Lead Left Interview – Kevin Griffin

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This week we chat with Kevin Griffin, CEO and Chief Investment Officer of MGG Investment Group LP. MGG is a private, specialty finance group focused on direct lending. Kevin is a veteran private lending investor and former managing director and Credit Committee member at Highbridge Principal Strategies.

The Lead Left: Kevin, first of all, congratulations on your new firm. Give us a sense of what you're seeing on a macro level at the capital markets today?

Kevin Griffin: Since Mr. Trump was elected, my bias on 2017 has been amended slightly. There's certainly been a euphoric bounce to the markets. That's pushed us out probably a year from the abyss. That means we could see lift on some sectors such as the financial sector and potentially real estate.

TLL: Will we see any improvement in this 2% GDP rut we seem to be stuck in?

KG: I expect we'll muddle along in that range. In the near term growth will be ok. In the long-term, there could be downside to growth. This recovery is getting pretty long in the tooth.

TLL: Are there sectors you like more than others?

KG: We avoid specialty finance, energy, oil and gas, and real estate. At times like this, you see opportunities in these verticals. Jumping into energy last year would have been perfect. But you're really betting on another three or four years of prosperity. If we've seen 1000 deals over the past few years, 30% of them were in those tricky industries that we're just not going to do.

Our focus has been on esoteric assets classes and sectors we have been successful in the past – such as sports and entertainment, consumer and consumer services – things we know. To be opportunistic you need to evolve – For example, everyone thought they figured out how to lend to software companies 5 years ago so the old rule of thumb has gotten more aggressive in today's market – you need to be creative and have your own approach on finding value. If you are a crowd pleaser and aggregator of assets only o good luck in the next cycle!!

TLL: How do you think about what differentiates MGG from other debt providers?

KG: We will do non-sponsored, quasi-sponsored, uniquely-sponsored transactions. They aren't being handed to us. We do our own due diligence, lots of third-party work. We've done fifteen or so investments over the past two years – that includes some reinvestments.

Entrepreneurs focus on different things and different structures than private equity owners.

TLL: How are you staffed?

KG: There's eleven of us, including seven full-time investment professionals. That's pretty typical of our approach. At my previous firm, we managed $1.6 billion with five people. You don't need a hundred people –

just the right ones. We might bring on a junior analyst sometime this year but other than that we are well equipped.

There are three deal captains who each have 10-15 years of experience. Then some junior folks below that. All of us are tasked to source deals and find the best opportunities out there.

TLL: How many deals end up making it through your screening process?

KG: We have about a 2% hit rate. That's low by historical standards – we'd like to be at 5%. A lot of that is because we've been busy setting up shop.

TLL: What's been the biggest challenge in your start-up phase?

KG: Communicating to people the proof of concept. I started MGG because I saw an opportunity, not because I had to. It's played out exactly the way we said it would. When looking at a potential deal, one of our criteria is 12-14% gross unlevered returns. These are quirky deals and aren't found in anyone else's portfolio.

TLL: And it's all senior debt investments so far?

KG: Yes. All senior secured, top of the capital stack. And mostly in the US. We also will partner with folks like Garrison, THL Credit, and Crystal Finance – friends and family.

TLL: How do you get to the 12-14% yield? And what size issuer are you dealing with?

KG: We generally seek cash comp of 9-11%, then add on 2-3% closing fees. Typically non-call for one year, then 103, 101. And at least two covenants, preferably four. No covenant-lite. The borrowers typically have over $75 million in revenue, and at least $8-10 million Ebitda. We've done some negative cash flow businesses, but we're not competitive with asset-based lenders.

To be continued the week of March 27

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