Private Credit Beyond the Buyout

By: Matt Taylor
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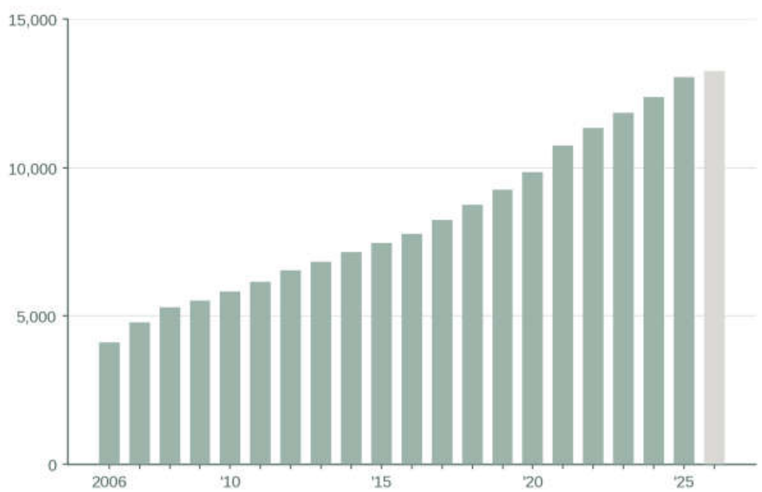
Private equity's exit backlog has crowded sponsor-backed direct lending, but those pressures do not extend across private credit.

The traditional private equity leveraged buyout (LBO) model depends on a predictable, continuous cycle: buy a company with leverage, hold it for three to five years, sell it, return capital to limited partners, and raise the next fund. That cadence has stalled. As exit velocities have slowed down and transaction volumes have dropped, market conditions have tightened severely for direct lenders – the segment of private credit built primarily to fund these LBOs.

The Exit Bottleneck

PitchBook data estimates roughly 13,500 U.S. companies sit inside private equity portfolios.[1] Nearly 4,000 have been held six years or longer, and McKinsey notes that only 19% of PE investments made in 2021 were sold within four years.[2] At the current transaction pace, PwC estimates it will take approximately nine years to work through the current inventory.[3]

NUMBER OF U.S. PRIVATE EQUITY-BACKED COMPANIES



Note: 2026 figure is as of June 30.
Source: PitchBook

As Howard Marks of Oaktree observed, a multi-decade tailwind of falling interest rates has reversed, "throwing sand in the gears" of the LBO model.[4] Higher borrowing costs made portfolio companies less profitable, harder to refinance, and more difficult to sell at historical valuation multiples. Rather than exiting, sponsors are increasingly leaning on continuation funds, secondaries, NAV loans, and preferred equity.[5] While these strategies provide limited liquidity to limited partners, they primarily keep capital recycling within the existing sponsor ecosystem instead of funding new investments.

The Crowding Effect

While new PE deals slowed, the direct lending segment continued to raise capital, ballooning into a ~$1T domestic market.[6] The result is an abundance of capital competing for fewer quality opportunities. Across sponsor-backed direct lending, the symptoms are clear:

SYMPTOM	EFFECT ON SPONSOR-BACKED DIRECT LENDING
Compressed Returns	Spreads that once carried material risk premiums have narrowed considerably.
Weaker Protections	Loan documentation and covenants have loosened as multiple lenders compete to win mandates.
Eroded Diversification	Direct lending portfolios increasingly overlap, reducing the diversification benefits of manager selection.

Allocators have noticed: direct lending's share of new private credit allocations recently fell from 58% to 50%.[7]

NORTH AMERICAN DIRECT LENDING TOTAL AUM ($B)

Source: Preqin, Goldman Sachs Global Investment Research

Software serves as a stark case study. A meaningful portion of backlogged PE assets are software companies purchased during the peak buying spree of 2021–2022 at aggressive valuations.[8] While software accounts for ~9% of the total companies PE owns, it represents 20 to 30% of direct lending portfolios.[9] Direct lending dollars concentrated most heavily in software exactly when buying activity there was most aggressive, just as public markets started re-rating the sector downward on fears about AI and slowing post-COVID growth.

Bespoke Specialty Finance

As Randy Schwimmer at Churchill argues, private credit is a continent of different nations rather than a single asset class; origination discipline – not market headlines – determines a portfolio's fate.[10]

Ivy aims to be structurally insulated from crowded direct lending markets and software exposure. Our strategy seeks to concentrate in less-trafficked corners of the market, focusing on growth capital and bespoke lending solutions for lower-middle market, founder-owned businesses.

We believe Ivy's advantage is anchored in asset-based lending and specialty finance. Rather than competing for broadly marketed sponsored transactions, we rely on asset-based collateral protection, real-time monitoring, and tailored structuring with the goal of controlling risk and driving investment outcomes.

Conclusion

The capital raised for private equity buyouts and the lending industry built to supply it are now stuck together in a crowded lane. Ivy deliberately seeks to operate outside that lane. We continue to focus on asset-based collateral protection – an approach increasingly recognized as one of the most attractive, defensive segments of the industry. This is not a cyclical pivot; it is the core discipline that has always guided our strategy.

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Notes

1. Mark Maurer, "Private-Equity Firms Are Sitting on a Nine-Year Backlog," WSJ, July 7, 2026, citing PitchBook data and PwC.
2. Obey Martin Manayiti, "Longer hold periods: 5 ways they're affecting PE deals," PE Hub, May 19, 2026, citing McKinsey & Company.
3. Maurer, WSJ, July 7, 2026.
4. Howard Marks, "What's Going on in Private Credit?" Oaktree Capital Management memo, April 9, 2026, citing MSCI data.
5. Lisa Rafter, "Continuation Funds and the Hybrid Capital Boom," ABF Journal, February 12, 2026.
6. Morgan Stanley: Weighing in on Direct Lending: Analyzing Durability & The Supply-Demand Balance, 2025.
7. Brookfield, March 2026, citing With Intelligence, "Private Credit Outlook 2025."
8. S&P Global Market Intelligence, "Exit outlook dims for private equity's long-held software investments," May 2026.
9. Marks, Oaktree, April 9, 2026.
10. Randy Schwimmer, "Private credit's origination divide," Nuveen ("The Lead Left" series), May 20, 2026.

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