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Crystal Financial

Crystal Financial Revisited — Five Years Later & Three Times Charmed

BY CHRISTOPHER MORAFF

Ward Mooney, Colin Cross and Michael Pizette are no strangers to success. Despite their collective achievements, these veteran lenders point out that the ultimate beneficiaries of all their hard work are the dozens of companies struggling to make their way in an unfriendly credit environment — companies that without their help, could very likely become casualties of an economy still struggling to recover.

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In late September and early October, business journalists began offering their readers something that had been noticeably absent for some time: a bit of good news. In article upon article, pundits from *The Wall Street Journal, The New York Times, Forbes* and other leading publications seemed to be saying much of the same thing: that banks were starting to lend again.

Reporters cited data showing corporate lending up 7.2% year-to-date over 2010, and they talked to bank executives who were more than happy to challenge the assertion — repeated regularly since the economic bailout three years earlier — that despite receiving billions of dollars of taxpayer cash, the big lending houses had been sitting on their hands, and more importantly, their checkbooks.

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“The narrative that banks aren’t lending is incorrect,” insisted Timothy J. Sloan, Wells Fargo’s chief financial officer, in an October 17 interview with the *Times*. “Lending is strong.” And in fact, there seems to be evidence to back that up. According to the Federal Reserve, commercial and industrial lending grew by 4% in September and was up 35% in the third quarter over the prior-year period. For the week ending October 12, U.S. banks’ C&I loans increased $1.8 billion to about $1.31 trillion, the Fed said, and as recently as October 28, *Bloomberg* reported that average commercial lending at three big banks — U.S. Bancorp, PNC and Regions — grew by double digits in the third quarter.

That sounds pretty encouraging; and, according to Ward Mooney — a 30-year veteran of the commercial finance sector and chief executive officer of Boston-based Crystal Financial — it is, if you happen to be a top tier borrower. Given the state of the economy over the past four years, that’s a pretty exclusive club. For the remainder of the middle-market firms — those with strained balance sheets or operating in industries that have fallen out of favor — capital is less abundant.

As Mooney explains it, “Banks are very active and reliable lenders to high-quality companies that have straightforward credit needs, but when the company is in the midst of a turnaround or a restructuring, or they need capital in order to address some business issues that have come upon them, the banks and others are not as active as they used to be."

That's where Crystal Financial steps in. The company, which started lending to the middle market in March 2010, originates, underwrites and manages secured term loans of up to $150 million per transaction with a special focus on firms that are unable to engage capital through more traditional channels.

If the name sounds familiar, that's probably because it is. The management team — which, in addition to Mooney includes Colin Cross, Michael Pizette and Paul Feinstein — launched the company as Crystal Capital in 2006, and rebranded the firm last year to respond to the special needs of a post-recessionary market as well as the introduction of a new investor. The team enjoys a long history of business success, having partnered on three separate ventures together since the mid-1990s. As a team, they have been responsible for underwriting, closing and managing over $20 billion in new secured debt to 450 borrowers.

Pizette, who serves as chief credit officer at Crystal Financal, says the key to the team's longevity is its reliance on a unique division of labor model that takes advantage of each member's "highly different and complementary skill sets." He explains, "We all have our own specific areas of expertise, so while we are able to consult with each other and have a lot of 'think-tank time,' we can rely on each person's individual abilities."

In practice, Pizette says, he focuses on underwriting, operations and investment management; Mooney handles the strategic direction of the business; Cross specializes in originations; and Feinstein manages leverage and finance. "Those are the four key ingredients that are needed for a successful finance company."

The team's most noteworthy endeavor, Back Bay Capital, was created in 1998 as a division of BankBoston (subsequently Fleet Bank) and was the first fund to underwrite and syndicate second lien loans. The company became part of Bank of America in 2005. Soon after, Crystal Capital was launched in response to the enormous market potential that characterized the heady years leading up to financial crisis of 2008 and 2009.

Structured as a secured debt fund similar in design to Back Bay Capital, the fund offered a diverse group of credit products — including junior lien loans, mezzanine capital and private equity — that addressed a broad range of capital requirements. The fund operated successfully under the Crystal Capital name for four years — funding nearly $1 billion in investments — when, in 2009, impacted by changes in investor appetite for private, middle-market loans, Crystal initiated a search for an equity sponsor that would share its vision of building an independent commercial finance company.

Phoenix Rising

Determined to keep the venture afloat, the Crystal management team immediately set about tracking down new capital. They soon found it in Quantum Strategic Partners Ltd., a private investment fund managed by Soros Fund Management LLC. "In mid- to late-2009, we entered into discussions with Quantum, which at that time was interested in firms that could provide secured loans as a core strategy," explains Mooney. By the end of the year, Quantum had committed to taking a majority stake in the newly formed Crystal Financial.

"With the backing of Quantum," Mooney adds, "our mission is to grow a specialty finance company focused exclusively on what we are well known in the market for, which is the underwriting of secured loans to middle-market companies."

In light of this shift of focus, the partners decided that it needed a new name — one that would both reflect the market recognition that the company had established since 2006, and signify the relaunch and "fresh start" of the business. Cross says they determined that Crystal Financial struck just the right balance. "The Crystal name was very well known in the market, so we wanted to preserve that recognition, while changing it slightly to highlight our goal of building a leading commercial finance company," he says.

Cross adds that the new name also announced a change in the company's product suite. While the first iteration of Crystal was predominately a provider of second lien loans and first-in last-out (FILO) debt capital, since the relaunch, Crystal Financial now also counts first lien, uni-tranche and revolving lines of credit among its product offerings.

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— Colin Cross, *Senior Managing Director*, Crystal Financial

The Crystal Moment

Although Crystal Financial is deftly positioning itself to fill a persistent void in the middle-market lending sector, it is not the only company looking to pick up where the banks have pulled back. Yet Mooney says that many of Crystal's counterparts in the asset-based lending space are just as reluctant as banks to fund what he calls "off-the-run" deals. This provides the company opportunities to partner with other ABLs, which is one of the ways Crystal Financial originates new business.

"Sometimes we are able to provide loans to borrowers in conjunction with an asset-based lender that the ABL doesn't want to provide on its own, and usually that means we are lending on assets that they prefer not to lend on," explains Cross. "It could be real estate or other fixed assets, it could be intangible assets like brand names and intellectual property."

These are the companies that make up Crystal's "sweet spot," and also what keeps the firm relevant in what many lenders are calling one of the most competitive markets in years. "Good quality credits have a lot of competition these days," says Cross, "but on the other hand companies undergoing a turnaround or that have non-traditional assets to leverage up find it much more difficult, and that's the market we're tracking."

"There are certain companies that, when you start interacting with them, you realize that they have a solid, well thought out strategic direction for building the next level of products, services and intellectual property. So we like to deal with these companies that need a capital boost to position them for tomorrow."

— Michael Pizette, *Senior Managing Director/ Chief Credit Officer*, Crystal Financial

Cross oversees a team of four originators — Steve Migliero and Cheryl Carner at the Boston headquarters, Steve Krawchuk in Los Angeles and Andrew Hettinger in Atlanta — who he says regularly reach out to banks, ABLs, private equity groups, consultants and investment firms to generate deal flow. More important than the legwork, he says, is the 15-plus years of lending experience and relationships that each of his origination professionals brings to the table. "People want to do business with a firm that they can rely on," says Mooney. "Ours is a business that is driven by a certain level of trust, and I think that we have established ourselves as a trusted partner on deals, and the people who work with us know that."

Regarding its lack of a vertical focus, Crystal Financial describes itself as "industry agnostic," which, according to its principals, means it lends to individual clients, not to industries. It also gives the company the opportunity to focus on companies within sectors that are currently out of favor, some of which have what Pizette sees as significant next-generation potential. "There are certain companies that, when you start interacting with them, you realize that they have a solid, well thought out strategic direction for building the next level of products, services and intellectual property," he says. "So we like to deal with these companies that need a capital boost to position them for tomorrow."

Since rebranding last year, Crystal Financial has been doing just that. To date in 2011, the company has closed 13 deals, including a $30 million term loan to CRS Reprocessing, an industrial fluids reprocessing firm; a $25 million senior credit facility to Ritz Camera; and a last out term loan to Bell and Howell, a servicer and provider of high volume production mail equipment. It has also been aggressively hiring, adding three new professionals over the summer — including a new managing director, Carner, who joined from GE Capital Franchise Finance. The company now has 21 employees working out of four offices — Boston, Atlanta, Chicago and Los Angeles. Since its formal relaunch, it has made over $400 million of privately negotiated debt investments to various middle-market companies.

Despite such obvious success, these veteran lenders point out that the ultimate beneficiaries of all their hard work are the dozens of companies struggling to make their way in an unfriendly credit environment — companies that, without the help of lenders like Mooney, Cross, Pizette and Feinstein, could very likely become casualties of an economy still struggling to recover.

"We provide capital that isn't otherwise available from traditional sources and often our capital makes the difference in the company's ability to expand, to turnaround or to save their business or parts of their business," says Mooney. "We all find that very rewarding." abfj

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