Proskauer Releases 2016 Global High-Yield Bond Study

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April 20, 2016 (New York, London) – International law firm Proskauer today announced the release of its 2016 Global High-Yield Bond Study, which provides dealmakers, issuers and investors with an in-depth look at deal terms and trends in the high-yield bond market.

The study, conducted by the Global Capital Markets Group, covers high-yield bond deals closed globally between 2012 and 2015, drawing on data from Proskauer's extensive proprietary database of more than 1,500 high-yield deals since 2011. The report breaks down deals by geography, deal size, industry, credit rating and whether they are backed by private equity sponsors.

"Our 2016 Global High-Yield Bond Study is a valuable resource for banks, sponsors, issuers and the buy side. It provides in-depth information and insights into the high-yield bond market, aiding in analyzing the many variables and developments driving trends in the market historically and today," said Frank Lopez, co-head of Proskauer's Global Capital Markets Group.

Noteworthy observations from the 2016 study include:

High-yield market continues to slow. Activity in the global market for high-yield bonds continued to subside in 2015. Deal value was significantly lower at $276 billion, compared to $352 billion in 2014 and $372 billion in 2013 – a 26% decrease since 2013. Global high-yield deal count decreased 45% since the market high in 2013. Nearly three-quarters of 2015's global high-yield deals (72%) were completed in the first half of the year, with only 28% completed in the second half.

Sponsors make the difference. High-yield issuers backed by private equity sponsors continue to benefit from greater flexibility in deal terms. For instance, when based on the percentage of an issuer's EBITDA, certain key indebtedness baskets were more than 100% greater in sponsor-backed deals in 2015 than non-sponsor backed deals.

Europe joins the mainstream. High-yield issuances in Europe continue to represent a significant portion of the global market, with 2014's trend towards more creativity and flexibility in EMEA deals persisting into 2015. For example, EMEA deals continue to represent the highest percentage of deals which grant an issuer a right to call 10% of an issue at 103% annually during the non-call period and the highest percentage of deals permitting the sale of the issuer to a third party without triggering a change of control put right if certain tests are met (so-called change of control "portability").

Investment-grade or hybrids take the stage. A meaningful percentage of high-yield deals in 2015 had terms and covenant packages that mirror the investment-grade market, or hybrid terms between the investment-grade and high-yield markets. While many such deals involved larger, public companies that were BB credits at the time of issuance, several issuers rated below BB were also able to negotiate similar arrangements.

Industry trumps other factors. The incidence of certain terms and flexibilities often continues to be driven more by an issuer's industry than its rating or credit quality. In particular, oil & gas and TMT deals often contained terms and flexibilities that were different than those similar terms for issuers in other industries, with oil & gas seeing a tightening of certain covenants while deals in the TMT space generally provided more issuer flexibility.

Comfort level with private-for-life persists. In recent periods the market has become more receptive to private-for-life deals with seemingly little incremental interest cost to the issuer for any perceived lack of liquidity by bondholders. In 2015, 52% of U.S. high-yield deals were private-for-life, in line with 2014 activity, but both years represented a meaningful increase from the 33% of deals in 2012.

First-priority lien deals on the rise. We saw a notable uptick in secured deals in 2015 (34% of deals, versus 29% of deals in 2014), likely due to increased investor demand for collateral coverage in light of 2015's macroeconomic environment. In addition, 64% of secured deals in 2015 were secured on a first priority basis, reversing a trend from 2012-2014 toward second lien and split lien deals.

Better terms despite weaker credits. Continuing the recent trends, some weaker credits (rated CCC and below) negotiated more issuer-friendly terms than their higher-rated (rated B or better) brethren. For example, the percentage of deals that permitted a greater than 35% equity clawback, a contribution debt basket, an excluded contribution restricted payments basket, a 6% of IPO proceeds restricted payments basket and unlimited leverage-based restricted payments was higher for CCC deals than for better-rated deals**.**

More flexible terms for smaller, more illiquid credits. Historically, smaller high-yield deals (less than $200 million issue size) have had tighter covenant packages due to perceived illiquidity. However, 2015 saw an uptick of smaller deals negotiating more flexibility with respect to a variety of terms more typically reserved for larger, more broadly syndicated deals. For example, 39% of smaller deals permitted unlimited leverage-based restricted payments, compared to only 8% of smaller deals in 2014.

View the full 2016 Global High-Yield Bond Study

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  Partner