Private Debt Investor

TALKING POINTS

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PAUL HASTINGS

William Brady

Jennifer Hildebrandt

Matthew Murphy

Justin Rawlins

Jennifer Yount

Adapting to a brave new market

Private Debt Investor talks to US-based partners at Paul Hastings about the need to be creative in order to cope with these unprecedented times

October 2020

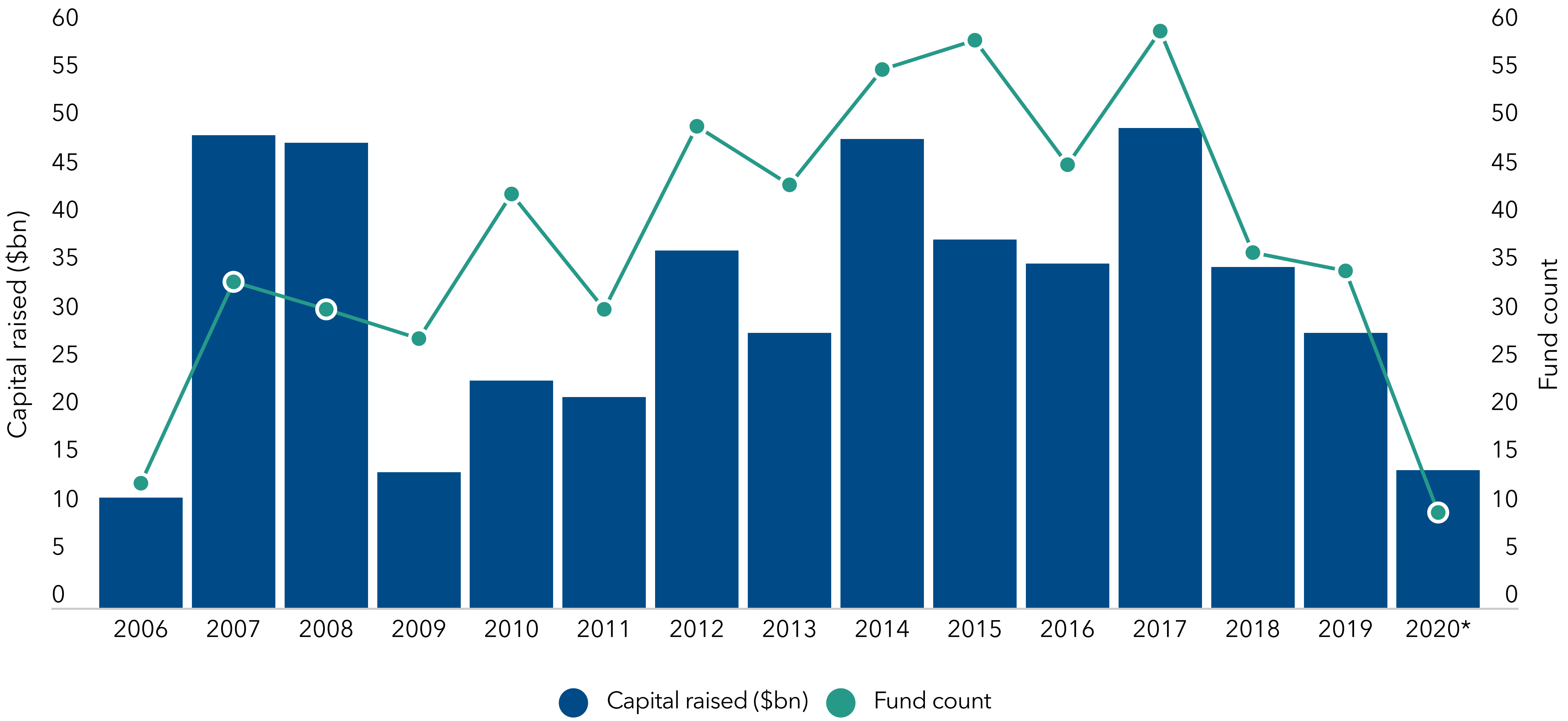
Distressed debt and special situations fundraising was strong in the run-up to the pandemic

More than $60bn was raised globally for distressed credit strategies in the two years before the crisis, and a further $14bn was raised in the first six months of 2020

The fundraising we see in special situations is indicative of how nimble direct lenders are. Many have shifted from junior capital to special situations and we are starting to see the deployment of that cash in recent deals

William Brady

Global distressed debt and credit special situations fundraising by year



Source: PitchBook

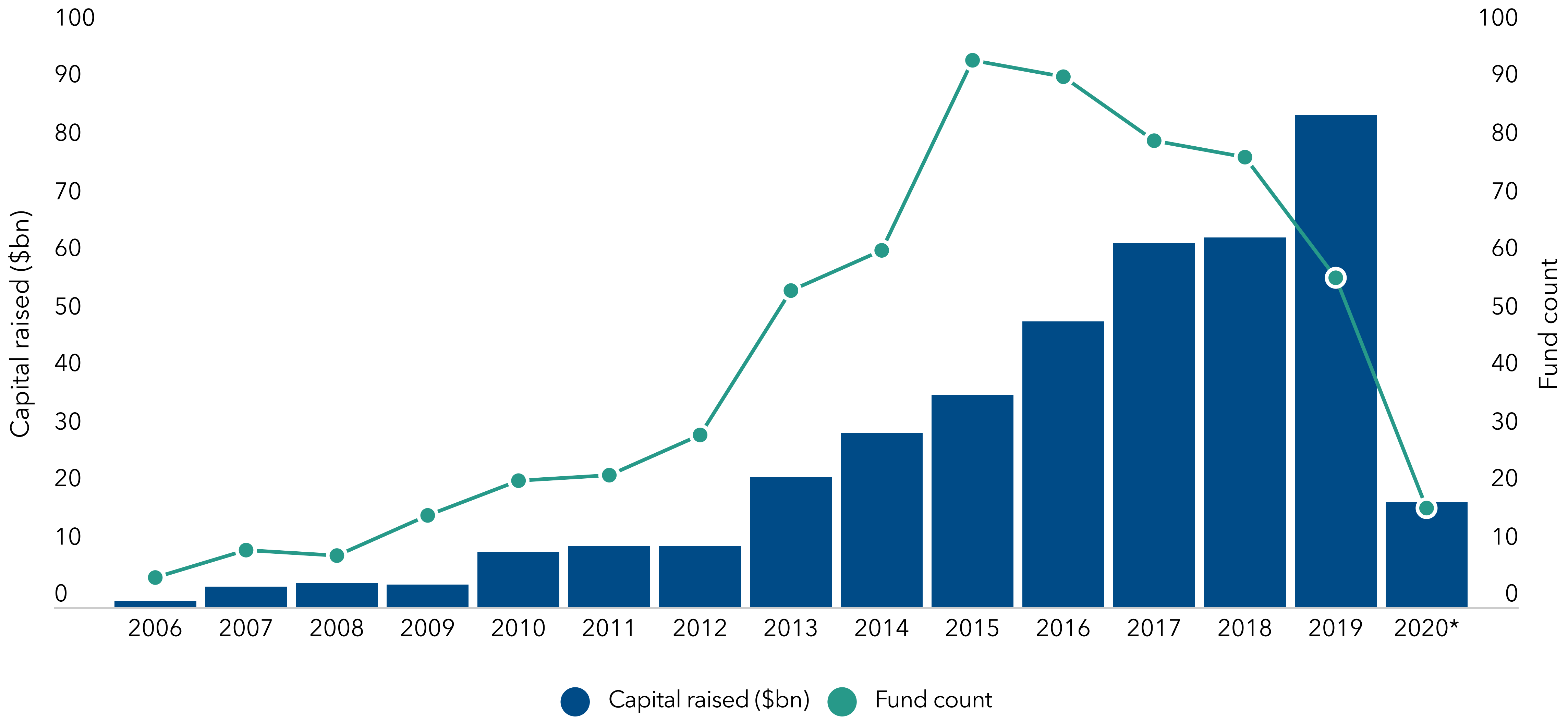
Global direct lending fundraising was at record levels in 2019

An unprecedented $86bn was raised for global direct lending in 2019, up from $64bn in the previous year

As we began to navigate covid, many direct lenders had already achieved their fundraising goals and had capital to deploy. Many now need to invest that capital, in some cases by the end of this year

Jennifer Yount

Global direct lending fundraising by year



Source: PitchBook

North America accounted for half of global private debt fundraising in 2019

The dominance of North America in private debt over the past decade has fluctuated, with Europe accounting for a growing slice of global fundraising, making up 40% in 2019

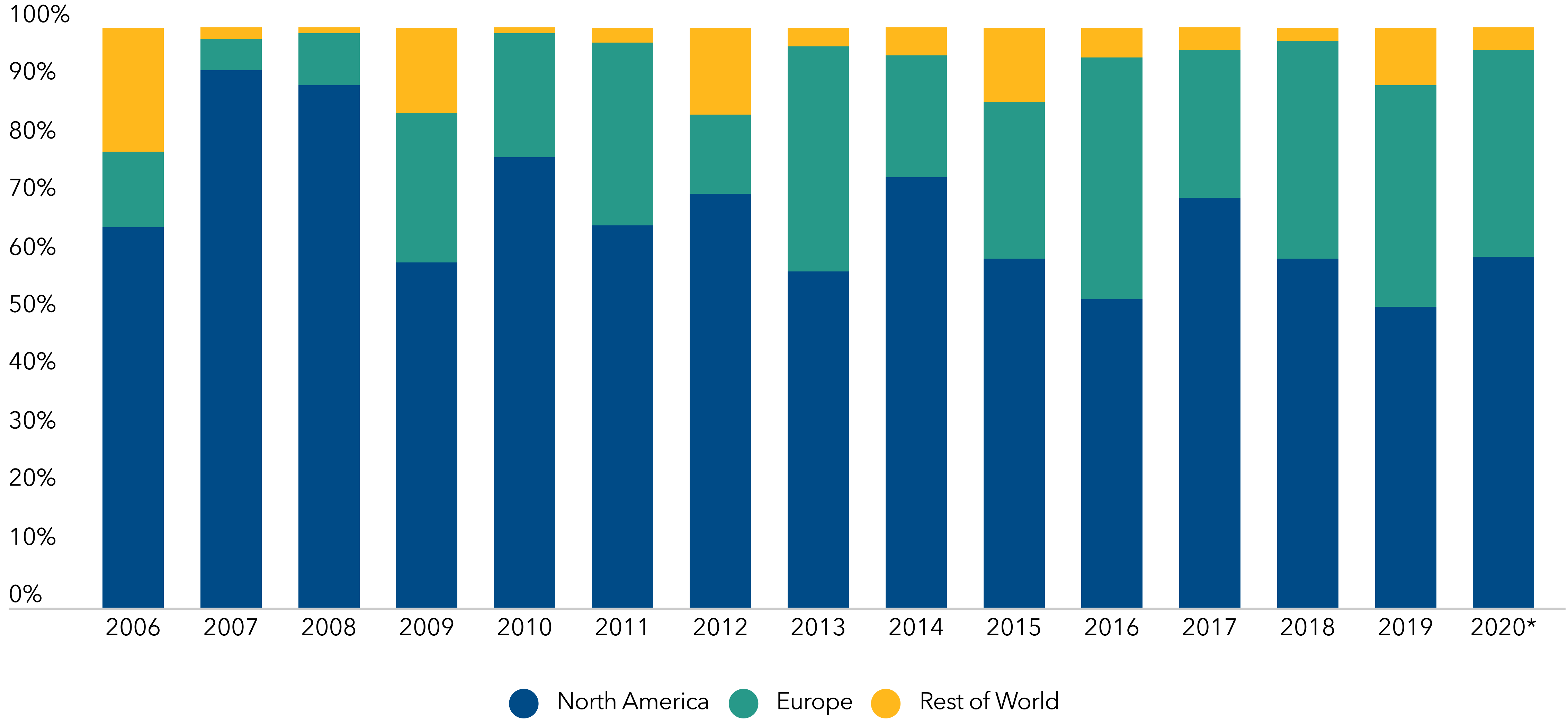
We have noticed that banks have pulled back from some of the international lending and deals with significant international components, so non-bank lenders will be able to step up

Jennifer Hildebrandt

While cross-border deals have slowed, the fact that institutional banks appear to be pulling back in Europe may create an opportunity for non-bank lenders

Matthew Murphy

Private debt fundraising by region ($bn)



Source: PitchBook

In 2019, private debt managers were sitting on dry powder worth more than $260bn

The cumulative dry powder amassed over the last few years stood at near record levels by 2019, some dating back to pre-2017 vintages, putting managers under pressure to deploy

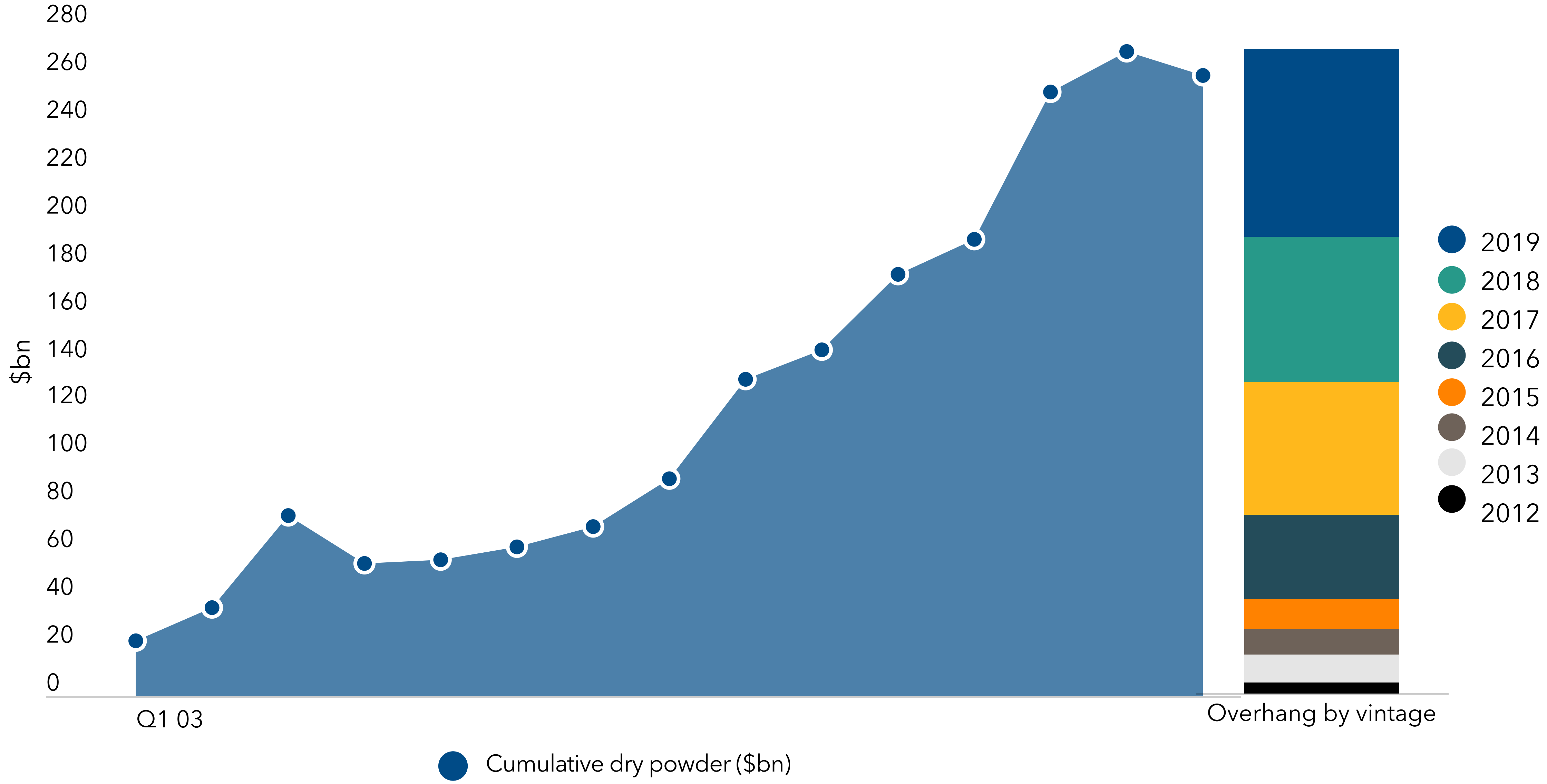
There is a lot of dry powder out there and that is a fundamental difference from the global financial crisis of 11 years ago; that dry powder is a game-changer

Jennifer Yount

The uncertainty of the current situation, combined with pressure on managers to deploy capital and the underwriting pressure to invest wisely, really puts a premium on managers doing an even deeper dive in terms of due diligence

William Brady

Capital overhang ($bn) by vintage year



Source: PitchBook

Direct lending and distressed debt accounted for nearly 70% of all private debt fundraising in 2019

Private debt fundraising by type has diversified considerably in 2020, with credit special situations fundraising much more significant in 2020 than in previous years

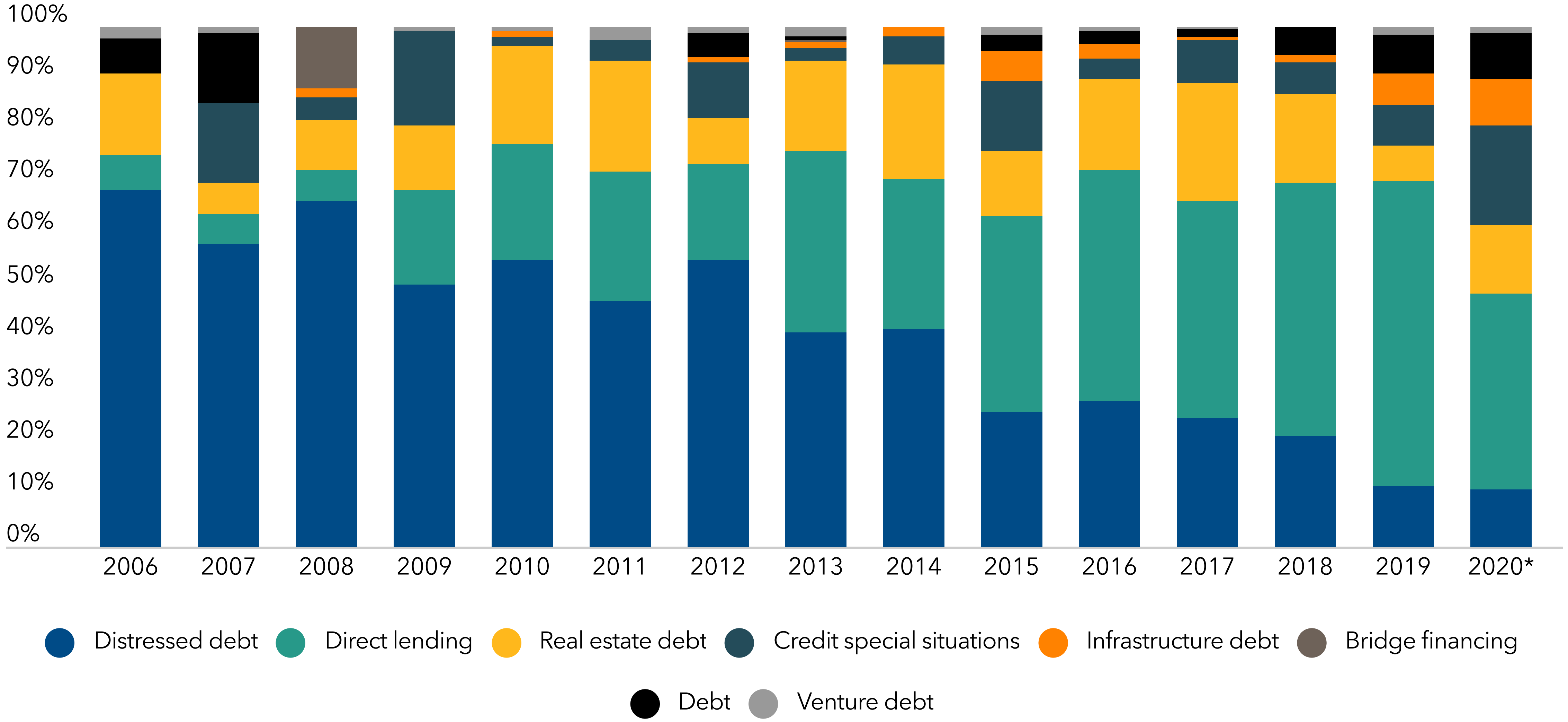
As an initial matter, it's imperative to understand all documents governing a distressed situation and the various leverage points of each of the stakeholders

Matthew Murphy

Where companies have become troubled directly because of the pandemic, nonbank lenders have taken a measured approach, looking closely into the trajectory post-covid and modelling for recovery

Jennifer Hildebrandt

Private debt fundraising by type



Source: PitchBook

Credit markets are reacting to an unprecedented set of circumstances

That will require creative thinking and careful monitoring of a fast-changing environment in private debt markets

The challenge is making sure you know what your client wants and figuring out how to accomplish that through the documentation you have. A key issue is what live opportunities exist, because the documents often leave many options

Justin Rawlins

This is the most eclectic market I have seen in my career, and a creative approach is at the heart of it. If companies are going to adapt and evolve, they need innovative solutions from their lenders

Jennifer Yount

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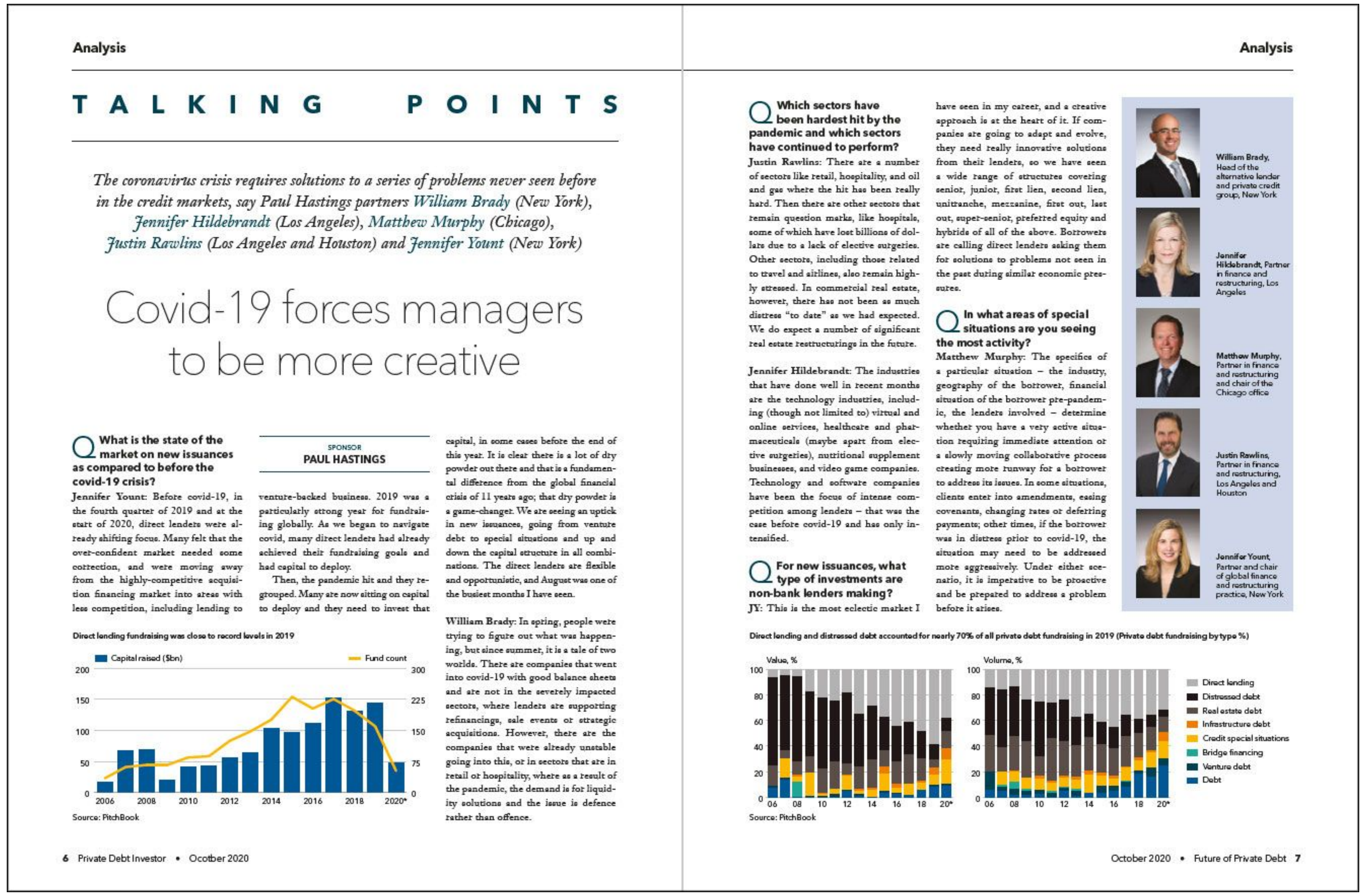
For more on our discussion with Paul Hastings' US partners, [check out the complete Q&A here](#)


Analysis

TALKING POINTS

The coronavirus crisis requires solutions to a series of problems never seen before in the credit markets, say Paul Hastings partners William Brady (New York), Jennifer Hildebrandt (Los Angeles), Matthew Murphy (Chicago), Justin Rawlins (Los Angeles and Houston) and Jennifer Yount (New York)

Covid-19 forces managers to be more creative

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Q What is the state of the market on new issuances as compared to before the covid-19 crisis?

Q Which sectors have been hardest hit by the pandemic and which sectors have continued to perform?

Q In what areas of special situations are you seeing the most activity?

Q For new issuances, what type of investments are non-bank lenders making?

Direct lending fundraising was close to record levels in 2019

Direct lending and distressed debt accounted for nearly 70% of all private debt fundraising in 2019 (Private debt fundraising by type %)

Source: PitchBook

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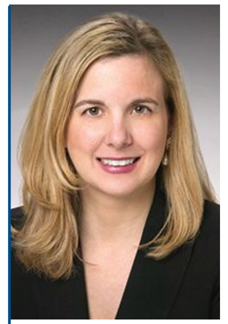
Meet the Paul Hastings team

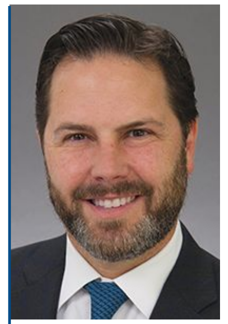
William Brady
Head of the alternative lender and private credit group, New York

Jennifer Hildebrandt
Partner in finance and restructuring, Los Angeles

Matthew Murphy
Partner in finance and restructuring and chair of the Chicago office



Jennifer Yount
Partner and chair of global finance and restructuring practice, New York



Justin Rawlins
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