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M&A transactions increasingly funded with add-on debt

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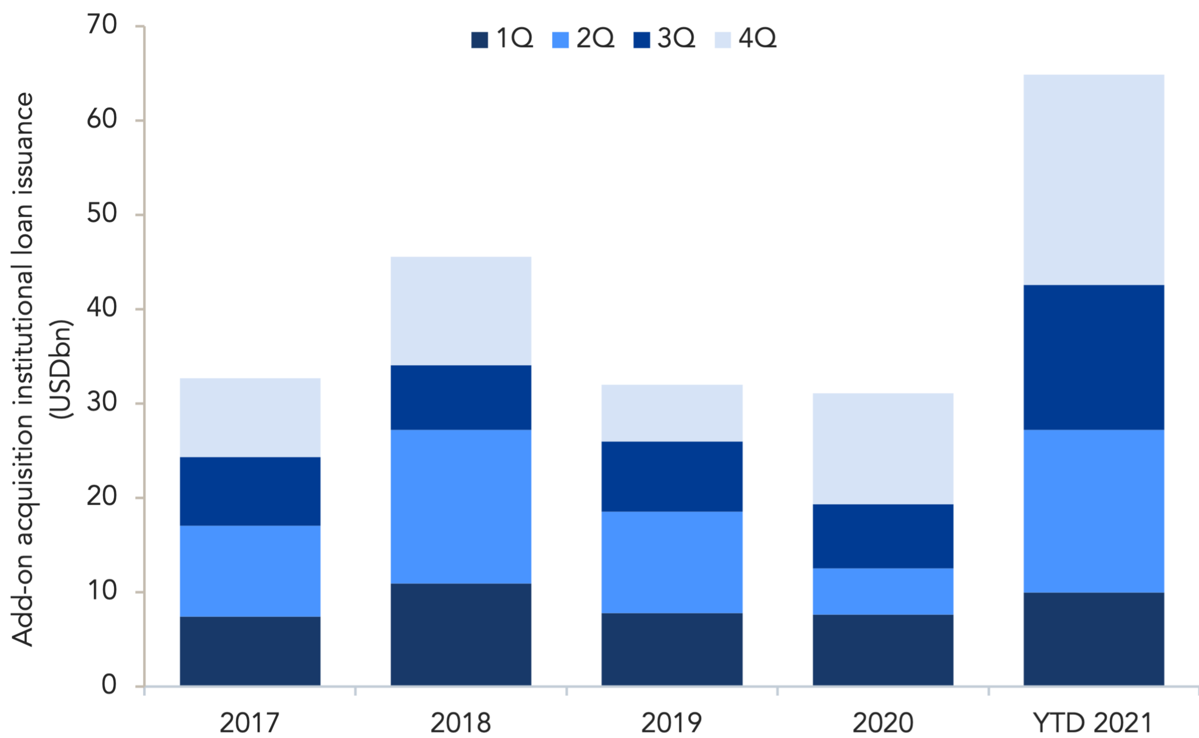

Source: Dealogic, Debtwire Par

Issuers have been tapping the institutional loan market for add-on debt at a rapid pace, blowing past the previous five years in add-on volume with the month of December still to come. Record levels of add-on loan issuacne in September (USD 13.5bn) followed by another strong month in November (USD 8.9bn) have pushed the 4Q21 figure to-date to USD 22.3bn – the highest level seen since at least 2017.

Add-on acquisitions generally carry less risk than a full blown takeover, where a smaller company is absorbed by a larger acquiror. The target company may provide complimentary services, or allow for expansion into a new market, to spur growth. Financial sponsors and private equity shops have also commonly used the strategy to improve the profitability of portfolio companies through add-on acquisitions, which typically carry lower valuation multiples and can be funded relatively quickly, with fewer regulatory hurdles to overcome. As such, middle market companies are often targeted as likely candidates for takeover.

One of the largest add-on facilities to price this year was **Gainwell Technologies**‘ USD 1.83bn add-on TLB due 2027, which priced back in February at Libor+ 400bps with a 75bps floor and 98.56 OID. Proceeds support the acquisition of certain assets of **HMS Holdings** by the Veritas Capital-backed company. **Quikrete** similarly issued a jumbo USD 1.7bn add-on to its TLB due 2027 in June. Proceeds of the incremental debt support the company's acquisition of **Forterra**.

As has increasingly been the case, financial sponsors have been active in the add-on space, with approximately 80% of add-on financings year-to-date being sponsor backed – up from just 64% in 2017. This trend appears likely too continue as the return to normalcy following the pandemic is complicated by new variants, and sponsors aim to beef up the financial health of portfolio companies through acquisitions.

Approximately USD 1.6bn in additional add-on debt is currently in syndication. **Confluence** recently upsized a TLB add-on to USD 290m, which alongside a USD 100m privately placed second lien facility, will fund the company's acquisitions of **Investment Metrics** and **Compliance Solutions Strategies**. Commitments on the Clearlake Capital and TA Associates backed deal are expected by 9 December.

(Past performance is no guarantee of future results.)