

Strategic Advisors Sees Opportunities in Middle Market - Former Investment Bankers Offer Flexibility, Experience

IN DEPTH: BANKING & FINANCE

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CANONSBURG -- After 16 years of working together through several different companies, investment bankers Andrew Hays and Andrew Bianco are poised to capitalize on a revitalized middle market.

Mr. Hays and Mr. Bianco launched Strategic Advisors LLC in 2002 to provide consulting, merger and acquisition and corporate finance adviser services to companies with annual revenue between \$20 million and \$350 million, enabling them to sell, acquire, restructure or recapitalize.

"There is a resurgence in the number of deals being transacted both nationally and locally," said Mr. Hays, 50.

Part of that is due to economic recovery. But Mr. Hays also points to another statistic: more middle-market business owners are hiring investment bankers to make the selling process more efficient.

"In 2003, 42 percent of middle-market business owners used investment bankers versus only 28 percent in 2001," he said.

As far as Mr. Bianco, 45, is concerned, the best part of the job is helping people who worked to create value for others to become owners.

"It's a very rewarding business," he said. "Often we help a manager own a business."

The Pittsburgh region has no shortage of investment banking firms from large players like Parker/Hunter Inc., Downtown, to smaller ones like Dewhirst Warrick LLC, Sewickley. What sets Strategic Advisors apart, Mr. Hays believes, is its flexibility. It advises potential clients in analyzing all potential capital market alternatives afforded through the M&A and corporate finance marketplaces and can then execute any selected alternative.

Others contend the differential is its widespread connections and the co-managing directors' personal experience. Although Strategic Advisors employs six all told, five in

Western Pennsylvania, many people in the local financial community refer to the company as "the two Andys."

Mr. Bianco and Mr. Hays know firsthand about adjusting to change. They have been displaced twice -- by Westinghouse Credit Corp. in the early 1990s and, nearly a decade later, by Mellon Financial Corp.

They began working together in 1988 at Westinghouse Credit where they were asked to start an asset sales and syndication group.

"We focused on selling off whole investment strips in one-stop shop transactions," said Mr. Hays.

A few years later, they found themselves selling off what was left of the company. Originally, the wildly successful finance arm of Westinghouse Electric Corp., Westinghouse Credit, suffered severe financial problems in the early 1990s.

"When Westinghouse Credit was shut down," Mr. Hays said, "our role changed and we were responsible for marketing the \$3.5 billion capital portfolio on a one-off basis."

By the mid-1990s, they joined Mellon's private placement group, using their knowledge of the middle market to concentrate on management buyouts, leveraged buyouts, restructuring and acquisitions. The group grew to eight people, added merger and acquisition capabilities and changed its name to Mellon Strategic Advisors. They built relationships throughout the Mellon geographic footprint from Boston to Chicago, as well as in California.

In 2001, Mellon decided to sell its branches and small and middle-market businesses to Citizens Bank of Pennsylvania. Mellon Strategic Advisors wasn't involved in the transaction because it was part of Mellon's corporate business. But its whole support network was gone.

So Mr. Hays and Mr. Bianco spun out their own company in 2002.

"Citizens has been very supportive, providing a line of credit for our working capital and continued access to the Citizens' relationship management network," said Mr. Hays.

Since Strategic Advisors is nonaffiliated, it works with other banks, such as National City Corp., and other referral sources. The entrance of out-of-town banks into Western Pennsylvania hasn't shaken the status quo, Mr. Hays said.

"Without question, the biggest players remain Citizens, PNC and National City," he said. "All three banks have become much more aggressive in the pursuit of loan volume and we don't foresee them losing any significant market share to the new entrants," he said.

"We are always amazed by the desire of out-of-state banks to open up offices in Pittsburgh. We don't believe the number of businesses has grown and we doubt the aggregate borrowing needs of the middle market in Pittsburgh has increased over the past 10 years. However, banks seem to come and go like Fleet, Bank of New York, Sumitomo, Provident."

Mr. Hays said that while there were problems obtaining financing in the past two years, these problems were systemic to the industry, not to Pittsburgh.

Strategic Advisors has other types of relationships. For example, it works on several levels with York-based Susquehanna Capital, a private equity fund that may own up to six companies at any point in time.

"We provide various services," said Mr. Bianco. "When they identify a company to purchase, we evaluate and analyze the deal and help them with the purchase and to raise the money."

He said Strategic Advisors also helps Susquehanna with an annual evaluation of its portfolio companies, which can lead to transactional work.

"They understand that market, how to get deals done, and they're effective at what they do -- consummate professionals," said Rick Pierchalski, CEO of BPU Investment Group, a Downtown dealer.

Mr. Pierchalski explained that Strategic Advisors is affiliated with BPU. Regional banks, which fund transactions, are required to deal with a merger and acquisition firm that is either a registered broker/dealer or has an affiliation with one.

Less formal is Strategic Advisors' relationship with Main Street Capital, also based in Canonsburg, which brought it into the sale of Pinnacle Electronics LLC earlier this year. That connection goes back to Westinghouse Credit where Mr. Hays used to report to Don Jenkins, Main Street general partner. Pinnacle was acquired in February 2004 by St. Louis-based LaBarge Inc. for \$41 million.

The Mellon/Westinghouse Credit orbit isn't the only connection in the fold. The Cleveland office, opened in 2003, is headed by William Haggerty, who previously headed M&A for National City Corp.

Whether more offices are added depends on the connections and potential deal flow brought to the table.

"If we can find that person in the Baltimore area, that's where we'd want to go," said Mr. Bianco. "We do want to create a regional aspect to the business."

Mr. Hays said his company favors traditional business segments such as manufacturing, distribution and business services. It is currently involved in two transactions. He would not identify either company, but said neither is located in the Pittsburgh area.

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