MM sponsored spreads not yet showing impact of leveraged loan volatility

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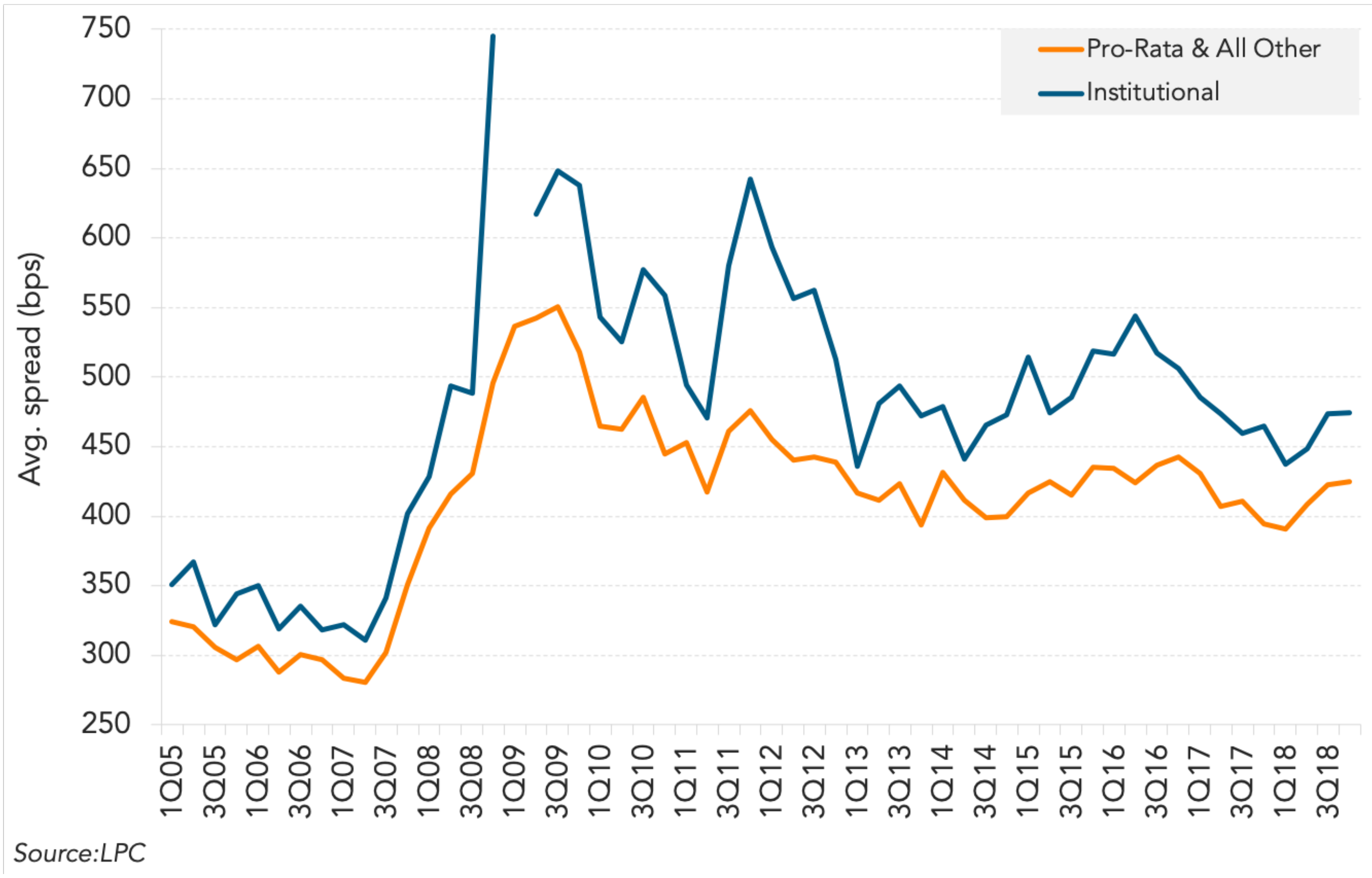

Whenever volatility and investor pushback strikes the leveraged loan market, it always takes time for those effects to move down into the less liquid middle market. The average bid on the 100 most liquid loans has been grinding down for most of November, hitting 97.5 this week down from 98.35 at the beginning of month. And this week several deals struggled in the leveraged loan market including Perimeter Solutions which pulled its repricing and Jason Inc. which postponed its amendment. But in middle market land, no material increase in pricing is evident yet. The average spread on first lien institutional middle market loans is 474bps so far in 4Q18, roughly in line with the 473bps tracked last quarter. And 475bps remains the “median” and the “mode” for new middle market sponsor-backed deals syndicated this quarter. “The middle market remains so flush with capital that we are unlikely to see spreads move materially wider” said a source . BNP came out with a $150M buyout deal for Kleinfelder which has price guidance on the first lien loan at 475bps with a 99 OID and 875bps on the second lien loan with a 98 OID. However, BNP and Societe Generale launched a $140M LBO financing for Active Minerals this week with slightly higher price guidance at 500-525bps. Safe Fleet, although slightly big for middle market given its $582M in debt outstanding, did widen pricing slightly on its $65M term loan this week to LIB+375bps while widening the discount to 97-97.5 from 98.6. Furthermore, Goldman Sachs, Citizens and MidCap are leading a $395M buyout loan for Elo Touch Solutions which is priced at a whopping 650bp over Libor with an OID in the 97-98 area. This is higher than the 600bps over Libor that the issuer obtained on its $170M dividend recap loan back in October 2017.

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