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Deloitte Debt Advisory
An introduction to
Alternative Lending

March 2016

Please sign-up to the Alternative Lender Deal Tracker via
our link at: www.deloitte.co.uk/dealtracker







Alternative Lender Coverage at a glance

Deloitte Debt Advisory

-  Independent advice
-  Market leading team
-  Global resources and execution expertise: **140** professionals in **31** countries
-  Demonstrable track record: over 50 deals closed in the UK since 2014









Alternative Lending

-  Dedicated coverage teams in London, New York, Singapore and Dubai
 Floris Hovingh
Head of Alternative Lender Coverage
-  Over **40** alternative lender transactions in last 24 months
-  Quarterly publication of the Deloitte Alternative Lender Deal Tracker

Global coverage Debt and Capital Advisory



Selected credentials

<p>Chiltern Acquisition financing</p>  <p>September 2015 Undisclosed</p>	<p>Hg Capital Refinancing</p>  <p>August 2015 £430m</p>	<p>G Square Acquisition financing</p>  <p>July 2015 £102m</p>	<p>Volac International Growth financing</p>  <p>May 2015 £53m</p>
<p>Bridgepoint Refinancing</p>  <p>April 2015 £380m</p>	<p>HgCapital Refinancing</p>  <p>April 2015 £240m</p>	<p>ARCA Acquisition financing</p>  <p>December 2014 \$107m</p>	<p>Keepmoat Staple financing</p>  <p>October 2014 £275m</p>

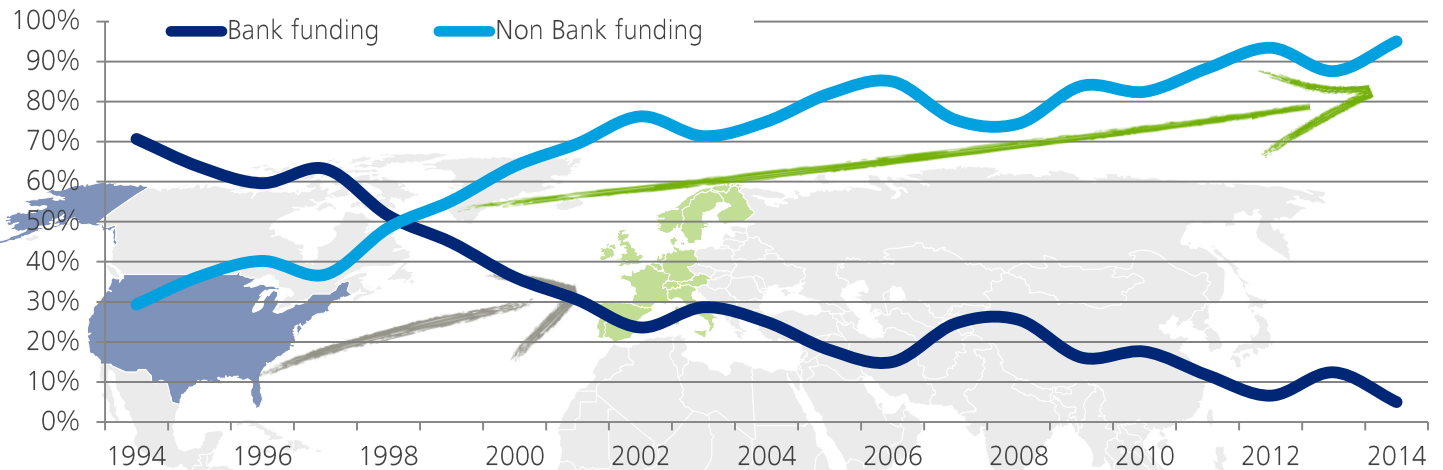
Introduction to Alternative or Direct Lending

What is Alternative or Direct Lending and how did it evolve?

What is Alternative or Direct Lending?

A **non-bank** directly financing a company without the intermediation of a bank.

Evolution of the US leveraged debt market



US Market

- 100+ Direct Lending funds
- 100+ BDC funds
- Limited bank competition for Leveraged Finance
- Mature market with strong discipline

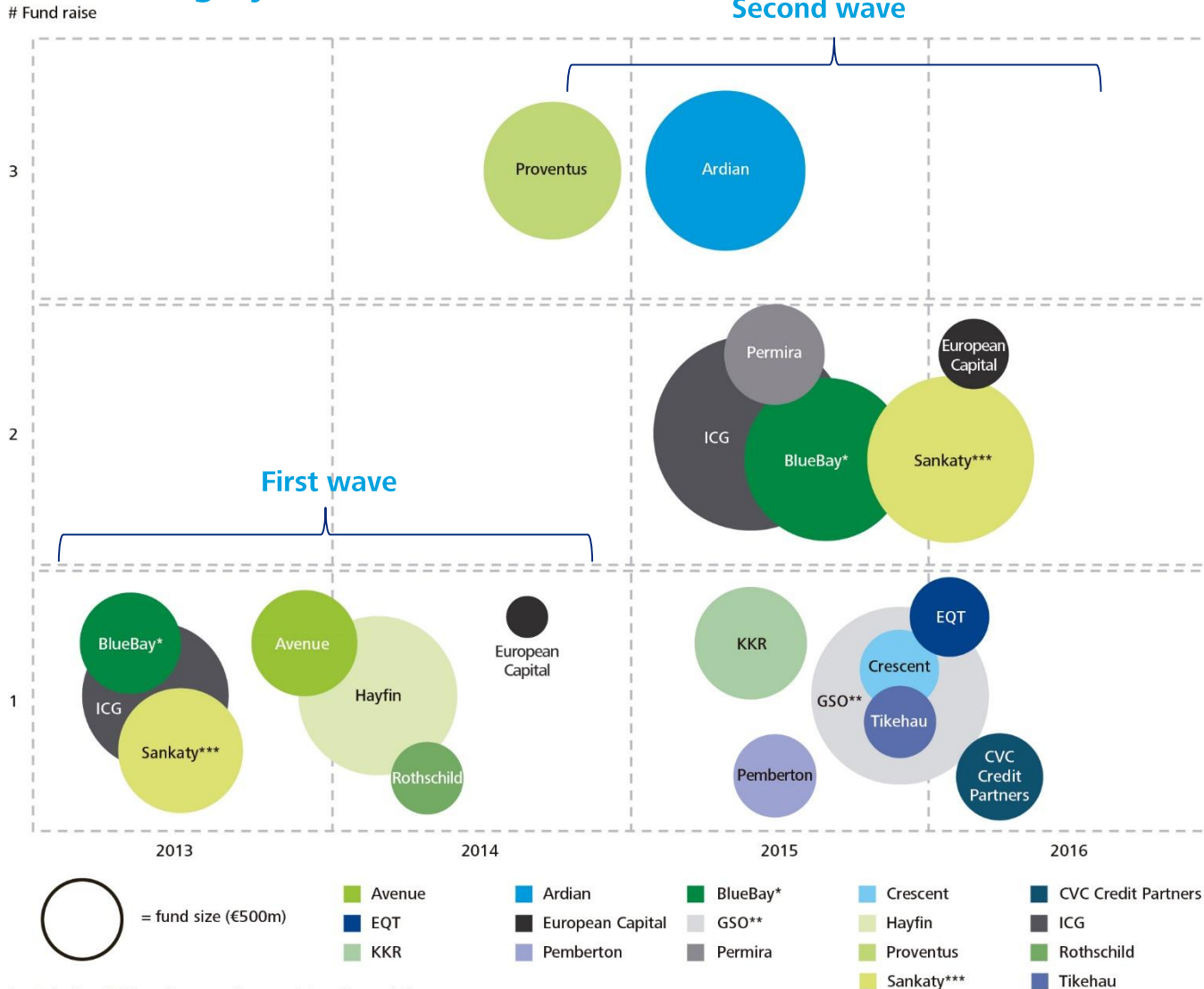


European market

- ~ 40 Direct Lending funds
- To date limited retail investments
- Still strong bank competition
- Immature and opportunistic market

How is the landscape in Europe changing?

Fund raising by Direct Lenders



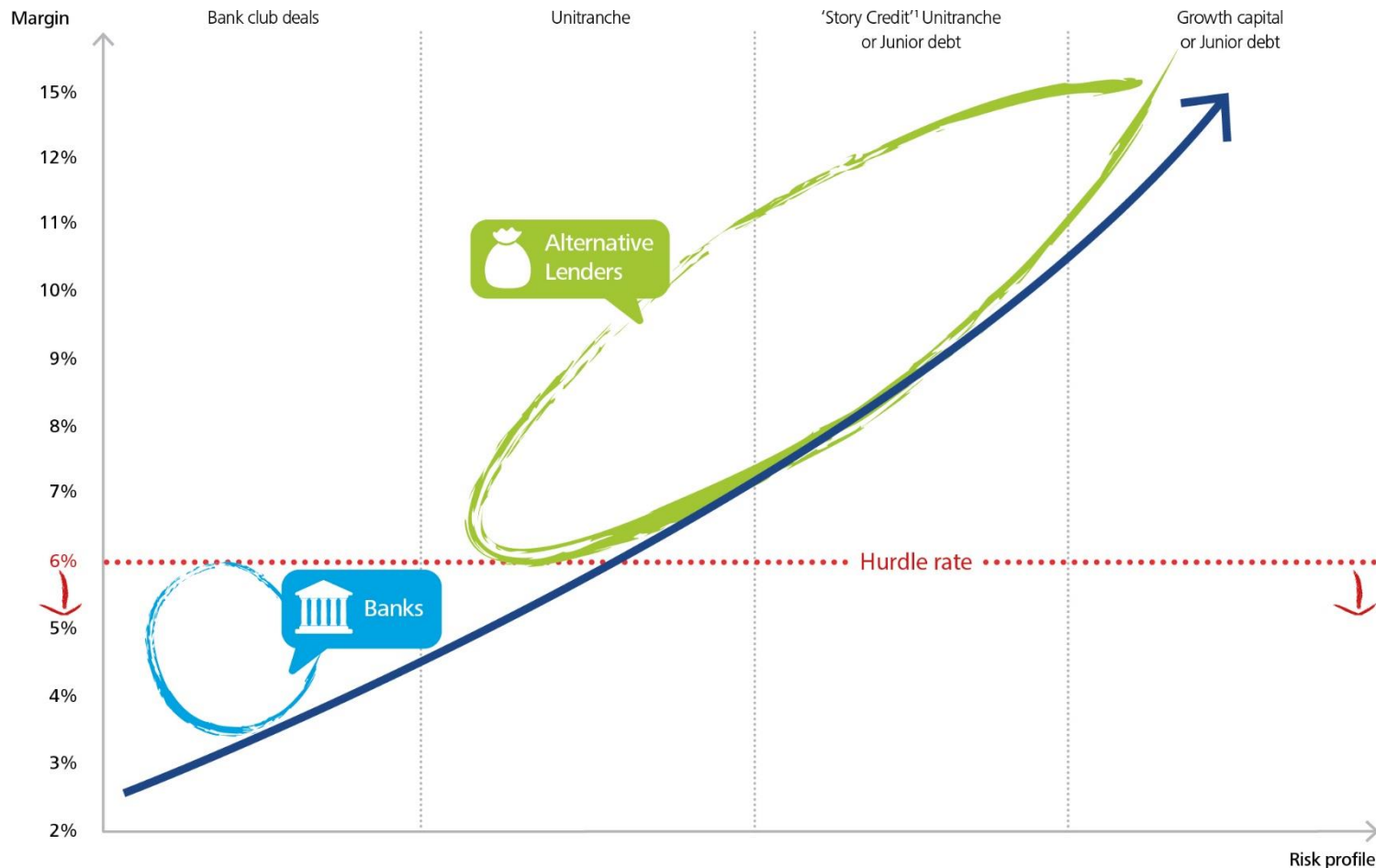
Changing landscape

- Larger "Gorilla" funds
- More leverage being raised
- An increasing willingness to underwrite
- Greater pressure to deploy capital
- Growing competition






* = Excluding €700m of managed accounts/overflow vehicles
 ** = Excluding €2.5bn of leverage, total fund capacity of €5bn
 *** = Global investment focus with significant allocation to the European market

How do Direct Lenders compete with Bank Lenders?

Direct Lending vs. Bank Lending



How funds try to differentiate

-  **One-stop solution**
-  **Greater structural flexibility**
-  **Speed of execution**
-  **Cost-effective simplicity**
-  **Scale**

¹ 'Story' Unitranche relates to more complex debt raisings in terms of the cyclical nature of the industry the borrower operates in, limited

Who are the Direct Lenders?

Direct Lenders in Europe



United Kingdom	CVC Credit Partners, Alcentra, HAYFIN, QUADRINO GROUP, H.I.G., WHITEHORSE, JMV Credit, ARES, ARDIAN, Musinich & Co, Njord PARTNERS, GROVEPOINT, CRESCENT, CORDET DIRECT LENDING, Babson, ICG, European Capital, Nordic Mezzanine, M&G INVESTMENTS, BLACKROCK, BlueBay, CITI, GSO, EQT, MACQUARIE, KKR, CAPITAL PARTNERS, Partners Group, PERMIRA, BEECHBROOK capital, GUGGENHEIM, MAGNETAR CAPITAL, Praesidian capital, Sankaty ADVISORS, idinvest PARTNERS, PEMBERTON, TPG
Germany	idinvest PARTNERS, PEMBERTON, ARES, ICG, HAYFIN, EQT, H.I.G., WHITEHORSE, ARDIAN, PERMIRA, BLACKROCK
Spain	idinvest PARTNERS, Musinich & Co, KKR, N+1, ICG, HAYFIN, INCUS CAPITAL, TRISA ASSET MANAGEMENT, MAGNETAR CAPITAL, OQUENDO CAPITAL, H.I.G., WHITEHORSE, PEMBERTON
Nordics	Nordic Mezzanine, PROVENTUS, Njord PARTNERS, CAPITAL FOUR, ARES
Italy	H.I.G., WHITEHORSE, QUADRINO GROUP, Musinich & Co, PEMBERTON
Benelux	HAYFIN, delta lloyd, ICG, CORDET DIRECT LENDING, H.I.G., WHITEHORSE
Ireland	Origin CAPITAL, WLR Cardinal Mezzanine Fund, BBF CAPITAL PARTNERS, RENATUS CAPITAL PARTNERS, KKR, Broadhaven CAPITAL PARTNERS, Barliff Capital Partners
Portugal	INCUS CAPITAL
Switzerland	Partners Group, INCUS CAPITAL, CVC
France	HAYFIN, idinvest PARTNERS, ARDIAN, KKR, CEREA PARTENAIRE, BLACKROCK, ICG, ARES, PERMIRA, H.I.G., WHITEHORSE, Partners Group, Musinich & Co, GSO, CAPITAL PARTNERS, TIKHAL, PEMBERTON, European Capital, Especially focused on Euro PP, Artemid, Amundi ASSET MANAGEMENT, CERIA PARTENAIRE, idinvest PARTNERS, FEDERIS

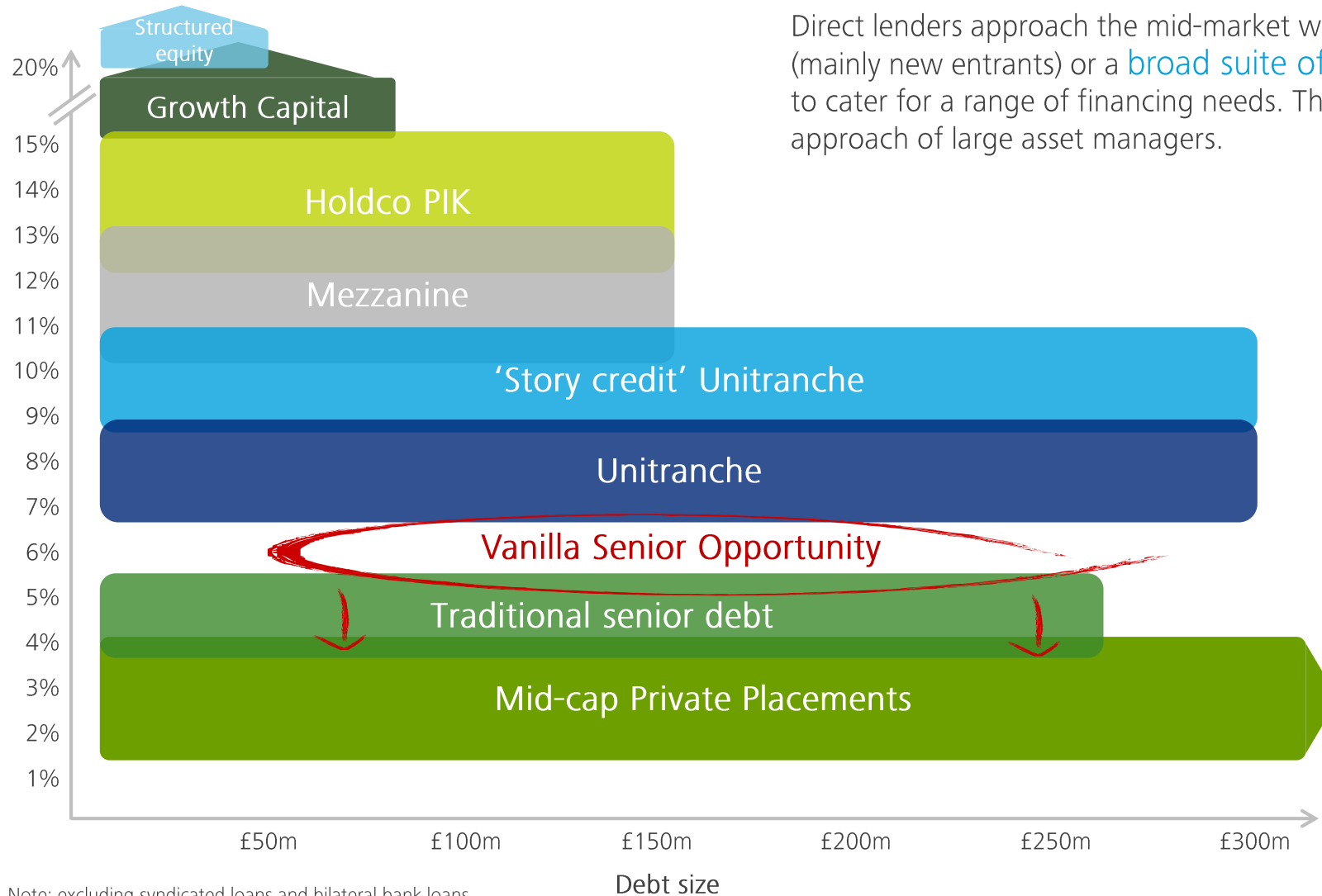
Origins of Direct Lenders

- Mezzanine
- High yield bond
- Distressed
- New
- Insurance companies
- Private Equity
- Hedge fund

Note: offices included with at least one dedicated direct lending professional.
The overview does not necessarily provides an overview of the geographical coverage.

What are the private debt strategies?

Private debt strategies



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.

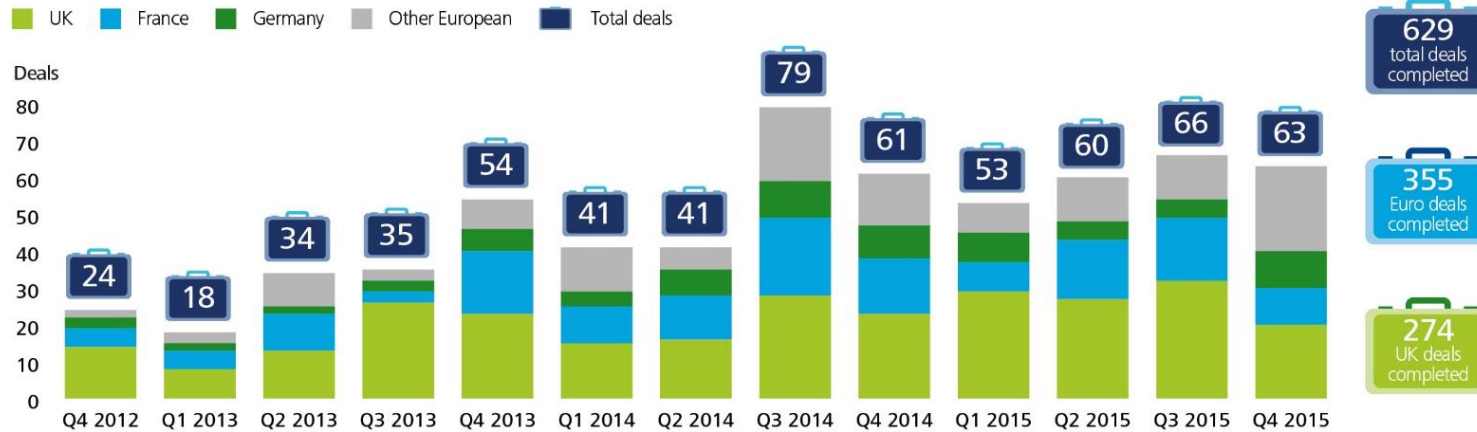
Note: excluding syndicated loans and bilateral bank loans

Alternative Lending in Europe

Alternative lenders continue to increase their deal flow...

Alternative Lender Deal Tracker

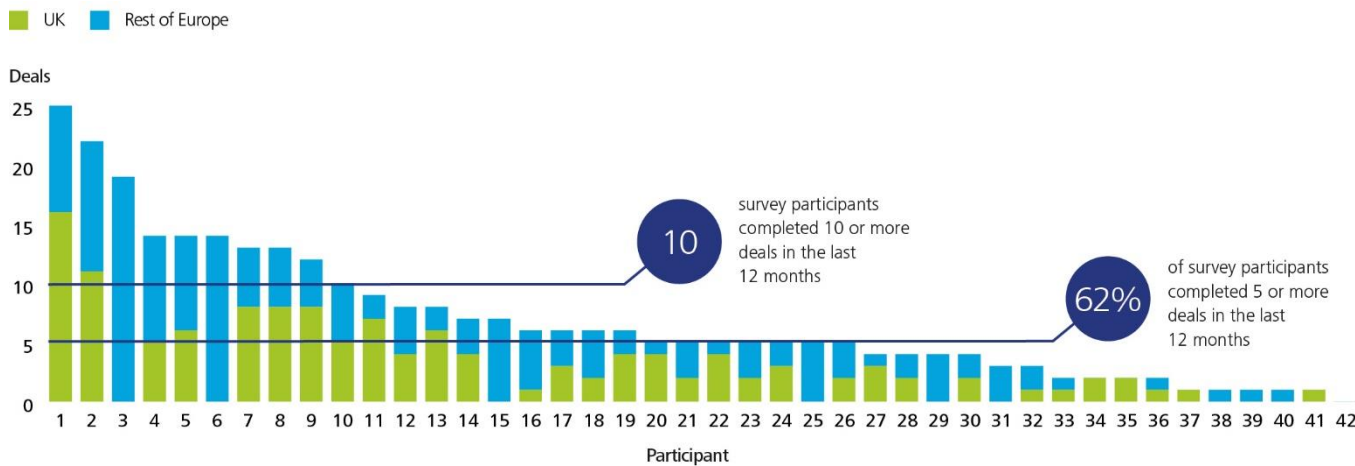
Currently covers **42 leading alternative lenders**. Only primary mid-market UK and European deals are included in the survey.



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

Deals done by each survey participant (Last 12 months)

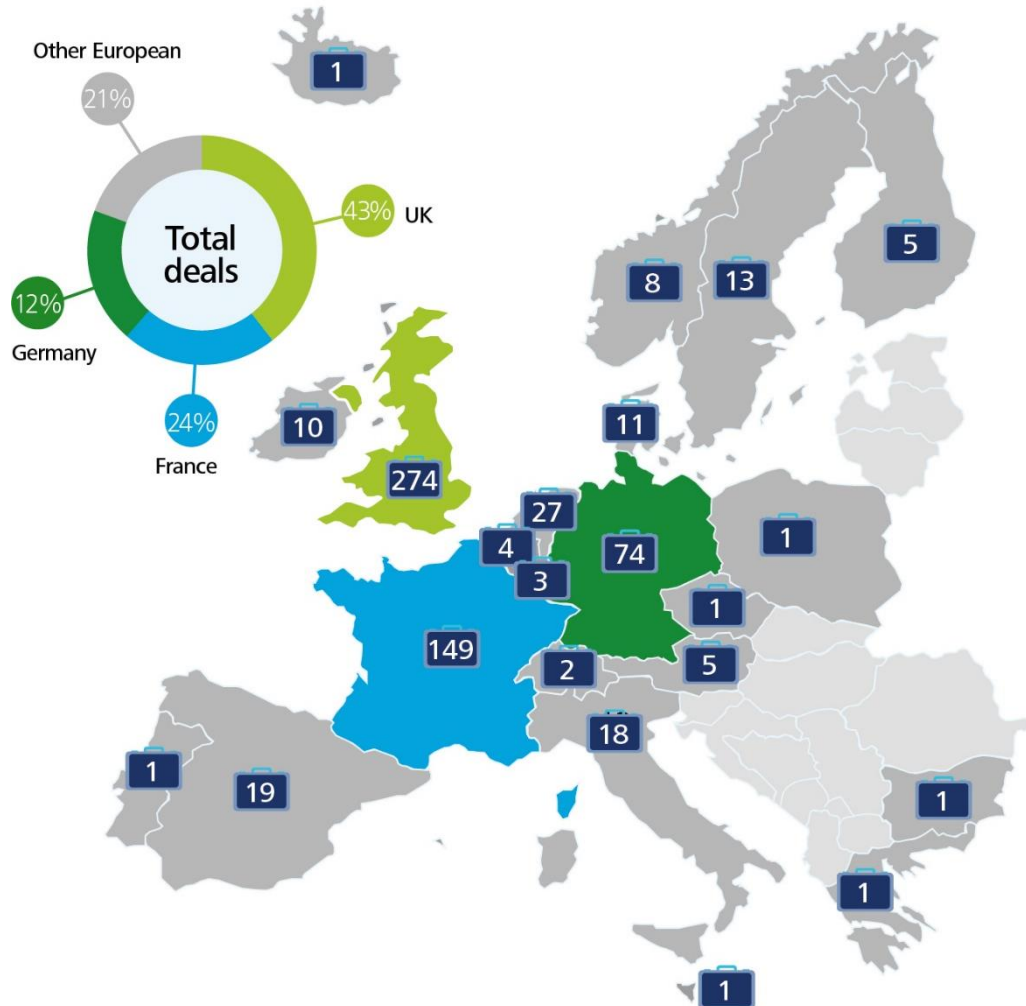
Only **13%** of transactions involved **multiple alternative lenders**.



...across Europe providing bespoke structures for mainly "event financing" situations

Total deals across Europe

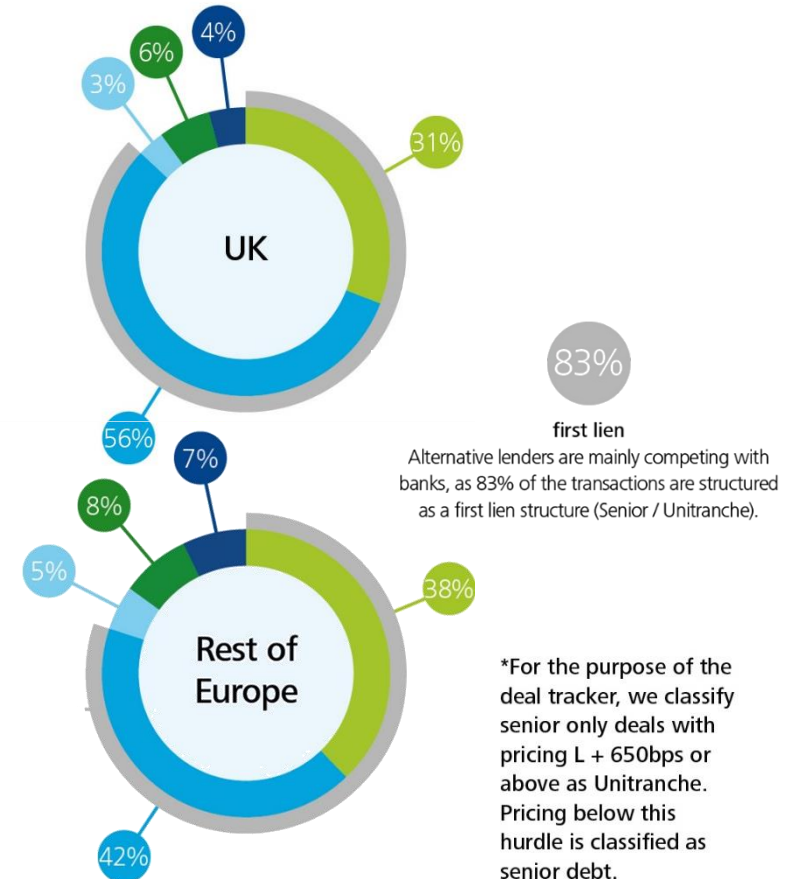
■ UK
 ■ France
 ■ Germany
 ■ Other European



Structures (Last 12 months)

"Unitranche" is the dominant structure, with (56% of UK and 42% of other European) of the transactions classified as a Unitranche structure.

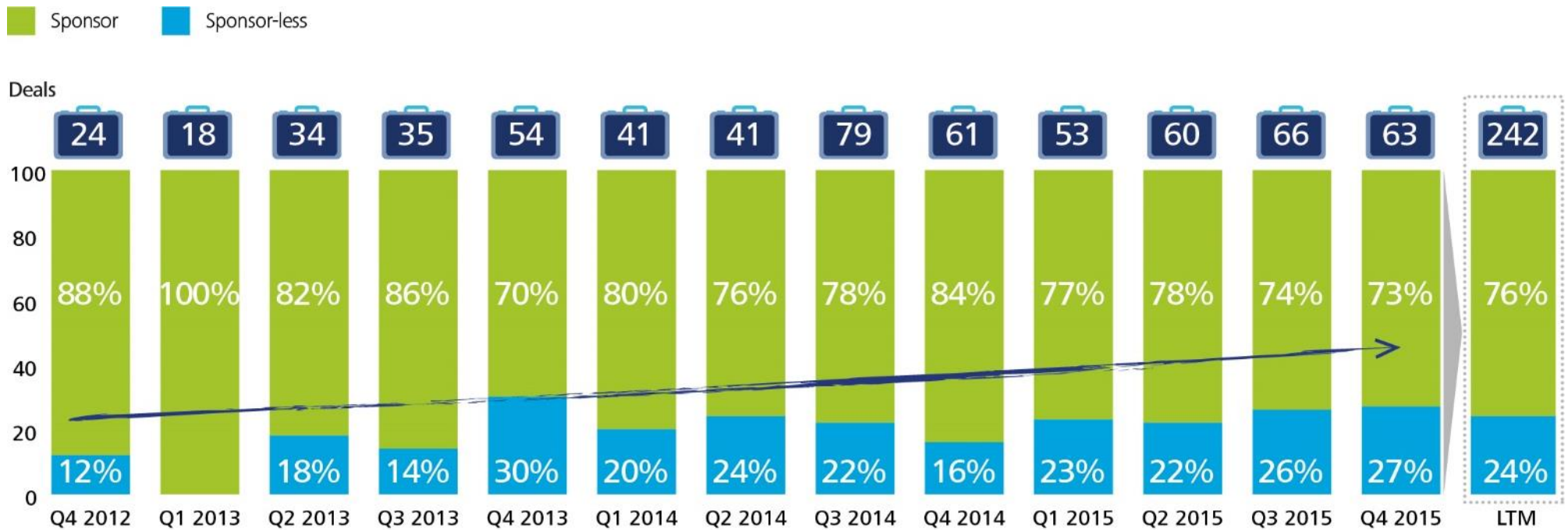
■ Senior
 ■ Unitranche
 ■ Second lien
 ■ Mezz
 ■ Other



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

Sponsor backed versus private direct lending deals

In the last 12 months 24% of the total Direct Lending deals involved privately owned (family-founder owned) companies

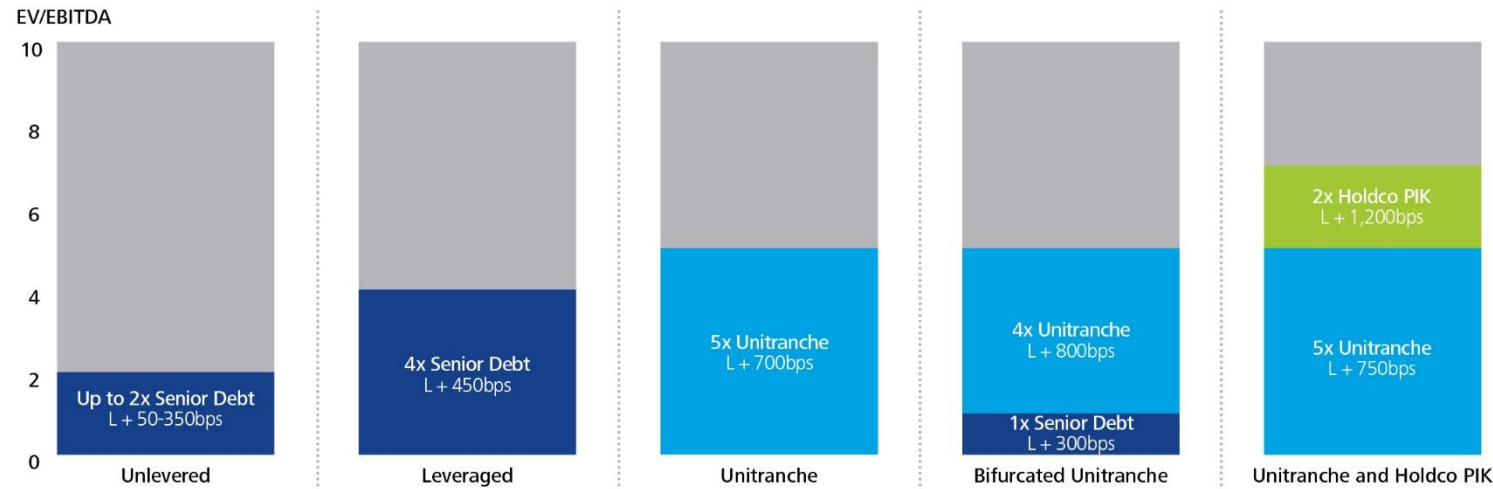


What are the currently available debt structures?

What debt structures are available?

Debt structures

■ Senior debt (bank)
 ■ Unitranche (fund)
 ■ HoldcoPIK
 ■ Equity



Weighted Average Cost of Debt (WACD)

L + 50-350 bps

L + 450 bps

L + 700 bps

L + 700 bps

L + 880 bps

Pros and Cons per structure

- ✓ Lowest pricing
- ✓ Relationship bank
- ✓ Bullet RCF

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

- ✓ Increased leverage
- ✓ Club of relationship banks

- ✗ More restrictive terms
- ✗ c.40% amortising

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

- ✗ Higher pricing

- ✓ Greater role for bank
- ✓ Reach more liquid part of the unitranche market

- ✗ Intercreditor/AAL

- ✓ Lower equity contribution
- ✓ No Intercreditor

- ✗ Higher pricing

Unitranche

- A **single credit facility** structure typically consisting of:
 - First and second lien loans
 - Senior and mezzanine loans
 - Stretched senior loans
 - Senior, second lien and mezzanine loans
- Mid-market product that can be used for acquisitions, refinancings, dividend recapitalisations, etc.
- Often combined with traditional bank led facilities – RCF, capex and acquisition

Concluding remarks

Concluding remarks

Positive sentiment in the Direct Lending market...

- €38 billion of dry powder ready to be deployed in 2016
- Increased interest and activity from both lenders and borrowers on the European continent
- Volatility in the current capital markets will benefit Direct Lenders

... but there is certainly still a role for banks

- Banks still provide a good alternative in the 2-4x leverage range
- Banks adjusting their risk appetite
- Providers of RCF and ancillary services (e.g. cash management)
- Increased cooperation between Direct Lenders and banks, such as standard Intercreditor/Agreement Amongst Lenders (AAL) for Super Senior RCF and a Unitranche



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