Markets

Private Debt Competition Is Thinning, Adams Street Says

by Kelsey Butler
April 24, 2020

- ► Firm sees opportunities in leveraged loans, rescue financing
- ► Activity has shifted to add-on deals from traditional buyouts

Competition is starting to ease in the $812 billion private credit market as the disruption caused by the coronavirus pandemic forces some lenders to tend to problems in their own portfolios.

This is creating opportunities for lenders like Adams Street Partners, which has $40 billion in total assets under management, the firm's head of private credit Bill Sacher said in an interview.

"Competition in the private market has diminished significantly and that has shifted the balance of negotiating power from the borrower, where it has been for the last 10 years, to the lender," Sacher said.

It's a stark departure from just five months ago, when investors cited competition for opportunities as one of the top concerns in the asset class, pressuring returns and leading to borrower-friendly terms across the board.

Sacher said lenders are now able to get deals with less leverage, higher pricing and stronger covenants than they were recently.

Adams Street has a "large pool of dry powder" it is putting to work in add-on acquisitions or by providing additional capital to existing portfolio companies, Sacher said. The firm, which in December closed a $740 million global fund partly for private debt and in May said it closed $1.1 billion of investable capital for the private credit program, is deploying capital into rescue financing where there is a fundamentally sound business with an unsustainable balance sheet, as well.

"We're also taking advantage of the lower prices in the leveraged loan market and buying some of that paper at deep discounts, and also finding opportunities in private credit paper where some lenders are constrained or having their own liquidity issues," Sacher said.

Activity in private debt has shifted from financing traditional leveraged buyouts to borrowers pursuing additional liquidity via revolvers or term loans, and middle-market firms pursuing add-on acquisitions, Sacher said.

Firms with conservative portfolios that went into this current period with low leverage, robust equity cushions and strong covenants are in the best position to pounce on the new opportunities.

"Usually those that invest in downturns tend to get rewarded, so we're looking forward to taking advantage of these opportunities while they last," Sacher said.