Leon Black in Winter

townandcountrymag.com/society/money-and-power/a36492766/leon-black-epstein-scandal

June 3, 2021

Diana Whitney was a Dartmouth College freshman in 1992 when a classmate raped her. Now, with daughters of her own, she's the co-founder of a group determined to stop campus sexual violence.

One of its targets: Dartmouth's Black Family Visual Arts Center, named for Leon Black, the billionaire alumnus and former Drexel Burnham Lambert banker, who for the past 30 years has been synonymous with Apollo Global Management, the sharpest elbows on Wall Street.

Through his charity, the Debra and Leon Black Family Foundation, Black chipped in $48 million toward the arts center, which opened in 2012. The only director the foundation had for years, besides the Blacks, was Jeffrey Epstein. The charity says he quit in 2007, but his name was listed on its tax forms as late as 2012.

Black was Epstein's friend for more than two decades, and also his employer. From 2012 to 2017 he paid Epstein $158 million for advice on avoiding taxes, assistance Black acknowledges saved him as much as $2 billion. Before his death, prosecutors accused Epstein of operating a sex trafficking ring, including during the time of his friendship with Black, through which he raped or otherwise exploited girls as young as 14, "often on a daily basis." Black says he was completely unaware of this "abhorrent misconduct," that his relationship with Epstein was a grievous error, and that he deeply regrets it.

"Black gave Epstein $158 million, which bankrolled his empire of sexually abusing girls," Whitney says. "For Dartmouth, associating with the Black name shows a willful disregard for Epstein's victims."

Condemnation of his philanthropy must come as a shock to the 69-year-old Black, who through a spokesperson declined to speak to *T&C*. He watched his friend and former Drexel colleague Michael Milken rehabilitate his own reputation by giving away gobs of his fortune. Now, after years of devising jackpots for himself without facing anywhere near the same level of scrutiny, Black is discovering that Milken's model of contrition may be enough for the crime of insider trading but that association with a sex offender is much tougher to overcome. His protestations of innocence seem to have fallen on skeptical ears or, worse, been ignored. He stepped down from his leadership roles at Apollo and agreed, under pressure, to give up his chairmanship of New York's Museum of Modern Art.

At a time of generational change in the financial industry, the stench of scandal, followed by more recent allegations that Black bullied a former sex partner and paid her to keep quiet, was enough to topple a man worth $10 billion, give or take a truckload. Thirty-five years after Black, Milken, and the merry band of Drexel pirates ushered in a new, more aggressive Wall Street, buccaneers from the tech world are shoving out the old money with obscurely named cryptocurrencies, $86 billion initial public offerings, and contrarian stock bets on trading platforms that have made it possible for many to roll the dice on their life savings.

Ron Galella, Ltd.Getty Images

Class of ’21, take note: Money can’t fix everything. Black has embarked on at least one Milkenesque act of atonement, beginning to distribute the $200 million he pledged in the wake of the Epstein allegations to causes that support gender equality and the protection and empowerment of women. The money could be a sledgehammer against exploitation. Given the nature of the sin, however, it smacks of purchasing an indulgence. And if Epstein saved him $2 billion, why not promise that much? Buying back social acceptance on markdown isn’t part of the Milken blueprint. It’s more in line with the lessons that years of success on Wall Street can teach: Greed is good, bullying works, rules are for suckers, taxes are for the little people, promises are just puffs of air, and, if you have to risk money, make sure it’s someone else’s.

Money makes its own morality. That’s the legacy of a Drexel Burnham Lambert education.

BONFIRE OF THE BUYOUT BANDITS

Tom Wolfe may have described guys like those at Drexel in the deregulated, cocaine-fueled 1980s as “masters of the universe,” but almost everyone else called them assholes.

Drexel executives were known to be so dismissive of the finance industry’s unwritten patrician canons that it was said they called their customers just to bad-mouth competitors. Instead of the usual clubbiness that mandated some degree of collegiality when it came to sharing underwriting fees, Drexel did what it could to keep rivals away from their bond deals. And when they had to split the underwriting, they supposedly invited salesmen from the other firms to join them in pitching prospective buyers—but gave them the wrong locations.

“Drexel did things I never heard of anyone doing before,” says Martin Fridson, who dealt with the firm back in the day and is now chief investment officer at Lehmann, Livian, Fridson Advisors. “They were despised for being smart and successful,” says author Jesse Kornbluth, who chronicled Drexel’s undoing at the end of the decade. “They lived in a bubble and they didn’t know, or care, that they were despised.”

And then there was Milken, their ringleader, who knew every bond in the market, who owned it, and at what price. He and his punk rock wrecking crew became famous for peddling high-risk debt—junk bonds—to pay for hostile corporate buyouts, which they sometimes launched without having the funding in place. Black, then a young banker nicknamed “Pizza the Hut” because his anxiety during negotiations drove him to eat nonstop, concocted an epic innovation that took care of that problem, with the bonus of bringing the blood of their rivals to a boil: the “highly confident” letter, which basically said, *Hey, we don’t have the money to crush this company, but we’ll get it*.

The letter had no legal standing and was based purely on the market’s belief that Milken could raise any amount for any reason. And on that sweet bed of nothing, and *only* that sweet bed of nothing, Drexel and its allies were able to lay waste to corporate America.

The result: Companies focused on short-term gains. If they didn’t, one of Drexel’s buyout bandits could orchestrate a takeover or squeeze them. The recent epidemic of corporate stock buybacks, which enrich shareholders and the C-suite by making quarterly numbers sparkle but do nothing to boost productivity, is the progeny of this ’80s fear campaign.

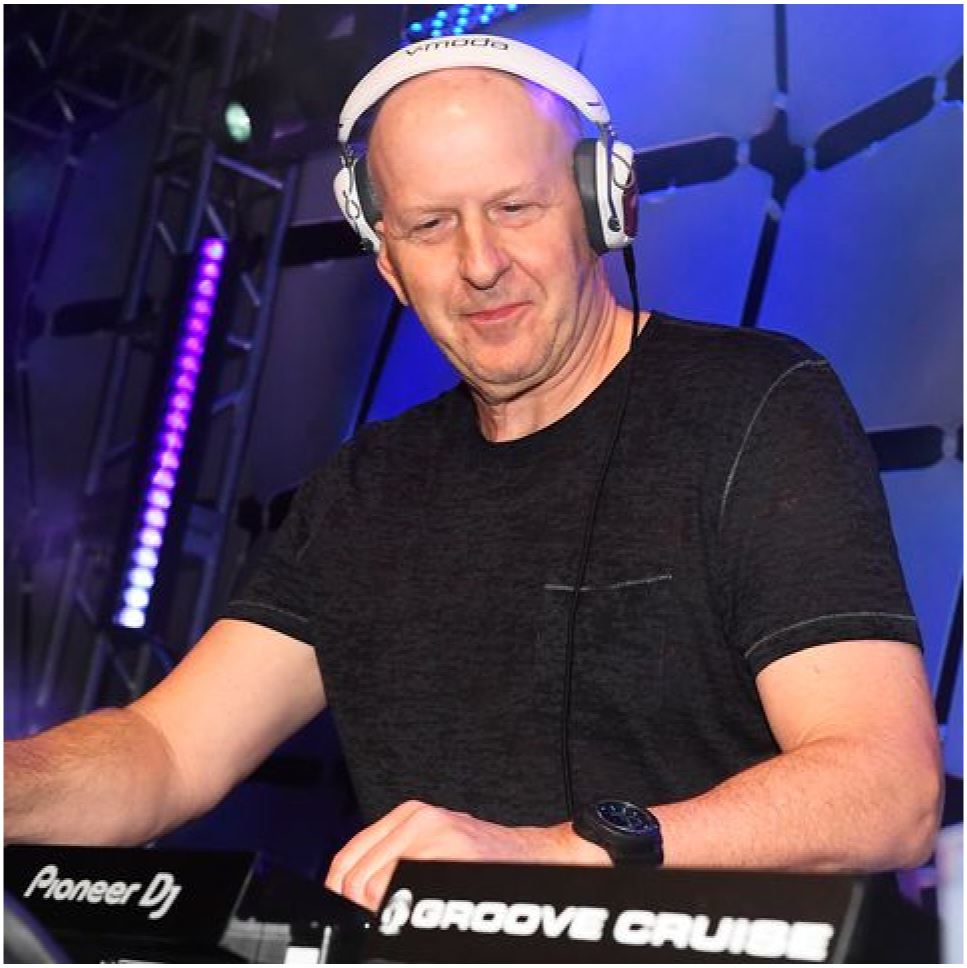
A descendant of the highly confident letter exists today in Silicon Valley. Many unprofitable startups owe their fortunes to incubators, venture investors, and Wall Street financiers, without whose stamp of approval they would wither and die.

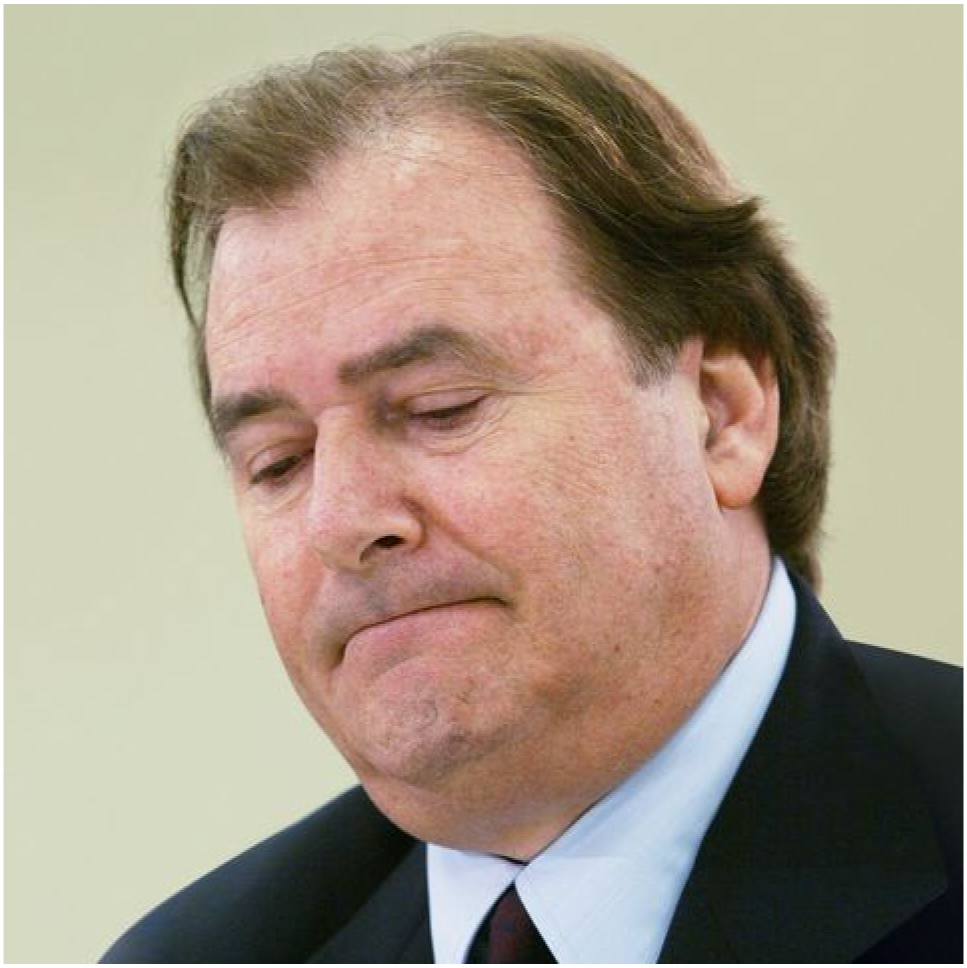
Drexel amassed a lot of enemies, so it was no surprise when its end came—swiftly and with enough schadenfreude to stretch into this century. The firm was so dependent on hostile buyouts that when they fell out of fashion, so did Drexel. Most infamously, Milken and Dennis Levine, Black’s colleague on the mergers and acquisitions desk, went to prison for insider trading, as did their co-conspirator, the arbitrageur Ivan Boesky. Black was never implicated. By 1990 Drexel was in bankruptcy.

Today Drexel alumni provide a direct link to those heady days when a tougher financial industry was rising. Many of them have hung out their own shingles, using their slide rules to calculate profit and loss while the exciting deals are done by machine. Meanwhile, companies such as Coinbase (whose valuation skyrocketed to $86 billion during its stock market debut in April), WeWork, and Robinhood rise and fall with every news cycle, their deals (and humiliations) riveting the business press, Reddit forums, and the public in a way that not even Drexel’s junk bond bacchanal could ever do.

That’s not to say the Drexel alums have steered clear of their own mortifying moments.

Drexel's Alumni Association


Pioneer DJ
GROOVE CRUISE



VANISHED FROM OLYMPUS

And then there's Leon Black. He co-founded Apollo in 1990, a few months after Drexel went kaput. Named after Zeus's fuzzy-cheeked favorite, Apollo helped develop a model that ensures that private equity firms make money even when nobody else does. It's based on sleight of hand: A firm borrows money to buy a company, but instead of taking the debt onto its own books, repayment becomes the responsibility of the acquired company. The executives often keep borrowing to pay themselves more. Debt piles up, and despite job cuts and other expense reductions, many conquered companies buckle under the weight.

In just the last few years, Apollo has overseen the bankruptcies of portfolio companies EP Energy, Chisholm Oil & Gas, Claire's, Hexion Holdings, and Chuck E. Cheese. Apollo says these failures were caused by "secular issues" and not mismanagement. Black argues that this modus operandi benefits pension funds and the public employee retirement accounts that supply the seed money for private equity. For the most part, those do well. But many workers pay dearly. And there have been shenanigans. Five years ago a bankruptcy judge scolded Apollo executives for selling off the better assets of casino operator Caesars Entertainment, sometimes to themselves, and leaving the dregs for creditors.

Buying and selling companies has become a smaller part of Apollo's business, comprising roughly $80 billion of the firm's $455 billion in assets. Credit has taken over, with $350 billion under management. That's because after the 2008 financial crisis traditional lenders got skittish, but Black was shrewd enough to seize the opportunity and step in where banks wouldn't, turning Apollo into one of the global leaders in so-called shadow banking. Through low-key subsidiaries like MidCap Financial, the firm moved into more and more corners of American life, such as lending to grocery stores and nursing homes.

In January 2022 Apollo is expected to finalize an $11 billion tie-up with the insurance company Athene, ensuring a steady flow of capital from customers' premiums into its coffers and the expansion of Apollo's influence writ large. The deal sets the financial behemoth's course for the future. Black won't be navigating. (His chosen successor, co-founder Marc Rowan, is now running things after winning a bake-off against the third Apollo founder Josh Harris, who instigated Black's ouster.)

Black, the man who co-founded a colossus, relinquished the reins in March, four months earlier than expected, citing the strain on his and his family's health brought on by attention from the media and the inquiry—commissioned by Apollo—into the Epstein matter by the law firm Dechert. (Its report found no evidence that "Black or any employee of the Family Office or Apollo was involved in any way with Epstein's criminal activities.")

The abrupt exit coincided with Apollo's directors learning that years earlier Black had paid a model, Güzel Ganieva, to keep quiet about their affair, a relationship he describes as consensual. (He calls her allegations of sexual misconduct a fabrication, this week she sued him for defamation). If Black had been accused of creating a deceptive balance sheet, he could have hired the best attorneys and dug in for a lengthy investigation. If the issue had been an embarrassing bankruptcy by one of Apollo's portfolio companies, or outrage over his compensation, or even a tabloid-ready sex imbroglio triggered by a subordinate, Black might have skated through. Even Milken wormed his way back into polite society despite his stint in an orange jumpsuit and a lifelong ban from the finance industry, making nice via a slew of charitable giving and well-attended annual conferences. Last year Donald Trump pardoned him.

But Milken's transgression was of the financial kind. Epstein's crimes skew the entire calculus. Black's 20-year affiliation with him can't be erased simply by buying a baseball team and stocking it with expensive players, as Steve Cohen, whose personal stock took a beating when his former hedge fund, SAC Capital Advisors, pleaded guilty to insider trading charges and agreed to pay the government a record fine of $1.2 billion. Any connection to a child molester leaves an indelible stain, according to Jamie Diaferia, who shepherds clients through public relations nightmares at Infinite Global in New York. (Black is just one of the high-profile men tarnished by their ties to Epstein, a growing list that most recently came to include Bill Gates.)

“There are certain things you can come back from,” Diaferia says. “Being associated with a pedophile is not one of them.”

LEON’S LAST ROAR?

Black has become a cautionary tale for all the youngbloods currently amassing buy-an-island wealth on tech’s latest big idea. Like them, the Wall Street chief made a lot of people a lot of money, and pissed off a lot of others along the way. Eventually, what money can buy reaches its limit. Overstep certain boundaries and you spend the end of your career apologizing to people who aren’t listening.

“The Drexel people got away with a lot,” says Nell Minow, a corporate governance expert at ValueEdge Advisors. “That group of people were all about externalizing their costs on the rest of us and thinking they won somehow. And now I hope they’re thinking they can’t do that anymore.”

Mea culpas, alas, are hard to find anywhere. Last year Dartmouth College settled a $14 million class action lawsuit brought by plaintiffs that included 65 Jane Does over sexual misconduct. The suit alleged that over a 17-year period Black’s alma mater turned a blind eye to three male professors whose bad behavior included harassment, groping, and rape. Dartmouth admitted no fault.

Diana Whitney and her group, the Dartmouth Community Against Gender Harassment and Sexual Violence, say the college could make a groundbreaking gesture by renaming Black’s building the Jane Doe Visual Arts Center. It would honor the women who stand up to sexual exploitation. And it would also be a declaration that not even a billionaire philanthropist is too rich or powerful to escape a public reckoning.

The college is in no hurry to put a match to its relationship with Black’s money, but the benefactor has become radioactive, there and elsewhere. For the first time in its history, Apollo is holding executive committee meetings without Leon Black. Maybe that’s the lesson here, if there is one, for the dealmakers of the next generation who say they like to break things. Perhaps if Black were at all a beloved figure, people would give him the benefit of the doubt about the mysteries around his friendship with Epstein.
Perhaps not. Either way, his banishment has shown that being liked still matters.

Without that personal highly confident letter, people will still take your money. But they won’t take you.