

RV Business

RVBUSINESS.com

DECEMBER 2005, VOLUME 12

Louisville '05



NEWS MAKER '05

Forest River President Pete Liegl
Shakes Up Competitors and
Associates with Sale to
Berkshire Hathaway

newsmaker 2005

by Sherman Goldenberg

A lot of things happened in this dynamic industry during 2005, a crazy year in which companies were swept by economic forces — especially gas prices — that were well beyond their control.

But given all of the things that transpired, none seemed to have triggered a greater wave of shock and awe than the July announcement of the sale of Elkhart, Ind.-based Forest River Inc. to Berkshire Hathaway Inc., an almost mythical Omaha-based holding company with subsidiaries engaged in diverse business activities, including property and casualty insurance.

As fate would have it, the acquisition paired Berkshire Hathaway's Warren Buffett, one of the world's most successful investors, and Forest River's Peter J. Liegl, sole owner of Forest River and himself a bigger-than-life character in the recreational vehicle business.

Part of the public's interest in the acquisition, understandably, had to do with the undisclosed price of the sale, which included all of the estimated 71 facilities in several states in which \$1.6 billion, 5,800-employee Forest River produces commercial buses, pontoon and fishing boats, cargo trailers, mobile offices, manufactured housing, park trailers and a full line of towable and motorized recreational vehicles. Speculation around the industry was that Liegl had banked more than \$800 million from the sale of 9-year-old Forest River, the nation's No. 2 U.S. towable builder, with about 19% of U.S. towable RV market share.

In so doing, Liegl, our RV Business Newsmaker of the Year for 2005, has again reminded us all of what a lucrative high stakes game this industry can be — and, more than likely, always will be — for those who play their cards right. And the reverse is also true for those on the other end of an ill-fated business proposition. For Liegl, who like Buffett is often considered the quintessential entrepreneur, hasn't always been on top, as he will quickly tell you. Indeed, he says he was fired from his job years earlier at one of the major RV manufacturers, then again in late 1994 by the board of directors of publicly held Cobra Industries Inc., an RV builder for which he was serving as president at the time.

The difference between most entrepreneurs and the rest of society, of course, is their uncanny ability to bounce back from near-death business experiences and flourish. That's a skill that Liegl, as you can see in the following Q&A interview, has perfected.

RIDING HIGH:
Forest River
President Pete
Liegl, left, with
Curt Smith, gen-
eral manager,
Work and Play
Division

Pete Liegl

Maverick Forest River President

Garners Headline With Purchase by Berkshire Hathaway

RVB: We assume that your departure from Cobra, a well known company that you had nurtured with two partners from the mid-1980s, was a pivotal moment in your life.

Liegl: I can tell you that it was a surprise to me. They had a board meeting over the phone and took a vote on whether I ought to be terminated or kept. Obviously, that was preconceived out of New York. I picked up my stuff and went home.

What did you do then?

I bought a condo up at Lake Michigan and spent the summer up there. I had a couple of boats — an off-shore racing boat and a Sea Ray that was pretty good sized. I kept that up in St. Joe and basically enjoyed life — played a little golf and went boating and kicked back. At that time, I was doing quite well in the stock market.

So when did you decide to get back in the RV market?

I decided when Cobra was auctioning off the (Cobra Rockwood) tent camper operation out of bankruptcy court... They only had bankruptcy approval to sell the tent camper operation. And the day of the (asset) auction, when I went out to Delaware with my attorney, my thing was to buy everything. I wanted it all or none because they were going to get too high a price for the tent camper operation by itself. I got the tent camper operation, and it was 30 days later that I got the approval for the other facilities on the travel trailer and fifth-wheel side out of bankruptcy court.

"Somebody is going to get those sales. If we do what we are supposed to do — have the best product at the best price, work harder than the other guy — we'll get the sale."

So, how did you manage to grow Forest River from nothing in early 1996 to a \$1.6 billion company this year?

All we did was have the best product at the best price and hire decent people.

Your initial Forest River management staff included a lot of the people who had worked with you over the years, did it not?

That is correct. I had experiences with these people prior to the starting up of Forest River, and, I guess, there was a lot of loyalty and respect for each other. As we progressed, somebody that was working now for the competition would say, 'Hey Pete, I want to get back together with you.' And I'd say, 'We ought to do that,' and so we did. Forest River was founded on many prior years of relationships.

Is there any more to your formula for success than the best product at the best price with decent people running the show? I mean, everybody says that. Yet, you were able to step in with this company and absorb 19% of the U.S. towable market. How were you able to do that?

The best product at the best price is everything, no matter what the product is. If you have that, and are carrying your message to the people who are buying — in this case RVs — success is going to be forthcoming. There's nothing more. Then, service it. Take care of it. Be a man of your word. Do what you say you are going to do. We've always done that.

In the process, you've utilized a very consistent management style, have you not?

We have somewhat of a theory that to the victor goes the spoils. A person running a division — in this case a general manager — should bene-

fit from his hard work. And they do. Financially. By the same token, there is a certain pride of authorship that each one has. If you hire people who are somewhat competitive and want to do a good job and succeed, you don't have to worry about them. They do what they are supposed to do.

RVB: Self-starters?

Liegl: Yes, as Warren Buffet says, if you've got a baseball team and a guy is batting .400, you don't try to teach him how to swing.

Jumping forward in time, why, with everything going so well at Forest River, did you decide to sell at this time to Berkshire Hathaway or anybody else?

I'm getting to that age — 61 — that anything could happen to a person physically — not that I expect it. But I'm saying, 'How do I get rid of and turn over the reins of Forest River down the road.' I have to do that someday cause I'm not going to live indefinitely. At the same time, I have to do it in such a way that it is good for everybody. And this I believe is good for everybody, because Berkshire Hathaway buys business. They build them. They keep them. They maintain them.

And if I sold to an investment group, their approach would be to build up the company and spin it off, take it public, whatever, for the sake of cold hard cash. Who built this company? It wasn't Pete Liegl at all. It was the employees who built it. It's my obligation to make sure that if we do something with the company that the employees are taken care of.

The financial strength of Berkshire Hathaway is humongous. It's not only good for the employees, it's good for the dealers because they have security that the product that they bought will be taken care of. It's good for the customer, our suppliers, it's good for everybody. I might have been able to get more money selling it an investment group, but that wasn't the best thing for everybody going forward.

There has been all kinds of talk about the vagaries of going public, especially for a guy like yourself who might not enjoy too much bureaucracy? How has it gone so far, and what is your view of how this is going to go in the future.

I don't think it's going to be much different today than it's been in the past. I have had absolutely no problem living with the new structure, and Mr. Buffet in effect lets a person run his own show. My directive from him has been: 'Keep doing what you've been doing.'

What about Sarbanes-Oxley? How painful is that?

Not painful at all. I'm just a subsidiary of Berkshire Hathaway.

So the drudgery of that bureaucracy is not on your shoulders?

I have none of that.

“Mr. Buffet in effect lets a person run his own show. My directive from him has been: ‘Keep doing what you’ve been doing.’”

So, you’re going to stand there and tell us that nothing is changing at Forest River, even though every company that gets purchased says the same thing, and many of them ultimately wind up getting turned upside down by their buyers?

I know that’s true in many cases. But If we go back and look at Berkshire Hathaway, I made my agreement with Mr. Buffet. Mr. Buffet is world known. He has an impeccable reputation. And what he told me is coming true, and I have no reason to ever question him. Everybody in the world knows he’s a man of his word. When you are doing business with a person like that, he’s going to do what he says because it’s so important that he maintain the reputation that he has.

Word on the street, right or wrong, is that Berkshire Hathaway didn’t do all that much due diligence when finalizing the Forest River purchase. Is that correct?

Well, what do we call due diligence. Maybe there wasn’t a lot of due diligence as you and I know it. But maybe there was due diligence done, I’m going to say, at a higher level that Buffett did. How did he get to where he is at if he’s made very many bad mistakes? You know he has to know what he is doing. So the due diligence that we might think is maybe not what he thinks.

Not counting paper clips?

Exactly.

How about you? Are you staying in the fray on a day-to-day basis. Is your approach to every workaday similar to what it was before the sale?

I’m here before 8 o’clock every day. I work half days right now to be honest — just like before. Seven until seven.

There’s talk that, when all is said and done, your company may emerge from this transaction as an industry consolidator, not unlike Thor Industries Inc. already is.

There might be some truth there. We’ve got the capability to be a consolidating factor because Forest River has the strongest financial statement of anybody in the RV business.

Anybody. That’s not including Berkshire Hathaway. That’s Forest River itself. But I have to give credit to Thor, they are No. 2. That’s the truth. In fact, you can take three or four public RV companies today, add them together and they don’t come up to our net worth. We’ve got several companies out there that should not be public RV companies.

Are you still as committed as ever to building your market share in motorized product, even in the current environment?

Yes. We can’t change it. Somebody is going to get those sales. If we do what we are supposed to do — have the best product at the best price, work harder than the other guy — we’ll get the sale. Otherwise, in terms of product, our main thrust on the short term is to focus on quality, fit and finish and customer satisfaction. We have just added a new PDI building in Goshen, a new service center in Elkhart. We want to turn out the best product we humanly can, and continue doing what we are doing. In a nutshell, that’s it.

How do you view the current marketplace?

I think inflation, for example, is far more rampant than people are acknowledging. People are feeling the pinch on fuel. This winter natural gas is predicted to be 40 to 50% higher than it was last year. You are going to experience shortages in materials. We are going to see some serious price increases. That’s going to affect the consumer. I don’t think it’s going to last forever. But I think we’ve got 18 months of price increases that are going to be hurtful.

You’ve made bold statements in the press recently regarding your plans to continue building projects and add as many as 600 workers in the near future to accommodate continuing growth. Can you comment on that?

Well, we put up eight plants last summer. They are all done and producing. And I just bought another five buildings, two in Elkhart, on top of the eight we built last year. We are definitely moving forward. I don’t care if the market

shrinks in half. Half is still far more than I can build. Someone is going to get it.

Is some of this production space allocated to building units for the Federal Emergency Management Agency (FEMA) for use in the hurricane-stricken areas?

We have built some. But we’ve been blessed. We didn’t need any orders, so our ability to build any of them has been limited. We could have more FEMA orders, but we are scheduled out. We took 7,000 or something like that, and I dedicated some plants to it. We are building 300 a day, but we had a backlog of orders prior to that.Δ

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