

WEIJIAN SHAN

MONEY GAMES

THE INSIDE STORY OF
HOW AMERICAN DEALMAKERS
SAVED KOREA'S MOST ICONIC BANK

BONUS
CONTENT:
**IN SEARCH
OF VALUE**

Money Games

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*The Inside Story of How
American Dealmakers Saved
Korea's Most Iconic Bank*

Weijian Shan

WILEY

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To all our limited partners

Contents

Foreword	ix
Acknowledgments	xi
Author's Note	xiii
Preface to Paperback Edition: In Search of Value	xv
Preface to First Edition: Big Money Legends	xxiii
Chapter 1 Money Talks—My Path to Private Equity	1
Chapter 2 Project Safe	15
Chapter 3 White Knight	31
Chapter 4 New Faces at the Table	53
Chapter 5 Deadline Looming	73
Chapter 6 The Ambassador	97
Chapter 7 Presidential Visit	111
Chapter 8 The Chairman Takes Charge	133
Chapter 9 Daewoo Crisis	147
Chapter 10 Black Rain	161

Chapter 11	Ultimatum	175
Chapter 12	Sign It or Forget It	191
Chapter 13	The Final Sprint	213
Chapter 14	The Hard Part	235
Chapter 15	Change Agent	251
Chapter 16	Lion's Chase	267
Chapter 17	It's a Race	285
	Epilogue	309
	Appendix—A Primer on Commercial Banking	311
	Index	317

Foreword

In 1998, during the Asian Financial Crisis, the central banks in many Asian countries melted down and could not protect their nations' currencies or their commercial banks, and thus needed bailouts from the International Monetary Fund (IMF). As a condition of these bailouts, the IMF often required the governments of recipient countries to sell off assets, particularly failed commercial banks. Korea was no exception. In fact, it was the poster child for this paradigm. Among the assets the Korean government attempted to sell was Korea First Bank (KFB). KFB had historically been the largest commercial bank in Korea, but by this time had shrunk to the fourth largest. Still, under the right ownership and management, KFB could be a very profitable asset. Accordingly, Korean government officials and their investment bankers went around the world in the hope of finding a strategic investor to turn around KFB. They didn't have much luck. Part of the problem was that the few Western financial institutions interested in KFB wanted to buy the whole bank, and only after a bailout had left all the bad loans with the Korean government. This would leave the "good" bank for the foreign investors. The Koreans, however, were keen to keep a significant ownership stake so that if the bank was indeed turned around, the Korean government would have something to show

for all the financial support it had given KFB by keeping the bad loans. Into this fray came Weijian Shan and his team at Newbridge Capital, the Asian affiliate of our private equity firm TPG. TPG had pioneered the good bank/bad bank model in the United States some years earlier and we thought that this model could work for the Korean government and the failed banks. *Money Games* is the story of a major takeover: the origin of the deal, the incredibly difficult negotiation between the Newbridge team and the Korean government, and the subsequent transformation of the most iconic bank in Korea, the first to be fully controlled by a foreign investor. The two sides negotiated for more than a year through a series of understandings and misunderstandings, which ultimately led to the injection of needed capital by Newbridge in KFB for a majority stake with full control of the bank. It was through an arduous process that Newbridge finally took over control of KFB. Shan, our teammates, and I held secret meetings outside of Korea because we worried our phones might be tapped. (Mr. Kim Chee was the nickname I was supposedly given by the Korean negotiating team after they had heard me complaining about kimchi, the spicy Korean cabbage, on a tapped phone.) Strong personalities and divergent cultures clashed, often resulting in colorful manifestations of different negotiating styles and tactics.

It turns out that while negotiating sessions were grinding on, Shan was taking notes and writing detailed memos. These give *Money Games* a strong backbone, making it a truly riveting read. Not only does it shed much light on the Asian Financial Crisis of 1998, but it also serves as an interesting primer for anyone who is curious about how private equity works and how private equity investors make deals and create value. The bank was ultimately restructured by Newbridge, which brought in new management, and returned to profitability, particularly in the housing mortgage business, which KFB had more or less invented for Korea. Shan's account of this fascinating story sets forth some lessons for us all, whether we are private equity veterans or curious outsiders hoping to better understand this secretive world. I hope you enjoy the journey.

—David Bonderman
Chairman and Founding Partner, TPG
April 9, 2020

Acknowledgments

This book is the inside story of how Newbridge Capital, a U.S.-based private equity firm, acquired and turned around Korea's most iconic bank. Almost everyone in high- and middle-income countries is a beneficiary of private equity investing. The sovereign wealth funds that manage money on behalf of their countries' citizens; the pension funds that provide for government and corporate employees; the endowments that fund schools and universities; not to mention the banks, insurers, and other financial institutions that look after the savings of millions of retail clients: All are active investors in private equity for the benefit of their constituencies. I am grateful to all our investors who have entrusted us with their money over the years, first at Newbridge Capital, then at TPG, and now at PAG.

Almost every private equity deal is accomplished by the coordinated efforts of a large team, involving the dealmakers who source and underwrite the deal; the operational specialists who monitor the company's performance and work closely with its management; the management team itself; and a myriad of financial, legal, accounting, and consulting advisors. Some of these individuals appear in this book, but many do

not, and those who deserve recognition are too numerous to name. I thank all my colleagues who worked on the Korea First Bank transaction in their different capacities. This deal would not have been successful without their collective effort. Robert A. Cohen served as CEO of KFB (2001–2005). I thank him for leading the rebuilding of the bank and for his memoir *Turning Around a Bank in Korea* (2008), which fills some information gaps in chapter 15 of this book.

David Bonderman, founder and chairman of TPG, has been my mentor and inspiration ever since I began my investment career more than 20 years ago. I owe him a great debt of gratitude for guiding me professionally and for penning the foreword for this book.

Mark Clifford, Jill Baker, Tim Morrison, and Christina Verigan helped edit my manuscript at different stages of the writing process. I am thankful to them for their painstaking and meticulous work.

I thank Bill Falloon, executive director at Wiley, for his support and help with the publication of this book as well as my first book, *Out of the Gobi: My Story of China and America* (2019).

Rachel Kwok provided the best secretarial support any author could hope for, allowing me to concentrate on writing.

In the years that I was working on the Korea First Bank transaction, and again as I was writing this book, my wife, Bin Shi Shan, our son, Bo Shan, and our daughter, LeeAnn Shan, often had to endure a distracted and sometimes absent husband and father. I owe them greatly for all I have been able to accomplish, including the publication of this book.

Weijian Shan
June 10, 2020
Hong Kong

Author's Note

It can be difficult to decide how to write Korean names in English. Typically, Korean family names come first, followed by given names (as in President Park Chung-hee or President Kim Dae-jung). When dealing with foreigners, however, many Koreans reverse the order of their family and given names to follow Western convention.

Koreans may also abbreviate given names to make them easier for foreigners to remember or pronounce. For example, some people occasionally refer to President Kim Dae-jung as DJ Kim (or simply DJ) when speaking to foreigners. Some people, especially those who have lived in Western countries, adopt Western first names, which they place before their surnames (e.g., David Kim, Steve Choe, or Peter Jeong).

In this book, for the convenience of the reader, I consistently use the Western way to write Korean names, placing the given name first. For example, President Park Chung-hee becomes President Chung-hee Park and President Kim Dae-jung becomes President Dae-jung Kim or DJ Kim. There are exceptions, however; in cases where I quote from archived memos and letters, the original reference, which may follow Korean convention, remains intact.

South Korea's currency is the *won*, which is sometimes presented as *KRW* (Korean won). During the period of this book, 1997 to 2004, the won's exchange rate against the U.S. dollar fluctuated widely. In December 1996, the average won-dollar exchange rate was 842, meaning it took 842 won to buy one U.S. dollar. By February 1998 the won's value had dropped 48 percent. By December 1998 the won had regained some of its value, reaching 1,213 won per dollar. For the purposes of simplicity, I use the exchange rate at the particular moment in the story to approximate the dollar equivalent.

All dollar amounts represent U.S. dollars, unless otherwise indicated.

Preface to Paperback Edition

In Search of Value

Many successful investors are contrarian. They buy when most sell and sell when most buy. During the Asian Financial Crisis of the late 1990s, when the story of *Money Games* begins, foreign investors in Asia couldn't sell fast enough. In 1997, South Korea's currency, the *won*, lost nearly two-thirds of its value against the US dollar. Its stock market shrank by 49 percent. In US dollar terms, the Korean bourse had lost more than 80 percent of its value in one single year. The crisis showed no sign of abating the next year—Korea's GDP contracted by 5.1 percent—when I went to Korea on behalf of Newbridge Capital, the private equity firm I represented, in an attempt to buy a failed bank that had once been the largest in the country. It was the perfect example of a contrarian move.

How did we do in the end? Obviously, I wouldn't have written a book about it if our investment had been a failure.

In hindsight, our timing was perfect.

But hindsight is 20/20. Truth be told, we were not trying to time the market. I don't think such a thing is possible because markets are inherently unpredictable. Certain market conditions present good investment opportunities, but private equity investors cannot just wait around for such opportunities to drop into our laps. Good timing helps, but timing the market is not how a firm like Newbridge makes money.

Newbridge Capital was a buyout firm—a private equity investor that seeks a controlling stake in a business in order to improve it and ultimately sell it at a higher price. A buyout firm makes money by carefully picking its target, setting the terms of the deal to minimize risk and maximize potential returns, paying the right price, and most importantly, creating value by improving the operations of the target company.

A good investor must be discerning, only investing in businesses that are considered *unique*. By that I mean they must have key factors that differentiate them from their competitors: proprietary technology, intellectual property, strong brand recognition or market share, regulatory licenses, first-mover advantage, and so on. Without such barriers to entry, a profitable business quickly attracts competition, and its profitability soon erodes. Only these entry barriers allow a business to sustain its profitability. As Warren Buffett once said: “A truly great business must have an enduring ‘moat’ that protects excellent returns on invested capital.”

It is always challenging for a buyout firm to find a good target and buy it under acceptable terms, including a reasonable price. Teams of investment professionals scour the market for deals. Every private equity firm maintains a record of potential investments, known as a deal funnel, that shows how many deals are evaluated and how many actually go through. Usually, out of 100 deals at the top of the funnel, fewer than 1 percent filter through to emerge from its bottom end. Even fewer are actually closed, because it takes a willing seller as well as a willing buyer to strike a deal. The process is not unlike sifting sand for gold.

A fully priced, top-performing business is unlikely to be a buyout target because it may not be possible to squeeze more efficiency or additional value out of it. An underperforming business, selling at fair market

value, is likely to be bought out because a capable investor knows how to create value by turning it around.

The process of originating and closing a deal is hard enough, but buying a company is only the beginning of the investment process. Henry Kravis, the cofounder of KKR, one of the world's largest buyout firms, likes to say: "Don't congratulate us when we buy a company; congratulate us when we sell it." Of course, no congratulations are due unless the company is sold for a good profit. Kravis is also fond of saying that any idiot can buy a business by paying enough; what really matters is what happens after.

So, what does happen after? What does a buyout firm do with an acquired company? The next steps involve a lot of hard work, chiefly by the buyout firm's operations team, a group of seasoned and experienced senior executives who know how to run a company. The operations team functions like an internal consulting firm. Their job is to identify the best management team for the investee company and to help them continuously improve its operations and profitability. The operations team is also responsible for setting up an incentive scheme, such as an employee stock option plan, so that the interests of the management and employees are fully aligned with those of shareholders—if the shareholders make money, the management does, and vice versa. The management also knows that if it underperforms, it will be fired.

A private equity firm raises funds from, and manages capital for, institutional investors known as limited partners or LPs. The fund manager is referred to as the general partner or GP. The GP typically gets to use LPs' capital only once—it needs to return the capital to LPs after exiting from an investment. Once a fund is fully invested, the GP will have to raise another fund. If the GP fails to raise a new fund, it is out of business.

If a GP underperforms the market, it risks not being able to raise new funds. If a GP consistently outperforms the market, more LPs will be interested in investing with it, and its capital under management is likely to grow. A private equity firm cannot plan its own growth—it can only grow if it consistently produces good returns for LPs.

It isn't difficult to beat the market some of the time. One just needs to get lucky. But to do so all the time is exceedingly difficult. In private

equity, LPs always look to invest with “top-quartile” GPs—those whose returns are in the top 25 percent among their peers. However, past performance is no guarantee of future results, as the common disclaimer cautions. Data show that top performers of one vintage year have no better chance than bottom performers to achieve top-quartile results in the next vintage. The investment acumen of a GP can only be ascertained if it has consistently performed at the top of its game over a long period, across many funds.

Acumen implies the ability to make the correct decision most of the time. Where does that come from? Not just from talent—nobody is born with the ability to make the right decisions. It comes from accumulated knowledge and experience, including lessons learned from past failures.

But a good investor should know his or her limitations. To err is human. Even the greatest investors make mistakes from time to time. For any firm, it is too risky to rely on one individual to make all the major investment decisions. Private equity is not an individual sport, like golf. Teamwork is critically important. At a private equity firm, decision-making power typically rests with an investment committee (IC) consisting of the firm’s partners. If the head of a firm has too much say in investment decisions, or too much influence over other IC members, the firm is more susceptible to big mistakes. Collective decision-making usually leads to safer bets.

If you ask me what it takes for someone to be a successful investor, the first thing that comes to mind is judgment. Without good judgment, no matter how hard you work, you are unlikely to succeed. It is like running an ultra-marathon: if you lose your way, effort is futile or counterproductive.

Good judgment goes hand in hand with hard work. If you do not know enough about a business, its industry, or market conditions, you must work hard to learn. Every deal requires full dedication and tenacity. Frequently, the window of opportunity is brief. If you do not seize it, it may be gone forever. One must strike when the iron is hot. For that purpose, it is necessary to sometimes keep at it day and night, around the clock, until the deal closes.

Investment acumen and hard work are necessary conditions for success, but they are still not sufficient. One factor that often determines the outcome of an investment is totally beyond anyone's control. That factor is luck. Some investors let their string of successes go to their heads, believing it is all because of their own brilliance, not realizing they have also had a good run of luck. They take increasingly bigger and bigger risks until one day, their luck runs out.

On April 8, 2021, a few months after the first edition of this book was published, a Bloomberg headline screamed: "*Bill Hwang Had \$20 Billion, Then Lost It All in Two Days.*" Hwang, a hedge fund manager, had learned his trade under Julian Robertson, one of the most successful investors of his generation. Hwang later launched his own fund and was so successful that at one point he had built a personal net worth of \$30 billion. He must have thought he was invincible. He kept betting on big technology stocks with so much borrowed money that his loans amounted to five times his own capital. When the market turned the other way, his investment vehicle, Archegos Capital Management, simply imploded.

If Bill Hwang stumbled big time because his was a one-man show, what about the case of Long-Term Capital Management (LTCM), founded and managed by the smartest people in the world including not one but two Nobel laureates—Myron Scholes and Robert C. Merton? In its first three years, LTCM beat the market handily, producing annualized returns of 21 percent, 43 percent, and 41 percent, respectively. Then bad luck struck. It lost \$4.6 billion in 1998 when the market turned against it as financial crises rolled across Asia and Russia. And it collapsed.

Investors can also be extraordinarily lucky. I consider myself to have been lucky more than once.

In 2004, I led a transaction on behalf of Newbridge Capital to buy control of Takefuji, the largest consumer finance company in Japan. At the time, the company was worth about \$10 billion. After months of negotiations, I eventually signed a term sheet with the controlling shareholder. Then, just as we were congratulating ourselves, he walked away from the deal. A major US investment bank offered him 50 percent more than Newbridge for his shares. I was sure the seller had

no right to walk out on us, because the term sheet was legally binding. However, I soon found out that the Japanese version he had signed with me did not include the same legally binding language as the English version. And the English version would not prevail in a court of law because the seller knew no English.

I was bitterly disappointed to have lost the deal. But two years later, Japan revised its consumer lending law, cutting the cap on consumer loan interest rates nearly in half, and ordering companies like Takefuji to refund 10 years' worth of excess interest to their borrowers. Every consumer finance company in Japan, except for those affiliated with deep-pocketed major banks, went bankrupt—including Takefuji. If we had acquired it, we would have lost billions, and my investment career would probably have ended then. We dodged a huge bullet, purely out of luck.

Knowing that luck plays a big part in an investment's success or failure makes an investor humble. Humility leads to risk aversion. Risk aversion prevents major mistakes. And making fewer mistakes ensures long-term investment success.

As of this writing, in October 2022, the world is deeply troubled: the Russia-Ukraine War is raging on; the relationship between the two largest economies in the world—China and the United States—has turned antagonistic; inflation is at the highest level in decades in both Europe and the United States; China's economy is sharply slowing down; and the world is faced with a food and energy crisis. Central banks in Western countries are raising interest rates to fight inflation. Higher interest rates reduce demand—fewer people will borrow money to spend—as well as supply: firms will borrow less to expand. Chances are that most leading economies will be in a recession soon, if they are not already there. Most major stock markets are already in bear territory, and there may be a long way down yet to go.

This market reminds me, in fact, of the 1997 Asian Financial Crisis and the 2008 Global Financial Crisis. As markets tank everywhere and the economic outlook appears bleak, firms go into survival mode—cutting spending and raising cash in preparation for a prolonged winter, figuratively and literally. But with good timing, good judgment, hard

work, and, of course, luck, some will make deals that profit them handsomely. As Newbridge founder David Bonderman told me at the beginning of our Korean adventure: The history of life shows that when risks loom everywhere, that is as good a time as any to buy—if deals are structured right.

Weijian Shan
October 6, 2022
Paris, France

Preface to First Edition

Big Money Legends

It was a brisk autumn day in 1900, and Andrew Carnegie, 66 years old, was enjoying winning a game of golf against 39-year-old Charles M. Schwab, the president of Carnegie Steel Company. Carnegie was, at that point, one of America's most prominent businessmen. Carnegie Steel, the company he had founded, had revolutionized industrial steel production and had become the largest steel company in the world. Unbeknownst to Carnegie, Schwab had been working on a plan with John Pierpont Morgan, America's most powerful financier. Schwab's mission was to talk Carnegie into selling his company to Morgan. It was widely known that winning a game of golf always eased the Scottish-born industrialist's temperament—and so Schwab played to lose. After the game, Schwab raised the idea with Carnegie, who seemed receptive.

The next day, Carnegie handed Schwab a piece of paper scrawled with numbers adding up to \$480 million, a colossal amount in 1900 (approximately \$14.5 billion in U.S. dollars today). It was the price

Carnegie was willing to accept for the sale of Carnegie Steel. Schwab took the paper to Morgan.

Morgan glanced at the figures and said, simply, "I accept it."

On a handshake, Morgan acquired Carnegie Steel for \$480 million. Around the same time, Morgan consolidated several other steel companies to create U.S. Steel in March 1901. Capitalized at \$1.4 billion (\$42 billion in 2019 dollars), it was the first billion-dollar corporation in the world.

Carnegie's cut from the sale of his steel company was about \$225 million (\$6.7 billion in 2019 dollars). The deal, as Morgan observed wryly while congratulating him, made Carnegie the richest man in the world.

For generations, financiers, historians, and the general public have loved telling this tidy little story, amazed at how easy such big-money games seemed to be for the rich and powerful. Such games—the private buying and selling of companies and institutions—are now called *private equity*, and Morgan was probably the first notable private equity dealmaker in history, many decades before the practice became an industry and acquired its own name.

But the real story is unlikely to be so simple.

Where, for example, did Morgan get the money to finance the deal? The largest source, providing \$225 million out of the \$480 million required, came in the form of an IOU: a 50-year bond, bearing a 5 percent interest rate. In other words, Morgan borrowed almost half of the purchase price from Carnegie himself.

It is plausible that when he accepted Carnegie's price, Morgan was confident he could raise the vast amount of capital he required, if not from Carnegie then from other sources. It's plausible, but doubtful. The amount he borrowed from Carnegie represented too large a percentage of the price tag for the deal to work without it. The amount of capital required was more than 2 percent of U.S. GDP at the time; the same proportion would be equivalent to \$426 billion today. Even the great Morgan could not have known for sure if he could raise that sum, or at what cost, or how long it would take, without testing the market first.

In any case, securing Carnegie's acceptance of an IOU, to be paid over a period of half a century, was a critical part of the transaction—and

certainly required much negotiation and documentation before the handshake.

In the end, how much was borrowed? How much equity capital was raised? Did some of the shareholders of Carnegie Steel swap their shares for the shares of U.S. Steel? Did Morgan put in any of his personal money? What were the exact sources and uses of Morgan's funds? And, eventually, what was the outcome for Morgan's brainchild, U.S. Steel? How much money did Morgan and his investors ultimately get out of it?

Presumably there were records, locked away somewhere in the House of Morgan. But there is no way to know if these records have survived; the details of the transaction remain hidden from the public eye. The point is that Morgan cannot have agreed to such a big deal without specifying certain conditions, including, for example, his ability to raise the required capital. It is entirely possible that the deal would have fallen apart if Carnegie balked at the idea of lending money to Morgan.

There is no way that a deal of this size and complexity could be done in the same manner as one buys vegetables in a grocery store, even if published accounts make it seem so straightforward.

Private equity is the art of using other people's money (usually) to make investments in private markets (usually), as opposed to buying up stock of a company on a public exchange. It is the job and the fiduciary duty of a private equity dealmaker to generate good returns on capital for his or her investors. The dealmaker does not always win. And that is key: No private equity story is complete without knowing if the deal eventually makes or loses money.

In view of the tough times U.S. Steel went through in the years after its creation, it is possible that those who had entrusted their capital with Morgan ultimately lost money. The moment of dealmaking between Carnegie, Schwab, and Morgan occupies a shining spot in the annals of American business. However, the ultimate outcome of the first mega-buyout deal in history remains buried.

★ ★ ★

In the past three decades, private equity, or PE, has roared into public view, starting with the takeover of RJR Nabisco by Kohlberg

Kravis Roberts & Co. (KKR) in 1988. The transaction was valued at \$25 billion, the largest ever at that time, which awed even Wall Street.

PE fascinates the public because of the enormous amounts of money it moves around and the high stakes of the game it plays. The control of iconic corporate giants can be wrested away, and such deals can make an indelible impact on prominent industries. Then there are the larger-than-life dealmakers, who are often handsomely rewarded for their work to the tune of hundreds of millions of dollars. In the United States, there are more than twice as many PE-owned private companies as there are public ones.

Despite PE's solid presence, there is a dearth of literature about the inner workings of the industry. A few big buyouts have been written about in books, in most cases by journalists who try to piece together from the outside how the deal was made. While they are all fascinating, I am not aware of any book that tells the full story of a big deal, from beginning to end, including if the investors eventually made or lost money.

This is understandable because it usually takes years for a buyout deal to complete its cycle from the initial investment to the final exit. No business reporters could wait that long to tell the full story. In the case of RJR Nabisco, it took KKR 15 years to get out—long after the deal had been written up in a bestseller *Barbarians at the Gate* by the *Wall Street Journal* reporters Bryan Burrough and John Helyar. As it turned out, the firm had invested \$3.5 billion of equity capital in RJR (the rest of the \$25 billion was borrowed) and eventually lost \$730 million, according to news reports, making the deal a rather dismal failure. KKR's investors would have been better off leaving their money in a savings account.

Much of PE's history is chronicled through accounts which were written too soon as they usually include only the deal-making part of the investment but not how the investment subsequently performed for the investors. *Saving the Sun*, by the *Financial Times* editor Gillian Tett, was also published only three years after the acquisition of Japan's Long-Term Credit Bank. Some of the investors were able to get out early with sizable gains; others remained invested nearly 20 years later and may have suffered losses. *Dethroning the King*, by the *Financial Times* reporter Julie MacIntosh, is another book recounting events that are far from over: the takeover of the venerated beer

giant Anheuser-Busch, orchestrated by the Brazil-based PE firm 3G. For these dealmakers and many others, the jury remains out if these will turn out to be good or bad investments.

★ ★ ★

“Any idiot can buy a company,” Henry Kravis of KKR likes to say. “It’s what you do with it once it’s acquired that matters.”

To PE investors, the making of a deal, no matter how big, complex, or high profile, is only the beginning. The deal’s success or failure can be ascertained only once the investor fully exits from the investment. In the years between the purchase and exit, teams of PE professionals expend great amounts of energy and resources to create value with the acquired company, to transform and to grow it. To exit from a big investment is often as complicated a deal as the initial acquisition—if not more so.

Any mistake in this deal cycle can lead to disaster and financial losses, erasing whatever satisfaction or glory the closing of the transaction brought years prior—and possibly ending the careers of the dealmakers themselves. Seasoned PE investors know that every deal is like walking on thin ice with a heavy load on their shoulders. They must take great care with every step to avoid plunging into failure. They can celebrate only after reaching the far shore, when they deliver their load to their investors.

Private equity is shrouded in mystery, in part because no PE dealmaker, to my knowledge, has written a complete insider’s account of a major PE buyout deal from beginning to end.

This book tells the inside story of a profoundly impactful buyout deal, including the various twists and turns, successes and setbacks, that the American private equity firm at the center of it all encountered. Just as integral as the investors is the setting of the story: Korea in the immediate aftermath of the 1997–1998 Asian Financial Crisis. The country, whose modern history has been intertwined with that of the United States, was plagued by a beleaguered banking system and widespread economic instability.

The depth and severity of Korea’s economic crash had come as a surprise to many. Starting in mid-1997, many of the world’s most

flourishing economies seemed to collapse almost overnight in rapid succession. Thailand, Malaysia, and Indonesia were the first countries to be hit, with Korea close behind. Curiously, there did not seem to be any particular reason why a crisis that appeared to originate with a collapse of the Thai currency should travel so far north, or why it appeared to mutate into a more virulent strain once it got there.

There was no shortage of potential culprits. Some joined Malaysia's then-prime minister, Mahathir Mohamad, in blaming foreign speculators for placing opportunistic bets against Asian currencies. Some pointed to the massive correction that ensued once the government was forced to devalue Korea's currency, the won. But many agree that one of the main reasons that the crisis cut so deeply in Korea was because systemic risk pervaded its financial system.

Nationalized under its authoritarian president Chung-hee Park in the 1960s and nominally privatized in the 1980s, Korea's banks had never fully thrown off the yoke of government control. These banks, regulators, politicians, and Korea's massive industrial conglomerates, known as *chaebol*, existed in a cozy symbiosis. As part of its decades-long effort to cultivate a prosperous nation following the privations of the Korean War, the government chose the industries and companies to bestow favors on. The banks would extend credit to these companies, which would churn out the steel, ships, and semiconductors that undergirded the Korean economic miracle. Implicit in this arrangement was the idea that the government would come to the aid of banks or enterprises that ran into financial trouble.

The financial crisis brought the entire system crashing down. Many of Korea's largest *chaebol* went bankrupt or were forced to restructure. Two of the country's largest banks failed and were nationalized. After the International Monetary Fund stepped in with a massive \$58 billion rescue package, it mandated that these banks be sold to foreign investors, for the purpose of overhauling their shaky lending practices. It was an opportunity to bring some much-needed transparency and structure to Korea's banking system, and it was felt—among the Korean government and global institutions at large—that foreign investors would bring in a credit culture to prevent such risky loans from being made again.

Private equity is not only a source of capital; it is also a vehicle for new ideas and new ways of doing things. Throughout my experiences