Lead Left Interview – Fran Beyers (Part 2)

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This week we continue our conversation with Fran Beyers, Senior Market Analyst at Thomson Reuters LPC. Thomson Reuters LPC has been a leading provider of loan market news, data and analysis for over 30 years. Fran has been with LPC since 2009 providing analysis and market commentary on the middle market. ***Second of two parts – View part one***

The Lead Left: Does that include junior capital?

Fran Beyers: Yes. Over the past year we've tracked about $3.3 billion in mezzanine issuance and $4.3 billion in middle market second lien volume. That's pretty sizeable when you consider that syndicated second lien volume has diminished greatly over the last few quarters.

The collection of these deals opened my eyes to how big and vast the middle market is. I don't think anyone really has a good handle on its sheer size.

TLL: What trends can you tell us about right now? What is most interesting to you?

FB: If you chat with folks in the syndicated market they would characterize 2016 as being an LBO drought. But there are a number of middle market LBO financings happening under the radar! Based on public deals tracked by LPC in 2Q16, middle market buyouts were only $3.45 billion in 2Q16. But, LPC captured $7.8 billion in LBO financings via the private/club market in 2Q, which is double the level!

TLL: That mirrors our sense of the activity level as well. What about purchase price multiples?

FB: I was surprised by the multiples on very small LBO deals. While everyone sees inflated multiples across the market, previous years showed some level of tiering based on issuer size. But in 2Q16, deals with EBITDA less than $20 million were averaging similar multiples to deals with EBITDA greater than $20 million in the 9.5-10x area. In the same quarter last year (2Q15) the smaller deals were being bought at around 1.0-1.5x less than larger middle market deals.

TTL: We hear how unitranches are gaining in popularity. Does the data bear that out?

FB: Yes! As volatility has picked up over the last year and as direct lending platforms continue to raise money, the data does show that the share of unitranche has grown.

Even during periods of calm in the market, sponsors are now gravitating to unitranche structures on LBO deals, where deeper leverage and certainty of execution is key to winning deals. Given the sizeable growth in this market, LPC will be launching the market's first ever unitranche league table in 2017.

TLL: We look forward to seeing that. Fran, can you give us an idea of the type of lenders who submit data? How many banks are in the cohort? Are you continuing to add names?

FB: We are constantly adding lenders! Contributors include regional and commercial banks, finance companies, diversified asset managers, direct lenders that raise institutional money, BDCs and even mezzanine shops. That's a very diverse dataset representing a broad range of constituencies with varying costs of capital across the middle market. Regulated entities submit about 30-40% of the deals while 60-70% comes from non-regulated lenders. As more institutions come in, we have gotten closer to our ultimate goal: to provide a true middle market loan volume figure and a comprehensive market analysis, regardless of whether a loan is syndicated or held entirely by one lender.

TLL: What's your view of new entrants like Owl Rock, PSP, and Adams Street? Are the type of financings they're entertaining consistent with what the traditional lenders are doing?

FB: I believe this cycle could go down as being one of the best for raising money in the middle market. LPC has already tracked $23 billion in capital raised for U.S. middle market lending year to date and this comes on the heels of $23 billion of capital inflows just last year. Pension funds, family offices, insurance companies have all been very open and receptive to new middle market platforms in their great quest for yield. However, not just anyone can raise a new platform. It has been the new entrants with excellent track records in their prior life that are having the most success in raising money. But what is also apparent is that the bulk of the money being raised in this cycle is chasing a higher yield. Higher octane players really need to have the expertise to invest up and down the capital structure in order to hit their yield benchmark. Hold size is also extremely paramount for success in this supply constrained market. The lenders that are able to raise more money and increase their hold size have more flexibility in winning the better quality deals.

TLL: Tell our readers what type of information you're asking for.

FB: We are tracking the necessary fields to allow us to provide a market analysis around new issue terms in the middle market. To give you a flavor, some of the analysis we produce includes yields up and down the capital structure based on different tranche and lender types, leverage levels and purchase price multiples based on issuer size or by industry. And we produce a lot of analysis that shows how both pricing and structures are more enticing compared to the larger institutional market.

TLL: What about default and loss data. Are there any plans to track that? Everyone's looking for that type of information.

FB: If I received a dollar every time someone asked me for middle market default and recovery data, I would be retired already. Because the investor base in the middle market is so diverse and data is so private, this is an extremely difficult metric to track. There are some segments of the market where default data is available like in middle market CLOs (LPC Collateral), rated institutional middle market deals (rating agencies), BDC holdings (SEC filings), etc. While we are not tracking that information currently with the private deal data, it is certainly on our radar and something we are open to capturing in the future.

TLL: Ok, Fran, so how does one subscribe to this analysis?

FB: For those folks that are interested in becoming a client of LPC and subscribing to this analysis going forward, they can contact me at frances.beyers@tr.com

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