Lead Left Interview – Phil Seefried (Part 2)

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This week we continue our conversation with Phil Seefried, founder and CEO of Headwaters MB, which recently announced a strategic transaction with Capstone Partners in which Capstone was the acquirer. The new firm is called Capstone Headwaters. Both Headwaters and Capstone were founded in 2002. Capstone Headwaters provides investment banking services to entrepreneurs, owner/operators and business-owning families in the middle market. Now with dual headquarters in Boston, MA and Denver, CO, the firm is comprised of over 150 investment bankers and has 16 US offices, 2 international offices, and partnerships with 18 firms covering 30 countries. ***Second of two parts –*** ***View part one*****.**

TLL: *Could you give us an example of obvious growth areas in the economy for you?*

PS: We are seeing increased flow across the board in natural resources, industrial technology, healthcare and other areas. In the consumer space, healthy living and organic products are two excellent sub-sectors for us with obvious growth. Capstone has complementary strengths in other consumer niches such as juvenile products. By putting the two teams together we're adding real depth to our sector efforts.

TLL: *How about examples of transactions that illustrate your core strengths?*

PS: Our business is mostly about selling unknown companies to bigger, well-known companies and sponsors. Our core strength is making a tangible difference for our clients, whether it be on price or on other critical issues to the stakeholders. We run very effective processes, protecting information along the way while getting each client the attention they deserve from the global buyer community. Middle market business owners have their life in their business; we take that very seriously.

TLL: *How do you view your debt advisory practices?*

PS: Kent Brown runs our financing practice and he is very active. I would estimate capital raising represents about 25% of the overall business. The increased fragmentation of capital suppliers is helping us. Lenders are expanding, particularly in the non-sponsor space.

There's also a wide disparity of yields out there. For the same financing proposal we can see all-in yields ranging from 6-14%! Many players are bidding on the basis of their own capital costs, not the borrower's creditworthiness.

TLL: *So you are helping to act – as we like to say – as a tour guide in the land of leveraged lending.*

PS: Absolutely. At a big picture level, investors are becoming more like asset allocators. You know what fits their box and you create competition to drive better terms from them.

You asked about the "hot" credit market. Yes, things feel a bit inflated, but there's still a high threshold of due diligence. We don't see massive shortcuts taking place by lenders. Yes, they may seem to be paying full prices for good assets, but there's not a lot of overpaying for bad assets.

TLL: *Tell us which industries you think will be impacted in 2018, for better or worse.*

PS: Healthcare certainly. Our combined healthcare teams will be great. We're seeing real integration and convergence in that sector and we are well positioned; Aetna/CVS is an obvious example. Both payer and IT issues will be front and center in the industry this year.

TLL: *How about your international practice? We know your bankers like Len LaPorta and Steve Lewis have carved out niches with their overseas relationships and expertise.*

PS: That's true. We have an office in Rio and Capstone has an office in London. Combined we are about 25% cross-border in terms of transactions. Both firms are also leaders in international alliances. We'll continue to develop that going forward.

TLL: *What about international trends?*

PS: We're seeing a continuation of the increase in interest from international buyers for US assets. Firms who want to make a splash in the US. Europe has calmed down, but there are still areas of stress. So the primary thing is keeping contact with global strategic buyers so we can link them with our US sell-side clients. Historically, over 25% of our business involves cross border players.

TLL: *Do you see an impact from deregulation? Or other issues?*

PS: Deregulation is generally pro-growth. We're seeing trends that are more pro-energy. We've had an increase in coal and nuclear business inquiries. Same with natural resources. Healthcare, particularly with the uncertainty regarding Obamacare, will be interesting to follow in 2018.

TLL: *Phil, always our final question: What's been your biggest surprise this past year?*

PS: On a macro level, it's the seeming disconnect between a volatile world and non-volatile market. For the VIX to be where it is and people lulled to outside news, it's a weird dissonance. It feels like there are real things going on – Iran protests, Korea, Brexit, a new Fed chairman. Yet everything keeps steadily inching up. That's the thing I'm having trouble getting my head around.

In our business, however, the lack of volatility has created a wonderful environment to do deals. Most prognosticators expect more of the same. Now we are better positioned than ever to serve our clients and to be a leader in our industry.

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