Marching to a different drummer

Olympus Capital goes its own way — with impressive results

Certainly the most individualistic approach *AVCJ* came across in its current survey of top buyout players is that taken by Olympus Capital. You might characterize it as a mix 'n' match philosophy, trying to work out the best environment for buyouts and joint ventures to not only meet, but get happily married.

The firm's statistics spell out just how hard this is to do. Since opening their doors five years ago — they launched in March 1997, before the currency crisis, but didn't start investing until *after* it — they've looked at about 1,100 deals, and done 17, valued at about $500 million. That translates into a "hit" rate of less than 2%.

They almost never source at auctions. *Pret-a-porter* just isn't their style. Fine custom tailoring is.

Daniel Mintz

Their Arysta LifeScience deal announced at the end of September — which they believe is the largest industrial private equity deal in Japan this year — makes an excellent case in point.

The privately-held target, among the top 10 agrochemical companies in the world, had previously relied for funding on its two trading company parents, Tomen and Nichimen.

Fuelling acquisitions

Enter Olympus. They've agreed to dedicate $80 million to Arysta to empower an aggressive global acquisition campaign keyed on other promising licences for agricultural chemicals in exchange for an initial 8.7% interest, plus convertible instruments that may multiply their interest in Arysta downstream. And that's not all.

Olympus has the option to invest up to another $220 million, or $300 million, over the next few years to help fund the company's acquisitions. Olympus will also help Arysta to secure up to $350 million (part of which will be used to re-finance shareholder loans), and input key new managerial resources to supplement the existing team. The overall strategic aim is to capitalize on the global industry consolidation trend among leading MNCs and acquire additional niche licences that need to be divested by these MNCs in order to satisfy anti-trust regulations.

To attack the complexity of the deal, including its global scope of operations, Olympus Capital secured exclusivity and then partnered with a team of retired senior executives from a leading multinational agricultural chemicals company who will continue to advise Arysta on product acquisitions and the global integration of their operations.

Says Founder and Managing Director Daniel Mintz: "The deal was not a sale *per se*. The money went into the company for growth, and thus we are partners with the existing shareholders going forward."

According to him, Olympus works a niche targeting joint ventures that also have buyout characteristics in terms of financing, leveraging, governance structure and so on.

"It's the 'out' we try to avoid," he says. "We prefer to share. We think that leads to a different universe of deals and a different set of economics."

More inefficiencies in Asia

He acknowledges that there's no one-size-fits-all approach that works in Asia. Still, he notes, "Generally there are more inefficiencies here than in the US. And I believe you are rewarded investing the time, resources and money to build serious sourcing and execution infrastructure. In other words we want to focus on deals that we help create rather than those that trade as commodities."

Flexibility is another key, he believes. When Olympus first started, they tended to avoid manufacturing businesses, typically characterized by overcapacity in Asia at the time. Instead, they focused on the financial sector where the crisis had created "big holes in the balance sheets." Today? After a couple of years of reduced capital investment in Asia, the underlying economies — ex-Japan — have picked up. Thus Olympus is pursuing attractive opportunities involving manufacturers that are well-positioned globally and are capturing cost savings through outsourcing and re-location of production.

Olympus' approach to joint ventures is to focus on the needs of its partners in designing a structure that both sides can accept. Those needs can include accounting targets, statutory financial issues (eg consolidation or de-consolidation), relationship issues, face issues, and, naturally, price. The essence of this approach is: "Let's listen carefully and design structures that address the things our potential partners really care about while protecting what we really care about because, typically, they're not exactly the same. That's the way to create "win-win" outcomes," he says. ❑

– Brian McLeod