Lead Left Interview – John Brignola

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This week we chat with John Brignola, managing partner, LBC Credit Partners. LBC is a leading provider of middle market financing solutions supporting sponsored and non-sponsored transactions. LBC has over $1.75 billion of capital commitments and has made over $3.2 billion in investments in a wide range of industries located throughout North America.

The Lead Left: John, thank you and Fridolf Hanson for setting this up. How would you characterize LBC as a lender?

John Brignola: From the beginning, we decided not to be pigeon-holed into being simply a senior or mezzanine debt provider. We play from the top to the bottom of the capital structure. Our investors like the flexibility and the overall blended return.

TLL: That's interesting because the perception is that you've mostly been a mezz player.

JB: Over the past ten years we've allocated capital over different tranches. In today's market there are more senior opportunities, given the regulatory pressure on banks. But actually we started out providing both senior and junior debt.

TLL: But that didn't make sense from a return perspective?

JB: Fifteen to twenty years ago, you couldn't get the yield on senior debt to justify a traditional fund structure. There wasn't the kind of leverage on vehicles that you can achieve now. You needed mezz to reach those types of returns. Today with some leverage on senior debt, returns meet a broader range of investor requirements.

TLL: What about where we are in the credit cycle?

JB: We believe it makes sense to be more oriented towards senior, given the cycle. When it gets stretched, you see more structured finance products, more CLOs.

TLL: How do you structure your funding?

JB: Ours are equity style funds with modest leverage. Fund III is a vintage 2013 fund with $839 million of equity capital.

TLL: How do you see the unitranche structure competing today? Second-lien?

JB: The key is to apply value to different parts of a capital structure. For example, a 3x senior tranche combined with 1.5x of junior capital blends to your return.

TLL: How does your portfolio shake out, senior vs mezz? Sponsored vs. non-sponsored?

JB: I would say about 20% is mezzanine, with the balance split between senior and unitranche. And about two-thirds are sponsored and the rest is non-sponsored. In terms of size of borrowers, we aim for EBITDA between $5 and $50 million, with $20 million being the sweet spot.

TLL: Do you co-invest alongside the GPs?

JB: Sometimes, there's no consistent pattern. It's a small part of our business.

TLL: How about hold levels?

JB: We'll hold between $30 and $40 million per deal.

TLL: You've invested through cycles. What lessons did you learn in 2009?

JB: Know your partners throughout the capital structure, particularly how those lenders themselves are structured. What are their pressure points? Structure really matters if you have junior exposure. You better be right on enterprise value. If you think you have an EV floor, be sure!

TLL: What kind of industries do you like or dislike?

JB: We're fairly agnostic. Industries that are less appealing to us are staffing, restaurants and retail.

TLL: I'm sure you've looked at your fair share of energy deals.

JB: We have. A lot of distressed money has been raised targeting the energy sector. We haven't seen those distressed types of deals in the sector and are just starting to see some refinancing opportunities. I guess the types of opportunities are dependent on where we are in the cycle.

To be continued the week of July 20

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