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Theodore Forstmann, big in 80s takeover wave, dies

By DAMIAN TROISE BERNARD CONDON

NEW YORK CITY, New York

Theodore J. Forstmann, a longtime Wall Street financier who was a major player during the wave of corporate takeovers in the 1980s, including the battle for RJR Nabisco in 1988, died Sunday at the age of 71.

The cause was brain cancer, according to a statement from sports marketing giant IMG, where Forstmann served as chairman and CEO.

A pioneer of the buyout business, celebrity bachelor and free market proselytizer, Forstmann cut the figure of a swashbuckling risk taker. But in buying companies, he tended to be more careful and conservative than did rivals. Famously, he backed down from buying RJR Nabisco in the late 80s when the price got too high. His instincts turned out right. The winner, Kohlberg Kravis Roberts, struggled for years to wring profits from the company.

Forstmann was the senior founding partner of investment firm Forstmann Little & Co., a big player in the leveraged buyout, or LBO, a deal financed at least in part with debt. The company completed dozens of leveraged buyouts of a wide array of companies, including Dr. Pepper, Yankee Candle, baseball card maker Topps, Ziff-Davis Publishing and IMG.

Forstmann Little, founded in 1978, would buy companies it believed would rise in value, do what it could to lift their value and then sell them.

In the 1980s, the firm he helped found became one of Wall Street's most successful specialists in LBOs. Its deals generated lofty returns for its partners and outside investors, which included many corporate pension funds.

In a 1996 interview with The Associated Press, Forstmann said his interest in deal-making was sparked in childhood, while reading a biography of Howard Hughes. "This guy loved doing deals," Forstmann said of Hughes.

Forstmann went to Yale University as an undergraduate, then on to Columbia University for law school. He spent some time as an attorney before establishing Forstmann Little & Co., with then-partner Brian Little.

Forstmann's first takeovers were small ones, as he only had so much money to spend. Things picked up as the 1980s unfolded and the firm's successes brought in more investors.

"I never went to business school. I was basically never in an investment banking firm worthy of mentioning," Forstmann told the AP. "I've always been a guy who had ideas."

Forstmann eventually became a big critic of the industry he helped create. In the 1980s, he lit into rivals for borrowing money from investors in junk bonds, or IOUs issued by the riskiest companies, to finance their deals. Later, he complained that there were simply too many people in the take-over business. The result: Buyout firms had to pay sky-high prices for their targets to beat competitors, and so might have trouble wringing profits out of the deals.

He turned out right again -- but maybe not in the way he imagined.

In the tech mania of the late 1990s, Forstmann himself ended up overpaying for two firms -- XO Communications and McLeod Communications USA. Both eventually filed for bankruptcy.

In 1988, Forstmann made clear his distaste for deal making greased by junk bonds. The AP quoted him as saying "Today's financial age has become a period of unbridled excess with accepted risk soaring out of proportion to possible reward."

"Every week, with ever-increasing levels of irresponsibility, many billions of dollars in American assets are being saddled with debt that has virtually no chance of being repaid," he said.

During the furious bidding for RJR Nabisco Inc., Forstmann's protestations about the rampant use of expensive junk bonds -- which carried interest rates sometimes as high as 18 percent -- were ignored. Rival takeover firm Kohlberg Kravis Roberts & Co. ended up buying RJR in what was then the biggest takeover in U.S. history.

KKR's $24.5 billion purchase of food-tobacco giant RJR Nabisco Inc. was announced in November 1988 after a bidding brawl that some considered a symbol of corporate gluttony. That deal saddled RJR with heavy debt.

In 1988, the dollar amount of mergers and acquisitions financed largely with borrowed money totaled more than $200 billion.

International Management Group, a sports and celebrity management and marketing firm that has represented Tiger Woods, Joe Montana and Derek Jeter, was sold to Forstmann Little in 2004 in a cash deal valued at more than $700 million.

He signed "The Giving Pledge" earlier this year, where America's wealthiest people pledge to give away at least half of their fortunes.

Forstmann was a philanthropist and co-founder of the Children's Scholarship Fund in 1998, which focuses on helping parents send their children to schools of their choice.

He was also a director of the International Rescue Committee and helped establish a medical program for war-injured children in Bosnia. He was a trustee of the Nelson Mandela Children's Fund and also served on the board of directors at Freedom House, Empower America, the Robin Hood Foundation, the CATO Institute, and the Preventative Medicine Research Institute.