



Value Creation Is Director Mike Tokarz's Stock-in-Trade

At Walter Industries Tokarz was the impetus behind a unique \$2 billion break-up plan

By Heather Wolf

Michael T. Tokarz is dedicating this stage of his career to giving back. After a 12-year rise with Continental Illinois National Bank and another 17 with Kohlberg Kravis Roberts & Co. (KKR), “a sense of duty to a brotherhood of businessmen responsible to all their constituents” now motivates the native midwesterner. He signed on as chairman of MVC, an Internet investment company that had stumbled,

leaving thousands of unsuspecting retirees in the red. He also joined the board of beleaguered insurer Conseco, which had filed for bankruptcy protection under Chapter 11 in 2003.

And at Walter Industries — a conglomerate with which Tokarz has long been associated — he spearheaded a value-creation strategy that has already added about \$2 billion in market capitalization.

In the early 1980s Tokarz served as Walter Industries' banker while running the Miami office of Continental Illinois. When Tokarz jumped from Continental to KKR, he convinced his leveraged buyout firm partners to invest in Walter and joined the Walter board as one of KKR's representatives in 1987. He has stayed on the board through

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thick and thin, including taking the company into and out of bankruptcy to avoid losing it to asbestos litigators in 1995. In 2002, Tokarz retired from KKR but continued as a Walter director. KKR liquidated its position in the Tampa-based conglomerate soon after.

Jim Walter had started a Florida homebuilding business with one pick-up truck in 1946. He added a mortgage finance business 12 years later and continued to add manufacturing businesses as time went on. These included paper, marble, carpet and ductile iron pipe concerns, as well as four underground coal mines. The conglomerate that resulted was composed of sound businesses, but synergies between operating companies were few and far between.

By 2005 Walter's share price was stuck at \$40 a share. The stock had shot up on a nice lift in coal commodity pricing but refused to budge any farther. The activist hedge fund Pirate Capital was threatening a proxy battle to break up the company. Tokarz and his fellow board members were already at work on a strategy they felt strongly was the right one for the company, and they stuck to their guns. "Instead of liquidating or selling cheap as some people wanted us to do, we were working to create three stand-alone companies with futures of their own," Tokarz explains.

The plan was based on Tokarz's vision of creating "surviving winners" from the three largest but unrelated businesses within the Walter conglomerate — natural resources, pipe and homebuilding. Having begun the process of what Tokarz calls "portfolio simplification" in 2003, understanding the potential for the three divisions with critical mass was now possible. Despite difficult operating conditions, particularly in homebuilding, the board has pushed for organic growth, cost cutting and key process improvements within all three businesses.

The next giant step was to acquire Mueller Water, a privately owned company that Walter had looked at and passed on at a higher price a few years earlier. Mueller's CEO was retiring, the price had come down, and the board's thinking about the water industry had

sumption. Current Mueller Water Products CEO Greg Hyland had been on board as Walter Industries' CEO for just four weeks when Pirate Capital came knocking. Tokarz convinced the board to meet with the investor rather than circle the wagons. "Mike said we should

DIRECTOR'S SNAPSHOT

Born: November 3, 1949, in Chicago, Ill.

Education: BS with high distinctions in economics and MBA from University of Illinois

Career Highlights: Principal, The Tokarz Group; Chairman, MVC Capital, Inc.; Senior General and Administrative Partner, Kohlberg Kravis Roberts & Co.; various positions at Continental Illinois

Family: Wife Nancy of 32 years, sons Andrew and Justin

Hometown: Purchase, N.Y.

Favorite Summer Job: "Running my own swimming pool company"

Best Book Read This Year: *The Entrepreneurial Imperative* by Carl J. Schramm

Favorite Charity: University of Illinois



Mike and Nancy Tokarz with son Justin

Favorite Composer: Mozart

Something I Never Leave Home Without: "My Blackberry, Treo, Motorola Q, RAZR and iPod Nano. Yes, I'm a gadget freak."

Something People Would Be Surprised to Know about Me: "I get up at 4:40 a.m. to run with a neighbor at least four days a week."

Current Public Boards: Conseco, IDEX, Mueller Water Products, MVC Capital, Walter Industries

matured. They had come to believe that water as a global commodity is under extreme pressure. By combining Mueller with Walter-owned US Pipe, they envisioned not just a major player in infrastructure and flow control products, but a world-class water system design and delivery company.

The snag was they weren't quite ready to announce the acquisition and unfurl the full strategy for public con-

invite them in to have a look around. He thought if they could see what we saw, they would understand why our plan was better," Hyland reports.

Once "invited in," Pirate refused to sign a confidentiality agreement as it would have prevented them from trading the stock. They did, however, agree to give the Walter board more time to act on its own. "You will never find a more articulate spokesman," says Ber-

nard Rethore, a fellow Walter Industries director and former Flowserve CEO. “Mike was ahead of Pirate every step of the way.” Pirate was also “kicking and screaming” about adding a director with more experience in coal mining in addition to the breakup demands. Tokarz asked them whom they suggested and they gave him a name: Patrick Kriegshauser. “We met him; we loved him; he’s on our board right now making a great contribution,” says Tokarz.

On the announcement of the plan to buy Mueller for just under \$2 billion, combine it with US Pipe and spin it off, Walter’s stock leapt from \$40 per share to \$70, adding \$2 billion in market capitalization and making a lot of money for investors including Pirate, which promptly took the credit. “It was a gutsy move, but Mike saw the potential and drove the board to consensus,” says Rethore of what he calls “just the first act” of the strategy for Walter Industries. After an IPO in May 2006 that raised \$429 million, the Mueller spin-off was completed in December 2006 with a \$1.3 billion tax-free stock dividend to Walter shareholders. The board has put CEOs in place at the remaining two divisions and intends to create two further stand-alone companies later this year.

“Mike is so complete,” says Hyland. “He’s as strong strategically as he is on banking. He has a complete grasp of operations, finance, shareholders, and he has great concern for the people in the business.”

Debra Perry, former senior managing director of Moody’s Corporation, was equally impressed with Tokarz when he recruited her to join the Consec board. “I thought I would hate this high-flying private equity guy and certainly wasn’t excited about Consec,” she recalls. Tokarz had become a director of the troubled insurance holding company just a year earlier in 2003, after being persuaded to join by former KKR colleague Mike Shannon, managing director of KSL Capital Partners, and

the newly appointed chairman, Glenn Hilliard, retired CEO of ING Americas.

Unlike Walter Industries, Consec was built on bad values and was poorly run from the start, according to Tokarz. A greedy management team had gobbled up companies left and right throughout the 1990s, never stopping to properly integrate them. In an attempt at further enrichment, the executives and directors had loaned themselves \$700 million to buy company stock. “They just stacked businesses up higher and higher and eventually the pile fell over,” he says. The “pile tipper”

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Bernard Rethore, fellow Walter Industries director and former CEO, Flowserve

was the untimely acquisition of Green Tree Financial in 1998, the high-risk mobile home lender with questionable accounting practices. As the economy cooled off and loans failed at alarming rates, Consec’s debt burden became unbearable. In an attempt to salvage the company, General Electric wizard Gary Wendt was brought in as CEO in 2000, but he stepped down two years later and Consec Finance filed for Chapter 11 bankruptcy protection.

Three years after joining, with all new directors and executive management in place, Perry says she has never seen a more determined, “get-it-done” board than Consec’s. “Mike really sets the tone. When we decide something is going to work, there’s no fooling around,” she says. By tapping his vast connections in the investment banking community, Tokarz orchestrated a \$2.8 billion recapitalization that included \$800 million in bank debt refinancing. Perry says, “His efforts alone have probably saved the company more money

than all the aggressive cost-cutting programs combined.”

After four years of hard work by the board and a second new CEO, things are looking up at Consec. The two divisions that were not subject to bankruptcy protection — Bankers Life and Casualty and Colonial Penn — are performing well, with Bankers Life even setting a new premium record of \$622 million in 2006. The worst of the fraud and corruption, centered in the long-term care business where the paying of false claims was rampant, has been rooted out, and sound business prac-

tices, particularly in claims processing, are being implemented.

It was a real emotional setback for Tokarz and all his colleagues to read the *New York Times* exposé in March 2007 profiling an elderly woman whose claims have been repeatedly denied by Consec and making inferences about other unjust denials. Tokarz notes that the board has asked for a complete analysis of the case and will make right by the policyholder. But he feels confident that the problems cited by the *Times* stem mainly from one block of long-term care business in Florida that has since been dramatically improved, and that the overall direction of the turnaround is good.

“Mike is the consummate capitalist,” sums up Hilliard. “Not a meeting goes by when he doesn’t take us right back to what will be best for shareholders.” ■

Mike Tokarz spoke about “Making Acquisitions Succeed: A Director’s Role” at *ODX New York* on June 15, 2007. For more information, please call Ajay Bhambri at (212) 542.1229.