Proskauer

Private Market Talks:

Building a Credit Platform with MidCap Financial's Clare Bailhé

July 5, 2023

This week on Private Market Talks, MidCap Financial's Clare Bailhé joins us to talk about what it's like to build, scale and manage a market-leading credit investment platform. In 2008 – a pivotal year for the financial industry – Clare and her team formed MidCap and embarked on a $500 million fundraise. Since then, they have grown exponentially, and now have $45 billion of assets under management.

Clare shares with us the challenges and opportunities she faced launching a finance platform in 2008, why she and her partners decided to join forces with Apollo and why having the same team at MidCap since its launch has been pivotal to success. She also shares the three most valuable lessons she's learned managing business growth.

Peter Antoszyk: Welcome to Private Market Talks, a Proskauer podcast. I'm your host, Peter Antoszyk. Today, my guest is Clare Bailhé. Clare is co-founder of MidCap Financial and president of the financial sponsors and leveraged finance group. This year celebrates MidCap's 15th anniversary, and today, MidCap's capital under management exceeds $45 billion. And with Apollo Global Management as its investment manager, MidCap is Apollo's leading middle-market, direct lending private credit platform. But as with any business, you don't start at the top. You start at the bottom and climb relentlessly to the top.

Sometimes, that road can be very rocky. Clare, together with her partners, have climbed that hill and traversed that rocky road. Clare joins us from her offices in New York to share some thoughts on what it was like to start and scale MidCap into what is today a market-leading private credit investment platform. You'll find a full transcript of this episode at PrivateMarketTalks.com as well as links to other useful information. Please, don't forget to subscribe and click like after listening. And now, my conversation with Clare Bailhé.

Clare, welcome to Private Market Talks. I appreciate you being here.

Clare Bailhé: Thank you for having me. I'm happy to be here today.

Peter Antoszyk: I think we're at an interesting inflection point in the history of private credit today. It's, in some sense, a greenfield for private credit where the capital markets are shut down, the banks have pulled back lending. It's quite an exciting time for private credit, but it wasn't always that way, was it?

Clare Bailhé: We've certainly seen cycles. I've been in private credit for many years, so I'm a big proponent and see its value, having started at it early on and then with MidCap for the last 15 years, particularly.

Peter Antoszyk: Yes. And you started MidCap with your partner, Steve Curwin in 2008, I believe?

Read More >

Clare Bailhé: Yes. So, it's a very interesting story. It's Steve Curwin and Howard Widra and a couple other founders. And yes, we technically closed September 16, 2008 which, if everyone remembers that year and that week, it's pretty incredible that it worked out. We met at Merrill Lynch Capital, so that's really how it started. I met Howard on a deal in the late '90s. So, you know, in a way that's the genesis of MidCap. He and I came across, I was at Paribas and he was Healthcare Financial Partners, and there was a company that was in common and that's where we met. And a couple years later at the end of 2002, when he was going to go to Merrill and form Merrill Lynch Capital's healthcare group, he remembered me and called and said, "Would you come and join Merrill Lynch Capital and start our financial sponsors and leverage finance group?"

It was an exciting time then and new for what Merrill was doing at the time and I said yes. And that year, Steve came on board and some of the other founders, and we spent five years together building that business, which was middle market leverage finance. But in addition, we had asset-based and some of the other products that private credit offers and grew the business and were looking at continued growth there. But, as we know, in 2007 and 2008, the world began to change.

For us, it really began to change at the end of 2007 when Merrill realized that they may have a real estate problem. They thought that if they sold Merrill Lynch Capital, they would have a gain and offset the small loss on real estate and maybe that would be a wash. Well, our group sold instantly. GE, which is now Antares, picked it up immediately.

Peter Antoszyk: And GE at the time was the major player in the private credit in the early years of private credit, weren't they?

Clare Bailhé: Yes, absolutely.

Peter Antoszyk: They were considered, in fact, the 800-pound gorilla, if I recall.

Clare Bailhé: Yes, correct. You know, and many people, both at places that I've worked and around, have spent time there too, right, in their credit training and everything else. So, it was definitely a learning spot for many people as the business.

Peter Antoszyk: Well, they were considered the place to go to get the training. Their training program was considered one of the gold standards.

Clare Bailhé: Well, we certainly feel that that has helped our team and all the other places that we had our credit training and grew from there. But I did go to GE. I worked there for a month, the month of 2008 of February, but decided I wanted to try something on my own. Howard and Steve and I and the other founders were talking about that.

So, in March, as a free agent, we got together, and that's when we decided. It was the weekend of the Bear Stearns call, if you remember that. So, the beginning of questions around liquidity and what was going on there. But we moved forward. We hired Moelis Investment Bank to raise $500 million, and we just came up with an amount.

We said, "Let's try for six months," which would have been September 15th, 2008, if it was March 15th. We said, you know, "We may raise half as much or it may take twice as long." We knew there were other entities out around the same time trying to form and do a similar business, but we just forged ahead. Moelis was a fantastic team. I had backing from Genstar Capital. I've known JP Conte and Rob Weltman and Ryan Clark since the beginning of Genstar. When I was a Paribas, we were working with them.

They had said, you know, “We’d like to put equity in you and get you started, but we want other equity investors as well.” So, we moved forward and during that process, just before we launched the formal fundraising, Ken decided to have a division at Moelis that did private equity. And so, he decided to put in $75 - 100 million through that entity. So, we were not really out the door yet and we already had, you know, close to $200 million, which was a nice start.

Peter Antoszyk: That’s great.

Clare Bailhé: And it was a terrific team that that worked with us, putting our history together, our track records, so that we, you know, we knew what we were marketing. There was a lot of interest in the market. We went through the typical rounds, you know, the teasers and the first rounds and the management meetings. Settled on Tom Lee and Lee Equity Partners, who had had experience in the finance space, historically, and was a good fit. So, we put that together. Management put in a few million and we got to our $505 million and we had Wells Fargo, a terrific partner from day one, and has been a terrific partner every day since, with some finance capabilities in addition. So, we had close to $600 million capital to start.

Peter Antoszyk: Which, at the time, was a pretty good size fund. Can you give a sense of, at the time 2008, the private credit landscape, what it looked like? Because it was very different than what it is today.

Clare Bailhé: It was very different and whether being called private credit or not, certainly when we were even at Merrill, we had a syndication group, and we did lead and syndicate. But part of building that business, like we’re doing here and some of the others, was to hold and to put a club, small club. Over the years, it’s gone to many times where the only lender, or one or two, whereas I’d say you know 15 years ago it was maybe four or five, but it wasn’t broadly syndicated. It wasn’t rated. And so, it evolved over time as it grew to that. And with what was going on at 2008, it was, should I say, exciting?

Peter Antoszyk: Yeah. So, let's paint the picture for our listeners. Again, I know many of them are familiar with it, but I think, to put in the context of what you were doing, I think this is really interesting, frankly. You know, what you were going through in the context of the middle of the Great Financial Crisis that was going on at that or bubbling at that time, I think is fascinating.

Clare Bailhé: It is very fascinating. So, you know, the first I feel was that the beginning was when Bear had that call in the beginning of March of 2008, saying that there may be some liquidity issues. And that began what headed over the next six months, continuing issues across the board. People began to realize that the real estate bubble was bursting a year earlier. In early 2007, I was at a conference. I was speaking and I was backstage with a very senior man from an investment bank, and I said, you know, "What's keeping you up at night?" And he said, "FICO scores."

Clare Bailhé: I said, "FICO Scores?"

Peter Antoszyk: Interesting.

Clare Bailhé: Why is it FICO Score? You're head of investment banking. Why FICO scores? And he said, "Because we don't know if it's 680 or 610 or 580." And, you know, thinking a year later, obviously that was what was going on at the time. And so, when spring of 2008 came and the magnitude of the liquidity issues began to be recognized, the pressures built up.

When you and I have talked before, one of the questions you've asked, "What is something you've learned from?" One little tidbit I'd say is, we launched in March, and we had our right-on-schedule process for first round, second round, and we were all ready to close in mid-August, so roughly August 15th.

Peter Antoszyk: Right.

Clare Bailhé: And one of the investors was on vacation. And we said, “Okay, we’ll push it out to September 15th.” So, if I can give anybody a lesson, get a drone. Get a horse. Get a car. Go to wherever vacation is and keep things on schedule because that was a very long month between August 15th and September 15th, because in that specific month is when Paulson was out and around, trying to raise capital for a number of the firms. Lehman’s issues were coming out, Merrill’s issues – in the end, it was on that actual Tuesday that the government was taking over AIG and Fannie Mae and Fannie Mac and Bank of America was buying Merrill, and Lehman filed bankruptcy, we closed and funded and started with 26 people a team, day one. We said, “We’re going to build this business. We have a clean slate and a strong track record and a lot of terrific relationships, and we think the market’s going to get better.”

Peter Antoszyk: That moment in time I just find to be extraordinary, for those of us that, you know, lived it, it seemed as if the world was ending. Certainly, the financial world, and no one knew what was going to happen. We’re living through unprecedented times, and it’s astounding to me that you were able to successfully close your funding for that in the middle of that hurricane.

Clare Bailhé: It is. It is, and it was a hurricane across the board in the finance community. But level heads moved forward and said, you know, “We’re going to reach our goal, and let’s just quietly start marching.”

Peter Antoszyk: But on the other hand, you couldn’t have closed at a more perfect time, either.

Clare Bailhé: Hundred percent.

Peter Antoszyk: And so, give a sense of why that was a perfect time to close.

Clare Bailhé: So, you’re 100% right, because that allowed us – that market was frozen – it allowed us our first six months to, you know, get our bearings. You know, it’s a startup, right? So, we were starting a new company. Finding the name was a challenge in and of itself. Every tree and Greek god and street were taken.

You now have to find a name, and you have to make sure you can get the domain, and you have to make sure it makes sense for who you are and what you want to do. And even then, when we started, we were primarily a healthcare-focused finance company, private credit. We knew or we envisioned down the road being more than that. We didn't want a healthcare name or that in our name. We wanted what we did, which was "mid-cap financing." We finance middle market companies, and we help them grow. So, that name was available, and we were lucky to take that, hired people and getting office space and a logo and computer systems and funding mechanisms.

So, with the rest of the world, we weren't missing out in business because there wasn't a lot happening in the M&A world or in the broader private credit market. So, it did allow us to focus on what we needed to do to get the business growing and methodically expand.

You know, one of the other things that I think makes us unique is from day one, we didn't start with just one product. So, I am president of the financial sponsors and leverage finance group at MidCap, which is the largest part of MidCap, but we have, and have had since day one, other significant product lines that are always busy, depending on the various markets. So, from day one, we had real estate financing and asset-based financing. We had my group and sponsor and leverage loans. We eventually continued to start and build and grow a venture debt business, lender finance business. We expanded last couple years with franchisee lending, so we've continued to grow the business beyond healthcare as an industry. We are all industries now and quite diverse, but even then, you know, asset-based lending in 2009 was needed. And so, you know, we could do that right away and didn't have to wait for the M&A market. So, we were, as a firm, continually active and growing.

Peter Antoszyk: First of all, I think it's great the way you've developed your name which perfectly encapsulates your mission. But in terms of building the business in the early years, it wasn't just determining the markets you were going to be in, but the mechanics of underwriting and diligence and the procedures of closing and monitoring and putting that all into place. Can you describe how you put all that infrastructure into place?

Clare Bailhé: Yes, I will. So, we did start day one, as I mentioned, with about 26 people. Most, almost all, are actually still with us today, and we had that benefit of that team. They were our team from Merrill Lynch Capital, and we had worked with them. So, we had the benefit of those five years prior of working with many of those people. Many, you know, went on to work at GE and stayed for a while, and some went to other places. But having a very good core team, and by that, I mean not only originators, but underwriters, portfolio management, people who specialized in making sure that the constant monitoring of the portfolio, legal team, finance, operations... I think our weakest spot in the beginning was tech. And, you know, we hit bumps on getting the right processes and services that we needed, but we resolved that. We have a wonderful woman who runs technology and security and everything else, and she's fantastic and been here many years now, but it does take all that.

And so, putting that team together and luckily having a larger core, because if you think about it with the startup, we probably didn't need, technically, 26 people day one with the market slow. But what that allowed us was that everyone was busy together. Everyone wore many hats, and we had all the capabilities that we needed to work together to make sure every aspect of a business was being handled.

Peter Antoszyk: I'm sure that was, just the excitement of having a startup, is motivating, motivating for your entire team at the time.

Clare Bailhé: Yes, it was. It was very exciting, and the market did pick back up. If we look at 2010 and '11 and by '12 and '13, you know, just think about how busy we all were again. When we closed, I think the investors didn't think it would typically be a five-year return on capital. We thought maybe it would be a seven going in; because we thought maybe a two-year return and then a five year-growth, but it came back faster. And, you know, by year five, in 2013, we were, you know, several billion dollars and growing, in people and in all our business lines. And the market was active, and we got calls from every investment bank out there saying, "It's five years. Time to sell."

Peter Antoszyk: So, at some point you did sell, right?

Clare Bailhé: Yes. So, we said, well, if it's the, you know, right price obviously, you know, we'll do that with, obviously, the investors. And so, we went through a process again in 2013 and had lots of terrific interest and met some wonderful people growing credit platforms, but we settled on Apollo and their vehicle, Athene, which they were acquiring at the same time.

Peter Antoszyk: And for our listeners, tell them what Athene is.

Clare Bailhé: Athene is an insurance vehicle that was started just before we were acquired by Apollo and based in Los Angeles and now is, as of last year, part of Apollo. So, Apollo, Athene, they have merged as the entity. So, we were acquired, and our investors, you know, received their return with the investment from Athene in 2013. And then, quickly, at the time, I believe Jim Zelter, who, current co-president at Apollo, was head of credit at Apollo at the time. If I remember correctly, going back to the initial pitch books, the credit business at Apollo was about $25 billion and now, hundreds and billions that he has grown that business, done a fantastic job. But that just shows that it was new at the time. And one of the things that, as we evolved through 2014, we realized was that it was a strong platform that we had and should do more than healthcare. So, in 2015, we raised additional capital, both US and non-US investors. Apollo is our investment manager and our largest shareholder, but not our sole shareholder. And so, with that additional capital, we grew significantly between 2016 and 2018, expanding to all industries, hiring wonderful people that had experience in the other sectors, business services.

Peter Antoszyk: And your AUM went from what to what ballpark?

Clare Bailhé: So, ballpark $5-15 million maybe at that time. And now, we're at 47 (I checked today).We're at 47, and we expect to be or aim to be at $80 million in the next couple of years; that is the trajectory. So, from one, to 5 to 15, to 30, 45, we just continue to grow.

Peter Antoszyk: Right.

Clare Bailhé: And now, we have just under 300 people. We have our three main offices that we've had from day one. We're headquartered just outside of DC in Bethesda, Maryland, Chicago and Los Angeles. So, our primary offices are Bethesda, the largest, and New York.

Clare Bailhé: And I'm in the New York office today. So, we've been able to hire wonderful people in all of those locations to bring their expertise again in, kind of, all facets. We've always been big believers of origination, underwriting and portfolio management. So, we have, you know, people who specialize in each of those and they all work together. But that way, if someone that, you know, is focused on origination, they haven't lost track of the portfolio ever. And so, we always have a wonderful key team managing everything that's existing. And today, that's a significant part of the pipeline as well, right? So, it's when you have a book of this size, that's 500 borrowers, 250 in my group alone, who are growing. So, they are going to have incrementals and acquisitions and add-ons, on a daily basis. So, the pipeline of growth on a process that we do is at least half as much from the existing portfolio and half from new relationships, new companies that are forming, merging. So, it's active in both ways.

Peter Antoszyk: So, when Athene made its investment and as you've grown, what would you say are the biggest changes you've had to make internally to respond to that growth?

Clare Bailhé: Well, besides adding more people, it really was making sure we had the right people who had expertise and interest and relationships in the other industries.

We have the benefit of being part of the broader Apollo platform. And so, there, you know, have always been, and continues to be, terrific analysts in certain sectors that we are always able to tap for relationships, but also, you know, understanding each individual industry. But I think that was critical to the growth so that you're not growing haphazardly, you're growing methodically and carefully and meaningfully in the areas you're choosing to be in. And, as part of that, we've grown some geographically. We did, in 2016, when GE – by this point the behemoth, as you mentioned earlier – decided to get out of the business, purchase one of their sidecars. It was just under $4 billion of 100 plus loans. So, you know, that was a significant jump to take all those relationships on and bring them into our business. And many of them, we've continued with and grown with and continue to see those businesses grow. So, that was another aspect of expanding the growth.

Peter Antoszyk: And managing that growth, which has been spectacular, I think anyone would be envious of that kind of growth in only 15 years. What would you say would be the three most valuable lessons you've learned in managing that kind of growth?

Clare Bailhé: Interesting question. Let's see. I'd say be flexible. Keep your mind open and listen well, because you want to draw all the best out. To succeed and grow at that pace, you want to make sure you're bringing the best out of everyone on your team and then, doing the best for your borrowers. And to do that, I think you have to listen to what your customers are saying, what your private equity clients' needs are, what your team is best at and make clear lanes of management. We're very organized as an entity, and people know what to do and how to do it. They feel empowered. I hope they feel listened to, and I think that's important. Nothing gets lost in translation, especially when you're going through a period of that growth. But if you have people that seek diversity, we always have in many forms, not just recently. But that diversity of thought and background and training helps. And keep your organization organized and make it clear so that your team can be its best for both themselves and your borrowers.

Peter Antoszyk: I would imagine you must be doing that in spades because, as you said, your original team, most, if not all, of them are still there and still inspired. So, you must be doing something right.

Clare Bailhé: Well, you know, I've got the help from Proskauer too.

Peter Antoszyk: Yeah. There you go. Thank you very much.

Clare Bailhé: So, you know, you're helping us stay in the right lanes.

Peter Antoszyk: But you know what? That does raise a point, which is – it's also as you said – finding the right people. And people are, broadly speaking, not just people internally but externally, people that you trust and rely upon. So, I think that's true for any business. You know, partnerships are important.

Clare Bailhé: Yes.

Peter Antoszyk: You've been around private credit since it's early iterations as I have as well. And I'm curious to hear, given that you have lived through the growth of the industry, you've experienced, you have been a part of it and have been a part of driving the growth. How would you say private credit has changed as an asset class over 15 or 20 years?

Clare Bailhé: Certainly, better understood today. I think you know, historically, even, and you know when I started, so you know we were doing deals for Disney and Fleur and Cubic and it was, you know, banks and many groups and rated. And so, as it evolved, really in the 90s, it actually started in the late 90s, where firms, be it true bank or a non-bank lender, was able to convey to both a sponsor or non, because there's non-sponsored and direct-to-borrower, that you can put a small club of lenders together without needing a rating. We can work with you. We are patient capital and long-term capital. The ease of that, the connection when you need something, doesn't take, you know, a large bank group to go get a vote. So, I think as the industry began to prove itself, that the benefits that we felt we offered were actually being seen. And then certainly in the last couple of years, where it's just taken off completely. I think both, because now all around the market is understanding, like I say these benefits.

But the market is growing, and certainly, the broadly syndicated market will come back. It's in a bit of a lull at the moment. But you know, we've all seen that it will come back. But I think what won't change now is that private credit will move. It will continue to be a significant part of financing. When anyone is looking to, you know, acquire a company or merge or carve something out of a public company, there are many benefits in private credit to work with a lender or very small group of people who you have a long relationship with and you know how it's going to work. And as it grows, it may evolve, go public, go to the broadly syndicated market someday, but there are clear paths where this is a better alternative.

Peter Antoszyk: In the process of growing MidCap over those years, how did your priorities change at each of those stages, you know, early on, mid-growth and where you are today, if at all?

Clare Bailhé: Good question. I'm not sure. I think in the beginning, the priorities didn't change. It was just making sure that we were putting all those specific parts in place and being open to change them if we needed to make them better. Then, in the middle, it was getting the word out, because now we had this system in place, so it was more to use that. And now, now that I think, as you say, private credit is growing, well-viewed, it's now in to decide how else we'd want to grow.

We're contemplating now going into APAC, and I have somebody there spending some time there. Apollo already has some people in Singapore and Australia and there are, it's a very interesting business. So, we're looking at that at the moment. Climate transition is another one that we're looking to form a group on and dig in and make sure that there's something there that we can add value and want to be ready for that. So, I think as both a company evolves and as you know, the industry evolves, that you're open to make sure you can move with that should you choose.

Peter Antoszyk: And if you were sitting down, having a lunch with somebody who came to you and said, "I am thinking of starting up a private credit platform now." Or, "I have one, early stages, but now I'm looking to grow it." What advice would you give them?

Clare Bailhé: I'd say your team is the most important, because it really does take a team. And that team has to be good in their individual expertise, and make sure that you have that, again, legal, business. The front end, the back end, whatever people want to call it, because you don't succeed unless all your parts succeed. And so, know your background. Know your track record. Know what you are good at. Know where you might need something filled in, who to bring on. So, be open with yourself on what you're good at and what you bring to the table, and make sure if there's an opening that you find someone that can do that with you.

Peter Antoszyk: So, this has been, for me, a really interesting conversation. I have always been an admirer of how you've grown the business there in a very, highly competitive environment, and I know it takes up most, if not all, of your mental energies. But let me ask you this question. What do you do in your free time to relieve stress and take your mind off of this?

Clare Bailhé: It's a good question. I do have a wonderful family. My husband and I have been together over 30 years and have two children. Even though they're adults, there are still all sorts of things that are exciting in life to learn from them and do with them. And, I am able in this job to travel, really the world. And I do try to take time a little bit before and after all of those meetings to make sure that I am. If I'm in Portugal, then I'll take a couple of extra days, instead of just going to a board meeting and look around and enjoy that. Or do that in Ireland or in Japan or in Australia.

Peter Antoszyk: What favorite place have you been to? –

Clare Bailhé: I really don’t know that I have a favorite place. I loved Japan. Loved being there the whole week. We went down to Kyoto and to expand all that. When I was in Portugal, I didn’t get up to the northern part because I didn’t have enough time to do that and everyone has mentioned that. So, my next visit. But certainly what I did see, I don’t know. I mean, I love going to London, you know, all the time when I’m there. So, I don’t know if I have a favorite. I do love it all, and I like to take advantage of that.

Peter Antoszyk: Oh, that’s fantastic. Well, Clare, I very much appreciate your time and you taking time to walk us through the story, of not only the MidCap’s success, but your personal success. I appreciate that. It’s inspiring. So, thank you.

Clare Bailhé: Wonderful to work with you, and I’m glad to have the conversation. And thank you so much for including me. Terrific!

Close