

# The Deal

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## In with the new

*The demise of some big underwriters opens the door to some new firms. Not surprisingly, relationships matter*

BY VIPAL MONGA

SENSING OPPORTUNITY AMID a flood of bond issuance and the disappearance of former underwriters Bear Stearns Cos., Lehman Brothers Holdings Inc. and Merrill Lynch & Co., new players have been getting into bond underwriting.

Take Citadel Securities LLC, which originated in November Advanced Micro Devices Inc.'s \$500 million bond offering, and PrinceRidge Group LLC, the small newly formed broker-dealer that surprised many by appearing as a co-manager on Graham Packaging Co. LP's \$250 million bond offering, also in November.

"This is a function of wide spreads and that three out of five investment banks have disappeared in the past two years," says a market participant. Technically, while Lehman went bankrupt, Bear and Merrill were absorbed into J.P. Morgan Chase & Co. and Bank of America Corp., respectively, effectively combining existing groups and reducing the total number.

According to Matthew Fuller, an analyst for Standard & Poor's Leveraged Commentary & Data unit, attractive pricing for high-yield bonds has spurred investor interest in the asset class and made it easier for banks to sell bonds. As of Jan. 5, the average high-yield spreads for bonds listed in Merrill Lynch's high-yield index stood at 630 basis points over seven-year Treasuries. That compares with the historical average of T+508 basis points and June 2007's all-time low of T+241 basis points.

AMD's deal marks the first time Citadel has led a bond offering. The firm convinced AMD to issue bonds as part of the financing for a tender offer of up to \$1 billion of its 5.75% convertible notes due in 2012. Sources say several Citadel bankers formerly worked at Merrill Lynch, including leveraged finance chief Carl Mayer, who labored for months to persuade AMD to hire them. "It was impressive," says a banker from an established underwriter. "The idea came from them, and they pulled it off."

Citadel's ability to do such a deal wasn't completely a surprise. The firm, more commonly thought of as a hedge fund, announced

last spring that it wanted to build the investment bank and had hired former Merrill bankers Todd Kaplan to run investment banking, Brian Maier to head industry groups and Mayer to oversee leveraged finance.

More surprising, however, was PrinceRidge Group's appearance as co-manager on the bond offering from Graham Packaging.

PrinceRidge was formed last summer by former executives of UBS' defunct hedge fund, Dillon Read Capital Management LLC. The firm is focused primarily on fixed-income sales and trading, specifically mortgage and corporate debt, and while John Costas, Dillon Read's former CEO and PrinceRidge's chairman, has avowed ambitions of expanding into middle-market banking and advisory services, few expected it to happen so soon.

Sources say PrinceRidge's presence stemmed from ties with Blackstone Group LP, Graham Packaging's owner, where some of the startup's employees once worked. PrinceRidge CEO Michael Hutchins didn't return calls.

Sources say the \$250 million offering, which refinanced a \$245 million bond coming due in 2012, was done on a "best efforts" basis, meaning it wasn't underwritten by a bank syndicate including joint bookrunners Deutsche Bank AG, Citigroup Inc. and Goldman, Sachs & Co. Instead, success hinged on the banks' ability to find willing investors, and PrinceRidge, which a source says received a 5% allocation, didn't have to risk capital.

The next year will also likely highlight the growing ambition of other new entrants into bond underwriting, especially Australia's Macquarie Group Ltd., which has been growing its capital markets team over the past few months. In September the firm hired Kevin Smith to lead its high-yield capital markets business. Smith joined from Credit Suisse Group, where he was a managing director and head of U.S. mezzanine capital markets.

According to LCD, Smith will work with Robert Redmond, whom Macquarie hired last March as vice chairman. Redmond had been chairman of Lehman's financial sponsors group and started at Kidder, Peabody & Co., where he ran high yield. In September the firm hired Steve Mehos from Barclays Capital to head its leveraged finance business. ■



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