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By Lina Saigol

Boutique Banks Move Forward And Shake Off Their 'Elephant's Graveyard' image

For most investors in the City, boutique investment banks used to be seen as an elephant's graveyard, writes Lina Saigol. Grey-haired M&A advisers, fed up with the daily grind of large investment banks, could set up a one-man band to provide advice to a handful of clients at a leisurely pace.

But with the recovery in mergers and acquisitions, boutique investment banking is starting to be viewed as a valuable, entrepreneurial business.

The renaissance of the independent investment bank is largely due to the regulatory and economic environment that entangled larger rivals during the recent equity bear market.

The "full-service" banks, which developed an almost limitless range of products to capture business during the 1990s, found themselves under attack from regulators who accused them of being riddled with conflicts of interest.

As a result, the independent advisory firms capitalised on this crisis of confidence in boardrooms, claiming they could provide impartial advice.

"Specialist independent investment banks are currently in vogue, particularly for seasoned and accomplished bulge-bracket bankers, who cast envious glances at the purity of the business model, the economics as well as not having to endure the relentless pressure to extract money from clients on the back of an advisory relationship," says Malik Karim, managing director of Fenchurch Advisory Partners, which he founded after leaving Credit Suisse First Boston in 2000.

Other firms, such as Lexicon Partners, have chosen to move away from focusing on advising financial institutions and into providing advice for utilities and private finance initiative deals.

"Many boutiques are born out of people's relationships with individuals on which they trade. However, we wanted to provide deep and broad-sector coverage and in this way mimic a large investment bank, but without all the products," says Andrew Sibbald, managing director and founder of Lexicon Partners.

However, client relationships can often make or break the profit stream for these smaller banks, as demonstrated by Tim Shacklock, chief executive of Gleacher Shacklock.

Mr Shacklock, who left Dresdner Kleinwort Wasserstein in 2003 to set up the European arm of Gleacher Partners of the US, advised BAE Systems, the UK defence group, on its \$4.1bn (£2.32bn) agreed takeover of United Defense Industries last year.

That deal helped Gleacher record its first profit last year, converting a £3.9m loss into a profit of £360,000 in the 12 months to December 2004.

Turnover during the period jumped from £2.5m to £4.5m.

For all the inroads they have made, boutiques have not yet become the preferred port of call for chief executives. For that to happen, it may well take another stock market collapse and the scandals that follow in its wake.

Established 'Rainmakers' Are Quitting The Safety Of Investment Banks And Taking The Plunge On Their Own

*Tricorn Partners, 27 Knightsbridge, SW1 Founded by Alton Irby, former chairman of Hawkpoint, two former Merrill Lynch bankers - Justin Dowley and Guy Dawson - and Michael Pescod, former head of corporate finance at Slaughter and May. Advised Unilever on its recent strategic review, and BBA on its current sale of Fiberweb

*Lexicon Partners, No 1 Paternoster Square EC4 Founded by a team from Donaldson, Lufkin & Jenrette International including Andrew Sibbald and Angus Winther. Advised Prudential on buying minority shareholding of Egg; advised Borealis on the £3bn acquisition of two gas distribution networks from National Grid Transco.

***Fenchurch Advisory Partners, Tower 42, 25 Old Broad Street Founded by Malik Karim, formerly of Kleinwort Benson and CSFB. Sir Peter Middleton, former chairman of Barclays, joined last year as senior adviser. Advised ISIS Asset Management on its merger with F&C Management and Rensburg on the acquisition of Carr Sheppards Crosthwaite from Investec.**

*Gleacher Shacklock, 33 King Street, SW1 Established in London by Tim Shacklock, former deputy chairman of Dresdner Kleinwort Wasserstein. Chaired by Sir Peter Burt, former chief executive of Bank of Scotland. Advised BAE Systems on its \$4.1bn (£2.3bn) agreed takeover of United Defense Industries; advises the trustees of the Gatsby foundation, a blind trust held by the Sainsbury family, on a partial sale of their holding in the UK food retailer J Sainsbury.

*Hawkpoint, 4 Great St Helen's, EC3A Chaired by David Reid Scott, co-founder of Phoenix Securities and former DLJ executive. Managing partner: Paul Baines, former chief executive of Charterhouse corporate finance. Advised Deutsche Bank on the £400m disposal of its UK asset management operation; completed the sale of Panmure Gordon to Durlacher; advised PD Ports on its takeover by Babcock & Brown Infrastructure.