

## ARGENTINA

# 'I BET THE RANCH, AND I WON—ABSOLUTELY'

Juan Navarro is the buyout king of Argentina. Now, he aims to conquer the whole region

From his elegant, modern offices in one of Buenos Aires' few skyscrapers, Juan Navarro enjoys a vista of the ornate monuments and balconied facades of the city below. He keeps an even sharper eye on Argentina's fast-growing economy, spotting companies that need capital to survive the toughening competition. On trips to the U.S., the Uruguayan-born financier persuades prominent investors, from Bankers Trust Co. to Princeton University's trustees, that there are big profits to be reaped from buying into cash-starved family businesses in Argentina, turning them around, and selling them for hefty gains.

Navarro is "extraordinarily effective at selling his vision," says David L. Anderson, managing director of investment banking at CS First Boston. Indeed, Navarro's persuasive manner has helped him build Argentina's first private equity buyout firm, Exxel Group, into one of the country's largest privately owned holdings, controlling 38 companies with combined annual sales of \$3 billion and profits of \$500 million.

**RUTHLESS.** In building this empire, Navarro has won both respect and enmity. He is a hard-nosed dealmaker in a country where business is based on friendship more than results. His restructuring of companies often costs about one-third of workers their jobs. "A lot of people hate his guts, and a lot really respect him," says Steven Darch, CEO of ING Barings Argentina and a former partner in Exxel. While admirers compare Navarro to U.S. buyout pioneer Henry R. Kravis, detractors liken him to Gordon Gekko, the ruthless financier in Oliver Stone's film *Wall Street*. Navarro's description of his way of doing business is "anticipatory, flexible, and excellence-driven."

Now, the 45-year-old entrepreneur, who founded Exxel in 1991, is completing his largest fund yet. Capital Partners Fund V, an \$850 million pool that closed in mid-May, was oversubscribed by \$100 million and includes such biggies as Gen-

eral Motors Investment Corp. and the Ford Foundation. Navarro says Fund V will look beyond Argentina for opportunities throughout Mercosur, the trade bloc that also comprises Brazil, Paraguay, and Uruguay. Many of its participants are repeat investors from Exxel's earlier limited partnerships (table), which are designed to operate for 7 to 12 years before going public or selling out to strategic investors. So far, Navarro has raised \$1.4 billion in equity capital, mostly from the U.S., and has made investments totaling \$2.2 billion, including loans, in fields from supermarkets to health care.

Navarro's success has also triggered a spate of investments in Argentina by other private equity funds. Dallas' Hicks, Muse, Tate & Furst Inc. and Houston entrepreneur David Bonderman's Newbridge Latin America are among 20 groups that have been buying into family-owned conglomerates, small businesses, and privatizations of state-run companies.

By cutting costs and introducing professional management and new technology, buyout specialists such as Exxel have become major agents of change in Ar-

gentina. Exxel takes a 20% share of the profits from the limited partnerships and collects a 2% fee as payment for finding the deals, negotiating the buyouts, and running the businesses. Navarro owns 100% of Exxel's common stock but shares revenues equally with six other senior managers. "We're paid for performance," Navarro says. He puts his own money at risk by investing personally in each fund.

**BREAKING AWAY.** Navarro launched his buyout business with a gamble. As a rising young Citibank executive in the 1980s, he turned down an offer to head Citi's corporate banking in Argentina. Instead, he founded and chaired Citicorp Capital Investors Ltd.—the predecessor of today's Citicorp Equity Investment, a private equity fund 40% owned by Citicorp—using Citibank's \$1 billion in non-performing Argentine loans to swap for stakes in local companies.

In 1991, Navarro and a handful of Citibank colleagues decided to go it alone. They modeled Exxel Group on successful U.S. buyout firms such as Blackstone Group and Baine Capital. "I put 100% of my reputation and personal assets on an industry that was nonexistent in all of

## EXXEL'S BUYOUT DEALS

COMPANY ACQUIRED/YEAR	BUSINESS	MAIN INVESTORS	PRICE MILLIONS
ARGENCARD/1995	MasterCard franchisee	CIBC Oppenheimer, Chanel family, Bankers Trust	\$137
SUPERMERCADOS NORTE/1996	Supermarkets	GE Pension Trust, Travelers Insurance, Brown University	440
OCA/1997	Private postal services	Aetna, Ford Foundation, Caisse du Depot & Placement	450
INVERSIONES Y SERVICIOS, VILLALONGA FURLONG, INTER-BAIRES/1997	Trucking, duty-free shops, customs warehouses	Liberty Mutual, Massachusetts Institute of Technology, Kuwait Investment Office, Columbia University	155
MUSIMUNDO/1998	Music & electronics chain	Wellcome Trust, Turner Trust, Princeton University	230

DATA: EXXEL GROUP

Latin America and into an economy that was just turning around after showing a pathetic performance for decades," says Navarro. "I bet the ranch, and I won—absolutely."

Exxel's first investment, a group of five cleaning-products companies that Navarro bought in 1993, racked up a fat capital gain. Navarro paid \$22.5 million in cash and assumed debt, merged the companies, and built up the business—then sold it to Clorox Co. of the U.S. for \$95 million two years later. This year, Navarro expects to reap big gains from public share offerings of MasterCard licensee Argencard and a recently consolidated group of electricity generators in northern Argentina, while he is looking for a strategic partner for retail chain Supermercados Norte.

Argencard shows Navarro's knack for making a risky venture pay off. When Exxel took a 56% stake in the firm in 1995, the country's largest banks didn't

even issue the card, and leading retailers didn't accept it. Now, they do. Navarro brought in a manager from Citibank's Argentine consumer banking to run the business and shrank the payroll from 1,100 people to 650. Net income grew from \$26 million in 1995 to \$45 million last year.

Navarro is not without controversy, having attracted the attention of a congressional investigating commission. That's because of Exxel's \$605 million purchase in December of a group of companies involved in private postal services, trucking, duty-free shops, and airport customs warehouses. They are widely believed to have ownership links to Alfredo Yabrán, an accused organized-crime boss and the prime suspect in the murder of an Argentine magazine photogra-

pher last year. Yabrán has admitted to owning 10% of one of the firms, and documents point to a web of holdings involving Yabrán family members. "There is no doubt Yabrán owned them," says Juan Pablo Cafiero, a member of Congress who represents the opposition Frepaso Party and belongs to the Chamber of Deputies' Anti-Mafia Commission, which is investigating the December buyouts. Navarro says he bought the companies from their legal owners, not Yabrán, "so we don't need to apologize for who presumably owned these businesses."

**"GUTSY ENOUGH."** Navarro's investors, undisturbed by sensational headlines, also seem satisfied. "He bought a good business, and we are comfortable with it," says Ettore Biagioni, general manager of Bankers Trust. Adds Anthony Fernández, managing director of international banking at CIBC Oppenheimer Corp., a longtime investor in Navarro's buyouts: "He was probably the only guy

## NAVARRO'S WAY

“Anticipatory, flexible, and excellence-driven”

gutsy enough” to buy such politically touchy property. In Navarro's view, years of bad press had created “a historic opportunity to buy.”

Navarro now wants to expand some of his ventures throughout Mercosur, including Supermercados Norte and Vilalonga Furlong, a transport and warehouse company. Exxel's 1996 acquisition of Norte for \$440 million was Argentina's largest-ever purchase of a private company and Latin America's first U.S.-style leveraged buyout. To expand Norte's reach, Exxel recently paid \$55 million for four additional supermarket chains, and it is investing \$350 million to build 20 Norte branches by 2000. “If the economy is growing and cross-border opportunities appear, you are going to make a lot of money,” Navarro says.

Still, there are skeptics. Norte, for example, faces a scramble for market share against heavyweights such as Wal-Mart Stores Inc. and France's Carrefour. But if Navarro succeeds in his regional ambitions, it won't be the first time he has beaten the odds.

*By Andrea Mandel-Campbell in Buenos Aires*

