Lead Left Spotlight - John Brignola

This week we chat with John Brignola, managing partner, LBC Credit Partners. LBC is a leading provider of middle market financing solutions supporting sponsored and non-sponsored transactions. LBC has over $1.75 billion of capital commitments and has made over $3.2 billion in investments in a wide range of industries located throughout North America.

The Lead Left: *John, thank you and Fridolf Hanson for setting this up. How would you characterize LBC as a lender?*

John Brignola: From the beginning, we decided not to be pigeon-holed into being simply a senior or mezzanine debt provider. We play from the top to the bottom of the capital structure. Our investors like the flexibility and the overall blended return.

TLL: *That's interesting because the perception is that you've mostly been a mezz player.*

JB: Over the past ten years we've allocated capital over different tranches. In today's market there are more senior opportunities, given the regulatory pressure on banks. But actually we started out providing both senior and junior debt.

TLL: *But that didn't make sense from a return perspective?*

JB: Fifteen to twenty years ago, you couldn't get the yield on senior debt to justify a traditional fund structure. There wasn't the kind of leverage on vehicles that you can achieve now. You needed mezz to reach those types of returns. Today with some leverage on senior debt, returns meet a broader range of investor requirements.

TLL: *What about where we are in the credit cycle?*

JB: We believe it makes sense to be more oriented towards senior, given the cycle. When it gets stretched, you see more structured finance products, more CLOs.

TLL: *How do you structure your funding?*

JB: Ours are equity style funds with modest leverage. Fund III is a vintage 2013 fund with $839 million of equity capital.

TLL: *How do you see the unitranche structure competing today? Second-lien?*

JB: The key is to apply value to different parts of a capital structure. For example, a 3x senior tranche combined with 1.5x of junior capital blends to your return.

TLL: *How does your portfolio shake out, senior vs mezz? Sponsored vs. non-sponsored?*

JB: I would say about 20% is mezzanine, with the balance split between senior and unitranche. And about two-thirds are sponsored and the rest is non-sponsored. In terms of size of borrowers, we aim for EBITDA between $5 and $50 million, with $20 million being the sweet spot.

TLL: *Do you co-invest alongside the GPs?*

JB: Sometimes, there's no consistent pattern. It's a small part of our business.

TLL: *How about hold levels?*

JB: We'll hold between $30 and $40 million per deal.

TLL: *You've invested through cycles. What lessons did you learn in 2009?*

JB: Know your partners throughout the capital structure, particularly how those lenders themselves are structured. What are their pressure points? Structure really matters if you have junior exposure. You better be right on enterprise value. If you think you have an EV floor, be sure!

TLL: What kind of industries do you like or dislike?

JB: We're fairly agnostic. Industries that are less appealing to us are staffing, restaurants and retail.

TLL: I'm sure you've looked at your fair share of energy deals.

JB: We have. A lot of distressed money has been raised targeting the energy sector. We haven't seen those distressed types of deals in the sector and are just starting to see some refinancing opportunities. I guess the types of opportunities are dependent on where we are in the cycle.

TLL: Speaking of which, where are we?

JB: We're certainly in a low-growth environment. When rates move, there will be businesses that can manage that and those that can't. For example, I'm worried about manufacturers of large consumer discretionary items like recreational vehicles or boats. They could be seeing the end of low-cost financing for their products.

TLL: How long until a downturn?

JB: I think we're still 3-5 years out before the next cycle. The bond market may be an indicator. Two years ago, high yield [prices] traded off when Treasuries traded off. Now we're actually seeing high yield prices go in the other direction as Treasury prices have been declining.

TLL: What's your perspective on regulation?

JB: There will be more deal flow for alternative lenders. You'll see larger deals syndicated by alternative lenders. The non-regulated entities tend to be structured with more patient capital which tends to alleviate the pressure that regulated entities may feel when dealing with troubled assets. Patient capital gives the lenders more flexibility and may help to mute the down cycle.

TLL: And if we do end up in a down cycle sooner than you think?

JB: We have an experienced team of portfolio management professionals who are in a position to spot trouble ahead of the curve. We have implemented a successful, repeatable process by which we manage and address any issues with our borrowers. We feel well positioned, however we certainly aren't complacent.

TLL: Walk us through how you approach the process of underwriting transactions.

JB: It's all about understanding the drivers of enterprise value. If you understand that, you're comfortable with the downside.

TLL: Even trying to figure out EV in a frothy market?

JB: Like an investment bank coming up with a value opinion, we triangulate to a value.

TLL: What do you make of all the synergies and adjustments to Ebitda these days?

JB: Our view on add-backs and adjustments is that they need to be clear and well-defined. There's always somebody pushing the boundary.

TLL: Do you find there's any difference in how you look at smaller companies?

JB: Yes, we spend more time understanding the drivers of enterprise value and running sensitivities against those drivers.

TLL: Who's your competition? BDCs?

JB: It's really different with every deal, with every capital structure, with every sponsor. There's certainly not one competitor that we see. There's a great deal of capital being deployed out there.

TLL: What do you make of the GE Capital news?

JB: There will be a measure of dislocation for everybody, until the GE teams get reconstituted or find new homes.

TLL: What's been your biggest surprise?

JB: The biggest surprise has been the speed and impact of the regulatory changes. The pressure has been pretty strong, highlighted by a number of associates we've seen moving from a regulated environment to a non-regulated one.

TLL: Will we all benefit from this wave?

JB: Collectively, we will. What we need is continued loan demand, which I think we'll get. More and more borrowers are turning toward alternative lenders, there's plenty of room for us to grow market share.

About The Lead Left

www.theleadleft.com

- Original commentary backed by thirty years of capital markets experience
- Weekly interviews with top decision makers in banking, private equity, and credit investing
- Data and commentary from four of the leading global capital market research firms
- Detailed information on deals in the market
- Plus our popular Charts and Quotes of the Week

Subscribe

Contact

Randy Schwimmer, Editor/Publisher
Randy.schwimmer@theleadleft.com
(646) 584-1362