



## 5 Questions with Leonard Tannenbaum, CEO of Fifth Street Capital



Fifth Street Finance Corp.'s IPO (in early June) was the first ever BDC listing for underwriter Goldman Sachs. Furthermore, it's one of the only financial services company to go public this year. To celebrate this rare move as well as the firm's 10 year anniversary, Fifth Street's president and CEO, Leonard Tannenbaum, will ring the NYSE's opening bell tomorrow. Last week I caught him for five questions.

**1. Your firm, a lender-turned-BDC, just went public in one of the worst markets for financial services IPOs in years. How did you manage to overcome market murkiness and complete the offering?**

We continually get that question. There were two factors here. The first was that we had the best underwriting team ever. Goldman Sachs took us as their first BDC, and so that added credibility. The other underwriters, Wachovia and UBS, were instrumental, as well. There was credibility from some of the major shareholders and the fact that I own about 900,000 shares myself. Secondly, the story was without a hole. We had the team in place, a 10-year track record, terrific clients, and we're at the right time to raise money. That offset what was the worst IPO market ever for financials. The two cancelled each other out.

**2. I have to ask, why now?**

We think it's the best time for our products in the last ten years. The ability to provide our sponsor clients with capital in a capital-constricted market is truly appreciated. There's a demand for credit and we're very flexible to sponsors.

**3. What benefits does the firm receive as a public company?**

There are two major points. We have the benefit of being able to support our sponsors with more capital and more flexible capital, as well as the ability to re-up in platform companies that we finance. No. 2 is for our shareholders—being able to provide liquidity and cheaper forms of debt capital when we add credit lines ultimately generates a better return for our shareholders. You can't get a leverage line being a private entity, but now we have that ability.

**4. Are there any downsides to being public, and if not, why don't more mezzanine lenders go public?**

Everybody would like to raise permanent capital, but not everyone has the track record. It's hard to take these companies public because some start as blind pools. By contrast, we had a portfolio going into the IPO. People could see a yield to begin with. The other disadvantage is that there's clearly an added cost of being public, and that has to be accounted for in your overall return.

**5. What effect has the credit crunch had on Fifth Street Capital's deal flow and the demand for your firm's products?**

The best news about this environment is that there are no CDOs or CLOs, so the unnatural providers of capital are out of business. Because they've vacated the market, it's allowing us and the traditional lenders to recapture the relationships. My guess is that equity sponsors, after having been burned by people pulling deals, are willing to get stickier relationships with lending partners and pay a premium for it. Now they realize the value of having a good lending partner.