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Middle market cov-lite volume reaches highest level since 4Q19

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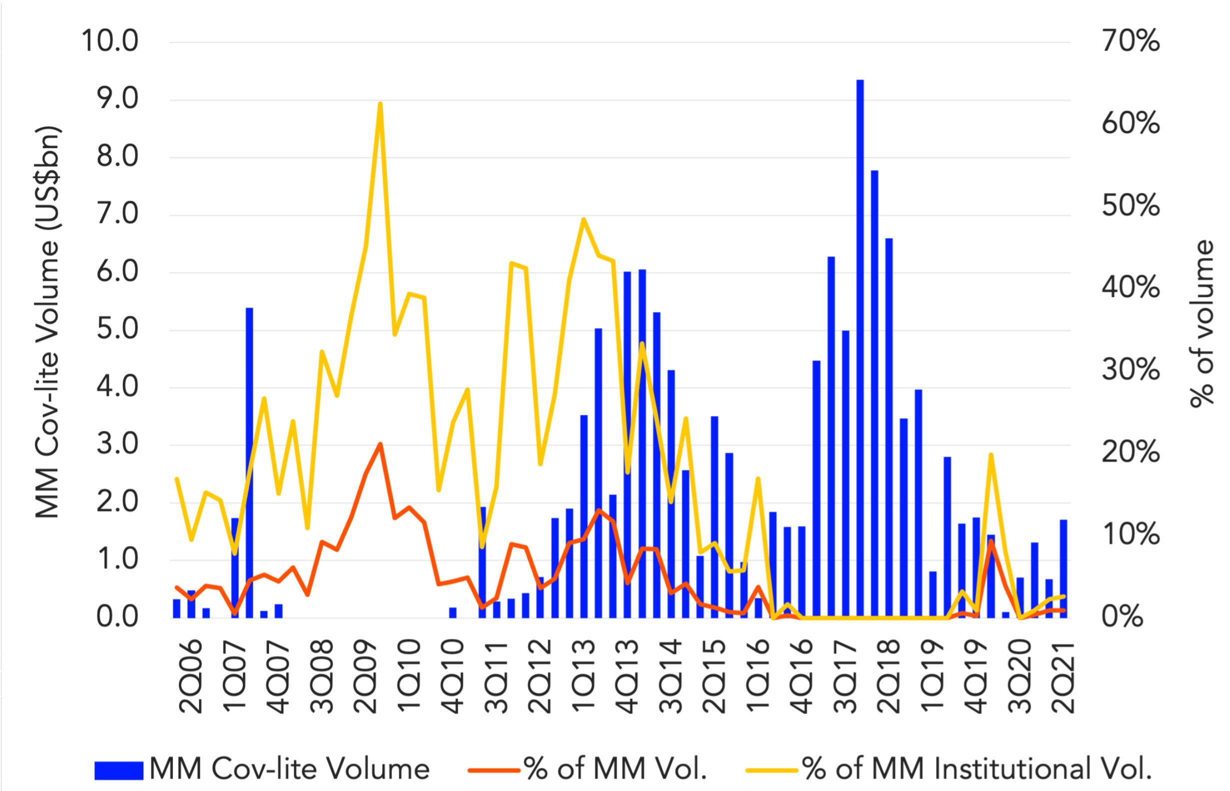

Middle market covenant-lite volume was tracked at US$1.71bn in 2Q21, the highest level since 4Q19's mark of US$1.75bn. Totals represented a 155% increase over the $670m tracked in 1Q21. The jump comes as the middle market lending arena remains ultra-competitive, characterized by lower pricing, higher leverage thresholds, and looser documentation in 1H21.

MM cov-lite issuance represented 3.7% of overall middle market volume, and 16.87% of institutional middle market volume in 2Q21. Overall, covenant-lite structures have been trending downward after hitting a US$9.35bn high in 4Q17.

According to Refinitiv 3Q21 Lender Outlook Survey, lenders are seeing a meaningful uptick in cov-lite structures among unitranches and smaller deals in the middle market. Survey results indicated that almost a third of MM lenders will provide covenant lite deals to issuers with less than $40m EBITDA, with 11% going below $20m; three years ago, no lenders said they would go below the $40m threshold.