Private Capital Community

H2 2024
Outlook Survey

Termgrid

The Termgrid Private Capital Community Survey Series

With 15k+ deal participants across 900 institutions using the Termgrid platform to run or participate in financing processes, Termgrid sits in the middle of the Private Capital ecosystem.

Every six months, we survey and speak with our community of private equity sponsors, private credit funds, bank lenders, debt advisors and law firms to capture collective sentiment on the outlook for the coming quarters.

Our H2 Survey focused on the outlook across three themes:

Market Outlook

An array of challenges and uncertainty still remains in H2. What concerns market participants most?

Deal Activity

Deal flow improved in H1 from the lows of 2023. But will M&A activity continue to improve in H2 and how significantly?

Technology Adoption

How do participants use technology currently? Is it moving up the agenda and in which areas?

Top Takeaways

- M&A activity improved in H1'24 from a low point in 2023 but remains the most significant factor impacting market dynamics. Sentiment remains somewhat cautious with 75% of respondents expecting a slight but not meaningful improvement in H2

- Overall M&A volumes remain relatively suppressed as a result of the continued price mismatch between buyer and seller driven by higher interest rates, recessionary fears and geopolitical risks

- However, deal timelines appear to be improving, suggesting there may be some green shoots in the deal activity dynamic

- Market technicals driven largely by surplus liquidity resulted in significant price tightening in H1 2024 (across both Private Credit and BSL markets). Around half of respondents foresee further 'slight' or 'meaningful' tightening of pricing / terms in H2

- Survey unveiled a dichotomy with sentiment favoring Private Credit over BSL in this tightening dynamic in H2 while most expect Private Credit deals continuing to be repriced into the BSL market, indicating a persistent pricing differential

Methodology

Survey responses were well balanced across the private capital ecosystem

Respondents were a mix of top-tier and mid-market sponsors, lenders, advisors and law firms with significant senior representation and global reach

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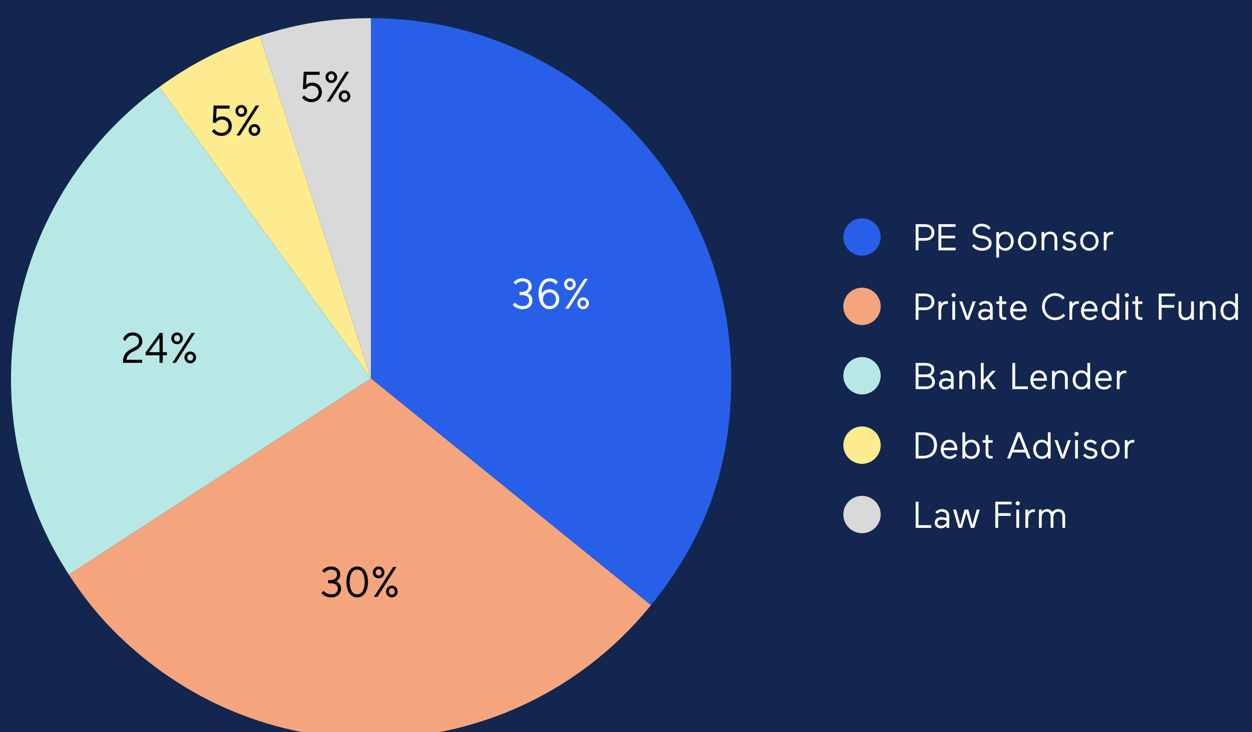

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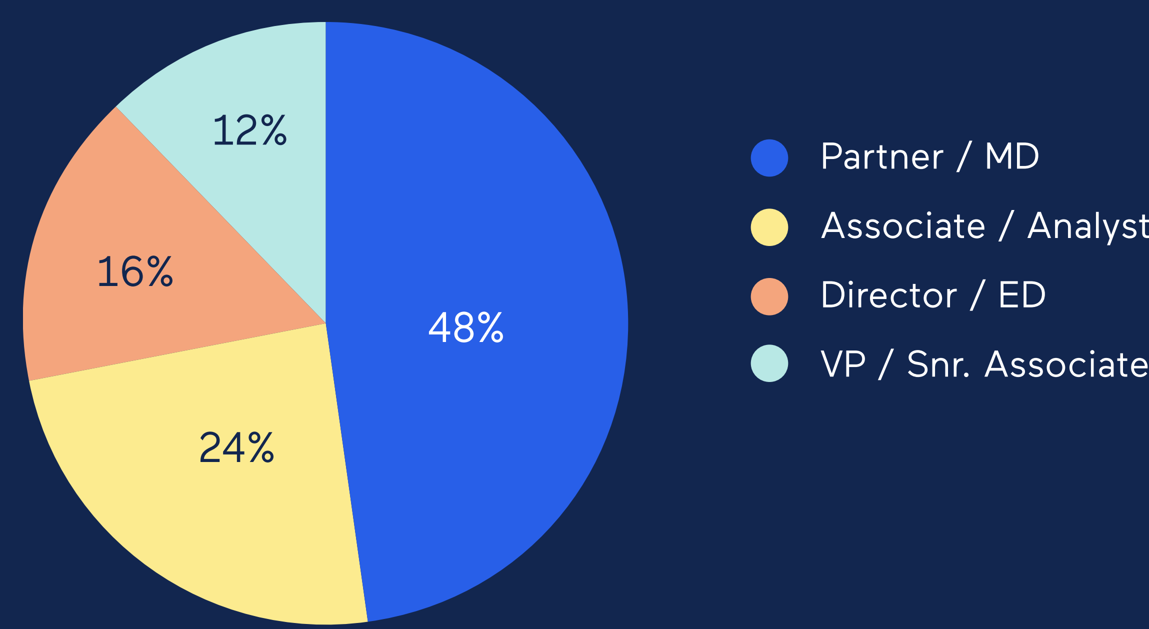
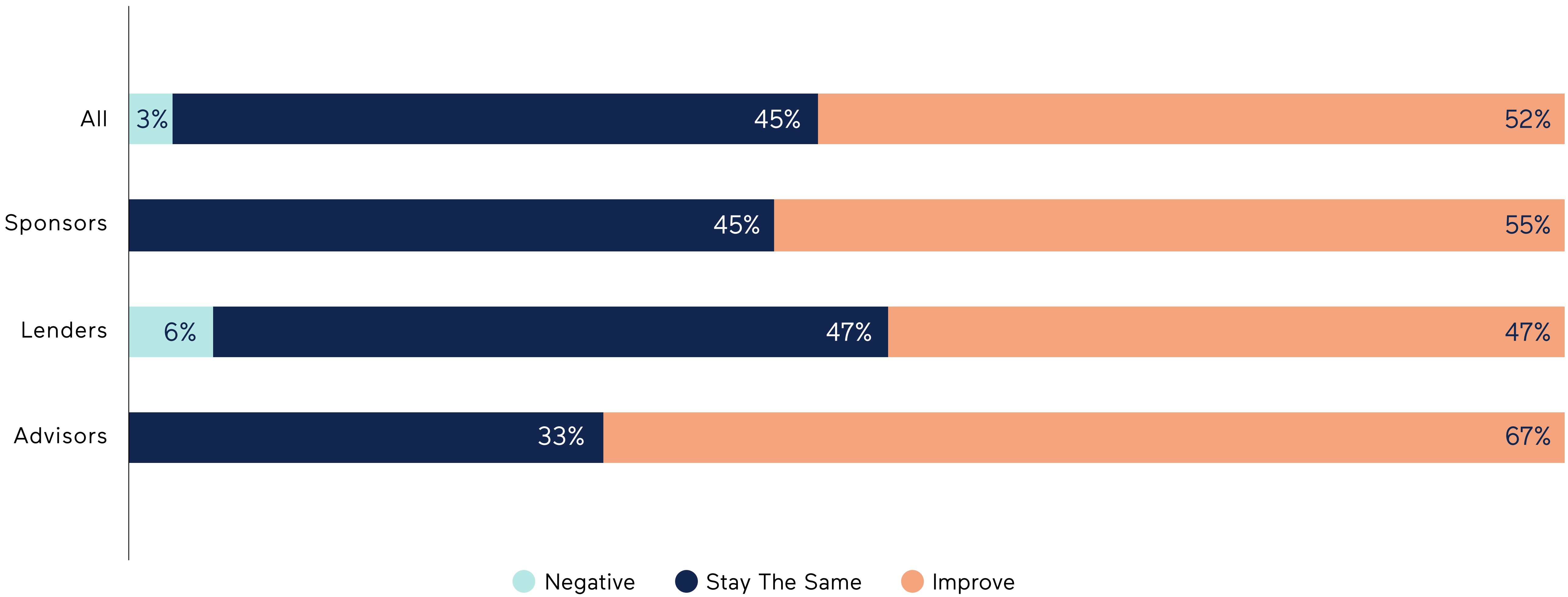


Majority of respondents expect H2 market conditions to improve vs H1

Advisors are relatively more bullish going into H2 2024

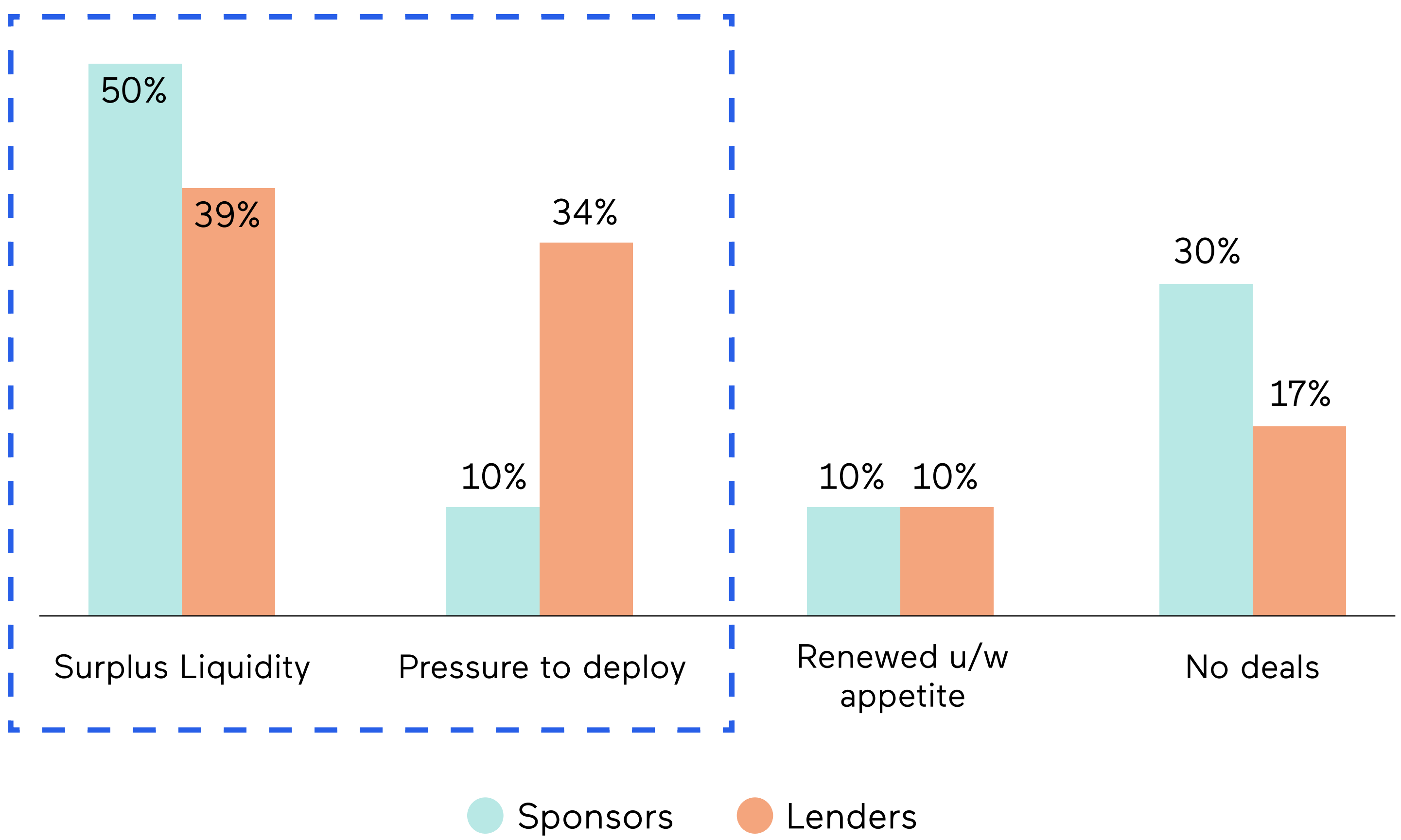
Q. What's your general outlook for the private markets in H2?



Surplus liquidity was the main driver of yield compression in H1

Notably Sponsor sentiment suggests they may have underestimated the pressure lenders are under to deploy capital

Q. What was the primary driver of margin/yield compression in H1 2024?



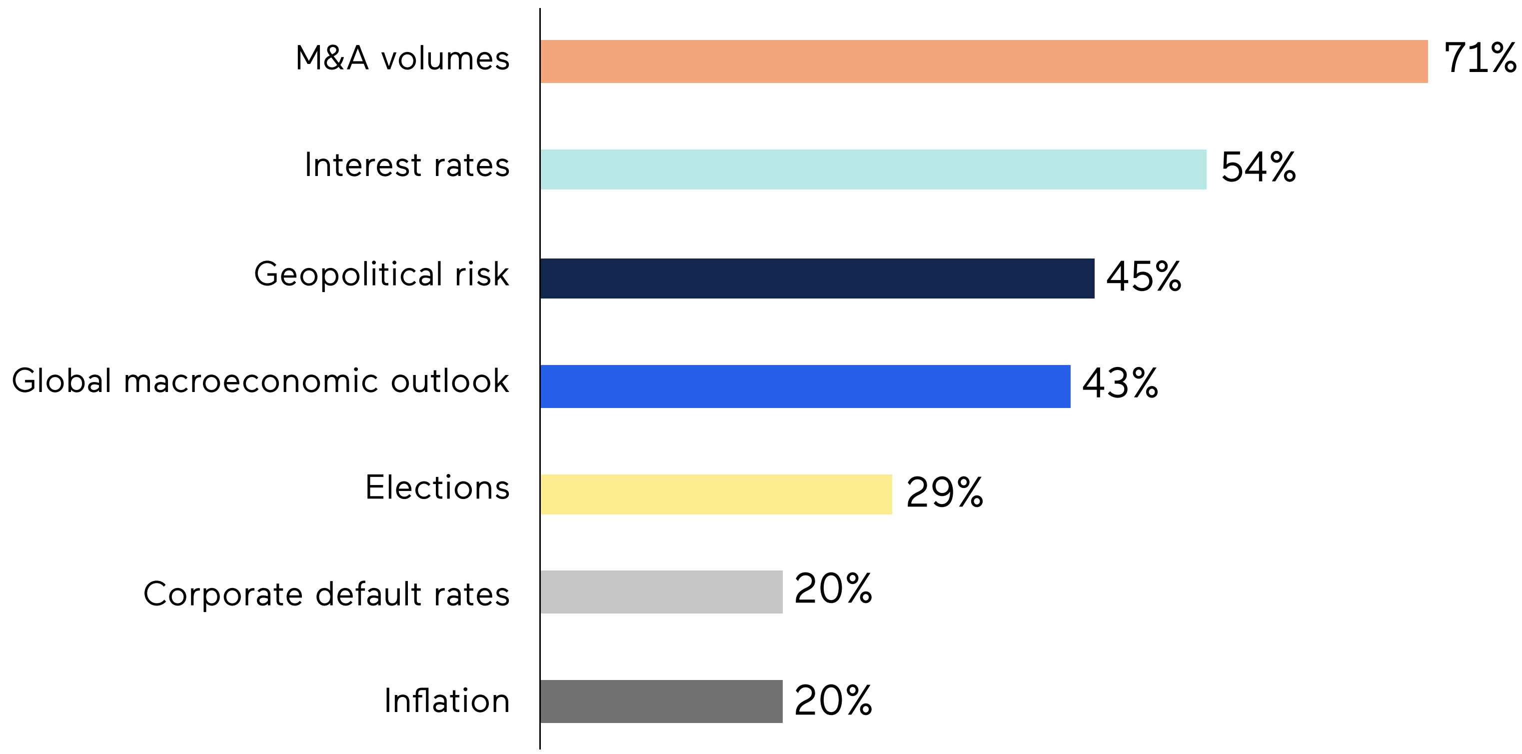
> Prolific fundraising activity in the direct lending market including several fundraises of €20+ billion combined with the return of the CLO market, is driving strong technicals across the market.

— Bank Lender, EMEA

Confluence of factors continue to impact private markets in H2

Interest rates, risk of recession and geopolitical factors will continue to impact the markets but M&A activity remains the big focus going into H2

Q. Which 3 will have the biggest impact on private markets in H2?



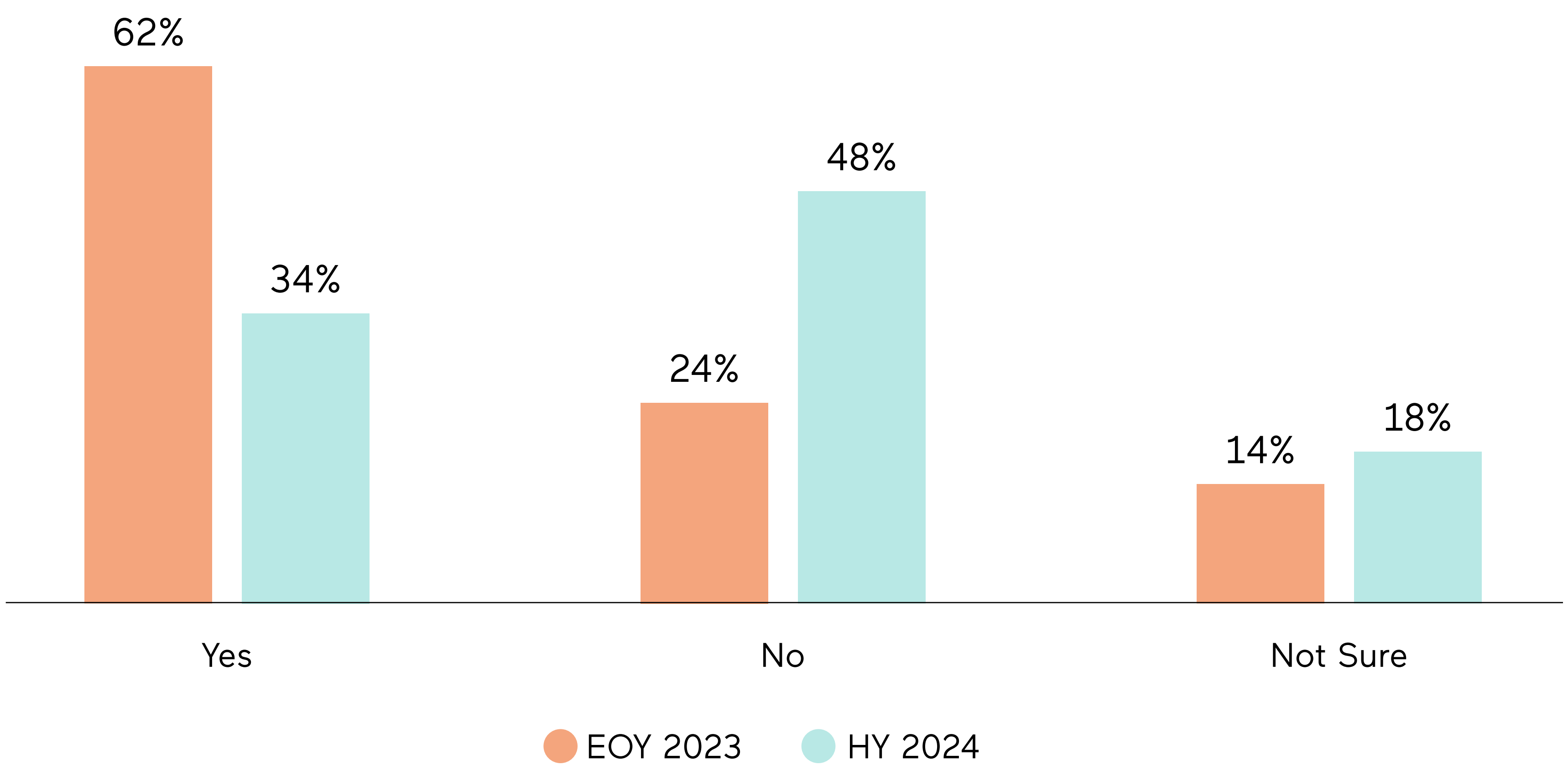
> The real question is when will the backlog of unsold portfolio companies be unlocked. The IPO market is inherently volatile and Private Equity buyers remain cautious.

— Advisor, N.America

Are compressing deal timelines a leading indicator that the market is gathering momentum?

In our EOY 2023 sentiment survey over 60% believed deals were taking longer. Only ~35% now state that to be the case

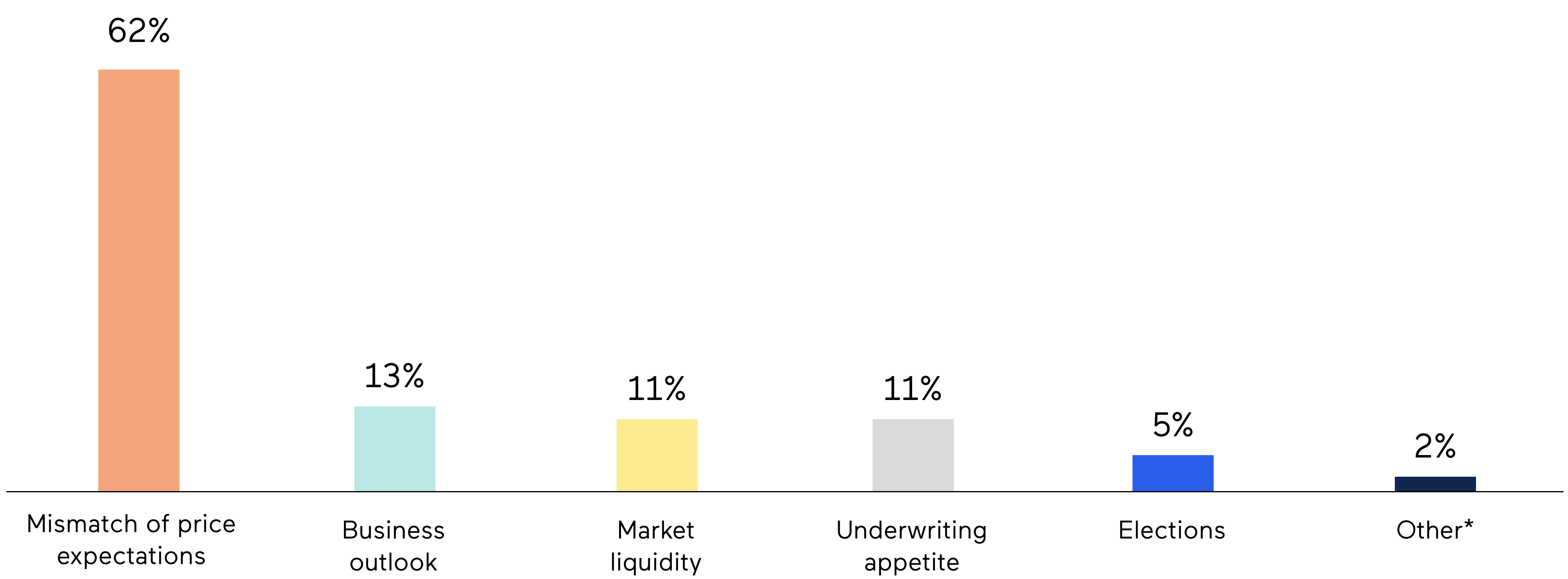
Q. Are deals taking longer to complete?



Despite some green shoots in M&A activity in H1 the price mismatch stalemate still persists

Consistent with EOY 2023 sentiment, sell-side valuation expectations are still the biggest factor impacting deal timelines

Q. What will be the biggest factor impacting deal timelines in H2?

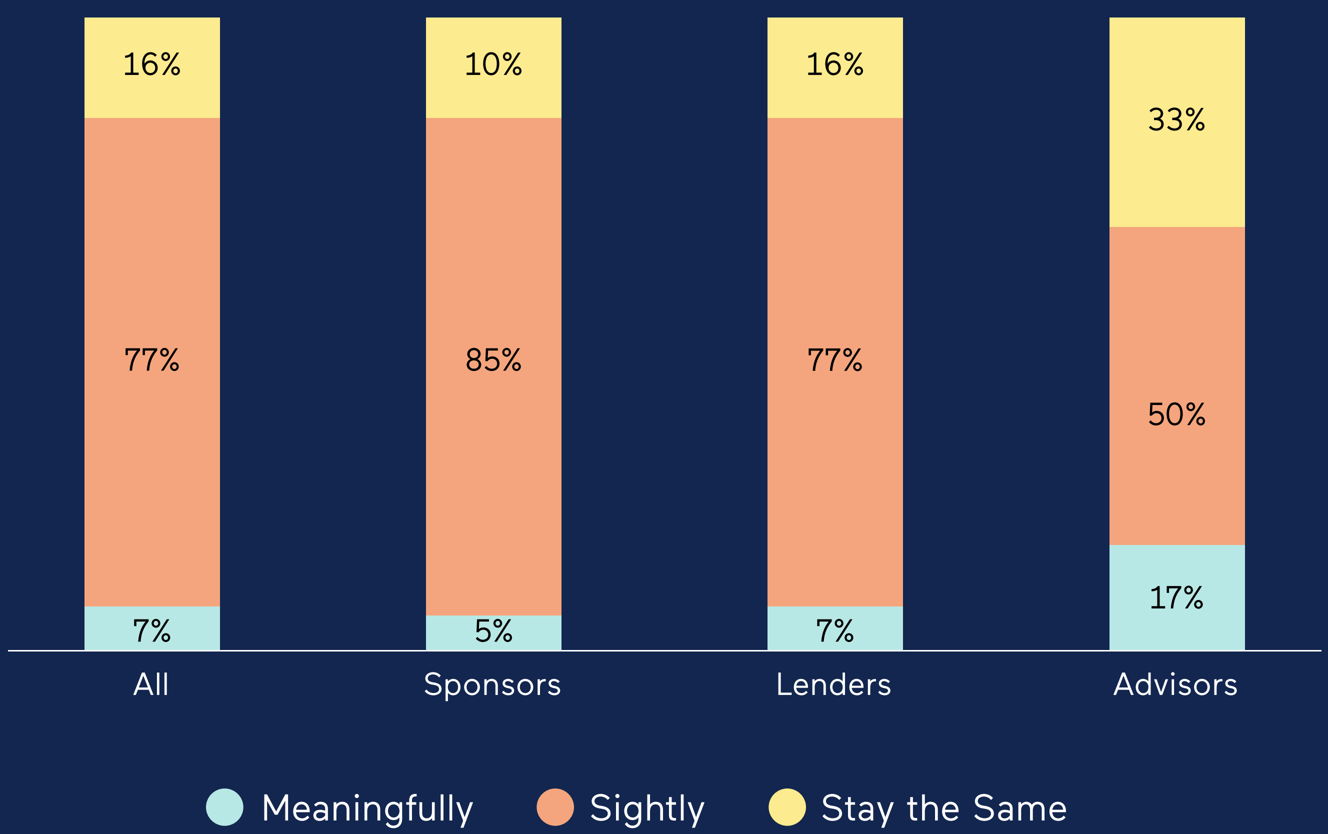


Other: Includes factors such as elongated due diligence processes due to higher bar for underwriting deals

Majority of the respondents are somewhat optimistic about improved M&A volumes in H2

<10% of Sponsors or Lenders expect meaningful uptick in H2 M&A volumes

Q. Will M&A activity improve in H2?



> Going into 2024, we had pretty high expectations for M&A, but once again these haven't fully materialized. However, the inflection point for M&A maybe nearing, as we are beginning to see improved activity in our deal pipeline.

— Sponsor, N.America

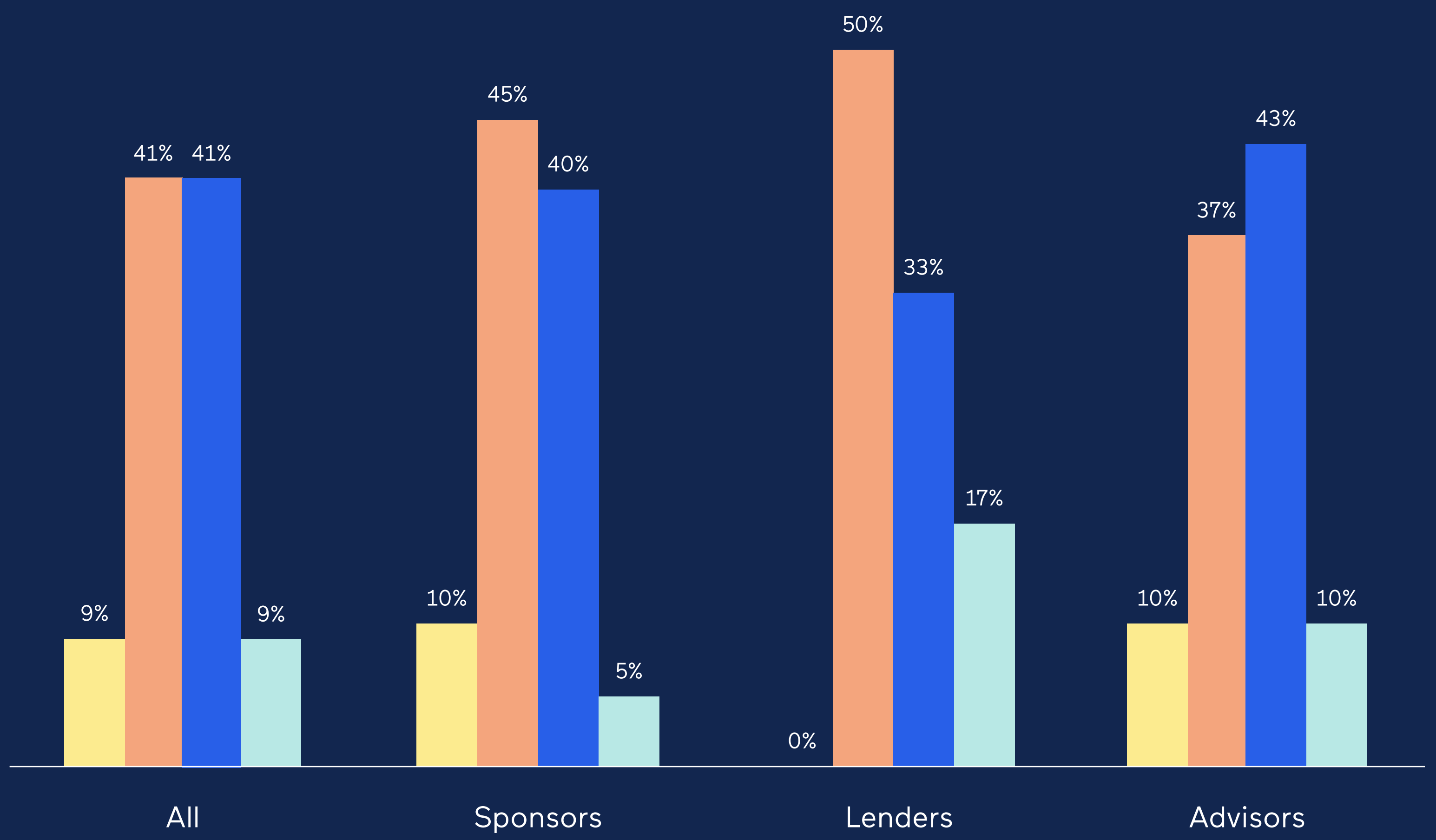
> M&A pick up should be closer as the availability of financing is certainly back and folks may start doing the more marginal deals once rate cuts start providing more manageable interest costs on levered assets.

— Investment Bank, N.America

50% expect further tightening of pricing and terms in H2

Despite a significant amount of tightening in H1

Q. In the absence of any material M&A, will pricing and terms tighten further in H2?



> Margins have compressed meaningfully, we've seen compression of 150-200 bps. The expectation is that pricing will remain at these competitive levels due to market technicals and supply side issues.

— Direct Lender, N.America

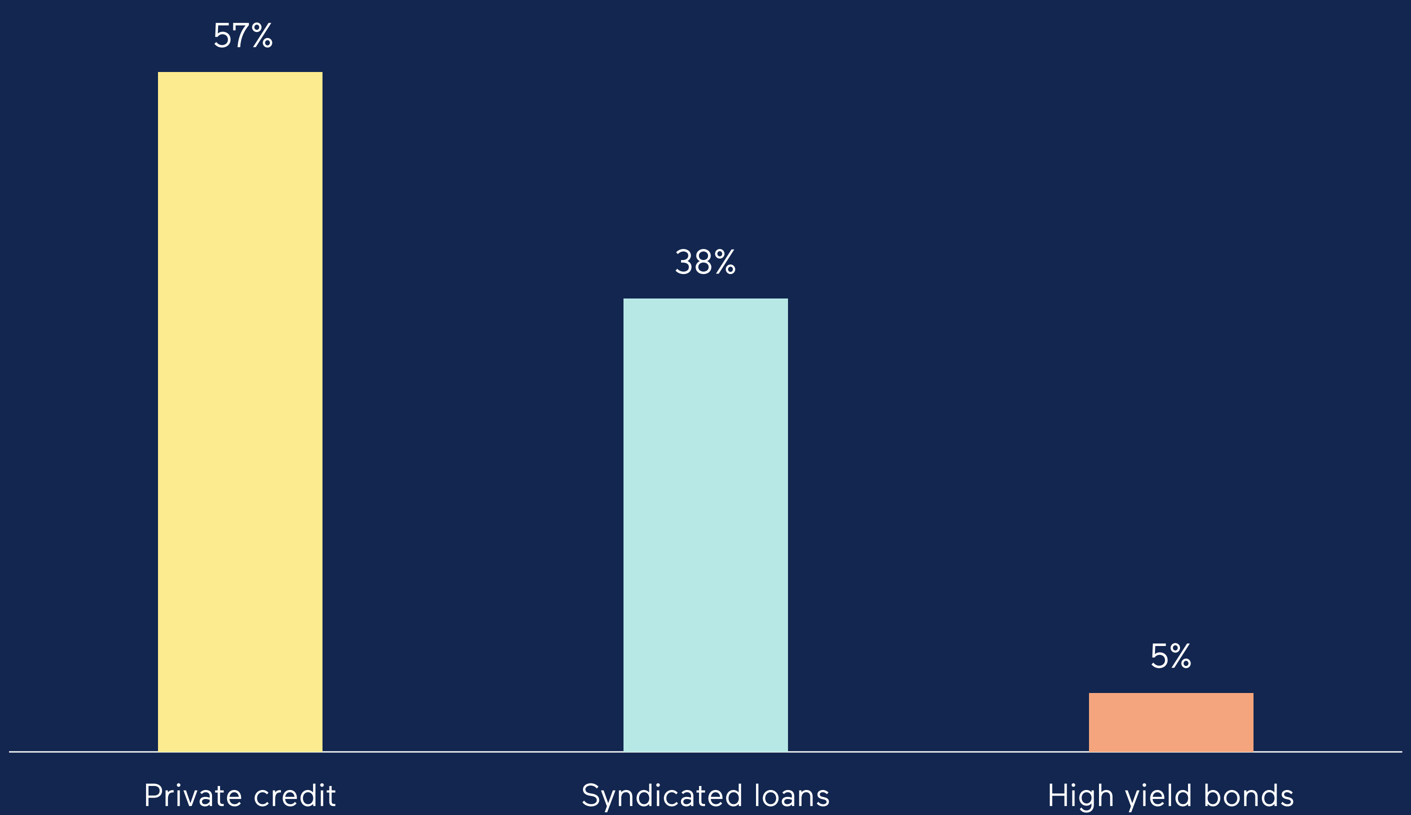
> There is a renewed tension in the system, as high levels of CLO issuance year-to-date, combined with record fundraising within the private credit market, creates a perfect opportunity for sponsors to reduce their cost of capital.

— Law Firm, N.America

Those who see pricing and terms tightening in H2, believe Private Credit will edge out Syndicated Loans

Private Credit has established a sustainable foothold in the market but BSL competition will remain strong in H2

Q. In H2 which lender group will be the most flexible/ competitive in the context of tighter pricing and terms?



Private Credit has proven to be very agile to adapting to the more aggressive terms of larger sponsors, while stepping up in ticket sizes, enabling it to compete with the BSL market.

— Private Credit Fund, N.America

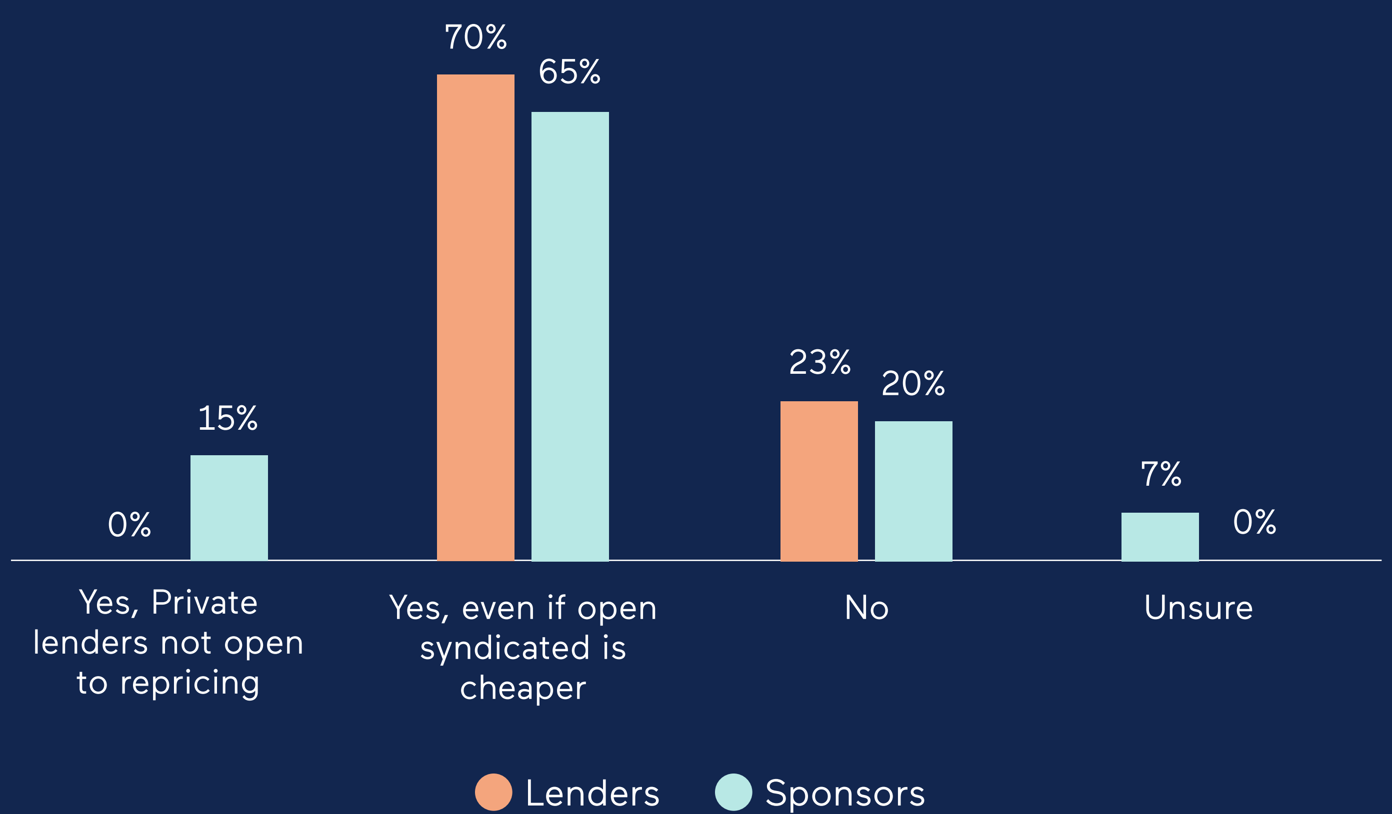
We've seen this time and again but in more liquid markets, private credit always under penetrates the market as no sponsor wants to pay the illiquidity discount direct lenders need

— Bank Lender, N.America

Respondents overwhelmingly agree that Private Credit to Syndicated Loans repricing will continue

BSL market has a definitive pricing advantage. However, certainty of final pricing may give Private Credit a competitive edge in M&A processes

Q. Do you foresee more private to syndicated repricings?



> Borrowers have swung between syndicated and PC markets. Direct lending refinanced by BSL was high in H1 '24, but in Q4 last year we were witnessing the complete opposite trend.

— Debt Advisor, N.America

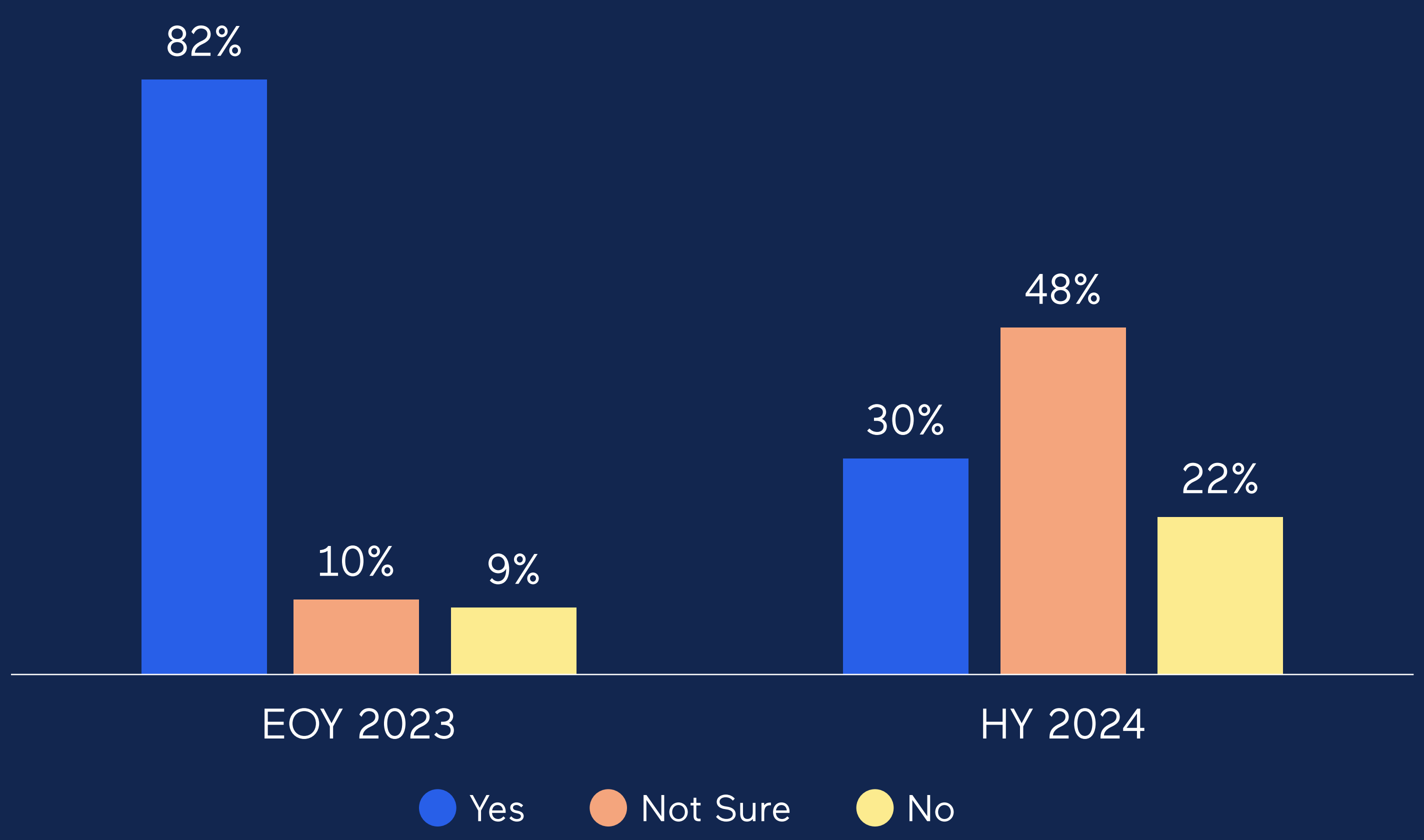
> Syndicated loans are the flavour of the season and the direct lending rush we saw primarily over 2023 has definitely normalised now

— Bank Lender, EMEA

Private Credit's continued competitiveness in $1bn+ jumbo deals has now stabilized

Expectations are now more realistic after reaching a high-water mark for Private Credit at the end of 2023

Q. Can private credit funds sustain being the preferred financing route for jumbo $1bn+ deals?



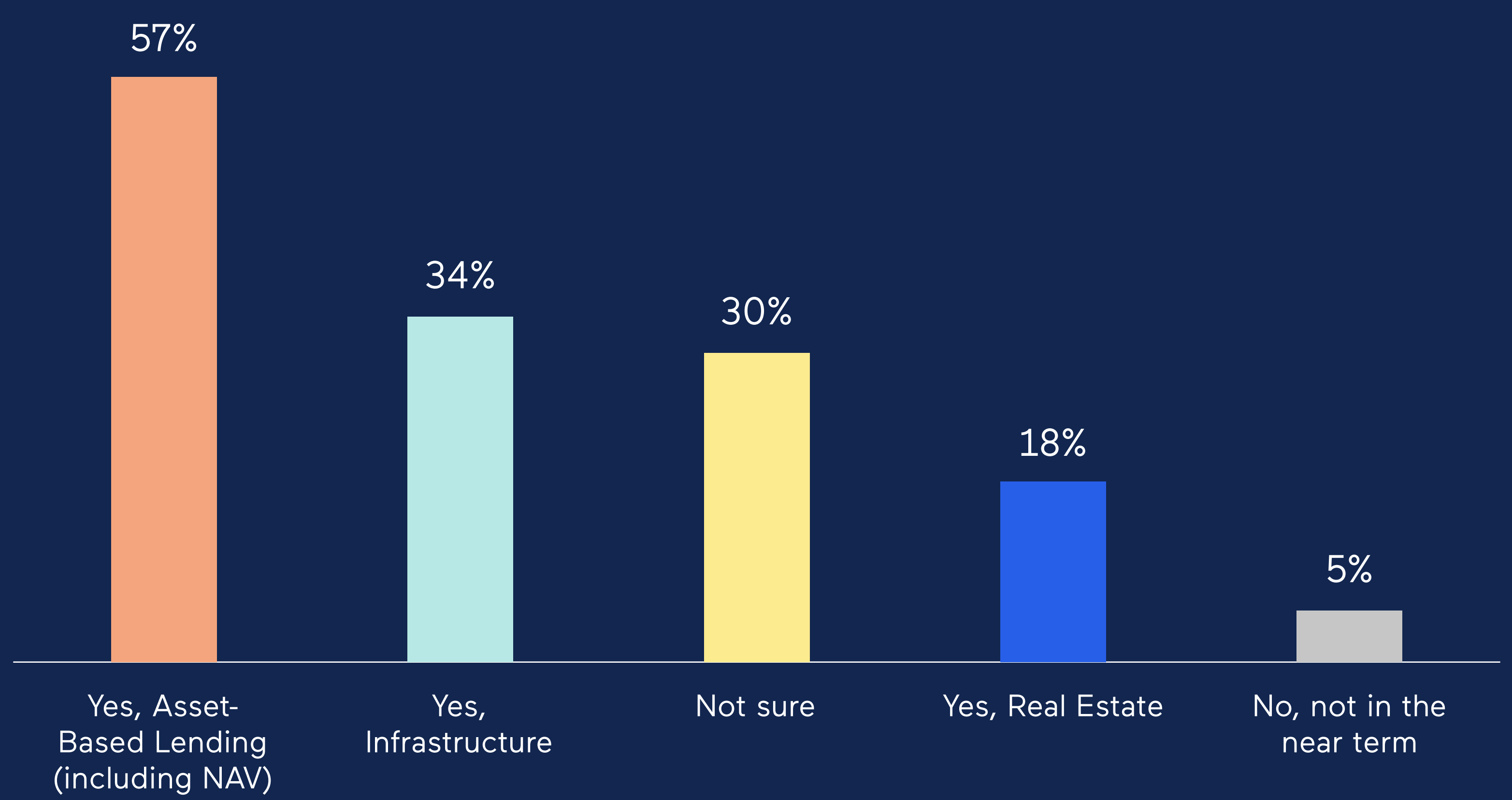
> The resurgence of the syndicated markets in the first half of the year was an unexpected development that changed the calculus for sponsors in evaluating the most cost effective path to finance their largest deals.

— Sponsor, EMEA

Private Credit has already expanded into other sectors

Private Credit's diversification into Real Estate, Infrastructure and ABLs, and Fund Financing may alleviate pressure to scale in traditional PE-driven M&A processes

Q. Given the growth of private credit do you think it can have impact on other sectors in H2? (Select all that apply)



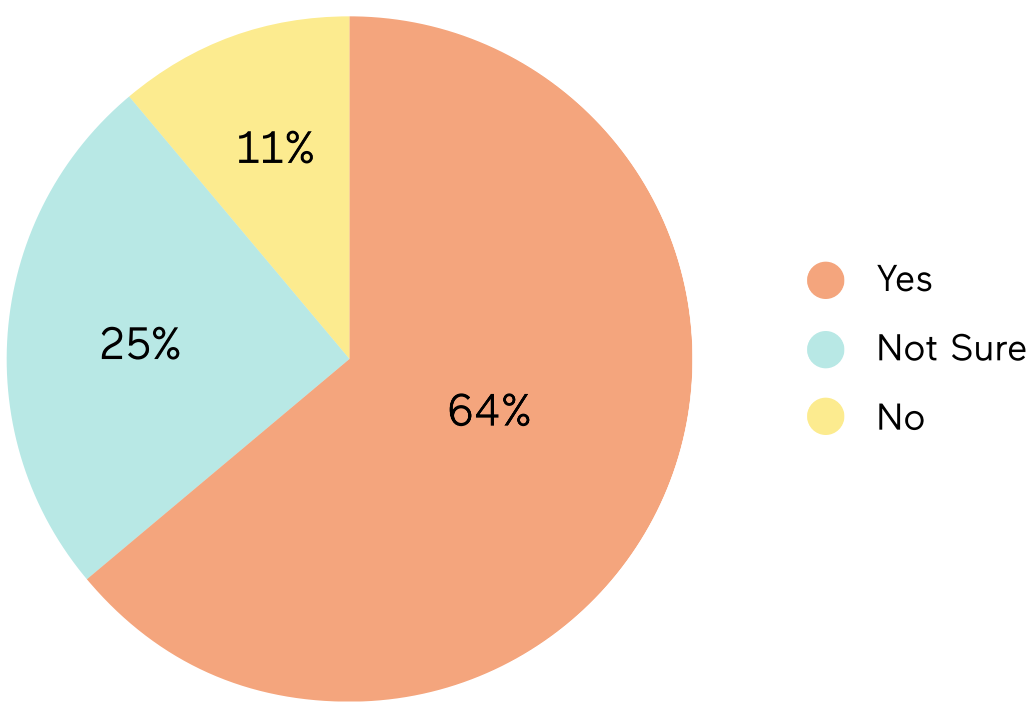
> Fixed income managers and private credit funds are continuously and rapidly trying to build and expand their private credit capabilities. Early adopters are now diversifying outside of direct lending and seeking to meet the demands of borrowers in asset-based finance, infrastructure and real estate lending.

— Direct Lender, EMEA

The industry wants to adopt more technology to increase efficiency and remain competitive

Majority recognize the potential of technology to expand their daily capacity and meet the demands presented by increasing operational complexity and competition

Q. Would you like to adopt more technology to support your workflows in H2?



> We are continuing to invest significantly in our digital capabilities seeing it as a key determinant of future competitive advantage and ultimately, performance.

— Sponsor, EMEA

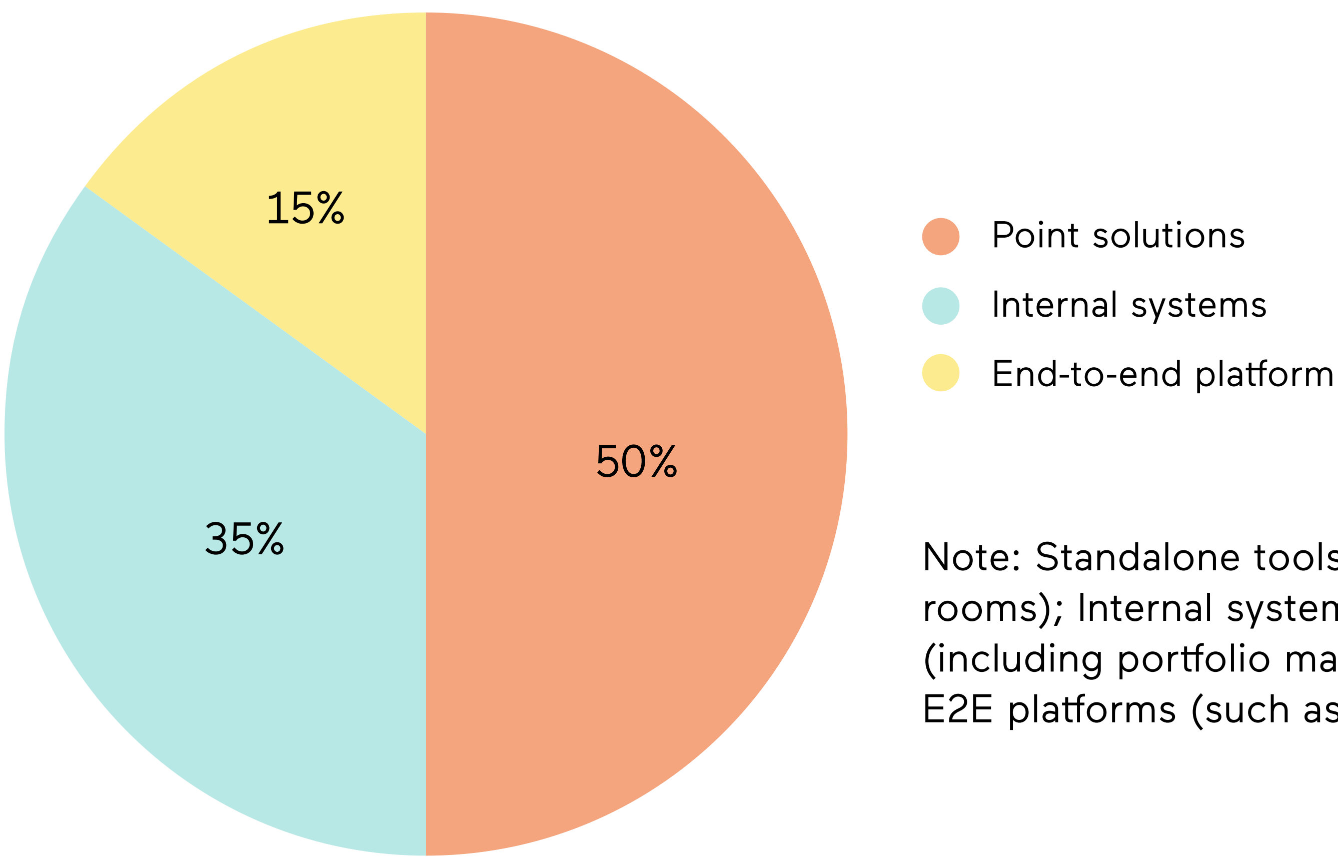
> As the private credit industry grows and matures we need to achieve greater operational efficiency to stay competitive, and to be able to use advanced technologies like generative AI we must digitize first.

— Direct Lender, EMEA

The movement towards end-to-end solutions is accelerating

Standalone tools like CRMs, data rooms and internal systems are widely used, but workflow innovations driving efficiencies are becoming a priority

Q. In addition to Excel, which technologies do you currently use?



Note: Standalone tools (CRM, data rooms); Internal systems (including portfolio management); E2E platforms (such as Termgrid)

> Our operational workflows are complex and multi-dimensional and the pressures placed on us for real-time transparency and automation are rising. We have a growing need for integrated, end-to-end visibility of our operations for better insights that can drive high quality decisions.

— Bank Lender, N.America

> Given the challenging fundraising environment, it's crucial to keep existing LPs satisfied. LPs are increasingly demanding faster access to information and greater transparency, often making ad-hoc data requests. We need to be operationally prepared to meet these expectations.

— Sponsor, EMEA

Termgrid

About Termgrid

Termgrid is the market-leading software platform purpose-built for private capital markets. It was created by industry professionals to solve the inefficiencies in the financing process, streamlining the end-to-end workflow for all deal participants to drive efficiency and insight at every stage of a transaction.

900+ Institutions

Collaborating on the platform

15k+ Users

Sponsors, Lenders and Advisors

Trusted by

KKR · Berkshire Partners · PAI Partners · EQT · NMC New Mountain Capital · TA · Bridgepoint · Permira · Apax · Charlesbank