Lunch with the FT: Henry Kravis and George Roberts

By Henny Sender

The co-founders of private equity group KKR share an Indian takeaway with Henny Sender

Henry Kravis and his cousin George Roberts won't go out to lunch with me. The co-founders of Kohlberg Kravis Roberts, the world's best-known corporate buy-out company, will, however, allow me to pay for the Indian takeaway they have had delivered to KKR's Hong Kong office, one of 14 outposts of the New York-based private equity group. Worldwide, more than one million people work in companies in which KKR invests, among them the US hospital chain HCA and the British pharmacy and healthcare group Alliance Boots.

A receptionist escorts me into a conference room high up in a tower that has some of the most expensive rents in Hong Kong. The meal is already on the table, and I am told that the cousins are on their way. I am expecting to see plastic containers, but the food has already been transferred on to fine Wedgwood porcelain. Our places have been set with linen napkins, embroidered with the KKR initials.

Roberts arrives shortly afterwards, looking very banker-like in a pinstriped suit with a pink shirt and an aubergine silk tie. Aubergine has become KKR's corporate colour, he says, offering me a new business card with the company logo in that same shade. A few minutes later Kravis appears, wearing a white shirt and checked tie, with a striking gold tiepin.

Both Kravis, 67, and Roberts, 68, are diminutive and spry. They greet each other warmly, even though they have been apart for just a couple of hours. Theirs is a genuinely close relationship (for example, Kravis donated a Central Park bench in his cousin's name). The familiarity allows them to describe the massive KKR, now a publicly listed company with almost 900 employees and $60bn under management, as a "family-run firm".

Kravis offers me a drink, getting it himself rather than ask the three catering staff who are standing by. I ask for sparkling water, which is poured with care. Roberts asks for a Diet Coke, which Kravis hands over with rather less ceremony.

We are on the 56th floor, with breathtaking views of the harbour. Lunch has taken months to set up because the two men are rarely in the same place at the same time. Kravis lives in New York, and Roberts on the US west coast. When they are together they dine out, accompanied by their wives. They like to be incognito, exploring local, sometimes fairly downmarket, restaurants. (I had run into both couples two days before our lunch. All four were casually dressed and on their way to a low-key Sichuanese restaurant.) Kravis says he has chosen our food, telling me that he and his wife love India and its cuisine. "Marie-Josée and I like to go to India for Christmas but this time I will be there on January 6 for my birthday. We go to temples even Indians have never heard of."

Kravis and Roberts founded KKR in 1976. Their co-founder was an older man, Jerome Kohlberg, whose name has stuck but who left Kohlberg Kravis Roberts in 1987, the year before the audacious $25bn RJR Nabisco buy-out deal that made the company famous. It's a tale told in the bestselling – and still thrilling – 1990 book, *Barbarians at the Gate* (extract below). It captures the cut-throat world of 1980s Wall Street, a time when anything could, and did, happen as the traditional way of doing business was turned on its head by upstarts such as KKR.

Both Kravis and Roberts had originally worked for Kohlberg at the scrappy, aggressive investment group Bear Stearns in New York, Kravis joining to replace his cousin who had gone back to live in California. At KKR, the three men set up leveraged buy-outs of the kind they had pioneered at Bear Stearns. The separation from Kohlberg in 1987 was – and remains – painful. It was caused, in part, by differences between the hard-driving business style of the young cousins and the quieter approach of their former mentor; and partly by disagreements over money.

KKR's business model relies on buying companies using masses of borrowed money, and, once the takeover is complete, paying down that debt using cash flow from the companies it now owns. When it works, the upside is huge, and when it doesn't it is usually the creditors who lose out. Because of this one-sidedness, and because the private equity companies can buy businesses using billions of dollars of borrowed cash (risking very little of their own money), the industry has long had an image problem. In its early days KKR made repeated, audacious and often successful bids for so many big companies that its name became synonymous with aggressive "barbarian" tactics.

It is, I believe, the contrast between public perceptions of the pair as tough go-getters and the reality of my charming, courteous hosts in Hong Kong, that is part of the secret of the cousins' enduring success in the private equity world.

They have certainly worked to change perceptions of their company and make it more up to date. When I visited the KKR head office in New York some years ago, its walls were decorated with English hunting scenes and other traditional – and very expensive – paintings in gold frames. They have since decided to throw out the old look, and today the walls of KKR offices around the world are hung with modern paintings, often by local artists. Kravis has donated extensively, both in cash and in pictures, to the Museum of Modern Art in New York, where Marie-Josée, Kravis's third wife and an economist, serves as president of its board of trustees.

I ask Roberts, the older of the two men by four months, and the more softly spoken, about the change in style. "We wanted to change the art and we wanted to change the way of thinking around KKR," he replies – adding that the old stuff was sold at a profit.

We sit down to eat, and Kravis carefully serves me my first helping, a dish of spinach with cheese, and then some curried potatoes. He explains that the tiepin is a gift from his brother and is a Victorian coin dating from 1864.

"It is amazing you haven't lost it yet," Roberts observes, companionably, helping himself to some meat, which he wraps expertly in flatbread.

Kravis and I both heap several more spoonfuls of the curries on to our plates. I notice that Roberts, who is less adventurous in both his travels and his eating habits – preferring the golf courses of the US's west coast to the temples of India – seems to prefer the less spicy tandoori dishes.

The office makeovers are also emblematic of the way the two founders have rejuvenated their business after a period, about a decade ago, in which they seemed more detached, when the firm was slightly adrift and there was speculation within financial circles on the touchy issue of succession. In July 2010, KKR followed the example of its rival private equity group Blackstone, and listed as a public company on the New York Stock Exchange.

Over the years, KKR's portfolio of companies has included Safeway, the battery maker Duracell, and, of course, the food and tobacco conglomerate RJR Nabisco. Today, most of the companies KKR bought in the boom that ended with the 2008 financial crisis are surviving, although its single largest deal, the utility Texas Energy Future Holdings, the former TXU, is still very troubled.

Kravis is confident that KKR and the private equity industry will weather the economic storms. “If investors can live with the illiquidity, and wait five to seven years to harvest their investment, private equity will still offer the highest returns,” he says. “All our funds are above cost and returning money, even those that aren’t fully invested.”

The Asian operation is the fastest-growing part of KKR’s business and has just moved into these offices, having outgrown smaller premises in the five years since the firm raised $4bn to invest in Asian companies and, more recently, $1bn to fund young Chinese firms. Kravis is often in Asia on business, partly to nurture relationships with his investors there, who range from the most experienced in the region, such as Singapore’s Government Investment Corporation, to some of the newest, such as South Korea’s National Pension Scheme. (KKR recently teamed up with the latter to invest in Colonial Pipeline in the US.)

The cousins are here this week to help local staff raise $6bn for a new Asian fund. KKR has a much shorter track record in Asian markets than competitors such as Carlyle (which has already returned $8bn in profits to investors in its Asian businesses) but seems likely to do well. It has already invested in many companies in the region, among them a dairy company in Maanshan (“We own 110,000 cows,” Kravis says proudly); a finance firm in Shanghai; a beer company in South Korea and a chain of coffee houses in India.

Heading the Asian operation is Joe Bae, a Korean-American whom KKR installed in 2005, when Bae was only 33. “But, then, we were only 32 when we founded KKR,” Kravis recalls. “At that time [35 years ago] we weren’t partners of anything, except each other." Roberts says that back then the pair were, like Bae is now, "young, entrepreneurial, but cautious". Meanwhile David Liu, who runs KKR's Chinese business, is the only China regional head among the major buy-out firms who actually lives in the country.

Kravis and Roberts say their biggest challenge is to resist bureaucracy in KKR on one hand, and to fight the arrogance of some younger colleagues on the other. One senior KKR executive used to insist on having a baby grand piano in every hotel room he stayed in, regardless of cost. That sort of practice is no longer tolerated. "The point isn't to show that you are the smartest guy in the room," says Kravis. "Arrogance kills."

While KKR has spawned many imitators over the years, its own corporate culture has struck me as less hard core capitalist than its *Barbarians at the Gate* image. The founders have shared the profits of their firm from its very first days. After flotation, 70 per cent of the company is owned by staff, while 30 per cent has gone to public shareholders.

Roberts puts down his fork, but Kravis helps himself to some more lamb curry and rice as he tells me how KKR explains to all its employees, including support staff and secretaries, why it is better to hold on long term for a share of profits – even though the returns can take years to materialise, "They'd say, 'Can't we have a $1,000 gift certificate to Bloomingdales instead?'" Individual staff got $80,000 in profits from the pair's first deal completed without Kohlberg – a $2.4bn investment in Storer Communications.

The buy-out industry has changed a lot since the two men engineered their takeover of RJR Nabisco. To finance that deal the two went around the world, trying, for example, to convince a group of Japanese investors and banks to cough up $6bn for the total $19bn in debt they needed.

More than two decades later, KKR's rivals Blackstone and Carlyle are much bigger companies, but this "family-run firm" is still thriving: Kravis came in at 86th on the 2011 Forbes list of the richest Americans, and Roberts 91st. Each has an estimated worth of more than $3bn.

Kravis has ordered a lot of food, and after two hours we haven't made much of a dent either in the mounds of tandoori meats or the bowls of curry. Kravis has some coffee, Roberts chooses tea, but I decline anything to drink, apart from sparking water, much to Kravis's distress.

When they have finished, Roberts tells me he is flying later in the afternoon, "on Roberts Airlines", he says in passing, while Kravis says he is flying – also by private jet – to New York late that night.

In the past month Kravis has spent only a day and a half in New York. On this trip they have had 61 meetings. "I have been going to Asia since 1978," Kravis says. "The first time I went to China was in 1993 with the Council on Foreign Relations. But Marie-Josée has been going to China since 1971." That was the year before Nixon's famous visit, I note.

Both men see me to the lift and say they are looking forward to seeing the interview in the FT. "Better to describe us as iconic than as legends," Roberts counsels me, deadpan. "You have to die to be described as a legend."

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Rang Mahal

83 Percival St, Causeway Bay, Hong Kong

Takeaway food, to share:

Potato samosas

Onion bhajis

Tandoori mixed grill

Navratan (vegetable) korma

Lamb rogan josh

Chicken masala

Sag paneer (cheese and spinach)

Assorted breads

Raita (yoghurt sauce)

Rice (pilau and plain steamed)

Total (including free delivery) HK$698 (£57)

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EDITED EXTRACT FROM 'BARBARIANS AT THE GATE'

Turf wars on Wall Street

In 1976, Jerome Kohlberg, Henry Kravis and George Roberts decided to resign from Bear Stearns and set up their own specialist firm, Kohlberg Kravis Roberts & Co.

When Kohlberg announced their intention to resign, Roberts flew in from San Francisco to tell Cy Lewis personally. The chairman of Bear Stearns was a large, imposing man, and as Roberts delivered the bad news, Lewis leaned way over his huge desk. "You know, young man," he said, "you're making a terrible mistake. No one has ever left this firm and been successful."

Then things got nasty. A few mornings later, Kravis walked in and found his office emptied, its door locked. A tall man in paratrooper boots stormed up to him.

“You will not be in that office,” the man said in a German accent.

“What do you mean?” Kravis said. “I’m a partner here.”

A similar “hit man” arrived in San Francisco. The contents of Roberts’s office were saved only by the timely intervention of his west coast colleagues. Dumbstruck, Kohlberg and Kravis confronted Lewis. “What the hell’s going on?” Lewis had declared war on the traitorous trio. On their departure, he demanded that Bear Stearns retain control of all Kohlberg’s deals, even though the three had millions of their own money sunk into them and, in most cases, controlled the companies’ boards. Lewis attempted to apply pressure through Kolhberg’s investors, including insurance giant Prudential and the midwestern bank First Chicago. “But the Pru told him to ‘shove it’, and so so did First Chicago,” Kravis recalled. Eventually lawyers were brought in and, in a long, difficult negotiation, the trio kept control of its investments.

They set up shop in the old Mutual of New York building on Fifth Avenue. Kohlberg preferred a low profile, so for years there was no name on the door.

Edited extract from ‘Barbarians at the Gate: The Fall of RJR Nabisco’ (1990) by Bryan Burrough and John Helyar (Arrow £9.99).

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