

Markets

Blackstone-Led Group Provides \$1.8 Billion Medallia LBO Loan

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August 9, 2021

- ▶ Five lenders backing the high-growth software service firm
- ▶ Unitranche loans have experienced a growth spurt in recent weeks

Blackstone Group Inc., Apollo Global Management Inc. and KKR & Co. are among lenders providing a \$1.8 billion loan to back Thoma Bravo's leveraged buy-out of Medallia Inc., the latest in a series of giant-sized deals in the direct-lending market over the past few weeks.

The unitranche loan blends first-priority and subordinated debt into a single facility, and was made directly to the company through the firms' credit arms -- rather than being arranged by banks, according to people with knowledge of the transaction. The lending unit of Thoma Bravo and direct lender Antares Capital LLC are also helping provide the loan. Pricing details on the loan weren't disclosed.

Blackstone, Apollo, KKR, Thoma Bravo and Antares declined to comment. Medallia did not immediately respond to requests for comment.

Medallia, a company focused on software services, last month agreed to be bought by Thoma Bravo for \$6.4 billion in cash. The deal put the debt component of the purchase price at less than 30% of the value of the company.

Unlike some of the recent jumbo unitranche loans that have recently hit the market, the Medallia loan may have faced some resistance if bankers had attempted to raise the funding in the syndicated leveraged loan market. While the firm has seen double-digit revenue growth, it has been bleeding cash. For the last 12 months ended April 30, the company reported earnings before interest, tax, depreciation and amortization (Ebitda) of about negative \$85 million.

Medallia is structured as a recurring-revenue loan, which has become increasingly common for fast-growing software companies that would otherwise have a hard time getting financing in the public



markets, according to some of the people familiar with the matter. In general, that kind of financing is initially based on the expected revenue from the companies' service contracts rather than on earnings.

Investors looking for higher yields are once again shoveling record amounts of cash into private lending, catapulting the asset class to more than \$1 trillion globally. With that growth comes the ability to write larger checks, sometimes running above \$1 billion. Another component boosting deal sizes is private-equity firms increasingly turning to unitranche loans to fund larger buyouts.

As unitranche loans have been surging to become one of the hottest parts of the direct-lending market, deal volume has jumped to \$21.6 billion in the second quarter, compared with roughly \$3 billion during the same period five years ago, according

to data from Refinitiv LPC. Unitranche and first-lien loans represented 87% of all private credit deals in 2020, while lower-ranked mezzanine debt declined from 21% in 2013 to 1%, according to law firm Proskauer in its annual private credit insight report.

Last month, the largest unitranche on record hit the market -- \$2.6 billion of debt financing to help fund Thoma Bravo's buy-out of Stamps.com Inc. Blackstone, Ares Management Corp., and PSP Investments and the lending unit of Thoma Bravo provided the loan.

Blackstone along with three other lenders last month also provided a \$2.15 billion unitranche for Veritas Capital's recapitalization of online education and testing company Cambium Learning Group Inc.

— *With assistance by Lucca De Paoli, and Olivia Raimonde*

Important Disclosure Information and Risk Factors

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Blackstone Private Credit Fund ("BCRED") is a non-exchange traded business development company ("BDC") that expects to invest at least 80% of its total assets (net assets plus borrowings for investment purposes) in private credit investments (loans, bonds and other credit instruments that are issued in private offerings or issued by private companies). This investment involves a high degree of risk. You should purchase these securities only if you can afford the complete loss of your investment. You should read the prospectus carefully for a description of the risks associated with an investment in BCRED. These risks include, but are not limited to, the following:

- We have limited prior operating history and there is no assurance that we will achieve our investment objectives.
- This is a "blind pool" offering and thus you will not have the opportunity to evaluate our investments before we make them.
- You should not expect to be able to sell your shares regardless of how we perform.
- You should consider that you may not have access to the money you invest for an extended period of time.
- We do not intend to list our shares on any securities exchange, and we do not expect a secondary market in our shares to develop prior to any listing.
- Because you may be unable to sell your shares, you will be unable to reduce your exposure in any market downturn.
- We have implemented a share repurchase program, but only a limited number of shares will be eligible for repurchase and repurchases will be subject to available liquidity and other significant restrictions.
- An investment in our common shares of beneficial interest ("Common Shares") is not suitable for you if you need access to the money you invest. See "Suitability Standards" and "Share Repurchase Program" in the prospectus.
- You will bear substantial fees and expenses in connection with your investment. See "Fees and Expenses" in the prospectus.
- We cannot guarantee that we will make distributions, and if we do, we may fund such distributions from sources other than cash flow from operations, including the sale of assets, borrowings, return of capital or offering proceeds, and although we generally expect to fund distributions from cash flow from operations, we have not established limits on the amounts we may pay from such sources. A return of capital (1) is a return of the original amount invested, (2) does not constitute earnings or profits and (3) will have the effect of reducing the basis such that when a shareholder sells its shares the sale may be subject to taxes even if the shares are sold for less than the original purchase price.
- Distributions may also be funded in significant part, directly or indirectly, from temporary waivers or expense reimbursements borne by Blackstone Credit BDC Advisers (the "Adviser") or its affiliates, that may be subject to reimbursement to the Adviser or its affiliates. The repayment of any amounts owed to our affiliates will reduce future distributions to which you would otherwise be entitled.
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- We intend to invest in securities that are rated below investment grade by rating agencies or that would be rated below investment grade if they were rated. Below investment grade securities, which are often referred to as "junk," have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. They may also be illiquid and difficult to value.
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Numerical data is approximate and as of June 30, 2021, unless otherwise noted. The words "we," "us," and "our" refer to BCRED, unless the context requires otherwise.

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Certain information contained in this document constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "anticipate," "estimate," "believe," "continue" or other similar words, or the negatives thereof. These may include our financial projections and estimates and their underlying assumptions, statements about plans, objectives and expectations with respect to future operations, and statements regarding future performance. Such forward-looking statements are inherently uncertain and there are or may be important factors that could cause actual outcomes or results to differ materially from those indicated in such statements. BCRED believes these factors include but are not limited to those described under the section entitled "Risk Factors" in its prospectus and any such updated factors included in its periodic filings with the Securities and Exchange Commission (the "SEC"), which will be accessible on the SEC's website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in BCRED's prospectus and other filings. Except as otherwise required by federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

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