# Lead Left Interview – Justin Kaplan

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**This week we speak with Justin Kaplan, Partner, Balance Point Capital Partners, a lower-middle market investment firm with offices in Westport, CT and Hartford, CT.**

***The Lead Left:*** *Justin, many of us know you from your days at the Alcentra mezzanine fund, but tell us about what you're doing at Balance Point.*

**Justin Kaplan:** I joined the Balance Point team as a Partner during the summer of 2013. I have known the Balance Point principals for over five years having co-invested with them while I was at Alcentra. Balance Point is focused on providing capital to the lower-end of the middle market with both debt and equity investments.

***TLL:*** *What's the fund you're currently investing out of?*

**JK:** We have a $126 million (AUM) SBIC. There are many SBICs and mezz funds out there. We try to differentiate ourselves in two key ways. First we have the ability to invest up and down the balance sheet which enables us to provide customized solutions for our portfolio company's needs. Having this flexibility has proven to be a competitive advantage and differentiates us from other SBIC that are primarily mezzanine focused. Secondly, we have demonstrated an ability to source and identify transactions from numerous sources. These include traditional and important channels like sponsors and co-investment opportunities, but equally as important is the fact the over 30% of our portfolio sourcing is proprietary in nature.

**"What problem are we trying to solve for? Flexibility is the key. "**

***TLL:*** *How do you figure out where you want to invest?*

**JK:** You ask yourself, what problem are we trying to solve for? Flexibility is the key. There are times when we might be interested in a credit opportunity and not the equity story or vice versa, but at the end of the day we try to find that balance or equilibrium with our partners that allows both sides to meet their objectives.

***TLL:*** *Will you invest in non-sponsored companies?*

**JK:** Yes we will and have invested with non-sponsored companies. While there are benefits to working with partnering with sponsors we by no means feel that having a sponsor is the only path forward. The sponsored market is highly competitive, given the BDC market is a hot product right now. A sponsor can easily call fifty funds for financing.

***TLL:*** *So give us the elevator pitch. Why call Balance Point?*

**JK:** Capital is a commodity, but we try to provide balance sheet flexibility. Plus we leverage our network and industry executives who can help our CEOs. Given the small size of the companies we traffic in, our portfolio CEO sometimes just don't have access to the executives or resources that we might be able to engage.

***TLL:** What's your pipeline of deals right now? How much stuff are you looking at?*

**JK:** The pipeline is OK. Can always be better. This year we are on track to see about 600-700 companies. We will probably invest in 5-7 of those.

***TLL:** What is your targeted yield?*

**JK:** 15% IRR for debt, and 25% for our equity investments.

***TLL:** And how do you source them?*

**JK:** Investment banks, brokers, fundless sponsors, accountants, lawyers…I should clarify when I say "investment banks," I really mean one or two-person boutiques, sponsors, and a variety of others in our network.

***TLL:** How big is your team?*

**JK:** We have nine on the team.

***TLL:** So what's the quality and quantity of deal flow?*

**JK:** The volume of deal flow is up about 30% this year so far, but the quality is mixed. The market is incredibly pricey for buyers. Companies with $5 million of ebitda are getting 4.5x total leverage with what I would describe as covenant-lite structures. In a market like this you have to be creative and resourceful and this plays into our hands.


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