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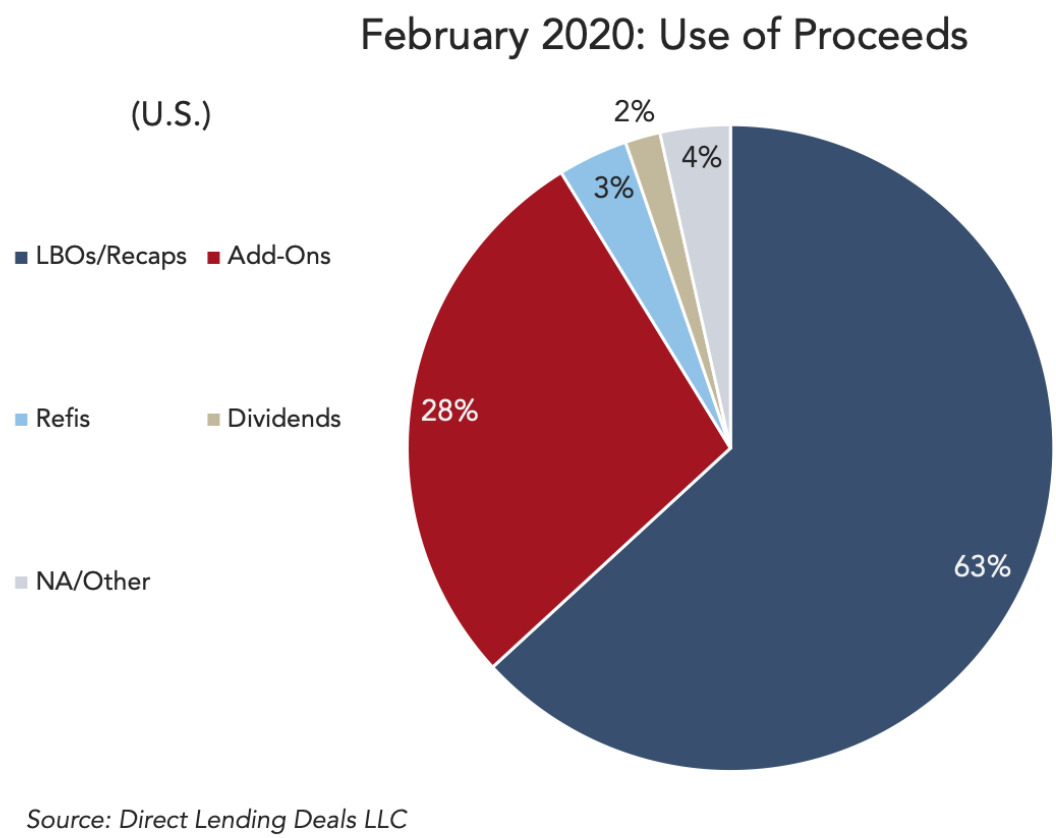
February new issues soften; March is a guessing game

KBRA DLD | March 5, 2020



February's tally of direct lending loans softened to 57, from 73 in January, according to Direct Lending Deals. The decreased flow was mainly due to slower-than-expected M&A — all deals were baked before coronavirus fears torpedoed markets last week. Add-on M&A activity declined to 28% from 33%.

LBO financings dominated the smaller pool of loans, with a 63% share, up from 53% in January. The increase follows earlier predictions that sponsors would make their move sooner in 2020 rather than later to avoid potential volatility nearer the election.

Many were hoping this month would yield more M&A, but then last week happened, and visibility on the forward pipeline disintegrated. Even though direct lending — most of which is lower middle market — is largely insulated from wild swings in the broader markets, a 3,000 point bloodbath for the Dow will flash caution in front of any investor. This week's furious fluctuations and string of unknowns don't help either. How the unprecedented volatility will affect originations going forward is anyone's guess.