

When the Market Throws a Curveball, You Need a Lender You Trust

Twin Brook's track record with mid-market sponsors shows why relationships matter

Not all business relationships are created equal—although their quality isn't always clear until times get tough. Chicago-based direct lender Twin Brook Capital Partners takes relationships seriously, in both good times and bad.

The past two and a half years have underscored the firm's commitment to its clients and shown the value of having a trusted lending partner. From the pandemic's earliest days, Twin Brook supported sponsors and their portfolio companies with immediate liquidity solutions, while providing capital for future growth opportunities.

Kinderhook Industries, a New York-based private investment firm that manages over \$5 billion in committed capital, was among the sponsors that turned to Twin Brook during the pandemic. One of Kinderhook's companies was in the middle of an operational turnaround when the crisis began. The private equity firm reached out to Twin Brook to ask for breathing room during the jarring market dislocation. With the lender's assistance, Kinderhook renegotiated agreements that factored in COVID's impact on the portfolio company.

Paul Cifelli, a managing director at Kinderhook, says he appreciates having a stable partner where trust is well-entrenched, even in moments of unparalleled catastrophe. "The firm gave us the runway the company needed to see itself through the rough patch," says Cifelli.

That trust and support paid off, and it ultimately showed the value of having a flexible partner. "Fast forward a year, the company's EBITDA triples, its free cash flow is vastly improved, and Twin Brook led a dividend recap of the business at the end of 2021," Cifelli notes. "That is true partnership."

The relationship between Twin Brook and Kinderhook has spanned at least a dozen transactions and more than one economic cycle. Together, the firms navigated the worst of the pandemic, and they continue to work together to overcome the enduring effects of the crisis and a weakening economy.

Team Players

In some spheres of the market, capital is a commodity, but Twin Brook sees its role as more than just providing financing. The team understands the unique needs of sponsors and borrowers in the lower middle market, where it focuses, and it has the track record to prove it.

Twin Brook has been providing cash flow-based financing solutions for the mid-market since it was founded in 2014. The firm's borrowers generally have between \$3 million and \$50 million of EBITDA, although Twin Brook tends to focus on companies with \$25 million of EBITDA and below.

Working within that niche, the Twin Brook team acts as a true partner to its sponsor clients and borrowers, often working with them on more than one engagement.





Becoming part of the team also means building mutual trust, something that's vital during periods of uncertainty when moving quickly is critical.

RICH CHRISTENSEN,
Senior Partner, Twin Brook
Capital Partners

“Relationships with our sponsors and borrowers are recurring in nature, because we’re doing multiple deals with the same sponsors,” says Twin Brook’s Timothy Wentink, a partner who focuses on healthcare. “For these size companies, you become part of the team and are able to add a lot of value to our sponsors and borrowers by being a good lending partner.”

Becoming part of the team also means building mutual trust, something that’s vital during periods of uncertainty when moving quickly is critical, adds Rich Christensen, a senior partner at Twin Brook.

He cites an example from November 2021, when a long-term client approached Twin Brook about financing two add-ons for a portfolio company. With a short window for execution—and a previous lender who was unable to deliver—the client asked Christensen and his team to help refinance the existing facility.

“We were able to execute the refinancing, so the company could acquire both add-on acquisitions prior to the end of the fiscal year,” says Christensen. “Having that existing relationship and precedent documentation in place allowed us to close the credit facility within their exclusivity period.”

With Twin Brook’s help, the business was able to maintain its M&A momentum. “We also provided substantial

debt capacity above the closing credit facility, allowing the company to continue to execute around their acquisition growth strategy,” Christensen adds. “The company has since acquired three additional operations during 2022, almost doubling the size of the credit facility since closing.”

As a testament to the strength of Twin Brook’s relationships, clients tend to come to the firm at the start of a deal, knowing that Twin Brook’s professionals will add value and can provide support if a problem arises.

“We are the first call when (PE companies) sign up a new transaction,” says Betsy Booth, a managing director at Twin Brook. “We also give them confidence that they can give us a call if there’s a hiccup they’re running into.”

The Next Inning

The brunt of COVID-19’s impact on the U.S. economy seems to be in the rearview mirror, although private equity investors and their portfolio companies are still contending with lingering challenges, like supply chain snags and inflation.

As Kinderhook encourages its companies to hone pricing strategies and strengthen supplier relationships, it’s crucial that the organization have a similar bond with lenders, says

Louis Aurelio, Kinderhook’s managing director and chief administrative officer.

“When the economy gets choppy, our lenders take time to understand the issues and what our companies are doing to address challenges,” he says. “Having good lending relationships always matters, but they are especially important in the current environment.”

Another Twin Brook client, Pittsburgh-headquartered Incline Equity Partners, continues to focus on new acquisitions across its focus areas of distribution, light manufacturing and business services. Twin Brook has supported the firm during this time, delivering “certainty of financing” and fast decision-making, notes Cale Grove, a managing director who leads debt capital markets efforts at Incline.

“The nice thing about Twin Brook is they are true business partners for us,” Grove says. “They provide financing, but they also understand our business. They work with us to create a bespoke solution that gives us flexibility to do what we need to support the company and invest in growth.”

Grove points to a portfolio company that provides outsourced services, which were temporarily impacted by



the COVID-19 shutdowns. During that time, Twin Brook backed financings that assisted the business and allowed for an acquisition that ramped up growth for the company.

“That’s really a microcosm of all the things that Twin Brook does,” says Grove. “Not only do they stay up to speed on the company, they give us flexibility to make the investments we need to. That is one of the biggest compliments I could pay to a direct lender.”

Looking ahead, a weakening economy could complicate M&A transactions—by hurting company performance, for example. And although relationships matter when the economy is booming, it’s when things go south that you find out how strong your partnerships are. For a sponsor engaged in M&A, having a returning lender that knows the business and can provide sound guidance for getting a deal to the finish line might be the difference between success and failure.

Twin Brook remains committed to helping clients close their deals, another aspect that keeps private equity firms coming back.

“We’re going to work through a solution that works for both sides,” Booth says. “The repeat business and consistent deal flow we get from sponsors is so important.” //