

City Capital Corporation

Quality in smaller sizes

The biggest difference between life at a boutique and at a large international bank? “We make the coffee,” laughs Michael Hammond, one-third of the partnership of City Capital Corporation (3C). But if the lack of logistical support is the downside, the upside is a closer involvement with clients and their deals. Leaving a large institution “is not as daunting as it seems if you are prepared to work at it,” says Hammond. “The rewards can be very good for you and your clients. And you sink or swim with the client. You get emotionally involved.”

3C is the three-partner team of Hammond, David Meacher, and Scott Beattie. Together, they want to bring main market-style financial technology to mid-market, entrepreneurial companies, the type that would seek a listing on UK small-companies market AIM.

“We felt there was a niche for advising smaller, more dynamic companies,” says Hammond. “AIM companies are very sophisticated, but there is always scope for raising that level of sophistication. There are structures and mechanisms, like green-shoes or derivatives solutions, which are not used on the smaller markets. But there’s no reason not to use them.”

At just 18 months old, 3C has already made a splash.

After an introduction to Peter Simon, founder and chairman of clothing and accessories chain Monsoon, 3C found itself working with the Simon family’s Stoneycroft trust fund on its controversial attempt to increase its shareholding in Monsoon by 20%. This would take the family’s holding to over 90% and has been publicly criticized by other shareholders as a back-door attempt to take the company private at a knockdown price.

The deal is certainly different. Stoneycroft’s method – a put option that gives shareholders the right to sell their shares back at 140p – is novel. “That has never been done before,” says Hammond. “It’s good to see innovative things happening in the second line of the market.”

For a new outfit with just three deals to its name, 3C might have welcomed some press coverage, and the Monsoon publicity has prompted calls from other parties that

are interested in doing similar deals.

But a few cuttings in the bulging press file on Monsoon do portray Stoneycroft – and by implication its advisers – as a new brand of ruthless corporate raider. So 3C is at pains to point out that the deal, in Hammond’s words, “gave everybody choices. Nobody had to sell, they had time to consider their options, and all shareholders have been treated equally.”

He also says it would be irrational for shareholders not to exercise the put, given that Stoneycroft is paying a 20% premium on Monsoon’s average price this year. There are no barbarians at these gates, 3C insists.

“Monsoon was slightly bruising because we didn’t know how our other key contacts would react,” says Meacher. “Publicity can be great, provided you don’t get your five most important contacts telling you that you are sailing too close to the wind. That hasn’t happened.”

A large market untapped

As a former Schroder Salomon Smith Barney banker, Meacher is eminently qualified to talk about the differences between boutiques and mega-banks. “Citigroup had about 250,000 people, and when I started here we had two,” he says. “I went from the biggest to the smallest bank in the world in one go.”

The biggest management challenge for any such small firm is the lumpy and unpredictable nature of revenues, especially in the early days. 3C was lucky. It closed its first deal two months after Hammond and Meacher set it up. But any start-up should brace itself for a period of six to nine months with no income. It needs a sensible – or frugal – attitude to salaries and bonuses. “You get paid nothing until you make some money,” says Meacher. “That’s the easy bit to work out.”

The good news is that a handful of deals can sustain you and, if the fees rise above \$500,000, can make an outfit like 3C very profitable. If the larger banks have a fee threshold of, say, \$5 million, that leaves a significant gap in the market for 3C and others to fill. “Our target market is huge and the larger banks are not encroaching on it,” says Meacher.

If picking up deals that bigger banks shun helps Hammond and Meacher make money as well as coffee, 3C also has to avoid the big banks’ huge fixed costs. As well as its three principals, City Capital employs about 10 analysts, hiring them for projects pegged to individual transactions and retaining them for follow-up work if they are needed and want to stay.

The flexible approach costs a fraction of what it would take to assemble a similar sized permanent team at a larger institution.

Meacher, Hammond, and Beattie know each other from Robert Fleming, where Hammond ran the European capital-markets practice with Meacher as his number two. Beattie was at Halliburton & Co before joining Robert Fleming and is a resources specialist.

Hammond moved on to ABN Amro Rothschild while Meacher did a stint at Schroder Salomon Smith Barney before Russian media and IT company RossBusinessConsulting (RBC) brought them back together. While taking time out for personal reasons, Hammond was in Bermuda when he got a call about RBC’s mooted IPO. He agreed to take on the deal.

Meacher, meanwhile, took time out to spend with his family. It was, he says, a more appealing option “than thrashing away for a basic salary”. He then started to look for opportunities that might be more fun. Having kept in touch with Hammond and occasionally talked about setting up a boutique, the opportunity to work on the RBC deal galvanized them into setting up 3C. In April 2002, RBC listed simultaneously on RTS and MICEX, raising over \$13 million. “RBC was very important, because without a domestic capital market, Russia goes nowhere,” says Hammond.

Its Russian experience and Fleming connections helped 3C be appointed capital markets adviser to Highland Gold Mining when the company’s £25 million (\$40 million) IPO in 2002 last year made it the second-largest company on AIM. Highland owns Russia’s fourth-largest producing gold mine and has links with the Fleming family. In April this year, 3C picked up an M&A advisory job when VOS Logistics bought Euroad, Poland’s largest private transport company.

3C looks to be up and running.

Mark Brown