

## **Fifth Street Finance Corp. Is Filling The Middle Market Lending Void – Originating \$195.3 Million Of Deals In The First Fiscal Quarter Of 2010**



**Finance  
 Credit Services  
 (FSC-NYSE)**



**Leonard M. Tannenbaum, CFA  
 Chairman, President and CEO**

**BIO:**

Leonard M. Tannenbaum is the CEO and President of Fifth Street Finance Corp. (NYSE:FSC).

Mr. Tannenbaum has founded a number of private investment firms since 1998 including Fifth Street Capital LLC, and has served as managing member of each firm. Prior to launching his first firm, Mr. Tannenbaum gained extensive small-

company experience as an equity analyst for Merrill Lynch. Mr. Tannenbaum currently serves on the Board of Directors for several Greenlight Capital affiliated entities. Mr. Tannenbaum has also served on the Boards of Directors of several other public companies, including Einstein Noah Restaurant Group, Inc., Assisted Living Concepts, Inc., WesTower Communications, Inc.

Mr. Tannenbaum graduated from the Wharton School of the University of Pennsylvania, where he received a B.S. in Economics. Subsequent to his undergraduate degree from the University of Pennsylvania, Mr. Tannenbaum received an M.B.A. in Finance from the Wharton School as part of the Sub Matriculation Program. He is a holder of the Chartered Financial Analyst designation and he is also a member of the Young Presidents' Organization.

**Company Profile:**

Fifth Street Finance Corp. (NYSE: FSC) is a specialty finance company that lends to and invests in small and mid-sized companies in connection with investments by private equity sponsors. Fifth Street Finance Corp.'s investment objective is to maximize its portfolio's total return by generating current income from its debt investments and capital appreciation from its equity investments.

**Interview conducted by:  
 Lynn Fosse, Senior Editor  
 CEOCFOinterviews.com**

**CEOCFO:** Mr. Tannenbaum, it has been about a year since we have spoken; what has changed for Fifth Street Finance over the year?

**Mr. Tannenbaum:** Since I started the firm eleven years ago, this year has been

one of our most exciting and busy years. Fifth Street Finance announced this morning our year-end results and our performance was pretty much in line with analyst expectations. Earlier this week we announced \$195.3 million of signed term sheets representing terrific first lien middle market loans. This increased pace of origination was spearheaded by some of the recent additions to our team, including Casey Zmijeski as east coast originator. Earlier in the year we completed two successful follow on offerings, raising an additional \$140 million in capital and closed on a three-year credit line with Wells Fargo. Through the year we have also progressed in the process of obtaining an SBA license. These accomplishments enable Fifth Street to be the leading provider of capital to middle market private equity sponsors.

**CEOCFO:** What made it all come together for Fifth Street Finance?

**Mr. Tannenbaum:** I think the partnership approach with equity sponsors is part of it. A second is our cohesive team that works very well together. Another key piece is the Brand which was built on three key values: Transparency, Discipline, and Integrity. We continue to build the trust of our clients by executing on what we promise; it takes a while to build that trust.

**CEOCFO:** Would you tell us a little about the companies that you are working with?

**Mr. Tannenbaum:** We work with small and mid-size companies in a variety of industries. Many of these industries can be broken into smaller categories. For example, healthcare currently accounts for about 30% of our portfolio. Included in this sector are healthcare technologies,

healthcare services, and healthcare facilities. Representative deals include: Caregiver Services based in Florida. Caregiver is one of the leading nurse staff registries, and the largest one in Florida; Lighting by Gregory, a lighting fixture company based in Manhattan with a great website, [www.Lightingbygregory.com](http://www.Lightingbygregory.com); and Boot Barn based in California which is a leading provider of western wear apparel. We work closely with the management teams and private equity sponsors and attend all of the board meetings. We attempt to help our businesses grow and prosper.

**CEOCFO:** Are you finding more opportunities these days?

**Mr. Tannenbaum:** There are more opportunities for us today than ever before! There is a void in middle market private equity sponsor backed lending of at least \$7 to \$10 billion in size. I think that the void will increase as middle market Mergers and Acquisitions activities continue to accelerate into next year. We will gain substantial market share as we continue to ramp our origination effort and benefit from the increased demand for our product.

**CEOCFO:** You have a conservative approach on managing credit risk; what is your philosophy?

**Mr. Tannenbaum:** We have a long term view of the world. I am one of the largest shareholders and our entire Board of Directors and senior team own stock in FSC. This gives us a close alliance of interest with our shareholders and enhanced motivation to think about the long term consequences of any loan. We only finance sponsor-backed transactions and to mitigate default risk we underwrite the credit AND the sponsor, almost equally. The sponsor underwriting process includes determining track record, team cohesiveness, operating ability, as well as many other key criteria. This process has been carefully developed over the past decade. I believe that this dual credit underwriting approach is why our default rate has remained substantially lower than the competition.

**CEOCFO:** Fifth Street provides custom tailored financing solutions; give me an idea of what you are doing that is a little different than the others.

**Mr. Tannenbaum:** We are flexible providers of capital. We listen to what our private equity sponsor partners need and want. We put ourselves in their shoes. What do they need and desire, and what kind of financing solution will work to solve their problem? For example, one of the latest deals that we announced was a large buyout in the education space. The education financing is a good example of where we were flexible by providing a line of credit to the company and a Letter of Credit (LC) to support their regulatory requirement. The Business Development Company (BDC) structure permits this enhanced flexibility by allowing us to tap multiple sources of capital and recycle capital as it is returned.

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**CEOCFO:** Would you tell us about your relationship with the SBA?

**Mr. Tannenbaum:** The SBA has a terrific program to lend to small business and it involves a number of Business Development Companies helping them accomplish that goal. We are currently working with them on obtaining a license which will enable us to lend money to small businesses. We raised the \$75 million of regulatory capital and hope to obtain a credit line of \$150 million. We hope to conclude the licensing process in January or early February.

**CEOCFO:** Fifth Street was named the 2009 Debt Financing Agent of the Year by the M&A Advisor; what does that mean for you?

**Mr. Tannenbaum:** We were very pleased to win the award from the M&A Advisor. It is an important recognition of our con-

tinued success filling the void in middle market lending. It is also a testament to the great sponsor relationships that we have built over the past eleven years.

**CEOCFO:** What challenges do you see ahead, and in what areas do you always have caution?

**Mr. Tannenbaum:** The biggest risk in our industry is the potential for a very dramatic increase in interest rates. Even though our portfolio contains an increasing percentage of floating loans which act as a hedge against this scenario, our fixed rate portfolio is still sizable. Should we obtain an SBA license that debt would be fixed for ten years and would act as another hedge. The best environment for FSC is clearly a flat to slightly increasing economic landscape but we have to be prepared for any scenario.

**CEOCFO:** Transparency is a very important cornerstone at Fifth Street Finance; why is that the case?

**Mr. Tannenbaum:** We have found that ultimately transparency leads to more long term investor relationships and we hope this will lead to a premium to book. We have tried to increase our transparency in many ways including: publishing a Fifth Street Index; issuing a monthly newsletter; and

disclosing debt to EBITDA of our portfolio rating tranches. The Fifth Street Index is published monthly and can be found on our website, [www.fifthstreetfinance.com](http://www.fifthstreetfinance.com). It indexes with the help of S&P all of the EBITDA from our portfolio companies both in the public entity as well as our private fund. We believe this index is a good indicator of small and middle market company performance.

**CEOCFO:** Do you see the need for more personnel?

**Mr. Tannenbaum:** We are definitely adding more personnel. We currently have 12 open positions and plan to add an additional 25 employees by the end of 2010.

**CEOCFO:** Would you tell us about your dividend policy?

**Mr. Tannenbaum:** The dividend policy is a key part of any income producing security like Fifth Street Finance (FSC). We cut the dividend to \$0.25 last year to account for a very difficult economic environment and to account for additional loan losses beyond our budget. Last quarter we increased it to \$0.27 per quarter, and now that the portfolio is not only stabilizing but doing better, we should be able to increase our dividends not only next quarter, but throughout next year. One of my personal goals is to return the dividend back to \$0.33 per quarter which was the highest it had been.

**CEO CFO:** What goes into the thought process of choosing the industries you choose from?

**Mr. Tannenbaum:** We aim for diversification across almost all industries. In the past we have not lent to technology firms. We feel we do not have enough expertise in this field and it is a rapidly changing industry. We are simply focused on generating strong long term risk adjusted returns for our shareholders. Our primary objective is to provide them a stable, di-

versified and growing dividend and earnings yield.

**CEO CFO:** Why should potential investors pay attention to Fifth Street Finance?

**Mr. Tannenbaum:** Fifth Street Finance is a leader in the middle market financing of sponsor led transactions. We have a strong alliance of interest with our shareholders and a disciplined investment strategy. I am one of the largest shareholders in the company, having purchased over 1.3 million shares. There are no stock options or granted equity involved. As I mentioned earlier, the Board of Directors and management team own shares. We have strong relationships with private equity sponsors that allow us to generate alpha. We have some of the highest yielding assets in the business, and some of the lower risk assets. We have lower leverage than our peers. Our strong eleven year track record has given confidence to our investors that we can be profitable through any period.

**CEO CFO:** Is the investment community paying attention?

**Mr. Tannenbaum:** The institutional investors are just starting to differentiate between the winners and losers in our industry. Many of the BDC's that remain are good players. Our stock has started to trade well but still is at a discount to book. I believe that our consistent results, transparency, and increasing dividend will continue to generate interest.

**CEO CFO:** Final thoughts, what should readers remember most about Fifth Street Finance?

**Mr. Tannenbaum:** We execute on what we promise! We value our shareholders and have a strong alliance of interests. Our portfolio is marked appropriately and we are originating deals in a great lending environment. This will drive strong results for our shareholders over the next few years. I am proud of our team, our culture, and our values. FSC will be part of the solution to the great demand for lending in 2010.



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