Lead Left Interview – Jim Hudak (Part 2)

THE LEAD | January 31, 2018

This week we continue our conversation with Jim Hudak, President, CIT Commercial Finance. Jim has been with CIT and predecessor companies (AT&T Capital, Newcourt, Tyco) since 1991. He has also run the Corporate Finance Group at CIT, which comprises leading industry verticals in Aerospace & Defense, Commercial & Industrial, Communications, Media & Entertainment, Energy and Healthcare. The group is dedicated to servicing the specialized financing and advisory needs of small- and middle-market companies in the U.S. and Canada. ***Second of two parts – View part one*****.**

The Lead Left: *What about hold levels? Is it mostly sponsored deals?*

Jim Hudak: For ABL deals we can hold anywhere from $30 to $100 million. On the cash flow side, as a participant we're probably going to stay in the $20 million range. As a lead we can hold $35 to $40 million. We'll close a little long if we need to. And most of what we do on the cash flow side is sponsored. It's mostly non-sponsored on the ABL front, particularly in sectors like energy, maritime, aviation, and media.

TLL: *We know with Neil Wessan running capital markets you've got a seasoned pro. What's the largest deal you've underwritten?*

JH: Neil knows everyone in the industry. We're aligned with experienced MDs. It's not a generalist approach. This is similar in the entertainment sector. There are 8-10 banks that will do film financings. Our largest underwriting was a $334 million sole arranged financing for a data cloud company.

TLL: *As a bank, how do you navigate the competitive landscape?*

JH: In sponsored finance it's a cast of characters.

Having a full suite of products helps us compete against the non-banks. We've made the transition from finco to lender to full-service bank. Now we offer F/X, derivatives, and cash management. We can even underwrite – though not hold – second lien. As a firm, we've ridden through many cycles. Sponsors want to know they have an experienced lender who won't pull the plug too quickly.

TLL: *Sounds like you've made a lot of progress in dealing with all the regulations as a leveraged lender.*

JH: Becoming a bank was a transition. We had to speak in bank language. We've been in cash flow lending for twenty years. We've had experience dealing with the things like assignment of collateral agreements and due diligence. We articulated that we're fully integrated- it's been part of our DNA for years now.

TLL: *What's the outlook for regulation and leveraged lending guidance?*

JH: The good thing is we're more disciplined. If we go through a downturn we're better positioned now. Regulation will never go away entirely. With leveraged lending guidance you need to live with it a while. There won't be one size fits all solutions. It's a science *and* an art. You can't compare 4x senior/6x total leverage for a cyclical company versus a software distributor. If rules are loosened that's good news for everybody. Arithmetic doesn't equal financial risk. HLT leverage doesn't mean you're uncomfortable.

Like any long-term relationship it takes a while to understand each other. One of the biggest factors is the ability to deliver. What's free cash flow look like? Can the borrower support the leverage?

TLL: *Jim, let's talk a little about your background. How long have you been at CIT?*

JH: I came to AT&T Capital in 1999, then worked myself through a number of transitions: going public, then buying Nomura, then NewCourt, and then the Tyco/CIT deal. It was like, ok, this is no big deal. We're just having our annual spring sale.

Then we hit the financial crisis. We had a good pre-pack plan – in and out of bankruptcy in 38 days! We emerged whole. People were cheering us from the sidelines. What's unique is we had a value proposition that survived bankruptcy. So we really understand what middle market companies go through when they need to restructure.

I ran the communications and media team, so I think about what cable companies went through. It took years to build up their network and telephony. The marginal cost is low because the margins are so high. That's really Ellen [Alemeny]'s vision. CIT has built up one hundred years of acquisition costs. Having customers layered on basic products is very powerful. Our operating leverage is high. We can drive more profit per customer. Everyone wants to grow assets. Jeff Peak had the right idea: to capture more of the relationship. But our products then were more limited. We had a little M&A, but it was a tough hill. Ellen wants to strip away the extraneous stuff. We're more ready for prime time now.

TLL: *So are you done selling assets and businesses? What other pieces do you still have?*

JH: Yes, we're good to go. We have a mortgage business with West Coast operations. Also a factoring business. We recently acquired CIT Direct Capital, a fintech focusing on small loans and leases. When they compete against other fintechs, being part of a bank with regulatory requirements gives customers confidence.

TLL: *Finally, Jim, what's the biggest surprise you've had all year?*

JH: We always knew the middle market was an attractive asset class from a risk/return perspective. But we don't think the market is pricing risk accordingly. Hopefully that'll be rebalanced. Right now there's a lack of new deals. That pipeline is sustained but incrementally small. Simultaneously more and more cash is flowing into the asset class. A lot of the historically addressable market has gone outside banks to non-banks. Our approach is to stick to the businesses we know well.

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