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**THE TRADE-OFF BETWEEN FINANCING COSTS AND
OPERATIONAL FLEXIBILITY IN LEVERAGED BUYOUTS:
EVIDENCE FROM PRIVATE DEBT AND BANK LENDING**

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INTRODUCTION

Over the past decade, private credit markets have undergone a structural transformation that goes well beyond a simple expansion in volumes. From a niche segment associated with distressed lending and mezzanine financing, private debt has evolved into a core component of acquisition finance, competing directly with syndicated bank lending in the financing of leveraged buyouts across Europe and North America. Global Assets Under Management exceeded \$1.8 trillion in 2024¹, and direct lending alone now accounts for the majority of that figure, a shift that would have been difficult to anticipate at the time of the 2008 financial crisis.

This expansion, however, raises a question that practitioners and academics have only begun to address systematically: the growing importance of private debt in leveraged transactions regarding its economic function and structural characteristics. In particular, differences in pricing, contractual design, and lender structure suggest the existence of a genuine trade-off between cost efficiency and flexibility in buyout financing. Private debt is structurally more expensive than comparable bank facilities, yet sponsors and portfolio companies continue to choose it sometimes even when syndicated capital is available. Understanding why, and under what conditions that choice is rational, is the central question this thesis attempts to answer. Building on this context, the thesis addresses the following research question: *What is the trade-off between financing costs and operational flexibility in leveraged buyouts, and how does it differ between private debt and bank lending?* To investigate this question, the empirical component of the study adopts a case study methodology. Two comparable buyout transactions characterized by different financing structures are examined in order to provide a structured comparison. The analysis aims to evaluate how these structural differences translate into concrete differences in financing dynamics, covenant management, and ultimately buyout outcomes.

The argument is developed in three stages. *Chapter 1* maps the institutional and contractual landscape of private debt as a way of identifying the structural features that bear most directly on the cost-flexibility trade-off: pricing mechanisms, covenant design, lender relationships, and the specific role of direct lending in buyout transactions. *Chapter 2* situates these features within the academic literature on debt choice, agency costs, and contracting in LBOs², and identifies the gaps that motivate the empirical work. *Chapter 3* tests the framework against two real transactions, selected precisely because they represent comparable buyout contexts financed through different structures. The final chapter concludes by summarizing the main findings and discussing their theoretical and practical implications.

¹ See Generali Asset Management (2024).

² A *leveraged buyout (LBO)* is an acquisition transaction in which a company is purchased using a relatively small portion of equity and a substantial portion of debt financing, typically secured against the assets and cash flows of the target company itself. LBOs are most executed by private equity sponsors, with debt financing accounting for between 50% and 80% of the total purchase price, and are designed so that the target's future cash flows service and progressively reduce the acquisition debt over the holding period.

CHAPTER 1 - PRIVATE DEBT: DEFINITION, INSTRUMENTS, AND ROLE IN LEVERAGED BUYOUTS

This chapter sets out the institutional perimeter of private debt and the main instruments used in leveraged transactions. Rather than providing a comprehensive picture of the asset class, the goal is more targeted to identify the structural features, contractual design, pricing logic, lender relationships, that bear directly on the cost-flexibility trade-off at the centre of this thesis. Private debt has emerged as a significant alternative to traditional bank lending, reshaping corporate financing choices and the structure of acquisition financing³.

The chapter begins by defining private debt and outlining its key institutional features, highlighting how it differs from public debt markets and bank-based lending. It then examines the growth of private credit markets, with a specific focus on the Italian private debt landscape and reviews the main segments and instruments that characterize this asset class. The discussion of instruments is deliberately weighted towards direct lending and mezzanine financing, which are the structures most frequently encountered in the buyout transactions examined in Chapter 3. The analysis subsequently explores the contractual characteristics of private debt financing, including maturity, pricing, and covenant structures, and compares private debt with bank debt in the specific setting of buyout transactions. The chapter concludes by discussing the advantages and potential risks of private debt for both financial sponsors and portfolio companies.

1.1 Definition and institutional features of private debt

Private debt represents a segment of the credit market characterized by bespoke, bilateral credit arrangements. It is essentially credit extended to companies by non-bank lenders through privately negotiated transactions that are not traded on public exchanges⁴. Unlike the broadly syndicated loans or public bonds managed by commercial banks, private debt instruments are originated by specialized investment vehicles that pool capital from institutional investors to deploy it directly into corporate balance sheets. Operationally, these are bilateral loans often negotiated one-on-one or in small "club" deals and are typically held to maturity by the investors. Because they aren't subject to the constant fluctuations of market pricing, they are characterized by illiquidity and are valued periodically using internal models or independent assessments⁵. This makes them frequently used for privately held companies or middle market⁶ firms looking for the kind of flexible, long-term capital that traditional banks often struggle to provide.

The institutions that originate and manage private debt are worth understanding, because their structure directly shapes the terms on which capital is deployed. Private debt funds, alongside Business Development Companies (BDCs)⁷, are the primary vehicles through which institutional capital reaches corporate borrowers. They are typically closed-end structures in which pension funds, insurance companies, and sovereign wealth funds commit capital for a fixed period, and that capital stays put. It cannot be redeemed early, it cannot be redistributed in response to market volatility, and it does not need to satisfy daily liquidity requirements. This structural rigidity is precisely what allows the fund to behave as a long-term, relationship-oriented lender rather

³ See Arena, M. (2010).

⁴ See Arena, M. (2010).

⁵ See Block, J., Jang, Y. S., Kaplan, S. N., & Schulze, A. (2022); Erel, I., Flanagan, T., & Weisbach, M. S. (2024).

⁶ The *mid-market* (or *middle-market*) refers to the segment of corporate borrowers and acquisition transactions that fall below the threshold of large-cap deals typically financed through broadly syndicated markets, but above the small-business segment served primarily by relationship banking. While definitions vary by jurisdiction and market convention, mid-market transactions in the European context are generally those involving target companies with EBITDA between approximately €10 million and €75–100 million, or enterprise values between approximately €50 million and €500 million.

⁷ *Business Development Companies (BDCs)* are U.S. closed-end investment vehicles regulated under the Investment Company Act of 1940 (as amended in 1980), designed to provide financing to small and middle-market companies. Unlike traditional private debt funds, many BDCs are publicly listed and subject to specific leverage and distribution requirements.

than a price-taker in a liquid market. The General Partner⁸ sits at the centre of this arrangement sourcing deals, negotiating terms, and monitoring borrowers throughout the life of the loan. What matters for the purposes of this thesis is not the mechanics of the GP-LP relationship, but what it implies for the borrower, the fund that lends to a portfolio company has made a multi-year commitment with no easy exit. That concentration of exposure is the structural foundation of the bilateral relationship, the intensive monitoring, and ultimately the flexibility premium that private debt commands over syndicated alternatives.

A defining feature of the asset class is its variety, it spans a spectrum of risk and reward:

- *Direct lending* acts as the bedrock, providing senior secured or unitranche⁹ loans directly to operating businesses¹⁰.
- *Mezzanine financing* sits in between debt and equity, often incorporating warrants or Payment-in-Kind (PIK) features to reflect its subordinated status¹¹.
- *Distressed debt and Special Situations* cater to companies facing atypical financial conditions or complex transitional events that require highly customized, non-standard financing.

What truly distinguishes private debt, however, is the intensity of contractual customization¹². Because these deals are private, every detail from tailored covenants and PIK options to flexible amortization schedules can be fine-tuned to the borrower's specific cash flow profile. Furthermore, because there are fewer lenders at the table, the decision-making process may be faster, and execution is often much leaner than in complex syndicated structures.

It is worth pausing on what this institutional architecture implies for the cost-flexibility trade-off, because the features that make private debt attractive (bilateral negotiation, held-to-maturity structure, concentrated lender relationships) are also what make it expensive. A fund that commits capital for five to seven years, monitors a single borrower intensively, and cannot easily exit its position will price that illiquidity and effort into the spread. The flexibility, in other words, is not free. This tension runs through the entire analysis that follows.

Another vital distinction is the regulatory environment. Unlike commercial banks, these funds don't take deposits, which means they are not subject to traditional banking capital requirements. This allows them to operate with a level of agility that banks simply cannot match, even though they remain under the regulatory oversight of securities and investment regulations. Over the last decade, these sources of debt have increasingly become relevant financing alternatives, particularly in the middle-market buyouts that will be explored in Chapter 3.

1.2 The rise of private credit markets

Looking back over the last twenty years, the transformation of private credit has been remarkable. It has evolved from a niche, almost peripheral segment of alternative investments into a significant component of global corporate finance. While the asset class was once synonymous with high-risk "special situations" think mezzanine lending or distressed debt it has now matured into a broad-based ecosystem that challenges traditional banking on multiple fronts.

⁸ In private investment funds, the *General Partner (GP)* is the managing entity responsible for investment decisions, deal sourcing, monitoring, and portfolio management. The GP manages capital committed by Limited Partners (LPs).

⁹ A *unitranche* is a private debt instrument that combines senior and subordinated debt into a single facility, governed by a single loan agreement and typically provided by one direct lender or a small club of lenders, with a single blended interest rate that reflects the weighted cost of the underlying tranches. By consolidating multiple layers of the capital structure into a unified instrument, the unitranche eliminates the need for intercreditor negotiations between separate senior and subordinated creditors and significantly simplifies execution, monitoring, and any subsequent restructuring of the facility.

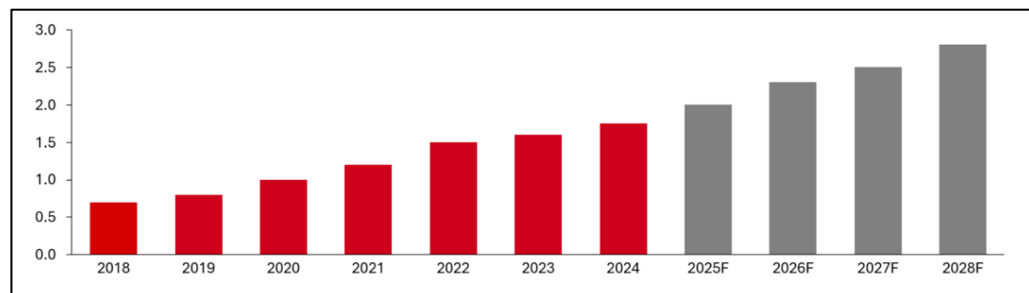
¹⁰ See Loumrioti, M. (2022).

¹¹ See Nijs, L. (2014).

¹² See Rosenbaum, J., & Pearl, J. (2013).

The key evidence of this shift lies in the sheer volume of capital involved. According to recent industry data, global private debt Assets Under Management (AUM)¹³ surged past the \$1.8 trillion mark in 2024¹⁴. It is consistent with a structural migration of capital that began after the 2008 financial crisis and has only accelerated since. When looking at the projections for 2025-2028, it becomes clear that institutional investors are no longer treating private debt as a tactical play, but as a core, long-term allocation in their portfolios.

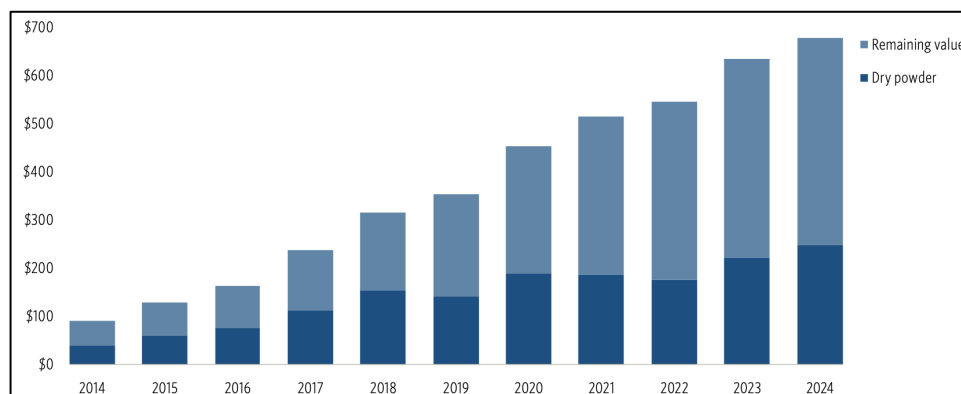
Figure 1 : Generali Asset Management graph showing the actual (2018-2024) and forecast (2025-2028) growth of the assets under management.



Source: Generali Asset Management (2024).

This growth is fueled by a consistent, almost relentless, fundraising environment. Despite the recent volatility in interest rates, annual fundraising has hovered around the \$200 billion level¹⁵, underpinned by a record amount of “dry powder”¹⁶ capital that has been committed but is still waiting for the right deployment opportunity¹⁷. What is particularly interesting here is the dominance of direct lending¹⁸. This strategy has effectively become the face of the asset class, allowing private funds to compete directly with bank syndicates in the financing of large-scale middle-market buyouts and corporate acquisitions.

Figure 2: Global direct lending AUM (USD bn), 2014–2024.



Source: PitchBook (2024).

¹³ *Assets Under Management (AUM)* represents the aggregate value of capital managed by an investment vehicle, including drawn capital invested in portfolio assets and, depending on reporting conventions, committed but uncalled capital.

¹⁴ See Generali Asset Management (2024).

¹⁵ See PitchBook Data, Inc. (2024).

¹⁶ *Dry powder* denotes the amount of committed capital raised by private investment funds that remains uninvested and available for future deployment. It is typically calculated as the difference between total committed capital and capital already drawn down for investments.

¹⁷ See Preqin Ltd. (2024).

¹⁸ See PitchBook Data, Inc. (2024); Loumioti, M. (2022).

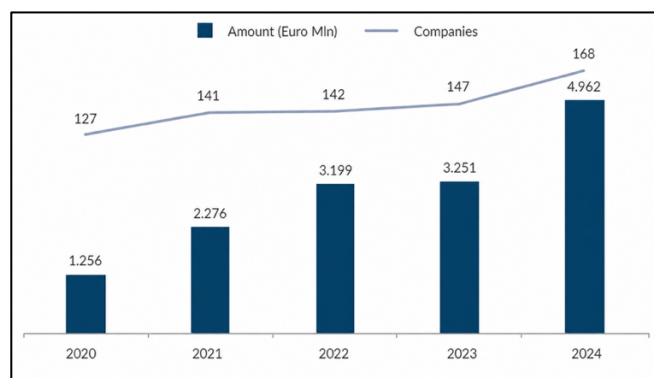
The industry is witnessing a significant institutionalization of the asset class, where traditional closed-end funds are being joined by semi-liquid and "evergreen"¹⁹ structures. By opening up to insurance platforms and wealth management channels, private credit is becoming accessible to a much wider array of investors, further cementing its role in the global economy. From a geographical perspective, the narrative is split. North America continues to be the deep, sophisticated segment of the market, but Europe has seen a rapid catch-up phase. In many ways, the European surge is a direct consequence of the post-crisis regulatory squeeze on banks; as traditional lenders pulled back to shore up their balance sheets, private debt funds stepped in, proving to be more than just an alternative for companies seeking flexible and reliable capital.

What this growth trajectory makes clear, for the purposes of this thesis, is that the financing choice between private debt and bank lending is no longer a niche consideration for a handful of large-cap buyouts. It is a decision that middle-market sponsors²⁰ and their portfolio companies face with increasing frequency and one where the cost-flexibility trade-off is felt most acutely, precisely because these borrowers often lack the scale to access syndicated markets on competitive terms.

1.2.1 Focus on the Italian private debt market

The evolution of private debt in Italy represents a narrative that, while reflecting broader European trends, is deeply rooted in the unique characteristics of the national economic fabric. Over the last decade, a structural transformation has taken place, in which the Italian market has moved away from an almost exclusive dependence on traditional bank credit, fostering a more diversified ecosystem where alternative debt providers are no longer outsiders. This shift is clearly mirrored in the data, according to the latest AIFI reports, fundraising for private debt strategies has maintained a steady upward trajectory, reaching approximately €1.36 billion in 2024²¹. This trend is not merely a statistical curiosity; it represents a fundamental maturation of the market, as institutional investors increasingly view Italian private credit as a stable, consolidated asset class rather than a speculative niche.

Figure 3: Italian private debt investments (Mln euro) and number of financed companies, 2020–2024.



Source: AIFI (2024).

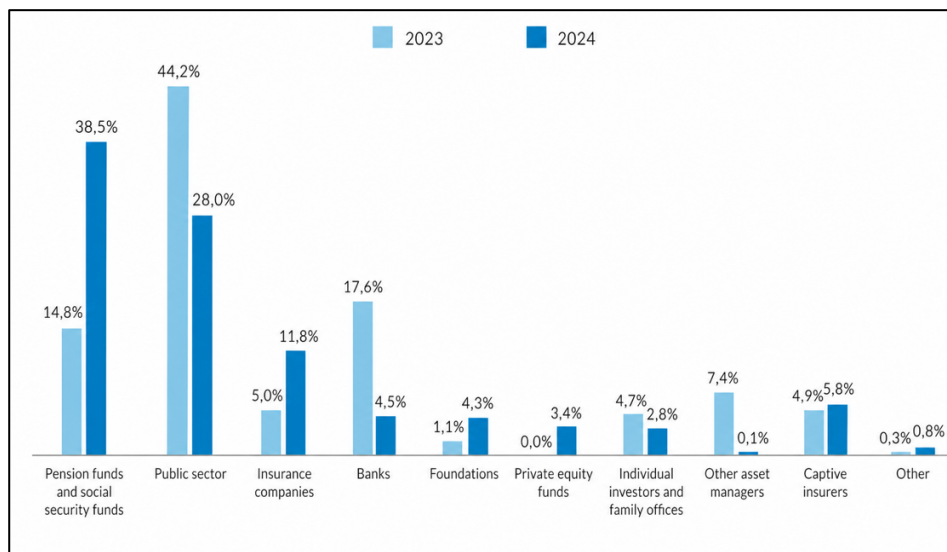
¹⁹ An *evergreen fund* is a private investment structure with no fixed maturity, designed to operate on a continuous basis. Capital can typically be subscribed and, within certain limits, redeemed periodically, distinguishing it from the drawdown and liquidation model of closed-end funds. Instead, A *semi-liquid fund* is an investment vehicle that offers periodic, but limited, redemption opportunities to investors. While underlying assets may be illiquid, the fund structure incorporates mechanisms such as redemption windows or caps to provide partial liquidity.

²⁰ In leveraged finance, a *sponsor* (or *financial sponsor*) is a private equity firm or investment fund that acquires a controlling equity stake in a target company through a leveraged buyout, with the objective of generating returns through a combination of operational improvements, financial engineering, and a subsequent exit (typically via sale to a strategic buyer, secondary buyout, or initial public offering) within a defined holding period of generally three to seven years.

²¹ See AIFI. (2024).

The real momentum behind this growth, however, is found in the underlying investment activity. With nearly €5 billion deployed in 2024 across 168 companies, the Italian market exhibits distinctive characteristics of the borrower's profile. These are, for the most part, the Small and Medium-sized Enterprises (SMEs)²² that constitute the backbone of the country's productive system. For these middle-market firms, private debt has evolved into a strategic necessity. It serves as a sophisticated tool for financing international expansion, navigating complex refinancing needs, or supporting aggressive acquisition strategies scenarios where the traditional banking sector, often constrained by rigid regulatory frameworks, may hesitate to provide the necessary flexibility.

Figure 4: Composition of capital committed to private debt shifted over the 2023–2024 period across investor types.



Source: AIFI (2024).

The composition of the investor base further reinforces this stability. The market is driven by a solid core of institutional players, including pension funds, insurance companies, and sovereign wealth funds, alongside significant contributions from public institutions²³. While domestic participation is vital, the consistent influx of foreign capital confirms that the Italian SMEs remain a compelling proposition for international investors searching for yield and quality in a specialized market.

In terms of the actual financial instruments, the Italian market has demonstrated an impressive capacity for adaptation. While the early "Minibond"²⁴ era served as a vital bridge for smaller firms to access capital markets, the focus has now shifted toward more sophisticated structures. Direct lending and unitranche facilities have become the instruments of choice, particularly for structured acquisition finance. By offering bespoke terms and subordinated debt options, these tools are fundamentally redefining how Italian entrepreneurs perceive their capital structure, moving from a logic of "simple borrowing" to one of strategic capital partnership.

²² *Small and Medium-sized Enterprises (SMEs)* are firms that fall below specific thresholds in terms of employees, turnover, and/or total assets. In the European Union, SMEs are typically defined as enterprises with fewer than 250 employees and either annual turnover not exceeding €50 million or total assets not exceeding €43 million

²³ See AIFI. (2024).

²⁴ *Minibonds* are corporate bonds issued mainly by non-listed SMEs, typically structured as privately placed instruments and often subscribed by institutional investors, serving as an alternative to bank lending within the Italian financial system.

This shift in instrument preference is particularly relevant for this thesis. The migration toward direct lending and unitranche in the Italian middle market is not simply a product adoption story, it reflects a deliberate choice by sponsors and borrowers to prioritize contractual flexibility and bilateral relationships over cost minimization. Understanding why that trade-off is made, and whether it is consistently rational, is precisely what the case studies in Chapter 3 seek to examine in a concrete transaction context.

Ultimately, although the Italian market remains smaller in absolute terms than its counterparts, its current trajectory is definitive. The alignment of robust deal flow, sustained fundraising, and a versatile array of instruments suggests that private debt is no longer an "emergency" alternative to a bank loan. Instead, it has established itself as a permanent and essential pillar of the Italian corporate finance framework.

1.2.2 Focus on the European private debt market

To gain a broader picture of how the private debt market is evolving, Europe certainly plays a decisive role in identifying current and future trends. Indeed, Europe is the second largest private debt hub globally, though still lagging behind the United States in terms of depth and absolute size, as confirmed by European Parliament estimates, which highlight a size of €400 billion out of a total of \$2.3 trillion by 2025²⁵. The European Central Bank also estimates that the assets of private credit funds domiciled in the euro area reached approximately €106 billion in the second quarter of 2024²⁶, having grown at an annualized rate of approximately 13% since 2010, thus signalling a rapidly expanding market but not yet a structural alternative to large-scale banking.

The main drivers of this growth are consistent with those highlighted for the American market. Factors such as banks' selective withdrawal from leveraged transactions and the tightening of equity yields after the 2008 crisis, as well as the demand for faster and more flexible options, have led to the current global expansion of private debt instruments. Europe is demonstrating a progressive shift from mezzanine financing, historically more expensive and actively managed, towards direct lending and unitranche structures, which have become the benchmark for mid-market acquisition finance, a trend also evident in the Italian context. 2025, in particular, was a record year for European private credit, with volumes estimated at around €41 billion and a deal count reaching an all-time high of 987²⁷, up over 15% year-over-year²⁸, of which just over 300 were leveraged buyouts²⁹. The most qualitatively significant fact, however, is that in the European mid-market, unitranche now represent the majority of multi-lender transactions, surpassing banking club deals, confirming a now consolidated preference for bilateral relationships.

²⁵ See European Parliament EGOV (2026).

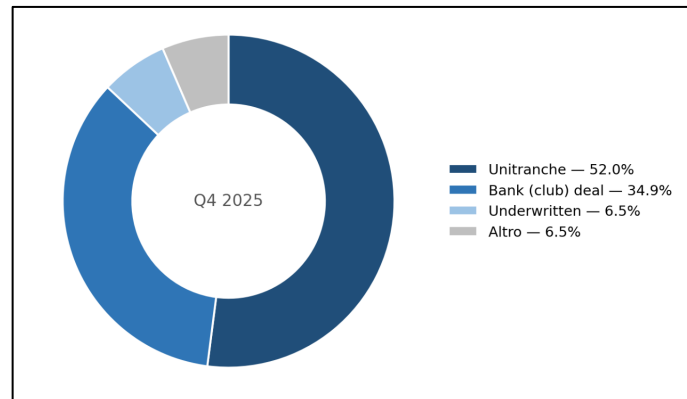
²⁶ See European Parliament EGOV (2026).

²⁷ The 987 figure refers to Deloitte's European private credit deal count, whereas the country breakdown in Figure 7 is drawn from DC Advisory's mid-market dataset. The two providers apply different perimeter and inclusion criteria, so their aggregate counts are not directly comparable and do not reconcile.

²⁸ See <https://www.deloitte.com/uk/en/services/consulting-financial/research/private-debt-deal-tracker.html>

²⁹ See Deloitte. (2026).

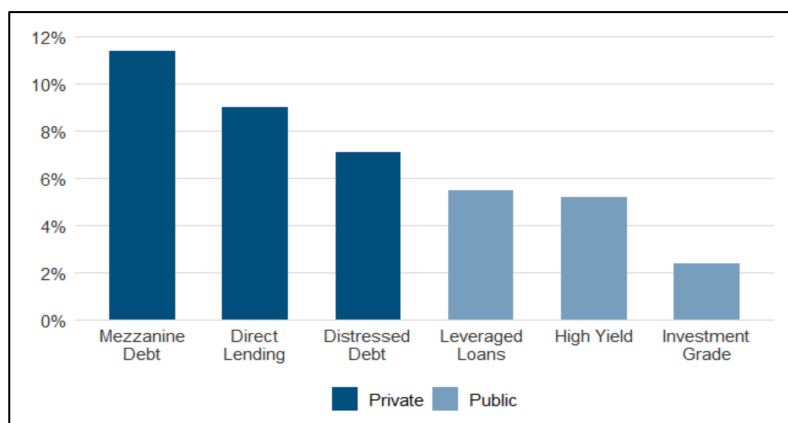
Figure 5: Composition of financing structures in the European mid-market, Q4 2025.



Source: data processing from DC Advisory (2026).

A further indication of direct lending's allocation preference within this spectrum comes from a comparison of returns by strategy. Figure 6 shows how, over the period 2014–2024, private credit strategies consistently delivered average annualized returns higher than those of comparable public instruments, driven by mezzanine, at around 11.4%, followed by direct lending at around 9%, and distressed lending at 7.1%, compared to 5.5% for leveraged loans, 5.2% for high-yield, and just over 2% for investment-grade loans³⁰. This ranking effectively reflects the risk and subordination scale described above, from the more junior and more remunerative mezzanine to senior public credit. It also demonstrates how the return received by the lender is the reverse of the cost incurred by the borrower, and that differential compared to the public channel compensates not only for the credit risk, but also for the instrument's illiquidity and the monitoring entailed by the bilateral relationship. It should be remembered, however, that these are gross returns, referring to strategies with different risk profiles, and therefore not directly comparable without risk adjustment.

Figure 6: Annualized returns by public and private credit strategy (2014–2024)



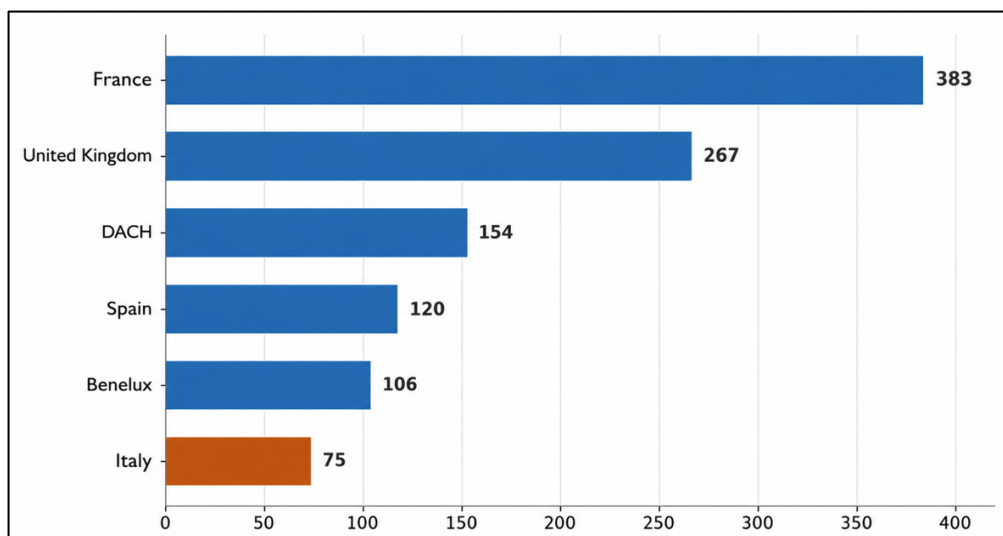
Source: European Parliament EGOV (2026), based on JPMorgan Asset Management data.

³⁰ See European Parliament EGOV (2026).

The defining feature of the current European market is the intense competition between private credit and the banking channel, particularly the broadly syndicated loan market. In a context of abundant liquidity, margins have compressed, falling to levels of around 450 basis points³¹ for the highest-quality borrowers in private credit. This data demonstrates how the cost differential compared to the traditional banking system can shift attention towards these new private debt instruments, where investors favour flexible contractual features, a theme this thesis seeks to explore. This is precisely the source of the current development of the European market: when the market tends to contract and become volatile, investors seek greater structural flexibility. What emerges is that the distribution of deals in 2025 is still skewed toward refinancing and recapitalization rather than new acquisitions, but this reflects a transition phase, with M&A activity expected to pick up in 2026.

The European market is driven by the United Kingdom and France, which constitute the deepest and most mature segments, while Southern Europe, primarily Italy and Spain, represents the fastest-growing area and the most recent direct lending penetration³². As shown in Figure 7, which shows the deal numbers for Q4 2025 broken down by European country, the United Kingdom and France dominate the ranking with a total of 650 transactions³³. This heterogeneity is precisely what makes it interesting to combine, in the empirical analysis, a comparison between a pair of Italian companies and a pair of European companies. It's worth noting that the very speed of this expansion has begun to attract the attention of European supervisory authorities, from the ECB to the European Parliament, regarding transparency and financial stability, sending a signal, rather than a sign of fragility, of private debt's transition from a niche segment to a structural component of the European financing system.

Figure 7: European mid-market deals volume by country, Q4 2025



Source: data processing from DC Advisory (2026).

³¹ See DC Advisory. (2026).

³² See DC Advisory. (2026).

³³ See DC Advisory. (2026).

1.3 Main segments and instruments of the private debt market

It would be a mistake to view the private debt market as a monolithic entity; in reality, it is a highly fragmented landscape of financing strategies. While these instruments all share common features being privately negotiated and inherently illiquid, they are different when it comes to their position in the capital structure, their contractual complexity, and the specific corporate needs they aim to solve.

Standard industry classifications typically break this universe down into several key pillars: *direct lending*, *mezzanine financing*, *distressed debt*, *special situations*, *venture debt*, and *bridge financing*³⁴. Each of these isn't just a label, but a specific tool designed for a different stage of a company's life cycle. They map out a broad spectrum of risk and seniority: on one end, we find the relatively stable senior loans provided to middle-market firms backed by private equity sponsors; on the other, we see the high-risk, high-reward "venture debt" tailored for fast-growing startups. For the purposes of this thesis, the spectrum is not of equal interest across its entire length. Direct lending and mezzanine financing, the two instruments most commonly deployed in leveraged buyout transactions, will receive the most detailed treatment. The remaining segments are covered for completeness, but should be read as context rather than as central to the analysis

1.3.1 Direct Lending

Direct lending is the strategy that has done the most to reshape acquisition finance over the past decade³⁵. At its core, it bypasses the traditional banking scheme, allowing non-bank institutional investors to provide credit directly to companies most often middle-market firms that require more agility than a commercial bank can offer³⁶. These loans are generally built as senior secured facilities, meaning they are tied to floating interest rates and come with medium-term maturities.

What makes direct lending particularly versatile is its structural variety. Depending on the risk appetite and the borrower's needs, these facilities can be organized as first-lien loans which sit at the top of the repayment waterfall³⁷ and are backed by the company's assets or as second-lien loans³⁸, which offer higher yields in exchange for a lower priority in collateral. However, the real structural innovation in recent years has been the unitranche structure. By blending senior and subordinated debt into a single agreement with one lender or a tight-knit group, borrowers can avoid the complexity of negotiating separate deals. This doesn't just simplify the paperwork; it centralizes the entire relationship and creates a much cleaner repayment path.

Historically, direct lending is commonly used in leveraged buyouts, recapitalizations, and growth financing³⁹. It is particularly suitable for private companies that boast stable cash flows but find public debt markets out of reach. From the lender's perspective, the appeal is straightforward: it's about generating a steady stream of interest income, protected by a solid layer of collateral and a set of carefully negotiated contractual safeguards.

The cost of that appeal, however, is the pricing premium embedded in the spread. Direct lending facilities consistently price wider than comparable syndicated bank loans, a differential that reflects both the illiquidity of the instrument and the intensive origination and monitoring work performed by the fund manager⁴⁰. It is

³⁴ See PitchBook Data, Inc. (2024); Block, J., Jang, Y. S., Kaplan, S. N., & Schulze, A. (2022).

³⁵ See PitchBook Data, Inc. (2024); Block, J., Jang, Y. S., Kaplan, S. N., & Schulze, A. (2022).

³⁶ See Haque, S., Mayer, S., & Stefanescu, I. (2025); Loumiotis, M. (2022).

³⁷ A *repayment waterfall* refers to the contractual order in which cash flows or liquidation proceeds are distributed among different classes of creditors and equity holders. The waterfall determines the priority of payments in both ongoing cash flow distributions and enforcement or insolvency scenarios.

³⁸ *First-lien debt* refers to secured debt that holds first-priority claim over pledged collateral. In the event of borrower default or liquidation, first-lien lenders are entitled to repayment from the proceeds of the collateral before any junior or subordinated creditors. *Second-lien* debt represents a junior secured claim sharing the same or substantially similar collateral base as first-lien debt, but ranking lower in the repayment hierarchy as defined by intercreditor agreements

³⁹ See Colla, P., Ippolito, F., & Wagner, H. F. (2011); Kaplan, S. N., & Strömberg, P. (2009).

⁴⁰ See Haque, S., Mayer, S., & Stefanescu, I. (2025).

this premium, and the question of what a borrower receives in exchange for paying it, that sits at the heart of the comparative analysis.

1.3.2 Mezzanine Financing

If the capital structure is visualized as a hierarchy, mezzanine financing occupies that complex "gray area" between senior secured debt and pure equity. It is inherently a hybrid, designed to be junior to senior lenders but senior to shareholders⁴¹. Because it is generally unsecured or deeply subordinated, it carries significantly higher interest rates a necessary premium to compensate the lender for taking on a risk profile that senior creditors simply won't touch.

What truly sets mezzanine instruments apart, however, is their creative flexibility. A defining trait is the use of Payment-in-Kind (PIK)⁴² components. Instead of forcing the borrower to pay for interest every period, the interest can "roll up" into the principal. This is a meaningful strategic flexibility for a company: it eases the immediate pressure on cash flow during the critical early stages of a buyout, even if it means a larger check to write at maturity. These instruments often come with "equity kickers"⁴³, such as warrants. These grant the lender the right to participate in the company's potential upside, allowing them to participate in the value creation alongside the equity holders. This feature is what bridges the gap between a purely contractual loan and a partnership; it aligns the lender's interests with the company's long-term success in a way that senior debt never does.

In the world of leveraged buyouts, mezzanine capital is the classic "bridge" used to fill the gap between what a bank is willing to lend and what a sponsor is willing to commit as equity⁴⁴. It is also a powerful tool for growth or recapitalizations where owners want to inject more leverage without diluting their ownership stake too early. Ultimately, mezzanine is a high-risk instrument. It demands a higher appetite for risk, but in exchange, it offers a versatile and sophisticated way to optimize a firm's capital structure.

Mezzanine sits at an interesting extreme because it is the most expensive part of the private debt stack, yet also the most structurally accommodating with elements like the PIK toggle, the equity kicker, the subordinated position, each of these features is simultaneously a cost driver and a flexibility enabler. This duality makes mezzanine a useful reference point when evaluating whether borrowers in the case studies are paying for flexibility they actually use or simply paying more.

1.3.3 Distressed Debt

Distressed debt occupies a corner of the credit market where the standard logic of lending is turned on its head. While direct lending is predicated on stability, on the predictable servicing of debt by a company with reasonably healthy cash flows, distressed investing is built around the opposite premise: that value can be extracted precisely because a borrower is in severe financial difficulty⁴⁵. Rather than originating new loans, distressed investors target instruments already trading at a steep discount to their face value, a pricing reality driven by acute liquidity crises, covenant breaches, or heightened insolvency risk.

The primary driver of return shifts accordingly, from the steady accrual of contractual interest to the value extracted through a successful financial or operational restructuring. This transition from yield-seeking to

⁴¹ See Nijs, L. (2014); Tetřevová, L. (2009).

⁴² *Payment-in-Kind (PIK)* refers to an interest payment mechanism whereby accrued interest is not paid in cash but instead capitalized and added to the outstanding principal balance of the loan. This results in compounding over time and increases the total repayment amount due at maturity.

⁴³ An *equity kicker* is a contractual feature embedded in a debt instrument that grants the lender the right to participate in the borrower's equity upside, typically through warrants or conversion rights, as compensation for assuming higher credit risk.

⁴⁴ See Kaplan, S. N., & Strömberg, P. (2009); Rosenbaum, J., & Pearl, J. (2013).

⁴⁵ See Altman, E. I., & Benhenni, R. (2019).

asset-recovery demands more than financial modelling; it requires a sophisticated command of the legal and jurisdictional frameworks governing bankruptcy, where the outcome depends as much on negotiating leverage as on underlying asset quality.

Perhaps the most assertive expression of this logic is the loan-to-own strategy^{46,47}. Here, the debt position is not the end goal but a tactical entry point into the capital structure. By acquiring claims at distressed prices, an investor can pivot from creditor to controlling shareholder over the course of a restructuring process. Ultimately, distressed debt is less about providing liquidity and more about reclaiming value from a fractured balance sheet, a highly specialized field that sits at the furthest remove from the buyout financing context this thesis examines.

1.3.4 Special Situations

Special situations financing resists easy definition, which is partly the point. Unlike direct lending or mezzanine, instruments defined by their position in the capital structure, this segment is defined by the circumstances of the borrower rather than the nature of the instrument⁴⁸. The common thread is complexity, companies at a critical juncture that standard financing channels are ill-equipped to handle. A sudden liquidity shortfall, a contested shareholder restructuring, a strategic carve-out under time pressure; in each of these scenarios, the rigid approval processes of a traditional bank syndicate become a liability rather than an asset. Instead, lenders craft highly customized solutions that might combine structured debt, convertible notes, or preferred equity into a single, purpose-built package.

The distinction from distressed debt is worth preserving carefully. Special situations strategies are not reserved for companies on the brink of insolvency; they address complexity rather than distress. A borrower may be fundamentally sound and yet find itself in a situation too unconventional for a traditional credit committee to approve: an unusual ownership structure, a transaction with no obvious comparables, a timetable that rules out syndication. In these cases, the direct negotiation between borrower and lender is not a symptom of financial weakness but a deliberate structural choice, one that prioritizes speed and flexibility over cost. Whether that choice is rational depends, again, on the specific circumstances, a question that applies with equal force to the buyout transactions examined in Chapter 3.

1.3.5 Venture Debt and Bridge Financing

At the more dynamic end of the credit spectrum lies *venture debt*, a specialized financing tool tailored for companies that are characterized by high expected growth but limited current profitability. These borrowers are typically venture capital-backed firms navigating a high-growth phase where additional "runway" is required between equity rounds or in anticipation of a liquidity event, such as an IPO or a strategic acquisition. The uniqueness of venture debt stems from the lender's credit assessment: rather than relying on current cash flow which is frequently negative the underwriting focus shifts toward the quality of institutional sponsors and the firm's enterprise value. To mitigate the substantial business risk inherent in such early-stage ventures, these loans almost always incorporate warrants. This mechanism allows the lender to participate in the company's "upside," effectively aligning their return profile with the startup's long-term success.

⁴⁶ A *loan-to-own strategy* is an investment approach in which a creditor acquires distressed debt at a discount to face value with the objective of converting the claim into equity ownership through a restructuring or bankruptcy process, thereby obtaining control of the reorganized company rather than recovering principal and interest.

⁴⁷ See Altman, E. I., & Benhenni, R. (2019).

⁴⁸ See PitchBook Data, Inc. (2024); Preqin Ltd. (2024).

In parallel, *bridge financing* serves as a temporary structural solution designed to transition a company through specific tactical windows⁴⁹. It acts as the essential temporary financing mechanism in a transaction, particularly when a timing mismatch arises between the execution of a deal and the finalization of long-term funding. Whether deployed to close an urgent acquisition or to maintain operational stability during a complex refinancing, bridge loans are prioritized for speed and short-term utility. These facilities are not intended for long-term balance sheet retention; instead, they are designed to be refinanced or repaid as soon as a permanent capital structure is secured. In the rapidly evolving growth environment of private equity buyouts, the availability of bridge financing can ultimately determine the success or failure of a competitive bid.

1.4 Contractual characteristics of private debt

Private debt instruments are based on structures that differ significantly from the rigid framework of syndicated bank loans or government bonds. Although each agreement is tailored to the specific needs of the transaction, these contracts share a common underlying logic: they are the direct product of a private and highly negotiated relationship. These instruments are by nature illiquid and operate outside the broad syndication typical of public markets. The contractual framework must perform a more robust function and ensure a level of tailored detail and specific protection rarely found in standardized lending facilities, ensuring that the interests of both the lender and the borrower are precisely aligned with the transaction's unique risk profile. This section aims to explore the key contractual elements that define this tailored construction and often distinguish private debt transactions from more traditional forms of financing.

What makes the contractual architecture of private debt particularly relevant is that each of its key dimensions directly reflects one side of the cost-flexibility trade-off. Collateral and seniority determine recovery risk and therefore pricing; covenants govern the borrower's operating margin; pricing mechanisms translate structural complexity into an explicit cost; maturity profiles shape exposure to refinancing risk; and equity-related covenants define the extent to which the lender-borrower relationship extends beyond pure debt.

1.4.1 Security and Seniority

The fundamental contractual cornerstone of a private debt instrument lies in its precise positioning within the capital structure and the solidity of the collateral package that accompanies it. Unlike unsecured government bonds, senior direct lending facilities are typically anchored to a broad and complex collateral base that often includes substantially all of the borrower's assets⁵⁰, from tangible assets and inventories to intangible assets, trade receivables, and equity interests in subsidiaries. The presence of these features is a key factor in lender protection, as first-lien lenders hold the primary claim on the collateral, acquire priority in the event of default, and have a preferential right to the proceeds of any asset liquidation. Second-lien lenders, on the other hand, maintain a subordinated position on the same collateral base, accepting a junior rank in the enforcement cascade. Considering other types of instruments, such as mezzanine finance, the characteristics present are unsecured or contractually subordinated. This subordination can be structural⁵¹, contractual, or a combination of both, and is strictly regulated by intercreditor agreements⁵².

⁴⁹ See Colla, P., Ippolito, F., & Wagner, H. F. (2011); Rosenbaum, J., & Pearl, J. (2013).

⁵⁰ See Rosenbaum, J., & Pearl, J. (2013).

⁵¹ *Structural subordination* arises when debt is issued at different levels within a corporate group structure, such that creditors at a holding company level are effectively subordinated to creditors of operating subsidiaries, whose claims are satisfied first from subsidiary assets. *Contractual subordination*, by contrast, results from explicit provisions in loan agreements or intercreditor agreements that define the priority of payment among creditors within the same legal entity.

⁵² An *intercreditor agreement* is a contract entered into among different classes of creditors of the same borrower (typically senior and subordinated lenders, or first-lien and second-lien lenders) that defines the relative priority of their claims, the order of payment in both ongoing distributions and

These legal instruments, embedded in instruments such as those just described, are essential to the transaction architecture, as they explicitly define payment priorities, standstill periods⁵³, and enforcement rights among the different classes of creditors⁵⁴. Ultimately, the strategic allocation of collateral rights and the layering of subordination are the primary mechanisms used to calibrate expected recoveries and manage risk in adverse scenarios.

As can be seen from the explanation, therefore, the importance of collateral and seniority is immediate but easy to underestimate when assessing the trade-off between cost and flexibility. In particular, a borrower's position in the collateral cascade is one of the most direct determinants of pricing. For example, a senior secured first-lien facility has a materially tighter spread than a mezzanine tranche on the same underlying company, not because the business risk is different, but because the contractual recovery profile is different, and therefore this impacts the trade-off assessment. In the comparison of private debt and bank loans in Chapter 3, the seniority profile of each financing structure will therefore be one of the first variables to examine.

1.4.2 Covenant Structure

Covenants represent one of the most distinctive contractual dimensions of private debt⁵⁵, commonly financial covenants, affirmative covenants, and negative covenants are included and designed to protect lender interests and monitor borrower performance. In particular:

- *Financial covenants*: these are quantitative tests based on the borrower's financial performance, typically measured on a periodic basis (e.g., quarterly). Common examples include maximum leverage ratios, minimum interest coverage ratios, and minimum liquidity thresholds. Financial covenants function as early warning mechanisms, allowing lenders to intervene if performance deteriorates beyond predefined limits.
- *Affirmative covenants*: these provisions require the borrower to undertake specific actions to preserve credit quality and transparency. They generally include obligations to provide periodic financial reporting, maintain adequate insurance coverage, comply with applicable laws, pay taxes, and preserve corporate existence.
- *Negative covenants*: restrict certain actions that could increase lender risk. These typically limit additional indebtedness, asset disposals, dividend distributions, mergers and acquisitions, and changes in ownership or control. Their purpose is to prevent value leakage or risk-increasing transactions without lender consent.

Unlike broadly syndicated loans, which in recent years have often adopted covenant-lite⁵⁶ structures⁵⁷, private debt facilities frequently retain maintenance covenants tested on a quarterly basis. Given the bilateral or club-based nature of many private debt transactions, covenant packages are often negotiated directly between borrower and lender, allowing for customization consistent with the borrower's risk profile and business model.

The covenant dimension is where the cost-flexibility trade-off becomes most visible in practice. On one reading, tighter covenants constrain the borrower and therefore reduce operational flexibility. On another, and

enforcement scenarios, and the procedural rights governing default, restructuring, and the exercise of remedies. It is the primary legal instrument that operationalizes seniority and subordination among creditors and is essential in transactions involving multi-layered capital structures.

⁵³ A *standstill period* is a contractual provision, typically included in intercreditor agreements, that restricts junior creditors from initiating enforcement actions for a specified period following a default, thereby granting senior lenders priority in exercising remedies.

⁵⁴ See Rosenbaum, J., & Pearl, J. (2013).

⁵⁵ See Rosenbaum, J., & Pearl, J. (2013).

⁵⁶ *Covenant-lite* refers to loan agreements that lack traditional maintenance financial covenants, retaining only incurrence covenants tested when the borrower undertakes specific actions (such as incurring additional debt or paying dividends) rather than on a periodic basis. This structure significantly reduces the lender's ability to intervene in response to gradual deterioration in borrower performance, as covenant breaches can only be triggered by discrete corporate events rather than by ongoing financial underperformance.

⁵⁷ See Haque, S., Mayer, S., & Stefanescu, I. (2025); Shelton, M. M. (2017).

this is the reading that direct lenders tend to emphasize, quarterly maintenance tests create a structured cadence of communication between management and lender that functions as an early warning system rather than a constraint. Whether covenants in a specific transaction operate as a monitoring tool or as a genuine restriction on management discretion is an empirical question.

1.4.3 Interest Rate Structure and Pricing Mechanisms

The pricing logic of private debt is predominantly built upon a floating-rate framework. Unlike fixed-coupon public bonds, these instruments typically track benchmark reference rates most notably SOFR⁵⁸ in the U.S. dollar market or EURIBOR⁵⁹ in Europe plus a negotiated credit spread⁶⁰. This spread is not arbitrary; it serves as the primary lever to calibrate the borrower's specific risk profile, the seniority of the claim, and the prevailing liquidity conditions in the market.

In more complex layers of the capital structure, such as mezzanine or subordinated debt, the interest model often moves beyond simple cash payments. A frequent feature, as mentioned before, is the Payment-in-Kind (PIK) component⁶¹, which allows a portion of the interest to accrue directly to the principal balance instead of being settled in cash. This mechanism is a strategic compromise: it offers the borrower significant cash-flow relief during the loan's term while simultaneously boosting the lender's total contractual yield through the compounding of deferred interest.

It is worth being precise about what the pricing premium in private debt actually compensates for. Part of it reflects genuine credit risk, a direct lender often lends to borrowers who would face higher friction accessing public markets. But a significant portion reflects the illiquidity of the instrument and the cost of the intensive origination and monitoring work performed by the fund⁶². This distinction matters for the trade-off analysis because a borrower paying a wider spread is not simply paying for a higher-risk loan, they are also paying for the bilateral relationship, the execution speed, and the contractual customization that comes with it. Whether that bundle is worth the cost depends on the specific circumstances of the transaction.

1.4.4 Maturity and Amortization Profiles

The maturity and amortization profile are important in private debt because they determine the timing of refinancing pressures during the holding period. Private debt facilities typically have medium-term maturities, often between five and seven years in the context of leveraged transactions⁶³, while amortization structures vary depending on the seniority and type of transaction. This varies greatly depending on the instrument in question; for example, senior direct lending facilities may incorporate a limited scheduled amortization combined with a final bullet repayment⁶⁴ at maturity. On the other hand, subordinated and mezzanine instruments more frequently adopt non-amortizing or bullet repayment structures, particularly when incorporating PIK components.

⁵⁸ *SOFR (Secured Overnight Financing Rate)* is a benchmark interest rate based on overnight repurchase agreement (repo) transactions collateralized by U.S. Treasury securities. It reflects the cost of secured borrowing in the U.S. Treasury repo market and has replaced LIBOR as the primary reference rate for U.S. dollar-denominated floating-rate instruments.

⁵⁹ *EURIBOR (Euro Interbank Offered Rate)* is a reference interest rate representing the average rate at which eurozone banks offer unsecured short-term loans to one another in the interbank market. It serves as a benchmark for euro-denominated floating-rate financial instruments.

⁶⁰ See Loumrioti, M. (2022).

⁶¹ See Nijs, L. (2014).

⁶² See Haque, S., Mayer, S., & Stefanescu, I. (2025).

⁶³ See Rosenbaum, J., & Pearl, J. (2013); Shelton, M. M. (2017).

⁶⁴ *Bullet repayment* refers to a debt repayment structure in which the principal amount is repaid in a single lump-sum payment at maturity, while periodic payments during the life of the loan typically consist only of interest.

In the context of buyout financing, the alignment between the debt maturity and the sponsor's expected holding period constitutes a structural constraint that directly impacts the flexibility of the capital structure. A bullet maturity profile concentrates refinancing risk at a single point in time, which can be both a favourable and a critical factor depending on the market conditions at that time. For a portfolio company financed by private debt, the absence of mandatory amortization during the holding period preserves operating cash flows and supports the execution of the value creation plan. The cost of this cash flow preservation, however, is a higher lump sum obligation upon exit, a repayment that must be refinanced or repaid with proceeds that are not always predictable.

1.4.5 Equity-Linked Provisions

Equity-linked clauses allow for the introduction of highly flexible, hybrid features into contracts, allowing for the tailoring of debt that would not be possible with standard syndicated loans. This has an effect that goes beyond simply altering the lender's return profile, ensuring that its interests are more closely aligned with the long-term success of the company.

In the more specialized segment of the market, specifically mezzanine and venture debt, where private credit often goes beyond the confines of a simple loan, it is common to encounter equity-linked clauses through the more frequent use of warrants and conversion rights⁶⁵. These instruments are never inserted randomly at the contractual level but are designed to bridge the gap between risk and return and ensure the lender a strategic position in the company's capital through the right to purchase shares at a predetermined price within a defined time frame. But in practice, how can they actually improve the lender's position? These clauses allow the lender to capture a portion of the upside typically reserved for shareholders and therefore particularly relevant in high-growth scenarios, where the interest rate alone may not fully compensate for the underlying business risk. Crucially, this approach allows the lender to maintain its protected creditor status on the balance sheet, while simultaneously retaining access to the company's future value creation.

Taken together, the five contractual features examined in this section do not operate independently but are highly variable elements that often operate separately or interconnectedly, depending on the lender's needs. Therefore, the trade-off between cost and flexibility manifests differently depending on how each variable is set. For example, a unitranche facility with quarterly maintenance covenants, a PIK toggle, and a five-year bullet maturity is not simply an expensive loan but features a contractual architecture that codifies a set of choices regarding risk allocation, cash flow management, and alignment between lender and borrower that make flexibility extremely high in this context.

1.5 Private debt versus bank debt in buyouts

Before diving into the specific characteristics of each model, it's clear that bank lending and private credit are two completely different ways of doing the same thing. The main difference, as previously stated, lies in the contractual customization and risk management of each model, but above all in the institutional logic, the determination of incentives, and a series of trade-offs for the companies and sponsors who use them⁶⁶. On the one hand, in a classic syndicated bank loan, the originator⁶⁷ guarantees the financing but immediately seeks to distribute the exposure to a broad group of investors, so it is not primarily a lender in the traditional sense, but rather an arranger. This structural separation between origination and monitoring is one of the

⁶⁵ See Nijs, L. (2014); Tetřevová, L. (2009).

⁶⁶ See Denis, D. J., & Mihov, V. T. (2003).

⁶⁷ In credit markets, the *originator* is the entity that sources, structures, and negotiates a loan with the borrower, while the *underwriter* is the party that commits its own balance sheet to fund the facility, assuming the credit risk of the position. In syndicated lending, these roles are typically performed by an arranging bank that subsequently distributes the exposure to a broader investor base.

distinctive features of the syndicated model and has direct implications for borrowers, as to access this capital, a company must satisfy not a single counterparty, but an entire committee of investors with varying risk tolerances and investment mandates⁶⁸. In a competitive buyout process where timing is crucial, this dynamic introduces a level of execution uncertainty that sponsors are often unwilling to accept.

This is why private debt funds emerged, committing capital upfront from institutional investors until maturity, acting simultaneously as originator, underwriter, and long-term holder of the instruments. As can be seen, this can allow for a high degree of customization and contractual flexibility that syndicated markets are unable to replicate on a large scale⁶⁹. As the literature shows, private lenders tend to consistently offer shorter execution times and more flexible agreements than comparable syndicated transactions, and unitranche financing is the clearest expression of this, as by consolidating multiple tranches into a single instrument with a single group of lenders, it eliminates the intercreditor negotiation phase that can complicate both the closing and any future restructuring. However, this set of significantly more positive and relevant characteristics presents a series of costs and limitations that impact the decision of those wishing to access these instruments. Spreads on directly originated loans consistently exceed those of syndicated financings of comparable credit quality, reflecting both the illiquidity of the instrument and the cost of customized origination and monitoring provided by the fund manager⁷⁰. This is a critical detail, central to capital structure decisions, which is complicated by the presence of additional covenants or contractual specifications.

Coming back to the differences, it emerges that over the past decade, the syndicated loan market has largely shifted toward covenant-lite structures, in which traditional maintenance tests have been replaced, or substantially weakened, by default-based triggers⁷¹. This trend is often described in borrower-friendly terms, but it also reflects an erosion of the monitoring infrastructure that financial covenants were originally designed to provide. Private debt funds, by contrast, have generally retained quarterly maintenance covenants, not simply as protection mechanisms, but as a structured framework for ongoing dialogue with management. Finally, it is important to consider the role of the sponsor's reputation as a mediating variable, which will be treated lightly in this section but will be addressed in Chapter 2. A sponsor's track record and relationships with capital providers can substantially alter the conditions available in both markets⁷². Established sponsors with a proven exit track record can access syndicated structures on terms that significantly reduce the cost differential compared to private debt and thus impact the cost-flexibility trade-off. For medium-sized sponsors, or for transactions involving assets with few comparables or complex capital structures, the price differential compared to a syndicated loan may be more than offset by the certainty of execution and structural flexibility that a direct lender can offer.

In summary what emerges is that private debt offers flexibility, speed, and contractual customization, but at a significant cost. On the other hand, bank financing offers cost efficiency and market depth but requires standardization and distributes the decision-making process among a broader range of stakeholders. The question of which side of this trade-off is more important remains to be seen. The advantageousness of the loan depends on the specific characteristics of the transaction, the borrower, and the market cycle in which the transaction takes place. Furthermore, the cost of private debt is contractually fixed and measurable from day one, manifesting itself in the spread, the OID⁷³, and commissions⁷⁴. While the value of flexibility is contingent,

⁶⁸ See Rosenbaum, J., & Pearl, J. (2013); Shelton, M. M. (2017).

⁶⁹ See Block, J., Jang, Y. S., Kaplan, S. N., & Schulze, A. (2022).

⁷⁰ See Haque, S., Mayer, S., & Stefanescu, I. (2025); Loumiotis, M. (2022).

⁷¹ See Haque, S., Mayer, S., & Stefanescu, I. (2025).

⁷² See Ivashina, V., & Kovner, A. (2011).

⁷³ *Original Issue Discount (OID)* refers to the difference between the principal amount of a loan and the amount actually disbursed to the borrower at funding. In leveraged finance, OID is a standard mechanism used to enhance lender economics, particularly in private credit and unitranche facilities, and is a relevant component of the all-in cost of capital from the borrower's perspective.

⁷⁴ See Rosenbaum, J., & Pearl, J. (2013).

materializing only if and when the borrower needs it, its extent depends on circumstances that cannot be fully anticipated in the contract. This asymmetry between a certain cost and a probabilistic benefit is precisely what makes it difficult to evaluate financing options *ex ante*, and makes an approach based on comparative case studies, rather than a purely statistical one, the most appropriate method for examining them.

1.6 Advantages and risks of private debt for sponsors and portfolio companies

The decision to finance a leveraged buyout through private debt rather than traditional bank lending is rarely a straightforward one, but what elements are involved? What are the corresponding risks for each party? It involves weighing a set of concrete advantages against an equally concrete set of risks and the balance of that equation looks different depending on whether you are sitting on the sponsor side of the table or running the portfolio company that will service the debt for the next several years. This section examines both perspectives in turn.

1.6.1 From the sponsor's perspective

Taking the sponsor's perspective, for a private equity fund, the main attractive factor of private debt lies in the combination of execution certainty and structural flexibility at closing, as in this context, the speed and confidentiality of the process play a crucial role. In a competitive auction process⁷⁵, the ability to present a fully committed financing package, obtained from a single direct lender rather than constructed through a syndication roadshow⁷⁶, can represent a decisive advantage. Unlike syndicated transactions, which require broad market exposure and are subject to changes in investor sentiment, a bilateral or club deal⁷⁷ private debt agreement can be structured, negotiated, and finalized within compressed timeframes. As previously mentioned in the chapter on the characteristics of private debt, in addition to execution, private debt offers sponsors a degree of structural optionality that banking markets are increasingly struggling to guarantee, particularly for mid-market transactions that fall below the size threshold at which syndicated products become truly competitive. Taking unitranche facilities as an example, they can allow sponsors to apply more aggressive leverage, in relative terms, on a portfolio company, benefiting from a single, weighted cost of capital and without the coordination complexity of managing multiple classes of creditors throughout the entire holding period⁷⁸.

That said, the real risk for sponsors is represented by the higher cost of private debt compared to a traditional loan, especially in situations where exit multiples are compressed or the portfolio company fails to realize its investment case. The overall cost of a direct lending facility (including OID, arrangement fees⁷⁹, and any accrual PIK) can significantly impact equity returns. Added to this is the concentration risk inherent in the bilateral relationship with the lender because, while having a single counterparty simplifies governance under ordinary conditions, it can considerably complicate the situation in a distress scenario. Syndicated financing

⁷⁵ In private equity, a *competitive auction process* refers to a structured sale process in which multiple potential buyers submit bids for a target company, typically managed by an investment bank acting as sell-side advisor.

⁷⁶ A *syndication roadshow* is the process by which an arranging bank markets a loan facility to potential institutional investors prior to closing. The arranger presents the transaction to a broad group of prospective lenders (typically asset managers, CLO vehicles, and insurance companies) to gauge appetite and allocate portions of the facility.

⁷⁷ A *club deal* is a private debt transaction in which a small number of lenders (typically two to four) jointly provide a financing facility to a borrower, sharing economics, contractual rights, and decision-making authority on broadly equal terms. Club deals are negotiated directly among the participating lenders without a formal syndication process, preserving the bilateral character of the lender-borrower relationship while allowing larger ticket sizes than a single direct lender could underwrite alone.

⁷⁸ See Shelton, M. M. (2017).

⁷⁹ An *arrangement fee* is an upfront commission paid by the borrower to the lender (or to the arranging bank in syndicated transactions) at the closing of a loan facility, typically expressed as a percentage of the total commitment. It compensates the lender for the structuring, due diligence, and negotiation work performed prior to funding, and represents a non-recurring component of the borrower's all-in cost of capital.

involves a broad and dispersed creditor base, which in practice often makes restructuring negotiations slower but also more predictable. A direct lender with a concentrated position and full enforcement rights may have both the incentive and the ability to act quickly, and not always in a direction consistent with the sponsor's preferred outcome⁸⁰.

In other words, the issue is not simply the relationship between cost and flexibility in the abstract, but rather the probability distribution of outcomes across the entire holding period. When narrow (stable cash flows, a defined exit path, limited operational complexity), the flexibility premium of private debt is difficult to justify. When broad (uncertain integration, cyclical exposure, complex capital structure), however, the optional value of having a single and responsive lender may well outweigh the spread differential⁸¹. This is a conclusion that cannot be reached from the term sheet alone, which is also why the empirical analysis conducted in Chapter 3 is necessary.

1.6.2 From the portfolio company's perspective

On the other hand, for the operating company, the advantages of private debt are more immediately apparent in the contractual relationship with the lender because, unlike the typical dynamic of a widely syndicated facility in which the company may never have a meaningful dialogue with most of its creditors, a direct lending arrangement establishes a bilateral relationship with a counterparty that has made a deliberate and focused bet on the company's performance. In practice, this tends to translate into greater responsiveness to changing circumstances; issues that in a syndicated context would require lengthy consent solicitation procedures can often be negotiated directly and resolved within a matter of days. Direct lenders prove significantly more willing than bank syndicates to accommodate modification and waiver requests⁸², a reflection of both their concentrated economic interest and their ability to make an informed judgment about the borrower's specific situation. The covenant structure of private debt, although more stringent in absolute terms than the covenant-lite packages that have become standard in syndicated markets, must also be taken into account in this analysis. Indeed, the quarterly maintenance tests present in private debt generate obligations, but they also establish a structured and stable communication schedule between management and the lender that, in the best cases, acts as an early warning system rather than a constraint.

In this context, the risks for the portfolio company are more difficult to minimize given that the cost of private debt is higher than that of a comparable bank loan. For a company sustaining leverage equal to five or six times EBITDA, an additional spread of approximately 200 basis points (which rises by a further ~70 basis points for buyout-specific transactions, reaching roughly 270 bps in total) represents a significant annual financial burden, which must be serviced before any return can flow to equity⁸³. Furthermore, assuming a persistently high-interest rate environment, the floating-rate nature of most private debt instruments further amplifies this pressure, leaving a limited ability to fully hedge exposure at the portfolio company level.

A more subtle risk also exists, represented by the information asymmetry inherent in private debt relationships, which works in both directions. The lender's depth of access to management information simultaneously places the portfolio company in a position of limited informational leverage vis-à-vis its creditor. In a scenario where the lender's and sponsor's interests diverge, the company may find itself caught between two principals with conflicting agendas, with limited ability to counteract one another.

⁸⁰ See Block, J., Jang, Y. S., Kaplan, S. N., & Schulze, A. (2022).

⁸¹ See Haque, S., Mayer, S., & Stefanescu, I. (2025); Kaplan, S. N., & Strömberg, P. (2009).

⁸² See Loumrioti, M. (2022).

⁸³ See Haque, S., Mayer, S., & Stefanescu, I. (2025).

1.6.3 A balanced assessment

As this section has shown, for sponsors pursuing mid-market deals, where execution certainty, structural flexibility, and bilateral relationships with lenders outweigh the cost premium, private debt represents a truly attractive proposition. For portfolio companies, the flexibility and responsiveness of a direct lender are real advantages, but they are associated with a cost structure that requires either strong cash generation or a clear path to refinancing on more competitive terms as the business matures. Overall, the benefits and risks of private debt do not translate into a single outcome but must be contextualized depending on the situation and the respective borrower.

This analysis suggests that the value of private debt is greatest in deals where complexity, time pressure, or the sponsor's profile effectively make access to syndicated markets difficult and is lowest in situations where the borrower could realistically access bank capital on more restrictive terms. The interesting cases, in other words, are not those where the choice is obvious, but those where it isn't, and the gap between these two scenarios isn't always obvious from the outside and rarely is it when the financing decision is made. It is precisely this uncertain space that this thesis aims to address.

CHAPTER 2 - FINANCING CHOICES IN BUYOUTS: EVIDENCE AND THEORETICAL PERSPECTIVES

This chapter shifts the analysis to economic reasoning, discussing why sponsors and portfolio companies choose private debt instruments and under what conditions this choice is beneficial and effective. The discussion draws on the extensive literature on corporate finance and empirical evidence to examine the mechanisms governing debt selection in acquisitions. As will be seen at the end of the section, taken together, these research findings offer a necessary perspective to overcome the descriptive trade-off identified in Chapter 1 and begin to offer a real-world view of their application in the world of buyouts.

The discussion is structured around five themes that directly correspond to the research question, and which will each constitute a separate chapter. The first chapter addresses the role of asymmetric information and agency costs in determining the choice between private and public debt in LBOs. The second chapter examines how firm-level characteristics and the sponsor's reputation influence lender selection. The third section focuses on direct lending, specifically the contractual structure of direct loans, the role of covenants as monitoring tools, and evidence regarding adjustment behaviour. The fourth section addresses the pricing of private credit: what determines the spread premium relative to syndicated financing, how it relates to illiquidity, and whether it is justified on a risk-adjusted basis. Finally, the fifth section examines the performance of private debt across market cycles and what evidence suggests about its resilience relative to bank lending in times of stress.

What the literature has not yet resolved that motivates the empirical work in Chapter 3, is the question of whether the flexibility premium contained in private debt translates into measurable differences in buyout outcomes at the transaction level. Indeed, what emerges is that most existing studies examine pricing and contracting in isolation or rely on statistical approaches based on large samples that tend to limit the analysis to the specific dynamics of each individual transaction, where the trade-off under study might be more relevant. The case study methodology adopted in Chapter 3 seeks to directly address this gap.

2.1 Debt choice, information asymmetry and agency costs in LBOs

To introduce this argument, it is necessary to understand that much of the literature focuses on debt as a homogeneous instrument applied in a standardized manner to all companies, prioritizing the question of how much debt is sustainable. However, in leveraged buyouts, this requirement is completely recalculated, what really matters is the type of structure and characteristics of the debt, rather than its volume. It is therefore more important to focus, as in the case of private debt, on the contractual terms and flexibility that influence the execution of the transaction.

The initial choice of corporate debt depends on the presence of information asymmetries⁸⁴, that arise from the fact that a company knows its prospects and vulnerabilities better than any other party, while lenders carefully evaluate this information gap being less informed. Given this, it emerges that the choice of debt source is strongly correlated with credit quality, as companies with higher credit quality have several strengths, such as access to public bond markets⁸⁵. What is significant is that as credit quality deteriorates, companies tend to rely on other players, such as banks, until they reach more informationally opaque situations, turning to non-bank private lenders explaining that behind this is operating through bilateral relationships rather than broad syndications, that are structurally better equipped to assess risks that public markets cannot easily identify or price. This theoretical approach, when applied to buyout transactions where the target is typically a private

⁸⁴ *Information asymmetry* refers to a situation in which two parties to a transaction possess different levels of information relevant to that transaction. In credit markets, it arises when borrowers have superior knowledge of their own creditworthiness, business prospects, and risk profile relative to lenders, who must rely on observable signals and contractual mechanisms to evaluate and price that gap.

⁸⁵ See Denis, D. J., & Mihov, V. T. (2003).

company with a limited public financial history and a capital structure about to be radically rewritten, is very relevant and affect the financing decision itself.

What also really matter is the size of agency costs⁸⁶ that can further complicates debt selection, since free cash flow creates a structural governance problem when left to management discretion, because leverage commits the company to servicing the mandatory debt at the time of the transaction and eliminates the discretionary capital pool before it can be misallocated⁸⁷. It could appear that this logic is binding, and the sponsor undertakes a buyout not because the portfolio company has a history of misusing free cash flow⁸⁸, but because the contractual commitment to service the debt is itself the governance mechanism, that is able in advance to align management incentives and enforce operational discipline throughout the holding period⁸⁹. In this sense, a high level of debt serves a disciplinary and highly binding function precisely because it is irreversible from day one.

Furthermore, a network of principal-agent relationships⁹⁰ underpins every buyout transaction between the sponsor and management, between the sponsor and the lenders, and between the different classes of creditors competing for priority and enforcement rights. Therefore, it can be shown that the composition of a company's debt contains information about the underlying risk profile of the transaction, with more complex and layered structures associated with greater indebtedness and greater information opacity⁹¹. This literature's finding has direct implications for the comparison at the heart of this thesis, because when a sponsor chooses a direct unitranche financing structure over a syndicated banking structure it does not occur in a frictionless market but reflects a specific assessment of the information environment, the transaction's governance requirements, and the relative cost of each monitoring mechanism.

However, the choice of debt source is often described as largely determined by the borrower's characteristics, with the lender passively selected by the market⁹² and, a more complete view, shows that sponsors strategically construct the debt structure, using it as a governance tool rather than simply accepting market-imposed conditions⁹³. These interpretations lead to different predictions about when and why private debt is chosen, because in the first one, the debt choice exists because the borrower has no better alternatives. In the other, it may be chosen even in the presence of alternatives, because the bilateral relationship, concentrated monitoring, and resulting contractual flexibility justify the additional cost. The gap between these two scenarios is precisely where the trade-off between costs and flexibility becomes interesting and where the transaction-level evidence presented in Chapter 3 can offer some insight.

2.2 Determinants of lender selection: firm characteristics vs sponsor reputation

To proceed with what the literature tries to explain, how debt heterogeneity reflects real economic differences in information environments and governance requirements is the central argument that the previous section has been highlighted, but actually not all financing decisions are the same, and not all borrowers have access to the same set of options. The critical decision about whether a specific company, or a specific sponsor,

⁸⁶ *Agency costs* refer to the costs that arise from conflicts of interest between principals and agents in a contractual relationship. In the context of leveraged buyouts, the relevant agency relationships are those between sponsors and management, and between debt holders and equity holders.

⁸⁷ See Jensen, M. C. (1986).

⁸⁸ *Free cash flow* refers to cash flow in excess of that required to fund all positive net present value projects available to the firm.

⁸⁹ See Kaplan, S. N., & Strömberg, P. (2009).

⁹⁰ A *principal-agent relationship* arises when one party, the principal, delegates decision-making authority to another party, the agent, whose actions affect the principal's welfare. The relationship is characterized by potential conflicts of interest, since agents may pursue objectives that diverge from those of principals, and by information asymmetry, since agents typically possess superior information about their own actions and intentions.

⁹¹ See Colla, P., Ippolito, F., & Wagner, H. F. (2011).

⁹² See Denis, D. J., & Mihov, V. T. (2003).

⁹³ See Kaplan, S. N., & Strömberg, P. (2009).

uses private debt instruments depends on two distinct but interconnected variables, which the literature has analyzed in parallel:

- The characteristics of the borrowing company.
- The reputation and relationships of the sponsor leading the transaction.

Research on the determinants of the choice between different debt sources, already addressed in numerous studies but often limited to analyzing the cost of debt, shows that companies with a high credit profile and solid information transparency access public markets, which are generally less costly but also more constrained by standardization⁹⁴. Companies with intermediate credit quality instead turn directly to banks, which offer the right balance between cost, standardization, and flexibility. At the final level, however, the most informationally opaque companies, often characterized by particularly complex valuations, rely on non-bank private lenders. Given this, what emerges is that credit quality and information transparency are extremely influential characteristics in the choice of financier. A company may be fundamentally sound but have a complex business model, few industry comparables, or a limited operating history. For such a company, a bilateral private financier represents the most efficient solution, not because it is the only available option, but because it is the only one capable of correctly valuing it. Particularly in the context of leveraged buyouts (LBOs), where the target is almost always a private company with a limited public history and a capital structure undergoing restructuring, these characteristics are nearly universal, which partly explains why private debt has found such fertile ground in the buyout market. Another finding is that borrowers who resort to direct lending tend to have a higher incidence of intangible assets, less coverage by financial analysts, a more limited operating history, and less standardized business models than borrowers who access the syndicated loan market⁹⁵. These are, in this case, companies whose informational and operational complexity makes them less suitable for syndication, where each analyst must be able to assess risk independently and based on limited information.

During further investigation, evidence shows that borrowers who choose private debt differ significantly from those who resort to traditional debt, making comparisons based solely on the cost of debt limited. Specifically, it has been documented that companies financing themselves through private debt tend to have more volatile cash flows, more complex operating structures, and higher idiosyncratic risk⁹⁶ profiles than bank borrowers of comparable size and sector⁹⁷. This result is particularly significant because it confirms, first of all, that selection in the private debt market is not random, but responds to an economic logic that predisposes certain types of companies to turn to bilateral lenders. Furthermore, if private debt borrowers are systematically different from bank borrowers, then the spread differential between the two markets cannot be interpreted as a pure differential in the cost of financing⁹⁸. Rather, part of this differential reflects the diversity of the target populations, not the instruments used. When comparing two transactions with different debt structures, it is therefore necessary to consider that the companies themselves may be intrinsically different and that this diversity could explain part of the cost difference regardless of the choice of financial instrument.

Current literature also shows that sponsors with established banking relationships obtain significantly better terms than sponsors without a history of relationships with the lending bank. This translates into lower spreads, on average, ranging between 20 and 30 basis points⁹⁹, lower arrangement fees, and more favourable covenant packages¹⁰⁰. This effect remains stable even after controlling for the characteristics of the operation, the

⁹⁴ See Denis, D. J., & Mihov, V. T. (2003).

⁹⁵ See Loumioti, M. (2022).

⁹⁶ *Idiosyncratic risk* refers to risk that is specific to an individual firm or asset and is not correlated with broad market movements. Unlike systematic risk, which affects all market participants and cannot be eliminated through diversification, idiosyncratic risk can be diversified away by holding a sufficiently varied portfolio. In the context of private debt, idiosyncratic risk is particularly relevant because direct lenders hold concentrated, illiquid positions that preclude the diversification available to syndicated investors

⁹⁷ See Haque, S., Mayer, S., & Stefanescu, I. (2025).

⁹⁸ See Haque, S., Mayer, S., & Stefanescu, I. (2025).

⁹⁹ See Ivashina, V., & Kovner, A. (2011).

¹⁰⁰ See Ivashina, V., & Kovner, A. (2011).

borrower and the market conditions, thus demonstrating that the relationship between sponsor and financier has a measurable economic value, independent of the objective characteristics of the transaction. Reputation is built through information accumulated over repeated interactions. A bank that has financed five transactions for the same sponsor over three funds has developed a proprietary information base because it knows how that sponsor manages distressed companies, its propensity to invest additional capital when necessary, and has directly observed the quality of its exits. This information reduces the financier's uncertainty and translates directly into more favourable economic conditions¹⁰¹. This leads to two final considerations consistent with this thesis, starting with the fact that the choice of financier depends not only on the characteristics of the borrower, but also on those of the sponsor, introducing a variable that models focused exclusively on the company tend to overlook. Secondly, the relational effect operates asymmetrically where emerging or less established sponsors do not benefit from this advantage, with the consequence that for them the cost differential between private debt and syndicated bank debt may be structurally different from that faced by more established sponsors. With reference to the Italian mid-market context discussed in Chapter 1, where many sponsors have a limited track record, this has direct implications for the cost of financing.

The most important finding for this section, however, is that sponsors with particularly high reputations are able to negotiate significantly more favourable covenant packages, thus achieving a high level of contractual flexibility¹⁰². If the financier is confident in the sponsor's ability to preserve and increase the investee company's value over time, there is less need to contractually constrain every operational decision. In this sense, reputation acquires a direct economic value that translates not only into better pricing conditions but also into greater contractual flexibility. A second aspect emerges regarding flexibility between different types of covenants: the sponsor's reputation primarily influences negative covenants, while maintenance financial covenants remain relatively rigid regardless of the sponsor's reputation¹⁰³. This is a simple but important result, as it suggests that lenders are willing to delegate greater operational discretion to sponsors they trust, while retaining the right to monitor the company's financial performance through periodic reviews. Specifically, it's not simply that more reputable sponsors pay less, but that they receive a structurally different product. A direct lending transaction negotiated by a sponsor with an established track record may have contractual features so different from one negotiated by an emerging sponsor that a direct comparison between the two is problematic¹⁰⁴.

2.3 Direct lending and contracting: covenants and monitoring

A lender provides capital today in exchange for a future repayment obligation, and the entire structure of the loan agreement exists to address the uncertainty inherent in the contract and inherent in this operating environment. In the context of direct lending, this contractual problem manifests itself in the lender's focus, knowledge, and long-term orientation, enabling it to draft and enforce contracts that a large syndicate of creditors would simply not be able to coordinate. How direct lenders leverage this capacity is crucial to assessing the flexibility premium they apply and determining whether borrowers who pay it actually receive something tangible in return.

The starting point of this section revolves around the issue of debt as a disciplinary instrument, one of the most relevant topics in finance literature, as binding a company to debt service reduces the free cash flow available to management for potentially value-destroying investments¹⁰⁵. So, the contractual clauses that accompany it constitute the main constraints through which the creditor can exercise this function in a continuous and

¹⁰¹ See Ivashina, V., & Kovner, A. (2011).

¹⁰² See Liu, C. (2014).

¹⁰³ See Liu, C. (2014).

¹⁰⁴ See Liu, C. (2014).

¹⁰⁵ See Jensen, M. C. (1986).

structured manner. Debt in this way can provide both passive constraint service and active monitoring system constraints and understanding this difference represents the theoretical foundation upon which the entire subsequent analysis of contractual clauses in direct financing is based, particularly with regard to their governance function during the normal life cycle of the loan.

Moreover, it is relevant showing that the covenants structure in leveraged buyouts (LBOs) generally is not standardized but is adapted to the specific characteristics of the transaction, as under normal conditions, management retains broad operational discretion. In this regard, what emerges most from the literature is that, as corporate performance deteriorates, covenants progressively transfer decision-making power to creditors, so the construction of a governance system operates differently depending on the economic context in which the company operates, thus allowing for a high degree of flexibility and customization.

Focusing on covenants and monitoring in direct lending, the literature's main contribution concerns several closely intertwined elements. First, direct loans include maintenance covenants¹⁰⁶ significantly more frequently than comparable syndicated loans, thus reflecting the high intensity of monitoring that characterizes direct lending. In practice, a fund that fully holds the position, and cannot sell it on the secondary market, has much stronger incentives than a syndicator bank to maintain active monitoring operations throughout the loan's life. Furthermore, what emerges is that direct lenders grant contractual amendments significantly more frequently than bank syndicates, a result that at first glance seems contradictory to the presence of more stringent covenants, but which in reality represents their consequence¹⁰⁷. More stringent initial covenants generate a greater number of violations during periods of moderately lower than expected performance, and the lender's willingness to quickly renegotiate is what transforms a potentially oppressive control system into a tool for dialogue. In this context, the speed of negotiation takes on crucial importance, as resolution of covenant violations with direct loans generally takes much less time than with syndicated loans¹⁰⁸. Finally, another variable that is often taken into consideration concerns information requirements, given that direct loans require much more detailed reporting than syndicated loans, through the submission of monthly management accounts, rolling forecasts, and budget analyses, with the aim of providing the lender with a comprehensive and up-to-date view of the company's operational and financial performance. This quality of information forms the basis for flexible response, as a lender with in-depth knowledge of the business is able to distinguish temporary working capital tensions from a structural deterioration in margins and react proportionately¹⁰⁹.

Within the broader topic of covenants, another relevant finding emerging from the literature is that direct loans continue to incorporate maintenance covenants to a much greater extent than comparable syndicated loans, where the prevalence of covenant-lite structures has consolidated over the last decade¹¹⁰. However, the most important finding concerns the analysis of contractual amendment behaviour because through private debt, lenders request contract amendments¹¹¹ more frequently than bank borrowers. This finding, which at first glance might appear unfavourable to private debt, actually conceals another perspective. This phenomenon partly reflects the greater rigidity of the initial contractual framework, which creates more opportunities for interaction between lender and borrower even during periods of moderately lower-than-expected performance.

¹⁰⁶ *Maintenance covenants* are financial tests that must be satisfied by the borrower on a periodic basis, typically quarterly, regardless of whether any specific corporate action has been taken. They measure ongoing financial health against predetermined thresholds. Their defining characteristic is that they are tested continuously throughout the life of the loan, creating a regular monitoring cadence between lender and borrower.

¹⁰⁷ See Block, J., Jang, Y. S., Kaplan, S. N., & Schulze, A. (2022).

¹⁰⁸ See Block, J., Jang, Y. S., Kaplan, S. N., & Schulze, A. (2022).

¹⁰⁹ See Haque, S., Mayer, S., & Stefanescu, I. (2025).

¹¹⁰ See Haque, S., Mayer, S., & Stefanescu, I. (2025).

¹¹¹ A *loan amendment* is a formal modification to the terms of an existing loan agreement, agreed between the borrower and the lender or lenders. Amendments can cover a broad range of contractual provisions, including the relaxation or reset of financial covenant thresholds, changes to the interest rate or pricing grid, modifications to the amortization schedule, or adjustments to permitted baskets and negative covenant restrictions. In syndicated structures, amendments typically require the consent of a specified majority of lenders by commitment amount, a process that can involve significant coordination costs and delays. In bilateral or club-based direct lending arrangements, the amendment process involves fewer counterparties, reducing both the time required to reach agreement and the informational exposure associated with disclosing operational difficulties to a broad creditor base

The flexibility of direct lending is partly related to the rigidity of the contract that generates it, and the speed with which modification requests are resolved is higher in private debt than in bank syndicates, this has concrete operational consequences for portfolio companies that must react quickly to competitive or operational changes¹¹². The evidence therefore allows us to distinguish between monitoring as an early warning system, in which covenants signal problems when they are still manageable, and monitoring as a control mechanism, in which covenants limit managerial discretion even in the absence of actual difficulty.

Finally, it is worth mentioning one final contribution from the literature that offers funds' internal perspective on the topic of monitoring, a dimension that surveys and academic studies based on market data fail to fully capture. Based on direct interviews with direct lending fund managers, the managers interviewed describe a continuous monitoring process that includes regular contact with management, real-time analysis of operational data, and, in some cases, direct participation in the boards of directors of portfolio companies as observers¹¹³. These monitoring activities cannot be replicated within a distributed syndicate, where no single lender possesses either the incentives or the capacity to invest such a level of resources in a single exposure. Meanwhile, sector-specific funds develop qualitatively superior monitoring capabilities compared to generalist funds, thanks to their knowledge of specific operational drivers, relevant performance benchmarks, and early signs of deterioration that cannot be detected by financial data alone. This sector expertise represents a form of monitoring that is not visible in the covenants, but which concretely influences the quality of the relationship between lender and borrower and the speed with which emerging issues are identified and addressed¹¹⁴. The topic can be considered complete by highlighting how the managers interviewed describe an approach to covenant violations that differs significantly from that typical of banking unions, with a tendency to collaborate with management and the financial sponsor to identify operational solutions before activating formal enforcement mechanisms. This behaviour reflects the alignment of interests that arises from the concentrated, hold-to-maturity structure typical of direct lending. A fund that cannot exit its position has every incentive to resolve the company's operational problems rather than accelerate debt repayment¹¹⁵.

A final observation drawn from the same study directly concerns the geographical aspect of this thesis: indeed, there is a systematic difference between US and European private debt funds, with the latter relying significantly less on private equity sponsors and competing more directly with banks than their US counterparts¹¹⁶. The monitoring and covenant mechanisms described above have been extensively documented on a sample biased toward North American large-cap funds, while the transactions examined in Chapter 3 pertain specifically to the European mid-market, and specifically the Italian one. It is crucial to observe how a model operating in a predominantly US context behaves in a market where sponsors are fewer and bank competition is more direct. This is one of the empirical questions this case study aims to address.

2.4 The cost of private credit, illiquidity premium and risk-adjusted returns

One of the most crucial themes of this thesis has been reached, which sees determining the price of private debt as a much more complex mechanism than it might seem, since the spread applied to a direct loan incorporates several distinct economic variables that syndicated financing often tends to conflate into a single component. One portion of the spread reflects credit risk, while the other compensates the lender for holding an illiquid instrument with no secondary market through which to divest. A further component covers the operating costs associated with the intensive origination, structuring, and monitoring activities that bilateral

¹¹² See Haque, S., Mayer, S., & Stefanescu, I. (2025).

¹¹³ See Block, J., Jang, Y. S., Kaplan, S. N., & Schulze, A. (2022).

¹¹⁴ See Block, J., Jang, Y. S., Kaplan, S. N., & Schulze, A. (2022).

¹¹⁵ See Block, J., Jang, Y. S., Kaplan, S. N., & Schulze, A. (2022).

¹¹⁶ See Block, J., Jang, Y. S., Kaplan, S. N., & Schulze, A. (2022).

lending requires, and defining each function of these components is the necessary basis for formulating the premium paid, reflecting the benefits the borrower receives in return.

The literature identifies several factors that influence the spread in private debt, starting with pure risk, which expresses the expected probability of loss on the loan, which in some segments of direct lending is actually higher than in the syndicated loan market. Subsequently, the illiquidity premium¹¹⁷ must also be considered, as a direct lender holding a position to maturity without the option of selling it on the secondary market incurs a liquidity risk that a syndicated loan investor, able to divest through the secondary market, faces minimally¹¹⁸. Furthermore, the remuneration of operating costs associated with intensive monitoring tends to influence pricing, as origination activities, thorough due diligence, continuous monitoring during the holding period, and management of contractual amendments require significant resources that the fund must recover through the spread. This demonstrates that the spread premium in private debt is not entirely explained by credit risk, and that comparing direct lending spreads with those of syndicated lending without taking into account the components just discussed leads to incorrect conclusions. The literature therefore shows that direct loans are systematically priced with higher spreads than comparable syndicated loans, with an average documented spread of around 200 basis points for transactions comparable in size, sector, and borrower credit profile¹¹⁹.

Once the spread's composition has been defined, it is necessary to understand whether, after adjusting for illiquidity and monitoring costs, an actual excess return remains for the lender, and whether the borrower is paying for specialized expertise or simply for the risk assumed. The scientific literature suggests constructing a term structure for alpha¹²⁰, measuring how risk-adjusted returns vary with the investment horizon, noting that funds with longer investment horizons do not necessarily generate proportionally higher alpha. In other words, a portion of the perceived return premium in private debt represents compensation for time-related risk rather than true alpha¹²¹. The main result, however, shows that the gross alpha of private debt funds decreases significantly when adjusted for illiquidity, a risk factor that traditional models tend to underestimate because it lacks a high-frequency observable market price. This implies that the lender bears real risks that must necessarily be remunerated, unlike traditional debt.

However, the disappearance of alpha after risk adjustment is not uniform across funds and strategies, and by examining private debt fund returns over extended time horizons across different market cycles, with particular attention to performance persistence¹²² and the effect of macroeconomic conditions, different findings emerge¹²³. The return structure of private debt funds is composed of two fundamental elements: carry¹²⁴, i.e., the contractual interest earned during the investment's holding period, and the capital gains or

¹¹⁷ The *illiquidity premium* refers to the additional return required by investors to compensate for holding an asset that cannot be easily sold or converted to cash at its fair value without significant cost or delay. In private debt markets, where loans are not traded on organized exchanges and lack a deep secondary market, the illiquidity premium is a structural component of the spread that reflects the opportunity cost of capital committed for a fixed term and the risk of being unable to exit the position if circumstances change.

¹¹⁸ See Haque, S., Mayer, S., & Stefanescu, I. (2025).

¹¹⁹ See Haque, S., Mayer, S., & Stefanescu, I. (2025).

¹²⁰ In asset pricing, *alpha* refers to the excess return generated by an investment relative to the return predicted by a benchmark model that accounts for systematic risk factors. A positive alpha indicates that the investment has generated returns above those justified by its risk exposure, suggesting either superior skill on the part of the manager or the presence of risk factors not captured by the benchmark model. In the context of private debt funds, estimating alpha is complicated by the infrequent and model-based valuation of illiquid assets, which can cause standard risk-adjustment methods to understate the true risk borne by investors.

¹²¹ See Bongaerts, D., & de Roon, F. (2023).

¹²² *Performance persistence* refers to the tendency of investment funds that have generated above-average returns in one period to continue generating above-average returns in subsequent periods. It implies that past performance has predictive value for future performance, which in turn suggests that managerial skill is a meaningful driver of returns.

¹²³ See Böni, P., & Manigart, S. (2022).

¹²⁴ In fixed income and credit markets, *carry* refers to the income generated by holding an instrument over time, specifically the interest payments received relative to the cost of funding the position. In direct lending, carry dominates the return profile because the primary source of income is the

losses realized at maturity or upon exit from the investment. In direct lending, carry prevails, demonstrating that the primary source of return is the current cash flows generated by spreads rather than capital appreciation. This aspect is relevant because it clarifies the nature of the premium paid by the borrower, who is not financing the lender's expectation of future capital gains, but rather remunerating a current cost of capital that the fund must regularly distribute to its investors. A subsequent finding concerns the persistence of performance among funds, revealing how superior-performing funds tend to maintain this competitive advantage over time, a concept widely debated in the private equity literature but appearing more robust in the private debt context. The interpretation is that, in direct lending, performance depends significantly on the quality of origination and monitoring processes, capabilities that accumulate over time and are not easily replicated. The premium paid by the borrower is not distributed evenly across all lenders but tends to be concentrated in funds with superior selection and monitoring skills.

How risk is adjusted when market prices are not observable with high frequency is a central issue in developing a risk-adjustment methodology specifically for private debt funds, one that takes credit risk, illiquidity risk, and leverage risk more rigorously than previous approaches¹²⁵. Evidence shows that the gross returns of private debt funds decline considerably once adjusted for risk, but a positive alpha remains, which varies significantly across funds and strategies. Indeed, direct lending funds exhibit a more stable and consistent alpha than funds specializing in distressed or special situations investments, reflecting the more predictable nature of their risk-return profile. Furthermore, any analysis of the cost of private debt to the borrower must take into account that the lender bears real, not fully diversifiable, risks, and that the premium required is partly justified by these risks. Therefore, the fact that a positive alpha persists even after adjusting for risk suggests that the most skilled direct lenders generate superior returns not only thanks to the risks they assume, but also thanks to the quality of their selection and monitoring processes¹²⁶. This expertise has a concrete value that is transferred to the borrower in the form of access to capital that other lenders would not be willing to provide under the same conditions.

In conclusion, the relationship between capital structure and pricing in leveraged buyouts (LBOs) reveals that, in highly leveraged transactions, pricing varies systematically as a function of the complexity of the capital structure¹²⁷. More subordinated tranches exhibit higher spreads, also as a function of their position within the financial structure and interactions with other creditors. This demonstrates that the cost of debt in an LBO cannot be assessed by solely observing the return on a single tranche, but must be analyzed as a system as a whole, considering how the different components interact and how monitoring activities are distributed among the various creditors. Interestingly, in summary, it is not only true that direct lending is more expensive than syndicated lending in absolute terms, but also that the debt structure itself determines pricing in a non-linear way¹²⁸. This is because a unitranche structure that incorporates senior and subordinated components in a single instrument may be more or less expensive than a structure composed of separate tranches, depending on how the risks arising from the interactions between creditors are priced.

2.5 Cyclicity and resilience of private debt across market conditions

Now the emphasis is directed on private debt in relation to resilience, cyclicity, and behaviour across market cycles, aiming at understanding whether the structural advantages documented in the previous sections

contractual interest spread rather than capital appreciation. This distinguishes direct lending from equity-oriented strategies where returns depend more heavily on exit valuations.

¹²⁵ See Erel, I., Flanagan, T., & Weisbach, M. S. (2024).

¹²⁶ See Erel, I., Flanagan, T., & Weisbach, M. S. (2024).

¹²⁷ See Colla, P., Ippolito, F., & Wagner, H. F. (2011).

¹²⁸ See Colla, P., Ippolito, F., & Wagner, H. F. (2011).

are maintained even under adverse conditions. Previously, private debt has been analyzed under relatively static conditions, but in reality, this is almost never the case and it is important to choose between private debt and bank debt based on how the two instruments behave when conditions change, and therefore whether private debt remains a rational choice when the economic cycle reverses and markets enter a period of stress.

It is clear that the influence of macroeconomic conditions on private debt fund returns over time is a topic that deserves in-depth analysis, especially using a time horizon long enough to encompass multiple macroeconomic cycles, as research has demonstrated¹²⁹. It appears that a borrower who chooses a fund with strong monitoring capabilities, pays for higher-quality service under normal conditions, but above all, to be in a better position when conditions worsen, since they have a lender capable of distinguishing between temporary problems and structural deterioration and responding proportionately¹³⁰. The literature documents that private debt returns show a positive correlation with the economic cycle, with better performance in expansion phases and worse performance in contraction phases¹³¹. Private debt is therefore cyclical, but less so than equity, reflecting the predominantly income-driven nature of its returns. In fact, during the deterioration of market, carry continues to generate cash flows even if the value of the underlying assets declines and this help to stabilize the return profile compared to instruments more dependent on capital appreciation.

Behaviour during periods of stress is another topic the literature addresses, showing that funds characterized by more conservative strategies, greater seniority, more stringent covenants, and borrowers with more stable cash flows, exhibit significantly greater resilience during recessions than funds adopting more aggressive strategies. This depends on the fund's strategy and the quality of the borrower selection process, and is not a characteristic dependent on the asset class. Furthermore, a certain persistence of performance across economic cycles emerges, demonstrated by the fact that funds that perform better in expansion phases tend to maintain better relative performance even during downturns. The origination and monitoring capabilities that generate alpha in favourable conditions also contribute to capital protection in adverse conditions, arguing that lender quality is not irrelevant with respect to cyclicity. But the illiquidity premium is not constant and varies depending on market conditions. For example, in periods of stress, when liquidity in public markets declines and the cost of illiquidity increases for all investors, the premium required to hold illiquid instruments also increases¹³². In other words, private debt becomes relatively more expensive for borrowers during periods of stress, not only in absolute terms but also in relation to the illiquidity premium incorporated by the lender into its pricing. In periods of stress, private debt may represent the only source of capital available for certain types of borrowers, as syndicated markets tend to close much more quickly¹³³. This results in a situation where the cost of private debt increases precisely when it becomes the only viable option. Funds invest during periods of market stress, when capital is scarcer and conditions are more favourable for the lender, and therefore tend to record higher alpha levels in subsequent recovery phases. In general, private debt has a cyclical component to its attractiveness as an investment instrument, which is indirectly reflected in the conditions offered to borrowers¹³⁴.

The behaviour of credit risk across economic cycles and its implications for risk-adjusted returns has also been reviewed, showing that direct lending funds exhibit remarkable alpha stability across cycles. This contrasts with what is observed in distressed or special situations funds, where alpha is much more volatile and concentrated at specific points in the cycle¹³⁵. In practice, direct lending, thanks to its contractual structure, is relatively less exposed to the loss spikes that characterize periods of stress compared to other segments of private debt. This is primarily due to the presence of maintenance covenants, the constant bilateral relationship

¹²⁹ See Böni, P., & Manigart, S. (2022).

¹³⁰ See Böni, P., & Manigart, S. (2022).

¹³¹ See Böni, P., & Manigart, S. (2022).

¹³² See Bongaerts, D., & de Roon, F. (2023).

¹³³ See Parrino, R., O'Malley, P. E. G., & Stohs, E. V. (2014).

¹³⁴ See Bongaerts, D., & de Roon, F. (2023).

¹³⁵ See Erel, I., Flanagan, T., & Weisbach, M. S. (2024).

with the borrower that serves a risk reduction function that syndicated markets are unable to replicate to the same extent. A further perspective is added to the discussion of resilience, as the stability of direct lending across cycles reflects specific contractual mechanisms.

The price differential between direct lending and bank syndication is not constant, but tends to narrow during expansion phases, when competition among funds is intense and liquidity is abundant, and widen during periods of stress, when syndicated markets close or become extremely selective¹³⁶. Evidence also shows that behaviour in terms of contract modifications and renegotiations during periods of stress differs between private debt and syndicated markets. This is because direct lenders show a significantly greater willingness to renegotiate during recessions than bank syndicates, which tend to apply covenants more rigidly precisely in times of greatest difficulty, when renegotiation would be most valuable to the borrower. This is perhaps the most significant finding, as the flexibility of direct lending manifests itself most intensely precisely in circumstances where it is most needed, as it should be. The final finding worth discussing shows that, adopting a broader macroeconomic perspective focused on the behaviour of bank and private credit across cycles in the context of leveraged buyouts (LBOs), we observe how the contraction of bank credit in leveraged markets after 2008 created the space within which private debt expanded. In this context, banks reduced their exposure to LBOs due to regulatory constraints, but also due to an internal review of their risk tolerance, leaving a market gap that private debt funds filled by offering capital on terms that banks were no longer willing to grant. This confirms that the growth of private debt was also supported by the cyclical withdrawal of bank lending, and particularly the withdrawal of bank credit, which banks reduced especially in the mid-market segment and in highly leveraged transactions, the segments in which private debt is most widespread¹³⁷. It can therefore be argued that the resilience of private debt as a source of capital during periods of stress is partly structural and is concentrated in segments where bank lending is most volatile, confirming that the trade-off between cost and flexibility is not constant, but is recalibrated based on cyclical market conditions¹³⁸.

2.6 Synthesis of the literature and identification of research gaps

Summarizing what has been discussed in this chapter of general literature analysis, it clearly emerges that private debt is a valid and effective option in leveraged buyouts, on several fronts. Among the various considerations, there is certainly the fact that the cost differential between private debt instruments and bank debt is actually justified by various factors discussed previously, such as the risk premium in general but above all due to illiquidity, continuous monitoring, and characteristics of the market cycle. Regarding the choice, it is confirmed that the use of this type of debt is not a simple passive decision but is actively influenced by the sponsor's reputation and the various factors discussed in the previous sections. And finally, the last piece of the puzzle concerns the contractual structure, which features a series of monitoring activities that behave differently than syndicated alternatives, both under normal and stressed conditions.

Having clarified the main advantages, it is necessary to mention some limitations of the current research, starting with the prevalent research design in these studies, which is cross-sectional and based on large samples that identify the average effects across hundreds or thousands of transactions, controlling for observable characteristics of the firm and the transaction. This approach is particularly suited to establishing that private debt borrowers systematically differ from bank borrowers, on average at a higher price, or that the frequency of contractual amendments is greater. What it cannot establish is whether, in a specific transaction, the spread premium was justified by the flexibility actually used, or it does not allow us to reconstruct the evolution of the individual transaction over time. Subsequently, in all the literature reviewed, flexibility is approximated almost exclusively through the frequency of contractual amendments and the number of waiver requests, but

¹³⁶ See Haque, S., Mayer, S., & Stefanescu, I. (2025).

¹³⁷ See Parrino, R., O'Malley, P. E. G., & Stohs, E. V. (2014).

¹³⁸ See Parrino, R., O'Malley, P. E. G., & Stohs, E. V. (2014).

this captures only cases in which the borrower needed to formally invoke flexibility, and not those in which informal adjustments were permitted that never required a contractual amendment. Indeed, a borrower who requested three contractual amendments while avoiding default may have derived much greater value from the flexibility premium than one who requested none because they did not need it. The empirical evidence analyzed in this chapter is based on US data, with some extensions to Northern European markets; this is a further limitation affecting the current results. An empirical question remains whether these mechanisms operate similarly in markets where the syndicated alternative is less developed, sponsor presence is less prominent, and borrowers are predominantly family-owned SMEs with limited financial history. The Italian mid-market is the first example that precisely represents this type of context, and it is largely absent from the literature, as is the European market context. It remains to be seen whether the trade-off between cost and flexibility is shaped by the availability of alternatives; in this case, a market where syndicated capital is less accessible could generate a systematically different balance from that documented in large-scale studies in the United States.

Finally, the last simple yet important issue concerns the temporal dimension, where most studies examine financing structures at inception and use the frequency of contractual amendments as a post-closing parameter to assess the evolution of the relationship. The data capture the cost side of this balancing act at closing with reasonable accuracy, but they capture almost nothing of the benefit side, which accumulates (or not) throughout the entire holding period. What is almost entirely missing from the literature is the reconstruction of the entire lender-borrower relationship, from how covenants were managed quarter by quarter, to how the bilateral relationship functioned when performance deviated from plan, to how refinancing decisions were made midway through the holding period, and how the financing structure interacted with the exit outcome.

To better understand how the bibliography chosen for this thesis contributed to this work, a summary table is provided below, containing the main papers used in the analysis, outlining the central themes of each and highlighting the various research questions that emerge from their reading. Some of these will be explored in greater depth in the next chapter, while others may be the subject of further analysis by those who believe they can develop an answer to them.

Table 1: Papers general findings summary

Author (Year)	Paper Title	Central thesis	Limitations	Open research question
Block, Jang, Kaplan & Schulze (2022)	<i>A Survey of Private Debt Funds</i>	Documents origination, due diligence, monitoring and workout practices of private debt funds directly from general partners, highlighting sector specialization as a driver of alpha.	Survey responses are self-reported and prone to bias; the sample is skewed towards large-cap North American funds; no causal link is established between monitoring intensity and borrower outcomes.	How do monitoring practices of European mid-market PD funds differ from those captured in the survey, and is there a measurable causal effect of monitoring on borrower performance?
Bongaerts & de Roon (2023)	<i>Risk-Adjusted Private Debt Fund Performance and the Term</i>	Constructs a term structure of alpha for private debt funds, showing that risk-adjusted returns decline with horizon and that	Lender-side analysis only, does not examine how the risk transformation translates into contractual terms or	How does the illiquidity premium accruing to PD funds translate into the contractual cost paid by borrowers, and does premium variation over

	<i>Structure of Alphas</i>	apparent alpha partly compensates illiquidity and leverage risks.	pricing at the individual deal level.	time push repricing of outstanding deals?
Böni & Manigart (2022)	<i>Private Debt Fund Returns, Persistence, and Market Conditions</i>	Analyses PD fund life cycle and macro sensitivity, showing that funds with conservative strategies are more resilient in downturns and that performance exhibits cross-cycle persistence.	Operates on aggregated fund returns rather than deal-level data and does not clearly separate manager skill from market timing effects.	Which covenant management and amendment practices, observable at the deal level, characterize PD funds that prove resilient through downturns?
Colla, Ippolito & Wagner (2011)	<i>Leverage and Pricing of Debt in Leveraged Buyouts</i>	Documents that tranche pricing in LBOs varies systematically with capital structure complexity and intercreditor interaction, not only with pure default risk.	Pre-2010 European sample, does not consider unitranche structures and intercreditor interaction within a single facility.	How does the relative pricing of LBO tranches evolve in the presence of unitranche structures, and does the intercreditor pricing model still hold under the current market architecture?
Denis & Mihov (2003)	<i>The Choice Among Bank Debt, Non-Bank Private Debt, and Public Debt: Evidence from New Corporate Borrowings</i>	Framework on the choice among bank debt, non-bank private debt and public debt; shows that credit quality and information opacity segregate borrowers across a three-tier hierarchy.	Static cross-sectional model that does not capture dynamic migration along the hierarchy over time. In addition, the "non-bank private" category now requires disaggregation between direct lending, mezzanine and BDC strategies.	How has the Denis-Mihov hierarchy been reconfigured by the rise of direct lending, and do firms systematically migrate throughout their life cycle?
Erel, Flanagan & Weisbach (2024)	<i>Risk-Adjusting the Returns to Private Debt Funds</i>	Applies risk-adjustment to PD fund returns, showing that alpha shrinks substantially and becomes statistically insignificant on a net-of-fee basis for the typical fund. Gross-of-fee alpha is positive and performance persistence is stronger than in private equity	Lender-side focus without the distinction between performance arising from deal sourcing (selection) and from contractual management (monitoring).	How much of the documented persistence is attributable to monitoring quality rather than origination capability, and how can lender "skill" be empirically isolated?

Haque, Mayer & Stefanescu (2025)	<i>Private Debt versus Bank Debt in Corporate Borrowing</i>	Documents that PD facilities are priced above comparable bank loans, decomposing the spread into credit, illiquidity and monitoring components; identifies an additional ~70 bps premium for PE buyout transactions.	Cross-sectional analysis on US dual-borrower sample, restricted with to who access to both markets. Moreover, does not take into account the contractual evolution after closing nor the realized value of flexibility	How does the PD-bank pricing differential manifest itself in European mid-market transactions, and does the flexibility premium translate into superior outcomes through the holding period?
Ivashina & Kovner (2011)	<i>The Private Equity Advantage: Leveraged Buyout Firms and Relationship Banking</i>	Quantifies the “private equity advantage” in relationship banking: sponsors with established bank relationships obtain 20-30 bps lower spreads, reduced fees, and more favourable covenant packages.	Focuses exclusively on the sponsor-bank relationship and does not consider PD funds as an alternative channel. The main problem is that captures pricing dimension only, not subsequent operational flexibility.	Does the relationship advantage transfer to the private debt market, and do sponsors with consolidated PD-fund relationships obtain systematically better contractual terms?
Jensen (1986)	<i>Agency Costs of Free Cash Flow, Corporate Finance and Takeovers</i>	Foundational thesis that leverage operates as a disciplining device, reducing managerial discretion over free cash flow and binding the firm to debt service commitments.	Theoretical paper without direct empirical testing where their debt types nor sponsor-backed are divided and non-sponsor structures.	How does the function of debt operate across the distinct private and public debt structures, and do concentrated PD lenders complement or substitute the governance role of leverage itself?
Kaplan & Strömberg (2009)	<i>Leveraged Buyouts and Private Equity</i>	Synthesis on leveraged buyouts through the documentation of the role of debt as both an ex-ante commitment device and a mechanism for the contingent allocation of control rights through covenants.	Pre-2009 survey paper, predating the explosion of direct lending. It treats debt as a relatively homogeneous category, without disaggregating between private and public instruments.	How has the governance role of debt been reshaped by the emergence of direct lenders as an autonomous category, and does control allocation operate differently under unitranche versus syndicated structures?
Liu (2014)	<i>Debt Structure, Private Equity Reputation, and Performance in Leveraged Buyouts</i>	Shows that PE sponsor reputation shapes the debt package obtained. In practical terms, reputable sponsors negotiate more flexible	It is a working paper, US sampled only. The limitation relates to the reputation that is measured through proxies (exit track	Does the reputation effect operate in European mid-market contexts where track records are less observable, and does

		covenant packages, particularly with respect to negative covenants.	record, fund vintage) that may capture other latent dimensions.	reputation substitute for contractual protection with PD funds as it does with relational banks?
Loumioti (2022)	<i>Direct Lending: The Determinants, Characteristics and Performance of Direct Loans</i>	Characterizes direct loans along three main elements: informationally more opaque borrowers, more flexible covenant structures relative to institutional bank loans, and more intensive monitoring.	US sampled and pre-2020 period. Moreover, defines flexibility through amendment frequency, a proxy that captures formal use but not realized value.	Which types of amendment generate the greatest value for borrowers, and is contractual flexibility uniform across funds or does it vary with lender size and sector specialization?
Parrino, O'Malley & Stohs (2014)	<i>The Decline in Bank Credit and the Rise in Private Credit: The Case of Leveraged Buyouts</i>	Shows that the post-2008 contraction in bank credit created the structural space in which private credit expanded within the LBO segment, particularly in the mid-market and in highly leveraged deals.	Observation window restricted to the immediate post-crisis period. The capture of the second wave of expansion post-2020 and the recent takeout phenomenon by public markets is avoided.	Is the cyclical pattern of bank withdrawal and PD expansion symmetric across successive downturns, and what happens when bank credit re-emerges competitively, as partially observed in 2024?

2.7 From the literature to the research question

The three limitations identified in the previous section, which define the difficulty in establishing whether the flexibility premium is justified by the flexibility actually utilized, the concentration of existing evidence on large-cap US markets, and the almost total absence of a long-term perspective, combined with the summary of the literature contributions to this thesis, raise a question that will accompany the empirical analysis of the next chapter, with the aim of further exploring these limitations:

What is the trade-off between financing costs and operational flexibility in leveraged buyouts, and how does it differ between private debt and bank loans?

The question arises most directly from the paper by Haque, Mayer, and Stefanescu (2025), as their study decomposes the price differential between private and bank debt, but explicitly leaves open two questions regarding whether the differential, and the flexibility premium embedded within it, applies to European middle-market transactions and whether it translates into better long-term outcomes. This thesis addresses precisely this open question and extends it along further lines emerging from the research of Loumioti (2022), who measures flexibility through the frequency of contractual amendments, thus capturing its formal use rather than its actual value. But it is also built on the work of Block, Jang, Kaplan, and Schulze (2022), who analyse monitoring on a sample biased toward North American large-cap funds, leaving the European middle market largely unexplored.

CHAPTER 3 - AN EMPIRICAL EXAMINATION OF PRIVATE DEBT IN BUYOUT TRANSACTIONS

In this chapter, the analysis will initially focus on defining the methodology and approach used to verify the findings of the previous chapter, namely, how the various contractual peculiarities of private debt function and are applied in real-world transactions. This will then be followed by a concrete comparison of two pairs of comparable companies, including a thorough insight of the differences between transactions involving traditional debt and private debt.

The objective of this section is to bring the theme of this thesis to a concrete level, demonstrating how the previously presented theory is actually applicable in practice or whether, conversely, the world of private debt transactions is moving in a different operative direction.

3.1 Research design and methodology

This chapter tries to give a clear understanding of how the following empirical analysis will be structured. The selected method encompasses various levels of analysis, through a structural comparison of two pairs of case studies, divided as follows:

- *Case Study 1*: This comparison will focus on a pair of Italian companies, with the aim of providing a glimpse into the Italian market, which is rarely the subject of study in the private debt field, as can be seen from the various references used. This topic will be explored in greater depth in Chapter 3.3 entitled "*Case 1: The Italian Pair.*"
- *Case Study 2*: The second comparison pair focus on two European-level companies. The goal is to deliver an expanded view, encompassing the Italian market, yet still producing output distinct from the established American market. The analysis will be conducted in Section 3.4 named "*Case 2: The European Pair.*"

The choice was made to focus on the qualitative components and characteristics of transactions rather than a purely quantitative analysis based on econometric data. This is for several reasons, which affect the effectiveness and feasibility of the thesis. First, private debt transactions are privately negotiated and not subject to the disclosure requirements of public markets, so pricing components, covenant structure, and amendment history are rarely available in a standardized form. This is particularly true in the mid-market, and especially in the Italian mid-market, which this thesis focuses on, where borrowers are often family-owned businesses with a less than transparent financial history. Consequently, constructing a sample large enough to allow statistical inference would be impractical without privileged access to proprietary data. Second, the main large-scale studies measure flexibility almost exclusively through the frequency of amendments and waivers, a proxy that captures the use of flexibility but not its value and ignores the informal adjustments that a bilateral relationship can accommodate without generating any formal contractual event. A case-based design, on the other hand, allows us to reconstruct how flexibility was actually exercised, or held in reserve, within a specific relationship and throughout the entire holding period, rather than just at the time of structuring.

To isolate the effect of the financing structure on the trade-off, the analysis compares selected companies so that they are as similar as possible to obtain a result with a verifiable basis. The selected comparable companies, therefore, will be characterized by the same industry, similar business model, and generally reciprocal size and revenue, but will differ primarily in the source and structure of the acquisition debt. Financing choice is thus treated, to the extent permitted by available evidence, as the main cause of variation, so that the observed differences in covenant management, contractual flexibility, and operating outcomes can be attributed more confidently to the financing structure rather than to underlying differences between the companies.

It is therefore reiterated that it is operationally unlikely to compare two precisely identical companies, but that, as previously stated, the objective is to propose two cases as close as possible, as far as is available from actual market transactions. Indeed, in practice, two companies are never identical, and the search for a perfect match is necessarily an exercise in approximation. Even companies in the same sector and of similar size will differ in terms of customer concentration, capital intensity, progress path, ownership structure, and timing within the market cycle. Such residual asymmetries cannot be eliminated, but only recognized and managed. Where significant differences exist, they are explicitly highlighted within each case and weighted in the interpretation, so that the conclusions are not influenced or overestimated. The following comparisons should therefore be read as structured and rigorous, but subject to the slight asymmetries that any matching exercise conducted on real data inevitably entails.

Therefore, considering all the relative limitations present, the comparison is mainly oriented towards the structural and qualitative dimensions of each transaction, rather than towards the specific pricing values, which are reported only where they can be reliably established. Each transaction is examined along the dimensions that relate to the cost-flexibility trade-off developed in Chapter 1: seniority and guarantees; covenant structure, including whether the package served as an early warning mechanism or an effective constraint on management discretion; pricing and cost structure, where observable; maturity and amortization profile in relation to the sponsor's holding period; intensity of monitoring and concentration of the credit base; and, finally, the contractual and operational flexibility actually demonstrated throughout the holding period, including amendment activity and speed of renegotiation. The reconstruction of each transaction draws on sources realistically available for privately financed mid-market transactions like filed financial statements, industry and association reports (particularly AIFI for the Italian market), specialized transaction databases, financial press, and sponsor or lender communications. Since no single source is complete for a private transaction, evidence is triangulated across multiple sources, and any evidence that cannot be corroborated is presented as such. Each case is then constructed on its own terms, and the two pairs are subsequently interpreted in relation to each other and against the theoretical expectations of Chapter 2, taking the buyout financing structure, observed throughout the holding period, as the unit of analysis.

3.2 Research question in the empirical analysis

Once the selection method for the empirical analysis has been defined and the research question formulated in Section 2.7 understood, it now needs to be applied in practice, that is, translated into the specifics examined in some real transactions and limited by what is permitted by the available evidence.

What this thesis tries to do, is apply the research question in the analysis observing the existence and extent of contractual flexibility through the price premium paid by the borrower, demonstrating whether it is justified by the flexibility actually exercised during the transaction, rather than by that simply contractually stipulated. Moreover, it will be necessary to verify whether the trade-off operates according to the same logic in contexts where the syndicated alternative is structurally less accessible, or whether it takes on a different structure than that documented in major US studies. In summary, each transaction is examined based on the cost flexibility dimensions developed in Chapter 1, using as a guiding criterion the fact that the cost of private debt is fixed and measurable from the signing, while the value of flexibility is contingent and materializes only if and when the borrower needs it. Assessing the trade-off therefore means determining, for each transaction, whether this benefit has materialized sufficiently to justify the certain cost.

This will be a qualitative application of research question and does not aim to establish which instrument is superior in absolute terms, nor to isolate an average effect generalizable to all transactions, since the case study design is not the appropriate tool for this purpose. Instead, it seeks to clarify the conditions under which the choice of private debt is rational, taking into account that the temporal dimension cannot be fully observed in

this context, since both transactions were concluded too recently for post-transaction financial statements to be available, necessarily limiting the analysis to an ex-ante basis. Therefore, the literature gap related to the absence of evidence on whether the flexibility premium translates into superior outcomes over the holding period, cannot be answered by the empirical contribution. The single partial exception is the Mare/Eles case, whose terminal event allows the contractual flexibility of private debt to be observed in action rather than only in the term sheet.

3.3 Case Study 1: The Italian pair

The first selected pair is within the Italian mid-market and belongs to the technology and digital services sector, one of the sectors in which, as illustrated in Chapter 1, the development of private debt has been most recent and pronounced. The two companies examined are:

- *NVP S.p.A.*¹³⁹ (*Bank debt case study*), based in San Piero Patti, is an Italian media company specializing in television and digital engineering and production, with revenues exceeding €32 million in 2024¹⁴⁰. The company became the target of a public takeover transaction, during the 2025, aimed at consolidating ownership and supporting its future growth through a leveraged financing structure backed by traditional bank lenders.
- *Mare Engineering Group S.p.A.*¹⁴¹ (*Private debt case study*), based in Pomigliano d'Arco, with revenues exceeding the €31,6 million in 2024¹⁴², is one of the key players in digital engineering and ICT (Information and Communication Technology) field. In 2025, the company launched a public tender offer for Eles S.p.A., financed through a direct lending facility provided by private debt investors.

Following a careful review of all comparable companies for the analysis addressed in this section, using the matching criteria defined previously, NVP S.p.A. and Mare Engineering Group S.p.A. appear to be the best combination of all comparables present. Indeed, both companies operate in the same macro sector, differing only in the niche services offered. They are very similar in size and revenue, both operate in the Italian mid-market, and have submitted detailed tender offers filed with Consob¹⁴³. This allows for an efficient comparison analysis given that both companies have two clearly separate debt structures where NVP S.p.A. is financed through a traditional bank loan structure, while the Mare Engineering Group transaction is based on private debt financing.

The analysis will focus on a series of data and details emerging from the public offering and the financial statements of both companies and, if some data are not included in these two main documents, they will be appropriately reported and cited. Any residual differences due to slight comparability bias will be explicitly assessed for each individual transaction.

3.3.1 NVP S.p.A

The NVP case represents a case study of Italian bank debt. Specifically, it involves a take-private transaction of a listed small-cap technology company, completed in 2025 and financed by a club of commercial

¹³⁹ See <https://www.nvp.it>

¹⁴⁰ See NVP S.p.A., Financial Statements for the year ended 31 December 2024, available through the AIDA database.

¹⁴¹ See <https://www.maregroup.it>

¹⁴² See Mare Engineering Group S.p.A. Financial Statements for the year ended 31 December 2024, available through the AIDA database.

¹⁴³ CONSOB (Commissione Nazionale per le Società e la Borsa) is the Italian public authority responsible for regulating and supervising the securities market, listed companies, financial intermediaries, and public takeover bids, with the aim of ensuring investor protection, market transparency, and the orderly functioning of financial markets.

banks. All data used in this section comes from the Offer Document ¹⁴⁴(February 2025) filed with Consob and the consolidated financial statements as of December 31, 2024, extracted from the AIDA database. It is important to underline that the financial statements regarding fiscal year 2025 were not analyzed as they are not subject to publication by the company and are not available from the AIDA database.

The goal is to provide a standardized analysis that can compare macro areas in a homogeneous way, the areas analyzed will be the following: (a) *Company's profile*, (b) *Deal structure and rationale*, (c) *Financing structure*, (d) *Financial structure of the borrower (pre-deal)*, (e) *Trade-off cost-flexibility*, (f) *Critical reading and limitations* and (g) *Actual outcomes and recent developments*.

(a) Company's Profile

NVP S.p.A. is an Italian media-tech company active in the production of content for television networks and broadcasting services. Founded in 2007 and listed on Euronext Growth Milan¹⁴⁵ since December 2019, it is headquartered in San Piero Patti (Messina) and produces and broadcasts major sporting events, as well as entertainment and fashion productions, using various in-house developed technologies. Revenues are in general driven by sporting events and are showing a progressive internationalization.

The company's truly significant asset-heavy nature and the intensity of its investments are evidenced by net tangible fixed assets amounting to approximately €36 million at the end of 2024 (up from €30 million at the end of 2023). In 2024 alone, the company invested around €18 million in tangible and intangible assets, more than half of its turnover. Added to this are annual depreciation of more than €5 million, rising personnel costs (€10.3 million in 2024 for approximately two hundred and ten employees), and a structural reliance on loans, leasing, and factoring, with an average cost of debt of approximately 5.3%. In terms of risk, the company suffers from a historical concentration of customers. For the purposes of accurate disclosure, and to facilitate comparison with the comparable company under analysis, the following table summarizes the main items relating to the company's general profile.

Table 2: Company's profile (NVP S.p.A)

Item	NVP S.p.A.
Name	NVP S.p.A.
Head Quarter	San Piero Patti (Messina)
Founded	2007
Quotation	Euronext Growth Milan, since 5th December 2019
Sector	Broadcast / media technology
Operations	End-to-end production of TV content and broadcasting; remote production; major sporting and entertainment events

¹⁴⁴ See https://www.consob.it/documents/11973/9797550/Opa_NPV_20250210.pdf/af947d3d-b2fb-8a17-7edb-24d2467889f0?version=1.0&t=1739015453721&download=false

¹⁴⁵ Euronext Growth Milan (EGM) is the multilateral trading facility operated by Borsa Italiana designed for small and medium-sized enterprises seeking access to public capital markets under a simplified regulatory framework compared with the main regulated market.

Main subsidiaries	E.G. Audiovisivi (100%) Produzioni Italia (100%) Nuova Produzioni (100%); associate HiWay Media (48.08%)
Employees	~210 (group average, mid-2024)
Asset profile	Asset-heavy; Tangible assets ~€36 million; 2024 capex ~€18 million
Pre-deal ownership	Pintabona family (founders) + EGM free float

Source: Public Purchase Offer document (February 2025) filed with Consob and Financial statements as of December 31, 2024, extracted from the AIDA database

(b) Deal structure and rationale

The transaction under analysis is a buyout aimed at delisting the company, where the bidder is Darien S.p.A., a newly established Bidco¹⁴⁶ fully owned by NVP's three reference shareholders Ivan, Massimo, and Natalino Pintabona, founders and directors of the issuer, who also hold senior positions. This deal does not have a third-party private equity sponsor and, according to Investment Agreement dated December 16, 2024, the shareholders are contributing their 59.30% stake (4,505,000 shares, through an in-kind capital increase) to Darien and reinvesting in full, while the voluntary tender offer is aimed only at the residual free float (3,092,107 shares, 40.70%).

The rollover of the equity¹⁴⁷ majority is a significant structural element as it aligns the interests of those who will manage the post-delisting company and reduces the credit risk perceived by lenders, helping to explain access to favourable banking conditions. Consistently, the offer does not envisage any restructuring or changes to the corporate bodies as of the date of the Document, thus ensuring full managerial continuity, with the founders remaining in charge. The price set is €3.90 per share cum dividend, representing a premium of 29.1% over the official price prior to the announcement. Effectiveness is aligned with three main conditions:

- obtaining the golden power¹⁴⁸ clearance.
- exceeding the 90% capital threshold (Threshold Condition).
- the absence of substantially dangerous events compared to the half-yearly report ending June 30, 2024 (MAC Condition¹⁴⁹).

¹⁴⁶ Bidco (Bidding Company) is the special purpose acquisition vehicle used in leveraged buyouts to acquire the target company and enter into the acquisition financing.

¹⁴⁷ A rollover equity is an arrangement whereby the existing shareholders of the target company contribute (or "roll over") all or part of their equity stake into the acquisition vehicle (BidCo), rather than receiving cash consideration. In this case, the three founding shareholders transferred their combined 59.30% holding into Darien S.p.A. through a contribution in kind against newly issued BidCo shares, thereby retaining full economic exposure to the post-deal entity. In leveraged finance, an equity rollover is typically viewed favorably by lenders because binds the management team to the long-term performance of the business.

¹⁴⁸ Golden Power refers to the special powers granted to the Italian Government to review, impose conditions on, or veto transactions involving companies operating in sectors considered strategic for national security and public interest, including defence, energy, telecommunications, transport, and certain critical technologies.

¹⁴⁹ A Material Adverse Change (MAC) is a significant negative event, circumstance, or development that substantially affects the business, financial condition, operations, or prospects of a company and may entitle a contractual counterparty to renegotiate or terminate a transaction.

Table 3: Deal's terms (NVP S.p.A.)

Item	Data
Bidder (Bidco)	Darien S.p.A. (capital €50,004), controlled by the Significant Shareholders (I., M., N. Pintabona)
Archetype	Founder/management buyout aimed at delisting (no PE sponsor)
Structure	Contribution of 59.30% of the founders in Darien (rollover) + takeover bid on 40.70% of the free float
Compensation	€3.90/share cum
Max outlay	€12,06 Mln
Premium	+29.1% over the undisturbed price ~+23–27% over prior 1–12m VWAPs ¹⁵⁰
Equity Value/ Enterprise value	EqV €29,6 Mln EV €47,5 Mln
Conditions precedent	Golden power Threshold (> 90%) MAC
Outcome	~95–97.6% stake delisting from EGM on March 13, 2025
Timeline	Agreement/Announcement 16/12/2024 Offer 10–28/02/2025 Payment 07/03/2025
Advisors	Equity & Co. (financial advisor) Banca Akros (intermediary)

Source: Public Purchase Offer document (February 2025) filed with Consob

The premium is consistent across all time horizons and, as shown in Table 4, NVP is priced below the peer median on EV/EBITDA, but above it on EV/Sales and, markedly, on EV/EBIT, P/E. This pattern is consistent with the company's asset-heavy profile that have to face substantial depreciation and amortization compress

¹⁵⁰ VWAP (Volume-Weighted Average Price) is the average price at which a security has traded over a specified period, weighted by the volume of shares traded at each price level. It is commonly used as a benchmark to assess the fairness of an offer price relative to the stock's historical trading performance.

EBIT and net income relative to EBITDA, so the same enterprise value appears cheap on an EBITDA basis but expensive on an EBIT and earnings basis.

Table 4: Implied Multiples (NVP S.p.A.) vs. Comparable Companies (2023)

Multiples	NVP	Mediana peer¹⁵¹
EV/SALES	1,7x	1,4x
EV/EBITDA	6,1x	7,2x
EV/EBIT	15,3x	9,1x
P/E	40,8x	12,5x

Source: Public Purchase Offer document (February 2025) filed with Consob

(c) Financing structure

What emerges focusing on the payment features is that it is entirely supported by a bank loan provided by a group of banks comprising Crédit Agricole Italia (agent bank) and UniCredit, according to a contract dated January 28, 2025. The package of obligations is divided into several lines with different borrowers based on their different structures:

- Term Loan A (up to €14 million, borrower: Darien) finances the purchase of the shares.
- Refinancing Line (up to €4 million, borrower: NVP, which is also a party to the contract) refinances the existing debt.
- Cash Confirmation Line¹⁵² (up to approximately €12.68 million) supports the guarantees of exact fulfilment.

While the pricing, as shown in the tender offer document, it is pegged to the six-month EURIBOR (with a zero floor), plus a margin of 185 basis points, subject to step-ups or step-downs¹⁵³ that are tied to the leverage ratio reported in the balance sheet as of December 31, 2025, noticing a late payment interest is equal to the applicable rate plus 2%. In particular, Term Loan A is repaid in eight semi-annual instalments in arrears (nine for the Refinancing Line), with a final maturity of December 31, 2029 (a term of approximately five years) without including a cash sweep¹⁵⁴, so it is clear that the payment is amortizing. Furthermore, the requirement to hedge interest rate risk on at least 70% of the exposure for no less than four years must be taken into account because has a significant impact on flexibility, with first refusal rights and right to match in favour of the banks. In terms of monitoring, however, a single maintenance financial covenant (the leverage ratio) is provided, alongside an extensive series of negative covenants that also limit the group's strategic flexibility, completing

¹⁵¹ Peers are EVS, Evertz, IDNTT, Squirrel. EV/EBITDA computed by the bidder on 2023 adjusted EBITDA (€7.75m) and 30 Jun 2024 net debt; all peers except IDNTT are materially larger than NVP.

¹⁵² A *Cash Confirmation Line* is a financing line made available by lenders to support the issuance of a cash confirmation required in public takeover bids, demonstrating that sufficient financial resources are available to satisfy the bidder's payment obligations.

¹⁵³ *Step-up or step-down* is a contractual feature that adjusts the applicable margin over the reference rate upward (step-up) or downward (step-down) based on the borrower's financial performance, typically measured by the leverage ratio at pre-agreed test dates. If leverage falls below a specified threshold the margin decreases, rewarding deleveraging while if leverage rises above another threshold the margin increases, compensating the lender for higher risk.

¹⁵⁴ *Cash Sweep* is a mandatory prepayment mechanism requiring the borrower to apply a predetermined percentage of excess cash flow (typically defined as operating cash flow net of scheduled debt service, capex, working capital changes and permitted distributions) to the early repayment of the outstanding principal. The sweep ensures that surplus liquidity is driven to debt reduction rather than retained or distributed, thereby accelerating deleveraging.

the risk management by a comprehensive guarantee package and a commitment to shareholder recapitalization. Further details are provided in Table 5 below.

Table 5: Financing structure (NVP S.p.A.)

Item	Data
Lenders	Crédit Agricole Italia (agent) + UniCredit — bank club
Facilities	Term Loan A ≤€14m (Darien) · Refinancing Line ≤€4m (NVP) · Cash Confirmation line ≤€12.68m
Pricing	6M EURIBOR (zero floor) + 185 bps; leverage-based step up/down; default +2%
Maturity	31 Dec 2029 (~5 years)
Repayment	Amortising in 8 semi-annual instalments ¹⁵⁵ ; no cash sweep
Interest hedging	Mandatory ≥70% for ≥4 years (lenders' first refusal / right to match)
Financial covenants	Leverage ratio + extensive negative covenants
Security	Pledge over 100% of Darien and over NVP shares Assignment of intragroup loans founders' personal guarantees Capitalisation undertaking

Source: Public Purchase Offer document (February 2025) filed with Consob

Table 6: Company's economic-financial situation (NVP S.p.A., consolidated, € Mln)

Indicator	2023	2024
Revenue	27,48	32,14
Production Value	31,09	34,84
EBITDA ¹⁵⁶	6,72	9,21
EBITDA margin (on revenue)	24.5%	28.7%

¹⁵⁵ 5 years with 8 semi-annuals instalment that are equal to 4 year, so there a year of pre-amortization

¹⁵⁶ EBITDA = (value – cost of production) + D&A.

EBIT	2,63	3,99
Personnel costs	9,31	10,28
Net income	0.73	1.67

Source: Public Purchase Offer document (February 2025) filed with Consob and Financial statements as of December 31, 2024, extracted from the AIDA database

(d) Financial structure of the borrower (pre-transaction)

To provide a clear picture of the company in the pre-negotiation phase, the consolidated financial statements as of December 31, 2024, were analyzed confirming to be the last financial year prior to the disbursement of the loan and the last financial statements accessible to the public. What emerges from the data is a vision of a growing company but undergoing intense investment, characterized by a seemingly solid operating cash flow (€12.0 million), but countered by €18.1 million in investments that generate a negative free cash flow of approximately €6 million, financed by new debt. Consequently, the net financial position thus increases from €15.3 million to €21.8 million, driven by debt to banks (€17.4 million) and debt to other lenders, which rose to €6.0 million.

Regarding statutory EBITDA (€9.2 million in 2024), pre-transaction leverage is around 2.4x, with financial expense coverage exceeding 7x. This provides the operating basis on which the transaction will calculate the acquisition debt, according to which the net increase in debt would bring the consolidated net financial position to approximately €34 million and leverage from ~2.4x to ~3.7x¹⁵⁷ (indicative estimate, to be confirmed with the 2025 NVP/Darien financial statements). Essentially, the transaction does not operate from a debt-free structure but superimposes acquisition financing on an already committed base.

Table 7: Capital structure & cash generation ((NVP S.p.A., consolidated, €Mln)

Item	2023	2024
Bank debt	15.72	17.43
Other financial creditors (leasing/factoring)	3.30	6.00
Cash & financial assets	3.67	1.61
Net financial position (NFP)	15.31	21.82
Leverage (NFP / EBITDA)	2.3x	2.4x
Interest coverage (EBITDA / net fin. charges)	6.2x	7.4x

¹⁵⁷ Estimate derivation was made with consolidated NFP at December 31, 2024 (€21.8 million, from filed financial statements) + acquisition debt disbursed under Term Loan A (≤€14 million, to cover the consideration; maximum disbursement ~€12 million), assuming the Refinancing Line (≤€4 million) is neutral on the NFP as it is intended to refinance existing debt → pro-forma NFP of ~€34–36 million. Compared to 2024 statutory EBITDA (€9.2 million), it implies leverage of ~3.7–3.9x (central value ~3.7x). The estimate does not incorporate cash generation/absorption and amortization between December 31, 2024 and closing (March 2025), nor does it adopt any different definition of EBITDA in the contract; the actual figure will emerge from the 2025 post-merger financial statements (NVP/Darien).

Operating cash flow	7.26	11.99
Capex (tangible + intangible)	(10.91)	(18.06)
Free cash flow	(3.65)	(6.07)
Equity	14.41	15.49

Source: Public Purchase Offer document (February 2025) filed with Consob and Financial statements as of December 31, 2024, extracted from the AIDA database

(e) Trade-off cost–flexibility

The NVP structure illustrates in a pure form the banking aspect of the trade-off at the heart of this thesis' research question, separating the two sides and, finally, showing how they compete in terms of debt service. On the cost side, the financing is remarkably cost-effective, as demonstrated by the 185-basis point spread over EURIBOR, which places the transaction in the typical range of relationship bank credit. This is affected by the relationship banking with two leading institutions already exposed to the group, the alignment ensured by the founders' equity rollover, their personal guarantees, and managerial continuity, and, finally, the small ticket size (≤ 14 million), typically too small for a direct lending fund. The great value of the low cost is also guaranteed with extensive collateral (pledges, personal guarantees, capitalization commitment) that reduces the loss given default for banks. On the flexibility side, however, the price is a marked cash and strategic rigidity, primarily due to the amortizing repayment in eight semi-annual instalments, which depletes liquidity throughout the investment horizon. Furthermore, the requirement to hedge the interest rate at 70% for four years eliminates the benefit of any reductions and imposes a hedging cost; the duration of approximately five years is short; numerous negative covenants limit the freedom to borrow, distribute dividends, sell assets, or carry out extraordinary transactions. However, this rigidity is partially mitigated by the presence of only one maintenance financial covenant, albeit smaller than that typical of private debt, and the absence of cash sweeps.

The company is showing an investment phase in which free cash flow is negative (-€6.1 million in 2024), because capex (€18 million) significantly exceeds operating cash flow (€12 million), this ensures rigidity affects the cash flow profile. Amortizing debt requires the repayment of equity capital while cash is absorbed by investments, with semi-annual payments and capex competing for the same resources. Therefore, a bullet structure like that of the private debt comparison would instead preserve cash for investments, deferring capital repayment until maturity or exit. This is where the trade-off becomes concrete, and it's clear that low banking costs come at the cost of rigidity, which becomes more severe the more the company is hungry for investment.

The motivations for this transaction are explicitly the pursuit of greater management, operational, and strategic flexibility, guaranteed by private control, so it can be said that the trade-off also has a qualitative effect. The operation thus pursues flexibility in terms of shareholding and management but finances it with the least flexible instrument in terms of cash flow. This apparent contradiction is explained by the nature of the borrower (a founder with consolidated banking relationships, a small ticket, and strong collateral) and illustrates how the choice of debt financing is not neutral with respect to the stated objectives.

(f) Critical reading and limitations

The analysis showed a comprehensive picture of this transaction in the most objective way, but actually there are several problems that must be exposed, which define the case study and strengthen its interpretation on several fronts, starting with the low cost, which is partly a result of creditworthiness and

relationship, given that it is a relationship pricing model, and a low LGD profile. Indeed, the tangible collateral (~36 million), the shareholders' personal guarantees, and the relationship with two already exposed banks mitigate the expected loss in the event of insolvency and so, a portion of the low cost is explained by the creditworthiness and banking relationship, which must be taken into account in the subsequent comparison section, so as not to attribute what is actually a relationship effect. It also be clarified that the observable holding horizon is null as NVP S.p.A. is delisted in March 2025 and the first post-transaction financial statements have not yet been filed and will not be publicly available. This case study documents the architecture of the financing at the time of signing, not its management over time, contributing to the ex-ante structural analysis and it's clear that it focus on the instrument field, not the sponsor side, since NVP is a founder buyout without a private equity sponsor, and so the sponsor's reputational variable, central to Chapter 2, has not been considered.

To provide a complete final overview through a critical reading, a structural asymmetry emerges from the drawing, as the debt weighs on a BidCo dedicated solely to the target. With an acquisition ticket of only ~14 million, direct lending was not realistically a viable option, being too small for the operating model of a debt fund. It follows that the choice of type may be partly superficial, and this is consistent with Denis and Mihov's interpretation, where the borrower tends to turn to the debt source to which it actually has access, given its size and nature. Recognizing this correctly limits the scope of the case study to an analysis of the banking instrument in the context of a small-cap, asset-heavy, and founder-led borrower.

(g) Actual outcomes and recent developments

To provide a more comprehensive overview, the next discussed developments provide the current status of the transaction but does not affect the ex-ante comparison developed in Section 3.5, nor does it constitute a reconstruction of the holding period described.

As it emerges, on June 18, 2026, the Darien offering has proceeded exactly as planned, has not been challenged, and has been authorized under the golden power regulations, reaching the threshold of more than 90% of the capital, satisfying the MAC clause. Precisely, the offering raised approximately 95–97.6% of the capital¹⁵⁸, with the company's delisting from Euronext Growth Milan on March 13, 2025¹⁵⁹. About the management structure that was the central aim in the operations, the founding shareholders Pintabona family, have retained full control of the company, thus ensuring managerial continuity. However, is not still possible to compare the resulting post-merger due to the consolidated financial statements (FY2025, NVP/Darien) that are not yet public and not disclosed, confirming that the holding period remains unobservable here.

It is clear that the rigidities of the banking structure, as previously discussed, were contractualized to operate over a normal holding period. However, since the transaction was not subject to any disputes or observable adverse events, the downside of the cost-flexibility trade-off associated with bank financing was never tested over the observed time horizon. In summary, it can be stated that NVP foregone liquidity and strategic flexibility upon signing and, to date, has had no need to resort to them.

3.3.2 Mare Engineering Group S.p.A

With Mare Engineering S.p.A., the study of the Italian pair adds a further layer of knowledge to the empirical analysis, using as an example a clear private debt financing execution applied to a take-private transaction aimed at acquiring the listed company Eles, with a view to delisting. The transaction was promoted

¹⁵⁸ See https://www.nvp.it/home-new/wp-content/uploads/2025/02/NVP-CS-Risultati-provvisori-raggiungimento-95_.pdf

¹⁵⁹ See https://www.consob.it/documents/11973/9797550/Opa_NPV_comunicato_20250303.pdf/018f9c90-87db-dbce-48bc-48552a9736ea?version=1.0&t=1741178978299&download=false

by Mare and financed by direct lending funds. The presentation will always aim to strengthen the research question, specifying that this transaction involves a target company (the target), Eles, while the debt holder is Mare, the acquiring company on which the financial analysis will focus. It should also be noted that the payment occurred in January 2026 and the post-transaction consolidated financial statements are not yet available, so the observable holding horizon, as in the case of NVP S.p.A., is virtually nil, directing the analysis towards an ex-ante version referring to the financing architecture at the time of signing, exactly as with the previous company. The data comes from the Offer Document¹⁶⁰ (November 2025) and from the consolidated financial statements of Mare Engineering S.p.A. as of December 31, 2024, and will be analyzed with the same seven macro areas of the previous one section plus an additional section, (g) *Actual outcomes and recent developments*, related to this specific deal.

(a) Company's profile

In this case, the transaction profile presents two distinct entities:

- Eles Semiconductor Equipment S.p.A. (*target*) is a niche technology company, relatively small but with stable margins, that designs and manufactures semiconductor reliability testing equipment, along with co-engineering services for chip design and manufacturing. It was founded in 1988, and the company is headquartered in Todi (Perugia), operating globally in sectors such as automotive and defence. It is listed on the EGM, with outstanding warrants.
- Mare Engineering Group S.p.A. (*bidder and the borrower*) founded in 2001 and listed on the EGM is an engineering and technologies company, active in applied engineering in sectors such as aerospace and defence, infrastructure, industry, and transportation, with a strong focus on digital transformation and artificial intelligence. It is led by founder and CEO Antonio Maria Zinno. Its capital profile is markedly intangible-heavy, as confirmed by the 2024 financial statements, where intangible assets (goodwill from acquisitions and capitalized development) amount to €30.6 million compared to just €1.4 million in tangible assets. This has direct implications for financing, since unlike tangible assets, goodwill offers little realizable value in the event of liquidation, with an upward impact on the loss given default.

Table 8: Company's profile (Eles/Mare Group S.p.A.)

Item	Eles (Target)	Mare Group (bidder / borrower)
Name	Eles Semiconductor Equipment S.p.A.	Mare Engineering Group S.p.A.
Head Quarter	Todi (Italy)	Pomigliano d'Arco (Italy)
Founded	1988	2001
Quotation	Euronext Growth Milan	Euronext Growth Milan
Sector	Semiconductor test & reliability equipment	Engineering & enabling technologies

¹⁶⁰ See https://www.consob.it/documents/11973/9797550/opa_mare_20251205.pdf/efe44fae-dbee-db5a-6b36-6dc1d011d52e?version=1.0&t=1764331106900&download=false

Operations	Semiconductor reliability test equipment; chip co-engineering	Engineering & enabling technologies (Aerospace & Defence, Infrastructure, Industry, AI)
Employees	~194	~510
Asset profile	Technology niche and small scale	Intangible-heavy with intangibles €30.6m vs tangibles €1.4m (2024)
Pre-deal ownership	Founders & management; warrants outstanding	A. M. Zinno (CEO/founder); buy-and-build platform (La SIA, Powerflex, M2R)

Source: Public Purchase Offer document (November 2025) filed with Consob and Financial statements as of December 31, 2024, extracted from the AIDA database.

(b) Deal structure and rationale

The transaction's stated strategic rationale is to create a national hub for high-tech applications in critical systems, combining Eles' expertise in semiconductor testing with Mare's artificial intelligence platforms and engineering, focusing on aerospace, defence, and semiconductors. The structure is a leveraged industrial acquisition (buy-and-build), and the offer was a totalitarian voluntary tender offer aimed at building a controlling stake and, subject to the relevant thresholds, delisting Eles.

The price set is €2.61 per share (increased from the €2.25 initially announced, also taking into account the price of a previous offer), for a maximum outlay of €36.9 million, with an embedded premium of 17.4% on the official price and 60.4% on the price prior to the announcement of the offer (June 9, 2025). A distinctive feature of the transaction is that it took place in the presence of a competing offer launched by Xenon Private Equity, a circumstance that likely supported the increase in the price. Its effectiveness was subject, among other things, to a MAC/MAE¹⁶¹ condition and the thresholds necessary for delisting. Given the nature of the business (semiconductors, defence), the golden power aspect is also relevant. As emerges, many features of the deal's action plan appear similar, if not identical, to the S.p.A. case, making the comparability between the two financings very interesting. With regards to the valuation plan, the consideration expresses a capitalization of Eles of 44.7 million and an Enterprise Value of 43.7 million, equal to an EV/EBITDA multiple of 7.28x (2024).

Table 9: Deal's terms (Eles/Mare Group S.p.A.)

Item	Data
Bidder/Target	Mare Engineering Group S.p.A. / Eles Semiconductor Equipment S.p.A.
Archetype	Industrial buy-and-build acquisition

¹⁶¹ Material Adverse Change (MAC), also referred to as *Material Adverse Effect (MAE)*, denotes a significant deterioration in the target's business or financial condition that may trigger specific contractual protections.

Structure	Voluntary tender offer for all target shares
Compensation	€2.61/share at the offer document (Nov 2025),
Max outlay	€36.9m
Premium	+17.4% (3 Oct 2025); +60.4% vs 9 Jun 2025 (pre-announcement)
Equity Value/ Enterprise value	EqV €44.7m (Eles) EV €43.7m (Eles)
Conditions precedent	MAC/MAE delisting thresholds golden-power profile
Outcome	Currently, Mare's offer closed on 30 December 2025 having secured a relative majority (~40.97% of capital) but neither control nor the delisting thresholds. A competing offer by Xenon Private Equity VIII (in concert with the founding Zaffarami family), raised to €3.20/share, prevailed. On 12 March 2026 Mare tendered its entire ~40.97% Eles stake into the Xenon offer for ~€26.3m (gross capital gain ~€5.6m). Eles was acquired by Xenon; Mare exited the investment. The initial outcome was Delist Eles and integrate it into the Mare group.
Timeline	Acceptance 5–30 Dec 2025 Settlement 8 Jan 2026
Advisors	Intermonte SIM Sodali & Co

Source: Public Purchase Offer document (November 2025) filed with Consob .

Table 10: Eles (target) financials and implied multiples (€Mln, consolidated)

Indicator	2023	2024
Revenue & operating income	33.7	36.5
EBITDA	5.1	6.0
EBITDA margin	15.4%	16.8%

EV/Sales	1.33x	1.22x
EV/EBITDA	8.65x	7.28x

Source: Public Purchase Offer document (November 2025) filed with Consob and Eles Semiconductor Equipment S.p.A. Financial statements as of December 31, 2024, extracted from the AIDA database.

(c) Financing structure

For this case study the payment is direct, specifically, by the private debt companies that are Generali Asset Management SGR, on behalf of Generali Direct Private Debt Fund – European Direct Private Debt Fund 1 and Generali Exklusiv Fonds Private Debt, and so it is clear is based on a private debt transaction provided through Generali's direct lending funds, that was formalized through a contract signed on November 19, 2025. The operation has a total value of approximately 50 million euros, divided into two main blocks:

- Facility A1 (up to €40 million) for the payment of the consideration and transaction costs.
- Facility A2 (up to €10 million) for the repayment of certain existing Mare loans.

For the pricing part, the cost of capital is indexed to the six-month EURIBOR (with a zero floor) plus a margin of 550 basis points that is subject to a variability mechanism of +25/–50 basis points depending on the leverage ratio. As in the case of NVP S.p.A., what emerges from the operation's structure is that it provides for a bullet repayment where the capital is repaid in a single payment at maturity, set at seven years in this case, without intermediate amortization instalments. The details of the public offering also highlight the absence of an interest rate coverage obligation that is left to the borrower's discretion, and a broad set of financial covenants covering three main maintenance parameters on a consolidated basis: Leverage Ratio (quarterly), Interest Coverage Ratio, and Debt Service Coverage Ratio (six-monthly, from December 31, 2025) with an equity cure mechanism. The agreement also includes several early repayment obligations, and an extensive package of first demand guarantees for the Material Companies (representing a total of 80% of the group's EBITDA), pledges on significant shareholdings, Eles shares, and accounts, and the assignment of intra-group receivables.

Table 11: Financing structure (Eles/Mare Group S.p.A)

Item	Data
Lenders	Generali direct-lending funds (Generali AM SGR) — private debt
Facilities	Facility A1 ≤€40m (consideration) Facility A2 ≤€10m (refinancing); €50m total
Pricing	6M EURIBOR (zero floor) + 550 bps; +25/–50 ratchet on leverage ratio
Maturity	7 years
Repayment	Bullet (single repayment at maturity)
Cash sweep	Yes (excess-cash mandatory prepayment)

Interest hedging	Not required
Financial covenants	Leverage Interest coverage Debt service coverage + equity cure
Mandatory prepayments	Change of control, key managers, illegality, LTV, warrants, offer-related events
Security	First-demand guarantees from Material Companies ($\geq 80\%$ group EBITDA); pledges over participations, Eles shares and accounts; assignment of intragroup receivables

Source: Public Purchase Offer document (November 2025) filed with Consob .

(d) Financial structure of the borrower (pre-deal)

In this transaction the borrower is the buyer (Mare), and so a post-transaction leverage cannot be reliably constructed, unlike a take-private approach in which the debt is placed on the target.. As of December 31, 2024, Mare had net financial debt of approximately €23 million (€22.7 million in bank debt and a €3.1 million minibond, compared to €2.6 million in cash). However, Mare's equity increased from €18.8Mln at the end of 2023 to €40.3Mln in 2024 following a capital increase, and further to €52.7m by 30 June 2025. Generally talking, this is the most complete picture available immediately prior to the disbursement of the loan.

Particularly relevant the 2024 EBITDA (approximately €10.9 million) that is inflated by approximately €3.5 million in capitalized internal work and €2.7 million in contributions and so, the "clean" EBITDA is materially lower. Furthermore, cash generation is negative and absorbed by the buy-and-build strategy, given that in 2024, operating cash flow (€3.4 million) is largely absorbed by investments of approximately €21 million, compared to free cash flow of approximately €18 million, financed by capital raising and debt.

Table 12: Income statement (Mare bidder/borrower, consolidated, €Mln)

Item	2023	2024
Revenue (sales & services)	27.41	31.67
Value of production	39.41	44.65
EBITDA (statutory)	9.96	10.91
EBIT	4.78	4.58
Net income	2.38	1.82

Source: Mare Engineering Group S.p.A. Financial statements as of December 31, 2024, and December 31, 2023, extracted from the AIDA database.

Table 13: Mare (bidder/borrower) capital structure (consolidated, €Mln)

Item	2023	2024
Bank debt	22.60	22.72
Bond (minibond)	3.74	3.11
Cash	0.99	2.55
Net financial position (NFP)	net debt ~25.4	net debt ~23.3
Equity	18.76	40.26
Operating cash flow	0.71	3.45
Investments (capex + M&A)	(4.00)	(21.13)
Free cash flow	(3.29)	(17.68)

Source: Mare Engineering Group S.p.A. Financial statements as of December 31, 2024, and December 31, 2023, extracted from the AIDA database.

(e) Trade-off cost-flexibility

Here the analysis reaches its critical point, summarizing the main strengths and weaknesses that will then be explored in the cross-analysis with NVP S.p.A. and which directly impact the research question. It is noteworthy that the structure of Mare's transaction presents a more costly financing option than bank credit, with a margin of 550 basis points over EURIBOR, bringing the all-in cost (assuming a six-month EURIBOR of around 2.1–2.2% at the end of 2025¹⁶²) to around 7.5–7.7%. It is important to note, however, that a portion reflects genuine risk factors of the borrower, which the lender prices primarily due to a high LGD influenced by the intangible-heavy profile (€30.6 million in intangible assets, largely goodwill, versus €1.4 million in tangible assets), which implies a low realizable value of the collateral in the event of liquidation, very different from that of a physical asset. The prospective leverage certainly also plays a role: the borrower's net cash is recent (derived from the capital raising in 2025), and, on a seven-year bullet, the lender prices the expected debt, namely the facility's €50 million, which is significant compared to the borrower's starting EBITDA, to which future acquisitions will be added.

Regarding the flexibility mobility, the structure offers significant margins, given that the seven-year bullet repayment does not reduce cash flow over the investment horizon, as no amortization instalments compete with the buy-and-build strategy, and the capital is repaid at maturity. This cash flexibility is particularly valuable precisely because Mare's free cash flow is negative and absorbed by acquisitions and development, providing a structure that does not require amortization and preserves resources for future growth. As emerged from the previous theoretical chapters, private debt is also more closely monitored in the empirical analysis in question, imposing three financial covenants, a cash sweep on excess cash, and a set of guarantees and early

¹⁶² The indicative all-in cost is obtained by adding the contractual margin (550 bps) to the 6-month EURIBOR prevailing around the signing date (19 November 2025), which stood at approximately 2.1% (source: euribor-rates.eu).

repayments. The logic is consistent with theory, as the fund grants flexibility in terms of cash and time, but it combines this with more stringent monitoring and makes the fund pay for this constant monitoring.

(f) Critical reading and limitations

However, there are several precautions and critical readings that must be taken into consideration for this transaction involving Mare Engineering S.p.A., starting with the high cost, which is not just a channel premium but reflects a portion of the margin remunerating the borrower's real risk factors, given the high LGD of the intangible collateral and the prospective leverage on a long bullet of an acquisition platform (as specified in the previous section). Distinguishing this risk component from the channel/flexibility component will be essential in the cross-analysis to avoid overestimating the channel effect, where private debt is generally more expensive because it finances a risk profile that bank credit would treat differently. As in the case of NVP S.p.A., the observable holding horizon is zero, given the fact that the payment occurs in January 2026 and no post-transaction financial statements are yet available, thus orienting the financing architecture documentation to the stipulation rather than its management over time. Finally, as with the Italian comparable, the case tests the application of the instrument and not the sponsor's influence, as the deal was not managed by a private equity sponsor but by an industrial buyer pursuing a buy-and-build strategy. Furthermore, it should not be forgotten that the debt is held by the acquiring group (Mare Engineering S.p.A.) and not by a vehicle dedicated solely to the target. The size of the ticket (€50 million) and the diversified and well-capitalized nature of the borrower make private debt a truly favourable channel, consistent with the bibliography of this thesis, according to which the borrower turns to the debt source compatible with its size and profile.

(g) Actual outcomes and recent developments

Unlike the NVP case, the update on the current status of the Mare deal presents significantly different conditions but does not fall within the structural comparison, which remains strictly *ex ante* and based on the financing architecture contractualized at the time of signing. What is reported is a single terminal event that resolved itself rapidly (within approximately four months of signing) precisely because the transaction transformed into a competitive auction rather than a holding period characterized by operational management. Moreover, every data discussed about this topic come from the updated tender offer filed with Consob¹⁶³.

Mare's offer was challenged by the Eles board of directors, which rejected it as hostile, while the founding Zaffarami family supported a competing offer launched by Xenon Private Equity VIII, acting in concert with the same family. From that point, a bidding war ensued, with Mare increasing its offer from €2.25 to €2.61 and subsequently to €2.65 per share, while Xenon increased its offer from €2.60 to €2.95 and finally to €3.20. During the dispute, Mare publicly distanced itself from its original rationale, declaring that delisting was no longer a strategic objective. Consequently, Mare's offer was concluded on December 30, 2025, with a relative majority of approximately 40.97% of the capital, insufficient both to gain control of the company and to meet the thresholds required for delisting. On March 12, 2026, Mare contributed its entire stake to Xenon's offer for approximately €26.3 million, realizing a gross capital gain of approximately €5.6 million (average implicit entry cost of approximately €20.7 million), confirming the acquisition of Eles, which was ultimately acquired by Xenon.

As already mentioned, this outcome does not invalidate the *ex-ante* comparison, but rather reformulates the trade-off from a perspective directly relevant to the research question. The €50 million direct lending facility financed an offering that failed to achieve its strategic objective, but the structure absorbed the change in scenario smoothly. The lack of a scheduled repayment plan avoided the need to restructure an existing

¹⁶³ See https://www.consob.it/documents/11973/11173223/opa_eles_cs20260312.pdf/024a4ebc-1f80-57cc-e47f-9fee0036e7e6?version=1.0&t=1773674741037&download=false

repayment plan, while the mandatory early repayment clause required for events related to the offering or partial acquisitions was precisely the contractual mechanism designed for the scenario that actually occurred.

It should be noted, however, that the gain realized by Mare arose from the competitive dynamics of the auction and not from the financing structure as such. What the private debt provided was the option to exit a non-strategic minority position in an orderly manner, not the gain itself. Furthermore, approximately €5.6 million represents a gross capital gain, and this amount must be considered net of approximately four months' financing costs on the amount actually drawn. This in itself constitutes the clearest illustration of the asymmetry in which Mare incurred a certain cost from day one, while the benefit deriving from flexibility was contingent and materialized in an unforeseen form, as an option to exit from a contested acquisition, rather than as liquidity preserved for an integration process that never took place.

3.4 Case Study 2: The European pair

Switching the focus on the second selected pair, it extends the analysis to European large-caps, with a specific emphasis on the United Kingdom, which, as illustrated in Section 1.2.2, represents the most mature and largest direct lending market that serves as a benchmark to assess this asset class. It is followed by France, that is the other major market in terms of activity in the European context. Moreover, the United Kingdom also represents a particularly suitable context for an ex-ante study of acquisition financing, as public-to-private transactions involving listed companies are subject to disclosure requirements under the rules on takeover bids, making the acquisition debt contract observable through public documents unlike most of Italian transactions, which are not subject to disclosure. The two companies that will be examined are the following:

- *Keywords Studios plc*¹⁶⁴ (*bank debt*), with the main branch in Dublin and listed on the London AIM¹⁶⁵, is a global provider of creative and technologically advanced services to the video game and entertainment industry, with revenues of approximately €780 million in 2023¹⁶⁶. Regarding the deal under analysis, in 2024, the company underwent a public-to-private acquisition led by a consortium of EQT¹⁶⁷, Temasek¹⁶⁸, and CPP Investments, financed through an internationally syndicated bank loan.
- *JTC plc*¹⁶⁹ (*private debt*), with the headquartered in Jersey and present in FTSE 250 on the London Stock Exchange's Main Market, provides corporate and private client services to institutional investors and private clients, with revenues of approximately £305 million in 2024. In 2025, the company agreed to a public-to-private acquisition by Permira, together with CPP Investments, financed through a private credit package (direct lending).

Also in this case the matching criteria previously defined for the Italian pair in this comparison are applied and, Keywords Studios plc and JTC plc emerge as the best comparable pair available, since both are asset-light, high-tech service platforms with a consistent growth through a continuous buy-and-build strategy. Both were listed companies subsequently delisted by private equity sponsors within the same market cycle (2024–2025), have comparable deal sizes, with enterprise values of approximately £2.2 billion and £2.7 billion, respectively. The only essential difference concerns the source and structure of the acquisition debt, in fact Keywords structure is a syndicated bank loan, while for JTC it is through private credit. However, there is an

¹⁶⁴ <https://www.keywordsstudios.com>

¹⁶⁵ *AIM (Alternative Investment Market)* is the London Stock Exchange's market for smaller and growing companies, operating under a lighter regulatory regime than the Main Market.

¹⁶⁶ See <https://www.keywordsstudios.com/download/file/eDItdjVVTTJ3U29EekIUQ1RXS0ITdz09/Full-Year-Results-2023-report/>

¹⁶⁷ EQT invests through BPEA Private Equity Fund VIII, the Asia-focused buyout fund managed by EQT Private Capital Asia (formerly Baring Private Equity Asia, acquired by EQT in 2022).

¹⁶⁸ In the offer documentation, Temasek's 24.5% stake is held through Rosa Investments Pte. Ltd., the vehicle through which Temasek invests in the consortium. References to "Temasek" in this analysis therefore correspond to "Rosa Investments" in the formal scheme documents.

¹⁶⁹ <https://www.jtcgroup.com>

asymmetry regarding the comparability, cause the target market is different since one company provides services to the video game industry, and on the other, trust and corporate services, a factor that is acknowledged and considered in interpreting the results.

Meanwhile the comparison between the two cases is constructed differently from the one previously completed since the analysis of the European case is intentionally different from that of the Italian case, in order to complete and avoid duplicating the framework outlined in Section 3.3. In the Italian case, in fact, both financings were disclosed in detail in the Consob offer documents, allowing for a precise comparison of the cost of debt. In contrast, in the European case, this symmetry does not exist because the private credit financing of the JTC transaction is fully documented in publicly available primary sources, while the commercial and quantitative terms of the Keywords syndicated loan are not publicly available, as they are contained in a private financing agreement whose disclosure is not required by UK takeover regulations. Therefore, rather than considering this a limit, the analysis transforms it into the organizing principle of the comparison and, for this reason, the European comparison is conducted primarily on a structural and qualitative basis, addressing various issues such as the flexibility architecture, the nature of the funding base, the presence of a high-level financial sponsor, and the loss-given-default profile implied by a balance sheet heavily focused on intangible assets. The asymmetry in disclosure between the two structures is considered a relevant factor, and the two pairs are therefore complementary to the Italian pair, which delivers the exact cost differential, while the European pair takes into account more qualitative variables.

The entire next section of the analysis is based on data and information derived from the public documentation relating to the takeover offers and the financial statements of the two companies and, for Keywords, this includes the documentation from the offer led by EQT¹⁷⁰ and the annual financial statements for 2023, the last financial year as a listed company¹⁷¹. While, for JTC, documentation is related to the offer launched by Permira¹⁷² and the annual financial statements for 2024. Since the detailed commercial terms of a syndicated loan are not always reported in the public documentation of takeover transactions, any information about the financing that exceeds what is officially disclosed (e.g., the precise pricing) is reported based on specialist sources and appropriately cited and data that cannot be independently verified is explicitly labelled as such. As in the case of the Italian pair, residual differences resulting from comparability bias are explicitly assessed within each case study.

3.4.1 Keywords Studios plc

The first firm to be assessed, Keywords Studios, represents the European syndicated bank debt case that shows a public acquisition of an AIM-listed video game services company, completed in October 2024 and financed through an international syndicated bank loan led by a group of several commercial banks.

The data in this section are derived from Keywords' financial results for the FY 2023¹⁷³, which also is its last full financial year as a listed company, and from the announcements of the EQT offering and its completion¹⁷⁴. The size and structure of the acquisition credit facility are derived from specialized financial reports and, since its commercial terms are not public, these documents will be cited appropriately throughout the analysis. The 2024 financial statements are not analyzed because, following the completion in October 2024, Keywords ceased to be a listed company. Furthermore, it should be noted that currency is a key element of this document

¹⁷⁰ See <https://www.londonstockexchange.com/news-article/KWS/recommended-final-cash-offer/16549542>

¹⁷¹ See <https://www.keywordsstudios.com/download/file/eDITdjVVTJT3U29EekIUQ1RXS0ITdz09/Full-Year-Results-2023-report/>

¹⁷² See <https://media.permira.com/media/tf5b11jo/rule-27-announcement-10-november-2025.pdf>, <https://media.permira.com/media/gcqioqkf/interim-facilities-agreement-10-november-2025.pdf> and https://media.permira.com/media/havng150/commitment-letter-6-november-2025.pdf?_gl=1*16zg8rt*_ga*MTMyMDI1MjU0NC4xNzgyMTI0MjU2*_ga_G5830V58W3*czE3ODIxMjQyNTYkbzEkZzEkdDE3ODIxMjQyNzgjM4JGwwJGgw

¹⁷³ See <https://www.keywordsstudios.com/download/file/eDITdjVVTJT3U29EekIUQ1RXS0ITdz09/Full-Year-Results-2023-report/>

¹⁷⁴ <https://www.londonstockexchange.com/news-article/KWS/recommended-final-cash-offer/16549542>

since Keywords reports data in euros, the consideration is expressed in pounds sterling, and the acquisition financing is in US dollars. The figures are presented in the source currency and normalized where directly compared.

The areas analyzed are the same seven applied to Italian companies, thus providing a standardized analysis framework. These areas are: (a) *Company's profile*, (b) *Deal structure and rationale*, (c) *Financing structure*, (d) *Financial structure of the borrower (pre-deal)*, (e) *Trade-off cost-flexibility*, (f) *Critical reading and limitations* and (g) *Actual outcomes and recent developments*.

(a) Company's profile

As defined in the introduction, Keywords Studios plc present itself as a global provider of creative and technology services to the video game and entertainment industry that was founded in 1998 and listed on the AIM (under the ticker KWS.L) in July 2013. Over the following decade, it became the undisputed market leader in outsourced video game development services showing the triple of the size of the closest competitor, even holding only about 6% of a highly fragmented market. The company is organized into three main divisions that cover the entire content lifecycle:

- Create, which is the highest-margin division responsible for video game and graphics development, employs approximately 4,500 people.
- Globalize, which handles audio, functional, and localization testing, and localization, employs approximately 5,000 people.
- And the smallest division, Engage, has approximately 2,500 employees and provides marketing and player engagement services.

As showed by the financial report, at the end of 2023, the Group generally operated over 70 offices in 26 countries, with an average of 12,340 employees over the year, and served 24 of the top 25 video game companies, with clients such as Electronic Arts, Epic Games, Microsoft, Riot Games, Square Enix, Take-Two, Tencent, and Ubisoft.

However, alongside these excellent market achievements, Keywords' most relevant characteristic for this thesis is its lean and people-focused structure, built through a sustained strategy, that counts five acquisitions in 2023 alone, for a value of around €225 million. This translates into a balance sheet dominated by intangible assets, corresponding to €632.2 million, including €538.4 million in goodwill that compared to property, plant, and equipment, worth just €50.2 million. Therefore, it emerges that intangible assets represent approximately 63% of the €997.1 million balance sheet (54% of which is goodwill), while tangible assets accounted for around 5%. What immediately appear is that this profile, is very similar to but more pronounced than in the Mare case, implying a very low realizable collateral value and a consequent high loss in the event of default.

Table 14: *Company's profile (Keywords Studios plc)*

Item	Data
Name	Keywords Studios plc
Headquarters	Operationally headquartered in Dublin
Founded / listed	Established 1998 and admitted to AIM (London Stock Exchange) in July 2013

Sector	Video-game & entertainment services (creative and technology-enabled solutions)
Operations	Three main divisions: Create (game development & art); Globalize (audio, testing, localization); Engage (marketing & player engagement)
Scale	70+ facilities across 26 countries Services to 24 of the top 25 games companies
Employees	12,340 (2023 average while 11,141 in 2022)
Asset profile	Intangible-heavy: intangible assets €632.2m ($\approx 63\%$ of total assets), of which goodwill €538.4m ($\approx 54\%$); PP&E €50.2m ($\approx 5\%$)
Leadership	Bertrand Bodson (CEO), Rob Kingston (CFO, from July 2023)
Reporting currency	Euro (2023); changed to US dollars from 1 January 2024

Source: Keywords Studios plc, Full Year Results for the year ended 31 December 2023.

(b) Deal structure and rationale

This deal is presented as an acquisition from a listed company to a private company led by a sponsor, with the aim of delisting the company where the bidder is a vehicle controlled by a consortium of investors led by EQT (through EQT Private Capital Asia), along with Temasek and CPP Investments, with an ownership split of approximately 51% (EQT), 24.5% (Temasek), and 24.5% (CPP Investments). In particular, CPP Investments has invested approximately \$515 million for its stake¹⁷⁵. As can be immediately noted, unlike the two Italian transactions, this one involves a financial sponsor, and therefore, the reputational dimension of the sponsor, required by Chapter 2, is present in this structure. The acquisition was completed through a recommended cash transaction of the entire share capital, with the choice of a consortium motivated by the delisting of a high-growth platform with a strong propensity for acquisitions. As a private company under long-term institutional ownership, Keywords could have invested and pursued its M&A activities without the constraints of the public market.

This transaction offers a distinctive situation, as the offer price was reduced during the process, starting from an initial offer of £25.50 per share, with a premium of approximately 73% compared to the closing price of £14.70 (on May 17, 2024). Therefore, the price was subsequently reduced to £24.50 after Keywords published a trading update reporting delayed and cancelled projects. Consequently, the board of directors proposed a reduction in the offer in line with the announcement, with a premium of approximately 66.7%. The considered value of the share capital is at approximately £2.1 billion and implied an enterprise value of approximately £2.2 billion. The financial data for the transaction reported below are taken from the offer announcement (the 2023 financial statements pre-date the transaction).

¹⁷⁵ See <https://www.cppinvestments.com/newsroom/cpp-investments-alongside-eqt-and-temasek-completes-acquisition-of-keywords-studios/>

Table 15: Deal's terms (Keywords Studios / EQT)

Item	Data
Bidder	Consortium led by EQT (~51%) with Temasek (~24.5%) and CPP Investments (~24.5%); CPPIB ~US\$515m. Bidco reported as "Houting UK Limited"
Archetype	Sponsor-led public-to-private (take-private) — recommended cash acquisition
Structure	Scheme of arrangement under Part 26 of the UK Companies Act 2006 ¹⁷⁶
Consideration	£24.50/share (final) with an initial proposal £25.50, reduced after a trading update
Undisturbed price	£14.70 (close on 17 May 2024)
Premium	+66.7% over the undisturbed price (the initial £25.50 implied ~73%)
Equity value	~£2.1bn
Enterprise value	~£2.2bn (~US\$2.8bn)
Firm offer (Rule 2.7 ¹⁷⁷)	3 July 2024
Outcome	Delisting from AIM on 24 October 2024
Advisers	Deutsche Numis (Nomad & Joint Corporate Broker); Barclays (Joint Corporate Broker); MHP Group (financial communications); Kirkland & Ellis (EQT financing & hedging counsel)

Source: EQT offer document and Keywords Studios offer and completion announcements (2024).

In order to strengthening the explanation, some implied multiples are reported in Table 16 showing the transaction at a significantly higher entry valuation than the deals of the Italian companies, in line with the greater size and quality of the asset. The values reported in the table below are derived from the offering price

¹⁷⁶ A *scheme of arrangement* is a court-approved procedure under Part 26 of the UK Companies Act 2006 used to implement a takeover, approved by a majority in number representing at least 75% in value of the shareholders voting, and sanctioned by the court, it becomes binding on all shareholders, including those who voted against.

¹⁷⁷ Rule 2.7 of the UK City Code on Takeovers and Mergers governs the announcement of a firm intention to make an offer. Once a Rule 2.7 announcement is made, the bidder is in principle committed to proceed on the announced terms, subject only to the stated conditions.

and audited financial data for 2023, and the euro figures are compared to a converted GBP/EUR 1,18¹⁷⁸ enterprise value in sterling.

Table 16: Implied multiples 2023 at the offer price

Multiple	Value
EV / Sales	~3.3x
EV / EBITDA Adjusted	~16x
EV / EBITDA Statutory	~24x
EV / Adjusted operating profit	~21x
P/E Adjusted	~25x

Source: Computation on financial statement FY2023. EV is converted at ~GBP/EUR 1.18.

(c) Financing structure

In the financing structure is directly observable that the consideration was financed through an internationally syndicated bank loan, with a transaction structure of US\$1.14 billion with a five-year term, that is divided into a term loan of approximately US\$918 million and a revolving credit facility of approximately US\$225 million. This is provided by a group of syndication formed by nineteen banks, as said before, including players as JPMorgan, HSBC, and Citigroup, due to the relevant volume of liquidity and fierce competition for mandates in the syndicated loan market at the time. However, what it cannot be observed is anything related to any issue discount, the amortization profile, the covenant package, and the guarantees due to the fact that these terms are contained in a private agreement relating to the structures and are not disclosed publicly under UK regulations. The margin, by contrast, is not entirely unobservable but the same Bloomberg report that discloses the facility details, also reports an indicative launch margin of around 400 basis points over SOFR, with upfront fees of up to approximately 300 basis points. Therefore, the following table reports only those elements that are actually publicly available, extracted from a Bloomberg report¹⁷⁹.

Table 17: Financing structure (Keywords / EQT acquisition facility)¹⁸⁰

Item	Data
Lenders	Syndicate of 19 banks with mandated underwriters JPMorgan, HSBC, Citigroup
Facilities	Term loan ~US\$918m + revolving credit facility US\$225m

¹⁷⁸ Keywords' enterprise and equity values are denominated in pounds sterling, whereas its 2023 results are reported in euro. To compute the implied multiples, sterling amounts have been converted into euro at the GBP/EUR rate of 1.18 prevailing on 3 July 2024, the date of the firm offer announcement (source: https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/index.en.html).

¹⁷⁹ See <https://www.bloomberg.com/news/articles/2024-07-29/lenders-pile-into-keywords-studios-1-14-billion-buyout-loan?embedded-checkout=true>

¹⁸⁰ See <https://www.bloomberg.com/news/articles/2024-07-29/lenders-pile-into-keywords-studios-1-14-billion-buyout-loan?embedded-checkout=true>

Total	~US\$1.14bn
Currency	US dollar
Tenor	5 years
Margin (indicative) ¹⁸¹	400 bps over SOFR at launch
Upfront fees (indicative)	up to ~300 bps

Source: Bloomberg News report of July 29th, 2024.

To reach the completeness, and to mirror the Italian case, the company's economic and financial situation for the two years preceding the transaction is summarised below, taken directly from the 2023 financial statements. The following expense items are particularly marked by total personnel costs of €482.9 million (2023), which represent by far the predominant cost item, underlining a human resources-based activity.

Table 18: Financial situation (Keywords, consolidated, €Mln)

Indicator	2022	2023
Revenue	690.7	780.4
Gross profit	267.3	299.1
Adjusted EBITDA	146.9	158.3
Adjusted EBITDA margin	21.3%	20.3%
EBITDA (statutory)	120.9	109.2
Adjusted operating profit	114.6	122.0
Operating profit (reported)	71.8	46.8
Profit before tax (reported)	68.0	35.0
Profit after tax (net income)	47.4	20.0
Staff costs (total)	399.5	482.9
Basic EPS / Adjusted EPS (c)	61.5 / 113.5	25.3 / 112.9

Source: Keywords Studios Financial statement FY 2023.

¹⁸¹ Please note that the Keywords margin is qualitatively different from the JTC margin because the latter is a primary contractual figure, while the former is a launch pricing estimate reported by a single press source and relates to the initial syndication phase, not the final terms of the signed agreement.

(d) Financial structure of the borrower (pre-deal)

The financial statements as of December 31, 2023, is demonstrating a company experiencing strong growth generally influenced by acquisitions, but with a prudent financial structure, that mirror the leverage imposed by the acquisition. As exposed by the statement, Keywords generated adjusted EBITDA of €158.3 million in 2023 and positive free cash flow before acquisitions of approximately €66 million but used approximately €203 million in cash for acquisitions during the year. The result was the transition from a net liquidity of €81.8 million at the end of 2022 to net debt of €67.5 million at the end of 2023, with gross borrowings of €127.4 million (the drawn revolving credit line) against liquidity of €59.9 million and, this change of approximately €151 million, driven almost entirely by the acquisition and expansion program reflects the same cash flow dynamic observed in the Mare case, where operating cash generation is dwarfed by acquisition expenses. Therefore, overall, the pre-transaction debt level was very low, underlined by net debt of €67.5 million against an adjusted EBITDA of €158.3 million, equivalent to approximately 0.4x. Moreover, the Group's pre-transaction financing consisted of a \$400 million multi-currency syndicated revolving credit facility (entered into in July 2023, maturing in July 2027 and potentially extendable to \$500 million), subject to two main financial covenants: a minimum interest coverage ratio of 4.0x and a maximum net debt ratio of 3.0x, against which the Group maintained considerable margin. Essentially, a leveraged buyout overlays acquisition financing onto a previously nearly debt-free balance sheet.

Table 19: Capital structure & cash generation (Keywords, consolidated, €Mln)

Indicator	2022	2023
Total assets	815.1	997.1
Intangible assets (total)	470.0	632.2
of which goodwill	396.7	538.4
Property, plant & equipment	44.8	50.2
Cash and cash equivalents	81.9	59.9
Loans and borrowings (gross)	~0.1	127.4
Net financial position net cash / (debt)	81.8	(67.5)
Leverage (net debt / Adjusted EBITDA)	net cash ¹⁸²	~0.4x
Total equity	557.1	599.0
Adjusted EBITDA	146.9	158.3

¹⁸² In 2022 Keywords held a net cash position (cash of €81.9m against gross borrowings of around €0.1m), the net debt/EBITDA leverage ratio is therefore not meaningful and "net cash" is shown instead of a (negative) figure.

Operating cash flows (company def.; post-capex, pre-interest & tax)	105.0	93.9
Capex	(27.5)	(33.8)
Adjusted free cash flow	112.0	94.0
M&A cash spend (acquisitions)	(113.3)	(194.7)
Underlying change in net cash / (debt)	(24.0)	(151.0)

Source: Keywords Studios Financial statement FY 2023 and pre-deal RCF terms (US\$400m, covenants 4.0x interest cover / 3.0x net leverage) per the report's balance-sheet and liquidity section.

(e) Trade-off cost–flexibility

At this point, the trade-off between cost and flexibility is analyzed from a different perspective than in the Italian case, primarily due to the lack of precise structural margins and terms, which preclude a precise cost analysis. Bank debt, in this case, refers to the institutional syndicated loan market in the broadest sense, not relationship-based loans. On the cost side, is it clear that the financing was obtained in a deep and liquid syndicated market in which nineteen banks competed for the mandate with an initial moderate leverage (five times adjusted EBITDA, given a term loan of approximately \$918 million versus approximately €158 million in adjusted EBITDA). These is a typical situation related to competitive pricing environment for large-cap companies, although the exact spread is not disclosed, but the specialist press reports an indicative launch margin of around 400 basis points over SOFR¹⁸³, which already permits an approximate cost comparison with the JTC unitranche.

Moreover, talking about the flexibility, the case complicates the banking alternative of an institutional syndicated term loan, recognized on the market as an instrument generally characterized by minimal amortization, a lump sum repayment, and a light or springing covenant¹⁸⁴ package, structural characteristics similar to those of private credit rather than those of a relationship-based amortization loan. This clearly describe a market context and tries to frame the central question of the European comparison, so if once the banking channel transforms into a flexible, single-payment syndicated loan with loose contractual clauses, the structural flexibility gap that guided the Italian comparison still exists. If this is not true, the real differences boil down to the concentration and monitoring of lenders and to price, and it is precisely this price gap that information asymmetry prevents us from analyzing directly from the banking perspective.

(f) Critical reading and limitations

As specified several times, the commercial terms of the financing for the acquisition (margin, OID, amortization, contractual clauses, guarantees) are not made public according to British legislation on syndicated bank loans, therefore in this case the first limitation impacts the costs of the trade-off, which are not directly observable. However, some reports show an indicative launch margin of around 400 basis points

¹⁸³ See <https://www.bloomberg.com/news/articles/2024-07-29/lenders-pile-into-keywords-studios-1-14-billion-buyout-loan?embedded-checkout=true>

¹⁸⁴ A *springing covenant* is a financial covenant tested only when a specific condition is triggered (for example, when a revolving facility is drawn above a set threshold). Loan packages relying mainly on such covenants are described as "covenant-lite"

over SOFR, which permits an approximate cost comparison¹⁸⁵. The exact quantitative comparison of the costs is left to the two Italian banks plus a reference that will be exposed in the JTC case. Moreover, the banking channel chosen in this comparison is largely syndicated and institutional, not based on credit relationships, so the comparison between Keywords and JTC should serve as a check of a different aspect of the non-private alternative. Additionally, Keywords entered the deal with minimal leverage (prior-year net cash flow, approximately 0.4x at end-2023), so the acquisition adds leverage to a conservative balance sheet rather than refinancing an already indebted structure. As with the Italian operation, the case tests the financing instrument and not the sponsor as there is a high-level consortium, but there is no variation in the quality of the sponsor within the case.

Finally, one last aspect concerns the asset profile, because Keywords is strongly oriented towards intangible assets, which implies a high loss in the event of default. The variable is essentially kept constant for the European operation, since JTC presents the same situation, which is exactly what improves the isolation of the channel effect compared to the Italian operation. Less important but still worth taking into account is the currency expression which adds complexity but is managed by presenting the data in the source currency and normalizing only where it is compared.

(g) Actual outcomes and recent developments

This subsection describes the post-signing situation and does not contribute to the ex-ante structural comparison referred to in Section 3.5.2. It serves as a tool for the reader to gain a more concrete understanding of the outcomes.

In general, the transaction was conducted according to a recommended procedure with a single offer; no competing bidder emerged, and the only significant development during the process was the reduction in the consideration from £25.50 to £24.50 per share following a previously reported trading update, a reduction that the board of directors accepted. The plan became effective, and Keywords shares ceased trading on the AIM on October 24, 2024. Keywords, having completed the transaction, operates as a private company and no longer publishes comparable financial statements. Consequently, the management of the financing during the holding period is not observable, which is why the case is being treated ex-ante.

3.4.2 JTC plc

On the other face, for the private debt case, JTC plc comes into play bringing a publicly traded acquisition of a FTSE 250¹⁸⁶-listed professional services firm, agreed in November 2025 and financed through a European unitranche transaction (direct loan) led by Blackstone. This deal was disclosed under the UK Takeover Code and allow to provide an additional primary benchmark for the cost and structure of the private debt alternative. A direct consequence is that the financing tables in this subsection are reference data drawn from primary documents that fully show the European large-cap unitranche transaction but are not symmetrically comparable with the Keywords financing tables, these documents are summarised as follow:

- JTC's financial results for the year 2024¹⁸⁷

¹⁸⁵ See <https://www.bloomberg.com/news/articles/2024-07-29/lenders-pile-into-keywords-studios-1-14-billion-buyout-loan?embedded-checkout=true>

¹⁸⁶ FTSE 250 is a stock market index of the London Stock Exchange comprising the 250 largest mid-capitalization companies listed in the UK, ranked immediately below the FTSE 100 constituents. It is widely used as a benchmark for the performance of UK mid-sized listed companies and is periodically rebalanced based on market capitalization.

¹⁸⁷ See <https://www.londonstockexchange.com/news-article/JTC/full-year-results-for-year-ended-31-december-2024/16978738>

- the commitment letter on November 6, 2025 (with the related Term Sheet)¹⁸⁸
- the interim financing agreement signed on November 10, 2025¹⁸⁹

Moreover, JTC presents financial statements in British pounds, so the implied multiples do not require currency conversion, even though the financing itself is multicurrency (US dollar, British pound, and euro). To let the analysis stay on the same level, the assessment will be ex-ante and since the transaction is closing in 2026, there is no possibility to analyse the holding period, since the post-closing financial statements are not available. The areas analyzed are the same seven as those applied to the previous cases.

(a) Company's profile

JTC plc, headquartered in Jersey, is a global professional services firm providing trust fund, corporate, and private client services to institutional and private clients. Founded in Jersey in 1987, it has been noted for its revenue and profit growth in each of the subsequent thirty-seven years. The listed holding company, JTC PLC, was incorporated in 2018 and was admitted to the Main Market of the London Stock Exchange in March 2018, subsequently joining the FTSE 250. The group operates through the divisions of Institutional Client Services (trust, corporate, and banking services for fund managers, listed companies, and multinationals) and Private Client Services (trust, corporate, and wealth management services for family offices and high-net-worth and ultra-high-net-worth individuals).

JTC also has present a highly active platform on the acquisition front buy-and-build, with six acquisitions completed or announced in 2024, reflected in a balance sheet largely composed of intangible assets. Indeed, as noted in the financial statement, as of December 31, 2024, goodwill amounted to £592.2 million, or 58% of total assets, while other intangible assets accounted for a further £170.8 million (17%). This very pronounced profile implies a very low realisable collateral value and, consequently, a high loss-given-default that will be an important variable for the European comparison to isolate the channel effect. Another truly unique feature is that JTC stands out for its 100% employee shared ownership culture, according to which every worker is a shareholder. This is relevant both to its growth model and, as discussed later, to the stock plan that drove the reported loss in 2024.

Table 20: Company's profile (JTC plc)

Item	Data
Name	JTC plc
Headquarters	St Helier, Jersey
Founded / listed	Business founded 1987, holding company incorporated 2018 and admitted to the LSE Main Market in March 2018
Quotation	Main Market, London Stock Exchange (FTSE 250); ticker JTC

¹⁸⁸ See https://media.permira.com/media/havng150/commitment-letter-6-november-2025.pdf?_gl=1*1m5l61s*_ga*MTMyMDI1MjU0NC4xNzgyMTI0MjU2*_ga_G5830V58W3*czE3ODIzMDk2MTEkbzIkZzAkDDE3ODIzMDk2MTlkajU5JGwwJGgw

¹⁸⁹ See <https://media.permira.com/media/gcqioqkf/interim-facilities-agreement-10-november-2025.pdf> and <https://media.permira.com/media/tf5b11jo/rule-27-announcement-10-november-2025.pdf>

Sector	Global professional services like fund, corporate and private-client services
Operations	Two main divisions: Institutional Client Services (ICS) and Private Client Services (PCS)
Scale	~2,300 employees
Asset profile	Highly intangible-heavy: goodwill £592.2m (58% of assets) + other intangibles £170.8m (17%) ≈ 75% of total assets; PP&E only £12.3m
Ownership culture	100% employee Shared Ownership (every employee a shareholder)
Leadership	Nigel Le Quesne (CEO); Martin Fotheringham (CFO)
Reporting currency	Pounds sterling

Source: JTC plc financial statement as 31 December 2024.

(b) Deal structure and rationale

The acquisition of JTC plc is being carried out by a vehicle controlled by Permira, led by a sponsor, through a publicly traded company. The bidder is represented by Papilio Bidco Limited (a Jersey company), its parent company Papilio Midco 2 Limited, and a US co-borrower, Papilio US Finco, Inc., that is part of the structure, where the sponsor is specifically Permira Advisers LLP acting through its funds along with certain other investors designated by the sponsor. The acquisition is being implemented through a plan of reorganization approved by the Royal Court of Jersey pursuant to Section 125 of the Companies (Jersey) Law 1991, or through a public tender offer, with a minimum acceptance threshold of 75%. It is worth noting that the financial sponsor is a first-rate one, and the sponsor's reputation is actively involved throughout the transaction.

The strategic rationale is consistent with JTC's own claims that private ownership would allow it to accelerate technology investments and mergers and acquisitions, privatizing the company to enable it to pursue its growth plan without the constraints of the public market.

Table 21: Deal's terms (JTC / Permira)

Item	Data
Bidder (Bidco)	Papilio Bidco Limited (Jersey) Parent Papilio Midco 2 Limited US co-borrower Papilio US Finco, Inc.

Sponsor	Permira Advisers LLP, with co-investors designated by the Sponsor; CPP Investments reported as a co-investor
Archetype	Sponsor-led public-to-private (take-private)
Structure	Scheme of arrangement under Art. 125 Companies (Jersey) Law 1991 (Royal Court of Jersey), or a takeover offer, minimum acceptance 75%
Consideration	1,340p per share
Premium	~49% to the unaffected price (On August 13 th , 2025)
Equity value	~£2.3bn
Enterprise value	~£2.7bn
Existing debt refinanced	(a) multicurrency facilities agreement of 6 Oct 2021 (HSBC Bank plc agent); (b) PGIM note purchase / private shelf agreement of 23 June 2025
Firm offer (Rule 2.7)	10 November 2025
Completion	Expected 2026
Advisers	Sidley Austin (financing counsel), Jefferies LLC (buy-side financial adviser). Due diligence made by Oliver Wyman, PwC, Alvarez & Marsal, Clifford Chance, Kroll. Interim agent/security agent by Kroll

Source: Papilio Bidco / Permira financing documents (Nov 2025) and the public offer announcement¹⁹⁰.

The implied multiples place the transaction at a high entry valuation, consistent with the quality and growth of a recurring-revenue, intangible-heavy compounder, and they illustrate how the leverage metric depends on the EBITDA basis used. The figures below combine the enterprise value from the offer announcement with EBITDA figures from the three documents; because both the enterprise value and the financials are in sterling, no currency conversion is required (in contrast to Keywords).

Table 22: Implied multiples (JTC) at the offer price (derived)

Multiple (2024)	JTC (EV ~£2.7bn)¹⁹¹
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¹⁹⁰ See <https://media.permira.com/media/zxldpxn/scheme-document-2-december-2025.pdf>

¹⁹¹ Enterprise value (~£2.7bn) from <https://media.permira.com/media/tf5b11jo/rule-27-announcement-10-november-2025.pdf>. EBITDA figures from the FY2024 results and the Term Sheet. The ~26x figure on the last full audited year is consistent with the ~26x reported in market commentary on a more recent LTM basis.

EV / Revenue	~8.8x
EV / Underlying EBITDA	~26x
EV / Financing EBITDA	~17x

Source: JTC plc financial statement as 31 December 2024.

(c) Financing structure

The consideration is financed through a European unitranche financing package (direct loan), comprising senior secured term credit facilities totalling £1,500 million, divided as follows:

- A £1,100 million Facility B term loan (divided by currency into £825 million in US dollars, £137.5 million in pounds sterling, and £137.5 million in euros)
- A £250 million acquisition/capital expenditure facility (available for three years)
- A £150 million RCF bridge facility (a term facility intended to be replaced by a super-senior multi-currency revolving credit facility issued by a third party).

The entire group of lenders is a concentration of direct lenders led by Blackstone (participating through numerous credit funds, including the Blackstone Private Credit Fund, the European Senior Debt and Senior Direct Lending funds), along with Blue Owl, CVC Credit, Oak Hill Advisors (OHA), PSP Investments, Jefferies Finance, and MARFIC Investment Pte. Ltd. (a Singapore entity reportedly associated with GIC). By analyzing the various instruments, it is possible to study the flexibility associated with the unitranche financing, which features a seven-year non-amortizing maturity, no financial maintenance covenants on the term debt, no mandatory coverage, no automatic withdrawal of excess cash flow, a pay-if-you-want (PIK) option, and a generous EBITDA adjustment regime.

Table 23: Financing structure (JTC / Permira)

Item	Data
Lenders	Concentrated direct-lending club led by Blackstone, with Blue Owl, CVC Credit, Oak Hill (OHA), PSP Investments, Jefferies Finance and MARFIC Investment Pte. Ltd.
Instrument	European unitranche / direct lending (senior secured term loans); unrated; English law
Facilities	Facility B £1,100m (USD £825Mln + GBP £137.5Mln + EUR £137.5Mln) Acquisition/Capex Facility £250m RCF Bridge Facility £150Mln → super-senior Revolving Facility Total £1,500Mln

Currency	Multi-currency (USD / GBP / EUR), with redenomination mechanics
Margin	Facility B (USD) 450 bps, Facility B (GBP) 475 bps, Facility B (EUR) 475 bps (same for Acquisition/Capex and RCF Bridge)
Margin ratchet	Step-downs of 25 bps for each 0.5x reduction in senior secured net leverage, first available 6 months after closing.
Reference rates	USD: Term SOFR GBP: compounded SONIA EUR: EURIBOR, no credit-adjustment spread, 0% floor
PIK toggle	"Pay-if-you-want" up to 50% of the margin may be capitalised, premium up to 0.25% p.a., for a maximum of 3 years
Maturity	7 years from the Closing Date (Facility B, Acquisition/Capex, RCF Bridge)
Repayment	Bullet with no amortisation
Financial covenant	None on the term facilities (covenant-lite), a springing covenant may apply to the super-senior Revolving Facility only, for RCF lenders' benefit, with no cross-default to the term facilities
Security	Limited: share pledge over Bidco by its holding company + each Obligor's shares in its wholly-owned Material Subsidiaries. Guarantor jurisdictions: Jersey, UK, US. Material Companies = wholly-owned subsidiaries in a guarantor jurisdiction representing >5% of consolidated EBITDA
Mandatory hedging	None
Mandatory prepayment	Change of control / sale of all or substantially all assets, and illegality, no excess-cash-flow sweep
Voluntary prepayment	101 soft calls ¹⁹² for 18 months

¹⁹² A *soft call protection* is a clause that requires the borrower, in the event of early repayment or refinancing within a specified period (here 18 months), to pay a premium on the nominal value (here 101, or 1%). It protects the lender's return against early refinancing at more favorable terms, without binding the borrower as absolutely as a hard call would.

Commitment fees	Facility B: 50% of margin on undrawn (from 12 months after the Rule 2.7 announcement), Acquisition/Capex and RCF Bridge: 0.75% (from 6 months after Closing).
Certain funds ¹⁹³	European-style, minimal conditionality, no market or business MAC; minimum acceptance 75%
EBITDA add-backs	Uncapped backward-looking run-rate adjustments; forward-looking adjustments capped at 25% of LTM EBITDA; uncapped R&D add-backs (15% cap if not capitalised)
Capital structure	Assumed Financing EBITDA £160m (post-IFRS 16) opening senior secured net leverage 6.50x ~£50m cash at Closing £51m lease liabilities

Source: Permira / Papilio Bidco Commitment Letter and Term Sheet (6 Nov 2025) and Interim Facilities Agreement (10 Nov 2025).

The Term Sheet quantifies leverage against an assumed Financing EBITDA of £160 million, well above JTC's latest underlying EBITDA of £101.7 million (FY24), due to fully loaded and pro forma adjustments permitted by the financing (fully loaded effects of the 2024-2025 acquisitions, plus post-IFRS-16 treatment and other adjustments). Consequently, the initial senior secured net leverage of 6.50x on Financing EBITDA corresponds to approximately 10x on underlying EBITDA for FY24.

Table 24: Economic-financial situation (JTC, consolidated, £Mln)

Indicator	2023	2024
Revenue	257.4	305.4
EBITDA	77.8	49.1
Underlying EBITDA	85.9	101.7
Underlying EBITDA margin	33.4%	33.3%
Operating profit / EBIT (reported)	52.7	18.9
Underlying operating profit	60.8	71.6

¹⁹³ The *certain funds regime* is a principle of UK public offering law requiring the bidder to have certain and unconditional funding at the time of the announcement of the offer, with minimal conditionality (here without market or business MAC).

Profit / (loss) before tax (reported)	24.3	(7.4)
Underlying profit before tax	40.5	47.4
Profit / (loss) for the year (reported)	21.8	(7.3)
Staff expenses	131.9	196.6
Basic EPS / Adjusted underlying EPS (p)	14.20 / 37.30	(4.44) / 41.80

Source: JTC's financial statement FY 2024.

(d) Financial structure of the borrower (pre-deal)

The pre-transaction picture is that of a growing company, strongly focused on acquisitions, but with a conservative financial structure that, in 2024, generated underlying EBITDA of £101.7 million and underlying operating cash flow of £99.3 million, investing £80.1 million in acquisitions. Gross bank debt amounted to £271.6 million and cash was £89.2 million, with underlying net debt of £182.3 million and underlying leverage of 1.79x EBITDA (reported net debt, which excludes £24.5 million of cash set aside for regulatory purposes from the offset, was £206.9 million). In other words, JTC entered into the transaction with a conservative level of leverage and the transaction was financed through a GBP 400 million multi-currency bank credit facility (expiring in December 2026, extendable to 2028), with an interest rate of SONIA¹⁹⁴ + 1.65%, subject to covenants requiring a net debt ratio of no more than 3.0x and interest coverage of at least 4.0x. At the time of the transaction, the Group had also completed a private placement in the United States (with PGIM, in June 2025), and the acquisition financing refinances both instruments. The contrast between the pre-agreement price (approximately 165 bps) and the unitranche buyout (approximately 475 bps) is marked, although it primarily reflects the re-leverage from approximately 1.8x to a much higher multiple.

On this basis, the leveraged buyout represents a re-leverage, from approximately 1.8x underlying EBITDA to 6.5x financing EBITDA (an even higher multiple compared to the reported figure for FY 2024, although, as explained above, the two EBITDA bases are not comparable).

Table 25: Capital structure & cash generation (JTC, consolidated, £Mln)

Item	2023	2024
Total assets	905.1	1,019.6
Goodwill	523.0	592.2
Other intangible assets	147.3	170.8
Property, plant & equipment	9.9	12.3

¹⁹⁴ SONIA (Sterling Overnight Index Average) is the principal risk-free interest rate benchmark for the UK sterling market, administered by the Bank of England. It reflects the average rate paid on unsecured overnight wholesale sterling transactions and is widely used as a reference rate for loans, bonds and derivatives.

Cash and cash equivalents	97.2	89.2
Loans and borrowings (gross)	220.5	271.6
Net debt (underlying)	123.3	182.3
Net debt (reported)	135.1	206.9
Underlying leverage (net debt / underlying EBITDA)	1.43x	1.79x
Total equity	503.9	533.9
Underlying cash generated from operations	91.2	99.3
Underlying cash conversion	106%	98%
Capex (PP&E + intangibles)	(6.2)	(9.6)
Acquisitions (business combinations, net of cash)	(114.7)	(80.1)
New loan drawdowns	118.0	49.2
Dividends paid	(16.0)	(19.5)

Source: JTC FY2024 results (consolidated balance sheet and cash-flow statement).

(e) Trade-off cost–flexibility

JTC is the most complete empirical case of the private credit market, confirmed by the presence of precise characterization of every detail, thanks to the disclosure of the offer documents. As it appears, the spread is certain from day one, with a margin of 475 basis points (for the sterling and euro tranches) and 450 basis points (for the dollar tranche) above the respective risk-free rate, with a leverage-related ratchet mechanism that can reduce the margin only when the company reduces its debt. Furthermore, a PIK toggle clause is included, allowing for the capitalization of a portion of this margin by paying a small additional premium.

In general, this transaction shows a flexibility level that is significantly more favourable and useful to show the flexibility of the private debt literature than the banking structure observed in the Italian pair, offering the entire set of features that make private credit particularly attractive to a financial sponsor, starting with the example of a maturity of a seven-year bullet with no principal amortization, that allows to eliminating any outflow of cash from operating activities. But also, the absence of maintenance financial covenant on the term debt, letting lenders to waive covenant-based control unless the company makes extensive use of the revolving credit line and, there is no coverage requirements or excess cash flow sweep mechanism, can help to support the buy-and-build strategy rather than being used to repay debt. Furthermore, the EBITDA allows for retrospective run-rate adjustments without quantitative limits and adjustments of up to 25% of EBITDA, allowing both the high initial leverage and the maintenance of adequate range of movement.

In this European context, this clarifies the characteristics that truly distinguish the two financing methods in the large-cap segment. However, since both Keywords' syndicated loan and JTC's unitranche financing are structurally flexible instruments, the decisive differences concern the concentration of financiers, the monitoring methods and the price of the capital.

(f) Critical reading and limitations

Under a critical consideration lens, although the financing is fully documented, this information constitutes a benchmark and is not symmetrically comparable with the Keywords financing, the terms of which have not been disclosed. Correspondingly, the terms analyzed are those contained in the agreed Term Sheet and the signed bridge agreement, and the final Senior Facilities Agreement, subsequently negotiated based on the already established documentary principles, may introduce some amendments to specific provisions.

It should also be noted that the comparison between bank financing and private credit within this pair must be interpreted with caution; the objective of the analysis is to evaluate the financing instrument, not the sponsor. Although a first-tier sponsor (Permira) is present, this variable is not modified within the case study. And since Keywords' syndicated financing margin is not public, the comparison of margins between cases is based, on the bank side, on information reported by secondary sources rather than primary documentation. Furthermore, JTC undertook the transaction starting from a financial structure characterized by relatively low leverage, documenting a re-leveraging process of a previously moderately leveraged balance sheet, rather than the refinancing of an already highly leveraged structure.

Concluding the argument and observing the balance sheet profile heavily characterized by intangible assets, this implies a relatively high expected loss given default (LGD), which is practically similar to Keywords and therefore considered essentially constant within the comparison pair, thus improving the analysis's ability to isolate the effect.

(g) Actual outcomes and recent developments

The binding offer and fully committed private credit financing were finalized in November 2025, with the objective of the acquisition being completed through a scheme of arrangement governed by Jersey law (or, alternatively, through a public offering), with completion expected in 2026.

The JTC transaction appears to have been competitive, with Permira prevailing over a competing bidder, Warburg Pincus¹⁹⁵, with a strong similarity to the Mare/Eles case, except that in this case the entity is supported by private credit financing was awarded the deal. The subsequent news from the firm confirm the company as transitioning from public to private ownership while maintaining its shared-ownership culture, consistently with the completion of the transaction in 2026. Consequently, in line with the methodological approach of the thesis, the structural characteristics are assessed ex ante and not as the subject of an ex-post judgment based on the actual results achieved.

¹⁹⁵ Warburg Pincus LLC is a global private equity firm, operating as a private partnership since 1966 and headquartered in New York. The firm focuses on growth investing across sectors such as technology, financial services, healthcare, and business services, and managed more than US\$86 billion in assets under management as of early 2025. In the JTC transaction, Warburg Pincus acted as the competing bidder against Permira where, during the offer period, the two sponsors submitted successive increased proposals in parallel, reaching the same price per share before Permira won the bid, with the JTC Board ultimately recommending Permira's final proposal of 1,340 pence per share over the competing Warburg Pincus offer.

3.5 Cross-case analysis and discussion

All the pairs gave a thorough reconstruction of the entire buyout transaction, addressing the main themes addressed in the second section of this thesis. It is now necessary to advance to the final step of analysis with a comparative perspective, using the preparatory reconstructions and comparing them with theoretical expectations. As established at the beginning of Chapter 3, the object of comparison remains purely the banking channel versus the private debt channel, as each manifest itself within a comparable transactional context.

To make it sure it is a fair comparison, all other key factors are kept constant so that the financing channel stands out as the primary variable, even with the few limitations previously noted. Within each pair the two transactions are matched as closely as possible except for the source of their debt allowing to analyse the chosen financing channel. The most immediate quantitative difference between a transaction financed through the bank channel and one financed through private debt is the margin differential. This figure should be analyzed with caution in the cross-analysis, as it really affects the research question. It could also be immediately interpreted as the cost of the flexibility offered by private debt. As established in Chapter 2, borrowers who turn to private debt systematically differ from bank borrowers along dimensions that lenders price regardless of the channel. Therefore, the observed margin difference is a sum of risk, relationship, and channel components, and only the residual can be defined as the premium for the channel and its flexibility.

The following subsection applies this framework to the Italian pair, where the comparison is greatest across two take-private transactions on the same market, indexed to the same benchmark rate, but where the borrowers are an asset-heavy founder buyout versus an intangible-heavy acquisition platform, making it essential to break down the cost differential. While, section 3.5.2 then applies the logic is reversed according to which loss-given-default and sponsor quality are held broadly constant, isolating the channel more cleanly, but the cost side is only partially observable making the two pairs are complementary rather than redundant.

Finally, it should be noted that this cross-analysis does not introduce additional data beyond that already documented in the case study sections, and the only data not directly appearing from the public offering are recalculations of previously reported contractual terms, the derivation of which and the underlying assumptions are made explicit at the time of use.

3.5.1 Cross-case analysis of the Italian pair

Starting with the two Italian companies, it must be shown share the same year (2025), the market (Euronext Growth Milan), the archetype (full offer on a technological small-cap)and the same size (target with revenues of 32–37 million and Enterprise Value of 44–48 million), but they differ in the choice of acquisition financing, bank in the case of NVP S.p.A and private debt in the case of Mare Engineering S.p.A. This comparison allows to isolate the channel effect and discuss about the cost differential net of the interest rate cycle, as both transactions are indexed to the same parameter (six-month EURIBOR). In line with what is specified in the two paragraphs, the analysis is *ex ante* and compares the structure of the two loans at the time of signing, not their management over a holding period since that is not yet observable for both companies.

All the data used in this section comes from the Tables and text of Chapters 3.3.1 and 3.3.2. As specified in the introduction to this chapter, no additional data is introduced, except for a normalization of the debt service, which is entirely derived from the contractual terms already documented and whose assumptions are explicitly stated.

(a) Comparison design and summary table

Table 26 allows to compare the two operations, clearly highlighting the symmetry of the context and the main differences regarding financing. It is immediately apparent that the two structures are located at opposite ends of the cost-flexibility trade-off.

Table 26: The Italian pair side by side

Detail	NVP (bank debt)	Mare / Eles (private debt)
Settlement	2025 (March)	2026 (January)
Archetype	Founder/management buyout	Industrial buy-and-build, delisting of target
Target sector	Broadcast & media technology	Semiconductor test equipment
Target revenue / EBITDA (2024)	€32.1m / €9.2m	€36.5m / €6.0m
Deal EV / EV-EBITDA	€47.5m / 6.1x	€43.7m / 7.28x
Premium (undisturbed price) ¹⁹⁶	+29.1%	+17.4%
Borrower	Darien (dedicated BidCo)	Mare Group (acquiring group)
Borrower asset profile	Asset-heavy (tangibles ~€36m)	Intangible-heavy (intangibles €30.6m vs tangibles €1.4m)
Borrower leverage	~2.4x	~2.1x ¹⁹⁷
Lender	Bank club (Crédit Agricole Italia + UniCredit)	Direct-lending funds (Generali)
Facility size	≤€14m + ≤€4m	€50m (€40m + €10m)
Margin over 6M EURIBOR	+185 bps	+550 bps
Indicative cost ¹⁹⁸	~4.3–4.5%	~7.5–7.7%
Maturity	5 years	7 years
Repayment	Amortizing (8 semi-annual)	Bullet

¹⁹⁶ Premium computed over the official closing price on the last trading day before the public announcement of the offer

¹⁹⁷ Mare's ~2.1x is computed on 31 December 2024 net debt (~€23.3m) and statutory EBITDA (€10.9m). That EBITDA is materially inflated by ~€3.5m of capitalized internal work and ~€2.7m of grants. On a "clean" EBITDA basis (~€4.7m) the same net debt implies leverage of 5x. By 30 June 2025 the borrower had moved to a net cash position (~€31.4m), but the lender prices the prospective leverage on the €50m committed facility plus future acquisitions, so the economically relevant figure is well above the 2.1x headline. NVP's ~2.4x, by contrast, is computed on a statutory EBITDA (€9.2m) not subject to comparable add-backs, the two headline multiples therefore do not measure leverage on the same EBITDA basis.

¹⁹⁸ Indicative rate computed as the contractual margin plus the 6-month EURIBOR prevailing around the signing date (~2.45–2.65% for NVP, 28 January 2025; ~2.1–2.2% for Mare, 19 November 2025; source: EMMI daily fixings). The figure does not incorporate OID, arrangement fees, commitment fees, or hedging costs, which are not disclosed in the offer documents and would increase the effective cost for both borrowers

Cash sweep	No	Yes
Interest hedging	Mandatory $\geq 70\%$, $\geq 4y$	Not required
Financial covenants	1 (leverage)	3 (leverage, ICR, DSCR)
Security	BidCo & target share pledges, founders' personal guarantees, capitalisation undertaking	Material-company guarantees ($\geq 80\%$ group EBITDA), share/account pledges, intragroup receivables

Source: NVP's Public Purchase Offer document (February 2025) filed with Consob and NVP's Financial statements as of December 31, 2024, extracted from the AIDA database. Mare's Public Purchase Offer document (November 2025) filed with Consob and Mare's A. Financial statements as of December 31, 2024, extracted from the AIDA database.

(b) The cost side breakdown

Starting the analysis talking about the cost effect, there is significant cost difference with a 550 basis points of margin versus 185, a differential of 365 basis points that translates into an indicative cost of approximately 7.5–7.7% for Mare versus 4.3–4.5% for NVP. Since both margins are impacted by the same rate, this differential is the clearest measure of the gap between the two approaches. The differential appears to be the sum of various risk and relationship components, in addition to the channel component itself.

The main driver is the collateral quality and loss given default and, since NVP is an asset-heavy company with approximately €36 million in tangible assets, it offers tangible collateral and a relatively high expected recovery in the event of default. On the other hand, Mare is intangible-heavy with just €1.4 million in tangible assets, which influences the LGD to be higher. As theory suggests, all else being equal, a borrower with a higher LGD pays more, and therefore part of this variance is explained by collateral, not the channel. The presence of relational discount on the NVP side is priced in the 185 basis points, that are in line with relationship pricing in the sense of Chapter 2¹⁹⁹ (Ivashina & Kovner). This is confirmed by the existence of two banks already exposed to the group, the shareholders' personal guarantees, and a low ticket compress the margin. Finally, focusing on the Mare side instead, the borrower's net cash position (€31.4 million by mid-2025) is recent and, relying on a seven-year bullet loan for an acquisition, the fund prices the expected debt influencing factors related to the prospective leverage

However, with the available data, it is not possible to assign a specific value to each component since the ratings other type of data that would allow for a precise estimate are lacking. The conclusion, however, is that since multiple factors other than the channel contribute to widening the gap, the pure channel premium is real but probably lower than the figure of 365 basis points.

Table 27: Cost's element breakdown

Driver	Nature	Evidence in the two cases
<i>Collateral / LGD differential</i>	Credit risk	NVP tangibles ~€36m (low LGD) Mare intangibles €30.6m and tangibles €1.4m (high LGD)

¹⁹⁹ See Ivashina, V., & Kovner, A. (2011).

<i>Relationship discount (NVP)</i>	Relationship	Two incumbent banks, founders' personal guarantees, small ticket drives to relationship pricing
<i>Forward / prospective leverage (Mare)</i>	Credit risk	Recent net cash; 7-year bullet on an acquisitive platform; €50m facility + future M&A
Structural flexibility	Channel premium	Bullet vs amortising; 7y vs 5y; no mandatory hedging; speed and relationship-light execution

Source: NVP's Public Purchase Offer document (February 2025) filed with Consob and NVP's Financial statements as of December 31, 2024, extracted from the AIDA database. Mare's Public Purchase Offer document (November 2025) filed with Consob and Mare's A. Financial statements as of December 31, 2024, extracted from the AIDA database.

(c) Focus on the flexibility

Regarding flexibility, the comparison is reversed: NVP's repayment profile calls for principal repayment in eight semi-annual instalments over the term of the loan, while Mare repays nothing until maturity (seven-year bullet). If debt service is normalized per €100 of acquisition debt, thus excluding the different size of the two facilities (Table 28), the difference between the two companies clearly emerges. As a result, during the transaction, NVP disburses approximately €29 per year for every €100 of debt (of which approximately €25 in principal and approximately €4 in interest), compared to approximately €8 for Mare (interest only). Despite a nearly double rate, private debt absorbs approximately one-third of the cash absorbed by bank debt, because principal repayment is the dominant debt component during the life of the investment. Furthermore, the seven-year term versus five years extends the horizon before refinancing or exit and reduces annual repayment pressure. Regarding interest rate risk management, NVP is required to hedge at least 70% of its exposure for four years, eliminating the benefit of any downturns and incurring a hedging cost, while Mare remains free to manage risk at its discretion.

This greater flexibility demonstrates that private debt manages risk more intensively than bank lending, with three financial covenants versus one, a cash sweep on excess cash, and a highly complex guarantee and early repayment package. The fund offers cash and time flexibility but accompanies it with more stringent monitoring and a higher cost, while the bank offers a low cost but "cages" the cash with imposed amortization and hedging, relying on collateral and shareholder guarantees.

For the purposes of the research question, this flexibility has concrete economic value in both cases, because both borrowers have negative free cash flow: NVP due to capex (-6 million in 2024), Mare due to acquisitions and capitalized development (-18 million in 2024). In this context, an amortization rate really affects the investment program for the same fund, while a bullet structure preserves it.

Table 28: Normalized annual cash debt service, per €100 of acquisition debt (illustrative)²⁰⁰

Component (per year, during holding)	NVP S.p.A.	Mare S.p.A
Interest (indicative cost)	~4.4	~7.7
Principal repayment	~25 (8 semi-annual in 4 years)	0 (until maturity at year 7)
Total annual cash outflow	~29	~8

Source: NVP's Public Purchase Offer document (February 2025) filed with Consob and NVP's Financial statements as of December 31, 2024, extracted from the AIDA database. Mare's Public Purchase Offer document (November 2025) filed with Consob and Mare's A. Financial statements as of December 31, 2024, extracted from the AIDA database.

(d) Cost-flexibility trade-off summary in the Italian pair comparison

Combining the trade-off analyses of individual transactions and adding the considerations in this section, a clear mapping of the trade-off at the centre of the chosen research question emerges:

- Traditional bank debt (NVP S.p.A.) offers low cost at the cost of significant cash and strategic rigidity, characterized by semi-annual amortization, interest rate coverage, shorter duration, and extensive negative covenants mitigated only by a single financial covenant and the absence of a cash sweep.
- The private debt case (Mare Engineering S.p.A.) offers, conversely, significant cash and time flexibility thanks to the presence of bullets, long duration, and unrestricted coverage, but at the cost of much higher costs and more intensive monitoring with the application of three covenants and a cash sweep.

Flexibility is therefore initially measurable in the margin differential, but that differential does not coincide with the channel premium because it also incorporates a risk component (and a relational component). The empirical answer, for this pair, is therefore to confirm that the trade-off exists and is clear: the more flexibility one wants in terms of cash and time, the more one pays. But the cost of flexibility is overestimated if interpreted in terms of the margin differential and must be adjusted for the risk and relational components that distinguish the two borrowers. The precise quantification of this distribution exceeds the available data but stays clear and steady with the theory of Chapter 2.

(e) Comparison Limits

Although this pairing is highly comparable and almost completely coincides in terms of year, market, archetype, and size, several limitations exist that serve to limit the results. There is a role asymmetry that places the creditworthiness on that of the target vehicle in the first case and that of the entire acquiring group in the second, since in NVP the borrower is the vehicle (BidCo) that acquires the same listed company, while in Mare/Eles the borrower is the acquiring company (Mare) and the target (Eles) remains distinct. In addition, NVP was a founder take-private that completed successfully, whereas Mare/Eles was a hostile, two-bidder contest that the borrower ultimately lost. The comparison is therefore valid on the financing-structure dimension but not on deal outcome, which must be read accordingly.

²⁰⁰ All figures are expressed per €100 of acquisition debt to neutralize the different facility sizes and isolate the cash-flow profile of each repayment structure. The interest component is computed by applying the indicative annual rate (contractual margin + 6M EURIBOR at signing) to €100. The principal component is obtained by dividing €100 by the number of annual repayment periods implied by the amortization schedule (zero for bullet structures). Total annual cash outflow is the sum of the two.

The borrower profiles differ; as mentioned several times, NVP is an asset-heavy founder buyout, while Mare is an intangible-heavy acquisition platform with a net cash position at the time of closing. However, the most severe limitation of the comparison remains, as it prevents the two cases from being interpreted as "same borrower, different channel." Furthermore, neither case features a private equity sponsor, effectively testing the debt instrument theory, but completely overlooking the sponsor's reputational characteristics.

The choice of channel, moreover, may be partly superficial because NVP's ticket (≤ 14 million) is too small for the operating model of a direct lending fund, while Mare's size and diversification make private debt accessible. Each borrower turned to the debt source compatible with its size and nature, thus comparing instruments accessible to different borrower profiles.

3.5.2 Cross-case analysis of the European pair

The European pair is based on different assumptions than other pair, demonstrating that Keywords Studios plc and JTC plc are both asset-light, intangible-heavy buy-and-build service platforms acquired by institutional investors in the same market cycle (2024–2025), with broadly comparable enterprise values (approximately £2.2 billion and £2.7 billion, respectively), and differ primarily in the source and structure of their acquisition debt. This pair can be distinguished from the Italian one due to the asymmetry of disclosed information, which becomes the main organizing principle of the comparison, as the European pair presents structural and qualitative trade-off details related to a balance sheet heavily focused on intangible assets.

All data used in this section are taken from sections 3.4.1 and 3.4.2 of the case study and the related tables without introducing additional data and, where figures are derived from documented terms, the derivation and related assumptions are explicitly stated.

(a) Comparison design and summary table

Table 29 compares the two transactions, immediately pointing out the symmetry of the transaction context: acquisitions from listed to private companies, led by sponsors, of platforms with a high intensity of intangible assets and with recurring acquisitions, completed (Keywords) or agreed (JTC) in the same cycle, of comparable size and with high entry valuations.

Table 29: The European pair side by side

Item	Keywords Studios (syndicated bank debt)	JTC plc (private debt / unitranche)
Status / timing	Completed: delisted from AIM 24 Oct 2024	Agreed (Rule 2.7) on 10 Nov 2025: completion expected 2026
Archetype	Sponsor-led public-to-private	Sponsor-led public-to-private
Target / borrower sector	Video-game & entertainment services	Global professional services (fund, corporate, private-client)
Revenue (last FY as listed)	€780.4m (2023)	£305.4m (2024)
Headline EBITDA	Adjusted €158.3m (statutory €109.2m)	Underlying £101.7m (reported £49.1m, financing £160m)

Enterprise value / Equity value	~£2.2bn / ~£2.1bn	~£2.7bn / ~£2.3bn
Entry multiple (EV / EBITDA)	~16x adjusted; ~24x statutory	~26x underlying; ~17x financing
Premium (undisturbed price)	+66.7% (initial ~73%)	~49%
Borrower vehicle	Houting UK Limited (Bidco)	Papilio Bidco (Jersey) + US co-borrower
Sponsor	EQT-led consortium (~51%) Temasek (~24.5%) CPP Investments (~24.5%)	Permira co-investors (including CPP Investments)
Borrower asset profile	Intangible-heavy: intangibles €632.2m (~63%); goodwill €538.4m (~54%); PP&E €50.2m (~5%)	Intangible-heavy: goodwill £592.2m (~58%) + other intangibles £170.8m (~17%) ≈ 75%; PP&E £12.3m
Pre-deal leverage	~0.4x adjusted EBITDA (net debt €67.5m, net cash in 2022)	~1.79x (underlying net debt £182.3m)
Opening buyout leverage	~5x adjusted EBITDA (≈7x statutory, derived)	6.50x senior secured net (financing EBITDA); ~10x underlying
Lender base	Syndicate of 19 banks (JPMorgan, HSBC, Citigroup)	Concentrated direct-lending club led by Blackstone (Blue Owl, CVC Credit, OHA, PSP, Jefferies Finance, MARFIC)
Instrument	Institutional syndicated bank term loan	European unitranche / direct lending (senior secured)
Facility size	~US\$1.14bn (TL ~\$918m + RCF \$225m)	£1,500m (Facility B £1,100m + Capex £250m + RCF Bridge £150m)
Currency	US dollar	Multi-currency (USD / GBP / EUR)
Margin	400 bps over SOFR at launch (Indicative)	475 bps (GBP/EUR) / 450 bps (USD)
Tenor	5 years	7 years
Repayment	Not disclosed (institutional TLB norm, minimal amortization)	Bullet (no amortization)

Maintenance covenant	Not disclosed (institutional TLB norm: covenant-lite / springing)	None on term (springing on super-senior RCF only)
Mandatory hedging / cash sweep	Not disclosed	None / none
PIK toggle	Not disclosed	Yes ($\leq 50\%$ of margin, max 3 years)
Security	Not disclosed	Limited share pledges (Jersey / UK / US guarantors)

Source: Keywords Studios plc, financial statement of FY2023, EQT offer and completion announcements (2024), Bloomberg News report of 29 July 2024. JTC plc financials statements FY2024, Permira / Papilio Bidco Commitment Letter and Term Sheet (6 Nov 2025) and Interim Facilities Agreement (10 Nov 2025), public offer announcement.

As appear in the table, some features items marked "not disclosed" in the Keywords section, which do not represent gaps in the current analysis, but rather the legal reality of syndicated financing in the UK. Details of Keywords' structure make reference to the institutional syndicated term loan market norm set out in Section 3.4.1, rather than by observed conditions. Furthermore, the borrower's capital profile is, for once, held roughly constant, as Keywords is composed of approximately 63% intangible assets relative to total assets, while JTC is approximately 75%, and both are fundamentally human capital-driven businesses. This shared high LGD profile constitutes the key analytical advantage of the European pair.

(b) The cost side breakdown

The two European companies offer only a rough estimate of the cost differential, with JTC's unitranche margin being fully observable and equal to 475 basis points on the sterling and euro tranches and 450 basis points on the (larger) dollar tranche, equivalent to approximately 456 basis points on a currency-weighted basis for the entire Facility B. The banking counterparty, however, is not observable from primary documents, but this is not entirely coincidental since a Bloomberg report discloses an indicative launch margin of approximately 400 basis points on SOFR, with upfront fees of up to approximately 300 basis points.

Furthermore, the loss-given-default profile and sponsor quality are held constant while, in the Italian pair, the spread of 365 basis points is accurate but contaminated and inflated by the LGD gap between an asset-heavy and an intangible-heavy borrower and by the relational discount of banks already exposed to the group. A first result suggests that the pure channel premium is significantly lower than the nominal margin gap and tends to contract as one moves up the segment, where the banking alternative itself becomes a flexible institutional instrument. In particular, JTC's pre-transaction financing a £400 million multi-currency bank credit facility, priced at SONIA + 1.65% and subject to covenants to maintain net leverage no more than 3.0x is approximately 310 basis points below the buyout unitranche. This gap could reflects the balance sheet re-leveraging from approximately 1.8x to a much higher multiple, expressing the movement the price with the leverage, not just the lender.

Finally, the EBITDA base against which the leverage is sized and, consequently, the implicit cost of the structure for both transactions are based on EBITDA adjustments to present moderate nominal leverage. Keywords' initial leverage of approximately 5x is calculated on adjusted EBITDA of €158.3 million, which is already approximately 45% higher than statutory EBITDA of €109.2 million. Applying the same ratio, statutory leverage would be in the order of 7x. JTC's initial senior secured net leverage of 6.50x is calculated on assumed financing EBITDA of £160 million, approximately 57% higher than underlying EBITDA of £101.7 million and more than three times reported EBITDA of £49.1 million. On underlying EBITDA, the

same debt corresponds to approximately 10x. So, it is confirmed that both deals rely on EBITDA reporting to make nominal leverage acceptable indicating that JTC is the more aggressively leveraged of the two ($\approx 6.5x$ versus $\approx 5x$), consistent with its higher entry multiple ($\approx 26x$ underlying versus $\approx 16x$ keyword-adjusted).

(c) Focus on flexibility

In the European large-cap segment, the gap between the two financing methods is significantly reduced compared to the Italian mid-market study, mainly due to the fact that the banking alternative in this case is not a relationship-based amortizable loan but an institutional syndicated term loan, known as an instrument the market itself considers structurally flexible, with minimal scheduled amortization and a package of restrictive covenants. JTC's unitranche transaction precisely demonstrates the flexibility associated with this asset class, defined primarily by a seven-year, single-installment maturity with no amortization, no debt maintenance covenants, no mandatory coverage, and no automatic withdrawal mechanism for excess cash flow. Instead, the Keywords transaction would be similar in each of these characteristics, and once the banking channel takes the form of a flexible institutional loan, the difference in structural flexibility that guided the Italian comparison ceases to be the distinguishing feature.

Furthermore, Keywords generated positive organic free cash flow (approximately €94 million in 2023) but invested significantly more in acquisitions (approximately €195 million), moving from a net cash position to a net debt position over the course of the year, exposing a liquidity-preserving repayment structure, to the extent that the credit line follows institutional norms, which is therefore valuable for supporting its acquisition pace. While JTC, on the other hand, is highly cash-generating (98% underlying cash conversion in 2024, with acquisitions of approximately £80 million covered by underlying operating cash flow of approximately £99 million), its flexibility is therefore more focused on maximizing acquisition and development capacity, providing the structure with a £250 million deferred-draw acquisition/capex credit line.

(d) Cost-flexibility trade-off summary in the European pair comparison

Below is Table 30, which defines each side of the trade-off for each transaction and the outcome of the comparison, making the residual differentiating factors explicit.

Table 30: Trade-off comparison²⁰¹

Dimension of the trade-off	Keywords (observability)	JTC (observability)	Comparison outcome
Cost (margin / all-in)	Not disclosed (just indicative)	Fully disclosed (≈ 456 bps weighted)	Differential not measurable
Structural flexibility (amortization, maturity, covenants, hedging, sweep)	Inferred (institutional TLB norm)	Fully documented (bullet, covenant-lite, no hedging/sweep, PIK)	Both structurally flexible, so the gap largely collapses at large-cap scale

²⁰¹ "Inferred" denotes a characterization based on the institutional syndicated-market norm (Keywords) or on the literature on direct-lending monitoring (both lenders), not on observed contractual terms

Lender concentration	Observable (19-bank syndicate)	Observable (concentrated club led by Blackstone)	Sharp contrast with key residual differentiator
Monitoring intensity / model	Inferred (dispersed, no single monitor)	Inferred (concentrated, intensive bilateral monitoring)	Sharp contrast with key residual differentiator
LGD / asset profile	Observable (~63% intangible)	Observable (~75% intangible)	Broadly constant, improving channel isolation
Sponsor quality	Observable (EQT-led consortium)	Observable (Permira)	Both top-tier with their reputation effect on, but not varied
EBITDA adjustment	Partly observable (adjusted vs statutory)	Fully documented (add-back regime)	Both rely on uplift, the documented regime (JTC) is generous

Source: derived from the case-study sections §3.4.1 and §3.4.2 and Tables 14–25..

The key differences between the two channels lie in the concentration of the lender base and the associated monitoring model that displays same distinction identified in Chapter 2, that now are isolated in a context where the banking alternative is inherently flexible, which is the configuration the study does not explore due to its bias toward North American large-cap funds.

Furthermore, the European pair isolates this channel-and-monitoring effect more cleanly than the Italian pair, even though it sacrifices the price measurement by sharing a pronounced intangible-heavy, high-LGD profile and both European deals are led by top-tier sponsors.

Moreover, is demonstrated that the trade-off between costs and flexibility is based on the market segment by showing that in the medium-sized enterprise segment, the banking alternative is credit based on rigid relationships and the trade-off is dominated by the flexibility and the choice of private debt offers a tangible structural advantage. Instead, in the large enterprise segment, the flexibility side reduced to almost zero and the choice is limited to who holds the security and how they monitor it, as well as a price that, on the banking side, the transparency regime does not reveal. Both borrowers could plausibly access both channels and neither represents a forced choice in the sense of Denis and Mihov (2003), making the selection a strategic one. Particularly relying on JTC, sponsor chose private credit for a high-quality, cash-generating business, accepting a documented weighted margin of approximately 456 basis points and higher leverage in exchange for a concentrated structure, demonstrates that the value of concentration and execution certainty can outweigh any pricing advantage a syndicated alternative might have offered.

(e) Comparison limits

The closing of the case faces several limitations that qualify this comparison before reaching its conclusions, these include introducing the issues related to information asymmetry already discussed, leaving the cost side of the trade-off unobservable for this pair, and the structural characteristics attributed to Keywords' financing based on institutional syndicated market norms rather than observed terms. The two companies

operate in different end markets, determining this as the pair's primary comparability asymmetry and meaning that the differences in entry multiple and leverage observed above are best attributed to asset quality.

Furthermore, the analysis is necessarily *ex ante*, given that Keywords completed the transaction in October 2024 but, as a private company, no longer publishes comparable financial statements, and JTC is expected to complete it only in 2026. Therefore, the holding period is unobservable for both, just as for the Italian pair. This transaction features a high-level sponsor, but the variable is unchanged within the pair, so the issue concerns the channel rather than a possible effect of the sponsor's reputation. Finally, the two leverage values used are not based on identical assumptions, since Keywords's value, approximately 5x, represents the ratio of gross term loan to adjusted EBITDA, while JTC's value, equal to 6.50x, represents the ratio of senior secured net debt to financing EBITDA.

CHAPTER 4 – CONCLUSION

4.1 Summary of findings

The empirical analysis allowed for comparisons based on the trade-off outlined by this thesis, constructed on two matched pairs of transactions, which yielded several questionable results. As can be seen, the trade-off is real, and in general, greater flexibility in terms of liquidity and time comes at a higher cost and the Italian pair clearly isolates this trade-off, as both transactions are indexed to the same benchmark and executed in the same market within the same cycle, placing them at opposite ends of the same trade-off.

Moreover, the nominal margin spread systematically overestimates the actual cost of flexibility. For instance, the 365-basis-point gross gap observed in the Italian pair incorporates a significant credit risk premium, driven by NVP's asset-heavy profile, which yields a much lower loss-given-default (LGD) than Mare, a company characterized instead by intangible assets and relational capital. Consequently, the true premium attributable to the channel's flexibility is materially lower than the nominal figure, a trend further validated by the European pair, which holds both LGD and sponsor quality constant. The comparison clearly demonstrates that this dynamic is segment-dependent. In the mid-market, where the banking alternative is typically a relationship-based amortizing loan, the decision is heavily dictated by flexibility. Conversely, in the large-cap segment, banks offer institutionally syndicated term loans, which significantly narrows the structural flexibility gap. At this level, the choice shifts away from flexibility toward lender concentration, monitoring frameworks, and pricing. Ultimately, because these large-cap borrowers enjoy viable access to both channels, their decision is entirely strategic rather than constrained by market necessity. What is certain is that the central element of this thesis is the asymmetry in the structures, define that the cost of private debt is fixed and measurable at the time of signing, while the value of flexibility is contingent and materializes only if and when the borrower actually needs it. According to this, the Mare/Eles transaction is the only case in which that benefit materialized and in an unexpected form, supported by an offer that ultimately was unsuccessful, but the structure absorbed the change in scenario without friction. What private debt provided in that case, was the option to exit a contested and non-strategic position in an orderly manner. This is asymmetry in its starkest form, where a cost incurred from day one is offset by a benefit that manifests itself in a form no term sheet could have anticipated.

Most significantly, these results are based on a selection effect consistent with Chapter 2, with borrowers turning to the source of debt compatible with their size and profile, letting the choice of financing is partly driven by access, and the most analytically interesting cases are those in which both channels are actually available and the decision becomes deliberate (as in the European couple).

4.2 Theoretical and practical implications

Throughout this thesis, many theoretical implications have already been highlighted, which in some ways provide further insight into the obtained result. Among the many implications is certainly the spread differential between private debt and bank debt, which should not be considered a pure price of flexibility. Indeed, the complementary two-pair model clearly illustrates this point. As noted in the previous analysis, the mid-cap pair provides an accurate but distorted spread, while the large-cap pair offers a more precise attribution at the cost of an observable price. Overall, this suggests that the channel premium is real but limited, and that it diminishes in the upper market segment as the syndicated alternative converges on private credit. This qualifies the existing evidence by demonstrating that, in the European context, the main gap may be larger, but largely explained by borrower characteristics rather than the instrument itself. In particular, in the European large-cap segment, where the syndicated financing alternative is independent and structurally flexible, the

difference between the two financing options boils down to concentration and the monitoring model rather than the contractual form.

For medium-sized borrowers and sponsors with significant cash absorption, the private debt structure offers a tangible value that justifies the premium, as it allows them to preserve the liquidity needed to support growth or acquisition plans. However, in the large-cap segment the decision is more of a strategic equilibrium between a single, responsive partner, capable of ensuring execution certainty, and a deep and competitive syndicated market that, however, suffers from the transparency limitations imposed by current regulations. This final limitation brings this section to its conclusion, pointing out that because certain costs and benefits are symmetrical, the rationality of the choice ultimately depends on the dispersion of outcomes over the holding period. When dispersion is low, the premium is difficult to justify and, conversely, when it is high, the option value of a single lender can easily outweigh the spread.

4.3 Limitations and future research

All four transactions were concluded too recently for a holding period to have elapsed; the analysis is necessarily *ex ante* and structural, thus avoiding an analysis of whether the flexibility premium translates into superior results during the holding period. It cannot therefore be answered here; it can only be formulated. The Mare/Eles case is able to offer a single, and partial, vision into flexibility in action, but it remains the exception rather than the norm. From an informational perspective, the European pair was unable to provide a homogeneous cost comparison, leaving the resulting estimate of the channel premium at an order of magnitude rather than an exact figure. Furthermore, no match on real transactions is perfect, but this is largely due to the valuation system for comparable companies, where it is nearly impossible to find two candidates perfectly comparable on multiple fronts. In the case of the two Italian companies, the borrowers differ in terms of their capital profiles and the role of the entity requesting the financing, while in the European companies, the two firms operate in different end markets, explaining that part of the difference in the entry multiple and leverage reflects the quality of the business rather than the financing channel. Finally, in neither pair does the sponsor's reputation vary, given that the Italian transactions do not involve a private equity sponsor, and in the European transactions, the sponsor's quality remains constant.

This conclusion establishes the basis for a possible additional study that allows the same transactions to be re-examined once post-transaction financial statements and data covering several years of holding are available, in order to verify *ex post* whether the flexibility actually exercised justified the premium paid, thus closing the loop that this thesis could only have opened. Furthermore, the European middle market, and Southern Europe in particular, remains largely unexplored and would benefit from an analysis based on privileged data capable of overcoming the disclosure issue identified in this study. Introducing a variation in the sponsor's reputation would allow us to separate the channel effect from the relationship effect, which would allow for the econometric separation of the credit, relationship, and channel components that the study design could only address qualitatively.

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