

Japanese CVC design issues in 1996 - a historical perspective -

May 5, 2016

Hironobu (Hiro) Tamaki

Professor & Head of the Department
Graduate School of Business
Prefectural University of Hiroshima

Case study

- Mitsui & Co.'s CVC in US in 1996
- A case study written by me under the supervision of Prof. Josh Lerner, HBS.

Issues - 1

- Fit with the sponsoring organization (in terms of strategy and culture)
- Mismatch between sponsoring organization's strategic time horizon and fund life (quarterly vs. 10 to 12 years)
- Strategic investments vs. Financial investments
- Skills to manage fund and portfolio companies

Issues - 2

- Compensation structure of rotational personnel
 - Salary
 - Term (10-year fund life vs. 3-5 year rotational period)
 - Carried interest (and, therefore, claw-back)
 - GP's contribution to the fund
 - No rotational personnel ➡ Less strategic integration
- GP vs LPs
 - GP's portion is high ➡ no leverage ➡ low return
 - LPs' portion is high ➡ no strategic investment
- Deal flow: Start-ups prefer "no strings attached"