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Forbes

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I edit Forbes' front of the book; cover tech and billionaires.

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# Inside Icahn's Brain: How He Picks A Target And Pulls The Trigger

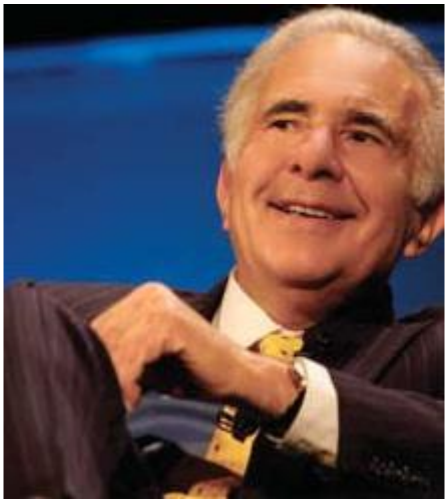


Photo by George Kalinsky for MSG

Over the years he's been called a corporate raider, a greenmailer, an activist investor–and much worse. Since 1978 Carl Icahn has been tormenting and infuriating corporate America by acquiring big enough stakes in bloated companies to overthrow management, slash waste, sell off deadwood divisions and, most important, drive up share prices. He's starred in more wars than John Wayne. Among the campaigns: RJR Nabisco, Texaco, TWA, Western Union, Viacom, Time Warner, Imclone and Yahoo. Win or lose a proxy fight, he has built an estimated $12.5 billion fortune. "I make all these billions because there are so many companies with problems that can easily be fixed," says Icahn, sipping Coke through a straw. At age 75, sitting in a massive midtown Manhattan office 47 floors above Central Park, he still casts a terrifying shadow. This year he's taken aim at Dynegy (energy), Mentor Graphics (software) and Clorox. His adversaries "know I'm not bluffing," he says. "I'm not going away."

How does he do it? "It's somewhat instinctive–like a top open-field runner and he's running up the field and scores a touchdown," says Icahn, who is very fond of the shifting metaphor. "I don't think you can ask him, 'What was your procedure, and why'd you cut right or left out there?'"

Well, we did, anyway. And Icahn agreed to give us a play-by-play recap of his recent battle over biotech company Genzyme, which just this month sold to Sanofi-Aventis for $20 billion. Icahn's estimated take: $300 million.

Biotech is one of Icahn's favorite hunting grounds these days. "These companies usually have management that has

overspent and not enough funds to complete what they started. There's a suitor"–big pharma–"standing outside that can't get in the door," he says. "We help push that door open." Icahn's chief scout is Alex Denner, who has a Ph.D. in biomedical engineering, a thick Boston accent and a decade of experience watching Genzyme (the firm had owned a 1% stake in 2007). Denner saw the company as part beauty, part beast. The attraction was its rare-disease drug division: Therapies like Cerezyme (which treats Gaucher's disease) were cheap to make ($3,000, he guesses, for a year's worth) and expensive to buy ($300,000 for an annual dose); if patients didn't take them, they'd die. Here was a perfect monopoly with margins likely on the order of 95%.

Photo by George Kalinsky for Madison Square Garden

The ugly side of Genzyme: a jumble of noncore drugs, including less specialized oncology treatments, and surgical and diagnostics products with no connection to the lucrative rare-disease therapeutics. In Denner's view this side pulled in roughly $2 billion in revenue but contributed nothing to the bottom line. Shares were languishing, and some on Wall Street blamed Henri Termeer, Genzyme's charismatic veteran, for expanding into too many unprofitable drugs. Termeer disagrees, arguing that diversification was key to survival and growth. "These products were highly profitable," says Termeer. "Maybe he couldn't see this in the 10-K, but those assumptions were wrong."

In February 2009 things got uglier, when the FDA delayed a new drug and found flaws in Genzyme's Massachusetts factory. Shares plunged more than 25% in less than a month. In June a viral contamination shut down its plant, causing a severe drug shortage. By August the FDA had fast-tracked competitors' drugs to fill the Cerezyme void. In November the FDA found bits of steel and rubber in five drugs. With the stock trading below $50, shareholders were enraged. "Genzyme had a golden goose," says Denner of the rare-drug division. "I couldn't think of a better situation." But the company was starving its prize catch. "All you had to do was put a little hay in front of the goose in the morning, and they weren't even doing that."

Denner advised Icahn it was time to pounce.

When discussing deals, Icahn prefers walks in Central Park over PowerPoint presentations. One afternoon in the winter of 2009 he and Denner strolled past the caricature artists and leafless oaks to discuss Genzyme's potential. Icahn grilled Denner on the risks. How broken was manufacturing? Could the FDA be so angry it would handicap Genzyme for years to come? With health care reform in the air, could Congress cap prices of its bestselling drugs? The pair decided it was worth the risk.


Cover via Amazon

“I said to Alex, ‘This is a great one, this is a great opportunity for us. Just buy all we can buy,’” Icahn recalls. “It’s like the movie *The Hustler* with Paul Newman. He hits the balls and says, ‘Aw, it’s a great feeling. When I hit the cue right and those balls click, I don’t have to look up to see if the balls go in.’” What’s Icahn’s hustle? “Normally when you know you have a great situation, you buy everything you can buy. I have an order clerk with me 35 years. I leave it to him to figure out the best way to buy. Genzyme went down for the wrong reasons, because of a manufacturing glitch which a lot of people were scared of for the near term. But for the long term I believed there was little problem. Additionally, Genzyme had a great pipeline no one was giving value to.” By November Icahn had acquired 1.45 million shares, about 0.5% of the company.

Soon after Icahn announced his Genzyme stake, he invited Termeer to his midtown offices. “We were friendly. He’s a likable guy,” Icahn says. “I said, ‘You really blew it with this.’ He’s trying to explain why it happened and how it was not really his fault. Everyone was blaming everybody. At the end I say, ‘You’re the captain of the ship, if the ship goes down, you’re the guy in charge. Don’t explain, just look at the stock.’ I told him this is a great company and literally should be merged with a big pharma company. We figured someone would grab it because it was so good.”

Termeer had already skirmished with activist shareholder Ralph Whitworth, chief of Relational Investors LLC, who, like Icahn, had been clamoring for Genzyme to cut waste. Under a treaty with Termeer, Whitworth would get a board seat if he backed management against an attack. But Icahn considered Whitworth, whom he hadn’t seen in ten years, someone who shared the same prescription for Genzyme. Whitworth welcomed the company. “It’s always good to have a sympathetic investor,” he says. “Carl’s a guy who has a good nose for value.”

In February 2010 Icahn assembled his troops, announced he had upped his stake to 4.8 million shares and demanded four seats on the company’s board. Whitworth, meanwhile, was urging a truce. “I was trying to mediate a settlement,” he says, between Icahn and Termeer. A proxy fight was “disruptive to shareholders and employees.”

Too late. In a letter to shareholders Icahn called Termeer "king of the company," whose rule had wrought "significant destruction of long-term value." Nonsense, says Termeer. "We created unbelievable value in this company." The name-calling he shrugs off as typical Icahn bluster, laughing that everyone can see through the rhetoric, "except for your mother."

Icahn knew he had big shareholders in his camp. Even before the first shot was fired, fund managers were calling Icahn, he says, urging him to get involved. The fact that Genzyme's manufacturing problems were getting worse only helped his case. In May the company announced that the FDA had whacked it with $175 million in fines and that a March power problem had created a further shortage in supplies of Cerezyme and Fabrazyme (used to treat Fabry disease). Genzyme also revealed that to get its factory back on track, manufacturing would be overseen by a third-party consultant and packaging would occur at another plant. Down went the stock to $48.50. That same month Icahn revealed he had 10.5 million shares, roughly 4% of the company.

Meantime, Denner, along with Icahn's three other board nominees, hit the road to get shareholders on their side. As Icahn explains it, some of it is preaching to the choir; some, praying for converts: "You want to get across, Hey, this company belongs to the shareholders. What's wrong with having a true shareholder representative on there? Most corporate governance is dysfunctional. There's no accountability in these companies. What's wrong with having two smart guys on the board that will call the CEO to task?"

The active portfolio managers, ones who had deliberately added Genzyme to their funds, were an easy sell. Some of the same investors had urged Icahn to target Genzyme in the first place. The vote would come down to the index fund managers, who had been convinced by Termeer that adding Denner and Icahn to Genzyme's board would be a conflict of interest. Reason: Icahn and Denner had recently won seats on the board of drugmaker Biogen Idec after a three-year proxy battle; Genzyme had a multiple sclerosis drug (Campath, already approved for leukemia) that would compete with Biogen's if it won approval. This was no petty complaint. In Campath Termeer saw the future of the company and was spending $2 million a week on its development.

Index funds took the potential conflict seriously and signaled that Icahn would win only one seat. Hoping to avoid defeat, Icahn asked Whitworth to drinks at the Four Seasons in Manhattan. Over scotches Icahn petitioned to get Denner on the board. Whitworth told him the best he could hope for was to pick two independent directors. Whitworth was able to make that offer because he had already gone to Genzyme and suggested that an extra seat might keep Icahn at bay, telling Termeer, "You still have Carl out there, and he's pissed off now. Let's quiet things down and get everyone inside working [together]." After the drinks, at midnight, Icahn agreed to the terms and called a truce with Genzyme.

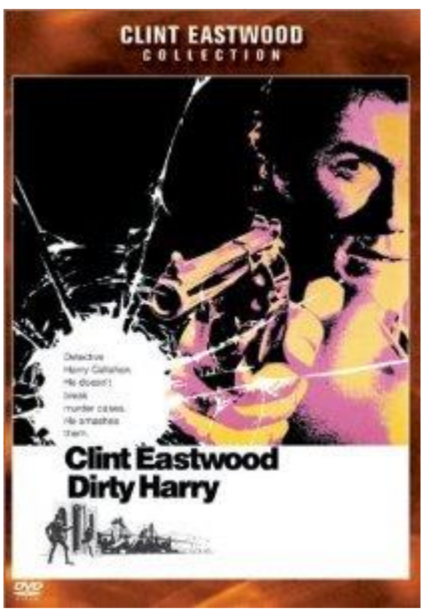
But Termeer would soon face a threat on a new front. In late July Chris Viehbacher, chief executive of French pharma giant Sanofi-Aventis, saw an opportunity to strike. Sanofi was facing a potential revenue hole as its blockbuster drugs for colon cancer, blood clots and blood pressure would soon face generic competition. Genzyme's rare-disease drugs could help Sanofi plug the breach and give it a strong foothold in the U.S. Viehbacher approached Termeer about a possible merger. He quickly rejected the Sanofi deal as "opportunistic."

In October Viehbacher took his case to shareholders, offering $18.5 billion, or $69 per share–a piddling 2% premium to the market, after the stock had ripped on rumors of a takeover. General consensus was that with Whitworth and Icahn reps on the board, Termeer would have little leverage to negotiate. Consensus was wrong.

"Sanofi's CEO, Chris Viehbacher, came up to see me. I think he was a little disappointed," Icahn says. "I told him, 'Listen, this is a great company, you aren't going to get me fighting to sell it for less than 80. As far as I'm concerned we should get 80 bucks for the company, and if we don't I'm not going to support anything–in fact I'll be Henri's ally.' They felt that with two activists on the board the thing was teed up. I think they felt they could get it cheaper than they got it."

Yet a sale was all but inevitable. Termeer and Viehbacher got together in late January at the World Economic Forum in Davos. In February Sanofi upped its bid to $20 billion, or $74 a share. It also threw in contingent value rights that could bring the deal to around $80 if Genzyme hits certain sales goals. The deal is expected to close in the second quarter. Termeer has said he'll step down after the merger.

Genzyme's market cap has jumped roughly $6.5 billion since Icahn got involved. "In the bigger picture if there were more guys doing what I'm doing you'd have a much more competitive and effective manufacturing and corporate center," he says.




Cover of Dirty Harry

An inveterate poker player, Icahn rarely bluffs as an investor. "It's a little like *Dirty Harry*, when the guy is sitting there with the pistol out, and he's saying, 'I'm not sure if I have the bullet or if this is your lucky day,' but he's going to pull the trigger," Icahn laughs. "Sometimes there's a question if a so-called activist will pull the trigger. But with us, they know we will if we have to."

**This article is available online at:**
**http://www.forbes.com/sites/stevenbertoni/2011/03/11/inside-icahns-brain-how-he-picks-a-target-and-pulls-the-trigger/**

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Forbes

Agustino Fontevecchia, Forbes Staff

Bringing You The Bull And Bear Case From The Markets Desk

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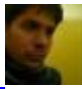
10/12/2012 @ 4:10PM |4,159 views

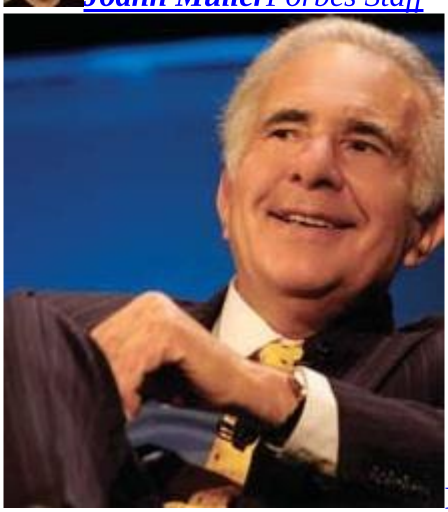
# Is Icahn Trying To Nickel And Dime Oshkosh? Sum Of The Parts Worth Way More, BofA Says

Move upMove down

Icahn's At It Again: Billionaire Activist Bids For Oshkosh, Could Try Navistar Merger ***Agustino Fontevecchia****Forbes Staff*

Navistar Yields To Icahn To Avoid Proxy Fight

***Joann Muller****Forbes Staff*

Inside Icahn's Brain: How He Picks A Target And Pulls The Trigger ***Steven Bertoni****Forbes Staff*

Carl's bid may be a bit low for Oshkosh

Activist investor Carl Icahn is shaking things up again at Oshkosh, offering to buy what he doesn't own of the company for about $3 billion, or $32.50 a share. Icahn's Achilles' heel in this deal may not be the company's intention to fight him off once again, as can be inferred by the language in their statement on the matter, but how low his offer actually is, according to analysts at Bank of America. While Icahn seems to be pushing to break the company up, the sum of the parts may be worth between 8% and 17% more.

Icahn has had his sights on Oshkosh for a while. Last year, the billionaire tried to get his nominees on the board in order to merge the company with Navistar. At that time, shareholders sided with management, giving them a shot at turning the company around.

But Icahn isn't satisfied, and is back for more: in his letter to the company, he blames management of taking a "passive attitude" and making "lofty promises reminiscent of a politician's campaign promises" while "refusing to take any strategic alternatives seriously." With 9.5% of the shares outstanding, the activist is the company's major shareholder and is pushing to take over the company, possibly to split it up (presumably into a defense contractor and a construction equipment company). Icahn reportedly denied that he's looking to merge the company with Navistar.

Bank of America's analysts took a closer look at the deal and decided that it's not good enough. They noted that on a fundamental level, the strength of the recovery on aerial work platforms (AWP), along with improved execution and strength in its commercial and fire and emergency units implied a valuation of $35 to $38 per share.

Their view, they noted, is supported by the average price target analysts have on the stock, which is approximately $32. Data from Thomson One shows that out of the 14 analysts that cover Oshkosh, 8 have a "buy" or "strong buy" for the stock, with a mean price target of $32.91 and a median of $34.

That valuation excludes a change of control premium, which Bank of America estimates should be between 20% and 30% over their estimate. That would take their sum of the parts valuation to between $42 to $49 per share. "While we believe that it would be very hard to get a bidder without significant synergies at levels greater than $42/share, the current offer of $32.50 while representing a 21% premium to closing price on October 11, 2012 [sic] seems indeed too low," they added.

The corporate raider has had his share of success and failure. Recently, Icahn disclosed a big stake in Chesapeake Energy, as billionaire Aubrey McClendon struggled to keep the shares from plummeting even further. Over the last few years, the billionaire investor has been involved in names like CVR, Lions Gate, Clorox, and Motorola, among others.

Shares in Oshkosh surged on the news that Icahn was set to bid for the company. Triggering circuit breakers, it gained more than 10% in less than five minutes on Thursday, hitting a 52-week high of $31.30, which was well below the offer price. The stock has fallen from those highs, closing the Friday session in New York down 0.2% to $29.72.

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