

## Plenty of winners and losers in Wall Street upheaval

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After failing to attract a buyer over the weekend, besieged investment bank Lehman Brothers filed for Ch. 11 bankruptcy protection today. At the same time, Bank of America agreed to buy investment banking giant Merrill Lynch in a deal valued at close to \$50 billion. The frantic events of the past 48 hours are already roiling global financial markets and sending shockwaves across financial markets. Here's who stands to gain--and lose--from the dramatic changes unfolding on Wall Street.

### WINNERS:

**Boutique investment banks:** "It seems perfectly clear leverage is going down, that banks will be more careful who they do business with, and that there is a desire to be more of an agent than a principal," said Donald Marron, head of private equity firm Lightyear Capital and former CEO of PaineWebber Group. "There will be a trend toward specialization. It's hard to be in too many different places. Firms will concentrate on their strengths." Smaller firms standing to gain include Lazard and Greenhill. "There is a new way coming, but the old way is gone," said Robert Doll, chief investment officer at BlackRock. "I think parts of the old model have been destroyed, or at least cyclically challenged. We'll have to figure it out when the dust settles."

In late afternoon trading, Greenhill's stock price was up over 4%, while Lazard's stock price was down a mere .26%. Larger financial services institutions were faring much worse. "I think we're going to see boutique firms growing in importance, the Greenhill type M&A firms as well as hedge funds that specialize in human capital-intensive trading," said Bill Wilhelm, a finance professor at University of Virginia's McIntire School.

**Wells Fargo:** The fifth largest U.S. bank will likely benefit from Lehman's bankruptcy filing and take advantage of the acquisition opportunities being created in the market, veteran banking analyst Richard Bove said. Wells Fargo does not lend very much money to large corporations so it is not believed to have a stake in Lehman Brothers Holdings' troubles directly, Ladenburg Thalmann's Mr. Bove said. Also, it does not have a large position in the derivatives market, on a relative basis, so its counter-party risk is limited. While loan losses are well above comfortable levels in some of the bank's portfolios, the opportunities to grow the business are offsetting the problems, he said. As of 1:00, Wells Fargo share price was down less than 1%—easily outperforming Wall Street firms, which were seeing their stock prices driven down by 4% to 5%.

### LOSERS

**Lehman's 25,000 employees.** Roughly a quarter of the firm's staffers work in New York. Last year, the firm's global payroll totaled nearly \$10 billion, which works out to an average of \$332,000. Employees, who own 30% of their firm's stock, have already seen their wealth shrivel drastically, with the 95% drop in Lehman's shares this year wiping out \$15 billion of their net worth. Many of them now face losing their livelihood.

## "You could see 12,000 people on the street," says Gustavo Dolfino, president of recruiting firm WhiteRock Group.

> **New York City landlords.** In addition to owning its 1 million-square-foot headquarters on Seventh Avenue, Lehman rents 2.4 million square feet at pricey New York addresses, including 399 Park Ave. and 1271 Sixth Ave. Lehman paid \$250 million dollars in rent worldwide last year—a good slug of that amount going to Manhattan building owners. And it has committed to another \$1.4 billion in leases over the next four years. "Any way you measure it, Lehman would be a huge tenant to lose," says Michael Knott, an analyst at real estate research firm Green Street Advisors, who estimates that the bank rents more than 1% of midtown's prime commercial office space.

> **Lehman's biggest shareholders.** The news could hardly be worse for Lehman's 411,000 shareholders, including several that, sure that a rebound was imminent, redoubled their bets in the spring. Lehman's No. 1 investor, Manhattan-based AllianceBernstein Holding, increased its stake by 43% in the spring, to 66 million shares. The bank's fifth-largest owner, Wellington Management, upped its holdings by 75%, to 25 million shares. Even renowned hedge fund manager George Soros apparently got burned. In the spring he doubled his firm's ownership of Lehman, to 9 million shares.

> **Lehman's customers.** That group stands to take major losses. They have entered into \$44 billion worth of privately negotiated derivative contracts with the firm. "This is a powder keg," says Christopher Whalen, managing director at Institutional Risk Analytics.