Q&A

DIPs Get Tough; Retail 'Always' Source of Distress, Says Versa's Segall

Gregory Segall, Chairman, CEO and Founder, Versa Capital Management

> Financing is more challenging in the middle market because there are fewer lenders and banks are under more scrutiny
> Retail will be 'disproportionate' source of distress
> Competitive DIP lending has gotten more difficult

Interviewed by Aleksandrs Rozens, Bloomberg Brief, on May 19

Q: What's your strategy?
A: We buy the whole company and fix it and then sell it. So we are not really trying to buy just good companies that happen to have bad balance sheets because they borrowed too much money. We are buying companies that are experiencing some kind of transition, maybe it was an operating problem. Maybe it was a strategy problem, an industry problem [or] a raw materials, supply problem.

Q: How is financing in the middle market?
A: Financing is more challenging and less certain than it was a year ago. There are fewer lenders, fewer banks willing to lend to troubled and distressed companies. The banks are under greater scrutiny themselves by their regulators. It is not even a question of paying them a fee or a higher interest rate. They just can't do it because they don't want to be under criticism by their regulators.

Q: You underwrite DIP loans and exit financing. How has that changed?
A: Because there is so much debt and leverage that is out there, the complexity around DIP loans is that there is not a lot of unencumbered collateral for a DIP lender to lend against. You almost always end up with the existing lenders also being the DIP lenders because they are the only ones who have any comfortable position to lend against. It has not gotten more difficult to get DIP financing done, but it has gotten more difficult to have anything competitive done. You are kind of at the mercy of the existing lender.

Q: What do you buy in distressed?
A: We mostly buy loans, rarely but not never have we bought bonds.

Q: What's your view of retail?
A: Retail has always been a source of distress and always will be. Even in good economic times companies get screwed up. It isn't just simply e-commerce competition. It is all kinds of things: changing consumer shopping patterns, people don't go to the malls, people are spending money on electronics instead of jeans and sneakers. Incomes have actually declined. Two thirds of the North American economy is made up of consumer-related spending. So, that's going to be a disproportionate amount of where the distress comes from as well.

Q: What's your view of oil?
A: Houston has an influx of bankruptcy lawyers and forensic accountants and investment bankers, everybody hanging out on street corners looking for all of the energy companies going through a restructuring.

Q: Are you thinking of expanding your energy holdings?
A: Yes, for sure. We invested in U.S. Shale Solutions and it was one of the companies where we bought bonds and ultimately the recap that was a debt-equity conversion among debtholders in that business to wipe a lot of the debt in the business, convert it to equity, keep it out of court. Right now the company has not had to bring in outside financing. So I think they will just now start to look to return to the normalized financing markets.

Q: So this is a good time to go in and buy distressed energy assets? Do you like the suppliers, providers of rigs and pipeline materials and equipment?
A: Yes, that's the kind of stuff we do. We do field maintenance. We provide chemicals. We provide pipeline maintenance, drilling support. It is all services around the category. We are not ever going to invest directly in the commodity. We are not going to buy leases or buy E&P companies. But we are providing services to them. When rig counts go down, services do decline but there is still a good amount of maintenance activity that goes on. I think you will find us continuing to look at the well-positioned things in the right parts of Texas, the Permian in particular. It is a very fragmented space. It is ripe with opportunity for further consolidation. We don't have any blanket open-for-business or closed-for-business kind of positions.

At A Glance

BEST RECENT BOOK:	"Alexander Hamilton" by Ron Chernow
ALTERNATE CAREER:	Movie producer
HOBBY:	Golf
BEST PHILADELPHIA RESTAURANT:	Barclay Prime
BEST NYC RESTAURANT:	Scalinatella
FUND ASSETS UNDER MANAGEMENT:	$1.4 billion