

CROSSING OVER

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After decades of jumping to hedge funds and other money managers, Wall Street analysts are increasingly trying their hands at running the companies they cover. Warning: The hours make the Street look like the sandbox.

JAMES MURREN HAD A LOT TO LOSE when he was being courted by top executives at MGM Grand to join the company as chief financial officer in 1998. A veteran Deutsche Morgan Grenfell gaming-stock analyst who had been a member of this magazine's All-America Research Team for five years, Murren loved his job. He and his wife, Heather Hay, a top consumer products analyst with Merrill Lynch and fellow All-American, were living the good life: They had a spacious apartment overlooking Manhattan's Central Park, an 18-acre farm in Murren's native Connecticut, a beautiful baby boy and another on the way. Joining Kirk Kerkorian's hotel and casino empire in Las Vegas meant uprooting the family -- not to mention Hay's career. And the pay? "When I saw the compensation package, it wasn't, at first blush, compelling," he says, estimating the offer at about one tenth of his cash pay on Wall Street.

But there was something attractive about becoming part of a company he had long admired, and Hay challenged him to reconsider the offer. Alex Yemenidjian, who at the time was leaving the CFO job to become head of the MGM movie studio, ultimately offered what proved an irresistible analogy. Being a gaming analyst, he said, was like reporting on a sporting contest from the sidelines, whereas working at MGM represented actually being on the field. "He said, 'Wouldn't you want to be on the field?'" Murren recalls. "And I did. I wanted to be on the field."

So, at a time when top-ranked analysts commanded seven-figure paychecks, Murren signed a four-year contract that paid him \$375,000 annually to be MGM's finance chief. Hay continued to run Merrill's global consumer products research group, from Las Vegas; she left that job in 2002 and now heads the Nevada Cancer Institute, a research facility the couple founded in 2003. In August, Murren was promoted to COO of the gaming company, now called MGM Mirage.

Research analysts have long used their time inside Wall Street firms as launching pads to new careers. That has been especially true in the five years since a group of investment banks agreed to a \$1.5 billion settlement of federal and state charges that their analysts misled investors with hyped research designed to win underwriting and merger-advice business from corporate clients. Several of the conditions imposed by that settlement, in combination with other reforms, have made analysts' jobs more bureaucratic and legalistic -- and far less lucrative. As a result, senior analysts have been leaving the business in large numbers.

Analysts often depart brokerage houses to put their recommendations into practice as portfolio managers at mutual funds and especially at hedge funds, whose rich fee structures can support far higher salaries than those now paid by brokerages. Such a progression is time-honored on Wall Street, as evidenced by the long list of former researchers who have gone on to hedge fund fame and fortune -- Leon Cooperman of Omega Advisors, Stephen Mandel Jr. of Lone Pine Capital and Andor Capital Management's Daniel Benton among them.

Though specific figures are hard to come by, those who track the brokerage industry say that far fewer analysts make the trip from the sell side to the corporate executive suite, with 1960s and '70s technology-analyst-turned-venture-capitalist Benjamin Rosen, who briefly served as Compaq Computer Corp.'s CEO in 1999, being the most notable exception. That is because analysts do not typically boast the kind of breadth that corporate boards seek in top executives. Many are attracted to sell-side research precisely because it allows them to function with great autonomy, and often in relative isolation. Few have managed big staffs, been responsible for a profit and loss statement or charted and executed strategy for a big organization. People who typically ascend to C-suite jobs in public companies, by contrast, can spend their entire careers acquiring and honing these skills. And despite their proficiency with numbers and financial models, analysts generally do not possess the specific accounting expertise required of big-company CFOs.

"It's a pretty big leap," says Christopher Langhoff, member of the financial officers practice at executive recruiter Russell Reynolds Associates. Adds Peter Crist, a Chicago-based recruiter who specializes in C-suite and board searches, "Having been an individual contributor, you're now required to lead and manage, so that's an unknown skill."

Still, some sell-side analysts, like Murren, have successfully made the transition. Among the more notable recent examples: Susan Decker, who became Yahoo!'s CFO in 2000, after 14 years as a media analyst and research director at Donaldson, Lufkin & Jenrette, and in January was promoted to president and heir apparent to CEO Jerry Yang; Charles Phillips Jr., a former Morgan Stanley analyst who covered the enterprise software sector before joining Oracle Corp. in 2003 and is now second-in-command to CEO Lawrence Ellison; and veteran auto industry analyst Stephen Girsky, Phillips's former colleague at Morgan Stanley, who put in a stint in 2005 and 2006 as a top adviser to General Motors Corp. CEO G. Richard Wagoner Jr. All three ranked first in their respective sectors on the All-America team for many years. Other analysts who have joined the corporate world include Stone Energy Corp. CFO Kenneth Beer, National Coal Corp. CEO Daniel Roling, Cimarex Energy Co. CFO Paul Korus and John Mulkey, CFO of mixed-martial-arts promoter Ultimate Fighting Championship.

Even though analysts do not usually possess the broad range of skills that a typical corporate executive has, they can make up for that deficit with special qualities that internal candidates for C-suite jobs lack. A researcher may not know a company as well as someone who has risen through its ranks for decades, but he may well have a greater knowledge of the entire industry, cultivated through a career's worth of building relationships with competitors, customers and suppliers. Most importantly, analysts know and speak the language of the other researchers who track a company and understand how to communicate with shareholders.

These attributes are what led embattled GM chief Wagoner to enlist Girsky, who had been one of the automaker's biggest critics, as an adviser during the early stages of his turnaround effort.

"Rick's opinion was, 'Girsky's got perspective on the industry, dealers, suppliers, the unions, shareholders. It would be great to have him inside the company instead of outside,'" recalls the exMorgan Stanley analyst, who left the temporary assignment with GM in June 2006 and now oversees auto industry investments for New York private equity firm Centerbridge Partners. During his nine months at GM, Girsky played a critical part in the decisions to raise cash by divesting the company's finance unit to Cerberus Capital Management and trim costs by offering buyouts to some 130,000 employees of GM and its supplier Delphi Corp.

David Welch, CEO of Lafayette, Louisiana, oil and gas exploration company Stone Energy, had a similar motivation in the summer of 2005, when he approached Beer to become Stone's CFO. The analyst's coverage of the company for New Orleans-based Johnson Rice & Co. helped win the firm an honorable mention in this magazine's ranking of the best boutique and regional research firms.

"The thought was, I could provide a good bridge between the buy side, sell side and investors," says Beer, who had spent 15 years as an analyst and like Murren saw the job offer as a unique opportunity to get in on the action he had been observing and writing about

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Beer's challenge turned out to be far more difficult than he envisioned when Hurricanes Katrina and Rita hit three weeks after he accepted the position. Stone's offshore operations were badly damaged. "The original plan of having this nice, easy transition period came crashing down," he says. "It was going from the frying pan to the fire -- and then from the fire to the oven to the charcoal grill, and so on." (See box, facing page.)

Even under calmer circumstances, helping to run a company can be a rude awakening for a career analyst. So it went for Murren, who describes his first nine months on the job as a crash course, marked by one grueling 18-hour day after another. "I certainly don't have the traditional background to have the job I have," concedes the ex-analyst. "I quickly learned that I was completely unqualified and unprepared to be a CFO." (See box, page 79.)

Most people who successfully make the transition need plenty of support from colleagues, bosses, subordinates and even directors, who help them with specific company knowledge and technical skills. All that extra work can make their former Wall Street careers look like part-time jobs.

"I thought I had been putting in long hours on the Street," muses Roling, a longtime coal and metals analyst at Merrill who appeared on the All-America Research Team for 21 years and became CEO of National Coal last year. "I'm working harder than I have in the last 15 years." (See box, facing page.) Adds former Bear, Stearns & Co. and Wachovia Securities gaming analyst Mulkey, who signed on in March 2006 as CFO of sports promotion company UFC: "I long for the Wall Street hours. And I never thought I'd say that." The transition from individual contributor to group leader, Mulkey says, is perhaps the most difficult. "On Wall Street you're your own boss to some extent," he says. "You put out a report when you want to, when it's timely. But in the corporate world, you have dozens of people reporting to you, all of whom talk back more than Excel spreadsheets."

Analysts who make the switch almost universally report that looking in from the outside, no matter how good a researcher one is, cannot give one a full sense of how things work inside a company. Should they ever go back, they will be much better analysts.

"I don't think most people appreciate how complicated the business is," says Girsky, including himself in that group, before he spent time inside the automotive giant's walls. Adds Beer: "There are so many nuances, so many things I would be able to look at beyond the numbers. The numbers are certainly important, but there are just a lot of additional factors that go into ultimately making a good, successful company and a good, successful stock."

Most analysts can make the transition to hedge fund or private equity jobs, which consist of very similar demands and tasks -- albeit with real money being staked on one's judgments. But it takes a special breed to thrive in the vastly different culture of corporate America. Many who succeed came to their jobs with experience and skills that ranged beyond picking stocks. Before becoming CFO at Yahoo!, for example, Decker served as global director of equity research, a \$300 million operation, at DLJ. Murren did a stint as director of research with Deutsche Bank in the mid-'90s. And Oracle's Phillips spent five years as a captain in the U.S. Marine Corps before beginning life as an analyst. Phillips and his fellow corpsmen like to call themselves "the few, the proud." The same goes for Wall Street researchers who have what it takes to actually run a company.