# Deal, No Deal (Last of a Series)

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Tracking data in our market is often a challenge. As we've said in other contexts, there are three levels of fabrication: lies, damnable lies, and leveraged loan statistics.

Yet when a variety of metrics point in the same direction, we suspect a semblance of truth is buried somewhere.

Such is the case with data showing both M&A and related loan volume slumped for the third quarter. As we covered last week, this applies to large and mid caps, as well as U.S. and non-U.S. transactions, according to Refinitiv LPC.

S&P LCD also showed all institutional M&A loan volume being off for last quarter, though opportunistic refinancings were up. That did not include dividend recaps, which declined for both the broadly syndicated and middle markets.

As we investigate the softening deal market, it's only fair we address another hunch of direct lenders: that not all LBO financings get reported.

In part that's the nature of the private debt market. As non-bank arrangers grow their capacity to commit and hold larger transactions, the share of syndicated financings shrinks. Refinitiv's latest numbers show that of the midcap LBOs tracked, direct lenders financed one-and-a-half times that of the syndicated market.

Similarly, the number of single-lender and club deals has grown, to some extent diminishing the urgency to report those deals for league table purposes.

Several research agencies, notably Refinitiv and PitchBook, have made great strides nudging direct lenders to report their private club activities. But it remains a work in process. Competition is a major driver: Why tell other lenders what you're up to?

One data point that does stand out is add-on volume. As our *Chart of the Week* highlights, the number of middle market add-ons is greater than buyouts. As we discussed in our white paper on the matter [link], additional acquisitions help lower lofty entrance purchase price multiples in the face of ho-hum GDP growth.

Lofty and getting loftier. S&P LCD data revealed 3Q price-to-pro forma-adjusted ebitda for all LBOs soared to 12.9x. That sent year-to-date levels to 11.5x – a full turn higher than last year, and the highest since 2000, including the 9.7x in pre-crisis 2007.

Along with higher prices comes greater equity contributions from sponsors. As a percent of total capitalization, PE firms invested an average of 45% equity into leveraged buyouts. That was the second highest level ever. Price inflation has also pushed middle market club equity-to-capital ratios to 53%, per Refinitiv. That was actually down from 2Q's 56%.

What does all this mean for private credit investors? Certainly smaller deals are carrying a greater equity cushion for senior credit providers. But to be in the most active segment of leveraged loan deal flow today, you need to be in the direct lending space.