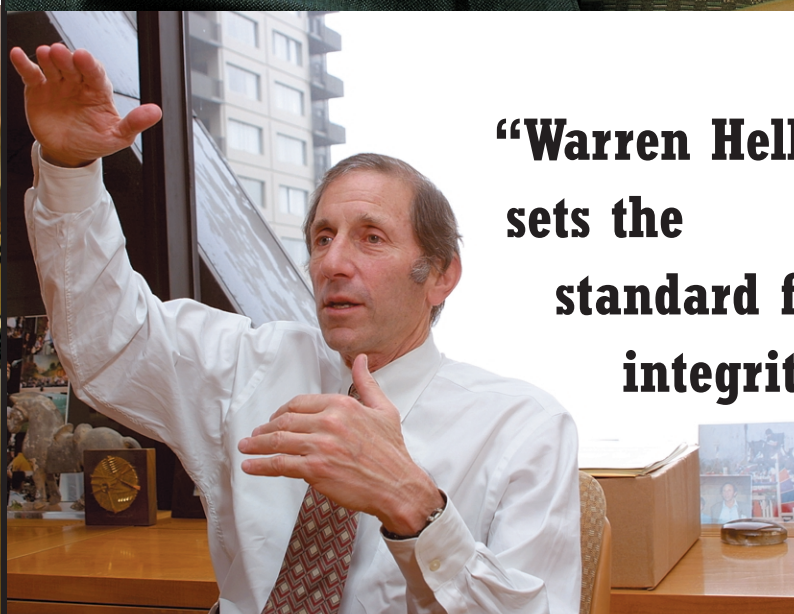


San Francisco
Business Times

2001 Financial Deals of the Year

Warren Hellman
of Hellman & Friedman
2001 Dealmaker of the Year



**“Warren Hellman
sets the
standard for
integrity.”**

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Dealmaker of the Year

Hellman handily rises to top in private equity

BY MARK CALVEY

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Hellman & Friedman maintains a low profile, belying its status as one of San Francisco's largest private equity firms, one with its fingers in an eclectic mix of investments from the Nasdaq Stock Market to Formula One racing.

Perhaps the only thing more eclectic than the firm's investment portfolio is co-founder Warren Hellman, who revels in his self-deprecating humor and down-to-earth approach to business from his corner office in San Francisco's financial district.

Hellman and his colleagues credit the firm's success to a narrow focus on companies with solid franchises generating a lot of free cash flow. All the better if the company's in some type of transition, such as a change in ownership.

The firm's success in spotting opportunities before others do, culminating in several high-profile deals in recent months, earns Hellman & Friedman the San Francisco Business Times' 2001 Dealmaker of the Year Award.

Since its founding in 1984, Hellman & Friedman has invested in 40 companies from its capital pool of nearly \$5 billion. The firm is currently investing its fourth fund of \$2.2 billion.

The firm has netted average annual returns of 26 percent for its institutional investors.

"Hellman & Friedman, and Warren Hellman in particular, is one of our best partners. In 2001, the firm was our No. 1 partner in terms of financial return," said Rick Hayes, who oversees the California Public Employees' Retirement System's \$20 billion private equity investments.

Hellman and his team also have a knack for knowing when to sell, Hayes said. For instance, the firm took the unusual step of cashing out of Formula One three months after investing in the company when a buyout offer came in that was simply too compelling to ignore. Then it quickly sold the shares it picked up in Formula One's acquirer, before they took a tumble.

Piece of the pie

Hellman decided to return home to San Francisco after spending the first part of his career at the top of New York's financial circles, where he was president of Lehman Brothers.

Hellman co-founded the private equity firm with Tully Friedman, who has since left. It made its mark engineering the \$1.8 billion buyout of Levi Strauss in 1985. But for the most part, the firm's early activities were overshadowed by competitors' high-profile moves, such as Kohlberg Kravis Roberts' 1989 buyout of RJR Nabisco for \$31 billion.

Hellman & Friedman's more recent deals have garnered greater public attention, such as the \$225 million invested in Arch Capital Group Ltd. in November, echoing a successful investment the firm made in the reinsurance industry in 1992 after Hurricane Andrew hit Florida. Insurers' ability to raise prices was improving this year. The events of Sept. 11 accel-



FIRM PARTNERS: Mitchell Cohen, Jack Bunce, Patrick Healy, Philip Hammarskjold.

PLAYING WITH A FULL DECK

Over the years, Hellman & Friedman has invested in winner after winner:

Arch Capital Group Ltd.: In November 2001, Hellman & Friedman invested \$225 million in Arch Capital, a publicly traded reinsurance and insurance company. The financing was part of a larger \$763 million financing that raised Arch's total capital to more than \$1 billion so the company could take advantage of a stronger reinsurance market following the Sept. 11 attacks.

Nasdaq Stock Market Inc.: In May 2001, Hellman & Friedman invested \$240 million to purchase a 10 percent stake in the electronic stock market that is preparing to go public.

Upromise Inc.: In October 2000, Hellman & Friedman invested \$37.5 million in the loyalty marketing program.

Formula One Holdings: In February 2000, Hellman & Friedman invested \$312 million in the parent company of Formula One Holdings. The operator of the motor-racing championship was acquired in May 2000 by EM.TV & Merchandising AG.

Digitas: In January 1999, Hellman & Friedman invested \$100 million in Digitas, a direct and interactive marketing firm. In March 2000, Digitas completed an initial public offering. Hellman & Friedman continues to hold more than half of Digitas.

Young & Rubicam Inc.: In December 1996, Hellman & Friedman invested \$224 million in the advertising firm. In May 1998, Y&R went public, and Hellman & Friedman sold its stake in 1998 and 1999. The ad agency was later acquired by WPP Group.

PowerBar Inc.: In June 1996, Hellman & Friedman invested \$19 million for a minority stake in the energy-bar maker. Nestle purchased PowerBar in March 2000.

Advanstar: Beginning in May 1996, Hellman & Friedman invested \$177 million in the operator of trade shows and publisher of trade and business magazines. In October 2000, the firm sold Advanstar to DLJ Merchant Banking Partners.

Eller Media Co. Inc.: In August 1995, Hellman & Friedman invested \$157 million to buy billboard company Patrick Media, later renamed Eller Media Co., in partnership with billboard industry veteran Karl Eller. In April 1997, the firm sold Eller Media to Clear Channel Communications.

Voicestream Wireless Corp.: In June 1995, Hellman & Friedman invested an additional \$45 million in Western Wireless to finance its expansion into personal communications services. Western Wireless eventually spun off the operations as an independent company, Voicestream. Hellman & Friedman distributed its stake in Voicestream to limited partners. Voicestream was acquired by Deutsche Telekom in June 2001.

Franklin Resources Inc.: In August 1992, Hellman & Friedman led a group that invested \$100 million in the San Mateo mutual fund company so that it could acquire Templeton, Galbraith & Hansberger Ltd., to form today's Franklin Templeton Investments. In 1996, the firm sold its Franklin shares in the public market and distributed additional shares to limited partners in 1997.

Western Wireless Corp.: In July 1991, Hellman & Friedman invested \$62.5 million in General Cellular, a financially troubled predecessor of Western Wireless. Western Wireless, which emerged from a 1994 merger with Pacific Northwest Cellular, went public in 1996, and the firm exited its investment by distributing shares to its limited partners in 1999.

erated that trend.

Major tragedies trigger capital flows into the reinsurance sector because demand rises, and buyers of reinsurance are more likely to sign on with new carriers, explained Jack Bunce, a managing director at Hellman & Friedman, who serves on Arch Capital's board.

Another high-profile deal last year was the \$240 million the firm invested in the Nasdaq Stock Market, which gave it a 10 percent stake in the electronic exchange that plans to eventually go public.

"The challenge was trying to convince the Nasdaq, sitting on \$500 million, that they needed our \$240 million," said Matthew Barger, senior managing director who oversees the firm's daily operations.

Hellman & Friedman is helping the Nasdaq put the systems in place to operate like a public company and meet the expectations of Wall Street, said Patrick Healy, the partner overseeing the investment.

The Nasdaq investment is a marquee deal that fits the firm's focus on solid franchises that others may have overlooked.

For instance, the firm left rivals scratching their heads when it spent \$157 million to pick up one of the nation's largest billboard companies, purchasing Patrick Media in August 1995.

The firm later sold the company, renamed Eller Communications, to Clear Channel Communications after most of Wall Street came to see the significant barriers to expanding the billboard business given growing legislation against new billboards. (San Franciscans will be voting this month on whether to curtail billboard growth.) Hellman & Friedman pocketed \$540 million in cash and stock in the 1997 sale of Eller.

"They are among the best at what they do," said Michael Hoffmann, a partner at Probitas Partners, a San Francisco adviser to institutional investors on private equity investments. "Warren Hellman, in particular, sets the standard for integrity in our business, and that extends throughout the firm."

The rewards are large. Hellman earned an estimated \$30 million in 2000 alone, according to Forbes magazine, and has amassed a net worth well up into the hundreds of millions.

Getting involved

While Hellman & Friedman's team of 21 investment professionals are scouring the country in search of investment opportunities, Hellman himself is also deeply involved in San Francisco's political and philanthropic circles.

For instance, Hellman is chairman of the San Francisco Foundation, and serves on the advisory board at UC Berkeley's Walter A. Haas School of Business.

He also serves on the boards of Levi Strauss, the Nasdaq and WPP Group, which purchased the advertising firm Young & Rubicam — another big winner for Hellman & Friedman.

"If you're not involved, particularly in this community, which can veer off in all kinds of strange directions, then what do you have to complain about?" said

See HELLMAN, 17

HELLMAN: Private equity firm with wide-ranging investments shows return of 30 percent on average

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Hellman, whose family's roots in the city go back to the late 1800s.

The financier offered some restrained praise for the current city leaders, many of whom came into office with a strong anti-business agenda.

"They're doing much better than many of us expected," he said.

But Hellman says the city faces significant challenges. Among the most pressing, he says, is having to pull in the reins on city spending following the bursting of the dot-com bubble. Other major issues, as Hellman sees it, are the poor quality of San Francisco's school system and the under-representation of its large Asian-American community in politics.

Laughter is the best medicine

Those who know him best say that Hellman places great value on humor.

"Warren always appreciates a laugh to help put things in perspective," said Chip Adams, a managing director at San Francisco-based Rosewood Capital, which typically starts off its board meetings with a joke from Hellman.

Hellman doesn't mind if the joke's on him, either.

Advising a reporter to prepare for an interview with him, Hellman suggested watching a video — Steve Martin's "The Jerk."

Visitors to Hellman & Friedman's offices note that the firm's biggest winners, such as Voicestream, have conference rooms named in their honor.

But Hellman & Friedman's biggest losers — such as the \$127 million invested in the now-defunct paging company MobileMedia — have their own special designation. Their names are assigned to bathroom stalls.

The financier likes to joke about his tattoos, which include a horse on his leg and the firm's logo on his arm. But apparently, there are no prospects of the firm's logo becoming the next Harley Davidson motif. Hellman jokes that he's the only one at the firm willing to get a tattoo of its logo.

"Warren Hellman is incredibly successful and yet one of the humblest people I know," CalPERS' Hayes said. "He's constantly laughing at himself, and how many people do you know get a tattoo at his age?"

The 68-year-old remains physically active, rising at 3:40 every morning to start his run of 12 to 15 miles in the

Presidio by 4 a.m. He's also a regular participant and supporter of Ride and Tie, an equestrian and running relay.

"It's a tremendous release," he said. "When you're in business every day with a lot of problems that don't get solved, the good thing about competition is that it has a beginning, middle and an end."

Despite all the problems facing San Francisco, he believes the city still offers many of the same opportunities that were extended to newcomers when his family arrived.

"There's still wonderful opportunities to become rich, famous and powerful — and then lose it all in a year," he said.

Mark Calvey covers banking and finance for the San Francisco Business Times. ■



NAJIB JOE HAKIM

HELLMAN: The tattooed financier is well-known for his humor and humility.

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