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Wall Street is changing, and Lazard Frères is changing with it. Meet its abrasive heir presumptive Edouard Stern, who didn't hesitate to turn on his own father.

"I detest incompetence"

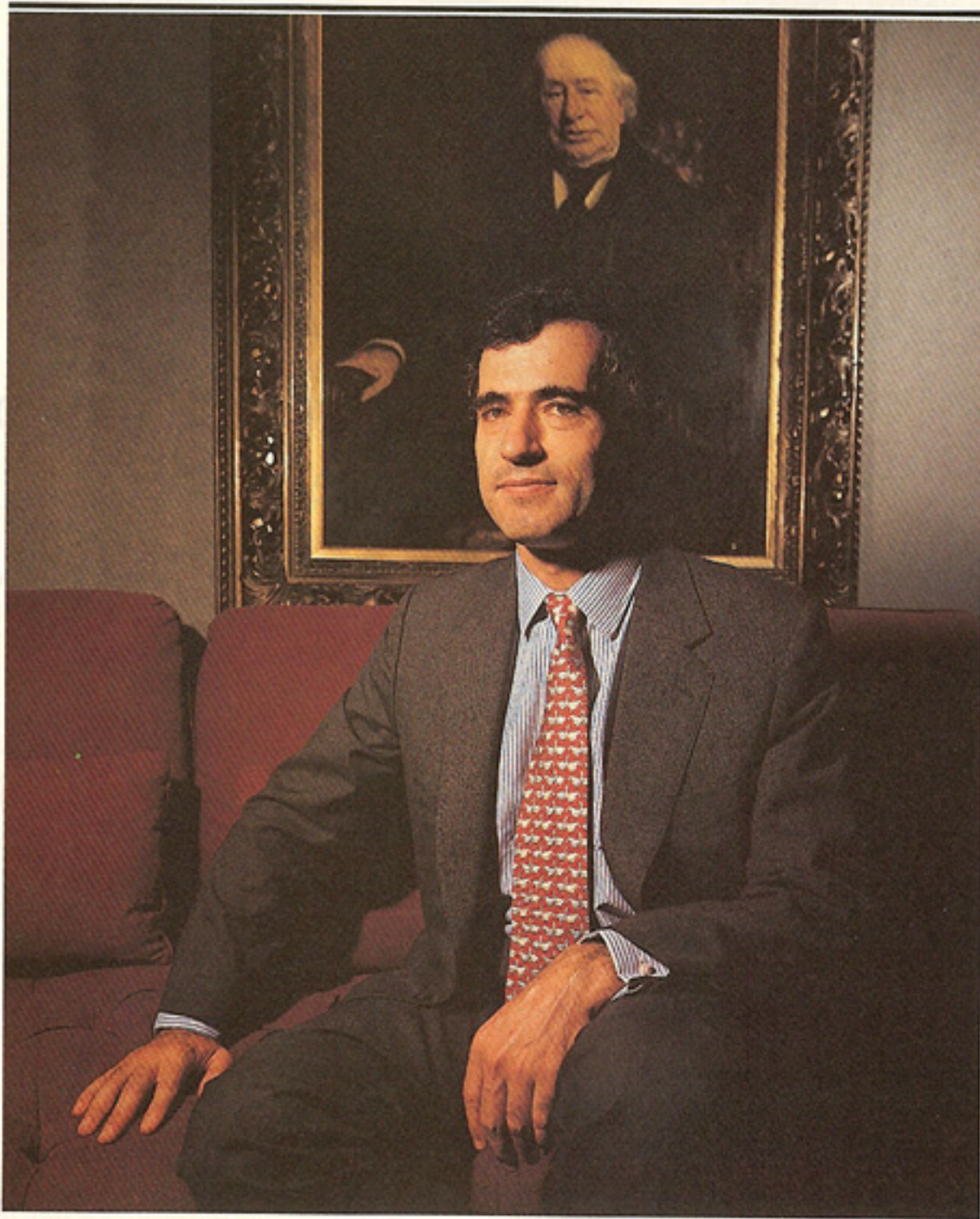
By Kate Bohner Lewis

PERHAPS THE FIRST clear sign that Edouard Stern was not just another pleasant and untroubled heir to a Swiss banking fortune was the day, not long after his 22nd birthday, that he convinced his two uncles he could run the family bank better than his own father. Mr. Nice Guy Edouard Stern is not. Nor does he try to be. Now age 41 and heir presumptive to the Lazard Frères investment throne, Stern has not mellowed.

FORBES popped the question to Stern at the ultraswank Restaurant Laurent in Paris: "Is it true that you kneecapped your father, or is it merely a rumor drummed up by your enemies?"

Stern shrugs and goes silent for a moment while deciding how to respond. He finally comes out with: "True, it was the family bank, begun by my ancestors in 1823. True, too, it was nearly bankrupt. So what had to be done was done." The young Stern had gone to the other owners, his uncles Philippe and Gerard, and persuaded them that their brother, his father, wasn't fit to run the business.

This is the man who is odds-on favorite to succeed Michel David-Weill as chairman of Lazard Frères because he's got what it takes to be one of Europe's most powerful financiers. For one thing, he's rich. Stern ranked 38th out of the 400 richest families in France, with an estimated net worth of \$500 million, according to *Le Nouvel Economiste*. And he's put himself into a very



Lazard Frères' Edouard Stern beneath a portrait of a founder of the bank
A top spot at Lazard, and money, could make him one of Europe's top financiers.

powerful position at Lazard.

Lazard Frères & Co., of which he is a managing director, is an international investment bank, which has been a dealmaking powerhouse for over a century (*see box, p. 76*).

As Stern elaborates on the forced retirement of his father, Antoine Stern, in 1977, a flash appears in his brooding eyes, so that for a brief moment they shine like his shoe-polish-black hair. Is it true he accused his father of mental incompetence? "No," says Stern, then adds defiantly, "but I do think running a business poorly is, as you say, 'incompetent.' I just detest incompetence," he says, flagging a waiter for more Perrier. "My vice is I'm impatient—and my bad temper."

and installed him as chairman of the bank, with himself as vice chairman. "I knew this was the way to learn exactly the business," Stern says.

Stern and Cariès did enormously well, increasing revenues eighteen-fold within five years, to a reported \$110 million. In 1982 Cariès left, so Stern brought in another old family friend, Claude Pierre-Brossolette. "I was still too young to give the bank the right amount of credibility," says Stern, who was then 27.

Next, Stern replaced the bank's top management with some of France's big shots in government, industry and banking. "I brought them in to expand the business," he explains. The strategy worked.

Banque Stern was sold in 1988, but

not immediately join Lazard. He spent the next three years multiplying the estimated \$170 million he personally received from the sale of Banque Stern. He moved himself, Beatrice, daughter and son to Coligny, a suburb of Geneva on Lake Léman, and invested in hotel properties in Vietnam with Sir James Goldsmith, the British centimillionaire who is Stern's distant cousin. Stern won't disclose his winnings from the 50/50 investment partnership with Goldsmith—he's obsessively secretive about profits—but he claims that the fund was started with about \$20 million and is now worth close to \$75 million. But the rumor mill has the fund starting with \$75 million and places its net

Michel David-Weill (right) with daughter, Beatrice, and son-in-law Edouard Stern

It's a family affair. "I think Edouard is just the type of person who enjoys thinking he's disliked," says David-Weill, dismissing criticism of his brilliant, abrasive heir presumptive.



His father, he explains, was less interested in managing his wealth than he was in enjoying it. Antoine Stern, who died this past July, was a bit of a dilettante, and Banque Stern, a merchant bank, was floundering. In 1977 Antoine wanted to sell Banque Stern to Banque Rothschild.

Edouard blocked the sale of the bank by convincing his uncles that he could turn the bank around and maintain its independence. For help, he snatched the then chief executive of Banque Rothschild, François Cariès,

not for the \$600,000 that Rothschild would have paid a decade earlier. Edouard Stern arranged to sell the family business to Swiss Bank Corp. for an undisclosed sum, reported to be a staggering \$335 million.

By now Stern had married a stunning art historian at the Louvre named Beatrice David-Weill. His next career move would have seemed obvious: His father-in-law, Lazard's boss, had no sons.

Lazard Frères had been a family business for 140 years. But Stern did

worth as high as \$250 million.

Stern has also nearly tripled an investment in Elysée Investissements, a French holding company he started buying into in 1988. Before he paid out a \$150 million dividend six months ago, Elysée was worth around \$400 million.

Having again proved his money-making mettle—and lack of dependence on his father-in-law's patronage—Edouard Stern joined Lazard Frères & Co. as a general partner in 1992. There he was the brains behind

In unity is strength

LIKE CAESAR'S GAUL, Lazard is divided into three parts: Lazard Frères & Co. in New York, Lazard Brothers & Co. in London and Lazard Frères et Cie. in Paris. Michel David-Weill, 62, is the domi-

international reach. Its weakness is that the three distinct branches have been almost entirely independent. During the past decade David-Weill has tried to meld the operations without destroying their uniqueness.

In the 1850s David-Weill's great-grandfather, Alexandre Weill, went to

his parents perished in Auschwitz.

After the war the David-Weill family, led by Michel's father, rebuilt the Paris house. Michel himself spent time working with André Meyer in New York before returning to Paris when his father died in 1975. When Meyer fell ill in 1977, David-Weill as-

London helped in the defense of B.A.T Industries, comanaged the huge European flotation of Waste Management International shares and (with Lazard Frères et Cie.) advised on the acquisition of France's Darty by U.K.'s Kingfisher. Over the years Lazard New York has represented some major



Buck Evers



Ron Gavella



Alto Franchini

Left to right: Chairman Michel David-Weill; Jacqueline Kennedy Onassis with former chairman, André Meyer; Lazard's Felix Rohatyn **Investment banking the genteel way.**

nant partner in all three houses.

From modest mid-19th-century beginnings, Lazard has evolved into a rather genteel investment firm, operating on both sides of the Atlantic and depending heavily for business on long-standing client relationships.

But while high on prestige, Lazard is small in capital. Lazard Frères & Co. in New York has about \$125 million in capital; Lazard Brothers, which still performs some banking functions, about \$275 million; and Paris about \$120 million. This at a time when competitors like Goldman, Sachs and Morgan Stanley deploy billions of dollars.

David-Weill professes unconcern. "Size is not as important in finance as it is in commerce," he observes.

Lazard's strength is its

work with his three cousins, the Lazard brothers, who had founded the firm a few years earlier in San Francisco. He later opened the New York office in 1880 after the firm had expanded to London and Paris.

During World War II Michel and his sister were forced into hiding in France during the German occupation. Their father, Pierre David-Weill, escaped to New York, where he went to work for Lazard's then chairman, André Meyer. By coincidence, it was Meyer who helped Edouard Stern's family escape from France.

The Nazi Holocaust was a traumatic experience for the firm. One partner, Felix Rohatyn, fled with a few gold coins stuffed in toothpaste tubes. Antoine Bernheim, the formidable senior partner in Paris, spent the war in hiding;

sumed control in New York as well.

How is Lazard doing? Pretty darned well, considering its modest capital base. The Lazard houses ranked seventh in domestic mergers and acquisitions last year, with an 8.4% market share. In Europe Lazard ranked second, with another 10% market share, ahead of Morgan Stanley, Salomon Brothers and Goldman, Sachs.

Over the past few years Lazard Frères et Cie. in Paris has advised in the bruising Nestlé-Source Perrier battle and in the merger between Daimler-Benz and France's big software company Cap Gemini Sociétés. The Paris house has built a booming international advisory business, with clients ranging from Russia's oil and gas industry to the government of Gabon.

Lazard Brothers in

companies: Time Warner, American Express, Westinghouse Electric, Allied-Signal. This year the New York shop advised on IBM's acquisition of Lotus, the First Chicago/NBD Bancorp bank merger, Seagram's acquisition of MCA and First Union's acquisition of First Fidelity Bancorp.

The three Lazard houses cooperated brilliantly with their dealings to privatize the big Spanish utility, Repsol.

The rise of Edouard Stern at Lazard should bring even more to the table. Says big shot Lazard managing director Damon Mezzacappa: "Stern negotiated a hell of a deal with Crédit Agricole. And he's gotten quite a lot of credit for that. He's been very successful doing what he's doing. But if he's ever going to run this firm, he's got to mellow out." —K.B.L.

Lazard's \$350 million Jupiter Fund, a war chest for corporate buyouts started in 1994. So far Jupiter's advisers have spent only 60% of the capital, investing in media and service companies in the U.S. For Lazard much rides on Jupiter: Lazard's previous foray into corporate buyouts, the Corporate Partners Fund, was disappointing. Begun in 1988 with \$1.5 billion in capital, it has achieved only an unimpressive annual compound return of around 10%.

In the fall of 1993 Stern tackled yet another project, Lazard's entrée into derivatives. After approaching five potential partners, he settled on Crédit Agricole, a giant French agricultural bank. The partnership does not itself speculate in derivatives and does no proprietary business. It instead pursues only a few complex transactions strictly for clients. Crédit Agricole ponied up three-quarters of the reported \$100 million in seed capital.

It was also Edouard who drew up Lazard's plan for penetration of the Asian market. Stern made two major recommendations. One: set up Lazard Asia in Singapore and appoint Stern's former employee at Elysée Investissements, Jean Mizrahi, to run the office. Two: set up a Lazard office in Beijing headed up by a future Stern protégé, an energetic Chinese named Charles Liu. David-Weill gave the plan his approval.

"This sent a clear message," says a Lazard managing director in New York City who asked not to be named. "Stern was the man. Michel trusts him."

In his high regard for his son-in-law, David-Weill has chosen to overlook at least one highly embarrassing episode in Stern's past. In February of 1989 Edouard Stern and companies he advised bought 320,000 shares of Consolidated Gold Fields, the British gold company. This was just five months after Minorco, a mining company controlled by Harry Oppenheimer, made a highly publicized hostile bid for Consolidated, a bid that sent the stock price up.

British regulatory authorities later pointed out that at the time of the purchase by Stern, his father-in-law's firm, Lazard, was advising Minorco. Swiss Bank, then about to purchase

Banque Stern, was the lead financing bank to Minorco's bid.

Trading on inside information? Hauled up before Britain's version of the Securities & Exchange Commission, Stern was absolved of criminal wrongdoing but was publicly chastised for the conflict of interest.

"I see it as a learning experience," shrugs Michel David-Weill. "Edouard is impetuous. He is someone who had success early. There are allowances for that. I have made allowances."



Onetime front-runner Jean-Marie Messier
Not married into the family. Stern is.

He has also made allowances for a certain heavy-handedness on Stern's part. Last year David-Weill decided to consolidate the European capital markets business in London, and again put Stern in charge of the logistics. Stern apparently told two different people they would each head up the new unit: Antony Northrop, a managing director of Lazard Brothers in London, and Bernard Poignant, a Frenchman Stern hired from the outside for the same job.

In the end, Poignant got the job and Northrop, a longtime partner, resigned from the firm this past December. David Verey, Lazard Brothers chairman, was visibly shaken as he read Northrop's letter of resignation to a group of managing directors. Says Damon Mezzacappa, executive chairman of Lazard Capital Markets: "I had to clean up Stern's mess." Had

Stern been deceitful? "It's clear that Stern misled them both slightly," says Mezzacappa.

Northrop wasn't the only casualty of David-Weill's "allowances" for his son-in-law. Once considered the front-runner to succeed David-Weill, Jean-Marie Messier was everything Stern wasn't. Messier never lost his temper in public, never shouted and had risen solely on merit, having been made a general partner at the astonishingly young age of 32. But he wasn't married into the family.

It was no secret Messier and Stern hated each other. So last year Messier left and took a perhaps more desirable position as number two at \$29 billion (revenues) Compagnie Générale des Eaux, with the promise to be named chairman in June of 1996.

In short, Edouard Stern has made lots of enemies in his ruthless rise. His career is one of those emblematic events that sheds as much light on the world around him as it does on his own character. Its message: Connections won't get you nearly as far as ruthlessness, and neither by itself is as good as both. "It is not enough to be born with a good name," says Stern.

In many ways the rise of Edouard Stern reflects a basic change on Wall Street. Twenty years ago he would have been—even as the boss' son-in-law—an unlikely choice as heir presumptive. These days client relationships, a traditional Lazard strength, matter less than sheer moneymaking skills. Stern may not be a diplomat, but he has demonstrated raw profit-making power and a brilliant sense of timing.

Michel David-Weill dismisses these criticisms of his brilliant, abrasive son-in-law. "I think everyone exaggerates the so-called animosity toward Edouard," says David-Weill as he fondles an enormous unlit cigar.

But FORBES responds: That's not what we hear. "Non, non," says the elegant David-Weill. "I think Edouard is just the type of person who enjoys thinking he's disliked."

And Stern? "I have been sometimes brutal in my life," he confesses. "I regret that only because I have created an almost unchangeable image of myself to others. That is life. I have to live with it."