Lead Left Interview – Cheryl Carner

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This week we chat with Cheryl Carner, managing director of Crystal Financial LLC. Based in Boston with offices in Atlanta and LA, Crystal Financial is a commercial finance company that originates, underwrites and manages secured debt. Their clients are middle market corporations that operate in a diverse set of industries.

The Lead Left: Cheryl, it's been almost three years since we spoke. Your firm has seen some changes since then.

Cheryl Carner: Randy, we last talked back in 2012. At the end of that year after running a process with many interested bidders, Crystal was acquired by Solar Capital.

TLL: How's the fit with Solar?

CC: Both Crystal and Solar identified that our products and areas of investment focus would be complementary. That's turned out to be the case and has given us a great opportunity to grow our lending platform.

TLL: Crystal has always had a very discrete area of investing relative to the rest of the middle market, particularly traditional cash flow lending.

CC: For us, what's clear about being successful in this market is that we have certain specialized skills sets not usually founds at the BDCs. For example, our deals may have a higher probability of default, but the risk of loss given default is much lower than the traditional middle market given how we underwrite these deals.

TLL: Remind us of your level of pipeline activity.

CC: In our niche transactions come in from different sources. We review 350 deals annually, and we end up doing 14-16 of those. Most we pass on, but if we decide to dig in, we can quickly do the work to understand the situation. We've branded ourselves as a go-to firm with tough, corporate stories with assets. Not plain vanilla. We've recently done more cash flow transactions that don't fit squarely in the typical leveraged lending box. Like out of favor industries, corporate divestitures without audited statements, acquisitions or roll up strategies that have had a hiccup or non-sponsored deals. They aren't distressed from a cash flow perspective but the funded leverage is more conservative than typical market levels.

For example, we financed a newspaper company, obviously a tricky proposition these days. But our loan to value was modest and we had a good asset analysis that gave us comfort about our downside protection. We also like consumer lending companies. That's a sector, at least from a financing perspective, traditional, regulated institutions struggle with.

TLL: Where are you finding undiscovered value at the moment?

CC: Whenever you have a deal that doesn't fit neatly into a sponsor financing or an asset-based lending opportunity, that's where we're looking.

TLL: What kind of debt structure do you favor?

CC: We can really be flexible. We've been the sole lender in the capital structure as well as worked with other lenders on a club basis. Our main preference is to fund our deals as term loans.

TLL: Will you take a second lien behind another ABL lender?

CC: We will. But we'll also do a bifurcated lien and unitranche structures as well.

TLL: Would you call yourselves a "special sit" lender?

CC: We prefer the term alternative lender, since most of what we do is not distressed. It's really where there's a "story" aspect to the deal.

TLL: Risk evaluation on "stories" isn't easy. What's your secret?

CC: Once we think that the deal is a good "Crystal fit", we ask a lot of questions to get up to speed fast. We certainly like to be as high in the capital structure as possible. Second, we do like to have some degree of asset coverage for downside protection. Then keep leverage moderate. Finally, we like to get amortization.

To be continued the week of May 25

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