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Lead Left Interview – Barry Bobrow

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This week we chatted with Barry Bobrow, Managing Director, head of Loan Sales and Syndications, Wells Fargo Capital Finance. Wells Fargo Capital Finance is one of the largest providers of asset-based loans to large, middle market and small companies in the United States.

The Lead Left: *Barry, it's been a while since we last caught up. How was 2014 for the industry?*

Barry Bobrow: Thanks for the opportunity to speak with you, Randy. Last year was an extremely good year for asset-based lending. According to Thomson Reuters, there was around $93 billion in volume for syndicated deals, representing 352 transactions. Both of those metrics are up from 2013. In fact, the number of deals done was the second highest ever, after 2011 when there was a lot of jumbo refinancing volume from the pre-2009 period.

TLL: *Were there jumbo deals done last year?*

BB: The ABL market had twenty deals greater than $1 billion each close last year. That's a record. Most were upsizings of existing deals. The overall market capacity was clearly up. That's a very big story in our business. In fact there were two deals that closed in the market that were $3 billion or above. Already this year we've seen one transaction of $3.7 billion and another of $2.7 billion.

TLL: *How does ABL work with other debt products of the leveraged market?*

BB: ABL works all the time with other debt – loans and bonds – in the borrower's capital structure. If there are no assets to support an institutional term loan, we'll see concerns from senior debt lenders about recovery ratings from S&P. ABL arrangers have sometimes reacted constructively by downsizing their credit facility to improve the rating; the institutional investors who look to those ratings appreciate that.

TLL: *How has the influx of second lien capital impacted ABL?*

BB: Second lien is not a new story for the asset based market, and in fact because of our focus on assets, our market is extremely flexible with respect to junior debt. As for the new players, I'm not sure how much of a need there is given where volumes are and the large number of established junior debt providers. Many of the new players are expecting banks to back away from some of their historical business due to changing regulatory standards. The problem is that when banks lend in an ABL format it's at 1.5-2.5% all-in pricing; when non-banks get involved, they need 6-10% or more. Given that not every deal works with the higher pricing, the end result may be fewer deals.

TLL: *How aggressive and competitive is the asset based market?*

BB: For the deals that are well within the recent regulatory guidance – which is the vast majority of what we have done historically, I expect a very competitive environment.

TLL: *Where's the edge of the envelope, on structures and pricing?*

BB: Pricing has been pretty stable over the past 12-18 months, at a level that's similar to 2007. Of course, there's always downward pressure when markets are competitive so that's still true for the good deals. On structures, flexibility on terms such as restricted payment baskets is as borrower-friendly as it's ever been. Not much change in advance rates. Sometimes we see changes in monitoring frequency or the ability to make acquisitions, or for additional indebtedness. But that's mostly for larger syndicated deals. For deals that are either on the edge of the regulatory guidance, structures will become much more conservative.

TLL: *Are you seeing any migration of "big boy" deal terms down into the middle market?*

BB: Some. That's certainly a challenge for ABL lenders. Terms that are appropriate for large companies with large capital structures don't work as well in smaller and more credit sensitive companies, but that never stops sponsors and lawyers from asking for them. Every deal is a negotiation.

TLL: *How about international ABL lending?*

BB: There's a greater willingness to incorporate many different European based assets into the borrowing base. We're looking at a very large transaction at the moment that has a high percentage of non-US assets, though it's a global company headquartered in the US.

TLL: *Are there countries you'd prefer not to lend in?*

BB: We try to evaluate all opportunities; however, some jurisdictions are much more conducive to asset based lending than others. An attorney friend of mine always says that he's had better luck in beer drinking countries than in the wine drinking ones.

To be continued the week of Feb 16

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