The Corporate Credit Outlook - Our Menu Options Have Changed

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https://info.debtwire.com/

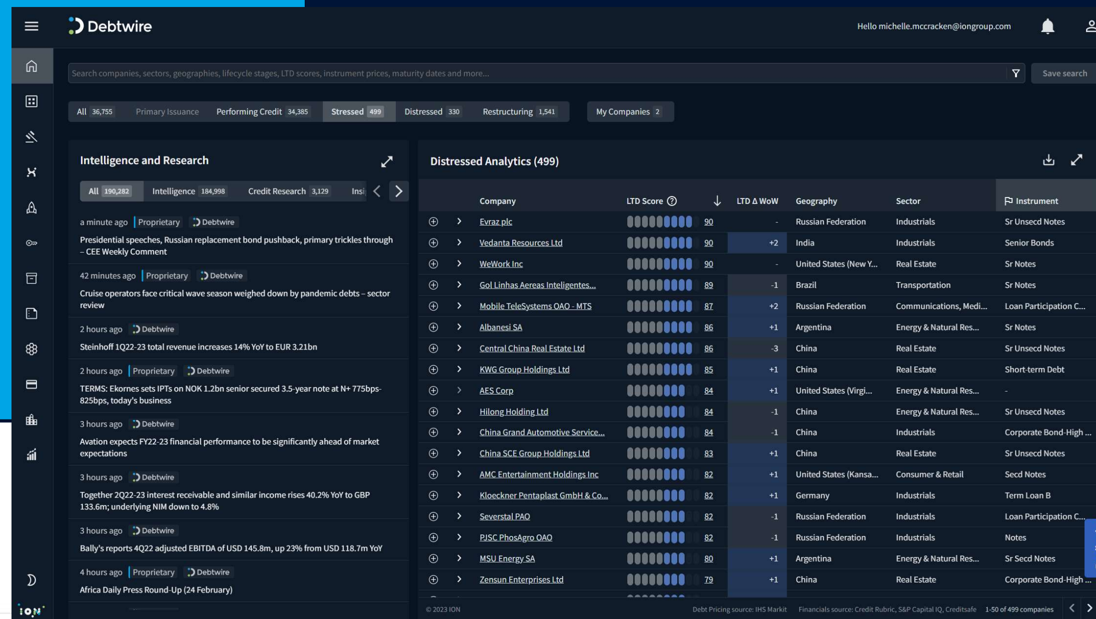
What is Debtwire?

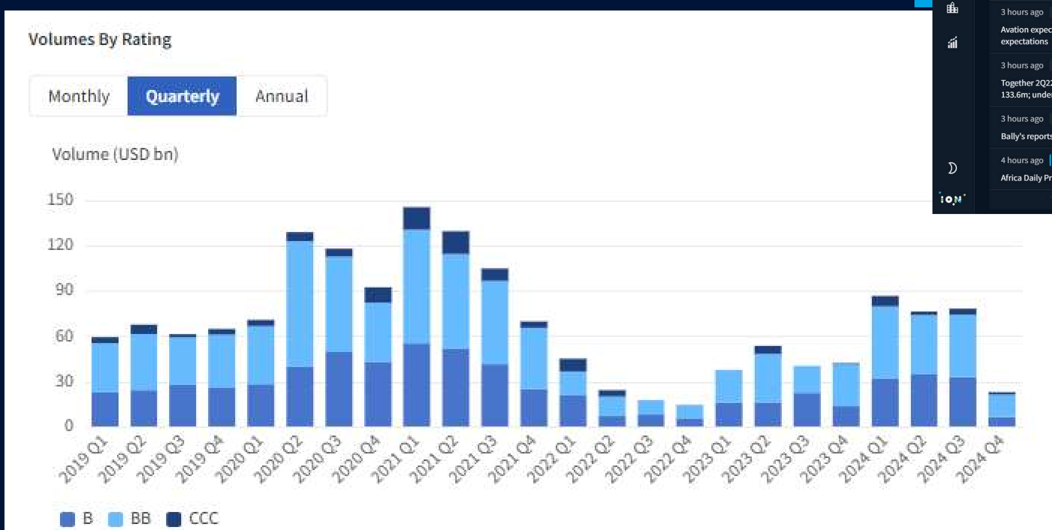
A global platform combining news, data and analysis of fixed income markets, covering issuers of high-yield bonds, broadly syndicated loans and private credit from the origination of new debt through refinancing, distress or restructuring.

47K Covered Corp. Global Issuers

200 LCM Journalists and Analysts

30 Years of Debt Issuance and Restructuring Data





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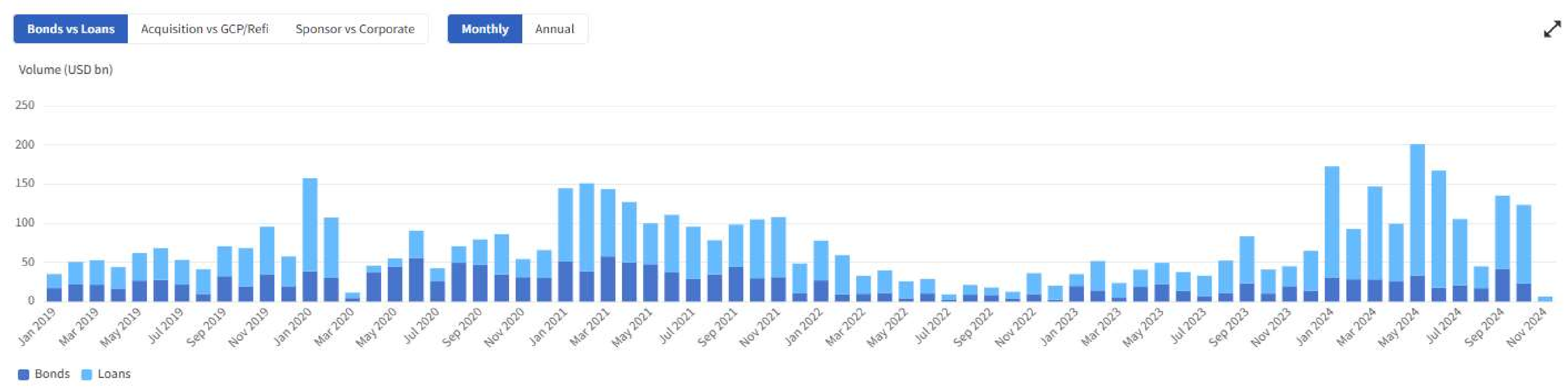
Corporate Credit Outlook

Following the Leveraged Corporate Issuer Lifecycle

	Primary Issuance	Performing Credit	Stressed	Distressed	Restructuring	Post-Restructuring
Lifecycle Definitions	A corporate rumored or known to be in the process of raising capital through the issuance of debt: • HY bond • Syndicated Loan • Unitranche/Private	A corporate that has issued debt, financially sound, and able to service its debt obligations.	A debtor that has a higher-than-normal risk of becoming distressed as a result of a catalyst event or series of events.	A debtor that is experiencing financial or operational trouble that will result in its inability or unwillingness to pay its debts as they become due.	A non-performing debtor actively seeking to modify its capital structure via a court process or out of court negotiation with creditors.	A debtor that has successfully executed a restructuring as an ongoing concern or a debtor that has liquidated.



Tracking the birth of a private credit deal

Case study: IRIS Software

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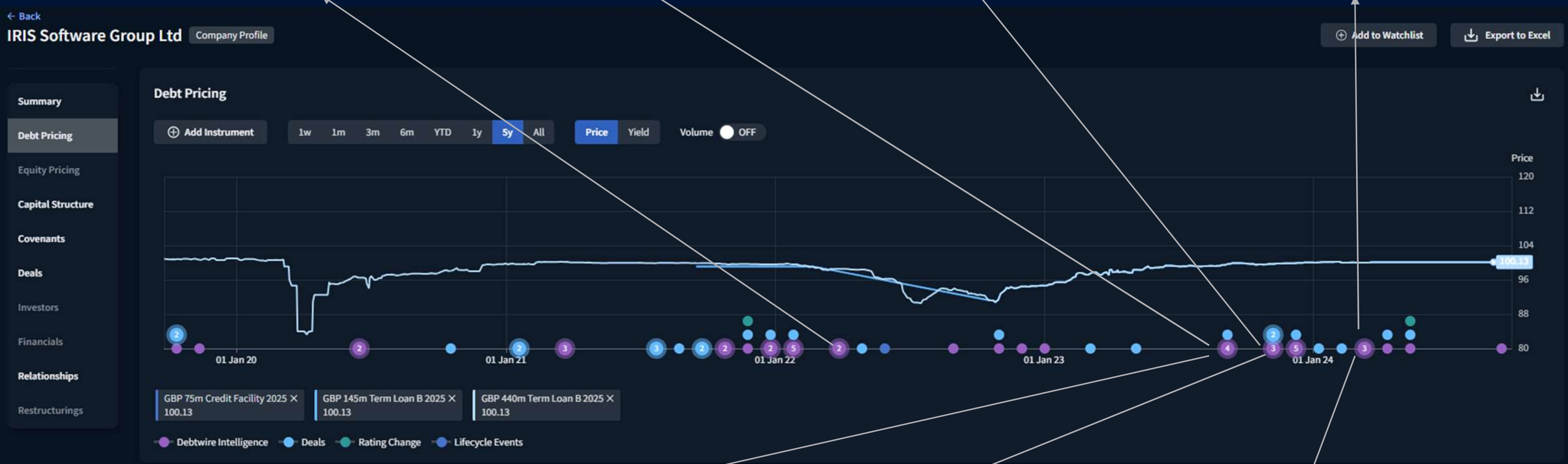
26 March 2022: IRIS sponsor Hg eyes exit from software and services behemoth

26 October 2023: IRIS Software calls for initial bids, sources say

29 Nov 2023: IRIS Software bidder KKR drops PIK request, opting for 6.5x levered unitranche

15 March 2024 : IRIS Software to be refinanced in GBP 1.45bn private-credit deal



06 Sep 2023: IRIS Software GBP 3bn-plus sale to see private credit funds, banks vie for financing roles

10 Nov 2023: IRIS Software auction sees sponsors push 575bps margin on direct lenders amid second round

11 April 2024: IRIS Software GBP 1.45bn refinancing to be funded by 12 lenders

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Private Credit Coverage

Who benefits and use cases

Bank

Investment Bank

Use Cases

- Identify private-credit issuers in need of M&A or debt advisory services
- Stay up to date of refinancing processes in BSL market
- Identify private-credit issuers that could be refinanced in the BSL market
- Track client, competitor mandates
- Identify missed deals
- Remove strain on analysts, support staff to generate deal pipelines in a few clicks

Investor

Direct Lender

Use Cases

- Augment deal origination opportunities
- Identify refinancing opportunities
- Monitor sponsor engagement in processes to inbound directly
- Scrutinize competing direct lenders' deals / portfolio
- Benchmarking tools, such as Direct Lender Rankings
- See evolving capital structures of sponsor-backed and sponsor-less companies in one place

Advisor

Advisors

Use Cases

- Identify mandate opportunities by tracking incremental developments on live auction processes with financing tracks
- Integrate into financing process sooner: begin asset education earlier
- Increase visibility on upcoming financing opportunities
- Identify comparable transactions to establish precedence on financing transactions and legal terms

The large-cap credit universe

Types of Private Credit opportunities

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Direct Lending

- Providing loans directly to middle-market companies for leveraged buyouts, acquisitions, refinancing, and growth capital. Its flexibility and bespoke nature have made it the backbone of the private credit industry.

Junior/ Subordina-ted Debt

- A hybrid of debt and equity, is used in leveraged buyouts and sits between senior debt and equity in a company's capital structure. It offers higher returns but with more risk and can include warrants or options for equity participation, appealing to investors seeking higher yields.

Distressed Debt

- Target companies in financial distress, buying their debt at a discount. This strategy offers potential high returns if the company restructures or recovers, requiring deep credit analysis and active participation in the restructuring process.

Special Situations

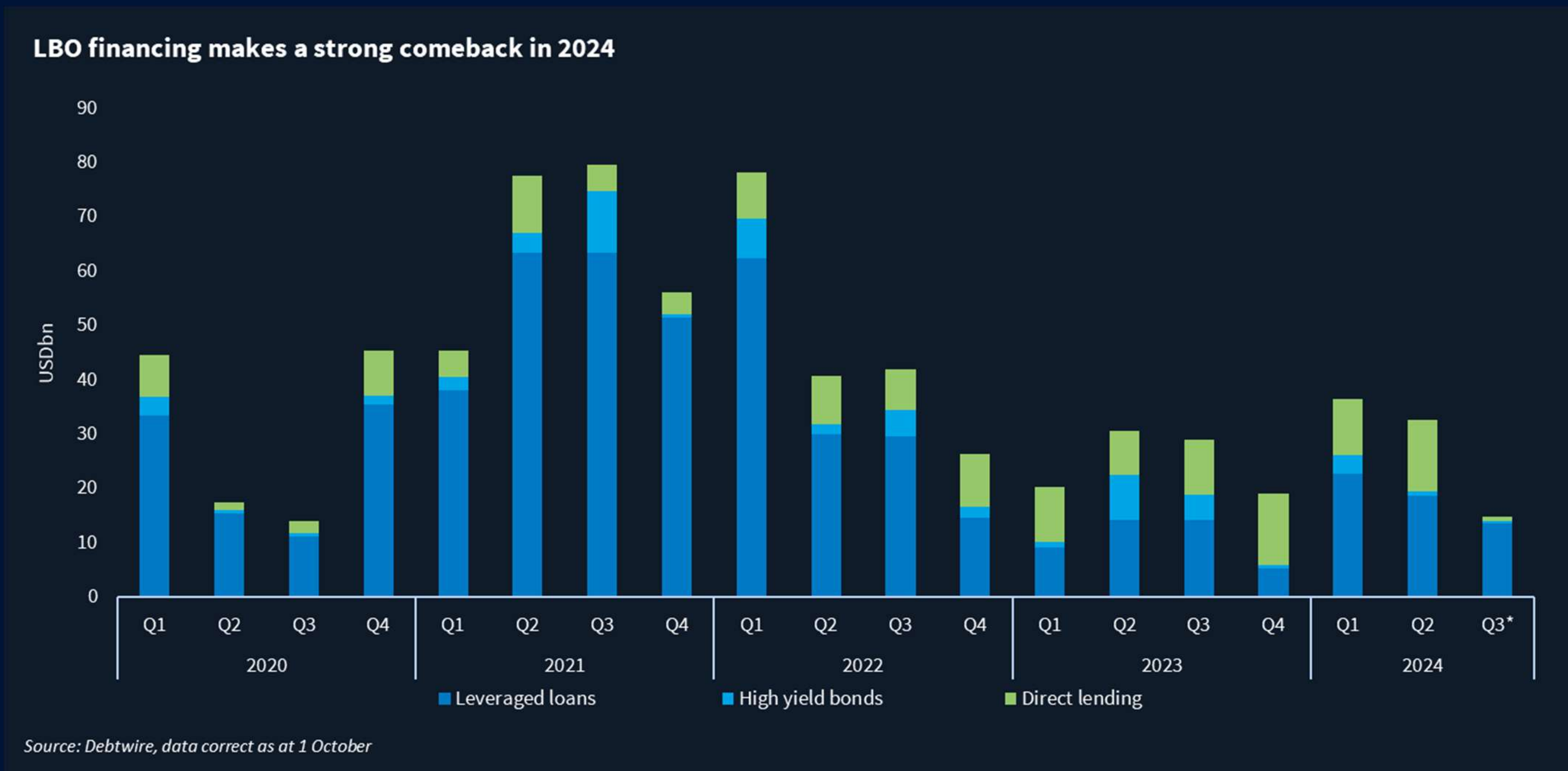
- Investing in unique opportunities from corporate events like mergers, bankruptcies, or restructurings. These require tailored financing solutions, high due diligence, and creativity, offering high returns for those who navigate the complexities

Asset-Based Lending

- Loans secured by a company's assets like inventory, receivables, or equipment. It's less risky than unsecured lending due to asset claims in case of default and is common in industries with substantial physical assets like manufacturing, retail, and logistics.

Private equity activity

Financing options diversify even as deals shrink



Private credit playbook

Types of Refinancings

Entire Debt Stack

All existing debt is refinanced or replaced, and incumbent lenders are repaid their principal in full

Add-On

Company seeks to raise additional, or ‘add-on’, financing to fund a bolt-on acquisition. This can be viewed as an expansion of the company’s existing debt or a topping up of undrawn facilities

Dividend Recapitalisation

When a sponsor-owned company issues new debt to pay its owner a dividend in the form of cash

Post-Acquisition Refinancing

After an all-equity buyout, a sponsor may refinance the company’s debt due to a change-of-control clause. This refinancing is common in pre-emptive takeovers

Repricing

Company aims to lower margin of its existing debt, often while upsizing or refinancing. Repricings occur if there’s a threat of cheaper refinancing. Direct lenders may also proactively reprice loans

Refinancing in the Syndicated Loan Market

A private credit issuer may refinance via the BSL market for a cheaper debt margin. Conversely, a BSL issuer might switch to the private credit market, especially during a leveraged buyout.

Portable Refinancing

Sponsor aims to refinance a portfolio company with portable debt before a near-term exit. Lenders agree on a whitelist of buyers to avoid ownership changes, streamlining the sale process.

Private Credit Playbook

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Refinancing | Process Timeline

Decision
The issuer decides to explore refinancing,

Advisor
Shareholders retain a debt advisor or use in-house capital markets team.

Outreach
Debt advisor or capital markets staff reach out to prospective lenders.

NDA
Interested lenders sign non-disclosure agreements.

Grid
Debt advisor or sponsor sets a deadline for initial feedback.

Review
Debt advisor and sponsor review preliminary grid feedback.

Diligence
Selected lenders receive detailed diligence reports.

Approval
Lenders present the opportunity to their internal investment committee.

Negotiation
Lenders retain lawyers to negotiate legal terms.

Commitments
Debt advisor or sponsor sets a deadline for final commitments.

Selection
Debt advisor and sponsor select the lender(s) to fund the deal.

Notification
Debt advisor or sponsor notifies the lender(s) of their selection.

Contracts
Each lender signs formal contracts.

SFA
Each lender receives the Senior Facilities Agreement.

Funding
The deal funds and the transaction is completed.

Private Credit Playbook

M&A Financing | Process Timeline

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Request for Proposals (RFPs)

Pre-beauty parade / bake-off, sponsor-owners or private shareholders may issue RFPs to investment banks / corporate finance advisors, formally inviting them to pitch for a sellside mandate.

Bake-Off

AKA: Beauty Contest

A company is interviewing financial advisors for a sellside advisory mandate for an upcoming sale or strategic review.

Advisor Retained

A press report or company acknowledges they have hired a financial advisor for a process that will launch at a future date.

Fireside Chats

A company is engaging in preliminary conversations with or reaching out to suitors prior to launching the process.

Soft Sounding

Sometimes the sellside will conduct 'soft sounding', which entails informal discussions with prospective lenders to gauge financing appetite, *before* approaching suitors. Helps vendors and advisors get comfortable, knowing that financing should be available when heading into a formal process.

Marketing Materials

Materials prepared by the sellside have been distributed to prospective suitors. Includes: Teasers, IMs/Books or both. Initial bids to be collected in several weeks.

Lender Education

Sellside orchestrates management presentations for prospective lenders, typically ahead of non-binding offer deadline. Sometimes, lender-specific financials are also drafted and shared.

Initial Bids

Prospective suitors have tabled or are set to table the first set of bids in an auction.

Grid Feedback

Prospective financiers that attended the lender education submit initial financing views on leverage and pricing to the sellside, which proceeds to circulate a 'grid' (Excel table) containing these anonymised indications to sponsors ahead of deadline for initial bids / non-binding offers.

Management Presentations

The seller is attending individually scheduled meetings with bidders that were selected to proceed in the process following initial offers.

Refresh Bids

AKA: Interim Bids

The seller has called for a bid between initial and final round bids. There can be more than one round of refresh bids. Refresh bids are not employed in all auctions. They are typically associated with well-attended processes in which bidders need to be narrowed further.

Buyside Advisors / Due Diligence

Suitors that have advanced into the second round will typically hire buyside advisors, in the form of an investment bank, and due diligence providers to help inform their binding offers. A third-party review from a buyside advisor, in addition to third-party diligence, is usually required to obtain Investment Committee (IC) approval.

Final Bids

The seller has called for or recently collected committed/binding offers from prospective buyers.

Financing

Sponsor secures financing commitment from direct lender(s) or bank(s) to part-finance its bid. Debt financing can be secured before or after binding offers are submitted. Sometimes, a sponsor will sign exclusivity then raise financing.

Exclusivity

A set timeframe in which the seller is only in discussions with a single buyer or consortium.

Deal Announcement

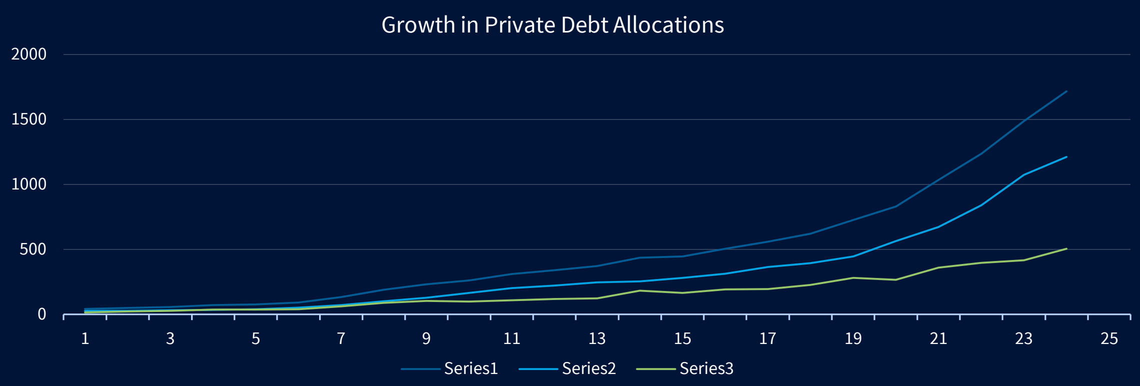
Deal officially announced by either buyer, seller, or both parties. Terms and value are typically not disclosed. Sometimes the debt financing is disclosed, but not usually. If deal was done on an all-equity basis (i.e. using no form of leveraged finance), opportunity is still actionable for Debtwire.

Prelaunch | First round | Second round

Fixed income evolution

Private credit takes center stage

Explosive Growth Post-2008 Financial Crisis	Opportunity for Private Credit Funds	Rise as a Competitor to Syndicated Loans
• **Pre-Crisis:** Traditional banks dominated large, complex deals. • **Post-Crisis**: Regulatory changes required banks to hold more capital, reducing their lending, especially in the middle market.	• **Alternative Asset Managers**: Private equity firms, hedge funds, and specialist direct lenders filled the void left by traditional banks. • **Attraction**: Tailored, flexible financing solutions attracted borrowers and investors. • **Institutional Demand**: Increased demand from pension funds, insurance companies, endowments and wealthy individuals seeking higher yields with lower volatility than public market investments.	• **Historical Domain**: Large, leveraged deals were traditionally handled by syndicated loans involving multiple lenders. • **Current Trend**: Private credit funds now underwrite "jumbo" leveraged financings independently, directly competing with syndicated loans.



De-banking ushers in the "golden age of private credit"

**Federal Reserve, 2024*

US Direct Lender Rankings - Full Year 2023

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Rank	Direct Lender	Deal Value ($m)	# deals	% Share
1	Blue Owl Capital	14,780	76	8.8
2	Apollo Global Management (incl. Midcap Financial)	10,351	165	6.2
3	Blackstone	9,792	58	5.8
4	Ares	9,370	161	5.6
5	Antares Capital	8,182	90	4.9
6	Brookfield	7,149	44	4.3
7	Golub Capital	6,773	83	4.0
8	HPS Investment Partners	6,438	80	3.8
9	Churchill Asset Management	4,604	105	2.7
10	Goldman Sachs Private Capital	3,849	37	2.3

Rank	Direct Lender	Deal Value ($m)	# deals	% Share
11	KKR	3,219	20	1.9
12	Morgan Stanley	2,823	47	1.7
13	Audax Private Debt	2,725	57	1.6
14	Oak Hill Advisors	2,617	10	1.6
15	Carlyle	2,239	25	1.3
16	Silver Point Capital	1,903	17	1.1
17	Sixth Street Partners	1,896	30	1.1
18	Barings Direct Lending	1,738	55	1.0
19	BMO Capital Markets	1,635	19	1.0
20	BlackRock	1,491	30	0.9

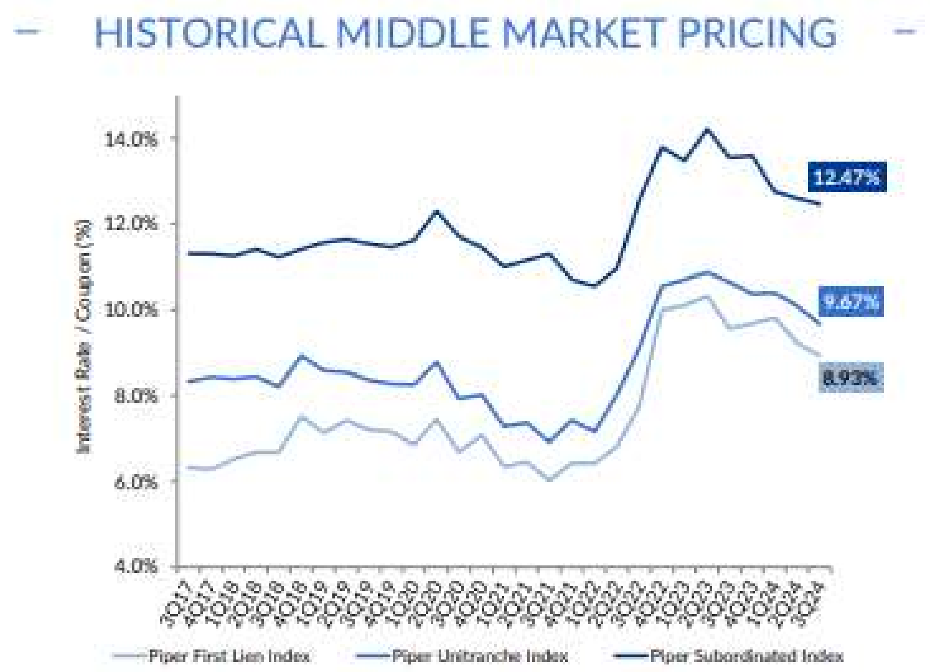
Growth in transaction sizes

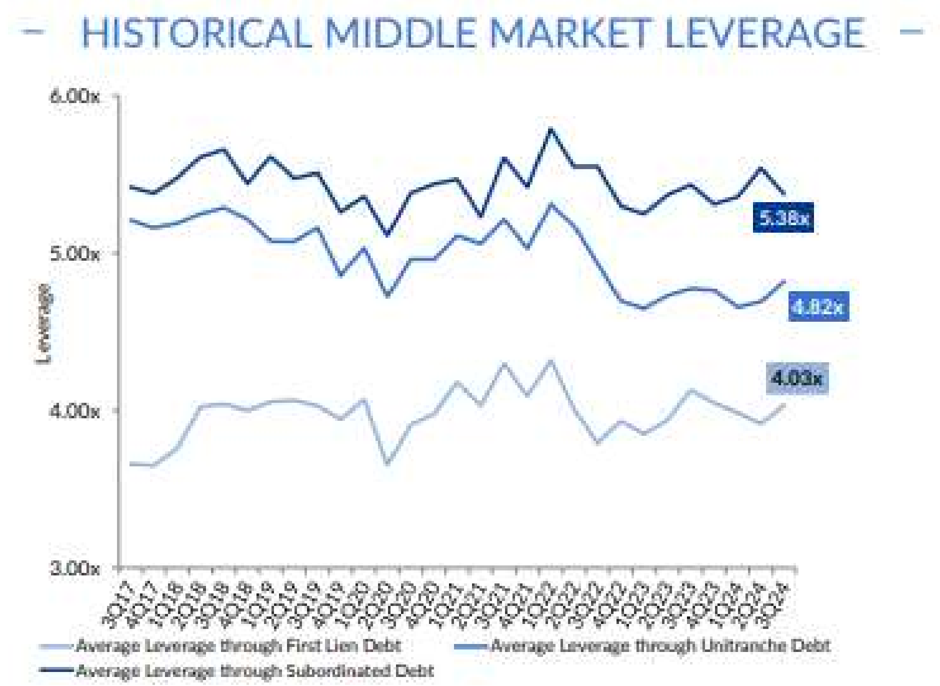
Not just for the middle market anymore

Private credit market in the past	Rapid growth of the private credit market	Large-scale transaction in private credit
• Historically, direct loans in the private credit market typically ranged from $10 million to $500 million. • This was well-suited for middle-market companies that needed capital but lacked the size or credit profile to attract traditional bank loans or access public debt markets. • However, the rapid expansion of the private credit market and the increasing size of funds raised have transformed the landscape.	• In recent years, direct lending has seen a dramatic increase in transaction sizes. • The growth of private credit funds, driven by strong investor demand, has enabled lenders to offer much larger loans. • This has led to the rise of unitranche financings—where senior and subordinated debt are combined into a single loan—regularly exceeding USD 1 billion in value. • Unitranche loans have become particularly popular in leveraged buyouts, where private equity firms require substantial capital with fewer lenders involved, streamlining the financing process.	• Some of the largest direct loans on record now exceed USD 5 billion, marking a significant shift in the capabilities of private credit providers. • These large-scale transactions, which were once exclusively in the domain of syndicated loans arranged by traditional banks, are now being executed by a single or a small group of direct lenders. • This shift underscores the growing clout of private credit in the global financing ecosystem.

Interest rates

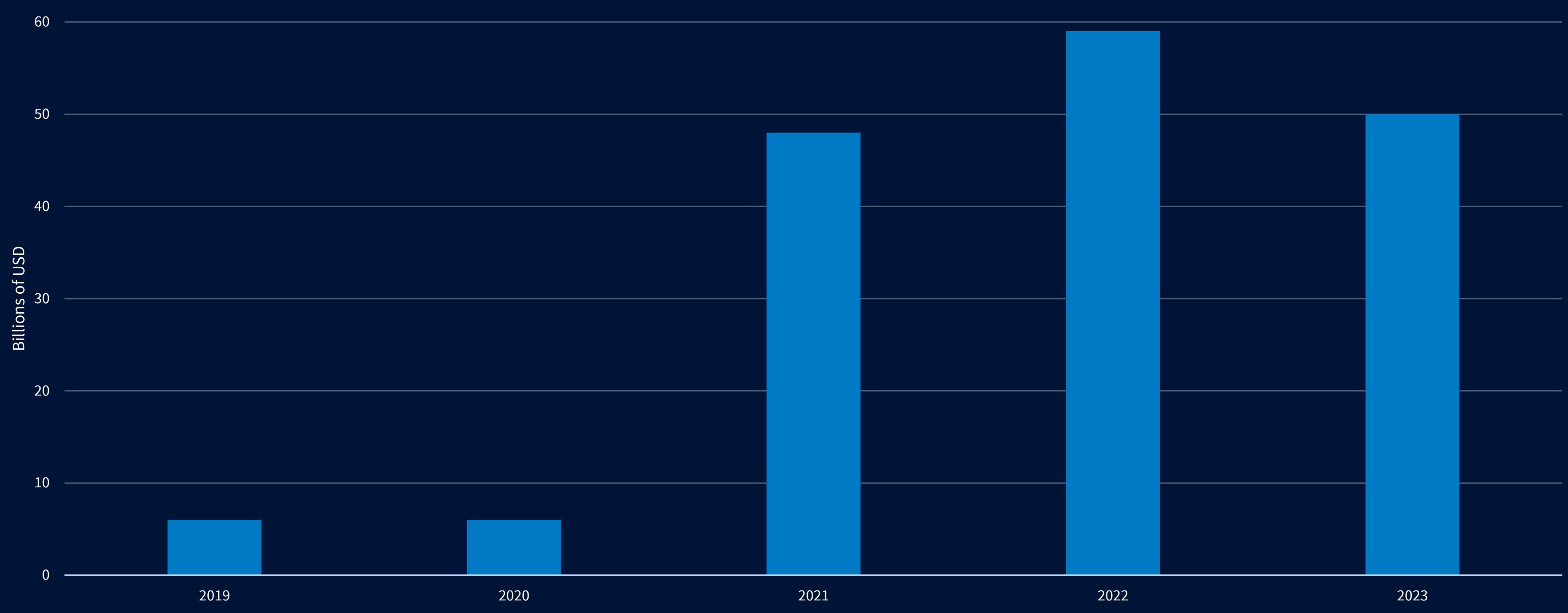
Middle market activity





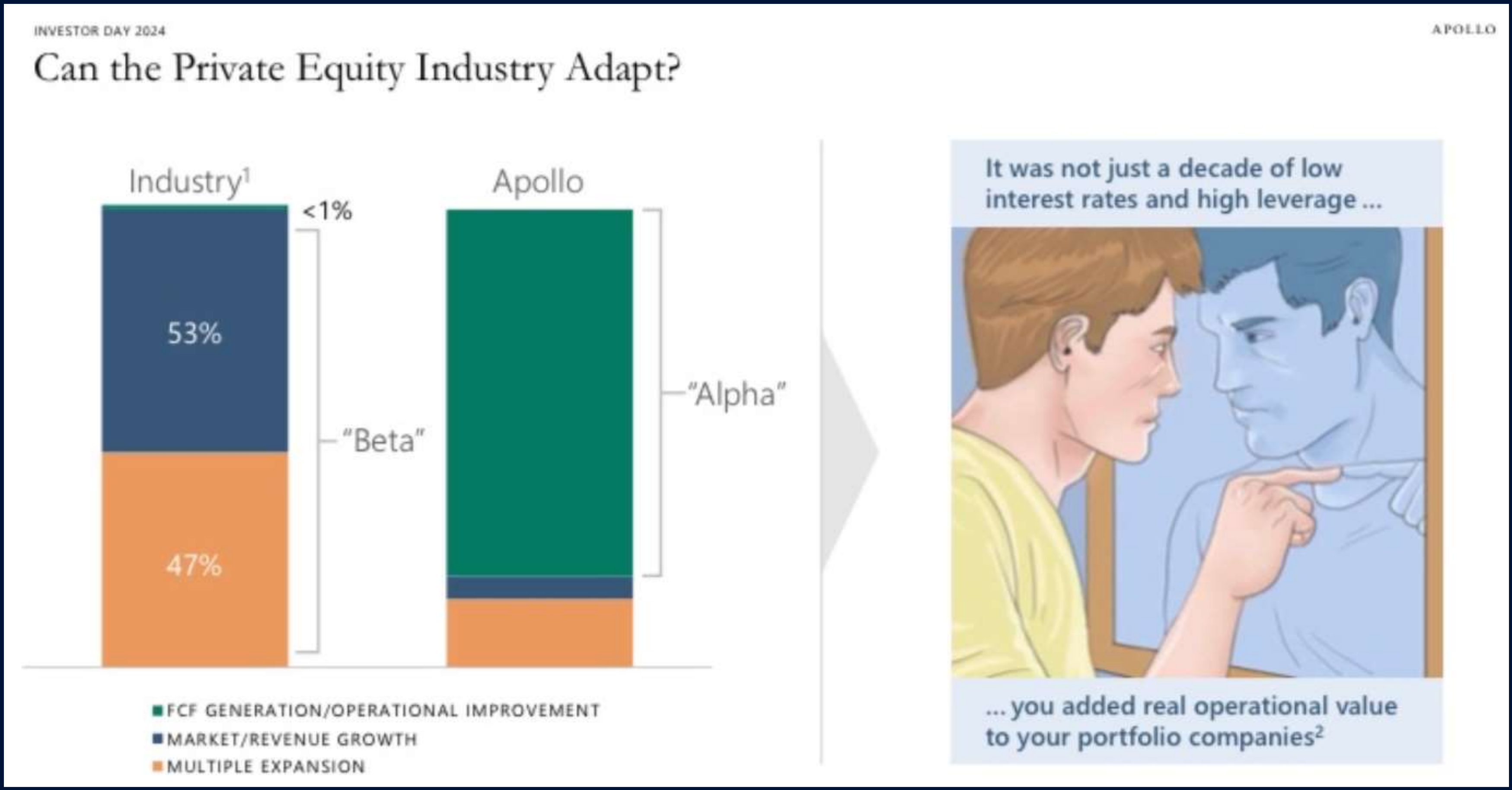
Lenders jump in as the bond market closes

Jumbo loans ($1 billion+) by direct lenders



Fund managers adapt

The view from Apollo



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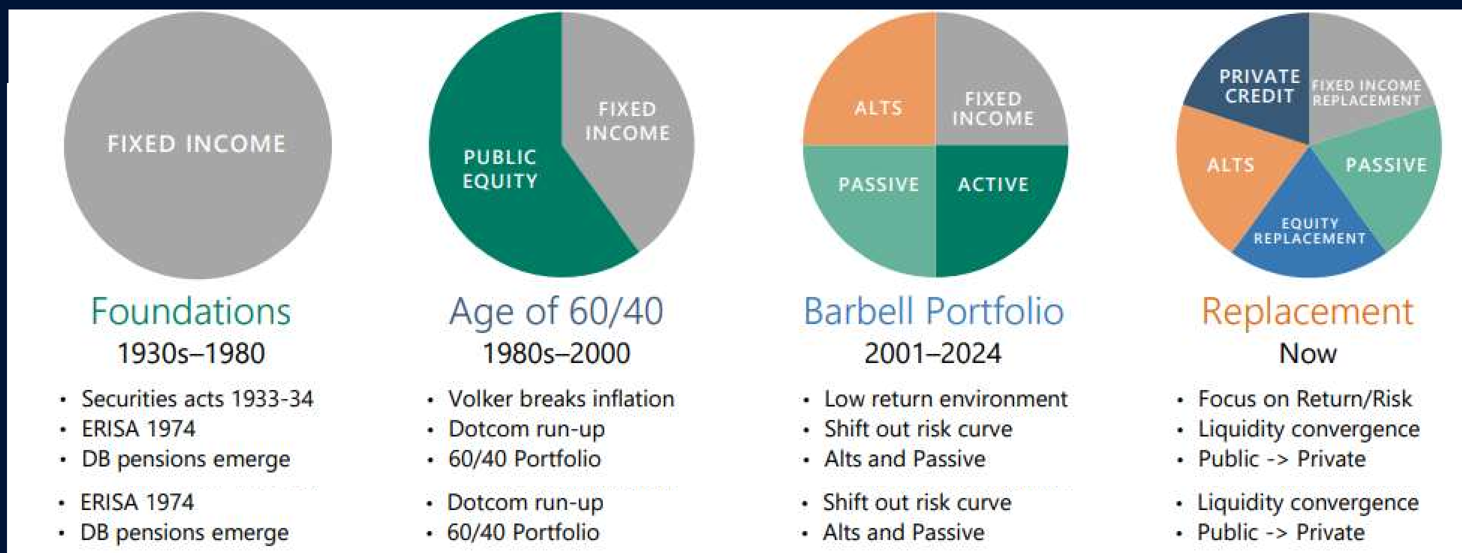
Private credit finds its place

The shift in portfolio allocations



Source: Apollo Global Management

Origination exploration

Banks and direct lenders are joining forces

Ally Bank

Bank of America

CapitalOne

Fidelity Bank

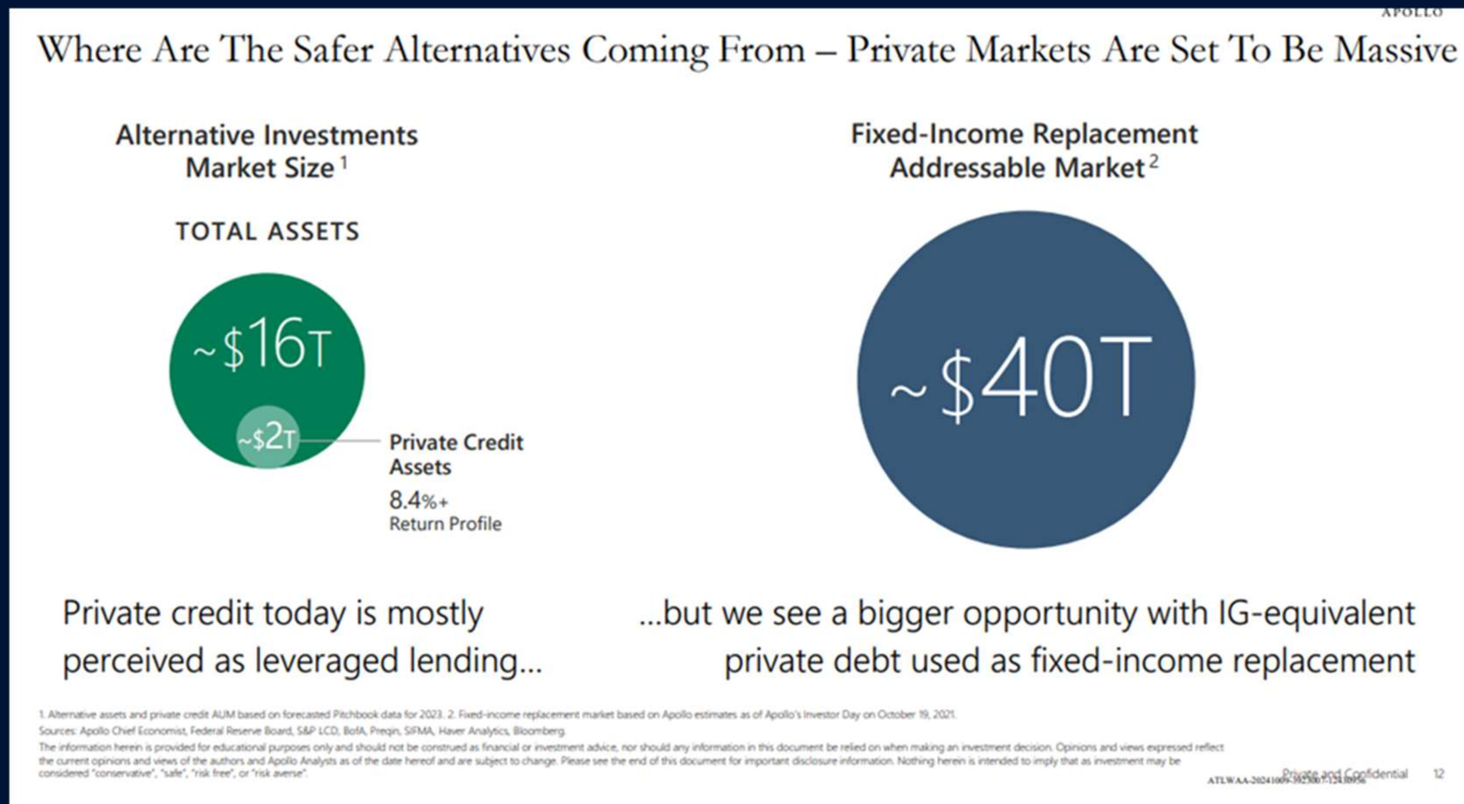
FNCB Bank

NBT Bank

Santander

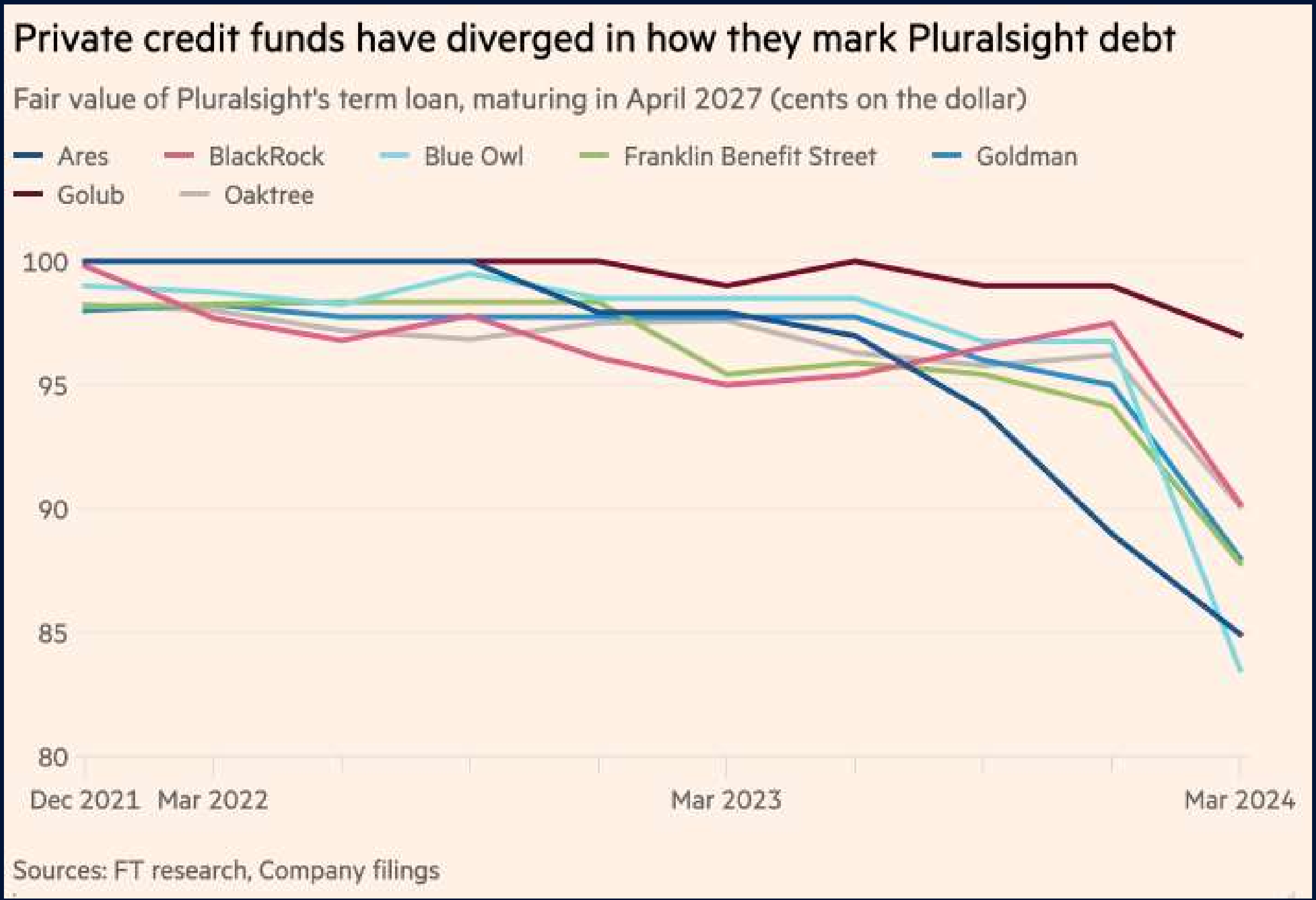
Wells Fargo

Morgan Stanley



Private credit, public problems

Pluralsight private credit fight echoes public battles



"Lender-on-lender violence" or liability management exercises have become common in public credit battles.

As direct lending to large names grows, the same fights are starting to emerge.

It's all about the documentation

Pick your battles

Loose covenants allowed creative lawyers to layer in new debt and push existing lenders down the cap stack.

But lenders who want to do deals have limited room to push back if they want a seat at the table.

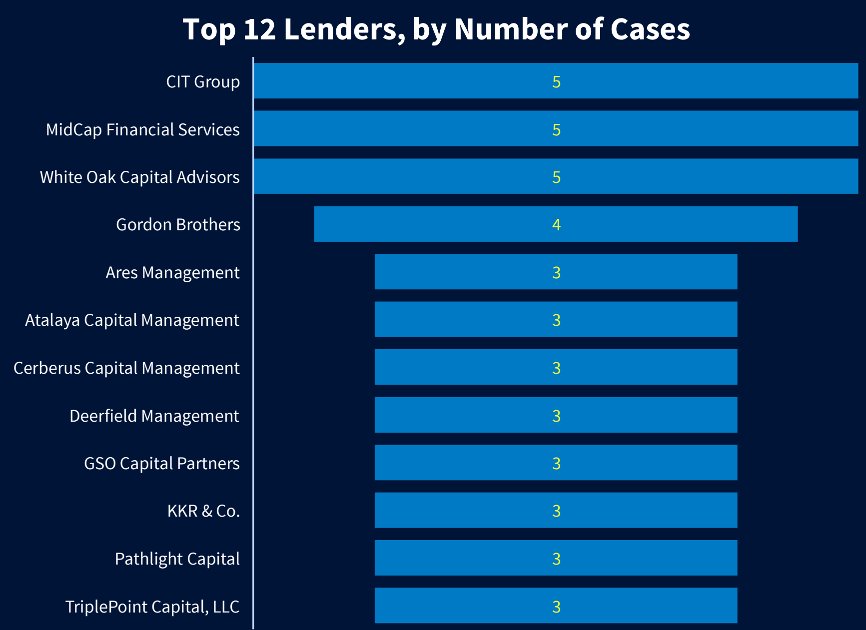
Market share

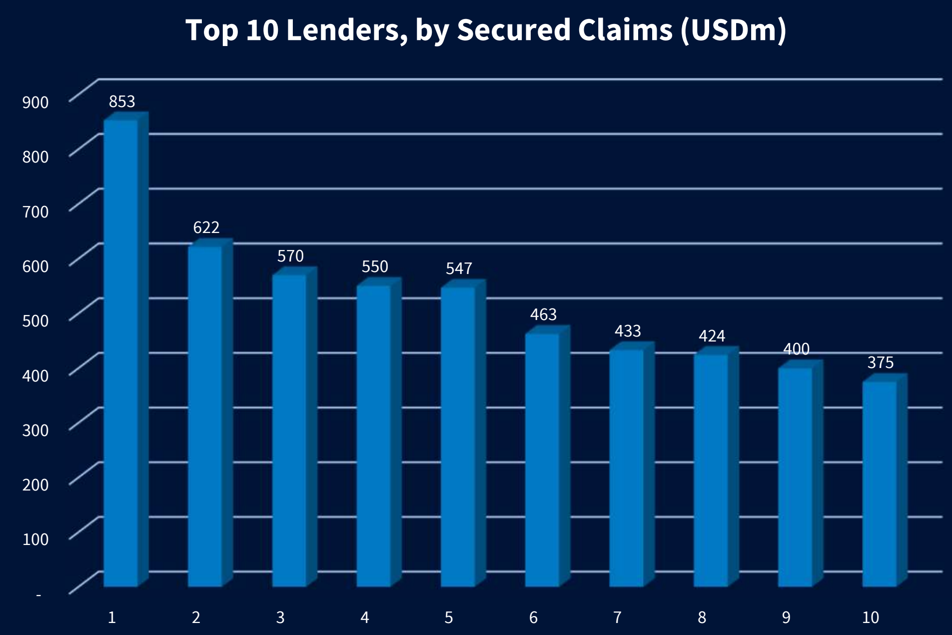
Direct lending deals shrink in 2024

Source: Debtwire, data correct as at 1 October

Treatment of Direct Loans in US Bankruptcies

Top Lenders

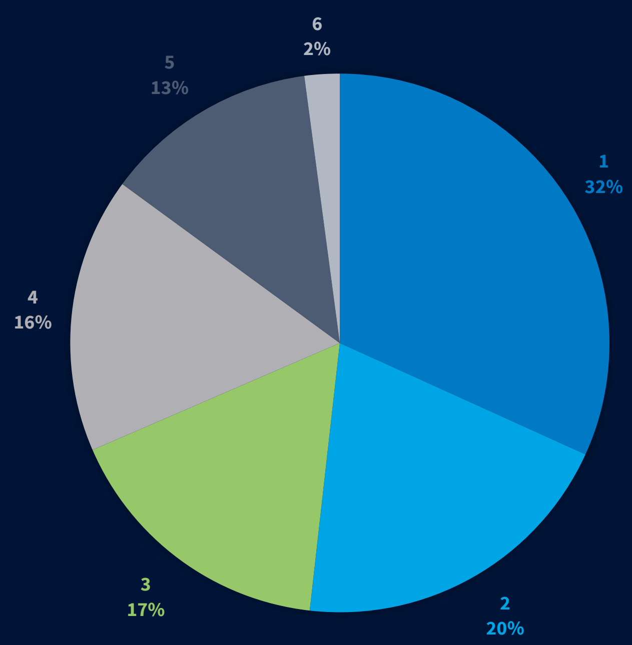




Source: *Debtwire*'s Restructuring Database.

Treatment of Direct Loans in US Bankruptcies

Types of Treatment of Secured Claims During Bankruptcy

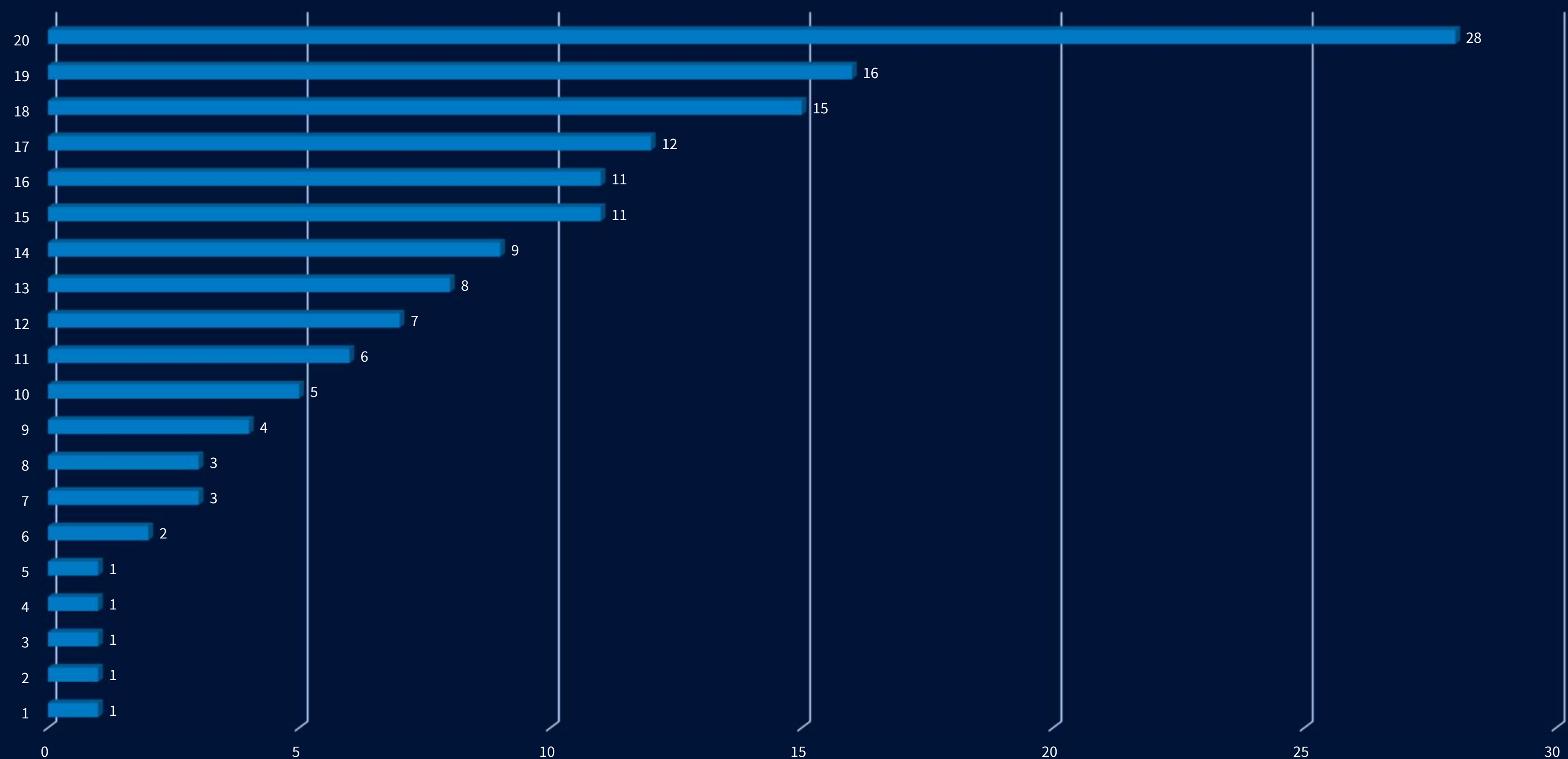


Chapter 11 Treatment	Amount of Secured Claims(USD)	Percentage
Partial Cash/Liquidation Proceeds	3,140,133,091	32%
New Equity	1,977,156,457	20%
Unimpaired/Paid in Full in Cash	1,649,977,650	17%
New Debt	1,634,886,601	16%
Credit Bid	1,269,515,800	13%
Other	208,123,272	2%
Chapter 11 Total	**9,879,792,871**	**100%**
Chapter 7	1,895,958,266	
Grand Total	**11,775,751,137**	

Source: *Debtwire*'s Restructuring Database.

Treatment of Direct Loans in US Bankruptcies

Count of Cases by Sector



Source: *Debtwire*'s Restructuring Database.

Private Credit Yields and the Impact of Interest Rates

Higher Yields in Private Credit

- Yields in private credit are typically higher than those in public debt markets due to the higher risk and bespoke nature of the loans. In direct lending, yields are often structured with floating interest rates, meaning that the rate adjusts periodically based on a benchmark, such as the Secured Overnight Financing Rate (SOFR), plus a fixed spread.

Floating Interest Rates

- As central banks around the world, including the Federal Reserve, the European Central Bank, and the Bank of England, have raised interest rates to combat inflation, the returns on direct lending investments have increased correspondingly. For example, if a direct lending loan has a floating rate tied to SOFR plus 5%, and SOFR increases by 1%, the yield on that loan would also increase by 1%. This dynamic has made private credit particularly attractive to income-seeking investors during periods of rising rates.

Impact of Rising Interest Rates

- Higher interest rates have directly increased the income generated from floating-rate loans, which has prompted many investors to allocate more capital to private credit as they seek to capture these enhanced returns. This influx of capital has further fueled the growth of the private credit market, allowing funds to pursue larger and more complex deals.

Stability and Predictability

- As public markets have become more volatile and less predictable, private credit's stable and predictable income streams have become increasingly attractive to investors looking for reliable returns. This trend has led to a significant reallocation of capital toward private credit, not just from traditional fixed-income investors but also from those looking to diversify away from public equity markets.

The Emergence of a Secondaries Market in Private Credit

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- As the private credit market has grown, so too has the development of a secondary market for private credit assets.
- Historically, private credit investments were relatively illiquid, with investors typically holding loans until maturity.
- However, as the market has matured and deal sizes have expanded, a growing number of investors have sought ways to buy and sell these assets before maturity, leading to the emergence of a secondaries market.

- The secondary market for private credit allows investors to trade existing loans, providing liquidity and enabling portfolio managers to manage their exposure more dynamically.
- This market also offers opportunities for buyers to acquire loans at a discount, especially in cases where the seller needs to exit their position quickly due to portfolio rebalancing, liquidity needs, or other reasons.

Benefits for Sellers:

- For sellers, the secondary market offers a way to realize gains or reallocate capital to new opportunities without waiting for the original loan to mature.

Benefits for Buyers:

- For buyers, it provides access to seasoned loans with an established payment history, potentially reducing the risk compared to investing in new loans.

- The growth of the secondaries market is a significant milestone for private credit, as it further cements the asset class's place in the broader financial ecosystem.
- It also highlights the increasing sophistication and institutionalization of the private credit market, as more investors recognize the benefits of private credit and seek ways to participate in this growing sector.