Termgrid

Public vs Private Debt Markets

Private Markets

Positives

- **Confidentiality:** No disclosure or public reporting requirements
- **Relationship-driven**, with **flexibility** in adjusting terms to cater to the company's needs
- **Ease of coordination** and **quicker to put in place:** Single-lender or a smaller group of friendly lenders; No syndication or roadshow needed
- **Less impacted by market volatility:** Lenders do not have mark-to-market requirements, therefore providing a more stable demand irrespective of public market conditions
- **Prepayability:** Bank loans are typically prepayable without penalties at any time (at par); Private credit does involve a "non-call" period or a period during which a prepayment premium applies, although this is shorter than a bond non-call period
- **No minimum deal size** requirement, making them a good choice for mid-market and lower mid-market borrowers
- **Private credit caters for large debt raises** of >$1bn, making it a strong option for companies of all sizes, especially when there is volatility in the large public markets

Considerations

- **More stringent documentation terms than public markets:** Requirement for a financial covenant (particularly banks financings and, for now, the vast majority of private credit transactions); Banks are generally quite conservative with respect to terms or documentation flexibility, however this is compensated by relatively attractive (low) pricing
- **Economics:** Private credit pricing generally requires a pricing premium to public markets (although the spread tends to narrow as the asset class becomes more widespread)
- **Pure bank financings will require an amortizing tranche** (although this is not the case for private credit)
- **Concentrated lender group:** Could result in capacity constraints if additional debt is required in the future (more issue for bank loans, as currently private credit funds have significant dry powder to support company growth and expansion)

Public Markets

Positives

- **Deep pool of capital** given by a large lending group, with significant additional debt capacity for future needs
- **Highly flexible instruments with attractive documentation terms:** Covenant-lite instruments, with wide permissions for additional debt raising, M&A, dividends, etc
- **Visibility:** Grants companies visibility in the capital markets, particularly helpful for an upcoming sale or public listing
- **Economics:** Historically the most attractive economic terms during positive market windows; Given the competitive dynamics of including a large number of potential lenders, pricing can also be tightened in market if there is significant demand

Considerations

- **Minimum size** requirements to ensure secondary liquidity and index eligibility

  Susceptible to wider market volatility: Lender / investor demand and appetite can be significantly curtailed during periods of wider market disruption
- **More cumbersome to put in place** involving standardized and more lengthy process for syndication, requiring more sponsor and company management time
- **Reporting and disclosure:** High yield bonds have strict and cumbersome public disclosure requirements, both at issuance and on an ongoing basis, which require management attention and certain reporting standards already in place
- **Credit ratings required** for both high yield bonds and leveraged loans
- **Early prepayment restrictions:** Particularly for high yield bonds which are subject to a non-call period and certain prepayment costs; BSL, on the other hand, only include a penalty for repricings for the first 6-12 months from issuance

* Please refer to our article "The choice of a debt instrument" for more details.