

Acquisition Financing in 2010 - Trends from 2009

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The loan markets began 2009 in the shadow of the credit crunch that began in the summer of 2007 and escalated to a credit meltdown in the fall of 2008. The average secondary bid for institutional loan tranches was in the 60s; the market for new CLOs had shut down; many arrangers of debt financing had either exited the market, merged with a competitor or obtained government assistance; and market participants worried about “refinancing cliffs” and “default spikes.” As dire as things seemed then, by the end of 2009 there were signs that the acquisition financing market may have begun to see a dramatic recovery. Warner Chilcott’s \$4.15 billion leveraged acquisition financing, which closed oversubscribed in October, confirmed that in the right sector, for the right credit and with the right economics, multibilliondollar acquisition financings could get done. The uptick in LBO activity that followed (including TPG/CPP/IMS Health and Blackstone/BuschEntertainment), coupled with some financings to fund dividends (including Booz Allen), even caused some commentators and regulators to speculate that a new debt bubble was on the horizon, noting, among other things, that leverage levels in some transactions had approached those last seen in 2007. We take a look at the trends that emerged in this dramatic year and attempt to draw some tentative conclusions about what 2010 may bring.

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