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Big Game

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Right on cue, with the tenth anniversary of Lehman's collapse only now in our rear view mirrors, a mega-leveraged cross-border buyout "reminiscent" of 2007 hit the credit markets.

At $17 billion, Blackstone's purchase of a 55% share of Refinitiv, Thomson Reuters' Risk and Markets business, represented one of the largest bank and bond deals since credit dinosaurs walked the earth more than a decade ago.

The "bank" portion of the deal's $13.5 billion financing was split between a $6.5 billion US term loan B priced at L+375 bps (flexed down from L+400) and a $2.75 billion Euro tranche priced at E+400 bps (down from E+425). Four separate Euro and US bond offerings weighed in with yields between 4.5% and 8.875%.

Most of the media focused on the transaction's prodigious size and toppy leverage (7.2x total debt-to-ebitda). But as Thomson Reuters LPC outlines in an excellent article, Refinitiv is a ways from being equivalent to the biggest pre-crisis buyouts.

Compared to 2007's TXU, for example, the largest LBO ever done at over $44 billion, it's only about a third the size. Also, Refinitiv's leverage is a full turn lower than KKR et al's energy deal (8.2x). Finally, the banks' underwriting of Refinitiv included 150 bps of price flex should loan yields need to be boosted to meet market demand.

As the lowered spreads indicated, investor demand was enough to oversubscribe the loans. For the glass-half-empty camp, this proved the market is entering a danger zone. Experienced observers counter that the ability of fund buyers to easily absorb a $10-plus billion cross-border financing shows the leveraged loan market is healthy and open for business.

Indeed, as LPC points out, the bank side of the equation is a different ball game today versus 2007. Thanks to Dodd-Frank and its offspring, regulated arrangers are cautious about long-term underwriting bets.

For example, when the music stopped in 2008, there was between $100-$200 billion of unsold leveraged loans held by banks. It took years to work them off arrangers' books. Today LPC estimates there's only about $35 billion in underwritten loans to be distributed.

Yes, the current market contains potholes to be avoided by credit investors. The Refinitiv deal was cov-lite; another example of lenders abandoning financial tests that provide needed protection in a downturn. And according to Covenant Review, the bonds allow the issuer to pay dividends even when "the Company has become distressed."

It's also unclear whether the success of Refinitiv will generate even larger, sketchier financings. Certainly there's enough dry powder in both the private equity and private credit systems to help generate those transactions.

Unfortunately, as we've noted before, some think things worth doing in the leveraged loan market are also worth overdoing. But we'll resist the Chicken Little temptation. One sizeable bank/bond financing so far this year is hardly definitiv.