

## Drinking from the fire hose



Longroad Asset Management's Paul Coughlin.

Paul Coughlin has been investing in distressed debt and assets for more than two decades, but he's never witnessed anything like the crazy swings over the past three years.

At the height of the liquidity excess, "our deal flow was like sipping on a city water fountain," says Coughlin. "Fast forward to the middle of 2009. It's like trying to sip out of a fire hose. There's a tremendous amount of stuff coming at you."

Coughlin heads **Longroad Asset Management LLC**, a distress-related buyout shop he founded in late 2001, closing a \$109 million fund in 2002, followed by \$183 million fund in 2004. Sources say a third is in the offing, but he won't comment on that.

Stamford, Conn.-based Longroad, with nine principals, targets midmarket companies in North America, gaining control either by buying senior debt -- Coughlin's preferred method -- or through bankruptcy. The group looks for companies with revenues of \$50 million to \$400 million, an enterprise value of less than \$150 million and a positive Ebitda. Longroad's investments tend to range from \$5 million to \$40 million.

While easy lending masked problems, made turnarounds more difficult and meant opportunities were few and far between, Longroad managed to complete some buyouts. Likewise, with credit suddenly drying up and with companies increasingly gasping for breath, Coughlin cautions on the need to maintain discipline.

"Extremes are never good for anybody," he says. "We should get credit for not doing dumb things in the past and credit for not going hog wild when times are good."

He quickly adds that his firm is well-positioned to take advantage of the number of distressed companies coming on the market.

In mid-December, Longroad bought **Hurd Windows and Doors Inc.** out of bankruptcy for \$10.7 million. Last year, the Wisconsin custom wooden doors and windows maker, and

its now-bankrupt former parent, Monarch Industries Inc., were hard hit by the housing market crash. Longroad, as the stalking-horse bidder, acquired Hurd through a Section 363 asset sale. Longroad guaranteed that if the asset sale fell through, it would buy out the company's senior debt. Hurd is expected to become a platform for add-on acquisitions.

"They're a unique group, extremely savvy," says Jim Demitrius, who was CEO in a former Longroad portfolio company called Aluma Systems, a Canadian industrial services group a U.S. competitor bought in 2005.

Coughlin, 44, has worked in various corners of distressed investing pretty much since he graduated from Georgetown University in 1986. Coughlin caught the bug while in a training program at Irving Trust and rotated through the workouts department. After the 1987 crash, he helped start and run distressed securities group **Halcyon Asset Management LLC** in New York. At the time, Coughlin recalls, high-yield debt was an asset class but distressed investments were pretty much undeveloped.

The variety intrigued him. Coughlin ticks off everything from the need to understand legal complexities to the personality of the judge and the debtor. "You have to constantly think on your feet," he says, likening it to trying a legal case.

Coughlin and a colleague at Halcyon, Chris Mackey, moved to Greenwich, Conn., in 1991 to manage investments of a wealthy businessman. After he died a year later, his children became seed investors of a distressed investment partnership Coughlin and Mackey founded, called CoMac Partners LP.

Coughlin sold his half to Mackey in 2001. "I wanted to move more into distress for control," Coughlin says, and use "debt as an M&A tool."

Coughlin differentiates this from so-called "loan to own," where the primary lender hopes the borrower, in Coughlin's words, "trips up." Nor does he believe in buying distressed debt for the churn. "I don't want to buy something at \$100, sell it at \$102 in a month, and say I'm making 24% IRR. That's very difficult to do 12 times a year."

Demitrius says Coughlin has "an athletic view of the world." Coughlin's view of athletics is pretty hardcore. A lacrosse player at Georgetown and a founding member of an over-33 lacrosse league in Connecticut, Coughlin also competed in three Ironman competitions. In recent years, he turned to long-distance swimming and organized a relay team to swim around Manhattan. Now, he's training for a 200-mile footrace relay. His wife is part of the team as well. "We always find one crazy event to do each year," he says.