

Jerome Kohlberg, senior founder of KKR, 1925-2015

Gordon Cramb

To Jerome Kohlberg, life did not come much better than playing third base in a knockabout Sunday softball game on the southern shores of Martha's Vineyard. The ground sloped in varying directions and markings were few, yet the tourney was a weekend staple of the Massachusetts island retreat where for much of his life he summered.

For the rest of the year he toiled in Manhattan, rising to head the investment banking division of Bear Stearns after pioneering what he dubbed a "bootstrap" deal. Drawing on outside investors to acquire, restructure and float a private company, often in conjunction with management, the arrangement provided an amicable re-lease for families that had built a business. His 1960s formula was the basis of what became the leveraged buyout.

At 51 that spurred a decision to found his own firm, along with a pair of 32-year-old cousins working under him. Kohlberg, who has died aged 90, was from its 1976 inception the "first K" in front of Henry Kravis and George Roberts at what would become the fearsome force known as KKR.

Seven years on, a life-saving operation to remove a brain tumour put him out of action for a year. Returning to their Midtown offices, he sensed a change. With public equity markets on the rise, Kohlberg's younger partners hankered after ever bigger deals, no matter if hostile. They were out to play hardball. As recounted in the best-selling *Barbarians at the Gate*: "Jerry Kohlberg by 1983 was growing uncomfortable with changes in the industry he helped spawn. He still favoured small, friendly deals initiated by pull-up-a-chair talks with older gentlemen."

KKR went on to clinch the 1986 acquisition of Beatrice, the dairy company that had come to own non-food brands from Avis to Playtex. At \$8.7bn it was the priciest leveraged deal of its time. He made clear his qualms, going on to warn investors that the "overpowering greed that pervades our business life" came at the expense of ethics and values.

Seeing the sector's future as portending ever costlier purchases as a widening array of rival predators piled in, he quit the takeover triumvirate in March 1987 — along with son James, by then on KKR's payroll too — to found a demure private equity operation upstate.

Unease was soon on display in the financial district too. By midyear Wall Street had a febrile feel. Stock prices had trebled in just five years and, among



investment gurus of the day, not only the ever bearish were increasingly calling the top of the market. August, the month Alan Greenspan became US Federal Reserve chairman, was to prove the peak. After drifting lower, on October 19 the Dow dived 22 per cent. Yet for the Kohlbergs' new family business and the remaining duo at the head of KKR alike, the collapse was no bad thing. Each could benefit not just from the slashed market valuations that prevailed but also the easing in monetary policy over which Mr Greenspan was obliged to preside. For Mr Kravis and Mr Roberts it took the form of KKR's famed raid the following year on RJR Nabisco, the Camels-to-Oreos conglomerate, as chronicled in *Barbarians*.

Kohlberg sued his ex-partners to

secure a continuing income from past takeovers in which he had invested. All three had done much the same when their former employer sought to deny them a cut from their previous Bear Stearns deals. The two remaining KKR founders told staff this week: "Jerry was our mentor and friend, a true visionary... We are proud that our firm is called Kohlberg Kravis Roberts & Co."

Born in New York on July 10 1925, Kohlberg served in the US Navy in the second world war and drew on funds for returning GIs to earn a Harvard MBA and a law degree from Columbia. He is survived by his wife, Nancy, two daughters, James and another son. Leaving James to chair Kohlberg & Co, he retired in 1994 and backed causes such as curbs on big-bucks funding of

US election campaigns. At least \$700m of his wealth went to charities, says Peter Kunhardt, a friend. Five years ago he bought the Vineyard Gazette, a venerable weekly serving the New England resort that was to be his final home.

Adam Wilson was a youthful participant in the island's Sunday sports gatherings, where it was often unclear where the foul line ran. That was in the early 1980s, he told the *Financial Times* — around the time Kohlberg underwent brain surgery. As Mr Wilson, a local administrator, wrote on the Gazette's website about the older fielder in the floppy hat: "Jerry was always viewed as being the wisest among us and his pleading to end an argument with 'Can we just play ball' would rule the day."