

## Dark Times Part II: Not Everyone Is Drowning

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[Fifth Street Finance](#)



There is hope for some BDCs. Despite the [doom and gloom](#) I shared earlier today after following the depressing earnings calls of Allied Capital and American Capital, I learned there is a BDC that's in compliance and still paying its dividend. Somehow, this firm managed to go public last year during, marking one of two financial services IPOs in '08. Fifth Street Finance Corp. has paid a dividend: \$0.31 and \$0.32 per share each quarter with a special \$0.05 dividend in January.

Fifth Street, unlike its much larger peers, American Capital and Allied Capital Corp., hasn't come close to violating any covenants and is still actively deploying capital. That's a good thing for middle market companies, especially if its true that BDCs provided half of all loans to middle market companies in 2008 (someone from American Capital said that on their analyst call today).

The firm's CEO Len Tannenaum recently told Buyouts' Ari Nathanson that his firm is mostly doing cash flow loans. An excerpt from their Q&A, published February 2:

**If you're providing cash flow loans today then you must be really popular. How many of the deals that come your way do you actually end up financing?**

I'll tell you a really interesting statistic. In 2008, for a full year, we closed on 100 percent of the term sheets that were signed, which is unheard of and probably will never happen again. Our normal closure rate on a signed term sheet is about 50 percent. What happened last year was a consequence of better partnerships, proprietary lending, and less

competition. We also are very careful about even issuing a term sheet, much less signing it. It used to be that you would see lenders issue term sheets as an indication of interest. Now you're seeing term sheets only if you really want to close the transaction.