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SSG
CAPITAL ADVISORS, LLC

Is There a Doctor in the House?
A Conversation With the Team at SSG Capital

They call themselves the "emergency room doctors" of investment banking, and if you're a CEO and you're sitting across the table from them, chances are things aren't going too well for your company right now. In fact, it's probably in critical condition. But you've come to the right place. And if you're lucky, and you take the doctors' advice, chances are you'll be leaving in a much better condition than you came in.

For the five managing directors of Pennsylvania-based SSG Capital Advisors, saving companies is all in a day's work. SSG stands for "special situations group" — but in this case, "special" is not something most companies strive for. SSG Capital Advisors specializes in helping middle-market firms that have become overleveraged, many of which find themselves facing Chapter 11.

The company specializes in financial restructurings, M&A and private placement services for these distressed companies. In the past decade the SSG team has worked on 150 deals together; but what makes them unique is that not once, but twice, they banded together to buy their company and take it independent: first in 2001, when they acquired the firm from Berwind Financial and again this year, buying SSG from PNC following that company's acquisition of National City (of which SSG had been a part since August 2006). That deal closed this May, and since that time, things have been busy for the SSG team. With a recession in full swing and more and more companies facing debt crises, SSG managing directors J. Scott Victor, Mark Chesen, Matthew P. Karlson, Robert C. Smith and Michael S. Goodman, have been working on deals around the clock.

When we met with them, Karlson and Goodman had just finished participating in a 25-hour straight auction in which they helped David Ritz, the former owner of Ritz Camera, buy his former business out of bankruptcy; they did the same thing for the families that owned the retailer Boscov's in December 2008.

SSG's offices are on the fourth floor of a nondescript building in an equally nondescript office park in a town called West Conshohocken, which is about ten miles west of Philadelphia. Victor likes to say that Conshohocken is Native American for "tax haven." It took two *ABF Journal* editors, a not-so-accurate GPS unit and the kind advice of a receptionist in a neighboring building to point us in the right direction. Once we got there, we were graciously received and led to a conference room, where Victor and Chesen soon joined us.

ABF Journal: Why don't you start from the beginning by talking about the early years of the Special Situations Group of Berwind Financial, and the 2001 decision to buy the unit from its parent.

Mark Chesen: I started with Berwind Financial in 1993 and started the special situations group, and Berwind grew over the years. In 2001, the parent company, Berwind Corporation, decided to exit the Berwind Financial business, which involved both investment banking and private capital investing initiatives, and led to Scott and I and two other partners (Matt Karlson and Allyson DeMatteo) forming SSG Capital Advisors. Basically, we spun the special situations group out of Berwind Financial.

> **"We're kind of the emergency room doctors of investment banking… we have a few days to put something together because the patient is on the table and the patient is hemorrhaging and we have to make things happen."**
>
> — Mark Chesen, *Managing Director*

So, it wasn't necessarily a great vision of ours to be independent but it was the parent company deciding they wanted to be out of the business, and opportunistically we all enjoyed what we were doing as distress-focused investment bankers, we enjoyed working with each other … and Berwind put together a friendly transaction that allowed us to spin off effective December of 2001 — with our client base in place — and we were off and running.

Scott Victor: The vision was just to have a special situations group; there were more of us at Berwind than just SSG — there was a group that focused on financial institutions and insurance, there was a group that focused on industrial healthy middle-market M&A — but it was our idea to spin off as a separate, boutique special situations practice, which at the time was pretty unique.

MC: It was. When we started doing special situation work at Berwind in the early 1990s, it started off as a local practice, and it grew regionally. And Scott joined us in ...

SV: ... the beginning of 2000. I was a partner at [law firm] Saul Ewing, in Philadelphia, in the bankruptcy department. My office was on the 40th floor, and Mark and the rest of the team were on the 31st floor, so I just moved down the elevator bank from Saul Ewing to Berwind.

MC: Scott really helped launch the practice and take it to a national level, so in 2001 we were very unique — there were not a lot of distress-focused investment banking groups and we thought we could do very well focusing in on that niche and not necessarily have all the various ancillary services that were offered at Berwind.

SV: So we cut our deal with Berwind in April of 2001 and it went effective in December of 2001 when we got our broker/dealer license from the National Association of Securities Dealers (NASD) and we moved out here [West Conshohocken, PA] Thanksgiving weekend into this office.

ABFJ: So, what happened next?

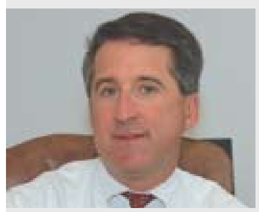
SV: Well, we took the practice national; we started getting special situations transactions nationally and, from 2001 through 2006, we grew and we became a very, very well-known brand name in distressed banking such that at the end of 2005 we started getting unsolicited offers to buy us.

MC: Right. We grew the practice from 2001 to 2006 from probably nine to 16 professionals and, as Scott mentioned, went from a kind of local, regional practice to a national practice, an international practice. I think our high water mark was in 2005; we closed 25 transactions that year. And in late 2005 and 2006, we started getting inquiries from mainstream investment banks along the lines of their desire to build out a restructuring capability and wanting to do it either organically by hiring people or potentially acquiring a firm, and we were on their radar screen.

SV: 2006 became a big year for investment banking acquisitions of boutiques by large national banks ... there was a whole slew of boutique investment banking firms that were acquired by large national banks.

THE GANG OF FIVE

J. SCOTT VICTOR, *Managing Director*
A founding partner, Victor joined the group in 2000 after a long career as a bankruptcy attorney and partner at Saul Ewing. Victor has lead or participated in well over 125 sale, refinancing and restructuring assignments for distressed middle-market companies both in and outside of Chapter 11 proceedings, and has testified as an expert in numerous bankruptcy courts across the U.S.



MARK CHESEN, *Managing Director*
A founding partner Chesen was president of SSG Capital Advisors from 2001-2006. Since 1990, Chesen has completed more than 100 financial restructurings assignments involving the sale, private placement and financial restructuring of companies in a turnaround mode.

MATTHEW P. KARLSON, *Managing Director*
A founding partner; over the past nine years, Karlson has completed more than 40 financial restructurings, which encompasses the private placement of senior debt, subordinated debt and equity securities and mergers and acquisitions work.

ROBERT C. SMITH, *Managing Director*
A founding partner Smith heads SSG's New York office. He has more than 25 years experience as an investment banker and a commercial lender with an emphasis on restructuring and special situations transactions.

MICHAEL S. GOODMAN, *Managing Director*
A founding partner, Goodman has closed more than 25 bankruptcy transactions and over 50 special situations transactions overall. His investment banking services include mergers and acquisitions for companies both in and out of bankruptcy, restructurings, and the private placement of senior debt, second lien debt, subordinated debt and equity.

ABFJ: So National City was not the only bank interested?

SV: No, they were not our only suitor. [Matt Karlson Enters]

MC: When we began getting inquiries into potentially selling the firm, we hired an investment bank called Sandler O'Neill out of New York. Really we came to the determination that if we were going to run our business on a day-to-day basis and explore the sale of our business we wanted to hire an expert that knew financial services. Sandler O'Neill ran a process — I think we retained them in March/April of 2006 and they ran a process, and we received four or five offers that ultimately led to the sale to National City.

National City was a nice fit on a lot of fronts. They paid a fair price for the firm. They were also very focused on representing mainstream healthy profitable companies while our focus had been on distress [so] we thought it would be a nice fit: when the economy was good it would be counter-cyclical to our business and vice versa. And so that all led to the sale of the firm to National City in August of 2006.

ABFJ: Matt, is there anything you'd like to add to that period?

MK: You mean like why did we do it? I think what intrigued us about National City was that their investment banking group was roughly our size … they were getting probably 90% of their deal flow from inside the bank, from relationship managers and the marketing through the lenders and the deal would flow up to them. And we were our own firm and hustling and getting our own deals so it was nice to have a good referral source, a captive referral source. So we figured that if we could land two, three, four deals a year from them, it would be a very good deal for everyone involved.

ABFJ: And did that pan out the way you anticipated it would?

SV: Well, the culture was fine but we didn't get the referrals because we're not healthy mainstream investment bankers, we're distressed guys and we quickly found that the relationship managers weren't in the distressed world. So, the people from within National City who could refer to us special situation distress deals really could only refer their own borrowers, and they didn't. They felt it was a conflict because we don't represent lenders, we always represent the company; so the workout and the credit guys at National City were afraid of a conflict to recommend us — who were owned by that same bank — to go help out their borrower who owed money to that same bank. So that did not pan out.

MK: That is exactly right. So to mitigate that, we tried to get to the workout and credit guys earlier to get deals that were percolating … so we could minimize the conflict issue, and that worked a couple times; and the other part was that relationship managers aren't used to selling distress, they're used to lending money to companies, so that was a huge learning curve we had to get a lot of people up.

SV: And it started to work. Some guys got it in the last year.

MK: Right, some got it, but most didn't. That wasn't their focus. Their focus was lending money and selling bank services. [Robert Smith Enters. Smith joined SSG on Jan. 1, 2002 and was the company's first hire. Prior to joining SSG, Smith led CIT Business Credit's Northeast region.]

ABFJ: So at some point you made the decision to make SSG an independent company again — what was that process like? What motivated that decision?

SV: Well, initially our deal with National City when they bought us in August 2006 was a three-year commitment; that expired this August so it would have expired on its own terms and we were free to do whatever when it expired. That was accelerated when National City became a TARP victim … and PNC bought National City on Dec. 31 2008. Harris Williams is the investment banking shop owned by PNC, and is a great middle-market, healthy investment banking shop. Again, it did not fit within the distressed model. It was one thing to be owned by National City, which had a Midwest footprint and we didn't see that many deals where National City was the lender, so it really wasn't a conflict. But PNC is, especially on the business credit side, a large national secured lender that we would have had many, many conflicts with.

MC: And they came to the same conclusion. So it was mutual decision that it may not be a fit for us to be part of Harris Williams and PNC and so we said let's put the band back together again and ultimately struck a deal that made sense to PNC and made sense to us to reacquire the firm effective May 1.

ABFJ: So, beyond changing the signs on the door, what's it been like so far?

SV: We didn't even do that yet! Well, it's been busy, it's a good time.

ABFJ: You've been together as a team for some time now; would you care to comment on the personal dynamic between you all?

SV: We're a great group. We work very well together. Each one of us has very unique skills that we bring to the table that are different from one another, and every single transaction we do is done as a team. There are at least two managing directors on every single deal that we work on, sometimes three.

MK: And that's just the nature of the business because you're dealing with a company that's in distress, that's family-owned, or private equity or whatever the case may be, you can't push that down to junior associates because failure is not an option. So when you're working on a deal where somebody's livelihood is at stake … a typical firm may have a pyramid structure but we're very top heavy because of that.

RS: We've been together, as a group for almost ten years and in that time we've all worked together in teams, we know each other's strengths and weaknesses. It's a group that's very quick to say what's on its mind and nothing is said personally, nothing is taken personally; it works. It works in a distress base where you have to be candid when dealing with your clients and dealing with people. I think it's why we make decisions by consensus; we manage very directly, and very openly.

MC: I think it's unique in investment banking. It's rare that you see a team stay together for the 10-15 years that the subset of us have been together — you normally see people who year to year make decisions to go elsewhere because there's greener pastures or whatever, and here it's been great that the team has stayed together for that extended time; and when things ultimately didn't work out with PNC, it was great that we kept the team together because everybody had individual options.

SV: We all could have gone to work for large national banks and investment banks but, at the end of the day, it's best to be your own boss when you have a great team, and we have a great product.

ABFJ: Most of your practice focuses on companies that are in distress, what do you do in the years that are good — how do you position yourself for that?

SV: Well, there's always a need, because even when the economy is at it's best, which it was in 2005, 2006, those were incredibly strong years for us. No matter how good the macro economy is, there's always overleverage and bad management and those are two of the greatest drivers for distressed deals. If you think about it, bankruptcy lawyers are always busy.

MC: When the economy is good we tend to do a lot of financings … there tend to be a lot of creative financing alternatives from hedge funds and asset-based lenders so from 2004, 2005 and 2006 we did a lot of financings; when the economy is bad we tend to do a lot more distressed M&A.

ABFJ: I'd love to get your perspective on where we are in this down economy.

SV: It's tough out there. Almost every business in the middle market has had a 30%-40% decline in top-line revenue. Any company that's had a lot of debt on its balance sheets, especially those that have gone through leveraged transactions, either to give the family a dividend or for private equity firms to buy them, has way too much debt on its books to have the top-line go down 30%-40%. So there are many, many portfolio companies of private equity firms that were totally leveraged-up in LBO transactions during that time frame that have real problems today and are keeping us very busy.

MC: It's going to continue until the lenders — the banks, the mezzanine institutional funds, hedge funds — until these institutions across the board wash through and resolve the credit problems, resolve their balance sheets, resolve their funding problems. And the question is how long. And it's a question we discuss all the time, and right now you're looking at clearly through the end of this year and I think deep into next year before the banks clean up their balance sheets.

ABFJ: Do you see anything different about your typical client in these times?

RS: The typical client is overleveraged, in a way that as we said before, in the good times we were putting the debt on the books now you're seeing clients where the business is soft and you look at the debt that's on it and after you're done scratching your head and trying to figure out how it got their in the first place, you realize that if you can fix the debt problem you can work your way out of it. So what we're seeing is lenders being fairly creative, and they have to be to fix that problem. Those that can get out are doing everything they can to get out; those that are in second or third positions are taking control, taking equity and restructuring accordingly. And again this goes back to that bleed through process — this has to work itself out and then you'll see new money come back into play. It's a healing process.

ABFJ: What drew you to this industry, and what keeps you in it?

SV: It's really all I know how to do — even in my law career it was dealing with distressed companies, that's what I did. So I've been dealing with distressed companies for 26 years and doing deals is great.

RS: I like the strategy and the day-to-day tactical play. It can actually be fun to deal extensively with a disparate group of stakeholders; it's constant problem solving.

MC: We're kind of the emergency room doctors of investment banking. When we were part of NatCity and our colleagues there represented profitable companies it might take six to eight weeks to write a memorandum and it would be 200 pages, and it would be beautiful; and you know, we have a few days to put something together because the patient is on the table and the patient is hemorrhaging and we have to make things happen.

SV: If we're lucky we have two weeks to put together a memorandum and that's a lot of time. On the healthy side, it takes months to put together their memorandums and go out to market. On deals we're out to market in days sometimes.

ABFJ: So, do you plan to stay an independent this time or are you going to go for three?

SV: Yes. I like independence. It's good not having anyone to answer to but yourself and your partners; that has a lot to be said for itself. abfj

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Interviews were conducted at SSG Capital Advisors' offices on the afternoon of July 23, 2009 by *ABF Journal's* senior editor Stuart Papavassiliou and associate editor Christopher Moraff.