

Fifth Street Launches Lower Middle Market Index

By Rimin Dutt

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White Plains, N.Y. -- On the one-year anniversary of its initial public offering, Fifth Street Finance Corp. has launched an index for the lower middle market to track the health and performance of these companies.

Fifth Street Small Business Index tracks the trailing 12-month earnings before interest, taxes, depreciation and amortization of 30 companies backed by the firm. That number could increase as the business development company expands its portfolio, said Leonard Tannenbaum, Fifth Street's president and chief executive.

Fifth Street announced in March that it planned to launch the index, which was formulated in partnership with Standard & Poor's.

The White Plains, N.Y., firm's portfolio includes companies such as Best Vinyl, Boot Barn and Caregiver Services Inc.

"When I looked around to see if there was an index for small company growth, I didn't see any," Tannenbaum said. "It's easy for us to do this because we get monthly data on our portfolio companies."

The companies in the index are well-diversified among industries, Tannenbaum said.

Separately, Fifth Street said in its June newsletter that it has begun to see year-over-year Ebitda improvement - and indications that this will continue.

"We believe that one of the reasons we are experiencing improvement faster than others is that small companies react more swiftly than large companies to changes in economic cycles," the company said. "Our private equity sponsors have generally reacted quickly by focusing on controlling costs and looking for new revenue streams in the recession. As we start to come out of the down cycle, we see earnings beginning to sprout."

Fifth Street said one of the best indicators of the trend is Premier Trailer Leasing Inc., a trailer leasing company owned by Angelo Gordon & Co.

"Premier Trailer saw utilization rates of truck trailers bottom about seven weeks ago, with each of the last seven weeks showing increases," Fifth Street said.

The firm said sectors experiencing the strongest improvement include basic industry, manufacturing, health-care services and high-end retail. Lagging industries are restaurants, consumer goods, travel and entertainment.

Fifth Street provides first- and second-lien financing. It is a unit of mezzanine lender Fifth Street Capital LLC.

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