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# PE firms tap abundant liquidity, yet LBO loan deal flow struggles to meet demand

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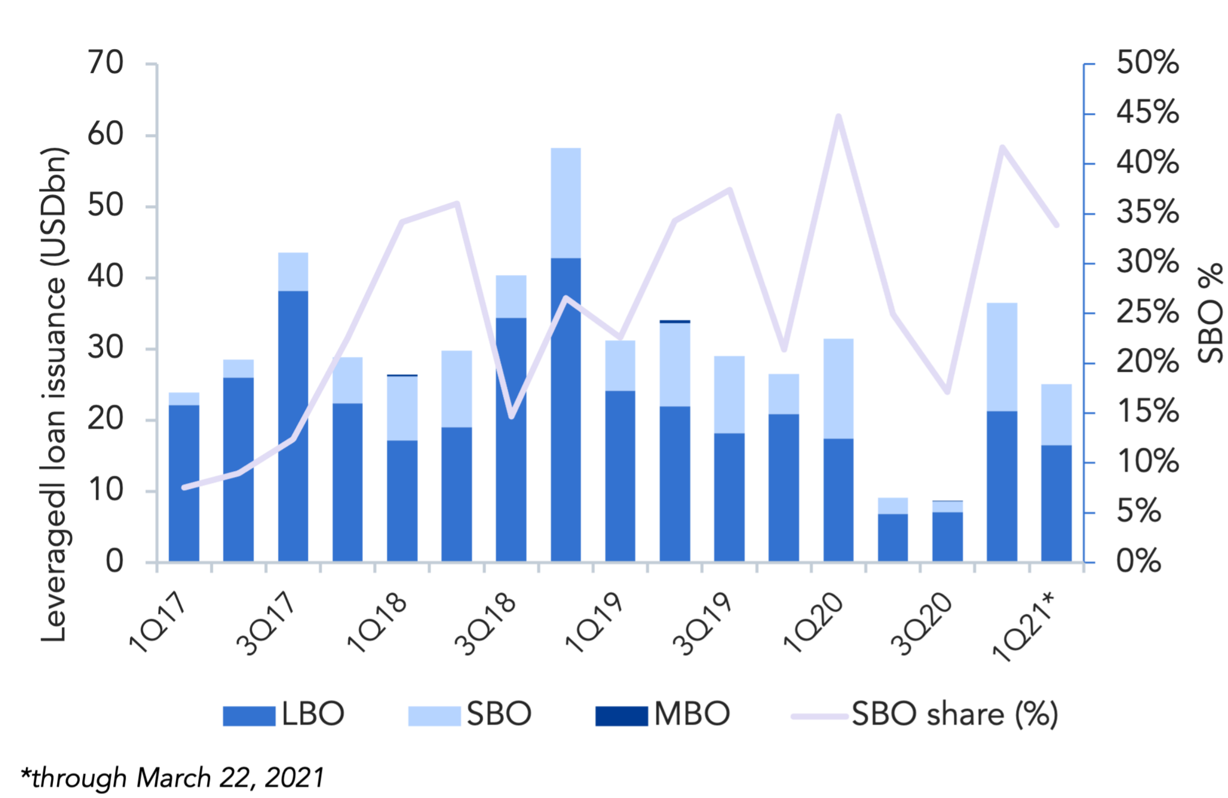


*Source: Debtwire Par*

Financial sponsors have been very busy this year, taking advantage of borrower-friendly market conditions to tap the debt markets at a rapid pace. Sponsor-backed syndicated leveraged loan issuance has already hit a quarterly record of USD 181bn, as of 22 March.

Rampant debt issuances in 1Q21 have not translated into a wave of new money deals for leveraged loan lenders, however, as much of the activity has been to reprice (USD 70.7bn) or refinance (USD 50.4bn) existing debt in portfolio companies.

In comparison, syndicated leveraged loans backing buyouts have totaled a smaller USD 25bn in 1Q21 to date, down 26% from 4Q20. A further negative for lenders looking for new money lending opportunities is that more than one-third of this activity has been secondary buyouts, which provides limited incremental new debt.

In high yield, private equity firms have tapped the bond market to the tune of USD 11.8bn but, as in the loan market, a large chunk of it was to refinance existing debt. Furthermore, just over half of buyout financings (51%)

were for secondary buyouts, again adding little new debt.

Looking ahead, portfolio managers generally expect more of the same in terms of deal flow in the leverage loan market, though they remain hopeful for more LBO activity. “I don’t see the flavor of what we are working on changing much in next two to three months,” stated one buysider. “But you never know as there are processes going on and the bankers are super busy, and there is an element of let’s get the money while we can because its cheap, so the borrowers are pushing super hard to get financing in place opportunistically.”

*(Past performance is no guarantee of future results.)*