

US Leveraged Loan/Private Credit Webinar: Has the market retreated to Financial Crisis levels?

WEBINAR

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PitchBook LCD News and Research Team



Tim Cross

Managing Editor, LCD



Marina Lukatsky

Global Head of Credit
Research, LCD



Rachelle Kakouris

Director, Research, LCD

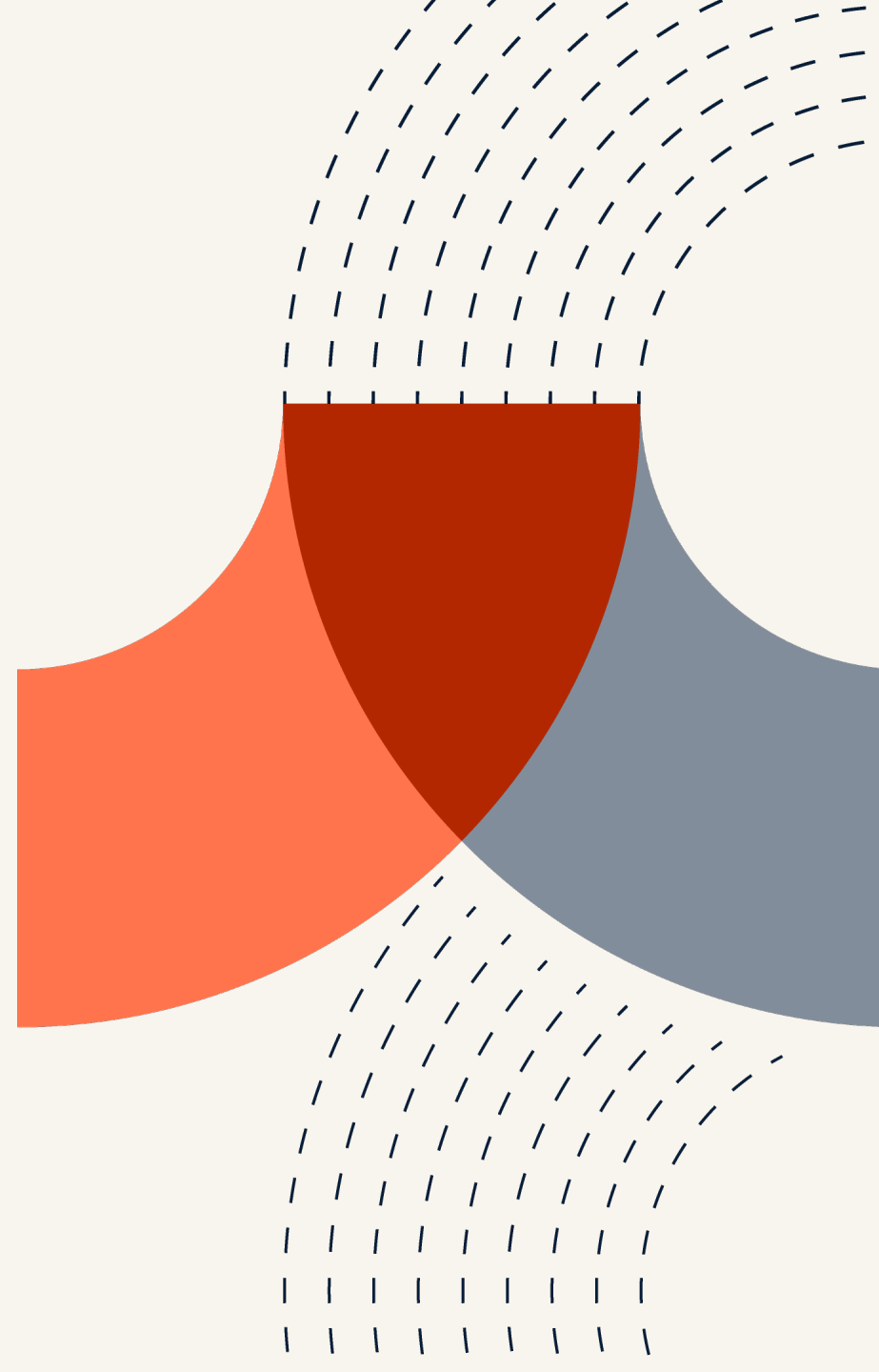


Abby Latour

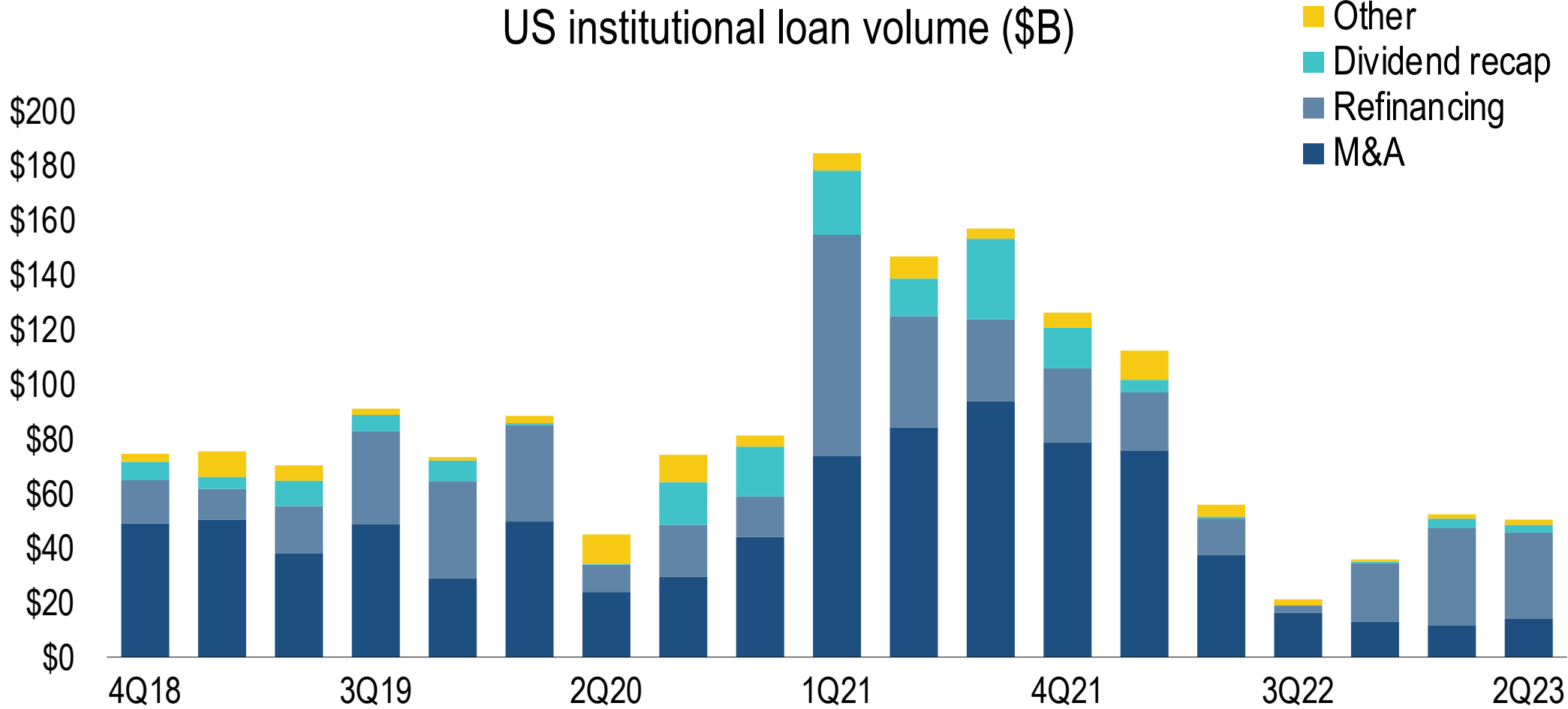
Editorial Lead, Private
Credit, LCD

US Leveraged Loans

Marina Lukatsky – Global Head
of Credit Research



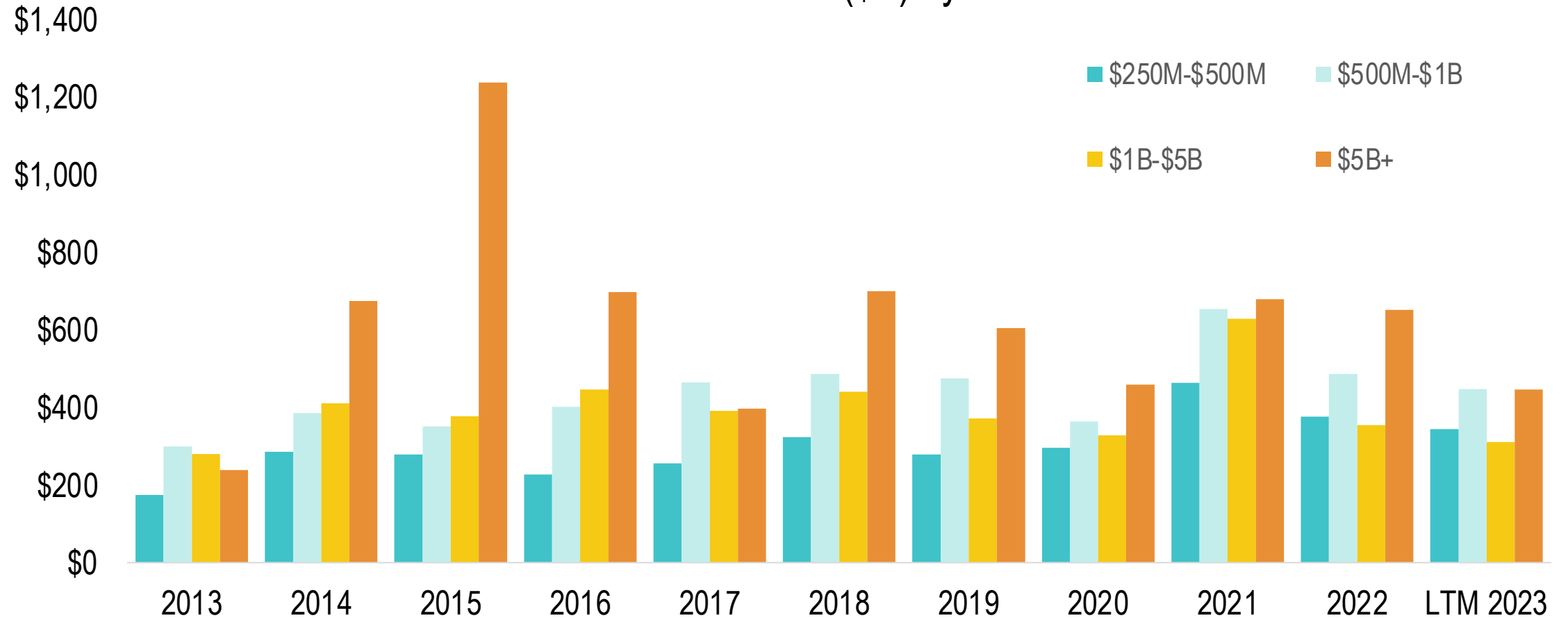
Loan issuance weak again in 2Q23



Source: PitchBook | LCD • Data through June 30, 2023

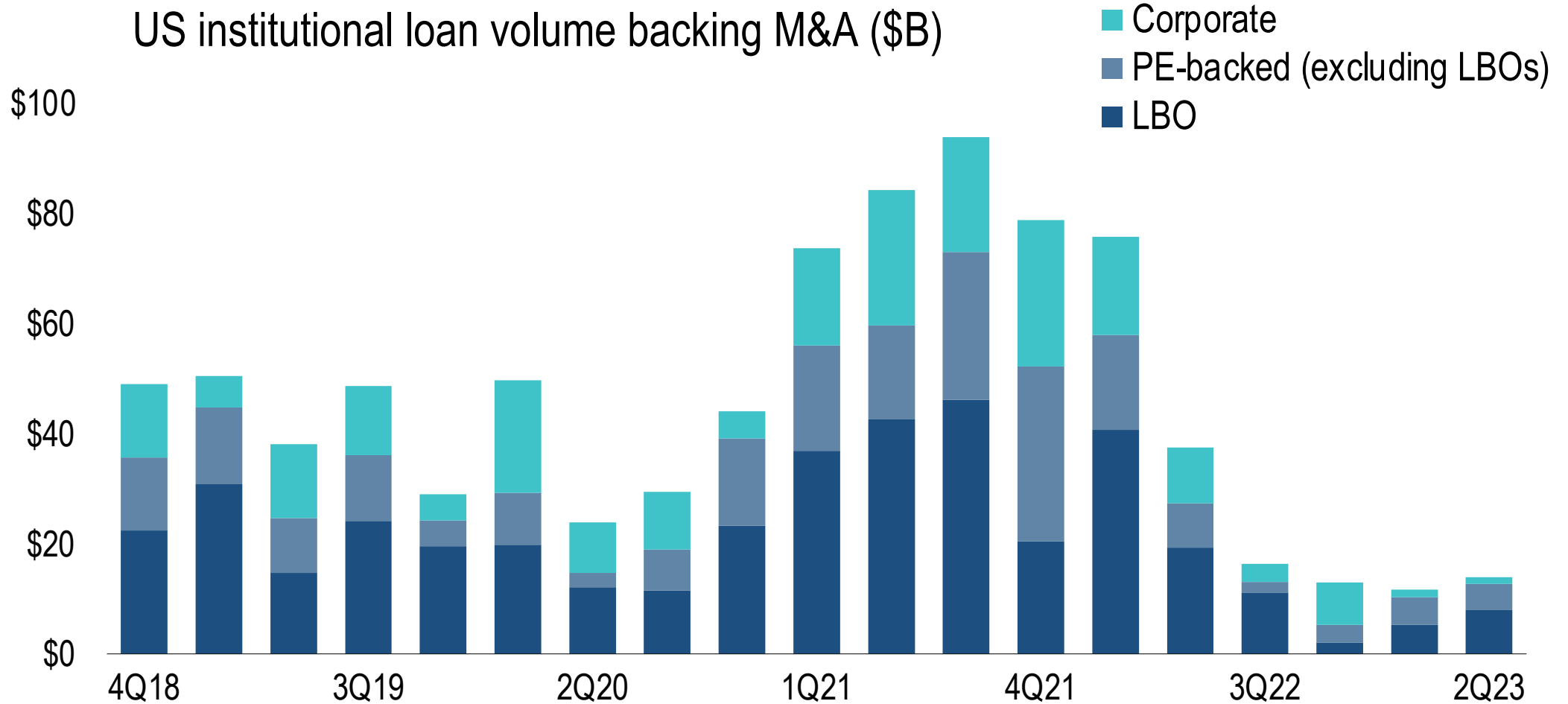
As M&A engine continues to slow

North America M&A deal value (\$B) by transaction size



Source: PitchBook • Data through June 30, 2023

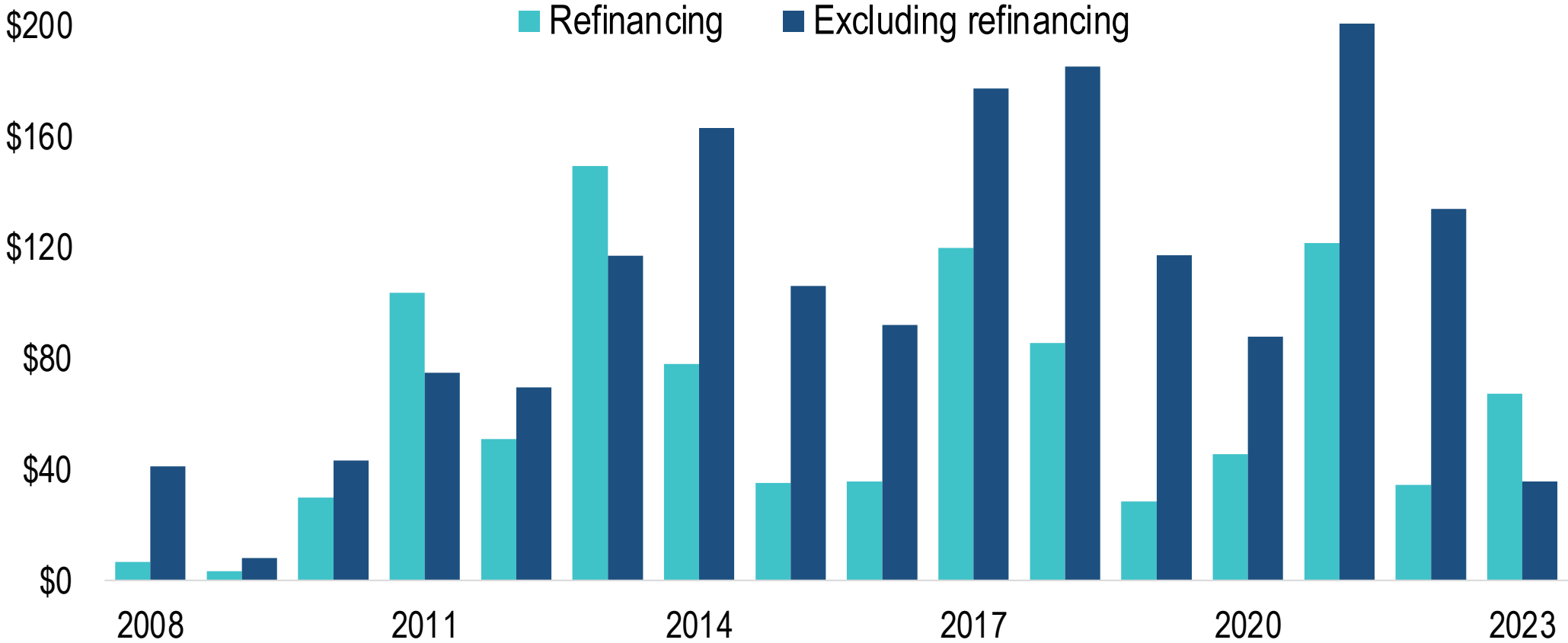
Syndicated loan LBO volume remains lethargic



Source: PitchBook | LCD • Data through June 30, 2023

Bringing net loan supply to a low point since the Financial Crisis

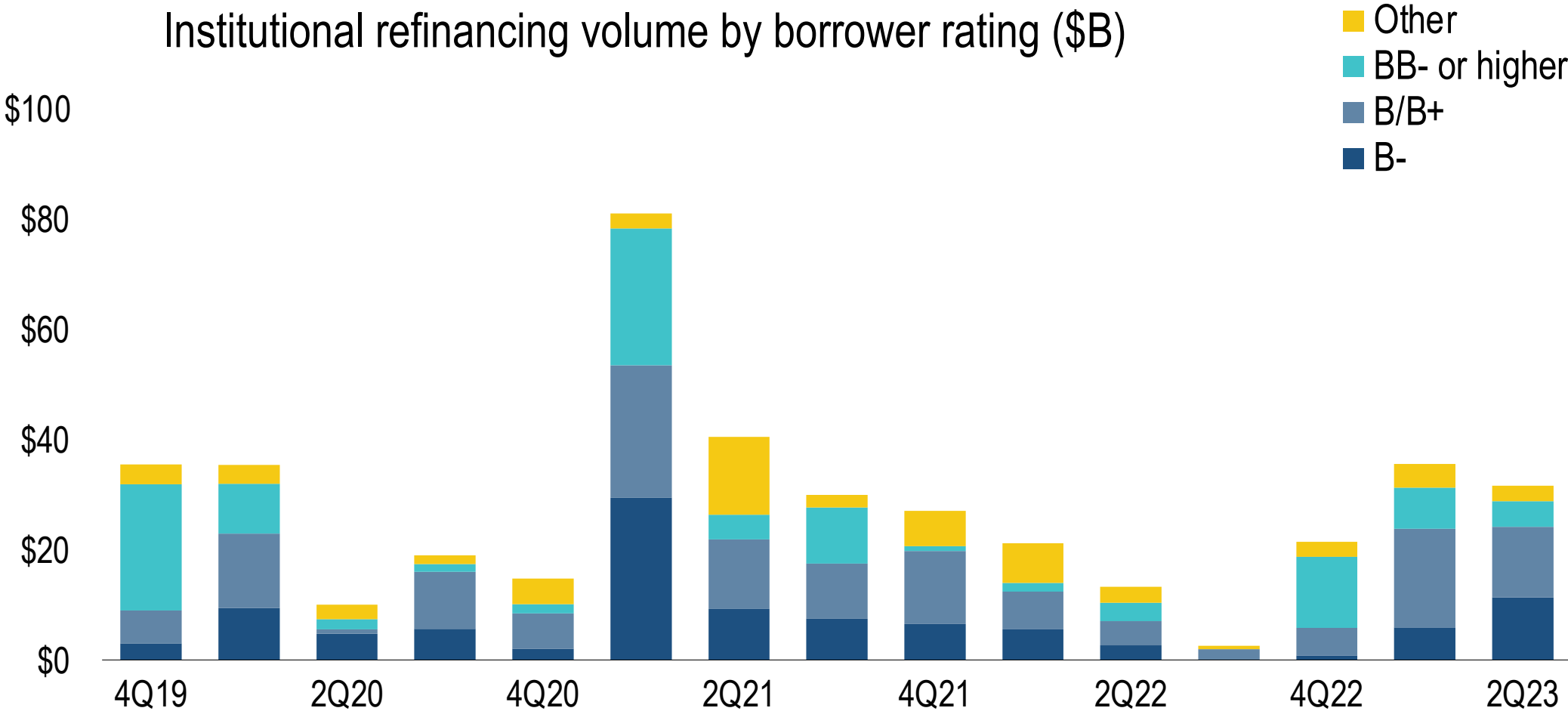
Year-to-date institutional loan volume (\$B)



Source: PitchBook | LCD • Data through June 30, 2023

Single-B borrowers drive refinancing activity

Institutional refinancing volume by borrower rating (\$B)



Source: PitchBook | LCD • Data through June 30, 2023

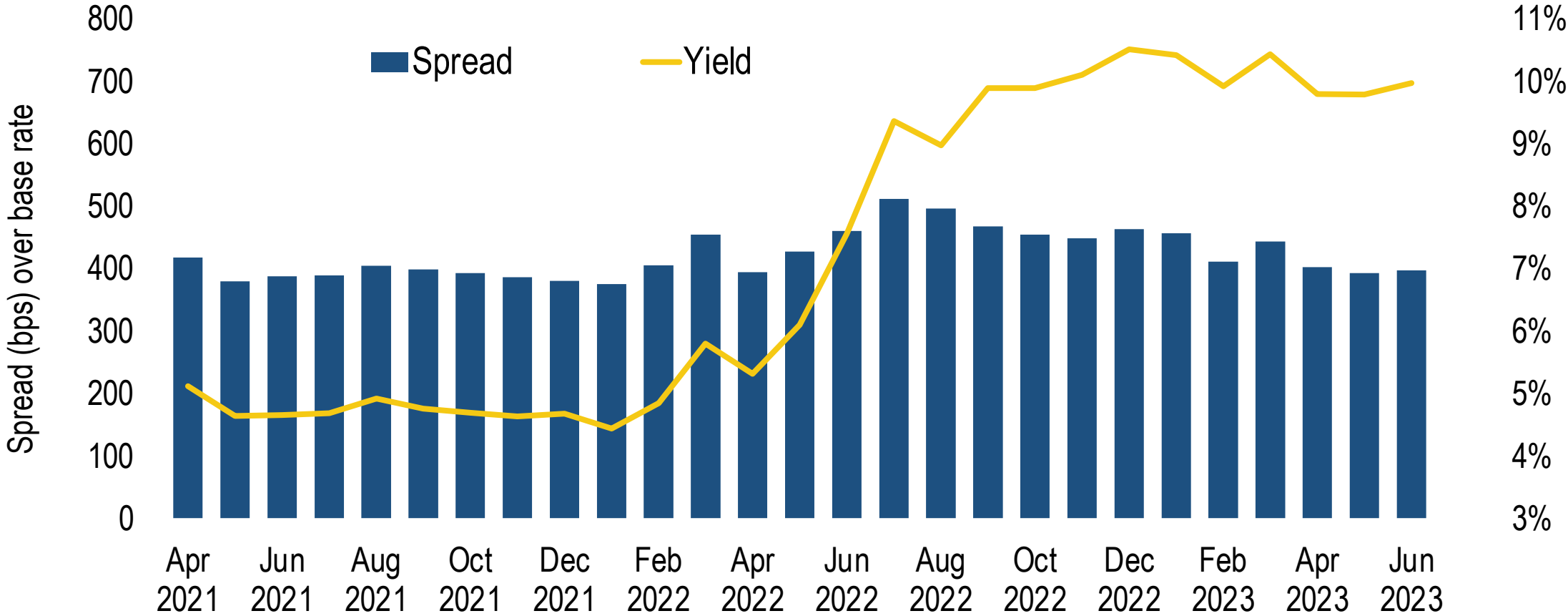
But there's still wood to chop in the riskiest corners of the market

Leveraged loan maturities by issuer rating						
	2024 maturities			2025 maturities		
	12/31/2022	6/30/2023	Change from December	12/31/2022	6/30/2023	Change from December
B- or lower	\$38.0B	\$22.4B	-41%	\$71.9B	\$62.6B	-13%
B / B+	\$25.9B	\$5.0B	-81%	\$76.4B	\$43.0B	-44%
BB- or higher	\$8.3B	\$0.6B	-93%	\$45.8B	\$36.4B	-21%

Source: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through June 30, 2023

Refinancings (and other new deals) come at a steep price

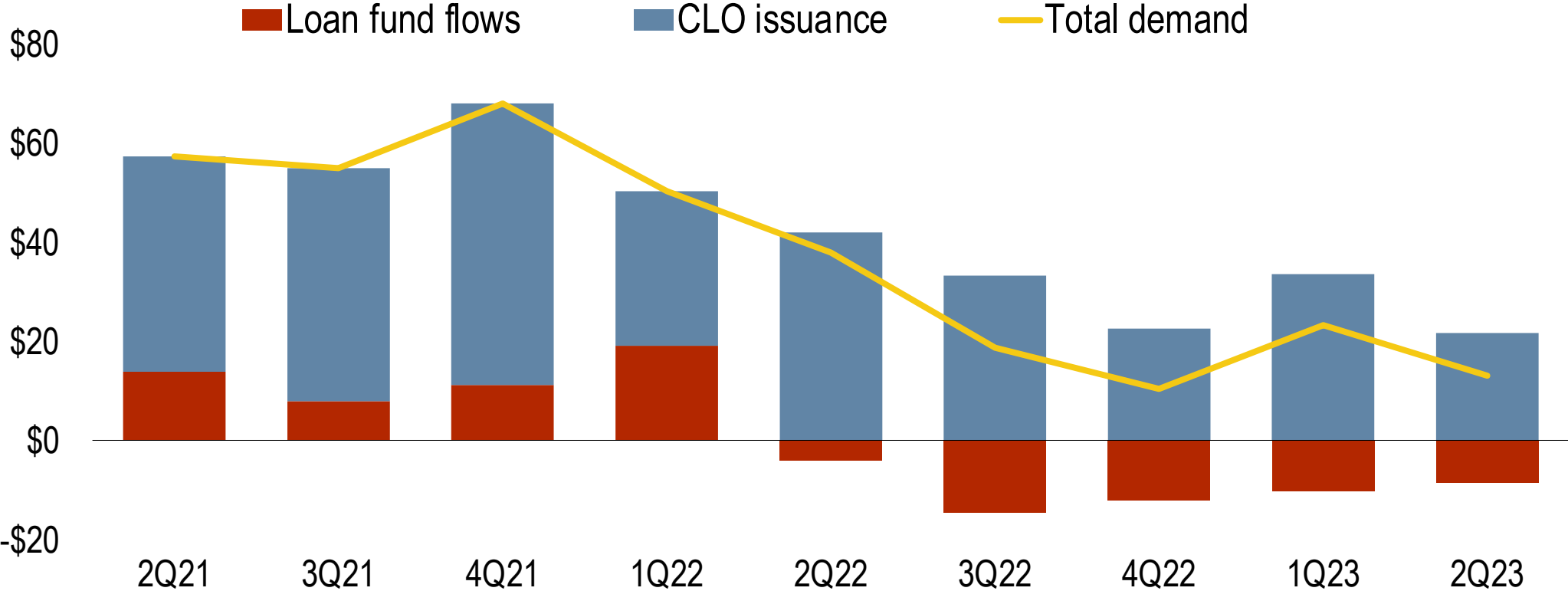
New-issue spread and yield-to-maturity of B/B+ loan borrowers



Source: PitchBook | LCD • Data through June 30, 2023

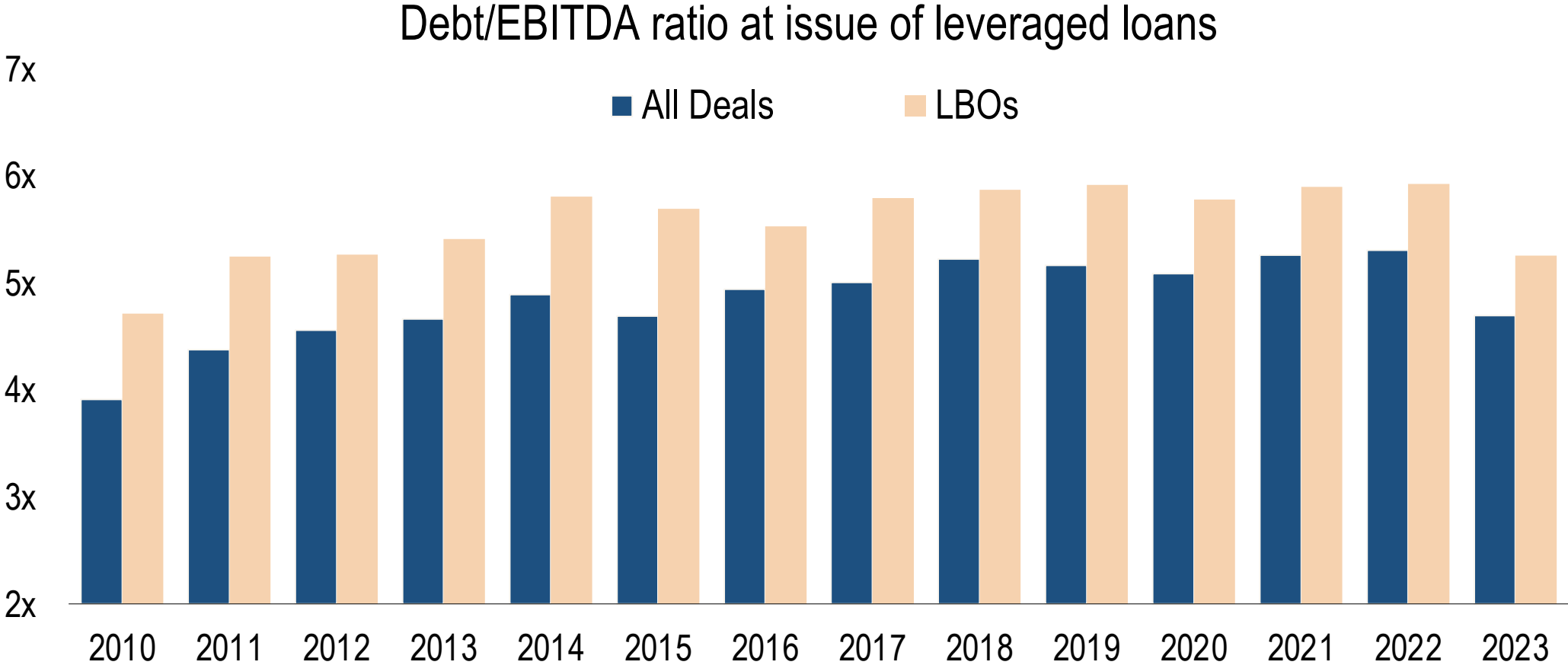
Lack of net supply causes the CLO engine to stall

US leveraged loan market – measurable investor demand (\$B)



Sources: PitchBook | LCD; Morningstar Direct • Data through June 30, 2023. Fund flows data includes monthly reporters.

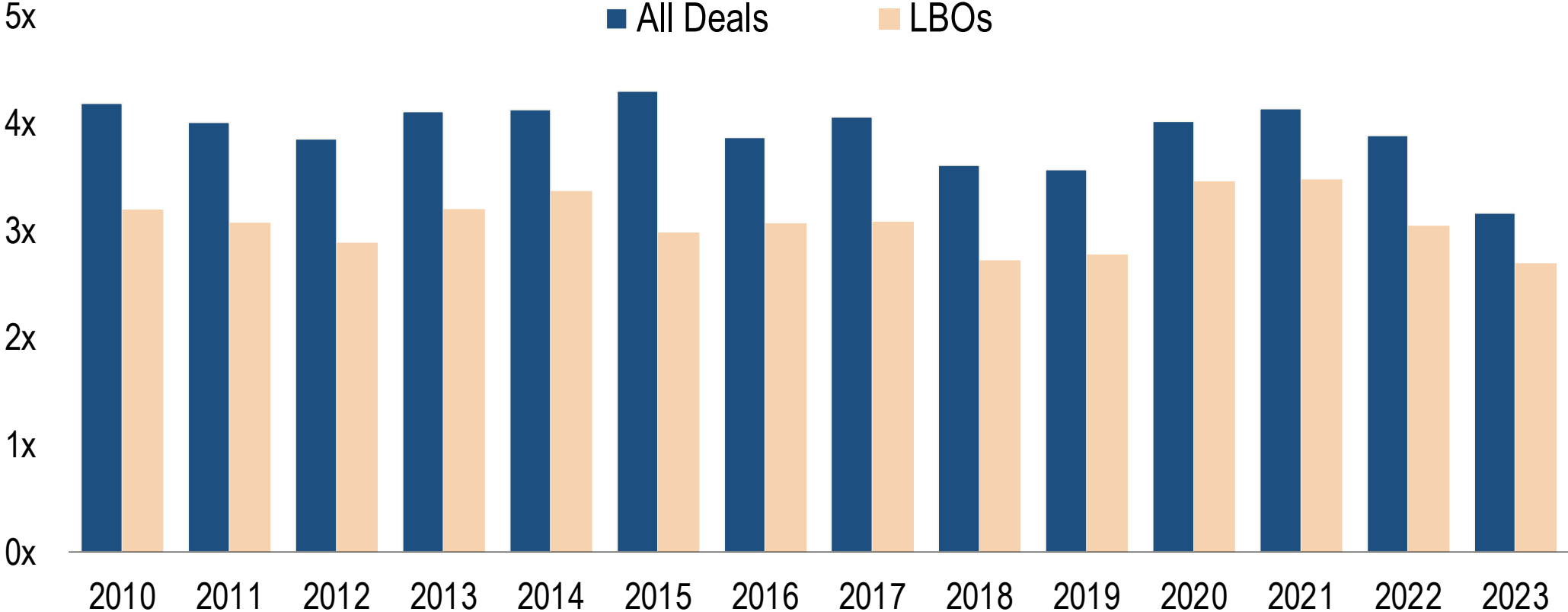
New deals sport the lowest leverage ratio in years



Source: PitchBook | LCD. Data through June 30, 2023. Based on issuers with EBITDA of \$50M or greater.

But interest coverage shrinks to post-Financial Crisis low

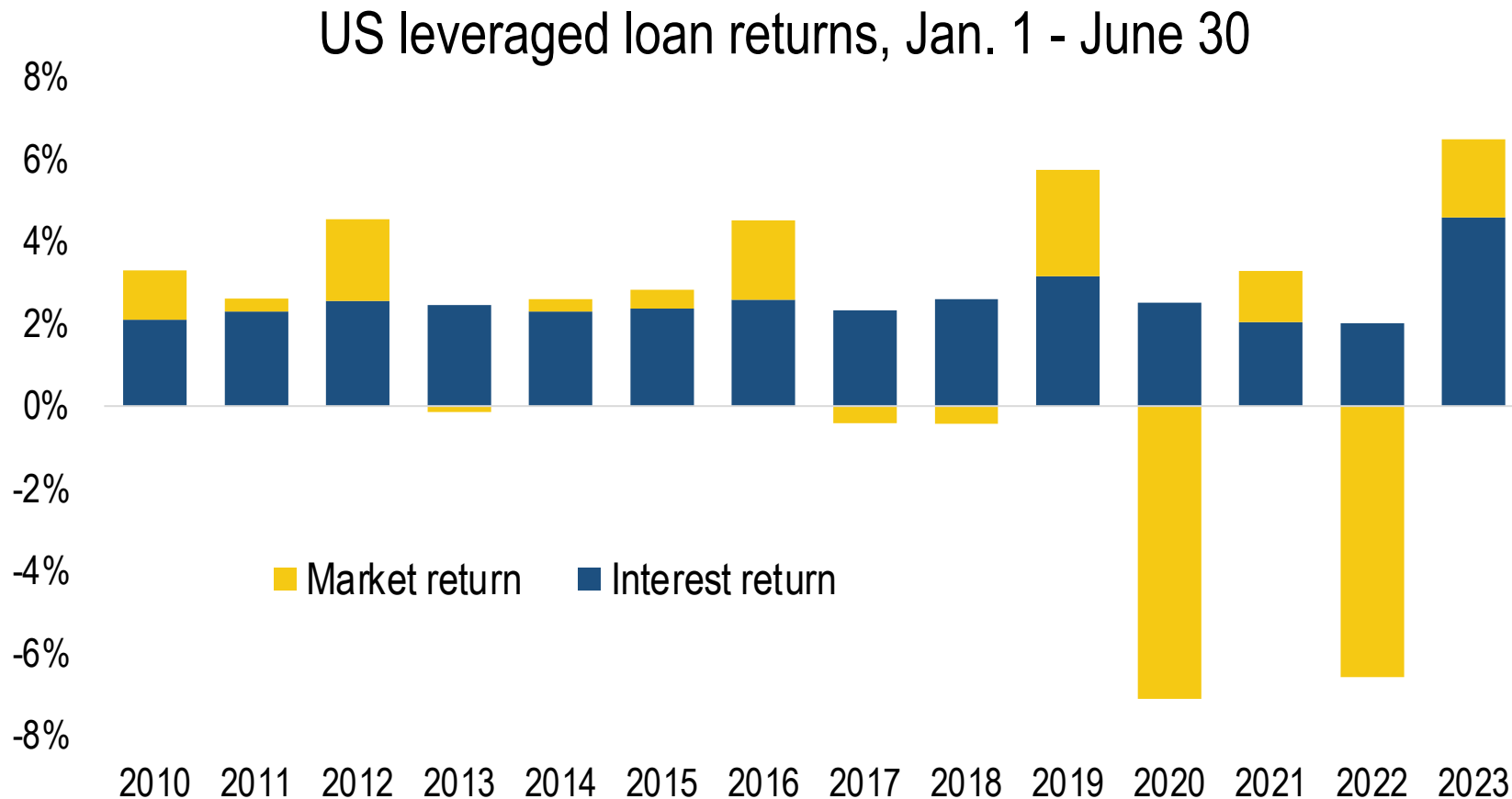
Interest coverage ratio at issue of leveraged loans



Source: PitchBook | LCD. Data through June 30, 2023. Based on issuers with EBITDA of \$50M or greater.

Rising rates put loans on pace for the strongest year since the Financial Crisis

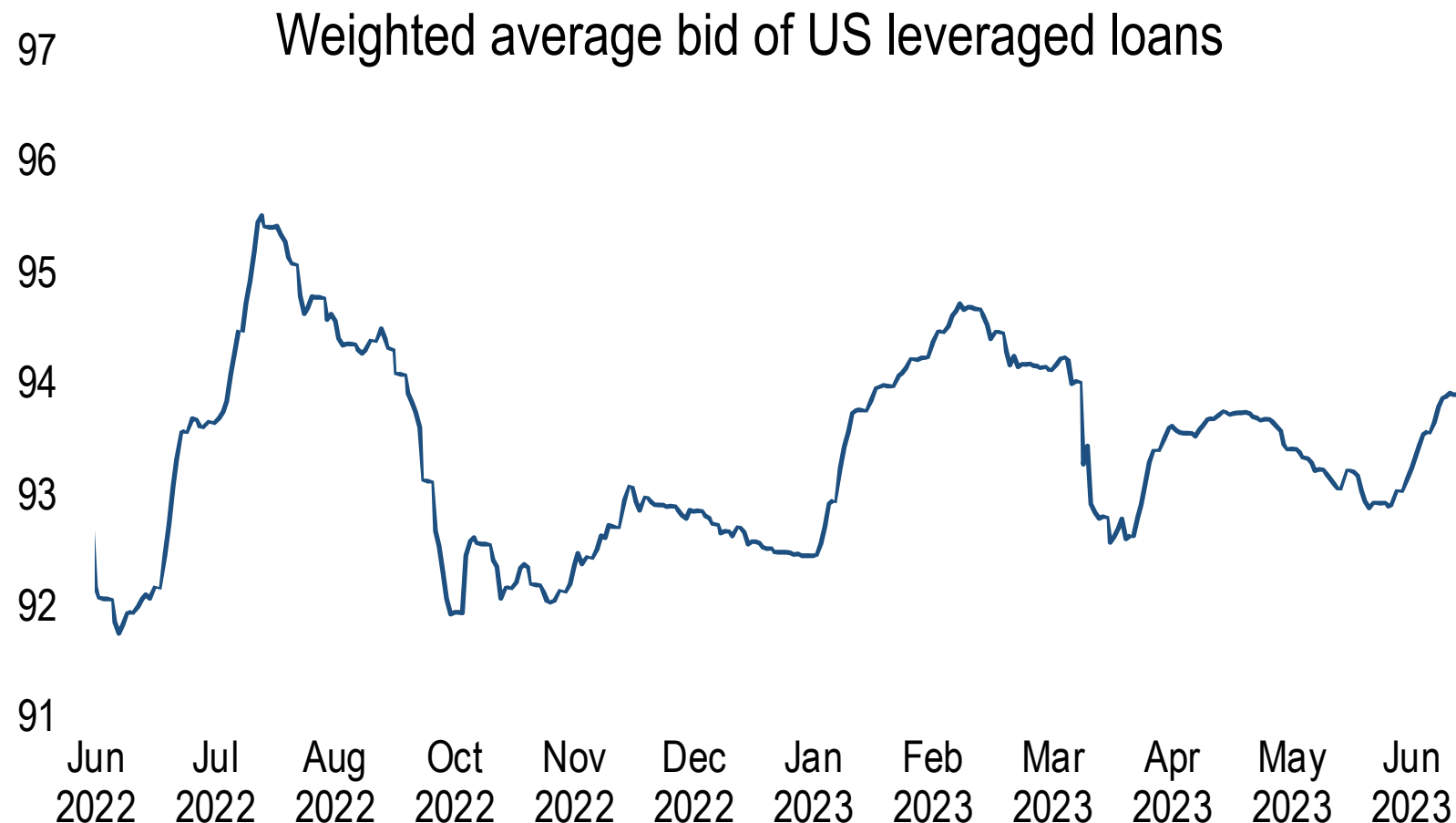
Loans return 6.48% in 1H23, with nearly three quarters of that from coupon-clipping.



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through June 30, 2023

Loan prices rebound from 2023 lows

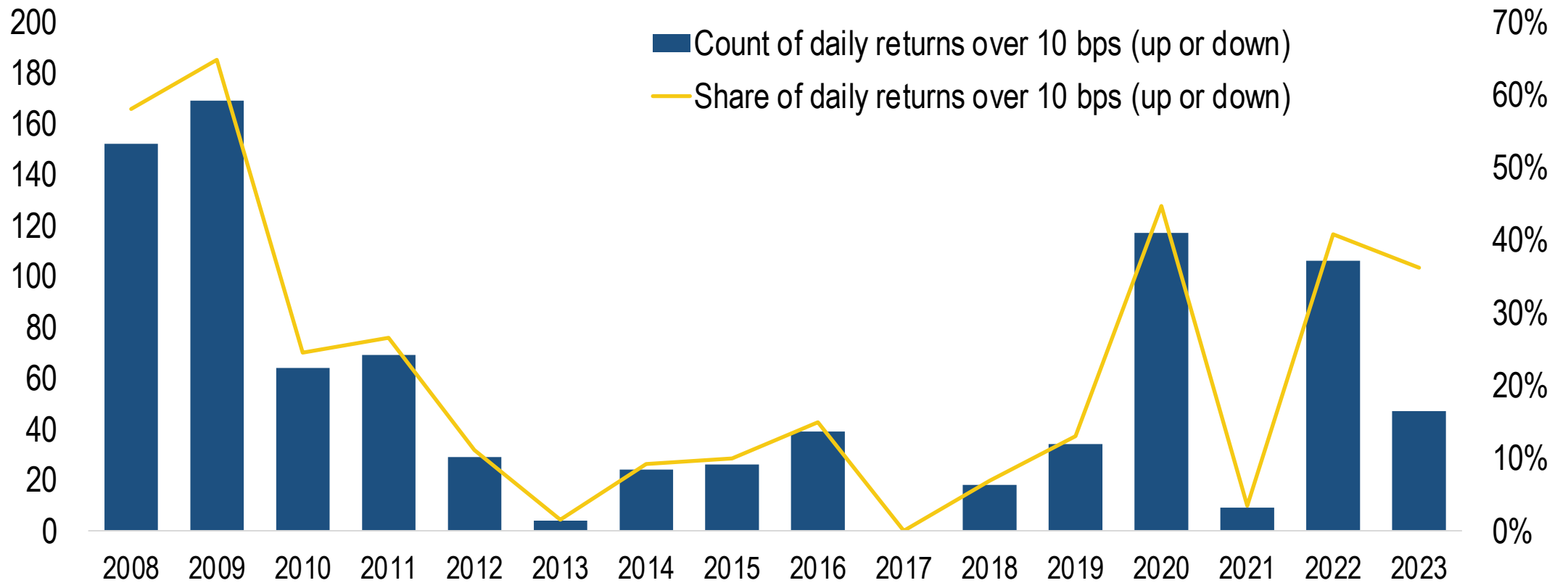
In 1H23, the weighted average bid of the LLI ranged from a low point of 92.44 (Jan. 1) to a high point of 94.71 (Feb. 9)



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through June 30, 2023

Volatility recedes from 2022, but remains elevated

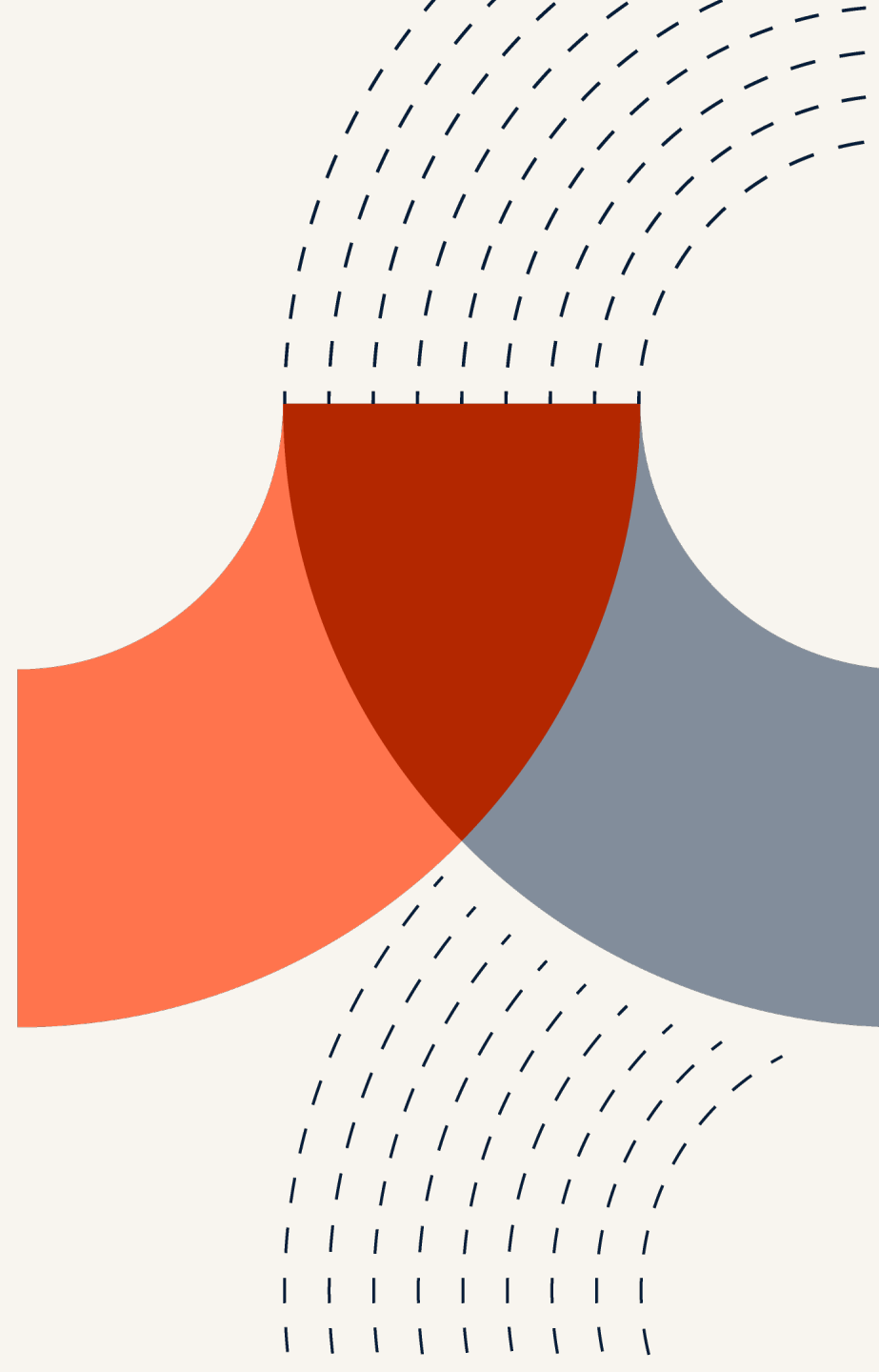
US leveraged loan returns, daily moves over 10 bps



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through June 30, 2023

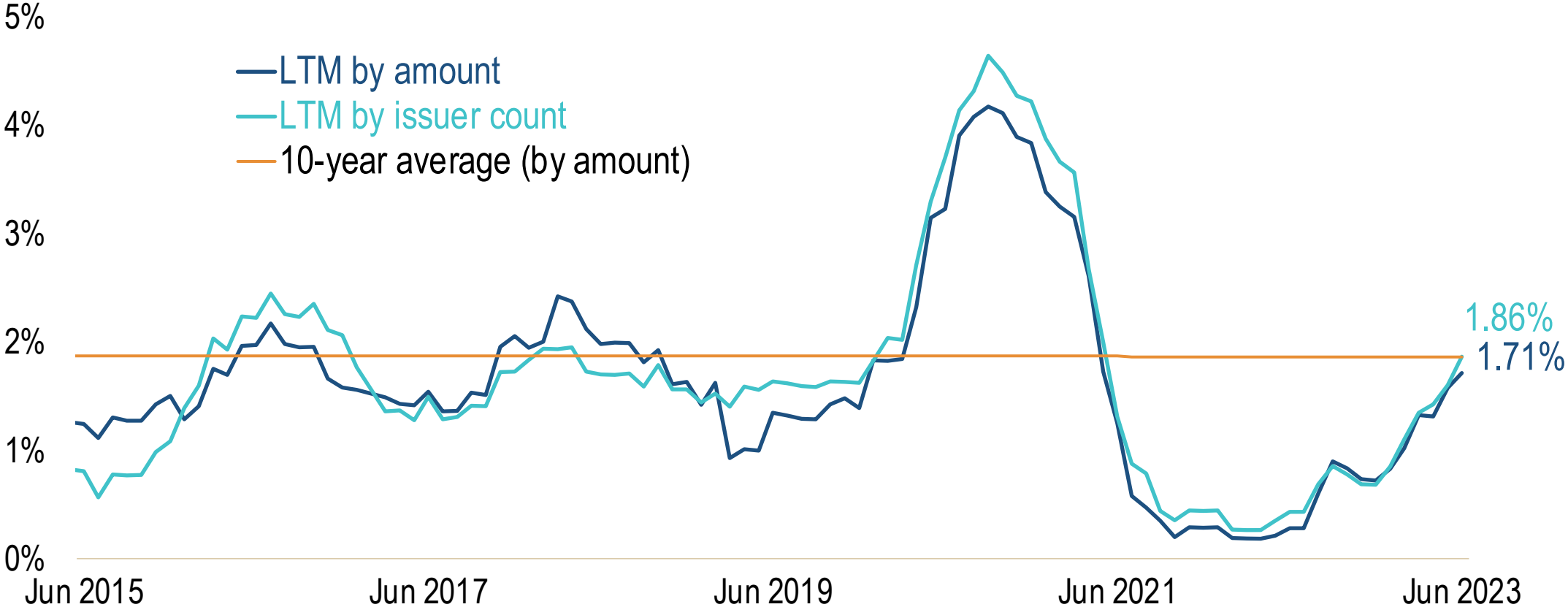
Distress & defaults: Interest rate reckoning

Rachelle Kakouris – Director,
Research, LCD



Loan default rate climbs close to historical average

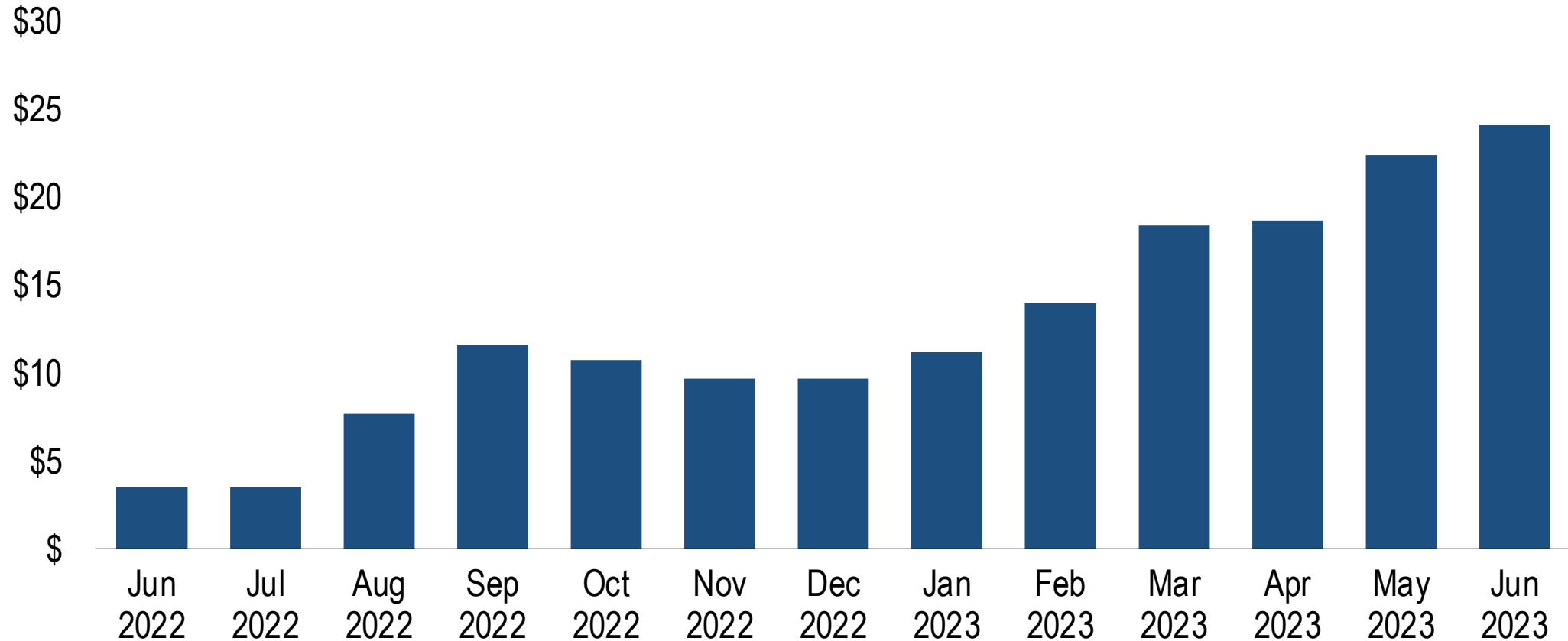
US leveraged loan default rate



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through June 30, 2023

As default volumes rise from lows, to a 2-year high

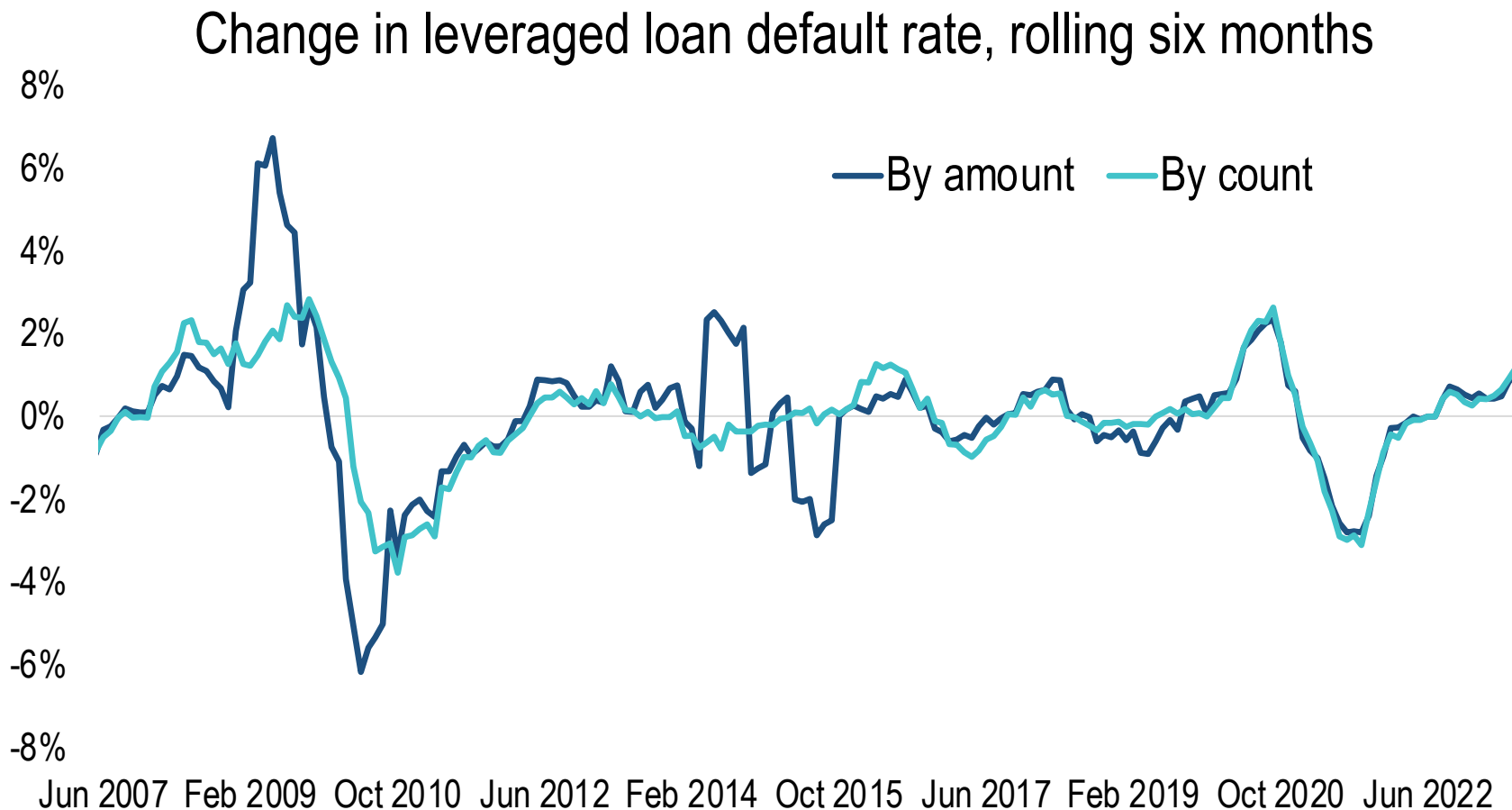
Lagging 12-month US leveraged loan default volume (\$B)



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through June 30, 2023

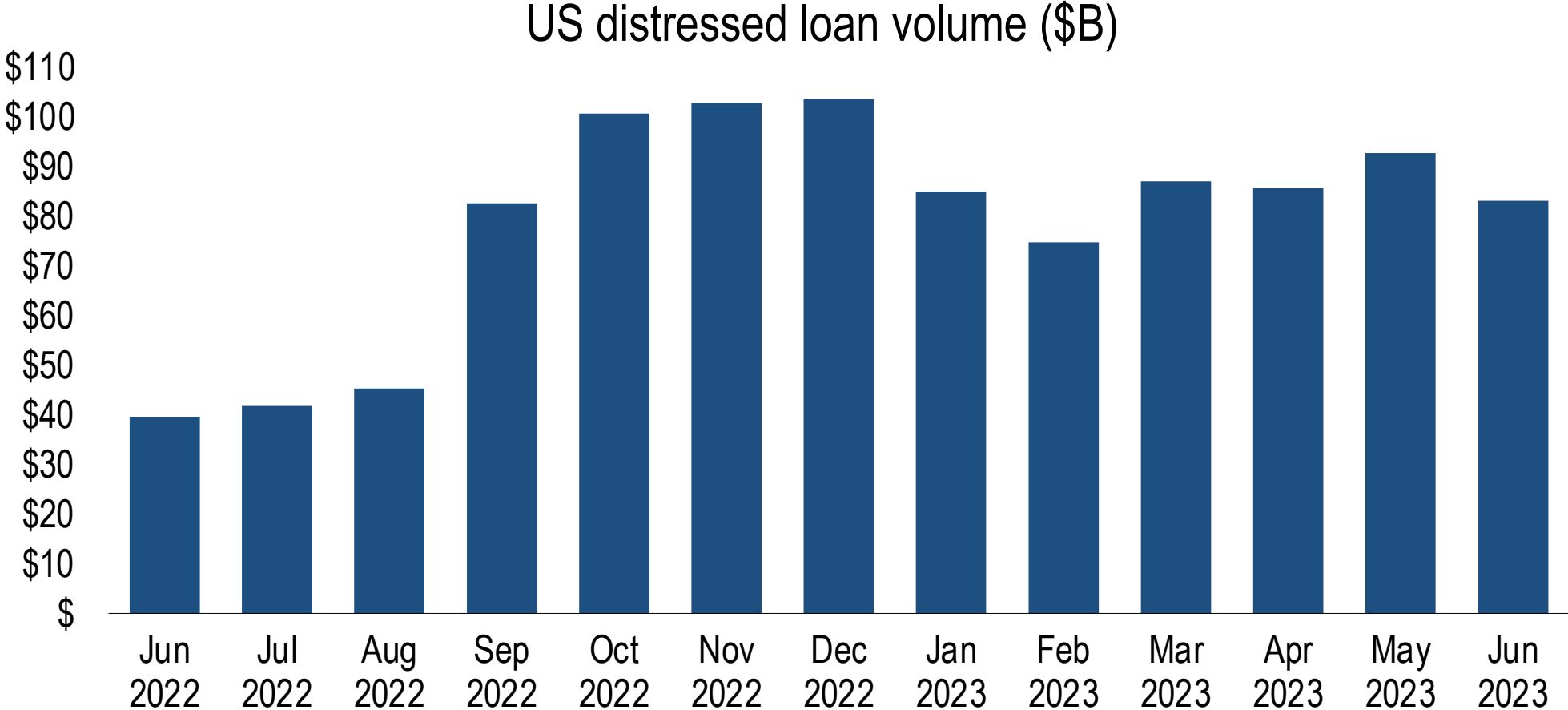
Bankruptcies and payment misses increase at breakneck speed

Climbing 99 bps over the past six months, this is the largest increase to the 12-month trailing rate since the 2020 wave of Covid-19 related defaults.



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through June 30, 2023

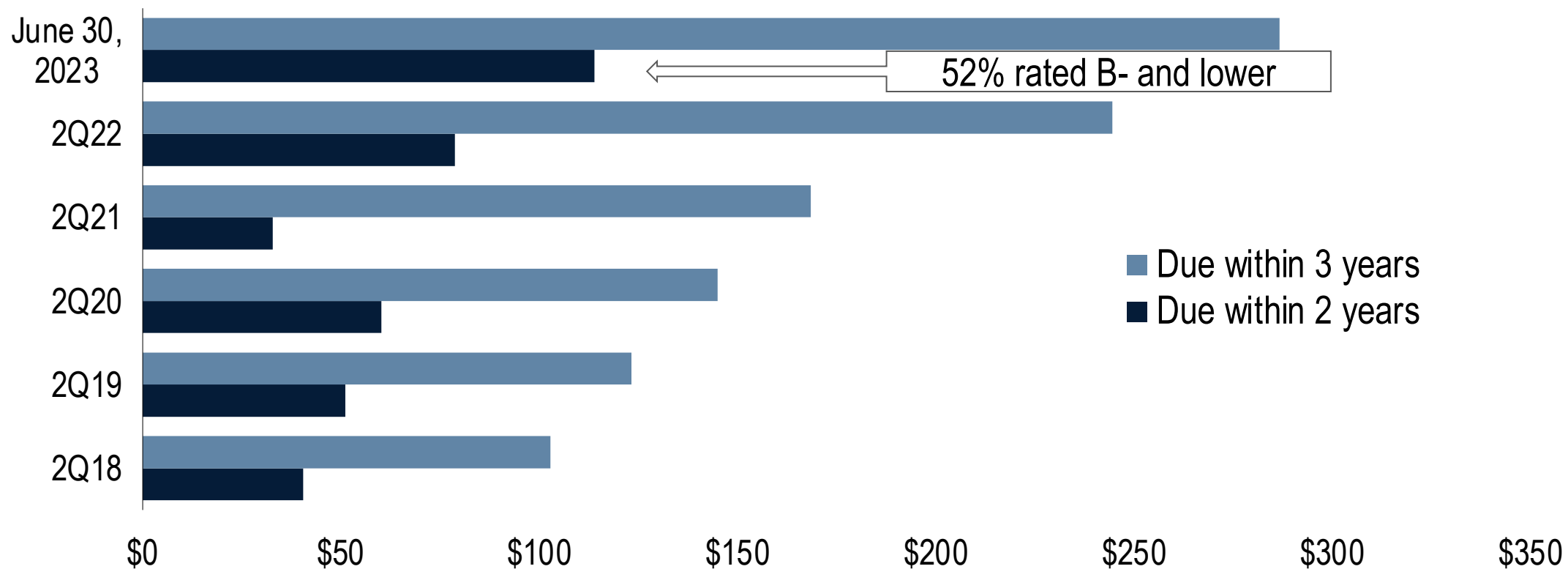
Distressed loan volume eased in June



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through June 30, 2023

Amount due in the next two to three years remains more than any comparable period at the 2Q mark

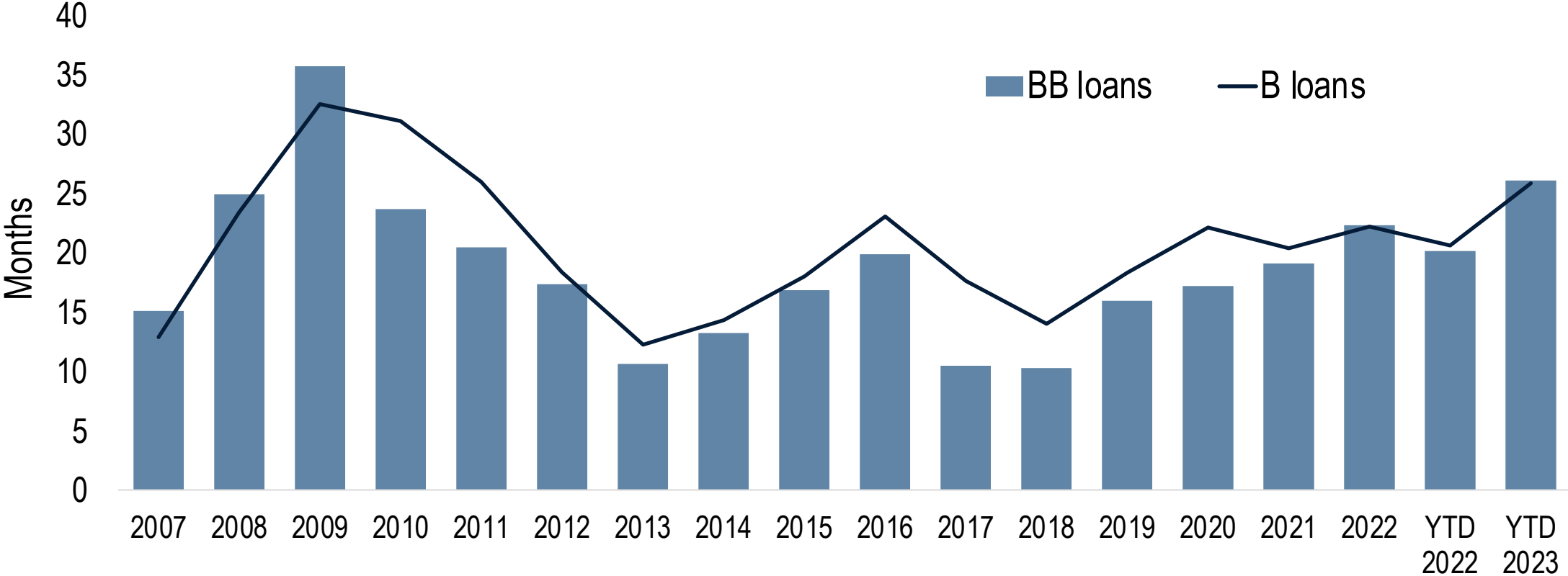
US leveraged loan maturity wall (\$B)



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through June 30, 2023

Graying Market: Average age of loans continues to climb

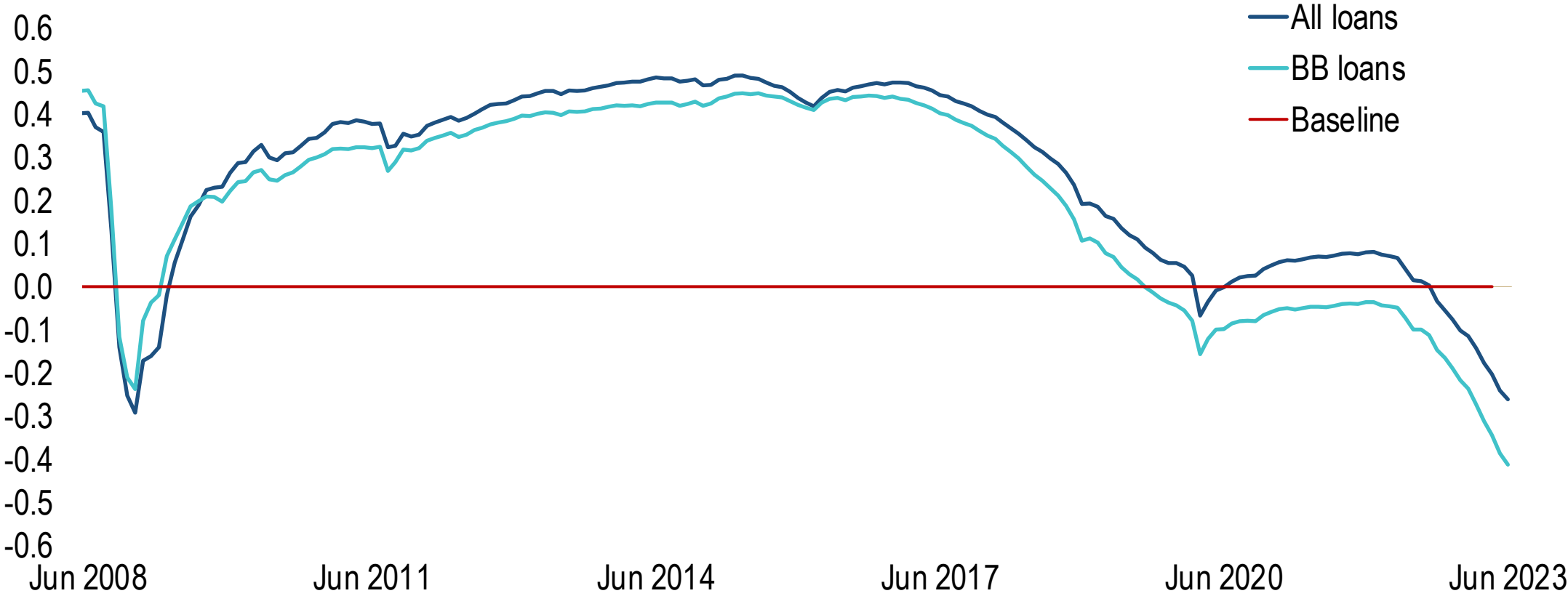
Weighted average age of index loans



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through June 30, 2023

Sharpe ratio most pronounced since 2008

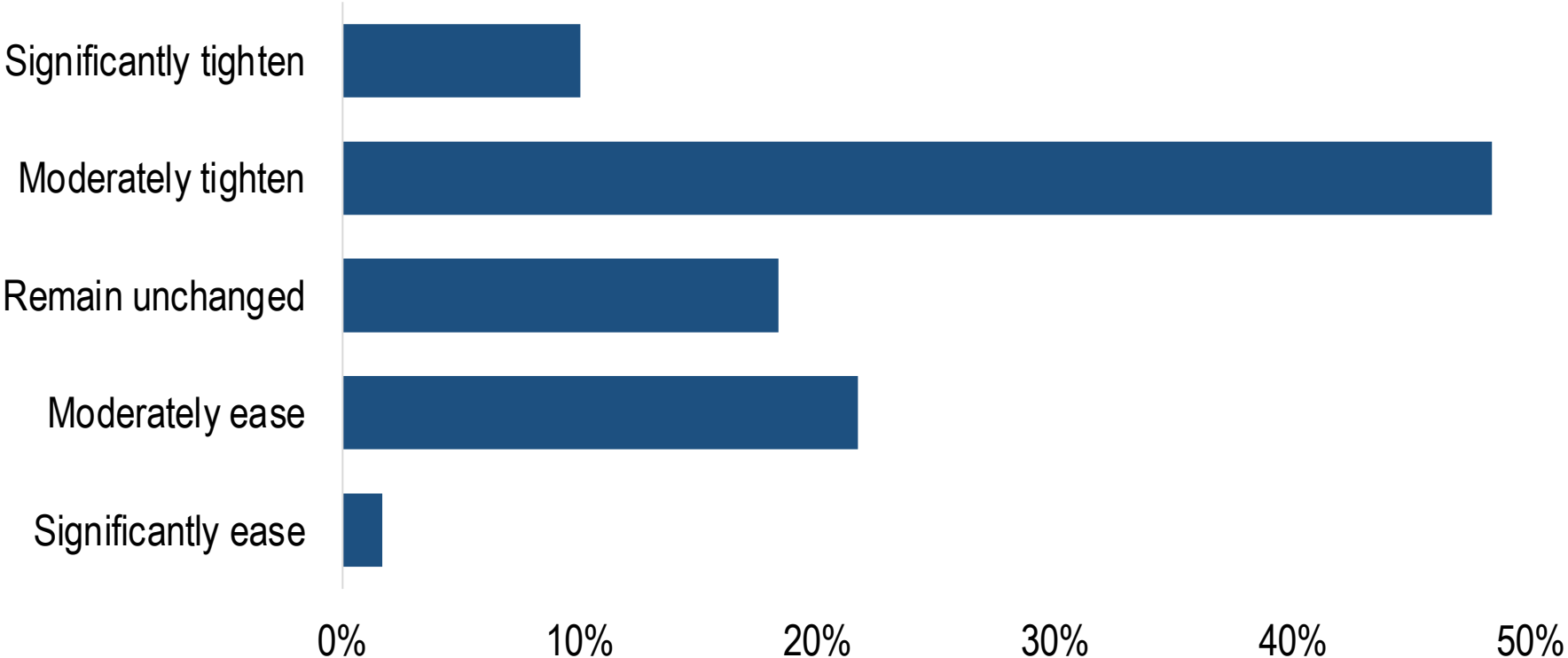
Sharpe ratio: US index loans



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through June 30, 2023

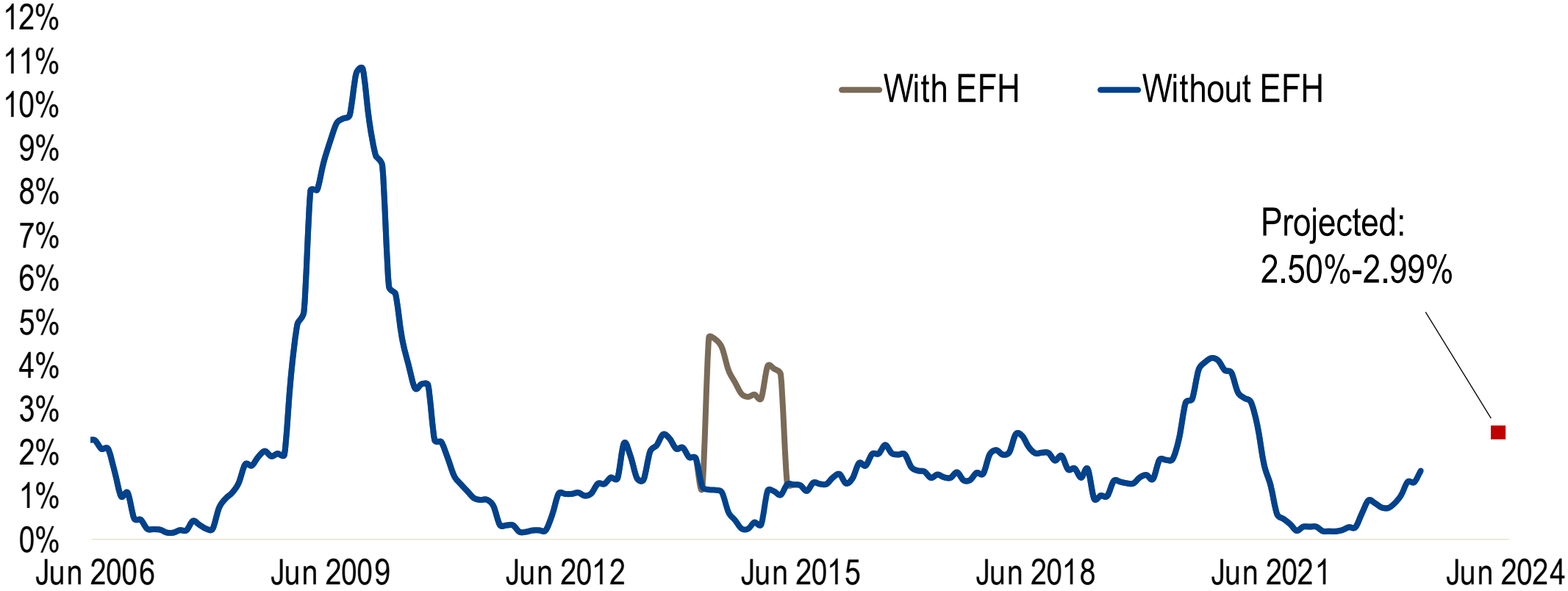
Credit conditions are expected to tighten (moderately)

Do you expect credit conditions for leveraged companies to:



Source: PitchBook | LCD • Data through June 23, 2023

Loan default rate expected to be 2.50-2.99% a year from now

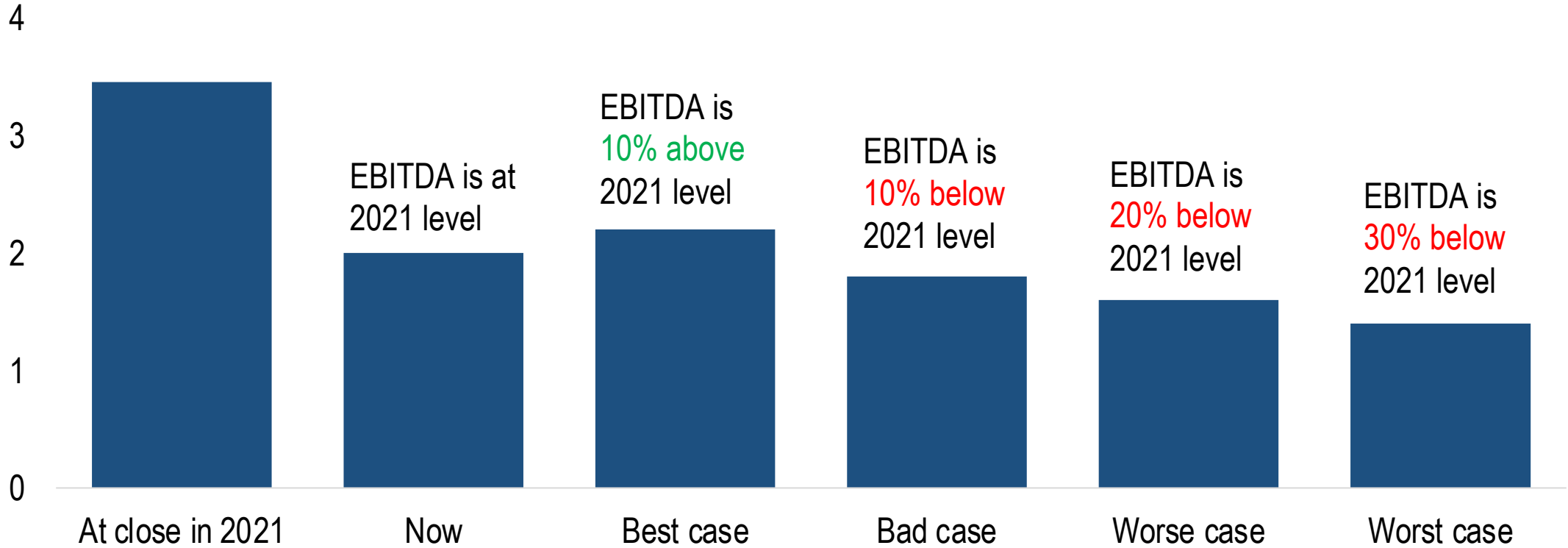


Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through June 23, 2023

Chart shows historical and projected default rates by dollar amount. EFH = Energy Futures Holdings.

How are pre-rate-hike LBOs faring in today's tougher market?

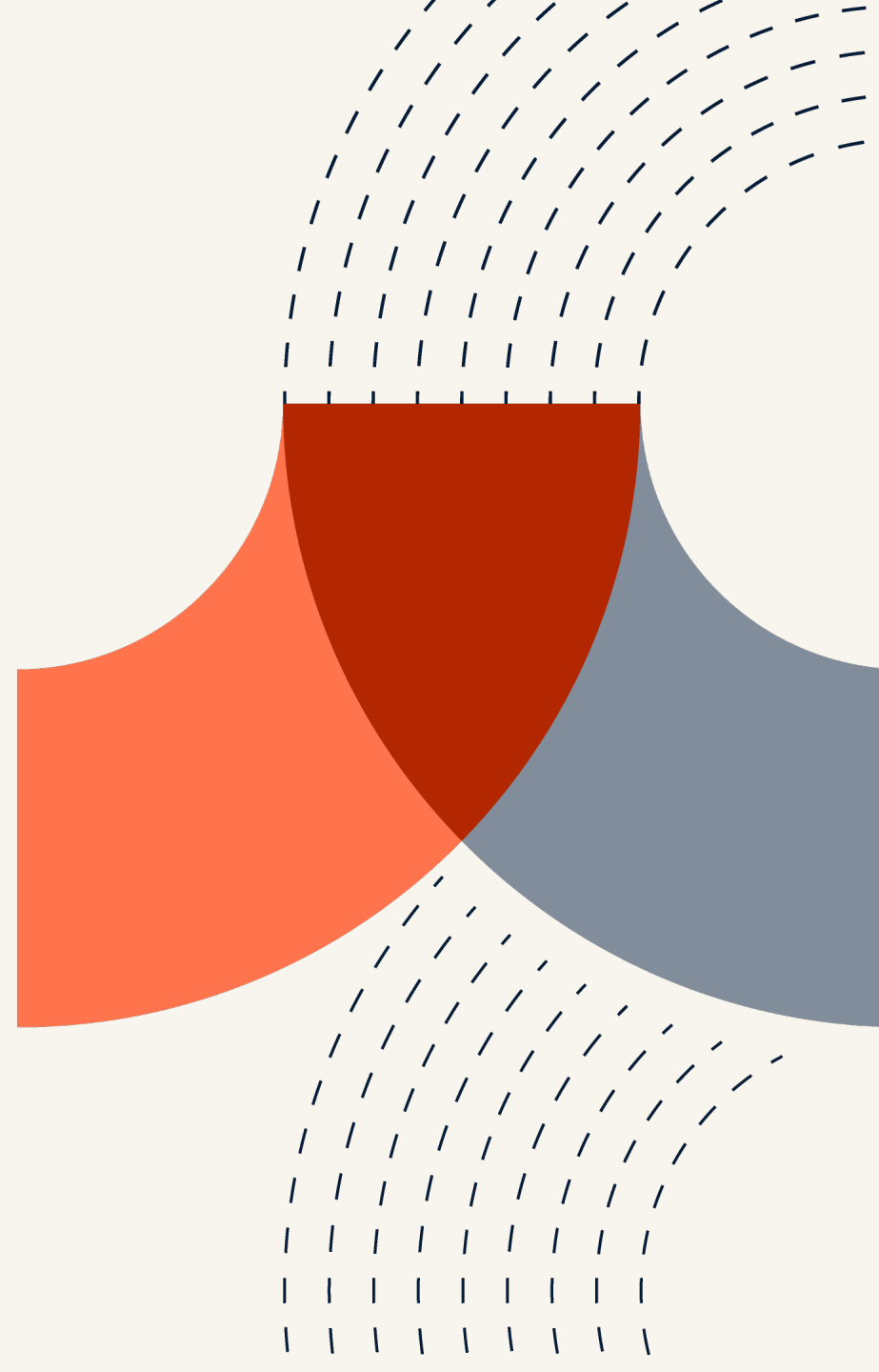
Interest coverage ratio of 20 largest 2021 LBOs



Source: PitchBook | LCD • Data through May 12, 2023

US Private Credit

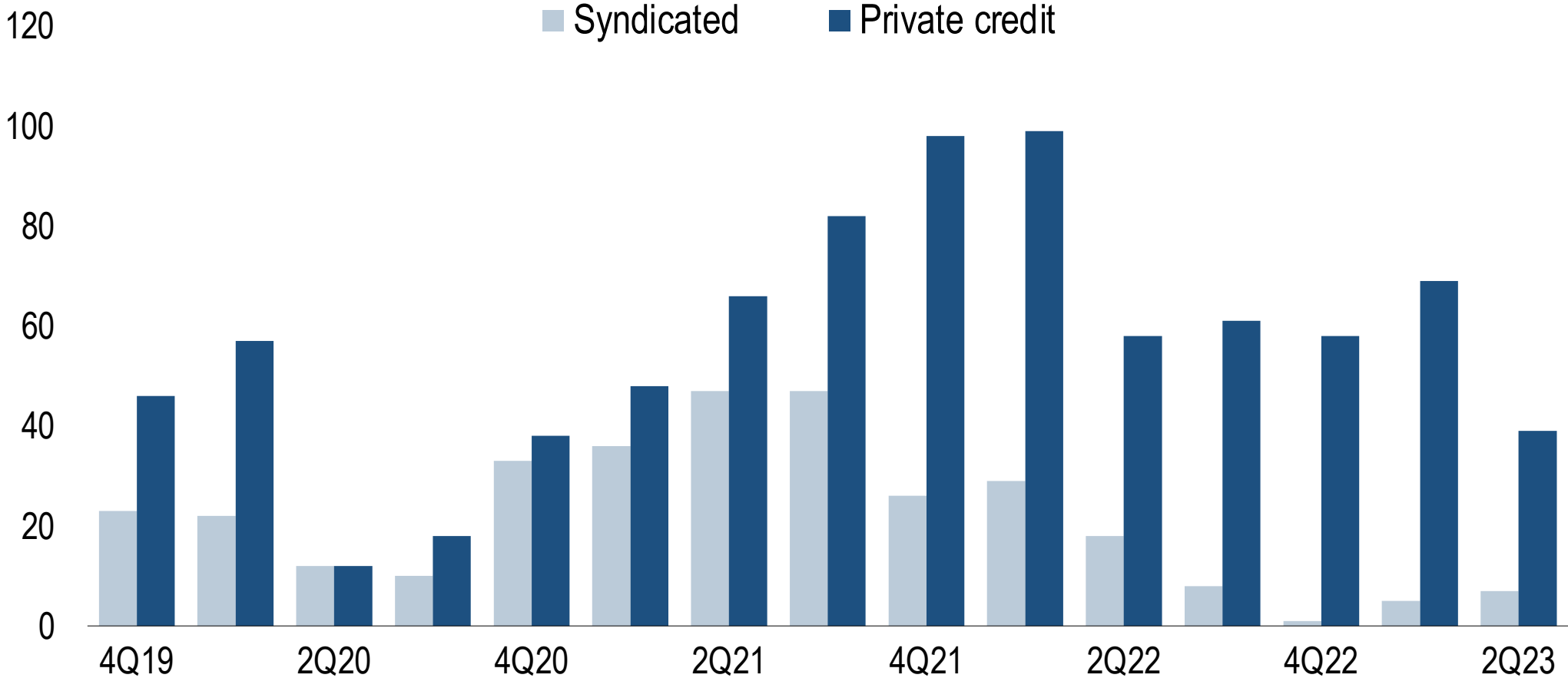
Abby Latour – Editorial Lead,
Private Credit, LCD



What best describes the relationship between private credit and the traditional syndicated loan market, at year-end, and in 2024?

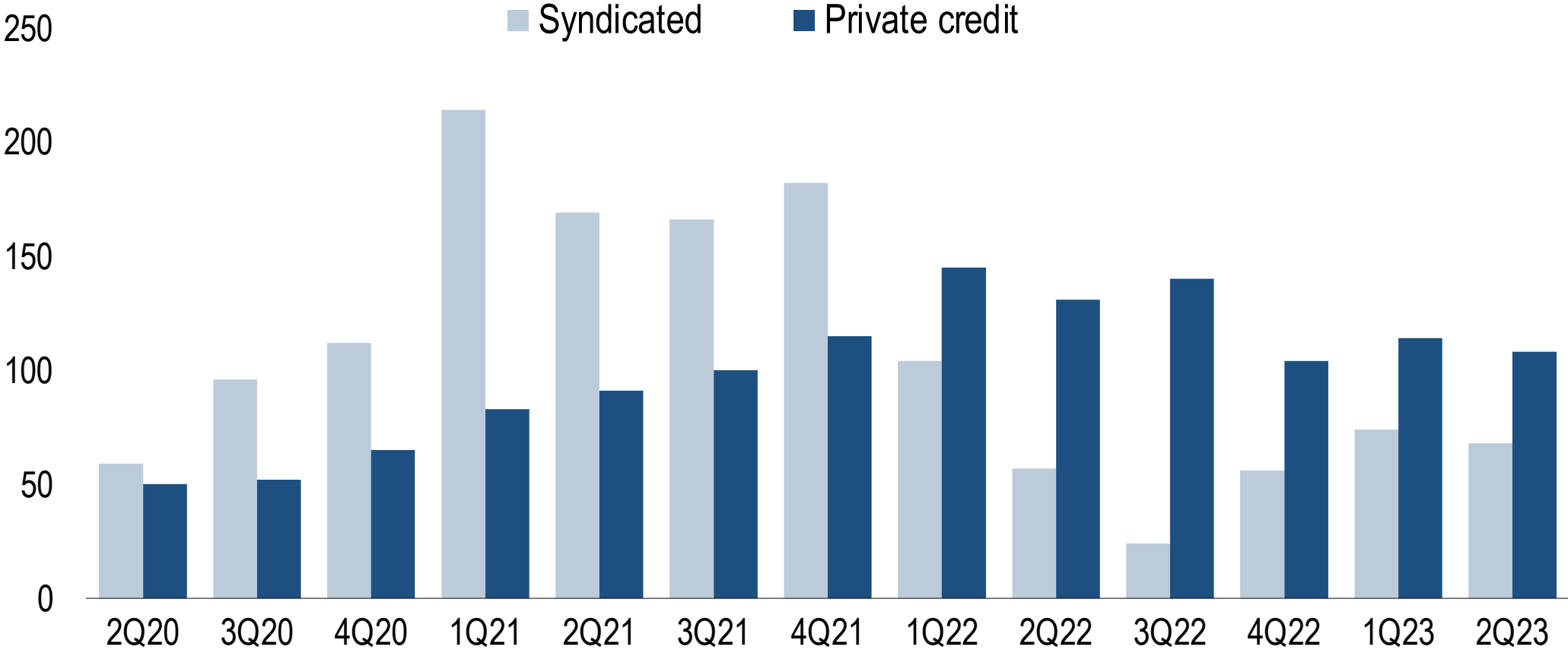
- A** Syndicated loans will return as the dominant form of LBO financing
- B** Syndicated loans will continue to claw back LBO market share from current levels, but not return to 2019 levels
- C** Private credit will become the realm of more-challenged/riskier LBOs, and/or during periods of market volatility
- D** Private credit will remain the dominant source of LBO financing, further building on market share established in 2020 - 2022

Count of LBOs financed in BSL vs private credit markets



Source: PitchBook | LCD • Data through June 30, 2023
Private credit count is based on transactions covered by LCD News

Count of non-LBOs financed in BSL vs private credit markets



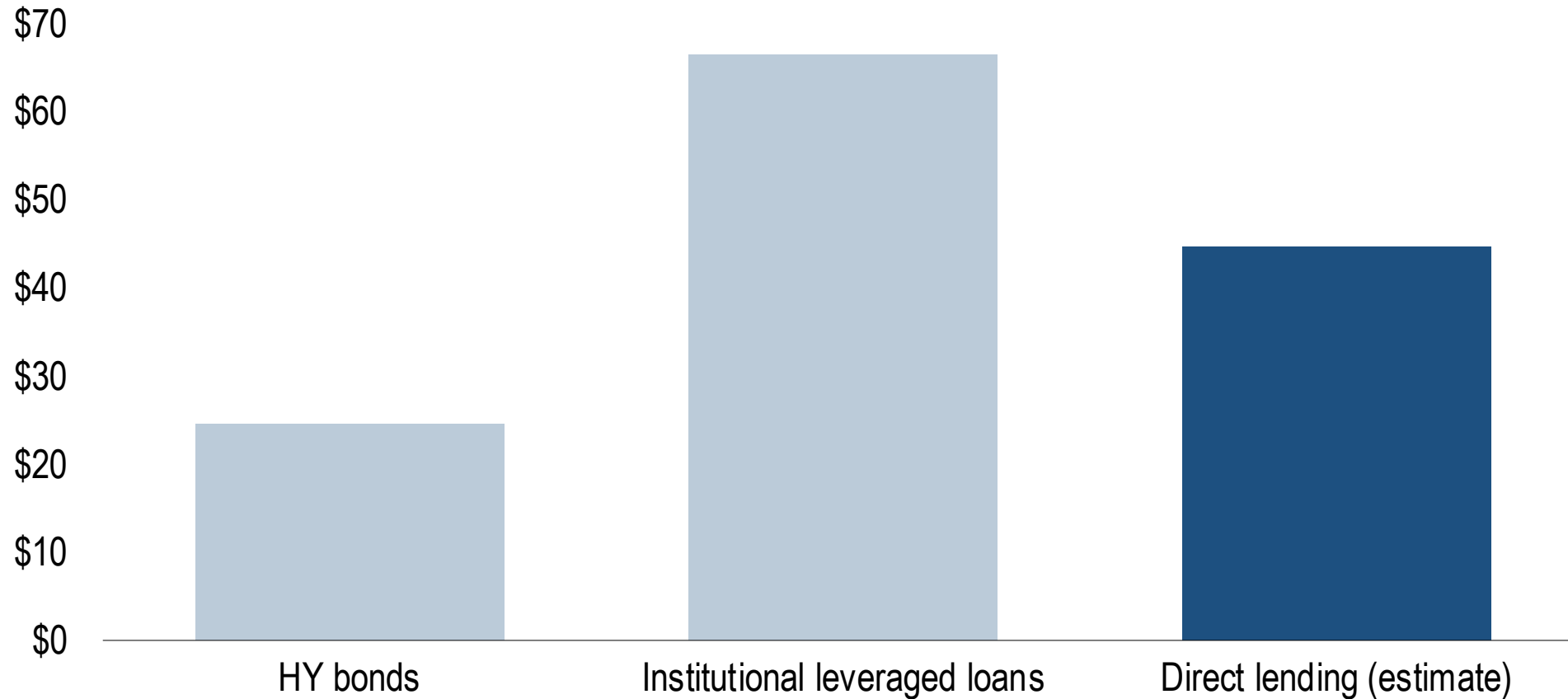
Source: PitchBook | LCD • Data through June 30, 2023
Private credit count is based on transactions covered by LCD News

New-issue volume to fund M&A: 1H23 (\$B)



Source: PitchBook | LCD • Data through June 30, 2023
Direct Lending analysis is based on transactions covered by LCD News

New-issue volume for PE-backed borrowers: 1H23 (\$B)



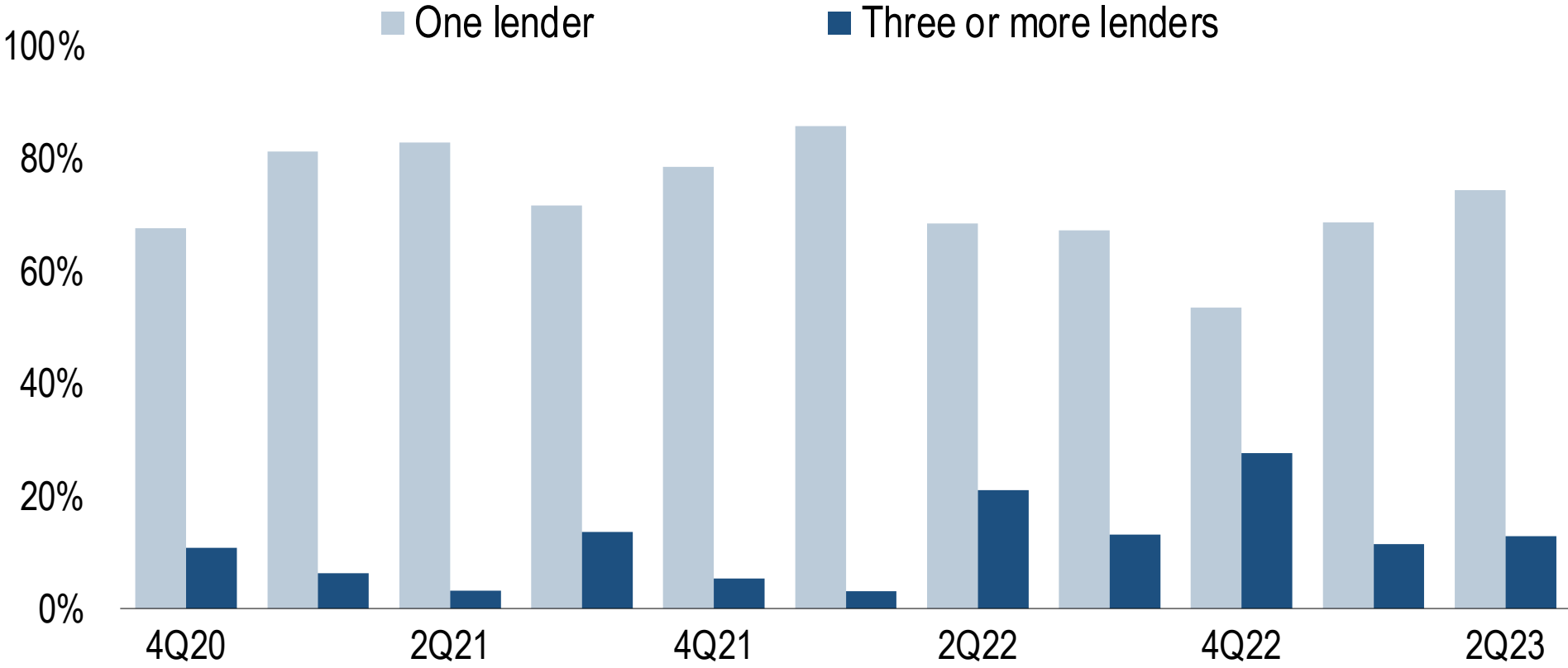
Source: PitchBook | LCD • Data through June 30, 2023
Direct Lending analysis is based on transactions covered by LCD News

Total new-issue volume: 1H23 (\$B)



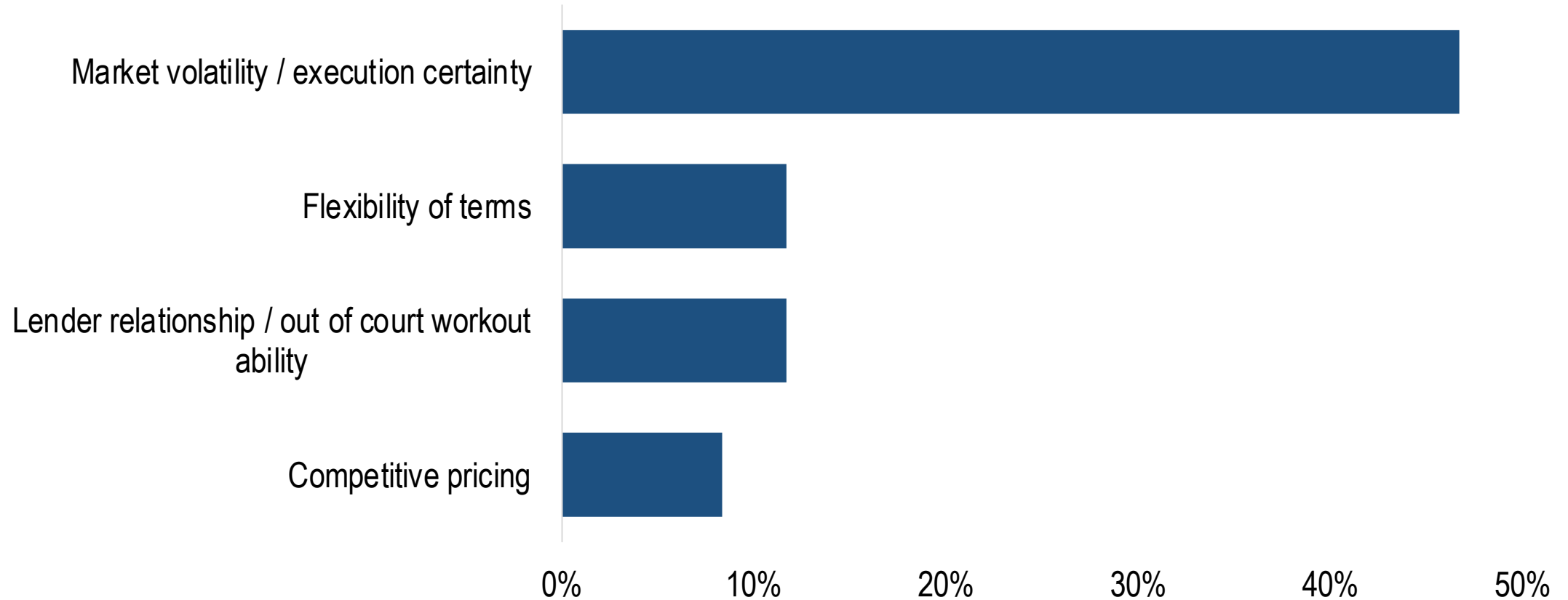
Source: PitchBook | LCD • Data through June 30, 2023
Direct Lending analysis is based on transactions covered by LCD News

Share of LBOs financed in private credit market



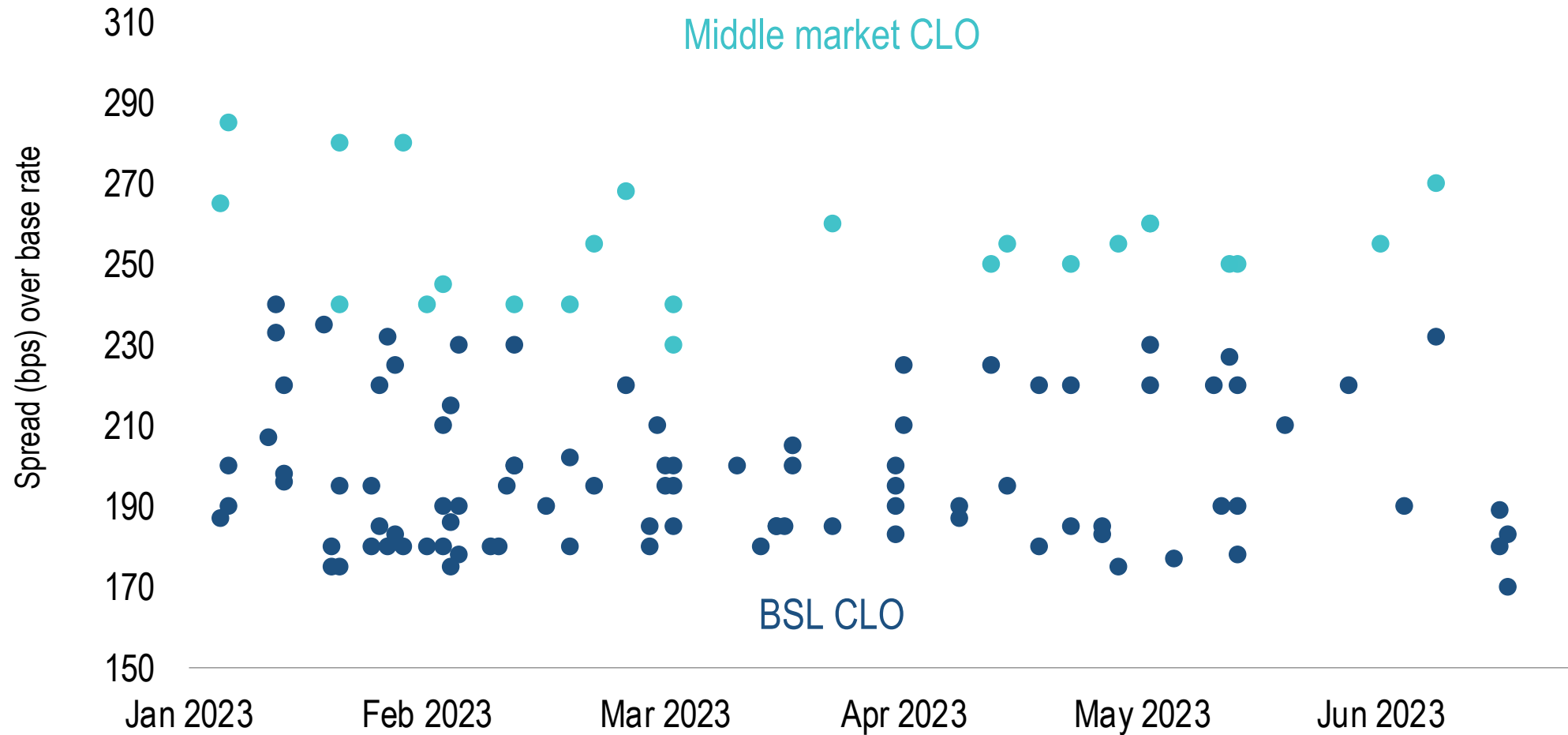
Source: PitchBook | LCD • Data through June 30, 2023
Analysis is based on transactions covered by LCD News

What is the most important factor driving borrowers to fund in the private credit markets, vs the BSL markets?



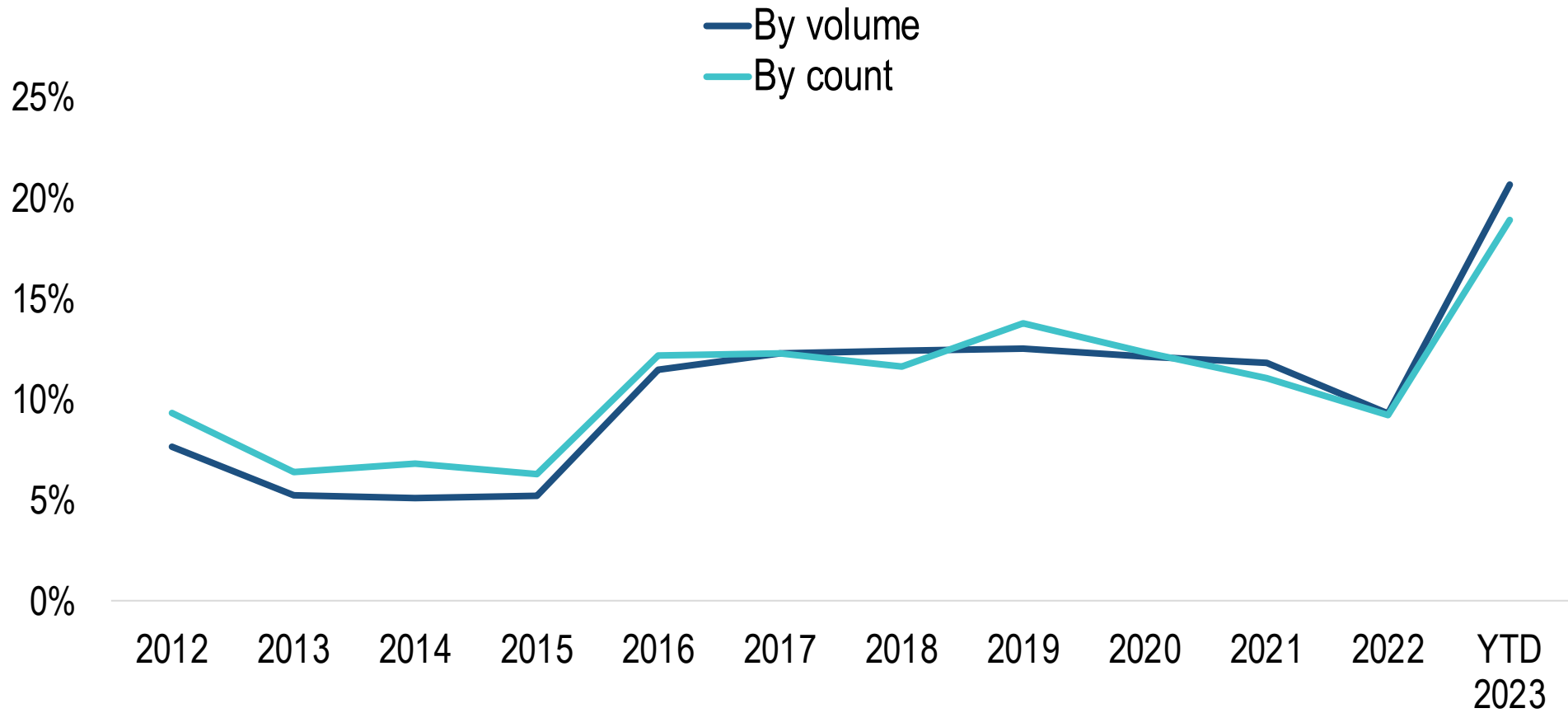
Source: PitchBook | LCD • Data through June 23, 2023

US CLO AAA coupon – MM vs BSL



Source: PitchBook | LCD • Data through June 30, 2023 • Chart excludes static CLOs

US middle market CLO share of total CLO issuance



Source: PitchBook | LCD • Data through June 30, 2023

The background features a repeating pattern of large, overlapping circles. The circles are divided into four quadrants by a central horizontal and vertical line. The top-left and bottom-right quadrants are filled with a solid orange color, while the top-right and bottom-left quadrants are filled with a solid grey color. In the center of each circle, there are several concentric dashed lines. The top-left and bottom-right circles have orange dashed lines, while the top-right and bottom-left circles have grey dashed lines. The text "Q & A" is centered in the white space between the circles.

Q & A

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