

## Face Value | Bank to square one

### Ken Moelis believes that small is beautiful when it comes to investment banking

**T**HE first investment bank where Ken Moelis worked—Drexel, Burnham, Lambert—failed spectacularly. Another former employer, Donaldson, Lufkin & Jenrette (DLJ), was bought by a bigger rival. The most recent, UBS, is now on government life-support. During his 25-year career in investment banking, in short, Mr Moelis has seen it all. Over that period investment banks have evolved from staid partnerships into huge, publicly traded conglomerates before stumbling, and in some cases collapsing, last year. But Mr Moelis has survived the upheaval, and come up with some ideas about how investment banking could be improved along the way. He is now trying to put them into practice at the bank he founded in 2007, Moelis & Company.

Mr Moelis started out in the Beverly Hills office of Drexel, where he worked with Michael Milken, the “junk-bond king” who was later jailed for fraud. They raised money for cable-television channels and megacasinos in Las Vegas—both innovative new businesses at the time—with fabled entrepreneurs such as Ted Turner and Steve Wynn. Mr Milken’s belief that a small bank with great ideas could shake the establishment made an impression on the young Mr Moelis, despite Drexel’s subsequent collapse. Over the course of his career, he says, he concluded that banking conglomerates were too unwieldy to look after clients or employees properly—one reason why he left DLJ in 2000 when it merged with Credit Suisse. Nonetheless, a few months later Mr Moelis agreed to join UBS, another big Swiss bank, to build up its American investment-banking unit. And build he did. It quickly became a leader in almost every branch of the business, from mergers and acquisitions (M&A) to share offerings.

That was not enough for Mr Moelis, who says he still felt uncomfortable at such a big bank. In early 2007, despite the worsening economic outlook, he left to set up a bank of his own. A day after opening Moelis & Company he won the job of advising Hilton Hotels on a \$26 billion takeover bid from Blackstone Group—one of the biggest deals of the buy-out boom. As the recession took hold, demand grew for the impartial advice that “boutique” banks offered but that the giants, with their myriad customers and huge proprietary-trading operations, struggle to provide.

Indeed, big banks’ share of the world’s M&A business so far this year is five percentage points lower than it was last year. Boutique banks, by contrast, have won their highest share ever, at 15%. Both long-established small outfits such as Rothschild and Lazard, and newer ones such as Evercore Partners, have seen their business expand. But Moelis & Company made the biggest splash, briefly becoming one of the top ten banks in the M&A business in America. Mr Moelis’s firm helped Anheuser-Busch, an American brewer, sell itself for \$52 billion to Inbev of Belgium, and helped Yahoo!, an internet portal, see off a takeover bid from Microsoft, a software giant.

In the immediate aftermath of the crisis, the big banks resembled patients coming down from ether to Mr Moelis: “Everyone awoke to find that profits generated from leverage and casino-like bets made with the bank’s own capital were just illusions.” Small banks were able to win lucrative advisory mandates and hire talented bankers from their dazed rivals. Mr Moelis picked up some big names, including Mark Aedy, a former star at Merrill Lynch. In less than two years he has expanded from ten employees in New York and Los Angeles to 230 in six different cities.

Although the sudden seizure of the credit markets and the subsequent swoon of the economy afflicted the titans of the industry most severely, it is now beginning to affect boutiques too, as mergers dry up. But Mr Moelis has already experienced such a drought, during the recession of the early 1990s, when he was head of investment banking at DLJ. At the time, rather than wait for M&A deals to return, he decided to build expertise in loan restructuring, to win business advising the many firms that were struggling with their debts. DLJ’s restructuring group became the market leader and Mr Moelis learned that “When you help a client in trouble, you have a client for life.” So he has repeated the trick at Moelis & Company as the economy has soured: restructuring now makes up half its business.

Mr Moelis knows he will have to remain nimble while expanding his firm’s offerings. This week Moelis & Company announced the opening of an Australian office that will focus on Asian deals. Plans are also under way to underwrite securities and develop a trading platform. He hopes the latter move will address a shortcoming of many boutiques: their inability to access capital markets. Mr Moelis has also hired risk-advisory experts to help clients comb through the arcane financial instruments (probably toxic) sitting on their books. But he is quick to point out that he will not do any proprietary trading or expand into other fields that could lead to conflicts of interest.

#### Battle with the bulge

Mr Moelis concedes that his firm is unlikely to keep growing so quickly. Just as the crisis provided an opportunity, the recovery is posing a threat as big banks recapitalise and prepare to wrest business back from the boutiques. Worse, talented bankers from fallen giants such as Lehman Brothers and Bear Stearns are now setting up their own boutiques, further stiffening the competition. Moelis & Company fell to 82nd in the most recent M&A league tables. That decline, although offset in part by restructuring work, shows how transient success in investment banking can be.

Mr Moelis has proved adept at surviving crises, but the banks he has worked for have not all been so fortunate. Can he build a bank that will outlast him? He is convinced that new ideas and agile management will allow Moelis & Company to flourish. But his own career shows just how easily banks can come and go, in large part because bankers do too. ■