The shift from syndicated to direct executions continues for MM LBOs

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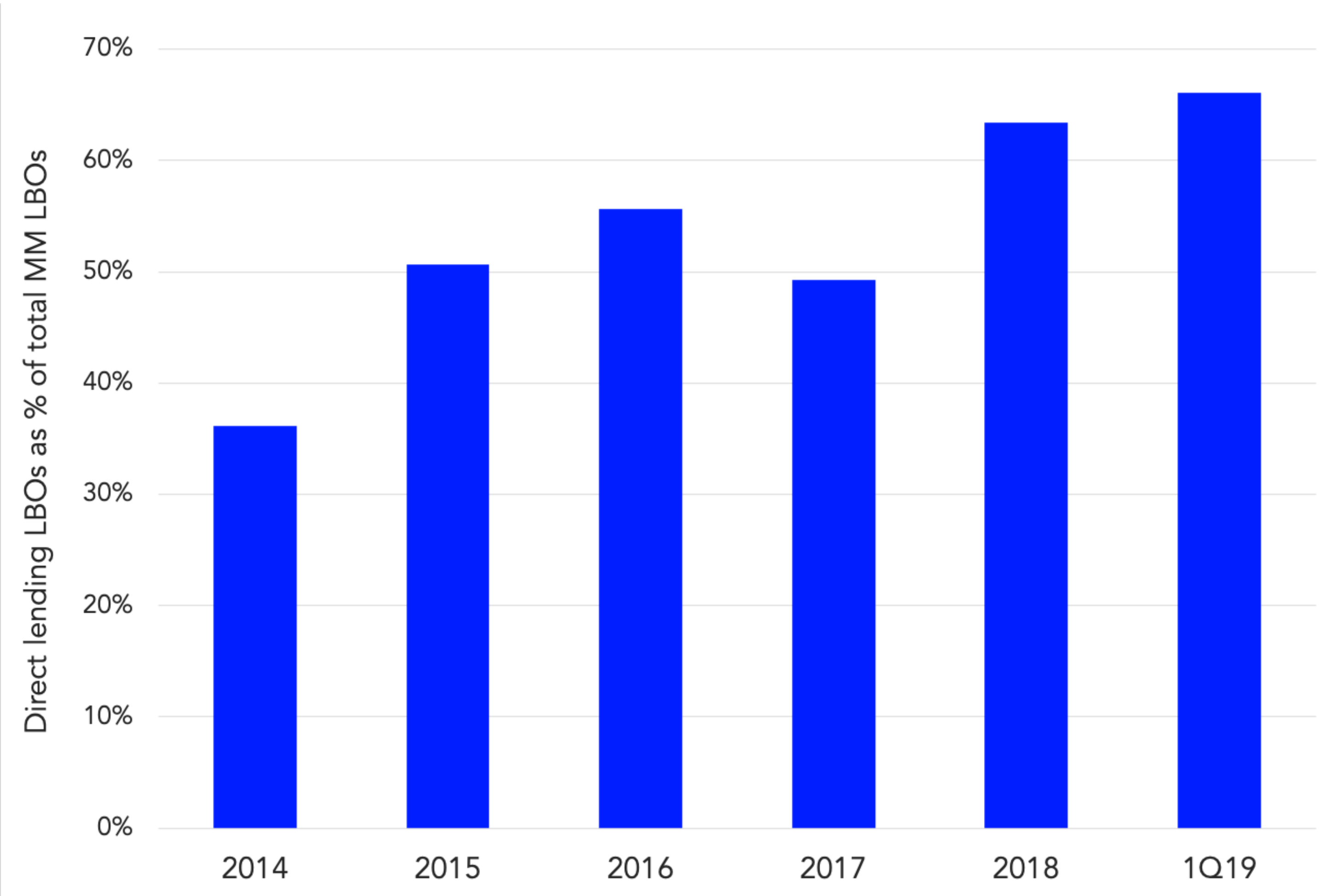

Since LPC began tracking the direct lending market in 2013/2014, there has been a continued shift for middle market LBO credits to be financed via “direct lending” executions as opposed to in the syndicated loan market. In 2018, LPC tracked a record US$56bn in middle market buyouts closed with 63% being financed via a direct execution (non-syndicated). And even though middle market LBO issuance was very light in both markets in 1Q19 at just US$8.6bn, the share financed via a “direct execution” hit an all time high in 1Q19 at 66%. In 2018, direct lenders raised a record US$96.6bn in capital which has allowed them to increase their hold sizes and better compete with the syndicated loan market. So far in 2019, the fundraising frenzy has slowed somewhat but still continues with US$11.4bn raised YTD coupled with another US$28bn still in the pipeline. Lenders do expect to see a pick up in new money and M&A lending in the near to intermediate term. However, record high purchase price multiples continue to be an obstacle which is limiting dealflow. LPC data shows that in 1Q19, the average purchase price multiple for LBOs in the entire middle market rose to 11.1 times, the highest on record. Despite this struggle, PE sponsors continue to raise additional capital. According to Buyouts Insider, PE shops raised US$80bn in capital in 1Q19 alone, putting 2019 on track to being a possible new record year if this pace continues (current record is $292bn in 2007).

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