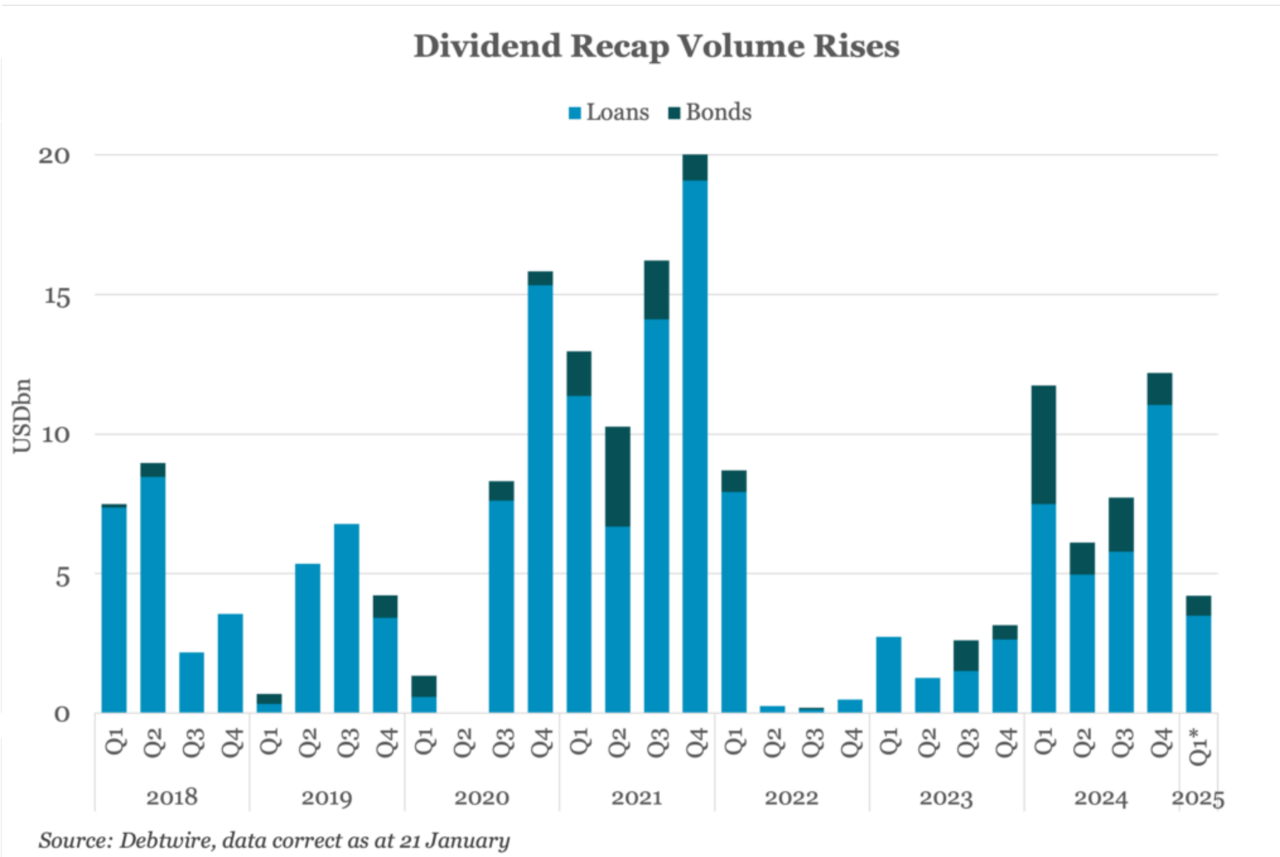
Reaping the rewards: 2024's dividend recaps bonanza

Debtwire | February 11, 2025



Dividend recapitalizations are making waves in the institutional leveraged loans market. In 2024, the total volume of leveraged loans raised for dividend recapitalizations rocketed to USD 29.26bn, a staggering 259% increase year-on-year (YoY) and a 232% spike from 2022's USD 8.80bn. Despite this impressive growth, 2024's volume still trails behind a record-breaking USD 51.25bn seen in 2021, which remains the highest volume seen for dividend recapitalizations in the past decade, according to *Debtwire* data.

This year has already seen a USD 4.5bn debt-funded dividend from **Clarios** to owners Brookfield and CDPQ, which follows just a few months after **Belron**'s landmark EUR 4.4bn shareholder distribution for CD&R, H&F, BlackRock and GIC. These two are the largest dividend recaps on record, each having tapped both the US and European markets.

Similarly, in the high-yield (HY) bond market, dividend recaps ballooned 426% YoY in 2024, reaching a volume of USD 8.50bn compared with only USD 1.62bn in 2023. Volume in 2024 was nearly identical to the USD 8.53bn observed in 2021.

Dividend recaps accounted for a mere 2.2% of overall institutional leveraged loan issuance, primarily overshadowed by heightened refinancing activity last year. However, when considering only new-money raised, dividend recaps constituted 17.1% of the total USD 171.4bn, the highest level ever recorded and surpassing peaks in 2021 and 2020 in terms of percentage. Dividend recap~~s~~ volume last year was second in terms of volume to M&A activity (including leveraged buyouts), which dominated with USD 117.7bn or 69% of the new-money volume in 2024.

Deep pockets

A resurgence in the M&A market usually signals investment capital turning to growth rather than returning capital to shareholders. In 2024, M&A activity experienced a remarkable 84% YoY increase, catapulting to USD 117.7bn from USD 64.1bn in 2023.

However, landmark transactions in recent months (see above) have paved the way for other companies to tap into leveraged capital markets for shareholder-focused deals. The successful transactions show that investors have the capacity and willingness to provide extraordinary amounts of capital to sponsor-owners, as long as interest payments are likely to be made.

Following three consecutive cuts last year, the Federal Reserve held interest rates steady at its most recent meeting this week. Despite this pause, financing conditions remain significantly more stable than in previous years, setting the stage for heightened transaction volumes for both dividend recapitalization and M&A activity.

Paying it back

The largest dividend recapitalization deal for a US-based company in 2024 was **Focus Financial Partners**' USD 4.3bn loan package to the owners, Stone Point Capital and Clayton Dubilier & Rice.

Healthcare technology company **Zelis Holdings** raised a USD 2.1bn first-lien term loan led by Morgan Stanley in October last year to fund a USD 2.61bn distribution to Bain Capital and Parthenon Capital.

In the HY bond market, insurance company **Hub International**'s USD 3bn senior secured notes offering, led by Morgan Stanley in January last year, was the largest dividend recapitalization deal, benefiting owners Leonard Green & Partners, Hellman & Friedman, and Atlas Partners.

Automotive company **Caliber Collision** raised USD 1.25bn of senior secured first-lien notes to fund a USD 1.2bn dividend to Hellman & Friedman in January last year.

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