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FINANCE

Blue Owl is taking on big banks in funding tech buyouts. The president of the business created by the Dyal-Owl Rock SPAC deal shares how he plans to become 'a lender of first choice.'

DYAL/OWL ROCK/INSIDER

From left: Michael Rees, Marc Lipschultz, and Doug Ostrover.

Aaron Weinman

- **Investment firms Owl Rock and Dyal Capital are on the cusp of finalizing the Blue Owl SPAC merger.**
- **Sixth Street and Golub Capital tried to stop the merger, but a court order was denied.**
- **The $51 billion tie-up is targeting tech investments through both debt and equity contributions.**

Marc Lipschultz wants to change the narrative when it comes to private, direct lending.

For the longest time, market players saw this opaque pocket of credit as a last resort for borrowers in dire need of cash. But with so much liquidity in the system, private loans from one or a handful of lenders is fast becoming a viable option as companies eye cash beyond the traditional high-yield bond and leveraged loan markets.

"We've come into this business to be a lender of first choice," Lipschultz, who co-founded alternative asset manager Owl Rock Capital, told Insider. “And this combination with Dyal makes us a significant force in the market.”

Owl Rock is finalizing its tie-up with Dyal Capital, a subsidiary of Neuberger Berman that has stakes in private investment firms like Vista and Silverlake. Dubbed Blue Owl, the new firm will manage some $51 billion in assets under management with a focus on general partnership stakes and direct lending opportunities, Lipschultz said.

He will serve as co-president alongside Dyal founder Michael Rees, and Doug Ostrover, his fellow Owl Rock co-founder, will be CEO of Blue Owl.

While the merger represents a major victory, both companies had to tackle some bitter legal battles to get the deal to the finish line.

In December, Dyal and Owl Rock announced its intention to go public via a $12 billion Special Purpose Acquisition vehicle. The SPAC, known as Altimar, is backed by HPS Investment Partners.

Investment firms Sixth Street and Golub Capital, however, sued to block the merger in February as Dyal had acquired stakes in Sixth Street and Golub in recent years, and the pair both claimed they compete with Owl Rock.

But last month, New York State Supreme Court Justice Joel Cohen denied the court order to block the merger.

Altimar shareholders will vote on the deal next week.

‘Two common lanes on the same superhighway’

Together, the merger is lucrative.

Dyal brings equity stakes to the table. This convergence may enable the firm to co-invest in opportunities alongside its burgeoning lending capabilities.

“It’s like having two common lanes on the same superhighway,” he said. “Our lane does things on the funding level, while Dyal’s lane invests in equity.”

As Owl Rock, the firm is already encroaching upon bankers’ turf, providing alternative financing options for private equity funds keen to pay for valuable acquisitions.

Just this month, Owl Rock led a $2.3 billion financing for Thoma Bravo’s acquisition of Calypso Technology. Historically, such a sizable financing would rarely leave the syndicated loan or bond markets.

“The adoption of this market by private capital users is gaining steam and market share,” Lipschultz said. “Calypso is a reflection of that.”

Pivoting away from bank-led fundraising, however, is not without risk. Direct lenders charge a premium for their services compared to funding costs in the bond and loan markets.

Owl Rock, for example, arranged a $1.13 billion loan supporting Thoma Bravo’s investment in management software company ConnectWise in March. This loan cost 6% interest over the London Inter-bank Offered Rate, a common benchmark for loans, whereas a syndicated leveraged loan may have been about 2% cheaper, according to sources familiar with the financing.

Banking on technology

One thing is clear. The financing for Calypso and ConnectWise highlights the firm’s interest in tech.

“We made an early observation that large groups in technology and software were businesses with special attributes,” Lipschultz said.

Indeed, some of Blue Owl’s key clients are tech-focused private equity firms Thoma Bravo, Silver Lake, and Vista Equity Partners.

These firms are cutting large equity checks for lucrative software deals, leaving lenders like Blue Owl only having to finance a small portion of debt.

Typically, a leveraged buyout is funded with 35% to 40% in equity from a private investor, while the rest of the acquisition is funded with loans or bonds.

But to overcome the sky-high valuations of tech companies today, private-equity shops must inject more equity into a purchase to alleviate the debt burden.

Thoma Bravo, for example, funded its $12 billion acquisition of cybersecurity firm ProofPoint with $8 billion in equity, sources told Insider earlier this month.

“You take the high margins of tech firms and their value, you’ve got a loan with less risk because my share of the capital structure is smaller,” Lipschultz said. “Safety of capital is our motto.”