



Beyond the Unitranche

Creative financing solutions in
a changing market

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“The wide gap in the supply of capital that exists between well-defined, more traditional private offerings creates an opportunity uniquely suited to a unified private credit team like Hayfin’s. With a robust, firm-wide origination platform, deep local relationships and specialised investment expertise, we are well positioned to address this underserved part of the market.”

Marc Chowrimootoo

As private markets continue to evolve, new challenges drive sponsors, companies, banks and asset managers to seek creative financing solutions. While private credit funds are sitting on ample reserves of dry powder, much of this is earmarked for lower-risk opportunities, in funds that are increasingly averse to structural or situational complexity.

For flexible investors willing to tactically target the parts of the market where capital is most scarce, there is a wide potential window to provide downside-protected yield-oriented solutions.

Near-term demand for refinancings continues to build based on higher rates and the looming maturity due to the record-high issuance from the 2020/2021 vintage. Coupled with both rate, inflation and geopolitical volatility as well as an uncertain M&A environment, these conditions have created significant demand for capital – and particularly for financing that can bridge gaps in enterprise value in a way that traditional forms of debt cannot. Much of this need, however, falls between the well-defined credit offerings of direct lending and special situations. These two industry-standard products sit on opposite sides of the risk/reward spectrum and are typically restricted by mandate guidelines or target return profiles, meaning they cannot address the large volumes of opportunities that exist in between.

In our view, these market dynamics contribute to an attractive and rapidly growing pool of opportunities. They are uniquely suited to a unified private credit team like Hayfin’s, with our robust, firm-wide origination platform, deep local relationships and specialised investment expertise. In this paper we explore the factors driving activity in the bespoke financing solutions space and demonstrate how they can contribute to an attractive risk/return proposition.

We believe our sourcing advantages—across a cohesive platform that spans primary, secondary, asset and multi-vertical origination as well as a mature Direct Lending and Special Opportunities franchise—can provide access to the most attractive opportunistic deals. When combined with downside-focused investment selection, this approach helps reduce the risk of negative selection bias.



HAYFIN

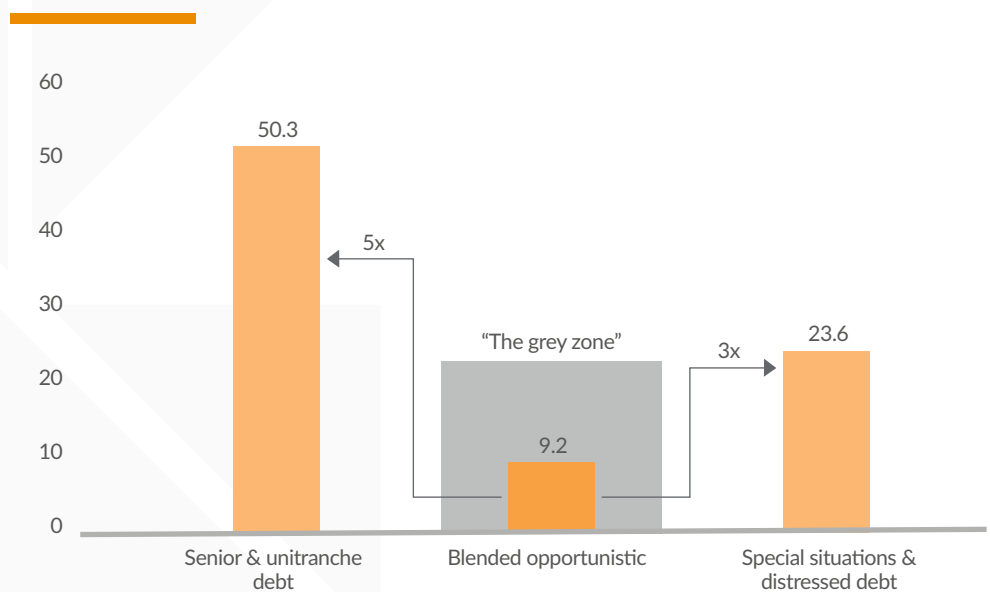
Factors driving bespoke
capital solution activity

Supply and demand imbalances

Whilst lending remains abundant and the size of the broad private credit market continues to grow, the bulk of dry powder sits with private credit strategies focused on vanilla senior debt. Many of these strategies have become increasingly narrow in their focus, targeting a prescriptive solution that shows lower tolerance for more levered capital structures, structural complexity or creative deal terms. At the same time, a period of structural deleveraging in the European banking sector has created tighter parameters for traditional bank lenders.

Although there remains significant dry powder from traditional special situations and distressed funds, these mandates target Internal Rates of Return (IRR) and Multiples of Money (MoM) best suited for borrowers in more difficult, complex situations or where there is a need to take a degree of equity/residual risk.

Dry powder by strategy (\$bn) – Europe



Source:
Preqin, December 2024

Given the significant current and projected demand for capital in this underserved market, we see an outsized set of opportunities. These are typically borrowers with non-cyclical businesses and strong market positions, but they are currently burdened with cumbersome capital structures designed for a different market environment.

The maturity wall: mounting demand for refinancing

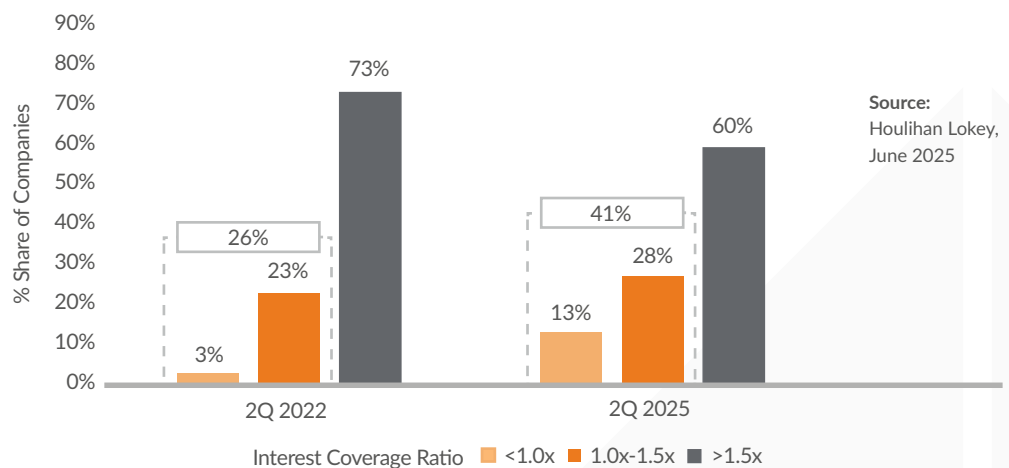
The approaching maturity wall for deals from the 2020/2021 vintages is an interesting source of opportunity, given their capital structures were designed for a time when valuation multiples were higher and rates far lower. The environment that immediately followed this issuance was challenging for levered borrowers as top lines were impacted by slower growth and bottom lines squeezed due to the combination of high cost inflation and rising interest rates. The result is a growing number of companies with lower Interest Coverage Ratios.



“Accessing a compelling and currently underserved subset of opportunities requires robust underwriting and structuring discipline. These opportunities often involve borrowers with non-cyclical businesses and strong market positions, who are now burdened with capital structures that no longer make sense in today’s macroeconomic environment.”

Carlos Pla

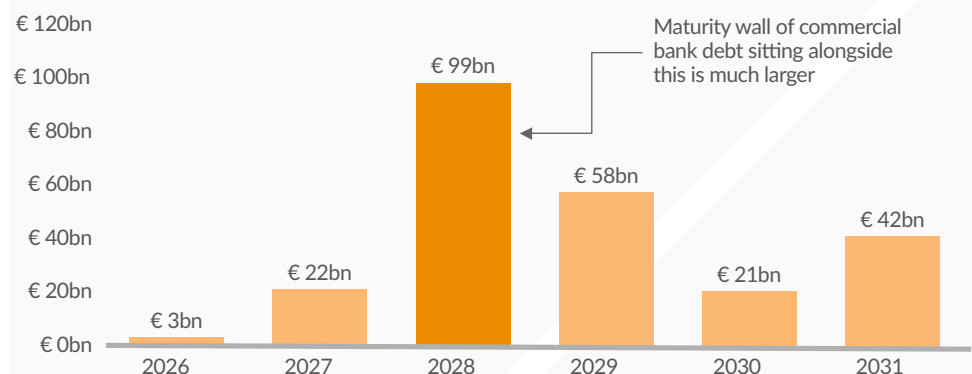
Interest coverage deterioration



In the universe of European borrowers reported by Houlihan Lokey, 13% are unable to meet their interest payments through their operating cash flow and an additional 28% are at risk as their coverage is less than 1.5x. Commercial banks typically require interest coverage of 2.0x or greater for a traditional corporate loan. Currently 41% of companies interest coverage ratios are less than 1.5x.

Nearly €100bn in European leveraged loans will mature in 2028, and this number only increases when expanded to include deals from the private credit and traditional bank markets. As this debt comes due, many companies may be unable to refinance with traditional lenders and are seeking creative solutions for refinancing. Such solutions include the use of Payment-in-Kind (PIK) or delayed amortisation structures, which can help free up capital for other near-term priorities.

European leverage loan index – maturity wall



Source: PitchBook LCD, December 2024

Subdued M&A and diminished private equity distributions

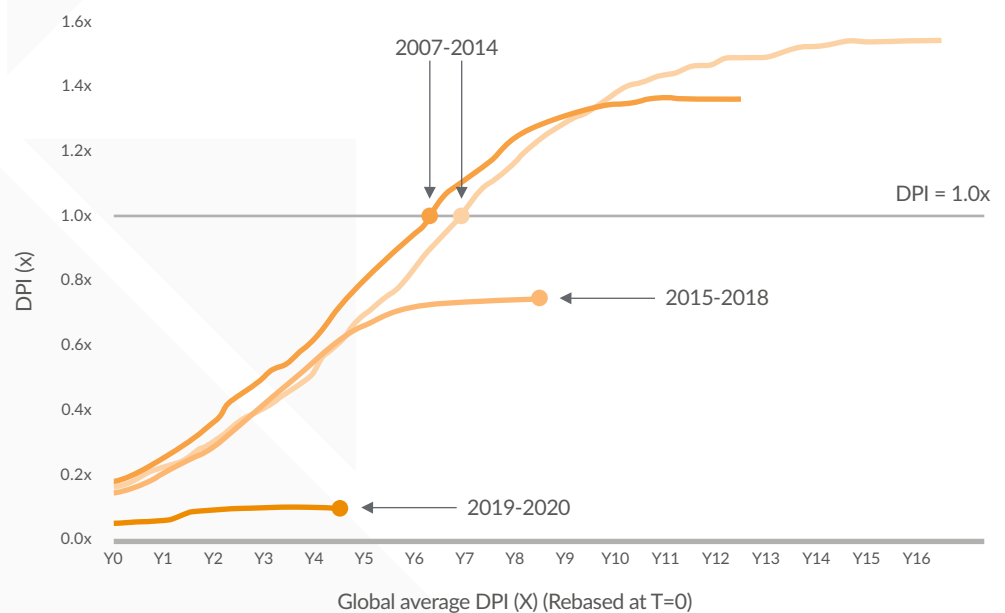
Slower M&A activity from 2022 to 2024 has resulted in a significant reduction in the Distributions to Paid-In Capital (DPI) of private equity funds relative to historic norms. LPs are therefore becoming increasingly focused on liquidity and capital returns, especially when considering making investments in future vintages.¹ While 2025 showed signs of stabilising markets and increased deal flow, investor caution on the back of tariff uncertainties has since slowed M&A activity once again. In many cases, private equity funds faced with finite lives and uncertain fundraising are looking for near-term exits or creative solutions to return capital to their investors. The resulting, multi-year opportunity set for those able to provide hybrid debt/equity or partial PIK solutions is compelling, given that the demand for these bespoke solutions is relevant regardless of where we are in the credit cycle.



“Given the slowdown in M&A, borrowers who have seen meaningful increases in their cash flow interest burden are seeking creative solutions for refinancing, especially solutions that utilise a PIK or delayed amortisation structure that can free up capital for other near-term uses.”


Stephen Badia

Global private equity DPI by Vintage



Source:
Preqin, April 2024. Data analysed by Goldman Sachs.

Note:
Date of 1st non-zero DPI defined as T=0 for each fund in given vintage (i.e. Y1 represents ~2017 for 2016 vintages).

A large, low-angle photograph of a modern glass skyscraper against a blue sky with light clouds. The building's glass facade reflects the sky and surrounding environment. Overlaid on the image are several semi-transparent geometric shapes: a blue triangle in the top left, a large white triangle in the center, and a blue triangle in the bottom right. A small orange horizontal line is positioned below the title text.

Strategies for deploying creative capital solutions



“Hayfin’s deep, highly localised sourcing network, combined with our reputation as a dependable and flexible counterparty, gives us access to a rich pool of opportunities. We provide creative capital solutions that are well aligned with sponsor needs and can command premium pricing in exchange for illiquidity, flexibility or bespoke structuring.”

Carlos Pla

Large pools of borrowers are facing burdensome leverage, cumbersome capital structures and limited avenues to traditional refinancing or M&A solutions. It will take multiple years for these issues to be resolved, regardless of the macroeconomic environment. These factors have sparked deployment momentum for Hayfin as a provider of sophisticated and bespoke capital solutions. In cases where Hayfin chooses to provide opportunistic capital, we focus on downside protection and cash yield while aiming to deliver consistent and low-volatility returns throughout credit cycles.

Amid dynamic market conditions, Hayfin is uniquely positioned owing to our deep, highly localised relationships across sponsors, corporates, banks, trading desks and advisors. This network is further strengthened by platform synergies across our sector verticals, including healthcare, real estate and maritime, as well as our liquid credit and private equity businesses. We believe these sourcing advantages, combined with our reputation as a dependable and flexible counterparty, give us access to a rich pool of opportunities. In these situations, we can provide creative capital solutions that align closely with sponsor needs—often commanding premium pricing in exchange for illiquidity, flexibility, or bespoke structuring.

Our focus on downside protection makes robust credit selection essential. Within the large pipeline of potential deals, we prefer to seek out stable companies that are ignored by traditional financing markets due to mandate constraints or lack of deep sector knowledge.

Given these investments’ complexity, we lean on our dedicated in-house legal and workouts team when structuring each loan. Relative to the existing loan we are refinancing, we are often able to enhance documentation for our loan to protect value or come to the table earlier with the borrower if they underperform.

Hayfin is a provider of creative capital solutions, including but not limited to:

- ▲ Stretched senior financings combining cash-pay and Payment-in-Kind (PIK) debt
- ▲ Refinancing of existing unitranche through PIK-based structures
- ▲ First-in last-out debt structures
- ▲ Participation in private tranches of larger syndicated capital structures — particularly in less liquid currencies such as sterling
- ▲ Preferred equity solutions with debt like features

In select situations, Hayfin may consider acquiring the debt of companies at a discount through the secondary market, as part of a broader strategy to achieve outcomes consistent with those of a primary transaction.

As the market dynamics described in this paper continue to crystallise, we expect opportunities allowing Hayfin to provide creative financing solutions across the full risk/reward spectrum to expand. As a subset of our unified approach to private credit, Hayfin's Tactical Solutions strategy stands out as a differentiated and flexible partner in today's nuanced market. The Tactical Solutions strategy is currently seeing the highest number of opportunities relative to its capital base.

Built on Hayfin's strong underwriting platform, local sourcing strength and specialised credit expertise, the Tactical Solutions strategy enables the cycle-tested team to adapt origination to market conditions and pivot dynamically across geographies and sourcing channels.

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