

www.iddmagazine.com

May 24, 2004
\$25

IDD



Life After Goldman

Real-life apprentices take skills elsewhere
Featuring Financial Technology Partners' Steve McLaughlin

Life After Goldman

Featuring Financial Technology Partners' Steve McLaughlin

BY DENISE LUGO

When Kwame Jackson, then a 30-year-old broker in Goldman Sachs's private wealth management group, first talked to his bosses about taking a leave of absence to appear on a new reality TV show starring Donald Trump, they turned him down cold, considering such a stunt a "reputational risk" for the firm.

"They thought I wanted to become a reality TV actor or something," says Jackson, who had to leave Goldman and his \$125,000-a-year salary behind once he was chosen to be a participant in "The Apprentice." But Jackson, who went on to become the runner-up on the hit TV show, knew exactly what he wanted. Sensing limited potential at Goldman, he was looking for another opportunity to make it big. "I think that the part that the senior manager didn't understand was that the show could be the platform that I thought it could be."

Jackson was right. After becoming a household name on "The Apprentice," he says he now receives three to four job offers daily, including most famously one from Mark Cuban, owner of the Dallas Mavericks professional basketball team, to run one of his investment portfolios.

Like Jackson, Goldman bankers have been moving on in record numbers. Blame it on Goldman's initial public offering, the end of the bull market, and the approaching vesting of almost \$100 million worth of Goldman stock, as well as 10 million employee stock options that can be exercised at the same

time. The reasons are plentiful; the result the same.

Goldman has long been a place where even the top brass retire early, leaving for academia or politics. But since the 1999 IPO took away the carrot of partnership, and the numbers of employees began to swell, the dynamics of departure have changed. In the first place, thousands at Goldman were laid off during the bear market, while others found more lucrative opportunities at other investment banks, hedge funds or VC firms. Still others have taken the skills learned and contacts made at Goldman to start their own companies.

Next month, the exodus could grow. As of June 23, employees will be able to sell a huge amount of Goldman stock and stock options they received at the time of the IPO. Bankers say that this means there is no longer a financially significant incentive to stay.

Not only did the IPO transform Goldman into a huge institution, it's now one where employee ownership is diminishing sharply—to 32.8% from 36.25% at the end of 2003—and where many feel they are sorely underpaid. With the markets turning up, and opportunities flourishing once again, many more are expected to walk out the door.

One reason, say those who've left, is that Goldman is still trying to maintain the mystique of a firm that no longer exists. "You're brainwashed into thinking that it's the only place to work on earth," says one banker who left the firm in 2002. "You're made to feel that merely being able to say you work at

**Real-life apprentices
take skills elsewhere**

Goldman is somehow a prestigious thing,” he explains. “You buy into it and you start feeling that people that work in other firms are somehow lesser beings and that to work at another investment bank or a boutique or some other investment firm is somehow a big step down.”

A Goldman spokesman bristled at such comments: “We think this is a terrific organization, but it’s not for everyone, so it doesn’t surprise me that some people who were less comfortable here feel that they’ve done better elsewhere,” he says. “Other people, who are also extremely talented, find that this is not necessarily the right place for them, but that doesn’t mean that they’re not terrifically competent people.”

IDD caught up with several who’ve left in recent years. While many declined to talk on the record, citing continuing business dealings with Goldman, others talked about why they left, what they learned—and why Goldman may not be the best place to earn a living for them, even though it may still be arguably the world’s best investment bank.

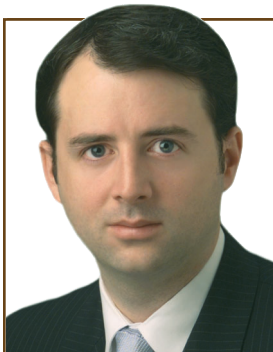
The training ground

Those who’ve left to start their own firms, like Steve McLaughlin, give high marks to Goldman as a training ground. “Goldman was a terrific place to learn the hard-core skills of the trade,” says McLaughlin, who spent seven years at Goldman during the boom and the bear market—between 1995 and 2002—in its financial institutions banking group. As he explains it, that group was “widely known for its grueling hours and deals per person.” McLaughlin, who had joined Goldman as an associate after receiving an MBA from Wharton Busi-

By the time McLaughlin left Goldman at the age of 33, he had been named co-head of its global financial technology business and was a vp at the firm. He then started his own firm, becoming the sole owner and partner in Financial Technology Partners, a San Francisco-based boutique that he funded with the proceeds he made from the Goldman IPO and his savings from seven years at the firm. While McLaughlin won’t say how much money his new firm has made, he says so far it has been so profitable that he doesn’t need to raise outside capital and won’t need to do so unless he wants to take on much larger underwriting deals.

McLaughlin started out in Goldman’s FIG M&A group, and in 1997 he joined the group’s financial services technology sector. It’s the specific expertise he learned there that he brought to his new firm, which has some impressive deals to its credit. For example, it was the lead adviser for TradeScape Corp. in its \$280 million sale to E*Trade Financial Corp. in 2002, and it nabbed the same role for investment bank SoundView Technology Group Inc. when it was sold to Charles Schwab Corp. for \$345 million in 2003. Prior to hiring FT Partners’ McLaughlin, SoundView had worked exclusively with Goldman as its lead banker in two large transactions.

McLaughlin says he left Goldman because of the change in the culture and the declining financial opportunity there. He figured that he could take what he had learned at Goldman, make more money and be happier owning his own firm. And since Goldman’s practice is to give young employees a lot of authority, McLaughlin says he was able to co-run Goldman’s financial technology group at a young age



Financial Technology’s McLaughlin:

‘Goldman was a terrific place to learn the hard-core skills of the trade.’

ness School as a Palmer Scholar, says he learned at Goldman “how to master running large, complex transactions at a relatively young age.” (He had spent his first three years after graduating from Villanova University working at General Electric Corp. in the Financial Management Program and Corporate Audit Staff)

without any partner-level supervision, which proved valuable as he moved on.

“We were able to carve out an entire business niche within Goldman Sachs in a very entrepreneurial way during the late ’90s, and now Financial Technology Partners extends that model outside of Goldman just

as easily as we did inside Goldman Sachs. It was the people and our passion that primarily created the opportunity at Goldman, not only the franchise itself, and we're proving that." His firm has seven employees, two of which worked with him at Goldman. Others he hired from such firms as Credit Suisse First Boston and J.P. Morgan Chase.

McLaughlin says he is also working on numerous bulge-bracket-level deals, ranging from a half-billion-dollar-plus sale of a private company and the sale of a large public company to complex advisory and restructuring work on a company worth more than \$1 billion.

"Each and every transaction we won in competition with numerous global investment banks, and most in cases where the incumbents were Goldman Sachs, Morgan Stanley, Merrill Lynch & Co. and others. And there's more on the way."

But it was his group's work on Goldman's IPO that really gave McLaughlin the vision for starting his own firm. "When Goldman was analyzing and executing its own IPO in 1999, we had a team of the best and brightest in our own financial institutions group, working around the clock, well over 100 hours per week, focusing on literally nothing else, month after month until the deal closed," he recalls. "I decided to create a firm that provided a level of unrelenting service a top investment bank would give itself, and we have done just that."

The ego factor

Forty-four-year-old Jack Ryan is one of a long line of Goldman partners who've gone into politics. Sure, Goldman is a place that allows for the type of hobnobbing that is useful for such a career, but Ryan sees another advantage: "At Goldman you've got to be able to work well with people," he says. "It also doesn't permit for too many egos involved—that's always very good for politics."

Ryan recently won the nomination on the Republican ticket for the U.S. Senate in Illinois. But his political activity didn't start there. "After almost 15 years at Goldman Sachs, it was my turn to give back and put ideas into action in the community," Ryan said. "So I started teaching at an all-African-American high school on the south side of Chicago."

After he got an MBA from Harvard in 1985, Ryan's first job was in a refugee camp in Texas for people fleeing Central America. A year later, he joined Goldman as an associate in New York, and two years later moved to Chicago to work with now-Chairman and Chief Executive Henry Paulson as a relationship manager covering Fortune 500 companies in the Midwest. He was named partner in 1996 and left in 2000.

Ryan's social work follows a long family tradition. His mother, with some help from the rest of the family and friends, pooled

financial resources and skills to save Josephinum High School, an African-American-Latino girls high school in Chicago, from closing its doors. His uncle started a high school called Crystal Rae in Chicago that primarily serves the Latino community, and his sister, who is a doctor, started a medical clinic for Latinos there.

Working at an inner-city high school after Goldman placed Ryan in a completely different environment from the elite world of investment banking. For three years, he taught classes in U.S. history, English, law and SAT preparation.

By embarking on a career in politics, Ryan is following in the footsteps of a lot of former Goldman bankers, both Republicans and Democrats. Former Chairman John Whitehead was Deputy Secretary of State under President Ronald Reagan, Former CEO Robert Rubin was President Clinton's chief economic adviser and Treasury Secretary, and most recently, former CEO Jon Corzine became a Democratic U.S. senator from New Jersey.

Like Corzine, who financed his entire Senate campaign from his own coffers, Ryan has significant personal wealth to offer. For every dollar he is able to raise, he commits 50 cents of his own money.

And while there are differences in party affiliation, the Goldman bond remains. "I saw Jon Corzine in the hallway in the U.S. Senate building about two weeks ago and said hello to him," Ryan recalls. "We chatted, he said 'congratulations' and said to me, 'I always thought you were a great guy, and best of luck to you.' I said, 'don't work too hard against me.' He just laughed."

Refugee from the downturn

Laure Wang was one of four Goldman employees selected to build Goldman's West Coast office responsible for technology investment for both Goldman and Goldman Sachs Capital Partners, L.P. 2000, a \$5.25 billion private equity fund raised in July 2000.

But when the tech downturn refused to go away, and Goldman lost its interest in tech start-ups, she left for Pacific Venture Partners, a VC firm with \$800 million under management where she is currently a general partner. "I wanted to continue to work with emerging companies and work with building teams, rather than focus on highly structured \$100 million deals," says Wang.

In her new firm, Wang also has earned "a little" more than she did at Goldman, though she declined to say how much. The potential there is greater, however, given the fact that she now receives carried interest, the portion of the gains realized by a VC that goes to partners. "The financial impact is more direct as there is a share in carried interest, which was not the case at Goldman," she says. If the fund performs well, partners get a cut

Goldman's Brain Drain

Name	Former title	Current position
Steve McLaughlin	Co-Head of Global Financial Technology Investment Banking	Founder and Managing Partner of Financial Technology Partners and FTP Securities, a San Francisco based investment bank.
John Thain	Co-president	CEO of NYSE.
John Thornton	Co-president	Professor at Tsinghua University in Beijing.
David Blood	Head of Goldman Sachs Asset Management in London	Resigned and returned to the U.S.
Stephan Gaudé	Head of proprietary convertible bond trading	Joined hedge fund Cheyne Capital Management, a large London based multistrategy hedge fund.
Kenneth Leet	Managing director, investment banking	Was considered by President Bush for the post of undersecretary of domestic finance, but dropped out citing health reasons.
Nobumichi Hattori	Top M&A banker in Japan	Professor at Hitotsubashi University Graduate School of International Corporate Strategy.
Scott Mead	Co-head of global telecom, media, entertainment and technology banking	Resigned to devote more time to his work with medical charities in London.
Steve Mnuchin	Former CIO, a member of the management committee that oversaw technology division	CEO of Soros Fund Management's SFM Capital Management in New York. Soros manages more than \$11 billion of assets.
Michael Leahy	Treasurer, head of operations at Goldman Sachs Princeton (its hedge fund strategies group)	Head of alternative investments operations at SEI Investments.
Tracey McHale Stewart	Managing director, head of global multimanager strategies at Goldman Sachs Asset Management	President of Dubin V. Swieca Capital Management in New York.
Mark Ettenger	Managing director, head of real estate asset sale business	President of Mills Corp., a self-managed real estate investment trust (REIT) based in Arlington, Va.
Peter Briger	Co-head of Asian distressed business	Principal at Fortress Investment Group, a global alternative investment and asset management firm with approximately \$6 billion under management.
Eric Mindich	Chief strategy officer	Launching multistrategy billion-dollar hedge fund.
Michael Novogratz	President of Goldman Sachs Latin America	A principal at Fortress Investment Group, Novogratz is responsible for its Drawbridge Global Macro business.
Robert Steel	Vice chairman	Professor at Harvard University.
Andrew Melnick	Co-head of investment research	Retired.
David Baum	Managing director, co-head of M&A, Americas	Retired.

of the action, whereas at Goldman, compensation was based on a salary and bonus, but there was no direct correlation to fund performance.

But it wasn't just the money at Goldman that soured Wang, who had joined as a financial analyst in 1992 with an MBA from Harvard. Starting off in corporate finance, she later became an associate in its merchant banking division before being named a vp with merchant banking's technology principal investment area in Menlo Park, Calif.

When Wang first joined Goldman, the firm had some 6,000 employees and a culture that was "very team-oriented" and "family-oriented." However, at the peak—post-IPO—it had mushroomed to a staff of 20,000. "It had become very institutional, more political and bureaucratic and less personal," she recalls. "You began to really need a face book to recognize people."

As with many others, what had originally drawn her to Goldman began to fade. Her new firm is almost a polar opposite of what Goldman became. She now works with six partners. "There's no deep bench of resources of institutionalized systems, processes or support," she says. "Things are much more chaotic, but that is also what creates the opportunity."

Hitting the ceiling

For those remaining at the firm, some say that there are many vps who have been passed over for managing director a number of times. Becoming one of the so-called "partner managing directors" in the company—what's called the partner pool—has become tougher since the firm has gotten bigger and bigger, and the reward has gotten smaller and smaller, several say. Of its 20,000 employees, Goldman has about 267 partner managing directors, 844 managing directors, and some 6,500 vps. However, those who've obtained a certain senior level have nowhere to go—except out. Goldman says that the average partner managing director works about eight to 10 years in that capacity.

But is it really any worse than it ever was? "Making managing director has always been very difficult here," says the Goldman spokesman. "I don't think that has changed. We want the very best people to be the most senior in the organization, and an enormous amount of time, trouble and effort is put into the selection of managing directors."

Goldman acknowledges that the culture has changed but boasts that the firm has preserved a focus on teamwork that discourages a star system. Others aren't so sure; rather than the teamwork Goldman prides itself on, they argue that the attitude of management breeds competitiveness. And the flak that

Paulsen took last year when he publicly stated that "in almost every one of our businesses there are 15% to 20% of the people that really add 80% of the value" only fanned the flames.

Indeed, for those who have not reached the partnership managing director level, one of the complaints is Goldman's pay scale. Those who get paid top dollar are bottlenecked at the top and are able to leave very wealthy, but many others make less at Goldman than they would at rival investment banks.

"You're not getting paid more than anybody else if you're not a partner," says one banker. "[You can] get just as much money or more working at Merrill Lynch or CSFB or anywhere else, so it has become much more of just another investment bank, versus the vaunted pinnacle of the world that it enjoyed for some years in time."

Naturally, what that means is that a number of Goldman's top bankers are leaving. "I was there 22 years, and it was a wonderful place to work for many years, [but] a lot of changes have occurred at Goldman Sachs in the last couple of years. They weren't really to my liking," says a former senior banker who now works at a rival bank. "The culture of the equities division at Goldman Sachs has been completely decimated. They're going from being very, very client-driven to being very, very proprietary driven."

The management shake-up at the end of last year indicates, to many, that is the case. Former Co-Chief Operating Officer John Thain, who came up through investment banking at Goldman, left to become CEO of the New York Stock Exchange, and Robert Steel, a vice chairman heading equities, left to teach at Harvard. Meanwhile, Lloyd Blankfein, who came up through trading, was named president and chief operating officer.

This year, among the relatively big names who've left for rival investment banks is Holly Isdale, a managing director in Goldman's mid-Atlantic region who left for Lehman Brothers in March to head strategic wealth services in its private client services group. Another is Christian Meissner, who had been Goldman's co-head of European equity capital markets and who also joined Lehman, becoming co-head of its investment banking group in Germany. Mark Oldcorn, who was an executive director in Goldman's financing group, joined Bank of America as a managing director in its financial institutions banking group in London. Robert Munro, Goldman's head of European global securities services, joined UBS as a managing director and head of its European equity finance business in London. David Livingstone, former co-head of Goldman's European general industries group in London, now heads HSBC's European corporate finance and advisory services business. And Scott Bell, who was a managing director in Goldman's European investment banking

division, joined HSBC to be global co-head of its consumer brands sector team.

The incentive ends

Two weeks ago, approximately 55 million shares of common stock from the firm's IPO and subsequent acquisitions become eligible for sale. The shares are held primarily by people no longer active at the firm.

But in June, those still at the firm can sell their shares too, which could have an even greater impact on employee departures. "Corporate-wide, ownership by employees is going to decrease substantially over the course of the next year, so people are going to have less tied up in Goldman stock," says one former Goldman banker.

In the future, Goldman will have less to keep people locked

into the firm, which is something that has weighed in the decisions of many who left recently. "I knew the firm wasn't going public again, so wealth creation was not going to be part of my future," says Jackson, who, after his stint on "The Apprentice," launched his own company, called Legacy Communications Group, to produce films, video games and live events with a focus on concert series.

Others saw the writing on the wall long ago. "Once they went public, it was clear to me that the culture was going to change and lose some of the uniqueness the former partnership had created," says former Goldman banker Victor Hwang, managing director at Agile Capital Partners LLC, in Sausalito, Calif., which focuses on private equity angel investments and public equity investments. Hwang left Goldman in 1998, a year before it went public.

FINANCIAL
TECHNOLOGY
PARTNERS

**THE ONLY INVESTMENT BANK
FOCUSED EXCLUSIVELY ON FINANCIAL TECHNOLOGY**

San Francisco • www.ftpartners.com • New York

For More Information

Contact:

Steven J. McLaughlin

Managing Partner

(415)512-8704

Steve.McLaughlin@ftpartners.com