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Lead Left Interview – Ted Goldthorpe (Part 2)

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This week we continue our conversation with Ted Goldthorpe, head of credit for BC Partners. Ted launched the BC Partners Credit business in 2017 and oversees a team of experienced credit professionals. As a managing partner of the firm, Ted is also a member of the Investment committee of the private equity business. Previously Ted was president at Apollo Investment Corporation and the chief investment officer of Apollo Investment Management. He was also a member of the senior management committee.

Since inception in 1986, BC Partners has completed 97 acquisitions with a total enterprise value of €120 billion. BC is one of the few truly pan-European buy-out investors, and has evolved into a leader in buy-outs, through its established network of offices in London, Paris, Hamburg and New York. *Second of two parts – View part one.*

The Lead Left: Ted, when you think of all the folks coming into private credit today, what's your niche? How do you distinguish yourselves?

Ted Goldthorpe: It's hard to enter this business from scratch. Lots of people are capital-constrained right now. Look at all the BDCs trading below NAV. LoneStar is out of the unitranche game, as one example. Other competitors don't have much capital. Yes, firms like OwlRock seem to be busy putting money to work, but a lot of BDCs are not active in the middle market yet. In that respect, the supply/demand equation seems to be more balanced right now than the market is giving it credit for.

TLL: How do opportunities come in your shop?

TG: We get them in a few ways. First, by dialoguing with CEOs who may not want to sell their companies, but do want to do a dividend or refinance their debt. We will also look to finance deals where the private equity side of BC didn't pursue a buyout but liked the business or industry.

TLL: How is your deal flow at the moment?

TG: Currently, we're seeing lots of direct lending deals. There's no real theme out there.

TLL: How about creating partnerships to win business?

TG: Absolutely. We did a lot of that at Apollo. It is franchise accretive and we are very focused on mutually beneficial relationships.

TLL: Let's put your economic forecast out there. Is there a recession around the corner?

TG: No, but it feels like we're in for a period of volatility. These periods are occurring more frequently. Duration is shrinking, no question. We used to have two years to invest capital, now it's down to two months. Volatility will certainly increase, particularly as the central bankers begin to shrink their balance sheets.

TLL: Do you find high-yield bonds competing at the larger end?

TG: We usually don’t compete against bond deals; the usual competition is a syndicated bank deal.

TLL: What about second lien?

TG: Everyone hates second lien. I don’t agree. I’m more favorably disposed to seconds than the overall market if you are selective about your underwriting. Second lien is often mispriced versus high yield bonds of comparable risk, sometimes by as much as 200-300 basis points

Some of this is because of market structure. Over half of the loan market is held by CLOs and they don’t have a lot of capacity for second liens. There just aren’t as many homes for them.

TLL: What about cov-lite?

TG: I’m a big stickler for covenants and am willing to give on price to get them. They don’t have to be tight as long as there is an appropriate cushion.

TLL: Finally, Ted, what’s been your biggest surprise about your new platform?

TG: It’s nice to be part of a true partnership. I liked Apollo a lot but it has become a big company. Being a true partnership and being private has a lot of advantages.

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