

Bono INC.

By Richard Tomlinson
and Fergal O'Brien

◆ During the final concert of U2's world tour on Dec. 9, Bono, the Irish rock band's lead singer, launched into "One," a song about a love affair gone sour. "Did I disappoint you or leave a bad taste in your mouth?" he sang to 47,000 U2 fans at Aloha Stadium in Honolulu. At Bono's command, some of the fans held aloft their cell phones and sent text messages of support to ONE, the U.S.-based group that's lobbying the U.S. government to donate an additional 1 percent of the federal budget to ending poverty.

Bono made the same tie-in for the lobbying group during most of the 131 concerts on the Vertigo tour, which began in March 2005 and was seen by 4.6 million fans in Europe, North America and Asia. They sent about 500,000 text messages of support to ONE, according to the group.

While Bono was making his appeal, U2 was racking up \$389 million in gross ticket receipts, making Vertigo the second-most lucrative tour of all time, according to *Billboard* magazine. No. 1 is the Rolling Stones' current tour, which by the end of 2006 had received \$425 million. Revenue from the Vertigo tour is funneled through companies that are mostly registered in Ireland and structured to minimize taxes. "U2 are arch-capitalists—*arch-capitalists*—but it looks as if they're not," says Jim Aiken, a music promoter who helped stage U2 concerts in Ireland during the 1980s and '90s.

'Bono is the most extraordinarily talented lobbyist,' says the head of one nonprofit organization about the U2 lead singer, right.

The rock icon, who campaigns to end poverty, scrimps on taxes and presides over an investment empire.



“Bono’s campaigns reflect a great amount of concerns that U2’s audience also has, such as AIDS and malaria in Africa, and that can’t help but have a beneficial effect on record sales,” says Simon Garfield, author of *Expensive Habits: The Dark Side of the Music Industry* (Faber & Faber, 269 pages, 1985), a book about the business of rock. U2 has sold about 9 million copies of the album linked to the Vertigo tour, *How to Dismantle an Atomic Bomb*, for which it owns all rights. In addition, U2 sells merchandise at the concerts, such as a \$30 T-shirt with a photo of the band on the front.

With his trademark wraparound sunglasses and cowboy hat, Bono is as famous for exhorting world leaders—from U.S. President George W. Bush to Japanese Prime Minister Shinzo Abe to Irish Prime Minister Bertie Ahern—to give money to Africa as he is for his music. He was awarded an honorary knighthood in December by Britain’s Queen Eliza-

beth II, and his name has been mentioned as a contender for the Nobel Peace Prize in the British and U.S. press. Increasingly, the 46-year-old Dublin native, *né* Paul Hewson, is focusing on his investments. Bono declined to be interviewed for this article.

“We can move into business, and let’s bring our idealism into whatever piece of the world we happen to be standing in,” Bono told interviewer Michka Assayas in *Bono on Bono* (Riverhead, 336 pages, \$23.95). The most recent example is Product (RED), a marketing agreement with a half dozen companies that are selling a special RED line of clothing, cell phones and other merchandise and donating 40 percent of the profit they make from the products to a charity that pays for AIDS drugs for HIV-infected Africans.

Bono’s own dealings haven’t always followed the altruistic ideals he espouses, says Richard Murphy, a Downham Market, U.K.-based adviser to the Tax Justice Network, an international lobbying group. Murphy points to the band’s decision to move its music publishing company to the Netherlands from Ireland in June 2006 in order to minimize taxes. The move came six months before Ireland ended an exemption on musicians’ royalty income, which is generally untaxed in the Netherlands. “This is somebody who’s exceptionally rich taking the opportunity to shift his tax burden to somebody else, but then asking governments around the world to spend that tax take in the way that he would like,” Murphy says.

U2’s move to the Netherlands is wrong, says Dick Molenaar, senior partner at All Arts Tax Advisers, a Rotterdam-based tax consultancy for artists and musicians. “Everybody needs to pay his fair share of taxation to the government, and therefore we have roads and education and everything,” he says.

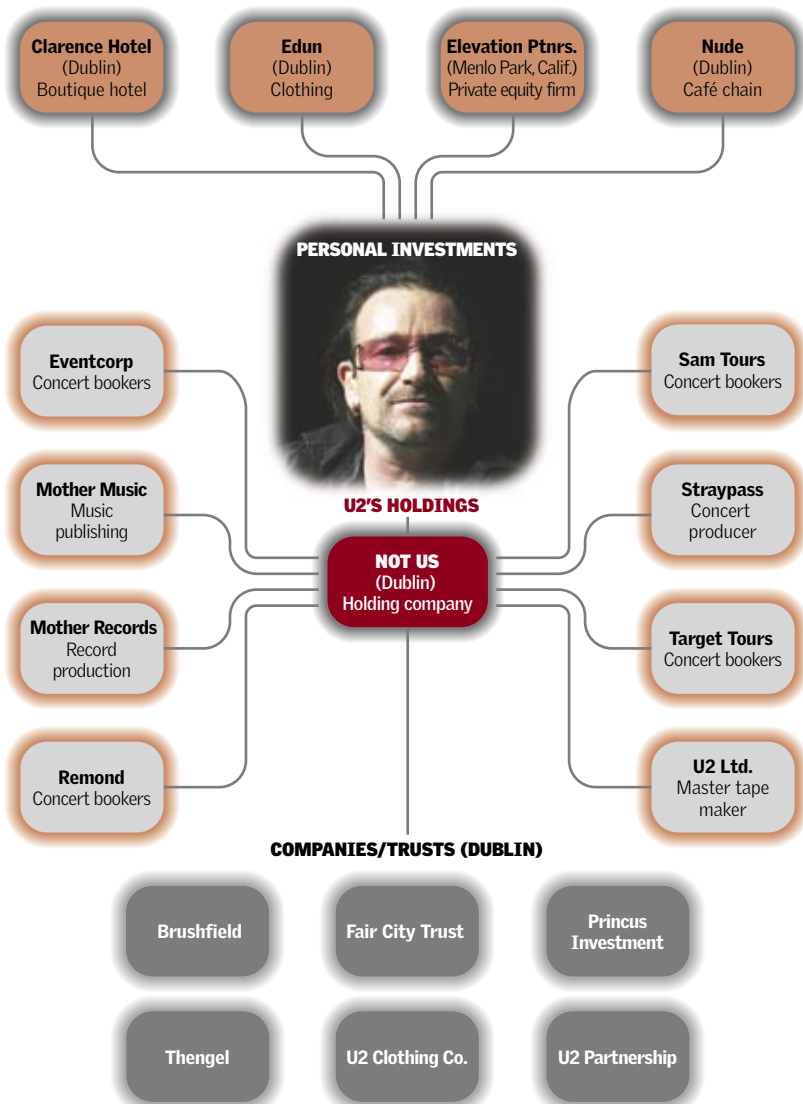
During the 1990s, U2 used nonexecutive directors who were resident in an offshore tax haven to limit the amount paid by the four band members—in addition to Bono, they’re lead guitarist The Edge, 45, whose real name is David Evans, bass guitarist Adam Clayton, 46, and drummer Larry Mullen, 45. “We pay a great deal of tax around the world and in Ireland we don’t pay any more taxes than we have to,” says Paul McGuinness, U2’s manager. “We’re like any other business.”

“U2 were never dumb in business,” Bono says in *Bono on Bono*. “We don’t sit around thinking about world peace all day.”

What a business it is. Bono’s empire encompasses real estate, private-equity invest-

Bono’s empire

U2’s lead singer has a large investment portfolio.



Sources: Companies; Not Us Ltd. accounts, December 2005

ments, a hotel, a clothing line and a chain of restaurants. Along with fellow band members, he also owns a stake in 15 companies and trusts, including concert-booking agencies, record production firms and trusts that are mostly registered in Ireland. U2 was one of the first successful bands in the world to have obtained all rights to its own music. In addition, Bono shares three homes with his wife and four children, including a house near Nice in the south of France, a duplex apartment overlooking New York's Central Park that he bought from Apple Inc.'s Steve Jobs, and a gated estate in Killiney, 10 miles south of Dublin, with a panoramic view of the Irish Sea.

Bono's foray into private equity, via Menlo Park, California-based Elevation Partners LP (see "Bono's Buyout Firm," page 80), has clashed with his ideals at times. Elevation's first investment was a stake in two computer game companies, Edmonton, Canada-based BioWare Corp. and Los Angeles-based Pandemic Studios LLC. BioWare makes a war game called *Destroy All Humans 2*. Pandemic's catalog includes a war game called *Mercenaries 2: World in Flames*, depicting a mercenary invasion of Venezuela.

"We don't think this fits with Bono's image, and we're trying to get him to recognize this fact," says Chuck Kaufman, a Washington-based spokesman for the international Venezuela Solidarity Network, which supports the government of Venezuelan President Hugo Chávez.

"It's hard to understand why anybody was upset about this game, because keep in mind the Venezuelans in this game are actually the good guys," says Roger McNamee, a managing director and co-founder at Elevation.

While Bono promotes charitable causes, he doesn't disclose whether he personally gives any money to them and, if so, how much. These include Amnesty International, the Burma Campaign U.K., DATA, which stands for Debt, AIDS, Trade and Africa, the environmental group Greenpeace and ONE. "It's actually, I think, more honest to say we're rock stars, we're havin' it large, we're havin' a great time and don't focus on charity too much—that's private; justice is public," he told the Dublin-based *Sunday Independent* newspaper in June 2005.

Bono's greatest value may be as a spokesman, not a donor. "Bono is the most extraordinarily talented lobbyist," says Jamie Drummond, DATA's executive director, who helps organize the ONE campaign. "He's got extremely persuasive, charming interpersonal skills that can appeal to the thing in a politician that reminds them of the spark that got them into politics in the first place, and the idea of public service." Whether or not Bono gives money himself is immaterial to ONE, whose motto is "We don't want your money. We want your voice." When U2's fans sent text messages to ONE, they were helping pressure U.S. politicians to increase federal aid to developing countries.

DATA is a nonprofit organization co-founded by Bono that does try to raise money. Among the high-profile people who've given large amounts to the Washington-based group are John Doerr, partner at Menlo Park, California-based

venture capital firm Kleiner Perkins Caufield & Byers; Susie Buffett, the daughter of investor Warren Buffett; and the Bill & Melinda Gates Foundation, according to Kathy McKiernan, a spokeswoman for DATA. Bono has not said how much, if any, of his money he gives to DATA, of which he is a board member and founder.

Bono doesn't invest his own money in RED, the U.S.-based marketing venture he introduced at the 2006 World Economic Forum in Davos, Switzerland. RED is an alliance between the Geneva-based Global Fund to Fight AIDS, Tuberculosis and Malaria and six international companies: American Express Co., Nike Inc. subsidiary Converse Inc., Gap Inc., Giorgio Armani SpA, Motorola Inc. and Apple. The companies agree to donate 40 percent of their pretax profits from specially branded RED items to the fund, which gives the money to African governments to buy medicines for women and children who have HIV, the virus that causes AIDS.

Bono introduced RED in the U.S. last October by appearing on *The Oprah Winfrey Show*. Bono and Oprah appeared on-air shopping for RED products in Chicago stores, including a Gap, where model Christy Turlington and actress Penélope Cruz modeled various Gap RED items.

Bono's involvement in RED is intermittent, says RED CEO Bobby Shriver, who's a nephew of the late U.S. President John F. Kennedy. "I'm not trying to toot my own horn, but I was responsible really for the creation of it as a business, to get it to go and make all these things actually happen in the real world," says Shriver, 52, who's based in Santa Monica, California. He says that Bono's role was to raise the group's public profile and help persuade corporate partners to participate. "When he was available, I dragged his sorry little ass along, but he was on tour, so he wasn't always available," Shriver says.

Shriver and Bono first met in 1987, when U2 performed on *A Very Special Christmas*, an album that raised money for Special Olympics, a U.S.-based charity supported by the Shriver family that organizes athletic events for people with intellectual disabilities. Shriver says he and Bono developed the idea for RED during several meetings held in the past few years. "It was over probably several glasses of wine, over one or two nights, that Bono and I talked about this," Shriver says. "And neither of us can remember who had this idea."

RED products include a red Apple iPod Nano music play-

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er. Apple also sells a Special Edition U2 iPod, whose profits are not donated to the charity, says Steve Dowling, Apple's director of corporate public relations. Dowling declined to disclose how many of the iPods—of either type—Apple has sold.

Richard Feachem, executive director of the Global Fund to Fight AIDS, Tuberculosis & Malaria, says RED has transformed the charity's prospects of getting money from the private sector. In 2006, the RED program had raised \$11.3 million for the fund, says spokeswoman for the Global Fund Rosie Vanek. About \$6.25 million was given to Rwanda's Ministry of Health and \$5.05 million to the Swaziland government's National Emergency Response Council on HIV/AIDS. "I've no doubt that within three or four years we could be at an income of several hundred million dollars a year," Feachem says. "Without Bono, there would be no RED."

Bono's public charitable activities date to 1985, when the band performed at the Live Aid concert in London to raise money to help African famine victims. In *U2 by U2* (HarperCollins, 352 pages, \$39.95), a book of interviews, Bono says his life was changed that year by the experience of working for a month as a volunteer along with his wife in an Ethiopian orphanage.

Long before that, Paul Hewson was striving to become a rock star. Bono was born in May 1960 in Dublin to a Protestant mother and a Catholic father, who was a post office supervisor. Bono says in *U2 by U2* that their marriage was almost illicit at that time in the predominantly Catholic country. When Bono was 14, his mother, Iris, died from a brain hemorrhage.

In September 1976, Bono answered an advertisement by Mullen, his classmate at Mount Temple high school in Dublin, who wanted to form a rock band. An audition in Mullen's parents' kitchen narrowed the field to the four original U2 members, plus The Edge's brother, who soon dropped out. All four attended the school, as did Ali Stewart, the future Mrs. Hewson. It was at this time that Bono chose his stage name—taken from a hearing aid shop in Dublin called Bono Vox.

The Hype, as the band was initially called, won a talent contest in March 1978 in the Irish city of Limerick. Jackie Hayden, who worked as the marketing manager in Ireland for CBS Records Inc., was one of the judges. He was intrigued by the potential of the four teenagers. They became regular visitors to Hayden's Dublin office, where their business acumen was already apparent, he says. "They'd have little scraps of paper with questions for me about the music business," says Hayden, 59, who's now a director at *Hot Press*, an Irish rock music magazine. "Just basic things, like 'What does copyright

mean?' or 'How do records get into shops?' or 'Who decides what records get played on the radio?' and 'What do record contracts mean?'"

Shortly after the band's meeting with Hayden, Bill Graham, an Irish rock music journalist, introduced them to McGuinness, then a 27-year-old university dropout who'd studied psychology and philosophy and who was looking for a rock band to manage. They hired him. In 1979, the band changed its name to U2. Bono says in *U2 by U2* that the name was meant to be ambiguous: It was meant partly as a reference to the U.S. spy plane of the same name that was shot down over the Soviet Union in 1960, and partly because it could be heard as "you, too."

Hayden says McGuinness, 55, is the force behind U2's commercial success. "McGuinness was very much a conventional businessman who wore a suit and tie and had short hair and spoke very well," Hayden says. "He could go and talk to conventional business people."

In an interview at his 19th-century home in London's Notting Hill neighborhood, McGuinness—who on a December day is just back from the last leg of U2's Vertigo tour in Hawaii—wears an open-neck shirt and sips espresso to combat jet lag. "We always thought it would be pathetic to be good at the music and bad at the business," he says.

McGuinness says it was difficult getting U2's first record deal because the band members were still learning their instruments at the time. U2 eventually secured a one-record contract with CBS, which released a three-song disc called *U23* in September 1979. The record was sold only in Ireland.

Six months later, U2 signed its first major record deal with Island Records, now called Island Def Jam Music Group, part of Universal Music Group, a unit of Paris-based Vivendi. At the time, the company was an independent label whose major star was Bob Marley, the Jamaican reggae singer. *War*, U2's third album for Island, established the group as a leading international rock band. Released in 1983, *War* reached No. 10 in the U.S. music industry's *Billboard* charts. The album reinforced U2's reputation as a band that sometimes dealt with political and religious themes. One of the songs, "Sunday Bloody Sunday," referred to the fatal 1972 shooting of 13 Catholic civil rights demonstrators in Northern Ireland by British troops. The song ends with a plea by Bono for Christian reconciliation: "The real battle just begun, to claim the victory Jesus won."

In 1984, as U2's contract with Island was about to expire, the band gained ownership of the copyright of all of its songs as the price for signing a new contract with the label. "Like most people, our early deals were strongly stacked in favor of the record

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Bono's causes

company and the publishing company," McGuinness says. "We were able to improve those deals over time because we were successful."

Owning the copyright to the songs, all of which were written by the band, means U2 receives all of the royalty income whenever one of its songs is played. The deal sets U2 apart from most rock and pop bands, including the Beatles, whose sound recordings

are owned by EMI Group Plc. "U2's copyright deal was what everybody in rock music wanted, and it was unusual for a newish young band to do it so early in their career," Garfield says.

In 1985, Island Records was in financial trouble and was unable to pay all of U2's royalties from the band's album *The Unforgettable Fire*. "It was a nasty surprise at the time, but it very quickly turned into a clear good opportunity," McGuinness says. In return for waiving the unpaid royalties, U2 was given a 10 percent stake in the record company itself. Four years later, Island Records was acquired by Royal Philips Electronics NV of the Netherlands, and the band received about \$30 million for its stake.

Bono says much of this profit was lost on poor investments. "We put it in the hands of some people whom we liked personally, but weren't as expert as they thought in the areas that they were investing in," he says in *Bono on Bono*. "On the positive side it made us take more charge and interest in our business."

McGuinness says that after 30 years in the music industry, U2 band members have learned a lot. "They know as much about the business as most record executives and most concert promoters and most recording engineers and even most T-shirt distributors," he says. He declines to discuss U2's finances. The band pays an undisclosed fee to Principle Management Ltd., McGuinness's Dublin-based company.

The details of U2's money making are out of public view in a network of private companies and trusts. Most of these holdings are registered in Ireland, according to corporate filings in Ireland's Companies Registration Office. The companies publish shortened accounts, which do not reveal cash flow details, while the trusts do not publish any accounts. In 2005 Not Us Ltd., the main holding company, reported a net loss of 2.91 million euros (\$3.76 million) after advancing unsecured, interest-free loans to subsidiaries. The companies handle income from ticket and record sales, which Bono shares equally with the other band members.

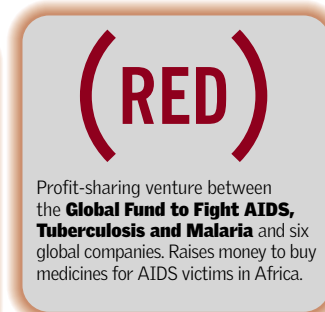
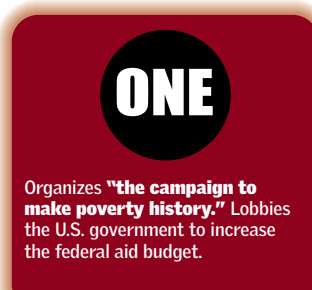
"The whole point of this structure is to minimize your tax and not show anything," says Cliff Dane, a Weston-Super-Mare, U.K.-based accountant who teaches music industry finance and economics at the University of Westminster in London.

When he's not touring or lobbying for charities, Bono spends

Bono urges people in rich countries to help the world's poor through three U.S.-based organizations.



Sources: Data, ONE, (Product) RED Web sites



time on his investments. "He gets more out of a week than most people get out of a month," McGuinness says. "It's hard to keep up with him at times." Bono is available one day a week to consult with his colleagues at Elevation, McNamee says.

Bono owns a 25 percent stake in the 50-room Clarence hotel on Dublin's Wellington Quay, whose rates start at \$296 a night. The Edge also owns 25 percent, while two Irish investors, Derek Quinlan and Paddy McKillen, own the rest. The Clarence reported a net loss in 2005 of €611,271.

Bono has an undisclosed stake in Nude, a chain of three Dublin cafes founded in 1999 by his elder brother, Norman. Business is brisk at the Nude cafe on downtown Dublin's Suffolk Street on a Friday in December. The menu includes Mexican chicken wraps, chickpea salads and Fair Trade coffee, and a poster on the wall advertises the seven wonders of wheat germ. Nude lost €634,890 in 2005, despite its popularity with Dublin's student crowd.

With his wife, Bono in 2004 founded Edun, an Irish-registered company that describes itself as a socially conscious fashion label aimed at increasing trade and employment in developing countries. "We want to do business with Africa, because that's what they want," he says in *Bono on Bono*. "I want to facilitate that." Edun sells a promotional T-shirt for ONE's "campaign to make poverty history" at rock concerts and other stadium events and at selected department stores. The shirt, made in Lesotho, costs 28 pounds (\$54), with a quarter of the sales price donated to ONE.

Edun also sells jeans and women's fashion wear, such as a wool cardigan made in Peru that retails at London's Harvey Nichols department store for £145 and a collarless silk jacket made in India that costs £240. Edun CEO Christian Kemp-Griffin says the company—which reported a first-year loss of \$5.49 million in 2004—will be profitable in 2008. Kemp-Griffin says that on average, Bono gets involved in Edun about once every four months.

In the meantime, Bono and his bandmates are working on their main business—music. The band's next album, scheduled to begin recording this year, may be the last to be made at its old studio on Hanover Quay, a rundown waterfront on Dublin's Grand Canal, just south of where the

'He gets more out of a week than most people get out of a month,' McGuinness says of Bono. 'It's hard to keep up with him'

canal meets the Liffey, the river that flows through the city.

In 2002, the Dublin Docklands Development Authority forced U2 to sell the building, located near a concrete factory, for an undisclosed price as part of a city program to bring businesses and new housing into the area, which had declined economically since World War II. In return to U2 for moving out, the authority promised the band it would provide space for a new recording studio on the top two floors of a 32-story tower it plans to build on the adjacent Britain Quay.

The authority also gave U2 bass guitarist Clayton a seat on the jury that would decide the winner of an international design competition to build the tower. In 2003, the jury chose joint winners: Dublin-based architectural firms Burdon Dunne and Craig Henry. Felim Dunne, McGuinness's brother-in-law, is a senior partner at Burdon Dunne. Felim Dunne says there was no favoritism. "We submitted our bid anonymously, as did everyone else, sometime in the beginning of 2003, and in August 2003 we heard that we had won," Dunne says. Loretta Lambkin, the authority's market-

ing director, says the contestants made sealed bids. She declined to disclose the projected cost, because the authority as of January was seeking bids from developers.

When it's completed, the twisting, corkscrew-shaped structure will rise 120 meters (394 feet) and offer Bono and the other U2 members sweeping views of Dublin from their duplex studio atop it. U2 Tower—as it's been named with the band's consent—will be the tallest building in Ireland.

It will be just one more landmark in Bono's burgeoning capitalist empire. "People want to see an entrepreneurial spirit," the U2 singer told Assayas in *Bono on Bono*.

Aiken, the concert promoter, says Bono's financial dealings—especially the Netherlands move—can detract from his ideals. "U2 are capitalists, but it's sort of shaded," he says. "I believe the ultimate charity donation is to pay your taxes in the country where you live." ♦

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BLOOMBERG TOOLS

Digging Into Developing Countries

To find economic and demographic data for developing countries from the International Monetary Fund, type IMF <Go>. The IMF is an organization with 184 member countries that strives to foster financial stability, economic growth and poverty reduction in developing countries. For example, to find a particular IMF data item for Kenya, tab in to the COUNTRY NAME field, enter *KENYA* and press <Go>. Click on Kenya at the top of the list. To find information on the volume of goods that the African country imports, press <Page Fwd> to reach the fourth page of data items and click on Volume of Imports. The screen that appears shows the ticker symbol for the index that tracks import volume. The available data on volume of imports is annual, starting in 1950. IMF data is subject to a long lag time before new updates appear.

Type GP Y <Go> to graph the historical Kenyan import volume data.

Type STAT <Go> and click on Global Population & Unemployment to compare the latest population data and unemployment rates in various countries, as shown below. The table also includes data on percentage of population older than age 65 and younger than 15. Click on Americas to display statistics for more countries in North America and Latin America.

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Global Population & Unemployment				
	Current Population	Percent Over 65 Yrs	Percent Under 15 Yrs	Unemployment Rate
North/Latin America				
1) United States	295,373 12/05	12.370%	20.56%	4.50% 12/06
2) Brazil	186,113 12/05	5.820%	26.13%	9.50% 11/06
3) Mexico	106,203 12/05	5.480%	31.08%	3.58% 11/06
4) Colombia	42,954 12/05	5.030%	30.70%	11.33% 11/06
5) Argentina	39,538 12/05	10.500%	25.57%	10.20% 09/06
6) Canada	32,805 12/05	13.050%	17.94%	6.10% 12/06
7) Peru	27,926 12/05	5.100%	31.52%	7.50% 12/06
8) Venezuela	25,375 12/05	5.020%	29.86%	8.80% 11/06
9) Chile	15,981 12/05	7.840%	25.24%	6.60% 11/06
10) Ecuador	13,364 12/05	4.870%	33.51%	9.82% 11/06
11) Costa Rica	4,016 12/05	5.510%	28.88%	6.60% 12/05
12) Uruguay	3,416 12/05	13.140%	23.20%	10.70% 09/06