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# Finding the Line: Senior Stretch vs. Unitranche (Second of Two Parts)

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Speaking of long flights [link], news reached us of an overweight passenger punished for traveling in the main cabin. Or more precisely, the passenger's owner was penalized.

Viktor, a 22-pound cat of uncertain breed, was smuggled aboard Aeroflot in Latvia heading to Vladivostok – an eight-hour trip. Knowing his pet was over-the-limit, Mikhail Galin swapped a trimmer feline for the weigh-in, then managed to sneak Viktor on.

When the switch was discovered, Mr. Galin was stripped of all his frequent flier miles. An outcry on Russian social media (*"Je suis Fat Cat"*) failed to move authorities. Said Viktor's sponsor, "My cat is not fat. He just has heavy bones."

Where to draw the line is also the topic of our look at senior stretch loans vs. unitranche. As we covered in our first installment, both leverage and loan-to-value become factors in determining a given financing identity. Among several reasons for this distinction, one is ascertaining what yield is appropriate for each tranche.

Historic spreads, of course, have varied depending on the competitive landscape and market cycle. Unitranche, it will be recalled [link], was created as a solution for a broken syndication market during the credit crisis. As a one-stop option, it blended senior and junior tranches into one. Back then there was a single dominant provider.

Today there are thirty or more significant unitranche suppliers. Both leverage and pricing reflect competition among arrangers, less relative yield to other instruments.

As our *Chart of the Week* highlights, first-lien/mezz was the third quarter's most expensive financing tool among private club lenders, according to Refinitiv LPC. Unitranche held that position, but has retreated in pricing since earlier in the year. This is because the one-stop is the most versatile form of leveraged financing. And today private equity buyers need flexibility and speed of execution more than ever.

So where is the market pricing senior, stretch, and unitranche? An informal survey of the direct lending crowd suggests senior to be in the Libor plus 475-500 bps range. Unitranche is around Libor plus 575 bps, which puts senior stretch at L+500-550 bps.

What about the L+550 unitranches out there? We've done one or two, admitted one top lender, but those are exceptions. The market is pushing back now.

Does nomenclature really matter? It's a matter of degree, certainly. Stretch a senior enough, and *voila!* – a unitranche.

Where it *does* matter is being called "senior," even stretch, carries the implication it should be priced and structured like a first-lien tranche. A unitranche should be priced and structured consistent with a first/second (or senior/sub) blend.

That’s not always happening. Unitranches are being applied to borrowers that just don’t deserve them – whether too small, too cyclical, or with a low purchase price multiple. A uni for a $12 million Ebitda pipe manufacturer? Now that’s a stretch.