Goldman Sachs Exchanges: Great Investors
KKR's Henry Kravis on private equity, culture, and global markets

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Alison Mass: Welcome back to another episode of Goldman Sachs Exchanges: Great Investors. I'm Alison Mass, chairman of investment banking within Goldman Sachs's Global Banking & Markets business, and your host for today's episode. Today, I'm thrilled to be speaking with Henry Kravis, the co-founder and co-executive chairman of the global investment firm KKR, which manages nearly $520 billion in assets.

Henry is one of the world's most successful investors and is responsible for some of the biggest corporate acquisitions in history. Henry and his co-founders, George Roberts and Jerry Kohlberg, are known for pioneering the leveraged buyout and private equity industries, which has reshaped the global financial landscape.

Today, Henry and George, who recently passed the firm's leadership to co-CEOs Joe Bae and Scott Nuttall in 2021, are continuing to transform and expand KKR's historical buyout business into areas like credit and real estate. We'll be talking to Henry about the evolution of the private equity industry and KKR's journey through that transition, the lessons learned from leadership, and his views on the economy and markets. So Henry, welcome to the program.

Henry Kravis: Thank you. Nice to be here. And also, I have to say it's really nice to be back in your offices. It brings back many memories of the time that I spent three summers working at Goldman Sachs in 1964, '5, and '6. So I've had a long time with your terrific firm.

Alison Mass: Well, we're proud to call you an alum.

Henry Kravis: Thank you.

Alison Mass: So Henry, I want to start at the very beginning. You and your cousin George Roberts, along with Jerry Kohlberg, co-founded KKR in 1976 with just $120,000. What was it like starting a firm at that time?

And did you ever imagine what it would grow into be today?

Henry Kravis: Well, the short answer to imagining is absolutely not. In fact, when George and I had our early conversation about this, did we want to do it, you have to keep in mind what the situation for each of us was. We had three children each, young. At that point, we had stepped down from the partnership at Bear Sterns, and we had no money. So George and I each put up $10,000. And Jerry, who was 19 years older and had some money, put up $100K. So you're right, $120,000 is what we started the firm with.

And all we were trying to do is can we last for five years and do a couple deals? If we can do that, then maybe we've got a future. And that was really how we thought about it, and that's about how long we'd thought out into the future. It was just do some deals. If anybody asked me do you think you'd ever start an industry? Not a clue. We were just trying to do some deals, just like we had been doing from the late 1960s while we were at Bear Sterns.

Alison Mass: So today, KKR is a very different firm than you imagined when you started the firm. So how would you describe KKR today?

Henry Kravis: Well, you know, for years we were described as a firm that was in private equity and private equity only basically. And that was true because from 1976 until 2004 that's all we did. We were private equity in the US, private equity in Europe. And then in '04, we started expanding into the credit business. And we got in the credit business in an odd way, and it was because we were tried of calling on companies and said, “Would you have an interest in taking your company private or selling your business to us?” and the answer was, “No, but we need credit because the banks aren't covering us the way they used to.” And that was really the reason that we decided, okay, we've got to get in the credit business ourselves. And that was the first expansion.

Today, in short, I would describe KKR as an alternative investment manager covering a number of different products. Today, we probably have over 40 different products, and they're in the categories of private equity, growth equity, core private equity, which is longer term hold. We're in infrastructure, different types of infrastructure investments. Real estate, again, core real estate, opportunistic real estate. We're in every form of credit business one could imagine, although we're not a bank. And we have a capital markets business. We have an ESG and impact investing business, a climate investing business, and so forth.

So today, you would call us I guess a multifaceted alternative investment manager.

Alison Mass: So the industry evolved beyond private equity, as you just mentioned, and my question to you is: Why is that? What was the need of your clients that drove that change?

Henry Kravis: Well, first, understand how we actually got started. In the late 1960s and then until we started KKR and then continuing on from 1976 until well into almost all of the 1980s, companies were not particularly well run. And what we saw was an opportunity to have an alignment of interests between management and the shareholders. Shareholders being KKR, our investors that are giving us capital to invest.

And once you have that alignment of interests with management becoming shareholders -- there's a big difference between being a renter of the corporate asset, as I say, and being an owner. If you're an owner, think of it like having a rent-a-car. If you have a rent-a-car and it gets dirty or a little scratch in it, you're not going to fuss too much about it. If it's your car, you're going to be really upset about it. You'll keep it very clean.

The same concept is true in private equity, and that was really what drove us. We saw so many companies that were not particularly well run. They were not governed very well. The boards of directors were, “You be on my board, I'll be on your board, and we'll play golf every weekend and life will go on. We'll be happy.” And so you didn't have anyone really holding management accountable.

So we found a way that, if we could hold management accountable and have an alignment of interests where they were owners and they had to put up capital -- we're not just giving them options -- they put up capital so they have something to lose just like we as a shareholder have something to lose, we thought we would get more out of them than what we were seeing in companies on their own.

And that's exactly what happened. All of a sudden, companies started paying attention to, because the managements who drove this on capital expenditures, are we really wasting money?

And I'll give you an example of that. We had an oil and gas company that we owned a half interest in with Allied Signal. And the management came to us with their first capital plan, and they had a very large expenditure set up in their budget for drilling. I think it was about a billion dollars. And we said, well, that's going to cost you $100 million. And they said, “What do you mean it's going to cost us $100 million?” “Well, you're a 10% owner in the company.”

Well, of a sudden, you know, nothing makes you pay attention until you have to reach into your own pocket, in effect, even though they didn't have to.

Alison Mass: Right.

Henry Kravis: But through the ownership. And we ended up having a drilling budget probably one third of what they thought they were going to have --

Alison Mass: Wow.

Henry Kravis: -- and probably found much more oil and gas with that one third expenditure than they would have. So all of a sudden, that's called alignment. They weren't spending somebody else's money; they were spending their own money. And you watch your expenses. You watch how you travel. You watch the way you run the business. How do you improve the business? And example after example is what we have been able to show investors over a long period of time.

Alison Mass: So I want to talk a little bit about leadership, and KKR is in the midst of another transition where you and George, as co-founders, are planning for the next generation of leaders with Joe Bae and Scott Nuttell as co-CEOs. So talk us through how you planned and thought about that transition.

Henry Kravis: Well, all transitions, in George's and my view, have to take time, and we didn't wake up one morning and says, "Ah, let's pick Joe and Scott. This is the time." Not at all. We actually started this journey seven years before, and we had a larger group of executives within KKR that we thought about. We moved a few of them around to different jobs to see how they did. And we narrowed it down to three people. And we had to make a decision is it going to be one person? And we knew if we did that, if we picked one of the three, we in all likelihood would lose the other two.

Joe and Scott became a very natural choice for us. They're extremely close friends and to this day are very similar to the way George and I are closest friends and first cousins. And we thought if we did that, they could work well together, which is important. They live by our culture, the culture of KKR, which is critical. And that's a culture of inclusion, everybody participates in everything we do at the firm. And they epitomized that approach, which is the DNA of KKR, so that was extremely important.

They ran two different businesses. Joe went out to Asia, wasn't even a partner yet when he went out to Asia to set up and run Asia for us. And Scott was responsible for setting up our capital markets business, really growing our credit business and overseeing our financial services business at the time. So they brought very complementary and different businesses to the fold.

They were also extremely well respected within KKR, and that was the important thing. So yes, the first move we made was to make them co-chief operating officers, not co-CEOs.

Alison Mass: Right.

Henry Kravis: And we said let's see how they do. And for four and a half years they did that all through COVID and just did a tremendous job. George and I kept giving them more and more responsibility, and they just kept taking it and doing a better job than one could have ever expected. And then it became time, and that was basically now two years ago this month, October, where we said, all right, it's yours to run. And George and I said, well, congratulations. We'll take it to the board. Assume the board will approve it since George and I had the controlling shares of the board. And we said this will give George and me an opportunity to now set up our own firm, and they said, "Don't even think about that. That's not even funny."

And we said, "No, no, we're just kidding you. We want to stay here and help you best we can." And so we set up something today called the G4, which is the four of us.

Alison Mass: I love that acronym.

Henry Kravis: We meet basically once a week, formally, although we're talking all the time. They're running the business. It's not for George and me to run. We give them suggestions, maybe too many but that's okay. And we just have a great relationship with Joe and Scott. And they're doing a phenomenal job. Couldn't be happier.

Alison Mass: That's great. It truly is a textbook case of a leadership transition in a really important firm. So I want to hear more about the co-leadership model because it doesn't always work as well as it did for you and your George and as well as it seems to be working for Joe and Scott. So why did it work so well for you and George?

Henry Kravis: Well, first of all, you have to understand George and I are first cousins. We grew up together. We met on a family vacation. George's family -- George's father and my mother are brother and sister. And so our families were very close. George grew up in Houston, Texas. I grew up in Tulsa, Oklahoma. We used to spend holidays together, and I believe when we were two years old, George and I were taken on our first family vacation.

Alison Mass: That's amazing.

Henry Kravis: To Marblehead, Massachusetts. And people say, "Well, was that the time you started thinking about KKR?" Yes, about that time. That was really we were thinking about that. But we stayed very close. Now, George would come to Tulsa for some holidays. I would go to Houston. Actually, I had more fun going to Houston. It was a bigger town than Tulsa, but he would come up. And so we spent a lot of time together.

Now, if you think about what makes for good relationships, well, number one, if you don't worry about who gets credit for anything, you can go a long way. Two, if you have the same value system, you can go a long way. And three, if you have the same goals. And George and I at all three of those areas were at 100% and to this day are in 100% alignment. And, you know, we were co-CEOs for 45 years and the firm's now 47 years old. So no issue at all.

I am proud when George does something great, and he's proud when I do something. And we're pulling for each other. And that's the way you really have to do it. I define sometimes KKR as like a football team with everyone having a position to play, a two-headed quarterback in George and myself when we were the co-CEOs, and now it's Joe and Scott. And you just have to be in alignment. And Joe and Scott are very much in this same thinking, same kind of alignment. And you can't have a leadership team where one person in the group or another is trying to elbow out the other to get ahead.

You have to focus on what's right for the firm, what's right for the team, not what's right for you. And so if you think about that, to us, that's how we've always run KKR.

Now, some people say, “You don't have anybody that can do the job by themselves?” And we say, well, I don't know, we grew up with two of us running it, George and I. Those and Scott are now co-CEOs. We've had co heads of private equity in Europe, co heads of private equity US, co heads in Asia, private equity. We've done the same thing in some of our other business.

Now, we do have sole heads in some areas. And in other areas where we think we'll do better covering more ground if we have dual heads, that's what we've done. And it's worked very well.

The thing I find is the hardest part at the early stages is that they're feeling each other out, people, always. And they want to do everything together because, again, come back to they're in it together. They know they're in it together. They don't want to upset the other person. And it's very hard for any one of them to make a decision on their own.

Over time, you learn, okay, you handle this part; I'll handle that part. And that's really what George and I did over a long period of time.

Alison Mass: Well, for sure you and George have had one of the most successful business partnerships ever that I think anyone can think of. And it looks like Joe and Scott are on their way to the same thing.

Henry Kravis: I think so, too. I mean, George and I could not be happier.

Alison Mass: So I want to talk about your promotion to co-executive chairman and ask how your day-to-day has changed since you got this promotion and what are you focused on?

Henry Kravis: Well, George and I do say we got promoted. It took 45 years. We're slow, and so we got there. And so I couldn't be happier. Number one, we feel, both of us, very strongly -- we talk a lot about this -- that the firm is in really good hands. Probably as good positioning as we've ever seen.

Keep in mind both of us got promoted at the same time. And as we both say, we're now doing a lot of things we actually like to do. And we don't have to worry if the pipes leak. And so what we do worry about --

Alison Mass: Or performance reviews for 100 people.

Henry Kravis: We don't have to do those now. Although we have the final say on the top people of promotions. And George and I still have the final say on compensation. But it's really up to Joe and Scott to come to us with their recommendations of what they think is the right thing for the firm.

As we spend more time now doing what we want to do, I'm still traveling as much as ever. Give an example of, quote/unquote, my retirement, I went to India because they wanted me to come out there, and I had 41 meetings in five days.

Alison Mass: Wow.

Henry Kravis: And it's fine, you know? It's what I've done my whole career, and I enjoy that. And I guess you can't take that away from the old boy, so I want to just be helpful. I'm off to Europe again -- I think it's -- I can't tell you how many times, but I must have gone already this year about eight times to Europe. I'm off to Europe tonight again. And I've got all sorts of meetings in London, Paris, Barcelona, and Madrid. So that's all part of what I do.

I spend time now mentoring a lot of our younger people, which I really enjoy doing. George does the same. We both spend time trying to bring business into the firm. We spend a lot of time on a new area that we all came up with, and that's a democratized product, which means that we're enabling a retail investor to invest in the KKR product just like an institutional investor has been able to do for years. And we've set that up so I do a lot of fireside chats, meeting with RIAs, helping them understand KKR, our philosophy, our mission, our culture, etc. And so I like doing that.

And then they have me calling on CEOs, which I've always done and that I like doing. And so that's really where George and I are spending our time today. And we keep saying, look, tell us where you want us to be helpful to you, Joe and Scott, and use us as you feel we can be useful to you. You're running the firm; we're not running the firm today.

Alison Mass: Yeah. Well, I spend a lot of time with your people around the world, and they really appreciate the fact that you and George are still all in and available to do all that you're doing because it makes a big difference. So obviously culture is a key part of leading a company, so how did you maintain the culture at KKR as you grew over the last five decades?

Henry Kravis: So maybe a good way to explain that is how did we start? The second conversation that Jerry Kohlberg, George Roberts, and I had in 1976 was what kind of culture and value system did we want to have? Now, we came from Bear Sterns, which was very much an "eat what you kill" culture. And we did not like that. That wasn't what we wanted. We wanted a culture where everybody participated in everything you did.

And the reason we wanted that kind of culture, we said we'll get much more out of everybody. If everyone was running around and said, "That's my idea," or, "That's my deal," and that's how they really thought about it, then what you would end up with is no one helping each other. If I had called you, Alison, and you had some expertise in a particular area and it was an "eat what you kill" culture, you'd say, "Look, I'm not going to really get paid for this. Gee, I'd like to help you, Henry, but I'm too busy."

Whereas if everybody gets to participate -- in those days when we started out, all we had was carried interest and fee income -- you said, "I'll be on a plane tomorrow if I can be helpful," because everyone knew they were going to participate. And we didn't differentiate somebody brought this in and they didn't bring that in and so on. So it really is a team effort.

Fast forward 47 years, we have exactly the same culture. And it's interesting. I'll tell you a story. We were having maybe 25 years ago one of our firm meetings, and I was thinking about what did I want to talk about at that firm meeting? And I started thinking that maybe I would talk about our culture and values because we never really talked about it. George and I knew what it was. We hired people that understood what it was, which was a team effort, and so I spelled it out. I wrote it out over a weekend. I sent it out to George. I said, “You think I've captured this?” He said, “Yes.” So then I printed it up. I put the paper on everybody's chair at the meeting, and I spoke about it.

When I finished, one of our senior advisors, George Fisher, who'd been the CEO at Kodak and Motorola, came up to me and he said, “That was fantastic, Henry.” He said, “Now, do it again.” I said, “What do you mean? I just did it.” He said, “No, no. Not now. You're going to have to talk about it constantly. No one's going to get it the first time.” And he said, “I thought you spelled it out extremely well, but you've got to talk about it. Don't forget, they're not going to get it the first time. They probably won't get it the second time or the third time. And you're bringing in new people, so you've got to keep talking about this."

And that's exactly what we've done for probably the last 20-odd years. We talk about it constantly. It's on our website, it's internal. And in addition to that, we compensate people and promote people based upon can they live by our culture and values? So we have basically four buckets that we measure people in at midyear and again at the end of the year for both pay and for promotion, particularly for senior people. And that is, in no particular order, one is management leadership. Two is commercial success. Three is culture and values. And four is D&I. And we put D&I in last year because it's a very important part of what KKR is all about. It's diversity and inclusion. We have a whole team now that focuses on this. We talk about it constantly.

And so all of this together comes into the mix in how we evaluate people, how we promote people. And again, it's on this team effort, this team approach that has worked so well for KKR for all these years. But you must talk about it. And people know, "Well, I'm not going to get promoted if

I don't live by the culture.” And we've had people at the firm made us a lot of money, could not live by our culture and values. They basically were, you know, one-man shows and they did not want to go to other meetings to help anybody. We fired them because you'll ruin the place if you let that continue. And we could not let that kind of behavior continue.

Alison Mass: Yeah. Aligning incentives is key.

Henry Kravis: Well, without a doubt. I'm sure you do that here --

Alison Mass: We do.

Henry Kravis: -- very well at Goldman Sachs.

Alison Mass: Yeah. And we talk about our culture all the time as well. And by the way, I know that you have a lane on diversity and inclusion now because you hired someone from Goldman Sachs to run that for you. So it's --

Henry Kravis: Well, it's absolutely true. Kerryann Benjamin and she's doing a fantastic job.

Alison Mass: So I want to pivot to the macro. Tell us what you think about the economy right now.

Henry Kravis: You know, it's really strange. God gave me an eighth sense or something. So I've always had a pretty good feel for where I thought the economy is going and where it is. I don't know where it's going.

Alison Mass: That's frightening.

Henry Kravis: Now, the one thing I will say is I think inflation stays much higher longer than most people think. Therefore, I think interest rates will stay higher longer than all of us had hoped for. I think that you have so much uncertainty in the world now that, whether it be the Middle East situation, whether it's Russia-Ukraine situation, whether it's China and Taiwan, there's just a lot of uncertainty in a lot of places in the world today. And we are a global investor, so all of this ties together much more today than it probably ever has.

It used to be years ago you could only have to worry about the US because that's really where you invested. Most companies weren't as international. As they are today. It all ties together. Currencies tie together and so on. So today, I would say I think growth is going to be slower than we think. There's still a lot of savings on the sideline.

You know, when I talk to the heads of different banks who have a lot of retail capital sitting in their custodial accounts and I'll say, “How much is in cash today?” and it's up to about 25%. And I said, “Typically, what would that be.” And they say, “Well, it's probably going -- usually it's around 15%.” So you have money on the sidelines.

It used to be you could have a 60-40 kind of portfolio with stocks and bonds. And if bonds were going up, stocks would typically go down and so forth. And so today, you don't have that. You have them both are struggling right now. Stocks are down. I think over the next 12 months, you're going to see the higher interest rates really take hold. So far, employment has stayed actually more robust than most people thought that it would. I think you're going to start to see some of that coming into play where there'll be more layoffs going forward.

Technology is now starting to play a bigger role than before with AI and other things. It’s early, very early but still will play a role, and you're seeing that coming into companies thinking about do I need people that are doing a lot of repetitive processes and so forth in a company? And so there's just uncertainty everywhere.

Now, usually -- and this is no exception -- we thrive at KKR on uncertainty. We like the time when markets are out of kilter because we invest around the world. By doing that, we have the ability to lean in where we see a part of the market that happens to be very strong.

Alison Mass: So Henry, given you've been through many market ups and downs, what have you learned about investing in downturns?

Henry Kravis: So this is a really important question. Everybody looks smart when markets are going up. Just ride the wave and you'll do just fine. The key for a good investor is how do they do in these downturns? George's view and my view has always been lean in.

So let me give you an example. The global financial crisis. None of us at KKR and I'm not sure Goldman Sachs had ever seen anything as severe as what we went through in the global downturn in 2008 and '9 period. We didn't know whether the financial industry was going to survive. We didn't know if banks would survive. We didn't know if KKR was going to survive. But the message that George and I kept telling everyone -- because everyone had fear at that time -- is focus on what you can control. Focus on your companies. You can control those.

There's noise in the system. There's not a lot you can do about that, but just focus on getting your debt down as fast as you can when the markets open. Focus on ripping costs out of the company as fast as you can during this time. Focus on having empathy for the employees and for the management team at the company and talk to them because everyone is afraid. There's uncertainty right now.

But at the same time, we said be ready for when we come out of this. We don't know if it's going to be one year, three years, five years, but be ready because, when we come out, it reminded us of 1982 when we'd come out of a very long period of very high inflation. Inflation with rates over 20% for the bank. And 1982 was an unbelievable year. And we didn't have a lot of money then as a firm, but whatever we had, we dumped in and we looked pretty good.

And so we did the same thing coming out of the global financial crisis. Don't forget. Everything that goes up comes down. And everything that's down will come back up at some point. I can't tell you when, why or -- but it just does, okay? And there's lots of reasons. So be ready, okay? If you think we're going into a bad downturn, just be prepared, okay? Don't sit and say, “Wow, where did this come from?” You've got to prepare yourself.

As I said, we think in increments of five to ten years when we're making investments. There's a big difference in whether I'm trying to pick a stock that's going to go up in the next five minutes. That's not what we do at KKR. So it's a big difference in how you think about investing.

The other thing is a lot of times when you're in a downturn, you see cracks in companies. You see that things aren't quite as good as what a strong economy and a strong market will mask. And so all of a sudden you look at it and say, wow, there's opportunity here.

So what we're always trying to find at KKR is what are the opportunities? We say don't congratulate us when we make an investment. Any fool can make an investment. That's easy. Just pay enough. The harder part is what do you do to create value? And that's our focus, like a laser.

So I like to think of corporations very much as an evolving entity. They change. Think of a movie. What is a movie? Well, a movie is made up of a series of still photos. And you as the director of the movie can make it go any which way you want. Well, that's a little bit of how we invest. If we are able to take control of a company or even have a very large position in a company and work with a management team, can we make that business a better business? And that's really our focus. What do we need to focus on to make it a better business?

Too many people, unfortunately, are focused on one still photo in that movie. I would like to think about, ah, possibility. Where could we take this? What could we do? And so we try to train our people to think about, not just looking at a static model, some computer run, they're static basically. We're more interested in how do you make the business better? What can you do? And there's so many factors that will play a role in making a company better or to impact your returns. If you own it for long enough time, you can improve the supply chain. You can improve pricing. And because we either control the company or have a very large say in it, we're not sitting on the sidelines and say, “Well, we hope the stock market will take it up. Or we hope this management team do --” no. We're going to work with the management to improve it, and there's a big difference between doing that and just being an investor in the stock market.

So in downturns, that's opportunity. That's really what we're looking for.

Alison Mass: That's what I love about your industry is the long-term investment focus.

Henry Kravis: It's interesting you say that. It's absolutely true, and that's how we started the industry back in the 1960s. The idea of talking to a CEO -- and I love when I talk to a public companies' CEO -- and I say, “You're here today. Where do you want to be five years from now?” and I love the body language. They always move because no one ever ask them five years from now. They want to know next quarter, if they're lucky.

Alison Mass: Right, right.

Alison Mass: Okay. I have to ask you this, which is you founded KKR when you were in your young 30s. I think you were 32 years old. If you were 32 today and you and George, your cousin, were setting out to start a new business, given the macro environment and the geopolitical climate, what would it be?

Henry Kravis: What I wouldn't do today is go out and start a fund. There are too many funds today. Everybody hangs a shingle out and can raise some money in a fund. What I would do today is I'd buy one company. Doesn't have to be a big company. And I'd use it as a vehicle. I'd go get the best CEO I could find to run it day-to-day. I'd become chairman. We'd provide capital for this -- and by the way, I'd want to do this with George -- and do a build-up.

And so many companies today actually started that way. And you look at them and they're large companies. We've done a number of corporate build-ups within KKR, and over the years, whether it be in the dental service business, whether it be in pet clinics, whether it be in a lot of other industries. And they've worked out just fine. And so I call it buying wholesale and eventually with a multiple to retail because you're now large enough to have a retail multiple as a public company at some point. So that's what I would do.

Alison Mass: Okay, one of the other areas, Henry, that I'm sure our listeners would love to hear from you is your perspective on deal making. So KKR has been associated with the term “barbarians at the gate,” a 1989 book about one single transaction, the leveraged buyout of RJR Nabisco. If the label “barbarians” was an accurate one, you probably wouldn't have been in business for nearly five decades, but can you reflect on that a bit?

Henry Kravis: Well, look, we got involved and were successful in acquiring RJR Nabisco in the 1988-1989 period. Let me just talk about the book because the book was an interesting book. The book probably was 85% about accurate as to what happened --

Alison Mass: That's pretty good.

Henry Kravis: -- which is really good for a book. A lot of the quotes were wrong because Bryan Burrough was not there, the author. But it was the title that has stuck, unfortunately.

Alison Mass: I know.

Henry Kravis: And by the way, I've been called worse things so. But it's hard to shake that. Even today people say, "Oh, yes, your first deal you did was RJR Nabisco." Well, we started buying companies in the late '60s through Bear Sterns and then many companies long before we bought RJR Nabisco. So it wasn't our first. But for the general public, it was the first time they'd ever seen anything.

And I'll never forget, for some reason -- I think it was 1989 -- George and I were named financial men of the year by the *Financial Times*. And so we debated should we talk to the journalist or not or just let him write? And so we decided, okay, each of us will talk to the journalist separately.

And I finished my one-hour or so interview with the journalist from the FT, and he said, "You're not anything like I thought you were." And I said, "Well, what did you think I was, you know? A man with two heads and horns?" He said, "Close to it." And so the title, unfortunately, really had an impact. We are no more barbarians than the man in the moon. We will not do a deal -- and we've said this publicly many times -- if the board of directors said, "Go away. We have no interest in dealing with you." We don't take positions in companies and go in and rattle the saber and say we're going to throw your board out. So that's just not what we do.

And so we want to be a friend to the company, friend to management where it's appropriate, friend to the board where it's appropriate, and so forth. And then really take the long-term view of how we can improve the operations of the company.

Alison Mass: So another misconception about the industry more broadly is that the model is bad for workforce as returns are generated by layoffs and cost cuts. But there's been a lot of innovations in recent years that invest in the workforce. In fact, we spoke to KKR's own Pete Stavros earlier this year about how employee ownership models can boost returns. So can you talk about that model and how that stereotype of private equity is evolving?

Henry Kravis: Well, it's an unfortunate characterization of an industry that really has helped many companies. And if you think about the people that are really helped the most, those are the pensioners that have their money with state pension funds, corporate pension funds, etc., because they are probably the largest investors in the private equity arena.

If you take what you've just said and expand that, the characterization -- and let me give you an example of what I'm about to say. We had a group of senior officials from Washington come to visit us. Just came in. These are congressmen and women. And they start off by saying, "Now, we assume when you buy a company you get rid of all the benefits, right?" Well, no. If we got rid of all the benefits, we wouldn't have many employees working in any of our companies. So the answer is absolutely not. That was an extreme example, but this is Washington.

Alison Mass: When was that?

Henry Kravis: Oh, about six months ago.

Alison Mass: Wow! So it's recent?

Henry Kravis: Very recent. And so there's still a misconception about what we do. So I found after the RJR Nabisco acquisition I was invited to appear before six congressional hearings, and I asked our lawyers did I have to go do that, and they said no. And so I said I'm happy to go down and talk to anybody that would listen to what we do. I went down and personally met with 31 senators one on one and a handful of congressmen one on one. And then George and I together met with the House Ways and Means Committee. And by the way, George was with me on some of those one-on-one meetings. George and I had two-on-one.

So what I found? I didn't find anyone, not one person that understood how business works. Forget what we do. We're complicated. But how business works. And that's what you're starting with. So we've learned over time you have to spend a lot of time with people in Washington explaining to them what we do.

Now, you mentioned Ownership Works. I am so proud of that program. It's one of the best programs we've ever come up with. And what it is is to make sure, when we make an investment in a company in the US or in Europe, that the management have an alignment with the workers so that the workers, whether you're a truck driver, whether you work on a plant floor, whether you work in a computer room, you have a chance to participate in the ownership just like anyone else.

I'll give you one example. We had a company of many that we have put this program in called C.H.I. C.H.I. manufactures garage doors. And we told the workers, all the workers when we bought it, “We're giving you a certificate. And when we sell the company or we take it public, you can probably count on this being worth about $15,000 if you're here with the company.” Fast forward seven years and we made a deal to sell the company to Nucor, the steel company. And we said if you were here with the company from January of last year until May of last year, which is when we signed the agreement, you're getting $20,000. But if you were with the company at the beginning when we made an investment seven years before, you're each getting $800,000.

Alison Mass: That's extraordinary.

Henry Kravis: Now, if you think about what that does to a family, what it does to a community. And the interesting thing about it, I was saying, gee, I feel sorry for Nucor because I'm not sure they're going to have any employees. Well, exactly the opposite happened. These employees said if this is the way this company treats me, I'll be with them for life. I'll never leave. And that was what we were hoping would happen, and it did.

So the ownership works. We're putting it in all of our companies today, as I say, in Europe, US. And we want that alignment. And we want the workers who are making things happen have a real impact.

By the way, if we as CEOs of companies don't pay attention to the workers, this gap between the management and the workers is just getting larger and larger. That's not right. We don't think that's what should happen in business. You have to have a better alignment. You have to close that gap between the top executives and the people that are really making the company happen.

Alison Mass: You should be proud of Ownership Works. It's an extraordinary program. I think we're a proud partner.

Henry Kravis: You are.

Alison Mass: Goldman Sachs Ayco and also our merchant bank. So I want to pivot to talk about philanthropy. So during all of this time that you have founded and led KKR, you've also been incredibly involved and generous with donating your time and money to education, the medical field, and the arts, to name a few. And in fact, you said that you're actually not very good at being at an institution where you can't make a big difference. So how do you decide on what causes to give to?

Henry Kravis: Well, thank you for asking that question because philanthropy is such a very important part of Marie-Josée's and my life. And I can tell you exactly the same thing for George and Linnea. I don't know why exactly our parents I guess instilled that in us. And people talk about giving back. I don't know if it's giving back if we actually take anything from anybody. But really it's more what can we do to make people's lives much better and giving them the opportunity?

So Marie-Josée and I focus on the arts, medicine, medical science, and education primarily. Those are the three areas that we have really dug in on. And although we've invested our time and money into lots of other areas as well. I remember when I was in my 40s and I called David Rockefeller, who I thought was one of the best philanthropists around. And I said, “David, could we have lunch?” And he said, “Sure.” We had lunch.

And I said, “I want to ask you a question.” I said, “I'm just now starting to make a little money. I'd like to give some of that money away to help organizations. What should I do?” And he gave me the best advice. He said, “Look, I'm not going to tell you which organizations to invest in, but I will tell you one thing. I will tell you whatever you do, get involved. Don't just write a check.” And there's a huge difference. As you know, Alison, you've been involved in lots of organizations whether it's NYU or others where you really roll up your sleeves and you're not just writing a check. But you're trying to make a difference at that organization.

And that's what Marie-Josée and I do. We really believe in it. George has done exactly the same thing. He's set up at a phenomenal organization called REDF. And one of my favorite organizations that I'm involved with today, called Sponsors for Educational Opportunity, or SEO. And it's an organization that has several arms to it. One is their scholars program, taking young students in ninth grade through college, so it's an eight-year program. They come from underprivileged area, basically $35K to $40,000 household income and below. First in their family to want to go to college. So we want give them that opportunity.

Now, that means, if they're going to do it that they have to agree they'll stay in their schools wherever they are in New York City or San Francisco. And we're now taking it nationally. We're now down in Greensboro, High Point, North Carolina. But we want to help those students not only get through the high school part, get into the college, into the right college for them, and then to graduate from college. They end up spending 40 Saturdays a year from 8:45 to 4:30 in the afternoon and the month of July, five days a week, 8:45-4:30 again, and come in one to two days a week after school to get extra training.

They end up with 720 hours of additional schooling in the high school part, just to get into college. But they're prepared when they go to college. 93% of our students who get into college graduate from college. And just think what that does for the underserved community. Having a college degree makes a huge impact not only on the person, on the next generation in that family, etc.

And then the other one where Goldman Sachs has played a very important role, as have others, and that is called our career program where we will go onto college campuses, help find those students that are just looking for an opportunity. They have to have a B average or better to get the interview. We interview them. Then we give them 12 online courses. They pass those, we will then take their résumé and get it out to the different banks, to law firms, to other corporations. And basically we have about a thousand of these students that we place in the summer. And the highest we've gotten to is 93% of those underserved students were able to get a full-time offer. And so we know these programs work, but we work it with them. And it's holding their hand, just making sure that they're guided.

They have no one to talk to. SEO gives them that strength and gives them that opening and opportunity which they wouldn't have otherwise.

Alison Mass: Yeah, no, I understand why it is so important to you. It's doing important work, and we're proud to be a partner with you on SEO as well. So I have one last question for you before we go to our very famous lightning round. So I've heard you talk about the values that you learned from your parents. The values of working hard, self-esteem, working towards goals, and knowing how to treat others. So what advice do you hope to pass along to your own children and grandchildren as well as other young people today?

Henry Kravis: Well, first of all, I hope my children and grandchildren will listen to me. So if we start with that. So let's assume they will listen to me. Look, first of all, I say to them take one sentence out of your vocabulary and that's very simply, “I wish I had.” I hate that when I hear, “Oh, I wish had done this or I wish I had gone there.” Okay. You could have done it. And we live in a free world. We live in a wonderful country in America, and you can make mistakes and try again. So I'm very big on pushing people to give it a try. Don't be afraid. Don't just talk about it. I hate that. “Oh, I'm going to do this. I'm going to do that.” No. Go do it. Both feet in and be dedicated. And if it doesn't work, okay. Pick yourself up, go try it again. Don't be afraid to fail. There's nothing wrong with failure.

In fact, I'm often looking, when I interview people, tell me your failures. I want to know. And some, “Oh, I've never had a failure. I've never had a bad investment.” Well, next. Because that's not a life. And so I feel very strongly that you have to dive in with both.

So the advice I would give my children and grandchildren -- I've tried -- is, one, be innovative. Be curious. I don't think anyone can be a great manager unless they're curious. I don't think anyone can be a great investor unless you're curious. You have to understand how to connect the dots. It's a very important thing about investing. And this curiosity -- and I'm talking about not how does it deal work. I'm talking about learn history, learn literature, study geography, etc. And you're going to find how important that is and how that comes into play when you're thinking of how do I connect all of the dots?

I often like to say that if I took people to the window -- and my office is on the 77th floor at Hudson Yards. And I said if I take you to the window and I ask you what do you see? And they say, oh, it's a trick question. Let's see, “I see that tugboat in the Hudson River.” What I want you to see is possibilities. I want you to see the whole landscape and figure out from that landscape what are the possibilities.

And to me, it's understanding these very important issues. Young people will come to me and they'll say, you know, “Mr. Kravis, I'm going to college and I want to go in your business. What courses should I take?” I say, “You're probably going to hate my answer.” I say, “Just go get an education. Go get the best education you can get.” “No, no, you don't understand, Mr. Kravis. I want to be in your business.” I think I understand pretty well. Yeah. We sort of started the business.

Too many people today specialize. I want people who really come with different interests and backgrounds. I'll give you one example. Joe Bae really stood out for me when I was interviewing him as other people. Why? Because he said, “I spent a lot of time thinking I wanted to be a classical musician.” And he said, “I studied it and I concluded I wasn't good enough. I wouldn't be able to do it. So then I was lucky enough, through SEO, interestingly -- he's an SEO grad -- to get into finance.” And he said, “I worked at Goldman Sachs for two summers, or a summer, and that was fantastic. And then they offered me a job and I was there for two years.”

And so he had a break. But what stuck with me was that he wanted to do something different. He wasn't just single minded. He's turned out to be a great investor. He's turned out to be argued manager because he had these different interests. And I can name others that also were exactly the same.

Alison Mass: Yeah, that's great advice. All right, so onto our lightning round. What was your very first investment?

Henry Kravis: Very first investment that I was ever involved with was a company while still at Bear Sterns. And Bear Sterns, by the way, never put a penny into any deal. So we had to figure out how to cobble together a little money. And it was a company called Eagle Motor Lines in

Birmingham, Alabama. And I remember going to the Chemical Bank to borrow $16,000. As I said, I had no money. And I borrowed $16,000. I made that investment. Didn't turn out so great, but that was my first investment.

Alison Mass: So speaking of things that didn't turn out so great, what's the biggest lesson you've learned from an investment, either one that went really well? Or sometimes we learn the best lessons from ones that didn't go so well.

Henry Kravis: Look, the best lesson for me is one that didn't go well, and that was called Jim Walter Corporation, where we were sued to pierce the corporate veil because of asbestos in one of the subsidiaries that they had owned long before we ever bought the company. But we stayed with this company. We had to put it into bankruptcy because we were sued by a smart lawyer down in Beaumont, Texas, to pierce the corporate veil. Put it into bankruptcy.

But the important thing was we stayed with the company, got all the way through the bankruptcy, got all our investors their money back. And it'd been very easy. It was $117 million. We could have just said, "Look, forget it.

We're moving on." No. You give us money, we're going to do everything we possibly can to get you your money back and hopefully with a profit. This one had a small profit, but it took us about 17 years to finally do that. And to me, that was the best lesson I could possibly learn and pass on to anybody else.

We have an obligation. If we take your money, Alison, or anybody's institutional money to invest, we have an obligation to at least get that back to you, if not make you money.

Alison Mass: Okay. So Henry, if you could have dinner with anyone in the world, anyone, who would that be?

Henry Kravis: Oh, well, that's easy. Thank you for asking. That's my wife, Marie-Josée. She's the smartest one I know, and I love talking to her and sharing with her and thank you for asking.

Alison Mass: I love that answer. That's your best answer so far, by the way.

Henry Kravis: Okay.

Alison Mass: All right. So which investor do you admire the most?

Henry Kravis: George Roberts.

Alison Mass: How did I know that you were going to say that? All right. So who have been your biggest mentors in your career?

Henry Kravis: I've had two mentors. Actually three. The first one was my father. I was very close to my father. He was a petroleum engineer, extremely good in math. And he used to try to help me all the time think about visualizing a math problem. And it took me a long time. How do you visualize a math problem? I could visualize geometry and so forth, but I couldn't necessarily visualize. But he really helped me a lot in how to do business and how to think about it. But most importantly, he drilled into me ethics and how important ethics are in business. That your word's your bond, period, end of conversation.

Secondly was a teacher, an economics teacher I had at Loomis my senior year. And that was Jim Wilson. He said, "You got to take my course in economics." I couldn't spell economics. I didn't know what it was. But he kept after me. I said, "Okay, I'll take it." The best thing to happen. And that for sure really set me on a path.

And the third person was a man named Ed Merkle, who ran the Madison Fund. The year I graduated, that summer, I got a job at the Madison Fund. And I arrived there and he would call me kid. And he'd say, "All right, kid, I want you to follow these industries." And I said, "But Mr. Merkle, I've never bought a stock in my life." He said, "It doesn't matter. We got bumpers here. You're not going to blow us up." And I started buying stocks. A monkey would have done probably just as well. They all seemed to go up. It was that good time. And then he came to me and said, "I want you go to call on Roy Disney." And I said, "That's not in my group." He said, "I know." I said, "Who's going with me?" He said, "No one." And so there I was, scared to death, to go see Roy Disney at the Disney Company. He and his brother Walt, who died the year before, started the Disney Company.

I went out there. Roy Disney said, "I have one hour for you." Now, if he'd said, "I have 15 minutes," that would have been enough, too, because I am scared to death to be sitting there. I'm a kid just graduated from college, and I'm sitting there with the great Roy Disney. And we got halfway through, and he said to me, “Wow, you know a lot about my company.” Well, I didn't tell him I am scared to death to be sitting there. I didn't tell him I had read every footnote of everything I could possibly get my hands on. There was no Internet then, and this was 1967 in the summer.

And he said, “I'll tell you what, most analysts that come out to see me have not even read my annual report.” So he said, “Not only do you know a lot about my company. I told you had an hour for you.” He said, “I want you to spend the day with me. Come to all my meetings with me.” And the SEC didn't frown on it in those days. “Just sit there. You'll learn. At the end of the day, I'm going to take you on a tour of the studio myself.”

He never once asked me was I a partner at the Madison Fund or a summer trainee. He never asked me anything about me. All he cared about was that I knew a lot about his company, and that's what impressed him. And so I tell that story because it had a huge impact on me, and I hope it will have an impact on younger people that might be listening to this.

Alison Mass: So what's the best piece of advice -- could be investment advice or just life advice -- that you can give to our listeners that you wish that someone had told you when you were younger?

Henry Kravis: Don't be afraid. I remember my last summer here at Goldman Sachs, and one of the partners came to me and he said, “I want you to call the following CFOs and get this information.” That was at 8:30 in the mooring. At 11:00, I had not made a call yet because I am scared to death to be calling these people. And I said, “Oh, my god, they're going ask me questions. I won't have any answers.” And so I knew I had to get some answers for him by the end of the day. And so I just forced myself to do it, and it turned out not one of these people asked me a question. They didn't ask how old I was. They didn't ask anything. They answered my questions.

And I wish I had known that and started it earlier. It took time to build my confidence.

Alison Mass: So I'm just going to pause and tell you a story that, when I went to Merrill Lynch in 1990, post my Drexel days, and the first year I was there, my boss, Barry Friedberg asked me to call you about something. And I was never the senior person in my prior life calling you. And I was, like, “Wait, me call Henry Kravis? Like, he's not going to take my call.” And he said, “No, you are the senior person on KKR. You have to make this call.”

So I picked up the phone and I called you. And you picked up. And we had a conversation. And I had the same exact moment -- except I didn't wait two and a half hours to do it. I did it.

All right. So finally, I know it's a very difficult time in the world. A lot going on. But what are you most excited about in the world right now?

Henry Kravis: Right now, I am concerned about all the uncertainty, as you said. To me, we've got to keep our eye open on all this, how it will affect the US. How does it affect mankind? How does it affect democracy? So I wouldn't call it I'm excited about it. I'm just very concerned about it and aware of it. And other than excited about my family and what they're doing and how my grandchildren are growing, that to me is the most exciting thing. And what George's family is doing. I'm just cautious right now, and I am concerned.

Alison Mass: So, Henry, thank you for being so generous with your time. It's been such a privilege, and it's always a pleasure to speak with you. Fascinating conversation as always.

Henry Kravis: Well, thank you very much, Alison, for having me. And thanks to Goldman Sachs for putting me on the career that I had and you being such a great friend to the firm and to George and me personally. Thank you.

Alison Mass: And thank you to all of our listeners listening to this episode of Goldman Sachs Exchanges Great Investors. This podcast was recorded on Tuesday, October 17th, 2023. If you enjoyed the show, we hope you'll follow us on Apple, Spotify, or Google, or wherever you listen to your podcasts. And leave us a rating or a comment.

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