

Ladenburg Augments Its Eastern Exposure

With an infusion of capital from Taiwan, Ladenburg Thalmann expects to ramp up its investment banking efforts in China

Investment Dealers' Digest

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11 June 2010

Ladenburg Thalmann Financial Services has big ambitions in China and Taiwan, and it hopes a deal with a Taiwanese investor will help it make inroads in a market that has attracted many Wall Street firms.

The Miami firm, which has an investment banking business and serves as a brokerage and asset manager, raised \$14 million last week through a private equity placement. Much of that stock was sold to Samuel Yin, the chairman and chief executive of Taiwan's Ruentex Group.

Both sides view the deal as a way to expand Ladenburg's connections in mainland China, Taiwan and Hong Kong. Ladenburg's investment banking arm, Ladenburg Thalmann & Co., already underwrites stock offerings for middle-market companies that are based in those places and are looking to raise capital in the U.S. It currently employs two Mandarin-speaking investment bankers and a Mandarin-speaking research analyst .

But the company, which trades on American Stock Exchange with a market cap of \$216.6 million, is still a relatively small player in this corner of the market. There are 233 companies headquartered in China, Hong Kong and Taiwan listed on major U.S. exchanges, according to Capital IQ. From the beginning of 2009 through May 4 of this year, they raised \$7.9 billion in this country in 143 transactions.

Richard Lampen, the president and CEO of Ladenburg Thalmann Financial, said it wants to underwrite more offerings for these companies.

Initially, it will make the deals in the U.S., but eventually it will expand to wherever its future clients can get the best execution, Lampen said. "We're not just looking to raise capital in the U.S. markets for emerging growth companies in China." Rather, his firm wants its investment bank to be able to advise, "a client currently listed in Singapore, whether the best place for its next capital raise would be in Taiwan."

Lampen said Ladenburg also sees opportunities to develop its asset management business "in both directions," with products that offer Chinese and Taiwanese investors exposure to the U.S. and products that offer U.S. investors exposure to China and Taiwan.

Further down the road, he said, Ladenburg sees opportunity on the advisory side, too. “There are companies in the greater China region with substantial capital resources that have interest in potentially making acquisitions in the U.S. and Western Europe.”

For now, Ladenburg isn't saying where or how it plans to set up offices in Asia, but Ruentex owns minority positions in a number of large regional insurance companies and banks, and it is a principal owner of Fuh Hwa Securities Investment Trust, a mutual fund company based in Taiwan.

Lampen said Yin was not making himself available to comment, though the Taiwan businessman said in the press release announcing the deal, “We are enthusiastic about Ladenburg's prospects and see significant potential to form a mutually beneficial relationship with the firm.”

Yin moves in some of the same philanthropic circles as Ladenburg's chairman, Dr. Phillip Frost, who is also the chairman of Teva Pharmaceutical Industries. Lampen said the two men met sometime in the past year or so through a Taiwanese partner of Frost's who works with some of the same charities as Yin.

Frost himself rarely speaks to the press, but he told the Miami Herald in a 2006 interview, “My business philosophy has always been to think as internationally as possible.”

Ladenburg is one of the few midsize investment banks with significant retail distribution, having acquired two independent broker-dealers, Triad Advisors and Investacorp. Lampen said his firm remains committed to expanding this part of its business over the next two to five years, with a goal of reaching \$250 million to \$500 million of revenue.

The firm has said it wants to marry the more predictable revenue and cash flow of independent broker-dealers with the more volatile, but potentially very profitable, revenue and cash flow of investment banking. Proceeds from the latest private placement are not earmarked for additional U.S. acquisitions, Lampen said, but “having more capital will allow us to be more active in seeking to grow the independent brokerage business, both through acquisitions and organically.”

Chip Roame, a managing principal at the financial services consulting firm Tiburon Strategic Advisors, wrote in an e-mail to IDD that Ladenburg should have no problem finding potential acquisitions.

“The independent broker-dealer market is ripe for further rollup,” he wrote. “Many of the independent broker-dealers cannot compete in the new, regulation-rich environment. And individual investment advisers are also leaving the wirehouses and looking for homes. Absorbing them takes capital as they sometimes want a check or some start-up money.”

Though it was not a primary motivation for the deal, expanding its underwriting for companies in China and Taiwan could also provide additional investment products for Ladenburg's independent broker-dealers. Lampen said its investment banking business has recently been focusing on products that it thinks would resonate with the retail side of the business, such as

business development companies and mortgage real estate investment trusts. It has been adding investment bankers and research analysts with expertise in those areas, he said.

To date, most of its fund raising for Chinese companies has been through private offerings — either private investments in public equity or registered directs. But Lampen said any public offerings it underwrites for these kinds of clients could interest retail as well as institutional investors.

Lampen also said having both retail and institutional distribution gives it an edge among middle-market investment banks, which are the dominant players in this corner of the market.

James Cassel, who left his post as Ladenburg's head of investment banking late last year, said he has a good relationship with the firm, which has "great potential."

He and another former Ladenburg investment banking executive, Scott Salpeter, recently launched their own independent advisory firm, Cassel Salpeter.

"Any firm like Ladenburg needs to have a significant presence in China; there are so many opportunities there," Cassel said.

He hopes his new firm works with Ladenburg in the future "where they are working on Chinese deals that potentially need an independent adviser."

While China can be a difficult place for U.S. companies to do business, the timing of Ladenburg's push into the region looks good. Brendan Brown, head of economic research at Mitsubishi UFJ Financial Group in London, says the turmoil in the euro zone is likely to translate into increased capital flows from China and Taiwan into the U.S. and possibly even progress on financial liberalization in mainland China.

Brown said the euro's troubles may also benefit U.S. investment banks by diverting attention from international negotiations over the appropriate valuation for the Chinese yuan. While things are calmer, China will take the opportunity to begin lifting capital restrictions, "so that by the next time the subject comes up [with foreign officials], maybe in the autumn, it can show that it's been making progress."