

BILLIONS TO BUST – AND BACK

**HOW I MADE, LOST AND REBUILT
A FORTUNE, AND WHAT I
LEARNED ON THE WAY**

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WITH ANDREW CAVE

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PROFILE BOOKS

First published in Great Britain in 2014 by
PROFILE BOOKS LTD
3A Exmouth House
Pine Street
Exmouth Market
London EC1R 0JH
www.profilebooks.com

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A CIP catalogue record for this book is available from the British Library.

ISBN 978 1 78125 369 4
eISBN 978 1 78283 116 7

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Typeset in Palatino by MacGuru Ltd
info@macguru.org.uk
Printed and bound in Britain by
Clays, Bungay, Suffolk

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PROLOGUE

ON TOP OF THE WORLD

On my 40th birthday in March 2007, I was sitting on top of the world and only 250 people in it were richer than me. I lent my jet to presidents, mingled with Hollywood stars and media moguls, and was a celebrity in Iceland as the nation's first billionaire.

To celebrate, I decided to do something very special. My wife Kristin came up with this idea of not only celebrating the birthday but making it about something else as well. 'Thor, you can now do almost anything you want,' she said. 'Why don't you reflect on how you got there and share something unique with the friends and family who helped you get to this position?' Her comments struck a chord with me and we coined the idea of a kind of thank-you party. While I was a little nervous of making too big a deal out of a birthday, and uncomfortable with the kind of lavish parties that some people were throwing at the time, I started thinking about it differently. This was a chance for me to share the rich lifestyle I enjoyed with the people who I most valued and who were dearest to me, many of whom would never otherwise have the opportunity to experience it. Once I had become sold on the idea, the sky was the limit.

Kristin and I simply thought about the place where we had the most magical memories, and which music we liked best, and we decided that we had to go to Jamaica. We also had the crazy

notion that it should be a complete surprise party – for the guests instead of the birthday boy!

We hired a Boeing 767 furnished only with business class flatbeds and had two pick-up points, as people were coming in from all over the world. We told people to show up at Heathrow airport in London at 5 pm or in Reykjavik at 8 pm on the Thursday and get ready for a mystery trip to a faraway destination. The location was a closely guarded secret, and the 120 people on the plane had absolutely no clue as to where they were going, only that they would be returned back on Monday morning. I knew that there was a long flight ahead and that people were likely to start partying on the plane, but I needed them to have plenty of energy for the full programme we had planned. So I made sure that no alcohol was served on the flight and tried to get everyone to rest. That did not go down so well with everyone on board, but they had no choice. Everyone was an important friend to me, and most of the passengers would never have been able to afford to do something like that for themselves.

The guests didn't know anything about the party we had planned either. On the Saturday, we were all dressed up for dinner when suddenly a white screen dropped down, whereupon Kristin stood up, took hold of a microphone and announced that she had secretly made a short film about me and my life which she wanted to share with us. When the lights went off and the film started rolling I was amazed to find myself watching interviews with my family, my friends and the people I had been closest to at different periods in my life. Kristin had even sent a video crew to Russia to interview people from my time there and film the background there – all the interviewees were in the room, but no one had breathed a word to me. It was a documentary in which people described their impressions of me, and key moments from our relationship. Towards the end, there was even a personal greeting from my childhood James Bond idol Sean Connery, whom I had met twice. I simply could

not believe it. The whole thing was one of the most surprising and moving experiences I have ever had. It left me completely speechless.

We had two sets on a beach, one with Jamiroquai and the other with Bob Marley's son Ziggy. Jamiroquai told me after his performance that this was the most beautiful setting he had ever performed in. He was at the top of his game and proceeded to party with us into the night. Then 50 Cent played on a purpose-built Hollywood-style set at our dress-up dinner in a white castle built in the 1920s in the middle of nowhere by a German eccentric. It was a hugely extravagant occasion.

As 50 Cent sang the line 'We're gonna party like it's your birthday', I would not have believed anyone if they had told me that within eighteen months I would have lost 99 per cent of my \$4 billion fortune and would be pursued almost to the brink of bankruptcy by seven major banks. I would have found it impossible to contemplate that I would be treated like a pariah in my home country, saddled with \$1 billion of debts and hated as a man who had supposedly almost single-handedly brought down an entire economy. But that is exactly what happened. How did I get from Caribbean hero to Icelandic zero? And how did I live to tell the tale? This is the first time that I have ever told that story.

BILLIONS TO BUST

And you may find yourself living in a shotgun shack
And you may find yourself in another part of the world
And you may find yourself behind the wheel of a large
 automobile
And you may find yourself in a beautiful house, with a
 beautiful wife
And you may ask yourself: Well, how did I get here?

Talking Heads, 'Once In a Lifetime'

My name is Bjorgolfur Thor Bjorgolfsson and I'm a deal junkie. There, I've said it. But, just as when an alcohol abuser finally makes the admission he has been denying for years, this disclosure shouldn't come as any surprise. Business deals are my fix. I have been addicted to them for most of my life and as I became increasingly hooked, the temptation to borrow way over my head to fund them became too much for me to resist.

Born into one of Iceland's most famous capitalist families, I remember negotiating my earliest deal at the age of 10 when I persuaded my father to lend me \$80 to buy a stack of vintage *Marvel* and *X-Men* comic books. I went into a 50-50 partnership with him. It was my idea and his money, which seemed to be a good notion at the time. I have never paid him back, but the

comics became a great investment. They have never been sold and are stored in a warehouse, accumulating value that will hopefully be passed on to my children.

A decade and a half later, I made my first fortune amid the Khrushchev-era concrete apartment blocks of Russia's hinterland following the collapse of the Soviet Union and fall of communism. I made my money from alcopops and beer, funding growth through my credit card, bank and private equity borrowings and working all the hours I could. Calculating that there were large profits to be made for the first outsider to successfully launch a premium beer brand in newly capitalist Russia, I set up shop in the Wild East and built the nation's biggest foreign-owned brewery start-up, selling out for hundreds of millions of dollars ten years later.

That's when the high life began for me as I moved in elite circles as an international business fixer, consorting with prime ministers and powerbrokers in privatisations in everything from telecoms to pharmaceuticals.

How did that feel? Much like a breaker wave appears to an experienced surfer who knows what it's like to be sucked under as the powers of nature overwhelm him but also loves the thrill of staying on his feet and figuring out a way of coming back out on top. It's dramatic imagery but for me, that was the sensation of being Iceland's first billionaire. I became a self-styled adventure capitalist who loved riding the storms of international business, never knowing exactly what economic, financial and political forces I would have to confront and having to calculate the risks and weave in and out of cycles, trends and the whims of the individuals I had to deal with.

I thrived on coping with the esoteric, the dangerous and the exotic in pursuit of a deal. From pharmaceutical investments in Bulgaria at the time NATO was bombing Serbia to dismantling a top-heavy former nationalised telecoms giant in the Czech Republic, I discovered that a little capital and a lot of debt could

multiply my initial wealth many times over. It peaked when I bought a Bulgarian telecoms group, BTC. My leverage on that deal was 95 per cent, meaning I only had to put up 5 per cent of the funds myself. I was hooked.

I had more money than I could have spent in a thousand years. *Forbes* estimated my wealth at \$3.4 billion and put me on its cover. Steady increases in asset value kept adding to my fortune. It might just as well have been on autopilot. Doubts crept up on the periphery, but everything was moving too fast for me to process it clearly and objectively.

What does a deal-aholic think about when he wakes up in the morning with a dull thud in his head? I am not interested in financial architecture or in predicting the regulatory weather, nor do I rely on structural change. Economies and their markets, their regulators and their rules are constantly changing. A proficient surfer knows how to read the waves but cannot dictate what kinds of waves come in. The market is often wrong and it is those sorts of imbalances I make money from. I have made profits by accepting more risk than some other investors could stomach and then quickly de-risking through financial engineering before selling out to people with different risk appetites. Do I want a level playing field? No – no more than a surfer would like the sea to turn flat. In both instances, that course of events would just turn everything into a commodity.

I have always been interested in what I call special situations. I like to parachute into hairy situations, save them from getting worse, turn them around and make an exit. You could call it storm-riding financial markets. Such situations develop only when people are scared and do not understand the risks. I act like one of the advance guards who seeks to establish an entrenched advantage. I am not a mercenary. I am accountable. My personal reputation and wealth are at stake and my next deal depends on how I have entered and exited my last one. Publicly quoted corporations are normally not nimble or brave enough to

put their balance sheets at risk in the same way that risk-taking individuals do. I can put myself on the line for what I am doing. People know who I am and what they see is what they get.

So what do they see? A deal junkie who constantly has his eye on the next stage of the plan? A financial manoeuvre that will turn the situation and open up the potential for profit? And what do I think of when I'm in the midst of such a plan? How I can tweak the shape of the business. What can be spun off, demerged or sold? What potential is there for mergers to create larger focused businesses, maybe specific to geographies or sectors? How much leverage can be put on the deal? What is the potential for stock or bond offerings? Which larger investors can be brought in for slices of the action? My eye is always on how I exit. I don't normally just buy something, hold it for a long time without changing the business and then just sell. What interests me is the evolution, the de-risking, and the stage-by-stage metamorphosis of a business into something that is simply inherently more profitable.

That has always been my investment approach. When the markets seized up and the appetite for risk diminished, my personal capacity to exploit opportunities became much more restricted. But a bit of cold turkey is not altogether a bad thing. It allows me to reflect on how I got here and where I go next. It has been, as they say, one hell of a ride.

In the boom years, along with countless others, I worshipped the god of leverage. In my best year, I made \$1.3 billion from merging, floating and spinning off businesses. Then I looked to do it all again. I was always happiest when deals, ideally more than one at a time, were in view. I liked to call what I did visionary and similar in some ways to chess, in that I was always planning the game several moves ahead. I like to think I am good at spotting opportunities and having a sense of how things could turn. If asked about my strengths I'm intuitive – my best results have come when I have followed my intuition, whereas

the times I have managed to suppress it have usually ended in disaster. I'm always looking at my portfolio and seeing how I can develop and enhance it, and my time horizon is generally where I want to be in two to five years.

What was it like to add \$2 billion to my personal wealth in the space of just two years? It certainly wasn't 'easy come, easy go', although that is how it might look now, but it was definitely rapid. I made my first \$100 million in 2002, from the Bravo brewery sale to Heineken. In those years Pharmaco, later Actavis, a generic pharmaceutical business where I was the largest shareholder, had become a public company with a stock market capitalisation of about \$50 million – so small that London investment bankers would barely give me the time of day. But Actavis grew phenomenally both organically and through mergers and acquisitions, and by 2008 it was valued at €5.3 billion (\$7.3 billion dollars at the exchange rate of the time) and was Iceland's biggest industrial company, second in size only to the banks on the nation's stock exchange. Actavis, in all its guises, was my biggest, most profitable and most complicated investment. It sums up the way I like to do business. In its early days, it involved putting together an equity consortium in a privatisation in eastern Europe. Then there was a reverse takeover of a listed company, the spin-off of its core business, a hostile cross-border takeover of another listed company, a public-to-private leveraged buy-out, financial restructuring and finally a sale to a listed company.

As well as being financially rewarding, I hugely enjoyed the creative energy I was able to exert in devising new strategies and fresh ways of extracting value. I rarely make an investment and say: 'This is the business plan. I'll hold it for five years.' Usually, there is a lot of dealing involved. I'm constantly thinking about how I can evolve and tweak it with another deal. It is like managing a formula one racing team: you are constantly making adjustments to the car to improve performance and also adapting your race strategy to get ahead of the competition.

How big does a bubble have to be before it pops? The question would not matter so much in relation to capitalism's perpetual crises were it not that every puff of breath into such a metaphorical sphere can be worth millions of dollars. Each inhalation represents an escalating risk but still we gather the air. We all know that bubbles burst, but what an opportunity glistens before that inevitably happens. Iceland was in such a bubble in 2007. It had been building up for some time and, much as I would like to say that I was aware of its impermanence and wiser than others who were profiting from it, I remained seduced. Everyone in Iceland's financial circles was. The siren song was simply too beguiling.

In the Actavis takeover, I made a public offer for the company worth €5.3 billion, putting up 20 per cent of the equity and borrowing the rest. This was the largest European private equity deal in 2007. I still find it incredible when I think about it, but I was hardly alone in my hunger for top-of-the-market profit dollars. Indeed, I was inundated with bankers who wanted desperately to be in on the deal. Some were hammering at the door to get in but it was being kept firmly shut by those on the inside. 'No. We're not letting any other bank in,' they told me. 'Guys,' I said. 'You're lending €4 billion here. Don't you want to diversify your risk?' But the guys who had originated the deal were protective of it and didn't want to do that. I saw their eyes gleam and I took their money.

I think you see those times only once in your life. Of course, there had been earlier bubbles, including the 1998 Russian crisis. There are some similarities. In both, the state became the speculator. There was a casino atmosphere and the biggest gambler of all was the state, which was issuing debt. The events of 2007 and 2008 were global, however. This time, it was as if virtually everyone in Western markets was smoking crack cocaine and did not notice when the whole system, the equity markets and indeed nations were about to fall.

I remember in Russia, when we were making beer, our management accountants were asking about our margins and we were telling them that they were about 25 per cent before overheads. Then my deputy came in and said: 'Thor. We're buying all these raw materials. Why are we doing that when we can get 25 per cent on Russian state bonds right now? Why don't we lower production and just buy three-month short-term bonds at a guaranteed 25 per cent. We'll get a much better return on it.' This was from a regular employee with no background in financial speculation. Even he was being seduced by the fantastic returns being offered by the state. Russia needed to fund itself so it was just supporting its debts at higher and higher rates and everyone was buying them. It was unsustainable but a decade later the same thing was happening in Iceland, where the Icelandic Central Bank was offering state paper at 15–16 per cent in an AAA-rated economy with a strong local currency.

What happened is that money got diverted out of the economy into the capital markets. It is like when people stop buying houses and cars and instead mortgage their apartments and start speculating in the equity and government bond markets. Companies can do that too. Directors say to each other: 'Let's not focus so much on fishing or making more food here. Let's just buy this debt.' This is one similarity between what happened in Russia and Iceland before their respective crashes. In Iceland, the situation was stoked up by an unrealistically strong krona and the state issuing paper. Of course, the banks had their problems too, but the biggest problem was the unsustainable strength of the currency. That is what caused the most collateral damage when the bubble was finally pricked.

Another similarity is the oligarchies that had emerged in pre-crash Russia and in Iceland. I would estimate that in 2008 about 30 people controlled Iceland's economy out of a total population of 300,000. That is one in 10,000, not an excessive