Monroe Capital's Koenig — Middle Market Thought Leader of the Year

BY HOWARD BROD BROWNSTEIN, CTP

***ABF Journal* contributing editor Howard Brod Brownstein** catches up with Ted Koenig, president & CEO of Monroe Capital LLC, who was recently named the "2012 Middle Market Thought Leader of the Year" by The Alliance of Mergers & Acquisition Advisors and Grant Thornton.

THEODORE L. KOENIG
President & CEO,
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ABFJ: Ted, describe your career and how it led to you creating Monroe Capital.

TK: As was fairly typical of most of my friends in the ABL industry, I went to college (Indiana University) and graduated with a degree in accounting. Fortunately, I passed the CPA examination in the first try or I probably would not have gone through the headache of taking that exam again — it was not a fun experience! I went on to law school after my undergraduate studies, since I really did not want to be an accountant. After law school, I started my career at Winston & Strawn, a large Chicago-based law firm, where I worked in the M&A and financing areas. I was fortunate to have good role models and teachers, and I learned a fair amount regarding documenting M&A financing transactions. Unlike most of my contemporaries, I was very interested and focused on the middle market, as opposed to the larger institutional market. I liked that the middle market was much more relationship-focused and client-friendly.

I left Winston & Strawn, after several years of working long hours, to join a small but growing middle-market Chicago law firm, Holleb & Coff. I liked Holleb & Coff because it had good middle-market business clients. Soon, I became the leader of the middle-market finance practice at the firm and represented most of the middle-market lenders active in the market. Through that experience, I got to know many of the professionals in our industry, and most of those people that I met years ago, I am still lucky enough to call my friends today.

After practicing law for several years, I grew tired of billing my time by increments of ten minutes. It was at that point that I knew I needed to move out of the law firm environment into a more entrepreneurial path. I understood how banks operated and what made them tick (and not tick at times!). I also understood that there was a place in the market for an innovative, non-bank lender that did not have the accompanying regulatory constraints. Since most of my relationships were with middle-market bankers and private equity firms, it was a natural progression for me.

All that led me to the ABL industry, initially through a joint venture ABL finance business that I started with Hilco. Then, four years later, I wanted to expand the business to focus on leveraged and cash-flow lending and create an enterprise and grow a business — the result was founding Monroe Capital in 2004. It has been a wonderful ride, although during the financial crisis of 2008 and 2009, a bit challenging.

What has always made me tick has been the people, including my partners and our team. The most enjoyable part of starting Monroe and watching it grow, has been recruiting the best and brightest people in the industry to join me in expanding our business and our platform. One of the things I am very proud of is that most of the key people that started with me in 2004 are still together managing our firm — like Mike Egan and Tom Aronson.

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ABFJ: What types of financing does Monroe offer?

TK: Monroe Capital offers cash-flow and enterprise value-based senior secured, unitranche, junior secured, mezzanine debt and equity co-investments. We finance private equity sponsors in buyout, recap and dividend transactions and also do non-sponsored financing transactions for management teams for bridge loans, growth situations and company direct investments. We offer our borrowers flexible capital with certainty of execution, which is crucial in the middle market. Several years ago, we saw an opportunity to bring unitranche financing to the lower middle market by providing both companies and financial sponsors with a comprehensive one-stop financing solution. We have completed over 450 financings involving over $1.7 billion since we founded Monroe. We have worked with more than 200 different private equity sponsors.

Our goal is to be the go-to firm in the U.S. lower middle-market lending space, providing the entire spectrum of debt capital to our borrowers, private equity sponsors, management teams and financial advisors.

ABFJ: What is Monroe's brand? What differentiates Monroe from its competitors?

TK: Monroe Capital prides itself on its flexible investment approach and its ability to close and fund transactions quickly. We are committed to being a value-added and user-friendly partner to owners, senior management and private equity sponsors. Monroe Capital is a leading provider of senior, unitranche and junior debt and equity co-investments to lower middle-market companies in the U.S. and Canada.

"I am a big believer in personal relationships. We take a hands-on approach with people and are willing to look our clients and referral sources in the eye and give them our word that we will be there to support their companies and their business plans. We are 'old school' in that respect."

The Monroe Capital brand and its primary point of differentiation from its competitors is its focus on and success in originating and agenting loan transactions in the lower middle market (companies with EBITDA size below $20 million). This is supported by Monroe's robust origination infrastructure that includes seven offices located throughout the U.S. (Chicago, New York, Boston, Los Angeles, Atlanta, Dallas and Charlotte), all staffed with seasoned loan investment professionals averaging more than 20 years of experience. This allows Monroe Capital to be a leading national player in its space.

In addition, Monroe has the requisite credit, underwriting and portfolio management functions and staff to make and monitor investments effectively in a variety of financing transactions, and provide a real value-added service to its borrowers and referral network. Also, unlike many of its competitors, Monroe focuses on non-private equity sponsored transactions (approximately 50% of deals executed are non-sponsored), such as privately held family businesses as well as women- and minority-owned and controlled companies.

Recently, Monroe formed two new lending verticals: an ESOP (Employee Stock Ownership Plan) practice and a healthcare affiliate to do ABL healthcare transactions. Also, a few years ago we formed Monroe Credit Advisors LLC, an independently owned and managed company to provide debt advisory expertise and financial advisory services to middle-market companies. This group has closed transactions with many of the leading middle-market debt providers in the U.S. We established this group specifically to help middle-market companies find the best and most efficient financing partners throughout the country to satisfy the specific needs of the borrower clients. This business has grown very nicely under the direction of Mark Gertzof.

ABFJ: How is Monroe capitalized? What are your funding sources?

TK: Monroe has a broad base of capital. It is an institutional asset manager managing funds in the private credit space for a wide variety of investors, such as pension funds, insurance companies, endowments, foundations, banks, family offices and other high net worth investors. It also has significant bank warehouse lines available to it as an enhancement to its limited partner capital base. Monroe has been ranked as a top decile performer over the last ten years in terms of cash on cash returns to its limited partners, by three independent performance studies conducted by Citibank, Morgan Stanley and Guggenheim.

ABFJ: What are some of the milestones in Monroe's history of which you're most proud?

TK: Since its inception in 2004, the firm's assets under management have grown every year. Monroe Capital has completed over 450 middle-market financing transactions involving more than $1.7 billion, provided much-needed financing for minority- and women-owned companies and developed a wide range of financing solutions, including Monroe's "unitranche" financing product, to support both private equity-sponsored and family owned businesses. Today, I believe that Monroe has evolved into the premier financing source for lower middle-market companies throughout the United States. Monroe has grown to a team of more than 30 investment professionals with more than 160 portfolio investments. We have a team of first-class origination and credit professionals unmatched in the industry. More importantly, Monroe is a firm of good solid people with Midwestern values and who take pride in their work and their reputations.

Monroe has also demonstrated perseverance when faced with obstacles. While not easy, we successfully navigated through the 2008 and 2009 financial crisis, when many of our competitors (e.g., hedge funds, banks, finance companies, CLO asset managers and other private investment firms) were forced to close their doors, leave the business or find new financial backers under the stress of the financial crisis. Throughout the difficult business cycles over the last ten years, Monroe continued to provide top-tier investment performance to its limited partners and provide a consistent source of financing to its borrowers and private equity sponsor relationships.

In late October 2012, Monroe sponsored an IPO of its business development company affiliate, Monroe Capital Corporation (Nasdaq: MRCC). MRCC raised approximately $86 million from public shareholders. In two short months of being public, MRCC doubled its outstanding investments in loans as of year-ended 2012. MRCC will be an important component of Monroe Capital's continued growth over the coming years.

ABFJ: Describe Monroe's organization? What is its culture?

TK: Monroe's culture has and hopefully will always be an entrepreneurial environment, encouraging leadership and professional growth within a flat organizational structure. Our management team empowers the entire professional investment staff to be decision-makers. The entire Monroe team is motivated to originate, underwrite, close and monitor high-quality financing transactions each and every year.

ABFJ: How does Monroe find its prospective borrowers? How does it "go to market"?

TK: We pride ourselves on the longstanding relationships we have developed and maintained within the middle market. Our team works very hard at knowing the referral sources and decision makers in cities throughout the United States. Much of our origination effort is face-to-face calling. I am a big believer in personal relationships. We take a hands-on approach with people and are willing to look our clients and referral sources in the eye and give them our word that we will be there to support their companies and their business plans. We are "old school" in that respect.

ABFJ: What types of borrowers are good matches for Monroe?

TK: Monroe looks for companies with EBITDA between $3 million and $25 million. We have investment experience in a broad range of industries, including manufacturing, infrastructure, distribution, business services, healthcare, education, defense, travel, consumer goods, energy services, print and publishing, media, telecommunication and retail. We look for companies with a reason to exist, stable cash-flows and good management.

ABFJ: As a nonbank lender, how does Monroe compete with banks that have a lower cost of capital?

TK: Cost of capital is overrated as a competitive factor. In the middle market, it is all about dependability, reliability and certainty of execution. We provide all of these to our clients, irrespective of the economic cycle or the current regulatory environment in which we happen to find ourselves from time to time. Unlike most of our competitors, we have no ownership of our company by banks, insurance companies, hedge funds or any other investor that would have alternative interests or motives to our providing the best possible overall financing solution to our clients and borrowers. We are not governed by any regulatory authority that tells us how we should operate our business or for example, how we need to amortize our loans.

ABFJ: What are your plans for Monroe? Where would you like to see Monroe in five years?

TK: Monroe Capital will continue to expand its capital in order to satisfy the growing needs of its investor base and the needs of lower middle-market borrowers. We will continue to grow our private institutional investor base, our public business development company, Monroe Capital Corporation and our CLO asset management platform. We will also continue to bring in the best and brightest to add to our team. abfj

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