RAY'S BUZZ

BY RAY HANKAMER
rhankamer@gmail.com

BOYARMILLER CAPITAL MARKETS BREAKFAST PANEL

SPEAKERS: Kamden D Kanaly, Chairman, KDK Private Wealth Management; John Sarvadi, Executive Managing Director, Texas Capital Bank; Scott D. Winship, Managing Director, Gulfstar Group Investment Bankers

Kamden Kanaly

John Sarvadi

Scott Winship

Takeaway: In this time of political polarization, although alert to the overall environment, debt and equity are plentiful and are chasing the good deals. Unregulated non-traditional lending sources are often winning in the competition with banks to place loans and equity, and huge amounts of cash are 'looking for yield'. Borrowers should satisfy their capital needs when it is available, and not wait 'until they need it', since by then markets may have tightened up.

- After recovering from the last recession, the stock market has leveled out and most stocks are 'fully priced'; therefore cash is looking in other directions for deployment
- Professional money managers such as pension funds, endowment funds, life companies, etc., are experiencing yields lower than planned, and are in some cases pushing funds into private equity in search of higher yields
- Although there are some faint 'caution lights' blinking in the financial markets, there are not any firm indications of recession… perhaps a flattening or slight downturn, but nothing serious
- Tariff wars are creating uncertainties and specific issues with some companies that are rippling through the economy; some companies and industries are starting to really hurt due to the president's tariff wars
- The prospect of an out-of-control Washington is scary to all business decision makers, and tariffs are just one thing contributing to anxiety; how do you plan with extreme polarization?…although cooler heads usually prevail
- Uncertainty is the enemy of business planning and growth and as long as the tariff wars continue, some in the economy will be slow to make decisions
- There are more extreme views coming from candidates in both parties than ever before, and this is unsettling to markets; anxiety and volatility are bad for markets
- Banks are well-capitalized and healthy and disciplined in this environment
- This is a borrower's market as competition increases between traditional and non-traditional lending sources; lenders are searching for solid assets; lender-investors look for companies which have managed well through up and down cycles
- The mergers and acquisitions market is very busy, thanks to the abundant supply of investment capital; there is even a 'feeding frenzy' to finance strong companies with good growth prospects
- New private equity funds are being raised 'every day', further adding to pressure to put the money to work earning a return; in spite of high availability of funds, lending remains disciplined, although there is some loosening of loan covenants in favor of borrowers
- Even if there is a recession, deal activity may well continue; if there is a slowdown, it may begin in Q1 or Q2 of 2020
- Valuations of companies have doubled since 2010
- IRR expectations of investors/developers have fallen from the mid-20s to the mid-teens
- Raise capital when you can get it, not when you need it; be an opportunistic borrower; refinance when terms are great; don't over-leverage; plan to withstand downsides in the economy; surround yourself with good legal and financial counsel; make sure your company is on top of its numbers with professional audits