

NEW MASTERS

Private-equity titans dominating Wall St.

By ZACHERY KOUWE

Legendary dealmaker Henry Kravis and his fellow billionaire buyout barons are forging a new gold rush on Wall Street.

Flush with hundreds of billions of dollars in investor cash, Kravis and company are on a record-setting pace of acquisitions — and have stuffed the wallets of investment bankers with an astounding \$52 billion in fees through the first six months of the year.

The fees — \$213 million from Kohlberg Kravis Roberts & Co. alone, according to Dealogic — are helping these Wall Street banks post record profits.

Kravis and the other buyout kings — the new powers on Wall Street — are expected this year to crush the record \$3.4 trillion in deals closed in 2000 at the height of the dot-com frenzy.

And they'll not only crush the record, but dominate the deals as well. In the past, corporations fueled M&A activity. Now, private-equity firms such as KKR, Texas Pacific Group, headed by David Bonderman, and The Blackstone Group, run by Stephen Schwarzman, are masters of their universe.

"The private-equity firms are the new barons of the decade," said one investment banker. "They are fearless when it comes to the use of leverage, and corporations are a bunch of old patsies and pansies about using debt."

KKR may be little-known outside financial circles, but it is quietly amassing a \$15.5 billion war chest in what will be the largest private-equity fund ever amassed.

That kind of money, coupled with the generous amounts of debt available to finance buyouts, gives KKR more than \$50 billion in buying power.

"The ever-increasing waves of capital flowing into private equity have the potential to create an economic sea change," said Larry Jordan Rowe, a partner at law firm Ropes & Gray.

This year, private-equity firms have gobbled up choice names including Linens 'n Things, Michael's Stores, Hertz, grocery chain Albertsons, Tommy Hilfiger and Lord & Taylor. And just this week, a consortium of

Goosed!

Private equity is the goose laying golden eggs all over Wall Street, as their huge fees on M&A deals are making Wall Street firms fat. Henry Kravis' KKR has paid out \$213 million in the first half of '06 — and things are likely to accelerate.

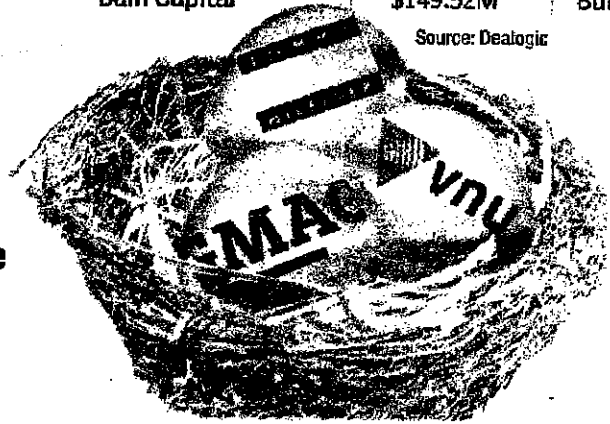
Top five private-equity dealmakers (2006)

Firm	Fees	Recent acquisition
Apax Partners	\$231.85M	Tommy Hilfiger
KKR	\$212.51M	GMAC*
Blackstone Group	\$189.62M	VNU*
Apollo Advisors	\$153.20M	Linens 'n Things
Bain Capital	\$149.52M	Burlington Coat Factory

Source: Dealogic

*with partners

Private equity



KRAVIS

firms agreed to buy Univision, the No.1 Spanish-language media company, for \$12.3 billion.

"You add all this up and it's just astonishing," said another investment banker. "There seems to be unlimited amounts of capital out there for private-equity funds."

The buyout boom is making al-

ready-wealthy guys like Kravis and Schwarzman even richer. At least 10 heads of private-equity firms are on the Forbes list of richest Americans. Both Kravis and Schwarzman have an estimated net worth of \$2.5 billion.

Investors have already showered other firms including Apollo Management and Bain

Capital with more than \$10 billion each. Couple that with billion-dollar hedge funds such as Cerberus and Fortress, which are beginning to team up with private-equity firms to buy companies, and you have enough fire power to go after behemoths like Time Warner or Dell.

zachery.kouwe@nypost.com

Big banks suck up for piece of action

Private-equity firms have become so powerful they have Wall Street's biggest investment houses worshipping at their feet — and cutting their fees just to get in on these lucrative deals.

Every investment bank, including giants such as Deutsche Bank, Goldman Sachs, J.P. Morgan and Citigroup — have agreed to take less profit just to keep feeding at the financial trough.

At the same time, these banks are falling all over each other to open dedicated divisions — called financial-sponsors groups — that exist just to cater to private-equity firms' every need.

"We love private-equity firms because they

shower the Street with fees, but they are very demanding clients," said the head of one such group.

John Mack, head of Morgan Stanley, has said being a top adviser to private-equity funds is one of his primary goals for the firm.

Several banks spent more than a year helping Kohlberg Kravis Roberts & Co. raise \$5 billion on the Amsterdam Stock Exchange a few months ago. The IPO gave KKR a permanent source of capital to fund deals.

For their efforts, Citigroup, Goldman Sachs and Morgan Stanley were paid nearly \$280 million.

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