

# GOOD

DISCOVERING THE SECRETS TO  
ORIX'S 50 YEARS OF SUCCESS

# RISKS

DAVID W. RUSSELL

WILEY

# **Good Risks**

***Discovering the Secrets to ORIX's 50  
Years of Success***

**David W. Russell**

Epilogue by  
Yoshihiko Miyauchi, Chairman,  
ORIX Corporation

**WILEY**

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*For my parents, who encouraged me to read, and especially  
my  
mother, who passed on her addiction to the printed page.*

# Contents

[Acknowledgments](#)

[Note](#)

[About the Author](#)

[Introduction](#)

[Chapter 1: New York, the Money Center](#)

[A Trusted Advisor](#)

[A Professional Money Manager](#)

[Note](#)

[Chapter 2: Dallas, the Nerve Center](#)

[Orient Leasing and ORIX DNA](#)

[Millions Become Billions](#)

[A Bicultural Banker as CEO](#)

[Notes](#)

[Chapter 3: Dublin, the Flight Center](#)

[Corporate Culture](#)

[What Makes Us Special](#)

[Notes](#)

[Chapter 4: Sydney, Plus Thoughts on India](#)

[India: Challenges and Rewards](#)

[Chapter 5: Singapore, the Gateway to Asia](#)

[Asian Markets Today and Tomorrow](#)

[Note](#)

[Chapter 6: Tokyo, the Global HQ](#)

[Coming Home to Japan](#)

[Inside Story](#)

[Chapter 7: Getting the Background](#)

[American Seeds, Japanese Soil](#)

[Why Can't We Do This Overseas?](#)

[Note](#)

[Chapter 8: ORIX Hits a Home Run](#)

[Quality in Services = Equality at Home](#)

[Note](#)

[Chapter 9: China, a Learning Experience](#)

[The Chinese Ex-Bureaucrat](#)

[The Japanese Ex-Manager](#)

[The Real China Story](#)

[Chapter 10: The President on Strategy](#)

[Finding a Comfort Zone](#)

[China: No One to Blame but Ourselves](#)

[Korea: Different Challenges](#)

[The Business of Energy](#)

[From Localization to Global Expansion](#)

[Note](#)

[Chapter 11: Meeting the DNA](#)

[A Journey Above the Clouds](#)

[Hits and Misses](#)

[Today and Tomorrow](#)

[Note](#)

[Chapter 12: Baseball Friends](#)

[Note](#)

[Epilogue](#)

[Two Quibbles about This Book](#)

[What Is the ORIX Way?](#)

[Note](#)

[Index](#)

[End User License Agreement](#)

# Acknowledgments

As with most works involving large quantities of research, many people contributed to the production of this book. Like any hack writer, my first instinct is to blame them for all the mistakes and shortcomings of the present work, and failing that, to blame my editor. Unfortunately, both of my research staffers, the interview subjects, and the overseas editor are all first-rate in their respective fields. By default, then, the responsibility for this book falls on the author. Any errors, mistakes of interpretation, or misunderstandings of any kind were mine and mine alone.

To properly thank all the people who helped bring this project to completion would require a second book, so I will simply highlight those who stand out in my memory.

First, my good friend in New York City referred to here only as “James.” His work requires that he remain anonymous, but I want to thank him anyway for kicking my butt when the time was right and for introducing me to a vast, globally active corporate group that I had never heard of before. With that, I have paid my debt, and the next time we meet, the wine is on him.

On a more serious note, I want to thank all the executives in the ORIX Group who generously gave of their time to meet with an unknown journalist and answer his foolish questions. Chronologically, let me extend my sincere thanks to Scott Beiser and Bob Hotz at Houlihan Lokey and Bill Michaelcheck at Mariner Investment Group, both in New York City; to Nishitani Hideto,<sup>1</sup> Kawai Noboru, and Brian Prince at ORIX USA in Dallas; to David Power and his amazing team in Dublin; to John Carter in Sydney; Soh Kim Soon in Singapore; and Liu Guoping of ORIX China.



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And last, but most important, a very, very special thank-you to the chairman of ORIX Corporation, Yoshihiko Miyauchi. Many years ago, another Japanese CEO told me that the greatest executives treat everyone, even the company janitor, like an important guest. His words, poorly translated, mean, "The higher your status, the deeper you

bow.” I never forgot that lesson, but it was Miyauchi-san who showed me how true this is. In many ways, this book is for him.

## **Note**

1. All Asian names are given in the traditional order, with the family name first, with two notable exceptions: The chairman of ORIX has lived and traveled extensively outside of Japan and is fluent in English. Overseas, he normally presents his name in the Western fashion (Yoshihiko Miyauchi), which is how I refer to him throughout the text. Also, the baseball star known as Ichiro, who has made his home in the United States for several years, is referred to as Ichiro Suzuki in Chapter 8.

## About the Author

**David W. Russell**, President of Russell Communications International, is a bilingual teacher, author, and corporate communications specialist who has lived in Japan on and off for 30 years. In 1996, he formed RCI to help Japanese companies improve the quality and scope of their global corporate communications, and over the past two decades he has advised many of that nation's largest public and private institutions. He is a frequent lecturer and often presents (in Japanese) at management seminars, such as those run by the Osaka Stock Exchange. He still consults and speaks regularly, but devotes much of his time to writing. David has authored more than 10 books and dozens of magazine and newspaper articles, including pieces for *Forbes*, *The Economist*, and *Harvard Business Review*. Among various awards, one of his books was named Best Business & Management Book of the Year in the United States. He divides his time between a home near Mt. Fuji and offices in both the United States and Japan. He can be reached at [david@russellcom.jp](mailto:david@russellcom.jp).

# Introduction

Every book is a conversation of sorts, and reading requires some level of personal commitment, not just of time but of attention, much like the commitment we make when we listen to a friend begin to tell a long story. And just as in conversation, I believe that every reader has a right to know who they're talking to before they make that commitment. Although this book is not about me, I've tried to make it as personal as possible to allow general readers to experience this journey as I did. So it helps to know a little bit about the "I" who is narrating the experience.

Although I was born and raised in the United States, I have lived part of my life overseas, mostly in Asia and largely in Japan. I am a writer by trade: I make my living by hunting for interesting stories and finding ways to tell those stories in various media. I'm certainly not a businessman, yet I find the world of international business fascinating. A few decades ago, I started out as a journalist and somehow drifted into business journalism. I've always had a nose for a compelling story, and when I find a story that needs telling, I'm willing to do some digging to learn more. I have looked into many kinds of stories, mostly for magazine and newspaper articles (remember magazines and newspapers? *Sigh . . .*), but also for several books I have either written or coauthored.

As a background to this book, it's also important to know that I've had a long-standing interest in Japanese business. After college, I learned to speak Japanese badly, and then went to Tokyo to live for a few years and polish my language skills in the myriad bars and clubs of that teeming city. It was in Japan that I got my first job working for a business newspaper, the *Nihon Keizai Shimbun* (*Nikkei* for

short, often called the Japanese *Wall Street Journal*, a comparison that both sides detest). Although I spent several years working and living there, Japan remains a mystery to me: One of the largest, most powerful economies in the world, vying with nearby China for influence, it is small enough that it could pass for just another insignificant province in China. To put it another way, Japan is smaller than the state of Montana, but unlike Montana, roughly 80 percent of the land is mountainous and nearly unusable for either agriculture or industry, which means its entire population, roughly the equivalent of one-third of the U.S. population, is squeezed into an area the size of maybe 20 percent of Montana. How such a tiny nation, with almost no natural resources, could become a major global power has always fascinated me.

Many years ago, when U.S. companies were up in arms about the Japanese industrial groups called *keiretsu*, which at the time seemed to pose an unfair barrier to international trade, I discovered that there was very little reliable information available in English about these enormously powerful groups and a growing mountain of rumor and misinformation. So I linked up with a Japanese partner in Tokyo and set out to uncover the truth about the *keiretsu*, a story that became a major book in its time and won all sorts of awards.

For years, I have also been particularly interested in the growth of transnational companies—the global giants that call one country home, sometimes only for convenience, but do business comfortably in dozens of other countries, moving capital, personnel, and physical assets from one place to another at will. One of the first industries to “go global” was the financial services business. Banks, investment banks, brokerage houses, commodities traders, and others were quick to realize that money flows internationally every second of the day, and no one stops to

ask for its passport. Moreover, as the world was linked by faster and faster communications systems in the late-twentieth century and their business was supported by ever-faster, more powerful computer systems, the financial companies realized that they must become truly global businesses. Not international companies, which is how thousands of firms in every major nation describe themselves these days, because being “international” simply means having offices in New York and London and Hong Kong and Dubai, which is a no-brainer for big companies these days. Simply having overseas offices doesn’t make you a global player, and the financial firms understood that. Some of them had networks around the globe more than a century ago. So what? Being international, they came to realize, is just a matter of renting real estate; but being global is something very different. It’s a matter of perspective.

Becoming a truly global firm means undergoing a fundamental change in thinking, and that is what we see more and more companies doing today: giving up their roots in a particular country or market and looking at the biggest big picture. They begin to think: We’re not an American company or an English company or a Japanese company because those labels are all limitations on how we conduct our business. Now we exist beyond national borders and beyond the culture where we were born; our executives could be Indian or Chinese or French or Brazilian—it really doesn’t matter because nationality is a limited form of thinking that we left behind us. The company is our identity, and the company is everywhere, an independent nation-state of commerce. IBM got this idea long ago, but the U.S. computer industry as a whole did not.

One American industry that did get it is, as I noted before, the financial industry. We began to see some of the big

banks and particularly some investment banks growing at a phenomenal pace, and many of them did deals that were not in the best interests of either major investors or clients in their home market. Was anyone surprised? Hardly. Such companies exist for their own benefit; clients are just a tool to help them grow, and clients are often still encumbered with nationalistic thinking.

I am no longer a reporter with deadlines and a need to pump out a “big” feature once a month, so I have long since given up chasing the next multibillion-dollar scandal (although the financial industry seems to breed scandals like rabbits). However, I am interested in business, especially the global financial services business, and I still have many good contacts on Wall Street. At loose ends for something to write, I was fortunate to stumble across a credible source with an interesting story to tell about Goldman Sachs, not only the best-known of the investment banks, but a firm now widely regarded as one of the perennial puppet-masters in American politics. I had plenty of information on hand, plus independent sources to verify it, and naturally I began to think about developing the story into a new book.

And so it was in the spring of 2013 that I found myself once again in New York City’s Financial District, an area now synonymous with trillions of dollars’ worth of securities, commodities, and foreign exchange transactions that churn daily through myriad Wall Street firms (most of which are not actually located on Wall Street, but it’s a handy term). Most Americans, even most New Yorkers, forget what the area known today as the world’s leading financial center was really famous for centuries ago—it was the seat of political power when the country was first founded. President George Washington was inaugurated right there on Wall Street, and the very first U.S. Congress met nearby back in 1789. Over the two centuries that followed, money

trumped politics as the real source of power, hence the current celebrity of this small parcel of downtown real estate. I'm sure if all the Wall Street firms were to pack up and move across the river to New Jersey, this area would still be known as the Financial District for decades to come.

I was downtown this day to have lunch with an old friend, the CEO of a small shareholder surveillance company that has contacts in every major financial capital worldwide. I have known James for more than 20 years, and he has provided me with good advice and great information more times than I can count. He asks only two things of me: that I keep his real name and his company's name out of whatever story I am writing, and that I never take him to a restaurant without a decent wine list. With those provisos, he's always willing to let me tap into his awesome memory and even more impressive corporate database to dig out information on hidden shareholdings, hostile takeover bids, and so on. In addition to being a good friend, James is an endless source of trivia, mostly because his work brings him in touch with all sorts of things that very few people in the financial world know anything about. Shareholder surveillance is a highly specialized field, a kind of financial detective service aimed at identifying a company's actual stockholders. You might think that a publicly traded company would know who its shareholders are, but in a surprising number of instances, you would be mistaken, and so are they. Even companies that think they know for certain the identities of their top 20 shareholders are shocked to discover that one or more of the names on their shareholder registration lists is a complete fiction—often a proxy for some investment fund that doesn't want its name to appear on the public shareholding record.

Thus, if you are the CEO of a small high-tech company, for example, or a small pharmaceutical firm with some interesting products in the research pipeline, and suddenly



discover that significant blocks of your stock are trading day after day, you have to assume that your firm may be the target of a mergers and acquisitions (M&A) bid. You are, in the parlance of the Street, "in play." Someone is planning to accumulate a large chunk of your stock and then launch a takeover bid for the remainder. Not surprisingly, many companies that find themselves in that situation hire shareholder surveillance (sometimes called "shareholder ID") firms such as James's to investigate and monitor who owns their shares on a weekly or sometimes even a daily basis. Any decent ID firm can tell you exactly who is buying your shares, even if the investor has gone to great lengths to cover his tracks, using anonymous-looking account numbers at various international brokers to buy the shares. Small firms often worry that a larger firm in their sector might use several different fund names, often based in different countries, to mask their buying. Then, when the predator has acquired enough stock, he can pool all his different accounts and suddenly appear on the little company's registry as its number one or number two shareholder. Of course, that activity often violates stock trading rules, but in M&A transactions, buyers routinely ignore such regulations, often with impunity.

There are only a few companies that can determine who is actually behind suspicious trading activity, regardless of who the ultimate buyer happens to be, and my friend James runs one of them. I have asked him on several occasions exactly how he accomplishes this remarkable feat of global detective work, and his response is usually no more than a Cheshire cat smile. In his business, that information is roughly on a par with nuclear launch codes. However, the U.S. Securities and Exchange Commission's (SEC's) basic policy is that shareholders deserve to know as much as they can about the companies in which they invest, so the shareholder ID firms have been allowed some leeway to

practice their trade. That means James is a walking encyclopedia of information about what global investors are doing, both on and off the record. I figured he was the right person to give me background material that I could use for the new book I was planning to write about Goldman Sachs. Hence, my invitation for him to join me at what I'd heard is one of his favorite lunchtime hideaways, a famous steak house just off Wall Street.

Although I was 10 minutes early, I found James seated comfortably at a table to one side of the restaurant with a strategic view of both the bar and all the patrons entering or leaving. Why was I surprised? Wall Street is as much about people as companies, and James had a mental Rolodex that headhunters would kill for. I also noticed that he had already taken the liberty of ordering a bottle of expensive Italian red wine and had a large glass gripped firmly in his oversized hand. He rose to greet me, with a big smile and an even bigger handshake. "So, Russell, you must want something or you wouldn't have brought me here," he said.

I confessed that I was thinking of starting a new book and I wanted to bounce some ideas off of him.

"And maybe get a little information on a couple of companies while you're at it . . . ?"

"James, I'm hurt. How could you even imagine that I would come looking for under-the-table info on what certain listed companies were doing?"

"Well, it wouldn't be the first time." He was still smiling. I assured him that that was not the kind of information I wanted. What I really wanted was his opinion and guidance. But we would get to that later. My plan was first to ply him with some excellent steak and expensive red wine, his favorite bribe. I could see he was already ahead of

me in the wine department, so after we ordered our steaks, I made a valiant effort to catch up.

Gathering what was left of my wits after several glasses of good Barolo, I outlined my plans for a new book, one involving a hint of scandal along with the usual cast of high-rollers, local politicians, hedge fund managers, secretaries of the Treasury, underworld figures, and more. It was not strictly about Goldman Sachs, but the investment bank appeared prominently among the dramatis personae, which would provide some grist for the publisher's marketing mill. Yet James seemed visibly unimpressed with this artistic tapestry I was painting.

"Listen. So much has been written, both good and bad, about companies like Goldman," he said, looking down at his glass. "Not just books, but mountains of magazine stories and tens of thousands of blog pages. Do you really want to add to that mess? Do you really think you have a new angle, a new story, something that's never, ever been written before?"

Of course, I had something unique and, to my mind at least, special, but his point was well-taken. What I had wouldn't be enough to hang a whole book on. And the ground was so well-trod at this point that any new book, even if it were solely focused on Goldman, needed to be sensational just to get a modicum of attention. So James's question was left hanging in the air over our almost-finished steaks. At first I thought I'd have a snappy answer, but as I sat there, contemplating the wine in my glass, I realized that he was right. Another "me-too" book, no matter how interesting or heavily researched or well-written, was not what the market wanted and, more importantly, not what I wanted to be doing. As usual, I wanted to be working on something different, something original, and if possible, something

with a Japanese business angle because that was my old “beat.”

As we finished our main course, ordered some cheese and another bottle of wine, our conversation wandered to the usual topics—M&A, upcoming takeover bids, creative accounting, which investment banks were doing what, and so on. In the process, James mentioned a deal he was researching for a client that involved an investment bank I’d never heard of. I asked him to repeat the name. Houlihan Lokey, he said. Nope, that’s a new one on me. I asked James to tell me about them, and two things caught my attention right away: First, they were not based in Wall Street or Greenwich, Connecticut, or any of the usual “gold coast” communities where hedge funds and boutique investment banks cluster, but in super uncool (from a financial industry perspective) Los Angeles; second, they had recently been ranked the number one advisory firm for U.S.-based M&A transactions up to \$3 billion.

Of course, deals under \$3 billion are not the gigantic headline-grabbers that you hear about on the evening news. But the gigantic deals are few and far between; there are many more small (under \$1 billion) and medium-size (\$1-5 billion) deals on the table, and the companies that advise on lots of those deals are rewarded with a very substantial and more stable income than the fat-but-infrequent fees on the big-elephant deals. Not surprisingly, you’ll find most of the usual names elbowing each other to get a piece of all three pies: big, medium, and small deals. That means Goldman Sachs, Barclays, J.P. Morgan, Merrill Lynch, Morgan Stanley, Citi, Deutsche Bank, and a dozen other big-name firms all have their snouts in the trough. To discover that a smaller, lesser-known firm based in L.A. was coming out ahead of the big boys in some ranking—any ranking—made me smile. I asked James about them, and he said as far as he knew, they’d only taken the under-\$3

billion category for the first time recently, but they had owned the under-\$1 billion category for the past seven years.

Seven years is a long time to stay number one in anything as competitive as the M&A services market, and now it sounded like this little L.A.-based firm had beaten the Wall Street heavyweights so completely that it dominated the \$1 billion-and-under market, and was now moving up to the \$3 billion market. I liked the sound of that, and especially because they were not an old-boy firm from the Financial District.

I still felt a kind of emptiness, having lost my moorings at the Next Big Financial Biz Scandal Pier. Now I was drifting again, a writer with a head full of wine but without a story to tell. I wasn't actively looking for a new one yet, just following my instincts and picking up interesting information whenever I happened upon it. Then James surprised me again: "You of all people should be interested because I'm pretty sure Houlihan Lokey is connected with some big Japanese financial group."

He was right; that did spark my interest.

*Which group? Nomura? Daiwa? Those are the two biggest brokers in Tokyo.*

Nope, he shook his head.

*Not a broker? Well, then, maybe the Bank of Tokyo-Mitsubishi UFJ, the flagship of the old Mitsubishi keiretsu, which now owns a big chunk of Morgan Stanley, or maybe Sumitomo Mitsui Banking Corporation, another giant bank, which long ago invested half a billion dollars in Goldman Sachs?*

No, he said, it wasn't a big bank, either.

“Something called ORIX. I’m not really sure what they are, but I know they’re big. Don’t you know them?”

Of course, I’d heard the name ORIX while I was living in Japan, but I had to tell him that I couldn’t remember much of anything about them. Searching my memory, the best I could come up with was something to do with car rentals, and that didn’t sound like the global colossus he was referring to.

If there’s anybody in this town who knows exactly who owns what, James is the guy. He looks at hundreds of corporate shareholder lists every day. I told him to get his brain in gear and tell me something about ORIX. Are they traded in New York? Do they own stock in any other U.S. companies? Had he seen their name on any shareholder lists that he could remember?

He scrunched his forehead for a moment and looked out the window. Brokers and secretaries were hurrying back to work, and I noticed the tables around us had begun to empty. James picked up his glass slowly.

“If I’m not mistaken . . . ,” he began, which was a joke because he was never mistaken about things like this, “. . . they’re listed on the NYSE, and they also have a stake in one of the local hedge funds.” Then, before I could ask, he continued: “I think it’s Mariner.”

I looked blank.

“They’re not huge, but not tiny, either. Good rep in the industry. I think they were based out in Westchester County somewhere, but they’ve got an office in Manhattan. Look ‘em up and see if I’m right.”

*Wait . . . what you’re saying is that a Japanese company I’ve barely heard of owns a big chunk of one of the top investment banks in the United States and also a mid-sized hedge fund here in New York?*

“That’s right. Come to think of it, I think they’ve got a couple of other companies, but you’re already taxing the limits of my offline database.” He tapped the side of his head, smiling. “Call me at the office and I’ll dig out some names for you.”

*Why haven’t I heard of them?*

“I don’t think anyone’s ever heard of them. Hey, you’re the specialist at researching Japanese companies. Why not do some digging? The ORIX Group could turn out to be interesting. Just looking at the caliber of firms they’ve got their hands on in New York and L.A., I’d say they’re smart, very well-capitalized, and pretty damn strategic about where they’re putting their money.”

So my Goldman Sachs book died over the lunch table, and a much more interesting story began to unfold.

# Chapter 1

## New York, the Money Center

I met James again a few days later. This time, I noticed he was carrying his favorite tool, a leather portfolio with a small ring binder on one side for writing notes and a mini iPad secured on the other. All the various pockets were stuffed with business cards, note cards, pens, and so on. As promised, he'd done some quick digging. He flipped through pages of notes in the binder.

“Houlihan Lokey is many things, but it’s particularly well-known on the Street as an advisor in financial restructuring.”

*What does that mean exactly?*

“Well, they help both distressed companies and the creditors of distressed companies manage equitable repayment of debts. Just in the past decade or so, Houlihan has been an advisor in almost all of the top bankruptcies in the United States.”

*That sounds significant.*

“It is. It means they’re not a niche player. They’ve helped to clean up the mess after some major blow-ups: Think Lehman Brothers, Enron, WorldCom, Consec, and a bunch of others. Of course, they were not the only firm involved—financial restructuring usually involves lots of players—but it means they’re up there with the big boys.”

*How far up there?*

“Well, there’s a list called the Global Distressed Debt and Bankruptcy Restructuring Rankings. The most recent



figure I have shows them ranked the number one financial advisor.”

*Over who?*

“Over Lazard, Rothschild, Blackstone . . . all the usual suspects.” He looked up from his notes to make sure a lowly outsider such as myself had gotten the point. “These are some very serious players we’re talking about here, and Houlihan is getting ranked ahead of them.”

*So what about the M&A rankings you mentioned?*

He looked at his notes. “Again, I don’t know the inside story; all I can do is quote the rankings, but in this year’s Thomson Reuters M&A Advisory Rankings for U.S. Transactions Under \$3 Billion, they were listed as number one.”

*Who was number two?*

“Goldman Sachs. And behind them were Barclays, J.P. Morgan, Merrill Lynch, Lazard, Morgan Stanley, Citi, Deutsche Bank, and a whole bunch of other firms big enough to eat Houlihan Lokey for lunch.”

Now I was impressed.

“Wait, I’m not done. Obviously, the key table inside the industry is the one I just mentioned, the ranking in terms of deal volume. But there’s one that also carries some weight outside the industry, meaning clients and prospective clients take it very seriously. That’s the Global M&A Fairness Advisory Rankings. Before they put billions of dollars at risk and sign away millions more in fees, clients like to see who they can trust to advise them.”

*You aren’t suggesting that clients don’t always trust the big investment banks who charge those handsome fees?*

“Perish the thought,” he said with a smile. “We all know that the investment banks are pillars of ethical conduct.”

*Preaching to the choir. So trustworthiness is a key differentiator from the client’s perspective.*

“Well, expertise, market clout, and fee structures are very important differentiators, don’t get me wrong. But when all is said and done, clients like to trust their advisor to give them good advice and not to be working both sides of the street. So some people take those fairness rankings pretty seriously. And in that important category Houlihan has scored number one for . . . I’m pausing for effect . . . the past decade.”

*Pretty impressive.*

“Very impressive.”

I was growing more and more interested in this company. I could cold-call them and get an appointment to talk to someone, but I’d be starting at the bottom with some PR flak and have to work my way up to a C-level manager, and I didn’t want to waste the month or so that would take. More than that, I would have to fly to L.A., where the firm is based, and kill time there trying to get appointments with the senior executives. I hadn’t even decided if Houlihan was worth considering for a story, so I asked James if the firm had a New York office. Stupid question. Every major financial-related business this side of Neptune has at least a rep office in New York. Next question: Could he possibly save me some time and get me an appointment with someone senior at the firm?

“How did I know you were going to ask that?” He was already pulling a cream-colored note card from his portfolio. “A good friend of mine knows the CEO, a guy named Scott Beiser. I hear he’s a good guy. Call this number, mention this name, and see if you can catch Scott

when he's in New York. No, don't bother to thank me. Lunch is on you . . . again." He smiled as he got up to leave.

## **A Trusted Advisor**

About 10 days later, I stepped out of a cab on Park Avenue, half a block north of Grand Central Terminal. Looking up the street, I could see a line of high-rent steel-and-glass office towers chock full of banks, brokers, and financial companies and, almost hidden among them, the Waldorf-Astoria Hotel and St. Bartholomew's Church. Walking up a few steps to my right and entering one of those office towers, I found my name was already on a list at the Security desk and I was soon being directed to the offices of Houlihan Lokey, Inc. Thanks to James's connections, I had managed to bypass the PR staff and all the lower rungs of the executive ladder. I was shown into a suitably expensive-looking conference room and, before I could even sit down, a distinguished-looking fellow sporting a dark suit and a big smile came in to welcome me. This was Scott Beiser, CEO and senior managing director of Houlihan Lokey, in the flesh. I made a mental note to buy James another steak lunch. He shook my hand warmly and invited me to sit. So much for the image of aloof, inaccessible investment banks. He wanted to know why I had come and how he could help. The answer was simple: I wanted to know more about his business and, in particular, I wanted to know how that business fit into the global operations of something called the ORIX Group.

Scott is a cheerful guy and quite animated when he speaks. I could see he was happy to talk about Houlihan's business. Although I'd already done some background research, I asked him to give me a thumbnail sketch of the company's history. Leaning back in his chair, looking and sounding younger than his hairline suggested, he told me the story.