Old-fashioned Evercore makes it to the major leagues

The 20-year-old investment bank has jumped up the advisory league tables thanks to high-profile hires from top firms. It now regularly takes lead roles in the biggest and most complex M&A transactions. Rising revenues are funding international expansion. Its aim for the future is to become a top-five global M&A adviser. But, in many ways, Evercore is a throwback to Wall Street's past

By: Peter Lee

When Amazon announced its agreed all-cash $13.7 billion acquisition of Whole Foods Market in June, it sent investors and analysts into a frenzy of speculation about the future of an entire sector.

Here was the world leader in e-commerce, online fulfilment and associated logistics paying what looked like a hefty premium price for a troubled up-scale food retailer, with its own physical stores and specialist supply chain.

The announcement came as a complete surprise. Equity investors had been selling out of US supermarkets, unnerved by recent poor results and the prospect of margin pressures from the influx of German discounters, such as Aldi and Lidl, coming to the US.

Whole Foods serves more affluent consumers fixated on natural, fresh and organic food, but it appeared to have hit the limits of its business model. As mainstream supermarkets discovered their own enthusiasm for organic produce, sales fell at Whole Foods and its stock price flatlined. The company recently closed a number of stores and attracted activists onto its share register, notably Jana Partners, agitating for an overhaul of the board and possible break up or sale of the whole company.

The activists now appear to be getting their wish, and with it a juicy premium in an out-of-favour sector. Meanwhile analysts struggle to understand quite how this deal fits Amazon's recent moves into online distribution of groceries and its trials of physical cashier-less stores.

But the biggest shock in Wall Street circles was perhaps struck by the roster of investment banking advisers on this large, closely analyzed and potentially industry-transforming deal.

Goldman Sachs is advising Amazon. That was to be expected. But who is on the other side, as sole adviser to Whole Foods? Step forward Evercore, which Euromoney recently named the world's best independent investment bank for 2017.

That Evercore secured the lead role in such a prominent M&A transaction underlines the firm's strong progress in the last couple of years. Founded in 1995 by former US Treasury deputy secretary Roger Altman, who had previously made his investment banking career at Lehman and then Blackstone, Evercore has recently emerged from the middle rank of independent advisory firms and boutiques to become a leader among them.

It is now stepping into the big league.

For the first half of 2017, it stood seventh in the Dealogic league table of advisers on US M&A deals ranked by revenue, slotting between Citi in sixth position and Credit Suisse in eighth. That ranking puts Evercore ahead of Lazard, other strongly performing independent firms such as Jefferies and Centerview, as well as global banks such as Deutsche and UBS.

For the full year 2016, it occupied the same position with a revenue share of around 4%. In the global revenue rankings, it stood ninth for the whole of 2016, just behind Credit Suisse and Lazard, and occupies the same place in the first half of this year with a roughly 3% share.

It was not always thus. As recently as 2014, Evercore ranked 11th in US M&A by revenue. Look back further to 2010 and Evercore brought in advisory revenue of just $292 million for the whole year: the same as it managed in the second quarter of 2017 alone. Its annual advisory revenues hit $1 billion for the first time only in 2015. They came in at a record $1.4 billion last year.

The firm has begun to appear regularly on the largest deals. It has recently worked alongside Goldman Sachs advising Qualcomm on its $47 billion bid for NXP Semiconductors. It lead-advised Abbott Laboratories on its $31 billion acquisition of St Jude Medical. It played its part advising Shire on its $34.9 billion acquisition of Baxalta to create the world's biggest rare-disease drug-maker, as well as CenturyLink on its $34 billion acquisition of Level 3 Communications.

Suddenly, and without many people outside the firm noticing, Evercore seems to have seized a spot among the second rank of US and global M&A advisers, operating beneath the big four of Goldman Sachs, Morgan Stanley, JPMorgan and Bank of America Merrill Lynch.

"This firm today is roughly at the midpoint of what I see as a 15-year journey that could soon take us to the number six ranked advisory firm in the world, with a legitimate shot at becoming top five in advisory revenues in the next couple of years," Ralph Schlosstein, chief executive of Evercore, tells Euromoney.

Schlosstein, a co-founder with Larry Fink of BlackRock in the late 1980s and before that an investment banker at Lehman Brothers, joined Evercore as chief executive in 2009. Why?

"I had developed a hypothesis that in the post-financial crisis world there was an opportunity to take one of these so-called advisory boutiques, of which there were then five or so with annual revenues from $150 million to $250 million, and grow it to stand alongside a Lazard or a Rothschild that had annual revenues of $1.1 billion. Our goal is to have Evercore become the most elite global independent investment banking advisory firm in the world."

It is quite the statement of ambition. With the rise of the independent firms on Wall Street, Evercore now appears to embody the future. In reality, it is a return to the Wall Street of the late 1970s and early 1980s: a less cut-throat, clubbier world, perhaps, but one in which investment banking was not mere marketing for principal position taking.

"When I joined Lehman Brothers in 1981, it had capital of about $125 million, similar to Morgan Stanley, while Goldman Sachs looked like a giant with $200 million," says Schlosstein. "These were the days when firms didn't compete for each other's clients. If AT&T worked with Morgan Stanley, the rest of us wouldn't go after it. And all of that capital was being used by the various firms' partners to the benefit of clients. These were not risk-taking businesses. It was a hugely client-centric business model. That is the model that Evercore is going back to."

THERE WAS ONLY ONE ROUTE TO achieving Schlosstein's ambition: hire the very best investment bankers as they began to leave the bulge-bracket firms and hope that a belief would spread among these sought-after individuals that Evercore was a better platform for them to deploy their talents than setting up their own boutique or joining one of the other independents.

Hiring top-ranked M&A names at – or perhaps just past – their peak years sounds like a good way to lose shareholders' money and build a hornets' nest of competing egos. Other ambitious and fast-growing independent firms, such as Moelis & Co, for example, have been content to hire more junior bankers to speedily establish coverage of key industries and geographies. By contrast at

Evercore, eight years on from becoming CEO, Schlosstein says that he is still searching for a top consumer banker and it has taken most of that time to find the right bankers covering general industries.

But for all that, it seems to be working. Evercore may be wanting in those two of the top six sectors for M&A, but in the other four busiest sectors – healthcare, energy, FIG and technology media and telecoms – it is firing on all cylinders.

After it reported second-quarter results for 2017 at the end of July, Evercore, which encourages analysts to look at trailing 12-month numbers rather than quarterly performance, showed last 12-month advisory revenues of $1.245 billion, up 32% from the 12 months ended June 30, 2016.

"We have gained significant market share versus all public firms that report their advisory fees separately, including, obviously, all the large firms, and also versus the public independent firms," points out Schlosstein.

Evercore is fast closing the gap to Rothschild and Lazard, the latter having recently reported trailing 12-month advisory revenues around $1.45 billion.

Shareholders are content. As well as paying healthy dividends, the firm regularly buys back stock to off-set dilution from equity-based compensation to its big name hires. And the big name hires still seem keen to work for their pay rather than kick back and relax.

Schlosstein points to the high revenue per senior managing director as a sign of the firm's elite character, indicating that clients pay it well for high-quality advice. Advisory revenue stood at $11 million a senior managing director in 2014: it hit $15.3 million in the first quarter of 2017.

The firm may be collaborative, but it is also hard driving.

"It is a result of having high-profile senior bankers who roll up their sleeves and work with clients and don't just show up at the start to win business," says Tim LaLonde, chief operating officer of investment banking.

For shareholders, signs of high productivity provide assurance that the firm is a coming force, not a preretirement home for Wall Street grandees. Since 2010, Evercore has quadrupled its advisory revenues while not quite doubling its number of senior managing directors – up from 46 in 2010 to 86 at the end of the second quarter.

"I realized within six months of getting here that this firm eventually has to move beyond being one that filches other peoples' talent and become one that recruits, trains and promotes its own"

Ralph Schlosstein, Evercore

Francois Maisonrouge is a long-standing senior managing director who runs the healthcare practice at Evercore, having previously chaired the life sciences group at Credit Suisse.

"Our model is a little unusual compared to the big banks where many of us once worked," he tells Euromoney. "We don't have coverage people and then execution people: we just have investment bankers. I don't take clients for dinner and then hand it over to junior people to do the deals."

MOST CONVINCINGLY OF ALL, Evercore's recent success is one more confirmation that, 10 years on from the financial crisis, companies really do like to take key strategic counsel from independent investment banks. The bulge-bracket firms are becoming distinctly uncomfortable at this. There have always been boutiques and the big firms have always found ways to work with them, but this feels different.

"I don't understand what this so-called independence is that these firms push," complains a senior investment banking source at one top-four firm. "They only get paid if an M&A deal happens, so they have to push that outcome, whereas we… well we really can be neutral because there are so many different ways in which our clients pay us."

It is nonsense of course.

The independent firms are winning market share because their clients want advice from experienced bankers with no eye on principal positions of their own firms to protect in a loan or underwriting commitment, back-trading book or counterparty risk exposure. They want defence advice from firms that are not likely to bid for their companies themselves and that do not earn lots of money from the activist investors or other firms that are attacking them.

"Independence is much more than a state of mind," says Maisonrouge. "It is absolutely hard-wired into a firm that does not put capital at risk and can be absolutely and wholeheartedly devoted to its clients' interests."

Evercore's activism defence practice, for example, now wins it a lot of business. It does not make any money from the activists; Evercore is not a prime broker to any of them. They are not a profit centre for the firm.

Schlosstein swats away the accusation that independent firms must push clients to do M&A deals for fear that revenues and personal pay will otherwise dry up.

"First of all, we have retainer arrangements in place in many cases," he says. "Our goal is always to be the client's long-term trusted adviser. For that you have to sometimes say: 'Don't do that deal, it's too expensive', or 'Don't accept that valuation, it's too low'. If we didn't do that, we would not be getting the large amount of repeat business that we now see."

Corporate clients also see a value in buying from specialists, whether they are providers of capital or advice. Their chief consideration is whether the advice is any good or not and if it is based on industry knowledge, understanding of the company and experience of and insight into the likely response of financial markets to strategic corporate actions.

"We have invested in building strong debt and equity advisory teams that can help clients determine both what is the right financing product for their particular situation and who is the right party to provide it," says Andrew Sibbald, senior managing director and chief executive of European investment banking. "As independent advisers, we never find ourselves in the difficult position of having to promote an internal financing product as the best choice, even when we know that's likely not the case."

Independent firms continue to attract some of the best talent from the global M&A powerhouses who feel they can make a difference at a smaller firm instead of being one tiny grinder in a much bigger sausage factory.

A small irony of the Amazon deal for Whole Foods is that on the advisory side, the acquirer's bankers from Goldman Sachs found themselves facing off against Bill Anderson who joined Evercore as a senior managing director in January 2016 from Goldman. There, he had headed the firm's market-leading activism defence business for more than 12 years, advising over 175 companies facing activism or hostile approaches.

Anderson pioneered many of the vulnerability assessments and preparedness planning approaches that have become standard practice in the industry. Since arriving at Evercore, Anderson has worked through the activism playbook for, among others, Whole Foods, Pulte Group, Qualcomm, Medivation, Marathon Petroleum, Cognizant Technology, Fred's, United Airlines, NorthStar Asset Management and Monster.

The move to a smaller firm appears to have suited him.

"We ranked number one last year in activism defence by market capitalization of clients being targeted," Anderson tells Euromoney. "The team here is broad and deep. We are working right now on activism-related assignments for a significant number of major clients."

He adds: "One of the things that was most attractive to me about Evercore was having ISI."

"As independent advisers, we never find ourselves in the difficult position of having to promote an internal financing product as the best choice, even when we know that's likely not the case"

Andrew Sibbald, Evercore

EVERCORE BOUGHT THE International Strategy and Investment group, a research-focused stock brokerage founded by Ed Hyman, in 2014. It is now the institutional equity arm of the firm and is regularly highly ranked by Institutional Investor's All-America Research survey, standing second in 2016 on a weighted basis with 12 number-one ranking positions across many sectors busy in M&A.

"Because of ISI, we are the one independent firm that really does have the buy-side relationships based on content that give us true shareholder insights," says Anderson.

Ever since it struck the ISI deal, Evercore has been justifying it to investors who fear revenues and margins will suffer, just as at every stock brokerage, as the equity business adjusts to a low volatility world in which asset managers reduce research budgets as their own customers pile into cheap passive strategies. In September, Evercore announced the hire of Michael Paliotta from Credit Suisse, where he was head of global markets equities, to be chief executive of the equities business.

Schlosstein confirms that the business remains core to the strategy of the whole firm. It is more than one earning stream in the portfolio.

"When we did this [ISI] transaction, it was not universally embraced by all our shareholders," Schlosstein tells Euromoney, "but we said that we expected it to achieve three things for us. First, that we would be able run a profitable equities business. And we have done that, though not at margins as high as our advisory business.

"Second, that it would add to our equity underwriting revenues, which have grown from around $20 million a year to around $40 million to $50 million a year. That's a little slower than I had hoped but we are progressing more often from being a co-manager on deals to being a bookrunner, and over time I think we'll get that to a $75 million to $100 million-a-year business.

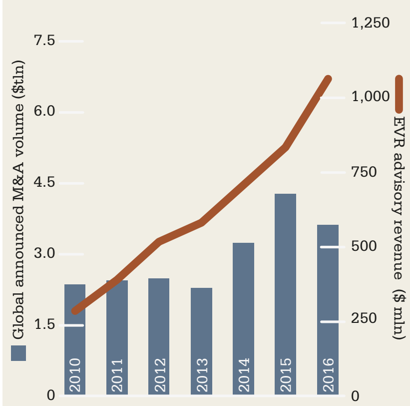
"And third, it would make us more attractive for potential senior recruits to our advisory business, particularly in sectors where equities are very important to their clients, such as biotech, healthcare, energy and technology. And that has clearly been the case. The equities business increases our intellectual relevance to the investment bankers' clients and gives us more touch points."

Anderson is just one example of a big name hire who saw an important strategic value in the connection to shareholders that comes with having ISI.

Now in turn, a growing number of the firm's eventual M&A advisory assignments are born out of activism defence, such as advising Qualcomm on NXP Semiconductors, which began with a response, also like Whole Foods, to pressure from Jana Partners that initially pushed for a break up. In 2016, Evercore advised Medivation, together with JPMorgan its long-standing house bank, in defence against an unwelcome bid from Sanofi that lead to an eventual sale to Pfizer at $81.50 a share, a hefty premium to Sanofi's initial offer of $52.50.

"When a company faces an existential moment, when it is trying to defend itself against

Evercore's performance in the cycle



Source: Thomson Reuters

a hostile approach and wants to define its own future, it needs to be sure it is getting the best possible advice," Maisonrouge tells Euromoney. "Medivation invited a number of firms to pitch to be joint adviser with the incumbent."

He recalls: "The team we fielded was Ed Baxter, my partner on the west coast and one of the great healthcare bankers in a region where many firms just maintain coverage officers rather than bankers who can do deals; Bill Anderson, head of activism preparedness and hostile defence; and myself."

How did the meeting go?

"We were hired on the spot," says Maisonrouge.

The Evercore team devised something quite clever.

Sanofi had first bid for the stock of Medivation in the mid $50s and raised this to the low $60s. Rather than encouraging a competing white-knight counter bid, Evercore advised its client to invite a number of potential bidders, if they would confirm that they valued the company above the prevailing price and would sign both confidentiality and standstill agreements, to a management presentation. This created a level playing field for other bidders (who did not at this stage need approval of formal offer terms from their own boards of directors) to arrive at full conviction on their valuations.

Four firms participated, including Sanofi itself, and Pfizer won the asset.

This is experienced investment bankers, with good industry knowledge, coming up with smart ideas and not just showing up for the initial pitch and the board meeting and then coming back for the closing dinner.

Anderson now seems to occupy a key seat at the firm, but he downplays the aura around activism.

"People call this activism defence or preparedness because that sounds so advanced," he says. "But really what we do is what good investment bankers have always done: help our clients, in confidence, to think through their most important strategic concerns, analyze their options, obtain shareholder feedback and then help boards and management teams execute their chosen path forward – whether that be to sell, buy or pursue their strategic plan."

AT THE HEART OF EVERCORE'S impressive progress in recent years has been its ability to hire in bankers like Anderson, from the top firms. If anyone on Wall Street had failed to spot this, it became inescapable last November, when Evercore recruited John S Weinberg to be executive chairman.

Weinberg, a fabled M&A banker to companies like Ford, General Electric and Boeing, had co-headed global investment banking at Goldman Sachs during a 30-year career at the firm his father, John L Weinberg, once headed.

Another relatively recent recruit is Stuart Francis, who joined Evercore in May 2014 from Barclays, having headed and then chaired the technology investment banking group at Lehman Brothers since the early 1990s and worked on the flotations of many companies, such as Qualcomm, and who is today engaged in multi-billion dollar M&A deals.

"I have had a relationship with Qualcomm since 1991 when Lehman was lead left on the IPO," says Francis. "Goldman Sachs also has a long history with the firm, and when it came under pressure from Jana Partners, Qualcomm clearly wanted to benefit from two sets of eyes looking at its options to broaden its business beyond supplying chips to mobile phone companies into industrial chips and the automotive sector to participate in the trend towards the internet of things."

The deal, which is not yet completed, has had to meet regulators' concerns, while some NXP shareholders have pushed the company to try and extract a higher price. Has Qualcomm picked the best team to help it get a vital deal across the line?

"I think companies look at Evercore now and think they can get the highest-quality advice and deal expertise and that they can trust us sufficiently to share their deepest strategic thoughts," says Francis.

It was a similar story with advising Abbott Laboratories on its acquisition of St Jude, the biggest healthcare deal of the year.

"We have a close relationship with senior management at Abbott, who I have known for a decade through most of their big transactions, going back to my time at Lehman," says Francis. "They like high-level confidential advice that they know they can trust."

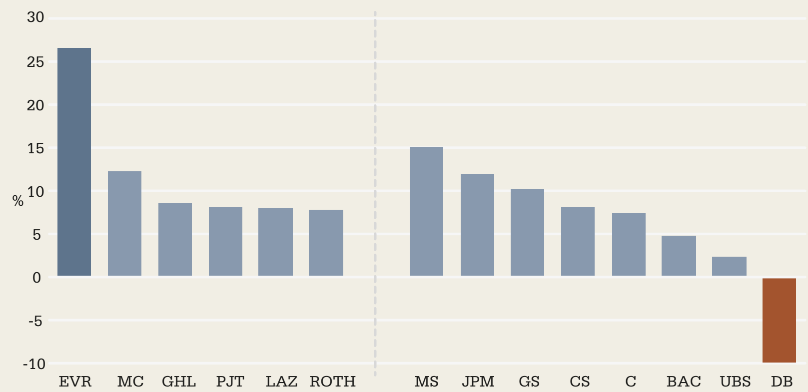
The market for medical device companies has changed in recent years as many of their customers – the managed healthcare providers such as hospitals, insurance companies and physician practices – have consolidated dramatically.

"We helped identify St Jude as the best fit for product expansion," says Francis. "It was then a CEO-to-CEO call, after which we negotiated on value, put some stock into the deal and planned likely minor divestitures to meet regulatory concerns, all in private for two months before the deal became known."

This was a big transaction, requiring careful analysis of the likely reaction among shareholders and accurate judgement on the capacity of the banking and debt capital markets to finance it. Evercore, which runs a research-led, commission-based agency equity business insists that this gives it an edge in reading the stock markets.

But it also has a capacity to analyze the entire capital-structure implications of deals,

Industry leading growth in advisory performance
Three-year advisory revenues CAGR



Source: Company reports and SEC filings

with debt and credit experts, including those in its restructuring business as well as in energy and utilities, and high-level tax expertise. It is now confident it can work with CFOs and treasurers on debt structuring and ratings implications of different financing options.

Moving beyond equity advisory and ECM advisory to whole-capital structure advisory means clients are comfortable retaining Evercore as a sole adviser on a deal for much longer before bringing in financing banks. Keeping strategic initiatives confidential for as long as possible is increasingly important to corporations.

"It's a classic example of why independent firms are enjoying such market-share gains," Francis says of the St Jude deal for Abbot.

It also shows how independent firms might keep a higher percentage of advisory fees, rather than having to share them with financing banks, who earn a lot anyway from underwriting and distributing debt.

The financial world is unbundling.

How does the Evercore platform suit Francis? Ask the boss.

"As my wife pointed out to me: I'm 40 years into my career, I'm at the smallest firm I've ever worked for and I'm doing the biggest deals I've ever handled," he says, "including the largest global technology deal of the year and the largest US healthcare deal of the year."

TO CONFIRM ITS CREDENTIALS, Evercore needs to do more than hire grey beards and well-thumbed contact books. It needs to grapple with complexity.

One of the more complicated, large M&A transactions Evercore worked on last year was the $18.7 billion three-way deal between North Star Asset Management (NSAM), North Star Realty Finance (NRF) and Colony Capital.

Evercore represented the special committee of the board of directors of NSAM when the company was being advised by Goldman Sachs on recombining with the real estate investment trust it had spun out in 2015.

Marty Cicco, senior managing director at Evercore, highlights the importance of that role, which often finds its way to non-conflicted independent firms and has helped embed them in the heart of the M&A business in the US. Sources at the bulge-bracket firms at times try to dismiss it as a necessary part of the formal process but often a sideshow to the real work.

"Independence is much more than a state of mind... It is absolutely hard-wired into a firm that does not put capital at risk and can be absolutely and wholeheartedly devoted to its clients' interests"

Francois Maisonrouge, Evercore

Not this time.

"Completing a three-way merger is no easy task," says Cicco. "Special committee work is a natural for independent firms such as ours. NSAM was created as a spin-off from NRF and was its external manager. Goldman Sachs was hired by NSAM in 2015 to advise on exploring strategic alternatives. In this transaction, a special committee was formed due to certain related-party issues concerning a possible recombination of NSAM and NRF. As an adviser to the special committee of NSAM, we had a unique and substantive role in the transaction."

Matters soon got even more complicated, as Cicco explains.

"When Colony expressed its interest, we advised the special committee on the question of evaluating a recombination of NSAM and NRF versus a three-way combination with NRF and Colony. We also rendered a fairness opinion on the transaction."

Evercore's broad institutional experience advising real estate and asset management companies was critical to the success of this assignment.

"After we announced the transaction, we had to negotiate and come to a settlement with a large NSAM shareholder, MSD Capital, on adjustments to certain terms of the transaction," Cicco says. "Evercore's leadership in activism defence was a key element in the ultimate outcome."

Cicco is another veteran who had spent 30 years mostly at Merrill Lynch before leaving in 2006 to set up his own boutique focused on the global real estate, gaming and lodging industries. He sold his firm to Evercore in 2010.

In one of those wouldn't-you-just-know-it coincidences that simply happen for well-connected people, it turned out that one of his old partners from Merrill Lynch had become chief executive of Colony Capital.

"Long-term relationships are invaluable in the successful execution of M&A transactions," says Cicco.

"Evercore prides itself on our ability to collaboratively pull together senior partners with different industry expertise on complex deals. In today's market environment, more and more transactions require inter-disciplinary collaboration," he adds.

Schlosstein points out that on 75% of the deals the firm has worked on in the last 12 months, partners from different practices within Evercore came together and collaborated. He only expects that percentage to rise.

Evercore is not a commission shop where big-name M&A bankers can spend a few last years of their careers hustling up deals in a bullish M&A market and pocketing a percentage of the fees.

"A significant component of compensation at Evercore is discretionary, and the principal element of that regards how frequently and collaboratively senior managing directors work together with other partners in the firm," says Schlosstein. "And, look, we don't structure compensation to encourage that behaviour because we all get a warm feeling from those 'kumbaya' moments. This firm's clients are best served by its different disciplines working together."

Insiders say that enough of an entrepreneurial spirit prevails that partners do not press to be paid extravagantly from others' efforts when they know they themselves have had quiet years, because they want to be paid well when they have had good ones.

"We don't believe it's appropriate for bankers to discuss fee splits among themselves," says Sibbald. "The culture of our firm is to assemble the best possible team to deliver for our clients. I recall a request a few years ago to pitch to a prospective Asian client on December 23 that required the US technology team, the UK M&A group and the Asian relationship team to get to Seoul within a few days with no guarantee of getting home for Christmas. Everyone mobilized quickly and we won that pitch, but at no point was there a discussion about who would get what. We always seek to put our strongest team on the field and, as Ralph Schlosstein often says, we would rather win by 20 than by two. We see revenue splits as the responsibility of management and best dealt with behind the scenes."

Cicco says of the Evercore culture: "A key strength of Evercore is our experienced and talented senior bankers who love what they do and see this platform as an opportunity to re-create the client-focused advisory

Playing away from home: Evercore aims to build rapidly outside the US

While it has enjoyed a string of appointments on high-profile, multi-billion dollar US M&A deals in the last 18 months, Evercore is also beginning to make a mark outside its home market. Dealogic shows it as an adviser on 250 deals over the last five years in Europe, where it now has some big-name corporate clients, including Airbus, which it has advised on several M&A deals, and the Prudential, which it has advised since the defence against Aviva.

Evercore advised Pearson on the sale of the Financial Times to Nikkei Group and Nokia on the sale of its mapping business to a group of German car manufacturers. And it has shown a capacity to handle complex, cross-border deals, spanning Asia as well as Europe.

Earlier this year, Evercore sole advised Heptagon Advanced Micro-Optics on its agreement to be acquired by Austrian-headquartered AMS AG. The $855 million transaction, which formed a clear global leader in optical sensing solutions, involved consideration in both shares and cash to be paid for a Singapore-headquartered company with US dollar revenues by an Austrian-headquartered, Swiss-listed company with the euro as its functioning currency.

Leading the effort in Europe is senior managing director Andrew Sibbald, who came to Evercore in 2011 when it acquired his Lexicon Partners, a 90-strong boutique firm specializing in financial services, utilities and infrastructure and oil and gas, to bulk up its then 40 staff in London.

"Back in 2011, Evercore had a strong generalist capability in London, whereas Lexicon was organized around industry groups," Sibbald recalls. Almost all of the established Evercore team continued after the acquisition of Lexicon as a generalist M&A group focusing on public and complicated cross-border transactions.

"Ralph Schlosstein supported a strategy to expand our industry coverage and, to name a few, we have since added bankers in healthcare, technology, metals and mining and chemicals," says Sibbald. "We have sought to build on Evercore's wider industry strengths and have focused on those sectors which are active in Europe and where we have been able to recruit high-quality bankers. It's never been about just putting flags on the map."

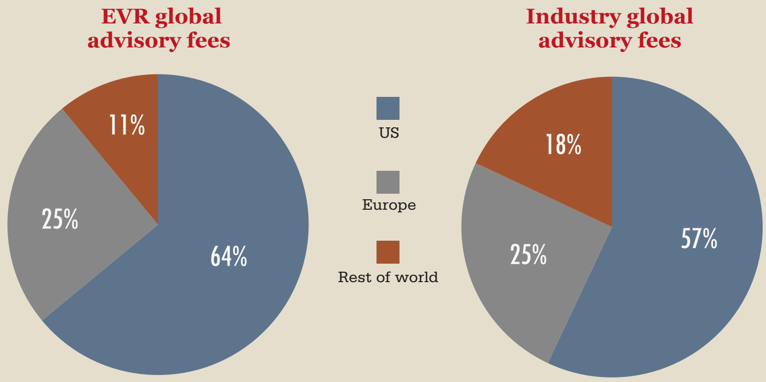
Evercore has kept a low profile. Sibbald says his meeting with Euromoney is only his second press interview in five years. The firm can be patient in its hiring. In 2015, it appointed Anil Rachwani to lead Evercore's European technology advisory business, three years after identifying this as a priority sector and first contacting Rachwani at JPMorgan where he held a similar position.

For all that, progress has been swift. The firm now has 300 people in Europe.

"We're proud of the fact that we have managed to expand our business rapidly while remaining profitable in every year" says Sibbald. "We still have some industry and sub-sector gaps to fill, but we are finding it increasingly easy to recruit from the leading firms. We remain discreet however and never talk publicly about our clients and mandates. So it's not unusual to hear potential senior recruits say, when we explain our business and capabilities and they understand that we are now the seventh largest M&A adviser in the world: 'I really had no idea…'"

Diversification of revenue streams

Over the last three years



Source: Evercore

model of Wall Street that existed when we began our careers."

THREE CHALLENGES NOW APPEAR TO stand out for the firm.

The first is to keep doing what it has been doing, ensuring senior managing directors keep working well together and that continuing recruitment of big names with egos to match does not imperil the firm's collaborative culture.

Schlosstein, as all investment bank CEOs must, insists that culture is vital and that his own firm's is distinct. While growth has come from hiring high-quality investment bankers, he tells Euromoney that Evercore screens recruits for other attributes as well: "They must inarguably be A+ talents in whatever they do; they must have the highest integrity; and there must be no jerks."

That is easy to say, harder to do. Euromoney has heard plenty of CEOs espouse the 'no jerk' rule while still contriving to employ more than a few. For now, though, it seems to work well.

"We have created a very special place and think very hard about how to keep it special," says Maisonrouge who was the firm's only healthcare banker when he arrived

It is not just in M&A that the firm is making its mark. It has also built up debt and equity advisory outside the US. Evercore added a Europe-focused ECM advisory capability in 2016 when it hired Jim Renwick, a veteran of Barclays and UBS, and advised ConvaTec Group on its £1.7 billion ($2.29 billion) IPO, the largest UK initial public offering of 2016, and Melrose Industries on its £1.67 billion rights issue, the largest UK follow-on last year.

This year, the firm was appointed alongside Moelis & Co as an international adviser on Aramco's forthcoming IPO, which could yet see the Saudi company launch the world's largest-ever listing. Evercore has one of the world's leading global oil and gas teams and was able to draw from some 70 energy bankers in Houston and a further 25 in London when pitching for the business.

Surveying Evercore's international operations elsewhere around the world offers clear evidence of this young firm's history as a boutique that got big. Its international operations consist of a number of strategic alliances, several with boutiques in developed and emerging markets. It has arrangements with Luminis Partners in Australia and Quantum Finanzas in Argentina, as well as with larger firms such as Citic Securities International in China, Kotak Investment Banking in India, Mizuho Securities in Japan and NH Investments & Securities in South Korea.

Its European operation is a good example of how to step beyond this model.

"There is more that we can do in Europe, where we participate in the biggest M&A transactions for large-cap companies less frequently than in the US," says Schlosstein. "That's a priority for us and something we will be quite focused on next year and beyond. A lot of the large-cap US companies we cover operate in global industries and you must have industry bankers in the US and Europe seamlessly connected.

"We are already present in Frankfurt and Madrid. We may need to open in Paris and perhaps Milan."

"Evercore is just over 20 years old and we only really got started in Europe just over 10 years ago," explains Julian Oakley, a senior managing director who joined Evercore in 2006 when it acquired another boutique, Braveheart. "The acceleration in market share of the independent firms in the US has been helped by advising special committees of boards of directors, which is not such a big feature in Europe."

"This firm has grown astonishingly, but it still feels small. It still feels hungry. Clients sense that and they like it"

Julian Oakley, Evercore

Evercore does not want to become known as the firm that helps corporate strategy departments do their small M&A deals. Rather, says Oakley, "our aim is to be the key strategic adviser to large-cap and mid-cap companies on their most important deals, as well as advising growth companies where much of the industry-transforming innovation springs up."

Evercore's biggest cost is time, effort and resources in client acquisition. "To advise CEOs on their biggest problems and challenges, you must first reach a point where they trust you sufficiently to disclose what these actually are," says Oakley. "As an outsider, you are often guessing. That position only comes with consistency of commitment, and we are prepared to put the time and effort in to earn that position."

But it is making progress. Even five years ago, no one would ever have imagined Evercore working on a deal like Aramco. Management's crucial concern, even as it gathers momentum and picks up share, must be to preserve the culture that has carried Evercore this far.

"This firm has grown astonishingly, but it still feels small. It still feels hungry. Clients sense that and they like it," says Oakley.

10 years ago and now runs a team of 50. "With 1,500 employees today, that's more challenging."

Its recent growth comes during a boom time for M&A. This may continue. Volumes have risen but do not look excessive measured against world GDP or global stock market capitalization.

And the firm has captured more than market beta: it has grown share in a rising market. Success has encouraged success and new hires have encouraged more peers to take the leap.

What happens in quieter times? Evercore must thrive when the spate of M&A deals of $30 billion and bigger declines.

Schlosstein has told analysts that this is already happening: "We continue to grow share in an environment that is not dominated by large deals, demonstrating the depth and breadth of our capabilities and our relationships."

It has a restructuring practice that, away from energy deals, is rather quiet today and is likely to remain so while interest rates are low, financing markets receptive and economies are growing. It is a good hedge against a serious economic downturn. The restructuring practice in 2009 was bringing in half the firm's revenues and providing work for many of its bankers when M&A was quiet.

Second, Evercore needs to build carefully outside the US, in Europe and beyond. It remains strongest in the biggest advisory fee pools of all. That is good. But it must judiciously build its capability in the rest of the world both to diversify and to protect its revenues in the US and in Europe.

"A key strength of Evercore is our experienced and talented senior bankers who love what they do and see this platform as an opportunity to re-create the client-focused advisory model of Wall Street that existed when we began our careers"

Marty Cicco,
Evercore

"We have made very significant strides over recent years in market share, and we have established strong teams in the US, Europe, Asia and Latin America, giving us a true global presence," claims LaLonde. Calling Evercore a global firm seems to be stretching it a bit, though it is certainly an international one.

In April, Evercore announced the hiring of Waleed El-Amir as senior managing director based in the newly established office in Dubai. Additionally, in early 2017, the firm hired Masuo Fukuda in its Tokyo office, strengthening its position in Japan, where Evercore continues to work with long-standing partner, Mizuho.

Finally, Evercore must hire and develop business-school graduates that come to the firm at the start of their careers, stay the course, nurture client relationships, execute deals and grow into its leaders in the years ahead. That is what embeds a culture and keeps a firm feeling special to its own employees.

It is what firms like Goldman Sachs, Morgan Stanley and Lazard do. It still sets those firms apart.

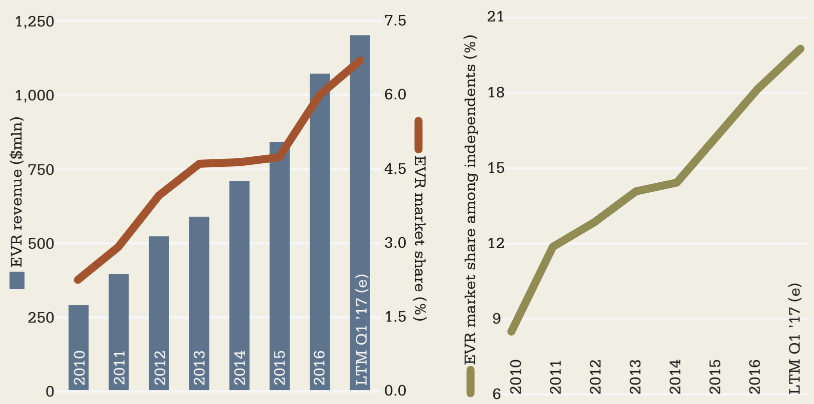
While Evercore prides itself on becoming the destination of choice for top-quality investment bankers looking to flee the Wall Street bulge bracket, there are not so many left of those A+ candidates today. Evercore needs to develop more of its own.

Schlosstein suggests that the regular trumpeting of new hires – the latest being Paul Stefanick, who is joining in October from Deutsche Bank, where he headed US investment banking, to boost coverage of general industrials and big multinationals and who is the fifth head of investment banking at a global firm to join Evercore – obscures the fact that this is already happening.

"I realized within six months of getting here that this firm eventually has to move beyond being one that filches other peoples' talent and become one that recruits, trains and promotes its own, " Schlosstein tells Euromoney.

"When I arrived, we had 28 partners of whom four had been promoted internally. We have 86 today of which 21 have been promoted internally. Hiring externally has been fundamental to our recent market share gains, but in the years ahead this must become a firm that does relatively little external hiring and much more internal promotion." EM

Industry advisory market share



Source: Company reports, SEC filings

EVERCORE

Founded just over 20 years ago as an investment banking boutique, Evercore has now stepped firmly into the big league

Evercore is the world's best independent investment bank for 2017 after a banner year in which it worked on many of the biggest, most complex and transformative M&A deals, often as lead adviser, occasionally as sole adviser.

In the Dealogic global M&A advisory volume league table for the 12 months to April, Evercore now ranks among the second tier of the global bulge-bracket investment banks – along with the likes of UBS, Credit Suisse and Deutsche Bank. It is ahead of all the independent firms, including high-profile new boutiques such as Centerview and, with the exception of Lazard, longer-established global firms.

Evercore has momentum. It brought in record revenues of $1.4 billion for 2016, an 18% increase on the previous year, when revenues went over $1 billion for the first time. And it followed that up with another record in the first quarter of 2017.

The firm, founded in 1995 by former US Treasury deputy secretary Roger Altman, who made his investment banking career at Lehman and then Blackstone, pulled off perhaps its biggest-ever coup last November when it hired John S Weinberg to be executive chairman. Weinberg, a fabled M&A investment banker to companies like Ford, General Electric and Boeing, had co-headed global investment banking at Goldman Sachs during a 30-year career at the firm his father, John L Weinberg, once headed.

"It's an important step for the firm," says Ralph Schlosstein, president and chief executive of Evercore. "John is an extraordinarily talented adviser who will focus on advising some of the largest multinational companies, and he further strengthens and deepens our senior leadership team as we pursue our goal of becoming the most elite independent investment banking advisory firm in the world."

It is a hard-driving outfit. High revenue per senior managing director is a defining metric at Evercore.

"It is a result of having high-profile senior bankers who roll up their sleeves and work with clients and don't just show up at the start to win business," says Tim LaLonde, chief operating officer of investment banking. "We have made very significant strides over recent years in market share, and we have established strong teams in the US, Europe, Asia and Latin America, giving us a true global presence."

Evercore sole-advised Singapore-based Heptagon Advanced Micro-Optics on its sale to Austria- headquartered ams AG in a $855 million landmark transaction to form a clear global leader in end-to-end optical sensing solutions. It was a complex deal, with consideration in both shares and cash for a Singapore-headquartered company with US dollar-denominated revenues being acquired by an Austria-headquartered, Swiss-listed company with the euro as its functioning currency.

Advising Abbot on the acquisition of St Jude Medical, one of the biggest healthcare deals of the last year, is a great example of how Evercore works.

"We have a close relationship with senior management at Abbott, who I have known for a decade through most of their big transactions, going back to my time at Lehman," explains Stuart Francis, senior managing director at Evercore. "They like high-level confidential advice that they know they can trust. The market for medical device companies has changed as many of their customers – the managed healthcare providers such as hospitals, insurance companies and physician practices – have consolidated dramatically. We helped identify St Jude as the best fit for product expansion. It was then a CEO-to-CEO call, after which we negotiated on value, put some stock into the deal and planned likely minor divestitures to meet regulatory concerns, all in private for two months before the deal became known. It's a classic example of why independent firms are enjoying such market-share gains."

Ralph Schlosstein: "Our goal is to become the most elite independent investment banking advisory firm in the world"

Evercore is working alongside Goldman advising Qualcomm – a company Francis has worked closely with since leading its IPO in 1991 – on its agreed bid for NXP.

"As my wife pointed out to me: I'm 40 years into my career, I'm at the smallest firm I've ever worked for and I'm doing the biggest deals I've ever handled, including the largest global technology deal of the year and the largest US healthcare deal of the year," Francis jokes.

Evercore's momentum continues. It is lead-advising Whole Foods on its agreed $13.7 billion all-cash sale to Amazon. This comes after activism defence work for Whole Foods, among a number of high-profile clients including Pulte Group, Qualcomm, Medivation, Marathon Petroleum, Cognizant Technology, Fred's, United Airlines, NorthStar Asset Management and Monster.

"People call this activism defence or preparedness because that sounds so advanced," says Bill Anderson, senior managing director. "But really what we do is what good investment bankers have always done: help our clients, in confidence, to think through their most important strategic concerns, analyze their options, obtain shareholder feedback and then help boards and management teams execute their chosen path forward – whether that be to sell, buy, or pursue their strategic plan." EM