Wit and Wisdom

By **Danny Fortson** Updated 02:47 PM, Mar-09-2001 ET

Wit SoundView Group Inc. is facing a trying, pivotal year. The upstart New York investment bank no longer has a roaring IPO market to on which to rely: Of the 72 initial public offerings Wit either managed or co-managed in 2000, only six came in the fourth quarter. This year, the firm has yet to take a company public and has had 10 issues withdrawn. All that means pressure on its fledgling mergers and acquisitions practice.

The division has gotten off to a strong start: Last year, an increase in M&A advisory fees offset much of the lost revenue from the bone-dry IPO market. Wit's mergers group worked on 17 deals last year, including GN Great Nordic's $1.05 billion acquisition of Photonetics Inc. in November, **SDL Inc.**'s $1.8 billion purchase of **Photonic Integration Research Inc.** in June [**JDS Uniphase Corp.** has since acquired SDL] and **Lucent Technologies Inc.**'s $2.95 billion buy of **Ortel Corp.** in April.

In November 1999, Wit added some heft with its $320 million acquisition of SoundView Technology Group, a private investment banking firm specializing in technology. The firm also picked up an institutional trading business when it announced its $328 million deal for E***E*Offering**.

The pressure to rev up Wit's dealmaking engine falls squarely on **Mack** Rossoff, who became managing director and head of the firm's mergers and acquisition group in March 2000 after he jumped from **J.P. Morgan**, now J.P. Morgan Chase & Co. He dates his M&A experience to the landmark takeover of RJR **Nabisco Inc.** by Kohlberg, Kravis and Roberts & Co. in the 1980s. Before his tenure as global head of media and entertainment investment banking at Morgan, he was head of investment banking at Schroder & Co. Inc. from 1995 to 1997, managing director at Dillon Read & Co. from 1992 to 1995, and co-head of corporate finance and founding partner at Wasserstein Perella & Co. [now **Dresdner Kleinwort Wasserstein**. Several officers of Dresdner Kleinwort Wasserstein are general partners in a fund that owns The Deal llc.]

Rossoff talked with The Daily Deal's Danny Fortson about his jump to Wit SoundView and his firm's M&A strategy for 2001.

The Daily Deal: Why did you leave J.P. Morgan?

Rossoff: This was before the crash, and everything was flying very, very high. The world was changing rapidly, and Wit was right at the forefront. Wit had just also completed their merger with **Soundview** group, and it was really a broad-based technology group. For me it was a chance to help spearhead the M&A business at a very exciting firm.

Was that your mandate going in?

I was hired to start an M&A group and capitalize on all the tech relations throughout the firm, both Internet and technology, more broadly. Everybody could see there was a ton of consolidation coming down the road, and given the relationships we had, we felt we could be right in the middle of it.

So how has the last year been?

Well, it's like being in the middle of a tornado. Shortly after I arrived, we had our first big downward step in the technology market in April, and in the fall, we had another downward step, and then of course more recently, the entire economy has been much weaker. But the nice thing about being in the M&A world is that in all this change, there are a lot of M&A opportunities. People have to recalculate their strategies and in many cases, do deals. So, our group has grown very rapidly. [It now consists of 20 people.] We've developed an excellent business and we have a good backlog.

What kind of deals are you focusing on in the face of increased consolidation of investment banks?

We actually closed one of our deals [March 1]-the merger of Primedia and About.com, creating a new sort of Time Warner-**AOL** type company, and that's the kind of deal we're still doing. When I first came, we thought we'd be doing tons of that. There were lots of online media companies that still

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looked viable. Now, there aren't that many left. The greatest preponderance of our work is in the tech business more broadly. That means software-in all of its varieties-semiconductors, devices, wireless services.

How do you compete against the larger banks?

It's always tough to compete against the big, fabulous banks like Goldman, Sachs [& Co.] or **Morgan Stanley** [Dean Witter & Co.] or **Credit Suisse First Boston** in the technology area. But we compete on focus, because technology is all we do, and we hope we have a greater depth of knowledge about a potential client and its industry, and we try to bring that knowledge to the table. And if we're competing against a firm that hasn't done their homework in technology, we'll look awfully good.

Have you seen a slowdown in the number of deals coming your way?

There's a slowdown in the number of deals getting done in the marketplace as a whole. In terms of deals coming our way, it's about the same, but we're getting more competition from other firms than we used to. A year ago, I think a lot of the investment banks were busy doing capital-raising; now they're less busy doing that and they're focusing more on M&A. It's more competitive.

In terms of the tech market as a whole, there's been a huge decline in size of deals, because a lot of companies are just worth a lot less than they were a year ago. The M&A volume in technology, depending on how you want to count it, is probably down about 80% from a year ago. The number of deals getting done is also down. A lot of the companies that want to sell themselves just aren't viable and there is no buyer. It's harder to get deals done when companies have to worry about their base business. The most important factor in a bullish M&A market is corporate confidence.

How much more competitive is it?

A year ago, I might be competing with Broadview or Chase H&Q for a deal. Now, I've got maybe Broadview, Chase, Lehman Brothers, even Credit Suisse First Boston. We tend to be in the middle market, deals with a value of between $50 million to $500 million, and a year ago, the other investment banks were busy with other things, but now they're coming down market and competing with us more.

Are you under more pressure to produce?

In a word, yes. With the IPO markets being so weak and financing so difficult to obtain, the firm and our clients are increasingly looking to M&A to pick up the slack. The clients, if they can't raise money in the financing markets, often have to sell. As for the firm, if that [IPO] revenue stream has been reduced, there is much more pressure on M&A to make it up.

Are you less selective about deals?

No. The standard has really been much the same. We call it the Colin **Powell** rule: We need to see a 70% chance of success before we commit the troops. But then again, we have to make a lot of exceptions. If it's a good client, we have to try and help them, even if it's a stretch.

Will it be a good year?

I'm still hopeful. We started from a low level, so we should have no trouble showing some good growth year over year. The main challenge for us is developing relationships. And in a treacherous year, as this one is going to be, we're going to try to help our clients navigate through some very stormy waters.

Do you expect to increase revenues over last year?

In M&A, yes. Overall, we don't know yet on the banking side. The trading side of the business is still quite strong. But clearly, M&A will be bigger.

Is your declining stock price [Wit stock closed at $2.50 per share in **Nasdaq** trading March 8, 89% off its 52 week high of $22.25 per share] a threat to Wit SoundView's independence?

The company is very liquid. It's got a strong cash position, strong cash flow positive position. So, the stock price is going to have no impact on our business, on our ability do business and our ability to serve our clients. That's a completely separate issue.

Do you think another bank would be interested in buying you?

I think people tend to buy investment banks at the top of the market, not the bottom of the market, which is just the opposite of what they should do. But that's the way it usually goes. Our sense is we've got a great business that we're building, we're growing, and we'll stick to that and make plenty of money doing that.

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