Element's Hudson targets institutional investors in 'entrepreneurial' split

JACQUELINE NELSON
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Steve Hudson is gearing up to attract major institutional investors after shareholders gave Element Financial Corp. the thumbs up on its plans to split.

The fleet management and equipment finance company said Tuesday that a resounding 99.5 per cent of shareholders approved its resolution to separate into two public listings: Element Fleet Management Corp. for fleet management services, and ECN Capital Corp., for specialty equipment finance. It's a high approval level that surprised executives, even after months of careful and deliberate talks with major stakeholders.

When the separation is completed in early October, Mr. Hudson will take over as CEO of ECN, which is the smaller business at $6.5-billion in assets. But it's the side with the most growth potential, he said, as pension funds, insurance companies and other asset managers increasingly look to alternative assets to drive higher investment returns.

"I think it's reasonable to assume that within 24 months that we'll have doubled the assets either owned or managed," said Mr. Hudson, adding that this growth would be driven by opportunities in the U.S. mid-market finance and equipment-leasing space. ECN also has investment groups focused on rail and commercial aviation financing.

It's a sort of second encore for Mr. Hudson, founder of non-bank lender Newcourt Credit Group, which became a large international player in equipment and asset finance before running into trouble in the late 1990s and being sold. After a year's long hiatus where he dabbled in other consumer businesses, Mr. Hudson made a comeback as chief executive officer of North America-focused Element, launching on the public market in 2011. That chapter might have been a lot longer for Mr. Hudson if not for the $8.6-billion acquisition of General Electric's fleet business last year as the U.S. conglomerate sought to eliminate its status as a too-big-to-fail lender through asset sales. It was a deal that Element couldn't have planned for, and the company began a subsequent strategic review.

Now, Mr. Hudson said he's taking on the higher-risk, higher-potential-reward side of the split. The fleet business offers modest predictable growth "very much like a utility," Mr. Hudson said. "Whereas ECN is a high-growth, entrepreneurial story – which is my business – and it's hard to have a utility-like business residing next to a high-growth business."

ECN is seeking stronger ties to the trend of institutional investors hunting for yield in alternative asset classes as low interest rates push down returns that can be earned off of many fixed-income investments.

When the company creates 50-year debt on rail cars, for example, the buyers of that debt are institutions such as life insurers and pension funds. Some of those same institutions also have an interest in U.S. mid-market lending, Mr. Hudson said, which recalled his experience at Newcourt. ECN will target loans in the $100-million to $125-million range, trying to limit the competition from banks wading back into commercial finance and other non-bank lenders.

Just as pension plans have increasingly sought co-investment deals alongside fund managers in asset classes such as infrastructure and private equity, Mr. Hudson says there will be opportunities to invest alongside ECN on transactions larger than what the business can retain on its own. Institutional clients will have the first crack at the deal, but if they take a pass, the deal would be syndicated in the marketplace.

But Mr. Hudson is approaching ECN with a clear sense of its limits and says he will "be very careful" not to expand into business lines where he doesn't have expertise. Pension funds and insurers want an assurance of the longevity and stability of the business. To that end, ECN will steer clear of mezzanine loans, which are outside its risk profile.

"We don't have to stretch for yield," he said, adding that clients seem happy with a 6.25-per-cent to 7-per-cent interest rate. "We don't have to show them 11 or 12 per cent and get ourselves into a market we don't have expertise in."