

GOLUB BULKS UP WHILE OTHERS SCALE BACK

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Buyouts

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By Jeremy Harrell

As weak lenders shrink or shut down, **Golub Capital** is using its successful lending track record and strong balance sheet to gain market share and expand its client base of private equity firms. In the last year, the firm has increased its senior lending capacity by over \$1.5 billion, and in so doing has become one of the leading debt providers in the middle market. The firm has also diversified well beyond its original business of providing subordinated debt for deals.

With a one-stop lending product and a new capital markets desk designed to arrange as much as \$150 million in senior financing for deals, Golub Capital is poised to seize the opportunity presented by a decidedly favorable market for lenders at a time when few lenders have the liquidity to make new loans.

Most recently, in May, Golub Capital closed a \$300 million collateralized-loan obligation with Citi. That followed a \$300 million CLO the firm closed with Wachovia at the end of November. The May CLO is the only mid-market securitization closed by anybody in 2008. Along with other capital raises, including the recent renewals and expansions of two existing credit lines, Golub Capital has added over \$1.5 billion in additional capital. About \$1.1 billion of that is slated for mid-market sponsor finance, primarily in the form of

“Golub Capital is feasting while others are starving.”

senior and one-stop loan origination, while the rest is dedicated to buying up pieces of newly syndicated paper and purchasing broadly syndicated leveraged loans trading on the secondary market.

At the same time, Golub Capital recently held a closing on its fourth general debt fund, passing the goal's half-way point, according to a source familiar with the effort. That fund, Golub Capital Partners VI LP, has a target of \$1 billion, leverage included. By bulking up on both senior and subordinated-debt capacity, the firm should have plenty of capital to put behind its one-stop lending product. Sponsors have been showing more appetite for one-stop lending, which combines subordinated and senior credit from a single source, as they seek greater simplicity from their debt providers. The firm employs 80 professionals, with offices in Atlanta, Chicago, New York and San Francisco.

The expansions don't stop there. Earlier this year, Golub Capital brought on **Heath Fuller**, an executive who left Merrill Lynch Capital when it was bought by GE Inc. in February. Fuller serves as the head of Golub Capital's first capital markets desk, and his mandate is to help the firm's sponsor clients

secure leverage for deals when a credit facility's size exceeds Golub Capital's capabilities. The idea behind the syndication desk is that Golub Capital can underwrite a senior facility up to \$150 million—with the firm holding as much as \$50 million on its own books. The firm recently won its first arranger mandate, although it won't identify the deal. The capital markets desk



Heath Fuller
Head of Capital Markets

will also help line up members of a senior-loan club, in which case the firm won't assume an underwriting commitment.

“We're doing this because our sponsors asked us to,” **Lawrence Golub**, the firm's president, said. “Many of our clients have wanted us to provide syndication services for years so that we can provide them with a high level of certainty

and post-closing flexibility on deals where the debt size is just too big for one lender, even us, to hold alone.”

This kind of responsiveness to clients, along with a capital base that’s growing while other firms’ liquidity position is stuck in neutral or even reverse, has helped Golub Capital dramatically increase its presence, especially in terms of senior lending. In the first quarter of 2008, for example, Golub Capital backed sponsor deals with \$244 million in loans that it kept on its balance sheet; about \$25 million

of that was subordinated debt. In the first quarter of 2007, the firm invested \$163 million for LBO-backed deals, with \$51 million of that in subordinated debt. In other words, Golub Capital nearly doubled its senior loan commitments year-over-year in first quarter 2008.

In stark terms, Golub Capital is feasting while others are starving. Many lenders have either shuttered or gone silent, mostly because they were designed to sell paper to a willing chorus of buyers and hold little of it on their own balance sheets. Those lenders bulked up

on staff, figuring to rake in income from arranging debt syndicates. However, the pool of buyers for syndicated senior loans, consisting mainly of CLOs, has virtually dried up, and that zapped the arrangers’ business.

Golub Capital filed for an initial public offering of an investment vehicle similar to a closed-end fund last year but withdrew the registration when the IPO market began to swoon. The offering sought \$150 million. Golub Capital has said it has no plans to restart the registration process for the IPO.



Greg Cashman

Earlier this year, Golub Capital announced the promotions of **Greg Cashman** and **Andy Steurman** to Senior Managing Director.



Andy Steurman



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