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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the NewStar Financial Q4 2015 earnings conference call.

(Operator Instructions)

As a reminder, this call is being recorded. I would now like to introduce your host for today's conference, Mr. Robert Brown, Head of Investor Relations. Sir, you may begin.

Robert Brown - *NewStar Financial Inc - Head of IR*

Thank you, and welcome to our earnings conference call where we will be discussing NewStar Financial's fourth quarter and FY15 results. We are pleased you could join us, and thank you for participating. With me today are NewStar's Chairman and Chief Executive Officer Tim Conway; and our Chief Financial Officer John Bray.

Before I turn the call over to Tim to discuss our results, I need to remind you that we posted a presentation on the investor relations section of our website, www.NewStarFin.com. Also available on our website is our financial results press release which was filed on form 8-K with the SEC this morning.

This presentation and our financial results press release contain additional materials related to this conference call that we may refer to during our remarks. Including information with respect to certain non-GAAP financial measures. This call is also being webcast simultaneously on our website, and recording of the call will be available beginning at approximately 1.00 PM Eastern time today. Our press release and website provide details on accessing the archived call.

Before we begin, I need to inform you that statements in this call which are not historical facts, may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All forward-looking statements, including without limitation, statements regarding future performance, including expectations regarding expected growth, involve risks, uncertainties, and contingencies, many of which are beyond it NewStar's control, and which may cause actual results to differ materially from anticipated results. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, strategic plans, objectives, future performance, financing plans, and overall business. As such they are subject to material risks and uncertainties. Including the general state of the economy. Our ability to compete effectively in a highly competitive industry, the market price of our stock from time to time, and other investment opportunities available to us, as well as the impact of laws and regulations that govern non-depository commercial lenders, investment managers, and businesses generally. More detailed information about these and other risk factors can be found in our press release issued this morning. As well as in the risk factors section of our annual report on form 10-KA and is updated by any risk factors contained in our quarterly reports on form 10-Q.

NewStar is under no obligation to update or revise its forward-looking statements whether a result of information, future events, or otherwise, except when required by law. NewStar plans to file its form 10-K with the SEC on or before March 15. And urges its shareholders to refer to that document for more complete information concerning the Company's financial results.

Now I'd like to turn the call over to NewStar's Chairman and Chief Executive Officer, Tim Conway.

Tim Conway - *NewStar Financial Inc - Chairman and CEO*

Thanks Rob. And thanks for joining our call today. 2015 was a pivotal year for NewStar. It marked the beginning of the Company's transformation from a bank-style diversified commercial finance company to a more specialized middle-market lender. With a focus on managing assets for institutional investors.

As you can see on page 3 of our presentation, we now manage almost $7 billion of assets across two complementary business lines, middle-market, direct lending, and asset management. Our direct-lending activities are focused on meeting the financing needs of private equity firms and their portfolio companies in the middle market. Through our asset management platform we offer a range of investment products employing credit-orienting strategies focused on both middle market loans, and liquid tradable credit.

We began to execute on this strategy with the launch of our strategic relationship with Blackstone's GSO Capital and the Franklin Square Funds at the end of 2014. Following the launch of this growth strategy, we laid out plans that demonstrated a clear path to improved profitability. I am pleased to report that despite the impact of market headwinds in the second half of the year, we achieved most of our key objectives in 2015, which included developing a strong partnership with GSO, increasing our lending and investment activity, enhancing our competitive position, building scale, reducing credit costs and improving profitability.

The relationship with GSO and Franklin Square was important to our success and provided a powerful catalyst that helped us transform the business. Our teams developed an effective working relationship with regular management routines, that cooperated on transactions that led to about $500 million of new deals across our platform, including eight unit [tranche] deals, four asset-based loans, and multiple leasing transactions.

GSO and Franklin Square also anchored our Clarendon Fund, which added $400 million to assets under management and additional capacity for our direct lending business. We used their investment capital to support a significant increase in lending activity, originating more than $3 billion of new credit investments, which was up 70% from about $1.8 billion in 2014.

Importantly, we led more transactions than ever for our clients. As you can see on page 4 of our presentation, we were number four in the [league] tables as an institutional book runner, and a large middle-market segment with $1.1 billion of volume in 2015. We were also number four US middle-market sponsored lending on an agent-only basis where we are titled agent on 40 deals, totaling $6 billion in 2015.

We increased the scale of the company significantly, growing assets under management by $3.6 billion to $6.9 billion at year ended, through acquisition activity and organic loan growth. In October, we acquired a Boston-based Feingold O'Keefe Capital, a boutique credit manager. So now in addition to the $3.8 billion of credit investments on our balance sheet, we also manage three private debt funds with direct lending strategies. Totaling more than $800 million, six broadly syndicated CLO's with liquid loan strategies totaling about $2 billion, and a series of other funds and accounts representing another $200 million. As a result, fee revenue from capital markets and asset management activities exceeded $16 million in 2015.

Credit performance was also strong during the year as provision expense decreased to about 57 basis points on average loans and investments. Excluding market-related unrealized losses that we recognize in the second half of the year, our core earnings have grown and profitability has improved each quarter, as we expected.

Pretax income was $29 million after recognizing almost $10 million of unrealized losses in the third and fourth quarters. Excluding unrealized losses pretax income would have been a $13.6 million in the fourth quarter, which translates into pretax ROE of approximately 8%.

On the funding side, we completed three middle-market CLO's totaling $1.3 billion in 2015. We have now done 12 middle-market CLO's, totaling more than $5 billion, which ranks at or near the top of that segment of the market. And as a recognized leader, we have continued access to that market today.

We also issued $380 million of senior unsecured notes graded BB minus by S&P and drew down on the final $75 million of subordinated notes under the GSO Franklin Square commitment. We now have more than $1.3 billion of long-term capital to support our investment activity.

While I'm proud of what we've accomplished during the year, as a large shareholder I am equally frustrated by our stock price performance and the impact of market headwinds on our pace of our progress. However, as we head into 2016 in a period of increased uncertainty, I'm confident that the Company is well-positioned with significant operating and financial flexibility. These are market conditions in which it is a significant advantage to be in floating rate short duration senior loans.

Our portfolio is defensively positioned, it's 97% plus first lien and highly diversified with little exposure to stress sectors like energy, metals, mining, and commodities. Those sectors combined represent about 2% of our portfolio and no single borrower represents more than 1.1% of the portfolio. The portfolio is domestic and largely insulated from factors such as the value of the US dollar, the European and Chinese economies, oil prices, or rising interest rates.

What I review the portfolio name by name I take great comfort in our diversification. Under [waiting] of volatiles cyclical sectors especially in our place in the capital structure with significant subordinated debt, and equity below us in most transactions. Our typical loan represents about 50% to 55% of the total capital or enterprise value in the transactions we lend to.

Unrealized losses that we've experienced stem largely from markets that reflect spread widening, not fundamental credit issues. Even if the economy is headed into a higher default environment, I am not concerned about the credit worthiness of our portfolio. We now have the scale, liquidity, and earnings power to be more flexible and we are better positioned than ever to manage through different market conditions and to capitalize on opportunities.

After John takes us through the financial results in detail, I will comment on our outlook for 2016 and we'll take some questions. John?

John Bray - *NewStar Financial Inc - CFO*

Thank you, Tim. My review of our financial results begins on page 9 of the presentation posted to our website.

Net income for the quarter was $4.2 million, or $0.09 per basic and diluted share, excluding unrealized losses during the quarter, $4 million on total returns swap and $2.6 million on loans held for sale recorded at the lower of cost or market net income would have been $8.1 million or $0.17 per diluted share. I will explain this more fully later in my remarks.

Net income for FY15 was $16.9 million or $0.35 per diluted share. Book value per share decreased by $0.23 to $14.17 in the quarter, reflecting the impact of options exercised, unrealized losses on securities recorded, and comprehensive income which was partially offset by earnings retention. Book value increased $0.42 during the year of 2015, reflecting the issuance of warrants, earnings retention, and share repurchases which were partially offset by options exercised, unrealized losses on securities recorded, and comprehensive income. Outstanding shares at the end of the fourth quarter were $46.5 million. Average basic and diluted shares were $45.6 million and $47 million respectively.

If we turn to page 10, which provides highlights of our financial performance for the fourth quarter, and FY15, including a summary of our balance sheet, income statement, key ratios for each of the three most recent quarters and the most recent fiscal year for comparison. Investment activity for the year exceeded $3 billion, up 71% from 2014. New investment activity totaled $705 million in the quarter, slightly down from $723 million in the third quarter.

New investments totaling approximately $191 million were allocated to manage funds and $514 million was retained and held for investment on the balance sheet. Investments allocated to managed funds in this quarter were all leveraged finance loans and the mix of investments retained on the balance sheet included $430 million of leveraged finance loans, $67 million of asset-based loans, $12 million of equipment loans and leases, and $5 million of investments in debt securities. Managed assets increased by $3.6 billion, in 2015, due to acquisition activity and organic growth.

Total assets held on managed funds were approximately $3.1 billion at year-end. In the fourth quarter, managed assets were up $2.3 billion or 51% to $6.9 billion, due primarily to the acquisition of FOC Partners. Total revenue increased by $1 million or 4% to $27.7 million, for the quarter, as growth in net interest income offset lower non-interest income, which was negatively impacted by the marks on the total return swap and the loans held for sale.

Excluding those discrete non-cash items, revenue would have increased 28%. Interest income increased by approximately $6 million in the quarter, to $60.6 million. Reflecting both asset growth and a slight increase in the portfolio yield from last quarter. Non-interest income decreased by $200,000, to $3.3 million for the quarter primarily driven by the negative marks.

After the marks, the underlying portfolio referenced on the swap and the unrealized loss of $5.8 million, fee revenue continued to reflect our ability to lead transactions that generate capital market fees, increased asset management income due to the acquisition of FOC Partners. During the quarter we earned $2.1 million of capital market fees and management fees totaling $3.7 million from managed funds. New loans and investments originated in the quarter hit a weighted average yield of 6.8% compared to 6.7% last quarter, reflecting constructive pricing environment, a slight shift in mix, increased deferred loan fees, and the benefits of our relationship with GSO.

An analysis of the net interest margin follows on the next page. As you can see, the margin narrowed to 2.45% for the quarter, compared to 2.57% last quarter as expected in the third quarter, the margin was unusually wide, due to the accelerated recognition of revenue in connection with an early redemption of a debt security including the one-time payment the net interest margin would of been 2.43% in the third quarter, consistent with the fourth quarter. We continue to see positive trends in the interest income component of the margin in the fourth quarter. The improvement was driven primarily by higher spreads on loans originated in the prior quarters, and higher amortization of deferred loan fees related to elevated prepayment levels in the fourth quarter.

As expected, the cost of funds remained relatively stable in the fourth quarter, at 4.32%, compared to 4.31% in the third quarter. So going forward, we expect the margin trend to widen as the portfolio yields continue to improve and future growth is funded by lower-cost CLO's and warehouse debt. As we experienced a throughout the year, however, the margin remain sensitive to timing and nature of funding activities, as a result, improvements in the margin may reflect some event driven volatility around that positive trend line.

The next slide provides an update on the composition of our loan portfolio, by industry and vintage as of December 31, 2015. As you can see, the portfolio remains highly diversified by industry, less than 4% is comprised of legacy loans originated before the financial crisis. The portfolio is also highly diversified by [Albergore] the largest single borrower concentration with 1.1%, and the top 10 obligors represent approximately 9.3% of the total portfolio as of December 31, 2015. As Tim said earlier, exposure to energy sector was limited to 2%.

As mentioned previously, managed loans investments totaled $6.9 billion at December 31, 2015, approximately $3.8 billion was retained on the balance sheet and $3.1 billion was managed across 16 funds, or accounts. Including a total return swap managed for our own account. Managed accounts included those acquired from Feingold O'Keefe partners, the Arlington and Clarendon Fund as well as the Credit Opportunities Fund which is being [wound] down. The former FOC platform now known as NewStar Capital manages 6 CLO's a credit hedge fund, and five other customized accounts.

The retained loan and investment portfolio is comprised of loans and leases totaling $3.2 billion. Loans held for sale of $486 million, and $101 million of investments and debt securities. Loans held for sale were comprised of leveraged finance loans, with the majority of expected to be sold to our managed credit funds during the next several quarters. Page 13 provides visual representation of our capital structure, at the end of the fourth quarter. As you can see, we have approximately $1.2 billion of warehouse credit facilities, used to fund new investment activities.

Term debt securitization balances decreased by $53 million due to the continued amortization of our 2007-1 CLO. During the quarter, we issued $25 million of additional subordinated notes under the existing commitments. And issued an additional $80 million of senior secured notes. With significant warehouse capacity, and $1.3 billion of long-term capital, we believe that our balance sheet is well-positioned to support our growth plans and provide significant flexibility. With $4 billion of assets at year-end, we have significant operating and financial flexibility, which we believe will allow us to adjust effectively to different market conditions or support different objectives, including share repurchase dividends, acquisitions, or divestitures.

If you turn to the next page, this slide highlights our credit performance. I'll review the highlights from the credit results for the quarter. The headline here is that credit costs remain within the expected ranges in the quarter and most of our metrics improved.

For the year, credit cost decreased by $8.7 million to $18.4 million, or 57 basis points of average loans and investments. Total provision for credit losses in Q4 was $3.7 million, down $900,000 from $4.5 million last quarter, due to a shift in asset mix. Provision expense included a $1.2 million reserve in the general category and a $2.4 million net addition to specific reserves, which was up from $1.6 million last quarter.

The allowance for credit losses was up $4.2 million at $58.7 million, compared to $54.5 million at the end of last quarter. The allowance ratio increased from 1.76% to 1.81%, due primarily to the increase impact of specific reserve balance.

Net charge-offs were negative in the quarter, reflecting net recovery of $600,000. Nonperforming assets were 3.4% of loans, down from 3.5% last quarter, due primarily to asset growth. Other changes impacting the ratio include one new loan, totaling $7.7 million and a $400,000 equipment lease being placed on non-accrual during the quarter. Our outlook for credit continues to be positive, reflecting continued progress and workouts remaining in our legacy portfolio.

The next slide highlights our credit performances since the Company's inception. Here we compare our leverage finance credit performance by vintage to Moody's data, for comparable single B quality loans in the same cohort. You can see that as we continue to outperform the Moody's benchmark, and have incurred minimal defaults and no new losses on loans originated after 2008. Since inception in 2004, we have experienced an average annualized loss rate of 23 basis points.

The next three slide show our details balance sheet and income statement, which I've already touchdown through the review of key financial highlights. I will now turn it back to Tim.

Tim Conway - *NewStar Financial Inc - Chairman and CEO*

Thanks, John. You can see on slide 21, we tracked closely to our guidance for key metrics in 2015. We met our origination targets despite slower origination in asset based lending and equipment finance, which faced stiffer competition from banks, and the discontinuation of our commercial real estate lending activities.

Yields on new loans exceeded guidance and improved throughout the year which drove overall portfolio yields higher. Both metrics exceeded expected ranges for the year. Portfolio runoff from amortization, exits, and prepayments exceeded expected levels, but net loan growth remained on target.

The cost of funds and net interest margin reflected the dilutive impact of higher cost junior debt and debt repayment. Part of this was due to the impact of debt repayment in the second quarter which was non-recurring. But the drive from the junior, more expensive a debt drove this metric outside of expected ranges. The cost of funds is expected to decline however, as we deployed a long-term debt capital.

Non-interest revenue increased, reflecting higher asset management and capital markets related revenues. Excluding the impact of unrealized losses on non-interest income, we would have exceeded expected ranges.

We built scale through acquisition and loan growth without increasing expenses at nearly the same rate. Expense increases in Q4 reflected the acquisition of FOC Partners. Operating expenses for the year were about 1.5% of average assets, compared to 1.8% a year ago and guidance between 1.25% to 1.75% for 2015.

Pretax ROE was within expected ranges, but reported Q4 ROE was negatively impacted by unrealized losses, and did not reflect the core earnings power of the Company. Our outlook for 2016 is shown on page 22. We believe that we have the market position and liquidity to support a continuation of establish trends in our operating performance, if market conditions warrant it.

As a result we provided a wide range for certain metrics including origination, which is expected to be between $2.5 billion and $3.5 billion depending on demand and other factors. Loan yields are expected to trend favorably, due partly to market volatility, as well as our ability to capitalize on our relationship with GSO. Net interest margin is expected to widen as the portfolio yield increases and the cost of funds declines.

Non-interest income is expected to be consistently and the 75 to 100 basis point of total asset range as capital markets and asset management fees increase. And importantly, profitability is projected to improve as revenue growth exceeds increases in expense levels, and financial leverage magnifies returns. However, given recent dislocations in the financial markets and an uncertain economic outlook, we are, and will continue to be very cautious as factors driving concerns about the economy evolve.

If current market conditions persist or worsen, we may deviate from our plans and reconsider how best allocate our capital. If we slowed the pace of new origination in response to weak demand or poor economic conditions, we would expect to generate additional liquidity, which would be available for opportunities arising from market dislocations, as well as other purposes including stock repurchases.

That said, we do not see fundamental weakness in the economy reflected in the performance of the companies in our loan portfolio. We are not seeing negative trends or migration of our internal ratings on borrowers and our credit costs remain within expected ranges.

Another factor we will consider as we allocate capital, will be how our stock is trading relative to our book value and comparable companies. At present, the stock is trading at levels that we believe are inconsistent with the intrinsic value of the Company and its assets. We may also consider dispositions of assets outside of our core strategy and we believe that assets can be sold at premiums, based on preliminary discussions we have had with potential counter parties.

It is difficult to believe that stock is appropriately priced given the potential of monetized investments that are premium to book value. We have a great track record and we're focused on attractive market segments. We are strategically aligned with world-class partners with complementary capabilities and objectives that are motivated to help us perform and create value for shareholders.

We have an expanded asset management platform that is expected to contribute significantly to fee income. And we remain on track to generate better returns on capital, despite the market headwinds.

With that, we will open it up to any questions you have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Steven Kwok, KBW.

Steven Kwok - *Keefe, Bruyette & Woods, Inc. - Analyst*

Hi. Thanks for taking my question. The first question I had was around competition within the market space. Given some of the dislocations that we're seeing, can you talk about where you see things around on a competitive level? Thanks.

Tim Conway - *NewStar Financial Inc - Chairman and CEO*

Yes. Thanks, Steven.

The competition has changed significantly because the banks are no longer competing with us in our core markets. I'd say the BDCs are much less active in the market, as well. It still really a small group of competitors that we've been competing with for a while in the marketplace. And, we see based on that, significant opportunities for wider spreads in dislocations in the marketplace we think will result in significant opportunity. So spreads have continued to widen. And we're still competing in the core middle market with a small handful of leaders in that market. And that part of it hasn't changed much. The big impact is really the banks pulling out.

Steven Kwok - *Keefe, Bruyette & Woods, Inc. - Analyst*

Got it. And then drilling down a little bit deeper into the credit. It seems like from within your portfolio credit seems to be running fine. Are there any signs that you're looking at initially from any spillover from what we're seeing from the impacts of like lower oil, along with some of the shocks that we're seeing from a stock market perspective? Thanks.

Tim Conway - *NewStar Financial Inc - Chairman and CEO*

Yes. We're looking at obviously were always stressing the portfolio, and looking at each name in the portfolio, and looking at the impact of any factors that can affect credit, including oil prices, access to capital, et cetera. And we're actually, as I described in my prepared remarks, we're a domestic portfolio. Very limited exposure to energy. We're not affected in material way by the value of the dollar. The European or Chinese economies. And I think what we're seeing is really good solid performance. We look at each company relative to its plan. And we're not seeing any evidence of a spillover from the energy sector or other sectors into the broad-based economy that we're looking at.

Steven Kwok - *Keefe, Bruyette & Woods, Inc. - Analyst*

Great. That's very helpful. And then the last question I have is around interest rates.

Are you assuming any rise in interest rates within your guidance? And also, can you remind us what the impact is for every 25 or 50 basis points rise in the interest rate on your P&L?

John Bray - *NewStar Financial Inc - CFO*

Right now, Steven, the guidance we've given is set at the current LIBOR curve. So in the 63, 65 range. And we've based it on that staying there. If rates go up 100 basis points in a shock, that cost us from where we are, at that 60 level, a little under $3 million.

Steven Kwok - *Keefe, Bruyette & Woods, Inc. - Analyst*

Got it. Thanks for taking my questions.

Tim Conway - *NewStar Financial Inc - Chairman and CEO*

Thank you, Steven.

Operator

I'm showing no further questions. I would now like to turn the call back to Tim Conway for any further remarks.

Tim Conway - *NewStar Financial Inc - Chairman and CEO*

That will conclude our call for today. Thanks for joining us.

John Bray - *NewStar Financial Inc - CFO*

Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. You may all disconnect. Everyone, have a great day.
