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Kenneth Jacobs
Head of Lazard
North America

Power To The People

Lazard's risk-averse model
and its human capital help
the firm take home our 2008
Bank of the Year award.

Power To The People

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BY TOM GRANAHAN

A quick quiz: Which investment bank has been around for 160 years, operates in 24 countries, acted as advisor on the two largest M&A deals in 2008 and has a thriving restructuring business that is playing a role in more assignments than virtually any other Wall Street firm, yet is still commonly referred to as a 'boutique'?

If you answered 'Lazard' you not only aced our test, but also named our 2008 Bank of the Year.

Simply put, in one of the most turbulent and painful times in the history of finance, Lazard largely remained above the fray. No massive writedowns, no government-induced bailout, no disgraced CEO and no Level 3 assets. Just sound advice, when such a thing is often in short supply.

Of course, none of that is by accident.

"When you cut through it all we have a very simple business model, which we've adhered to almost religiously, which is built around intellectual capital and the advice business," says **Kenneth Jacobs**, head of North America at Lazard. "We don't rely on our balance sheet, we lend no money, we take minimum risk and we're never in a position where we are competing against our clients' interests. Our business is one of providing high-quality advice to our clients for the long term."

If that sounds boring, so be it. It's not necessarily a strategy that's gonna make you look like **Lehman** or **Merrill** in boom times, but then again...

A BRIEF HISTORY

A visit to Lazard's offices in midtown Manhattan offers a fascinating reminder of just how steeped in history the firm is, with paintings of past executives (past, past executives) adorning the walls, along with

antique stock certificates.

The firm dates back to 1848, when the Lazard brothers formed Lazard Frères & Co. as a dry goods business in New Orleans. The entrepreneurial brothers soon found themselves in San Francisco, looking to capitalize on the gold rush by selling imported goods and exporting gold bullion. Eventually, the business expanded into the banking and foreign exchange businesses and it wasn't long before the brothers had expanded their reach to Europe.

By the mid-twentieth century, three Lazard "houses" in London, Paris and New York continued to grow their respective operations independently of each other, with the New York house ultimately coming under the leadership of **Felix Rohatyn**. Eventually, the three houses combined and in January 2000 Lazard LLC was formed. **Bruce Wasserstein**, the legendary financier and co-founder of **Wasserstein Perella**, which he sold a couple of years before joining Lazard, has been running the show since 2002.

Of course, Lazard didn't take home our Bank of the Year honor for anything it did back in 1848, but any thorough discussion of the firm by necessity should involve its history, to which the company has remained true.

"We've eschewed many of the things which have you outperform during a bull market and underperform the



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BANK OF THE YEAR

rest of the time,” says Jacobs. “We don’t do quite as well as everyone else in a bull market, but time after time we’ve tended to outperform in bear markets and we survive for the next bull market.”

A DIFFERENT KIND OF RISK MANAGEMENT

Surviving is no small feat, as we so painfully learned last year. But Lazard is doing much more than surviving—it’s thriving, at least to the extent that any investment bank can in the current environment. In addition to Lazard’s more conservative strategy, executives at the firm chalk the steady success up to its diversified business mix. Its restructuring business, for example, in an environment like today’s, can help offset some of the fees lost to a still-stagnant M&A market. But above it all, says Jacobs, Lazard has its people to thank for its largesse, and its strategy of hiring counter-cyclically.

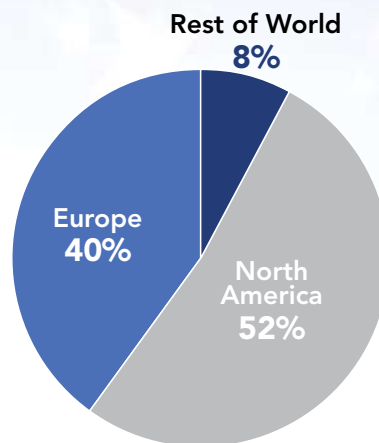
“You always have to be careful about hiring at the peak of the cycle, and be more aggressive than you might want to be at the bottom,” he says. “We’ve done a remarkably good job of doing that over the past couple of cycles. The downturn of 2001-2003 coincided with a very high level of investment at Lazard in senior talent, which put us in good shape for the accelerating trend in this cycle.

Over the past 12 months the company has scooped up some big names from a variety of sectors. Among them is **Timothy Pohl**, formerly the global co-leader of the corporate restructuring practice at **Skadden, Arps, Slate, Meagher & Flom**. Pohl came on in December as a managing director within the restructuring group. Other notable hires include **Fabrizio Cesario** and **Frédéric Legmann**, both managing directors in Lazard’s FIG group in London, and **Alexis de Rosnay**, a vice chairman of Lazard International, also based in the UK. (Interestingly, **George Bilicic**, Lazard’s global head of power, utilities and infrastructure, was the only senior banker to resign from Lazard last year—and he returned after six months.)

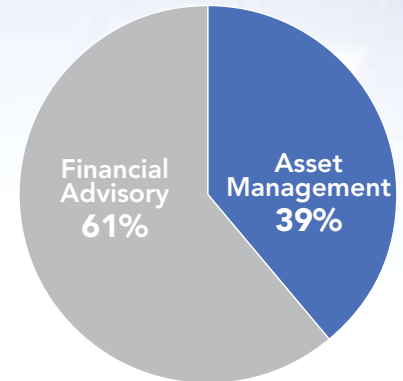
To illustrate the importance Lazard puts on its people, consider that the firm’s employees are seen as Lazard’s ultimate risk-management tools. While it’s easier for a firm that doesn’t dabble in some of Wall Street’s more esoteric tools to say that than those that do, it’s still a remarkable statement about the power of the firm’s intellectual capital.

Business Balanced Across Geography And Product Lines

LTM¹ Revenue by Geography



LTM¹ Revenue by Business Line



Note: Represents operating revenue from Financial Advisory and Asset Management segments (excludes Corporate).

¹ Latest twelve months ended September 30, 2008.

Source: Lazard

“We don’t take existential risk; we just don’t believe in it,” Jacobs says. “Our risk management is built around our hiring process and our retention process.”

PUTTING OUT FIRES

One of the beauties of Lazard’s model is its diversity, not only within business lines but in economic cycles. It’ll offer its M&A advice in times of robust deal-making, and can turn around and offer similar expertise to troubled companies when times are bad. At the moment, one would be hard-pressed to name a more active or influential restructuring shop. How’s this for a lineup of companies seeking its bankruptcy and strategic advice: **Lehman, Tribune, Fannie Mae, Pilgrim’s Pride, Tropicana, WCI**, and even the **UAW** in connection with **Delphi’s** bankruptcy.

“What makes us unique in the restructuring business is that we are able to meld together expert restructuring advice with industry expertise which is unmatched,” Jacobs says. “And we have a keen understanding of what it takes to deal with capital structure issues.”

While Lazard’s restructuring business is highly regarded, the firm is no one-trick pony. In fact, its sometimes-overlooked asset management business was sitting on some \$113 billion at the end of the third quarter. (Lazard breaks its operations out into two broad business groups: asset management and financial advisory, the latter of which makes up about 60% of the firm’s total revenue.)

The company has been hiring in this area, too, expanding its geographic reach, and also announced a partnership

with **Apollo** for private equity investments in Europe.

But Lazard is probably best known for its work in M&A advisory, and 2008 saw it working on a slew of deals involving household names, several of which are IDD deals of the year. Included among Lazard transactions last year were **InBev's** merger with **Anheuser-Busch**, **Gaz de France's** tie-up with **Suez**, **Mitsubishi's** \$9 billion investment in **Morgan Stanley** and **Trane's** sale to **Ingersoll-Rand**. Lazard ranked 11th in advising on completed deals last year, and 10th in all announced US targets. It also surged in deals involving

Japanese companies, ranking ninth among advisors, versus 38th a year ago.

"The benefit we have is we're a little bit better diversified than some of the other advice firms," says Jacobs. "We have the restructuring business, which offsets the downturn in the M&A business, and the consistency of the investment management revenue to see us through some of the ups and downs of the strategic advisory business, and that really helps."

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