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Interview with Thomas Weisel
Thomas Weisel Partners LLC

March 2001

Interviewer: Amy Blitz, HBS Director of Media Development for Entrepreneurial Management

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THOMAS WEISEL

Thomas "Thom" Weisel *(Thomas Weisel Partners LLC), HBS 1966, helped launch a niche investment bank based in San Francisco designed to serve emerging-growth companies on the West Coast. In the 1970s, the idea of an investment bank thriving outside of Wall Street was, as he puts it, "almost blasphemous." Montgomery Securities became an integral part of the Silicon Valley story, however, and emerged as a top-tier investment bank. Montgomery merged with NationsBank in 1997. Thom and several of his original team left soon after to launch Thomas Weisel Partners, which today thrives as a merchant bank for emerging companies. Thom is also actively involved in competitive skiing and cycling, and has a wing at the San Francisco Museum of Modern Art for his modern art collection. He described his entrepreneurial experiences from his San Francisco office in March 2001. Interviewer: Amy Blitz, HBS Director of Media Development for Entrepreneurial Management.*

The Early Years

Probably the two most important elements of my childhood were my father as a role model and my participation in sports. I achieved a modest amount of success in sports at a very young age—by the time I was ten years old. I think that really helped in terms of building my confidence and giving me the ability to assess the future, set goals, be disciplined, and be able to make sacrifices. All these skills are important in business. I was involved in a fair number of team sports as well, so it gave me an appreciation for that element of sport and how it relates to business.

My dad came from a pretty harsh background. Both of his parents were professors at Columbia but they had no economic means. My dad was both a sports person and an aspiring doctor. He was number one in his class at Wisconsin and at Harvard Medical School. Then he went to the Mayo Clinic. He had very, very high standards for himself and had very high standards for his three kids. There was a fair amount of friction because of that, but I think the more positive aspects have certainly rubbed off on me.

When I was ten years old and skating in a Wisconsin State Championship, I got within twenty or thirty meters of the finish line when the two young people that were ahead of me fell down. I skated across the line first and had my picture in the local *Whitefish Bay Herald* or whatever it was called. Somehow, I thought that was a real big deal. I think it was a powerful motivator to continue trying to excel. That led me into winning five national championships.

I'm told that I'm still in the national record books for a number of events, so I guess I was somewhat accomplished back then. I was the youngest person to make the Olympic team. I never skated in the Olympics but I was third in the Olympic trials in 1959 when I was seventeen years old. About six months later I had a major knee injury but I was able to accomplish a certain amount of success in skating at a pretty young age.

I never accomplished real heights in any sport. I would put myself in the “frustrated athlete” category, always pursuing excellence in a number of sports but never reaching the pinnacle in any of them. More recently, as a master cyclist, I set a number of world records and won three world championships, but I think that’s probably the height of my athletic prowess.

The HBS Experience

I was frustrated at Harvard Business School, too. There were only two entrepreneurial courses. Most of the courses were grooming students for entry into large corporate environments. I had no interest in going into a large corporate environment and so I was somewhat frustrated by the content of the cases.

Although I absolutely love the case method and the forum for debate that it provides, I also got a lot out of my relationships with the student body. As a matter of fact, I think the critical element that helped start my career and helped me start businesses was the network that I established at HBS. Many of my classmates ended up inside money management organizations. They were probably junior people in those businesses but they were helpful in getting me into the right places and helping me really establish myself as an institutional sales person. In fact, that’s what I ended up doing a few years after I got out of school. So although the experience I had was mixed from an intellectual standpoint, from a personal and career-building standpoint it was really one of the most important things that happened to me in the first ten years of my career that allowed me to establish myself.

I know now that things have totally changed in the HBS curriculum and that’s why, frankly, I’m very excited about the school and where it is today. The whole Entrepreneurial Management group and the development of the professional services area as well are much needed here. Many of the students will go into either consulting or investment banking. I think Tom DeLong is doing just an incredible job of understanding and mapping the critical elements of success with a professional service organization, which I sure wish I had been exposed to thirty plus years ago. It might have helped me get ahead a lot quicker.

Early Career

I knew that I wanted to get into the investment business. Frankly, I wasn’t sophisticated enough to understand the opportunities and the risks involved in venture capital, money management, or investment banking. My thought, when getting out of school, was to get into one of those three areas. It turned out that none of them were open to me, so I took a job at Food Machinery and Chemical Company as a staff member in their planning area, reporting to the president. They were doing a lot of acquisitions at the time, so I thought that might be interesting while I still looked for a job in an investment bank or money management organization.

I tried for almost a year to get a job here on the West Coast with no success. Art Rock and Tommy Davis had their own venture capital operation going at the time. I eventually got in front of Tommy Davis, who put me in touch with Bill Hutchinson, which led to my first job in the business, although the venture capital business wasn't formalized much at the time. Bill was running the international sales operation for a local firm. And he was leaving with a number of his other associates to start a new company that would be like a Donaldson, Lufkin & Jenrette on the West Coast. It was going to do institutional equity research on West Coast companies much like what DLJ was doing on the East Coast.

I had had the privilege of working with one of the early venture capitalists in the Bay area, and during that time DLJ put out their first research report on General Motors. I had a good sense and feel for what DLJ's objectives were and I thought that it made a lot of sense to follow emerging-growth companies on the West Coast, just as DLJ was attempting mainly on the East Coast.

Eventually, I started with William Hutchinson. There were six partners and then me; I wasn't a partner. I started as a research analyst, focusing on West Coast industries. At the time, Silicon Valley really didn't exist, so one of the industries was forest products. It wasn't what you would typically think of today as emerging growth, particularly if you think of emerging growth as having a technology bent. Within four years I had quickly moved from research to institutional sales, and I built an institutional franchise book of clients. The firm became known for a number of companies where we had made money for our clients. We were the primary research source for them and made an enormous amount of money for our institutional clients in the late 1960s.

Eventually, I became the second largest shareholder at William Hutchinson, overseeing a good part of the brokerage operation, but the company was not making money. I came to a crossroads with the founder and I eventually decided to leave.

Finding the Opportunity

I hitched up with Robertson, Coleman, and Seibel, who had started their firm in 1969. At the time, they were doing some venture capital work and they were attempting to do investment banking. They were dealing with retail clients. They didn't have any institutional activity. Together, we reformatted what became Robertson, Coleman, Seibel, and Weisel, where I orchestrated entry into the institutional brokerage business. We bought a seat on the New York Stock Exchange, hired analysts, traders, and sales people, and built an institutional business in the early 1970s.

By now, Silicon Valley was evolving. As a matter of fact, we raised Kleiner Perkins' first fund, which was $9 million. Half of it came from the Hillman family. If you think of today's billion dollar venture funds—and twenty-two of them were raised last year—nine million dollars in Kleiner Perkins' first venture fund pales in comparison. But this was a large sum in 1971 or 1972.

In the next couple of years, we brought a number of companies public, like Applied Materials, Rohm, and Tandem**.** All three of these companies were venture backed, so we saw that there was a marketplace for an institutional brokerage firm to research and finance high-quality, emerging-growth companies, particularly in the technology sector.

Our mission was to build a research effort that was value-add. We would find and bring quality ideas to institutional investors in the emerging-growth sector and then we would also finance those companies.

We were not just identifying technology companies. We were trying to find growth companies wherever they were. I remember the mobile home sector was a hot sector back then. The restaurant sector, particularly Ponderosa Systems, was one of our big companies. Our activity was in a number of industries. We were involved both inside and outside the technology area, although technology was clearly one of the leading industries. Oil service was another area that was very prominent back then. Eventually, a competitor firm started. It was the only other company out there competing with us.

Montgomery Securities

In 1978, we had a split. Kenny Seibel left to start his own money management firm and Bob Coleman and Sandy Robertson decided to move on and start their own businesses. So the firm changed from the four names to Montgomery Securities and continued on its path.

The ERISA Act helped fuel the gains that we saw over the next twenty years. I think the biggest regulatory act was the SEC mandate in the mid-1970s to replace fixed with negotiated commissions. It was May of 1975 and it was a major event for the capital markets. The SEC took the industry off fixed rates. Generally, even for larger orders such as 100,000, the average commission was thirty-five cents. After the change, it immediately went to eight cents. There were many research boutiques that existed before May of 1975 that went out of business within a year.

This mandate was probably the major event that we had to prepare for. We had to build a trading activity that would allow us to compete from a trading standpoint as well as from a research standpoint. The firms that had only research, like we used to, were given pretty easy orders but not a block trading capability. We needed to build in block trading capability, so in late 1974 I brought in a gentleman who had been running the Lehman Brothers trading operation. We needed to bring in more traders and more sales people, which necessitated building out the partnership. The only thing we had to give people was equity because we were a small, young firm. This was a major issue for some of the senior partners since it meant we needed to dilute equity to bring in new people.

The mandate was a major event for the industry and a major inflection point for our firm.
We survived that period. The country went through a very deep recession in 1973 and 1974, so this mandate came on the heels of a very difficult economic environment and a very rough capital markets environment. I think that for a couple of years there was literally no equity issuance, particularly for younger companies. Our firm really needed to survive on the institutional brokerage business that we had created, and building out a major league trading operation was really critical.

One of the very helpful activities that I tried to build was a bridge into the bigger Wall Street firms, which had much bigger institutional distribution. At the time Mike Bloomberg was running the Salomon equity desk and I got to know Mike at the Harvard Business School—we were classmates. He was extremely helpful, as was L.J. Tenenbaum at Goldman, who hired Bob Rubin into the business. L.J. had worked for Gus Levy, who was probably one of the great patriarchs in our business at the time. Those two people, Mike Bloomberg and L.J. Tenenbaum, really helped us in terms of navigating and building our block trading operation in the mid- to late-1970s.

When you're a young firm and you have to compete with major companies that have vast resources and established franchises, you have to build something that is unique and different and that can compete for high-quality talent. Building a culture that had a highly entrepreneurial element, an equity upside, and huge profit participation was one aspect we developed. Our culture was distinctive and included strong leadership with elements of integrity, competitiveness, and an attitude towards winning and having fun. That's what emerged and was built in the late 1970s to early 1980s.

In the 1990s, we were fortunate because we had built a very robust business with a growth platform that cut across industries from consumer financial service to technology and so on. But many of the companies were large market capital companies that required a much broader set of services and products, and so we were losing clients to mainly the Goldmans and the Morgan Stanleys of the world. We had to figure out a way to build capability in debt and derivatives and other areas where we could stay competitive. So I went out and tried to see if there was a partner who would possibly buy a small piece of the firm and joint-venture with us in a number of these areas.

At that time, there wasn't a lot of interest in a joint venture and there was a lot more interest in just outright acquiring us. There was already a fair amount of consolidation going on in the industry and I think the watershed event was when Alex Brown sold to Bankers Trust. Our competitors started to get gobbled up by bigger banks and we still needed broader capability, so we decided that the best tack was to sell the firm. That's how we were eventually sold to Nation's Bank.

Nation's Bank Buyout

When I looked at Nation's Bank, they had had some fits and starts in the investment banking business. They had hired a number of high-quality, high-profile individuals to kick-start a business that would be mainly in the high-yield and debt side of the investment banking business. Every time they tried it, it blew up in their face within twelve months. So, when I first met with Hugh McCall**,** he seemed to be very forthright about the fact that Nation's Bank had already failed miserably in trying to kick-start and build an investment banking business, and that he was interested in us helping him coalesce and build an investment bank inside Nation's corporate bank. He liked us because he and Montgomery had clients and product lines in the same industries. It was on that basis that we thought that a large bank with a distinctly different culture would be a good partner, but we were also somewhat leery about how the process would unfold.

So in the merger agreement we protected ourselves in a whole host of ways. First and foremost, we were going to be kept independent and have control of our own profits and losses. Second, we very clearly defined for the whole bank the lines of businesses we were going to be in and be responsible for. These points were clearly laid out in the merger agreement. As we got into the bank, though, it turned out that a number of the top executives did not agree with the merger agreement and were not going to abide by the terms of it. We ended up sitting down and saying, "This isn't working." So they accelerated the buyout payments and let the executives who wanted to leave out of their non-compete. That led a number of the top Montgomery partners, including me, to leave so that we could start a new firm.

I'm sure there are a lot of circumstances where acquisitions make sense and where the acquired company fits not just from a product standpoint but also from a cultural standpoint. For example, Cisco has done a tremendous job of acquiring a whole host of companies. Many executives in the acquired companies have risen to very prominent positions inside Cisco. Cisco clearly appreciates high-quality talent, intellectual and otherwise, and really pays attention to nurturing an entrepreneurial environment inside a large company.

Thomas Weisel Partners

I wanted to put together a business model in which I could actually leverage the intellectual property that was built up inside an investment bank, resident in the research and investment banking departments. That's how a team of us came up with this merchant banking concept in which you bring in the intellectual capability at the top and then build out and leverage the intellectual capability in private equity activities. To empower your research analysts and your bankers to spend a fair amount of time mapping and identifying the winners in the transforming economy, you take all the carry of your funds and fold it into the firm. The partners who are actually running the funds are partners of the overall entity, not just partners in the one fund they are involved with.

Today, two years into founding Thomas Weisel Partners, we've got about $2.5 billion of private equity and we've got a very unique partnership with CalPers, which is the largest pension fund in the United States, maybe the world. CalPers is an extremely good partner.

We operate as both a principal and an agent, working with higher-quality growth companies, particularly in the technology space since that's where you can really partner with companies. At almost every point in a client's history, from the very beginning when you have a venture fund that can actually start companies, to investing throughout all the private rounds as a principal, we can act as an agent and arrange private placements for private companies. We can arrange private equity and we're doing that in quite a number of cases. We can obviously take companies public and we can sell them.

We were seventh in the mergers and acquisitions business last year for the technology space. We have already started this year with the two largest technology mergers announced so far. We think we're going to be maybe not the largest but one of the better firms that "researches, finances, and invests in the highest-quality growth companies in the United States." That's our mission statement.

The larger banks have very fine practices in these areas, and it has become a very large business. Our firm competes in a number of ways. First, we've got much deeper domain expertise than the larger firms. We approach our work through what we call a "tiger team" approach, where our analysts, bankers, and private equity people work together. Our professionals work together to map the competitive landscape by understanding which are the better public and private companies in a market space. As a result, when our bankers or analysts walk into a company, they know more about the industry and the company than any of our competitors.

Second, we back up our market knowledge and insight with truly world-class professional capability. We performed the largest merger in technology history, which was the $41 billion sale of SDL to JDS, and we did more than $70 billion worth of mergers last year. I would put our M&A professionals up against any firm in Wall Street and we're going to come out either alongside or ahead of them.

We combine deep domain expertise with world-class execution capabilities and a very focused approach. We think we've got a major part in the marketplace to compete with the higher-quality players. Look at our client base. Whether it's in the communication equipment or service space, we've done business for not just JDS but also PNC, Sierra, and Cisco. In the software space, we recently completed an acquisition for Oracle. We're also active in a number of other areas, such as semi-conductors and communication services, where we represented Exodus during their acquisition of Global Center. All of these transactions are multi-billion-dollar kinds of mergers where the capabilities our organization brings to bear are very different and unique and clearly competitive with our three larger competitors.

Attracting Good Hires

I think a lot of what attracts people to us is that we have a clear vision, a great strategy, and a growing marketplace. Most high-quality professionals don't get to the point of success if they don't have an understanding of what the business opportunities are for them and for an enterprise. We're addressing a $40 billion-plus marketplace. We have been able to ramp our firm from zero to more than 800 people within two years, and we did roughly $500 million in revenue in our second year. I think we have proven to the world that we can build a company with scale, depth, and size that is very competitive in the most competitive spaces in the capital markets. We've shown that we are addressing a very large marketplace and we can continue to grow.

One of the things that we've done is to build a diversified revenue model. We're not just an investment bank where we have multiple products, private placements, M&A, and equity issuance. We're not just partially IPO and partially secondaries for large companies. That is about one-third of our business in total. Another third of our business is in the institutional brokerage business. It's a very constant flow of business, so that even though times might be very tough right now and for the next few quarters, the institutional brokerage business in the technology space is, frankly, growing very fast. The asset management area is about twenty percent of what we are doing. It includes private equity, our private client department, and a number of other, smaller activities that we're performing in the money management business. Generally, the asset management business provides another constant flow of business. In all, we've built a number of businesses that are very constant in terms of growth, along with the more volatile investment banking revenue.

I think many people are attracted to our firm because of private equity. It's unique to have private equity embedded inside our organization. It's also unique that the entire carry goes into the overall firm, and that many of our professionals in research and investment banking play a role in mapping, identifying, and working on private equity transactions. Here there's a more diversified and interesting role for professionals than they might find in another organization.

We also have a compensation package that includes not just equity and current competitive compensation, but also a leverage co-invest in private equity where we take 4 percent of an individual's income and leverage that four-to-one. Essentially, our employees can invest 16 percent of their current income in private equity per year. We have an options plan where, below partner level, employees have an equity stake in the firm. So, there's equity, private equity participation, and, of course, competitive compensation, all of which is paid out in cash. There's no script, no third of your income that is going to be vested over three years and put into stock or any of the other things organizations have done to build their compensation packages.

I think an organization needs strong leadership, so I try to provide that. I also think we have a very unique culture, the attributes of which I've mentioned before, such as teamwork, integrity, a real winning attitude, and having fun. These are pretty important elements of a culture where people are really charged up and come to work every day interested in advancing their careers. This is a place where the goals of the organization meet the goals of the individual. We work very hard at making sure there is direct and regular feedback on how people are doing inside our firm. This is a place where you can calibrate your progress with the progress of the organization. We try to link performance with overall compensation. Running an organization as a meritocracy is another important element in building a successful culture, so we spend a lot of time on that aspect of the business.

Near-Death Business Experience

I've been through quite a few "near-death" business experiences. I think the most prominent was with Montgomery Securities around the stock market crash in the fall of 1987. Early in 1987, we had started a convertible arbitrage business. We started with a gentleman who we thought knew what he was doing, but we found out six months into it that he didn't. We had built a $200 million book of business for a client, which was a lot of money to us since we had roughly $20 million in equity capital. We had to shut the convertible arbitrage operation down. As we were closing out the $200 million client account, we could see there had been a big $10 million loss for us.

We went to the client and said, “Look, we’ll pay for the loss. We’ll give you all your money back, but it’s going to wipe out half of our equity. We need time to pay you off.” They agreed. Then the crash of 1987 happened. Imagine what that was like, with half our equity gone and the crash threatening a real deep hole in the overall wealth effect. Fortunately for us, in the beginning of 1988 we were the lead manager in the Maxim Products’ IPO, which ignited the technology IPO market. Business came back very rapidly, but we had some pretty difficult times until then.

This business can be highly cyclical, which is why in this firm and in my past businesses we’ve had a revenue source that is diversified by both industry and product mix.

Summary Reflections

Beyond business, I always keep in mind that we’re only on this earth for a short period of time, so I don’t look at success in life through a certain filter. Success in business is only one element of a diversified lifestyle, which is something I was extremely interested in having as soon as I got out of school. That’s exactly why I decided to move to the West Coast right after I graduated from Harvard, rather than going to Wall Street like all my other classmates.

The pursuit of sports in my early childhood influences my ideas about how to live a successful life. I like being outdoors as much as I can. I like having access to the outdoors: it was one of the most powerful motivators for me to get out to the West Coast. I also feel that family is very, very important. I’ve got five great kids and I’ve got a great relationship with all of them. I’d say that being a father has been as rewarding as, if not more rewarding than, any other thing I’ve done in my life.

My objective is to be a great parent first, to make an impact in the world second, and then to focus on a few activities at which I can really excel. I’ve tried to make an impact in skiing and cycling from an organizational standpoint. I’ve tried to contribute to the art world, mainly through the New York and San Francisco Museums of Modern Art. Through Empower America, I’ve tried to help the conservative cause that, economically, is mainly entrepreneurially oriented. Obviously, I also try to make an impact in the entrepreneurial segments of business. That’s why I so enjoy starting this new firm and continuing to play a role in entrepreneurial activity in the technology space.

My proudest accomplishments are my kids. Next are the businesses I’ve started and the successes they’ve become. Third is having a certain amount of success in terms of reshaping and restructuring competitive skiing in this country—and I’ve only just begun attempting to do the same in cycling.

Advice to Entrepreneurs

If there’s one thing that I would implore younger entrepreneurs to think about and focus on, it is patience. Most people want what they want now. They want it quicker than it’s going to happen. Having patience doesn’t mean that you don’t work hard. You just have to understand that things don’t happen overnight. People who stick to their knitting and continue to focus are rewarded over time for being in the saddle and having experience that really helps them bring value-added advice to a client base.

I know that my background doesn’t seem consistent with advice about patience, but you don’t create careers and success overnight. It doesn’t matter if you’re trying to succeed at a sport or something else, success comes from setting goals and sticking to a rigorous, disciplined approach moving toward those goals. And you’ve got to have patience to get through it. Look at Lance Armstrong. I don’t think anybody can appreciate how many hours and how many days he sits on a bike and trains. Then, during the Tour de France, he spends weeks on the bike, sitting like a cat, waiting to pounce, waiting for the right moment to make his move. The mental discipline you need to wait for the right time and place to move is just an example, and a good metaphor, for what I’m saying about patience.