Boutique Banks to Suffer Most if Comcast-Time Warner Cable Deal Vetoed

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(Reuters) - Hints that U.S. regulators could veto Comcast Corp's proposed $45 billion takeover of Time Warner Cable Inc have investment bankers worried about whether they will get paid, with smaller advisory firms particularly on edge.

Boutique investment banks such as Allen & Company, Centerview Partners and Paul Taubman's PJT Partners have limited resources compared to their larger brethren, and they use them to win mandates on a few big deals. Yet it is megadeals such as the Comcast-Time Warner Cable buyout, that carry the most regulatory risk.

"Big banks have many deals going on, and they can afford to lose one more, even though it is painful. Smaller firms are less diversified, so for them it's much more painful," said Campbell Harvey, a professor of international business at Duke University's Fuqua School of Business.

At least $140 million in investment banking advisory fees are at risk if the Department of Justice ends up blocking the deal. Bloomberg News reported on Friday that staff attorneys at the department's antitrust division were nearing a recommendation to veto the takeover because of concern about its impact on consumers.

As much as $170 million in fees on two smaller transactions tied to the Time Warner buyout involving Comcast rival Charter Communications Inc
may be in peril too, according to estimates by consulting firm Freeman & Co LLC.

To be sure, bankers often negotiate a provision that allows them to be paid a fraction of the agreed fee if the deal falls through. These agreements are not public, but Freeman & Co estimates they amount to just 10 to 15 percent of the fee with a consummated transaction.

JPMorgan Chase & Co, former top Morgan Stanley banker Taubman and Barclays, which jointly advised Comcast, would split an estimated $51 million to $68 million in advisory fees if the proposed takeover goes through, according to Freeman.

Financial advisers to Time Warner Cable - Morgan Stanley, Allen & Company, Citigroup Inc and Centerview Partners - are set to share $57 million to $75 million in fees, the estimates show.

Taubman finished 2014 ranked 23rd in the worldwide mergers & acquisitions league tables based on four deals, according to Thomson Reuters data. However, without Comcast, his ranking would fall out of the top 100. Centerview, which worked on 45 announced deals and was ranked 12th last year, would fall to 15th without the cable deal.

CHAIN REACTION

If the Comcast-Time Warner Cable takeover were to be scuttled, Charter and Comcast's three-part transaction that swaps subscribers, divests some Time Warner Cable subscribers to Charter and creates a spinoff company called GreatLand Communications, would also be scrapped. That deal would generate up to $87 million for the advisers, according to Freeman.

Charter's $10.4 billion acquisition of closely held cable provider Bright House Networks, which Freeman said could generate up to $83 million in banker fees, can also be called off if Comcast-Time Warner Cable is not approved. Time Warner Cable has a right of first offer on Bright House, and could exercise it if Comcast walked away, analysts said.

Liontree and Goldman Sachs, Charter's advisers on the Time Warner Cable asset swap and the Bright House acquisition, would see a short-term loss in fees if Comcast's takeover of Time Warner Cable fell apart. In the long run,
though, they could come out on top.

Charter has been vocal about its plans to go after Time Warner Cable should it become available again - a deal that could raise fewer antitrust red flags because it would involve less market concentration than the Comcast takeover. Charter could then use the same set of advisers.

Backing the right horse can be a difficult calculation. Barclays had originally been working for Charter on the financing side when it was first planning to buy Time Warner Cable, but then switched sides to work with Comcast last year, sources familiar with the matter said at the time.

(Reporting by Liana B. Baker in New York; Editing by Greg Roumeliotis in New York and Christian Plumb)