

Launching before the downturn in M&A gave the boutique a head start on other new entrants, writes Janine Brewis

Lexicon Partners carves out a niche in tough times

PROFILE: LEXICON

In an industry where timing is everything, Lexicon Partners, the financial services advisory boutique, seems to have got it right. The firm has been fortunate in doing 45 deals in the three years since its inception, despite atrocious market conditions.

The firm has already worked on seven deals this year, with others poised to materialise soon. Andrew Sibbald, a co-founder of Lexicon and one of four managing directors, says the timing of the firm's formation was inspired. It began life just before mergers and acquisition (M&A) activity plunged, and therefore before the bulge-bracket firms embarked on the hefty redundancy programmes that prompted a host of other bankers to start similar ventures. "With hindsight, leaving a large investment bank in 2000 was absolutely the best thing any of us could have done," he says.

Established in July 2000 with five former Donaldson, Lufkin & Jenrette and Phoenix bankers, including managing directors Sibbald and Angus Winther, Lexicon has grown fast, and now has 24 dealmakers.

Most of its work is M&A related but the firm, which Sibbald says has been profitable each

year of its existence, also provides capital markets and strategic advice.

Compared with many of the recently established boutiques, Lexicon is a big firm. Sibbald and colleagues wanted to create a business that could provide the kind of service expected of a significantly larger institution. "When we set up Lexicon it was our absolute strategy to recreate as soon as possible a team that to our clients looked and felt like a service from a major investment bank," he says.

One of the toughest challenges in establishing boutiques is getting deals done before potential clients lose track of where the bankers are. For Lexicon the wait was not especially painful, and within four months it appeared on two sets of deal discussions, advising CGNU, the UK insurer, on a disposal and working for acquisition vehicle Glas Cymru on its acquisition of Welsh Water.

Although financial institutions M&A has not been a runaway success this year, activity has been more buoyant than in some other sectors, such as utilities, where deal value dropped by 60% in the first half of 2003 year-on-year, according to Dealogic, the



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data provider.

While there were fewer deals in the finance sector in the first half of 2003 – 956 globally compared with 1,101 the previous year – deal value was up from \$71.65bn (€65.92bn) to \$95.9bn.

Similarly, in insurance there was \$20.6bn of deals in the first six months, up 38% on last year, with the total number of deals down 11% from 283.

Although Lexicon has mainly worked on mid-market deals, the lure of the financial institutions sector is such that the firm regularly competes with the bulge-bracket advisers. Even in the tricky equity capital markets arena, where initial public offering

(IPO) activity has slowed to a trickle, Lexicon has been plugging away. The results have started to show through, particularly in the past year, and the boutique secured advisory roles on two of the most successful smaller flotations of the past year, for Beazley and Benfield, both UK insurers.

Beazley's IPO was the largest such deal of the fourth quarter of 2002, raising £150m (€216m), while Benfield raised £157m rather than the predicted £100m. In addition, Lexicon is poised to advise Electra Investment Trust on the potential IPO or sale of the Premium Credit specialist finance group, which it bought in 1996.

Covering international markets

Lexicon Partners' deals for the year to date

Target	Acquirer	Size (€m)	Date	Type of deal
NCB Stockbrokers	MBO team and Key Capital	Not disclosed	August	M&A
Edward Lumley	Wesfarmers	219	July	M&A
IG Group	CVC	202	July	M&A
HPI	Phoenix Equity Partners	Not disclosed	June	M&A
Benfield	-	227	June	IPO
Royal & SunAlliance*	Oxfordway	213	April	M&A
Brit Insurance	PRI	226	March	M&A
Premium Credit**	-	Pending	Pending	IPO or disposal

Note: Lexicon Partners' clients in bold *division **owned by Electra Investment Trust

Source: Financial News

can be problematic for boutiques with offices in just one country because of time differences and the need to spend extensive periods travelling.

However, Sibbald says around 60% of Lexicon's deals have an international dimension. "We can cover Europe from London and already spend a lot of time in the US. We do not yet feel ready to invest in a European network of offices."

This was put to the test in July when the firm worked on its first

Australian transaction. Last year, the boutique won the mandate to advise on the sale of the Australian and New Zealand insurance business of Edward Lumley Holdings in the UK.

While Edward Lumley's business is registered in the UK, most of the negotiations, which concluded in July, were in Australia, and the acquirer, Wesfarmers, is an Australian conglomerate. Sibbald says there were no particular difficulties for Lexicon of working on a deal on the other

side of the world, although it did involve one of the bankers spending several weeks there.

Looking on the bright side, he says the advantage of such an arrangement is that the firm can operate 24 hours a day.

A further significant development for Lexicon occurred in March, when it was asked to advise PRI, the UK insurer, on its takeover by rival Brit Insurance, despite not having had a relationship with the group before. The mandate materialised after

Collins Stewart was forced to stand down because it was also advising Brit and therefore had a conflict of interest.

In the autumn Lexicon will take a further step forward when it moves from its office on Cornhill in the heart of the City of London. Intended as a stop-gap, it stayed there for three years, gradually spreading to a second floor. However, now Sibbald and colleagues are preparing to move to a larger site nearby.

Despite the progress Lexicon has made, Sibbald says joining a boutique does not necessarily mean having an easier life with fewer working hours. Some former bulge-bracket bankers who set up their own firms do so expecting a vastly improved quality of life and more spare time. Sibbald, despite maintaining he has no regrets about setting up Lexicon, is emphatic.

He says: "If anyone thinks working in a boutique is a positive lifestyle decision then they are sadly misinformed. The difference is that all of your energies are directed towards your clients and working for yourself."