Research Studies and Opinions

Financing in a Slow Growth Market

A Q&A

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Question: What options does a middle-market company have to get financing when its market is growing slowly?

Slow growth is fine. Sometimes it is preferable for a lender. Rapid growth can create risks. Slow growing entities often provide very good credits. They are companies that BDCs actively seek to lend to.

Question: For their stability?

Because they have stability and predictability. The risk profile is not as great as rapid growth. This is speaking as a lender. Now, if you're an equity investor, you might want more rapid growth because there is greater opportunity to make more money in your equity. Slow growth is relatively less attractive for equity, but it's relatively more attractive for lenders.

Question: When should companies consider financing in a slow growth market?

That would be transaction specific. If they have an acquisition they need to do; if they have a change of shareholder base; if a shareholder wants to get cashed out; if they need to recapitalize due to debt maturities or costs, or something along those lines. There needs to be a motivating trigger.

A second consideration would be relative attractiveness of the credit markets. When credit markets are favorable, that is generally the time you want to borrow. It might not be the time when you think you absolutely need the money, but it's probably a good time to do the borrowing because you'll get a favorable rate and structure that you can use for the future.

Question: So what sectors would you categorize now as growing slowly?

Certainly not oil and gas. The tech front has a lot of growth, but it varies. General industrial growth is not great. There are always niches that grow faster than others -- service businesses, manufacturing. I have to generalize because as a BDC we're looking at the specific company, as opposed to an industry. The people that we interact with are looking for financing for particular reasons. They might have a recap, an acquisition, growth to fund. They might be in a slow-growth market but they might still need financing or refinancing.

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