Lead Left Interview – Stephen Boyko

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This week we chat with Stephen Boyko of Proskauer. Steve is a partner in the firm's corporate department and co-head of the private credit and finance groups. He represents one of the largest client rosters in the industry, including an array of specialty finance companies, private debt funds, and BDCs.

The Lead Left: Steve, thanks for making time for us. How is activity level for you at Proskauer?

Steve Boyko: The first quarter is typically the slowest quarter for us. This year, the first quarter started off strong, and we closed more deals in the first half of the quarter than we had since the recovery began. However, by mid-February deal flow seemed to normalize. Today, we are hearing that sponsors aren't finding a lot of great assets, and when they do, valuations remain very high.

TLL: So are you seeing a version of the Trump trade?

SB: Sometimes volatile markets can bring things to a screeching halt. We're not seeing (or hearing) that. We are deep into this part of the expansion, so finding attractive candidates for financing is difficult. You need to turn over a lot of stones. A number of our clients remain open for business and are looking to finance quality assets.

Also, BDCs are busy fundraising, as well as everyone else. As we detail in our latest survey [link], two-thirds of private funds are currently fundraising, with 79% planning to do so over the next 12 months. That's surprising. Also in the last year, we saw dollar volume up 37% year over year. Our clients are financing more deals and writing bigger checks, as deal sizes increase. The vast majority of our clients are looking to source senior or senior-stretch opportunities in direct competition with traditional banks.

TLL: Yes I saw your survey come out. What are some other highlights?

SB: It's a survey of our US clients. Their focus is mostly but not exclusively US. 52% are interested in Canadian opportunities, and despite Brexit, 36% are interested in the UK. These are direct lenders, including BDCs, private debt funds, insurance companies, and other non-bank lenders

TLL: What finding was the most surprising?

SB: The fact that rates are going up and leverage is going up is no surprise. As we talked about with fundraising, there's a lot of interest in the asset class. It is surprising that 87% have said they are targeting healthcare. Hard to understand given the sector uncertainty right now. But it lines up with what we're seeing in our practice. The same percent of firms – 87% – are targeting manufacturing, which is usually a small sliver of activity. Last year it was only 19%.

I'd also highlight that most respondents say they're willing to underwrite deals with leverage of 6 times or more. That's a high number. In fact 24% said they are willing to go more than 6.5 times! This continues a trend that we saw in our deals last year, in which, approximately half of our deals had leverage over 5.5 times. The increase in leverage is likely driven by two factors: high purchase price multiples and relatively stable equity contributions by private equity sponsors. Over 70% of lenders we surveyed said they are seeing transactions with an equity to capital ratio of between 30 – 40 %.

TLL: So you think the amount of dry powder is influencing deal flow?

SB: Absolutely. In our survey, respondents indicated that they expected that dry powder levels would be the primary driver of deal flow this year. Interestingly only 37% of funds are looking to buy a portfolio, so it seems they would rather build than buy.

TLL: Tell us more about your practice.

SB: I am part of our private credit group. We represent about 50 clients, mostly non-bank providers of private credit. About half are public BDCs, including the well-known names. These are clients who provide anywhere from $50 million to $1 billion in financing per deal. It's a very broad reach. We closed approximately 180 deals last year. As a result, we see different slices of the market – touching everyone.

To be continued the week of April 10

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