News & Analysis

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Time To Hire A Capital Markets Expert?

The leveraged lending market is a lot like cable TV. New channels (lenders) spring up all the time; your favorite shows (loan products) may go off the air no matter how much you like them; and you can easily spend all your time watching it, yet still feel like you're missing out on much of the action.

So what's a buyout shop, ever dependent on the debt markets for a good portion of its returns, to do? The answer for a growing number of firms has been to hire professionals whose full-time job is to tune into the capital markets.

Specialists in this area include **Barry R. Dunn**, a principal at **GTCR Golder Rauner LLC**; **Matthew A. Janchar**, director of capital markets at **Berkshire Partners**; **Karen Tuleta**, capital markets partner at **Morgenthaler**; **Christopher H. Turner**, a managing director who leads the capital markets group at **Warburg Pincus; Trevor R. Watt**, a director at **Hellman & Friedman**; **Alexander D. Whittemore**, director of capital markets at **Summit Partners**; and **William G. Winterer**, a managing partner at **Parthenon Capital Partners**. At least three -- Janchar, Whittemore and Watt -- joined their firms within the last four years.

By tracking debt availability, pricing and terms, these professionals help deal teams decide whether a particular target is likely to meet return requirements. They work to secure debt on the most favorable terms on both new transactions and refinancings. And they maintain ongoing relationships with bankers. Doing so helps to ensure that the answer is "yes" when portfolio companies need permission from their creditors to complete a follow-on deal, extend payment terms, or waive penalties stemming from a missed covenant.

This June Parthenon Capital announced the acquisition of a radiopharmacy network—37 pharmacies that supply chemicals used in imaging procedures—by portfolio company Triad Isotopes Inc. The press release gave no hint of anything but a smooth progression from purchase agreement to closing. But according to Parthenon Capital's Winterer, about 45 days prior to the scheduled closing the existing subordinated debt lender announced that it wanted out. Winterer, a seven-year veteran of the firm, sprang into action. He was able to fill the $40 million hole in the capital structure with mezzanine financing from Morgan Stanley. At the same time, he kept the existing senior lenders, no doubt wondering if the sub debt lender knew something they didn't, from getting spooked. "We were able to do it and not miss a beat," Winterer said.

Having a full-time capital-markets professional on staff isn't for everyone. Many small shops—those with less than $1 billion under management—probably don't generate enough deal flow to justify the position. "Unless they're a big firm, they're better off outsourcing," said **Mark Gertzof**, managing director at Monroe Credit Advisors, which provides debt advisory services to sponsors. Likewise, buyout shops that have exceptionally narrow strategies, limiting their pool of potential lenders, can easily forego the position.

But don't be surprised to see more buyout shops follow the lead of GTCR Golder Rauner, Parthenon Capital and others by hiring capital-markets experts in coming months. Many firms have already adopted a measure of specialization, such as by employing professionals full-time to work on deal origination. Also consider the changes to the leveraged lending landscape that sponsors have to contend with in the wake of the credit crisis. One is the disappearance of underwriting from the middle market, forcing sponsors to spend time assembling their own financing clubs. Another is constant upheaval, with some long-time lenders active, others nursing wounds on the sidelines, and still others starting from scratch with an array of product offerings.

You're not alone, for example, if you don't recognize the name Regiment Capital Special Situations Fund IV LP. The hedge fund earlier this year provided a $78 million term loan to Attends Healthcare to help finance a dividend to sponsor **KPS Capital Partners**. And you can't be faulted for not having heard of start-up **NXT Capital LLC** or less-than-two-year-old **MidCap Financial**. Yet these are some of the go-to sources of debt financing today. Said **Ron Kahn**, managing director at Lincoln International, which placed the Attends financing: "These people are popping up and they're not necessarily doing a lot of advertising. So you have to know who they are."

It's also taking sponsors more time than in previous deal cycles to line up financing from still-cautious lenders. A few years back, sponsors might have gone to four potential lenders to supply a $10 million to $50 million senior lending facility, said Monroe Credit Advisors's Gertzof. The idea was for two of the four to make it to the finish line in just a few weeks. Today a sponsor on the same deal would have to approach close to a dozen lenders in the hope that three of them can get it done in, say, a couple of months. And if a buyout shop isn't constantly watching the capital markets?

"It's going to take you even longer," Gertzof said.

By David Toll