

LOOKING FOR RETURNS IN PRIVATE DEBT

Private Debt

- Income producing, cash on cash returns and growth assets.
 - Lower volatility and defensive features.
 - Lower liquidity – but offering illiquidity premium.
 - Australian private debt offers an enhanced risk-adjusted return over established US and European private debt markets.
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AUSTRALIAN PRIVATE DEBT MARKET

Key Characteristics

- Yield premium
- Typically floating rate
- Flexible format
- Low liquidity
- Generally unrated
- Secured or unsecured



Direct Corporate Lending



Leverage Finance



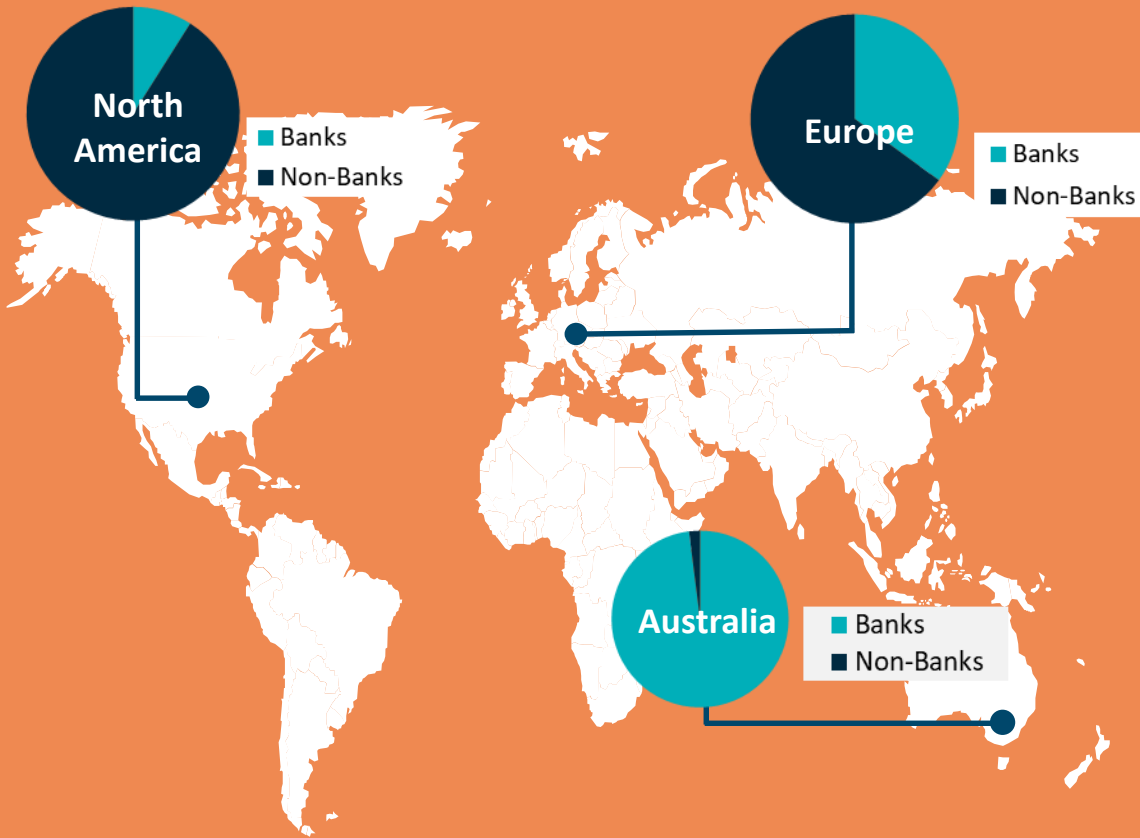
Property Debt



Specialty Finance & Asset Lending



Project Finance



Shifting Landscape

Australia is one of the last developed markets that has to date resisted the global trend of bank disintermediation

What has changed?

- Hayne Royal Commission
- Increasing Sponsor Awareness
- Borrower Relationships
- Regulatory Impacts

MARKET COMPARISON

Australia & Asia

North America & Europe

Market Structure

- Bank-dominated
- Illiquid market
- Primarily secured

- Majority institutional
- High liquidity, increased volatility
- Secured and unsecured lending

Structures & Covenants

- Full Covenants
- Minimal to no exclusions
- Debt repayment on asset sale
- Restrictions on higher ranking debt or control rights

- Proliferation of 'Cov-Lite' & 'No-Cov' loans
- Exclusion of subsidiaries and assets
- Lender consent removed for sales
- No or few limits

Demand & Pricing

- Heavy foreign presence in mezz lending:
 - **BB offering +350-475bps**
 - **B offering +500-800bps**
 - **Mezzanine 10%+**

- Supply not keeping up with demand:
 - **BB offering +200-250bps**
 - **B offering +350-450bps**
 - **Mezzanine +500-800bps**



Your challenge

Two deals, similar businesses but different debt characteristics ...

- Consult with your fellow attendees for 5 minutes.
 - Analyse the material provided on the next slide.
 - Remember ... credit fundamentals are critical (other factors can support, but the credit thesis must hold).
 - Which deal would you do?
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Compare the pair



	Case 1	Case 2
<i>Deal</i>	Data Centre	Data Centre
<i>Type</i>	Syndicated Debt Refinancing	Syndicated Debt Refinance/Construction
<i>Term</i>	2021	2023
<i>Revenues</i>	\$158 M	\$105 M
<i>EBITDA</i>	\$62 M	\$75 M
<i>Interest</i>	\$15 M	\$19 M
<i>Senior Debt</i>	\$300 M	\$792 M
<i>Total Debt</i>	\$603 M	\$792 M
<i>Equity</i>	\$893 M	\$469 M
<i>Rating</i>	No Public Rating	No Public Rating
<i>Security Rating</i>	Unsecured	Secured
<i>Pricing</i>	3M BBSW + 3.75%	3M BBSW + 4.00%
<i>Investment recommendations</i>	Diversification Benefit, Proven Refinance History, Established Assets, Fresh Capital Injection	Diversification Benefit, Long Contracts, Private Equity Backing, Low Loan to Value



Issues to Consider

- Business long-term viability – cashflow certainty
 - Macro economic factors – Industry / Regulation / Geopolitics / ESG
 - Secured / Unsecured – security quality & loss given default
 - Relative value – compare opportunities
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INVESTMENT OUTCOME

Key Investment Parameters



Investment Thesis

- Major operator – Blue Chip Tenant ~14yr leases
- Prior successful On-time and on-budget builds
- High appraised assets value and high visible revenue
- Forecast sector growth of 11.8% over 2015-2022
- Strong growth phase equity support (TPG/Goldmans)

Key Metrics

Leverage	ICR x	LTV
8.00	1.40	56%



Date:
Dec
2018



Sector:
IT, Media
& Tech



Tenor:
5 Yrs



Rating:
BB-



Type:
Senior



Spread:
+400 bps

Structural Features

Priority	Security	Covenants	Repayment	Review Events	Structure	Construction
Senior Syndicated Bank Term Loan	Fully secured over property & assets (excl. data)	<ul style="list-style-type: none"> • Refer Key Metrics • Guarantor coverage test 	<ul style="list-style-type: none"> • Bullet • Mandatory on IPO or trade sale • Equity Cure permitted 	<ul style="list-style-type: none"> • Change of control • Key Person • Contract review Event = Cash Sweep 	<ul style="list-style-type: none"> • HoldCo loan with guarantees from 90% Oper. Group • Cross default 	<ul style="list-style-type: none"> • Min. Builder Credit Rating • Tripartite Agreement with Security Trustee

Australian Private Debt

- The changing landscape offers an opportunity for institutional investors.
- Offers a compelling risk-adjusted yield premium.
- Offers Diversification – invest in the broader Australian economy.