

## Rodman doubles down

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By Frayser White

Rodman & Renshaw Capital Group Inc.'s unsolicited bid for its larger rival Cowen Group Inc. could not only represent a strategic move toward consolidation, but turn out to be a shrewd arbitrage play, according to observers.

"If Rodman can buy in [Cowen's] stock because investors feel they have to hit the bid, then they are getting more cash than they paid for the company," Marc Cabrera, a managing director with Morgan Joseph, told SNL. "To me, it's pure arbitrage. They could literally shut down [Cowen] and still make money."

Rodman —led by Michael Lacovara, who serves as CEO, and retired Gen. Wesley Clark, who holds the chairman post — would likely not have put together the bid, or released it publicly, without being confident Cowen's shareholders would sell, Ada Lee, an analyst with Sterne Agee & Lee, told SNL, noting that the top five institutional shareholders own about a third of Cowen's shares. Cowen's largest shareholder, Bank of America Corp.'s asset management unit Columbia Management Group LLC, may be motivated to sell in the current market as a result of the poor performance of the stock since it took the bulk of the stake.

Columbia owned approximately 12.53% of Cowen's common stock as of Sept. 30, most purchased prior to Oct. 31, 2007, when shares were trading at more than \$12 per share.

In a short response rebuffing the buyout bid released Dec. 8, Cowen's management said it sees "no strategic rationale" for a merger because of the two firms' similar product offerings and overlapping client base. "There are no [complementary] products or business strategies and little additional sector coverage between the two firms," Cowen said, emphasizing that it offers all of the primary products and services offered by Rodman.

It was essentially the same argument Rodman's Lacovara made in favor of a merger. He said a shared focus and similar strengths across products and services made for a "compelling strategic fit."

But perhaps equally compelling for Rodman was Cowen's large cash hoard, which stood at \$111.9 million, or approximately 49% of its \$228.3 million in total assets, according to its quarterly statement for the quarter ended Sept. 30.

"We're mindful that one of the benefits and assets of Cowen is its cash position, and we're not going to do a transaction that would beggar the resulting franchise," Lacovara said on a conference call to discuss the proposal. Declining to detail the funding structure for the proposed buyout, Lacovara would not rule out equity financing or debt financing, but a bridge loan appeared to many observers as the likely funding source.

With the debt markets all but frozen, a bridge loan from private equity or another outside investor would be one option, albeit an expensive one, said Morgan Joseph's Cabrera. He said a bridge loan for the buyout in this market would likely have a one-year or 18-month maturity and have an interest rate of 20% or more.

"Potentially what [Rodman] is looking to do here is use Cowen's cash as a means of paying for the transaction," John Nelligan, a managing di-

rector with Milestone Advisors, told SNL. As for the most likely financing structure, he said there were too few details to speculate. Rodman will release an investor presentation with additional details on financing later in the week, Lacovara told investors on the conference call.

"The only reason someone would consider buying [Cowen] is for their balance sheet," Sterne Agee's Lee said. "Unlike Cowen, Rodman & Renshaw actually has a business model," she added, pointing out that Rodman had been among the most active players in underwriting private investments in public equities, or PIPEs, in the middle-market space in 2008.

The \$7-per-share offer represented a 20% premium from the \$5.60 closing price of Cowen's common stock on Dec. 1, the day before Rodman made its proposal to Cowen CEO David "Greg" Malcolm.

Under the proposal, Rodman would purchase all the common stock of the company through a combination of 50% cash and 50% Rodman stock, for an aggregate consideration of \$99.7 million, more than 2x Rodman's recent market capitalization of \$43.7 million.

While unusual for a smaller broker/dealer to acquire a larger competitor, the unsolicited nature of the bid also raised eyebrows. "These are human capital intensive businesses, and there certainly needs to be an alignment of business philosophy and how these businesses are run," Milestone's Nelligan said. "If you don't have commonality on how to build a business or run a business, you're never going to get there on the economics."

"We do not minimize the work that would have to be done to marry these two franchises," Lacovara said regarding forging a productive corporate culture. The key to a successful integration, he said, would be to convince Cowen's "core producing team" that Rodman would run the business profitably. He said Rodman hopes to retain the managers of valuable divisions at Cowen, but said there are "legitimate questions" about the performance of the management team as a whole since Cowen became a public company.

"It has not made money in any year since it became a public company," Lacovara said, but added there would be roles for "lots of people" from Cowen to play in a combined company run under Rodman's compensation structure and strategy.

Lacovara said he could not predict a time horizon for realizing either staff reductions or other operational efficiencies, but said a combined company would realize "meaningful savings" from bringing expenses for Cowen's team in line with Rodman's approach to compensation and noncompensation expenses.

Cowen's top management may oppose the merger out of concern they will be ousted to cut costs within a combined company.

"I'd like to see Rodman gut [Cowen's] management and completely replace the upper echelon with Rodman people," Lee said. Because there is substantial overlap between the two firms' businesses, Lee said Rodman would benefit from cutting Cowen's "bloated" expenses, leveraging its balance sheet and growing the business.

Given the current job market for Wall Street investment bankers, Cowen's top producers would be hesitant to jump ship under the new regime. "There is so much talent out there," Lee said. "People are just looking for a paycheck." *i*