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Boutique Mystique

Big investment banks are down, but smaller ones may be up.

Avital Louria Hahn - CFO Magazine
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The implosion of Wall Street's large investment banks may well be a boon for smaller ones. The financial crisis "has created...unprecedented opportunities for midtier firms," Keefe, Bruyette & Woods analyst Lauren Smith recently advised clients, reiterating "outperform" ratings on Lazard, Thomas Weisel Partners, and Evercore Partners, among others.

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What makes the smaller banks and advisory firms so attractive? They generally carry little debt, avoid high-risk investments, and have continued to expand despite the downturn in mergers and acquisitions. Meanwhile, those that offer only consulting services, like Evercore, have fewer conflicts of interest than universal banks, where bankers "often have to sell certain products," says Jess Varughese, managing partner of financial-services boutique Milestone.

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Boutiques were involved in some of the most headline-grabbing deals this year. InBev's acquisition of Anheuser-Busch included three boutiques (Lazard, Centerview Partners Holdings, and Moelis) along with larger firms. And Roche Holdings hired Greenhill & Co. as adviser on its \$44 billion unsolicited bid for Genentech.

Whether these specialty shops can gain significant market share remains to be seen. A survey of 22,000 midsize companies, the natural clientele for such firms, suggested that big banks were better positioned to win other business, thanks to the treasury services they provide, according to

Greenwich Associates. Historically, though, they have had difficulty leveraging middle-market commercial-banking relationships into investment-banking opportunities, so the smaller firms may still gain, says Jesse Neumyer, a Greenwich associate and study author.

Jeff Burchill, CFO of property insurer FM Global, says smaller players may have to wait until the consolidation among big banks stabilizes. Once the dust settles, he predicts, "you'll see a migration back to niche investment banks [specializing] by industry or company size."

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