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Lead Left Interview – Lawrence E. Golub

THE LEAD | January 28, 2015

This week we speak with Lawrence E. Golub, CEO of Golub Capital. Golub is a nationally recognized credit asset manager with over $10 billion of capital under management and four complementary business lines: Middle Market Lending, Late Stage Lending, Broadly Syndicated Loans and Opportunistic Credit.

The Lead Left: *Lawrence, what is the best way to think about Golub Capital's scale today?*

Lawrence Golub: Using the Thompson Reuters definition of traditional middle market LBO loans, we have been the number 1 bookrunner for the past four years in a row by number of deals. In larger middle market LBO loans up to $500 million, we have been number one for two years in a row, after a few years before that at number 2 or 3. In the first nine months of this year, we have sole agented or lead left agented 6 disclosed deals over $200 million each, with the largest about $350 million. We have a $10+ billion balance sheet. Our hold size is up to $250 million per borrower.

TLL: *Tell the story, if you will, how Golub got to where it is today.*

LG: Randy, to set the scene for that, twelve years ago, as the recovery from the 2000-2001 dot com recession was gathering steam, we were a little late learning about leveraging loan portfolios. But our mezzanine skill set was just as applicable. Our previous funding sources were not as interested in that venture, but we figured out how to apply CLO technology to middle market leverage lending. It was not our plan to be one of the leaders of the middle market senior debt industry. Our goal was to deliver consistent, reasonable returns by having low default rates and by providing solutions to private equity firms.

TLL: *What was your focus when you started in the loan space?*

LG: We had a private equity sponsor focus and emphasis on senior secured debt, particularly first and second lien, and one-stop loans.

TLL: *Including unitranche?*

LG: We prefer the term "one-stop," since it's not always a single tranche. The key is we lead and hold the facility ourselves. And we have stayed focused on defaults. They're cyclical. Credit losses happen on a correlated basis. Our ability to be a reliable, buy and hold solution provider means we need long-term borrowing facilities, and we always borrow long-term.

TLL: *How did you make out in the credit crisis?*

LG: Our competitors blew up or were badly wounded. We took some painful punches, but our capitalization was strong and our low credit losses allowed us to continue to raise money. That meant we were just about the only lender open for business to private equity firms in 2009. Twelve months of deals came to us. Since then, our balance sheet strategy has been to get even more resilient, to move from Category Two Hurricane-proof to Category Four Hurricane-proof.

TLL: *That's a challenge given your sponsor clientele.*

LG: I can understand why you might think so, but actually for us, our capital stability makes us even more valuable to private equity sponsors. First and foremost, we are good partners. We are in existence to make our borrowers succeed. Our success with repeat customers shows that. 75% of our business is with repeat sponsors. We have made sure that we will be there for our clients in the next downturn, too, by further diversifying our investor base and keeping billions of dollars of dry powder on hand at all times. We do have to be mindful of credit conditions, though. In today's market, we have reduce the amount of junior debt we're doing. In 2009 we ended the investment period of our mezzanine fund two years early.

TLL*: How did that happen?*

LG: We did a management company review of the risk return for our mezz fund investors. Ending the investment period early was an expensive proposition for us, but it was good for our investors. They trust us, and that keeps them loyal and open to new ideas.

TLL: *How do you explain the amazing popularity of the middle market asset class right now?*

LG: Investors and managers are thinking about whether they *can* get into the space, rather than whether they *should*. There are credit managers, like us, who are trying to build a business over a cycle. Then there are those who are just trying to grow, grow, and grow. It's all about shareholder value versus manager value.

TLL: *Could you give us an example?*

LG: Take BDCs. Fifth Street did a giant issuance of shares at 85% of NAV. That certainly created manager value, but it would be hard to believe it did anything good for BDC shareholders. The issue is that some managers have ground down the net asset value of their stock. And this is a challenge for private equity GPs as well as BDCs. We're seeing a group of managers who risk hurting the space. They really don't care about true net income.

To be continued the week of Feb 2

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