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Survey Says

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If you want to know what middle debt investors are thinking, why not ask them?

This novel concept was rolled out simultaneously last week by two experienced middle market practitioners in the form of questionnaires. We thought it would be instructive to give you a sense of what the respondents had to say.

The first came from our friends at Lincoln International. In their Annual Financing Markets survey, this top-tier middle market investment bank asked debt providers their expectations related to pricing, terms, and trends for the coming year.

Top of the list was deal volume: how was last year's activity level, and what are you looking for this year? Roughly two-thirds of firms said 2015 was a better year than 2014, and about 60% expected 2016 to be better than last year.

Structures are also projected to be buy-side friendly with about 95% of lenders forecasting lower or no-higher senior leverage this year. A similar sentiment was expressed for total leverage, with only 10% calling for higher leverage.

Then they looked at pricing. Again, a vast majority voted for senior debt spreads to be at or greater in the coming year than they were for 2015. About the same share of buyers said unitranche pricing would be better or at least no worse than last year.

Do you think the amount of capital in the market is sufficient? Firms were split roughly evenly, with 55% saying there was too much and 44% saying it was just right. (We'd like to meet the 1% who said there wasn't enough.)

There was also good news on the portfolio performance front. Almost 70% of voters said their borrowers would perform the same or better than last year.

Finally, middle market players were asked what strategies they would employ this year to stay competitive. More than one-third were looking to add new debt products with slightly less than one-third wanting to figure out ways to boost their hold levels.

The second poll last week came from a highly respected middle market senior debt fund. This firm regularly reaches out to its friends for insights on current market conditions. Thirty lenders provided their views on pricing. For first-lien term loans, for example, the spread range was L+475-525 bps. That coincides with our views that mid-cap yields have widened anywhere from 25-100 bps since last August.

Nevertheless, it emerged from lender comments, those yields continue to march to their own drum relative to volatility-induced spreads gapping in the broadly syndicated market. And pricing for the "have nots" is significantly higher than the average. Lastly, the better the sponsor, the better the pricing and terms.

Next week we begin a new series on European private debt.