Private Debt Intelligence – 2/11/2019

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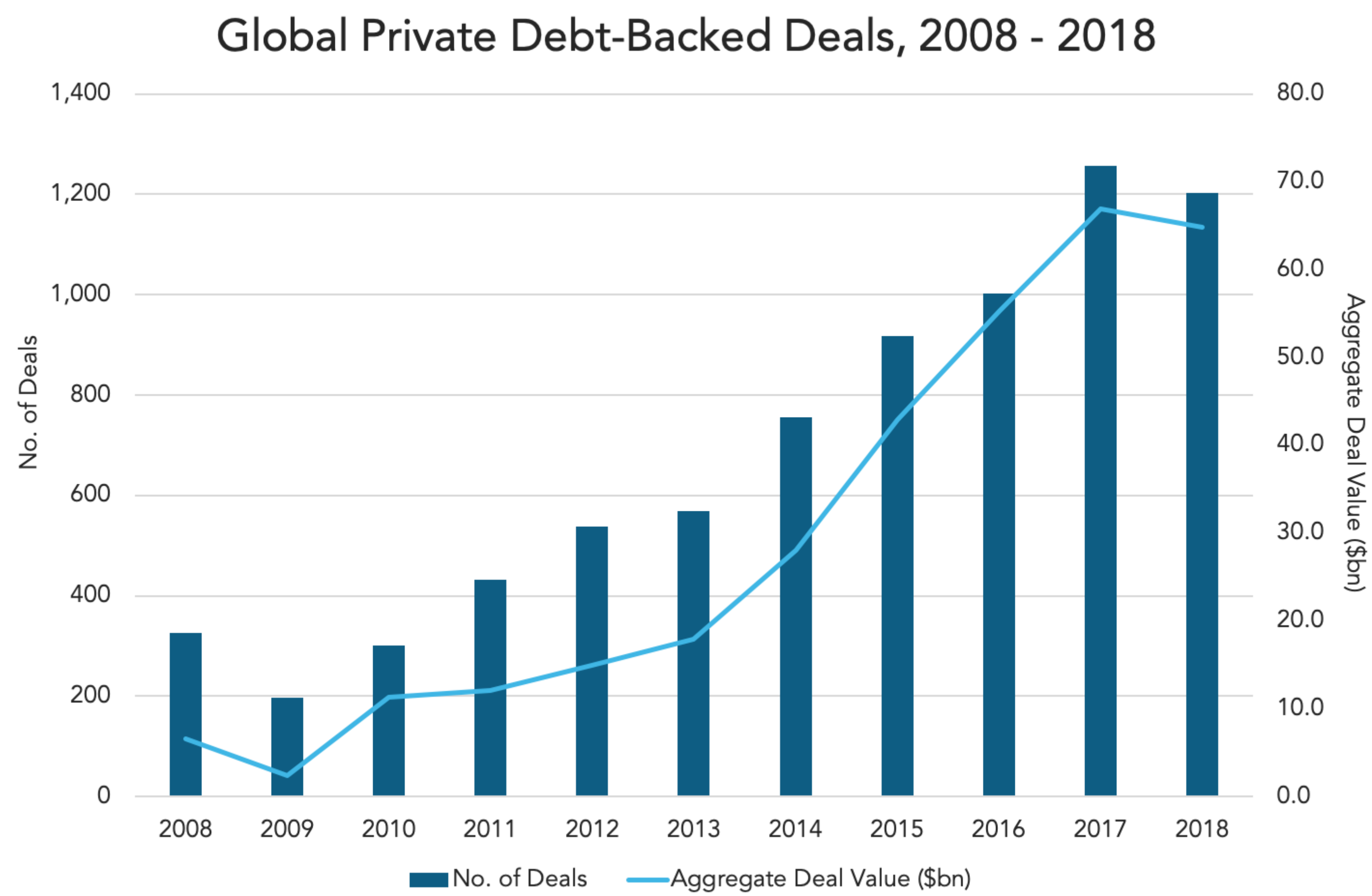
Strong Private Debt Deal Activity Leads to a Challenging Market

Chart



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The private debt industry has emerged as a vital part of the private investment market in recent years and due to strong fundraising, fund managers have had significant amounts of capital available to deploy: private debt dry powder reached a record $307bn as at June 2018. With so much available capital, fund managers have faced greater competition for investment opportunities,which has caused spread compression on interest rates and loan terms, making for a competitive deal market.

From 2009 to 2017, the industry recorded year-on-year increases in both the number and aggregate value of private debt-backed deals. 2018 activity has remained strong, seeing 1,203 deals worth a total $65bn. Although this is ever so slightly below 2017 levels when 1,256 deals were made for an aggregate $67bn, Preqin expect 2018 figures to rise by up to 5% as more information become available, which means 2018 could in fact be a record year for private debt deal activity.

However, with success comes future challenges for the private debt market. The majority (54%) of fund managers surveyed by Preqin at the end of 2018 were experiencing more competition for investment opportunities than one year prior. Furthermore, another 53% of fund managers surveyed predict that competition for assets will bet the biggest challenge to return generation in 2019.

A consequence of intense market competition is that the types of deals backed by private debt funds are more diverse. Historically, private debt deal activity has concentrated heavily on providing sponsored financing to leveraged buyouts, but over the past five years, these types of transactions have accounted for a diminishing proportion of the market. In contrast, there has been a rise of add-on and growth investments being financed by private debt vehicles, as well as a rising number of non-sponsored deals in the form of loans directly to companies.

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