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US

Private Credit & Middle Market Weekly Wrap

Word on the street

The SuperReturn Private Credit event this week at Times Square in NYC allowed for a reunion of lenders, private equity firms, asset allocators, family office representatives, and other market players. In a rich series of off-the-record presentations, participants gained new ideas and insights on the part of the credit market that's on everyone's radar right now.

Among the notes: 1) The European private credit market has fewer participating firms than in the US. Thus, these firms have a higher concentration of market share, and are experiencing tremendous deal flow; 2) Private credit in Europe is growing at twice the rate as in the US, but from a lower base; 3) Non-sponsored loans on US borrowers command a private credit spread premium of roughly 150-200 bps.

— See full commentary, page 3

Rolling 90-day first-lien activity ($350 million or less)

	Volume ($B)	Number	Spread/floor/OID	Yield to maturity
Acquisition	0.55	2	L+421 / 25 / 98.5%	10.30%
Other	0.00	0	NA	NA
Total	0.55	2	L+421 / 25 / 98.5%	10.30%

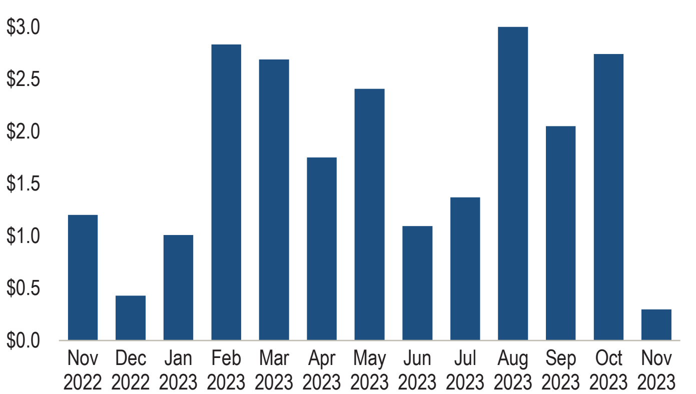
Source: PitchBook | LCD

First-lien flex activity

	Nov (down/up)	Oct (down/up)	Sep (down/up)	Aug (down/up
$201M - $350M	0%/0%	0%/0%	0%/0%	0%/0%
$351M - $500M	0%/0%	0%/0%	0%/13%	25%/0%
All	0%/0%	0%/0%	0%/10%	25%/0%

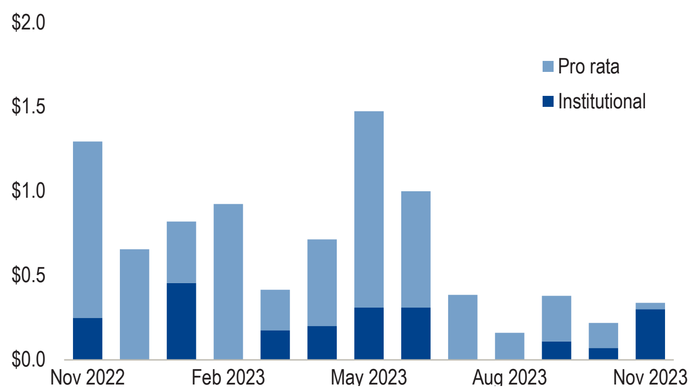
Source: PitchBook | LCD

Monthly middle market CLO issuance ($B)



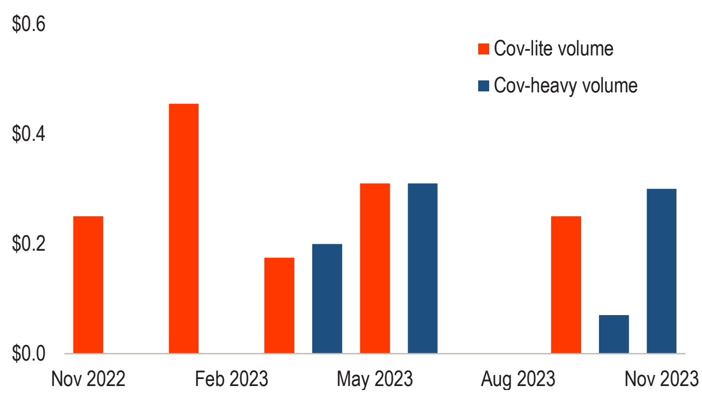
Source: PitchBook | LCD

New-issue middle-market (loans of up to $350M) loan volume ($B)



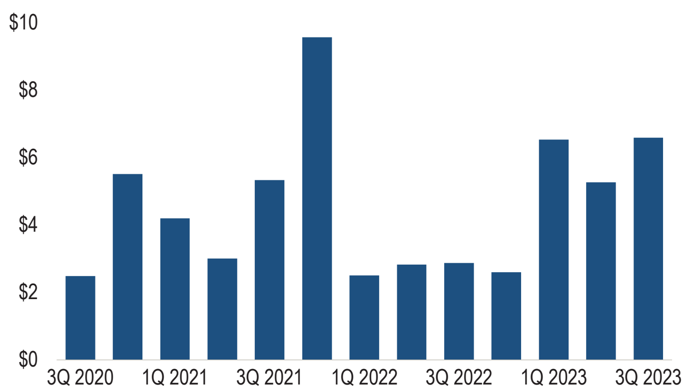
Source: PitchBook | LCD

Middle-market (loans of up to $350M) institutional volume ($B)



Source: PitchBook | LCD

Quarterly middle market CLO issuance ($B)



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Some notes:

- The European private credit market has fewer participating firms than in the US. Thus, these firms have a higher concentration of market share, and are experiencing tremendous deal flow.

- Private credit in Europe is growing at twice the rate as in the US, but from a lower base.

- Non-sponsored loans on US borrowers command a private credit spread premium of roughly 150-200 bps.

- Revolvers are "the cost of doing business" in North America, although lenders would rather not do them. "It's the lever you pull to do a deal."

- Loan recoveries will be lower in the future than they have been in the past.

- Watch for moves from cash pay to PIK interest.

Back to the market. **Legends Hospitality** has received commitments for $1.85 billion in financing, according to market sources. The financing was signed on Nov. 7. Ares Capital Corporation is administrative agent. Ares and KKR Capital Markets were joint lead arrangers, sources said. Lenders included Goldman Sachs Asset Management, Oaktree Capital, HPS Investment and Apollo Global Management. Paul Hastings advised Ares Capital on the transaction. The financing includes a $1.55 billion unitranche term loan, a $100 million delayed-draw term loan and a $200 million revolver. Pricing is S+600. Net leverage is 4.5x. Proceeds are earmarked to support the add-on acquisition of **ASM Global**, a Los Angeles-based venue and event company, according to sources. The transaction is due to close in early 2024, market sources said. ASM Global was created as the result of the 2019 merger between AEG Facilities, the venue management affiliate of Anschutz Entertainment Group, and SMG, a portfolio company of Onex. The company, co-founded by Dallas Cowboys owner Jerry Jones and the late George Steinbrenner, former owner of the New York Yankees, provides merchandising and management services to sports and entertainment industries. The business is an investment of Sixth Street.

Loan market, by the numbers

Large corporate (>$50M of EBITDA)	90 day rolling average 11/9/2023	10/31/2023	9/30/2023
Spread (over base rate)	394	388	390
Floor (bps)	35.9	37.1	38.4
OID	98.56%	98.53%	98.57%
Yield	10.13%	10.09%	10.08%
Observations	119	133	152

Source: PitchBook | LCD

Note: Yield calculations are based on current base rate.

It's also the middle of BDC earnings for the third quarter. Sixth Street Specialty Lending Inc. (NYSE: TSLX) said there had been a "moderate uptick" of M&A activity. It originated $206 million in commitments and $152 million in funds to eight new portfolio companies and two existing portfolio companies during the quarter ended Sept. 30. New loans included a $31.5 million, S+700 first-lien term loan due July 2029 to **Smartlinx Solutions**, and a $31.7 million, S+775 first-lien term loan to

Middle-market loan calendar

Institutional loans by deal size

$350M or Less	Purpose	Lead agent	Sponsor	Deal size ($M)	Institutional spreads	LIBOR floor (bps)	OID
TransNetwork Corp	Acquisition	Truist Bank	Flexpoint Ford	300	S+550 - 575	50	NA

Source: PitchBook | LCD

shipping software company **Marcura**. Lone View Capital in July acquired a majority stake of Smartlinx Solutions, the healthcare workforce platform. The company had no new non-accruals during the quarter. As of Sept. 30, 0.66% of the portfolio at fair value was on non-accrual status. Repayments totaled $159 million, due to seven full and 11 partial investment realizations.

Two of the largest exits were driven by refinancings in the broadly syndicated market and one by an acquisition. **ChiroTouch** was the largest prepayment. The direct lending environment had become "moderately" more competitive due to low deal activity, high levels of dry powder and an increase of new entrants to the space.

"We expect to see a portion of the $130 billion of leveraged loans maturing by the end of 2025 to come to private credit, creating opportunities to put capital to work, when interesting opportunities arise," said company president Bo Stanley on a Nov. 3 earnings call.

The company noted that the last time investors worried about a maturity wall in the broadly syndicated loan market their worries were generally unfounded, since policy makers were able to lower rates after the Global Financial Crisis. "And today, the policy makers don't have that. So, I think the maturity wall is going to be harder to deal with," said Sixth Street Specialty Lending CEO Joshua Easterly. This should provide some of the much-needed deal activity that private credit providers are looking for. In addition, the company believes that private credit will perform better than broadly syndicated credit, and there will likely be more differentiation in performance between firms within private credit. "I think the big differentiator for private credit generally has been their ability to tilt into ... higher quality industries. They got to pick better industries and they didn't have to be index huggers," Easterly said.

Average new-issue first-lien statistics (last 30 days)

Deal size	Spread (L+)	Floor (bps)	Offer price	YTM	Deal count
$501M+	445	35	97.76%	10.89%	30

Source: PitchBook | LCD

Also from Sixth Street Specialty Lending: **Khoros**, an investment of Vista Equity Partners, has added a pay in-kind component to its interest, the lender's investment portfolio showed, according to Wells Fargo research. Khoros was created in 2019 via a merger of Spredfast and Lithium Technologies. Sixth Street Specialty Lending is a lender to the company. As of Sept. 30, Sixth Street's investment portfolio showed $57 million in principal of an S+900 first lien loan due 2025. Total interest on the loan, at 14.4%, includes a 4.5% PIK component. The loan makes up 3.8% of the lender's total assets. The PIK component was not part of the investment portfolio as of June 30. "Inside the book, Vista Equity buyout Khoros (Lithium) strikes us as interesting given marks across the industry (HTGC at par, TSLX 98%, TCPC 82%) at 9/30, and a new PIK component to the coupon," Wells Fargo BDC research analyst Finian O'Shea said in a Nov. 6 note, referring to other BDCs that hold the debt. "The sponsor made an additional equity investment, allowing for an extension of its maturity to Feb. '25 from Feb '24. We take comfort in the lender group, which has demonstrated its returns-first orientation vs. a relationship / SLaaS [senior loans as a service] style, but its size (3.8% of NAV) demands close attention," O'Shea said.

In another, BDC Bain Capital Specialty Finance (NYSE: BCSF) said it is favoring investments in the aerospace and defense industries due to its uncorrelated nature. "Aerospace and defense is our largest sector exposure and one that we continue to favor in the current environment, given it does not generally cycle with the macro-economy," said president of Bain Capital Specialty Finance Michael Boyle. The private credit lender's largest investment during the quarter was to security and surveillance company **Forward Slope**. Form 10-Q filings for the quarter ended Sept. 30 show a $24.97 million first-lien senior secured loan due 2029 and a $2.37 million revolver to the company. The facility also includes a delayed draw. Interest on the six-year facility is S+685. Another large investment during the quarter was a $24 million first-lien loan to **HealthDrive**, a medical and dental care company for on-site healthcare. In August, private equity firm Cressey

& Co. announced it had acquired the company from impact investor Bain Capital Double Impact. Total investment funding for the quarter was around $110 million across 40 portfolio companies, including $52 million in two new companies and $57 million in add-ons, according to investors. Sales and repayments for the quarter equaled around $103 million. “We continue to have busy months [and] not so busy months.... I’d qualify it as fine, not great, from a deal flow perspective,” said CEO Michael Ewald.

In CLOs, Societe Generale on Nov. 7 priced the $397.3 million Owl Rock CLO XIV, a large cap private credit CLO offering managed by Blue Owl Diversified Credit Advisors. Terms include a triple-A spread of 240 bps on the Class A and Class A-L tranches, according to market sources. The non-call period ends in October 2025, and the reinvestment period runs through October 2027. The first payment date is in April 2024. The deal is expected to close Nov. 21. The CLO is the third issuance from Owl Rock in 2023, and the first since the pricing of the middle market $396.5 million Owl Rock CLO XII in June.

In one analysis, the Lincoln Private Market Index (LPMI), which tracks the enterprise value of privately held companies in the US, increased by 0.8% in the third quarter, driven by earnings growth that continues to exceed the historical average. Revenue of companies in Lincoln’s database grew roughly 8.5% in the third quarter on a lagging 12-month basis, which compares to increases of 10.5% in Q2 and 11.8% in Q1. The third-quarter figure was the first single-digit revenue growth quarter for the index since the fourth quarter of 2021. However, revenue growth in the third quarter was faster than the long-term average of 7.5%. The share of companies reporting year-over-year revenue growth was the lowest since the third quarter of 2021: Only 72% of companies’ revenue increased, down from 78% in the second quarter. Consumer companies were particularly soft, Lincoln International said.

Club scene

Veritone (Nasdaq: VERI) has obtained a $77.5 million term loan to repurchase existing convertible debt and provide capital for operations. Highbridge Capital Management is one of the lenders, according to a Nov. 7 Form 8-K.

The company said that $37.5 million of the financing will be used to repurchase existing convertible debt at 75% of par, and that $40 million will be used for operations. The 1.75% convertible notes are due 2026, and the financing will fund the repurchase of an aggregate $50 million of principal amount. Interest on the four-year facility is S+850, with a 3% floor. The entire facility must be drawn at close.

The Worldwide Home Care division of **Sodexo** obtained a junior debt and minority structured equity investment to support the buyout of the division by private equity firm The Halifax Group.

Sentinel Capital Partners provided the investment, according to a Nov. 6 press release. In September, middle market private equity firm Halifax announced an acquisition of the business, including certain home care subsidiaries, from French Sodexo (PAR: SW).

Pharmaceutical service company **ExactCare**, a portfolio company of Nautic Partners, obtained debt financing supporting an acquisition of Tabula Rasa HealthCare (Nasdaq: TRHC). MidCap Financial is administrative agent on the financing, according to a Nov. 3 Form 8-K. The senior secured credit facility comprises a $275 million term loan and a $30 million revolving credit facility, which includes a letter of credit sub facility and a swingline loan sub facility.

Rokolabs received senior secured credit facilities backing a “strategic growth recapitalization” of the business by WestView Capital Partners. Abacus Finance Group was administrative agent and lead arranger on the loan. Abacus Finance Group also made an equity co-investment in Rokolabs.

Onix Networking Corp. received senior credit facilities backing a refinancing and an add-on acquisition, market sources said. BMO Sponsor Finance was administrative agent, joint lead arranger and joint bookrunner. Onix has been an investment of Tailwind Capital since July 2022.

Smartlinx Solutions received debt financing backing a buyout of the company by Lone View Capital. Sixth Street Specialty Lending said a $31.5 million, S+700 first-lien term loan due July 2029 for the borrower was one of its largest new investments in the quarter ended Sept. 30. The lender’s 10-Q filing also showed a $13.2 million delayed draw facility.

— Abby Latour

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