Unitranche spreads continue to decline amid intense competiton in the middle market

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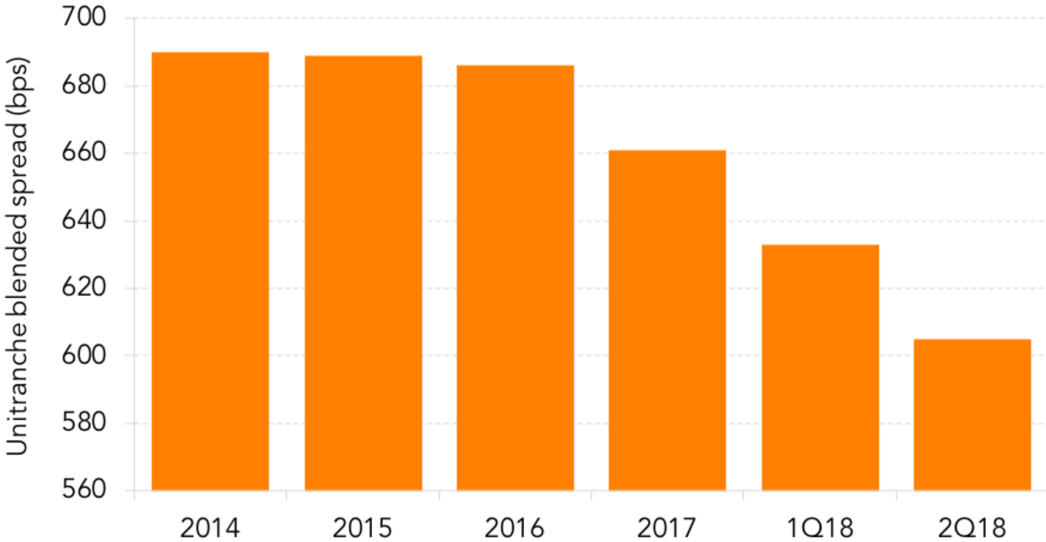

Even though the leveraged loan market has seen some modest investor pushback on pricing and terms due to a voluminous supply market, the middle market remains insulated and heated. Lenders indicate no pushback is evident on smaller deals as the middle market remains flush with capital and asset managers are anxious to put money to work to stay invested. Fundraising in the middle market has already reached $30B with another $14.3B still in the pipeline and slated to close near term. With many of these managers promising investors yields in the 7-10% range in the first lien category, the unitranche market becomes ever more important to put money to work in senior paper at the right yield threshold. But with stiff competition from the institutional market, unitranche lenders have had to concede on price. The average blended spread on unitranche facilities has fallen to a new low of 605bps in 2Q18, down from 633bps in 1Q18 and down from 661bps in 2017. However, 2Q18 dataset is limited until LPC collects all the private deals throughout July. Based on a recent lender survey, one third of middle market lenders indicated the spread floor on unitranche pricing was 525bps with another third saying 550bps. So it is clear that unitranche pricing is getting squeezed driven by lenders' need to put excess capital to work in big check sizes. LPC tracked about 17 unitranche deals for league table purposes this past quarter totaling $2.6B in volume, however more unitranches will be tracked once private data submissions roll in. While the bulk of unitranches remain under the $200M deal size, a few big deals closed this quarter including Owl Rock's $445M unitranche financing for TransPerfect Global, Ares and Varagon's upsized commitment to PCM BMark at L+525bps bringing the total deal size to $390M. Golub and Antares also lent incremental capital to MRI Software at L+550bps bringing the issuer's total deal size up to $634M.

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