Lead Left Interview – Kevin Alexander and Michael Moravec (Part 2)

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This week we continue our conversation with Kevin Alexander, the deputy chief executive officer, Americas, and Michael Moravec, the head of investment banking, Americas, for Natixis. Natixis is the international corporate and investment banking, asset management, insurance and financial services arm of Groupe BPCE, the 2nd largest banking group in France. ***Second of two parts – View part one*****.**

The Lead Left: *Is there linkage to that CLO business for your leverage finance practice?*

Kevin Alexander: It's informal, but it gives us powerful data points. We are the fifth largest CLO originator in the US – we know who's ramping. We can get a read on a complex second lien we're looking to underwrite from our CLO clients. When we did the Tolt-Pomeroy deal, for example, that ~$240 million financing was fully distributed, thanks to our ability to see information better than some of the big banks. We're competing to lead the $75 million ebitda transactions, not the jumbo ones.

TLL: *It feels like you've come a long way in the last eighteen months.*

Michael Moravec: Yes, besides Edith we recently hired Chris Briggs (Soc Gen/Morgan Stanley) and Matt Jackson (Deutsche) into sponsor coverage. In leveraged finance we've hired David Lynch from (20 year RBC/JP Morgan veteran), Kevin Emerson (UBS/Morgan Stanley) and Chris Dorsett (Deutsche/JP Morgan). We've also recently added Lori Harris (Deutsche/Moodys) to head up our Rating Advisory group. Plus we have two senior Jefferies folks on the syndicate desk, who I'm sure you know, Graham Lawrence and Tyler Lifton. The goal is to broadly have the infrastructure in place by year end.

KA: If anything, we've probably overinvested in distribution at the moment. But there are benefits to having the pipes and infrastructure. You need to feed those pipes. We're focused on the $50 to $100 million ebitda space, so we'll be seeing lead left business. And we're finding synergies in our asset class expertise. For example, Spring Leaf acquiring One Main. We financed their receivables and helped with the bonds and securitization. Another was Apollo's Diamond Resorts. They said, "We don't really know you guys, but take a look at the ABS facility." It was a time share securitization, so very specialized. We did $100 million of the total $300 million need. We think of our clients as partners. We're honest about where we can help each other and where we can't, and that builds a compounding level of trust that deepens our relationships.

TLL: *Do you have separate bank/bond desks?*

MM: We've combined them. Leveraged Finance and syndicate are fully integrated, globally and we are product and currency agnostic. We structure solutions to meet client needs.

KA: We used to be separate, but that was when we were a market participant. Before Michael's arrival we brought bank and bond together. As long as we can distribute the paper, let's focus on the credit. We've invested in distribution, now we're on to sponsor coverage and bankers with industry expertise. In Houston we have a large energy team that does reserve-based lending, mostly oil and gas E&P. It's really a promising resource and moving forward we'll look to leverage our strong CEO network in this space to up-tier those relationships.

TLL: *How did your energy business fare through the cycle?*

KA: We successfully managed through it, having committed in a measured way. When oil prices dropped we double checked all our hedging programs, but didn't lose money. Of course there were many bankruptcies, but being reserve based, we came out ok. Having weathered that storm, we're working with PJ SOLOMON on a number of restructuring opportunities.

TLL: *Is there a strategic plan you all are following? What are its elements?*

KA: Every three years we rethink our plan. The first was the New Deal. A real redo. Then came the New Frontier. You get the model. Today it's the New Dimension. It's comprised of The Three D's. "Deepen" focuses across advisory, lending, hedging, investment banking and M&A. "Differentiated" is saying "We're big enough to deliver, small enough to care." We're not competing against the big banks. Finally, "Digitalize." There's a revolution going on. Blockchain in five years could revolutionize our industry.

TLL: *How do you plan on increasing your visibility in the market?*

MM: That was one of the reasons for hiring Joe LaVorgna, our chief economist. CLOs and Commercial Real Estate are our highest profile business. We're trying to increase it in investment banking. It's all about content, creativity and consistency. We partner and grow with our clients to firstly fully understand their needs and strategic ambitions and in turn, provide continuous M&A advice, customized financing solutions and a full review of hedging rates, currency and commodity exposures. We need more relationship building.

There's also a need to convince private equity that we can deliver. We're currently building the infrastructure to be ready next year to really showcase our capabilities. We have 40 people committed to commercial real estate lending alone. Can we leverage their expertise to move into areas like gaming?

TLL: *So guys, what's been your biggest surprise about this whole restart?*

MM: How competitive the credit markets are! Leverage is topping six times with adjustments to ebitda. Is the market pushing people over their skis? There's lots of competition and money keeps flowing in.

KA: And you have the whole issue of LIBOR going away and SOFR taking its place. How does that play out? Also, the BDCs are going to 2:1 leverage. That will deploy even more capital.

KA: I'm also surprised how resilient the markets are. You can convince yourself that we have another couple of years of stability.

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