Lead Left Interview – Brett Hickey (Part 2)

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This week we continue our conversation with Brett Hickey, chief executive officer, Star Mountain Capital. Based in New York with regional offices and a network covering over 25 U.S. cities, Star Mountain provides strategic partner capital for private equity, mezzanine and other private capital funds as well as growth debt and equity financing for small and medium-sized businesses (typically companies with under $15mm of annual EBITDA). ***Second of two parts –*** ***View part one***

The Lead Left: What else did you do in order to help build your rather unique firm?

Brett Hickey: I had good financial modeling skills but not management skills. So I attended Harvard's 3 year graduate program for business owners and joined the Young Presidents' Organization to get access to other business leaders and try to learn as much as possible from them. I believe that team building and culture will ultimately be our largest long-term competitive advantages and we invest a lot of time in team and culture including building a large, active advisory committee, with interests aligned to help us be as successful as possible for our team, our investors and the businesses and funds we provide capital to.

TLL: And today?

BH: Many successful asset management firms have grown larger and generally moved even more upmarket. So the smaller business marketplace we are focused on, still provides a lot of opportunity. We also believe that the U.S. is a better risk-reward than elsewhere at the moment. Knowledge is the most valuable asset in the medium-term and we believe the U.S. has stronger CEOs, and more high level talent and board members available than in the rest of the world – at least for the smaller end of the market we invest in. Basic technology, such as smart phones also being "payment processors" and the cloud providing opportunities to have more efficiently manage and scale data management and storage, helps a small business on average, more than a larger business, we believe.

TLL: And how does Star Mountain fit into this picture?

BH: Star Mountain is institutional but nimble and entrepreneurial. We offer investors customized separate account and co-mingled fund options. We offer both our investors and the companies we invest in with flexible solutions to best fit their needs vs needing to sell them on why our single fund or product is the best fit for them.

TLL: How do you distinguish underwriting smaller companies from larger middle market ones?

BH: It's definitely different. If you ask me to choose between a 3x leveraged unitranche for an $8 million EBTIDA issuer or a 6x leveraged through mezz for a $20 million EBTIDA issuer, I'd prefer the former in case there are future challenges, where we feel safer with lower company leverage in our end of the market. The smaller businesses often have better alignment of interest with management and we have tighter financial covenants and controls. These smaller companies definitely take a lot of work to underwrite properly, but it's worth it and gives us a reason to exist! We believe this approach carries lower risk and higher returns, albeit less relevant for the larger firms who want to put larger sums of money to work.

TLL: Do you worry about having to own the companies if things don't work out?

BH: If we have to take it over, we can. But we try to box risks and work with management through challenges as a patient and aligned partner.

TLL: What's been your biggest surprise at Star Mountain?

BH: I would say it's how we've been able to attract institutional investor partners who are willing to grow with us. This asset class is less sexy than the ones they were used to, but the risk-reward is attractive to them. I also feel blessed to have such an incredible group of business partners whom I consider friends and family. We are truly one team, aligned and focused on making a difference and enjoying the journey!

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