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SMALL WORLD, BIG BETS

Chicago investment
banking firms are
setting up shop
around the globe

STORIES BY H. LEE MURPHY

Louis Mitchell, a managing director at Mesirow Financial Holdings Inc. in Chicago, recalls with a chuckle what it was like more than 20 years ago, when he was beginning his career in investment banking, scouting for merger candidates overseas.

"We'd get a tip on a company, but we didn't really have any information about them. So we'd call a front desk and leave a message—probably in the wrong language at the wrong time of day," Mr. Mitchell says of that pre-Internet era. "If we were lucky we might get somebody to mail us some financial documents, like an annual report, within a couple of weeks. We were flying pretty blind back then."

Today Mr. Mitchell, 49, and his investment banking rivals call up most of the corporate minutiae they require with a few keystrokes on a computer. In a wired, globalized investment banking marketplace, they can



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identify hundreds of potential partners for any new client looking to put itself up for sale or make an acquisition within a few days—and maybe even a few hours. It helps that Mesirow, a midsize firm once centered on Chicago, has spread internationally, with offices in outposts such as London, Hong Kong and Miami.

As a testament to the times, one banking executive after another around Chicago carries titles such as “global chair of mergers and acquisitions” or “senior international partner in investment banking.” Banks in Chicago have opened overseas branches in strategic strongholds while advertising to clients their connections throughout Europe, Asia, South America and the Middle East.

Midwestern manufacturers that might have been sold to other heartland companies in the 1970s today are routinely shopped to buyers in places like India and Poland. Clients demand global perspective, and branch offices staffed by foreign nationals are one way Chicago firms seek to satisfy those needs.

“Investment banking is a financial service. To be successful, you have to mirror your clients,” says Christopher McMahon, Chicago-based global head of mergers and acquisitions at Robert W. Baird & Co. “In the past decade or two, one company after another has gone global in search of low-cost manufacturing or low-cost distribution or a broader manufacturing or distribution footprint—all to make them more productive and profitable. Investment banking firms have had to keep up to stay relevant.”

Baird has offices in London, Shanghai and Frankfurt, Germany. In 2003, when there was just a small London operation, 5 percent of the company’s business came from beyond the U.S. Last year the firm engineered 70 mergers, one-third involving cross-border clients. It is moving further into the India and Japan markets this year.

A mid-February transaction involving Baird illustrates the jigsaw-puzzle nature of dealmaking. The firm was enlisted by London private-equity concern 3i Group PLC to sell its Toronto-based Mold-Masters business, a maker of components for plastics makers. Mold-Masters, which gets a third of its sales in the Americas, a third in Europe and a third in Asia, eventually was sold for nearly \$1 billion to New York-based CCMP Capital’s Milacron LLC division in Cincinnati.

“To market Mold-Masters, we had to get an understanding of each of the foreign markets it operated in first,” Mr. McMahon says. “We had relationships with 3i out of our London office, and we used people in our Frankfurt and New York offices, too. Without that full team, we wouldn’t have gotten the assignment from 3i to start.”

SCALE MATTERS

Chicago is renowned as a middle-market investment banking center, but, even in transactions valued at \$100 million and less, scale matters. Los Angeles-based Houlihan Lokey Inc. has emerged as a dealmaking leader by creating a network of 10 U.S. offices and seven overseas.

William Peluchowski, a Houlihan senior managing director based in

Chicago, estimates that he spends half of each month overseas. He recently was en route to Luxembourg to meet with executives at International Electronics & Engineering S.A., a maker of sensing systems for autos, which was in the final throes of a deal to be sold to Beijing Automotive Industry Holding Co., after a bidding contest that involved suitors on three continents.

Before that, Mr. Peluchowski and his banking team brokered the sale of J.L. French Automotive Castings Inc. in Sheboygan, Wis., to the Nemak subsidiary of Alfa SAB de CV in Mexico. And then there was the takeover of Federal Broach Holdings LLC, a maker of metal cutting tools in Harrison, Mich., to Japanese giant Mitsubishi Heavy Industries Ltd. Mr. Peluchowski estimates that two-thirds of the manufacturers he sells are trading hands across borders.

“Clients want a global perspective, but they also want local connections. That’s why we have to maintain overseas offices,” says Mr. Peluchowski. Houlihan has 150 staff members in London, 10 in Beijing and 15 in Hong Kong. He reports that only recently China has emerged as a force in dealmaking. “They have become very sophisticated in a short period of time. They keep upping their game,” he says. “But you need local knowledge, too. If we find a Chinese target, we have to find out who the owner is, what ministry they report to, and is the government going to allow them to do a deal? You can’t answer questions like that from Chicago.”

Chicago’s William Blair & Co. was a pioneer in cross-border deals, selling Elgin-based Chicago Rawhide Manufacturing Co. in the 1970s to Italy’s Fiat automotive group. The firm started with a London branch in the 1980s and later went to Zurich. A Sao Paulo office opened in 2011, and one in Frankfurt was slated to open this month. Blair has outposts in Tokyo, Beijing, Hong Kong, Mumbai and even Israel.

Brent Gledhill, global head of investment banking at Blair, confirms that he is on the lookout for more branch sites. In 2000, some 6 percent of Blair’s deals were across borders. Last year the ratio was 35 percent. Blair’s team of 225 investment bankers—60 of them stationed outside the U.S.—speaks two dozen languages and has benefited from software text programs that can take a complex corporate sale document and translate it instantly into multiple languages.

Mr. Gledhill believes the worldwide banking market has grown as fewer U.S. companies are interested in initial public offerings on these shores and more foreign companies see the acquisition of an American company as the most logical gateway to the U.S. marketplace. Still, he is intent on capturing clients beyond the Midwest. Blair advised Kienle & Spiess, a portfolio company of Bavaria Industriekapital A.G. in Germany, when it was sold to Japan’s Sumitomo Corp. in February. Kienle, a maker of motor components, had annual sales of roughly \$300 million.

“Kienle & Spiess had six buyers from six different countries bidding,” Mr. Gledhill says. “We listened to our client, then put representatives in all our offices to work so that we could present plenty of choices and alternatives. You have to leave no stone unturned these days.”