Goldman, UBS Alumni Redefine Boutique as Tiny Firms Win

By Matthew Campbell, Manuel Baigorri and Aaron Kirchfeld

Apr 23, 2014 3:01 AM GMT+0400

The townhouse in London's Mayfair neighborhood where Michael and Yoel Zaoui have their offices is much more modest than the sprawling financial-district headquarters where they spent most of their careers.

Yet the two brothers -- former mergers and acquisitions bankers at **Morgan Stanley (MS)** and **Goldman Sachs Group Inc. (GS)** -- are becoming an outsized presence on some of **Europe**'s largest corporate transactions. Just this month, the Zaouis worked with**GlaxoSmithKline Plc (GSK)** on a $23 billion deal with Novartis AG, and advised **Lafarge SA (LG)** on its $40 billion merger with Holcim Ltd.

The Zaouis are not alone in betting their experience and relationships with big corporate clients make them valuable advisers even without any of the resources of a large investment bank. With staff contingents that could comfortably fit in a minibus, a number of firms, including LionTree Advisors LLC and a new venture by London bankers Simon Robey and Simon Warshaw present a threat to big banks' prospects of earning lucrative advisory fees, which have been harder to come by since the global financial crisis.

"If a client hires us, it is Michael and myself, our name is on the door, and we can clear conflicts on the spot," Yoel Zaoui said in a phone conversation. "So much of the analysis that used to require large teams is now available at the touch of a button. But you can't get the quality of judgment which comes with experience in tough negotiations on the computer screen," his brother Michael said in a separate interview.

Tiny Firms

The brothers founded Zaoui & Co. last year. Another tiny firm set up by Robey and Warshaw, formerly of Morgan Stanley and**UBS AG (UBSN)**, worked with **Vodafone Group Plc (VOD)**'s board on the company's $10 billion takeover of Spanish cable company Grupo Corporativo Ono SA, announced last month.

The firms are miniscule compared even with so-called boutique investment banks. Greenhill & Co., the firm founded in 1996 by Morgan Stanley banker Robert Greenhill, has offices from**Sao Paulo** to

Sydney, while **Perella Weinberg** has about 60 partners. Zaoui & Co., by comparison, has just 10 staff.

The advantages of working with such a small firm aren't always obvious to companies, said Jorge Lucaya, a Morgan Stanley alumnus who's managing partner of AZ Capital, a 15-person firm based in **Madrid** that's worked with companies including**Telefonica SA (TEF)** and Abertis Infraestructuras SA.

"The first deal with each of the clients is the most difficult one," he said. "It sometimes takes some time to convince them as they see some risks in not hiring a big bank."

The switch for bankers can be lucrative. On a merger worth $25 billion, advisory fees can be as high as $100 million in total, according to estimates by New York-based research firm Freeman & Co. With almost no overhead to speak of, the principals of a tiny advisory firm can keep the bulk of their share of fees.

"If we do one deal a year, that's fantastic," said Lucaya.

Taubman, Verizon

Perhaps the most dramatic change was by Paul Taubman, also formerly of Morgan Stanley, who advised Comcast Corp. on its $45.2 billion takeover of **Time Warner Cable Inc. (TWC)** while working from **office space** borrowed from the law firm of Weil Gotshal & Manges LLP in the **GM** building in **New York**.

Taubman, who has no other employees, briefly ranked at number seven globally among merger advisers, ahead of Credit Suisse Group AG and Deutsche Bank AG, after advising Verizon Communications Inc. on the $130 billion acquisition of Vodafone's stake in their U.S. mobile venture last year.

On deals in 2014, he ranks 16th, ahead of Zurich-based UBS, the biggest Swiss lender, as well as outranking the bigger boutique firms Greenhill and Evercore Partners Inc.

Rankings Bump

Another New York shop, LionTree, has also made its mark in the telecommunications space. Founded by UBS bankers Aryeh Bourkoff and Ehren Stenzler, it's been a regular adviser to**Liberty Global Plc (LBTYA)**, the cable conglomerate controlled by billionaire **John Malone**, working on Liberty's $16 billion takeover of Virgin Media Inc. last year.

LionTree also saw a bump in its ranking in 2013, following its work on the Liberty-Virgin transaction and after advising Warner Music Group in its purchase of EMI Group's Parlophone Label Group from **Universal Music Group** for $764 million. The firm jumped to fourth place on the global league table of financial advisers for media mergers and acquisitions in February 2013, according to data compiled by Bloomberg, seven months after it was started.

To be sure, the damage such firms can do to big banks’bottom lines is limited by their size. Without global footprints, day-to-day intelligence of goings-on in the stock markets, or any capacity to finance deals, the tiny boutiques’role will always be specialized.

Simple Pitch

That makes their pitch to clients a relatively simple one, said David Stowell, a professor of finance at Northwestern University’s Kellogg School of Management in Evanston, **Illinois**. Clients are promised the undivided attention of experienced dealmakers, without big-bank bureaucracy or the need to chase rankings in the league tables and cross-sell services like financing and derivatives.

A challenge for the new firms is sustaining their links to big corporations beyond the lifespan of relationships forged during bankers’ careers at big institutions.

“As the beginnings are quite tough, these bankers usually rely on their closest clients from their previous jobs,” said Pedro Nueno, a professor at Barcelona’s IESE business school.

Crowded Field

The landscape of would-be advisers is also crowded. One of the new firms has already become two: former Goldman Sachs banker Simon Robertson, who was working with Robey and Warshaw, has gone his own way and returned to running his own firm, Simon Robertson Associates, though they plan to continue to work together.

More senior bankers may try to go it alone as the largest global banks continue to struggle under the weight of regulation and sluggish performance, putting pressure on pay packages. Deutsche Bank and Bank of America Corp. are both making cuts to their investment banks, people with knowledge of the situation have said.

Still, the prospect of running a boutique is more challenging than it might first appear, said Enrique Quemada, the chief executive officer of OnetoOne Corporate Finance, an advisory firm in Madrid.

“Every year you need to start from scratch again,”Quemada said. “Life at a small boutique is really tough.”

To contact the reporters on this story: Matthew Campbell in **London** at **mcampbell39@bloomberg.net**; Manuel Baigorri in London at **mbaigorri@bloomberg.net**; Aaron Kirchfeld in London at **akirchfeld@bloomberg.net**

To contact the editors responsible for this story: Jeffrey McCracken at **jmccracken3@bloomberg.net**Mohammed Hadi, Elizabeth Wollman