AlixPartners

AUGUST 2019

ALIXPARTNERS MID-MARKET DEBT REPORT H1 2019

Macroeconomic uncertainty contributed to a 28% decrease in LBO financings in H1 2019. Despite this, overall activity remained relatively stable as lenders completed deals involving their existing portfolios.

Welcome to the H1 2019 edition of the AlixPartners bi-annual mid-market debt report. Our findings are based on the activity of approximately 100 bank and non-bank leveraged lenders[1] and 14 asset based lenders[2].

MARGINAL DECREASE IN DEAL VOLUME

- European mid-market lending activity decreased in H1 2019, with lenders completing 6% fewer transactions than in H2 2018.
- Participants per transaction continued to decrease in H1 2019. Sponsors prefer to avoid multiple lenders (and their respective credit processes) and, in a lower activity environment, non-bank lenders prefer to hold as much as possible, rather than sharing with other parties.

BREXIT UNCERTAINTY IMPACTS MARKET

- Brexit uncertainty contributed to a 25%[3] fall in M&A volumes across Western Europe in H1 2019 as processes either stalled or were mothballed. This is reflected in our survey, with LBO activity down 28% from H2 2018.
- Credit committees have been laser focused on Brexit-related risks in H1 2019, with UK banks in particular preferring UK businesses with limited interaction with Europe.

INTENSE COMPETITION FOR THE BEST CREDITS

- There is still significant available capital in the European mid-markets. Given this and macroeconomic uncertainty, competition for the best credits is fierce.
- Terms for these credits are increasingly borrower-friendly, as lenders seek to maintain market share.

DIRECT LENDERS CONSIDERING ALL OPTIONS TO DEPLOY CAPITAL

- Competition in the UK has resulted in direct lenders increasingly searching continental Europe for new lending opportunities, particularly in Spain and Germany.
- Direct lenders continued to take on the syndicated loan market in H1 2019. Notable deals included Daisy Group's £1 billion refinancing with Ares and ION's acquisition of Acuris, which was supported by $1.25 billion of financing from Goldman Sachs and HPS.

EARLY SIGNALS THAT FUNDRAISING IS DECELERATING

- Fundraising activity in Europe has been relentless since the credit crisis. The amount raised has increased in every two-year period since 2008/09 (€11 billion raised), culminating in €71 billion being raised in 2017/18.
- There are, however, early signs that fundraising is decelerating. Across Europe $3.6 billion was raised in Q2 2019, the lowest quarterly amount since Q3 2016[4]. There are notable exceptions including the fundraisings of Alcentra, Apera, Ares, Bain Credit, BlueBay, LGT Private Debt and Muzinich.

HIATUS IN ABL ACTIVITY

- Lenders completed 78 asset-based lending deals in the UK in H1 2019, down from 98 in H2 2018.
- Consistent with the leveraged banking market, ABL activity has been significantly impacted by a slow-down in M&A.
- ABL activity in the medium-term is set to benefit from macroeconomic uncertainty.

1. Total debt between €20 million to €300 million
2. Total debt between £5 million and £200 million
3. Bureau Van Dijk
4. Prequin

Please refer to the disclaimer at the end of this report for further context on the data

The European banking market declined in H1 2019 as macroeconomic uncertainty stifled activity, although UK banking activity is actually up.

FIGURE 1: UK MID-MARKET BANK DEAL COUNT[5]

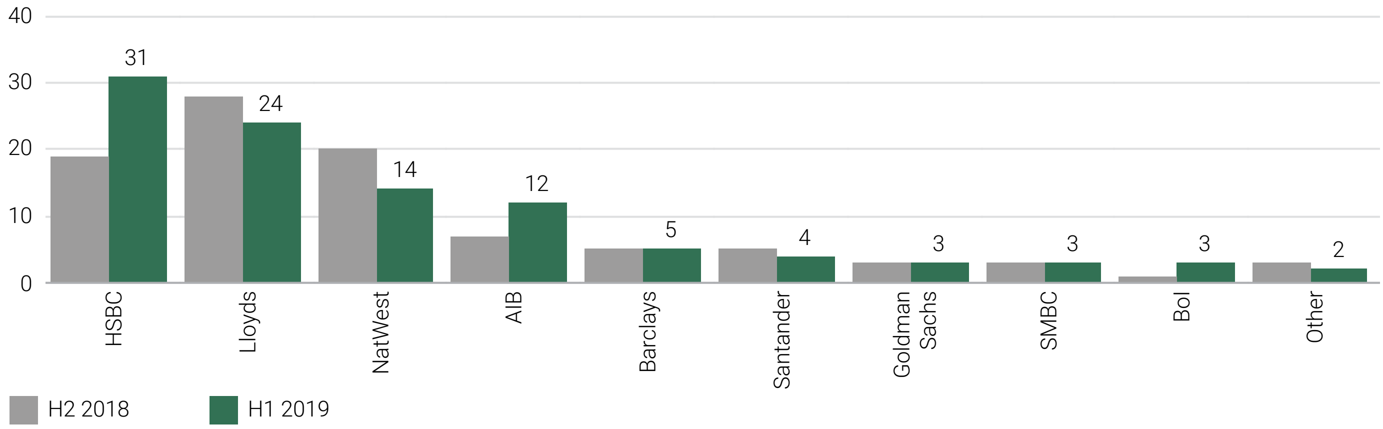
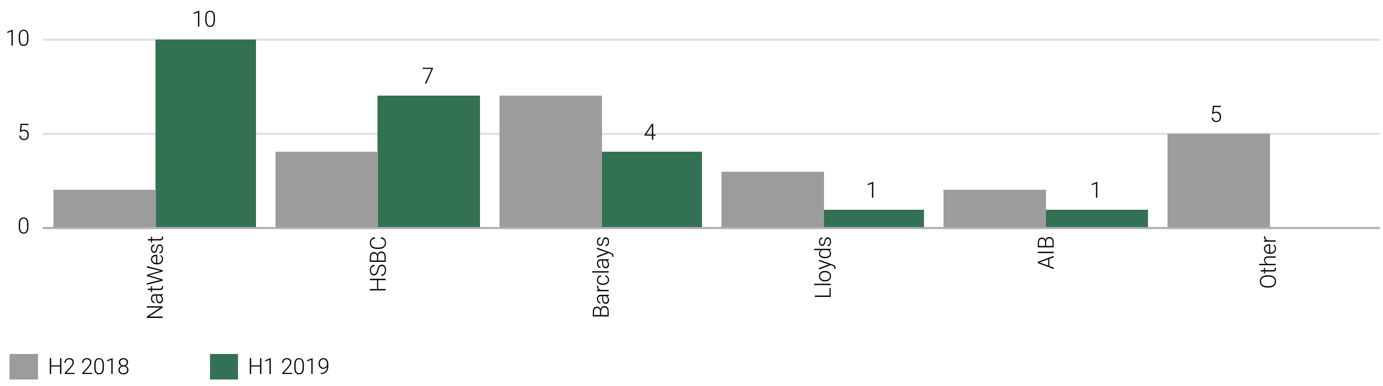


FIGURE 2: UK BANK SUPER SENIOR RCF COUNT



INSIGHTS

- The total number of European banking deals decreased from 153 in H2 2018 to 144 in H1 2019. Despite continued Brexit uncertainy, UK banking deals (excluding super senior) actually increased from 94 in H2 2018 to 101 in H1 2019.
- The most active term bank lender in the UK in H1 2019 was HSBC (31 term participations), whose increase of 63% on H2 2018 was significantly greater than the increase in the wider banking market. HSBC deployed capital across a broad range of sectors, with a particular focus on technology (ten deals) and business services (nine deals). Lloyds and NatWest were the next most active lenders with 24 and 14 participations, respectively.
- Banking behaviour has been impacted by macroeconomic uncertainty in the UK. Credit committees are focused on Brexit risk and, as such, UK banks have concentrated on UK companies without cross-border exposure. An example of this is the service-based healthcare industry which is typically more UK centric than other sectors. UK banks completed more than double the number of healthcare deals on a LTM basis.
- In a bid to promote capital deployment, banks are increasingly working with credit funds and institutional investors. Examples of this include NatWest partnering with M&G to provide financing to PX Group to complete a dividend recap. Banks are also taking the first-out piece of non-bank deals, including NatWest's financing of Alcumus and Equiom.
- The number of super senior deals in the UK remained flat at 23 in H1 2019. Five lenders completed super-senior deals in H1 2019, namely NatWest (10 deals), HSBC (seven deals), Barclays (four deals), Lloyds (one deal) and AIB (one deal).

5. Excludes super senior facilities

Source: AlixPartners debt report, Sponsor press releases, Lender press releases
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Non-bank lenders maintain of 50% of term lending market share market share reaches highest level to date. With significant dry powder, competition for the best credits is fierce.

FIGURE 3: EUROPEAN MID-MARKET NON-BANK DEAL COUNT

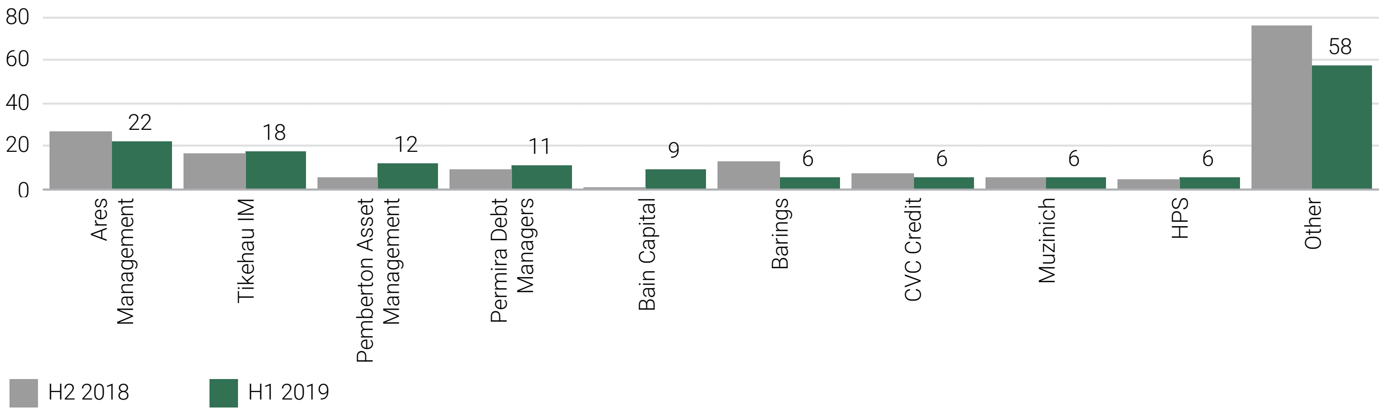
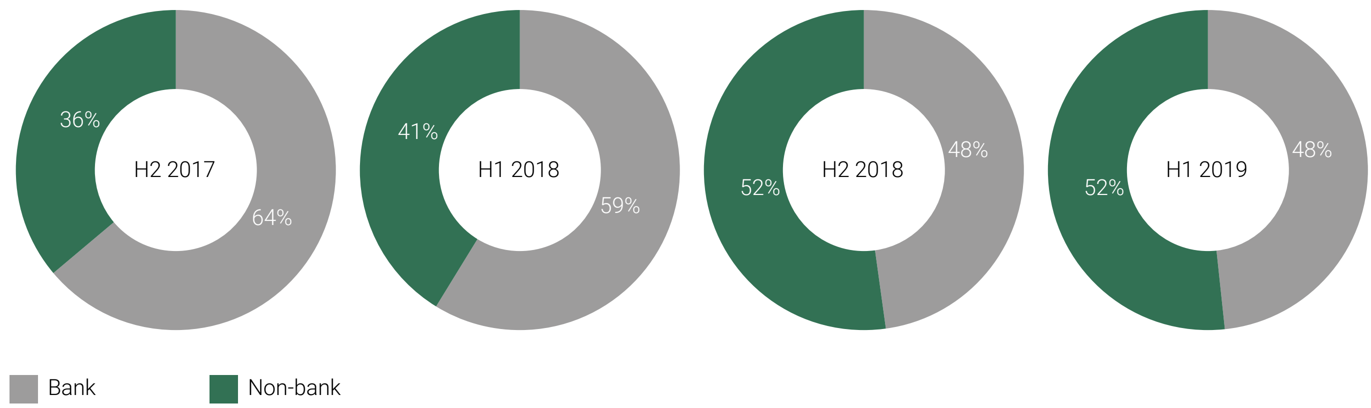


FIGURE 4: MARKET SHARE



INSIGHTS

- Total non-bank lending activity decreased in H1 2019, with 154 deals being completed (down from 167 in H2 2018). The overall decrease is symptomatic of macro-uncertainty impacting the banking market, however, the funds will be encouraged by maintaining the majority of the market (52% of deals).
- The most active non-bank lender in H1 2019 was Ares (22 deals). Ares was active across five countries outside the UK and completed seven deals in the financial services sector.
- Tikehau IM was the second most active lender in H1 2019 with 18 deals, the majority of which were completed in France (56%). Pemberton and Permira were also active in H1 2019, completing 12 and 11 deals respectively across Europe.
- Dry powder in the direct lending market (approximately $100 billion in Europe[6]) continues to outstrip the supply of opportunities. This is resulting in intense competition for the best credits and increasingly borrower-friendly terms.
- Funds are focusing on countries outside of the UK in order to deploy capital, in markets which have been traditionally heavily-banked or have not met lending criteria.
- This strategy has started to bear fruit, with Permira's financing of EG Software, CVC Credit's financing of Groupe Amphi and TPG Credit financing three deals outside the UK.
- After over a decade of unfettered growth, fundraising is showing early signs of deceleration in Europe. The $3.6 billion raised in Q2 of 2019 was the lowest level recorded in 11 quarters[6].
- There are several exceptions to this rule with several fundraisings closing in the last year. Examples include Ares (€10 billion), BlueBay (€6 billion), Bain Credit (€1.2 billion) and Apera (€750 million).

6. Prequin

Source: AlixPartners debt report, Sponsor press releases, Lender press releases
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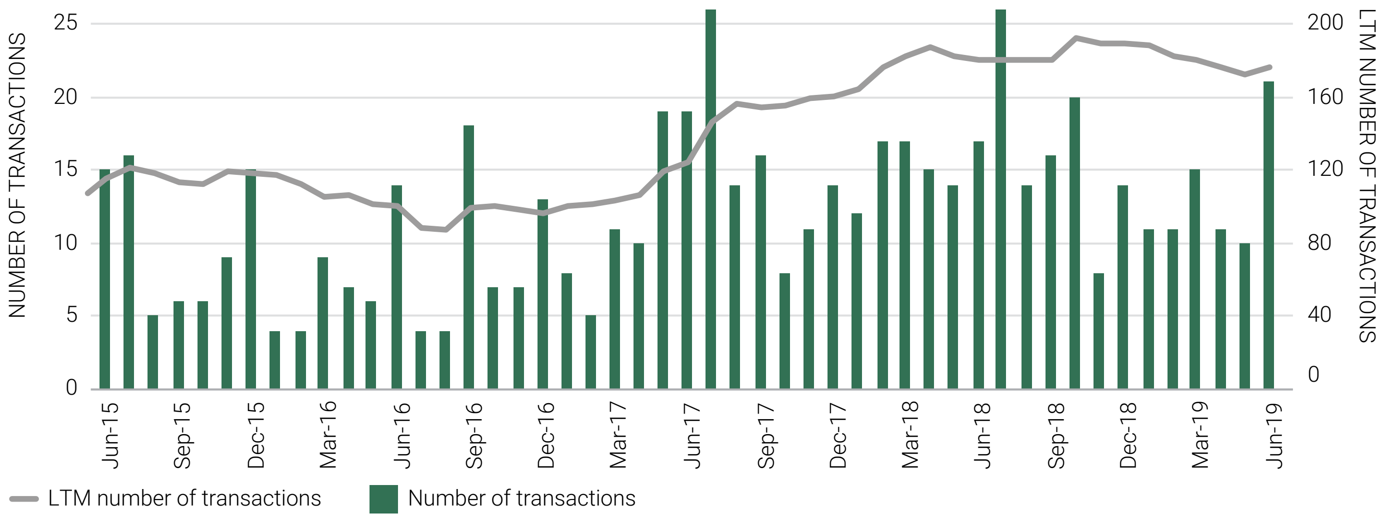
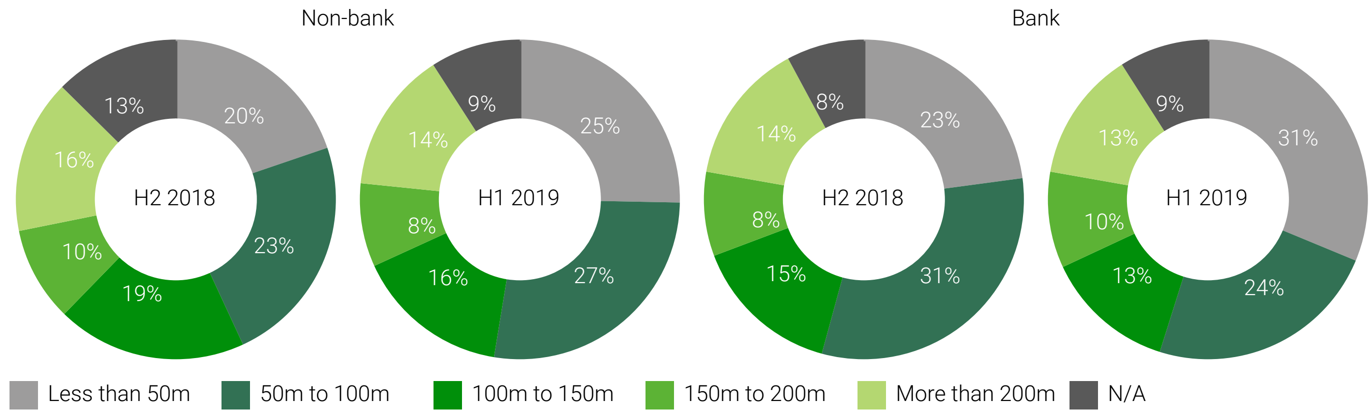
Unitranche product continues to make inroads in the large cap space.

FIGURE 5: TRAILING LTM UNITRANCHE DEAL COUNT



- 79 unitranche deals were completed in H1 2019, down from 98 in H2 2018. This decrease is consistent with the overall decline in the non-bank lending market. The product remains popular, accounting for approximately half of all non-bank lending.
- Sponsors continue to prefer deals with fewer lenders to simplify deal execution. This is demonstrated by the number of lenders in each unitranche deal falling by 6% between H1 2019 and H2 2018.
- Large-cap sponsors are increasingly considering the unitranche product as an alternative to a syndicated loan or high-yield bond. Whilst more traditional large cap products are generally cheaper, sponsors are attracted to the speed of execution and flexibility that the unitranche product offers.
- Several large deals completed in H1 2019, including the £1 billion refinancing of Daisy Group led by Ares and the $1.25 billion acquisition of Acuris by ION, which was financed by HPS and Goldman Sachs.

FIGURE 6: MID-MARKET DEAL SIZE (BANK AND NON-BANK, €)



- In H1 2019, 52% of non-bank lending deals were of less than €100 million, up from 43% in H2 2018. Several funds have had success at this end of the market, including Muzinich (six deals) and Apera (three deals under €50 million). Larger funds have also completed sub-€50 million deals including Ares and Tikehau.
- Completing fewer, larger deals is generally more lucrative for non-bank lenders than completing more, smaller deals. Due to the level of competition in the middle of the mid-market, many non-bank lenders who have traditionally considered larger deals are exploring smaller deals in order to deploy capital.
- Banks continued to focus on smaller deals in H1 2019, with over 50% of deals below €100 million for a second consecutive half. There was a bias towards sub-€50 million deals in H1 2019 as banks sought to diversify their risk.

Source: AlixPartners debt report, Sponsor press releases, Lender press releases
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ABL activity is significantly down, but set for a revival given macro-economic uncertainty.

FIGURE 7: UK IDF ONLY ABL DEALS

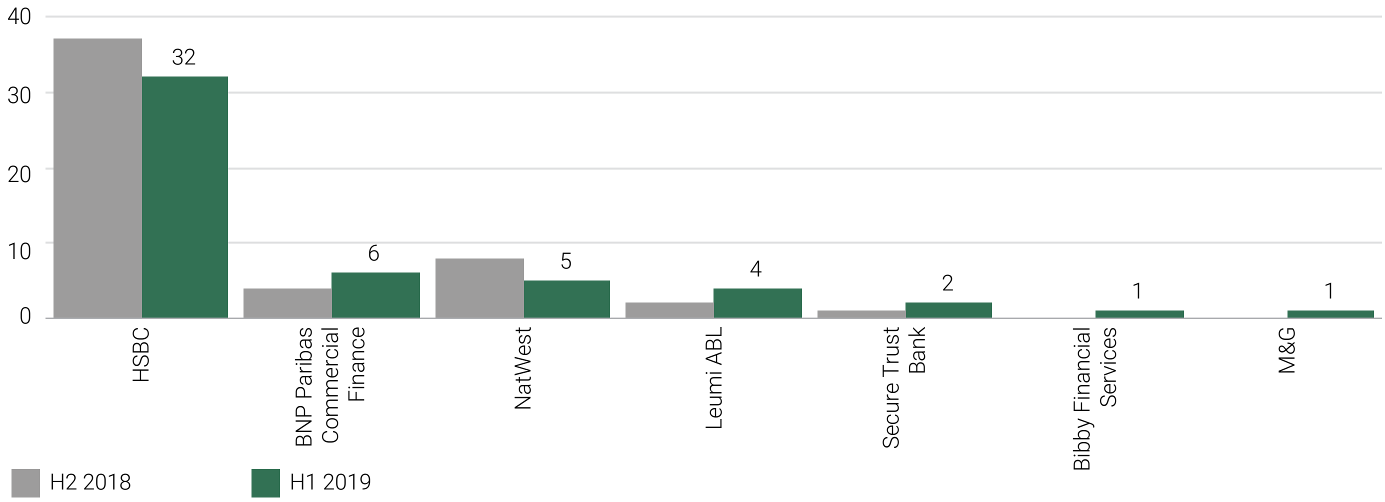
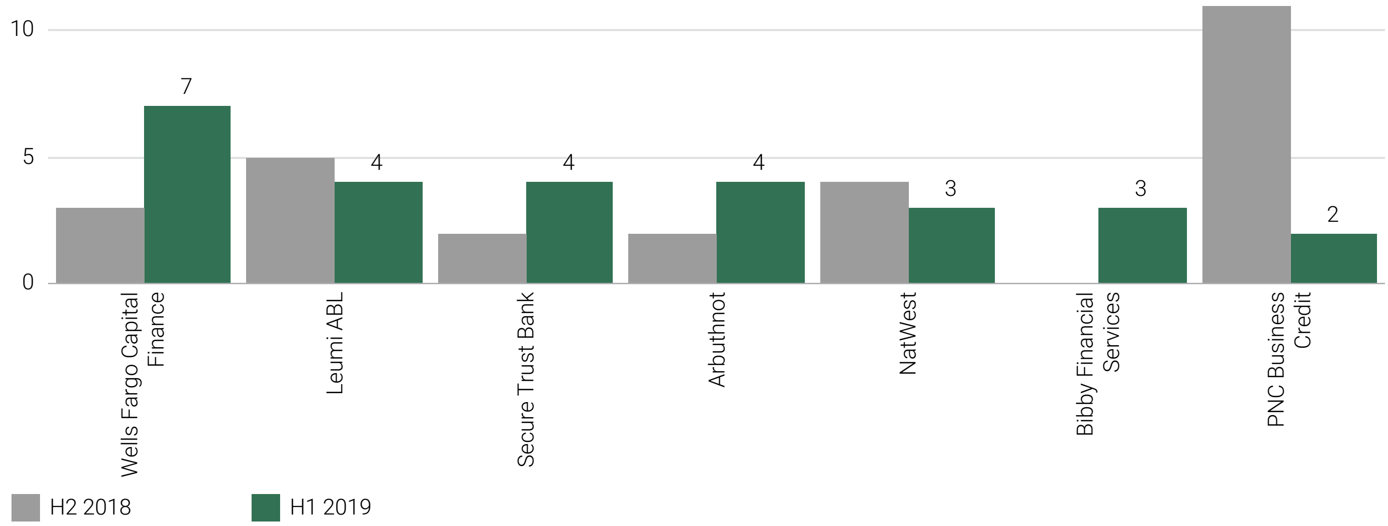


FIGURE 8: UK ABL DEALS (EXCLUDING RECEIVABLES ONLY/IDF DEALS)



INSIGHTS

- H1 2019 ABL activity (72 deals) dropped by 20% in comparison to H2 2018. This reduction was principally due to the slowdown in UK M&A activity. In addition, certain sponsors are opting for leveraged products given the favourable terms currently available.
- The number of IDF only deals fell from 64 in H2 2018 to 51 in H1 2019. HSBC remained the most active with 32 deals, representing over 60% of the market. BNP Paribas (six deals) NatWest (five deals) and Leumi ABL (four deals) were the next most active lenders.
- Wells Fargo completed the most multi-asset ABL deals in H1 2019 with seven deals. Arbuthnot, Leumi ABL and Secure Trust Bank were the next most active lenders with four deals each.
- PNC Business Credit's activity decreased significantly in H1 2019 (two deals). Whilst H2 2018 was a particularly strong comparator, the bank, who principally provides finance in M&A driven situations, was heavily impacted by the drop in transaction volumes in the UK.
- ABL is well-suited to businesses executing turnarounds, who may not be able to access cash flow financing. With macroeconomic uncertainty increasing, ABL activity is set to increase in the medium-term.
- Several ABL lenders were active in continental Europe and in the US in H1 2019, including ABN AMRO and Wells Fargo who completed 15 and 14 deals respectively outside of the UK.

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ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.