Private Credit & Its Role in Modern Buyouts

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Section I: What is Private Credit?

What is Private Credit?

Defines private credit and highlights the key drivers behind its expansion

1 Private Credit is non-bank debt financing, provided outside public markets

2 It serves financing needs unsuitable for traditional bank lending

3 Key areas include sponsor finance, mid-market lending, infrastructure, and asset-backed finance

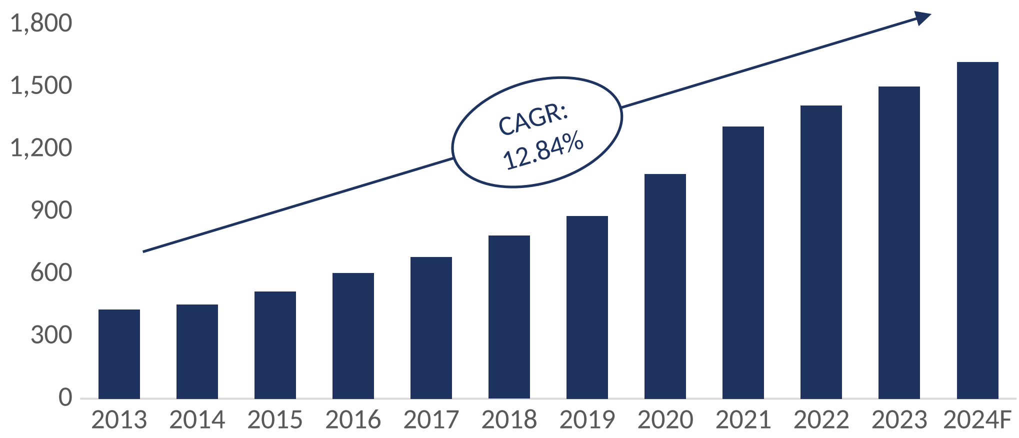
4 As banks retreat from middle-market lending and markets grow volatile, private credit has become a vital source of capital

5 It uses a broad range of products tailored to financing needs

Main growth drivers

- Investors have reallocated capital to private credit in search of yield
- Borrowers value the flexibility and speed of private credit financing

Private Credit market growth (USD bn)



Source(s): UBS Asset Management (2024)

Leading Private Credit providers

Showcases key players driving scale, innovation, and capital deployment in private credit

		Parameters		
Blue Owl Capital	**Apollo**	**Name**	**Blackstone**	**Carlyle**
BLUE OWL	APOLLO	**Logo**	[redacted]	CARLYLE
Direct lending	Broad Credit	**Strategy**	Direct lending	Private credit
$250-$1bn+	$500m-$2bn+	**Deal Size**	$250-$1bn+	$100-400m
Upper-middle-market	Large corporate	**Market Focus**	Middle to large	Sponsor Backed
$152bn	$723bn	**AUM**	$508bn	$208bn

Note(s); AUM figures refer to private credit platforms

The Growth of Private Credit

Outlines the regulatory, market, and investor forces shaping private credit growth

- Structural shifts in banking, capital markets, and investor preferences have driven the sustained expansion of private credit

Key Drivers:

Bank Retrenchment	Basel IV and post-GFC regulation raised bank capital requirements, constraining middle-market lending and supporting private credit growth
Financing Volatility	Despite widespread floating-rate structures, heightened interest-rate volatility has increased demand for committed private financing with pricing certainty, reducing reliance on the syndicated and public market
Interest Rates	Extended low interest rates reduced returns in public credit, leading institutional investors to allocate to private credit for higher contractual income and stronger risk-adjusted returns
Customisation	Private credit allows lenders to negotiate covenants, collateral packages, amortisation, and pricing modifying cash flows and credit risk, enabling more precise underwriting than public markets
Financing Vehicles	Private credit growth has been driven by new financing structures such as business development companies, evergreen private credit funds, insurance-managed accounts, and separately managed accounts

Private Credit Structuring

Explains how private credit underwriting, structuring, and monitoring translate into predictable income and downside protection

1. Loans are underwritten to be held through maturity, enabling tighter documentation, conservative leverage, active monitoring, and focus on downside recovery rather than interim mark-to-market volatility

2. Returns are driven by floating-rate interest, spreads and fees, with capital-structure priority shaping downside risk rather than income generation

3. Negotiated covenants and reporting provide early warning signals and enforcement optionality, allowing lender intervention or restructuring before material value erosion

4. Amortisation, call protection, and cash vs Payment in Kind (PIK) interest are structured to align expected life, income profile, and risk-adjusted returns

Predictable income, stronger downside protection, and improved recovery outcomes across market cycles

Section II: Private Credit in Modern Buyouts

Role of Private Credit in Buyout Financing

How private credit is positioned within the buyout capital structure, defining its relationship to equity, traditional debt, and leverage

Capital Stack

- Secured Debt (e.g., Bank Loans)
- Private Credit – Senior / Unitranche Debt
- Private Credit – Subordinated / Mezzanine Debt
- Preferred Equity
- Private Equity (Sponsor Capital)

Economic Role in Buyout Financing

Positioning

- Sits above private equity in the capital structure, with priority claims on cash flows and assets
- Provides contractual interest and principal repayment before equity holders receive returns

Substitution

- Replaces or supplements traditional bank loans and bonds, particularly in sponsor-led transactions
- Favored when speed of execution, certainty of funding, or bespoke terms are required

Leverage

- Enables higher leverage in LBOs, increasing the proportion of debt used to finance acquisitions
- Reduces the equity contribution required from sponsors, enhancing potential equity returns (and risk)

Why Private Equity Sponsors Use Private Credit

Compares financing processes to highlight execution certainty and timing advantages in buyout transactions

Syndicated Loan / Bond Process	Private Credit Process
Market Sounding	Direct Negotiation
Syndication / Bookbuilding	Committed Capital
Investor Demand	Single Documentation
Pricing & Allocation	Certain Close
Market-Dependent Close	Fewer steps Higher certainty

Sponsor Motivation

Execution
Reduces execution risk in competitive or time-sensitive transactions
Allows sponsors to commit to bids with confidence of funding

Certainty
Capital is committed upfront, limiting exposure to market volatility
Avoids re-pricing or failed syndications during adverse market conditions

Timing
Enables buyouts when public credit markets are closed or unstable
Supports deal completion regardless of short-term market sentiment

Sponsors often accept higher costs in exchange for speed, certainty, and execution control

Typical Use Cases in Buyouts

Demonstrates the role of private credit across varied buyout execution scenarios

- Private credit enables buyouts in situations requiring speed, certainty, and bespoke structuring beyond what traditional lenders can provide

The examples below highlight when private credit is preferred across different buyout scenarios:

Mid-Market Buyouts	Time-Sensitive or Complex Deals	Platform & Buy-and-Build Strategies	Secondary (Sponsor-to-Sponsor) Buyouts
Used where companies lack access to deep syndicated loan or bond markets and require a reliable, non-bank financing solution	Preferred when execution speed, certainty of funding, or bespoke structuring is critical to completing the acquisition	Supports acquisitions with repeat add-ons, delayed-draw needs, and flexible documentation over time	Used when leverage needs are high and certainty is required to refinance an existing capital structure efficiently
Addresses financing gaps where public markets are inaccessible	Prioritizes speed and certainty in competitive or bespoke transactions	Facilitates efficient refinancing and leverage optimization	Realizes immediate uplift via public-market valuation spread

Common Private Credit Structures in Buyouts

Illustrates how private credit structures are used to address execution, complexity, and financing needs in buyout transactions

- The following private credit structures are commonly used in buyouts, shaping execution certainty, structural simplicity, and financing flexibility across transactions

Senior Direct Lending

- Provides a simple, execution-certain financing solution with a single lending partner
- Commonly used in mid-market buyouts prioritizing speed and simplicity

Unitranche Financing

- Combines multiple financing layers into a single facility to simplify documentation and accelerate deal execution
- Preferred in competitive or time-sensitive buyouts where certainty of funding is critical

Mezzanine Capital

- Supplements core financing when senior debt capacity is constrained or acquisition leverage requirements are higher
- Used selectively to bridge financing gaps without altering overall transaction structure

Private credit structures are selected based on execution needs and transaction complexity rather than standardized debt hierarchies

Section III: Financing Mechanisms in Private Credit

Core Financing Mechanisms in Private Credit

Compares the primary private credit instruments used in buyout financing based on position in the capital structure and risk–return profile

Senior Direct Lending

- First-lien, asset-backed loans with top priority, offering lower yields due to strong collateral, covenants, and high recovery rates

Unitranche Debt

- Unitranche loans are used to blend senior and second-lien debt with effective first-lien priority, generating mid-range private credit yields between senior and second-lien debt

Second-lien Debt

- Junior-secured loans with second priority on collateral behind first-lien debt, delivering higher yields than unitranche due to increased loss severity and weaker control rights, often shares the same asset base

Mezzanine Capital

- Subordinated financing ranks below senior debt, is typically unsecured, and offers higher yields due to elevated risk and equity-like features

Private credit instruments offer a spectrum of risk and return, allowing lenders and sponsors to tailor financing structures to transaction needs and downside tolerance

Control Rights by Type of Private Credit

Compares lender control, covenant protection, and enforcement rights across private credit instruments

Control	Type	Rights
High Control	**Senior Secured**	• Covenant protection: Tight maintenance covenants with early intervention triggers • Enforcement authority: First-priority enforcement rights over pledged assets • Information access: Extensive reporting, budgets, and lender access rights
High Control	**Unitranche**	• Covenant protection: Senior-style covenant packages within a single loan agreement • Enforcement authority: Borrower-facing enforcement authority equivalent to first-lien debt • Information access: Comprehensive reporting consistent with senior secured lending
Medium Control	**Second-lien**	• Covenant protection: Covenant coverage applies but without control or certain rights • Enforcement authority: Enforcement subject to intercreditor standstill and consent limits • Information access: Regular reporting, often secondary to first-lien lenders
Low Control	**Mezzanine**	• Covenant protection: Limited or incurrence-based covenants with fewer intervention triggers • Enforcement authority: Contractual subordination significantly restricts enforcement actions • Information access: Restricted reporting and limited direct access to management

Use Cases and Risks of Different Types of Private Credit

Based on the specific use case of each debt type the overall risk and risk sources vary

Senior Secured	• The core private credit deployment where returns are primarily supported by first-priority claims on pledged assets, strong covenant packages, and contractual cash-flow rights • Performance is exposed to asset value deterioration and cash-flow disruption, with returns capped by senior positioning despite strong recovery prospects
Unitranche	• Used to enhance yield relative to pure first-lien lending while maintaining effective senior secured exposure through a single, unified collateral structure • Combines senior and junior risk in one instrument, increasing loss severity relative to first-lien debt
Second-lien	• Deployed to provide incremental leverage against an existing collateral base where asset coverage supports multiple lien layers • Subordinated lien priority and intercreditor constraints reduce recovery certainty and limit enforcement rights in downside scenarios
Mezzanine	• Used to fill capital structure gaps once secured debt capacity is exhausted, relying primarily on enterprise value for repayment • Structural subordination, limited control, and reliance on valuation and refinancing outcomes result in higher loss severity and greater return volatility

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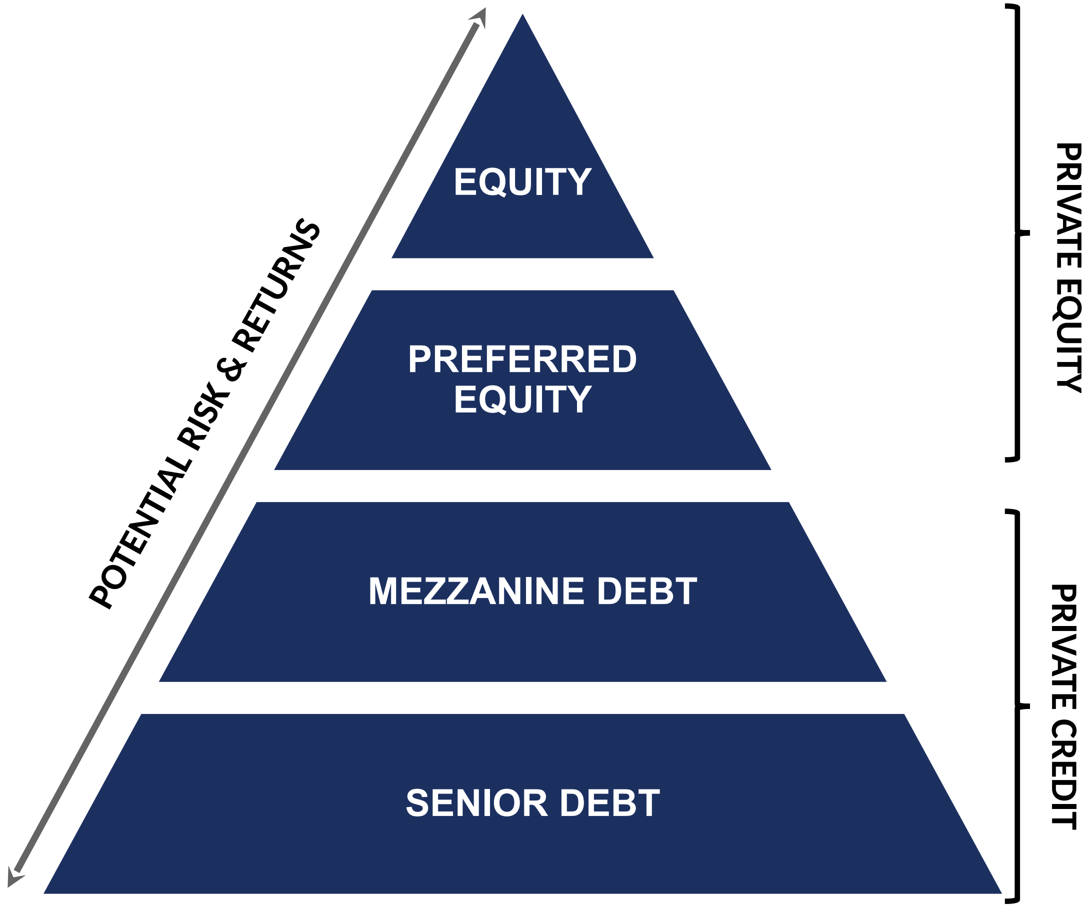
Section IV: Economics & Trade-offs (PE vs PC)

Capital Structure Positioning & Risk Profile

Where private equity and private credit investors sit in the capital stack and how this positioning affects their risk exposure.



Private Equity

- Residual equity holder at the bottom of the capital stack with last claim on cash flows
- Returns driven by value creation at exit, including EBITDA growth, leverage, and multiple expansion
- Highest risk–return profile, with uncapped upside but full exposure to business and valuation risk

Private Credit

- Sits above equity in the capital stack, typically as senior secured or mezzanine capital
- Priority claim on cash flows and assets ahead of equity holders
- Benefits from structural protections, including collateral, covenants, and defined maturity

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Return Profiles Across Private Capital

Contractual yield in private credit versus exit-driven returns in private equity

Private Credit Return Timeline & Mechanisms

Interest + Fees | Interest + Fees | Interest + Fees | Principal Repayment

(Periodic, contractual cash flows)

PC **Return Realization Profile:**
Returns are realized through predictable, contractual cash flows over the life of the investment, with limited reliance on exit outcomes

Economics of Private Credit

- Contractual interest and fee payments, typically paid quarterly or semi-annually
- Defined maturity profile, commonly 3–7 years
- Lower return dispersion, driven by seniority, collateral, and covenants

Private Equity Return Timeline & Mechanisms

EBITDA growth, multiple expansion, debt paydown, etc | Exit

(Value realization at exit)

PE **Return Realization Profile:**
Returns are largely unrealized during the holding period and concentrated at exit, making outcomes highly dependent on business performance and market conditions

Economics of Private Equity

- No interim cash flows, with capital fully at risk until exit
- Exit-dependent value realization, typically after a 4–7 year holding period via sale, IPO, or recapitalization
- Higher return dispersion, reflecting sensitivity to operational performance, leverage, and exit multiples

Comparison & Trade-offs

A side-by-side comparison of risk, return, and structural differences across private capital strategies

Criteria	Private Credit	Private Equity
Capital Stack	Senior or mezzanine capital with priority claim	Residual equity at the bottom of the stack
Cash flows	Regular, contractual interest and fee payments	No interim cash flows; cash flows concentrated at exit
Return Timing	Ongoing throughout the investment life	Back-ended, realized primarily at exit
Exit Reliance	Limited	High dependence on exit markets
Downside risk	Structural protection via seniority, collateral, covenants	First-loss exposure to business risk
Return spread	Lower, outcomes clustered around yield targets	Wide, driven by operating & valuation outcomes

When Does Each Strategy Thrive? Wins for PE vs Private Credit

Private equity and private credit outperform under different macroeconomic and market conditions

Private Credit

Interest Rates	Floating-rate structures allow private credit investors to benefit directly from rising base rates, increasing income without relying on valuation expansion
Lending Conditions	As banks reduce balance-sheet lending due to capital and regulatory constraints, private credit fills financing gaps with attractive pricing and stronger contractual protections.
Borrowers Profiles	Stable borrower cash flows enable private credit to monetize risk through contractual income rather than exit-driven value creation.

Private Equity

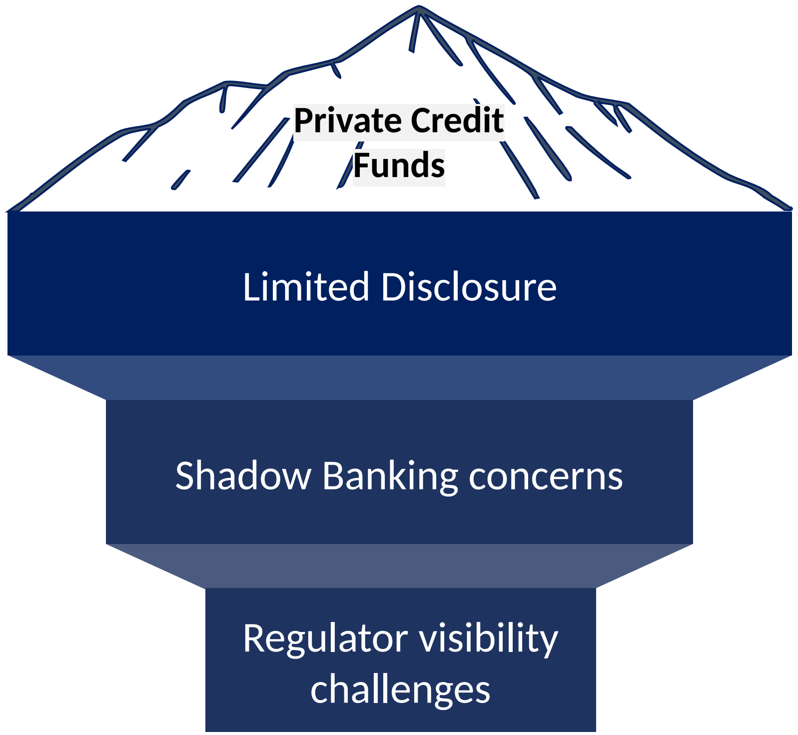
Capital Markets Conditions	Active IPO and M&A environments enable private equity sponsors to realize value at attractive multiples and monetize operational improvements
Value Creation Levers	Private equity outperforms when sponsors can drive EBITDA growth through margin expansion, add-on acquisitions, and scale efficiencies
Financing Conditions	Cheaper leverage amplifies equity returns and reduces cash-flow pressure, enhancing upside through financial leverage.

Private equity performs best in growth-driven, risk-on environments where favourable financing and exit conditions allow sponsors to monetize value creation. Private credit thrives when income stability, capital scarcity, and predictable borrower cash flows make contractual returns more attractive than valuation-driven upside

Section V: Risks, Criticism & Outlook

Risks & Criticism: Market Structure and Transparency

Highlights structural concerns related to transparency, regulation, and systemic oversight in private credit markets



Issues & Criticism

Transparency
- Private credit operates with limited public reporting compared to banks or bond markets
- Asset valuations and risk exposures are less frequently disclosed

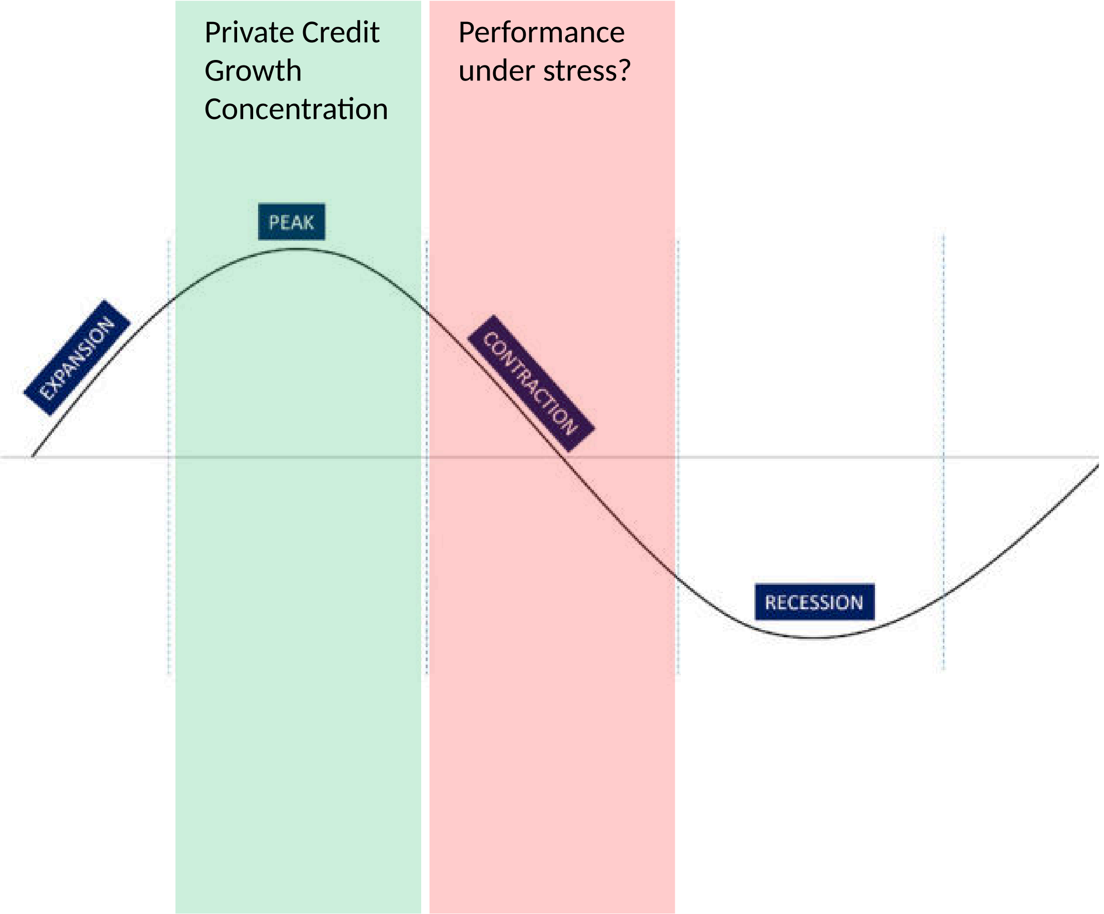
Regulation
- Falls largely outside traditional banking regulation
- Oversight varies across jurisdictions and strategies

Systemic Oversight
- Increasing interconnectedness with banks through fund leverage and financing lines
- Makes monitoring and stress-testing more complex for regulators

Structural opacity raises monitoring challenges rather than immediate solvency concerns

Cycle & Borrower Impact

Examines how private credit performance may vary across economic cycles and affect borrowers and investors under stress



Perspectives

Borrowers

- Higher interest costs increase pressure on cash flows
- Tighter covenants may limit financial and operational flexibility
- Refinancing options may narrow during periods of market stress

Investors

- Recovery outcomes depend on valuation and restructuring conditions
- Asset valuations may adjust with a lag due to limited market pricing
- Portfolio performance may become more dispersed across vintages and strategies

Structural Capital Flows in Private Credit

Illustrates how persistent capital supply and financing demand sustain private credit as a long-term financing channel

Private credit connects long-term institutional capital with recurring financing demand from private equity sponsors and mid-market companies. By matching capital supply and demand outside public markets, private credit has become a durable financing channel across market cycles

Capital Supply Stability

Driven by pensions and insurers allocating to long-duration, income-focused assets

Financing Demand Continuity

Mid-market firms and PE sponsors require flexible, execution-certain financing

Non-Bank Intermediation

Private credit funds bridge institutional capital and corporate financing needs

Cycle Resilience

Capital deployment and demand persist beyond short-term public market volatility

Outlook: Market Evolution & Constraints

Highlights the forces supporting continued growth alongside the constraints shaping market evolution

Growth Forces: Structural drivers supporting continued expansion of private credit as a financing asset class

- Increasing institutional capital, broader adoption, and expanding use cases underpin long-term growth

Constraints: Market and regulatory factors that may limit returns and shape the evolution of private credit

- Rising competition, return normalisation, and increased oversight influence future market dynamics

Market Balance:

Private credit growth is supported by strong structural demand, while increasing competition and regulation shape its long-term evolution

- **Sustained capital inflows support deal activity and asset class growth**
- **Private credit continues to gain scale and institutional relevance**

- **Competitive intensity and regulation influence future returns**
- **Performance increasingly depends on underwriting discipline and scale**

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Section VI: Case studies

Apollo's AUM: Private Equity vs Private Credit

Private Credit has become Apollo's dominant business, accounting for roughly 80% of total assets under management

Firm Profile

Founded: 1990

AUM: $908 billion

Employees: 5400

Global Offices: 27

Inv. Professionals: 900

HQ: New York

Economics of Private Credit

Private Equity

- 300+ portfolio companies
- Control/majority ownership
- Long holding periods (5–7 years)

Private Credit

- 4,000+ borrower relationships
- Primarily senior secured or investment-grade
- Repeat origination with existing borrowers

Private Equity & Private Credit

Private Credit AUM: $723bn

Private Equity: AUM: $185bn

Global Footprint

Marc Rowan

CEO & Co Founder

Jim Zelter

President

Scott Kleinman

Head of Private Credit

Apollo Private Credit Financing: Selected Transactions

Selected transactions illustrate Apollo's ability to deploy long-duration capital across investment-grade, structured, and asset-backed credit

Company	Deal Size	Sector	Date	Credit Product
AIRFRANCE	$2.5b	Airlines / Transport	Oct 2024	Hybrid Capital
at&t	$2b	Telecom	June 2023	Hybrid Capital
concord	$2.3b	Music / IP	October 2023	Asset-Backed Credit
VONOVIA	$2b	Real Estate	April 2023	Real Estate Capital Solutions
RGA®	$0.5b	Insurance	March 2023	N.a

These transactions illustrate Apollo's ability to deploy private credit across sectors, deal sizes, and credit products, reflecting the scale and flexibility of its global credit platform

Why Apollo Has Shifted Towards Private Credit

Private credit has become Apollo's primary scaling lever, supported by platform breadth and high-volume deal flow

Apollo's pivot toward private credit is driven by structural market growth, bank disintermediation, and a permanent capital advantage that enables scalable, long-duration credit investing

Structural Market Growth

- Private credit is one of the fastest-growing segments in private markets, with investment-grade lending opportunities
- Jim Zelter, Co-President of Apollo Global Management, has projected the private credit market to expand to up to ~$40tn over the next decade

Bank Disintermediation & Lending Gaps

- Stricter regulatory capital and balance-sheet constraints have reduced banks' willingness to underwrite large, complex, or long-dated loans
- Apollo has filled the financing gap through its ~$723bn private credit platform and 4,000+ issuer relationships

Structural Market Growth

- Increasing concentration in public equity markets and a structural decline in the number of listed companies have reduced diversification options for traditional portfolios
- This has driven investors toward private markets and private credit solutions

Demographic – Driven Demand for Income

- Approximately 12,000 Americans turn 65 each day, accelerating demand for retirement solutions and stable, yield-oriented income products
- This structurally increases investor allocation to private credit strategies

How Apollo Has Shifted Toward Private Credit

Apollo operationalized its pivot by separating credit from buyouts, integrating permanent capital, and scaling direct origination

Organization

- Complex lending activities moved out of the buyout division
- Creation of Hybrid Capital as a standalone unit
- Matt Nord transitions from PE co-head to lead Hybrid Capital
- → Credit no longer supports PE transactions
- → Capital, talent, and incentives reallocated toward credit

Capital Base

- Apollo's insurance platform, Athene, provides large-scale, permanent capital
- Long-duration liabilities enable credit strategies that benefit from holding assets to maturity
- Stable capital base supports spread compounding rather than short-term exits
- Reduced reliance on fundraising cycles

Products & Origination

- Strong direct origination capability, independent of bank-led syndication processes
- Relationships with 4,000+ issuers, enabling repeat bilateral transactions
- Launch of public–private credit vehicles, including the SPDR SSGA Apollo IG Public & Private Credit ETF

Apollo's shift toward private credit was enabled by a deliberate operating redesign: separating credit from buyouts and creating dedicated teams to focus on scalable, repeatable deployment. Backed by Athene's permanent capital and a deep origination network, Apollo can underwrite large bilateral financings and compound spread income over long holding periods.

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