

Los Angeles Times

CIRCULATION:
1,095,007 DAILY 1,385,373 SUNDAY

WEDNESDAY, DECEMBER 9, 1998
COPYRIGHT 1998/THE TIMES MIRROR COMPANY /F/CC7/84 PAGES

DAILY 25¢
DESIGNATED AREAS HIGHER

Investment Money Is Flowing Again

Money from equity investment funds across the United States is flowing in abundance toward Southern California's vast numbers of small to medium-sized companies.

And investment banks, venture capital and equity investment firms are growing anew in a region that long ago saw the departure of major banks and brokerage companies.

"I can get you more money for your company.

If I can't, why hire me?" says investment banker Lloyd Greif, who founded Los Angeles' Greif & Co. six years ago with two partners. The firm, now with nine bankers, arranged merger and acquisition deals totaling in excess of \$1 billion in value last year alone.



JAMES FLANIGAN
ON SOUTHERN
CALIFORNIA

Barrington Associates, in business 16 years, has done 20 merger and acquisition transactions this year for medium-sized companies.

And the market is geared for growth, says James Freedman, founder and managing director of Los Angeles-based Barrington.

More than \$44 billion in equity investments for small to mid-sized companies will be raised this year from pension funds and other institutions in the United States, he reports. "That's up from \$36 billion last year and \$23 billion the year before."

Southern California increasingly is the destination of those investments, because companies are spawning, developing, consolidating and disappearing all the time here.

That's why venture capital firms are expanding. **Levine Leichtman Capital Partners**, a Beverly Hills venture firm, recently attracted \$400 million in new institutional backing. **Riordan, Lewis &**

Haden, a venture firm in Los Angeles and Orange counties that invests private capital for Richard Riordan, mayor of Los Angeles, and a group of company owners and executives, is backing a dozen fledgling companies at present.

Investor Gerald Parsky is attracting institutional funds to a new investment company named **Aurora**. And **William E. Simon & Sons**, an equity firm run by sons of the former U.S. Treasury secretary, has put down roots here with investments in logistics companies, pay telephone firms and the Florida-based **Paxson** television network.

Sutro & Co., one of the state's oldest investment firms, is expanding operations dramatically in Southern California. Sutro serves the needs of entrepreneurial and family companies with private financing to launch new products or to sell out when family founders age or have fundamental disagreements.

The region is creating a new model for business, says Alfred Osborne Jr., head of Entrepreneurial Studies at UCLA's Anderson School of Management. "We should change the wording on the master of business administration degree," Osborne declares. "Business today is not about administration but about creating companies and new wealth."

Which is all very encouraging, but what specifically do investment bankers do to earn fees that can run from 1% to 8% of the value of the total financing?

"An investment banker is a glorified salesman with financial skills," says Greif, 42, who worked 11 years for Sutro before founding his own firm.

He cites as an example the sale of **Mrs. Gooch's** natural food markets to **Whole Foods** Inc. in 1992, the first deal his company did.

"We were up against the big guys, **Goldman Sachs, First Boston, DLJ**", says Greif, matter-of-factly. "They did their calculations based on



Lloyd Greif's investment firm arranged deals worth more than \$1 billion last year alone.

cash flows at Mrs. Gooch's seven stores, compared that to other food chains and presto, came up with a price.

"But we saw it differently, saw that the Southern California recession was keeping Mrs. Gooch's sales down temporarily and that disputes among the founders had held up opening of more stores. We also saw that the natural foods business had great growth possibilities, especially in Southern California, home of the fruit and the nut."

He thought he could get a higher price and did so, negotiating the sale of Mrs. Gooch's to Whole Foods at \$67 million, more than double the other firms' estimates.

An investment bank can help a company stay alive. Sassaby Inc., of San Diego, had a successful line of cosmetic organizer boxes in **Wal-Mart** and **Kmart** stores. But **Maybelline** and **Revlon** brought out similar products and pushed the smaller company aside.

Sassaby, in desperation, thought of introducing a cosmetic line for teenagers, so Greif & Co. raised \$8 million from private investors. Sassaby was able to bring out the *jane* line of cosmetics, the firm prospered anew and was acquired on good terms by **Estee Lauder Co.**

In Greif's biggest deal, he sold real estate brokers **Jon Douglas Co.** last year. HFS Inc., now **Cendant**, had made a take-it-or-leave-it offer of \$125 million for the realty firm.

But Greif solicited other bids from leveraged buyout firms **Kohlberg Kravis Roberts** and **Hicks Muse** and from **CB Commercial** real estate and forced an auction. HFS came back and paid \$250 million for Jon Douglas. Greif & Co. reportedly earned a \$20-million fee.

The environment of Southern California encourages entrepreneurs, Greif says.

"People come here because they can do things they can't do elsewhere; nobody asks what side of the tracks you were born on."

Greif's own parents came from Europe, where his father survived Auschwitz and his mother spent World War II in hiding. They owned Paris Handbags, a now-defunct factory on Los Angeles' Hill Street.

Greif worked his way through UCLA undergraduate and USC graduate school by supervising shelf-stocking at night at a Ralph's market. He has given \$5 million to endow the Lloyd Greif Center for Entrepreneurial Studies at USC.

Competitive and intense, Greif jokes that he plans to redecorate his office wall with pictures of financiers he has beaten on deals. "I'm going to hang some scalps," he says.

Understandably, he arouses combativeness in others. "His head is as big as the L.A. Basin," says one competitor.

But so far, the companies Greif has helped to get money or to sell at a good price aren't complaining or begrudging him multi-million dollar fees. Entrepreneurs know you have to spend money to make money.