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Golub Takes Lead in Leveraged Buyouts

By PETER LATTMAN

The economic downturn and seized-up credit markets have caused CIT Group Inc. and other commercial lenders to sharply cut back on making loans to fund leveraged buyouts of small and mid-sized businesses. Golub Capital has stepped in to fill the void.

Two types of companies dominated this market, a profitable, niche business that funded some \$40 billion in deals since 2005, according to Standard & Poor's. Arrangers such as CIT and Golub typically arrange loans, keep pieces for themselves and then sell off the rest to investment vehicles called collateralized loan obligations, which are pools of bank loans bundled and sold off in pieces.

Then there are so-called business development companies such as Allied Capital Corp. and American Capital Ltd., publicly traded firms that make middle-market loans and hold them on their balance sheets. The BDCs have been stricken by the financial crisis, suffering credit losses as companies in their portfolios have struggled paying back their loans.

In 2007, Golub did not rank among top 20 lead arrangers of LBO loans up to \$100 million, according to Reuters Loan Pricing Corp. In 2008, Golub was No. 3, and year-to-date, Golub ranks

Golub Capital, a little-known lender to smaller corporations, has zipped to the front of its field ahead of flailing CIT Group Inc. and General Electric Co.'s GE Capital unit.

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No. 1. The 82-employee firm has done eight deals lending a total of \$221 million, surpassing erstwhile market leaders CIT and GE Capital Corp.

While many lenders are shrinking or shutting, Golub is beefing up. It raised more than \$1.5 billion last year for new loans. It hired executives away from GE Capital; Merrill Lynch Capital, a Merrill Lynch & Co. unit that was sold to GE; and Wachovia Corp. Its Chicago office has grown from two to forty people over the past three years.

Golub remains active. Earlier this month, Golub acted as co-lead arranger on a \$155 million loan to fund the lev-

eraged buyout of Church's Chicken by private-equity firm Friedman Fleischer & Lowe.

How has Golub avoided the minefields that have felled so many of its rivals??? The firm has relatively lower-risk loans which, while not immune from the financial downturn, has performed reasonably well. Golub is also 100% employee-owned and pays its executives based on the long-term results of the business rather than compensating them based on short-term results. It also holds the majority of loans on its balance sheet, whereas other firms that securitize them and sell them off to investors.

"Borrowers prefer to know that the person they negotiate with and close the deal will be holder of their loan," said Lawrence Golub, the president of the firm.

Golub's model is not without risks. Whereas larger firms such as GE Capital borrow money in the commercial paper market, Golub must grow its loan business by raising funds from outside investors -- a process that has become challenging since the financial crisis. And although the economy has rebounded, strains still persist and another leg downward could hurt Golub Capital's growing portfolio of loans to leveraged businesses.