crain's new york business.com

# Big bankers chase small M&A deals

Aaron Elstein

**Published: April 6, 2008 - 6:59 am**



In the Cohen family's 80 years in the eyewear business, about the closest it ever came to Wall Street was the Lower East Side, where Jack Cohen started out, selling spectacles from a pushcart.

But that changed last fall, when Robert Cohen, president of Cohen's Fashion Optical Inc., got a call from someone at Deutsche Bank's U.S. arm. The Frankfurt-based giant—best known for financing such multibillion-dollar buyouts as Hilton Hotels and First Data—thought it could find a buyer for the company if Mr. Cohen was interested in selling.

“I was surprised to hear from Deutsche Bank,” Mr. Cohen says. “Normally, I think they look for much larger clients.”

**How the mighty have fallen.**

Nine months after the credit crisis choked off the flow of easy cash that had fueled merger-mania, Wall Street's legions of investment bankers are looking to grab any deal they can. Their new rallying cry: “No deal too small.”

The reason is clear. The 28% first-quarter drop in U.S. merger activity—one of Wall Street's most important businesses—marks its deepest slump in nearly a decade, according to research firm Dealogic.

**$4..2 billion at Goldman**

Last year, mergers-and-acquisitions bankers generated a record $4.2 billion in revenue for Goldman Sachs. Morgan Stanley pocketed a $13 million fee for merely providing an opinion to the directors of HCA Inc. supporting their decision to take the company private in a $32 billion leveraged buyout.

But those kinds of giga-deals have all but vanished. In response, instead of jetting around the world to bid for a place at the mergers trough, more bankers find themselves driving along the Long Island Expressway to places like Cohen's Fashion Optical headquarters in Garden City.

“We've seen a lot of larger banks competing for small and midsize deals in the past six months,” says Howard Lanser, business development director at investment bank Robert W. Baird & Co. “They focus on the middle markets when times are tough.”

The good news is that the market for smaller deals remains vibrant. Though the number of mergers valued at more than $1 billion in the first quarter was half of what it was a year earlier, the number valued at under $1 billion soared 25%, according to Dealogic. That's partly because the price of many deals has fallen along with the stock market, but investment banks also appear to be deploying more people to generate smaller mergers.

Fifty-five percent of Goldman Sachs' first-quarter U.S. deals were worth less than $1 billion, compared with 39% a year earlier, according to Bloomberg data. Such deals accounted for nearly 70% at Credit Suisse, compared with 49% in the year-earlier period.

Though small deals are keeping the Street's pin-striped legions busier than they would have been, bottom-feeding doesn't pay well in a business where fees are a percentage of a deal's value.

Gustavo Dolfino, president of recruiting firm WhiteRock Group, estimates that the combination of fewer and smaller deals will reduce the average pay of M&A bankers by 25% this year. And that's only for those lucky enough to keep their jobs when such firms as Citigroup, Lehman Brothers and Bear Stearns are undergoing extensive layoffs.

Ironically, hard times on Wall Street provide an opportunity for thousands of smaller firms, like Cohen's Fashion Optical, to get first-class advice. With help from Deutsche Bank, Mr. Cohen agreed in March to sell to a Kentucky supermarket operator for more than $50 million. The new owners hope to take the company national.

Encysive Pharmaceuticals Inc. was also a beneficiary. Executives at the small, unprofitable biotech firm got a healthy response when they decided to put the company up for sale last summer. Almost immediately, they received offers of assistance from a number of banks, including J.P. Morgan Chase & Co. and UBS.

**A deal with Pfizer**

In the end, the firm chose Morgan Stanley, according to Ann Tanabe, Encysive's vice president for investor relations. In February, Pfizer agreed to buy Encysive for $195 million; Morgan Stanley pocketed $5.7 million when the deal closed, according to Bloomberg data.

Though respectable, that is still several steps below the fees that have made the Morgan Stanleys of the world rich. Even worse, even those payments are coming under pressure as more firms crowd into a space long populated by a herd of banks specializing in middle-market deals.