



Burning Bright: NewStar Equipment Finance Emerges on the Horizon

BY STUART P. PAPAVALASSILOU

Late last year, Tim Conway, NewStar Financial's chairman & CEO, told *ABF Journal* readers that the launch of its new ABL business signified the Boston-based specialty finance company's intention to broaden its offering and build its product set in areas synergistic to its existing client base. The formation of NewStar Equipment Finance confirms the fact that Conway isn't messing around...



TIM CONWAY
Chairman & CEO,
NewStar Financial



STEVE O'LEARY
Head, NewStar
Equipment Finance

We first spent time with NewStar Financial's Tim Conway in 2005 when the specialty finance company was in its relative infancy, some 18 months after its initial launch. By then, the company had already booked \$800 million in new business, and Conway and his team of seasoned bankers were as Conway said, "just getting started and very optimistic about what the future holds." Since that time, NewStar has experienced an impressive growth spurt.

In the five years that ensued, the company went public and raised additional capital in a subsequent private equity offering. Conway notes, "We've done five CLOs, and raised very attractive liabilities in the market as well as arranged and renewed a variety of bank term financings and warehouse lines. Today, we're just a little under \$2 billion on the balance sheet and around \$2.3 billion total assets under management."

In November of last year, NewStar made commercial finance industry headlines by acquiring CORE Business Credit and naming CORE's CEO Michael Haddad to run the unit that would come to be known as NewStar Business Credit. With the acquisition, I spent time with

both Conway and Haddad to get underneath the thinking of the acquisition along with NewStar's expectations and objectives. At the conclusion of the interview, and almost casually, Conway indicated that a middle-market equipment finance business was in the making. Some seven weeks later, we learned of the launch of NewStar Equipment Finance with industry veteran Steve O'Leary at its head with David O'Keefe to manage the originations team.

Unlike the new ABL shop, NewStar Equipment Finance is a *de novo* business, which in and of itself requires an entirely different approach. So, what made this the right time to begin the foray into the world of equipment finance? Conway explains, "There are a variety of things ... we've been looking and evaluating this market for quite awhile, and we did a lot of homework. One key factor is, that like the asset-based lending business, this endeavor is very consistent with our core strengths in direct origination and credit.

"Also, we spoke to our customers about how they finance some of their assets and we recognized that there's significant synergy for us in terms of originating leases for our existing customers. And, there are also synergies on the cost side — we can rely on several operations that are already in place at NewStar and that's very good from an economic perspective," he adds.

But for Conway and the other executives at NewStar, the biggest opportunity lies in the fact that the last down cycle had a hobbling effect on many independent leasing companies. He says, "We think there is far less competition today than there was before the world headed into the last cycle. And that's happening at a time when companies are coming out of the cycle and investing again. We see a

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From its inception in July 2004, NewStar has sought to serve the needs of under-attended middle-market borrowers. While time has passed, Conway and his team continue that commitment through the recent formation of its ABL and equipment finance offerings. He explains, "We have a lot of industry savvy in certain areas and some natural overlap in healthcare, manufacturing and some technology where we have a great deal of credit expertise. This is a logical move for us because there are still many lessees that require sophistication in terms of understanding their underlying fundamental credit and financial profile. The landscape has changed a great deal and has become increasingly underserved."

In anticipation for the launch, NewStar armed itself with a \$75 million four-year credit facility with Wells Fargo Bank to fund new lease originations. But well before that, in the first quarter of 2010, NewStar began to develop its strategy for entering the equipment finance market. Conway notes, "We were able to put together a very attractive funding facility so our ability to fund and lever the business generates very attractive economics for us. But the most important thing is finding the right team. We connected with Steve in the second half of 2010, and with his leadership abilities and his experience, we were able to make our move when we did."

Conway explains: "For us, cultural fit is important ... the number one priority. Like most managers at NewStar, Steve comes from a commercial banking background and thinks about credit and process like we do. He comes from that environment — credit oriented and focused on doing business. He's the right guy to run the business."

As the "right guy" for NewStar, O'Leary brings nearly 30 years of equipment leasing experience with a career that began in the early 1980s at Shawmut Bank. Reflecting on the path that led him to the equipment finance area, O'Leary recalls, "It was purely accidental. I was a member of the asset-based lending group at Shawmut where I was assigned to wind down the equipment leasing business. In the meantime, the business performed very well with very little in the way of credit losses and some significant gains on the back end of the portfolio. By 1992, I was asked to write a plan to get us back into the business, which I ran until 1995 when Fleet bought us. In those three years, the portfolio had grown to about \$400 million ... and we were lending to middle-market companies not just in New England, but on a national basis as well." From Fleet, O'Leary did a brief stint at AT&T Capital and was then recruited to begin a middle-market leasing company for Eastern Bank in Boston. In eight years, O'Leary and his team at Eastern Bank grew that portfolio to nearly \$200 million in net assets.

So why, one might wonder, the move to NewStar? O'Leary explains, "It's the middle-market focus as well as the credit culture. There are many opportunities, especially now as we've come out of the credit crunch, to work with companies that may have suffered a little bit. I think they are looking for a place like NewStar, that will take the time to understand their story, and they'll look to leasing as an opportunity to invest in new equipment."

From Conway's perspective, the team's the thing. "When you put it all together," Conway notes, "this team brings a lot of different relationships and the members bring a tremendous amount of experience in the marketplace. We're already seeing a strong indicator of this based on the deal flow we're seeing."

The team — 12 strong at this point — consists of seven originators located in Boston, Connecticut, New York and Chicago. Each originator has more than 20 years of industry experience. Beyond the business generated by the seven originators, O'Leary expects new business to be sourced from other channels as well. He notes, "We'll also be seeing

referral business from our company's existing customer base as well as private equity firms NewStar does business with. And I have many bank relationships we'll partner with."

With those banking relationships, O'Leary explains, NewStar will provide fair market value structures that other bank-affiliated leasing companies don't provide. On the other hand, O'Leary doesn't see his shop developing broker relationships or participating in syndications.

And so far, O'Leary says, the reception has been positive. "We've received a tremendous number of calls from industry people trying to get a sense of what we are doing, and we've been seeing some opportunities as a result. So, I think this is a chance to set the record straight. We're a middle-market leasing company, and we'll be doing business as such. Our average ticket size will be between \$500,000 to \$3 million. And from an equipment and credit standpoint, we're looking to be as diverse as we possibly can. We'll look for opportunities to finance technology, medical equipment, telecommunications, and some industrial and manufacturing equipment as well."

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— Steve O'Leary, *Head*, NewStar Equipment Finance

O'Leary is equally as forthcoming with his expectations for 2011. He says, "We're looking to grow significantly, and we're out to do at least \$100 million in new business this year. From a personnel standpoint, we'll look to add originators in different places... I think we need to 'fill out' the West Coast and expand there, at least initially. But anytime we have an opportunity to bring on great people who add value, we will. But for now, we expect this to be a high growth model, and we're going to leverage as much as we can off the current infrastructure from both a credit and operations standpoint. We have some strong and dedicated leasing people that are running those functions for us."

For the equipment finance industry as a whole, O'Leary expects new business demand to grow at a gradual pace in 2011 with technology spending leading the way as companies look to expand their businesses or look to upgrade their equipment. "Also, the medical and healthcare market should be very strong this year and beyond. I also expect to see some growth, but to a lesser extent, in the general manufacturing market ... there will be some opportunity for us to do business there."

With the launch of NewStar Business Credit and NewStar Equipment Finance, the strategy is fully in play. Conway sums it up by saying, "We've managed a credit intensive business through a very tough cycle, and we came out with liquidity and access to capital. We stayed in the market the whole time, and we've got capital to invest. And as many have said, there will be a great deal of consolidation, and the strong players will come out of this with a great opportunity to expand their market share. So for us at NewStar, I think it's really a matter of us executing on that, now that we're through the cycle." ■

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