ABL ADVISOR

Natural Progression: Former Navigant Team Forms SOLIC Capital Advisors

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In January of this year, commercial finance professionals learned that SOLIC Capital had put the final pieces of its platform in place with the transition of Navigant Capital's Investment Banking and Restructuring Group into its affiliate, SOLIC Capital Advisors. According to SOLIC's press release, the aim was to an create an integrated platform suited to provide principal investing solutions, distressed asset management, investment banking and restructuring advisory services in an efficient and industry-leading solution to middle-market special situations.

ABL Advisor recently spent time with Dr. Edward Casas who stands at the helm of the SOLIC organization. As a physician and a decorated veteran of the Desert Shield/Desert Storm Gulf War operations, Casas' path to the financial advisory space is, needless to say, rather unique. Armed with a joint degree in both medicine and business, Casas went on to complete a Masters in Public Health. Upon leaving the military, he joined a Fortune 500 company spin-off called Caremark. That move was the start of a 25-year plus career in "cradle to grave" corporate rehabilitations.

EDWARD R. CASAS
Managing Partner &
Senior Managing Director
SOLIC Capital

In the following interview, Casas explains the transition from Navigant to SOLIC in greater detail which, he notes, is more about evolution than revolution.

ABL Advisor: Ed, please give our readers a sense of what the recent announcement regarding the formation of SOLIC Capital Advisors means for both your organization, its clients and for the industry as a whole.

Ed Casas: To begin with, SOLIC is just an evolution of a platform of professionals who have been working together on average for 15 years. Many of your readers are most likely aware of this fact. To give you a sense of how far we reach back, we originally began as Caremark International in the early 1990s. From there we formed Casas Benjamin White and built that up for seven years, at which point we were acquired by Navigant. We were at Navigant Capital Advisors for ten years and we really wanted to get back into the principal investing side of the business.

As I said, this really is an evolution and late last year, the entire staff of Navigant Capital Advisors joined the business segment of financial advisory services at SOLIC. This transition was blessed from the onset … it wasn't hostile and there was no acrimony. Rather, this was a pre-agreed upon transition that occurred over two years when we initiated the principal and distressed asset components of SOLIC's business in 2012. The intention to migrate Navigant Capital Advisors and in turn, initiate the financial advisory component had been in place all along.

ABL Advisor: What would you say was the impetus to integrate the three business segments under the SOLIC umbrella?

Casas: As you know, we've seen the capital markets change dramatically over several cycles. The advent of securitizations migrated lending from money center bank syndicates to money center bank agented deals with CLOs, CDOs and the emergence of BDCs, commercial finance companies and other players.

With the credit driven recession in 2008, many of the money center banks retracted; CDOs and CLOs became very difficult to issue and liquidity was measured. All this fueled greater growth into the BDC type structures and if you look at where the capital has been deployed as the market has rebounded, it is primarily at the upper end of the middle market … bulge bracket, high quality names. But there are a good many 2006 and 2007 credits that were restructured that don't have access to capital. That's one aspect of the market trends.

Another trend is that in the middle market, single sourced multi-tranche lenders are becoming a growing phenomenon. That used to be segregated and money center banks wanted the top in the cap stack. Depending on where we were in the cycle, the banks would go 3.5 to 4.5 times leverage on a cash-flow basis. Asset-based lending as the alternative to cash flow was disciplined as well and a "don't get mixed up with the lower element" mentality prevailed.

In time, we witnessed the emergence of mezzanine lenders and the popularity of second lien lenders. The commercial finance companies and the BDCs emerged with charters to be able to provide the necessary capital requirements with risk-adjusted yields at every tranche … even down into equity or preferred equity. When you have that kind of simplicity as it relates to institutional holders in your capital stack, what emerges is a need and a benefit to provide single set solutions.

ABL Advisor: Could you relate these trends to the integration of the restructuring team at SOLIC?

Casas: Sure. Traditionally, financial advisory, crisis management or fiduciary oversight, and investment banking services are segmented in the marketplace. You have accounting oriented professionals who conduct financial assessments, operating specialists who do interim management and investment bankers that do the sell side. If you're going through a workout, you go through a transition of advisors, which apart from inefficiencies and lack of continuity, is expensive with each advisor typically having disparate incentives. Now, change the picture. You have a unified multi-tranche lender; one institution is the senior secured lender, has a sub-debt piece and puts in a piece of preferred equity and fully capitalizes the balance sheet of a middle-market company. That company runs into trouble and it's a sponsored deal and the sponsor doesn't want to put in new money. What do you do?

If you go down the traditional structure, you are going to wind up with a pretty inefficient approach when it comes to the selection of advisors. Conversely, if have a relationship with a platform like SOLIC's, you tap into a source that has demonstrated the capabilities of providing a valuation and an assessment in terms of an appropriate rehabilitation plan. We commit the resources relative to the implementation plan and pre-agree on the execution phases related to the sell-side investment banking component. We will put capital side-by-side such that we're fully aligned and there's no disparity in terms of interests as it relates to trying to prolong a recovery when we should be monetizing or instead of monetizing, we should be continuing to remediation efforts because there's greater value to the operating rehabilitation.

To sum it up, SOLIC, with its full continuum of demonstrated capabilities, is able to fill an already existing market need. The SOLIC name is not well recognized at this point because it's somewhat new and we haven't been promoting the brand name until the completion of the transition with Navigant. But, as I noted, the team, its market relationships, and the execution capabilities have been going on for nearly two decades.

ABL Advisor: Speaking of the SOLIC brand, can you share what the name stands for?

Casas: This is something that goes back to my days in the military. Before I joined Caremark, I served as a designated Flight Surgeon in the U.S. Navy. There I provided support to Marine Special Operations and I served as a Department Head of Aviation Medicine. The acronym SOLIC stands for Special Operations/ Low Intensity Conflict and reflects what we do in the business world dealing with challenging environments that have embedded conflicts. In distressed investing, these situations require both specialized training and a level of precision in executing well thought out strategies and tactics. They are the key elements to being successful in what we do.

ABL Advisor: As you have noted, the SOLIC team has been together for quite some time and has attained a high degree of success. To what do you attribute this success and longevity?

Casas: If you think of it in terms of our values, it all begins with a level of competency. At SOLIC, the whole is definitely greater than the sum of the parts. The next element is a tremendous work ethic and that is demonstrated from the top all the way down. Loyalty also plays a big part – we spend the majority of our waking hours with one another in our professional capacities. We also recognize that we have family obligations, so we devote ourselves to make sure that we are attending to both our clients' needs as well as to the needs of our families. Loyalty is a value that runs deep throughout our organization.

Of equal importance is integrity and I can assure you, there is no tolerance for a lack of integrity in our organization. Whether you call it misrepresentation, failing to honor your commitments or lying, cheating or stealing, we have zero tolerance for that kind of stuff.

We are also very committed to our professional ethics. That doesn't mean we aren't aggressive, but we aren't the type of firm that sneaks around and stabs others in the back. We are assertive, but we conduct ourselves ethically and with a high degree of integrity.

ABL Advisor: How does your firm define the middle market?

Casas: That's a good question, because everyone defines the middle market a bit differently. In terms of the application of SOLIC's strategy, I would say that in terms of pre-restructuring capitalizations, the low end would be somewhere around $50 million and $200 million to $250 million at the high end.

As it relates to distressed asset management, that business is not defined by any middle-market parameters. This is business is defined by distressed assets across a wide variety of classes and we focus there because there's a common core element of skill sets that are required. This focus keeps us fresh and consistently interacting with various institutions that also have important needs covered by the other aspects of our business. That's how these segments all tie together.

ABL Advisor: From a sector standpoint, which industries does SOLIC find itself working with these days?

Casas: I would say our most recent activities have been primarily in the areas of healthcare services, financial services and real estate services. Those are the top three; but in the context of sectors, this is more reflective of the residual fall out and slow evolution of the recovery. There are some current factors that are driving today's winners and losers, if you will. Obamacare is one such factor.

ABL Advisor: Are there any businesses or sectors that SOLIC would shy away from or any situations you wouldn't accept?

Casas: As generalists, I would say that we don't shy away from any sector in particular. I would put it this way: we identify subject matter gaps and as long as we feel comfortable that we have a strong pre-existing collaborative relationship with complementary subject matter experts, then we will pursue an opportunity. On the other hand, if we feel something isn't a right fit for us, we won't force feed ourselves into that situation. The worst thing you can do from an advisory or investment perspective is take on something to which you don't add value.

We like very complex deals and we are not afraid of challenging regulatory environments. In fact, we tend to thrive in the highly regulated industries because as an organization, we have the brain power to drive through those complexities. That I think, is what distinguishes us.

ABL Advisor: In closing, is there anything you would like our readers to know?

Casas: I think we are unique in the market and we're very happy where we are in terms of positioning … we're looking forward to continuing to grow this platform and serving our investors and clients' needs.

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