Interview

A Focus on Growth Companies

An Interview with Donald B. Marron,
Chairman and Chief Executive Officer, Lightyear Capital LLC

Donald B. Marron

EDITORS' NOTE *Donald Marron served as Chairman and CEO of the PaineWebber Group Inc. for 20 years until its November 2000 merger with UBS AG. He had come to PaineWebber as a result of a merger he led between the firm and Mitchell Hutchins & Co., a leading institutional brokerage firm at which he served as Chairman and CEO. Immediately following the PaineWebber-UBS merger, Marron and his partners formed the buyout firm Lightyear Capital LLC to further focus on the financial services industry. In addition, Marron is cofounder of Data Resources Inc. with Harvard economist Dr. Otto Eckstein. The company became the largest nongovernmental source of economic data on computers in the world and was purchased by The McGraw-Hill Companies in 1979. Marron is a member of the Council on Foreign Relations, a trustee of the Center for Strategic and International Studies, a member of Memorial Sloan-Kettering Cancer Center's board of overseers and managers, a member of the board of trustees of New York University, the Chairman Emeritus of the Center for the Study of the Presidency and Congress, and a trustee and President Emeritus of the Museum of Modern Art.*

COMPANY BRIEF *Lightyear Capital LLC (www.lycap.com) is a New York-based private equity investment firm specializing in the financial services industry, providing buyout and growth capital primarily to companies with equity investments up to $150 million. Lightyear's senior management team brings extensive experience from the financial services industry to portfolio companies, offering expertise in strategic management and capital structure formation and an established network of relationships and contacts. The firm has managed approximately $3 billion of committed capital through its affiliated investment funds.*

Were you surprised at the depth of the economic crisis, and as you look at the road to recovery, where do you see us today?

I was surprised at how deep it was. One of the differences from the prior crashes is that this is the first truly global crash. Now you have major investors, Chinese being among the leaders, all over the world with important commitments to our markets. America exports many things – in this case, we exported the complex financial products, which were part of the problem.

Second, this is the first 401(k) crash, meaning that you have 50 to 70 million Americans that had a direct stake in what happened. In prior crashes, Americans were relying on pensions and social security, and they were spectators. In this case, everyone listened to the President and listened to Wall Street in a very different way.

Third, there was a radical loss of liquidity in the market, which contributed significantly to the crash. If you don't have liquidity, you've lost the right to change your mind. It wasn't like there were a lot of dumb people out there in the middle of this, doing nothing. They quickly figured out that they couldn't sell what they held, and they couldn't do much about it.

For 2010, what are you most focused on when you look at the economic climate?

As private equity investors, we're basically in the money management business, so we have to do well with our investor money and that is our principal focus – getting returns. Since we tend to focus on growth companies, part of those returns come from investing our time in helping the managers of these companies – not to run the companies but help them grow, whether it be by strategic acquisitions, adding talented board members, or supporting their longer-term growth goals. You must also be aware of what the trends are going forward and what the climate is going to be. For example, if we are entering a low growth economy, you have to ask: How does globalization change your prospects given the shock that this has created in other areas? In addition, you may have $3.5 trillion in a money market fund. And much of that money can't remain there earning close to nothing. It's a symptom of a very odd situation. Clearly, cheap money, which is fueling the banks and other things being stimulated by the government, is going to end sometime in the next couple of years. As the government phases out these measures, we have to be ready for what the impact will be.

So the first and most important thing you have to do is understand and separate those businesses that are successful as a result of some fundamental franchise value or some product rather than cheap money – that's key. The second thing is to work your way to a point where reinvestment of capital will get you the best leverage in this climate. An example in a relatively unexciting, but nonetheless crucial industry is insurance, where we now see much more of a focus on specialization. For example, we own a crop insurance company, which is very specialized and has performed extremely well. The company had $175 million in premiums when we bought it four years ago; today it is writing close to $1 billion. In addition, you have the decline and fall of AIG that has affected pricing and changed the dynamics of the business. So when there is a whole set of moving parts, underlying it is the fact that insurance is a basic business. It is a slow growth business, but it is a genuine growth business.

The other big opportunity is banking. There are over 8,000 banks in this country and while you can say there are going to be fewer than there are now going forward, we also know that communities still need them and banks flourish in the right kind of growth-oriented communities. How do you find those banks and help strengthen them while at the same time help a small business, provide a mortgage, and stimulate the economy?

At the time when you were starting Lightyear, did you ever think about taking some time off or did you know you wanted to do this, and has the ride been what you expected?

We started it the day after we closed on our transaction with UBS. This is my fifth business and I haven't had a day off yet. This is what I like to do – it's an exciting era. This is an industry that creates innovation, manages innovation, and finances others to innovate, so there is a wide range of things that you can be looking at all the time. ●

