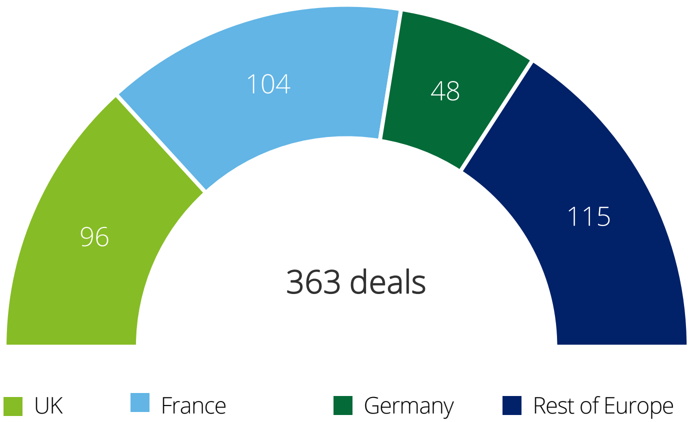
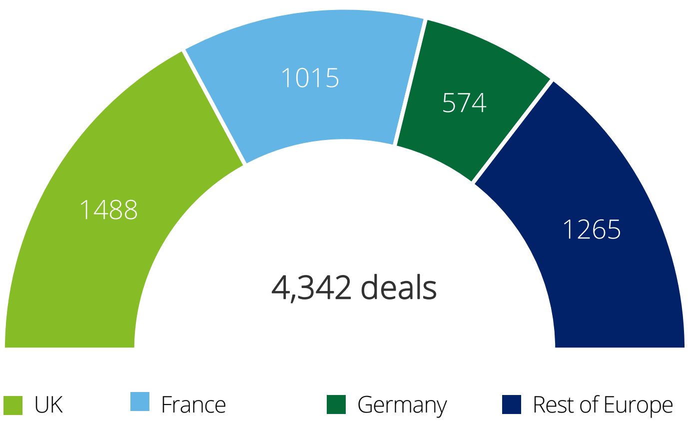
Deal activity remains subdued, with investors locked in the jaws of macroeconomic uncertainty

Deloitte Private Debt Deal Tracker Spring 2023

H2 2022 deals completed



YTD H2 2022 deals completed



H2 2022 headline figures

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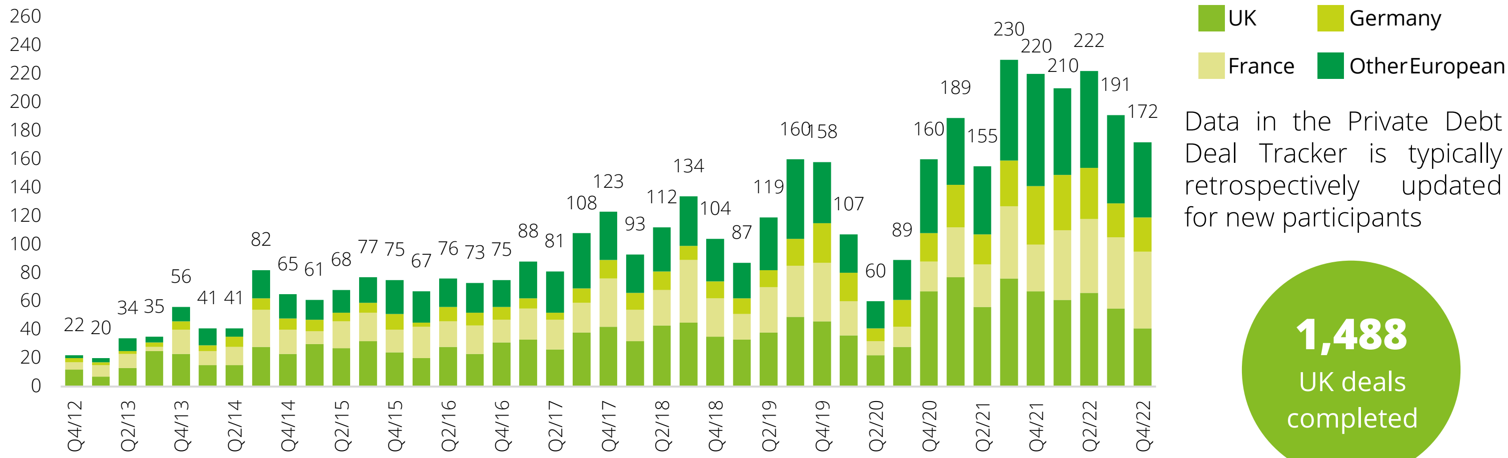
Borrowers access private debt to power growth

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

The Private Debt Deal Tracker now covers 76 lenders and a reported 4,342 deals

Private Debt Deal Tracker

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



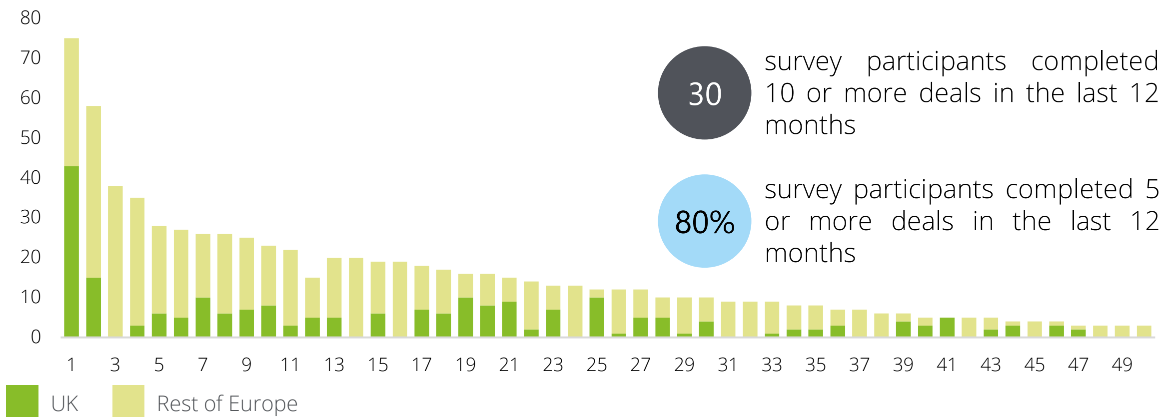
Data in the Private Debt Deal Tracker is typically retrospectively updated for new participants

1,488 UK deals completed

2,854 Euro deals completed

4,342 Total deals completed

Deals completed by survey participants (Last 12 months)



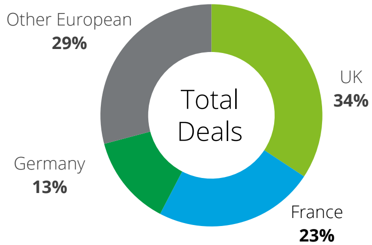
30 survey participants completed 10 or more deals in the last 12 months

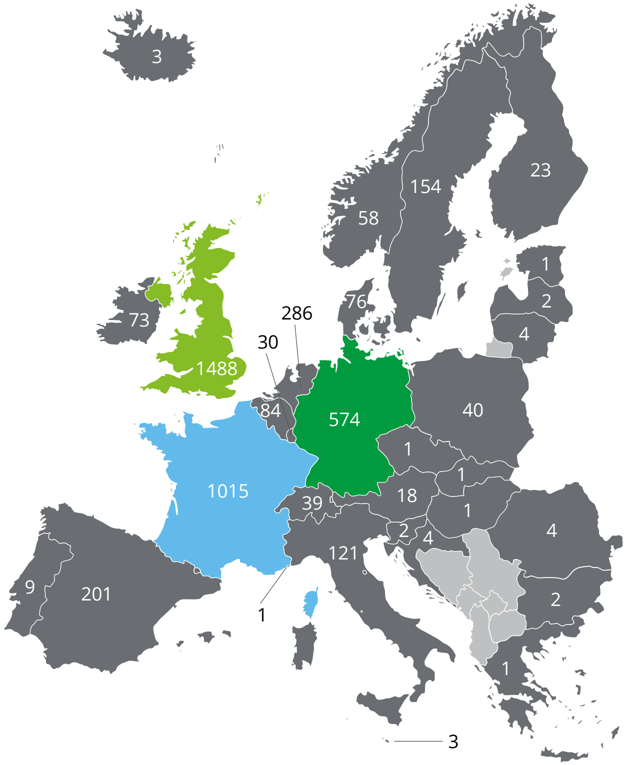
80% survey participants completed 5 or more deals in the last 12 months

Private debt lenders increasingly seeking to diversify geographies

Total deals across Europe

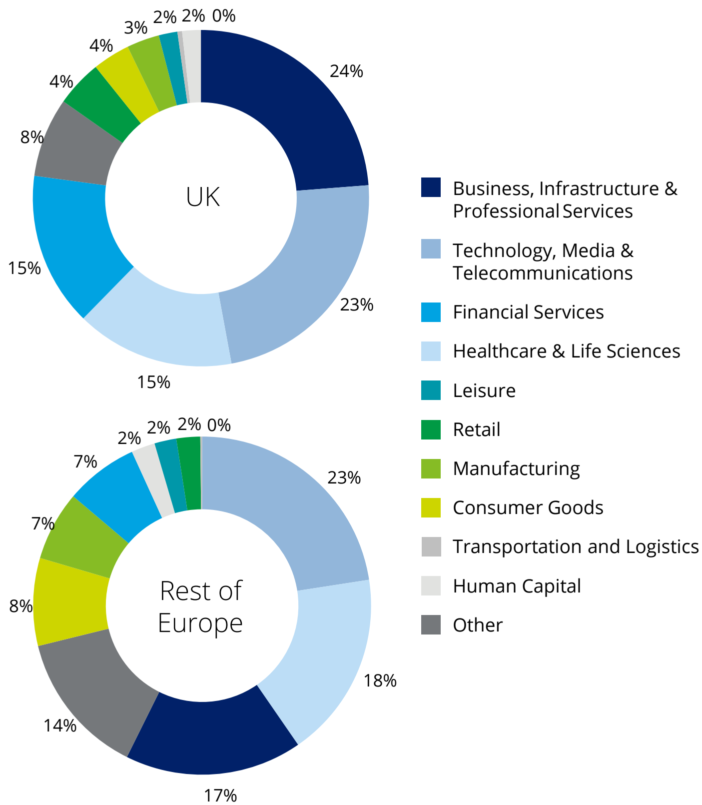
In the last 41 quarters 4,342 (1,488 UK and 2,854 other European) deals are recorded in Europe





Total deals across industries (Last 12 months)

Within the UK, the Business, Infrastructure & Professional Services and TMT industries have been the dominant users of private debt

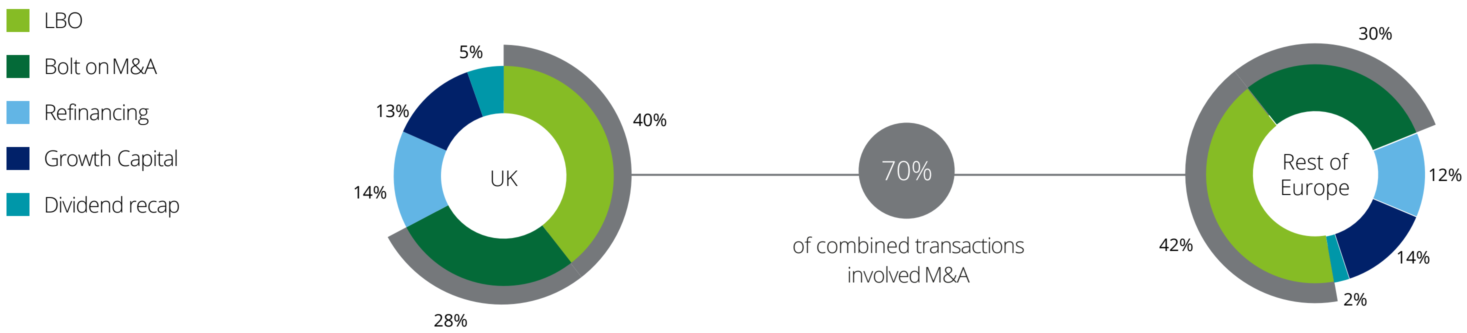


In the rest of Europe there are 5 main industries: TMT, Business, Infrastructure & Professional Services, Healthcare & Life Sciences, Manufacturing and Consumer Goods

M&A remains the key driver for private debt deals, even amidst the slowdown in activity

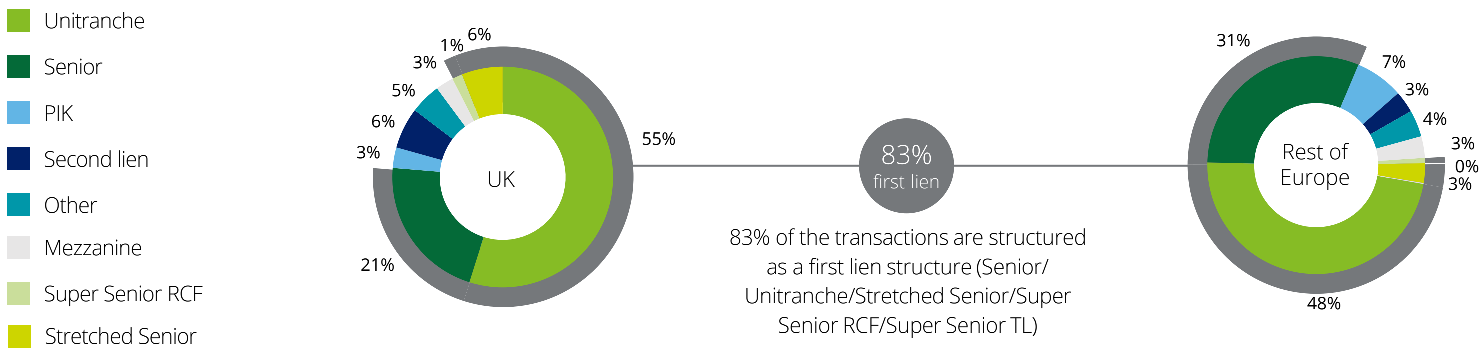
Deal purpose (Last 12 months)

The majority of the deals are M&A related, with 70% of the UK and Euro deals being used to fund an acquisition. Of the 795 deals in the last 12 months, 106 deals did not involve a private equity sponsor.



Structures (Last 12 months)

Unitranche is the dominant structure, with 55% of UK transactions and 48% 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.

Did 2022 mark the 'top of the market' and what does that mean for 2023?

A number of groundbreaking deals were observed in H1 2022, but for the most part, activity was subdued in Q3. Capital will remain available to borrowers in 2023, however conditions are likely to be more challenging

2022

- ✓ Largest unitranche seen since the development of the asset class (Access Group, >€3bn)
- ✓ Largest committed but undrawn facility relative to day 1 drawings seen in the mid market (Reconomy, £400m)
- ✓ Multiple deals achieving pricing sub 600bps, a function of aggressive use of fund leverage
- ✓ Large degree of covenant flexibility, including a number of cov lite deals (springing covenant only)
- ✓ Record breaking amounts of capital deployment, a function of a strong fundraising environment

Pricing lows

Covenant lite

2023?

- ➢ A reduction in deal volumes (16% decrease in deals in Q3 y-o-y)
- ➢ Pricing now firmly in the 600bps + territory
- ➢ Covenant regimes tightening, either through reduced headroom, and / or introduction of an additional test
- ➢ Reduced leverage, as lenders focus on debt serviceability
- ➢ Lenders will manage deployment of capital more carefully, as fundraising becomes more challenging
- ➢ Lenders also likely to act more aggressively in situations where covenants are breached in order to protect value and ensure continuity of fundraising – numerous examples of debt for equity in Q4 2022

Reduction in deal volumes

Flight-to-quality and reduced leverage

More costly debt

Tightened covenant regimes