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UK & DACH Quarterly Snapshot
Q4 2018

Unquote
BRITISH PRIVATE EQUITY AWARDS 2018

Debt Adviser of the Year 2018

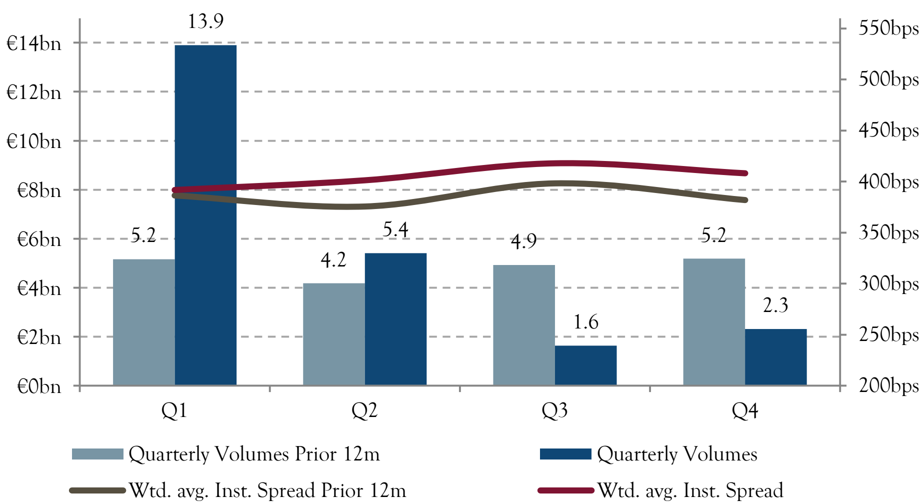
Disclaimer

UK Mid-Market Quarterly Snapshot
Q4 2018 Review

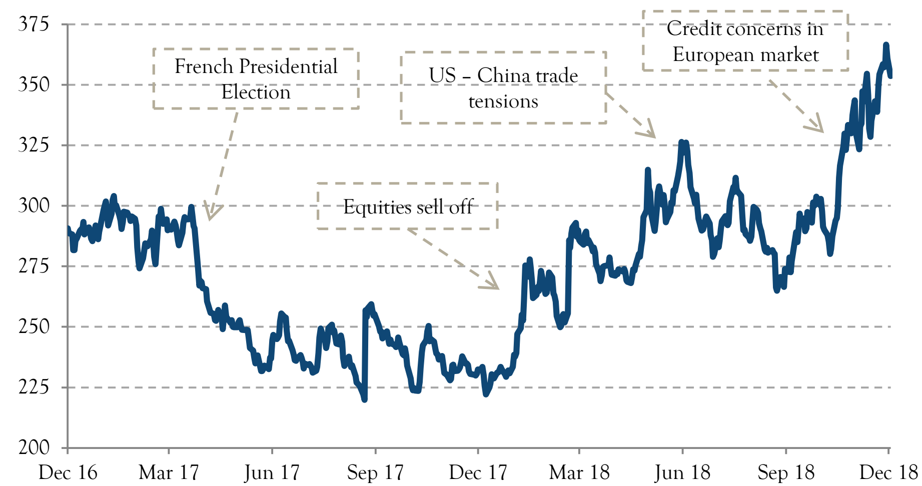
Unquote BRITISH PRIVATE EQUITY AWARDS 2018 Debt Adviser of the Year 2018

A mixed year for the UK leveraged loan market with strong Q1 issuance driving 2018 volumes at c. €23bn, a 21% increase YoY, but the latter half of the year was underpinned by ongoing concerns in the market

UK Senior Loan Volume and Pricing



iTraxx Europe Cross-Over (bps)



Key Themes

- UK leveraged loan volumes in Q4'18 totalled €2.3bn, 56% lower than observed for the same period in 2017
  - Volumes over Q3 and Q4'18 have fallen considerably below their 24-month average, albeit total UK issuance for the year of 2018 has topped the two previous years driven by high issuance levels in Q1'18 as several large landmark deals closed in the quarter
- The iTraxx Crossover index widened significantly throughout Q4'18 to reach its highest level since the 2016 Brexit vote, highlighting concerns around corporate credit worthiness and confirming the market sentiment of increased fears over corporate debt serviceability
  - Headlines driving credit concerns in European markets include the withdrawal of European Central Bank stimulus, political uncertainty over Brexit and the future of the UK, and the election of a populist government in Italy
- In the European market (including UK), leveraged loan volumes totalled €96bn, a €24bn decrease from the post-crisis record issuance of €120bn in 2017, however activity remains high with 2018 surpassing annual transaction volumes from all previous years (exc. 2017) since 2007
- Despite the apparent increase in credit risk priced in debt markets over Q4'18, new transactions continue to be printed by loan markets at attractive terms, with loan spreads for 2018 averaging c.376bps (vs. c.363bps in 2017 and c.430bps in 2016)

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Q4 saw stable level of issuance in the DACH market, bringing full-year issuance to 105 deals

Key Themes

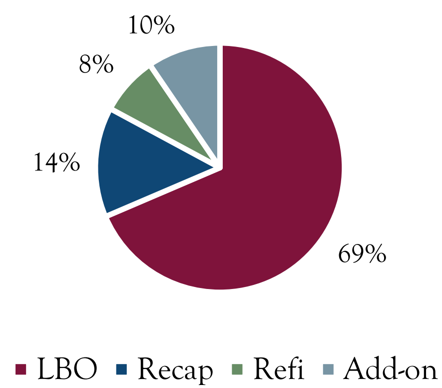
Observations from the fourth quarter and full year in 2018

- The German-speaking LBO market closed 2018 with a stable level of issuance: the number of deals reached 30 vs. 18 deals in Q3 2018 and 35 in Q4 2017. This brings the total number of deals for the full year 2018 to 105 which compares to 93 deals for 2017
- When looking at the type of deal, the share of LBOs was slightly higher than last year (69% vs. 56%) while the share of recaps & refinancings (22% vs. 31%) as well as add-ons financings (10% vs. 14%) decreased

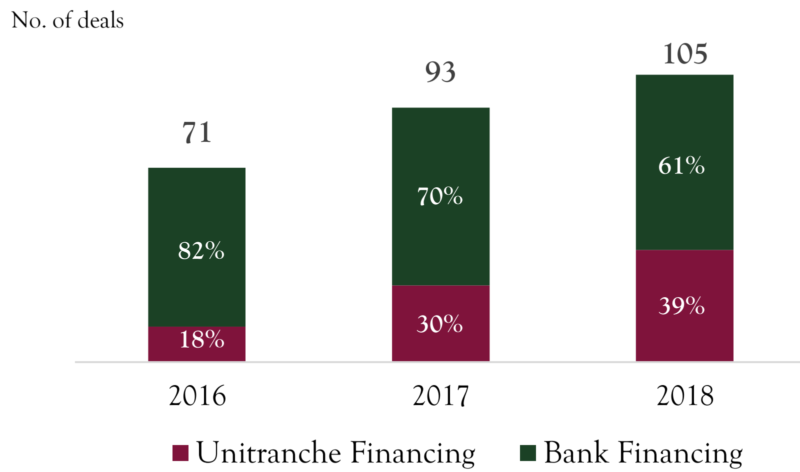
Role of debt funds

- In 2018, debt fund activity was strong. The share of fund-financed deals increased significantly from 30% in 2017 (28 out of 93 deals) to 39% (41 out of 105 deals) in 2018
- The most active debt funds in the DACH market for 2018 were Ares and Pemberton with 7 deals each, as well as Alcentra and BlueBay with 4 deals each

Type of Deals in DACH Market (Full year 2018)



Increasing Popularity of Debt Funds in DACH



Financing options continue to evolve

Market update

- **Subscription finance**
  - Whilst it's a relatively mature market with a number of well established lenders and several new entrants in the space, we've also seen a small number of lenders partnering with non-banks, typically insurance companies and pension funds. This is a small but growing trend and is an innovative way for dominant players to maintain momentum whilst achieving a bigger slice of the ancillary relationship
  - Lenders continue to be focused on documentation, in particular reviews of LP side letters and timely perfection of LP security
- **Leverage facilities – Credit Funds**
  - In the credit fund sector, there continues to be strong demand from funds to use leverage at the fund level, and there are a number of unlevered credit funds who are now considering offering a levered sleeve to investors, usually where they intend to raise funds from US investors
    - In terms of initial structure selection, GPs are focused on any requirement for lenders to approve assets (eligible for leverage)
    - Traditionally the European market has operated with detailed eligibility criteria allowing leverage to be applied to assets as long as they meet the criteria, with the US market operating with lender approvals. The latter is now making inroads to Europe
    - In a limited number of examples, GPs have found that the eligibility criteria has not been designed with consideration to movements in the market and they have had to return to lenders for asset approvals. Therefore gaining maximum flexibility in eligibility criteria is key to ensuring an optimal financing
- **Leverage facilities – Buyout Funds**
  - Whilst leverage facilities have traditionally been provided to credit funds and secondary funds to increase investment capacity and enhance returns, we are seeing an increasing number of buyout funds requesting these facilities. There are a number of reasons for doing this including:
    - Provide LPs with liquidity or enhance returns
    - Provide additional capital for follow on investments in the later stages of the fund's life
    - As an alternative to individual financing at portfolio company HoldCo level
  - There are a small number of banks and funds that provide these facilities, and structures are either term debt or a preferred equity instrument with lender controls, protections and economics varying widely

Marlborough PARTNERS

21 Sackville Street
W1S 3DN London
Tel: +44 (0) 20 3053 3600

An der Welle 4
60322 Frankfurt
Tel: +49 (0) 69 7593 8237

Paseo de la Castellana, 18
28046 Madrid
Tel: +34 917 942 638

Jonathan Guise
Chairman
Tel: +44 20 3053 3602
Email: jg@marlpar.com

William Allen
Managing Partner
Tel: +44 20 3053 3603
Email: wa@marlpar.com

Gurjit Bedi
Managing Partner
Tel: +44 20 3053 3606
Email: gsb@marlpar.com

David Parker
Managing Partner
Tel: +44 20 3053 3601
Email: djp@marlpar.com

Romain Cattet
Partner
Tel: +44 20 3053 3604
Email: rc@marlpar.com

Markus Ehrler
Partner
Tel: +44 20 3053 3610
Email: me@marlpar.com

Pedro Manen
Managing Director
Tel: +44 20 3053 3611
Email: **pm@marlpar.com**

Tim Metzgen
Managing Director
Tel: +44 20 3053 3608
Email: tm@marlpar.com

Aubrey Simpson-Orlebar
Senior Advisor
Tel: +44 20 3053 3605
Email: aso@marlpar.com

Holly Bott
Director
Tel: +44 20 3053 3615
Email: hb@marlpar.com

JP Davidson
Director
Tel: +44 20 3053 3607
Email: jpd@marlpar.com

Alex Eptas
Director
Tel: +44 20 3053 3609
Email: ae@marlpar.com

Jan Hoon
Director
Tel: +44 20 3053 3616
Email: jh@marlpar.com

Kieran Welsh
Director
Tel: +44 20 8016 5445
Email: kw@marlpar.com

Jochem Bron
Associate Director
Tel: +44 20 8016 5435
Email: jb@marlpar.com

Alessandro Brembati
Associate
Tel: +44 20 8016 5434
Email: ab@marlpar.com

Philippe de Courrèges
Associate
Tel: +44 20 3053 3613
Email: pc@marlpar.com

Charles Devevey
Associate
Tel: +44 20 3053 3619
Email: cd@marlpar.com

Steve Green
Associate
Tel: +44 20 8016 5436
Email: sg@marlpar.com

Dominic Jones
Associate
Tel: +44 20 8016 5433
Email: dj@marlpar.com

Randal Pringle
Associate
Tel: +44 20 8016 5437
Email: rp@marlpar.com

Roeland Stolker
Associate
Tel: +44 20 8016 5443
Email: rs@marlpar.com

Emre Abale
Analyst
Tel: +44 20 8016 5432
Email: ea@marlpar.com

Uzair Chiragdin
Analyst
Tel: +44 20 8016 5438
Email: uc@marlpar.com

Ana Laura Martins
Analyst
Tel: +44 20 3053 3614
Email: am@marlpar.com

Charlie Millar
Analyst
Tel: +44 20 8016 5439
Email: cm@marlpar.com