Lead Left Interview – Robert Radway (Part 2)

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This week we continue our conversation with Robert Radway, chairman and chief executive officer of NXT Capital. Started in 2010, NXT is a finance company that is focused on middle market corporate finance and commercial real estate along with having a very significant asset management platform. Prior to NXT Robert Radway was founder and president Merrill Lynch Capital. ***Second of two parts – View part one.***

TLL: What's the breakdown of new platforms versus add-ons?

Robert Radway: We'll close 40-45 new platforms this year and about 60 portfolio events.

TLL: Do you do non-sponsored deals?

RR: Selectively. It's a small amount of what we do but not our focus.

TLL: Do you do any second lien? How about other strategic lender relationships**?**

RR: We are not pursuing second lien or last out deals at this point in the cycle. And we don't have formal strategic lender partnerships because while they may make some sense on paper, in reality, they are difficult to execute on.

We're in many situations where sponsors club us up with our competitors. That imposes a degree of credit discipline that's helpful. Some traditional middle-market lenders have resorted to an originate-to- sell strategy, retaining little if any exposure to a deal post close. These have taken on a profile similar to what you might see in a traditional broadly syndicated transaction. The underwriter pushes the edge of the envelope for the benefit of the borrower in terms of leverage, pricing and overall credit terms. It's an approach that works in a bull market until the music stops and a few deals get hung. Hopefully that will happen soon. It will restore some discipline in the market.

TLL: Do you foresee any slowdown in this bull market?

RR: Undoubtedly, there's been a large increase in institutional capital in our market over the past 3-4 years. Most large institutional investors now have an allocation to middle market private debt. It's up for debate where it goes from here. Many investors we talk to expect to take a wait and see approach in terms of new allocations to private debt and we may see a slowdown in the capital flowing to the asset class in 2018. We think this will be a healthy development for our market. There is an overabundance of capital currently and some it is being managed by players who lack discipline or insufficient scale to be selective. These mistakes will eventually show up and impact overall credit performance within the private debt space. That's when the slowdown will become more pronounced.

TLL: Robert, talk a bit about your real estate vertical and how that fits into your overall strategy.

RR: We are a bridge lender. We focus on shorter-term (2-3 year) transactions where our borrower is looking to obtain flexible first mortgage financing to fund a property purchase. Often, we help our clients acquire an asset where the net operating income can be improved upon by repositioning the property whether from a capital refurbishment plan, which we help finance, having access to funding for tenant improvements and leasing commissions, or simply by better property management.

TLL: What sort of deal size are we talking about?

RR: Anywhere from $15-50 million. We finance institutional quality commercial real estate across all major property types. Our borrowers are typically regionally focused real estate sponsors with long term expertise in a particular property type located within a specific geographic region. They are backed by either private or institutional investors. Our real estate portfolio is about $1.6 billion in size and the business has been very, very successful in terms of growth and overall financial performance.

TLL: Your owner is the private equity firm, Stone Point. How are they as partners?

RR: They've been terrific partners for a long time. Great people with a terrific reputation. It's always been a very helpful endorsement for us to be associated with Stone Point, along with our other major shareholder, Ontario Teachers' Pension Plan, as both are very well known among institutional investors. The quality of our backers certainly has been a plus to our fund-raising activities for separately managed accounts and our multi-investor loans funds.

TLL: So, what's the exit plan? I had thought when Antares was sold to CPP that you guys would be next!

RR: There will be a time when our shareholders will seek to realize a return on their investment. We continue generating momentum and building enterprise value. That's positive for an IPO or sale to a strategic buyer. The good news for us is that Antares was sold and they remain one of the most viable players in our industry. As the Antares deal proved, the value of any platform in our business is directly tied to the people. So even with an exit, I fully expect NXT to remain what it is today.

TLL: Last question, Robert. What's been the biggest surprise for you this year?

RR: After the election last November, I expected a significant decline in the markets, and the opposite happened. It's been a bull market ever since. But as a credit guy, I remain skeptical. Trees don't grow to the sky even if some people say they will!

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