Frankfurter Allgemeine

“We are the solid European alternative”

The US private credit market has come under pressure. Financing specialist Nicolaus Loos nevertheless sees significant opportunities for innovative fund strategies in Germany.

By Daniel Mohr, Frankfurt

Nicolaus Loos knows what it means to operate in challenging financial markets. He worked for J.P. Morgan in London and New York and later for Morgan Stanley in Frankfurt, where he was responsible for credit structuring and financing as the global financial crisis unfolded. He subsequently moved into the German mid-market. His new task was to rebuild trust in a name that, in the aftermath of the financial crisis, presented a particular challenge: IKB. There are easier assignments in financial services.

“At the time, a very small team of us managed to reach second place in the league tables for structured and leveraged finance lending to the German mid-market,” says Loos. As a young Head of Sales at IKB, he helped establish Germany’s first credit fund platform, long before the term “private debt” had gained currency in the domestic market. Three sizeable credit funds were launched in total. However, the bank, which had been rescued with taxpayers’ money, decided not to continue the successful platform. It also prevented Loos and his team from buying out the business and ultimately shut it down. A decision Loos still considers irrational today.

Few people know the financing market as well as he does, and he now sees greater potential than ever. “In banking, one plus one rarely equals two. The merger of Credit Suisse and UBS, as well as the anticipated combination of UniCredit/HVB and Commerzbank, unquestionably reduces the financing options available to Germany’s mid-market,” says Loos. It is a gap he intends to help fill. The son of Hamburg-born parents, born in Singapore and raised in New York, Loos sees his business future in alternative finance in core Europe.

Through Deutsche Credit AG, he has established a business designed to bring together investor capital and demand for credit from mid-market companies, primarily in Germany but also in Austria, Switzerland, the Benelux countries and Scandinavia. Initially, the pandemic made it difficult to build the business, as financing depends heavily on trust and face-to-face interaction. Russia’s invasion of Ukraine and the subsequent shift in interest rates then put financing markets under considerable pressure. This year brought a further complication, with a number of US private debt business models funded by investor capital running into difficulties.

Loos does not shy away from the issue. He considers the “doomsday narrative” that private debt could trigger the next financial crisis to be greatly exaggerated. But after 25 years in financing markets, he also knows that unsettled clients tend not to transact. The private debt fund he plans to bring to market therefore remains in the process of being launched, and convincing investors can require patience.

“I have been in this business for quite some time, and this is certainly not an easy market environment. But the events of recent months have reinforced my conviction in our positioning,” says Loos. His reasoning rests on several factors. First, Deutsche Credit focuses its lending activities on some of the world’s most stable economies. Second, leverage in the US is markedly different and higher than in the European and German upper mid-market segment targeted by Deutsche Credit. Third, individual loans are intended to account for no more than three to five per cent of the fund, ensuring broad diversification of risk. And fourth, a company experiencing payment difficulties does not automatically translate into a loss for investors. “Loans are initially restructured, and even in insolvency cases, recovery rates of 70 to 80 per cent are common in Europe,” says Loos. “A great deal therefore has to go wrong before an investor’s return is materially impaired.”

For the more defensive fund strategy, which invests exclusively in senior secured loans, he is targeting returns of around eight to ten per cent. Deutsche Credit has already been active in the market for several years through bespoke private credit mandates for large institutional investors financing German and European mid-market companies, in some cases pursuing more opportunistic strategies.

There is no shortage of demand from borrowers. The disappearance of some banks traditionally active in mid-market lending, together with Basel III regulation, has made conventional bank lending more complex, slower and therefore often less attractive. Companies can increasingly obtain funding more quickly and efficiently through private debt structures, which can also offer different structures and more flexible terms.

Loos firmly rejects the suggestion that this is an entirely unregulated market in which the seeds of another financial crisis are quietly being sown. “Every provider is different, but the key will be to ensure a high degree of transparency. That is why we have decided that Deutsche Credit should become one of the first German private credit providers to hold a more comprehensive BaFin licence,” says Loos. “I consider such a licence absolutely critical to long-term success, and we want to lead the way as a clear statement of our commitment to quality and sound risk management. We intend to meet BaFin’s sometimes extensive requirements proactively and, in doing so, strengthen confidence in the asset class.”

Following an initial BaFin application in 2019, which received “positive feedback” but was not pursued further because of the pandemic, Deutsche Credit plans to resume the application process in the second half of this year and complete it successfully in 2027. “BaFin has very detailed guidelines for credit funds, closely modelled on banking regulation, but these do not yet appear to be universally known or accepted among private debt providers,” says Loos. “In my view, long-term success in the lending business is only possible if there can be no doubt about the integrity and reliability of the credit processes.” Last autumn, Loos therefore converted the company from a GmbH into the more transparent legal form of an AG and appointed a supervisory board comprising established figures from the financial sector, including Martin Korbmacher and Achim Pütz. “This underlines our ambition to establish highly professional structures.”

Loos employs around a dozen permanent staff across offices in Frankfurt, Hamburg, Zurich and Luxembourg. The company also draws on a broad network of industry specialists within its platform. A further expansion of its sales capabilities is planned by the end of the year. Loos says demand from mid-market companies is growing rapidly, drawing on more than 5,000 client relationships from his time at IKB that require active coverage. “There are many financing situations that companies can no longer address with banks. We can offer them tailored, flexible and transparent solutions without requiring a 500-page loan or bond prospectus.”

The bond market, he adds, is unsuitable for most mid-market companies. “It is rare for bond financing to start below €250 million,” says Loos. “By contrast, we can comfortably provide financing of between €20 million and €100 million.” Discussions with mid-market companies have so far identified potential financing transactions totalling €10 billion across Deutsche Credit’s target universe. “That is our current pipeline, and we are continuing to build it,” says Loos.

He also sees considerable scope for blended financing arrangements with banks, as well as strategic partnerships between private credit providers and banks. “These can create win-win situations for everyone involved: banks, companies, investors and ourselves.” Against this backdrop, Loos has become one of the first credit fund managers in Germany to enter into a strategic alliance with a bank, Düsseldorf-based Deutsche Apotheker- und Ärztebank.

Momentum is also returning on the investor side. “Some large German insurers have remained completely unfazed by developments in the US and understand the market,” says Loos. Among others, particularly smaller pension schemes and family offices, the cautious mood seen in the first half of the year has begun to ease. “I would not be sitting here if I did not have the determination to see this through,” says Loos. “It is a young market, one that is considerably more advanced elsewhere, but which still offers particularly significant potential in Germany and core Europe.” International investors are also looking at Germany with renewed interest. The Federal Government’s planned investment programmes are well known internationally.

“We are seeing investors refocus on Germany and core Europe as they become less comfortable with the US market. The prospect of better returns combined with lower risk in Germany and Europe is becoming increasingly attractive.” Loos expects returns to be more stable, particularly when compared with private equity funds. The difficulties experienced at the beginning of the year by several US private debt providers using BDC structures aimed at retail investors have therefore been painful for the industry as a whole. “But ultimately, this presents us with a major opportunity to demonstrate that we are the solid European alternative,” says Loos, looking ahead with confidence to the second half of the year, when he aims to complete fundraising for the company’s first major closed-ended investment fund.

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