

Connecting CAPITAL

Q1 – 2018

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Summary: a great start to the year...

The positive market tone seen at the end of 2017 has continued during the first quarter of 2018 with the Eurozone GDP forecast at 0.6%¹ for Q1, the same pace of growth as Q4 in 2017.

At Pemberton, we remain cautiously optimistic given the macro-economic backdrop and continue to be disciplined in our deal selection. Our pipeline in 2017 was larger than ever and this trend continued during Q1. Over the quarter, approximately 90 deals came across our desk; we progressed to due diligence on over 50% of these and ultimately put pen to paper on 10 deals across our range of strategies.

Against a backdrop of continued strong institutional demand in the large-cap, syndicated market, which has driven new issue yields well below 4%² and resulted in over 75% of deals being covenant-lite, we continued to achieve pricing in line with our yield objectives and to ensure acceptable terms in the lending agreements. All of our investments in Q1 contained at least one financial maintenance covenant.

Country spotlight: Germany

Germany has long been one of the jewels in the crown for European economic growth. However, it has also been perceived as one of the countries in which it is not easy for private debt managers to deploy capital given significant bank competition and a cautious stance of local companies towards non-bank lenders.

Pemberton's set-up and lending philosophy are well-suited for this environment: we are on the ground in Frankfurt with an experienced team that provides access to local deal flow; we are seen as an institutional lender, which provides us credibility with local borrowers; and we are an accepted partner to local banks as a provider of growth capital to some of their tier-1 relationship clients. All of this opens many doors for us.

More broadly, private debt has gained ground in Germany as corporates are increasingly warming to the idea of accessing capital from private debt funds and the regulator is embracing the role of debt funds in channelling institutional capital into the loan markets.

In this environment, our German team have brought the Pemberton proposition to bear in a particularly successful way. We have inked five deals in Germany this last quarter and closed what we believe to be a market-leading ten transactions in the last 12 months. The tangible benefit for our investors is a share of German deals in our portfolios that reflects the pre-eminent position of Germany's Mittelstand in Europe's economy.

Region update

- UK deal flow remains strong, with 3 deals closing in Q1. While UK growth is slower than continental Europe, we are being highly selective, focusing on UK borrowers with diversified non-UK cash flows and/or highly defensive business models which offer attractive downside protection.
- In France, the momentum continues, with several deals having been mandated recently that we expect to convert into deployment in the next quarter.
- In Italy, we closed one deal in Q1 as the first three months of the year continued to show an improving economic trend, with rising business and consumer confidence. The banking sector is showing decreasing stocks of net bad debt and corporate lending is increasing. We are seeing several international investors attracted by leading Italian mid-market corporates, potentially creating attractive cross-border direct lending opportunities for Pemberton in the near future.

1 <http://ec.europa.eu/eurostat/documents/2995521/8627394/2-30012018-AP-EN.pdf/0374d17b-ba86-4aab-8837-c4865e087ceb>

2 Source: S&P Global Market Intelligence March 2018

A selection of deals completed during the quarter:

WILLIAMS LEA TAG

In January, Pemberton provided a €90m senior secured Term Loan B backing the acquisition of Williams Lea Tag (“WLT”), a leading global provider of marketing execution and document workflow services, by funds managed by Advent International.

Headquartered in London, the group’s marketing execution businesses include sourcing, creative production and publishing services with clients across consumer, life sciences, financial services and the public sectors. WLT is a top three player globally in all of its major business lines, where it benefits from its scale, relationships, global footprint, and a robust technology platform.

ELATEC

In March, Pemberton underwrote a financing package to support the acquisition of a majority stake in Elatec GmbH (Elatec”) and related companies by funds advised by Summit Partners LP (“Summit”) from DPE Deutsche Private Equity, who will remain a minority shareholder.

Elatec, headquartered in Puchheim, near Munich, Germany, is one of the world’s leading suppliers of multi-standard RFID readers. Elatec modules enable the clear identification of individual users on end devices and are used across a broad range of numerous applications and solutions, such as secure printing, elevator systems, fitness devices, industrial production, kiosk, physical access, and point-of-sale systems.

SWYX

In February, Pemberton provided a financing package to support the acquisition of Swyx Solutions AG (“Swyx”) and related companies by funds advised by Waterland Private Equity Investments B.V. (“Waterland”) and by Swyx’s management team.

Swyx, headquartered in Dortmund, Germany, is a leading pan-European provider of unified communications solutions for small- and medium-sized companies with offices in the UK and France. Swyx integrates and links all communication channels such as telephony, messaging, video and e-mail with business-relevant process applications. Solutions can be run directly via the client’s existing infrastructure on premises, via a partner cloud service or based on the cloud service provided by Swyx.

OCS

At the end of March, Pemberton provided a €110m financing to support the acquisition of OCS S.p.A. by funds advised by Charme Capital Partners, from its founders, who will remain as minority shareholders.

OCS, headquartered in Brescia, near Milan, is the Italian leader in software solutions for consumer credit and specialty finance. OCS’s software platform is the result of over 30 years of development and includes the broadest range of functionalities available in the market. The OCS suite allows banks and specialized financial institutions to manage a wide range of financial products (including personal loans, credit cards, revolving credit, securitization and leasing) over the entire credit life cycle. OCS’s business model is unique, as the company has been able to develop a scalable platform used by all its clients, which share all updates and new software developments.

CONET

In March, Pemberton provided a long-term senior facility to support the refinancing of CONET Technologies GmbH (“CONET”) and related companies, which are owned by H.I.G. Europe Capital Partners II, L.P. (“H.I.G.”) and by CONET’s management team.

CONET is a leading IT consulting, IT systems integration and software development company headquartered in Hennef (Sieg), Germany. CONET offers a range of services and solutions in software development, SAP consulting, IT infrastructure and IP-based communications. Since its foundation in 1987, the company has been a highly reliable partner to many German and Austrian blue-chip customers in the public and private sectors. The CONET Group currently employs more than 550 business and IT specialists at eight locations throughout Germany and Austria.

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