Proskauer

Proskauer Releases 2017 Global High-Yield Bond Study

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May 2, 2017 (New York, London) – International law firm Proskauer today announced the release of its 2017 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 Leveraged Finance Group, covers high-yield bond deals closed globally between 2012 and 2016, drawing on data from Proskauer's extensive proprietary database of more than 1,700 high-yield deals since 2011. The report categorizes deals by geography, deal size, industry, credit rating and whether they are backed by private equity sponsors.

"Our Study continues to be a valuable resource for banks, sponsors, issuers and purchasers of high yield bonds. Pulling from over 120 fields in our proprietary database, the study not only provides a detailed analysis of the key terms in high-yield bond deals, but it also allows us to identify trends and new terms entering the market and, in many ways, project the incidence of those terms over the near term" said Justin Breen, head of Proskauer's Leveraged Finance Group and partner in the Global Capital Markets Group.

Noteworthy observations that are detailed in the 2017 study include:

A slow start but a promising finish for 2016 high-yield, and a strong start to 2017. Activity in the global market for high-yield bonds continued to be under pressure in 2016. Global high-yield deal count dropped to 434 deals in 2016, representing a decrease of 46% since the market high in 2013. But the high-yield market exploded in the first quarter of 2017 with 184 deals completed (compared to only 58 deals completed in the first quarter of 2016) as investors' jitters with the global and domestic economy seemingly subsided.

The “drag effect”: Non-sponsor-backed issuers achieved greater flexibility in 2016. While it has been a consistent trend for years that sponsor-backed high-yield issuers benefited from greater flexibility in deal terms than non-sponsor-backed issuers, in 2016 non-sponsor-backed issuers made substantial headway in closing the gap. This year’s study evidences multiple instances where non-sponsor-backed issuers either received deal terms that were historically reserved for private equity sponsors or, in some cases, were able to negotiate for terms that were more flexible than corresponding terms in deals for sponsor-backed issuers.

New terms entering the mainstream in 2016, while certain traditional HY terms are seemingly becoming obsolete. Certain terms continued to gain prevalence in the global high yield market in 2016, such as the percentage of deals allowing the issuer to make unlimited restricted payments subject to a pro forma leverage test and the percentage of deals requiring 30% of noteholders to accelerate after an event of default (as opposed to the more traditional 25%). But 2016 also saw certain traditional high yield terms disappearing. For example less than 25% of deals for U.S. issuers required delivery of a fairness opinion for affiliate transactions in excess of an agreed amount representing a continued downward trend over prior years.

Continued shift toward private-for-life. In 2016, 63% of U.S. high-yield deals were private-for-life, compared to 52% in 2015. Perhaps an even more convincing trend is that the percentage of U.S. high-yield deals that are private-for-life has increased by 91% since 2012, when only 33% of deals were private-for-life. The increase was mainly driven by medium and large sized deals and also deals with a single B rating or better.

Rise in secured deals, especially first-priority lien deals. There was a notable uptick in secured deals globally in 2016 (45% of deals, versus 34% of deals in 2015 and 29% of deals in 2014), which was primarily driven by increases in EMEA, Asia and Latin America (as the U.S. remained relatively flat year-over-year at 23%).

Investment-grade or hybrid covenant packages in the high-yield market. While many of the deals in 2016 were for larger, public companies that were BB credits at the time of issuance and were often formerly investment grade (or “fallen angels”), several issuers rated below BB were also able to negotiate investment-grade or hybrid covenant packages.

European high-yield continues to represent a significant portion of the global market. 2016 saw a stable volume of high-yield issuances in Europe after a quiet start to the year. In the U.K., the Brexit vote impacted high-yield issuances, but across Europe such issuances continued throughout the year at levels similar to 2015.

Sector Driven Terms – Trends in the Oil & Gas and TMT space. The incidence of certain terms and flexibilities is often driven more by an issuer's industry than its rating or credit quality. In particular, certain key terms in deals in the Oil & Gas and TMT space were different than those similar terms for issuers in other industries.

View the full 2017 Global High-Yield Bond Study.

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