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How Big is the Middle Market? (First of a Series)

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As great mysteries of life go, it's not quite in the same category as what's the universe made of, how does gravity work, or what ever happened to tan M&Ms. But for those who make it our career home, one of the most often-asked and vexing questions over the years has been, how big is the middle market?

It feels like something that should be answerable. As our *Chart of the Week* depicts, the outstanding total of all US leverage loans is well-established at around $925 billion. One would think it a simple matter to separate out smaller loans from that data set.

Unfortunately there are several hurdles. First, there's no consensus on what constitutes the middle market. As a loan conference veteran, we've witnessed midcap panelists each proffering different definitions.

The top loan research agencies themselves aren't in agreement. S&P LCD defines middle market issuance as borrowers with ebitda of $50 million or less. But because private equity sponsors are reluctant to publish borrowers' financial information, only a minority of companies can be accurately ranked.

Thomson Reuters LPC categorizes mid caps as borrowers with $500 million or less in revenues *and* facility size equal or less than $500 million. This makes tracking quarterly and annual issuance an easier matter. However, knowing how many loans come to market doesn't tell you how many of them are actually out there.

Another challenge is that, unlike the broadly syndicated loan market, middle market loans are mostly to private companies. They generally have unrated debt and small "clubby" lender groups that buy-and-hold rather than trade their loans. Visibility on new issuance and repayments is less certain than for the large cap market.

Finally, the burgeoning of new direct lenders in the private credit space has made accounting for all middle market loans tricky. Deep-pocketed arrangers can now take down an entire $250 million financing themselves. Non-syndicated deals may never make it into LCD News, LevFin Insights, or LPC Weekly.

To glean better insights into middle market outstandings we reached out to Fran Beyers, Thomson Reuters' middle market specialist.

"No one knows how big the middle market is," she told us in a recent interview. "We have data on BDC outstandings and MM CLO outstandings. That's it."

What about the universe of all loans? Can we extrapolate from that? "I don't think a lot of the middle market is in that $925 billion," she said. "That's just the LSTA Index. It includes mostly the larger institutional loans and second liens that get sold off to the larger buy-side firms."

Over the several weeks, we'll assemble some relevant facts towards a more accurate picture of just how many middle market loans are out there.