

Borrowers Haggle for Discounts in Busy Market

08 August

Introduction

Having trickled along at a steady pace during Q2, the leveraged loan market burst into life in mid-July.

On 17 July we saw nearly a dozen TLB launches for example, with another seven launching on 24 July. This pace has continued into early August, a time when the market usually slows down.

Kevin Cronk, MD and Portfolio Manager of Liquid Credit at Alcentra told *LeveragedRadar* “If you look across all risk markets from equities to high yield bonds you’ve seen a strong rally driven by what looks like improving fundamentals.”

“In the US, the economy is holding up well given what the Federal Reserve has been doing [...] and there are increasing hopes that they can engineer a soft landing, and there’s more evidence we might be getting that.”

Focusing on the loan market itself, he added: “If you look at the US loan market in particular, the market is up 7.7% year to date, and 2.2% of that is principal return.”

Using the Credit Suisse Leveraged Loan Price Index, the average loan price in the US market is currently at 94.14, up from 91.89 at the start of the year. This is the highest price since 31 August last year.

The Morningstar/LTSA index tells a similar story. It started the year at 92.44, and is currently at 94.80.

According to Cronk, the average price of higher quality BB credits is up to 99, very close to par whilst single B credits are closer to 96.

Not only this, as of 01 August, 6% of the leveraged loan market was trading above par, the highest since January last year, compared to just 0.1% at the start of the year.

There has also been significant spread compression, with spreads down to 571bp from 652bp at the start of 2023, the tightest spreads since August 2022.

Because of this tightening, issuers who entered the market when spreads were wider are coming back to market to reprice existing deals in increasing numbers.

The Return of Repricing

Repricing transactions were very common in 2021 when the leveraged loan market was red hot though declined significantly along with market volume in 2022.

Before July, just three deals had been repriced this year. Renewable energy company **TerraForm Power** attempted to reduce its USD500m green TLB (rated Ba2/BB+/BB+) from SOFR+CSA+275bp to SOFR+CSA+225bp but instead reduced it by 25bp to SOFR+CSA+250bp. The other two deals, **Entegris'** USD2.495bn and **Arclight GCX's** USD615m TLBs, also saw 25bp margin reductions.

Q1 2023 TLB Repricings

Borrower	Original Signing Date	Original Amount	Original Margin/OID	New Signing Date	New Amount	New Margin/OID
Arclight GCX	22 April 2022	USD630m	S+C+375bp, 99.5	15 February 2023	USD615.4m	S+C+350bp, par for existing lenders, 99.75 for new money
TerraForm Power	11 May 2022	USD500m	S+C+275bp	3 March 2023	USD500m	S+C+250bp
Entegris	2 March 2022	USD2.495bn	S+300bp, 99	7 March 2023	USD2.495bn	S+275bp, par

GoDaddy Leads the Way

The first borrower to reprice an existing deal in July was New York-listed web hosting company **GoDaddy** on 17 July.

The borrower originally priced a USD1.77bn **TLB-5** (rated Ba1/BB) at SOFR+325bp and 98.0 OID 24 October 2022, with a 25bp stepdown at 1.45x net leverage.

It returned to the market on 12 July to reprice the deal, which was now USD1.761bn.

Following a lender call, the new margin was set at SOFR+275bp, 50bp off the original deal, and the same issue price of 98.

The deal tightened again on 13 July, with the margin set at SOFR+250bp (with the removal of the 25bp stepdown) and the issue price now at par. The deal repriced at these terms on 17 July.

Bargain Hunt

On the same day, New York-listed data analytics company Dun & Bradstreet began to reprice its outstanding USD2.666bn TLB (rated B1/B+/BB+) due in February 2026.

This facility has re-entered the market on several occasions.

It was originally a seven-year USD2.53bn TLB that backed the company's take private by a consortium led by CC Capital and was priced at L+500bp in February 2019.

The deal was reduced by 100bp to L+400bp, and included a 25bp stepdown following an IPO in January 2020. Following a return to the New York stock exchange in June 2020, the stepdown was added, taking the deal to L+375bp.

Following a USD300m add-on TLB in November 2020 the deal was repriced again in January 2021, this time falling to L+325bp with a 25bp stepdown when the company reached a B1/B+ rating (it was B2/B+ at the time).

This time the price talk was SOFR+CSA+275bp-300bp and an OID of par (CSA – 10bp/26bp/43bp for 1m/3m/6m)

The deal priced at the wider end of guidance, SOFR+CSA+300bp and issued at par, on 24 July.

The Summer Sale Continues

The steady trickle of borrower's looking to reprice existing deals continued in late July/early August, with mixed results.

Initially, Citadel Securities also looked to reprice an existing USD600m TLB at this time, instead it secured an upsized USD3.55bn TLB to refinance existing debt.

Midstream oil logistics provider Oryx also had to withdraw its planned USD1.85bn TLB repricing on 31 July. The deal, originally agreed at SOFR+CSA+325bp, was being talked at SOFR+CSA+300bp and issued at par before its cancellation.

NASDAQ-listed shoe manufacturer Crocs changed the terms on its USD1.18bn senior secured TLB (rated Ba2/BB-). The deal, which talked at SOFR+300bp-325bp (vs existing 350bp) and sold at par, priced at the tight end of guidance on 3 August.

Other TLB repricings include H.B Fuller (current price talk SOFR+225bp, par), Installed Buildings Products (current price talk SOFR+200bp, par), as well as OpenText (USD3.567bn TLB due January 2030), AZZ Inc (USD1.03bn due May 2029) and Four Seasons (USD845.75m due November 2029).

TLB Repricings July-August 2023

Borrower	Original Signing Date	Original Amount	Original Margin/OID	New Signing Date	New Amount	New Margin/OID
GoDaddy	October 2022	USD1.77bn	S+325bp, 98	14 July 2023	USD1.761bn	S+250bp, par
Dun & Bradstreet	January 2021 (amended several times)	USD2.811bn	L+325bp, par	24 July 2023	USD2.666bn	S+C+300bp, par
Crocs	27 January 2022	USD2bn	S+C+350bp, 99.5	3 August 2023	USD1.18bn	S+300bp, par

TLB Repricings to come

Borrower	Original Signing Date	Original Amount	Original Margin/OID	New Commitment Deadline	New Amount	Price talk/OID
H.B.Fuller	February 2023	USD800m	S+250bp, par	8 August 2023	USD798m	S+225bp, 99.5-99.75
Installed Building Products	9 December 2021	USD500m	L+225bp, 99.5	9 August 2023	USD492.5m	S+200bp, par
OpenText	17 November 2022	USD3.585bn	S+C+350bp, 97	9 August	USD3.567bn	S+275bp, par
AZZ Inc	9 May 2022	USD1.3bn	S+C+425bp, 96	10 August	USD1.03bn	S+C+375bp-400bp, par
Four Seasons	18 November 2022	USD850m	S+325bp, 98.5	10 August	USD845.75m	S+C+250bp, 99.75
Axalta	9 December 2022	USD2bn	S+300bp, 99	15 August 2023	USD1.845bn	S+250bp, 99.75-par

Market Trends

As previously mentioned, market issuance has picked up significantly since mid-July. Volumes reached USD37.76bn-equivalent from 43 deals last month, more than double last July's USD17.58bn from 32 deals.

LFRD currently has over 20 live deals in its pipeline ready to price this month, which with others should take it well above last August's USD18.47bn from 28 deals.

Looking ahead to August and the rest of Q3, Cronk stated: “We’re shaping up for a busier than normal end of summer, assuming the market holds tight and we don’t have any macro changes.”

“We’re seeing CLO demand, with warehouses ramping up, and retail outflows have moderated and, in some cases, we have seen some positive inflows.”

“There has been a lack of net new issuance, it has been dominated by refinancings that don’t really create any new supply. Given that [...] I would expect to see more of these repricings in the market.”

All data, unless otherwise stated, sourced from the Bond Radar Ltd Data Wizard and API

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+44 (0)20 7832 0826



sales@bondradar.com | data@bondradar.com

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