

# Private Credit Is Only Game in Town for Europe as Markets Freeze

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- Deals get bigger as high-yield companies have few options
- Companies willing to pay more in interest to get deals done



A Boots pharmacy on Oxford Street in London.  
Photographer: Simon Dawson/Bloomberg

By

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European bond and loan markets are all but closed to many junk-rated companies, which is giving private credit funds an opening to try to land bigger deals.

Direct lenders are looking to finance part of a potential leveraged buyout of drugstore chain Boots Plc, an acquisition that could need 4 billion pounds (\$5.3 billion) of total debt funding. Blackstone Credit as well as other direct lenders are looking to offer as much as \$1.6 billion euros (\$1.8 billion) of debt for the buyout of IVIRMA Global, a chain of fertility clinics.

And sometimes demand is coming from the companies themselves: Access Group, a U.K. software company, is currently looking to borrow as much as 3 billion pounds (\$3.95 billion) from direct lenders. These deals are big for the European market, where three years ago, a 1 billion pound financing from Ares Management was a rarity and the largest on record.

“Issuers are turning to direct lenders up and down the capital structure to provide financing for situations that historically would have been financed with syndicated loans or high yield bonds,” said Matthieu Boulanger, partner and co-head of private credit at KKR.

Junk-rated companies are willing to consider paying slightly higher interest rates to borrow in private markets because selling bonds or getting loans is a process fraught with uncertainty in Europe. The high-yield bond market there is in its sixth week without any new sales, as the war in Ukraine and fears of central bank tightening make public market investors reluctant to take credit risk. The leveraged loan markets have been similarly quiet.

## Surging Growth

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Private credit has been growing for years

Source: Preqin

Meanwhile, private lenders have grown so much bigger in recent years, as investors desperate for higher yields have poured money into funds that can generate better returns than conventional bonds and leveraged loans, even when rates rise. Private debt funds worldwide had \$1.19 trillion of assets under management as of June 2021, compared with \$573 billion in December 2016, according to research firm Preqin.

Europe-focused lenders had about \$350 billion under management in June, more than double the level in December 2016, Preqin data show. Now deals will probably only get bigger, said Aymen Mahmoud, co-head of the London finance, restructuring and special situations group at law firm McDermott Will & Emery.

“The right issuers now have the ability to look to five or six massive funds and can reach three or four billion sterling in capital raising, a number we can expect to increase even further,” Mahmoud said in a phone interview.

Private credit has been taking on ever-bigger deals for years in both the U.S. and Europe. Bloomberg reported earlier this month that direct lenders are working on a roughly \$5 billion unitranche loan to partially finance a leveraged buyout offer for Zendesk Inc., according to people with knowledge of the matter.

Traditionally, borrowing from direct lenders would cost at least 1 percentage point more than borrowing in the leveraged loan market. But that figure is shrinking, particularly with public markets all but closed in Europe, leaving the premium much smaller. And even if there is a slight premium, companies may be willing to pay it for the peace of mind associated with knowing their financing will close when they need it.

“Companies prefer to lock in rates with private lenders even if they are wide to where a public deal ‘might’ price,” David Allen, founder and chief investment officer of direct lender AlbaCore Capital, wrote in an emailed statement.

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