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A Market in Full (Fourth of a Series)

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Having moderated three private credit panels in the past ten days, a recurring theme is the record level of deal volume. What's driving this unprecedented activity?

In its recently published 3Q survey [link], William Blair reported $155.3 billion of institutional loans, nearly the highest number they've recorded. Almost 60% – $92.4 billion – was dedicated to M&A transactions.

Some sellers have been motivated by potential tax increases next year. That prospect is also expected to produce more dividend recaps. Covid tailwinds are boosting companies to historic highs on revenues and Ebitda, encouraging owners to cash out at relative valuation peaks.

Sponsors also suggest increased focus by founders and management teams on equity rollovers. How much money makes sense to take off the table? How much to keep in the business? The former may be guided by tax considerations; the latter depends on the seller's desire to diversify investments. What business has more visibility than one they created?

Of course that comfort revolves around the buying firm's strategy. If it aligns with the founder's vision for a platform now with sufficient capital and resources to grow, then there's a chance down the road to get a second bite of the valuation apple.

Robust fundraising for both private equity and credit has provided fuel to fund ambitions of both buyers and sellers. Direct lenders are now armed with capacity to close $1 billion-plus unitranches with alacrity.

Survey respondents suggest issuer-friendly conditions are better than they've been since 3Q 2018. 98% said pricing was the same or lower than the previous quarter. And while the same percent reported terms and leverage looser or the same, our *Chart of the Week* suggests a nuanced view.

Willliam Blair's proprietary data base shows total leverage has moderated and senior leverage has remained within a band during Covid. This could be reflective of data from sectors like manufacturing and industrials. But it could also mirror our own observations that senior stretch financings are growing in popularity.

The bad news for deal makers? This bull market has created log jams in all aspects of due diligence. You want a year-end close? Good luck. Deal advisors and consultants are over-booked. Turnaround on quality of earnings reports? Weeks, not days. Need a reps and warranties insurer? Get in line.

It will be fascinating to watch whether these private capital supply chain issues ease as we roll over the calendar, or whether we've reached a new normal of financing capacity.