

JEWISH BUSINESS NEWS

Jerome Kohlberg, Co-Founder Of Buyout Pioneer KKR, Dies At 90

By Nina Golberg
August 2nd, 2015

Jerome Kohlberg, The “spiritual father of the entire LBO industry,” as Fortune magazine called him, and co-founder of private-equity giant Kohlberg Kravis Roberts, KKR & Co., has died. He was 90.

Mr. Kohlberg died at his Martha’s Vineyard, Massachusetts home on Thursday after a two decades battle with cancer, according to Kohlberg & Co., the firm he founded after he left KKR in 1987.

“Jerry led an amazing life and leaves a tremendous legacy in business, philanthropy and family,” Samuel P. Frieder, Kohlberg & Co.’s managing partner, said in a note to the firm’s investors on Friday.

“Jerry led an amazing life and leaves a tremendous legacy in business, philanthropy and family,” Samuel P. Frieder, Kohlberg & Co.’s managing partner, said in a note to the firm’s investors on Friday.

Kohlberg started the firm on May 1, 1976, in midtown Manhattan, with Henry Kravis and George Roberts, two colleagues of his at Bear Stearns & Co. who were 18 years younger. Kohlberg put up \$100,000 in startup funding; Roberts and Kravis each invested \$10,000.

He wanted to create an investment firm based not on earning commissions but on taking controlling equity stakes in companies at crossroads.

“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,” 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.

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."

In 1979 they purchased Houdaille Industries, a maker of automobile and aircraft equipment, for about \$370 million. That 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, Bloomberg reports.

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.

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.

The turning point came in 1984, as Kohlberg was sidelined for months after undergoing surgery for a benign brain tumor. Disagreements grew between Kohlberg and his partners about the firm's direction. The final straw, as media describe it, was the Beatrice buyout, the firm's first hostile takeover.

In 1987, Kohlberg warned 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.

According to the firm's website "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,"

Following his retirement from Kohlberg & Co. in 1994, Kohlberg helped manage his family foundation. In 2010 with Nancy, his wife, Kohlberg purchased the Vineyard Gazette, a weekly newspaper.

Kohlberg and Nancy, his wife, had four children.