Lead Left Interview – David Petrucco, Ed Cerny, and Mark Gudis

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This week we chat with David Petrucco, Ed Cerny, and Mark Gudis – founding partners of Backcast Partners Management. Backcast is a recently formed venture that focuses on providing direct debt and equity capital to middle market companies across industries.

The Lead Left: Gentlemen, congratulations on your new gig. What's your thesis for Backcast?

David Petrucco: For starters, we're staying in our marketplace. Our market is a personal one, and the three of us have developed hundreds of relationships over the years that we enjoy and who trust us, and that makes a difference. We enjoy delivering impactful value to our portfolio companies and have always tried to bring something differentiated to the market. We loathe commoditized financing. At Backcast, with our large operating partner network and affiliation with Centre Partners – people we've known personally and professionally for over 25 years – we feel better positioned than ever to bring unique value to our market.

TLL: They're a great firm. What's their role here?

Ed Cerny: They provide all our infrastructure: back office support, finance, accounting, payroll, IT, HR etc. That takes away all the day-to-day administrative headaches from our business so we can focus on investing.

DP: It's also about the expansion of our collective relationship networks, and most particularly, our corporate operating partner network, or our "COPs". With Centre, we now share more than 50 corporate execs, most of whom are expected to invest in our fund, and who will receive preferred economics and therefore share an alignment of interest with us. They help with sourcing, due diligence and an ability to deliver value that extends beyond just financial capital. These professionals have enjoyed successes in virtually every sector we have invested in and share an owner/operator perspective with us. There isn't much they haven't seen before and there aren't many businesses where they can't point out the paths to success and the pitfalls to avoid. This enables us to compete more effectively than simply trying to shave 25 basis points off a term sheet in order to win mandates. We really try to find places where we can make a difference. The testimonials on our website provide some context on this incredible resource. They cover a history of transactions we've done at Kayne Anderson, SAC, and Blackstone.

EC: The COPs are extremely helpful and form a really unique network. We attend retreats with them a couple times a year. They're part of the family. When you're just a pure financial player, it's really not the same. When we speak with management teams and explain the COPs' capabilities, it's exciting, because it's real and these kinds of resources are rarely seen in debt shops, especially in the middle market. It's as differentiated as can be. Things always get competitive, yes, but accretive value like this has always enabled us to find attractive places to invest.

TLL: Give us an example of the kind of deals you'll be working on.

DP: In our prior lives we worked on a transaction for an electronics retailer. We had been introduced to them during a sponsor buyout, but the transaction did not close, which happens. The company still had growth goals, and wanted to do things like institute a more robust management equity ownership plan and also explore some M&A options. We said we could help.

EC: Other lenders were wary because this was the company's first visit to the institutional capital markets, and there were some issues over collateral perfection. Like our partners at Centre, we're well-resourced to assist companies looking for a first round of institutional capital. The company welcomed our assistance and we were able to structure a very attractively priced first lien loan with warrants. The warrants really incentivized us to wake up every day and find ways to assist the company, and without offering that kind of help, warrants can be tough to obtain, especially in competitive market.

We brought a COP in to assist with the equity ownership plan construction. We assisted with a variety of M&A opportunities and provided the capital for the acquisition/growth plan, which worked out really well. Over the time we financed them, the company's EBITDA grew about 8 fold, and then we then took them to friends in the traditional senior secured market to refinance out our debt, which cost us our coupon, but was clearly the right thing to do for the company at the right time and created a "win-win". We continue to have a very strong relationship with the ownership and management teams, who will now be investors and COPs in our new fund. There are many other examples of what we call "round-trip" Backcast relationships, which is really its own reward and is confirming of our philosophy.

TLL: How much of what you do is sponsored?

DP: Historically about half is sponsored. The rest is with "independent", or what some call "fundless" sponsors, and management and family-owned companies. The COP network is helpful to all of our partners, especially for the smaller PE shops and non-PE owners.

TLL: How much capital have you raised as part of the new venture?

DP: We've literally just started and have circled approximately $200 million from both historical and new LP relationships. We also have a warehouse agreement in place with a large financial institution and are actively working on investments. We're basically in a pre-launch phase with an official start date of January 1st but the reaction so far has been tremendous. Our partners at Centre are obviously meaningful investors for us as minority owners of our business, but we can't invest in Centre-led deals. We are also not a leveraged fund.

TLL: What kind of size investments are you making?

EC: The size commitment tends to equal the EBITDA of these businesses, which is about $25MM, but it can be significantly higher or lower than that. For larger investment sizes we can go to our LPs for co-investments. Overall we're looking to get 10%+ cash returns with longer-term upside associated with the value we can deliver.

To be continued the week of Jan 16

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