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Thoma Bravo's Thym on private credit
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By Abby Latour
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Oliver Thym, a partner on the credit team at Thoma Bravo, expects to see a continued shift to private credit and away from the syndicated loan market.

“With the syndicated market, you don’t know what you’re getting until you go to market. With private credit, it’s not going to be the cheapest game in town, but you know what you’re getting,” he said in an interview with LCD.

Certainty, speed and confidentiality are among the main drivers for the shift away from the syndicated market, Thym said. “There was a time when the private credit market did not see all the deals. You didn’t have that luxury over the past year.”

Enterprise software borrowers typically have high free cash flow, lower capex needs, recurring-revenue subscription models, and high customer retention rates due to the mission-critical nature of the businesses, Thym said.

Generally speaking, overall deal volume is down year-over-year, and pricing is higher, Thym adds.

In late 2021, before the debt market sell-off, a cash flow unitranche financing on a 7.5x debt-to-EBITDA market leading software buyout would have priced at Libor+575 (50-100 bps Libor floor, OID 98), while call protection would have been 102-101, according to Thym.

Today, leverage would be lower on a similar software LBO, at 6.5-7.0x, with pricing at Sofr+700-725 (and an OID of 97), while covenants are tighter and documentation terms are more attractive for lenders, including potentially incremental call protection, Thym said.

Recurring-revenue loans are still possible for some borrowers that are moving quickly towards cash-flow positive, he adds. “For once in a blue moon, things have turned in favor of the capital providers for companies that have a proven track record.”

During frothy market conditions, some software providers that were not truly mission-critical—with revenue streams that turned out not to be recurring—were able to get deals done.

So far there have not been signs of stress in Thoma Bravo’s portfolio, but given the higher interest-rate environment and macroeconomic uncertainty, Thym expects to see more capital structures in the market where private equity sponsors might need to address possible liquidity issues by reducing cash-pay debt with partial PIK interest, introducing holdco PIK debt or preferred equity, or injecting additional common equity. (Thym notes this is not the case for the Thoma Bravo portfolio, but potentially some other transactions in the market.)

In terms of new deals, “underwriting matters again,” Thym said. “The private credit market continues to be open for the right companies.”