



Private credit's 'golden era' loses shine after Fidelity folds European direct lending operation – Mid-Market Chatter

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Last month, Fidelity International let go of its direct lending team in Europe, a decision which has been met with mixed feelings from the market. The move to disband the team came just seven months after the launch of Fidelity's first private credit fund.

The U-turn on Fidelity's European direct lending strategy came as a shock to many, who did not expect that one of the lower mid-market's most visible players would give up so soon into its fundraising exercise. Others, however, were not surprised to see Fidelity reconsolidate its strategy, given the challenges faced by newer players in the private credit space.

"This is not the first time a US-sponsored player has struggled to carve out a place for itself in Europe and folds," one Europe-focused direct lender said, adding that Fidelity might have underestimated the extent of commitments required to support a direct lending arm.

With fundraising an area of concern for direct lenders virtually across the board at present, new entrants in the market may find themselves at a disadvantage vis-à-vis more established lenders in the current environment when it comes to raising among LPs, market participants said.

"LPs have been cautious in this environment and are highly focused on relationships and track record," said Aymen Mahmoud, office managing partner and co-head of law firm McDermott Will & Emery's London Transactions Group. "For newer players in the private credit space, the absence of a relative track record could be difficult to overcome."

While the fund managed to close at least one transaction since its launch – providing senior financing to Dutch dental care services group Clinias Dental in October – difficulties Fidelity had in raising its first fund are thought to have been a key factor in the asset manager's about-face, as reported by this news service.

Amid a time of tighter liquidity constraints in both the private credit and private equity spaces, LPs are increasingly turning their attention to platforms with a longer, more consistent track record of investments, long-standing local networks and a degree of differentiation, market participants said.

But rather than viewed as a negative for the industry writ large, fundraising woes for some players in the market should be seen as a sign that LPs actively value performance over time as well as the longevity and stability of an individual fund's team, the Europe-focused direct lender said.

For LPs, Fidelity's sudden withdrawal from private credit – when taken with Corinthia Global Management's acquisition of an entire private credit team from Barings earlier this year – is likely to only underline the importance of understanding lender strategies and team dynamics against the backdrop of such potential scenarios emerging, market participants noted.

Fidelity's decision could also be interpreted in a more positive light - as a shift to redeploying its resources to yield better results in a more timely manner for current investors, rather than by focusing on untested, less immediately fruitful strategies, Mahmoud said.

“It is important to consider this context, which may mean that they are delivering the best possible position for their current investors as a priority – that is no bad thing,” he added.

Other knock-on effects across the rest of the European private credit industry following Fidelity's decision remain to be seen, but are likely to be limited in light of the fund's brief period of operations and relatively small size, two sources active in the direct lending space said.

If anything, direct lenders operating in the fiercely competitive lower mid-market space might benefit from a rival exiting the market at a time when pressure to deploy funds remains intense, Mahmoud noted.

Investor appetite for private credit as an asset class moreover remains strong, and the industry in Europe is likely to continue seeing new entrants and funds – such as Pictet's EUR 200m maiden direct lending vehicle – as the market rebounds, market participants said.

“Private credit is increasingly competitive because, among other things, it is an attractive asset class which is naturally resilient to inflation,” Mahmoud added. “If anything we can expect to see private credit grow over the coming years.”

Market PIKs

The month of May saw several other breaking news updates in the European private credit space. In the UK, it emerged that Clayton, Dubilier & Rice (CD&R) is weighing a public refinancing of GBP 600m of private loans provided by HPS Investment Partners and Carlyle that financed its acquisition of facilities services provider OCS Group. In recent weeks, the US-based sponsor has held talks with banks about refinancing OCS Group's private credit facilities via the syndicated loan market.

Also in the UK last month, Debtwire broke the news that HPS Investment Partners is providing more than GBP 225m of private credit financing to support Intermediate Capital Group's leveraged buyout of UK-based legal information services provider Law Business Research (LBR). Based off structuring EBITDA in the region of GBP 35m, the unitranche supplied by HPS carries leverage of at least 6.5x.

Over in the Benelux region, Dutch private equity firm Avedon Capital Partners is expected to launch the sale of its smart waste systems company Waste Vision imminently, and the debt market is circling the process. Information Memoranda (IMs) for the company, which is being marketed off EUR 10m EBITDA in the Harris Williams-led sale, are due to circulate soon.

Meanwhile, European private equity fund Charme Capital Partners is set to acquire Italian veterinary group Animalia from its private owners and the preferred bidder is expected to finance the acquisition with a EUR 60m unitranche facility levered at 5.5x. Arcmont Asset Management is expected to be providing the debt package for the winning bidder.

In Germany, final offers for German animal nutraceuticals and supplements provider Almapharm are due to be collected by the end of the month. A handful of midmarket sponsors are expected to submit binding bids, with NORD Holding, DPE Deutsche Private Equity, Armira Beteiligungen as well as some non-German based PE firms among the parties tipped to submit offers. Miura Corporate Finance is advising the management-owned company, which posts around EUR 8m EBITDA and 50% margins. The sellside is aiming to fetch an EV/EBITDA multiple of around 17x in a sale.

Elsewhere in DACH, the sale of Permira-backed Best Secret has been put on hold after initial offers for the German fashion club fell short of the sponsor's valuations expectations. Indicative offers for the Bavarian-based company came in at around EUR 2.5bn, below Permira's target EV of around EUR 4bn.

Private equity funds including Blackstone, CVC Capital Partners, KKR and L Catterton were among the parties that submitted non-binding offers for Best Secret. Permira and management will now focus on the continued implementation of Best Secret's new strategy, which includes a strong focus on luxury, before re-evaluating exit options including an IPO in 2025 or 2026.

by Patrick Costello and Amelia Weitzman