

A trading giant's U.S. private equity ambitions

A conversation with Mitsubishi's Shinichi Iwata

by Jennifer Hanawald

Japan's huge "sogo shosha," or general trading companies, used to boast of selling everything from missiles to noodles. They've long since realized that strategy doesn't work and have begun to specialize.

These former "general" traders have tried to rebuild their businesses around the likes of information technology, telecoms and energy.

Yet the biggest of them all, **Mitsubishi Corp.**, one of the two flagships of the Mitsubishi group of financial and commercial enterprises, has followed a different strategy—using its global information network derived from trade to drive a private equity portfolio investment business.

Mitsubishi is the main Japanese partner in **Ripplewood Holdings LLC's** Japan private equity fund, RHJ Holdings. Aside from that, the group wholly owns **Millennia Venture Partners Co.**, a venture capital fund specializing in high-tech startups, and **MC Private Equity Investment**, a private equity turnaround specialist.

Now Mitsubishi is applying its investment talents to the United States. The group announced in early September the establishment of **Red Diamond Capital Partners LP**—a \$150 million fund that aims to overhaul management and boost profitability at underperforming companies operating in conventional industries.

The Daily Deal's contributing correspondent in Tokyo, Jennifer Hanawald, asked Mitsubishi's communications manager Shinichi Iwata to explain the thinking behind Red Diamond.

The Daily Deal: *The U.S. is home to most of the world's major private equity firms. What kind of edge will Red Diamond have?*

Shinichi: Mitsubishi Corp. engages in a wide range of businesses, including aerospace, chemicals, energy, foods, information technology and machinery, with investments in some 200 companies in North America. The corporation has been able to add value to a number of those investments by taking advantage of its global market intelligence, sourcing and distribution strength. Red Diamond and Mitsubishi Corp. are working closely to identify areas of mutual in-

terest. We think Red Diamond and its portfolio companies will also be able to benefit from Mitsubishi's global presence. Conversely, we believe Red Diamond's portfolio of companies will offer benefits to Mitsubishi's global activities.

Do you have experience investing in the U.S.?

This is the first time that Mitsubishi Corp. has sponsored a buyout fund in North America, but over the years we have invested in a number of U.S. buyout funds. Incidentally, we will be drawing heavily on local talent to head up the venture. As chief executive we have picked Bret Russell, former managing director and founding member of New York-based corporate buyout fund **Saratoga Partners**.

The team also includes managing directors Mark Kammert, former managing director of Pedersen Kammert & Co., a middle-market investment banking firm, and Peter Pfister, former managing director of Weiss, Peck & Greer, a New York-based corporate buyout fund.

Why is now a good time to invest in the United States?

Mitsubishi Corp. has considered establishing a North American fund for some time. However, we were uncomfortable launching a fund in the overvalued market of the late 1990s. We believe the current environment is much more promising for a strategy of buying good businesses at reasonable prices, building them and adding value through Red Diamond's affiliation with Mitsubishi Corp. We also believe that within the time frame of this fund, the U.S. and Canadian economies will improve and the portfolio companies will benefit.

What types of businesses will you be targeting as investment opportunities?

We will be looking for established North American manufacturing, distribution and service businesses, with a focus in the specialty chemicals, machinery and industrial products, food, consumer products, aerospace, building materials, logistics and outsourced business services verticals.

Red Diamond will seek to invest in transactions where Mitsubishi Corp.'s strengths can add value. Typically, we'll invest in change-of-control trans-

actions, either with sole voting control or in partnership with like-minded investors. We will always be represented on each portfolio company's board of directors, and we will normally change the CEO, drawing on managers who've joined our executive sponsorship program. This will consist of a series of working partnerships between Red Diamond and talented CEOs who want to participate in our buyout activities.

In all cases, senior management will invest alongside the fund, participate in meaningful equity incentives and will be given the autonomy to manage the day-to-day operations of the business.

What about the scale of individual transactions?

Typical equity investment size for Red Diamond will be in the range of \$10 million to \$35 million. Prospective investment companies will have revenues of \$30 million to \$300 million and at least \$5 million of Ebitda. Investment holding period will typically range from three to seven years. We'll be avoiding early-stage businesses and investments with significant technology risk.

It seems most of the leadership is North American. Are there special ways Japanese members of the team can add value?

Investment and management authority will reside within Red Diamond in New York rather than in Tokyo. But we have established a number of mechanisms to facilitate interaction and stimulate ideas and dealflow. One of these is a liaison structure whereby each business unit of Mitsubishi Corp. will name individuals to be responsible for collaboration and interaction with Red Diamond.

You said you already own direct stakes in companies in the U.S. Does that mean that you have distinctive strategy for Red Diamond's investments?

Red Diamond is focused on maximizing return on investment. It is not making long-term strategic investments on behalf of Mitsubishi Corp. Red Diamond and its portfolio companies will be managed independently of Mitsubishi Corp, although we certainly hope to tap into the vast resources of Mitsubishi Corp to provide operational and strategic benefits to Red Diamond's portfolio companies. **D**

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