Jerome Kohlberg, co-founder of leveraged-buyout firm KKR, dies at 90

By Michael J. de la Merced NEW YORK TIMES AUGUST 01, 2015

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 Thursday at his home in Martha's Vineyard. He was 90.

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

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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 Kravis and George Roberts, eventually left in 1976 to form a new investment firm bearing their names. Kohlberg Kravis Roberts & Co. became a major force that set the tone for the buyout industry, particularly after it took over the tobacco and food conglomerate RJR Nabisco — the deal made famous in the book "Barbarians at the Gate: The Fall of RJR Nabisco," by Bryan Burrough and John Helyar, although Kohlberg left the firm a year before the deal was completed.

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

By the time 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 Kravis and Roberts, as well as rivals like Stephen Schwarzman of the Blackstone Group and David Rubenstein of the Carlyle Group.

Kohlberg maintained a less ostentatious life, shunning the 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, New York.

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 GI Bill.

A brief detour as a clerk for a federal judge eventually led 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.

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, Kohlberg became the mentor of two promising Wall Street types, the cousins Kravis and 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 the bread-and-butter business of the firm, investment banking.

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

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

In 1983, 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 KKR'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, Kohlberg left to form his own investment firm, Kohlberg & Co., in 1987, with his son James as co-founder. (James Kohlberg is a board member of The New York Times Co.)

"We must all insist on ethical behavior or we will kill the golden goose," Kohlberg said at his last investor conference at KKR.

Kohlberg & Co. 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 & Co. 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.

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