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Perspectives
Private Credit

# European Lower Mid-Market Lending

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# Less Leverage. More Protection.

## The advantage of the lower mid-market is not company size. It is market structure.

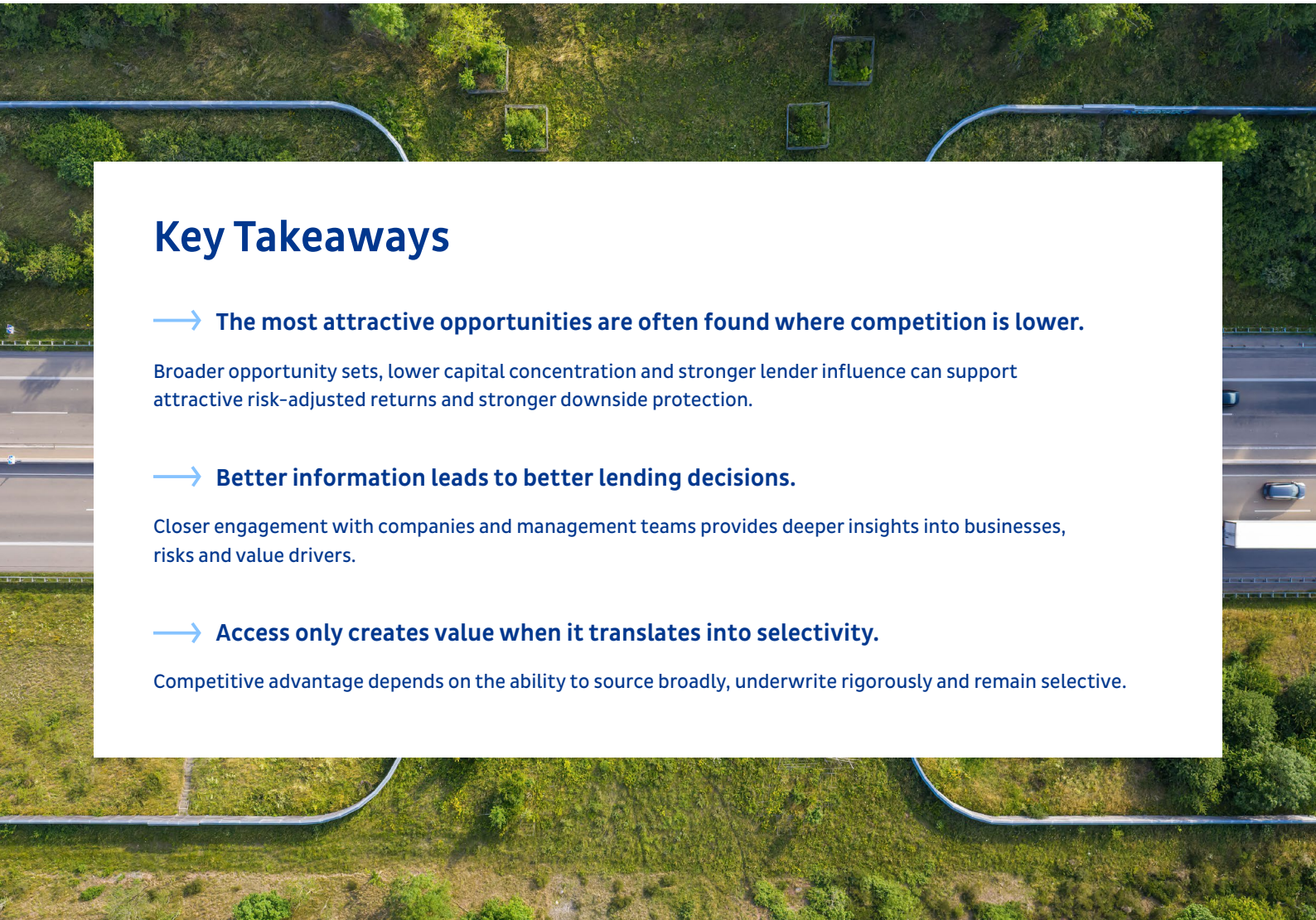
By Jakob Schramm and Florian Hofer

Direct lending is not one homogeneous market. As capital has increasingly concentrated in sponsor-driven core and upper mid-market lending, competition for transactions has intensified. The European lower mid-market continues to offer a different market dynamic, characterised by broader opportunity sets, stronger lender influence and differentiated access. This paper explores why market structure, information quality and sourcing capabilities remain critical drivers of investment outcomes.

## Executive summary

Capital has increasingly concentrated in sponsor-driven core and upper mid-market direct lending. As competition intensifies, lender protections and pricing have come under pressure. By contrast, the European lower mid-market remains a broader and less crowded segment of the market, characterised by stronger structures, lower leverage and greater lender influence.

The opportunity is not primarily a function of company size. It is the result of market structure. In a market segment where competition is lower, lenders can often negotiate stronger terms, gain better access to information and maintain greater selectivity. This paper explores why market structure, information quality and sourcing capabilities remain key drivers of investment outcomes in European lower mid-market lending.



## Key Takeaways

### → The most attractive opportunities are often found where competition is lower.

Broader opportunity sets, lower capital concentration and stronger lender influence can support attractive risk-adjusted returns and stronger downside protection.

### → Better information leads to better lending decisions.

Closer engagement with companies and management teams provides deeper insights into businesses, risks and value drivers.

### → Access only creates value when it translates into selectivity.

Competitive advantage depends on the ability to source broadly, underwrite rigorously and remain selective.

# Direct lending has changed structurally

Growth has not been evenly distributed across the direct lending market. As managers have moved upmarket and sponsor-backed transactions have attracted increasing amounts of capital, competition has become concentrated in specific parts of the market. As a result, negotiating dynamics, lender protections and return profiles increasingly differ across segments. The following developments illustrate how these structural shifts have transformed the lending landscape.

Over the past decade, the European direct lending market has undergone a significant transformation. As fund sizes have increased, so too have transaction sizes and target company profiles. As a result, many established managers have gradually moved away from traditional lower mid-market lending towards larger core and upper mid-market transactions. At the same time, capital has become increasingly concentrated in sponsor-backed transactions. This has intensified competition for opportunities and shifted negotiating dynamics in favour of borrowers. The result has been higher leverage levels, weaker lender protections and increasing pressure on pricing and documentation standards.

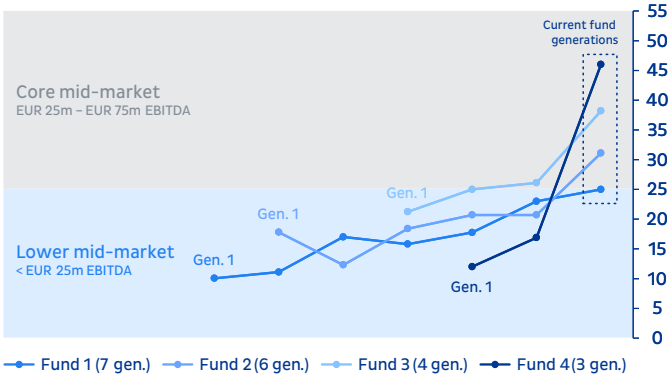
The market has grown and become more homogeneous, but opportunities have not expanded evenly across segments. This divergence is a key reason why individual parts of the direct lending market offer markedly different risk-return characteristics today.

## Structural shifts in the direct lending market

Two structural shifts illustrate how competition in direct lending has changed.

### Established managers have left the lower mid-market[1]

(Median EBITDA per transaction in EUR m)




### Managers have moved upmarket

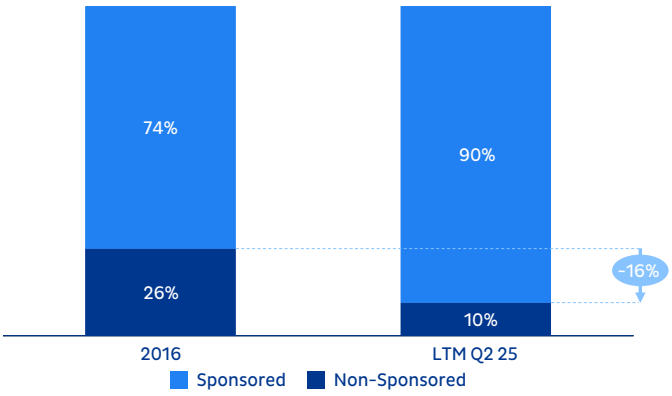
As direct lending managers have raised larger funds, transaction sizes have increased accordingly. Later fund generations increasingly reach beyond the traditional LMM (lower mid-market, < EUR 25m EBITDA) into the CMM (core mid-market, EUR 25–75m EBITDA).

[1] Golding analysis based on more than 1,000 transactions of four relevant LMM managers
[2] Deloitte analysis: Private Debt Deal Tracker Europe Autumn 2025

### Sponsor-backed lending gains ground

Sponsor-backed transactions have become a substantially larger share of European private debt activity, rising from 74% in 2016 to 90% in LTM Q2 2025. LTM stands for Last Twelve Months, here referring to the twelve-month period ending in Q2 2025.

### Dominance of sponsor-driven transactions has increased[2]

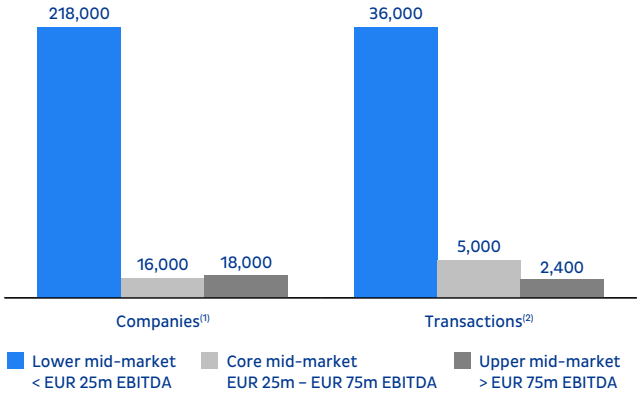


# Why the lower mid-market offers structural advantages

The advantage of the lower mid-market is not company size. It is market structure. Lower competitive intensity typically enables lenders to maintain stronger negotiating positions. This translates into lower leverage levels, stronger covenant packages, more comprehensive information rights and more attractive pricing. This is particularly evident in covenant structures: strong maintenance covenants remain prevalent in the lower mid-market, while they have increasingly eroded in the core mid-market and become less common in the upper mid-market. Importantly, the investment case does not rest on any single metric. It is the combination of these characteristics that can contribute to stronger downside protection and more attractive risk-adjusted return profiles.

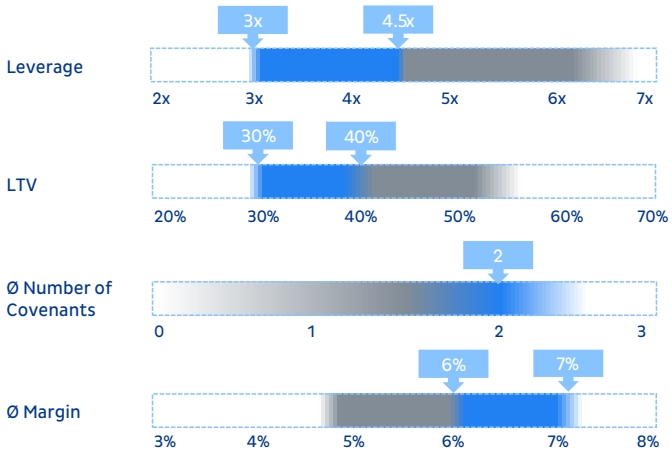
## The lower mid-market offers a stronger negotiating position, resulting in more lender-friendly transactions

### Broader market landscape in the lower mid-market




(1) Altares (May 2024) | (2) Mergermarket (May 13, 2025), observation period: last 10 years (May 2015 to May 2025)

### Structural advantages in the lower-mid-market

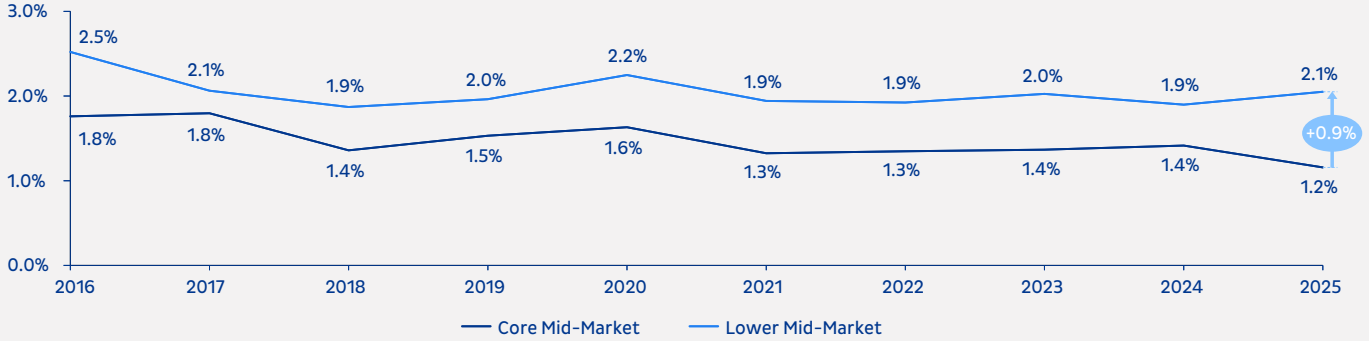



From an investor's perspective, the objective is not simply to maximize returns. The more important question is how much risk must be assumed to achieve those returns. This is where the structural advantages of the lower mid-market become particularly relevant. Stronger documentation, lower leverage and greater lender influence can help preserve capital and improve resilience during periods of market stress.

The relationship between pricing and leverage illustrates this dynamic particularly well. It is not temporary but structural.

## Investors achieve a higher return per unit of risk

### LMM offers structurally higher margins per unit of leverage




Source: Golding analysis based on more than 2,300 transactions of four relevant LMM and CMM managers each

# Information advantage and access

Structural advantages alone do not create successful investments. The ability to identify, assess and access opportunities remains equally important.

## Information quality matters

In private credit, the quality of information often matters more than the quantity available. Financial statements, management presentations and virtual data rooms provide an essential foundation. Many lending decisions, however, ultimately depend on a deeper understanding of a company's business model, competitive position, management quality and operational reality.

## Proximity creates context

This is where proximity to a transaction can create a meaningful advantage. Valuable insights are not always found in a data room. They often emerge through direct interaction with management teams, on-site due diligence and ongoing dialogue throughout the life of an investment.

## Better context supports better decisions

As company size decreases, information tends to become less standardised and more context-dependent. This increases the importance of local market knowledge, sector expertise and disciplined due diligence processes.

Ultimately, it is not information itself that creates value, but the ability to draw the right conclusions from it and translate those insights into better lending decisions.



**"Information alone does not create value. Context does."**

**Florian Hofer**
Managing Director Private Credit

# Access creates opportunity

Access remains one of the defining characteristics of successful lower mid-market lending.

The structural advantages of the lower mid-market are well documented. The more important question is whether investors are able to access those opportunities consistently. Access remains a critical prerequisite for capturing the benefits the segment can offer.

Unlike larger and more heavily intermediated market segments, attractive lower mid-market opportunities are often sourced through long-standing relationships and proprietary networks. Deal flow may originate from private equity sponsors, corporate advisers, business owners, management teams and other participants across the broader private markets ecosystem. In this environment, the ability to source and evaluate high-quality deal flow becomes an important competitive advantage.

## 1 – Direct market access

Early involvement increases selectivity and enables better structuring and conditions.

## 2 – Sponsor and advisor relationships

Long-standing relationships support recurring deal flow and strengthen competitive positioning.

## 3 – Platform and network effects

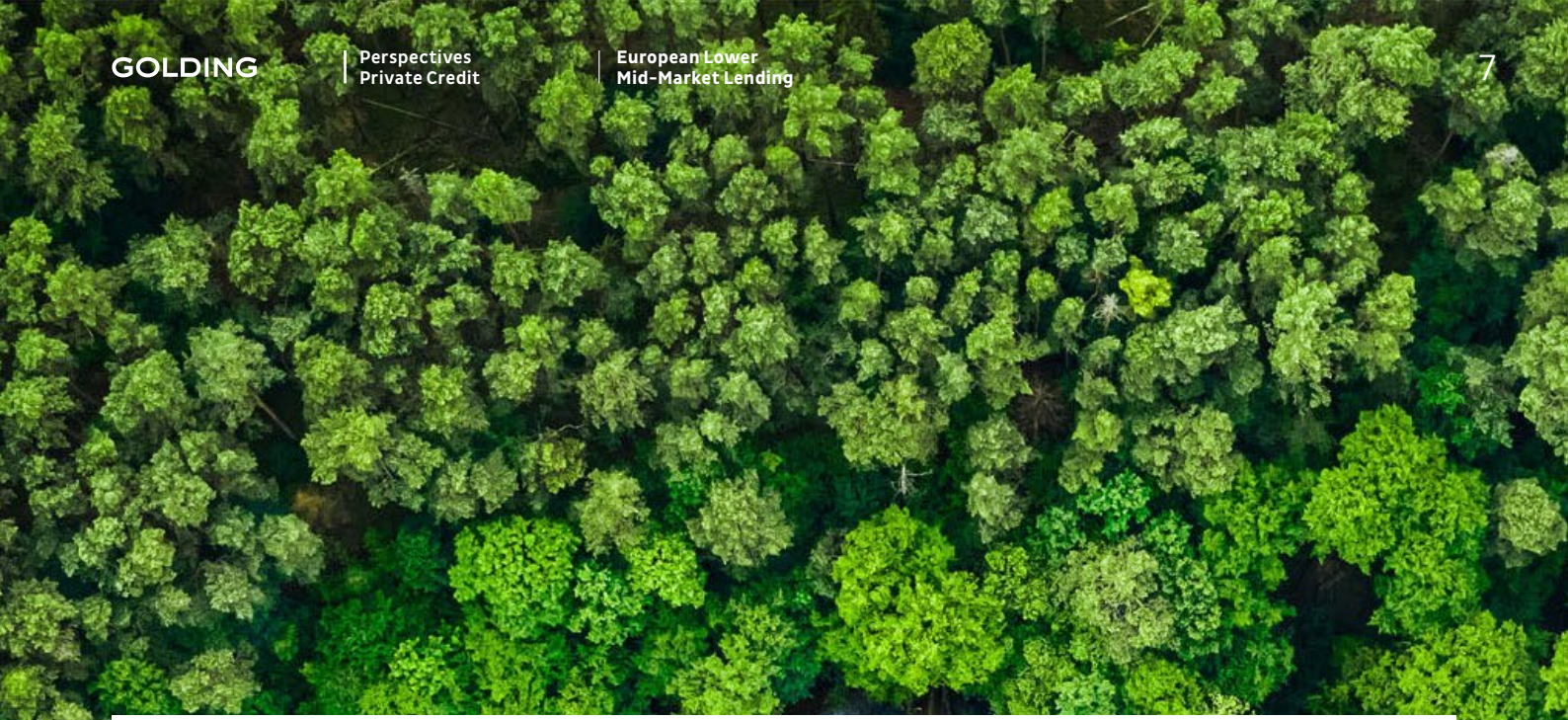
Broad platforms open doors, create cross-sourcing and provide access to proprietary opportunities and information.

## 4 – Personal contacts & reputation

Reliable execution and strong market presence lead to more deal flow.

**“The most attractive investments are often not those that receive the greatest market attention. They are typically found where differentiated access, superior information and disciplined underwriting come together to create an attractive risk-return proposition.”**

**Jakob Schramm**
Partner & Head of Private Credit



# Sustainability & AI

## Better Information. Better Decisions.

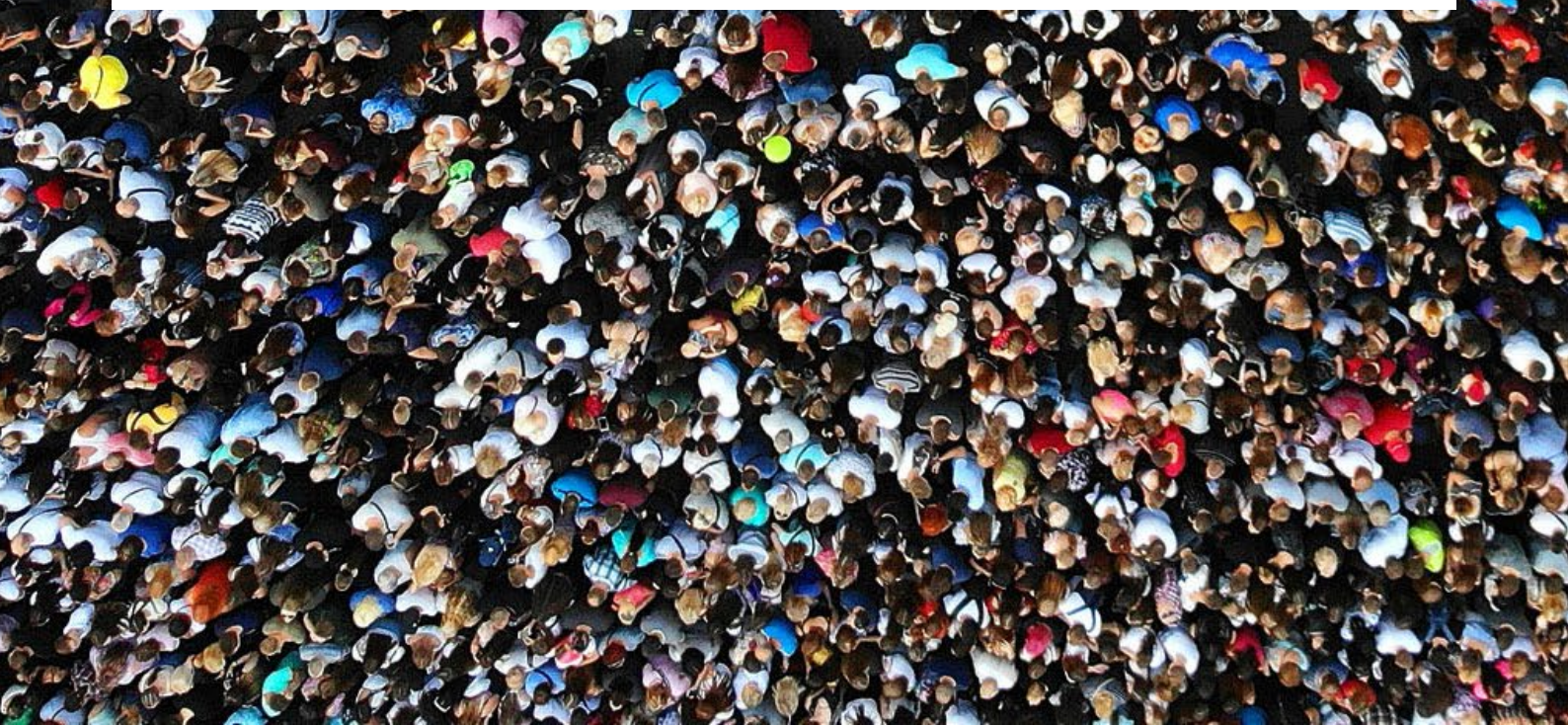
Both sustainability analysis and artificial intelligence ultimately serve the same purpose: improving information quality and supporting better lending decisions.

### Sustainability

In direct lending, sustainability is often less about reporting and more about risk management. Close engagement with portfolio companies can provide deeper insights into governance, operational practices and long-term business resilience. It also allows lenders to incorporate sustainability considerations throughout the credit lifecycle, from due diligence to ongoing monitoring.

### Artificial Intelligence

AI can help investment teams process large volumes of unstructured information more efficiently. It can support document reviews, identify patterns and accelerate early-stage analysis. However, technology does not replace investment judgment. Assessing management quality, business resilience and risk remains a fundamentally human responsibility.



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## Jakob Schramm

### Partner & Head of Private Credit

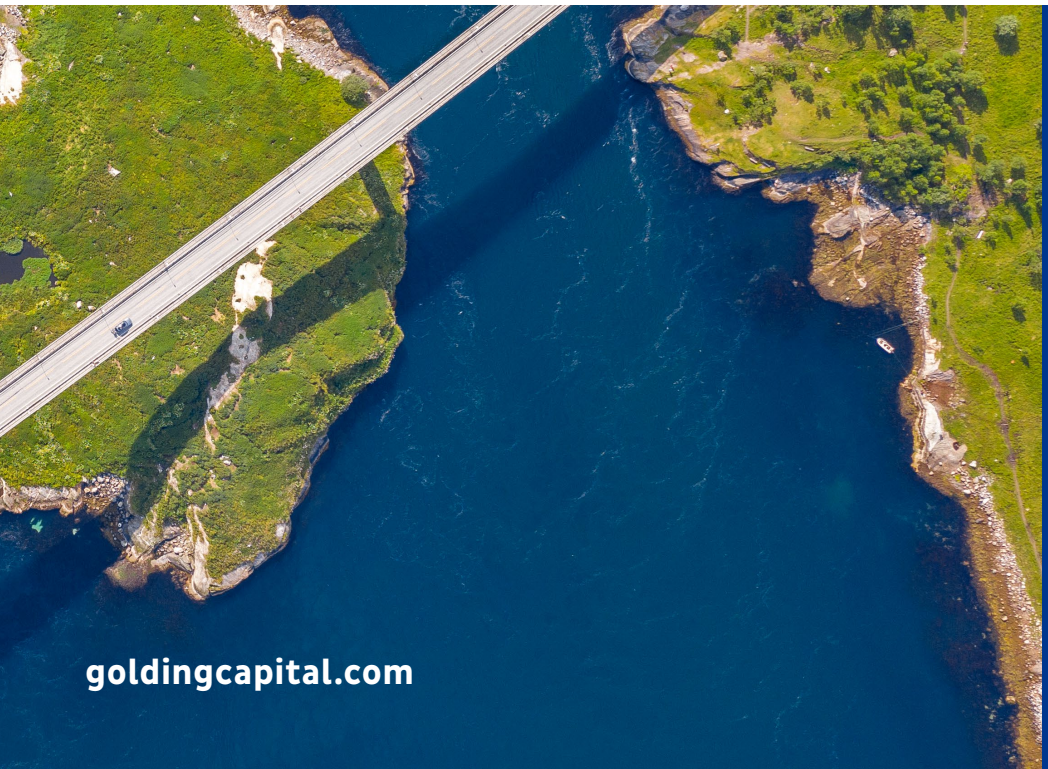
Jakob Schramm joined Golding Capital Partners in 2004. As Partner and Head of Private Credit, he is responsible for the identification, due diligence and selection of fund investments, secondaries and co-investments, as well as related portfolio management activities. From 2016 to 2023, he focused on Golding's US business.



## Florian Hofer

### Managing Director Private Credit

Florian Hofer joined Golding Capital Partners in 2018 and is responsible for the identification, review and selection of Private Credit investments. Previously, he worked in the Credit team at EQT Partners (now Bridgepoint) in London and in Leveraged Finance and M&A at Jefferies.




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