

## Interview with David Deutsch

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David N. Deutsch is the principal of his self-named investment banking firm in Manhattan. Raised in the Capital Region, Mr Deutsch makes a point of returning home each summer as part of his Saratoga Weekend conference retreat with members of his extended business and personal networks. This year's invitation-only edition is slated for Thursday thru Saturday of this week, complete with panel discussions, networking sessions and social gatherings at the races and polo matches in the Spa City.

While spending some time together recently at the Saratoga races, Mr. Deutsch and Tech Valley Times principal Robert Millis discussed a wide variety of subjects in anticipation of the *Saratoga Weekend*.

### **TVT: Take us back to the beginning -- your local roots.**

DD: Like you, I went to Saratoga High School – go Blue Streaks! I graduated in the Top 10, along with your cousin Tammy and the soon-to-be famous David Hyde Pierce (note: the actor who played the part of Niles on the *Frasier* television series) in 1977.

### **TVT: Where'd you go to college?**

DD: I went to Middlebury College, originally pre-med. I was a physics - turned - economics major.

### **TVT: Then what?**

DD: Upon graduation, I went to work for Lehman Brothers in institutional sales & trading in NYC at the beginning of the '80s bull market. It was exactly like the story in *Liar's Poker* --- Michael Lewis was in an identical program at Salomon Brothers at the same time. I began as a corporate bond trader; Lehman's bond desk was/is legendary. I started trading bonds when Prime was 21 ½ %; the market had nowhere to go but up (as rates fall, bond prices rise). Years later, I became an "MD." Not the Medical Doctor kind, the Managing Director kind. It's O.K. --- I married a doctor.

After a couple of years, I went to Columbia Business School to learn where the bond came from. I wanted / needed to learn more about corporate finance, accounting, corporate strategy, etc. I was a major in finance and accounting. I delivered the valedictory address on behalf of my class -- at Columbia, the "valedictorian" is nominated/elected by his/her class).

### **TVT: Were you working during grad school?**

DD: Yes; during and after B-School, I worked at Drexel Burnham Lambert in Corporate Finance and M&A. In the year of my graduation, Drexel was the most sought-after employer; indeed, it was the training ground of many of Wall Street's best people. After a couple of years, I was recruited to Bear Stearns, where I became a Vice President in Investment Banking. I continued doing much of the same kind of work: M&A and corporate finance for middle-

market and closely held companies. I worked there for 3 ½ years until the clock struck '90s and the M&A hey-day of the '80s came to an end.

**TVT: Then what?**

DD: In 1990, I went to Congress Financial (one of the nation's leading commercial finance companies – now part of Wachovia) as Managing Director, Investment Banking. My theory at the time was that M&A would be “quiet” for the next couple of years, while the Congresses (and GE Capitals and Heller Financials and CITs, etc.) would have a field day financing many of the companies and transactions that Wall Street – in its doldrums -- wasn't financing. We did a land-office business at Congress in the early '90s, and I learned a lot in the process.

I went from being a VP, managing transactions, to a Managing Director responsible for transaction origination and also for participation in Congress' own corporate and marketing strategy. I became the firm's chief national spokesman (giving speeches at major conferences around the country, often quoted in BusinessWeek, The Wall Street Journal, etc.).

Frankly, it proved to be a great experience and a valuable platform. Along the way it occurred to me that I had developed an unusually broad base of corporate finance and M&A skills. I had been in both the investment banking (origination) and market-making (distribution) sides of Wall Street... worked in both public and private markets... done both permanent capital financing and working capital financing... been an agent and a principal... and developed a national reputation as a leader in “leveraged finance” (a term that I coined and trademarked which has become a part of the Wall Street lexicon).

**TVT: How do you define leveraged finance?**

DD: Essentially, leveraged finance is the point of intersection between M&A and corporate finance. It's an umbrella term that brings together many aspects of finance that relate to growing companies and M&A.

**TVT: OK, continue...**

DD: Along the way, I'm pleased to have been a bit of a thought-leader in finance. I write and speak quite a bit. I participate in industry roundtables. I'm working on a couple of books, right now. For example, I wrote the chapter on acquisition financing in McGraw-Hill's M&A Handbook. I wrote an article on “synthetic cash flow finance” that formed the basis for much of today's “tranche B” lending, etc.

**TVT: What made you want to launch your own firm?**

DD: I wanted to form a firm that would be a sort of corporate finance “internist” for leading middle-market companies and their owners. Major Wall Street firms have virtually taken themselves out of the middle-market. Their infrastructures are such that they can't cater to “small” (less-than \$500 million revenues) companies anymore - - our targeted clients are closely held, niche leading companies with \$20-\$500 million in revenue. The major firms' capital bases and securities distribution infrastructures are geared to the largest companies and the largest deals. Their people have become incredibly specialized; in my view, *too* specialized.

I often joke that that too many large-firm bankers have become ‘left-handed, South American, equity capital markets specialists’ and not the kind of broad-based investment bankers that most middle-market companies need.

**TVT: What's the tagline for the firm?**

DD: We specialize in growth capital financings and corporate sales. We also do quite a bit of acquisition work.

**TVT: Ok, now how about the “elevator pitch?”**

DD: We have a *strategic* orientation. To us, corporate strategy – where our client wants to go -- is as important as any *deal*. We also take an *advisory* orientation, rather than a *transactional* orientation. We certainly do transactions – they’re 2/3 of our work. However, the other 1/3 of our work is comprised of things like Evaluations of Strategic Financial Alternatives, Strategic Tune-Ups™, advisory work for boards of directors, financial valuations and opinions, etc.

We are often called upon to assist our clients in *preparing* for transaction as well as executing them. It’s common for us to begin a client relationship with some form of advisory work and, then, later manage that client’s transactions.

Our relationships are extremely long-term. Again, with an advisory orientation, rather than a “wham bam” deal approach. Last but not least, we think we’re relatively conflict-free. Today, major Wall Street firms are rife with conflicts (in their market-making activities, in their research, etc.). Our mission is clear: to advise our clients, advocate their positions and manage their transactions to successful completion.

**TVT: Any other ways to describe the firm?**

DD: The firm is much like a Park Avenue medical practice. Our clients get the “doc” they want and not a kid six months out of business school, and with the support of a small, smart, smooth-running office. I think we’re a “class act” among firms like ours. But, that’s for others to decide.

**TVT: Talk a little bit about how you went about growing the business.**

DD: I’ve grown the firm organically -- one client and one employee at a time. That said, at this point (13 years later), we have an excellent track record and nationally known “brand.” I’d like to grow the firm from our current four professionals (one partner, two associates and one office manager) to a group of perhaps 10-20 people. But the size of the firm isn’t particularly important. Note that, in our business, an M&A transaction is typically managed by a two or three person deal team, even if the firm has 1000 people in investment banking.

**TVT: What’s your mission or purpose in life?**

DD: Great question. Just like Steve Martin’s “special purpose” in the Jerk. I’d like to have as positive an impact on my clients, the field of corporate finance, my friends, family, community, etc. as possible. I’d also like to become truly financially independent -- yup, this is a for-profit enterprise. Along the way, I’d like to be more supportive of a number of causes and institutions that are important to my family and me. I’m involved with a number of community organizations and the Museum of American Finance, a Smithsonian affiliate that I’ve been a Trustee of for the last several years.

**TVT: Does your firm target any industry niches as a specialty?**

DD: We serve leading middle-market companies and their owners. We’re “generalists,” industry-wise; however, we have particular experience in niche manufacturing, retail and consumer products, and certain business services, healthcare services and financial services.

**TVT: Any war stories in high tech ventures to share?**

DD: In the venture / tech gold rush, we tend to avoid the miner. We’ll more likely work with the companies making dungarees and shovels for those miners! We participate in the gold rush, but in a risk-controlled way. For example, in wireless communications, we don’t know enough to choose the right manufacturer of radio transmission

equipment as a client – it’s too “high tech” and too susceptible to technological change and challenge. However, we have worked with one of the world’s leading manufacturers of short-haul microwave antennas: “dumb” and less susceptible to technological obsolescence. It’s the shovel, not the miner.

**TVT: Who is your typical client, then?**

DD: Our clients are generally leading companies in low-medium tech industries, but they do what they do in a world-class, high-tech, globally sourced way. Some examples: Furman Sound, the world’s leading manufacturer of power conditioning equipment for pro audio use. Judith Jack, the world’s leading manufacturer/marketer of marcasite jewelry. Avon Plastics, the world’s leading manufacturer and marketer of plastic injection molded serving wear for the food-service industry. Fedders, the world’s leading manufacturer of room air conditioners. Toyota, the world’s leading manufacturer of automobiles (we do business-unit M&A and financial advisory work for their U.S. trading company). Waterford Wedgwood, one of the world’s leading purveyors of porcelain and glass. U.S. Bancorp, a regional-leading bank.

**TVT: What are the current trends in company financing?**

DD: Among other things, very liquid and available private capital markets. There is a lot of available debt capital, both senior and mezzanine. Also, lots of available private equity. However, that capital is most available for corporate growth and acquisitions. As far as “venture capital” is concerned, it’s much more available to late-stage, as opposed to early-stage, enterprises. The public capital markets are generally accommodating; however, the IPO window has narrowed somewhat in recent months. That said, there are a number of new public-market alternatives such as the AIM market in London. The AIM is becoming a viable financing venue for many US companies that might not be able to complete a proper institutional IPO in the U.S. We were one of Carl Rosner’s advisors in CardioMag Imaging’s recent financing and listing on the AIM.

**TVT: Any other local Tech Valley clients?**

DD: I can’t discuss the details of much of our work but: Encore Paper (advised on strategic financial alternatives in preparation for its sale to SCA Tissue). CardioMag (advisory). Espey Manufacturing (board advisory). Many others that cannot be disclosed. We believe that we’re a natural, trusted choice for investment banking services for “upstate” companies. We’re a sophisticated, New York City firm with upstate values.

**TVT: Any thoughts, as a Manhattan firm but with those local roots, on the Tech Valley initiative?**

DD: I applaud it. It’s a true public/private partnership. However, we need to see more Intermagnetics Generals and MapInfo’s; companies that have truly “grown up” and prospered before the region can attract a steadier flow of interest from the national financial community. In the meantime, initiatives like The Center For Economic Growth and the annual Tech Valley Summit are important to continue fostering the environment necessary for future economic growth in the region. Regrettably, “Tech Valley” is probably known more to its inhabitants than to the New York and broader national financial community. We’ll do everything we can to help. Frankly, we believe that we introduce a number of important national financial figures and organizations to the region each year at our “Saratoga Weekend.”

**TVT: Let’s turn to the Weekend. How did it come about?**

DD: Beginning years ago, we wanted to have an annual event for the growing community of our firm. It’s a thank you to them and a way to introduce them to one another. I can introduce new clients to old clients – they’re welcome

to check us out. It's a think tank. It's a vehicle for us to continue to communicate with many of the companies, professional advisors and others that we deal with. It's also a lot of fun. It's not just business; it's personal.

We bill it as half executive business discussion; half family fun. Its attendees are "C-level" executives, partners of law firms, accounting firms, wealth management firms, private equity investors, lenders, etc... plus educators, heads of philanthropies, scientists, and a bunch of old friends!

This year we're having a panel called "From the Editor's Desk" with writers and editors from the Wall Street Journal, Mergers & Acquisitions Journal, Chain Store Age, etc. We also typically feature a Capital Region company or two (many Capital Region CEOs attend and speak at the conference). This year we're doing "A Conversation With Bob Bailey" of Racemark International. Last year, we did "A conversation With Walt Robb."

The upstate flavor notwithstanding, it's a truly *national* conference. Guests from NYC, Boston, Chicago, LA, Hong Kong, etc. The biggest group is from NYC. An educational and best-practices ethos pervades the Saratoga Weekend