



MIDDLE MARKET LENDER OF THE YEAR Golub Capital

And Then There Was Golub Capital

At the onset of 2008, most mid-market lenders had convinced themselves that they were insulated from the credit freeze that halted the larger markets. By mid-year that notion was being tested, and by mid-September a number of mid-market lenders were either downsizing or shutting down.

Golub Capital defied that trend. Through a combination of capital raising, team bolstering and persistent deal execution, the firm exited 2008 arguably stronger than it had entered it. Golub Capital's assets under management grew to \$3.3 billion in 2008, surpassing the \$3 billion mark for the first time in the firm's 15-year history.

Golub Capital was at the fore of the middle market last year. With 14 deals listed, the New York-based lender was the third most active U.S. lead arranger of loan sizes up to \$100 million used for LBO purposes. Overall, the firm participated in 30 deals in 2008, and honored all commitments without exception.

"Rule number-one the whole year was: When we say yes, mean it, and close the deal on time, without changing the terms and without heartburn," said Golub

Capital President **Lawrence Golub**. "We did that for our partners."

Through the year, Golub Capital completed transactions with more than 25 different private equity sponsors, forging new relationships along the way. In October, when credit markets were cringing from the Lehman Brothers collapse, Golub Capital stepped up to finance a deal sponsored by **MTS Health Investors**, a firm the lender had no prior relationship with.

MTS Health Investors won a deal in September to acquire DNA Diagnostics Centers, a provider of DNA testing services, but had not yet lined up the deal's financing. Finally, one lender recommended Golub Capital as a source of funds that was still in the game. Golub Capital signed up as the deal's only lender and agreed to provide a \$36 million one-stop loan just five days after Lehman Brothers collapsed.

Even when Golub Capital was not lead lender, the firm showed its initiative and hunger to get deals done. In the first quarter of 2008, lender Madison Capital Funding was awarded lead arranger status on the **Harbour Group's** acquisition of Top Knobs, a maker of decora-

SNAPSHOT:

Firm: Golub Capital

Office Locations: Chicago, New York, Atlanta

Number of Professionals: 85

Products: Senior debt, subordinated debt, one stop loans, secondary loan funds

Loan Sizes: Buy-and-hold loans range from \$5M - \$75M; syndicated senior loans up to \$150M

Year Founded: 1994

**Buyouts
AWARDS
2009**

WHY THE FIRM WON

- Raised more than \$1.5 billion for new loans in the worst market since the depression.
- Grew number of mid-market loans by more than 25 percent from 2007.
- Expanded firm size by 23 percent from 69 employees to 85 employees at a time when many of its peers were making net staff reductions.
- Grew assets to over \$3 billion under management during challenging conditions.

tive door knobs for home kitchen and bathroom cabinets. Madison Capital formed a three-lender team, including Golub Capital and another lender, to finance the deal.

The rapidly deteriorating conditions in the housing market, how-

ever, made the business difficult to forecast and therefore challenging for the lending group to commit to. Even after Golub Capital negotiated a financing structure that provided the lenders downside protection against extreme credit deterioration, the third lender backed out of the deal. With all parties scrambling to fill in the senior financing gap, Golub Capital stepped up to fund both its original commitment, plus the entire commitment of the third lender.

On top of being one of the middle market's busiest lenders last year, Golub Capital was hard at work raising more than \$1.5 billion in the worst credit market since the Great Depression. The firm last year raised \$200 million in equity for Golub Capital Partners VI, which, combined with previously-raised funds IV and V, is at the ready to issue senior, subordinated and one-stop financings between \$5 million and \$75 million for companies with EBITDA up to \$35 million.

The firm collected another \$200 million of equity for GC Opportunity Fund II LP, the firm's second fund dedicated to opportunistic secondary purchases of broadly syndicated first-lien bank loans. The vehicle, which was raised mostly from limited partners in the firm's primary loan funds, is already about 50 percent invested. The first GC Opportunity Fund was raised in late 2007.

Golub also renewed-and expanded-two loan facilities, increasing the firm's short-term and

intermediate-term capacities from \$600 million to \$800 million. Further, Golub Capital formed and invested a pair of long-term \$300 million collateralized-loan obligations, one with Citi, the other with Wachovia. "It was wonderful, hard, and we're almost a little surprised we were able to get it done because 2008 was the year of the anti-CLO," Golub said of the process.

While many mid-market lenders were-and still are-busy downsizing their staffs due to the lack of deal flow, Golub Capital managed to buck that trend, and actually increased the size of its staff by 23 percent in 2008. "We had the opportunity in 2008 to raise the level of play of our entire team so that virtually every deal maker we have is an all-star player in his or her market," Golub said. In all, Golub Capital's staff increased from 69 at the beginning of the year to 85 by Dec. 31, 2008.

The firm added manpower to its deals team with the recruitment of five pros from Merrill Lynch Capital and others from the likes of GE Capital Corp. and Wachovia. One key hire made earlier in year was **Heath Fuller**, an executive who left Merrill Lynch Capital in February 2008. Fuller, who had worked in a senior capacity on Merrill Lynch Capital's capital markets desk, was brought on as head of Golub Capital's first capital markets desk. Other hires from Merrill Lynch included **Joe Lazewski**, hired as senior vice president; and

Troy Oder, hired as principal.

Career advancement also was a significant factor in the firm's success last year. Early in 2008, Golub Capital promoted **Greg Cashman** and **Andrew Steurman** to senior managing directors. In connection with the promotions, the firm organized two new transaction teams to work under their leadership and supervision. The benefits, Golub said, were two-fold: The creation of the new deal teams "allows us to maintain a faster and more substantive level of service to our private equity clients, while the more formalized team structure demonstrates promotion opportunities for our other senior deal professionals who will, at future times, be able to demonstrate their interest and aptitude to become team leaders themselves."

Also relevant to Golub Capital's success and uniqueness in today's market is the fact that the firm is the only top-20 lender in its class that is employee-owned. Every senior employee at Golub Capital has about half his or her net worth outside the value of a home committed as a limited partner to the firm's funds. "It keeps you focused and in the game," Golub said, "It's rewarding to the employees when we do well, and it's validation to the outside investors and potential investors." Approximately 30 of Golub Capital's 85 employees are limited partners in the firm's funds.-A.N.



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