



in collaboration with



Impact of the **COVID-10** Pandemic on **Private Debt Investments**


Study Results


September 2020




Overview of key findings of the study

 **96%** of the respondents will continue to finance companies despite COVID-19.

 **>50%** of the participants expect significant effects of COVID-19 to last into 2021.

76% believe that debt funds will gain market share relative to banks in the next twelve month. 

67% state that there will be less private debt funds in the next twelve month. 


→ Consolidation!

 While the number of acquisition financings is expected to decline in the next 12 month, the number of Re-financings and restructurings is assumed to increase.

IMPACT OF THE COVID-19 PANDEMIC ON PRIVATE DEBT / MEZZANINE INVESTMENTS

 **45%** hire an external due diligence provider if there is no CDD report available. Digital readiness checks, supply chain exposure analysis and the existence of crisis management systems gained on importance due to COVID-19.

 **48%** think that 10-25% of debt funds will lose money with at least one portfolio company.

 **43%** find it likely or very likely that LPs will accept deviations from target return rates due to COVID-19.

 **33%** think that covenants were breached in more than 1/4 of their portfolio companies.

Most often used measures by funds:

- Supporting management
- Providing additional capital
- Converting debt into equity

Bluemont conducted a survey among more than 130 executives of over 60 different investment firms to analyse the effects of the COVID-19 pandemic on private debt.

Facts & figures

- IMPACT OF THE CORONA PANDEMIC ON PRIVATE DEBT INVESTMENTS -



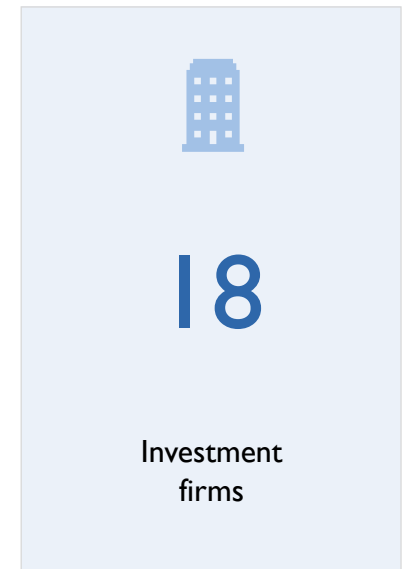
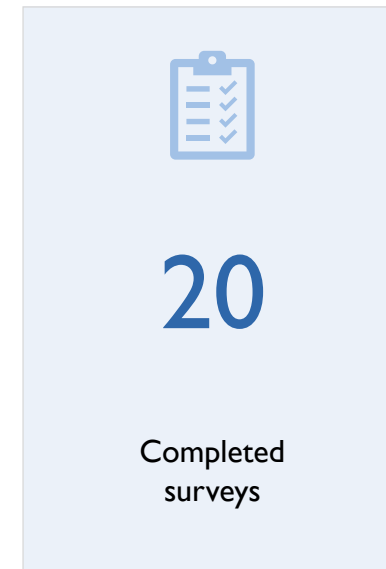
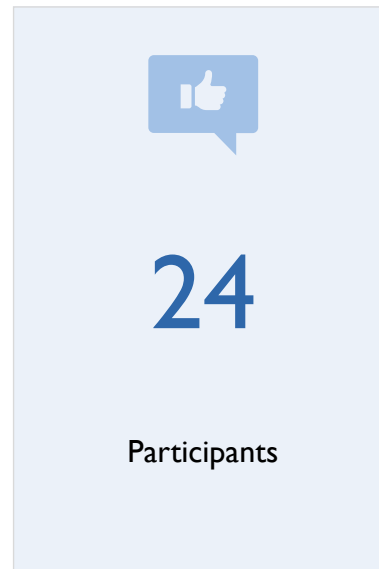
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Invitation



Participation



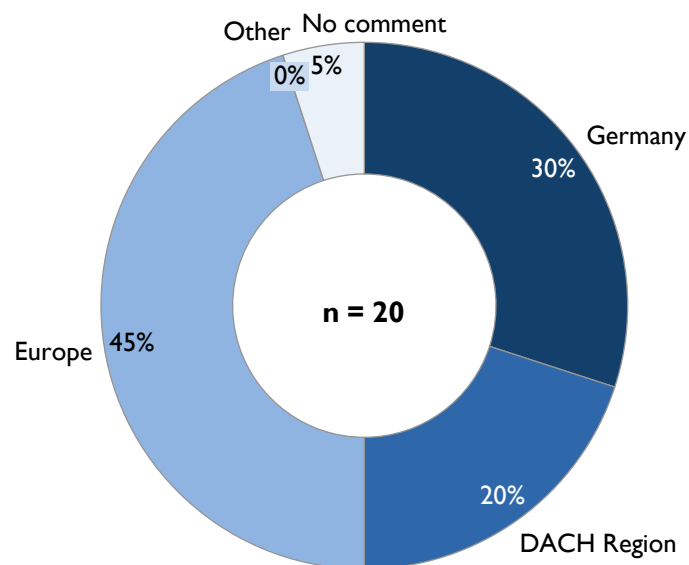
Survey period: June / July 2020
Source: Bluemont Consulting

A total of 24 participants from 18 debt funds took part in the study. Half of them have more than € 100m CUM and focus on investments in the DACH Region or Germany.

General information about the survey participants

Geographical focus of debt- / mezzanine fund

in % of total responses



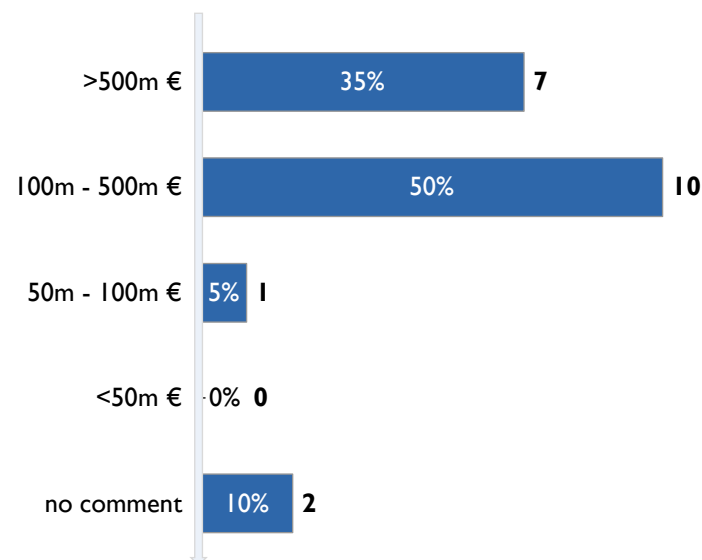
Q: Where is the geographical focus of your private debt fund / mezzanine fund?

Note: 1) Other responses included: Recaps, Lender Buy-outs, succession, MBI, MBO, equity replacement.
Source: Bluemont Consulting

Capital under management of fund

in % of total responses

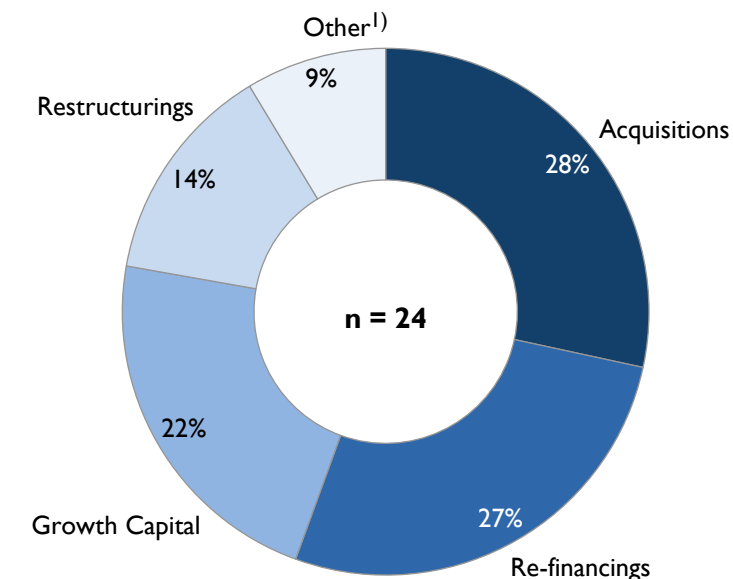
n = 20



Q: Please specify the current capital under management of your fund?

Investment focus of the fund

in % of total responses



Q: Which of the following private debt / mezzanine financing situations do you currently support with your fund (multiple answers possible)?

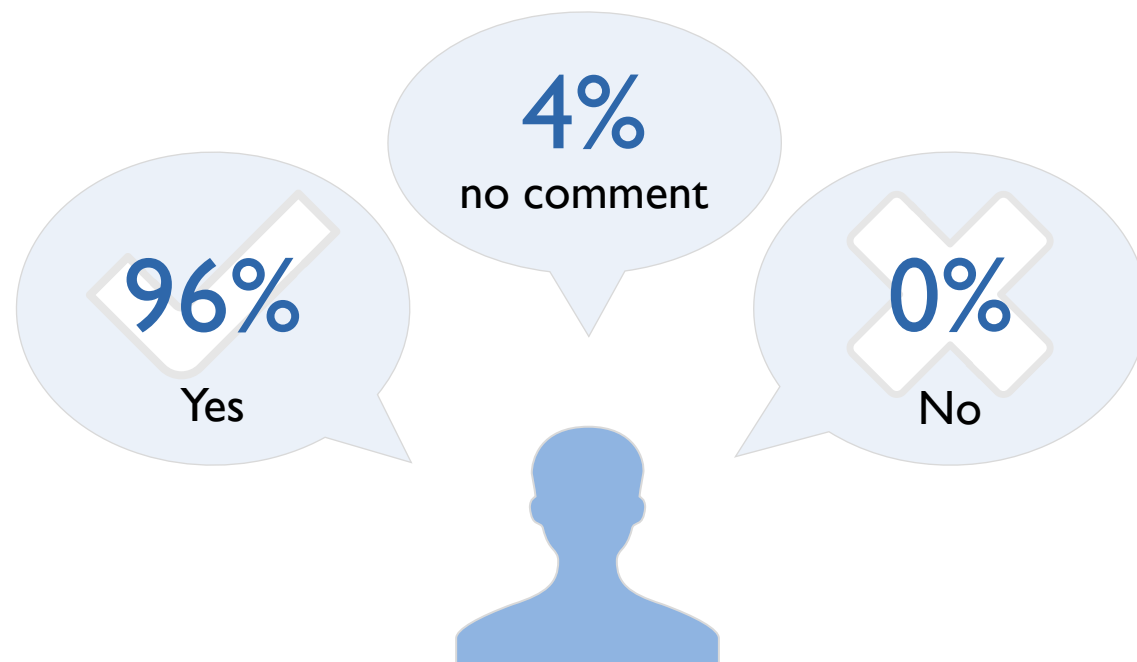
96% of the respondents state that they will continue to finance companies despite COVID-19. More than 50% expect effects to last into 2021.

COVID-19 impact on private debt investments

Continuation of investment activities despite COVID-19

in % of total responses

n = 24

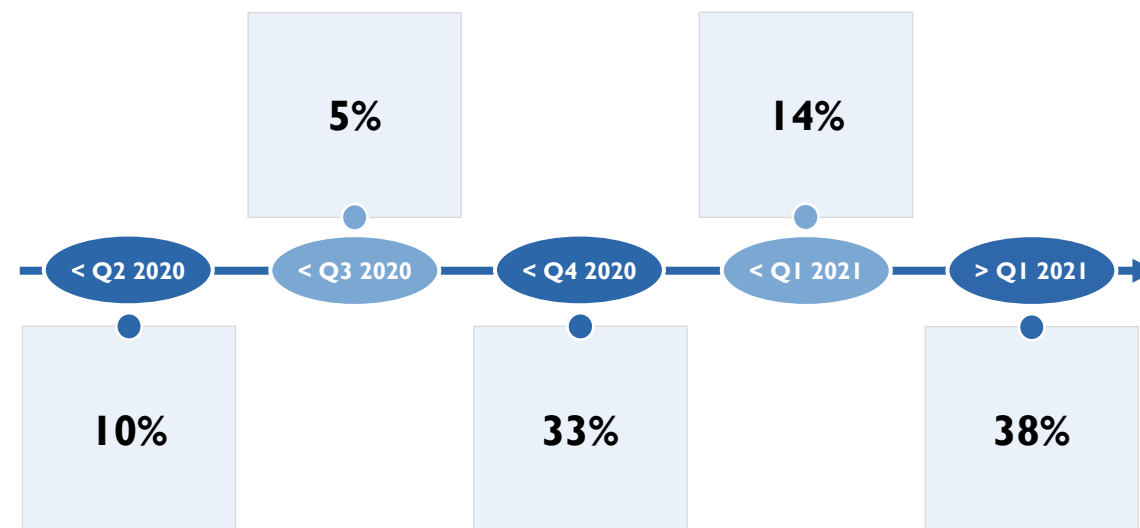


Q: Will you continue to finance companies despite COVID-19 in the next three months (if the current recovery trend continues)?

Duration of significant effects of COVID-19 on private debt investments

in % of total responses

n = 21



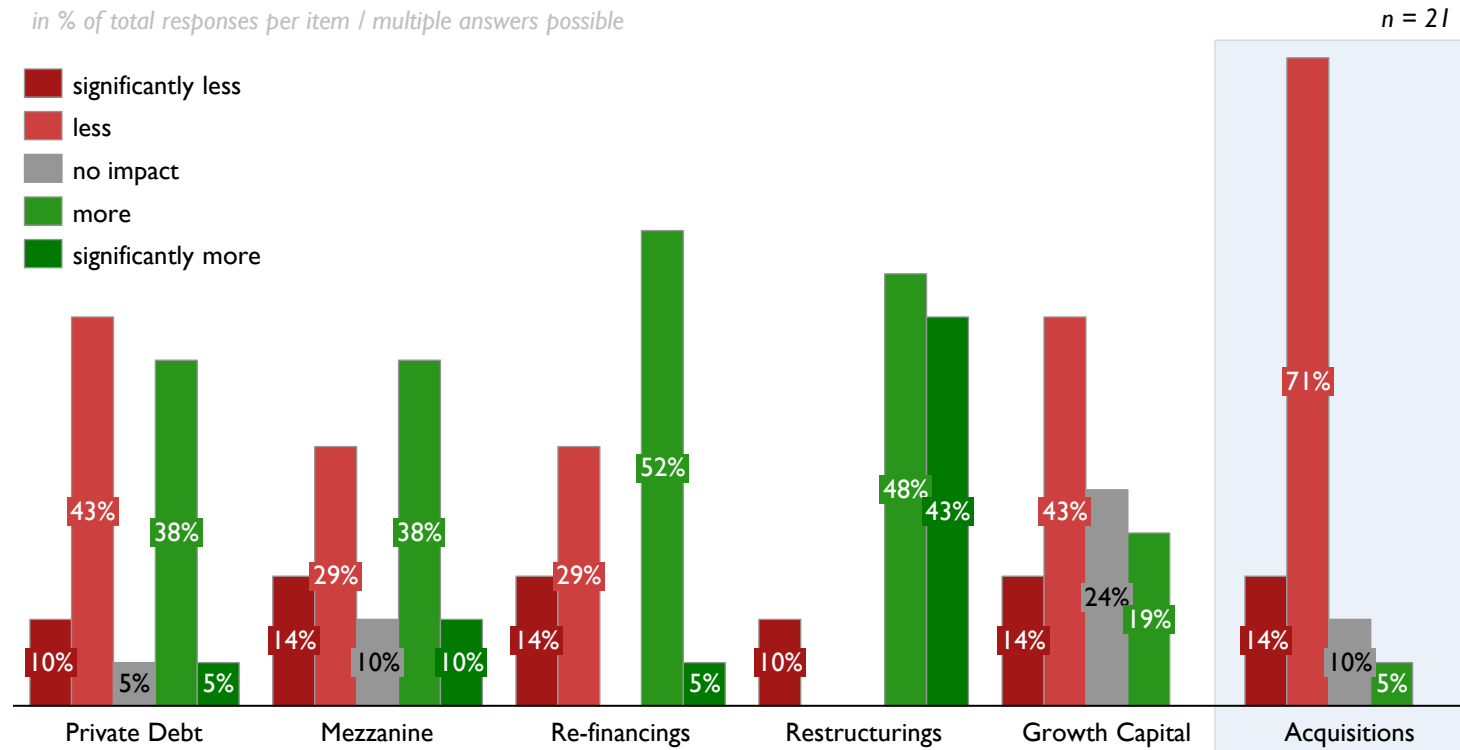
Q: How long do you expect significant effects (positive / negative) of COVID-19 on private debt / mezzanine capital dealflow to last?

Source: Bluemont Consulting

While the number of acquisitions is expected to decline in the next twelve month, the number of restructuring financings is expected to increase.

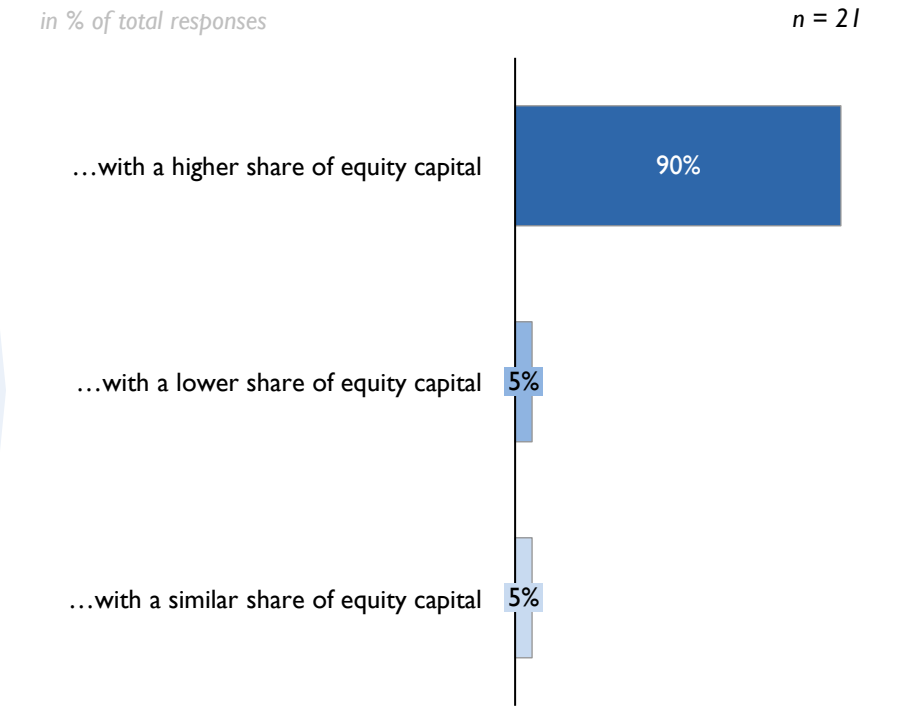
COVID-19 impact on private debt investments

Change in the number of transactions due to COVID-19



Q: What change in the number of transactions do you expect for the following financing situations due to COVID-19 in the next twelve months (compared to 2019)?

Compared to 2019, PE funds will finance acquisitions ...

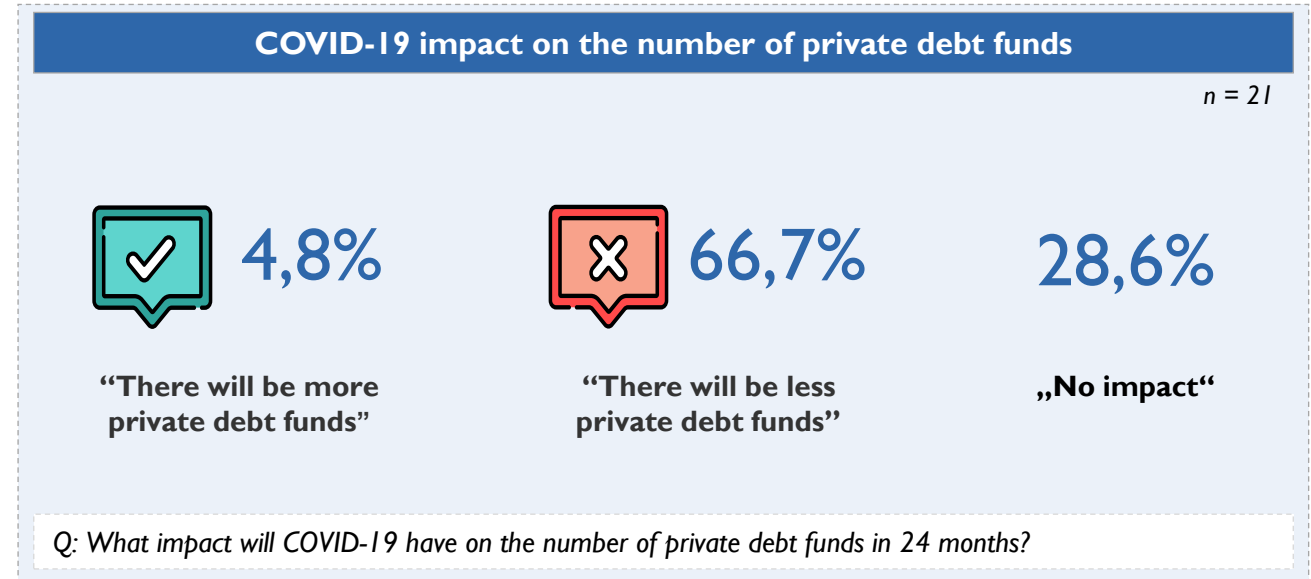
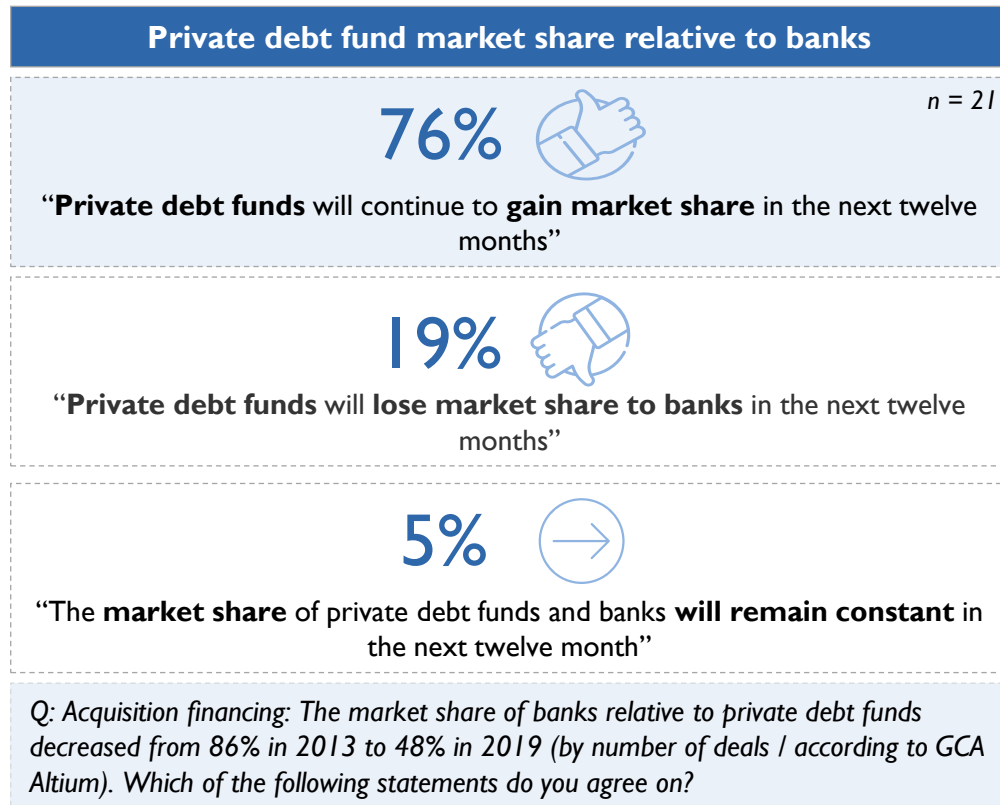


Q: Compared to 2019, private equity funds will finance acquisitions in the next twelve months...?

Source: Bluemont Consulting

76% of the respondents assume that private debt funds will continue to gain market share while 67% expect that there will be less private debt funds. Thus, a consolidation is likely.

COVID-19 impact on private debt investments: Market share of private debt funds



Higher market share and lower number of private debt funds point towards consolidation

Sources: Bluemont Consulting. GCA Altium

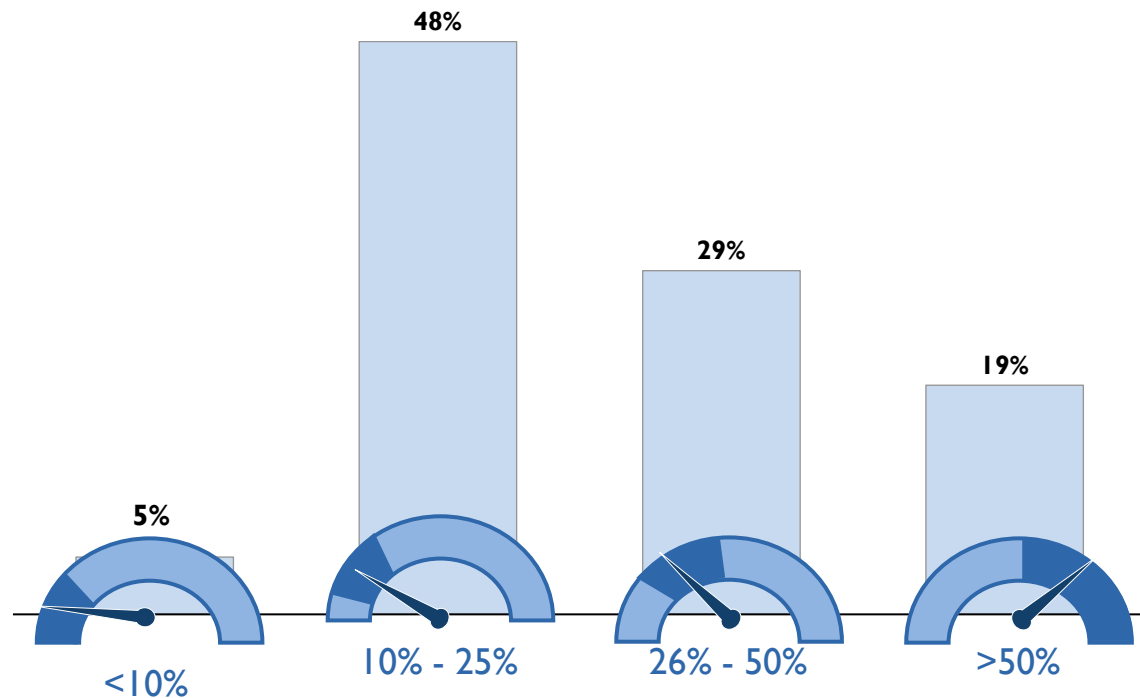
**48% think that 10% - 25% of debt funds will lose money with at least one portfolio company.
43% find it likely or very likely that LPs will accept deviations from target return rates.**

COVID-19 impact on private debt investments: Acceptance of target return rate deviations by LPs

Losses of debt funds with at least one portfolio company

in % of total responses

n = 21

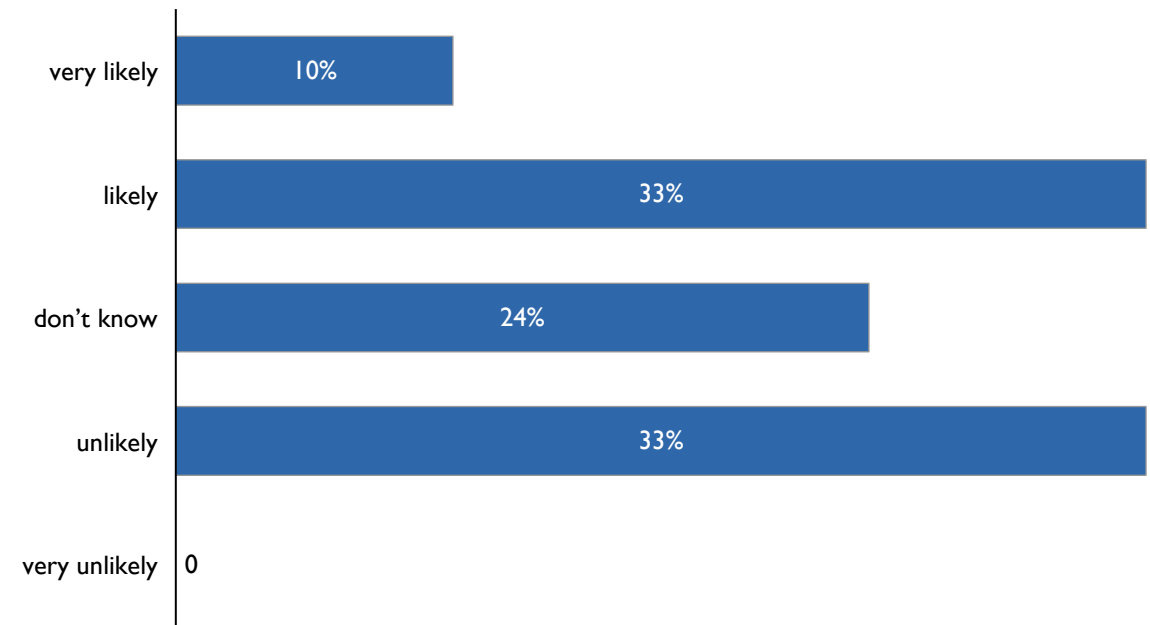


Q: What percentage of debt funds do you expect to lose money on principal or interest with at least one portfolio company due to COVID-19?

Acceptance of deviation from target return rate by LPs

in % of total responses

n = 21

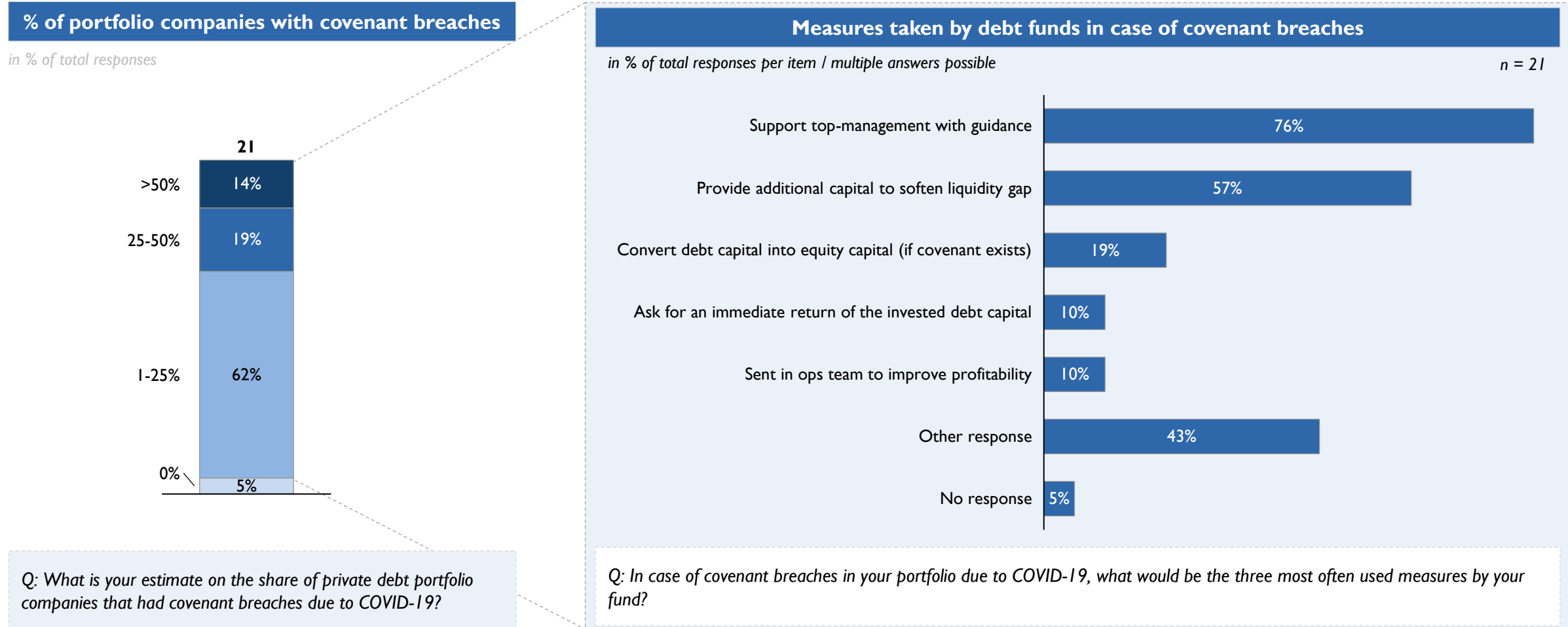


Q: Do you think that LPs will accept a deviation from the target return rate due to COVID-19?

Source: Bluemont Consulting

33% think that covenants were breached in more than ¼ of their portfolio companies. Supporting management and additional capital injection are most common measures.

COVID-19 impact on private debt investments: Covenants



Source: Bluemont Consulting

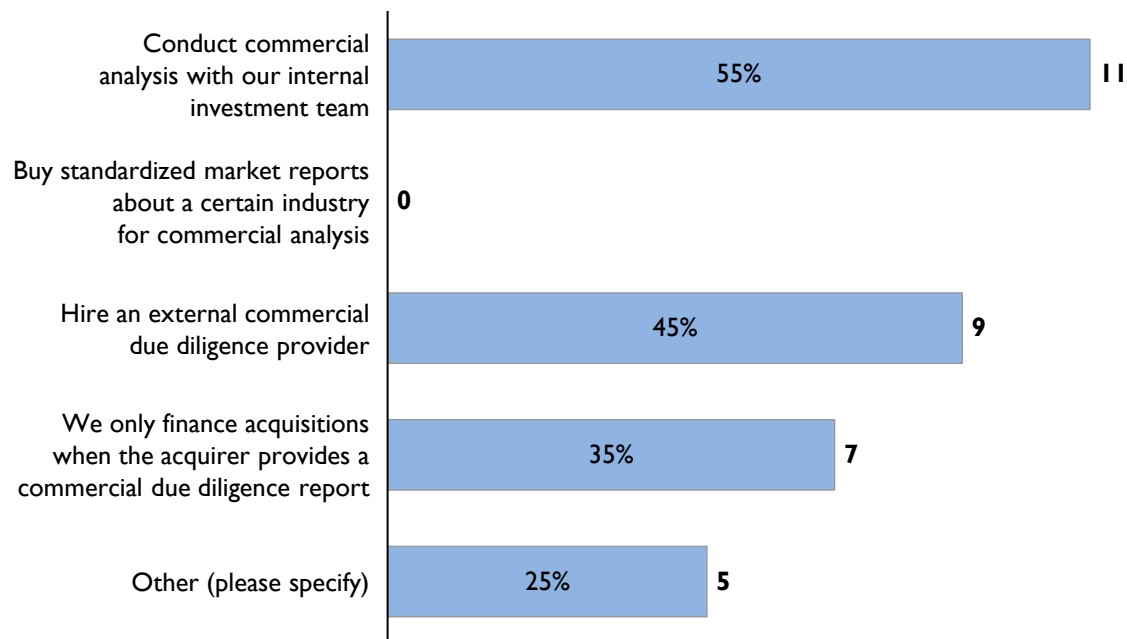
45% hire an external due diligence provider if there is no CDD report available. Digital readiness, crisis management supply chain and demand exposure should be analysed.

COVID-19 impact on private debt investments and commercial due diligence

Alternatives to missing CDD reports

in % of total responses per item / multiple answers possible

n = 20

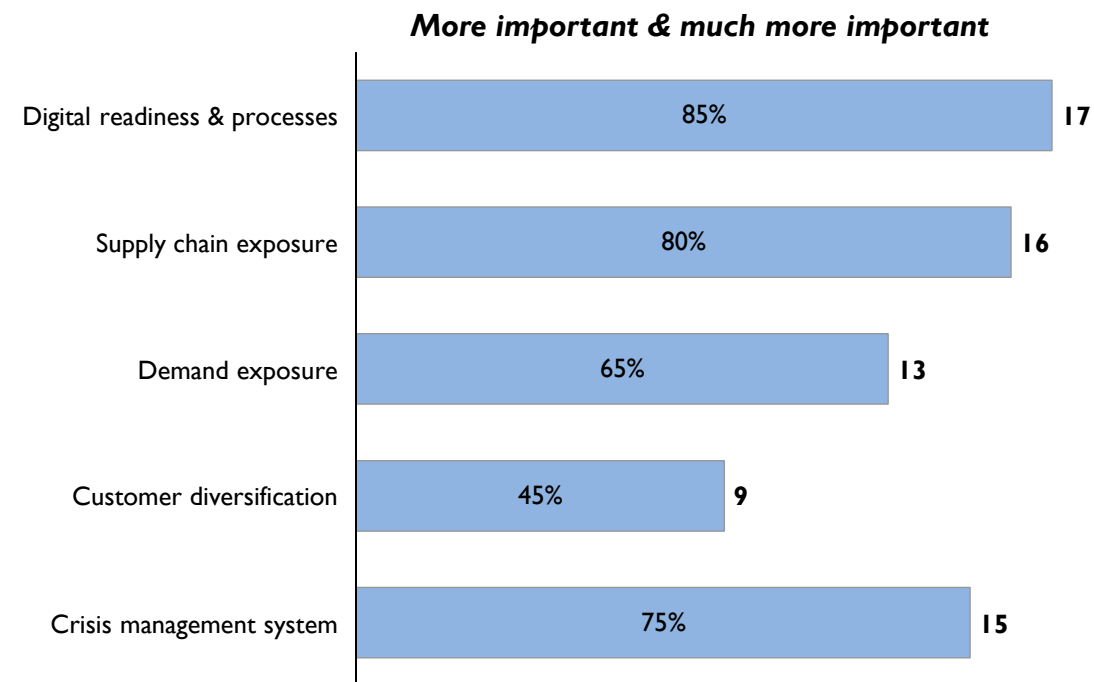


Q: When financing a company with debt capital for reasons such as growth, re-financing and restructuring, there is usually no commercial due diligence report available (in contrast to acquisition financings). How do you deal with this issue (multiple answers possible)?

Importance of selected assessment criteria for CDDs

in % of total responses per item & multiple answers possible

n = 20



Q: Considering the effects of COVID-19, how will the importance of the following criteria change when assessing the risk exposure (e.g. pandemic, cybersecurity) of future transactions?



Bluemont Consulting GmbH is a management consulting company solving strategic and operational issues for innovative companies in consumer goods, industrials, automotive, media and technology as well IT & digital industries.

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