

WALL STREET'S TOP DEALMAKERS • CAN DANICA RESTART NASCAR?

SEPTEMBER 23 • 2013 EDITION

Forbes

**ROSS PEROT
(JR. & SR.)**

THEIR "INLAND PORT"
HAS CREATED
THE FAMILY'S THIRD
BILLION-DOLLAR
FORTUNE.

REINVENTING AMERICA

FROM EAST TO WEST, HEALTH CARE TO LOGISTICS, THESE ARE THE CITIES AND COMPANIES BRINGING BACK U.S. INDUSTRY.

PLUS: EXCLUSIVE 10-YEAR FORECAST—WHERE THE GROWTH WILL BE

THE MERCHANT OF MODEST

Warburg Pincus hasn't morphed into a financial supermarket like the giants of private equity. Perhaps that's why its dealmakers top our ranking of private equity's biggest hitters.

BY DANIEL FISHER

For their biggest deal ever, the team running Warburg Pincus started with epically atrocious timing. Their October 2007 purchase of Bausch & Lomb for \$4.5 billion was almost precisely at the market top. Within 18 months the market had been halved.

Their due diligence proved even worse. "It was a great surprise to learn how bereft the company was of any valuable internal product development," says Warburg's co-president, Joseph Landy, from his sleek, airy wood-glass-and-steel office in midtown Manhattan, describing what it was like to enter Bausch & Lomb's Rochester, N.Y. headquarters. Not only was the optical goods manufacturer battling accounting scandals in Brazil and Spain, but it had also been sued by hundreds of customers injured by a defective batch of MoistureLoc contact lens solution. The company had badly damaged its 150-year-old brand name, and products like a promising hydrogel contact lens that customers could wear for a month had languished for lack of development capital.

So Warburg went to work. It immediately installed former Schering-Plough chief Fred Hassan as chairman and his lieutenant Brent Saunders as chief executive—Bausch & Lomb's third in three years. The duo cleaned house, keeping only 2 of 17 top executives. They then acquired new businesses like eyeonics, a cataract lens maker, and refilled Bausch & Lomb's product pipeline.

Six years later, in May, Warburg sold the company to Canada's Valeant Pharmaceuticals for \$8.7 billion. On a deal that had begun as auspiciously as the *Titanic*, Warburg doubled its money.

That kind of roll-up-your-sleeves performance, turning even the deals that look like dogs into winners, has landed Landy and co-president Charles "Chip" Kaye atop this year's Forbes Dealmaker 50 list, which ranks the top-performing executives in private equity. Warburg Pincus, with more than \$40 billion in assets under management, isn't anywhere near being the biggest among



Southern gentlemen Joseph Landy and Charles "Chip" Kaye are the latest heirs to the house of Warburg.

DAVID YELLEN FOR FORBES

private equity firms—it was long ago eclipsed by the giants like TPG Group (\$55 billion) and KKR (\$84 billion). But what Landy and Kaye lack in size they more than make up for in smart deal selection, hard work and profitable exits.

While others in the business have expanded their financial offerings—from renewable energy at Carlyle to retail junk bond mutual funds at KKR—Warburg has kept its head down, sticking to the basic blocking and tackling of the buyout business, avoiding ten-figure megadeals. Often it acts more like a venture capital firm, buying big into small, unproven companies.

Warburg didn't go public like Blackstone and the Carlyle Group during the recent wave, and it participated in few of the "club deals" with other PE firms that are now dragging down the results of shops like Bain Capital and TPG. Warburg also doesn't charge its portfolio companies "management fees" for the pleasure of being owned by Warburg or "deal fees" for arranging the loans that private equity partners use to pay themselves dividends. Breaking into specialized subdivisions? "It's not who we are," says Kaye, who insists that each Warburg fund be diversified with the entire range of firm investments, from venture capital to leveraged buyouts. "The question is: Do you sell what you know how to manufacture, or do you manufacture what you know how to sell?"

That decided lack of flash is ironic, since Warburg Pincus might have the best corporate pedigree on Wall Street, with roots dating to the famous Warburg banking family of Europe, which began amassing wealth in the early 1500s in Venice. Eventually this clan of Jewish merchants settled in Warburg, Germany, and its descendants became prominent in European commerce, arts and philanthropy. Eric Warburg started his investment firm E.M. Warburg

THE TOP 50 DEALMAKERS

We take an investor's approach in compiling the Forbes Dealmaker 50 list of the world's top private equity executives, focusing primarily on fund performance, exits and recent success in raising money instead of raw fund size. (Preqin and PitchBook supplied the data on assets, exits and performance.) We also weighed individual financial success and how actively involved each person was in recent deals.

1 Joseph Landy *Warburg Pincus*

RECENT DEALS: BAUSCH & LOMB, KOSMOS ENERGY, WEBSTER BANK

Wharton grad joined Warburg in 1985, took over from founders as co-president in 2002. A winner with Bausch & Lomb, not so much with MBIA.

2 Charles Kaye *Warburg Pincus*

RECENT DEALS: BAUSCH & LOMB, KOSMOS ENERGY, WEBSTER BANK

Joined Warburg straight out of University of Texas, formed Asia office, named co-president in 2002.

3 Henry Kravis *Kohlberg Kravis Roberts*

RECENT DEALS: BMG, DOLLAR GENERAL, ENERGY FUTURE HOLDINGS

Cofounded the formative private equity firm in 1976. Took KKR public in 2010, still holds \$1.7 billion position in firm.

4 George Roberts *Kohlberg Kravis Roberts*

RECENT DEALS: BMG, DOLLAR GENERAL, ENERGY FUTURE HOLDINGS

Cofounder with cousin Henry Kravis. Actively steering the firm downmarket into retail funds.

5 Donald Mackenzie *CVC Capital Partners*

RECENT DEALS: FORMULA ONE, PILOT FLYING J, BELGIAN POST

Has transformed \$1 billion stake in billionaire Bernie Ecclestone's Formula One into \$4 billion so far.

6 Pierre Lapeyre *Riverstone*

RECENT DEALS: THREE RIVERS OPERATING, DYNAMIC OFFSHORE, COBALT INT'L

Former Goldman Sachs banker cofounded energy-oriented fund; loves pipelines, natural gas liquids, oil and gas.

7 David Leuschen *Riverstone*

RECENT DEALS: THREE RIVERS OPERATING, DYNAMIC OFFSHORE, COBALT INT'L

Ex-Goldman partner formed energy group there, cofounded Riverstone. Big exits include Dresser and Cobalt.

8 Stephen Schwarzman *Blackstone*

RECENT DEALS: ACNIELSEN, SEAWORLD, PINNACLE FOODS

Icon of private equity cofounded Blackstone in 1985, has steered firm toward real estate in recent years. Vocal defender of carried interest.

9 Raymond Svider *BC Partners*

RECENT DEALS: SPRINGER, OFFICE DEPOT, INTELSAT, MIGROS TÜRK

Former Wasserstein Perella exec joined BC in 1992, heads New York office. Office Depot director helped negotiate merger with OfficeMax.

10 Egon Durban *Silver Lake***RECENT DEALS:** DELL, SKYPE*Former Morgan Stanley investment banker flipped Skype to Microsoft, now trying to buy Dell.***11 Hamilton James** *Blackstone***RECENT DEALS:** ACNIELSEN, SEAWORLD, PINNACLE FOODS*Former Donaldson, Lufkin & Jenrette M&A chief "Tony" James is Blackstone's president and sits on boards of Costco, Metropolitan Museum of Art.***12 Leon Black** *Apollo Global Management***RECENT DEALS:** CHARTER COMMUNICATIONS, LYONDELLBASELL, SOURCEHOV*Drexel Burnham vet founded Apollo in 1990, now bouncing back from bubble-era flops like Linens 'n Things.***13 Jonathan Gray** *Blackstone***RECENT DEALS:** HILTON*Rising star at Blackstone helped assemble its \$50 billion real estate division, now working on blockbuster Hilton IPO. Possible heir apparent.***14 Philip Hammar skjöld** *Hellman & Friedman***RECENT DEALS:** GETTY IMAGES, GOODMAN GLOBAL, ACNIELSEN*Princeton, Harvard Business School grad (and grandnephew of United Nations icon Dag Hammarskjöld) took top spot at firm in 2009.***15 Marc Rowan** *Apollo Global Management***RECENT DEALS:** CHARTER COMMUNICATIONS, LYONDELLBASELL, SOURCEHOV*Black's old Drexel Burnham colleague is a mergers-and-acquisitions whiz who sits on board of hit investment Caesars Entertainment.***16 Joshua Harris** *Apollo Global Management***RECENT DEALS:** CHARTER COMMUNICATIONS, LYONDELLBASELL, SOURCEHOV*Apollo cofounder had big hit with LyondellBasell, is managing partner of NBA's 76ers and sits on an advisory committee of the New York Fed.***17 William Macaulay** *First Reserve***RECENT DEALS:** KRISENERGY, PBF ENERGY, ACTEON*CCNY and Wharton grad took over First Reserve in 1983, turned it into one of the top boutiques for energy investing. Gets a piece of all the best deals.***18 William Conway Jr.** *Carlyle Group***RECENT DEALS:** ARINC, TALARIS, AMC THEATRES*Carlyle cofounder and onetime MCI exec oversees the deployment of tens of billions of dollars around the world.***19 Toni Weitzberg** *Nordic Capital***RECENT DEALS:** FOUGERA, PERMOBIL, EG*Ex-Pharmacia exec, University of Wisconsin M.B.A. heads smallish Scandinavian shop with huge payouts.***20 David Bonderman** *TPG***RECENT DEALS:** DAVID'S BRIDAL, SCHIFF NUTRITION, FENWAL HOLDINGS*Legendary dealmaker turned a \$640 million profit on Continental Airlines in the 1990s, but his \$55 billion fund is short on exits lately.*

in downtown New York in 1939, and much to the disappointment of his cousins in Germany, he struck a partnership in 1966 with financier Lionel Pincus, a Columbia Business School graduate whose family emigrated from Russia and Poland and had been in the rag trade.

After Eric Warburg retired back to Germany in the mid-1960s, Pincus and another partner, John Vogelstein, specialized in what is now called venture capital, supplying funds to small companies in their rapid-growth phase. Warburg raised a then-astounding \$41 million for its first investment partnership in 1971 and the industry's first \$100 million fund in 1981. Notable early deals included Twentieth Century Fox, Humana and Mattel.

Landy, 52, a Baltimore native and Wharton grad, joined the firm in 1985 after a brief stint with Dean Witter and quickly built a reputation for investing in technology companies. Kaye, 49, joined Warburg straight out of the University of Texas and moved to Hong Kong in 1994 to build its Asia operation, which has since invested \$6.5 billion. The two took over in 2002 after a long period in which older partners waited in vain for Pincus and Vogelstein to retire; unlike David Bonderman of TPG or Leon Black of Apollo, they hold relatively small stakes in the firm, with ownership spread across 60 partners. Unintentionally, this keeps them aligned with their investors—they need wins, rather than matching the market or skimming fees from a large asset base, to score big money.

Not coincidentally, Warburg excels at handing money back to its limiteds. The firm has distributed more than \$15 billion since the beginning of 2012. Fund analyst Prequin says the ten Warburg funds it tracks rank in the top half of performance, with four in the top quartile, the highest percentage among the largest 50 firms Prequin

monitors. Warburg's 2000-vintage international fund has generated an internal rate of return of 33% on \$2 billion in commitments, and its 1994 fund turned in an astounding 50% return thanks in part to the 1990s technology boom and the continued emphasis on mixing in early-stage investing. Warburg's \$54 million investment in a software startup called BEA Systems, starting in 1995, wound up being worth \$6.8 billion; the firm similarly converted an \$8 million investment in Covad Communications into \$1 billion in two years. The firm has also kept up a long, successful streak in energy, spearheading the likes of Spinnaker Exploration, Newfield Resources and Kosmos Energy.

One recent blemish on Kaye and Landy's record has been its \$15 billion Fund X. Since 2008 it's logged a 6.7% return, due in part to timing and bad bets like its \$1.2 billion investment in mortgage insurer MBIA. But Warburg's funds typically run for 12 years or more, and thanks to its track record Warburg was able to attract \$11 billion for its 13th fund, which closed in May.

Those new investors are counting on the gumption typified by the Bausch & Lomb deal. The bad timing and unpleasant surprises were mitigated by a growing health care business—which is largely immune to price-controlling bureaucrats—and the discount that came with a troubled recent history. “The thesis there was to take a company which had an unbelievable brand but basically had been ignored because of distractions that caused them to take their eyes off the ball,” Landy says. It's those kind of smaller deals—versus TPG's \$45 billion takeover of Texas utility Energy Future Holdings or Bain's \$24 billion buyout of Clear Channel Communications, both of which are deeply troubled—that keep Warburg from wanting to grow out of control. Says Kaye, “The days when simply having a lot of capital was differentiating unto itself have passed.” **F**

21 James Coulter

TPG

RECENT DEALS: DAVID'S BRIDAL, SCHIFF NUTRITION, FENWAL HOLDINGS

22 Francesco Loredan

BC Partners

RECENT DEALS: SPRINGER, OFFICE DEPOT, INTELSAT, MIGROS TÜRK

23 John Danhaki

Leonard Green & Partners

RECENT DEALS: DAVID'S BRIDAL, AIR LEASE, BRICKMAN

24 Jonathan Sokoloff

Leonard Green & Partners

RECENT DEALS: DAVID'S BRIDAL, AIR LEASE, BRICKMAN

25 Martin Halusa

Apax Partners

RECENT DEALS: HUB INTERNATIONAL, LR HEALTH & BEAUTY

26 Gerald Schwartz

Onex

RECENT DEALS: RSI HOME PRODUCTS, CENTER FOR DIAGNOSTIC IMAGING

27 John Connaughton

Bain Capital

RECENT DEALS: HCA, WARNER CHILCOTT, QUINTILES

28 Daniel D'Aniello

Carlyle Group

RECENT DEALS: ARINC, TALARIS, AMC THEATRES

29 David Rubenstein

Carlyle Group

RECENT DEALS: ARINC, TALARIS, AMC THEATRES

30 Hugh Langmuir

Cinven

RECENT DEALS: PARTNERSHIP ASSURANCE, ZIGGO, AVIO

31 Paul Finnegan

Madison Dearborn Partners

RECENT DEALS: BWAY, BOLTHOUSE FARMS, TRANSUNION

32 Samuel Mencoff

Madison Dearborn Partners

RECENT DEALS: BWAY, BOLTHOUSE FARMS, TRANSUNION

33 John Grayken

Lone Star Funds

RECENT DEALS: KOREA EXCHANGE BANK

34 Anthony de Nicola

Welsh, Carson, Anderson & Stowe

RECENT DEALS: TRIPLE POINT TECHNOLOGY, RENAL ADVANTAGE, GLOBAL COLLECT

35 Paul Queally

Welsh, Carson, Anderson & Stowe

RECENT DEALS: TRIPLE POINT TECHNOLOGY, RENAL ADVANTAGE, GLOBAL COLLECT

36 Volkert Doeksen

AlpInvest

RECENT DEALS: SOLD OUT TO CARLYLE

37 Richard Friedman

Goldman Sachs

RECENT DEALS: ASSURAMED, FUJITA, SUDDENLINK

38 Kenneth Pontarelli

Goldman Sachs

RECENT DEALS: ASSURAMED, FUJITA, SUDDENLINK

39 Sigit Prasetya

CVC Capital Partners

RECENT DEALS: MATAHARI

40 Geert Duyck

CVC Capital Partners

RECENT DEALS: BELGIAN POST, FORMULA ONE

41 Michael Calbert

Kohlberg Kravis Roberts

RECENT DEALS: BMG, DOLLAR GENERAL, ENERGY FUTURE HOLDINGS

42 Joerg Adams

Silver Lake

RECENT DEALS: DELL

43 Kyle Paster

Silver Lake

RECENT DEALS: DELL

44 Chinh Chu

Blackstone

RECENT DEALS: ACNIELSEN, SEAWORLD, PINNACLE FOODS

45 Michael Chae

Blackstone

RECENT DEALS: ACNIELSEN, SEAWORLD, PINNACLE FOODS

46 Timothy Day

First Reserve

RECENT DEALS: KRISENERGY, PBF ENERGY, ACTEON

47 Alex Krueger

First Reserve

RECENT DEALS: KRISENERGY, PBF ENERGY, ACTEON

48 Kristoffer Melinder

Nordic Capital

RECENT DEALS: FOUGERA, PERMOBIL, EG

49 Steve Zide

Bain Capital

RECENT DEALS: HD SUPPLY, SENSATA, UNISOURCE

50 Conni Jonsson

EQT Partners

RECENT DEALS: DAKO, SPRINGER