

## INTERNATIONAL

# Argentine Buyout King Broadens Realm

## Exxel's Navarro Gets U.S. Investors to Finance Deals

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BUENOS AIRES — Latin America ought to be a great place for leveraged buyouts. There are plenty of inefficient companies whose owners would rather cash out than modernize. And some are in fast-growing sectors such as health care, retailing and consumer products that are ripe for consolidation.

But though buyout boutiques have proliferated, few have closed many deals and fewer have won broad backing from U.S. institutional investors. None has managed to persuade them to back an American-style LBO, with its emphasis on high risk and high return.

Until now, Argentina's Exxel Group next month will complete a \$435 million purchase of Norte SA, one of the country's largest supermarket chains, with 25 stores. Merrill Lynch & Co. will put the money up front, and Exxel will repay it by selling off \$215 million in equity and syndicating \$220 million in debt, more than half in the form of high-yield bonds.

"It's a breakthrough deal in Latin America," says Exxel President Juan Navarro.

### Confirming Popularity

It also confirms Mr. Navarro's standing as one of Wall Street's favorite partners in the region. Upon closing the deal, Exxel will manage \$540 million in mainly U.S. investment funds and will control a diverse portfolio of companies with sales of \$1.6 billion. Among its holdings: Argentina's biggest credit-card issuer, three electric utilities and a private health maintenance

organization that is the country's largest in terms of sales.

The Uruguayan-born Mr. Navarro, 43 years old, "can successfully navigate both the U.S. and Latin American business environments and that's rare," says Scott Mason, a member of Exxel's investment committee and a professor at Harvard Business School.

Mr. Navarro also was in the right place at the right time when he first pitched his idea of a buyout fund to Wall Street. Just as Mr. Navarro left a job running Citibank's private investment operation here, President Carlos Menem was beginning to aggressively liberalize an economy devastated by five decades of state control.

Not everyone saw the opportunity this presented. The cocksure Mr. Navarro, who is fond of cigars and suspenders, was turned down by Goldman, Sachs Inc., among others. But he won a hearing at Oppenheimer & Co., which agreed to help him raise capital to invest at his discretion.

Private Oppenheimer clients, including Jack Nash and Leon Levy, operators of hedge-fund Odyssey Partners L.P., and Robert Wilson, a well-known short-seller, pitched in \$47 million to get Mr. Navarro started. "Raising the money required a major leap of faith," says Oppenheimer President Nathan Gantcher. "It wasn't for everyone."

In fact, Exxel didn't close a single deal in 1992, its first year of operation. But the following year, Exxel paid a total of \$17 million for a half-dozen household-products businesses. The sellers were families that wanted to cash out or corporations that were streamlining.

### Welding and Streamlining

Mr. Navarro and his team welded the companies together, cut jobs and the number of customers, and modernized everything from accounting to deliveries. In December 1995, Exxel sold the combined company for \$95 million to Clorox Co.

Exxel's profitable foray into the world of cleansers and tissues, which contributed to a better than 40% return on the investment, made it easier to draw in new investors, Mr. Gantcher says. A second pool raised by Oppenheimer in 1995 brought Mr. Navarro \$155 million and some investors who were decidedly less risk-oriented — including Brown University in Rhode Island, the Weyerhaeuser Corp. pension fund and Riverside Church in New York.

Mr. Navarro used part of those funds to buy up four HMOs, which run some of the toniest hospitals in Buenos Aires. Again, Exxel streamlined the firms and merged them into a company with \$220 million in sales — just as Mr. Menem announced health-care reforms that worked to its advantage.

Later in 1995, Exxel raised \$95 million to buy a controlling stake in Argencard SA, the licensee for Mastercard International in Argentina and Uruguay.

"First, you make money operationally and then financially," Mr. Navarro says. "That's the way you have to do things in Latin America."

That's because things have a way of spinning out of control here. Exxel only broke even on a paper-products investment when its partner crashed after credit evaporated in the wake of the December 1994 Mexican devaluation. The shock waves from the peso's plunge also dashed an initial public offering of the consumer-products company in Buenos Aires.

Exxel's flexibility and tenacity in completing deals give its investors comfort in a part of the world where talk can be cheap. "What Juan is doing isn't rocket science, just common sense," says James Seymour, a vice president of the Common Fund, Westport, Conn. "He picks good investments and, just as importantly, he knows how to get out of them at a profit."



Juan Navarro