

Lehman faces hard bargaining to sell Neuberger

Thu Sep 11, 2008 8:04am EDT

By Paritosh Bansal and Megan Davies

NEW YORK (Reuters) - Lehman Brothers Holdings Inc has made a tough call by deciding to auction a big piece of its investment management unit, seen as one of its crown jewels. Now, it could face an even harder task -- getting a good price for it.

The fourth-largest U.S. investment bank has struggled to raise capital to offset write-downs due to the credit crisis, and some bankers said Lehman's plan to sell a majority stake in its valuable business, including asset manager Neuberger Berman, is a sign of the desperate straits it is in.

"Neuberger Berman is a first-class property that people will be interested in. You certainly have a stressed seller who needs capital. That presents interest plus opportunity," said Eric Weber, chief operating officer of Freeman & Co, a merger advisory firm focused on financial services. "People smell blood in the water."

Lehman released its quarterly results and plans for raising capital about a week earlier than planned, after investors sent its stock reeling on concerns it won't be able to raise enough funds and its survival might even be in question.

It posted a quarterly loss of \$3.93 billion on Wednesday and said it plans to shed some assets, including selling about 55 percent of a portion of the investment management division. That includes Neuberger and the private equity and wealth management businesses. Experts say the unit overall could be worth around \$8 billion.

The division, which is headed globally by George Walker, a former Goldman Sachs partner and second cousin of U.S. President George W. Bush, is a steady source of income for Lehman and the decision to sell a stake is not a happy choice.

The company had \$273 billion in assets under management as of August 31, with \$98 billion in equity, \$93 billion in fixed income, \$44 billion in money markets and \$38 billion in alternative investments.

That makes it roughly the same size as Wachovia Corp's Evergreen Investments, with about \$245 billion in assets under management, but it is far smaller than BlackRock Inc's \$1.428 trillion, both as of June 30.

Revenue for the investment management unit was \$634 million in Lehman's third quarter, down 21 percent year-over-year.

"As a longtime industry observer, it is a heartbreak to watch," said Elizabeth Nesvold, managing partner at investment bank Silver Lane Advisors. "Neuberger is a special asset. For some lucky buyer, there is a phenomenal opportunity."

POTENTIAL BUYERS

Lehman said a majority stake sale will improve its capital ratios and increase its tangible book value by more than \$3 billion because of the accounting impact stemming from its 2003 purchase of Neuberger for about \$3.1 billion.

Lehman said it is in "advanced discussions with a number of potential partners," with Chief Executive Dick Fuld noting that it had spoken to financial and strategic investors about the unit.

Private equity firms Kohlberg Kravis Roberts, Hellman & Friedman and Bain Capital are in the running for the business, said sources who declined to be identified.

A person familiar with the matter said bids are due Friday and the investment bank hopes to announce a sale in October.

Having several bidders vying for the unit would give the investment bank more leverage in negotiations, said William Bates, a mergers partner at law firm King & Spalding.

A partial sale also reduces the amount of cash a potential buyer has to come up with, opening the field to an even bigger universe of companies, Silver Lane's Nesvold said.

The planned stake sale excludes the part of the unit that consists of Lehman's minority stakes in hedge fund managers, such as Ospraie Management LLC. Ospraie folded its flagship fund earlier this month after losses.

Selling those assets could have complicated the process further because Lehman may not have had the rights to unilaterally sell such interests to a third party.

Still, bankers said Lehman would likely have to sell its stake in the unit at a bit of a discount, at least. Freeman's Weber said the final deal could even see Lehman having to finance a part of the transaction.

"I think they'll end up with a softer price but not an awful price because it's a good asset and there will be competition for it," said Marshall Sonenshine, chairman of investment bank Sonenshine Partners.

www.reuters.com