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Massive Takeovers Return, Powered By Debt

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The megadeal is back and so is Wall Street's immense appetite for debt.

Paramount's hostile bid for Warner Bros. Discovery this week, the leveraged buyout of gaming company Electronic Arts earlier this year and other recent debt-laden transactions have all been possible thanks to an increase in lending by banks and even some private-credit funds.

Big-ticket mergers and acquisitions, or those valued at $10 billion or more, hit a record dollar amount this year, according to Dealogic. Much of the price tag on those deals gets paid for with debt.

Debt-heavy deals mean large paydays for shareholders but also more risks for bond investors when credit markets are showing signs of overexu-

berance. And would-be acquirers have more choices than ever: The corporate-bond, syndicated- loan and privatecredit markets are all whirring at the same time.

"These big, bolder bets are becoming more interesting, and people are willing to try them because of the financing that's available," said Matthew Toole, director of deals intelligence at London Stock Exchange Group.

Expectations that the Trump administration will be more accommodating to large tie-ups are also pumping the size of deals up to record levels. Paramount's offer for Warner included $54 billion in committed debt financing from Bank of America, Citigroup and the investment firm Apollo Global Management. Netflix's deal with Warner features $59 billion in debt, backed by Wells Fargo, BNP Paribas and HSBC.

Disclosure of the financings triggered a trading frenzy in Warner's bonds, with about $450 million changing hands on Monday after Paramount formally announced its hostile takeover plan, according to data from MarketAxess. Bond prices have dropped about 5% in December, largely because the Paramount bid relied more heavily on debt than analysts had expected, fund managers who own the debt said.

The debt load will likely escalate if the bidding war continues. That is particularly worrying because excessive borrowing played a big part in Warner's past financial troubles, the fund managers said.

It was formed in 2022 when AT&T spun out its WarnerMedia unit to merge with a smaller firm, Discovery, a deal that saddled the prevailing company with about $50 billion in debt. Warner worked to whittle down that debt load, cutting costs relentlessly and putting cash flow toward debt payments.

A merger with Paramount would strain its balance sheet again. But Paramount executives said Monday on a call announcing their hostile bid that they plan to turn the combined Warner-Paramount into an investment-grade company by finding billions in cost cuts. They expect Warner-Paramount's debt to become investment grade in two years.

Debt investors are quick to point out that deals rarely go according to plan, especially the scope of planned cost savings.

"In hindsight, media acquisitions have not gone that great," said Jawad Hussain, a director at S&P Global Ratings specializing in media and entertainment companies. S&P initially expected it would raise its rating of Warner when the Discovery deal was announced but ended up cutting it when the merged company failed to hit projections made at the time of the merger.

Warner picked Netflix's offer in part because of uncertainty about how solid Paramount's financing is, especially if debt markets seize up as they did in 2022, a person with knowledge of the deal said. While Paramount's bid relies on a broad coalition of lenders and equity partners— and the equity is backstopped by the family of billionaire Larry Ellison and private-equity firm RedBird Capital—Netflix can go it alone thanks to its piles of cash and investment-grade single-A credit rating, he said.

Wall Street banks have mostly avoided big debt deals since being stuck in 2022 with a series of hung deals, or loans they kept on their books rather than selling them to investors at a loss. The most notable? The $13 billion in borrowings for Elon Musk's leveraged buyout of Twitter. That debt sat on banks' balance sheets for over two years because of the social-media company's lagging performance (the last of the debt was sold by banks this year).

A group of investors including Saudi Arabia's Public Investment Fund and Silver Lake earlier this year unveiled the largest leveraged buyout ever, a roughly $55 billion take-private of Electronic Arts, the maker of videogames including "Madden NFL" and "the Sims." That deal included $20 billion in debt financing.

At Goldman Sachs's financial- services conference on Monday, bankers voiced confidence the deal machine will keep humming along—even, they said, the big ones that require a lot of financing. Clients are eager to get more scale, expand technology and offset tariff cost increases. Goldman's finance chief said the long-awaited private-equity deal boom might be starting, an area that relies heavily on debt.

Note

"I think for the most part there is general confidence and optimism," Navid Mahmoodzadegan, chief executive of investment bank Moelis, said at the New York conference. "My outlook for overall M&A activity is quite, quite good going into next year."

Note

Those 2026 buyouts are sure to add to a debt pile that is already high enough to leave some bond investors feeling queasy.

