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From left: Jonathan,
Laura, Sabrina and
David Merage

A continuing streak of VALUE CREATION

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Directory of Advisers
to Family Businesses

- PLUS** • A next-generation entrepreneur
• Making the transition to an independent chairman
• Celebrating a milestone anniversary

A continuing streak of VALUE CREATION

David Merage and his brother sold Chef America Inc., makers of Hot Pockets, to Nestlé in 2002. He then started a private family office whose portfolio is now valued at more than \$2 billion and includes philanthropy among its ventures.

BY DEANNE STONE

There's the American Dream, and then there's the spectacular success achieved by immigrant brothers David and Paul Merage. Born in Iran, they came to the U.S. in the 1960s as students and settled in California. A decade later, they made an astute observation that would change their lives.

Attentive to shifts in American culture, they noted two coalescing trends: Sales of microwave ovens were increasing as more women entered the workplace. Spotting an opportunity, they set out to develop a nutritious frozen-food product that women and their families could pop into a microwave oven for a quick meal or snack. In 1977, David and Paul introduced Hot Pockets, frozen handheld sandwiches with a variety of fillings. Sales took off, generating new varieties of "pockets." By 2002, their company, Chef America Inc., was one of the most profitable privately held food companies in the world; the brothers sold it to Nestlé for \$2.6 billion.

Financially set for life, David could have enjoyed a grand retirement, but the concept is contrary to his nature. "Retirement? I never considered it for one minute," he says. "I come from a family of entrepreneurs and trend-setters. Setting new challenges and mapping new territories is what I do."

Today, David, 66, is principal of Consolidated Investment Group in Denver, the firm he started in 2002. For the past 13 years, he has divided his time equally between building his business and actively guiding his philanthropy.

Entrepreneurial background

David was the fourth of five children born to Andre and Katherine Merage. David, who grew up in Tehran, remembers everyone in the family—including the women—taking a keen interest in business. "My father used to tell us stories about successful family businesses," David says. "He instilled in us the belief that family members working together were stronger than any one of us could be working alone."



The Merage family, from left: Sabrina, Laura, David and Jonathan

Iran was not a promising country for entrepreneurs when Andre was starting out. In the 1920s, he moved to France, where he ran a successful business importing and exporting high-end antiques. When the Nazis invaded Paris in 1940, he fled to Iran and resumed his life there.

Having raised his sons with dreams of excelling in business, Andre sent them abroad to be educated. At 15, David attended secondary school in England. His older brother, Paul, had graduated from the University of California at Berkeley. In 1968, David joined Paul in California.

“California felt like home,” says David. “I felt an immediate connection with the people and the culture. I knew I was destined to become an entrepreneur and it would happen here.”

In 1971, Andre and Katherine also moved to California. After graduating from Sacramento State University with a degree in marketing, David began investing in real estate with his father and demonstrated a keen eye for identifying and capitalizing on market trends. Meanwhile, Paul, who had had ten years of management experience working with major packaged food compa-

nies, suggested that he and David start a business importing and marketing consumer products from Europe and Japan.

On one European trip, the brothers discovered Belgian waffles. Paul—referred to by David as a marketing genius—was convinced that there was a big market for them in the States. Although the brothers had no experience in developing food products or designing machinery, they were undeterred. “For months we spent every night in our mother’s kitchen cooking up recipes,” says David. “After a year and a half of testing, we developed the first generation of frozen waffles. There was nothing like them.”

In 1974, David and Paul formed a company in Southern California, which they originally called General American Foods. They soon learned there was already a big corporation called General Foods, and they changed the name to Chef America Inc. Andre was an investor and an adviser to the business.

Success breeds more success

Working six and a half days a week, the Merages mar-



AFTER THE SALE OF CHEF AMERICA, DAVID MERAGE WAS FINANCIALLY SET FOR LIFE. HE COULD HAVE ENJOYED A GRAND RETIREMENT, BUT THE CONCEPT IS CONTRARY TO HIS NATURE.

David Merage (right) with CIG investment manager Rob Nelson and Sue Renner, the executive director of Merage Foundations.

keted their frozen waffles to coffee shops and restaurants. In just three years, Chef America became the No. 1 company in the world mass-producing frozen Belgian waffles. In 1977, annual sales topped \$12 million, but the brothers recognized that they would have to expand beyond the breakfast market for the business to keep growing. “We couldn’t compete against the lunch and dinner market,” says David, “so we started thinking about satisfying snacks that kids could make in a microwave oven without cutting or burning themselves and that adults could eat on the run.”

Once again, the brothers were back in the kitchen experimenting with recipes. After two years of trial and error, they developed a frozen sandwich that tasted good and didn’t get soggy when heated. They called the sandwiches Hot Pockets and, in 1983, started marketing them to vending machines, catering businesses and schools. The business really took off in 1985 when Chef America started selling Hot Pockets in retail supermarkets nationwide. Later, it introduced two other popular lines, Lean Pockets and Croissant Pockets.

Chef America wanted a more central location between its California and Kentucky manufacturing operations. In the mid-1990s, it relocated its headquarters to Englewood, Colo. David’s family and the entire executive team made the move.

As a mark of their business acumen, David and Paul never raised the original price of Hot Pockets, even though they improved the quality and increased the varieties over the years. How did they do it? “When the prices of ingredients went up, we asked our research and development team to find ways to offset them,” says David, “and we looked for ways to be even more efficient.”

Feeling tremendous pressure to keep the business growing at a rate of 15% a year, David and Paul talked about selling the company and spending more time on their philanthropy. They decided to quietly market the business, but they knew it wouldn’t be easy. “Only four food companies were in a position to buy a business the size of Chef America,” says David. “And we wanted to sell to an operating company that would retain our management team and other employees.”

At its peak, Chef America was manufacturing 30 different pocket products, and each production line was turning out 800 to 900 Hot Pockets a minute. When Nestlé bought Chef America, the company had sales of \$750 million a year, employed 1,800 people and generated 6,000 jobs through its supply chain.

New venture

After the sale of Chef America, the brothers pursued separate projects. Paul set up an investment firm in Southern California, and David started Consolidated Investment Group (CIG), an investment management company in Denver that invests for a select group of clients. After having all of his wealth in one basket in Chef America, David sought to build a diversified portfolio for CIG. The firm has four areas of operation: private equities, public equities, commercial real estate and philanthropy. It invests domestically and internationally and mostly for the long term. Its investment portfolio is currently valued in excess of \$2 billion.

At Chef America, David's strong suit was creating the company culture that contributed so much to the business's success. He has worked to re-create that culture at CIG. "I bring together a team of the most creative and committed people I can find and set high expectations and goals," David says. "CIG is driven by excellence. We compare how we're doing in each of our operations to the 5% best companies in the U.S."

CIG currently has a staff of 74, including David's daughter, Sabrina, 29; his wife's nephew Ben Levy, 34; and Rob Nelson, one of six former managers from the Chef America team. Nelson has worked with David for 30 years, as vice president of food services, sales and marketing at Chef America and, since 2005, as a member of CIG's executive team. "David's recruiting process is incredibly rigorous," says Nelson. "He surrounds himself with exceptionally capable people and then gives everyone opportunities to learn, contribute and succeed. That, plus a culture of respect and honesty in everything we do, makes CIG an exciting environment in which to work."

Capitalizing on David's expertise in the food business, CIG began actively seeking investments in American-owned companies in the food and

beverage industry that are promising or in distress, or those whose sales have plateaued but still have potential for substantial growth.

In 2012, CIG made its first investment in a Minneapolis-based company, Funky Chunky, which makes artisanal chocolate caramel popcorn and gourmet snacks. Why was this company an attractive investment to CIG? "The management shared the same culture as Chef America [and] had a high-quality product and room for growth," says David.

CIG does not just write a check. It considers itself a resource to the companies it invests in, drawing on its decades of experience in the food industry. It has advised Funky Chunky on matters such as designing equipment, redistribution channels and human resources. In just one year, the company's sales increased by double digits.

CIG is in the process of buying another food company, which David declines to identify because the deal has not yet closed. CIG has set an ambitious goal of closing one or two deals a year.

David's nephew Ben Levy started working with CIG in 2011 as a private equities manager. He spends a lot of his time on the road looking for investment prospects and assessing businesses. "What I've learned from working



Laura and David Merage with Sue Renner at the White House Summit on Early Education, December 2014.

SABRINA MERAGE WAS A TEENAGER WHEN HER FATHER AND UNCLE SOLD CHEF AMERICA, BUT SHE SAYS SHE WAS UNFAZED BY THE PUBLICITY OR COMMENTS FROM KIDS AT SCHOOL. ‘IT JUST ROLLED OFF MY SHOULDERS,’ SHE SAYS, ‘BECAUSE MY FAMILY WAS NEVER FIXATED ON MONEY BUT ON VALUES.’



Echo Capital principal Sabrina Merage with advisory board member Rob Nelson, center, and vice president Ben Levy.

with David,” he says, “is that product quality is king. It doesn’t matter what it is; it has to be superb. David is a discerning investor who’s always looking for what others haven’t thought of. He approaches opportunities by asking not only what assets can we unlock but also whether we are the right fit in terms of corporate culture. That’s very important to him.”

Philanthropic projects

Philanthropy is the fourth CIG operation and, David stresses, is equal to the firm’s other operations. “The role of CIG is to support our non-profit activities,” he says. “We run our philanthropy with the same discipline and high expectations as we do our business.”

CIG supports five family foundations: the David and Laura Merage Foundation, the Andre and Katherine Merage Foundation, Early Learning Ventures, the Jonathan Merage Foundation and the Sabrina Merage Foundation. Their primary funding interests include early childhood education, economic development in Israel, weather research, and ed-

ucational programs for young people that promote tolerance and diversity. The family believes in hands-on philanthropy; all of the foundations have family boards and are overseen by executive director Sue Renner.

David’s wife, Laura, also born in Iran, is an artist who has a strong presence in the Denver art community. She founded RedLine, a non-profit gallery that offers educational programs, art activities for people in the community, and gallery exhibition space for emerging and established local artists. David and Laura’s 33-year-old son, Jonathan, has forged his own path as a storm chaser interested in extreme weather and its consequences. His sister, Sabrina Merage, has been vice president of corporate strategy at CIG and a core member of the business team since 2012. “My dad and I work together and talk about corporate strategy every day,” she says.

Last year, Sabrina launched her own investment company, Echo Capital Group, an offshoot of CIG. Sabrina is the principal; her cousin Ben Levy is the vice president. Like

CIG, Echo invests in food and beverage companies. The difference is that Echo targets new companies started by millennial entrepreneurs. Echo's venture capital comes from CIG, which also offers its resources and operational expertise to the companies in Echo's investment portfolio. So far, Echo has invested in Boomerang Pies, a company in Austin, Texas, that sells frozen, handheld, all-natural, minced meat and kidney pies, adapted from Australian recipes. Echo has also invested in Stacked Wines, based in Southern California, which sells individually packaged, sealed wine glasses filled with quality wines, suitable for picnics or occasions when people don't want to open a bottle of wine.

"We're not passive investors," Sabrina says. "We think both of these products will appeal to millennials on the go, and we'll use all of our resources to make their manufacturing and operations more efficient."

Sabrina was a teenager when her father and uncle sold Chef America, but she says she was unfazed by the publicity or comments from kids at school. "It just rolled off my shoulders," she says, "because my family was never fixated on money but on values. My parents told us that the money wasn't to be used to change our lives, but to change the world around us."

Andre Merage died in 2001. To kindle the younger generation's interest in philanthropy, their grandmother, Katherine Merage, gave each of her 13 grandchildren the gift of a foundation and the freedom to make their own decisions about how to give away the money. At the time, Sabrina was just graduating from college and thinking more about her career. "Initially the money felt like a burden," she says, "but once I came up with a mission, I realized what an amazing gift my grandmother had given me." Now enthusiastic about philanthropy, she sits on several non-profit boards and attends conferences on philanthropy. Katherine remains active in her philanthropic endeavors.

David and Laura, who came to the U.S. as teenagers, recognize that America has been very good to them. "I don't know of any other country where people can succeed through their best efforts as they can here," David says. "I've been fortunate to do what I love for the past 40 years and derive such joy from my work. Every morning I wake up and say to myself, 'This is the start of another good day.' "

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Deanne Stone is a business writer based in Berkeley, Calif.

Below: David with kids at the Sde Boker Library in Israel. **Right:** David received the Ellis Island Medal of Honor for his contributions to society in 2013. In honor of the award, Colorado Gov. John Hickenlooper declared May 11, 2013 'David Merage Day.'

