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Aramark CEO gets \$1 billion reward from latest buyout

ELLEN SIMON
Associated Press

PHILADELPHIA - The first time Joseph Neubauer took Aramark Corp. private in 1984, the deal was worth \$889 million. When he and other managers led a leveraged buyout of the nation's largest food services company a second time, the price tag zoomed to \$6.24 billion.

And the biggest winner among shareholders at Aramark, which Friday completed its first week as a newly private company? Neubauer and his family, whose holdings soared in value to almost \$1 billion.

That puts Neubauer, who came to the United States from Israel alone at the age of 14 and said he learned English from John Wayne movies, near the top of the list of beneficiaries from a wave of leveraged buyouts that have swept corporate America in the last year.

As the number of buyouts rises, along with the popularity of companies being "flipped" back to public ownership by their private buyers, the role of top executives in those deals is drawing increased scrutiny and criticism from regulators and lawmakers in Washington, governance experts and shareholder groups.

The Aramark sale, however, flew mostly under the radar. Shareholder complaints focused on the price offered, not how the buyout enriched Neubauer. Still, the sums he pocketed are remarkable.

What also makes him stand out among billionaire CEOs is the amount of risk that Neubauer, who was hired in 1979 as Aramark's chief financial officer, was willing to assume. He amassed his holdings by cashing in stock options and using millions in borrowed funds to buy shares at prices as low as 27 cents each. Stock splits multiplied his shares. His stake grew with the help of a board so friendly to him, it established a scholarship in his name at his alma mater.

"He has holdings you would associate with a founding CEO - and very few founding CEOs," said Brian T. Foley, an independent compensation consultant based in White Plains, N.Y. "You also have to remember, he's been there a long time. ... It's almost refreshing."

Aramark did not return repeated phone calls for this story, which is based on an examination by The Associated Press of Securities and Exchange Commission filings, public documents and estimates from compensation consultants. A message left with Neubauer's office was not returned.

Aramark makes most of its money running cafeterias and hot dog stands everywhere from Shea Stadium in New York to Indiana state prisons. Sales grew from \$7.4 billion in fiscal 2001, when the company had its last initial public offering at \$23 a share, to \$11.6 billion in fiscal 2006.

But earnings growth has been choppy and the stock was a bit of a dud, never rising much above \$30 a share.

That provided an opening for Neubauer, 65, and his financial partners from Goldman Sachs, JP Morgan Chase and three buyout funds. After initially offering \$32 per share, they bumped the payout to \$33.80 per share in cash, enough to win over shareholders.

This leaves all the potential upside to Neubauer, his partners and 250 Aramark managers, who are on the hook for almost \$2 billion in existing debt and an additional \$4.5 billion in buyout debt.

Sent to Massachusetts from Israel at 14 to live with an aunt and uncle, Neubauer majored in chemical engineering at Tufts, where he worked his way through college waiting tables at his fraternity. An economics professor helped him win a full scholarship to the business school at the University of Chicago, where he graduated in 1965, according to articles about Neubauer on the University of Chicago and Tufts Web sites.

Neubauer joined Aramark after previous jobs at Chase Manhattan bank, where he was the youngest vice president at 27 and PepsiCo Inc., where he was the youngest treasurer at a Fortune 500 company.

Neubauer has been CEO at Aramark since 1983, except for one nine-month period in 2004 when a longtime company executive, William Leonard, succeeded him.

Fans say he is unassuming; critics say he lacks people skills and detested the quarterly conference calls with analysts that were part of running a public company.

"The world doesn't need more wealthy men and women," he said at a University of Chicago Graduate School of Business convocation in 1995. "It needs more men and women who know how to create wealth for others."

His compensation has not notably outpaced other CEOs. From fiscal 1991 to fiscal 2005, he collected \$27.8 million total in salary and bonuses, and exercised stock options valued at \$37.87 million, according to Equilar Inc., a compensation research firm in San Mateo, Calif.

The foundation for his wealth today was set in the years after Neubauer led the first buyout in 1984 to ward off a hostile takeover. By 1992, Neubauer owned 20 percent of the private company's shares. He bought shares through the company's employee stock purchasing plan and stock options, awarded to him by the board of directors, which included Thomas H. Kean, head of the 9/11 commission, and Lawrence T. Babbio Jr., vice chairman of Verizon Communications Inc. They were among the nine directors who voluntarily resigned when the company went private last week.

For instance, between 1994 and 2000, he exercised options on more than 2 million shares. In 1992, Neubauer borrowed \$1.6 million from banks and used \$1.3 million from a company deferred payment program to exercise options on 194,900 shares ranging from \$3.50 a share to \$32 a share, according to a SEC filing.

Borrowing money to buy shares is risky and implies a lot of confidence in the stock's upside, said David Yermack, a finance professor at New York University's Stern School of Business.

Stock splits multiplied Neubauer's holdings; a 4-for-1 split in 1993 and a 3-for-1 split in 1998 helped boost his share count to 17 million shares.

As part of the 2001 IPO, one class of Aramark's shares was exchanged for two publicly traded shares. By the end of that year, Neubauer's holdings had risen to 28.8 million shares.

In a regulatory filing last month, Neubauer disclosed that he directly owned 22.9 million shares, including 5.57 million held by his family foundation. Another 4.97 million shares were held in Neubauer family trusts, bringing his stake to about 23 percent of the company, worth roughly \$940 million at the \$33.80 per share price.

Under the terms of the going-private deal, Neubauer provided as much as \$250 million of the equity financing, while his partners contributed \$1.8 billion. About 250 executives at the company were asked to put in more than \$50 million as well.

Neubauer has spread his wealth, giving away 1.1 million shares in December to two charities, according to an SEC form. The largest of the Neubauer family foundations showed assets of \$91.5 million in its most recent Internal Revenue Service filing in 2004.

Because of the buyout, Aramark's long-term debt is projected to balloon to \$6.2 billion from \$1.76 billion, according to SEC filings. Its interest payments in fiscal 2006 were \$139.9 million; under the terms of the going private deal, it would have been \$590.9 million. Standard & Poor's has lowered the company's corporate credit rating deeper into junk status.

Adjusted to reflect the higher interest costs, the company would have lost \$96.4 million in fiscal 2006 instead of posting a \$261 million profit.

But referring to the first time the company went private, Neubauer has said that debt didn't worry him.

"Debt never really killed any company," he said in a 1997 interview with Forbes. "Only unpredictable cash flow can do that."

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