



INVESTMENT BANKING UPDATE

Delaware Ruling Requires Reassessment of M&A Relationships

A Call to Independence: Stephens' Perspective on the Ruling

For a corporate executive or business owner, the decision to sell the company is perhaps more critical than any that preceded it. Nothing short of the future of the company—including its shareholders, its employees, its customers and its suppliers—is at stake. So it is absolutely essential that the investment bank hired to advise on the transaction has no conflicts that might place the interests of the company in competition with those of the investment bank's affiliated lender.

A recent Delaware court ruling confirms what we at Stephens have long believed: investment banks that are affiliated with commercial banks, or are themselves lenders, have, in some situations, an inherent conflict of interest that can make them less than zealous advocates for their clients. As Judge Travis Laster's ruling makes clear, investment banks with commercial bank affiliates sometimes play both sides of M&A transactions, simultaneously advising sellers and financing buyers.

The ruling also highlights a potential conflict when an investment banking firm sits across the table from a financial sponsor that regularly borrows from the affiliated commercial bank and pays it substantial financing fees.

For Stephens, the ruling reaffirms our long-standing commitment to remaining independent. With no need to deliver quarter-over-quarter earnings to outside shareholders, and with no pressure to generate lending fees from investment banking clients, our bankers are free to focus on developing long term relationships and providing clients with unbiased advice.

We believe that the Delaware ruling will encourage corporate boards and business owners to take a closer look at their banking relationships to determine whether they are receiving truly independent advice. We hope that the industry will examine its own policies and practices in order to ensure that we all put the clients' interests first.