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Lead Left Interview – Stephen Lewis

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This week we speak with Stephen Lewis, founder, Cross Border Strategies LLC. His firm provides advice to global middle market companies as they structure transactions internationally and assists those companies in sourcing the necessary financing.

The Lead Left: *Steve, it's been a while since we've spoken. Remind our readers what your firm focuses on.*

Stephen Lewis: We help middle market companies assess, structure and source their financing requirements outside the US. It has to be a cross-border deal for us to get involved. That can be a US company going abroad, or someone in another jurisdiction with no US connections at all. For example a Czech Republic based business figuring out how to finance equipment locally.

TLL: *What are the issues that crop up for companies doing cross-border work?*

SL: By definition, cross-border deals are more complicated – and that's if they're done well! Done inefficiently they can be horrible. For example, a couple of years ago there was a transaction involving very very sophisticated parties where legal fees ballooned to 2% of the enterprise value of the entire transaction! Needless to say, those dollars got adjusted dramatically.

TLL: *What causes that expense inflation?*

SL: You can't go down blind alleys. Our goal is to remove due diligence inefficiencies. If you're a manufacturer, environmental concerns make sense. If you're a service company, probably not so much. My mission is to get clients past the intro "101" courses, to the more advanced "201" level before spending big dollars.

TLL: *That's the advisory aspect of our business. But you also do debt placement.*

SL: Everything we do is bespoke. What's the objective of the financing? Size? Location? Is it getting debt in Italy? Is it for a recap? Acquisition financing? Working capital? You need to ask a ton of questions of both the client and the lender. Depending on which lender you talk to, you may get different solutions.

TLL: *Are you a one-man band at Cross-Border Strategies?*

SL: Yes, unlike the last time we spoke. I pull in a virtual teams around the world, law firms, tax experts and so on. It's critical to know up front that, for example, an asset-based deal requires different levels of credit support than cash flow transactions. It's a whole different set of questions.

TLL: *Are you equally split around the world, Asia vs. Europe, for example?*

SL: Historically, Eastern and Western Europe have represented the lion's share of the business. Some Latin American deals. Asia is a tough nut to crack. The sources of capital are fewer. Asian SME's [small, middle-sized enterprises] are hard to finance without a real estate component.

TLL: *How about China?*

SL: China actually has implemented pretty good commercial and bankruptcy legal systems, but they have not been tested. And, there is significant variability in ease of doing business region to region. Hong Kong is different than Beijing. You need to be cautious.

TLL: *What have been the biggest changes to cross-border strategies since the credit crisis?*

SL: Immediately post-crisis, not unlike the rest of the middle market, people sat on their hands. Supply chains were affected, and customers were impacted. Clients were very nervous to pull any cross-border triggers. During 2009-10, even domestic-only financing was challenging. 2011 started to see some green shoots of serious interest. There was more activity at the low end of the middle market.

TLL: *What kind of deals did you get done?*

SL: One of our private equity clients had the opportunity to take out two divisions of a company – one in the UK and the other in Spain – at minimal cost. Spain was a tough place to deal with in 2012, as you recall. But we got it done. Those divisions are doing over 20% CAGR today. In tough times, if you take a deep breath and know what you're doing, you can make things happen.

TLL: *Things really recovered by the end of 2012, though.*

SL: There was a burst of LBO activity, largely driven by tax related reasons. But that didn't seem to flow through to smaller companies. "Not now, later," was what I heard a lot. Then in 2013 the phone calls really picked up. Beginning January of this year, it's been much busier.

TLL: *What kind of trends globally have you seen?*

SL: Let's focus on the middle market – $350 million in revenues and less. European companies have a lot easier time doing business in and outside of their borders. It takes 20 minutes to drive from Luxembourg to Germany, for example. It's a trading economy. The euro has allowed people to be mobile.

To be continued the week of September 8

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