Jumbo outstandings climb to $118B with Cotiviti's new record deal

KBRA DLD | March 9, 2023

Chart 1

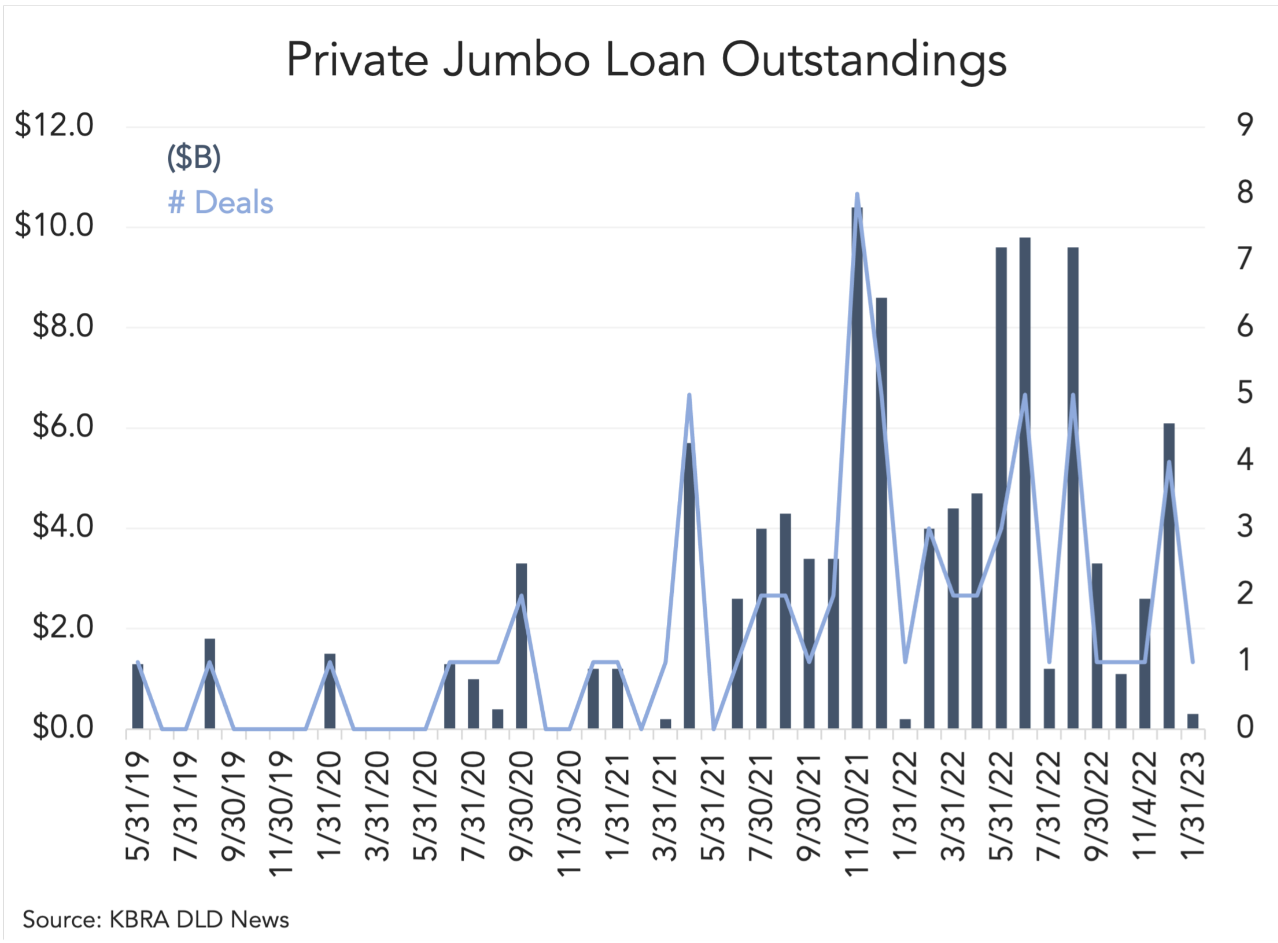

Table 1

Private Jumbo Loans

Year	Avg Spread	Vol ($B)	# Borrowers	Avg Size ($B)
2021	586	43.6	27	$1.6
2022	604	55.3	27	$2.0

Source: KBRA DLD News

Cotiviti's $5.5 billion credit raises outstanding jumbo loan volume to $118 billion, as tracked by *KBRA DLD*. That figure includes incremental debt for existing jumbo issuers, defined as those with private loans of $1 billion or greater. The number of known companies with outstanding jumbo credits totals 55, for an average deal size of $2.1 billion per borrower, according to *KBRA DLD*.

Chart 1

Cotiviti is a watershed deal for the market: 1) it's a new record for private financing, topping **Zendesk**'s $5 billion credit, 2) it marks the first jumbo credit to feature PIK pricing, and 3) strong demand for the credit signals a renewed interest in underwriting larger commitments.

A group of roughly 15 lenders are supporting the Cotiviti loan, which backs an investment in the Utah-based, healthcare payment services business. A group that size puts the average ticket at $366 million, and there are several arrangers well beyond that amount, according to sources.

Commitments of $400 million or more were commonplace in jumbo loans (>=$1B) before last year, but many managers had cut those amounts by roughly half in 2022 as market sentiment turned more cautious. A few maintained their hold levels to take advantage of the pull back.

The spread for Cotiviti has settled at S+625 at 98, down from feelers that started at S+650-675 at 97.5. There is a PIK component, the terms of which are still being negotiated. Early talks proposed the option to PIK half the spread for the first two years. An all-cash yield would run 11.8% to a three-year maturity.

The revised spread, discount and PIK reflect the strength of the credit, but also underscore how hungry managers are for assets against a thin M&A pipeline.

Table 1

Moreover, Cotiviti is another syndicated name to seek more flexible financing in the private market. In addition to the loan, lenders are supporting the deal with $1 billion of preferred equity, a piece that banks are unable to provide. Sponsors are weighing this option to round out financing against lower leverage multiples and to fortify liquidity. In another example last month, lenders supported a $500 million preferred equity investment with **HGGC** in **PCF Insurance Services**.