Dealogic Insights: White Paper

Debt Wall & Call Protection Timing

Opportunities in US Institutional Loans

December 2017

dealogic

This year's leveraged finance (LevFin) market was led by repricing and refinancing. Both corporate issuers and sponsors took advantage of a borrower's market, highlighted by average pricing hitting a 5-year low of **408bps in Q1 2017** and excess investor demand.

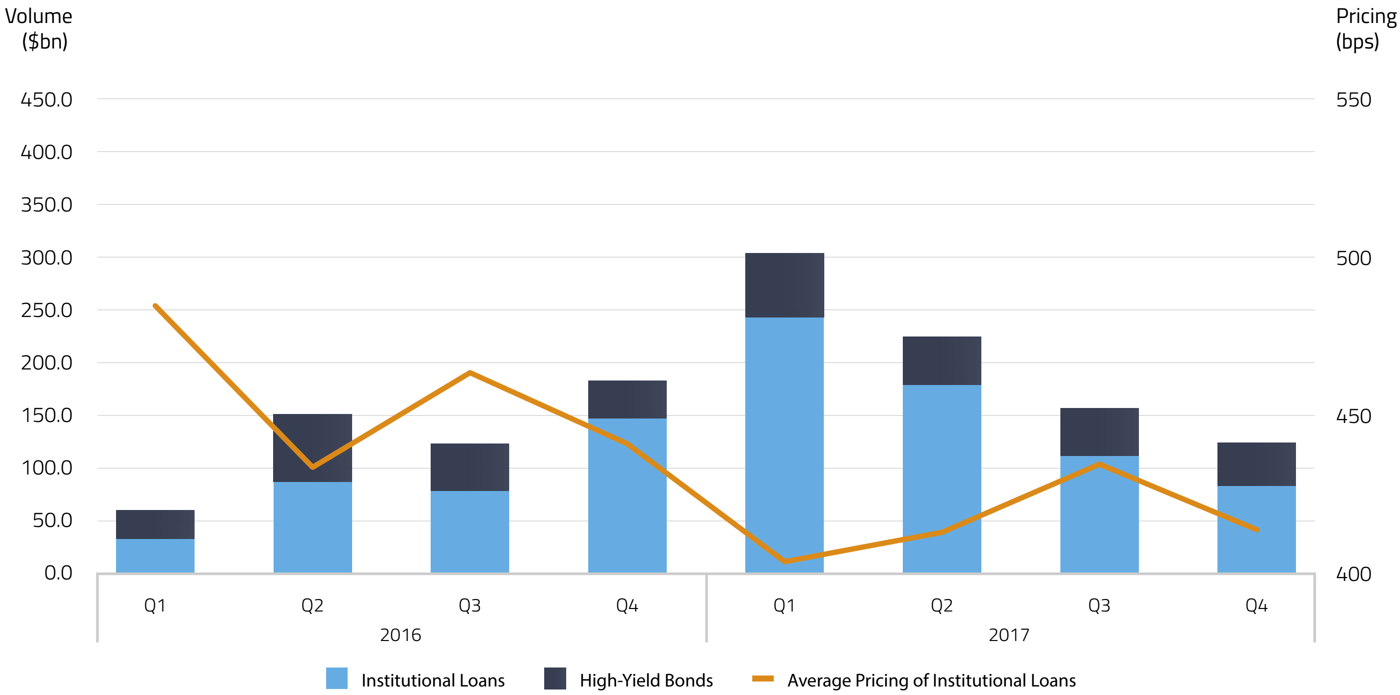
Going into 2018, the debt wall presents **significant refinancing opportunities**—and knowing when they are likely to happen and in which sectors may help in securing mandates.

Institutional loans spearhead LevFin market

The current landscape lays a foundation for opportunities from maturing debt. **US core LevFin volume**[1] stood at $1.08tr this YTD,[2] a **74% increase** from the previous YTD ($621.4bn). This uptick is attributed to the **rise of institutional loans**, which jumped **102%** to $830.5bn for 2017 YTD from the previous YTD ($411.8bn). Such issuance has been **driven by refinancing/repricing**, which accounted for 69.7% ($579.0bn) of US institutional loans volume in 2017 YTD.

Even though volume and activity of refinancing loans have progressively dipped from quarter to quarter as margins went on the rise, 2017 YTD remains strong after an impressive start (Chart 1).

Chart 1 - Quarterly US core LevFin volume



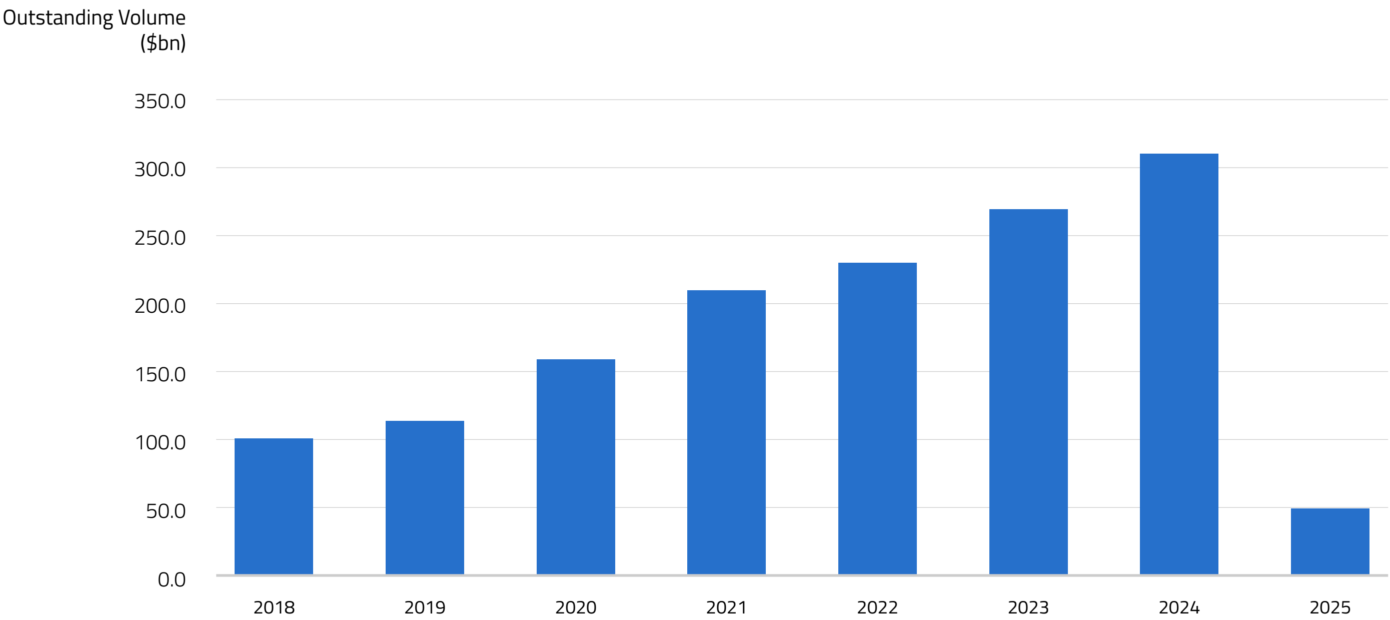
1 Core LevFin consists of institutional loans and high-yield bonds.
2 Data source: Dealogic, as of December 1, 2017

Growing debt wall peaks in 2024

Refinancing has always been a major part of US institutional loans activity, and understanding the debt wall could indicate where future refinancing opportunities lie. Outstanding US-marketed institutional loans total **$1.44tr** currently (Chart 2).

From 2018 onward, debt coming due will grow on average **21% year-on-year** until 2024, partly thanks to the huge issuance this YTD. At the **peak of the debt wall in 2024**, $310.5bn of debt is set to mature.

Chart 2 - Debt wall of US institutional loans



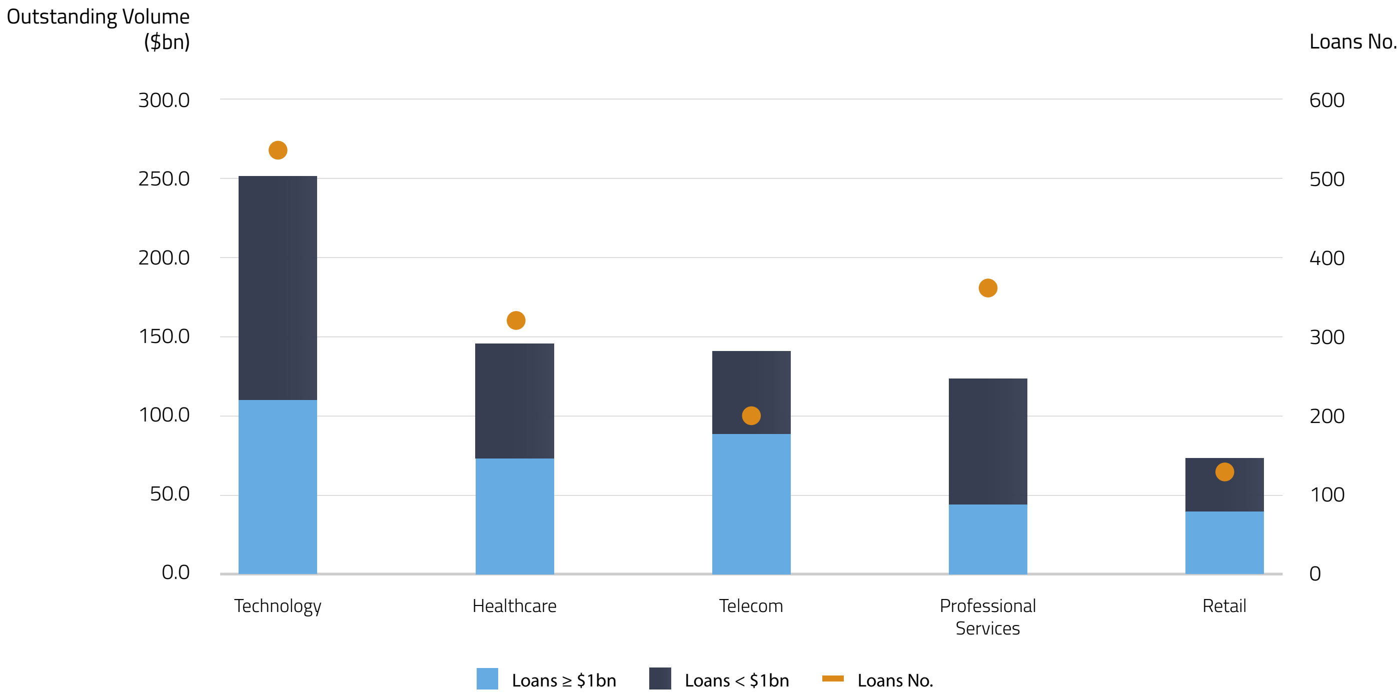
Technology draws the most debt

From an industry perspective, firms in the **technology** sector lead with $252.5bn of US institutional debt due, of which $176.2bn belong to software companies (Chart 3).
With a 17.5% share of outstanding loans volume, tech is far ahead of the next two sectors, which are **healthcare** (10.2%) and **telecom** (9.9%). Key jumbo tech transactions include the $5.1bn Change Healthcare institutional loan due in 2024 and Dell's $5.0bn loan maturing in 2023.[3]

3 *Jumbo loans are defined as those worth $1.0bn or more.*

Interestingly, **jumbo deals** as a share of loans volume differ from sector to sector. In tech, which sees strong activity, they account for less than half of outstanding volume (45.0%). On the other hand, telecom ranks third by outstanding volume but offers a smaller pool of deals for refinancing compared to professional services, in fourth. Jumbo telecom deals account for 62.2% of sector volume, and a key example is the $6.0bn term loan of CenturyLink maturing in 2025.

Chart 3 - Top 5 sectors by outstanding US institutional loans



Timing for refinancing

Based on deals signed from 2013 to 2017 YTD, the average tenor for US institutional facilities is 6 years. Of the amendments/refinancings over the last 5 years, 59.0% happened after the first 12 months of signing. For such debt, borrowers will on average come back to the market **3.6 years ahead** of the maturity date. This implies that deals due 3 to 4 years from now may begin to see amendments/refinancing in the near future (Table 1).

Table 1: Top 10 US Institutional Loans due in 2020-2021 by Net Revenue

Company	Deal Value ($bn)	Primary Use of Proceeds	Margin (bps)	Deal Industry	Net Revenue ($m)	Signing Date	Maturity Date	Lead Left
LightSquared	3.1	Exit Financing	1250	Telecom	63	7-Dec-15	7-Dec-20	JEFF
MultiPlan	2.2	LBO/MBO	325	Healthcare	50	31-Mar-14	31-Mar-21	Barclays
Johnson & Johnson Ortho-Clinical Diagnostics	2.2	LBO/MBO	375	Healthcare	49	30-Jun-14	30-Jun-21	Barclays
Hudson's Bay	2.0	Acquisitions	375	Retail	46	4-Nov-13	4-Nov-20	BAML
IMG Worldwide	1.9	LBO/MBO	425	Leisure & Recreation	43	6-May-14	31-Mar-21	JPM
Advantage Sales & Marketing	1.8	LBO/MBO	325	Professional Services	41	25-Jul-14	25-Jul-21	BAML
Fieldwood Energy	1.7	Acquisitions	550	Oil & Gas	40	30-Sep-13	30-Sep-20	JPM
Foresight Energy LP Murray Energy Corp	1.7	Acquisitions	650	Mining	35	16-Apr-15	9-Apr-20	DB
NXP BV	2.7	Acquisitions	300	Technology	34	7-Dec-15	7-Dec-20	CS
Cablevision Systems Corp CSC Holdings	2.4	Repay Debt	250	Telecom	33	17-Apr-13	17-Apr-20	BAML

Call protection data gives sense of timing

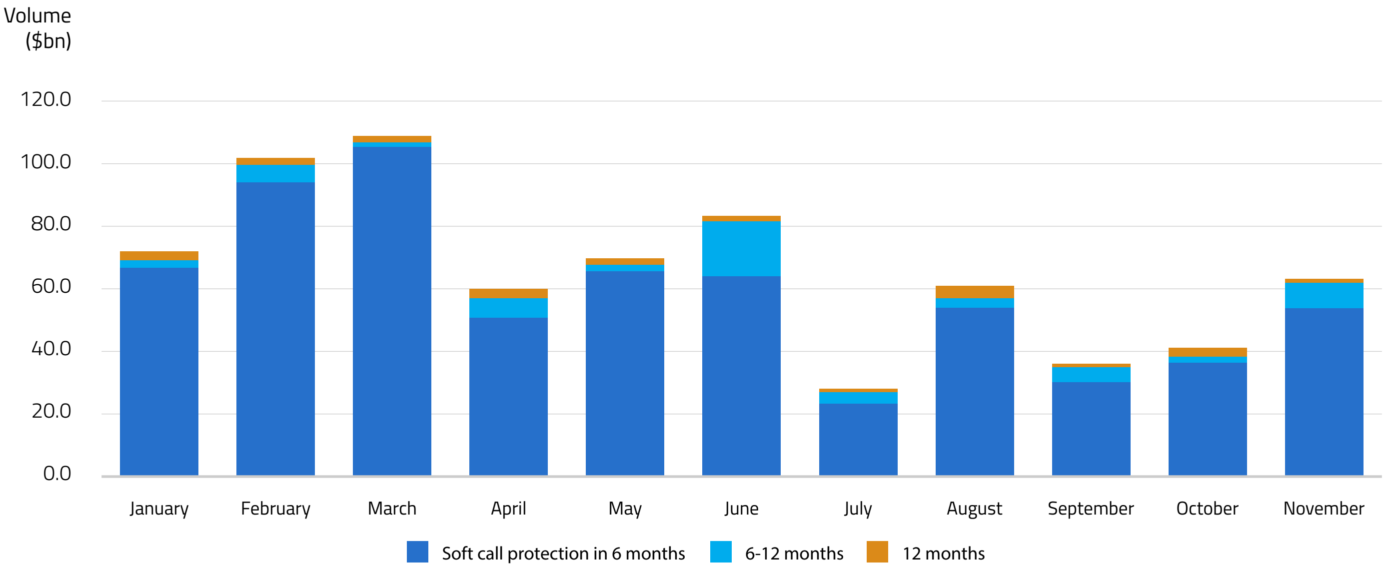
For the remaining 41.0% of institutional volume over the last 5 years that was refinanced/ amended within 12 months of signing, **soft call protection periods** combined with **loan pricing evolution** could have indicated when borrowers returned to the market.[4]

This YTD, 77 deals have been refinanced within 12 months of signing, of which only 7.8% was executed during the standard 6-month soft call period and 3.9% on the **exact day** when the protection expired. For instance, CityCenter Holding's term loan ($1.2bn, signed in January) was repriced from 275bps to 250bps ($1.6bn) in April, within the 101 soft call protection.

Though borrowers have strong incentives to refinance in the current low-interest-rate environment for better rates, they may hesitate because of **premium payments** required by **soft call** protections. Based on disclosed data, 87.6% ($727.8bn) of US institutional loans volume this YTD had soft call protection at the time of signing. Most of this volume has soft call protection for **6 months** (89.4%), followed by **6–12 months** (7.8%) and **12 months** (2.8%) (Chart 4).

4 Soft call protection is a provision added to fixed-income securities that requires issuers to pay a premium if they want to redeem the security early.

Chart 4 - Soft call protection on institutional loans signed in 2017 YTD



Of the $659.3bn in loans signed this YTD and yet to mature, an **outstanding $297.3bn** already have their soft call protection **rolled off**. By the end of Q1 2018, an additional $179.8bn worth of outstanding US institutional loans will be free from premiums, reaching a total of **$477.1bn**.

Again, the **technology** sector accounts for the highest outstanding volume in 2018 for expiring soft call protection, with $53.4bn via 65 deals. Opportunities on the horizon to refinance larger institutional deals in the sector include $2.3bn from Travelport, and Internet Brands' $2.2bn loan with protections expiring in Q1 2018 (Table 2).

Table 2: US Institutional Tech Loans signed 2017 YTD by Net Revenue

Company	Deal Value ($bn)	Primary Use of Proceeds	Margin (bps)	Net Revenue ($m)	Signing Date	Maturity Date	Call Protection Expiration Date	Lead Left
Change Healthcare Holdings	5.1	ACQ	275	102	01-Mar-17	01-Mar-24	1-Sep-17	BAML
Misys	3.6	ACQ	350	81	13-Jun-17	13-Jun-22	13-Dec-17	MS
Internet Brands	2.2	ACQ	375	51	15-Sep-17	15-Sep-24	15-Mar-18	CS
Micro Focus International	3.0	ACQ	275	45	21-Jun-17	31-Aug-24	21-Dec-17	JPM
First Data	4.2	REF	250	42	26-Apr-17	26-Apr-24	26-Oct-17	CS
Red Ventures	2.0	ACQ	400	40	08-Nov-17	08-Nov-24	8-Nov-18	BAML
DigiCert	1.4	ACQ	475	30	31-Oct-17	31-Oct-24	1-May-18	UBS
Peak 10	1.2	ACQ	350	27	01-Aug-17	01-Aug-24	1-Feb-18	JPM
McAfee	2.6	DIV	450	26	29-Sep-17	29-Sep-24	29-Sep-18	MS
CCC Information Services Group	1.0	LBO	300	23	27-Apr-17	27-Apr-24	27-Oct-17	JEFF

Conclusion: where to look for mandates

$1.39tr of US institutional loans will mature by 2024, and refinancing opportunities can be uncovered through leading sectors, average timing, and expiring call protections.

- Sectors with the most outstanding debt are **technology**, **healthcare**, and **telecom**.
- From a timing perspective, 59.0% of institutional loans volume was refinanced more than 12 months after signing—and on average, **3.6 years ahead of maturity**.
- For deals refinanced within 12 months of signing, **expiring soft call protections** likely signal when borrowers will return to the market.

The progressive increase in margins could hinder borrowers and sponsors from coming to the market. However, if investor appetite for institutional loans in 2018 remains strong, refinancing for the growing debt wall will provide significant opportunities, especially as expiring protections create a window for refinancing and winning on lead-left mandates for such facilities.

Written by Mario Marriott and Krisztina Mérő – Dealogic Research

Part of our Fixed Income research team, Mario works from New York and Krisztina from Budapest. They focus on debt maturity and loans, including corporate, leveraged, and structured finance.

dealogic.com | twitter.com/dealogic | linkedin.com/company/dealogic

New York
(+1) 212 577 4400

London
(+44) 20 7440 6000

Hong Kong
(+852) 3698 4700

Tokyo
(+813) 6731 2000

Sydney
(+61) 2 8249 4438

Mumbai
(+91) 22 6700 0616

Budapest
(+36) 1 411 8500

Sao Paulo
(+55) 11 3443 6303

Beijing
(+86) 10 6535 0338

Singapore
(+65) 6407 1020