

# SNL 2007 League Tables: Making the most of a distressed specialty finance M&A environment

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Milestone Advisors LLC finished at the top of SNL Financial's league tables for the most active financial advisers on specialty finance M&A transactions for 2007, marking the fourth consecutive year that the Washington, D.C.-based firm has ranked first or second relative to the number of deals in the space.

But that was about the only constant in a year of unprecedented turmoil in the specialty finance business, one in which the industry most notably witnessed the announcement and demise of its third-largest deal in the last decade.

The April 15, 2007, announcement that a group led by J.C. Flowers & Co. LLC would acquire SLM Corp., or Sallie Mae, offered a prime example of the aggressive deal-making activities of private equity firms across industries during the spring.

Much transpired in the five months that followed the deal's announcement, none of it positive for the seller. Even as Sallie Mae's shareholders voted in favor of the transaction in mid-August 2007, rumblings around the industry suggested that the company would struggle to meet certain conditions to closing the deal amid negative financial and legislative developments.

Indeed, on Sept. 26, 2007, Sallie Mae announced that it had been informed by the Flowers group that the investors did not

expect to consummate the transaction under the terms of their merger agreement. The company said the group had "no contractual basis to repudiate its obligations under the merger agreement," adding that it intended "to pursue all remedies available to it to the fullest extent permitted by law."

The investor group subsequently submitted a revised buyout offer for Sallie Mae, but the lender rejected that effort and filed suit against J.C. Flowers and its consortium, seeking to collect a \$900 million termination fee. As of press time, the deal had not been formally terminated, though that outcome is all but certain as Sallie Mae took steps to raise billions in new capital, reorganize its senior management team and continue to pursue its merger-related litigation in the Delaware Court of Chancery.

Not surprisingly, the impact of the outcome of the Sallie Mae deal on SNL's 2007 league tables will be particularly material. In terms of total deal value, JPMorgan Securities Inc. leads SNL's rankings both with and without Sallie Mae, though its annual sum is much more impressive in the case of the former at \$31.62 billion versus \$6.00 billion under the latter scenario.

For three of the advisers on the Sallie Mae deal — Greenhill & Co. Inc., Sandler O'Neill & Partners LP and UBS Investment Bank — the elimination of the transaction would effectively reduce their participation in specialty finance M&A during 2007 to zero from \$25.62 billion in terms of disclosed deal value. The Sallie Mae deal alone was good enough to place the three firms into a tie for third. In their place, with the exclusion of Sallie Mae, Merrill Lynch & Co. Inc., Credit Suisse (USA) Inc. and CIBC World Markets Corp. would rank second, third and fourth, respectively, in terms of total deal value.

Even without an official termination of the Sallie Mae deal, the specialty finance group saw its worst year for breakups in terms of total dollar amount since SNL launched coverage of the industry in 1996. Eight transactions announced during the course of 2007 worth \$7.19 billion in the aggregate have been formally terminated, surpassing the previous high-water mark of \$1.90 billion in 1998.

Although the collapse of no other single transaction was as dramatic as that of the Sallie Mae deal, developments in and around the mortgage industry during the course of 2007 served as the source for much of the upheaval indicated by the data.

H&R Block Inc. struggled to find a buyer for its subprime Option One Mortgage Corp. unit before agreeing in April 2007 to sell it to Cerberus Capital Management LP for \$1.27 billion. When another mortgage company that was majority-owned by Cerberus filed for bankruptcy in July 2007 and the credit markets subsequently locked up, the writing was on the wall for the Option One deal as originally structured, and the proposed transaction was eventually terminated Dec. 3, 2007.

PHH Corp.'s agreement to sell itself to a General Electric Co. unit for \$1.77 billion included the stipulation that GE subsequently sell the PHH mortgage business to Blackstone Group LP upon completion of the initial transaction. Amid the dislocation in the credit markets, Blackstone was unable to obtain the required amount of funding to complete its portion of the transaction, and the deals were formally terminated just minutes after midnight on New Year's Day.

## Specialty Finance financial adviser rankings

Year-end 2007

Ranked by number of deals

| 2007 Rank | 2006 Rank | Firm                             | Number of deals | Total deal value (\$M) |
|-----------|-----------|----------------------------------|-----------------|------------------------|
| 1         | 2         | Milestone Advisors LLC*          | 13              | 535.4                  |
| 2         | 8         | Banc of America Securities LLC*  | 5               | 28,016.6               |
| 3         | 1         | JPMorgan Securities Inc.*        | 4               | 31,615.0               |
| 3         | NR        | Piper Jaffray Cos.*              | 4               | 390.7                  |
| 5         | 21        | Beekman Advisors LLC*            | 3               | NA                     |
| 5         | 13        | Credit Suisse (USA) Inc.         | 3               | 2,813.4                |
| 5         | 21        | Kropschot Financial Services*    | 3               | NA                     |
| 5         | 4         | Lehman Brothers Inc.*            | 3               | 1,260.0                |
| 9         | NR        | Blackstone Advisory Services LP  | 2               | 1,275.1                |
| 9         | 21        | CIBC World Markets Corp.         | 2               | 2,531.6                |
| 9         | 9         | Citigroup Global Markets Inc.*   | 2               | 1,631.6                |
| 9         | 21        | Colonnade Advisors LLC*          | 2               | NA                     |
| 9         | 21        | Evercore Partners Inc.           | 2               | 1,607.2                |
| 9         | NR        | Feldman Financial Advisors Inc.* | 2               | NA                     |
| 9         | 9         | Lazard Freres & Co. LLC          | 2               | 1,260.0                |
| 9         | 4         | UBS Investment Bank*             | 2               | 25,615.0               |

\*Deal value for at least one deal is not available.

2007 data is as of Dec. 31, 2007.

Based on announcement deal values.

Terminated deals are not included.

NR= Not Ranked; NA = Not Available.

2006 rankings are recalculated as of Jan. 4, 2008.

Includes whole and asset deals

In-house advisers are included.

Source: SNL Financial

For Milestone, its success in 2007 can be traced to the firm's ability to adjust to deteriorating conditions in the mortgage market. Milestone engaged in more traditional advisory work in 2006, as Wall Street firms and large financial institutions sought to expand their origination and servicing capabilities as part of an effort to vertically integrate their mortgage platforms. For example, the firm participated as one of Morgan Stanley's advisers on its December 2006 purchase of Saxon Capital Inc.

Its 2007 activity, in contrast, included several noteworthy transactions through federal bankruptcy courts. Milestone assisted ResMAE Mortgage Corp. in selling certain assets through the bankruptcy process to an affiliate of Citadel Investment Group LLC during the first half of the year as part of the lender's efforts to emerge from Chapter 11 protection. During the second half of the year, the firm worked on American Home Mortgage Investment Corp.'s behalf as it sold its mortgage servicing platform to WL Ross & Co. LLC in bankruptcy court.

Milestone co-founder and CEO Eugene Weil told SNL that 2007 was characterized by unprecedented turbulence in the mortgage space as the nature of transactions changed amid a drying up of liquidity in the securitization and whole-loan markets, among other areas.

"I've certainly never seen anything like it in my professional career, not anything close," Weil said.

"We watched our business there migrate from this vertical-integration or product-diversification strategy to a lot more bankruptcy or reorganization type of work," he added, pointing out that Milestone was fortunate to have experience in engaging in

restructurings in other industries. "That continues as we look to help other folks, be it independent companies or bank-owned companies, exit all or part of their mortgage operations."

In addition to those kinds of activities, Weil said Milestone, with its familiarity with the players in the mortgage space, is involved in the formation of capital around servicing entities and experienced management teams that will be seeking to take advantage of a mounting wave of distressed assets, including portfolios of whole loans, securities and/or real estate owned. Milestone also focuses on advising clients in the bank and thrift, accounts receivable management and nonmortgage specialty finance industries.

Weil said he's quite optimistic about 2008 — something he said he would not have predicted as recently as six months ago — based on Milestone's pipeline and the various developments he sees in the market among depositories and commercial finance companies, as well as surrounding opportunistic capital formation in the mortgage space.

"'08 looks great," Weil said, on the heels of what he described as a record-breaking year for Milestone in 2007. SNL credits the firm with advising on a total of 13 specialty finance deals having a combined announced deal value of \$535.4 million.

"While there's been a lot of headlines about very large banks taking write-downs on their mortgage-related assets, it's really starting to push into the smaller- and middle-market guys," Weil said. "I think we're going to see more deals that people are forced to pursue in an M&A context. They're going to have to take on capital in some form." *i*