DebtRush
Newsletter

RSC Market Update - April 2017

Traveler Photo by @4corners

Rush Street Capital is a boutique financial advisory firm that specializes in all aspects of debt: **debt private placements**, **debt advisory**, **debt market surveys**, **mergers and acquisitions advisory**, **debt restructuring**, **special situations**, and **capital markets**.

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Capital **Markets'** Corner

Leveraged Finance Debt Markets have roared out of the gate in 2017, not slowed by rising interest rates or an upward-sloping yield curve. During the past few weeks, there are a few cracks showing in the high-yield markets, but in the middle market, there are countless lenders in every class with an abundance of capital to lend for good deals. Structures are compelling, if not looser than they were a year ago.

In the Lower Middle Market where we operate on most deals, underwriting is still mostly sane. The frothiness seen in the middle market is mostly muted in Lower Middle Market lending. We continue to see huge differences in how smaller leveraged finance deals are viewed and received by market participants versus larger deals, with key break points at $8 million of EBITDA and further down market at $5 million of EBITDA. It continues to be a tale of two markets, where good companies with EBITDA above $8 million are able to receive multiple term sheets from asset-hungry lenders with aggressive structures. At the same time, good companies below $8 million of EBITDA and certainly below $5 million of EBITDA are receiving less attention and lower leverage multiples. Structures and terms on these smaller deals has not changed very much in the past year or two and often there are only a few viable options to get these deals completed in a timely manner.

Anecdotes from the Capital Markets Desk:

• Libor floors appear to be one of the first casualties of the rising interest rate environment

• 2017 seems to definitely be a continuation of the same themes from the past few years: Too many lenders chasing too few deals and generally a borrower-friendly environment in the Middle Market (deals above $8 - $10 million of EBITDA); Generally a sensible and by comparison a conservative underwriting environment in the Lower Middle Market

• Incumbent lenders continue to be exceedingly aggressive in recaps and refinances, as they seek to hold on to assets

• Tough or storied credits are getting 2nd and sometimes 3rd looks from lenders hungry to deploy capital

• Banks moving aggressively back into the middle market leveraged finance arena since the beginning of the year; Banks continuing to stay away from leveraged finance deals to companies below $8 million of EBITDA, unless they are the incumbent lender

A Quick Case for Relationships

We believe strongly in having choices and we believe strongly that borrowers should hire an advisor to run a thorough debt capital process when seeking a new lender. We also strongly embrace technology and attempt to be innovative in our approach to the market, utilizing technology. We speak and meet with dozens of lenders every day and we see the differences in those lenders on a first-hand basis. We are very aware of the ways that new technologies are changing the world of lending forever. We also believe strongly that borrowers and lenders who do not embrace these new technologies are right now at a distinct competitive **disadvantage** and that this disadvantage will get exponentially worse as time goes by. With each passing month and year, smart market participants are finding new and better ways to use technology to source deals, to assess risk better and faster and to fund deals more efficiently.

However, let us take a step back and make a short case for **relationships**. After a lender is selected, after the negotiations are complete and a loan gets funded, it becomes time to focus on having a good relationship between borrower and lender. All relationships require effort and good relationships don't happen by accident. Every company needs capital to survive and most businesses will eventually go out of business a lot faster when faced with a lack of capital, rather than with a lack of a viable business model. Access to capital is absolutely critical to nearly every business I have ever seen. We are reminded of the old axiom that having a good working relationship with your banker is like breathing air – you only really think about it when it isn't there.

When times are good and lending markets are robust, relationships tend to get a bad rap. At the peak of nearly every credit cycle, relationship lending can appear to be dead. However, it is during a down credit cycle or during a down period for a business, when relationships matter again.

My first boss in banking had a wooden plaque behind his desk that a customer had given him years earlier with the classic Mark Twain line, "A banker is a fellow who lends you his umbrella when the sun is shining, but wants it back the minute it begins to rain."

I asked him if that saying was true in our business – is that how we treat borrowers? His response will stay with me forever – he paused and thought and then finally responded, "Well I guess it all depends on how strong our relationship is and how well they have been communicating with us." I got it. Relationships matter in banking and lenders are human.

There is another axiom in lending: Banks don't make credit decisions, human beings make credit decisions. Behind every credit committee meeting, every credit memo, every credit approval or decline, every credit covenant and every credit agreement are human beings. Fostering good relationships with those human beings requires effort, consistency, communication and time, but fostering good relationships with your lender is always a good long-term strategy for every business owner, every CEO and every CFO.

We will continue to examine relationships in upcoming newsletters and focus on some important steps that can be taken by borrowers to foster and maintain good relationships with lenders. Here's a sneak preview of a couple things that are within the borrower's control: Provide good financial reporting and avoid surprises by taking the time to regularly communicate and meet with the decision makers at the bank on a regular basis.

LevFin Insights

Sponsor-backed Sussex Wire, a specialty metal parts manufacturer, has obtained $12 million in mezzanine financing from NewSpring Capital. Proceeds will back the purchase of Marox Corp. to expand operational and manufacturing capabilities.

Argosy Private Equity acquired Sussex Wire in 2012.

Easton, Penn.-based Sussex Wire manufactures highly-engineered, specialty metal parts and components using cold-forming technology. Marox is a precision manufacturer of medical components and assemblies using computer numerical control machining and milling processes.

The combined entity will offer complementary manufacturing technology serving the medical device, healthcare, aerospace, and transportation markets.

- Kelly Thompson

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LevFin Insights

Clio Holdings, a portfolio company of O2 Investment Partners, has acquired Solid Surfaces and US Marble, two countertop suppliers. Bloomfield Hills, Mich-based O2 Investment partnered with Oakland Standard, another Michigan-based private equity firm catering to the lower middle market.

O2 Investment formed the Clio platform in mid-2016 to consolidate companies in the heavily fragmented countertop industry. With Solid Surfaces and US Marble, the platform has completed five acquisitions and now generates over $100 million in annual revenue.

- Kelly Thompson

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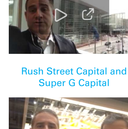
Chart Of The Month

Image resource: PitchBook

Phil Kain - ACG Denver



RECENT HIRES

Rush Street Capital is pleased to announce our latest hires, Jeff Quinlan and Tirelo Morake

QUOTE OF THE MONTH

"Be more concerned with your character than with your reputation. Your character is what you really are while your reputation is merely what others think you are."

- John Wooden,
Legendary basketball coach

Rush Street Capital and Super G Capital

RECENT TRANSACTIONS

Blackford Capital has acquired Sparkle Supercleaners

Acquisition Term Loan and Line of Credit

Financing provided by Silicon Valley Bank

Rush Street Capital served as exclusive financial advisor to Blackford Capital in this transaction

Rush Street Capital served as exclusive financial advisor to Super G Capital in this transaction

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