

WARREN BUFFETT GOES ALL IN • THE SEAFOOD BILLIONAIRE

SEPTEMBER 10 • 2012 EDITION

Forbes

BRAZILIAN PRESIDENT
DILMA ROUSSEFF

A FORMER MARXIST STOKES
AN ENTREPRENEURIAL ENGINE

THE 100 MOST POWERFUL WOMEN

FROM IBM TO YAHOO, GERMANY TO BRAZIL,
GLOBAL LEADERSHIP HAS A NEW LOOK.

\$5.99



0 71658 01638 5

33>

Forbes



"I HAD NEVER DONE A HOSTILE TAKEOVER BEFORE. I WANTED TO SEE WHAT IT WAS LIKE. IT WASN'T PAINFUL FOR ME. WAS PAINFUL FOR THEM."

—Tilman Fertitta,
Landry's CEO

PAGE 98



"IF YOU THINK THE MARKET ALONE WAS ABLE TO LIFT 70 MILLION PEOPLE OUT OF POVERTY, I MEAN, YOU'RE WRONG."

—Dilma Rousseff,
President of Brazil

PAGE 64



"I'LL KEEP COMING BACK UNTIL I MAKE IT TO THE FINAL TABLE. THAT SHOULD HAPPEN ABOUT THE SAME TIME THE CUBS WIN THE WORLD SERIES."

—Warren Buffett,
amateur poker player

PAGE 104

13 | FACT & COMMENT // Steve Forbes
Will Paul Ryan save civilization?

LEADERBOARD

16 | MIAMI'S BILLIONAIRE BUNKER
Supersecure, unless you consider the Iglesias family a threat.

18 | THE APP I WROTE AT SUMMER CAMP // FUTURE OF WORK
Two 13-year-olds are teaching their peers programming—for \$350 a pop.

20 | MILLION-DOLLAR RACKET // SPORTSMONEY
The ten top-earning tennis players raked in \$212 million over the past 12 months.

22 | SCORECARD
Big moves: Leonard Lauder up; the Waltons down.

24 | BUY/SELL/HOLD
We're bullish on bug spray and Benjamin Lawsky; Melky Cabrera, not so much.

COVER PHOTOGRAPH BY GABRIEL RINALDI/REDUX FOR FORBES

BOARDWALK BILLIONAIRE

Meet the world's richest restaurateur, Tilman Fertitta, a Texas control freak more interested in location and cost efficiency than great food.

BY CALEB MELBY
PHOTOGRAPHS BY TIM PANNELL FOR FORBES



Boss' view:
Fertitta docks
his megayacht
across from his
new Atlantic City
casino resort.

Tilman Fertitta is barely into the first of his many morning cups of coffee and the first ten minutes of our meeting when he decides, as is his wont, to take control. As soon as I break out my tape recorder, he picks it up and places it on top of a paper cup, within wrist-snapping distance, turning it off and on during our discussion as he deems fit. Having noticed poor lighting on another floor, he dispatches a passing employee to fix it. When I ask the 55-year-old to tell me about how he got started, he admonishes me in his thick Texas twang: "I've overread that story. I just hate to go that far back." So we don't, for now, because as Fertitta later tells me, laughing, "I do whatever the f--k I want."

Most of the time Fertitta, the 100% owner of Landry's, wants to gobble up hospitality businesses: specifically, poorly managed, out-of-date and distressed restaurants, hotels, casinos and boardwalks that he can buy on the cheap, often right out of bankruptcy court. Fertitta then cleans house. He fires top executives, closes failing locations, revamps existing ones and moves management to Landry's headquarters in Houston, where he can keep an eye on everyone. "When we buy somebody, we cut the head off," he says. "We keep the operators who are looking—I hate to use this term—they're looking for a leader. We lead very well. And we immediately spend money on them and make them better. Everybody wants to be led."

"Except for me," he adds. "I want to lead."

We're having coffee at Michael Patrick's Brasserie, a 24-hour restaurant (named after his two eldest sons) housed inside the Golden Nugget Atlantic City, one of the latest turn-arounds he's leading. Throughout the weekend Fertitta, who is bunking on his 164-foot yacht, the appropriately named *Boardwalk*, will oversee the property's grand reopening, featuring



a value-oriented talent roster, including Whoopi Goldberg, the Cake Boss and the Real Housewives of New Jersey. It was a typical Fertitta deal: He bought the waterfront casino and hotel from bankrupt Trump Entertainment Resorts for \$38 million in February 2011, less than one-tenth a recent offer and \$282 million less than what Trump paid in 1985.

As gambling options pop up around it, the Atlantic City market remains troubled. But bettors would be foolish to wager against Fertitta, who knows how to get leisure dollars out of consumer pockets. Fertitta is the richest restaurateur in the world and its most active dealmaker. Using Landry's as his vehicle, he has rolled up five public companies and countless smaller deals, and floated six larger equity offerings. His biggest deal was taking Landry's private in October 2010 for \$1.4 billion, including \$700 million in debt. He now lords over a \$2.5 billion (sales) company that encompasses 421 outlets—all but 10 are stand-alone restaurants—and 56 brands, with a heavy dose of tourist-driven sit-down spots like Chart

House and Bubba Gump Shrimp.

Mediocre food, it turns out, pays. FORBES estimates that Fertitta, who also owns a Rolls-Royce and Bentley dealership, is worth \$1.5 billion, and his fortune is growing as he continues to expand. "He is like a private equity investor, but he does it with his own money," says Rich Handler, CEO of the investment bank Jefferies, who helped refinance Landry's debt in 2007 and has become Fertitta's close friend. "He took Landry's private because the public markets weren't going to allow him to invest in the properties as he saw fit. Now he has operated his way to exceptional cash flow that he continuously invests to improve and expand his properties." In January Fertitta completed his first hostile takeover, buying 90-plus-location McCormick & Schmick's for \$131.6 million and quickly closing locations that were losing money. "I had never done a hostile before. I wanted to see what it was like," he laughs. "It wasn't painful for me. Was painful for them."

While his blustery demeanor masks it, hospitality is in his blood.



"IF YOU GO TO THE WATER, YOU CAN PUT AN AVERAGE SEAFOOD PLACE NEXT TO THE GREATEST STEAK HOUSE, AND PEOPLE ARE GOING TO EAT SEAFOOD."

His grandfather Vic Fertitta ran Galveston's legendary Balinese Room, a gambling house that in the 1940s hosted stars like Frank Sinatra, the Marx Brothers and Bob Hope. Fertitta's father, also Vic, later owned a seafood restaurant in Galveston, where Fertitta peeled shrimp after school. That family history is still visible across the Landry's empire. One steak house brand, Vic & Anthony's, is named after Fertitta's father and uncle. Cousins Lorenzo and Frank Fertitta operate Ultimate Fighting Championship and Station Casinos in Las Vegas.

But it was his youth spent on the Texas coast that perhaps had the biggest impact on Fertitta. As a teen he often worked as a lifeguard at a Galveston hotel, where he says he learned firsthand that people always

flock to coasts. Today he owns and operates the Pleasure Pier where that hotel once sat. Almost half of his properties are in coastal cities; 80% of those are right on the water. Of his restaurants, 196 primarily serve seafood, under brands like Fish Tales and the Oceanaire, as well as Chart House and Bubba Gump Shrimp. "You can put the greatest seafood restaurant next to an average steak house in an urban area, and that steak house will do more business than the seafood place," he says. "If you go to the water, you can put an average seafood place next to the greatest steak house, and people are going to eat seafood."

Fertitta took his first big gamble at 23. Capitalizing on the vast wealth of the Texas oil boom he obtained a loan and built his first hotel, the 160-room Key Largo on the water in Galveston.

He entered the restaurant business in 1980 when he joined up as a real estate specialist with Landry's Seafood restaurant. Six years later he sold Key Largo and used that cash to acquire a majority interest in Landry's and another restaurant, Willie G's Steakhouse & Seafood. In 1988 he bought a hurricane-ravaged restaurant named Jimmie Walker's on the boardwalk in Kemah, Tex., 20 miles from Houston. "It was a huge risk," says Jim Gossen, an early partner.

Fertitta converted Jimmie Walker's into a Landry's Seafood, and it became the most popular restaurant on the boardwalk. He eventually bought up every restaurant on the 40-acre Kemah boardwalk and transformed it into an entertainment complex with a wooden roller coaster, a Ferris wheel, hotel, stores and plenty of Landry's-owned restaurants. One *Houston Press* reporter would later pejoratively call Kemah "the Land of Landry's," for having turned what was once a quiet shrimping town into a glitzy, full-blown theme park.

Landry's went public in 1993 and then went on a buying binge: Joe's Crab Shack in 1994, Crab House in 1996, Rainforest Cafe in 2000, Chart House and Saltgrass Steakhouse in 2002. Fertitta was famously patient in waiting for the privilege to pay bottom dollar. He bid for casual restaurant chain Claim Jumper in 2005 but lost out to a group of private investors who paid \$220 million for its 20 restaurants. Five years later he bought the then 38-restaurant chain out of bankruptcy for \$48 million. He offered \$125 million for Rainforest Cafe in 2000, but a large shareholder rejected the offer; the stock plunged, and Fertitta picked it up for \$75 million seven months later. In his 2010 book, *It's a Jungle in There* (Sterling Publishing, 2010), Rainforest Cafe founder Steven Schussler termed Fertitta "a brash, arrogant, bargain-basement, bottom-feeding acquisition nemesis." And those are some of the tamer words

that have been used to describe him: ruthless and, yes, controlling, among them. Even Fertitta admits he is a bit obsessive, involved in all aspects of his business from negotiating deals to approving fabric swatches and working with chefs to perfect dishes.

Above all, Fertitta preaches cost control. He's boosted restaurant-level operating cash flow at every chain he's recently acquired: Chart House's margin has jumped from 15.5% to 23.3%, Claim Jumper's is up 4.9% since being bought in December 2010. Combined Ebitda of his last ten acquisitions (not including the recently opened Golden Nugget Atlantic City) is approximately \$350 million, up from \$200 million, as margins improve by an average of 6.3%.

This discipline proved especially useful during the last recession. "We were getting leaner and leaner before the downturn happened," says Rick Liem, Landry's CFO for the past ten years. At the time the company reviewed more than 250 items looking for cost savings. Where there were hardwood tables, tablecloths disappeared. In restaurants where the carpets were shampooed every two weeks, the schedule changed to every three weeks. Lemon wedges disappeared from plates that didn't need them, and in restaurants where fries were apportioned liberally, meaning more than 8 ounces, the piles came down to 7. The line items added up to millions in savings.

Rainforest Cafe was a textbook example: Efficiency-minded Fertitta was quick to make changes to the concept, altering signature dishes and even removing what had previously been a hallmark of the restaurants—live birds. The chain's founder, Schussler, had insisted that the birds not be behind glass walls but in the open, to be used as conversation-starters about recycling and conservation. But between bird feed, care and the ceiling vacuum systems required to keep bird dander off the food, the

RECENT ACQUISITIONS

IMPROVED PROFITABILITY

	NAME	DATE ACQUIRED	EBITDA MARGINS	
			PRIOR OWNER	YTD 2Q '12
	RAINFOREST CAFE	12/2000	14.3%	19.1%
	CHART HOUSE	8/2002	15.5	23.3
	SALTGRASS STEAKHOUSE	10/2002	16.9	24.0
	GOLDEN NUGGET ¹	9/2005	13.0	22.7
	THE OCEANAIRE	4/2010	11.5	23.9
	BUBBA GUMP SHRIMP	12/2010	19.5	22.6
	CLAIM JUMPER	12/2010	9.4	14.3
	MCCORMICK & SCHMICK'S	1/2012	11.4	15.2
	MORTON'S STEAKHOUSE	2/2012	15.6	19.0

¹INCLUDES CASINO LOCATIONS IN LAS VEGAS AND LAUGHLIN, NEV.

birds were costing each unit as much as \$150,000 a year. Fertitta ditched the birds. Whenever he saw Schussler, Fertitta was always quick to mention what a steal he had made on the Rainforest concept, which Schussler describes as "rubbing salt in the wound."

Yet when Schussler came up with two new "eatertainment" concepts, Yak & Yeti and T-Rex Cafe (he describes the latter as "the most oversensory place on earth"), there was only one partner he could find to bankroll the \$100 million price tag of the new projects—Fertitta. "Who else would let me put an animatronic dinosaur on top of a live shark tank in the middle of a restaurant?" Schussler asks.

So what's next? Fertitta says the company is busy "digesting" all of its recent acquisitions and claims to be

done buying up 40-unit restaurant chains. "As the economy improves, there aren't as many opportunities," he moans. Any future moves will be on a grander scale. So now he is closing on his latest acquisition, a casino in Biloxi, Miss. that he plans to reopen as his fourth Golden Nugget Casino.

One thing Fertitta won't do: dump any of his dozens of brands. In all his years in the business he has sold only one: Joe's Crab Shack for \$192 million in 2006. "I buy things that are good properties that I'm going to have forever," he says. "I just don't have any intention to sell anything. I believe you acquire good assets and you keep them and operate them. Twenty years from now," Fertitta insists, looking across the lobby of the Golden Nugget Atlantic City, "I'll still be here." **F**