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How will private credit impact M&A transactions?

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The phenomenon of private credit has come to Canada in the last few years, and its presence is expected to increase here as in the rest of the world. According to Preqin data, private debt accounted for 77% of global leveraged buyout financing in 2024, its highest annual share since at least 2015, as certain traditional banks have retreated from funding leveraged buyouts. The spectrum of private credit lenders in Canada is quite broad and includes any non-bank lender, such as funds and business development companies. In addition to Canadian private credit lenders, Canada has seen an influx of U.S. and other foreign private credit providers enter the domestic market.

Entry to the Canadian market

The influx of U.S. private credit providers is a byproduct of the increased presence of U.S. banks in the Canadian market within the last two decades, as many of the U.S. banks are forming their own private debt funds. The Canadian banking system has traditionally been dominated by the country's six largest banks, although most of the biggest U.S. banks are also present in Canada to some degree. The entry of private credit into the Canadian lending landscape offers borrowers additional optionality in terms of debt source and the other benefits of private credit (e.g., speed of execution, flexibility on covenants). Further, while traditional banks may offer lower lending rates than funds on the senior debt portion, private debt providers tend to have greater flexibility to provide senior or unitranche loans to buyouts, junior loans or preferred equity.

The entry by U.S. and other private credit providers is also reflective of the increased cross-border northbound M&A activity over the last five years. Many of the purchasers of Canadian assets have been from the U.S., and when a purchaser is a U.S. private equity fund, it will already have existing U.S. financing relationships to rely on. In some cases, the buyout fund may be leveraging rival private debt funds to secure acquisition debt financing, or the buyout fund and its affiliates may be providing both the equity and debt for the transaction. In such situations, conflicts of interest may arise, and the fund and the borrower must be mindful to manage such conflicts appropriately.

Private credit has played an increasingly visible role in acquisition financings in the middle market in the last few years, as traditional lenders may struggle with the profitability of such loans. The ability of private credit lenders to provide the entire amount of financing for a large M&A transaction (for both middle-market and large-cap transactions) can avoid the

need to syndicate the credit facilities and reduce execution risk (i.e., in the event the market shifts and the credit facilities cannot be syndicated).

Looking ahead

We expect private credit to continue to play an increasing role in M&A transactions in a wide variety of sectors, including infrastructure, technology and financial services. Osler has a wealth of experience on sell-side, buy-side and lender-side mandates involving private credit acquisition financing. For additional information, please contact the authors.