Lead Left Interview – Timothy J. Conway (Part 2)

THE LEAD | October 14, 2015

This week we continue our conversation with Timothy J. Conway, chairman and chief executive officer of NewStar Financial. Founded by Mr. Conway in 2004, NewStar is focused exclusively on providing sophisticated financing options to mid-sized companies through four national lending groups: leverage finance, business credit, equipment finance, and real estate. ***Second of two parts – View part one***

The Lead Left: So are you seeing banks retreat from leveraged financings?

Timothy Conway: Yes. This is the big macro trend in our market. Until recently, banks were still the largest providers of senior debt in the leveraged middle market. That has changed significantly in the last 18 months and we expect that trend to continue due to enforcement of the regulatory guidelines. The landscape in our target market is shaped by a handful of sophisticated, reliable, relationship-oriented non-banks including Antares, Golub, Madison and NXT, and of course, NewStar.

TLL: What is your perspective on the impact of the sale of GE Capital to CPP?

TC: The sale of Antares to CPP is an important development, but it's too early for me to assess what its impact will be on the market. As a result of the sale, their funding model has changed, but their affiliation with a large pension manager may compensate for some or all of that. They will have more flexibility outside of the bank regulatory environment, so their approach may change. From my perspective, they will continue to be a leader in the market. We have worked with them effectively on many transactions and I expect that will continue.

TLL: What about pricing? Will Antares' higher cost structure impact market pricing?

TC: The change to wholesale funding is likely to impact pricing, but I'm guessing they have many alternatives and levers to pull to mitigate some of the changes.

TLL: Golub seems to have taken advantage of the absence of GE in the market this summer.

TC: That's possible. They have done a great job for many years and have raised a lot of capital. They are very active and my sense is they picked up some share of the uni-tranche market in the last year.

TLL: How is your deal flow in general?

TC: Our deal flow has been excellent. We have doubled our volumes over the past year. We have gained market share and led more deals.

TLL: How about the cov-light business?

TC: We don't do many covenant light transactions, and I think structures and leverage ratios have stabilized in recent months. I like the quality of the deal flow we are originating.

TLL: You have been busy raising CLO money at NewStar

TC: Yes, we have. We closed our third transaction of the year a couple of months ago. That was our 12th CLO, which brings cumulative issuance to more than $5 billion. I believe we are now the largest issuer of middle market CLOs. We use the securitization market to fund a significant portion of our balance sheet with liabilities that match our assets. Leadership in that market is a key advantage for us.

TLL: So the middle market remains a club market?

TC: Very much so. Sponsored lending in the middle market is sort of an oligopoly and the leading players have gotten much larger and have increased their hold positions. The market offers compelling relative value for those of us with the right products and capabilities. There are barriers to entry related to relationships, both with sponsors and among lenders; therefore there are a small number of non-banks that lead the market. It’s an unusual market because we compete very aggressively with each other to win business, but at the end of the day, consistently team up to add value to our customers.

Contact:
Timothy Conway
tconway@newstarfin.com