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Direct lenders poised for action
in uncertain market

Deloitte Alternative Lender Deal Tracker Spring 2021

This issue covers data for the second half of 2020 and includes 232 Alternative Lender deals. While this represents a 52% increase in the number of deals from H1 2020, there was a 25% decrease from H2 2019.

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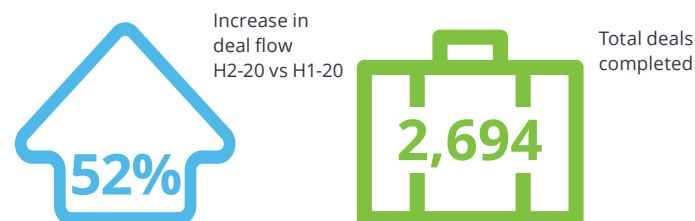
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Deloitte Alternative Lender Deal Tracker Introduction

In this twenty-fifth edition of the Deloitte Alternative Lender Deal Tracker, we report that in H2 2020, there was a 25% decrease in Alternative Lending deals compared to the same period in the previous year. However, lending in H2 2020 was 52% higher than in the preceding 6 months. Our report covers 63 major Alternative Lenders with whom Deloitte is tracking deals across Europe.

Despite the profound impact of the Covid-19 pandemic, the Irish economy grew by 3.4% in 2020 as measured by GDP. This extraordinary increase was on the back of record growth in the export sector and specifically within Pharma and Information and Communications Technology (ICT), where significant demand for immunological drugs and Covid-19 related products contributed to Irish exports increasing by 6.25% in 2020. Multinationals accounted for 50% of the total value added in 2020 (up from 43.4% in 2019). This growth was in stark contrast to the performance of the Irish domestic sector (measured by modified domestic demand), with personal, government and investment spending falling by 5.4%, in line with other European countries. Personal spending alone declined by 9%.

Tourism, travel, hospitality, retail and leisure include some of the sectors hardest hit by the pandemic with prolonged and extensive lockdowns implemented by the Irish Government. With some of the harshest restrictions in the world, the Irish State has in turn responded with significant tax and economic support measures including tax & rate warehousing, pandemic unemployment payments, cash payments to businesses (CRSS) and wage subsidies (EWSS). This resulted in over €11.5bn in payments and other financial supports to individuals directly impacted by Covid-19 during the first 12 months of the pandemic.



In order to fund such supports, the Irish State borrowed c.€24bn on the international bond markets, albeit at record low rates. With a further €16bn to €20bn expected to be raised in 2021, this could equate to €48,291 being owed by the State for every individual in the country by the end of this year. To put this into context, this average was at €41,438 in 2011 following the impact of the global financial crisis. Furthermore, the EU average is expected to be €29,217 at the end of the year.

Looking ahead, a wider economic recovery is likely to be significantly influenced by the vaccine rollout. There are high hopes for an extraordinary rebound later in 2021, aided by inflated household savings which increased by €14.2bn in 2020, a 12.8% increase compared to the previous year. Despite a targeted relaxation of ongoing restrictions and this much sought after rebound, Irish businesses will continue to rely on Government supports upon re-opening of society, particularly within those sectors most impacted.

Notwithstanding the ongoing impact of the pandemic, the Irish M&A market remained strong during 2020 with a 14% increase in deal value to €9.1bn compared to 2019. With the second half of the year providing for a more optimistic outlook in respect of macroeconomic conditions, Q4 accounted for more deal value than the previous three quarters, registering €5.3bn (58%) of the total deal volume for the year. Unsurprisingly, these transactions focused on sectors that have withstood and/or benefited from the changing market dynamics brought about by Covid-19 including TMT, Business Services, Pharma & Healthcare and Financial Services. Notably, 2020 continued the trend of private equity's growing role in the Irish M&A market. Total private equity deal value was up 105% compared to 2019, while deal volume rose 47% to 56 deals during the same period.

The robust level of M&A activity, coupled with an improving outlook amongst corporates, has contributed to a strong level of activity within the private debt markets. The increasing number of private equity transactions, and specifically those involving UK firms (Livingbridge, ECI, Bowmark, Lonsdale Capital et al.), has attracted a growing number of UK-based alternative lenders into the Irish market. Examples include Five Arrows and Sixth Street (both TotalMobile), Chill Insurance (Pemberton) and Waystone (CVC). It is also important to note domestic banks and alternative lenders continue to feature strongly as evidenced on the Chill Insurance (Bank of Ireland), Dortek (Dunport), Welltel (Muzinich & Co.), Horseware Ireland (Bank of Ireland) and UPMC (AIB) transactions.

In general, competitive processes and strong valuations have led to the growing influence of alternative lenders as a source of acquisition financing, as opposed to more traditional bank financing. More recently, we have noted an increased level of activity amongst non-sponsor backed businesses. While this is specifically in the context of bolt-on acquisitions, capital investment programmes targeting increased capacity and/or production capabilities have also been prevalent. Despite strong lender appetite, the ongoing uncertainty is contributing to longer completion periods between the selection of a preferred lender(s) and closing, whether sponsor-backed or otherwise.

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For the more traditional sectors and those that have been directly impacted by the pandemic, we continue to see limited signs of immediate balance sheet distress outside of the hardest hit sectors of hospitality, leisure and travel. The pro-active response by the Irish Government and provision of various support schemes has undoubtedly safeguarded the financial standing of many such businesses. Simultaneously, the significant level of forbearance afforded by both banks and alternative lenders will ensure many of these businesses remain in operation beyond the pandemic. That said, there is increasing acknowledgment that the true extent of the pandemic is likely to be experienced as the economy re-emerges from Covid-19, state supports are curtailed and creditors begin pursuing debts that have mounted since March of last year.

Furthermore, businesses that have traditionally been conservative from a debt perspective may find themselves in leveraged positions beyond that of traditional bank debt appetite with hard drawings on working capital facilities or other short term facilities. Such a situation is likely to result in a further increased role for alternative lenders in the market. Indeed the recent launch of Dunport's Recovery & Growth Fund, supporting SMEs directly impacted by the pandemic, may be reflective of this shift. Furthermore, the recent announcement by NatWest to withdraw Ulster Bank from the Irish market will lead to reduced competition for corporate banking facilities and provide for additional opportunities amongst the remaining banks and alternative lenders.

The strong M&A environment, long-lasting effects of Covid-19 and ongoing withdrawals from the domestic banking landscape is likely to expedite the emergence of alternative lenders in the domestic Irish market.

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 27.



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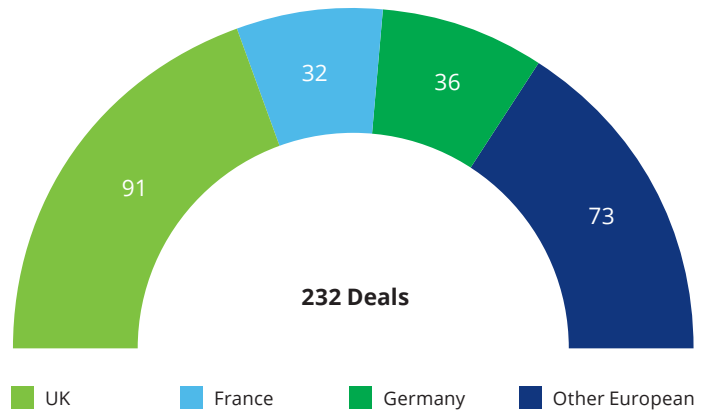


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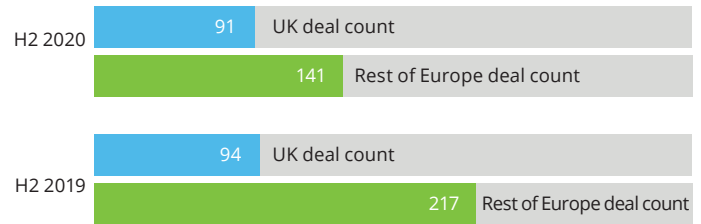


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H2 2020 deals completed



H2 headline figures



Alternative Lending in action: Case study



Direct lenders fund HGGC's latest acquisition with bespoke Unitranche facility

With the backing of California-based sponsor HGGC, insurance broker Specialist Risk Group is positioned to achieve strong organic and acquisition-driven growth in the coming years under the leadership of CEO Warren Downey together with his experienced and highly capable management team.



Colin Phinisey
Principal, Head
of Debt Capital
Markets, HGGC

With nearly 100 years of trading history in the sector, UK-headquartered Specialist Risk Group (SRG) occupies a niche but critical segment of the insurance broking market, sitting between smaller independent providers and premium consolidators, and larger global conglomerates and international generalists. The role SRG plays in connecting insurers with retail brokers and policy holders is a key component of the value chain it operates in, and its specialist approach creates a highly 'sticky' customer base. This in turn provides a crucial foundation for driving the top line growth in its business.

The company's mantra "Difficult. Done Well" perfectly encapsulates its proficiency in placing risks across the full spectrum of 'difficult-to-insure' industries and schemes, such as asbestos removal, waste & hazardous chemical recycling, and property repossession. Of the company's £320m+ gross written premiums, around 80% are non-standard, underlining its unique offering and positioning in the insurance space.

The modern Specialist Risk Group has its origins in the acquisition of Miles Smith Insurance Group (UK speciality broking) in 2018 and The Underwriting Exchange (Irish speciality broking) in 2019 by Pollen Street Capital (PSC).

"We are delighted to partner with HGGC, a firm that is completely aligned with our values as a culture and people-driven company. We share a common ethos and expansive ambition, and I am tremendously excited for the next chapter of the SRG story"

Warren Downey, SRG Group CEO



Warren Downey
CEO, SRG

“The direct lending capital structure that the Deloitte team helped us put in place allows us to partner with relationship-minded lenders and will provide us with the flexibility to effectively execute our M&A strategy.”

Colin Phinisey, HGGC

The Group was formed following the appointment of the CEO Warren Downey to establish a foundation for a more comprehensive offering. The subsequent acquisitions of LIME, Square Mile Broking and David Codling and Associates in 2019 enhanced the company's retail business portfolio, and in the past 12 months alone the company has completed a further five acquisitions, signalling to the sector its intent to continue consolidating the fragmented, specialist insurance broking market, and also proactively expand its customer base of 1,200 broker clients and 45,000 policyholders.

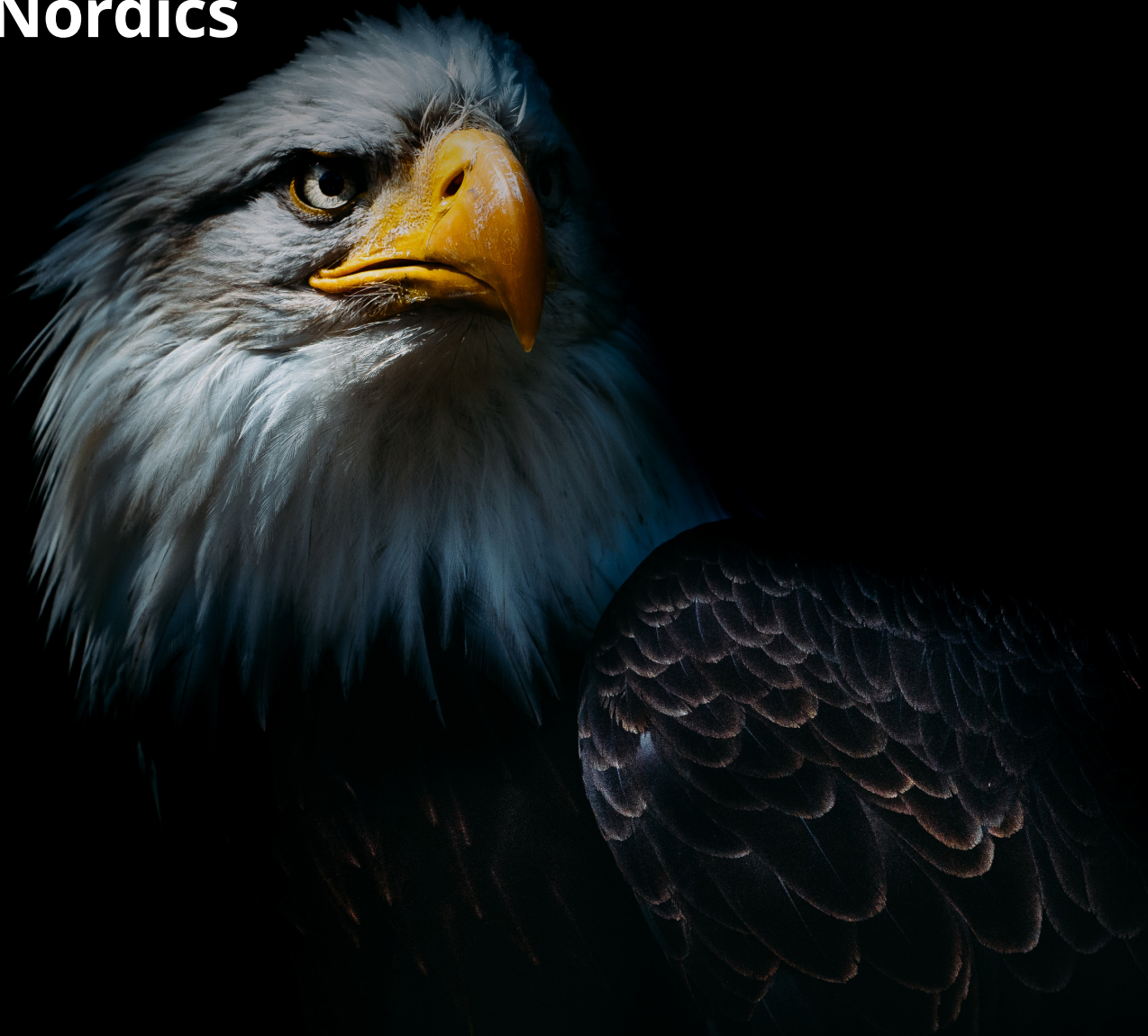
The exit of Pollen Street Capital provided an opportunity for a new investor to inject fresh capital into SRG and drive a new and exciting growth story for the coming years. This opportunity was seized towards the end of 2020 by the team at HGGC, a California-based mid-market fund with \$5.4 billion in cumulative capital commitments. HGGC mandated Deloitte's Debt & Capital Advisory team to act as its advisors assist in accessing liquidity from the European direct lending market. Targeting direct lenders specifically allowed HGGC to raise its target level of financing within a compressed timeframe, despite the difficulties presented by the global economic climate and ongoing COVID-19 pandemic.

Aside from the regulatory and logistical dynamics of a cross-border transaction, the financing presented challenges due to the bespoke structure required, and also the need for flexibility to ensure that the offer was appropriate for financing both HGGC's investment and also its anticipated pipeline of acquisitions and ongoing working capital requirements. As advisors, Deloitte supported HGGC throughout the financing process, leveraging a large network of market contacts to initiate dialogue with a range of potential financing providers, and filtered them to create a concentrated pool of the most credible lenders to provide the structure required. Deloitte assisted HGGC with managing the lender due diligence process, organising lender meetings with the sponsor and management, involvement in term sheet negotiations, and liaising directly with lenders, sell side advisors and legal counsel to ensure the right structure and terms were delivered to HGGC. The deal closed on 26 February 2021, with HGGC's Fund IV acquiring a majority ownership and the existing management team rolling over a portion of equity alongside it. The debt was provided by Ares.

“This transaction is another good example of the continuing strong appetite from direct lenders for assets that are perceived as COVID-19 resilient.”

Robert Connold, Head of Alternative Lender Debt Advisory

Alternative Lending in action: Nordics



Nordic lending market perspectives

The demand for alternative financing has grown steadily in the Nordics over the past few years. 2018 and 2019 saw record levels of activity, with the Alternative Lender Deal Tracker documenting 37 deals in each year. Despite the COVID-19 pandemic, activity was robust with 33 deals completed in 2020.



Morten Husted Permin
Partner, Head of Nordic Debt & Capital Advisory

Following a trend previously seen in the UK, France and Germany, private equity activity proved to be a catalyst for alternative lender deal activity. The software, technology and healthcare sectors, driven by higher valuation multiples with increased leverage, have been the most active in recent years.

It is expected that alternative lending will flow into new market sectors and non-PE-backed businesses in the future, as seen elsewhere in Europe, as more pan-European funds look to the Nordic market for untapped opportunities.



David Burton
Director, Nordic Debt & Capital Advisory

Market characteristics

The regulatory environments across the Nordics are some of the most welcoming to businesses in the world. According to the Ease of Doing Business Index (World Bank Group), the Nordic countries rank amongst the top 10 globally. While laws and regulations vary across the Nordics, they are generally lender friendly, and both borrowers and lenders can benefit from stable and transparent regimes.

Moreover, the Nordics are characterised by their resilient economies, healthy financial and political environments and lender-attractive businesses. The region held up relatively well in 2020 despite the pandemic, with GDP falling 3-4% across the Nordics compared with a drop of about 7% across the Eurozone. The region also has attractive socioeconomic features, such as a quality education system and high levels of disposable income.

Despite these fundamentals, alternative lending is less prevalent than elsewhere in Europe. Higher capital ratios and profitability going into the Global Financial Crisis enabled Nordic banks to preserve their market share following the financial crash, unlike banks in other European countries. Strong relationships with private equity firms and competitive pricing against alternative lenders have allowed the banks to continue to retain this foothold. Another factor is that the banks can always provide local currency funding, although this is an advantage only in Sweden and Norway, rather than in Finland (which uses the euro) and Denmark (whose currency is pegged to the euro).

As elsewhere in Europe, business valuations have risen to all-time highs, buoyed up by the unprecedented global monetary stimulus. Furthermore, throughout 2020 as businesses struggled due to reduced customer demand and the impact of lockdowns, banks became more risk-averse and switched their focus from actively seeking new clients to supporting their existing borrower base, opening the market for alternative capital providers.

Market drivers and trends

The resilience seen in the region during the pandemic, probably due to in part to Sweden's initial soft lockdown approach, underpinned an increase in deal completions both Sweden (with 20 deals closing in 2020 compared to 18 in 2019) and Norway (8 deals closing compared to 6 in 2019). In Denmark however, where there were 14 deals in 2018 and 12 in 2019, deal activity dropped by over 50% in 2020. In the relatively nascent markets, Finland and Iceland, deal activity in 2020 was low.

As in the rest of Europe, activity in the Nordic direct lending market is driven largely by sponsor-backed companies, which in 2020 accounted for over 80% of all direct lending deals closed. More than 90% of these deals funded acquisitions. M&A activity in general rebounded strongly in the second half of the year, and growth is expected to continue into 2021, further driving demand for alternative lending.

Case study: Axcel and refinancing Loopia Group

In autumn 2020, Nordic private equity house Axcel wanted to refinance a portfolio company it acquired in June 2018, the innovative web services and hosting business Loopia Group. With an operational and acquisitions focus in the Nordics and in Central and Eastern Europe, Axcel sought a degree of flexibility in its debt structure that was not currently provided by its existing club of lenders. As a result, it looked for a new financing solution to support future growth and the consolidation of Loopia's existing operations, following a spate of recent acquisitions by the company. Deloitte's Nordic Debt & Capital Advisory team was mandated to handle a complex and competitive refinancing process within a two-month timeframe, which included lender materials preparation, lender dialogue, terms negotiation and final execution. Various lenders, both Nordic and international, were approached to explore financing options. These included amendments to the existing club deal, fresh bank financing, and also comprehensive borrowing structures from the direct lending market. Deliverability and flexibility of terms were the key objectives of the refinancing. Based on a careful assessment of lenders, a unitranche structure provided by Arcmont Asset Management was chosen, due to its ability to deliver within a very tight deadline, the flexible terms granted, and the availability of further growth capital.

We also expect non-bank financing to become more commonplace in the wider corporate sector. However, cultural barriers such as language and having a local presence could inhibit adoption to some extent. To overcome these barriers, a growing number of international lenders are establishing local offices.

High yield corporate bonds are another source of non-bank financing. This has often been an attractive borrowing option for some companies motivated by price rather than flexibility in terms. As of 31 December 2020, outstanding volume on the Nordic high yield market stood at €46bn (according to trustee and loan agency service provider Nordic Trustee).

With less burdensome listing and reporting requirements, issuing high yield bonds on the Nordic exchanges is a feasible borrowing option for many smaller businesses. This may explain why issuance sizes in the Nordics are relatively small compared to larger European markets – the majority of Nordic high yield bond issuances since 2019 have been under €100m.

“International funds are also turning to the Nordic with growing frequency, given the region’s attractive fundamentals. This can be seen in an increasing level of deal activity as well as a growing physical presence.”

Active lenders in the market

The Nordic alternative lending market is dominated by both local and international private credit funds.

There was a marked increase in deal activity and fundraising by domestic funds in 2020. Capital Four launched its third direct lending fund in 2020 with more than €500m out of a target fund size of €1bn raised at first close in August. Nest Capital is in the process of raising its third fund, with an expected launch during the spring of 2021 and a target fund size of over €100m; and Kreditfonden is targeting a mid-2021 launch of a fund with a target size of €500m. The steps taken by domestic lenders to raise additional capital to boost direct lending capabilities can be seen as a vote of confidence in the Nordic alternative lending market as a whole.

International funds are also turning to the Nordic with growing frequency, given the region’s attractive fundamentals. This can be seen in an increasing level of deal activity as well as a growing physical presence. Funds such as Ares, Blackrock, Bridgepoint, Crescent and Pemberton have already established local Nordic offices and overall a growing proportion of Nordic deals are being carried out by international rather than domestic funds. In 2018 54% of deals were executed by international funds; the percentage rose to 62% in 2019, and then still further to 79% in 2020. This trend is true even for funds which do not have a local physical presence: for example Ardian provided both a unitranche and a dedicated acquisition facility to Denmark-based IT Relation, and Arcmont Asset Management recently provided financing to Loopia Group, a portfolio company of the Nordic private equity firm Axcel.

Alternative Lender Deal Tracker H2 2020 Deals

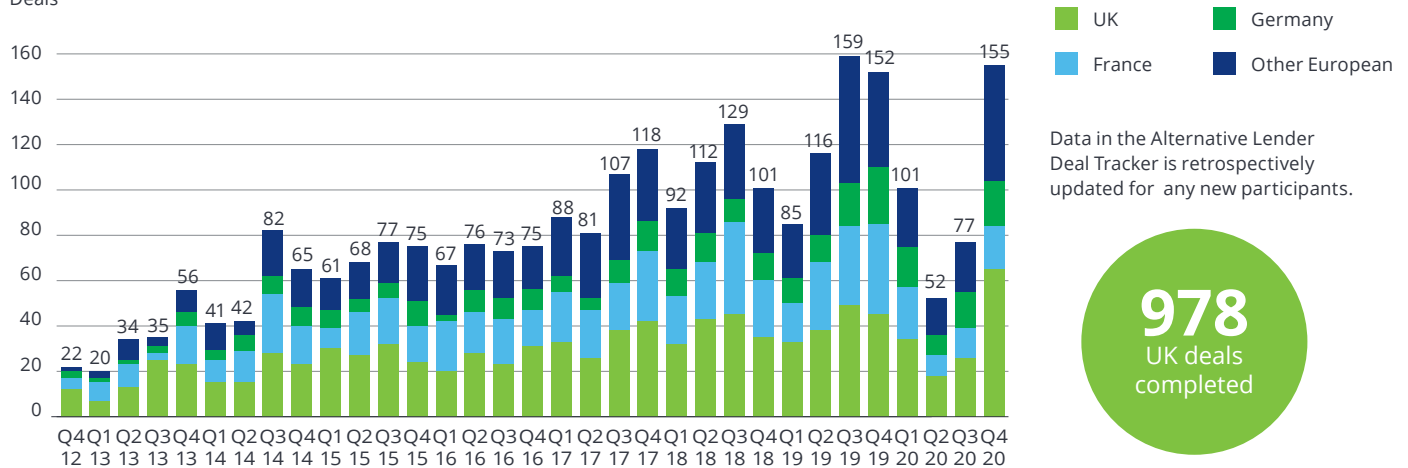


The Alternative Lender Deal Tracker now covers 63 lenders and a reported 2694 deals

Alternative Lender Deal Tracker

Currently covers 63 leading Alternative Lenders. Only UK and European deals are included in the survey.

Deals



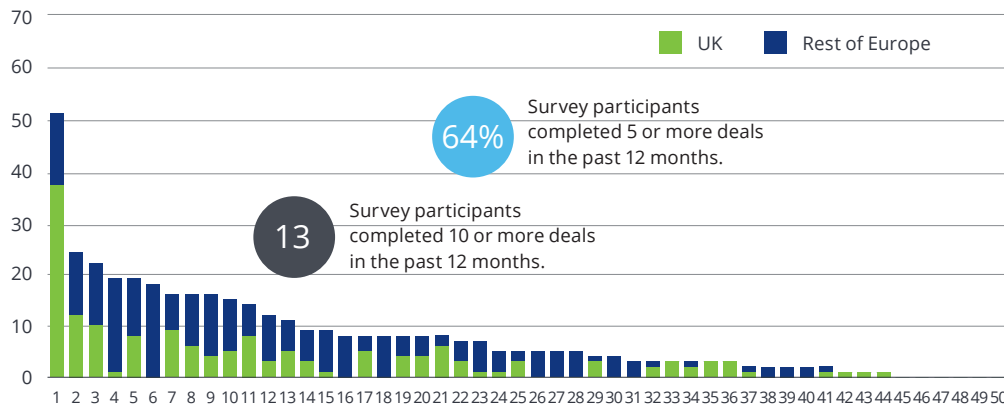
Data in the Alternative Lender Deal Tracker is retrospectively updated for any new participants.

978
UK deals completed

1,716
Euro deals completed

2,694
Total deals completed

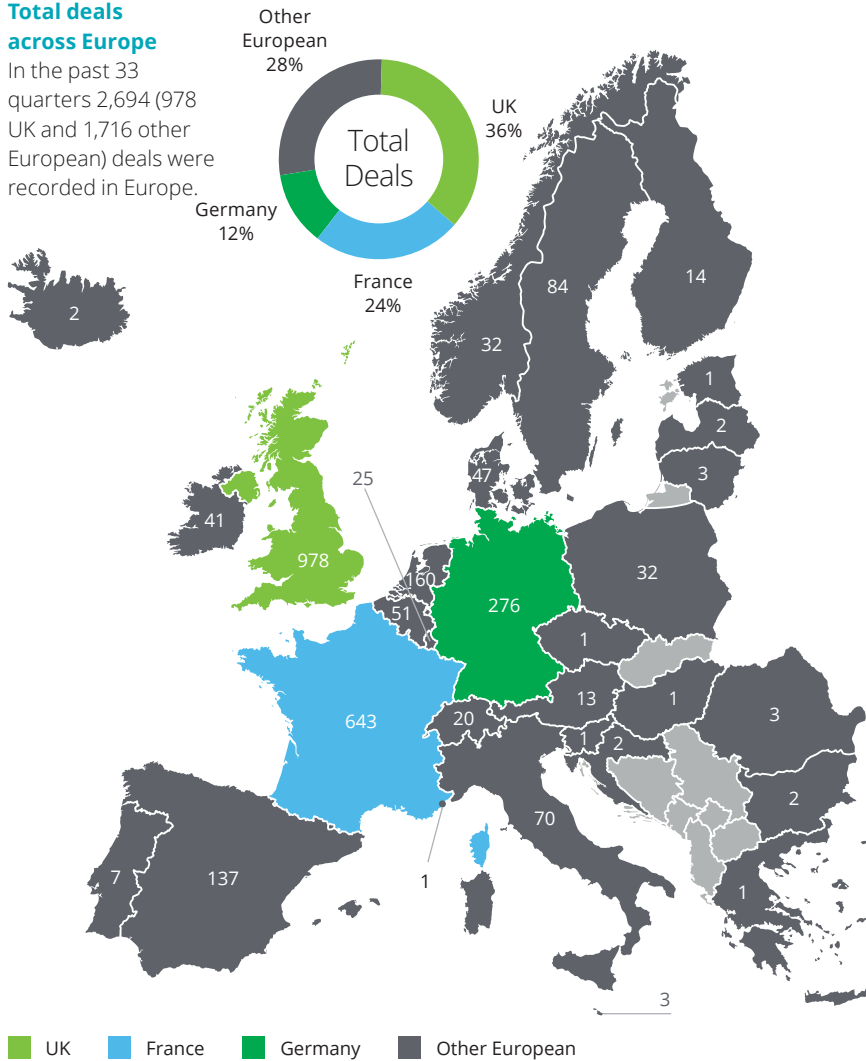
Deals completed by each survey participant (Last 12 months)



Direct Lenders increasingly diversifying geographies

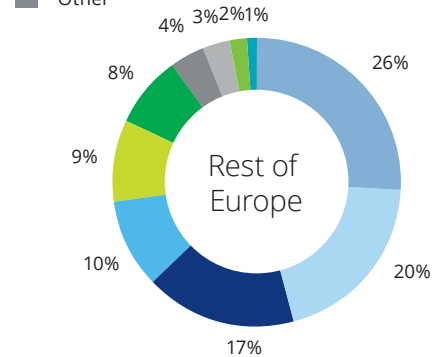
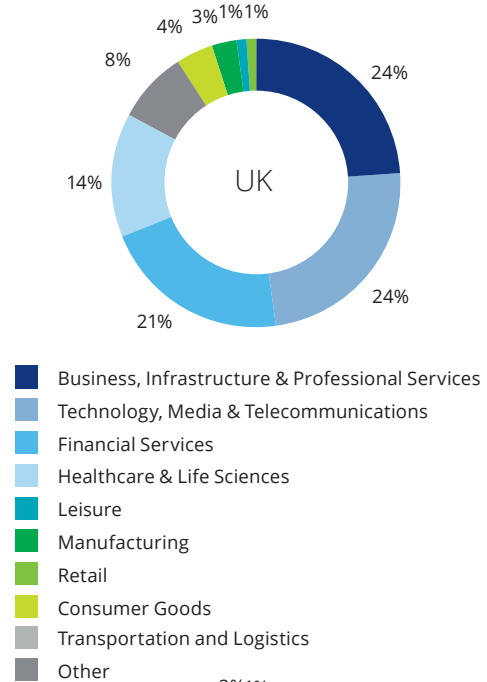
Total deals across Europe

In the past 33 quarters 2,694 (978 UK and 1,716 other European) deals were recorded in Europe.



Total deals across industries (Last 12 months)

Within the UK, the Business, Infrastructure & Professional Services and Technology, Media & Telecommunications industries have been the dominant users of Alternative Lending.

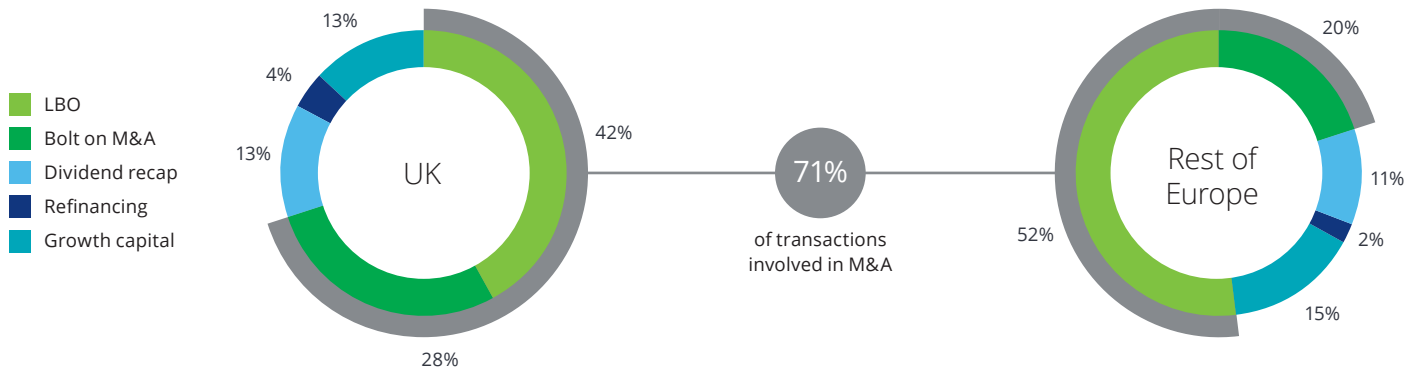


In the rest of Europe there are 5 main industries: TMT, Healthcare & Life Sciences, Business, Infrastructure & Professional Services, Financial Services and Consumer Goods.

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

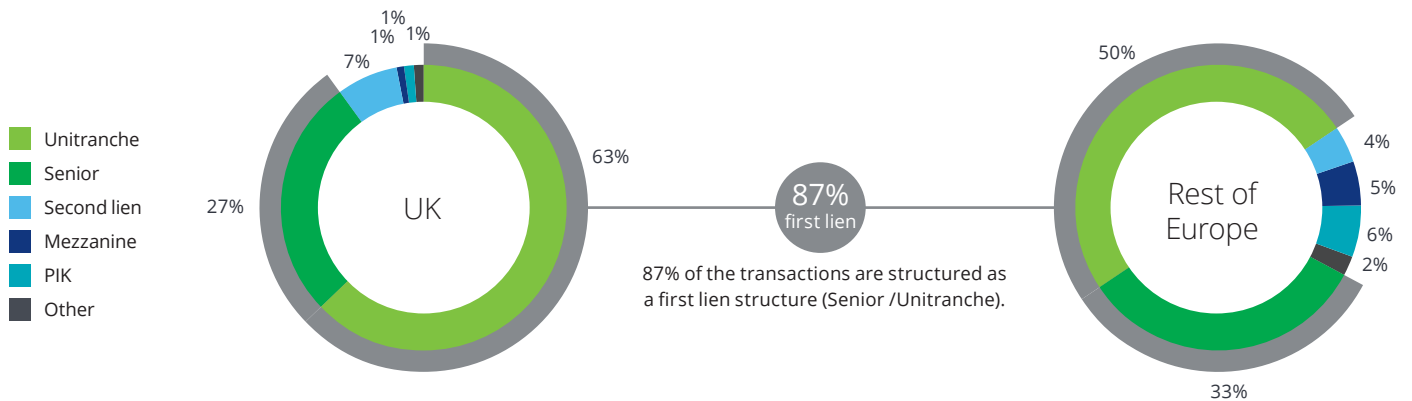
Deal purpose (Last 12 months)

The majority of the deals are M&A related, with 71% of the UK and European deals being used to fund a buy out. Of the 385 deals in the last 12 months, 57 did not involve a private equity sponsor.



Structures (Last 12 months)

Unitranche is the dominant structure, with 63% of UK transactions and 50% of European transactions. Subordinate structures represent only 13% of the transactions.



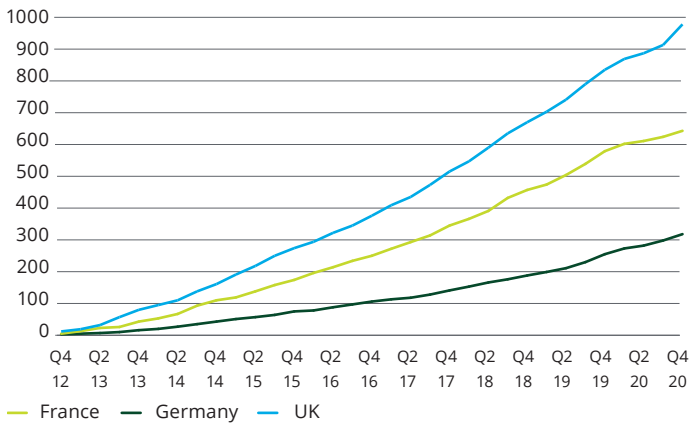
*For the purpose of the deal tracker, we classify senior only deals with pricing L + 650bps or above as unitranche. Pricing below this hurdle is classified as senior debt.

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

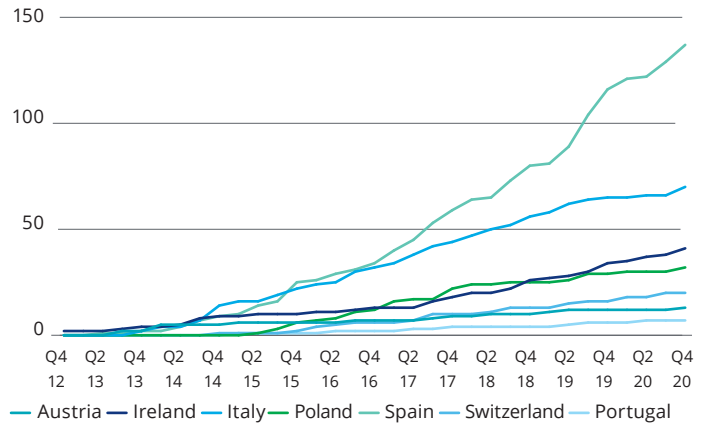
Cumulative number of deals per country

The number of deals is increasing at different rates in various European countries. The graphs below show countries that have completed 5 or more deals up to the year ending December 2020.

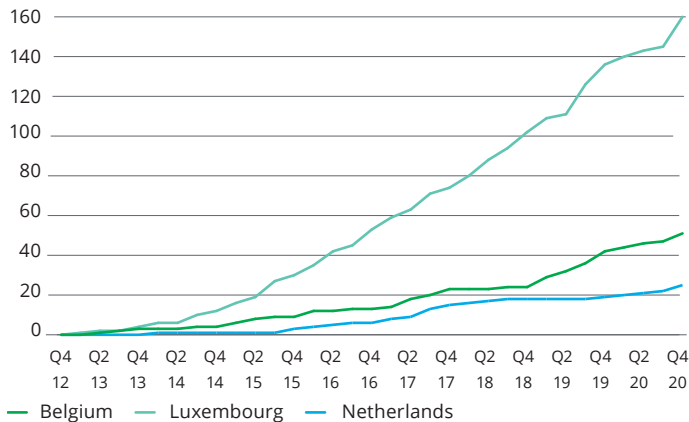
Largest geographic markets for Alternative Lenders



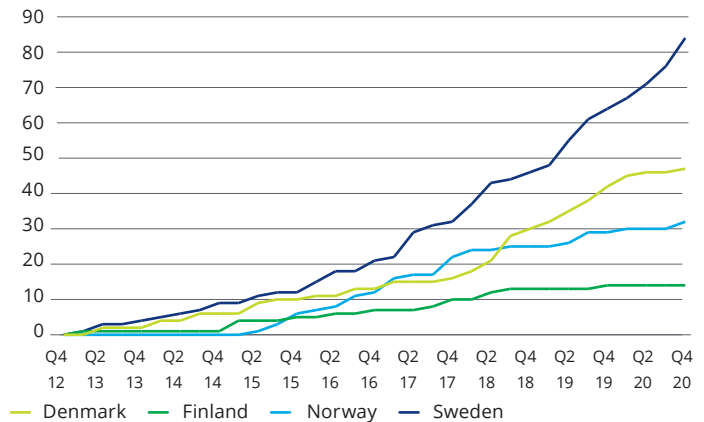
Other European



Benelux



Nordics

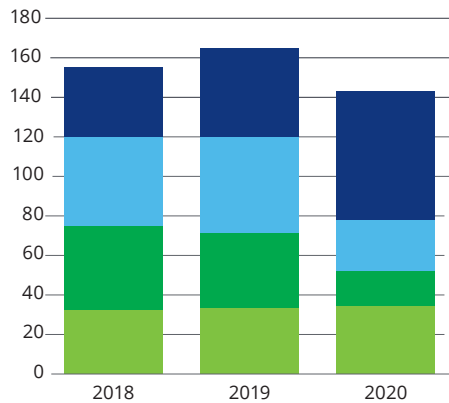


Direct Lending is growing in each of the main European markets

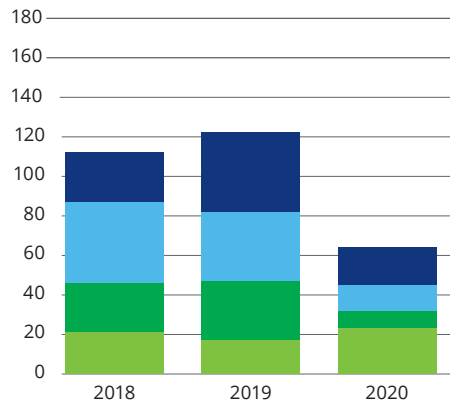
Comparison of deals for the past three years on a LTM basis for selected European countries

On an average, over time the number of deals have been increasing with positive growth between 2018 and 2019 in the majority of countries shown below. Volatility in 2020 as a result of Covid-19 has disrupted this trend, but it is too early to determine the long-term impact.

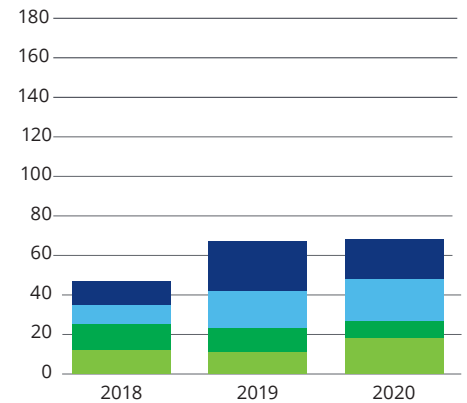
UK



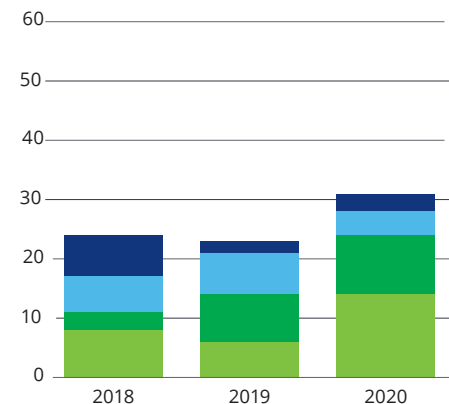
France



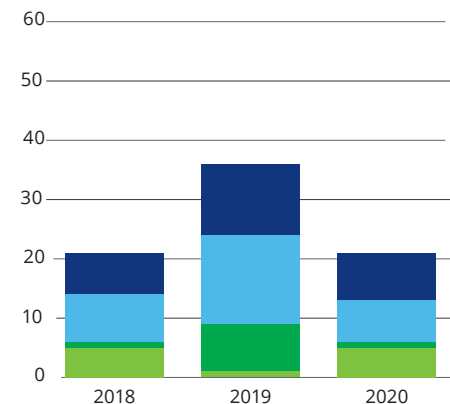
Germany



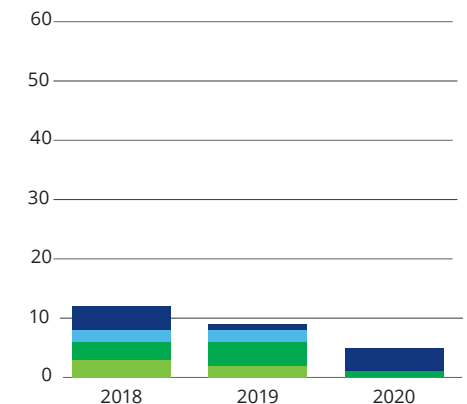
Netherlands



Spain



Italy



■ Q1 ■ Q2 ■ Q3 ■ Q4

Which landmark unitranche deals have been completed?

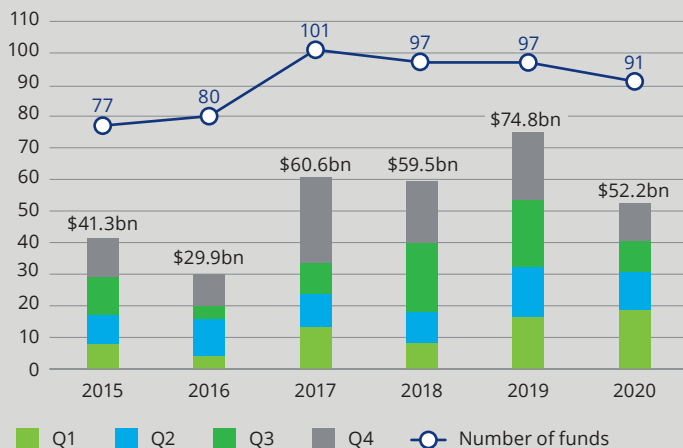
Selected Landmark Unitranche Deals (>€90m)

Borrower	Country	Unitranche in €m	Lenders	Sponsor	Date
Questel	France	~650	SMBC, Park Square, Barings, Bridgepoint Credit, Capza	✓	Dec-20
XLN	UK	~250	Ares	-	Dec-20
Verastar	UK	~350	Ares	✓	Dec-20
ISI Emerging Markets	UK	~200	Ares	✓	Dec-20
DWS	UK	~600	Ares	✓	Dec-20
GRP Group	UK	~250	Ares	-	Dec-20
Jagex	UK	~300	Permira	✓	Dec-20
Intracto	Belgium	~250	Alcentra	✓	Dec-20
Customs Support Group	Netherlands	~250	Arcmont	✓	Dec-20
Angulas Aguinaga	Spain	~300	Arcmont, Tikehau Capital	✓	Dec-20
Consensus	UK	~250	Barings	✓	Dec-20
Thinkproject	Germany	~300	Goldman Sachs Private Debt, SMBC, Park Square, Bridgepoint Credit, Northleaf	✓	Dec-20
Atman	UK	~250	Permira	✓	Dec-20
Profand	Spain	~250	Tikehau Capital	✓	Dec-20
Eleda	Sweden	~250	Ares	✓	Nov-20
Wireless Logic	UK	~300	Ares	✓	Nov-20
Adler & Allan	UK	~250	Arcmont	✓	Nov-20
PIB	UK	~300	Bridgepoint Credit	✓	Nov-20
Process Sensing Technology	UK	~250	SMBC, Park Square	✓	Nov-20
Totalmobile	UK	~250	Five Arrows	✓	Nov-20
Talan	France	~300	Tikehau Capital, CVC	✓	Nov-20
Amplitude Surgical	France	~250	Tikehau Capital	✓	Nov-20
Odigo	France	~250	Tikehau Capital	✓	Nov-20
Surfaces Technological Abrasives	Italy	~450	Tikehau Capital, Arcmont, Goldman Sachs Private Debt	✓	Oct-20
Phenna	UK	~250	Arcmont	✓	Oct-20
Heinenoord	Netherlands	~250	Five Arrows	✓	Oct-20
DOCUNordic	Sweden	~350	Arcmont, Goldman Sachs Private Debt, Permira	✓	Sep-20
Laboratoire X.O.	France	~250	Ares	✓	Aug-20
Unifaun	Sweden	~250	Goldman Sachs Private Debt	✓	Aug-20
Corilus	Belgium	~250	Bridgepoint Credit	✓	Jul-20
TSG Solutions	France	~400	ICG	✓	Jun-20
Vision Healthcare	Belgium	~250	Hayfin	✓	Jun-20
Weka	Germany	~250	Hayfin	✓	Jun-20
Laboratoire X.O (Proton)	France	~300	Ares	✓	Jun-20
EuroParcs	Netherlands	~250	Ares	✓	Jun-20
Eleda	Sweden	~350	Ares	✓	Jun-20
Rosemont/ Primrose	UK	~250	Ares	✓	Jun-20
Ardonagh	UK	~1100	Ares	✓	Jun-20

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

Direct Lending fundraising

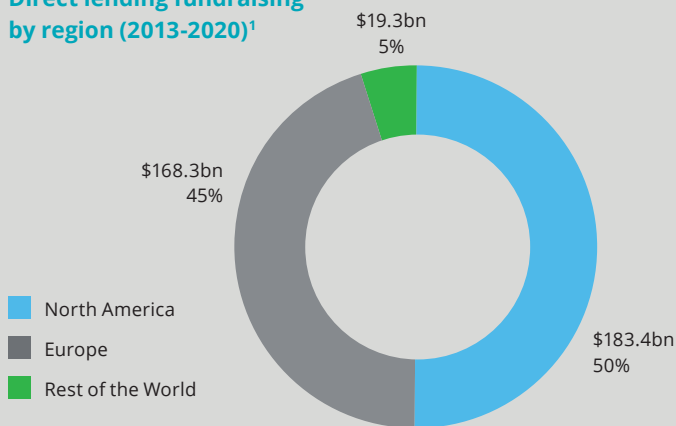
Global direct lending fundraising by quarter¹



Selected largest European funds with final closing in 2020¹

- GSO European Senior Debt Fund II - **\$6,102m**
- Permira Credit Solutions Fund IV - **€3,400m**
- KKR Dislocation Fund - **\$2,800m**
- Blue Ocean Fund - **\$2,100m**
- Arrow Credit Opportunities - **€1,700m**

Direct lending fundraising by region (2013-2020)¹

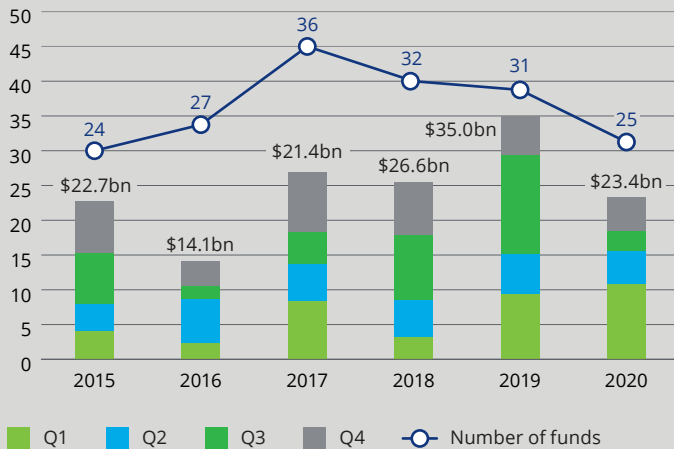


Selected largest US funds with final closing in 2020¹

- HPS Mezzanine Partners 2019 - **\$11,000m**
- Clearlake Capital Partners VI - **\$7,000m**
- Ares Special Opportunities Fund - **\$3,500m**
- Bain Capital Distressed & Special Situations 2019 - **\$3,200m**
- Antares Senior Loan - **\$3,000m**

¹ Data sourced from preqin

Europe Direct Lending fundraising by quarter¹



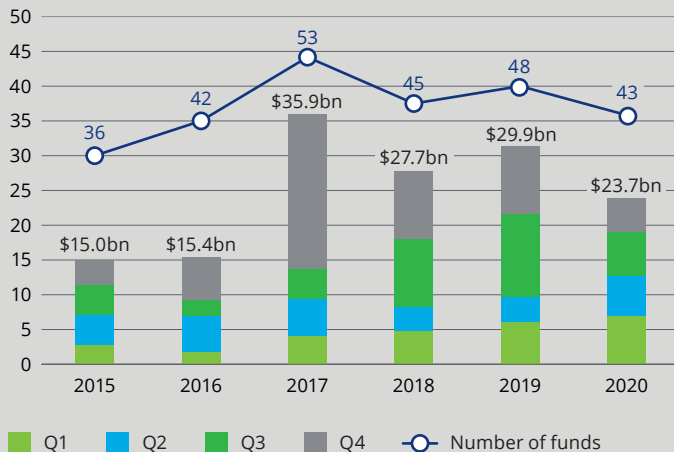
Global Trends¹

- Private debt has fared well during what has been a difficult economic period, with future AUM growth to be driven by investors' search for yield and higher returns
- Private debt (PD) is now the third largest asset class in private capital, behind only private equity and real estate
- Fundraising in PD was robust over 2020, with 200 funds closed raising an aggregate \$118bn, slightly below the 2019 total
- Most of this capital was raised by the largest funds, with the top 10 PD funds raising 39% of the total capital, up from 31% in 2019 – increased competition for deals has also led to a larger proportion of mega deals (valued at \$1bn+) in the private debt space

European Market¹

- Overall, fundraising in Europe was hit harder than the US, with 45 funds closed, raising \$36.8bn – the equivalent figures for 2019 were 59 funds closed, with \$51bn raised
- Direct Lending funds dominated closures in Europe, with 25 funds closing, representing 56% of all funds closed. These funds accounted for \$23.4bn of capital raised equal to 63% of the total
- The largest single Europe-focused private debt fund closed was the GSO European Senior Debt Fund II, which raised \$6.1bn
- With returns on European 10-year government debt generally in negative territory, it's likely that many more European investors will increase allocations towards the asset class

North America Direct Lending fundraising by quarter¹

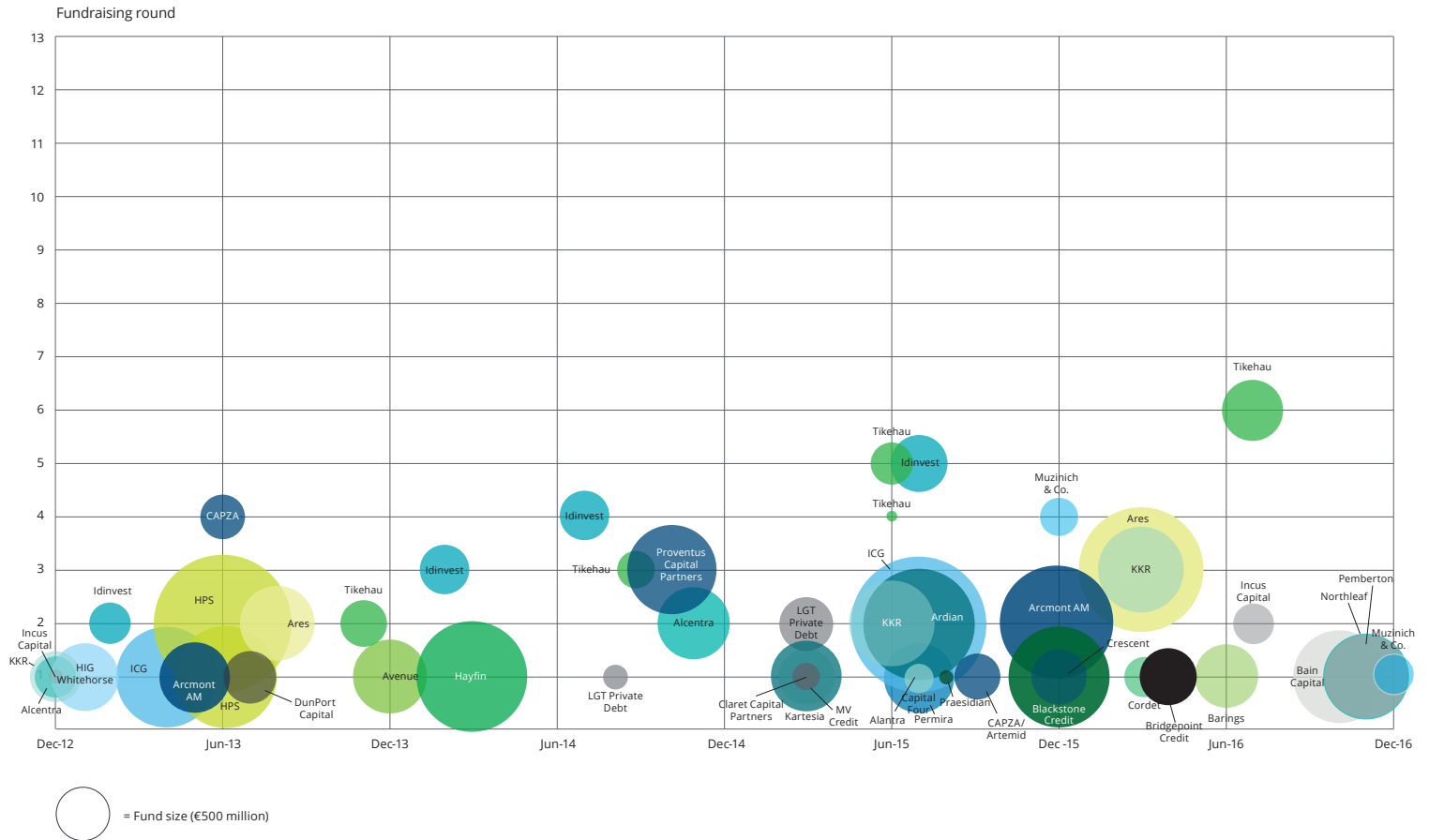


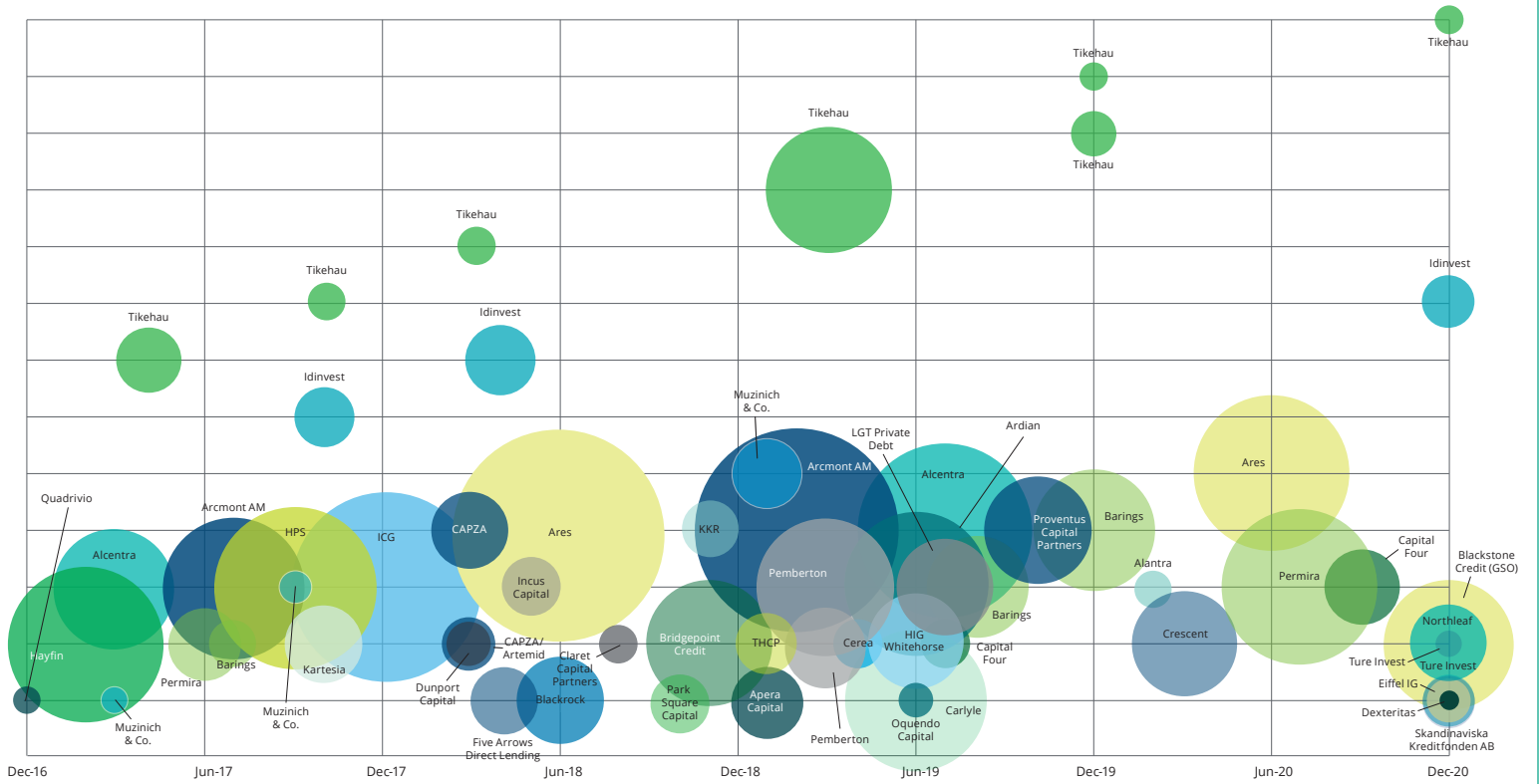
US Market¹

- North American focused private debt fundraising hit \$74.4bn in 2020 – up from \$67.3bn in 2019, with 113 funds closed in 2020, up from 99 funds closed during 2019
- Direct Lending was the most popular strategy in terms of funds closed (43) and aggregate capital raised – just (\$23.7bn)
- Mezzanine funds raised a total of \$21.5bn, with 21 funds closed, indicating that on average these funds were larger

Senior: How much funding has been raised by which Direct Lending manager?

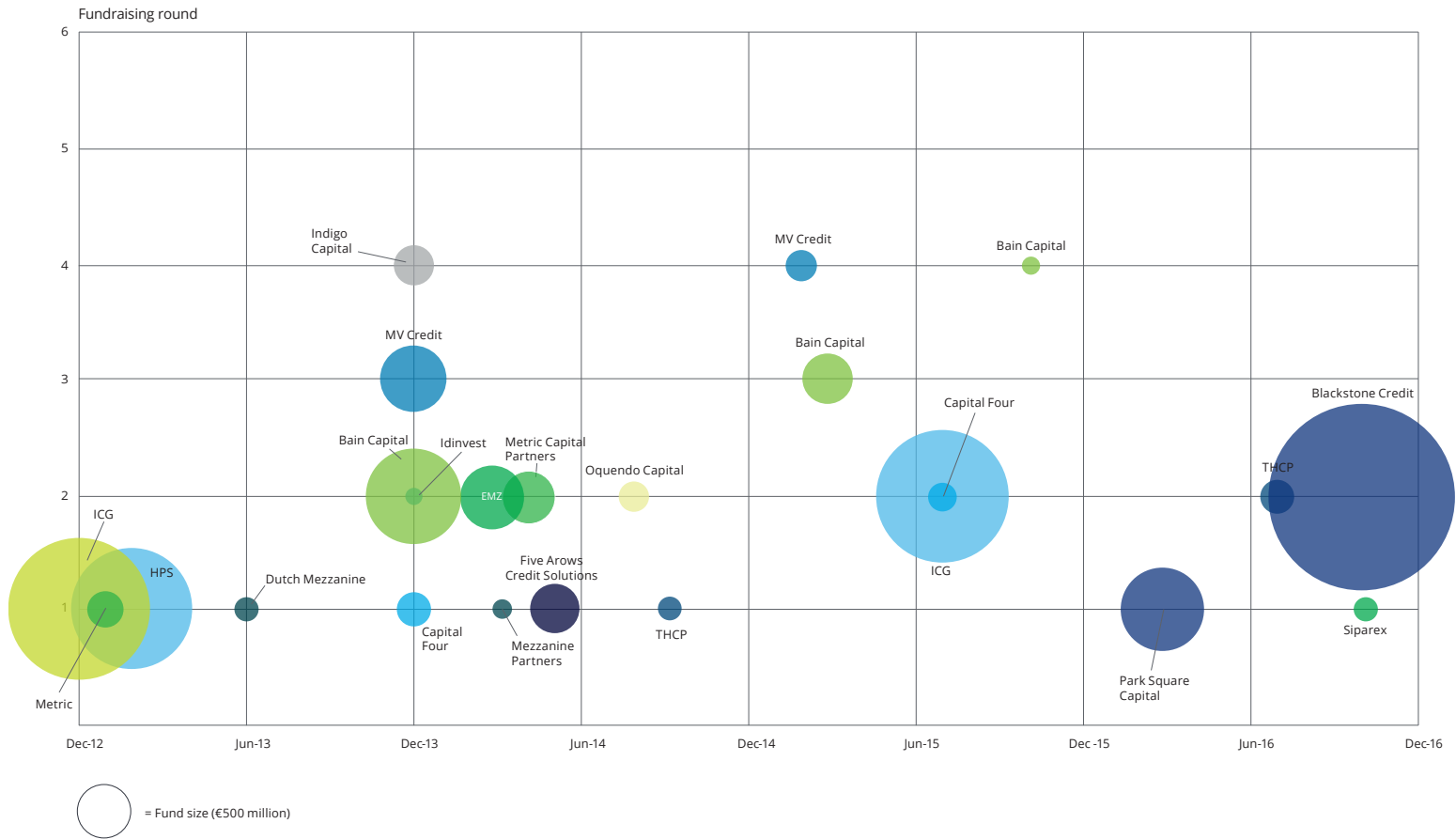
Senior Direct Lending fundraising focused on the European market

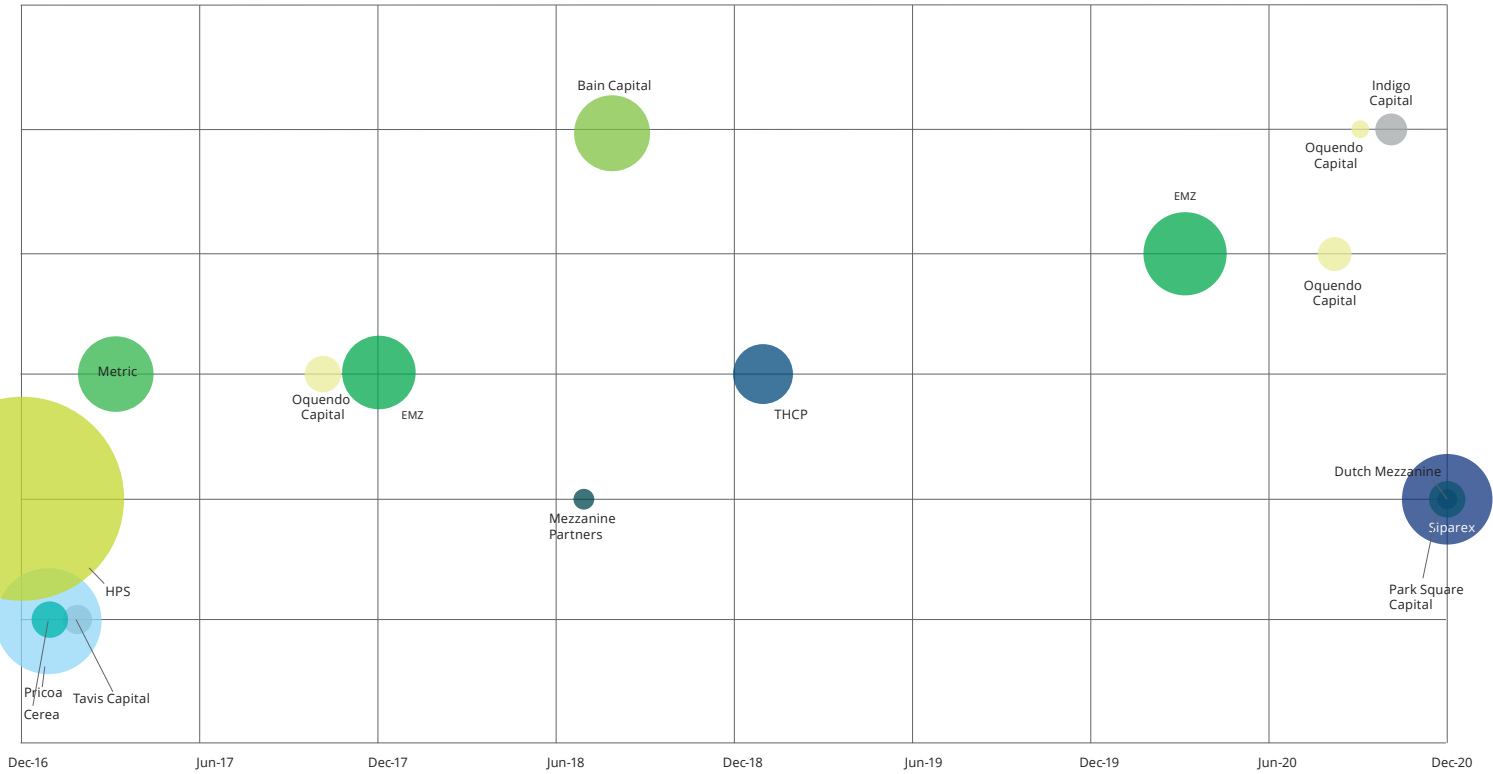




Junior/Growth: How much funding has been raised by which Direct Lending manager?

Junior/Growth Capital Direct Lending fundraising focused on the European market





How much funding has been raised by which Direct Lending manager?

An overview of some of the largest funds raised in the market

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

Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Bain Capital Middle Market Credit 2010	Q2 10	€1,017	Junior	Global
Barings				
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 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 III – Senior	Q3 20	€ 650	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				
Capzanine 4 Private Debt	Q1 18	€850	Senior and Junior	Europe
Artemid Senior Loan 2	Q1 18	€413	Senior	Europe
Artemid CA	Q3 15	€70	Senior	Europe
Artemid Senior Loan	Q3 15	€345	Senior	Europe
Capzanine 3	Q3 12	€700	Senior and Junior	Europe
Capzanine 2	Q3 07	€325	Senior and Junior	Europe
Capzanine 1	Q1 05	€203	Senior and Junior	Europe
Carlyle				
Carlyle Credit Opportunities Fund, L.P.	Q2 19	€2,902	Senior and Junior	Europe
Céréa				
Céréa Dette II	Q2 19	€350	Senior	Europe
Céréa Mezzanine III	Q1 17	€200	Junior	Europe
Céréa Dette	Q2 16	€270	Senior	Europe
Claret Capital Partners				
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
Dexteritas				
Dexteritas Dutch Credit Opportunities Fund	Q4 20	€55	Senior	Europe
Dunport Capital Management				
Elm Corporate Credit DAC	Q1 18	€283	Senior and Junior	Europe
Ireland Corporate Credit DAC	Q3 13	€450	Senior and Junior	Europe

Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Dutch Mezzanine				
Dutch Mezzanine Fund II	Q2 17	€122	Junior	Europe
Dutch Mezzanine Fund I	Q1 13	€60	Junior	Europe
Eiffel Investment Group				
Eiffel 5	Q4 20	€278	Senior	Europe
EMZ				
EMZ 9	Q1 20	€1,043	Junior	Europe
EMZ 8	Q4 17	€815	Junior	Europe
EMZ 7	Q1 14	€695	Junior	Europe
EMZ 6	Q1 09	€640	Junior	Europe
Five Arrows				
Five Arrows Direct Lending	Q1 18	€655	Senior and Junior	Europe
Five Arrows Credit Solutions	Q2 14	€415	Junior	Europe
Hayfin				
Direct Lending Fund II	Q1 17	€3,500	Senior	Europe
Direct Lending Fund I	Q1 14	€2,000	Senior	Europe
HIG				
H.I.G. Whitehorse Loan Fund III	Q1 13	€750	Senior and Junior	Europe
H.I.G. Bayside Loan Opportunity Fund V (Europe)	Q2 19	\$1,500	Senior and Junior	Europe
HPS Investment Partners				
Speciality Loan Fund 2016	Q3 17	\$4,500	Senior	Global
Mezzanine Partners Fund III	Q4 16	\$6,600	Junior	Global
Highbridge Speciality Loan Fund III	Q2 13	€3,100	Senior	Global
Mezzanine Partners Fund II	Q1 13	\$4,400	Junior	Global
Highbridge Speciality Loan Fund II	Q2 10	€1,100	Senior	Global
Mezzanine Partners Fund I	Q1 08	\$2,100	Junior	Global
ICG				
Senior Debt Partners III	Q4 17	€5,200	Senior	Europe
Senior Debt Partners II	Q3 15	€3,000	Senior	Europe
ICG Europe Fund VI	Q1 15	€3,000	Junior	Europe
Senior Debt Partners I	Q2 13	€1,700	Senior	Europe
ICG Europe Fund V	Q1 13	€2,500	Junior	Europe
Idinvest				
Idinvest Senior Debt 5	Q4 20	€400	Senior	Europe
Idinvest Private Debt IV	Q2 18	€715	Senior and Junior	Europe
Idinvest Dette Senior 4	Q4 16	€300	Senior	Europe
Idinvest Dette Senior 3	Q3 15	€530	Senior	Europe
Idinvest Dette Senior 2	Q3 14	€400	Senior	Europe
Idinvest Private Debt III	Q1 14	€400	Senior and Junior	Europe
Idinvest Private Value Europe II	Q4 13	€50	Junior	Europe
Idinvest Dette Senior	Q1 13	€280	Senior	Europe
Idinvest Private Value Europe	Q2 12	€65	Junior	Europe
Idinvest Private Debt	Q3 07	€290	Senior and Junior	Europe

Alternative Lenders	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 III L.P. ("KKRLP III")	Q4 18	\$1,498	Senior	Global
Fund Lending Partners Europe	Q1 16	\$850	Senior and Junior	Europe
Fund Lending Partners II	Q2 15	\$1,336	Senior and Junior	Global
Fund Lending Partners I	Q4 12	\$460	Senior and Junior	Global
LGT Private Debt				
CEPD II	Q3 19	€1,350	Senior and Junior	Europe
Private Debt Fund	Q1 15	€474	Senior and Junior	Europe
UK SME Debt	Q3 14	€100	Senior and Junior	Europe
Metric				
MCP III	Q1 17	€860	Special Situations	Europe
MCP II	Q2 14	€475	Special Situations	Europe
MCP I	Q1 13	€225	Special Situations	Europe
Mezzanine Partners				
Mezzanine Partners II	Q3 18	€65	Junior	Europe
Mezzanine Partners I	Q1 14	€65	Junior	Europe
Muzinich & Co.				
Muzinich Pan-European Private Debt Fund	Q1 19	€ 707	Senior and Junior	Europe
Muzinich French Private Debt Fund	Q3 17	€ 153	Senior	Europe
Muzinich Iberian Private Debt Fund	Q1 17	€ 104	Senior and Junior	Europe
Muzinich Italian Private Debt Fund	Q4 16	€ 268	Senior and Junior	Europe
Muzinich UK Private Debt Fund	Q4 15	€ 250	Senior and Junior	Europe
MV Credit				
MV Subordinated IV	Q4 18	€ 835	Junior	Europe
MV Senior Strategies	Q1 15	€ 815	Senior and Junior	Europe
MezVest III	Q4 13	€ 752	Junior	Europe
Northleaf				
Northleaf Senior Private Credit	Q4 20	\$1,009	Senior	Global
Northleaf Private Credit	Q1 14	\$1,400	Senior and Junior	Global

Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Oquendo Capital				
Oquendo IV	Q3 20	€ 154	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 SCSp	Q4 20	€ 1,235	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 European Strategic Credit Opportunities Fund	Q1 19	€942	Senior and Junior	Europe
Pemberton European Mid-Market Debt Fund II	Q1 19	€2,740	Senior	Europe
European Mid-Market Debt Fund	Q4 16	€1,140	Senior	Europe
Permira				
Permira Credit Solutions 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				
Pricoa Capital Partners V	Q1 17	€1,692	Junior	Global
Proventus				
Proventus Capital Partners	Q4 19	€1,670	Senior and Junior	Europe
Proventus Capital Partners III	Q4 14	€1,300	Senior and Junior	Europe
Proventus Capital Partners II/IIB	Q2 11	€835	Senior and Junior	Europe
Proventus Capital Partners I	Q3 09	€216	Senior and Junior	Europe
Skandinaviska Kreditfonden AB				
Scandinavian Credit Fund I AB	Q4 20	€390	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

Alternative Lenders	Date	Size (m) w/o leverage	Investment Strategy	Geography
Tikehau				
Fund 13	Q4 20	€ 120	Senior	Europe
Fund 12	Q4 19	€ 116	Senior	Europe
Fund 11	Q4 19	€ 297	Senior	Europe
Fund 10	Q1 19	€ 2,200	Senior and Junior	Europe
Fund 9	Q1 18	€ 212	Senior	Europe
Fund 8	Q4 17	€ 205	Senior and Junior	Europe
Fund 7	Q2 17	€ 615	Senior	Europe
Fund 6	Q3 16	€ 610	Senior and Junior	Europe
Fund 5	Q3 15	€ 290	Senior and Junior	Europe
Fund 4	Q3 15	€ 19	Senior and Junior	Europe
Fund 3	Q3 14	€ 230	Senior	Europe
Fund 2	Q4 13	€ 134	Senior and Junior	Europe
Fund 1	Q4 13	€ 355	Senior	Europe
Ture Invest				
Ture Invest Fund I	Q4 20	€400	Senior	Europe
Hedda Credit Fund I	Q4 20	€100	Senior	Europe

Direct Lending professionals

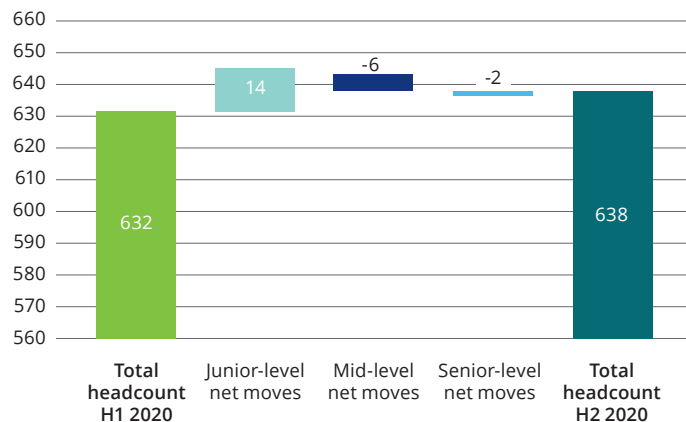
Key statistics and recent moves

Direct Lending Market Headcount

H2 2020 saw the ramifications of COVID-19 in the hiring market with total headcount barely increasing from H1 2020. Figure 1 shows that the number of investment professionals (IPs) increased from 632 to 638, the smallest net increase for many years, and the numbers at mid and senior experience levels fell in the second half of the year.

Whereas hiring rates in H2 were consistent with H1, the number of departures increased, from 16 in H1 2020 to 39 in H2 2020. Whilst leavers have triggered numerous replacement hiring processes that will correct the market throughout 2020, H2 saw a number of IPs leave the market for different strategies, namely credit opportunities and private equity.

Figure 1. Net moves across different levels of seniority between H1 2020 and H2 2020



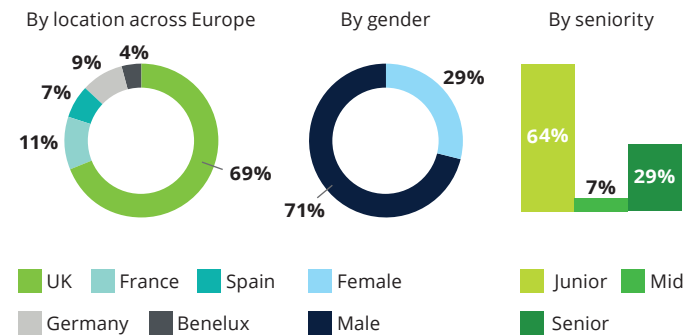
Notes

For the purpose of this analysis we have included the total investment team headcounts at c. 35 combined Mezzanine / Direct Lending funds (such as Park Square, Crescent Capital). We have excluded investment teams where the large majority of their investment activity is in minority or majority equity. We have also excluded teams whose main activity is in the corporate private placement market.

When analysing seniority, junior-level IPs are those with less than 6 years relevant experience, mid-level constitutes 6-10 years experience, and senior is those with more than 10 years experience.

Percentage numbers around rounded to the nearest whole number

Figure 2. Breakdown of hiring



Breakdown of hiring

Figure 2 (above) shows the percentage of hires across different countries in Europe. In H2 2020, 69% of hires were in the UK, followed by France, Germany, Spain and Benelux. This local hiring trend is similar to H1 when 67% of hires were in the UK.

Regarding seniority, the majority of hires were at the junior-level, accounting for 64% of all hires. The mid-level made up 7% of hires and senior-level hires 29%. Hires at the mid-level show the most notable drop-off from 20% in H1 2020, while junior and senior hires show an upsurge from their respective levels of 58% and 22% in H1 2020.

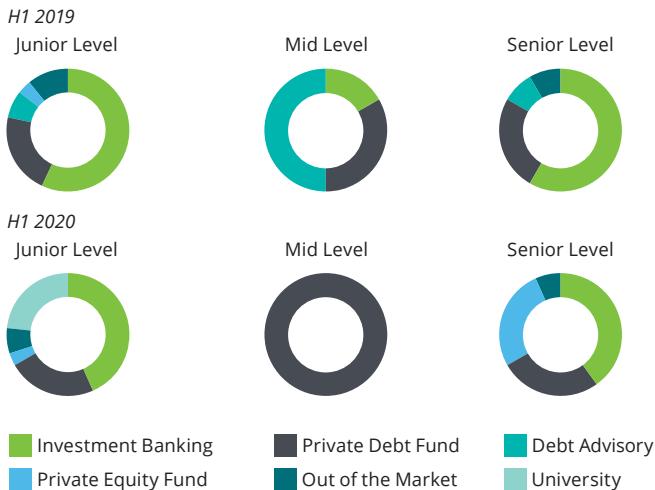
Gender diversity of hires continues to increase. Figure 2 shows 29% of all hires in H2 were female hires, an increase from 27% in H1. In 2020, female hires made up 28% of the total, an increase from 2019 (23%), 2018 (20%) and 2017 (16%), indicating a steady increase in gender diversity year on year.

Source of hires – Breakdown

Figure 3 compares the source of hiring at different levels of seniority in H2 2019 and H2 2020. In 2020, investment banks did the most hiring at the junior-level (43%) and at the senior-level (40%), whereas competitor debt funds represented the sole source of hires at the Mid-level, 23% of junior-level and 27% at the senior-level.

Universities were the 2nd largest source for junior hiring (23%), substantial increase compared to just 9% in H2 2019. PE played a significant part for the first time but these moves represent internal transfers across funds' PE strategies. There was a fall in hires from debt advisory in H2 2020 compared to H2 2019.

Figure 3. Sources of hiring at different levels of seniority in H1 2019 and H1 2020



Recent Notable Direct Lending Moves

Alcentra	Claes Styren left as VP for Anacap Credit Opportunities
Apera	Benjamin Schall joined as Principal from UniCredit
Arcmont	Mark Jochims left as Partner for TBC
Ares Management	Anita Das joined as VP from PSP
Bridgepoint	Michael Lucas left as MD for HIG Whitehorse
Bridgepoint	Thomas Athanasiou left as Director for TBC
Bridgepoint	Miguel Fraguas Jover left as Director for KKR
CIC	Charles De Villaines joined as MD from Macquarie Group
CSAM	Rakesh Pavithran and Samantha Wessels joined as Directors from CS Lev Fin and out of the market respectively
CVC	Miguel Toney as Partner from Park Square
HIG Whitehorse	Guido Lorenzi left Whitehorse Italy as Principal for QuattroR (PE)
HIG Whitehorse	Pascal Meysson joined as MD, head of Europe, from Alcentra
HPS	Rachel Zagajewski joined as VP from Park Square
HPS	Peter Atkinson joined as MD from GIC
ICG	Pablo Burgos Sainz joined as MD from Soc Gen
KKR	Michael Small joined as Partner from Park Sq
Proventus	Natalia Novak joined as MD from CVC (advisory)
PSP	Philipp Schroeder left as Director for TBC

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 markets, leveraged and acquisition finance, investment banking and private equity. To contact Bruce Lock at Paragon by email, use lockb@paragonsearchpartners.com. To contact Andrew Perry at Paragon by email, use aperry@paragonsearchpartners.com. Or to contact by phone the office telephone number is +44 (0) 20 7717 5000.



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Diversity review in corporate credit



Gender within Direct Lending

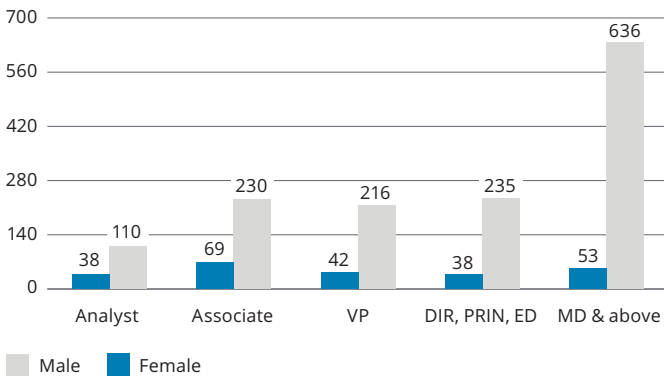
The progress of diversity in corporate credit

There are currently 5,714 investment professionals working across Direct Lending, Single Name Distressed, CLO's and Leveraged Finance in Europe. 14% are female and 86% are male.

The percentage of women at senior levels in credit is significantly less than among juniors who join the industry from university. Of 5,714 professionals, women account for just 7.9% of the senior work force, 17.1% of mid-level professionals and 23% at junior level. In general, the largest drop in percentages occurs between mid-level and senior roles. Even in other investment industries, women are very much underrepresented.

Understanding why is key to increasing diversity. One theory is that the limited number of female role models in senior positions affects perceptions – if women cannot see senior females or be mentored by them, will they believe that they are good enough themselves to make it to the top? Other factors include unconscious bias, expectations, and organisational cultures, which have been created by predominantly male executives over many years.

Figure 1. Female hierarchy in Direct Lending



Research

This information is sourced from an in-depth review conducted by Waterman Stern. In total 420 teams were analysed including European Direct Lending teams, CLO Managers, Distressed Debt & Special Situations funds. Alongside the fund managers; Leveraged Finance, Debt Advisory & Restructuring teams.

Figure 2. Gender diversity in Corporate Credit and Direct Lending

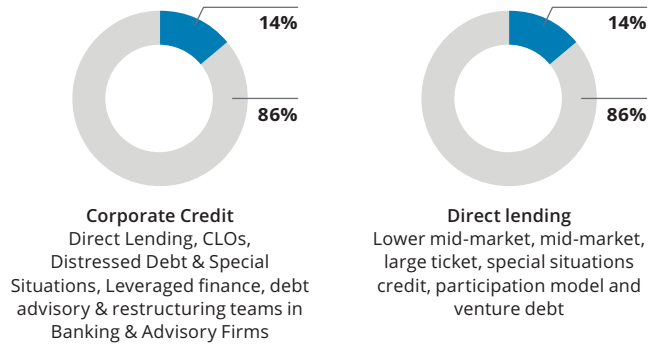
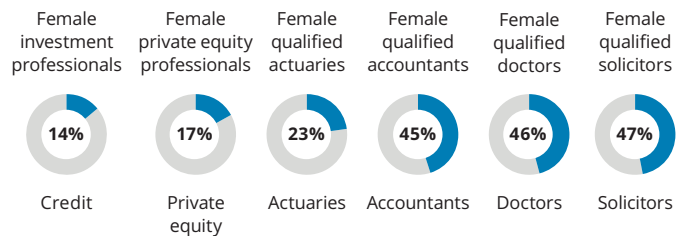


Figure 3. Gender diversity compared to other professions



Ethnicity within Direct Lending

The Industry is predominantly made up of a white workforce

Of 5,714 professionals reviewed, only 11.8% are of non-white ethnicity and just 33 are black. The UK Investment Association also found that less than 1% of asset management staff are black.

Gender is the overriding 'diversity' issue within asset management. However, the Black Lives Matter movement and other global protests over systemic racism are intensifying demand for corporations to take action to close both the gender and ethnicity gaps within their organisation.

Statistics from the Equality and Human Rights Commission Race Report show that unemployment rates were significantly higher for ethnic minorities at 12.9% compared with 6.3% for white people and that black workers with degrees earn 23.1% less on average than white workers.

These figures demonstrate the reality across Direct Lending, Distressed Debt, CLO management, Leveraged Finance & Restructuring advisory teams. Simply put, 88% of applicants for jobs will be white, and 86% will be male.

It is evident that whilst this is a collective problem, it will require individual solutions. For example, Corporate Advisory firms have a far more diverse applicant base at graduate level than investment banks. Buyside organisations that do look to hire directly at graduate level have an extremely low diverse applicant base. Each type of organisation has different obstacles to overcome, and there is no one size fits all solution to the challenge of improving diversity.

Figure 4. Ethnic diversity in Corporate Credit and Direct Lending

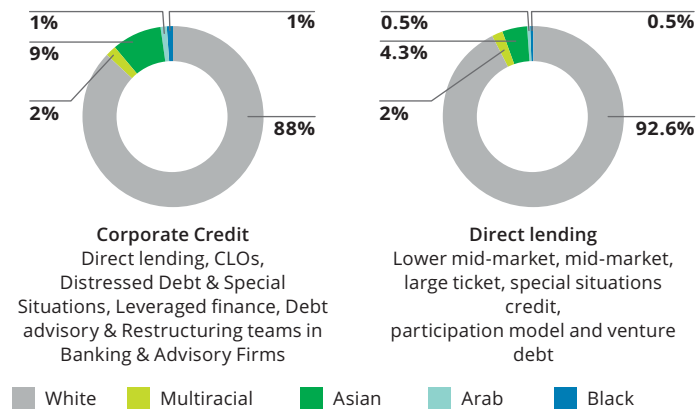
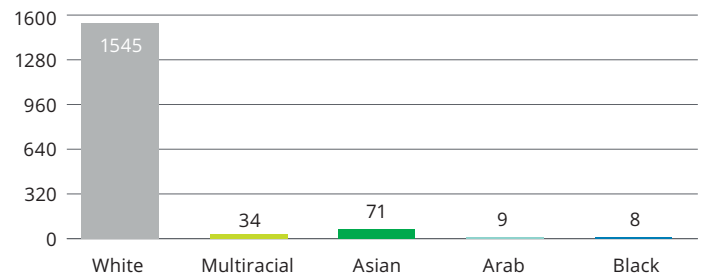


Figure 5. Ethnic diversity in Direct Lending



Waterman Stern

Waterman Stern is a London based Executive Search & Recruitment firm specialising in Credit. They operate in Direct Lending, CLOs, Distressed Debt and Special Situations. Mostly consulting on senior and mid-level front office hires.

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When to use Alternative Debt?

- | | | | | |
|---|---|---|---|--|
| 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 |

Insights into the European Alternative Lending market



Alternative Lender '101' guide

Who are the Alternative Lenders and why are they becoming more relevant?

Alternative Lenders consist of a wide range of non-bank institutions with different strategies including private debt, mezzanine, opportunity and distressed debt.

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

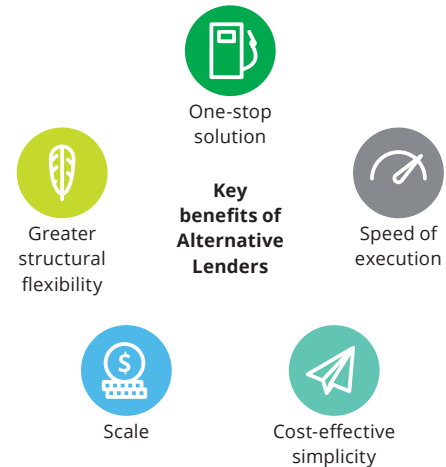
Over the last three years a significant number of new funds has been raised in Europe. Increased supply of Alternative Lender capital has helped to increase the flexibility and optionality for borrowers.

Key differences to bank lenders?

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

However

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



Euro Private Placement '101' guide

Euro PP for mid-cap corporates at a glance

Since its inception in July 2012, the Euro Private Placement (Euro PP) volumes picked up significantly. After the amendment in the insurance legislation in July 2013, the majority of Euro PPs are currently unlisted. The introduction of a standardised documentation template by the Loan Market Association (LMA) in early 2015 is supportive of a Pan-European roll-out of this alternative source of financing.

Key characteristics of the credit investor base

- Mainly French insurers, pension funds and asset managers
- Buy and Hold strategy
- Target lending: European mid-cap size, international business exposure, good credit profile (net leverage max. 3.5x), usually sponsor-less

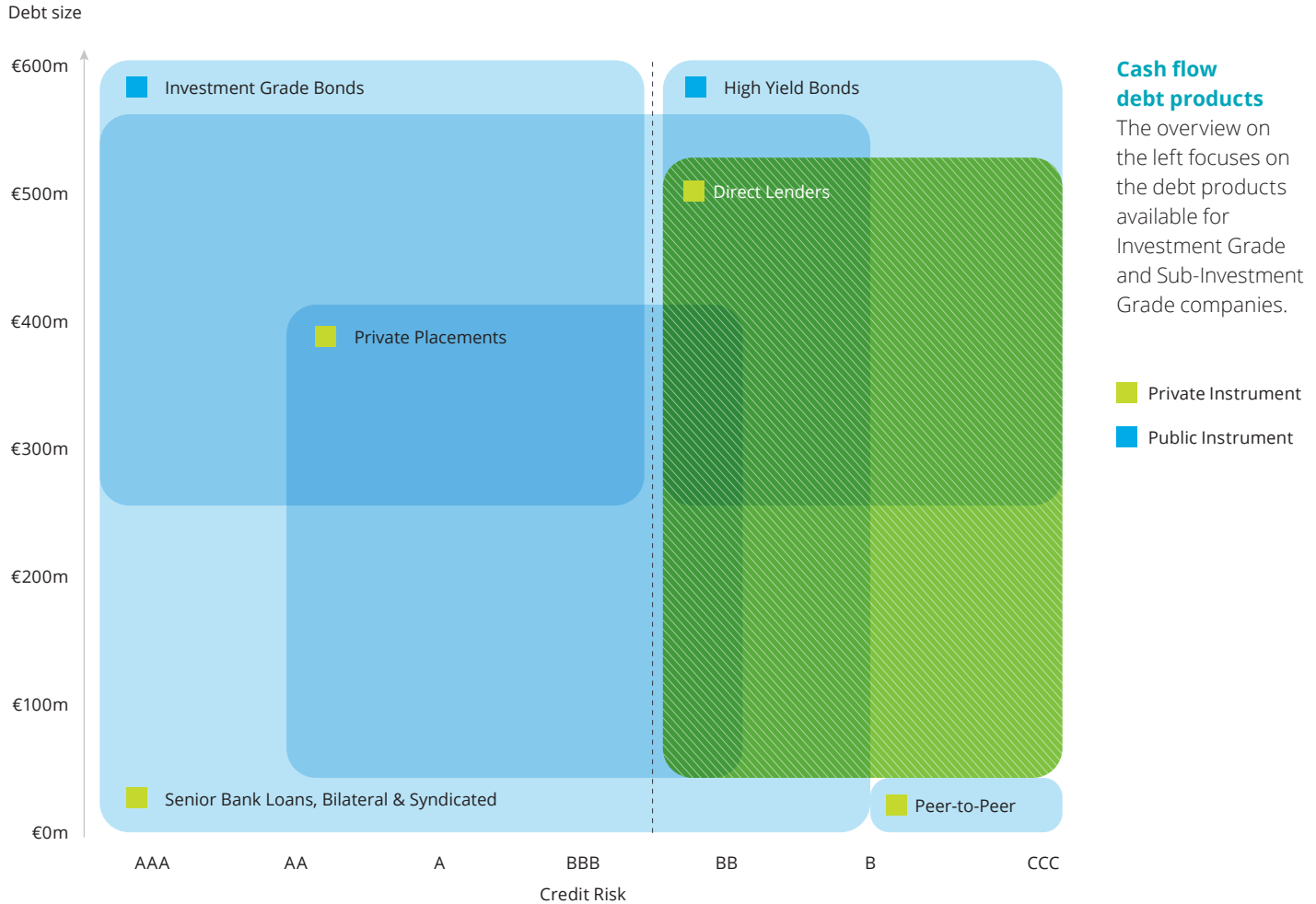
Main features of Euro PP

- Loan or bond (listed or non-listed) – If listed: technical listing, no trading and no bond liquidity
- Usually Senior, unsecured (possibility to include guarantees if banks are secured)
- No rating
- Minimum issue amount: €10m
- Pari passu with other banking facilities
- Fixed coupon on average between 3% and 4.5% – No upfront fees
- Maturity > 7 years
- Bullet repayment profile
- Limited number of lenders for each transaction and confidentiality (no financial disclosure)
- Local jurisdiction, local language
- Euro PPs take on average 8 weeks to issue

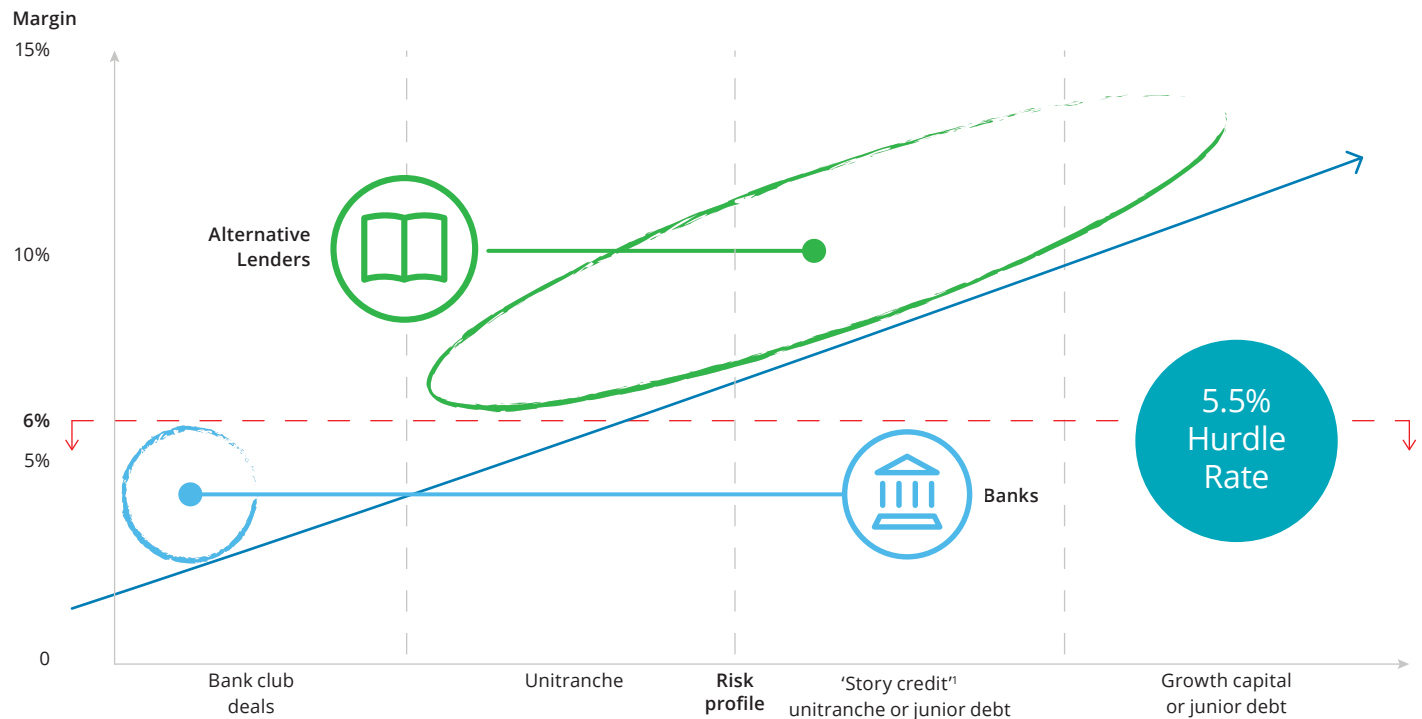
Pros and Cons of Euro PP

- ✓ Long maturity
- ✓ Bullet repayment (free-up cash flow)
- ✓ Diversification of sources of funding (bank disintermediation)
- ✓ Very limited number of lenders for each transaction
- ✓ Confidentiality (no public financial disclosure)
- ✓ Covenant flexibility and adapted to the business
- ✓ General corporate purpose
- ✗ Make-whole clause in case of early repayment
- ✗ Minimum amount €10m
- ✗ Minimum credit profile; leverage < 3.5x

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



How do Alternative Lenders compete with bank lenders?



Leveraged loan banks operate in the 350bps to 600bps margin range providing senior debt structures to mainly companies owned by private equity.

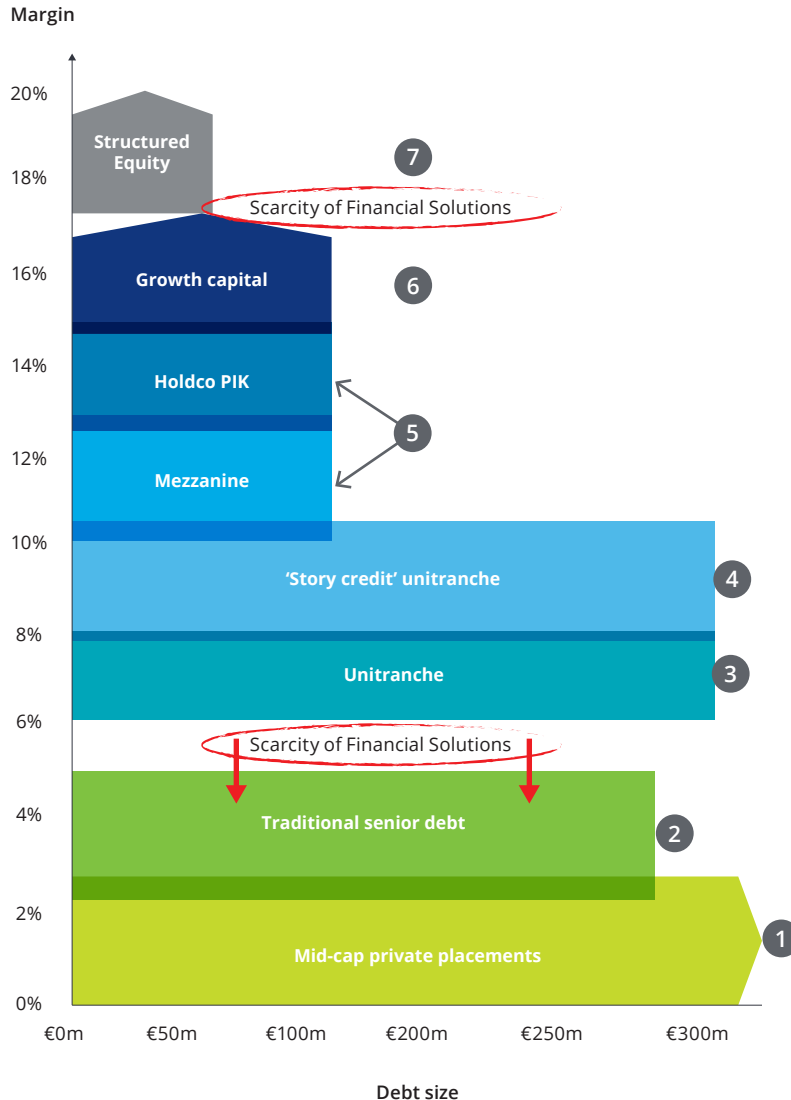
Majority of the Direct Lenders have hurdle rates which are above L+600bps margin and are mostly involved in the most popular strategy of 'plain vanilla' unitranche, which is the deepest part of the private debt market. However, direct lenders are increasingly raising senior risk strategies funds with lower hurdle rates.

Other Direct Lending funds focus on higher yielding private debt strategies, including: 'Story credit'1 unitranche and subordinated debt or growth capital.

Similar to any other asset class the risk return curve has come down over the last 3 years as a result of improvements in the economy and excess liquidity in the system.

¹'Story Credit' – unitranche facility for a company that historically was subject to a financial restructuring or another financial difficulty and as a result there is a higher (real or perceived) risk associated with this investment

What are the private debt strategies?



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

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

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

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

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

The latter is mostly the approach of large asset managers.

Note: Distressed strategies are excluded from this overview

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.

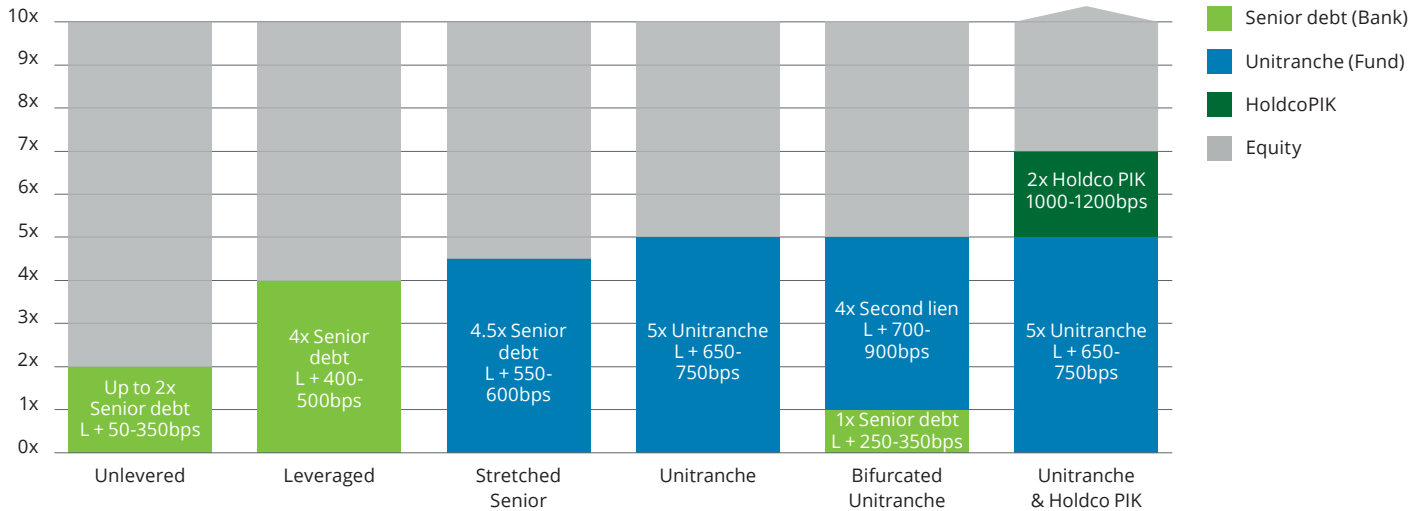
Preferred return (also hurdle rate) – a minimum annual return that the limited partners are entitled to before the fund manager starts receiving carried interest.

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 debt structures are available in the market?

Structures

EV/EBITDA



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



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

Pros and Cons per structure

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

More sponsor-less companies are turning to Direct Lenders to finance growth

Background

- Traditionally private companies without access to further shareholder funding lacked the ability to make transformational acquisitions
- Bank lenders are typically not able to fund junior debt/quasi equity risk and would require a sizable equity contribution from the shareholders to fund acquisitions
- Cost savings, revenues synergies and ability to purchase bolt on acquisitions at lower EBITDA multiples makes a buy and build strategy highly accretive for shareholder's equity.

Opportunity

- Alternative Lenders are actively looking to form longer term partnerships with performing private companies to fund expansion
- Recent market transactions have been structured on Debt/EBITDA multiples as high as 4.5-5.0x including identifiable hard synergies. Typically, this is subject to c.30-40% implied equity in the structure, based on conservative enterprise valuations
- A number of Alternative Lenders are able to fund across the capital structure from senior debt through minority equity.

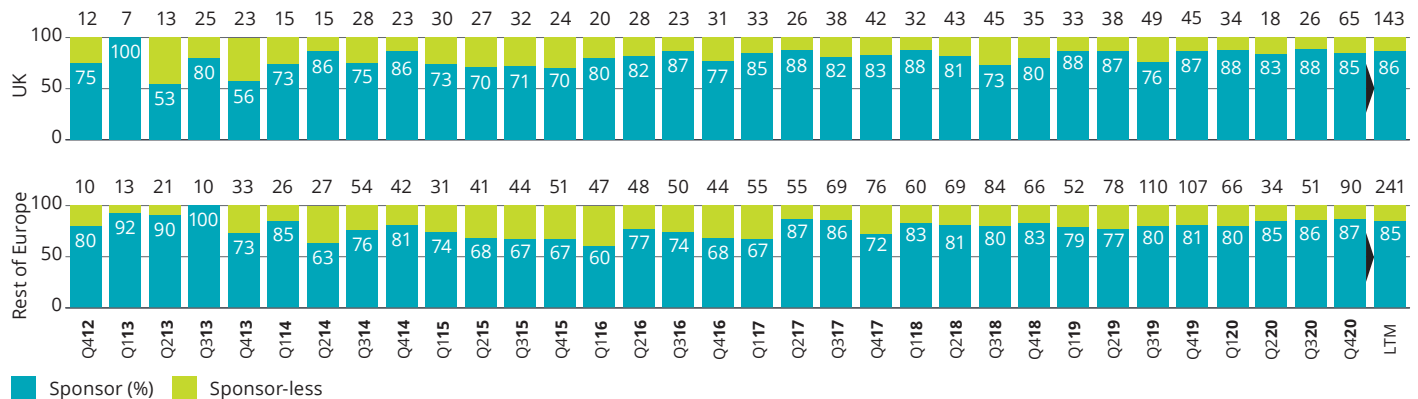
Key advantages

Key advantages of using Alternative Lenders to fund a buy and build strategy may include:

- Accelerate the growth of the company and exponentially grow the shareholder value in a shorter time period.
- No separate equity raising required as Alternative Lenders can act as a one stop solution providing debt and minority equity.
- Significant capital that Alternative Lenders can lend to a single company (€150-300m) making Alternative Lenders ideal for long term partnership relationships and follow on capital for multiple acquisitions.

Sponsor backed versus private Direct Lending deals

As % of total deals per quarter



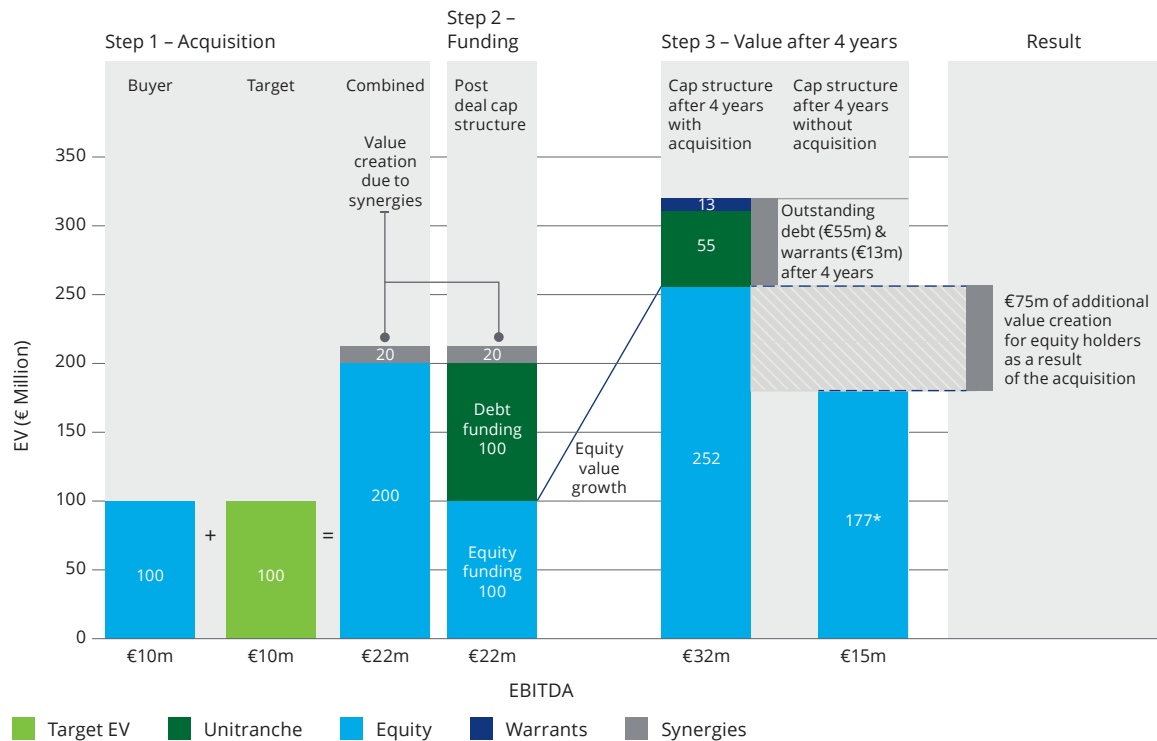
Unlocking transformational acquisitions for privately owned companies

Indicative calculations

- The calculations on this page illustrate the effect of value creation through acquisitions financed using Alternative Lenders.
- 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



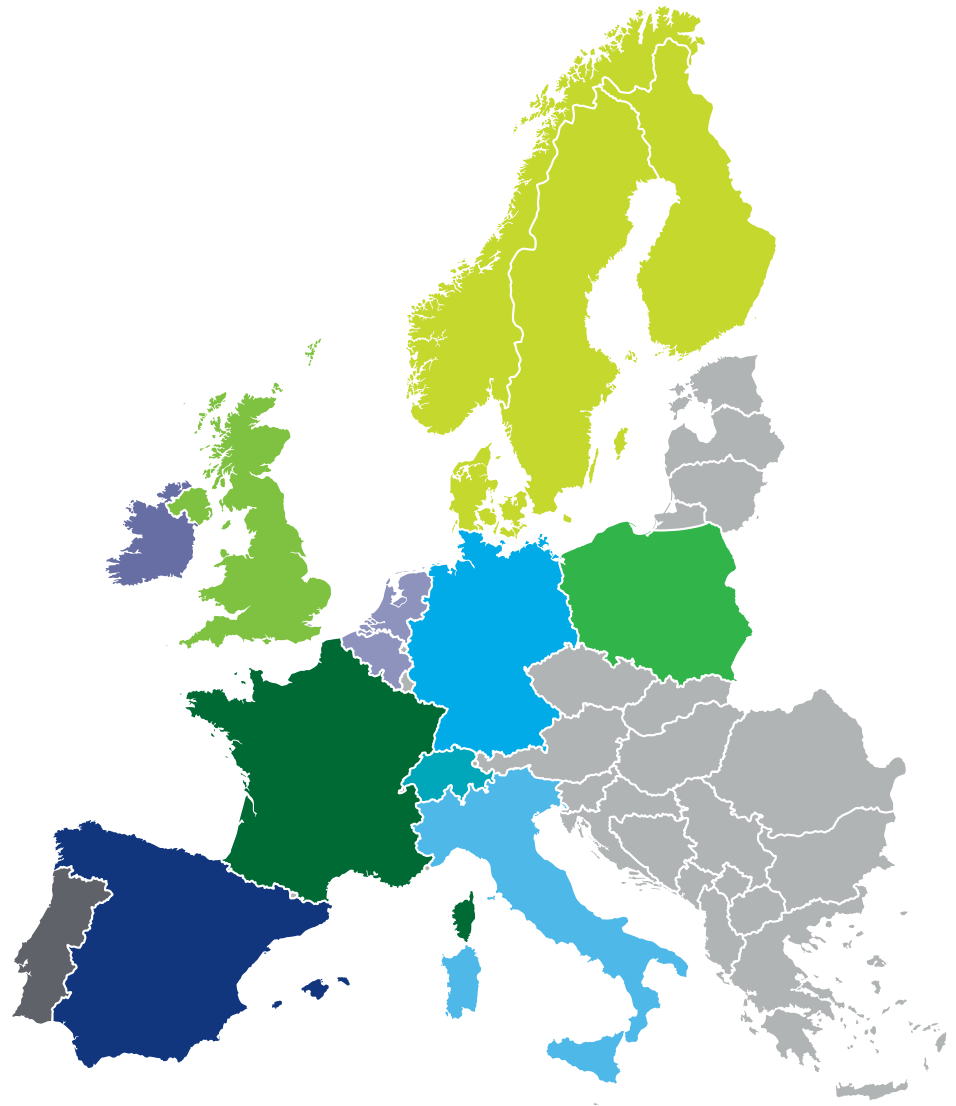
*EV is c.€147m and with c.€30m cash on balance sheet brings the equity value to c.€177m.

Assumptions

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

Who are the Direct Lenders?

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



Germany

Spain

Nordics

Poland

Benelux

France

Deloitte Debt and Capital Advisory



What do we do for our clients?

Debt and Capital Advisory

Independent advice



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

Global resources & execution expertise



- A leading team of 200 debt professionals based in 30 countries including Europe, North America, Africa and Asia, giving true global reach.
- Our expertise ranges from the provision of strategic advice on the optimum capital structure and available sources of finance through to the execution of raising debt.

Market leading team



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

Demonstrable track record



- In the last 12 months, we have advised on over 100 transactions with combined debt facilities in excess of €10bn.
- Our target market is debt transactions ranging from €25m up to €750m.

Debt and Capital Services provided

Refinancing



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

Acquisitions, disposals, mergers



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

Restructuring or negotiating



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

Treasury



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

Depth and breadth of expertise in a variety of situations

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Deloitte Debt and Capital Advisory credentials








































Selected Global transactions

<p>UK </p> <p>HGGC</p> <p>HGGC Acquisition Finance</p> <p>Feb 2021 Undisclosed</p>	<p>UK </p> <p>INSPIRING TRAVEL CO</p> <p>Northedge Capital Refinance</p> <p>Feb 2021 Undisclosed</p>	<p>UK </p> <p>APEX</p> <p>Apex Group Limited Acquisition Finance</p> <p>Feb 2021 Undisclosed</p>	<p>UK </p> <p>AVANIA</p> <p>ADVANCING YOUR MEDICAL TECHNOLOGY</p> <p>Kester Capital Refinance</p> <p>Feb 2021 €18m</p>	<p>UK </p> <p>Hg</p> <p>Hg Mercury 3 Fund Finance</p> <p>Feb 2021 Undisclosed</p>	<p>UK </p> <p>CLEAR COURSE</p> <p>PARTNERSHIP</p> <p>Aquiline Capital Partn. Refinance</p> <p>Jan 2021 Undisclosed</p>
<p>UK </p> <p>Prescient</p> <p>Healthcare Group</p> <p>Bridgepoint D.C Acquisition Financing</p> <p>Jan 2021 £87m</p>	<p>UK </p> <p>WESTERN</p> <p>GLOBAL</p> <p>Private Lender Education</p> <p>Jan 2021 Undisclosed</p>	<p>South Africa </p> <p>ABB</p> <p>ABB Transfer Pricing of Debt</p> <p>Jan 2021 R250k</p>	<p>UK </p> <p>MANCHESTER</p> <p>1824</p> <p>The University of Manchester University of Manchester Additional Liquidity</p> <p>Jan 2021 £250m</p>	<p>UK </p> <p>VERASTAR</p> <p>Verastar Refinancing</p> <p>Jan 2021 Undisclosed</p>	<p>Italy </p> <p>coop</p> <p>Unicoop Tirreno Coop Term Loan</p> <p>Jan 2021 €80m</p>
<p>USA </p> <p>X-CHEM</p> <p>PHARMACEUTICALS</p> <p>GHO Acquisition Financing</p> <p>Dec 2020 Undisclosed</p>	<p>UK </p> <p>MVF</p> <p>Bridgepoint D.C Refinancing</p> <p>Dec 2020 Undisclosed</p>	<p>South Africa </p> <p>KERRY</p> <p>Kerry Ingredients S.A. Transfer Pricing of Debt</p> <p>Dec 2020 Undisclosed</p>	<p>UK </p> <p>GFS</p> <p>ENTERPRISE CARRIER MANAGEMENT</p> <p>Phoenix Equity Partners Recapitalisation</p> <p>Dec 2020 Undisclosed</p>	<p>Netherlands </p> <p>POLYSCOPE</p> <p>fresh thinking great products</p> <p>Polyscope Amend & Restatement</p> <p>Dec 2020 Undisclosed</p>	<p>South Africa </p> <p>Universal Coal</p> <p>Universal Coal and Energy Holdings S.A. Financial Model Build</p> <p>Dec 2020 Undisclosed</p>
<p>Netherlands </p> <p>FORTINO</p> <p>acquiring</p> <p>cenosco</p> <p>Fortino Capital Partners Acquisition Finance</p> <p>Dec 2020 Undisclosed</p>	<p>UK </p> <p>halfords</p> <p>Halfords Refinancing</p> <p>Dec 2020 £180m</p>	<p>South Africa </p> <p>AFGRI</p> <p>Agri Services</p> <p>Afgri Group Financial Model Build</p> <p>Dec 2020 Undisclosed</p>	<p>Netherlands </p> <p>VP Capital</p> <p>VP Capital Real Estate Finance</p> <p>Dec 2020 Undisclosed</p>	<p>Ireland </p> <p>LANDMARQUE</p> <p>PROPERTY GROUP</p> <p>Landmarque Property Group Limited Acquisition Financing</p> <p>Dec 2020 Undisclosed</p>	<p>Slovakia </p> <p>GGE</p> <p>Infra Capital Refinancing</p> <p>Dec 2020 €130m</p>

<p>UK </p>  <p>Mountain Warehouse <i>CIBILS</i></p> <p>Nov 2020 £15m</p>	<p>UK </p>  <p>Hg Genesis 9 <i>Fund Finance</i></p> <p>Nov 2020 Undisclosed</p>	<p>UK </p>  <p>Sumo Group <i>Acquisition Financing</i></p> <p>Nov 2020 Undisclosed</p>	<p>Ireland </p>  <p>GEM Group Limited <i>Acquisition Financing</i></p> <p>Nov 2020 Undisclosed</p>	<p>UK </p>  <p>Carlyle <i>Incremental</i></p> <p>Nov 2020 £200m</p>	<p>UK </p> <p>Project Rocket II</p> <p>Hg <i>Refinancing</i></p> <p>Nov 2020 Undisclosed</p>
<p>UK </p> <p>Confidential</p> <p>Sand <i>C-19 Amendment</i></p> <p>Nov 2020 £555m</p>	<p>UK </p>  <p>Infracapital <i>Acquisition</i></p> <p>Nov 2020 £150m</p>	<p>Netherlands </p>  <p>Batenburg <i>Refinancing</i></p> <p>Oct 2020 Undisclosed</p>	<p>Denmark </p>  <p>Loopia Group <i>Refinancing</i></p> <p>Oct 2020 Undisclosed</p>	<p>South Africa </p>  <p>Nestle S.A. <i>Transfer Pricing of Debt</i></p> <p>Oct 2020 R115k</p>	<p>South Africa </p>  <p>Comair <i>Model Review</i></p> <p>Oct 2020 Undisclosed</p>
<p>UK </p>  <p>Investcorp Technology Partners <i>Acquisition Financing</i></p> <p>Oct 2020 Undisclosed</p>	<p>South Africa </p>  <p>Die Humansdorpse Koöperasie <i>Financial Model Build</i></p> <p>Sept 2020 R375k</p>	<p>South Africa </p>  <p>Die Humansdorpse Koöperasie <i>Financial Model Build</i></p> <p>Sept 2020 R450k</p>	<p>Ireland </p>  <p>Cosgrave Property Group <i>NAMA Refinance and Development Financing</i></p> <p>Oct 2020 €360m</p>	<p>UK </p>  <p>Diploma PLC <i>Acquisition Financing</i></p> <p>Oct 2020 £135m+\$170m</p>	<p>Ireland </p>  <p>Winterbrook <i>Acquisition & Development Financing</i></p> <p>Oct 2020 Undisclosed</p>
<p>UK </p>  <p>Westcon <i>Refinance</i></p> <p>Oct 2020 €275m</p>	<p>UK </p>  <p>Hg Trust plc <i>Fund Finance</i></p> <p>Oct 2020 £200m</p>	<p>UK </p>  <p>Aquiline Capital Partn. <i>Refinance</i></p> <p>Oct 2020 Undisclosed</p>	<p>UK </p>  <p>Hg Capital <i>Staple Financing</i></p> <p>Sept 2020 Undisclosed</p>	<p>UK </p>  <p>Maguar Capital <i>Acquisition financing</i></p> <p>Sept 2020 €25m</p>	<p>South Africa </p>  <p>SKG <i>Alt Capital Struc. Implementation</i></p> <p>Sept 2020 R450k</p>

Selected Global transactions

<p>UK </p> <p>camira</p> <p>Camira Fabrics <i>Amend & Extend</i></p> <p>Sept 2020 Undisclosed</p>	<p>UK </p> <p>F24</p> <p>Hg <i>Acquisition Financing</i></p> <p>Aug 2020 Undisclosed</p>	<p>South Africa </p> <p>MTN</p> <p>MTN Cameroon <i>Cashflow Review for A Debt Refi</i></p> <p>Aug 2020 R450k</p>	<p>UK </p> <p>ACCROL GROUP</p> <p>Accrol Group Holdings Plc <i>Refinancing</i></p> <p>Aug 2020 \$35m</p>	<p>Italy </p> <p>BITRON</p> <p>Bitron <i>Term Loan</i></p> <p>Aug 2020 €80m</p>	<p>Netherlands </p> <p>begra PLAIN VANILLA INVESTMENTS</p> <p>Begra <i>Acquisition Financing</i></p> <p>Aug 2020 Undisclosed</p>
<p>Norway </p> <p>CONSIGNOR</p> <p>Francisco Partners <i>Acquisition Financing</i></p> <p>Jul 2020 Undisclosed</p>	<p>Italy </p> <p>roberto cavalli</p> <p>Roberto Cavalli <i>Term Loan</i></p> <p>Jul 2020 €10m</p>	<p>South Africa </p> <p>Universal Coal</p> <p>Ndalamo Resource Pty Ltd <i>Debt Capacity Analysis</i></p> <p>Jul 2020 Undisclosed</p>	<p>France </p> <p>Telenco</p> <p>Telenco <i>LBO Financing</i></p> <p>Jul 2020 €105m</p>	<p>Belgium </p> <p>Gilde Buy Out Partners</p> <p>CORILUS <i>Commercial Bank</i></p> <p>Glide Buyout Partners <i>Acquisition Financing</i></p> <p>Jul 2020 Undisclosed</p>	<p>UK </p> <p>Confidential</p> <p>Norton <i>Covid-19 support</i></p> <p>Jul 2020 €225m</p>
<p>UK </p> <p>BERRY BROS & RUDD WINE & SPIRIT MERCHANTS</p> <p>Berry Bros & Rudd <i>ABL Facility</i></p> <p>Jul 2020 £52m</p>	<p>UK </p> <p>Confidential</p> <p>Project Lexus <i>Subscription line Financing</i></p> <p>Jun 2020 Undisclosed</p>	<p>UK </p> <p>Confidential</p> <p>Project Kite <i>Distressed Financing</i></p> <p>Jun 2020 Undisclosed</p>	<p>UK </p> <p>MATALAN REAL LIFE READY</p> <p>Matalan <i>Refinancing</i></p> <p>Jun 2020 Undisclosed</p>	<p>Belgium </p> <p>GALERIA INNO</p> <p>Galeria <i>C-19 Loan</i></p> <p>Jun 2020 Undisclosed</p>	<p>UK </p> <p>Confidential</p> <p>Monaco <i>Covid-19 support</i></p> <p>Jun 2020 £800m</p>
<p>UK </p> <p>Confidential</p> <p>Project Orchard <i>Acquisition Financing</i></p> <p>Jun 2020 £11m</p>	<p>UK </p> <p>Totalmobile</p> <p>Horizon <i>Acquisition Financing</i></p> <p>Jun 2020 Undisclosed</p>	<p>UK </p> <p>Confidential</p> <p>Project Galaxy <i>Liquidity Support</i></p> <p>Jun 2020 Undisclosed</p>	<p>UK </p> <p>Chill INSURANCE</p> <p>Livingbridge <i>Acquisition Financing</i></p> <p>Jun 2020 £26m</p>	<p>UK </p> <p>Rosemont <i>The source of liquid solutions.</i></p> <p>Inflexion <i>Acquisition Financing</i></p> <p>Jun 2020 Undisclosed</p>	<p>UK </p> <p>Confidential</p> <p>Birch <i>COV-19</i></p> <p>Jun 2020 Undisclosed</p>

<p>Netherlands </p>  <p>Felton Acquisition Financing</p> <p>Jun 2020 Undisclosed</p>	<p>UK </p> <p>Confidential</p> <p>Best Covenant Amendment</p> <p>May 2020 Undisclosed</p>	<p>UK </p> <p>Confidential</p> <p>Card Covid-19 support</p> <p>May 2020 £200m</p>	<p>UK </p>  <p>Bodycote Amend & Extend</p> <p>May 2020 £250m</p>	<p>France </p>  <p>Gifi Tati Debt Advisory</p> <p>May 2020 Undisclosed</p>	<p>UK </p> <p>Project Rocket</p> <p>Hg Refinancing</p> <p>May 2020 Undisclosed</p>
<p>Belgium </p>  <p>Castelmøre Group Acquisition Financing</p> <p>May 2020 Undisclosed</p>	<p>South Africa </p>  <p>ABB South Africa (PTY) Ltd Transfer Pricing of Debt</p> <p>May 2020 Undisclosed</p>	<p>UK </p>  <p>Wightfibre CAPEX Financing</p> <p>Apr 2020 £50m</p>	<p>UK </p>  <p>Hg Incremental Facility</p> <p>Apr 2020 Undisclosed</p>	<p>UK </p> <p>Confidential</p> <p>Violet Amend & Extend</p> <p>Apr 2020 €550m</p>	<p>UK </p> <p>Confidential</p> <p>Spring Refinance</p> <p>Apr 2020 £500m</p>
<p>UK </p> <p>Confidential</p> <p>Valentine Amend & Extend</p> <p>Apr 2020 £180m</p>	<p>UK </p> <p>Confidential</p> <p>Caspian Refinance</p> <p>Apr 2020 £80m</p>	<p>CH/UK/GER </p>  <p>Gov of Switzerland Refinancing</p> <p>Apr 2020 Undisclosed</p>	<p>Ireland </p>  <p>Travelwin Group DAC Growth Financing</p> <p>Apr 2020 Undisclosed</p>	<p>UK </p>  <p>Hg Saturn 2 Fund Finance</p> <p>Apr 2020 Undisclosed</p>	<p>UK </p>  <p>SNIB Advisory</p> <p>Apr 2020 Undisclosed</p>
<p>UK </p> <p>Confidential</p> <p>Windsor Covid-19 support</p> <p>Mar 2020 £320m</p>	<p>UK </p> <p>Confidential</p> <p>Steel Covid-19 support</p> <p>Mar 2020 £100m</p>	<p>Canada </p>  <p>Espresso Senior Debt</p> <p>Mar 2020 C\$60m</p>	<p>Canada </p>  <p>Prompt Senior Debt</p> <p>Mar 2020 C\$20m</p>	<p>France </p>  <p>CDC Project Finance</p> <p>Mar 2020 Undisclosed</p>	<p>Belgium </p>  <p>acquiring shopping Pajot RVM Invest Acquisition Finance</p> <p>Mar 2020 Undisclosed</p>

Notes

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