Proskauer The Private Credit Group



Tr€nd$ in Priv£te Credit

The Industry Speaks

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Executive Summary

Across the world, the private credit market finds itself in somewhat familiar waters. Like in previous years, a large majority of lenders are raising debt funds and planning to fundraise. More than half said the check size their firm is willing to write hasn't changed in the past 12 months, and almost one-third said they are willing to underwrite large deals, those worth $250 million or more.

Further, fears—of inflation, recession and general geopolitical strife—so prevalent in our previous year's survey are still a part of this year's to be sure. For instance, many lenders said they expect to see lower deal pricing and more defaults going forward than they saw in the previous 12 months. However, it's as if these fears have been *normalized*, or at least, lenders may not be in the *catastrophic* mode that a sober look at some adverse economic indicators evident in the wider economy might warrant.

And some of these numbers are sobering. For example, the total amount of capital deployed in credit strategies by lenders over the past 12 months was approximately $258.9 billion, *significantly down* from the $338.5 billion deployed just a year ago.

Also notable was a shift to smaller deployment levels of capital this year. In fact, almost half of lenders surveyed (47%) said they deployed less than $1 billion of capital into credit strategies in the past 12 months, compared to the previous year when a similar percentage of respondents (49%) said their firm deployed between $1 billion and $5 billion during the previous year's 12-month cycle.

The Proskauer Private Credit Survey 2024, which gathered responses from private credit firms in the United States, the United Kingdom and Mainland Europe, showed that overall, almost all respondents (especially those in the UK and EU market) are looking for new lending opportunities, vigorously fundraising and deploying capital, albeit at lower levels compared to past years.

In fact, just like 2021 showed a surge of pent-up lender optimism and activity expectations that the pandemic had held at bay, so too has 2024 seen that heightened level of optimism, with a stunning 80% of lenders saying they expect more deal activity in the coming year than they saw in the last 12 months.

This year's survey also explores the most critical drivers of deal flow in the market, as well as what major challenges lenders are facing. The report also explains what our survey respondents see as the hot topics in the years ahead and the key five-year trends that may impact dealmaking and the private credit market in 2024.

And while it may be important to consider which direction major economic indicators are pointing in the year ahead, some of what were top concerns—such as recession fears—have notably waned, although not receded completely. Indeed, the largest portion of respondents (38%) said they expect a recession in the next 6 to 12 months, while last year, the largest portion of respondents (41%) said a recession was less than six months away, while another sizable portion (33%) said we were *already* in a recession. Still, it doesn't take more than a few ill economic winds to blow recession and inflation fears back into the marketplace where they can take a heavy toll.

As in previous years, the report offered valuable insight into the minds of private lenders in areas such as deal volume, pricing, borrower EBITDA, deal covenants and perhaps more importantly, why they think borrowers chose private credit lending options.

Many lenders see a still robust dealmaking environment

- A large majority (70%) of firms made less than 50 new credit investments last year, while 36% made between 25 and 100 investments. Most respondents deployed less than $1 billion of capital into credit strategies this year, which is down from last year when most deployed between $1 billion and $5 billion. Almost one-third (32%) of lenders said they are willing to underwrite deals worth $250 million or more.
- More than half of lenders say that the check size their firm is willing to write has not changed in the past 12 months, and the average EBITDA of companies in their portfolios is mostly between $25 million and $49.9 million. As to deal covenants, most lenders say they permit 20% to 24.9% of EBITDA add-backs in loan agreements. Uncapped EBITDA add-backs increased to 4% this year (from 3% last year) but remain well below the 10% in 2022. The majority of lenders (58%) said they do not do deals without a covenant.
- Lenders in the United States identified the US, UK and Canada as the top jurisdictions for growth opportunities for their business, while UK and EU lenders saw the DACH region—Germany, Austria and Switzerland—as its top potential growth area with the US much further down the list (behind the UK and France).
- A majority of lenders said they have less than 2.5% of their portfolio in default, but most predict more defaults than they saw in the previous 12 months.
- Still, a large majority of lenders also said they are actively raising debt funds and planning to fundraise.
- More than two-thirds of lenders said they have fund-level leverage facilities, with most employing less than 1.5-times leverage.

Challenges for the Year Ahead

- More than one-third of dealmakers cited *Inflation/macroeconomic risks* as their largest concern over the next 12 months, with this category of concern getting more votes (ranked 1st, 2nd or 3rd) than any other.
- Two other factors—*Lack of alignment on purchase price between buyers and sellers* and *Lack of quality assets in the market*—also were ranked as key challenges for the coming year while *Access to financing,* which was the second-most cited challenge last year, dropped to fifth place as a top challenge this year.

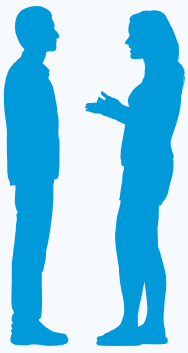
Demographics of Respondents

The *Proskauer Private Credit Survey 2024* gathered responses from 178 private credit firms, an 18% increase in the number of respondents compared to last year's survey. Of these respondents, 70% were in the United States and 30% were in the United Kingdom & Europe. Sixty percent of respondents were either Managing Directors or Partners at their firms and 72% of respondents were senior-level executives. *(See full breakdown in the chart below.)*

In terms of assets under management (AUM), 55% of this year's survey respondents came from firms with $10 billion or more AUM, and another 32% came from firms with between $1 billion and $9.99 billion AUM. And the remaining percentage (13%) came from firms with less than $1 billion AUM.

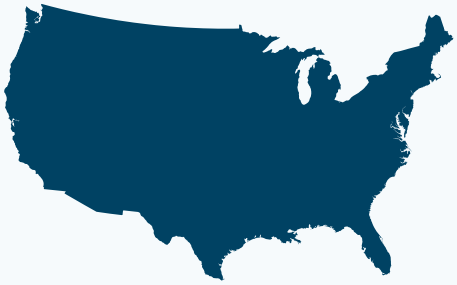
Overall, the total amount of capital deployed in credit strategies by respondents over the past 12 months was approximately $258.9 billion, significantly down (by 23%) from $338.5 billion cited in last year's survey. Further, you can see this downturn in deployed assets among individual firms too: Last year, almost half of respondents (49%) deployed between $1 billion and $5 billion of capital into credit strategies over the past 12 months. This year, almost the same percentage of respondents (47%) deployed less than $1 billion into credit strategies over the past 12 months.

Managing Director	**38%**
Partner	**22%**
Director	**8%**
Executive Director	**4%**
Principal	**10%**
Vice President	**8%**
Internal Counsel	**3%**
Associate	**3%**
Other	**3%**
Senior Associate	**2%**



178 Respondents in total

70%



United States

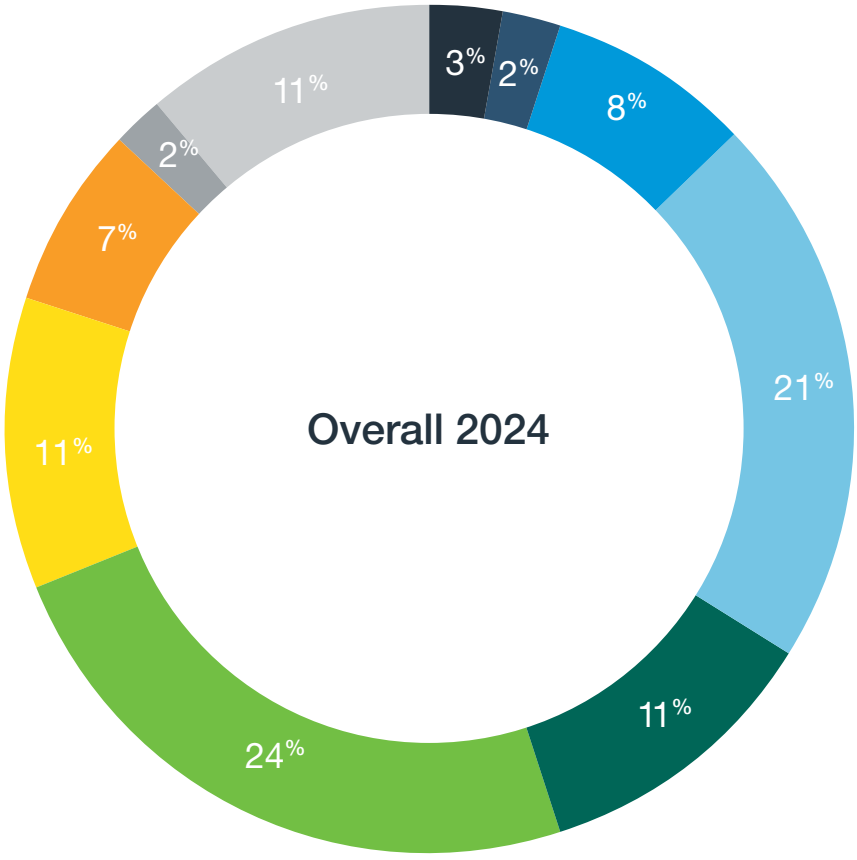
30%



United Kingdom & Europe

Demographics of Respondents

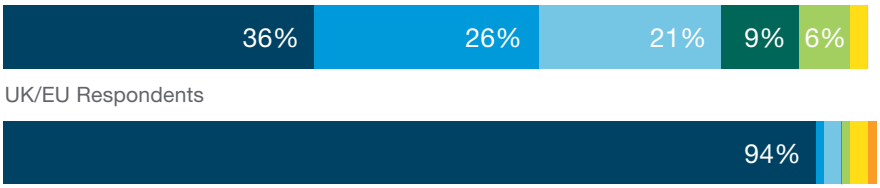
Total amount of capital by respondents into private credit strategies over the past 12 months was approximately $258.9 billion



AUM focused on credit

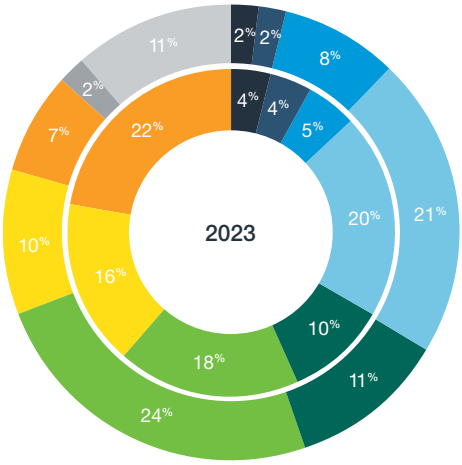
- Less than $250 million
- $250 million-$499 million
- $500 million-$999 million
- $1 billion-$4.99 billion
- $5 billion-$9.99 billion
- $10 billion-$24.99 billion
- $25 billion-$49.99 billion
- $50 billion-$74.9 billion
- $75 billion-$99.9 billion
- $100 billion or more

Headquarters 2024



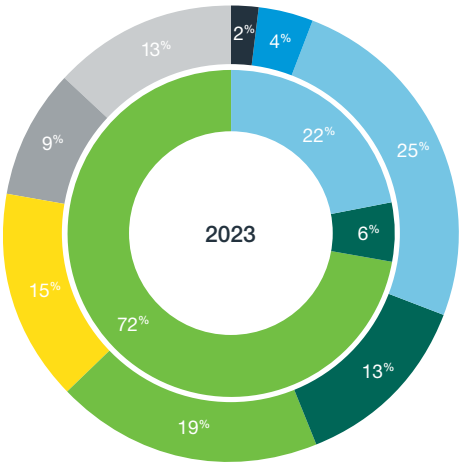
US UK Other Europe France Canada Other Asia

87% of respondents manage $1 billion in assets or more. Median AUM of respondents is $1 billion



US 2024

- Less than $250 million
- $250 million-$499 million
- $500 million-$999 million
- $1 billion-$4.99 billion
- $5 billion-$9.99 billion
- $10 billion-$24.99 billion
- $25 billion-$49.99 billion
- $50 billion-$74.9 billion
- $75 billion-$99.9 billion
- $100 billion or more



UK/EU 2024

- Less than €250 million
- €250 million-€499 million
- €500 million-€999 million
- €1 billion-€4.99 billion
- €5 billion-€9.99 billion
- €10 billion-€24.99 billion
- €25 billion-€49.9 billion
- €50 billion-€74.9 billion
- €75 billion-€99.9 billion
- €100 billion or more

Current State of Play

Our survey results are in line with other forecasts and studies showing that private credit is not slowing down, albeit predictions for North America, which still dominates the private credit market, are more positive than they are for Europe.

Even after the banking crisis earlier in 2023 following the demise of Silicon Valley Bank and Signature Bank, borrowers continue to look to private credit. Indeed, in the wake of the crisis, a consortium of funds set an industry record when they provided fintech firm Finastra Group Holdings Ltd. with a €4.8 billion loan.

Overview of key economic and market statistics:

- Bank of England base rate is 5.25% after five rate increases in 2023, which in total raised the base rate 1.75 percentage points.
- 10-Year Treasury Rate was 3.88% at the close of 2023, up from 3.46% at the close of last year.
- S&P 500 Index was up 24.4% in 2023.
- S&P U.S. Treasury Bond Index is recovering, and the yield on the 10-Year Government Bond is expected to be 6.087% by the end of March 2024.
- Preqin forecasts an overall average growth in AUM of 17.4% between now and 2026.
- However, Preqin predicts the compound annual growth rate (CAGR) for Europe-focused AUM to fall to 10.9% between 2021 and 2027.
- PwC predicts that by 2025, already largely fund-driven private credit in Europe will be completely fund-driven, rather than bank-driven. Along with this, direct lending is predicted to expand and compete with syndicated bank facilities.
- The Global Private Capital Association (GPCA), states 2022 was a record year,[1] reporting US$10.8 billion of new inflow, an 89% increase from last year.

What forecasters are saying:

In its *2024 Global Credit Outlook* (which they subtitled, *Back in the saddle*), Goldman Sachs explained that its view for 2024 centered on three ingredients: *i)* modestly tighter spreads and modestly lower yields that translate into lower excess returns, but higher *total* returns compared to 2023; *ii)* a balanced supply/demand technical backdrop; and *iii)* rising financial distress in the low end of the quality spectrum that is to some degree already priced in.[2]

"In some ways, we expect 2024 will be a mirror image of 2023, given the tighter starting level of spreads, higher starting level for yields, and the end of the

1. See "Private credit investments surged 89% in 2022 – report", Chiara Elisei, Reuters; February 22, 2023; *available at* https://www.reuters.com/business/private-credit-investments-surged-89-2022-report-2023-02-22.

2. *2024 Global Credit Outlook: Back in the saddle,* Goldman Sachs Credit Strategy Research; November 13, 2023.

hiking cycles in the US and Euro area," the Goldman report noted.

BlackRock's *Global Credit Outlook* for the first quarter of 2024 saw a widening divide for the coming year in "various areas of the investing landscape" that reflects "heightened dispersion amidst a higher cost of capital environment" that also underscores the "importance of selectivity."[3]

BlackRock noted that while "the consumer the engine of the US economy has been resilient overall… the transition to a higher cost-of-capital is not yet complete." As a result, BlackRock said it expects "a continued (albeit moderate) march higher in default rates and credit losses (in both public and private debt) through mid-2024 even absent a recession."

Finally, the *Global Credit Outlook 2024: New Risks, New Playbook* from S&P Global Ratings indicated change may be afoot. "Looking ahead at 2024 and after, it's clear that the events since the COVID-19 pandemic have brought on a profound transformation for the global economy and financial markets," the report noted.[4]

S&P Global said it expects additional credit deterioration in 2024 and cited several factors that could make the situation worse, such as tightening financing conditions, continued inflation, a sharp slowdown in global growth, high energy prices that squeeze corporate profits and rising geopolitical tensions, among others. S&P also noted that several factors—including heightened geopolitical risks, the need to accelerate the de-carbonization of the economy and the technology revolution—"will increasingly shape the future of credit."

3. *Global Credit Outlook 1Q2024: A widening divide,* BlackRock; December 2023.
4. *Global Credit Outlook 2024: New Risks, New Playbook,* S&P Global Ratings; December 4, 2023.

Detailed Results

What our survey respondents are saying

The respondents to our latest survey offered their critical insight and perspective into the state of the private credit market, including:

The majority of respondents said they use Private funds and Managed Accounts as their primary lending vehicles.

Direct lending is the top private debt strategy pursued overall, followed by mezzanine, special situations and hybrid. Asset-backed lending (ABL), specialty assets and venture debt were notably less used in the UK/EU markets than in the US market.

70% of respondents said their firm made *less than* 50 new credit investments last year, up slightly from last year. Further, 36% made between 25 and 100 new credit investments last year; and overall, 13% of respondents stated they made more than 100 new investments last year.

Notably, there was a shift to smaller deployment levels of capital. This year, almost half of respondents (47%) deployed less than $1 billion of capital into credit strategies in the past 12 months, compared to last year when a similar percentage of respondents (49%) said their firm deployed between $1 billion and $5 billion during last year's 12-month cycle.

The maximum loan size is evenly spread across groups, with 32% of respondents saying the maximum size deal their firm is willing to underwrite is $250 million or more.

Somewhat surprisingly, a majority (52%) of respondents overall say the check size their firm is willing to write has *not changed* in the past 12 months. Interestingly, that same percentage (52%) of last year's respondents said the check size their firm is willing to write had *decreased* over the previous year.

The maximum total leverage US respondents who said they would underwrite is most likely to be in the 5.5-times to 5.99-times range, while respondents in the UK/EU market see a more even spread across ranges from 6.0-times to 6.49-times. Interestingly, last year most UK/EU respondents said the maximum total leverage they would underwrite was in the 5.5-times to 5.99-times range.

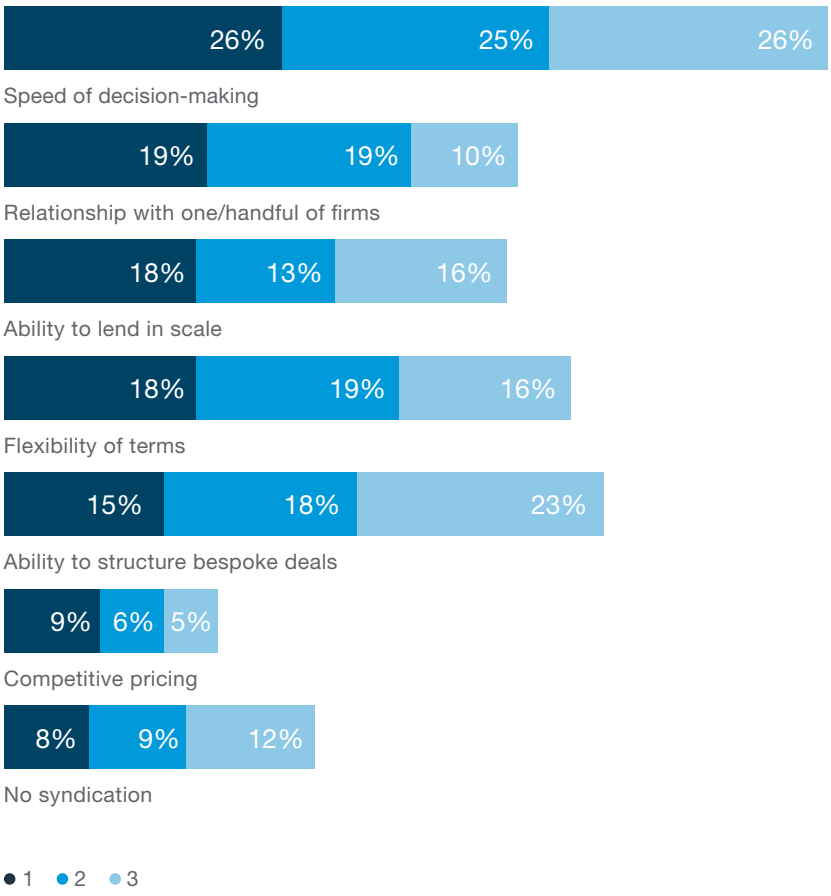
When respondents were asked to select up to five reasons why they believe borrowers value private credit, like last year, they named *speed of decision-making* as the top reason.

Lenders' Insight

There are various reasons that respondents give as to why they think their borrowers value private credit lending, and all of these offered a keen perspective into what lenders may be thinking, especially about the mindset of their borrowers. Respondents were asked to select up to five reasons why they believe borrowers value private credit and rank them in order of importance. Not all respondents chose five reasons, but almost all selected at least three.

Similar to last year, speed of decision-making was most often placed in the top three and was most often listed first. Further, flexibility was most frequently ranked fifth, and competitive pricing and no syndication were the reasons most often left out completely.

Why do borrowers value private credit?



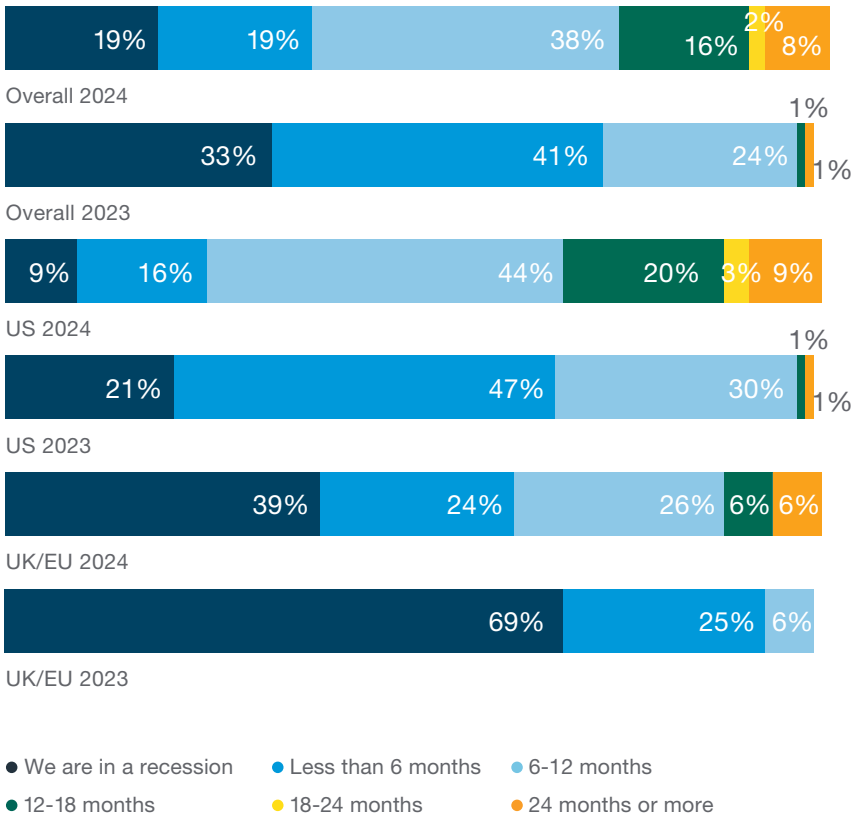
Detailed Results

Recession Expectations

This is a key insight because fears of immediate recession color so much in the private credit and overall lending market. As our survey shows, however, last year's fears of a more immediate recession may have abated. This year, more than one-third of respondents (38%) said they expect a recession in the next 6 to 12 months. Last year, the largest portion of respondents (41%) said a recession was less than six months away, while another sizable portion (33%) said we were *already* in a recession.

This demonstrates a relatively strong shift toward fears of a much less immediate recession, indicating perhaps an easing of this overall concern for lenders.

When do you expect the next recession to begin?



Investment Conditions and Considerations

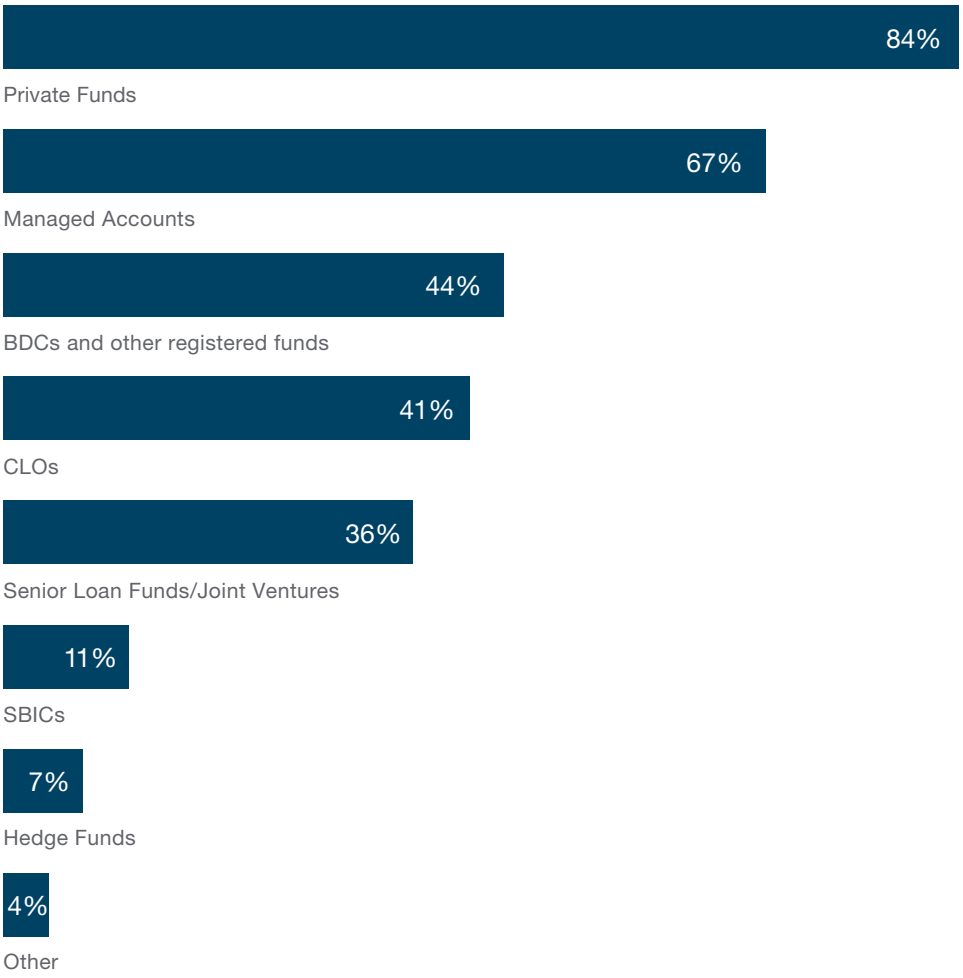
Lending Vehicles

There continued to be a large majority (84%) of respondents saying they use private funds as their preferred lending vehicle, with those in the UK and EU markets utilizing these vehicles more (90%), compared to the US market (82%). Interestingly, all these percentages were down slightly from last year when 87% of respondents cited private funds as their lending vehicle of choice, and 94% of the UK/EU markets and 84% of the US market cited their use.

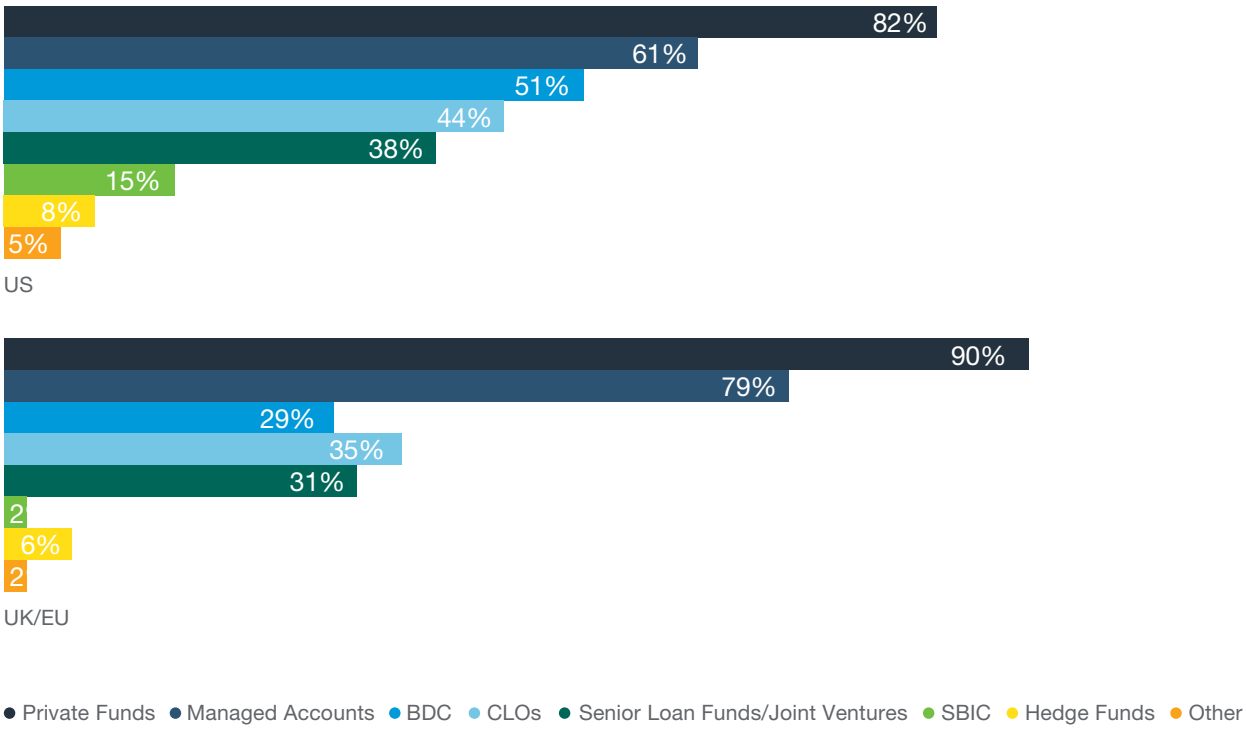
Not surprisingly, other lending vehicles—managed accounts, business development companies and collateralized loan obligations (CLOs)—all saw their use tick up slightly, indicating in a small way that lenders may be diversifying their lending vehicles in today's market.

By region, the UK/EU markets are more likely than the US market to use Private Funds and Managed Accounts and less likely to use BDCs, with limited usage of SBIC and Hedge Funds as well.

What vehicles do you utilize for your lending activities?



What vehicles do you utilize for your lending activities?

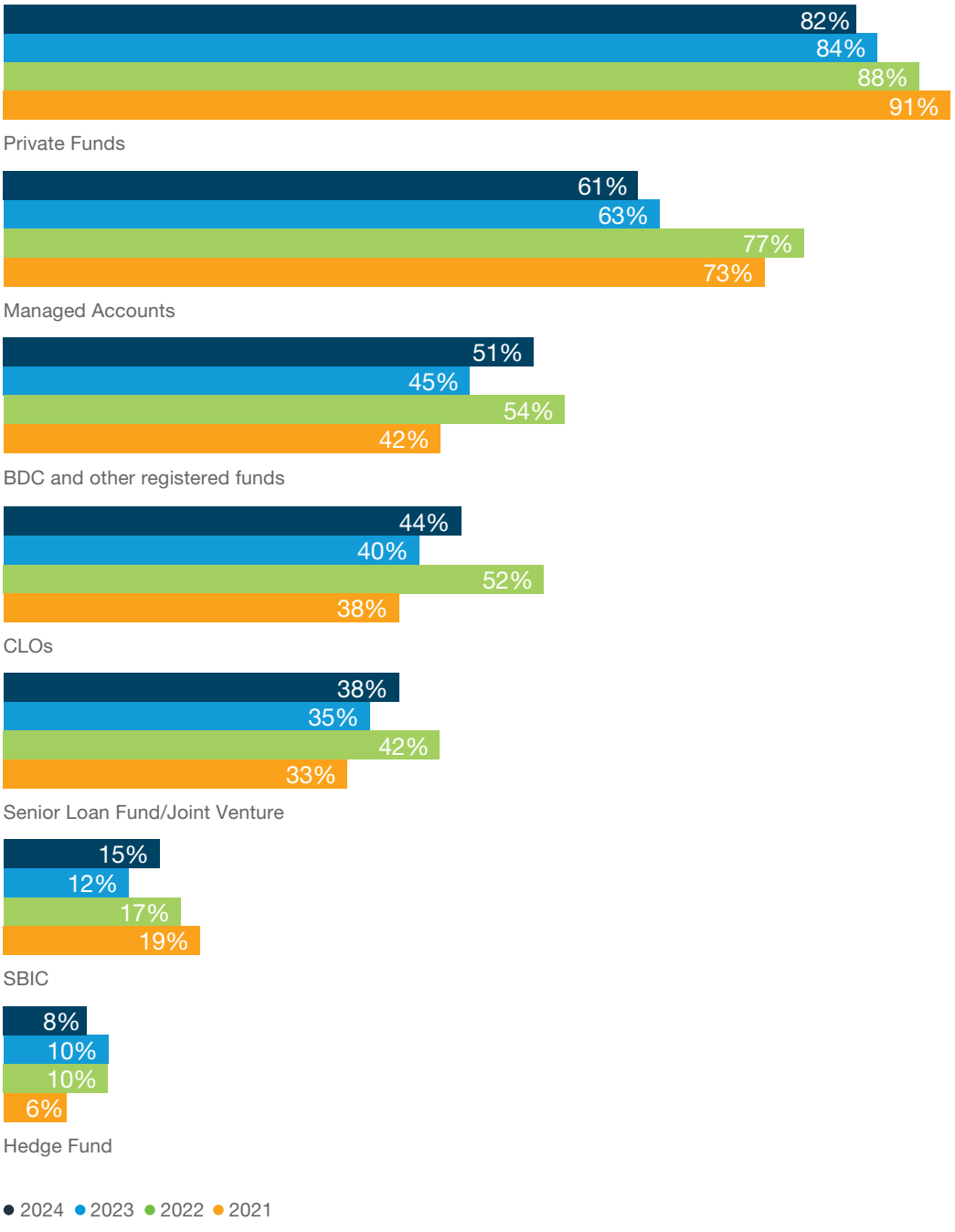


Investment Conditions and Considerations

In breaking the numbers out over the course of the last several years, we see some of these vehicles, such as managed accounts in the UK/EU, have picked up over the years. Of course, the use of several vehicles, notably private funds, has slowly declined as compared to previous years, while others remained somewhat consistent.

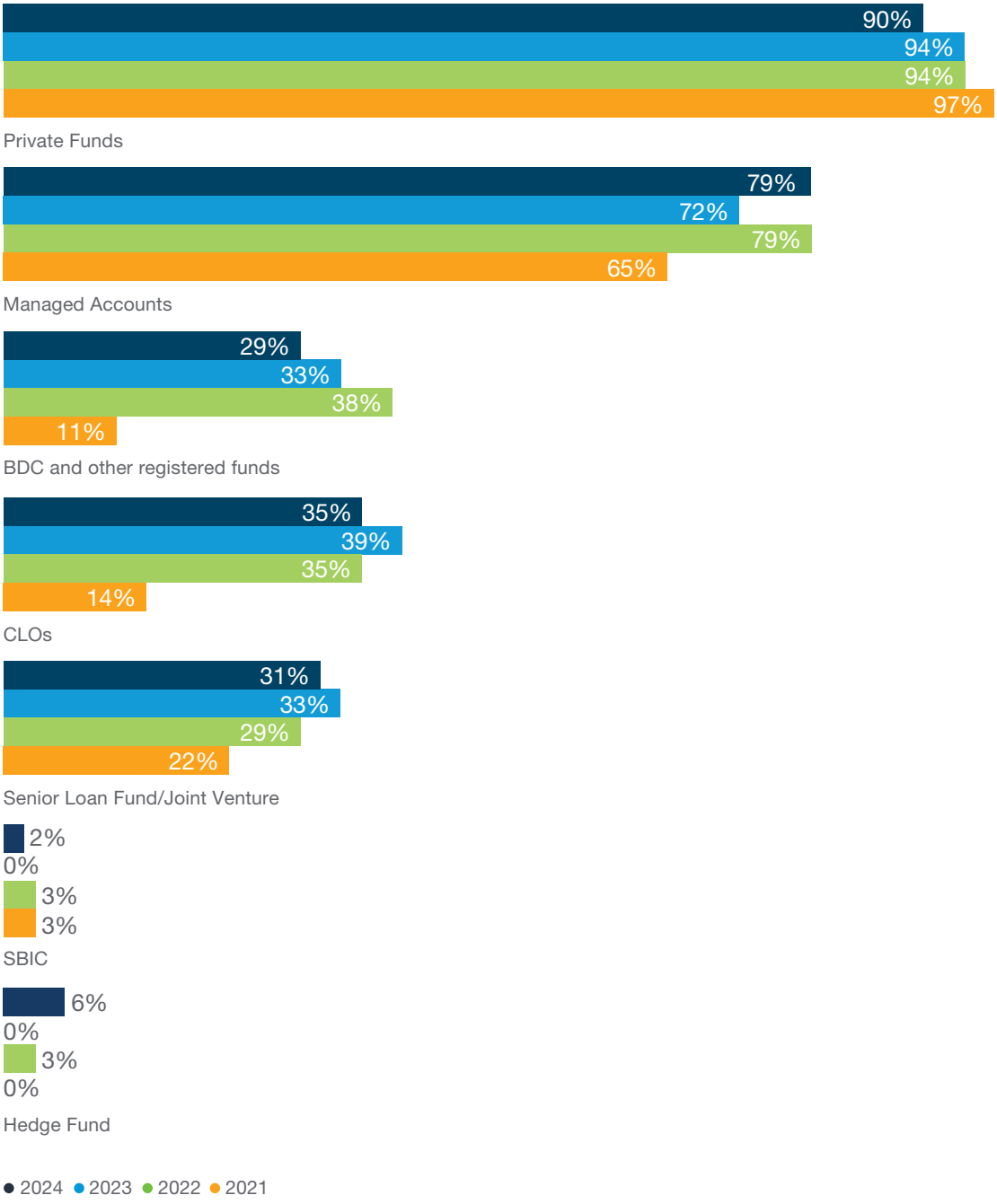
What vehicles do you utilize for your lending activities?

US 2024/2023/2022/2021



What vehicles do you utilize for your lending activities?

UK/EU 2024/2023/2022/2021

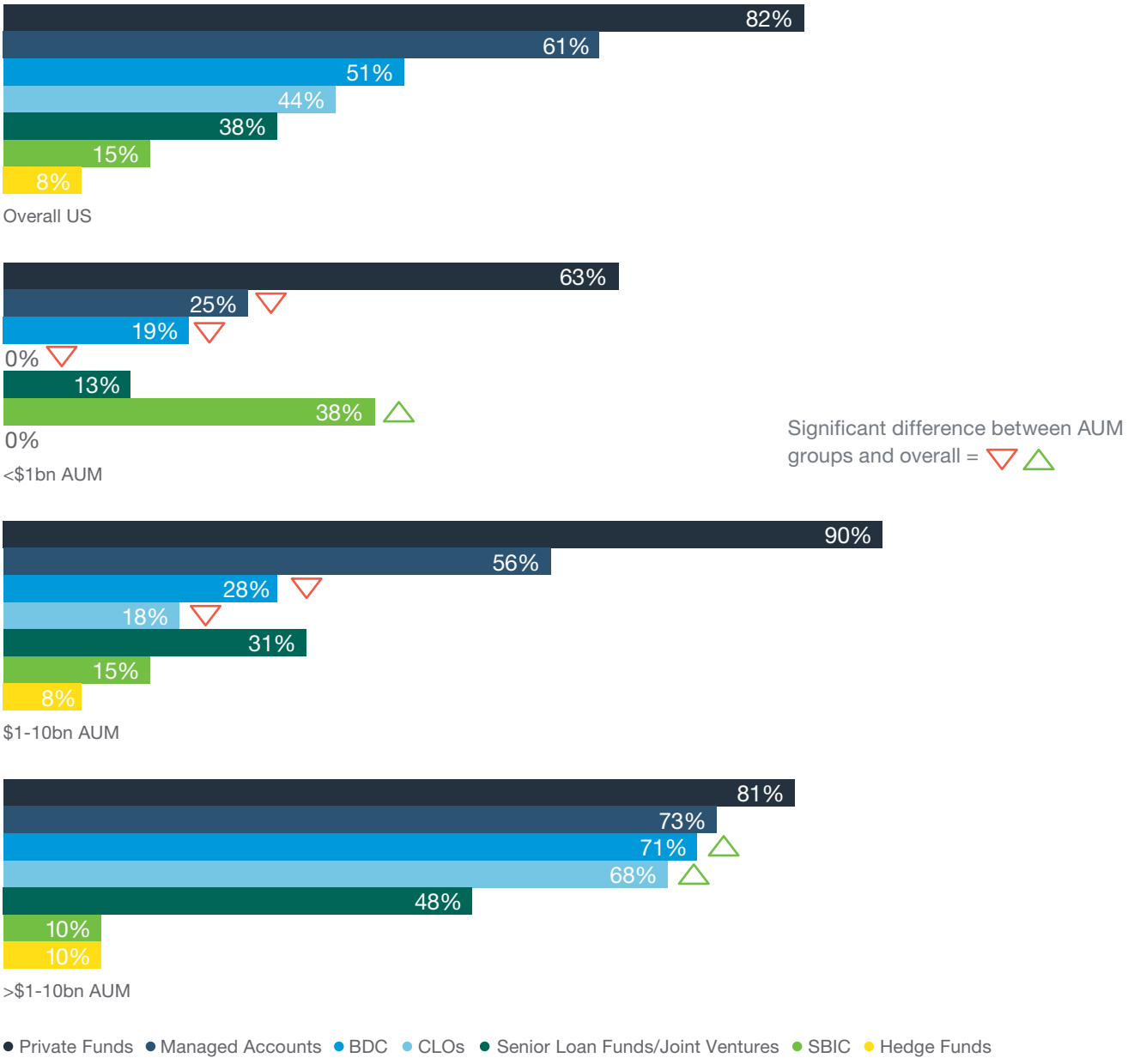


Investment Conditions and Considerations

Also not surprisingly, those respondents from firms with the largest AUM said they are more likely to use multiple lending vehicles, while smaller AUM firms use fewer. These findings also are in line with the results from 2023.

What vehicles do you utilize for your lending activities?

By US AUM: Increased usage seen by higher AUM groups



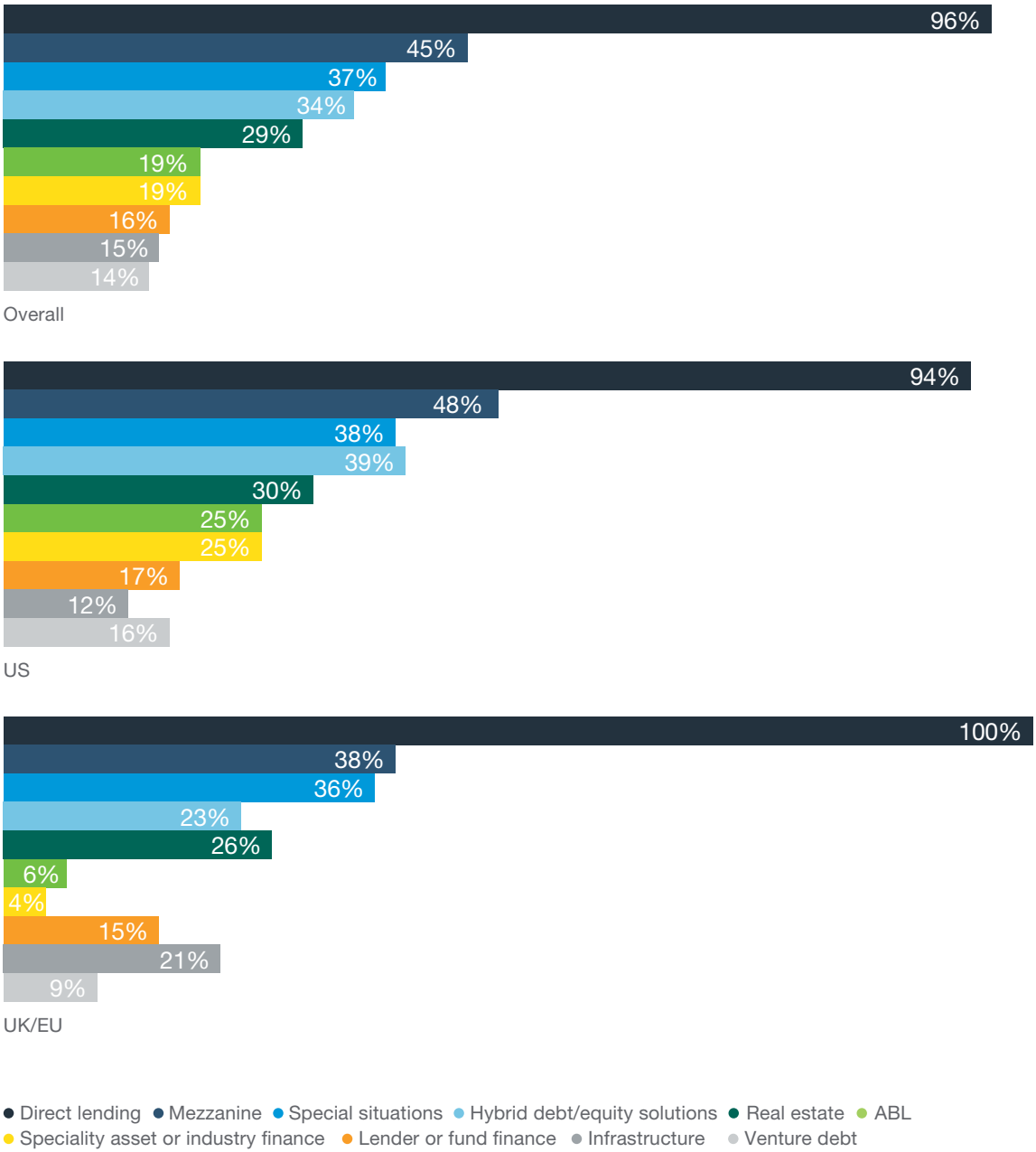
ABL, specialty asset as well as venture debt notably less common in UK/EU

Private Debt Strategies

Direct lending continues to be the top private debt strategy in all regions by a wide margin and is even slightly higher in the UK and EU markets. Venture debt and ABL structures, meanwhile, are much more common in the US market.

What private debt strategies does your firm pursue?

By region: Direct lending is the top private debt strategy in both regions, slightly higher in UK/EU



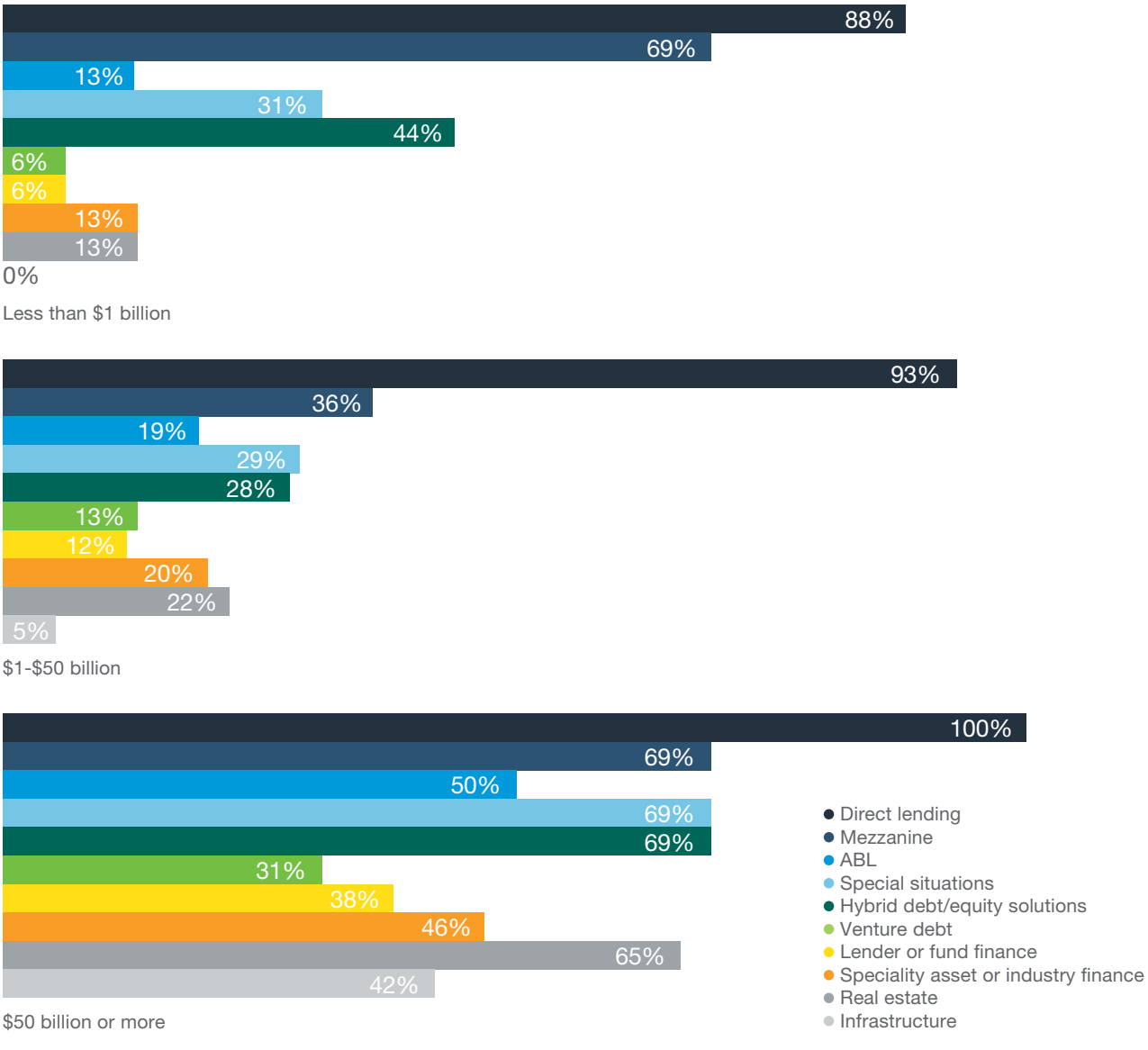
Investment Conditions and Considerations

When broken out by AUM in the US market, we see that two new categories, Infrastructure and Real Estate—which were introduced in this year's survey—were extremely popular with larger AUM firms. Firms with $50 billion or more of AUM invested in Infrastructure and Real Estate at high rates, with almost half (42%) and two-thirds (65%) of these firms, respectively, pursuing these strategies. Smaller firms, those with less than $1B AUM were more likely to invest in mezzanine (65%) and hybrid debt/equity solutions (44%) than larger firms.

And when comparing strategy choices to last year's survey, the results are in line with last year, showing no major changes except for a decline in respondents choosing Special Situations.

What private debt strategies does your firm pursue?

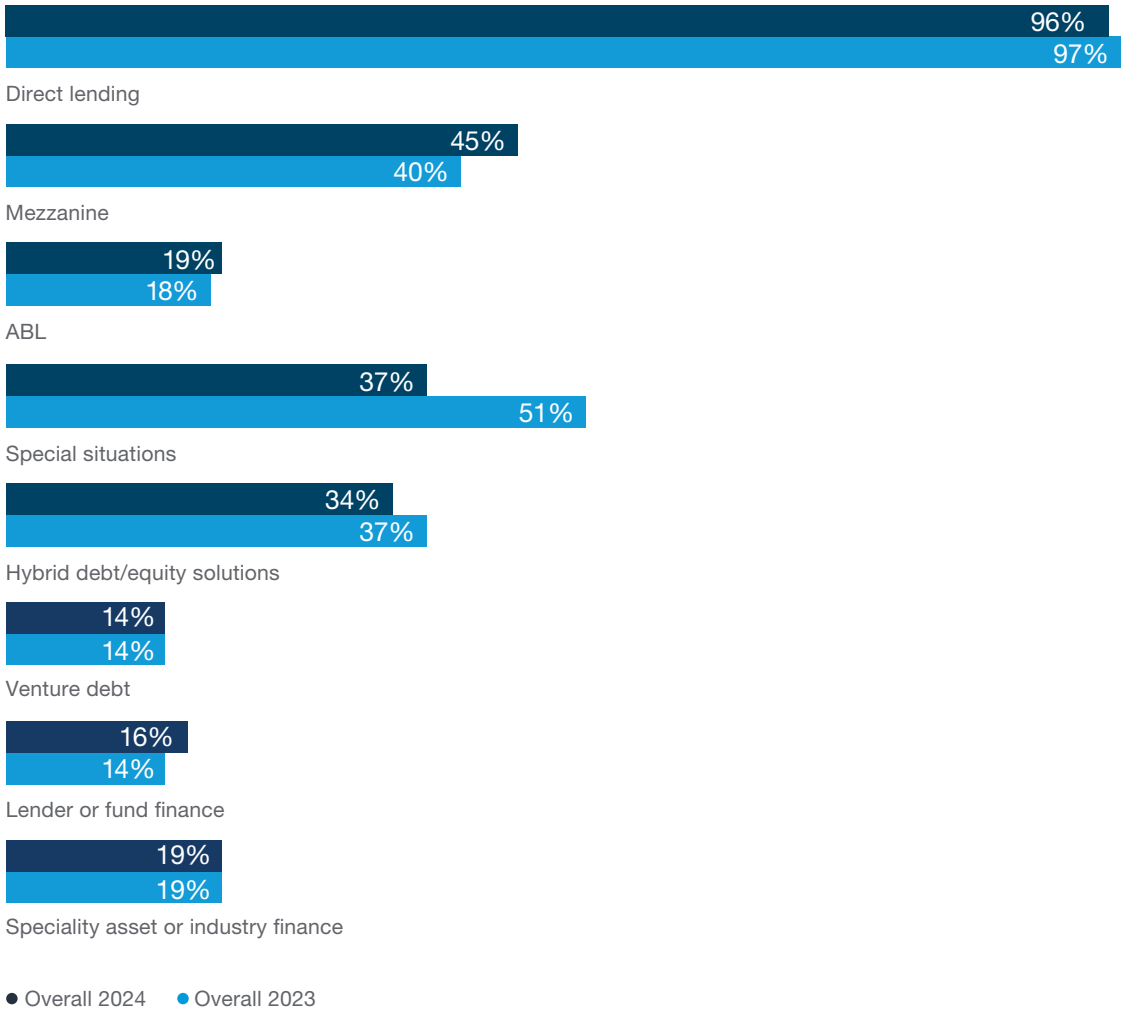
US by AUM



Results are in line with last year, showing no major changes except for a decline in respondents choosing Special Situations.

What private debt strategies does your firm pursue?

2023 vs 2024

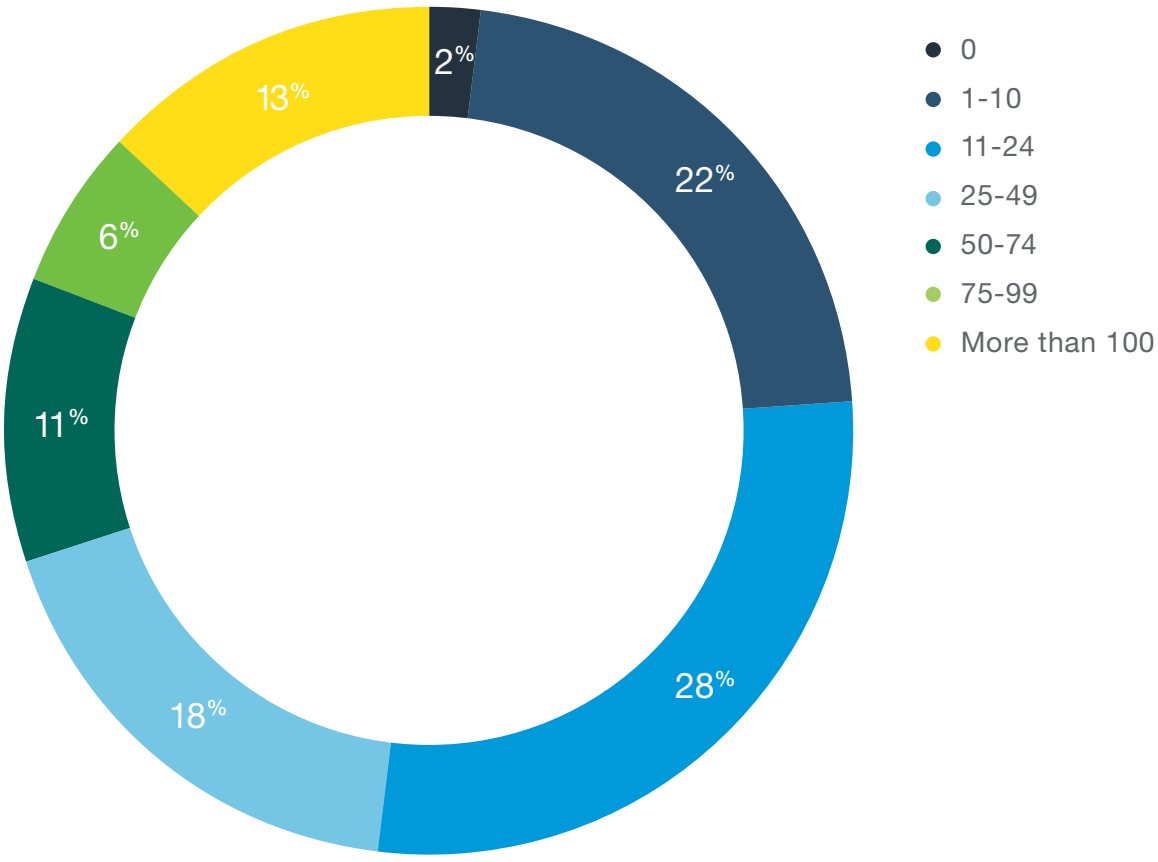


Investment Conditions and Considerations

New Credit Investment

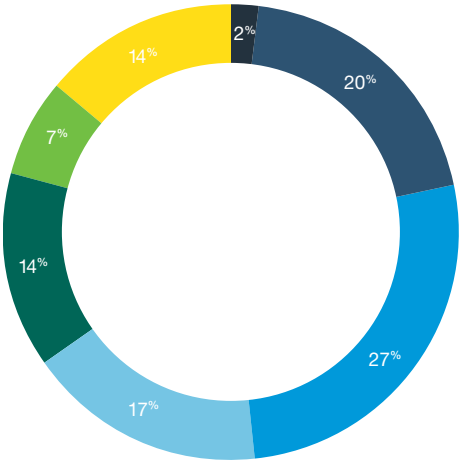
Overall, 70% of survey respondents said their firm made less than 50 new credit investments last year, up from last year when 66% of respondents said that. Further, more than one-third of respondents (36%) said their firm made between 25 and 100 new investments, and 13% stated their firm made more than 100 new investments last year. Only 2% said their firm made no new credit investments last year.

How many new credit investments did your firm make last year?



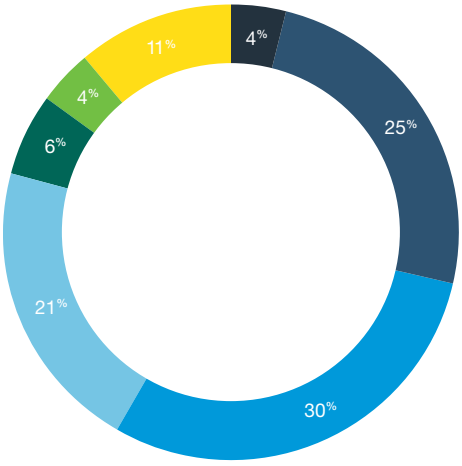
In the US, more than half of firms (52%) reported making 25 or more new credit investments, while in the EU/UK market, 42% made 25 or more new credit investments. Both of these percentages were down compared to last year, indicating a slowing pace of new credit investments.

How many new credit investments did your firm make last year?



US

- 0
- 1-10
- 11-24
- 25-49
- 50-74
- 75-99
- More than 100



UK/EU

- 0
- 1-10
- 11-24
- 25-49
- 50-74
- 75-99
- More than 100

Investment Conditions and Considerations

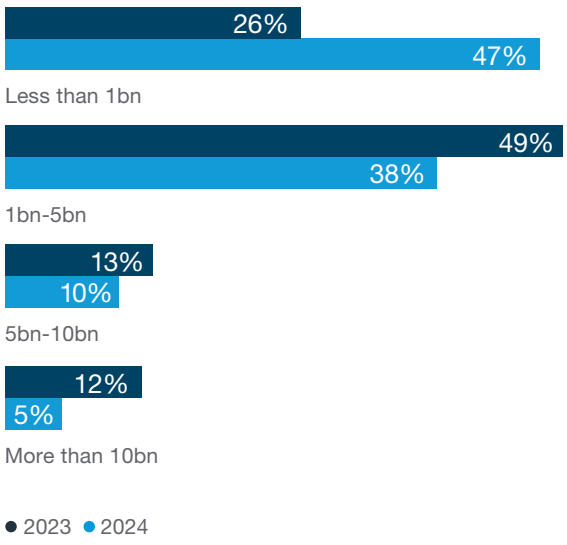
Deploying Capital

This year showed a sharp pullback in the larger amounts of capital deployed as the percentage of firms deploying between $1 billion and $5 billion in credit strategies in the past 12 months fell this year by 11 percentage points, to 38%, compared to last year when almost half (49%) were deploying that much capital into credit strategies in the previous 12 months.

In a related development, there was a significant rise in the percentage of firms saying they were deploying less than $1 billion into credit strategies in the past 12 months, with 47% of firms saying this, compared to just 26% saying it last year.

How much capital has your firm deployed into credit strategies in the past 12 months?

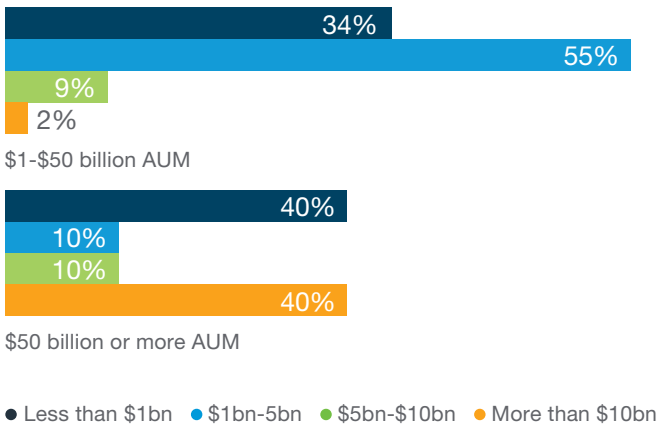
2023 vs. 2024



More than half of US respondents (55%) with up to $50 billion in AUM have deployed capital of between $1 billion and $5 billion into credit strategies over the past 12 months, while 40% of those with $50 billion or more in AUM have deployed less than $1 billion, perhaps indicating a pullback from some of the largest US firms.

How much capital has your firm deployed into credit strategies in the past 12 months?

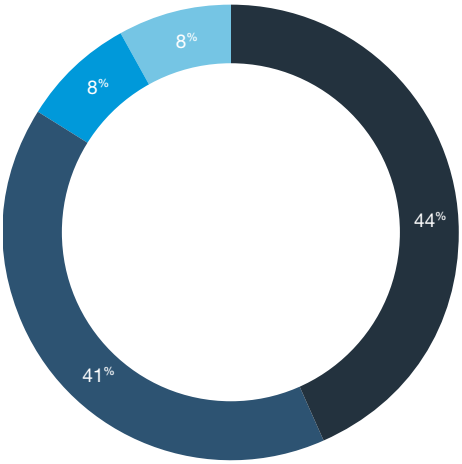
US by AUM



Investment Conditions and Considerations

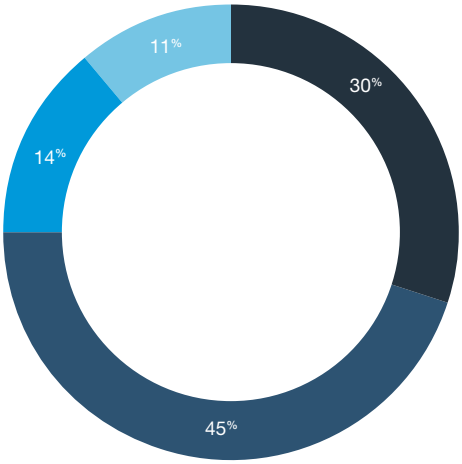
Broken down by region and compared by year, respondents from the UK/EU region reflected a sharp drop in their willingness to invest between $1 and 5 billion into credit strategies over the past 12 months compared to last year. Indeed, no UK/EU respondents said they deployed more than $10 billion this year, compared to 17% last year, further indicating a wider pullback from larger investment totals.

How much capital has your firm deployed into credit strategies in the past 12 months?



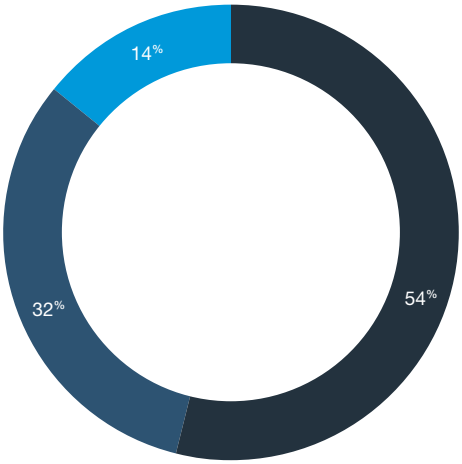
2024 US

- Less than $1bn
- $1bn-5bn
- $5bn-10bn
- More than $10bn



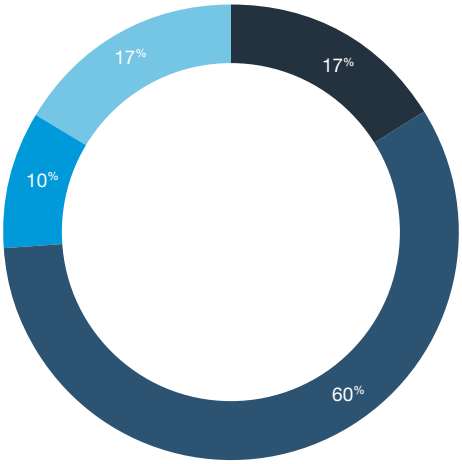
2023 US

- Less than $1bn
- $1bn-5bn
- $5.1-10bn
- More than $10bn



2024 UK/EU

- Less than €1bn
- €1bn-5bn
- €5bn-10bn
- More than €10bn



2023 UK/EU

- Less than €1bn
- €1bn-5bn
- €5.1-10bn
- More than €10bn

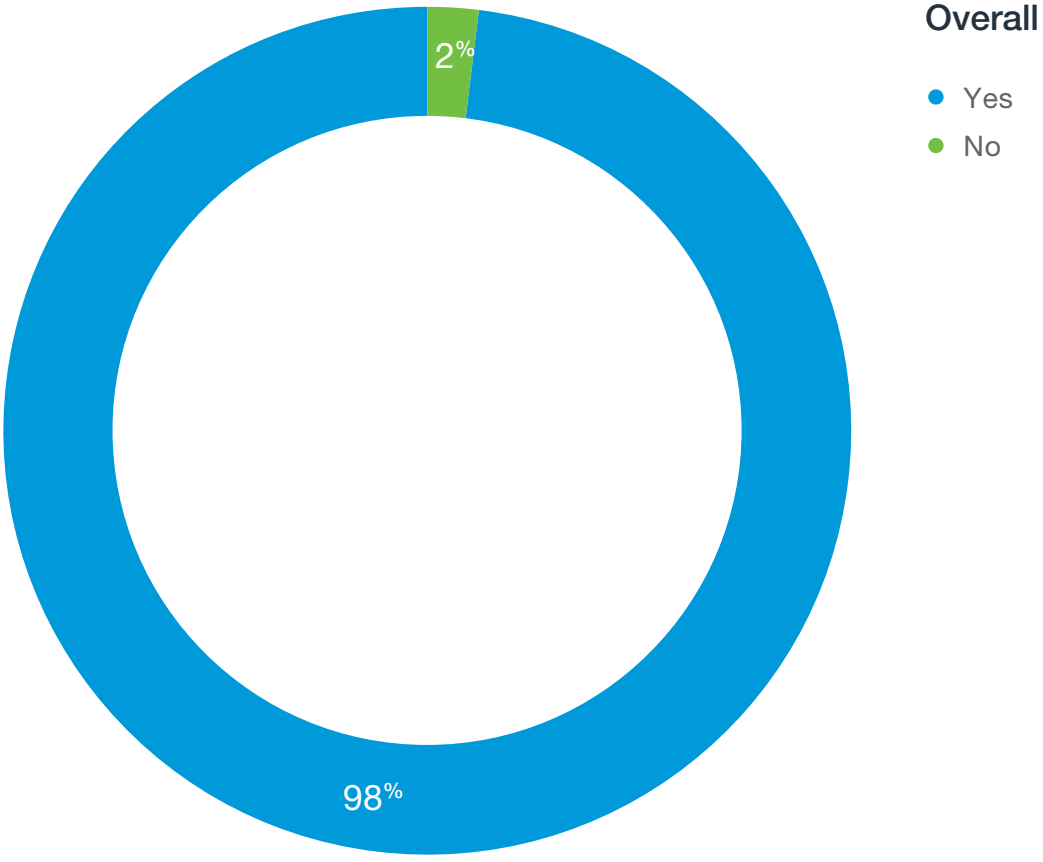
Investment Conditions and Considerations

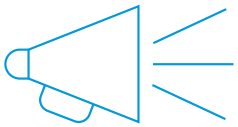
New Lending Opportunities

Even considering the pullback in some areas of investment levels, almost all respondents (98%) said they are actively looking for new lending opportunities, indicating — perhaps counterintuitively—that lenders are willing to lend even amid somewhat trepidatious totals from last year.

Is your firm looking for new lending opportunities today?

By region: Almost all are looking for new lending opportunities, 100% in UK/EU

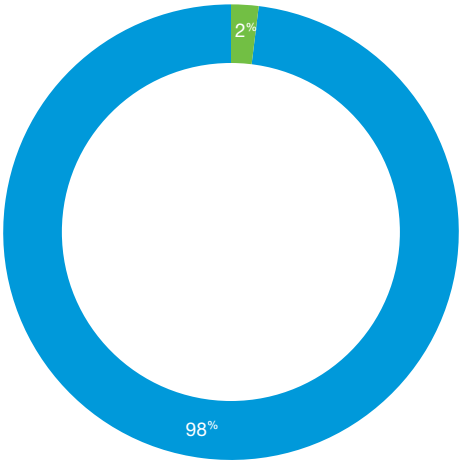




What some respondents told us about looking for new lending opportunities:

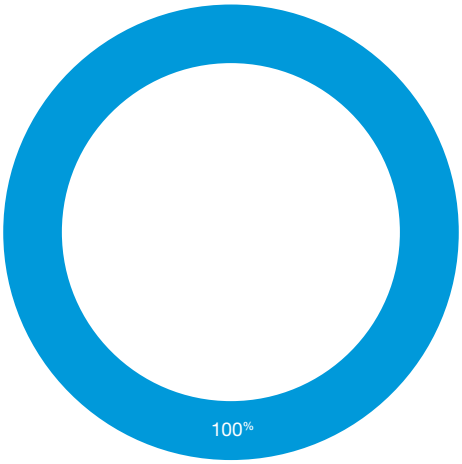
"We are open for business with plenty of dry powder to deploy."

"We are always looking for new opportunities — both because we recycle capital in our funds, and because we are actively fundraising."



US

- Yes
- No



UK/EU

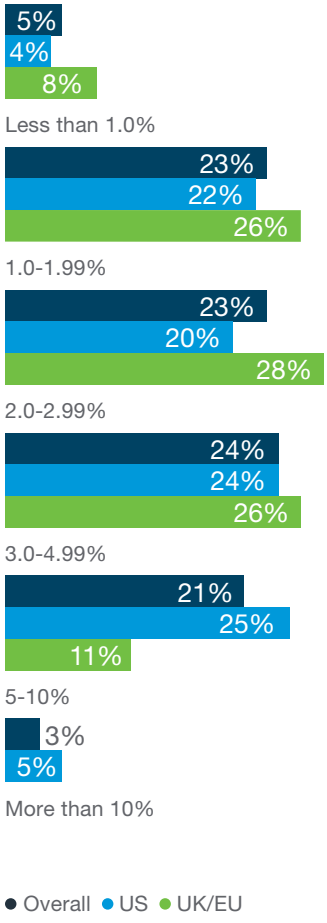
- Yes
- No

Investment Conditions and Considerations

Deal Closure

There is a higher closure rate among US respondents, 30% of whom said they close 5% or more of the deals they screen, compared to just 11% of UK/EU respondents who said the same thing. And almost one-quarter (24%) of respondents overall said they close 5% or more of the deals they screen, while another 47% close between 2% and 4.9% of the deals they screen.

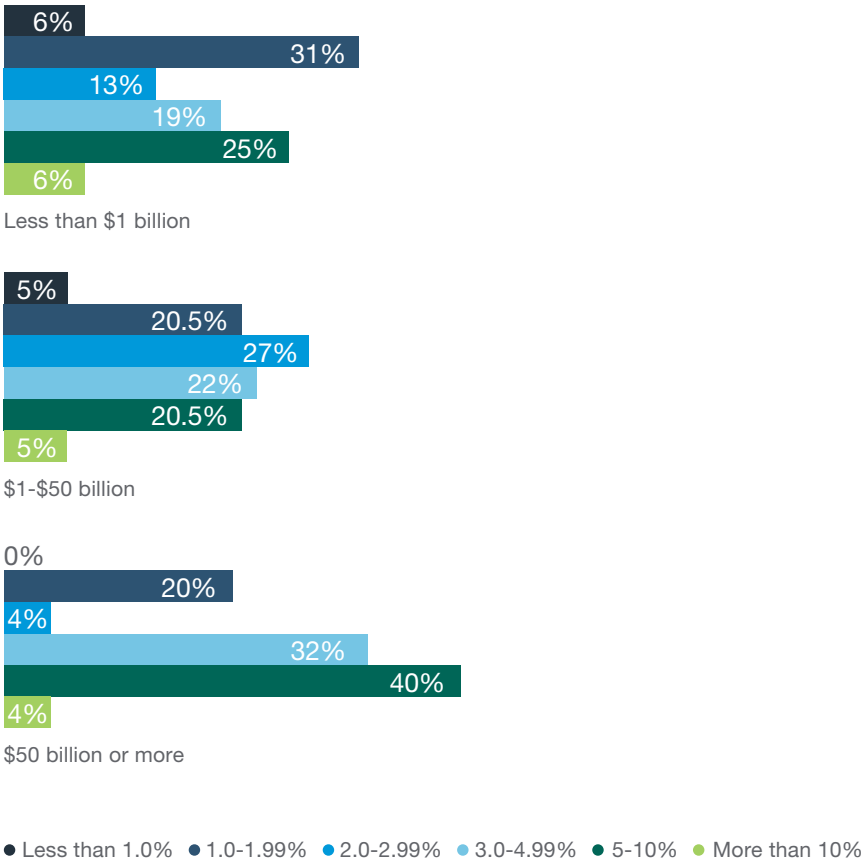
What percentage of deals do you close in relation to the number of deals you screen?



Broken out by AUM among US respondents, those with $50 billion or more in AUM saw much higher rates of deal closure than those with AUM of less than $50 billion.

What percentage of deals do you close in relation to the number of deals you screen?

US by AUM



Investment Conditions and Considerations

Maximum Leverage

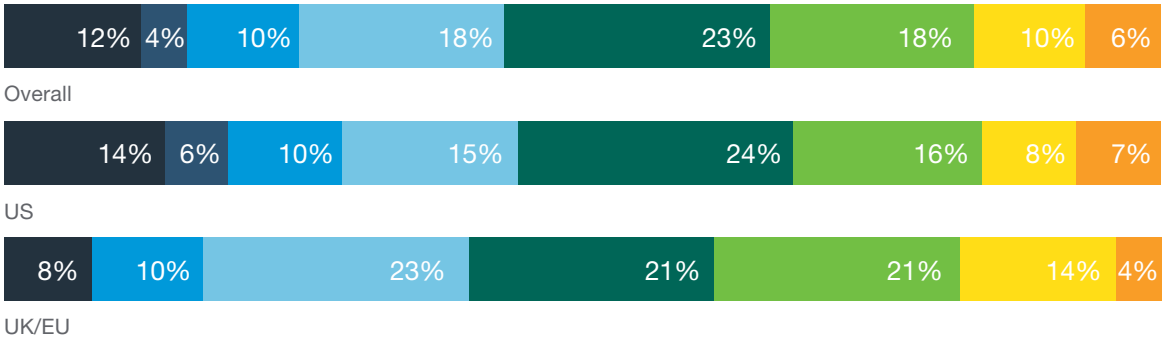
The maximum leverage that private credit lenders were willing to incur centered mostly on the 5.5-times to 5.9-times range, which saw 23% of overall respondents saying this was the maximum leverage level at which they would underwrite. This level was the same as last year.

In the US, respondents said their firms were most likely (24%) to be in the 5.5-times to 5.9-times range, while UK/EU respondents saw a more even spread across ranges between 5-times to 6.49-times. Interestingly, this was the reverse of last year, when more UK/EU firms were more likely to be the 5.5-times to 5.9-times range category while US firms saw a more even spread across ranges.

Overall:

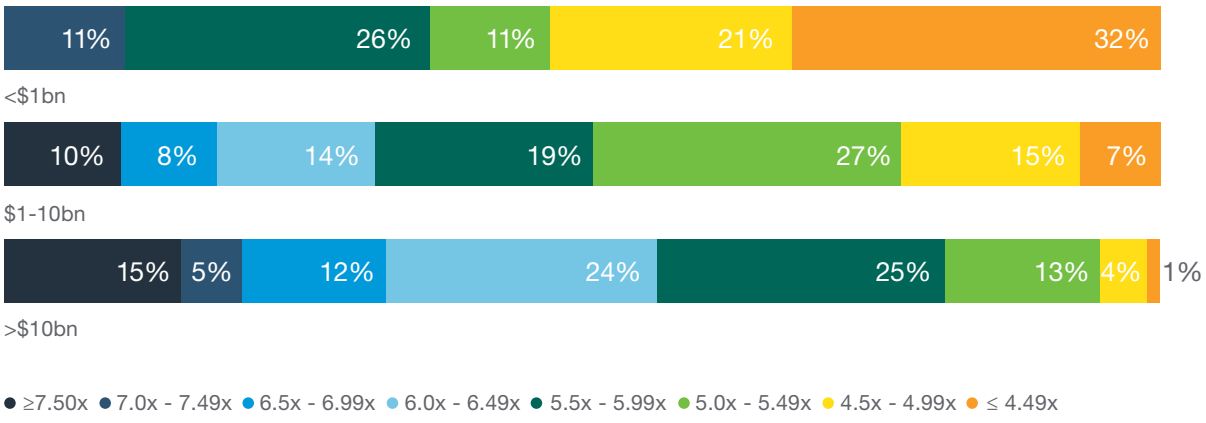
What's the maximum total leverage that you will underwrite today?

US most likely to be in 5.5x – 5.99x category while UK market sees a more even spread across ranges 5.0x to 6.49x



By Overall AUM

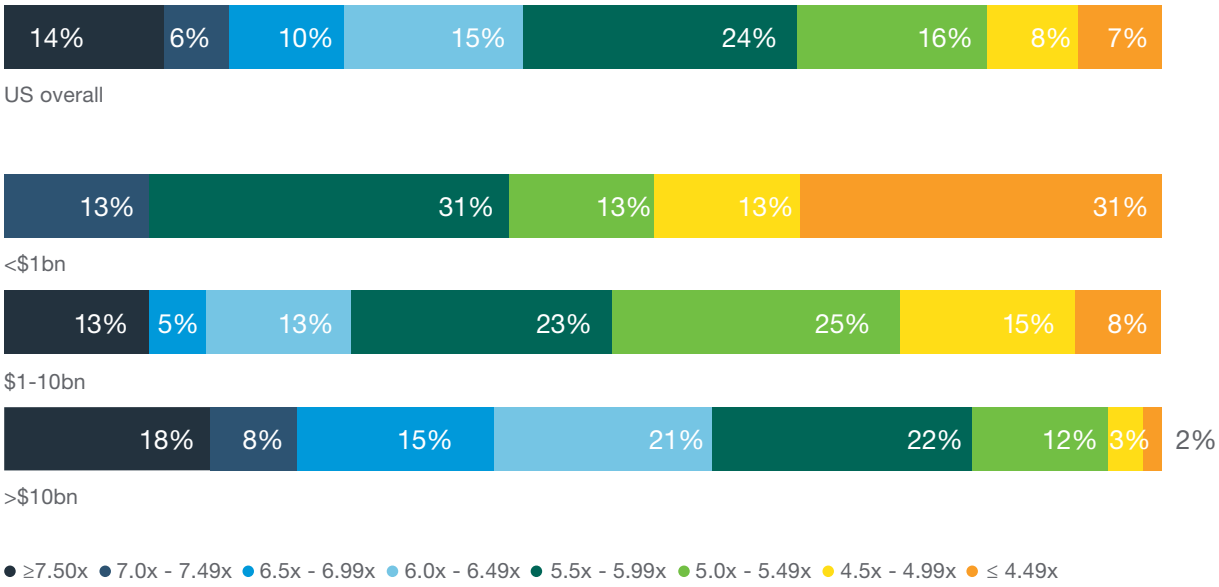
Higher AUM groupings more focused on maximum total leverage above 5.99x



The more than 7.50-times category is low in all regions and overall, but the lowest category for all is 7.0-times to 7.49-times, which only saw 4% of respondents saying this was their firms' acceptable level of maximum leverage.

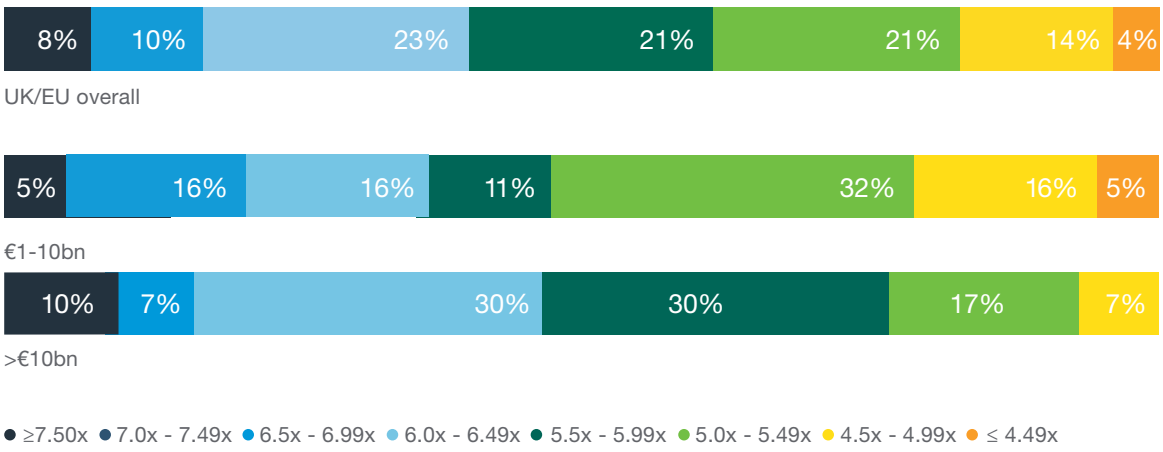
By US AUM

Maximum leverage <$1bn AUM grouping has higher proportion in ≤4.49x category



By UK/EU AUM

Maximum leverage between 5.0x – 5.99x is most common for both €1-10bn and >€10bn AUM groups



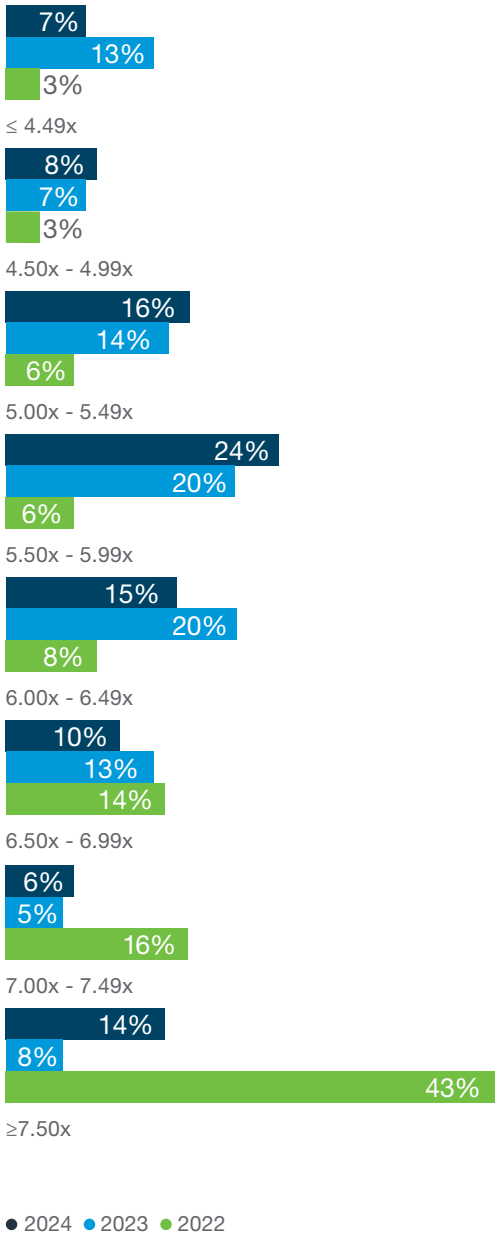
Investment Conditions and Considerations

Maximum Total Leverage

The percentages of respondents who said they were comfortable underwriting with higher levels of leverage continued to fall this year, again underscoring much of the caution that the private credit market may still be feeling.

What's the maximum total leverage that you will underwrite today?

US



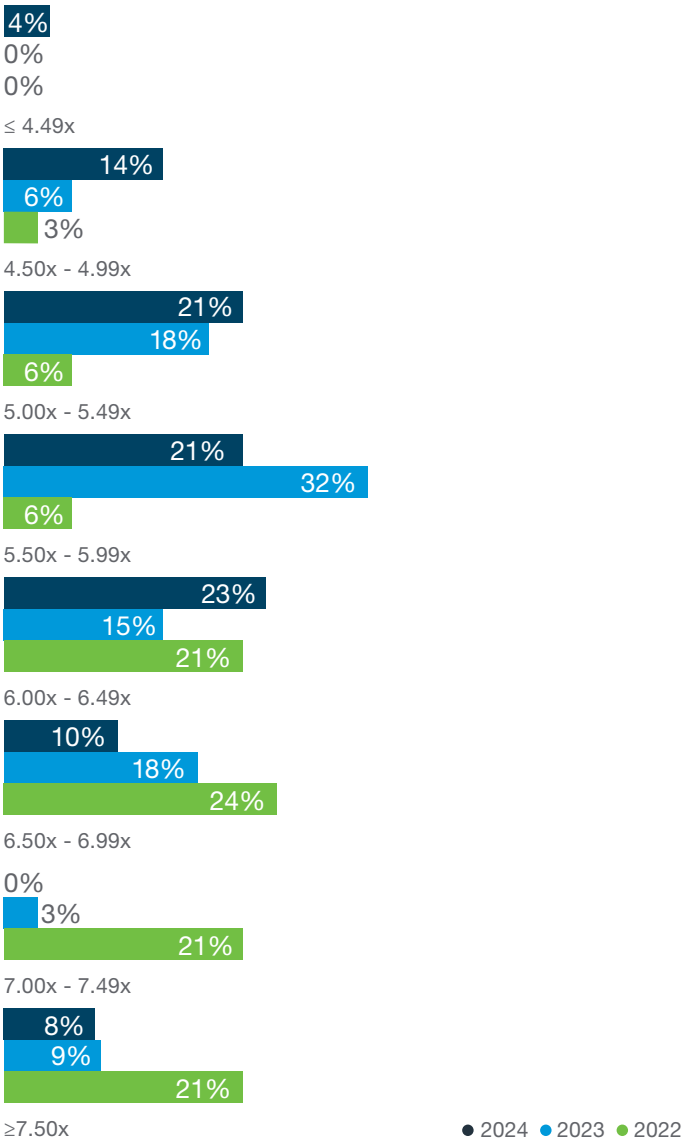
Continued decrease in 6.50x-6.99x category; increases in 4.50x-5.99x categories

In the US, just 14% of respondents said the maximum total leverage their firm would underwrite today is 7.5-times or more, compared to 43% of US respondents who said that in 2022, representing a dramatic decrease in willingness to underwrite at that level of leverage. There were also continued decreases over the past two years in the 6.50-times to 6.99-times and the 7.0-times to 7.49-times categories. Conversely, lower leverage categories climbed up during the same time frame, with increases in the three categories between 4.50-times and 5.99-times maximum leverage.

UK/EU respondents saw similar continued drops at the higher leverage ends (anything above 6.5-times), but saw continued increases in 4.5-times to 5.49-times categories.

What's the maximum total leverage that you will underwrite today?

UK/EU



UK/EU sees continued decrease in 6.50x< categories

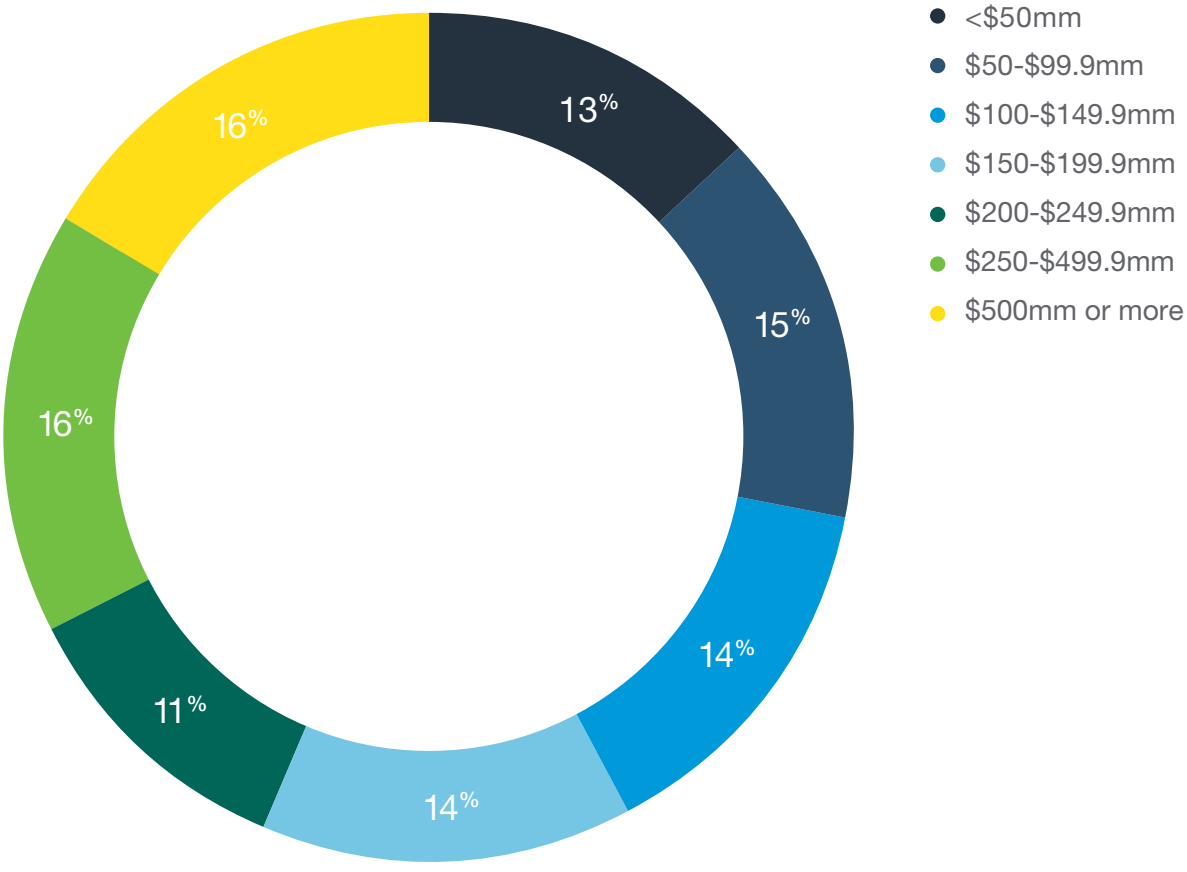
Investment Conditions and Considerations

Maximum Deal Size

Like last year, the levels of maximum deal size were quite evenly spread across categories of deal size groupings, with almost one-third (32%) of respondents saying the maximum size deal their firm is willing to underwrite is $250 million-plus. This represents a slight growth in this category from last year when just 26% said that the maximum size deal their firm is willing to underwrite is $250 million-plus.

The percentage of respondents saying that the maximum size deal their firm will underwrite is less than $50 million grew to 13% this year, compared to 10% last year, again, perhaps indicating higher levels of caution around deal-making.

What is the maximum size deal your firm will underwrite today?



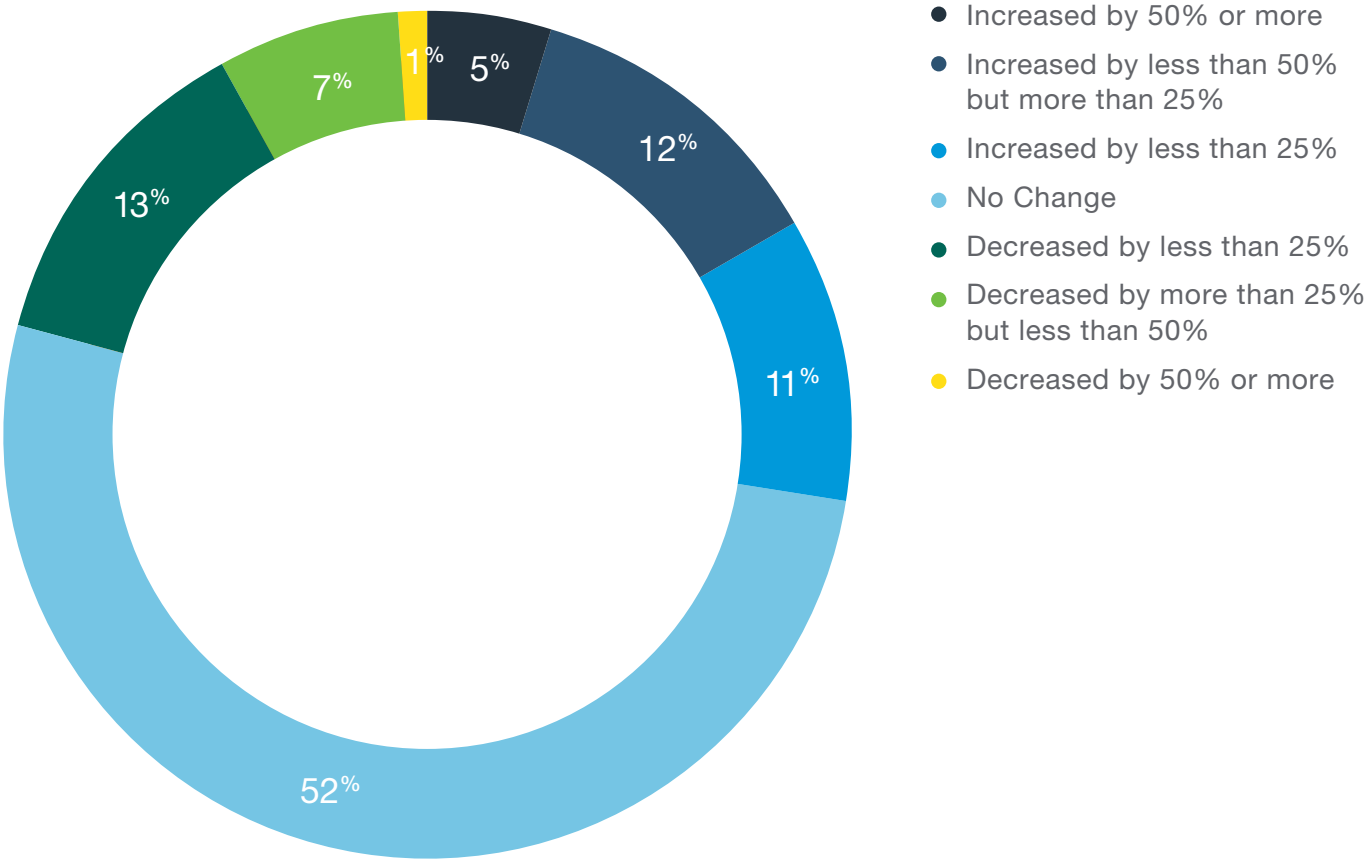
Investment Conditions and Considerations

Check Size

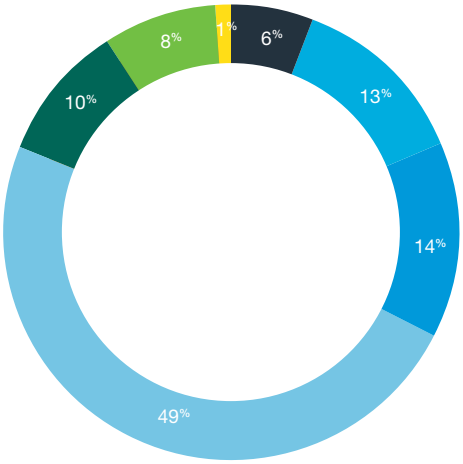
The majority of respondents (52%) overall said the check size their firm is willing to write has not changed in the past 12 months. Interestingly, this was the same percentage who, last year, said the check their firm is willing to write has *decreased* in that previous 12-month period, representing a stabilizing of concerns somewhat, at least in regard to check size. Last year, just about one-third of respondents (35%) said the check size their firm is willing to write has not changed in the past 12 months.

This year, 28% of respondents overall said their firms' check size increased, and 21% said their firms' check size had decreased.

Has the size of the check your firm is willing to write changed over the past 12 months?

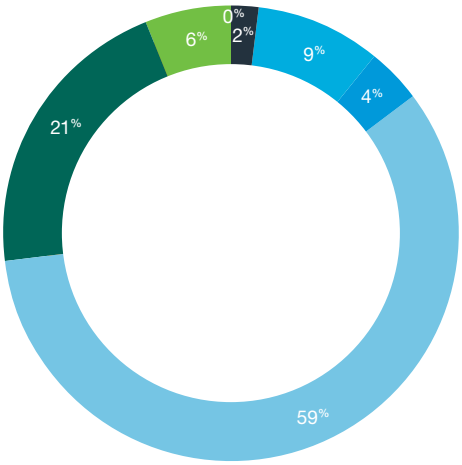


By region, UK/EU respondents were twice as likely to say that decreases were less than 25% compared to US respondents.



US respondents more likely to select increase

- Increased by 50% or more
- Increased by less than 50% but more than 25%
- Increased by less than 25%
- No Change
- Decreased by less than 25%
- Decreased by more than 25% but less than 50%
- Decreased by 50% or more



UK/EU respondents more likely to select decrease

- Increased by 50% or more
- Increased by less than 50% but more than 25%
- Increased by less than 25%
- No Change
- Decreased by less than 25%
- Decreased by more than 25% but less than 50%
- Decreased by 50% or more

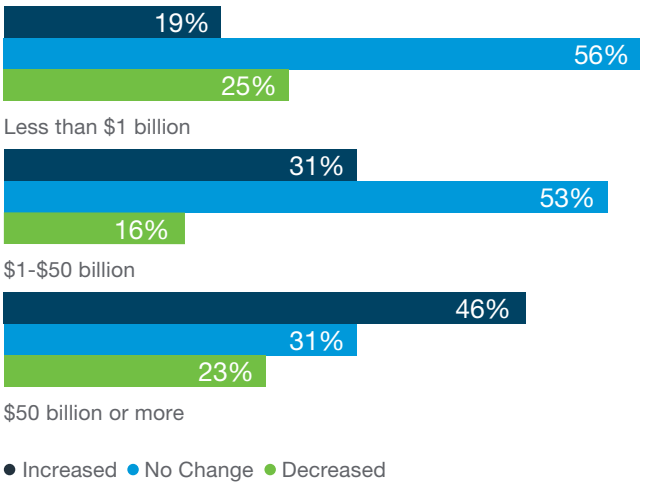
Investment Conditions and Considerations

By AUM, a majority of respondents with less than $50B AUM said there was no change in their check size, and almost half (46%) of those with more than $50B AUM said their check size had increased over the past twelve months.

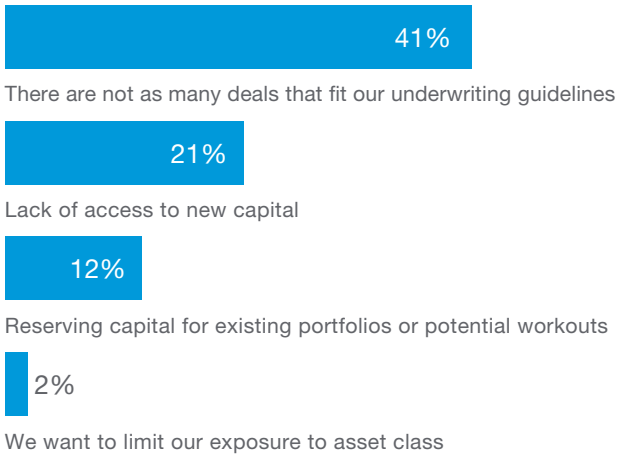
When asked for the reasons behind their answers about their check size, 41% of respondents said, “there are not as many deals that fit our underwriting guidelines,” while another 21% said it was “lack of access to new capital” that led to their answer.

Has the size of the check your firm is willing to write changed over the past 12 months?

US by AUM



Why has it increased/decreased or remained the same?



Further, several respondents offered more detailed answers, depending on the movement of their check size:

Increased

“Access to new capital.”

“Increase our influence with sponsors. Limit number of loans in the portfolio to concentrate on best opportunity.”

“More access to capital from successful fundraising.”

“Increased as we've raised incremental capital.”

“Fewer high-quality opportunities and increasing comfort with economic outlook (interest rates and cost inflation plateauing).”

“Increased because we have raised new investment vehicles.”

Decreased

“Fewer refinancings create less recycled capital.”

“Increase diversity.”

“We are seeking more diversification going forward.”

“Finding more opportunities doing smaller originations.”

“Increasing diversification.”

No Change

“Appetite to invest… hasn't changed, credit parameters around investment situations have become more rigorous.”

“Balance of quality vs capital inflow.”

“No change in strategy, we continue to deploy as we have done so for the last 3-5 years.”

“Relatively liquid balance sheet - no change in credit profile.”

“Strategic decision to continue to focus on deals of a certain size.”

“We increased deal size. At the same time, we reduced committed lines remaining undrawn.”

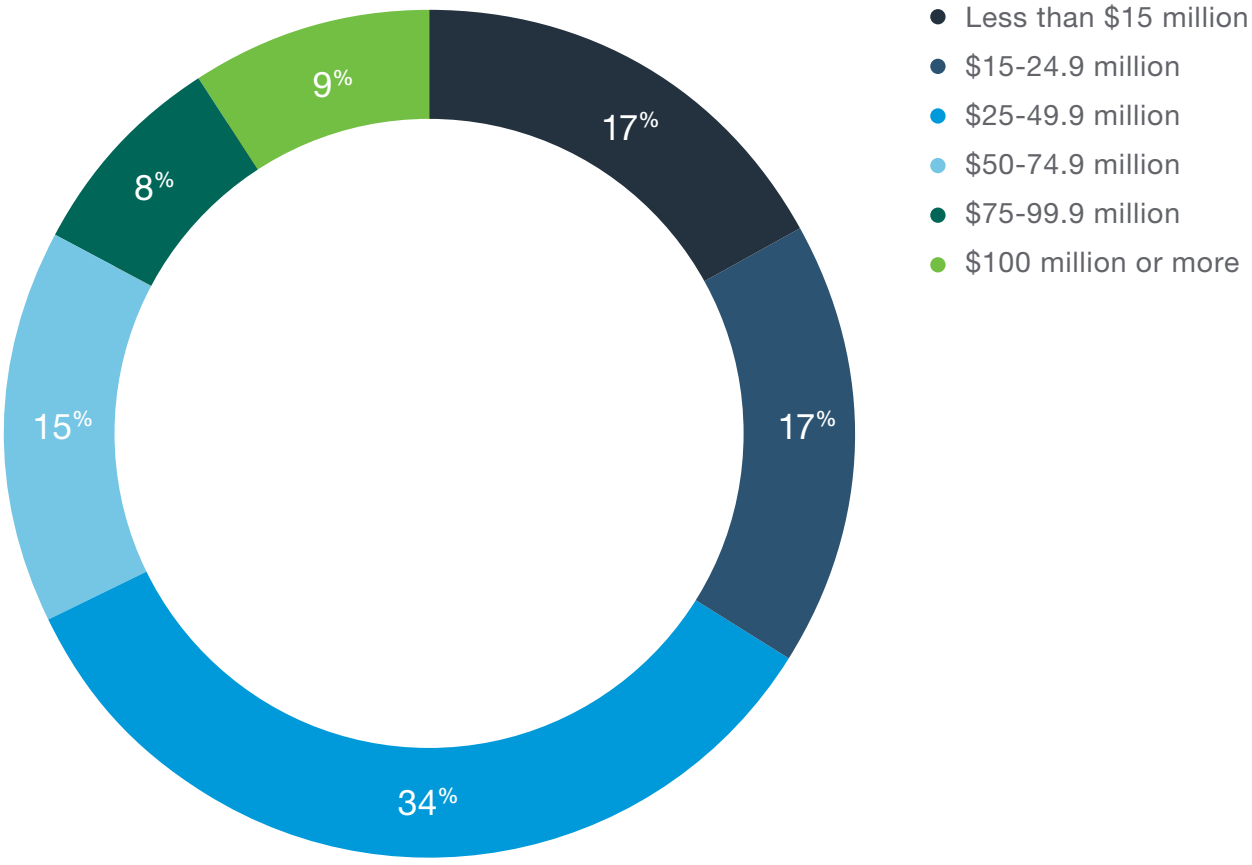
Investment Conditions and Considerations

EBITDA Profile of Borrowers

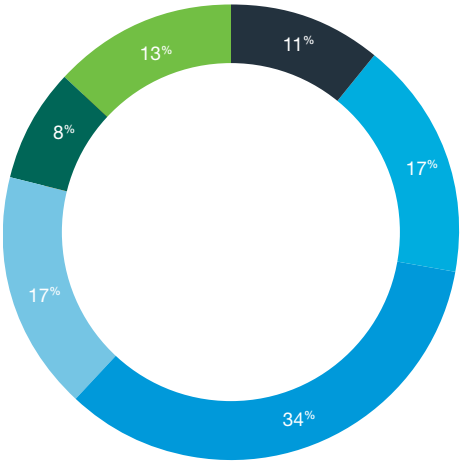
Overall, the most common average EBITDA of companies in respondents' portfolios was between $25 million and $50 million, with just more than one-third (34%) of lenders saying this is the average range for their investments. While still the most common EBITDA range, this was down slightly from last year when 38% of respondents cited this range.

Almost as many (32%) said that the average EBITDA of companies in their portfolios was more than $50 million this year, with 9% saying it was more than $100 million.

What is the average EBITDA of companies in your portfolio?

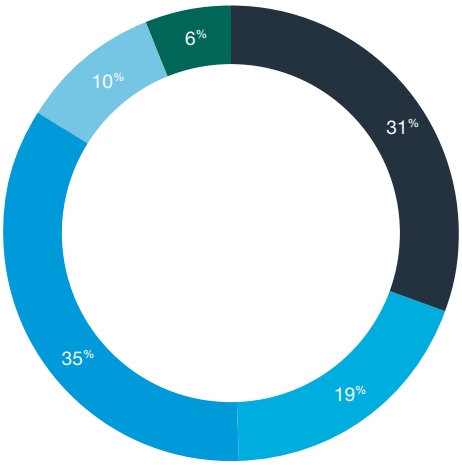


By region, 28% of US respondents said the average EBITDA of the companies in their portfolio was less than $25 million, 50% of UK/EU respondents said their portfolio companies' average EBITDA was less than €25 million.



US

- Less than $15 million
- $15-24.9 million
- $25-49.9 million
- $50-74.9 million
- $75-99.9 million
- $100 million or more



UK/EU

- Less than €15 million
- €15-24.9 million
- €25-49.9 million
- €50-74.9 million
- €75-99.9 million
- €100 million or more

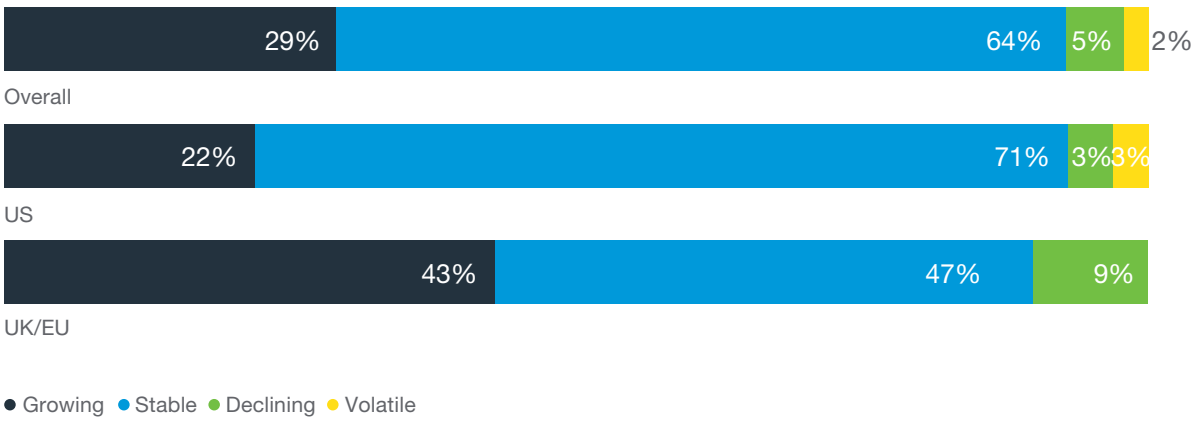
Investment Conditions and Considerations

Further, nearly two-thirds of overall respondents (64%) described EBITDA of their portfolio companies as *stable;* that description was much more prevalent among US respondents (71%) than among UK/EU respondents (47%). Overall, 29% of respondents described the EBITDA of their portfolio companies as *growing.*

Fully 93% of respondents overall said the EBITDA of their portfolio companies was either stable or growing, representing a slight elevation of the positive mood compared to last year, when 87% of respondents said this.

From the following options, how would you describe the EBITDA of your borrowers?

Majority describe their EBITDA as stable, but more from US than UK/EU



A number of respondents offered more detailed descriptions of their answers, whether they described the EBITDA of their portfolio companies as *stable* or *growing:*

Growing

"Average growth in EBITDA is around 12% on a year over year basis, including the impact of M&A strategies deployed by our portfolio."

"Resilient business in growing sectors."

"We are generally investing in larger borrowers than our historical norm."

"On a macro level, slowly growing, but underneath that, performance is more mixed by company, industry, sector."

"EBITDA continues to grow. EBITDA % has slightly compressed over the LTM period but appears to have stabilized."

Stable:

"There is a big mix."

"On average - stable and performing."

"Overall, our portfolio is stable, with little in the way of economic headwinds. At the same time, we are being cautious in this environment."

"Not hitting original projections, but not declining."

"There is more volatility in EBITDA but the average is still stable."

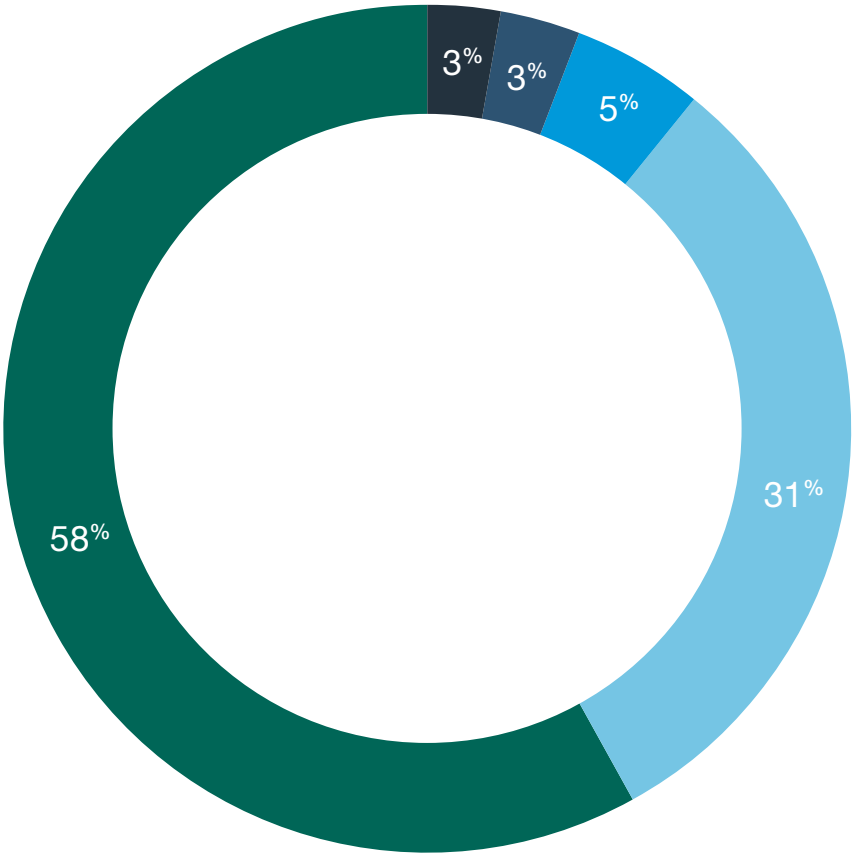
Investment Conditions and Considerations

Covenant-lite Transactions

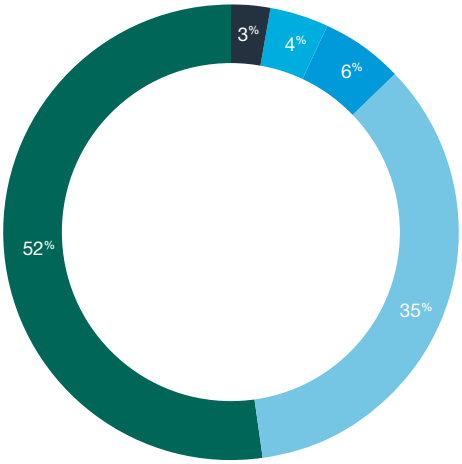
When asked at what EBITDA level lenders would consider a covenant-lite transaction, well more than half (58%) said they do not do deals without a covenant. This was up a bit from last year when 53% of lenders said the same thing.

For those lenders that would consider doing deals without a covenant, 31% said they would need the target company's EBITDA level to be more than $50 million to make the deal happen.

At what EBITDA level would you consider a covenant-lite transaction?

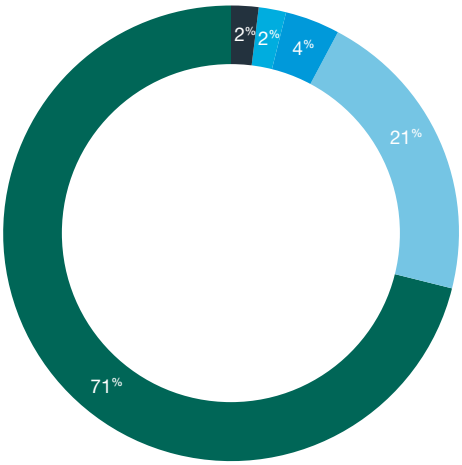


By region, lenders in the UK/EU region had a much higher portion (71%) of those that were unwilling to do deals without a covenant. However, in both regions, for those willing to consider doing deals without a covenant, both regions said they would need the target company's EBITDA level to be more than $50 million or €50 million to make the deal happen.



EBITDA threshold for covenant-lite - US

- Less than $30 million
- $30-39.9 million
- $40-49.9 million
- $50 million or greater
- None (We don't do deals without a covenant)



EBITDA threshold for covenant-lite - UK/EU

- Less than €30 million
- €30-39.9 million
- €40-49.9 million
- €50 million or greater
- None (We don't do deals without a covenant)

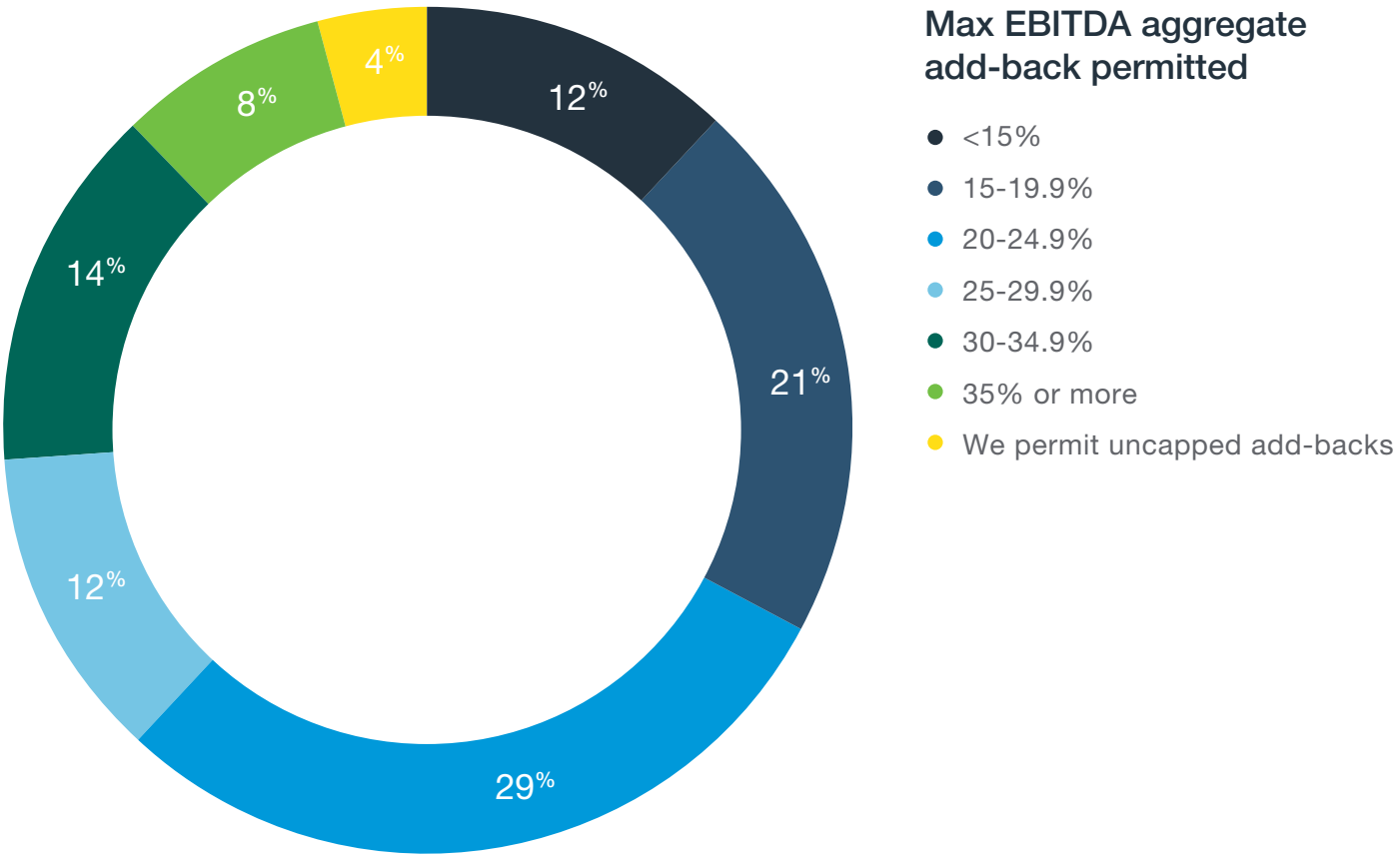
Investment Conditions and Considerations

EBITDA Add-Backs

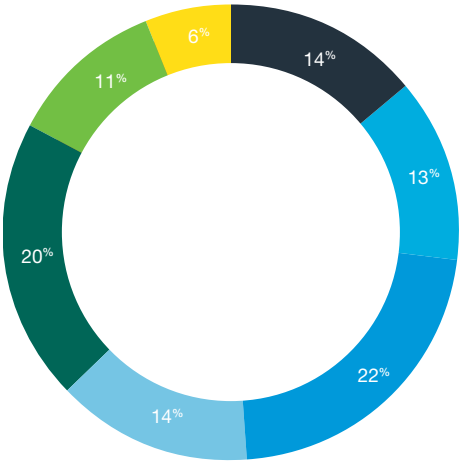
The percentage of lenders who said they would permit uncapped EBITDA add-backs remained relatively unchanged this year at 4%, compared to 3% in last year's report. However, this was still far below the 10% cited by respondents in 2022.

The most common maximum aggregate amount of EBITDA add-backs permitted by lenders was 20% to 24.9%, with 29% of lenders overall citing that category.

What is the maximum aggregate amount of EBITDA add-backs you will permit for your transactions?

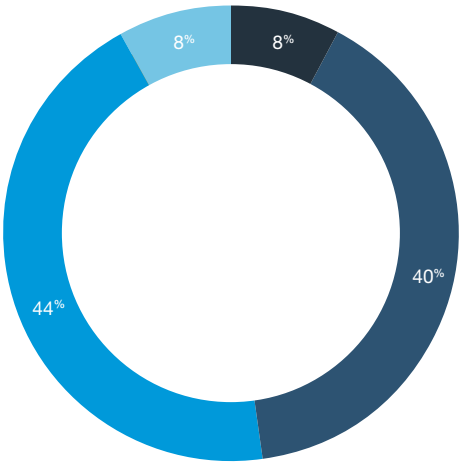


By region, the US showed a much higher risk tolerance with ranges as high as 35% or more, and 6% of US lenders saying they would permit uncapped add-backs. The UK/EU region, on the other hand, had no respondents willing to accept ranges higher than 29.9% or any uncapped add-backs.



Max EBITDA aggregate add-back permitted US

- <15%
- 15 - 19.9%
- 20 - 24.9%
- 25 - 29.9%
- 30 - 34.9%
- 35% or more
- We permit uncapped add-backs



Max EBITDA aggregate add-back permitted UK/EU

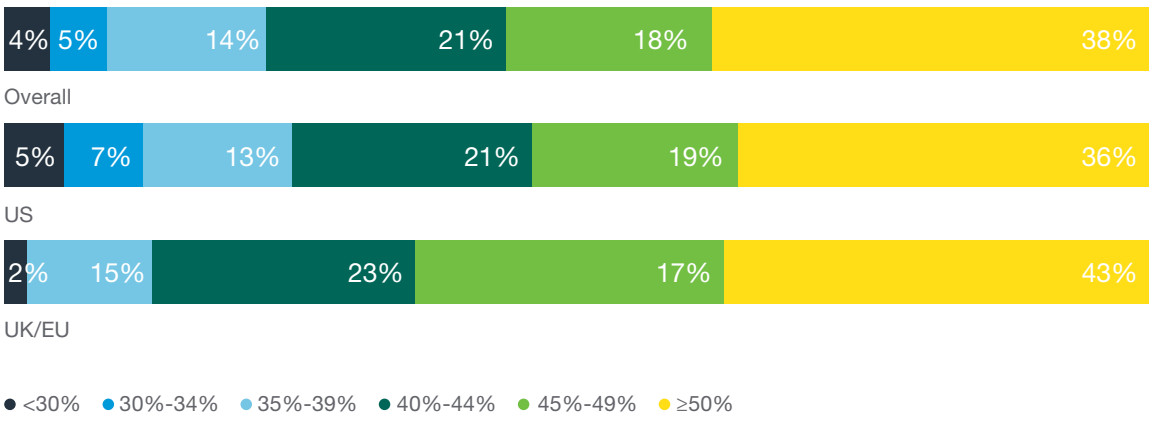
- <15%
- 15-19.9%
- 20-24.9%
- 25-29.9%

Investment Conditions and Considerations

Equity Contributions

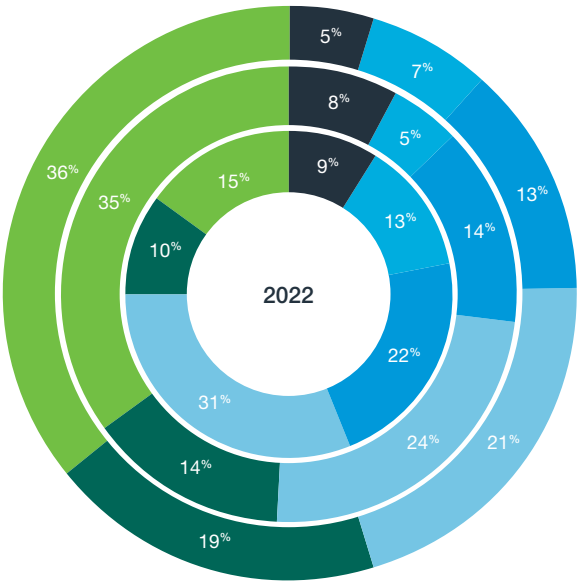
As for the percentage of equity required for a deal, overall and in both regions, the level most cited was more than 50%, with almost a large portion (43%) of UK/EU lenders requiring this level. While there was more harmony across US and UK/EU respondents than in previous years, one difference was that no UK/EU respondent selected the 30% to 34% range.

How much equity (on a % basis) does your organization typically require in your transactions?



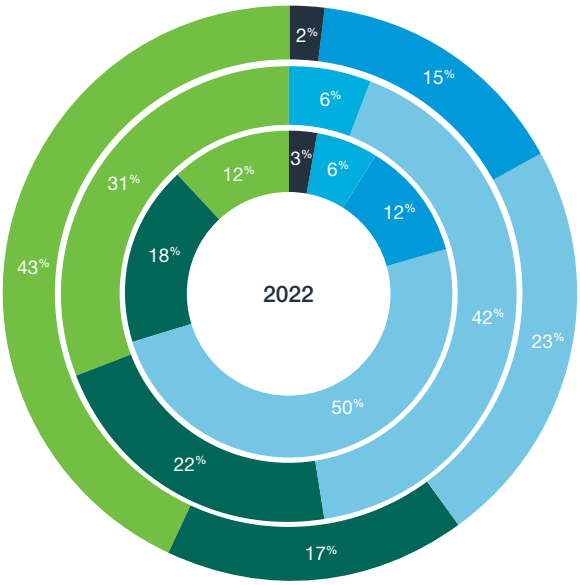
US: ≥50% and 45-49% categories increase; others see slight decreases

Looking over the past few years, we see that the percentage of respondents saying their organization typically requires 50% or more of equity has risen dramatically in both regions. Among US respondents, the portion grew to more than one-third (36%) this year, more than doubling the level of 15% in 2022. In the UK/EU region, it was even more pronounced with 43% saying their organization typically requires 50% or more of equity this year, compared to just 12% who said that in 2022.



US 2024

- <30%
- 30-34%
- 35-39%
- 40-44%
- 45-49%
- ≥50%



UK/EU 2024

- <30%
- 30-34%
- 35-39%
- 40-44%
- 45-49%
- ≥50%

UK/EU: Nothing for 30%–34% categories, but large increase in ≥50% category, compared to previous year

Investment Conditions and Considerations

Geographic Investment

Overall, respondents ranked the UK among the top three jurisdictions in which both US and UK/EU firms expect to see the biggest growth opportunities in the coming 12 months. Respondents from both regions also expected to see growth opportunities in the US, but UK/EU respondents ranked that much lower than did their US counterparts.

Geographic Investment-US

US firms expect to see their biggest growth opportunities domestically, in the UK and in Canada. Almost all US respondents (99%) said their organization is considering investing in the US in the coming year, although percentages were lower across the globe in all regions except the Middle East.

Biggest growth opportunities for your firm over the next 12 months

US	**97%**	Middle East	**4%**
UK	**35%**	France	**3%**
Canada	**34%**	DACH	**3%**
Asia	**11%**	Latin America	**2%**
Southern Europe	**9%**	Eastern Europe	**1%**
Other Europe	**5%**	Other	**1%**

Which locations are your organization considering investing in over the next 12 months?



Investment Conditions and Considerations

Geographic Investment-UK/EU

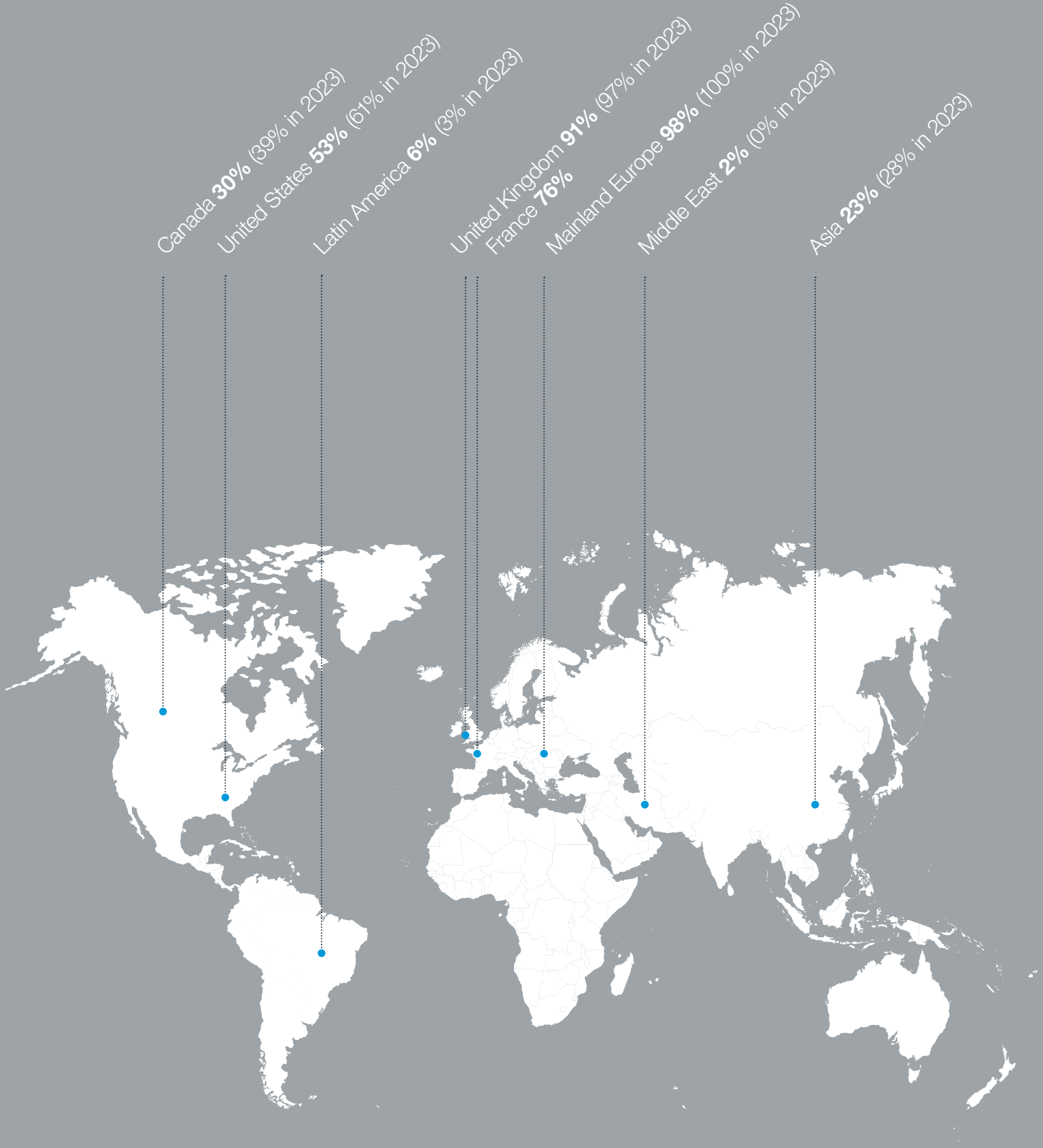
Respondents from firms in the UK/EU region expect to see their biggest growth opportunities domestically, in the DACH (Germany, Austria and Switzerland) region, and to a lesser extent in France[5] and the US. Like with US firms, the percentages of those UK/EU firms considering investing in certain regions were lower across the globe in all regions except the Middle East and Latin America.

5. This was the first time France was included as a category, so there is no year-to-year comparison.

Biggest growth opportunities for your firm over the next 12 months

DACH	**62%**	Eastern Europe	**10%**
UK	**62%**	Asia	**10%**
France	**46%**	Middle East	**0%**
US	**40%**	Latin America	**0%**
Southern Europe	**27%**	Canada	**0%**
Other Europe	**17%**	Other	**0%**

Which locations are your organization considering investing in over the next 12 months?



Investment Conditions and Considerations

Industry Investment

Interest or consideration to invest in most industries (8 out of 14) has fallen compared to last year. In fact, the only industries that saw interest or consideration to invest increase compared to last year were Manufacturing, Media, Consumer/Retail, Construction, Energy and Other, with Manufacturing and Media showing the largest increases.

By region, respondents in the UK/EU are significantly more likely to be considering investing in Healthcare and Education compared to their US counterparts, but are significantly less likely to show interest or consideration for investment in the Consumer/Retail, Construction, Real Estate and Transportation industries.

In which industries is your organization interested in/considering investing in over the next 12 months?

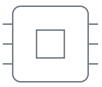
93%
94% in 2023
Business Services



88%
90% in 2023
Health Care



89%
94% in 2023
Software & Technology



57%
48% in 2023
Manufacturing



38%
30% in 2023
Media



32%
30% in 2023
Consumer & Retail



31%
25% in 2023
Construction, Engineering & Infrastructure

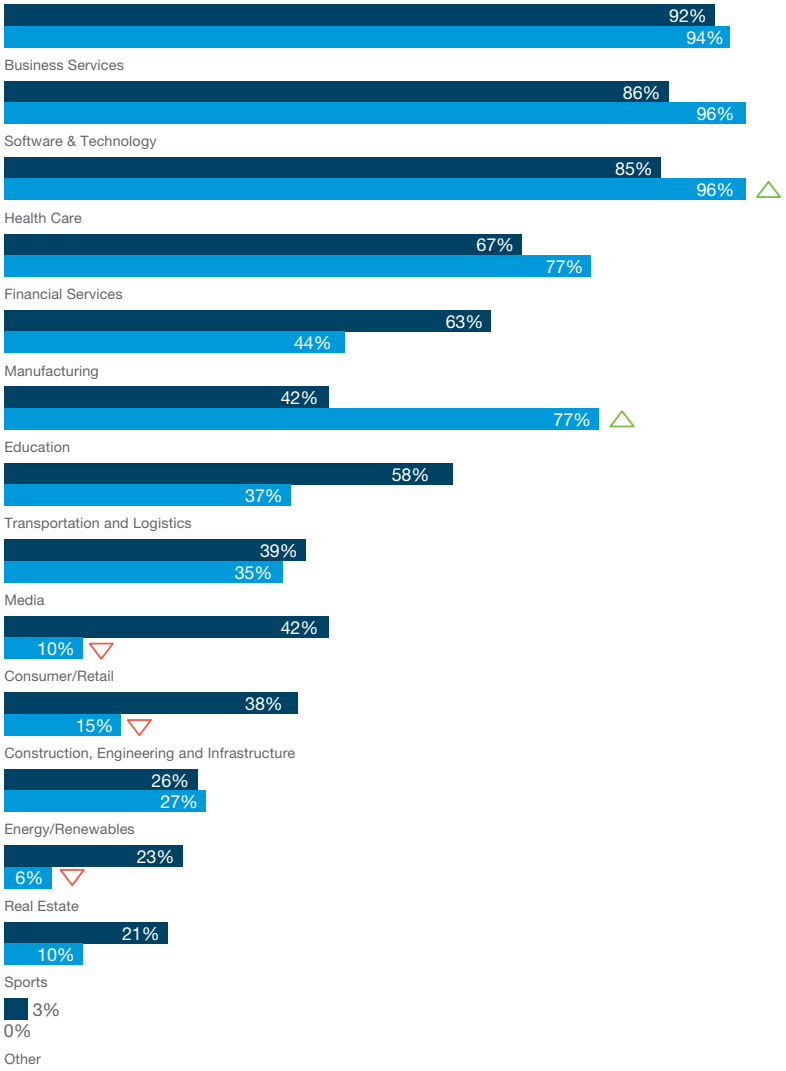


27%
24% in 2023
Energy & Renewables



In which industries is your organization interested in/considering investing in over the next 12 months?

Significant difference between AUM groups and overall = ▽ △



51%

52% in 2023

Transport & Logistics

53%

59% in 2023

Education

70%

71% in 2023

Financial Services

18%

19% in 2023

Real Estate

18%

21% in 2023

Sports

2%

1% in 2023

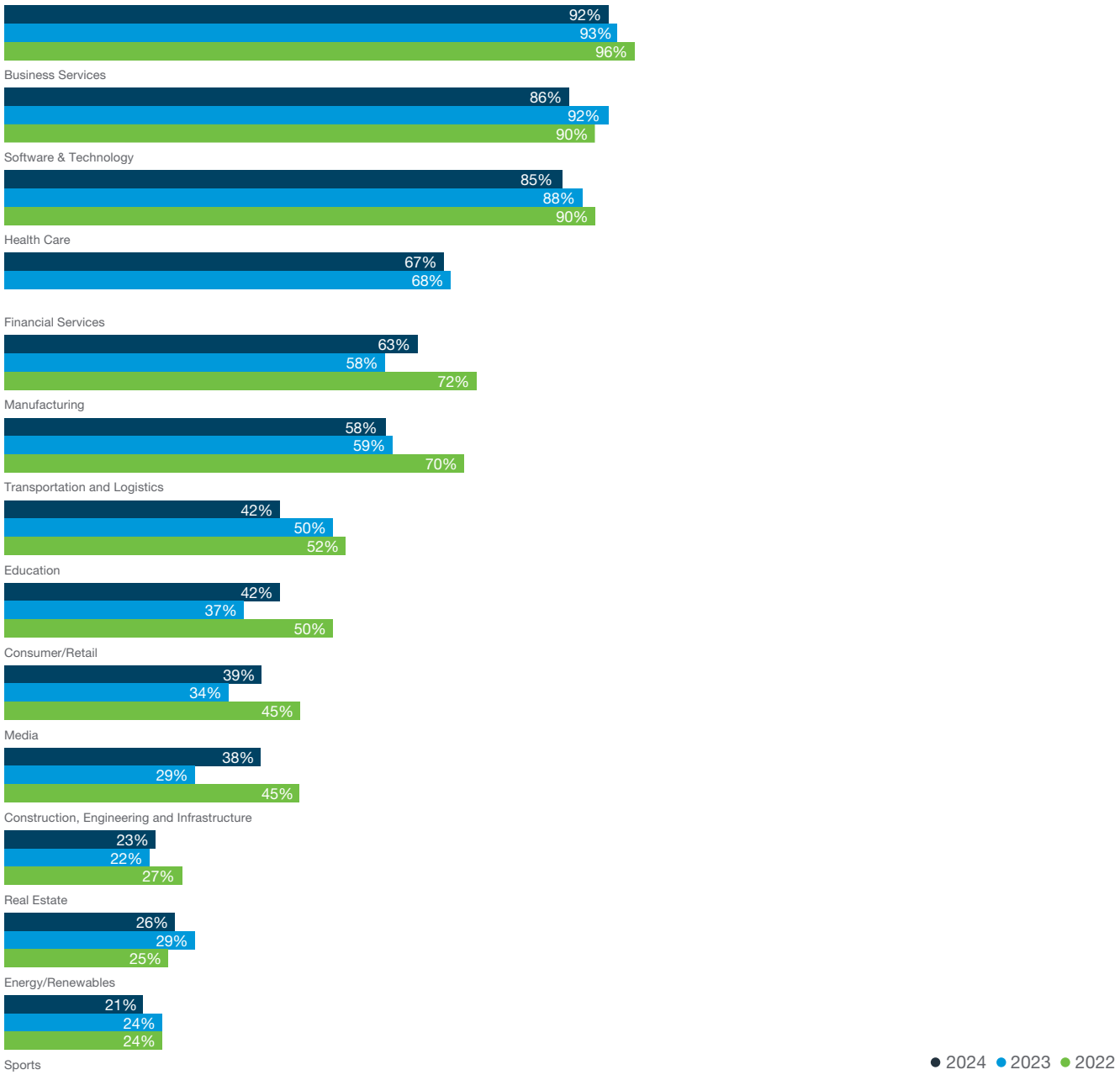
Other

Investment Conditions and Considerations

Year-to-year, interest or consideration for investment by US firms decreased in more than half of the industries, compared to last year. Interest or consideration for investment only increased in the Consumer/ Retail, Media, Construction, Engineering & Infrastructure, Real Estate and Manufacturing industries.

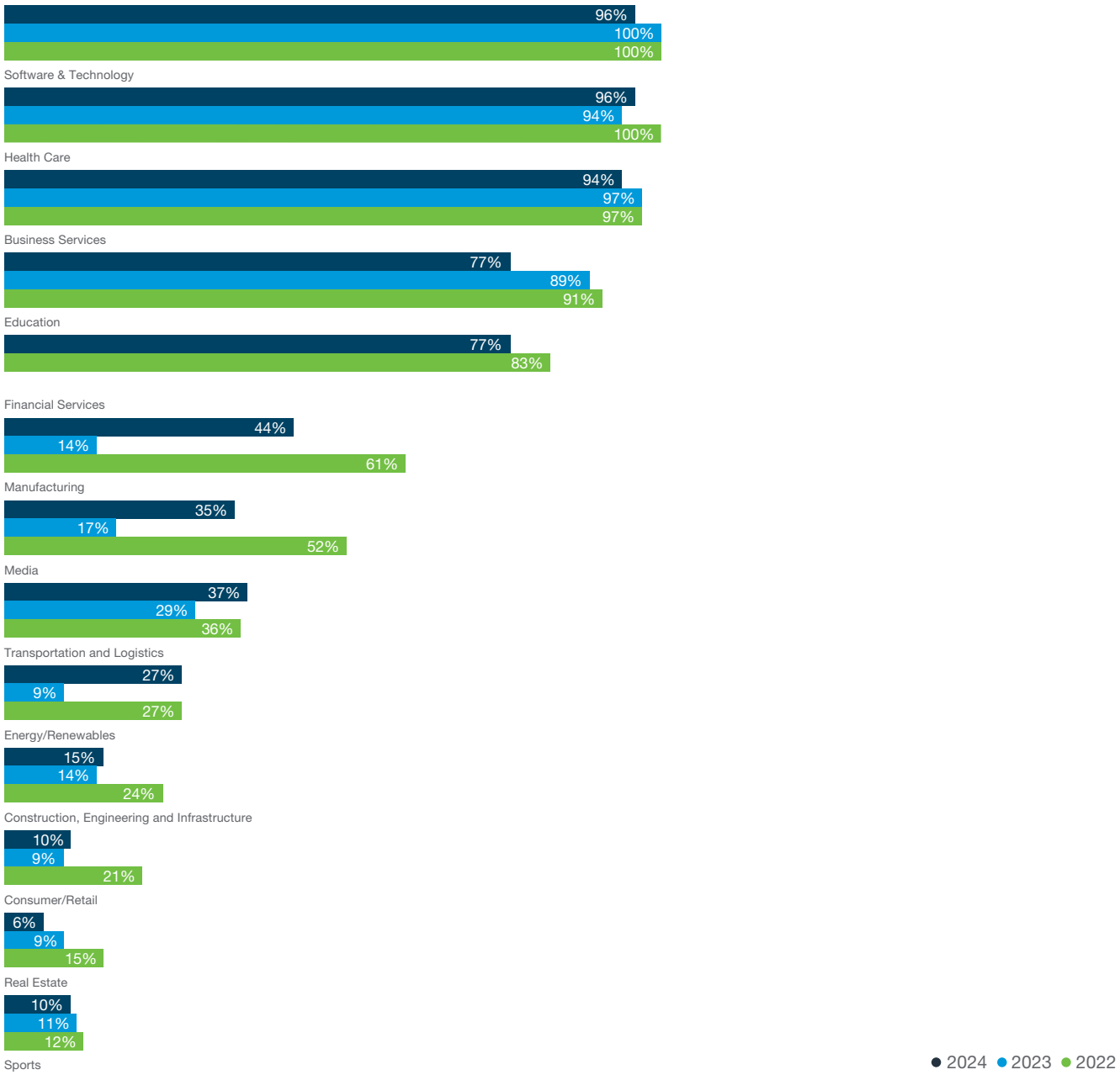
In which industries is your organization interested in/considering investing in over the next 12 months?

US 2024 v 2023 v 2022



Among UK/EU firms, year to year, there were large increases in interest or consideration for investment compared to last year in industries such as Manufacturing, Media and Energy/Renewables, while Construction, Healthcare and Consumer/Retail also had slight increases in interest or consideration for investment.

UK/EU 2024 v 2023 v 2022



Investment Conditions and Considerations

Fundraising

In our survey, nearly all respondents (91%) said their firms were engaged in fundraising plans for 2024, and 84% said they were currently raising a debt fund. Both of these figures are up slightly from last year. In fact, interest in raising a debt fund continued a multi-year rise since 2021, and interest in fundraising generally showed that over the past five years, more than 90% of respondents have had plans to fundraise.

Both of these data points indicate that a return of more confident activity continues to grow, albeit slowly, in the post-pandemic era.

Is your organization currently raising a debt fund?

Investment Plans



Does your firm have plans to fundraise in the next 12 months?

Investment Plans



Investment Conditions and Considerations

By region, consideration among US firms to raise debt funds and fundraise generally has increased slightly compared to last year, while consideration among UK/EU firms to raise debt funds and fundraising has slightly fallen.

Investment Plans

US 2024 v 2023

2024



2023



● Yes ● No

Investment Plans

UK/EU 2024 v 2023

2024



2023



Market Predictions

Looking Forward

Respondents also shared their predictions for the private credit market and the overall global economic outlook, underscoring again this year a slightly cautious—though not calamitous—viewpoint of the coming year and beyond.

Key insights included:

- Loan documentation expectations are mixed between more favorable, less favorable and about the same.
- Respondents expected positive deal activity on balance, as 80% said they expect deal activity to be more active than last year.
- Economic outlook/market conditions were the top factor behind increased and decreased deal activity, but interest rates are the main factor behind remaining the same.
- Sponsors seeking realizations ranked first as the most important challenge for lenders, and it also had the most overall rankings.
- Lack of alignment on purchase price between buyers and sellers was ranked as the biggest challenge for dealmakers in the US, but lack of quality assets in the market is the biggest challenge for UK/EU respondents.
- Almost all US firms consider investing in the US, and almost all UK/EU consider investing in Europe. Consideration to invest in the Middle East has increased compared to last year.
- US, UK and Canada are the top three jurisdictions in which respondents foresee the biggest growth opportunities, but DACH is the top jurisdiction for UK/EU respondents.
- Interest/consideration to invest in most industries (8 out of 14) has fallen slightly compared to last year.
- Lower pricing and more defaults are expected than in the previous 12 months.
- Majority report that less than 2.5% of their portfolio is in default, but 2.5% to 4.9% category has seen an increase this year in the UK/EU.
- More than two-thirds have less than 1% of their loan portfolio on non-accrual.
- Allowance of add backs to EBITDA is considered the greatest risk to lenders.
- Large majority are raising debt funds and have plans to fundraise.
- More than two-thirds (67%) have fund-level leverage facilities, and 85% of them employ less than 1.5-times leverage.

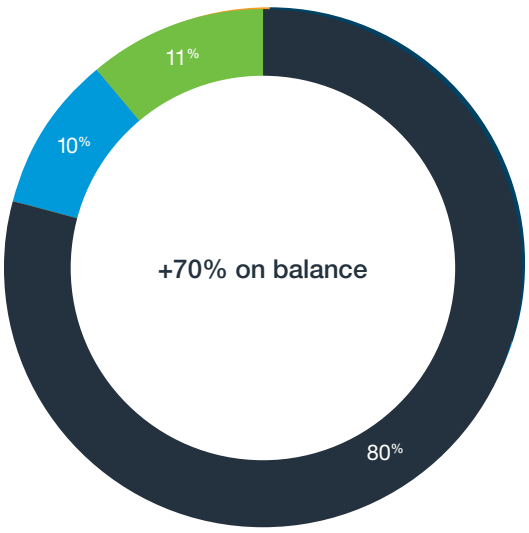
Indeed, in several areas, lenders dialed back their concerns that were exhibited so prominently last year. For example, a large percentage of respondents (80%) said they expect to see deal activity increase in the market over the next 12 months, compared to 10% that say they expect decreased deal activity. This makes for a +70-net-percentage favorability leaning toward *increased* deal activity, compared to a -27-net-percentage favorability noted last year, with 55% saying they expect decreased deal activity and 28% saying they expect increased activity.

Clearly, this illustrates a massive pendulum swing toward more positive perspective on deal making in the coming year.

What are your expectations for deal activity in the market over the next 12 months?

Why do you think deal activity will increase/decrease or remain the same?

Increased activity	%
Economic outlook/ market conditions	23%
Availablity/amount of capital	20%
M&A activity	19%
Dry powder levels	13%



Remain the same	%
Interest rates	40%
Economic outlook/ market conditions	20%
M&A activity	13%
Buyer & seller gap	13%
Lack of quality deals	13%

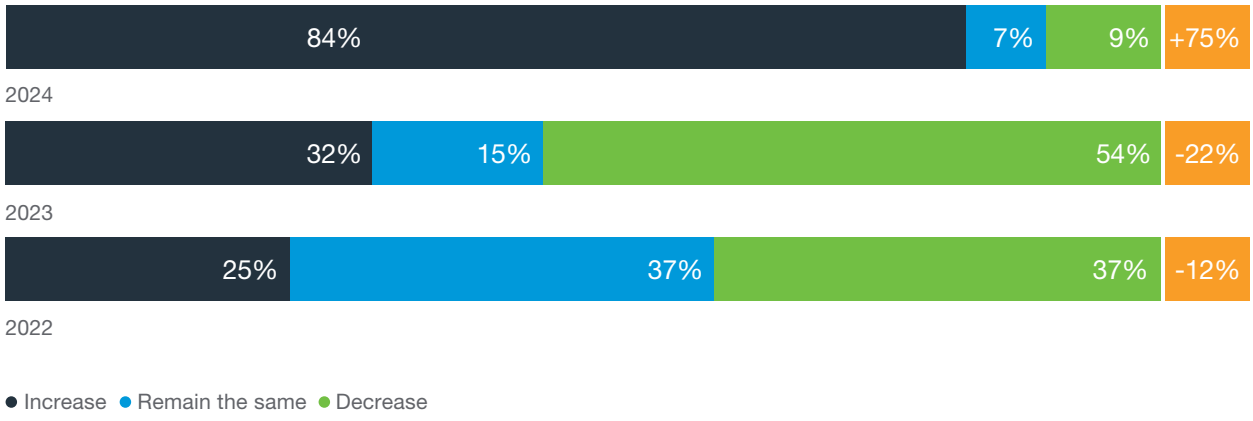
Decreased activity	%
Economic outlook / market conditions	60%
Stage of economic cycle	20%

Market Predictions

Predictions of deal activity have swung dramatically to expectations of increased activity this year compared to previous years

What are your expectations for deal activity in the market over the next 12 months?

US 2024 v 2023 v 2022



Increased activity	%
Economic outlook/ market conditions	24%
Availability/amount of capital	21%
M&A activity	20%
Dry powder levels	13%

Remain the same	%
Interest rates	38%

Decreased activity	%
Economic outlook/ market conditions	40%
Stage of economic cycle	20%
Deal activity	20%
M&A activity	20%

Among US respondents, this more positive outlook was also reflected.

Increased deal activity

"Better sentiment on the economy will drive more deal flow."

"People realizing this is the new interest rate environment for the foreseeable future and sellers realizing that leverage multiples have also come down for the foreseeable future."

"Significant capital has been raised and that money has to be invested. Also, sellers will begin to decrease valuation expectations."

"Increased confidence in relation to the macroeconomic outlook, combined with increased pressure on PE firms to deploy funds."

"More visibility on economic cycle. Stable interest rate environment."

"Pent up demand that was put on hold by a rising rate environment; even a stable high-rate environment should begin to produce more new issues."

"Private Equity firms are going to need to realize their investments at some point for their LPs. Similarly, private credit shops are going to need to pick up on capital deployments to meet goals set for their own LPs."

"Pressures to deploy capital and recalibration of purchase price multiple expectations."

"As markets begin to stabilize following the volatility in the broader economy over the last 12-18 months."

"Sponsor capitulation to market dynamics. Maturity windows approaching. Increased restructuring/workout activity."

"Been suppressed for past 12 months and believe it will normalize in next 12 months."

"Dry powder sitting on the sidelines, more certainty about the economy (though still uncertain, more known than 6-12 months ago)."

"Valuation gap normalizing, pent-up M&A demand."

"Last 12 months have been fairly slow and we are seeing an uptick in new opportunities recently. That coupled with a lot of capital seeking deals."

"Capital raised in PE and LP pressure for returns."

"Economic activity and impact of a soft landing from rising interest rates."

"Maturities combined with rising costs of capital and higher costs to grow."

"i) 2017-2018 wave of refis begins. ii) broken capital structures iii) need for capex and/or M&A capital."

"Rates will come down and there will be more lending."

"Exit environment will pick back up."

"High dry powder and pressure to exit for PEs will force price expectations to align and transactions to go ahead."

"i) Banks are hungry for deal making. ii) High interest rates are stabilizing hence making valuations easier and reducing gap between buyers and sellers and iii) Sponsors needing to return money to LPs will need to realize some value."

Those who said they expect decreased deal activity (10) or expected no change in deal activity (15) offered their reasons. And although no consensus was reached, many mentioned interest rate increase concerns as a prime reason for their viewpoint.

Decreased deal activity

"Reduced pressure on GPs and increased sensitivity to macro risks."

"The consumer has not borne the brunt of higher rates (e.g., auto insurance continues to increase given lags in car price increases from years ago) and volatile fuel prices; as they burn through excess savings, expect continued softness in multiple consumer categories and then B2B categories (e.g., continued car discounting), which compounded with continued high rates, could create a vacuum of muted activity."

"Sponsors holding assets for longer, less PE sales processes and increasing number of troubled situations."

"Poor/uncertain macro environment; high cost of debt; sellers still want full PPM's."

"Deal volume decline - more stress on assets. Still an EV gap from sellers/ buyers."

"Worsening market conditions and increasing defaults as impact of higher interest rates is absorbed."

"Valuation bridge still wide."

"Lower M&A activity."

"Less assets coming to the market; limited dry powder; portfolio management."

"Risk of recession and bid-ask spread."

No change

“Current pipeline .”

“Buyer and seller expectation gap has yet to narrow and there is nothing to suggests this will do so quickly.”

“Not enough attractive, underwritable deals in the market.”

“Demand and supply factors have not changed materially at the end of the market that we play in.”

“We have a plan.”

“Base rates and economy are depressing deal volumes.”

“Interest rates high, macro-outlook uncertain.”

“No impetus for interest rates (i.e., cost of capital) to decline.”

“Rates stabilization.”

“Macro and valuation pressures.”

"Similar climate where banks continue not to lend like they used to."

“High rates and stagnant M&A markets.”

“Bid/ask spread between buyers and sellers.”

“No changes to the rate policies and M&A volumes (low multiples and FY23 declined in current trading).”

“General economy and difficult fundraising environment.”

Market Predictions

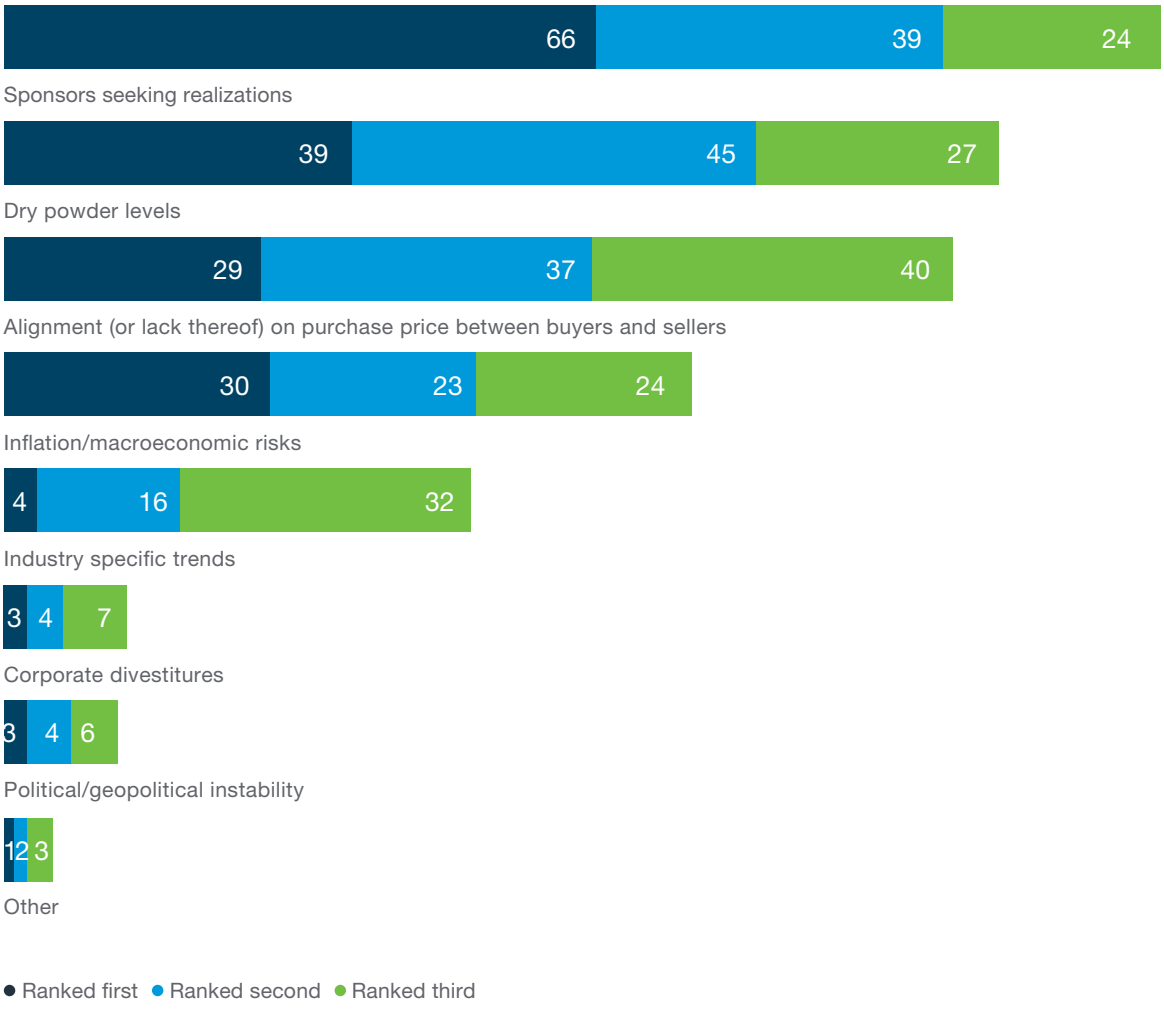
Drivers of Deal Flow

We asked respondents to select from a list the three most important drivers of deal flow over the next 12 months and then to rank the drivers in order of importance. Respondents most commonly ranked *Sponsors seeking realizations* as the most important, with 66% of respondent ranking that category first. *Sponsors seeking realizations* also had the most overall rankings. Also, *Dry powder levels* had the second-most overall rankings as a driver of deal flow and also was second-ranked (39%) as the most important driver of deal flow.

Last year, however, respondents had a much more dour outlook, ranking *Inflation/macroeconomic risks* as the most important driver of deal flow with more than two-thirds of respondents (67%) saying that. This year, that category ranked fourth.

What do you expect to be the most important driver of deal flow in the next 12 months?

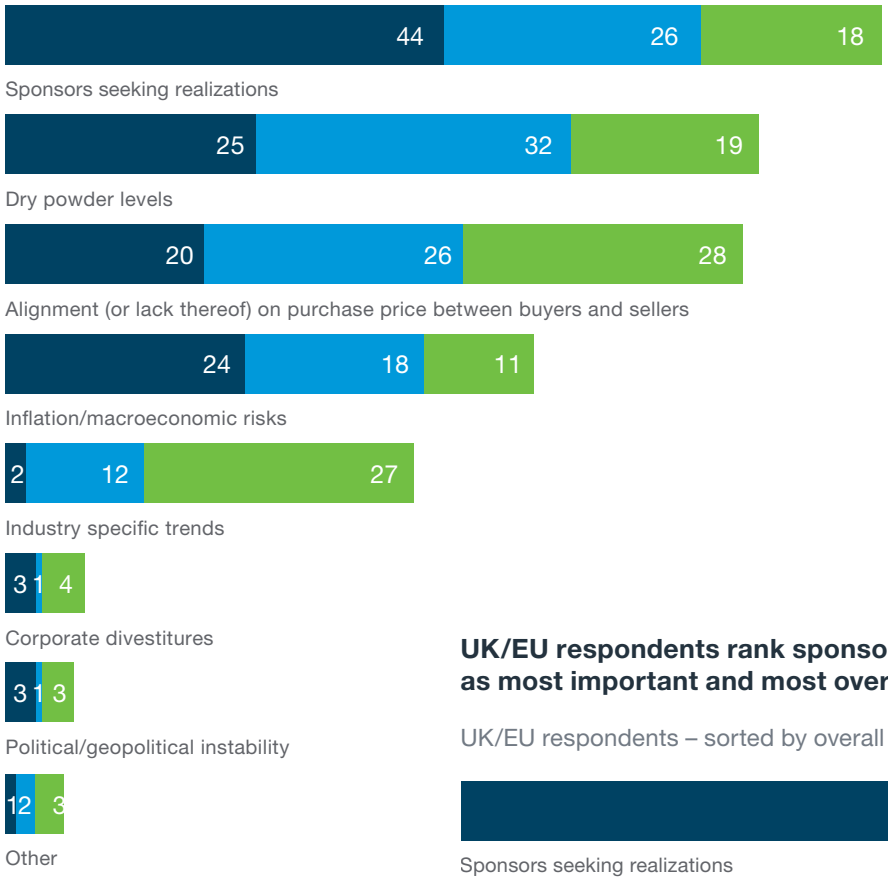
Overall – Sorted by overall rankings



Regionally, both the US and UK/EU views generally reflected the overall assessment of what factors were driving deal flow.

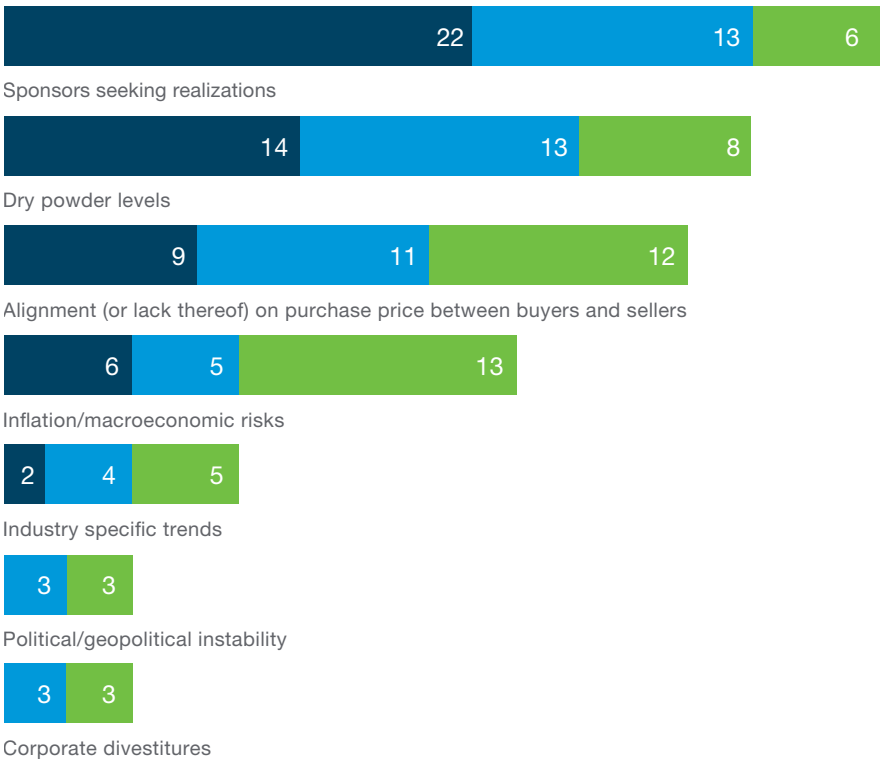
US respondents cite sponsors seeking realizations as most important

US respondents – sorted by overall rankings



UK/EU respondents rank sponsors seeking realizations as most important and most overall rankings

UK/EU respondents – sorted by overall rankings



Market Predictions

Challenges For Dealmakers

When asked what challenges they see as their largest concern over the next 12 months, more than one-third of dealmakers cited *Inflation/macroeconomic risks* as one of their top challenges. That category also got more votes (ranked 1st, 2nd or 3rd) than any other challenge, although just barely.

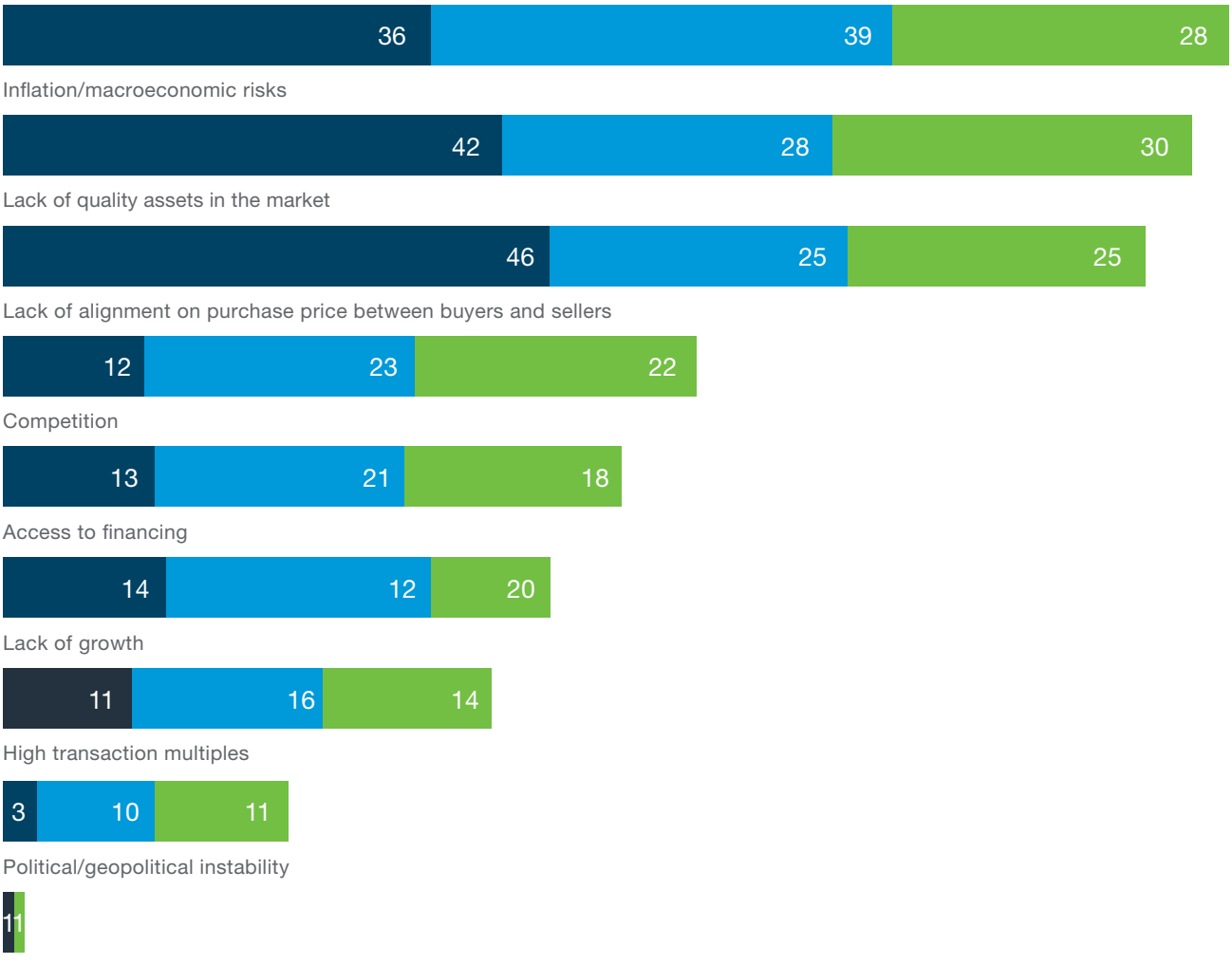
Yet, two other factors—*Lack of alignment on purchase price between buyers and sellers* and *Lack of quality assets in the market*—were more frequently ranked most important by 46% and 42% of respondents, respectively.

Interestingly, *Access to financing* was the second category cited as the biggest challenge last year, with more than one-third of respondents (34%) ranking it first. This year, that category dropped to fifth place, with just 13% of respondents ranking it as the top challenge.

What do you anticipate to be the biggest challenge for dealmakers in the next 12 months?

Overall - Sorted by overall rankings

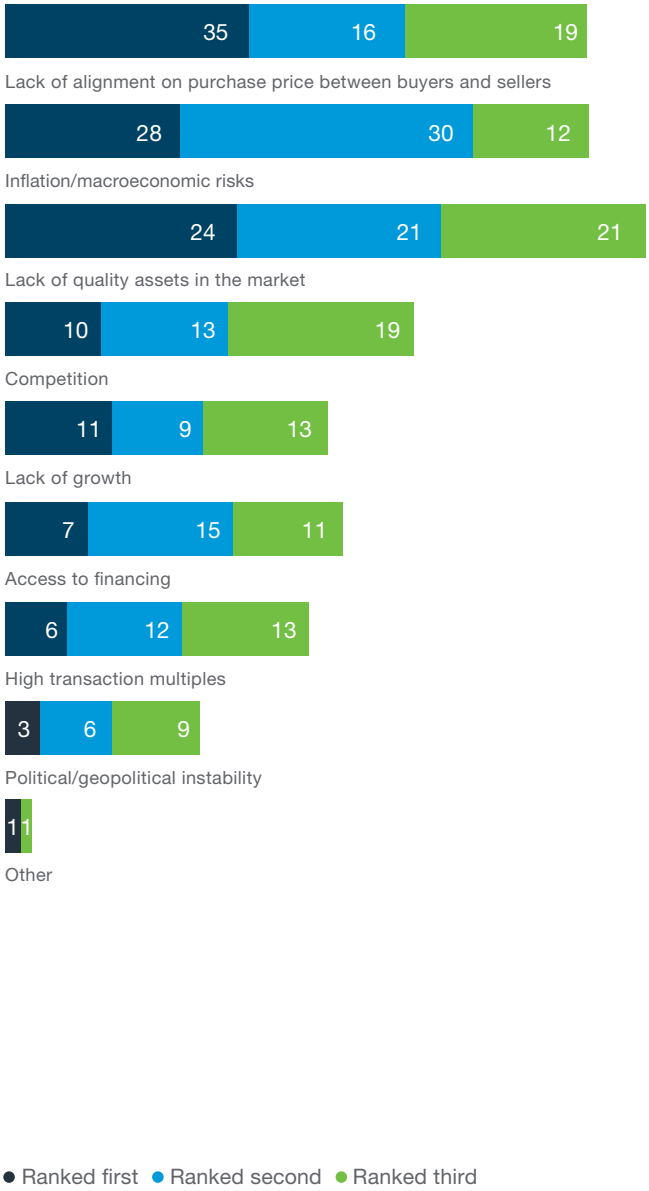
Inflation/macroeconomic risks most ranked overall



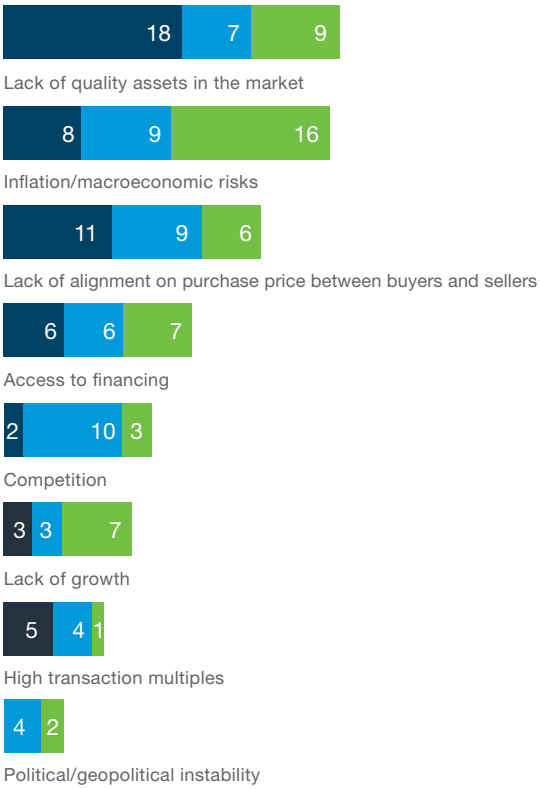
Regionally, there was some shuffling of the top three categories. US respondents cited *Lack of alignment on purchase price between buyers and sellers* as their biggest challenge, and UK/EU respondents cited *Lack of quality assets* as their biggest challenge.

What do you anticipate to be the biggest challenge for dealmakers in the next 12 months?

US respondents



UK/EU respondents



● Ranked first ● Ranked second ● Ranked third

Market Predictions

US respondents leaned slightly toward documentation becoming more favorable to borrowers

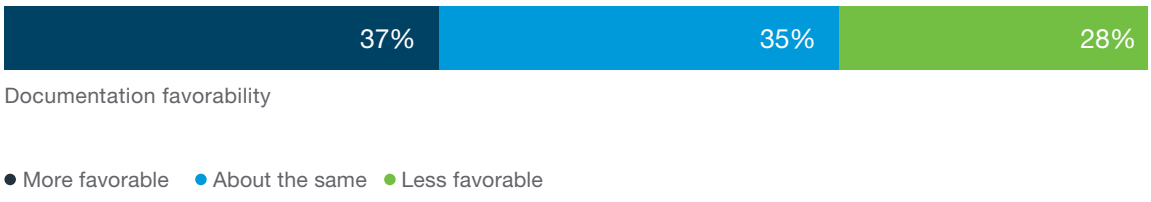
Document Favorability

Overall, respondents said they believe documentation will become mixed over the next 12 months, with almost the same percentage saying it will become *more* favorable to borrowers as those who said it will stay the same.

This marks an improvement from last year, when almost two-thirds (63%) said documentation would become *less* favorable to borrowers. Just 28% said that this year.

Do you expect loan documentation to become more or less borrower-favorable over the next 12 months?

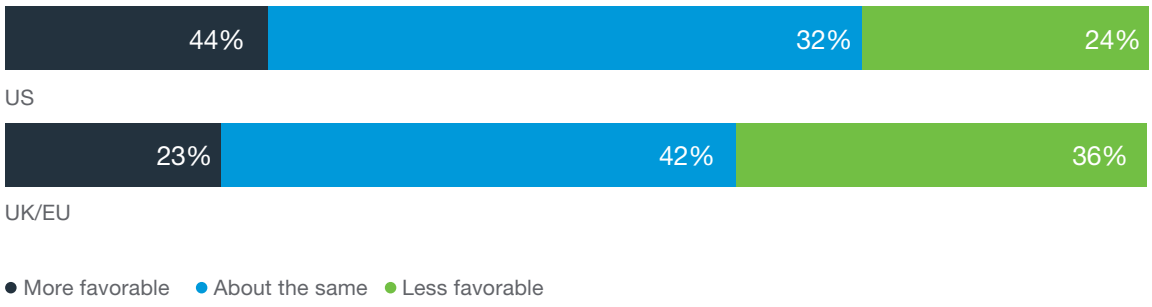
Overall



Regionally, US respondents leaned slightly toward documentation becoming more favorable to borrowers (44%), while the largest portion of UK/EU respondents (42%) saw documentation staying about the same.

Has loan documentation become more or less favorable?

US v UK/EU



Market Predictions

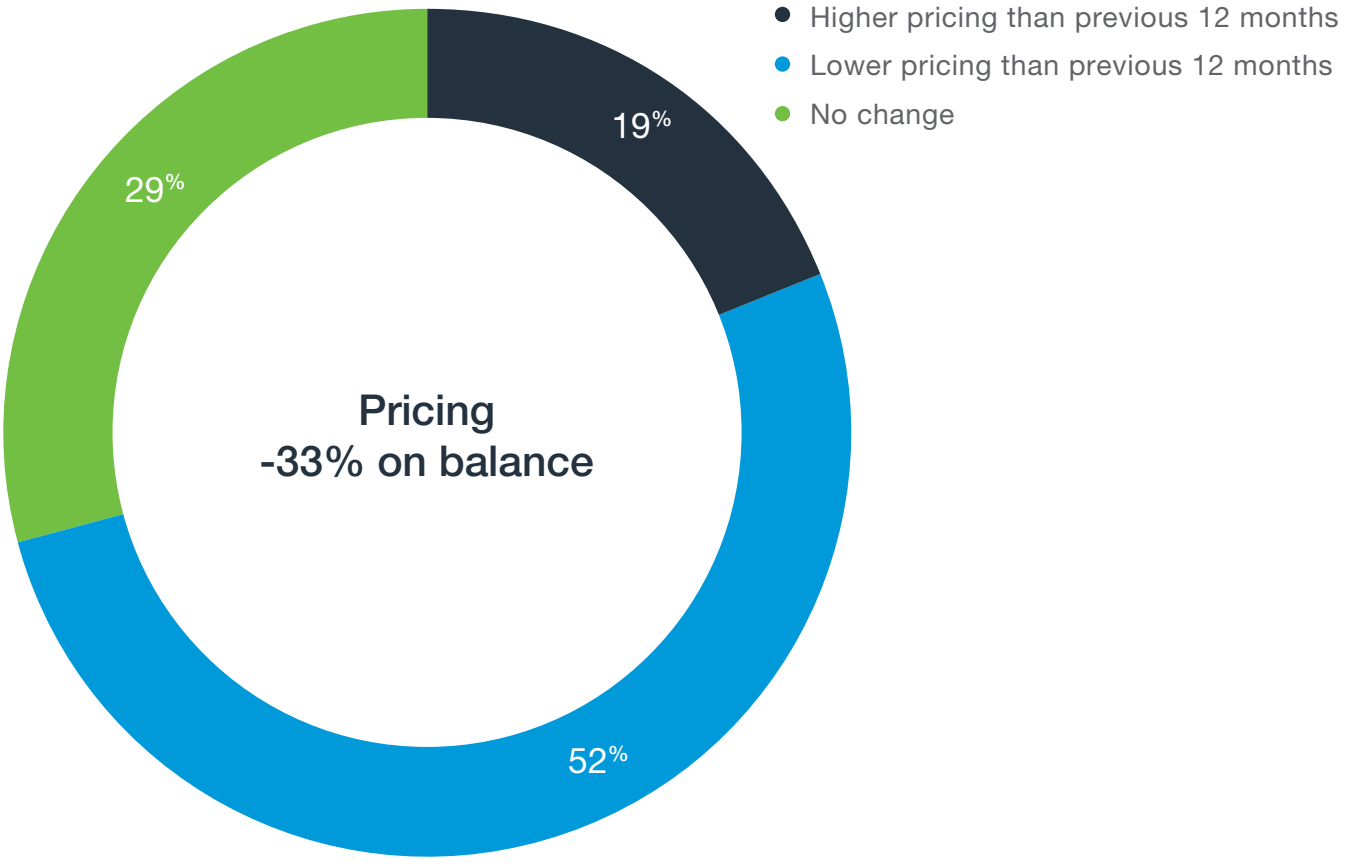
Pricing Predictions

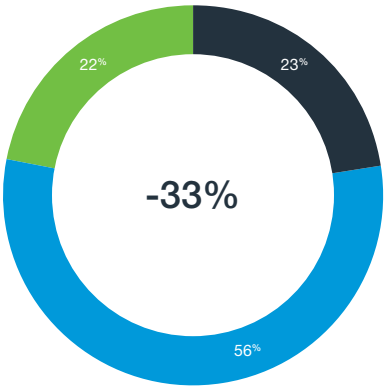
More than half of respondents (52%) overall said they expect lower pricing than in the past 12 months, which means on balance, about one-third of respondents (33%) are expecting lower pricing.

That's a big shift from last year, when more than three-quarters (77%) of respondents said they expect *higher* pricing, and on balance, more than half of all respondents indicated they were expecting higher pricing.

Interestingly, this shift may mean that many respondents think the immediate threats of recession are lifting.

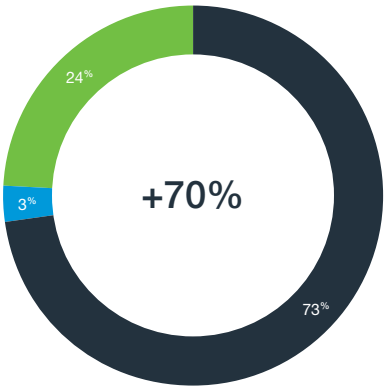
What are your expectations for pricing over the next 12 months?





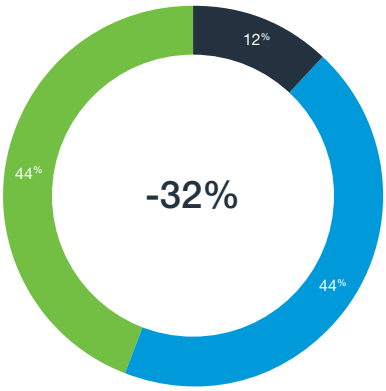
2024 US Pricing

- Higher pricing than previous 12 months
- Lower pricing than previous 12 months
- No change



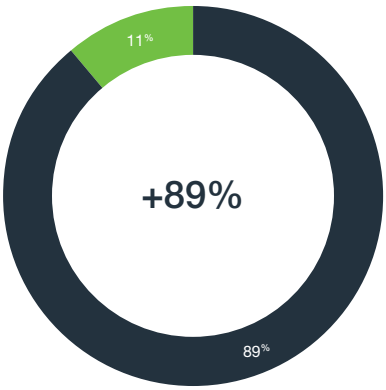
2023 US Pricing

- Higher pricing than previous 12 months
- Lower pricing than previous 12 months
- No change



2024 UK/EU Pricing

- Higher pricing than previous 12 months
- Lower pricing than previous 12 months
- No change



2023 UK/EU Pricing

- Higher pricing than previous 12 months
- Lower pricing than previous 12 months
- No change

Market Predictions

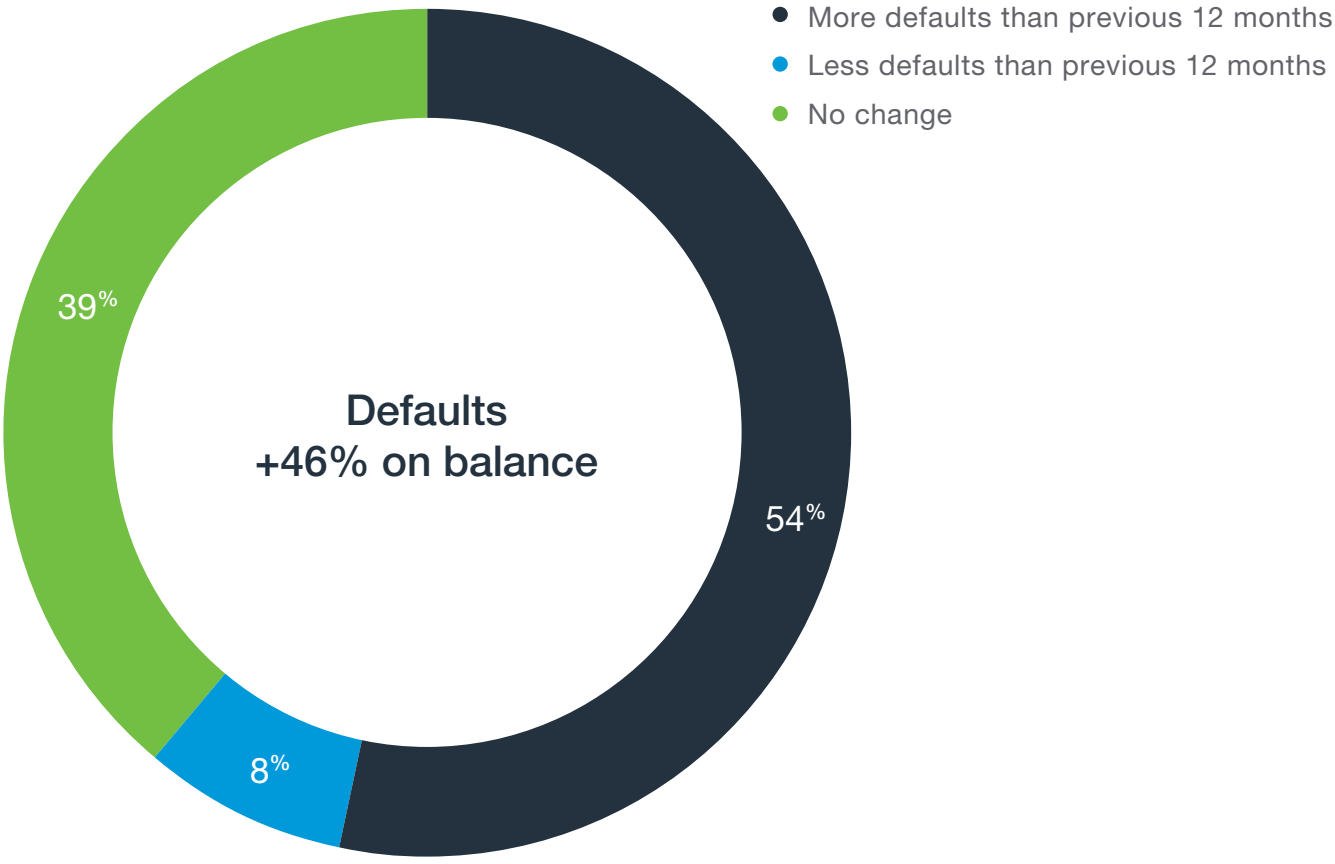
Default Expectations

More than half of all respondents (54%) said they expected more defaults over the next 12 months. Only 8% said they expected fewer defaults, meaning that on balance, almost half of respondents (46%) indicated they expect more defaults over the next 12 months.

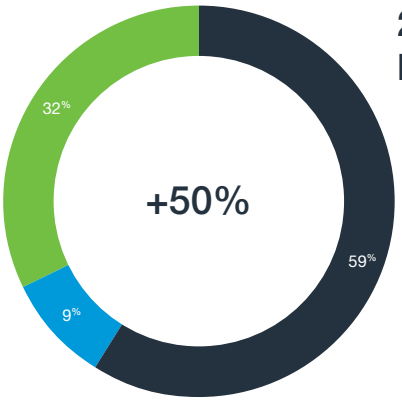
This again may represent an easing of concerns compared to last year, as then more than 75% of respondents said they expect more defaults in their portfolio over the ensuing 12 months.

The overall default rate of the 1,002 loans included in the Proskauer Private Credit Default Index was 1.6% in the fourth quarter of 2023, an increase from 1.41% in the third quarter of 2023.

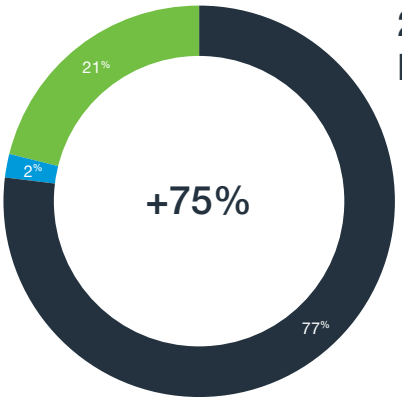
What are your expectations for your portfolio over the next 12 months?



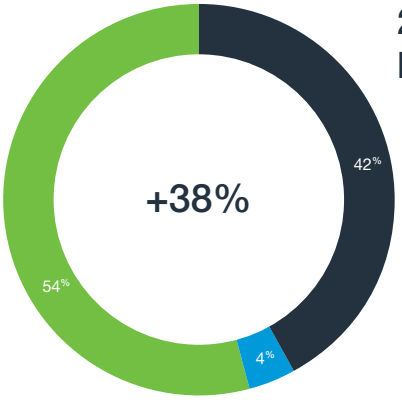
2024 US Defaults



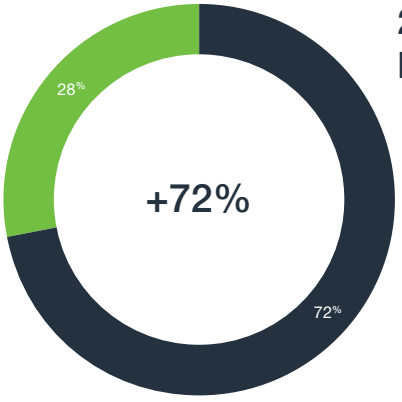
2023 US Defaults



2024 UK/EU Defaults



2023 UK/EU Defaults



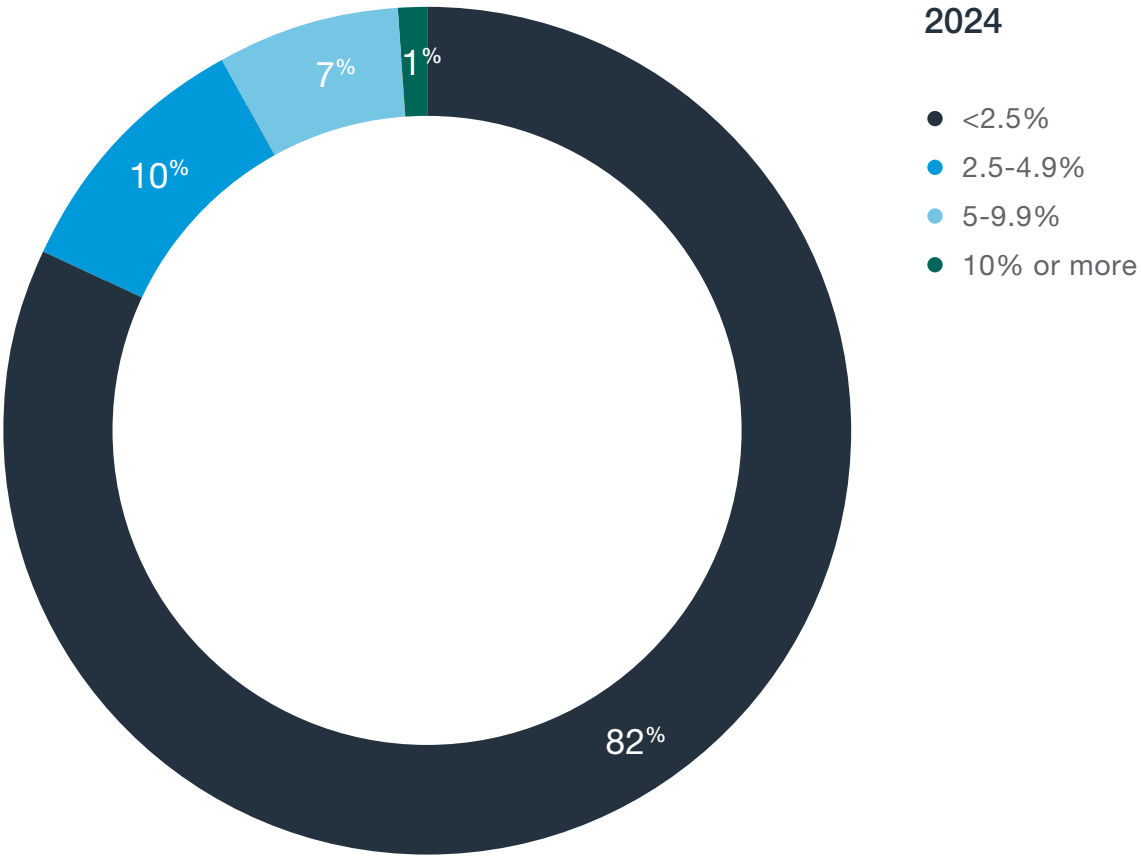
- More defaults than previous 12 months
- Less defaults than previous 12 months
- No change

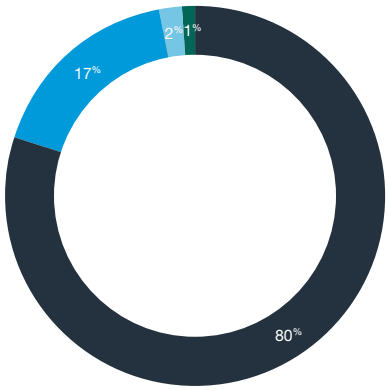
Market Predictions

And like last year, a portion of respondents this year (18%) said that 2.5% or more of their portfolio already is in default. This percentage was down slightly from last year but was well above the percentage of respondents seeing default in 2022.

What percentage of your portfolio is in default?

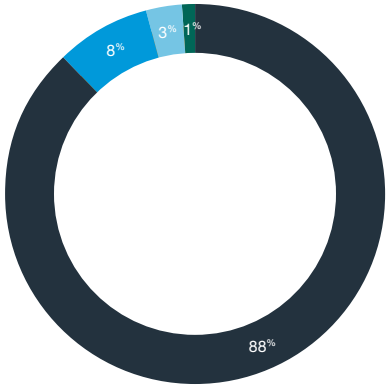
US only





2023

- <2.5%
- 2.5-4.9%
- 5-9.9%
- 10% or more



2022

- <2.5%
- 2.5-4.9%
- 5-9.9%
- 10% or more

Market Predictions

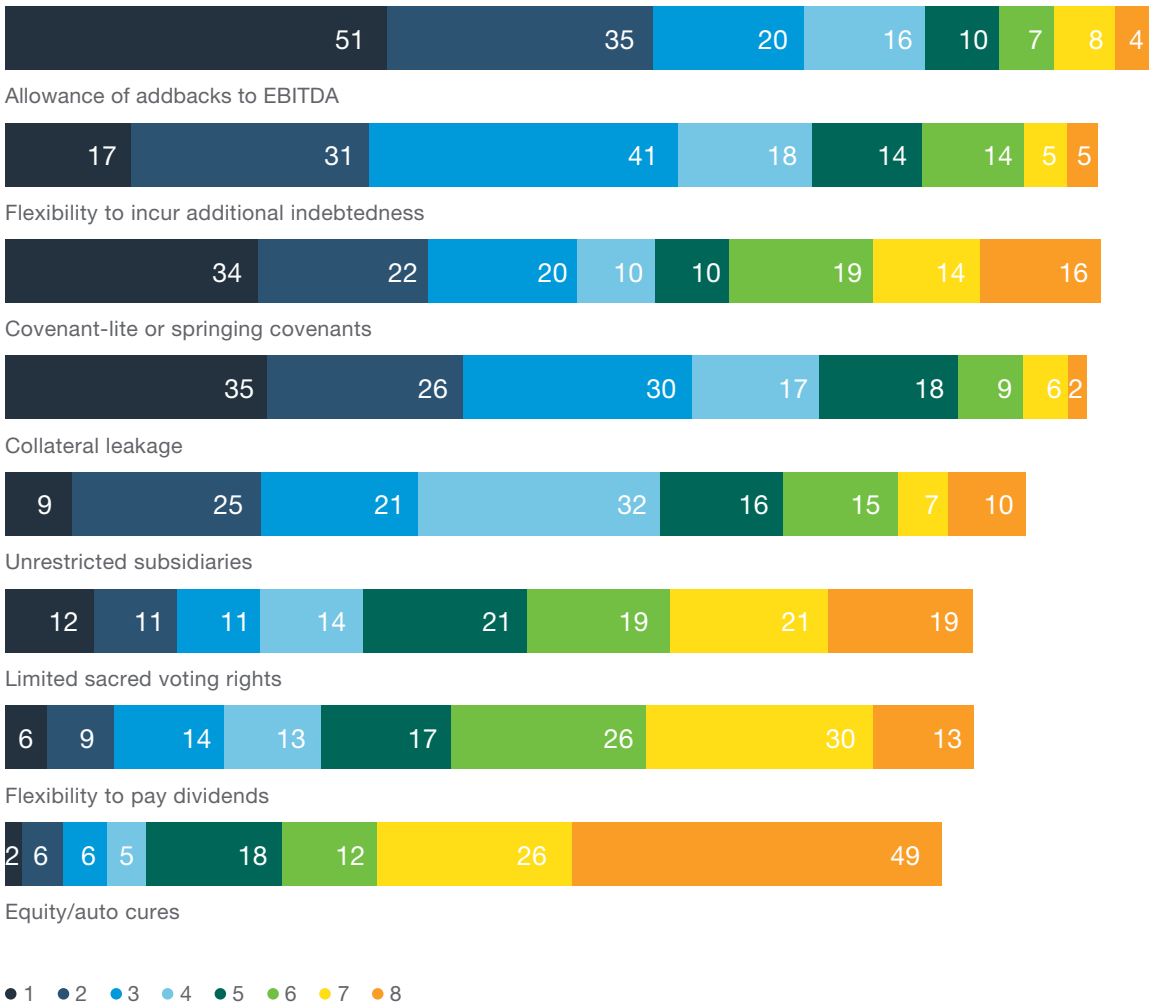
Lender Risks

When all respondents were asked to rank which concessions by lenders they believe presents their greatest risk, most ranked the following: *i)* allowance of addbacks to EBITDA; *ii)* flexibility to incur additional indebtedness; *iii)* covenant-lite or springing covenants; and *iv)* collateral leakage as the greatest risks.

Interestingly, this was the exact same ranking as last year, except covenant-lite or springing covenants and collateral leakage swapped places.

Which of the following concessions by lenders do you believe presents the greatest risk to lenders?

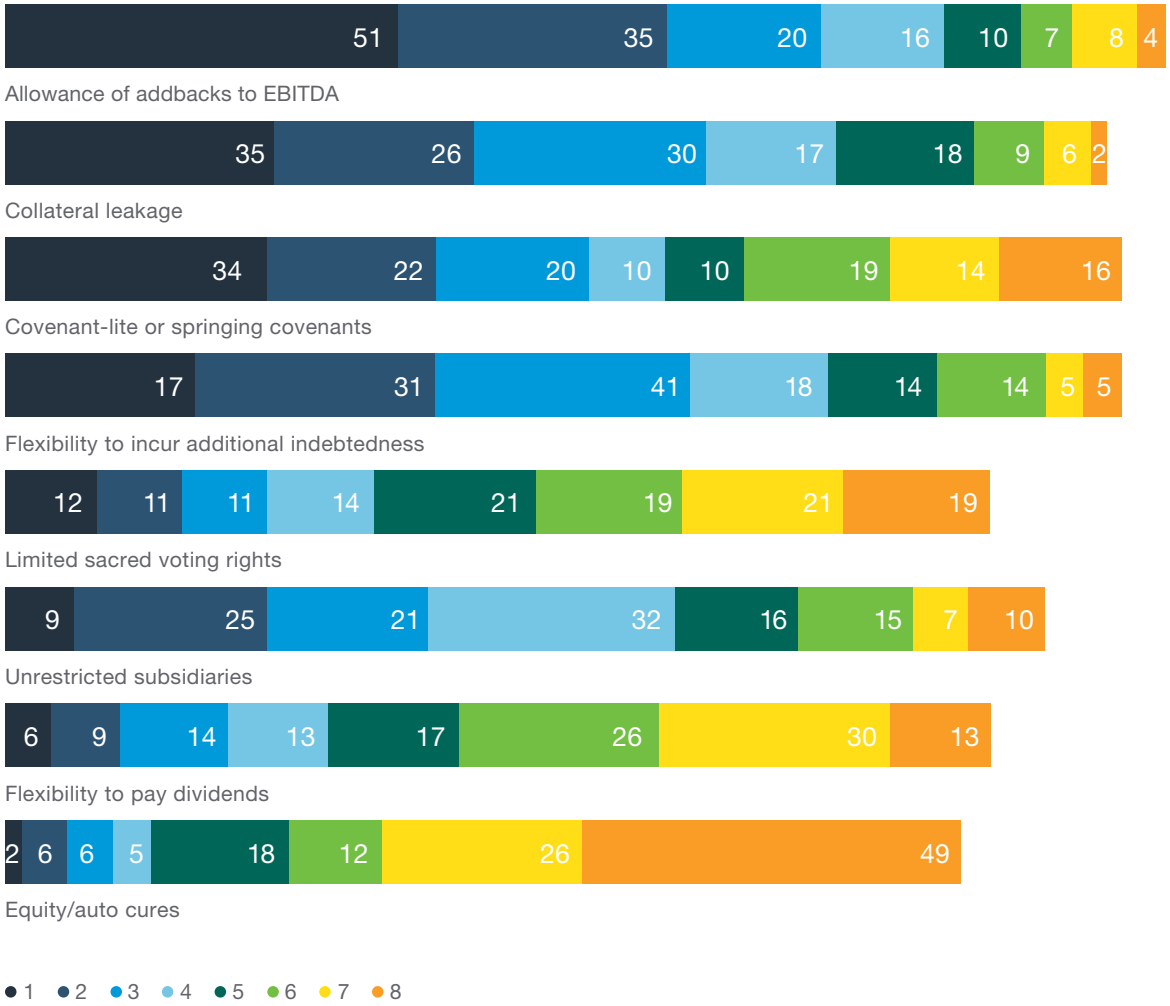
Overall — sorted by overall rankings



Indeed, no matter how the data was sorted, by ranking or by region, those four risks were ranked by lenders as the top four in every iteration of the data, except one—UK/EU sorted by overall rankings. That iteration brought in unrestricted subsidiaries as a top four risk.

Which of the following concessions by lenders do you believe presents the greatest risk to lenders?

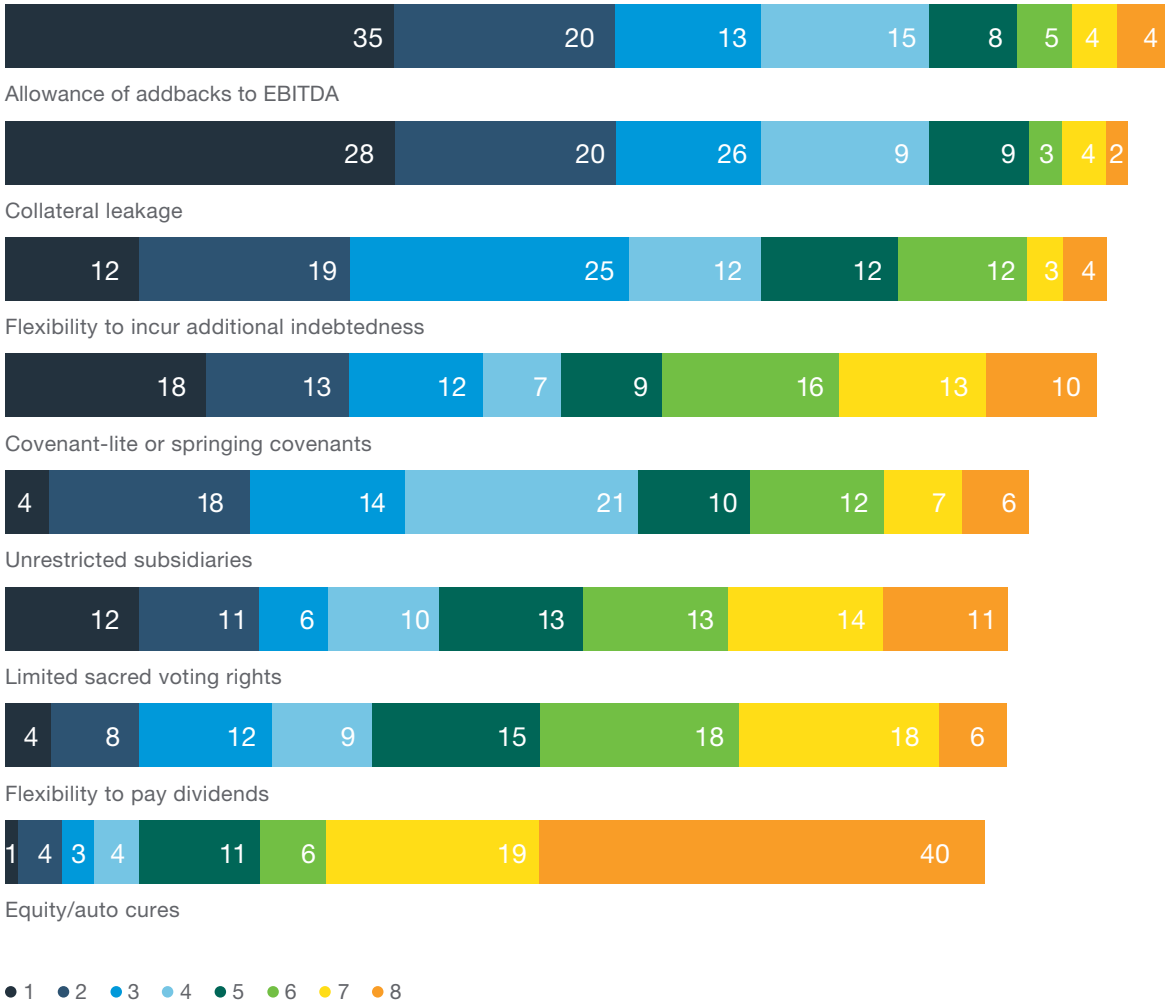
Overall — sorted by 1st rankings



Market Predictions

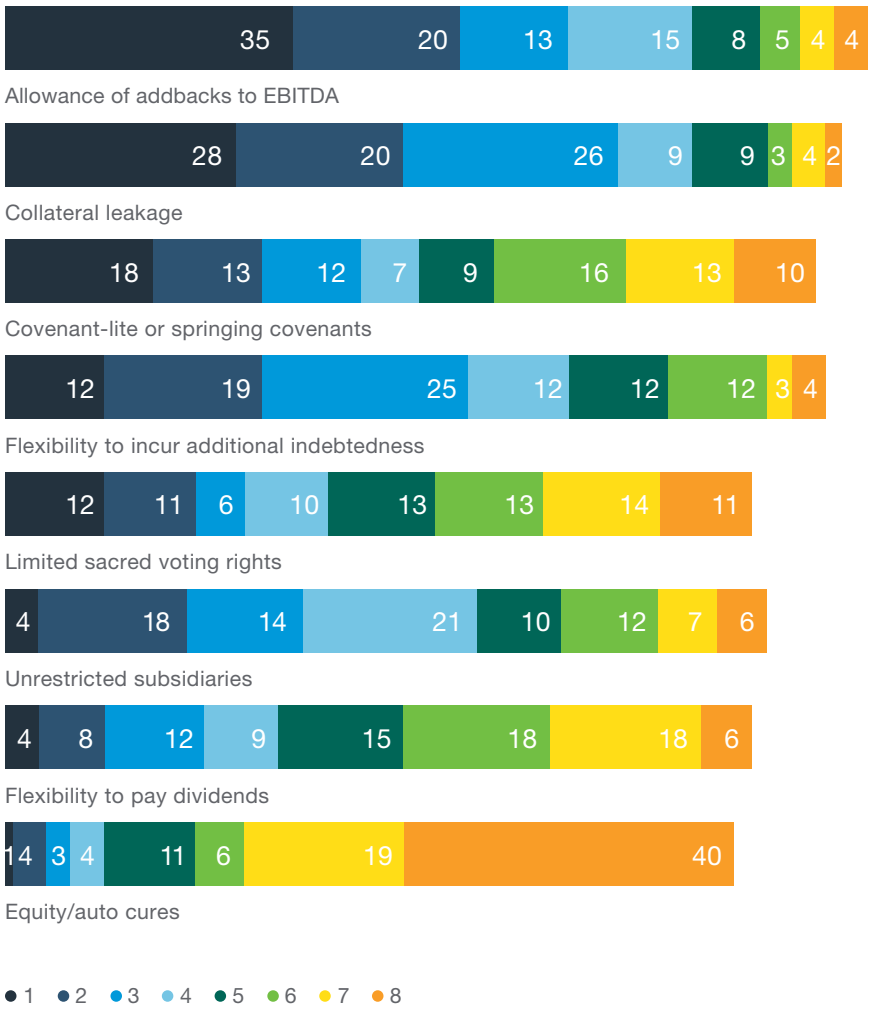
Which of the following concessions by lenders do you believe presents the greatest risk to lenders?

US – sorted by overall rankings



Which of the following concessions by lenders do you believe presents the greatest risk to lenders?

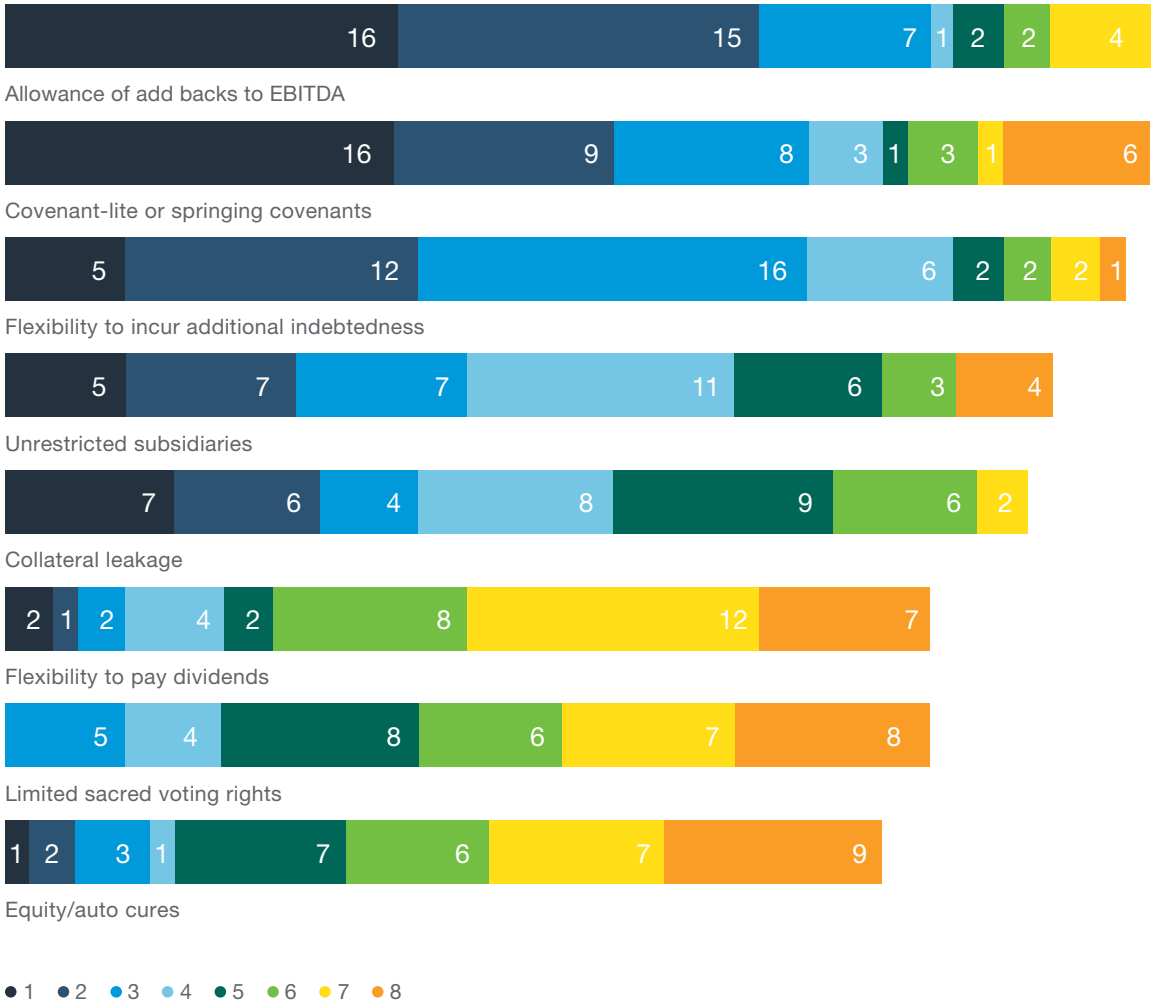
US – sorted by 1st rankings



Market Predictions

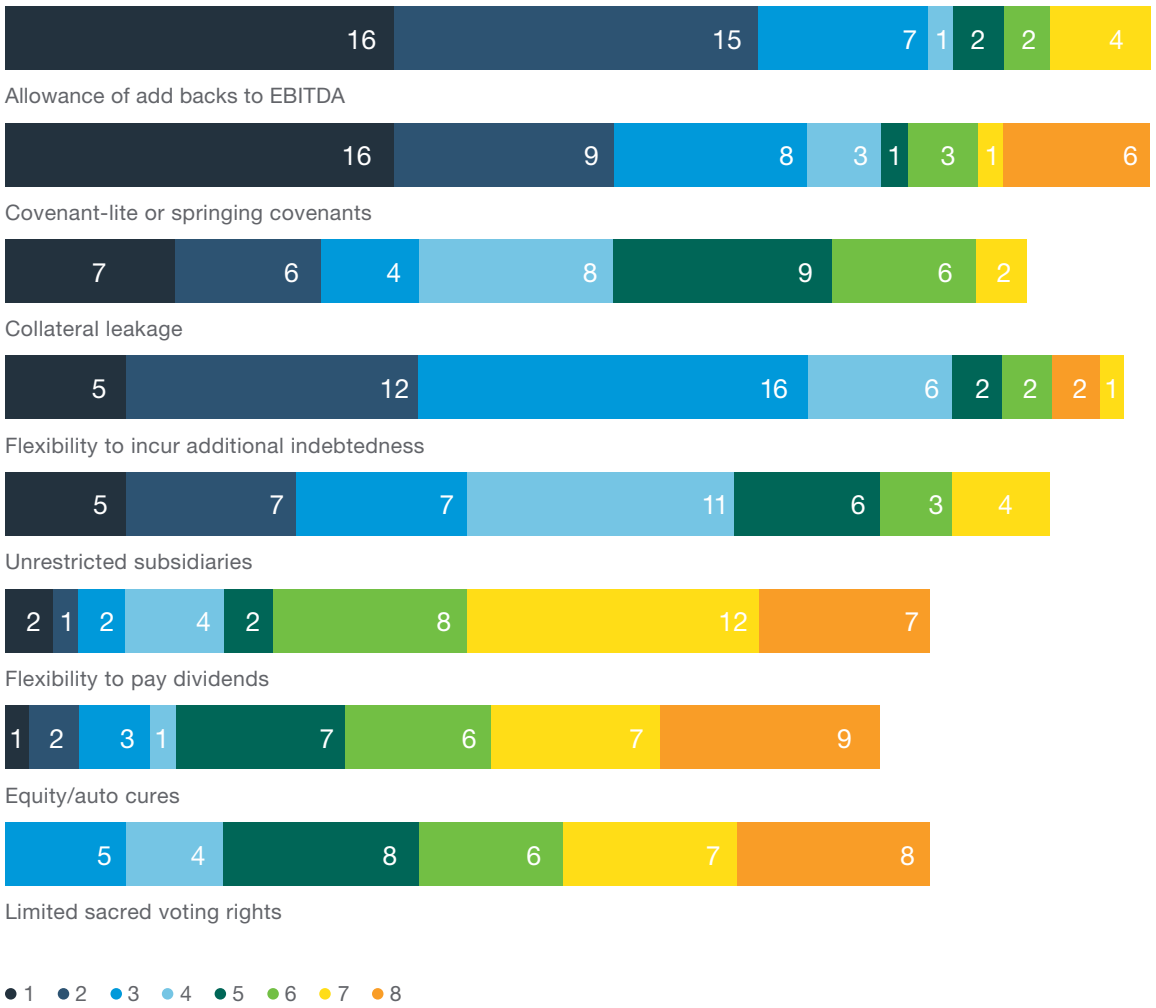
Which of the following concessions by lenders do you believe presents the greatest risk to lenders?

UK/EU – sorted by overall rankings



Which of the following concessions by lenders do you believe presents the greatest risk to lenders?

UK/EU – sorted by 1st rankings



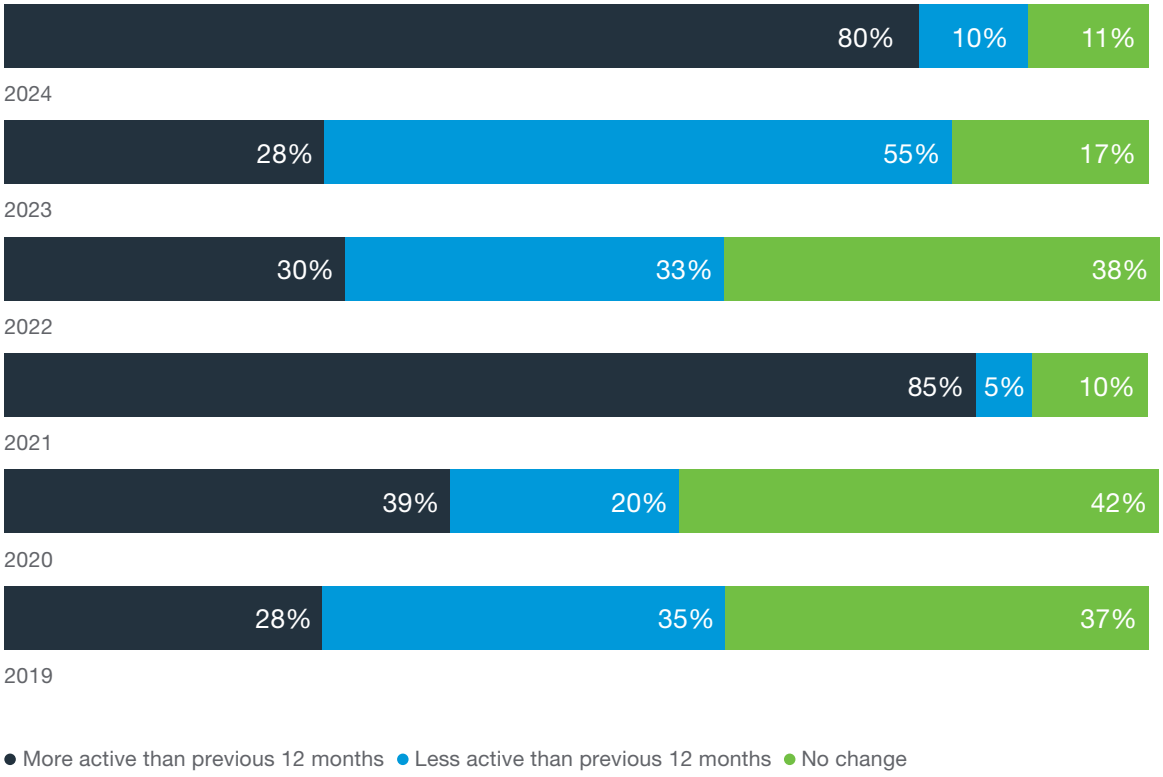
Five-Year Trends

We asked respondents for their predictions for deal activity, pricing and default levels for the coming year, as well as whether they were fundraising. We then compared their answers to the responses gathered in our past surveys since 2019 to observe any trends that have developed since the global pandemic.

Volume of Deal Activity

In the most recent survey, 80% of all respondents said they expect dealmaking to be more active than in the previous 12 months, a huge swing from last year in which a majority of respondents (55%) said they expect dealmaking to *decrease.* Indeed, the exuberance most respondents feel about deal activity going forward is eclipsed only by 2021 when 85% of respondents said they felt deal activity would increase the next year.

What are your expectations for deal activity in the market over the next 12 months

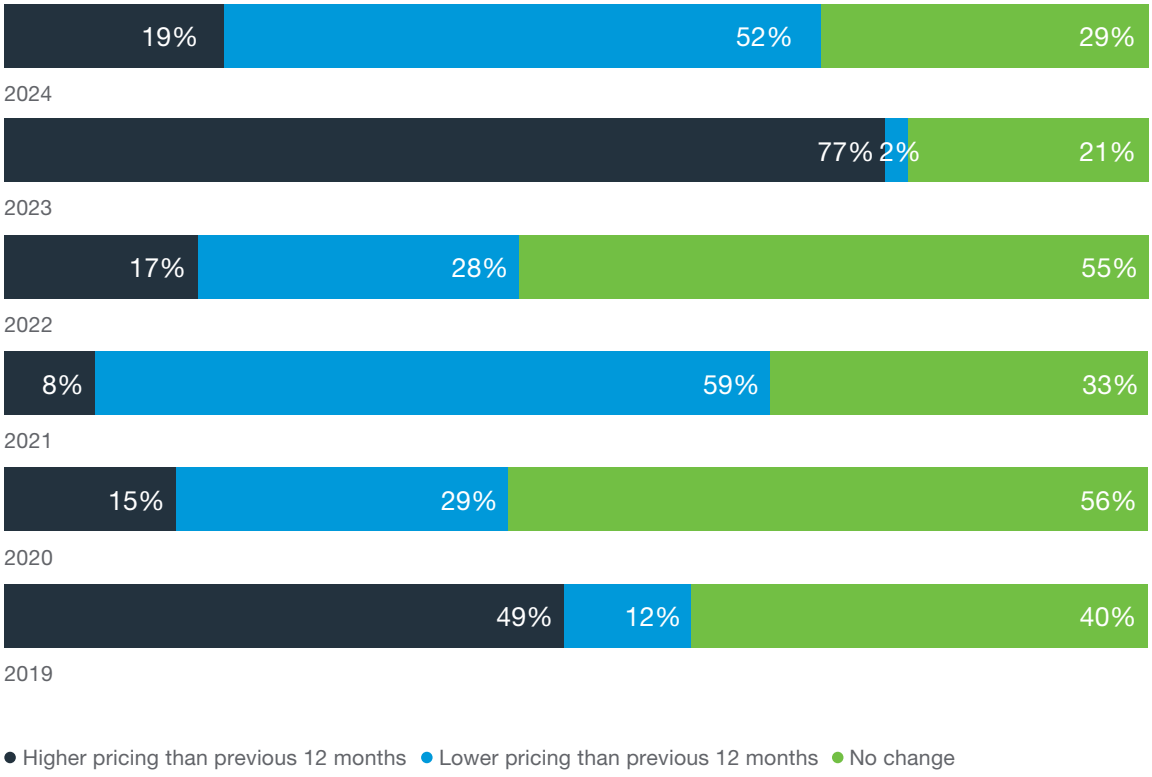


Market Predictions

Pricing Predictions

A majority of respondents (52%) said they expect pricing to be lower than in the previous 12 months, a massive jump from last year when just 2% said they expected lower pricing but more in line with 2021, when 59% said that. Again, much like 2021, this may reflect an easing of concerns around the pandemic, the expectation of lower pricing now may reflect an easing—or at least a *normalization*—of fears of recession and global crises.

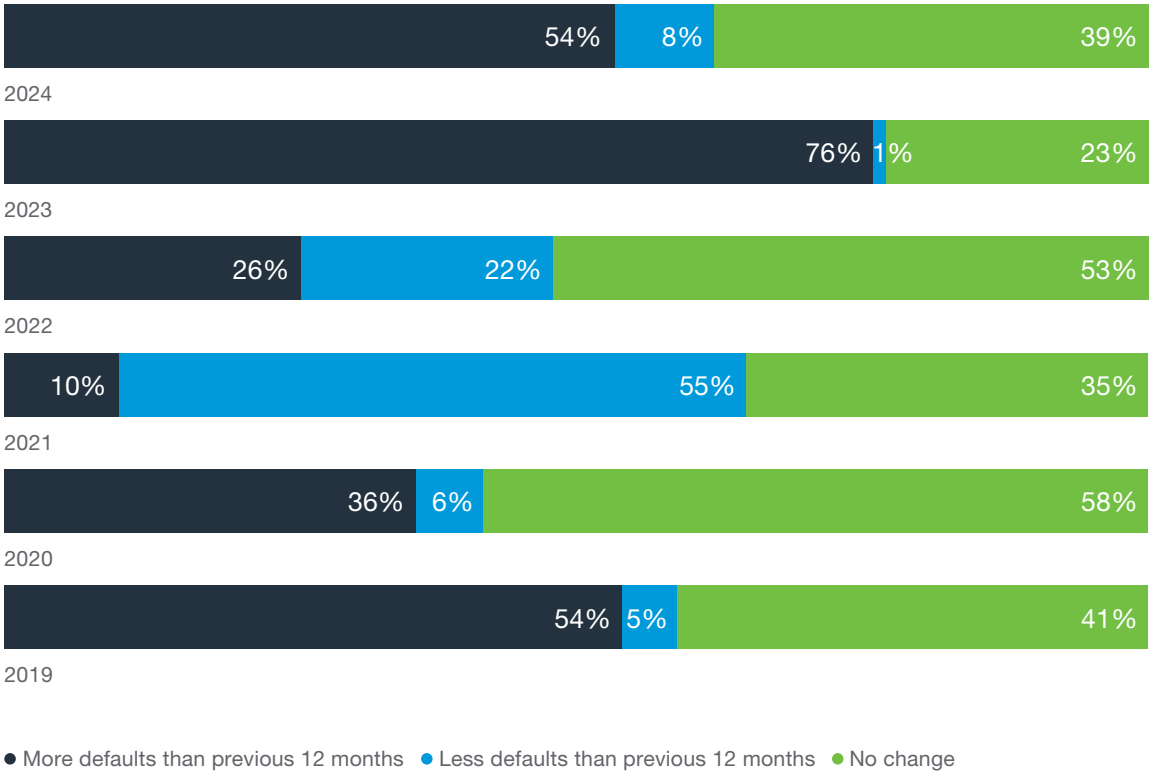
What are your expectations for pricing over the next 12 months?



Default Expectations

Similarly, the easing of macro-economic fears may be what's behind the fall in default expectations as well. This year, a majority of respondents (54%) said they expect more defaults than in the past 12 months, which while high, is 22-percentage points *lower* than expectations for more defaults last year (76%). Still, these past two years have been the only ones since 2019 in which a *majority* of respondents said they expect more defaults than in the past 12 months.

What are your expectations for your portfolio over the next 12 months?



Hot Topics

ESG Consideration

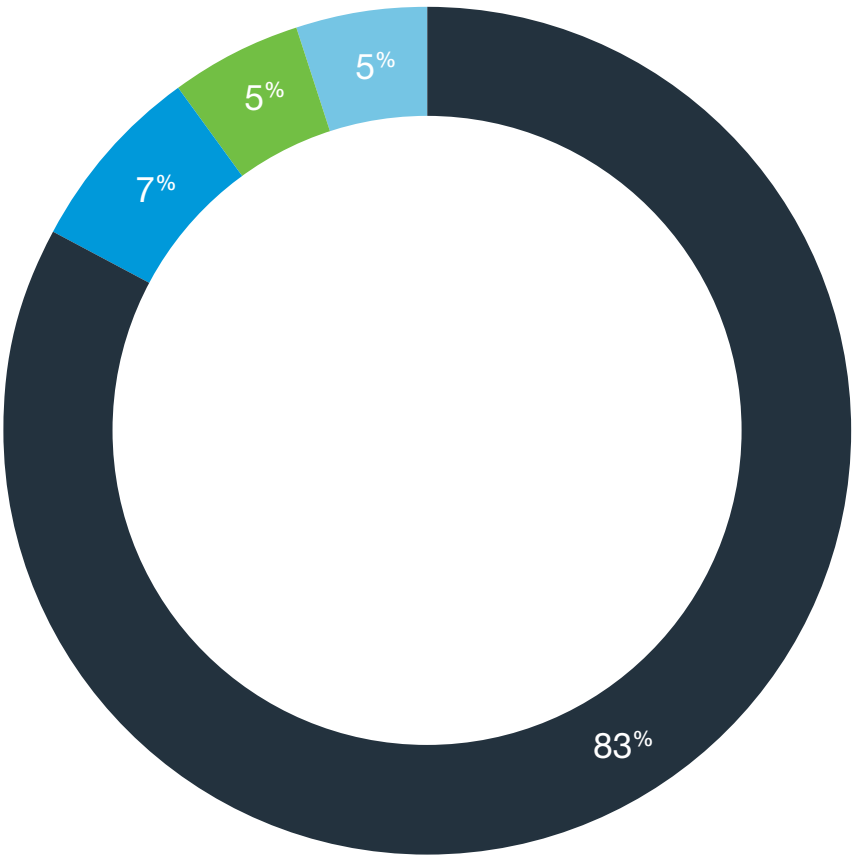
The private lending industry's continued focus on environmental, social & governance (ESG) factors continued to be an important topic, especially in consideration of certain investments.

This year, 80% of respondents said they consider ESG on all investments; however, it was not specified as to whether this is on a formal or informal level. Another 7% said they consider ESG factors on at least some investments. These levels are almost identical to last year's results, showing that ESG continues to be a strong consideration.

Over 80% consider ESG on all investments, however, it is not specified whether this is on a formal or informal level.

ESG Consideration

Overall



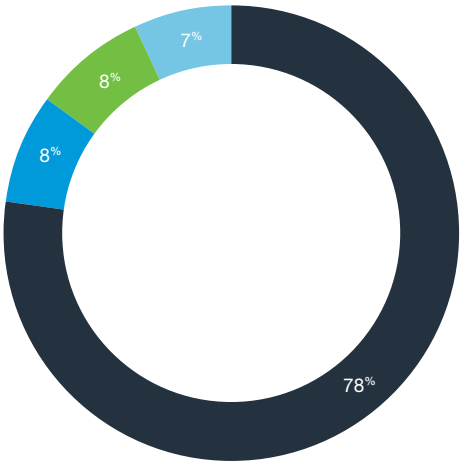
Hot Topics

Regionally, just more than three-quarters of US respondents (78%) said they consider ESG factors for all investments, down slightly from last year's 80%. And just more than two-thirds majority (67%) of US respondents said they were not offering interest rate ratchets to borrowers to meet ESG goals—while still high, this level was down a bit from last year's 73%.

In the UK/EU market, it was quite the reverse, with 98% of respondents saying they were offering interest rate ratchets to borrowers to meet ESG goals.

ESG considerations and interest rate ratchets to meet ESG targets

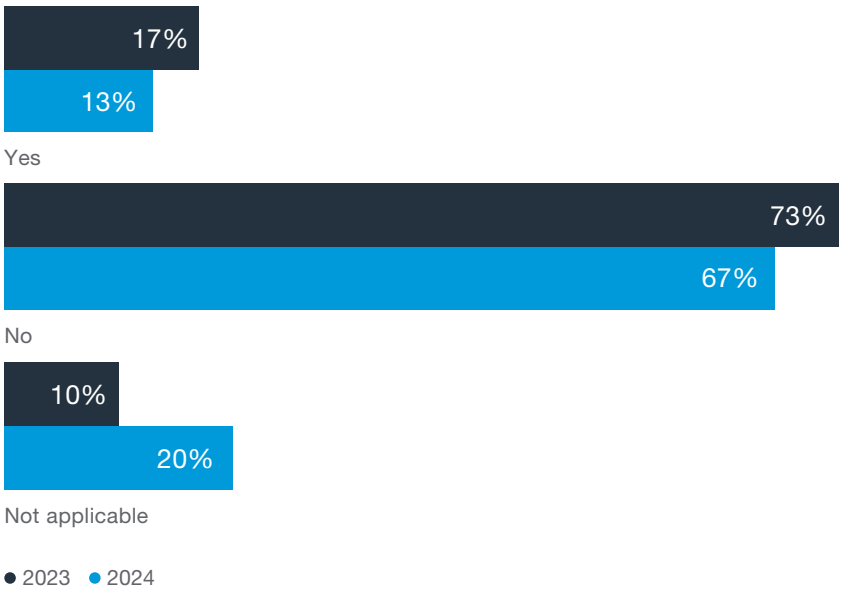
US only



ESG consideration

- Yes, for on all investments
- Yes, for some investments
- Not currently, but being considered for future investments
- No, not anticipated for future investments

Interest rate ratchets to meet ESG targets

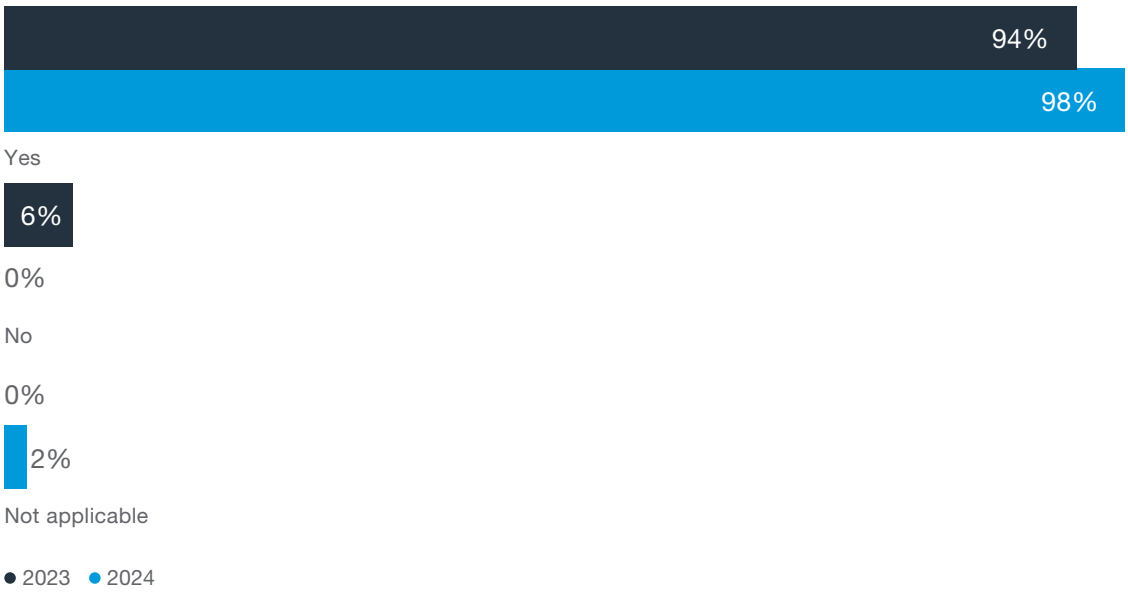


ESG considerations and interest rate ratchets to meet ESG targets

UK/EU only



Interest rate ratchets to meet ESG targets



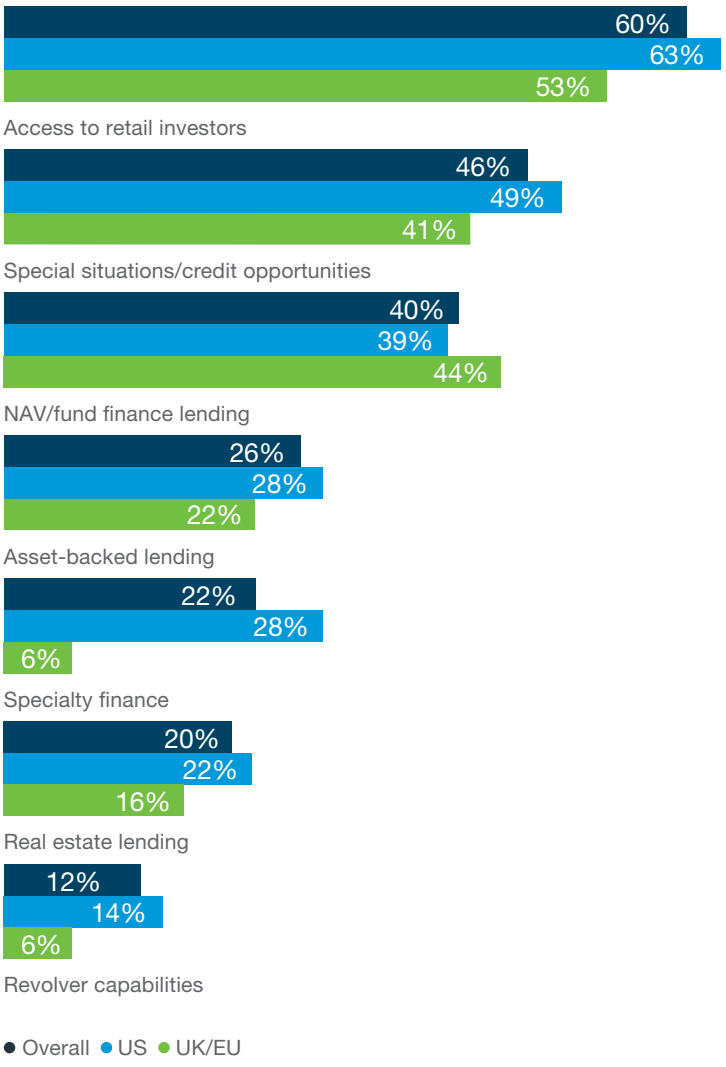
Hot Topics

Acquisition and Expansion

When we asked respondents if their firms were looking to acquire or expand any of their capabilities, they highlighted another Hot Topic. Overall, we saw that acquisition and expansion interests are in line across US and UK/EU respondents, with access to retail investors being cited the most, by 60% of respondents, as the capability they were seeking to enhance through acquisitions or expansion plans.

Regionally, the main difference between the two regions was a stronger appetite for specialty finance among US respondents.

Is your firm looking to acquire or expand any of the following capabilities (select all that apply)



Conclusion

Last year, we described the state of the private credit lending as being at a crossroads, with key metrics flashing warning lights and concerns over macroeconomic issues, deal volume, defaults and pricing dominating many lenders thinking, even as the overall private credit market remains resilient.

The analogy still holds—as if an entire industry paused at a crossroads for the past 12 months, uncertain as to which way to go.

Lenders' worries over inflation, recession and political strife around the world have ebbed, or at least receded from the top of their minds, even as some metrics continue to indicate a cautious approach as illustrated by capital deployment, which dropped overall 23% compared to the previous year.

Yet, as *The Proskauer Private Credit Survey 2024* shows, many lenders are still looking forward with a somewhat palpable dose of optimism toward a future that while still uncertain, could offer one of the best vintages of loans that the industry has ever seen.

Principal Contacts

US Principal Contacts



Gary J. Creem
Partner | Co-Head
Boston/New York
+1.617.526.9637
+1.212.969.3062
gcreem@proskauer.com



Peter J. Antoszyk
Partner
Boston/New York
+1.617.526.9749
+1.212.969.3416
pantoszyk@proskauer.com



Stephen A. Boyko
Partner
Boston/New York
+1.617.526.9770
+1.212.969.3451
sboyko@proskauer.com



Justin Breen
Partner | Head of Global Finance
New York
+1.212.969.3055
jbreen@proskauer.com



Steven M. Ellis
Partner
New York/Boston
+1.617.526.9660
+1.212.969.3557
sellis@proskauer.com



Marc B. Friess
Partner
New York
+1.212.969.3038
mfriess@proskauer.com



Stephen P. Gruberg
Partner
New York
+1.212.969.3004
sgruberg@proskauer.com



Daniel W. Hendrick
Partner
New York
+1.212.969.3534
dhendrick@proskauer.com



Michael M. Mezzacappa
Partner | Co-Head
New York
+1.212.969.3037
mmezzacappa@proskauer.com



Steven M. Hornik
Partner
New York
+1.212.969.3442
shornik@proskauer.com



Michelle L. Iodice
Partner
Boston
+1.617.526.9703
miodice@proskauer.com



Matthew W. Levy
Partner
New York
+1.212.969.3398
mlevy@proskauer.com



Sandra Lee Montgomery
Partner
Los Angeles
+1.310.284.4573
smontgomery@proskauer.com



Bharat K. Moudgil
Partner
Los Angeles
+1.310.284.4537
bmoudgil@proskauer.com



Adam R. Nelson
Partner
New York
+1.212.969.3647
anelson@proskauer.com



Evan Palenschat
Partner
Chicago
+1.312.962.3561
epalenschat@proskauer.com

US Principal Contacts



Frederic L. Ragucci
Partner
New York
+1.212.969.3023
fragucci@proskauer.com



Scott Patrick Thurman
Partner
New York
+1.212.969.3374
sthurman@proskauer.com



Benjamin E. Rubin
Partner
Boston
+1.617.526.9411
brubin@proskauer.com



Patrick Walling
Partner
Boston
+1.617.526.9732
pwalling@proskauer.com



Jessica G. Shearer
Partner
Boston
+1.617.526.9676
jshearer@proskauer.com



Ji Hye You
Partner
New York
+1.212.969.3039
jyou@proskauer.com

European Principal Contacts



Elisabeth I. Baltay
Partner
London
+44.20.7280.2095
ebaltay@proskauer.com



Alexander L. Griffith
Partner
London
+44.20.7280.2145
agriffith@proskauer.com



Daniel Hendon
Partner
London
+44.20.7280.2150
dhendon@proskauer.com



Maud Manon
Partner
Paris
+33.1.53.05.60.77
mmanon@proskauer.com



Faisal Ramzan
Partner
London
+44.20.7280.2075
framzan@proskauer.com



Harriet West
Partner
London
+44.20.7280.2080
hvwest@proskauer.com



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