

For Immediate Release

April 8, 2021

Contact: Jackie Heard
+1.312.902.5450
jackie.heard@katten.com

Kate Shenk
+1.312.577.8415
kate.shenk@katten.com

Dealmakers Optimistic Private Credit Markets Will Fully Rebound *Questions Emerge About Lender/Investor Relations, LIBOR*

(CHICAGO) — Initially sideswiped by COVID-19 in early 2020, private credit markets began to bounce back by year’s end, leaving dealmakers optimistic that private credit might fully rebound in 2021. According to a new survey of 112 private credit industry professionals conducted in February, 91 percent of investors and 80 percent of lenders surveyed expect deal flow to increase this year and are optimistic about several deal categories and sectors.

For the [2021 Private Credit Survey Report](#), Katten surveyed an almost-equal weighting of lenders and private equity investors. Those surveyed represent a variety of sectors (including financial services, information technology, consumer staples, communications, industrials and health care) about their outlook on deal flow, readiness to address the London Inter-Bank Offered Rate (LIBOR) phaseout and other issues critical to the private credit industry.

While the appetite for private credit deals in the second half of 2020 led to greater flexibility in deal terms and loan documents, questions remain as to whether that spirit of cooperation will continue. For example, 55 percent of lenders say there will be pressure from their side of the bargaining table to pull back on “sponsor-friendly” deal terms in 2021. Meanwhile, 50 percent of private equity investors, who sponsor those deals, say their teams will be even more aggressive in negotiating terms.

LIBOR’s phaseout is a big disruption on the horizon, with a majority of respondents admitting they are not very prepared. The recent extension of the deadline to 2023 has given organizations more time, but respondents will not be able to stall forever.

“As it relates to LIBOR’s phaseout, we can expect the biggest banks and the largest institutions to move on this the fastest,” said [Michael A. Jacobson](#), partner and chair of Katten’s Private Credit Department. “But there are some real fears out there for moving first. You certainly wouldn’t want to hardwire something into loan documentation that turns out to be anything [other] than the market approach.”

Here are other key findings from the report:

- When it comes to deal flow, 19 percent of private equity investors and 21 percent of their lenders expect deal flow will increase significantly (by more than 30 percent).
- Nearly two-thirds of private equity investors (65 percent) and a plurality of their lenders (41 percent) said loan documents in early 2021 are more flexible than they were before the pandemic — and just 18 percent of the combined group said the documents were less flexible.
- But that might be changing. While most lenders expect their side of the table to put more pressure on negotiations to lessen sponsor-friendly deal terms, just 37 percent of those investors expect that change. Similarly, 50 percent of private equity investors expect to be more aggressive in negotiating terms, an opinion held by just 29 percent of their lenders.
- Private equity investors and their lenders were somewhat aligned when it comes to potential growth sectors, with a focus on financial services and information technology. But those lenders were also excited about communications services and health care — with twice as much bullishness on the latter sector compared with private equity investors.
- At the time of the survey, fewer than half of survey respondents (40 percent) said they were very prepared to address the LIBOR phaseout.

For more information, and to download the complete 2021 Private Credit Survey Report, please [click here](#).

About Katten's Private Credit Practice

In the complex world of private credit, participants contend with rapidly changing, sometimes unforgiving, market and economic forces. Katten's active Private Credit practice — which closes well over 500 transactions on average each year — has seen virtually every combination of deal variations, so clients can comfortably rely on detailed, actionable counsel to help complete their transactions in all kinds of market environments.

About Katten

Katten is a full-service law firm with nearly 700 attorneys in locations across the United States and in London and Shanghai. Clients seeking sophisticated, high-value legal services turn to Katten for counsel locally, nationally and internationally. The firm's core areas of practice include corporate, financial markets and funds, insolvency and restructuring, intellectual property, litigation, real estate, structured finance and securitization, transactional tax planning, private credit and private wealth. Katten represents public and private companies in numerous industries, as well as a number of government and nonprofit organizations and individuals. For more information, visit katten.com.