Buyout issuance shifts to high yield bonds

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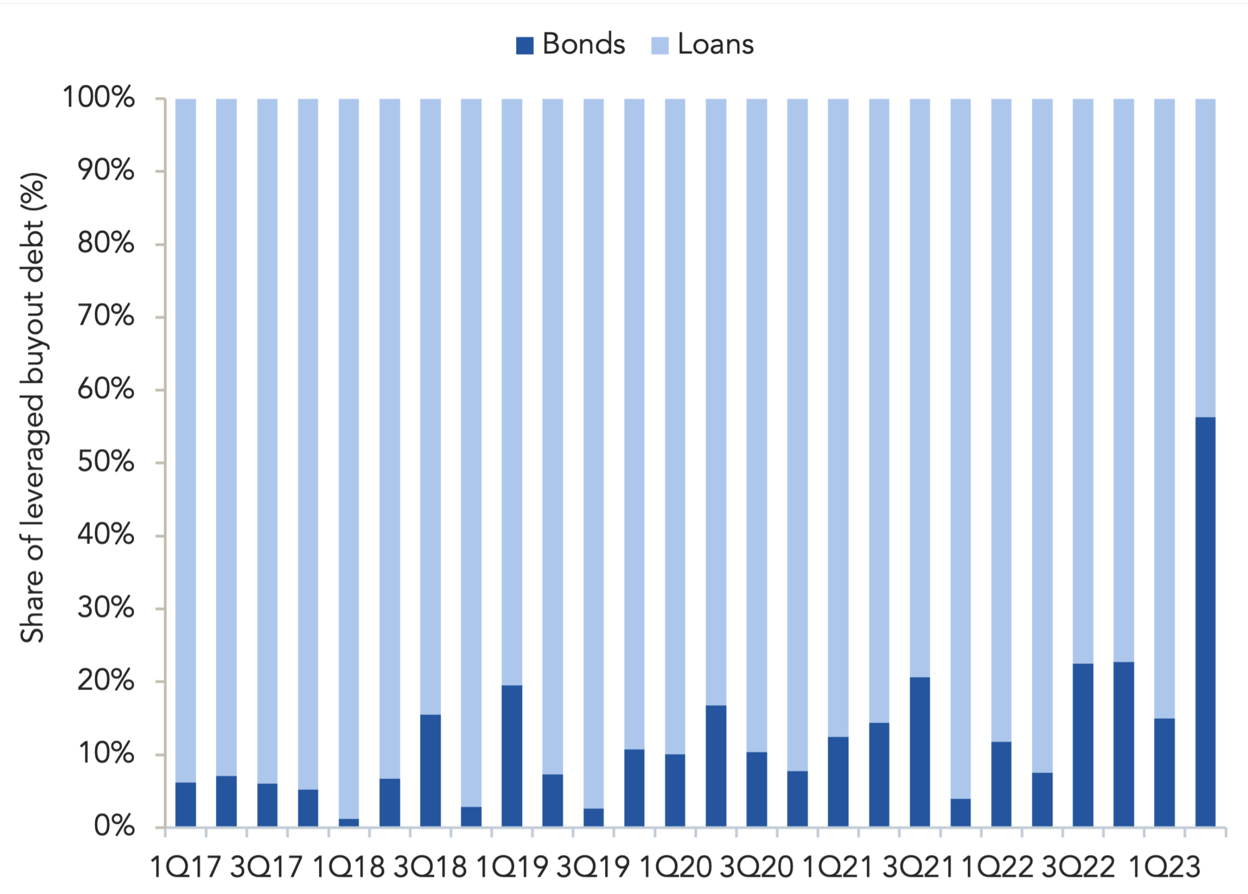

Source: Debtwire Par

Buyout financing diverges between markets

Leveraged issuers tapping public syndication for leveraged buyouts have turned to the high yield bond market in recent months, with impressive levels of activity considering the current shortage of new money issuance.

LBOs backed by bond issuance already reached the third highest quarterly datapoint in the last decade at USD 7.6bn even with a month left to round out the second quarter. Four deals make up the value, with the acquisition of **Capstone**, **MoneyGram International**, **Copeland** and **TIBCO Software**.

Buyout activity in the bond market is also slightly up versus 2022, sitting at USD 8.5bn for the first five months of the year. Meanwhile, overall new money bond activity totals USD 17bn so far in the second quarter, only slightly behind the average levels seen in 2013-2020.

In contrast, just USD 5.9bn made its way through the institutional loan market this month in aid of leveraged buyout facilities, which is a surprising loss to the bond market given that historically loan buyout volumes exceed bonds by multples. The amount raised in April and May also stemmed from four issuers. Blackstone represented two of the buyouts, with its acquisitions of Cvent and Emerson. In addition, Lovell Minnick Partners purchased **Pathstone** and CD&R bought **Focus Financial**. Other M&A financing accounted for under USD 2bn in May and stemmed from six deals.

Sky-high pricing on loans while bond yields remain in check

The state of the buyout market's disparity between the loan and bond asset classes is no doubt linked to the pricing on the respective facilities.

When looked at in isolation, bond pricing movement in recent quarters does not look to be an exciting catalyst for new money paper. Yields have remained roughly equal to levels seen in the preceeding four quarters, with the average currently sitting at 8.4%. Similarly, yields in the secondary bond market have also moved little over the month, having varied little since June 2022.

However, bonds look positively enticing in the lens of astronomical loan yields. Despite margins sitting comfortably within historical figures, the average yield on first-lien institutional facilities has reached over 10% overall, rising to 11% for debt backing the LBO deals that have managed to sign this year.

Of course, the predominantly fixed and floating rate nature of the respective bond and loan markets mean that coupons on floating rate instruments will shrink in step with central bank target rates. However, attempting to predict interest rate movements has been a fools game in the recent past and has resulted in many losses – including the likes of multi-billion dollar financial institutions.

(Past performance is no guarantee of future results.)