Lazard: Worlds apart, but working together at last

By Nick Kostov

Do not try to tell anyone at Lazard that it is really three separate firms – in London, Paris and New York. Such suggestions touch a nerve.

Attempts to put them to the chief executive Ken Jacobs, who is based in New York, and Matthieu Pigasse and William Rucker, heads of the Paris and London arms, all met with swift interruptions. Not one of them allowed the sentence to be finished.

Jacobs said: “It’s not New York, London and Paris anymore. Lazard’s distinction is being important locally with elite decision-makers while excelling globally.”

Just at the moment, however, there is one arena in which the bank might not be unhappy to be spoken of in terms of its British, European and American incarnations – the advisory league tables for the UK, Europe and the US.

This year, Lazard has elbowed its way higher in all three than it has been for some time. It is second in the UK, third in Europe and seventh in the US by deal value, according to Dealogic. Those are its best positions for 16, 17 and 12 years respectively.

While executives are quick to emphasise that today Lazard is united, that was not always true of a bank that began as a clothing and textile shop set up in New Orleans in 1848 by three French emigrant brothers. Lazard Frères quickly diversified into banking, opening offices in New York and Paris in the 1850s and London in 1870.

In the 20th century, the three “Houses of Lazard” gained a name for anything but fraternity, not only refusing to communicate with each other but competing, trying to poach each other’s clients.

Such a riven institution could hardly have achieved this year’s performance in the league tables, however. Clearly something changed at Lazard Frères.

The first step towards unity was the obvious one – in 2000, the three “houses” were formally united into Lazard LLC. Evolution continued when the bank went public in 2005.

Talking points

These formal steps were accompanied over the past decade or more by deliberate changes in the culture of the bank. A younger generation is gradually being brought forward into positions of importance.

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It was hired by Egypt and the United Arab Emirates to build an economy recovery plan for Egypt, described by one banker as “a kind of Marshall Plan”.

In Africa, the bank has diversified from debt restructuring for highly indebted countries to advising on raising sovereign debt. Lazard advised Gabon on its $1.5 billion bond offering and is currently involved in a similar offering for Ethiopia, with roadshows in both New York and London.

Today, the bank employs about 30 bankers in its sovereign advisory team, up from around 20 three years ago, according to a person familiar with the bank.

During the past decade Lazard has also invested in its advisory businesses on capital, debt and equity capital markets. In the US, the bank is also growing its mid-market business and has made a number of hires this year.

Nomura analyst Steven Chubak said: “Even during 2011 and 2012 when we were seeing a steep decline in European M&A, Lazard’s performance was actually much more resilient than the broader industry and in my opinion it was really a function of them being active participants in the sovereign advisory and capital advisory space.”

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tions of responsibility. A newly aggressive, dynamic approach to marketing has done much to dispel Lazard’s image as a slightly sleepy, old-school shop that recruits primarily in its late 40s who want to finish their careers in advisory. And, crucially, the brothers Lazard have recovered their fraternal spirit – internal communication may not yet be perfect, but Lazard is no longer the bank that does not talk to itself.

Jacobs said: “The strength of Lazard is that, over the last decade or so, we have put the next generation in positions of leadership. They have grown up at the firm and work well together.”

The changes seem to be paying off. In the third quarter, Lazard’s revenues from traditional M&A and other advisory work were 37% higher than in the same quarter last year.

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Steven Chubak, an analyst at Nomura, said: “They’ve really managed to buck the trend this year among the independents in terms of how much growth they’ve seen, or the growth they’ve generated in financial advisory revenues year-on-year.”

It has advised on half of the year’s top 10 announced deals by value, including AT&T’s bid to buy DirecTV, French cement company Lafarge’s pending $40 billion tie-up with Swiss rival Holcim and the tobacco deal between Lorillard Reynolds American and British American Tobacco.

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Transition

More recently, however, a transition has taken place behind the scenes. Much of the older generation, many of whom were nearing retirement age, left after the crisis. Some partners who returned in recent years had actually retired three of four years earlier but stayed to help transfer accounts.

Rucker in London and Pigasse, speaking of the Paris office, said: “It’s a renewed team dynamic, more energetic.”

While his comments were specific to the French operation, they have broader resonance for Lazard. Pigasse added that the younger generation had brought a new spirit and culture.

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Lazard’s sovereign advisory business, important for the firm since the 1970s, has been an numerous thought pieces on industry dynamics and how they are evolving. These are circulated and discussed internally at the bank’s offices around the world before a house view is adopted and subsequently distributed among the bank’s clients.

William Rucker, the chief executive of the bank’s London business, said: “The key thing is to have people who are plugged in and understand what is going on. That’s what you get when you get 20 partners in London, you get people who have views.”

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Wide gap

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The potential departure of Weiss – he has been nominated undersecretary for domestic finance to the US Treasury – is a blow.

In the UK M&A, meanwhile, Lazard is said to be too dependent on Rucker, in his 50s, and Nicholas Shott, who is in his 60s. One head of M&A in Europe at a competitor of Lazard said of the bank: “The business they do, they do out of key advisers that they have – and they need to recruit more.

Rucker rejects this point: “The MD team in London is an excellent blend of outstanding, experienced names such as Charlie Foreman and Spiro Youakim, and rising stars such as Richard Shaw.”

Still, with businesses around Lazard’s traditional M&A practice getting stronger and a talented generation at the top – Lazard is looking to the future with confidence.

Jacobs said: “One of the things that Lazard benefits from is having a model that has been time-tested. We’ve been in this business, particularly on the financial advisory side, for a long time and, a little like the tortoise and the hare, if you pace yourself then you’re going to do pretty well.”

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Sarah Krouse contributed to this article, which first appeared in the print edition of Financial News dated November 17, 2014

Asset management: ‘We got a bit lucky with how the world went’

Lazard may be known for its banking roots, but in a quiet period for mergers and acquisitions activity globally, the fund management unit within the firm has slowly but steadily come into its own. Asset management revenues were just under half the firm’s $1.7 billion revenue during the first nine months of this year, up from 37% in the same period five years ago. And full-year revenues for the asset management business topped $1 billion in 2013, outshining revenues from advisory and restructuring work for the first time.

Asish Bhutani, who has been chief executive of the fund management unit for a decade, said: “I would love to say we did some unbelievable things, but we had very capable investment people and we happened to get a bit lucky with how the world went.”

For one, institutional investors began to invest more internationally than regionally, a trend that played into Lazard’s line-up of products. Large investors also began allocating to emerging markets.

Lazard chief executive Ken Jacobs said: “The seeds we planted a decade ago have borne a lot of fruit – being very good in areas where the world was headed, not where the world was.”

Average assets under management were $203 billion for the third quarter, up 18% from the same period a year earlier.

Devin Ryan, an analyst at JMP Securities, said: “Asset management has been a great story. They’ve had really strong flows over the past handful of years against a backdrop when other asset managers had money going the other way.”

Lazard Asset Management received $2.6 billion in net inflows during the third quarter, attracting assets to its emerging market debt and equity strategies as well as multi-regional strategies, the firm said in its third-quarter earnings release.

Bhutani was recruited to Lazard by Bruce Wasserstein, the bank’s chairman and chief executive, who died in 2009 and was succeeded by Jacobs. Wasserstein, known as an aggressive dealmaker, had worked with Bhutani at Wasserstein Perella Group and hired him at Lazard as head of new products and strategic planning in 2003, moving him to asset management a year later.

Analysts say there was a sense at the time that management did not want to meddle in a business that was performing well, even if there was linkage to old leadership.

Bhutani took over at a time when the firm was suffering from outflows and a loss of fees after the departure of their star manager William von Mueffling. It underscored the key risk inherent in investing and helping to set the scene for the governance and compensation systems that are in place today.

Analysts highlighted low staff turnover at the asset management business as a strength.

Bhutani says his investing staff stay because of the transparent pay and performance – fund managers know what they will be paid and how their performance will be evaluated.

While the firm has an investment council and risk staff, it does not have a chief investment officer.

Bhutani said: “We firmly don’t believe in CIOs. I don’t believe any one person has the skill set to tell people what to do across every asset class.”

He added: “We have the transparency of a boutique and the survivability of a large organisation.”

The business has benefited from becoming increasingly international. Today, about 45% of the firm’s assets come from outside of North America, up from less than 20% a decade ago. More than 65% of the firm’s assets are invested outside North America.

One defining characteristic of the funds business, according to analysts, is its network of established investment teams globally, an expensive way of doing business. More than 40% of Lazard Asset Management’s staff are investment professionals, a high percentage in the industry. It sources much of its middle and back-office functions.

Ryan sees further opportunity for Lazard’s emerging markets franchise if emerging markets begin to turn around after a difficult period. He said Lazard’s funds business was helped by sticker money from institutional investors, which represent about 80% of its assets under management.

Still, heavy emerging markets exposure is not without risks. Steven Chubak, an analyst at Nomura, noted that heavy weightings towards emerging markets mean that softness in the developing world could translate into lower performance and fees.

Institutional money also puts the firm at the mercy of consultants, which have heavy sway both in the US and the UK.

Barry Fennell, an analyst at fund data provider Lipper, said performance overall at the firm’s strategies was “mixed” but that the international products gathering the most assets had the strongest performance relative to their peers.

Looking ahead, Bhutani sees further opportunity in both the defined benefit and defined contribution pensions industries. He would also like to see a bigger fixed income business. Like other fixed income managers, the firm sees opportunities to gather assets that investors have pulled from Pimco.

Jacobs said the firm could expand organically or through select lift-outs or acquisitions over time. He also expects the balance of revenues to tip back to higher revenues from advisory work as the M&A cycle continues.

Fennell said: “With active management getting a harder look, they seem to be in a decent spot because if people are going to allocate to active and pay the extra fees above passive, they’re going to want to do that with an experienced manager who can offer them something that’s difficult to index.”

Three or four years ago, analysts would focus more on the advisory side of the business, Chubak said, but today, asset management is crucial to the firm’s upside potential.

Asked if the firm should be considered an asset manager with an advisory business, Chubak said: “It’s surprising that people don’t think of it that way because [asset management is] such a meaningful contributor.”

Sarah Krouse