Sponsor Vs. Non-Sponsor Backed Lending, What You Need to Know

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The important differences between sponsor-backed and non-sponsor-backed loans

- Sponsor-backed loans are loans lent to a company owned by a private equity firm
- Non-sponsor-backed loans are loans lent to a company without private equity backing
- According to the data, non-sponsor deals can pose higher risks, including higher payment default rates

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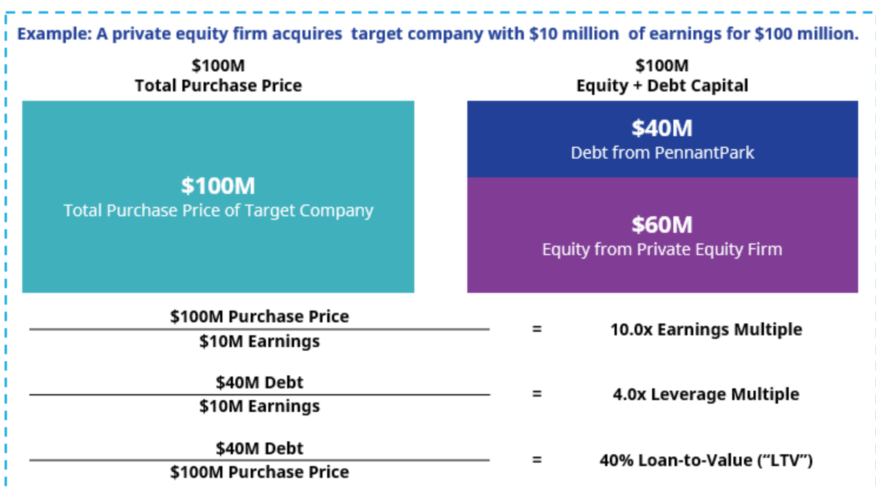
In the wake of increased financial regulations, alternative asset managers have replaced banks as the primary source of corporate loans, with private credit now surpassing $1.4 trillion in global assets under managed[1]. Investors interested in allocating to private credit should understand the two primary categories: sponsored and non-sponsored backed loans.

Sponsor-backed loans are loans extended to a business owned by a private equity firm. Typically, with sponsor-backed loans, the private equity firm identifies the lender and helps to negotiate the loan terms between the borrower and the lender. Private equity firms seek lenders to help finance the acquisition more efficiently by adding leverage and, ultimately, improve their rate of return. For lenders, the private equity investment provides additional equity cushion to the corporate capital stack, which protects the lender's principal, should the company need to be liquidated. Since credit sits higher in the capital stack than equity, the credit manager is first in line to be repaid with any distributions or proceeds. Additionally, as with most sponsor-backed deals, the private equity firm can inject additional equity capital into the company if needed.



Note: Example for illustrative purposes only. Past performance is not necessarily indicative of future results. Invested capital is at risk.

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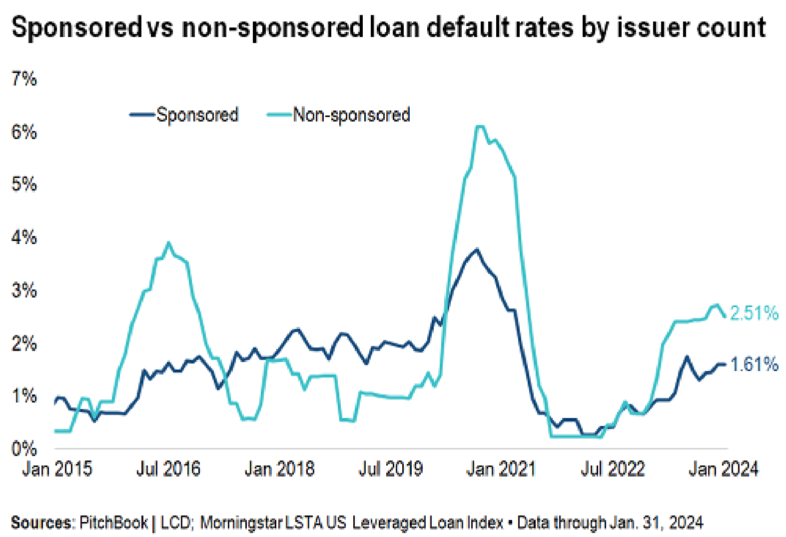
[1] *Understanding Private Credit: Sponsored Vs. Non-Sponsored Financing | September 2023*

Non-sponsor-backed loans are loans extended to businesses without private equity backing. In these deals, lenders work directly with the borrowers without any intermediary. These deals are typically small, can be more challenging to source, and have historically been viewed as having more risk given the lack of equity cushion in the capital stack. In sponsor-backed loans, all equity must deteriorate to zero value before a single dollar of the loan is at risk. In non-sponsor-backed loans, the principal is at greater risk given the lack of equity in the capital stack. The graph below shows that non-sponsored loans traditionally have higher payment default rates.



At PennantPark, we focus on core-middle market, sponsor-backed deals. We proudly maintain a broad set of private equity sponsor relationships that provide a proprietary sourcing channel for our deal flow. We cover over 700 middle-market private equity sponsors and have completed transactions with 220+ trusted sponsors. Since 2020, 80% of investments completed by PennantPark have been with repeat sponsors, who have a track record of supporting portfolio companies. We welcome a conversation; please contact invest@pennantpark.com or the professionals listed below.

Contact Us

About PennantPark:

PennantPark is an independent middle market credit platform founded in 2007 by private credit industry veteran Art Penn (most recently Managing Partner at Apollo Credit). As of March 2024, PennantPark has invested $18.5B in over 700 private credit transactions since its inception. We have $7.0B in AUM today from some of the world's largest and most sophisticated institutional investors. The Firm is headquartered in Miami with additional offices in New York, Chicago, Houston, Los Angeles, and Amsterdam.

PennantPark primarily invests in the core middle market, defined as companies with earnings of $10 million to $50 million. Our industries of focus include business services, government services, healthcare, consumer, and software/technology. In addition to middle market CLOs, the firm offers its investment strategies through a range of public and private fund structures.

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