COLUMBIA BUSINESS SCHOOL

CENTER ON JAPANESE ECONOMY AND BUSINESS

PROGRAM ON ALTERNATIVE INVESTMENTS

日本経済経営研究所

THE DEVELOPMENT OF THE BUYOUT INDUSTRY: U.S.-JAPAN COMPARISONS

April 7, 2005

Initially developed in the United States, the buyout industry is finally emerging in Japan. The earliest U.S. firms to enter the field began operations more than a quarter century ago, and some of these firms pioneered techniques now standard in the industry. Yet virtually no buyout activity took place in Japan until the late 1990s, and Japan's distinctive economic and social arrangements clearly are shaping the way the buyout industry is developing in Japan as compared to the United States and other Western countries.

The emergence of the Japanese buyout industry naturally raises a number of important questions. When and why, for example, did buyout activity finally get started in Japan? How does the operation of the buyout industry in Japan compare with that of the United States and other Western countries? What are the key determinants of the future course of the Japanese buyout industry, and what roles will buyout firms based in Japan and abroad play in its development?

To explore these and related issues, the Program on Alternative Investments of the Center on Japanese Economy and Business at Columbia Business School organized a seminar with two leading buyout practitioners, one American and the other Japanese, to share their views with an audience drawn from the academic and business communities. The first speaker was Mr. Joseph L. Rice III, Chairman of Clayton, Dubilier & Rice, Inc., a leading New York–based buyout firm, and was followed by Mr. Tsutomu Yoshida, Senior Vice President of Mitsui & Co. (U.S.A.), Inc., a large Japanese trading firm that also has participated in the buyout field. This report presents highlights of the seminar, held on April 7, 2005, at Columbia University in New York, and moderated by Dr. Mark Mason, Director of the Program on Alternative Investments.

The Program on Alternative Investments of the Center on Japanese Economy and Business analyzes three sets of alternative asset classes—private equity, hedge funds, and real estate—in Japan and elsewhere in East Asia in international perspective. The Program meets its substantive goals through a combination of research projects and seminar presentations, the latter led by leading practitioners in each of these three alternative asset classes. For information on the Center on Japanese Economy and Business, please visit www.gsb.columbia.edu/cjeb/. For a schedule of upcoming events and other information about The Program on Alternative Investments, please visit www.gsb.columbia.edu/cjeb/alt_investments/.

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From left to right: Mark Mason, Joseph L. Rice III, Tsutomu Yoshida, and Hugh Patrick

MARK MASON

Director, Program on Alternative Investments, Center on Japanese Economy and Business, Columbia Business School

I would like to welcome you to this final program of the current academic year, a seminar to compare the development of the U.S. and Japanese buyout industries. The United States was perhaps the first country in the world to witness the development of buyout firms, and we are privileged to have with us today one of the founders of the U.S. industry. Only in recent years has a buyout industry emerged in Japan—one with a set of characteristics distinctive to that country—and we are fortunate that one of the early Japanese practitioners in his country's buyout industry also has joined us this afternoon. I will ask each of our two speakers to make initial presentations on their country's respective experiences in the buyout sector, and then open up the discussion with the audience.

It is now my pleasure to introduce our first speaker, Mr. Joseph Rice, truly one of the pioneers of the buyout industry. Mr. Rice is currently Chairman of Clayton, Dubilier & Rice, Inc., a New York–based private equity firm. As you may know, CD&R has pursued a control-oriented buyout strategy that focuses its efforts on operating improvements in addition to financial change. After graduating from Williams College and Harvard Law School, Joe began a highly successful career, first as a corporate lawyer at the white-shoe Wall Street law firm Sullivan & Cromwell, and then as a private equity practitioner. I might add that Joe is currently an Executive-in-Residence at Columbia Business School. Joe?

JOSEPH L. RICE III

Chairman
Clayton, Dubilier & Rice, Inc.

Thank you, Mark. I am delighted to participate in today's seminar here at Columbia.

Once you've bought the business, you have absolute control. Unlike owning a public security, you can go in, change management, change the product line, or change the strategy. That's a terrific advantage.

—Joseph L. Rice III

I graduated from law school in 1960 and came to New York to practice law with a large firm, but law never captured my imagination. So when I had the opportunity to go into the buyout business, I jumped at it. The first transaction I worked on was in 1965, when we bought a business that had about $10 million in sales. We paid $3 million for it. Various financing components were drawn on, first from a bank that lent the debt, which was then secured by inventory and receivables, and secondly with equity from a group of individuals, all of whom had been solicited very carefully. Two weeks ago, my firm bought a truly global business with $10 billion in sales. We paid $5 billion. It's headquartered in France, but does business in Continental Europe, the United States, and Asia. There have been a lot of changes in the business over the last 40 years.

When we started off, I think buyouts were generally not understood and were underappreciated. Think about buyouts, or any truly negotiated transaction: it's a very sensible way to invest. First, the prospective buyer gets the benefit of due diligence. Due diligence represents an opportunity that you don't get when buying securities in the public market. You, your accountant, and your lawyer get to go into the company and look under all the piles of paper to see what's there. If anything escapes your attention, it's probably your fault rather than the seller's.

In addition, once you've bought the business, you have absolute control. Unlike owning a public security, you can go in, change management, change the product line, or change the strategy. That's a terrific advantage. But as I say, I think all of this was largely underappreciated in the late 1960s.

As we entered the 1970s, a couple of things happened. First of all, inflation had a tremendous impact on the managers of institutional pools of capital. The rate of inflation, or the Consumer Price Index (CPI), in 1972 was about 2.2 percent. In 1973 it was 8.8 percent, and in 1974 it was 12.2 percent. Managers of institutional capital saw the real gains on their portfolios as a bit paltry, so they looked around to see if they could find investment opportunities that would generate returns that would at least keep them equal with inflation. Thus, they turned to venture capital, buyouts, real estate, oil, and gas. This, coupled with a few transactions in the 1970s that generated some very handsome returns, introduced all of the institutional investors to the potential of the buyout. So when we entered the 1980s, for the first time there was an adequate—even overly adequate—amount of capital available to fund buyouts.

During the 1980s and early 1990s, the American economy went through a dramatic restructuring. The impact of shareholder activism and competition from abroad, mostly from Japan, had a dramatic impact on the American manager's concept of how he ought to manage his business. Through a combination of the disposition of noncore assets, improved management of working capital, and increased productivity, the American manager dramatically changed his competitive position in the world.

As I look back, this activity produced the golden age for buyouts. There was a tremendous amount of capital available. There were lots and lots of businesses that were available at very sensible prices. It really was an absolutely fantastic time for our particular business.

Here's an example: in 1991, we bought IBM's reproduction products division for $1.6 billion. IBM's senior management had decided that they would divest this business as a part of a larger strategy to break the parent company into its component parts. The division consisted of two product lines: impact printers and typewriters, and related supplies. The division didn't have many of the attributes that you would normally associate with a business. It did not have a corporate staff, or a sales force, or an IT system, or an accounting system. All of these attributes had to be built up over the twelve-month period that was spent negotiating the transaction. It was in many respects a company created out of whole cloth.

The company today is listed on the New York Stock Exchange. It has a $10 billion market capitalization, $5 billion in sales, and has truly become the technology leader in the printer industry. By any stretch of the imagination, this was an incredible accomplishment, a great business built from scratch. Best when the business was initially capitalized, every employee became either a stockholder or option holder. When the company went public, the equity owned by the employees was worth a billion dollars. That really is the buyout business at its absolute, global best.

As we entered the present decade, the events of September 11 had a dramatic impact on almost everyone's portfolios. In addition, most investors had some exposure to technology, and of course the technology implosion added to our agony. The industry has survived those two cataclysmic events, and over the last two years has enjoyed tremendous returns. When we raised our 1991 fund, there were four firms, including ours, which managed a billion dollars or more. Today there are a hundred firms that manage funds of a billion dollars or more. So the business is very different from what it was a short time ago. We are, I think, in the midst of a tectonic shift. I can't see far enough ahead to tell what it's going to produce, but I know it is a change of dramatic proportion.

Carlyle has raised an $8 billion fund. Blackstone seeks $10 billion. Inevitably this means that there will be more and more consortia transactions in which financial sponsors partner together to buy larger business. Whether or not we will maintain the returns that have historically characterized this business is a question.

Joseph L. Rice III

I would be remiss if I didn't talk a little bit about the globalization of the business. Starting in the late 1990s, Europe became everybody's favorite place to invest. And in fact, it has turned out to be quite a fine place to invest. Europe is going through the same process that the United States went through during the 1980s and 1990s, which is to say that the European industrial base is being dramatically restructured.

The next great area of investment will be Asia. Some firms are out there already. I think they will lose a lot of money before they make any, but there isn't any question that Asia is next on everybody's list.

TSUTOMU YOSHIDA
Senior Vice President
Mitsui & Co. (U.S.A.), Inc.

Back in 1992, after the bubble economy burst in Japan, there were quite a few companies that started to see big trouble. Since then, I've been gaining

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experience by working for turnaround situations and waiting for the right time to start a buyout business in Japan. But how do I get the timing down right?

For the buyout business to start, certain conditions have to be in place. First of all, there's the company to be bought, but at the same time there also should be fund managers, investors, and the economic conditions so a buyout can be accomplished.

Japan's bubble economy started around 1986 or 1987 and continued until April 1991. It functioned similar to the U.S. economy of the '60s; a booming economic period characterized by "the bigger, the better," which set the stage for the U.S. buyout firms to emerge in the following decade. In the 1970s, the U.S. economy faced global competition. One obvious incident is that the U.S. dollar floated in 1971 due to a large trade imbalance. Global competition caused U.S. corporations to streamline their businesses and the buyout firms arose as a buyer of noncore businesses from them. In the 1990s, a very important event happened in Japan: Yamaichi Securities, one of the top four security firms, went bankrupt. People thought Yamaichi was invincible even though it was in trouble, because Yamaichi was once rescued by the Japanese government back in 1965. But in the early part of November 1997 when Moody's Investor Service downgraded Yamaichi, it made a bad situation even worse. Yamaichi was forced to cease operations within the month. That was an example of how globalization affects the Japanese market. You couldn't ignore things like earnings or cash flow anymore in view of global standards. After that, people thought about management in a different way. Nobody was going to help rescue a company. If Yamaichi was free to collapse, then maybe my company would be next. That's when people started to get more serious about restructuring their firms and their subsidiaries and, as a result, people became a bit more open-minded to new ideas, including proposals from buyout firms.

In order for a buyout business to start, you obviously need players. I clearly remember that at the end of August 1997, the Nikkei newspaper reported the first Japanese buyout fund was formed with ¥3 billion. That's about $30 million, so it was quite small. Shortly thereafter, I myself became one of the three fund managers to start an investment fund of about $100 million, one of the earliest buyout funds targeted solely for Japanese corporations, with two-thirds of the money coming from institutional investors and corporate pension funds.

From the macroeconomic and social points of view, together with my experience on the ground as a fund manager, I would like to say Japan is twenty years behind the United States with regard to the development of a buyout industry. In order for today's audience to feel how different the market development and conditions are, I think it would be very interesting to talk about the industry terminology applied in Japan. The same terminology may be used in both the United States and Japan, but the meaning can be very different due to the different development stage and background of buyouts in the two countries. Here's a brief explanation

> *Japan is twenty years behind the United States with regard to the development of a buyout industry.*
>
> *—Tsutomu Yoshida*

of what some of the key buyout words actually mean in Japan.

Private equity fund. While the concept of private equity is quite new and no exact translation is available in the Japanese language, there isn't a clear-cut understanding or recognition of the difference between a buyout fund and a special situations fund. Therefore, every current private equity fund in Japan has a chance to be considered as a vulture fund. It's not a popular term, and people in Japan still get nervous when they hear the words "private equity" or "'buyout."

Fund managers. In the United States, many fund managers hail from the industrial sector, but in Japan most fund managers come from the commercial or investment banking fields. There are virtually no fund managers yet in Japan who were previously business managers outside the financial services or business consulting sector.

Deal flow. In Japan, there is virtually no deal flow. The deal pipeline is clogged. Only opportunities exist and fund managers have to make every effort to turn opportunities into deals. It's still difficult for Japanese companies to make tough decisions unless they are at the edge of bankruptcy, which is why there is virtually no deal flow. Japanese companies talk a lot about restructuring their subsidiaries, fixing their sales, and so forth, but there's almost no company that has followed its words with actions. Only one exception, as far as I know, is Nissan Motors. When Nissan management was taken over by France's Renault, they publicly declared all of the subsidiaries except a few would be for sale. That really was a first for a Japanese company to start restructuring in a very Westernized style and really executed it as intended. Any fund managers were welcomed at Nissan based upon their ideas and the merits of their proposals.

Corporate orphan is a situation that is widely seen in Japan. It's when a parent company has so many subsidiaries, they're largely ignored. Many large Japanese firms have more than 500 subsidiaries. But sometimes, although they know they have many corporate orphans under their wings, the large corporations are not agile enough to restructure because they are preoccupied with fixing their core businesses.

Valuation. Don't be surprised when the seller's expectation is ten times higher than yours. But if you're patient, they'll come back in six months and it will be half that price. Then you'll have a smile on your face if you want to make the seller readjust their price expectations further. Another way to look at it is to say that this is a still very inefficient market for buyout firms to take advantage of, unless you have patience as well as a skill set effective in Japan.

Due diligence. Now this is a very intriguing part of the business. In Japan, there's minimum disclosure. I think this is a social and cultural phenomenon, especially for private companies. In the United States, disclosing every detail makes the price higher, but it's a tricky game in Japan. This is maybe one of the reasons why some foreign funds in

Tsutomu Yoshida

Japan don't do deals. You have to wait until people start talking and trusting you, even though a nondisclosure agreement is signed. Strong interpersonal skills are required.

Board control is an intriguing concept. For the majority of Japanese companies, board meetings are just empty ceremonies. It is not a surprise for me that foreign fund managers are quite at a loss when they see how board meetings are conducted in Japan. If no real business decisions were made in the board meeting, what can and should fund managers do? You have to go down the corporate ladder to grasp the true business situation to better understand and take effective control of the company. This is an issue of corporate governance and to take majority of the board is not enough in Japan. This is one of the reasons why foreign fund managers have a tough time to execute their strategies in Japan.

Global opportunities. Many fund managers do a very good job at cleaning up balance sheets and cutting expenses, but then what? The real question for Japanese fund managers right now is, "How effective are you at increasing revenues?" There isn't much opportunity left in Japan to grow since the domestic market is generally saturated and competition is keen. When you think about expanding your market, you have to go global. Japan doesn't have 49 other states as U.S. companies have when looking for expansion. Also procurement from outside the country is a key strategic decision to make, since China is dangerously closer for Japanese companies than U.S. companies to ignore. While participating in the global marketplace is a necessity, it really is a great challenge for the buyout fund.

So to look ahead, the buyout market is waiting to happen and it's in the initial stages. Europe took many years to develop its buyout market, and so it will be in Japan. The key factors for success in Japanese buyouts, quite different from those in the United States, boil down to three major points. The first is to develop a real deal flow to get started. Second, to establish a governance system after you have purchased a firm. And third, to execute global strategies to achieve extra returns. In order for the Japanese buyout business to really pick up, we only need to have a few good deals. Although it may take some years, the possibility is certainly there, as the economy and corporate society need this business for their own future.

Discussion

Mason: Allow me to take the privilege of the chair by asking the first few questions. Joe, in your remarks you said that although you believe Asia presents the next great geographic opportunity for the buyout industry, some of the first or early movers might run into trouble there. Could you expand on those comments by sharing with us your views on Asia as a target of opportunity but also an opportunity fraught with significant risk for the buyout business?

Rice: My experience in putting an office into Continental Europe, or at least in the United Kingdom, suggests to me that it's infinitely more difficult to translate or transport American ideas to Asia than any of us ever might have suspected. There is a tremendous language barrier. There is distrust of American management methods. We are inevitably viewed as outsiders—and all of that makes investing very difficult. I think Mr. Yoshida would underscore the idea that it's probably very difficult for an American to make a deal in Japan these days, and I would guess that Japan is clearly the most fully developed economy in Asia at this point in time.

It's just experience that makes me say that. For example, there's tremendous charisma about being in China. And simply because of that, a lot of organizations will go to China, make some investments, and find out they won't work out quite right.

The buyout business works best in jurisdictions where you have respect for the rule of law and contracts, where you don't have civil unrest, and where your political affiliation has absolutely nothing to do with whether or not the deal is going to

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be successful. Now, I don't think any of those apply in China, and therefore, I think that it's a very high-risk area.

The above-mentioned things are not characteristic of Japan, although I will say that there seems to be a general distrust there of Americans. There has been some legislation either proposed or passed on the basis of the Long-Term Credit Bank of Japan/Shinsei Bank transaction that's designed to capture some of that money. So to me, all of that says that you should tread very carefully.

Mason: Mr. Yoshida, you worked at Clayton, Dubilier & Rice for two years to learn the buyout business from the inside. What is the most important thing you learned during your time at CD&R?

Yoshida: That's actually a very difficult question to answer. Certainly, the technique of structuring things can be learned from textbooks, but I learned how to have a career as a fund manager. If you make an investment, you have to stick with it for three, five, or possibly ten years. So the fund manager has to be ready for any kind of situation to arise in the meantime, and that's something you can't learn from textbooks. So you have to know the basic, fundamental techniques and how to apply them in every situation, every country, and be ready for surprises. If there's any trouble, you have to be ready to go over to the company, talk to the CEO. That's the most important lesson I learned during my time at Clayton, Dubilier & Rice.

Question: Mr. Rice, now that the industry is moving to consortium deals, will it find itself vulnerable to anti-trust litigation for things like price fixing, bid rigging, and collusion?

Rice: That's a request for a legal conclusion, and although I'm not qualified to answer that technically, it's an interesting thought. Any transaction of any size starts off as an auction. Some of the price-fixing stigma is taken away because it's offered to a variety of different people. I suspect that the participants in the auction can legitimately claim that they have an obligation to their limited partners to produce a portfolio that has a variety of different investments, and to that end, they limit the amount of any particular investment in the portfolio.

Question: Mr. Rice, as a non-Asian, when you talk about Asia, do you regard Asia as a whole region or do you divide it into different countries? I think when you do that, there's a lot of political risk. So when you make your judgment, do you take that into consideration?

Rice: Probably not. You're asking me a forthright question so I'll try to give you a forthright answer. Asia, as far as I'm concerned, is somewhere that's way out there. I'm showing just how parochial I am. I've been to Japan a number of times. I've never been to China. I've never been to any other parts of Asia. So the general statements I make about Asia are true insofar as I reflect the American feeling of inadequacy of visibility to do business there.

I do think that language is a tremendous barrier and I think that's true virtually anywhere. I've gone to Europe and I know how big a barrier

Mark Mason

it is there, and yet many there speak English. I know the problem is that even though senior management speaks English, the factory workers don't, and they're the ones you want to go talk to in order to find out what's going on. I'm sure the same is true in Asia, and if not, at least that's my perception. I do think that we will find, at best, ambivalence toward American management. Europe has a very different social contract than the United States, and I suspect Asia has a very different one as well. So Asians and Europeans legitimately can say to themselves, "Are these people who are about to buy our business going to treat our workers the way that we are accustomed to?" Culture, I suspect, is a tremendous barrier.

Yoshida: I have some comments on that about Asia. If you try to buy a business in Asia that's only a domestic operation, that's okay. But if it's a manufacturing firm, let's say in Japan, you also have to think about the relationships with China, Korea, Taiwan, and maybe Thailand, because those areas are very much related. So fund managers have to think about the complex situation and relationships of Asia in order to invest there. Asia is an integrated area, so you have to be careful about the relationships between the various countries and cultures.

Question: There are reports that some hedge fund managers are getting into the buyout business due to the diminishing returns in the capital markets. How will this trend affect your future investments?

Rice: There's a lot of chatter about hedge funds, but I don't know that there's much action. Frankly, I haven't seen hedge funds do anything except participate in transactions that were managed by conventional buyout firms that have been around for a long time.

I believe most hedge funds have a right of redemption, in that the limited partner can be redeemed every month, every quarter, every year, or every two to five years, but there is a finite period after which the limited partner can say, "Give me my money." That concept is basically foreign to the buyout business. We think of investing in businesses for six, seven, or eight years. I think that, over time, you may find that the business is not as attractive to hedge funds as they may feel it is right now.

It may well be that all the chatter about the buyout business is simply a reflection of so much money going into hedge funds that they no longer are able to find the spreads that they once found. Therefore, they're searching for something else to do, but whether or not they're going to find it in the buyout business I think remains to be seen.

Take a look at what Eddie Lampert has done with K-Mart and Sears. That's certainly a different thing and very akin to, but not the same thing as, a buyout. He took over K-Mart, as I understand it, by taking a big position in defaulted bonds. I think the idea of buying public securities, which you can presumably sell at some price, is far more characteristic of hedge funds than doing very involved transactions with capital structures when you buy a business in its entirety.

Mason: There are fund managers at some buyout firms who are now considering—or have already created—companion hedge funds under their existing umbrellas. I think it's because they would like to have the flexibility to invest in deals that they cannot now invest in through their existing LP arrangements. Some people argue that it's very logical to try to create a second vehicle with more flexibility, while others argue it's a different skill set.

Rice: I think it's a different skill set. Quite frankly, I think that the buyout firms that form hedge funds really are looking for another pool of capital to manage. We all charge fees for managing pools of capital. The more pools of capital we have, the more fees we have. In theory, that's at least better. I'm not sure that there are any skills in the buyout business that are particularly attractive to the hedge fund business. We're all analytical, but no more analytical than the people that you find in hedge funds.

Question: Compared to the United States, do you see a difference between the European and Japanese capital markets in terms of the urgency for corporate managers to show earnings? I think the latter two have a longer timetable. And how would this impact the potential yield flow for buyouts?

Yoshida: In Japan, there still aren't a lot of shareholders that act in the proper way in a Western sense. So companies don't really get pressured enough to think about positively restructuring subsidiaries or whatever. If there was more pressure, I think there would be more business for the buyout industry. So this is something that will happen in the future in Japan.

Rice: You can see the impact in Europe already. There's a new generation of managers who think about their companies very much the same way that Americans think about their companies. They're concerned about stock prices, and right now, they're all concerned about takeovers and are figuring out ways to stay away from the American capital market. But there isn't any question that they're concerned about stock prices.

Question: Mr. Yoshida, I understand that the Industrial Revitalization Corporation of Japan (IRCJ) has to sell more than 30 companies over the course of three years. Does this constitute a buyout opportunity?

Yoshida: The IRCJ is a quasi-governmental body that, in my personal opinion, is not really a driving force for the development of the buyout industry in Japan. If you look at the list of companies that they're purchasing, some of them may be famous names, but they mostly rank number two or lower in the industry they belong to. Many of them are very small. They are not in a main line of the companies that buyout funds wish to acquire.

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Question: Given the corporate attitude towards divestitures in Japan, do you think there would be more opportunities for a buyout business to go through public securities like bonds or stocks—whether it be a hostile or friendly takeover? Would that be something that you would actually consider doing?

Yoshida: Yes. In the past three months, there have been so many articles about hostile and friendly takeovers due to Live Door's attempt to take over Fuji Television. This is a great way to educate the public about takeovers and it's a huge opportunity. It'll be very interesting to see what happens next.

Mason: Recently I spoke with some managers at a couple of the so-called "activist" firms focused on Japan. There's one such firm run by two Japanese entrepreneurs who raised about a billion dollars to pursue their activist approach. This is a strategy that many predicted would not work in Japan, yet I was told that their firm has done more than a dozen deals and appears to be prospering. I was also surprised to find that some 52 percent of all the money backing that particular activist fund came from established Japanese financial institutions. Do you think Japanese activist funds will become a significant part of the buyout picture in Japan in the years ahead?

Yoshida: I can only say that there's finally some social recognition that these funds exist. It is too early to tell how effective such funds will be in Japan.

Question: What is your opinion as to what Japan's buyout market will look like five years from now?

Yoshida: I think the first phase is now underway. There will be some winners and losers, but there will be more opportunities. Thus, we will gain a much clearer picture of the buyout industry in Japan around year 2010.

Rice: I'm not sure that U.S. buyout funds will ultimately determine that Japan is the place to be. I think some firms might choose China or India instead. If resources are finite, perhaps Japan's market will grow, but I suspect that many Americans will have gone someplace else.

Question: If I recall correctly, Clayton, Dubilier & Rice has yet to invest in Asia. Do you plan on doing so, and what has to change before you do?

Rice: I think it's almost inevitable that this firm will want to go to Asia. Where they go, however, is unclear to me. I've encouraged them to start thinking about it now rather than later since I'm very much affected by my experience in Europe. It took a long time to get the European office up and running the way it ought to be. We ought to start right now in Asia. Starting to me means going out once every quarter and spending a week and developing relationships with people. Then, you can hopefully be in a position to think about putting an office in. In the best of all possible worlds, you would hire someone who has an Asian background who can be taught the business the way you believe it. If you're on the ground in five years, that would meet my time schedule.

Mason: Allow me to ask this next question on behalf of many of the Columbia Business School students in the audience this afternoon: What are some of the key skills or other qualities one needs in order to have a successful career in the buyout business?

I'm not sure that U.S. buyout funds will ultimately determine that Japan is the place to be. I think some firms might choose China or India instead.

—Joseph L. Rice III

Rice: You need to be bright and hardworking, because most of the organizations are small. It's a little bit like being in a firehouse. If there's something to do, everybody turns to it and you do it until it gets done, even if that means working 24 hours a day, seven days a week. You have to be prepared to do that because the opportunities are relatively few and far between, and if you have one, you really don't want to let it go.

On the other hand, you have periods of downtime, too. You have to be able to adjust to this very odd rhythm that exists in the business. Sometimes you'll come to the office and there will be nothing to do. You still go out and turn over rocks and make phone calls, but sometimes no matter what you do, nothing works.

Don't ever underestimate personality. We are all out there selling all the time and that, in many aspects, is what distinguishes the successful from the unsuccessful. Our job is to convince you that whatever it is that you want to do, you would rather do it with us than the competition. Thus the ability to relate to people, to be a person who people trust first, is a tremendous thing in our business. There's a time in every transaction where there's a shift in the balance of power. As long as the seller has an auction, he's got all the power because he's going to pick one of all of you out there. The minute he has picked you and announced it, the leverage is all on your side because he is truly exposed. He's told people about the sale, so more than anything else, he needs to see the transaction go through as advertised. Being able to convince people that you are trustworthy, that you mean what you say, that you will deliver on the promises that you have made, and that you will not try and renegotiate terms later is a tremendous asset to have.

バイアウト業界の発展：日米比較

2005年4月7日、コロンビア大学ビジネス・スクールの日本経済経営研究所オルタナティブ投資プログラムは日米のバイアウト業界の類似点・相違点に関する洞察を深める為の講演会を開催。ニューヨーク本拠のバイアウト・マネジメント会社クレイトン、ダビリアー＆ライスの会長ジョセフ・L・ライス三世氏と、米国三井物産株式会社の金融市場本部 シニア・ヴァイス・プレジデント吉田勉氏の2名が講演を行った。オルタナティブ投資プログラムのディレクター、マーク・メイソン博士が司会を務めた。 以下は、本講演の抄訳。

1990年代後期、日本の金融界にはふたつの大きな潮流が起こっていた。 メディアの関心はもっぱらITバブルの勃興と没落に向けられていたが、明らかに投資家の関心をより引いていたのはプライベート・エクイティーの定着だった。 幾多の日本企業が、経営の内実 ー 子会社の問題や高い債務比率も含め ー のディスクロージャーをついに開始した時、米国のプライベート・エクイティーの多くが強い関心をもって状況を見守った。 事務所設立や合弁事業を進めるものや、距離をおいて傍観するものもあった。 問題を抱えた日本企業は多数にのぼり、多くのプライベート・エクイティー企業が活発な取引、ひいてはバイアウトからの堅調なリターン、を期待した。しかし、その後の10年間、日本のプライベート・エクイティー業界において大規模な取引はほとんど行われなかった。 初期の投資家のなかには、他のアジア市場に逃避したものもあれば、欧州での取引に資金を転じたものもある。 日本で何が起こったのか、もしくは起こらなかったのか？ プライベート・エクイティーとバイアウト業界を活性化する鍵は何か？

元弁護士でもある、バイアウト・マネジメント会社クレイトン、ダビリアー＆ライスの会長ライス氏は、1960年代から米国のバイアウト業に携わり、当時は平均数百万ドルだった取引額が数十億ドル規模に発展するのを見てきた。 米国のバイアウト市場の発展を促した要因には、金利上昇、資本市場における利回りの伸び悩み、およびプライベート・エクイティー取引全般に対する資金供給の増加、など多数挙げられるが、それに加えて、企業による積極的な合理化策の採用も市場の発展および取引増加に貢献したと、ライス氏は指摘した。 バイアウト取引の最も有利な点は、売却された会社に対する支配権の獲得であり、リターンを高めるために、経営陣の入れ替えおよび経営構造全体の改革を行うことができる。 ライス氏は、米国では多くの大規模ファンドの参加により市場が飽和状態になりつつあるため、今後業界のリターンは各社軒並み同レベルになると予測した。

ライス氏の下、クレイトン、ダビリアー＆ライスに2年間勤務した吉田氏は、日本のバイアウト業界は今後5年間の発展第一段階においてさらに拡大すると予想。 今日、日本での取引はほとんど無いが、忍耐が肝要、と吉田氏は説く。 日本のファンドマネジャーで企業経営経験を持つ者はほとんどいない一方、日本の企業経営者の多くは未だに企業収益、ましてや株主価値に寄せる関心が薄い。これらの要因が積み重なり、日本のバイアウト業界が未成熟にとどまっている原因となっている。 吉田氏は、日本のバイアウト市場の創設に必要な三大要素として、企業が破産できる環境整備、企業コミュニティの標準化、および呼び水となるような大型取引の実現、を挙げている。

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