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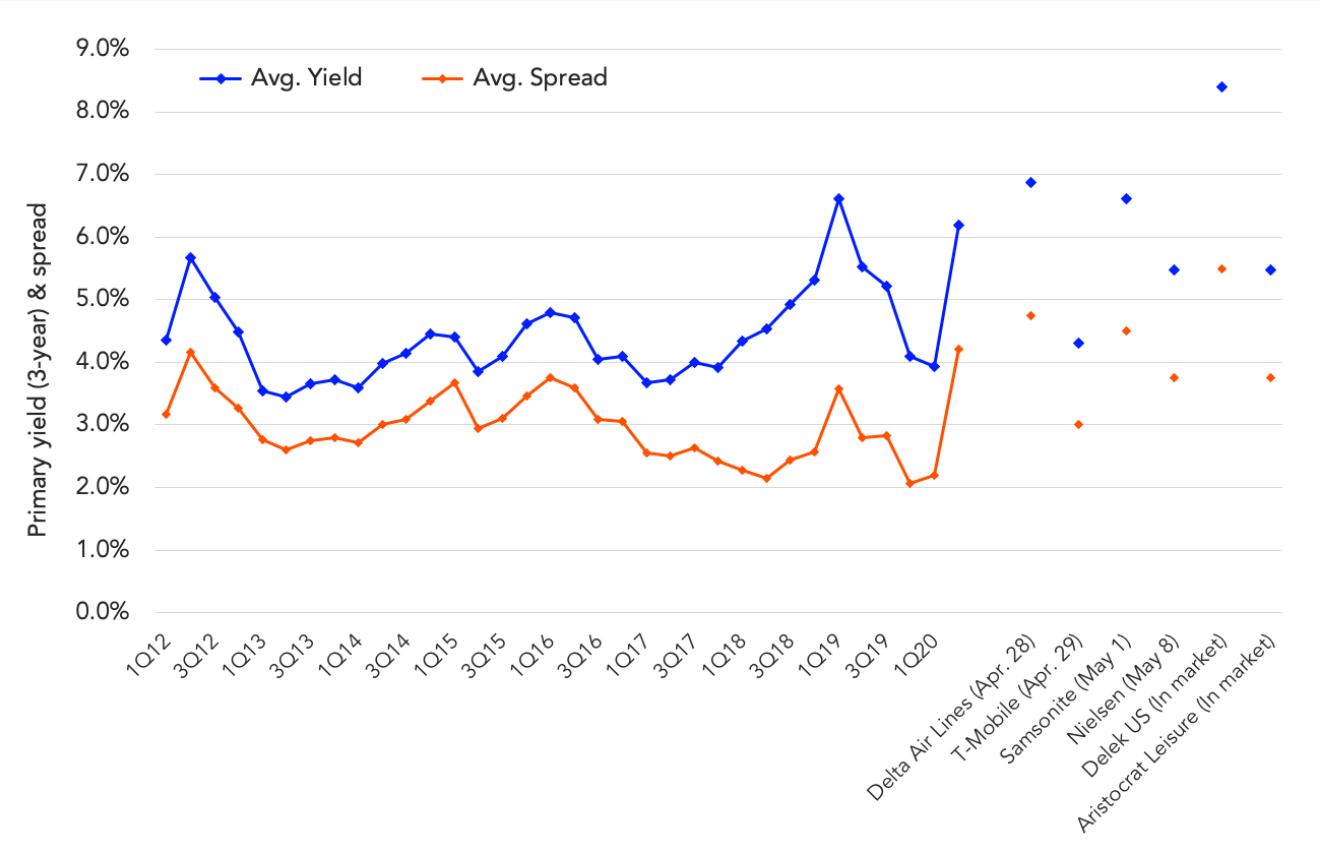
Pricing, OIDs also widen for double B issuers in today's market

LSEG | May 14, 2020



Pricing for double-B rated issuers has widened significantly this quarter. The average yield, assuming a three-year term to repayment, on first-lien institutional term loans for BB rated issuers is 6.19% so far this quarter, up from a much lower average of 3.94% in 1Q20. Spreads are up to 4.21% from 1Q20's average of 2.19%. Not only are spreads wider, but investors are also asking for wider upfront fees. Original issue discounts for deals for BB rated issuers that have hit the market this quarter have ranged from 95-98.5. In 1Q20, all first lien institutional term loans for double-B rated issuers were done at 99 or above. Investors are being very receptive to these issuers. For CLOs, which face limits on their CCC baskets, adding higher-rated deals is a way to diversify away from single-B rated loan holdings that face the risk of being downgraded to CCC. And some issuers have benefited. This week, Aristocrat Leisure (Ba1/BB+) upsized its incremental term loan by US$150m to US$500m. Pricing was also tightened to 375bp over Libor with a 1% floor and a 98 original issue discount from initial pricing of 400bp over Libor with a 1% floor and a 97 OID.