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Jumbo loan buy-out financings remain prevelant amid choppy secondary market

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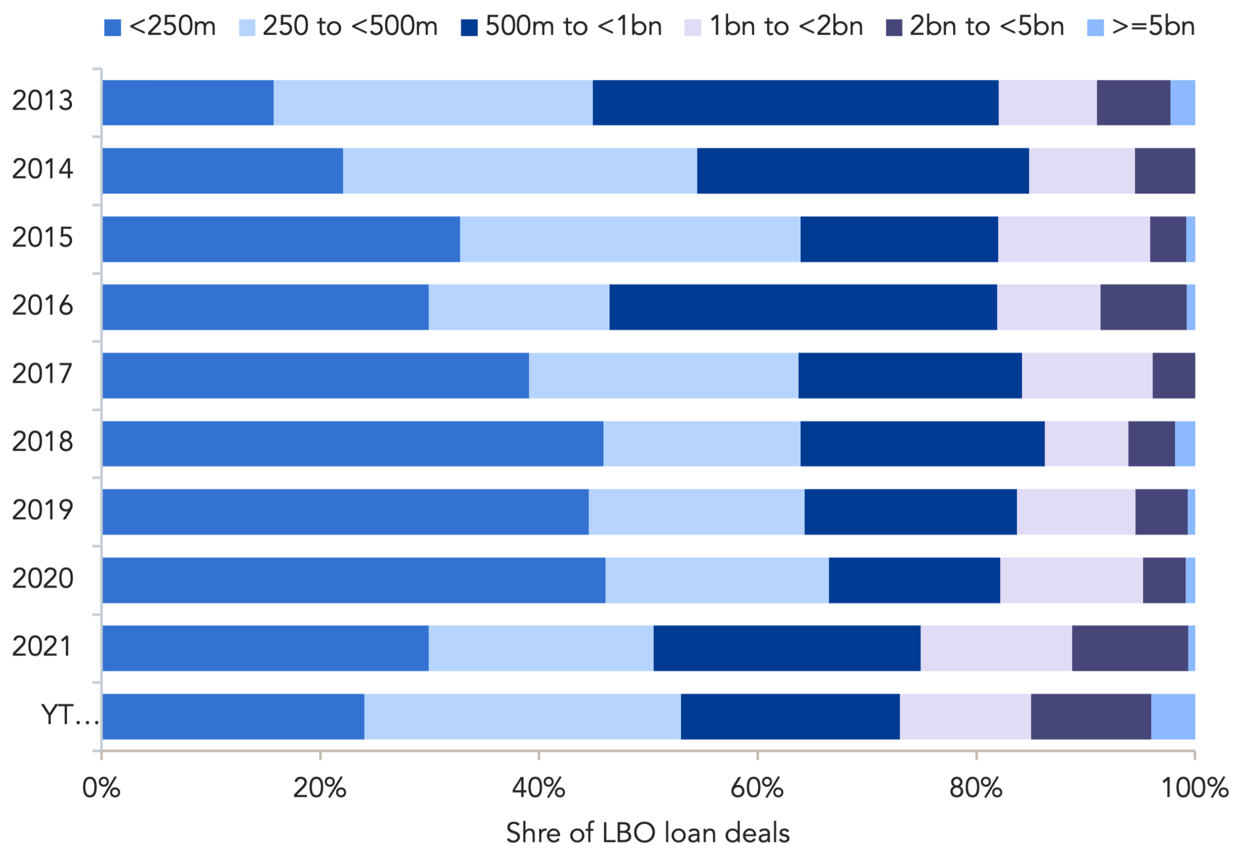

Source: Debtwire Par

Leveraged loan and high-yield bond issuance backing buy-outs exploded in 2021, increasing 95% over the 2020 figure to set a new annual record of USD 240.3bn. Leveraged loans accounted for USD 212.7bn of issuance, up 98% from 2020, while HY bonds made up the remaining USD 27.6bn for a year-over-year (YoY) gain of 75%. Issuance has not kept pace in the first half of 2022, with institutional loans issued to support buyouts down 11% YoY to USD 69.4bn, and high yield bond volume down 25%, to USD 9.1bn. While committed financings such as LBO's have fared better than the overall leveraged debt markets, where institutional loan issuance has plummeted 62% and high yield bond volume has tumbled 76% from the year-ago total, it is a disappointing sum considering year-end expectations.

Financing activity exploded amid record private-equity (PE) buy-out activity in 2021, marking a record year. Low interest rates and a backlog of buy-outs shelved during the pandemic helped fuel the red-hot market , which has taken the opposite course this year in the face of rising rates and persistently high inflation.

One trend that has carried into the new year has been the prevalence of larger loans being issued to fund buy-out deals. Last year, larger average deal sizes from issuers such as **Medline Industries** (USD 7.8bn) and **PAREXEL International** (USD 4.1bn) helped to boost the share of loans in the USD 2bn-plus category to more than 10% of the overall market. This year, the figure has climbed to 15%, as jumbo loan financings for **McAfee** (USD 8.0bn) and **Athenahealth** (USD 7.9bn) have continued to come to market.

Even in the second quarter, with secondary markets in free-fall, several deals were completed in the USD 2bn-plus range. **CDK Global** priced its USD 4.3bn loan financing supporting its buy-out by Brookfield Business Partners, offering TLB investors a 97 original issue discount (OID). **Refresco Holdings** was next with a USD 4.1bn loan package to back its takeover by KKR. That said, compared to the first quarter, when 45% of loan buy-out financings were sized USD 500m or less, more than 62% of second quarter buyouts were financed with loans less than USD 500m.

(Past performance is no guarantee of future results.)