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📅 5 September 2022 👤 Greg Winterton
🔗 Open

When it comes to lending to technology companies, private debt managers analyse, review, model -and more - to the nth degree to ensure that the companies to which they are lending money will be able to pay it back.

And well they should. The private debt market continues to grow, and there is ever more competition for deals. And more firms are starting to analyse their own deal origination efforts with the same zeal that they do their potential and existing portfolio companies.

That's according to Douglas Trafelet, Director of Business Development at tech firm Equipped AI in London, who says that efficiency is something of a buzzword in private debt deal origination circles – they want to know how much money is wasted on dead deal costs and which managers are surfacing deals that don't go anywhere. End to end technology is supporting them in this endeavour, but there's a much bigger picture than cost of acquisition and individual performance metrics.

"If you can link your existing portfolio with your pipeline of deals, you can see how various scenarios – macro or microeconomic – can affect the overall portfolio, helping you to identify those firms which might not be as good a fit for either the existing macroeconomic scenario, or the expected one, or both – and those that are."

It's not just in the origination department where end to end tech is delivering results. Trafelet says that technology is helping private debt managers better analyse previous investments.

"What were the original assumptions when a private debt manager did a deal? Someone will have said, 'this looks like a great opportunity. It will yield us a 12+% IRR'. Sometimes these assumptions are right, sometimes they aren't. But enabling a look back through all of the original assumptions enables an investor to either not repeat mistakes or repeat those assumptions that did work."

Technology types talk about a 'single source of truth' in an organisation. The financial services industry generally is renowned for being behind the curve in adopting new technologies in the operations department, but private debt firms are increasingly turning to end-to-end technology as part of an overall strategy to improve performance.

"In private debt investing, there are a lot of PDFs and excel spreadsheets flying around, from portfolio companies and potential deals. People are formatting this but that's mindless and it scales negatively. But really, it's the impact of errors where you see the difference. People don't often realise the power of the computer to look month over month, quarter over quarter. A computer can spot variance very easily, quickly highlighting when things are normal and when they aren't," said Trafelet.

Part of the challenge around implementing end to end technology is the time it takes to do it properly. Often, firms will buy one solution for a specific problem, which may help in the short term, but the challenge around connecting all of the dots remains. It's a frustration that Trafelet is sympathetic to, but he emphasises that cutting corners doesn't help in the long term.

"Lots of customers want to have the technology stack and the logins tomorrow," he said. "But true operational efficiency involves having data at every step. Getting the data ingestion challenge resolved is a lengthy process but it's only the first step; you need to create business rules and a QA plan around the data. Operational efficiency isn't just making sure that the analyst is not awake at 2am in the morning."

Ultimately, the winners in private debt will be those who can argue over the best bits.

"The whole idea is that the finance team, the origination team, the compliance team, the executive team – everyone has the same number. There's no opening of a meeting saying, 'I have 7, you have 6.5, etc.," said Trafelet. "Operational efficiency is having everything running without friction so that teams are truly on the same page. It's this transparency and efficiency that's going to be a cornerstone of future success for a private debt manager."

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