

Fifth Street Finance Corp will sell Lighting by Gregory and Tri State Foam in 1H10, CEO says

Fifth Street Finance Corp (NYSE:FSC), a specialty company, will exit Lighting by Gregory and Tri State Foam in the first half of next year, according to CEO Len Tannenbaum.

The White Plains, New York state-based company works closely with Edgeview Partners and has a relationship with Lincoln International, he said. It seeks consultation from several law firms, including Rutan & Tucker and Proskauer Rose.

Fifth Street holds a 95% stake ownership in Lighting by Gregory, a home décor product distributor, and an 80% stake in Tri State Foam, a manufacturer of expanded polystyrene foam products. "We don't have the capacity to run more than two companies nor the desire," the CEO said.

Fifth Street lends to and invests in small and mid-sized companies in connection with private equity investments. It prefers to have interest-earning investments, which are primarily a portfolio of leveraged loans, an analyst said. It is not in the business of being an active manager.

Lighting by Gregory experienced difficulties, forcing Fifth Street to take control through a majority-owned investment, the analyst said. Fifth Street purchased it for USD 20m (USD 11m in debt and USD 9m in equity), Tannenbaum said. In July, it bought the equity for USD 300,000, and has marked the debt down to USD 7m, as of the second quarter.

Lighting by Gregory has generated enough cash on the books and Fifth Street does not anticipate further financing, according to the company. It also benefited from the closure of its competitors such as HomeAnnex.com, InsideStore.com, Lightingonthenet.com and Lighting Forms, the spokesperson said.

Asked whether it is confident of a sale, Tannenbaum said a number of private equity firms showed interest when Lighting by Gregory was initially shopped at the beginning of last year.

Tri State Foam had a similar story in which Fifth Street had to buy out the private equity firm and restructure it, Tannenbaum said. It has owned the company for a year and invested USD 11m. Tri State Foam is now cash-flow positive with roughly USD 8.5m revenue. Its foam product is used in highway sound barriers and the company has preliminary approval in North Carolina and is in discussions with Virginia state officials, said Brian Finkelstein, vice president of the Fifth Street's portfolio group. Tannenbaum said the company is also confident of a sale for Tri State Foam in 1H10.

On 29 September, Fifth Street announced it had completed a public offering, raising USD 58m in gross proceeds. Wells Fargo Securities LLC and UBS Investment Bank served as joint book-running managers and Stifel, Nicolaus & Company, served as a joint lead manager. Fifth Street said it does not expect to raise additional equity this year.

The analyst said it will use a substantial portion of its capital by December, as many companies fear an increase in the capital gains tax rate. Tannenbaum acknowledged that the speculation of a capital gains tax rate increase will drive M&A and said deals will close in January or February. Fifth Street's pipeline is approaching USD 1bn and December is going to be a big month, Tannenbaum said. Fifth Street's market cap is roughly USD 326.5m.

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