

A Story of Rebuilding

An Interview with Howard W. Lutnick,
Chairman and Chief Executive Officer, Cantor Fitzgerald, L.P. and BGC Partners, Inc.

EDITORS' NOTE In addition to his leadership of Cantor Fitzgerald, Howard Lutnick is also Chairman and Chief Executive Officer of leading global brokerage company, BGC Partners, Inc. He also served as Chairman, President, and CEO of eSpeed, Inc., which merged with BGC in 2008. Lutnick guided the rebuilding and growth of Cantor Fitzgerald following the firm's tragic losses in the 9/11 World Trade Center attacks, and its care and support of the families of its 658 employees who perished, providing the families with more than \$180 million and 10 years of health care. He graduated from Haverford College in 1983 with a degree in economics and joined Cantor Fitzgerald. He was named President and CEO in 1991 and Chairman in 1996. He is a member of the boards of Haverford College, Zachary and Elizabeth M. Fisher Center for Alzheimer's Disease Research, Intrepid Museum Foundation, National September 11 Memorial & Museum, Solomon R. Guggenheim Foundation, and the Partnership for New York City, and received the Department of the Navy Distinguished Public Service Award.



Howard W. Lutnick

COMPANY BRIEF Cantor Fitzgerald (www.cantor.com), begun in 1945 as an investment banking and brokerage business, became known for innovation in computer-based bond brokerage and as the market's premier dealer of government securities. Today, Cantor is the leading independent middle market investment bank primary dealer, recognized for its institutional equity and fixed income capital markets services, investment and merchant banking, prime brokerage, and commercial real estate financing, as well as gaming technology, e-commerce, and other new businesses. BGC (NASDAQ: BGCP) is a leading global brokerage company primarily servicing the wholesale financial markets across a broad range of financial products. BGC has announced it plans to acquire the U.S. business of Newmark Knight Frank, a leading real estate advisory firm. With 50 locations around the world, Cantor and BGC and their affiliates execute over \$200 trillion in notional financial transactions globally.

Where does the economic recovery stand now and do you see consistent growth ahead?

The markets are uneven with great opportunity and substantial risk coexisting.

The low interest rate environment has made certain businesses more viable and attractive than otherwise would be the case, and at the same time has constrained other businesses. That cannot be a long-term equilibrium.

With the kind of issuance and debt the country has, how can interest rates not explode higher? They will, eventually. But the economy's weakness means they will stay low for the foreseeable future.

Technology enterprises with exciting upside are attracting venture capital, since the cost of keeping money on the sidelines makes entertaining those kinds of investments easier. A number of tech start-ups are becoming visible with new investment in interesting disruptive business models. Entrepreneurship and entrepreneurial business models are well received in this environment.

So funding for good ideas is available now in a way that otherwise might not be expected.

At the same time, businesses that are classically driven by overall economic strength are making their numbers only by cutting. That's what continues to put lackluster jobs reports back in the headlines.

How was Cantor positioned during the global economic downturn?

2008 and 2009 were intensely difficult periods for financial companies that owned assets in the musical chairs world of "buy something beyond its reasonable value with the expectation to sell it to someone else beyond your original price and its intrinsic value."

That was true not only for Wall Street but with respect to the housing boom and subsequent downturn. A huge volume of housing was built with the impractical perspective of "I can build it to sell to someone else who will resell it." This supposed value spiral did not equate to a core market that was being rationally served.

When a business model is built to fit a core market and to meet core needs, it creates a solid foundation that enables a business to serve its market and to prosper. At Cantor, we have always believed in the middle market – focusing on quality growth companies, not the

big trophies that are targets of the giant investment banks. Our aspiration was and is to transact for our clients and to excel in serving the middle market.

That model requires us to have a much larger sales force than the largest financial firms, because Cantor's strength in distribution means we bring value to both sides of a transaction. We're not in the business of taking risk and hoping the markets go up. Our business is servicing our clients and meeting their needs, not trading for ourselves or against them.

Therefore, we weren't trying to market securities in 2008 that proved to be toxic to so many others and weren't making subprime loans to people who could not pay them back.

It became difficult for some of the larger players to transact business in the kinds of products they owned, because their ownership had come at too high a price. They became unwilling and unable to conduct transactions in those assets because they'd have to mark them down at a loss.

We were able to focus on and take care of our clients' needs without the necessity of trying to protect ourselves, which is why Cantor did so well in 2008 and 2009 and why we have such a great business now in the middle market.

We are not seeking to fill the shoes of Bear Stearns and Lehman Brothers. Because Cantor Fitzgerald seeks to be extraordinary in its singular place in the market – a positioning that means we are smaller than the big guys but much bigger than any small player – there is plenty of room for us to grow and build.

During the boom days, many on Wall Street were attracted to the big players. Did that make it challenging to attract the talent you needed or is the message out about the opportunities you offer?

We have hired great leadership and grown great talent across the board.

The markets in 2008 and 2009 gave us an extraordinary opportunity to hire seasoned professionals who previously had been in large financial institutions. Cantor's model became extremely attractive, as they knew they could do business without being exposed to the kinds of market trauma facing many of the large firms.

Is there an effective understanding in the marketplace of the size, scale, and leadership BGC has and how well that business has done?

As a public company since 2008, BGC has exhibited extraordinary growth guided by spectacular leadership. They have built an amazing business model on the foundation of employees owning 38 percent of the company. So our management's and employees' interests are entirely aligned with those of the public shareholders.

BGC has been able to beat Wall Street's expectations 10 quarters in a row. Management works as one with employees and, as a result, the company has done brilliantly.

In terms of BGC's acquisition of Newmark, what value will that bring?

First, consider the strength and value of our partnership structure – that is an incentive to attract and retain talent and to acquire companies. Second, BGC is not a risk-taking business – we're in the brokerage business. We hire high quality people who have great client relationships and enable them to join us as owners of the company. We invest in them, providing them with the technological tools to offer new and valuable market knowledge to their clients.

BGC's clients are among the most sophisticated – the largest and most successful banks and investment banks in the world. The key value that BGC brings them is knowing not just “what price I can get you for a transaction,” but “what you should get for it.” That's the value our successful brokers add to their clients, and that is information that is equally important in financial services and real estate.

The key is the mathematics to analyze the market and know the right answer. For BGC, that may mean deploying our global technology to collect market intelligence and employing the right brokers with the financial acumen to piece it together, capitalizing on our excellent relationships with the largest and strongest financial companies in the world to create something innovative that meets the client's objectives.

This is embodied in what we call our inferential pricing – for example, the ability to determine the price the client, whether tenant or landlord, should get, or in investment sales, the value you should get if you sell the asset.

As a professional brokerage business, BGC offers clients over 200 financial products. If you distill real estate down to its core, it is a financial product. Our ability to provide hedging and financial tools to help clients reach their goals will be a huge differentiator.

Moreover, the largest clients in real estate are financial service companies. Not only are they huge companies with their own real estate needs but they manage vast amounts of real estate in their asset management business.

Our relationships with those companies coupled with our inferential pricing perspective will enable us to bring our expertise to the real estate market. Plus, our partnership structure inherently allows us to attract and retain world-class personnel. So I expect us to hire more people, acquire more companies, and provide spectacular client value.

Is it challenging to not lose the innovation drive?

We focus on consistently reinvigorating our business. What excites us is that when we hear a good idea, we fall in love. While we're not risk-takers in terms of market risk, we're risk-takers in terms of reasonable business risk. We'll build a business around a new idea for a new marketplace if it fundamentally embraces our core competencies.

Using our way of thinking to exercise our special competencies in a different space and in a different way keeps our business entrepreneurial. We are a brokerage business and a technology company. Those are core capabilities in which we excel. Then we ask, “Where else can we apply those skills and assets?” Gaming technology, for instance – a highly regulated market that demands the utmost integrity, accuracy, reliability and speed in structuring and processing transactions – is entirely within our area of expertise.

Do you worry about growing too quickly?

The biggest challenge is always execution and leadership. The right leaders pursuing new ideas makes the difference between pain and pleasure in business.

We might not get every step right the first time, but we're confident we won't fail as each step takes us toward our goal. Ultimately, we're usually right and generally early.

If you see something done differently within the firm than how you would do it, are you able to let it go?

My management style is management by stories. My senior management not only knows my opinion but also knows how I came to that opinion. My knowledge is available to them. All I have is experience they might not yet have garnered.

Bernie Cantor taught me the value of experience each time he asked, “Do you want me to take off my shirt and show you all the scars on my back?” My goal is to teach my senior executives the lessons I've learned so, together, we don't have to experience any mistakes of the past. At the same time, I also have newer executives who bring their diverse experiences and teach me. That give and take makes my management style not more “hands-on” but “more time together”.

Cantor is now in midtown but you still have a major investment downtown with BGC. The opportunity was there to move out of the city after 9/11. Why was it important to keep the business in the city?

I felt responsible to help my friends' families by having a successful company so we could provide them real support. The decision was made by our surviving employees that we would rebuild Cantor Fitzgerald to help the families of those we lost. The only way to rebuild is with talented people and New York is a terrific place to hire talented people.

In the immediate aftermath of the attacks that virtually destroyed our company, we had a goal every weekend to hire 35 people because we had to grow.

To build a business quickly, it is an excellent strategy to embrace the needs of your employees. Before 9/11, we had one location, 1 World Trade Center. Now, Cantor is in midtown and BGC is in lower Manhattan. We also have offices in Connecticut, New Jersey, and Long Island. We became more accessible to talented people who wanted to join us and also desired a particular commute.

Much of Cantor's culture was based on a family feel – hiring relatives and friends. Has that had to change because of circumstances?

The New York Times ran the 9/11 victims' obituaries, each about 60 words. Fully half the stories about Cantor employees included sentences from their families that said they loved their jobs. That's extraordinary. It wasn't so much the work they loved. What they loved was the environment they were in and their special relationship with their friends and colleagues.

What made Cantor special is that we knew how to hire. Of course our employees were all talented. But we looked for what was inside an individual. When we began to rebuild the company, that is what we looked for.

We hired friends and family members then and we do now; it is what allowed us to survive after 9/11 and to thrive in the years since. We spend an enormous amount of time with people we work with, so our view is they should be the kind of people you like.

September 12th was Charity Day for Cantor. Was it tough to get through, even though you are doing so much good?

Naturally, it's the toughest of days. So we reinvent work on that day. To commemorate our friends who perished on 9/11, Cantor and BGC donate all our revenues that day to dozens of charities around the world – about \$12 million last year. Charity Day enables us to help others, turning a tragic day into one that is positive and uplifting.

At the end of that day, we have a memorial service with the families. The most important thing for me is for us to all be together – surrounded with people who understand, who gain as much strength from me as I gain from them.

9/11 will always be a part of us, but it does not define us. We have chosen to accept that it is a part of us and instead of fighting it, we embrace the parts of 9/11 that are most important to us: caring for the families of those we lost and helping others through our relief fund and Charity Day.

Many new partners and employees have joined us over the past 10 years and have helped those families. In turn, we have to help their families by being a successful company because, in helping others, those partners have earned less than they otherwise would have. It's a cycle.

If you're proud of what you have accomplished, it feels right to take care of the people who have helped you. And I'm proud of the spectacular men and women of Cantor Fitzgerald and BGC who have done just that. ●