

The Buyout Baron of Argentina



CORPORATE PREDATOR: **JUAN NAVARRO**, CHAIRMAN OF EXCEL GROUP, HAS BOUGHT 73 COMPANIES SINCE 1993. 'WE ARE CLEARLY THE NEW ARGENTINA,' HE SAYS.

Backed by J. P. Morgan Chase and other big U.S. investors, Juan Navarro stalks firms laid low by recession.

By Helen Murphy

◀ From his penthouse office suite in Buenos Aires, Juan Navarro can gaze down on the city below and across the Río de la Plata to Uruguay, 30 miles away. What he sees also is Argentina's troubled economy. Navarro says he wants to buy companies laid low by recession.

At a time when many investors have abandoned Argentina's stock and bond markets, the 48-year-old financier has persuaded U.S. institutions such as the \$11.8 billion Ford Foundation and J. P. Morgan Chase & Co. that he can make money by buying struggling private businesses, turning them around and selling them. "Juan is clearly a driven man," says David Komansky, chief executive of Merrill Lynch & Co., another backer. Others say Navarro is widely feared because he doesn't shy away from purchasing companies linked to accused criminals.

In any case, Navarro delivers. Since 1993, when the Uruguayan-born millionaire clinched his first takeover, Navarro has realized a 62 percent return for his investors, he says. Argentina's benchmark Merval stock index has gained just 4.1 percent in that time.

Navarro's knack for spotting deals has turned him into Argentina's money magnet. Since he founded his buyout firm, Exxel Group, in 1991, he's raised \$5.5 billion and invested \$4.8 billion in areas ranging from power distribution to credit cards. He's bought and sold 73 companies, counting among his biggest takeovers a \$440 million leveraged buyout of supermarket chain Supermercados Norte SA in 1996—the first LBO in Latin America—and his \$200 million purchase of music retailer Musimundo SA in 1998.

Today, Exxel controls companies with combined annual sales of

\$4.1 billion and operating profits of \$492 million. Those businesses employ almost 30,000 people, making Navarro—Exxel's lone shareholder—Argentina's largest employer after the government.

A tough-talking deal maker who dismisses passive, minority investments as "crap," Navarro often buys control of companies and then fires a third or more of the employees to cut costs. At Emdersa, a power distributor he bought in 1993, he cut the workforce to 92 from 500, for example. A book about him by Silvia

Navarro has raised \$5.5 billion from investors such as J. P. Morgan Chase and New York's Ford Foundation.

Naishtat and Pablo Maas published last year captures his image with its title: *El Cazador, or The Hunter*. "I wouldn't want to work for him, but I'd be happy to have him work for me," says Betty Fagan, former managing director of the Ford Foundation, who has known Navarro since 1994.

Exxel takes a 20 percent cut of any profits and collects a 2 percent annual fee for managing the businesses it buys. That's long been the norm at U.S. buyout firms such as Kohlberg Kravis Roberts & Co. (KKR), but it was unheard-of in Argentina until Navarro founded Exxel, the nation's first private equity firm. "We are clearly the new Argentina," Navarro says.

The great grandson of two presidents of Uruguay, Navarro enjoys the trappings of success. He favors \$3,000 Italian suits, drives a gray Porsche 911 and usually smokes two or three Havana Punch Churchills a day. A soccer enthusiast, he owns stakes in a team in Argentina, one in Brazil and another in Uruguay, where he likes to relax at his family's ranch with his wife and two daughters.

Now, Navarro wants to expand his empire even as Argentina languishes in its third year of recession. He dismisses the possibility that the country might devalue its currency, the peso, which has been tied to the U.S. dollar at one to one since 1991.

A devaluation might spur exports and growth, but it could hammer returns for Navarro's dollar-based American investors. "I say there is no risk," he insists.

Not everyone is so sure. Argentina is now a ward of the International Monetary Fund, and some speculators are betting against the peso. The price of contracts that give buyers the right to swap 100 million pesos for dollars at the current exchange rate six months in the future—derivatives known as forwards—soared to \$10 million in April from \$2 million in January.

For all this, Navarro says he's managed to persuade such long-time backers and new investors as BellSouth Corp., Lucent Technologies Inc. and the state of Colorado to invest \$650 million in a new buyout fund earmarked for acquisitions not only in Argentina but also in Brazil.

Navarro has beaten the odds before. In 1986, when he was a rising commercial banker at Citibank, he turned down an offer to run Citi's corporate banking business in Argentina. Instead, he founded Citicorp Capital Investors Ltd., the predecessor of Citicorp Equity Investment, a private equity fund 40 percent owned by Citigroup Inc.

Playing a cog in the corporate wheel wasn't his style. "Even the manager of Citibank Argentina reports to the guy who reports to the guy who reports—" he says. Bristling for independence, he struck out on his own in 1991. Along with several Citi colleagues, he founded Exxel and modeled it on U.S. buyout firms such as KKR. He staked his own money in Exxel's first buyout fund and began soliciting investors on trips to the U.S.

It took Navarro two years to spot his first takeover target. In 1993, Exxel bought a group of five cleaning-products companies for \$22.8 million in cash and assumed debt. Navarro merged them and then built the company, Poett San Juan SA, into a \$480-million-a-year business. Two years later, in 1995, he sold it to Clorox Co. of the U.S. for \$95 million.

By then Navarro was already prowling for bigger deals. In 1995, he bought Argencard, a credit card network administrator,

for \$135 million; in 1996, he formed power distributor Emdersa. Not long after that, he spied Supermercados Norte, a supermarket chain he says he believed could expand its lead over mom-and-pop stores if given the capital to make acquisitions. Navarro pounced. Within two weeks, he'd struck a \$440 million deal with Norte's family owners, financing his purchase in part by selling \$130 million of junk bonds in the U.S.

Navarro says the Norte LBO involved so much debt that even he had doubts about whether Exxel could complete it. Five years on, his gamble has paid off. Navarro wound up selling 49 percent of the chain to Promodes

EXXEL'S BIGGEST BUYOUTS

Date of acquisition	Company Type of business	Revenue (in millions)	Price (in millions)
11/96	Supermercados Norte Largest supermarket chain in Argentina	\$2,300	\$440
5/98	Musimundo Music and consumer electronics retailer	320	200
12/97	OCA Private postal service courier	285	450
7/98	Devoto Hermanos Largest supermarket chain in Uruguay	230	130
11/95	Argencard Credit card network administrator	205	135
3/93, 8/96	Emdersa* Electric power distributor	160	112

*Sold in March 1999. Source: Exxel Group

of France for \$420 million and the remainder to France's Carrefour SA for an undisclosed price. He says the transaction generated an internal rate of return of more than 60 percent for Exxel.

No Exxel buyout has attracted more attention than the December 1998 purchase of two companies that many Argentines—and Navarro himself—believed were secretly controlled by an accused organized-crime boss. Police had named the man, Alfredo Yabrán, as the prime suspect in a murder.

Navarro recalls holding a conference call with investors to explain that he would buy the companies—OCA SA, a private postal firm, and Villalonga Furlong, which runs duty-free shops at the nation's airports—from their legal owner, not Yabrán, whose name appeared nowhere in the companies' documents. It was another gamble, this time political as well as financial. Yabrán had been accused before Congress of bribing judges, prosecutors and police; the allegations of corruption rose as high as Carlos Menem, the country's president from 1989 to 1999.

Navarro argued that no one else would touch the companies

because of Yabrán's alleged links to them, giving him an upper hand in negotiations. "I knew it was a good deal," he says.

Fagan, the former Ford Foundation executive, says Navarro was so persuasive that she and the other investors signed off with little hesitation. "We're all adults, so we said, 'Go for it,' and moved on to the next item on the agenda," she says.

Today, having deflected calls by some Argentine congresspeople for an investigation into Exxel, Navarro ranks the transaction as among his most lucrative.



A HUNTER AT REST: WHEN HIS DEAL MAKING IS DONE, NAVARRO OFTEN RETREATS TO HIS FAMILY RANCH IN URUGUAY WITH HIS WIFE AND TWO DAUGHTERS.

(Exxel still owns both companies.) "I'd definitely do it again," he says. Yabrán will never tell his version of events; the 53-year-old businessman, wanted for the murder of a photojournalist, committed suicide in May 1999 as police arrived at his ranch to arrest him.

After those buyouts, Franco Caviglia, a congressional deputy, issued a formal denunciation of Exxel in July 2000, saying the firm failed to fully disclose its dealings with the alleged crime boss. "There are many suspicions surrounding Exxel and Navarro because of the lack of transparency in some of its businesses," Caviglia says. No charges were ever filed against Exxel, and the allegations of corruption ultimately died with Yabrán.

Navarro says he has nothing to hide. And his investors stand by him. "In hindsight, the Yabrán deal was risky, but there seem to be no lingering doubts," says Brian O'Neill, Latin American chairman of J. P. Morgan Chase, an Exxel investor.

Navarro says he is angered, even hurt, by his predator image. He calls Exxel "an agent of change" that has brought professional managers, incentive pay and new technologies to Argentina. His firm has brought OCA and Villalonga Furlong, once tainted by alleged underworld ties, "into the world of accepted companies."

Make no mistake: Exxel is still on the prowl, Navarro says. "It's a company that moves and takes risks," he says. Juan Navarro should know. In Argentina, few play for higher stakes than he does—and few have beaten the odds so many times before. >

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EXXEL'S LARGEST INVESTORS

Aetna
Calpers
Chase Manhattan
Citigroup
Colorado State University
Columbia University
Deutsche Bank
Ford Foundation
General Motors
Liberty Mutual
MIT
Oppenheimer & Co.
Oregon State University
PPM America
Shell Pensions Management

Source: Exxel Group