

# The San Diego Union-Tribune.

## Low-profile powerhouse

---

### Small but successful investment bank branching out

**By Mike Freeman**  
STAFF WRITER

November 6, 2004

Shortly after Enron collapsed into bankruptcy in January 2002, the company's interim executives sought an investment bank to pin down the company's assets and how much they were worth.

Instead of hiring a big Wall Street firm, Enron tapped a small boutique investment bank in San Diego, Relational Advisors.

The job didn't draw much notice. But Enron is just one of a string of big-name clients Relational Advisors has worked with over the years. They range from Kirk Kerkorian's Tracinda Corp., which unsuccessfully tried a leveraged buyout of Chrysler in the mid-1990s, to Washington Group International, which bought Westinghouse's government services business from CBS in a joint venture in 1999.

Despite aiding in more than \$60 billion in transactions since it was founded in 1988, Relational Advisors has kept a very low profile.

"It is a powerhouse firm that has operated under the radar," said Chris Woolley, director of Comerica Bank's technology and life sciences business.

At least in San Diego, the firm may be better known for a birthday party that one of its principals, Ralph Whitworth, threw than for any of its business deals.

Whitworth gave \$1 million to an anti-land mine charity championed by former Beatle Paul McCartney. In exchange, McCartney and his band played a 90-minute concert during the private bash in Rancho Santa Fe.

The flashy party was a contrast to the way the firm has conducted its business, which emphasizes confidentiality and specializes in complex deals, including intricate financings.

For the Washington Group, for example, Relational has helped arranged international financing to build a fleet of nine or 10 cargo ships, each as long as three football fields.

With Enron, interim managers faced tremendous pressure from angry creditors to sell the company's assets as quickly as possible. So executives hired Relational Advisors to find out what those assets might bring.

The answer was fire-sale prices. "It was clear to us that liquidation was likely to be a disaster," said Joel Reed, a principal with Relational Advisors.

The firm developed a business plan for three core Enron divisions to enable them to operate as a stand-alone energy company.

In the end, Enron decided to sell the business units piecemeal anyway. Still, Reed thinks creditors will get more money in the sales due to Relational's work.

Principals in the company include Whitworth, Reed and David Batchelder, all of whom worked with corporate raider T. Boone Pickens in the 1980s. Batchelder led Pickens' take-over team at Mesa Petroleum. Whitworth and Batchelder hold or have held board seats on companies including ConAgra Foods, Waste Management and Mattel, among others.

Relational Advisors doesn't underwrite initial public stock offerings like many big investment banks. But it does most everything else, from acquisitions to financings to crisis management to proxy battles.

"They have a very broad base of experience and expertise in the merger and acquisition field – much greater than you typically find in this marketplace," said Alan Jacobs, a corporate lawyer with Heller Ehrman who has worked with Relational. "There are many investment banking firms that serve this market, but generally not from here."

After keeping a low profile, Relational Advisors now wants to boost its visibility. It sees a door opening for itself and other boutique investment banks in the wake of regulatory reforms in the financial services industry.

Before the latest wave of corporate scandals, big Wall Street investment firms sometimes linked analyst coverage to investment banking services.

"They can't do that anymore," Batchelder said. "That has been a tremendous benefit to the boutiques, because the boutiques have always provided better service."

Several boutique investment banks operate in San Diego, including Roth Capital Partners, Montgomery & Co. and Software Equity Group.

Up until now, Relational Advisors has focused on the energy and defense industries, as well as corporate control battles such as proxy fights.

In branching out, the 25-employee company aims to boost its business in life sciences and technology industries. It recently hired Robert Woolway, formerly with large investment banking firms such as J.P. Morgan and Merrill Lynch.

"Right now because of the absence of the major firms on the West Coast, I think Relational Advisors can have a more substantial presence on the West Coast than we've ever had," Batchelder said.

The question for Relational Advisors is whether a market exists for its services among the life sciences and technology firms located in San Diego.

Asked if they have a local market niche, Jacobs of Heller Ehrman said, "Life sciences is growing. Companies that went public 10 or 15 years ago are maturing. There very easily could be a need for their services, and I think that will continue to grow as the community continues to grow."

For years, Relational Advisors' top local client has been Titan. In fact, Titan's proposed merger with Lockheed Martin was sparked by a Relational Advisors report, provided to Titan CEO Gene Ray, on the premium prices being paid in defense mergers.

The company is made up of three divisions – an investment banking arm and two investment funds. Relational Advisors is the investment bank. Relational Investors is a \$3.4 billion investment fund, in which the California Public Employee Retirement System has \$1 billion invested. Titan Investment Partners is a \$25 million fund that invests in emerging companies.

Whitworth and Batchelder focus on Relational Investors, which takes stakes in companies whose stock is performing worse than its peers. They then seek to make changes either by working with management or fighting for board seats.

Because of Batchelder's history in hostile takeovers, Relational Investors can be greeted with trepidation by management when it buys a piece of a company. But to date, it hasn't had to initiate a proxy fight to get board seats. And its fund has posted an average annual return of 21 percent over the past eight years.

Relational officials decline to say how profitable the company is. At this time, more of the company's overall revenue comes from its Relational Investors unit than from Relational Advisors. But Batchelder thinks the investment banking arm has a potential to expand.

"It has a great growth opportunity, so we're going after the growth opportunity," he said.