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SECTION D
SUNDAY
MARCH 15, 1998
BUSINESS
Los Angeles Times

A 'Buy and Build' Strategy Takes LBO Firm Hicks Muse to the Top of Its Field

■ Recent headline-making deals have raised the company's profile. But critics wonder whether its moving too quickly.

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Settling into a plush seat aboard his Gulfstream II jet, Thomas O. Hicks loosens his tie, stretches out his bulky 6-foot-3-inch frame and reaches for the telephone. And for the next 90 minutes, as the oil fields of west Texas pass beneath him, the phone becomes an appendage to Hicks' ear.

Hicks is discussing what companies his firm might buy or sell (at a huge profit he hopes). Don't be fooled by his monotone delivery over the phone. The buyout game has made Hicks rich, and it's why he gets up in the morning.

"I enjoy the chase of the deal," he says after hanging up. "My partners joke that I'm already retired, because I'm doing what I love."

And doing it with a vengeance.

The Dallas-based firm he leads—**Hicks, Muse, Tate, & Furst**—has become one of the most prolific corporate buyout firms in the nation, reeling off a series of headline-grabbing deals in the last two years. That has enabled Hicks Muse to join **Kohlberg Kravis Roberts & Co.**, **Blackstone Group** and **Thomas H. Lee Co.** as one of the top-tier players in the field.

Many of Hicks Muse's biggest deals lately have involved buying radio and TV stations and movie theaters—businesses that Hicks Muse believes are ripe for consolidation and therefore big profits. The strategy has suddenly made the firm a media powerhouse as well.

In radio, for instance, the companies it controls (including **Chancellor Media Corp.** and **Capstar Broadcasting Corp.**) together form the industry's biggest operator in terms of stations, with more than 400 outlets nationwide. Plans also call for making Hicks Muse a partner in the country's biggest chain of movie theaters.

Hicks Muse's rising status also is evident by the gusher of cash it is getting from institutional investors, which provide most of the funds that enable buyout firms to do deals. Hicks Muse raised $2.5 billion in 1997—one of the biggest buyout funds of the year—and it's already planning another fund that could total $3.5 billion or more.

"The things they've done have raised a lot of eyebrows," says Steven Galante, editor of Private Equity Analyst, a Wellesley, Mass.-based newsletter.

But Hicks Muse's ferocious pace also is raising questions about whether it is moving too fast and paying too much for the companies it buys, setting the stage for disappointing returns down the road.

In fact, those fears are being heard throughout the buyout world. Investors, fearful that they can't keep reaping hefty returns from the stock market, have funneled a record $60 billion to buyout funds in the last two years. But the number of good buyout prospects is growing scarce, analysts say.

"This is a very hot market [for acquisitions], with too much money chasing too few [good] deals," says Kopin Tan, editor of Buyouts, an industry newsletter in New York. "There is a very large school that thinks just because you're doing lots of deals today doesn't mean you're doing good deals."

Yet Chairman and Chief Executive Tom Hicks, 52, says his firm isn't slowing down. It just purchased **LIN Television Corp.**, which operates several broadcast TV stations in the East and Midwest, for $2 billion. And now Hicks Muse wants more.

"We want to build up a group of 100 TV stations in the next five years," Hicks says. Hicks Muse is also reaching into underdeveloped regions abroad, namely Latin America and South America, where it's looking at several media deals. The firm just opened an office in Buenos Aires.

Hicks Muse's "push into Latin America is pretty much unprecedented," says Galante. "No private equity firm has ever done it to the extent they are."

But Hicks Muse is making a risky bet, he says. "Those markets have a long history of volatility, which has made a lot of people wonder if it's a good strategy or not," Galante says. "At this point, the jury is still out."

Hicks Muse has bought more than 100 companies since Hicks—a Texas native who began his career on Wall Street—started the firm nine years ago with John R. Muse, a former Prudential Securities investment executive. Many of those companies have since been merged into about two dozen corporations that Hicks Muse either owns or controls.

Besides its radio and TV holdings, the firm controls **International Home Foods Inc.**, which sells Bumble Bee seafood, Chef Boyardee pasta products and Gulden's mustard. The firm is also a major stockholder in **Berg Electronics Corp.**, a maker of electronic components and whose stock is listed on the New York Stock Exchange; and **Marcus Cable Co.**, which runs cable TV systems in Southern California.

Some of Hicks Muse's companies (Chancellor Media among them) have sold portions of their stock to the public. Others were resold entirely.

The profits from those sales have thrown off annual returns of 20% or more (after Hicks Muse takes out its fees) for its investors—primarily state government and teacher pension funds, including the California Public Employees' Retirement System, or CalPERS.

Hicks Muse might never be as big or as famous as, say, Kohlberg Kravis Roberts. But to the investment world, the two firms are now on virtually equal footing.

Example: Oregon's $30-billion public employees retirement fund has been investing with KKR since 1981, but it has invested $150 million with Hicks Muse in recent years as well.

"Hicks Muse is competitive" with KKR and the others in delivering returns, and "their track record is very important," says Jay Fewel, senior equities investment officer at the Oregon State Treasury, which runs the fund.

KKR itself recently acknowledged Hicks Muse's growing clout (though it declined to comment for this article). After KKR outbid Hicks Muse to buy the **Act III Cinemas** movie theater chain, Hicks Muse outbid KKR for **United Artists Theatre Group**, and they both had their eyes on one more chain, **Regal Cinemas Inc.**

But rather than fight each other further, KKR and Hicks Muse in January took the unusual step of agreeing to buy Regal *together* in a $3-billion deal, so they could merge all three companies into the nation's biggest theater chain.

"That says something about KKR's respect" for Hicks Muse, says Lloyd Greif, a Los Angeles investment banker who managed the sale of Bumble Bee to Hicks Muse last year. "It was clear to KKR that going toe-to-toe with these guys wasn't in their long-term interest."

(Last month, Hicks Muse backed out of buying United Artists amid reports it wanted to renegotiate the price. Hicks Muse wouldn't comment. Even so, it remains committed to the Regal Cinemas deal with KKR, and the Regal/ Act III combination would still create the biggest theater chain, with 3,070 screens.)

Stripped to its essentials, Hicks Muse and its nearly 100 employees practice the same game as the others by executing leveraged buyouts, or LBOs. They try to buy undervalued companies using mostly borrowed cash, fix them up (often by laying off workers to help cut costs), reduce or pay off debt and then resell them or take them public at a huge markup.

But Hicks, who got his business degree from USC in 1970, takes the process a step further. Rather than focus on the purchase and sale of just one stand-alone business, he pursues a "buy-and-build" strategy in which he starts with one company as a "platform" and then enlarges it with a spree of related acquisitions.

When it's eventually sold, the larger enterprise often generates bigger returns for investors than if each of its components had been bought and sold separately.

Most of Hicks Muse's rival buy-out firms now practice the buy-and-build method, says Private Equity's Galante. But he and others say Hicks is one of the best at it.

"Tom has a real gift for understanding how the pieces fit together," says Jeffrey Marcus, a Hicks friend and chairman of Dallas-based Marcus Cable.

Case in point: Berg Electronics. Hicks Muse bought the maker of electrical components and cable assemblies from **DuPont Co.** for $370 million in 1993, then bought several other small electronics firms and added them to Berg's portfolio.

In 1996, Hicks Muse took Berg public for $10.50 a share (adjusting for a split last fall)—a fivefold gain over the $2.06 a share it paid for Berg. Early this year, Hicks Muse sold most of its stake to the public for $25 a share.

In another unusual twist, Hicks Muse maintains affiliations with several management firms, so that it has executive talent on call to run both its original platform company and the string of related companies it buys later.

'"That's a very different model than that used by any other LBO firm in the country," Galante says. "Other people have tended to mind their acquisitions themselves."

But Hicks Muse isn't without its failures. Ask Hicks which deal he regrets most, and he replies without blinking: "G. Heileman Brewing." Hicks Muse bought the beer brewer in 1994 when it was in bankruptcy, but its bid to turn the company around flopped. The result: Hicks Muse took a $50-million haircut.

Otherwise, his track record has spawned riches for Hicks, who wears natty suits that would be at home on Wall Street and monogrammed boots that would be at home on the range. He won't argue with the suggestion that he might soon join Forbes magazine's list of the richest 400 Americans, for which the entry fee now stands at a net worth of $475 million.

Hicks—who already owns the Dallas Stars professional hockey team—could announce in January that he and some other investors will buy the Texas Rangers baseball team for $250 million.

Hicks Muse's goals go well beyond just making barrels of cash or matching KKR for respect. The company wants to exploit (if not dominate) select industries—such as radio, TV and food—by controlling major players in each field.

Consider Chancellor Media. Starting with just two stations in Sacramento in 1994, Hicks Muse kept adding stations to its roster and then last year merged it with Evergreen Media. The new entity, which kept the Chancellor Media name (and trades publicly on the Nasdaq market), runs about 100 stations.

William Steding, a radio station broker in Dallas who helped arrange many of Hicks Muse's radio purchases, says Chancellor shows why the firm is successful. Hicks Muse's original $85-million investment is now worth about $700 million, and Chancellor's stock price (adjusted for splits) has risen ninefold in just the last three years.

"The Chancellor investment was a huge home run," Steding says. "Every person who sold [stations] to them realized within six months that they'd sold [at a price] too low. "

Hicks has strong ties to radio. His father ran a string of tiny radio stations in small Texas towns, and as a teenager Hicks worked at one of them, in Port Arthur. He even did a stint as a disc jockey, using the alias Steve King.

"I was one of four sons, and he wanted us all to go to work in the radio business," Hicks recalls. "I chose to go to Wall Street instead. But all the brothers ended up getting back into the