

Buyouts

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Mitsubishi Launches U.S. Buyout Fund

By Judith Radler Cohen

Mitsubishi Corp. recently announced the launch of its new buyout fund, **Red Diamond Capital Partners LP**, which focuses on North American companies and culls the private equity abilities of several M&A pros.

"The thing that makes us different is the affiliation with Mitsubishi," said **Bret Russell**, at the helm of the \$150 million fund. The company has more than \$1 billion committed in private equity worldwide, he said, "so this is not new to them." Red Diamond, though, is the first affiliated U.S. fund, he added.

Russell, who began his career in 1981 as an investment banker at **Dillon Read**, is a former managing director at Saratoga Partners, a New York-based buyout fund launched by Dillon Read in 1984 and spun out in 1998.

Mitsubishi also just launched a comparably sized fund in Japan to do buyouts in that country. The company has made direct investments in U.S. companies, he said, "but those were more of a strategic nature," Russell said.

Red Diamond, by comparison, is a financial investor, but with access to all the benefits Mitsubishi can bring to the table for a middle market company, Russell continued. Those benefits include the ability to distribute into the Pacific Rim and to source out of the Pacific Rim.

Tokyo-based Mitsubishi, an investment and trading company with more than \$100 billion in annual revenue, engages in a wide range of businesses, including chemicals, energy, information technology and electronics.

Red Diamond, so named because of Mitsubishi's three-red-diamond logo, is initially looking for investments where it can put between \$10 million and \$35 million to work per

deal. "If we co-invest with other investors or we bring in money from other Mitsubishi areas, we could increase the size of the deal significantly," Russell said.

Russell adds that the new vehicle will focus on change-of-control transactions, although it may occasionally take minority stakes or make small PIPE investments. For example, Red Diamond would not want to buy 10% of a family business and remain stuck in it for an indeterminate amount of time. The structuring aspects of minority deals can be more complex to maintain a sufficient amount of control for the financial investor and a way to achieve liquidity. "When you're in a change-of-control situation, those things take care of themselves," he explained.

Red Diamond will target acquisitions of North American manufacturing, distribution and service businesses, primarily in the specialty chemicals, machinery and industrial components, building products and food verticals sectors.

"If you look at any buyout fund doing deals in 1997 to 1998, they've got issues in their portfolio," Russell suggested. "Perhaps we can be a part of the solution of those issues by bringing fresh equity to the equation."

Red Diamond is structured as a typical corporate buyout fund, structured with a 10-year life, five-year investment period, and sole limited partner in Mitsubishi. Also joining Russell on the fund as managing directors are Mark Kammert, a former managing director at Pedersen Kammert & Co. and Peter Pfister, a managing director at Weis, Peck & Greer. Rounding out the fund's professional staff as associates are Kurt Beyer, a former Pedersen Kammert associate, and Susumu Sekihata, a one-time manager at Mitsubishi.