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Regional Investment Banks Deal as Wall Streeters Reel

Many Small Firms Are Finding Their Financial Leverage Closer to Home

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Wall Street's biggest investment bankers are writhing after the collapse of junk bonds and megamergers, but many regional investment firms are on a roll. And that's good news for entrepreneurs who rely on the regionals to arrange and finance acquisitions and other strategic deals.

Not long ago, Wall Street investment bankers routinely sniffed at small companies; many still do. So when Bradley S. Scott was looking to sell his Los Angeles Auto Salvage Inc. last year, he retained **Sutro & Co.**, a West Coast firm. "There's a great deal of hand-holding that goes on in selling a company, and it was important to me to have the kind of close contact that I got with Sutro," says Mr. Scott, whose company sold for less than $20 million.

First of two articles on investment banking for smaller companies.

A plethora of such small transactions is adding up to real money, say regional bankers happily removed from Wall Street's slump. "I go to cocktail parties, and the Wall Street guys say it's tough out there, and we say it's great," says Lloyd Greif, vice chairman of Sutro.

The regional bread and butter is deals between smaller companies. And with smaller companies thriving, many regionals' business has never been better. Likewise, because few big deals are getting done and so much attention is being focused on the smaller transactions, it's a seller's market for middle-market companies, whose annual sales fall anywhere between $10 million and $300 million. Even at some regional firms still in the doldrums, things are looking up.

Only last month, Advest Group Inc., Hartford, Conn., completed a $l0 million convertible-debenture offering for O'Brien Energy Systems Inc., Philadelphia. The offering, originally set for $25 million, was to have been co-managed by Drexel Burnham Lambert Inc. But Drexel's parent, Drexel Burnham Lambert Group Inc., filed for bankruptcy-law protection Feb. 13 and has said it plans to liquidate its assets.

"We were able to go back to the client and say we'd like to continue to perform on this," Allen Weintraub, Advest's president, says. "That's proof that things can be done regionally, even when your New York partner is unable."

Doing things regionally has never been more lucrative, many investment bankers say. Sutro's corporate finance activity, for example, has grown rapidly—to 19 transactions last year totaling $1.47 billion from 11 in 1987 totaling $263 million. With Wall Street now averse to high leverage and high risk, the mergers and other transactions still getting done are generally below $250 million in value. "That's right up the regionals' alley," Mr. Greif says.

To be sure, not all regionals are seeing their business mushroom; among other reasons, some firms have strong competition in their regions, and in some parts of the country, such as the Southwest, the economy is relatively sluggish.

Attuned to Needs

"I guess it's going to be another slow year. I don't think we're going to shoot the lights out," says James C. Bradford Jr., senior partner of **J.C. Bradford & Co.**, Nashville, Tenn. **William Blair & Co.**, Chicago, hasn't seen the kind of merger and acquisition activity it had before the October 1987 stock-market crash. "It's clearly a slow period, and we hope the future is going to be better," says David Coolidge, partner in charge of corporate finance.

Regionals—which normally are based well outside New York and concentrate on clients close to home—promote themselves as being more attuned to the needs of small clients than is Wall Street. "The regionals are closer to the businesses that are doing the transactions, not only geographically but also in temperament," says Richard Himelfarb, executive vice president of **Legg Mason Wood Walker Inc.**, a Baltimore concern that does transactions in the $10 million to $100 million range.

The top people at regional firms routinely pay personal attention to clients. "In New York, they'll get a junior man working on their case," says Chris Covington, a partner of **Volpe, Covington & Welty**, a 50-person San Francisco firm. "Here, they get a senior person laboring in the fields with them."

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Nevertheless, it can take considerable salesmanship for a regional firm to attract business. "Frankly, I think clients are still overly in love with New York, and they don't really understand why that's not necessarily the best place for them to do their business," says R. Hunt Greene, managing director of **Piper Jaffray Inc.**, Minneapolis. "We spend a lot of time educating them about our track record," which includes financing work done for St. Jude Medical Inc., St. Paul, Minn., and the current sale of Deltak Corp., Minneapolis.

Wall Street's preoccupation with huge transactions has given the regionals a clear-cut advantage in the current market, Mr. Greene says. Though trying to shore up business now, the Wall Street firms still generally neglect the middle market. "The result is that we've had a wide-open field," Mr. Greene says of the regionals.

Improving Staffs

Moreover, as Wall Street lays off investment bankers in droves, many of the regional firms are seizing the moment to improve their own staffs. Sutro plans to add at least seven new professionals this year to its corporate-finance offices in San Francisco and Los Angeles, a 50% increase. "This expansion is warranted—in fact, necessitated—by the current surge in middle-market transactions that we are experiencing," Mr. Greif says.

The firms that are doing well aren't being bashful about it. If they seem a tad boastful these days, it's because many of them spent most of the past decade watching from afar as the big firms feasted on the fattest deals. "The business boom that went on on Wall Street didn't materialize to the same degree in the regions," says Jim Pierpont, senior vice president, corporate finance, at Minneapolis-based **Dain Bosworth Inc.**, which had "a flurry" of new business in the first quarter.

Despite the strong business for most regional firms, many concede that the Wall Street giants could yet emerge as powerful new competitors for regional business.

"We lost a plain-vanilla private placement to a New York house just four weeks ago," says one executive of a Midwestern regional firm, noting that the $10 million transaction couldn't have generated more than $60,000 in fees—small potatoes for a big firm. "They actually flew in from New York to this backwater city," he says. "Since they aren't doing the big deals, they've got to do something."