

## BUSINESS

## The bank that hands out advice not cash

He took over from a Wall Street legend. But Lazard's new boss prefers to adopt a low-key approach, reports Iain Dey

**K**en Jacobs's first business venture was sunk by President Jimmy Carter. As a student, the chairman and chief executive of Lazard, the finance house, was always broke. When not engrossed in his economics textbooks, the New Yorker spent his days starring for the University of Chicago basketball team. He didn't have time to wait at tables, so he set up a bus company, running students from Chicago to New York in the holidays at low fares.

"I needed to find a way that, through a concentration of effort, I could make enough money to survive the year," he said. "And I did. It wasn't rocket science, it was just a way to make some money over a couple of vacations."

Jacobs's coach line was a roaring success until the Carter administration deregulated the airline industry — clearing the path for Peoplexpress Airlines, America's first short-haul budget airline. The bus firm was done for.

Three decades on, regulation is playing in his favour. Lazard is one of the most influential corporate finance firms in the world. It advises many of the biggest companies on everything from takeover deals to the everyday cut and thrust of running their businesses.

It lands high-profile roles —

## GOLDEN BOYS

Lazard was set up by three French brothers in New Orleans in 1848. Initially, the firm traded dry goods, but the brothers soon moved to the goldrush town of San Francisco to export bullion. Ten years later, they opened a Paris office. New York and London duly followed, all run by different branches of the family.

The "three houses of Lazard" were finally united in 2000. Michel David-Weill, the family heir then running the firm, hired Wall Street heavyweight Bruce Wasserstein to help him bring the businesses together. It eventually floated in 2005.

the firm is advising Greece on its debt problems. Unlike most of its peers, it does not lend billions of pounds to clients to support their deals. Nor does it structure home loans into complicated investment products that can be shipped to investors round the world. Lazard gives advice.

In the post financial crisis world, Jacobs reckons Lazard is in a prime spot. Most of the new tide of regulation is a help, not a hindrance. So far as Jacobs is concerned, even the falling pay packets of bankers is good news.

"If you think about our business, there's one input — people," he said. The cost of hiring and retaining those people is now much more "manageable".

"The last cycle was driven, for almost 20 years, by the growth of balance sheets in big investment banks. In the beginning it was just these big banks going from private to public entities and then getting access to capital. They all started like us — capital light and built round an advisory practice.

"When you go public, you suddenly get access to public capital. Once you get access to capital you can't stop. Your balance sheet starts to go up, you get into more capital-intensive businesses, you need more capital, your balance sheet goes up — and so the cycle continues."

For most of the 1980s and 1990s, the world conspired to make Lazard's rivals more powerful. Lazard was left on the sidelines. "The increase in balance sheet leverage and risk in the last cycle drove revenue, which drove compensation," Jacobs said. "This cycle is a complete undoing of the last cycle. It's going to last for the next 10 years. There will be ups and downs and lefts and rights, but if you look out in 10 years, you will likely see a system where revenues have not increased anywhere near as much as they did in the last cycle and a larger percentage of revenues at large investment banks are shared with shareholders rather than employees."

Jacobs, 52, was thrust into the top job a year ago by the sudden death of his predecessor Bruce Wasserstein — a Wall Street legend. Outside Lazard, Jacobs was not as well known as many of his peers — even though he has long been the favoured adviser of household names such as IBM, Colgate-Palmolive, Glaxo Smith Kline and L'Oréal. Inside the firm he was always seen as a favourite, having spent 22 years there.

According to William Rucker, the head of Lazard in London, Jacobs is more "in tune with the style of partners" than Wasserstein, who was known as "Bid 'em up Bruce" for his ability to extract the top price for the companies he sold.

Jacobs shuns the limelight. He could have been on his way to the Cannes film festival — his wife Agnes Mentre is a film producer whose credits include *The Wrestler* (which won an Oscar for Mickey Rourke), and Michael Moore's documentary *Fahrenheit 9/11*. As ever, Jacobs turned down the invitation.

Calm and assuring, he sounds more like a drivetime radio DJ than a Wall Street banker. He is a diplomat, having given prominent roles to some of the bankers he was fighting for the job, such as dealmaker Gary Parr.

He promoted Ashish Bhutani, head of asset management, which accounts for almost half of revenues.

Marcus Agius, the chairman of Barclays who chaired Lazard in London, said Jacobs was the "outstanding candidate". "I've seen him at work with clients many times over the years and he's incredibly impressive," he said.

Lazard's London operation has seen some change since Jacobs's accession. Veteran Ken Costa has retired, and Naguib Kheraj, the former chief executive of JP

Morgan Cazenove arrived and left within weeks. Jacobs said he "thinks the world of Naguib" and was disappointed he couldn't commit enough time to Lazard. There really is no conspiracy, he added.

The firm's profile in Britain has been boosted recently by the hiring of former business secretary Lord Mandelson as an adviser. "We did two breakfasts for Peter in New York about a month ago, which sold out as soon as we put them together," said Jacobs. Mandelson opens doors around the world, he added.

More doors are opening to the idea of receiving advice from an organisation that is genuinely independent, Jacobs claimed.

Last year, Lazard ranked fifth in global advisory fees. Those are "obscured" by the fact that rivals with big balance sheets get credit for little more than lending money, he said.

"In financial advisory we are competing with 140 partners globally, and fewer than 800 professionals, against firms

that have hundreds of billions of capital and thousands of people.

"If we're in the top five in advisory fees, I'm happy with that."



Ken Jacobs welcomes the fact that bankers' pay is falling at last