PDM Q&A

Founded 10 years ago, Permira Debt Managers provides flexible financing solutions to mid-market businesses in Europe. Since inception in 2007, the PDM funds have provided almost €4 billion of capital to c.100 businesses in 12 European countries. We have supported companies across diverse industries from publishing, theme parks, cinemas and restaurants, to industrial gears, sofa retailers and aerospace suppliers.

The PDM funds have the flexibility to work with management to create bespoke financing solutions that meet the long-term growth requirements of each individual company.

Our current investment team benefits significantly from the wider Permira office network, sector expertise and relationships with banks, lawyers, accountants and other service providers to European businesses.

Often when competing effectively for business, it is not just about the cost of financing. Rather we will be judged on the quality of the relationship we were able to build during the process and the knowledge we bring to the table that could benefit the development of the company.

This is particularly the case when working with smaller, often family-owned businesses. Our network enables us to have conversations with senior management teams and develop financing solutions outside the usual intermediated channels. By being closer to the businesses, we are also able to form a more complete picture on the fundamentals driving the business when we are working on our due diligence.

Typically, the opportunities for proprietary deals are concentrated at the smaller end of the market. However, when capital markets go through a period of weakness (e.g. during oil price fluctuations or after unexpected political developments), we are able to step in and help larger firms whose debt may suffer from temporary illiquidity.

The PDM funds invest patient, long-term capital from a group of blue-chip pension funds and endowments. The PDM structure enables the funds to make quick decisions and execute with certainty.

The investment of new debt capital in mid-market companies is often fundamental in helping them achieve their growth objectives, which in turn helps drive local employment. The PDM funds have enabled CLEAN to open a new energy-efficient factory in Slough, it has helped Paperchase open more shops on the UK high street and it has provided Kinaxia with the capital it needed to open a driver training academy.

“...”

The PDM structure enables the funds to make quick decisions and execute with certainty.

THOMAS KYRIAKOUDIS
CHIEF INVESTMENT OFFICER
Direct lending

The direct lending part of our business provides credit solutions to mid-market European companies across the capital structure. We have an established track record of providing additional funding for organic and external growth, in particular overseas expansion, and are supportive of buy-and-build strategies (including cross-border).

In the last year, PDM’s direct lending funds have raised over €1 billion to continue backing privately owned European growth companies. These are companies like Autovista, a leading German provider of data and intelligence for the European automotive industry where we won a sole lender mandate. In France, we again used our network to establish a relationship with DGF, a supplier of products to top-end bakeries, where we were again the sole lender.

In another proprietary investment, we also recently backed Away Resorts, which owns and manages six holiday parks across England and Wales. In direct lending, these are the kind of opportunities that are emerging across Europe as both regional and domestic players, mainly banks, move out of the market.

It has also enabled the PDM funds to underwrite increasingly sizeable transactions such as Soho House, the UK-based global private members’ club.

Structured credit

Our structured credit business provides long-term capital to CLO managers in both the primary and secondary capital markets. This strategy relies on the excellent risk/reward characteristics inherent in senior secured debt, typically issued by larger leveraged buyouts. We specialise in the most junior parts of the capital structure especially equity, where our credit-led approach provides the greatest differentiation.

Market evolution

In recent years, the private credit market has evolved into a meaningful asset class in its own right. There is a growing realisation that the expansion of private credit lending by funds like PDM, rather than banks, is a long-term, structural change rather than a temporary situation stemming from the financial crisis. Nearly a decade on, banks continue to retrench from their position as long-term lenders to medium-size businesses in Europe. The coming launch of Basel IV will only hasten this retrenchment. Private credit businesses like PDM are filling the void left by the banks and, because we have none of the legacy governance and technology issues or the convoluted decision-making chains, we are able to get closer to businesses and provide solutions that are more tailored to their needs.

“…We have an established track record of providing additional funding for organic and external growth, in particular overseas expansion, and are supportive of buy-and-build strategies (including cross-border).”

JAMES GREENWOOD
CHIEF EXECUTIVE OFFICER
The private credit market is relatively immature compared with public equities and debt, as well as private equity. This means that there is still a significant amount of off-market opportunity for those with the right connections.

Another factor, of course, is that PDM now has a 10-year record and the investment momentum from completing nearly 100 investments.

A key strength of PDM is that we are an indigenous European business, with access to offices across the continent by virtue of being part of Permira. Very few of our competitors can match our presence in key markets and the resulting closeness to the companies we work with.

“...”

JAMES GREENWOOD
CHIEF EXECUTIVE OFFICER

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**Selected current portfolio**

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PERMIRA DEBT MANAGERS

CASE STUDY

SOHO HOUSE

INVESTMENT DATE: APRIL 2017
COUNTRY: UK

Founded in 1995 in London, Soho House is a hospitality company that operates exclusive, private members clubs as well as hotels, restaurants and spas. Core operations in major metropolitan cities including London, New York, Los Angeles, Miami, Chicago, Toronto, Berlin and Istanbul. Soho House has over 65,000 members globally with a very large waiting list and low membership turnover.

WHY WE BACKED THEM
- Proprietary deal originated through PDM’s relationship with the Soho House management team
- Strong industry knowledge within PDM from previous investment in Soho House
- PCS2 and PCS3 acted as sole lenders

THE INVESTMENT STRATEGY
- Leading position as the only truly global private members’ club
- Significant brand value
- Stable and loyal membership combined with a significant waiting list to join the clubs, providing protection and resilience through the economic cycle
- Attractive fundamentals with year-on-year growth in memberships and revenues for over a decade
- Strong asset backing in prime real estate

€235m
PCS2/3 commitment

65,000
Members

Selected current portfolio continued

Exterion Media
Investment date 2016
Country UK
exterionmedia.com/uk

Hillarys Blinds
Investment date 2014
Country UK
hillarys.co.uk

I@D
Investment date 2016
Country France
iadfrance.fr

Kinaxia
Investment date 2015
Country UK
kinaxia.co.uk

Knights 1759
Investment date 2016
Country UK
knights179.co.uk

Napoleon Games
Investment date 2015
Country Belgium
napoleongames.be

Paperchase
Investment date 2015
Country UK
paperchase.co.uk

RSK
Investment date 2015
Country UK
rsk.co.uk

Soho House
Investment date 2017
Country UK
sohohouse.com

Vizrt
Investment date 2016
Country Norway
vizrt.com

1 £275 million underwritten by PDM funds including £25 million unfunded commitment. £235 million provided by PCS2 and PCS3 with £40 million provided by a co-investor. Includes £25 million unfunded commitment.
ESG approach

We believe that a focus on Environmental, Social and Governance (“ESG”) is an important part of building lasting value in our funds portfolio companies. PDM is committed to ensuring that any potentially material ESG matters are taken into consideration as part of the standard investment analysis for direct lending investments.

**Thinking about ESG pre-investment**

Material ESG matters are considered as part of the due diligence process on each direct lending investment, with responsibility for assessing ESG considerations on a potential transaction lying with the investment team. If they need to better understand the ESG risks associated with the investment, they will typically be given access to relevant documents, speak with management teams and may consult with external advisors.

Depending on the sponsor and the nature of the investment, in some cases PDM may be able to rely on independent environmental, health, safety and/or social due diligence undertaken for the sponsor.

PDM also use ‘RepRisk’, an ESG business intelligence tool, which flags up previous negative ESG and reputational issues companies may have had. This tool can also be used post-investment to support in monitoring reputational risks during the lifetime of the investment.

**Post-investment**

On occasion, after we have backed a business, we engage with management teams on ESG matters, particularly if we have a Board or observer seat. For example, we helped Kinaxia, a haulage firm, to develop its approach to reporting ESG KPIs in an effort to improve the PDM funds commitment to initiatives.

The company had grown via acquisition, and wanted to implement a more consistent approach to collecting and reporting health and safety data from its various business units, and then aggregating this at group level. Kinaxia had also developed KPIs to track the percentage of time haulage vehicles were running without any load; these could then be used by management teams to identify opportunities to improve efficiency.

**Our advantage**

While we recognise that the considerations for a debt provider are different from a private equity fund acquiring a controlling stake in a company, the PDM deal teams are able to make use of their access to Permira’s ESG network, framework and Head of ESG, Adinah Shackleton.

Permira is a signatory to the UN-supported Principles for Responsible Investment (PRI) initiative, and this year PDM reported on its activities to the PRI, as part of Permira’s Transparency Report, for the first time.
CLEAN is one of the UK’s leading independent laundry companies providing linen and workwear rental services. It services principally the UK hospitality sector and has a client retention rate of over 90%. The business operates in a sector with structural growth, driven by domestic and international tourism. The need for energy efficiency is driving consolidation.

The PDM funds supported CLEAN with a €79 million investment in 2016. During the due diligence phase, the investment team included ESG topics, such as environmental liabilities, compliance, health and safety, and workforce/employee considerations. Post-investment PDM has continued to engage with the business through site visits and meetings with management to discuss ESG matters.

The primary use of the capital was capex based, enabling the company to build a new, highly efficient facility in Slough. At this facility they have invested in the best available technology for energy efficiency, including waste water recycling, ironer heat recovery, high efficiency steam generation and extensive monitoring of utility consumption to ensure the steam laundry operates in the most efficient way possible.

CLEAN has implemented a Health and Safety initiative, STOP (Safety Total Observation Process), and recently received a Gold Award from the Royal Society for the Prevention of Accidents (RoSPA).

The new facility is likely to be the most efficient laundry in the UK and is thought to be the most advanced in the world. Average gas consumption at UK laundries is 1.5 kWh/kg. The new facility is currently running at 0.93 kWh/kg and is targeting 0.73 kWh/kg when at full capacity.

CLEAN has also been focusing on its vehicle fleet efficiency, with all vehicles tracked by GPS and onboard telematics to monitor driver and vehicle performance. Transport operations are accredited by FORS (Fleet Operator Recognition Scheme) which covers environment health and safety. CLEAN currently has bronze level and is working towards silver.