

TRIANGLE BUSINESS JOURNAL

Triangle Capital rolls a main bet
Triangle Business Journal - by Lee Weisbecker

RALEIGH - Triangle Capital Corp., a boutique lender that raised \$65 million by going public early this year, may be betting its short-term investment success on one company - a packaging concern in Statesville.

With Wall Street showing very little interest in the stock and the Raleigh-based company intent on drying up its investment chest by making more debt and equity investments, Triangle Capital - along with its chief architect, Garland Tucker - finds itself in need of a long-term business strategy - fast.

To achieve that, Tucker and his management team are relying on a short-term bet - Fischbein LLC, a maker of machines that fill, close, weigh and stack packages of any size.

Tucker and his team are also betting on the success of a very powerful business strategy that has proved successful in recent years - private equity.

Triangle Capital, in a deal put together by New York private equity firm Circle Peak Capital, took part in a buyout and recapitalization of Fischbein. In a first step, Triangle wrote a high interest - 16.5 percent - \$8.4 million loan to the company as part of the buyout price.

R. Adam Smith, CEO at Circle Peak, says the firm sought out Triangle Capital and other partners for the deal. He adds the money could be used for organic growth and strategic acquisitions in the coming months.

In a subsequent deal, Triangle invested \$4.2 million in exchange for 37 percent of Fischbein stock. In all, about 15 percent of Triangle's current portfolio is comprised of Fischbein's securities. To put Triangle's Fischbein ownership in perspective, every other company in which Triangle Capital has invested represents less than 5 percent of the firm's portfolio.

"Does it mean that they are rolling the dice on one company in the near term? Exactly," says Morgan Keegan analyst Robert Dodd. "But it's been expected that the average deal would begin to get bigger. As long as the investment is a good one, and they keep up with dividends, people will stand by the stock."

And the stock is expected to go up in volume as early as next year.

Triangle Capital lends money - at a high interest rate or in exchange for an equity stake - to business clients that have found the going tough in securing loans from more conventional lenders.

Possible follow-on offering

Triangle Capital CFO Steve Lilly, who declined to talk about the firm's share-price expectations or investment strategy, says the firm has invested \$39 million of the \$65 million it got from its February IPO. As an SBIC lender, it also has available about \$64 million in matching funds from the U.S. Small Business Administration. Its total war chest, Lilly says, given the current rate of investment, will be exhausted in about a year.

At that point, he adds, the company will consider a follow-on stock offering. Asked about the probable size, Lilly declined to comment.

But before that happens, it is clear that Triangle Capital needs to have some winners in its basket. And for now, it appears the company is betting that Fischbein will be the answer.

Circle Peak executives say the work force at the privately held company is about 250 in its North Carolina headquarters and at a scattering of overseas locations. Executives added that Fischbein's annual revenue is more than \$50 million.

Because of its investment in debt and equity, Triangle Capital would win both ways if Fischbein does well.

Triangle Capital began life in 2002 as an SBA co-lender and then as a mezzanine financier. Tucker, a former bank executive, securities dealer and travel services company founder, remains president, CEO and chairman.

By the end of 2006, the firm held loans, equity investments or warrants in well over 30 companies - transactions valued at \$54 million. But more investing has transpired since then, in privately held companies scattered throughout the region, raising the value of the company's portfolio to \$84.3 million, a 56 percent increase from December 2006.

DIVIDEND DISTRIBUTION KEY

Dodd and other analysts say they believe Triangle Capital will find an audience for new shares when and if a follow-on happens - provided the company continues to pay dividends. The firm announced its first dividend payout, of 26 cents a share, in May. Dodd does not own shares in Triangle Capital, but Morgan Keegan has an investment banking relationship with the company.

"It's called a total return stock, where the dividends are more important than the share price," Dodd says.

It is also a stock with very little institutional backing. Only 8 percent of the stock is held by investment houses, and another 11 percent is owned by insiders. With 80 percent of the shares floating on the retail market, it takes a larger number of buys in any particular direction to establish a trend.

But Avondale Partners analyst Sean Jackson believes that institutions will begin to show greater interest as Triangle invests more in bigger deals.

"More money per transaction was part of its IPO plan," says Jackson, who does not own shares in the company. "Companies like this move from being a retail stock to the institutions, and they are taking steps to make the stock more visible to these buyers."

Triangle Capital shares will have to overcome other handicaps as well.

In the wake of the firm's IPO, analysts covering closed-end investment funds remarked that one issue of concern about Triangle Capital was its high expenses, which have been running at close to 14 percent of net assets. By comparison, a similar investment fund, Houston-based Main Street Mezzanine, which filed for a \$115 million IPO in August, spends 4 percent of net assets on expenses.

Another factor, analysts say, is prevailing investor wariness about credit markets and the financial services industry as a whole.

Ironically, a tight credit environment favors Triangle Capital because of its high fee structure and willingness to buy equity.

"They (Triangle Capital) are lumped in with the private equity groups, and it's a difficult time for them right now. It's a matter of being tarred by the same brush," says Dodd.