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Spread differential between a unitranche and first-lien loan remains near all-time tights

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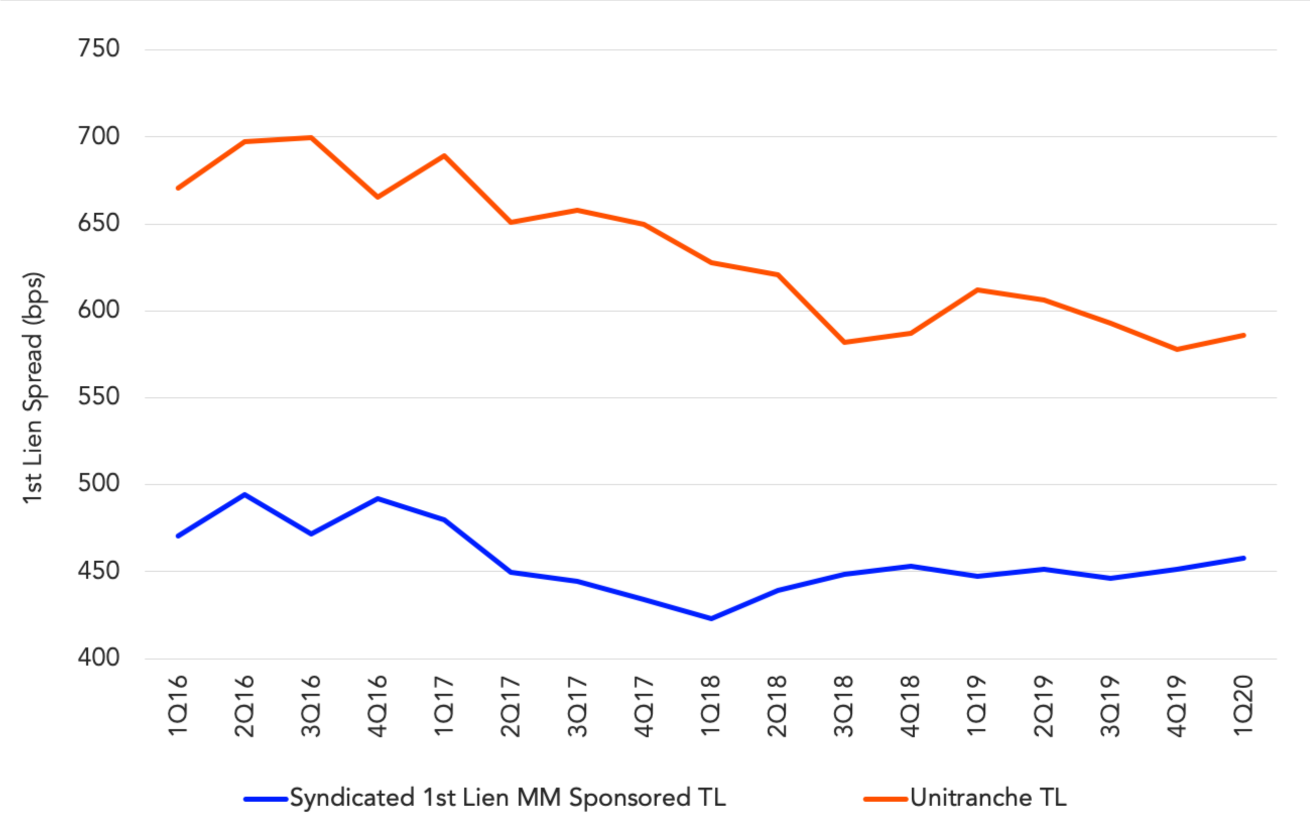

The middle market sponsored loan arena has kicked off 2020 with a slow start in the syndicated loan market. Refinitiv LPC has only tracked about US$2bn in volume, which trails this time last year of US$3.7bn by 46%. The average first-lien spread on sponsor-backed deals syndicated so far is 458bp, slightly higher than the 451bp tracked in 4Q19. However, 450bp continues to be the mode and median spread this quarter, unchanged from 2019 levels. A fair amount of unitranches have gotten done already in 2020. Unitranche term loans are also exhibiting an average spread slightly higher at 586bp in 1Q20, up from a low of 578bp in 4Q19, but still below the 593bp tracked in 3Q19. The spread differential between a unitranche term loan and a syndicated first-lien term loan remains near all-time tights at 127bp. Mega-tranches continue to surface with Golub announcing a US$1.6bn financing for MRI Software this week which sources indicate is priced at LIB+550. Meanwhile, KKR financed a US$650m unitranche for Clearlake Capital’s buyout of GS Pretium Holdings priced at LIB+625. Sponsors continue to run dual processes where they heavily analyze both a syndicated and unitranche execution simulatenously and assess which execution is more favorable. The share of B3-rated LBO loans to hit the market so far in 1Q20 remains quite low at only 21% vs. 75% in 1Q19.