

## Question of the Week:

What types of creative financing are you seeing in deals lately? Why are we seeing an increase of these structures?

**March 28, 2024**

"Private credit managers are facing increased competition from investment banks, leading to a renewed availability of alternative options for larger borrowers who haven't had such choices for the past 18 months. In an effort to secure deals, banks are reducing pricing, prompting some private credit managers to adapt. To stay competitive, these lenders are taking strategic measures such as actively repricing deals in process, a move that positions them well, as those who can match or closely align with bank pricing are likely to retain their deals."

**Alexander Griffith**, Private Credit, London

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"As competition for traditional financings remains high (including with a reemergent public debt market) and overall M&A activity continues to be low, there is a renewed interest among private credit lenders in alternative financing structures as a means to deploy capital. In particular, lenders are looking beyond opco financings and exploring opportunities to provide liquidity solutions at other parts of the capital structure. For some lenders, that has meant taking another look at structuring holdco loans and preferred equity issuances, which can offer potential solutions for Borrowers with leverage constraints that may otherwise preclude an opco financing. There has also been an uptick in interest in NAV facilities and other fund level financing solutions as a complement to their product offerings."

**Jessica Shearer**, Private Credit, Boston

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"We're seeing more structured capital, in the form of Holdco loans and preferred equity issuances and there are two primary factors driving the increase from a borrower's perspective. Cash interest rates on opco debt remain high and borrowers are struggling with liquidity to service their senior debt. The proceeds of the new holdco or preferred equity issuances can be used to help alleviate the cash interest crunch and also the new instruments themselves do not typically accrue cash interest. The holdco debt or preferred equity also do not affect leverage calculations at the opco level, allowing the borrowers to remain in compliance with their financial covenants and more generally with their credit documents. From a lender's perspective, there is a severe shortage of quality LBOs in the market so these more bespoke instruments allow for deployment of capital in an otherwise slower deal environment and also have large returns to the extent the underlying borrowers avoid severe financial distress."

**Benjamin Rubin**, Private Credit, Boston

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"The M&A market is starting to spring back to life but perhaps a little too slowly for all but the hottest assets. The refinancing market is strong though, with sponsors actively refinancing their assets' debt packages and repricing existing debt. We are seeing a trend for portability to be baked into deals upfront again, to permit the debt package to remain in place as sponsors look at the looming "maturity wall" and plan their exits as the market continues to pick up. Provided the sponsor whitelist and certain other conditions are acceptable, we have seen lenders being receptive to this trend, allowing them to continue to back assets that they are keen to stay invested in and somewhat reducing the risk of them losing the deals to competitors (and the bank syndicated markets for the larger deals)."

**Harriet West**, Private Credit, London

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