

Key Takeaways from A Glimpse Into Private Credit

On April 29, 2020 our Private Credit Group hosted a webinar with Dan Pietrzak (KKR Credit), Brad Marshall (GSO Capital) and Craig Packer (Owl Rock Capital Partners). We left with a perspective of the current market, an emphasis on the need to focus on portfolio companies, and a preview of certain industries to prioritize. Below are some highlights.

1. The markets are better positioned than they were going into 2008.

Our panelists noted that the credit markets were generally healthier going into the COVID-19 pandemic than they were going into the 2008-2009 recession. Coming into this crisis, leverage levels across companies and credit funds were meaningfully lower, and fewer deals in the market were covenant-lite. As a result, our panelists think we will see fewer defaults and more lender/sponsor collaboration to identify solutions during the market dislocation.

Some troubled companies have been able to tap the public markets for capital even as the crisis became clear, which would have been impossible during the 2008-2009 downturn.

2. Private Credit Funds are still deploying capital.

As M&A activity has chilled, transaction volumes have dropped. In addition, over \$2 billion of government capital has been infused in the markets over the past six weeks, with the desire for liquidity overwhelming the analysis of fundamentals. That doesn't mean, however, that things are quiet or that funds are not providing capital. As that excess liquidity burns off, private credit funds will be able to reprice to the fundamentals. Expect them to continue to partner with sponsors to consider new money solutions and incremental debt flexibility.

3. It's a tough road ahead, but there is opportunity for Private Credit.

Our panelists are focused in the immediate term on new opportunities in industries like technology, software, and life sciences, where the impact of the pandemic is either positive or at least presents more certainty. If ratings downgrades occur in the near term, distressed teams within private credit funds will be prepared to step into new opportunities where public markets or more traditional lending institutions cannot participate. While our panelists do not expect significant volume in the next few months, whether LBO volumes pick up in the third quarter or the fourth quarter remains to be seen.

A Glimpse into Private Credit Webinar, 4.29.20

“The pools of capital that we all manage are here to stay, they are long-dated pools of capital to manage through the needs of the existing portfolio and address new opportunities as the market moves forward.”

— DAN PIETRZAK, KKR CREDIT

“Being defensive right now, focusing on your portfolio companies, minimizing losses, those are your keys to success over the long term... we are spending a lot of time with sponsors or companies and trying to figure out what the best path forward is, like any partner would do.”

— BRAD MARSHALL, GSO CAPITAL

“When the economy reopens, and when we get some positive news on the medical front, we can look to what happened when coming out of prior crises; my experience has been that the first new deals and new buyouts, are oftentimes some of the best deals of the next market environment, because the purchase price and the leverage are a little more reasonable and the economic terms and structure are a little more attractive.”

— CRAIG PACKER, OWL ROCK CAPITAL PARTNERS

