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(NY) Secondary: Douglas Dynamics' US\$275m loan ticks up as investors seek value - RLPC News

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Equipment manufacturer Douglas Dynamics' US\$275m term loan ticked up near par after breaking for trading this week, underscoring investor appetite for middle market debt in the secondary leveraged loan market.

The company's new loan was quoted at 99-99.75 cents on the dollar on Thursday after it finalized at an original issue discount (OID) of 98.5 a day earlier, according to two sources familiar with the financing.

Douglas Dynamics' deal, rated B2/BB-, offers investors a loan small in size and credit ratings that are still several notches away from Triple C territory. As a result, the financing is a palatable option for Collateralized Loan Obligations (CLOs), the single-largest buyer of new leveraged loans, that may be reluctant to commit to larger-sized, Single B rated loans.

CLOs remain wary of adding loans for companies with ratings that hover too close to Triple C, which sits just a few notches above a default. The funds are concerned about tripping tests within the CLO including the overcollateralization (OC) test or Weighted Average Rating Factor (WARF).

"These smaller deals, or even tiny add-ons for companies are worthwhile for CLOs because these portfolio managers are obligated to improve their WARF tests right now because so many of their loans may be close to or already have defaulted," one fixed-income investor said.

Elsewhere, several larger, liquid loan facilities have started to bounce back in secondary trading alongside the wider recovery across the debt capital markets. However, less liquid loans that don't typically garner the same attention from investors have piqued the interest of buyers looking for viable credit investments in the secondary market.

"The secondary is still attractive in the middle market area," said Art Penn, the managing partner of PennantPark Investment Advisers, which focuses on middle market credit investments. "Pricing has not rebounded in the lower portion of the

broadly syndicated loan market like the larger deals have. So these smaller deals, that were never massively distributed in the first place, provide an opportunity for those comfortable enough to invest in them."

Indeed, small-sized transactions such as middle market insurance brokerage AssuredPartners and Douglas Dynamics underscore this belief.

AssuredPartners finalized a US\$300m term loan at 450bp over Libor and tightened the OID to 98 from an initial pitch of 96-97 cents, Refinitiv LPC reported on May 29.

The loan, which matures in February 2027, was quoted at 98-99 on Wednesday, a source said.

"The secondary market is where a lot of the action has been," added Penn.

The LPC 100, a cohort of the 100 most liquid US leveraged loans, was spotted at 93.6 cents on Wednesday.

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