Rethinking Risk And Value In Private Credit Disputes

By **Isil Erel and Farooq Javed** (August 10, 2026)

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The private credit market faces mounting stress and scrutiny.

In the time since May, lenders took control of software company Medallia, wiping out Thoma Bravo's approximately $5.1 billion equity investment;[1] federal prosecutors began investigating valuation practices involving a private credit fund managed by BlackRock;[2] and Blackstone capped redemptions from its flagship private credit fund after redemption requests surged.[3]

These seemingly disparate developments raise common questions: What risks were embedded in private credit investments? How did those risks evolve over time? And when and how should value have been reassessed? Those questions increasingly sit at the center of litigation, restructurings, regulatory investigations and other disputes involving private credit. This article examines those questions through the related concepts of risk and value.

A closer look at private credit borrowers and the structures used to finance them suggests that repayment, recovery and valuation may operate differently than they do in more conventional lending. Those differences may help explain many of the disputes now emerging across the private credit market.[4]

A Brief Introduction to Private Credit

Private credit is a broad category of nonbank lending that grew rapidly after the global financial crisis. Much of that growth occurred through direct lending, in which private funds increasingly replaced banks by originating and holding loans rather than syndicating them through public markets.

Two related features distinguish private credit from syndicated loans and public bond markets. First, considerably less information is publicly available about borrowers, loans and valuations. Because private loans trade infrequently and borrowers generally do not make public disclosures, market participants have far fewer external signals about changing conditions than they do in public debt markets.

Second, private credit offers substantial structural flexibility. Because transactions are negotiated directly rather than broadly syndicated, lenders can tailor financing to borrowers that may not fit traditional lending frameworks.

That flexibility can also produce structures combining debt and equity features, including warrants, preferred equity and common equity.

Different Borrowers, Different Structures

Private credit is often viewed as a modern form of traditional commercial lending. That resemblance has fostered a perception that private credit offers the protections of senior secured debt with attractive returns and "almost no prospect of loss," as Blackstone cofounder Stephen Schwarzman once remarked.[5]

Analysis of private credit fund cash flows using a cash-flow replication methodology finds that those cash flows are better explained by a combination of debt and equity risk factors than by debt factors alone.

Once those risks are incorporated into the analysis, private credit's apparent excess returns largely disappear. These findings suggest that private credit investors may be bearing broader risks than traditional debt benchmarks imply.[6]

Some of that risk is explicit. The same research finds that approximately 20% of private debt fund investments contain equity features and that a majority of private debt funds hold at least one such exposure. Yet most private credit investments remain all-debt instruments, implying that at least some equity-like risk must arise elsewhere.

That risk may lie not only in explicit equity features, but also in the borrowers and structures themselves. Many private credit borrowers are private-equity-backed acquisition targets or companies with limited current earnings, few tangible assets and business models that depend heavily on future growth and profitability.

Software companies financed during the buyout boom that peaked in 2021 often shared those characteristics.

The private equity buyouts of Pluralsight and Medallia provide useful examples. Vista Equity Partners made an agreement to acquire Pluralsight in 2020 for approximately $3.5 billion,[7] while Thoma Bravo acquired Medallia in 2021 for approximately $6.4 billion.[8]

Neither company was profitable at the time of acquisition, and neither owned meaningful tangible assets that could be pledged as collateral. Yet private credit's structural flexibility allowed lenders to finance both companies with recurring-revenue loans paired with payment-in-kind, or PIK, interest.

Recurring-revenue loans are underwritten primarily to recurring revenue rather than current earnings, while PIK interest allows interest to accrue rather than be paid in cash. Together, these features allow lenders to finance companies with limited current debt-service capacity based largely on expectations of future enterprise value.

The implications of this structure become clearer in comparison with more traditional lending. Senior secured loans to mature operating businesses typically rely on cash-pay interest, principal repayment, and covenants based on cash flow and collateral that provide lenders with relatively clear signals when performance deteriorates.

By contrast, recurring-revenue loans to software companies rely more heavily on operating metrics such as annual recurring revenue, retention and growth, while PIK features allow interest to accrue rather than be paid in cash.

For the purposes of this discussion, it is useful to distinguish between two stylized lending models. Cash-flow lending centers on current cash flow and tangible assets, while enterprise-value lending depends more heavily on future enterprise value.

These labels necessarily simplify a spectrum of transactions, but they help isolate the economic differences relevant to risk and value.

Implications for Risk

Pluralsight and Medallia suggest one possible source of the equity-like risk in private credit: Enterprise-value lending may itself introduce risks that differ from more traditional cash-flow lending.

In cash-flow lending, repayment and recovery are supported by current cash flow and tangible assets. Enterprise value matters, but it is not the only — or even primary — source of repayment or recovery.

By contrast, in the enterprise-value lending model described above, repayment and recovery depend on the future value of the business itself.

Lender outcomes are therefore more sensitive to assumptions regarding growth, profitability, competition, financing markets and the exit environment. In sectors characterized by rapid technological change, those assumptions can change quickly. Viewed as a spectrum with debt on one end and equity on the other, enterprise-value lending may occupy a position closer to the equity end than cash-flow lending.

The discussion above provides a framework for understanding risk at the borrower and asset-class levels. A comprehensive assessment of private credit risk would also extend that framework to the portfolio level, although a full discussion is beyond the scope of this article.

At the portfolio level, risk is shaped not only by the characteristics of individual borrowers and loan structures but also by fund decisions regarding borrower selection, sector concentration, pricing, amendments, workouts, asset sales and other portfolio management activities. As a result, the risks ultimately borne by investors may differ from those associated with individual loans.

Implications for Value

The stylized lending framework introduced above also offers insight into two important valuation questions: What should trigger a reassessment of value, and how should that reassessment be performed?

In cash-flow lending, common triggers include covenant breaches and missed payments. If covenants are properly constructed, deterioration in a borrower's financial condition should produce an early warning signal through the breach of a covenant, such as a debt-to-cash-flow covenant. Those events may not immediately require a reassessment of value, but they begin a process that can ultimately lead to one.

Enterprise-value lending lacks many of those traditional triggers. Debt-to-cash-flow is the most common accounting-based covenant in corporate lending, while covenants based on cash and tangible collateral comprise the vast majority of common covenants.[9] Because interest is paid in kind rather than cash, and tangible assets are limited, many of those signals are absent.

Instead, deterioration may be reflected in slower growth, changing competitive conditions, technological disruption, or a weaker financing or exit environment.

The valuation process also differs. The value of a cash-flow loan is typically anchored in current and near-term cash flow and tangible assets. By contrast, the value of an enterprise-value loan depends more heavily on expectations regarding future business performance, including growth, profitability, competition, financing conditions and exit opportunities.

That difference has implications for the skills, process and judgment required to assess loan value. Cash-flow lending typically requires expertise in cash-flow and collateral analysis, whereas enterprise-value lending may require an approach closer to private equity or venture capital valuation.

Medallia and Pluralsight Revisited

The restructurings of Pluralsight and Medallia illustrate the valuation issues discussed above. Both transactions have appeared in valuation-related disputes,[10] and publicly available information permits at least a partial examination of how risks, valuations and investor marks — funds' periodic estimates of the fair value of their investments — evolved over time.[11]

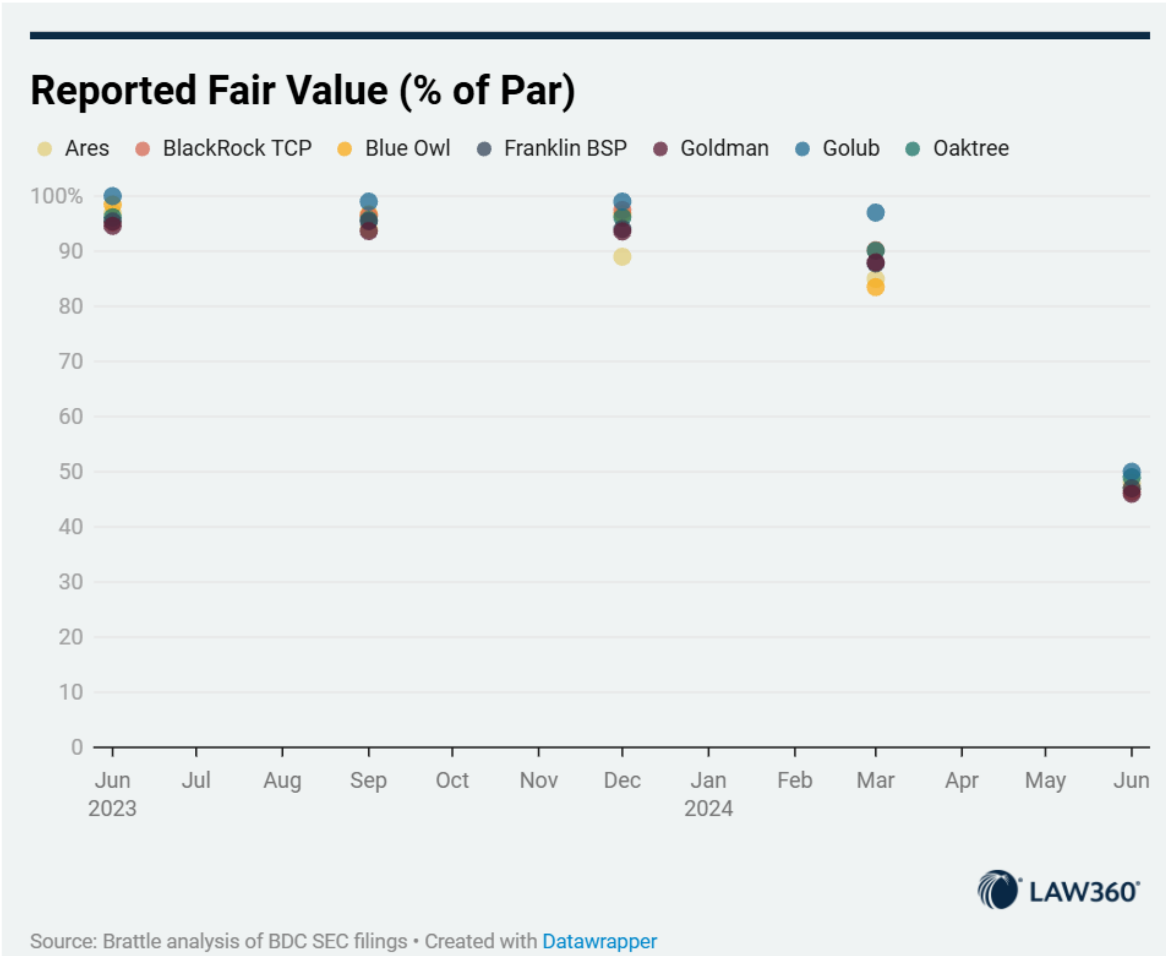
The figures below compare marks reported by several publicly traded business development companies, which disclose estimated fair values in periodic U.S. Securities and Exchange Commission filings.

Pluralsight illustrates how investor marks evolved as restructuring risk emerged.

Publicly available information indicates that the company was engaged in restructuring discussions with lenders during early 2024,[12] while investor marks remained relatively elevated.

Although marks varied across investors, they generally declined sharply after signs of a likely restructuring became public in June 2024. See Figure 1 below.

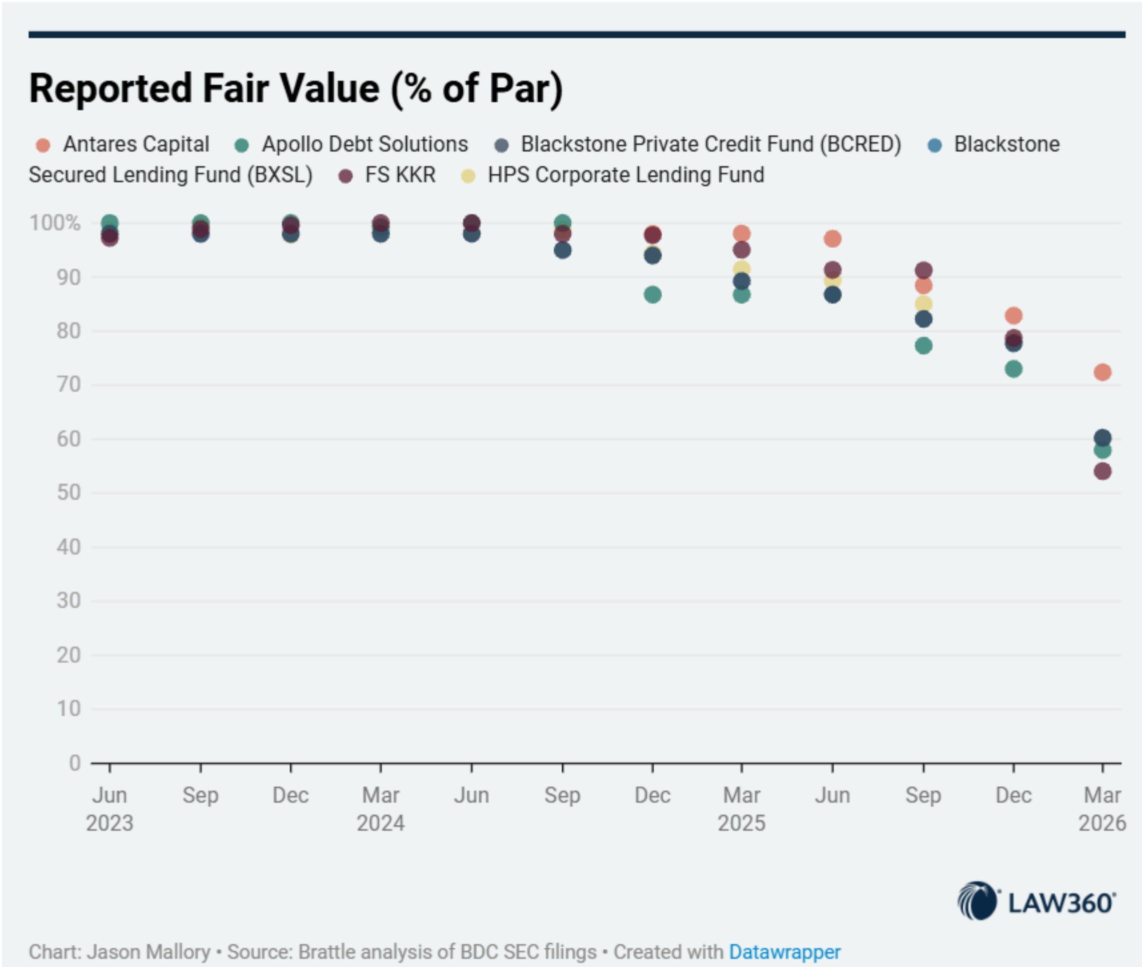
FIGURE 1: PLURALSIGHT



Medallia presents a similar, though less pronounced, pattern.

Investor marks initially declined more gradually, with meaningful divergence across investors beginning in late 2024 and continuing through 2025 as signs of stress emerged.[13] Marks then declined sharply just prior to news of a default in April 2026. See Figure 2 below.[14]

FIGURE 2: MEDALLIA



Viewed together, these examples illustrate how investor assessments of value can evolve as borrower conditions deteriorate. They also highlight the related questions of when changing conditions warrant a reassessment of value and how that reassessment should be performed.

Conclusion

The cash flows of private credit funds are consistent with meaningful equity-like risk. To the extent that Medallia and Pluralsight reflect a broader class of private credit borrowers, they point to a source of that risk: Repayment and recovery depend more on the future enterprise value of borrowers than on current cash flow and tangible assets.

These characteristics have implications for both risk and value. They may affect the risks borne by lenders and investors, the signals that indicate changing conditions, and the judgments required to assess value.

As private credit continues to mature and come under greater scrutiny, those questions are likely to play an increasingly important role in litigation, restructurings, regulatory investigations and other disputes.

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Disclosure: Farooq Javed worked at Medallia from July 2015 to June 2023; he had no involvement in the transaction that is discussed in the article.

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[1] Financial Times, "Thoma Bravo hands Medallia to lenders in one of private equity's biggest losses," June 17, 2026, https://www.ft.com/content/ae4b6c77-9b3d-46fb-a7fc-59f072e7291b?syn-25a6b1a6=1.

[2] Financial Times, "US federal prosecutors scrutinise BlackRock private credit fund," May 15, 2026, https://www.ft.com/content/59ab31ca-e5d3-4d22-b943-02c139db6822?syn-25a6b1a6=1.

[3] Financial Times, "Blackstone caps withdrawals from flagship private credit fund," June 4, 2026, https://www.ft.com/content/4eca0255-27e7-47cc-8ebf-c9cc00c62e29?syn-25a6b1a6=1.

[4] We note that our discussion is necessarily general. The disputes emerging across the private credit market involve different facts, legal theories, market conditions, and valuation judgments, and their resolution will depend on the specifics of each case. Nothing in this article should be understood as expressing a view regarding the merits of any particular dispute, investigation, valuation, restructuring, or transaction. We also rely in part on publicly available information concerning transactions, borrowers, restructurings, and valuations. That information provides only a partial view of events and may not reflect the full range of information available to lenders, investors, boards, valuation committees, advisers, or other market participants at the relevant time.

[5] Financial Times, "Private equity firms pivot away from traditional buyouts," September 24, 2023, https://www.ft.com/content/84409cde-1197-49c9-bf88-dbe371e44313?syn-25a6b1a6=1.

[6] Isil Erel, Thomas Flanagan, and Michael S. Weisbach, "Risk-Adjusting the Returns to Private Debt Funds," NBER Working Paper No. 32278 (2024), https://doi.org/10.3386/w32278.

[7] Wall Street Journal, "Vista Equity Partners Agrees to Buy Software Maker Pluralsight," December 13, 2020, https://www.wsj.com/business/deals/vista-equity-partners-nears-deal-to-buy-software-maker-pluralsight-11607910720.

[8] Reuters, "Thoma Bravo to take software firm Medallia private for $6.4 bln," July 26, 2021, https://www.reuters.com/technology/thoma-bravo-buy-software-firm-medallia-64-bln-2021-07-26.

[9] Ilia D. Dichev and Douglas J. Skinner, "Large-Sample Evidence on the Debt Covenant Hypothesis," Journal of Accounting Research (2002), https://doi.org/10.1111/1475-679X.00083.

[10] See Burnell v. BlackRock TCP Capital Corp., No. 2:26-cv-01102 (C.D. Cal. filed Feb. 3, 2026) and Stuart v. FS KKR Capital Corp., No. 2:26-cv-02969 (E.D. Pa. filed May 4, 2026).

[11] The term mark refers to a fund's estimate of the fair value of an investment as reported in its financial statements or investor reports. The figures express marks as a percentage of par, the investment's principal or face amount. A mark of 100% indicates that the investment is valued at par; a mark below 100% reflects a discount to par, while a mark above 100% reflects a premium.

[12] Financial Times, "A Buyout Gone Wrong Creates Fireworks in the Private Credit Market," June 17, 2024 (reporting that Vista began negotiating with lenders over a restructuring earlier in 2024 and had retained restructuring advisers by March 2024), https://www.ft.com/content/5d1da427-d74f-427f-94e7-32aa4b169d75?syn-25a6b1a6=1.

[13] Bloomberg, "Apollo, KKR See Record-Wide Gap on Valuing Stressed Private Loan," November 13, 2025, https://www.bloomberg.com/news/articles/2025-11-13/apollo-kkr-see-record-wide-gap-on-valuing-stressed-private-loan.

[14] Wall Street Journal, "Two Big Loan Defaults Add to Pain in Private-Credit Funds," April 24, 2026, https://www.wsj.com/finance/investing/two-big-loan-defaults-add-to-pain-in-private-credit-funds-b179351c.