Carl Icahn

THE EARLY YEARS - 10 PART SERIES

RUPERT HARGREAVES, VALUEWALK

photo via Insider Money

Of all the world's great investors, Carl Icahn is perhaps the most feared and respected at the same time. Icahn started his life on Wall Street as a stockbroker and worked his is way up to become the Street's most respected activist investor and most feared corporate raider.

Along the way Icahn has accumulated an enormous personal fortune. According to Bloomberg, he is currently the world's 31st richest person with a fortune of $21 billion.

In this ebook, I'm going to look at the life and times of Carl Icahn, how he started on Wall Street, his most famous and infamous trades, his transition from stockbroker to corporate raider to activist investor and his activities today.

CARL ICAHN

PART ONE

THE BEGINNING

Most investors are aware of Warren Buffett and his investing prowess, but by comparison, Carl Icahn is relatively unknown outside of Wall Street and activist circles. It is widely claimed that Warren Buffett is one of the greatest investors the world has ever seen. Therefore he deserves more attention than Icahn. However, by some measures Icahn has achieved a better return for his shareholders over the years. From 1968 through 2011, Icahn compounded the initial $100,000 he invested in his Wall Street firm at a 31% annual rate. Over the same period, the book value of Buffett's Berkshire Hathaway grew 20% annualized. Buffett has been able to accumulate more wealth over the years, but Icahn has achieved better returns.

Carl Icahn Photo by insidermonkey.com

Icahn's entire Wall Street career is defined by his can-do attitude. During his career, he has let nothing stand in his way, and he has always set the bar as high as it can go.

Icahn's story starts at Far Rockaway High School, located in the Far Rockaway section of Queens in New York City. Icahn set his sights high after leaving the school, applying for a scholarship at Princeton University, which he subsequently gained and graduated in 1957 with a degree in philosophy. After Princeton, he attended New York University's School of Medicine but dropped out before graduation. Then Wall Street came calling, and 1961.

It seems Icahn's shrewd understanding of financial markets stood out early in his career. Seven years after taking the entry level stockbroker's job, he brought a seat on the New York Stock Exchange, formed his own firm, Icahn & Co. (focused on risk arbitrage and options trading) and began to build the fortune he has today.

Ten years after forming Icahn & Co, in 1978 Icahn began his activist career with a proxy fight at Tappan, a family-owned appliance company. Compared to Icahn's later battles, this fight was relatively subdued and short-lived. After becoming the company's majority shareholder, Icahn called for the sale of the business to a larger peer. Eventually, management sold out to Electrolux netting Icahn a healthy profit.

Throughout the 80s Icahn became a full blown corporate raider and takeover artist. Fuelled by cheap money created via Michael Milken's junk bond boom, Icahn was able to take on companies of all different shapes and sizes, netting himself huge profits in the process. The largest and most controversial of all Icahn's raids was against Phillips Petroleum Company in 1985. Icahn bid $8.1 billion for the company, half of which was to be funded by Milken's Drexel Burnham Lambert. The junk bond house produced a letter saying it was ''highly confident'' it could raise the $4.05 billion in cash he needed for the offer without any conversation with potential investors. This "highly confident" the letter became the hallmark of the 80s corporate raider.

The Philips battle was nothing compared to Icahn's raid on TWA in the late 80s. In 1985, Icahn brought up more than 20% of TWA's stock and in 1988 he took the company private. The company funded the deal itself with $540 million in debt while Icahn pocketed $469 million from the sale of his stock. Now Icahn was running the show, rather than invest in the airline's aging fleet of aircraft Icahn began to strip to the company of its assets.

An order for 100 new planes was scaled back to 12 and then in 1991 Icahn flogged TWA's highly coveted London-US routes to American Airlines banking a further $445 million.

TWA filed for bankruptcy in 1992 and emerged from bankruptcy in 1993 with creditors owning 55% of the company. Unsurprisingly, Icahn was one of the firm's creditors. By 1995, two years after he resigned as chairman, TWA executives cooked up a scheme to pay off the $190 million debt to Icahn with a deal called the Karabu ticket agreement. The Karabu agreement was an eight-year arrangement that allowed Icahn to buy any ticket that connected through St. Louis for 55 cents on the dollar and resell them at a discount. Icahn was not allowed to resell the tickets through travel agents, but the agreement failed to make provisions for the internet. So, Icahn being Icahn, he immediately set up Lowestfare.com and continued to bleed TWA dry. American Airlines later estimated that Karabu cost TWA $100 million a year.

TWA was taken over by American Airlines and flew its last flight on December 1, 2001 (not before Icahn had made another attempt to acquire the company).

These are just two of the events that turned Icahn into the leading figure in the financial world he I today. Throughout this series, I'm going to explore these two events and many others as well as looking at Icahn's investments today, and his activities outside the financial markets so stay tuned!

CARL ICAHN EARLY YEARS

PART TWO

WORKING THROUGH THE RANKS

Carl Icahn's story is completely different to that of other investing legends such as Warren Buffett, Charlie Munger, Ray Dalio or George Soros. While he has made almost all of his money in the equity markets, Icahn's performance isn't a result of his unrivaled stock picking acumen. Instead, over the years Icahn has built his wealth through activist activities and corporate raiding, which if executed successfully, leaves nothing to chance. At the end of the day, Icahn almost always walked away from a deal with a profit.

This is why the billionaire is such an interesting character to study. With most notable investors, any biographies always focus on their successful stock picking, investment philosophy and attitude towards the market. However, with Icahn, his story is a tale of hard work, getting things done and making money, no matter what it takes.

Tony Robbins profiled Icahn in his 2005 book "Money: Master The Game ." If there's one thing that comes through from this profile is the fact that Icahn never just looked for opportunities, he made them. There's one quote from the profile sums up Icahn's attitude perfectly. When Icahn first joined Princeton, he didn't have any money to pay for room and board, so he got a job as a beach boy at a club in the Rockaways where he got involved in a regular poker game with the cabana owners.

Icahn told Robbins:

> *"At first I didn't even know how to play, and they cleaned me out. So I read three books on poker in two weeks, and after that I was 10 times better than any of them. To me, it was a big game, big stakes. Every summer I won about $2,000, which was like $50,000 back in the '50s."*

That sums up Icahn: he never takes no for an answer.

After a brief stint working for someone else on Wall Street, Icahn borrowed money ($400,000 from his uncle M. Elliot Schnall) to buy a seat on the New York Stock Exchange. This is where his career began. Rather than trading stocks, Icahn minted money using a low-risk arbitrage strategy when the odds were always skewed in his favor. This is where he began to "make big money, $1.5 to $2 million a year."

With money behind him, Icahn set up the first form of his firm, which is now called Icahn Enterprises.

ICAHN ENTERPRISES

With Icahn Enterprises, Icahn began to take on companies and managements in a way only he could. Icahn pounced on his prey, finding companies that weren't well run, acquiring a stake and giving management an ultimatum, ""I'm taking you over unless you change, or unless the board does X, Y, Z."

This strategy is bound to rustle up a few feathers and over the years Icahn has had his fair share of hostile takeovers, court cases, and bitter publicity battles. Icahn has been sued and investigated numerous times for issues ranging from corporate debt payment to possible federal securities violations.

Some of these fights have become so publicized and aggressive that they would be enough to make the average hedge fund manager want to retire from the business for good. But not Icahn. Icahn has been fighting these battles now for more than four decades. Why does he keep going?

"Very few people had the tenacity I had," Icahn told Tony Robbins for his book. "I'm a very competitive guy. Passionate or obsessive, whatever you want to call it. And it's in my nature that whatever I do, I try to be the best."

It's said that Gordon Gekko , the fictional character from the 1987 film "Wall Street" is based on Icahn and his Wall Street antics. This may not be 100% correct, but we do know that Oliver Stone met with Icahn while working on the film and Icahn supplied Gekko's line, "If you need a friend, get a dog."

CARL ICAHN

THREE AND FOUR

THE FIRST BATTLE

In the first two parts of this series, I covered the early stages of Carl Icahn's career, which encompasses everything until he began his corporate raiding and activism in the late 70s.

Icahn's first activist battle was in 1978 with Tappan Co., an Ohio stove and oven manufacturer. As the Los Angeles Times described in 1985:

> *"Icahn bought 5% of company stock, gained a seat on the board and demanded liquidation. Instead, the board sold out to Electrolux of Sweden, returning Icahn $2.7 million on his $1.4-million investment."*
>
> *"This so impressed Tappan's chairman, W. R. Tappan, that he asked to be cut in on Icahn's later deals, and has become a regular investor with the company."*

From Tappan, Icahn took on a string of deals before taking on his first headline-grabbing mega takeover battle with Phillips Petroleum during 1985. Here's how Icahn profited from his investments in the first few years of his activist career.

Year: 1979
Company: Tappan
Amount invested: $1.4 million
Profit: $2.7 million

Year: 1979
Company: Saxon
Amount invested: $2.3 million
Profit: $1.9 million

Year: 1980
Company: Hammermill
Amount invested: $10.6 million
Profit: $9.6 million

Year: 1981
Company: Simplicity
Amount invested: $8.3 million
Profit: $7.3 million

Year: 1982
Company: Marshall Field
Amount invested: $13 million
Profit: $17.6 million

Year: 1982
Company: American Can
Amount invested: $13.3 million
Profit: $6.6 million

Year: 1982
Company: Anchor Hocking
Amount invested: $4.4 million
Profit: $3.0 million

Year: 1982
Company: Owens Illinois
Amount invested: $14.3 million
Profit: $9.7 million

Company: Dan River
Year: 1982
Amount invested: $4.3 million
Profit: $8.5 million

Company: Gulf and Western '
Year: 1983
Amount invested: $35.5 million
Profit: $19.0 million

Company: ACF Industries
Year: 1983
Amount invested: $48.6 million
Profit: Still owned
Carl Icahn on the ACF buyout

Company: J.P. Stevens
Year: 1984
Amount invested: $8.8 million
Profit: $6.7 million

Company: Chesebrough-pond's
Year: 1984
Amount invested: $30.5 million
Profit: $6.0 million

Company: Pioneer
Year: 1984
Amount invested: $21.6 million
Profit: $12.6 million

Icahn's first major corporate raid took place in 1985 and the target was Phillips Petroleum. Icahn's attempted takeover of Phillips is perhaps the most audacious raid in Wall Street history and Icahn's success shows just how warped the perception of management's fiduciary duty to the shareholders of the corporation was at the time.

ICAHN VS. PHILLIPS

The Icahn Philips saga starts in December 1984, when another corporate raider, T. Boone Pickens moved on the company.

Boone Pickens wanted to take over Phillips but management wasn't in the mood to sell, especially to an activist. So, a deal was announced to buy-out Pickens, return more cash to investors and ensure that the company would never fall prey to a Pickens again.

Philips' management called the deal a recapitalization plan that would pay Pickens $53 per share in cash, a large premium to his acquisition price which was in the mid-30s. As part of the recapitalization, the company's employee stock ownership plan would effectively purchase 30% of the company's outstanding shares with debentures worth $60 per share. Phillips would also commit to asset sales to reduce debt, a dividend increase, and an additional $1 billion in share repurchases over the following year. On top of these requirements, Pickens signed a standstill agreement preventing him from raiding the company in the future. For all his trouble, Phillips' management paid Pickens $25 million for his expenses.

Photo by SenseiAlan

Management's deal with Pickens was not popular with shareholders. Few could understand the complicated debenture structure and Wall Street calculated that the deal was only worth $45 per share for investors, $8 per share or around 20% less than the deal being offered to Pickens. At the time Phillips' stock was trading in the low $40s. Pickens was getting $53 per share, that was guaranteed, but ordinary shareholders were getting much less.

In February 1985 sensing the opportunity to profit, Icahn stepped into the ring. Jeff Gramm describes Icahn's opening shots in his book Dear Chairman:

> *"Carl Icahn fired his opening shot on war weary Phillips Petroleum on the evening of February 4 1985. He sent a package to the company's investment bankers containing his letter to chairman and CEO William Douce, along with Drexel's "highly confident letter." Icahn begins his letter by announcing that he owns 7.5 million shares of Philips, "which makes me one of the company's largest shareholders." He writes that he has examined the recapitalization plan finds it "grossly inadequate." His alternative? Icahn is to buy the company for $55 per share, composed of $27.5 in cash and another $27.5 in subordinate notes. He explains that Drexel Burnham is "highly confident" it can raise the necessary cash by February 21."*
>
> *"If you raise your offer so that you acquire all the outstanding Philips shares for a package worth $55 per share, I will gladly step aside." Icahn warns that if Phillips rejects his buyout offer and refuses to offer shareholders $55 per share, he will run a proxy fight to defeat the recapitalization and make a hostile tender offer for 51% of the shares. He gave management to days to accept or reject his buyout offer."*

Improve the offer to shareholders or be taken over, that was Icahn's offer and it stunned Phillips' management as well as the rest of Wall Street. The most unbelievable part of Icahn offer was the fact that he was threatening to take over a company with money he didn't have. Indeed, Drexel's "highly confident letter" was nothing more than a promise that the company could raise the $4 billion Icahn needed to launch his raid on the company. As David Skeel describes in his book, Icarus in the Boardroom:

> *"Milken and his colleagues hit on a brilliant solution…the "highly confident letter". Drexel wouldn't actually raise the money before a raider made his takeover bid. Instead, for an appropriate fee, Drexel would opine that it was highly confident the money could be assembled on short notice. Originally known as the "air fund" because the promise was backed by nothing than air, Drexel's highly confident letter was the modern-day equivalent of the South Sea bubble venture styled as "a company for carrying on an undertaking of great advantage, but nobody to know what it is."*

Phillips management didn't want to be made a fool of so on the day of the deadline, February 6 Phillips sued Icahn for violating proxy solicitation and antimanipulation rules. Along with the lawsuit, Phillips sweetened its deal to shareholders, adding new preferred stock and replacing the buyback with an immediate tender offer. Also, in an attempt to get rid of Icahn once and for all, the company brought in a shareholder "rights plan", a badly *disguised poison pill*.

THE POISON PILL

Phillips' poison pill was unique, designed specifically to fend off Icahn. If a buyer crossed 30% ownership, all other stockholders could convert each share into $62 worth of senior debt in the company paying a 15% interest rate. Yes, a buyer could still come and take out the company but they would be left with a dangerously overleveraged company with $7 billion in debt and a $1.1 billion p.a. Interest bill. On the other hand, shareholders would receive $62 per share, which is what management considered "fair value."

The day after Phillips took Icahn to court and introduced its new "rights plan", Icahn wrote to the board. Taking everyone by surprise, he stated, "in order to activate the rights for Phillips stockholders, I intend to initiate a tender offer for approximately 25% of Phillips' common stock." Including Icahn's existing 5% ownership the tender would push him over the 30% limit and trigger the poison pill. Icahn was calling Douce's bluff.

In the days that followed, there was a very public bust-up between Douce and Icahn, which worked in Icahn's favor. Indeed, the fight brought attention to Phillips' "rights plan", which many institutional investors disliked. Investors quickly sided with Icahn who seemed to be proposing a better deal for shareholders and quickly became the good guy.

Icahn went ahead and made an official tender offer for Phillips on February 13 at $60 per share, the largest tender offer ever without committed capital. The offer was contingent on shareholders voting down the recap at the February 22 meeting. To sidestep the poison pill, Icahn ran his own slate of directors and conditioned their election on the repeal of the "rights plan".

The shareholder meeting lasted for three days but on March 3, management revealed the recap plan had lost by 9 million votes, the first time a company as large as Phillips had ever lost a proxy vote. By March 5, Phillips tabled a new plan to return value to shareholders and this time, the deal had Icahn's support.

Under the new plan, Phillips offered to swap a $4.5 billion package of debt securities for about 50% of the outstanding shares. It also would authorize distribution of $300 million of a new preferred class of stock as an extra dividend on the remaining common shares, and it would increase the annual stock dividend to $3 a share. On top of this, the company paid Icahn $25 million for his expenses. This time around the market agreed the deal was worth $55 per share and all parties appeared to be pleased. It total, Icahn made a profit of around $50 million in just ten weeks.

CARL ICAHN

PART FIVE

TRANS WORLD AIRLINES

Carl Icahn's battle with Phillips Petroleum fired the raider into the public spotlight, but it was his battle with Trans World Airlines that has really come to define his career.

After finishing the battle with Phillips at the beginning of 1985, Icahn began building a position in Transworld and eventually acquiring around 20% of the outstanding shares and gaining control of the company. According to the New York Times, when he won control of the business Icahn 'donned a pilot's uniform jacket in his office and shouted joyfully: "We've got ourselves an airline! We've got ourselves an airline!"'

Initially, Icahn's involvement with TWA was profitable for all involved. For the first time in a long time, the airline became profitable in the 1987 and was profitable for 1998. After gaining control of the carrier, Icahn acquired Ozark Airlines, a Midwestern carrier that could feed passengers to TWA at its hub in St. Louis. Rather than keep Ozark's fleet of wholly owned aircraft he sold the business's fleet and TWA leased it back. Then in 1986 Icahn helped the company ride out a huge decline in traffic resulting from terrorism abroad in 1986 by redeploying many planes to vacation areas like Florida, the Caribbean, and California. A sale of 50% of TWA's computer reservation system to Northwest Airlines for $140 million helped the carrier linkup with a strong airline to help build the system nationally. After losses of $193 million in 1985 and $106.3 million in 1986, T.W.A. earned $106.2 million in 1987 and $308.7 million in the first ten months of 1988 before the company was taken private.

MANAGEMENT BUYOUT

During 1998, Icahn took TWA private via a management buyout, lumping the business with $540 million in debt while Icahn himself walked away with $469 million, more than the $440 million he had paid for the company. On top of that, he got control of 90% of the stock.

After gaining full control of TWA, Icahn set about stripping the company of its assets and milking the business for every penny he could get out of it. By 1990 TWA's debt had exploded. Long-term debt amounted to $2.7 billion with $1 billion tied up in plane leases. Interest costs came in at $392 million per annum. Granted, to offset the debt, the carrier held $1.3 billion in cash by 1990, but with Icahn taking as much money out of the business as he could, this cash cushion soon disappeared.

Like he had done several times before, Icahn took TWA private with the help of Drexel Burnham Lambert's junk bond department. TWA's outgoing board had signed off on an agreement that let Icahn sell of whichever TWA assets he desired if the airline did not perform to expected standards. Once TWA went private Icahn began his slash and burn. First went the outstanding orders for Boeing 767's McDonnell Douglas MD-80's, and Airbus A330's to replace the well past their prime Boeing 747's and Lockheed L-1011's. Employees were anticipating an order for 100 or more airplanes to replenish TWA's aging fleet. When the order was announced, it was for 12. Then Drexel's high-yield notes started falling due. To pay off the first batch, Icahn emptied TWA's pension funds. Then, to meet another debt redemption, he sold six routes from the United States to London/Heathrow for $445 million publicly stating he was going to use the funds to purchase struggling Pan American World Airways.

> *"Selling the London routes was a killer," says [former TWA pilot John] Gratz. "They were valuable as hell. The other things he did—trying to implement draconian procedures for everything, having people watch people—it's all a hill of beans compared to losing those routes." Source*

By the early 1990s, TWA was on its knees, so Icahn tried to push through more cost cuts and reorganization by taking the company into bankruptcy. At the time, airlines were falling like flies and when TWA filed for Chapter 11, on February 1, 1992, it was the 5th airline in 12 months to file for either Chapter 11 or Chapter 7. Unsurprisingly, the bankruptcy was structured in Icahn's favor:

> *"Under the proposed reorganization, bondholders agreed to $1 Billion in debt for 88% of Icahn's 90% control. Supposedly that would have left TWA with $700 to $800 million in debt, at far lower interest rates than what the bonds called for. It would have saved TWA almost $150 million a year in interest payment alone. Until Icahn reneged and added a further caveat of an additional $200 million, plus interest just to get him to leave. The business plan going forward was to have revenues floating around $5.7 million, a virtual impossibility with one real domestic hub and a rapidly aging fleet. Even Robin Wilson, who was an architect in Western Air Lines' massively successful turnaround in 1983 couldn't fix TWA. So, on June 29, 1995, TWA filed for its 2nd bankruptcy, had $500 million in debt forgiven, and was saddled with the now famous Karabu Ticket Agreement from Carl Icahn." Source*

As I explained in part one of this series, the Karabu Ticket Agreement essentially became an unlimited piggy bank for Icahn. The Karabu agreement was an eight-year arrangement that allowed Icahn to buy any ticket that connected through St. Louis for 55 cents on the dollar and resell them at a discount. Icahn was not allowed to resell the tickets through travel agents, but the agreement failed to make provisions for the internet. So, Icahn being Icahn, he immediately set up Lowestfare.com and continued to bleed TWA dry. American Airlines later estimated that Karabu cost TWA $100 million a year.

CARL ICAHN

PART SIX

Carl Icahn's most audacious takeover attempts took place in the 1980s. By the late 90s and early 2000s, corporate raiding and greenmail had generally fallen out of fashion. What's more, the corporate raider's preferred money factory, Drexel Burnham Lambert had been forced into bankruptcy (February 1990) cutting off the preferred source of cheap financing for foolhardy takeover offers, such as Icahn's bid for control of Philips in 1985.

Icahn's last real headline-grabbing corporate battle was with Texaco, which started in 1988 (funded with proceeds from the slash and burn at TWA) and ended in 1989 with Icahn signing a seven-year agreement to neither buy more stock nor make a takeover bid.

The Texaco battle was interesting for many reasons. Firstly, the company had just emerged from Chapter 11 bankruptcy after being sued by the Pennzoil Company over Texaco's 1984 acquisition of the Getty Oil Company. Texaco agreed to pay Pennzoil $3 billion to settle the dispute. Texaco emerged from bankruptcy in 1988, but sensing opportunity, Icahn bought 12 million shares and the voting rights to 12.1 million shares from the Australian financier Robert Holmes a Court in November 1987.

The company's recovery quickly took hold. In 1988 Texaco earned $1.3 billion, or $5.35 a share, in contrast to a loss of $4.1 billion in 1987, when it reached the $3 billion settlement with Pennzoil and incurred other charges by closing some operations. At the beginning of 1988, Icahn made an offer to buy Texaco for $12.4 billion, repeating his Phillips playbook after failing to win management's support for the election of his candidates to the board. The $60-per-share offer was a 20% plus premium to the company's prevailing stock price at the time. Texaco's board took the same dim view of Icahn's offer as Phillips' several years prior. On May 28, 1988, an article in the Los Angeles Times cites comments from Texaco's fightback:

> *"The Texaco board, citing a "total lack of supporting information" from Icahn to show he could raise the money to buy the rest of the company, said it was merely a pressure tactic to get Texaco to accede to Icahn's demands."*

> *"Texaco said its financial adviser, Morgan Stanley & Co., judged that Icahn could not obtain such financing. The company estimates that Icahn would have to come up with $20 billion to buy the 85% of Texaco that he doesn't now own and to assume its debt and obligations."*

In the end, Icahn didn't acquire the company. Instead, after a mammoth negotiating session, which lasted from 3 PM Saturday till 9 AM Sunday, the two parties announced on January 30, 1989, that they had reached an agreement whereby Icahn would stop agitating for changes, in favor of higher returns for investors. Icahn, who by this point had built up his position to 16.6% of Texaco's outstanding shares signed a seven-year agreement barring him from buying more stock or making a takeover bid. The company announced plans to spend about $2.4 billion on special dividends to shareholders and stock repurchases. Each holder of Texaco stock received $8 worth of special dividends per share: $4 of special notes, $3 of cash and $1 of preferred stock on top of the buybacks. At the time of the deal, Icahn's 16.6% share was worth nearly $2.2 billion. The special dividends added an additional $320 million on top of this. The shares also supported a regular dividend amounting to $3 per annum and the $4 of special three-year notes supported an interest rate of 9.5%. All in all, this deal was a very favorable outcome for shareholders.

After Texaco, Nabisco was Icahn's next great corporate battle. By this point, Icahn had a huge war chest behind him to fund takeovers and corporate battles, and this war chest was *extremely useful when he took on Nabisco*.

CARL ICAHN: NABISCO

Spun off from RJR Nabisco in 1995, Nabisco initially attracted plenty of investor interest. RJR sold 45 million shares in the company, around 17% of the firm's total outstanding shares for a sum of $1.1 billion. On its first day of trading shares in the company climbed to 26 7/8 from 24 1/2. However, over the next five years, shares in Nabisco floundered and when Icahn became involved the stock had dropped as low as 8 3/4 because of a fear of lingering tobacco liability.

By March 2000, Icahn had acquired 31 million shares in the company and on March 30 Icahn delivered a letter to Nabisco's board offering to purchase another 100 million shares for $13 a share a 49% premium over the company's closing price of 8-3/4 on March 10, the day Icahn announced he intended to replace the company's board with his own nine-member slate. The deal was a power grab by Icahn who would have ended up owning 40% of the company after completion.

Icahn never got his 100 million shares, but his actions did trigger a bidding process, which resulted in Philip Morris making a bid for Nabisco three months after his offer for $30 a share. Icahn's 31 million shares were valued at $930 million generating a healthy profit of $600 million for the financier.

CARL ICAHN
PART SEVEN

BETTER THAN BUFFETT?

In the introduction to this series, I mention that Carl Icahn's returns have been better than those of Warren Buffett over the period 1968 to 2011. To many readers, this may come as a surprise. Warren Buffett is considered to be the world's greatest investor and his position as the world's second-richest man is a testament to this.

However, comparing Icahn and Buffett on returns alone without further explanation does not give the whole picture. For the most part, Icahn made the majority of his money as a corporate raider in the 70s, 80s and to a lesser extent in the 90s. Rather than reinvesting his returns in a publicly traded investment vehicle, Icahn has kept the profits for himself. Icahn Enterprises was launched in 1987 as American Real Estate Partners giving Buffett a 22-year head start.

IT'S ALL IN THE REPUTATION

Not only has Berkshire had a longer time to compound, but Buffett has a better reputation as a business owner, which has improved his ability to buy good businesses at attractive prices and has increased the likelihood that the managers of these firms will work with Buffett and Berkshire to achieve the best results.

Icahn would be more respected if he had never gone into the "greenmail" game. After making a fortune in options and arbitrage (the practice of taking advantage of price discrepancies in different markets), Icahn became one of the nation's preeminent practitioners of greenmail and corporate raiding. As profiled in earlier parts of this series, these battles often concluded with the "greenmailer" profiting at the expense of the shareholders of the targeted company.

Still, Icahn gave up "greenmailing" years ago and has tried to improve his image in recent years. Today, he is considered somewhat of a solid corporate citizen, looking to achieve the best results for all stakeholders involved. And since he adopted this strategy, Icahn Enterprises' returns have accelerated.

One thing to consider here is the fact that Icahn, who owns more than 90% of IEP, structured the business as a partnership, so rather than keeping cash in the business to reinvest, IEP returns huge amounts of cash to investors via distributions. The units currently support a yield of 10.5%. When including these distributions, IEP has produced a total return of 15.9% for investors per annum during the past 15 years. Over the same period, Berkshire Hathaway has only returned 8.5%. IEP's returns are even more impressive when you consider the fact that the units lost 50% of their value in 2015, and 70% of their value during 2008.

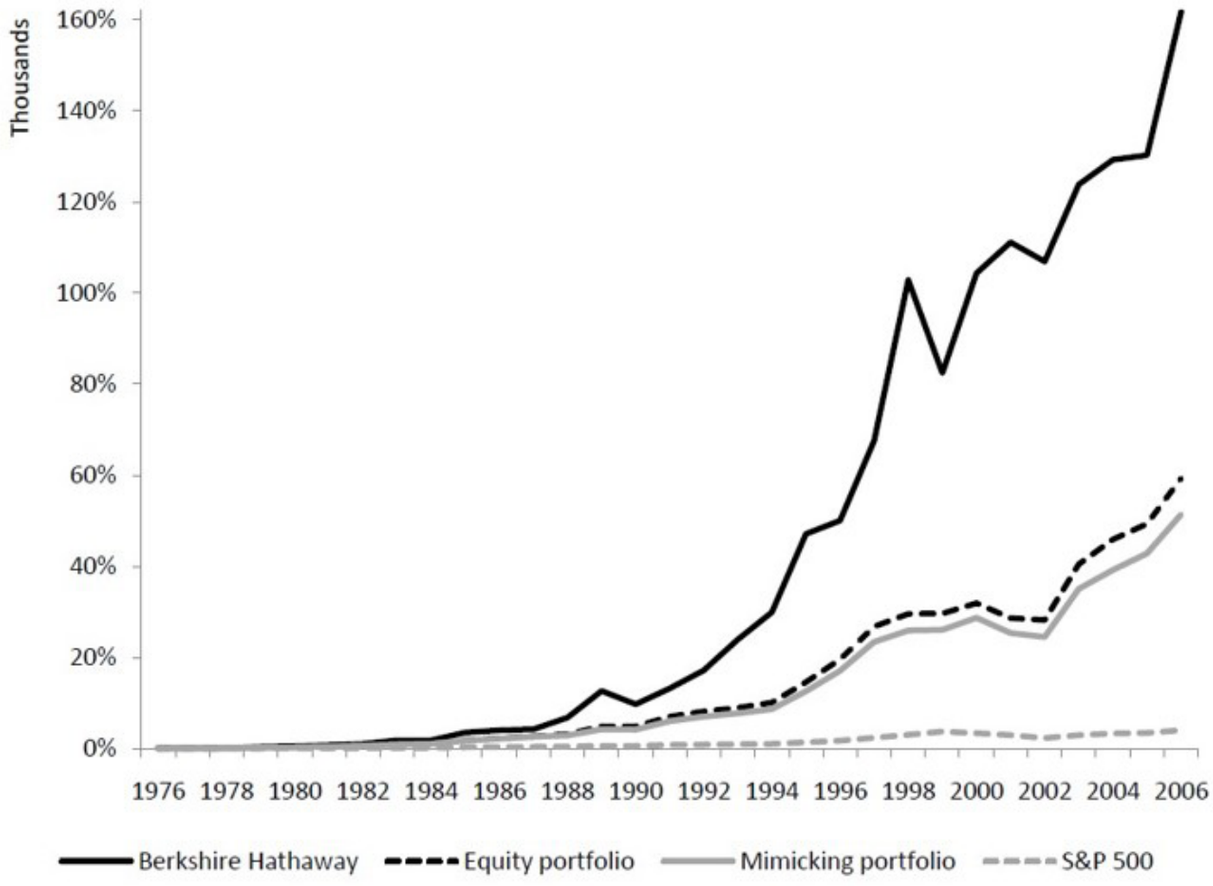

Figure 1. Cumulative returns from 1976 to 2007

This chart presents the cumulative (buy-and-hold) performance in thousands of percents for Berkshire Hathaway Class A shares, Berkshire Hathaway's stock investment portfolio, the mimicking portfolio, and the S&P 500 Index with dividends from 1976 to 2006.

ICAHN ENTERPRISES VS. BERKSHIRE

IEP is different to Berkshire in many ways. Looking at the mix of businesses both conglomerates own, Berkshire's subsidiaries are predominately insurance focused, and Buffett has successfully deployed the float from these insurance businesses into acquisitions to boost the overall growth.

IEP's business mix, on the other hand, is predominantly industrial and manufacturing, sectors where cash flow tends to be lumpy and returns on capital are lower due to the upfront investment and CapEx required. This business mix has surely held back IEP's growth over the years, but Icahn's returns have still exceeded those of Berkshire.

CONCLUSION

All in all, comparing Icahn and Buffett isn't as easy as it first appears. Both investors have different backgrounds and ways of doing business. Nonetheless, looking at the returns of an investment in IEP and Berkshire alone over the past 15 years and between the period 1968 to 2011, it's clear which investor has produced the best returns.

Carl Icahn Part Eight: Keeping Busy

Texaco and Nabisco were arguably Icahn's last two great corporate battles. By the late 1990s, Wall Street was changing. Old school corporate raiders and hedge fund managers, as well as high-cost mutual fund managers were disappearing, to be replaced by algorithmic hedge funds and low-cost online stockbrokers that changed Wall Street forever. Also, the tech bubble was in full swing and retail investors were buying into the market in greater numbers than ever before.

Throughout the first four years of the new millennium, Icahn didn't do much of any interest. With market valuations at some of the highest levels in history, it seems as if he sat on his hands, waiting for a better opportunity to enter the market.

During September 2004, this opportunity arrived.

CARL ICAHN

PART EIGHT

KEEPING BUSY

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THE NEW ICAHN

When Icahn returned to the public eye in 2004, he came as a champion of shareholder rights. Shaking off his image as a corporate raider, Icahn's first major public battle of the 2000s was against Mylan Laboratories, a pharmaceutical company which was in talks to buy rival King Pharmaceuticals. After acquiring around 10% of Mylan's outstanding shares, Icahn pushed the company to abandon its $4 billion acquisition of what he called "a struggling player among drug distributors." Icahn also blamed Mylan for being overly pessimistic about the outlook for the generic drugs business. Mylan's thesis for buying King ultimately fell apart towards the end of 2004 when King said it needed to restate results covering a two-year period from 2002 to early 2004 in the third quarter of 2004. However, despite this revelation Mylan continued to press for a merger. By this point, Icahn had become seriously frustrated and made a public bid for full ownership for $5.4 billion for Mylan to keep the company away from King. The deal finally fell apart in early 2005.

Over the next six years, Icahn's thesis proved correct. King was ultimately sold to Pfizer for $3.6 billion in 2011 while shares in Mylan rose from $17.40 when the deal was called off to a high of $72 in May 2015.

While the Mylan fight was ongoing, Icahn became involved with a Blockbuster, which ultimately cost him $180 million, a rare loss for Icahn.

At the end of November 2004, Blockbuster, Movie Gallery and a buyout firm all make unsolicited bids to buy Hollywood Entertainment Corp. Sensing an opportunity for profit, Icahn spends two weeks buying an 8.4% stake in Hollywood Entertainment and when he's finished buying, publicly announces his support for a merger between Blockbuster and rival Hollywood Entertainment. To add to his case throughout 2015 Icahn buys ten million shares of Blockbuster, becoming the largest shareholder with a 9.7% stake. He then launched a proxy fight. Even though Icahn got his way at the time with the company introducing a dividend and giving him seats on the board, over the next few years Blockbuster's business deteriorated as the company struggled to compete with new online competitors. Eventually, Icahn offloaded his stake at the end of March 2010 cashing in just over $3.4 million in stock, almost 97% less than the nearly $107 million it cost to acquire the stake in the first place.

After Blockbuster, the next notable battle involved Time Warner. Icahn bought a slug of stock in the company and demanded management split the group up into four different companies as well as buying back $20 billion in stock. After a six-month proxy fight, Time Warner and Icahn reach an agreement. Time Warner

increased its share buyback amount to $20 billion and agreed to appoint two independent directors to the board. As part of this agreement, the company remained intact.

The last real Icahn takeover battle took place in the third quarter of 2011. Icahn's target was fast moving consumer goods group Clorox, which he considered to be seriously undervalued at the time and crying out for a buyer to come and take over the company. In classic Icahn fashion, he acquired 9% of the company on the open market and then launched a $12.6 billion bid to buy the whole company. After being rebuffed by the board multiple times, Icahn gave up his pursuit of the company in late September 2011.

CARL ICAHN

PART NINE

LESSONS FROM ICAHN

Throughout the first few parts of this series, I've explored some of Icahn's most memorable corporate battles and activist situations. These fights have given Icahn a huge wealth of investment experience making him one of the most knowledgeable investors around today.

I've devoted this part of the series to several Icahn quotes, quotes which may give you more of an insight into how the billionaire investor works and thinks. As well as the investment career guide I've put together in parts one to eight, the quotes add color to Icahn's investment style, mindset and beliefs.

Carl Icahn On long-term fundamental investing:

> *"I look at companies as businesses, while Wall Street analysts look for quarterly earnings performance. I buy assets and potential productivity. Wall Street buys earnings, so they miss a lot of things that I see in certain situations."*

On useless boards and managers:

> *"Literally, half the board is dozing off. The other half is reading the Wall Street Journal. And then they put slides up a lot and nobody can understand the slides and when it gets dark they all doze off. The chief executive officer at that time was a very intimidating sort of guy. A big, tall guy, strong personality, and he was in control of that board. I mean nobody could say anything. I was the only one who owned any stock so I had an interest. I wanted to know what the hell was going on."*

> *"I sit on a lot of boards…I don't have to watch Saturday Night Live anymore, I just sit at the board meetings. I will tell you it's a sad commentary that we have an inability to compete. You can blame unions to some extent. But the real problem is that boards – there's a symbiotic relationship between boards and CEOs today. And as a result, there is no way to hold these guys accountable except when someone like myself comes along or some other person who is really well to challenge them. But you have to go through contortions. There is no corporate democracy."*

> *"In life and business, there are two cardinal sins, … The first is to act precipitously without thought, and the second is to not act at all. Unfortunately the board of directors and top management of Times Warner already committed the first sin by merging with AOL, and we believe they are currently in the process of committing the second; now is not a time to move slowly and suffer the paralysis of inaction."*

> *"I have to look out for the shareholder's interests, and I'm the largest shareholder."*

> *"We want these assets to be productive. We buy them. We own them. To say we care only about the short term is wrong. What I care about is seeing these assets in the best hands."*

> *"Now the guy that got to the top, the CEO, would obviously be stupid to have a number two guy who was a lot smarter than he is. So by definition, since he's a survivor and he got to the top and he isn't that brilliant, his number two guy is going to always be a little worse than he is. So, as time goes on, it's anti-Darwinism, the survival of the un- fittest.*

> *"I made an awful lot of money not having plans. Ask a running back 'what was your plan when you saw three guys coming at you?' He doesn't say, 'well Jesus I had a plan.' These things have a life of their own."*

Taking control of Dell is like catching a falling knife, Icahn told Bloomberg TV's "Street Smart with Trish Regan and Adam Johnson," in a July 11 phone interview:

> *"Look at him [Michael Dell] (pictured), he is going in and catching a falling knife. He knows the company better than anyone. He is paying for it. I don't think anybody would accuse him of doing this for charity or helping shareholders. … Very often the founder of the company should not be running it later when it matures and I don't think he has done a good job and I think the board has been asleep on the switch. They should have held him accountable years ago. They have had a very poor performance. Instead of saying that you are out of here, they are going to reward him and give him this great bargain."*

On cost savings:

> *"I can go in and save 30% in almost any company because there is so much waste and mismanagement."*

On the troubles of being an activist:

> *"I learned a long time ago that in big business and big poker, there are no nice guys."*

CARL ICAHN

PART TEN

ICAHN TODAY

Carl Icahn made his fortune by putting profit over people and taking no prisoners. A lot has changed since his early days on Wall Street, and today such an approach would unlikely be tolerated by regulators and government bodies. Over the past few years there have been many cases where wealthy executives, who put profit before people, have found themselves answering to Congress and found themselves facing criminal investigations.

Icahn realized the world was changing around two decades ago and his investment style has changed to reflect that. Since the 90s Icahn has changed from a corporate reader to an activist championing shareholder rights. His heavy-handed approach has been replaced with a relatively light touch style of activism, which is focused more on getting individual shareholders to agree with his point of view rather than screwing them over to boost profits.

As I write this, Icahn has just been named a special adviser on regulation to president-elect Donald Trump, which is arguably the best position any activist could find themselves in and a crowning achievement for Icahn's career. How this appointment will work out for Icahn remains to be seen. The billionaire may be blocked from taking up the role due to the huge conflict of interest he has with his energy investments, so nothing can be certain as of yet.

Still, outside of Washington Carl Icahn remains active as an activist on Wall Street.

The very public fight with Bill Ackman regarding Herbalife is probably one of Icahn's most high-profile campaigns since the 80s but Herbalife has not been the only battle Icahn has fought recently. His largest activist holding at the end of the third quarter was AIG. Icahn Capital owns 4.3% of AIG and Icahn is currently trying to split the group up. Other holdings include Cheniere Energy (13.9% ownership) PayPal (2.8%), Herbalife (21.1%) and Freeport McMoRan (7.8%).

Two of the most successful recent campaigns waged by Icahn were against Apple and Forest Laboratories. Both of these campaigns led to impressive results for all investors not just Icahn and his team.

Icahn first began buying Apple during the third quarter of 2013. By the end of January 2014, he had acquired 0.9% of the company or just under 53 million shares for a total cost of $3.6 billion. At the time the acquisition became public Icahn called Apple a "no brainer" because "even without earnings growth, we think [an Apple share] ought to be worth $625 [$89 stock-split adjusted]," on a day that the stock closed at $463 [$66 adjusted]. On October 23 Icahn revealed a letter sent to Apple's management stating his intentions. Icahn wrote:

> *"With such an enormous valuation gap and such a massive amount of cash on the balance sheet, we find it difficult to imagine why the board would not move more aggressively to buy back stock by immediately announcing a $150 Billion tender offer (financed with debt or a mix of debt and cash on the balance sheet)."*

Apple declined to commence a tender offer but the company did ratchet up its stock repurchase plan. Apple did $45 billion in buybacks, during 2014 and the board increased the company's buyback authorization to $90 billion. For a few months these actions pleased Icahn but as the shares began to fall again, he soon became restless calling for another tender offer during October 2014 from amount of $100 billion this time

around. Once again, the tender offer was declined.

Icahn had dumped all of his Apple stock by the end of March 2016 for a gain of $2 billion and 32 months. The billionaire clearly left his mark on Apple. From 2012, when Cook's Apple started paying dividends, through the second quarter of 2016, Apple did a record-breaking $116.6 billion in buybacks along with declaring $39.1 billion in dividends, without Icahn agitating for higher levels of cash return these figures would likely be much lower.

The Forest Laboratories battle netted Icahn a similar profit but the fight was more drawn out and required a more hands-on approach.

In 2011, Icahn surprised Forest's then-chief executive, Howard Solomon, and his colleagues when he disclosed a 7% stake (he had held some shares in the business since 2009) and took aim at the company's lack of CEO succession planning, corporate governance and high cost base. Icahn launched a proxy fight to try and take control of the business but Mr. Solomon fought back, travelling to see stakeholders across the country in his quest to build support to fight off the activist.

The first proxy fight went in favor of Forest's existing board but Icahn wasn't going to give up. In 2012 he hiked his stake in the company to 10% and assembled another four-member slate for his second proxy fight the following summer. One of his team was elected to the board. To avoid a third fight Forest's management and allowed Icahn to have one more seat the board and give the activist access to confidential information about board deliberations. In May 2013 Solomon, who had been the head of the company for over three decades announced his intention to step down. Brent Saunders, the former head of eye-care company Bausch & Lomb (elected in the first proxy fight) was eventually named as Solomon's successor and under his stewardship Forest agreed to be acquired by Actavis PLC during February 2014. Without Icahn's involvement, Saunders would have never been elected to the board and the entire pharmaceutical industry would probably look very different today. Actavis eventually became Allergan after a number of acquisitions and is now one of the world's largest drug companies.