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Unitranche volume exploded in 2Q18

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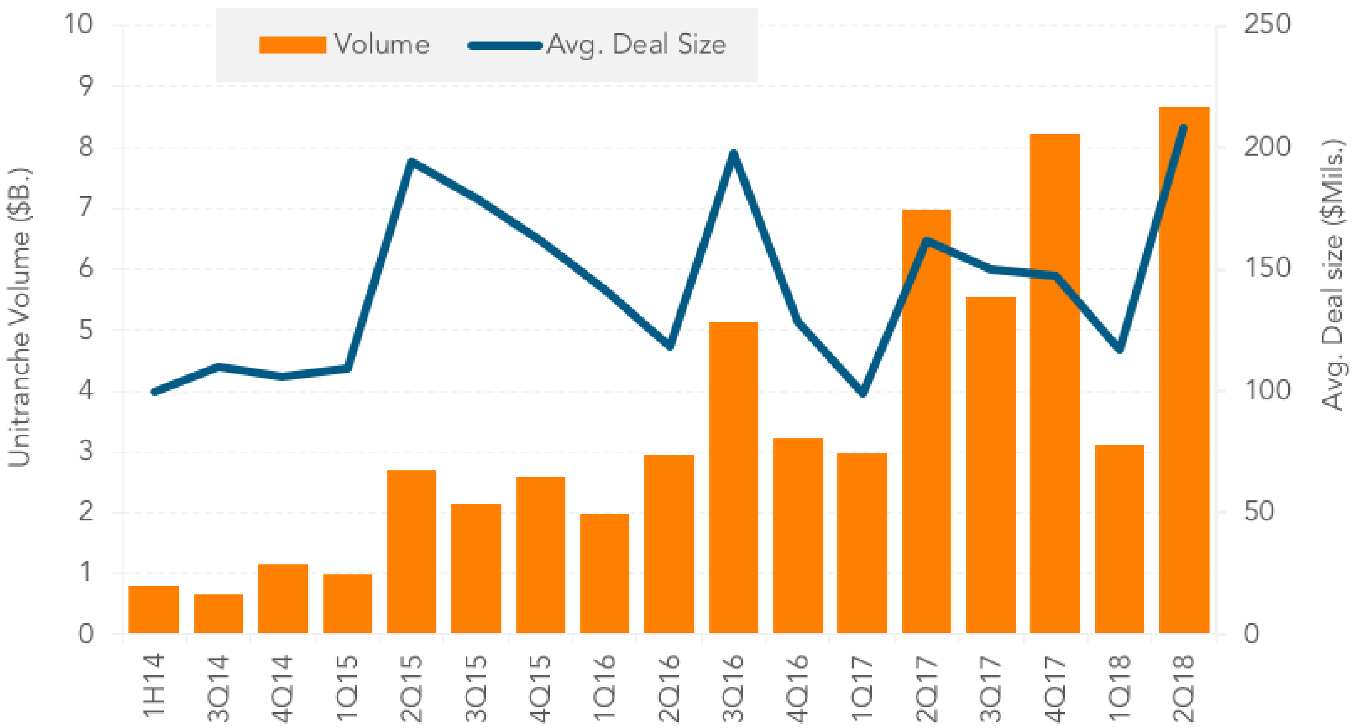

Unitranche volume hit a new high in 2Q18 since LPC began tracking this facility. 2Q18 issuance exploded to $8.67bn, up a whopping 178% from 1Q18's low levels. Middle market lenders financed bigger deals in 2Q18 which also was a contributor to the pick up in unitranche volume. The average deal size jumped to $208m in 2Q18, up from just $117m in 1Q18. Roughly 48% of volume was raised to finance LBOs, 27% for add-on acquisitions, 3% for dividend recaps and 21% for refinancings/corporate purpose type transactions in 2Q18. A big driver to the pick up in activity was the decline in spreads in this market segment driven by an abundance of capital. The average spread on unitranche facilities fell to only 605bp in 2Q18, down from 633bp in 1Q18 and 661bp in 2017. Over half of the unitranches closed in 2Q18 had a spread in the 500-599bp range, the lowest on record. Leverage on the unitranche structure continued to be elevated at 5.32 times on average in 2Q18 with an average EBITDA of around $36m. Tighter spreads coupled with certainty of execution have unitranches a more popular choice and middle market second liens lost a bit of momentum in 2Q18 dropping for the second consecutive quarter. However, for sponsors looking for the most leverage on middle market deals, the first lien second lien structure is still the most aggressive option with leverage averaging 4.3x by 5.8x in 2Q18.

Contact: Fran Beyers
frances.beyers@thomsonreuters.com