By Joseph A. Giannone Reuters.com

PERELLA SAYS BOUTIQUES CAN THRIVE AMID LBO BUST

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NEW YORK (Reuters)

Hobbled financial markets have spoiled the buyout party for Wall Street's big investment banks, yet demand for independent advice is undiminished, famed dealmaker Joseph Perella said in an exclusive interview.

Small "boutique" banks such as Perella Weinberg Partners, Greenhill & Co and Evercore Partners make their living by advising corporate clients on deals and strategy, but they avoid the financing and investing roles that create conflicts of interests common at the big firms.

With the cheap debt that fueled the leveraged buyout boom no longer available, first-quarter U.S. M&A volume plunged 56 percent, according to Dealogic. But boutique executives say their business will hold up well, as well-heeled companies -- so-called strategic buyers -- hunt for bargains in a field that is suddenly a lot less crowded.

"The need for advice hasn't gone away. As the private equity people recede to the background, strategic buyers have less competition and I think they will get more aggressive," said Perella, one of Wall Street's best known dealmakers for the past 35 years.

"The boutiques will suffer little or no decline in revenue because their business model wasn't built on, and their headcount wasn't expanded to serve, the needs of the private equity industry," he told Reuters.

TOUGH TIMES

The environment for deals is rough and may only be getting worse. Big banks are unable, or unwilling, to finance private equity deals, leading to a 76 percent drop in first-quarter activity. Deals for Sallie Mae, Clear Channel Communications and other such trophies have broken apart and ended up in court.

That's a part of the market where boutiques, which do not have capital to throw around, never played a big role.

"We're not depending on total volume of M&A in order to have a decent year. Boutiques should be fine," said Perella who sat down with Reuters with the firm's other founding partners, Peter Weinberg and Terry Meguid,

Perella and Meguid, who left Morgan Stanley in April 2005, and Peter Weinberg, a descendant of several Goldman managing partners, joined with a number of other senior dealmakers to launch Perella Weinberg in June 2006.

Like Ken Moelis and Blair Effron, who left UBS, or pioneers such as Bob Greenhill and Peter Solomon, the Perella partners saw a need for firms selling advice free of conflict of interest. These firms look and feel like the old Wall Street partnerships before they expanded into giants that advise, finance and invest in deals.

In its first 22 months, Perella Weinberg quietly has grown to 107 people and an asset management business with $2.5 billion. The firm's 20 advisory partners have worked on at least 25 announced deals worth more than $100 billion.

"If there weren't demand for independent, objective unconflicted advice, these firms couldn't get off the ground," said Perella, who together with Bruce Wasserstein led First Boston's merger practice in the 1970s and 80s and launched M&A boutique Wasserstein Perella & Co in 1988.

"That demand has been constant. That's always existed. What's happened is the conflicts have multiplied," said Perella, who left his firm in 1993 to join Morgan Stanley. Wasserstein since 2001 has been CEO of Lazard, the world's largest independent advisory bank.

Independent firms advised on deals representing 9 percent of total merger volume last year, according to Evercore. That's a significant gain from 1 percent in 2000, though still less than the business Goldman did all by itself.

Boutique executives said the M&A business was more active than public data would reflect. Perella Weinberg, for example, recently advised New York insurance regulators on how to help troubled bond insurers, and guided Kuwait's sovereign fund in buying a $2 billion stake in Merrill Lynch.

"Announced volume is down. In terms of the information available to the outside world, everything is down, down, down," Evercore Chief Financial Officer Robert Walsh told investors last week. Yet Evercore bankers continue to work late nights and weekends, he said.

"Strategic buyers see some dramatic opportunities with prices down. Many buyers have pristine balance sheets, don't have needs for high amounts of leverage and see opportunities with financial sponsors playing a far lesser role," Walsh said.

That said, even deals that do not involve buyout firms also plunged, down 32 percent in the first quarter, Dealogic said.

And turbulent markets continue to generate fresh losses -- on Tuesday UBS reported an additional $19 billion of mortgage and credit write-downs. Bear Stearns BSC.N was run out of business by anxious investors, while Lehman Brothers battles speculation it lacks the financial vigor to get through the credit crunch.

"It is a tough environment and I think it's going to get worse," said Perella, who cites soaring energy prices and bank balance sheets laden with hard-to-value assets.

Still, boutique executives insist there are some silver lining. Evercore, which ranked first among the boutiques last year and 12th overall in U.S. M&A, says its pipeline of deal activity has never been fuller.

Meguid noted cash and equity levels are historically high among S&P 500 companies, and said companies pursue mergers to boost profit when revenue growth is difficult. At a time when the rest of Wall Street is slashing jobs, Perella Weinberg is growing, he said.

"We have a lot of very large-cap clients looking at some very interesting things," said Meguid, who had been global head of investment banking at Morgan Stanley. "We're still aggressively looking to build the firm. Right now we are not business-constrained, we are people-constrained."

(Editing by Steve Orlofsky)