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Large EBITDA addbacks a feature of the leveraged loan market in 2018

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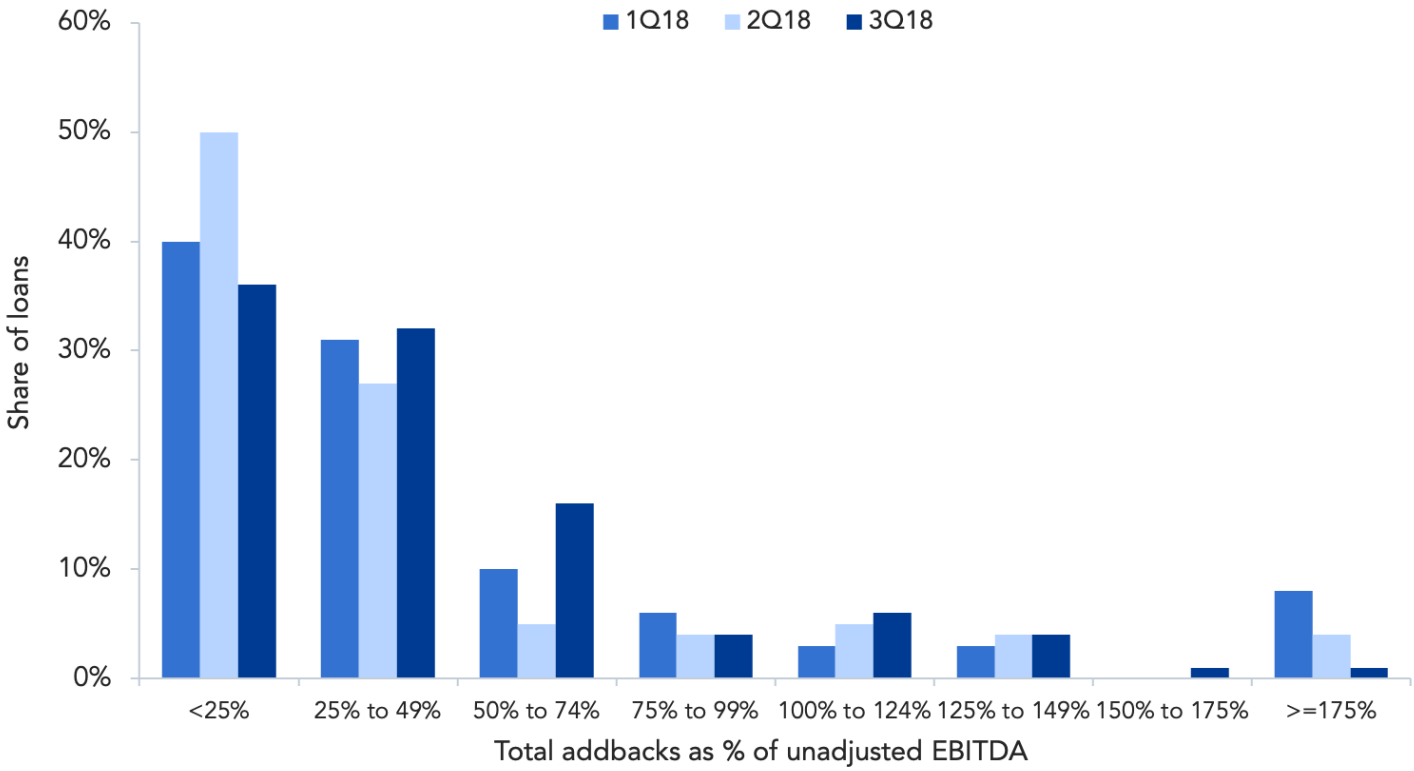

*Based on universe of loans for which Xtract Research received bank books

Source: Xtract Research

The deterioration in loan covenant protections has been well publicized this year, and another area that has drawn attention is EBITDA addbacks, which have gotten larger and more aggressive. Adjusted leverage levels have crept higher in 2018, with 30% of all deals and 53% of LBO deals levered 6x or more. However, larger EBITDA adjustments have pushed leverage even higher on an unadjusted basis. Looking at total addbacks as a percentage of unadjusted EBITDA, less than half of loans (42%) this year have an addback of under 25% of unadjusted EBITDA (based on the universe of deals for which Xtract Research received bank books). The 25%–49% addback category accounts for 30% of deals. That leaves 28% of loans having an adjustment above 50%, with a notable share of deals (13%) above the 100% adjustment mark. Given the size of the adjustments, lenders state they do their own due diligence to determine the addbacks and EBITDA assumptions they think best reflect the realities of individual credits.

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