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Middle market lenders struggling to find yield in 2Q17

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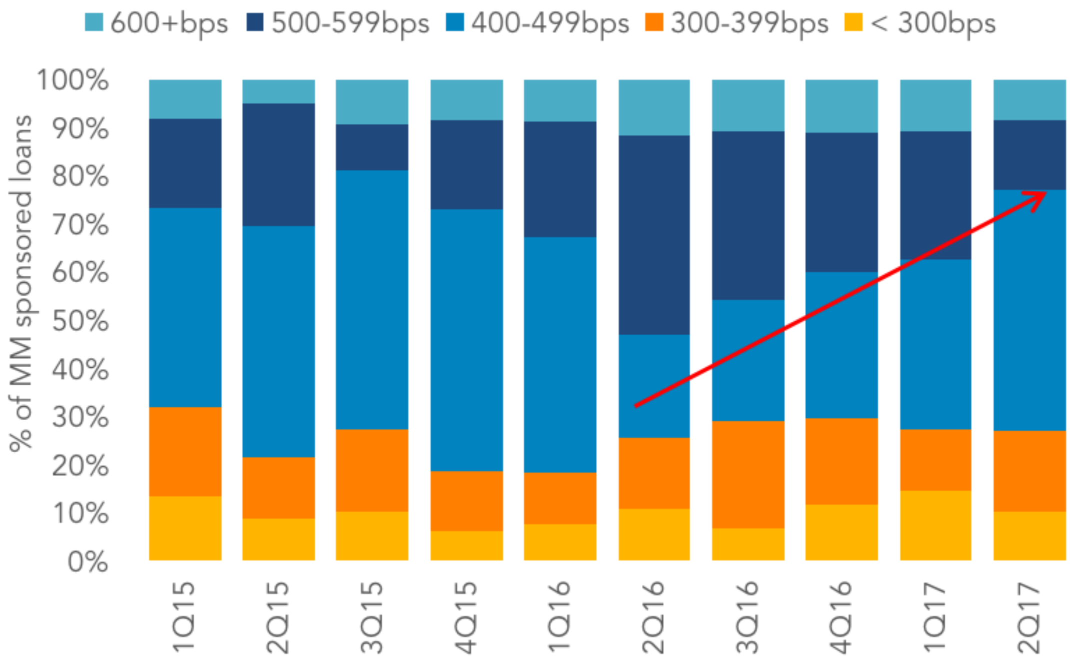

Middle market lenders with a minimum spread requirement of 500bp and above are most likely struggling to find assets in the syndicated loan market that meet their return requirements. So far in 2Q17, 77% of middle market sponsor-backed loans to hit the syndicated market have a spread south of 500bp. That share is up from 63% last quarter, 60% in 4Q16 and 47% back in 2Q16 when pricing peaked at lofty levels due to market volatility. With terms so issuer friendly, many companies are choosing to get rated and tap the institutional loan market to obtain low pricing and loose structures. Already 14 middle market issuers have hit the market exhibiting covenant lite structures totaling $3.8bn in volume in 2Q17. That is up from $2.4bn last quarter and the highest level tracked since 2Q15. This week CityMD tightened the spread on its $255M covenant-lite credit facility to 400bp from 450bp while also moving up the commitment deadline. The average spread on first lien term loans for middle market sponsored deals is 445bp so far this quarter, down from 453bp in 1Q17 and 468bp in 2Q16. Dividend recaps are also accelerating – yet another sign of strong demand and market conditions. This week Plasman Group announced a $325m dividend recap financing. Last week Alexander Mann closed a $305m dividend deal , although pricing was much richer at LIB+550bp.

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