

Anticipating LevFin Opportunities

A Closer Look at Leveraged Finance

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dealogic

Introduction

There are still opportunities within the Leveraged Finance (LevFin) Market, despite uncertainty caused by an unstable political environment and increasing regulatory pressures.

This paper sheds light on some of these opportunities and their key drivers,¹ with a focus on the Americas, and Europe, the Middle East, and Africa (EMEA). By identifying prominent sectors, we explore the potential surrounding:

- 1) refinancing,
- 2) M&A, and
- 3) financial sponsors.

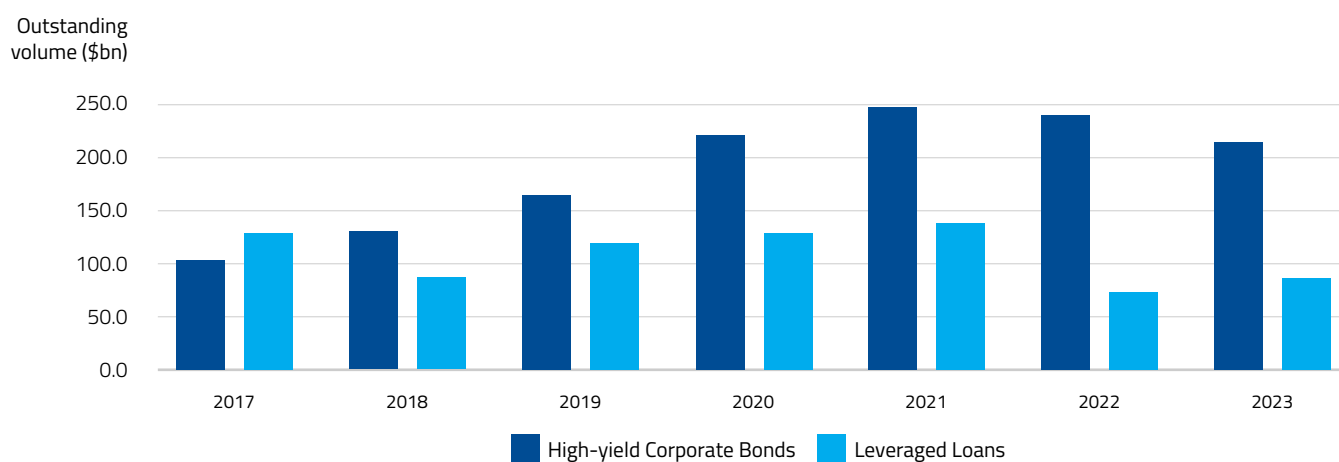
¹ Data source: Dealogic, as of January 24, 2017

The Need to Refinance

An analysis of the debt wall indicates that we are entering a refinancing cycle. Starting next year, debt due to mature will grow on average **14% year-on-year, peaking in 2021** (see Figure 1). By then, leveraged loans and high-yield debt set to mature will be worth a total \$2.07tr.

With this amount of LevFin debt coming due over the next few years, there are ample refinancing opportunities.

Figure 1: **LevFin Maturity Wall (Americas and EMEA)**

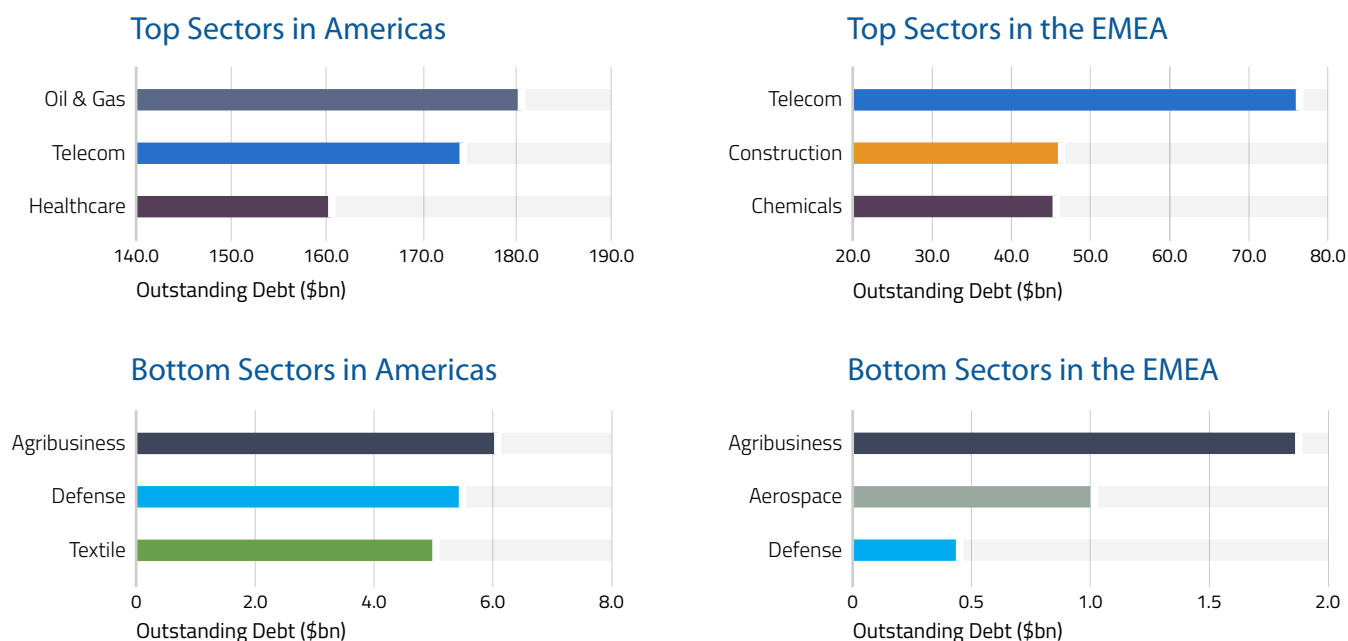


Top Refinancing Sectors

Though the debt wall spans numerous sectors (see Figure 2), we focus on the top three in the Americas and EMEA, with a combined \$682.5bn of leveraged and high-yield debt due to mature by 2021.

In the Americas, Dealogic figures show that firms in the **oil & gas** sector lead with 11.0% of debt set to mature in the region, followed by **telecom** (10.7%) and **healthcare** (9.8%). In EMEA, the top sector is **telecom** with 13.3% of maturing debt. **Construction** (8.2%) and **chemicals** (8.1%) round out the top three.

Figure 2: **Sector Debt Maturing by 2021**



In the past five years, telecom companies Liberty Global and Next LP already rank among the top fee payers with over a billion dollars in fees paid. With **telecom** among the top three sectors in both geographies, these companies will have significant amounts of debt coming due by 2021, along with a corresponding potential for fees.

Timing is Critical for Refinancing

By analyzing the maturity wall and the refinancing patterns of leveraged loans, we can posit where and when LevFin opportunities will exist.

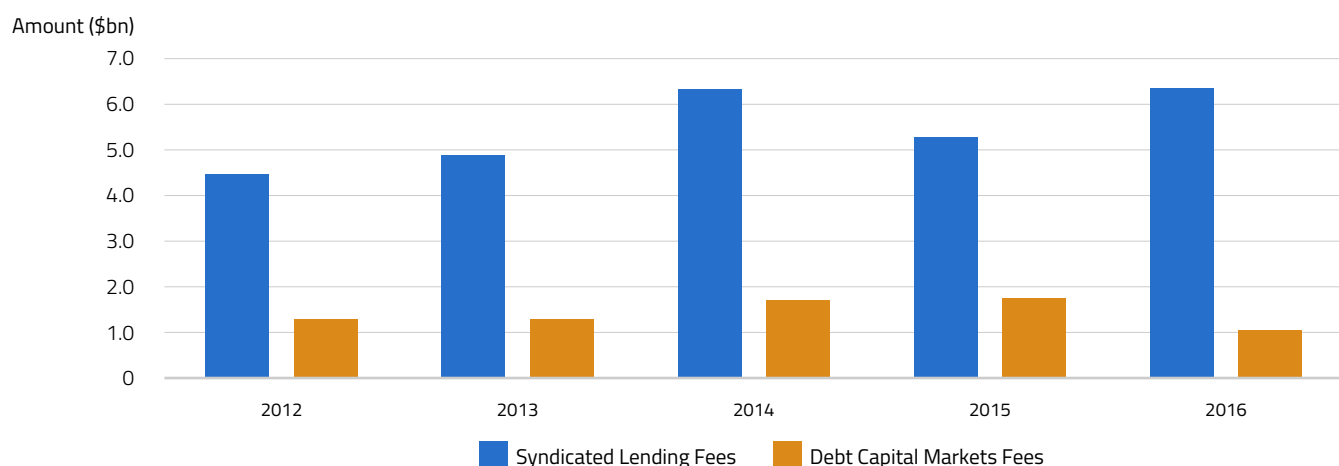
On average, the tenor of leveraged loans marketed in the US and Europe stands around 4.9 years and 5.4 years respectively, according to Dealogic data over both 10-year and 5-year periods. If we exclude refinancing that occurs within 12 months of signing, loans marketed in the US tend to be **refinanced 3 years ahead** of the final maturity date. Europe echoes a similar trend, and this pattern is reflected across the top sectors in both geographies.

Subsequently, refinancing for debt maturing in 2019–2020 is likely to be triggered soon, with names such as Virgin Media, Dell, and Wind Tre. As the maturity wall approaches its peak in 2021, the market will likely see more wallet opportunities from a continuous growth in refinancing over the next two years.

M&A down but not out

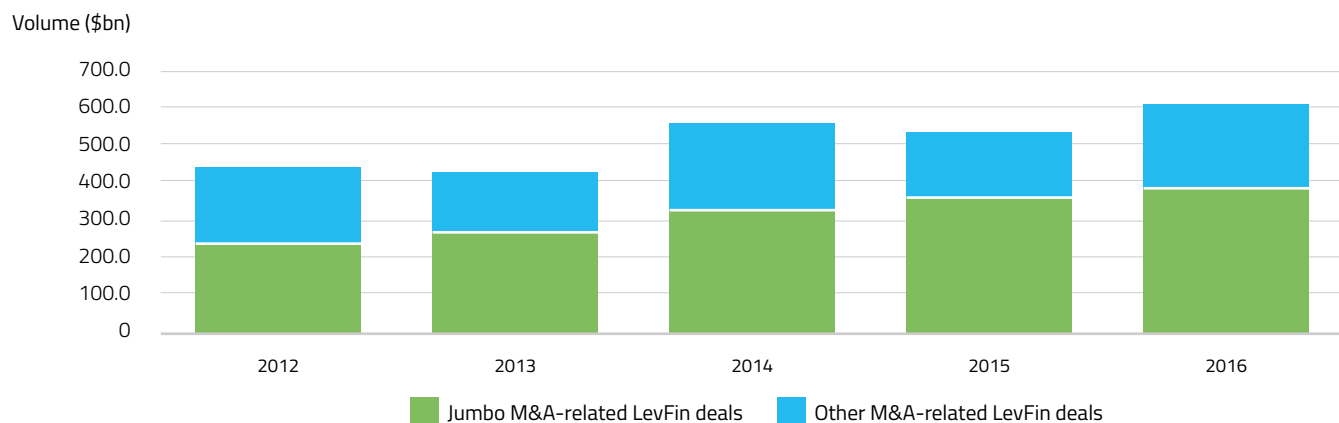
The second area to watch out for is Mergers and Acquisitions (M&A). With numbers climbing to record levels in 2015 on the back of a three-year streak, M&A-related facilities accounted for \$6.8bn of the LevFin wallet from 2012 to 2016, on average (see Figure 3). Last year, the share of M&A-related transactions accounted for **34.5% of LevFin volume** in the Americas and EMEA, and **52.4% of revenue**.

Figure 3: M&A-related LevFin Fees



Though global M&A volume in 2016 was down 16% year-on-year to \$3.89tr, the proportion of billion-dollar acquisitions is on the rise. Specifically for M&A-related LevFin deals in the Americas and EMEA, **jumbo-deal² volume accounted for 63% of the 2016 total**, and **increased by 6.5% on average each year between 2012 and 2016** (see Figure 4). Last year, companies including Dell and ChemChina were among the highest fee payers for jumbo acquisitions in the LevFin Market.

Figure 4: M&A-related LevFin volume in the Americas and EMEA



2. Jumbo deals in the LevFin Market are defined as those over \$1.0bn.

The Most Prominent M&A Sectors

To capture where future deals are likely to happen and where opportunities lie within LevFin, we carried out a three-part analysis of the M&A market from 2012 to 2016. With a sector-level focus, we examined macro trends, M&A-related financing in the LevFin market, and the M&A pipeline.

From a **macro level**, the top five sectors were healthcare, technology, real estate, oil & gas, and telecom from 2012 to 2016 in North America and Europe by volume (see Table 1). Both healthcare and real estate sectors were active, staying in the top five annually. Oil & gas only dropped below number five in 2015 (mainly due to price shocks in oil). Meanwhile, the largest average deal size went to telecom, despite being in the top five just twice. This highlights the **likelihood of jumbo telecom deals**.

However, a slightly different pattern is revealed by examining the LevFin market in the Americas and EMEA. Over the last five years, **new M&A-related financing** was concentrated in technology, healthcare, and telecom. These three sectors accounted for a large portion of M&A financing in the LevFin market (37.4%), while oil & gas and real estate contributed only marginally (5.5% and 2.2%, respectively).

Table 1: Top M&A Sectors (2012–2016)

Sector	Ranking for M&A deal volume	Value of M&A deals	Ranking for M&A financing in LevFin	Value of M&A financing in LevFin
Healthcare	1	\$1.57tr	2	\$321.7bn
Technology	2	\$1.50tr	1	\$381.5bn
Real Estate	3	\$1.16tr	15	\$55.2bn
Oil & Gas	4	\$1.15tr	5	\$161.6bn
Telecom	5	\$1.05tr	3	\$321.7bn

Lastly, we looked at the M&A pipeline in North America and Europe. They include **rumored deals** seeking a target or buyer, along with deals where **preliminary discussions** are taking place. Healthcare, oil & gas, and real estate were the top three industries by volume, while telecom and technology placed in the top 10.

Together, this analysis pinpoints **healthcare** as the top sector to watch for likely M&A-related opportunities in the LevFin market, followed by **technology** and **telecom**.

Financial Sponsors Remain Key

Financial sponsors accounted for **38% of total LevFin volume** from 2012 to 2016 in the Americas and EMEA. Taking a closer look, we focus on the top fee payers in the same period. In order, they were the Carlyle Group,³ Apollo Global Management, KKR, Silver Lake Partners, and Blackstone Group (see Table 2). By looking at their portfolios and assessing holding periods that are over three years,⁴ we can discern key sectors to watch for exit opportunities.

Table 2: Top Financial Sponsors and Sector Breakdown

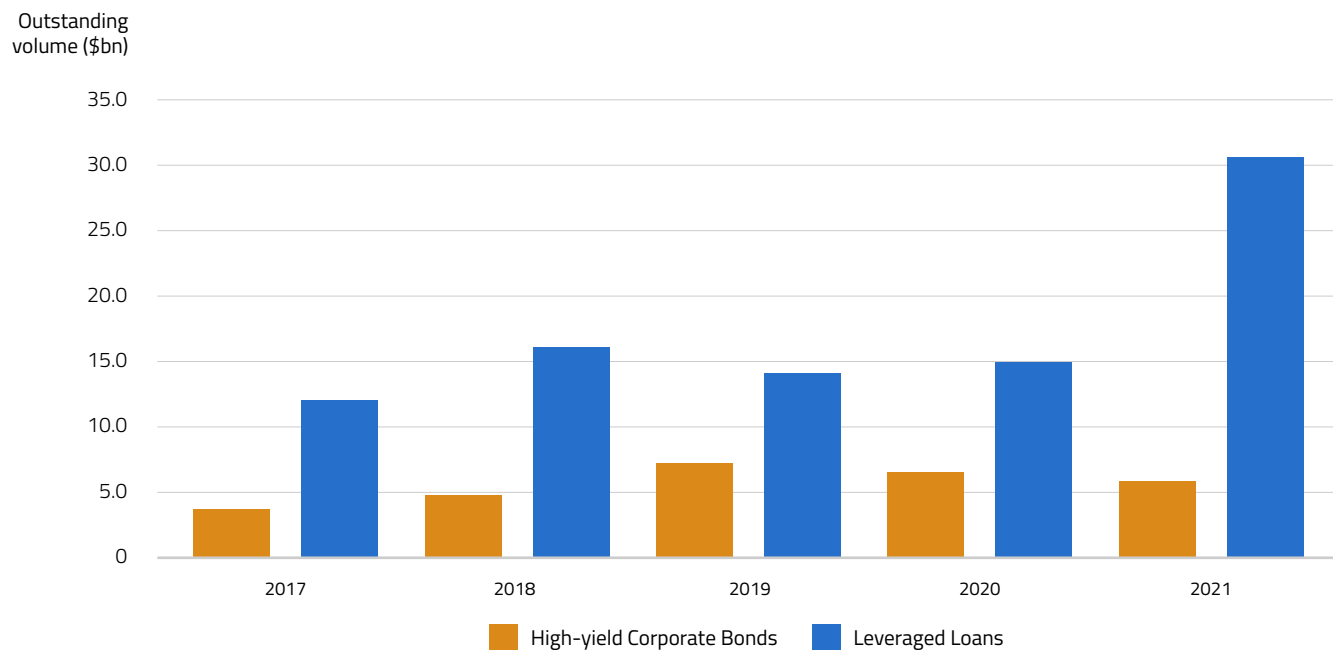
Sponsor	Wallet Share	Portfolio held over three years	Top Sectors (in order)
Carlyle Group	4.8%	54.6%	Industrial, Consumer & Retail
Apollo Global Management	4.2%	37.0%	Consumer & Retail, Financial Institutions, Industrial
KKR	4.2%	44.1%	Technology, Consumer & Retail, Energy & Natural Resources
Silver Lake Partners	3.6%	66.7%	Technology, Business Services
Blackstone Group	3.2%	58.4%	Consumer & Retail, Energy & Natural Resources

Financial sponsors also play a significant role from a debt maturity perspective (see Figure 5). For debt coming due over the next five years, the top sponsors are KKR, Carlyle Group, CVC Capital Partners, Hellman & Friedman, and Apollo Global Management. Together, they account for **20.9% of debt due** via their portfolio companies. Top sectors for this debt are professional services, technology, and healthcare.

3. Please note the Carlyle Group and coinvestors acquired Dealogic in 2014.

4. Based on deals with disclosure of years held.

Figure 5: **Maturity Wall for Top Five Sponsors by Outstanding Debt**



Hence financial sponsors offer **opportunities in both refinancing and exit** (via secondary buyouts) for their portfolio companies, with **technology** as the most prominent sector. In addition, the low-interest-rate environment is ideal for more leveraged buyouts, and provides an impetus for those pursuing cheaper financing. This will likely lead to a healthy pipeline from a volume perspective, and we do not expect any decreases in financial-sponsor activity.

Conclusion

Despite a challenging environment with political and regulatory headwinds — especially from increased regulation such as the 6x guidelines in the US and similar moves in Europe — the LevFin Market has remained healthy. Going forward, it will continue to be driven largely by opportunities around refinancing, M&A, and financial sponsors.

Key findings include:



- Companies with debt maturing in 2019–2020 will likely **refinance soon**, with **telecom** as one of the leading sectors in both the Americas and EMEA.
- **M&A-related activities** in the LevFin Market will likely occur in the **healthcare, technology, and telecom** sectors, based on historical data and the M&A pipeline.
- **Technology** is the most prominent sector for **top financial sponsors** based on fees paid and debt coming due, which include Apollo Global Management, Carlyle Group, and KKR.

Even as we face greater uncertainties in a shifting global market, LevFin will continue to offer opportunities, and strategic bankers can still take advantage.

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