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Deloitte Alternative Lender Deal Tracker Q2 2017

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Financial Advisory

This issue covers data for the second quarter of 2017 and includes 70 Alternative Lender deals, representing an increase of 5% in deal flow on a last 12 months basis in comparison with the previous year.

Contents

Deloitte Alternative Lender Deal Tracker

Welcome to the sixteenth issue of the Deloitte Alternative Lender Deal Tracker, which covers 58 leading Alternative Lenders with whom Deloitte is tracking primary mid-market deals across Europe. The number of deals reported on has increased to 1082 transactions over the past 19 quarters. This issue covers data for the second quarter of 2017 and includes 70 Alternative Lender deals, representing an increase of 5% in deal flow in the last 12 months compared with prior year.

The first eight months of the year have been fairly positive in economic terms, with performance strengthening led by the European, Japanese and emerging markets. Unemployment has continued to fall, and equity indices have reached new highs, with the MSCI All-Country World Index now up 14.3% on the year. Commodity prices have also strengthened, predominantly a function of sustained global growth. The VIX index, a gauge of financial market uncertainty, is now close to a 25 year low.

This positivity continues to filter through into the loan markets, where a supply demand imbalance is still evident. There was little sense of a summer break, where according to S&P LCD €12.5bn of loans were issued in July. A recent number of large Unitranche deals included JVH Gaming (€310m), Non-Standard Finance (£225m), Chassis Brakes International (€175m), Schuelerhilfe (€135m), and Duomed (€100m).

Self-syndicated Term Loan B ("TLB") structures are on the rise where there is no underwriting bank involved. Most recently Stiga, formerly Global Garden Products completed a self-syndicated €230m TLB in August with Alcentra as MLA.

In H1 2017, fundraising has exponentially increased following low levels of fundraising activity in 2016, with closing YTD June €11.4bn vs €2.5bn in H1 2016 and €3.4bn in H1 2015 respectively. The number of managers now into their second and third funds is ever increasing.

Increase in deal flow year-on-year

Deals completed

Continued pressure for funds to deploy capital is resulting in an increasing convergence between debt and equity. Traditionally, where many may have immediately turned to traditional private equity when looking to raise capital, alternative strategies are now offering an increasing number of non-controlling, less dilutive options to corporates.

In this issue, we also focus upon Alternative Lending in Ireland, a market which has traditionally been dominated by banks and one that experienced a period of unprecedented change following the aftershocks of 2007. The emergence of a smaller traditional banking sector containing fewer active players coupled with a reduced appetite for risk resulted in a funding gap. To a great extent this void has been filled by Direct Lenders, many of whom have received support from local initiatives. The Irish Strategic Investment Fund ("ISIF") for example, is an €8.0 billion sovereign development fund which has invested in a number of locally based Direct Lending funds contributing to an ever more competitive local funding environment.

With record levels of capital raised for Direct Lending strategies in the first half of 2017, market conditions for borrowers remain highly competitive. In the medium term, we continue to see the potential for industry consolidation as some smaller funds struggle to deploy capital in an intensely competitive market.

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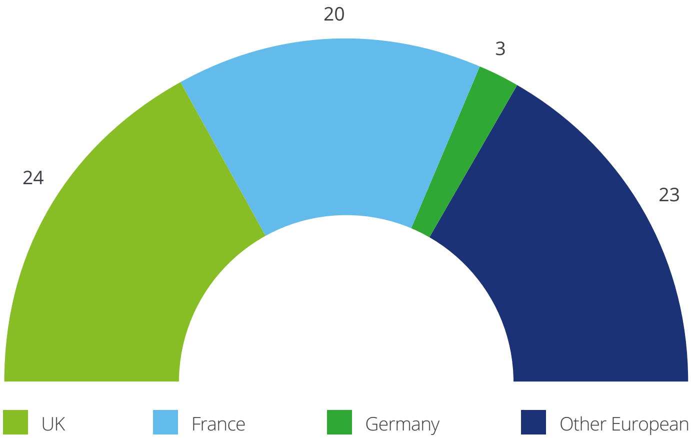
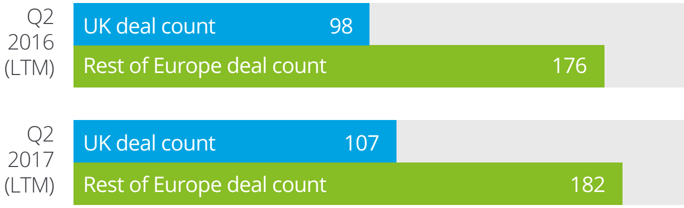
Q2 2017 deals completed



Q2 headline figures (last 12 months)



Leveraged loan mid-market trends for Direct Lenders

So far, so good. Despite the heightened geopolitical uncertainty, the first 8 months of 2017 have been largely positive. Stock markets around the world have spent the summer racking up a series of all-time highs. In July, the International Monetary Fund raised its forecasts for the growth of the world economy to 3.5% in 2017 and 3.6% in 2018, driven by better prospects in Japan, a number of emerging market economies and in particular, the Euro area.

This turnaround in the fortunes of the Euro area has been pronounced. The German Ifo survey, a bellwether of business sentiment for the whole of Europe, is running at the highest level in its 25 year history. At the end of August, both Euro area equities have returned 23% and the Euro itself has risen 10% against the Dollar since the start of the year. Commodity markets, with the exception of oil which is experiencing oversupply, are also on the upward curve, with metals such as copper increasing by as much as 24% over the same period. This trend is especially beneficial to emerging markets and is an overall sign of sustained global growth.

Equally, the UK shows signs of some robust performance with unemployment falling to 4.4% in the period between April and June, the lowest since 1975. At 75.1%, the proportion of people in work in the UK is the highest it has been since 1971. As a consequence, UK mortgage arrears and repossessions fell to a record low in Q2. Undoubtedly, the good news story for the UK economy has been the uplift in manufacturing and exports on the back of a lower Pound. After contracting through much of 2016, UK goods exports are growing at an annual rate of over 6%. Exports account for around 30% of UK GDP.

The UK is a tale of two halves, though. Whilst a weaker Pound feeds exports, it also increases inflation, which in turn erodes households' real income growth and begins to weigh on consumption. This depreciation has now fed through to higher import prices and markedly higher inflation, with consumer prices forecast to rise 2.7% in 2017, up from just 0.7% in 2016 and 0.0% in 2015. The big elephant in the room is however the outcome of Brexit negotiations and the impact on the economy.

Turning to M&A, activity in Europe continues to make headlines. According to Fitch Ratings, prices paid by Private Equity firms in Europe hit record highs in the first six months of 2017 at 11.6x EBITDA. Leverage levels were similarly high, at 5.9x EBITDA in the first half of the year, the highest since 2007. Debt finance continues to remain plentiful, and most noticeably financing earmarked to pay dividends accounted for almost 40% of the €12.5bn of volume in July. This was the highest monthly level of this activity so far in 2017 – but more strikingly, the highest monthly volume since April 2007, when debt issued for dividend recaps totalled €6 billion according to S&P LCD.

Overall fundraising also remains buoyant. According to LP Source, European private equity, debt and distressed funds raised more in the first half of 2017 than in any six month period in the last 9 years, to the tune of €51.8bn, a 12% increase year on year.

All in all, the positive economic environment that was enjoyed in 2016 continues. However, 8 years into the recovery and despite the positive picture painted by most market indicators, it begs the question how long can this trend be maintained and whether we will see the economic cycle turn.

In searching for a return to "normality", actions taken by central banks in the aftermath of the 2007, including reducing interest rates to unprecedented lows and the printing of hard currency in huge quantitative easing programmes, will need to be reversed. Collectively, the main western central banks have amassed more than €13.0 trillion of bonds under their QE programmes, meaning they own a fifth of their governments' overall debt. "Unwinding" those holdings will not be straightforward. In 2008, no one fully understood the implications of pouring cheap money into the economy. Today, no one knows what will happen when the flow goes into reverse.

Or do they? Putting that €51.8bn of fundraising back into perspective, around 23% or €12.0bn has been raised for distressed debt strategies, almost trebling from €4.0bn 12 months earlier and in the anticipation that interest rates will eventually rise and overleveraged companies will fail to repay debt. According to Private Equity News, thirteen distressed debt or restructuring funds have been raised in the first half of the year. Examples include Hayfin, who have raised €2.2bn for their second Special Opportunities fund, Blackstone launching its third 'rescue' fund, thought to be in excess of $5bn, and Cheyne Capital, with its new $1bn distressed investment strategy under the Strategic Value Credit banner.

Separately, the lines are blurring within "Direct Lending" or what could also now be coined "Direct Capital". As the asset class has become larger and ultimately more competitive, there is talk that some managers may start to increasingly champion multi-strategy debt products.

As we also highlighted in previous issues of the Deloitte Alternative Lender Deal Tracker, that debt and equity strategies are converging in alternative capital. This has been especially evident in the last 18 months, where a number of new quasi-equity strategies have raised fresh capital, including Metric Capital Partner's latest €850m fund earlier this year, almost double the size of its second fund, and more recently Summit Partners' €700m growth equity fund late this summer.

Whilst minority and preferred equity is not new, the increasing pressure for funds to deploy capital is leading many to look for opportunities across the risk spectrum. Corporates are also becoming more aware of the benefits. Previously, when seeking to raise capital, many would have immediately turned to traditional private equity. Today, Direct Capital is increasingly offering a range of non-controlling, less dilutive options as the asset class continues to expand rapidly.

Direct Lenders facilitate the acquisition of CFC by Vitruvian

CFC Underwriting provides insurance to over 50,000 businesses in more than 60 different countries. Dealing with everyone from the smallest firms and private contractors through to the largest global enterprises, CFC specialises in emerging risk, niche markets and specialty lines. CFC is the largest independent Managing General Agent in the UK, and is a recognised leader in cyber insurance.

The business has grown rapidly over the past few years and became ready for its next phase of ownership, and as Michael Grist, CFO explains, retaining the firm's independence was of key concern: ***"We went into a Private Equity transaction for the right reasons. This route meant we could remain independent and continue to grow, whilst getting more of our people into the shareholder pool – a PE structure allows that".*** The business had previously never had debt in its 17 year history and a leverage finance package was going to be a key characteristic of PE ownership.

Michael observes ***"We're a highly cash generative business that is very able to support leverage and we went into the transaction with our eyes open".***

CFC appointed Evercore as the lead advisor to run the M&A process, and Deloitte to run the financing process to ensure that there was a well-educated pool of lenders to support the sale.

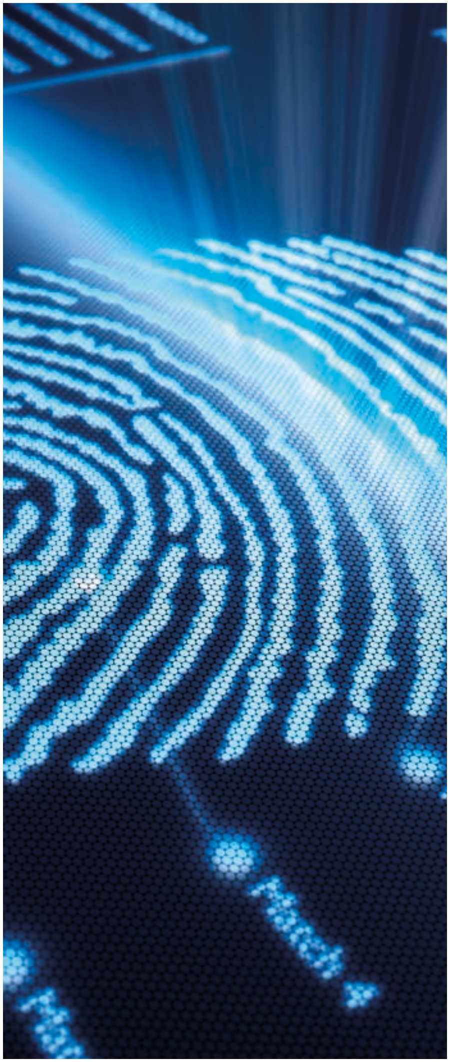
When asked to describe the transaction, Michael commented ***"There is no denying it is an intense time. The process was an enormous undertaking and one aspect that was initially unclear was how much of the work we were doing to support the Equity side could be used to drive the Debt workstream. However, through effective coordination duplication of effort was avoided, which was critical given the demanding transaction timetable."***

Vitruvian, the PE House who bought the business, were the ones who ultimately chose Alcentra as the debt provider, however Michael firmly believes that the effort upfront to package up the business and make it digestible to the debt providers was worth the investment: ***"PE will make the ultimate decision, but we aimed to shape their views via educating them on what was important to us as a business".*** Appetite for the business was very strong, but for Michael and the other leaders of the business, it had to be debt that they were comfortable with: ***"We didn't want to over-leverage, and we wanted flexibility to be open to other growth opportunities post-this deal. Vitruvian really approached the deal as a genuine partner. The education process helped us be clear around our objectives, in the context of the offers we had received from participating lenders".***

Reflecting on a successful deal, Michael advocated plenty of interaction with both Equity and Debt investment teams – ***"You've got to meet the market and the teams – prepare thoroughly for these meetings and ask questions. With Debt transactions you have comparatively limited interaction compared to the discussions you have with potential equity providers, so you have make sure these touch points count. Setting out your stall early on in the sales process can mean you have the appropriate input into the eventual make-up of your debt package".***

Michael Grist
CFO – CFC Underwriting Ltd

"What became clear to me as the two processes ran was that, so long as it was coordinated efficiently, work done on the Equity side very much fed into the Debt side"

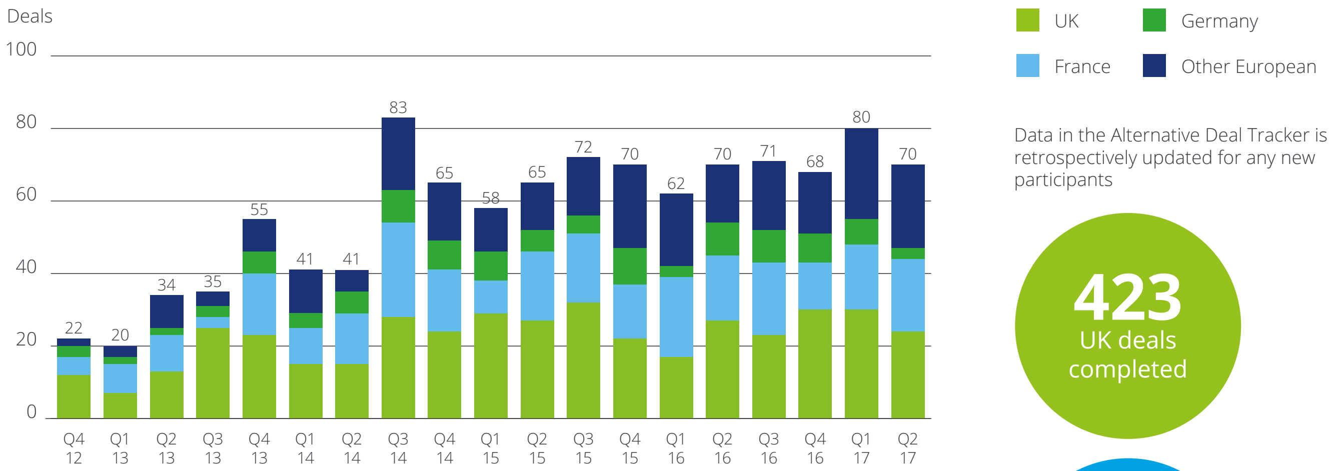


Alternative Lender Deal Tracker Q2 2017

Alternative Lenders continue to increase their deal flow...

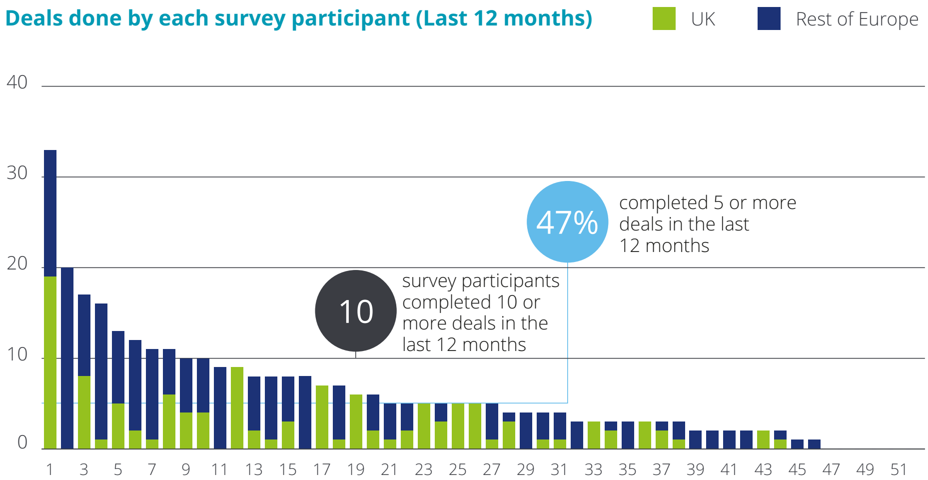
Alternative Lender Deal Tracker

Currently covers 58 leading Alternative Lenders. Only primary mid-market UK and European deals are included in the survey.



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

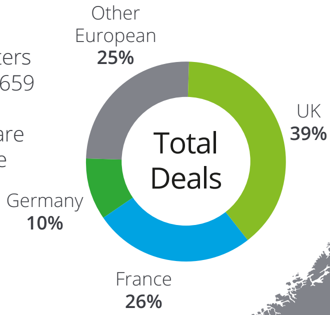
Deals done by each survey participant (Last 12 months)

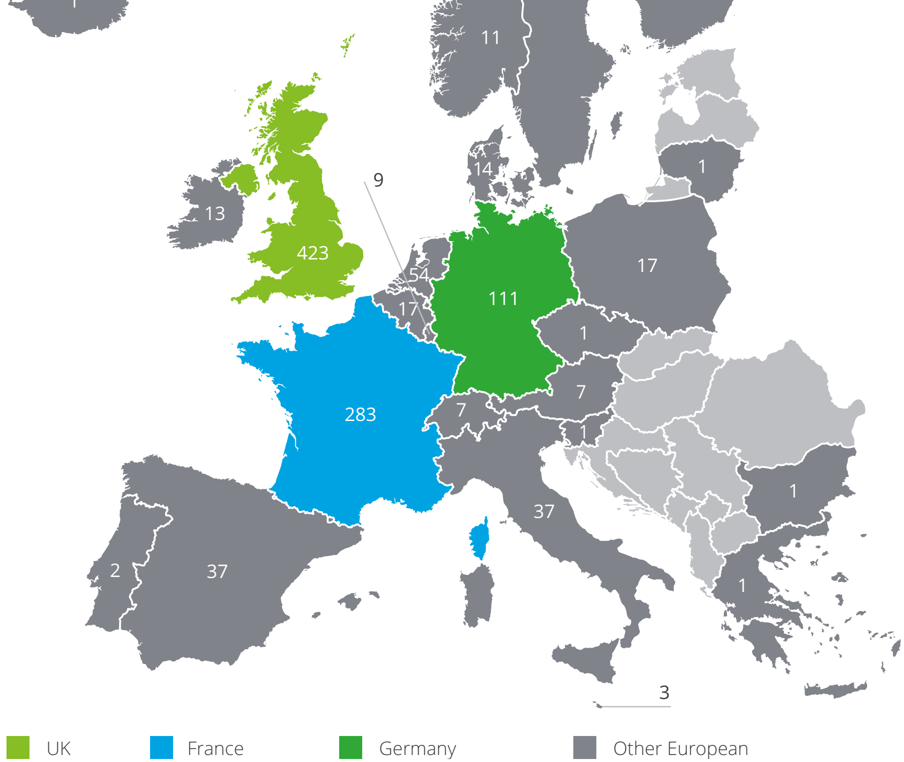


...across Europe and across industries...

Total deals across Europe

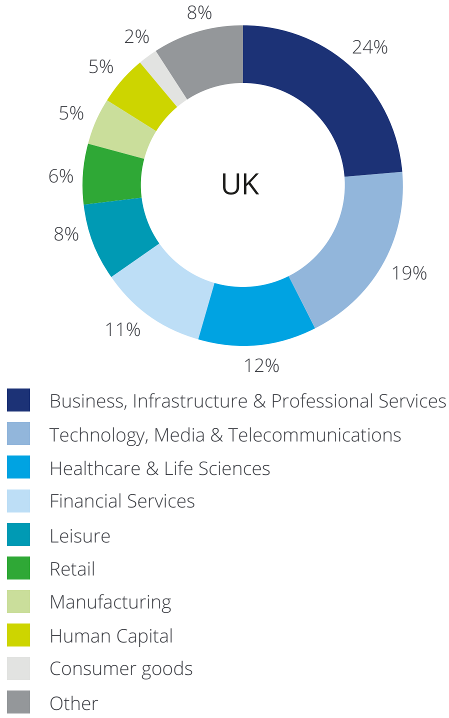
In the last 19 quarters 1082 (423 UK and 659 other European) mid-market deals are recorded in Europe

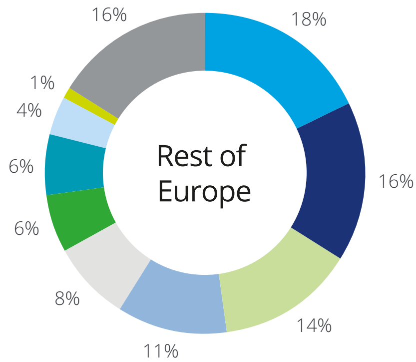




Total deals across industries (Last 12 months)

Within the UK the Business, Infrastructure & Professional Services industry has been the dominant user of Alternative Lending with 24% followed by TMT with 19%.



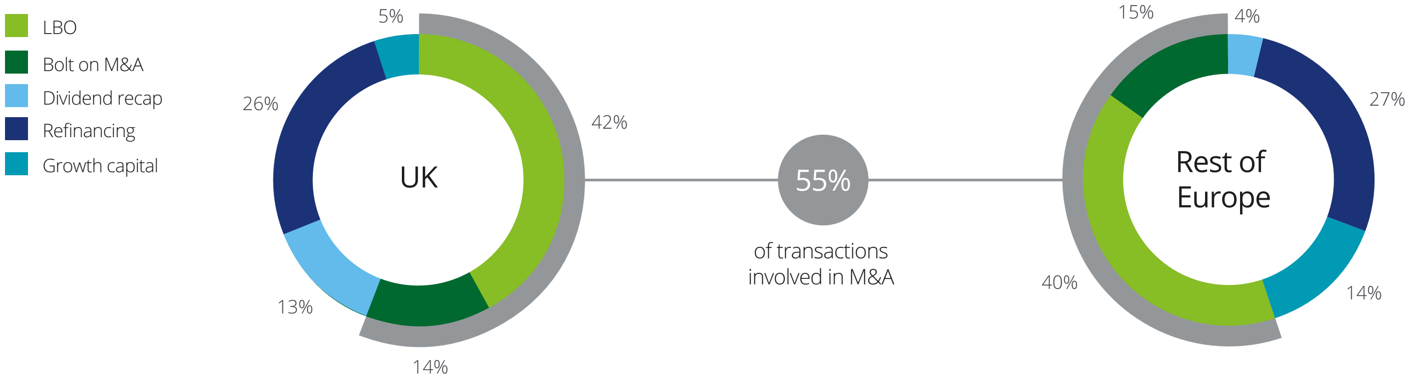


In the rest of Europe there are 5 main industries: Healthcare, Business, Infrastructure & Professional Services, Manufacturing, TMT and Consumer Goods.

…providing bespoke structures for mainly “event financing” situations

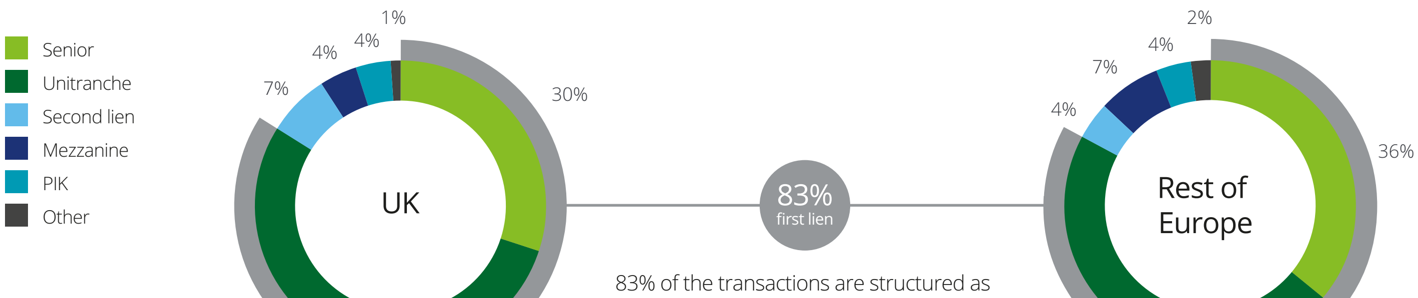
Deal purpose (Last 12 months)

The majority of the deals are M&A related, with 55% of the UK and Euro deals being used to fund a buy out. Of the 289 deals in the last 12 months, 60 deals did not involve a private equity sponsor.



Structures (Last 12 months)

Unitranche is the dominant structure, with 54% of UK transactions and 47% of European transactions. Subordinate structures represent only 16% of the transactions.



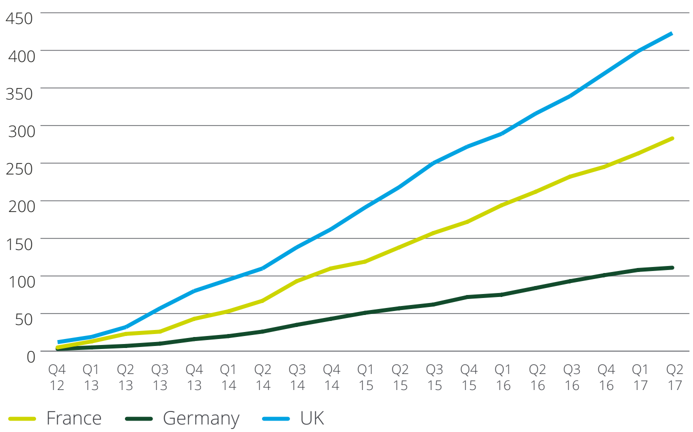
*For the purpose of the deal tracker, we classify senior only deals with pricing L + 650bps or above as unitranche. Pricing below this hurdle is classified as senior debt.

They become more prominent in all European countries...

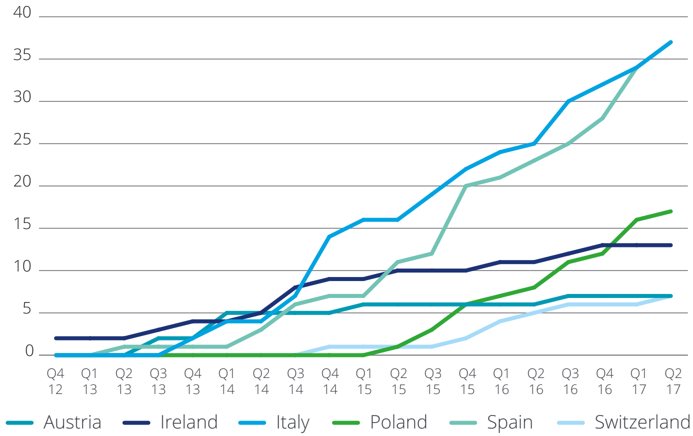
Cumulative number of deals per country

The number of deals is increasing at different rates in various European countries. The graphs below show countries which as of Q2 2017 have completed 5 or more deals.

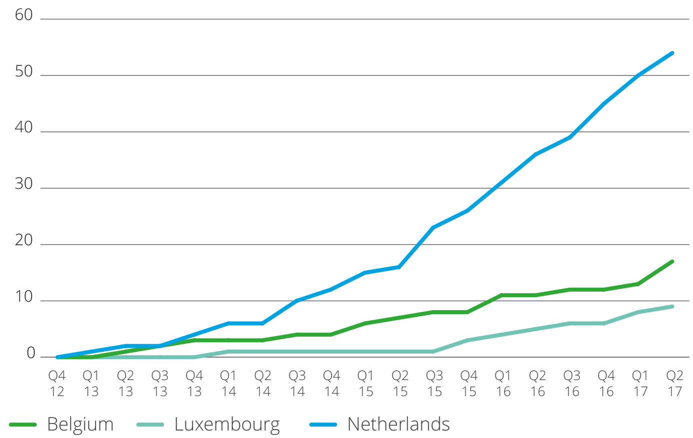
Largest geographic markets for Alternative Lenders



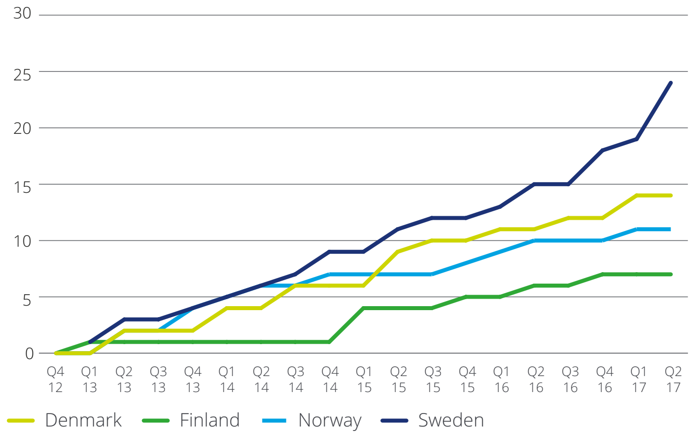
Other European countries



Benelux



Nordics

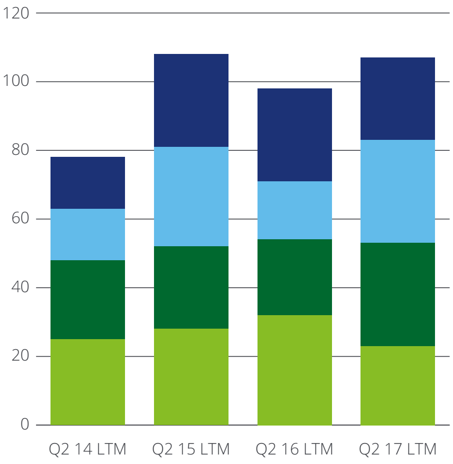


...with a steady growth in number of completed deals

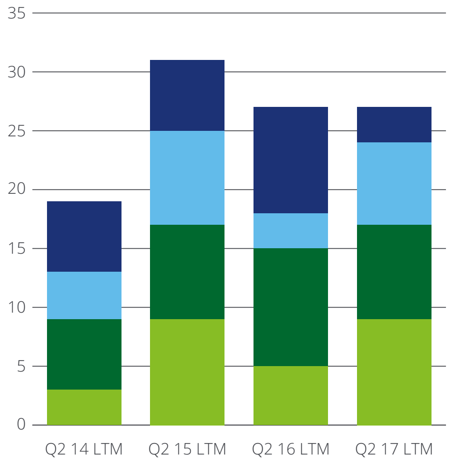
Comparison of deals for the last three years on a LTM basis for selected European countries

In all countries shown below the compound annual growth rate (CAGR) presented in the graphs over the four years has increased.

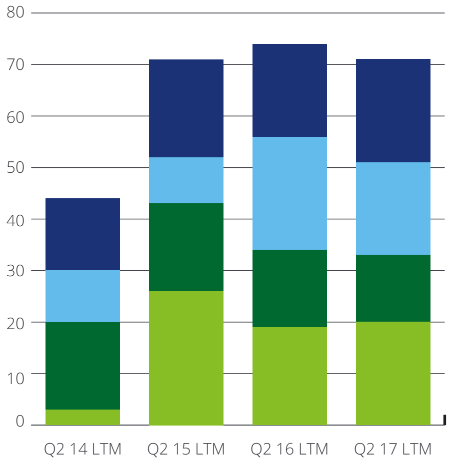
UK



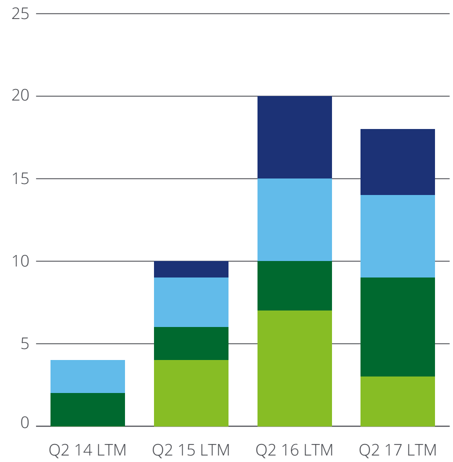
Germany



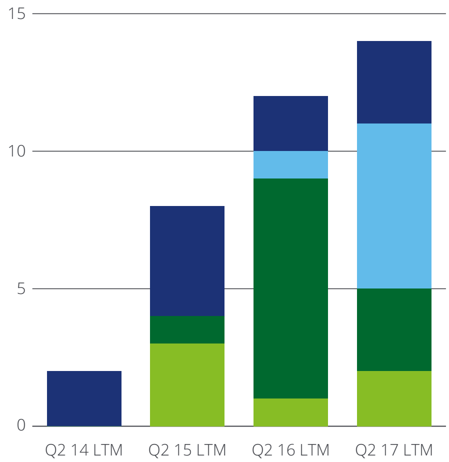
France



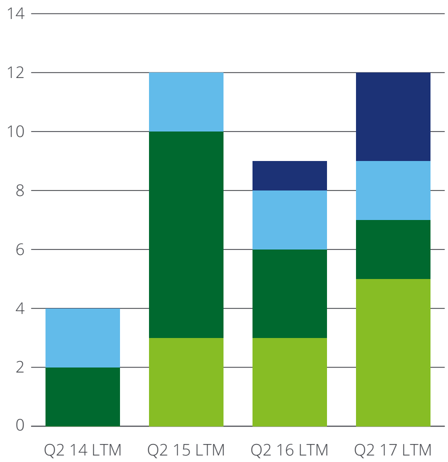
Netherlands



Spain



Italy



Q3 Q4 Q1 Q2

Alternative Lending in action: Spotlight on the Irish market

John Doddy, a Partner in Debt & Capital Advisory Ireland, shares his views on developments and opportunities in the Irish market.

Historically dominated by local banks, the Irish lending market has experienced a period of unprecedented change since 2008. What has emerged is a smaller traditional banking sector containing fewer active players with a reduced appetite for risk. This development has resulted in a funding gap, most notably in the Irish property and SME sectors.

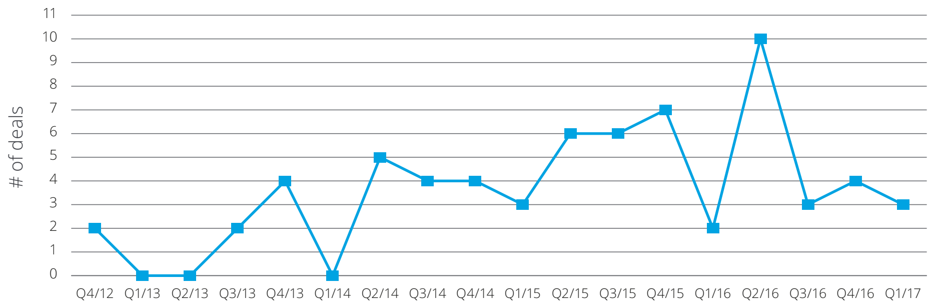
As with other countries in Europe, Government institutions have actively encouraged Direct Lenders to set up in Ireland, thereby helping to address the funding gap. The Ireland Strategic Investment Fund ("ISIF"), which is managed and controlled by the National Treasury Management Agency, is an €8.0 billion sovereign development fund which has invested in a number of Direct Lending funds. These include Direct Lenders such as BlueBay Asset Management, WLR Cardinal Mezzanine Fund, Activate Capital, BMS Finance and Finance Ireland.

John Cantwell of ISIF comments ***"We are particularly interested in supporting players that provide products not widely available in the market, so we look to fill gaps, and that objective is evident in the products offered by the Lenders supported to date."***

The level of activity continues to grow year on year, as shown in the graph below. Indeed we are aware of 91 deals completed in the Irish market since 2011, provided by 18 different funders.

As demonstrated in the pie chart on the next page, 34% of deals were in the property sector. The typical Irish Direct Lending fund size is c.€100m – €500m, with the typical deal size being c.€10m – €15m. Unitranche and mezzanine finance (predominantly for property transactions) are the most common forms of debt provided in the Irish market.

Deal volume by Quarter

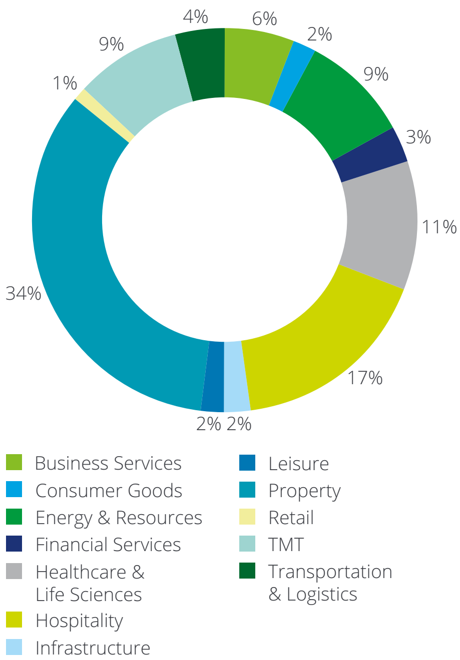


Source: Deloitte Ireland Market Intelligence

Please note that dates were not available for 26 of the 91 deals and therefore have not been included in the "Deal volume by quarter" graph above. The graph above illustrates information from the whole Irish market including real estate deals and deals less then €10m in value.

Initially the majority of deals involved special situation funds looking for opportunities in a dislocated property market, particularly on the refinancing of non-performing loans from banks or loan acquirers who participated in bank deleveraging activities. This is to be expected given the level of non-performing loans traded in Ireland in recent years – some €23.3 billion of Irish loans were sold during 2015, €12.1 billion in 2016.

Deals by sector



However Direct Lenders have also been active in trading businesses where there are significant levels of fixed asset backing, most predominantly the hospitality and healthcare sectors. Notable transactions include a €300m refinance of the Mater Private Hospital by Macquarie, one of the largest unitranche deals in Europe to date, and Broadhaven's funding of the Trident Hotel and Actons Hotel.

More recently we are seeing increased Direct Lender activity in the property development sector. Whilst the banks are active in this sector, a significant number of transactions require a higher level of leverage than offered by banks. This therefore presents an opportunity for Direct Lenders in the market. Typically Direct Lenders in this sector provide unitranche facilities or mezzanine debt facilities to co-fund a development with senior lenders.

Paul Corry from WLR Cardinal Mezzanine Fund comments *"We work closely with each of the senior lenders in the local market and can provide a flexible mezzanine layer of debt on top of the core debt which the senior lender can provide."*

With the improving Irish economy we are seeing increased levels of private equity sponsored deals, with both Irish and UK based Direct Lenders demonstrating a strong appetite to offer unitranche structures.

For example, in February 2017, Sovereign Capital backed the management buy-out of Arachas Corporate Brokers; debt to support the transaction was provided by Five Arrows Direct Lending.

Martin Hook from Five Arrows Direct Lending comments *"We were delighted to provide the unitranche financing to support the recent acquisition of Arachas. The current dynamism of the Irish economy, particularly in the SME segment which Arachas principally serves, provides a supportive backdrop to the company's continued growth."*

However, SME businesses in Ireland are predominantly family owned, private companies, and therefore a lot of corporate activity in Ireland is sponsorless. Whilst sponsorless deals are more challenging for Direct Lenders there is strong interest from both Irish and UK direct lenders to fund transactions > €10m. However the debt provided tends to be more of a stretched A/B structure as opposed to pure unitranche. As borrowers become more familiar with Direct Lending solutions, many business owners are using Direct Lending funds to fund their growth plans before planning their ultimate exit.

Pat Walsh, Director at DunPort Capital Management which advises BlueBay in respect of its Irish corporate credit vehicle comments *"The BlueBay vehicle has provided facilities to its borrowers to enable them fund situations such as organic growth, acquisitions, shareholder based recapitalisations and re-financings. The quantum of debt provided, relative to more conventional sources can stretch to a higher level than those conventional sources are either willing or able to get to but on a satisfactory risk adjusted basis to the lender."*

It should be noted that the Irish banks remain competitive and have a strong appetite to fund corporate activity in the Irish market, indeed Irish banks have funded the majority of deals done to date by Irish based private equity sponsors. The banks are also starting to coexist with Direct Lenders, working together on deals and agreed forms of intercreditor agreements are becoming more common.

Andrew Graham, Director at Bank of Ireland Corporate Banking comments *"The Irish financing landscape continues to evolve given the variety of capital currently available. Driven in part by a prevailing low interest rate environment and a strengthening domestic market dynamic, both of which are helping to drive buy-outs, sectoral consolidations, domestic and cross border M&A. We regularly work with domestic and International Alternative Lenders and private equity Sponsors. In cases where the capital requirement is beyond conventional bank debt parameters, the best solution often involves a collaborative approach through a combination of senior debt and equity or quasi equity finance – yielding clear cost advantages and longer term strategic benefits to borrowers."*

Also in response to the increased number of Alternative Lending deals the banks are also becoming more innovative in order to compete – for example AIB has set up a mezzanine debt fund.

Ronan Burke, Head of AIB Mezzanine Finance Unit comments *"AIB's Mezzanine Finance product is a key part of the Bank's debt offering, and together with our Senior debt product makes us a 'one-stop' shop solution for customers' financing needs. In 2016 the team lent in excess of €60m to seven businesses in Ireland and the UK."*

Our expectation is to see the trend of increasing numbers of Direct Lending deals continue as Ireland becomes a more attractive prospect for both Direct Lenders and private equity funds. Ireland's economy grew 5.2% in 2016, outstripping all other euro zone countries and most official forecasts for the third successive year.

The outlook for the Irish economy remains positive, the ERSI has stated that economic growth is set to remain solid in 2017 (GDP growth 3.8%, employment growth 3.1%).

Pat Walsh at DunPort Capital further comments *"the opportunity for Alternative Lenders in Ireland will continue to grow and DunPort is seeking to raise a new independent €300m corporate credit vehicle to provide debt capital to profitable, established companies with a strong credit profile and a demonstrable ability to service and retire sensible debt levels."*

John Doddy
Partner – Debt & Capital Advisory Ireland
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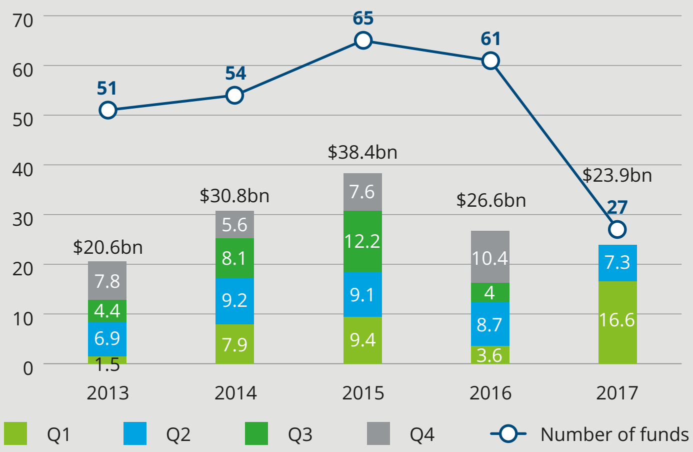
Direct Lending fundraising

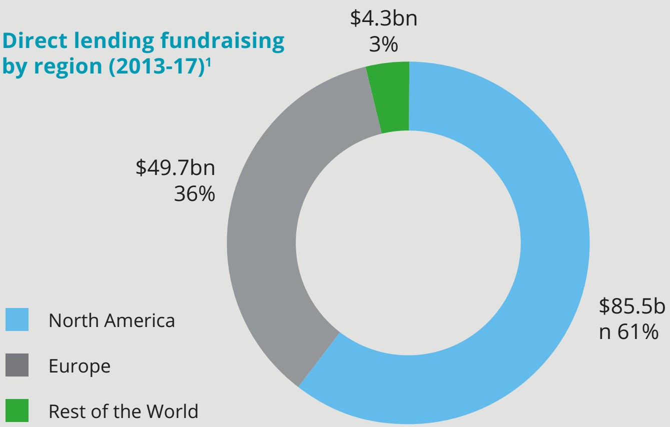
Global direct lending fundraising by quarter[1]



Largest European funds with final closings in H1 2017[1]

- Alcentra Clareant European Direct Lending Funds II **€4,571m**
- Hayfin Direct Lending Strategy II **€3,600m**
- Permira Credit Solutions Fund II **€1,700m**
- Bedrijfsleningenfonds **€960m**

Direct lending fundraising by region (2013-17)[1]

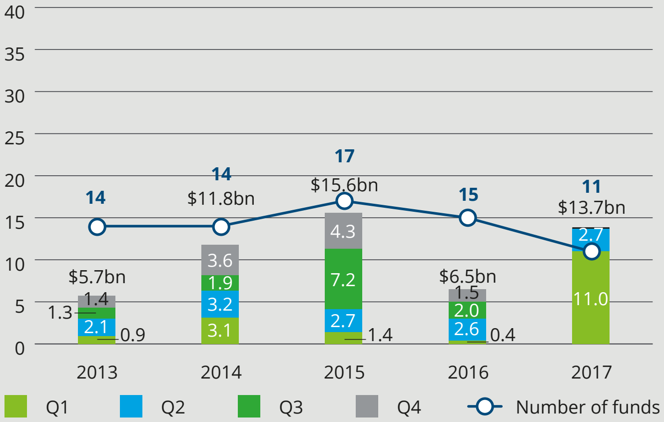


Largest North American funds with final closing in H1 2017[1]

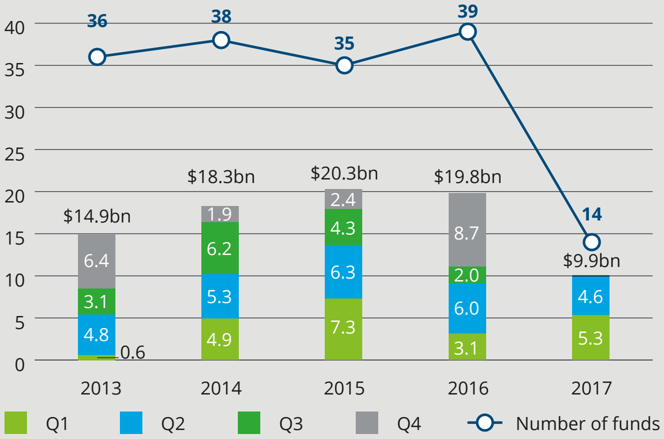
- Cerberus Levered Loan Opportunities Fund III **$2,050m**
- Twin Brook Capital Partners Direct Lending Fund II **$1,600m**
- Bain Capital Specialty Finance **$1,300m**
- Barings Global Private Loan Fund II **$1,300m**
- Golub Capital Partners International X **$1,012m**

[1] Preqin, Credit Suisse market intelligence, 2017.
[2] Currency amounts are in millions.

Europe direct lending fundraising by quarter[1]



US Direct Lending fundraising by quarter[1]



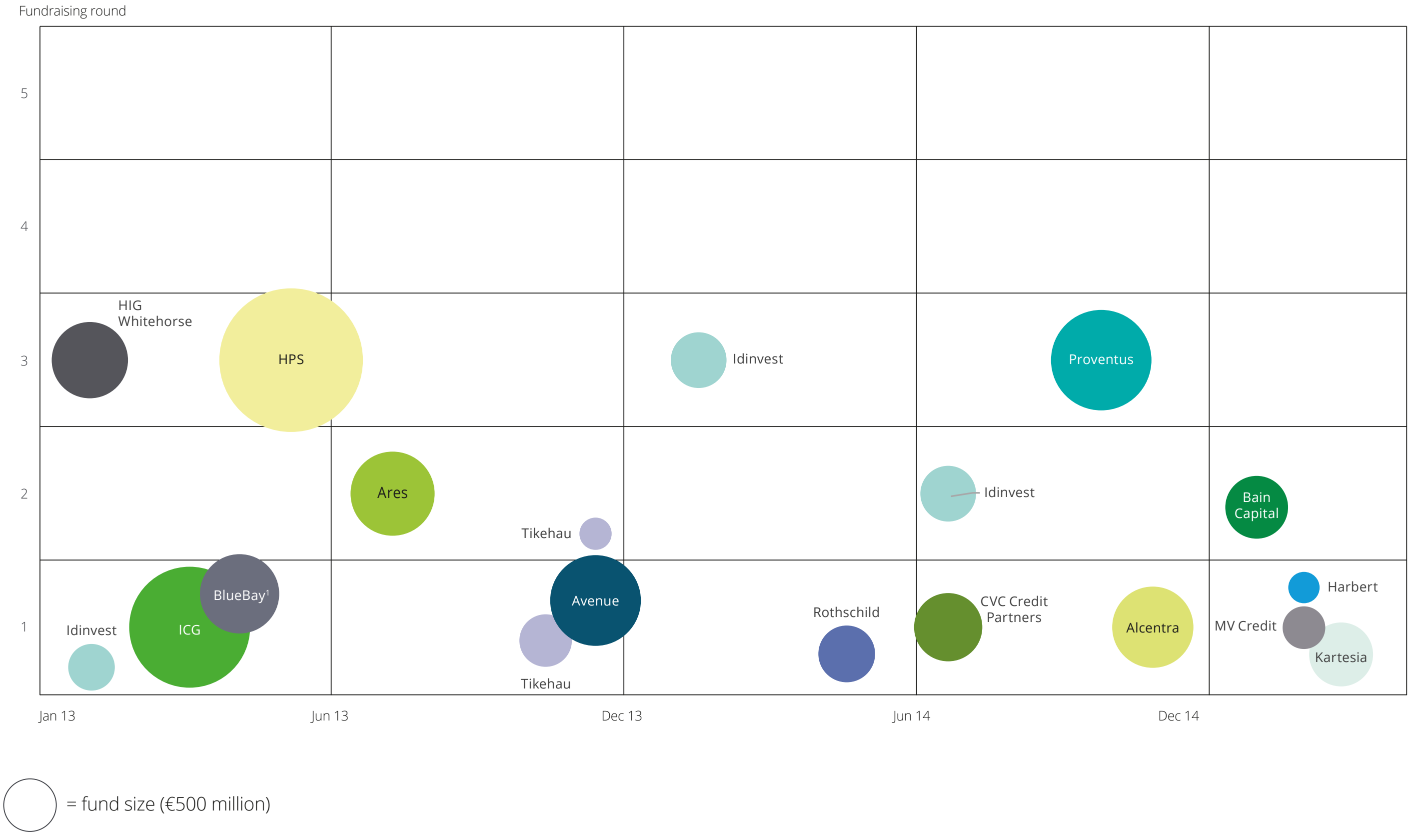
Key takeaways

- While 2016 was disappointing for Direct Lending fundraising, primarily driven be weakness in the European market, 2017 saw a strong recovery in H1, driven by an especially strong first quarter and a robust recovery in European volumes[1]
  - Q1 2017 was the strongest quarter of fundraising ever for Europe, driven by large funds that reached their final closings, with Alcentra Clareant European Direct Lending II and Hayfin Direct Lending II the largest of these
  - H1 2017 was in line with H1 2016 in the US, but down on the strong results of H2 2016 or H1 2015
- Europe's recovery in H1 reiterates the lumpy nature of the fundraising market[1]
  - Q1 2017 saw approximately the same volume of closings as the previous five quarters combined
- Strong investor interest in separately managed accounts continues, meaning that not all capital committed to the direct lending space is easily captured[2]
- c. 155 Direct Lending funds seeking aggregate commitments of c. $65 billion remain in the market as of September 2017, a c. 18% increase on the commitments sought as of May 2017[1]
  - North American funds represent the majority of those in market (c. 75 funds targeting c. $39 billion) with c. 45 European funds making up c. $21 billion

[1] Preqin, 2017.
[2] Credit Suisse Private Fund Group market knowledge.

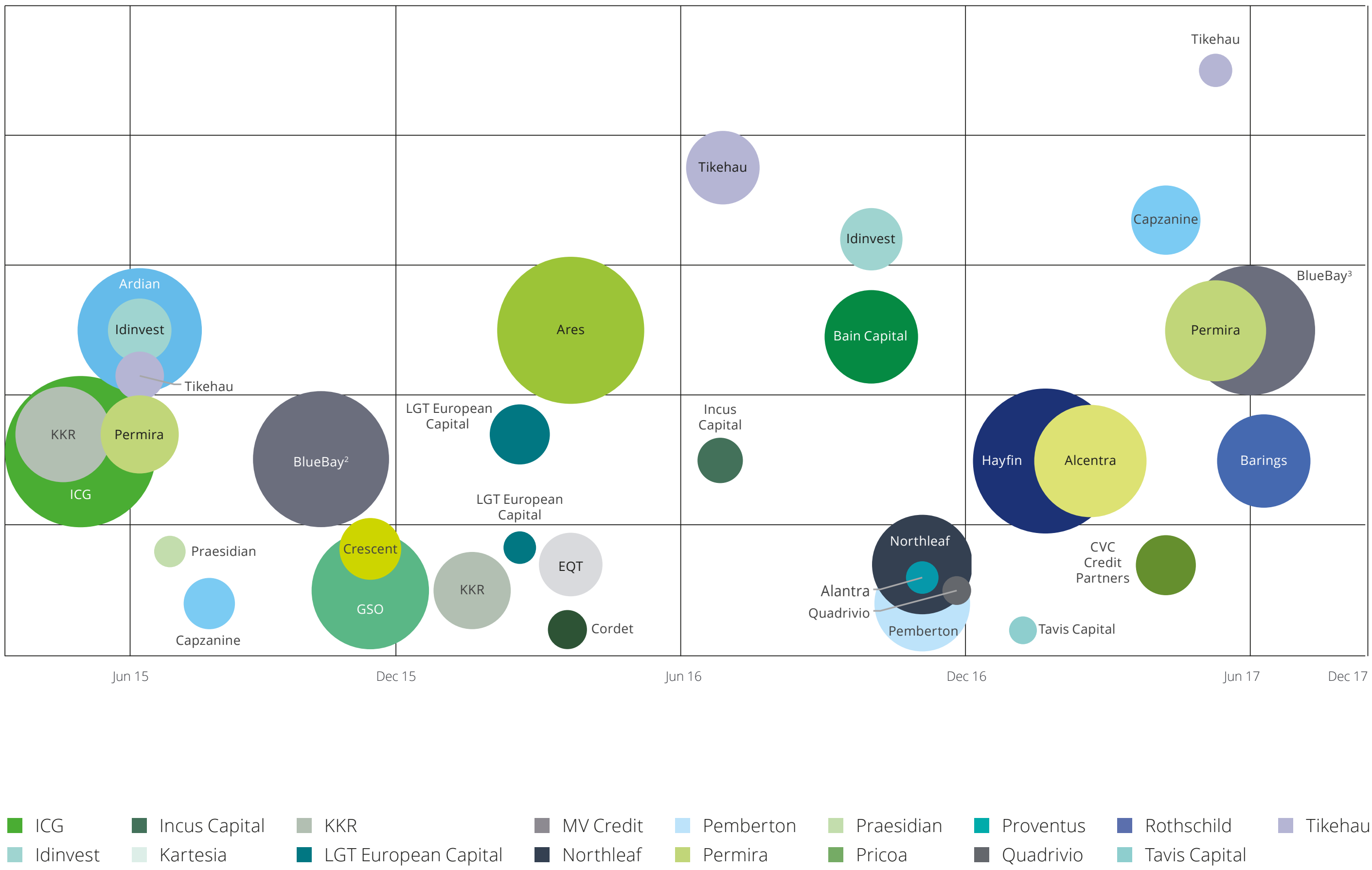
How much funding has been raised by which Direct Lending managers?

Senior Direct Lending fund raising focused on the European market



Alantra | Ardian | Avenue | Barings | Capzanine | Cordet | EQT | Harbert | HIG Whitehorse
Alcentra | Ares | Bain Capital | BlueBay | Crescent | CVC | GSO | Hayfin | HPS

[1]Excluding €700m of managed accounts/overflow vehicles. [2]Excluding €145m of managed accounts/overflow vehicles. [3]Excluding additional leverage of approximately €400m


Tikehau
Tikehau
Idinvest
Capzanine
BlueBay[3]
Ardian
Idinvest
Ares
Bain Capital
Permira
Tikehau
LGT European Capital
Incus Capital
KKR
Permira
BlueBay[2]
Hayfin
Alcentra
Barings
ICG
LGT European Capital
Praesidian
Crescent
Northleaf
CVC Credit Partners
EQT
KKR
Alantra
GSO
Quadrivio
Capzanine
Cordet
Pemberton
Tavis Capital
Jun 15
Dec 15
Jun 16
Dec 16
Jun 17
Dec 17
ICG
Idinvest
Incus Capital
Kartesia
KKR
LGT European Capital
MV Credit
Northleaf
Pemberton
Permira
Praesidian
Pricoa
Proventus
Quadrivio
Rothschild
Tavis Capital
Tikehau

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

An overview of some of the Direct Lending funds raised in the market[1]

Alternative Lenders	Fund	Date	Size (in millions) w/o leverage	Investment Strategy	Geography
Alantra	Alteralia SCA SICAR	Q4 16	€ 139	Senior	Europe
Alcentra	Direct Lending Fund	Q1 17	€ 2,200	Senior and Junior	Europe
Alcentra	European Direct Lending Fund	Q4 14	€ 850	Senior and Junior	Europe
Alcentra	Direct Lending Fund	Q4 12	€ 278	Senior and Junior	Europe
Ardian	Ardian Private Debt Fund III	Q3 15	€ 2,026	Senior and Junior	Europe
Ardian	Axa Private Debt Fund II	Q2 10	€ 1,529	Senior and Junior	Europe
Ares	ACE III	Q2 16	€ 2,536	Senior and Junior	Europe
Ares	ACE II	Q3 13	€ 911	Senior and Junior	Europe
Ares	ACE I	Q4 07	€ 311	Senior and Junior	Europe
Bain Capital	Bain Capital Specialty Finance	Q4 16	$ 1,255	Senior	Global
Bain Capital	Bain Capital Direct Lending 2015 (Unlevered) [2]	Q4 15	€ 56	Senior	Global
Bain Capital	Bain Capital Direct Lending 2015 (Levered) [2]	Q1 15	€ 433	Senior	Global
Bain Capital	Bain Capital Middle Market Credit 2014 [2]	Q4 13	€ 1,554	Junior	Global
Bain Capital	Bain Capital Middle Market Credit 2010 [2]	Q2 10	€ 1,017	Junior	Global
BlueBay	BlueBay Senior Loan Fund I	Q2 17	€ 2,800	Senior	Europe
BlueBay	BlueBay Direct Lending Fund II	Q4 15	€ 2,100	Senior and Junior	Europe
BlueBay	BlueBay Direct Lending Fund I	Q2 13	€ 810	Senior and Junior	Europe
Capital Four	Capital Four Strategic Lending Fund	Q3 15	€ 135	Junior	Europe
Capital Four	Capital Four Nordic Leverage Finance Fund	Q4 13	€ 200	Junior	Europe
Capzanine	Artemid Senior Loan	Q3 15	€ 345	Senior	Europe
Capzanine	Capzanine 3	Q3 12	€ 700	Senior and Junior	Europe
Capzanine	Capzanine 2	Q3 07	€ 325	Senior and Junior	Europe
Capzanine	Capzanine 1	Q1 05	€ 203	Senior and Junior	Europe
GSO	Capital Opportunities Fund II	Q4 16	$ 6,500	Junior	Global
GSO	European Senior Debt Fund	Q4 15	$ 1,964	Senior	Europe
GSO	Capital Opportunities Fund I	Q1 12	$ 4,000	Junior	Global
Harbert Capital Management	Harbert European Growth Capital Fund I	Q1 15	€ 122	Senior and Junior	Europe
Hayfin	Direct Lending Fund II [3]	Q1 17	€ 3,500	Senior	Europe
Hayfin	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
ICG	Senior Debt Partners II	Q3 15	€ 3,000	Senior	Europe

[1] Based on data provided to Deloitte
[2] Invested capital and committed capital converted at an exchange rate of 1.1245 EUR/EUD as of 31 May 2017
[3] Hayfin's latest series of fundraising for its direct lending strategy comprised capital raised for the commingled Hayfin Direct Lending Fund II and separately managed accounts

Alternative Lenders	Fund	Date	Size (in millions) w/o leverage	Investment Strategy	Geography
ICG	ICG Europe Fund VI	Q1 15	€ 3,000	Junior	Europe
ICG	Senior Debt Partners I	Q2 13	€ 1,700	Senior	Europe
ICG	ICG Europe Fund V	Q1 13	€ 2,500	Junior	Europe
Incus Capital	Incus Capital Iberia Credit Fund II	Q3 16	€ 270	Senior and Junior	Europe
Incus Capital	Incus Capital Iberia Credit Fund I	Q4 12	€ 128	Senior and Junior	Europe
Idinvest	Idinvest Dette Senior 4	Q4 16	€ 510	Senior	Europe
Idinvest	Idinvest Dette Senior 3	Q3 15	€ 530	Senior	Europe
Idinvest	Idinvest Dette Senior 2	Q3 14	€ 400	Senior	Europe
Idinvest	Idinvest Private Debt III	Q1 14	€ 400	Senior and Junior	Europe
Idinvest	Idinvest Private Value Europe II	Q4 13	€ 50	Junior	Europe
Idinvest	Idinvest Dette Senior	Q1 13	€ 280	Senior	Europe
Idinvest	Idinvest Private Value Europe	Q2 12	€ 65	Junior	Europe
Idinvest	Idinvest Private Debt	Q3 07	€ 290	Senior and Junior	Europe
Kartesia	Kartesia Credit Opportunities III	Q1 15	€508m	Senior and Junior	Europe
KKR	Fund Lending Partners Europe	Q1 16	$ 850	Senior and Junior	Europe
KKR	Fund Lending Partners II	Q2 15	$ 1,336	Senior and Junior	Global
KKR	Fund Lending Partners I	Q4 12	$ 460	Senior and Junior	Global
Metric	MCP III	Q1 17	€ 860	Special Situations	Europe
Metric	MCP II	Q2 14	€ 475	Special Situations	Europe
Metric	MCP I	Q1 13	€ 225	Special Situations	Europe
Northleaf	Northleaf Private Credit	Q4 16	$ 1,400	Senior and Junior	Global
Permira	Permira Credit Solutions III	Q2 17	€ 1,700	Senior and Junior	Europe
Permira	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 III	Q4 14	€ 1,300	Senior and Junior	Europe
Proventus	Proventus Capital Partners II/IIB	Q2 11	€ 835	Senior and Junior	Europe
Proventus	Proventus Capital Partners I	Q3 09	€ 216	Senior and Junior	Europe
Rothschild/Five Arrows	Five Arrows Credit Solutions	Q2 14	€ 415	Junior	Europe
Tavis Capital	Swiss SME Credit Fund I	Q1 17	CHF 137	Junior	Europe
Tikehau	Fund 5	Q3 16	€ 610	Senior and Junior	Europe
Tikehau	Fund 4	Q3 15	€ 290	Senior and Junior	Europe
Tikehau	Fund 3	Q2 15	€ 19	Senior and Junior	Europe
Tikehau	Fund 2	Q4 13	€ 134	Senior and Junior	Europe
Tikehau	Fund 1	Q4 13	€ 355	Senior and Junior	Europe

Direct Lending Professionals – Key statistics and recent moves

Direct Lending Professionals

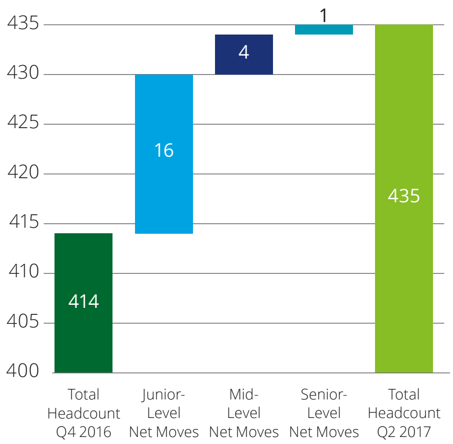
As we saw from the Q1 2017 ALDT report, the European Direct Lending market has continued to grow, with a vast increase in fundraising for the first three months of 2017 (almost double the amount of capital raised for all of 2016) and a steady increase in deal flow year-on-year.

While deal flow and fundraising in Q2 2017 has not quite matched the levels seen in the first quarter, it has still been strong, hence it would be fair to expect a reflection of this in hiring activity in the Direct Lending universe.

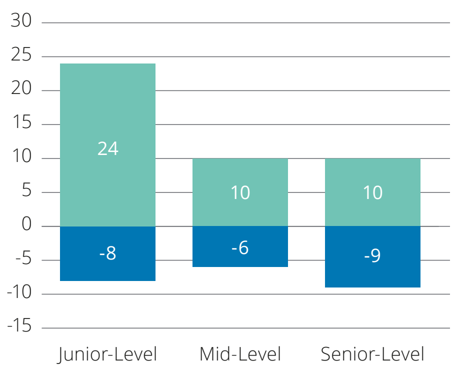
Paragon Search Partners

Bruce Lock and Andrew Perry are co-Managing Partners of Paragon Search Partners, a London based 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.

This is supported by headcount data from the first six months of 2017 as market headcount increased by 21, illustrated below:



The net increases in headcount by seniority are broken down as follows:



Net Increase to Market Headcount by Seniority

There has been an overall net increase in headcount, which continues the steady growth of the European Direct Lending space that we have seen in recent years.

We have seen a continuation in junior talent being sourced from Investment Banking divisions to facilitate the deployment of capital. Of all junior hires, 71% originated from either Leveraged Finance, M&A, Restructuring, or Corporate Finance, with the remainder coming from University (8%), Debt Advisory (4%), or competitor funds (17%).

Where we have seen change is at the mid-level, where there has been considerably more hiring and a greater churn of those investment professionals in the first half of 2017. Compare this to the entirety of 2016, as illustrated in the Q4 2016 report, where there were only 5 hires made within this seniority bracket and merely 3 departures.

The increase in mid-level hiring is perhaps a reflection of the increased activity in fundraising and deal flow, as funds look to bolster their teams with more experienced investment professionals than those they would find in investment banking division.

Recent Direct Lending moves

Recent Notable Direct Lending Moves

Apera Capital	**Chris Roper**, Associate, joins from Bank of Ireland	**Hayfin Capital Management**	**Reinhold Schnitt**, Associate, joins from JP Morgan
Ares Management	**Tobias Rabenstein**, Senior Associate joins from Avenue	**ICG**	**Benjamin Boss**, Analyst, joins from Goldman Sachs ESSG
Bain Capital Credit	**Florian Malidin** left his position as Analyst	**KKR**	**Marina Borissoza**, Associate, joins from Mizuho **Risham Saif**, Analyst, joins from JP Morgan
Beechbrook Capital	**Jonathan Petty**, Associate Director, joins from Deloitte	**Permira**	**Joshua Watts**, Investment Professional, joins from Marlborough Partners
BlackRock	**Virginie Gasnier**, Head of France & Spain, joins from BNP **Timothee Delisle**, Associate, joins from HSBC **Monckton Schipper**, Managing Director, joins from TPG Specialty Lending	**PSP Investments**	**Camillo Villani**, Manager, joins from HSBC
BlueBay Asset Management	**Michael Massarano**, Analyst, joins from Avenue	**Robus**	**Sebastian Weber**, Vice President, joins from Avenue
Capzanine	**Bertram Schuetz**, Managing Director, joins from Avenue	**Tosca Debt Capital**	**Tom Chappell**, Analyst, joins from EY
EQT Partners	**Marcos Martinez-Tello**, Analyst, joins from CVC	**Partners Group**	**Victor Vareille**, Investment Professional, joins from Citi

Notes:
This list is a summary of recent notable arrivals and departures among the Direct Lenders. We have not disclosed details of those that are not yet public, nor those that were included in the previous (Q1 2017) report.

Deloitte's CFO Survey

Results from Deloitte's European CFO Survey Q2 2017

The survey covers Chief Financial Officers and Group Finance Directors of major companies in the UK and took place between 12th and 27th June 2017. 122 CFOs participated, including the CFOs of 22 FTSE 100 and 54 FTSE 250 companies. The rest were CFOs of other UK-listed companies, large private companies and UK subsidiaries of major companies listed overseas. The combined market value of the 92 listed companies surveyed is £509 billion, or approximately 20% of the UK quoted equity market.

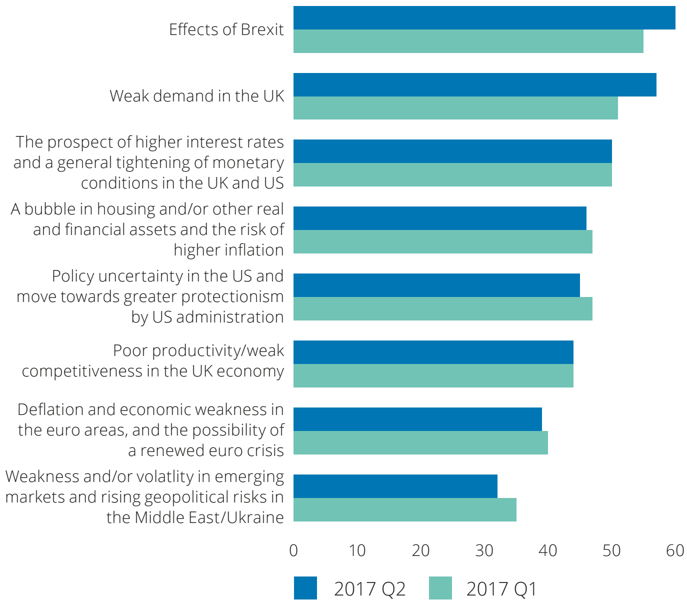
Risk to business posed by the following factors

CFOs continue to cite Brexit as the biggest and a growing risk to their businesses. Weak demand in the UK and the prospect of rate rises in the US and UK, make up the top three risks. Concerns over weak demand in the UK have risen to the highest level since we started asking this question at the end of 2014.

Meanwhile, the risks of an asset price bubble, policy uncertainty and greater protectionism in the US have diminished in importance.

Concerns over two major sources of external risk – weakness in emerging markets and the euro area, which make up the bottom of the list – have continued to decrease and are now at the lowest levels since the end of 2014.

Weighted average ratings on a scale of 0-100 where 100 stands for the highest possible risk.



Source: Deloitte publication "The Deloitte CFO Survey Q2 2017: Post-election dip in confidence"

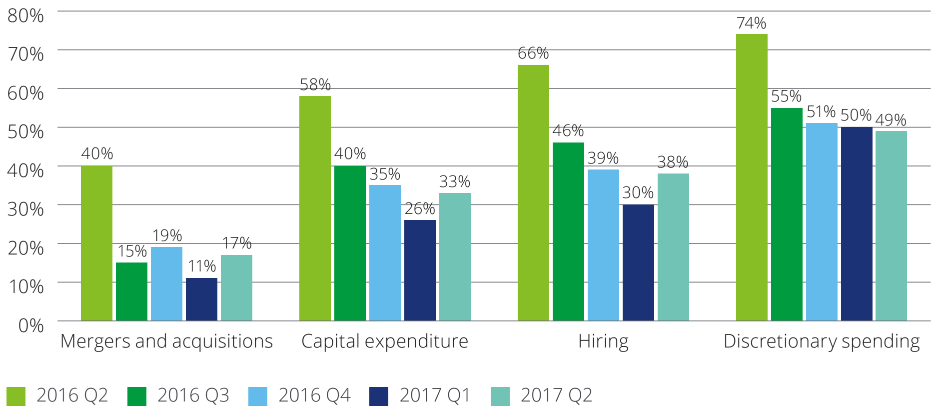
Effect of Brexit on own spending and hiring decisions

CFO pessimism about the effects of Brexit has edged up. But it remains at substantially lower levels than right after the EU referendum.

A third or more expect Brexit to reduce their own investment and hiring plans over the next three years.

17% expect it to lower M&A activity over the same period.

% of CFOs who expect M&A activity, capital expenditure, hiring and discretionary spending by their business to decrease over the next three years as a consequence of Brexit

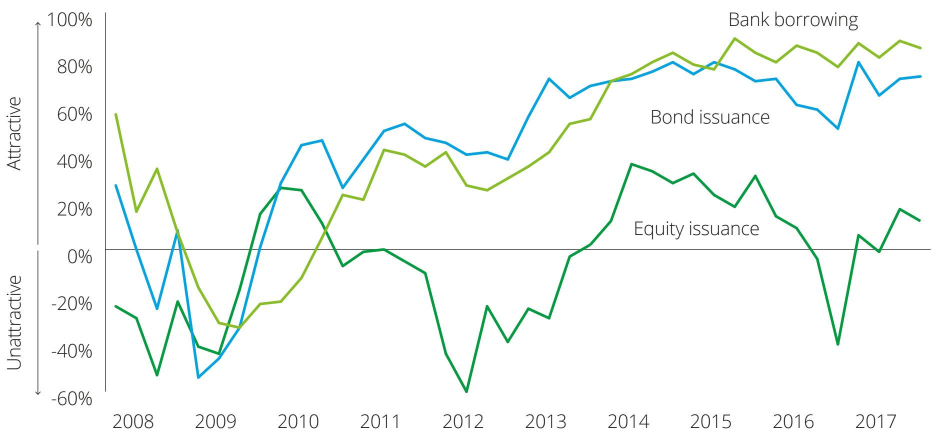


Favoured source of corporate funding

Debt finance – bank borrowing and bond issuance – remains the most attractive source of funding for CFOs.

Equity issuance is still less appealing, with a fall in attractiveness in the second quarter.

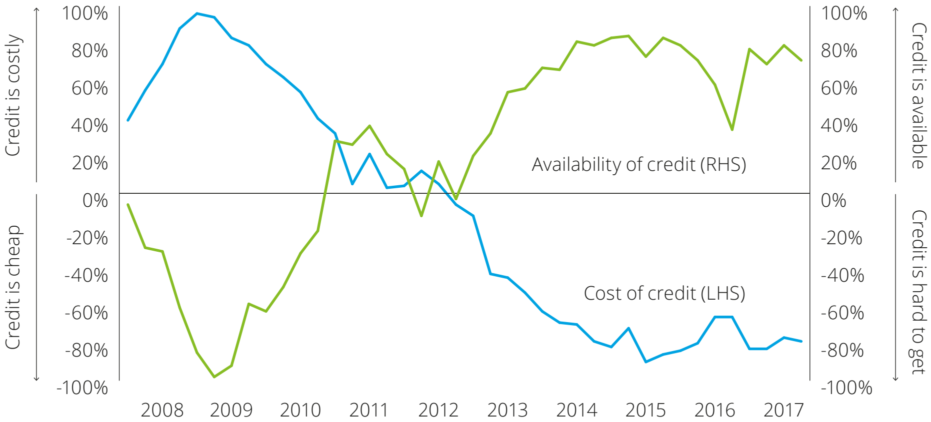
Net % of CFOs reporting the following sources of funding as attractive



Source: Deloitte publication "The Deloitte CFO Survey Q2 2017: Post-election dip in confidence"

Cost and availability of credit

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

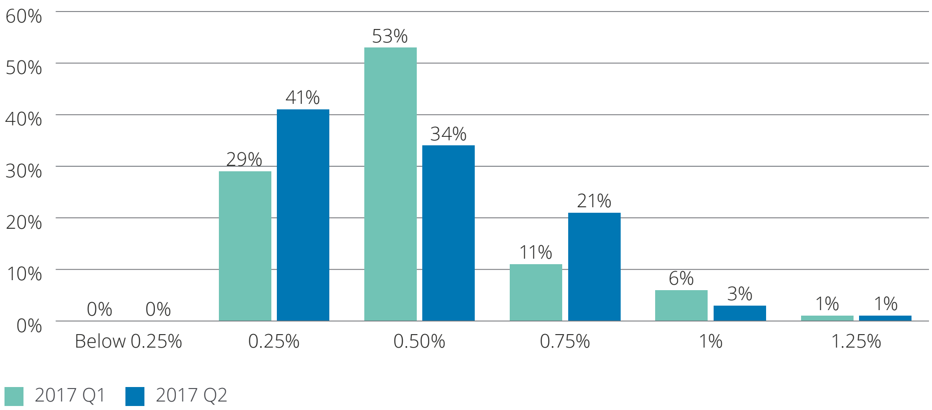


Financing conditions remain benign for the large corporates on our survey panel.

CFOs continue to view credit as being cheap and easily available.

Interest rate expectations

% of CFOs who expect the Bank of England's base rate to be at the following levels in a year's time



Source: Deloitte publication "The Deloitte CFO Survey Q2 2017: Post-election dip in confidence"

CFOs seem to have pushed back their expectations for rate rises.

Nonetheless, a sizeable majority – 59% – expect the Bank of England's base rate to be above its current level of 0.25% in a year's time, down from 71% in the first quarter.

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

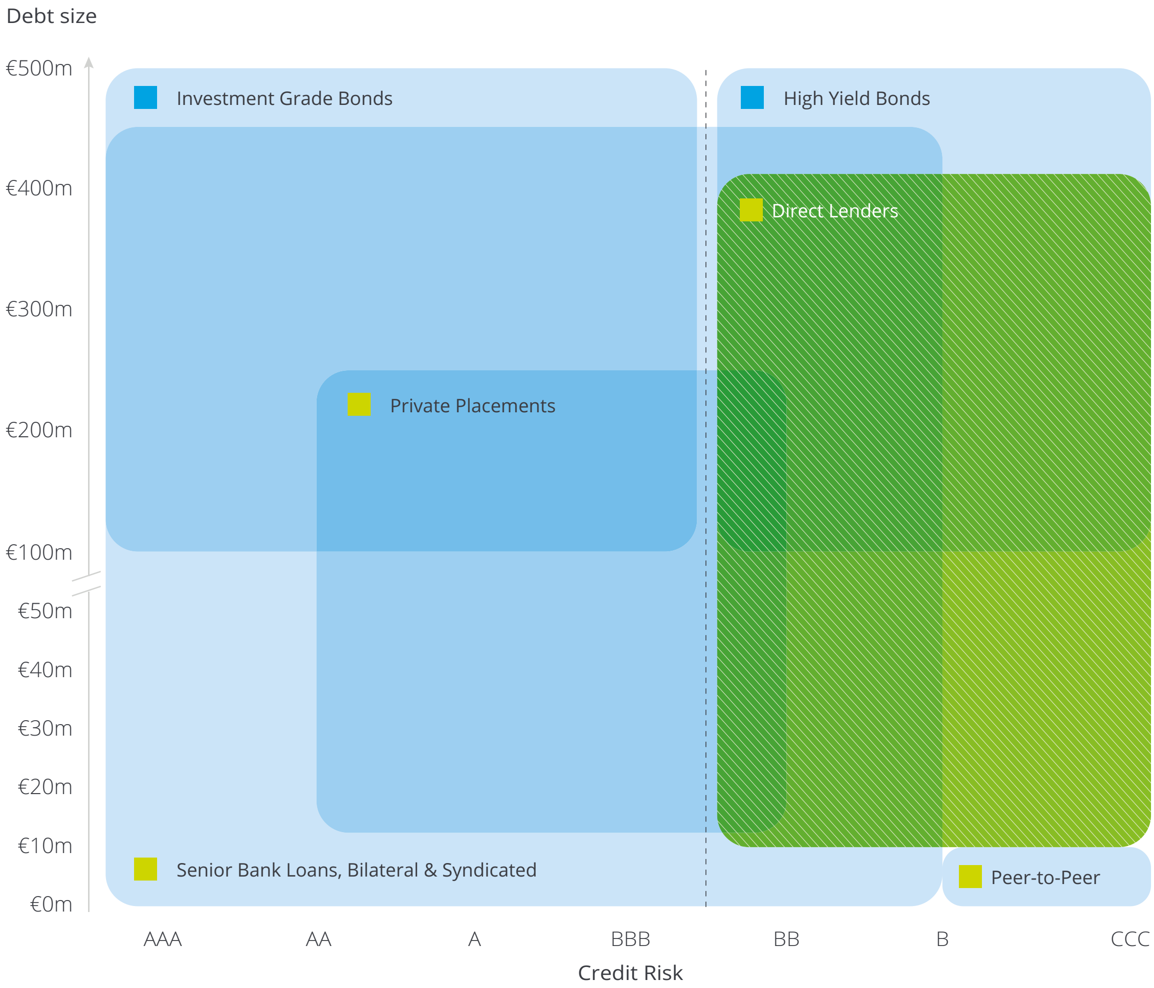
Main features of Euro PP

- 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?



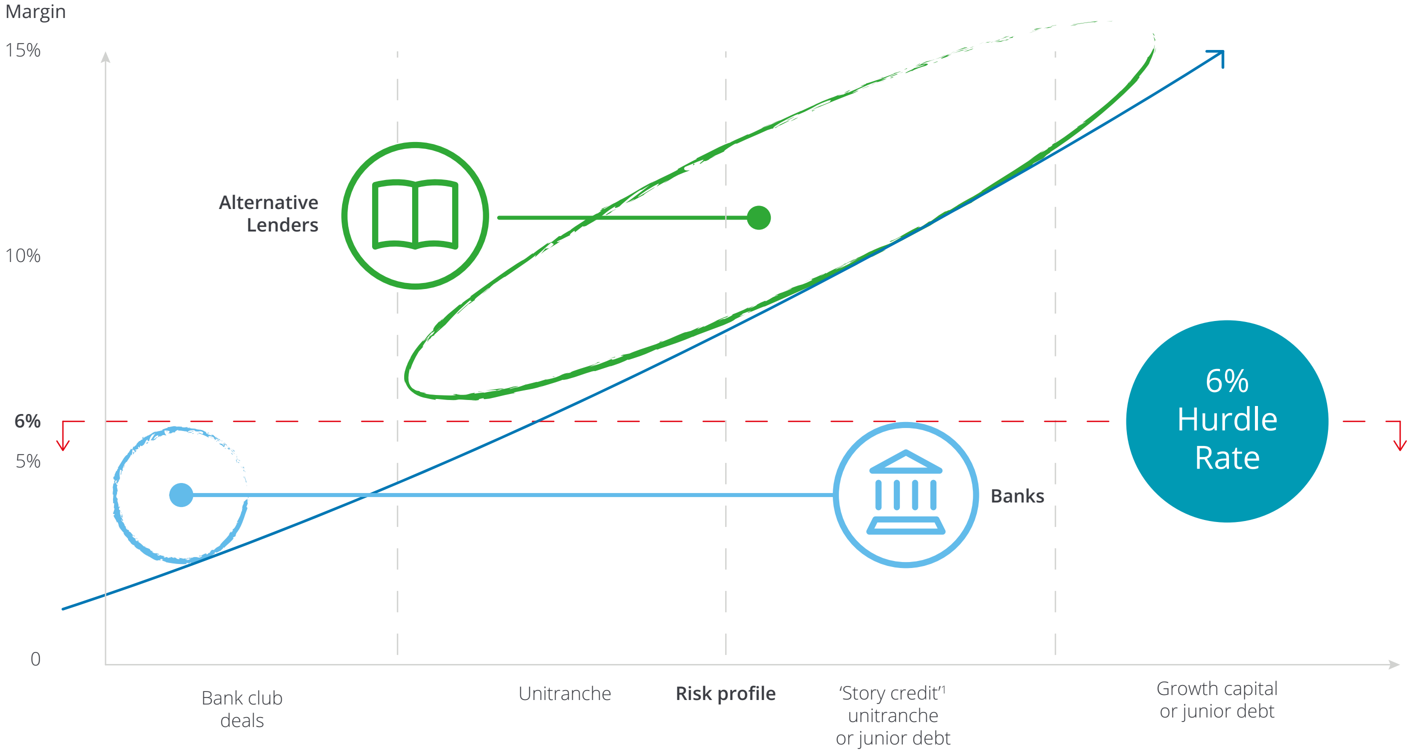
Cash flow debt products

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

Private Instrument

Public Instrument

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.

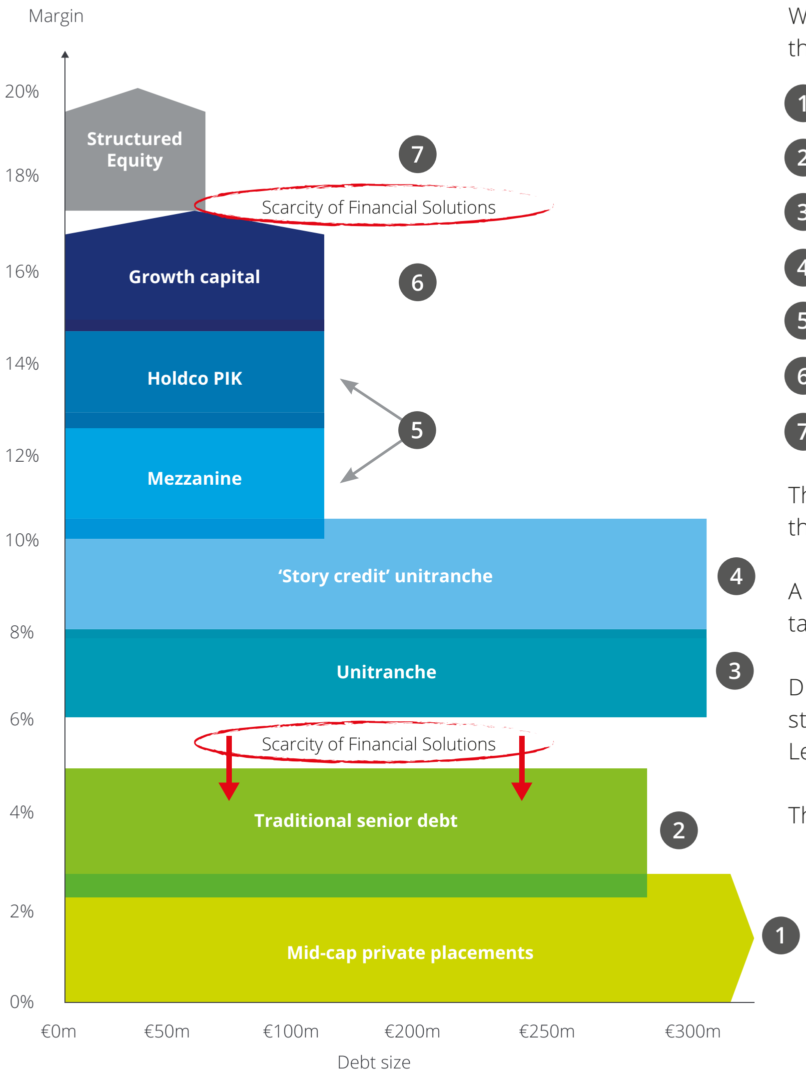
Majority of the Direct Lenders have hurdle rates which are above L+600bps margin and are mostly involved in the most popular strategy of 'plain vanilla' unitranche, which is the deepest part of the private debt market. However, direct lenders are increasingly raising senior risk strategies funds with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



Note: Distressed strategies are excluded from this overview

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

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

There is a limited number of 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.

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

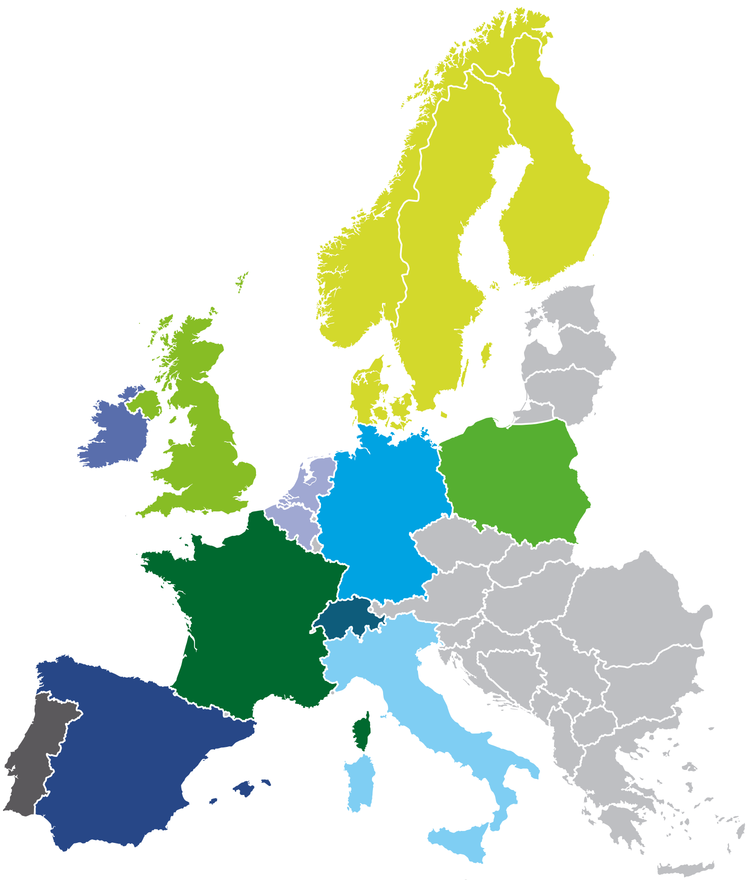
Fund strategy	Description	Target return (Gross IRR)	Investment period	Fund term	Management fee	Preferred return	Carried interest
Direct senior lending	Invest directly into corporate credit at senior levels of the capital structure	5-10%	1-3 years	5-7 years (plus 1-2 optional one year extensions)	Typically 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

Who are the Direct Lenders?



United Kingdom
Alcentra, Ardian, Ares, Bain Capital, Barings, Beechbrook Capital, BlackRock, BlueBay, Citi, Cordet, Crescent, CVC, EQT, ESO, Grovepoint, GSO Capital Partners, Guggenheim, HMC Harbert Management Corporation, Hayfin, Hermes, HIG WhiteHorse, ICG, Kartesia, KKR, M&G Investments, Macquarie, Magnetar Capital, Muzinich & Co, MV Credit, Njord Partners, Northleaf Capital Partners, Partners Group, Permira, Pemberton, Praesidian Capital, Pricoa Capital Group, Rothschild, THCP, Tikehau Capital, TPG

Germany
Ardian, Ares, BlackRock, EQT, Hayfin, HIG WhiteHorse, Idinvest Partners, ICG, Kartesia, Pemberton, Permira, Pricoa Capital Group

Poland
Credit Value Investments

Spain
Alantra, HIG WhiteHorse, ICG, Incus Capital, Idinvest Partners, Kartesia, KKR, Hayfin, Magnetar Capital, Pemberton, Muzinich & Co, Trea, Oquendo Capital

Nordics
Ares, Capital Four, Cordet, Proventus

Italy
Emisys Capital, HIG WhiteHorse, Muzinich & Co, Quadrivio, Pemberton, Pricoa Capital Group, Tikehau Capital

Benelux
Cordet, Delta Lloyd, Dutch Mezzanine Fund, ICG, HIG WhiteHorse, Hayfin, Kartesia, XC Mezzanine Partners, PMV, THCP, Tikehau Capital

Ireland
Activate Capital, BlueBay, Broadhaven Credit Partners, Cardinal Capital Group, Earlsfort Capital Partners

Portugal
Incus Capital

Switzerland
Credit Suisse, ESO, Partners Group, Tavis Capital

France
Ardian, Ares, BlackRock, Bpifrance, Capzanine, Cerea Partenaire, EMZ, GSO Capital Partners, Hayfin, HIG WhiteHorse, ICG, Incus Capital, Indigo, Idinvest Partners, Kartesia, KKR, Muzinich & Co, Partners Group, Pemberton, Permira, Pricoa Capital Group, Rothschild, Tikehau Capital

Especially focused on Euro PP
Amundi, Artemid, Cerea Partenaire, Fédéris Gestion d'Actifs, La Banque Postale, Idinvest Partners, Tikehau Capital

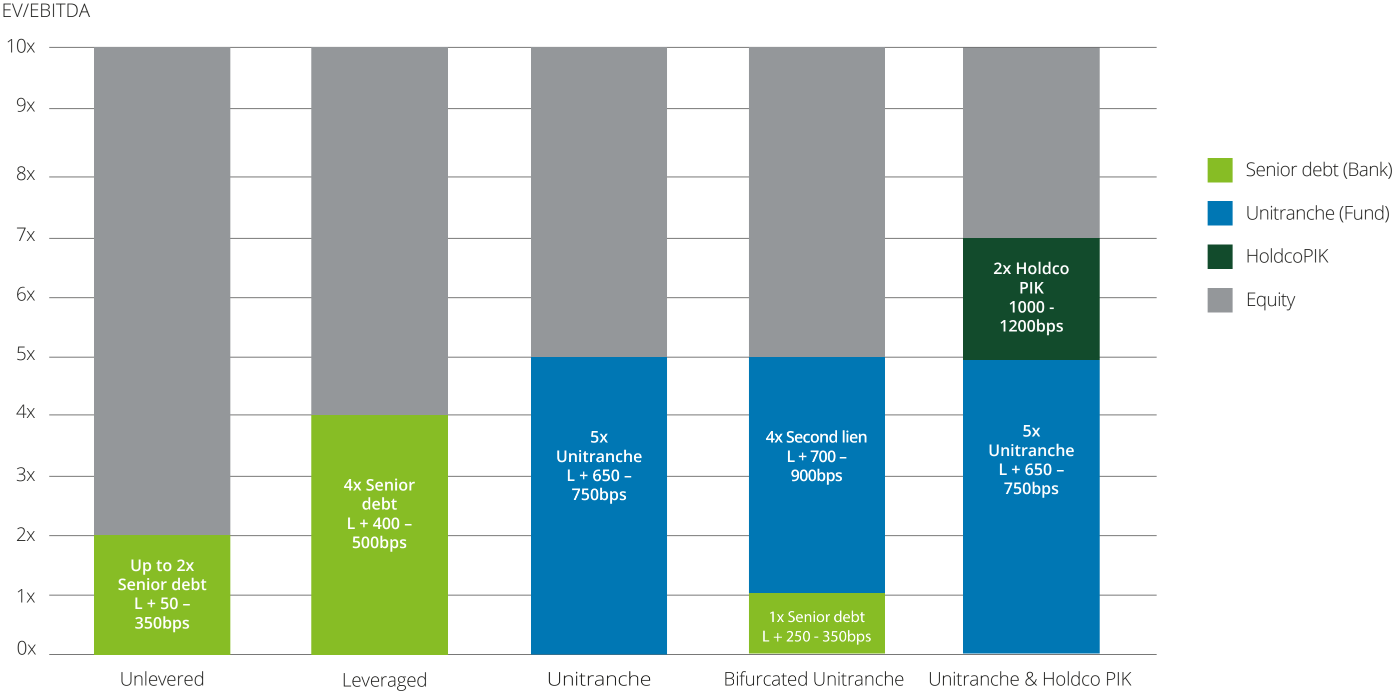
Note: offices included with at least one dedicated Direct Lending professional. The graph does not necessarily provide an overview of the geographical coverage.

When to use Alternative Debt?

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

What debt structures are available in the market?

Structures



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

Unlevered	Leveraged	Unitranche	Bifurcated Unitranche	Unitranche & Holdco PIK
L + 50 – 350bps	L + 450bps	L + 700bps	L + 700bps	L + 815bps

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

Pros and Cons per structure

Unlevered	Leveraged	Unitranche	Bifurcated Unitranche	Unitranche & Holdco PIK
✓ Lowest pricing ✓ Relationship bank ✓ Bullet RCF	✓ Increased leverage ✓ Club of relationship banks	✓ Stretched leverage ✓ Flexible covenants ✓ One-stop shop solution ✓ Speed of execution ✓ Relationship lender	✓ Stretched leverage ✓ Flexible covenants ✓ Greater role for bank ✓ Reach more liquid part of the unitranche market	✓ Stretched leverage ✓ Flexible covenants ✓ Lower equity contribution ✓ No Intercreditor
× Low leverage × Shorter tenor (3-5 years)	× More restrictive terms × Partly amortising	× Higher pricing	× Higher pricing × Intercreditor/AAL	× Higher pricing

Which landmark unitranche deals have been completed?

Selected Landmark Unitranche Deals (>€90m)

Borrower	Country	Unitranche in €m	Lenders	Sponsor	Date
Non-Standard Finance	UK		Alcentra	–	Aug-17
Bergman Clinics	Netherlands		ICG	–	Jul-17
Chassis Brakes International	Netherlands		KKR	✓	Jul-17
Schuelerhilfe	Germany		Alcentra	✓	May-17
JVH Gaming	Netherlands		Ares	✓	May-17
Duomed	Netherlands		Permira	✓	May-17
Fintyre	Italy		GSO	✓	Apr-17
Consolis	France		GSO	✓	Apr-17
Zenith	UK		Goldman Sachs	✓	Mar-17
Dentix	Spain		KKR	–	Dec-16
Paymentsense	UK		CVC, EQT	–	Nov-16
Roompot	Netherlands		KKR	✓	Nov-16
HCS Group	Germany		GSO	–	Nov-16
Lifetime Training	UK		Alcentra	✓	Oct-16
Lumenis	Netherlands		Alcentra	✓	Oct-16
IBA Molecular	UK		GSO	✓	Aug-16
Mater Private Hospital	Ireland		Macquarie, Goldman Sachs, KKR	✓	Aug-16
Laureate Education	Switzerland		ICG, Credit Suisse	✓	Jun-16
Marlink	Norway		Ares, Tikehau	✓	Jun-16
Groupe Bertrand	France		BlueBay Asset Management	–	Jun-16
Dobbies Garden Centres	UK		Ares	✓	Jun-16
InfoVista	France		Ares	✓	May-16
Marle	France		Capzanine, Babson	✓	May-16
Polynt and Reichhold	Italy		GSO	✓	May-16
OpenBet	UK		Ares	–	Apr-16
Petainer	UK		KKR	✓	Apr-16
Citation	UK		Alcentra	✓	Apr-16
Delsey	France		Avenue, Pemberton, Permira	✓	Nov-15
Verastar	UK		Ares	✓	Nov-15
Fintrax	Ireland		Ares	✓	Nov-15
Oberscharrer	Germany		BlueBay	✓	Nov-15
ESE	Netherlands		Avenue, BlueBay	✓	Nov-15
Bibliotheca	Switzerland		BlueBay	✓	Oct-15
Gala Bingo	UK		ICG	✓	Oct-15
Chiltern / Theorem	UK/USA		Hayfin, ICG, HPS Investment Partners, Bain Capital	–	Sep-15
Currencies Direct	UK		Alcentra, CVC, HPS Investment Partners	✓	Sep-15
		100 200 300 400 500 600 700			

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

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, revenue 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 4.5-5.5x 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

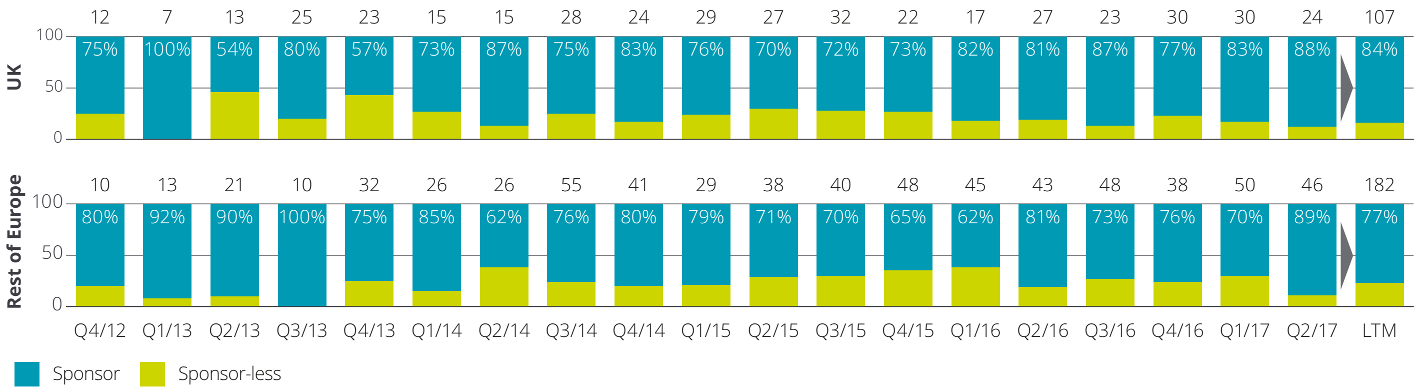
Key advantages

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



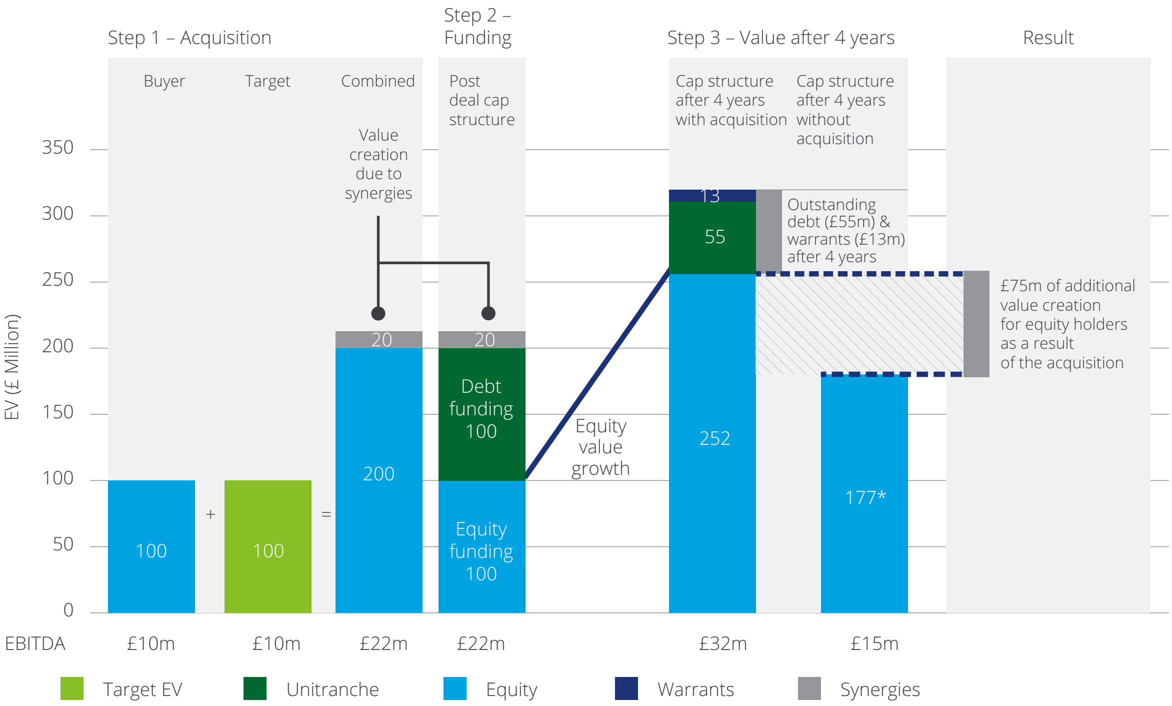
Unlocking transformational acquisitions for privately owned companies

Indicative calculations

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

Value creation through M&A

Indicative calculations



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

Assumptions

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

Deloitte Debt 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 180 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

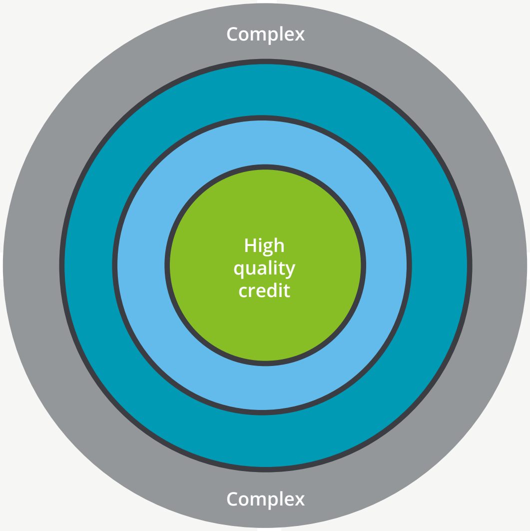
How complex is your credit?

Sector

Growth	Volatile	Stable
Cyclicality	High	Low
Seasonality	High	Low
Scarcity of product	Commodity	High value-add
Changing regulatory environment	High	Low

Market position & Clients

Low	High	Market share
Many	Few	Competitors
Few	Many	Barriers to entry
High	Low	Customer concentration
High	Low	Supplier concentration



Management quality	Low	High
Corporate Governance	Weak	Strong
Shareholder commitment	Low	High
Jurisdiction	Difficult	Easy

Management, Shareholders & Jurisdiction

Volatile	Stable	Stable performance
Low	High	Cash generation
High	Low	Leverage
Low	High	Asset coverage

Financial Performance

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One of the most successful Debt and Capital Advisory teams

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Deloitte Debt and Capital Advisory credentials

Our UK team has completed over 60 transactions in the last 24 months

LDC Acquisition Finance September 2017 Undisclosed	**Stiga** Refinancing August 2017 €230m	**DFS** Refinancing July 2017 £230m	**Forterra** Refinancing July 2017 £150m	**McBride Plc** Refinancing June 2017 €175m	**CFC Capital Limited** Staple April 2017 Undisclosed	**Ullink** Refinancing April 2017 Undisclosed	**A-Plan** Refinancing April 2017 Undisclosed
CVL Staple February 2017 Undisclosed	**Euromoney Institutional Investors** Acquisition Financing February 2017 $201m + £162m	**BCA** Refinancing February 2017 £500m	**Zenith** Staple January 2017 Undisclosed	**Intelliflo** Refinancing January 2017 £24.5m	**Champ Ventures** Growth Finance January 2017 €20m	**FL Partners** Acquisition Financing January 2017 £15m	**Global Garden Products** Refinancing November 2016 €80m
Chase Templeton Acquisition financing November 2016 Undisclosed	**Cogital Group** Acquisition Financing October 2016 NOK 3,675m	**Five Arrows** Dividend Recap October 2016 £115m	**Bridgepoint** Acquisition Financing October 2016 Undisclosed	**Renewi** Acquisition Finance September 2016 €600m	**P&I** Staple financing September 2016 Undisclosed	**Ullink** Refinancing August 2016 Undisclosed	**Trace One** Acquisition financing August 2016 Undisclosed
Waterland Private Equity Amendment & Restatement July 2016 €600m	**Agilitas Private Equity** Acquisition financing July 2016 Undisclosed	**Apex Fund Services** Refinancing July 2016 $40m	**Baxters Food Group** Refinancing July 2016 $115m + £48m	**Domino's Pizza Group** Refinancing July 2016 £175m	**HgCapital** Refinancing June 2016 $32m	**Working Links** Refinancing June 2016 Undisclosed	**Augusta Ventures** Growth Capital June 2016 £30m
Cape Amend & Extend June 2016 £300m	**Livingbridge** Acquisition financing June 2016 £36m	**Alternative Networks** Amend & Extend June 2016 £40m	**HgCapital** Refinancing June 2016 £75m	**Adey** Staple Financing May 2016 £70m	**IWG** Amend & Extend May 2016 £550m	**HgCapital** Refinancing May 2016 DKK300m	**CBPE** Refinancing March 2016 £86m
St. Austell Brewery Amend & Extend March 2016 £45m	**HgCapital** Acquisition financing February 2016 £85m	**Speed Medical** Refinancing February 2016 £22m	**HgCapital** Acquisition financing January 2016 $270m	**HgCapital** Refinancing December 2015 £47m	**Mears** Amend & Extend December 2015 £140m	**North Edge** Acquisition financing December 2015 £9m	**HgCapital** Refinancing December 2015 €365m

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Deloitte Debt and Capital Advisory credentials

Selected Global transactions

Noden Pharma	Debt Advisory	July 2017	Undisclosed	Ireland
Air Greenland	Dividend Recap	July 2017	Undisclosed	Denmark
Instituts Odontologics	Growth financing	July 2017	€50m	Spain
Acome	Amend & Extend	July 2017	€60m	France
Bio Telemetry, Inc.	Acquisition Financing	July 2017	$205m	USA
Sports & Leisure Group	Staple Financing	June 2017	Undisclosed	Belgium
Labflex	Acquisition Finance	June 2017	€15m	Denmark
Stage entertainment	Refinancing	June 2017	Undisclosed	Netherlands
Keylane	Refinancing	June 2017	Undisclosed	Netherlands
FMTG	Financing	May 2017	Undisclosed	Austria
Information Builders	Refinancing	May 2017	$625m	USA
HgCapital	Acquisition Financing	April 2017	$315m	USA
Foreman Capital/Standard Investment	Acquisition Financing	March 2017	Undisclosed	Denmark
Monjasa A/S	Refinancing	March 2017	$67.5m	Denmark
Habock Aviation Group	Build up financing	March 2017	€25m	Spain
EUROFIMA	Financial Advisor	March 2017	Undisclosed	Switzerland
Koncenton	Mortgage Finance	March 2017	€25m	Denmark
Sovereign Capital	Debt Advisory	February 2017	€26m	Ireland
Koncenton	Mortgage Finance	February 2017	€50m	Denmark
ATP	Recapitalisation	January 2017	Undisclosed	Denmark
Acta Marine	Capex Financing	January 2017	Undisclosed	Netherlands
TUHF Limited	Pvte Placement Bond	January 2017	ZAR280m	South Africa
LionHorn Pte Ltd	Acquisition Financing	December 2016	Undisclosed	Singapore/Malaysia
Northern Irish Home Builder	Debt Raising	December 2016	€6m	Ireland
Oceanwide	Refinancing	December 2016	Undisclosed	Netherlands
Royal Boom	Refinancing	December 2016	Undisclosed	Netherlands
Project Roma	Refinancing	December 2016	Undisclosed	USA
Project Homeland II	Growth Financing	December 2016	Undisclosed	USA
Project Grey	Financing	December 2016	Undisclosed	USA
WinSystems Limited	Acquisition Finance	December 2016	Undisclosed	USA/UK
Every Angle	EIB Financing	November 2016	€7.5m	Netherlands
Refresh Financial	Debt Financing	November 2016	CAD $75m	Canada
University College Zealand	Refinancing	November 2016	€32m	Denmark
Real Estate	Debt Raising	November 2016	€6.3m	Ireland
Koncenton	Acquisition Finance	November 2016	€60m	Denmark
Hotel Industry	Debt Raising	November 2016	€39.2m	Ireland
Naviair	Recapitalisation	November 2016	€15m	Denmark
Pension Fund	Recapitalisation	November 2016	€80m	Denmark
CTR A/S	Construction Finance	October 2016	€400m	Denmark
Bain Capital Credit	Debt Advisory	September 2016	Undisclosed	Ireland

Notes

Notes

Notes

Important Notice in relation to page 20-21

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