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Emulate Henry Singleton

Something went haywire with American capitalism in the 1990s, and we think we know what it was. There weren't enough Henry E. Singletons to go around. In truth, there was only one Singleton, and he died in 1999. He could read a book a day and play chess blindfolded. He made pioneering contributions to the development of inertial navigation systems. He habitually bought low and sold high. The study of such a protean thinker and doer is always worthwhile. Especially is it valuable today, a time when the phrase "great capitalist" has almost become an oxymoron.

Singleton, longtime chief executive of Teledyne Inc., was one of the greatest of modern American capitalists. Warren Buffett, quoted in John Train's "The Money Masters," published in 1980, virtually crowned him king. "Buffett," Train reported, "considers that Henry Singleton of Teledyne has the best operating and capital deployment record in American business."

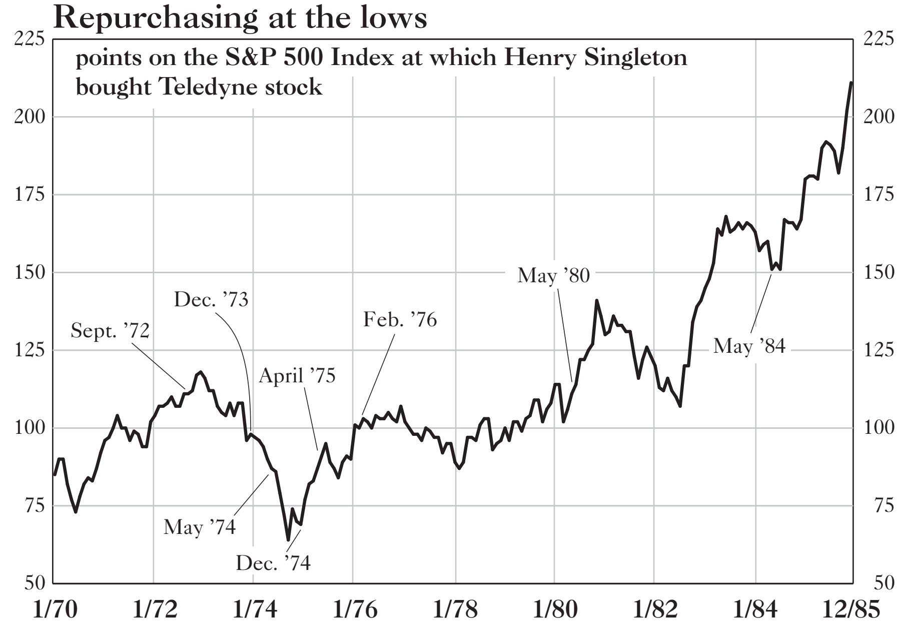
A recent conversation with Leon Cooperman, the former Goldman Sachs partner turned portfolio manager (he's the managing general partner of Omega Partners), was the genesis of this essay. It happened in this fashion: Cooperman was flaying a certain corporate management for having repurchased its shares at a high price only to reissue new shares at a low price. He said that this was exactly the kind of thing that Singleton never did, and he lamented how little is known today of Singleton's achievements as a capital deployer, value appraiser and P/E-multiple arbitrageur. Then he reached in his file and produced a reprint of a critical *Business Week* cover story on Teledyne. Among the alleged missteps for which Singleton was attacked was his heavy purchase of common stocks. The cover date was May 31, 1982, 10 weeks before the blastoff of the intergalactic bull market.

The wonder of Singleton's life and works is the subject under consideration—admittedly, a biographical subject, as opposed to a market-moving one. We chose it because Singleton's genius encompassed the ability to make lemonade out of lemons, a skill especially valuable now that lemons are so thick underfoot.

Singleton was born in 1916 on a small farm in Haslet, Texas. He began his college education at the U.S. Naval Academy but finished it at M.I.T., earning three degrees in electrical engineering: bachelor's and master's degrees in 1940, and a doctorate in 1950. In 1939, he won the William Lowell Putnam Intercollegiate Mathematics Competition Award. In World War II, he served in the Office of Strategic Services. At Litton Industries, in the early 1950s, he began his fast climb up the corporate ladder: by 1957, he was a divisional director of engineering. In 1960, with George Kozmetsky, he founded Teledyne.

Anyone who was not reading *The Wall Street Journal* in the 1960s and 1970s missed the most instructive phase of Singleton's career. When the Teledyne share price was flying, as it was in the 1960s, the master used it as a currency with which to make acqui-

Repurchasing at the lows



source: The Bloomberg, Leon Cooperman

sitions. He made about 130. Many managements have performed this trick; Singleton, however, had another: When the cycle turned and Teledyne shares were sinking, he repurchased them. Between 1972 and 1984, he tendered eight times, reducing the share count (from high to low) by some 90%. Many managements have subsequently performed the share-repurchase trick, too, but few have matched the Singleton record, either in terms of market timing or fair play. Singleton repurchased stock when the price was down, not when it was up (in the 1990s, such icons as GE, IBM, AOL Time Warner, Cendant and, of course, Tyco, paid up—and up). He took no options awards, according to Cooperman, and he sold not one of his own shares. Most pertinently to the current discussion of "corporate governance," he didn't sell when the company was buying (another popular form of managerial self-enrichment in the 1990s).

The press called him "enigmatic" because he pursued policies that, until the mists of the market lifted, appeared inexplicable. For example, at the end of the titanic 1968-74 bear market, he identified bonds as the "high-risk asset" and stocks as the low-risk asset. Accordingly, he directed the Teledyne insurance companies to avoid the former and accumulate the latter. To most people, stocks were riskier, the proof of which was the havoc they had wreaked on their unlucky holders during the long liquidation.

Some were vexed that, for years on end, Teledyne paid no dividend. The master reasoned that the marginal dollar of corporate cash was more productive on the company's books than in the shareholders' pockets, and he was surely correct in that judgment. Teledyne's stable of companies (many in defense-related lines, others in specialty metals, offshore drilling, insurance and finance, electronics and consumer products, including Water-Pik) generated consistently high margins and high returns on equity and on assets.

Singleton made his mistakes, and Teledyne's portfolio companies made theirs. A catalog of some of these errors, as well as not a few triumphs misclassified as errors, appeared in the *Business Week* story. We linger over this 21-year-old piece of journalism because it illustrates an eternal truth of markets, especially of markets stretched to extreme valuations. The truth is that, at such cyclical junctures, doing the wrong thing looks like the right thing, and vice versa. In the spring of 1982, few business strategies appeared more wrongheaded to the majority of onlookers than buying the ears off the stock market.

On the *BW* cover, the handsome Singleton was portrayed as Icarus in a business suit, flying on frail wings of share certificates and dollar bills. The article conceded that the master had done a pretty fair job for the shareholders, and it acknowledged that the share repurchases had worked out satisfactorily—to date. They had, in fact, boosted per-share earnings "and also enabled Singleton, who held on to his own Teledyne shares, to amass 7.8% of the company's stock." He was the company's largest shareholder and its founding and indispensable brain.

Yet the magazine was not quite satisfied, for it perceived that Singleton had lost his way. For starters, it accused him of having no business plan. And he seemed not to have one. He believed, as he later explained at a Teledyne annual meeting, in engaging an uncertain world with a flexible mind: "I know a lot of people have very strong and definite plans that they've worked out on all kinds of things, but we're subject to a tremendous number of outside influences and the vast majority of them cannot be predicted. So my idea is to stay flexible." To the *BW* reporter he explained himself more simply: "My only plan is to keep coming to work every day" and "I like to steer the boat each day rather than plan ahead way into the future."

This improvisational grand design the magazine saw as the "milking" of tried-and-true operating businesses and the diverting of funds to allow the chairman to "play" the stock market. A *BW* reader could imagine Singleton as a kind of Nero watching Rome burn while talking on the phone with his broker. He didn't invest in businesses, the magazine suggested, only in pieces of paper. He either managed too little (as with the supposedly aging and outmoded operating companies) or too much (as with the insurance businesses, where, according to *BW*, he managed to no great effect). His reserve was "icy."

Singleton's disdain for the press was complete and thoroughgoing: The *BW* article just rolled off his back. It puzzled him that his friend Cooperman would bother to draft a nine-page rebuttal, complete with statistical exhibits. Why go to the trouble? Cooperman, who has fire where Singleton had ice, wanted the magazine to know that, during the acquisitive 1960s, Teledyne's sales and net income had climbed to about $1.3 billion and $58.1 million, respectively, from "essentially zero," and that during the non-acquisitive 1970s, profit growth had actually accelerated (with net income of the 100%-owned operating businesses rising sixfold).

As for those share repurchases, Cooperman underscored an achievement that appears even more laudable from the post-bubble perspective than it did at the time. "Just as Dr. Singleton recognized [that] he had an unusually attractive stock to trade with in the 1960s," wrote Cooperman, "he developed the belief that the company's shares were undervalued in the 1970s. In the period 1971-1980, you correctly point out that the company repurchased approximately 75% of its shares. What you did not point out is that despite the stock's 32% drop from its all-time high reached in mid-1981 to the time of your article, the stock price remains well above the highest price paid by the company (and multiples above the average price paid) in this ten-year period." And what Cooperman did not point out was that none of these repurchases was earmarked for the mopping up of shares issued to management. He did not point that out, probably, because the infamous abuses of options issuance still lay in the future.

Business Week, however, was right when it observed that nothing lasts forever and that Singleton couldn't manage indefinitely. In 1989, he formally relinquished operating control of the company he founded (and, by then, owned 13.2% of). Even then it was obvious that the 1990s were not going to be Teledyne's decade. Appended to *The Wall Street Journal's* report on Singleton's withdrawal from operations was this disapproving note: "The company hasn't said in the past what it plans to do. It doesn't address analyst groups or grant many interviews. Teledyne's news releases and stockholder reports are models of brevity. Some securities analysts have given up following the company because they can't get enough information." Imagination cannot conjure a picture of Singleton on CNBC.

The dismantling of Teledyne began in 1990 with the spin-off of the Unitrin insurance unit (later came the sale of Argonaut, another insurance subsidiary). Singleton resigned the chairmanship in 1991, at the age of 74. Presently, the financial results slipped, the defense businesses were enveloped in scandal and Teledyne itself was stalked as a takeover candidate. Surveying the troubles that came crowding in on the company after the master's departure (and—unhappily for the defense industry—after the fall of the Berlin Wall), *Forbes* magazine remarked: "For many years Henry Singleton disproved the argument that conglomerates don't work. But it turns out Teledyne was more of a tribute to Singleton than to the concept."

In retirement, Singleton raised cattle and became one of the country's biggest landowners. He played tournament chess. "Most recently," according to a tribute published shortly after his death (of brain cancer, at age 82), he devoted much time to computers, programming algorithms and creating a fine computer game of backgammon. . . ."

To those not attuned to the nuances of corporate finance, Singleton's contribution appeared mainly to concern the technique of share repurchases. Thus (as an obituary in the *Los Angeles Times* had it), Teledyne was the forerunner to the white-hot growth stocks of the Clinton bubble, including Tyco International and Cendant. Singleton knew better. To Cooperman, just before he died, the old conglomerateur confided his apprehension. Too many companies were doing these stock buybacks, he said. There must be something wrong with them.

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