The boutique investment bank is hoping to eke out some space for itself in a busy sector dominated by Goldman Sachs and other big players.

BY RONALD OROL

Last week a bruising director battle pitting activist investor Jonathan Duskin and discount clothing retailer Citi Trends Inc. (CTRN) went the distance and concluded with a split decision.

The activist investor himself, Duskin, got one seat on the company’s board, but another dissident director candidate didn’t make the cut. In the end, both the activist and company could claim that they were partially victorious in the fight.

Behind-the-scenes, Citi Trends had hired a newbie activist defense team at Raymond James in New York to advise it on how to respond to the activist campaign.

The discount clothing retailer was one of the first clients involved in a director-battle for the boutique investment bank’s brand new activist defense team. Raymond James is hoping to eke out some territory in an ever growing sector of advisers to companies targeted by activists. So far, its team has only three members, including Duncan Herrington, a veteran adviser in the activist world who had worked previously for seven years primarily in Credit Suisse’s contested situation group.

“They [Raymond James] had been interested in starting up an activist practice focusing on small and mid-cap companies,” Herrington said. “And they contacted me to see if I had any ideas about forming a team to appeal to the middle-market.”

The advisory work at Citi Trends was just the fourth company facing an activist that the Raymond James team had advised on since forming. Nevertheless, the investment bank’s unit is hoping to differentiate itself from the so-called bulge bracket banks—the top-tier advisers—by providing advice to smaller companies facing activist investors in the $50 million to $1 billion range, where more than half of all activist targets are located.

Herrington noted that many large investment banks with activism teams often focus on the biggest U.S. companies rather than the smaller ones that are more often targeted. Credit Suisse Group, Herrington’s previous employer, for example, has retained some big clients over the years including Macy’s Inc. (M), which was targeted by activists Starboard Value LP.

“These bigger banks compete aggressively for the largest companies in the world but can also turn some smaller business away, and that underserved gap in the market is an opportunity for us,” he said.

According to FactSet Research Systems Inc., Goldman, Sachs & Co. was the most prolific defense bank so far for U.S. activist campaigns announced in 2017, providing assistance to eight U.S. companies targeted by activists. The well-known investment bank has dominated the activist defense advisory world for every year since 2014, according to FactSet.

However, in 2017, Raymond James emerged on the field, with two corporate clients, according to FactSet. The newbie adviser came just behind Morgan Stanley, which had three disclosed clients, so far. Also, some banks, including Barclays, Credit Suisse, JPMorgan Chase & Co., and Greentech Capital Advisors Securities LLC, provided advice to at least one client each so far this year, according to FactSet.

And Raymond James may be well suited to advise middle-market companies, in part because the bank’s research arm has analysts that cover them.

Keith Gottfried, partner and head of the Morgan, Lewis & Bockius LLP activist defense practice, said he’s not surprised that Raymond James has expanded its capabilities for advising public companies on activist defense matters. “We are seeing a noticeably upward trend in more investment banks being retained to advise smaller companies facing contested situations,” Gottfried said.
He added that the larger U.S. public companies often have sophisticated personnel in-house who can be used to analyze and review an activist idea for unlocking shareholder value. However, smaller public companies don’t have those resources and often will need to tap an investment bank to review an activist’s campaign.

“Small-cap companies don’t have the infrastructure for analyzing an activist’s ideas,” Gottfried said. “If they want to examine whether an activist’s ideas about monetizing certain assets or capital allocation changes make sense, they need to get a banker involved that understands smaller companies and the industry and, most importantly, the less than efficient markets that value smaller companies.”

Gottfried said that he and Herrington—while still at Credit Suisse—worked closely together advising Warsaw, N.Y.-based Financial Institutions Inc. (FISI), which defeated by a wide margin a proxy contest brought by Clover Partners LP, an activist fund specializing in small-cap banks. Clover had sought to have FISI, which is the holding company for Five Star Bank, sell itself. However, after failing to get its nominees elected, Clover liquidated its position. “Duncan is a terrific banker,” Gottfried said. “As our defense team’s quarterback, Duncan developed a strong defense that was appropriately calibrated for a small cap company.”

In addition to Citi Trends, the boutique bank has advised Sito Mobile Ltd., (SITO) an $81 million market capitalization mobile location-based advertising platform, in response to a campaign launched by activist Stephen Baksa.

“There are some top-tier activists like Starboard Value that may go after companies in this range, but there are also many young or lighter-weight activists here because they don’t have the assets under management to go after the bigger companies,” Herrington said.

The Raymond James team plans to concentrate its energy on defending corporations targeted by activists, unlike some investment banks that have dabbled in the past in advising both insurgent managers and companies. However, the advice might be provided to a corporate client considering an unsolicited bid. In this situation, an analysis may be produced with a focus on a prospective target’s defense and shareholder profile. “We are strictly corporate advisers,” said Herrington.

Why no activist fund clients? Herrington recalled one situation in a previous role where his team advised an activist that didn’t work out too well. For Herrington, the experience was a lesson in how activist defense teams should focus on just one side of the equation. “When the story came out in the in the press we heard it from our [corporate] clients. They asked us if we were coming for them next,” he said.

Also, the Raymond James team produces white papers and vulnerability assessments for clients seeking to identify how their companies might be targeted by an activist. “We produce a mock white paper where we play the role of an activist to see where they might be vulnerable,” Herrington said. “We use the same tactics an activist might pull like cherry picking data, and the peer set the way an activist might, so the client can assess how they would rebut those tactics most effectively.”

The activism defense model works partly because banks get follow up business from their clients if the assistance is helpful.

“While we get paid to consult on responding to activist situations, the real value is that when you get in the trenches with a client you also develop a tight bond and if you do a good job, help them in a tight spot, and prove yourself as a trusted adviser you develop a long-term client relationship that can lead to additional business down the road,” Herrington said.