

‘Drexel clearly put L.A. on the map for deal making. It forever changed the face of L.A.’

— LLOYD GREIF, a longtime local investment banker



Peter Nolan, left, is senior advisor and Jonathan Sokoloff and John Danhagl are managing partners of Leonard Green & Partners, a West L.A. private equity firm. All three worked at Michael Milken's firm, Drexel Burnham Lambert, in the late 1980s.

HIGH-YIELD BONDS

Michael Milken's proteges loom large in L.A.'s finance industry

By JAMES RUFUS KOREN
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Grab a cheeseburger at the new Shake Shack in West Hollywood, buy a roll of paper towels at the 99 Cents Only store or take in a show at the Dolby Theatre in Hollywood and, in a small way, you're contributing to the legacy of Michael Milken.

One of Shake Shack's early investors was Leonard Green & Partners, a West L.A. private equity firm run by John Danhagl and Jonathan Sokoloff.

The 99 Cents Only chain was acquired in 2012 by Ares Management, a Century City investment firm whose

founders include John Kissick and Antony Ressler.

The Dolby is owned by L.A. developer and landlord CIM Group, co-founded by Richard Ressler.

All five owe at least some of their success to the 1980s junk bond king,

who, despite being banned from the investment business a quarter of a century ago for securities violations, still looms large in L.A.'s finance industry.

They were among the scores of investment bankers and bond traders who came to Los Angeles decades ago to work for Milken at Drexel Burnham Lambert, then one of the most sought-after investment banks in the country.

"Drexel became this white-hot magnet," said Peter Nolan, another Drexel alumnus who's now a senior advisor at Leonard Green. "The real financial power center was the high-yield floor and the guys who worked for Milken. A lot of really smart people figured that out, and they gravitated toward Los Angeles."

After the firm's demise, brought on by an insider-trading probe and tumult in the junk-bond market, many of them stayed and went on to found some of L.A.'s biggest investment firms.

Some will gather this week at the Beverly Hilton, just a few blocks from Drexel's old office, for the Milken Institute Global Conference. The four-day event, put on by a Milken-endowed think tank, brings politicians, financiers and academics to Beverly Hills each year, and serves as a reunion of sorts for the Drexel alumni who remember the firm's glory days.

Milken transformed the once second-rate firm into a powerhouse by creating the market for so-called junk or high-yield bonds, loans to companies not previously considered credit-worthy.

Those became the financial tool of choice for many of the corporate raiders of the 1980s, and they briefly turned Drexel into the most profitable investment bank on Wall Street. In the process, Los Angeles was transformed

from a financial backwater into a capital for finance in the West.

Although Drexel was headquartered in New York, Milken, an Encino native, moved its high-yield bond group to Century City in 1978 and later to the opulent Gump's department store building in Beverly Hills. He wanted to be closer to his family, including his father, who had terminal cancer.

Southern California's finance industry at the time was dominated by some large regional banks, such as Security Pacific, and few big money managers, including mutual fund firm Capital Group and bond investment specialists TCW and Pimco, which was farther south in Orange County.

A few Wall Street investment banks had offices in town, but those existed to serve local clients. Drexel's Beverly Hills office, on the other hand, attracted a regular stream of limousines carrying executives from New York and other parts of the country eager for Milken's counsel.

"Drexel clearly put L.A. on the map for deal making," said Lloyd Greif, a longtime local investment banker and CEO of Greif & Co. "It forever changed the face of L.A. and cemented its position as financial capital of the West. I don't think there's another person you could give more credit to than Mike in that regard."

Milken, who declined interview requests for this story, experienced a famous fall from power after he was indicted on federal racketeering charges in 1989 related to alleged insider trading. He later pleaded guilty to more minor securities fraud charges. Drexel filed for bankruptcy protection amid the fallout the following year, but the event was ultimately a windfall for Los Angeles.

Many of Milken's proteges had put down roots in Los Angeles and wanted to stay. As a result, after Drexel's demise, a passel of buyout shops, pri-

vate lenders and other financial firms emerged.

"It's serendipity that L.A. became this fertile ground for innovative financiers. That tracks back to one decision by one individual 30-some odd years ago," said Bobby Turner, who worked for Drexel in New York before heading west to join other Drexel alumni at Canyon Partners, a Century City hedge fund that manages assets of \$21 billion.

In L.A.'s close-knit finance industry, Drexel alumni and their firms are well connected and well-known, though less familiar to outsiders. But many of the investments they've made and companies they've backed are household names.

Canyon, for instance, in a joint venture with former Lakers great Magic Johnson, has been an investor or lender on several major real estate projects, including the massive One Santa Fe apartment and retail complex in downtown L.A.'s Arts District.

The firm was founded in 1990, the same year that Drexel went under, by Mitchell Julis and Joshua Friedman — both veterans of Milken's high-yield bond practice.

Turner was a partner at Canyon before starting his own firm, Turner Impact Capital, which invests in affordable housing projects and, in a venture backed by retired tennis star Andre Agassi, facilities for charter schools.

Ares Management, which makes loans and private equity investments, has a portfolio that includes 99 Cents Only and luxury retailer Neiman Marcus.

Perhaps the highest-profile Drexel alumnus is Ken Moelis, the founder of investment bank Moelis & Co., which has served as an advisor on hundreds of billions of dollars worth of corporate mergers and acquisitions, including 2008's sale of beer giant Anheuser-Busch to brewing conglomerate In-Bev.

"You've had so many of them that were successful," said Todd Morgan, chairman of Century City wealth management firm Bel Air

Investment Advisors, who knows many of the Drexel alumni. "Statistically, it's hard to believe."

Former Drexel bankers and bond traders trace much of their success to lessons learned at Drexel.

Drexel was a middling firm until Milken led its ascendance. It built its reputation by doing deals that more traditional investment banks wouldn't, helping small, risky companies raise capital for growth or backing outsiders who were trying to shake up the corporate world.

"In those days if you wanted to work for Goldman Sachs, the job of the banker was to figure out how to save Ford Motor Co. a quarter of a percent on the billions of dollars they borrowed," said Danhakl of Leonard Green. "That's not a trivial job given Ford's importance to the U.S. economy, but a career spent trying to figure out how to do that didn't seem interesting to me."

At Drexel, deals were more complicated and more exciting, he said. The firm helped finance such blockbuster deals as the 1985 hostile takeover of cosmetics company Revlon and the 1988 takeover of tobacco and food giant RJR Nabisco, a \$25-billion deal that was the biggest leveraged buyout of its era.

Demand for Drexel's services was huge, and former bankers and traders there say the constant flow of business gave them insight and experience that proved invaluable later on.

"We were seeing eight times the amount of deals as our next closest competitor," said Jess Ravich, a former Drexel bond trader who's now a managing director at downtown L.A. investment firm TCW. "So you get there at age 26, and by the time you're

30 you have the equivalent of 32 years of experience."

More than anything, though, working at Drexel was a chance to learn from Milken. Regarded by some as a Wall Street villain, Milken is still seen as a role model by many of his former colleagues. They used words like visionary, revolutionary and even heretic to describe him. They recall his famously long hours — and how he used them to test an employee's mettle.

"Mike would rarely refuse a meeting, even with the most junior person on the floor, but he'd make you play chicken a little bit," Ravich said. "He'd say, 'I have a meeting at 5 a.m. and a meeting at 4:30, but I can meet at 4.' If you came in early enough, he'd meet with you."

Eight months after Milken resigned, Drexel filed for bankruptcy on Feb. 13, 1990, dogged by the insider-trading investigation and crippled by a downturn in the junk-bond market. Fired employees started looking for work, which wasn't easy because some Wall Street firms wouldn't hire them — not because they'd done anything wrong themselves, but because of their association with Drexel.

A handful of Drexel bankers — including Moelis, Danhakl and Nolan — went to the Los Angeles office of investment bank Donaldson Lufkin & Jenrette. A few others, including Ravich, went to investment bank Jefferies, then headquartered in L.A.

Some thought they could do better as investors and started or joined private equity firms in Los Angeles. Those who went that route, such as Sokoloff of Leonard Green & Partners, had relationships with Drexel clients that helped them scale up. The firm would later do a few deals with Foodmaker Inc., a San Diego company that had previously been financed by Drexel.

In the years since Drexel went bust, firms run or founded by members of its diaspora have grown, been bought and sold, gone public and, in some cases, met the same fate as Drexel.

Ares Management, the largest local firm that traces its roots to Drexel, went public in 2014, making founder and Drexel alumni Ressler a billionaire. On the other side of the ledger, former Drexel bond dealer Gary Winnick went on to found Global Crossing, a telecommunications firm that in 2002 became one of the biggest U.S. firms ever to go bankrupt.

Successful or not, many of Milken's acolytes will gather at this week's conference, the marquee event put on by the Milken Institute, a Santa Monica think tank endowed by Milken and his brother Lowell, who also worked at Drexel.

Milken, 69, is worth an estimated \$2.5 billion despite paying \$200 million in fines and hundreds of millions more in civil settlements related to his tenure at Drexel.

He has spent much of the last 25 years funding cancer research — he was diagnosed with prostate cancer, now in remission, shortly after serving 22 months in federal prison — and doing other philanthropic work.

One event that's not on the conference agenda is a dinner for Drexel alumni. It's equal parts class reunion, networking session and homage to both the man and the firm that so many financiers in Los Angeles say have been key to their careers.

At the dinner, there are speeches and videos of old Drexel ads, war stories are told and friendships rekindled. But mostly, it's a chance to see Milken, who remains beloved by those who worked with him.

"If Mike asked me for anything, I'd do it," said Leonard Green's Danhakl. "I tell people, we all still work for Mike. He used to pay us."