# Lead Left Interview – Patrick Dalton

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**This week we speak with Patrick Dalton, CEO, Gordon Brothers Finance Company (GBFC). GBCF is a commercial finance company focused on middle market lending. They originate and underwrite secured loans for both asset-rich and cash flow generating businesses across a wide spectrum of industries.**

***The Lead Left: Patrick you joined GB Credit Partners recently, but there's been news out of your shop since then. Catch us up.***

**Patrick Dalton:** When I joined Gordon Brothers I knew there was a niche for firms specializing in asset valuation research. Hilco, Great American, and Tiger Management – there are a handful of credit competitors. We had insights into what you're lending against. The idea was to extend that capability to lend to those companies who don't have great access to capital.

***TLL: Gordon Bros. itself has a pretty long history.***

**PD:** 110 years of buying and selling businesses globally. But we didn't have the right structure to grow. It's a long-term asset class that's illiquid with a 20%-plus IRR on the lending business that was capped due to leadership. Gordon Bros. was not an asset management business; it's a liquidation business.

***TLL: That's when you hooked up with BlackRock Kelso.***

**PD:** We needed to change over the capital structure to get long-term capital. Before the end of the first year we needed to decide which fundraising avenue to go down. We couldn't auction ourselves. BlackRock Kelso approached us. They were good partners.

***TLL: BRK has a very different skill set, though.***

**PD:** It was the art of the impossible: how to acquire the special secret sauce and keep it going. It took 18 months to structure the deal. It's important to note the Gordon Brothers owns 20% of this venture, with $40 million invested. GB's principals have personally invested in our business. BRK provides growth capital and we provide a new niche business to them.

***TLL: Who is your competition? Where does your financing fit in?***

**PD:** Our competition is mostly private equity. Asset based lenders provide the L+250 bps revolving credit dollars. We provide the next layer down.

***TLL: Can you give us an example?***

**PD:** The coal industry is a hot topic right now. Assets like bulldozers and tractors that can be used in five or six other industries. We use that knowledge base real time to bring in traditional capital. At Apollo I couldn't touch half of what we're doing now. It's too volatile from a cash flow perspective. But at GB we can create a vertical. We're at $300 million and can grow that to $1 billion.

***TLL: Are you doing anything in Europe?***

**PD:** Yes. The second lien ABL tranche doesn't exist there. We won't lend in every jurisdiction, but we've been there for 14 years. We can pioneer this product in Europe; it doesn't exist there. Dislocation will really help. It's a $500 million market opportunity for us. We would focus on the UK, Germany, and the Nordic region where laws allow us to secure our positions.

***TLL: Where does your deal flow come from?***

**PD:** 40% is from banks. They love it because they get paid back first. Then about 40% comes from our competitors, like KKR, Carlyle, Cerberus, and Sankaty. The deals can't get there on enterprise value, but they have assets. Then about 10% comes from private equity, usually after the fact – when the company starts tripping covenants.

***TLL: Don't banks lend against the assets?***

**PD:** Bank gets scared, but we will lend over 100% of what they think it's worth. We're not in the business to liquidate. We are in the business to save companies – survive and stay alive. Only a handful of companies have we needed to liquidate.

***TLL: How much will you hold per deal?***

**PD:** We've gone from $5 million, to $15 million, to $25 million, and now we're up to $100 million per deal. We're changing the profile of our business, thanks to the partnership with BRK.

***TLL: How large a company will you consider financing?***

**PD:** For larger transactions that are close to default, we'll be there. Especially retail. Companies like Sears and Best Buy that might falter.

**To be continued the week of March 30**

**Contact: Patrick Dalton**

PDalton@gbfinco.com