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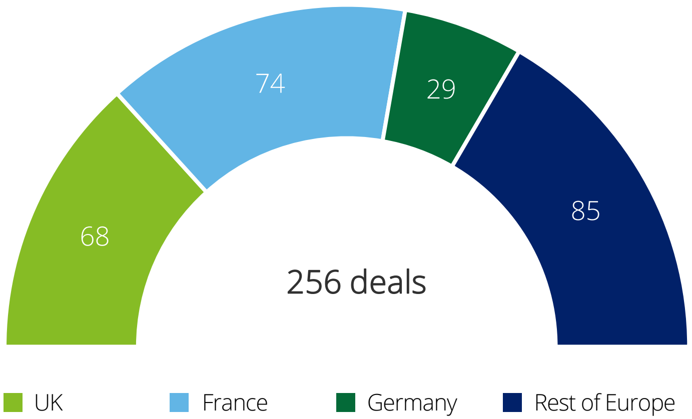
Market waits for uptick in European M&A, as lenders prowl in the wings with eyes wide-open

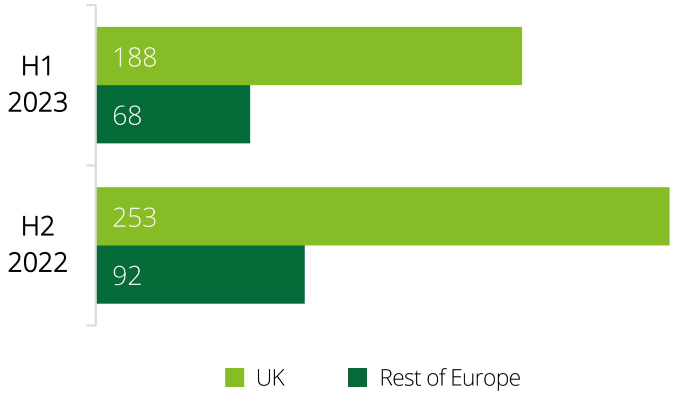
Deloitte Private Debt Deal Tracker Autumn FY 2023

MAKING AN IMPACT THAT MATTERS since 1845

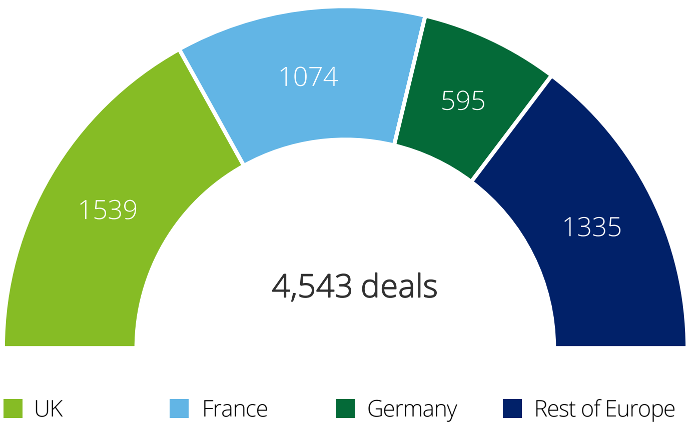
Total deals reported in H1 2023



H1 2023 vs. H2 2022 Comparison



Total deals reported since Deal Tracker inception



Borrowers access private debt to power growth

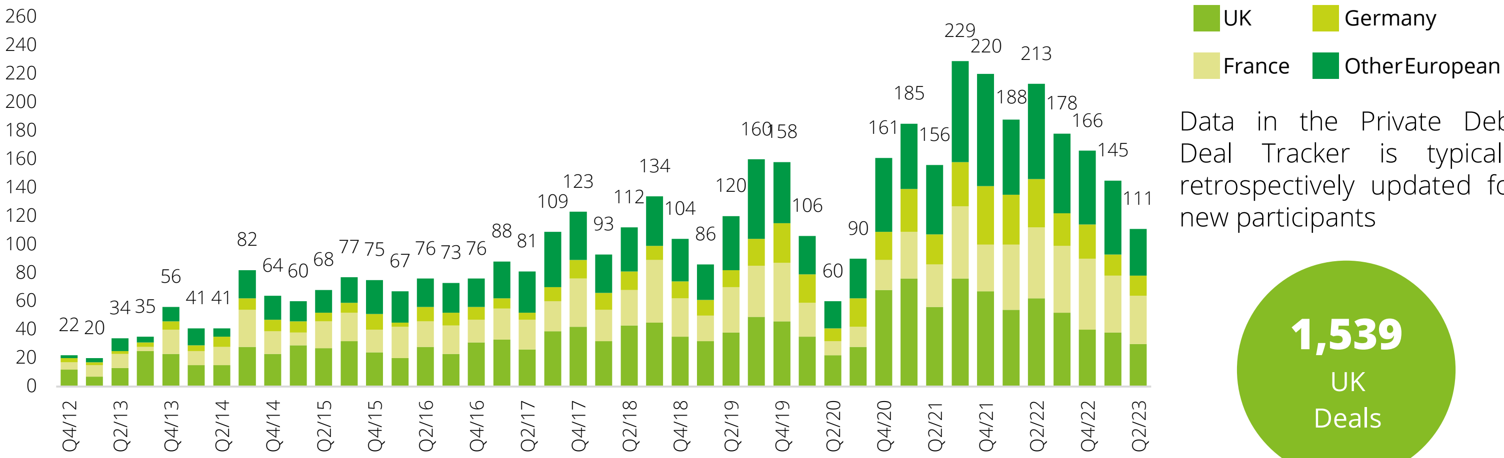
Businesses rely on access to growth capital, yet due to risk appetite and stringent regulation, banks are more constrained. Bringing in alternative and flexible capital allows companies to grow, yet the market can be overwhelming with numerous complex loan options offered to borrowers. Private debt lenders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

Source: Deloitte Analysis

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

Private Debt Deal Tracker

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



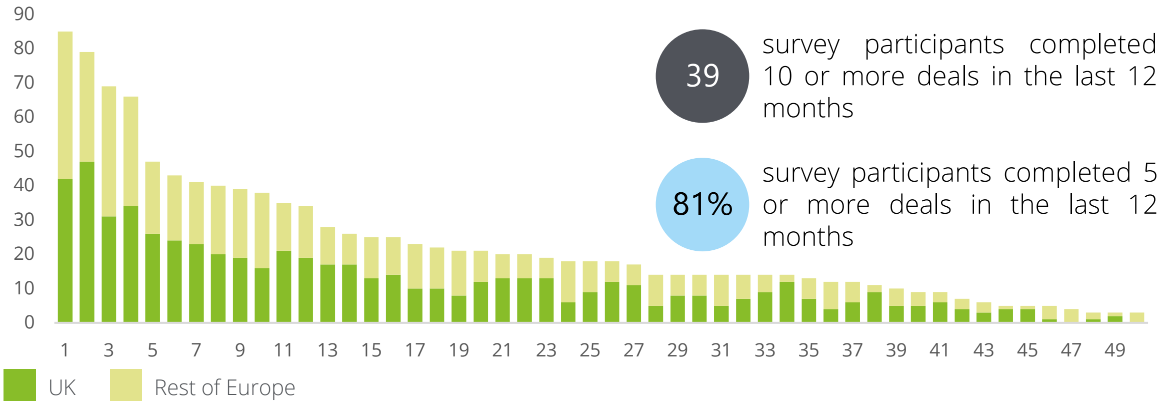
Data in the Private Debt Deal Tracker is typically retrospectively updated for new participants

1,539 UK Deals

3,004 European Deals

4,543 Total Deals

Deals completed by survey participants (Last 12 months)



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

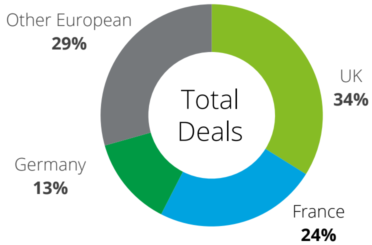
81% survey participants completed 5 or more deals in the last 12 months

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

Private debt lenders increasingly seeking to diversify geographies

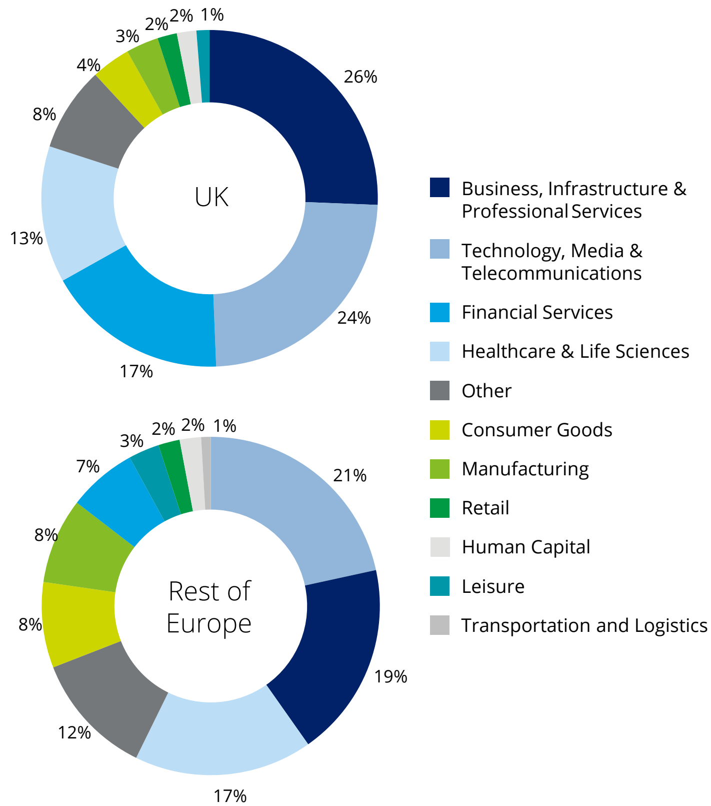
Total deals across Europe

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



Total deals across industries (Last 12 months)

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



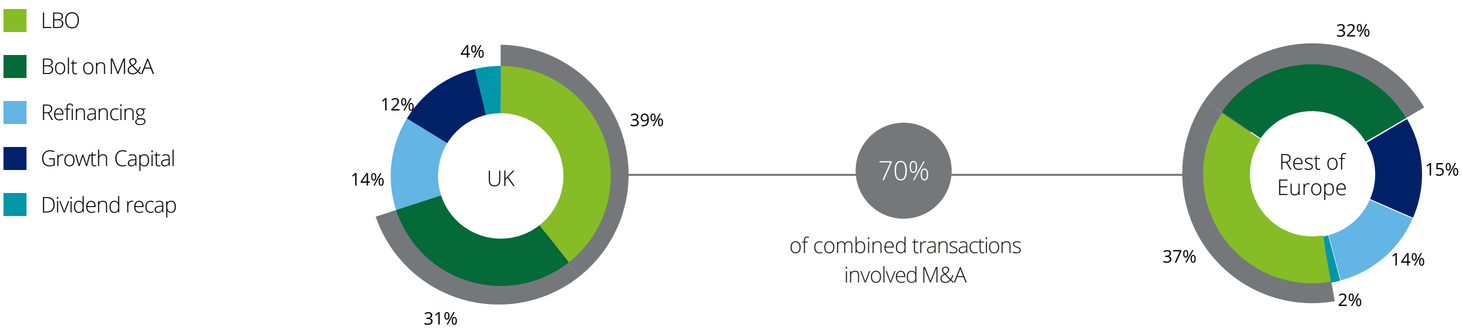
Across the rest of Europe, private debt has typically been concentrated across four industries: *TMT*, *Business, Infrastructure & Professional Services*, *Healthcare & Life Sciences* and *Financial Services.*

Source: Deloitte Analysis

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

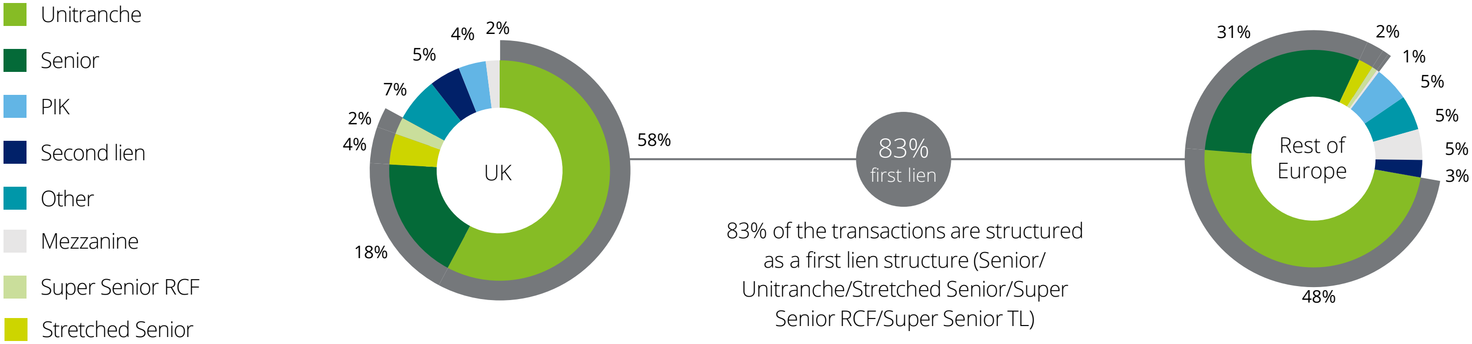
Deal Purpose (LTM)

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



Structures (LTM)

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



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

Source: Deloitte Analysis

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

.apital 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

access

Reconomy

2023 LTM

- ➢ A reduction in deal volumes (50% decrease in deals in Q2 y-o-y)
- ➢ Pricing now firmly in the 700 bps + territory . Longer processes
- ➢ 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

Reducti on in deal volumes

Flight-to-quality and reduced leverage

More costly debt

Tightene d covenant regimes

lifetime · optionis accountancy · Inspiring Learning · lifeways · Equiom

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