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Private-equity pioneer Jerome Kohlberg, KKR co-founder, dies

The leader of the leveraged-buyout industry died at the age of 90 of cancer.

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Jerome Kohlberg Jr., who orchestrated the creation of the leveraged-buyout powerhouse Kohlberg Kravis Roberts & Co.—today's KKR & Co.—only to walk away following a bitter struggle with his two younger partners, has died. He was 90.

Kohlberg died on July 30 at his home in Martha's Vineyard, according to the *New York Times*, citing his son, James. The cause was cancer, which was diagnosed two decades ago.

The "spiritual father of the entire LBO industry," as *Fortune* magazine called him, Kohlberg set out in 1976 to create an investment firm based not on earning commissions but on taking controlling equity stakes in companies at crossroads. He started the firm with Henry Kravis and George Roberts, two colleagues of his at Bear Stearns & Co. who were 18 years his junior.

"Jerry was a real visionary, having played an important role in developing the private equity model in the 1960s, and he was a true mentor to George Roberts and me," Mr. Kravis said in an e-mailed statement. Kohlberg was "a man of integrity and moral courage" who "gave freely of his time and wealth," Roberts said in the statement.

Personal stake

"I liked the idea of surviving on what you did, on what you were building with your own money," Kohlberg told Eric J. Weiner for *What Goes Up*, a 2005 book about Wall Street's history. "I didn't want to just collect a fee or a commission."

Expanding a practice they had begun at Bear Stearns, Kohlberg, Kravis and Roberts would borrow large sums from institutions such as pension funds and insurance companies to purchase underperforming companies from shareholders. They would typically retain management and cut staff, unload unprofitable assets and end costly perks such as private airplanes, then sell the company in whole or in pieces within several years.

"I think the thing I brought to the buyout business more than anything else was the idea that management had to be an integral part of what we were doing," Kohlberg said. "They had to have ownership in the business, something at stake. We made them buy stock and also gave them some options, so that they were on the same side of the table as we were."

Breakthrough buyout

Quote

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Their 1979 purchase of Houdaille Industries, a maker of automobile and aircraft equipment, for about $370 million was the first buyout of a large company listed on the New York Stock Exchange.

The firm pulled off several billion-dollar buyouts in the 1980s, including those of Wometco Enterprises, owner of cable systems and the CBS affiliate in Miami, for about $1 billion in 1984; the Beatrice Cos., a food processor, in 1986 for about $6 billion; and supermarket chain Safeway Stores Inc. in 1986 for about $4 billion.

As of 1988, the firm had completed more than 35 buyouts worth more than $40 billion, earning billions of dollars in profits, the New York Times reported at the time.

The firm's partners rose quickly into the ranks of America's wealthy. Kohlberg spent several years on the *Forbes* list of 400 richest Americans, with an estimated wealth that reached $1.5 billion in 2007 and 2008.

Friction develops

All was not happy inside KKR, however. In 1984, as the firm accelerated its deal-making, Kohlberg was sidelined for months after undergoing surgery for a benign brain tumor. Disagreements grew between Kohlberg and his younger partners about the firm's direction. The final straw, by most accounts, was the Beatrice buyout, the firm's first hostile takeover.

In 1987, Kohlberg warned in a speech about the "overpowering greed that pervades our business life" and that it could "kill the golden goose." Soon afterward, he withdrew as a general partner. With his son he created another buyout firm, Kohlberg and Co.

"I won't restrict myself to small transactions, but I'll stick with deals where reason still prevails," he told the *New York Times*.

Kohlberg had become known as "Dr. No" inside the firm as his younger and more aggressive partners pressed for more deals and more staff, Bryan Burrough and John Helyar wrote in *Barbarians at the Gate*, their account of KKR's 1989 acquisition of RJR Nabisco Inc. for $30.1 billion.

Pushed aside

George Anders, in *Merchants of Debt: KKR and the Mortgaging of American Business* (1992), wrote: "As his importance at KKR waned, Kohlberg turned angry and then bitter toward his younger partners. Mr. Kravis, determined to take the lead in the New York office, began to elbow his former mentor aside."

Though Kohlberg's name remained on the partnership after his departure, the firm hasn't celebrated his role in its history. "It was the partnership of our founders, Henry Kravis and George Roberts, that set the tone for KKR's values and the way our firm would conduct business for decades to come," according to the firm's website.

Jerome Spiegel Kohlberg Jr. was born on July 10, 1925, and grew up in the New York City suburbs of Westchester County, where he attended public schools. He earned a bachelor's degree from Swarthmore College in 1946 while participating in a U.S. Navy officer training program on campus. He later earned a law degree from Columbia University and a master's degree in business administration from Harvard University.

Bear Stearns

He began work on buyouts at Bear Stearns in the 1960s, when, he said, they were known as "bootstrap deals" and "buying anything with over 50 percent debt was ungentlemanly." (JPMorgan Chase & Co. acquired Bear Stearns in 2008.)

Messrs. Kravis and Roberts, who are cousins, worked under Kohlberg in Bear Stearns' corporate-finance division—Mr. Kravis in New York, Roberts in San Francisco. Mr. Kravis said the three were mostly left alone, since the firm's other partners were interested in fees for closing deals, not acquiring long-term equity stakes in companies.

When Kohlberg decided to strike out on his own, Messrs. Roberts and Kravis joined him. Kohlberg put up $100,000 in startup funding; Messrs. Roberts and Kravis each invested $10,000. Kohlberg Kravis Roberts opened its doors on May 1, 1976, in midtown Manhattan.

Following his retirement from Kohlberg & Co. in 1994, Kohlberg helped manage his family foundation. With Nancy, his wife, Kohlberg in 2010 purchased the *Vineyard Gazette*, a weekly newspaper on Martha's Vineyard, from the family of James "Scotty" Reston, the longtime *New York Times* editor and columnist.

The couple, who also resided in Mount Kisco, N.Y., had four children.

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