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Will a lack of fuel derail private debt in the UK?

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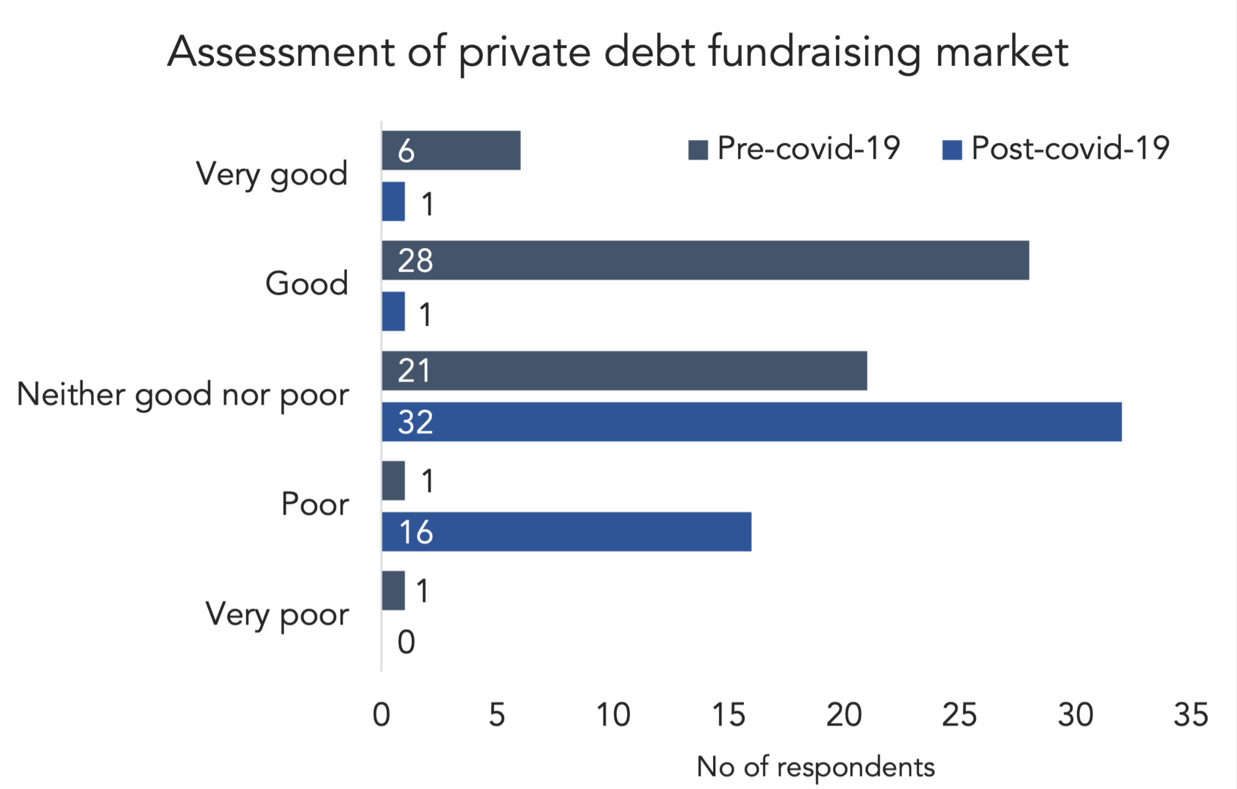

Source: BBB UK Private Debt Research Report 2020

A new survey highlights the importance of private debt in the UK market. But there are concerns over the weakness of fundraising.

In the UK, private debt is now playing a “vital role” in the provision of finance to the country’s SMEs according to new research from the British Business Bank and the British Venture Capital Association. It calculated that private debt provision was worth more than £18 billion (nearly $25 billion) in the UK in 2018 and 2019.

BBB analysed primary deal data from 55 funds across 37 managers with deals worth £9 billion in 2018 and £9.4 billion in 2019. By comparison, bank lending to SMEs in the country in 2019 amounted to £57 billion.

It recorded 498 deals in 2018 and 518 in 2019. The majority of deals in 2019 were non-sponsored transactions, with 345 fitting this description. Across both 2018 and 2019 the majority of deals recorded by BBB were growth deals, with 563 transactions. There were 124 buyout financings, 99 refinancings and 48 acquisition financings.

The report said private debt offers a number of benefits to SME borrowers including greater choice of funding options, closer relationships with lenders and larger facilities. The average ticket size loaned by small-cap private debt funds in BBB’s portfolio was £6.5 million, compared with £167,000 from standard banks and just £77,000 from P2P lending platforms.

Catherine Lewis La Torre, CEO of BBB, said: “In a relatively short period of time, private debt has established a position as a viable type of funding for the UK’s smaller businesses at different stages of development. As the focus shifts from stabilisation to economic recovery, supporting business growth will be a fundamental driver of a thriving post-covid-19 UK economy. Ensuring that businesses can access the funding best suited to their needs will be vitally important in the coming years and private debt has an important role to play.”

But further research from BBB creates a question as to whether managers will continue to have the capital to meet demand and help companies through the covid-19 recovery phase. In another recent report, it found that fundraising was waning – with a greater proportion of respondents thinking that the post covid-19 fundraising market would be weaker than pre-covid (see chart above).