

Hybrid in Action: Delivering Bespoke Capital Solutions in a New Market Paradigm

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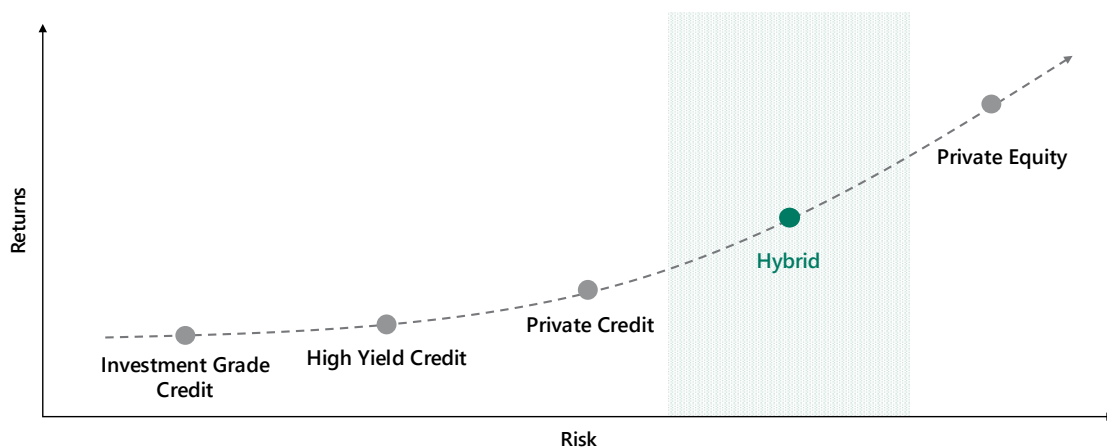
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Head of Hybrid Value

Entrepreneurs, management teams and private equity sponsors rely on hybrid capital to help flexibly deliver debt and equity solutions to meet funding needs across market environments. In this article, we highlight some specific examples where Apollo’s Hybrid Value team has brought this strategy to life.

Hybrid investments are those that sit between private debt and private equity on the risk-return spectrum, targeting

returns above those of traditional credit strategies, with generally lower loan-to-value and leverage ratios than traditional private equity (**Exhibit 1**). In other words, a well-crafted hybrid portfolio combines the concepts of downside protection with equity participation—potentially delivering equity-like returns at credit-like risk profiles.

Exhibit 1: Return Targets Across Asset Classes



Source: Apollo Analysts. For illustrative purposes only. Loan-to-Value (LTV) numbers are based on estimates by Apollo Analysts as of May 2025.

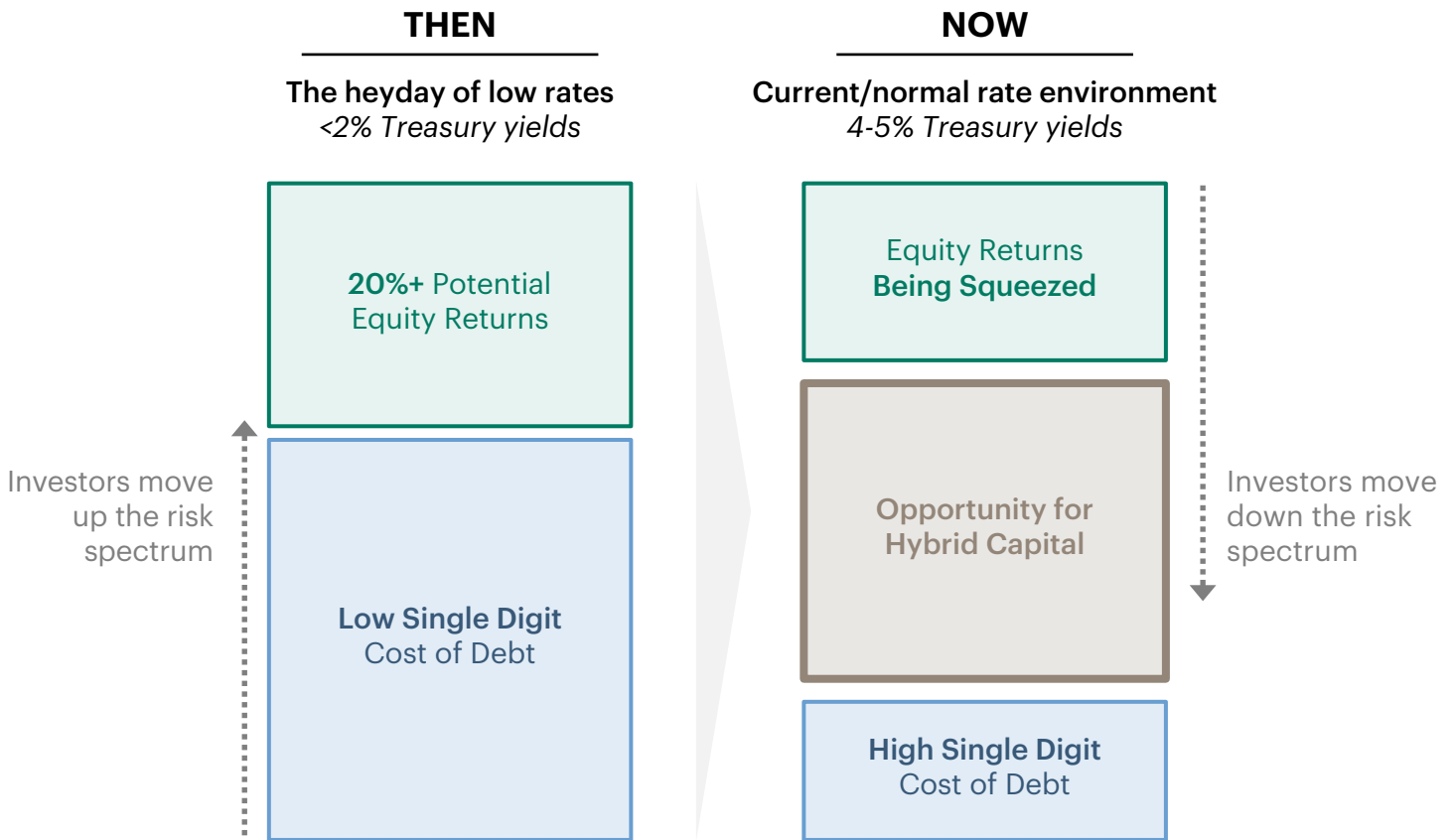
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In the years following the Global Financial Crisis, both investors and corporates benefitted from unprecedented tailwinds. Global quantitative easing, the deregulation of banking systems and the globalization of economies created an environment of low rates that drove significant growth for companies and positive returns for their investors.

However, in the current environment of higher borrowing costs and heightened volatility, investors have been reevaluating how they allocate capital, while companies are rethinking how they manage their capital structures.

In this new normal, higher financing costs and concerns regarding credit ratings have limited the amount of available first lien debt. Companies and sponsors are seeking to replace that debt with flexible, ratings-friendly solutions that preserve leverage profiles without materially increasing the equity funding needed to fuel growth. We believe hybrid capital is an attractive alternative to help fill that gap (**Exhibit 2**).

Exhibit 2: The Opportunity for Hybrid Capital



Source: Apollo Analysts. For illustrative purposes only.

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Three Examples of “Hybrid in Action”

Against this backdrop of long-term market uncertainty, hybrid capital approaches have become increasingly popular as organizations seek structured solutions that set their businesses up for future growth. As the specific examples below highlight, hybrid capital can be used to address a range of challenges for sponsors and companies.

- 1. Financing growth:** Apollo was approached by an entrepreneur who had rapidly scaled their business and was looking for capital to fuel their next growth initiative. They were unwilling to take on additional debt, did not want to sell control to a private equity fund or incur the costs and restrictions associated with a public listing. To meet their needs, Apollo structured a preferred equity security that exchanged some of the Apollo Funds’ upside for a guaranteed minimum return in any scenario. The structure used limited economic dilution for the entrepreneur while providing downside protection for the Apollo Funds and investors.
- 2. Meeting a sponsor’s liquidity needs:** Apollo was approached by a sponsor seeking liquidity options for investments in two well-positioned businesses with seasoned management teams in defensive industries, including a consumer brand in the US. Apollo leveraged deep sector expertise and structuring experience to lead a structured equity transaction into a Continuation Vehicle (CV), in partnership with the sponsor, which rolled 50% of its investment into the new facility. The Apollo Funds’ investment ranks senior to the sponsor rollover and features a liquidity preference and robust governance. The investment includes a minimum IRR and a return waterfall structure providing preferential return and an equity upside. We believe this investment represents an attractive, downside-protected opportunity with significant upside potential, in addition to strong alignment with the sponsor.
- 3. “Equitizing” an over-levered balance sheet:** Apollo worked with a public company that had been impacted by industry-wide disruptions during the Covid pandemic. The company needed immediate liquidity, but a debt raise was not feasible. Apollo created a preferred equity investment to meet the company’s liquidity needs. This solution was structured to receive equity-like treatment from rating agencies. Unlike straight equity, Apollo’s solution included a combination of high-single digit coupon and equity participation.

We believe these examples highlight how hybrid solutions—by combining equity-like upside with debt-like protection—are uniquely positioned to capitalize on a growing number of market opportunities. Through investment features such as warrants or conversion of participation rights, we believe hybrid solutions can capture companies’ growth while maintaining a senior or structured position in the capital stack.

At the same time, contracted return mechanisms (such as preferred dividends or structured return thresholds) can provide a baseline return while mitigating downside risk. This return profile becomes particularly attractive relative to a broader private equity (PE) industry facing monetization headwinds in the current rate environment, as well as a highly concentrated public equity market.

Additionally, hybrid can offer a meaningful focus on distributions offering faster deployment and realizations—with average durations of three to five years versus five to seven years for traditional private equity.¹ In a more normalized rate environment, where the spread between the cost of capital and expected PE returns has narrowed, we believe hybrid stands out as a source of excess return per unit of risk.

Conclusion

In a new market paradigm of higher borrowing costs, heightened volatility and increased concentration in the public debt and equity markets, we believe hybrid strategies can be an appealing option for both companies and investors.

Additionally, rising debt service costs, increasing market noise and limited access to public capital markets for all but a handful of companies has prompted corporates and sponsors to look beyond traditional approaches towards hybrid capital solutions. In each of the examples highlighted in this article, Apollo was able to meet the needs of capital seekers by providing flexible solutions tailored to solve for the complexities of each situation.

¹ Source: Apollo Analysts.

ABOUT THE AUTHOR



Jason Scheir, Head of Hybrid Value

Jason Scheir is a Partner and Head of Hybrid Value. Mr. Scheir joined Apollo in 2008 and has played a pivotal role in the creation and success of several of Apollo's largest growth initiatives, including Opportunistic Credit, Hybrid Value and Apollo's Sponsor and Secondary Solutions business, S3. Before joining Apollo, Mr. Scheir worked at Tailwind Capital, a middle market Private Equity firm. Prior to Tailwind, he was a member of the Restructuring Group and Mergers & Acquisitions Group at Rothschild Inc. Mr. Scheir currently serves on the board of directors of Atlas Air, is a member of the Dyson Advisory Council at Cornell University, and is also a member of the board of Futures & Options, a nonprofit which empowers New York City's youth from historically underrepresented communities.

Mr. Scheir graduated magna cum laude from Cornell University with a BS in Applied Economics and received his MBA with honors from the University of Pennsylvania's Wharton School.

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