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Latin Trade

YOUR BUSINESS SOURCE FOR LATIN AMERICA

The Latin Buy-Out King

Exxel's Juan Navarro reveals the strategy that is reshaping the way Argentina does business. His next target: the rest of Latin America.

EDITION 608

Argentina	$5	Guatemala	23 quetzales
Bolivia	19 bolivianos	Honduras	46 lempiras
Brazil	R$8.41	Mexico	$19
Canada	CAN$3.95	Nicaragua	US$3.50
Chile	$1,800	Panama	US$3.50
Colombia	$4,750	Paraguay	9,620 guaranies
Costa Rica	880 colones	Peru	12 Soles
Dominican Rep.	$54	Spain	$535 pesetas
Ecuador	17,650 Sucres	Uruguay	$37
El Salvador	31 colones	USA	US$3.95
		Venezuela	1,865 bolivares

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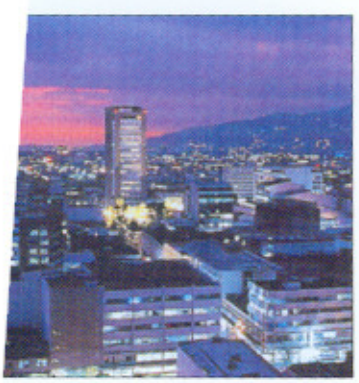
's a charismatic ancier who has con- nced prominent, mostly .S. investors that there is oney in buying cash- arved family businesses nd government privatiza- ons. He then turns them round and sells them for rofit. Meet Juan Navarro, Argentina's buy-out king. **Page 30.**



COUNTRY REPORT

High-tech Jackpot

These days, conversations about Costa Rica's investment and business climate begin and end with the same subject: Intel. The company's recent decision to stick its millions in this nation of 3.5 million people is reaping huge benefits and drawing more than Costa Rica's fair share of interest from other foreign investors. **Page 45.**

INDUSTRY REPORT

You Wish You Were Here

Latin America's tourism sector has put out the welcome mat, and both foreign visitors and foreign investors are flooding into the region, especially the markets in Brazil, Argentina and Chile. Even war-ravaged Central America is drawing a growing number of tourists searching for a bargain vacation. **Page 35.**

On the Cover: Photo by Gustavo Bosco, *Revista Noticias*.

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PHOTO: GUSTAVO BOSCO/REVISTA NOTICIAS (TOP); COURTESY JGR & ASSOCIATES (CENTER); SERGIO DORANTES

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has a 10–12-year life span before Exxel must divest, has already been used to acquire leading music store chain Musimundo, bread manufacturer Fargo, specialized sweets brand Havana, and a string of clothing and textile interests including the rights to name-brand Lacoste and Ralph Lauren/Polo for Brazil, Uruguay and Chile.

Perhaps Exxel's most audacious, and definitely its most controversial, acquisition to date was the $605 million surprise buy last December of private mail company OCA and its subsidiary Ocasa, along with Inversiones y Servicios, a holding company with stakes in exclusive airport duty-free and cargo-warehouse concessions. Both businesses were believed to be owned by reputed mafia boss Alfredo Yabrán, who committed suicide in May (see separate story in this issue). The sensational purchases have drawn doubt among members of the Argentine business community, as well as the suspicion of a congressional "anti-mafia" commission created to investigate government-related corruption.

"The deal was just too easy," says Christopher Eccelestone, strategist with Buenos Aires brokerage, Interacciones.

No excuses. But while the deal has thrown a measure of doubt on Navarro's golden-boy image, the unapologetic entrepreneur says he bought the companies from their legal owners, Hector Colella and Andres Gigena. "We buy companies from their legal owners and not from assumed theoretical owners of companies," says Navarro. "If, behind that, there is a conviction in Argentine society that these companies were owned by Yabrán, that's none of our business. Our job isn't to convince the Argentine nation."

Nonetheless, Navarro's job has been made more difficult since Yabrán, in letters left following his death, named Hector Colella, a longtime associate, as his business successor. Colella, who has since become the object of intense media speculation, remains as consultant to OCA for no less than one year and no more than two. The posting is normal Exxel procedure to smooth the ownership transition, says the group. Colella, with 24 years of experience at OCA, also provides invaluable management experience.

"Colella doesn't have executive functions," says Roberto Agulleiro, Exxel's new executive director for OCA. "This is an Exxel company now—Exxel manages it, all the commercial practices are Exxel's and all the standards are Exxel's."

Still, all the public exposure "isn't helping things," he admits. OCA's connection to Yabrán resulted in a 30% drop in revenues over the last three years and the loss of several large accounts including telephone companies Telecom and Telefonica. The company's compromised situation provided an opportunity to buy, says Navarro. "It requires a certain very gutsy decision to buy into the middle of a conflict. The situation created information gaps and we arbitrage information gaps."

Mega deals: A Musimundo store in Buenos Aires. The music and electronic chain store is part of Navarro's diversified empire that includes private postal service company OCA, bread manufacturer Fargo, retail chain Supermercados Norte, and Mastercard licensee Argencard.

Navarro's investors, warned about potential media coverage beforehand, agree. "We're not too concerned," says Jean Lamothe, head of private equity investments for Canadian cooperative bank Caisse du Depot et Placement. "As long as there is no direct implication in unethical, illegal things, as an investor we can't complain. The previous owners are not our concern."

The firm has hired U.S. image consultant Enterprise to boost its image, and Frank Holder & Associates, a representative of U.S.-based corporate security firm Pinkerton, to provide security.

Agulleiro is confident that with time, OCA can recoup all its lost sales and more. Already, since being acquired by Exxel, sales have shot up 20%—putting total sales at close to $300 million for the year, including Ocasa and recently merged transport company Skycab. The $1.1 billion Argentina mail market could also easily grow another 50%, he says. Argentines receive an average of 30 letters through the mail each year, compared with 750 in the United States and 450 in France, according to Agulleiro, who headed up the study of the privatization of Argentina's state-owned postal service, Encotesa.

Stiff competition. The postal company, which goes by the name of Correo Argentino, was concessioned last year to a consortium headed up by Francisco Macri and the British Post Office. Some analysts wonder how OCA will compete with the country's largest postal entity, which controls 45% of market share, compared with OCA's 25%. OCA, notes Agulleiro, unlike Correo Argentino, doesn't have to make onerous payments to the government of $104 million a year, nor is it obliged to invest $25 million in the next 10 years to restructure its antiquated system. Instead, the firm will undergo "substantial" cost-cutting measures that include consolidating plants, redesigning routes and switching its trucks from gasoline to diesel.

At the same time, OCA is looking to launch new products including parcel delivery and direct marketing, still virtually nonexistent services in Argentina. More ambitiously, the mail company plans to enter Argentina's telecommunications sector. The Argentine government recently announced it would double the number of basic telephone providers from two to four in 1999 and will allow three new public telephone operators. Macri's Correo Argentino has already signed a deal with Movicom, one of the two new basic telephone providers, and Exxel won't be far behind with its own deal, says Agulleiro, who was a senior partner at Coopers & Lybrand before making the move to Exxel in April.

But beyond telecoms, the real gamble is to expand regionally. Exxel has asked its investment bankers to screen all potential opportunities in Latin America. Musimundo plans to open new music store outlets in Chile and Uruguay sometime next

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PHOTO: MARCELA D'AMICO/FOCUS

THE ACQUISITION MAN

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year, followed by an expansion into Brazil. A cross-border move is also imminent for the home hardware chain, Blaisten, a Fund V acquisition that Exxel picked up last October.

"Our expansion plans are ambitious," says Roberto Devoto, Blaisten's newly installed chief executive officer. "We are definitely going to exceed the borders of Buenos Aires and Argentina."

Blaisten's sales this year will reach $140 million, up from $60 million last year, according to Devoto. While part of the increase is due to Argentina's booming construction sector, the five-store chain is on the verge of closing acquisitions in Argentina's heavily fragmented construction sector. Between acquisitions and newly built locales, Devoto estimates Blaisten will be opening five to six stores a year, at an investment of about $15 million to $20 million.

Navarro targets undermanaged companies in high growth sectors, cuts costs and invests capital to create value and boost productivity.

Exxel has followed a similar formula with Supermercados Norte, a leading supermarket chain. In recent months, Exxel paid $55 million to acquire four smaller-scale supermarket chains in outlying regions and is investing $350 million to build 20 new Norte branches by 2000. So far, the number of Norte branches has grown from 25 to 43, while net income has jumped from $47 million in 1996 to an estimated $100 million for this year.

Historic deal. When Exxel bought Norte in November 1996 for $440 million, it constituted the largest private transaction in Argentine history and was the first U.S.-styled leveraged buy-out in the region. It also put Navarro on the map. In less than 90 days, he was able to secure the financing—a $220 million bridge facility arranged by Merrill Lynch, $30 million in assumed long-term debt and $190 million in equity from his investors. Nonetheless, Navarro admits while he had modeled Exxel on leading U.S. leveraged buy-out firms, it's a tool in rare use in emerging markets like Argentina. Rather, says Navarro, he targets undermanaged companies in high growth sectors, cuts costs and invests capital to create value and boost productivity.

"In Argentina you can't get the same kind of leverage as [Henry] Kravis [of leading U.S. buy-out firm Kohlberg, Kravis and Roberts]," says Steven Darch, president of ING Barings Argentina and former Exxel partner. "Instead, you have to apply capital, managerial skills, scale and cost-cutting measures. Most of your return will come out of that, not leveraging."

To do that, Navarro put together a small team of experts to run Exxel. They include four ex-Citibank colleagues led by Jorge Demaría, a former Argentine undersecretary of privatizations. Other members of the team come from Argentina's steel conglomerate Techint and food company Mastellone. "This is basically a partners-only organization," says Navarro. "The people who work here are senior people, which makes for an extremely lean and flat organization and provides a flexibility that is unparalleled." Earnings gained from Exxel's 2% management fee and the 20% share of the profits it takes on each transaction are shared among Navarro and his six partners.

The local content has been the clincher for many an investor looking to choose among some 20 private-equity ventures that have since flocked to Argentina. "Local talent is very important to us," says Lamothe of the Caisse du Depot et Placement, which invested $25 million with Exxel's Fund V, the Canadian bank's first-ever incursion into private equity in South America. As proof of market knowledge, Navarro points to the fact that of the 38 companies Exxel has acquired, all but a handful were sourced and brokered by the group itself. "He is unique and the absolute leader in his field in Argentina," says Ettore Biagoni, managing director of Bankers Trust and an Exxel investor.

Several of those deals are now being used as case studies at Harvard Business School and Navarro is asked to give speeches about Exxel at U.S. universities like Wharton as well as leading Argentine schools. While the 45-year-old Navarro describes himself as a low-key family man, he takes well to the limelight. It's not surprising, given his family background, which reads like a page out of a South American history book. Two of his of great-grandfathers are former presidents of Uruguay and his grandfather was a vice-president. In Argentina, his mother's country of origin, Navarro counts former economy ministers, governors, famous writers and heroes of the wars of independence among his family.

Still, while Navarro's meteoric rise has garnered the praise of foreign investors, at home he is not always warmly welcomed. His direct, no-nonsense approach to doing business has not always gone down well in Argentina, where he is described as stubborn and difficult to deal with by some. To Navarro, that's just sour grapes. "These are people who would love to be able to do what Exxel is doing, but for one reason or another, they haven't been able to."

He'll soon get a chance to prove himself with plans to go public this year with Argencard, the MasterCard licensee for Argentina and Uruguay; and three recently merged electric utilities in Northern Argentina. Navarro confidently assures he'll get a minimum 40% return on his investments. Market observers are reserving judgment, since some assert Navarro has overpaid on a few of his acquisitions. Only market results will tell, but as far as Navarro is concerned, the odds are in his favor. ■

PHOTO: CARLOS GOLDIN/FOCUS