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Lead Left Interview – Ron Kubick (Part 2)

THE LEAD | March 21, 2016

This week we continue our conversation 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. ***Second of two parts – View part one***

The Lead Left: You mentioned ABL. That seems to be a big part of your focus.

Ron Kubick: There are lots of ABL opportunities driven by the tightness of regulations. One common strategy is to help borrowers "term out" the ABL facility. It's going to be at a higher cost, but will generally lead to greater availability. Lots of middle market companies use ABL and with an asset heavy business model, this strategy of asset optimization tends to work well for issuers and lenders.

For example, let's say you have a $125 million ABL revolver. Because of ineligibles under the borrowing base, advance rates, etc. – the company only has a little over $100 million of availability. But by terming out the ABL with a $50 million TL, they may have more access to liquidity overall, even under the remaining $75 million RC.

Rite Aid used the same structure back during the credit crisis to create market depth for a syndication. By suppressing the advance rate on receivables down to 75% from a traditional 85%, they created a "first-in-last-out" term loan that was added to improve the overall access to those assets that only went up to 85%.

TLL: Are there industries you like? Don't like? What do you think of energy?

RK: Pure play oil and gas is generally not where I'm looking. It's frankly near impossible to raise debt or equity dollars for exploration and production today, at least in the middle market. But for an industrial company with 10% exposure to energy that's experiencing a hiccup because it's tangentially exposed…that's something where we can add value.

Asset light companies like staffing businesses are very tough to obtain financing for during a transition since that transaction could only be viewed based on leverage

TLL: How about retail or consumer?

RK: There will be some winners and losers in middle market retail, for instance. But obtaining incremental financing is possible given those sectors tend to have favorable assets that can be levered and that market will continue to evolve.

TLL: What's your ideal financing size?

RK: Anywhere from $25 -250 million in size.

TLL: I assume you end up competing with lots of folks.

RK: Investment banking advisory is a highly competitive business with many great firms out there, however as markets evolve, banker specialization will always be the key differentiator in getting engaged. Sponsors, management teams, and boards have many choices in advisory firms, the goal is to put the best team on the field for that client.

TLL: What's been your biggest surprise through this whole thing?

RK: While it has only been a month and a half since our launch, I have been pleased with the markets receptivity towards a pure play capital markets advisory firm that specializes in Strategic Finance. Our goal is to provide best execution and hopefully our reputation will find more clients. We are still in the early days of a cycle and also the life of Cadence Credit Partners, since we are built on the success of our clients, I am hopeful that we will be talking this time next year with The Lead Left and provide an update on what our year two will look like!

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