Q&A: A partner for all times—uncharted waters and beyond

As middle-market companies and their private equity sponsors seek to navigate the uncertainty brought on by COVID-19, the importance of dependable partnerships has become increasingly evident. Twin Brook Capital Partners' Chris Martin and Pete Notter discuss the value of deep relationships and working with private equity clients and their portfolio companies through these unprecedented times.

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Chris Martin joined Twin Brook in 2016 and is a partner responsible for the origination, evaluation, and structuring of new lending opportunities with private equity sponsors.

Pete Notter

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Q2 and late Q1 2020 were marked by pandemic-related challenges and uncertainty. Did this force you to change your strategy or approach to working with sponsors and borrowers?

Pete: Since inception, Twin Brook's strategy has been consistent; we are focused on serving private equity firms and their portfolio companies in the lower-middle market, which we define as companies with $25 million of EBITDA and below. For us, it is about more than just providing capital. We are here to support sponsors' growth strategies and be a reliable, hands-on lending partner. This strategy and how we execute on it have been shaped by the 20+ years our senior team has spent working in this part of the market, and our experience through multiple credit cycles has informed nearly every part of our high-touch approach—from the design of our teams to our underwriting process and ongoing portfolio management—which has not changed due to the pandemic.

Chris: The deal team that underwrites a new opportunity—including the lead originator—remain with that account for the full life of the credit, and we believe that team continuity provides not only greater surety of execution and a seamless experience for our PE clients and borrowers but also makes us better-positioned to both support them and manage the credit within our portfolio. We have long interacted with our borrowers, their management teams and their sponsors on a consistent basis—be it daily, weekly, or monthly—about all aspects of their businesses and their performance, which allows us to maintain a deep knowledge of these companies and the nuances that impact them. These regular interactions and the higher-quality, more timely information and analytics that come from them are core to our approach of actively monitoring credits so we can identify potential issues early on and work together with our borrowers and private equity clients to proactively address them. In the face of the pandemic, this didn't change. Our frequent interactions continued and, given the mutual clarity in expectations when it came to working together, sponsors and borrowers were proactive in communicating and sharing the information we needed.

Looking back, is there anything you think the experiences of the past few months have highlighted?

Pete: I think this has definitely shined a light on the value of strong sponsor-lender relationships, particularly in the lower-middle market, which had not become as commoditized as the broadly syndicated loan (BSL) and upper-middle markets in recent years. Private equity firms focused on the lower-middle market generally have a more active ownership style, which is one of the reasons why relationships have been and continue to be so important. These sponsors are looking for ways to create meaningful value at their portfolio companies, and those initiatives often require additional financing and ongoing lender interaction. As a result, these private equity firms are seeking long-term lending partners that are both committed to working hand-in-hand with them as they grow portfolio companies and have a demonstrated ability to manage through multiple credit cycles in their part of the market.

In the face of the pandemic, those long-term relationships became ever more critical. Our experience working with our PE clients and their portfolio companies through numerous transactions and situations over many years has built a level of trust—on both sides—and fostered an open line of communication that allows for greater flexibility and has been especially key over the past few months. From the start, sponsors knew that we would be there to work alongside them through the challenges ahead and valued the operational support we bring to the table, and we had confidence in their ability to execute—having seen them successfully lead businesses through ups and downs—and had the consistent, robust information flow needed to both proactively support them and manage our portfolio.

How do you go about building these meaningful relationships?

Chris: Developing relationships can take years and involves significant work—reviewing transactions with sponsors, participating in management meetings and working with them on the portfolio side—through both periods of expansion and stress. It's in those latter situations, working closely to get through issues or tough patches in a company's growth, that you build some of your strongest connections. While having a proven ability to complete transactions and understanding what sponsors are looking for when it comes to the financing solutions needed to build on these businesses is certainly important, it's about more than that. Any lender can close a deal. It's the ability to work through the growing pains that deepens those partnerships and, as Pete noted, builds a strong working relationship and level of trust that are invaluable.

Clearly relationships matter, but what else do you think private equity firms will be looking for from lenders in the near term and moving forward?

Pete: Experience has long been a point of focus, but I think the past few months have served to demonstrate why it is so important. As I touched on before, many members of our nearly 70-person team have worked through multiple credit cycles in this space, which has taught us a lot of best practices and provided us with a wealth of knowledge on how to both manage credit risk during an economic contraction and work with sponsors to make sure companies emerge from a downturn with the best possible outcome for all parties.

Chris: The importance of partnering with lenders that have not only relevant experience and expertise but also the business models, infrastructure, and resources needed to be reliable in the face of uncertainty has become increasingly clear. While there was an abundance of dry powder in the private credit market prior to COVID-19, much of which was available at very borrower-friendly terms, capital to support new direct lending opportunities is now harder to come by. In the early days of the pandemic, the impact of this was less evident, as private equity firms and lenders alike were focused on their existing portfolios while they sought to navigate uncharted waters. However, as businesses and the economy reopen and sponsors begin to consider situations where they can opportunistically pursue add-ons or new investments, they are also contending with a changed lending landscape.

At Twin Brook, we have approved over $800 million of commitments since March and have substantial buying power to support our current and future borrowers. This, in combination with our robust, experienced team, made us well-prepared to navigate the unique challenges of the past few months and will support our ability to continue working hand-in-hand with sponsors through both the complexities of today and toward the opportunities that lie ahead.

To learn more about Twin Brook and its cash-flow based financing solutions for the middle-market PE community, visit www.twincp.com.