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Wall Street Bounces Back ...

... as L.A. Adjusts to Drexel's Fall

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The investment banking business in Southern California is much like a Byzantine empire in transition. The king is dead, but no successor has yet emerged—though there are many ambitious rivals who would claim the crown or at least steal a piece of it.

The king was Drexel Burnham Lambert—or, more specifically, the firm's junk-bond genius, Michael Milken. For most of the late-1980s, Drexel was unchallenged as the leading investment banking firm in Los Angeles. When a company, large or small, needed financial advice or sought to raise capital, Drexel was the name to know.

With Drexel's collapse in January, 1990, Milken's imprisonment for secu-

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DREXEL: Investment Banking Crown Up for Grabs

rities fraud and the abrupt death of junk-bond financing, the easy-money days died in Southern California and nationwide. Moreover, merger-mania's demise, stocks' bear market and the economic recession all converged last year to dramatically rewrite the rules of investment banking in the 90's.

The rules of competition still are being rewritten in the Southland market. Several major New York-based brokerages have slashed their investment banking operations here over the past year in cost-cutting moves, compounding the loss of Drexel's presence. At the same time, a few firms have expanded significantly.

Perhaps most surprising, many smaller brokerages, such as Sutro & Co. and Crowell, Weedon & Co., have staked claims to the Southland market, vowing to become major investment banking players in what they perceive to be a region rich with entrepreneurs in need of financial advice.

But in typical Wall Street herd fashion, virtually all of these rivals now champion the same cause: The rise of sober "relationship-based" business with the so-called middle-market firms that make up the bulk of the region's manufacturing and service enterprises.

The new-style investment bankers don't want to finance hostile takeovers. Rather, they want to find buyers for companies that ask to be sold. Likewise, they want to locate friendly investors for troubled firms. And they are elbowing one another to become the chosen underwriter when a healthy company seeks to sell new stock or bonds.

If it all sound genteel and caring, well, that's the concept. In practice, however, many experts still wonder how many investment bakers really understand what smaller companies need, and how to service them. And there remains a widespread suspicion that, even after the 1990 shakeout, there still are too many would-be financiers in Southern California for the level of business here long-term.

Investment banking has long been a profession populated by young, highly educated white males who live to make deals. These financiers are to companies what individual stock brokers are to small investors-part salesman, part counselor, part trader. Their fees depend on how many deals they do-and how well they do them.

If you're hired to represent a small company that is interested in selling out to a larger one, you will cajole, arm-twist or even bluff (to a degree) to the highest price possible. And on the other side of the transaction, the potential buyer uses and investment banker to try and get the lowest price possible.

Among Southern California investment bankers, one of the most outwardly aggressive is Lloyd Greif, the 36-year-old head of Sutro & Co.'s corporate finance team. While Sutro is a San Francisco-based brokerage, Greif and his team are based in Los Angeles-because, he says, Sutro serves middle-market companies, and "L.A. is the middle-market capital of the U.S., if not the world."

Everyone seems to define "middle-market" differently, but the term generally encompasses businesses valued under $500 million, and mostly between $100 million and $250 million. (As a comparison, a giant firm like Atlantic Richfield has a value of $18 billion, tallying up the worth of its stock.)

Southern California's middle-market status stems from the founding of countless firms here after World War II by returning soldiers. As the thinking goes, many of these entrepreneurs now are in their 50s and 60s, and though their business may be thriving, many face the challenge of how to cash out their wealth.

Investment bankers see this market as a modern-day El Dorado. The financiers figure that many middle-market businesses have reached the stage where their future depends on finding a bigger partner, expanding through acquisitions or selling stock. All three options generally require the counsel of an investment banker.

Which Southland financiers know this market best? Sutro's Greif—described unaffectionately by one competitor as "the loudest growl in the jungle"—has long argued that a smaller, regional investment banking operation like his can do a better job for middle-market companies than a major Wall Street firm.

Why? Because many of the major New York-based firms have come here only for the steady business of such companies as Arco, Occidental Petroleum, Mattel and other billion-dollar operations, Greif maintains. Smaller companies won't get the same attentive service from those big-deal-oriented financiers, he argues.

His pitch has worked well enough to bring Sutro substantial business in recent years from the target small- to mid-sized firms. The average size of a Sutro-led deal was $60 million last year.

Greif now views the Southland market as "wide open ...since Drexel cratered. And we intend to emerge as a core leader here."

Another regional brokerage executive who sees great opportunity in Southern California is F. Van Kasper, head of San Francisco-based Van Kasper & Co. He opened an office in Brentwood last year, hiring Bruce Emmeluth, 50, who had run the investment banking business for L.A.-based Seidler Amdec Securities for 15 years.

Like Greif, Van Kasper insists that smaller regional investment banking firms often have an advantage over bigger firms when serving middle-market clients. The promise of better personal service often strikes a chord with clients, especially if they fear that a New York-based financier will put a second-string team on a small deal.

Indeed, Thomas Hacking, corporate finance chief at Kemper Securities Group in Los Angeles (the former Bateman Eichler), contends that clients' typical complaint about some Wall Street firms is that "you have one local guy who [initiates] a deal, but then someone else from out of town-sometimes *he* can't control."