

***Where the bulge bracket descends the boutique thrives***

Some are speculating about what the new Wall Street model will be, and whether the days of the independent investment bank are truly done...

Much has been made of the disappearance of the independent Wall Street firm, resulting from the turmoil that has shaken up some of the perennial names in the sector: Bear Stearns, Lehman Brothers, Merrill Lynch. The two largest and most powerful, Morgan Stanley and Goldman Sachs, have even applied to become bank holding companies or merge with commercial banks. As this occurs, some are speculating about what the new Wall Street model will be, and whether the days of the independent investment bank are truly done or whether the recent shakeup will cause the purer advisory firm, such as Lazard and Evercore, to rise to greater prominence. In response to these musings, here are a couple of reminders from the past decade's experience:

... not the beginning of a new trend but rather the continuation of an era that started long ago and that has forced investment banks with high overhead and a large-corporate focus to redefine their missions.

- Large institutions such as Bear, Lehman, Goldman and others departed from the traditional investment banking model long ago, to focus on proprietary trading, hedge fund type activities, and private equity investments, while Citigroup and JP Morgan integrated investment banking with balance sheet activities at least a decade ago. These latter activities generated far greater profit than did traditional investment banking for Wall Street firms when times were good, and as Goldman was jokingly being referred to as a hedge fund with an investment bank attached. The reality was that traditional investment banking services provided by large institutional houses - with high overhead and multiple offices worldwide - had simply become insufficient to cover the "costs" related to such services (driven in significant measure by compensation).
- In addition, as consolidation in almost all industries occurred, and as institutional investors such as private equity, venture capital, and hedge funds also increased in magnitude and presence, the financial sophistication and internal capabilities of all these constituents escalated to a point where traditional advisory services became less and less necessary. M&A fees became increasingly a reward for providing cheap credit or for other uses of an investment bank's balance sheet. To add insult to injury, some private equity firms (like Blackstone) even encroached on



## SPECIALISTS IN SATELLITE, MEDIA AND TELECOM INVESTMENT BANKING

---

investment banking turf by offering advisory services of their own.

- Lastly, the tremendous flow of institutional money into hedge funds and private equity funds, expanding these groups' global presence, extensive teams, and sophisticated capabilities, reduced the importance of even the intermediary role of investment banks in capital raising, and made the principal (rather than agency) role that much more critical.

In short, the acquisitions of Merrill by Bank of America, Lehman by Barclays Bank, and Bear Stearns by JP Morgan, are not the beginning of a new trend but rather the continuation of an era that started long ago and that has forced investment banks with high overhead and a large-corporate focus to redefine their missions.

["Boutiques" on the other hand] are not only better equipped but also very interested to work with entrepreneurs, small- and mid-sized companies, and other institutions that do not have to pay "bulge-bracket" fees.

At the smaller end of the market, however, the end at which Near Earth and a number of other high-quality "boutiques" play, the environment and business profile has always been and remains vastly different from that described above. With relatively low overhead and highly targeted product or industry coverage, we and our peer group are not only better equipped but also very interested to work with entrepreneurs, small- and mid-sized companies, and other institutions that do not have to pay "bulge-bracket" fees in order to make our assignments "interesting," and that moreover find our expertise to be truly value-added. This is precisely what we and other investment banking boutiques have always taken pride in, and what we continue to offer with great interest.

Perhaps more importantly, as some of you will have undoubtedly noticed, the sectors in which we at Near Earth have been most active – digital media and related technologies and infrastructure – have in no way been slowed by the recent turbulence, and we see no indication that a strategic slowdown is on the horizon. We don't intend to slow down either.

By Dan Ramsden  
Near Earth LLC



## **SPECIALISTS IN SATELLITE, MEDIA AND TELECOM INVESTMENT BANKING**

---

### **IMPORTANT DISCLOSURES AND INFORMATION ABOUT THE USE OF THIS DOCUMENT:**

Near Earth, LLC ("Near Earth") has published this report solely for informational purposes. The report is aimed at institutional investors and investment professionals, and satellite, media and telecom industry professionals. This report is not to be construed as a recommendation or solicitation to buy or sell securities. The report was written without regard for the investment objectives, financial situation, or particular needs of any specific recipient, and it should not be regarded by recipients as a substitute for the exercise of their own judgment. The content contained herein is based on information obtained from sources believed to be reliable, but is not guaranteed as being accurate, nor is it a complete statement or summary of any of the markets or developments mentioned.

The authors of this report are employees of Near Earth, LLC, which is a member of FINRA. The opinions expressed in this report accurately reflect the personal views of the authors but do not necessarily reflect the opinions of Near Earth itself or its other officers, directors, or employees.

The portions of this report produced by non-Near Earth employees are provided simply as an accommodation to readers. Near Earth is under no obligation to confirm the accuracy of statements written by others and reproduced within this report.

Near Earth and/or its directors, officers and employees may have, or have had, interests in the securities or other investment opportunities related to the companies or industries discussed herein. Employees and/or directors of Near Earth may serve or have served as officers or directors of companies mentioned in the report. Near Earth does, and seeks to do, business with companies mentioned in this report. As a result, Near Earth may have conflicts of interest that could affect the objectivity of this report.

This report is subject to change without notice and Near Earth assumes no responsibility to update or keep current the information contained herein.

Near Earth accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this report.

No part of this report may be reproduced or distributed in any manner, via the Internet or otherwise, without the specific written permission of Near Earth. Near Earth accepts no liability whatsoever for the actions of third parties in this respect.