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Inside the Breakup of the Pritzker Empire

Decadelong Restructuring Wrenched Apart Wealthy, Philanthropic Family

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By ANUPREETA DAS CONNECT

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Tom Pritzker helped guide the breakup of his family's holdings. *Jennifer S. Altman for The Wall Street Journal*

For the Pritzkers of Chicago, deal making was central to the family business, a skill Tom Pritzker learned at his father's knee.

Mr. Pritzker is now looking to build a new fortune after wrapping up the biggest deal of his long career, breaking up the multibillion-dollar family empire started from scratch by his great-grandfather nearly a century ago.

The decadelong restructuring wrenched apart one of the wealthiest and most philanthropic families in the U.S., a clan that built such iconic brands as Hyatt Hotels Corp. H -0.15% , and established the Pritzker Architecture Prize, the profession's highest honor.

"We didn't do it perfectly. It wasn't Camelot," Mr. Pritzker told The Wall Street Journal. The yearslong breakup, triggered by family members eager to pursue independent careers, was, he said, "probably the most intense, interesting experience" of his life.

Mr. Pritzker said his father, Jay, the empire's architect, had hoped the family enterprise would stay intact long after his death. But he anticipated that family pressures might later trigger a breakup, telling his son, who was named successor in 1995, "You'll figure it out," Mr. Pritzker recalled.

He now believes his dad would be proud. The cumulative value of the family's businesses

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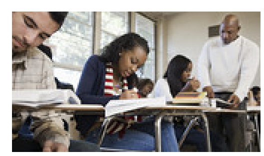

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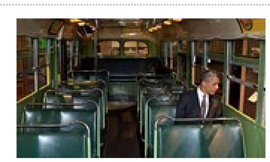

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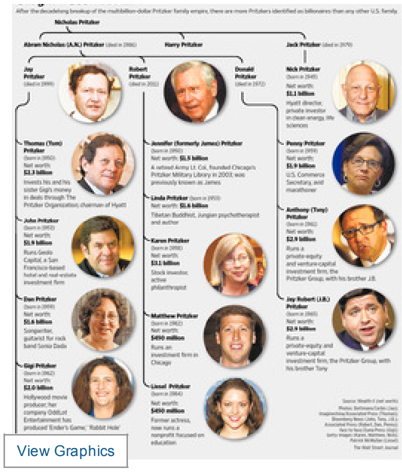

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$30 billion a decade later. There are now more Pritzkers in the Forbes 400 list of U.S. billionaires than any other family, and millions more are yet to be distributed.

By resisting the impulse to dispose of the assets in a fire sale to quell a family feud, people involved in the process said, Mr. Pritzker kept the companies intact and helped boost their value.

Today, a stake in a riverboat casino in Elgin, Ill., about 40 miles west of Chicago, is one of the few assets still jointly held by the Pritzker family. Aside from their last name, there is little to bind a group that includes a film producer, a transgender philanthropist and the U.S. commerce secretary.

Some family members have lingering reservations about how the unwinding was handled, according to people close to them. In some cases, they believe Mr. Pritzker could have cut better deals or timed sales more effectively.

Mr. Pritzker's brother John said the two men rarely speak now but he nonetheless praised Mr. Pritzker's work. "Could Tom have made more money? Probably, but am I going to bang my fists on the table?" he said. "Putting aside family and emotions, this was one of the most fascinating experiences."

U.S. business history is littered with family fights among second and third generations that inherit massive wealth. In many cases, "control of the family enterprise is held by an individual or small group, ostensibly for the benefit of everyone, but it isn't viewed by everyone as being so," said Amy Renkert-Thomas, who advises family businesses at Withers Consulting Group.

The Pritzkers instead managed in an orderly way to work for their collective interest, Ms. Renkert-Thomas said, adding, "it could have been a disaster."

Mr. Pritzker's sister, Gigi, a movie producer, said, "It was a difficult thing. We took apart something our fathers, uncles and relatives had put together."

The family fortune began after Nicholas Pritzker, Jay Pritzker's grandfather, arrived penniless in the U.S. during the 1880s, fleeing anti-Jewish pogroms in Ukraine. He eventually started a law firm in Chicago.

Jay Pritzker, along with his brothers Robert and Donald, later diversified the family holdings to include stakes in businesses ranging from Braniff Airlines to Las Vegas casinos. The jewel was Hyatt, which started when Jay Pritzker bought the family's first hotel in 1957 for $2 million.

At the time Jay Pritzker appointed Tom Pritzker his successor, the family's portfolio consisted of more than 150 private companies owned through nearly 1,000 trusts.

In a 1995 memo, Jay and Robert Pritzker laid out leadership roles for two other heirs, Nick Pritzker and Penny Pritzker, now the U.S. commerce secretary, who were closely involved in the business. The heirs consisted of one third-generation and 10 fourth-generation family members.

Jay Pritzker died in 1999, and the following year Tom Pritzker was surprised by a six-page letter signed by his brothers, John and Dan, and some cousins. They had hired outside lawyers and wanted to know what was going on with the family fortune.

A rift was perhaps inevitable, Mr. Pritzker said. The heirs by that time were pursuing their own careers, mostly outside the family business. They were resistant to Mr. Pritzker's leadership, which he acknowledged.

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legacy businesses. It's important to be respectful of it," Mr. Pritzker said. "And we didn't have transparency."

As the group went through the books, Mr. Pritzker sought the counsel of a small group including Penny and Nick Pritzker. The trio was verbally accused of siphoning off family funds to enrich themselves, Mr. Pritzker said, which they denied. An independent compensation consultant found the trio's pay consistent with market practice.

Mr. Pritzker's brother John, who runs a real-estate investment firm, said he was convinced a breakup was unavoidable.

Despite his initial reluctance, Mr. Pritzker said he saw little choice but to divide up the assets rather than wage a lengthy fight. "Who am I serving by trying to keep this all together?" he recalled wondering at the time.

What followed was a plan, conceived by Mr. Pritzker, to reorganize the family holdings to give the heirs control over their own fortunes.

After months of haggling, with lawyers on both sides negotiating every step, the heirs reached a private agreement in December 2001 to restructure their holdings over the next decade.

The execution involved three phases: taking stock of the biggest assets; creating stand-alone companies to build value; and finding the right exit path for each, without triggering extra taxes.

Mr. Pritzker also wanted to preserve the Pritzker legacy by keeping the companies intact. The other side insisted on a governance structure to monitor the plan's progress, as well as a mechanism to resolve disputes.

"What we tried to do, and Tom agreed to, was to construct a structure where everyone's incentives were aligned, and targets had to be met," said Joseph Shenker of law firm Sullivan & Cromwell LLP, who advised the opposing faction.

Responsibility for execution of the deals, including when and whom to sell the assets to, was given to Tom, Penny and Nick Pritzker, family members who knew the businesses best.

The secret agreement was revealed in 2002 after Liesel Pritzker, an actress who appeared in such films as "Air Force One," filed a lawsuit, later joined by her brother, alleging Robert Pritzker, their father, had misappropriated money from their trusts. Liesel and her brother, the children of Robert Pritzker's second marriage, weren't included in the fourth-generation heirs. The publicity that followed became an unwelcome distraction for the family, which had sought to stay out of the limelight.

Liesel Pritzker and her brother Matthew settled for about $450 million each in 2005. She now runs a nonprofit and her brother runs a Chicago-based investment fund. Neither sibling could be reached for comment. The other Pritzkers either couldn't be reached or declined to comment.

Mr. Pritzker said he was determined to manage asset sales without investment bankers, figuring that bankers would seek quick sales at the risk of upsetting employee morale and disrupting operations.

The Pritzkers ran the auction of smokeless tobacco company Conwood without bankers, for example, a rare feat. In 2006, Conwood became the first major Pritzker asset to sell, adding $3.5 billion to the family kitty.

Hostilities cooled with the Conwood sale money and with regular updates on the plan's progress.

The restructuring was complicated. Hyatt, the flagship business, required 53 mergers and two tax-free spinoff transactions to create one company. "We spent 2½ years creating something everyone thought already existed: a hospitality company called Hyatt," Mr.

The plan was to take Hyatt public. But getting the company into IPO-ready shape took several years, with some heirs complaining about the delays.

In November 2009, Hyatt finally offered about 27% of the company to the public, distributing $950 million to heirs. A multiyear plan allows them to sell their shares periodically, either to each other or to the market. The shares are now trading roughly 95% above their IPO price, giving Hyatt a market capitalization of $7.6 billion.

Another deal that caused some second-guessing was the sale of industry company The Marmon Group to Warren Buffett.

Mr. Pritzker had coaxed Robert Pritzker, who had run Marmon for nearly 50 years, to retire in 2002. Under new leadership, Marmon, which contained about 125 industrial and engineering-related businesses, grew pretax operating income from $200 million to $900 million.

Mr. Buffett was targeted as a potential buyer in 2007, and on Christmas Day, he signed a deal for his conglomerate, Berkshire Hathaway Inc., BRKB -0.27% to buy 60% of Marmon for $4.5 billion. Under the agreement, Berkshire would buy the rest of Marmon in stages, with the purchase price set by a formula tied to Marmon's earnings.

By 2014, when Berkshire buys the last of Marmon, the Pritzker heirs are expected to net around $10 billion from the transaction, according to people involved in the deal.

Some family members questioned why Mr. Pritzker didn't run an auction for Marmon to get the highest price.

For his part, Mr. Buffett, who admired Jay Pritzker, said in an interview he would have liked to buy Marmon in one transaction, but he agreed to the staggered deal knowing Mr. Pritzker wanted the maximum value for the heirs.

For the most part, the animosity within the family has cooled.

"Everyone is settling into their comfort zones, learning to coexist without having to run into each other all that often," said Byron Trott, a Chicago-based banker who advised the family on some deals. "I don't think anyone is out looking for fights anymore."

Mr. Trott, whose firm BDT Capital Partners still works closely with family-controlled companies, said the Pritzkers' patient approach was key to the successful breakup. "Most families start selling businesses immediately," he said.

Not all the cousins are on speaking terms, but some are encouraging their children to rebuild ties within the family.

"What's remarkable is that you have a generation of people doing interesting things," said J.B. Pritzker, who with his brother Anthony runs Pritzker Group, a Chicago-based investment firm. "No one is hanging out at the beach."

At 63 years old, Tom Pritzker is among those finding a new path. He remains executive chairman of Hyatt but is also doing deals with his own money, including building a logistics company in Iraq.

In October, he bought steel-services company TMS International Corp. for $688 million, using his and his sister Gigi Pritzker's money. Ms. Pritzker produced the film "Ender's Game," which made its debut at the top of the box office in early November.

Mr. Pritzker said he wasn't sapped or embittered by the breakup. A collector of and published expert on Himalayan art, he credited the Buddhist philosophy with helping him adjust to the change.

He said he was glad to be building an empire again, as he once did at his father's side: "We're going back to our roots."

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