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Market waits for uptick in European M&A, as lenders
prowl in the wings with eyes wide-open

Deloitte Private Debt Deal Tracker Autumn 2023



This issue covers data for the first half of 2023 and includes 256 new private debt deals.

This represents a 36% decrease in the number of deals from H1 2022, and a 26% decrease from H2 2022.

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Private Debt Deal Tracker: Introduction



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Private debt lenders
contributing to data



Deals completed
to date

Our Spring report struck a bearish tone on how we expected 2023 to shake out; further interest rate rises, a weak M&A market, and investor overexposure to private markets all likely to culminate in pressure on liquidity throughout the value chain. Deal values reported to us by our 76 contributors in the six-month period to June 2023 were certainly reflective of that, with 256 deals comparing to 401 in the equivalent period to June 2022, a 36% reduction overall. Whilst we await September month-end to begin collecting Q3 data, it feels unlikely that this trend will reverse, with the period traditionally marking a slower quarter due to the European summer holiday season. With a number of books prepared for release in September, Q4 has the potential to be busy, but it's unlikely that it can reverse what has been a poor year-to-date. Deals are also taking longer than they have traditionally – financing, for the most part, is tougher to arrange and investors are generally spending longer periods of time on diligence, so there is also the potential for some Q4 spillover into Q1 2024.

This is largely consistent across a range of other economic datapoints. Whilst inflation fell from a peak of 11.1% to 6.8% in July, and with an expectation that it is likely to only fall below 3.0% by next summer, the general macro picture is not particularly rosy. Europe's growth is weak, China's recovery has stalled, and oil prices have risen almost 20% in the last three months. The timeliest measure of economic activity, the purchasing managers' survey, suggests that after a second-quarter bounce, activity in the US and Europe flagged in June and July. The UK slowdown is most apparent in the housing market, with Nationwide reporting at the start of September that house prices fell by 5.3% over the last year. Similarly, the Financial Times reported the value of UK

residential mortgages in arrears jumped in the three months to June to their highest level in seven years. Outstanding balances in arrears — borrowers failing to make payments equal to at least 1.5% of the outstanding balance, or where the property is in possession — increased by 28.8% compared with the same period last year, to £16.9bn, the highest since the third quarter of 2016.

Financial markets think that interest rates are at, or near, their peak, but they do not expect a return to the very low rates seen before the pandemic. This can be seen in the bond market where yields on US ten-year government bonds have reached 4.2%, a level that has not been seen since 2008. This roughly corresponds to an expectation of the federal funds, or short-term interest rate, averaging 4.0% over the next ten years, compared with an average rate of 1.2% in the last ten years. The bond market is signalling that it expects interest rates to stay well above the sort of levels we have become accustomed to in the last decade or so. The other big bond market news was last month's decision by the credit rating agency, Fitch, to downgrade US government debt from AAA to AA+. Fitch explained that concerns about the quality of fiscal management – reflected in repeated standoffs over the US debt ceiling – and high levels of government borrowing were behind the decision.

On the political front, the accumulation of charges facing Donald Trump has not materially dented his poll ratings. He remains the front-runner for the Republican nomination, widening his lead over the summer against his main challenger, Ron DeSantis. An average of major national polls released since early July put Joe Biden on 46% of the vote and Donald Trump on 44%. In the UK, the Labour Party's opinion poll lead over the Conservative Party averaged 19%

over the summer, in line with readings in the previous 18 months. Based on August's polls, the website Electoral Calculus puts the probability of the Labour Party achieving a parliamentary majority at the next general election at 93%.

Back to the debt markets – according to LCD, primary loan markets re-opened with some momentum in September, with a suggested €10bn of supply waiting to hit the autumn market. New collateralised loan obligations ('CLOs') are being priced, and cautious optimism has returned, with the European Leveraged Loan Index up to 96 points. As a result, we might start to see some competition with the Private Debt market as larger deals creep back in the latter part of the year and into 2024. For now, however, Private Debt managers remain in one of two camps – those with little dry powder at their disposal whilst they raise new vehicles, and those with a more plentiful supply of capital but are more selective due to increased scrutiny at investment committee.

Those out on the fundraising trail also sit in one of two camps. Whilst there have been some noticeable successes for certain funds this year, pressures for all but the large blue-chip names remain. In the YTD period, direct lending funds have raised \$15.71bn in Europe, at an average size of \$748m, vs. \$44.31bn and \$1.5bn in FY22. On a run rate basis, 2023 Private Debt fundraising therefore looks set to be a disappointing year, though there are some whales in the market with the potential to drag that number up. Both CVC and Hayfin, for example, are currently in the market with similar targets around the €7bn level. The pace of fundraising is also now markedly slower than history dictates. So far this year funds are, on average, taking 26 months to hit final close, in contrast to a longer-term average of 16 months, and a historical low of 8 months.

Similarly, on average, funds are reaching 90% of their target size at final close, versus a longer-term average of 105%, and a high of 131%. To illustrate the point, some of the less established funds – for example those raising their third vehicle – are coming up as much as 25% short of target, supporting our thesis that established managers will continue to capitalise on pre-existing relationships, as investors look set to allocate more cautiously.

So, whilst deployment is down and fundraising, for the most part, is more challenging, the irony is that the last couple of years could mark the best vintages for the asset class from a returns perspective. What is also fascinating (but not completely unexpected) is that returns between the Private Equity and Private Debt asset classes are converging. According to Preqin, the best funds in the asset class are now within 130 basis points of the average Private Equity fund. This will drive investors to rethink near-term allocations carefully. The flip side, however, is that despite stronger returns, CIOs are likely being kept up at night by fears of debt serviceability. The question is: to what extent will interest rates drive further defaults, offsetting record vintages? Whilst we are seeing a number of defaults across the board, including assets in what-are-typically-considered stronger sectors in the market, how many is too many before it becomes an issue? Again, this is where the larger managers win, with a higher capacity to absorb credit losses whilst staying within an acceptable range to end-investors.

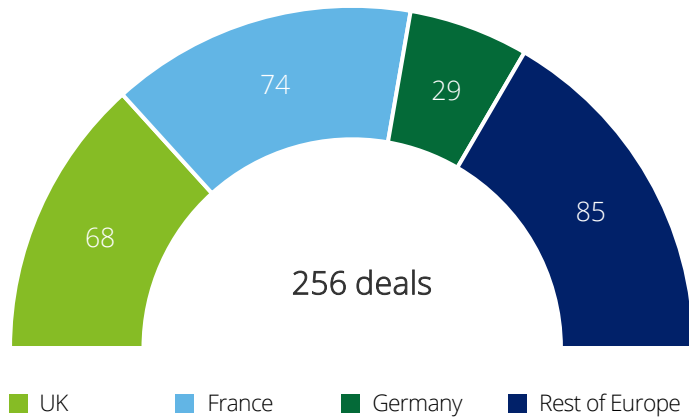
Where next? Well, we were misquoted recently, suggesting that the risks in leveraged lending had merely been shifted from one part of the market (banks) to another (funds). Whilst there is some truth in this, the missing context is that we feel the latter part of the market is better equipped to

weather a storm, should there be one. Private Debt funds, for the most part, are closed ended, long-dated structures. When the going gets tough, banks are typically forced sellers of distressed loans, and end up taking a discount to par value. Whilst largely untested, the likelihood is that a private credit manager can trade through the cycle, injecting additional liquidity if required and return par value, or better.

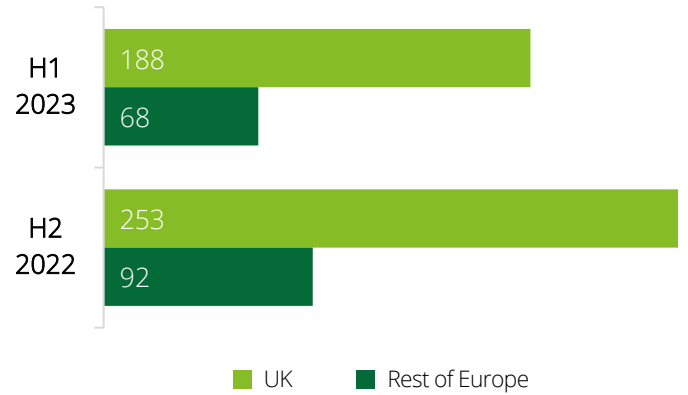
OK, so the Private Debt market is built on longer term funding platform, but aren't they leveraged too? Certainly, but we should remember that banks were, and remain, more-leveraged than any private debt fund with a subscription line and a NAV facility. And for there to be losses in debt, there's an awful lot of equity to burn through. Despite increasing leverage, equity cushions as a percentage have remained pretty firm. So, it's all good, right? Well, never say never. COVID wasn't a real test, so we are hesitant to conclude that the market is rock solid. After all, you don't know what you don't know.

But we would hazard a guess that the asset class as a whole will largely remain resilient. The real risk is that returns reduce across both the Private Equity and Private Debt asset classes. If credit scrutiny continues to increase, then refinancing becomes more difficult, resulting in the need for sponsors to inject more equity into deals, reducing their ability to compete in new processes, and eventually reducing their returns. And if returns are getting squeezed then the amount the end investor can re-invest in new deals is likely to stagnate or reduce. So, much like in our Spring 2023 edition of the Deal Tracker, it all comes back to liquidity – liquidity at the borrower, fund and end-investor level, and all of those levels may not be in such a harmonious balance as they have been subject to in the last decade.

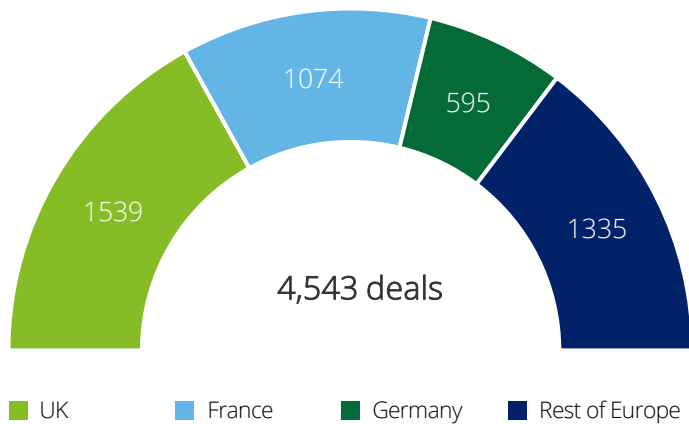
Total deals reported in H1 2023



H1 2023 vs. H2 2022 Comparison



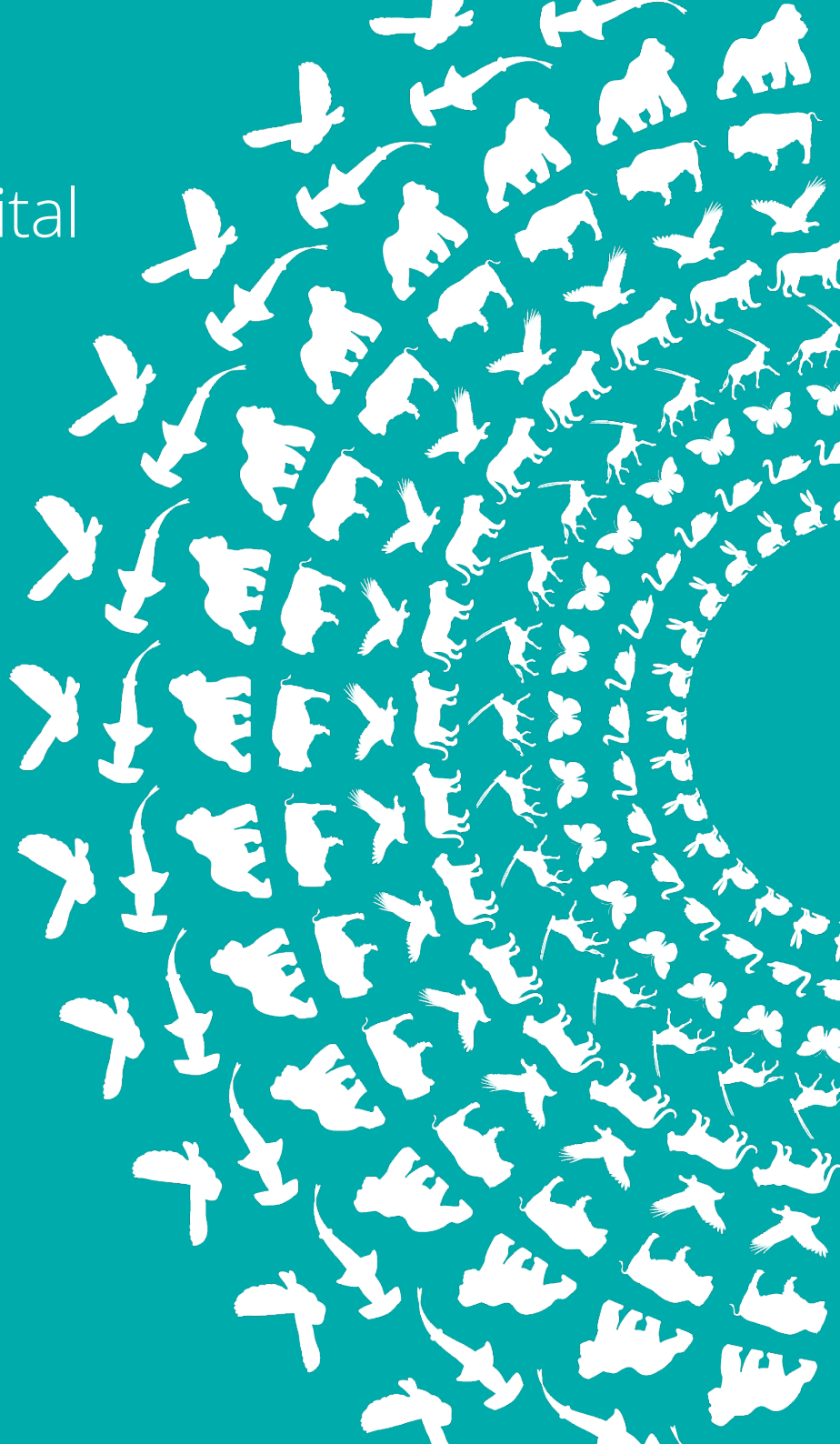
Total deals reported since Deal Tracker inception



Borrowers access private debt to power growth

Businesses rely on access to growth capital, yet due to risk appetite and stringent regulation, banks are more constrained. Bringing in alternative and flexible capital allows companies to grow, yet the market can be overwhelming with numerous complex loan options offered to borrowers. Private debt lenders can offer effective rates with little or no equity dilution of your business, enabling businesses to make acquisitions, refinance bank lenders, consolidate the shareholder base, and grow activities.

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Marie-Sophie Naessens
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Debt and Capital Advisory Credentials

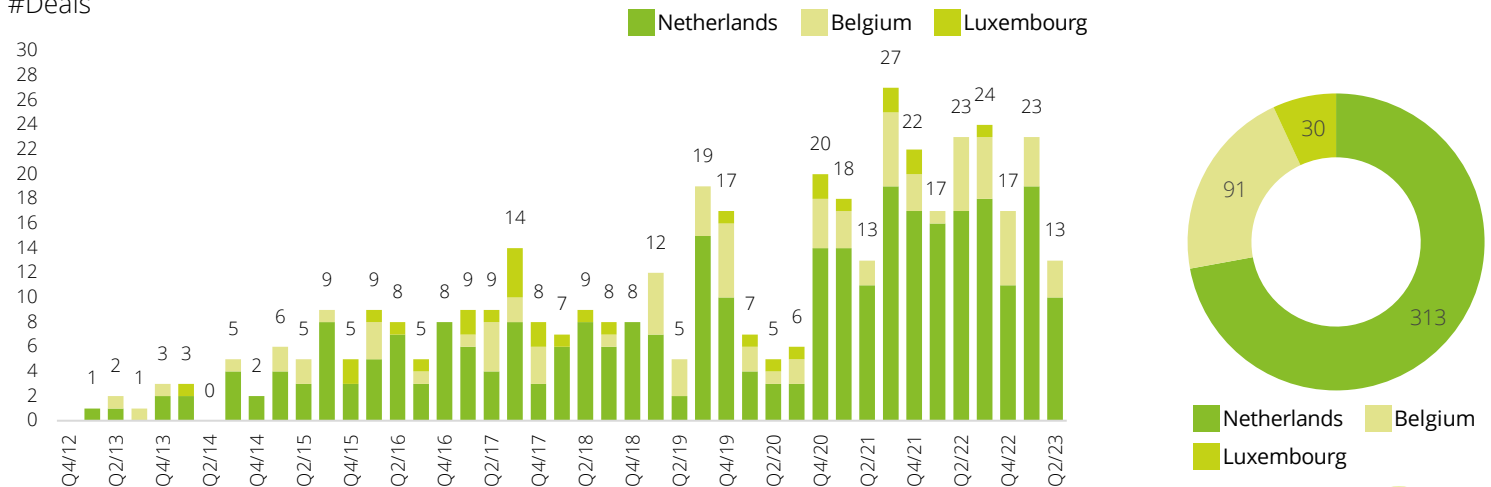
Recent Debt and Capital Advisory Transactions The Netherlands and Belgium

<p>Group de Ceuster Acquisition financing</p> <p>2023 Undisclosed</p> <p>Netherlands</p>	<p>Icelake Acquisition financing</p> <p>2023 Undisclosed</p> <p>Netherlands</p>	<p>Avedon Acquisition financing</p> <p>2023 Undisclosed</p> <p>Netherlands</p>	<p>Gilde Equity Managem. Acquisition financing</p> <p>2023 Undisclosed</p> <p>Netherlands</p>	<p>Smile Invest Acquisition financing</p> <p>2023 Undisclosed</p> <p>Netherlands</p>	<p>Strada Acquisition financing</p> <p>2023 Undisclosed</p> <p>Belgium</p>
<p>Nordian Acquisition financing</p> <p>2023 Undisclosed</p> <p>Netherlands</p>	<p>Bassac Acquisition financing</p> <p>2022 Undisclosed</p> <p>Belgium</p>	<p>3d_investors Acquisition financing</p> <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Gilde Healthcare Acquisition financing</p> <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>IceLake Acquisition financing</p> <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Wajer Yachts Lender education</p> <p>2022 Undisclosed</p> <p>Netherlands</p>
<p>Smartfin Acquisition financing</p> <p>2022 Undisclosed</p> <p>Belgium</p>	<p>BB Capital Acquisition financing</p> <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Core Equity Holdings Acquisition financing</p> <p>2022 Undisclosed</p> <p>Belgium</p>	<p>BearingPoint Caribb. Refinancing</p> <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>EAG Acquisition financing</p> <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Bluecrux Refinancing</p> <p>2022 Undisclosed</p> <p>Belgium</p>
<p>Capital A Refinancing</p> <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Airborne Growth financing</p> <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>NPM Capital Acquisition financing</p> <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Strikwerda Investments Acquisition financing</p> <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Bencis Capital Partners Acquisition financing</p> <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Around Refinancing</p> <p>2022 €50m</p> <p>Belgium</p>
<p>Rivean Capital Acquisition financing</p> <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Nordian Acquisition financing</p> <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Dijkstra Draisma Lender education</p> <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Standard Investment Refinancing</p> <p>2022 Undisclosed</p> <p>Netherlands</p>	<p>Inflexion Acquisition financing</p> <p>2022 €105m</p> <p>Netherlands</p>	<p>Arcline Acquisition financing</p> <p>2022 Undisclosed</p> <p>Netherlands</p>

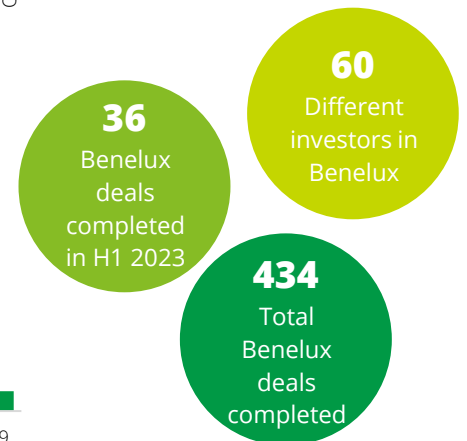
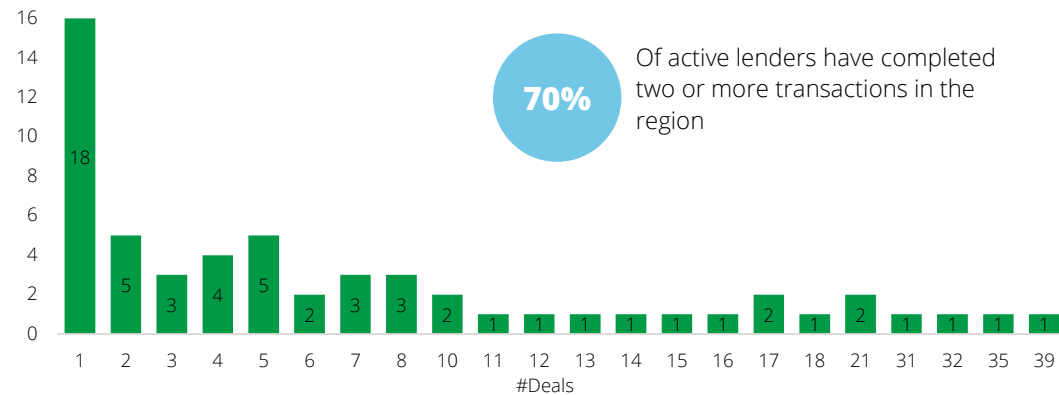
The interest of alternative lenders in the Benelux market has remained resilient in the first half of 2023

Private Debt Deal Tracker

#Deals



Deals completed by survey participants

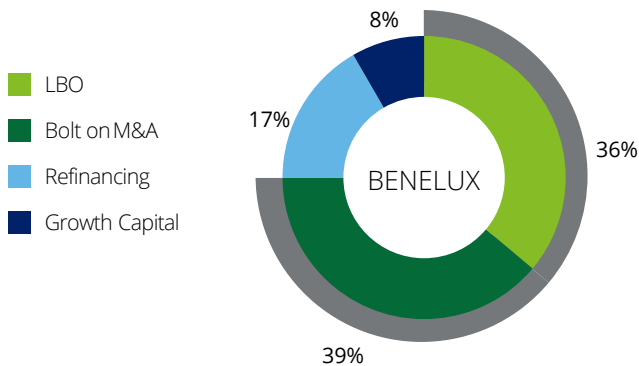


Source: Deloitte Analysis

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

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

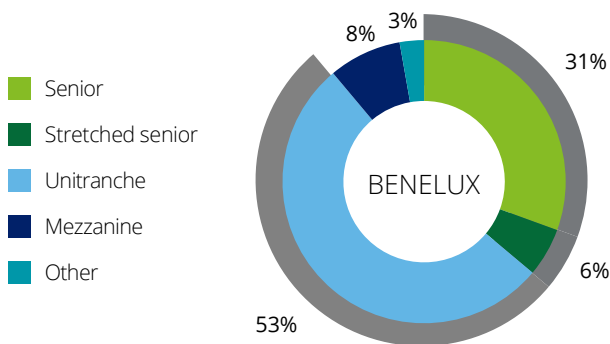
Deal purpose (H1 2023)



The majority of deals in the Benelux region in H1 2023 were M&A related (75%), up from 61% in 2021. This is slightly higher than the levels in the UK and the rest of Europe where 70% of transactions were M&A related.



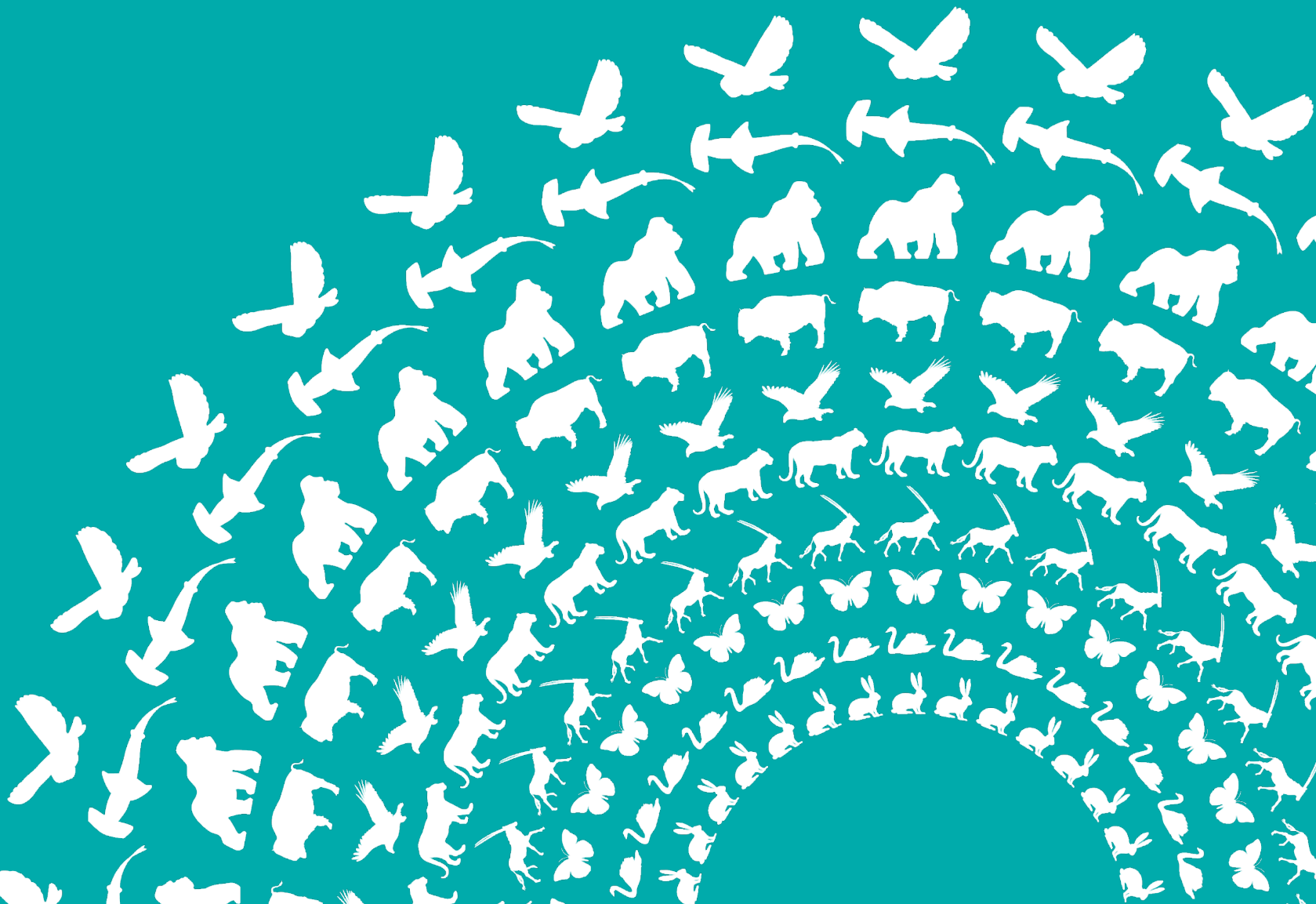
Deal structures (H1 2023)



The majority of deals in the BENELUX region in H1 2023 were structured as First lien solutions (89%). This is higher than the rest of Europe where 83% of transactions were structured as First lien solutions.



Mitigating Interest Rate Risk in an Uncertain Environment



Mitigating Interest Rate Risk in an Uncertain Environment

Interest rates are expected to peak in the coming months; how have markets reacted to restrictive monetary policy?

'As you will understand, my pre-occupation at the moment is inflation' - Andrew Bailey, Governor of the Bank of England (10 July)

Reflections from the past 12 months – what has happened in the markets?

It is of no secret that borrowing costs have risen dramatically since the Bank of England (“BOE”) became the first mover among G10 central banks in December 2021, raising rates at the time by 15 basis points. 14 consecutive rate hikes later and the BOE stand on the precipice of taking rates to levels last seen before the Global Financial Crisis.

Cut and paste that narrative across G10 monetary policymakers – less the Bank of Japan – and jargon like “covenants”, “default” and “hedging costs” have steadily become more commonplace and concerning. However, one of the key differences between these economies is the near-term path of interest rate expectations which has subsequently driven a divergence in Interest Rate hedging costs.

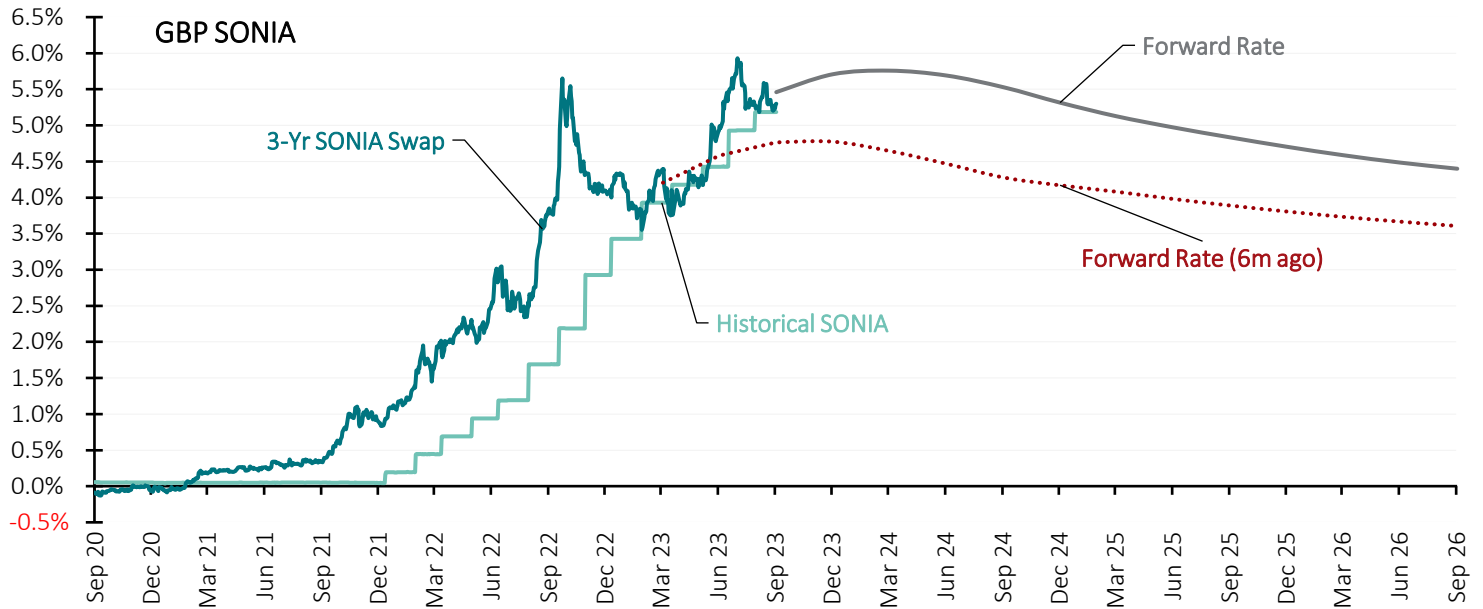
The US and EU central banks hinted the end of their respective hiking cycles is fast approaching; markets attribute only a 44% probability of a further +25bps raise from the Fed by year-end, for example. Although markets have positioned themselves for little further rate action in the US and EU, the precedence placed on key macroeconomic releases has risen, in line with increased scrutiny on inflation and GDP figures – heightened data dependency often precedes elevated volatility.

Where does that leave us today? As the chart on the following page shows, SONIA rates have risen over 500bps since December 2021. Significantly, markets are still expecting a further 50bps of hiking from the BOE by Q1 2024, driving elevated financing costs for would-be Sterling borrowers.



Reflections from the past 12 months – what has happened in the markets? *(continued)*

Source: Refinitiv, 06 September 2023



Persistent core inflation, as demonstrated by August's data reflecting year-on-year levels at 6.9%, unchanged from the month prior and only 0.2% lower than the June print, shows inflationary pressures are becoming entrenched in the broader UK economy. Couple this with ongoing wage growth – which again hit record highs in the three months to July – and monetary policymakers face a significant conundrum for the future path of UK rates.

Nevertheless, the market's swap pricing for interest rates is downward sloping for the UK, US and Europe. This itself carries several considerations – outlined below – for floating rate-exposed companies, as the path for future rates is arguably not as clear cut as it was this time last year.

What does the current environment mean for the non-bank lending market and how has this developed in the last year?

Naturally, in a rising rates environment, concerns specific to debt covenants and the risks of default have led to a heightened importance placed on interest rate hedging discussions. In the earlier part of 2023 market expectations were that rates were close to their expected highs; many clients purchased Caps which would allow a benefit of paying lower interest should rates fall, as was perhaps the expectation – or hope. Rates, however, continued to climb and the current situation is not dissimilar, with markets pricing in a drop in GBP rates from Q2 2024. As Interest Rate Caps price in the cost of volatility in future rate movements, such hedge products were relatively expensive, often causing Cap strikes to be placed significantly out-the-money to reduce premia. Nowadays, volatility, thus Cap premia, has fallen, as markets perceive the end is in sight for this monetary tightening cycle. This makes Caps a more price attractive hedging instrument than just a few months ago.

Intriguingly, the anticipated fall in rates brings Interest Rate Swaps back into scope, as fixing debt exposure for UK, US and EU markets for ~5 years not only provides cash flow certainty, but also comes at a discount to current floating rates. As interest rates are expected to fall in the coming years across each of these jurisdictions, a 5-year Swap captures the fall in the forward curve, bringing the fixed rate below current daily fixings.

As private credit continues to expand as an asset class, alongside rates that have risen ubiquitously in the last 18 months, the need to hedge floating rate debt has become more critical amid rising borrower demand for protection. However, alternative lenders are typically limited in their ability to offer hedging products, and hence the borrower must look either to incumbent banking relationships or to external counterparties for support. In this example, traditional hedge counterparties lack the security of the underlying loan (AKA they are orphaned to the debt), thus have a reduced product pool available to would-be hedgers. Pertinently, Interest Rate Swaps – naturally more credit intensive than optionality – are less common in private credit-backed deals, ensuring focus has remained on Caps as the market has developed during this cycle.

Deloitte Hedging Advisory

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

About the Authors

Harry Woolman has 4 years' financial market experience, having devised, and executed billions of dollars' worth of hedging programmes, helping fund-level and corporate clients mitigate FX and Interest Rate risk.



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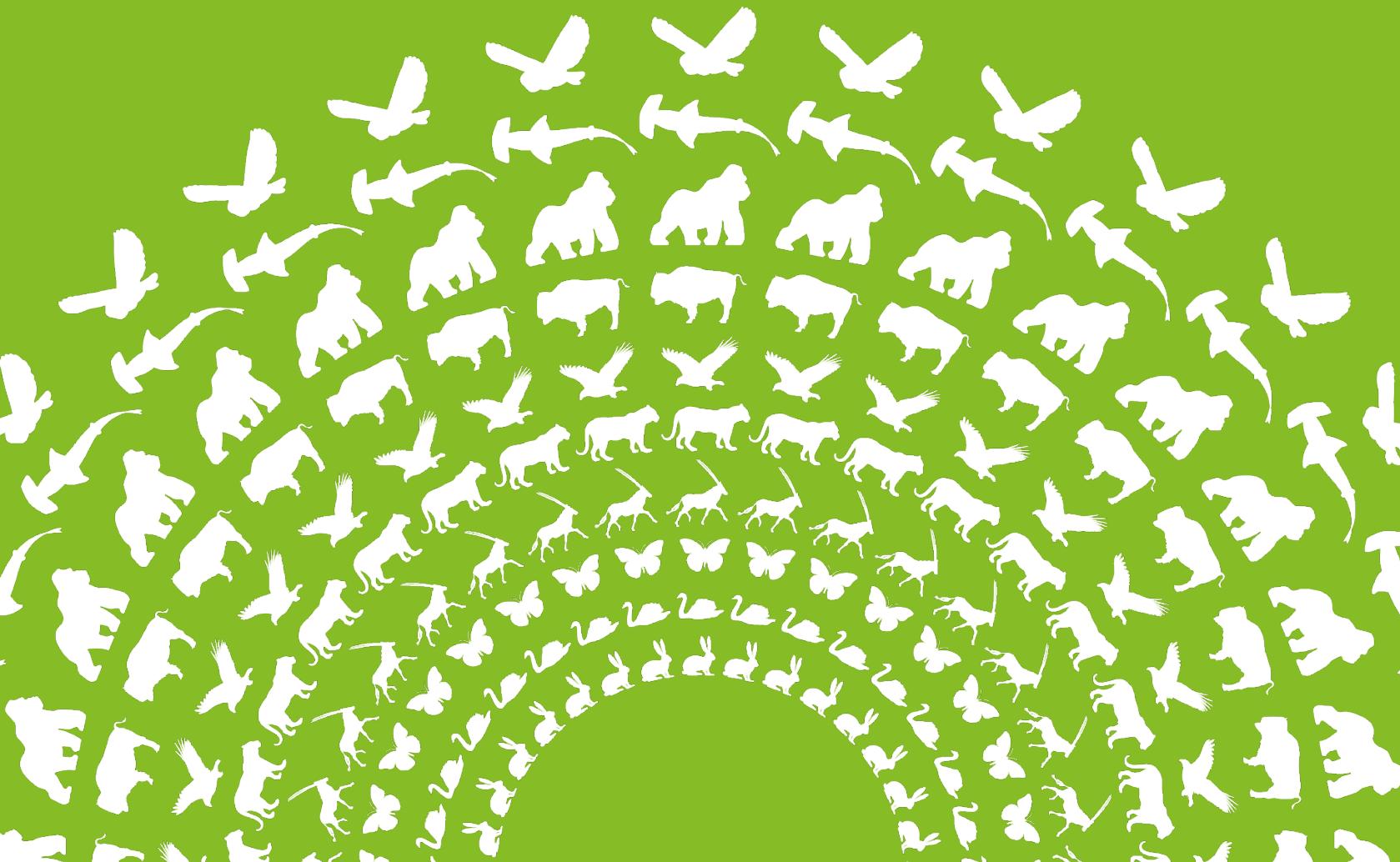
Paolo Esposito set up and leads the Hedging Advisory team at Deloitte. He has over 20 years' experience in treasury and hedging functions, having advised global Private Equity funds and corporates on the management of their financial risks.



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Private Debt Deal Tracker

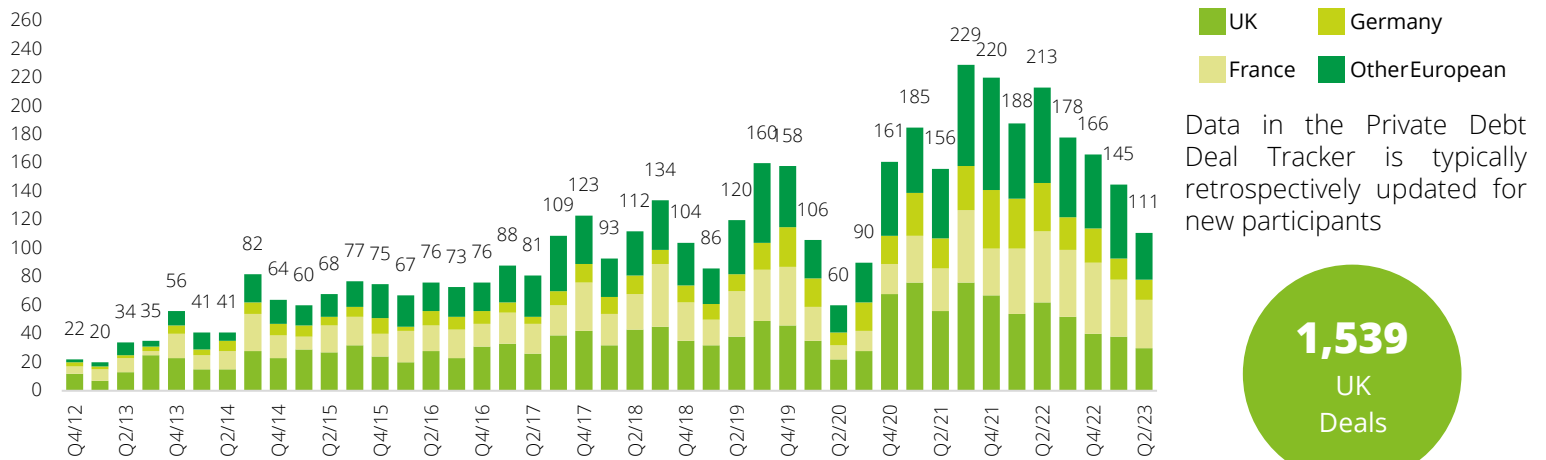
H1 2023 Deals



The Private Debt Deal Tracker now covers 76 lenders and a reported 4,543 deals

Private Debt Deal Tracker

Currently covers 76 leading private debt lenders. Only UK and European deals are included in the survey.



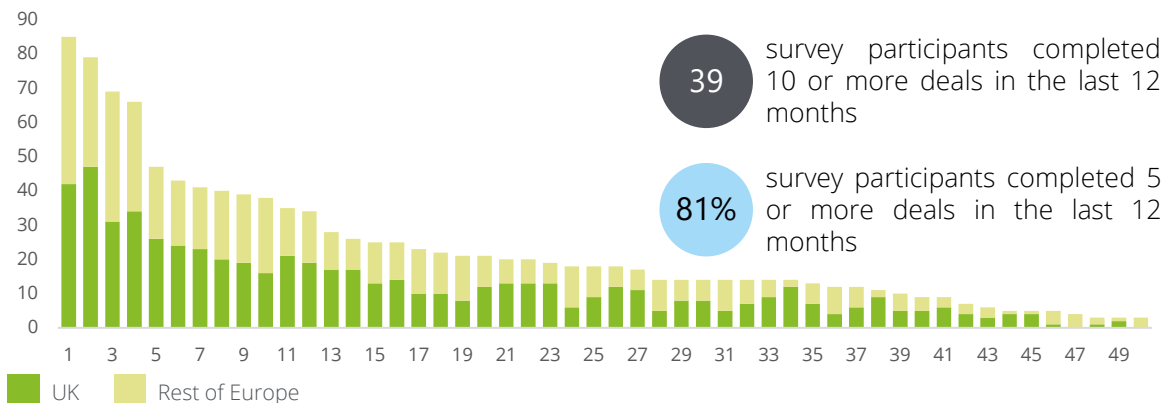
Data in the Private Debt Deal Tracker is typically retrospectively updated for new participants

1,539
UK Deals

3,004
European Deals

4,543
Total Deals

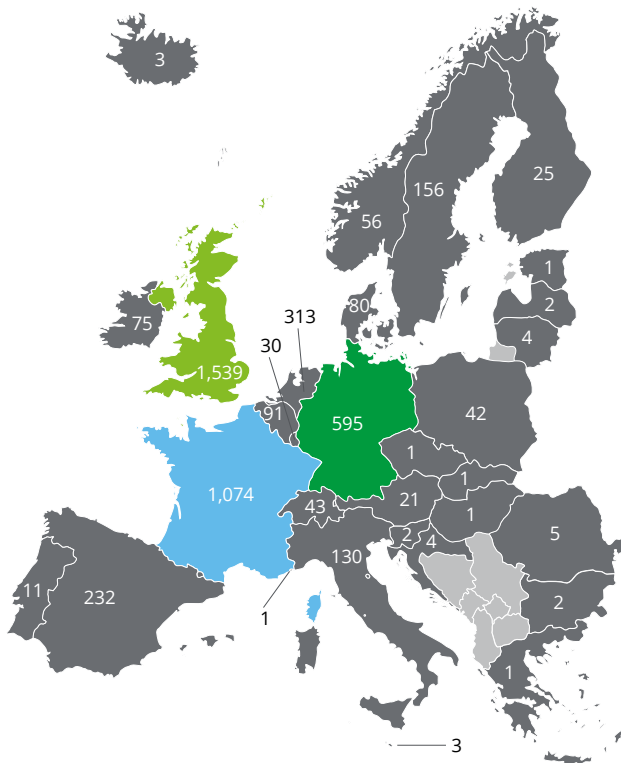
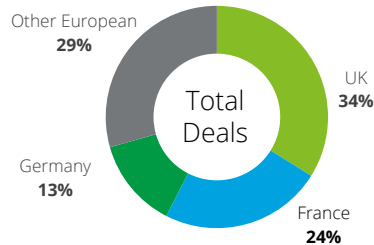
Deals completed by survey participants (Last 12 months)



Private debt lenders increasingly seeking to diversify geographies

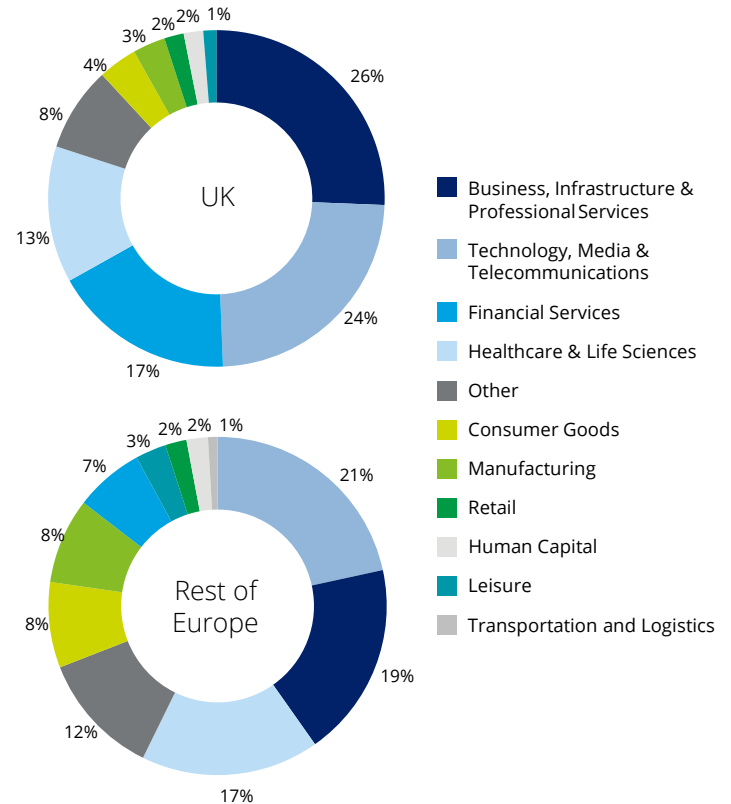
Total deals across Europe

In the last 43 quarters 4,543 (1,539 UK and 3,004 other European) deals were recorded in Europe



Total deals across industries (Last 12 months)

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

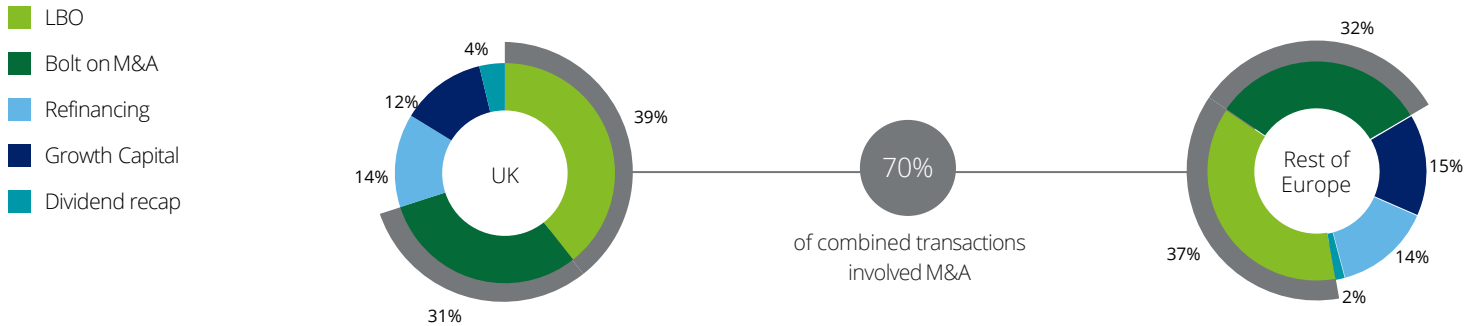


Across the rest of Europe, private debt has typically been concentrated across four industries: *TMT*, *Business, Infrastructure & Professional Services*, *Healthcare & Life Sciences* and *Financial Services*.

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

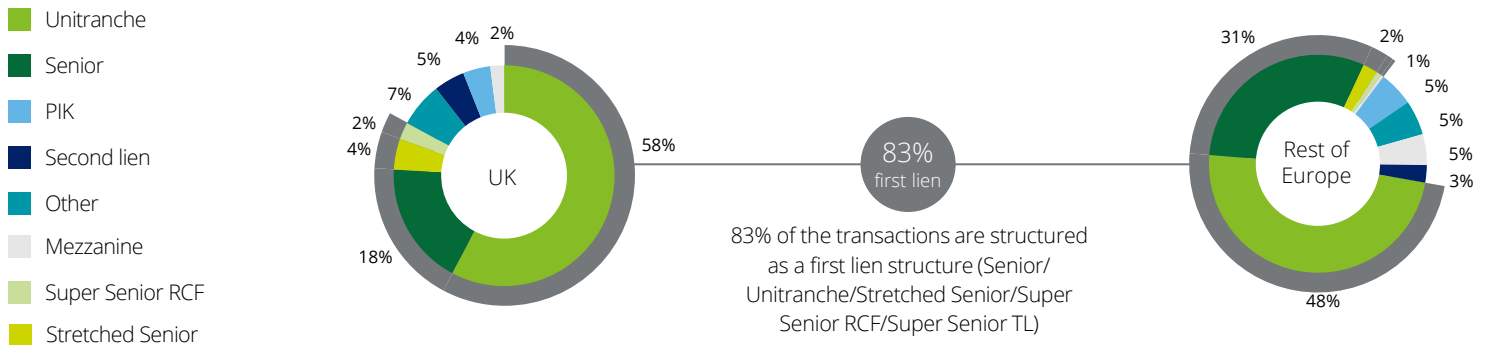
Deal Purpose (LTM)

The majority of deals remain M&A focused, with 69.5% of activity revolving around an acquisition. Of the 600 deals in the last 12 months, only 75 did not involve a private equity sponsored asset.



Structures (LTM)

Unitranche is the dominant structure, representing 58% of UK transactions and 48% of European transactions. Subordinate structures represent only 17% of total transactions.



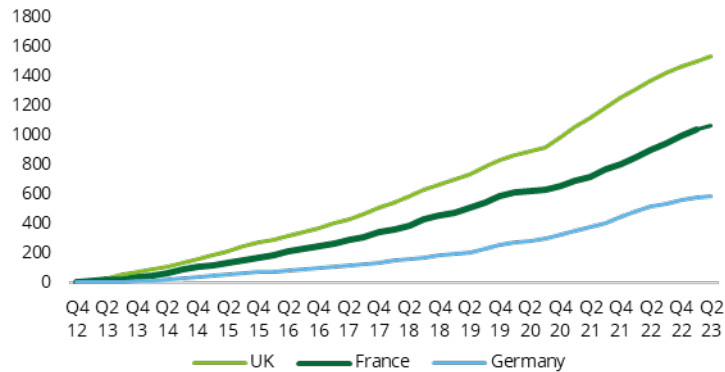
*For the purpose of the deal tracker, we classify senior only deals with pricing L + 650bps or above as unitranche. Pricing below this hurdle is classified as senior debt.

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

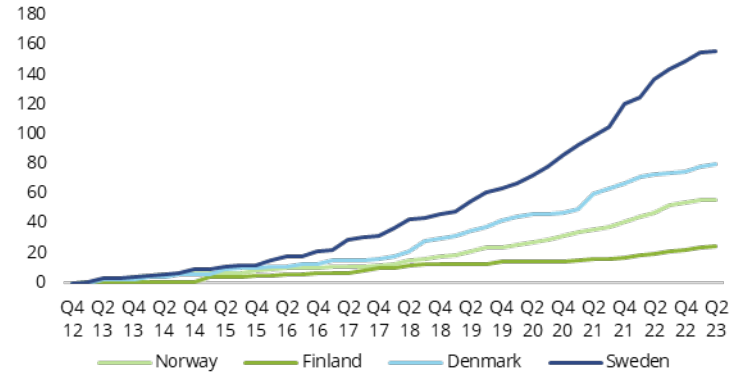
Cumulative number of deals per country

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

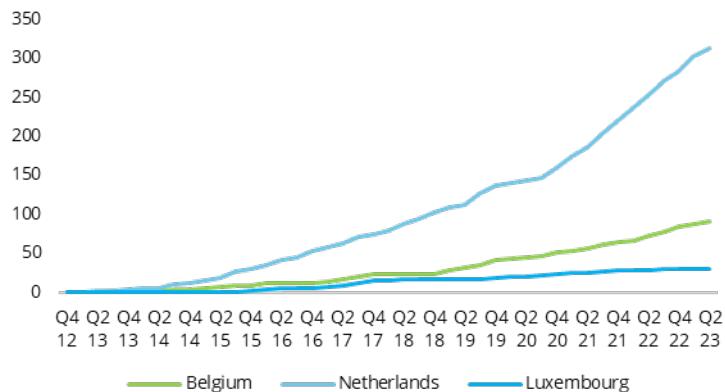
Largest geographic markets for Private Debt Lenders



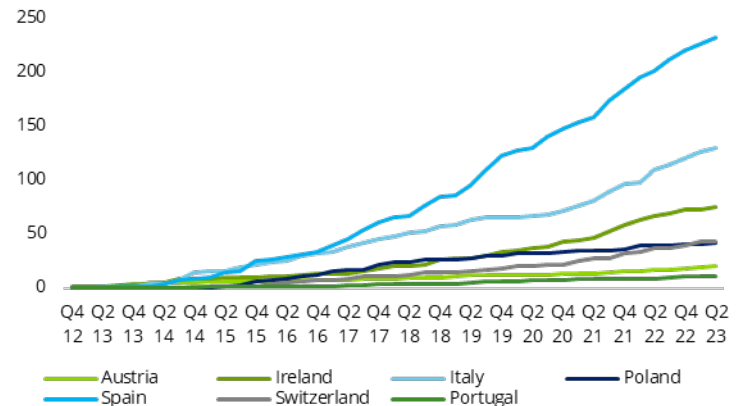
Nordics



Benelux



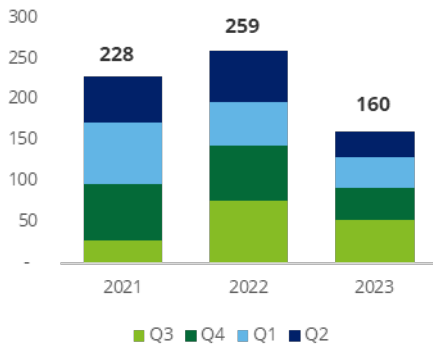
Other European



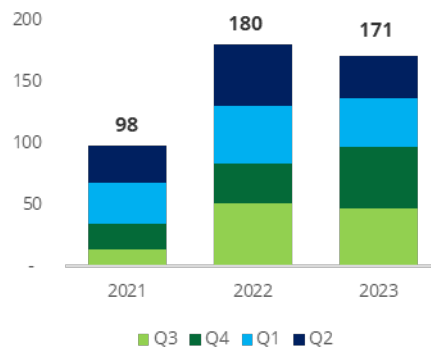
...however, its prevalence has slowly declined over time following stiff competition for new opportunities in other European jurisdictions

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

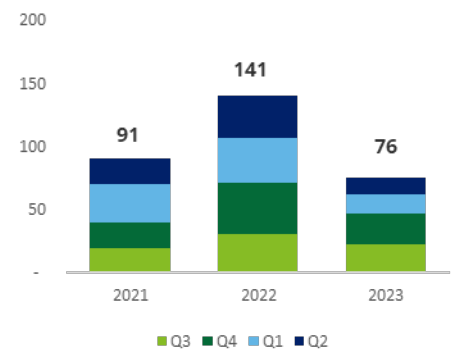
UK (LTM June)



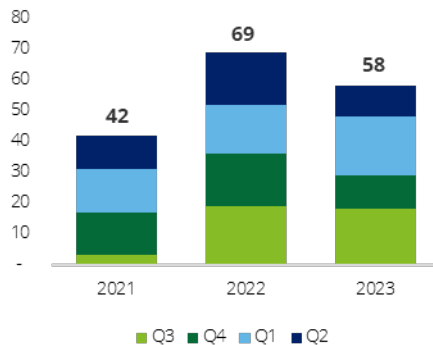
France (LTM June)



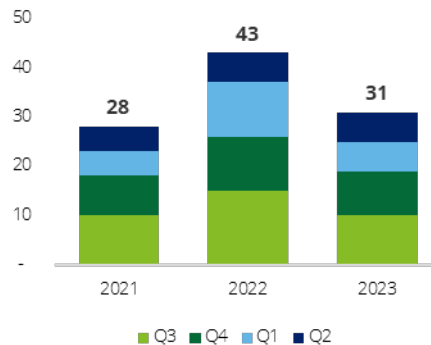
Germany (LTM June)



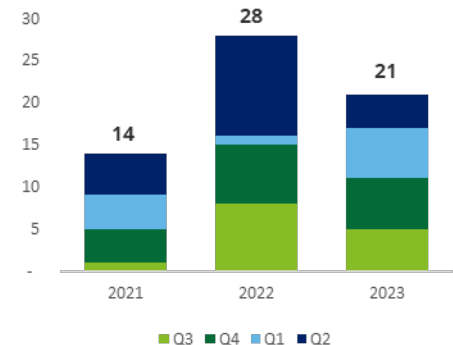
Netherlands (LTM June)



Spain (LTM June)



Italy (LTM June)



Landmark unitranche deals reported since Deal Tracker inception

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

Borrower	Country	Unitranche in €m	Private Debt Lenders	Sponsor	Date
Access	UK		Park Square, SMBC, Bain, Blackstone Credit, Apollo, HPS, Arcmont, CVC	✓	Jun-22
Envalior	Germany		CVC, Pemberton	✓	May-23
ISP	Spain		Arcmont, Macquarie, SMBC	✓	Jul-21
ETC	France		Pemberton, CVC	✓	Oct-22
FNZ	UK		Goldman Sachs, HPS Partners, Arcmont, Hayfin, Bain	✓	Dec-21
Ardonagh	UK		Ares, KKR	✓	Jun-20
CFC Underwriting	UK		Park Square, KKR, Blackstone Credit	✓	May-22
Dechra	UK		Guggenheim	✓	Jun-23
Fortenova	Croatia		HPS	-	Sep-19
Corden Pharma	Germany		Arcmont, MV Credit, SMBC	✓	Aug-22
PIB	UK		KKR, Apollo, Bain	✓	Mar-21
Hermes UK	UK		KKR	✓	Jul-21
Fidelis	UK		Blackstone Credit	✓	Jan-23
IRCA	Italy		Carlyle, CVC, Goldman Sachs	✓	Sep-22
Envirotainer Ltd	Sweden		Blackstone Credit, CVC, Goldman Sachs, KKR	✓	Jul-22
IVIRMA	Spain		Park Square, SMBC, Guggenheim	✓	Sep-22
April	France		Park Square, Apollo, CVC	✓	Dec-22
Davies	UK		Blackstone Credit	✓	Aug-21
European Camping Group	France		Ares, Tikehau	✓	Sep-21
One.com	Sweden		CVC, MV Credit	✓	Apr-23
Phenna	UK		Arcmont	✓	Dec-22
Doc Generici	Italy		CVC, KKR, Blackstone Credit, HPS	✓	Oct-22
Sanoptis	Germany		Arcmont, Barings	✓	Jul-22
Azets	UK		Hayfin, Deutsche, Permira	✓	Oct-22
Neopharmed Gentili	Italy		Macquarie, Arcmont, CVC	✓	Mar-23
Acrotec	Switzerland		Blackstone Credit, CVC	✓	Apr-23
SumUp	Germany		Bain Capital, Goldman Sachs Private Debt	-	Feb-21
Industria Chimica Emiliana Srl	Italy		KKR	✓	Sep-19
Daisy	UK		Ares	-	Jan-19
Parkdean	UK		Ares	✓	Mar-23
Sykes Holiday Cottages	UK		Ares	✓	Apr-22
Forterro	Sweden		Arcmont, CVC, Blackstone Credit, Macquarie	✓	Jul-22
Polynt Reichhold	Italy		Blackstone Credit	✓	May-16
Trescal	France		KKR, Park Square, Apollo, CVC	✓	Mar-23
Flowbird	France		Arcmont, Ares	✓	Nov-21

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

Add-ons

Landmark unitranche deals reported since Deal Tracker inception

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

Borrower	Country	Unitranche in €m	Private Debt Lenders	Sponsor	Date
BMS	UK		Ares	✓	Mar-23
Odealim	France		Arcmont, Goldman Sachs Private Debt, Macquarie	✓	Sep-22
Theramex	UK		CVC	✓	Aug-22
ASPI	Italy		Blackstone Credit	✓	Apr-22
Vizrt	Norway		Blackstone Credit	✓	Mar-22
Madison	UK		Carlyle	✓	Mar-23
Acuris	UK		HPS	-	Sep-19
Questel	France		SMBC, Park Square, Barings, Bridgepoint, Capza	✓	Dec-20
Zenith	UK		Goldman Sachs	✓	Mar-17
ION Corporates	Ireland		HPS	-	Sep-19
Unither	France		Barings, Arcmont	✓	Mar-23
Open Health	UK		CVC, MV Credit	✓	Sep-22
Audiotonix	UK		Alcentra, Arcmont	✓	Sep-22
A2Mac1	France		Macquarie, Arcmont	✓	Mar-23
DWS	UK		Ares	✓	Dec-20
Outcomes First Group	UK		Barings, HPS, Five Arrows, CVC, Apollo	✓	Sep-19
WFC	France		Barings	✓	Nov-18
Kyriba	France		Sixth Street	✓	Apr-19
Ocorian / Estera	UK		Ares	✓	Jan-20
IDH Group	UK		Ares	✓	May-21
TES Global	UK		Macquarie, Bain, Deutsche	✓	Dec-21
QSPR	Germany		Ares	✓	Mar-20
Acqua & Sapone	Italy		Pemberton, Carlyle	✓	Oct-21
HKA	UK		Park Square, SMBC, KKR	✓	Sep-22

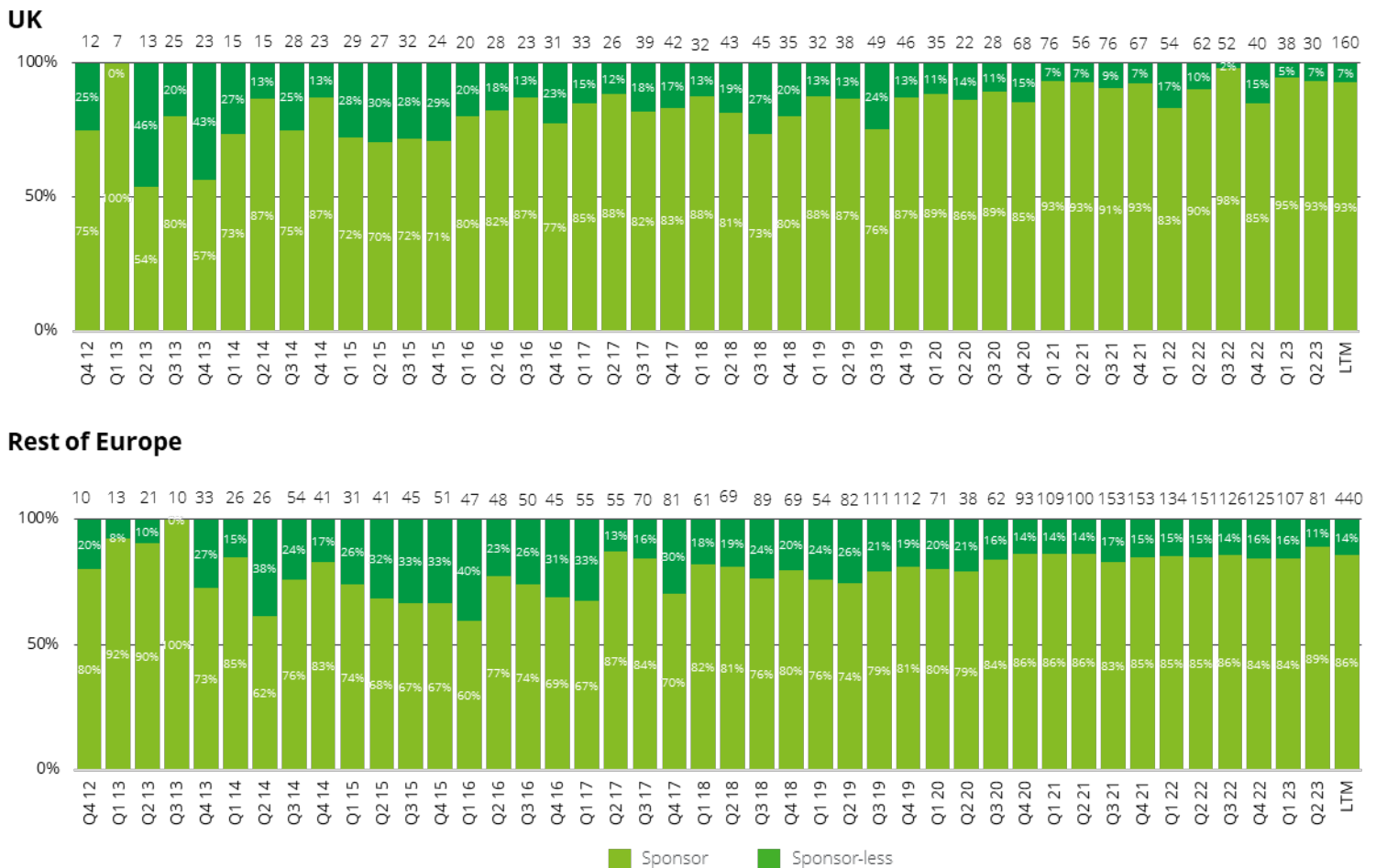
- 1,000 2,000 3,000 4,000 5,000

Add-ons

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

Sponsor backed versus private deals

As % of total deals per quarter



Why Cash Matters



The importance of cash flow optimisation for Private Equity portfolio companies and debt financing partners

Introduction

2021 saw a surge of \$1.3 trillion worth of private equity deal activity, post the period of COVID-19 turbulence in 2020, which temporarily halted deal activity and fund raising. This surge was partially attributed to a backlog of delayed sales processes in 2020 and an increasing proliferation in private capital. We then saw a slowdown in 2022, with the total value of the global M&A market falling by 37%, after the all-time high in 2021. Global PE deal values in Q1 2023 saw a marked decline from the equivalent period last year (\$92b vs. Q1 2022= \$240b), as PE houses today continue to face strong macroeconomic headwinds.

Interest rates remain on a short-term upward trend (albeit expected to decelerate and taper in the medium term according to 3-month SONIA), having increased up to ten times across major western markets in the past 18 months. Despite improved consumer confidence in household disposable income in Q1 2023, consumer spending remains cautious against the backdrop of inflationary pressure.

The June 2023 Deloitte Global Consumer Tracker saw an increase in cost-saving behaviours in those surveyed, with 73% of UK respondents saying that they were 'most concerned' with inflation. The days of cheap capital are long gone, with the average cost of debt at least doubling in the

past 12 months. Alongside this, businesses continue to grapple with a challenging labour market due to scarcity of the right capabilities.

Despite having to manoeuvre increasing constraints in the financing environment and coping with longer hold times, PE houses' goals have not changed across portfolio companies: deploy capital and expertise to drive profitable and cash generative growth.



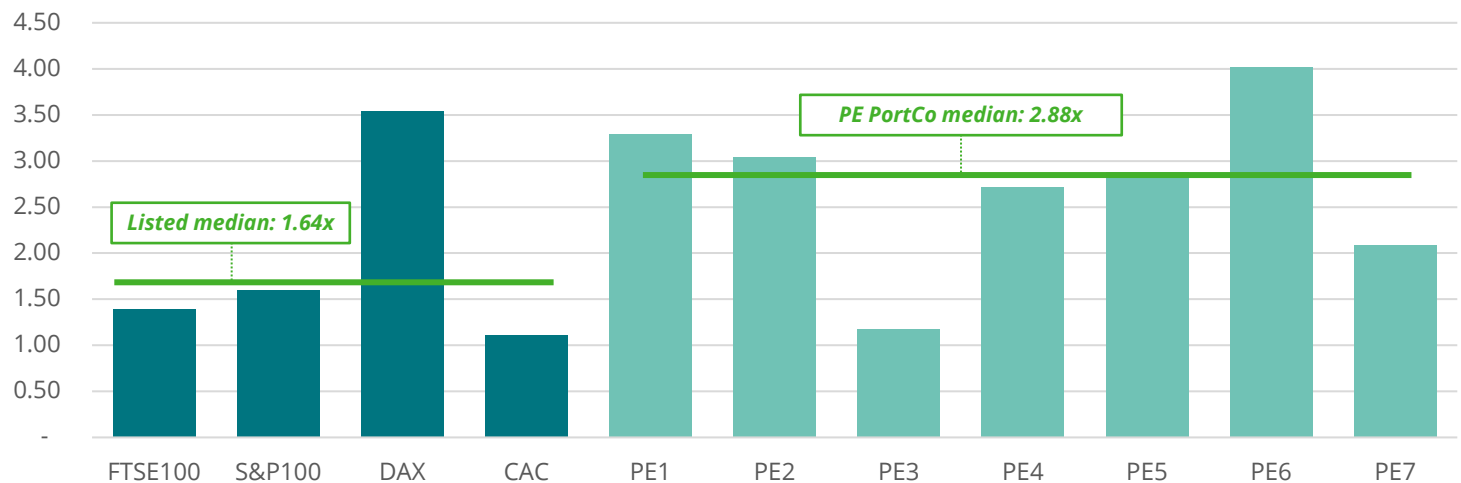
Why does cash matter (more) today?

Highly levered businesses

PE portfolio companies tend to be highly levered. As evidenced by **Figure 1**, Net Debt as a proportion of EBITDA for listed businesses at 1.64x is c.40% lower than that of PE portfolio companies at 2.88x. More leverage in the currently-high interest rate environment directly translates into significantly higher interest expenses and, consequently, pressure on cash flows. This explains why we are seeing a notable reduction in the amount of leverage that private debt financiers are willing to place on assets – in the past 12-18 months, debt capacity has been depressed by, on average, 1.0-1.5x of leverage across the board.

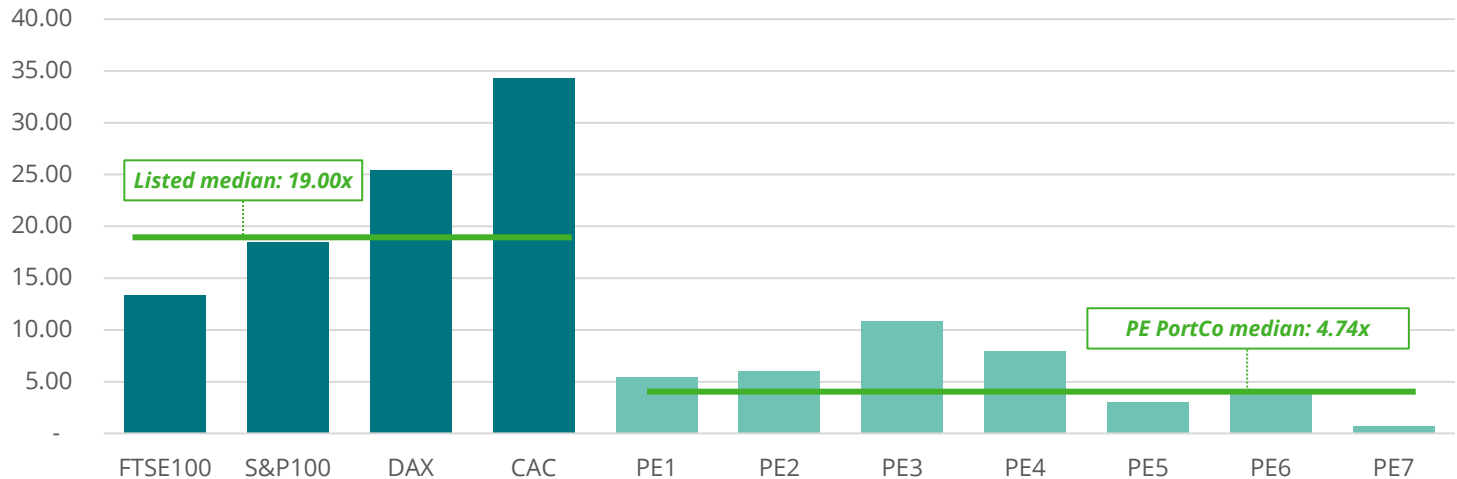
Figure 2 shows that listed businesses have an EBITDA of c.19x their interest expense. However, PE portfolio companies have significantly less wiggle room, as their EBITDA is only c.4.74x their interest expense. With the increasing cost of debt, many of these businesses could find themselves at risk of breaching debt covenants and potentially facing a liquidity crisis, putting pressure on debt serviceability. As ever, cash is king!

Figure 1: Net Debt to EBITDA by PE compared to Top 10 FTSE100, S&P100, DAX and CAC



Why does cash matter (more) today?

Figure 2: Interest cover – median values by PE compared to Top 10 FTSE100, S&P100, DAX and CAC



Value leakage due to cash & working capital inefficiencies

As PE portfolio companies embark on their growth journeys post-initial acquisition, we often see that sponsor focus on rapid expansion, whether organic or inorganic, naturally outpaces the development of supporting commercial processes, capabilities and controls. Many portfolio companies subsequently lack the short-term infrastructure necessary to identify and control cash & working capital inefficiencies, with efforts concentrated primarily on revenue and EBITDA growth. This can result in imperfect visibility into financial and operational performance, ultimately leading to a gap in understanding the origins of cash flow leakages.

Balance the focus on cash and EBITDA

Additionally, investors' tendency to focus on EBITDA multiple as a valuation measure of a business, as opposed to the more traditional Discounted Cash Flow (DCF) metric, means that many businesses are less sophisticated in their understanding of operational tactics to manage cash flows more effectively. Taking all these factors into consideration, leveraging a more economical source of funding through a relentless focus on cash generation from operational improvement needs to be top priority for PE portfolio companies. Without a structured and intentional focus on cash flows, there is a risk that cash leakages may impede or

Why does cash matter (more) today?

delay the PE portfolio company revenue and EBITDA growth journey or, in a worst-case scenario, trigger a liquidity crisis.

This possibility is also confirmed by the Bank of England, according to which there is a growing risk of corporate defaults. The Bank forecasts that the share of non-financial UK Companies experiencing debt-servicing stress – defined as having a low ratio of earnings to interest expenses – will rise to 50% by the end of this year, up from 45% in 2022. Among medium size companies (those with an annual turnover of £10m to £500m), the proportion of companies at risk of distress rose to 70%.

Priorities of the lender

From a lender's perspective, there is an inflection point where the maximum leveragability of an asset intersects with the asset's ability to generate a sufficient level of free cash under a downside scenario to service its interest payments. This has arguably become increasingly challenging to pinpoint as a result of pressure on rates and uncertainty around the 'true' asset value.

For lenders providing acquisition finance to sponsors, visibility and sustainability of robust free cash generation and cash management are both essential to ascertaining the defensibility of an asset's ability to service its debt obligations. This, in turn, is also significant to the acquiring sponsor as it places upward pressure on asset leveragability and increases the overall attractiveness of their prospective return profile. For vendors, despite EBITDA remaining the

cornerstone metric of valuation, implementing attractive cash controls may increase the likelihood of a sale, in particular during a time when buyers remain reticent in making new investments and vendors need to make an exit.

For lenders operating in sponsor-backed capital structures that are midway throughout their investment lifecycle, despite leverage remaining the prevailing covenant, free cash generation is what ultimately drives periodic debt payments. This explains why we have started to see the return of the cashflow cover covenant in recent deals – lenders looking for sufficient liquidity headroom to allay uncertainty around sustainability of EBITDA and its convertibility into free cash.

Where sponsors are looking to realise exits, lenders typically have the option to either roll into a new buyout structure with a new partner or be refinanced out. In both cases, a structured focus on robust cash management is important to increasing the likelihood of successful outcomes. Improved EBITDA and cash conversion metrics may encourage lenders to rollover directly into new upsized structures, providing an opportunity to deploy incremental capital in what-might-already-be-adjudged to be a proven investment opportunity. As an alternative, lenders looking to be refinanced at the end of an asset's investment cycle are more likely to have capital recycled via a smoother exit where the asset undergoes a quick and clean sales process – in part, driven by its overall attractiveness to new investors due to its cash profile and working capital management.

Deloitte Value Creation Services ('VCS')

The Deloitte VCS team support PE investors and the Management teams of portfolio companies to help facilitate better cash flow visibility as well as to identify cost reduction and working capital improvement opportunities. Additionally, the team help implement operational initiatives, supporting organisations with the right capabilities and bandwidth to navigate tight cash flow situations and sustainably improve cash generation.

VCS understand time is of the essence and there is a need to operate at pace. The team's solutions are pragmatic and practical, laser focused on the biggest value for organisations and on the most painful challenges they are facing.

Recent success stories

A large PE fund brought VCS in to identify and implement working capital operational initiatives to release up to **€41m** in cash flows for a business with revenues of **c.€300m**. VCS's work helped to close the gap between EBITDA and cash flows that was driven by a change in capitalisation policy, increased investments and significant exceptional costs and interest expenses.

In another PE-backed business with revenues of **c.€220m**, VCS rallied an organisation-wide collections task force to delivery liquidity improvements through a **€30m** reduction in the organisation's overdue receivables balance.



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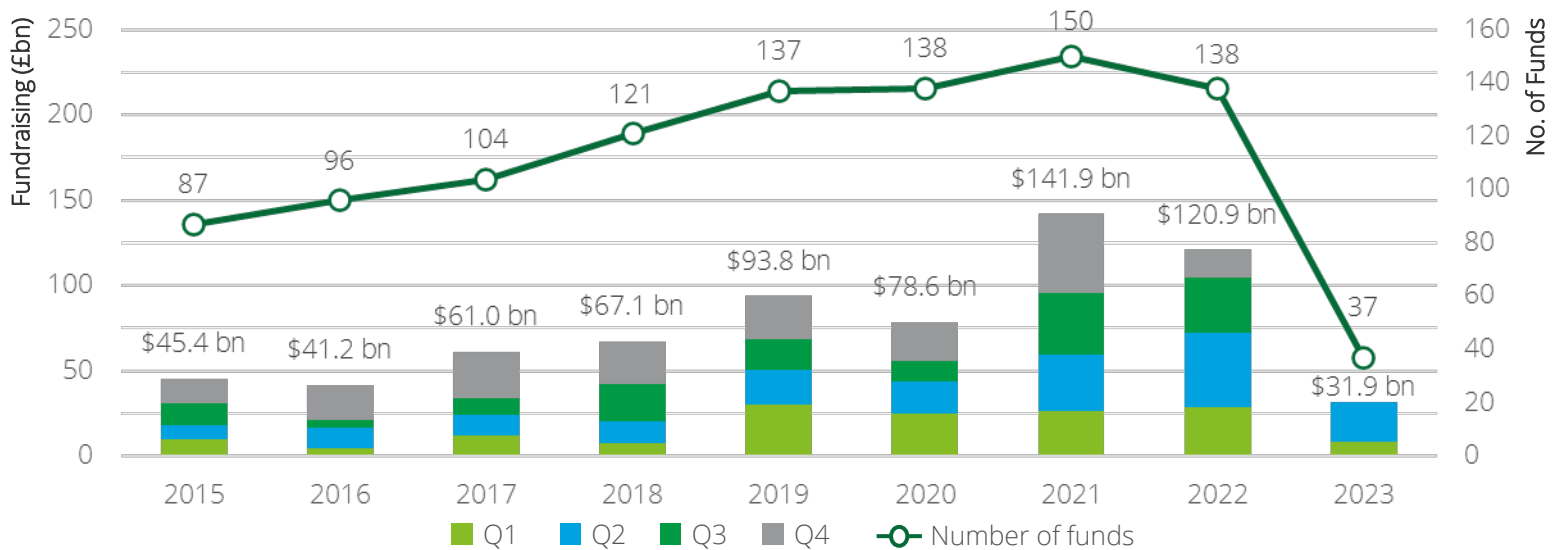
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Private Debt Fundraising



Global private debt fundraising by quarter¹



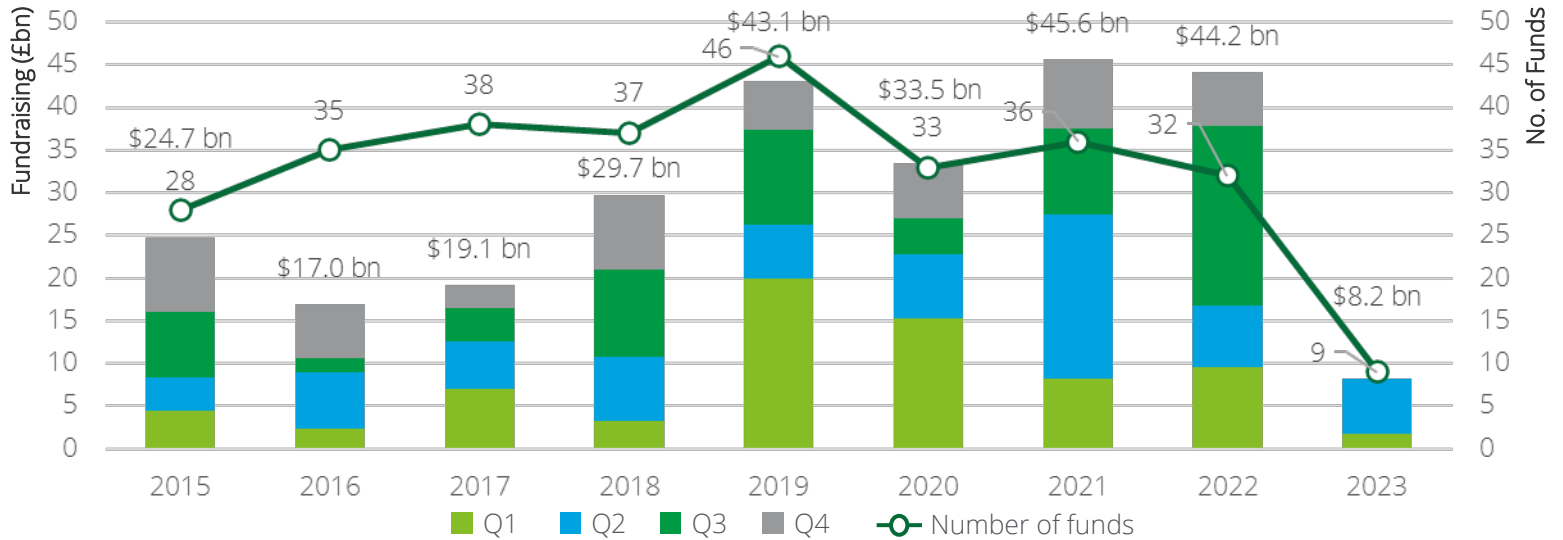
Global trends: fundraising¹

- Private debt quarterly fundraising has so far reached \$31.9bn in 2023 YTD
- This reflects the slowest start to the year since 2018, and 52.6% drop-off compared to the equivalent period in March and June 2022
- Fundraising has shows signs of being weaker than previous years, for the most part due to a market-wide reduction in available liquidity
- Investors seemingly have started to show increasing appetite for higher risk levels within the asset class, with a notable increase in mezzanine strategy fundraising – this made up approximately 65% of private debt capital fundraising in Q1 2023 alone
- By jurisdiction, North America has been the dominant force for fundraising in the first half of the year

¹ Data sourced from



Europe direct lending fundraising by quarter¹

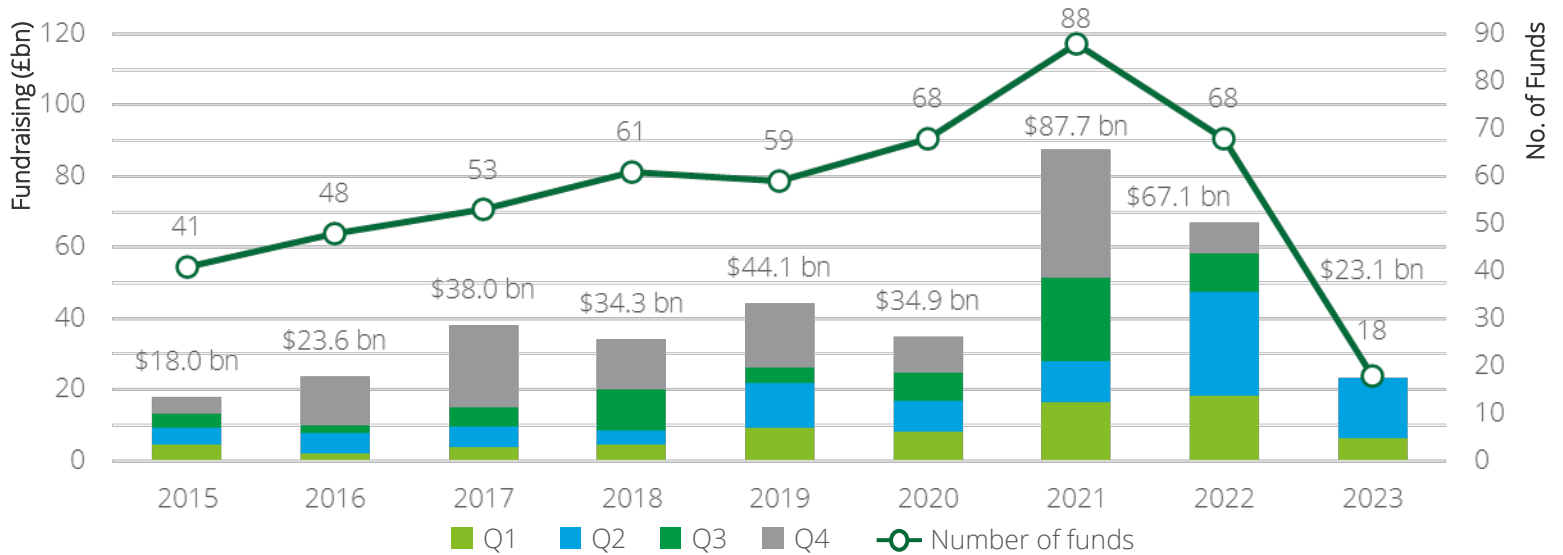


Select largest European funds raised in 2023YTD¹

- Permira Credit Solutions V — **\$4,588m**
- Bridgepoint Direct Lending III — **\$3,678m**
- Kartesia Senior Opportunities II — **\$1,638m**
- Oaktree European Capital Solutions Fund III — **\$1,325m**
- Muzinich Pan-European II Private Debt Fund — **\$865m**

¹ Data sourced from

North America direct lending fundraising by quarter¹



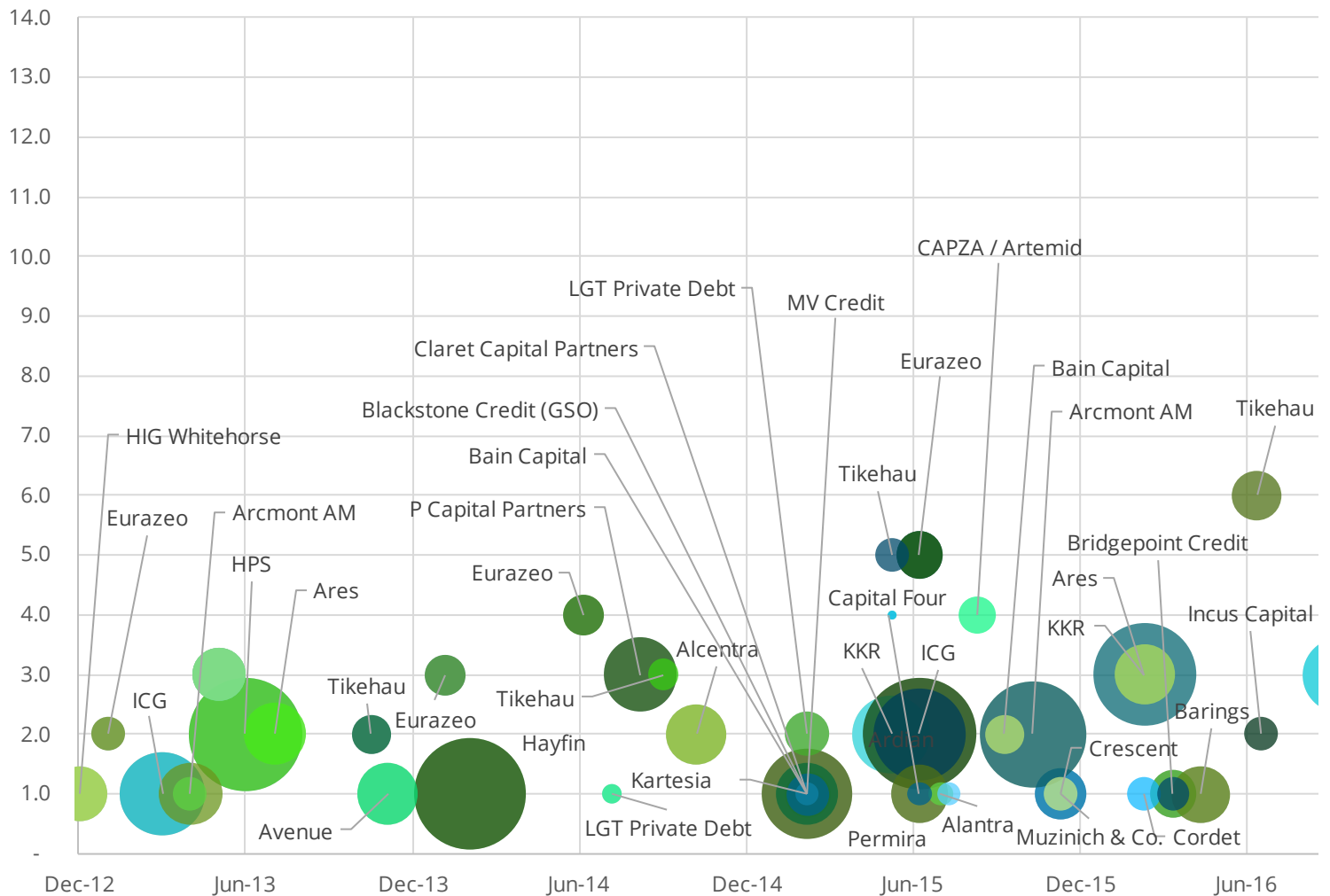
Select largest North American funds raised in 2023YTD¹

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

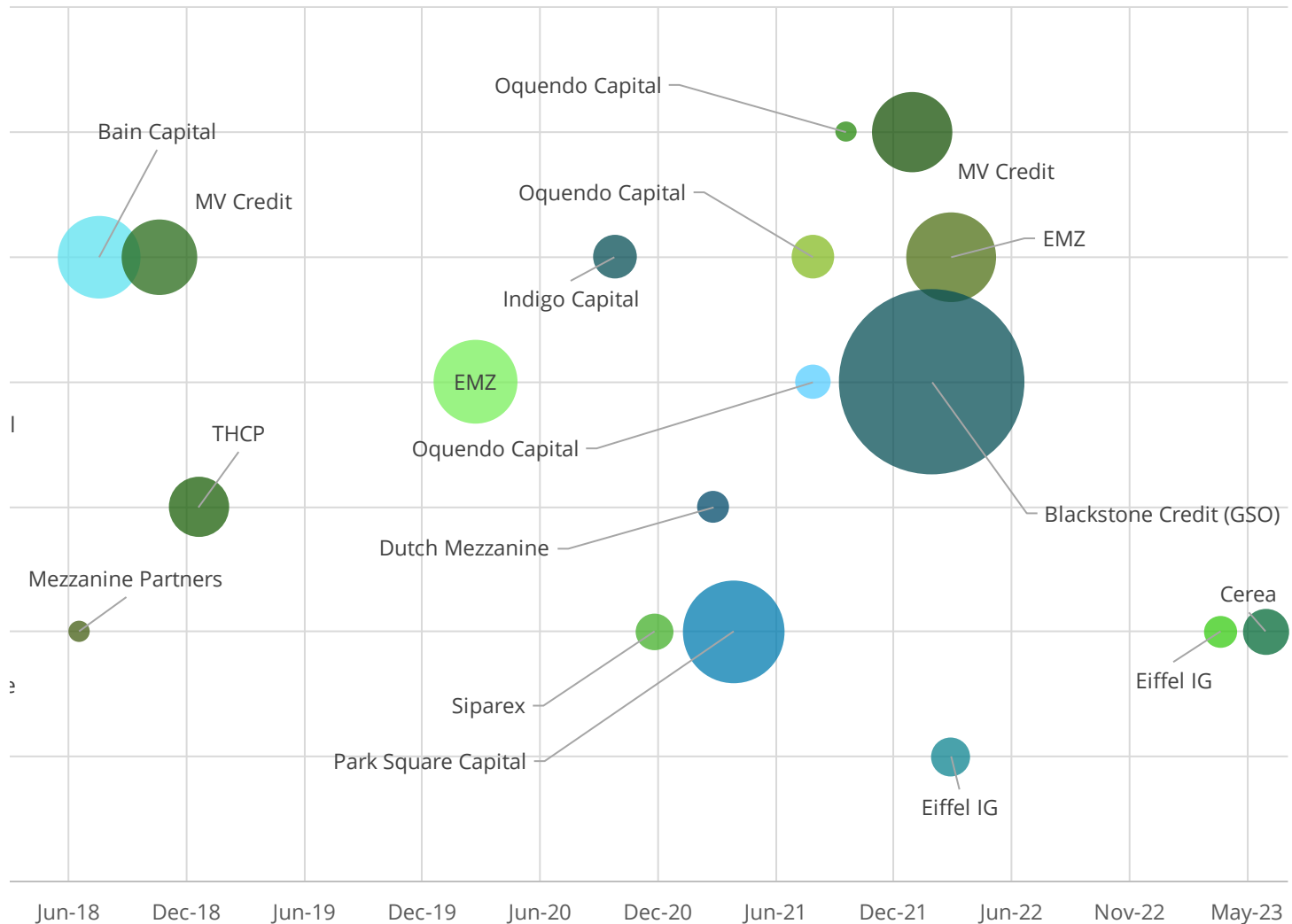
¹ Data sourced from



Senior Direct Lending fundraising by vintage and manager



Junior Direct Lending fundraising by vintage and manager



What funds have been raised by private debt managers?

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

Private Debt Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Alcentra				
European Direct Lending Fund III	Q3 19	€ 5,500	Senior and Junior	Europe
Direct Lending Fund	Q1 17	€ 2,100	Senior and Junior	Europe
Arcmont Asset Management				
Arcmont Direct Lending Fund IV	Q4 23	€ 5,500	Senior and Junior	Europe
Arcmont Senior Fund II	Q1 20	€ 4,400	Senior	Europe
Arcmont Direct Lending Fund III	Q1 19	€ 4,900	Senior and Junior	Europe
Arcmont Senior Loan Fund I	Q3 17	€ 2,900	Senior	Europe
Arcmont Direct Lending Fund II	Q4 15	€ 2,700	Senior and Junior	Europe
Ardian				
Ardian Private Debt Fund V	Q4 22	€ 3,962	Senior and Junior	Europe
Ardian Private Debt Fund IV	Q2 19	€ 3,000	Senior and Junior	Europe
Ardian Private Debt Fund III	Q3 15	€ 2,026	Senior and Junior	Europe
Axa Private Debt Fund II	Q2 10	€ 1,529	Senior and Junior	Europe
Ares				
ACE V	Q2 21	€ 11,000	Senior	Europe
Ares Special Opportunities Fund, L.P.	Q2 20	€ 3,500	Senior	Europe
ACE IV	Q2 18	€ 6,500	Senior	Europe
ACE III	Q2 16	€ 2,536	Senior and Junior	Europe
Bain Capital				
Bain Capital Middle Market Credit 2022	Q3 23	\$ 1,000	Junior	Global
Bain Capital Middle Market Credit 2018	Q3 18	\$ 1,000	Junior	Global
Bain Capital Specialty Finance	Q4 16	\$ 1,406	Senior	Global
Bain Capital Middle Market Credit 2014	Q4 13	\$ 1,382	Junior	Global
Bain Capital Middle Market Credit 2010	Q2 10	\$ 1,017	Junior	Global
Barings				
Global Private Loan Fund IV	Q1 23	\$ 3,000	Senior	Global
European Private Loan Fund III	Q2 22	€ 5,900	Senior	Europe
Global Private Loan Fund III	Q4 19	\$ 2,400	Senior and Junior	Global
European Private Loan Fund II	Q3 19	€ 1,500	Senior and Junior	Europe
Global Private Loan Fund II	Q3 17	\$ 1,300	Senior and Junior	Global

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

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

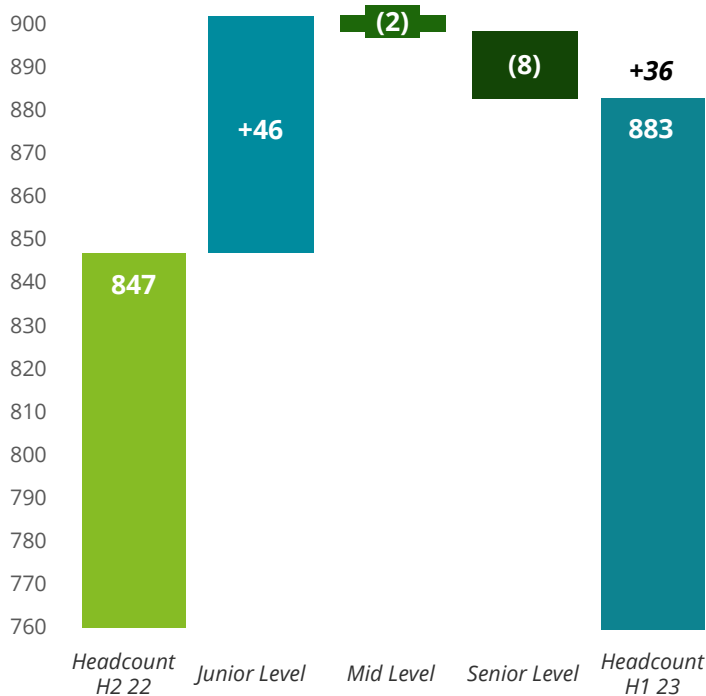
Private Debt Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
P Capital Partners				
P Capital Partners	Q4 19	€ 1,670	Senior and Junior	Europe
P Capital Partners III	Q4 14	€ 1,300	Senior and Junior	Europe
Tikehau				
Tikehau Direct Lending V	Q3 22	€ 3,300	Senior and Junior	Europe
Tikehau Direct Lending IV	Q1 19	€ 2,300	Senior and Junior	Europe

Private Debt People



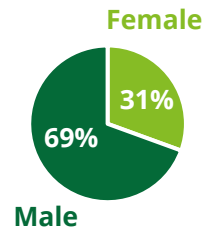
Direct Lending Market Headcount

Summary—H1 2023: the deceleration in hiring throughout the second half of 2022 has persisted throughout the year, with a net increase of just **+36** Investment Professionals across H1 2023. This marks an increase on H2 2022 when the market grew by **+28**, but next to H1 2022's **+51** – the most relevant comparable – there is a significant decrease of 29%. Much of the hiring in H1 is made up by a ramp up of Analyst and Associate hires (0-5-year; junior level hiring) across the market, like the **+46** increase in H1 2022 but with a significant H1 net decrease at both the mid and senior-levels. This net change is down to a drop in hiring, coupled with numerous departures across the market.

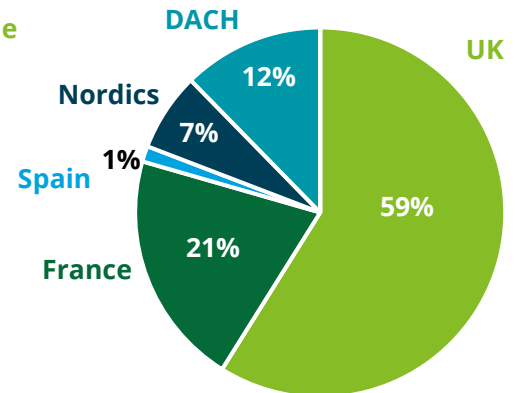


Net Change of Direct Lending IPs in H1 2023

Gender



Geography



Breakdown of Hiring

Geography: the UK market contributed slightly less to the overall hiring landscape at **59%** compared with H2 2022 (**65%**) and H1 2022 (**64%**). French hiring represented a greater percentage of European hires at **21%**, up from **12%** in H2 2022 and **13%** in H1 2022. A number of these hires are female, too. The DACH region comprised a greater percentage of overall hiring again at **12%**, up from **8%** in H2 2022 but down from **19%** in H1 2022. Conversely, hires in other continental geographies have dropped considerably – namely, Spain, Italy and the Benelux.

Gender: diversity hiring markedly improved in H1 of 2023. Female hires comprised **31%** of all hires, up from **24%** in H2 2022 and **19%** in H1 2022. **28%** of junior hires were female; remarkably, **33%** of mid-level hires and **50%** of senior hires made were female.

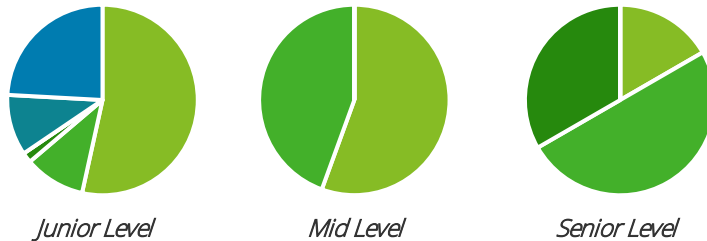
Seniority: junior hiring continues to make up the lion's share of hiring, at **81%** throughout January-June of this year, representing a significant uptick on H2 2022 (**67%**) and H1 2022 (**58%**). The disproportionately high percentage of junior hiring is exaggerated by a fall in gross mid- and senior-level hiring across the board.

Source of Hires & Hiring Patterns

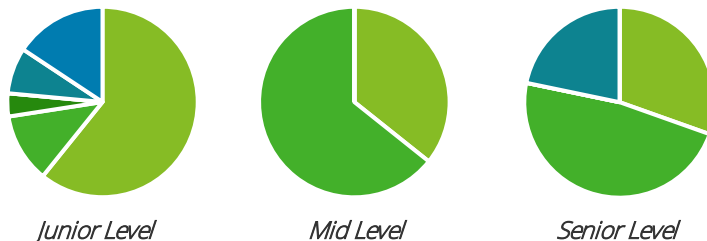
The charts below compare the sources of hiring between H1 2023 and H1 2022 across seniorities. At the junior level, hires made directly from university (which includes permanent hires made from internships) continue to comprise the 2nd deepest source of junior hiring, at almost **25%**. Despite this trend changing year-on-year, private credit funds still prefer to hire directly from investment banking at the Analyst and Associate level. At the mid-level, hires from investment banking (i.e., leveraged finance) comprised most of the hires, overtaking fund-to-fund hiring for the first time. At the senior level, half of the hires were made from other funds, with several hires coming from debt advisory. Our 'people moves' report details some of the notable hires & departures January-June 2023 – for the latest proprietary intel, please reach out.

Diversity Levels (%)

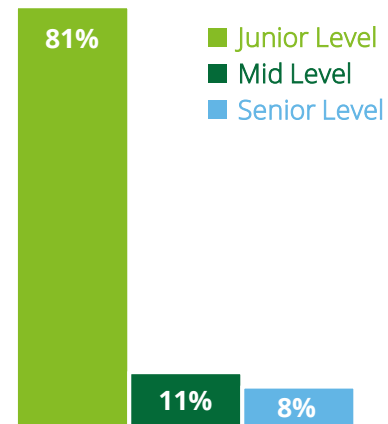
H1 2023



H1 2022



Spread of Hires at Different Seniority Levels (%)



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

Apollo Global Management	Patrick Johnson has left Apollo Global Management to join Warburg Pincus in an in-house capital markets capacity.
Arcmont Asset Management	Arcmont Asset Management hired Patric Carlsson as an Associate Partner to cover the Nordics. Patric previously led the debt advisory practice at Carnegie Investment Partners.
Ares Management	Paul Mahon and Anish Satjia have left Ares Management direct lending platform. Mahon has moved into PE, and Satjia is staying with Ares in their credit secondaries team.
Blackstone Credit	Blackstone Credit hired Jane Bradshaw from Morgan Stanley as a Managing Director lead the European Private Credit capital markets business.
Bridgepoint Credit	Hamza Jbara left Bridgepoint Credit. Julien Delfour is joining Bridgepoint in Paris as a Director from ING leveraged finance.
Eurazeo Private Debt	Christoffer Hansson and Yordi Malawauw have joined Eurazeo Private Debt with the pair leading coverage of the Nordics and Benelux regions respectively.
Capza	Charles Devevey has joined CAPZA in their Paris direct lending team, joining from Marlborough Partners' debt advisory team.
CVC Credit	CVC Credit have hired Eva Boutillier from JP Morgan to lead their French private credit business from Paris.
Fidelity International	Nadine Henker left LGT Capital Private Debt for Fidelity International where she is leading their DACH direct lending coverage.
Goldman Sachs Asset Management	Goldman Sachs Asset Management lost Camille Lamotte and Pierre Grandjean from their Paris-based direct lending team. Grandjean has moved to Sixth Street in London. Carles Pol also left GSAM in H1 to join Alpha Wave Global as an MD in Madrid.
Hayfin Capital Management	Hayfin Capital Management hired Rob Da Costa as a Director following the departure of Jenna Franzosi to CDPQ's direct lending team in London.
HPS Investment Partners	Matthieu Boulanger is re-joining HPS Investment Partners from KKR & Co. HPS have also made two dedicated NAV hires from Goldman Sachs.
Ontario Teachers' Pension Plan	Jeppe Gregersen has joined Ontario Teachers' Pension Plan to lead their European Private Credit business. Gregersen joined from CPP Investments where he was an MD in the European Credit investment team.
Park Square Capital	2022 saw Andrea Gabriele leave Park Square Capital in Paris, joining Permira's private equity investment team. Park Square have since hired Thibault Lagrange as a VP in Paris from ING lev fin.
Pictet Asset Management	Pictet Asset Management hired two Senior Investment Managers – Silja Fisk in London and Hugo Campagnoli Paris, supporting the lower-mid market direct lending business.

About Paragon Search Partners:

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



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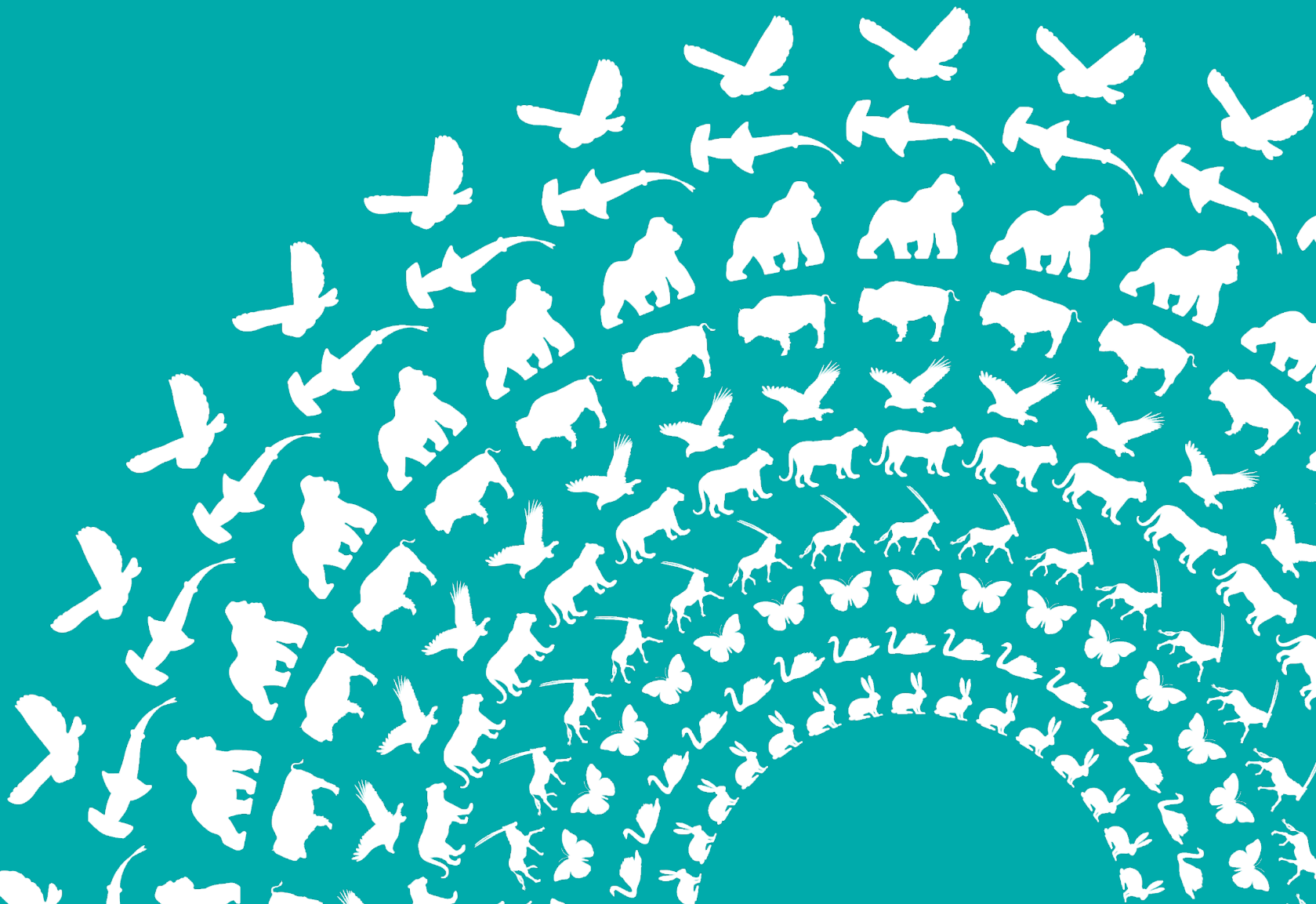
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Insights into the European Private Debt Market



Private debt '101' guide

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

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

Who are private debt providers?

These institutions range from larger asset managers diversifying into private debt to smaller funds newly set up by ex-investment professionals. Most of the funds have structures comparable to those seen in the private equity industry with a 3-5 year investment period and a 10 year life with extensions options. The limited partners in the debt funds are typically insurance, pension, private wealth, banks or sovereign wealth funds.

Over the last three years a significant number of new funds have been raised in Europe. Increased supply of Private Debt capital has helped to increase the flexibility and optionality for borrowers.

Key differences to bank lenders?

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

However

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



When to use private debt?

Situations

1 Private Equity acquisitions

2 Corporates making transformational/bolt-on acquisitions

3 Growth capital

4 Consolidation of shareholder base

5 Special dividend to shareholders

6 To refinance bank lenders in over-levered structures

7 Raising junior HoldCo debt

Advantages

✔ Reduce equity contribution and enable more flexible structures

✔ Enable growth of private companies with less/no cash equity

✔ Enable growth opportunities

✔ Enable buy-out of (minority) shareholders

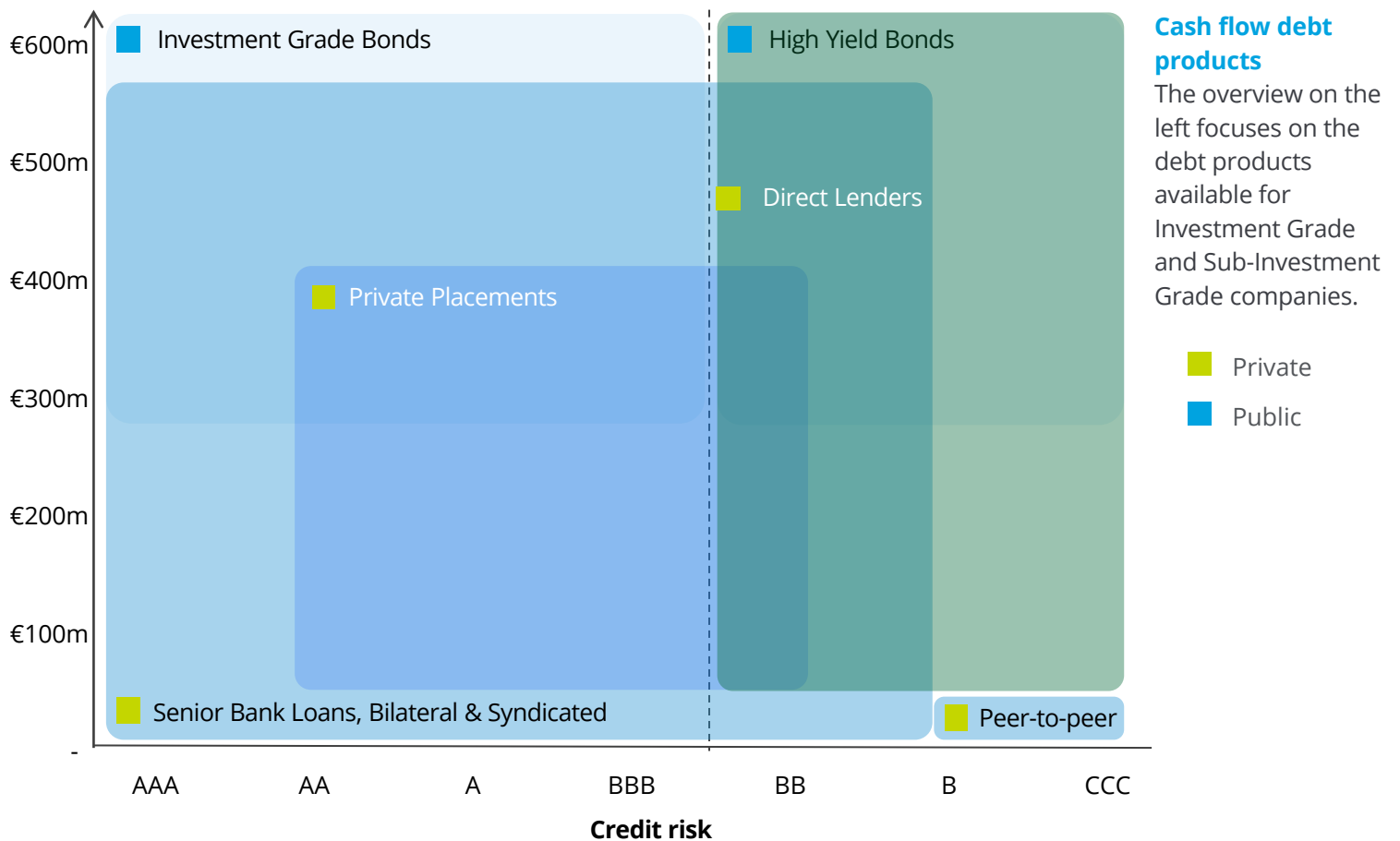
✔ Enable a liquidity event

✔ Enable an exit of bank lenders

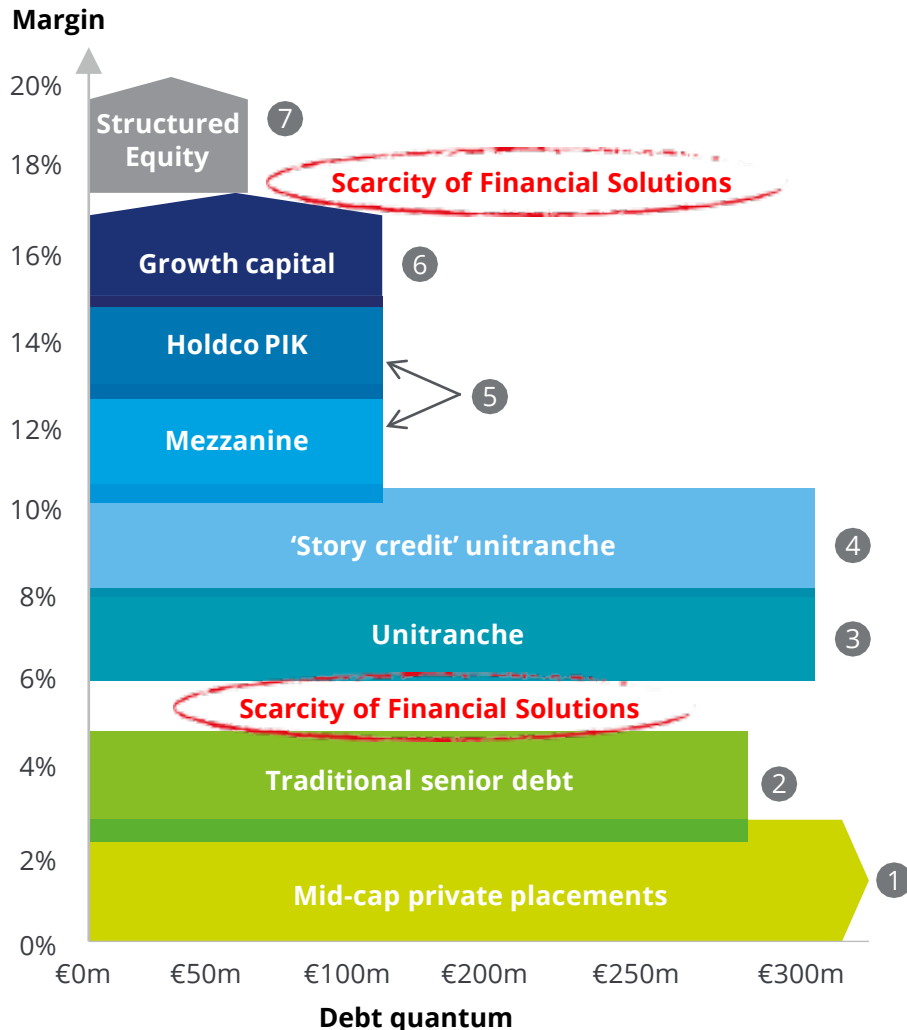
✔ Increase leverage for acquisitions/dividends

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

Debt size



What are the private debt strategies?



Note: Distressed strategies are excluded from this overview

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

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

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

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

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

The latter is mostly the approach of large asset managers.

How do private debt investment strategies compare to one another?

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

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

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

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

Who are private debt providers?

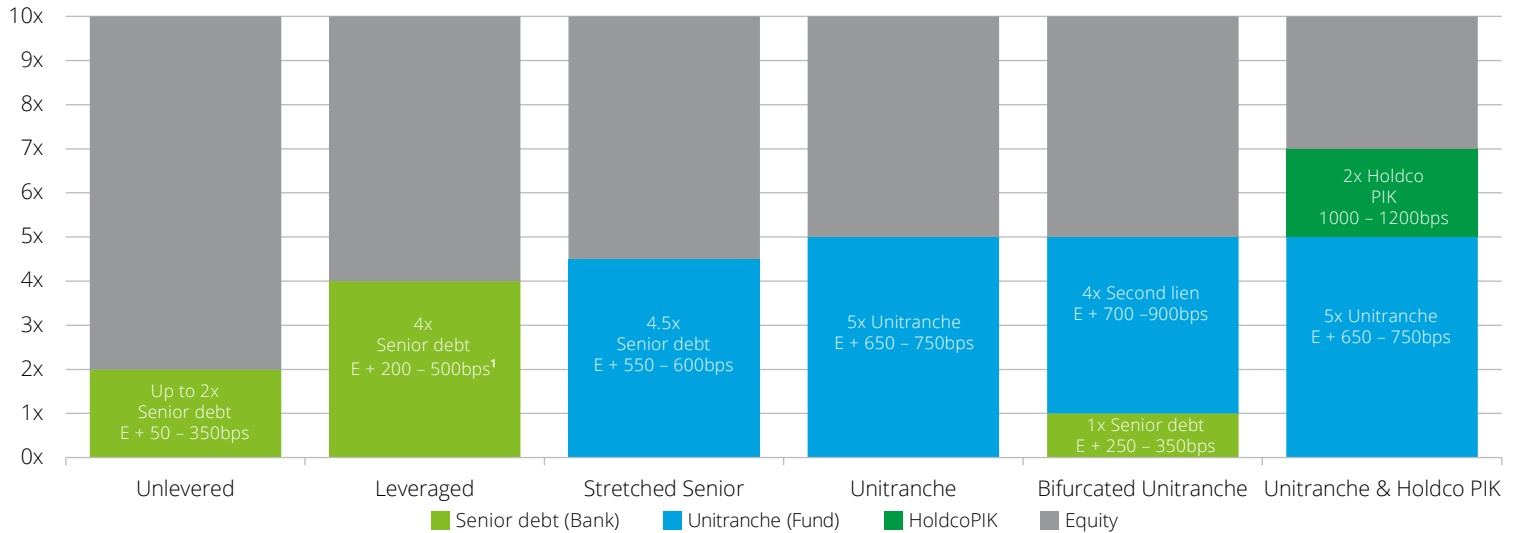


Note: offices included with at least one dedicated private debt professional. The graph does not necessarily provide an overview of the geographical coverage.

What debt structures are available in the market?

Structures

EV/EBITDA



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



Pros and Cons per structure

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

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

1) Significant pricing differences between Dutch and Belgian banks continue to exist

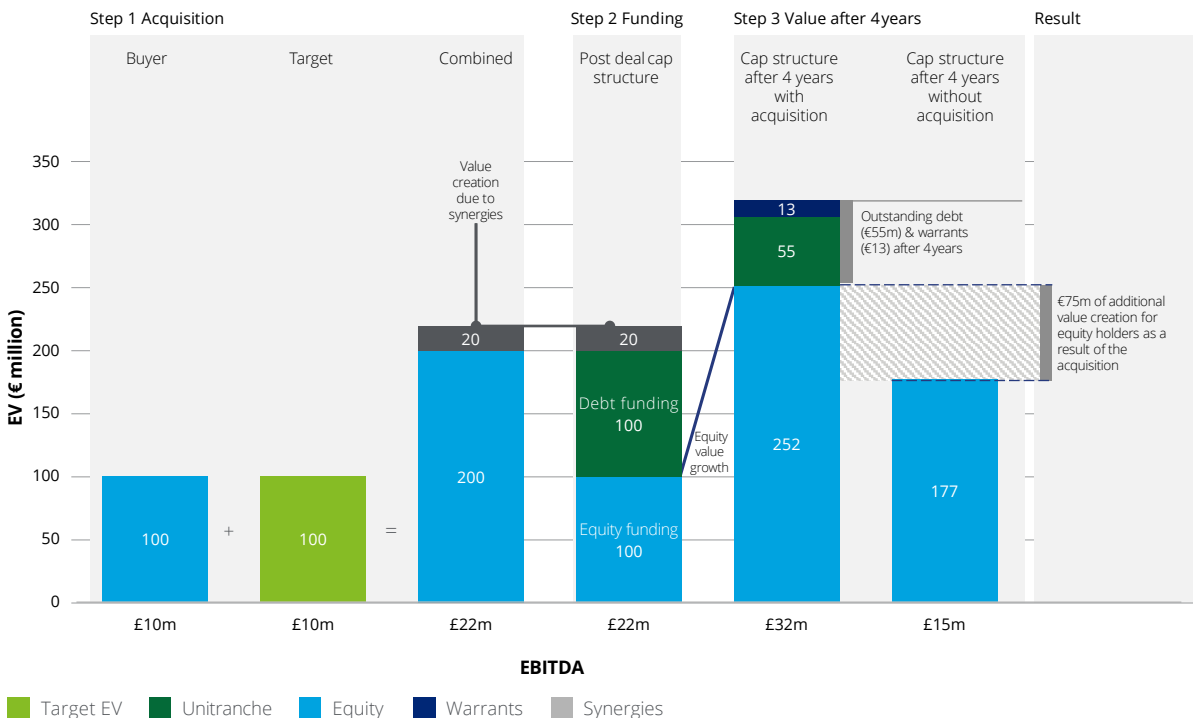
Unlocking transformational acquisitions for privately owned companies

Indicative calculations

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

Value creation through M&A

Indicative calculations



Assumptions

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





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

Deloitte Debt, Capital &
Treasury Advisory







What do we do for our clients?

Debt and Capital Advisory

<p>Independent advice</p> 	<p>Global resources & execution expertise</p> 	<p>Market leading team</p> 	<p>Demonstrable track record</p> 
<ul style="list-style-type: none"> • We provide independent advice to borrowers across the full spectrum of debt markets through our global network • Completely independent from providers of finance—our objectives are fully aligned with those of our clients 	<ul style="list-style-type: none"> • A leading team of over 200 debt professionals based in 31 countries including Europe, North America, Africa and Asia, giving true global reach • Our expertise ranges from the provision of strategic advice on the optimum capital structure and available sources of finance through to the execution of raising debt 	<ul style="list-style-type: none"> • Widely recognised as a Global leader with one of the largest Debt Advisory teams • We pride ourselves on our innovative approach to challenging transactions and the quality of client outcomes we achieve, using our hands on approach 	<ul style="list-style-type: none"> • In the last 12 months, we have advised on over 130 transactions with combined debt facilities in excess of €10bn • Our target market is debt transactions ranging from €25m up to €750m

Debt and Capital Services provided

<p>Refinancing</p> 	<p>Acquisitions, disposals, mergers</p> 	<p>Restructuring or negotiating</p> 	<p>Treasury</p> 
<ul style="list-style-type: none"> • Maturing debt facilities • Rapid growth and expansion • Accessing new debt markets • Recapitalisations facilitating payments to shareholders • Asset based finance to release value from balance sheet • Off balance sheet finance • Assessing multiple proposals from lenders 	<ul style="list-style-type: none"> • Strategic acquisitions, involving new lenders and greater complexity • Staple debt packages to maximise sale proceeds • Additional finance required as a result of a change in strategic objectives • FX impacts that need to be reflected in the covenant definitions • Foreign currency denominated debt or operations in multiple currencies 	<ul style="list-style-type: none"> • New money requirement • Real or potential breach of covenants • Short term liquidity pressure • Credit rating downgrade • Existing lenders transfer debt to a private debt group • Derivatives in place and/or banks hedging requirements to be met 	<ul style="list-style-type: none"> • Operations in multiple jurisdictions and currencies creating FX exposures • Develop FX, interest rate and commodity risk management strategies • Cash in multiple companies, accounts, countries and currencies • Hedging implementation or banks hedging requirements to be met

Depth and breadth of expertise in a variety of situations

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Recent Debt and Capital Advisory Transactions































UK and Mainland Europe

<p>PLC Refinancing</p>  <p>Dec 2022 £162.5m</p> <p>UK</p>	<p>Private New Debt</p>  <p>Dec 2022 Undisclosed</p> <p>UK</p>	<p>PLC Bridge Financing</p>  <p>Nov 2022 £50m</p> <p>UK</p>	<p>Private Growth Financing</p>  <p>Nov 2022 €84m</p> <p>Ireland</p>	<p>Private Growth Financing</p>  <p>Nov 2022 Undisclosed</p> <p>Ireland</p>	<p>Private Refinancing</p>  <p>Nov 2022 Undisclosed</p> <p>Ireland</p>
<p>Baltisse Refinancing & Growth F.</p>  <p>Nov 2022 €96.5m</p> <p>Belgium</p>	<p>PLC Amendment</p>  <p>Oct 2022 €90m</p> <p>UK</p>	<p>Gilde Healthcare Acquisition financing</p>  <p>Oct 2022 Undisclosed</p> <p>Netherlands</p>	<p>Hg Capital LLP Refinancing</p>  <p>Oct 2022 £725m</p> <p>UK</p>	<p>Bassac SA Acquisition Financing</p>  <p>Oct 2022 €55m</p> <p>Belgium</p>	<p>Smartfin Refinancing</p>  <p>Oct 2022 €25m</p> <p>Belgium</p>
<p>Private Refinancing</p>  <p>Sep 2022 €28.8m</p> <p>Ireland</p>	<p>IceLake Capital Acquisition financing</p>  <p>Sep 2022 Undisclosed</p> <p>Netherlands</p>	<p>Private Forward flow programme.</p>  <p>Sep 2022 Undisclosed</p> <p>Netherlands</p>	<p>Core Equity Holdings Refinancing & Growth F.</p>  <p>Sep 2022 €67m</p> <p>Belgium</p>	<p>Private Refinancing & Growth F.</p>  <p>Sep 2022 €33m</p> <p>Greece</p>	<p>M&G, Searchlight ABL (Non-recourse rece.</p>  <p>Sep 2022 Undisclosed</p> <p>UK</p>
<p>PLC Refinancing</p>  <p>Aug 2022 £400m</p> <p>UK</p>	<p>Private Debt advisory</p>  <p>Aug 2022 Undisclosed</p> <p>Netherlands</p>	<p>EAG Acquisition Financing</p>  <p>Aug 2022 €12.1m</p> <p>Belgium</p>	<p>Private Refinancing</p>  <p>Aug 2022 €48.4m</p> <p>Ireland</p>	<p>Private Refinancing</p>  <p>Aug 2022 €24m</p> <p>Ireland</p>	<p>PLC Amend and Extend</p>  <p>Aug 2022 \$220m</p> <p>UK</p>
<p>Strikwerda Investments Acquisition Financing</p>  <p>Aug 2022 Undisclosed</p> <p>Netherlands</p>	<p>PLC Amend and Extend</p>  <p>Jul 2022 £325m</p> <p>UK</p>	<p>Capital A Refinancing</p>  <p>Jul 2022 Undisclosed</p> <p>Netherlands</p>	<p>Livingbridge Acquisition Financing</p>  <p>Jul 2022 Undisclosed</p> <p>UK</p>	<p>Phoenix Equity Partner. Acquisition Financing</p>  <p>Jul 2022 Undisclosed</p> <p>UK</p>	<p>Private Bridge Financing</p>  <p>Jul 2022 Undisclosed</p> <p>UK</p>

Debt and Capital Advisory Credentials

Recent Debt and Capital Advisory Transactions

















UK and Mainland Europe

<p>Private Capital Raising</p>  <p>Jun 2023 Undisclosed</p> <p>Poland</p>	<p>Private Growth Financing</p>  <p>Jun 2023 €75m</p> <p>Hungary</p>	<p>Inflexion Refinancing</p>  <p>May 2023 Undisclosed</p> <p>Finland</p>	<p>Phoenix Equity Partners Refinancing</p>  <p>May 2023 Undisclosed</p> <p>UK</p>	<p>N/A Refinancing</p>  <p>May 2023 £110m</p> <p>UK</p>	<p>IceLake Capital Acquisition Financing</p>  <p>May 2023 Undisclosed</p> <p>Netherlands</p>
<p>Ashbridge Capital Refinancing</p>  <p>Apr 2023 Undisclosed</p> <p>UK</p>	<p>PLC Refinancing</p>  <p>Apr 2023 €80m</p> <p>UK</p>	<p>PLC Acquisition Finance</p>  <p>Apr 2023 £110m</p> <p>UK</p>	<p>Private Refinancing</p>  <p>Apr 2023 Undisclosed</p> <p>Netherlands</p>	<p>Avedon Acquisition Financing</p>  <p>Apr 2023 Undisclosed</p> <p>Netherlands</p>	<p>DIF Capital Partners Greenfield</p>  <p>Mar 2023 Undisclosed</p> <p>UK</p>
<p>Prcoa Amend and Extend</p>  <p>Mar 2023 Undisclosed</p> <p>UK</p>	<p>Gilde Healthcare Acquisition Financing</p>  <p>Mar 2023 Undisclosed</p> <p>Netherlands</p>	<p>Private Growth Financing</p>  <p>Mar 2023 Undisclosed</p> <p>Ireland</p>	<p>Equitix & Albion Greenfield</p>  <p>Mae 2023 £40m</p> <p>UK</p>	<p>Capital PLC Corporate</p>  <p>Feb 2023 £167m</p> <p>UK</p>	<p>CGE Partners Refinancing</p>  <p>Jan 2023 Undisclosed</p> <p>UK</p>
<p>PLC Amend and Extend</p>  <p>Jan 2023 £170m</p> <p>UK</p>	<p>Tenzing Private Equity Refinancing</p>  <p>Jan 2023 Undisclosed</p> <p>UK</p>	<p>Nordian Acquisition Financing</p>  <p>Jan 2023 Undisclosed</p> <p>Netherlands</p>	<p>Smile Invest Acquisition Financing</p>  <p>Jan 2023 Undisclosed</p> <p>Netherlands</p>	<p>Private Growth Financing</p>  <p>Jan 2023 €28.8m</p> <p>Hungary</p>	<p>Private Refinancing</p>  <p>Jan 2023 Undisclosed</p> <p>Ireland</p>
<p>PLC Amend and Extend</p>  <p>Jan 2023 £175m</p> <p>UK</p>	<p>Private Growth Financing</p>  <p>Dec 2022 Undisclosed</p> <p>Netherlands</p>	<p>Private Dividend Recap</p>  <p>Dec 2022 €13.9m</p> <p>Ireland</p>	<p>Private Growth Financing</p>  <p>Dec 2022 Undisclosed</p> <p>Ireland</p>	<p>Private Refinancing</p>  <p>Dec 2022 €39.5m</p> <p>Portugal</p>	<p>Private Refinancing</p>  <p>Dec 2022 Undisclosed</p> <p>UK</p>

Debt and Capital Advisory Credentials

Recent Debt and Capital Advisory Transactions

Other International

<p>Private Advisory</p>  <p>May 2023 Undisclosed</p> <p>South Africa</p>	<p>Private Transfer Pricing of De.</p>  <p>Feb 2023 Undisclosed</p> <p>South Africa</p>	<p>Private Refinancing</p>  <p>Feb 2023 Undisclosed</p> <p>Aruba</p>	<p>Private Growth Financing</p>  <p>Dec 2022 €41 m</p> <p>Greece</p>	<p>Private Growth Financing</p>  <p>Dec 2022 €13.5m</p> <p>Greece</p>	<p>Private Growth Financing</p>  <p>Dec 2022 €6.4m</p> <p>Greece</p>
<p>Private Transfer Pricing of De.</p>  <p>Dec 2022 Undisclosed</p> <p>South Africa</p>	<p>Private Hedge Advisory</p>  <p>Nov 2022 Undisclosed</p> <p>South Africa</p>	<p>Private Funding Model</p>  <p>Nov 2022 Undisclosed</p> <p>South Africa</p>	<p>Private Refinancing</p>  <p>Nov 2022 Undisclosed</p> <p>South Africa</p>	<p>Private ABL</p>  <p>Nov 2022 Undisclosed</p> <p>South Africa</p>	<p>Private Acquisition Financing</p>  <p>Oct 2022 Undisclosed</p> <p>South Africa</p>
<p>Private Financial Model Build</p>  <p>Jun 2022 Undisclosed</p> <p>US</p>	<p>Private Financial Model Build</p>  <p>May 2022 Undisclosed</p> <p>South Africa</p>	<p>Private Refinancing</p>  <p>Apr 2022 £118m</p> <p>Botswana</p>	<p>Private Acquisition Financing</p>  <p>Mar 2022 \$36m</p> <p>South Africa</p>		

Notes



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