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Signs of Life

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NASA announced last Friday that *Curiosity* has finally arrived at its destination. The Martian rover took two years to drive from its landing spot to Mount Sharp – a distance of about ten kilometers – where it will begin the bulk of its scientific experiments.

We've calculated that this leisurely pace, roughly 0.0003 miles per hour, is about the speed we ran *our* most recent 10-K.

At first glance, 'sluggish' would also seem to describe the movement of deals along this quarter's leveraged loan landscape. As reported by S&P/LCD, total new issuance looks to fall below $100 billion for the first time since 2Q of 2012 (see our *Chart of the Week*).

Clearly, as borrowing spreads have firmed, the number of opportunistic re-financings, both re-pricings and dividend recaps, has fallen. Over the past nine months, new-issue yields-to-maturity have risen from 4.6%, to almost 5.75%.

Similarly, middle market yields (per Thomson Reuters LPC) are up almost one percent since March – from 5.25% to 6.16% last month.

Goldman Sachs last week published a report entitled, "Where have all the LBOs gone?" It highlights one feature of this diminished deal pipeline; specifically, that large take-privates have gone missing. Over the past decade, the annual volume of public companies falling into private equity hands has averaged $75 billion. Heading into the third quarter, the count is a measly $3 billion.

But as our friend Dan Primack (fortune.com) points out, take-privates are just one aspect of buyout activity. Sponsors continue to shell out cash for US buyouts – more through the first half of 2014 than in any comparable period since 2007. Can that be sustained?

Broader M&A-related loans were off 20% for the quarter through September 15, but the month may end with a bang. $14 billion in volume, comprising twenty-two new issues, surfaced this week, bringing year-to-date volume just 6% shy of 2013's numbers.

Covenants also continue to be after-thoughts. Of those twenty-two new deals, sixteen are covenant-lite. These include the $2 billion TLB that supports the *Scientific Games* acquisition of Bally Technology, as well as the $1.05 billion TLB for *FleetCor's* purchase of Comdata.

But the real covenant-lite whopper is the upcoming $6.75 billion TLB for *Burger King's* deal for *Tim Hortons*. A slice of $2.25 billion second-lien notes comes sandwiched between the term loan and $3 billion of preferred equity from Berkshire Hathaway.

So the view that deal flow for the current quarter is moving at a snail's pace may prove premature. The march to year-end will likely gather momentum as issuers work to lock in financing before a) the Fed begins to push rates up, or b) overseas unrest creates potential exogenous shocks to the system.

Meanwhile, investors will continue their search for value. As one planetologist critiquing the *Curiosity*mission put it, "There needs to be less driving and more drilling."