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The business of relationships.

Private Equity – EME

May 2014

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Private Equity Soundbite

The leveraged finance revolution continues

Commentary by Ben Davis, Partner – Leveraged Finance

Through 2009-12, sponsors would have to work hard to pull together clubs of banks to finance mid-market acquisitions, refinancing opportunities were scarce and the bond market (whilst open) was the preserve of larger deals. Whilst some funds had begun to get some traction in the market, the prospect of obtaining debt finance from little known funds at high interest rates seemed unappealing to sponsors. They valued the longer term relationships with banks and were unsure how the alternative lenders might behave in difficult times.

Yet, in 2014, we are seemingly operating in a different land. Leveraged financings will now typically involve dual track processes considering all-senior and unitranche structures. Increasingly, the alternative lenders are providing the most compelling offers and some sponsors are questioning their former dependence on the banks.

So, why are sponsors turning to these alternative lenders and their unitranche product?

First, the answer is deliverability. If, for example, a sponsor is seeking to raise £100m of debt, the ability to borrow this from just one or two alternative lenders is compelling when contrasted with the alternative approach of bringing four or five banks through their credit processes. The simplified processes, compressed timelines and larger hold levels when dealing with alternative lenders could make the difference in a competitive auction process.

Second, the alternative lenders can accept greater leverage which allows sponsors to commit smaller equity cheques. The recent refinancings of Trust Inns and Caffe Nero are good examples of this, as are the stretched unitranche products now being marketed.

Third, the flexibilities on offer are very appealing to sponsors. Alternative lenders can be more accepting of well-reasoned requests – for example around financial covenants, bolt-on acquisitions and capex, portability on a change of control, reduced amortisation and cash sweeps, unusual capital structures or funding shareholder distributions. These benefits can be difficult to price but the advantages can be compelling.

Finally, sponsors are not being put off by the higher margins required by these alternative lenders. In particular, on a refinancing, the ability to replace expensive shareholder debt with a unitranche facility can help deliver more concentrated value in the pure equity.

What does the future hold for mid-market leveraged finance opportunities?

The presence of alternative lenders and unitranche structures is here to stay. Many sponsors have now borrowed from these new lenders and they are becoming known to, and trusted by, sponsors.

BlueBay is a particularly good example of a direct lending fund that has quickly gained a presence in the market.

It is interesting to see how the banks respond to this challenge. The year started with many seeking partnerships with the funds. Barclays and BlueBay were the first out of the blocks and the market is awash with other partnerships being forged. These partnerships involve banks clarifying their role as providers of RCFs, hedging and the lucrative ancillary banking. Some banks are also seeking first-ranking slices of the term debt. The challenge for lenders is to agree the intercreditor terms at the outset to avoid extensive negotiations when implementing deals.

Equally, challenges remain for the alternative lenders to win mandates in a competitive landscape. Which lenders can distinguish themselves and offer sponsors the more compelling or creative structures?

The European leveraged finance market is in the midst of a dynamic and structural shift, which is offering private equity sponsors an unparalleled choice of product.

Transaction Highlights

Recent deals across our platform

Perry Yam and Emilia Valvano advised Advent Venture Partners on the sale of Amberfin Limited to French listed company, Dalet. Amberfin specialises in broadcast software for TV, film and video to manage encoding of multi format, multi resolution archive content.

Perry Yam and James Cross also acted for Advent Venture Partners and Foresight Group on the sale of their debt and equity interests in Snell Corporation and the roll-over into new debt in the purchaser group. Snell Corporation is a world leader in broadcast technology, providing the media and broadcast industry.

Expanding our Global Footprint

Ben Davis, leveraged finance partner, joins the London team

We are delighted to announce the arrival of Ben Davis who leads Reed Smith's leveraged finance team in London. Ben has extensive experience acting for leading private equity sponsors and lenders in the leveraged finance market. He has worked on high profile transactions including the £375m refinancing of Pret a Manger and the two largest UK unitranche financings of 2013. Currently, Ben is pioneering the implementation of unitranche framework arrangements. (Contact details over).

Increasing our capability in Kazakhstan

Reed Smith has been active in the Kazakhstan market for more than 14 years. We opened our office in Astana in 2012, and offer a range of legal services, including cross-border M&A, banking, private equity, capital markets, energy and natural resources, international arbitration and dispute resolution.


We were delighted to recently welcome two new corporate partners to our Kazakhstan team, Vladimir Shuster and Arman Tastanbekov. Vladimir and Arman advise on a wide range of corporate and commercial transactions, with a focus on cross-border M&A and private equity, and have advised multinationals, state companies and local private companies on some of the largest and most sophisticated transactions in Kazakhstan and the broader Central Asia region. (Contact details over).

Recent Paris Conference

ESSEC Business School Private Equity Conference – The return of IPOs

Paris partner Lucas d'Orgeval curated an ESSEC Private Equity Alumni Club conference in March on the return of the IPOs. After the wave of delistings in 2012, 2013 marked the return of IPOs in France. Jean Mizrahi of Ymagis, Frédéric Granotier of Lucibel, George Karam of Sequans, and Grégoire Hoppenot of Oddo Corporate Finance shared their experiences and discussed the current IPO market. The conference was a great success, attracting delegates from firms including IBM, Ergon Capital Partners and the Boston Consulting Group.