



INSIGHT

Lender and Borrower - A Perfect Partnership

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Successful deal origination and structuring in the UK lower middle-market may lead to higher-than-expected returns and prove equally beneficial to both borrower and lender

The retrenchment of banks from the lending market following the financial crisis in 2008 led to a financing vacuum for small-to-medium-sized enterprises (SMEs) across Europe. Asset managers stepped in to fill the lending gap left by the banks, resulting in what we see today as the European direct lending (or private debt) market.

The asset class has grown from strength to strength and forms a key function in supporting the growth and development of regional economies via SME lending.

There are a broad range of direct lending firms with differing approaches, combined with an array of different sized companies looking for capital. Within the European lower middle market there are around 100,000 companies, which is our target market. The UK makes up 20,000 of that number.*

However, across such a large opportunity set we believe it is vital to carry out thorough due diligence and in-depth research to ensure any financing deal is equally suitable for both parties.

The financing partnership between Muzinich & Co. and Phaidon was a result of intense due diligence on both sides, with each keen to ensure the deal would best suit each other's needs.

Founded in 2004, Phaidon International is a global micro-specialist recruitment group. The company had undergone a very successful and rapid period of organic growth and development and was looking for financing to reach their next stage of expansion.



Grant Davidson
Co-Head of Private Debt, UK

Grant is Co-Head of UK Private Debt at Muzinich & Co. Before joining Muzinich, Grant was at Investec and Lyceum Capital where he was responsible for the origination and execution of funding opportunities in the UK lower mid-market. He earned a degree from Bristol University in Maths and French and is ACA qualified.

*Source: Amadeus BVD, as of 11 January, 2018.

However, Phaidon were not just looking for any lender - they wanted a lender who would partner with them on their growth journey, be able to offer flexibility on the terms of the loan (including the option of early repayment) and at the same time ensure they remained in control of their business.

The Muzinich UK Private Debt lending team is dedicated to supporting high-performing UK middle-market companies with an EBITDA of £3-20 million. A key differentiator of our lending model is that we like to partner with companies when providing financing, and offer help and advice to a firm so they can reach their growth goals.

We also primarily target growth capital opportunities which we believe offer a better risk reward profile and the potential for higher returns. Consequently, we believed the partnership opportunity with Phaidon looked equally suited to our lending model.

We were able to execute swiftly on the deal and provide Phaidon the financing they required at terms suitable to both parties. Phaidon did not disappoint. The loan we provided enabled the recruiter to double in size over a 2-year period, both in terms of the number of staff and profits.

For Phaidon, we believe the future looks bright. It has recently been acquired by a private equity house who will continue to help the firm's growth and development potential during the next chapter of the company's story.

For our customers, we believe the Phaidon deal shows how successful the right partnership can be for both parties.

This story not only highlights the important role direct lending firms now play in the growth and development of the UK and European economies, it also emphasises the benefits it may bring to customers.

Phaidon is one of five investments made in the UK by the Muzinich Private Debt Team. These include Busaba, ANS, CAV and Securus Group. For more information please visit www.muzinichprivatedebt.com.

Important Information

For more information and a full lists of investments since inception of the Muzinich private debt strategies, please visit <https://www.muzinichprivatedebt.com/investments/>. This document has been produced for information purposes only and is not intended to constitute an offering, advice or recommendation to purchase any securities or other financial instruments. The investment strategies and themes discussed herein may not be suitable for investors depending on their specific investment objectives and financial situation. Investors should conduct their own analysis and consult with their own legal, accounting, tax and other advisers in order to independently assess the merits of an investment. The views and opinions expressed should not be construed as an offer to buy or sell or invitation to engage in any investment activity, they are for information purposes only, are as of the date of publication and are subject to change without reference or notification. Past results do not guarantee future performance. The value of investments and the income from them may fall as well as rise and is not guaranteed and investors may not get back the full amount invested. Diversification does not assure a profit or protect against loss. Changes in the rate of exchange of a currency may affect the value, price or income of an investment adversely. All information contained herein is only as current as of the date indicated, and may be superseded by subsequent market events or for other reasons. Nothing contained herein is intended to constitute investment, legal, tax or other advice nor is it to be relied on in making an investment or other decision. Historic market trends are not reliable indicators of actual future market behavior. Certain information contained herein is based on data obtained from third parties and, although believed to be reliable, has not been independently verified by anyone at or affiliated with Muzinich & Co.; its accuracy or completeness cannot be guaranteed. No part of this material may be reproduced in any form or referred to in any other publication without express written permission from Muzinich & Co. Opinions and statements of financial market trends that are based on market conditions constitute our judgement as at the date of the document. They are considered to be accurate at the time of writing, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. Issued in Europe by Muzinich & Co. Limited, which is authorised and regulated by the Financial Conduct Authority. Registered in England and Wales No. 3852444. Registered address: 8 Hanover Street, London W1S 1YQ.