

**Dan Green**

Managing Director, Direct Lending

NXT Capital (a subsidiary of ORIX Corporation USA)

INTRODUCTION

Direct Lending is an asset class that is in the spotlight, and Dan Green, Managing Director, Direct Lending, at NXT Capital is right in the thick of it with his team of underwriters and portfolio risk managers.

Dan walks us through the evaluation and underwriting process for deals, how his accounting degree led him to the direct lending space, and the importance of leveraging senior resources at the start of your career.

In your role, you oversee underwriters and portfolio risk managers within the Direct Lending team. How does your team evaluate and underwrite deals?

At NXT Capital, we apply a consistent and selective approach to underwriting new investment opportunities. We look to invest in high free cash flow businesses that maintain defensible market positions in growing or stable end markets, exhibit consistent financial performance, are diversified, and backed by leading private equity firms and strong management teams.

Each morning, we discuss and screen new deal opportunities across the credit and originations teams and decide whether to pursue transactions that fit our targeted credit profile. With summary information we provide initial structuring guidance along with our initial risk focus areas. We leverage our historical transaction experience and current portfolio to run comparables and understand sectors and trends, so we frequently have a good deal of knowledge about the underlying industry for a new opportunity.

As auction processes progress, we review historical financial and operational data to ensure consistency and resiliency of a potential borrower. We conduct

customer and product assessments, look at labor headcount and wage trends, along with other key performance indicator reviews. Our teams then spend time working through key questions coming out of our detailed analysis and trend reviews with both sponsors and management teams. We also complete our own independent borrower and industry assessments and leverage third party work commissioned by sponsors. Once we complete our due diligence, we structure and price the opportunity to generate an appropriate risk-adjusted return for our investors and discuss the opportunity with our investment committee.

What deals does the firm pursue and why?

We focus on providing first lien senior secured cash flow loans that support private equity backed lower middle market ("LMM") buyout transactions. We define the LMM as, on average, companies that generate between \$5 - \$35 million of EBITDA.

We believe these opportunities provide an attractive risk-adjusted return relative to the larger end of the middle market while offering lenders enhanced documentation protections, including

financial covenants and tighter credit documentation terms along with more frequent financial reporting. From a specific deal standpoint, we seek to avoid binary risks and cyclical end-markets, and construct an investment portfolio that is diversified by borrower, Sponsor, and industry. We focus on private equity backed transactions, and our long-term relationships with private equity sponsors lead to consistent and quality deal flow that enables us to pursue investments in attractive businesses and end markets.

Your career began with an accounting degree. How did it lead you to underwriting and direct lending?

I began my career as an external auditor at an accounting firm, working on engagements ranging in size from privately held middle market to large cap, publicly traded companies. I then moved into banking and gained exposure to capital markets, commercial real estate, treasury and commercial lending, while at the same time earning an MBA from the Kellogg School of Management. While in school, I really enjoyed my finance classes and more specifically those that focused on fixed income and analyzing company valuations. Eventually I shifted my career from accounting and audit into lending.

I joined NXT Capital in 2013 as it was a newer platform with a strong and long-tenured team in the direct lending space that offered many growth opportunities. It was a winding path to get into direct lending, but I would not change any of my experiences as I have gained a great deal of knowledge from each career move and have worked with many talented individuals that have had a positive impact on my career.



Dan, his wife, Melinda, and their two daughters.

What career advice would you offer to others?

My advice is to leverage the senior resources that you work with at the early stages of your career by asking questions, being curious, and not holding back. I always appreciate another viewpoint and enjoy having conversations with our junior team members to help with their development and ultimately to provide stretch opportunities. I also would not shy away from volunteering for special projects outside your direct area of responsibility as these opportunities provide you with a broader view of your company and allow you to further grow your network and brand internally.

What are your observations on the direct lending market after 10 years with NXT Capital?

The market has grown significantly since I entered the business and has moved from being dominated by bank-led syndications to private markets that provide tailored and consistent financing solutions that support the growth of middle market businesses. As a result, more and more transactions have shifted to private debt while investors have experienced the consistency of returns within the asset class, structural protections available in the middle market, and the ability to invest in diversified resilient portfolios. Given the continued growth of private equity dry powder and now wider market knowledge of the investment opportunity that direct lending presents, I believe the asset class will continue to benefit from increasing investor allocations.

Tell us more about your volunteer work.

My wife, Melinda, and I are involved in a few incredible not-for-profits in Chicago, focused on educational initiatives targeted toward providing a quality education to lower income youth. We are currently on the Advocacy Council for [HighSight](#), which is an excellent group that provides leadership development, tutoring, mentoring, and tuition assistance to its Scholars. We have also been board members at [Holy Trinity High School](#), which also provides an excellent private school education to inner city youth in Chicago. We firmly believe in both of these organizations and have mentored students, participated in school activities and donate annually. I believe it is incumbent on both junior and senior professionals to donate time and resources to support our local communities.