Muscling into the larger deal market

Private debt is increasingly being seen as a replacement for broadly syndicated deals, bringing with it improved documentation

The market correction in March was short-lived, with the rebound affecting virtually all liquid asset classes. The secondary market opportunity in leveraged loan or high-yield bond markets was, with a few exceptions, only temporary.

Market observers will argue that the price developments in liquid global financial markets are not sustainable. What is likely to be enduring is the diminishing underwriting capacity of banks. This has been true for businesses in the mid-market for a while, but it is also affecting companies in the upper mid-market – those that would typically have had access to global leveraged loan or high-yield bond markets.

The hurdle for new issuers, especially smaller ones with no history in the broadly syndicated leveraged finance market, is higher. Unfortunately, market participants cannot wait for the leveraged loan markets to open up. This is where private debt funds are stepping up – at considerably better terms to what alternative broadly syndicated deals would have looked like.

They are doing so in two ways. Firstly, a private debt fund solution is increasingly viewed as an alternative to a larger bank underwrite. HPS's financing of EQT's acquisition of Schülke, announced in April, is one example. Normally, a business of the size and quality of Schülke – a leading provider of infection prevention solutions – would have been met with open arms in the broadly syndicated market. However, the benefits of dealing with one lead financing party have become more evident. Experienced private equity firms know how costly and time-consuming a drawn-out syndication process can be. Although a private debt fund solution will come with higher pricing, the borrower and sponsor do not have the uncertainty of 'flex terms'.

"Experienced private equity firms only know too well how costly and time-consuming a drawn-out syndication process can be"

ABHIK DAS
Managing director and head of private debt
Golding Capital Partners

Better pricing

Although there have been transactions led by private debt funds that exceeded volumes of $500 million, these often involved greater complexity.

Recently, however, there has been a greater proportion of deals originally earmarked for the broadly syndicated market that were pulled in light of the market environment or that went straight to a direct lending solution provided by private debt funds. LifeStance Health in the US or Ardonagh Group in Europe are two examples. These deals came with better pricing (often 200-500 bps wider than what would be achievable in the leveraged loan market), more favourable call protection, and better documentation. This is in stark contrast to the covenant-lite nature of the broadly syndicated market.

Secondly, private debt funds are supporting broadly syndicated deals through anchor offerings. GSO's €775 million equivalent position in the first-lien debt of the Skyscraper Performance financing (formerly BASF Construction Chemicals) will have come at a price: notably better documentation. The changes necessary for the terms of the ThyssenKrupp Elevators transaction point to longer-lasting changes to larger, syndicated deals: better terms for the private debt market and credit investors more broadly. ■