Twin Brook: Views from the Middle Market

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Twin Brook Capital Partners is a finance company focused on providing cash-flow based financing solutions for the middle market private equity community. The firm was founded and is managed by a group of highly experienced, dedicated professionals who have been successful working in the middle market. The management team has successfully closed over 1,100 transactions with 200+ different middle market private equity firms. Twin Brook's flexible product suite allows for tailored financing solutions for leveraged buyouts, recapitalizations, add-on acquisitions, growth capital and other situations for companies that typically have EBITDA between $3 million and $50 million.

What has been one of the most interesting changes in the middle market landscape since the last recession?
Over the last 10 years one of the most notable changes in our market has been the absolute necessity for private equity firms to accelerate the process by which they secure debt during an auction. This is key in a competitive auction process when the buyer is trying to differentiate itself amongst a crowded field of competitors. Securing debt capital can vary greatly depending on which part of the middle market the transaction is being executed. While the lower middle market largely remains a club environment where a smaller number of lenders are selected by a private equity sponsor, the upper middle market and larger market have witnessed the sponsor community evolve in a number of ways. Many firms now have in-house capabilities on the debt capital markets side. In addition, further trends have emerged to continue this drive for more speed and efficiency such as (i) sponsor law firms producing the term sheet for a deal (as opposed to receiving five to six different "form documents" from as many lenders), (ii) adopting "documentation principles" for deals thereby avoiding the lender's credit agreement and the lengthy back and forth negotiation, (iii) avoiding a formal syndication by clubbing lenders and (iv) opting for unitranche structures thereby eliminating the need to negotiate with both senior and junior lenders and deal with intercreditor agreements. As highlighted by these points, speed, efficiency and reliability are key elements for the PE community when considering debt today.

As a relatively new lender how does Twin Brook compete in a competitive, "need-for-speed" market?
Our platform is just under three years old. However, Twin Brook's founders (Trevor Clark & Chris Williams) wrote the business plan and were two of the original founders of Madison Capital Funding. Trevor and Chris each have over 20 years of experience building and managing a leading middle market lending platform. In addition, all of Twin Brook's sponsor coverage personnel have long standing, deep relationships with the private equity community. Our track record of delivering to sponsors is reflected in the 100+ transactions and over $3 billion of commitments we have closed since starting Twin Brook in 2015. Additionally, with over $4 billion of dry powder our future funding capabilities are secure. We can hold up to $100 million in a single transaction (but can underwrite significantly larger transactions) and our process for approving transactions is very efficient and streamlined. In addition, unlike many competitors, we are able to provide sizeable unfunded Revolvers and DDTLs to clients to accommodate their growth plans. We also have a very experienced agency services team (also in Chicago) that administers and manages the daily borrowing requests of our portfolio companies. Finally, our private equity clients have seen our consistent

performance through multiple credit cycles, which many newly formed lending groups have not experienced.

Interesting comment about Revolvers because there are a number of ways to provide senior stretch/uni-tranche financing with JVs, banks and ABL lenders. How does Twin Brook structure its product versus others ?

We provide a very flexible product suite to our sponsor clients – including, first lien, senior stretch, unitranche, 2nd-lien, mezzanine and equity. With regards to our senior products, we focus only on "dollar-one" structures, i.e. we don't structure the deal behind the scenes whereby the revolver is sold to a bank, ABL lender, etc. in order to increase our yields. We have found that sponsors like the transparency of having one lender providing both the working capital line for the borrower as well as the term facility. The first out-last out ("FOLO") option can be treacherous for sponsors if the first out lender (often a regulated bank) is not fully on board with the goals of the PE firm, decides to change its appetite for a particular credit or starts to waiver in their views of leveraged lending. Also, the process of adding more lenders to a FOLO structure can be cumbersome. Every bank requires something different in an "agreement among lenders" and this can be at odds with the new and/or existing last out lenders. As a result, the ability to increase the size of a FOLO as the sponsor grows a company is sub-optimal. In our opinion, the dollar-one structure for middle market borrowers is not only transparent but expeditious, scalable and all parties are aligned with the sponsor.

What does the term middle market mean and how has that changed in recent years?

Up until the last five years, the term "middle market" was consistently viewed as representing companies with $50 million of EBITDA or below. This definition has evolved over the last five years as different issuers/lenders/consultants have taken liberties to adjust the definition to suit their own specific demands. An example of this would be an asset manager/lender that represents that they are a middle market direct lender, but defines their target market as companies with EBITDA between $50 million and $100 million because that is where they have historically sourced transactions. With the desire to more accurately define market participants, the consultant community has further eroded the definition of middle market by adding such qualifiers as lower middle market and upper middle market. The net result is that the once static term "middle market" is now subject to varying degrees of interpretation, and will often times be specifically defined in presentations and articles to avoid confusion about what size of companies are being referenced.

So which segment of the middle market does Twin Brook focus on?

The Twin Brook senior management team has relationships with over 300 middle market private equity sponsors and has, over the course of their careers, closed deals with 220+ of these firms. Given the breadth of our sponsor relationships, we see deal activity across all segments of the middle market. However, Twin Brook focuses primarily on the lower part of the middle market which we generally define as borrowers with $30 million of EBITDA and below. We certainly have larger borrowers in our portfolio as well. Our ability to take sizeable hold levels, underwrite larger transactions and provide ongoing growth capital for our borrowers has positioned us well to play across all segments of the middle market. In general, we don't specifically limit ourselves to companies based on EBITDA size. What's most important for us is the sponsor we are working with on the deal and our ability to do a deep dive on the diligence and underwriting for a potential borrower. Our experienced team brings a consistent level of execution to the transaction process which has earned us a strong reputation in the market.

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