

Buyouts

PERSONALITY PROFILE: STUART BAXTER LEADS RIVERSIDE'S ASIAN EXPANSION

By Bernard Vaughan



Stuart Baxter

Company: The Riverside Company

Title: Managing Partner

Vacation Favorites: Hiking in Big Sur, Calif., or fjords of Norway; scuba diving in South Pacific

Hometown: Palo Alto, Calif.

Residence: New York, San Francisco, Tokyo, airplanes

Education: BA Economics, Stanford University

Stuart Baxter's New York office is spare. Just one picture adorns the wall: a generic photo, which Baxter didn't pick out, of an empty boat on a placid stream. On the floor is his duffel bag, zipped and ready for the gym.

It's not that Baxter dislikes interior decoration. It's just that the managing partner at **The Riverside Company** has been busy crisscrossing Asia to spearhead the firm's expansion there and to pave the way for closing its first Asia fund. In April 2007, under Baxter's direction, the firm opened its first office in Tokyo, and in October it opened another in Seoul. In February, Riverside made its first investment in the region, acquiring Shinsouki, a Japanese parking lot operator.

Baxter recruits the firm's Asian staffers, teaches them the firm's culture, finds deals and manages companies. It's a difficult task replete with long flights, extended stays in strange locales, and language barriers that can result in an occasional unintentional insult. Baxter should be familiar with this drill: He's been instrumental in transforming Riverside from a North American firm to arguably the world's most successful buyout shop targeting the lower mid-market.

Riverside plans to hold a first closing this summer on its first Asia fund, which has a \$100 million target. It expects to invest the fund over two to three years, adding new

markets with each successive fund. Along with Korea and Japan, the firm is open to doing deals in Singapore and Australia, and may open offices there within two to three years. Baxter said that, ultimately, there is no reason why the size of the pan-Asia business couldn't rival that of Riverside's North American business.

But first things first. The biggest challenge for Baxter is finding the right people to staff the offices in Japan and Korea. All must be gregarious go-getters who like working in groups and who would rally around a Riverside culture that has seen very few professionals leave over the last 20 years. Baxter scours other investment firms and consults banks in his search for talent. Expect close to half of the hires to be native general managers and CEOs, or consultants from multinational organizations, with decades of experience. "We want 'gray hair, or no hair-left' guys who have seen it all," Baxter said.

On the financial and transacting side, Riverside also plans to hire junior associates with, as Baxter said, lots of hair and raw intelligence, and to spend several years training them to invest in the Riverside mold. By the end of the year, Baxter anticipates having five professionals in Japan and four in Seoul. Riverside will annually add about two to three people to the offices as it closes new deals.

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A Fork In The Road

Baxter's up to the challenge, judging from his prior experience. In the mid-1990s, Riverside faced a choice. It had built out its North American operations, managing \$68 million from offices in New York and Cleveland. The senior partners felt they had a choice either to do bigger deals, like many other firms had done, or to expand geographically.

Bigger deals didn't mesh with the firm's strength in buying companies from entrepreneurs. These entrepreneurs are often aging and looking to cash out, a trend that was burgeoning in the 1990s and continues today, as baby boomers retire. Riverside found similar trends in Europe (and, recently, in Japan). Also, much of Eastern Europe was ripe for private, international investment as it underwent post-communist privatization. Further, Europe offered mature economies where Riverside could make control leveraged buyouts.

Rejecting the idea of taking Riverside up-market, **Stewart Kohl** and **Bela Szigethy**, Riverside's co-CEOs, decided to expand to Europe and to recruit a partner to lead the charge. They found Baxter through a headhunter in 1997.

At the time Baxter was director of **Crimson Capital's** Czech restructuring and privatization group, a position he held from 1995 to 1997. For 12 years before that he worked at the Al International Corporation, a U.S.-based holding company for a wealthy Kuwaiti family. There, he learned how to invest in and manage companies, skills that would come in handy at Riverside. "I think I have a good understanding of what the CEO and CFO are going through because for many years I performed those functions," Baxter said.

Baxter also learned valuable lessons orchestrating Riverside's expansion into Europe. The importance of good translators was an early one. In 1998, shortly after Riverside bought Spofa-Dental, a Czech company that makes dental supplies, the CEO retired. Shortly after that, Baxter found himself attending a meeting with some dour-looking managers. "You all look glum this morning," Baxter joked. "They looked shocked," Baxter recalled. Later, he learned

that they thought he had said they looked "stupid" that morning.

Ivan Oliva, an executive Baxter recruited to lead Spofa-Dental, describes Baxter as a well-rounded teacher who can talk "about a thousand things," as well as about business. While well-rounded and friendly, Baxter did not hesitate to make difficult decisions: Riverside laid off about 260 employees after it bought the company, which was state-owned until 1994. (It eventually added 160 new workers, established sales and market-

RIVERSIDE ASIAN EXPANSION PLANS

- Targeting \$100 million for first fund
- Planning first close this summer
- Offices in Tokyo and Seoul
- Targeting companies in Japan and Korea with enterprise values less than \$150 million
- Is open to deals in Singapore and Australia and may eventually open offices there
- Planning to open office in China this year to facilitate business for its portfolio companies; expects to source deals there in three to five years

ing departments, and introduced the role of project manager.) "He understood it was clear we had to do it if we would like to change the direction of the company," Oliva said. "On the other hand, he felt the problems of the people."

Antonio Cabral, a Riverside managing partner who oversees the firm's European activities and whom Baxter recruited in 2000, describes Baxter as unfailingly patient. "I remember him interacting with management in Central Europe eight, nine, 10 years ago," he said. "Management quality was not that strong. ... He communicated well and didn't get irritated with people because they didn't understand a concept."

The decision by Kohl and Szigethy to hire Baxter has paid off handsomely. Riverside has

invested in 22 companies in Europe from eight offices, and now manages some \$459 million through three European funds. Between its U.S. and European businesses, Riverside manages \$1.7 billion.

Ten years on, having built out its European practice, Riverside sees a lot to like in Japan, Korea and Singapore: large numbers of sellers, banks willing to finance deals, stable laws to enforce property and contractual rights, and plenty of skilled professionals. Many firms adjust their investment models to do deals in India and China, where minority investments are the norm. By contrast, Riverside seeks markets where it can pursue its buyout model.

Road Warrior

Baxter can expound on the differences between public transportation in New York and Tokyo and about the "magical, medieval city" of Prague just as easily as he can describe implementing a U.S. investment model in new continents. But ask him where he lives, and he's stumped: "I really don't have a home base."

Baxter keeps an apartment in San Francisco and New York (and, pretty soon, Tokyo), but he spends 90 percent of his time traveling. Baxter enjoys it. The long flights—he prefers international to domestic—give him a chance to catch up on work-related reading. "I really enjoy the process of going into different cultures and trying to understand how to navigate our business model in these environments."

Baxter keeps routines to maintain normalcy, such as staying at the same hotels in each city and exercising at the same gyms. "I do find that if I set up routines ... the chaos of constant travel becomes manageable," he said.

It looks like he'll need to find some new favorite hotels, because Riverside continues to expand, and Baxter continues to lead the way. Besides Singapore and Australia, the firm also plans to open an office in China to help Riverside companies do business there. In about three to five years, the office is expected to start sourcing deals. "I'll probably be spending much more time there," Baxter said. ♦