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MM Sponsored dealflow pipeline expected to remain anemic through summer

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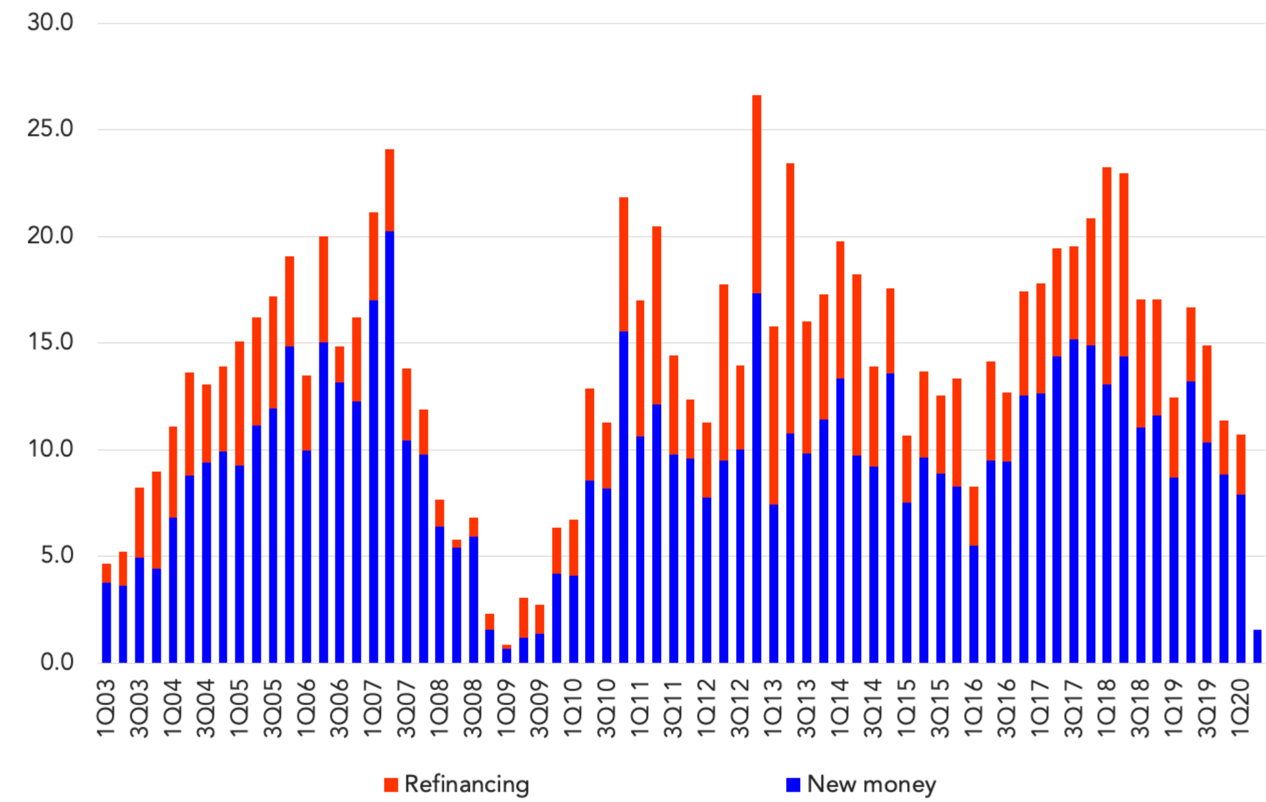

Middle market syndicated loan issuance remains extremely thin for sponsor-backed deals so far in 2Q20. Volume has only reached about US$1.6bn so far in 2Q20 with zero opportunistic flow such as refinancings or dividend recaps. Anecdotally, lenders indicate that the M&A pipeline is extremely thin and is likely to stay that way through the end of summer. Sponsors' ability to conduct due diligence remains quite challenging amid COVID shutdowns, so most sponsors have to focus on revisiting deals they analyzed previously where they have deep knowledge of the business from earlier diligence. Lenders remain skeptical of deals in auction given this enviornment is not ideal for obtaining lucrative purchase price multiples. Meanwhile, lenders and sponsors entertaining deals today are pushing out close dates to beyond 2Q20 to ensure that financial performance does not deteriorate over the next few months. There are still big concerns about issuers missing P&I payments in June and having to push throught a vast amount of amendments late in the quarter, so lenders are being highly selective with capital when it comes to new deals. Hold levels have come down drastically and the ability to underwrite has been hampered with a return of club deals more likely over the next 1-2 quarters.