Lead Left Interview – Ron Kubick

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This week we chat with Ron Kubick, Managing Partner and founder of Cadence Credit Partners, an independent capital markets advisory firm that provides middle market companies (public, private, and sponsor owned) with capital markets advisory expertise when companies seek financing from traditional or alternative credit providers.

The Lead Left: Ron, what type of companies are your best clients?

Ron Kubick: Companies in transition. I specialize in advising companies that don't fit a very tightly defined credit profile or qualify for regular way financings, even asset-based loans now need to pass internal risk rating models that vary from bank to bank before being considered for credit approval. Every regulated bank seems to want to do what is essentially investment grade ABL – that's oxymoronic, like 'jumbo shrimp.' The old ABL product doesn't exist anymore when it was all about collateral and at least 12 months of liquidity runway. If you are funded via a depository base that means you're regulated, which means risk rating models and SNC discussions.

TLL: How do you identify opportunities?

RK: When a company has a declining ebitda issue or when it finds itself tight on liquidity. Or when leverage is over the six times level as outlined in Leverage Lending Guidance, Banks are challenged to provide a solution, sometimes not even on a best-efforts basis. Post-2008, banks are more compliance driven, than credit driven. That's given rise to continued capital formation in non-regulated C&I loans. Alternative lender dollars easily dwarf bank C&I dollars. What Cadence does is give companies access to those credit providers but more importantly creative capital solutions that bridge a transformation period.

When I started 20 years ago as a lender to underperforming companies there were only a few select providers that competed and delivered on rescue financings. Now there's an abundance of capital dedicated to turnaround stories that companies often find it confusing as to where to turn. Besides providing access, we also provide transparency. We develop a thoughtful list of lenders that we target that we feel make sense for the company's situation and fits the profile of the lender.

Finally, we provide execution. This business is definitely more of an art than a science. We provide our clients with the art of the possible and then provide best execution with their transaction.

TLL: What's the biggest change in terms of the type of lenders you're seeing in this space?

RK: These are certainly higher-yielding investors. But not every 10% lender is the same. Some are more leverage or liquidity focused, some are mezzanine or asset focused, while some are more opportunistic with regards to credit. The key for our clients is to stay close to all investors, regulated and non-regulated to stay on top of credit trends, risk appetites, etc to be able to execute on a much needed debt financing with certainty. Not every high yield investor has the appetite for a true turnaround situation while others can break down a credit to provide great execution regarding a story credit.

TLL: Can you give us an example of how you achieve that flexibility?

RK: Via a competitive financing process I recently ran for a sponsor client, we were able to find a customized credit solution in the form of a term loan that utilized springing covenants, a concept that we borrowed from the ABL market and introduced it into a term loan execution. The situation was for an oil & gas related company that was looking to increase its liquidity runway on a non-dilutive basis. The solution we presented was to refinance the existing ABL and also utilize the general permitted lien basket to upsize the new credit facility. The springing ebitda test was a structure that protected the lender while also providing the sponsor with comfort that the covenant package was flexible. We are also in market now with a $135mm transaction for a public company that borrows a little from this strategy but also utilizes the company's strong asset coverage to provide structuring options.

TLL: How many lenders will you go to on this? Do sponsors like working with you?

RK: Our processes are targeted and discreet, our clients often prefer it this way. While the financing we are in market with now is a non-sponsored company, I have found that advising sponsors through a strategic financing is of high value since sponsors don't generally find themselves executing a rescue financing but rather are very proficient in LBO financing, so our value proposition is clearer for a portfolio company that may be going through a transition or experiencing an unplanned liquidity event. Don't forget, Cadence is a capital markets advisory firm and not a restructuring firm, so management teams and sponsors generally welcome the opportunity to discuss financing alternatives versus having a restructuring discussion given that this particular solution is non-dilutive, and usually does not require new equity to effectuate a transaction. As for potential outcomes in this corner of the credit markets, I like to say engaging a specialized banker is like going to your favorite Italian restaurant and ordering off the menu. You know what the market terms are, but the experience is really knowing what's the art of the possible given all those choices.

TLL: What percent of deals are sponsored?

RK: Going forward if I had to estimate based on experience, it's likely to be around two-thirds sponsor portfolio companies. There are plenty of companies looking for more running room on covenants or seeking to strengthen their liquidity as we head into an interesting period over the next two years in terms of our economy, geopolitical, regulatory, political, etc. Every sponsor has one or two deals that aren't going exactly to plan for whatever reason. They need help in optimizing their liquidity or after a couple of amendments, there could be fatigue in the bank group. We do financing advisory only. It's all about creativity, and execution.

To be continued the week of March 21

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