TACKLING A TOUGH TURNAROUND

After helping build Kirkland & Ellis into a top-notch corporate law firm, Bill Kirsch '81 left to take on one of the toughest CEO jobs in America—turning around the once high-flying insurance company Conseco.

BY ERIC NEE

PHOTO: HAROLD LEE MILLER

Most attorneys would probably say that William S. Kirsch '81 had it made. After 23 years, he had risen to the top of Kirkland & Ellis, one of the nation's most highly regarded and profitable corporate law firms. Better yet, Kirsch loved what he did—helping pull together intricate deals for leading private equity firms, including Madison Dearborn Partners, where he was general counsel. He was so engrossed in his work that "if he's working an 80-hour week, it's because he took two days off," said Madison Dearborn CEO John A. Canning, Jr.—only half kidding.

He had a life outside of work as well. Kirsch, 48, and his wife of 17 years, Dawn, lived in a large home on the shores of Lake Michigan in the affluent Chicago suburb of Lake Forest, with their two boys and two girls, ages 9 to 16. He sat on the boards of Northwestern University and the Children's Inner City Educational Fund, among others, and even found time to coach his kids' baseball team.

In short, Kirsch had constructed the sort of life many lawyers only dream about. Then, less than one year ago, the world that Kirsch had created was turned upside down. In early August, he was vacationing in Palm Springs, California, when he got a telephone call that would dramatically change his life. It was R. Glenn Hilliard, the executive chairman of Conseco, Inc., asking him whether he would like to be considered for the job as CEO. Kirsch was taken by surprise. "It was sort of an out-of-body experience," he recalled.

During the previous two years, Kirsch had spent numerous hours helping Conseco through bankruptcy. Since September 2003, he'd even been executive vice president, general counsel, and secretary of the company. But Kirsch still had no inkling that the existing CEO was going to leave, or that the board would consider offering him the job.

And what a job it was. For most of the 1990s Conseco was a poster child for the business boom, right up there with the likes of Cisco, WorldCom, and Amazon. But a disastrous $6.7 billion acquisition of Green Tree Financial Corp. in 1998 sent the company tumbling into Chapter 11—the third largest bankruptcy in U.S. history. Conseco emerged from Chapter 11 in 2003, but much remained to be done. As if the job weren't tough enough, Kirsch would have to commute from Chicago to Conseco's headquarters in Carmel, Indiana, just outside Indianapolis.

Given the choice between staying with something he had mastered and trying out something entirely new, Kirsch took the leap. "I felt it was the ultimate call to duty. I wanted the challenge," said Kirsch. "I knew the company. I was comfortable with the team. And I thought we had the opportunity to transform the business." Kirsch took over as CEO in August and quickly began implementing a series of initiatives that, if successful, will put Conseco on course to get back its "A" rating from A.M. Best, the premier insurance industry rating agency.

How's he doing? "I think he's done an exceptional job," said Hilliard. "He has all the great qualities we were hoping for: a great work ethic, strong principles, the ability to make decisions, and he's a quick study." As for the turnaround, "I think we'll surprise a lot of people."

Rise and Fall of Conseco

The story of Conseco's meteoric rise and fall has all the drama of a soap opera. The company was founded in 1979 by Stephen C. Hilbert, a former insurance and encyclopedia salesman. In the stodgy insurance industry, Hilbert stood out as someone willing to take risks—sometimes big ones.

The insurance industry is chock-full of small companies, and soon after starting Conseco Hilbert started buying them up. Over the next 20 years the company bought 43 insurance firms. Many of them were small, and were consolidated under the Conseco Insurance brand. But there were a few large acquisitions as well. These included Bankers Life and Casualty Co., a 125-year-old firm that uses its own agents to sell supplemental health and life insurance to older, middle-class Americans. Then there was Colonial Penn Life Insurance Co., a 45-year-old firm that sells life insurance using direct mail, television, and the Internet.

Hilbert's strategy was a classic roll-up. He bought up small companies in a highly fragmented industry, merged them together, and gained efficiencies by consolidating operations. For many years the strategy worked. In 1986, Conseco stock was listed on the New York Stock Exchange. And between 1991 and 1997 the stock split two-for-one on four separate occasions.

Lots of people made lots of money, not the least of whom was Hilbert. He lived an extravagant lifestyle, marrying a former exotic dancer named Tomisue, his sixth wife. He purchased a 22,000-square-foot home in Carmel, Indiana, dubbed Le Chateau Renaissance, and an 18,500-square-foot oceanfront home on St. Martin, in the Caribbean, dubbed Le Chateau des Palmiers.

Hilbert also spent money lavishly on corporate accoutrements. "When I first interviewed for a job, the executive suite was beyond belief," said Scott Perry, chief operating officer at Bankers Life. "It was the kind of opulence you might see at a Wall Street firm, but not what you'd expect at a Midwestern insurance company."

But Hilbert's ambitions got the best of him. In 1998, he struck a deal to buy the mobile home lender, Green Tree, for $6.7 billion. The acquisition began to sour almost as soon as the ink was dry. It turned out that there was very little synergy between the insurance business and the lending business. To make matters worse, Green Tree's business wasn't all it was thought to be, saddling Conseco with mountains of debt.

Hilbert stepped down as CEO in April 2000. The company went through several reorganizations and two CEOs before filing for Chapter 11 bankruptcy in December 2002. William J. Shea was brought in as CEO to help steer Conseco through bankruptcy and by all accounts did a good job. With the assistance of Kirsch and other attorneys at Kirkland & Ellis, who had been brought in to help with the reorganization, Shea sold off numerous assets. These included New York's GM building, which Conseco owned with Donald Trump—another legacy of Hilbert's deal-making—for a record $1.4 billion. With Kirkland's assistance, Shea also refinanced Conseco's debt and struck new deals with state insurance regulators. Conseco emerged from Chapter 11 in September 2003 with a clean balance sheet and most of its insurance operations intact.

And that's where Conseco stood when Kirsch received the phone call in Palm Springs. While it surprised more than a few people that Kirsch took the offer, it wasn't really that out of character for him to have done so. In fact, one might almost say that Kirsch had spent his life preparing for this very challenge.

Growing Up in Chicago

Kirsch may have trained as a lawyer, but he had an early affinity for business. He grew up in Highland Park, Illinois, a Chicago suburb not far from his current home in Lake Forest. His mother, Mildred, taught school in Chicago, and his father, Dan, was a businessman. "I grew up in a house that was focused on business," said Bill Kirsch.

Dan Kirsch started out as a salesman, then began a small clothing manufacturing business, and soon after opened his first clothing store. His company, Dan Howard Industries, went on to operate about 200 stores throughout the United States and Canada under the Mothertime, Maccona, PlusBoutique, and Dan Howard Maternity brand names. In 2001, Dan Howard Industries was sold to Mothers Work, Inc., for about $20 million.

When it came time for Bill Kirsch to attend college, he didn't stray far from home, attending Northwestern University in nearby Evanston. "I could live on campus and come home when I wanted to. I liked that," said Kirsch. He majored in philosophy and played wide receiver on the Northwestern Wildcats football team, which at the time sported one of the worst win-loss records in NCAA history. "It was a character builder," he said facetiously.

Kirsch would have liked to join his father's business, but "he wanted me to go to law school and work for a couple of years before I did anything for him," recalled Kirsch. It came down to the University of Chicago and Stanford law schools. "I had a dream one night about going to the University of Chicago," said Kirsch. "I was in a closed stone room, with a teacher in a black robe standing behind a podium. It was an oppressive perspective on education, where the teachers were disseminating information, and the students were good pupils absorbing it all." Needless to say, he chose Stanford.

"I really liked the small class size, and if you can get a first-class education in a beautiful spot, why not?" said Kirsch. "It was the first time in my life where I was surrounded by people who were very well-rounded and intensely smart. It really helped me raise my game mentally."

To the Top at Kirkland

After graduating from Stanford, Kirsch planned to work at one of Chicago's most venerable law firms, Winston & Strawn. Just before joining, he changed his mind. "I was recruited to Kirkland by my classmate John Quigley [JD/MBA '79], who was already at Kirkland," said Kirsch. "Quigley convinced me that Kirkland was the place to be. I respected his judgment implicitly, and the fact that he was already there made it easier."

"I thought Bill would be a good fit," recalled Quigley, who now runs his own investment firm, Kewco, in Princeton, New Jersey. "Kirkland was a freewheeling, can-do sort of place. A meritocracy where aggressive people could do well and move up fast. And Bill was that kind of person."

Landing a job at Kirkland was also a bit of a personal coup for Kirsch. His father's father had once operated a barbershop in the basement of the building that housed Kirkland & Ellis in Chicago, no doubt giving regular trims to many of the firm's top attorneys. "It was kind of a big deal to get a job at Kirkland in our family," said Kirsch.

Kirsch joined his friend Quigley in Kirkland's private equity group. It turned out to be one of the best decisions he has ever made. The group was led by Jack S. Levin, the godfather of Kirkland's private equity practice, and by all accounts the smartest and most entrepreneurial attorney at the firm. Being one of "Jack's boys" meant putting in long hours, but it also paid off. "When you worked for Jack, it quickly became apparent whether you were adding value and getting the job done," said Quigley. "Those who were, moved up quickly."

Kirsch was one of Levin's most talented protégés, working on a wide range of deals. He soon developed a reputation as one of the most driven and competitive attorneys at a firm known for having more than its share of Type A personalities. "He's brilliant, dogged, very hardworking, and has an intuition for a deal that is second to none," said Kirkland partner Richard Porter.

Kirsch made partner at age 30 and went on to become one of the company's top managers. He was a member of the finance committee, compensation committee, admissions committee, and committee of committees (yes, there really is one). Kirsch was well compensated for his efforts, becoming one of only three partners to reach the pay cap, reputed to be $5 million per year.

Kirkland's private equity group grew into one of the top practices in the country, with about one-quarter of the firm's approximately 1,000 attorneys now working in the area. Kirkland may not be as well known on the left and right coasts as some of its competitors, but in the Midwest it is the premier private equity law firm.

"Every investment is transformational," explained Kirsch about what attracted him to the area. In private equity, "you represent people who hunt for value," like venture capitalists, banks, and private equity managers. "I always put my heart into it, because I felt like I was part of the team. I had very close relationships with my clients." He developed such a close relationship with one of the firm's biggest clients, Madison Dearborn, that he became its general counsel even while he remained at Kirkland. The Chicago company is one of the country's largest private equity investors with some $8 billion under management. "In addition to being a great deal and transaction lawyer, he knew our firm inside and out," said Canning, Madison Dearborn's CEO. "He had MDP blood flowing through his veins."

One of the biggest deals Kirsch worked on was Madison Dearborn's $3.7 billion leveraged buyout of the Irish packaging company, Jefferson Smurfit Group, in the summer of 2002. It was the largest private equity deal in Europe that year. "Bill and I were in Ireland for about a month working almost constantly," recalled Rick Campbell, a partner at Kirkland. "The financing scheme that Bill put together was very aggressive and very favorable to his client." Jefferson Smurfit, still owned by Madison Dearborn, is the largest producer of cardboard boxes in the world.

Kirsch was in the middle of helping Madison Dearborn put together another big deal, the acquisition of the timber and forest products company Boise Cascade, when he was offered the job as Conseco CEO. He began working at Conseco in August, but kept working on the Boise Cascade deal right up to the day it closed in October. "That's the kind of guy he is," said Canning.

Conseco's Turnaround

On August 12, 2004, Conseco announced that Kirsch was taking over as CEO. The next day the company's stock dropped 8 percent to $15.74. It was not an auspicious beginning, but it didn't phase Kirsch. "I've spent 23 years dealing with tense situations, and I'm pretty accustomed to them, " he said. As to why the stock dropped, "The market doesn't like surprises. I didn't view it as a reflection on me." Since then, the stock has recovered, closing at $19.48 on February 2.

One of the reasons that investors' confidence in Conseco has risen is that Kirsch has been very explicit about his plans for the company. Chief among these are the five initiatives that he has launched, all focused on getting Conseco an "A" rating from A.M. Best. "We're on a quest for an 'A' rating," explained Kirsch. "We've been told it could come in 12 to 36 months [from last summer]."

An "A" rating will make it easier for Conseco to sell insurance. The company relies on independent agents to sell Conseco brand insurance, and many agents will not sell insurance from a company with less than an "A" rating. In addition, many insurance products are sold to employees at the workplace, and most corporations will not give insurers with a low rating access to their employees.

While getting the "A" rating is important, the process of getting the rating is just as critical. That's because the conditions that A.M. Best imposed on Conseco to boost its rating are also ones that are vital to the company's health. And that's where the five initiatives come into play. Each initiative is focused on one of the areas that A.M. Best has said needs improving: increasing sales, tightening expenses, complying with Sarbanes-Oxley rules, consolidating IT systems, and improving operations.

"These aren't new ideas," said Perry. "But what Bill has done is bring a sense of urgency and focus to the company that wasn't there before. If you talked to the top 50 people at the company, they could all rattle these five off."

It's one thing to develop priorities, but it's another to actually do something about them. "In the five months since Bill took over, we've made major progress in each of these areas," said Perry, who was elevated by Kirsch to the COO job at Bankers Life in October. At Bankers Life, for example, sales of new annualized premiums were up 8 percent in 2004, and much of that increase occurred at the end of the year. That was because Perry set to work fixing back office operations—faster underwriting of new policies, better customer service, improved claims processing.

"The company is responding well to Bill," said Hilliard. "He's the first really effective CEO they have had." Shea had done a good job restructuring Conseco's debt and leading the company out of bankruptcy, but he wasn't the best person to lead the operational turnaround of the company.

Perry, for one, recognized Kirsch's talent and passion right away. Impatient with the pace of the turnaround, Perry had already planned to leave Conseco when it was announced that Kirsch was taking over. Shortly after the announcement, Perry met with Kirsch and told him he planned to resign. "He said, 'No you're not.' And he kept on me until I agreed to stay. He won't accept defeat," said Perry. "Just that experience inspired me."

This is the same sort of bulldog behavior that Kirsch exhibited when he was at Kirkland. "He knows how to get to the goal line," said Canning. "We had him involved in our most difficult issues and transactions, knowing that he would figure out how to get it done."

The energy and passion that Kirsch brings to Conseco is good for the company, but it may also be unsettling to some people at the firm. "He's very demanding," said Perry. "He sets high expectations for himself and the people around him. He runs at a very fast pace. The people who want that will gravitate toward it, and others won't. But that's okay. It's better if people who don't want that leave."

Conseco could have easily ended up as one of the numerous casualties of the postmillennial economic bust. Instead, the company stands a good chance of becoming one of the era's most dramatic business recoveries. "The turnaround on the balance sheet was quicker than anyone could have anticipated, and the operational turnaround will be just as quick," said Hilliard. "A lot of people will be shaking their heads and asking, 'How did they do that?'" If Conseco rebounds, the short answer to that question will almost certainly be—by hiring Bill Kirsch. ■