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Lead Left Interview – Robert A. Hamwee

THE LEAD | October 21, 2015

This week we chat with Robert A. Hamwee, president and chief executive officer of New Mountain Finance Corp. (NMFC). NMFC is a public BDC investing in debt securities in all levels of the capital structure, primarily focusing on middle market companies with Ebitda between $20-200 million.

The Lead Left: Rob, how do you explain the strategy for New Mountain's debt practice?

Robert Hamwee: We're not positioning ourselves as turnkey providers for all your needs. We're a great source of capital in different formats, mezzanine or unitranche in the industries we focus on. For example, heavy industrial deals aren't in the category of things we know well. The key for New Mountain is utilizing our relevant private equity members to be strategic about what we know well. That speaks to the broader platform of the firm.

TLL: So what are the industry verticals that comprise your firm's core practices?

RH: Some examples would be enterprise software, tech-enabled business services, niche healthcare, distribution and logistics, federal services, and education. That's the bulk of it. We've done a little bit of energy and some other miscellaneous sectors.

TLL: What are the common attributes?

RH: What knits it all together are these are generally companies with repetitive revenue models in acyclical industries and having niche market dominance. Typically these are high ROE types of businesses, not capex intense, and with variable cost structures.

TLL: How about size of company?

RH: We're not so dogmatic about that. We're agnostic about whether they are $1 billion in Ebitda, or $75 million. Obviously there's more risk involved with smaller companies. We price around that. I would say 75% of the companies we invest in have enterprise values between $150-500 million.

TLL: How do you source your deals?

RH: The majority of transactions we've originated since inception has been materially underwritten for the private equity side of the house, but for some reason, typically valuation, they didn't do. We don't invest in debt in the companies owned by our PE practice. These are situations where they didn't end up owning the equity, but we somehow got our way in.

TLL: Are most of your debt investments with sponsor backed companies?

RH: Probably 75% come from our own sponsor coverage. The balance comes from relevant intermediaries. That's everyone from Credit Suisse all the way to smaller advisory firms.

TLL: How do you like to structure your debt investments?

RH: I would say it's 50/50 in terms of first-lien, non-first-lien, with the latter comprised of about 80% second-lien and the rest subordinated and unsecured debt. We have very few equity co-investments, probably 1-2%. And of the first-lien transactions, roughly 40% are unitranche and 60% the traditional senior and stretch senior.

TLL: How about yield requirements?

RH: At the low end, we're in the mid-sevens, to a high of mid-teens. Average is in the 10% range.

TLL: And leverage?

RH: For regular way senior, leverage would be 4x, going up to 5.5x for stretch senior. Second lien multiples range from 5 to low sevens. We're more concerned about leverage as a percent of enterprise value.

TLL: Does where we are in the cycle inform your view of leverage?

RH: We're not smart enough to know where we are in the cycle. We're not trying to time cycles.

To be continued the week of Oct 26.

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