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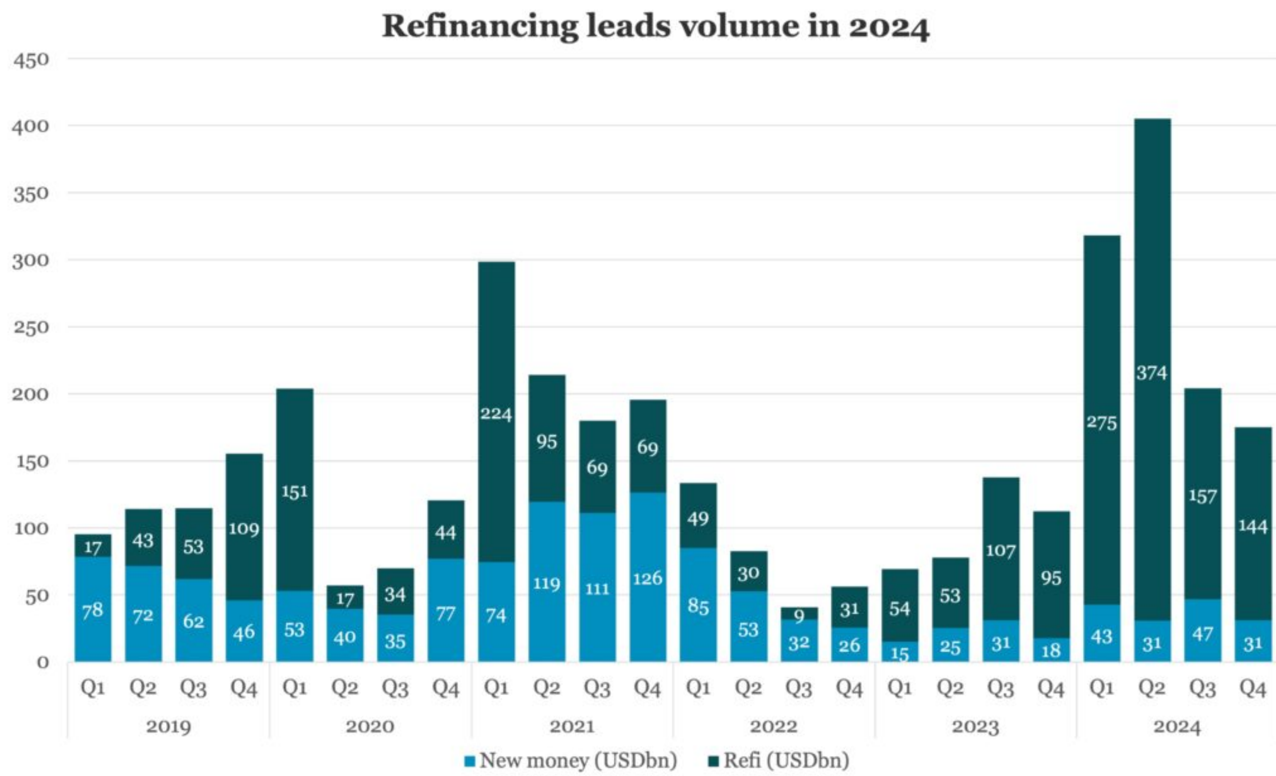
Refinancing rockets, new money rises: inside 2024’s institutional loan market

Debtwire | December 18, 2024



The institutional loan market in 2024 has witnessed a dramatic resurgence, marked by a substantial increase in refinancing activity and a notable recovery in new money issuance. With the wave of refinancing appearing to recede, attention turns towards the mergers and acquisitions (M&A) market for the next source of capital markets activity.

Refinancings surge

Refinancing activity dominated the institutional loan market this year, accounting for an overwhelming 86% of total loan volume. By end-November, refinancing deals had reached USD 951bn out of the USD 1.1trn recorded in the year– to –date (YTD), while total refinancing volume is expected to surpass the USD 1trn point by year-end. This represents staggering growth of 209% from last year.

The average margin on institutional loans this year has fallen significantly compared with recent years, as companies have taken advantage of stabilizing interest rates and the increasing reality of a soft landing, putting high-risk assets back in vogue.

The average margin on institutional loans for 2024 YTD stands at 351 basis points (bps), which is 73bps lower than 2023, when the average margin was around 424bps. This is also 125bps lower than 2022, when the average margin came in at 476bps. The rate of change has steadied in 2024 – indicative of a turning point in refinancing activity.

New money abounds

While overshadowed by refinancing in terms of volume, new money issuance has shown signs of recovery, with total volume reaching USD 152bn or 14% of overall institutional loan activity by the end of November. Although comparatively modest, this represents a significant 69% rise over the USD 90bn raised in 2023.

M&A, particularly leveraged buyouts (LBOs), has been the primary driver of new money issuance, accounting for USD 115bn or 76% of the total raised. This represents a 38% increase compared with USD 71.8bn of M&A-related loans in 2023 and reflects the return of private-equity firms (PE) to the market after a year of subdued activity.

The resurgence in new money debt follows closely from intensifying M&A activity seen in 2024 YTD. Private companies have already transacted on USD 854bn of M&A deal volume so far this year, a significant amount of which is expected to be financed via debt capital markets. The volume between January and November has already exceeded full-year volumes in 2022 and 2023 and is expected to accelerate further in 2025.

Technology at the fore

The technology sector has led M&A financing this year, driven by several high-profile deals. In February, KKR and Veritas Capital completed a USD -10bn buyout of **Cotiviti**, a payment integrity solutions provider. Another notable transaction was the USD- 8.9bn acquisition of **R1 RCM**, a provider of technology-oriented medical services, by TowerBrook and Clayton, Dubilier & Rice (CD&R).

Thoma Bravo's acquisition of cybersecurity AI firm **Darktrace** for USD 5.3bn – for which Goldman Sachs provided USD -2.14bn of financing – exemplifies the soaring demand for tech investments, particularly in high-growth areas such as cybersecurity?.

More recently, **Nuvei Corp**, a global payment processing solutions provider, was taken private last month in a USD -6.9bn swoop by **Advent International**.

Based on auction data from *Mergermarket*, Utah-based video monitoring technology firm **Becklar**, which is backed by -**BV Investment Partners**, is currently in the second round of its auction process. The company is reportedly valued at 15x its USD 48m EBITDA, indicating a potential worth of approximately USD 720m. Buyers may soon seek financing of around USD 720m to support the acquisition.

Looking ahead

The first two quarters of 2024 saw heightened activity both in terms of deal volumes and number of deals which have since slowed markedly as refinancing activity has waned. This signals that many companies have already refinanced their debt load during the first half of the year. This bumper year of refinancing will not be equaled next year – the total amount of debt in the loan market due to mature by 2028 stands at USD 1.3trn. Fed chair Jerome Powell's comments last week that the US economy is doing better than anticipated will allow extra caution on further interest rates cuts, which will serve to dampen activity for issuance.

(Past performance is no guarantee of future results.)