

Lead Left Interview – Marek Olszewski

THE LEAD | April 26, 2014

This week we speak with Marek Olszewski, Managing Partner, Catalus Capital, a middle market investment firm with offices in Greenwich, CT and New York.

TLL: *Marek, your firm is probably not familiar to many of us. Tell us about what you guys do.*

Marek Olszewski: We are an investment fund that focuses on special situations. That definition is pretty broad. We look for transactions with unique characteristics, particularly those that are typically unsuitable for traditional investors.

TLL: *What kind does that involve?*

MO: We like situations that are distressed, have a certain level of complexity, an unusual geography, or a unique business model. We also like opportunities that require specialized due diligence or research.

“The power on deal terms has shifted from capital providers to sponsors.”

TLL: *Where do your investments reside in the capital structure?*

MO: Starting somewhere in the senior debt, but after that we go up and down the capital structure. For example, we just closed a deal where we simply acquired 100% of the asset as an all-equity transaction.

TLL: *Give us an example.*

MO: We recently acquired a property called Sirenusa, a high-end condominium complex located in St. John in the US Virgin Islands. A bank down there had foreclosed on it. That and the unusual location was what attracted us. Because capital is hard to come by in the Caribbean, there's limited competition for deals.

TLL: *I assume there's also a decent supply of distressed situations.*

MO: Exactly. So an all-cash buyer – as we are – is attractive to sellers. No contingencies and a quick close. The bank had been holding on for five years, but with the property empty it was still bleeding money. We offered a quick solution and, most important, a business plan to get back to profitability quickly.

TLL: *What other locations offer similar opportunities?*

MO: We're looking at businesses and assets in and outside the US. I would describe the targets as “tertiary geographies.” Today, as an example, I had a call with some Greek investment bankers...

TLL: *There are some of those left?*

MO: (laughs) Yes! We've also considered Spain and Italy, though each country has its own complexities and risks. As recent borrowing rates show, those areas are recovering but still need liquidity. We are also careful to

find partners with expertise in those niches. We are not global experts.

TLL: *Where do you find deals?*

MO: From a wide variety of sources: investment banks, middle market boutiques, brokers, personal connections. Also LinkedIn and Axial. Everyone wants to create proprietary deal flow. We'll reach out to local operators. For example, we're looking at solar energy businesses in Puerto Rico. So we find out who's there now, get a few names and call them to understand the local business environment.

TLL: *Where does your capital come from?*

MO: My partner is Michael Freeburg. He runs and owns Greenwich Wealth Management, a \$1.5 billion Registered Investment Advisor. Catalus's investors are some of his biggest clients.

TLL: *And typical investment size?*

MO: \$10-40 million is a good range for us, although we've considered as much as \$100 million.

TLL: *What's your hit ratio on the deals you review?*

MO: We say No to about 75% of the deals we give a superficial review. Ultimately only about 1% of those that make it through the initial filter make it to closing.

TLL: *Who are the larger players doing what you do?*

MO: Fortress and Cerberus have sub-strategies similar to ours. The difference is their size and that they have people on the ground. We like to partner with folks on the ground.

TLL: *Are you industry agnostic?*

MO: Yes, with some exceptions. We avoid specialized sectors like oil and gas exploration, mining, bio-tech, pharma, and insurance.

TLL: *Let's talk about this frothy lending market. Does it hurt your business?*

MO: It certainly means a difficult time finding opportunities. Each quarter of last year things got a little more difficult. Rates and spreads are coming down, leverage going up, credit standards deteriorating, and covenants disappearing. That hurts us, especially our credit strategy. The power on deal terms has shifted from capital providers to sponsors.

TLL: *So you're just waiting for the next recession.*

MO: That would certainly help our business. As Warren Buffett has said, you never know who's swimming naked until the tide goes out. Lots of aggressive stuff is being done by our peers that might end badly in a downturn.

Which is why, in the next few years or so, if a recession does come and the tide goes out, we hope to fill the resulting liquidity gap.

Contact: Marek Olszewski
marek@cataluscapital.com
Phone: (203) 816-0752
Website: www.cataluscapital.com