

Buyouts

2008

Deal of the Year

Awards



- BUYOUT FIRM OF THE YEAR
- BEST NEW FIRM
- MEGA MARKET DEAL
- LARGE MARKET DEAL
- MIDDLE MARKET DEAL
- SMALL MARKET DEAL
- EUROPEAN DEAL
- EMERGING MARKET DEAL
- TURNAROUND
- LARGE LENDER DEAL
- MIDDLE MARKET LENDER DEAL
- MIDDLE MARKET INVESTMENT BANK
- LAW FIRM OF THE YEAR

EMERGING MARKET DEAL OF THE YEAR AND DEAL OF THE YEAR: ACON Investments

ACON Shops Brazilian Supermarket For Huge Exit

SNAPSHOT:

Target: GBarbosa
Sponsor: ACON Investments
Price: \$421.1 million
Return Multiple: 16.3x
Hold Period: Two years, seven months
Buyer: Cencosud S.A.
Financial Adviser: UBS, Merrill Lynch
Legal Adviser: Cleary Gottlieb Steen & Hamilton

ACON Investments picked up a big return in aisle five.

Its ownership of Brazilian supermarket chain GBarbosa could well serve as a lesson in using experience and industry expertise to realize extraordinary returns in an emerging market. The Washington, D.C.-based buyout shop made 16.3x its money when it sold the company in November after owning it for two and a half years.

Let's first look at the raw numbers. During ACON Investments's ownership, GBarbosa expanded to 49 supermarkets from 32; its revenues increased to \$968 million from \$352 million; its EBITDA increased to \$38.5 million from \$17.7 million; and its head-count increased to 9,000 from 5,900. Further, the company is poised to succeed under its new owners because of initiatives begun under ACON Investments's watch. The company is expected in 2008 to generate revenue of \$1.3 billion and EBITDA of around \$58.2 million.

But to understand how ACON Investments achieved its stellar return, it's necessary to look at how it approached the company. Back in 2004, its former owner, the Dutch conglomerate Royal Ahold NV, wanted, in one deal, to sell both of its supermarket companies in Brazil—Bompreco and GBarbosa. ACON Investments had had success with a Colombian supermarket chain, Carulla Vivero S.A., which it sold to a large Colombian retailer in August 2006, and so took notice of this opportunity.

If taken down the right path, GBarbosa could eventually similarly be sold to a

large strategic buyer, reasoned Ken Brotman, partner, at the time of the deal. Bolstering that thesis, the buyout firm saw a growing population in the part of northeastern Brazil where GBarbosa locates its stores.

But for two reasons, executives at ACON Investments decided they could not bid for both companies. For one, they knew the firm couldn't outbid strategic players such as Wal-Mart that had the financial wherewithal to make offers for both supermarket chains at once. And secondly, from its experience in Latin America, ACON

Buyouts
awards
2008

Why The Deal Won

- The firm achieved an extraordinary return after a short holding period.
- Its experience in the region enabled it to bid, expand and exit the company in innovative ways.
- It improved the company and left it poised to improve further.

Investments correctly anticipated that Brazilian regulators would not allow the same buyer to own both companies.

As a result, ACON Investments was the only bidder that offered to buy one of the two companies for sale. Royal Ahold eventually sold GBarbosa to ACON Investments for \$46.6 million, including a \$28.3 million equity investment from the firm. (Wal-Mart ended up getting Bompreco.)

The firm was able to leverage the deal using techniques that were unique to Brazil, where banks at the time were unwilling to provide what in America would be considered typical financing to fund a buyout. ACON Investments convinced Credit Suisse to take GBarbosa's accounts receivable from its credit-card business as collateral for its four-year term loan. ACON Investments then securitized these receivables, which provided working capital. ACON Investments identified other assets that would

help it save money; for example, it sold 50 percent of GBarbosa's credit card business to Bradesco, a local bank, for more than twice the EBITDA multiple ACON Investments originally paid for it.

To improve GBarbosa, the firm concentrated on low-cost, high-return investments such as improved lighting, installation of meat departments and fresh bakery counters. It also introduced products such as washers and driers that sell well in areas experiencing population growth. "We invested where they had been underinvested before," Brotman said.

As a result, the company generated same-store sales growth in each of the last three years of 18.3 percent (2005), 10.4 percent (2006) and 9.1 percent (2007), respectively. Approximately half of the revenue appreciation came from organic growth in existing supermarkets, with the remainder coming from new store openings or acquisitions. GBarbosa opened 17 supermarkets during ACON Investments's hold period, 13 of which were new store openings and four of which the supermarket added through acquisitions. During ACON Investments' ownership, GBarbosa went from being the seventh largest supermarket in Brazil to the fourth largest.

To maximize its return, ACON Investments implemented an exit strategy uncommon in Brazil. The firm explored a dual process to exit via a public offering or through a strategic sale. It hired UBS and Merrill Lynch to prepare an IPO and the company filed with Brazilian regulators to go public. Simultaneously, it contacted what it thought to be four potential strategic acquirers and asked for bids based on the information in the publicly filed prospectus. This gave the firm another competitive exit alternative, and it forced strategic suitors to price offers based on forward EBITDA multiples, as an IPO would, rather than traditional trailing metrics. ACON Investments ultimately opted for the strategic route in November, selling GBarbosa to Cencosud S.A., a Chilean retailer, in a deal valued at \$421.1 million.

The ACON Investments team and its investors were thrilled with the return, but Brotman said that hasn't made the firm's principals go soft or want to rest on their laurels. "No one retired" because of the deal's success, he said. "Hopefully, it's one of many."—B.V.