Business of Private Credit: Playing to Your Strengths

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“Show me a great credit, and I’ll show you a great sponsor behind it.”

For this series, we’ve focused on how core middle market lenders underwrite a borrower. But before the lender ever sees the deal, a sponsor has already spent months, sometimes years, evaluating whether this was a company worth owning.

The best sponsors aren’t just capital allocators; they are operational architects who know how to turn good businesses into great ones. Direct lenders who have partnered with these sponsors across cycles know the value of that filter.

What are middle market private equity investors looking for? Growth, first and foremost. Capital providers underwrite to downside, and PE firms invest for upside. Where a credit team asks *“what protects the loan if revenue drops 20%?”*, a sponsor asks *“what does this business look like at 3x its current size?”* Those two questions are more complementary than they sound. The equity upside case and the credit downside case are built on the same foundation.

Underwriting for growth shows up in the numbers. Recent research found that PE-backed companies grew revenue 12.9% YoY in 2025, versus 10.4% for their non-sponsored peers. Many of these companies were also twice as likely to have made an acquisition or opened a new facility during that period.

For some of the best PE partners, sector expertise is the strategy. Multiple expansion and cheap leverage are no longer reliable levers. With managers putting up 40-60% of the purchase price in cash, returns depend on making the business meaningfully better, not just riding a multiple. That value creation takes years of industry-specific operating experience, relationships, and pattern recognition that generalists don’t have. That’s why many middle market sponsors today function as sector specialists.

This fundamental approach has defined successful private equity investing. Specialists develop long-term conviction on where to deploy capital, rather than trading in and out of the hottest themes. Contrast that with the large cap private equity market, which recently scrambled in and out of software (IT) and into energy (see our *Chart of the Week*). Real activity, but momentum-driven behavior that surfaces when crowded themes get challenged.

It’s tempting to think private credit and private equity compete for attention in an investor’s portfolio. In the core middle market, they go hand in hand. The sponsor decides which businesses are worth owning, built on years investing in a sector. The lender decides which of those are worth financing, inheriting that same sector conviction in the process. Each seat relies on the other, and both are underwriting from real conviction. This is a partnership that works together on behalf of investors.