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## DEALS DEAL MAKERS

### KKR's Two Rising Stars Depart to Launch Fund

*Gilhuly, Stuart to Leave; Kravis and Roberts Show No Signs of Stepping Down*

By HENNY SENDER

Two of the stars of Kohlberg Kravis Roberts & Co. are departing—a move that others in the corporate-buyout community interpret as showing the stresses when the founding generation shows no signs of letting go.

Scott Stuart and Edward Gilhuly, both 45 years old, are leaving the private-equity company to start their own investment fund. The two were widely believed to be the best and brightest of the next generation at KKR.

KKR, which is run by Henry Kravis and George Roberts, is considered one of the most tightly controlled of the massive buyout funds. Only recently did the two founding partners introduce such power-sharing arrangements as an investment committee, for example. Messrs. Stuart and Gilhuly sat on the six-member committee.

Both Mr. Kravis and Mr. Roberts declined to comment.

Founded in 1976, KKR is known for its role in two of the largest buyout transactions in history: RJR Nabisco and Beatrice. It has invested in more than 130 deals with a total value of \$157 billion.

Messrs. Kravis and Roberts are both 61 but show no signs of slowing down. When asked last year about any retirement plans at a private-

equity conference, Mr. Kravis responded that neither he nor Mr. Roberts, his cousin, had any such intention. Mr. Kravis always had taken pride in the low turnover at KKR and greeted the defection with displeasure, people close to the company say.

Mr. Stuart and Mr. Gilhuly say their departure has less to do with KKR than their desire to do their own thing. Mr. Kravis and Mr. Roberts “are fully engaged and the right guys to run KKR,” Mr. Gilhuly says. “It is a logical time for us to leave and it is great to go out when KKR is on a roll.” The two departing partners,



Henry Kravis

who were roommates at Stanford Business School, “have the same biological clock,” Mr. Stuart adds.

The two plan to launch an equity-investment fund with no more than \$1 billion, small by today's standards, with their own money and capital from KKR. The fund will mostly take long-term positions. The two say it won't be trading-oriented like hedge funds and won't seek control positions as most private-equity companies do. Private-equity funds, which cater to institutional investors and wealthy individuals, buy companies or units of

companies, often using large portions of debt to finance their acquisitions.

While most private-equity funds recently have diversified, helping sponsor a successful hedge fund such as Texas Pacific Group, or advisory businesses such as Blackstone Group, KKR has been more committed to the pure buyout business.

The departures of Mr. Stuart and Mr. Gilhuly come just as KKR is closing on a new \$5 billion European fund. Until recently, Mr. Gilhuly had run the European operations at KKR, and was widely credited for KKR's success there.

Hours earlier, KKR announced that it was opening offices in Hong Kong and Tokyo, joining the rush to Asia among buyout companies. In late March and April, Mr. Kravis had traveled extensively in the region. His visit to Shanghai was organized by General Electric Co., underscoring how vital China has become to the manufacturing supply chain. KKR has dozens of companies with various activities in China.

Succession has become a big issue for the buyout funds. Tony James became the heir apparent at the Blackstone Group, while at Thomas H. Lee & Partners, founder Thomas H. Lee is making way for two younger partners, Scott Sperling and Anthony DiNovi. Warburg Pincus several years ago had a changing of the guard and now is run by Chip Kaye and Joe Landy, both in their 40s.