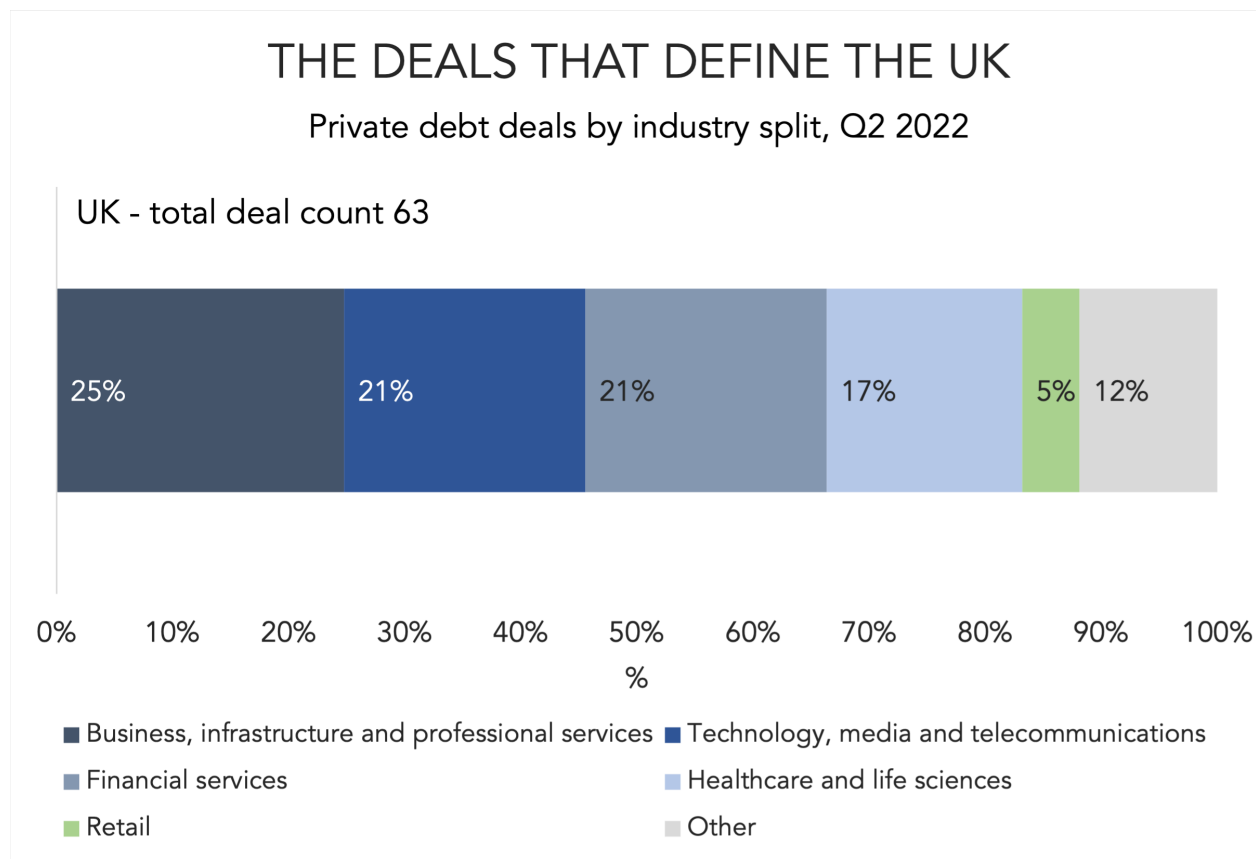


# The UK: room for optimism but concern growing

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*While dealflow remains strong, lenders are cautious as we head towards the end of the year.*

Figures from Deloitte's *Alternative Lender Deal Tracker* show the UK debt market is still the most active private lending space in Europe, accounting for 111 out of the 395 deals on the continent, or 28 percent, in the first half. In all, 65 percent of the UK's private debt transactions were unitranche deals, with 26 percent being senior debt and a further 6 percent stretched senior. The four most active sectors for deal volume were business services, technology, financial services and healthcare, with financial services featuring more prominently in the UK market than it does across the European market as a whole.

Richard Roberts, principal and head of origination and M&A at Arrow Global, says: "Private debt funds have picked up large swathes of private credit lending that was historically provided by UK and foreign banks prior to the global financial crisis. The reluctance of the banks to subsequently increase their lending risk profile as the economy recovered, and the recent reduction of the P2P sector, has increased this trend. We see the UK as by far the largest and most developed private credit market in Europe and the headquarters for most of the US funds that have pioneered some of the securitisation trends that have institutionalised the asset class."

While dealflow remains strong, lenders are cautious going through Q3. Kartesia director Nick Holman, who is responsible for senior opportunities investments across Europe, says that as we go into September 2022, there is not the same volume of deals coming through as there were 12 months ago. “Both lenders and private equity sponsors are being more selective, and I would not be surprised if we see more failed processes on both the equity and debt side because people can’t get the leverage, but also because vendors are not willing to lower their price expectations,” he says.

“At the moment, there are so many different challenges going on that it is difficult to say with any certainty that you can price risk on certain credits. For those resilient businesses though, in the right sectors, the debt funds will be able to take advantage of diminishing bank lender appetite as we go through the cycle.”

*(Past performance is no guarantee of future results.)*