

A Peek Inside Moelis & Co.

Young investment bank, started last year by Wall Street veteran Ken Moelis, thrives in midst of credit crisis

BY JOSHUA HAMERMAN

Moelis & Co. executives are proud of what the investment bank has achieved in its short lifespan. Just don't call their firm a boutique.

"A traditional boutique is almost a hobby business, not a growth firm looking to expand rapidly and chase down different market opportunities," says **Navid Mahmoodzadegan**, a managing director at Moelis & Co. who has been part of the firm since its inception. "We're a boutique in the sense that we're not as big as Goldman Sachs, but if you look at the trajectory and what our vision is, we're not a boutique. We're an entrepreneurial, high-growth investment bank. Our aspiration is to be known as an investment bank, and with that comes the scale and flexibility that goes beyond what you think of as a traditional boutique."

Adds **Jeffrey Raich**, another managing director who was part of the original team,

"When you think about a boutique, you think about a small group of people at the end of their careers looking to get together to mine a handful of relationships," and, he emphasizes, that does not apply to Moelis & Co.

Indeed, since it opened for business in July 2007, the firm has grown to more than 150 professionals, including more than 100 investment bankers, and four offices. Moelis & Co. specializes in M&A advisory, restructuring and other corporate finance assignments, and also manages investment funds.

The firm is ranked fifteenth in Thomson Reuters' league table of top advisors on all deals with US-based targets or acquirers announced during the first three quarters of 2008, with eight transactions worth \$69.3 billion. In the year-prior period, Moelis & Co. ranked twenty-seventh with two deals valued at \$26.7 billion. The number of

deals, though, belies their status.

The firm co-advised Hilton Hotels with UBS on its \$26 billion acquisition by The

Blackstone Group, which closed on Oct. 24, 2007. In addition, it was retained by Anheuser-Busch with Goldman and Citigroup to advise on its \$52 billion acquisition by InBev, which is expected to close before the start of next year. Moelis & Co. was also hired by Yahoo! alongside Goldman and Lehman Brothers to help defend against Microsoft's unsolicited offer earlier this year.

Raich and Mahmoodzadegan followed **Ken Moelis**, the firm's eponymous chief executive, from UBS in April 2007 to help start up the new firm. Moelis was most recently president of UBS Investment Bank, where Raich and Mahmoodzadegan had worked their ways up to joint global head of M&A and global head of media investment banking, respectively. Prior to UBS, Moelis was head of corporate finance and co-head of the Los Angeles office at Donaldson, Lufkin & Jenrette. Raich was head of West Coast M&A at DLJ, and Mahmoodzadegan also worked at DLJ before joining UBS. Moelis & Co. now has 22 managing directors, seven of whom worked with Moelis at UBS and seven of whom he knew at DLJ.

Of course, the decision to leave a bulge bracket during peak market conditions was not an easy one. "We started Moelis & Co. in July 2007 and could not have had better



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timing,” says Mahmoodzadegan. “It took a real leap of faith to do it, but we had a real passion for this and believed in the concept entirely.” His and Raich’s relationship with Moelis was also a deciding factor: “There’s always been a tight level of respect, trust and confidence in our partnership.”

Raich says Moelis & Co. has three main objectives, regardless of market conditions—to serve clients well, attract the best talent as possible and build a best-in-class investment banking firm focused on client excellence versus expanding in size just for the sake of growing. On the recruitment front, Moelis & Co. got lucky with the credit crisis, and has been spending more time discussing job prospects with external bankers.

“Our daily routines remain somewhat the same in terms of still being extremely focused on our client base, trying to execute the transactions we have in-house and trying to get new transactions,” Raich explains. “There is an additional element, though, that’s a little different over the last couple of weeks—heightened attention to talking to professionals and bankers who may become available through this chaos. We’re focused more on recruiting than we expected to be at this time of the year.”

Moelis & Co.’s recent appointments include Andrew Shore as a managing director and head of household and personal care coverage. He was most recently a managing director in JPMorgan’s global consumer products group. The firm also hired Greg Share as a partner in its private equity business from Fortress Investment Group and Gregory Shaia, formerly head of retail and apparel banking at Bear Stearns, as a managing director and head of consumer and retail sector coverage. Peter Vogelsang recently came aboard as a managing director and general counsel after 18 years at Morgan Stanley, where he was co-head of investment banking coverage. Justin Mirro, who established Jefferies & Co.’s automotive banking franchise, came aboard as a managing director and head of automotive banking. At the beginning of the year, Stephan Oppenheimer was hired as a private equity division partner from CCMP Capital Advisors, and Edward Epler came aboard as head of aerospace and defense coverage from CIBC World Markets. Another UBS veteran, Robert Crow-

ley, most recently the Swiss bank’s global head of high yield capital markets, joined in October 2007 to oversee the build-out of the firm’s Boston office.

Moelis & Co. also announced it hired another ex-Bear banker, Kenneth Viellieu, in June to open and lead its Chicago office. At Bear, Viellieu was a senior managing director and head of Midwest investment banking.

“We were as much attracted to Ken as we were to the opportunity in Chicago and thought his ability to penetrate Midwest relationships was a great strategic move for the firm at the time,” says Mahmoodzadegan. “Our business plan would have had Chicago in it down the road, but we were taking advantage of some of the market opportunities presented to us to expand geographically.”

Besides Chicago, Moelis & Co. has offices in Los Angeles, New York and Boston. Most of the firm’s professionals are based in New York, and although original team members such as Moelis, Raich and Mahmoodzadegan are based in Los Angeles, they spend a lot of time at the bank’s other branches.

At UBS, Raich and Mahmoodzadegan worked on such deals as Los Angeles-based Spanish-language media player Univision Communications’ \$13.7 billion sale to a private equity consortium composed of Saban Capital Group, Thomas H. Lee Partners, Madison Dearborn Partners, TPG and Providence Equity Partners, where they advised the seller. The transaction, which closed on March 29, 2007, was very heavily leveraged, and the debt taken on to finance the deal is causing difficulties for Univision (*IDD*, “Univision: After The LBO,” 8/18/08).

The Univision acquisition was completed in a market very different than the one that exists today. All M&A advisors, including Moelis & Co., are feeling the impact.

“The issue we have right now is that the uncertainty regarding liquidity has created a massive crisis of confidence, even among strategics,” says Mahmoodzadegan. “M&A is a lot about emotion, and when people are concerned about their balance sheets, liquidity and the general economic environment, it becomes more difficult to get transactions done.”

Raich agrees, but says the firm’s personnel expansion is helping ease the situation. “We are in a difficult environment to get transactions done—it feels like hand-to-hand combat on a lot of the transactions we’re involved in, but the good news is we’re hiring veterans who have substantial experience on Wall Street and have accumulated a lot of scar tissue,” he says. “This is the type of environment where we can make a difference on deals because it’s in the easy deal environments where it’s hard to differentiate advice from expertise. What we’re finding in this difficult time is that having the experience, expertise, judgment and maturity to drive transactions from an execution standpoint is extremely relevant and is a differentiator for our clients.”

The credit crunch-induced consolidation among Moelis’ bulge-bracket competitors and changes to the US investment banking sector are also benefiting the firm and its peers.

“You’ve just seen the world consolidate,” says Raich. “There are literally no large investment banks anymore. If you look throughout history, there has always been a role for independent, high-quality, focused advisors, and that hasn’t changed. All this consolidation caused by market dynamics and what banks were doing with their balance sheets hasn’t changed market finance, so the opportunity to create businesses of scale in that area has never been better.”

Peter Taft, a partner at middle-market private equity shop Morgenthaler Partners, agrees. “Moelis is a good example of a firm that will certainly benefit from the changes that are playing out,” says Taft. “They’ve certainly gotten off to a fast start and we’ve [been pitched] some opportunities from them.”

Morgenthaler typically engages in transactions worth between \$50 million and \$100 million.

The business model of Moelis & Co. and other newcomers focuses on the human capital side of the investment banking business as opposed to the balance sheet side, he says, which is a positive trend. “Investment banking has always been a business with two primary value drivers—human capital and *capital* capital,” says Taft. “The big investment banks have

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always had a balance of both, but as they started using their balance sheets as part of their business over the last decade, the *capital* capital side became disproportionately large.”

He predicts more breakaway shops will soon enter the playing field on Wall Street. “Within large investment banks, bankers are seeing that the [industry] business model is different now and that they’re better off forming their own firms, which will be focused on advisory services and M&A capabilities and where balance sheets won’t be required to generate income,” says Taft.

In spite of Wall Street turmoil and a more difficult dealmaking environment, Moelis & Co. executives feel the knowledge that the firm will continue to grow helps its bankers immensely. “We have created an environment where we enjoy what we’re

doing in an environment on Wall Street where that is tough,” says Raich. Adds Mahmoodzadegan, “Because of the frenetic pace right now, the focus we’ve always had on our clients is heightened because of the difficulty of getting deals done in a volatile marketplace. We feel lucky to be able to have that extreme focus.”

Moelis & Co. also offers its senior executives a chance to engage in more dealmaking nitty-gritty than they did at larger competitors. “A lot of us had management responsibilities in our prior lives, and now, we’re completely free of that and we’re able to focus purely on executing transactions for our clients,” says Raich. “We’re much more involved in the day-to-day execution than we had been at larger firms.”

The firm is looking to add to its capabilities in the healthcare and energy sec-

tors, and continues to see opportunities in the restructuring arena. In July, Thane Carlston and William Derrough joined Moelis & Co. as managing directors and co-heads of the firm’s restructuring group. They were previously co-heads of Jefferies’ recapitalization and restructuring division. The rest of Moelis & Co.’s restructuring team followed Carlston and Derrough from Jefferies.

“We’re sitting here 15 months into the lifecycle of our firm feeling very proud of what we’ve accomplished,” says Mahmoodzadegan. “There’s a lot of work still to be done, and we’re fully cognizant of market conditions, but we feel we’re going to continue to survive and thrive as the general markets return.”

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