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### Investment Banks See Signs of Life in Second Quarter Action

By KATE BERRY, Staff Reporter

A recent pickup in deal activity and the robust performance of the stock market have brought some relief to local investment banks that have struggled for two to three years.

Investment bankers are reporting a pickup in activity in a number of sectors in the second quarter, ranging from private equity funding to secondary offerings to corporate bonds.

While merger and acquisition activity remained depressed in the second quarter, it rebounded from abysmal levels in the first quarter, when the prospect of war in Iraq kept many transactions on hold.

Bankers are cautiously optimistic that the second half of 2003 will cement the arrival of the long-awaited economic recovery.

"A year ago it was a survival game," said Byron Roth, chief executive of Roth Capital Partners in Newport Beach. "Now, I've been on a red-eye every week with a smile on my face."

During the second quarter, the volume of local merger and acquisition activity remained well below levels of a year ago, both in volume and the number of transactions, according to data from Mergerstat LLC, which tracks ownership transfers.

In the second quarter, 98 deals worth \$3.9 billion were announced involving a Los Angeles-based buyer or seller, compared with 107 deals in the second quarter of 2002, valued at \$7.7 billion. The year-ago quarter included the \$2.9 billion purchase by Univision Communications Inc. of Hispanic Broadcasting Corp., still awaiting regulatory approval.

While activity fell from year-ago levels, there was a sequential uptick from the 66 deals worth \$1.2 billion announced in the first three months of 2003.

#### Alternative financings

Meanwhile, other types of transactions are keeping bankers busy.

Many companies are restructuring, paying down debt and raising capital in private placements in a slew of deals signaling a loosening of the credit markets in the past 45 to 60 days.

This, coupled with investor optimism in the stock market, has drawn some private equity and venture capital money off the sidelines.

"This is the best quarter in our six-year history," said Jason Reese, co-president of Imperial Capital LLC, a Beverly Hills investment bank that has completed 40 distressed convertible bond transactions in the past 18 months.

Reese traced the rebound to November, when bond market activity jumped and investors hunted for higher yields. Deal volume in the distressed convertible bond market has risen 70 percent since last year, he said.

Roth and other regional players said the market for investment banking also improved because fewer firms are competing for the middle market deals that are prevalent in Southern California.

Investment banks that have disappeared or been gobbled up include Robertson Stephens, the San Francisco bank that shut down last year; Montgomery Securities, bought by NationsBank (now Bank of America); Alex. Brown Securities, bought by Bankers Trust (in turn swallowed by Deutsche Bank); and Hambrecht & Quist Group, which was bought by Chase Manhattan Corp.

Roth Capital handled five deals in the past three months, mostly secondary offerings and private placements. That compares with 11 transactions the firm closed in all of 2002.

The middle market - involving companies valued at anywhere from \$10 million to \$500 million - has performed better during the downturn than larger companies, said Scott Adelman, senior managing director at Houlihan Lokey Howard & Zukin in Los Angeles.

The "mega-deal" market is off 75 percent to 80 percent from its peak in 1999, while the middle market has slumped just 35 percent to 40 percent, Adelman said. "L.A. clearly does beat to a slightly different drummer," he said.

Some investment bankers speak anecdotally about seeing an increase in purchase multiples over the past few months.

Private equity funds are being spurred on by deadlines for putting their investments to work or refunding it to investors, said Richard Haigh, principal at Mayfair Associates LLC, in L.A. His firm has seen deal activity jump 50 percent in two months.

Meanwhile, despite a recent rise, the stock market is still tame compared to a year ago.

Fewer investors are trading on margin, said Ed Wedbush, founder of Wedbush Morgan Securities, the L.A.-based investment bank.

"I would expect to see some pickup in borrowing in the next few months as the securities markets appear to have a better outlook," he added.