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MCF beefed up its health care research arm by buying a Massachusetts firm. CEO Jon Merriman credits MCF's expanding services for the company's growth.

Strength in numbers

Investment banks woo bright young companies
with new research and banking muscles

BY MARK CALVEY
San Francisco Business Times

As competition intensifies and weaker rivals fall away, many Bay Area investment banks serving emerging growth companies are seizing opportunities by expanding their markets and services.

Early signs of a long-awaited shakeout are evident in last month's decision by the parent of Silicon Valley Bank to throw in the towel on its investment banking ambitions. SVB Financial Group is shuttering its investment bank, SVB Alliant.

Other boutique firms are quietly fading away amid whispers as to where their principals have landed.

But the real action among San Francisco's investment banks is in the more substantial firms that have gone public as they build out their ranks to better connect promising young companies with the investment community.

JMP Group and ThinkEquity Partners have joined their rivals Thomas Weisel Partners and MCF Corp.'s Merriman Curhan Ford & Co. in the publicly held arena. JMP made an initial public offering this year while ThinkEquity was acquired by Panmure Gordon & Co., a London-based corporate and institutional stockbroker, to create a global investment banking platform.

MUSCLES: Investment banks prepare for battle in a new financial arena



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Co-CEO of Pacific Growth Equities.

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These firms are adding to their research and banking teams even as they pursue new initiatives to bring more value to institutional investors.

MCF, for instance, purchased Cambridge, Mass.-based MedPanel Inc. in April and gave the provider of primary research on the health care industry a new name: Panel Intelligence LLC. MCF recently completed its second consecutive quarter in the black, earning \$2.3 million or 18 cents per share, in the second quarter.

“Our second quarter of profitability is reflective of the growth and gradual diversification of our business lines,” said Jon Merriman, chairman and CEO of MCF Corp. “Our business backlog going into the second half is very robust.”

Fierce competition

In a sign of just how competitive the business is, Pacific Growth Equities will soon debut its own primary research ser-

vice that will glean information for corporate clients and institutional investors by surveying millions on the front lines of health care, technology and consumer sectors to provide insight into trends in these areas.

“Why would institutional investors bring their business to a full-service firm unless we gave them extra value?” said Tom Dietz, co-CEO of Pacific Growth Equities, one of the oldest of the investment banks targeting emerging growth companies. The privately held firm says it’s been profitable since its inception in 1991.

Pacific Growth and Weisel Partners, founded in 1998, were joined by about a dozen firms that took root in the early part of the decade to bring together entrepreneurs’ fast-growing companies with the deep pockets of institutional investors. They fill a role that was long served by four firms that were acquired or went out of business: Montgomery Securities,

Robertson Stephens, Hambrecht & Quist and Alex. Brown. Many of the leaders and talent at the new firms can trace their careers back to one of the so-called four horsemen.

A new breed

The next generation of firms operate in a much different environment. The firms, along with the rest of Wall Street, are grappling with the declining profitability in the business of handling trades for institutional investors who often turn to electronic trading networks.

Thomas Weisel Partners, for instance, reported a 9 percent decline in second-quarter brokerage revenue even as it builds out its own electronic trading business.

“We remain committed to our growth initiatives for increasing brokerage revenue through expanded product offerings and geographic coverage,” said Paul Slivon, director of institutional sales at Weisel Partners. Weisel recently hired

teams away from Prudential Equity Group to staff two new European offices. The firm also opened a Chicago office.

“In addition to leveraging our research and trading, bringing on the London and Zurich sales groups is an important step in our strategy to broaden our account base and expand our business in Europe,” said Chairman and CEO Thomas Weisel.

Weisel’s hiring strategy also includes bringing in two senior special situation trading professionals from UBS in an effort to expand its block-trading business.

The established players are adding to their teams on what they like to call an “opportunistic” basis. Pacific Growth, for instance, last month hired Kaushik Roy from Neuberger Berman as a

senior research analyst covering data-center technologies.

“With an increased focus on legal and regulatory compliance for businesses, we believe there is a growing opportunity to take traditional technology verticals such as storage, utility computing, communications technologies, and security and look at them in a more relevant and opportunistic light,” Dietz said.

Closing the ranks

Peter Falvey, managing director and co-founder of Boston-based Revolution Partners, which operates a San Francisco office, expects M&A activity to remain brisk for emerging growth companies despite recent volatility on Wall Street. Corporate buyers may emerge as more active acquirers with plenty of cash on hand to buy businesses that can fuel growth.

It’s unlikely the Bay Area will see more emerging growth investment banks open their doors given the demand — and price — for key talent. Plus, some see the industry facing a “lost generation” of tech bankers as many left the business following the dot-com bust.

Despite more than a dozen firms emerging to serve emerging growth companies, some bankers thought they might encounter even more rivals.

“I’m surprised more firms did not emerge,” said Cabot Brown, a managing partner at Seven Hills Group. “It shows just how hard it is to do.”

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NEW GENERATION OF INVESTMENT BANKS

Firm	Headquarters Year founded	CEO	Employees	2006 revenue 2006 profit	Deal highlights
ThinkEquity Partners	San Francisco 2001	Michael Moe	180 total, 100 in Bay Area	\$65 million Not disclosed	First Solar’s IPO and secondary offer
Montgomery & Co.	Santa Monica 1986	James Montgomery	75 total, 35 in Bay Area	Not disclosed Not disclosed	Club Penguin’s sale to Walt Disney Co.
Merriman Curhan Ford & Co.	San Francisco 2002	Jon Merriman	200 total, 120 in Bay Area	\$51.8 million Loss of \$8.2 million	Nine Systems’ sale to Akamai
America’s Growth Capital	Boston 2003	Benjamin Howe	36 total, 3 in Bay Area	Not disclosed Not disclosed	SilverBack Technologies sale to Dell Computer
Pacific Growth Equities	San Francisco 1991	Tom Dietz and Steve Massocca	120 total, 105 in Bay Area	Not disclosed Not disclosed	3SBio’s \$135 million IPO, Amicus IPO
Nollenberger Capital Partners	San Francisco 2001	Bruce Nollenberger	80 total, 70 in Bay Area	Not disclosed Not disclosed	None made public yet
Revolution Partners	Boston 2001	Peter Falvey and David Lavallee	35 total, 7 in Bay Area	Not disclosed Not disclosed	Advising Webify on its sale to IBM
Seven Hills Group	San Francisco 2002	Eric Edmondson	40, all in Bay Area	Not disclosed Not disclosed	lomed’s sale to ReAbel Therapeutics
Thomas Weisel Partners	San Francisco 1998	Thomas Weisel	618 total	\$276.3 million \$34.9 million	Advised Nuance Communications on its purchase of BeVocal
JMP Securities	San Francisco 2000	Joseph Jolson	195 total, 169 in Bay Area	\$86.8 million \$9 million	Advised Grubb & Ellis in pending merger with NNN Realty Advisors



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