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LBOs on the rebound: How leveraged loans are stealing the spotlight from direct lenders in 2024

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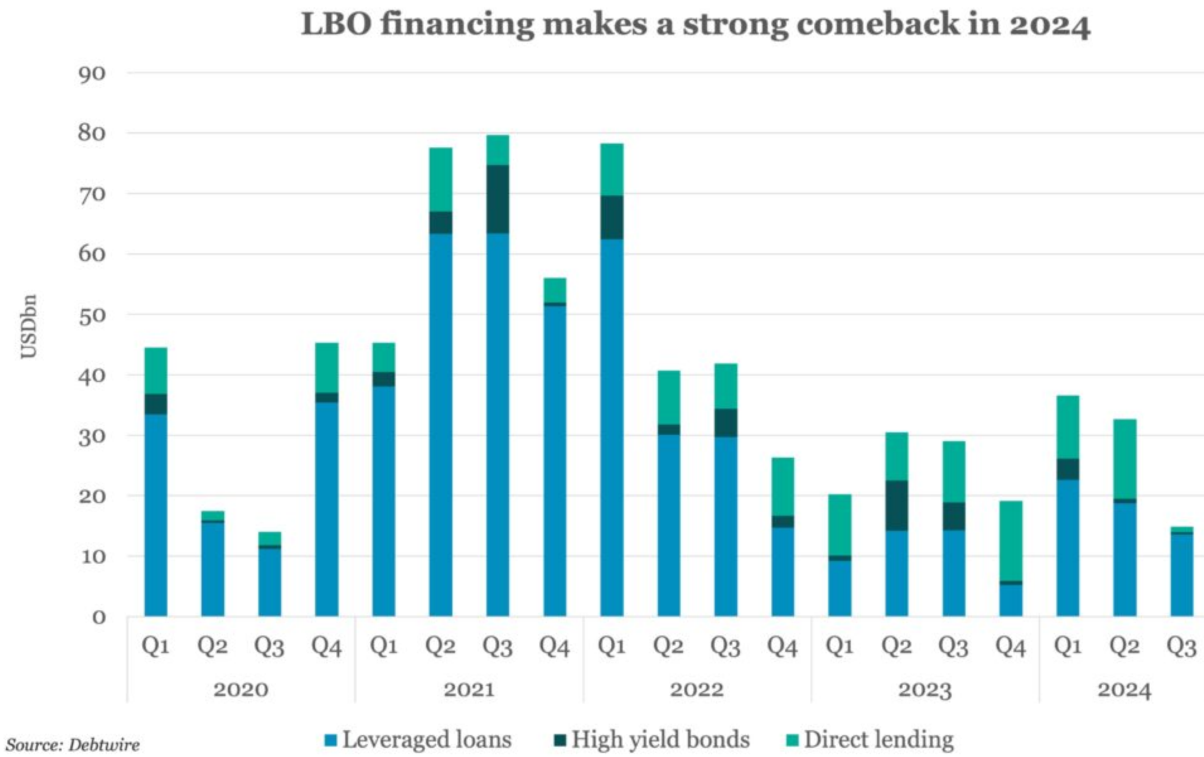

High interest rates and uncertain market conditions slowed M&A activity among private equity firms in 2023. However, 2024 has seen a resurgence in leveraged buyout (LBO) activity, with many of the largest deals opting for leveraged loans over direct lending for financing.

Leveraged loan volumes have rebounded significantly in 2024, closely mirroring the increase in LBO activity. In the first quarter, syndicated banks recorded USD 22.65bn in leveraged loan volume, the highest in six quarters following a peak of USD 29.67bn in the third quarter of 2022. Similarly, new platform M&A surged in 1Q24, with LBO volume reaching USD 36.55bn, the highest since the third quarter of 2022, when LBO volumes hit USD 41.84bn.

Along with LBO and leveraged loan volumes returning in 2024, LBOs backed by leveraged loans are taking back market share from direct lenders. These nonbank lenders picked up deals in 2022 and 2023 while the leveraged loan market limited activity during the uncertain macroeconomic period.

Leveraged loan volumes rose 76% during the first two quarters of 2024 to USD 41.38bn from the first half of 2023, which recorded volumes of USD 23.45bn. The recovery in volumes during the first half of this year was driven by three of the largest deals recorded in 2024 thus far. In May, **Stone Point**, **Clayton Dubilier & Rice**, and **Mubadala** acquired **Truist Insurance** for USD 12.3bn. KKR agreed to acquire a stake in Veritas-backed **Cotiviti** in a USD 10bn recapitalization deal the same month, and in May, **Roark Capital** bought **Subway** for USD 9.6bn.

Leveraged loans which accounted for just 46% of the USD 50.73bn in LBO debt financing volumes for the first half of 2023 also took back market share in 2024. Leveraged loan market share increased to 68%, speaking for USD 41.38bn of the USD 69.17bn total LBO debt financing volume in the first half of this year.

Even the larger direct lending deals backing LBOs in 2024 have been dwarfed by the giant deals taken down by the leveraged loan market. **Bain Capital** tapped direct lenders to acquire **PowerSchool Holdings** for USD 5.6bn in June. In May, a direct lending club provided USD 2.6bn in debt to back **Permira**'s USD 6.9bn take-private of **Squarespace**. In June, **Advent International** and **Leonard Green & Partners** agreed to take a stake in **Genstar Capital**-backed **Prometheus**. Direct lender **Oak Hill Advisors** led the USD 1.4bn debt package backing the stake acquisition.

In the first three quarters of 2023, LBOs dominated direct lending activity, far surpassing refinancing and general corporate funding. However, since then, this trend has shifted, with direct lenders increasingly focusing on refinancing and corporate purposes rather than new platform LBOs. This decline in LBO financing as a proportion of total volume aligns with rising lender competition amid a slowly recovering M&A market.

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