THE LEAD
https://theleadpc.com/lead-left-interview-steven-miller/

Lead Left Interview – Steven Miller

LSEG | October 12, 2016

This week we chat with Steven Miller, CEO, Fulcrum Financial Data. Fulcrum publishes Covenant Review, CapitalStructure and PacerMonitor and has recently backed LevFin Insights, which was started by market veterans to report on the loan and high yield market.
The Lead Left: Steve, congratulations on taking on the group CEO role at Fulcrum Financial Data. Tell us how it's going.
Steve Miller: Thanks, Randy. Six months into the job I've found it invigorating.

By way of background, Fulcrum is a portfolio company of Leeds Equity Partners that comprises three financial publishing business. First, Covenant Review, founded and led by Adam Cohen, is the dominant player in the fast growing space for legal analysis of bond indentures and loan agreements. Second, CapitalStructure, co-founded and headed up by Minaxi Kesra, is a news wire that focuses on the special situations and distressed space in London that we've recently expanded into the U.S. market under the leadership of Shasha Dai who joined us in September after 12 years at the Wall Street Journal. And, third, PacerMonitor, founded and led by Joe Rosen, is a web-based tool to research bankruptcy filings and federal court cases.

We've made a large effort over the past six months to create data sets around loan covenant information and, based on these data, publish trend-line information.

TLL: I'd like to talk more about that. But Fulcrum has recently backed a new venture called LevFin Insights. How does that fit into the overall strategy?
SM: As the name implies, LevFin Insights is an information service focused on the U.S. leveraged finance market.

Randy, over the course of both our long careers in this market, I've been privileged to be involved in several start-ups. I was a young reporter during early days at Loan Pricing Corp and present at the creation of the GoldSheets. Later, I co-founded the company that eventually became LCD. And along the way I was a founding investor in the LoanX business, which became an early acquisition for IHSMarkit. I was also a founding investor and remain on the board of Black Mountain Systems, now a Stone Point Capital portfolio company.

With all due respect to those ventures, including my own, LFI has assembled the most impressive team around a common goal. Each of the six members of LFI is not only insanely talent individually but they have worked together a decade or more, and are a formidable team.

With LFI up and running, I feel like I have the best of both worlds. In Fulcrum I have a new set of talented colleagues and new data sets to work with. And now with LFI, I've been able to reengage with some of my closest partners who, although they are in their own separate company, are in our orbit. Already we are finding many ways to collaborate on data, distribution and marketing.

TLL: That sounds like a great combination. Steve, from your new perch, tell us what's the general trend on financial covenants today?
SM: Most of the data show that covenants have eroded in the third quarter. For example, we are seeing an

increase in the size of free-and-clear incremental tranches. These grew to 0.70x pro forma EBITDA in the third quarter from 0.66x during the second quarter.

What’s more, the percent of deals we observed with an F&C tranche of more than 1x trailing EBITDA reached 10%, the highest since the second quarter of last year. Likewise, the maximum cap on EBITDA adjustments expanded in the third quarter among M&A-related loans, to an average of 22.5% from 18.0% during the prior three months. In addition, the time horizon to realize these improvements expanded to 18.3 months from 17.4 months, on average.

TLL: How about with non-financial covenants?
SM: Randy, I believe you’ve previously interviewed Jessica Reiss and Justin Forlenza, who co-head our loan covenant area [link]. They’ve observed two noteworthy themes here. First, a growing number of deals with watered-down language surrounding the cost savings addback; these deals have an outside limit on when the cost savings actions must be taken but no limit on when the savings are actually expected to materialize.

Second, they’ve noted an increase in the appearance of addbacks tied to the sponsor model delivered to the arrangers before closing. These addbacks may or may not also be previewed to the lenders in the syndicate and, in many cases, are not limited to specific amounts but instead allow for future addbacks “of the type” described in the model, without a cap.

TLL: Steve, how about middle market deals? Do you track them? Any insights there?
SM: We generally focus on loans of $150 million or more. In the data we do track down market, we do see far fewer covenant-lite loans. As well, terms of loans for issuers of $75 million EBITDA or less, the average cap on EBITDA adjustments was set at 18%, on average, over the first nine months of the year, compared to 23% for issuers with EBITDA of $500 million or more.

To be continued the week of Oct 17

Contact: Steven Miller
smiller@covenantreview.com