

Repricing Reboot

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As we mentioned in the loans section of last week's *U.S. Credit Alpha*, the issuer-friendly nature of recent market conditions has led us to expect an increase in repricing transactions. On this front, issuers have not disappointed: no fewer than 13 repricing efforts have been launched over the past five trading days, with at least three more expected to launch on Thursday or Friday. The general profile of these deals is consistent with our analysis of the types of loans that typically carry the greatest repricing risk. First, the vast majority of these issuers have equity sponsors, a key factor that drives issuer opportunism. Second, the original loans were of recent vintage, with all but one having priced in 2011 or 2012. Third, the issuers were generally of higher-than-average quality, carrying credit ratings of B1 or higher. Finally, all of the original loans had coupon spreads (including the effect of Libor floors) that were well above current new issue levels, causing the legacy loans to trade above par despite their relative lack of call protection. Where these factors align, repricings typically follow, and this week they have. On average, the issuers listed in Figure 1 are lowering their coupon spread by roughly 75bp while also reducing their Libor floors by an average of nearly 25bp, thereby taking out approximately one point in effective nominal coupon for the foreseeable future. Reductions of this magnitude more than offset the one point in premium that some issuers are required to pay because of 101 soft call provisions, making the economics of these transactions fairly compelling even if the original loan is less than a year old.

Despite the somewhat softer market tone this week, we believe conditions remain favorable for further repricing activity. To screen for potential repricing candidates, we used a set of conditions that we introduced in *Repricing Loans – Where's the Call Protection*, February 11, 2011, during the original post-crisis repricing wave. The criteria are as follows:

Figure 1: Recently Launched Loan Repricing Transactions

Issuer	Launch Date	Sponsor	Repriced Loan Offering			Original Loan Terms		Change from Original	
			Size	Spread	Libor Floor	Spread	Libor Floor	Spread	Libor Floor
GNC	9/20/12	Ares Management	\$1,100	275	100	300	125	-25	-25
Intelsat Jackson	9/20/12	BC Partners	\$3,218	325	125	375	150	-50	-25
Pilot Travel	9/20/12	CVC	\$971	275-300	75	325	100	-25 -50	-25
Camp Systems	9/21/12	GTCR Golder Rauner	\$245	400-425	125	525	125	-100 -125	0
Royalty Pharma	9/24/12	Not Sponsored	\$2,718	250-275	0.75	292.25	100	-17.25 -42.25	-99.25
Savers	9/24/12	Leonard Green	\$715	375	125	500	125	-125	0
Terex	9/24/12	Not Sponsored	\$452	350	100	400	150	-50	-50
Harron Comm.	9/25/12	Boston Ventures	\$250	375	125	375	150	0	-25
Level 3 Financing	9/25/12	Not Sponsored	\$1,200	325	150	425	150	-100	0
Rexnord	9/25/12	Apollo Management	\$950	350	100	400	100	-50	0
Tank Holding	9/25/12	Leonard Green	\$350	425	125	550	125	-125	0
Valeant	9/25/12	Not Sponsored	\$1,300	325	100	375	100	-50	0
Zayo	9/26/12	Columbia Capital	\$1,620	375-400	125	587.5	125	-187.5 -212.5	0
National Mentor	9/27/12	Vestar Capital Partners	\$550	475-500	125	525	175	-25 -50	-50
Rocket Software	9/27/12	Court Square Capital	\$300	450	125	550	150	-100	-25
Roofing Supply	9/27/12	Clayton, Dubilier & Rice	\$315.00	375	125	525	125	-150	0

Source: S&P LCD, Barclays Research

- Higher Coupons: Loans with nominal spreads \geq 375bp and Libor floors \geq 150bp are likely to be targeted, given that primary market spreads have narrowed and Libor floors of 125bp or lower have become the standard.
- Price: Trading above par.
- Size: Tranche size > \$400mn. Larger tranches potentially offer more liquid trading opportunities.
- Recent vintage: Existing loan issued in 2011 or 2012.
- Higher-rated companies: Double- and single-B rated companies are more likely to be able to execute a repricing, as recent deals have clearly demonstrated.
- Sponsor-related: Companies with sponsor support are more likely to be proactive in this process.

Based on those criteria, the loans in Figure 2 appear to be potential candidates for repricing, provided market conditions stabilize near current levels.

Figure 2: Potential Candidates for Loan Repricing

Issuer	Facility	Issue Date	S&P Rating	Size (\$mn)	Nominal Spread (bp)	Cov Lite	Libor Floor (bp)	Bid Price
Academy Sports & Outdoors	Term Loan	7/27/11	B	840	450	Yes	150	100.25
Arizona Chemical Company	Term Loan	12/6/11	BB-	550	575	No	150	101.75
Asurion Corporation	1ST Lien TL	5/23/11	BB-	2,200	400	Yes	150	100.50
Asurion Corporation	2ND Lien TL	5/23/11	B-	1,270	750	Yes	150	103.25
Attachmate Corporation	Term Loan	5/29/12	BB-	1,100	575	No	150	100.75
Blackboard Inc	Term Loan B	9/23/11	B+	780	600	Yes	150	100.50
Brock Holdings III	Term Loan B	3/28/11	B+	510	450	Yes	150	100.25
Emergency Medical Services Corp	Term Loan B	5/20/11	B+	1,440	375	Yes	150	100.50
Endurance International Group	Term Loan B	4/16/12	B	535	625	No	150	100.25
EquiPower Resources Holdings	Term Loan B	6/20/12	BB	685	500	No	150	100.88
Genesys Telecom Holdings	Term Loan	1/31/12	BB-	575	525	Yes	150	101.25
Houghton International	Term Loan B	1/11/11	B	450	500	No	175	100.63
Intelsat Jackson Holdings	Term Loan	1/18/11	BB-	3,250	375	No	150	100.13
Vertafore Inc	Term Loan	2/8/11	B+	550	375	No	150	100.13

Source: S&P LCD, Barclays Research

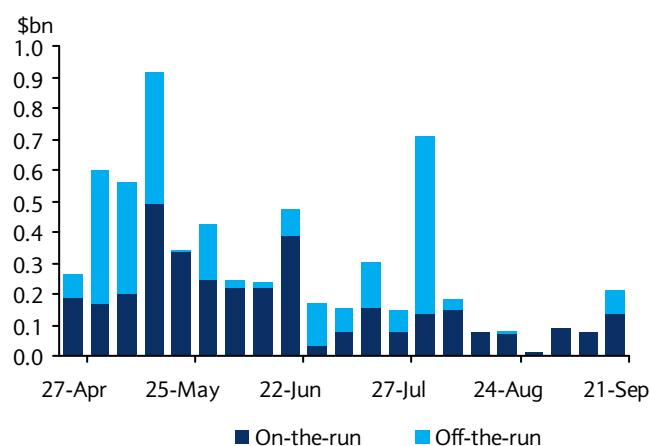
New Issue Volume

Institutional Leveraged Loans	No. of Deals	Amt (\$bn)
Trailing 1m Launches	72	45.3
Forward Calendar	68	37.2
Year-to-Date Priced (ex-repricings)	403	152.4

CLOs (BSL and MM)	No. of Deals	Amt (\$bn)
Forward Calendar	6	2.3
Year-to-Date	77	32.7

Source: Creditflux, Bloomberg, Total Securitization, S&P LCD, Barclays Research

LCDX Weekly New Contract Volume

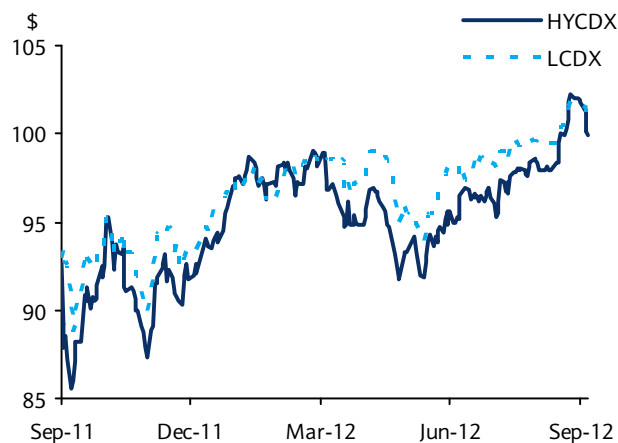


Source: DTCC

LCDX Historical On-the-Run Spreads

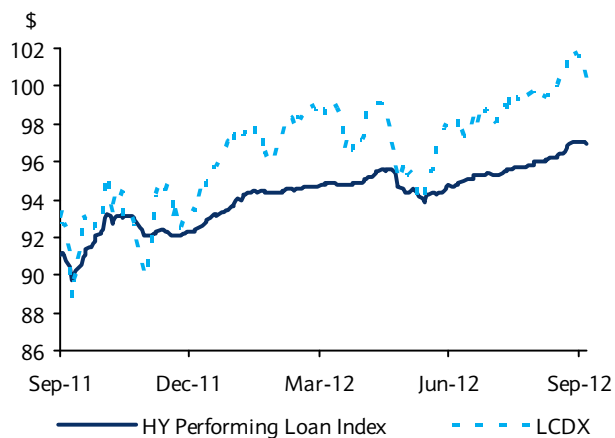
Note: Current market assumes 70% recovery on LCDX.
Source: Barclays Research

On-the-Run HYCDX versus LCDX



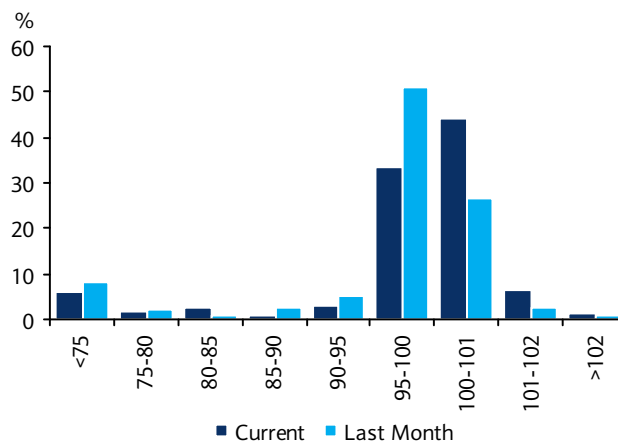
Source: Barclays Research

On-the-Run LCDX versus Loan Index Price History



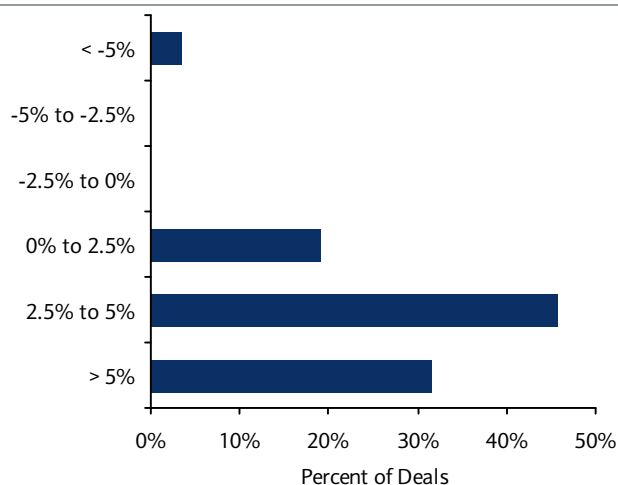
Source: Barclays Research

Loan Index Price Distribution by Par

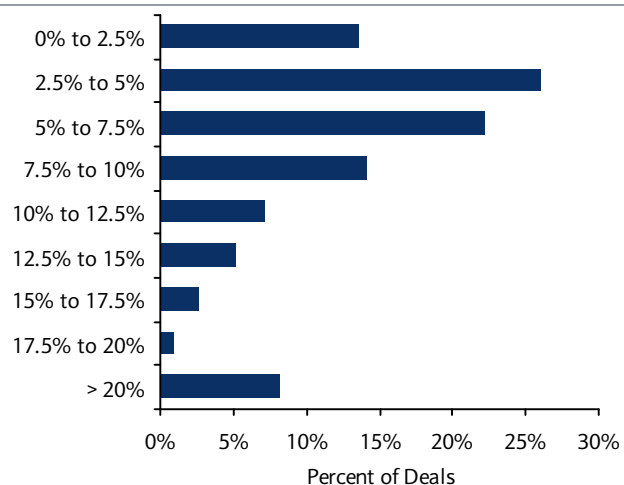


Source: Barclays Research

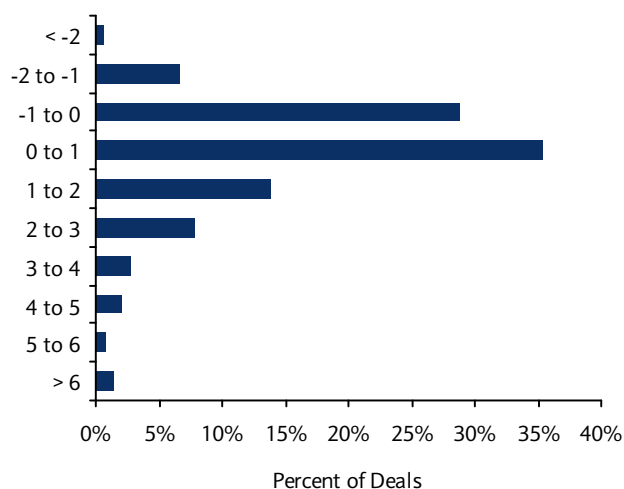
Junior OC Test Cushions for U.S. CLOs



CCC Bucket Size for U.S. CLOs

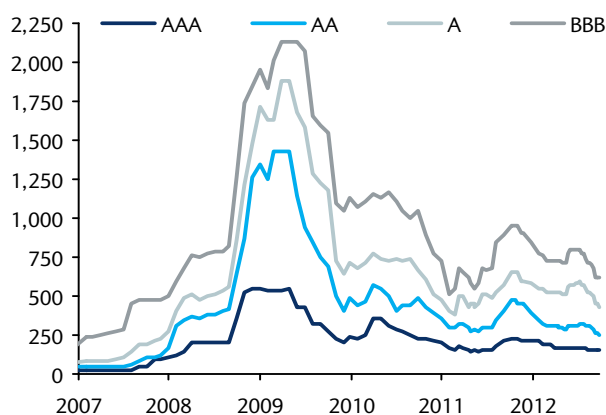


Weighted Average Life (WAL) Test Cushion for U.S. CLOs



U.S. CLO Moody's Ratings Upgrades

Rating as of July 31st	Rating as of July 1st									Total
	Aaa	Aa	A	Baa	Ba	B	Caa	Ca/C	WR	
	Aaa	979	-	-	-	-	-	-	12	
	Aa	10	523	-	-	-	-	-	2	
	A	-	9	356	-	-	-	-	-	
	Baa	-	-	6	361	-	-	-	1	
	Ba	-	-	-	7	551	-	-	4	
	B	-	-	-	-	129	-	-	-	
	Caa	-	-	-	-	-	27	-	-	
	Ca/C	-	-	-	-	-	-	20	-	
	Total	989	532	362	368	551	129	27	20	2,997

U.S. CLO Spread Performance by Rating (bp)¹

Note: ¹ Spread data from BWIC levels.

Source: Moody's Investor Services, Intex, Barclays Research

Cash Amount for U.S. CLOs

	Reinvestment Period		Total
	In	Post	
U.S.			
Cash (\$bn)	5.6	3.7	9.3
Total Par (\$bn)	167.4	74.7	242.1
Cash Percent	3.32%	4.98%	3.83%

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