MADISON CAPITAL'S NEW CEO SEES FIRM PASSING $10B AUM THIS YEAR

Chicago lower mid-market lender Madison Capital Funding announced in January that Christopher Taylor would succeed Hugh Wade as CEO on June 30. We recently sat down with Mr. Taylor for a promotional video to discuss his plans for the company, a subsidiary of New York Life Insurance Company.

CHRISTOPHER TAYLOR
CHIEF EXECUTIVE OFFICER, MADISON CAPITAL FUNDING

1 Tell me about the state of your loan portfolio.

I'm very proud of where the loan portfolio stands today in terms of both health and growth. Our portfolio AUM has grown about 42 percent over the last five years, and as of the end of March we stood at $9.5 billion. Our strategy is to diversify our client base by borrowers and by industry. Last year we did business with 17 new sponsors, and we've worked with some 287 altogether. While we have teams devoted to specific industry sectors, the portfolio as a whole isn't overly concentrated in just one or two areas.

2 What are your biggest challenges in business development?

Over the last three to five years leveraged lending has become a very competitive market, with established leaders like Madison Capital competing against established players as well as a host of new entrants. Maneuvering through that environment is not an easy thing to do. But we have a few competitive advantages. One is the funding base that we get from our parent, New York Life. It allows us to win the deals we want to win, because of our low cost of capital and the flexibility of that capital. Second, we have a suite of products to offer deal sponsors, from first-lien senior debt to mezzanine debt to equity co-investments. And third, we've built up an organization with a lot of industry expertise and significant infrastructure. We have lending teams that specialize in health care, insurance & financial services, and software & technology, along with the systems, processes, and wherewithal needed to manage an active loan portfolio.

3 How soon will you develop a fourth sector?

Two years ago one of my long-time colleagues launched our software & technology vertical. It was both a passion of his and a secular trend within private equity, and so it was a perfect marriage. We've now built a portfolio of $1.3 billion in outstanding commitments. I'd like to replicate and launch a fourth vertical sometime in the next few years.

4 How important are independent sponsors to your growth?

We've seen a real shift in the marketplace as more professionals spin out of traditional private equity firms to form independent sponsors or to start family offices. One of our senior business development professionals is now exclusively focused on building a non-traditional sponsor strategy. He started out focusing on family offices that have evolved into mini-private equity firms. Over the last two and a half years, we've built a portfolio of $350 to $400 million in active loans that are tied to the independent sponsor and family office sponsor base.

5 How do you see your capital sources shifting?

New York Life will always be our biggest source of capital, but we've also built a strategic third-party asset management business that will continue to grow. Specifically, over the last seven or eight years we've gone out and raised third party capital in the form of CLOs—we've recently closed our eighth—as well as multiple separately managed accounts. I could see us closing a ninth CLO before the end of the year if the window for offerings stays open. Those efforts have helped us compete for lead positions in club deals with a higher global hold position, which has become a distinguishing factor in the market since the last recession.

6 What are the biggest risks in the market right now?

The fact that we're very long into the economic recovery and into this credit cycle weighs on everyone's mind. We have to ask ourselves some hard questions. Are we sitting on any landmines in the portfolio? Have we sacrificed credit discipline to achieve growth? I feel very confident that we have not sacrificed discipline or given too much on the terms at which we lend. Yes, the market has grown more borrower friendly. But every loan that we do has financial covenants. The governors on loans in the lower middle market remain fairly strong. We're not seeing anything systemically or thematically troubling across the portfolio.

Content taken from Buyouts interview and edited for length and clarity by reporter David Toll