Quality and Integrity in Investment Banking

**Interviews with Marshall Sonenshine, Managing Partner;
Carlo Bronzini Vender and Stuart Ray, General Partners;
Jennifer Doré Russo, Managing Director; Cyrus Deboo and Phillip Kwun, Directors, Sonenshine Partners**

EDITORS' NOTE *Sonenshine Partners (www.sonenshinepartners.com), founded in 2000 by former partners of independent M&A boutique Wolfensohn & Co. and Deutsche Bank, has established itself as a highly successful investment banking firm in its own right. The firm has completed billions of dollars in global M&A and restructuring deals in a broad range of industries, including technology, retail and consumer, media and communications, manufacturing, health care, business services, and financial services. The firm is led by Marshall Sonenshine, Carlo Bronzini Vender, and Stuart Ray, who were senior members of the Wolfensohn team that saw that firm through its highly successful merger into Bankers Trust, that bank's subsequent acquisition of Alex. Brown & Sons, and its ultimate merger into Deutsche Bank.*

Sonenshine Partners benefits from both a credentialed core of senior dealmakers and a well-established board of advisers, including: Harry Durity, Chairman of National Medical Health Card Systems and former Corporate Vice President, Worldwide Business Development for Automatic Data Processing Inc.; Kay Koplovitz, former CEO of USA Networks; Dr. Arthur B. Laffer, leading economist and former Economic Adviser to President Ronald Reagan; Rafael Pastor, CEO of Vistage International – a global corporate membership organization backed by Thomson Corporation – and former Executive Vice President of News Corporation; and Alok Singh, a managing director at private equity firm New Mountain Capital.

Generally a very private company, Sonenshine Partners agreed to this exclusive interview with LEADERS *Magazine in which it shares its perspectives on the global M&A and financial markets, including its insights in the areas of corporate strategy, private equity and hedge funds, and the state of financial markets.*

Marshall Sonenshine
Managing Partner

What is the essential mission of Sonenshine Partners?

The mission of our firm is to provide the highest quality investment banking advice and results to boards and senior executives of corporations through impeccable strategic insight, financial skill, top-level access, and negotiating excellence. We provide strategic and financial advice to companies undergoing or considering critical change in direction, typically through mergers, acquisitions, restructurings, or other corporate financial transactions. We start with the conviction that the world does not need another investment banking firm unless it is better than the norm, i.e. truly excellent.

That's a tall order. How do you know you are succeeding?

We know from three perspectives. First, our clients tell us by retaining us rather than larger banks. Second, the referral business sustains organic growth each year – and this in a business that has no capital-driven operations, no research to sell, and no carried interest on other people's money. We live purely by our work products, which relate to corporate and deal strategy, access, and negotiation. Third, we have ample empirical proof of our success in the deal metrics we achieve for our clients, which are consistently superior for our clients relative to comparable multiples or other data points in their industries.

Yes, it is a tall order. In the advice business, if you can't fill that order, you can't succeed as a boutique.

Can you provide a few examples?

Sure. In our first multi-billion-dollar deal, in 2001, we sold the software company Structural Dynamics to EDS, merging it with EDS subsidiary UGS, which today is part of Siemens. We achieved the highest multiples in the sector – roughly 50-times earnings. A few years later, when the shareholders of privately-held simulation software company ABAQUS – previously a bulge bracket client – wanted to exit through a strategic deal, we were brought in and concluded a deal for close to half a billion dollars with European leader Dassault Systèmes SA, constituting the largest deal ever done by Dassault. More recently, we restructured in Chapter 11 and sold Riverstone Networks to Lucent Technologies, just prior to its merger with Alcatel, succeeding where two major banking firms had tried and failed, and achieving a record 3-times revenues for our client by orchestrating a bidding war between Lucent and Ericsson.

When KKR- and Wachovia Bank-backed telecom company NewSouth Communications fell under pressure, we were retained first to restructure the company and later to advise in connection with its merger with a direct

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competitor, GE- and JP Morgan-backed NuVox Communications.

This year, in our retail and consumer practice, we represented Madison Dearborn in selling the nation's leading wine and spirits retailer, Beverages & More, to TowerBrook Capital Partners (formerly Soros Private Equity) at record multiples in that category. As an independent firm, you don't get to work in those circles unless you have something to offer that is unique.

What is the single most important ingredient to success in advising companies on deals?

Clear thinking. Companies and boards fall into trouble often because of fuzzy thinking or defective premises that were not adequately questioned or amended as facts changed. Anyone can make deals happen, but not everyone can make the right deals happen. When you think clearly and can develop strategies and processes at the senior management and board level to support that thinking, you have every chance of succeeding. If you don't do that, you have every chance of failing or achieving only modest success.

Who were your mentors?

I have had great mentors. At the top of the list would be Jim Wolfensohn, who had been Head of Banking at Salomon Brothers, where I began my banking career, before Jim founded Wolfensohn & Co., in which I became a partner. Jim is an internationalist – he later became President of the World Bank and is now Chairman of the International Advisory Board at Citigroup – and I learned from him to think globally but to relate personally. Another key mentor was our then Chairman, Paul Volcker, former U.S. Federal Reserve Chairman. I worked closely with Paul in advising several global financial institutions, and on the sale of our firm, Wolfensohn, to Bankers Trust, which subsequently merged with Deutsche Bank. I would run out of room to list the things I learned from Paul.

Another great mentor was Harvard Law Professor Roger Fisher, with whom I worked on the Harvard Negotiation Project. Roger always urged negotiators to be tough on issues but not necessarily harsh with people. Matt Nimetz, an early legal mentor and former Under Secretary of State, emphasized doing things you truly love, advice that also has proven reliable.

Where does the firm go next?

We are adding people and clients as organic and healthy growth continues in our advice business. We also plan to launch a capital business, as a complementary segment to our advisory services.

What is your most important focus as you grow?

Quality and integrity.

Carlo Bronzini Vender

General Partner

What do you value about life in a boutique?

I value independence, because it enables us to provide the highest-quality advice to our clients. We can take a long-term view and guide our clients through complex transactions without feeling the pressure to deliver quarterly earnings to a corporate parent. We can be patient and more thoughtful with our clients, who appreciate that orientation and ultimately come back to us over and over again for advice.

I also value the professional environment that we maintain in a private partnership. Our senior bankers are of the highest caliber on Wall Street, which in turn helps us select, attract, and retain the best talent throughout the organization. We have built an organization with a strong culture of quality and loyalty to our clients.

Confidentiality is another important element of what I value in a boutique. We have never had a leak. We don't have multiple departments in our bank so we don't need to spread information that can ultimately leak.

You were educated at Bocconi University and Harvard Business School and have spent much of your career doing international deals. Are European and American bankers as different today as they were when you began?

The difference between European and American bankers is rapidly fading. There is a new generation of U.S.-educated, U.S.-trained European bankers who now work in the U.S., and a generation of U.S. bankers who have been very successfully operating out of Europe for a long time now. The complexity of cross border deals now requires more sophisticated advice and access. Our deals span the U.S., Europe, and Asia. We recently advised 1-800 CONTACTS on the sale of its ClearLab manufacturing businesses to companies in Korea and Japan. M&A bankers in today's global markets, no matter where they are from, need to demonstrate global reach and the ability to work across markets.

How are private equity and hedge funds changing M&A in the U.S. and international markets?

As the U.S. and global financial markets adjust for excesses, the best private equity and hedge funds will continue to be an important source of liquidity in the market. They are buyers when the traditional strategic buyers are not in the market, cannot afford to take risks buying certain businesses, or lack shareholder support to make certain acquisitions. Consider the acquisition of Bausch & Lomb by private equity firm Warburg Pincus. Advanced Medical Optics, a logical strategic buyer, was forced by some of its large hedge fund shareholders not to pursue the acquisition.

Private equity funds have another key advantage. They can assess and manage risk in a private company context. Thus, they can be more efficient in managing issues and restructuring businesses.

How will the financial crisis that began in the summer of 2007 affect M&A going forward?

The seeds of the crisis began earlier with the proliferation of credit and credit instruments, often with minimal covenants, and the narrowing of credit spreads to historic lows. The key

Carlo Bronzini Vender

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Select Sonenshine Partners Deals

Fenway Partners / 1-800 CONTACTS

TowerBrook Capital Partners / Beverages & More

Quadrivio SGR / Sonus Faber

Cambridge Information Group / ProQuest Information & Learning

Snap-on Tools / ProQuest Business Solutions

Lucent Technologies / Riverstone Networks

Dassault Systèmes / ABAQUS

Q Investments / i2 Technologies (equity investment)

Starbucks / Borders Group (strategic alliance)

NuVox Communications / NewSouth Communications

Patient Infosystems / CareGuide

Celestica / Manufacturers Services Limited

EDS / Structural Dynamics Research Corporation

implications of the correction in credit markets will be fewer large buyouts, higher debt costs for companies and private equity firms worldwide, a more cautious M&A and equity market outlook, and a flight to quality in these markets. Those headlines will dominate until a new credit cycle emerges.

You have several years experience in private equity. How does that experience influence where Sonenshine Partners goes next?

I am formerly a partner in Brera Capital, run by one of the senior partners from Clayton Dubilier. We will continue to explore entering the private equity business. It is a crowded marketplace and we want to find the right formula to offer a highly differentiated product.

Stuart Ray

General Partner

You have advised large cap and middle market companies. Which is more gratifying?

We advise both large cap and middle market companies, and we like working with both. In my own career, I have advised companies as broad as Daimler Benz, Baxter Laboratories, Johnson & Johnson, Sears, and the like, but I also have spent enormous amounts of time with much smaller clients. Whether the client is large or small, what matters is that when a company retains a boutique, it is because it values the input of the individuals on the account. That is what makes boutique life so gratifying – that personal rapport with and accountability to the client.

Stuart Ray

Given your prior experience as Global Head of Energy at Bankers Trust, how have changes in global energy markets affected corporate equity and M&A markets?

High energy prices have had several effects on the sector and the capital markets. As a result of high prices, the global energy sector has been generating cash at a high rate. The excess has been recycled into the capital markets and has helped keep U.S. interest rates low. High prices have also increased the level of capital spending, particularly in the E&P sector. As long as capital is available for these companies, M&A activity is likely to continue at a relatively low level. The surprise has been how little higher energy prices have affected consumer spending here in the U.S. for several years, although we may now finally be seeing some of the effects in housing and the credit markets. Energy cycles are long because supply is relatively insensitive to demand and, until global growth slows, I would not anticipate any significant changes in the energy markets.

Should investment banks be aggressive in the area of public relations?

We have always been conservative on publicity. We let our clients speak with their own voice, and for the rest, we tend to do our work and let the press cover us as events occur. We have all seen firms wave the flag but not deliver the goods. Among independent firms, we like being part of the chosen few, and we are in that crowd because we focus on our clients, not on publicity.

You have been a principal in several chapters of your career. Do you see Sonenshine Partners creating a principal business?

Yes. Investing as a principal brings together a number of the financial skills that we have developed over our careers. In my case, I have significant experience with State Street Research, the investment adviser for major institutions including Harvard, and with the U.S. Department of Energy as the Office Director overseeing tax and regulatory affairs. At Wolfensohn, I helped organize and raise capital for our venture capital and energy investment funds. I am a founding partner of Urban American Partners, a real estate investment group that acquires and manages portfolios of rental housing in urban areas. The principal business is a natural extension of the type of strategic advisory work we do at Sonenshine Partners.

Jennifer Doré Russo

Managing Director, Retail and Consumer

What underlies your passion for advising retail and consumer clients?

Retailing is one of the few industries where creativity and quantitative metrics are equally important, and I have always been intrigued by that. There is an element of "secret sauce" to successful retailing, but that success must be guided and measured by comp store sales, SKU performance, foot traffic, average ticket, four wall contribution, and many other metrics. I find brands and how and why consumers relate to them fascinating. Advising retail and consumer companies in a boutique enables me to work with exciting and dynamic businesses across a variety of segments – from apparel to books to food and beverage and many others. As a result, I am able to bring a broader perspective on strategic opportunities to our clients.

We continue to see strong overall economic growth. Is the U.S. consumer likely to run out of steam any time soon? How will this affect your clients?

People expected the U.S. consumer to run out of steam some time ago, but in most cases consumers have continued to shop. However, we are seeing softness in the home furnishings sector now as a follow-on effect of falling housing prices. What is important for retailers as the market turns is differentiation, either in product offering, consumer experience, or both. U.S. consumers have a lot of choice in where they spend their dollars. As their budgets become tighter they have fewer discretionary dollars and become increasingly selective. Consumers tend to move down-market to value pricing or upwards to quality merchandise. Those retailers in the middle without clear brand identity and differentiation are the most at risk, whether they sell apparel, food, or other types of products. Retailers whose products are easily purchased online on other sites, like books or consumer electronics, are also at risk. Those retailers need to provide an entertaining destination with a high level of customer service to draw traffic and drive brand loyalty.

Jennifer Doré Russo

The last few years have seen unusual appetite for retail and consumer companies

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on the part of private equity firms. What is this about?

Private equity obviously has had substantial capital to invest. This, coupled with several years of easy credit, fueled activity across sectors until recently. While historically, many private equity firms shied away from retail, in the most recent cycle, they were active in the space. The difference this time was that most private equity firms had experienced industry executives help them to evaluate opportunities and steer portfolio companies. How well some of those investments weather the coming downturn with what are often historically high levels of debt remains to be seen.

You spent several years of your career as an adviser with Citigroup and its predecessor firms in London. Do you see retail becoming a more global business?

I do. Ten years ago there were very few retailers other than supermarkets/hypermarkets venturing beyond their country borders. Apparel was considered particularly country-specific. Today, with real-time fashion shows on the Internet and film and television content distributed globally, retailers are crossing borders and finding receptive consumers. H&M and Zara have obviously made significant inroads into the U.S. market, bringing fast fashion to the American consumer. Starbucks has created global demand for a premium coffee experience. Whole Foods has brought its concept to the UK. Chinese and Indian consumers are buying Western brands. I think we will see the trend towards global retailing continue.

Cyrus Deboo

Cyrus Deboo

Director, Technology, Consumer, and General M&A

Can one generalize about how corporate strategy as a discipline has changed over the past several decades?

The biggest change relates to diversification, a theme that was common in the era of conglomerates before strategic focus took precedence and subsequently found expression in the wave of divestitures and spinoffs in the last two decades. The major exception has been large media companies, some of which, like Time Warner, continue to resist activist pressure to disaggregate. Another major theme of course is globalization. Countless corporations cite an increase in global scale and reach as key drivers of their M&A strategies, though integration of those deals can be complex and challenging.

You have been active in international M&A. Do you see that trend continuing for your firm and your clients?

Absolutely. We have been in Europe every year since we started. In Asia, we have seen a renewed appetite for deals both from Japan and also in "emerging Asia" – specifically India, China, and Korea. The Japanese resurgence has been driven by several factors, including GDP growth, fiscal and macroeconomic policy, improved corporate governance, and corporate restructurings. India and China are of course the big story today. Both now have industries that are mature and ambitious enough that their companies are looking abroad for acquisitions to globalize their customer bases and brands and reduce dependence on their home markets. Virtually any buyers list today will have at least some companies from these regions.

What is the current focus of your client advisory work?

I am first and foremost an M&A banker. Within consumer and retail, I am currently advising clients in direct marketing and consumer products. Within technology, enterprise software is an area of focus for our clients. That sector will continue to consolidate, and we are continuing to play a role there. There are still many middle-market software companies competing against Oracle, SAP, IBM, and others. The middle market players' size helps them innovate and develop early in their life cycles, but later, they often hit a wall going it alone.

Phillip Kwun

Director, Communications and Technology, General M&A

You have participated in many of the firms' tech deals. What makes a great tech banker?

Technology is volatile. One day, a product could be positioned to take over a market. The next day, it could be out of business. Perceptions of value can therefore vary quite dramatically. Tech companies can be easily under or oversold. Tech bankers can have a big impact on the ultimate purchase price of a company. Great tech bankers generally do three things: (1) they understand a product and its unique value proposition; (2) they provide access to key counterparties (whether financial or strategic); and (3) they know how to advocate convincingly for value.

Which areas of technology will become important in the new global order?

We now have commoditized pricing for communications, distributed knowledge throughout the world, and created that flattening effect that everybody is talking about. We see great potential in areas like security technologies, such as biometrics and Unified Threat Management; information services like traffic management and GPS mapping; robotics for specialized applications like surgery or construction; green products such as fuels and efficient systems; and biotechnology.

What threats do tech companies face today?

While there is great potential for major advances in technology, there are also threats. These include the enforcement of global intellectual property rights, the evolution of venture investing, and the challenges associated with developing and maintaining human resources in rapidly evolving global technologies.

Phillip Kwun

First, technology innovation occurs in a few centers in the U.S., Europe, and Asia, but in some parts of the world politicians have turned a blind eye to violations of intellectual property rights. The full impact of this continued lack of enforcement remains to be seen over time.

Second, the venture world sometimes favors evolutionary over revolutionary ideas. Traditionally, there have been great rewards for those who were first to identify and back a unique technology. Today, venture firms run billion dollar portfolios hoping to back a slightly differentiated version of the last great technology hit. Investors are drawn to variants of MySpace, YouTube, or Facebook, but are more skeptical of companies with truly revolutionary technologies, because investors resist "adoption risk."

Third, we have seen a net migration of talent from large to smaller companies and among employers generally. The rewards for being an engineer at a big firm have declined in relative terms. In an increasingly mobile world, companies struggle to maintain the coherence in design and vision often necessary to make major advances possible. Among the most valued assets we tech bankers transact is what is euphemistically called human capital, i.e. people. ●