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The Pressure of Great Expectations

By ANDREW ROSS SORKIN

Some of the most successful investment banking start-ups have begun with just a handful of bankers, some borrowed office space and a secretary.

Joseph R. Perella is taking a much more audacious tack.

Perella Weinberg Partners may be just a year and a half old, but it is already acting — and spending — like a member of the Wall Street establishment. It has raised $1.1 billion, hired more than 22 brand-name bankers as partners and set up shop in the General Motors Building on Fifth Avenue in Manhattan. Mr. Perella’s fifth-floor office teems with construction workers and painters, and it recently took delivery of a 50-inch plasma television screen, to be hung in the hallway.

But Mr. Perella, the deal maker who worked on such landmark transactions as the takeover of RJR Nabisco, makes no excuses for leading one of the most expensive and ambitious financial start-ups in Wall Street history.

“Do you know why most restaurants fail?” he said recently, leaning back on his chair in one of the few finished conference rooms in the office. “They don’t have enough money to stay the course. They have enough cash to open the business, and then if people don’t flood in the first month, they close down. You have to have enough money to stay the course.”

There is one thing that Mr. Perella is lacking, however: a flood of the type of headline-grabbing, blockbuster mergers — at a time when there are so many — that made him one of the few bankers who has come close to becoming a household name.

Rivals have not-so-privately relished Perella Weinberg’s lack of marquee advisory assignments so far, especially in light of the buzz that preceded its creation. Given Mr. Perella’s track record, however, Wall Street denizens are hardly counting the firm out.

“The question is not whether Joe will print a big deal, it’s when,” said Jack Levy, chairman of Goldman Sachs’s mergers practice. “This is a team of proven financial advisers. They have an important place in the M.& A. advisory business.”

The firm has already had some multibillion-dollar assignments — all told, $34 billion worth — and worked on some deals that never happened, $60 billion worth. Their largest deal to date was overseas: the firm advised the French real estate giant Unibail in its $19 billion acquisition of Rodamco Europe. In the United States, it advised Pathmark on its sale to A.& P. for nearly $700 million.

Still, even some close friends of Mr. Perella, who founded First Boston’s mergers and acquisitions
department in 1979 and co-founded Wasserstein Perella in 1988, have questioned why he would seek to reinvent himself yet again at age 65.

He certainly could have rested on his laurels — or returned to Morgan Stanley, where he had been chairman of mergers for more than a decade before stunning Wall Street by walking out after a bruising battle over the future of the firm with its chief executive, Philip J. Purcell.

In his first public comments on his departure, Mr. Perella said of Mr. Purcell’s leadership: “I couldn’t sanction what was done, and by being there as a member of the management committee, I was blessing it. My judgment was that if I stayed it would be harder to change it. I thought my protest resignation would effect change, and it did.”

Mr. Purcell was later ousted by the board in part because of a flurry of high-profile departures, including that of Mr. Perella.

When John J. Mack was named chief executive of Morgan Stanley, Mr. Perella was offered an opportunity to return to the firm. He ultimately decided against going back, but he demurred to explain why. “Everyone knows,” he said.

Some people involved in the discussions say that Mr. Perella had demanded that Zoe Cruz, Morgan Stanley’s co-president and an ally of Mr. Purcell, be moved aside as a condition of his return, a demand that Mr. Mack refused.

(Still, Mr. Perella regularly returns to Morgan Stanley; his longtime barber has his shop in the basement of the building where the firm has its headquarters.)

Along with another former Morgan Stanley colleague, Tarek F. Abdel-Meguid, Mr. Perella spent the summer in an office at the law firm of Weil, Gotshal & Manges, contemplating his future and taking suggestions over lunch with Sanford I. Weill, Stephen A. Schwarzman and other Wall Street deal makers.

Once it became clear to Mr. Perella and Mr. Meguid that they were not going back to Morgan Stanley, they came up with a grand plan: to create a boutique bank far bigger than a merger adviser, one that would also include a large asset-management business.

And unlike many of the most successful boutiques, which started on a shoestring, like Evercore Partners or Greenhill & Company, the two men wanted to start much, much bigger.

Mr. Perella said he told Mr. Meguid: “If this is like starting Wassperella” — referring to Wasserstein Perella, a firm he started with Bruce Wasserstein — “or an M.& A. boutique, I’m not interested. Been there, done that.”

So he and Mr. Meguid went on a round-the-world fund-raising effort. Along the way, they hooked up with Peter A. Weinberg, a former Goldman Sachs partner whose grandfather, Sidney, is considered the patriarch of the modern Goldman Sachs. Mr. Weinberg and his family were among 11 investors who invested $1.1 billion in the firm.

“If you want to be five guys and a dog, you don’t need a lot of money,” Mr. Perella said. “If you want to have a
firm with global reach and presence and you want to fund the model that we developed, that needed significant capital.”

With hedge funds and private equity firms dangling huge paychecks to attract top talent, starting an investment bank is more expensive than it used to be. Most Wall Street houses also make their bankers sign noncompete agreements — known as “gardening leave” — which keeps them on the sidelines for six months or more between jobs.

“It’s not like when Bruce and I started our firm,” Mr. Perella said. In 1988, the two men left First Boston with nearly their entire department on a Friday and set up Wasserstein Perella on a Monday in the conference rooms of the law firm Wachtell, Lipton, Rosen & Katz.

Some other start-ups have not seen the need to ramp up so quickly. Centerview Partners, a new boutique whose founders include two of Mr. Perella’s former colleagues, has just four partners and is working on Altria’s $46 billion spinoff of its Kraft unit.

With such an enormous infrastructure at Perella Weinberg, however, there are heightened expectations, though Mr. Perella insists they are overblown.

“We’re not into what I call insta-firm,” he said. “There’s a long takeoff. We’re not into spiking the ball in the end zone.” Despite the firm’s prominent address in a high-profile building, he noted, Perella Weinberg inhabits two of its lowest and cheapest floors, offering none of those panoramic views of Central Park.

Mr. Meguid added, “We are absolutely on track with our plan to our investors.”

And it is not all about the deal making. A large part of the business is its asset-management arm, which is being led by Mr. Meguid. The firm’s biggest hire for that group so far has been Robert Boldt, who managed the $19 billion endowment of the University of Texas and had been recruited by many big firms.

Peter J. Solomon, who started what is considered the first investment boutique, the Peter J. Solomon Company, explained it this way: “The advisory business is lumpy. It’s not a predictable business. That’s why everyone wants to be in the asset-management business.”

But the asset-management business can also create conflicts with the advisory side. “The more things you’re in, the more inherent conflicts you have,” Mr. Solomon noted.

Even if the asset-management business is important to the firm, it is also clear that being the sage counsel in the middle of huge decisions is the role most sought after by Mr. Perella and Mr. Weinberg.

With no attachments to big Wall Street firms, Perella Weinberg can offer independent advice that many large companies may be looking for. Mr. Weinberg recounted a conversation he had with Warren E. Buffett before joining the firm. “He basically said, ‘The independent advisory model is important and needed.’ ”

The firm took an unusual role in the $45 billion buyout of TXU, the Texas energy giant. In that deal, it advised the nonprofit advocacy group Environmental Defense in its negotiations over the carbon emission limits that were part of the takeover proposal. The work for Environmental Defense brought the firm publicity, if not a huge payday, though the nonprofit group is paying a fee.
“We’re doing it for different reasons,” Mr. Weinberg said. “We’re doing it because we can and it says something about who we are.” (It did not hurt that Jon Anda, who left Morgan Stanley and briefly took a role at Perella Weinberg, now runs a unit of Environmental Defense.)

More attention may be coming to the firm as a result of one of its newest clients, Nelson Peltz, the activist investor who recently pushed Cadbury Schweppes to split itself. That attention may not be all wanted, however. When Mr. Wasserstein, now heading Lazard, decided in 2005 to represent Carl C. Icahn in his battle over Time Warner, he was criticized by executives for helping an enemy of corporate America.

Mr. Perella says the situation with Mr. Peltz is quite different, contending, “This is a guy who does not terrorize management; he creates value.”

Their clients may differ, but Mr. Wasserstein and Mr. Perella have a lot in common — a knack for turning boutiques into big business.