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Ana Arsov , Global Co-Head Financial Institutions Group/Head of Private Credit

Rise of Private Credit
Brookings
April 2024

Agenda

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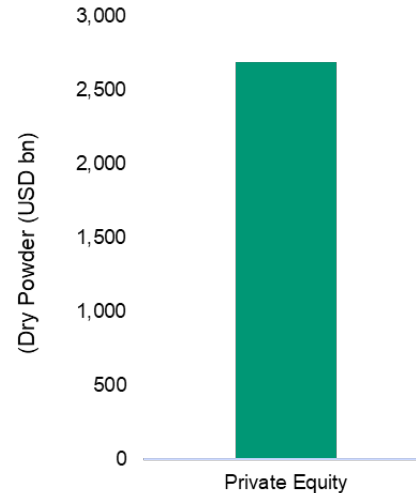
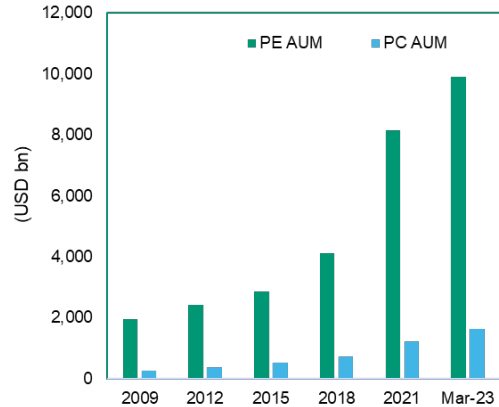
Rise of Private Credit

Rise of Private Credit



Private credit moves center stage in fixed income markets

Where it's coming from...



Where it's going...

- Private credit market estimated to reach **\$2.7 trillion** by 2027* driven principally by LBO financings
- Changes to bank capital regs will constrain bank's ability to lend, creating **more opportunities** for private credit lenders
- **Asset-backed finance** will drive **next phase of private credit market's evolution**. Apollo estimates that asset-backed finance represents a **\$40 trillion addressable market**

Stages of private credit market evolution*



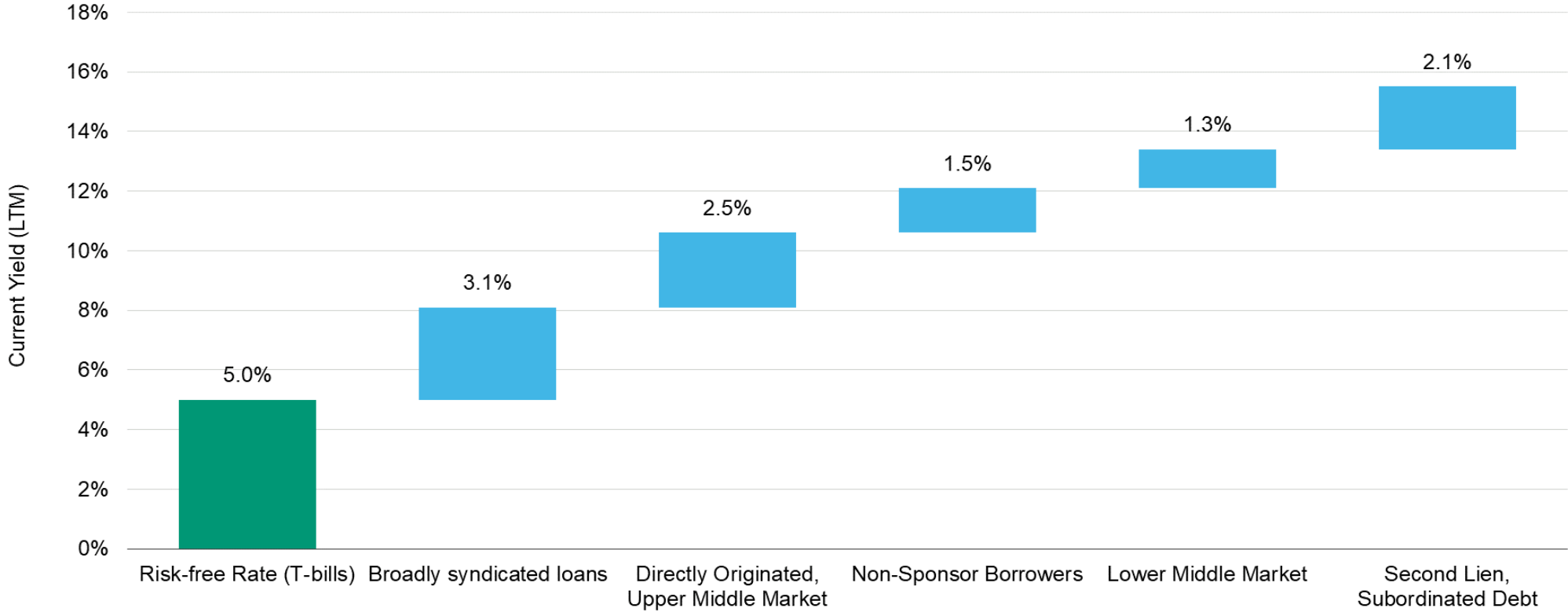
Sources: *BlackRock estimate; Apollo, AUM data from Preqin;

Why do borrowers choose private credit?

- ✓ Efficiency of execution
- ✓ Flexible structuring
- ✓ Confidentiality
- ✓ Greater certainty of terms
- ✓ Fewer public disclosure requirements

Source: Blackstone

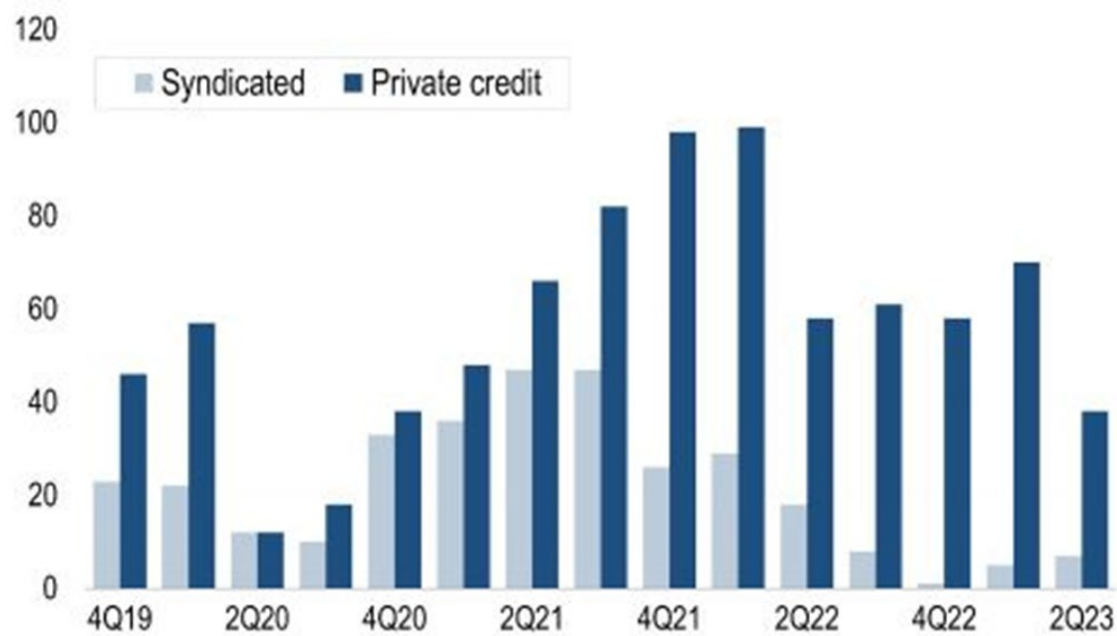
...but borrowers pay up for private financings



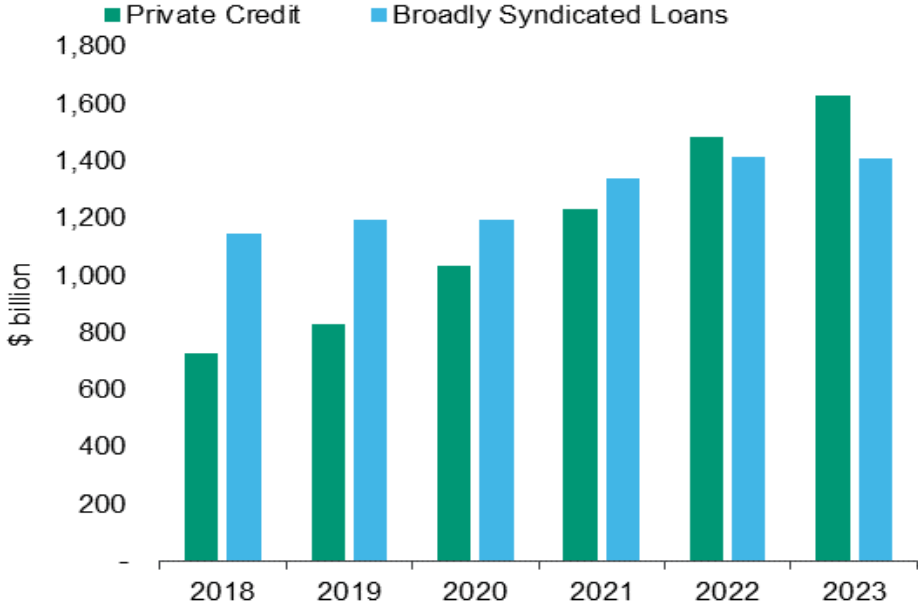
Source: Cliffwater

Direct lenders have taken market share from BSL market

Private credit is primary source of debt capital in LBO market



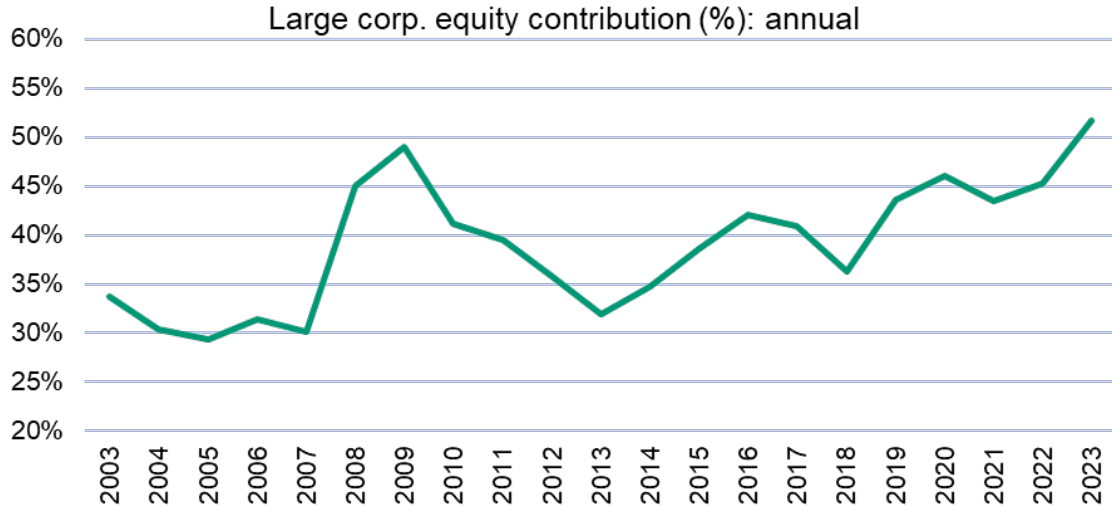
Private credit market now larger than BSL market



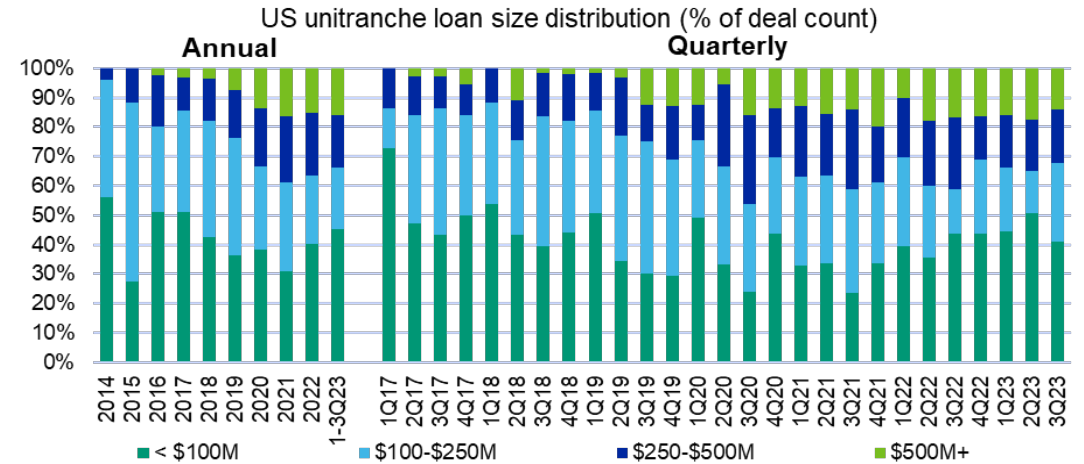
Sources: Pitchbook / LCD, Preqin

Competition between BSL & direct lending markets to intensify in 2024

Higher equity contribution will constrain PE returns



Rates and spreads are contracting - limiting returns for credit investors

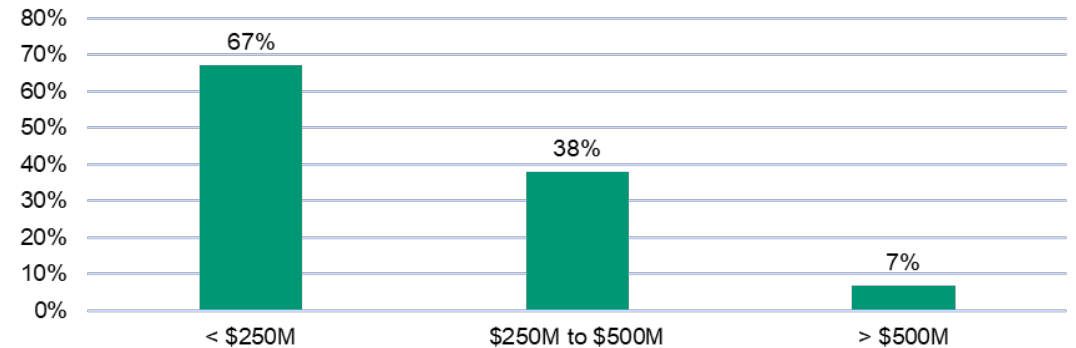


Private credit loan protections

- The smaller the deal, the greater the protection
- Private credit loans are strikingly more protective than BSLs, differences will narrow as competition with BSL market intensifies
- Private credit make borrowers pay for PIK, delayed draw and other flexibility with wider spreads, costlier calls, higher floors
- Credit terms are converging between mega tranche loans in direct lending and broadly syndicated loans
- Maintenance covenants go away as private credit deals get larger



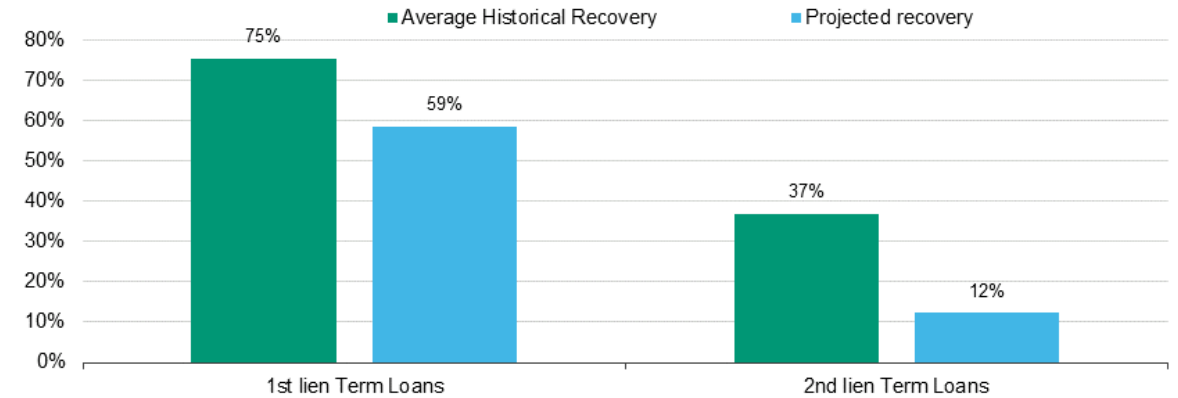
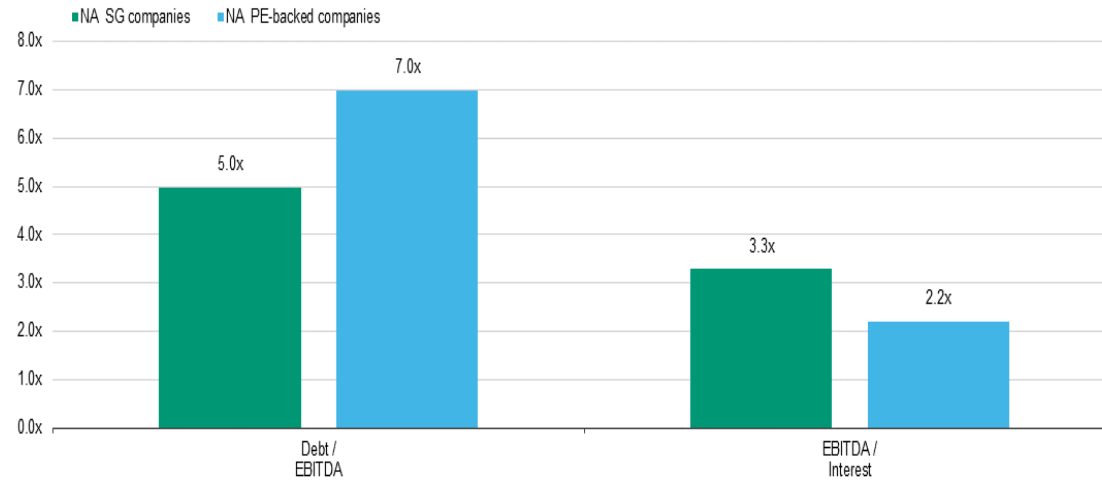
Percentage of PC loans with always-on (not springing) term loan maintenance covenant



Rise of private credit

PE-backed debt issuers have weaker credit metrics

Moody's LGD forecast predicts lower recoveries for BSL loans

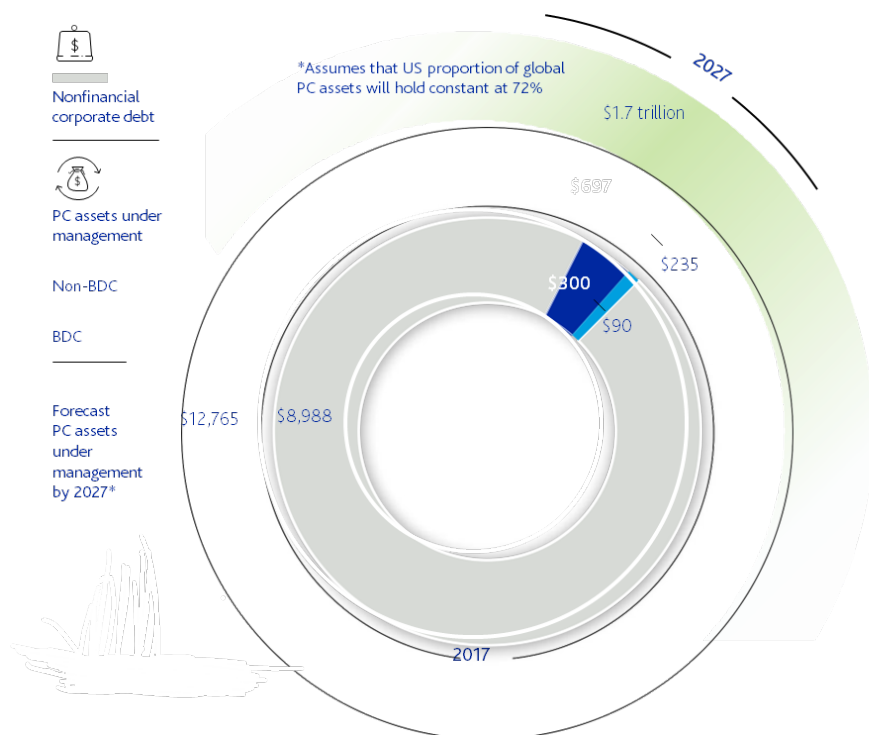


Source: Moody's; Note: North American corporates; credit metrics are summarized as medians

BDCs provide transparency into otherwise opaque market

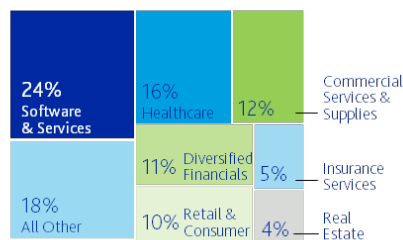
BDC total assets represent 25% of total US private credit AUM

US nonfinancial corporate debt, PC and BDC assets, in billions of USD

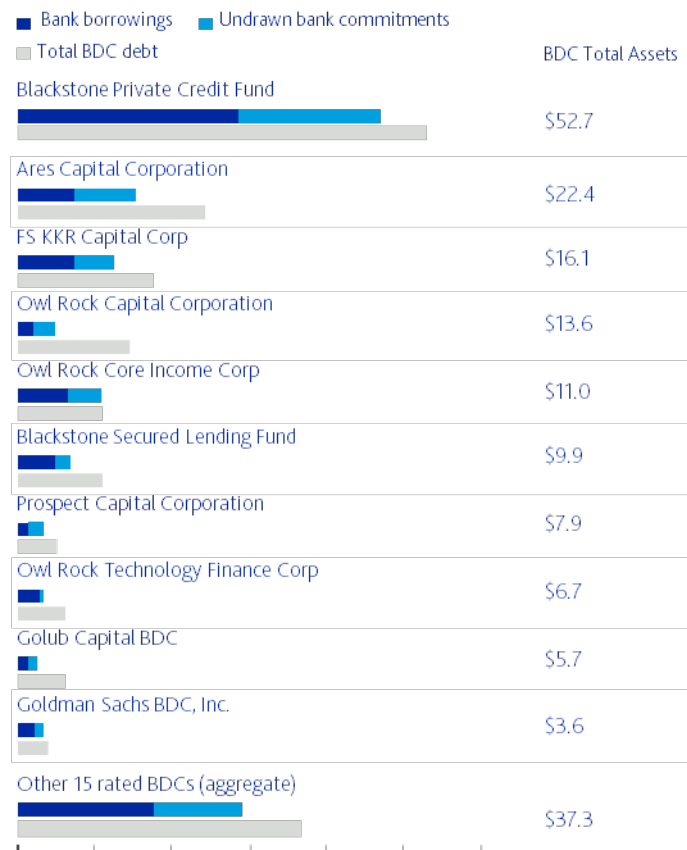


Expanding BDC portfolios are focused on recession-resilient sectors

Aggregate rated BDC sector exposure



BDCs' outstanding bank borrowings, undrawn bank revolving credit commitments and total debt, in billions at 31 December 2022



Sources: Moody's Investors Service, Federal Reserve, Preqin, Leveraged Commentary & Data (LCD), Companies' financial statements.

Thank you

Ana Arsov, Global Co -Head Financial Institutions Group/Head of Private Credit

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