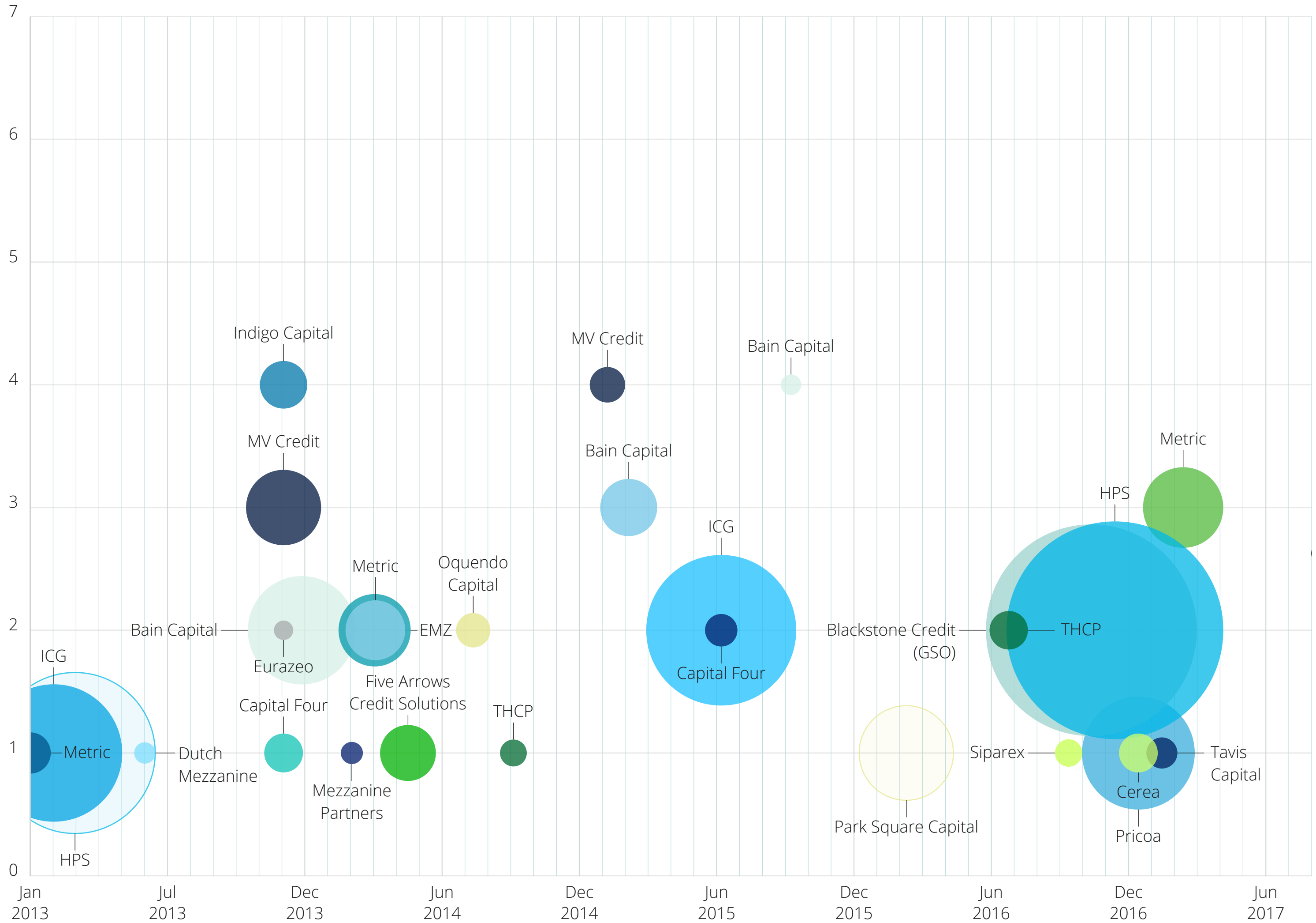
- North America remains the number one market for private debt, with 21 funds raising $38.3bn of capital in Q2.
- Q2 saw a significant move in the US 10-year Treasury, as the hawkish path the Federal Reserve was taking became clearer. Yields widened from 2.3% on 31 March to 3.0% on 30 June 2022.
- With further interest rate hikes widely expected, we anticipate that private debt will attract more attention from traditional fixed income investors. Rising yields could broadly boost private debt fund performance, given that most private debt products are floating rate, so their valuations are less sensitive to rising rates.
- Over Q2 there were some significant fund closings. Carlyle Credit Opportunities Fund II closed, raising $4.6bn, of which $3.8bn was already committed to business across North America and Europe.
- Angelo Gordon's AG Credit Solutions Fund II closed raising $3.1bn.

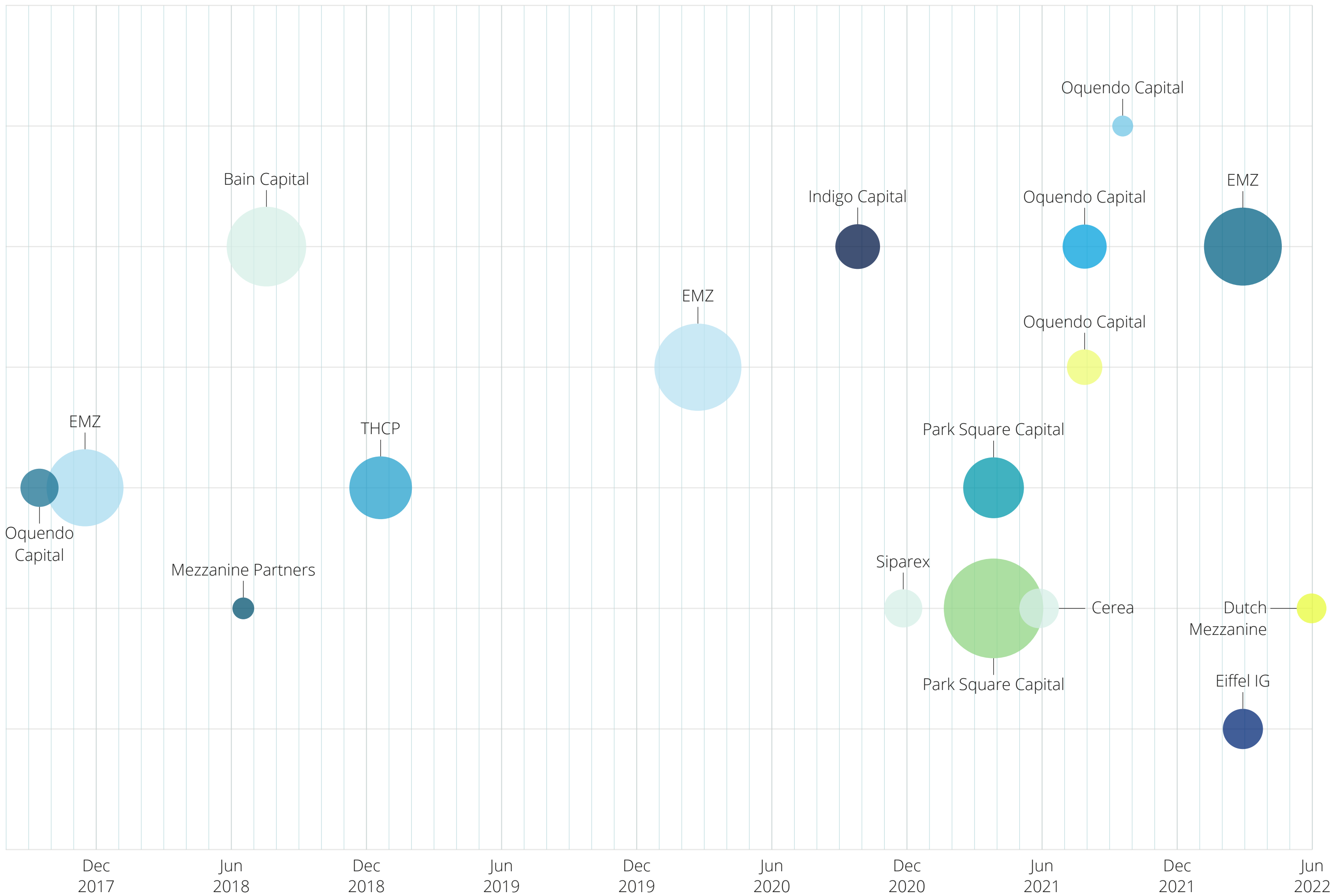
Senior Direct Lending fundraising by manager and vintage




Tikehau
Tikehau
Tikehau
Tikehau
Tikehau
Eurazeo
Eurazeo
Eurazeo
Ares
Ares
Ares
Arcmont AM
Muzinich & Co.
KKR
KKR
P Capital Partners
Alcentra
Barings
Barings
Barings
Pemberton
Pemberton
Pemberton
Pemberton
Pemberton
Capital Four
Capital Four
Capital Four
Capital Four
Capital Four
Hayfin
CAPZA
Claret Capital Partners
Five Arrows
Direct Lending
Oquendo Capital
Blackrock
Dunport Capital Management
Ture Invest
Northleaf
Santander Asset Management
Dexteritas
Santander Asset Management
Skandinaviska Kreditfonden AB
Alantra
Blackstone Credit (GSO)
H"$#0)
LGT Private Debt
HIG Whitehorse
Incus Capital
Claret Capital Partners
MV Credit
Resilience Partners
Allianz GI
Pricoa
Eiffel IG
Eiffel IG
Permira
Crescent
Oquendo Capital
Carlyle
CEREA
THCP
Apera Asset Management
Capital Four
Allianz GI
Pricoa
BlackRock
BlackRock
Credit Value Investments
Carlyle
Soho Square Capital
Ture Invest
Jun 2018
Dec 2018
Jun 2019
Dec 2019
Jun 2020
Dec 2020
Jun 2021
Dec 2021
Jun 2022

Junior Direct Lending fundraising by manager and vintage




Oquendo Capital
Bain Capital
Indigo Capital
Oquendo Capital
EMZ
EMZ
Oquendo Capital
EMZ
THCP
Park Square Capital
Oquendo Capital
Mezzanine Partners
Siparex
Cerea
Dutch Mezzanine
Park Square Capital
Eiffel IG
Dec 2017
Jun 2018
Dec 2018
Jun 2019
Dec 2019
Jun 2020
Dec 2020
Jun 2021
Dec 2021
Jun 2022

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

An overview of the funds raised in the market

Private Debt Providers	Date	Size (m) w/o leverage	Investment Strategy	Geography
Alantra				
Alteralia SCA SICAV RAIF	Q1 20	€200	Senior	Europe
Alteralia SCA SICAR	Q3 15	€139	Senior	Europe
Alcentra				
European Direct Lending Fund III	Q3 19	€5,500	Senior and Junior	Europe
Direct Lending Fund	Q1 17	€2,100	Senior and Junior	Europe
European Direct Lending Fund	Q4 14	€850	Senior and Junior	Europe
Direct Lending Fund	Q4 12	€278	Senior and Junior	Europe
Allianz Global Investers				
AZ EPC II	Q1 22	€495	Senior	Europe
AZ EPC I	Q1 20	€248	Senior	Europe
Apera Asset Management				
Apera Capital Private Debt Fund I	Q1 19	€750	Senior and Junior	Europe
Arcmont Asset Management				
Arcmont Senior Fund III	Q1 19	€6,000	Senior and Junior	Europe
Arcmont Senior Loan Fund I	Q3 17	€2,900	Senior	Europe
Arcmont Direct Lending Fund II	Q4 15	€2,100	Senior and Junior	Europe
Arcmont Direct Lending Fund I	Q2 13	€810	Senior and Junior	Europe
Ardian				
Ardian Private Debt Fund IV	Q2 19	€3,300	Senior and Junior	Europe
Ardian Private Debt Fund III	Q3 15	€2,026	Senior and Junior	Europe
Axa Private Debt Fund II	Q2 10	€1,529	Senior and Junior	Europe
Ares				
ACE 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
ACE II	Q3 13	€911	Senior and Junior	Europe
ACE I	Q4 07	€311	Senior	Europe

Private Debt Providers	Date	Size (m) w/o leverage	Investment Strategy	Geography
Bain Capital				
Bain Capital Middle Market Credit 2018	Q3 18	€870	Junior	Global
Bain Capital Specialty Finance	Q4 16	€1,406	Senior	Global
Bain Capital Direct Lending 2015 (Unlevered)	Q4 15	€56	Junior	Global
Bain Capital Direct Lending 2015 (Levered)	Q1 15	€433	Junior	Global
Bain Capital Middle Market Credit 2014	Q4 13	€1,554	Junior	Global
Bain Capital Middle Market Credit 2010	Q2 10	€1,017	Junior	Global
Barings				
European Private Loan Fund III	Q2 22	€5,900	Senior	Europe
Global Private Loan Fund III	Q4 19	$2,400	Senior and Junior	Europe
European Private Loan Fund II	Q3 19	€1,500	Senior and Junior	Europe
Global Private Loan Fund II	Q3 17	$1,300	Senior and Junior	Global
Global Private Loan Fund I	Q2 16	$777	Senior and Junior	Global
Blackrock				
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				
GSO European Senior Debt Fund II	Q4 20	$6,102	Senior	Europe
Capital Opportunities Fund II	Q4 16	$6,500	Junior	Global
European Senior Debt Fund	Q4 15	$1,964	Senior	Europe
Capital Opportunities Fund I	Q1 12	$4,000	Junior	Global
Bridgepoint Credit				
Bridgepoint Direct Lending II	Q4 20	€2,300	Senior	Europe
Bridgepoint Direct Lending I	Q2 16	€530	Senior	Europe
Capital Four				
Capital Four – Private Debt V	Q2 22	€400	Senior	Europe
Capital Four – Private Debt IV	Q2 22	€500	Senior and Junior	Europe
Capital Four – Private Debt III – Senior	Q2 22	€1,500	Senior	Europe
Capital Four Strategic Credit Fund	Q3 19	€350	Senior and Junior	Europe
Capital Four Strategic Lending Fund	Q3 15	€135	Junior	Europe
Capzanine				
Artemid Senior Loan 3	Q2 22	€588	Senior	Europe
Capza 5 Private Debt	Q1 21	€1,414	Senior and Junior	Europe
Capzanine 4 Private Debt	Q1 18	€850	Senior and Junior	Europe
Artemid Senior Loan 2	Q1 18	€483	Senior	Europe
Artemid CA	Q3 15	€70	Senior	Europe
Artemid Senior Loan	Q3 15	€345	Senior	Europe
Capzanine 3	Q3 12	€700	Senior and Junior	Europe

Private Debt Providers	Date	Size (m) w/o leverage	Investment Strategy	Geography
Capzanine 2	Q3 07	€325	Senior and Junior	Europe
Capzanine 1	Q1 05	€203	Senior and Junior	Europe
Carlyle				
Carlyle Credit Opportuniites Fund II, L.P.	Q4 21	€3,674	Senior and Junior	Global
Carlyle Credit Opportuniites Fund, L.P.	Q2 19	€2,093	Senior and Junior	Global
Céréa				
Céréa Mezzanine IV	Q2 21	€215	Junior	Europe
Céréa Dette II	Q2 19	€350	Senior	Europe
Céréa Mezzanine III	Q1 17	€200	Junior	Europe
Céréa Dette	Q2 16	€270	Senior	Europe
Claret Capital Partners				
Claret European Growth Capital Fund III, SCSp	Q3 21	€296	Senior and Junior	Europe
Claret European Growth Capital Fund II SCSp	Q3 18	€215	Senior and Junior	Europe
Claret European Growth Capital Fund I	Q1 15	€122	Senior	Europe
Credit Value Investments				
CVI CEE Private Debt Fund	Q3 21	€80	Senior and Junior	Europe
Dexteritas				
Dexteritas Dutch Credit Opportunities Fund	Q4 20	€55	Senior	Europe
Dunport Capital Management & Elm Corporate Credit				
Oak Corporate Credit Fund	Q1 22	€335	Senior and Junior	Europe
Elm Corporate Credit DAC	Q1 18	€283	Senior and Junior	Europe
Ireland Corporate Credit DAC	Q2 13	€450	Senior and Junior	Europe
Dutch Mezzanine Fund				
Dutch Mezzanine Fund II	Q4 21	€122	Junior	Europe
Dutch Mezzanine Fund I	Q1 13	€60	Junior	Europe
Eiffel Investment Group				
Eiffel 6	Q1 22	€222	Junior	Europe
Eiffel 4	Q2 21	€576	Senior	Europe
Eiffel 5	Q4 20	€278	Senior	Europe
EMZ				
EMZ 10	Q1 22	€834	Senior and Junior	Europe
EMZ 9	Q1 20	€1,043	Senior and Junior	Europe
EMZ 8	Q4 17	€815	Senior and Junior	Europe
EMZ 7	Q1 14	€695	Senior and Junior	Europe
EMZ 6	Q1 09	€640	Senior and Junior	Europe

Private Debt Providers	Date	Size (m) w/o leverage	Investment Strategy	Geography
Eurazeo				
Eurazeo Private Debt V	Q1 21	€1,500	Senior and Junior	Europe
Eurazeo Senior Debt 5	Q1 21	€300	Senior	Europe
Eurazeo Private Debt IV	Q2 18	€715	Senior and Junior	Europe
Eurazeo Dette Senior 4	Q4 16	€300	Senior	Europe
Eurazeo Dette Senior 3	Q3 15	€530	Senior	Europe
Eurazeo Dette Senior 2	Q3 14	€400	Senior	Europe
Eurazeo Private Debt III	Q1 14	€400	Senior and Junior	Europe
Eurazeo Private Value Europe II	Q4 13	€50	Junior	Europe
Eurazeo Dette Senior	Q1 13	€280	Senior	Europe
Eurazeo Private Value Europe	Q2 12	€65	Junior	Europe
Eurazeo Private Debt	Q3 07	€290	Senior and Junior	Europe
Five Arrows				
Five Arrows Debt Partners III	Q3 21	€1,418	Senior and Junior	Europe
Five Arrows Direct Lending	Q2 18	€655	Senior and Junior	Europe
Five Arrows Credit Solutions	Q2 14	€415	Junior	Europe
Hayfin				
Direct Lending Fund III	Q1 21	€5,000	Senior	Europe
Direct Lending Fund II	Q1 17	€3,500	Senior	Europe
Direct Lending Fund I	Q1 14	€2,000	Senior	Europe
HIG				
H.I.G. Whitehorse Loan Fund III	Q1 13	€750	Senior and Junior	Europe
H.I.G. Bayside Loan Opportunity Fund V (Europe)	Q2 19	$1500	Senior and Junior	Europe
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

Private Debt Providers	Date	Size (m) w/o leverage	Investment Strategy	Geography
Incus Capital				
Incus Capital European Credit Fund III	Q2 18	€500	Senior and Junior	Europe
Incus Capital Iberia Credit Fund II	Q3 16	€270	Senior and Junior	Europe
Incus Capital Iberia Credit Fund I	Q4 12	€128	Senior and Junior	Europe
Indigo Capital				
Fund V	Q3 07	€220	Junior	Europe
Fund IV	Q3 03	€200	Junior	Europe
Fund III	Q3 00	€100	Junior	Europe
Kartesia				
Kartesia Credit Opportunities IV	Q4 17	€870	Senior and Junior	Europe
Kartesia Credit Opportunities III	Q1 15	€508	Senior and Junior	Europe
KKR				
KKR Lending Partners Europe II	Q3 20	€895	Senior	Europe
KKR Lending Partners III L.P. (“KKRLP III”)	Q4 18	$1,498	Senior	Global
Fund Lending Partners Europe	Q1 16	€758	Senior and Junior	Europe
Fund Lending Partners II	Q2 15	$1,336	Senior and Junior	Global
Fund Lending Partners I	Q4 12	$460	Senior and Junior	Global
LGT Private Debt				
CEPD II	Q3 19	€1,350	Senior and Junior	Europe
Private Debt Fund	Q1 15	€474	Senior and Junior	Europe
UK SME Debt	Q3 14	€100	Senior and Junior	Europe
Metric				
MCP III	Q1 17	€860	Special Situations	Europe
MCP II	Q2 14	€475	Special Situations	Europe
MCP I	Q1 13	€225	Special Situations	Europe
Mezzanine Partners				
Mezzanine Partners II	Q3 18	€65	Junior	Europe
Mezzanine Partners I	Q1 14	€65	Junior	Europe
Muzinich & Co.				
Muzinich Pan-European Private Debt Fund	Q1 19	€707	Senior and Junior	Europe
Muzinich French Private Debt Fund	Q3 17	€153	Senior	Europe
Muzinich Iberian Private Debt Fund	Q1 17	€104	Senior and Junior	Europe
Muzinich Italian Private Debt Fund	Q4 16	€268	Senior and Junior	Europe
Muzinich UK Private Debt Fund	Q4 15	€250	Senior and Junior	Europe

Private Debt Providers	Date	Size (m) w/o leverage	Investment Strategy	Geography
MV Credit				
MV Senior II	Q2 21	€526	Senior	Europe
MV Subordinated IV	Q4 18	€835	Junior	Europe
MV Senior Strategies	Q1 15	€815	Senior and Junior	Europe
MezzVest III	Q4 13	€752	Junior	Europe
Northleaf				
Northleaf Senior Private Credit	Q2 22	$1,009	Senior	Global
Northleaf Private Credit	Q1 14	$1,400	Senior and Junior	Global
Oquendo Capital				
Oquendo Senior II	Q4 21	€257	Senior	Europe
Impulsa I	Q3 21	€60	Junior	Europe
Oquendo IV	Q3 21	€268	Junior	Europe
Oquendo Senior	Q2 19	€173	Senior	Europe
Oquendo III	Q4 17	€200	Junior	Europe
Oquendo II	Q3 14	€157	Junior	Europe
Oquendo I	Q4 09	€50	Junior	Europe
Park Square Capital				
Park Square Capital Partners IV (USD)	Q2 21	€411	Junior	Europe
Park Square Capital Partners IV SCSp	Q2 21	€1,102	Junior	Europe
Park Square Capital European Loan Partners, LP Inc.	Q4 18	€502	Senior	Europe
Park Square Capital Partners III, LP	Q1 16	€1,185	Junior	Europe
Pemberton				
Pemberton Senior Loan Fund	Q1 22	€1,900	Senior	Europe
Pemberton European Mid-Market Debt Fund III	Q1 22	€3,900	Senior	Europe
Pemberton European Strategic Credit Opportunities Fund II	Q4 21	€1,750	Senior and Junior	Europe
Pemberton European Strategic Credit Opportunities Fund	Q1 19	€942	Senior and Junior	Europe
Pemberton European Mid-Market Debt Fund II	Q1 19	€3,056	Senior	Europe
European Mid-Market Debt Fund	Q4 16	€1,140	Senior	Europe
Permira				
Permira Credit Solutions IV	Q3 20	€3,500	Senior and Junior	Europe
Permira Credit Solutions III	Q2 17	€1,700	Senior and Junior	Europe
Permira Credit Solutions II	Q3 15	€800	Senior and Junior	Europe
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

Private Debt Providers	Date	Size (m) w/o leverage	Investment Strategy	Geography
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
P Capital Partners II/IIB	Q2 11	€835	Senior and Junior	Europe
P Capital Partners I	Q3 09	€216	Senior and Junior	Europe
Resilience Partners				
Resilience Partners Fund I	Q3 17	€50	Senior and Junior	Europe
Santander Asset Management				
Santander Alternative Leasing FIL	Q2 22	€368	Senior	Europe
SAFO (Santander Asset Finance Opportunity)	Q2 22	€100	Senior	Europe
Skandinaviska Kreditfonden AB				
Scandinavian Credit Fund I AB	Q2 22	€330	Senior	Europe
Siparex				
Siparex Intermezzo II	Q4 20	€200	Junior	Europe
Siparex Intermezzo I	Q4 16	€100	Junior	Europe
Tavis Capital				
Swiss SME Credit Fund I	Q1 17	CHF137	Junior	Europe
Tikehau				
Tikehau Corporate Lending fund 6	Q4 20	€114	Senior	Europe
Tikehau Corporate Lending fund 5	Q4 19	€116	Senior	Europe
Tikehau Senior Loan III	Q4 19	€507	Senior	Europe
Tikehau Direct Lending IV	Q1 19	€2,200	Senior and Junior	Europe
Tikehau Corporate Lending fund 4	Q1 18	€212	Senior	Europe
Tikehau Fund	Q4 17	€205	Senior and Junior	Europe
Tikehau Senior Loan II	Q2 17	€615	Senior	Europe
Tikehau Direct Lending III	Q3 16	€610	Senior and Junior	Europe
Tikehau Corporate Lending fund 3	Q3 15	€290	Senior and Junior	Europe
Tikehau Corporate Lending fund 2	Q3 15	€19	Senior and Junior	Europe
Tikehau Corporate Leveraged Loan Fund	Q3 14	€230	Senior	Europe
Tikehau Corporate Lending fund 1	Q4 13	€355	Senior and Junior	Europe
Tikehau Preferred Capital	Q2 12	€134	Senior and Junior	Europe
Ture Invest				
Ture Invest Fund I	Q2 22	€400	Senior	Europe
Hedda Credit Fund I	Q2 22	€100	Senior	Europe

Direct Lending: H1 2022 Key Statistics & Notable Moves

Direct Lending Market Headcount

Summary: 2022, akin to the second half of 2021, has seen the expansion of the European Direct Lending market as its investment teams continue to grow in size at an increasing rate.

Fuelled largely by new entrants – both US and European investment banks, global asset managers, insurance companies, and US debt funds – there has been further uptick on the rebound hiring of last year, post-pandemic. Established market players such as Ares, Blackstone Credit and KKR Credit have bolstered their private credit teams, further affecting the numbers.

The chart below shows the net change across seniority levels. The net market headcount increase of +51 in H1 2022 is up from +42 H2 2021, +20 in H1 2021, +6 in H2 2020, and +29 in H1 2020.

Figure 1 – Net moves across different levels of seniority between H2 2021 and H1 2022

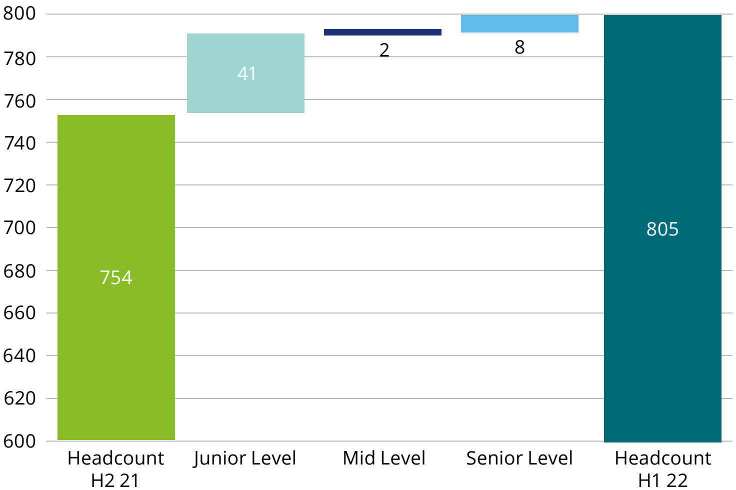
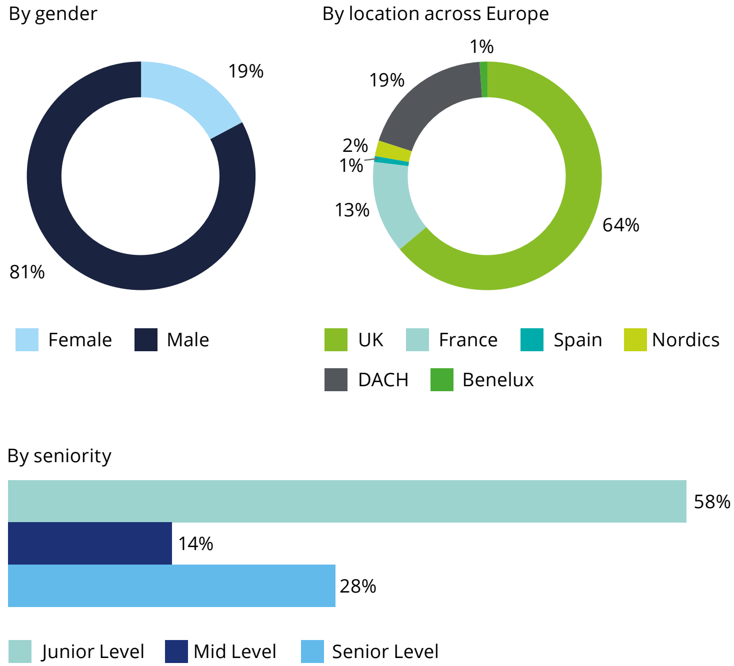


Figure 2 – Breakdown of hiring in H1 2022



Breakdown of Hiring

Geography: London makes up an increased proportion of the destination of hires in the first half of the year, at 64% up from 58% from H2 2021 (NB, these include hires of people situated in London, but covering other regions.)

Hiring in the DACH Region continues to contribute c.20% of all European hiring, akin to H2 21, but significantly up on the 9% in H1 21. The trend of localised hiring is further shown by the French market, with Paris-based hires contributing 10%. Again, these do not reflect hires of IPs based in London, focused on other geographies, but do suggest there is continued momentum behind teams getting 'closer to the ground' for the origination benefits it may bring.

Gender diversity creeps down again as a percentage of overall hiring – at 19%. 71% of all female hires were at the junior level (0-5yrs relevant experience). 11% were at the mid level (5-10yrs) and 18% were 'senior' (10yrs+).

Seniority of hires remain weighted towards the junior level, with new entrants from banking and university. Senior hires have increased from 18% in H2 21 to 28% for the first half of 2022 – this is likely a repercussion of new entrants in the market, hiring team heads or senior originators to build out their functions. Junior and mid-level hiring may well increase throughout the year as these teams look to grow in size.

Notes:

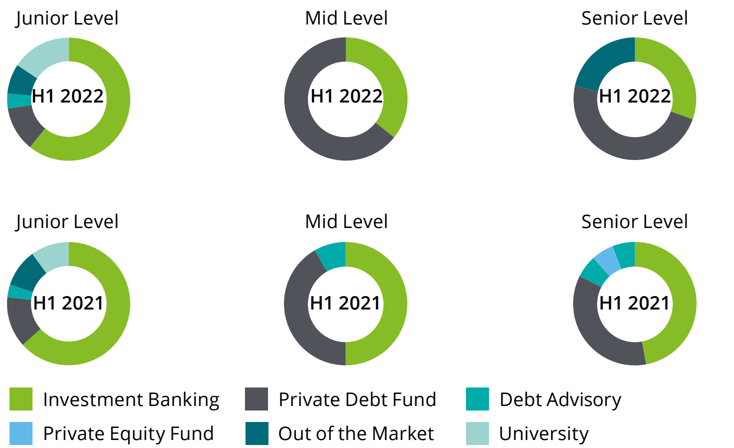
- For the purpose of this analysis, we have included the total investment team headcounts at c. 35 combined Mezzanine/Direct Lending funds (such as Park Square, Crescent Capital). We have excluded investment teams where the majority of their investment activity is in special situations lending, or minority 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 more than 10 years experience.
- Percentages are rounded to the nearest whole number

Source of Hires & Hiring Patterns

The charts below compare the source of hires between H1 2021 and H1 2022 across the three seniority brackets. Unsurprisingly, given the time of year and bonus dates, investment banking returns as the main source of junior hires after H2 2021 when university/internships made up the majority for the first time. This is consistent with H1 2021. Notably, fund-to-fund hiring has increased in 2022 at the mid- and senior-levels when compared with 2021; corresponding with a drop in hiring from leveraged finance and debt advisory.

At the senior level, out of the market hiring has also increased, likely a by-product of competitive fight for talent, and funds opting against buying out large carry allocations. Increased fund-to-fund hiring activity is shown by the number of senior market moves recorded in 2022, detailed in our report below.

Figure 3 – The source of hiring at different levels of seniority in H1 2021 and H1 2022



Recent Notable Direct Lending Moves – January 2022 to June 2022

Adams Street Partners	James Charalambides left Sixth Street to lead European ventures for Adams Street Partners.
Apera Asset Management	Franklin Henrot left Apera to join MBO & Co. Louis-Matthieu Heck has replaced him as a Partner in Paris.
Apollo Global Management	Philipp Schroeder and Mensah Lambie have left Apollo Global Management, joining Golub Capital. Principals Alberto Brighenti and Chelsea Lau have also left, Chelsea joining HG Capital in a capital markets function. Arnaud Gayet joined Apollo from Ares Management to lead their French coverage.
Arcmont Asset Management	Marc Spangenberg joined Arcmont Asset Management in January, leaving Alcentra.
Blackstone Credit	Florent Trichet has moved to Blackstone Credit in Paris as Head of France, joining from BlackRock.
Deutsche Bank	Appu Mundassery, ex- HIG Whitehorse, has moved to Deutsche Bank to help lead their Direct Lending business and raise a dedicated fund.
Fidelity International	Raphael Charon has joined Fidelity International from Bank of Ireland to lead their European Direct Lending business. Marc Preiser, ex-Apollo, has also joined to lead the portfolio management, with Tim Johnston (ex-Beechbrook Capital) joining as a UK originator.
Goldman Sachs Asset Management	Managing Directors Alexandre Mignotte and Emilie Railhac have left Goldman Sachs Asset Management. Alexandre has joined SVP Global in their new private debt special situations strategy.
Hayfin Capital Management	Marc Chowrimootoo joined Hayfin Capital Management from Goldman Sachs IBD.
ICG	Nicolas Kogevinas joined ICG from Citi IBD, Vladimir Bondarenko joined from Morgan Stanley IBD, and Benjamin Zuelch has joined the Frankfurt office to lead their DACH coverage from Hayfin.
Morgan Stanley Investment Management	Marc Jochims, ex- Arcmont, joined Morgan Stanley Investment Management as Head of Europe. VPs Jean-Charles Deudon and Timothee Delisle have also joined from Alcentra.
Muzinich	Alex Millarini left LGT Private Debt for Muzinich to lead their French direct lending business.
M&G	Robert Scheer joined M&G Frankfurt from ING leveraged finance team to lead their DACH coverage.
Partners Group	Carina Spitzkopf joined Partners Group to originate in the DACH region, joining from Federated Hermes.
Pictet Asset Management	Andreas Klein, ex- ICG, joined Pictet Asset Management to lead their European Private Debt business.
Pemberton Asset Management	Adrien Grammerstorf joined Pemberton Asset Management from Allianz Private Debt.
Verdane	Benedikt Kuhbandner left Bridgepoint Credit for Verdane, leading their DACH Capital Markets function.

About Paragon Search Partners:

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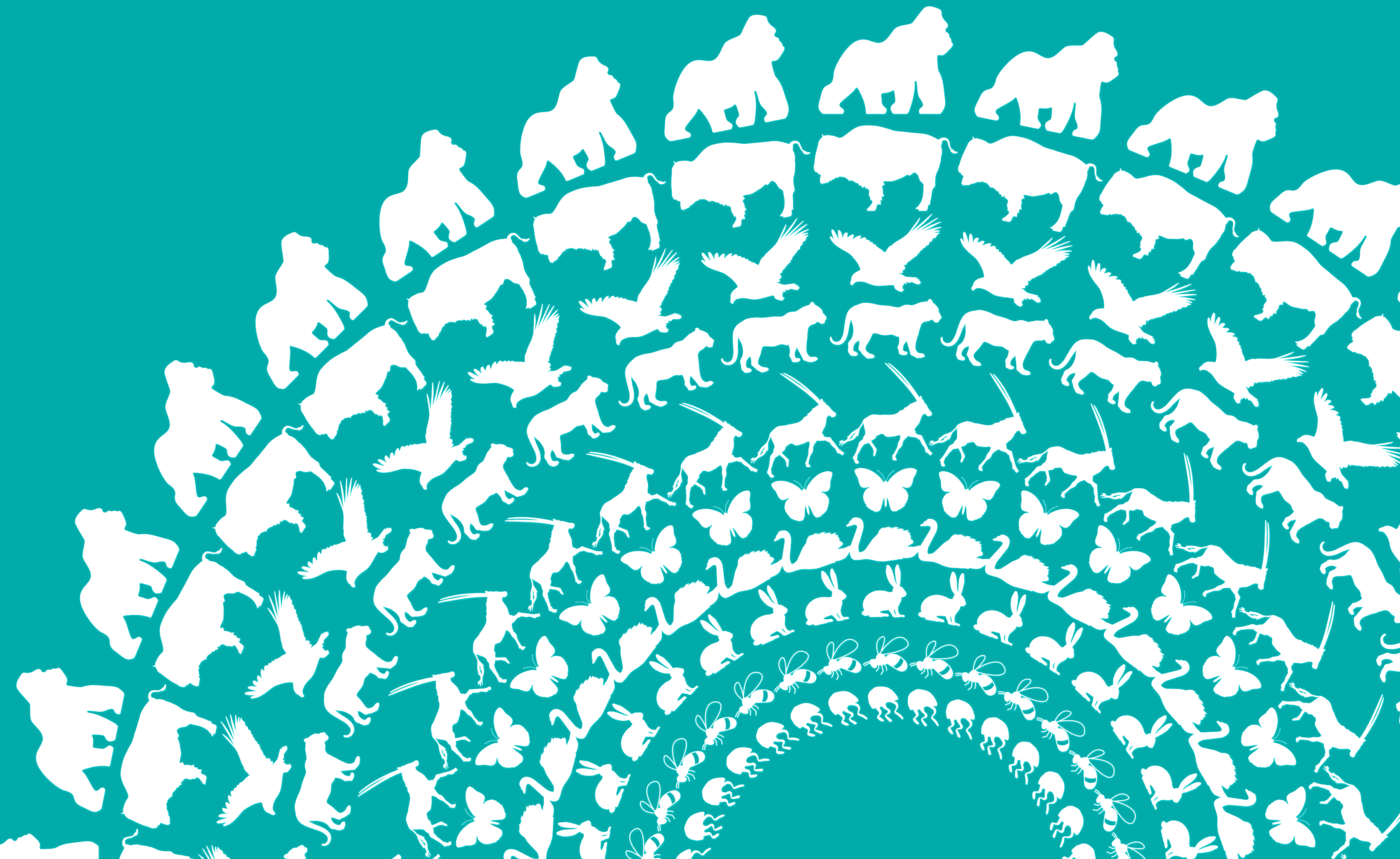
Insights into the European Private Debt Market



Private Debt '101' guide

Who are the 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.

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 has 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 1bn).
- Deal teams of funds will continue to monitor the asset over the life of the loan.

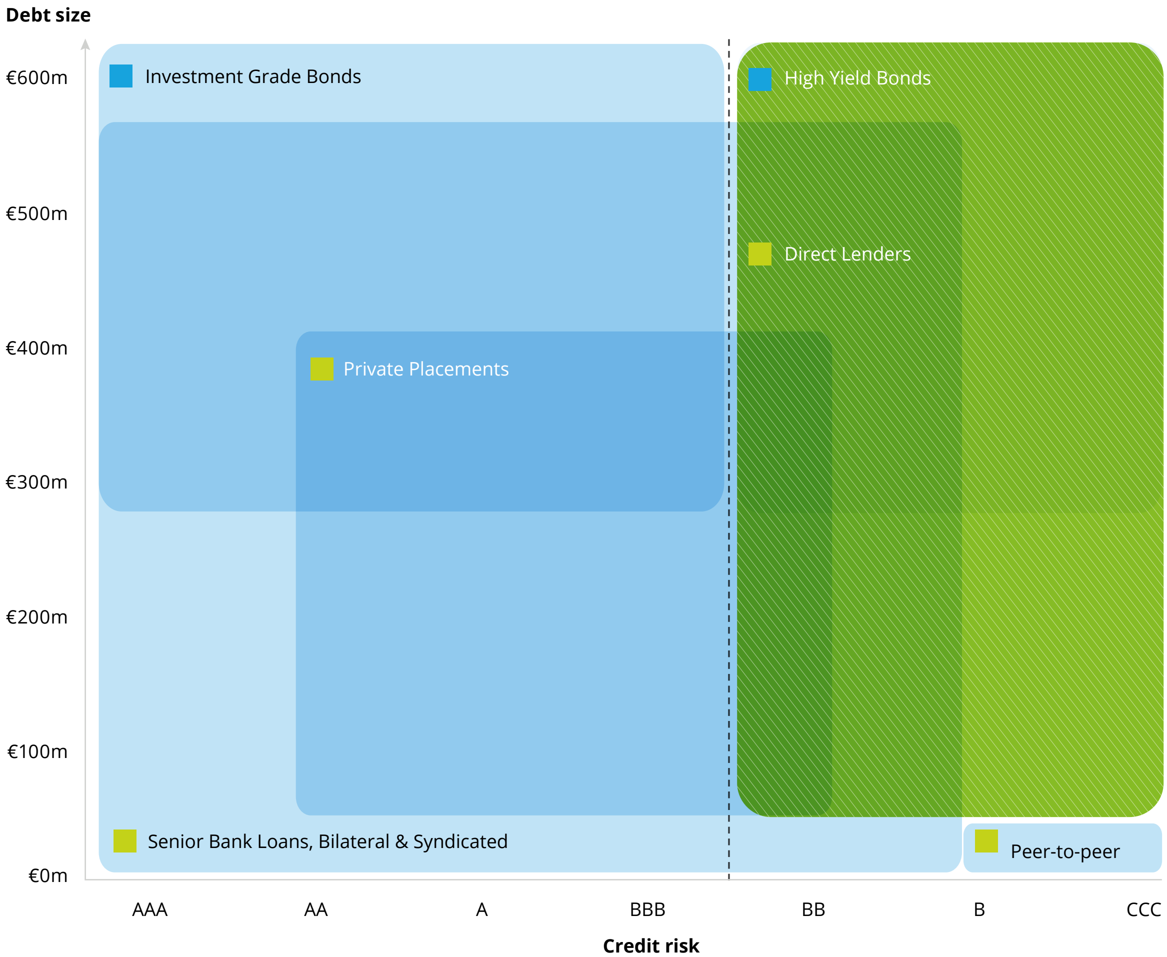
However

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

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

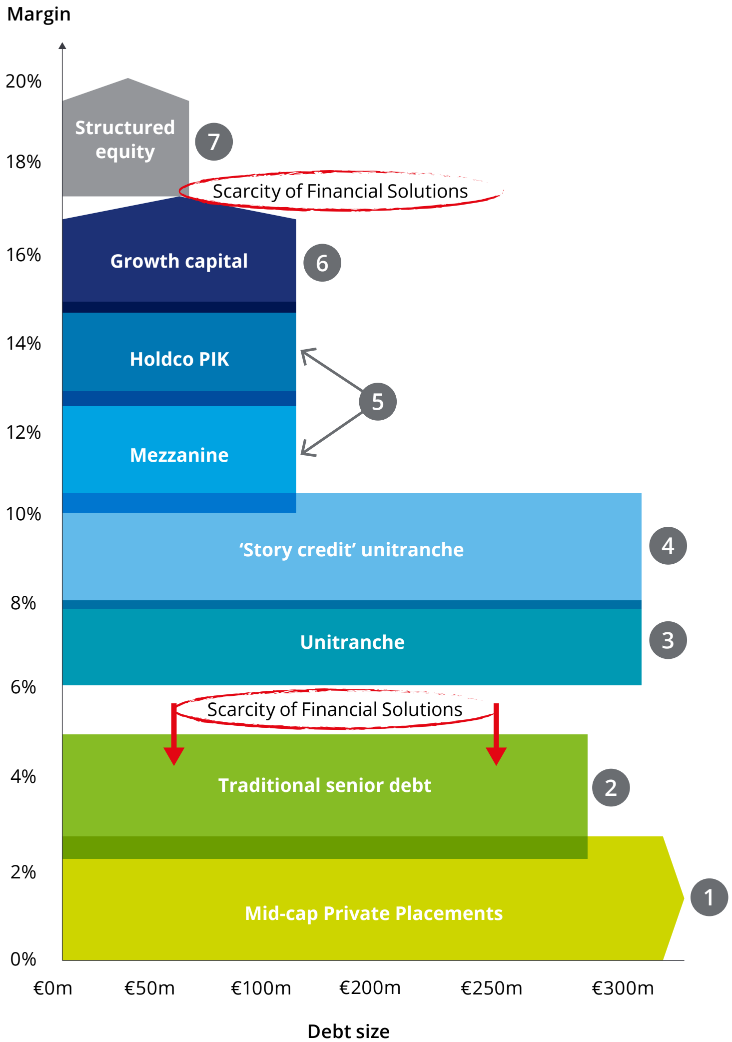


Cash flow debt products

The overview on the left focuses on the debt products available for Investment Grade and Sub-Investment Grade companies.

- Private Instrument
- Public Instrument

What are the private debt strategies?



Note: Distressed strategies are excluded from this overview

We have identified seven distinctive private debt strategies in the mid-market Direct Lending landscape:

1. Mid-cap Private Placements
2. Traditional senior debt
3. Unitranche
4. 'Story credit' unitranche
5. Subordinated (mezzanine/PIK)
6. Growth capital
7. Structured equity

There is a limited number of Lenders operating in the L+450bps to L+600bps pricing territory.

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

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

The latter is mostly the approach of large asset managers.

How does the Direct Lending investment strategy compare to other strategies?

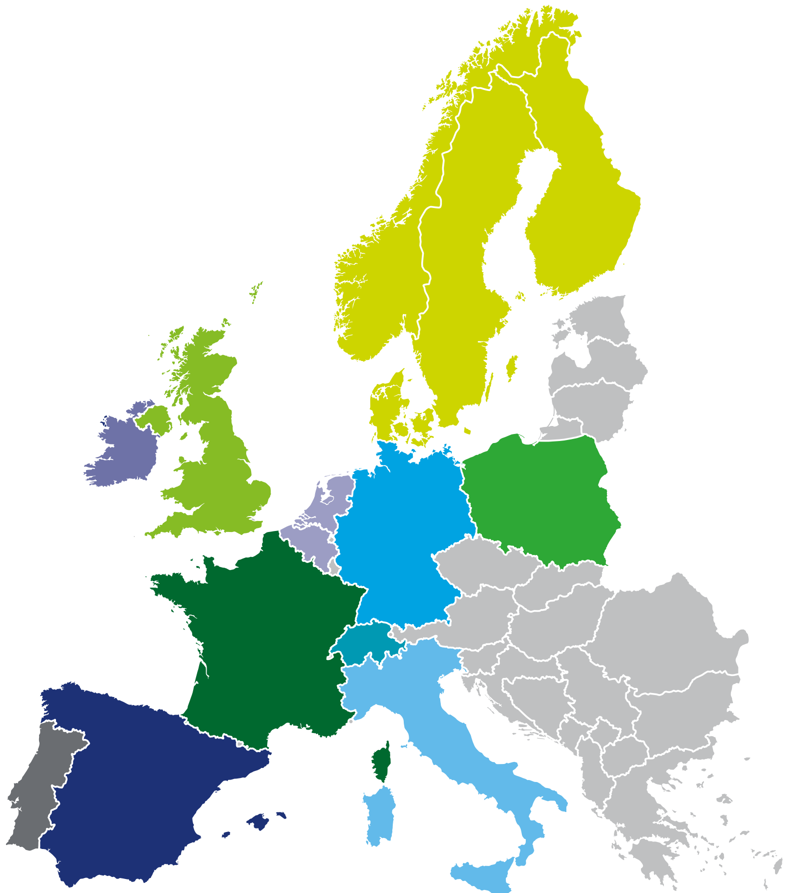
Fund strategy	Description	Target return (Gross IRR)	Investment period	Fund term	Management fee	Preferred return	Carried interest
Direct senior lending	Invest directly into corporate credit at senior levels of the capital structure	5-10%	1-3 years	5-7 years (plus 1-2 optional one year extensions)	Typically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

Management fee – an annual payment made by the limited partners in the fund to the fund's manager to cover the operational expenses

Preferred return (also hurdle rate) – a minimum annual return that the limited partners are entitled to before the fund manager starts receiving carried interest

Carried interest –a share of profits above the preferred return rate that the fund manager receives as compensation which is based on the performance of the investment

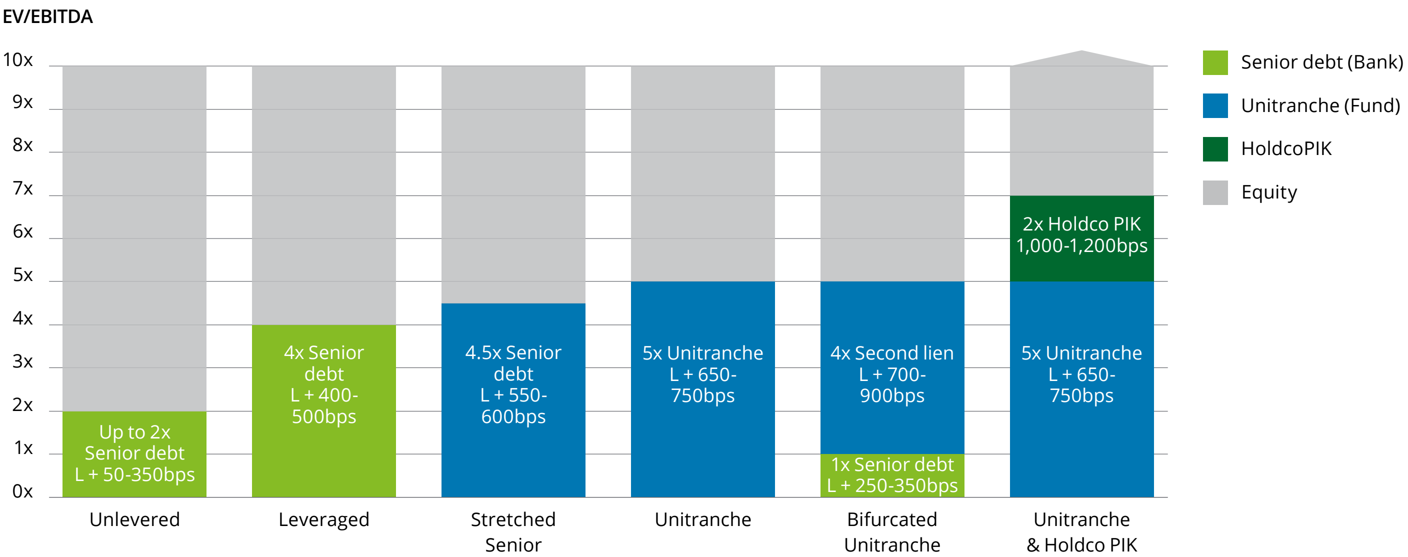
What are the private debt strategies?



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

What debt structures are available in the market?

Structures



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

Unlevered	Leveraged	Stretched Senior	Unitranche	Bifurcated Unitranche	Unitranche & Holdco PIK
L + 50-350bps	L + 450bps	L + 575bps	L + 700bps	L + 700bps	L + 815bps

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

Pros and Cons per structure

Unlevered

✓ Lowest pricing
✓ Relationship bank

- Low leverage
- Shorter tenor (3-5 years)

Leveraged

✓ Increased leverage
✓ Club of relationship banks

- More restrictive terms
- Partly amortising

Stretched Senior

✓ Increased leverage
✓ Bullet debt
✓ Lower equity contribution

- More restrictive terms than Unitranche
- Higher pricing than bank debt
- Need for RCF lender

Unitranche

✓ Stretched leverage
✓ Flexible covenants
✓ One-stop shop solution
✓ Speed of execution
✓ Relationship lender

- Higher pricing

Bifurcated Unitranche

✓ Stretched leverage
✓ Flexible covenants
✓ Greater role for bank
✓ Reach more liquid part of the unitranche market

- Higher pricing
- Intercreditor/AAL

Unitranche & Holdco PIK

✓ Stretched leverage
✓ Flexible covenants
✓ Lower equity contribution
✓ No Intercreditor

- Higher pricing

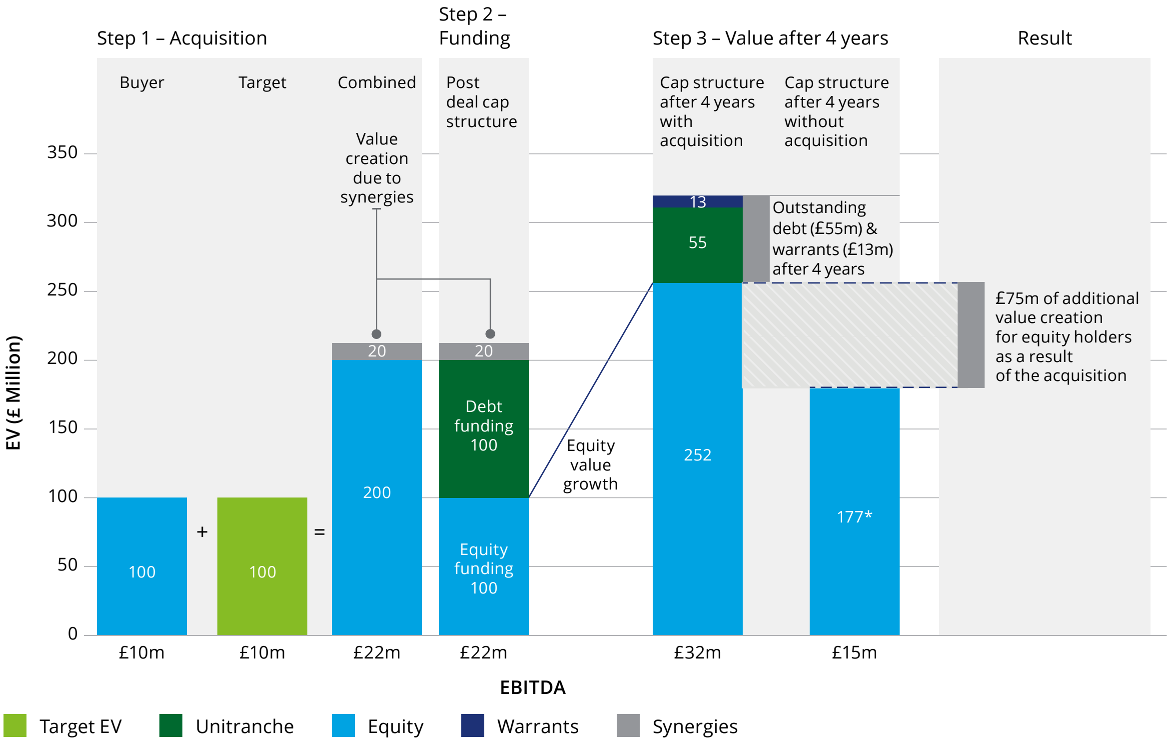
Unlocking transformational acquisitions for privately owned companies

Indicative calculations

- The calculations on this page illustrate the effect of value creation through acquisitions financed using Private Debt providers.
- 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



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

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

Deloitte Debt, Capital and Treasury Advisory

What do we do for our clients?

Debt, Capital and Treasury Advisory

Independent advice

- We provide independent advice to borrowers across the full spectrum of debt markets through our global network.
- Completely independent from providers of finance – our objectives are fully aligned with those of our clients.

Global resources & execution expertise

- A leading team of 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.

Market leading team

- Widely recognised as a Global leader with one of the largest Debt Advisory teams.
- We pride ourselves on our innovative approach to challenging transactions and the quality of client outcomes we achieve, using our hands on approach.

Demonstrable track record

- In the last 12 months, we have advised on over 130 transactions with combined debt facilities in excess of €10bn.
- Our target market is debt transactions ranging from €25m up to €750m.

Services Provided

Refinancing

- Maturing debt facilities.
- Rapid growth and expansion.
- Accessing new debt markets.
- Recapitalisations facilitating payments to shareholders.
- Asset based finance to release value from balance sheet.
- Off balance sheet finance.
- Assessing multiple proposals from lenders.

Acquisitions, disposals, mergers

- Strategic acquisitions, involving new lenders and greater complexity.
- Staple debt packages to maximise sale proceeds.
- Additional finance required as a result of a change in strategic objectives.
- FX impacts that need to be reflected in the covenant definitions.
- Foreign currency denominated debt or operations in multiple currencies.

Restructuring or negotiating

- New money requirement
- Real or potential breach of covenants.
- Short term liquidity pressure.
- Credit rating downgrade.
- Existing lenders transfer debt to an Alternative Lender group.
- Derivatives in place and/or banks hedging requirements to be met.

Treasury

- Operations in multiple jurisdictions and currencies creating FX exposures.
- Develop FX, interest rate and commodity risk management strategies.
- Cash in multiple companies, accounts, countries and currencies.
- Hedging implementation or banks hedging requirements to be met.

Depth and breadth of expertise in a variety of situations

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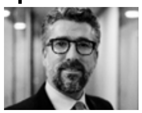

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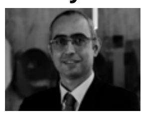

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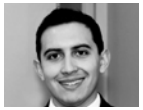

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Credentials

Recent Deloitte Debt, Capital & Treasury Advisory Transactions

Country	Company	Client	Transaction	Date	Amount
UK	enra Specialist Finance	Elliott Advisors	*Acquisition Financing*	Sep 2022	£185m
Netherlands	total specific hosting	Strikwerda Investments.	*Acquisition Financing*	Aug 2022	Undisclosed
UK	RWS	PLC	*Amend & Extend*	Aug 2022	$220m
UK	CitNOW	Livingbridge	*Acquisition Financing*	Jul 2022	Undisclosed
UK	trainline	PLC	*Refinancing*	Jul 2022	£325m
UK	Dufrain	Phoenix Equity Partner.	*Acquisition Financing*	Jul 2022	Undisclosed
UK	MATALAN	Private	*Refinancing*	Jul 2022	Undisclosed
France	Confidential	Private	*Acquisition Financing*	Jul 2022	€80m
UK	Domino's	PLC	*Refinancing*	Jul 2022	£400m
UK	access freedom to do more	Hg/TA Associates	*Refinancing*	Jun 2022	Undisclosed
Netherlands	in3	Finch Capital	*Structured Financing*	Jun 2022	Undisclosed
UK	Reconomy	Private	*Refinancing*	Jun 2022	Undisclosed
US/Netherlands	COREDUX	Arcline Investment	*Acquisition Financing*	Jun 2022	€102m
UK	Quorn	Private	*Refinancing*	Jun 2022	Undisclosed
Netherlands	Project Bolton	Private	*Acquisition financing*	Jun 2022	Undisclosed
Netherlands	Project Light	Finch Capital	*Structured Financing*	Jun 2022	Undisclosed
Netherlands	Project Chain and Impact	NPM Capital	*Acquisition Financing*	May 2022	Undisclosed
Netherlands	Project Cosmo	BB Capital	*Acquisition Financing*	May 2022	Undisclosed
UK	Project Numa	Bencis Capital Partner.	*Acquisition Financing*	May 2022	£240m
Netherlands/UK	Project Jump	2Connect/Rivean	*Acquisition Financing*	May 2022	Undisclosed
Netherlands	discoverIE	PLC	*Amend & Extend*	May 2022	£240m
South Africa	BCX	Private	*Financial Model Build*	May 2022	Undisclosed
France	FIGEAC AERO	Private	*Restructuring*	May 2022	€330m
Botswana	Project Navitas	Private	*Structuring Advisory*	Apr 2022	Undisclosed

Credentials

Recent Deloitte Debt, Capital & Treasury Advisory Transactions

Country	Company	Client	Transaction	Date	Amount
Netherlands	Project Skywalker	Private	*Growth Financing*	Apr 2022	£185m
Netherlands	Project Polestar	Parcom Capital.	*Sell-Side Financing Su.*	Apr 2022	Undisclosed
UK	redstor	Bregal Milestone	*Acquisition Financing*	Apr 2022	Undisclosed
UK	DALMORE CAPITAL	Private	*HoldCo financing*	Apr 2022	Undisclosed
Netherlands	Project Storage	Standard Investment	*Refinancing*	Mar 2022	Undisclosed
Netherlands	Project Alternator	Nordian Capital	*Acquisition Financing*	Mar 2022	Undisclosed
UK	pets at home	PLC	*Refinancing*	Mar 2022	£300m
UK	Qinecsa	Stanley Capital	*Acquisition Financing*	Mar 2022	Undisclosed
South Africa	IGNITION GROUP	Private	*Refinancing*	Mar 2022	$36m
France	MonVéta	Private	*Acquisition Financing*	Mar 2022	€105m
UK	Hurst Point Group	Carlyle	*Refinancing*	Mar 2022	Undisclosed
Netherlands	Project Jordaan	Inflexion Private Equi.	*Acquisition Financing*	Mar 2022	Undisclosed
Netherlands/US	Project Scout	Arcline	*Acquisition Financing*	Jan 2022	Undisclosed
UK	cushon	Private	*Refinancing*	Jan 2022	Undisclosed
Poland	empik	Empik	*Growth Financing*	Jan 2022	z53m
Ireland	JCD	JCD	*Refinancing*	Jan 2022	€120m
Netherlands	bamboo / Square	Project Seven	*Acquisition Financing*	Jan 2022	Undisclosed
Netherlands	cabman / PLAIN VANILLA	Project Levali	*Acquisition Financing*	Jan 2022	Undisclosed
Poland	Confidential	Private	*Growth Financing*	Dec 2021	€52m
UK	WILLIAMS ADVANCED ENGINEERING	EMK Capital	*Refinancing*	Dec 2021	£24m
UK	PUREGYM	LGP (Leonard Green Par.	*Preferred Equity*	Dec 2021	Undisclosed
Denmark	languagewire	Bridgepoint DC	*Acquisition Financing*	Dec 2021	Undisclosed
UK	Kids Planet	Kids Planet	*Acquisition Financing*	Dec 2021	Undisclosed
UK	Infront	Infront ASA	*Refinancing*	Dec 2021	Undisclosed

Credentials

Recent Deloitte Debt, Capital & Treasury Advisory Transactions

Country	Company	Transaction	Date	Amount
UK	Corcym UK (Holding) Li.	*Refinancing*	Dec 2021	Undisclosed
France	Groupe ACOME	*Refinancing*	Dec 2021	€130m
Ireland	Park Developments	*Refinancing*	Dec 2021	Undisclosed
Ireland	Seapoint Capital Partn.	*Refinancing*	Dec 2021	€102m
Ireland	Gem Group	*Growth Financing*	Dec 2021	€25m
Ireland	Lee Strand	*Dividend Recap*	Dec 2021	Undisclosed
Netherlands/Italy	The Student Hotel	*Hotel Development Fina.*	Dec 2021	Undisclosed
Netherlands	FINN	*Asset Based Financing*	Dec 2021	Undisclosed
Netherlands	Project Athena	*Acquisition Financing*	Dec 2021	Undisclosed
Belgium	Savaco	*Refinancing*	Dec 2021	Undisclosed
South Africa	Die Humansdorpse Koope.	*Debt Advisory*	Dec 2021	Undisclosed
UK	Maria Mallaband Care G.	*Refinancing*	Nov 2021	Undisclosed
UK	Cross Rental Services	*Acquisition financing*	Nov 2021	Undisclosed
UK	NA	*Under-Bidder Support*	Nov 2021	Undisclosed
Romania	Chimcomplex	*Refinancing*	Nov 2021	€90m
Ireland	West Cork Distillers	*Refinancing*	Nov 2021	€49m
Netherlands	Advanzia Bank	*Credit Card Securitisa.*	Nov 2021	Undisclosed
Belgium	Aldea	*Real Estate Financing*	Nov 2021	Undisclosed
UK	Shepherd Group	*Refinancing*	Oct 2021	Undisclosed
Netherlands/UK	City ID	*Hotel Development Fina.*	Oct 2021	Undisclosed
South Africa	Kerry Ingredients	*Transfer Pricing of De.*	Oct 2021	Undisclosed
UK	IFX	*Refinancing*	Sep 2021	Undisclosed
Netherlands	International Car Leas.	*Asset Based Financing*	Sep 2021	Undisclosed
Netherlands	Project Skipper	*Acquisition Financing*	Sep 2021	Undisclosed

Credentials

Recent Deloitte Debt, Capital & Treasury Advisory Transactions

Country	Company	Transaction	Date	Value
UK	Brunswick	*Refinancing*	Sep 2021	Undisclosed
UK	Equistone	*Lender Education*	Sep 2021	Undisclosed
Poland	Itaka	*Growth Financing*	Aug 2021	z13m
US/UK	Bruin Capital	*Acquisition Financing*	Aug 2021	Undisclosed
US/UK	GHO Capital	*Growth Financing*	Aug 2021	Undisclosed
Ireland	Gem Group	*Dividend Recap*	Aug 2021	€5m
UK	Zenith Group	*Securitisation*	Aug 2021	£550m
UK	Clearview	*Acquisition Financing*	Aug 2021	Undisclosed

Notes

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