Akin

Capital Solutions:

An Ever-Expanding Universe

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Capital Solutions: An Ever-Expanding Universe

The once mysterious world of private capital is becoming more mainstream, as more companies recognize the unique opportunities it offers.

What was once limited to PE buyouts and private credit lending to support these buyouts, private capital now supports the needs of PE sponsors and their portfolio companies, as well as public and privately held companies. This industry-wide evolution has resulted in a rapidly growing group of managers who deploy multi-strategy solutions to support ever-changing market needs.

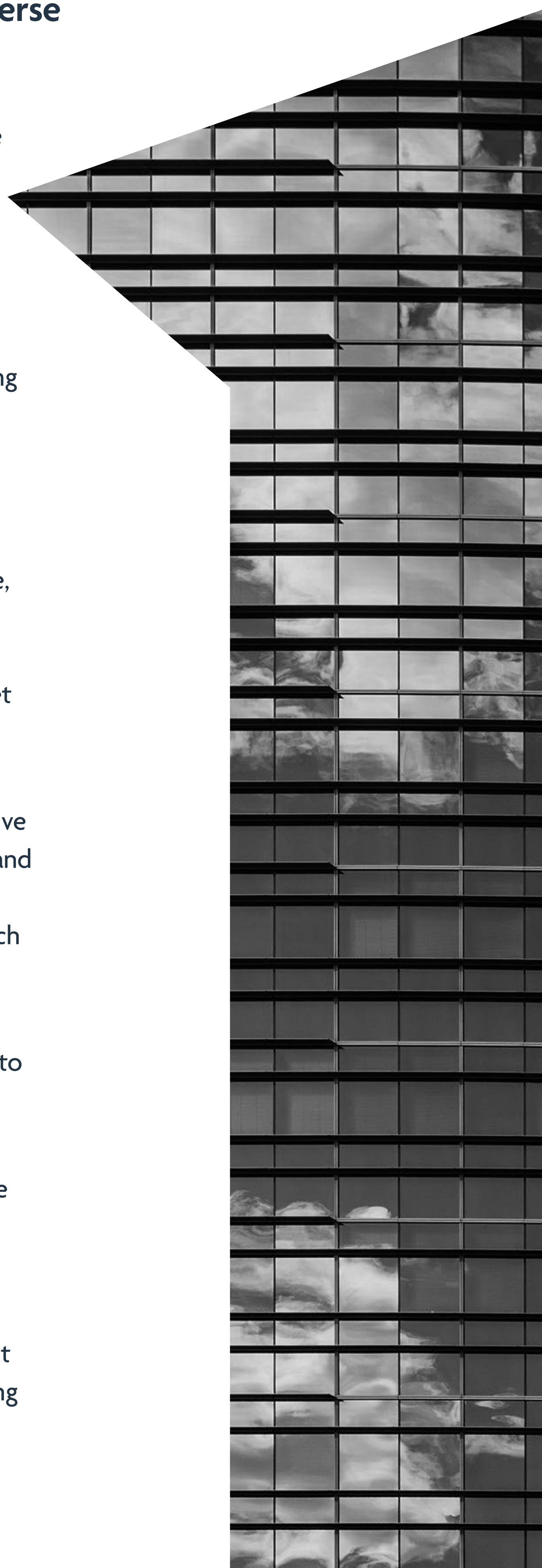
Private capital investors are expanding their universe of potential targets and becoming less restrictive in the types and forms of investment they can pursue. At the same time, the number of companies seeking to access private capital is expanding rapidly. All types of companies are increasingly drawn to non-dilutive private funding at a time when market volatility has led to more conservatism in the traditional markets.

An expanding landscape of solutions which embraces creative structuring and draws on multiple investment instruments and strategies is now used to create bespoke answers to knotty operational and market challenges. It is these solutions which shape the future for private capital.

Given existing market volatility, pricing uncertainty and liquidity challenges, now is the time for managers to lean into these opportunities that present outsized returns with risk appropriate protections.

Here, the Global Capital Solutions Team at Akin outlines the fast-growing appetite for private capital solutions, coming from private equity sponsor-backed companies, founder-owned businesses and listed, investment grade companies.

This paper is the first in a series, which will seek to shed light on the wide and evolving world of capital solutions, outlining its appeal, its creativity and its ability to generate outsized returns for investors.



New Sources of Demand for Private Capital

Several macroeconomic themes are combining to reshape the capital requirements of public and private companies and lead them to private capital solutions. A prolonged period of market uncertainty caused by recessionary fears, threatened trade wars and military conflicts, among other factors, has led to volatility in the public debt and equity markets. At the same time, a muted IPO environment and challenging M&A backdrop have combined to lead companies and their investors to seek more patient and creative sources of capital.

As traditional sources of capital retreat and become less amenable to complexity and risk, an opportunity has opened for strategic non-bank private capital providers who are creative and agile enough to advance flexible solutions. Analysis by Deloitte of Federal Reserve data shows bank lending fell from 44% of all corporate borrowing in 2020 to 35% in 2023, while private markets are set to grow from $13 trillion today to be worth more than $20 trillion by 2030, according to BlackRock.

There are now four clear constituencies of private capital users which we explore next.

1) PE Sponsor-Backed Companies

2) Public Companies

3) Founder-Owned Companies

4) Fund Managers

PE Sponsor-Backed Companies

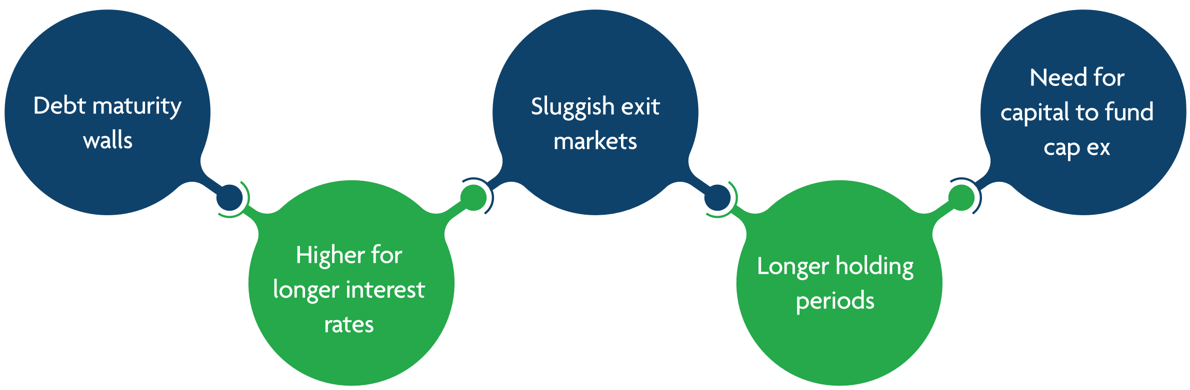
Private equity portfolio companies face significant hurdles to refinance maturing debt in a longer than expected high interest rate environment. As high rates eat into existing revenues, portfolio companies increasingly seek alternative solutions.

With a prolonged mismatch in buyer and seller valuations and a lethargic IPO market, private equity sponsors face fewer exits in their portfolios and longer hold periods. Those dynamics mean more capital is required to fund ongoing portfolio company related capital expenditures at a time when funds may be past their investment period or when sponsors no longer want to increase their exposure to an investment. The need to return capital to investors as holding periods extend further drives private equity sponsors to seek creative financing options.

The current environment creates an opportunity for private capital to step up with bespoke and innovative solutions. We see a growing demand for creative lending structures, asset-based finance, receivables financings and sale-and-leasebacks.

Further, there are new calls for solutions that draw on preferred equity, minority equity (with earn-outs) and hybrid capital solutions to alleviate cash interest requirements and provide patient capital. Meanwhile, certain sponsors are turning to joint ventures and other creative solutions to fund capital expenditures.

Drivers of PE Sponsor-Backed Demand for Capital Solutions



CASE STUDY: Carlyle and Ares Make €800 Million Preferred Equity Investment in Your world

Akin advised Carlyle on its strategic preferred equity investment, alongside Ares Management Credit Funds, in leading European online solutions provider Your.World. The €800 million of long-term partnership capital follows a €1 billion Term Loan B that the company raised last year. This strategic capital financing will enable Your.World, a portfolio company of Strikwerda Investments (a leading Dutch Tech-focused family office), to continue to pursue a highly successful M&A strategy and further accelerate growth in the online solutions sector.

Public Companies

Many listed companies that have been relying on their investment grade credit ratings to fund operations in the capital markets or via common equity issuances now find traditional funding sources less appealing. Share issuances are dilutive and financing costs are high and represent cash drains on corporate revenues at a time when stock prices are volatile.

Public companies are turning to private capital in the face of high interest rates that are impacting even investment grade companies. Market volatility has implications for common stock issuances while broader uncertainty raises concerns about capital expenditure for non-core – and even some core – projects. Further, investor scrutiny is giving rise to balance sheet challenges, as many businesses opt to transition to more capital-light models.

With meaningful appetite for non-dilutive or minimally-dilutive capital to fund strategic growth, facilitate dividend recapitalizations or manage liquidity proactively, there is growing recognition of the benefits of partnering with private capital. Private capital solutions are attractive to public companies because of their ability to provide patient, creative funding that is often not cash pay.

The result is huge growth potential as private capital moves in to expand its support for public companies, offering creative lending structures, asset-based finance, receivables financings and sale and leasebacks. Solutions that draw on preferred equity, minority equity (with earn-outs) and hybrid capital are also appealing to corporate borrowers looking for bespoke financing, as are joint ventures and other creative tools for funding capital expenditure.

Catalysts of Public Company Appetite for Private Funds

- High interest rates, even for investment grade companies
- Market volatility impacting common stock issuances
- Shareholder concern about capital expenditure on non-core projects
- Balance sheet challenges

More than **$800 billion** in public company debt matures by **2027** across North America and Europe

Source: S&P Global, 2024

CASE STUDY: Bain Capital Special Situations Acquires Portfolio of Aircraft Engines from Rolls-Royce

Akin advised Bain Capital Special Situations on the acquisition of a portfolio of aircraft engines from Rolls Royce, valued at more than $450 million. Rolls-Royce had previously used the engines to loan to customers while engines were being serviced as part of the TotalCare Program.

In connection with the transaction, the engines are now owned by a newly formed standalone entity which is indirectly owned by funds managed or advised by Bain Capital Special Situations and available exclusively to Rolls-Royce customers as part of the TotalCare Program. As part of the transaction, Rolls-Royce no longer bears the direct operational costs of owning and managing these engines but is still able to facilitate a structure that offers this benefit to its customers.

Founder-Owned Companies

A growing number of founder-owned and family-run business leaders are realizing that they can generate liquidity from their companies without having to lose control of their companies.

These leaders are attracted to private capital for estate planning reasons, as family members seek liquidity, and for its ability to deliver growth capital in a high interest rate environment. Founders also tend to like the private equity-like strategic expertise that comes alongside partnership with private funds, along with the market credibility that comes with partnering with a name brand private capital investor..

As with private equity-backed and public companies, founders present a huge opportunity for private capital providers as they look to take advantage of creative lending structures, asset-based finance, preferred equity, hybrid capital solutions, joint ventures and other bespoke solutions.

Challenges for Founders That Call for Capital Solutions

- Estate planning reasons
- Appetite for founder liquidity
- Growth capital in a high interest rate environment
- PE-like strategic advice from partner
- Market credibility from partnership with private capital investor

CASE STUDY: General Atlantic Makes $425 Million Preferred Equity Investment in Buyers Edge

Akin advised General Atlantic Credit's Atlantic Park fund as the lead investor in a $425 million preferred equity investment in Buyers Edge Platform, a leader in digital procurement solutions for the food service industry. Buyers Edge leveraged the new capital and partnership with the institutional preferred holders to support its continued growth initiatives, including platform innovation, strategic M&A and European expansion, and to facilitate an exit by the company's first minority institutional investor. In addition, the company's founder and CEO was able to increase his majority stake.

The deal was structured with non-convertible preferred equity and bespoke penny warrants which will allow for increased or decreased participation depending on the total equity value at exit. The preferred equity is redeemable by the company at a pre-agreed price, while the preferred holders retain the right to compel redemption upon the occurrence of certain events.

Fund Managers

The demand for fund liquidity solutions is growing fast as managers face challenges around returning capital to investors in a tight exit climate and need follow-on capital to support assets from funds that may be at the end of their investment periods.

Fund managers are now turning to private capital for NAV facilities based on more diverse assets than traditional private equity portfolios, for investments into continuation funds, and for both GP-led and LP-led secondaries transactions.

There is also a growing demand for GP liquidity facilities, either in the form of preferred equity or lending against GP stakes in their funds and their carry, to fund GP commitments and growth plans.

While there used to be meaningful concerns from managers about sharing proprietary information with competitors, private capital is now interesting to funds because of its ability to provide patient, creative capital that is often not cash pay. The added benefit of a better understanding of the asset class is a further driver of the opportunity set.

Why Fund Managers Want Capital Solutions

- NAV facilities on more diverse assets outside traditional PE
- Preferred equity investment into funds
- GP-led secondaries
- LP-led secondaries transactions
- GP liquidity facilities

CASE STUDY: Coller Capital Acquires a $1.6 Billion Senior Direct Lending Portfolio from American National

Akin advised Coller Capital, the world's largest dedicated private market secondaries manager, on its acquisition of a $1.6 billion senior direct lending portfolio from U.S. insurer American National. Representing the largest ever LP-led credit secondaries transaction focused on direct lending, the deal covered LP positions in 44 U.S. credit funds, diversified across nearly 1,500 borrowers.

Sourcing in Capital Solutions

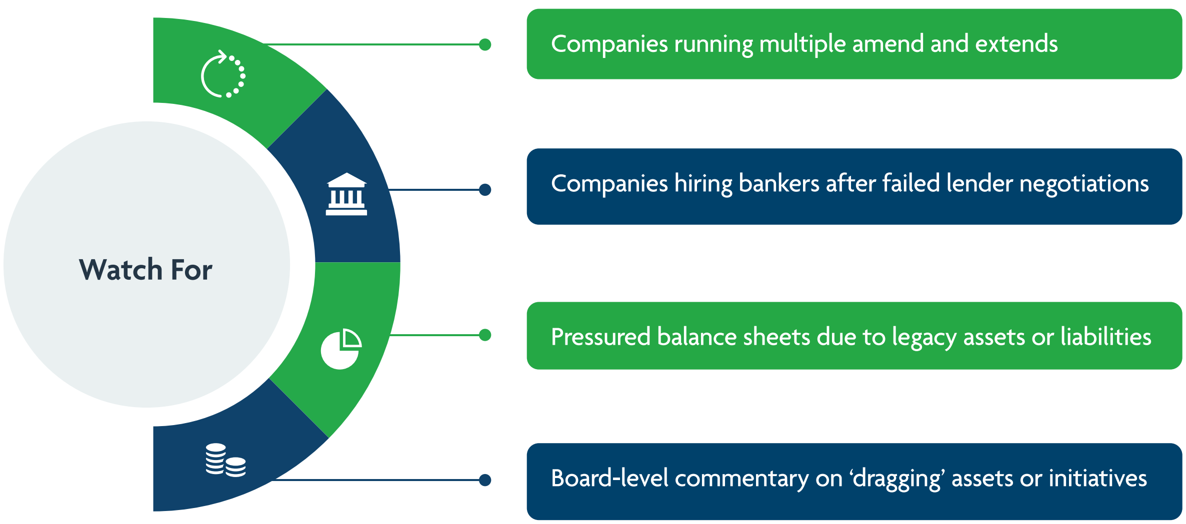
While the growing opportunity for private capital solutions providers is evident, it can be challenging to source the increasing number of deals that are not the result of banker-led processes.

Unlocking value in capital solutions calls for a much broader sourcing aperture, requiring managers to continue to stay close to bankers, but also make it known that they have the tools available to step up as sources of creative capital, and build visibility at industry conferences, through direct outreach and otherwise.

One way to identify these opportunities is to pick an industry or segment and then conduct a deep dive. Follow that up with cold calls to companies that may be dealing with balance sheet pressures, failed lender discussions or shareholder concerns.

Working closely with highly experienced lawyers to build out connections, keep abreast of developments and lean into new investment philosophies will also support a manager's ability to capitalize on opportunities.

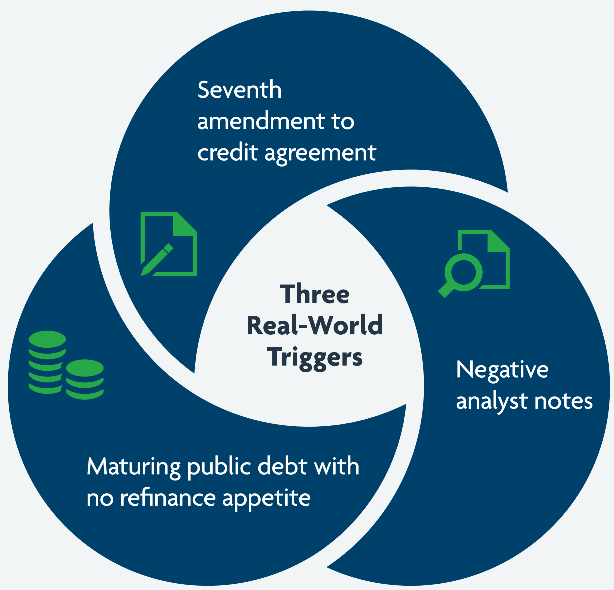
Stay on Top of Company Triggers | Expand Your Horizons to Public as Well as Private



Conclusion: Creativity Is Key

Against a challenging macroeconomic backdrop, capital providers that can put forward flexible and innovative funding solutions stand to benefit from the expanding universe of investment opportunities. Whether they sit within a credit or equity allocation or pull in capital from several funds within an institution, creative solutions that meet borrower demands while blending different exposures to meet investor risk-return targets represent an exciting new prospect.

Market Signals Driving Demand



Unlocking value in capital solutions calls for a much broader sourcing aperture. It requires ingenuity with the funds available, and an ability to craft bespoke and complex financings to meet capital needs. Those willing to explore the many possibilities will be surprised at the growing number of companies open to new and different capital solutions.

Interested in more?

The Global Capital Solutions Team at Akin advises private capital investors pursuing opportunities across the capital structure in all market cycles. As the lines increasingly blur across investment strategies, investors are seeking creative and integrated counsel to structure cutting-edge investment solutions involving a mix of debt, equity and hybrid capital. Our team helps clients structure returns with risk, managing downside protections while preserving upside optionality.

If you are interested in learning more about the expanding universe of capital solutions that we are experiencing in the US, Europe and Asia, please contact one of the following Akin Capital Solutions partners – we'd be happy to lead a session for you and your team.

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