

BUSINESS

California Dealin'

Investment bankers in L.A. are expanding to keep pace with hot demand for financing deals large and small.

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Jeffrey Barbakow remembers how confused New York investment bankers were in the early 1970s when he told them about plans to turn a fast-growing Southern California enterprise called Taco Bell into a public company.

"What's a Taaa-Ko Bell?" said one New Yorker, mispronouncing the first name of the fast-food chain. "Don't be stupid," said another. "It's a Southern California utility."

Not that long ago it was hard to interest Wall Street in any Southern California company that wasn't aerospace- or entertainment-related, remembers Barbakow, then an investment banker for Merrill Lynch in Los Angeles and now chief executive officer of a major health-care company, Tenet Healthcare.

These days, however, those who work the Southern California off-ramps of Wall Street are busier than at any time since the late 1980s, directing financings both public and private, both equity and debt, for fast-growing firms here.

"There are more companies in Southern California right now who will either become Fortune 500 companies or be bought by Fortune 500 companies than any other geographic region in the United States," said David Dennis, a managing director in Century City with **Donaldson Lufkin & Jenrette**, the lead underwriter of equity deals in California so far this year, according to data from CommScan, a New York data service.

Although recent stock market nose dives have hampered appetites for some new issues this year, bankers are still pursuing big business, with merger and acquisition activity topping the list.

The recent spate of multibillion-dollar hostile takeovers here, such as H.F. Ahmanson's \$6-billion-plus bid for Great Western and Hilton Hotels' \$6.5-billion bid for ITT, has bankers juggling more deals than at any time this decade.

Other local deals on the table include the possible sale of \$53-billion money manager Trust Co. of the West and a sale of the Los Angeles Dodgers. Other bankers are turning entrepreneurial Southern California firms such as Guitar Center and 99 Cents Only chain into public companies.

And Wall Street is paying a lot of attention. Almost every firm in Los Angeles is currently hiring.

But make no mistake: Los Angeles' investment community doesn't approach Wall Street's size or cachet. It doesn't even have the financial muscle of San Francisco. No major underwriter such as a Hambrecht & Quist or a Robertson Stephens is based here.

In the last five years, the Los Angeles brokerage industry grew 7%, compared with 29% among brokerages nationally, according to the Milken Institute in Santa Monica, founded by former junk bond king Michael Milken, who served two years in prison for securities fraud.

The investment banking community in Los Angeles resembles the mix of corporations and small firms that make up Southern California. The finance community here is a combination of bankers who staff the outposts of major Wall Street firms and smaller entrepreneurial shops.

Although it is hard to say exactly who the biggest deal makers of Southern California are, because many firms are private and do not release information on revenue or deals, here are some of the major players.

The Top Tier

The industry powerhouse is Wall Street's Donaldson Lufkin & Jenrette, which just added a third floor to its offices at Fox Plaza in Century City. In 1990, DLJ hired a group of bankers from Drexel Burnham Lambert, most of whom are still with the firm.

They have helped the firm capture the largest share (18.1%) of the national corporate junk bond market. The firm has

also increased its share of the equity market, jumping to a No. 3 ranking last year from No. 9 in 1992.

One of the busiest firms here is **Goldman Sachs** of New York, which specializes in representing takeover targets. Bankers in Los Angeles are advising Great Western in its efforts to thwart a takeover by Ahmanson, the parent of Home Savings. It also advises such major downtown corporations as Atlantic Richfield and Unocal.

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PETER BARKER

Goldman Sachs managing director

"I can be over there in five minutes if they want to discuss something," said Peter Barker, who runs the Bunker Hill office.

Although Los Angeles has lost such major corporate headquarters as First Interstate and Thrifty Drugstores, Barker believes the number of fast-growing firms here makes the area a lucrative place for bankers to be.

"For every one of these major companies that has left Los Angeles, a new one has come along. You can't afford not to be in the market," said Barker, who, like many of the investment bankers in Los Angeles, grew up in the area.

Besides being busy with Great Western, Goldman is advising the Los Angeles-based Trust Co. of the West in its search for a buyer and consulting with the owners of the Los Angeles Dodgers in their search for new investors or a possible sale.

In Westwood, **Merrill Lynch** is moving into larger offices in August and has plans to

add to the 30 bankers in its investment banking group, said Harry T. McMahon, managing director with Merrill Lynch who co-heads the Los Angeles office.

“We feel very bullish about the corporate activity in the region. This is one of our most profitable regional operations, and we expect that to continue,” McMahon said.

In the last week, the firm was lead banker on financings for such major Southern California firms as Amgen, Times Mirror, Wellpoint Health Networks, Tenet Healthcare and Hilton, said James F. Flaherty, a managing director in Merrill's Los Angeles office.

Other Wall Street firms are also busy here. **J.P. Morgan** just opened its new Los Angeles office downtown last year, and it now has nearly 10 bankers and an eye on entertainment-related business.

Prudential Securities, with seven bankers in West Los Angeles, expects to announce four new hires this week, said Michael Burns, a managing director. He said the firm plans to expand into the high-yield area.

In January, the firm completed a \$275-million public offering for Kilroy Realty, a Southern California real estate investment trust that owns property near the Los Angeles airport.

Regional Power

One of the more successful Los Angeles-based investment banks is **Jefferies**.

Company founder Boyd Jefferies built the firm into a powerful trader of large blocks of stocks between investors, but in 1987 Jefferies pleaded guilty to two counts of securities fraud for illegal “parking of stock” for admitted insider trader Ivan F. Boesky.

Jefferies moved to Colorado and is no longer involved with the firm, which has thrived in the last six years under Frank Baxter, a native Californian born in Baxter's Stop, a sagebrush dot of a town founded by

his great-grandfather between Sacramento and Reno.

Recently, the firm has attempted to increase the size of its business raising capital for companies. Last year, the firm managed 48 debt and equity deals, totaling more than \$4 billion, the most in its history.

“It's quite a shift for a firm that has spent the past 35 years finding ways to help institutions to trade better between themselves,” said Baxter, who holds a 9% stake in the publicly traded firm. “We're trying to apply those same principles between corporations and high-net-worth individuals.”

With 110 corporate bankers, the publicly traded firm is focused on small to mid-sized companies. The firm reported record earnings for 1996, up 53% from the previous year, and 29% growth in revenue. Although it has grown recently, its total revenue of \$540 million in 1996 is still small compared with those of giants like Merrill Lynch, which reported more than \$1 billion in revenue last year.

Despite its successes, Jefferies still faces major obstacles expanding its image as a top-notch trading house.

One of the more entrepreneurial local firms is run by Lloyd Greif, 41, an aggressive salesman who dubs his firm the “entrepreneur's investment bank.”

Greif, a former head of investment banking at Sutro, started his firm in 1992. **Greif & Co.** has grown to nine bankers, all focusing on mid-sized companies ranging from \$25 million to \$500 million in revenue. His largest deal last year was the \$250 million sale of Rose Hills Mortuary & Memorial Park near Whittier.