Evercore

How M&A boutique Evercore became 'Goldman North'

The New York investment bank is narrowing the gap with its downtown Wall Street rival

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At first, it was Lazard and Rothschild that Roger Altman's boutique New York investment bank Evercore had in its sights. Almost three decades after its founding, the firm is instead closing the gap with Goldman Sachs, JPMorgan and Morgan Stanley on its core business of deal advice.

Last year, the firm's advisory fees put it in fourth place behind the three Wall Street titans: it reported advisory revenues of $2bn to Morgan Stanley's $2.2bn, JPMorgan's $2.8bn and Goldman's $3.3bn. This year, Evercore has found its way into nearly every mega-deal in the US, including BlackRock's $12.5bn acquisition of infrastructure investor GIP and Synopsys's $35bn acquisition of Ansys.

The firm has achieved the feat in part by tapping the alma mater of current chief executive John Weinberg: Goldman Sachs.

"Evercore is like Goldman was 20 years ago," said one person familiar with both firms. "It's very entrepreneurial, they celebrate wins. Goldman [today] is more about lamenting losses."

Another Evercore banker put it more bluntly: It's "Goldman without the bullshit".

Evercore is not the only boutique to have made it to the top tier of advisers. A generation of senior bankers struck out on their own in the years immediately before and after the financial crisis.

UBS's Blair Effron founded Centerview Partners in 2006 with Wall Street veteran Robert Pruzan: it ranked third for M&A advisory fees in the first quarter of last year. Robey Warshaw in London was the 2013 offspring of two former Morgan Stanley bankers and another from UBS. Ken Moelis was a UBS banker before setting up his eponymous boutique in 2007; Paul Taubman of Morgan Stanley set up the firm that would become PJT Partners in 2013.

Evercore was a firm borne of an earlier generation. Altman, 77, launched it after a career that took him from Lehman Brothers and Blackstone to Washington, where he served as deputy US Treasury secretary in the Clinton administration.

Altman remains heavily involved. One 20-year Evercore veteran said its founder was "going to go out [of the firm] horizontally". Altman and longtime chief executive Ralph Schlosstein had also already built a formidable advisory franchise before Weinberg joined.

"I have great admiration for what Roger and Ralph have built," said Effron, the co-founder of the firm's fierce competitor Centerview. "I've always been impressed with how ably they have managed the firm while maintaining a top-flight culture and a broad definition of what it means to give good advice."

Still, Weinberg's arrival from downtown rival Goldman in 2016 validated Evercore's model — and marked a new era of ascendancy that has earned the uptown firm the nickname "Goldman North".

Weinberg has impeccable banking heritage. He spent 32 years at Goldman; his family's history at the bank extends back more than a century to when his grandfather Sidney Weinberg joined it in 1907 as a janitor's assistant before working his way up to become senior partner. His father, John Sr, also led the bank. John Weinberg's cousin Peter Weinberg is a Goldman veteran who founded Perella Weinberg Partners.

Altman and Schlosstein lured Weinberg across to Evercore as executive chair with the help of a $100mn equity pay package. Within four years Altman named Weinberg co-chief executive alongside Schlosstein. He took over as sole CEO the following year.

Evercore has made good use of Weinberg's Goldman connections. Last year, it hired the ex-Goldman partner and tech banker Nick Pomponi, Michael Tarulli, previously Goldman's global head of aerospace, defence and government services investment banking, and Goldman's co-head of technology investment banking Tammy Kiely, among others.

Altman said: "Over the past five years, nearly 70 per cent of our externally recruited senior managing directors have come from firms other than Goldman Sachs."

Evercore was initially set up like Blackstone, to advise on M&A and execute private equity buyouts. The LBO investing business was an expensive bust. But the M&A group proved more promising.

For its first decade, the M&A business employed a tight circle of senior dealmakers that was critical to building its core partnership values, according to one person in that group.

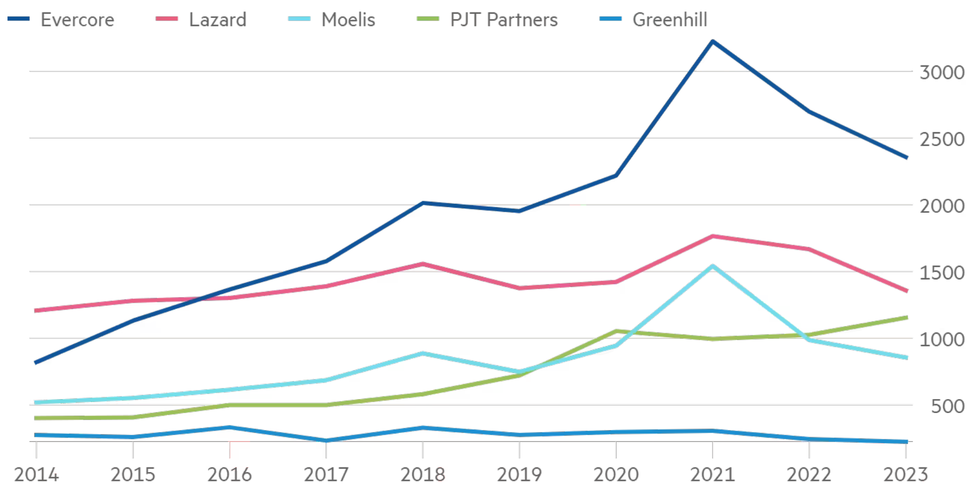
Then, the 2008 financial crisis gave Evercore the opportunity to take on refugees from struggling banks and prove to clients that boutiques could provide top-tier advice. Independent advisers such as Evercore gained popularity as big banks were tarred with damaging headlines.

First under Schlosstein and then Weinberg, the firm has aggressively pushed into once-esoteric areas of alternative assets investing: helping private equity firms raise money and trade secondary fund slices. The firm has also expanded into equity research and underwriting. Forty per cent of Evercore's revenues in 2023 came from outside traditional M&A deals.

Its shares have tripled in 10 years, giving it a market capitalisation of more than $8bn and dwarfing other independent bank rivals such as Lazard and Moelis, whose respective equity values are roughly half of Evercore's.

Evercore's deal advisory business has rocketed in the last decade

Revenue ($mn)



Revenue for Evercore and Lazard reflect investment banking/financial advisory only
Source: Company press releases, FT research
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Taking on the industry's top tier has introduced its own challenges, though. Evercore has roughly doubled the number of senior managing directors over the past decade. But the risk is that a culture that even top Evercore insiders describe as "decentralised" becomes too unwieldy or fractious.

To make the adjustment easier for the ranks of new joiners, Weinberg organised weekly dinners last year with small groups of them. "We would spend the whole time talking about our growth opportunities and what is it about Evercore's culture that makes us special," he said. "I can honestly say that those dinners were inspirational and uplifting."

"It's very transparent and very efficient," said Seth Bergstein, a 58-year-old ex-Morgan Stanley banker who recently joined Evercore as a senior managing director. "There's much less complexity here which makes doing our work easier and more enjoyable."

Insiders say the bedrock of Evercore's success has been an explicit "eat what you kill" bonus structure, where top bankers expect to keep about a quarter of the deal fees they bring in. Typically, large Wall Street investment banks will pool revenues and then leave it to the boss's discretion on how to reward employees.

"To build a brand, especially as a public company, is a rare accomplishment," said Antonio Weiss, a private investor and previous longtime Lazard executive. "Evercore got a lot of things right including setting the right long and short-term incentives for its bankers."

In an industry where working on one transaction can net tens of millions of dollars in fees, the Evercore approach has appealed to ambitious bankers who see a strong pipeline of deals in the offing.

"The fact that your personal comp is going to be logically derived is a reason why you grow the pie, and different than the 'black box' at competitors," said one Evercore banker.

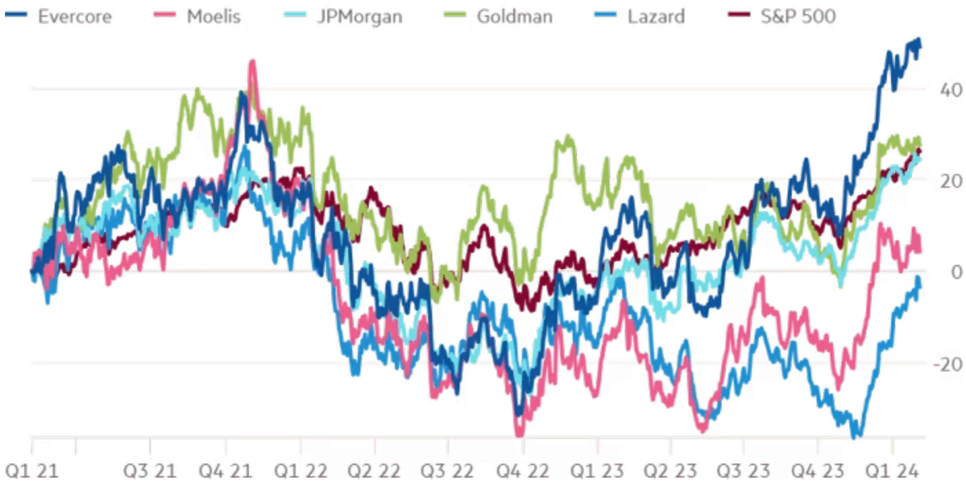
The trade-off may be a fiercely competitive culture where bankers can become territorial about the projects they are working on, a dynamic that risks becoming problematic as Evercore gets larger. "The model works. But it's hard to scale," another banker at the company said.

One executive described an Evercore practice at the end of each year where managing directors submitted how much revenue they believed to have personally originated. Every year, the sum of those numbers has exceeded the group's total revenue.

There is a discretionary portion of Evercore's bonus structure to encourage collaboration, and management argues the pay model is vindicated by results. Very few senior managing directors leave to join competitors, they say.

Evercore shares outperform rivals

Share price change in per cent



As of February 5 2024
Source: S&P Capital IQ
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Evercore is nevertheless gambling on growth when deal fees are down across the board. Deal fees are notoriously fickle and cyclical. Smaller firms tied to a handful of big personalities can lose their touch — or their people — at any moment.

One Evercore banker reflects on the experience of Greenhill, another 1990s vintage boutique, whose valuation soared in the years after its 2004 IPO "We had terrible Greenhill envy in the early days," the longtime banker said. At its 2009 peak, its shares were valued at about $3bn.

That company now, however, serves as a cautionary tale for the current crop of top-ranked boutiques. Faced with intensifying competition and a conservative growth strategy, Greenhill failed to keep pace with rivals. The group was acquired by Japanese bank Mizuho last year for a modest $550mn, including debt.

Weinberg said in January, "we believe we are better positioned today than at any other point in our history", despite the company reporting fourth-quarter results that showed net income fell almost 50 per cent in 2023. Its "compensation ratio" of pay to revenue surged to 68 per cent, more than 10 percentage points higher than 2021, as revenues fell while hiring climbed.

"They better grow revenues massively or they're going to run out of shareholder rope," said one rival banker.

Evercore insists there are more opportunities to chase in private capital, life sciences and old economy industries that now intersect with Big Tech, as well as untapped geographies in Europe and Asia.

But some investors still need to be persuaded. "Are they able to show how they can achieve the next level of growth?" said UBS research analyst Brennan Hawken.

"Even though Evercore's execution has been among the best of breed, it is getting less respect [than peers] from a valuation perspective because the next leg of growth is more challenging."

Additional reporting by James Fontanella-Khan

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