

FINANCIAL TIMES

Captain with a new style for the same game

January 23 2011

By Justin Baer in New York

Kenneth Jacobs' wood-panelled office on the 62nd floor of 30 Rockefeller Plaza, New York's Art Deco landmark, was once the domain of Michel David-Weill, the imperious cigar aficionado who controlled Lazard for three decades. But any trace of cigar smoke was long ago vacuumed from the office carpet, and a gym bag rests conspicuously nearby.

A year has passed since Mr Jacobs succeeded Bruce Wasserstein, the legendary dealmaker who died unexpectedly in October 2009, as head of the investment bank. While he has not veered from a game plan crafted by Messrs David-Weill and Wasserstein, Mr Jacobs, with his angular face and thin 6ft-3in frame, bears little resemblance to either man in appearance or style.

Indeed, it is not hard to envision Mr Jacobs as the basketball player he was more than 30 years ago, when the scrappy, long-armed kid from the New York suburb of Hartsdale earned all-conference honours at the University of Chicago. His relentless play left a lasting impression with his one-time coach, John Angelus. "Kenny worked hard," remembers Mr Angelus, now retired. "He'd played around the city in New York, where they don't exactly say 'excuse me' when they foul. He had kids we played who wanted to slug him."

In the equally rough and tumble Wall Street, defined by complex securities and monolithic financial institutions now deemed "too big to fail", Lazard has clung dearly to simplicity and smallness.

"Lazard is in the two best businesses in the financial services industry: asset management and financial advisory," says Mr Jacobs, as he settles back in his chair behind a conference table. "We compete with one asset, human capital."

Not too long ago, Lazard's stubborn commitment to its model would have been met by dismissive head shakes throughout the industry. A pioneer in mergers and acquisitions advice in the 1970s and 1980s, the firm boasted star bankers such as Felix Rohatyn and an unrivalled roster of clients.

As long-time competitors such as Morgan Stanley and Goldman Sachs bulked up their balance sheets, sold stock to the public and ploughed resources into trading everything from commodities to credit default swaps, Lazard stuck to its knitting.

Even now, as the financial crisis recedes and these same banks contend with higher capital requirements and more regulatory scrutiny, Lazard's lack of lending or trading business limits its purview.

The firm was not among the top 15 banks in total investment-banking revenue this year, and placed ninth in M&A fees, according to Dealogic.

“Lazard could have been Goldman,” sighed one rueful former banker when reminded of the breathtaking profits – and annual bonuses – its competitors’ trading desks churned out during the past two decades.

Perhaps, but Lazard could have also been Lehman Brothers, another venerable securities firm that did follow a similar path to higher profits. And it worked out well for Lehman, too – until the firm’s spectacular collapse in September 2008.

“I don’t think anybody who was at Lazard had any regrets,” Mr Jacobs says of the bank’s choices. “You chose to be at Lazard because you preferred this model. You’re not likely to go out of business overnight because of a trading position.”

Lazard has remained on course since his appointment. Profits are up, with revenue 27 per cent higher over the first nine months of the year.

As chief executive, Mr Jacobs has pushed ahead with plans to expand the firm’s advisory practice by offering capital-raising advice to corporate clients. Mr Jacobs is also developing a wealth management arm, catering to clients who may already turn to Lazard for investment banking or asset management.

To suggest Lazard remains an institution frozen in time overlooks the firm’s transformation from a constellation of star advisers whose dysfunctional structure had imperilled its future.

Indeed, Mr Jacobs ascension, from junior banker to CEO, might have seemed impossible to past generations of partners. He has neither inherited the throne nor arrived as a larger-than-life saviour to rescue it.

The 52-year-old son of a high school principal and a teacher, Mr Jacobs first felt the allure of a career in finance while he was at University of Chicago’s south side campus. When school and basketball had left him little free time to earn money, the economics major thought to organise bus trips to ferry fellow students to and from New York.

“I was always broke,” he says. “It was the first time I’d made money, it was kind of nice.”

After a year of travel and an “uninteresting” stint at a small oil and gas company, Mr Jacobs headed to business school at Stanford. His Wall Street career began in 1984, in the investment banking division of Goldman Sachs.

Goldman soon deployed him to its London office to work with a young banker named John Thornton, who would later become the firm’s co-president. “It was a very exciting time,” Mr Jacobs says. “Goldman at the time was exporting the American approach to M&A to London. There were lots of deals, and we were in the middle of a lot of them.”

But as Mr Jacobs explains, the dichotomy that would splinter Lazard from most of its peers had already formed. In 1988, he took the unusual path of leaving Goldman for the traditionally top-heavy Lazard in New York.

If Goldman was structured and organised, capable of mobilising teams of bankers with military efficiency, Lazard was a place of star bankers where, Mr Jacobs argues, it was possible for one person “to make a difference”.

Still, the transition was not an easy one for Mr Jacobs, who concedes having second thoughts for the first year or so. Lazard was not known as a bank that coddled its young recruits. It was, he recalls, “not always the most functional culture.”

It also had relatively few younger partners. “There weren’t that many people in the middle,” Mr Jacobs says. “I sensed, and I think it turned out to be the case, there was a just a tremendous opportunity.”

At the beginning of the 1990s, Mr David-Weill set out to revitalise the bank. He added a new generation of star bankers in New York, including Ira Harris, Ken Wilson and Steven Rattner. He developed an asset management division that today remains a core franchise. And he set in motion plans to merge the bank’s three houses in Paris, London and New York.

Mr Jacobs’s career would blossom during this period. He became a partner in 1991, and in 2002 was named head of North America. Mr Jacobs became deputy chairman of the bank that same year.

Mr David-Weill brought Mr Wasserstein to Lazard in 2001 to complete the transformation. Mr Wasserstein did that, and more, and soon wrested control of the investment bank from Mr David-Weill after the two men clashed over the historic step of an initial public offering.

“Bruce was invaluable to Lazard,” Mr Jacobs says. “He really stepped in to provide leadership at a time that there was a real vacuum, and it needed someone of his stature and capability. To this day, I don’t think anyone else could have pulled that off but Bruce.”

Today, Lazard is a more organised place. Many top executives have spent a decade or longer at bank, serving as walking advertisements that the business can in fact cultivate its own.

As CEO, Mr Jacobs has ceded his role as dealmaker, or at least the classic Lazard definition of one. While he still calls on clients when he can, there are many new responsibilities, and new constituents, including shareholders, to meet.

“A key part of my job is retaining our best people, and making it as easy as possible for them to work at Lazard,” he says, “which I don’t think has always been the focus.

“In this job, I continue to get my share of negotiations.”

The CV

Born: White Plains, New York, September 12 1958. Grew up in nearby Hartsdale.

Education: University of Chicago; Stanford Graduate School of Business.

Career: 1984 Starts at Goldman Sachs. 1988 Joins Lazard. 1991 Named partner. 1999 Becomes co-head of M&A, joins bank's executive committee. 2002 Appointed head of North America and deputy chairman. November 2009 Named chairman and chief executive.

Interests: Married to Agnes Mentre, film producer, with three children. Reads, skis, plays basketball and enjoys technology.