FINANCIAL BOUTIQUES

Boutiques branching out

A flurry of independent corporate finance houses have started trading this year after seeing the success of several sector-focused boutiques advising ever larger clients. **Angela Ward** reports

This year's buoyant M&A market has encouraged a number of boutiques – or "independent corporate finance houses" – to enter the fray. Veteran banker Joseph Perella launched Perella Weinberg Partners in June with offices in New York and London, and Bernard Taylor and Julian Oakley, two former JPMorgan bankers, set up Braveheart Financial Services in August.

This continues a trend of the last few years.

"The development of boutiques in the past five years has been dramatic in terms of both value and volume of activity," says Jonathan Goodwin, chief executive of media specialist adviser LongAcre Partners. "Boutiques can provide deep sector insight, consistency of client coverage and, typically, a higher level of seniority and experience of professionals dedicated to each assignment."

Some bankers enjoy doing deals and, the further one moves up the career ladder at the big banks and accountancy firms, the less hands-on you become. Larger banks can also be stifling and many bankers want to have more control over their destinies.

As one boutique owner says: "At one bank I used to work for, we were not even allowed to put a picture on the wall."

Clients also tend to prefer dealing with experienced dealmakers all the way through a deal – not just at the first meeting and over champagne when it closes.

"In large banks, the execution team is not always the same as the origination team," says Mark Harms, founder and chief executive at Global Leisure Partners. "Clients want the senior bankers to be intimately involved and this is often not possible in large banks, due to the organisation and compensation structures."

Some dealmakers also want the freedom to invest in companies they work with, without facing the increasing number of regulatory constraints found at large organisations.

Others see boutiques as offering the opportunity to work more flexibly and achieve a better work-life balance. And many boutique owners admit that their work is more rewarding.

"It is more fun to work in a smaller organisation, where you can follow your intuition as to where the deals are, rather than be constrained by some global 'client target list'; to do small as well as big deals and to express yourself through your organisation, rather

Tom Lindsay

Jonathan Goodwin

Mark Harms

than toe the line," says John Spayne of London-based Spayne Lindsay & Co.

Clive Sanford of Magus Partners, who was formerly a partner at Robson Rhodes, agrees: "Whilst I can't rely on a flow of business from a compliance-oriented client base, I have absolute flexibility as to who I work with, when and where I work. I consider myself to be very fortunate to be doing what I enjoy."

Based in London, Magus was formed in 2003 and focuses on sub-£20m deals, although Sanford says that this isn't a restriction. The firm recently worked on the management buyout of James Douglas, a niche supplier of fabricated pads to the medicated skincare industry.

Certainly, merchant banking has changed over the past few years, shedding some of its traditional culture. Now, banks pride themselves on offering a "one-stop shop" and this leads to pressure on every department to cross-sell products and services. This doesn't always go down well with clients.

Clive Sanford

"Our clients value highly our completely independent advice – we have absolutely no pressure to cross-sell capital markets or derivatives products," says Jonathan Goodwin of LongAcre Partners, established in 2000 to concentrate on the media sector. Recent deals include the £175m sale of Friends Reunited to ITV and the sale of Trader Classified Media's Western European operations for €580m.

"A lot of clients don't want a 'one-stop shop'," says John Spayne. "That expression may mean big fees for the investment bank but for many clients it means conflicts of interest, lack of confidentiality, high staff turnover and being harassed by salesmen offering products they don't want."

Joe Capra of Milan-based Newport Partners, established in 2002, adds: "I believe some advisers at the larger organisations have been disillusioned by their employers not being focused enough on service but more on product. Many boutiques have been formed to satisfy the demand for independent advice."

Joe Capra

In theory, the costs of setting up a boutique are relatively small.

"Corporate finance lends itself to the boutique model very well, because what you are offering clients is advisory expertise, creative ideas and contacts, and this does not require a big cash investment," says John Spayne. "So, with a few hundred thousand pounds, a decent track record, a fair wind of deal flow and a bit of nerve, you can set up an independent business."

Formed in 2004, a team of 10 now works at Spayne Lindsay & Co, which focuses on the consumer sector. Recent deals include advising Permira on its €1.7bn acquisition of Birds Eye/Iglo and working with Premier Foods on its £460m purchase of Campbell's UK business.

"When the market is vibrant as it is at the moment, bankers do begin to wonder whether they could do better working for themselves," says Alan Bristow, chief executive of ICON Corporate Finance.

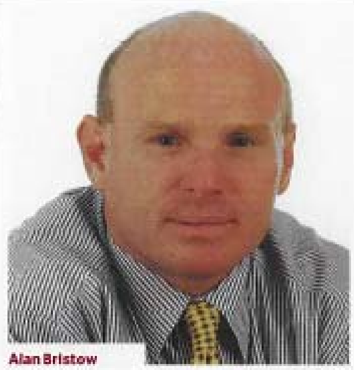
"With more confidence and more money around, making the break is an easier decision to make," he says. "The real test for any new boutique is whether they can sustain their business when there's a downturn in the market."

ICON, which focuses on the technology sector and has offices in both London and Bristol, was launched in March 1999 and has rode the waves during both good and bad times for M&A since then.

"Clients tend to want to work with boutiques because there is a real focus on getting the deal done. For many owners, this is a life-changing event and getting the deal completed properly can mean the difference between walking away with a small fortune or a big fortune," says Bristow, who adds that among deals ICON has worked on recently was the sale of Anvil Software to Ion Trading.

Bristow adds that the fact that boutiques are

John Spayne



Alan Bristow

small businesses means they have an empathy with their clients and Jean-Philippe Debas, associé gérant at Aforge Finance in Paris, agrees. "Corporate finance boutiques enjoy two key competitive advantages over traditional investment banks and audit firms," he says. "They are free of conflict of interest and they are very entrepreneurial in nature."

There tend to be two sorts of boutique in the marketplace – those that are "generalists", providing independent advice to a range of companies, perhaps in a particular size bracket; and those that focus on a particular sector.

Tom Lindsay of Spayne Lindsay & Co says that the successful boutiques are the ones that have a real focus. Those boutiques that concentrate on a particular sector are also more likely to be invited into deals by larger advisers, who appreciate their specialist input.

"Sector-focused boutiques are doing particularly well as they tend to have more insights into both the strategic and operational issues facing businesses than the broadly focused large banks," says Mark Harms of Global Leisure Partners (GLP). "In many ways, the boutiques are complementary to the bulge-bracket investment banks."

Last year, GLP was an adviser to Permira and worked closely with Lehman Brothers on the recapitalisation of Gala. It then worked closely with Merrill Lynch on the subsequent acquisition of Coral, advising Gala. In each case, GLP acted as the strategic adviser, while the larger bank handled the process-related issues, as well as the financing.

Launched in 2004, GLP has a 25-strong team and focuses on the global leisure industry, which it has broken into eight sub-sectors.

While most boutiques like to shout about their independence, many do reach the stage when larger banks start sniffing around. In late October, Collins Stewart Tullett announced the purchase of Hawkpoint for around £150m – in a deal that will give Collins Stewart the opportunity to expand into the M&A advisory business, while giving Hawkpoint access to a stockbroking business.

In the meantime, Evercore went public in August this year – following in the footsteps of Greenhill, which floated in 2004.

It's a choice most boutiques have to make – after all, they are owned by entrepreneurs.