Proprietary Debtwire

The transatlantic credit flight: US direct lenders eye European expansion – Market Chatter

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Europe's private credit market has followed the lead of its US counterpart for more than a decade, and the two enjoy a symbiotic relationship whereby big players have boots on both sides. Recently, however, the European private credit market has seen more participation from US lenders – and the transatlantic credit flight is adding to already-tight competition.

Last month saw Blue Owl Capital finance PAI Partners' buyout of **Audiotonix**, marking a rare step by the New York-based private credit titan into Europe's ferociously competitive direct lending market. Blue Owl provided a unitranche worth GBP 900m to support PAI Partners' leveraged buyout of the UK-based audio equipment manufacturer from Ardian. The lender is underwriting the private debt package in US dollars, which will be converted to sterling.

The alternatives behemoth, which manages some USD 166bn of assets, is not the only US-based asset manager eyeing inroads into Europe's burgeoning direct lending market, several market participants agreed.

"Compared to the US, there is more runway for funds to displace traditional lenders in Europe's more bank-centric market," said Mark Bickerstaffe, Managing Director at Europe's Hayfin Capital Management. "In addition – contrary to the perception of Europe as a less creditor-friendly market – historic recovery rates have been higher on this side of the Atlantic than in the US."

The Audiotonix deal comes after Blue Owl was reported to be weighing a formal entry into Europe's direct lending market, either via a fundraise, acquisition, or buildout of a dedicated team. Last year, Blue Owl was reported to be weighing an acquisition of Hayfin, the aforementioned debt manager. Blue Owl currently has one employee – Amy Ward, who oversees its institutional client service and business development – in London.

Blue Owl is not the first US-based debt manager to have scoped out acquisitive routes into Europe. In recent years, Nuveen acquired private debt fund Arcmont as part of a broadening push into Europe. Meanwhile, Franklin Templeton-owned Benefit Street Partners acquired UK-headquartered Alcentra from its former owner, BNY Mellon.

Some market participants, however, view Blue Owl's direct loan to Audiotonix as an isolated occurrence and suggest that the private credit market will continue to see US-based lenders coming for European deals only on a case-by-case basis.

"Most major US-based lenders already have an established footprint in Europe – Owl Rock is one of only a handful of the big US players without boots on the ground in the UK or continental Europe," said Patrick Schoennagel, Managing Director and Head of Sponsor Finance in Houlihan Lokey's Capital Markets Group.

Schoennagel's debt-advisory team is currently working on several situations where US-based lenders are seriously considering investing in European transactions, he told *Debtwire*. "However, in our experience, those credits tend to be 'tweeners' – companies with significant exposure to or presence in North America, in addition to Europe and the rest of the world."

Aymen Mahmoud, co-head of law firm McDermott Will & Emery's London Transactions Group, has witnessed an uptick in the number of US-based direct lenders opening offices in Europe in recent years.

"However, a significant number continue to operate from the US and are increasingly active in the European market as they better understand the legal and regulatory landscapes throughout Europe," he said.

"The European market has never been more accessible," said Mahmoud, which he attributed to many US credit funds working through the legal, regulatory and other landscapes in Europe, and to the modernisation of European bankruptcy and banking monopoly regimes.

"Market saturation invariably leads competitive actors to find new geographies, subject to scoping out the barriers to entry," he said.

Market PIKs

Also in the UK this month, the sale of **Kynetec** has advanced to the second round, with a **Hillhouse Investment**- led consortium seen as the frontrunner to acquire the firm from **Paine Schwartz Partners**. Financiers are working off structuring EBITDA of around USD 30m in devising packages to support a buyout of the agricultural market research company. Hillhouse Investment's consortium is working with Moelis & Company to prepare a binding offer for the firm, which generated USD 17m EBITDA off USD 84m revenues in the year to September 2022.

In the Benelux, **Platinum Equity** and **Apollo Global Management** are among the parties admitted to the second round for the sale of **Trivium Packaging.** US-based Sonoco is among the trade buyers still in the mix to acquire the Dutch metal containers maker from vendors **Ontario Teachers' Pension Plan** (OTPP) and packaging group **Ardagh Group.** Final bids for Trivium, which is being marketed off adjusted EBITDA of USD 480m for 2024, are due by the month's end. Some lenders are looking to support a potential buyout with leverage of 5.5x to 6x EBITDA.

Hayfin meanwhile is providing a private-credit package worth around EUR 200m to support **Eurazeo**'s buyout of French investment firm **Eres Group** from **IK Partners**. The unitranche financing levers the company at around 6x and is priced at 525bps over the European base rate. Hayfin structured its financing package, which also includes a PIK facility levered at 1x, off EUR 25m-EUR 30m EBITDA. Hayfin's arrangement displaces former incumbent lenders Barings and Bridgepoint Credit, who financed IK's acquisition of Eres in 2019 alongside Hayfin.

In Germany, financiers are hard at work getting their heads around **Sanecum**'s EBITDA figures ahead of first-round offers for the **Adiuva Capital** outpatient medical care platform in mid-May. Sanecum is being marketed off forward-looking 2024 EBITDA of EUR 90m-EUR 100m, which stretches up to EUR 130m including unrealized addons for this year. Lenders however could end up working off a considerably lower structuring EBITDA in light of these and other adjustments, with a debt quantum potentially amounting to EUR 250m-EUR 300m depending on the figure used and leverage coming in around 4x-4.5x.

More advanced processes in DACH include the sale of Austrian fluid-management solutions company **Single Use Support**, which collected final offers from a handful of bidders in late April. **CVC** and **Novo Holdings** are among the sponsors admitted to the final round for the company, which is seeing EV expectations creep towards the EUR 1bn mark in the **Jefferies**-run sale. Leverage is likewise thought to be coming in at the higher end, with debt funds pitching to lever the founder- and **Pall Corporation**-backed firm at more than 6x.

In the Nordics, Norwegian healthtech player **Sensio** has recently come up for sale in a **William Blair**-led process. The company, which offers a platform for health and care services providers, is being marketed off EUR 7m-EUR 9m EBITDA and is expected to attract interest from a number of private equity firms. Sensio is backed by Norwegian sponsor **Longship** and investment firm **Watrium**, with around 30% of shares held by employees.

by Amelia Weitzman, with additional reporting from Patrick Costello

Issuer Summary

Issuer
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Likely To Distress		Location
Not available	-	United Kingdom

Relationships

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Other
Audiotonix Holdings Ltd

Other
Benefit Street Partners LLC

Other
Blue Owl Capital Inc

Other
Hayfin Capital Management LLP

Other
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