Lead Left Interview – John Brignola (Part 2)

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This week we continue our conversation with John Brignola, managing partner, LBC Credit Partners. LBC is a leading provider of middle market financing solutions supporting sponsored and non-sponsored transactions. LBC has over $1.75 billion of capital commitments and has made over $3.2 billion in investments in a wide range of industries located throughout North America. ***Second of two parts – View part one***

The Lead Left: Speaking of which, where are we?

John Brignola: We're certainly in a low-growth environment. When rates move, there will be businesses that can manage that and those that can't. For example, I'm worried about manufacturers of large consumer discretionary items like recreational vehicles or boats. They could be seeing the end of low-cost financing for their products.

TLL: How long until a downturn?

JB: I think we're still 3-5 years out before the next cycle. The bond market may be an indicator. Two years ago, high yield [prices] traded off when Treasuries traded off. Now we're actually seeing high yield prices go in the other direction as Treasury prices have been declining.

TLL: What's your perspective on regulation?

JB: There will be more deal flow for alternative lenders. You'll see larger deals syndicated by alternative lenders. The non-regulated entities tend to be structured with more patient capital which tends to alleviate the pressure that regulated entities may feel when dealing with troubled assets. Patient capital gives the lenders more flexibility and may help to mute the down cycle.

TLL: And if we do end up in a down cycle sooner than you think?

JB: We have an experienced team of portfolio management professionals who are in a position to spot trouble ahead of the curve. We have implemented a successful, repeatable process by which we manage and address any issues with our borrowers. We feel well positioned, however we certainly aren't complacent.

TLL: Walk us through how you approach the process of underwriting transactions.

JB: It's all about understanding the drivers of enterprise value. If you understand that, you're comfortable with the downside.

TLL: Even trying to figure out EV in a frothy market?

JB: Like an investment bank coming up with a value opinion, we triangulate to a value.

TLL: What do you make of all the synergies and adjustments to Ebitda these days?

JB: Our view on add-backs and adjustments is that they need to be clear and well-defined. There's always somebody pushing the boundary.

TLL: Do you find there's any difference in how you look at smaller companies?

JB: Yes, we spend more time understanding the drivers of enterprise value and running sensitivities against those drivers.

TLL: Who's your competition? BDCs?

JB: It's really different with every deal, with every capital structure, with every sponsor. There's certainly not one competitor that we see. There's a great deal of capital being deployed out there.

TLL: What do you make of the GE Capital news?

JB: There will be a measure of dislocation for everybody, until the GE teams get reconstituted or find new homes.

TLL: What's been your biggest surprise?

JB: The biggest surprise has been the speed and impact of the regulatory changes. The pressure has been pretty strong, highlighted by a number of associates we've seen moving from a regulated environment to a non-regulated one.

TLL: Will we all benefit from this wave?

JB: Collectively, we will. What we need is continued loan demand, which I think we'll get. More and more borrowers are turning toward alternative lenders, there's plenty of room for us to grow market share.

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