To assess Romney, look beyond the bottom line

template_bas
He created jobs, closed factories, made enemies and inspired colleagues.
By Bob Drogin, Los Angeles Times Staff Writer
December 16, 2007
WASHINGTON -- *First of two parts*

-- Mitt Romney twice emphasized his unique business background when he and eight other Republican presidential candidates faced off in a debate last week in Iowa.

Related Stories

- A look at Mormon theology and practice

"I've spent the last, as I've told you, 25 years in the private sector," former Massachusetts Gov. Romney declared at one point. "I understand why jobs come and why jobs go. I've done business in 20 countries."

In speeches, and on his campaign website, Romney offers few details about his role as a high-stakes corporate deal maker, however. He usually calls himself an entrepreneur, or cites his years in "venture capital," implying he only launched new companies or nurtured their growth.

His record is more complex -- and more controversial.

From 1984 until 1999, Romney led Bain Capital, a Boston-based private equity group that earned jaw-dropping profits through leveraged buyouts, debt hedge funds, offshore tax havens and other financial strategies. In some cases, Romney's team closed U.S. factories, causing hundreds of layoffs, or pocketed huge fees shortly before companies collapsed.

Even Romney's staunchest supporters acknowledge that his business record exposes him to criticism.

"The story that gets written is he made lots of money and he's an evil person, that he's a robber baron," said Charles Baird Jr., a former managing director at Bain Capital. "People should be proud of the people he hired, the jobs he created and the pension funds he helped."

During Romney's tenure at Bain Capital, outside experts say, most of the companies he and his colleagues helped manage ended up stronger and more profitable. Although exact figures are impossible to obtain, more companies clearly added jobs than cut them.

Some of Romney's colleagues recall him as vain, however, and focused only on the bottom line. They saw him as impatient and unconcerned about those affected by his decisions.

"They're whitewashing his career now," said Marc B. Wolpow, a former managing director at Bain Capital who opposes Romney's White House bid. "We had a scheme where the rich got richer. I did it, and I feel good about it. But I'm not planning to run for office."

As a business leader, Romney displayed skills that might prove useful in the Oval Office. He recruited a talented team of aggressive acolytes, pored over data before making decisions and relied on charm as well as tenacity to win over adversaries.

But Romney sometimes showed the strain. In tense meetings, he sometimes perspired so heavily it became an office joke. Or he nervously flapped his tie and said, "Oooohhh, what do we do now?" former colleagues said.

Romney joined Bain & Co., a management consulting group, in 1978. He quickly drew notice in Bain's hypercompetitive climate. At one point, he helped anxious colleagues save a business proposal to help an ailing hospital group.

"It was due the next day, and we were in tough shape," recalled Baird. "He got involved and literally stayed up all night, writing huge portions of the proposal, driving us all, and we ultimately got the biggest bid that Bain had ever gotten. He didn't yell or scream, or blame other people. He focused on fixing the problem."

In 1984, William W. Bain Jr., the consulting group's founder, tapped Romney to lead a spinoff they called Bain Capital.

Rather than just advising corporate clients for a fee, Romney and four colleagues at Bain Capital planned to invest directly in start-up companies, provide hands-on management to get them going, then sell the stake in five years or so. They raised $37 million for their first equity fund.

The venture capital model is common today, but it was a nascent industry at the time. And Romney's young team inspired little confidence: He was the eldest at 36.

"We were all younger than the people we were dealing with," recalled Geoffrey S. Rehnert, one of the co-founders. "But Mitt had a personal network from his family background that gave him the ability to carry himself with greater stature. He was the adult in our group."

From the start, colleagues recall, Romney enforced a discipline of aggressive analysis, sharp-elbowed deals and intense peer review. He embraced a Socratic style in meetings, asking endless questions and taking an opposing view to understand all the options.

"He felt his role was to be the devil's advocate," said Michael F. Goss, now a managing director and chief operating officer of Bain Capital. "Mitt was the guy you had to convince."

An early bonanza came when Thomas G. Stemberg, a local entrepreneur, sought financing to build a national chain of office supply "superstores." Until then, small stationery shops and other retailers filled the need.

"Many venture capital guys thought the plan was a dumb idea," recalled Stemberg. "Who in the world would want to save money on paper clips, pencils and computer diskettes? Mitt, who was a very frugal person, got the idea."

Romney's team called local lawyers, businesses and small companies to ask how much they spent on such supplies. The answer was far less than Stemberg had said. He urged them to check again. "I said, 'These companies don't know what they spend. Go back and check the invoices.' I thought I'd never hear from them again," Stemberg recalled.

Ten days later, Romney's team phoned back. They would invest $650,000, with more to follow.

"They really did their homework," Stemberg said. "And the night before we opened our first store, Mitt came over and bought everyone pizza and gave a motivational speech."

Bain Capital cleared $13 million when Staples went public three years later. Today, Staples Inc. is the world's largest office products retailer.

Staples proved to be a high-profile success, but the take-home was small change compared to future paydays.

To boost profits, Romney and his team hatched an audacious plan to take control of established companies, not just start-ups. To do so, they used bank loans or other debt to leverage, or sharply increase, their investments.

To help pay off the debt, Romney's group immediately pulled money out of target companies, typically by stripping assets and paying itself high monthly management fees, preferred dividends and numerous other payments. They then sold their stake, or took the company public, as early as possible.

Two of Bain Capital's earliest deals proved how lucrative such leveraged buyouts could be.

In 1986, Romney's team put up $1 million in cash and $10 million in debt to buy equity in Calumet Coach, which built mobile medical systems. By the time Bain Capital sold its stake just over two years later, it had recouped 34 times its investment, corporate documents show.

Romney's team hit the jackpot again with Accuride, a truck wheel and rim company. They posted a down payment of $2.6 million in cash, but structured the deal with 40-to-1 leverage. After revamping production and imposing other changes, they sold Accuride a year and a half later for 24 times their investment.

With such payouts, the buyout business is "like the joke about sex," said Howard Anderson, head of a venture capital firm and lecturer at the Massachusetts Institute of Technology. "When it's good, it's very, very good. And when it's bad, it's still pretty good."

Just how good became clear when Bain Capital and another private equity group bought and sold credit reporting service Experian in just seven weeks, netting $251 million each. The Wall Street Journal dubbed it "one of the quickest big hits in Wall Street history."

For investors, Bain Capital rained money as it bought and sold more than 100 companies. During Romney's tenure, according to an outside investment firm, Bain Capital's first five private equity funds returned an average of 173% each year on realized investments, an astonishing record.

"It was Wild West financing, with profits to match," said Goss, the company's chief operating officer. "They kept rolling over their winnings."

One such deal carried a hidden cost, however. In 1994, Romney took a leave of absence to seek the U.S. Senate seat from Massachusetts held by Edward M. Kennedy, the longtime Democratic incumbent.

Making his first bid for elected office, Romney boasted that he had helped create more than 10,000 jobs at companies he had retooled. But Kennedy painted him as someone "who puts profits over people," and an ugly labor dispute soon helped sink Romney's campaign.

Bain Capital had bought a controlling interest in a paper products company called Ampad for $5 million in 1992. Two years later, after Ampad bought a factory in Marion, Ind., the new management team dismissed about 200 workers, slashed salaries and benefits, and hired strikebreakers after the union called a walkout.

"We were just fired," Randy Johnson, a former worker and union officer at the Marion plant, recalled in a telephone interview. "They came in and said, 'You're all fired. If you want to work for us, here's an application.' We had insurance until the end of the week. That was it. It was brutal."

In October 1994, Johnson and other striking workers drove to Massachusetts to protest Romney's Senate campaign. "We chased him everywhere," Johnson recalled. "He took good jobs with benefits, and created low-wage, part-time, no-benefit jobs. That's what he was creating with his investments."

At first, Romney tried to justify the Indiana layoffs as necessary in "the real world." He then sought to distance himself, arguing that he took a leave of absence from Bain Capital before Ampad bought the factory. The dispute proved potent, however, and Kennedy trounced him in the election.

When Ampad permanently shut the Marion plant several months later, Romney, then back at Bain Capital, expressed his regrets in a letter to Johnson. Romney wrote that he had tried to end the strike "privately without fanfare. It included communicating my strong personal desire that the strike be settled and that the plant remain open, offering my ideas for a possible settlement, and relaying the sentiments of the workers I met with in Boston."

That's not how Wolpow, the former managing director at Bain Capital, remembers Romney's role, however. Wolpow had been installed on Ampad's board of directors as part of the leveraged buyout, and he reported directly to Romney before and after the Senate race.

"He was in charge," recalled Wolpow, now co-director of the Audax Group, another private equity group. "He could have ordered me to settle with the union. He didn't order me to do that. He let me make decisions that would maximize the value of the investment. That was the right business decision as CEO of Bain Capital. But let's not pretend it was something else."

Ampad prospered briefly after Bain Capital took it public in 1996. But saddled with increasing debt, Ampad began laying off workers, closing plants and losing money within a year. It filed for bankruptcy protection in 2000. By then, Bain Capital had reaped $102 million in advisory fees, sales of stock and other payments, corporate documents show.

Romney and his team gained huge profits from at least half a dozen companies that soon crashed into bankruptcy.

In 1997 Romney and his team purchased a stake in DDi Corp., an Anaheim-based maker of printed electronic circuit boards. Three years later, Bain Capital netted a $36-million profit after it took the company public. Romney sold his own shares for $4.1 million, according to federal securities records, although his profit margin is unclear.

But DDi's stock soon collapsed, and the company filed for bankruptcy in August 2003, laying off more than 2,100 workers. Bain Capital and DDi executives jointly settled a federal class action lawsuit in March, agreeing to pay $4.4 million to shareholders who argued that DDi was poorly managed and "hemorrhaging cash" before the stock offering, court records show. Romney was not named in the suit.

Still other troublesome cases emerged when Romney ran for governor of Massachusetts in 2002. Chief among them was Damon Corp., a medical testing company based in Needham, a Boston suburb.

Romney had joined Damon's board of directors after Bain Capital purchased a stake in 1990. He remained there until Corning Inc. bought the company three years later. Bain tripled its investment.

Romney personally profited on the sale, claiming more than $100,000 in capital gains on sales of his own Damon stock, records showed.

But in 1996, Damon pleaded guilty in federal court in Boston to massive overbilling of the Medicare system and paid $119 million in criminal and civil fines.

Then-U.S. Atty. Donald K. Stern called it "a case, pure and simple, of corporate greed run amok." No one at Bain was implicated in the fraud.

Asked about the case during his gubernatorial campaign, Romney told reporters that he "blew the whistle" on the overbilling scheme while still on the Damon board, and had taken "corrective action."

In a recent telephone interview, Stern said he had no recollection of Romney alerting investigators or taking other action. Court records in the case showed the illegal scam continued unabated until Bain Capital sold Damon in 1993.

Romney's aides now argue that reporters misunderstood his claim back in 2002.

Romney and other members of the board had hired a New York law firm to review Damon's billing practices after a rival medical company had pleaded guilty to fraud, Damon records showed. The law firm recommended Damon change billing procedures but found no evidence of fraud.

Despite the failures, outside experts say Romney led his company to extraordinary success.

"It's a puzzle that people criticize him for making a lot of money" said Steven N. Kaplan, professor of entrepreneurship and finance at the University of Chicago Graduate School of Business. "He ran his company for his shareholders. That was his job."

bob.drogin@latimes.com

Next: Using offshore tax havens to help investors