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Unitranche volume grows while deal sizes get bigger

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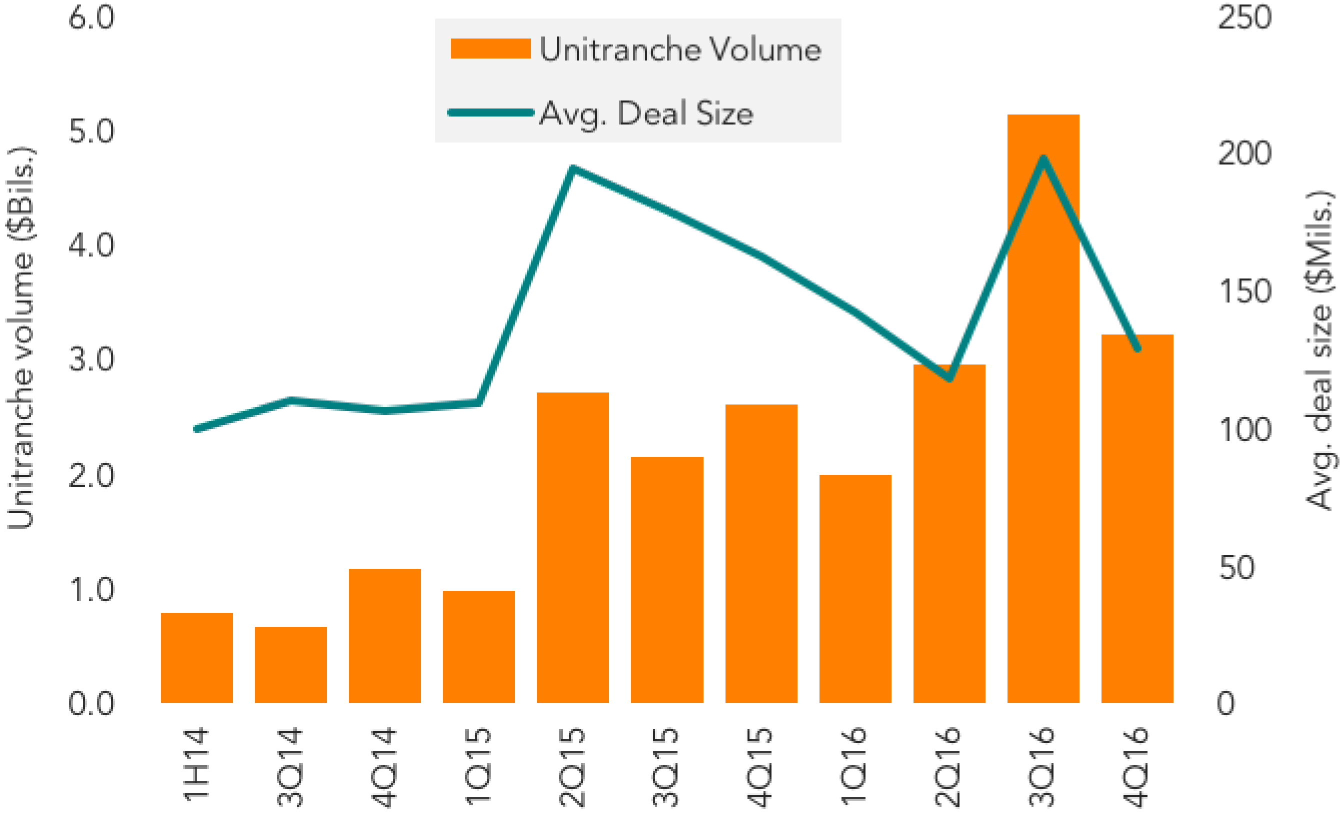

As money continues to pour into the middle market searching for yield, the unitranche structure continues to gain traction. Unitranche volume reached US$13.3bn in 2016, up from US$8.5bn in 2015. Bigger deals were seen in 2016 as more and more lenders continued to build scale and increase their hold size. The average deal size was $198M in 3Q16 and $129M in 4Q16. But 50% of unitranches continue to be in the $0-$100M deal size area. With more and more players offering the product and with second lien yields declinining in the second half of 2016, yields on unitranches contracted in 4Q16 to 8.38% from 8.74% in 3Q16. Spreads on select deals were as low as 575bps-600bps on a blended basis in 4Q16. Unitranche continues to be appealing to sponsors looking to acquire companies in situations where they want to minimize flex risk, execution risk and close swiftly. Since 2014, 70% of all unitranches tracked by LPC have been for M&A purposes while only 13% were for dividend recaps and only 18% were for corporate purposes/refinancings. With the institutional market very strong in 1Q17, time will tell if sponsors will continue to pay up for the unitranche structure this year or hit up the syndicated market instead to obtain lower pricing and looser structures.

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