



Lord Abbett Explains: Private Credit—Market Segmentation



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In this video, Lord Abbett Portfolio Specialist Michael Cibelli explains senior direct lending and how it can be segmented by the size of the companies that rely on this form of financing.

MICHAEL CIBELLI: In this video, we'll look at the key parts of the \$1.7 trillion private corporate lending market.¹

This is Lord Abbett Explains: Private Credit.

Market Segmentation

Private corporate lending can take many forms. But at the forefront is senior direct lending. It's also the category on which many business development companies, or BDCs, are focused. Senior direct lending refers to private loans made by non-bank lenders that are first in line to get paid back if a company goes bankrupt. That makes them less risky relative to any subordinated debt. These loans are often used to finance the purchase of a company, to fund growth initiatives, or to refinance existing debt.

A Focus on Direct Lending

This form of private corporate lending can be segmented by company size measured by earnings power.

Smaller companies, generally those with less than \$100 million in annual earnings, would historically source capital from banks. However, in recent years, their ability to acquire loans from banks has decreased as a result of changes in banking dynamics.

What's more, these smaller, so called "middle-market" companies don't have access to the capital markets, so they can't issue publicly traded bonds or loans via large investment banks.

And that's where private lenders step in. The U.S. middle market encompasses over 200,000 businesses that may be prime candidates for private loans.² This market can be loosely segmented as:

The lower middle market:

Between \$10 and \$25 million in annual earnings

The core middle market:

Between \$25 and \$100 million

And the upper middle market:

Between \$100 and \$300 million

Also worth noting that even larger borrowers beyond the upper middle markets have begun to source financing from the private markets, as they assess the benefits of private financing against public debt.

Let's Recap

So, what are the key takeaways?

1. A diverse space with roughly \$1.7 trillion in assets

First, the private corporate lending market is a diverse space with roughly \$1.7 trillion in assets.

2. Senior direct lending is the largest share

Second, senior direct lending is the largest piece of that market.

3. Senior direct lending covers first lien, senior secured private loans to the middle market

And third, senior direct lending encompasses first lien, senior secured private loans to companies of various sizes in what we call the middle market, which can be subdivided into the lower, core, and upper middle market.

Thanks for joining us. Don't miss our next Lord Abbett Explains: Private Credit video on yield and performance.

¹Data source is Prequin as of September 30, 2024. Most recent data available.

²Data source is Lord Abbett estimate.



Glossary

Business development company (BDC) is a type of investment company in the U.S. that provides capital to small and mid-sized businesses, as well as distressed companies. BDCs are designed to help these firms grow during their early stages or regain financial stability.

Direct lending is a type of private credit strategy that makes direct, illiquid loans to middle market companies outside of the traditional banking system. A direct loan refers to a privately negotiated loan provided by non-bank lenders directly to a borrower, typically a middle-market company.

First lien senior secured loan refers to a loan that has a senior status in the capital structure, which is the highest-ranking priority for repayment. It is also secured by collateral and holds the first lien position, which gives the lending the first claim on the collateral in the event of default or liquidation.

Senior debt is the highest-ranking debt in a company's capital structure and has first priority for repayment in the event of bankruptcy or other type of liquidation.

Subordinated debt is a type of loan that ranks below senior debt in terms of repayment priority.

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