FINANCIAL REVIEW

Investment banking boutiques shine as big banks shed bonuses, jobs

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Independent investment banks have won roles on a slew of major deals this year, highlighting the value boutique advisory firms bring to merger and acquisition negotiations.

The buzz around boutiques – and their hive of recent activity – comes as storied independents Rothschild & Co and Canaccord Genuity go private, while Credit Suisse is marketing its new-look investment bank as a "super boutique" under the CS First Boston moniker.

Full-service Wall Street banks, meanwhile, have fired thousands of staff and slashed bonuses to curb burgeoning expenses amid the slowest annual start to global M&A since 2003, Refinitiv data showed.

Credit Suisse is modelling it's new-look investment bank as a "super boutique" that will be owned by its senior bankers. **Bloomberg**

Independent boutiques have not only won roles on many of the major Australian M&A and equity capital markets deals this year, they have done so without the pain of layoffs because they are smaller firms with significantly fewer expenses than their bulge-bracket peers.

In an environment of cost-cutting, there is also a draw to the entrepreneurial nature of boutiques, which typically offer rainmakers equity in exchange for assisting their new investment banking business.

CSFB, for example, will be led by Klein Group chief executive Michael Klein, who is trying to convince some heavy hitters on Wall Street to join the super boutique, according to a New York-based banker who could not speak publicly.

Ambitious bankers wait years for a chance to join the C-suite of a major Wall Street shop, but a move to a boutique offers autonomy without the bureaucracy of a publicly listed organisation.

"Investment bankers value autonomy, they value local decision-making and alignment in the sense of having equity in a business they directly influence," Ian Holmes, the head of corporate advisory at E&P, told *The Australian Financial Review*.

"They are Type A personalities who would back themselves to be successful. If you can marry that with an ownership interest in a business you work in, then you're aligned to that success."

Faraday Associates, founded by former Goldman Sachs banker Lachlan Edwards, is advising law firm Slater & Gordon on its potential acquisition by private equity shop Allegro Funds.

Lazard Australia is working with Bank of America on Newmont's $24.5 billion bid for Newcrest Mining, which appointed boutique Gresham Partners alongside JPMorgan.

"Boutiques are like lighthouses in the storm for the rapidly changing business environment [board] directors are faced with," said Audette Exel, chief executive of corporate advisory firm Adara Partners, which advised power networks owner AusNet during its $18 billion acquisition by Brookfield last March.

Audette Exel is the chief executive of independent investment advisory firm Adara Partners. **Chris Pearce**

Repeat business

Reunion Capital's role as an adviser to Bain Capital on its re-listing of airline Virgin Australia is an important case study on the viability of independent advisory shops because it is repeat business for Reunion, which counselled Bain when it floated accounting software company MYOB in 2017.

Founded by former Goldman Sachs capital markets banker Michael Everett in 2013, Reunion was formed after inquiries Mr Everett received from clients such as IAG and Ramsay Health Care.

"Clients sought us out, looking for trusted advice and our experience to sit alongside investment banks and executing their transactions," Mr Everett said.

Recurring business is critical to an independent shop's operating model, which centres on long-lasting client relationships without the "supermarket" approach of bulge-bracket lenders, said one managing director, who requested anonymity to speak about his rivals.

The supermarket approach – when a large investment bank offers clients multiple services from underwriting to currency swaps – can pull clients in multiple directions by bankers from different departments who have their own team's profit and loss statements at heart.

"The [boutique] model enables senior bankers to commit time to solving clients' challenges," said Jamie Garis, a managing director with Luminis Partners.

"This leads to independence of any product [and] means we are objective and unbiased."

Jamie Garis, a managing director with Luminis Partners, which is affiliated with independent shop Evercore. **Ben Rushton**

People Matter

At the heart of the independent model is experienced individuals.

Well-known dealmaker Andrew Leyden turned Lazard's Australian business into an employee-run unit in 2021, much like what CSFB is looking to do.

Former UBS and JPMorgan banker Andrew Pridham co-founded MA Financial in 2009 through a joint venture with American rainmaker Ken Moelis.

Messrs Leyden and Pridham, among others, used their reputations as experienced bankers when they set up their shops.

"What is a must-have for an independent to compete at the highest level? Some of the most senior advisers in the country," Ms Exel said.

The same is true for investment banking start-ups Jefferies, Barrenjoey Capital Partners and Jarden. They are not boutiques, but Jefferies' Michael Stock, Barrenjoey's Matthew Grounds and Aidan Allen at Jarden are partly responsible for these firms' rise in M&A league tables.

Board relationships, meanwhile, are another value-add for independents.

Working together

For instance, Adara Partners' Tim Burroughs – a former investment banking chairman at Goldman Sachs – was brought in by Pendal's board to advise the asset manager, alongside Macquarie, when rival Perpetual agreed to buy Pendal last August.

"The service [boutiques] provide is exclusive. Big banks like Goldman Sachs or Macquarie have global heft to do the heavy analytics or prepare the mechanics of an M&A deal," Mr Burroughs told the *Financial Review*.

"But strategic advice comes from the very senior bankers. Boutiques provide experience without the rest of the machine, and a combination of a full-service bank and a boutique is very efficient."

Indeed, a bulge-bracket bank brings tools like high headcount and balance sheet to the dealmaking table.

When large acquisitions such as AusNet require debt commitments, or an initial public offering like Virgin needs global distribution capabilities from a syndicate of firms, big banks are pivotal.

Dealmakers, however, have said 2023 may not be filled with the surfeit of billion-dollar-plus equity offerings and M&A that bankers enjoyed in 2021 and 2022. Smaller transactions are expected to pepper the market.

“I think this is the age of the independent because board members find themselves in an increasingly complex world,” Ms Exel said.