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Jerome Kohlberg Jr., 90, a Pioneer of the Private Equity Industry, Dies

By MICHAEL J. de la MERCED

Jerome Kohlberg Jr., a veteran financier who pioneered the \$2.6 trillion leveraged-buyout industry but later rejected its hunger for huge and aggressive deals, died on Thursday at his home in Martha's Vineyard. He was 90.

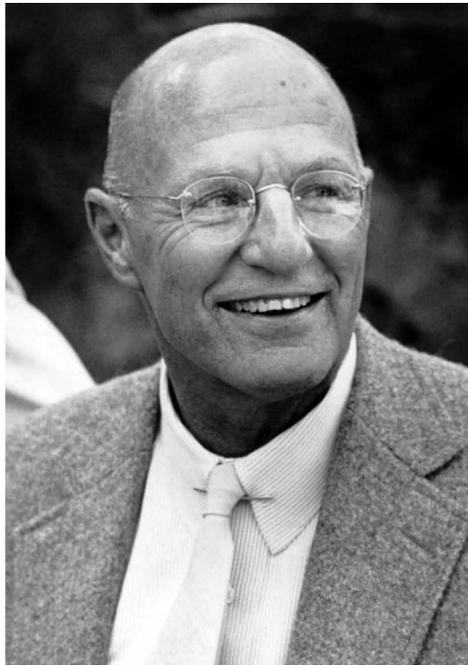
The cause was cancer, of which he had received a diagnosis two decades ago, his son James said.

Mr. Kohlberg rose through the ranks of the investment bank Bear Stearns, where he started working in 1955. But he and two younger men whom he had mentored, Henry R. Kravis and George R. Roberts, eventually left in 1976 to form a new investment firm bearing their names. Kohlberg Kravis Roberts & Company became a major force that set the tone for the buyout industry, particularly after it took over the tobacco and food conglomerate R.J.R. Nabisco — the deal made famous in the book “Barbarians at the Gate: The Fall of RJR Nabisco,” by Bryan Burrough and John Helyar, although Mr. Kohlberg left the firm a year before the deal was completed.

Yet Mr. Kohlberg and his protégés grew apart, separated by philosophies over corporate strategy and lifestyle. Where Mr. Kravis and Mr. Roberts were willing to pursue large-scale, hostile takeovers, Mr. Kohlberg instead chose to focus on smaller deals, always on friendly terms.

By the time Mr. Kohlberg retired from the sector altogether in 1994, the leveraged-buyout business — since renamed “private equity” — was on its path to becoming immense, eventually making billionaires of Mr. Kravis and Mr. Roberts, as well as rivals like Stephen A. Schwarzman of the Blackstone Group and David Rubenstein of the Carlyle Group.

Mr. Kohlberg maintained a less ostentatious life, shunning the



KOHLBERG FOUNDATION

Jerome Kohlberg Jr. in 1992. He founded K.K.R.

high-roller social soirees for tennis, reading and later yoga. “Getting Jerry to go out to a cocktail party is a major event,” a friend said of him, according to “Barbarians at the Gate.”

Jerome Kohlberg Jr. was born on July 10, 1925, to Jerome Sr., an importer, and Edith, a writer and charity worker, and was raised in New Rochelle, N.Y.

He later attended Swarthmore College. The school's Quaker philosophy inspired him enough to later call himself a “Jewish Quaker.” After a stint in the Navy, he earned degrees from Harvard Business School and Columbia Law School, helped in part by the G.I. Bill. A brief detour as a clerk for a federal judge eventually led Mr. Kohlberg to Wall Street, where he joined Bear Stearns. While there, he became the head of the bank's corporate finance department, responsible for the standard capital-raising that was the mainstay of investment banking.

But he developed a specialty on the side: what was known then as the “bootstrap deal,” originally meant to buy the companies of aging business owners looking to sell.

Mr. Kohlberg would set up shell companies with the help of

investors, amplify his buying power with borrowed money, and then buy those businesses. After vigorous cost-cutting and pushing management teams to perform more efficiently, he would bring these companies to the stock markets, selling them for hopefully more than he had paid.

That model has underpinned the basic private equity deal ever since.

While at Bear Stearns, Mr. Kohlberg became the mentor of two promising Wall Street types, the cousins Mr. Kravis and Mr. Roberts, who quickly took to this form of deal-making. But others at the firm began to grumble about the three spending too much time away from bread-and-butter business of the firm, investment banking.

After an attempt to form

Kohlberg shunned hard-edged tactics, focusing on smaller, friendly deals.

a leveraged-buyout group within Bear Stearns was rejected, the three men struck out on their own. With the help of eight investors, including Mr. Kravis's father and Mr. Kohlberg's \$5 million nest egg, they set up Kohlberg Kravis Roberts & Company in Midtown Manhattan.

Though the early years of the firm were sometimes lean, K.K.R.'s business model proved alluring, prompting a growing stream of competitors eager to reap huge profits from deals made with borrowed money.

In 1983, Mr. Kohlberg began experiencing health problems, which eventually included blood clots in his brain and then his lung. He took time off from the fledgling firm, trying several times to come

back but unable to return at full strength.

By the time he returned, he had become dissatisfied with the harder-edged approach that the leveraged-buyout industry had adopted. He opposed K.K.R.'s hostile takeover bid for Beatrice Foods — yet the deal was consummated anyway.

Unable to come to an agreement on a role at the firm where he served as senior founding partner, Mr. Kohlberg left to form his own investment firm, Kohlberg & Company, in 1987, with his son James as co-founder. (James Kohlberg is a board member of The New York Times Company.)

“We must all insist on ethical behavior or we will kill the golden goose,” Mr. Kohlberg said at his last investor conference at K.K.R.

Kohlberg & Company has raised \$5 billion from investors since its inception, having struck \$10 billion worth of deals in its own right.

Upon his retirement from Kohlberg & Company in 1994, Jerome Kohlberg focused in large part on philanthropy, including efforts to provide education for veterans of the wars in Iraq and Afghanistan. He also supported efforts to overhaul campaign finance laws, lending his backing to the McCain-Feingold legislation that passed in 2002.

“Jerry was a real visionary, having played an important role in developing the private equity model in the 1960's, and he was a true mentor to George Roberts and me,” Mr. Kravis said in a statement.

“Henry and I are proud that our firm's name is Kohlberg Kravis Roberts,” Mr. Roberts said. “Jerry will be missed and remembered by many.”

In addition to his son James, Mr. Kohlberg is survived by his wife, Nancy; three other children, Karen, Pamela and Andrew; 12 grandchildren; and three great-grandchildren.