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Finance: Blackstone's Billion-Dollar Baby

Newsweek

July 2-9, 2007 issue - Fortune magazine hailed Steve Schwarzman as "The King of Wall Street"—but lately there's been more attention on his wallet than his crown. Schwarzman cofounded the Blackstone Group, the private-equity giant whose \$4.1 billion initial offering last week constituted the biggest IPO in five years. The deal valued Schwarzman's stake at nearly \$9 billion.

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That payday has attracted congressional attention. Private-equity firms have long enjoyed cushy tax treatment; in Britain, critics grouse

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that private-equity bosses pay lower tax rates than their cleaning women. In June, two U.S. senators introduced a bill to close this loophole; Congress plans hearings later this summer.

The proposed legislation, however, has done little to rein in investor enthusiasm. Blackstone shares rose 13 percent on its first day of trading, and rivals like Kravis Kohlberg Roberts are now reportedly mulling offerings, too. (A KKR spokesman declined to comment.) Of course, going public carries a price, as the spotlight on Schwarzman illustrates. "Increased scrutiny may not be what these companies, which are generally tight-lipped, would like," says Scott Sweet, managing director of IPO Boutique. Still, particularly as firm founders approach retirement age, the lure of an IPO can be hard to resist. One private-equity boss, who insisted on anonymity to stay out of the spotlight himself, says: "When somebody is standing there saying 'Hey, you want \$10 billion?' people are going to take it."

—Daniel McGinn

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