

JFK Slept Here

A money pit? Not quite. JOHN K. CASTLE is as rational an investor as you'll ever find. But he fell in love with a piece of Camelot.

By JOHN A. BYRNE



THE WINTER WHITE HOUSE: JOHN CASTLE (ABOVE) AT THE FORMER KENNEDY HOME. JFK WITH HIS NEW COMMERCE SECRETARY, LUTHER H. HODGES (LEFT), IN 1960.

HE MATTRESS IS UNCOMFORTABLY FIRM, just what the doctor would have ordered for a middle-aged guy with a bad back and a world of stress. On a starry Palm Beach night, I settle in between the sheets, hoping to dream as large as the man who once tumbled into this same sack.

John F. Kennedy slept here—precisely here in this twin-size bed, from his teenage years until the weekend before he went to Dallas 40 years ago this month. His older brother Joe slept in the same room, in a matching bed with identical mahogany headboard. For a time, so did Jackie.

On this sultry summer evening, I am here as the guest of John K. Castle, chairman and CEO of Castle Harlan Inc., a New York-based investment firm.

Castle fell in love with this piece of Camelot in 1995, and he bought JFK's Winter White House from the Kennedy family for \$4.9 million. For a major player in the often mysterious and secretive world of private equity, the Kennedy property seemed the ideal purchase: a rambling house filled with a celebrated family's secrets—and, not incidentally, a terrific deal.

Almost everyone Castle knew, including his wife, Marianne, thought he was nuts to buy the place. The Mediterranean-style house with a red-tile roof had been on the market for 18 months without a buyer. It was in severe disrepair, still with-

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out central heating or air-conditioning. “Everyone in Palm Beach considered it a teardown,” recalls Castle. “They said the house was ugly and awful, beyond saving. If one of the few gas-fired heaters exploded, I wouldn’t have been surprised.”

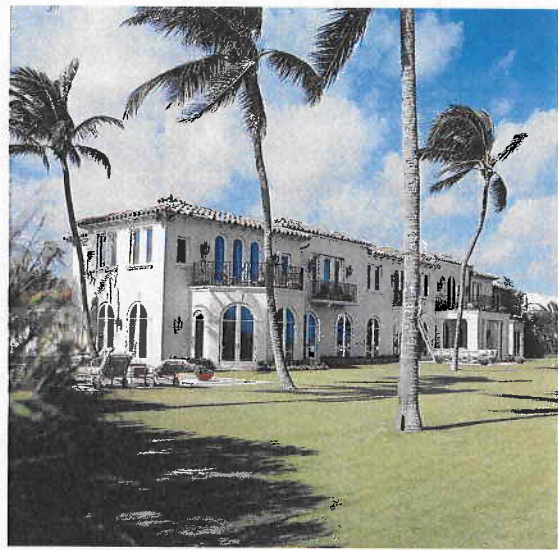
Yet Castle, who has fashioned a highly successful career by investing in undervalued and less-than-glamorous companies, quickly grasped the home’s potential. It had solid fundamentals and, if turned

around, tremendous upside. “Basically, what I saw was a house that needed a huge amount of work, but it was on a fantastic piece of property with enormous history,” says Castle. “No one focused on the historical significance of the place. I think it’s a national sanctuary.”

No question, the 1.6-acre property is strikingly idyllic. In the morning, the sun peeks over the horizon onto a glassy ocean. Palm trees cast long, thin shadows on a lawn

as soft as plush carpeting, the same expanse where the Kennedy men famously played football on many afternoons. Kennedys dived into the surf from a 204-foot stretch of beach.

Family patriarch Joseph Kennedy bought the Addison Mizner-designed house for about \$100,000 from the family of retailer John Wanamaker in 1933, a decade after it was built. Castle points out that for all the talk about the Kennedy compound in Hyannis Port, Massachusetts, both Joe and Rose Kennedy were legal residents of 1095 North Ocean Boulevard, in Palm Beach, Florida.



★ THE MEDITERRANEAN-STYLE HOUSE WITH A RED-TILE ROOF WAS DESIGNED BY ADDISON MIZNER. JOSEPH KENNEDY BOUGHT IT IN 1933 FROM THE FAMILY OF RETAILING MAGNATE JOHN WANAMAKER FOR ABOUT \$100,000.

Jack Kennedy went off to World War II from the house, and there he returned when his military service was done. It is where he eventually wrote his inaugural address, where he worked on the Pulitzer Prize-winning *Profiles in Courage*, and where he met and interviewed most of his Cabinet members. Sadly, it is also where Joe Kennedy, confined to the house after suffering a stroke, first learned of his son’s assassination.

A NOSE FOR DEALS

History infuses every corner of the place. Yet, like the vast majority of the companies that Castle has acquired, managed, and sold, the house represented a perfect opportunity—faded,

beaten down, and overlooked. In other words, it was a deal he couldn't refuse, a bargain that played to his strengths as a consummate financier. For if there's one thing Castle knows better than almost anyone, it's what to buy and when to buy it—and, most important, how much to pay.

An Eagle Scout at 13 and a Harvard MBA at 24, Castle was lured to the Wall Street firm of Donaldson Lufkin & Jenrette by Bill Donaldson, one of the firm's founders and now chairman of the SEC. He is a physically imposing man, tall and big-boned, who looks as earnest and stern as a Presbyterian minister. Part of it is his nose. It's prominent. It's exceptionally good at sniffing out deals.

Over his lifetime, Castle has bought more than 150 companies that make everything from synthetic diamond drill bits to brake components for 18-wheeler trucks. Most of them are companies you've never heard of. There was Associated Packaging Technologies, which makes packaging for microwavable frozen food. And StackTeck Systems Inc., which makes plastic injection molds for cups, lids, and cutlery.

At Donaldson Lufkin & Jenrette, Castle became an early pioneer in private equity, the business of pooling cash from well-heeled investors and buying companies with an eye to running them better and realizing higher value. During his 21 years at DLJ, he rose to become president in 1979, engineering the company's turnaround and 28 consecutive quarters of improved performance. Then in 1986, he left to found Castle Harlan with Leonard Harlan, a fellow DLJ alum.

Today, Castle Harlan's portfolio of 22 companies—from Morton's steakhouses and Marie Callender's restaurants and bakeries to little-known makers of automobile roof racks and high-school and college class rings—throw off earnings of about \$450 million on more than \$2.6 billion in revenue and employ more than 19,000 people. Since the firm's launch in 1987, it has raised more than \$2.5 billion in equity capital and completed acquisitions exceeding \$6 billion. Over Castle Harlan's 16-year history, its return to investors has averaged a stunning 38.5% a year. In August, Castle closed his fifth and largest fund, raising some \$1.2 billion.

Unlike a venture capitalist, Castle does



not pay for potential. "We're fundamentalists," he says. "We're prepared to go against the popular grain. As far as we're concerned, the future is now." He means it. An essential part of Castle's investment philosophy runs counter to common wisdom: He believes there's no need to assume huge risks in order to reap high returns. You can make a ton of money by acting the total contrarian, by investing in what's out of fashion or unpopular.

Castle searches for opportunities, such

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★ THE HOUSE WENT ON THE MARKET IN 1995, LISTED AT \$7.6 MILLION. CASTLE ULTIMATELY PAID \$4.92 MILLION. HE SPENT ANOTHER \$6 MILLION AND MORE THAN TWO YEARS TO FIX THE PLACE UP.

as the Kennedy house, that others have ignored. He invests in established businesses, not startups, with revenues and earnings that can be reasonably forecasted. He looks for companies that generate moderate growth and that enjoy dominant market share or boast control over their distribution. He favors incumbent managers who already know the business inside and out. He shuns companies that make commodity products or that are heavily regulated, and he has no interest in companies that rely on fashion trends or big technology bets.

And he will almost never pay more than 6.5 times a company's earnings to do a deal. "We're sensible people, but we're cheap," he says. "We don't like to pay that much." When the market for virtually everything overheated in the late 1990s, Castle preferred to stay on the sidelines. In 1997, his firm invested less than \$14 million in deals (and nothing in dotcoms).

"We just thought prices were awfully high. Daddy always taught me to buy low and sell high," he laughs.

Always, he's keenly interested in working closely with management—not just to better grasp the numbers but to understand the people and how they work with one another. Castle and his colleagues sit on the boards of each of the portfolio companies, keeping close tabs on everything. He knows how many steaks sit in the refrigerators of the 64 Morton's steakhouses. (It's between 45,000 and 50,000.) He's often a demanding taskmaster. "He can laser-lock on the good, the bad, and the ugly," says Allen J. Bernstein, chairman of Morton's Restaurant Group Inc. "He has the ability to do what sodium pentothal does without giving you the shot."

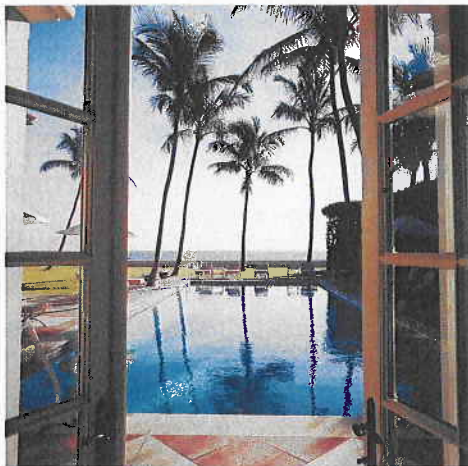
It is not unusual, says Bernstein, for Castle to dig into the nitty-gritty of operations. Castle recently grilled Bernstein: "Why do you think they sold fewer steaks in Minneapolis last month?" He will delve into weekly and monthly financial statements and thoroughly debate action plans. As Castle puts it, "Regardless of who you are, if you have to stand up and explain what you did or why you're doing something, it probably refines your thinking. Besides, the best fertilizer on the farm is the footprint of the owner."

One place where Castle has put many a footprint is the restaurant business. It has been a favorite industry of his for a long time, which is why Castle Harlan's portfolio includes a good number of them. Besides Morton's steakhouses, there are McCormick & Schmick's seafood restaurants, Luther's Bar-B-Q joints in Texas, Charlie Brown's pubs in New York and New Jersey, and Marie Callender's. During the week of Thanksgiving, Marie Callender's sells 21 million pieces of pie in California alone. Why restaurants? "Twenty-five years ago, three out of every four meals were eaten in the home," he says, without missing a beat. "Today, it's less than half. The chains were initially established at the fast-food level, but as eating out became more ubiquitous, people wanted to have more moderately priced meals. That's our focus."

His best deal ever? Would you believe the company that made brake components for trucks? In 1994, his firm invested \$16 million in Truck Components Inc. The

company led its industry with a 40% market share. But it also owned Civil War-era foundries that posed environmental liabilities some feared could reach \$400 million.

The threat scared off a lot of investors, but not Castle. He spent months on the issues, ultimately concluding that the present value of the exposure was about \$16 million. And 16 months later, he sold Truck



✦ THE VIEW FROM THE KENNEDYS' POOLHOUSE, WITH THE ATLANTIC OCEAN BEYOND. CASTLE RESTORED THE POOL, EVEN PLANTING NEW PALM TREES IN THE EXACT SPOTS WHERE THE OLD ONES HAD DIED.

Components, taking out \$82 million for a whopping 267.5% annual compounded return. "By studying it carefully," says Castle, "we found the company was a big bargain, and the exposure was manageable." Already, that seems to be the conclusion on the Kennedy house as well.

A MAN'S SANCTUARY

For several years, Castle and his wife owned a small condo in Florida that they retired to in the winter months. Once their children went off to college in 1993, they began searching for a more permanent home there.

When Castle first spotted the Sotheby's advertisement for the Kennedy compound with its adjacent carriage house, it was listed at \$7.6 million. Castle toured the home, and it seemed to overflow with Kennedys. He remembers seeing Eunice Shriver and Pat Lawford, along with children and grandchildren and friends. "There were pretty young girls running around in bathing suits, and people were on the beach and jumping in the pool," recalls Castle. "I walked into the dining room, and there was

this little kid there crying because his huggy bear was missing. He turned out to be the president's grandson, Caroline Kennedy's boy."

Six weeks later, Castle decided to make a bid. An hour after faxing his first offer to the lawyers representing Rose Kennedy, Castle turned on the television and learned that Rose, the beloved family matriarch, had just died. "I wasn't sure whether it was a reaction to my bid," the notorious cheap-skate laughs.

His first offer, at \$5.3 million, not only shaved \$2.3 million off the asking price but was also contingent on the town's approval of his fairly extensive plans to renovate the property. One alteration called for the addition of a new wing—for an open and breezy den—next to the swimming pool. It didn't take all that long for Palm Beach authorities to turn him down. Undaunted, he went back to renegotiate. "Every time the town turned us down, I lowered my offer," he says. "I'd go back and say, 'Sorry about this. But we have a few more problems.'" Eventually, Castle wheedled the price down to \$4,920,000.

Befitting his negotiating skills and his will to drive a hard bargain, Castle also managed to buy much of the original furniture in the house for an extra \$80,000—a pittance considering that only a year later, one of JFK's humidors from Jackie's estate fetched \$575,000 at auction. Among the items that Castle acquired were the beds of Joe, Jack, Bobby, and Ted, along with the 18-foot-long dining-room table around which Joe had gathered the clan for some 60 years. There's even Jack Kennedy's mahogany massage table and a chest of drawers that once belonged to Rose. Each drawer bears a label in her handwriting describing the contents: "hose," "panties," "brassieres," "black underwear," and "girdles."

Castle closed on the house in May 1995, but it took more than two years—and more than 300 inspections by Palm Beach building authorities—to complete the renovations. He figures he invested more than \$6 million to fix the place up.

Every detail mattered. The nine swaying palm trees on the vast lawn where the Kennedys played football, for example, had died and were removed. He planted new ones within 6 inches of their original arcs and shapes circa 1963. Castle even kept several of the family's longtime aides, including Leo

Racine, who first came to work for Joe Kennedy in 1948 and handled some of the money for John Kennedy's presidential bid. When cash had to be wired to a local bank from the Kennedy account for the campaign, the code words to get the money were "Viva Leo."

"Truly great investments come from being highly objective," says Castle. Like any good Castle deal, the house seems to be a financial winner; Castle says he has already turned down an unsolicited offer of more than \$20 million. But clearly, the Kennedy house is more than just another investment. The place has become Castle's sanctuary.

An avowed Republican, Castle says he draws inspiration from the home and the history it evokes. He can imagine the president on the back patio, in a chair, listening to the waves lapping onto the beach. He can even imagine JFK thinking deeply about the country and the world. "I think this house may have been very important to this president in coming up with the

For just \$80,000, Castle bought JFK's bed, the Kennedy dining table, and a chest of drawers for Rose's intimate apparel.



occasionally. A couple of years ago, a man with two children in a Mustang convertible pulled into the driveway and kept ringing the doorbell at the gate. The man said he was Robert Kennedy Jr. and wanted to show his children the house. Castle sent his young chef down to look him over. "It's probably him," she said after a quick peek.



✦ KENNEDY INTERVIEWED PROSPECTIVE CABINET MEMBERS IN THIS STUDY. BEHIND THE FAR WALL IS A SECRET ROOM (NOW A BATHROOM), THAT THE PRESIDENT COULD FLEE TO IN CRISIS.

strategic direction of this nation," says Castle. "He had a notion for where the country should go and his vision was certainly more vivid than any president since him."

The Kennedys still come to visit

Castle went to the gate and grilled him just as he would question any of his CEOs.

"What's the private telephone number in the house?" he asked. The man quickly gave the correct answer.

"Who lived in the carriage house?" queried Castle, getting into the game of it.

"Oh," the man said, "you mean Dennis."

He was correct. For years, Dennis Spear drove Rose Kennedy to mass every morning. Still, Castle persisted.

"Who took care of administrative things for the family in New York?" The man fumbled around and came up with Leo's name. "So we let him in," Castle recalls. "You could tell he was getting a little annoyed."

It was indeed Robert Kennedy Jr.

As for my own night in JFK's old digs, I can't help but notice that his bedroom is clearly the least desirable of the 11 in the house. It's tucked into the southwest corner, so you can't see or even hear the Atlantic Ocean. It seems odd that even as a congressman and then as president of the United States, he chose to stay in the room he had slept in since he was a 13-year-old boy. He could have been in one of the upstairs bedrooms, with majestic views of the water and access to the oversized connecting bathrooms.

But the room that Kennedy chose boasted one crucial advantage: a side patio door that allowed the occupant to sneak away without having to walk through the rest of the house. Indeed, rumor has it that on at least one evening, president Jack and attorney general Bobby slipped out that patio door and climbed over a stone wall to evade the Secret Service for a night on the town.

Lacking a waiting car—or, for that matter, a good reason—for sneaking out, I just retire for an uneventful night's sleep. The firm mattress proves comfortable enough, but sadly, my large, Kennedyesque dreams are not to be. In fact, I can't recall a single dream at all. ☒

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Photograph by Paul Colliton