

The thick of things

FocalPoint Partners carves out an investment banking niche in midmarket-heavy L.A.

BY THOMAS ZADVYDAS

FOR THE FIRST six years of its life, FocalPoint Partners LLC was preoccupied mainly with advising healthy companies in M&A transactions and capital raisings. But toward the start of the Great Recession, managing director Duane Stullich and his colleagues perceived a shift as they began to take on more and more distressed and restructuring work. Today the 20-strong firm has almost completely reversed its concentration in favor of restructurings, 363 sales and rescue finance.

“In the current environment, sell-side M&A has shut down, unless of course it’s a 363 sale or an isolated case of an acquisition in healthcare or technology,” Stullich says.

That’s fine for the Los Angeles boutique which, when launched in 2002, set out to be for the middle market what Stullich’s former firm, Houlihan Lokey Howard & Zukin Inc., also of Los Angeles, is to large-cap clients.

Stullich, who worked at Houlihan for six years until 2001, was one of the co-founders of FocalPoint, with fellow managing director Nishen Radia. When Houlihan began to build out a bulge-bracket practice, they sought to fill the midmarket gap with a well-rounded offering.

“A key goal was to build a firm that was equally skilled at healthy and distressed transactions,” he recalls.

Middle market for FocalPoint is defined broadly as transactions of less than \$1 billion in revenue.

“Our sweet spot is probably between \$50 and \$500 million in revenue, but we haven’t lost sight of the \$25 million revenue company that’s doing \$5 million of Ebitda,” Stullich says.

The firm has its own areas of specialization, including healthcare, technology and business services. But lately real estate is where the action is, with the firm sitting in one of the epicenters of the subprime mortgage crisis.

Among its more successful undertakings was representing the unsecured creditors of Aliso Viejo, Calif., developer LandSource Communities Development LLC, which filed for bankruptcy June 8, 2008, and exited on Aug. 3 of this year.

LandSource landed in bankruptcy when reduced demand for homes created by the mortgage crisis sapped its collateral value, which shrank to \$1.8 billion in 2007, from \$2.6 billion the prior year. This triggered a default on its secured debt. The company had \$1 billion in assets and \$1.3 billion in liabilities when it filed for bankruptcy.

About 30 unsecured, mostly regional construction companies and the city of Vallejo won a pro-rata share of \$10 million out of \$30 million in claims.

“We got 15 to 35 cents on the dollar for our creditor group, depending on where the claims were. The second-lien lenders got 5 cents, the first-lien lenders got 10 cents on the dollar in equity,” says FocalPoint managing director Alexander Stevenson.

“We got something like close to 10 times what the second-lien lenders got at the very bottom of the cap-chop table on a giant land development deal.”

Despite some improvements on the residential side, Stevenson says, commercial real estate in the region “is still very, very sickly and probably will be for a number of years.”

Los Angeles may be home base for FocalPoint, but only about half its work comes from the region. “We have clients in the four corners—we’re all over,” Stullich says.

One recent client, New York fitness club chain operator Crunch Fitness, filed for Chapter 11 on May 6 through its owner, AGT Crunch Acquisition LLC. The company suffered in part from overextension, after acquiring 30 gyms from competitor Bally Total Fitness Holding Corp. in 2006. Crunch Fitness alleged in court documents that Bally misrepresented the performance data of

the stores in question, causing Crunch to miscalculate capital expenditure requirements and devise a faulty long-term debt-management strategy. AGT expects to close the sale of its assets to CH Fitness

Investors LLC this fall.

Still, many of FocalPoint’s midmarket clients are closer to home base, says managing director Rajesh Sood.

And today’s complex restructurings involving layers of debt require highly specialized skills.

“Speed is often a major factor if a company is the sort of proverbial melting ice cube or when you’ve got multiple stakeholders who are putting too much time pressure on the situation,” Stevenson says. “You’ve got multiple negotiations. You might have senior lenders, junior bondholders, trade creditors, a bunch of different people you have to negotiate and interact with.”

Maintaining interpersonal harmony is important. In the LandSource assignment, FocalPoint had strong connections with various legal teams, allowing its clients to win favorable terms, Stevenson says.

Business will likely remain robust for a while, the executives believe.

“Even though the lending markets are improving, they’re still not so great. We’re in a place where Uncle Sam and Corporate USA are overleveraged,” Stullich says. “Keep in mind that all the artificial stimulus, all that is temporary,” Sood adds.

Companies may find it tough going, but the baleful market conditions may prove to be a boon for FocalPoint in the long run.

As Stullich says, “We’re in it for the long haul.” ■



DUANE STULLICH



ALEX STEVENSON



RAJESH SOOD

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