Lead Left Interview – Bob Jesenik (Part 2)

THE LEAD | November 26, 2014

This week we continue our conversation with Bob Jesenik, CEO, Aequitas Capital. Aequitas provide access to private credit and equity capital along with industry-specific operational expertise in healthcare, education and financial services. The company is headquartered in OR with offices in NY, CA, FLA.

Second of two parts – View part one

The Lead Left: *But there's lots of competition!*

Bob Jesenik: We invest in the real economy, for example people understand that we are investing in patient receivables in hospitals, small business loans, and so on. Investors are drawn to the fact that they can understand these strategies and the underlying business. Also, with a twenty year track record and broad base of investment vehicles, we've established ourselves as a leader of private capital and PE alternative products. Once investors do a deep due diligence dive, they understand institutional approach we take and creating the products that we do.

TLL: *Is your work mostly on currently existing transactions?*

BJ: We do both upfront and on-going due diligence. These are best-in-class referrals. It's a very different game than just allocating dollars to strategies. Making asset strategies accessible to our clients is what we're all about.

TLL: *What do you make of all this market volatility? Is it a good thing?*

BJ: Our thesis is that we don't see a lot of rate pressures. Look at Japan and Europe: those are both either zero or negative rate environments. That puts a blanket on global rates. Capital will flow to higher rate countries, which will then have the overall effect of keeping rates lower.

TLL: *What other factors do you consider?*

BJ: Demographics play a major role globally. As the baby boomer cycle plays out through retirement – they are saving more and looking for fixed income in their savings and spending less – we see this being a drag on growth. Also, the government can't afford to let rates go up significantly. Certainly not over the long-term. That will also have a stabilizing effect on rates.

TLL: *You mentioned your industry practices. Are there others that will prove to be winners or losers?*

B**J:** We started in traditional sectors such as manufacturing, distribution etc., but markets evolve and change. We focus on healthcare, education, and financial services which is actually covers around 73% of the GDP. We are able to leverage our technology and analytics in these disciplines.

TLL: *Can you give an example?*

BJ: Under the Affordable Care Act, reimbursement rates are coming down, which means hospitals need to become more efficient. Any business that helps hospitals outsource to improve the revenue cycle is in a good spot. Hospitals are billing for larger deductibles – $5-7k. It's a very difficult business collecting those receivables. But a consumer finance business that helps patients finance those bills is a winner.

TLL: *How about the education space?*

BJ: Sticking with the theme of specialty finance, think about private student loans. How do we assist students as they begin the process of selecting schools, making finance decisions, and then help them make employment decisions after graduation, what services might students need?

TLL: *Any investments that might be illustrative?*

BJ: Our PE Fund owns a company called Unigo which is a good example. They have a nationwide scholarship data base to help finance your education. They can help parents and students pick the right school and the right programs. The overall goal is to help these kids become effective contributors to society.

TLL: *I have to say, US colleges stink at career planning.*

BJ: You're spot on. We also have Unigo Connect, which is a technology platform that is all about connecting the admission counselor with the high school student and their career counselor by scheduling video chats with current students, recent graduates, alums, and professors. All to help students make smart decisions. For example, look at the cost of an education to achieve a teaching certification. Either way you will be making around the same salary, but over the 4 years it's a comparison of about $40k, vs. the $100k cost for a BA degree in education. We're slowly evolving in this country to having that conversation.

TLL: *Bob, what's been the biggest surprise for you?*

BJ: I'm shocked at how little people think about the fundamental impact of 2008 and what that really means. I think it was Hoisington Investments who published a study back in 2009 that it takes 14 years to return to normal from a major recession. How can you be surprised that GDP hasn't recovered? — When fundamentally economic analysis shows that we will be in this period for a sustainable amount of time?

I would also say that every time there's a "2008," innovation spikes. In addition to periods of recession, the regulatory environment has driven innovation and accelerating pace in both technology and new non-bank lenders. Look at Lending Club. A. Why are they going public and B. at the valuation they are going at. There is innovation in financial services which hasn't been there in a long time. In the world of investors, the perennial question is: "How do I monetize this?"

Contact: Dana Taormina
Vice President, JCPR
dtaormina@jcprinc.com