

RSM HELPS BDC GAIN MORE ROBUST AND ACCURATE ASSET VALUATIONS

Overview

Our client is a leading provider of capital to lower and traditional middle market companies through its family of credit focused funds. The funds target companies in the business services, commercial and professional services, manufacturing, consumer and retail, energy and health care industries, with investments typically located in the United States. This financial services organization has raised eight funds since its formation in 1998 and has over \$1.5 billion of invested capital and liquidity.

Background

The company has private funds as well as a public business development company (BDC) fund. Prior to listing its BDC fund, the company hired RSM to fair value its investments primarily for financial and investor reporting purposes. The company has also used RSM valuations when transferring certain investments from one fund to another. It needed to ensure its investment valuations were relevant, reliable and timely to meet regulatory requirements and accurately report its investments to investors each quarter.

Debt investments in middle market companies are illiquid. Illiquid investments introduce a challenge that increases the complexity in developing reliable valuations due to limited market information. In addition, our client's investments are in a number of industries. This further adds to the complexity and requires industry knowledge and expertise. Therefore, the company sought an experienced valuation advisor that had experience both with illiquid investments and industry knowledge in their industries of focus.

Project

This financial services organization chose RSM to provide valuation services for its BDC fund prior to its listing on the NASDAQ exchange, based on the team's knowledge of the financial services industry. RSM understands the nuances of middle market leveraged loans and how they differ from large corporate loans and high-yield bonds, enabling us to provide critical insights and significant value to the organization.

For debt investments, RSM assessed both the credit risk and interest risk of the underlying investment, leveraging our extensive market research and data to assess debt market conditions. Because RSM works with many BDC clients, the valuation team has access to deal flow information allowing us to better understand market conditions, capital structures and how deals are priced by other BDCs (private or public).

As mentioned, the company has diverse investments in a number of industries. This pairs well with RSM's breadth and depth of knowledge in those same industries, which allows us to understand industry-specific nuances, and how certain industries and companies will have lower debt tolerances than others.

Because this financial services organization is a provider largely to middle market companies, it is important to understand that lower middle market loans will be priced differently than upper middle market. RSM's exclusive focus on the middle market enabled the team to consider when large swings in the larger corporate markets may not translate to the middle market space. We analyzed the diversity in cash flows, competitive landscape, capital expenditure needs, working capital management and other factors to gain an understanding of the strength of the cash flows of the business.

Outcomes

RSM's comprehensive valuation services have facilitated a more efficient audit process and allowed our client to focus on its core competencies. Our reports are transparent, supportable and audit friendly. Supportability and transparency of values, inputs and assumptions are critical in helping this financial services organization with its audit review process and any potential review by regulatory agencies.

Key benefits of RSM's valuation services included:

- A smoother and more efficient audit process
- More engaging and informative valuation committee meetings as a result of receiving RSM valuation reports
- Improved valuation processes following RSM feedback to our client's board of directors
- Stronger faith in fund marks from investors and potential to successfully raise new funds and obtain capital at more favorable pricing

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