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# Great Time to Launch a Boutique: History has shown that M&A downturns tend to spawn a number of new specialist firms

By Ken MacFadyen, 1 September 2008

The job market for investment bankers these days might be worse than the deal market. When a former Houlihan Lokey banker made headlines in July parading up and down Manhattan's Fifth Avenue wearing a resume-showcasing sandwich board, it evoked images of Dan Aykroyd's Louis Winthorpe III character from the 1983 hit Trading Places. But things are not quite that dire, and while the sandwich board makes for an interesting story on the local news, most out-of-work bankers transition into something new. For a number of them that means opening a boutique or launching a new M&A platform affiliated with another institution.

One pro, a partner at a private equity firm, tells Mergers & Acquisitions that he's seeing boutiques pop up fairly routinely. "It's easy when you're in M&A," the source says, speaking anonymously. "It's like being an attorney. You only need to register with the SEC and rent out some office space, and you can be up and running in days."

Alan Schwartz, for instance, left JPMorgan in July. While the former Bear Stearns CEO can probably pick up anywhere on Wall Street, it's not inconceivable that he could put his name on the door and start his own M&A shop. With a client list that includes Disney and Cablevision, the rainmaker wouldn't be starting from scratch, either.

**Russ Gerson**, who heads Wall Street executive search firm **The Gerson Group**, notes that while the rest of the banking industry is licking its wounds, boutiques are positioned capitalize. "They have a great opportunity to pick up marketshare today," he notes, adding that with the bloodletting among the larger institutions, the talent is out there to pick up quality people and fill the ranks.

Moreover, Gerson adds that even before the bulge-bracket institutions started experiencing trouble, a shift had started to occur that saw "the higher quality pros moving toward boutiques." "Generally speaking, their costs are lower, so the bankers can get paid more. It has meant that a lot of higher quality bankers are moving to the specialty firms," he describes.

Clients have indeed taken notice. Says the PE pro source, "Boutiques generally offer more individualized attention, and when you're talking about these smaller, two- or three-person firms, you know you'll be working with an experienced banker."

The instant celebrity bequeathed on firms such as Moelis & Co. or Perella Weinberg underscores that M&A is ultimately a relationship business. It means that by and large client loyalty will rest with the banker as opposed to the bank, so boutiques theoretically can have mandates lined up before they even open their doors.

Ken Moelis, for instance, left UBS last year to launch his own firm. To keep up with the pace of dealflow, he has already built up a staff of 130 people, with offices in New York, Boston and Chicago. The "boutique," if that name can still apply, is currently working with Yahoo, Muzak, Pappas Telecasting Cos. and Young Broadcasting. It also won mandates on some of the more notable deals over the past few years, winning advisory roles in the Anheuser Busch/Inbev deal and Blackstone Group's purchase of Hilton Hotels.

It may go against conventional thinking, but downturns in the M&A market have historically been great times for new players to hang their shingle. Harris Williams & Co. and Lazard Middle Market predecessor Goldsmith Agio Helms were each launched in 1991. That wasn't a year most M&A pros remember fondly, as the number of deals hit an almost 30-year low, according to reports at the time.

The tech implosion and the ensuing draught in M&A also proved bountiful new boutiques earlier this decade, as McColl Partners, The Sage Group, and ThinkEquity Partners were each spawned in the wake of the 2001 market collapse.

Meanwhile, existing financial institutions, which may not have an M&A arm, are capitalizing on the upheaval to make inroads in the market as well. Broker/dealer Pali Capital, for instance, recently hired CIT Group veteran Randal Stephenson as a senior managing director and head of its new corporate advisory group.

Stephenson tells M&A his role, initially, at Pali is not unlike launching a new boutique. Indeed, he cites the craftsmanship of building a new group as part of the allure. "I really enjoy starting a platform and bringing together a team," he says, adding that Pali is currently seeking qualified candidates.

Stephenson will have the benefit of Pali's embedded hedge fund client base, but the goal is to introduce an advisory function that should see Pali win mandates on distressed, activist and other hedge fund-driven deals.