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## Private Credit Funds Are Acting Like Banks to Win Bigger Deals

- Larger non-bank funds evolving into 'one-stop shops' for debt
- Alternative credit firms band together on deals, arrange loans

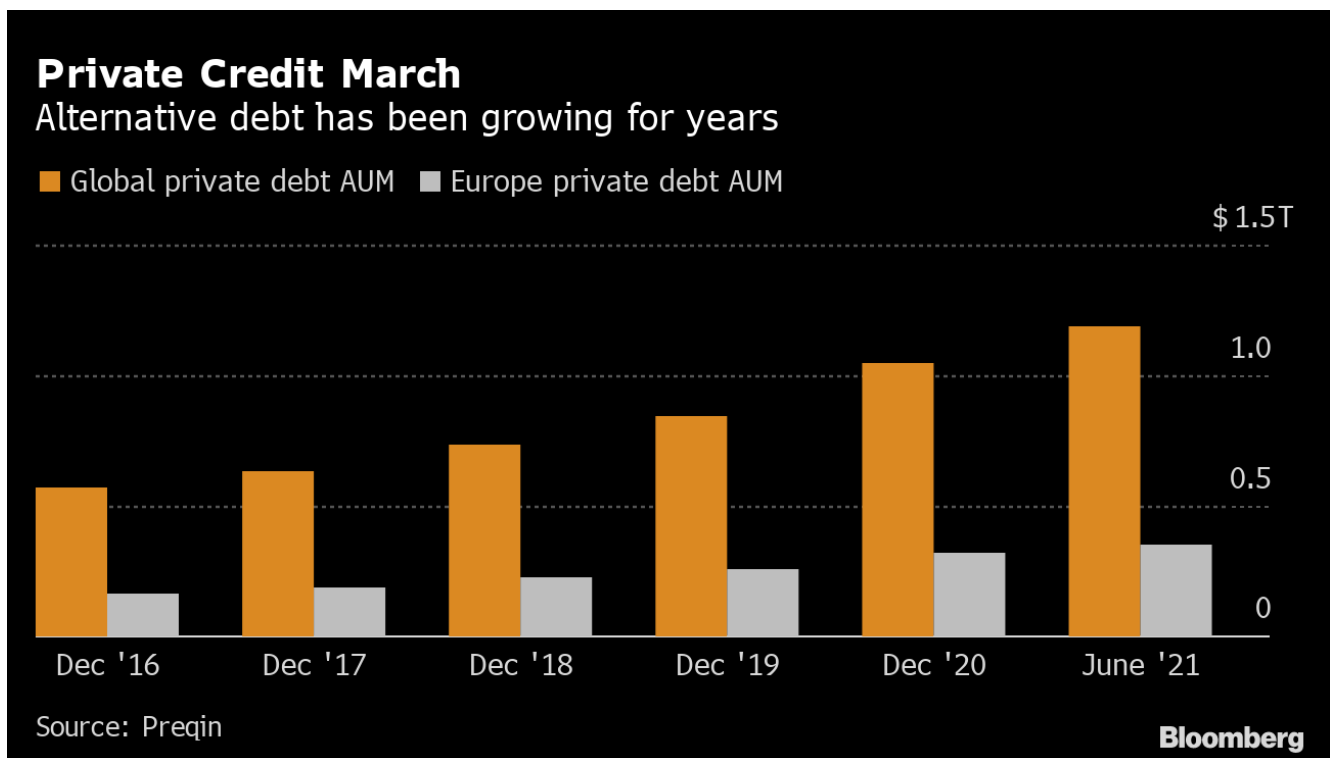
By Silas Brown

(Bloomberg) -- Private credit funds are increasingly encroaching on leveraged finance markets that have been the stomping ground of investment banks.

The latest case in point: when software provider Kofax launched a billion-dollar-plus buyout deal this week, about half of the additional arrangers on the financing were non-banks. They included PSP Investments, Antares Capital, Stone Point Capital, Brinley Partners LP and Blackstone Credit.

It's another sign that alternative credit funds, with \$1.2 trillion in assets under management, are increasingly taking cues from banks to win larger deals. They join together and even grab key roles in arranging leveraged-loan transactions.

"In direct lending, there's a desire to ultimately make yourself a one-stop shop," said Aymen Mahmoud, a partner at law firm McDermott Will & Emery. "You have to try to do what the banks do and what the banks can't do."



It's hard for credit funds to compete with banks on price as they expect to be paid a premium over public markets

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for the illiquidity of the debt. Instead, the funds promise higher degrees of confidentiality to borrowers and often a quicker sale process, along with assurances that pricing won't move due to market volatility.

"Private equity sponsors are aligning what they have in the syndicated markets with how they deal with the direct lending community" for larger companies, said Marc Chowrimootoo, managing director and portfolio manager at private credit firm Hayfin Capital Management LLP. "It's to everyone's benefit."

### Geopolitics, Inflation

Geopolitical risks and inflationary pressures have menaced the leveraged loan and high-yield bond markets in the past months, making banks more cautious in underwriting debt for larger buyouts. Private credit funds, having amassed large warchests, are all-too-eager to fill the financing gap.

While banks loathe letting go of the lucrative fees attached to leveraged buyouts, they also fear adding to their debt piles during a potentially aggressive global monetary tightening, hence sharing deals with private credit firms makes sense.

But to gain the bulk to bite into bigger deals, credit funds have to join forces. Arcmont Asset Management, Bridgepoint Credit, KKR Credit and Owl Rock Capital Corp. teamed up with other smaller lenders to provide a \$1.6 billion dollar loan to back Astorg's buyout of German drug-maker CordenPharma.

As many as seven direct lenders signed the largest European direct lending deal ever for The Access Group this month, according to people familiar with the matter who aren't authorized to speak publicly about it.

Larger players in private credit have even started to underwrite the full portion of debt in a leveraged buyout, and then distribute a portion of it to smaller lenders -- mirroring actions of traditional investment banks.

The asset management arm of Goldman Sachs provided \$1.15 billion of junior debt to support Temasek Holdings Pte's acquisition of Element Materials, and syndicated around \$400 million into the market afterwards, according to people familiar with the transactions who weren't authorized to publicly comment on it.

### New Backstop

"We're also seeing more credit funds regularly offer bridging arrangements for non-term debt lines, looking to backstop revolving credit facilities from banks in order to get a deal completed in short order," said Alex Griffiths, a partner at law firm Proskauer Rose LLP.

Larger direct lenders are beginning to set up internal agency teams, he said, so they can manage their portfolios while acting as a security agent too, as opposed to using a third party for that role.

Some larger direct lenders are increasingly considering providing staple financing -- a type of pre-arranged funding typically offered by banks to potential bidders in a leveraged buyout -- to private equity firms, in order to better compete with banks on larger leveraged buyouts, according to three people familiar with the matter, who did not want to be named publicly.

"Direct lending funds can offer non-syndicated staples more easily than lending banks" which have "regulatory and concentration issues to contend with," McDermott Will & Emery's Mahmoud said. "You will increasingly see sponsors going to a credit fund, and saying can you look at both direct lending and capital markets solutions, as lead arranger."

Elsewhere in credit markets:

### EMEA

A total of 15 borrowers launched at least 8.68 billion euro of debt into Europe's primary bond markets on Wednesday, across 19 tranches.

- Elsewhere, buy-now pay-later lender Affirm has seen funding costs for its securitization packages rise after hikes in rates and as a cost of living crisis casts a shadow on the sector
- Deutsche Bank's co-head of global capital markets Henrik Johnsson told Bloomberg TV that he expects investors will come back to Europe's junk-bond market, where sales are down 75% year-to-date
- Belgium's Etex sold 800 million euros of Schuldschein, with margins linked to its sustainability score

### Asia

India's central bank raised the key interest rate for a second month straight in a bid to pull in prices that have run above target since the start of the year.

- Bonds in India rallied after the monetary authority refrained from withdrawing cash from the banking system and assured markets it would support the government's record borrowing program
- Administrators for airline PT Garuda Indonesia have acknowledged claims worth 120.5 trillion rupiah (\$8.3 billion) as the flailing company looks to restructure its debts
- Meanwhile, Japanese consumer lender Aiful, which has the lowest investment-grade rating, sold more bonds than it initially planned

### Americas

Generali's asset management unit is looking to buy investment firms specialized in US credit markets and renewable energy, as the Italian insurance giant seeks to win outside money beyond its traditional base.

- Mexico's largest payroll lender Credito Real is preparing a potential bankruptcy filing in the US, according to people with knowledge of the situation
- CDK Global Inc., an auto-dealership software firm, is marketing a \$750 million high-yield bond as well as increasing the size of a leveraged loan to help finance its leveraged buyout by Brookfield Asset Management
- Deutsche Bank is leading a lender group pre-marketing a debt package to partly fund the buyout of Cornerstone Building Brands Inc.

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