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Deals & Deal Makers: Anschutz Group Scores Big by Moving Against the Grain -- - Eclectic Denver Trio Rides Proud Contrarian Stance To Major-League Returns

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When the world zigs, Philip F. Anschutz and his investment team zag.

That, in a nutshell, can sum up how one of the world's biggest fortunes was built.

The Denver billionaire's latest coup is acquiring effective control -- by way of their debt -- of some of the country's biggest movie-theater chains, benefiting from missteps by the likes of Kohlberg Kravis Roberts & Co. and Hicks, Muse, Tate & Furst Inc. The theater move was simply a typically contrarian investment in assets that seemed cheap at the time. In that sense, it was little different than the other investments he made to build his fortune, which is estimated at $18 billion.

Now that others have piled into distressed-debt investing, the investment group of Mr. Anschutz, called Anschutz Group, has become wary of making new bets in the sector, calling it overpriced. But it has scored big by selling "short" the stocks of emerging telecommunications companies, or betting their stock prices would fall. That is interesting, as Qwest Communications International Inc., Mr. Anschutz's biggest home-run investment, was one of the early emerging telecom concerns. The group remains heavily invested in oil and natural-gas concerns.

Mr. Anschutz, 62 years old, got his start in the oil-and-gas business, making his first big oil strike in the late 1960s. In 1988, he and another investor acquired the then-troubled Southern Pacific Rail Corp. for $1 billion (which was sold in 1996 for $3.9 billion), in the process picking up its year-old unit that laid fiber-optic cable along the railroad tracks. Mr. Anschutz's remaining stake in that unit, which became Qwest, is valued at about $10.7 billion.

Mr. Anschutz's team is surprisingly eclectic. Mr. Anschutz himself is known as a conservative Christian and hard-core Republican.

Given that, he couldn't have hired a more unlikely man than Michael Bennet. Mr. Bennet's previous job was working for the Clinton administration, where as a counsel to the deputy attorney general he wrote speeches for Attorney General Janet Reno. In 1997 he moved to Colorado when his wife took a job as an environmental lawyer for the Earthjustice Legal Defense Fund, where she makes a living by, among other things, suing oil-company owners like Mr. Anschutz.

Mr. Bennet, 36, approached Mr. Anschutz for a job in finance, admitting that he had never read a spreadsheet or balance sheet. "Phil was willing to hire me for peanuts, just to give me a chance," says Mr. Bennet, who has managed the group's movie-theater deals.

Craig Slater, 44, runs the team, as president of Anschutz Investment Co., the core investment firm within

Anschutz Group. The former tax accountant was hired in 1988 to handle the group's taxes and later played a central role in building Qwest Communications and negotiating its 1999 deal to acquire U S West Inc. These days, Mr. Slater functions as "sort of an extension of Phil's right arm," says Robert Johnson, a senior investment banker at **Credit** Suisse First Boston who has worked with Mr. Anschutz for many years.

Running the group's venture-capital investments is Scott Carpenter, a 34-year-old Colorado native who joined the group in 1994 after graduating from Cornell University's business school.

To be sure, not everything they have invested in has turned to gold. The group has invested $150 million of venture-capital dollars into two dozen technology, communications and Internet companies. Most of the company's venture investments are in companies making communications technology closely related to what Qwest does. There are, however, a couple of Internet electronic-commerce companies straight out of the bubble era, including an investment in StoreRunner.com, an online shopping mall -- "one investment I wish we didn't make," Mr. Slater says.

Mr. Slater and his Denver-based team say they benefit from being far from Wall Street. Referring to the tourist boats that cruise around the island of Manhattan, Mr. Bennet talks of "an inside-the-Circle-Line syndrome in New York, where you have the same ideas rattling around like dried peas in a coffee can." Mr. Slater adds, "When investment bankers and analysts get excited about a particular sector, that's usually the time we think about getting out, because it means there's a lot of money flowing into the sector, and oftentimes it overheats the sector."

The group doesn't manage any outside money and has no plans to do so, giving it a flexibility that other fund managers lack. "We're not doing what we do for fees, and we don't have to put money to work, and that may have been one reason we missed a lot of the crummy, big telecom investments that were made," Mr. Bennet says.

Mr. Slater describes Mr. Anschutz's involvement as "a board of one." He doesn't call the individual shots on the deals, giving senior members of his team considerable leeway in their operations. The idea for the theater investments, for example, came from members of the deal team. "It's fair to say we went to [him], told him what we wanted to do, how we intended to do it, and we got his approval and kept him intimately informed as we went through the steps," Mr. Slater says.

So what is Anschutz Group up to now? Ironically, the group is now betting against the sector that gave Mr. Anschutz his biggest success. The group looked at some of the distressed upstart telecom companies in recent months and declined to invest. In fact, it has been short-selling the stocks of some of these firms.

"We concluded that the same business plan that didn't make sense in the venture stage and didn't make sense as a public company still doesn't make sense trading at cents on the dollar," Mr. Bennet says.

Energy investments remain a core activity. The group has avoided major integrated producers such as Exxon Mobil Corp. and instead has bought shares of midsize firms that Mr. Slater describes as "those that make their bread and butter on exploration for oil and gas." Since early 2001, the group has invested about $50 million in the public stocks of such firms, including Anadarko Petroleum Corp., Apache Corp. and Newfield Exploration Co., on top of total holdings in Forest Oil Corp. valued at about $600 million. "We think this cycle will last at least through the fall," Mr. Slater says, though he adds that the group also has done some selling of shares that have reached price targets.

Anschutz Group began investing in distressed debt in early 1999, when oil plunged to $11 a barrel and many were predicting a further decline. It bought up the bonds of Forcenergy Inc., which were then trading at about 50 cents on the dollar. Oil has since surged to $29 a barrel, Forcenergy has gone through bankruptcy reorganization and has merged into Forest Oil, and Anschutz Group's $58 million investment is now valued at $165 million.

Though the group is flexible in its investment approach, it has strong streaks of contrarianism. It demonstrated that philosophy -- and Mr. Anschutz's sense of timing -- during the past year with a series of moves that could make Mr. Anschutz the biggest owner of U.S. movie theaters. Movie theaters had been on their radar screens since 1998, when the big buyout firms KKR and Hicks Muse paid $1.5 billion, including assumed debt, to acquire Regal Cinemas Inc. During the following two years, the theater industry spiraled into deep trouble by overbuilding and taking on too much debt, and KKR and Hicks Muse have sustained combined losses of $1 billion.

Only when the industry was on the verge of collapse did Anschutz Group step in. Early last year, Mr. Bennet spent about $65 million to buy 21% of the bank debt of United Artists Theatre Co at a discount. The chain filed for protection under Chapter 11 of the Bankruptcy Code in September and emerged from bankruptcy proceedings in March, with Mr. Anschutz controlling about 60% of the equity.

Starting in the late summer of last year, Anschutz Group and some partners have spent about $500 million to get a controlling position in Regal's bank debt and bonds. They are now in position to take control of the same company KKR and Hicks Muse bought for three times that price three years ago.

Mr. Slater says, "They believed you could buy the company at 10 times [cash flow] and turn it into a 15-times company. We're counting on selling these theater assets at less than where KKR and Hicks bought them." KKR and Hicks declined to comment.

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