

## Editor's Choice, Private Equity: Exxel's Exit from Emdersa

Exxel \$435 million sale of Emdersa

Seller: The Exxel Group • Buyer: GPU International

**M**any private equity firms can boast about a number of acquisitions in Latin America. But few can claim to have achieved what is considered the real sign of success in this business: a profitable exit. That was particularly true between January and June. Indeed, according to industry observers, only one major sale took place during that period, and that was Argentine private equity fund the Exxel Group's sale of electric distribution company Empresa Distribuidora Electrica Regional (Emdersa) for \$435 million.

Nevertheless, selling at a profit in early March when the deal was closed couldn't have been easy, particularly considering that markets were still reeling from Brazil's devaluation in January. Still, says an Exxel Group spokesman, the private equity firm managed to hit a 60% internal rate of return on this investment, despite the fact that shares of power distribution companies had dropped 30% around the time of the sale.

Exxel had built Emdersa by consolidating three electrical distribution companies in Argentina's provinces, which it bought in privatizations between 1993 and 1996. The idea was to buy into the less competitive privatizations in Argentina's interior, where the larger international players were less likely to tread.

"Our investment strategy is to buy high quality established companies and make them better. We put in place an aggressive plan vis-à-vis revenues," said the spokesperson. "In addition, we bring in very good management and usually provoke a change in strategy and vision."

"It was a good strategy to acquire these small electric distribution companies in regional Argentina, which on a stand alone basis were too small, and put them into one business," said Tim Purcell, a managing director at JP Morgan.

And although Exxel thought that the most likely exit strategy would be an IPO, it decided to sell the company to strategic players. "As long as we executed our business plan, the companies were attractive not only for an IPO but also for strategic buyers," said the Exxel spokesperson.

In the end, four companies showed a serious interest in the company, with US energy firm GPU International winning with a \$435 million bid. PSEG Global came in second with a bid of around \$380 million. Tom Smith, president of PSEG Americas, a wholly-owned subsidiary of PSEG Global, says they submitted the bid because they already had operations in Argentina and wanted to see if they could get Emdersa for a good price.

"GPU decided, confusingly to me, that they were strategic entry assets to the Argentine market and were willing to pay, in our opinion, a strategic premium," said Smith.

Says GPU communications manager Elaine Davis, GPU's strategy is to leave the merchant generation side of the business and enter distribution. And this acquisition was part of that strategy. Moreover, she says, that the companies were very well-managed and are experiencing electric demand growth rates of 6% a year. "We paid full price, but not as high as others in recent times," she said.