

WHERE'S MY MOIC

Debt to Equity to Excellence

Private credit defaults are accelerating, and credit funds are increasingly finding themselves as unplanned owners of businesses they never intended to run. The funds that capture the highest MOIC will not be the ones who got lucky. They will be the ones who already had an ownership playbook. This article outlines the three-phase value creation framework that separates a 1.2x outcome from a 1.6x, and the questions every credit fund should be asking before their next borrower misses a payment.



The Real Challenge in Private Credit

Most credit funds have a detailed playbook for what happens when a borrower misses a payment. Almost none have one for what happens when they end up owning the business. In 2025, U.S. private credit defaults hit a record 9.2%, up from 8.1% the year prior.¹ The pain was concentrated in small and middle-market companies: Borrowers with EBITDA under \$25 million defaulted at nearly 16%, compared to just 4% for issuers with EBITDA above \$100 million.¹

The pressure is not letting up. Morgan Stanley projects that defaults in direct lending, which accounts for 52% of the private credit market, will rise from 5.6% as of March 2026 to 8%, driven by AI disruption in the software sector.^{2,3} With the private credit market projected to grow from over \$3 trillion in 2025 to over \$5 trillion by 2029, more credit funds will find themselves as owners, whether they planned to be or not.⁴

Credit fund mandates, team structures, and return frameworks are built around covenant compliance, recovery analysis, and portfolio monitoring. When a fund suddenly owns a business, those same frameworks don't translate. Value creation levers go unpulled, and MOIC gets left on the table. For a credit fund to maximize its return, the framing must shift from "How do I recover my basis?" to "What is my MOIC potential, and what do I need to do to capture it?"

A Tale of Two Exits

A credit fund holds \$50 million of debt in Company ABC, which has just filed for Chapter 11. The fund purchases additional claims at 60 cents on the dollar, bringing its total cost basis to \$30 million. After restructuring, the fund emerges with 80% equity ownership in a business now valued at \$36 million. On paper, the fund's equity is worth \$29 million. They are underwater with no buyer in sight.



The fund faces a choice.

The fund can treat this as a recovery problem, anchor to its \$30 million basis, stabilize the business, and find a buyer willing to pay a modest premium. Eighteen months later, they exit at a 1.2x MOIC.

Or the fund could treat this as an ownership problem, invest the time and resources to fix what's broken, improve margins, and position the company for a real exit. Thirty months later, they exit at a 1.6x MOIC.

Same cost basis. Twelve additional months. A 0.4x difference in MOIC. That translates to \$12 million on a \$30 million cost basis. For a fund managing a \$500 million portfolio with multiple distressed positions, this playbook gap compounds across the book. The questions a fund asks before the default determine whether they are prepared to capture that upside.

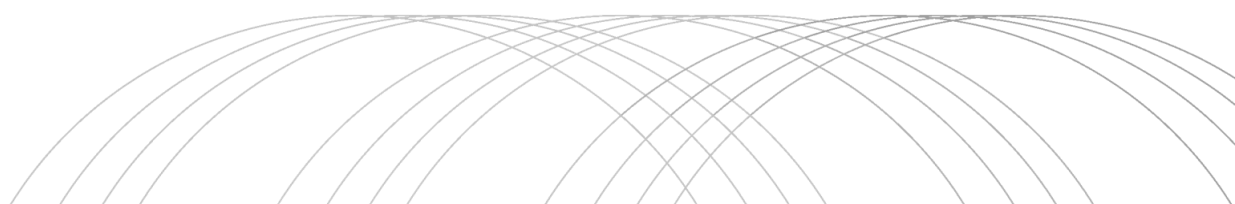
Questions Every Credit Fund Should Be Asking

	 WRONG QUESTION	 RIGHT QUESTION
Investment Framework	“How do I get back to my cost basis?”	“What is the maximum MOIC potential of this business, and what would need to be true to capture it?”
Operational Capability	“What happens if one of our borrowers defaults?”	“If a borrower cannot pay next month, do we have a value creation playbook with clear milestones, owners, and accountability to step in as owners?”
Exit Decision	“What is the fastest path to liquidity?”	“Have we quantified the MOIC we are leaving on the table by exiting now versus investing another 12 months?”

Most funds know which questions they should be asking. Fewer have built the playbook to act on the answers.

Here is the harder question:

- If your largest borrower called today and said they cannot make next month’s payment, what happens next?
- Who gets called?
- What is the 30-day plan?



The Value Creation Playbook

For an owner to increase their potential MOIC, they must execute a business plan focused on creating value and positioning the business for exit. That plan has three phases:

1

Establish a Foundation. Without a foundation, value creation stalls before it starts. A business plan that management does not believe in will not get executed. An unexpected cash crisis forces a fire sale. Unreliable numbers from the finance team make every decision harder. Establishing the foundation requires pressure-testing the business plan, building a 13-week cash forecast to see what is actually happening, and ensuring the team and governance can support what comes next.

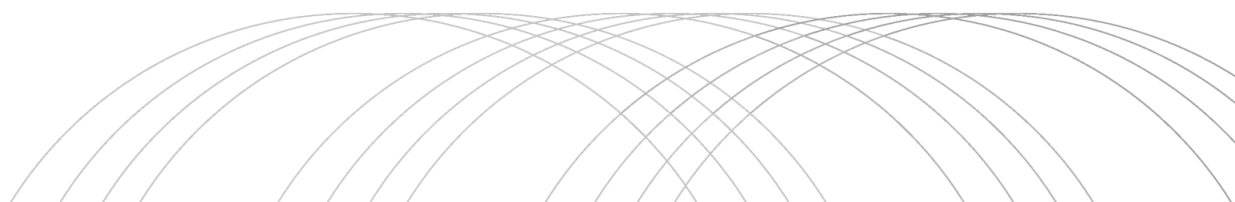
2

Execute the Transformation. This is where MOIC is built. This phase starts with improving the finance function, so leadership has reliable numbers to make decisions. It includes putting the right people in critical roles, including interim leadership if the current team cannot execute the plan. And it demands finding margin through operational improvements: renegotiating contracts, rationalizing the cost structure, and optimizing procurement and supply chain. Successful execution requires monitoring the impact of value creation initiatives. Where do you start? Consider your leading and lagging indicators.

3

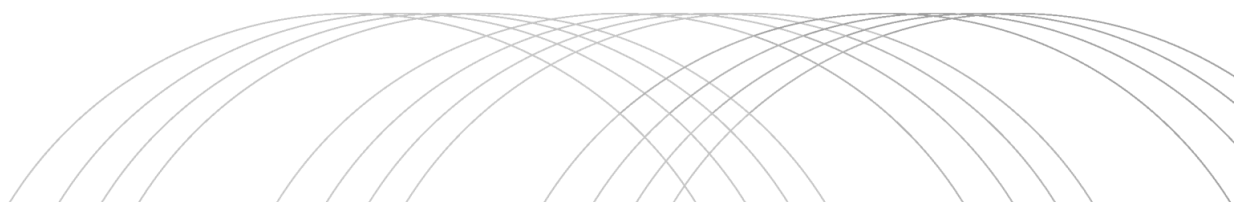
Realize Value. Though this is the final phase, the preparation starts on day one. Every decision made in the first two phases shapes the story a buyer will hear and the multiple they are willing to pay. That means developing a clear exit strategy early, understanding which alternatives are realistic, and pressure-testing what the business is worth under each scenario. For a credit fund stepping into ownership for the first time, this also means building the buyer-ready narrative that traditional PE sponsors take for granted: quality of earnings preparation, a compelling management presentation, and a CIM that tells a transformation story, not a restructuring story. Buyers discount credit-fund-owned assets by default; the exit preparation phase is where that discount gets closed.

The 0.4x MOIC gap in the prior example is not about finding a better exit or getting lucky on timing. It is about whether the fund had a playbook before the default happened, and the team and discipline to execute it. Credit funds that treat ownership as an inevitability, not an accident, are the ones positioned to capture every turn of MOIC.



Value Creation Measurement Framework

METRIC CATEGORY	LEADING INDICATORS: ADDRESS THESE ISSUES FIRST	LAGGING INDICATORS: IS THE STRATEGY WORKING?	MOIC IMPACT
Financial	<ul style="list-style-type: none"> • Cash flow forecast accuracy • Daily cash reporting 	<ul style="list-style-type: none"> • EBITDA margin expansion • Budget variance analysis 	Cash flow confidence and lender/buyer credibility at exit
Operational	<ul style="list-style-type: none"> • Process cycle times • Inventory turns • AR and AP days 	<ul style="list-style-type: none"> • Customer satisfaction • Quality metrics 	Working capital efficiency and margin improvement
Strategic	<ul style="list-style-type: none"> • Market share trends • Pricing realization • Customer retention rates 	<ul style="list-style-type: none"> • Competitive positioning • Market leadership 	Multiple expansion through a defensible market position
Organizational	<ul style="list-style-type: none"> • Employee engagement • Process adoption rates 	<ul style="list-style-type: none"> • Talent retention • Culture change sustainability 	Management team that can execute the plan without interim support



Ankura Office of the CFO® Support

The question is not whether your next borrower will default. At an 8% default rate, it is when.³ Ankura Office of the CFO® partners with credit funds at the moment of ownership, building the playbook before you need it, and executing it when you do. The 0.4x is there for the taking. The difference is preparation.

Sources

[1] Fitch Ratings. *Private Credit Defaults and Recoveries 2025*. March 6, 2026.

[2] Morgan Stanley Investment Management. *Evolution of Direct Lending*. March 2, 2026

[3] Morgan Stanley Investment Management. As reported by Bloomberg. "Private Credit Default Rates to Reach 8%, Morgan Stanley Says." March 16, 2026.

[4] PitchBook, as cited in Morgan Stanley Private Credit Outlook. As of May 2025.



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