

# Private Equity's Advanced Services for GPs and Portfolio Companies



**Michael Flood**  
Head of Private Equity  
Northleaf Capital Partners



**Matt Shafer**  
Managing Director  
Northleaf Capital Partners



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An interview with Northleaf Capital Partners' Michael Flood and Matt Shafer covering capital support for portfolio companies, emerging GPs and investing in a COVID environment.

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**Privcap: Michael, having led Northleaf's private equity investment business for more than 10 years now, talk about the most important ways that the market has evolved.**

**Michael Flood, Northleaf Capital Partners:** The market has gotten increasingly complex. We have grown our business to become a capital partner to our GPs and to be able to provide capital solutions. The relationship really started within the IR groups of our investment partners and, of course, we knew the managing partners. But, as we've created these strategies and our platform approach across different products, our investment teams have developed relationships with each of the deal teams within our sponsors. Our relationships on an investment basis are quite deep and go to the investment team level.

**Privcap: Matt, talk about Northleaf's ability to provide capital solutions directly to private equity-owned businesses.**

**Matt Shafer, Northleaf Capital Partners:** Here is an example, that is pretty typical of this part of our program, of a Canadian business owned by a leading U.S. middle-market sponsor. We knew the lenders to that business very well and we were able to work with the sponsor to craft a solution where we put an equity instrument in between the debt leverage and the sponsor equity. So, through a preferred equity investment at the company level, that enabled them to complete a series of small acquisitions. Our solution fit in neatly because, to the banks, the instrument looked like equity. It came at a cost that was extremely accretive to their very sizable existing investment in the business.

**Privcap: Talk about Northleaf's approach to emerging managers and the ways that you can support them. Obviously, the private equity industry (and the alternative investment industry in general) has grown in part because of spin-outs...**

**Shafer:** This has been a tremendous phenomenon that we have observed within the industry. I think we are pretty good at underwriting both the specific businesses that those new managers are looking to acquire, as well as the dynamics around individual prior track records and their capability to build a business, the people they

have been able to recruit. We actively look to lend to emerging and independent sponsors. We also provide deal-enabling capital, both in the form of preferred equity and LP positions in single-company vehicles. This is the area of our business where we have the biggest top of our funnel. We want to back emerging sponsors who either have a fund that is too small to do the deal; they want to support a portfolio company and it's disproportionately big relative to their first fund. Or, they need to put capabilities in place to build an institutional-quality franchise.

**Privcap: Northleaf is a multi-asset class, integrated platform. What benefits does that bring to your private equity business?**

**Flood:** Our platform is focused on the middle market. Northleaf's other asset class teams are focused on very similar companies and industries. It allows us to adapt and provide full service solutions to our investment partners.

**Privcap: A COVID question for you: how has the crisis affected the kinds of conversations you're having with GPs?**

**Shafer:** It has made them much richer, to be honest. Especially for certain types of companies, where there is a bit more constrained availability of capital that sponsors can access. Then, you have the fact that, for reasons that are as much logistical as they are economic or market-driven, it is harder to sell a company today than it was in February. So, the timelines of the portfolio companies are extended. You combine that with some volatility and an uncertain outlook, and you have a convergence of the need for capital with the need to play offense. You have a little more capital constraint on the debt side and a lot more demand for capital from portfolio companies, which are being held longer. You suddenly have a different conversation with GPs.

**Privcap: As private equity investors, what makes you excited about investing through the current cycle?**

**Shafer:** As we look back to our experience in the [Great Financial Crisis] and to the early 2000s, times of dislocation really provide opportunities for outsized returns. And we think we've got the right stuff to do that in the future. ■

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—Michael Flood, Northleaf Capital Partners



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