

KKR The next generation

Founding duo quietly groom heirs apparent

NEWS ANALYSIS

In the last report of a three-part series, **James Politi** looks into the plans being made for succession at the deal-making giant

When Joseph Bae married his college sweetheart, Janice Lee, in April 1996, the wedding announcement gave a rather gloomy picture of the groom's living conditions.

As a 24-year-old junior banker at Goldman Sachs, Mr Bae was sleeping on an old futon in an apartment with "no rugs, art, plants or kitchen appliances," the New York Times listing said.

Those days must have seemed very distant for Mr Bae a decade later when, as a high-flying Kohlberg Kravis Roberts executive, he was negotiating the sale of

his \$8m brownstone apartment in New York's fashionable Greenwich Village to Ellen Barkin, the Bronx-born actress famous for roles in *Fear and Loathing in Las Vegas* and *The Big Easy*.

Aside from a brush with Hollywood and an impressive rise up the Manhattan property ladder, Mr Bae represents a fresh generation of dealmakers at KKR that is emerging from under the wings of Henry Kravis and George Roberts.

It did not always look so rosy. Less than two years ago, the succession issue looked a real problem for KKR. In the late summer of 2005, Scott Stuart and Ned Gilhuly, two of KKR's most promising senior executives, left to start their own mid-sized private equity fund, Sageview Capital, plunging into doubt KKR's ability to renew its talent base.

Though amicable, their departure sent shivers down the spine of several large investors in the powerful New York buy-out group as it appeared to leave a vacuum just below the level of the co-founders.

Eighteen months later, some people still worry that KKR has not spent sufficient time dealing directly with succession. Unlike Steve Schwarzman and Pete Peterson at Blackstone, who essentially selected former Credit Suisse banker Tony James to lead the firm after

they retired, the founding duo at KKR has not chosen an heir.

At the firm, even raising the possibility of life after Mr Kravis, 63, and Mr Roberts, 62, is considered somewhat heretical since they are as engaged as ever in fundraising and dealmaking. Yet, over the years Mr Kravis and Mr Roberts have taken quiet steps to create an institution that would survive after their retirement.

For one, they are believed to have reduced their share of the profits KKR makes from its deals to below 50 per cent, after deciding to increase the number of the firm's partners, or "members", as they are known internally, to 25.

At the same time, Mr Kravis and Mr Roberts have gradually delegated responsibilities to regional heads or the top dealmakers in the nine or so industry groups that were formed in 2000.

"Others are growing their roles and becoming more self-sufficient," says one insider.

Mr Bae is now based in Hong Kong, after being tasked by the co-founders

with spearheading KKR's efforts to expand in Asia - a tricky job given that other firms such as Carlyle, TPG and Warburg Pincus were already firmly established in the region.

In London, a former Salomon Brothers banker by the name of Johannes Huth has been plotting the largest leveraged buy-out in Europe: KKR's near \$20bn bid for Alliance Boots, the British drugstore chain.

As head of the company's European operations, German-born Mr Huth has also had to develop new skills as one of private equity's chief diplomats on a continent where political and trade union hostility to the industry is often severe.

In KKR's home market of



the US, where an overwhelming majority of its deals are signed, there is also no shortage of rising stars, from Marc Lipschultz and Fred Goltz, who helped engineer the record \$45bn buy-out of TXU, to Scott Nuttall, who heads the financial services group and recently led the \$29bn purchase of First Data.

"They have a very broad and deep bench," says Ros Stephenson, co-head of corporate finance at Lehman Brothers in New York. "Henry and George have built a sustainable business model."

One wild card in the institutionalisation of KKR is the possibility of an initial public offering, which the firm has been studying along with other options to create "permanent capital".

For some observers, an IPO would be immensely positive for the new genera-

tion, in that it would allow them to cash in on some of their equity in the firm.

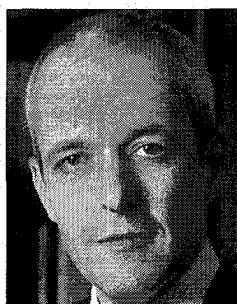
But others fear that some senior executives may resent any move by Mr Kravis and Mr Roberts to take their chips off the table before further diluting their ownership.

One thing is certain: the issue will have to be handled sensitively if the succession problems of two years ago are not to be revived, and the likes of Mr Bae are to be retained.

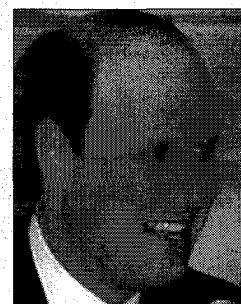
MORE ON KKR

Previous articles in this series looked at KKR's battle with Blackstone for dominance of the private equity business, and at the buy-out group's pioneering strategy of corporate shock therapy. For full coverage, go to:

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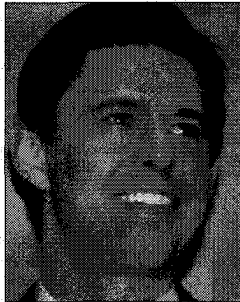
Johannes Huth, 46, manages KKR's operations in Europe from London. A former Salomon Brothers banker and Investcorp buy-out artist, Mr Huth has been with KKR for eight years, working on several large transactions such as last year's purchase of Philips' semiconductors division.



Marc Lipschultz, 38, heads KKR's energy and natural resources group, and was a key figure in the firm's \$45bn deal to acquire TXU, the Texas-based energy group, in February. Previously at Goldman Sachs, the Harvard Business School graduate joined KKR 12 years ago.

Joseph Bae, 35, was dispatched to Hong Kong in late 2005 to pioneer KKR's move into Asia. Of Korean descent, Mr Bae has been at the firm for 10 years since joining from Goldman Sachs. One of his largest deals while still in New York was the takeover of PanAmSat, the US satellite company.

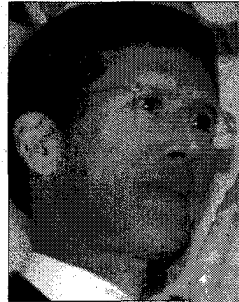
Michael Calbert, 44, heads the retail team from Menlo Park, California, and was the lead KKR executive on the \$6.6bn buy-out of Toys R Us in 2005. This year, he helped negotiate the \$7bn acquisition of Dollar General, one of America's largest discounters.



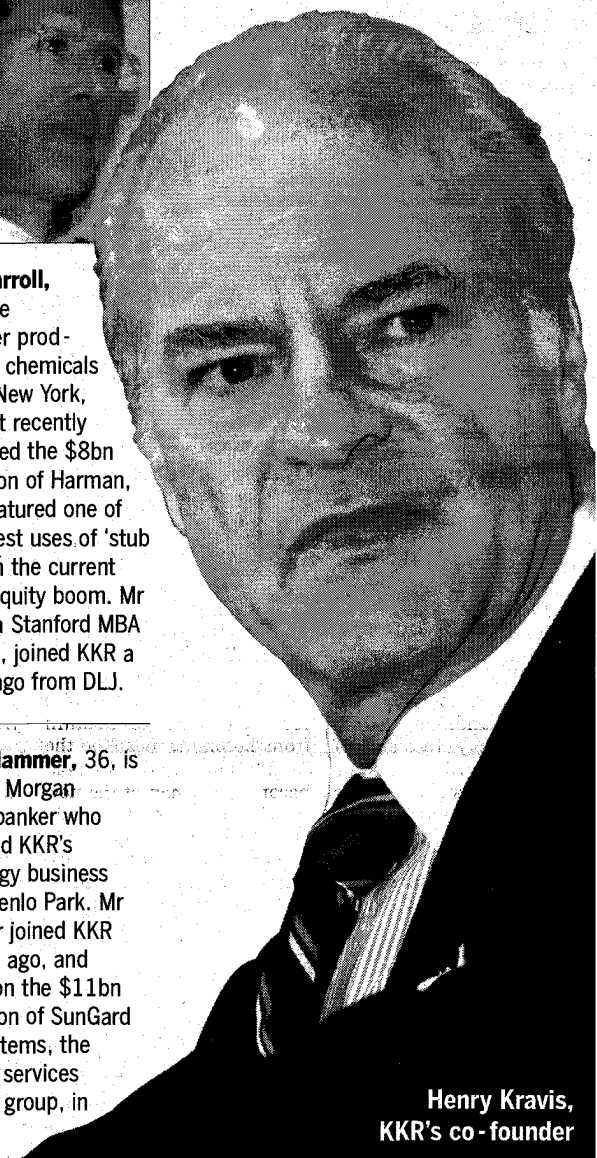
Scott Nuttall, 33, is the youngest member of KKR's new generation. But the head of the firm's financial services group, who led last month's \$29bn planned takeover of First Data, the credit card processing group, has already been at the firm for 10 years. Mr Nuttall, started his private equity career at Blackstone.



Dominic Murphy, 40, heads KKR's healthcare and consumer products industry team in Europe, and is a leading dealmaker on the \$20bn acquisition of Alliance Boots. The Liverpool University graduate only joined KKR in 2005 after working at 3i and Cinven, two European private equity groups.



Brian Carroll, 35, is the consumer products and chemicals head in New York, and most recently engineered the \$8bn acquisition of Harman, which featured one of the earliest uses of 'stub equity' in the current private equity boom. Mr Carroll, a Stanford MBA graduate, joined KKR a decade ago from DLJ.



Henry Kravis,
 KKR's co-founder

Todd Fisher, 41, co-founded KKR's London office in 1999, and is currently head of its UK business and the European chemicals and financial services team. Mr Fisher, a Wharton MBA graduate, joined KKR in the early 1990s from Goldman Sachs and Drexel Burnham Lambert.

Alexander Navab, 41, joined KKR in the early 1990s from James D. Wolfensohn Inc and has emerged as the top executive in the firm's media and communications division. Mr Navab was one of the lead dealmakers involved in KKR's acquisition of Dutch media company Nielsen.

Adam Clammer, 36, is a former Morgan Stanley banker who helps lead KKR's technology business out of Menlo Park. Mr Clammer joined KKR 10 years ago, and worked on the \$11bn acquisition of SunGard Data Systems, the financial services software group, in 2005.