KL-based private equity company Navis Capital Partners recently closed its sixth fund at USD 1.2 billion. Chairman Richard Foyston says that Southeast Asian agribusiness-based companies show higher than average returns on assets and equity, making it a lucrative sector both for investors and fund managers. RACHAEL PHILIP reports.

To gain good returns Richard Foyston feels companies must evolve quite a bit.

Agribusiness proves lucrative for Navis

Agribusiness makes up just 10% of market capital in Southeast Asia but food and agribusiness companies in the region rake up an average of twice the return on assets and one-and-a-half times the return on equity.

"It's a relatively profitable segment," said Navis Capital Partners Chairman Richard Foyston.

The private equity firm targets high-potential small-and-medium-sized (SME) companies for buyouts.

It believes in keeping its portfolio diversified across sectors and across countries, and invests in most sectors except real estate, technology-based businesses and what it terms as unproven business models.

"We avoid anything that is large-scale. We also like to invest in businesses that do not see too much government influence in the industry. This is another reason why we like the SME sector because competition is less encumbered," Mr Foyston said.

Strong growth

Based in Kuala Lumpur, Malaysia, Navis was founded in 1998. It started with just three people on its team. It now has 75 staff.

"We have a big team because we're active in all of our portfolio companies. We're controlling shareholders so if we decide we want to make changes we can, although we're not particularly aggressive," Mr Foyston explained.

Navis started with USD 70 million in funds. Today, they manage USD 3 billion in capital commitments. The private equity firm, which has offices in Bangkok, Hong Kong, Singapore, Sydney and Mumbai, caps a maximum of 20% of its funds for any one sector.

He described Navis as "a hybrid between equity ownership, private equity and consultant. We try to be active, useful, controlling shareholders".

Since its first investment in 2000, the four founding partners of Navis have had their eyes trained on Southeast Asia, where all have lived and worked for a number of years, gaining professional experience from management consulting firm The Boston Consulting Group.

Success stories

One of their bigger success stories to date is the acquisition of Thai duck processing company Bangkok Ranch in October 2000.

Bangkok Ranch emerged from the Asian financial crisis bruised. It was insolvent and was undergoing a restructuring process at the turn of the century.

"The company didn't have a financial structure that could survive the 1997 Asian financial crisis. We acquired control of Bangkok Ranch from the company's creditor banks. The agribusiness sector in Thailand is quite competitive, especially the export-oriented businesses, and Bangkok Ranch was an opportunity we liked," recalled Mr Foyston.

Navis retained Bangkok Ranch for close to eight years, the norm for equity companies. Over the years the company emerged as one of the largest duck producers in the

Navis' food and agriculture portfolio

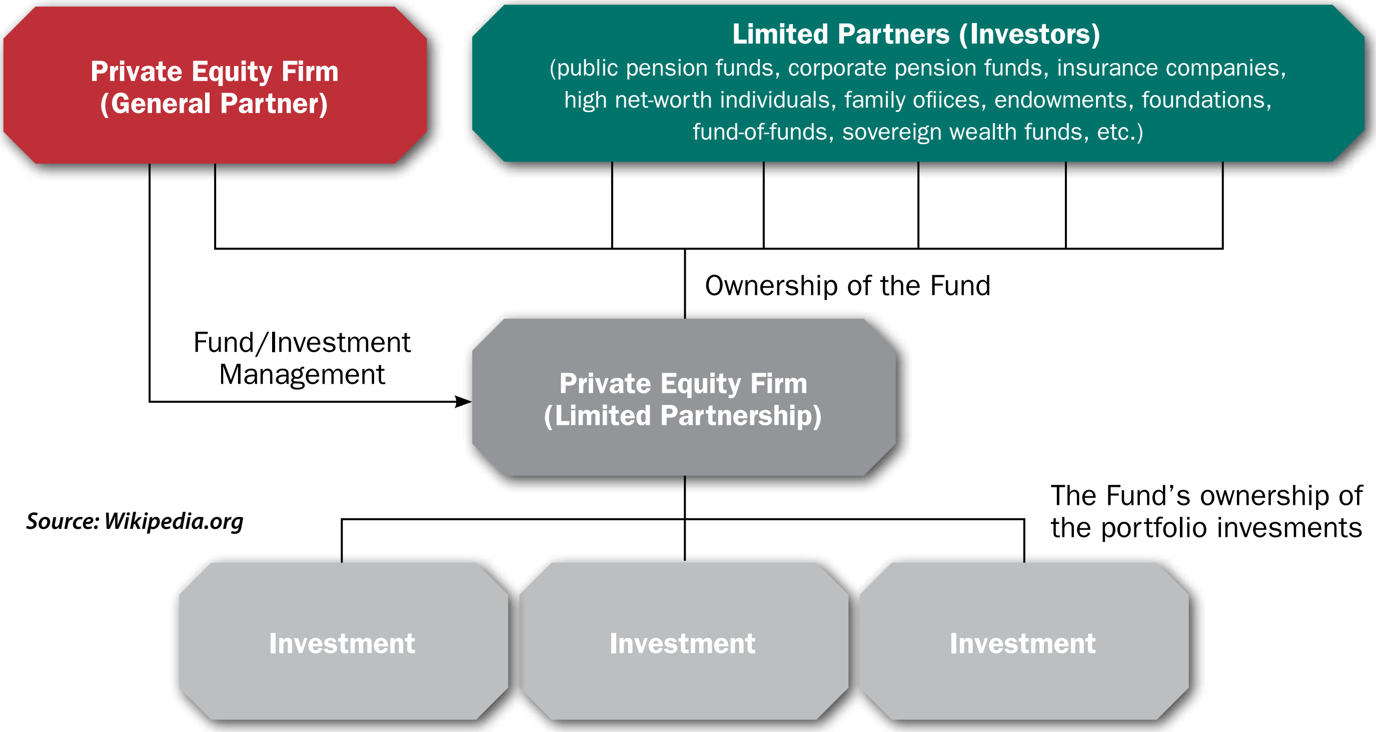
Name	Date	Country	Industry
Bangkok Ranch (Exit–2007)	Oct 2000	Thailand	Duck processing
AgriPure (Exit–2005)	Sept 2000	India	Vegetable processing
Dome Coffees (Exit–2008)	Dec 2003	Australia	Coffee/Casual dining
Birdland	Nov 2004	Hong Kong	Fast food
Sky Gourmet (Exit–2007)	Sept 2004	India	Airline catering
Mars Restaurant (Exit–2007)	Oct 2005	India	Casual dining/ Catering
Dunkin' Donuts	Apr 2006	Thailand	Fast food
Wendy's	July 2006	Australia	Fast food
Nirula's	Jun 2006	India	Fast food
Duck To/Bangkok Ranch	Aug 2007	Thailand	Duck processing
Hui Lau Shan	Jul 2007	Hong Kong	Fast food
Golden Foods Siam	Sept 2009	Thailand	Chicken processing

Navis @ a glance…

- Started by four founders in 1998 who each own a quarter of the company
- Navis only invests in high potential SMEs with a potential to grow
- Over the years they've broadened their geographical scope from Southeast Asian countries to India, Australia, Hong Kong and China
- They are not involved in the day-to-day running of the companies but are active and influential shareholders. For instance, they help find or improve the management team, help with resources, marketing, etc. All this is done with an idea for a long-term plan for change
- The partners are typically present at least once a month in the companies they've acquired
- Investor returns should come from top and bottom line investments and growth opportunities and not via leverage. "For our kind of private equity returns each company has to evolve quite a bit. We only invest in companies where there is basis for some growth and where we think we can be helpful," said Mr Foyston.

Top and above: Bangkok Ranch has evolved into a duck processing company with large upstream operations.

The structure of a generic private equity fund



Source: Wikipedia.org

world outside China and is a leading supplier of cooked duck to Europe.

Bangkok Ranch then merged with Dutch company Tomassen Duck-To, a major player in the European table duck market. The merged entity, which operated as Tomassen-Bangkok Ranch in Europe, grew to become a world leader in the duck business.

Navis' Fund V acquired the new set up in August 2007. In April this year Navis added UK duck giant Cherry Valley to the combination.

"Cherry Valley was a long-time supplier to Bangkok Ranch. We've came to know the management quite well. We were aware of the somewhat unusual ownership of Cherry Valley.

"It was owned by a family trust in the UK. We knew at some point the family trust would sell the business so we were watching it for a long time," said Mr Foyston.

"Bangkok Ranch has grown into something quite big. From a primarily Thailand-based 50%-domestic, 50%-export duck company it's now a Thai & European-based duck processing company with large upstream operations in Cherry Valley.

Cherry Valley is the biggest duck genetics producer in the world and has captured a significant position in China, selling its genetic stock.

Mr Foyston also noted the growth of Australian beverage chain Dome Coffee. Navis acquired Dome in December 2003 and before it exited the company in 2008, Dome had gained a strong foothold in Asia. During that time Dome expanded from about 40 stores mainly situated in Australia, to about 80 stores in Asia and Australia.

Navis' food and agribusiness portfolio features a number of acquisitions in fast food restaurants such as Birdland, Dunkin Donut and Wendy's. It also acquired Indian Airline's catering company Sky Gourmet, vegetable processing company AgriPure and Golden Foods Siam, a Thai chicken processing company.

"We're looking at trying to take advantage of cross company opportunities between Golden Foods and Bangkok Ranch. They're both in the same fund, and have essentially the same ownership," said Mr Foyston.

With Golden Foods, which was acquired in September 2009, Navis is not planning so much to turn the company around but to work on expansion.

Navis' food and agribusiness portfolio also features a number of acquisitions in fast food restaurants such as Dunkin Donuts.

"We only invest in companies where there is basis for some growth and where we think we can be helpful." – Richard Foyston, Chairman of Navis Capital Partners.

"We'll be providing Golden Foods with capital for growth."

Impressive returns

Navis targets between 20-25% return on their money. "That's what we tell our investors. For the most part we have achieved that. For the first fund it was higher, around the mid-30s. A lot depends on timing as well. These investments last quite a long time so we don't know what kind of returns we are getting until it's fully invested managed and divested. This could take between eight and 10 years."

Navis generally take about three years to invest. They hold their investment for about four years and then divest over three years.

To build value, Navis' strategy is to generate top as well as bottom line growth involving capacity building, expansion to new markets and upgrading operations.

Mr Foyston uses Bangkok Ranch as an example. When Navis first acquired the company it only sold frozen uncooked duck. Now none of its exports are uncooked. They are all processed in some way.

"We often bring the potential for a portfolio company to grow outside its domestic market. At the same time, we add on financial sophistication," said Mr Foyston.

"Some companies may have big accounts with customers that are not profitable. We review and monitor our investments closely and that way our operations are quite labor intensive," he said.

For food and agribusiness Navis still has its eye on Thailand where the industry is recognized as an important sector. Besides the palm oil sector, Malaysia does not get that much attention from policy makers.

As economies develop the agriculture sector becomes a smaller part of the economy. Nevertheless the world population is growing and food production too must increase. Mr Foyston feels it's risky not to pay attention to food production.

"With arable land shrinking, R&D in food production must grow. Emphasis should be paid to genetic improvement of crops and livestock. At the same time strong government regulation is important," he said.

A well-regulated agriculture sector is important to maintain quality control. Companies and countries can't afford a food scare which will impact negatively on their reputation, he added.

Agriculture is successful in Thailand because of its well-developed group of independent farmers.

"They are used as contract farmers for poultry companies or to grow specific crops. They are dependable and deliver the raw material to processing operations on time," he said.

In Malaysia and Indonesia, Mr Foyston sees less of this. Instead large companies lead the plantation sector.

"In Malaysia there are the small scale farmers in Felda but their standards of productivity are much lower, their role in the food chain is much smaller," he said.

Attention should be paid to another growing sector – the organic food industry. People are not only eating more but with growing affluence and knowledge, they are eating better. A certain segment of society wants organically-grown food.

He feels there should be better regulatory oversight of the industry including a clearer definition of what entails organic food to the certification process. ■

Mixed kettle of financiers

Navis Asia Fund VI closed at USD 1.2 billion in September 2010. The previous fund, Navis V, raised USD 1 billion in 2007.

Capital came from a mix of existing investors as well as new institutions and global consultants based in Asia (31% of capital commitments), Europe (31%), North America (29%) and other regions including the Middle East (9%).

Managing partner Rodney Muse estimates some 60% of the new fund will be focused on Southeast Asia while the remainder will be spread across markets such as Australia, India and Greater China. He added that they will be consistent in their USD 50 million to USD 100 million deal size.

Since Fund II, Navis has also been offering a syariah-compliant parallel fund where a portion of its fund is reserved for halal-only investments.

"We don't invest in prohibited industries anyway. About 90% of our investments are syariah-compliant," said Mr Foyston.

The non-compliant investments do not make it into the syariah portion of the fund.

"There was a case in Asia where the restaurant business was compliant but it wasn't in Australia because it served pork products."

Fund VI has already made its first investment in a color cosmetics and skincare company called Alliance Cosmetic Group which has operations in Malaysia, Singapore, Brunei and Indonesia.

Navis also led a consortium that bid for the Malaysian, Thai and Singaporean assets of French retailer Carrefour.

Navis has also entered public equities investing with the launch of the Navigator Asia Fund in 2005.