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Space Race

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As we prepared this past weekend to escape the 95°F cauldron of Manhattan for the relief of the 98°F oven in the Outer Banks, our thoughts turned to which industries have proven to be the hottest so far this year.

In terms of new issues for middle market sponsored transactions, healthcare has been the most active both this year and 2015, according to Thomson Reuters. As our *Chart of the Week* illustrates, private equity sponsors recorded about $3 billion in deal activity in that sector through this month. That tracks 2015's full year tally of $6.4 billion.

Our experience has confirmed this trend, with healthcare services, technology, and devices topping the most active sub-sectors in the space.

The reasons for this are several. Private equity sponsors with successful track records in healthcare have well-established views by now on matters such as reimbursement risk, electronic medical records, and insurance reform.

There is also the fact that healthcare spending continues to be the largest expenditure as a share of US GDP at 17%. This is followed by education and defense that weigh in at 6% and 3.5%, respectively.

Finally, debt providers have noted that healthcare has been one of the better performing sectors both during and after the credit crisis. Specialties such as physician outplacement, long-term care, and urgent care clinics continue to see high valuations.

Healthcare M&A activity in the middle market has been the second busiest area, with almost $2 billion of deal flow so far this year; second only to technology at just over $2.1 billion, per Thomson.

Speaking of which, technology-oriented businesses represented over $3.5 billion in new money mid-cap financings so far this year. That topped healthcare, manufacturing, and business services. Tech-enabled software, for example, has been particularly active as companies have worked to cut costs in the face of tepid growth.

Tech companies have also seen senior leverage rise to almost 4.5x through June 30. Healthcare and services borrowers are a distant second with senior debt to ebitda less than 4.0x. On average total leverage has eased below 5.0 x for all industries.

At the other end of the spectrum, out-of-favor sectors such as oil and gas, media, shipping, and restaurants are at the bottom in terms of sponsored issuance. This coincides with the worst categories in terms of defaults in overall leveraged loans – metals/mining, oil/gas, and printing/publishing.

It will thus be challenging to see how lenders manage some $4.75 billion of maturities that come due in the energy space during the final quarter of this year.