

U.S. Financing Markets

Market Update

In this document, we outline the key trends and developments in the U.S. financing markets and offer an update on selected hot topics in the financing world.

- Leveraged loan volume totaled \$270B in 1Q24, up from \$200B in the same period last year, but only \$22.2B of that volume was “new money” volume.
- Quarterly M&A issuance in the first quarter was \$19.22B, the lowest since \$23.6B in the first quarter of 2010.
- 63% of large corporate LBO deals were levered 6x or higher in 1Q24, up from 2023’s 48% share; the share of LBO deals levered 7x or higher increased to 13% in 1Q24.
- The CLO market continued to be very active in March after a busy January and February, generating \$11.6B of new-issue transactions following February’s 27-month high of \$14.3B.
- Amid the borrower-friendly market conditions in the BSL market, investors had little leverage to push back on documentation in the first quarter:
 - The percentage of loans clearing with MFN sunsets increased to 42% in Q1 from 31% in Q4;
 - The percentage of deals with uncapped EBITDA adjustments jumped to 48% in Q1 from 33% in Q4;
 - The average hard cap for the free-and-clear accordion increased to 1.31x EBITDA in Q1 from 1.01x in Q4; and
 - Total average day-one basket capacity for general restricted payments increased to 0.91x in Q1 from 0.77x in Q4.

Dual Track Processes

As the syndicated market has bounced back, sponsors are again pursuing dual track processes to compare terms in the syndicated and private credit markets. The broadly syndicated market continues to deliver superior pricing and legal terms, but private credit retains strong advantages for most borrowers.

Pros of a Broadly Syndicated Financing

- Superior pricing (assuming no market flex)
- More flexible legal terms – cov-lite execution
- Deep and liquid market that can be tapped for add-on financings
- Reporting requirements and lender calls prepare management for a potential IPO process

Pros of a Private Credit Financing

- Certainty and speed of execution
- No market flex risk
- Better availability and terms for delayed draw term loans
- Availability of PIK features
- Lower demands on management time
- No rating agency process
- Limited trading and absence of market “noise”

Digital Infrastructure ABS Expands to Fiber

Over the past 24 months, a number of U.S. telecommunications companies have executed novel ABS offerings of bonds backed by the revenues from their fiber broadband networks. These transactions securitize the companies' revenues from month-to-month residential fiber contracts, as well as longer-term wholesale and commercial contracts, allowing companies that traditionally have been high-yield issuers to achieve the significantly lower cost of capital and higher leverage available in the ABS market, supporting the companies' rapid expansion of their fiber footprints.

Fiber ABS transactions often represent a marked improvement over the terms available to issuers under comparable high-yield bond or bank debt, including the following characteristics:

- Significant interest cost savings
- Leverage of up to 10x EBITDA on the securitized assets
- Five-to-seven-year anticipated repayment term
- May include both term notes with fixed coupons and a revolving/variable funding floating rate tranche
- Backed by hard fiber network and equipment assets in one or more specified geographical regions as well as the related customer contracts, which are transferred to a special purpose subsidiary issuer
- Cov-lite with respect to the non-securitized portion of the business, with no restrictions on parent company debt on the non-securitized portion of the business
- Master ABS trust structure under which fiber assets in other geographical areas may be dropped into the ABS at a later date to support add-on ABS debt issuances, which do not require the consent of the existing investors, subject to confirmatory rating
- No change of control trigger

Following a record-breaking year for the nascent asset class in 2023, Goldman Sachs and other underwriters in the fiber ABS space have indicated that they expect continued momentum in 2024.

Jumbo Unitranches

- Jumbo unitranches (\$1B+) continued to expand in size and frequency in late 2023 and early 2024.
 - According to Lev Fin Insights, the second half of 2023 saw 21 jumbo unitranches – compared with nine jumbo financings committed in the full year after the sharp rise in interest rates in mid-2022.
 - The average size of a jumbo unitranche exceeded \$2.5B in the second half of 2023.
 - The primary driver of increased activity was refinancing activity, often featuring borrowers that had been issuers in the syndicated loan market.
 - In the first quarter of 2024, the trend has begun to reverse with borrowers refinancing private credits with new syndicated financings to take advantage of favorable conditions in the syndicated market.
 - Terms remain favorable for jumbo unitranche financings, with all the reported deals featuring a cov-lite structure and other traditional syndicated market loan terms.