Lead Left Interview – Mitch Drucker (Part 2)

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This week we continue our conversation with Mitchell Drucker, Managing Director of Garrison Investment Group. Mitch is the head of Garrison's corporate lending team and is responsible for transaction origination, analysis and execution. He has more than 30 years of experience in the lending business and formerly served in various positions at CIT, presiding over a team of more than 200 professionals. Founded in 2007 Garrison is a middle market credit and asset based investor headquartered in NYC. ***Second of two parts – View part one*****.**

The Lead Left: What size borrowers are in your sweet spot?

Mitchell Drucker: Our focus is on companies with EBITDA between $5 million to $25 million and financing needs of $10 million to $100 million. Targeting the lower middle market allows us to realize a 200 to 300 basis point yield premium over the larger markets. There is a wide disparity in overall credit quality of borrowers in this market, and we are more focused on quality than on overall yield in this environment. We would rather concentrate on lower loan-to-value situations, in return for higher quality, recession-resilient companies.

TLL: Are all your debt financings first lien?

MD: Yes, we are 98% first lien senior secured, either split-lien or unitranche.

TLL: Any structural issues to mention?

MD: We won't participate in covenant-lite deals, though we are seeing these types of structures filter down market. For a quality borrower, we can offer covenants with wider collateral cushions.

EBITDA adjustments are also a concern. We will utilize a quality of earnings review from a third party in these scenarios.

TLL: Who's your competition?

MD: In the past two years, there has been an influx of direct lending funds, new and existing, into the market. In 2006 and 2007, we saw the same phenomenon, though many of those funds did not make it past their first or second year when the recession hit. This same type of attrition may occur again if we start to see a significant dislocation. We believe that to succeed in this market, a team needs to be diversified, cycle-tested and at the right place in the capital structure. Only a handful of asset managers have been through economic cycles and have the ability to focus on the right type of opportunities, as Garrison has.

TLL: What macro issues do you anticipate will affect the markets?

MD: In 2017, the issues to watch are market cycle extension, the potential for tax reform, and other geopolitical issues. Post the election, the markets have benefited from the potential for stimulus-oriented policies, including deregulation and tax reform, and a continued elongation of the economic cycle. It's difficult to know when a recession will hit and which parts of the market will suffer first, but we are eight years into the current cycle, and we continue to focus on revenue-generating, recession-resilient companies.

When a disruption does occur, Garrison can be opportunistic and will benefit as liquidity leaves the market.

TLL: What else do you find interesting in the current market?

MD: We value our ability to be diversified and participate in all types of deals. We execute bifurcated deals with banks, but are also able to shift to larger deals when there is a dislocation in the market. As the relative value shifts, we are able to be nimble and access the right parts of the market for the current environment. Right now, we are seeing value in some larger club deals, as we wait for the flow in the lower middle market to pick up again.

We also like strategic alignment with partners on deals, whether unitranche joint ventures or larger deals. We are focusing on building scale for our business, and like-minded partners allow us to participate in larger deal sizes.

TLL: Great. Anything else you want to tell us?

MD: Well, May 1st will be my 10 year anniversary at Garrison.

TLL: That's great. Congrats.

MD: Thanks. We have been fortunate with our team here at Garrison, as most of us have been together since Garrison was founded, and team cohesiveness and continuity matter.

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