THE LEAD
https://theleadpc.com/animal-farm/

Animal Farm

THE LEAD | January 10, 2018

2018 will be a good year for loans. We know because, according to the Chinese calendar, we will soon begin the Year of the Dog. Seems dogs are auspicious animals. And the last YOD was 2006, an excellent loan vintage. Well, at least for issuers.

The *Travel China Guide* had this to say: "If a dog comes into your house, it symbolizes the coming of fortune." If a dog comes into our house, it symbolizes someone leaving the front door open. But we'll take good luck any way we can get it.

Our own pet project last week was catching up on market reviews for 2017 (Year of the Rooster). Besides the refrain of bad structures (with many comparing deal pipelines to a dog's breakfast – messy and noisy), everyone had the same message: there was a lot of lending last year.

A few numbers to chew on: Thomson Reuters LPC reported $2.5 trillion in both investment and non-investment grade issuance. S&P LCD tracked $940 billion of both M&A ($400 billion) and repricings ($540 billion). Finally, LevFin Insights highlighted $984 billion in total institutional volume.

$984 billion seems like a fair chunk of supply. The problem for loan buyers, as pointed out by LSTA's Meredith Coffey in a note last week, is this supply was quickly absorbed by cash coming in from various sources including new CLOs and loan repayments.

As our *Chart of the Week* depicts, associated repayments of $737 billion for all of 2017 put a pile of cash back into the pockets of loan investors. Also unhelpful was about $80 billion of junk bond proceeds. Add to that $40 billion in amortization and funds were thrown a pretty small bone of only $160 billion of net loan supply for the year.

Digging a bit deeper into the data, new LBOs ran at about a $120 billion clip last year according to LPC – best since 2007's (Year of the Pig) record $206 billion. Market observers predict a more buoyant M&A market in 2018, thanks in part to the additional cash corporate buyers will have as fruits of the recently passed tax reform package.

On the middle market front, LevFin Insights totaled up $29.3 billion in sponsored volume for 2017, their first year reporting. This represented 110 separate borrowers. About 30% of activity came from repricings or refinancings, with the balance new buyouts (45%), non-LBO deals (18%) or other (7%).

LevFin's midcap analyst, Kelly Thompson, summarized a similar supply/demand problem. "LFI tracked $43.2 billion in visible funds aimed at middle market loans. Compare that with the $29.3 billion in PE-related activity. The numbers aren't perfect, but directionally they accurately represent the same imbalance seen in the BSL world."

With overall markets on a tear and economic confidence on the rise, there's hope that buyers and sellers will generate more financing opportunities. Investor cash being so plentiful, any boost to loan supply in 2018 will

truly be a lender’s best friend.