

PennantPark Sees Lower Leverage, More Covenants in Private Debt (April 6, 2020)
By Kelsey Butler – **Bloomberg**

Middle-market lender PennantPark expects to see lower leverage levels and juicier yields in private credit once the market gets back up and running.

This comes as the \$812 billion market is facing the first major credit disruption since the sector ballooned over the last decade amid a global hunt for yield. Following the 2008 financial crisis, middle-market loans had better investor protections, along with heftier private equity checks, said PennantPark founder Art Penn. Market participants can expect that once again following this upset.

“History doesn’t necessarily repeat itself, but it does rhyme, and coming out of this you’ll have new deals with lower average debt to Ebitda, higher yields, higher average equity contributions, and better covenants,” he said in a phone interview.

But Penn doesn’t see private debt activity starting up again for some time. The firm, which has \$3.8 billion in assets under management, is mainly focused on the roughly 135 companies in its portfolio and their varying circumstances amid the global economic shutdown.

“Some parts of the portfolio are very stable, like defense or government services,” he said. “There are some grocery- related business that are doing well and there are other parts that are shut down.”

The lender is helping to walk some of its borrowers through how they can take advantage of the federal stimulus package, according to Penn. PennantPark is also examining on a “case by case basis,” whether it can be flexible with options like switching to payment in kind interest rather than cash or adjusting covenants in the future.

The middle-market lender is already seeing opportunities emerge in the broadly syndicated loan market -- particularly as loan prices hit their lowest level in more than a decade.

“The first stage of new opportunities we’re seeing is in companies that we may have financed in the past that now trade in the broadly syndicated market,” Penn said. “As the baby gets thrown out with the bathwater, in the bathwater there’s some high quality companies that have been less impacted by Covid-19.”