UK Private Debt Research Report 2020

A report by the British Business Bank, with the support of the British Private Equity and Venture Capital Association

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Foreword - British Business Bank

As the UK economy shifts its focus from stabilisation to recovery, it is growth that will ultimately be the key to a thriving post-COVID-19 UK economy.

Ensuring that businesses with growth opportunities can access the funding they need will therefore be vitally important over the next few years.

Our **UK Private Debt Research Report** is the first to examine Private Debt for smaller and lower mid-market businesses, and seeks to increase awareness of this funding type in two main groups. First, businesses with fast growth potential and their advisors, who might not be aware of the strengths and benefits of Private Debt as a funding option and, second, potential investors who, while well aware of venture capital and venture growth funds, might not have considered the potential returns that Private Debt investments can offer.

High street lending to smaller companies is typically arranged through business banking divisions, where structures and underwriting processes tend to be designed to service a standardised product offering, at volume, to less risky borrowers. Whilst this approach suits many firms, Private Debt fills a gap in the market for companies with more complex financing needs, where loans may be justified on future cash flows, rather than physical asset security.

This bespoke and flexible nature of Private Debt makes it an attractive option for these types of businesses, including those which are looking to restructure. As the economy recovers, it may prove to be a particularly suitable source of capital for companies coming out of the Covid-19 downturn. Looking forward, it can also provide a means to drive sustainable economic growth by funding investment into innovation and productivity.

Since the last financial crisis in 2008, Private Debt has become an increasingly important source of finance for smaller companies that are seeking to grow quickly, with over £1bn of growth-specific finance provided to such businesses by Private Debt funds during 2018 and 2019.

Private Debt is also an important tool to consider in supporting the government's aim of levelling up the economies of the regions and Nations of the UK. As outlined in this report, this type of finance is being used extensively outside London, with four in five deals and nearly two thirds of the £18.4bn of Private Debt in 2018 and 2019 being provided outside the capital. This is mainly due to the large volume of transactions involving investors that have received government support.

Historically, the UK Private Debt market has been opaque, with little data publicly available. This project is the 'first of its kind' data collection exercise which looks at primary deal level data at the smaller end of the market. It is our intention for this to be the first of many annual editions, which will inform our discussions and policy development with government and other stakeholders. In the upcoming years, it will be a key aim to continue to shine a light on Private Debt, its characteristics, dynamics, and value in supporting UK companies seeking funding, while helping to increase awareness of this important funding type.

Catherine Lewis La Torre
CEO, British Business Bank

Foreword - BVCA

The **UK Private Debt Research Report** marks a seminal moment in the development of the Private Debt market in the UK, and the BVCA is delighted to support the British Business Bank in its publication.

In an exceptionally short period of time, Private Debt has established its position as a truly important lender to UK businesses at different stages of growth. Using a rich dataset - composed of 55 funds and 934 deals - this report is the first of its kind to show not just the range of sectors supported by Private Debt, but also their geographic diversity. The numbers speak for themselves, but with 82% of deals taking place outside of London and strong clusters of funding appearing in the East and North West, it is clear that businesses nationwide are benefiting from a broader range of funding options.

Over 30 years ago, the BVCA launched a very similar report which we continue to produce today; the **Report on Investment Activity** is one of our annual flagship projects and documents the private equity and venture capital industry's significant contribution to the UK economy through its investments. The numbers in the report underpin much of our engagement with the industry's stakeholders in government, MPs, the media, institutional investors and the broader business community.

The British Business Bank's launch of the **UK Private Debt Research Report** presents a similar opportunity – to demonstrate the contribution of Private Debt to supporting UK businesses for many years to come.

Leon de Bono
Assistant Director General

Thanks to participants

This report was made possible not only through the support of the BVCA, but also the participation of 37 fund managers who have provided data on 55, UK-focused, direct lending funds which they were actively managing in 2018 and 2019. Figure 1 on the right shows the managers who have consented to being identified as data contributors for the report.

The BVCA and the British Business Bank started planning for this report in the second half of 2019. In February 2020, we sent out welcome emails to fund managers seeking their assistance. At that time, there was awareness of coronavirus ('COVID-19') but arguably, limited realisation of the impact it would have.

As lockdowns were imposed globally, economic activity across the world has been significantly impacted. The UK was hit hard in terms of GDP impact, market sentiment, and – most important of all – the direct human factors related to the virus.[1] Despite all this, the fund managers who signed up to support this project still found the time to respond and provide their data and perspectives on the market, for which we are truly grateful. We would therefore like to take this opportunity to thank everyone who has taken part, and we hope they will continue to support this initiative in the future.

Figure 1

Participating fund managers (non-exhaustive)

- Alcentra
- apera asset management
- ARES
- BANTRY BAY CAPITAL
- BEECHBROOK capital
- BOOST&Co
- CLARET CAPITAL PARTNERS
- Columbia Lake Partners
- CORDET
- Crestline
- eso capital
- fdc Frontier Development Capital
- Federated Hermes International
- Foresight
- FW Capital
- gcp
- HAYFIN
- ICG
- KREOS CAPITAL
- LGT Capital Partners
- MAVEN
- mercia asset management
- MML
- mobeus
- msif
- Muzinich & Co
- MV Credit
- North Wall Capital
- PEMBERTON
- PERMIRA DEBT MANAGERS
- PREFEQUITY
- Pricoa Private Capital
- Shard Credit Partners
- TDC Tosca Debt Capital
- Whiterock Finance

Executive summary

Private Debt's growth in importance over the last decade

Private Debt refers to bespoke lending structures, tailored to the specific needs of borrowers, provided by non-bank lenders. Whilst high street banks have some appetite for riskier corporate lending, most of their lending volumes tend to be through more standardised products focused on lower risk lending. As a result, Private Debt is often the only, or most viable funding solution for small and medium-sized enterprises (SMEs) and mid-cap firms who require flexibility in terms of a financing structure.

Private Debt funds in the UK grew in importance and activity following the Global Financial Crisis. New regulations on capital requirements and heightened risk aversion caused many high street banks to retrench and focus on simpler loan structures with lower operational costs. Private Debt funds stepped in to close some of the gap, with the average number of UK-focused funds closing annually increasing around four-fold since 2008, with at least 10 funds closing each year since 2013.

The UK Private Debt Research Report

This report lays out the analysis and findings of a primary data collection project, which gathered information directly from participating fund managers for the SME and lower mid-market segment of the UK market. It is, we believe, the first time this has been done for this part of the UK market. The report features data for 55 funds, managed by 37 UK fund managers, and 934 individual deals totalling £18.4bn for 2018 and 2019.

A number of Private Debt publications do already exist; for instance Preqin's Global Private Debt Report[2], Deloitte's Alternative Lender Deal Tracker[3] and the Alternative Credit Council's Financing the Economy report[4]. However, given the relative nascency of the UK Private Debt market, all of these are more focussed on international or larger mid-market deals. There has, to date, been limited visibility into the totality of the UK Private Debt market, including smaller value loans, which both contributes to and is caused by limited awareness of the asset class. As such, the UK Private Debt Research Report aims to shine a light into the characteristics and dynamics of this important and growing source of capital to UK companies.

Why Private Debt is important, especially now

Private Debt providers are specialists in providing structured lending solutions adapted to the specific requirements of their borrowers. The bespoke and flexible nature of these structures is of particular relevance now, as firms aim to overcome the unprecedented obstacles posed by COVID-19. These lenders are able to be flexible with their borrowers and support them through the lockdowns. Private Debt providers may also be able to re-finance a company's existing debt, for instance providing a loan with flexible repayment terms that are more serviceable during challenging trading periods, thus allowing the borrower to focus on business recovery before loan repayment. Importantly, Private Debt has continued to provide new capital for those companies with growth potential. Specialist lenders may have strong operational and financial restructuring experience, helping borrowers to adapt to the challenging economic climate as well as meet their financial obligations.

Looking forward towards economic recovery, Private Debt could also play a role in supporting a sustainable economic growth trajectory, by funding investment into innovation and productivity activities across the UK.[5]

A strong Private Debt market is of benefit to numerous stakeholders and UK companies in general. It can provide attractive returns to institutional investors across a range of available strategies. This is aided by Private Debt returns being more stable throughout market cycles than equity indices.[6]

Borrowers benefit from a wider range of funding options than is provided by the standard lending products offered by banks. They also have access to the larger loan facilities offered by Private Debt funds, with average ticket sizes in the British Business Investments' Investment Programme portfolio of £6.5m, versus an average size of a new loan facility at a standard bank of £167k, and a direct relationship with the lender, with whom they can discuss challenges and opportunities.

As awareness of the asset class increases steadily, the wider economy stands to benefit too, with Private Debt funding potentially able to support economic and productivity growth. We also note that the EIF had previously been, but no longer is, an investor in Private Debt in the UK, investing almost £300m in total into UK Private Debt funds in 2015 and 2016.

Challenging fundraising conditions since COVID-19

Fund managers have reported that fundraising conditions have worsened. This is a result of managers being more focussed on supporting their existing portfolios through the crisis, and investors having less appetite for new investments. Physical barriers, such as the inability to have face-to-face meetings, have further exacerbated the difficulty of closing new funds during the pandemic.

These fundraising challenges are especially prevalent for smaller, regional players, who tend to be perceived as more risky investments, and often rely on government support to raise funds.

Finance use and capital structures

This report found that the smaller end of the spectrum differs appreciably from the more well-known mid-market end. Notably, the majority of smaller deals are classified as "growth"[7] deals, with buyouts and acquisitions constituting less than 20% by number of deals. This represents a contrast to the mid-market segment, as shown by other publications, where buyouts and acquisitions are more prevalent. These growth deals typically have smaller ticket sizes, often backed by government funding support, with a strong geographic focus outside of London and the South-East. The 563 growth deals recorded by the UK Private Debt Research project have an average deal size of £2.2m, meaning that over £1bn of growth finance was provided to UK firms by Private Debt funds in 2018 and 2019 alone.

The prevalence of growth deals is also reflected in the capital structures, with the majority of such deals typically structured as unitranche senior debt. Subordinated structures, such as mezzanine, second lien, and loan notes, constitute around a third of the total number of deals. However, they represent less than 5% in terms of value, as many are used by smaller lenders as quasi-equity components, representing a nominal amount of the total capital provided.

Given the importance of growth deals, demand is unlikely to decrease in the short to medium term. As such, Private Debt funds could play a role in supporting the recovery and economic growth of UK business going forward, especially if awareness of the benefits of such funding for prospective borrowers rises.

The majority of deals take place outside London

Private Debt provision is geographically diverse, with 82% of the 2018 and 2019 deals included in this report occurring outside of London. This strongly reflects the fact that companies with high growth potential can be found across the UK, with the latest Scale Up Institute data indicating 75% of UK scaleups are located outside of London.[8]

The total invested amount is still concentrated in London, with 35% of capital invested between 2018 and 2019 going to businesses in the capital. Although this is more than London's 19% share of the UK business population, the geographic distribution of Private Debt capital is much more aligned to the business population than Venture Capital, where London-based businesses received 66% of investment in 2019.[9]

Growth deals are more common outside of the capital, constituting 69% of all deals completed outside of London, compared to 39% in London. This is mainly due to the large volume of transactions involving investors that have received government support outside of London. These investors tend to make growth investments in companies which are much smaller than the overall average ticket size in this dataset.

> "The comprehensive British Business Bank / BVCA UK Private Debt Report represents an important step toward raising awareness and transparency around the growing direct lending asset class, where Ares has been a leading participant, partnering with over 120 UK companies since 2007."
>
> Blair Jacobson,
> Ares

Private Debt is concentrated in the Manufacturing and Information & Communication sectors

Manufacturing businesses represent the largest number of deals in this dataset (19%). Alongside businesses in the Information & Communication and Financial & Insurance Activities sectors (16%, and 4%, respectively), they represent a much higher proportion of deals in Private Debt than might be expected based on business population data.

Administrative & Support Service Activities businesses received the most Private Debt capital in terms of deal value (21%). Professional, Scientific & Technical Activities businesses received a higher proportion of overall investment than deals (18% vs. 13%), which is – similarly to Administrative & Support Service Activities – due to larger than average ticket sizes, likely relating to the capital-intensive nature of the industry.

Looking forward, it is likely that the economic uncertainty created by COVID-19 in 2020 may have caused Private Debt capital to consolidate in defensive, less cyclical sectors such as Financial Services, Healthcare and Information Technology. Further work in future years will consider this.

Looking beyond the pandemic

As the UK economy emerges from the pandemic, more opportunities for growth are expected to emerge. Private Debt can play a major role in supporting recovery and a strong rebound for SME and mid-market companies in the UK. Increasing awareness of the asset class is critical to ensure more UK firms are aware of how Private Debt can support them in their pursuit of growth.

What is Private Debt?

The terms “Private Debt, “Direct Lending” and “Private Credit” refer to loans made by non-bank lenders to companies. While these terms are often used interchangeably, certain practitioners may perceive “Private Debt” as more overarching, in that it covers loans to corporates as well as individuals.[10]

Although Private Debt is only one among a number of non-bank lending options, it is a key source of financing for riskier (generally sub-investment grade) loans at smaller ticket sizes.

While high street banks also provide some lending in the less risky end of the credit spectrum for such ticket sizes, their products tend to be more standardised. Furthermore, capital adequacy rules attach a high risk premium to corporate lending, causing many banks to limit their lending activity especially at the smaller end of the market, so as to avoid having to hold an uneconomical amount of capital given the relatively small lending size. Finally, high volume bank credit processes deal less well with such complexities. As such, for SMEs and mid-cap firms with more bespoke requirements and a need for greater flexibility in terms of financing structure, Private Debt can be the most viable funding solution.

“Private Debt has progressed over the past decade from being a relatively peripheral asset class for many investors to being a core allocation. It has proved its qualities as a strong yielding asset class with good structural protections.”

David Wilmot,
Apera Asset Management

“In 2010, there was significant demand for regional funds, and there still remains a gap in the market – where there is a lack of security to give banks the comfort to lend, and where P2P funders do not have the local, dedicated resource to fully assess and understand each applicant. The COVID-19 crisis will amplify this and when the CBILS scheme has come to an end, regional funds will have an even greater role to play.”

Participant fund manager

How Private Debt funds grew in importance in the UK

Prior to the Global Financial Crisis, lending to SMEs and mid-cap firms was provided almost exclusively by high street banks.[11] Since then, the regulations on banks have tightened and consequently, they have deleveraged and considerably reduced the amount of capital allocated to corporate and commercial lending. Given the limited capital at their disposal, banks have focused their lending on simpler loan structures to less risky borrowers. Changes in regulation (such as bank risk capital calculations, liquidity requirements and ring-fencing) have exacerbated the issue by effectively increasing the cost of lending to SMEs which has further disincentivised banks from lending to this market segment.

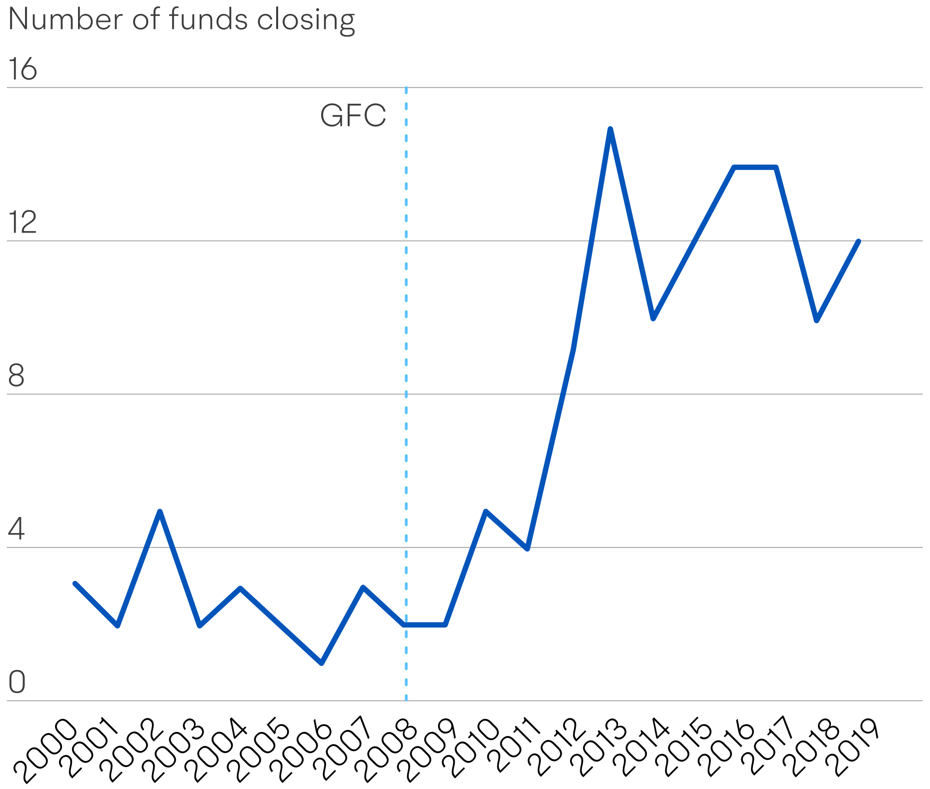
This left a gap in the market for more flexible loan structures for companies with more complex financing needs. These situations tend to be companies pursuing growth opportunities, where the loans are justified based on future cash flows, rather than physical asset security.

To service this market demand, direct lenders have stepped in. As outlined in Figure 2 on the right, the number of UK-focused Private Debt funds being formed each year substantially increased in the years following the financial crisis.[12]

Figure 2

Number of UK-focussed Private Debt funds closing per year

Source: British Business Bank analysis of Preqin data



Case study: 3i

Formed in 1945 as the Industrial and Commercial Finance Corporation (ICFC) by the Bank of England and major British banks, 3i's main purpose was to provide long-term investment funding for SMEs. Owned by private sector banks and financial institutions, 3i played a vital role in making the economy work more effectively for SMEs.

For example, it was tasked with closing the shortfall in investment capital for SMEs, referred to as the 'MacMillan gap', and went on to form the core of the venture capital industry in Britain in the 1980s.

3i's expansive business model featured a successful and diversified Private Debt platform. For instance, in March 2012 3i managed ten debt funds with a total value of £3.4bn of Assets under Management, with around 25% of the portfolio value located in the UK.[13] This focused on leveraged loans and leveraged buyouts, as well as senior secured lending within the large-cap space. Perhaps most crucially, 3i's Private Debt business largely attributed its success to the implementation of a unique, regional strategy. It established a strong footprint across Britain by setting up a network of 14 regional offices,[14] providing local facilities and leveraging local expertise. This allowed 3i to connect to the networks which local SMEs were part of, building up trust and familiarity,[15] increasing their access to SMEs throughout Britain, and driving down the cost of investing outside of London.

Owned by private sector banks and financial institutions, 3i played a vital role in making the economy work more effectively for SMEs.

What's new in this report?

The UK Private Debt market is opaque, with little data publicly available. This is because non-bank lending is a fairly new area of finance, with most current UK Private Debt fund managers emerging after the Global Financial Crisis (see info box on page 13). Furthermore, it is not subject to wide-reaching reporting requirements and disclosure rules; nor, given its size, is it an asset class that has attracted attention from for-profit data companies, especially at smaller transaction sizes. While a number of very insightful publications exist (e.g. Preqin's Global Private Debt Report[16], Deloitte's Alternative Lender Deal Tracker[17], or the Alternative Credit Council's Financing the Economy report[18]), their primary focus is on mid-market deals, and they tend to cover a wider geographic scope to maximise interest and relevance despite the variation across jurisdictions. As such, there has been very limited visibility into the Private Debt market at the smaller end in the UK.

This project is the 'first of its kind' primary data collection exercise for the UK Private Debt market at the smaller end. For this first edition of the UK Private Debt Research Report, we have collected primary deal-level data from 55 funds, managed by 37 UK fund managers, and for the deal years 2018 and 2019 alone, we have gathered 934 deals worth £18.4bn.

Given these numbers predominantly represent the small-cap and lower mid-market side of the market, the data firmly underscores how material Private Debt has become as a source of SME finance in just over ten years.

As this report also covers deals at the smaller end of the UK Private Debt market, it contains a large number of smaller, non-sponsored deals, capturing data not covered by existing datasets.

Around two in every three deals in the dataset have no equity component attached to them, given the predominant focus on growth finance, rather than funding for buyout or acquisition deals. See further on in this report for a more detailed view on finance use and capital structure.

For this first edition of the UK Private Debt Research Report, we have collected primary deal-level data from:

55
funds

37
fund managers

Deals worth:

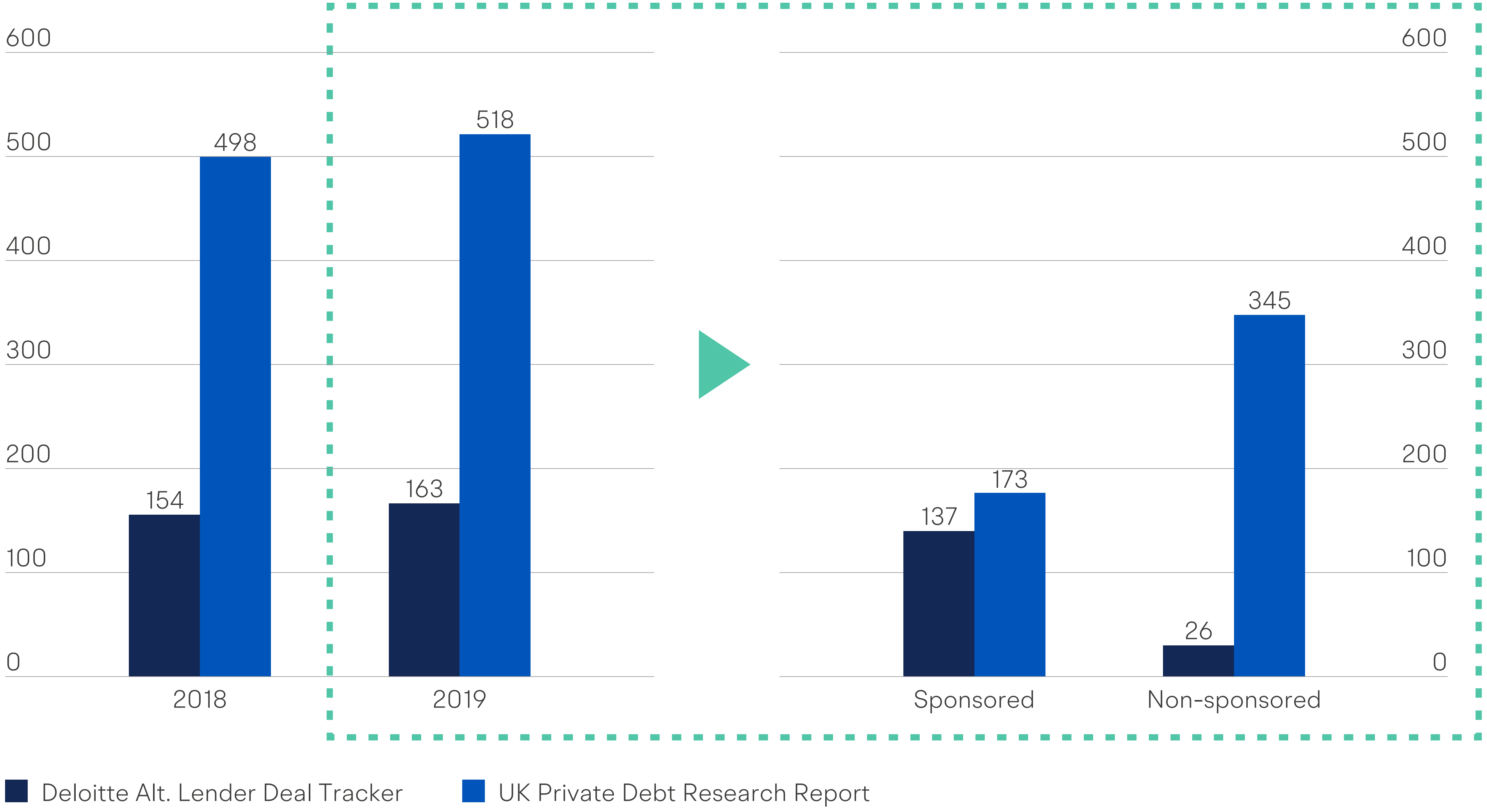
£9.0bn
2018

£9.4bn
2019

Figure 3

Total number of UK Private Debt deals captured (2018-2019)

Source: British Business Bank Private Debt Report 2020 and Deloitte Alternative Lender Deal Tracker



Data exclusions

This report's focus is on the provision of Private Debt finance to viable companies investing in recovery and economic growth.

Therefore, we have aimed to exclude, where possible, any deal activity involving commercial real estate and distressed debt.

The reason for excluding the former is because, due to its secured nature, it is a very distinct activity within Private Debt, so therefore not strictly comparable with non-secured direct lending, which has a stronger focus on growth-oriented investment. Similarly, distressed debt is very distinct in nature as underlying portfolio companies are subject to specific valuation methods. Furthermore, while not all distressed debt constitutes replacement capital, it is not always growth-oriented, thus reducing its relevance for the purposes of this report.

Case study: Dovetail Technology

Region: East Midlands

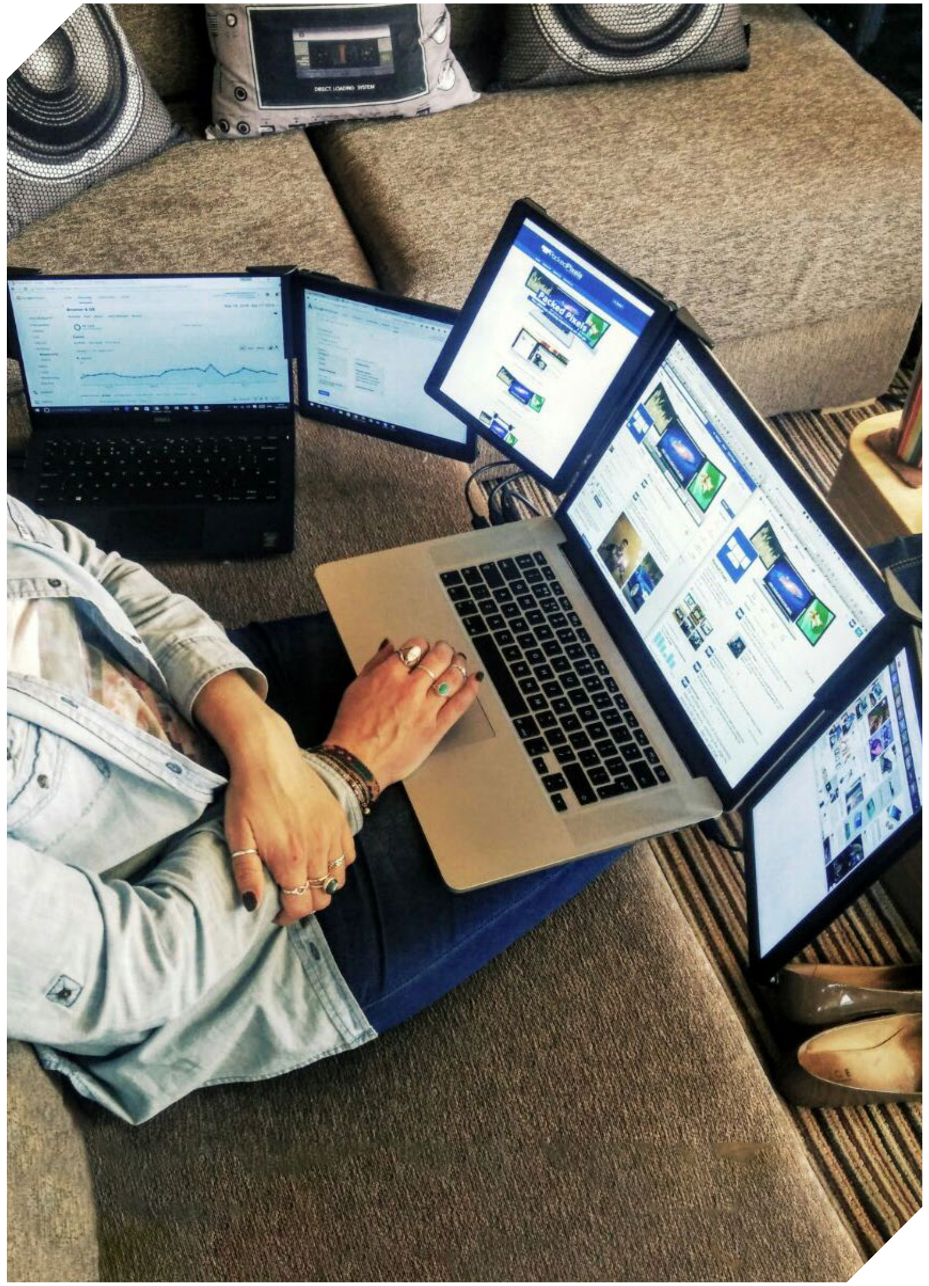
Dovetail Technology is a Nottinghamshire-based computer hardware company that creates a series of laptop monitors to help improve the productivity of staff working remotely.

The idea for the company was borne out of the frustration of not being able to use two screens for a laptop when out of the office. Since their first monitor was rolled out in 2015, the company has gone on to launch two new models.

It received a £250,000 investment from First Enterprise - Enterprise Loans through the Midlands Engine Investment Fund (MEIF) and the Community Investment Enterprise Facility (CEIF).

The funding comes at a time when more businesses are seeing their workforces having to resort to home working and these monitors are being seen as game-changing products for remote workers that need the benefit of multiple monitors when working.

Using the funding for expansion, it will allow the company to grow its operations and support fulfilment of orders across the UK and North America before expanding sales across Europe, Asia, Australia and South America.



What makes Private Debt important?

High street bank lending to smaller companies is typically arranged through their Business Banking divisions, where the structures and underwriting processes tend to be designed to service a standardised product offering at volume. Whilst this approach suits many borrowers, more flexible and bespoke funding structures provide a valuable alternative when borrowers' needs are more complex.

Private Debt providers, who are FCA-regulated, specialise in providing such structured solutions. Although selling equity is also an option when seeking to finance growth, many established and profitable companies will only consider taking on debt. This is often due to equity aversion, with 59% of businesses citing reluctance to give up control as a barrier to applying for equity funding.[19] Even in the current difficult economic conditions with a strong need for recapitalisation, this strong aversion appears to persist across the UK.

However, these companies are also generally not suitable for standard high street bank lending products as banks will attribute a higher risk rating to firms looking to implement step-change growth plans and alter their current business operations. This moves such borrowers out of standard bank lending appetite (either completely, or in terms of how much lending a bank would be willing to extend).

Consequently, Private Debt provides UK SMEs that are seeking to expand and scale up their business a wider, more competitive, choice of debt funding to finance their growth. This then can unlock the potential of many smaller and mid-sized firms seeking a more ambitious growth and development trajectory.

The flexibility of Private Debt is of particular relevance in the current market context. Some Private Debt providers have strong restructuring skills that allow them to provide operational support through challenging economic environments. It is also well suited in supporting firms in their recovery efforts, and beyond, thanks to the bespoke and adaptable structures.

With many small and mid-sized companies having taken out emergency lending to survive the immediate impact of COVID-19 on economic and trading activity, debt overhang is a key challenge and risk, requiring careful planning and consideration by UK firms as the economy recovers.

Companies funded by Private Debt are better able to withstand economic contraction and capture the opportunities of subsequent expansion, due to the flexible approach that can be taken by the lenders in supporting portfolio firms.

Deals are generally structured with a large element of bullet repayment, meaning SMEs have access to the capital needed to invest in growth, rather than having to meet immediate debt repayment obligations.

As such, flexibility in repayment structures could help viable firms coming out of COVID-19, especially those that have already taken on debt through CBILS, in the last few months.

Private Debt may also be able to refinance some companies that are currently funded through bank lending, where they have a strong growth opportunity. While this may come at a higher cost to the borrower, it would enable to replace a COVID-19 emergency loan with a structured lending product providing more flexible repayment terms that are likely to be more serviceable during challenging trading periods. This allows the borrower to focus on business recovery before loan repayment.

Furthermore, when COVID-19 response schemes are no longer available and the high street banks are once again lending on their own terms, and doing their own underwriting, bank lending activity may subside. Lending could fall below pre-COVID-19 levels despite continuing demand for finance, as banks tend to tighten lending during periods of economic uncertainty, potentially causing an acute funding shortfall to smaller companies. Private Debt could have a crucial role to play in picking up the slack, supporting the recovery and growth of UK businesses. Evidence suggests that in the wake of the Global Financial Crisis a greater prevalence of Alternative Lenders in the US compared to the UK, where Alternative Finance markets were then much less developed, contributed to a quicker national economic recovery.[20]

Investors

Private Debt, particularly to small cap UK companies, remains a relatively unknown asset class, but one with attributes which could make it attractive to both domestic and international institutional investors. Notably:

Diversification possibilities: A large number of funds and managers to choose from

A larger number and broader range of Private Debt fund managers provides investors with multiple opportunities for investment, and as such mitigates potential event and concentration risk issues, e.g. where an unforeseen incident or occasion impacts the performance of a single fund manager.

Risk-return composition: A large variety of options

Due to the larger variety of product structures used, Private Debt offers a large range of return profiles, offering investors more opportunities in portfolio composition. For instance, fund managers with a higher risk appetite will generally seek higher yield through more junior, subordinated debt structures, mezzanine products, and quasi-equity or convertibles.

> “Demand for private credit has remained buoyant through the year, particularly from within the SME space which continues to be underserved relative to the range of funding options available to larger corporates. We have found our regional presence and proposition to be a key differentiator in supporting management teams with their growth ambitions.”
>
> Gary Davison,
> Tosca Debt Capital

Performance potential: Attractive returns & low correlation

From a portfolio performance perspective, Private Debt has been shown to offer superior returns versus certain equity and fixed income indices, whilst being less volatile through economic cycles, hence providing good portfolio diversification.[21]

In particular, smaller Private Debt funds focusing on growth-oriented transactions in SMEs and mid-caps present an opportunity for investors. A relative lack of competition for deals in this space when compared to much larger transactions creates an opportunity for higher returns to be achieved by these smaller funds. However, such businesses are smaller and less established and therefore represent a higher risk which must also be considered.

This is reflected in Preqin data as demonstrated by figures 4 and 5. The Net Internal Rate of Return (IRR)[22] and Net Multiple[23] of global Private Debt funds below £200m in size is greater than that of larger funds across all metrics considered, including Upper Quartile (UQ), median, mean and Lower Quartile (LQ). However, the performance of smaller Private Debt funds is more dispersed, especially on the Net Multiple measure, where the interquartile range is materially larger for funds under £200m.

Investors must also note the potentially more adverse impact on fund performance by non-performing portfolio companies, e.g. in comparison to equity funds, where the uncapped upside potential more easily balances out realised losses. However, to minimise this adverse effect, many Private Debt fund managers incorporate warrants in their lending structures that provide upside for successful investments. Managers also have restructuring skills so are able to maximise recoveries when investments under-perform, allowing to capture some loss recuperation during adverse credit events.

> “The lower mid-market remains underserved by lenders as many attractive SMEs seek capital for growth. These market conditions have been exacerbated by the pandemic but the long-term systemic shift from bank lending to institutional and fund lending continues. Investors are increasingly allocating to the lower mid-market in search of compelling risk adjusted returns.”
>
> Paul Shea,
> Beechbrook Capital

Figure 4

Net IRR of global Private Debt funds by fund size bracket (2008-2016 vintage)

Source: British Business Bank analysis of Preqin data

Figure 5

Net Multiple of global Private Debt funds by fund size bracket (2008-2016 vintage)

Source: British Business Bank analysis of Preqin data

Borrowers

Loans from Private Debt providers may be an attractive alternative for smaller business owners seeking an alternative to their high street banks. More specifically, they offer:

More funding options

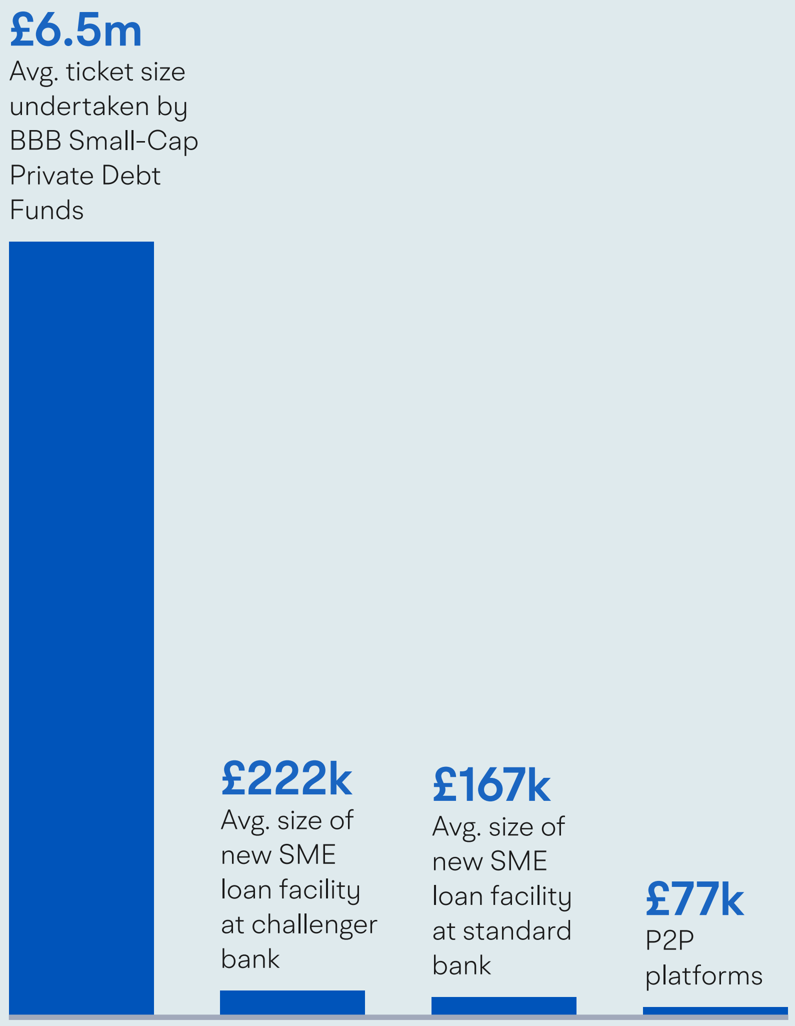
Private Debt funding can provide borrowers an additional credit line over and above traditional bank finance.

Closer relationships to lenders

Private Debt is a non-standardised form of finance, allowing investees to receive funding better matched to the specific situation they are in. Furthermore, fund managers tend to add further value by actively supporting the borrower's operations, as they may possess relevant management and restructuring skills.

Larger facilities

Private Debt funds have the capacity to provide larger facilities than the banks or other lenders. Importantly, compared to taking equity investment, borrowers can access new capital without giving up equity stakes in their business. However, due to the higher interest rates often charged by Private Debt structures, lower-mid-market equity funding may be more suitable to some borrowers in risk of over-indebtedness.



Source: BBI Investment Programme portfolio avg. loan sizes, UK Finance

Wider Economic Impact

Increasing Private Debt activity in the market has benefits to the wider UK economy as a whole, particularly given current economic and political circumstances.

Growth and recovery

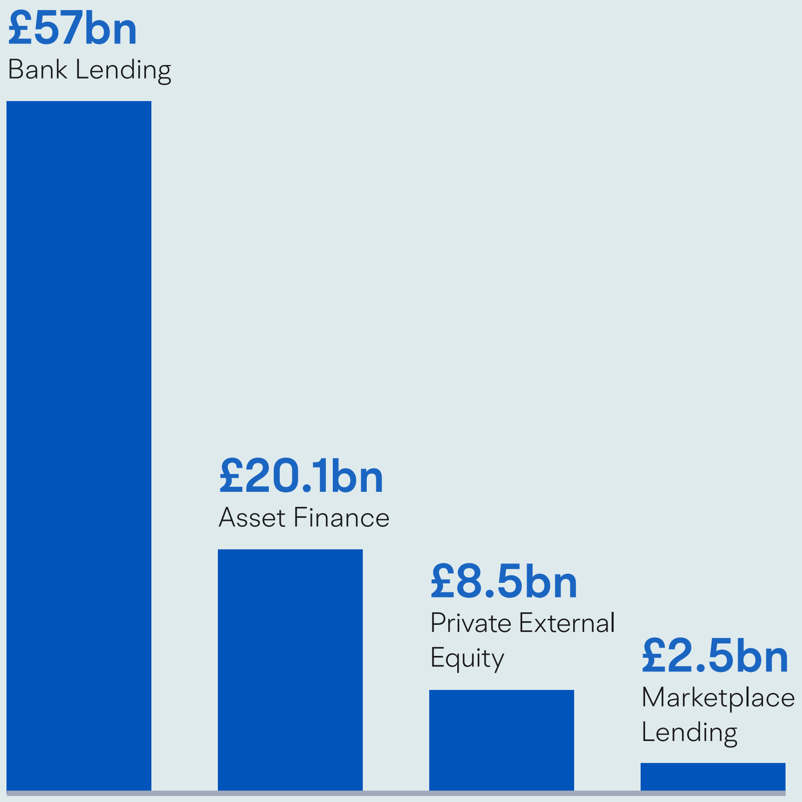
Private Debt fund managers offer smaller firms the most suitable funding package to fuel their growth given their circumstances, whilst limiting the impediments on companies' upward trajectory through inflexibly structured and ill-timed repayment plans.

The flexible repayment arrangements (e.g. through rolled-up interest payments and/or bullet repayment structures) could also potentially assist debt-laden firms who have had to make use of COVID-19 emergency loans to survive in the adverse economic climate.

Significant funding for smaller businesses

The British Business Bank estimates that, in 2019, SMEs received the following funding amounts from the main finance providers:[24]

Overview of different sources of SME funding in 2019 & associated amount of funding



Source: Bank of England, Beauhurst, FLA, Brismo & British Business Bank Management Information

According to the deal-level data in this report, participant fund managers deployed £9.4bn into UK small and mid-caps over the course of 2019. We estimate that approximately half of this funding went to SMEs, demonstrating that Private Debt constitutes a material funding component for smaller firms in the UK.

Government activity to increase awareness

Private Debt as an asset class is still less understood than other more established areas of finance. This issue is underpinned by the limited amount of data and insights currently available, especially at the smaller end of the spectrum. It is also not considered by most SMEs and mid-caps as a viable means of funding, with only 6% of companies surveyed seeking funding from a Private Lending company in the last three years.[25] Consequently, increased focus and activity by UK Government in the area creates an opportunity for greater awareness by prospective borrowers, and thus ultimately for increased business productivity and economic growth in the UK as a whole.

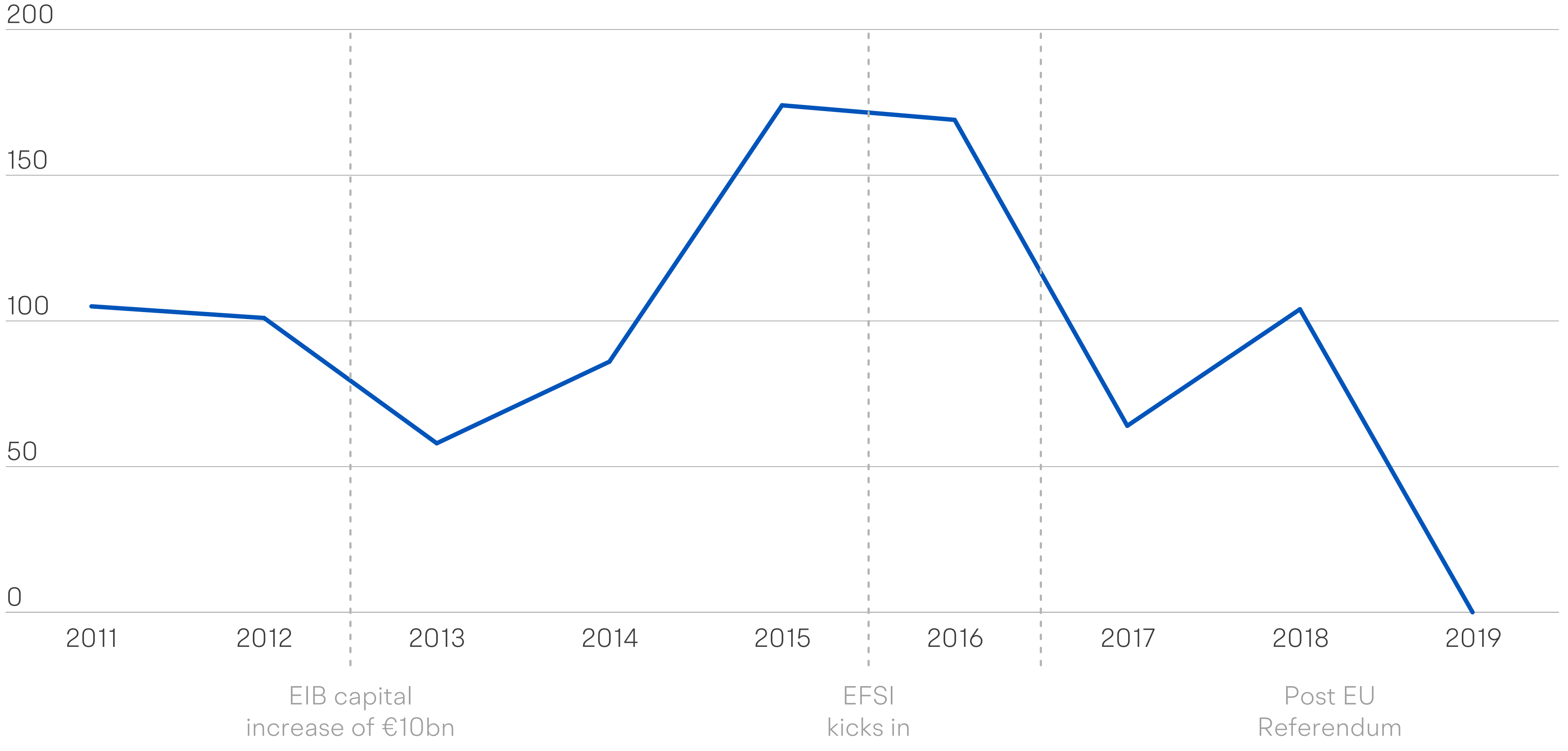
European Investment Fund replacement

Prior to the EU referendum, the European Investment Fund (EIF) was an active player in the UK market, investing almost £300m in total into UK Private Debt funds in 2015 and 2016. As a result of the UK's exit from European Union, the EIF gradually decreased its funding, with no new commitments made into UK Private Debt funds in 2019 (see figure 6 on the right). This has reduced the amount of funding available to UK smaller and mid-sized businesses, and underpins the importance of UK Private Debt funds sourcing investment commitments from other LPs.

Figure 6

EIF commitments to UK non-bank debt funds over time (£m)

Source: British Business Bank analysis of EIF[26]



Market sentiment on fundraising conditions

The COVID-19 pandemic has impacted economies and financial markets across the globe. Unsurprisingly, this has caused a challenging fundraising environment for Private Debt funds.

57 respondents provided their assessment of fundraising conditions pre- and post-COVID-19 breakout, with responses collected between March and July 2020.

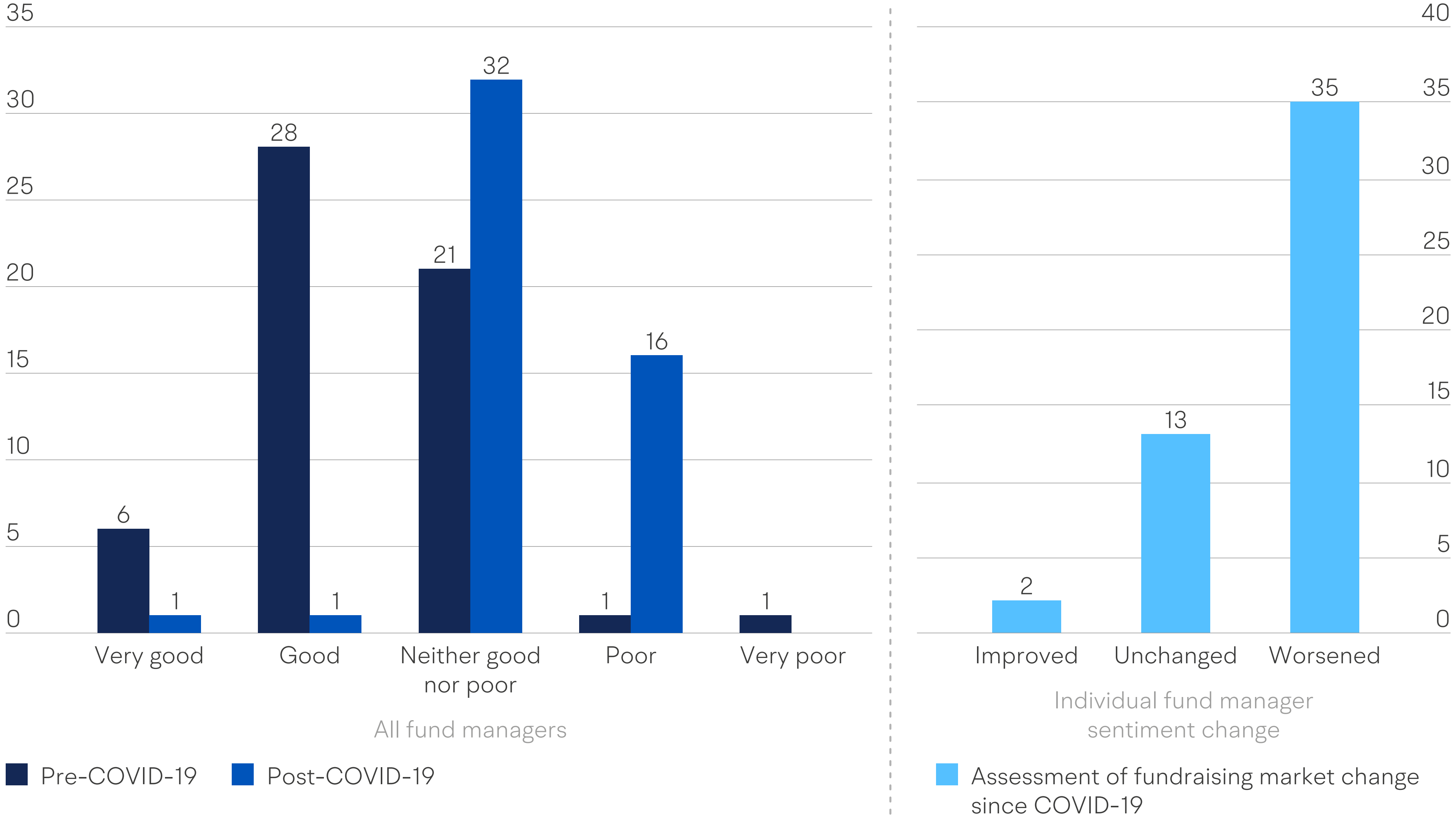
Fundraising conditions have worsened according to the majority of respondents. Pre-COVID-19, 32 respondents (57%) assessed them as "good" or "very good", with only two providing a similar assessment post-COVID-19. Overall, 70% of all participating fund managers said fundraising conditions have worsened.

This result is not unexpected, as many LPs reduced their risk appetite in the wake of the pandemic and associated volatility in public market valuations, channelling funding towards less risky, often countercyclical investment opportunities. Simultaneously, many GPs focussed their attention on managing their active portfolio companies through the crisis, rather than raising further funds. However, the COVID-19 outbreak has also raised logistical challenges, with many fund managers facing difficulties holding face-to-face meetings with prospective investors, causing some delays in fundraising timelines.

Figure 7

Assessment of the Private Debt fundraising market

Source: UK Private Debt Research Report 2020



The fundraising challenges are especially prevalent for smaller, regional players. There are several reasons for this:

– Smaller funds are commonly more impacted by cyclicality, as they rely on a narrower range of LPs, whose investing abilities may be more inhibited by adverse economic conditions.

– Smaller funds, especially regionally focussed players, tend to be more reliant on government funding support. This reliance on UK and EU funding may have led to increased fundraising challenges given the uncertainty around the UK's EU exit.

– Larger funds are generally better able to diversify their origination strategy and adjust their fundraising approach to more challenging funding conditions.

– Lending to larger firms may be perceived as less risky and more resilient by LPs, as thanks to their size and more diverse investment approach they are considered to be better able to absorb potential losses.

– Many funds, especially smaller and emerging ones, have yet to demonstrate their ability to successfully navigate financial crises.[27] While this holds true for many of the firms set up post Global Financial Crisis, it is a more acute factor for smaller funds.

"There has been a 6-month delay to raise funds, due to difficulty holding face-to-face meetings. Since August, LPs are reopening their allocation programme, given a better understanding of the COVID-19 effect."

Jakob Lindquist,
Cordet Capital

"In the early stages of the first lockdown there was a significant slowdown in transaction activity in the market, as there was an inevitable hit to confidence and a disconnect on valuations between potential buyers and sellers of target businesses."

David Wilmot,
Apera Asset Management

> “Our senior secured direct lending funds are a low-risk entry point into Private Debt. This reflects the fact that they target the non-cyclical end markets in creditor-friendly jurisdictions, supported by a unique origination strategy. This contrasts those providing unitranche loans which go deeper down the capital structure and tend to have weaker loan terms. Our relatively conservative strategy is proving particularly attractive to investors who are concerned about the performance of SMEs and the economy as a result of the COVID-19 pandemic.”
>
> Laura Vaughan,
> Federated Hermes

> “Our diversified product offering and ability to provide a range of financing solutions across the capital structure has enabled us to be well positioned in the current market, despite the obvious uncertainties. This differentiated offering gives us the opportunity to have more conversations with private equity sponsors.”
>
> MV Credit

Case study: Alexander Technologies

Region: North East

Alexander Technologies Europe Limited designs and manufactures custom Lithium Ion battery packs and proprietary chargers for powered air-purifying respirators, portable medical devices and other applications.

The company used funding from Shard Credit Partners to facilitate a management buy-out and then successfully expand its manufacturing facilities from 16,000 to 56,000 square feet. This included tripling the number of new assembly lines, making a significant investment in new manufacturing equipment, and additional engineering and quality labs for product development.

The expansion also meant the company was well placed to meet unprecedented, increased customer demand related to the COVID-19 pandemic. The company plans to invest further in the future to continue its growth, in order to establish its position as a global leader in custom battery packs for the portable medical equipment sector.

Finance use and capital structure

Figure 8 on the right shows the split of deals by how the finance was used. As outlined previously, given this report's focus on the smaller end of the spectrum, the majority of deals are classified as "growth",[28] with buyouts and acquisitions constituting less than 20% of deals. This is very different from the mid-market segment. For example, in Deloitte's 2020 Alternative Lender Deal Tracker, buyouts and acquisitions represent 34% and 28% of all deals, respectively, explaining the larger proportion of sponsored deals in the Deloitte dataset when compared to this report (see figure 3 on page 17).

These growth deals are typically of smaller ticket sizes, in many cases backed by government support, and with a strong geographic focus outside of London and the South East (see next section on regional analysis). As outlined in figure 9 on the next page, even when excluding smaller and microfinance lenders in receipt of government funding, the average size of a "growth"-classified deal is almost four times smaller than that of a non-"growth"-classified deal.

Figure 8

Finance use by number of deals (2018-2019)

Source: UK Private Debt Research Report 2020

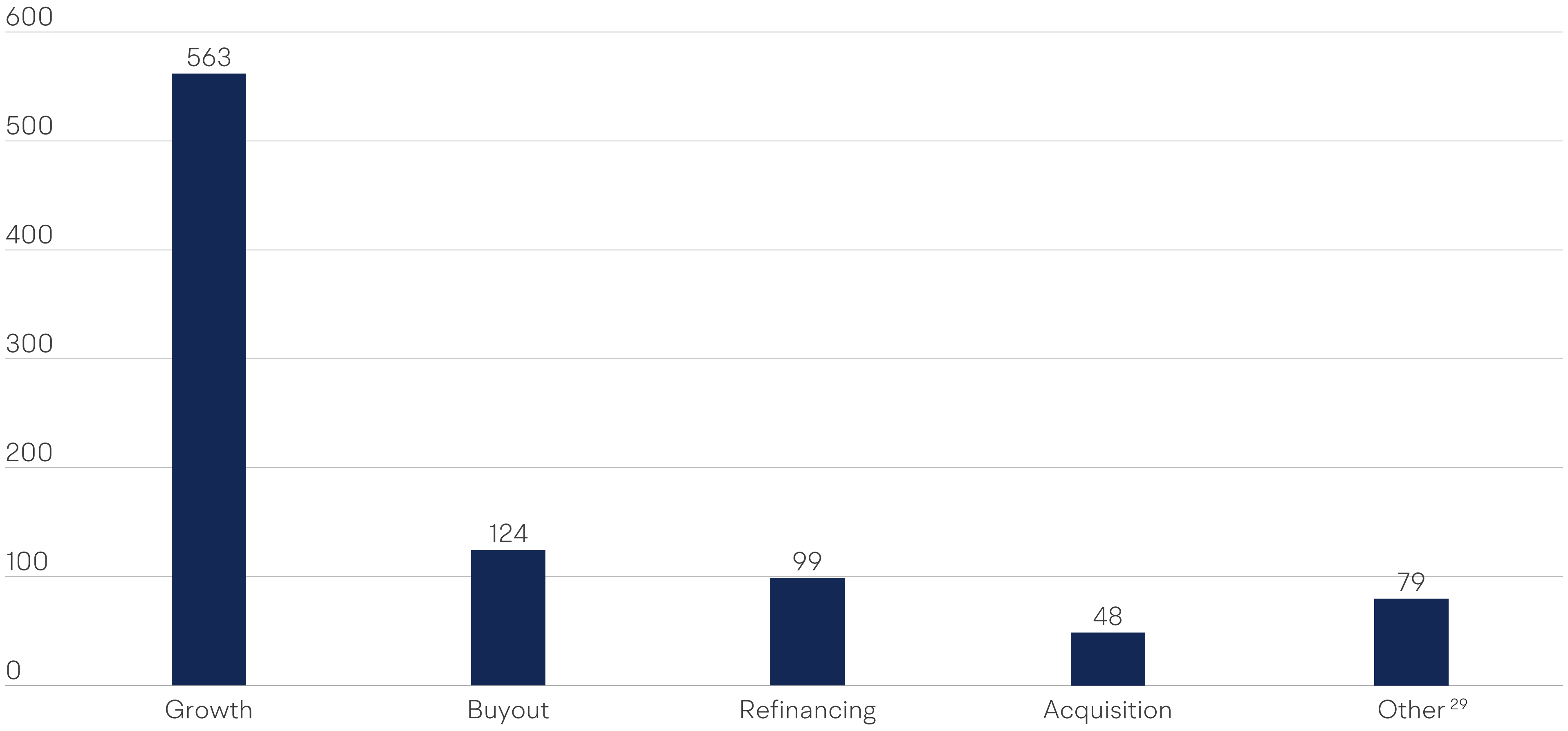


Figure 9

Average size of growth vs non-growth deals (2018-2019)

Source: UK Private Debt Research Report 2020

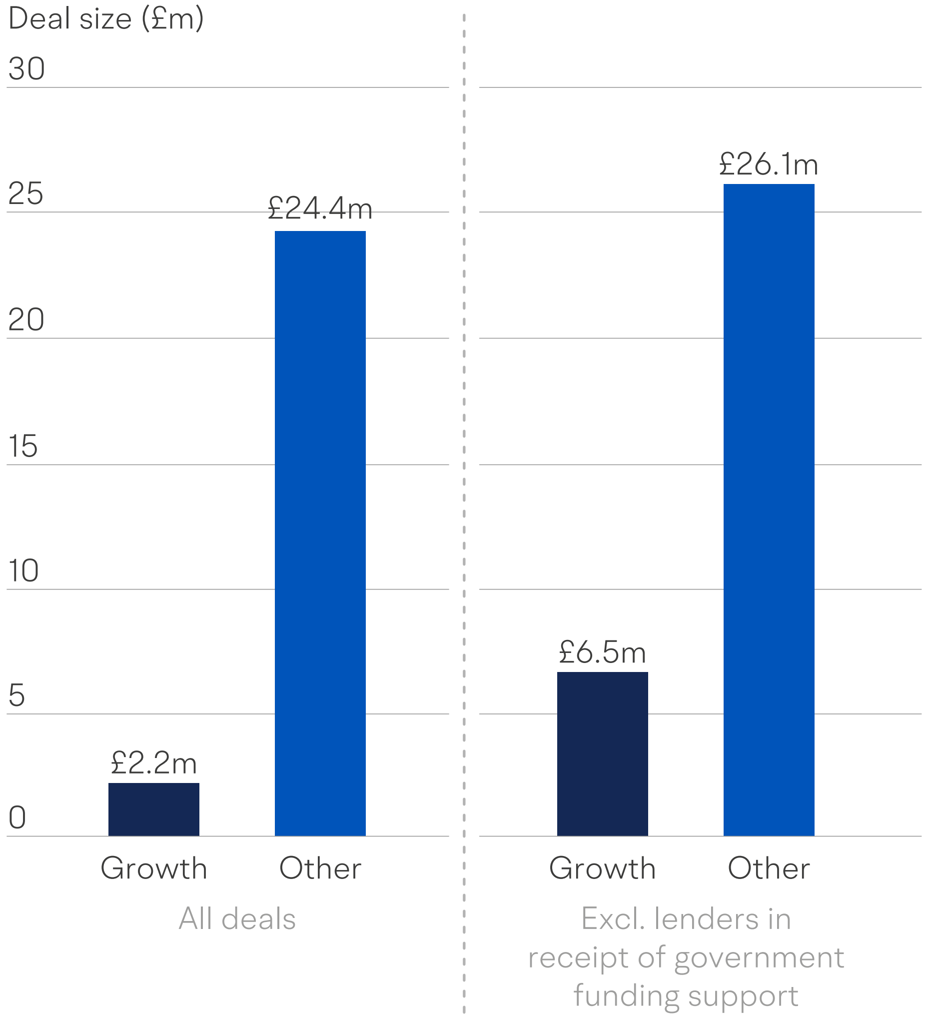
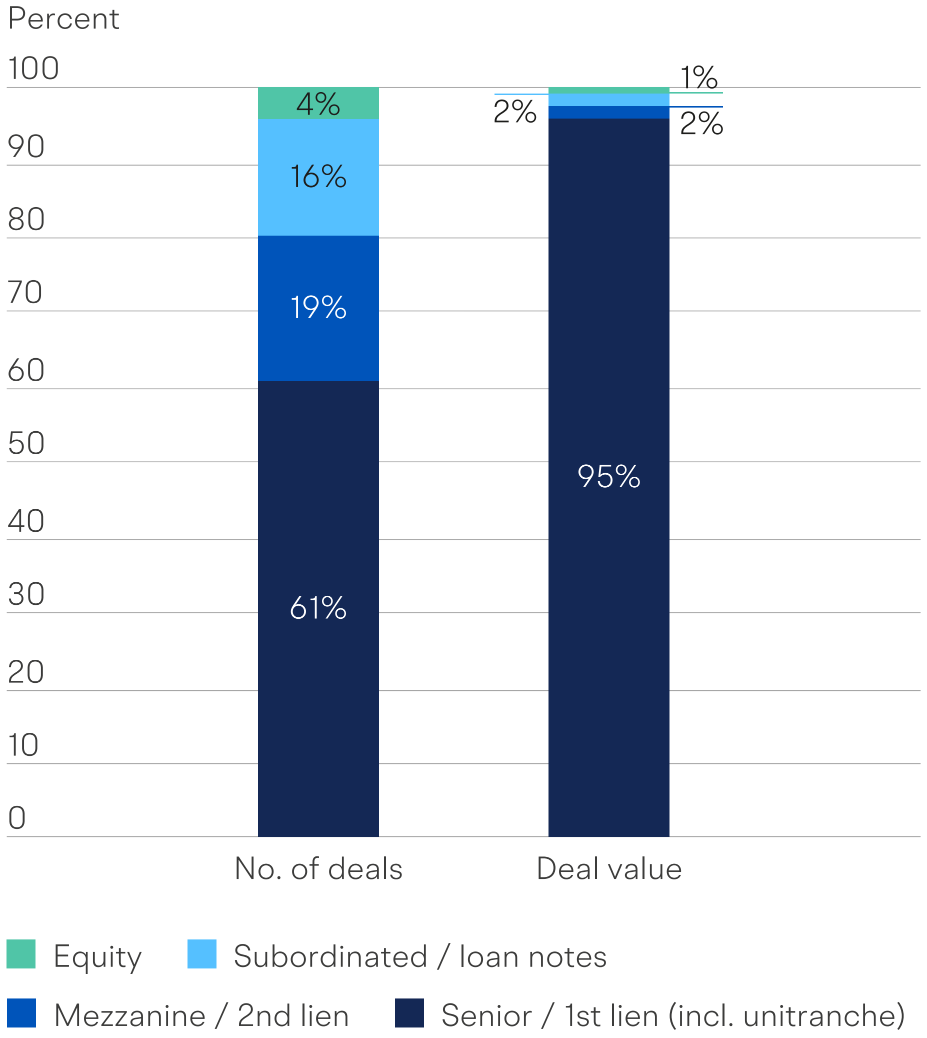


Figure 10

Capital structure by number of deals and deal value (2018-2019)

Source: UK Private Debt Research Report 2020



> “We continue to see strong demand for growth debt across the UK, both to support organic growth and M&A.”
>
> Johan Kampe,
> Claret Capital

The prevalence of growth deals at the lower-mid-market and small cap end of the UK Private Debt market is also reflected in the capital structures. As shown in figure 10 on the previous page, the majority of such deals are typically structured as unitranche senior debt. While around a third of all deals collected for 2018 and 2019 are mezzanine/2nd lien structures or subordinated loan notes, these deals represent less than 5% in terms of overall value. This is mainly because subordinated structures are often used by microfinance lenders as quasi-equity components, and hence are of a lower nominal value.

Looking forward, the prevalence of growth deals for lower-mid-market and small cap businesses indicates that demand is unlikely to decrease in the short to medium term. As companies adapt to post-pandemic recovery, a growing need for investment may emerge. If so, Private Debt funds could play a key role in supporting the recovery and economic growth of smaller UK business going forward.

> "Lending to growth SMEs is a critical part of the Alternative Finance ecosystem. It reduces the overall cost of funds to fast growing SMEs and provides capital where banks have traditionally been unable to do so."
>
> Participant fund manager

> "At Foresight, our primary strategy is to provide funding to the Alternative Finance sector, which has become an increasingly important source of growth capital for the SME community."
>
> Foresight Group

Case study: Hams Hall Sustainable Energy Ltd

Region: West Midlands

Hams Hall Sustainability Energy Ltd (HHSE) utilises Combined Heat and Power ("CHP") technology to capture heat formed during power generation.

Part of BasePower, Birmingham-based Hams Hall Sustainability Energy Ltd (HHSE) utilises "CHP" technology to capture heat formed during power generation and put it to productive use during the manufacturing process, resulting in reduced energy costs and carbon emissions for businesses.

The sustainable energy provider secured a £800,000 investment from the Midlands Engine Investment Fund (MEIF) Debt Finance fund, managed by Maven Capital Partners.

The company is set to use the funding to support the delivery of new contracts, helping support its clients, and the UK's transition to a low-carbon economy. It will also use the funding to complete its purchase of a CHP engine for a leading Tier 1 supplier to the global automotive industry. The blue-chip customer manufactures bumpers, fenders, body panels and body modules for JLR, Nissan and other automotive manufacturers throughout the UK.

Regional perspectives

Figures 11 and 12 outline how Private Debt deals and investment are distributed across the UK. Private Debt is a geographically diverse finance product, with 82% of deals in 2018 and 2019 occurring outside of London, reflecting the fact that companies with high growth potential can be found across the UK. Strong clusters of activity exist across the UK, especially in the North West and Yorkshire & the Humber, with more Private Debt deals occurring in the North West than any other region. Whilst Private Debt deal numbers are spread relatively widely across the UK, the investment value of Private Debt transactions is more concentrated in London with 35% of capital invested between 2018 and 2019 going to London-based businesses. Although this is higher than London's 19% share of the SME population, the geographic distribution of Private Debt investment is still more regionally diverse than other high-growth risk capital products such as Venture Capital.[30]

Figure 11

Geographic distribution of UK Private Debt deals

Source: UK Private Debt Research Report 2020

1. London
2. South East
3. South West
4. East Midlands
5. West Midlands
6. East of England
7. Yorkshire & the Humber
8. North East
9. North West
10. Northern Ireland
11. Wales
12. Scotland

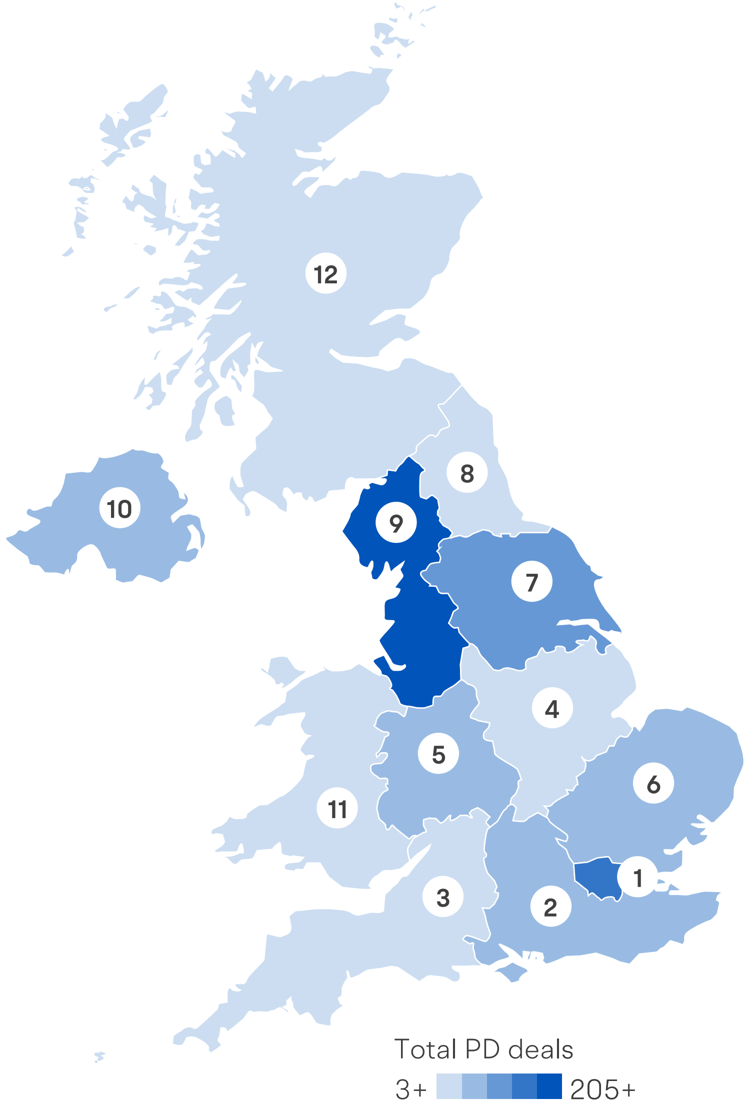
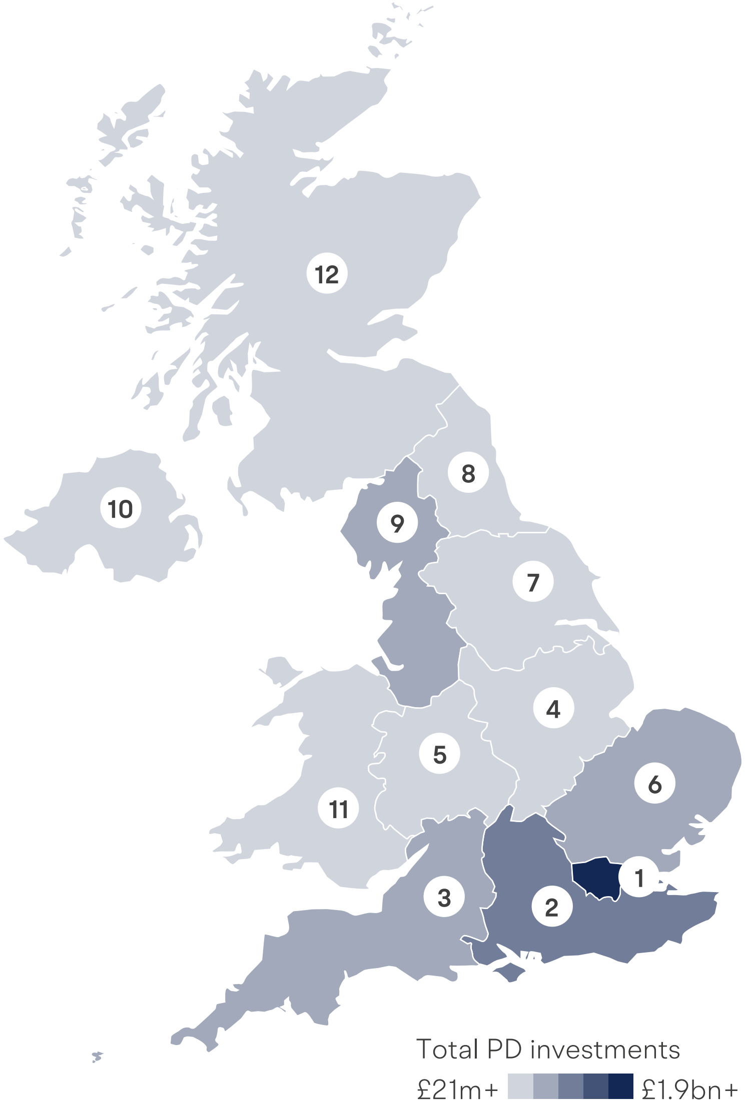


Figure 12

Geographic distribution of UK Private Debt investment

Source: UK Private Debt Research Report 2020



There are some differences in the characteristics of deals occurring in London compared to those in the rest of the UK. As outlined in figure 13, growth capital transactions are much more prevalent outside of London. 69% of all deals completed outside of London were classified as growth compared to 39% in London. Growth deals tend to be much smaller, which may explain why the average value of deals involving London-based companies is larger (£21m) than those involving companies outside of London (£9m), as outlined in figure 14.

Transactions undertaken by Private Debt funds with government support represent 60% of the overall non-London deal sample, compared to just 1% of London deals. We believe that this is the key driver of the discrepancy in transaction sizes, as these government-backed investors appear to make smaller, more commonly growth, investments than the overall population of investors contributing to this dataset. When considering the transactions undertaken solely by purely private sector players, there is no material difference in either the size or type of deal in London-based companies compared to the rest of the country, as shown by figures 13 and 14.

Figure 13

Finance use by deal location (number of deals)

Source: UK Private Debt Research Report 2020

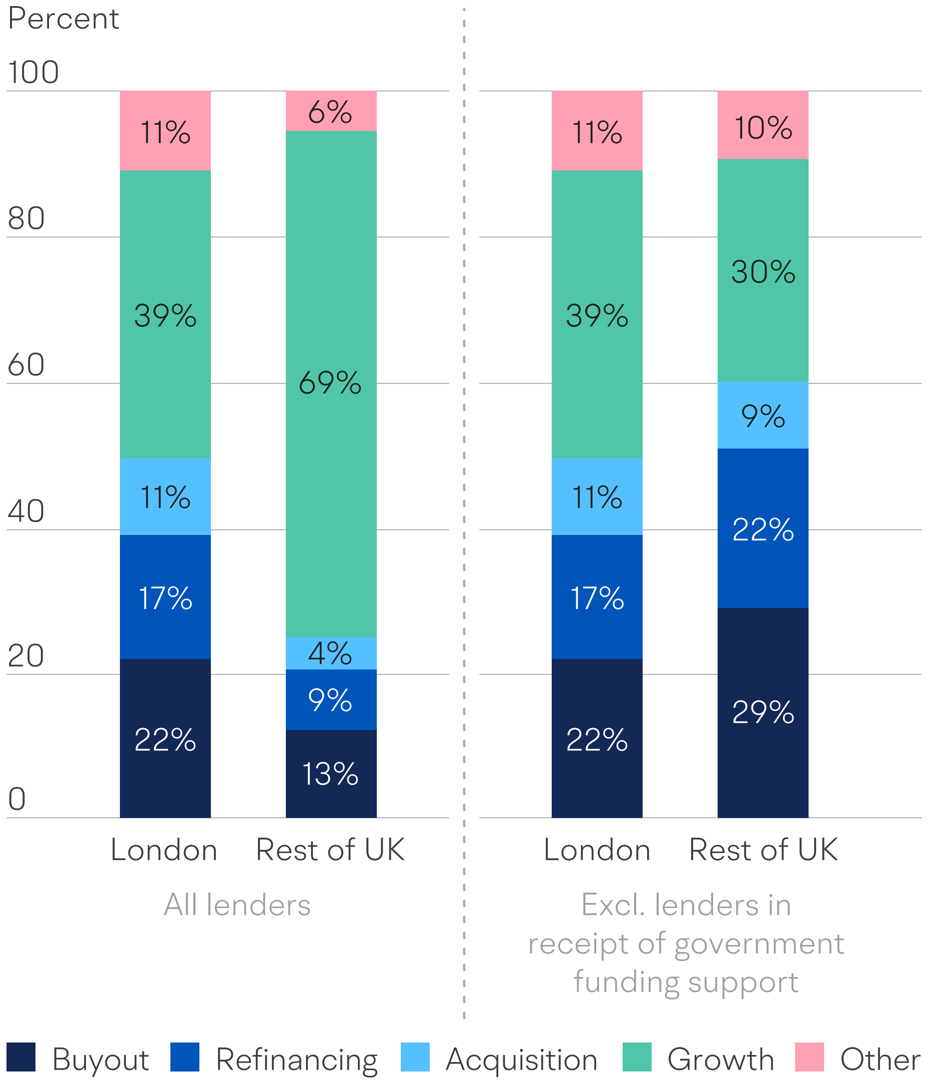
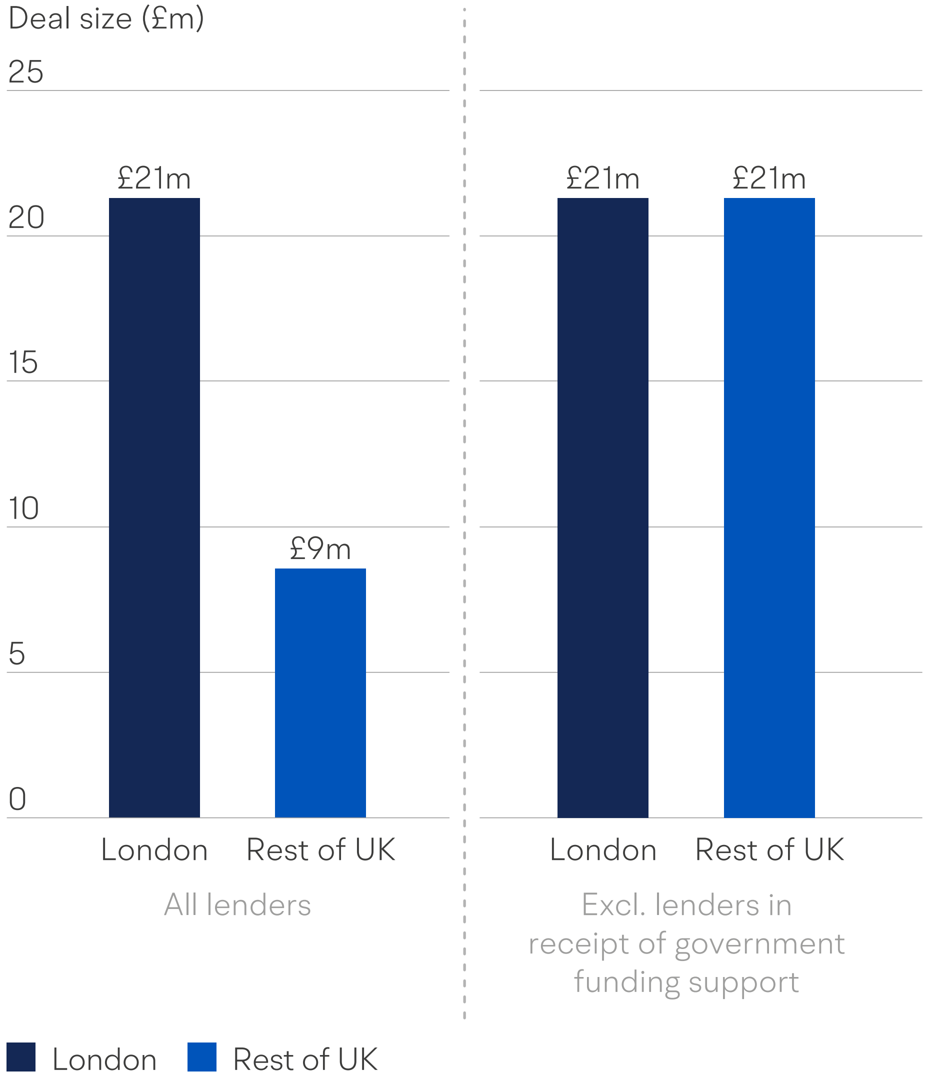


Figure 14

Average deal size by location

Source: UK Private Debt Research Report 2020



Companies outside of London receiving smaller Private Debt investments on average suggests that this cohort of businesses are also smaller. However, as smaller companies are not required to file full accounts at Companies House, turnover/employment information is not available for 69% of businesses in the dataset. Nevertheless, the missing values themselves are informative as it is likely that the company is small enough not to be required to disclose turnover.[31]
A much higher proportion of the non-London sample has not reported turnover to Companies House than London-based businesses (73% compared to 52%). Even for the cohort of businesses with available turnover data there is some indication that London recipients are larger. For instance, 18% of deals (for which turnover information is available) in London-based businesses were in businesses reporting a turnover above £50m, compared to 9% of deals outside of London.[32]

> “In 2019, we continued to see strong demand for alternative financing solutions from SMEs, in particular in the Northern UK regions.”
>
> Shard Credit Partners

Case study: Veezu

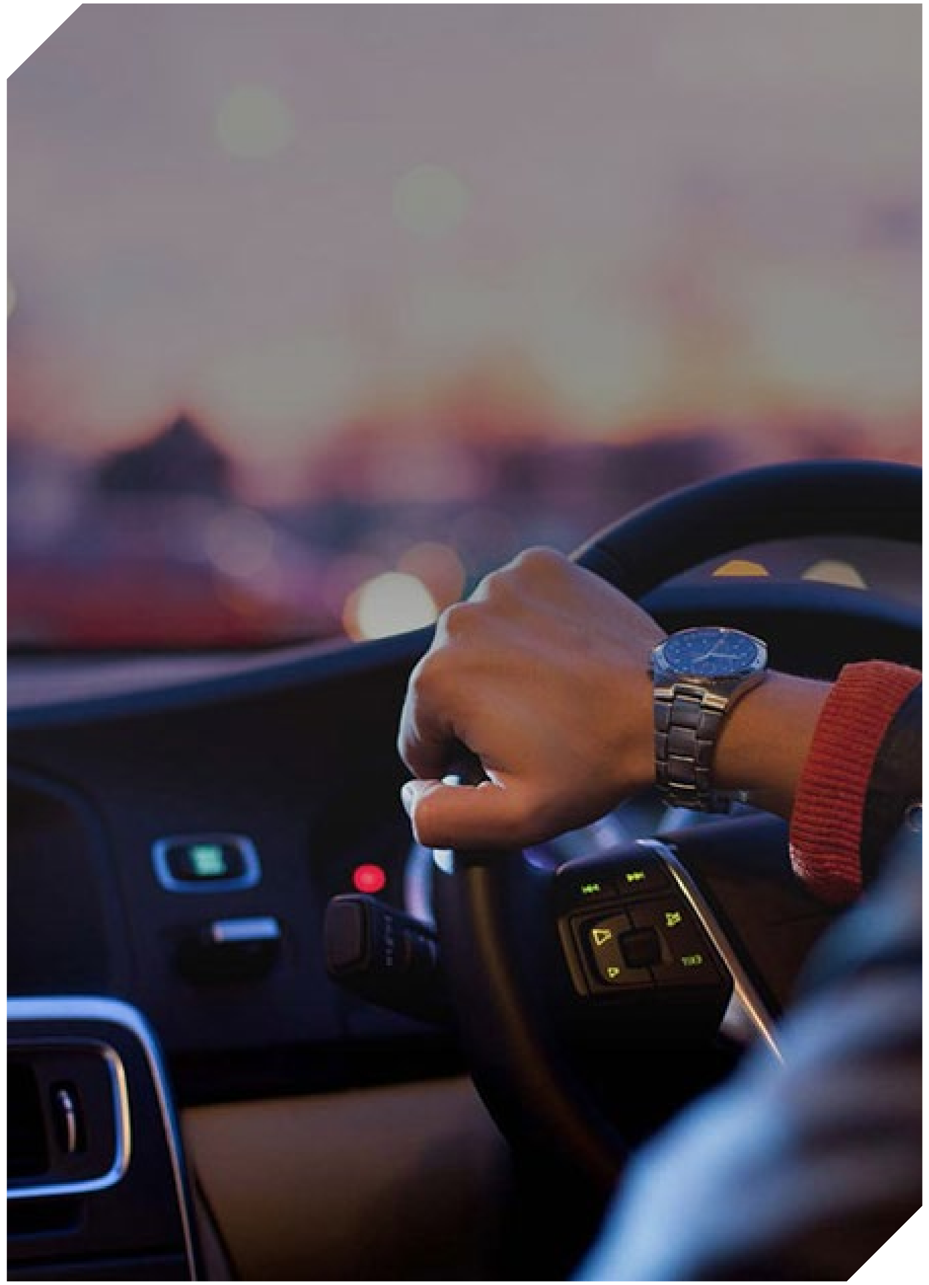
Region: Wales

Veezu is a leading multi-region private vehicle hire company based in Newport, Wales. A tech enabled business, passengers tap the app to book via a GPS based automated dispatch system.

The company has seen driver partners deliver more than 18m private hire journeys each year, equal to a transaction value of over £155m. It provides 1.5m journeys per month, across 14 cities with users booking 8.6m journeys through its app.

Looking to facilitate growth through acquisition and expansion, it received funding from Tosca Debt Capital (TDC), a regional debt fund with a focus on supporting the growth plans of regional SMEs.

The funding has allowed Veezu to drive rapid expansion and accelerate their corporate strategy to reinforce its position within the sector. Obtaining finance has also allowed it to drive incremental growth in driver partners and staff, whilst allowing its four regional hubs to acquire and grow smaller bolt-on businesses. Veezu now intends to further grow and expand, building upon these foundations.



Sectoral view

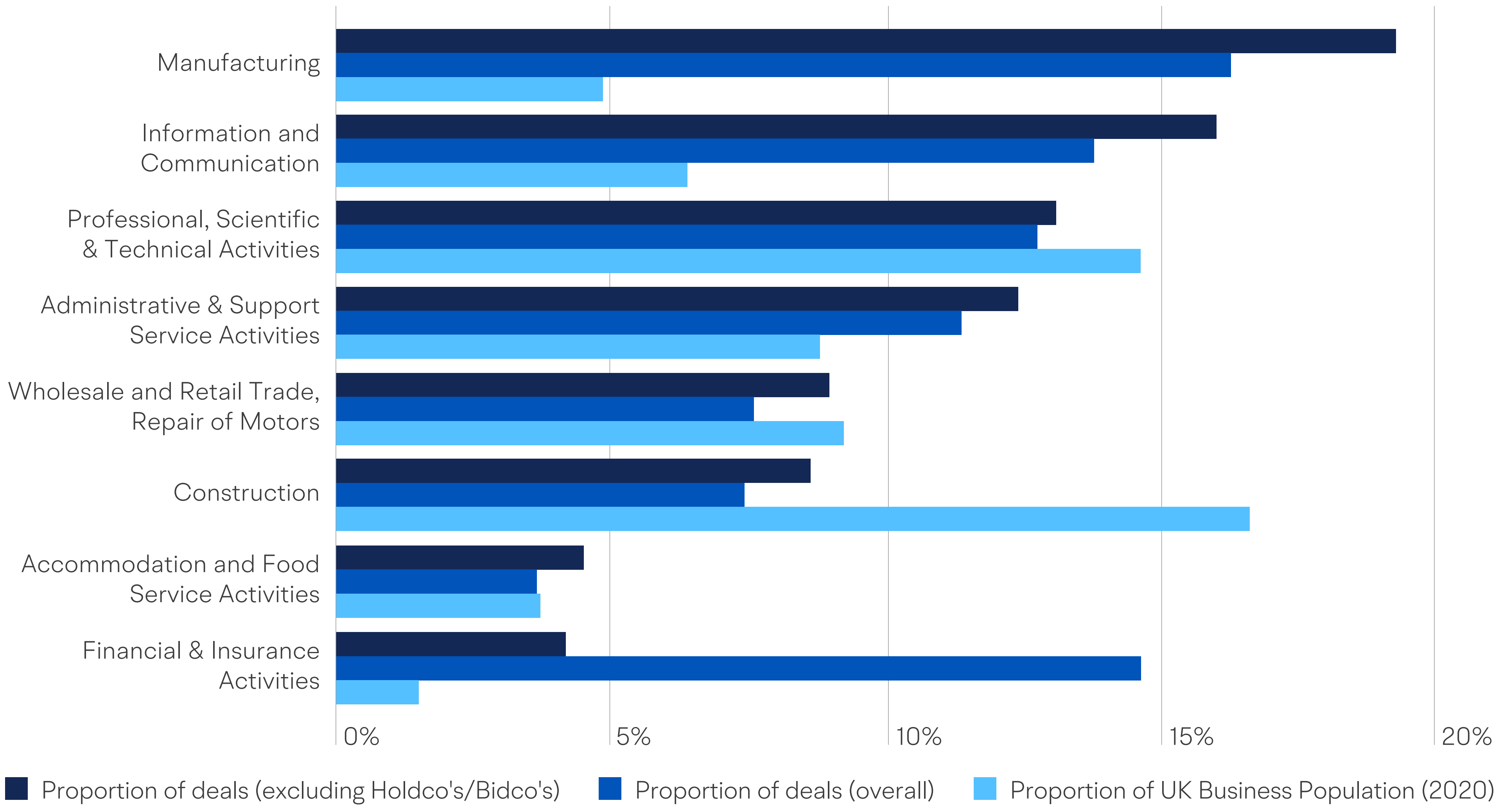
Sectoral analysis of this dataset has proved challenging, as many of the Company House ID numbers provided relate to either holding companies or BidCos,[33] meaning that the Standard Industry Classification (SIC) code of the company does not reflect the activity of the recipient business. Analysis indicates that approximately 18% of the companies in the dataset with sectoral information fall into this category, concentrated in the Financial & Insurance Activities sector. This section therefore focuses on the sectoral distribution (as measured by SIC Sections) of the population of businesses not flagged as either a holding company or a BidCo.[34]

Figure 15 demonstrates the skewing effect of the BidCo / holding company population, with Financial & Insurance Activities being the second most populous sector in terms of deal numbers overall but falling to eighth once these companies are excluded. Manufacturing represents the largest sector in terms of deal numbers regardless of whether holding companies / BidCos are included. Alongside the Information & Communication and Financial & Insurance Activities sectors, the Manufacturing sector attracts a much higher proportion of Private Debt deals than might be expected based on business population data.

Figure 15

SIC Section distribution of Private Debt deal numbers (2018-2019 deals, top eight most populous Sections)

Source: UK Private Debt Research Report 2020



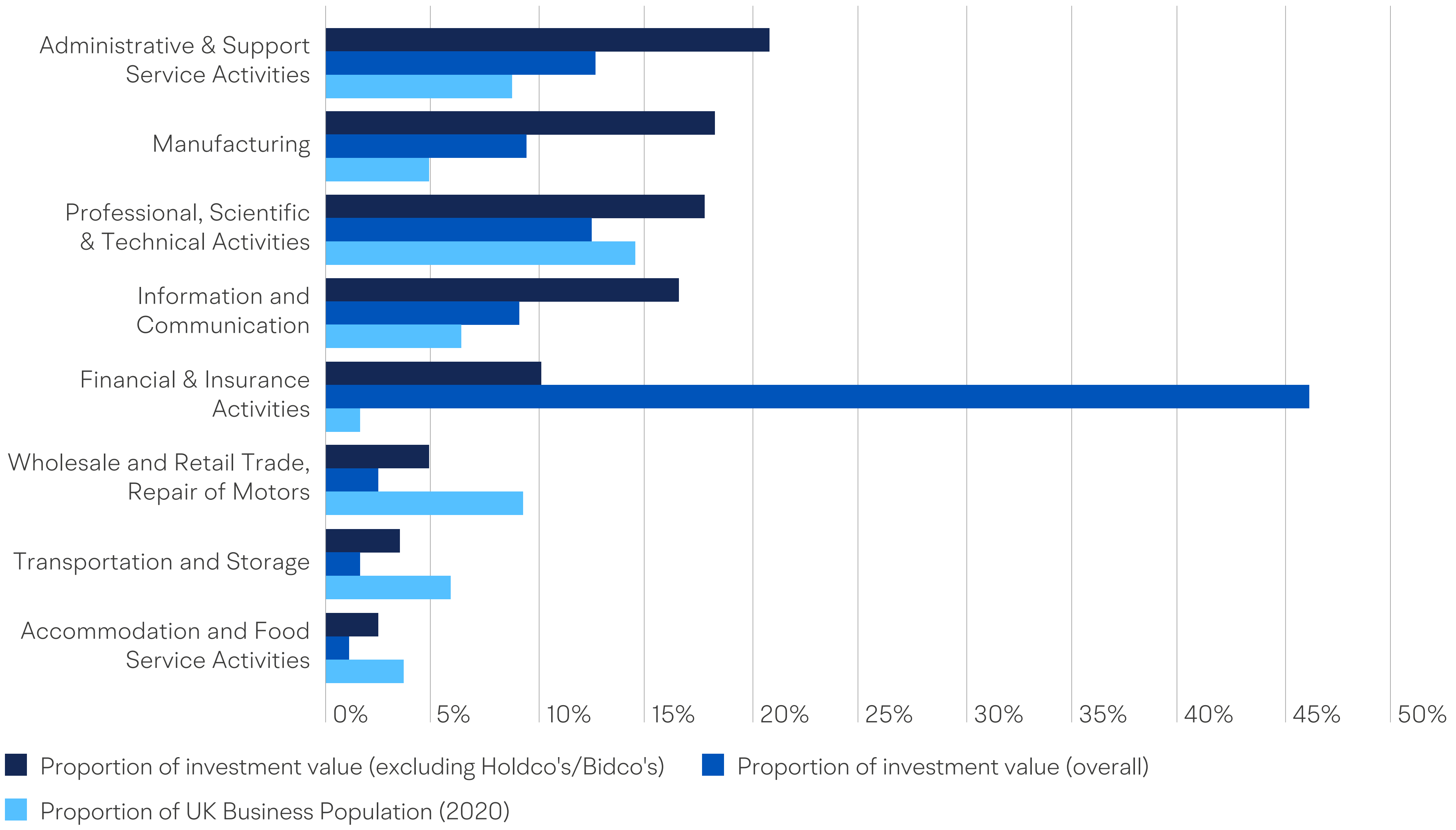
The number of deals in the Professional, Scientific & Technical Activities, Administrative & Support Service Activities and Wholesale and Retail Trade, Repair of Motors sectors are much more closely aligned to business populations whilst Construction is underrepresented.

The wide range in transaction sizes captured in the dataset, large volumes of smaller (<£1m) transactions as well as a small number of much larger (£100m+) ones, means there is added complication when analysing the sectoral distribution of invested capital. The issue of holding companies/BidCos is compounded here, as deals in holding companies and BidCos are much larger on average than other deals in the dataset, with average sizes of £23m and £5m respectively. As figure 16 shows, 46% of Private Debt investment in 2018/2019 went to Financial & Insurance Activities businesses, falling to 10% once holding companies/BidCos are removed.

Figure 16

SIC Section distribution of Private Debt investment value (2018-2019 deals, top eight Sections)

Source: UK Private Debt Research Report 2020



Administrative & Support Service Activities businesses received the most Private Debt capital (21%), with a higher proportion of capital than deals due to larger than average deal sizes. Similarly, Professional, Scientific & Technical Activities businesses also received a much higher proportion of overall investment than deals, again due to larger than average ticket sizes likely relating to the capital-intensive nature of the industry. Manufacturing and Information and Communication businesses represent a relatively similar proportion of investment value as deal numbers.

It should be noted that the analysis above reflects the sectoral spread of the Private Debt industry in a pre-COVID-19 world. It is likely that the economic uncertainty created by COVID-19 in 2020 will have caused Private Debt capital to consolidate in defensive sectors such as Financial Services, Healthcare and Information Technology, and there is some anecdotal evidence from market participants that this has been, and will continue to be, the case as the global economy recovers.[35]

Concluding remarks and looking ahead

Since the Global Financial Crisis, Private Debt has grown in importance in the UK finance market. Just over a decade after one global crisis had a major impact on the availability of capital to companies, another crisis has led to the most significant economic downturn in generations. The importance of the role Private Debt can play in supporting the recovery of UK firms and stimulating future growth cannot be understated. This is especially the case for smaller and mid-sized firms looking to rebound strongly and manage potential challenges of shorter-term debt taken on to survive the prolonged periods of economic inactivity in the pandemic.

Thanks to the primary data provided to this research project directly by participating fund managers, without whom this work would have been impossible, this report offers a unique insight into the UK Private Debt market. Some of the key observations from this first edition of the UK Private Debt Research Report highlight the suitability of the asset class in supporting UK businesses, especially in the current adverse market conditions. As such, it is vital for the sector to raise awareness of Private Debt to prospective borrowers and other key stakeholders, such as government and investors, given the still limited understanding of its potential role.

The key messages in the report, emphasising the significant role of Private Debt, include:

- By value, over £18bn of lending was completed for 2018 and 2019 alone, clearly underlining that Private Debt is no longer a fringe financing activity, but rather a growing and increasingly important alternative means of funding for UK businesses of all sizes.
- The bespoke, flexible funding structures provide UK companies with structures that are tailored to the specific needs of businesses. This is further supported by the specialist restructuring skills of some fund managers who can provide vital support to business owners in navigating challenging conditions.
- A strong and growing Private Debt market is of benefit to investors, borrowers, and the wider economy. It offers investors attractive risk-return propositions, borrowers a larger and more specialised array of funding options, and the UK economy a suitable replacement for European funding in a world outside the EU.

As banks may retrench from SME and Mid-Cap lending, especially when the COVID-19 emergency programmes come to an end, Private Debt lenders may have an opportunity to further increase their lending activity, helping companies survive and turn their focus towards recovery and growth.

Going forward, and building on this year's report, the UK Private Debt Research project will aim to continue to highlight the importance of the asset class by producing an annual report. It is our intention, through this project and related activities, to continue raising awareness about the benefits of Private Debt to prospective borrowers, investors, and other relevant stakeholders.

For us to be able to do so will require the continuing support of fund managers, offering their unique insights and data to help us understand the market better, and support its continuing development. We have benefited a lot from the support of 37 fund managers for this first edition, and hope to build on this in years ahead.

Appendix: methodology

The analysis and content of the UK Private Debt Research Report relied on primary data collected from participating UK fund managers.

Following confirmation of participation, fund managers received a data collection template covering three sections:

- **Cover page**

  General fund information; Optionality for funds to indicate willingness to be identified as participants and provide quotes

- **Fund data**

  Parameters on investment size; Qualitative assessment on market conditions

- **Deal data**

  Parameters on individual deals[36] for 2018 and 2019, including data fields such as capital structure, finance use, and investment size,[37] and location information[38]

For data security and confidentiality purposes, participating fund managers were provided with the option to submit filled out templates via a Secure File Transfer platform.

Upon receipt, the information sent by fund managers was anonymised and collated into a master database. The data provided by funds was analysed and used solely for the purposes of the UK Private Debt Research Report project, and was only reviewed and assessed by British Business Bank central functions.

Quotes contained in this report have been included with explicit consent from participating fund managers.

Acknowledgements

This report was written by Georgi Mintchev and Joel Connolly from the British Business Bank's Strategy & Economics team. We would like to thank Richard Coldwell, Director of Direct Lending in British Business Investments, as well as Leath Al Obaidi, Tom Bird, Anthony Gray, and Jacqueline Kaminsky for their invaluable support throughout the project. Special thanks go to Leon De Bono and Nayanna Shukla at the BVCA for the collaboration in the project and related events.

We are grateful to Pitchbook and Preqin for allowing us the use of their data.

Most importantly, this report would not have been possible without the responses from participating fund managers. We greatly appreciate them taking time to provide their data and insight.

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Endnotes

1. Sources: Financial Times, OECD Business Confidence Index, WHO, Worldometer
2. https://www.preqin.com/insights/global-reports/2020-preqin-global-private-debt-report
3. https://www2.deloitte.com/uk/en/pages/financial-advisory/articles/alternative-lender-deal-tracker.html
4. https://acc.aima.org/resources/research/financing-the-economy-2020.html
5. Sources: British Business Investments, UK Finance
6. ICG – The Rise of Private Debt as an Institutional Asset Class
7. While other finance use categories (e.g. recapitalisation, or acquisition) are arguably also ultimately growth-oriented, "growth" here denotes deals that support business evolution and/or expansion of a generally organic nature.
8. Where a scaleup is defined as a business meeting the 20% OECD definition of a high-growth firm that files full accounts at Companies House. Scaleup Index 2020 - https://www.scaleupinstitute.org.uk/wp-content/uploads/2020/11/Scaleup-Index-2020.pdf
9. British Business Bank Small Business Equity Tracker 2020, https://www.british-business-bank.co.uk/wp-content/uploads/2020/06/British-Business-Bank-Small-Business-Equity-Tracker-2020-Report.pdf
10. E.g. see: https://pitchbook.com/blog/what-is-private-debt
11. Institutions like 3i were an exception to this – see case study on page 13.
12. Note, Preqin's coverage of debt funds is focussed at the larger end and is more limited for smaller funds. This graph should therefore be taken as indicative of trends rather than the overall size of the UK's Private Debt market.
13. Source: 3i 2012 Annual Report
14. Source: Reference for Business
15. Source: "Entrepreneurship in Theory and History", Y Cassis, 2005
16. https://www.preqin.com/insights/global-reports/2020-preqin-global-private-debt-report
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21. See e.g. https://www.icgam.jp/~/media/Files/I/ICGAM/insight-documents/rise-of-private-debt-as-an-institutional-asset-class-amin-rajan-generic.pdf
22. IRR is a metric used to estimate the profitability of an investment. The technical definition of IRR is that it represents a discount rate that makes the Net Present Value (NPV) of cash flows equal to zero. Net IRR is IRR net of fees and carried interest.
23. Preqin defines the Net Multiple as follows: The ratio between the total value the LP has derived from its interest in the partnership (i.e. total distributed cash plus value of remaining interest) and its total cash investment in the partnership, expressed as a multiple.
24. Sources: Bank of England, Beauhurst, FLA, Brismo & British Business Bank Management Information
25. Source: Ipsos MORI SME & Mid-Cap Finance Survey, 2020. Note that 'Private Lending' may be interpreted by respondents as other Private Debt providers outside of fund structures, and therefore this answer may not perfectly align 'Private Debt funds'.
26. Information on EIF commitments sourced from EIF annual accounts for 2011-2019. Location information sourced through fund manager websites and market data providers.
27. Source: PitchBook article – "Private Debt rides out crisis despite fears of loose deal terms"
28. While other finance use categories (e.g. recapitalisation, or acquisition) are arguably also ultimately growth-oriented, "growth" here denotes deals that finance business evolution and/or expansion of organic nature.
29. "Other" includes finance uses such as recapitalisation, add-on facilities, dividend recap, equity release, and capital expenditure
30. In 2019 66% of SME equity investment went to business based in London – British Business Bank Small Business Equity Tracker 2020, https://www.british-business-bank.co.uk/wp-content/uploads/2020/06/British-Business-Bank-Small-Business-Equity-Tracker-2020-Report.pdf
31. UK companies are only required to disclose their turnover if two of the following are true; annual turnover exceeds £10.2m, assets exceed £5.1m, more than 50 employees.
32. Overall turnover averages are almost identical due to a handful of outliers in non-London recipients, where the maximum turnover reported by a London-based business is £147m but six non-London business report a turnover above £200m.
33. A BidCo is a structure used in some acquisition transactions. A potential buyer creates a special purpose vehicle (BidCo) to perform the acquisition of a company.
34. Companies classed as 'holding' companies if they either fell into the holding company SIC code (6420) or had 'holdings' or 'holdco' in their name. Companies defined as a BidCo if their named contained 'bidco'.
35. Private Debt rides out crisis despite fears of loose deal terms', PitchBook: https://pitchbook.com/news/articles/private-debt-rides-out-coronavirus-crisis
36. A 'deal' in this report relates to each individual transaction reported by each respondent. In cases where a fund has invested multiple tranches of funding into a single company, and reports these transactions individually, this would be classified as multiple 'deals'.
37. It was assumed that 'investment size' provided by each respondent related to the individual fund's contribution to the investment as opposed the overall size of the deal.
38. It should be noted that all fields were not exhaustively completed for every deal, and therefore where specific data fields are analysed in detail the report focusses on the population of deals for which information was provided.

British Business Bank plc
Steel City House
West Street
Sheffield S1 2GQ

t. 0114 206 2131
e. info@british-business-bank.co.uk

british-business-bank.co.uk

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