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Take-Privates the Best Hope For Direct Lenders to Keep Momentum

- Buyout firms pulling back from selling assets to each other
- Weakness of euro, sterling fuels interest in listed companies

By Silas Brown (Bloomberg)

Private credit firms have done a brisk business this year financing the sale of assets from one buyout firm to another. With those deals drying up, firms looking to do larger-scale lending increasingly are pinning their hopes on acquisitions of listed companies.

As credit markets froze up this year, banks became more cautious about backing leveraged buyouts, and direct-lending firms leaped at the opportunity to plug the financing gap for larger debt deals. Billion-dollar plus transactions for firms such as CordenPharma, The Access Group and Envirotainer all landed in the pockets of direct lenders.

But the groundswell appears to be fading, as buyout firms shy away from selling now that valuations are declining, compounded by a hesitance among credit funds to commit to new deals amid inflation spikes and fears of an economic slowdown. Ardian SAS, for example, shelved the sale of Italian health-care software provider Dedalus.

However, there are opportunities for private equity firms, flush with trillions of dollars to invest, to acquire publicly traded firms in Europe, in part because of the weakness of sterling and the euro against the dollar.

Take-privates of firms such as Euromoney Institutional Investor Plc and CareTech Holdings Plc were financed through direct lending over the summer, and there are several others on the table.

There may be particular interest in the UK assets, given the historic collapse of the pound following Prime Minister Liz Truss's package of sweeping tax cuts.

"Following recent events around interest rate rises, a tax-cutting budget and the weakening FTSE 100, we can expect more than ever that dollar investors will look at the UK public markets as a fruitful route for investment," said Aymen Mahmoud, co-head of law firm McDermott Will & Emery's London finance, restructuring and special situations group.

Pros and Cons

Private credit funds are on the hunt for growing, cash-generative businesses with pricing power to lend to. And this applies to take-privates too. Sectors with strong consumer exposure or high degrees of capital expenditure will struggle to find financing.

Take-privates have advantages too. As the circle of people in-the-know has to be small, lenders can be guaranteed a larger slice of the debt financing. The deals are also often larger than the run-of-the-mill direct lending financing.

But they can also be frustrating. Creditors have to spend a lot of time working through a prospective deal, many of which never even cross the line. Prospective bidders have to deal with potential challenges from shareholders, managements and boards -- as well as possible threats from shareholder activists.

Robin Doumar, founder and managing partner of Park Square Capital LLP, said that due diligence for creditors tends to be limited when providing financing for take-privates. “Having to move quickly often prevents credit funds from being able to do their work, which is why we favor straightforward private lending,” he said.