

Corporate directors like to see their companies in the news, providing the news is good. Norman Matthews has not always had that luxury. Since he joined the Toys “R” Us board in 1995, the discount retailer has weathered its share of challenges. Slumping sales, eroding margins and circling competitors provided grist for the business pages and long hours for the board.

In early 2004, after a tepid Christmas season, the directors at Toys “R” Us launched a strategic review. On June 23, 2005, shareholders approved the sale of the company to a consortium of buyers consisting of Kohlberg, Kravis, Roberts & Co., Bain Capital Partners and Vornado Realty Trust. The price was more than double that at which the stock had been trading 18 months previously.

Colleagues credit Matthews’s skills as a strategist as key to the successful solution.

“Norm is someone who listens to a lot of information, synthesizes it, then puts together a strategic position,” says fellow Toys “R” Us board member RoAnn Costin.

The former president of Federated Stores gets things done using “incisive persistence with a velvet glove,” says Stanley Bergman, chairman and CEO of Henry Schein, a \$4.1 billion dental supply company upon whose board Matthews sits. “He’s no shrinking violet, but he can get the information he needs in a way that doesn’t set people on edge,” adds Dr. Louis Sullivan, the former U.S. secretary of health and human services and fellow Henry Schein board member.

Colleagues call Matthews thoughtful, articulate, incisive, bright, creative and dedicated. These are all qualities he readily deploys to help companies navigate tough strategic shoals.

When Matthews came to Toys “R” Us’s board in 1995, the company was transitioning from a growth firm to a mature one. Founded by Charles Lazarus in Washington, D.C., in 1948, Toys “R” Us focused solely on selling toys. Its cav-

ernous, minimalist stores, crammed to bursting with toys on warehouse-style shelves, rode the age wave through the baby boom and into its echo.

After Lazarus stepped down in 1998 at age 65, 20 years after the company first went public, Matthews worked closely with board chairman—and later CEO—Michael Goldstein to identify the kinds of backgrounds and skill sets that would add value, and to find those folks who could provide the diversity and advisory expertise the company needed.

But competition from Wal-Mart, Target and other fast-growing warehouse stores was already cutting into Toys “R” Us’s profit margins. Not surprisingly, the stock price was suffering; it had dropped from some very lofty heights—as high as

named, consisting of Matthews, Roger Farah and Arthur Newman as well as CEO Eyer. The committee was charged with examining the company’s assets and businesses to determine its best future course. Real estate assets as well as other business assets were explored.

As chairman of Toys “R” Us’s comp committee, Matthews knew the company could not afford a talent flight during that sensitive time. So under his leadership the board gave Eyer a \$10 million discretionary pool to use for incentives to retain key strategic and financial people. The result? Only two key employees were lost. “I think Norm should be recognized for superior leadership throughout this time,” says Farah.

At first, the executive committee, and

## NORM IS SOMEONE WHO LISTENS TO A LOT OF INFORMATION, SYNTHESIZES IT, THEN PUTS TOGETHER A STRATEGIC POSITION.

ROANN COSTIN • FELLOW TOYS “R” US DIRECTOR

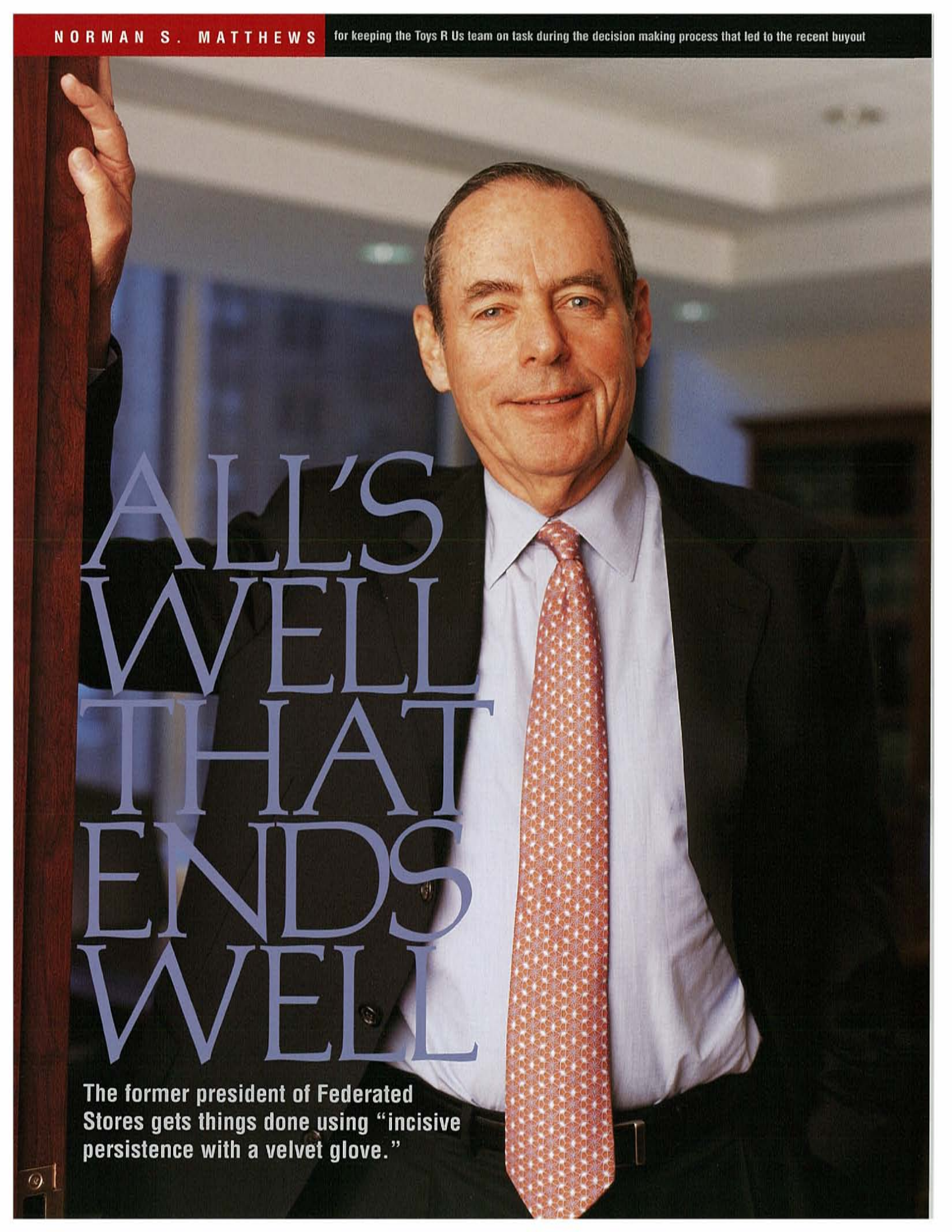
\$60 in 1983, before several stock splits—to about \$16 by July 1999. In 2001, as an initial move to bring modern strategic thinking to the company, the board brought in John Eyer, Jr., as CEO.

Under Eyer’s leadership Toys “R” Us made some progress turning itself around. But it wasn’t happening fast, and the stock continued to droop. Toys’ board knew a more strategic way was necessary if they were to speed the turnaround. “When Eyer and his team came on board and saw the situation, they probably said, ‘We’ve got some serious challenges here,’” says Toys “R” Us board colleague Nancy Karch, a recently retired director of McKinsey & Co. But by that time, she says, Toys’ problems had been festering for years. “We didn’t think it was management-related—extrinsic issues make it a difficult market,” says Matthews.

So in early 2004 management and the board undertook a strategic review. A four-person executive committee was

the board, looked at various permutations, including keeping the fast-growing Babies “R” Us piece and spinning off the various toy pieces. But this approach was rethought when a potential buyer put forth an attractive bid for the entire company. At that point Toys opened the bidding to include the whole company—the domestic and international toy businesses as well as the Babies business—and received an offer “so attractive to shareholders that we could not refuse,” says Matthews. By that time the Kids “R” Us and Imaginarium units had already been shuttered.

The sale to the KKR, Bain and Vornado consortium closed in July 2005 and it was a win for constituents all around. First, Toys “R” Us shareholders benefited. The price worked out to \$26.75 a share, more than double the \$12.64 price at which the stock was selling when the review process began. Second, management secured the right to continue to



ALL'S  
WELL  
THAT  
ENDS  
WELL

The former president of Federated Stores gets things done using “incisive persistence with a velvet glove.”

**BORN:** January 1933,  
Boston, Mass.

**EDUCATION:** B.A.,  
Economics, Princeton,  
1954; M.B.A., Harvard,  
1956

**CAREER HIGHLIGHTS:**

President and COO  
Federated Department  
Stores; general merchandise manager E. J.  
Korvettes; senior vice  
president of marketing  
and corporate develop-  
ment Broyhill Furniture; partner Beacon Advertising Agency (later Beacon Marketing  
Consultants)

**HOMETOWN:** Purchase, N.Y.; pied-à-terre in New York City

**FAMILY:** Married to Joanne 49 years; three children, 10 grandchildren

**MOST MEMORABLE SUMMER JOB:** Market research firm, during college. "Turned  
me on to the value of market research."

**BEST VACATION IN THE PAST FIVE YEARS:** Taking 10 grandchildren and their  
parents to the Galapagos Islands in spring 2005. "It was spectacular."

**BEST BOOK READ IN THE PAST YEAR:** *The Kite Runner*, by Khaled Hosseini

**FAVORITE QUOTATION:** "The best way to predict the future is to invent it."

**FAVORITE COMPOSERS:** Verdi, Beethoven

**SOMETHING MOST PEOPLE WOULD BE SURPRISED TO KNOW ABOUT ME:**

"I am a Life Master at bridge."

**WON'T LEAVE HOME WITHOUT?** "American Express Card, of course!"

**CURRENT BOARDS:** Finlay Enterprises, Henry Schein, Inc., Progressive Corp.,  
Toys "R" Us



work to turn the company around absent Wall Street's need for quarterly results. And third, employees retained the bulk of their benefits. "Norman has run a retail business, and he has a clear understanding of what role employees have in keeping a business going—he had a real concern for them here," says Farah.

As a result of this commitment, the nonqualified deferred compensation plans and SERPs were ended for senior people. Holders became vested, and the proceeds were distributed 15 days after the close. The 401(k) plan's vesting period was changed to four years from five years for all company employees, and the

surviving organization was also obliged to maintain the Toys "R" Us Split Dollar Plan and the Grantor Trust for Toys "R" Us, Inc., for five years after the sale. "We wanted to make sure people were going to be treated fairly by the new owners in terms of benefits," says Karch.

Initially the press deemed the monies some Toys "R" Us independent directors would get as a result of the transaction a windfall. But the controversy quickly died down as it became evident that those monies represented compensation for years of service. While board members received no additional compensation as a result of the merger, stock options that

independent directors had taken in lieu of cash were finally in the money.

Henry Schein CEO Bergman credits Matthews with helping his firm make the transition from a family-owned, mail-order dental supply house to a Fortune 500 public company with \$4.1 billion in sales. Here again Matthews's dedication to nurturing human capital made a difference. He led the charge to institute a program for board members to mentor managers at the middle and senior levels as well as the development of a management training program. The program hires freshly minted MBAs for two-year rotations.

At Progressive, he was deeply involved in effecting the succession of Glenn M. Renwick, the current president and CEO, from Peter Lewis, chairman and son of the founder—"an icon in the insurance business," says Progressive board colleague Chuck Davis, CEO of Stone Point Capital (Marsh Inc.'s former merchant banking unit). "Norm worked hard with the board and made sure candidates were vetted fully and fairly," Davis says. In addition, says Davis, Matthews helped make sure the groundwork was laid so that the transition itself would be seamless. Davis terms Matthews "the complete package—well-rounded, knowledgeable, organized, articulate, a tree-shaker and a conciliator.

After 15 years as a partner with Beacon Advertising Agency, Matthews joined Federated Department Stores as president of its Ohio-based Gold Circle stores division in 1978. He moved up the ladder to president and COO of Federated before leaving in 1988 in the wake of a hostile takeover by Campeau Corp. Today, at 72, Matthews is nowhere near halting his business engagements. In addition to his public company directorships, he sits on the advisory boards of several private equity funds and business advisory consulting groups such as Gordon Brothers. And he is a trustee of the Museum of Natural History, an institution he has loved since his first visit as a young man. Most of his effort there is spent helping them do what he does best: creating a top-notch retailing effort. ○