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MARCH/APRIL 2007

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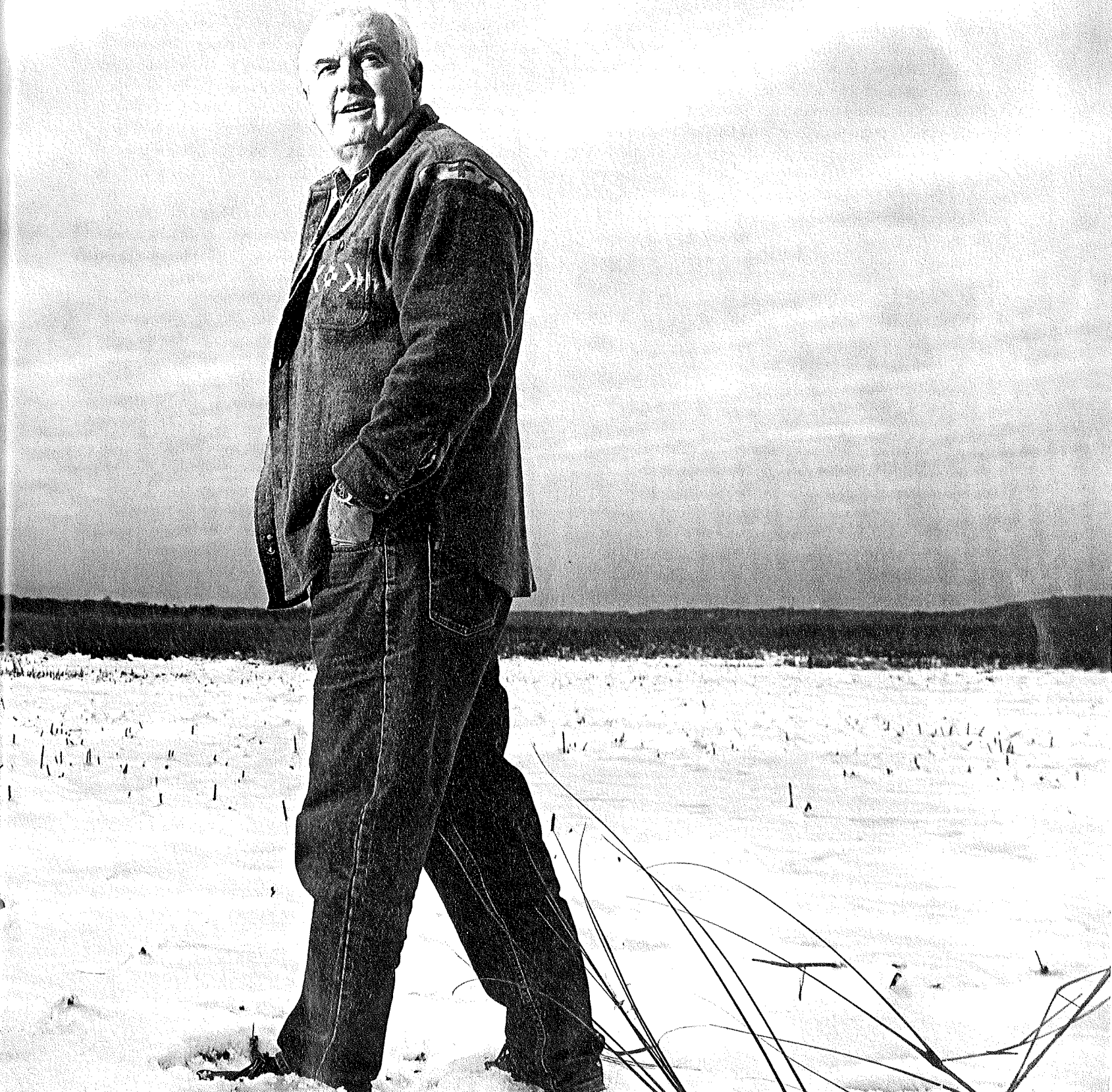


# Green Giant

The Wicks Group's Carter Bales has bought and sold dozens of companies and reengineered

hundreds more. But can a man from the world of capitalism now use capitalism to save the world?

BY JEREMY KAHN | PHOTOGRAPHS BY IAN SPANIER





# Striding to the lectern in the Delegates' Lounge

of the United Nations last April, Carter Bales displayed every trait that enabled him to pull off one of the most storied dual careers in the history of business and finance — serving as a director at McKinsey for two decades, founding the firm's practices in media and communications, state and local government and environmental management, while simultaneously pursuing a side gig as the founder and managing director of the Wicks Group, the highly regarded \$1 billion media-centric private-equity firm.

Now 68, Bales still possesses a consultant's ability for numerical recall and analytical dissection. He begins his speech, the luncheon keynote for an annual program on health and the environment, by laying the foundation of the problem — “We are confronting a catastrophe greater than the civilized world has ever seen” — and then rolling into a litany of statistics, each more frightening than the last:

- “Temperatures in the Arctic are approaching those that melted Greenland's ice cap 130,000 years ago.”
- “The world has already lost half its forest cover.”
- “[Crop] yields are projected to fall 20 percent over the coming 10 to 20 years.”
- “Fourteen of the world's 19 [largest] cities are located at sea level on coastal plains.”
- “The gulf stream has slowed 30 percent since the early 1990s. Temperatures in Europe will drop, European agriculture may collapse and London will have the weather of Anchorage, Alaska.”

He then puts on his advocate's hat, the one that made him extremely wealthy at Wicks by seeking opportunity in areas where others saw difficulty. Bales tells me he believes in taking a “T-shaped approach” to the problem of climate change, with the overarching policy objective and fact base encompassing the horizontal bar. The solutions flow down from there, and Bales thinks that a business perspective, based on cost-benefit analysis, can fill that vertical axis.

It's as if Al Gore were suddenly engaged in a SWOT review. “That kind of objectivity and rigor and independence of thought is what the best private-equity firms make their living on, and certainly ours,” Bales says.

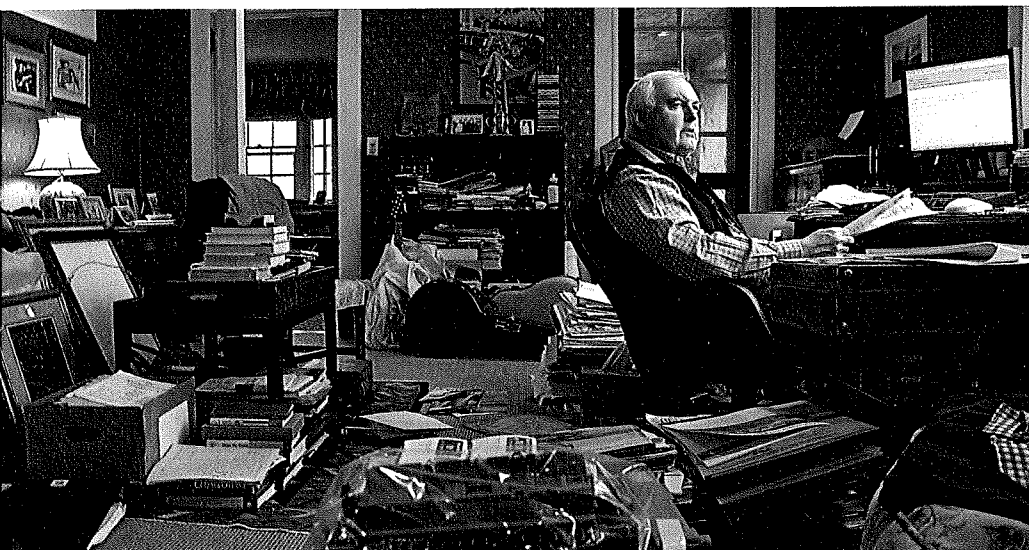
Although he's still a general partner at Wicks, Bales has pulled back from his managing-partner role (he left McKinsey nine years ago) to focus on this issue. He sees it as the culmination of his life's work, an efficient use of his investing and consulting skill sets, albeit with a goal slightly loftier than achieving a 10x return: He's aiming to do no less than save the world.

Once a dealmaker, always a dealmaker. There's a burgeoning movement of successful investment bankers, venture capitalists and hedge-fund and private-equity hotshots, their fortunes made, who turn their attention to combating entrenched social problems. J. Gregory Dees, a professor of social entrepreneurship and nonprofit management at Duke's Fuqua School of Business, says the first generation of major American philanthropists, at the turn of the twentieth century, engaged in what is often called “scientific philanthropy” because they wanted to use scientific methods to do good.

Now, he says, a businesslike approach is in vogue, with terms like *venture philanthropy* gaining currency. No matter what you call it, more private individuals and companies are picking up where government has left off, taking the lead in formulating policies to address all manner of social problems. “We're at a point where we're recognizing that government solutions alone are not going to be enough, and corporations doing their work in traditional ways are not going to solve these problems,” Dees says. “So we need to harness more private initiative, ingenuity and resources to tackle them.”

Research and fact-finding are at the heart of Bales's philosophy, whether he's unearthing an undervalued chain of local television stations or helping the Grand Canyon Trust mull strategy. “The facts will show the way,” he says, quoting a McKinsey mantra. For instance, Wicks studied the medical-information market for 18 months before it made its first acquisition therein: buying Medical Education Consultants, a company that helps provide continuing edu-

Bales now allocates more than one-quarter of his time to finding a business-based solution to climate change.



cation for medical professionals, for a reported \$35 million in August 2003. Since then, Wicks has become a major player in that sector through additional investments, including its purchase of top medical publisher Jobson in 2005.

Wicks searches far and wide for opportunities, looking for relatively undiscovered markets and industry segments. Less competition means fewer rival buyers snooping around and bidding up prices. It also means more opportunities to improve cash flow and drive up profit margins. Finding such investments often means searching well away from the thundering herd on the coasts. "We call it our Wicks two-and-a-half rule," Bales says. The precept refers to what it takes to reach most companies in which Wicks invests: flying into two airports, then driving half the day.

Finally, McKinsey taught Bales the value of pilot projects to prove a concept works and iron out the kinks before scaling it up — an idea he applies at Wicks, too. "We start with smaller assets and validate our due diligence, management team and growth strategy before we put a lot of capital at risk," he says.

In the field of conservation, Bales's own pilot projects began in the 1940s, when as a kid in the leafy suburbs of Chicago's North Shore, he wandered through woods and played in creeks. After his father died when Bales was 11, he moved to another north shore — Long Island's — before the arrival of the expressway and the Levittown suburbs, when the area was full of farms and green space.

Bales still lives there with his wife, Suzy, a well-known gardening expert, in a sprawling 1908 stucco house overlooking Oyster Bay that Bales bought almost 30 years ago. As befits the couple, the house's expansive grounds are flora-filled, featuring woods, vegetable, herb and formal gardens, an orchard and climbing vines that snake through the arbor gates and cling to the fences around the pool and tennis courts.

Such formative experiences spurred Bales's interest in environmental activism. In the 1980s, while still at McKinsey, he bought the W. Atlee Burpee company, which sold seeds through catalogues. Bales offered to use the catalogues to help raise money for the Nature Conservancy. Knowing Bales's strategic-planning expertise, the Conservancy soon called on him to help analyze its organizational structure and help plot long-term strategy. He headed several pro-bono teams from McKinsey that worked on this effort, and in 1990, he joined the Conservancy's board of governors and became chairman of its international committee.

The position gave Bales the opportunity to visit some of the wildest, most remote corners of the globe, often with his four children tagging along for the adventure. He swam in the piranha-infested headwaters of the Amazon. He toured the Lost City in Colombia and spent time among the Kogi tribe who still call that dense jungle home. And he dived in turquoise waters off the Rock Islands of Palau in the South Pacific.

Stephanie Meeks, the Nature Conservancy's chief operating officer, credits Bales with helping the organization — which, outside

of a few projects in Latin America, had been primarily U.S.-focused — become increasingly global in scope. This was critical, given that approximately 90 percent of the world's biodiversity is located outside the United States. "Carter expects people to engage with him on his ideas," Meeks says. "He really likes to mix it up."

Bales remains active with the Conservancy, serving as a trustee of its New York State and Adirondacks chapters (he has a second home near Tupper Lake, New York). He is also on the board of the Grand Canyon Trust, which he assisted in its acquisition of two ranches on the canyon's north rim. The ranches came with grazing rights to 950,000 acres of public land abutting the canyon, which the trust is now working to restore and preserve. Closer to home on Long Island, Bales founded the North Shore Land Alliance, which is attempting to prevent unwanted development. And he serves on the board of Echoing Green, an organization that awards fellowships to budding social entrepreneurs.

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In each of these groups, Bales has sought to ensure that its management and organizational structure are as well-designed as in any efficient for-profit company. "His business acumen and accomplishments have been hugely important in forming the governance aspect of [our] board," says Cheryl Dorsey, the president of Echoing Green. To Bales, it's a simple way to help stay true to an old Native American aphorism he likes to remember: "We don't own the world; we just borrowed it from our grandchildren."

Bales's first stab at the greater good came in the late 1960s, when he fought to save New York City from fiscal disaster during Mayor John Lindsay's administration. Those were the bad old days, when Gotham's tax base was crumbling and FORD TO CITY: DROP DEAD was approaching. Bales — at the time a young McKinsey consultant helping the city's budget department — and Peter Goldmark, a young city official, were trying to bring state-of-the-art management practices to the sclerotic world of municipal budgeting.

Bales has now recruited Goldmark, the director of the climate and air program for Environmental Defense, a 40-year-old organization that encourages public/private partnerships, for the team he's assembling to combat global warming. "His mind comes at a problem from various aspects simultaneously," says Goldmark, who remains a close friend. "It can be a bit like having your finger plugged into an electric socket."

Bales's first project is based on a 2006 study by the Swedish power company Vattenfall that examined the main sources of greenhouse-gas emissions, analyzed how such emissions could be reduced using current technologies and estimated the cost of doing so. Bales is now lining up partners—including, he hopes, his old pals at McKinsey—willing to take Vattenfall's work and expand it over the next six months, providing more detailed analysis and factoring in other policy dimensions beyond cost, such as the viability of the proposals. He plans to help publicize the results.

Bales hopes this study will cut through what he calls the "conceptual fog" enveloping the discussion of global warming in the United States. That fog, he posits, is partly the result of a concerted disinformation campaign by business interests—Detroit automakers, coal-mining companies—that stand to lose if carbon emissions become more highly regulated. Among the supposed myths that make Bales seethe is the notion that the science of global warming—and the human contribution to the problem—is still up for debate. "The science has been settled," Bales says. The other notion that makes his blood boil is the fatalistic idea that while global warming is real,

"Fixing just the policy won't fix the problem," Bales maintains. "We need a portfolio of solutions."

it's either too late or too expensive to do anything to stop it. "It's a fiction that we can't afford a solution," he says.

To help combat these perceptions, he cites the Vattenfall study, which indicates that many proposed plans to reduce greenhouse gases would, in fact, generate economic opportunity. He also points out that Harvard B-school professor Michael Porter has demonstrated that tighter government regulation—such as higher fuel-economy standards—frequently drives technological innovation. If applied to carbon-dioxide emissions, this might mean even greater savings, both financial and environmental, than projections based on existing technology allow. Finally, he likes to highlight the opportunity cost of inaction: an overburdened electric grid, shoreline erosion, more severe storms, declines in agricultural production, plummeting fish stocks. These, he notes, are just some of the effects that would befall the U.S.; the global impact, particularly on people in the developing world, would be even more catastrophic. "Not only is a solution affordable," he says, "but a non-solution or deferred solution is *not* affordable."

Bales is well aware of the scope of his ambitions. He has never attempted to have an impact on an issue this sprawling or complex. And he readily acknowledges his limitations. "These are not one-man or one-person problems," he says, adding that he's working to "mobilize a whole new consciousness."

Powerful interests remain aligned against him. Large swaths of industry, particularly energy companies, have opposed the solution that many policy experts believe would do the most to reduce greenhouse-gas emissions: a carbon tax. These interests have significant lobbying muscle in Washington, and their influence with the Bush administration and—until last November—the Republican Congress has meant the U.S. has so far done little to impose reductions in carbon dioxide and other greenhouse gases. Bales is hopeful that with Democrats back in charge on Capitol Hill, this will change. Already, three major bills aimed at reducing greenhouse emissions are making their way through Congress.

Bales is a man unaccustomed to failure, though he has experienced a few setbacks. In 1972, he ran unsuccessfully for Congress as a Democrat. His first marriage ended in divorce. He was asked to step down from McKinsey's shareholder committee, which serves as the firm's governing body, after he discussed consulting clients in violation of McKinsey policy in a 1987 *New York Times* interview about his purchase of the Burpee Company. (He was, however, reelected to the committee several weeks later.) He acknowledges that one of Wicks's portfolio investments has gone south. But he has experienced nothing to shake his congenital optimism or his faith in his own abilities.

Perhaps that's why he's so confident he can do something about climate change, even though he's spending only about a quarter of his time on the issue (attending to his Wicks duties the rest), and even though the problem is immense. Dees, the Duke professor, warns that one of the most common, and perilous, pitfalls for business leaders who get involved in social causes is hubris. But the line between hubris and confidence can be blurry. And it might be true, as Bales's friend Peter Goldmark says, that "optimism counts" and that "none of us is smart enough to be pessimistic."

If Carter Bales likes to mix it up, he's certainly giving as good as he's getting on this crisp January day. "It's scandalous how stupid and incompetent our Supreme Court is on matters involving science," he says to the woman seated to his right, thumping a transcript of oral arguments before the nine justices in a recent case involving global warming. That case is the subject of a noontime talk Bales is attending in the sedate Park Avenue mansion that houses the Council on Foreign Relations.

As always, Bales has come well-prepared. He has read and underlined portions of the transcript. He has toted along a well-thumbed copy of *The Weather Makers*, a book about climate change by the Australian environmental writer Tim Flannery, a friend of his, that he's hoping to interest others in reading. And most importantly, Bales has brought along his opinions, which are clad in facts and honed to the sharpness of a Henckel knife. "Fixing just the policy can't fix the problem," he says, addressing the woman to his right once more.



Bales's Long Island house overlooks some of the wetlands he has helped protect.

"We need a portfolio of solutions."

Following the lunchtime talk on the Supreme Court case, Bales returns to his Wicks office along Park Avenue's banker's row. It's full of mementos of his personal and professional passions: a painting of the steamship *S.S. New York*; another of the Grand Canyon; a photograph of wild horses; vintage 1980s caricatures of the members of the McKinsey shareholders' committee, a blowup of a \$55 million check from one of his

Wicks deals. Sitting amid these reminders of his career, Bales tells me he had been disappointed by the discussion at the Council, which he felt was too narrowly focused. No one talked about ways to make public institutions, such as the Supreme Court, better equipped to deal with such knotty policy issues as global warming.

It's classic Bales: ever focused on ways to improve institutional design and effectiveness, just as he might be in trying to eke still more



dollars out of a company he'd bought. Only here the stakes are much higher, particularly on the downside. And as Bales returns to his list of disasters that might well ravage the planet if the buildup of carbon dioxide in the atmosphere is not brought to heel, one can't help but hope that Bales's fabled financial skills haven't failed him this time and that this investment, like so many of his others, will yield a decidedly healthy return. ▣

## 10 Recent Carter Bales Deals

**Delta Education** The Wicks Group bought this New Hampshire-based publisher of science and math curricula in 2001 for an estimated \$40 million, including debt. It sold it in August 2005 to School Specialty Inc., another education publisher, for \$272 million — a cool 580 percent profit.

**Wilks Broadcasting** Wicks financed the creation of this Atlanta-based radio-station holding company in 2000, putting some \$26 million behind Jeff Wilks to pick up three Michigan stations that Citadel was forced to sell to allay antitrust concerns. It went on to acquire stations in midsize markets from New Orleans to Des Moines. It sold off these stations in two transactions in 2003 for a total of \$189 million.

**North Dakota Television Holdings** This company, formed in 2002 by Wicks, JPMorgan Partners and Halyard Capital, aimed to acquire underdeveloped television stations in midsize markets. It eventually owned several affiliates in North and South Dakota. The assets were sold this January to Hoak Media for \$87 million.

**Wicks Business Information** Founded in 1999, this company acquires business-to-business publications and related concerns. In 2004, it sold Alternative Investor Group to Dow Jones for \$85 million.

**Jobson Publishing** Wicks bought this leading specialty health-publishing and -information company in May 2005 and has combined it with other medical-information companies it has acquired.

**Wicks Sports Information** The vehicle for Wicks's May 2004 purchase of *The Daily Racing Form* for a reported \$75 million. The 113-year-old publication is considered the Bible of thoroughbred horse racing.

**Allegiance Communications** Acquired smaller cable-television systems and broadband providers, then turned over management to Buford Media. Bought cable systems in Arkansas, Kansas, Missouri, Oklahoma and Texas from Cox Communications in 2004, and has since added to its holdings in those states.

**Heartland Publications** Along with Wachovia Capital Partners, Wicks bought 22 local papers from Community Newspaper Holdings in April 2004 for a reported \$90 million. It now owns close to 35 papers, including such publishing titans as the *Gallipolis Daily Tribune* of Pomeroy, Ohio, and the *Sampson Independent* of Clinton, North Carolina.

**Wicks Educational Publishing** This holding company bought EMC, a Minnesota-based publisher of textbooks and other print and electronic materials for the high-school and post-secondary-school market, in April 2005, taking the company private for \$44.1 million.

**Wilks Broadcast Group** Wicks's third private-equity fund has once again teamed up with Jeff Wilks to acquire more mid-market radio stations around the U.S. It recently completed the \$138 million acquisition of seven CBS stations around Kansas City, Missouri, and Columbus, Ohio.

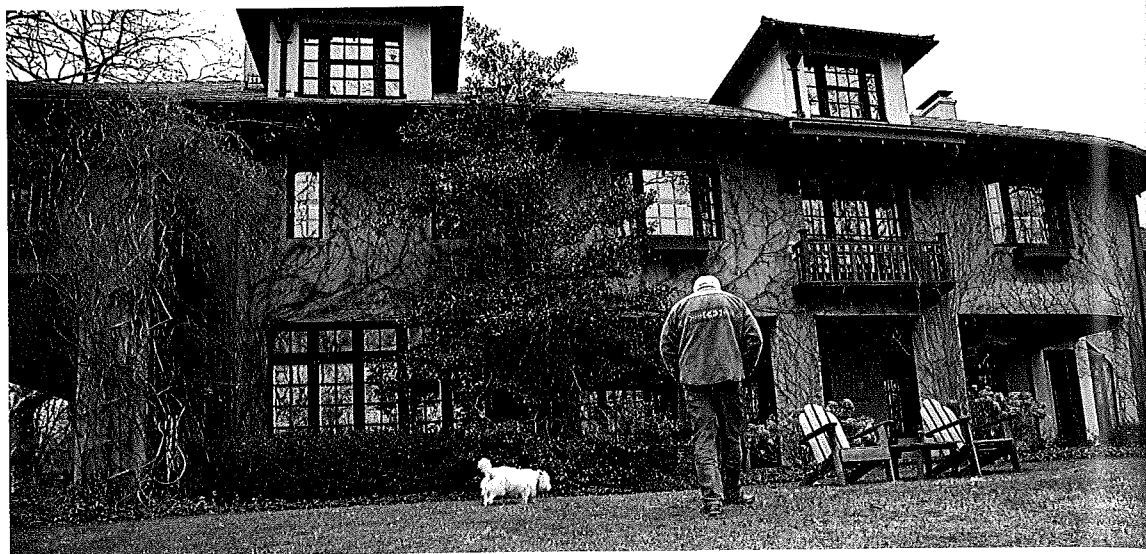
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