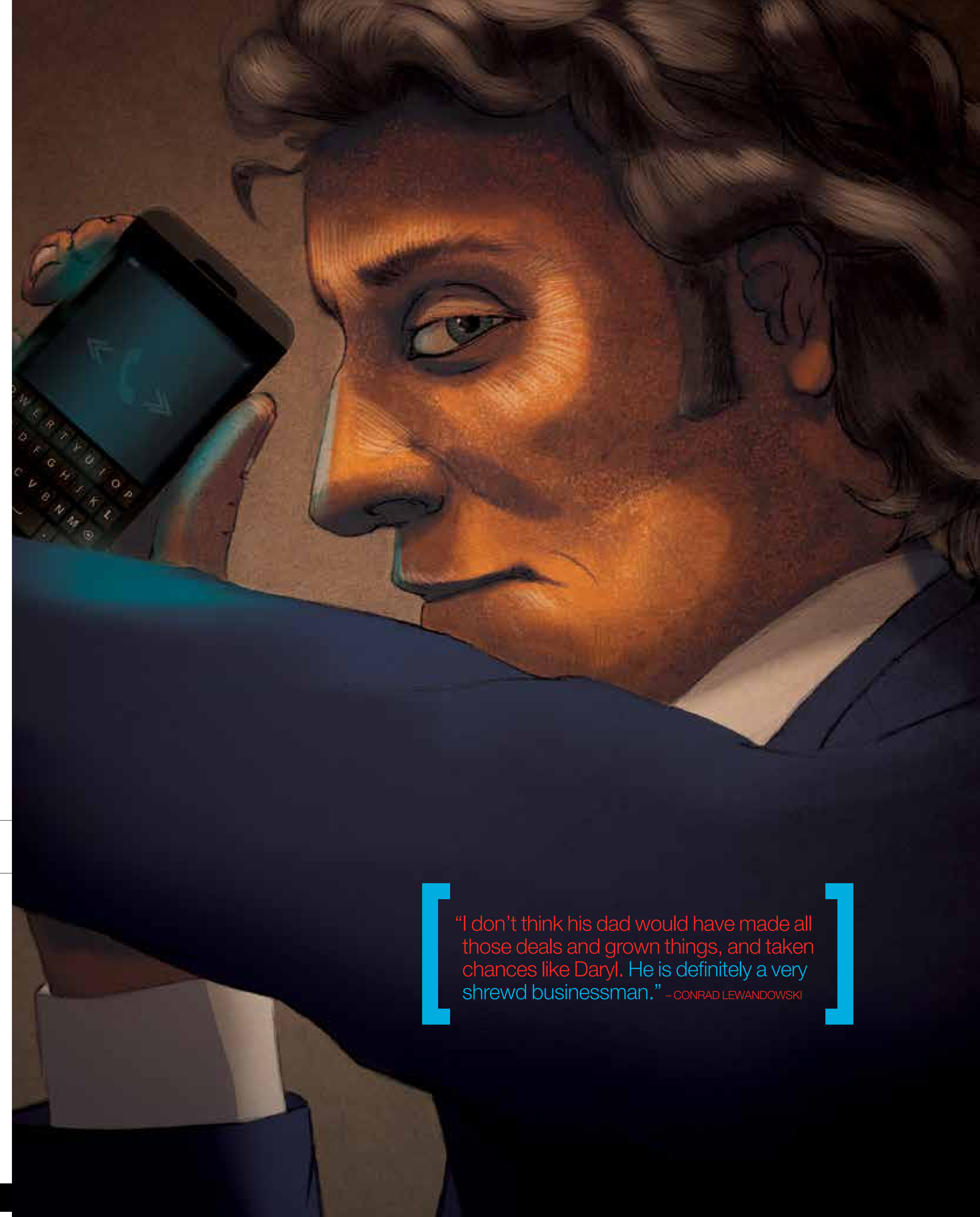
BY OMAR MOUALLEM ILLUSTRATION DAVE WEBBER

MEET DARYL KATZ

Inside the world of Edmonton's most reclusive – and divisive – citizen

IT SHOULD HAVE BEEN A HAPPY OCCASION. There was Edmonton Mayor Stephen Mandel, standing shoulder to shoulder with Oilers president Patrick LaForge in front of a throng of reporters to announce that, at long last, the deal was done. The Edmonton Oilers would soon be moving into a new $600-million arena and entertainment district, the city's downtown core would get the boost that Mandel had been saying it needed, and everyone would, in the end, come out a winner. But while his words paid tribute to that idea, his body language told a much different story. The usually dapper mayor looked tired and drawn. His counterparts from the other side of the negotiating table didn't look much better. >

26 THE KATZ GROUP V250 RANK: 26 REVENUE: $3.5 BILLION (EST) NUMBER OF EMPLOYEES: 8,600 CHIEF EXECUTIVE OFFICER: DARYL KATZ



"I don't think his dad would have made all those deals and grown things, and taken chances like Daryl. He is definitely a very shrewd businessman." – CONRAD LEWANDOWSKI

OF COURSE, IF THEY LOOKED SLEEP-DEPRIVED, NO ONE would blame them. Just a week earlier, it looked as though four years of negotiations between council and billionaire Oilers owner Daryl Katz might come to nothing. But on the morning of May 15, with just hours left on the clock, Katz chipped in the $15 million that was needed to finally close the deal. There were plenty of people – voters and politicians both – who balked at subsidizing a new arena for someone who could theoretically pay for five or six of them, but Katz and his supporters were committed to the idea that it would reinvigorate fortunes for both Edmonton's favourite team and its neglected downtown core. "This is about building a future for tomorrow," Mandel told the press. After restating the virtues of the deal for the umpteenth time – and feting Katz for his vision and commitment to the city – Mandel drew the assembled crowd's attention to his right and appeared to invite the man of the hour into the spotlight. "Daryl, would you like to say something?" But, as usual, Katz wasn't there. Instead, the mayor's gesture was to a black telephone. Katz was literally phoning it in. "I'm sorry I couldn't be at today's council meeting," he said. Before briefly thanking the mayor and council, he turned his comments to the people of Edmonton. "This is a once-in-a-generation opportunity. I can't tell you how exciting it is for me and everyone at Katz Group to think about having 20,000 people downtown, night after night, enjoying a game."

To an outsider, such a performance would be taken as an insult. But the people in that room were not outsiders. The journalists and city councillors present had dealt with Katz by proxy for years, and for them the chance to hear Katz's voice was practically a paranormal experience. In our hyper-connected world full of conspicuous over-sharers and self-promoters, the pharmacy mogul is a more than an exception – he's an anomaly. The chairman of the Katz Group of Companies seldom speaks to reporters. He sends colleagues to represent his company at charitable events. He doesn't pose for pictures. He sure as hell doesn't tweet. His company's website looks like a placeholder, and he keeps details of his fortune to himself. He doesn't just shun the spotlight; he's practically taken out a restraining order against it.

And while most Edmontonians can agree, however grudgingly, that Katz is an influential businessman with a keen eye for the deal, they disagree – and oh, how they disagree – on the nature of his influence. Is he a benevolent billionaire who's merely trying to push a reluctant city down a path that it will later thank him for? Or is he exploiting Edmonton's inferiority complex and its love of the Oilers, in order to line his already deep pockets?

LONG BEFORE THE *HUFFINGTON POST* NAMED DARYL KATZ ALBERTA'S inaugural Villain of the Year in 2012, he was in the business of selling ice cream – frozen yogurt, to be exact. Yogen Früz co-founder Aaron Serruya says Katz, then a 29-year-old lawyer with a background in corporate and franchise law, approached him in 1990 as part of a group of investors who wanted to buy the master franchise rights for Alberta. Within two months they'd made a deal and, within three years, Katz had built a network of about 20 Yogen Früz stands. "I found him to be very competitive and motivated," Serruya says. "Daryl was always committed to growth and success, but at a methodical and thoughtful pace."

While Katz enjoyed success as an investor in a retail franchise, that was only part of the formula that would turn him into a multi-millionaire. The other lay in the pharmaceutical business, where his father, Barry Katz, had owned and operated drugstores since the 1950s. By the time his only son Daryl was attending high school and playing tennis competitively (he competed across Canada and the U.S., and in 2003 paid tribute to the sport by buying the naming rights to Toronto's premier tennis facility, now dubbed the Rexall Centre), the elder Katz decided to embark on a new venture. Barry became the chairman of Value Drug Mart, a co-operative ownership group founded by 13 pharmacist-owners. In time, this grew into a mini-chain that at one point had as many as 80 stores.

In 1991, Daryl Katz decided it was time for him to get into the game. Along with his father and Barry's friend and pharmacist Van Gardener, he purchased the Canadian franchise rights to Medicine Shoppe, a pharmacy chain with nearly 1,000 outlets in the U.S. They hoped to expand to 100 locations in Canada within half a decade. The next year, in a paid *Edmonton Journal* advertising feature, Daryl Katz (then co-vice-president, alongside Gardener, with Barry at the helm) said, "We are not in the business of selling general merchandise." That caught the attention of pharmacist Conrad Lewandowski.

The Edmonton druggist, who still owns and operates the original Medicine Shoppe store, remembers Daryl Katz as being "brave" and "gutsy," and says it was quickly apparent that the apple had fallen a fair distance from the tree. "I don't think his dad would have made all those deals and grown things, and taken chances like Daryl," he says. "He is definitely a very shrewd businessman."

By 1996, Katz had turned his attention away from the Medicine Shoppe franchise and toward an ailing 100-year-old drugstore chain called Pharmx Rexall. According to an interview Katz did with *Forbes* in 2002, Medicine Shoppe's success had made the company enough money to buy 36 Rexalls, which helped Katz forge a lasting relationship with the franchise's major drug provider, McKesson. According to *Forbes*, the San Francisco-based pharmacy giant bankrolled his second big acquisition, 143 Pharma Plus stores, popular in Eastern Canada, with a $60-million loan. But the details around the acquisitions that followed – 165 Drug Emporiums, 141 Snyders Drug Stores, and a hodgepodge of other struggling stores both north and south of the border – have remained some of the industry's best-kept secrets.

What isn't a secret is the fact that Katz likes to make deals – loves it, even. "The one thing that I've given to the company is that I'm very aggressive by nature," he told the *National Post* in 2002. "You know, like when you're a kid and you get a new toy? The excitement you feel when you get that new toy? Then it wears off. You need another toy."

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After 10 years in the business, Katz had accumulated quite a few toys. The series of deals, both large and small, had produced a growing retail empire with nearly 1,200 Canadian locations. How did he do it? Katz's buying spree was largely bankrolled by internal cash flow, a strategy that seemed to pay off at first. Between 1998 and 2003, the group's sales soared from $500 million to $4 billion, while its roster of stores grew to 1,800. But the company may have grown too fast for its own good, as problems with inventory management led to $10 million in writeoffs in both 2004 and 2005, and eventually to the termination of Norman Puhl, the former Shoppers Drug Mart vice-president whom Katz had recruited as CEO in 1998 and later became vice-chair in 2003.

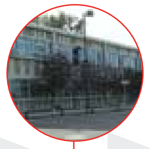
But Puhl, who was dismissed shortly thereafter, didn't exactly take it lying down. He sought damages for wrongful termination. According to court documents, Katz blamed him for "projections which were inaccurate and misleading," and took Puhl to task for seeking stock option payouts that he believed would hurt the company. An email that Katz sent to his CFO, Paul Marcaccio, in 2003 shows just how much the relationship had deteriorated. "I will not let him off the hook ... If we have to go it without him, so be it. It will be to his detriment." Today, the inner turmoil that plagued the company during its expansion phase seems to have tapered off, in part because Katz Group unloaded a substantial portion of its holdings, including the Medicine Shoppe franchise that started it all, to McKesson in January 2012 for nearly $1 billion.

For his part, Puhl - like most of Katz's past and present colleagues - declined an interview for this article. Others, including friends and university classmates, didn't return calls and emails. Few are willing to discuss the billionaire on the record, but no one is more silent than Katz himself, who over the last five years has offered up only a handful of highly controlled media interviews, >

BECOMING DARYL KATZ

PERSONAL
PHARMACY
OILERS/ARENA

- **1961** On MAY 31, Daryl Katz is born
- **1978** Father BARRY KATZ creates VALUE DRUG MART
- **1979** GRADUATES from Jasper Place Composite High School



- **1982** Graduates from the UNIVERSITY OF ALBERTA with a bachelor of arts degree
- **1985** Graduates from the University of Alberta law school, and is later hired to work with legal legend JOSEPH SHOCTOR
- **1985-91** Practises franchise and corporate law
- **1990** Acquires master franchise rights for YOGEN FRÜZ for the province of Alberta
- **1990** Establishes the KATZ GROUP
- **1992** At 29, Katz in partnership with Barry Katz and Van Gardener, borrows from Vencap Equities, a venture capital fund set up by the Alberta government to support entrepreneurs, and buys the Canadian franchise rights to the MEDICINE SHOPPE for $300,000
- **1996** Buys REXALL chain of drugstores
- **1997** In October, Katz buys 143 PHARMA PLUS stores for $100 million after pursuing the struggling Ontario business for three years. This brings the total number of locations owned by the Katz Group to 240
- **1999** The shopping spree continues: Katz buys all 141 of Minnesota-based SNYDERS DRUGS, and the HERBIE'S DRUGS AND FOOD chain. He nearly tops all of that by acquiring SHOPPERS DRUG MART, but passes on it after deciding that the valuation is too rich
- **2001** Now has around 600 stores, more then two times what Katz had just four years earlier – and he's not done yet, adding another 750 (including IDA) to become the "Drug King of Canada." The Katz Group's revenue is an estimated $5 billion, while Katz's net worth is pegged at $750 million

even while his name has appeared in general interest publications thousands of times. He has remained, quite literally, a man of mystery.

ANOTHER MYSTERY REVOLVES AROUND HIS PERSONAL

fortune. Perhaps only the members of his tight group of personal advisors and lifelong friends know the answer to how much Daryl Katz is worth, and if they do, well, they're not telling. Not even *Forbes*, the oft-cited source for his wealth (estimated most recently at US$2.6 billion) is sure about their measure of the man. "We use information that's out there, like the sale last year to McKesson, and look at similar publicly traded companies, such as Jean Coutu, plus his real estate to come up with an estimated evaluation of what the company would be worth," says *Forbes* wealth editor Luisa Kroll.

By comparison, Loblaw recently bought the country's biggest pharmacy franchise, Shoppers Drug Mart, which has about1,290 stores, for $12.4 billion. And while the Katz Group has reduced its store count from 1,800 to just over 420, the metrics on the Shoppers deal (approximately $10 million per store) combined with the Katz Group's considerable real estate holdings mean that recent estimates of his net worth might still be conservative. But without knowing the Katz Group's debt load, which has to be considerable given the short time in which he built his empire and the deal-making he did along the way – it's still a game of guessing gumballs in a jar. He didn't exactly clarify the situation in a 2003 interview with the *Edmonton Journal*, in which Katz, true to form, was both cryptic and confident at the same time. "Look, I never give numbers," he said. "There have been numbers written on our profitability that are low. But if we went public, we'd be worth billions of dollars."

But lowball estimates on what's in that gumball jar notwithstanding, the company's equally sizable debt may have been the reason for the sale to McKesson last year. According to a press release, the transaction was designed to free up liquidity that the company could then use to expand Rexall and PharmaPlus, its big-box brands, and develop the company's real estate holdings, which include assets in the proposed arena district. But whether it was done in order to de-leverage, free up capital or both, one thing is perfectly clear: it couldn't have been better timed.

Lost in all the talk about the cuts to education spending and other essential programming was the fact that, in its most recent budget, the Alberta government slashed the amount it will pay for generic drugs, affecting the rebate subsidies for pharmacists. It's a relatively small item for the government, but a big deal for the people running the Katz Group's former IDA and Medicine Shoppe franchises, whose profitability largely hinges on what the government is willing to pay for their services. Katz's signature brand, Rexall, one of the two he kept, is different, given that it likely earns nearly half of its margins on front-of-store goods (the very same general merchandise that he'd dismissed two decades earlier). "If you're a little independent pharmacy and you're cranking out prescriptions and doing customized service like the good old days, it's really going to hurt bad," says Jason Kmet, an independent Calgary pharmacist and industry blogger. "It's going to be devastating."

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Did Katz know something that Kmet's counterparts didn't? If he did, well, it wouldn't be the first time. Take his acquisition of the Edmonton Oilers, the decision that thrust him into the spotlight he so assiduously avoids. While the usual buyers of major sports franchises tend to do it either because they want to pay tribute to childhood memories or because ego demands it (here's looking at you, Mark Cuban), Katz has insisted his decision to buy the Oilers was motivated by something else – something bigger.

"It's no secret that I have a lifelong passion for the Oilers...but that's not why I bought the team," he said during his single arena-related public visit to city hall in 2010. "If that was all this was about, I could have remained a fan without all this public attention." Instead, he painted it as something more courageous – a man stepping forward to buy an ailing NHL franchise, just like he did with Rexall, at a time when the city was in danger of losing it. He suggested that only a new arena would keep it viable.

In retrospect, that story looks like historical revisionism on Katz's part. Yes, he approached the team's former owners with the same tenacity that secured almost 2,000 pharmacies in a little over a decade, but the Oilers were not struggling, neither financially nor competitively. They had just lost in the Western Conference finals, and the city's hockey fever was about as high as it had been since Wayne Gretzky left town. And if it looked like he overpaid at the time, at $200 million, it sure doesn't seem that way today.

"He's leveraged the ownership of the team to this much bigger real estate development," says Dan Mason, a University of Alberta professor of sport management, who consulted on the arena project. "The price that he paid for the [Oilers] franchise when he bought it was likely taking into consideration these new opportunities that were coming. He may not be that different in the way that he operates the Oilers from the way he operates his other businesses. There's a certain amount of risk involved, but he had an understanding of what the horizon was going to look like and he was willing to pay for the new opportunity."

HAS THE PUBLIC UNFAIRLY JUDGED HIM BECAUSE OF HIS WEALTH?

Mason thinks so. "If you go to buy something, you shouldn't be held in any other way because of your ability to pay for it, but that's what's happening here." He adds, "None of these things would be an issue if the team was competing for a Stanley Cup. It's very difficult to be an owner or manager for a team in a market that's *this* invested in its team. [He's] seen as being in control of something that the public thinks of as some kind of stewardship."

Katz's assertion that he didn't buy the team merely because he was a fan became obvious last year when he threatened to move the team to Seattle because, from his perspective, the city kept dragging its feet on the arena deal. But this too was misunderstood, says Mason. If there were a playbook of negotiations for a new facility, threatening to relocate would be one of the basic strategies, and sports fans around the world can relate to the agony of living through such threats. Instead, this "standard move" erupted into a scandal that resolved with city council ceasing negotiations and Katz apologizing to Edmontonians in a full-page newspaper ad. Regarding his failure to communicate, he wrote, "Chalk that one up as a personal shortcoming."

But if Katz is misunderstood by Edmontonians, the feeling is mutual. "He's entitled to his privacy," says local writer and consultant Todd Babiak, "but when you are in the position to convince a million people of something, you have to realize that people are complicated and they have hearts and emotions ...You have to speak an Edmonton kind of language." That language, he says, is one of barn-raising and inclusivity, not isolation.

Babiak, who makes his living helping companies tell their stories more effectively, once tried to encourage Katz to do the same when it came to the arena debate that was factionalizing the city. He took out a Katz Group executive for coffee, hoping he could convince the chairman to present at a speaking series. Babiak, who supports the idea of a downtown arena, even offered to help free of charge. Katz Group executives declined on his behalf.

"If five years ago Daryl Katz and the Katz Group said, 'Frankly, my fellow Edmontonians, these buildings don't make money, so I need your help. I can build something small and middling that will be bland ... or we can work together to build something marvelous and make the dreams that I had as a kid, and the dreams that you all have as Edmontonians, come true. I can't do it myself, this city government can't do it by itself, but working together, with you, I think we can make it.' If he communicated that, this would have been done long ago," Babiak says.

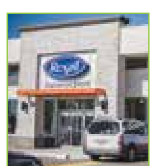
Instead, of course, it took four years. And when it did wrap up, it did so in a fashion perfectly befitting Katz's style, with negotiators exhausted and Katz's gravelly voice emitting from a speakerphone. As the press conference wound down, Mayor Mandel said he looked forward to seeing the owner drop the puck on opening night. Said about any other sports team owner, such a casual expression would be both entirely predictable and instantly forgotten. However, to suggest that Katz would participate in a traditional ceremony involving the two things he hates most – cameras and crowds – almost sounded like a dare. And if he does walk out to centre ice to open the 2016 season, will the crowd treat him like a conquering hero – or just a conqueror? AV

INSIDE THE ARENA DEAL

Under the final framework on the $604-million arena development, which will include retail spaces, office towers and a glass pedway across a major road, the company will only cover $137.8 million in principal and interest over 35 years for the arena and adjoining Winter Garden along with small cash contributions for each that totalling just shy of $24 million. The rest will be paid for by the city – and people – of Edmonton. Here's the complete breakdown:

- [x] $199 million from a Community Revitalization Levy
- [x] $80 million from incremental revenues such as parking and taxes on new businesses
- [x] $125 million from ticket surcharge on games, concerts and other events
- [x] $39 million from other government sources
- [x] $137.8-million loan that will be paid over 35 years by Katz Group
- [x] $23.7 million in cash from Katz Group

2002: By now, the Katz Group owns 1,300 franchises and 500 corporate stores. But it's not all good news – the SNYDERS DRUG chain entered Chapter 11 bankruptcy proceedings in 2001, and was forced to sell its DRUG EMPORIUM CHAIN in 2003 in order to try and save the business



2004: The Katz Group unveils a new concept for its flagship REXALL brand featuring big box stores including a location on Jasper and 118 Street in Edmonton

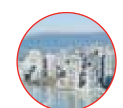
2004: For the first time, Katz's (reported) wealth exceeds that of rival druggist Jean Coutu. His family of drug-stores is reported to fill one in every three prescriptions written in Western Canada

2006: In July, Katz and his family move into a $20-million, 25,000-square-foot mansion in Edmonton designed by Calgary architect Michael Shugarman

2007: His courtship for the EDMONTON OILERS begins in earnest. Katz opens with an all-cash, $145-million offer to the 37-member Edmonton Investors Group, which bought the team in 1998. By July, he bumps the offer to more than $170 million, and promises to both spend generously to build the team's roster and, for the first time, build a new arena. Still, the EIG, led by Cal Nichols, continues to resist his overtures

2008: The fifth time proves to be the charm. After Nichols steps down as the chairman of the EIG board of directors in December, Katz tenders a $200-million offer that is accepted

2010: In January, the Katz Group sells the 25 remaining SNYDERS stores (some were sold off earlier to Walmart) to Walgreens, officially putting an end to its ill-fated foray into the U.S. "It's a tough market," he tells the Edmonton Journal at the time



2011: Katz buys a condo on VANCOUVER, spending much of his time there

2012: In January, the Katz Group announces that it's selling its MEDICINE SHOPPE pharmacy business and its Drug Trading Co. unit to U.S.-based McKesson Canada for $920 million in cash

2012: In April, Katz cuts a bank draft worth $430,000 and donates it to the ALBERTA PROGRESSIVE CONSERVATIVE party. It amounts to 20 per cent of the party's total fundraising for the 2012 election campaign

2012: Katz threatens to move the OILERS, only to quickly issue a full-page apology in the Edmonton Journal for his conduct

2013: In May, Katz is cleared by Elections Alberta for his 2012 "bulk" donation to the Alberta PC party

2013: The arena deal is FINALIZED