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Middle market covenant lite deals exhibit higher leverage than covenanted deals

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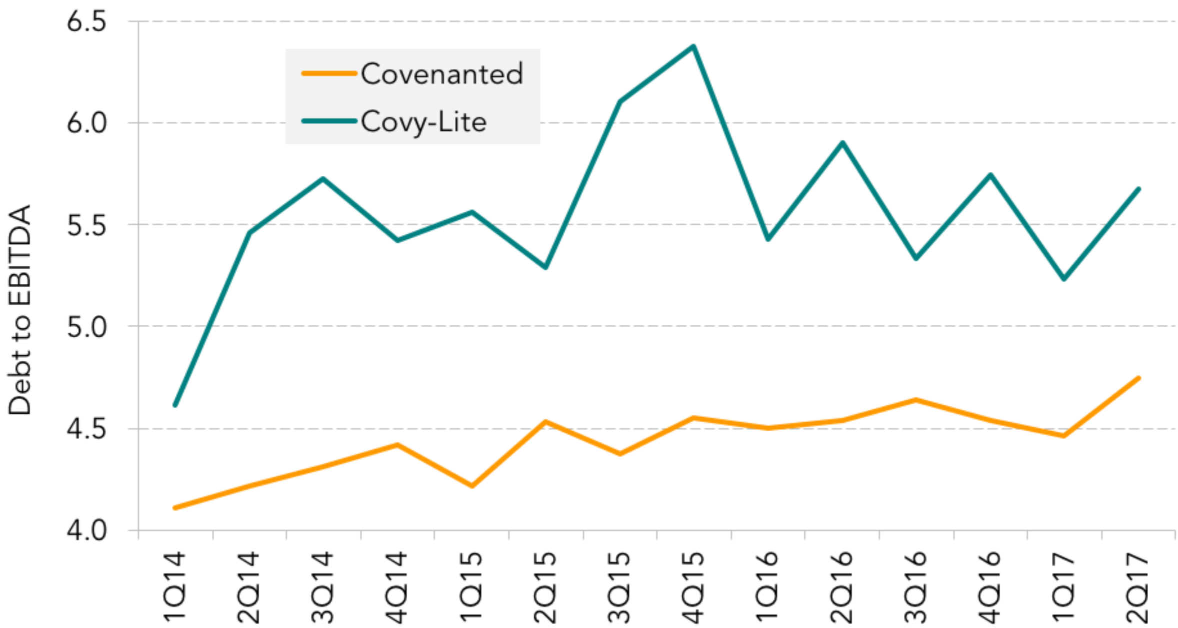

Private equity shops who are purchasing large middle market credits with EBITDA $40M and above have many choices on how to finance their deals. Those sponsors that choose the institutional loan market seem to get the most flexibility. Middle market covenant lite volume has already reached US$14.1bn year to date, on track to surpass the all time record high set in 2014 of US$18.3bn. Furthermore, these covenant-lite middle market credits are also exhibiting much higher leverage levels than their smaller, less liquid peers with covenants. The average leverage level in 2Q17 on middle market covenant lite deals reached 5.67 times in 2Q17 compared to only 4.75 times on covenanted deals. But to be fair, the covenant lite deals are twice the size with an average EBITDA of $60m in 2Q17 compared to covenanted deals which had an average EBITDA of $29m in 2Q17. So far in 3Q17, sources indicate leverage continues to be aggressive across the size spectrum. The average leverage level on institutional middle market deals (EBITDA $50m+)has risen to 5.16 / 6.07 times debt to EBITDA so far in 3Q17 compared to 4.72 / 5.43 times in 2Q17.

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