Restructuring Series: Partnering with the Right Sponsor

MV CREDIT INVESTING OVER 20 YEARS

Over 20 years, MV Credit has partnered with 80 sponsors across its subordinated and senior platforms, navigating multiple credit cycles. Looking back, MV Credit has lost little or no money with the majority of sponsors it has partnered with, having found them largely proactive and supportive of borrower companies in instances of underperformance. Of these 80 sponsors, MV Credit has only experienced losses with 16, whilst of these 16, just 6 had substantial losses (more than 50% loss rate), representing 1.7% of total invested[1]. As a result, MV Credit would be wary working with these sponsors again.

WHY THIS STRONG TRACK RECORD?

MV Credit believes that partnering with the right sponsor is a key factor behind this strong track record. Over 20 years, MV Credit has built up an invaluable insight into what makes the "right" private equity sponsor and how partnering with them can help minimise the impact of credit losses (the ultimate driver of returns in debt investing!):

- The "right" sponsor should be relied on to manage borrower companies effectively. A good manager should be able to execute the initial investment strategy (by growing the business) and proactively address any unexpected problems that may arise. Sponsors' management can be a factor in what goes wrong for a borrower company, for example if they have a lack of direction (as a result of not following through with the initial thesis) for a company or if they are less proactive in addressing issues early on.
- The sponsor should act fast to make changes to a borrower company in times of stress or underperformance, as MV Credit has seen many of its sponsors do following the onset of the Covid-19 pandemic.
- The best sponsors will be supportive in times of stress for a company, as MV Credit saw when managing its second subordinated fund during the Great Financial Crisis ("GFC"). Some sponsors supported underperforming businesses by injecting equity, not taking dividends and even completing debt buy-backs to reduce borrower companies' leverage. In comparison, some sponsors proved to be less supportive of underperforming businesses and abandoned them all together, which ultimately led to MV Credit realising a loss on its investment.
- The "right" sponsor will be aligned with MV Credit's ESG values and can be trusted to adopt best practices whilst managing borrower companies.

A RELATIONSHIP-DRIVEN APPROACH

Based on experience, MV Credit has built up relationships with the "right" private equity sponsors. These relationships, consolidated and institutionalised over 20 years, are a crucial part of MV Credit's investment strategy:

- Private equity sponsors are a key source of origination for strong credits. For example, MV Credit is often the first or second call when its relationship sponsors are seeking a menu of financing options including subordinated financing.
- As one of just a few managers who can lend across the capital structure, MV Credit can often negotiate strong reporting packages through its sponsor relationships (typically for the subordinated tranches), so it can monitor investments on an ongoing and stringent basis. Active monitoring is key to ensuring that MV Credit can detect and respond to any signs of underperformance early.
- During the GFC there were cases where an underperforming company's sponsor, with whom MV Credit had a relationship, approached MV Credit at an early stage to discuss a potential restructuring. This enabled MV Credit to prepare for a restructuring process and engage early with the sponsor in trying to find a potential solution that resulted in a preferred outcome for all parties involved.
- Should a company require restructuring, an institutional relationship between MV Credit and the sponsor (as well as other lenders) can help facilitate an outcome and is beneficial during negotiations. Ultimately, it is about working collaboratively with (and not against) the sponsor in times of stress and a "good" relationship should return the same.

[1]Source: MV Credit, as at 30th June 2020. Data period 2000 – 2020 across MV Credit's flagship subordinated funds (MV I – MV V), Co-Invest vehicles, MV Senior Strategies and MV Senior II. Number of sponsors includes consortiums and multiple sponsors working together. Losses are defined as realised investments which achieved TVPI of less than 1x, calculated as total distributed minus total invested. Loss rate is total lost as a percentage of total invested per sponsor. Losses as a percentage of total invested refers to total lost across these 6 sponsors as a percentage of total invested across all sponsors. Past performance is not indicative of future results and there can be no assurance that any historical trends will continue.

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