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New money lending for MM sponsored deals drops for third quarter

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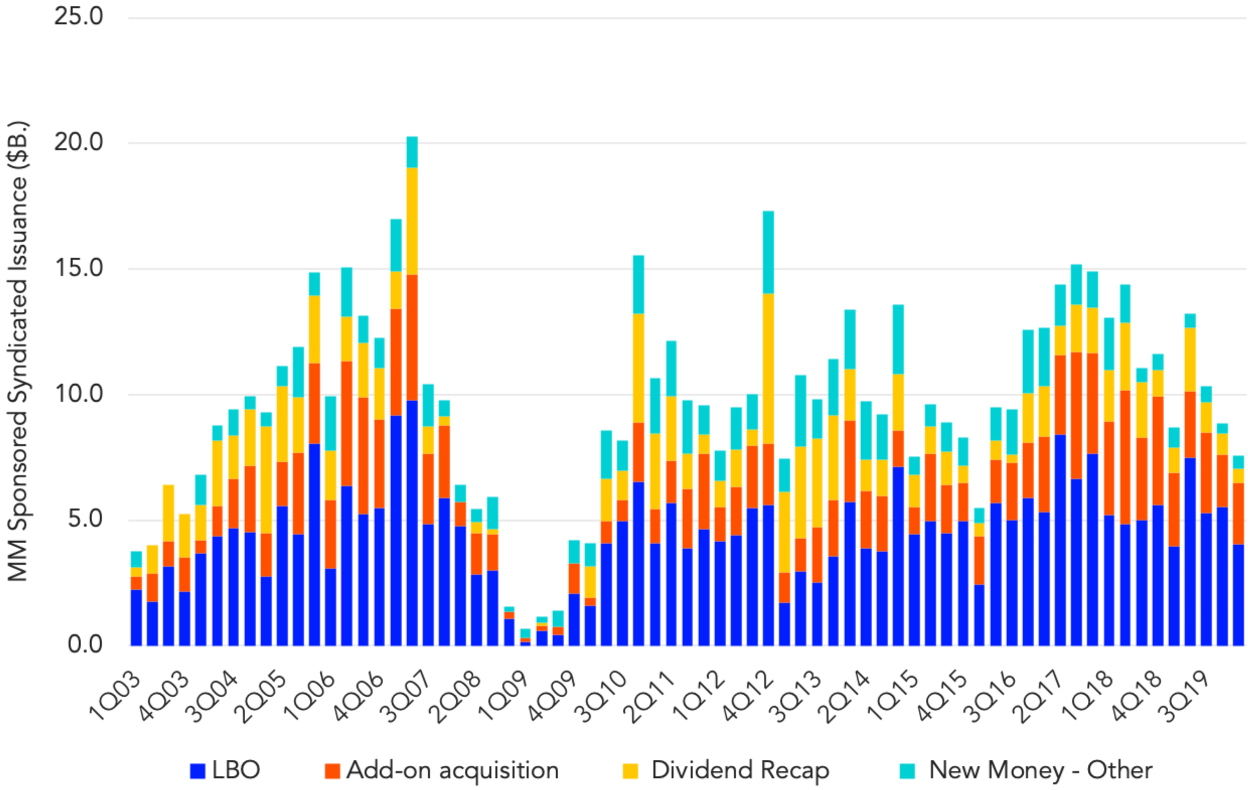

New money lending in the syndicated loan market backing middle market sponsored deals fell for the third consecutive quarter in 1Q20. Issuance only reached US$7.6bn, down 15% from 4Q19 levels and down 13% year-over-year. New deal momentum was off to a slow start in January driven by a B3 investor hangover but started to pick up momentum in February as investors searched for yield. But then COVID-19 volatility derailed activity meaningfully in March. While the direct lending market was certainly more active than the syndicated market, it too had a relatively slower quarter. Lenders estimate that 2Q20 volume will likely be pretty dire across both the syndicated and direct lending market for middle market PE backed deals. Lenders have hiked pricing dramatically on sponsors with sources saying they are asking for first lien loans over 600bps while unitranche loans at a minimum should be 700bps+. Meanwhile, getting a brand-new LBO deal executed is extremely challenging given things like uncertainty with regards to projections and being able to accurately underwrite in this uncertain environment. Meanwhile, add-on acquisitions will also struggle due to add-on facilities blowing through MFN provisions on existing tranches and the difficulty of getting everyone in the bank group to comply and agree on terms. Meanwhile dividend recaps are completely off the table which means new money lending in 2Q20 will likely be the lowest quarter of issuance tracked post credit crisis and seen since

2009.