

# Taking a Calculated Risk

Carl Icahn has brought his Wall Street philosophy of buying low and selling high to the commercial breeding industry



Carl Icahn leads undefeated Meadow Star down Belmont Park's Victory Lane after the Matron Stakes (G1).  
Patricia McQueen photo

by David L. Heckerman

AS Carl C. Icahn tells it, the horse business is primarily business. Not that there isn't a great deal of fun in watching an undefeated filly like Meadow Star carry one's colors into the Breeders' Cup. It's just that, in Icahn's eyes, the real challenge and accomplishment in the Thoroughbred industry lie elsewhere.

"I get enjoyment out of building a business that makes a profit," Icahn said in early October. "My goal with Thoroughbreds is to build a successful breeding program that makes a profit every year. Not just once in a while, but every year. If I can do that and have fun, too, I will get a great deal of satisfaction out of owning Thoroughbreds."

In pursuit of profits and his own brand of fun, the 54-year-old Wall Street financier, arbitrager, takeover specialist, corporate executive, and philanthropist has developed a business plan for his Thoroughbred enterprises that borrows heavily from strategies he has employed in the world of finance.

Though Meadow Star has drawn attention to his racing stable this year, it is Icahn's commercial breeding program that forms the bulk of his Thoroughbred operation. The racing stable numbers only ten, and all are fillies on the way to becoming broodmares. The breeding program, on the other hand, includes 90 mares, as well as significant interests in seven stallions.

The entire program, at least as it has developed in the past two years, is geared toward the ancient Wall Street strategy of buying low and selling high, based on a calculated notion of where the Thoroughbred market is and where it is headed.

"I'm not a gambler. I'm a risk-taker, and I always go about these things in a very calculated way," Icahn told *Fortune* magazine in March of 1985, by way of explaining his operations on Wall Street. His explanations of his strategy in Thoroughbred breeding bear numerous parallels.

"We buy horses according to very strict disciplines," Icahn told *Thoroughbred Times*. "The way we establish controls, it's almost like arbitrage. The way I do the theory is, if we buy broodmares right, even if we sell foals at lower prices than projected, we'll still break even, after considering the

cost of horse expenses and everything."

In practice in the late 1980s and early 1990s, this has come to mean shopping for broodmares at significantly less than fair market value; assuming strong positions in promising stallions with considerable upside potential; controlling expenses rigorously at every step along the way; taking full advantage of depreciation charges available from purchases of broodmares and stallion shares; and producing yearlings at relatively low costs who can still qualify for the select sales.

"Before we buy broodmares, we rate the prospects in four categories—racing record, produce record, pedigree, and conformation," Icahn said. "I leave conformation questions to the experts, but I can work the rest of it out on my own. We don't buy anything unless it sells for 50% or less of the value we put on it. We look for the ones that fall through the cracks, and we have found several of them in the last two years. Discipline is the key to the whole thing. If we buy right, we figure we're going to come out right."

"One of the real flaws in the Thoroughbred business is that too many people think they're going to figure the key to breeding a good horse, rather than trying to find out how to buy at value. The real thing you can figure out is the risk-reward ratio. That's what I do in my other businesses, and that's what I'm trying to do in the horse business."

PROPER calculation of risk and reward, particularly during the vast expansion of America's capital markets in the 1980s, has kept Carl Icahn's name in the headlines of financial journals for much of the past ten years.

In December, 1987, at a time when he was seeking to forge a settlement in the landmark Pennzoil-Texaco antitrust lawsuit, the *Wall Street Journal* offered this sketch of Icahn: "New York investor, chairman of Trans World Airlines, Inc. Former arbitrageur turned takeover artist in late 1970s, famed in battles with Phillips Petroleum and USX. Poised for huge profits on 2% stakes in Pennzoil and 12% holding in Texaco."

In October, 1989, *Forbes* magazine presented the following update in its annual chronicle of America's wealthiest persons:

"Carl C. Icahn, Bedford, N.Y. Married, two children. Schoolteacher's son from NYC's Queens; studied philosophy at Princeton, spent three years at medical school, then got serious; to Wall Street as broker 1961. . . . Began buying large blocks of stock, then forced management to enhance shareholder value. . . . Denounced as greenmailer by some; but running ACF (builds, leases railcars). Also running TWA. Huge paper gain on USX stake; earned nearly \$500-million on sale of Texaco stock this year. Managements tremble as he inwighs against entrenched executives divorced from shareholder interests. 'No market is generally a very dangerous place, but if you buy when nobody wants them, and sell when everybody wants them, you'll have a decent chance of success.' So says man now worth at least \$1.2-billion."

That was one year ago. This October, *Forbes* has just weighed in with a revised estimate: "With TWA faltering," the magazine commented in its latest thumbnail outline of Icahn, "net worth will require legendary financial wizardry to stay \$1-billion."

Down to his last billion dollars, though he may be, the owner of Meadow Star would still appear to have the wherewithal to support whatever kind of strategy he chooses in Thoroughbred racing and breeding. And the chosen strategy has evolved gradually since Icahn bought his first Thoroughbreds five years ago.

The Thoroughbred world could hardly have missed Icahn's entry, coming as it did at the spectacularly successful dispersal of Newstead Farm in November of 1985. He arrived as a partner of major owner-breeder Peter M. Brant of White Birch Farm, and the two men promptly paid a world-record price of \$7-million for Newstead's grand racehorse Miss Oasana, in foal to Northern Dancer.

They also purchased Newstead's splendid Northern Dancer mare Larida for \$4-million, the highest price ever paid for a broodmare who was not in foal. Before Kentucky's annual round of breeding stock sales was completed that November, Icahn's Foxfield breeding operation had signed sales tickets for four mares for \$15,250,000, and had added a share in Northern Dancer,

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priced at \$1,975,000, for good measure.

Hindsight, of course, is the wisest of all teachers, and five years later, nearly every one has concluded with certainty that 1985 was not the best of all possible times to buy breeding stock, particularly at the top of the market. In fact, that November turned out to be the last, high peak of the bloodstock market, and prices in 1990 remain a considerable distance below the peak.

Icahn observed closely what was happening and treated it all as a learning experience. "When we first got involved, it took me a year or so to learn what to do," he said recently. "It's easy to get called in by the siren song. They tell you that this horse looks like a Derby winner for sure, and that one looks like something special, too. It happened to me a couple of times at first, and it happens to a lot of people."

"I paid some for my education, but I did pretty well with some of the horses I bought early on. Larida has worked out all right for us, and I bought into (1988 sprint champion) Gulch at an early point and did pretty well with him."

Nothing in the early experience soured Icahn on the notion that it is possible to breed Thoroughbreds and sell them for a profit. It did, however, lead him away from buying the best available bloodstock, regardless of the price. Within two years of his entry into the Thoroughbred industry, he had taken up a new gospel of buying quality broodmares in a down market at prices below their true value.

Icahn also made the decision to operate independently of major partners and set up his own breeding program headed by his own key lieutenant, answerable only to him. The choice of that lieutenant was the next major step in Icahn's Thoroughbred program.

**O**BSESSIVE is a character description often found in stories about Carl Icahn, and one that he willingly acknowledges is accurate. It is a characteristic that he looked for in hiring someone to run his Thoroughbred program.

"I get very obsessed with what I do. There's no doubt about it," Icahn said. "I think that's what you have to do to succeed. As much as I was able to take advantage of the expansion in the capital markets in the 1980s, I never fooled myself into thinking I was a genius. I developed a strategy, and then I work hard to carry it out."

The search for someone with the same strengths took Icahn to Rob Whiteley, a 45-year-old former psychologist and university professor with a pedigree that is distinctly uncommon to the Thoroughbred industry.

"I interviewed quite a few guys, and I simply thought Rob was the best," Icahn said.

"He's extremely good. He's intelligent and he's obsessive, and that's what makes him good. What's really important is to find someone who's dedicated to the job to the point where he's thinking of ideas about horses when he's sitting at home in the bathtub. Rob's like that. He's thinking all the time."

Prematurely gray, intense, with a forgiving sense of humor close at hand, Whiteley has made a clear and positive impression in the Thoroughbred industry since he was hired to manage the Foxfield operation in 1987. Indeed, Whiteley's reputation for hard work and competence have led more than one person to say, "I don't know Carl Icahn, but he must know what he's doing, or he wouldn't have hired Rob to run his program."

Whiteley is a product of an academic background, combined with an early fascination with Thoroughbreds and handicapping. By the age of 24, he had collected three academic degrees and secured a position as head of a graduate program in psychology. His degrees were a bachelor's in English and American literature from Stanford in 1965, a master's in teaching literature from Harvard in 1966, and a Ph. D. in counseling



Rob Whiteley, manager of Icahn's Foxfield operation, shown with Rose's Cantina, a private purchase who went on to win two Grade 1 stakes and is now part of the broodmare band.

psychology from the University of California at Berkeley in 1968. Whiteley then signed on as a full professor and director of graduate programs in counseling psychology at Rutgers University in New Jersey, where he remained until 1981.

Thirteen years of university life, however, were enough for Whiteley. "I left because the continuous involvement with academia and everyday exposure to other people's hardships and sadnesses left me feeling a little burnt, less creative, and wanting a little more perspective," he said.

Which, naturally enough for someone with a fever for Thoroughbreds, led into racing and breeding. After teaching a few handicapping seminars (in which he was known as "Dr. Rob") and applying his skills in research to an analysis of the changing values of Thoroughbreds, Whiteley eventually wound up as president of Fasig-Tipton Appraisal Services.

"Then, one day three years ago, the phone rang," Whiteley recalled, "and a voice on the other end of the line asked if I would be free to have lunch with Carl Icahn. My first thought was that someone was playing a joke, but that turned out not to be the case."

**W**HEN Whiteley became Icahn's Thoroughbred manager, Foxfield had about a dozen horses, including several top-of-the-line broodmares owned in partnership with Peter Brant. After three years, Icahn has increased his number of horses by eightfold, and he owns the vast majority of them outright, with no partners.

The ten-member racing stable contains no fewer than five stakes fillies and mares. In addition to Meadow Star, there are the two-year-old filly Really Quick (by In Reality), four-year-olds Topsy Girl (by Raise a Cup) and Key Flyer (by Nijinsky II), and five-year-old Colonial Waters (by Pleasant Colony). Meadow Star and Really Quick were bought at public auctions for \$90,000 and \$100,000, respectively; Topsy Girl and Colonial Waters were bought privately late last year; and Key

Flyer is Icahn's first homebred stakes winner.

All are trained by Hall of Fame conditioner LeRoy Jolley, who was training Gulch for Brant when Icahn bought into the colt as a two-year-old. Jolley and Whiteley remain Icahn's two principal advisors on Thoroughbred matters, but Icahn stoutly resists any suggestions from them or anyone else that he should expand his racing stable in substantial numbers.

"For business purposes, breeding is better than racing," Icahn said, "and I'm not going to buy a lot of other racehorses, just because we were lucky enough to find a Meadow Star. I've seen that happen in every area of business, where people have some success and immediately conclude that they know everything they need to know to do it again."

"Too many people in racing and elsewhere confuse luck with some kind of alchemist's formula for success. LeRoy and Rob have as much ability as anyone in the game, and I certainly respect what they have done for me. But I tell them not to get carried away and think we can find a Meadow Star every year. Our future is in breeding."

On the breeding side, the past two years have constituted a period of rapid expansion for Foxfield. By applying Icahn's formulas for defining fair market value and buying only when mares sell for considerably less than the prescribed number, Foxfield purchased five mares for \$1,620,000 (an average of \$324,000) at Keeneland in November of 1988 and no fewer than 33 mares for \$5,102,000 (an average of \$155,000) at the same sale in 1989. All of this transpired at a time when a record number of other commercial breeding operations were dispersing their stock, thus presenting a plentiful supply of buying opportunities.

Last November, Whiteley came to Keeneland with 340 mares on Foxfield's long list of potential purchases, based on a pedigree examination. Conformation inspections then narrowed the list to 89, which were deemed acceptable for the program. Icahn received

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the formulas on each of the 89 mares and agreed on target prices. From that not-so-short list, 33 purchases were ultimately made.

"Carl brings a brilliant business mind to bear on the strategy for the overall program," Whiteley said. "He informs himself about the business generally and our horses in particular. We discuss all of our purchases in advance, and we review any purchases I have made one-by-one immediately after the sale, typically between 11 p.m. and 2 a.m."

The breeding program is designed to produce select-sale yearlings who carry realistic breeding costs with them into the ring. It is also designed to allow considerable room for appreciation in the value of mares, should something good happen to their pedigrees.

"We have a much better chance of hitting a home run with broodmares than we do with yearlings," Icahn said. "With our disciplines in place, we know we're not going to lose much with the mares, and some of them are going to be worth a lot more than what we paid."

A case in point of which Icahn is particularly proud is the Mr. Prospector mare Propositioning, whom Foxfield purchased for \$110,000 at Keeneland in 1988. The mare assumed a substantially higher value this year, when her two-year-old colt Deposit Ticket emerged as one of the leading juveniles of 1990.

"Propositioning proves the point that our strategy is working more than Meadow Star," Icahn said. "Finding a Meadow Star is luck, but we're going to come up with more mares like Propositioning as we go along."

**STALLIONS** also play a key role in the Foxfield business plan. Icahn and Whiteley express belief that market conditions make the time right to purchase major positions in unproven stallions at prices that can escalate quickly if the stallions prove successful. They also hope to improve the stallions' chances of success by sending Foxfield's mares to them.

At present, Foxfield owns half-interests in Blushing John, Orygian, and Sunshine Forever and substantial additional interests in Crafty Prospector, Deputy Minister, Gulch, and Private Terms. Only Crafty Prospector and Deputy Minister already have runners at the races.

The stud fee range of the stallions covers the middle and upper-middle levels of the stallion market, from \$15,000 for Crafty Prospector and Private Terms to the \$50,000 fees in 1990 for Deputy Minister and Gulch. Foxfield also breeds to a roster of other horses, including top-of-the-market stallions for the most valuable mares.

Neither Whiteley nor Icahn is any great fan of breeding theories based on pedigree alone—"alchemist's formulas," as Icahn calls them.

"I'm personally not much of a believer in nicka," Whiteley said, "though it only makes

sense to continue looking for success where it already has been found. In general, I think it is easier to explain success in terms of breeding quality to quality, or type to type.

"As commercial breeders, we're well aware of the crosses that have market appeal, and all things being equal, we sometimes make the decision to go with a perceived nick. Fundamentally, though we're more interested in breeding physical qualities to physical qualities in order to produce well-conformed athletes."

The bulk of Foxfield's mares are kept at Trackside Farm near Versailles, Kentucky. The farm is operated by the team of Tor Evans and Pam Clark, with whom Foxfield maintains a management agreement. Evans also consults with Whiteley regularly on the selection of broodmares and yearlings.

One year ago, Icahn purchased 800 acres of Bluegrass farmland from fellow entrepreneur and breeder Allen E. Paulson. The land, once part of Pin Oak Stud, near Versailles, was acquired in the transaction that saw Icahn buy a half-interest in Blushing John, who raced for Paulson and stands at stud at Paulson's nearby Brookside Farm. There are no immediate plans to develop Icahn's farmland.

The goal with many of the mares purchased in the past two years is to produce yearlings who would yield profits if sold for prices from \$125,000 to \$200,000, a range for select yearlings where Whiteley expects demand to be particularly strong in the immediate future.

Whiteley sketches the cost picture in following way:

"We think a \$200,000 mare warrants a stud fee of \$35,000 to \$50,000. If we paid \$200,000 for a middle-aged mare with, say, six years of useful life left, we would have a cost-basis of approximately \$35,000 per foal. Add to that the maintenance cost of the mare while the foal is in utero, the maintenance cost of the foal, the maintenance cost of a yearling, the cost of sales preparation, plus the cost of the money and the sales commission, and the total production costs would be about \$100,000. That would be the break-even point—about three times the stud fee—and our target for the yearling might be \$150,000."

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"We are purists when it comes to our commercial operation," Whiteley said. "Every foal that is salable will be offered at reasonable prices. Except for an occasional private sale, we will take every yearling that qualifies to auction and set realistic reserves."

"Typically, we set our reserves at approximately two-thirds of our conservative estimate of what the horse is worth. If we don't get our reserve, we'll take the yearling home

for a private or two-year-old sale, or if we have to, we'll train it ourselves and hope to get lucky."

Whiteley, the analyst, working for Icahn, the strategist, also has a prepared statement about the keys to success in the Thoroughbred business.

It reads: "Have short-term objectives that fit a long-term plan. Have adequate capitalization to see the plan through. Put the very best people in place at all levels who are experienced, competent, and reliable."

"Understand and appreciate the symbiotic relationship between breeding and racing, and be able to assess racing performance and its implications for a commercial breeding program. Breed to get an athletic, good individual first, and a catalog page second—but go for both."

"Treat others fairly and the way you would want to be treated yourself. Work very hard to position yourself to good luck can run over you."

Thus positioned, Carl Icahn has found himself in the path of Meadow Star and Propositioning in the summer and fall of 1990. His past performances on other racecourses suggest that his calculated strategy of Thoroughbred risk-taking may lead to similar rewards in future years. ■

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