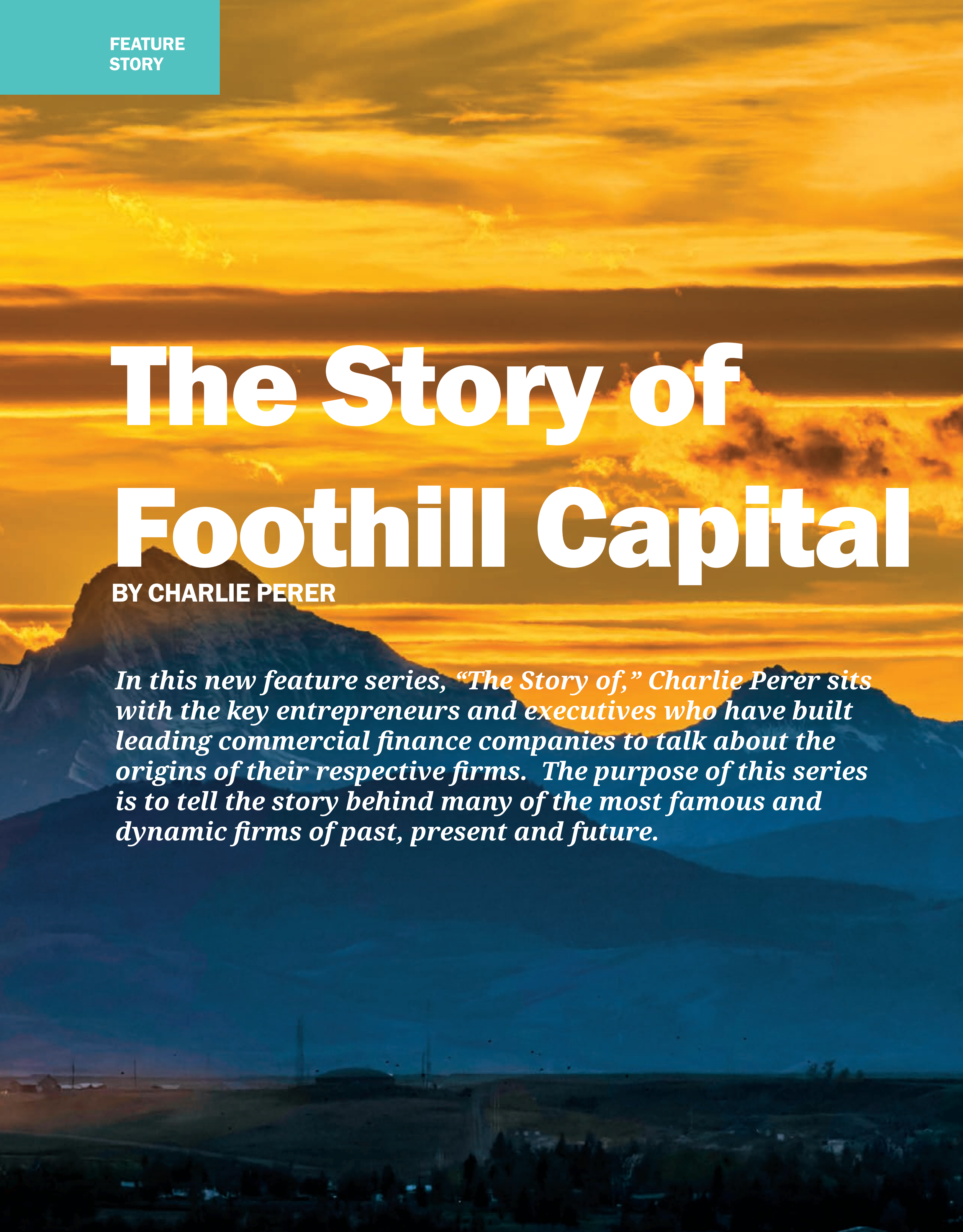


FEATURE STORY

The Story of Foothill Capital

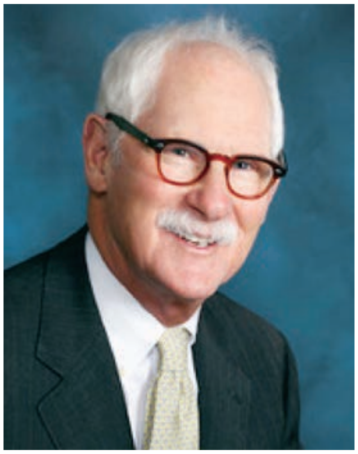
BY CHARLIE PERER

In this new feature series, "The Story of," Charlie Perer sits with the key entrepreneurs and executives who have built leading commercial finance companies to talk about the origins of their respective firms. The purpose of this series is to tell the story behind many of the most famous and dynamic firms of past, present and future.

These stories will and should be told by the people who were there in order to get the information as accurate as possible.

The first feature is about Foothill Capital, which, of course was acquired by Norwest in 1998 and later by Wells Fargo. The core team at Foothill went on to be leaders at Wells Fargo Capital Finance and throughout the entire commercial finance industry.

Here to tell the story are Peter Schwab, Henry Jordan and Chris MacDonald.



PETER SCHWAB

HENRY JORDAN

CHRIS MACDONALD
SG Credit Partners

CHARLIE PERER
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Charlie Perer: Gentlemen, please briefly introduce yourselves.

Peter Schwab: I was in the asset-based lending business for nearly 40 years and finished my career in 2010 as chairman of Wells Fargo Capital Finance. I began my career with National Acceptance Company of California and then joined Aetna Business Credit (two names that most readers probably don't know). I then joined Foothill Capital Corporation, which we sold to Norwest in 1998 and later became part of Wells Fargo when Norwest merged with Wells Fargo.

Henry Jordan: Retired CEO (2011-2017) Wells Fargo Capital Finance. I spent 32 years with Foothill Group and its successors beginning in 1984.

Chris MacDonald: I am currently a senior advisor at SG Credit Partners. I began my career at CIT Business Credit in 1990. In 1996, I started the New York office for Foothill Capital and then went on to run originations in the Midwest and Northeast. In 2004, I joined Silver Point Capital in its Principal Finance Group. I co-headed Principal Finance until 2009. In 2010, I joined Virgo Investment Group, and was a co-founder of Fund 3, a leader in portfolio management. I joined SG Credit Partners in January 2021.

How would you tell the story of Foothill Capital to younger executives entering the field today?

Jordan: The Foothill Group began as a small finance company in the 1970s (with a few hundred thousand dollars in total assets) and rose to become one of the largest and most successful bank asset-based lenders in America. On December 31, 2016, after a purchase of over $20 billion in assets from GE, the Group's total assets exceeded $50 billion. Foothill Capital was the largest and most successful subsidiary of The Foothill Group.

Schwab: I would describe the story of Foothill as a company who knew who they were and what they wanted to accomplish and did so through many challenges, but always understood that we were first and foremost a lender! We really emphasized doing "the deal," but did not stray from the parameters of being an asset-based lender. Based on that simple philosophy, we were able to grow the company to one of the leading asset-based lenders in the country.

MacDonald: I joined Foothill immediately after the Norwest acquisition and participated in tremendous asset and profitability growth during my tenor. Foothill was expanding into major markets across the country and differentiating itself as a creative, nimble and effective lending partner.

What made Foothill so successful?

Schwab: I believe the success was all about our employees and how we treated them, how we managed our organization and that we realized the real assets go up and down the elevator every day. This focus on employees was always relevant, whether it was at Foothill when we were making small, six over prime loans with only 68 employees, Foothill the public company, Foothill as part of Norwest and Foothill as part of Wells Fargo with 1,700 employees when I left. This was proven by our very low turnover. When you have employees that like to work for your company, you have consistency, which pays dividends.

Jordan: The entrepreneurial spirit of founders John Nickoll and Don Gevirtz set the tone for the growth of the business. Early on, the firm earned a reputation of "getting the deal done" and earned the trust of numerous referral sources and clients. Foothill was truly "a deal shop" and lived and died in large part by the success of our marketing teams.

MacDonald: I completely agree with Henry. The entrepreneurial spirit of the Foothill founders was fostered and developed by the executive management team that was assembled in the late 80s into the 90s. Pete Schwab, Henry Jordan and Scott Diehl empowered the next level of leaders to continue to build on the vision of its founders. Mike Fishman and Jim Marasco in California supported leadership in the regions. From day one at Foothill I was enveloped in a culture of creativity, team work and a vision of growth.

How would you define the culture at Foothill in the 1990s?

MacDonald: Foothill felt like family. Management meetings were all about open communication and developing and sharing the vision. The team that was built into the mid-90s came together at a great time in the market and the company's evolution. The Norwest acquisition significantly affected the capital base and the team that was assembled jumped on the opportunity.

Schwab: Our culture in the 90s and into the 2000s was – DO THE DEAL. Actually, it was this during my whole time at Foothill. We always looked at all sides of the transaction trying to find a way to do it and often we were successful. However, the credit culture was certainly not ignored. We tried not to stretch to do transactions and most of the time we were successful, however, we were not perfect and did have losses, which hurt us when we tried to reach too far.

Jordan: Foothill was filled with smart team members everywhere and if there was a way to get a deal done our team would find it. Credit committees were held three times a week and by request as needed on weekends or holidays. In the early 1990s, Foothill Group survived a serious liquidity crisis and its stock fell to around $ 2.50 per share. (This was an experience many of us would like to forget!)

As the 1990s progressed, the Group executed a tax-free spin off of its Thrift and Loan subsidiary, completed a stock offering for over $28 million (at $8.38 per share) and subsequently eliminated most debt at our Parent Company. Norwest Bank then bought Foothill Group in 1995 for approximately $550 million (at $25 per share). Norwest slowly began to impact the historical culture of Foothill, but the biggest changes were coming in future years when we became a part of Wells Fargo in 1998.

What whitespace in lending did Foothill go after in the 1990s and do you see any parallels in today's market?

Jordan: The earliest divisional breakouts were the factoring group (acquired through our Century group acquisition) the retail group and the syndications group. These were followed by the start-up of our technology group and our lender finance, specialty finance and healthcare groups. We also acquired a large supply chain business which was one of our lender finance clients. These areas of specialty really accelerated our growth and focus on nontraditional areas of lending.

Today these are all mainstream areas of focus for many lenders, but "back in the day" they were cutting-edge areas of focus for a bank-owned finance firm.

Schwab: When you had the attitude "do the deal" then you find niches that are important to capitalize on when other lenders aren't in those areas. Henry spells those out very well and they were certainly a key to our success. Since I have not been in the fray for the last 12 years, I cannot elaborate on specific parallels in today's market. However, I am convinced that if you are a creative lender like we were you can find additional niches that can be exploited just as we did in the 90s.

MacDonald: We studied other finance companies and tried to penetrate areas of inefficiency in general. But software and retail were the two major engines of growth and differentiation.

Is the market any more or less competitive today than it was in the 1990s?

Jordan: There are far more nontraditional lenders today and the competition is more fierce than it was in the 1990s.

MacDonald: First, with the capital formation around direct lending at major funds, followed by the growth of BDCs, an additional level of competition was created. Before the 1990s, cycles in commercial lending were more drawn out. But just looking at the speed of recovery after the financial crisis, tells the story. Smart capital plows into market gaps quickly. In the 90s, funds were entering the market behind the banks and finance companies. Now they compete from dollar one. Market has become more efficient and product differentiation is much more challenging.

Schwab: I am on the board of a BDC and sit on a credit committee for a very large private lender. Being involved with those two entities gives me a lot of opportunity to look many of the transactions they are considering, and I am convinced that the competition today is just as fierce as it was when I was active in the business.

What's missing today that existed when Foothill was at its peak?

Schwab: I think what is missing today is that you would never be able to start up a Foothill type organization. The founders were able to go public very quickly and then were able to scratch and claw for lenders to support our growth. I believe this would be difficult today given the banking and lending environment that a start-up would need.

Jordan: The regulatory focus brought on banks (after the great financial recession of 2008 and 2009) substantially curtailed the creativity of all bank-owned lenders. Unfortunately, the creativity of the 1990s and 2000s was lost due to regulatory requirements and restrictions.

MacDonald: Foothill was one of a kind, particularly in the 90s and early 2000s. But, I agree with Henry that the financial crisis robbed banks and bank-owned entities of creativity and flexibility.

Can you talk about innovation at the time and how it's different from today?

MacDonald: Innovation at the time was largely driven by product expansion and understanding value gaps in different lending disciplines. For example, retail and software were very challenging to finance back in the 90s. I look at a model like SG, where innovation can still occur. The lower middle market has far more inefficiency than the middle market and up.

Schwab: Being a dinosaur, I am out of touch of where innovation has gone today but I'm convinced if you have a good staff of smart people no matter what era you're in you can find creative and innovative things to differentiate yourself from other lenders.

How did the more entrepreneurial firms compete?

Schwab: Since we were small and independent, believe it or not, I think one of the keys to our success was running tombstones in the Wall Street Journal for almost every deal we did, no matter what the size. We needed to get the story out there and although this was very expensive it gave us credibility in the marketplace as an organization that was creative doing deals to many different kinds of businesses.

Jordan: Foothill and Congress (before our Wachovia acquisition in 2010) used to throw massive receptions at the annual CFA (now SFNet) convention. Two of the most lavish were in San Diego (the ballroom became the San Diego zoo!) and Philadelphia (the ballroom was a giant rock and roll concert!). We also partnered and split many very large transactions to reduce our concentration risk.

What's your most memorable deal story?

Jordan: There are so many! For me all the acquisitions we did were most memorable, especially the successful year-long focus on our $20 billion asset purchase from GE. It occupied most of 2016 for many of us and was a memorable way to spend my last year before retirement.

MacDonald: A couple of deals stand out for different reason. Bentley Systems was a $50MM software deal sourced by Tom Steighlener in New York, building on Foothill's dominant position in middle- market software at the time. Uhaul was a $550MM deal run by Josh Easterly, that elevated Foothill's into the upper middle market and highlighted its capital markets capability.

Schwab: There were certainly many, but I think financing the L.A. Lakers was truly memorable and a lot of fun. Actually, as an asset-based lender you learned about almost every kind of business in the country. At any one credit committee you can go over a transaction for someone who manufactures dresses, then someone who repairs airplane engines, then someone who manufactures furniture and then consider lending to a software developer. I can go on and on, but you get the picture that the great thing about asset-based lending is that you get to experience lending to almost every kind of business in the country and that's truly fun.

What's the best piece of advice you would give to young professionals starting out in ABL?

Schwab: This is very simple the answer—the watch word is patience! Potential young professionals starting in this industry need to take time to learn the business and be patient to learn everything from top to bottom. I've seen too many people jump for a few dollars more and be very sorry down the road. In our infancy days at Foothill many people left because they weren't patient enough to take the time to hone their skills. Those who did put the time in to learn the business ended up being some of the most successful people in both the company and our industry.

Jordan: Be a team player and do whatever it takes to help your team succeed. Take care of and inspire your team and your career will take care of itself!!

MacDonald: Work with a company that focuses on culture and market differentiation. Challenge yourself to learn and grow. Become a student of the market. Be a thought leader.

Charlie Perer is the co-founder and head of originations of SG Credit Partners, Inc. (SGCP). In 2018, Perer and Marc Cole led the spin out of Super G Capital's cash flow, technology, and special situations division to form SGCP.

Perer joined Super G Capital, LLC (Super G) in 2014 to start the cash flow lending division. While there, he established Super G as a market leader in lower middle-market second lien, built a deal team from ground up with national reach and generated approximately $150 million in originations.

Prior to Super G, he co-founded Intermix Capital Partners, LLC, an investment and advisory firm focused on providing capital to small-to-medium sized businesses. He graduated cum laude from Tulane University. He can be reached at charlie@sgcreditpartners.com.