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January volume soars on LBOs; Unitranche to feel broader pricing pressures

KBRA DLD | February 11, 2021

Chat I

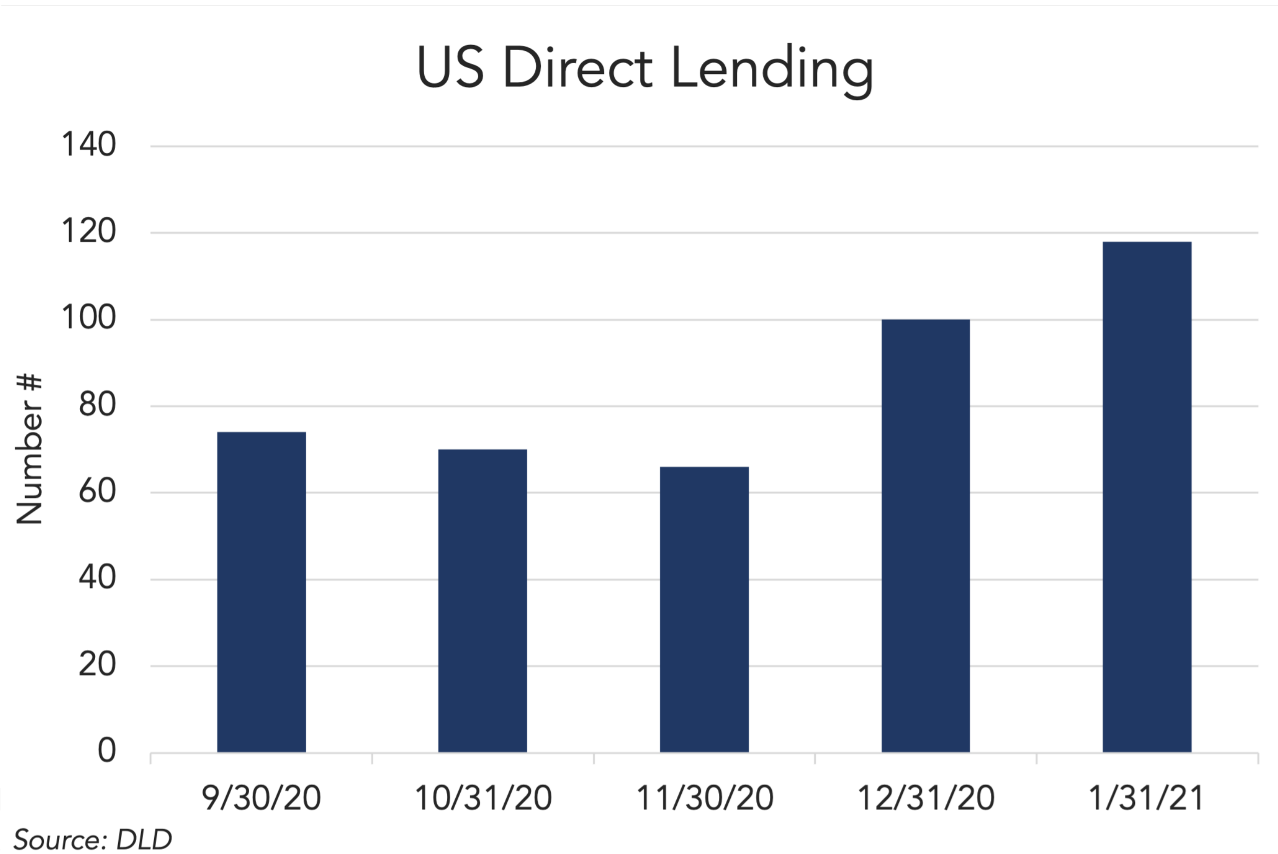
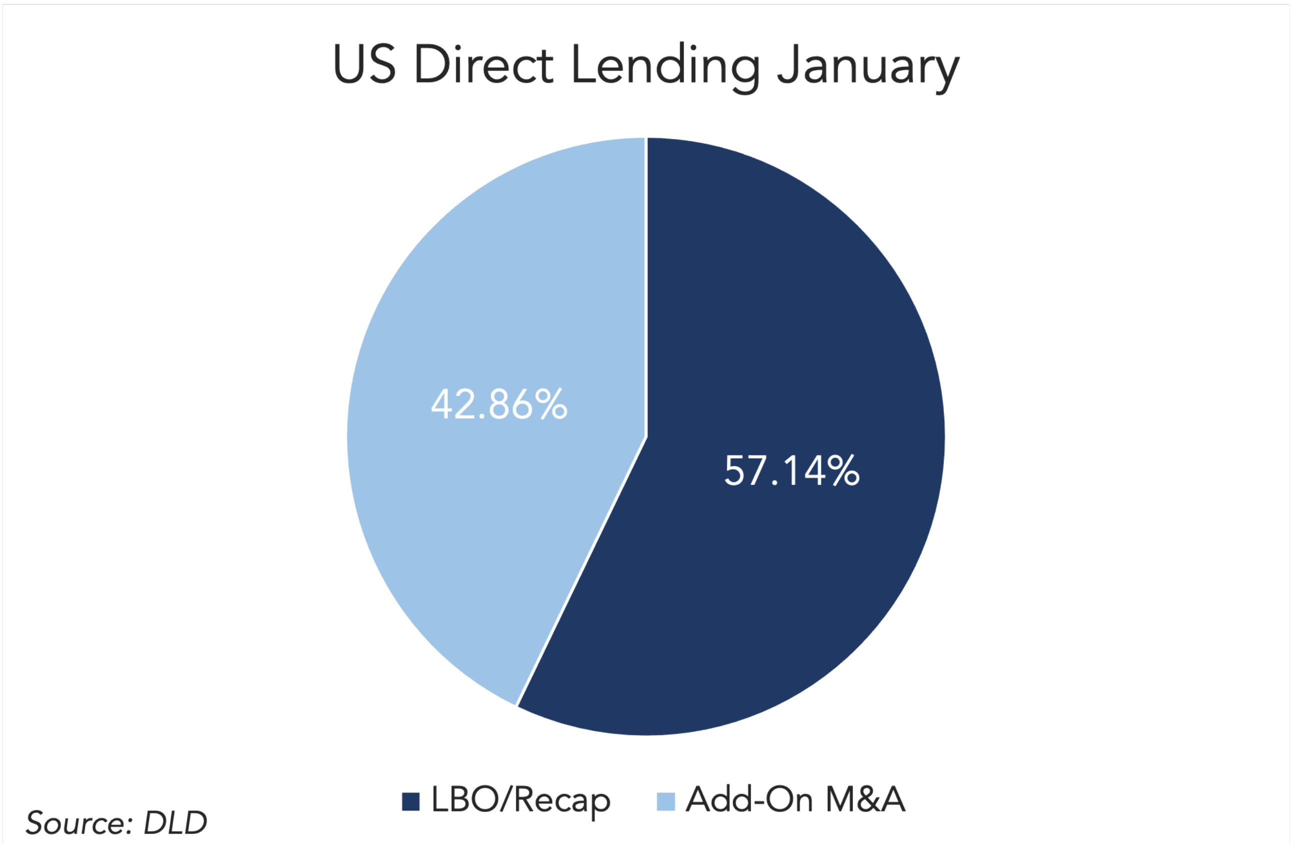


Chart II



January's direct lending tally set a new high, up from the previous record in December. Momentum from the fourth quarter's catch up rally continued to spill into the New Year, however deal flow has since decelerated to normal this month.

(See Chart I)

LBO proceeds surged for the third consecutive month to 57%, up from 48% in December. January LBO financing also took the second highest share since DLD launched in the fall of 2019. The DLD high is a pre-Covid 59% in February 2020.

(See Chart II)

Downward pricing trends in first- and second-lien syndicated debt last month will affect large unitranche financing in two ways: 1) Unitranche spreads will feel pressure to drop; 2) but the narrowing premium for certainty of close will appeal to sponsors.

There is big demand for large unitranche credits priced between L+600 and L+650, market players say. At those price points, casual estimates across DLD readers put the range at $2 billion to $3 billion for a new deal. There's simply nowhere else to find similar returns for senior secured paper, and there's now a larger pool of lenders that can hold $400M+.

Harvest Partners closed a $625 million unitranche for software company **Granicus** in late December that was anchored by two big tickets at L+650, according to sources. Had the financing arrived last week, pricing might have been tighter, they said.