Carey, David & Morris, John E. – King of Capital

Crown Business, 2010, [Finance] Grade ★★★

For a while in 2006 it felt like private equity would buy up the universe. Intoxicated by rising pension allocations and a tidal wave of credit, PE companies acquired anything in their sight. The bonanza was crowned with the extravagant 60th birthday party of Blackstone's celebrity CEO Steve Schwarzman. Then came the hangover. Financial journalists David Carey and John Morris walk us through the making of Blackstone while at the same time giving the reader a history of the PE business.

In a way this is a story much like many others about successful entrepreneurs with initial struggles and self-doubt before the business takes off, quick expansion and then the inevitable need for outside management additions, structure and procedures as the business matures and gets scale. Schwarzman really is a gifted competitor. By focusing on risks and not overreaching when others are exuberant, by keeping reserves to opportunistically invest when others are terrified, by diversifying his firm into often counter cyclical product lines and by being impressively flexible to changes in the environment that PE operates in, he has over the long time won by not losing. One by one most of the competitors over-invested in good times and had to scale down to their ambitions. In the end only the archenemy KKR with Henry Kravitz at the helm stood between Blackstone and the domination of the PE-sector.

One fascinating aspect of the two great PE booms (the LBO/corporate raider era of the late 80's and the period 2004 to mid-2007) that I - as a European - hadn't realized is how dependent they were on junk bond financing in the US. First there were Michael Milken's "original" junk bonds and in the later period there was an even larger flow of liquidity through CLOs - securitized loans pretty similar to those that flooded the US housing market with credits and nearly killed it. This correlation between varying credit conditions and volumes of PE-deals is probably the single most serious obstacle for the buying-low-and-selling-high-practice that PE-companies should engage in.

The authors are not only financial journalists; they both have backgrounds as writers for M&A- and PE-related magazines. Unfortunately this makes them slightly too impressed by the PE-business and the dominant characters of the trade. It's not that they can't see problems and two sides to a story but it's all too evident who's side they will take in the end. Another quarrel one could have with the text is that the authors present deal after deal (and they all but a few turn out roaring successes) but the reader still doesn't really get any deep insight into how Blackstone screens for prospects, analyze companies and structure the deals. Nor will the reader learn more of the management methods employed by Blackstone than fits on the backside cover of most corporate finance books. I realize Blackstone might not want to reveal too much but less quantity and more quality with regards to the description of Blackstone's deal history would have served the book well.

Eqtbooks.com rates books according to "knowledge content", any book like this that is semi-fiction will have a hard time to compete which is a bit unfair and Carey/Morris are good story tellers. However, I actually didn't learn that much new on the workings of private equity.

If you specifically want to read up on Steve Schwarzman and Blackstone this is the book for you. If you want an entertaining story of the larger than life happenings in private equity, Barbarians at the Gate is still unmatched.

Mats Larsson, August 25, 2012