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Markets

Private Credit Funds' Certainties Offer An Edge, Says Blackstone's Scott

- Increasingly, direct lenders are competitive source of funding
- Take-privates of Ergomed, Medica and Dechra sidestepped banks

by Silas Brown
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Private-lending funds are increasingly becoming the go-to debt providers for buyout firms looking to take companies private.

This week, Permira Holdings turned to Blackstone Inc.'s credit unit to fund its takeover of biopharmaceutical services firm Ergomed Plc. Other similar transactions channeled through direct lenders this year include take-private deals for Dechra Pharmaceuticals and Medica Group Plc.

Buyout firms opting to finance their deals through direct lending funds, rather than the traditional route of investment banks, are highlighting the growing significance of the $1.5 trillion private credit market. Though typically more expensive than publicly syndicated debt, private lenders can offer greater certainty of deal execution – as well as higher degrees of confidentiality.

Dwight Scott, Blackstone's global head of credit, talked with Bloomberg News in an interview about what he sees as the advantage that private lending funds have over investment banks when funding take-private transactions.

Comments have been edited and condensed:

Why are private debt funds financing more and more take-privates?

Private credit funds should have an advantage with take-privates. You have certainty of pricing, certainty of amount, confidentiality and you can move more quickly.

Dwight Scott *Source: Blackstone Group*

The reason why this advantage wasn't so evident in the past is private credit funds weren't writing billion dollar-plus loans. When funds such as Blackstone became able to do that a few years ago, all of a sudden that advantage became clearer.

How much of a learning curve is there for private equity firms when considering private debt?

If you were a mid-market private equity firm you knew what the private credit funds could do. But if you were one of the larger-scale private equity players you were used to using the public markets through the banks. We had to help get the capital markets teams at these places more comfortable with private credit.

A traditional public market execution, with a first-lien and second-lien structure, is probably a little bit less expensive than a unitranche – but not by much. All of the advantages I outlined are often more persuasive than that.

Is it also the case that banks are less willing?

Banks have had a long history of increasing regulatory pressure on these kind of underwritings. And then add the fact that more recently there were a number of hung deals. Most of them worked their way off the books, but there is a residual memory that's maybe having an impact on bank's willingness to underwrite.

But no way should we count the banks out. They are a strong competitor – and, by the way, we are one of the biggest buyers of credit from them in our liquid credit business.

Is it frustrating when many of these deals fail to come off for reasons beyond your control?

To some degree that's our lot in life. I can complain about that but I can't do anything about that.

The harder thing is that take-privates can take a long time to execute. So even once you know that the company has gone through the vote and done all the things they need to do, it can take six more months.

So your commitments are out a long time and it can fall apart at the last minute.

Do you think the enhanced focus on take-privates is also due to a broader lack of buyout activity?

Public companies have been looking cheaper than private companies. That's now changing, public companies are seeing their valuations increase and the private companies are starting to trade.

If you took the time to go look at all the take-privates in the last 18 months globally, I would bet you that the vast majority of them are at something like a 30% to 40% discount to where they were trading in early 2021.

Is there much of a difference between the quality of businesses that are public and private?

Private equity by and large does add value to a business from an operating standpoint. Our experience is they will cut costs where costs are excessive, and they will grow a company where growth is an opportunistic thing to do.

With a lot of the take-privates, the buyout firms believe they can manage the company better while also not having the public costs. So it's a private equity firm believing it can run a business at a better margin.

Nobody really sits around and looks at your quarterly earnings, and if you're a public company every quarter can feel like the end of the world. I think cutting out that noise and focusing on the mission to increase value can often be an advantage.