Financial Services Opportunities

An Interview with Donald B. Marron, Chairman, 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. 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. In addition, Marron is co-founder of Data Resources Inc. with Harvard economist Dr. Otto Eckstein. The company 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, the Chairman Emeritus of the Center for the Study of the Presidency, and a trustee and President Emeritus of the Museum of Modern Art.*

COMPANY BRIEF *New York-based Lightyear Capital LLC (www.lycap.com) is a private equity investment firm specializing in the financial services industry, providing buyout and growth capital to companies primarily through equity investments of 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.*

Where is the U.S. economy today and is it possible to have a true recovery without seeing a major improvement in job creation?

The first part of the earnings recovery was primarily driven by gains in productivity as corporations were finding ways to manage themselves more efficiently and with fewer people. This environment has, in some cases, changed the culture of companies around the United States. This has also shown what kind of profit margins corporations are capable of achieving.

When companies did expand, the emphasis was on hiring people with special skills. You hear many companies saying, when we put out a call for specialized people, it's hard to find them; but when we put out a call for basic services, there is a line around the block. That reflects the fact that this country has an issue with training and education.

How has the financial crisis of 2008 and 2009 changed the financial services industry?

The financial services industry was squarely in the middle of this crisis. At the early stages of the crisis, we pulled back on doing new deals.

The basic demand for financial services is still there – people buy insurance, they need processing, they use credit cards; maybe they're using them somewhat less, but the need for basic services is there. So the companies that provide the basic services are doing fine.

One way the crash has changed our approach towards making new investments is that there now is three years of data available to assess the strength of the brand and the company, how important the product is, and how the management was able to handle the crash. This information has enhanced our ability to find and assess good investments.

When you assess potential investments, what are some of your key priorities?

We determine if the company is in a growth area of the economy. The financial services industry tends to grow faster than the economy and several of its sectors are highly fragmented, which creates multiple investment opportunities.

We recognized that the change in the structure of financial services is nowhere more evident than in the banking sector. Since the crash, big banks have been subject to massive regulatory review and change. The Volcker Rule alone, which forces banks to get out of certain principal businesses, is causing change. In addition, large financial institutions that had been strategic acquirers in prior years were exiting non-core businesses in order to shore up capital to strengthen their balance sheets.

The opportunity for partnering with talented management teams has never been greater. Talent used to go to big firms to get access to capital and technology. Today, this is not the case. The capital will back the talent in many different forms and most technology can be outsourced.

So when you look at financial services opportunities, you're back to the key issues: Is this a business that is a good growth business? Is this a management that can navigate complicated waters? And does this company have or could it have a brand that consumers, be they retail or institutional, will value?

Will the regulatory actions taken accomplish meaningful financial reforms?

You can put reform and regulation into several categories. The first one is oversight, whose role is to both influence action through capital availability and enhance the requirement for providing information on a timely basis and in a usable fashion.

The second is transparency. The financial services industry will benefit from more transparency on the financial structure of the companies themselves and on the structure of the products they sell.

The third is standardization. One significant development was that the products got too complicated, not only for the buyers but even for the manufacturers. It's clear, for example, that the proposed legislation to have derivatives trade on exchanges would be a valuable step in standardizing products.

The fourth is liquidity, which is what creates value. What happened in this crash, as in many others, is that investment products that were thought to be liquid turned out not to be liquid. This lack of liquidity put investors in a position where they lost the ability to change their minds.

Financial regulation and good business practices that enhance liquidity, increase value, and make the system more stable are the right combination for establishing safeguards against another crisis.

Are you pleased with how closely New York City business leaders work together?

New York City is the financial center of the world, so it's where a big segment of the talent is and where young talent comes to learn. Also, the financial services sector is one of the biggest industries in the world and it touches virtually everybody at every economic or business level. So we can't afford not to work together.

How effective has the public/private partnership been in addressing many of New York City's needs?

The tone of relationships is set by leaders, and Mike Bloomberg has set an outstanding and encompassing tone in the city, which encourages not only public/private partnerships, but being outspoken about what needs to do be done.

You have to have organizations that enhance that. The Partnership for New York City, led by Kathy Wylde, is certainly at the top of the list. ●

