

Ideas Are Better Than Money

An Interview with Theodore Forstmann,
Founding General Partner, Forstmann Little & Co., New York

EDITORS' NOTE *A graduate of Yale University and the Columbia School of Law, Ted Forstmann is a pioneer of the investment industry, having developed a number of innovative means to deliver superior returns for investors, including a unique subordinated-debt fund that enables his firm to fully finance acquisitions. When Forstmann Little acquired Gulfstream Aerospace in 1990, Forstmann became chairman of the business-jet firm, whose fortunes he turned around by rebuilding the management team, creating new product lines, and introducing fractional aircraft ownership. Also a committed philanthropist, Forstmann created the Children's Scholarship Fund in 1998, in collaboration with Wal-Mart's John Walton, and has served as a director of the International Rescue Committee and as the only non-South African trustee of the Nelson Mandela Children's Fund, among other philanthropic associations. Forstmann holds honorary doctorate degrees from Pepperdine University and Sienna College.*

COMPANY BRIEF *Headquartered in New York and founded in 1978, Forstmann Little & Co. is a private investment firm that has compiled an impressive record of investment performance, generating consistently superior returns for its investors. Widely recognized for its ability to turn companies around, Forstmann Little transforms business models by reinvesting cash flows in new opportunities, including new products, acquisitions, and cutting-edge R&D. Its well-known investments include Gulfstream Aerospace, Dr Pepper, Topps, Yankee Candle, General Instrument, and Ziff Davis. In total, Forstmann Little has returned approximately \$20 billion to its investors.*

You recently purchased IMG, the world's largest sports and lifestyle management and marketing firm, for about \$750 million. At this stage in your life, is this the last hurrah?

I hope not. I feel really well and healthy, and probably have more energy than I have had at certain other times in

my life. It's definitely not the last hurrah.

You're never going to retire?

Well, I'm not going to retire from life. I have had a number of interests in my life, which I've pursued simultaneously to my commitments at Forstmann Little. From time to time, senior people in the administration have called and asked whether I would be interested in doing

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this or that. I usually say no, but I do get interested if it has to do with helping people in a big way.

You have a close relationship with Donald Rumsfeld. Would you consider a life in politics?

We are good friends, but I don't get to talk to him much these days. I definitely wouldn't want to go into politics, but I might be able to do some good in other parts of government. The areas I'm interested in are international in scope, and, as I said, have to do with our being more helpful to people in need than we have been in the past.

What made you look at IMG? It's rather different from most of your other investments.

I have been asked similar questions after almost every investment I've ever made. I was asked, "What do you know about bubble gum?" And the answer was, "Nothing." "What do you know about soft drinks?" Nothing. "What do you know

about airplanes and how to build them?" Really nothing. The fundamental reason I buy any company is to create value – for my investors, my partners, and myself.

So I bought IMG because I recognized an opportunity to create very significant value, by streamlining the operations and by increasing revenues and profitability. It's a global brand and it's quite dominant in its field. And sport is ubiquitous. Selling sports is not like trying to sell more difficult products. There's no country in the world that doesn't have an interest in sports. So, as democracy spreads around the world, as globalization takes place, and as really important countries like China and India become wealthier and their middle classes begin to emerge, the market for what we do will grow.

Most people think of IMG as an agency that handles celebrities. Who do you have on your books?

Part of IMG is a representational business. We have a big modeling agency and we also represent athletes. So, for example, we represent seven of the top 10 golfers. We have a very big football business and a nice baseball business as well. We have sports broadcasters, we have a speaker's bureau, and we represent events as well as people. For instance, we represent Tiger Woods, as well as the British Open. Not only do we represent Andre Agassi, Pete Sampras, Maria Sharapova, and the Williams sisters in tennis, but we also represent Wimbledon.

It sounds like you're heavily involved in the company.

Yes. I'm now the chairman of the company. That's exactly what I did in Gulfstream. I was the chairman and there was a president too. Nobody was called CEO. The president functioned as the day-to-day CEO, and I performed the more strategic functions of a CEO.

You have managed an incredible 28 percent return on equity for investors since the inception of Forstmann Little & Co. What are your approximate net profits, considering the losses you've had with XO Communications and McLeod?

Forstmann Little has invested nearly

\$12 billion, and we have returned about \$20 billion to our investors, despite the XO and McLeod losses. We still own 58 percent of McLeod.

In 2002, the state of Connecticut brought a lawsuit against you, accusing you of securities violations after investment losses. It must have been heart wrenching for you, with such an unblemished record, to be attacked like that after all the work you've put into the company. How do you survive something like that?

My honest point of view is that nobody could have been angrier or more disappointed about the results of the Connecticut investments than I was. They came about at a time when I was trying to effect a succession plan for the company and had new guys working here. These investments were different and they didn't work out. I'm not in business to lose money for anybody, and we had no business losing that money.

Having said that, there's a big difference between a bad investment and an improper investment, and those investments were totally proper. The same big law firm has represented us for 24 years. They drafted this contract in 1983, and they made every single change in it. So I think the state had every right to be angry, as these investments did not turn out at all like the 26 similar things that I've done. However, nothing was done for any other reason than to try to do a good job for the investors.

I must admit, it is hard to get over something like this, because nobody did anything wrong. These investments were 100 percent proper, but they just turned out really badly. They could have turned out well, but they turned out really badly. If I could say anything to the people who lost money, it would be this: "I can't argue with you. I wish I could get your money back." I've never lost a dime for anybody. So I can easily understand why people were angry, and I have sympathy for them. However, I don't have any sympathy for the way this issue was dealt with. All it did was create a big problem for everyone concerned, and make a bunch of lawyers about \$25 million or \$30 million. The jury awarded no damages.

You set up the Children's Scholarship Fund with John Walton of Wal-Mart in 1998. Have you given a lot of your own wealth, estimated to be between \$500 million and \$600 million, to charity?

I'm not sure exactly how much I'm worth. We created \$200 million worth of scholarships. John and I were 50:50 partners, and we also had local partners who contributed.

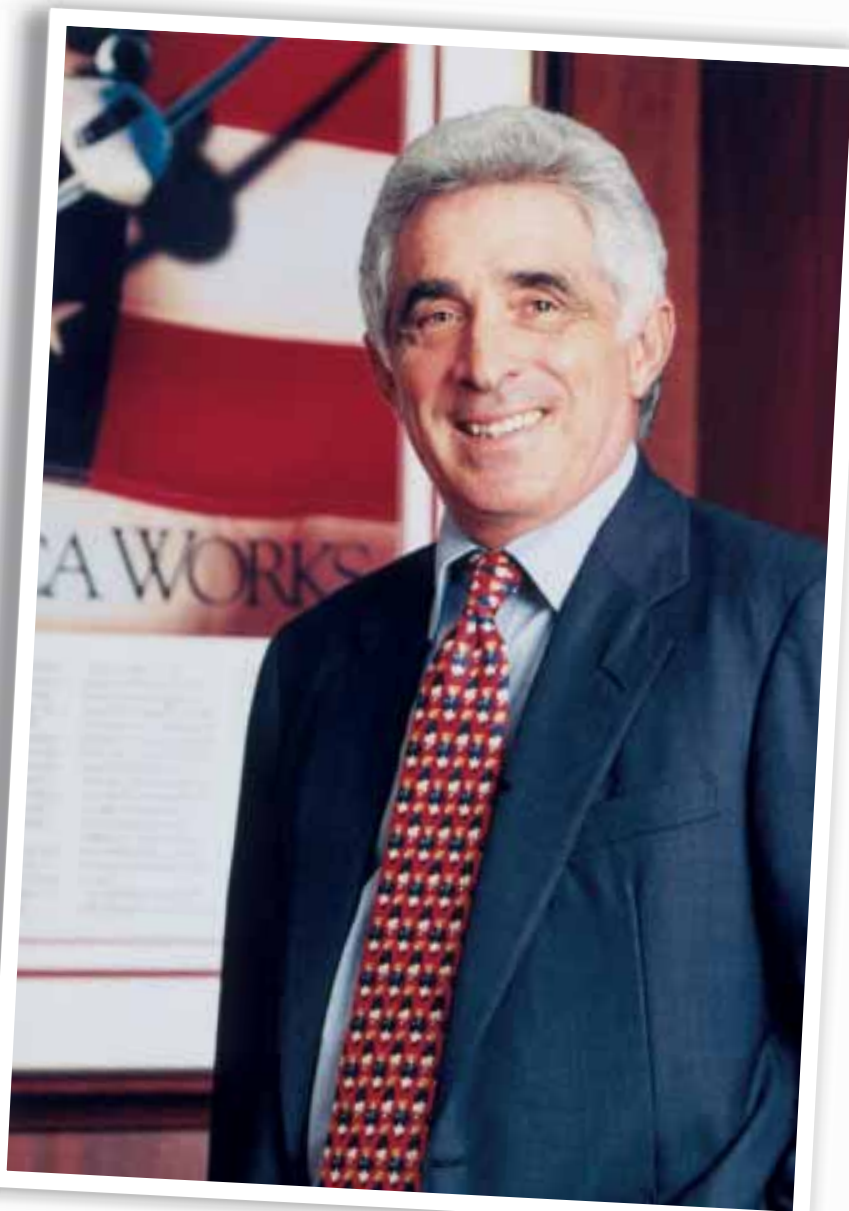
You've always been very interested in education. Is that the main focus of your philanthropic work?

My principal interest is children. Before the Children's Scholarship Fund, I

went to Bosnia about seven or eight different times to take care of children. The plight of the kids there really bothered me. Nelson Mandela heard about it somehow, and asked me to come to South Africa to talk to his cabinet about capitalism. He also took me to orphanages that he had started with the Nelson Mandela Children's Fund. I became the only non-South African trustee of the Nelson Mandela Children's Fund. I met about 5,000 kids on that trip and ended up adopting one of them, a little boy named Everest. About three or four years later, he told me

wealthy American, with all the perks that they could ever dream about?

I think they've done it pretty seamlessly. We have a great relationship, and I haven't had any kind of problem with either one of them. We have a relationship that is a bit like father and sons. I bring a lot of things into their lives and they bring a lot of things into my life. We spend a lot of time together. When Everest first came here, he'd come for 30 days at a time, because he was still in school in South Africa. If I was having dinner with Henry Kissinger during the time he was



he wanted me to meet his friend Siya, and I ended up adopting him too. It's a wonderful story because those two guys were orphans living on the sidewalk. Siya's now a sophomore at Pepperdine University and Everest is a senior at Trinity Pawling School.

How have they handled the culture shock of coming from Africa into the home of an extremely

with me, then he was having dinner with Henry Kissinger too. I'd tell everybody, "My eight-year-old is here. I'd love to see you, but he's coming too." Everybody would say, "Oh, okay. No problem."

You're a very self-effacing and quiet fellow behind all of the money.

The money has never meant anything to me at all. I have always been more interested in ideas than money. I

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have a pretty good feeling about macroeconomics and how to slip in and find my place as a result of what's happening. I made money along the way, but that was never my focus. I have a ranch that I built in Colorado that hosts kids with cancer and other illnesses and shows them a good time. I've been there a bunch of times. I'm not the kind of guy that likes to give money and never show up. I have met a lot of the children who go to the ranch, but I connected with one little girl in particular. She was having a lot of trouble with her health, and her doctors weren't sure what her prognosis would be. I went and talked to her and we just bonded. That was about three years ago, and now we see each other all the time. She lives outside Chicago, and she goes to college. When I take the boys somewhere, I often take her along too.

What advice would you give young people starting out in their careers?

I teach at a few business schools and students always want a map: If you do this and this, it will result in that. And I say, "I'm sorry to tell you that if there is a map, I don't know what it is. I can't help you. But I can tell you this: Real wealth is not physical." What I mean is that physical wealth can disappear. The government can take it away or there could be a terrorist attack; there are a million different ways to lose it. Metaphysical wealth cannot be taken away, and it's the driver of all the growth that takes place in the world. So when I talk to these kids, I say, "Don't ask me how to make a lot of money because I don't even know. And I don't think that's a particularly worthwhile goal. Don't ask me how to go into private equity. Ask me if I have any ideas about how you might come up with something that would render private equity – which is what I dreamed up – obsolete." I tell them that private equity today is becoming very much like investment banking. I obviously also tell them, "Be true to yourself, because you don't have anything but yourself. If you lose yourself you have nothing."

What does the future hold for Forstmann Little?

IMG is not the end for me. What we do is we invest really large sums of money for pension funds, by buying a company, making it much better, creating value, and then realizing that value. That's what we do. There are three pieces to that business: raising money, investing the money, and then running the companies. And we run them all differently and very actively. I've said publicly that I'm not going to raise another fund. We own Citadel, we own McLeod, and we own IMG, and we have a lot of money invested in those companies. I'm going to continue to do everything I can to create as much value in each one of those companies as I have the ability to do. I'm going to be very involved in that.

So that leaves about \$1.5 billion that we have already raised, and we will try to invest that money in the next IMG, the next Gulfstream, or the next General Instrument. Or maybe we'll invest it in two great companies. Either way, we are looking to invest that money. Whether or not we'll be able to do that, I don't know. My motto is, "You never know."

We have the money, we have the reputation, and we also have the lowest fees of anybody in the business. So my prediction is that we will be able to find at least one more major investment that fits our requirements – and maybe more. But if we don't, then we'll just return the money in 2006. The investors may say, "Do you really have to? Ted, couldn't you give it another year or two?" We've been pretty fair with these people, and they've made a lot of money. In general, they're really good people and we've had great relationships with them.

So you're a very happy fellow.

Yes. But if you can only be happy making money, then I don't think you're trying for much happiness. Those two boys have made a huge difference in my life. For example, people would ask me, "What are you going to do this winter?" And my first thought was that, in March, Everest would get out for a month, so I wouldn't be in New York. I didn't want him sitting in my apartment in New York for a month. I had a trip to India and

China planned as part of my work with IMG. I wanted to go and meet a lot of people in that part of the world, so I thought I might take him with me.

In other words, in some ways, my life is really not my own anymore, and I'm very happy with that. If I'm going to be a good dad, I have to be very aware of what they need. There's no mother to say, "I'll take him here or there." It's all me. And we do a lot of things together. I'm a pretty good golfer, and Everest is now right at the point where he might actually be able to beat me.

You seem to be as proud of them as you are of all you've accomplished in your career.

More so. In terms of what I've accomplished, I've often said that the Children's Scholarship Fund has been the most difficult thing I've ever done, but also the most worthwhile. How do we know what those 62,000 kids who have benefited from it are going to be able to do? Out of that group may come the next Muhammad Ali or a great conductor. I don't know, but what I do know is that if the Children's Scholarship Fund didn't exist, nothing would come out of that group of kids. Those children would have no hope, no chance, no life. And amazingly, the mothers – because often there are no fathers involved – benefit as much as the children, because deep in their hearts, they know that they have kind of screwed up their lives, and without help from elsewhere, their kids would do the same.

The Bible says – and I believe this – it's harder for a rich man to enter the kingdom of heaven than it is for a camel to pass through the eye of a needle. The more you have, the more you really should do with your wealth, because otherwise, you have a wasted life. What is the big deal about having a lot of money for 60 or 70 years out of infinity? It's no big deal at all. And if you just spend it on yourself, it becomes a pretty big, lousy deal. If I can take what I have today and leverage that into helping 60 million children, instead of just 60,000, that's what I would like to do. ●