Lead Left Interview – Deborah Hicks Midanek (Part 2)

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This week we continue our conversation with Deborah Hicks Midanek, founder and managing partner of Solon Group. Solon is a restructuring and turnaround advisory firm. ***Second of two parts – View part one***

TLL: What are the biggest mistakes senior management teams make?

Deborah Midanek: Operating problems are fascinating to resolve, and I would love to say that these are the issues. Truthfully, though, most management teams are competent and the issues that trip them up can seem silly and easy to avoid, unless you are so close to the situation you cannot even see the risk, let alone address it. How many companies have been brought to their knees by operational issues? Some, but most near death is caused by lack of liquidity.

TLL: Explain that.

DM: How many management teams have negotiated great, as in large and competitively priced, financing packages, and allowed them to be structured to come due on the same day? Difficulty rolling over financing has been the single most common direct cause of corporate death I have seen, and it could so easily be avoided, given that most debt is set up in good times when lenders want to be accommodating.

TLL: Do you deal with PE sponsor-backed companies? Does it help to have that backing?

DM: We've dealt with PE-backed companies, and such ownership can be helpful to increasing the vision and reach of some management teams. In general, though, the need to harvest within a finite period hampers flexibility when dealing with the constant surprises involved in managing a business. PE teams and their LPs generally do not like surprises. They are also often seen as places where middle management hates to work, which is never a good sign.

TLL: Are there industries that you have more experience with than others?

DM: We've worked across a broad range of industries and company sizes and ownership formats. Most business models are familiar, but if we're going to work in a highly regulated environment, we will take financial services: banks, thrifts, insurance companies, funds, investment managers, broker dealers and fin tech. We don't like telcom or health care, and do not add much to retail.

TLL: How does the capital markets environment intersect with your work?

DM: Quite a bit. I spent the 1980's on Wall Street, starting the derivatives group and later heading structured finance at Drexel. So I had a front row seat as volatility drove innovation in what had until then been fairly sleepy bond markets. Then I switched to the buy side and built my own institutional money and fund management firm. We raised $1 billion or so from institutional investors and built a no load fund complex to another billion.

So I have experience in many different aspects of capital markets and in a variety of roles. That breadth of perspective really helps me understand the dilemmas faced by lenders and investors, and keeps me from being intimidated by the swagger of bankers who think they are the center of the universe. November is my favorite month to find financing, as there are always deals that get broken, and folks who need to put the money out. Most management teams do not have much perspective on money guys and why they do things, and most money guys have played in only one or two positions, so can be blind in changing circumstances.

TLL: Is it tougher for middle market companies with banks under regulatory pressure? Or is it easier with so much non-bank capital coming into the space.

DM: The simple answer is yes to both. The trick, though, is for companies and non-bank lenders to have the bandwidth to both find and assess each other. Few management teams differentiate among the many kinds of non-bank lenders, and when the chips are down, knowing your lender's hot buttons is critical.

TLL: Issuers and sponsors are super-focused on who's in the lender group.

DM: And that becomes irrelevant if the loan is sold to a new firm, who may have a different basis in the loan and thus a quite different view of what the company needs to do.

TLL: Are you finding there are constructive "special sits" funds you've worked with? Or are they the same as the old vulture funds in disguise?

DM: What we find is there are some constructive individuals, with vision and imagination, in all walks of life. They generally do not last long in the debt funds unless they are founding principals. We stick close to them. In fact, we have the luxury of having accumulated a group of people over the years with whom we love to work, and thus we often do!

TLL: Deborah, what's been your biggest surprise in the past twelve months?

DM: Donald Trump's remarkable run as a man of the people, capturing significant share of the primary vote in state after state. Or is Bernie Sanders' success even more surprising? No, I think Trump takes the cake.

TLL: What's the one question I should have asked that I didn't?

DM: It would be what I most love doing.

In 1990, I served on my first board, as the de facto lead director in the Drexel Burnham Lambert Group, Inc. bankruptcy. I got there having done a grass roots organization of the firm's shareholders, who were its employees. I negotiated a restructured board to favor independents, and became the consensus candidate myself. I was terrified, and fascinated, and worked really hard and had outsize impact. Recoveries were great. Since then I have served as a director of some 25 companies; large, small; public, private, family owned; growing, or shrinking. I deeply love the work and am a serious student of what works in corporate governance. If more directors really understood their role, there would be fewer restructurings required.

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