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Second lien issuance reaches $6.8B so far in 1Q18

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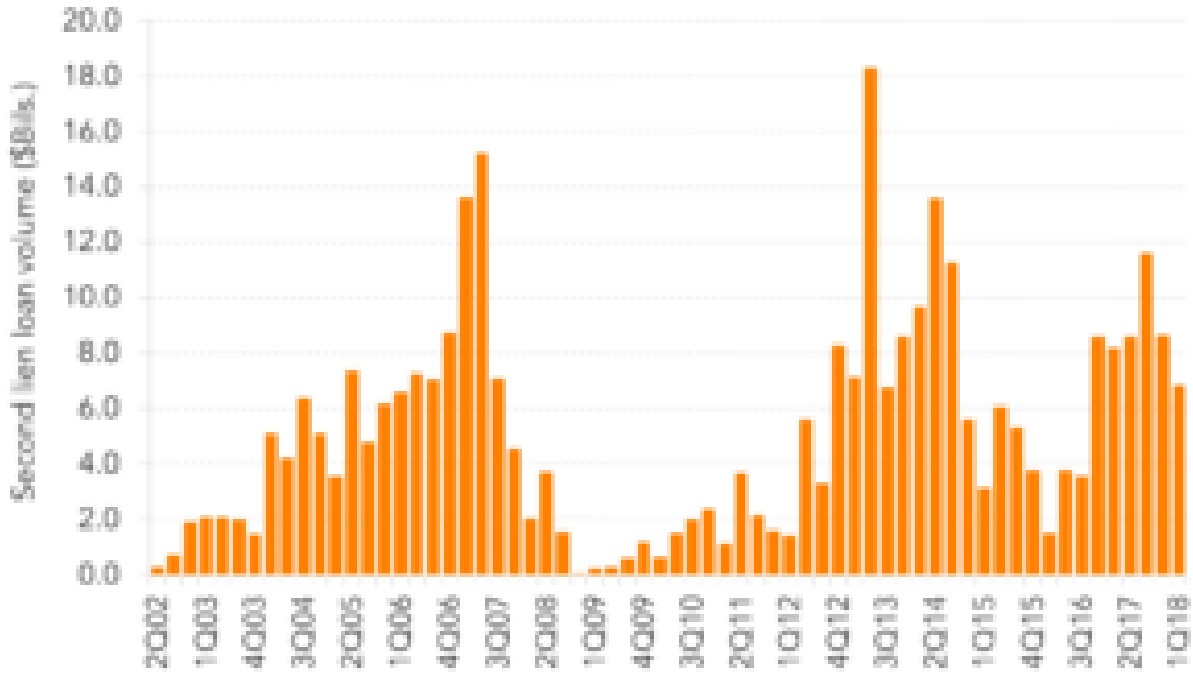

Syndicated and privately placed second lien loan volume has reached US$6.8bn so far in 1Q18, which is not too far behind 4Q17's volume of US$8.6bn. Issuers continue to rely on second lien facilities to maximize their leverage as 61% of the second liens tranches have been used to finance M&A this quarter. Investor demand for second lien remains very strong as many higher cost of capital providers rely on the junior debt to keep their portfolio yields up. Consequently, spreads have been on the decline due to the strong investor interest. The average spread on second lien facilities in 1Q18 has fallen to 729bp, down from 803bp in 2017 and 873bp in 2016. In fact, second lien spreads are at the lowest level since 2007. Despite the tighter spreads, rising Libor is motivating many issuers to take advantage of strong demand from first lien investors to maximize the first lien component and minimize the costlier second lien component in their deals. This is amplified by the new tax law limiting issuers' ability to fully deduct interest. For example, issuers such as Carlisle Foodservice, Wastequip, EaglePicher Technologies, RobertShaw Holdings, and Cyanco all upsized their first lien facilities and downsized their second lien facilities in their recent buyout financings following launch driven by the desire to minimize costs.

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