

AHEAD OF THE PACK

Palladium Equity Partners is fast becoming the most talked about financial institution in the Hispanic market. And it is already making waves on Wall Street and beyond. ■ *By Thomas Wenrich, New York*



■ Marcos Rodriguez, managing member, and David Perez, a managing director of Palladium Equity Partners

Spanish banking giant BBVA took more than a few financial market watchers by surprise last fall when it announced it would be the lead investor in a new \$500 million fund managed by Palladium Equity Partners in New York. According to BBVA, it will be the largest private equity fund focused on the U.S. Hispanic market. All of a sudden, Palladium has stepped out of the shadow of its larger competitors and is now leading the race to finance this decade's most touted growth market.

Founded in 1997 by Marcos Rodriguez, a money manager with a Wharton MBA, this middle market buyout firm has been just one in an ever more crowded field. While Palladium has declined to comment on the new fund, BBVA has enthusiastically touted its investment. According to the bank, it has committed to invest 24.9 percent of the fund or up to \$150 million, depending on the ultimate fund size. Total commitments at the time BBVA made its announcement had already reached \$290 million, including money from Calpers - the largest public pension fund in the country-, the New York State and Local Retirement System, and the Los Angeles Fire and Police Pension Fund, according to a BBVA press release.

Palladium is one of about 200 middle market private equity (PE) firms in the country and targets investments of \$15 million to \$50 million in companies with sales of \$25 million to \$500 million. Palladium does not invest in start-ups, but does provide growth capital for young companies, as well as financing for Management Buyouts (MBO) of more mature companies, and invests in turnaround situations.

When *Hispanic Business* magazine started adding up the sales numbers of Palladium's portfolio of companies as if it were a conglomerate (private equity firms do not consolidate the accounts of the companies in which they invest like a holding company would), Palladium's \$844 million of combined revenue immediately shot them to number five on the 2004 list of the largest Hispanic-owned businesses, and Crain's has since identified them as the largest minority-

owned business in New York.

Palladium currently has \$500 million under management and since its founding has made only nine major investments, plus a series of bolt-on acquisitions to grow these core companies. Three of the nine investments have been successfully sold and the remaining six companies produce the \$844 million of revenue that puts Palladium on the list.

Three of Palladium's four partners are Latinos, including Rodriguez, David Perez and Alex Ventosa. The fourth, Peter Joseph, was a founding partner of the buyout firm where Rodriguez used to work, Joseph Littlejohn & Levy. As the opportunity in this market became more and more clear, Palladium began a concerted effort to institutionalize its Hispanic focus, starting in earnest with the hiring of Perez, Rodriguez's cousin, away from another PE firm, General

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Partners Marcos Rodriguez and David Perez are second cousins, both immigrants to this country from Cuba. While they each pursued separate careers in the world of Wall Street finance, they kept in touch regularly since first meeting when Perez arrived in New York in 1990. "Our families have always been close," Rodriguez says. "When David came to New York, he slept on our couch for two or three months before my wife finally kicked him out."

Rodriguez's family left Cuba in 1966 when he was five years old. After a few months in Spain waiting for a U.S. entry visa, they came to New York, where his father, a successful rancher in Cuba, found work as a waiter at the Plaza Hotel. Perez's family remained behind in Cuba,

and David didn't leave until 1986, when by virtue of his high marks in school, he won the chance to study abroad at the University of Dresden in then-East Germany.

At that point, the demise of communism in Europe was near, unbeknownst to Perez (and to most of the rest of us.) By the time he finished his degree, the Berlin wall had fallen and Perez hopped a flight to New York City, where he finally met his cousin Marcos Rodriguez for the first time.

"Germany was my venture capitalist," Perez says. "I had managed to save a little during school, but it was all in East German marks. They exchanged them two for one for Deutschmarks and so I landed in New York with less than \$3,000."

Perez soon obtained a scholarship to Cornell where he earned a Master's degree in engineering management while learning English at the same time. He later earned an MBA from Harvard and started his private equity career with Chase Capital Partners in 1997, working in Latin America. He left just before the height of the region's Internet boom, in which Chase was deeply involved. "I kind of kicked myself for awhile," he admits.

Perez left General Atlantic in 2003 to join Palladium full time. "There are relatively few Hispanic professionals working in private equity. David came on board in 2003 with a mandate to build on the Palladium infrastructure to help us ensure that we can hit the ball out of the park in the Hispanic market," explains Rodriguez.

(When asked about the irony of starting a career in private equity, perhaps the most extreme expression of capitalism, Perez jokes, "Well, Marcos always tells me that communists make the best capitalists.")

Far from being an opportunistic jump to the next big thing, Perez's move was part of a well-planned process that took seed back in 2001.

"The 2000 census was a big wake-up call for everyone," remarks Rodriguez. At first we didn't really think [the Hispanic market] was big enough, there weren't many [Hispanic] middle market companies in 1990. Today



■ **Founder Rodriguez is an outspoken advocate for increasing minority access to the capital markets.**

there are. Back then, \$15-50 million would have overcapitalized all but the largest of firms.”

Perez adds, “People started coming to us to talk about the Hispanic market. I thought it was a scam at first. I figured that the whole Hispanic opportunity might be like \$75 million.” But as the pair, each still in different firms back then, dug deeper into the data, they realized that they were on to something big. “One thing I learned at General Atlantic,

Rodriguez, who is also a vocal industry advocate for increasing access to capital for minorities, says not only are there few Hispanics working on Wall Street but Hispanic entrepreneurs don’t have the same access to the capital markets, creating a big opportunity for firms like his.

Perez explains, “In 2003 we saw a deal in the money transfer space. None of the PE funds on Wall Street was going to fund this three-person management

(food, media, consumer/retail, services and manufacturing). We compete with the firms that specialize only in those sectors, but we bring a horizontal overlay of the Hispanic perspective.”

So rather than being a PE firm with a fund to invest in the Hispanic market, Palladium describes itself as a Hispanic PE firm, which is not to say that that is the only thing they do: they still have investments in six large companies to watch over. “We are a top notch PE firm with a focus on the Hispanic market. We don’t want everyone here to be Hispanic; that’s not good for the business. Hispanics are like any other entrepreneur – aspirational. They don’t want to do business with the best Hispanic PE firm; they want to go to the best PE firm period. If that firm is also Hispanic, then that’s great,” Perez says.

Rodriguez describes three deals he is working on presently as examples for the different types of opportunities they have found. One is a Hispanic owned entity, and it needs to maintain its minority status yet needs capital to grow. “By coming to us, they can stay Hispanic,” he says. “Another one is owned by a guy who has been selling to the Hispanic market for 20 years,” simply an opportunity to capitalize on the growing Hispanic consumption. “The third business is really not a Hispanic deal *per se*, but the bulk of the team is Hispanic,” says Rodriguez, explaining that ethnic affinity and networking gave Palladium a leg up in negotiations.

While the partners at Palladium recognize that interest in the Hispanic market has begun to inflate valuations in some sectors like media or food, they believe they are still early in the game. Other sectors have seen little or no private equity activity, and the underlying demographic trends are so powerful that more and more large corporate buyers will have to start taking notice.

“More than 80 percent of the deals done to date in the Hispanic market have been in media. People get it in media. Just look at Univision, which is off the charts. But media has gotten expensive,” says Rodriguez, who has participated in two different radio build-ups (serial

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when you get a trend right, you make a ton of money,” says Perez. “And in 2001 we decided that the Hispanic market was one of those trends.”

According to Rodriguez, it’s not just about finding firms that target the growing Hispanic market, but also about finding opportunities with Hispanic-owned businesses in any sector. “One out of every three new businesses formed in this country are Hispanic owned. If you want to make money in this country, you have to target this market.”

team – three brown skinned guys with broken English. We had no issue with that: if they had a solid business, we would fund it.”

Rodriguez offers that the private equity business has become very competitive and highly specialized. “There are firms that focus only on one or two industries: for example Providence Equity in media, or Welsh, Carson, Anderson & Stowe in Health Care and Information Services. We have investment experience in five sectors

acquisitions). “When I started looking at radio in 1990, Spanish language stations were discounted 50 percent to English language ones. Today they carry a 100 percent premium!”

Asked about other sectors, Rodriguez offers, “Food has also been bid up to some extent, maybe another 15% of the deals have been in food. But people are still not looking at the opportunities in Financial Services or Health Care in the same way.”

When questioned about the fact that Palladium has yet to make an actual investment in the Hispanic market, Perez counters, “We have a firm dedicated to this market and the infrastructure to support it. We are not yet where we need to be, but we are farther along than our competitors, at least a couple of years ahead.” Perez and Rodriguez have preferred to take it slow and steady.

“In a couple more months I think we will have a lot more to talk about,” says Perez, who claims that the firm has been anything but idle during the past 12 months. “The deal flow we have seen in the last year is impressive. We have two companies under LOI, and three to six behind them in the pipeline.” Most importantly, “only one of the top six deals is competitive.”

Proprietary deal flow, which means they are the only firm negotiating to fund these companies, is the Holy Grail in the private equity business, where firms try to buy low and sell high. In other segments of the market it is now typical to see multiple PE firms competing to fund a company, or even an investment bank orchestrating an auction process to see who will pay the most money for the smallest share of the company.

Competition to buy Hispanic companies may not come only from other PE firms. “In three to seven years, analysts will regularly ask all the large corporations about their Hispanic strategy. We are already starting to see interest from the Fortune 500,” Perez admits.

Are there really still opportunities to invest on attractive terms? Perez and Rodriguez think so. “You’d be amazed

at how many companies are not there yet. More typical is the guy selling frozen enchiladas who gets a big order from Wal-Mart or Costco and needs capital to expand. His business may have a lot of inefficiencies, and the banks aren’t going to lend to him,” Perez explains.

Another interesting aspect of Palladium’s strategy is a network of what they call “Operating Executives,” experienced businessmen who can bring deal flow, sector specific insight, and the savvy that only comes from years of operating experience.



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“This is something we developed back at Joseph Littlejohn & Levy, and it is a real competitive advantage,” explains Rodriguez. “They are mostly individuals who are successful businessmen in their own right and already have a high net worth.” While they are not paid, they do get to co-invest in the deals on the same terms as Palladium.

Over the last two years, Perez has been working to recruit more of these advisors from the Hispanic market. Today Palladium has about 15 Operating Executives they can draw on, about half of whom are Hispanic, including Rafael Kravec, founder of French Fragrances (a company which has since taken over Elizabeth Arden); Jose S. Suquet, CEO of Pan-American Life Insurance Company; Frank Sanchez, CEO of Sanchez Family

Corporation; and Andrew Unanue, former COO of Goya Foods. “Very few people in the country know more about marketing Hispanic food than Andy Unanue,” says Rodriguez proudly.

“We knew that a couple of Cuban guys out of New York were not going to do that well in the national market. We put a lot of effort over the last two years into developing a network of top notch Mexican-American operating executives,” says Perez.

One of these is Moctesuma Esparza, Chairman and CEO of Maya

Cinemas North America, who met Rodriguez and Perez through the New America Alliance, of which he is a past Chairman and co-founder. “Moctesuma is very experienced in Hispanic entertainment and he has made a lot of money for PE investors in cable TV deals,” explains Rodriguez.

They have the cash, they have the infrastructure and the experience, and they have the network. Now all that remains to be seen is if they can make the dream come true. In the end it’s all about IRR. When asked where he preferred to focus, on the growing Hispanic consumer market or on Hispanic owned industrial companies, Rodriguez’s response is classic Wall Street: “Wherever we can make the most money for our investors.” ♦