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For a while, **KBW** CEO **John Duffy** didn't know if his firm would ever go public. It tried twice in the late 1990s, and failed. And then in September 2001, just when it was about to be sold to **BNP Paribas**, the World Trade Center attacks wiped out those plans - and a whole lot more. The firm lost nearly half of its New York staff, including Duffy's 23-year-old son, Christopher, who worked as an assistant equity trader on the 89th floor of the South Tower.

But after five years of rebuilding, KBW is back. Under Duffy, along with top lieutenants **Andrew Senchak** and **Thomas Michaud**, the FIG-specialty boutique has more than doubled the number of its employees, and grown in business and in influence. It went public in one of the strongest IPOs of 2006, raising $143 million with its stock rising 28% the first day. KBW was also an underwriter on the most FIG IPOs and successfully took public **Thomas Weisel Partners** after *Goldman Sachs* walked away. On the M&A front, it worked on some of the most significant US FIG deals, including **Northfork Bancorp**'s $15 billion sale to **Capital One** — a deal that Duffy personally worked on.

Duffy "has done a brilliant job taking a firm that faced a near death experience after 9/11 and re-building it," says **Brad Hintz**, a banking analyst at **Sanford Bernstein** who does not cover KBW's stock. "He never took his eye off the ball, which was 'let's have the company recover and regain its strength.'"

Not only had Duffy led KBW through the 9/11 aftermath, he also charted treacherous waters in the brokerage industry when trading commissions were shrinking. KBW managed to stick to its model and succeed by staying focused on its small- and mid-cap FIG sector, continuing its commitment to a research-heavy model, and investing in trading technology. In fact, its trading commissions never fell. The business model is based on the proposition that if the firm can help clients make money they will continue to pay for commissions, Duffy says.

Duffy is considered one of the firm's top FIG analysts. Michaud, vice chairman, COO, and president of Keefe, Bruyette & Woods, KBW's broker-dealer arm, says Duffy can take a quick look at a balance sheet and income statement and know the whole story of what is happening at a firm.

It is not surprising, then, that clients call Duffy directly. "He would do anything for a client," says Michaud.

KBW's John Duffy:
'We controlled our own destiny. Doing it was therapeutic, almost cathartic.'

Unrelenting care and long-term relationships with clients also helped KBW earn a role in **Bank of America**'s $36 billion acquisition of **MBNA** in 2005. The mandate was cinched during a phone call from BofA's head of strategic planning, **Gregory Curl**, to Duffy. KBW gave an opinion and earned a hefty fee in the process.

For all his savvy, Duffy hardly seems like the stereotypical Wall Street investment banker. He comes across as down-toearth, and puts people at ease with his warmth and directness. That's not rare in the closely-knit KBW, where turnover is close to zero and many employees have worked together for decades. "A lot of John's attributes are the attributes of the firm," says Michaud. "He is a very smart man, very approachable. Anyone can walk into his office and talk to him."

KBW's bankers tend to give credit to one another. Senchak and Michaud talk about how instrumental Duffy is, while Duffy deems those two and many others in the firm as equally invaluable. Indeed, one gets the impression that Michaud is spot on when he says, "The firm has all the good kind of ego and none of the bad."

Still, as CEO, Duffy had to do some heavy lifting before the IPO in presenting KBW's case to more than 80 investors, something that his colleagues qualify as revealing. "He was the best at the table," says Michaud.

KBW's IPO owes a small debt of inspiration to the successful IPO of Thomas Weisel Partners. In late 2005, Goldman Sachs, Thomas Weisel Partners' lead manager, told its client that market conditions at the time were not favorable for an IPO. KBW, a co-manager, felt that conditions were fine, and became a joint book-running manager with Thomas Weisel. The February debut was a success, as the boutique's shares rose to nearly $20 from $15 and have settled recently at around $20. The success of that deal rekindled interest at KBW. "When we saw the success of the deal it really raised the level of discussion about an IPO," Duffy says.

KBW went public in November. It reported that in the first nine months of the year, total revenues rose 32% from the year before, to $286 million. Its investment banking revenues posted a 30% jump, while its commission revenues grew 24%. Earnings, meanwhile, showed the biggest pop, soaring 177% to $28 million.

"I am more convinced than ever that we have the right business model," Duffy says. By sticking to FIG and staying within the firm's expertise, he says the bank stays "focused, and there is no confusion." Duffy does not rule out acquisitions, but he notes the bank will only look at the right opportunities.

Notable 2006 KBW Corporate Finance Transactions:

November 2006:
KBW co-manages the Common Stock IPO of OneBeacon Insurance Group ($690 million deal)

October 2006:
KBW advises Petrie Parkman & Co. on its sale to Merrill Lynch (transaction amount not disclosed)

August 2006:
KBW co-manages the Common Stock IPO of Security Capital Assurance ($481 million deal)

June 2006:
KBW advises Texas Regional Bancshares on its sale to Spain's BBVA ($2.2 billion transaction)

April 2006:
KBW advises TD Banknorth on its acquisition of Interchange Financial Services Corp. ($481 million transaction)

Source: IDD Research

A Bronx bomber

Duffy grew up in the Bronx. His mother was a waitress and his father drove the D train. He studied economics at City College of New York, driving a taxi to earn spending money, while working part-time at **Merrill Lynch**. In 1971, after graduating, he spent six-plus years at **Standard & Poor's**, where he learned the credit rating business. He joined KBW in 1978, managing a credit rating service called Bank Watch, which KBW has since sold. Three years later, he moved to the investment banking group, where he practiced M&A, which has been his forte to this day. When the group head left in 1990, Duffy replaced him, running the investment-banking business until 1999.

In 1998, meanwhile, KBW was planning to go public, but had to postpone its plans due to the implosion of hedge fund **Long Term Capital Management** and its impact on the financial community. In 1999, IPO plans were again derailed when then-CEO James McDermott was suspected and later tried and found guilty of passing insider information to his mistress, an adult film actress. The fiasco may have set back the firm's plans, but it presented Duffy an opportunity. He became president and co-CEO.

In the fall of 2001, employee-owned KBW was close to selling itself to BNP Paribas. However, the terrorist attacks changed KBW forever, as the firm lost nearly half of its New York staff, which was based in the towers. On the morning of Sept. 11, Duffy was driving to work down the West Side Highway when he saw a plane hit the north tower. He pulled over in midtown and called the office but got no answer. When he called home, his daughter answered and asked: "'Which tower is the one with the antennas? That is the tower that just collapsed,'" he recalls. Sixty-seven of Duffy's colleagues, including Christopher Duffy, co-CEO **Joseph Berry** and several board members, perished. Duffy returned to work two weeks later. Senchak, Michaud and others were taking care of everything.

Despite the challenges ahead of them, Duffy says there was never a question that they would rebuild the firm. He quotes Senchak as saying: "We wanted to do what we knew how to do, and that is go to work." Whether rebuilding took two or three years didn't matter, he says. "We controlled our own destiny. Doing it was therapeutic, almost cathartic," Duffy adds.

In November 2001, KBW moved to the Equitable building in midtown, and later paid $40 million to the families of those who perished. The firm has been paying the families' medical insurance and has created a charitable trust. It designates certain trading days when all revenues go to the families. Duffy also wrote a book, "Triumph over Tragedy: September 11 and the Rebirth of a Business." He donates 100% of the proceeds.

Indirectly, the post-9/11 market slump actually helped KBW rebuild, Duffy says. When **Credit Suisse** was handing out pink slips to former **Donaldson, Lufkin & Jenrette** traders, KBW hired more than a dozen who now make the core of its new trading group.

The post-9/11 business is similar to the one before 9/11, with some additions. Fixed income was enlarged, and FIG coverage has since expanded to encompass the US and in Europe. New categories including exchanges were also added. KBW built out its London presence in 2004, when an exodus from **Fox-Pitt, Kelton** presented an opportunity to hire a 17-member team. It now employs 450, double its pre-9/11 levels.

In his free time, Duffy enjoys golf and deep-sea fishing, and has financial interests in Brooklyn Cheesecake, Kinder's, a barbecue restaurant chain in California, as well as a rock band, Random Robbery. Duffy says that the 9/11 experience changed him. He now appreciates life more and makes decisions faster, like when he met musicians from a rock band while waiting to be seated at Bar Americain. They got into a conversation, and Duffy later agreed to finance them. He made that decision based on his gut feeling that they were "good people."

Avital Lauria Hahn
avital.hahn@sourcemedia.com