Proskauer

Proskauer Releases 2022 Private Credit Survey

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As Competition Remains a Challenge for Lenders, Deal Activity is Expected to Decline from Last Year's Record Levels

NEW YORK and LONDON, June 8, 2022 – Despite strengthening macro-economic headwinds, deal makers have revealed that competition, not the economy or geopolitical issues, will be their greatest challenge, according to a new survey from leading international law firm Proskauer. The results are part of the Firm's annual Private Credit Survey, which was released today. Nearly 42% of respondents from across the U.S., EU and UK, identified competition as their top challenge for the fifth year in a row, and approximately 89% marked it as one of the top three challenges. High transaction multiples were expected to be the second greatest challenge, followed by a lack of quality assets in the market.

"There has been a growing interest in private credit from both lenders and borrowers over the past decade. As the public markets have had dramatic swings in recent years, new entrants – both lenders and borrowers – have moved into the space, drawn by the industry's resilience," said Stephen A. Boyko, co-chair of Private Credit at Proskauer. "As the macro economic environment continues to change and the syndicated markets remains volatile, we expect to see more interest in private credit than ever before, especially in the U.S., UK, Mainland Europe, Canada and Asia."

The report also revealed a mixed outlook from lenders regarding deal activity this year, with just 30% globally expecting an increase. However, there were differences in optimism between regions as 50% respondents in the UK/EU expected an increase in deal flow this year, but only 26% of respondents in the U.S. said the same. Across the globe, respondents noted availability of dry powder, followed by sponsors seeking realizations and industry-specific trends as the top causes for optimism in deal activity. Many also noted that that the huge deal volume seen last year is unsustainable this year.

Industry Expectations

The Firm also asked about industry expectations over the next 12 months and found that across the globe, respondents expect to see an increase in industry-based investing compared to 2021. Overall, nine out of 10 respondents were interested in investing in business services, health care and software & technology deals. Approximately six out of 10 were interested in transportation & logistics and manufacturing deals.

However, the survey revealed significant differences between the U.S. and the UK /EU. According to survey results, respondents in Europe are significantly more likely to be considering investing in health care, software/tech and education than U.S. counterparts. They were significantly less likely to invest in consumer/retail, construction, and transportation and logistics.

Additional Takeaways

- 60% of respondents require at least a 40% equity contribution to their transactions. The UK and EU were more likely to require a 40% or greater equity contribution, with almost 80% of respondents in that category.
- On balance, 11% of respondents expected pricing to decrease, with more predicting a drop in 2022 than an increase (28% vs. 17%), though 55% foresaw no change to pricing this year.
- More than 80% of respondents said they were currently raising a debt fund and more than 90% said they have plans to fundraise this year.

Methodology

For the 2022 Private Credit Survey, Proskauer polled 181 private credit lenders across the U.S., UK and EU from December 2021 - February 2022, a sharp increase from previous years. Respondents represented $2 trillion of assets under management (AUM) and the majority of respondents from across the globe hold senior roles in the private credit industry and manage substantial funds (over >$10bn / >€10bn AUM).

Proskauer’s 2022 Private Credit Survey explored drivers of deal flow and the challenges for dealmakers, market predictions and risks, the value of private credit and expectations around interest rates, pricing and defaults. This year’s survey also asked about several new themes including ESG considerations and preparedness for transitioning from LIBOR.

About Proskauer

We are 800+ lawyers serving clients from 12 offices located in the leading financial and business centers in the Americas, Europe and Asia. The world's leading organizations, companies and corporations choose us to be their representatives in their most critical situations. But more, they consider Proskauer a strategic partner to drive their business forward. We work with asset managers, major sports leagues, Fortune 500 companies, entertainment industry legends and other industry-redefining companies.

The Firm's Private Credit Group is made up of cross-disciplinary finance and restructuring experts exclusively dedicated to private credit investors. It includes over 75 finance and restructuring lawyers focused on representing credit funds, business development companies, and other direct lending funds in the restructuring of "clubbed" and syndicated credits, preferred equity, special situations and alternative investments. Over the past five years, Proskauer has been involved in more than 1,000 deals for over 75 private credit clients across the United States and Europe with an aggregate transaction value exceeding $250 billion.

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