

A tailor made future

Mercantile Merchant Bank Limited (MMBL) is a Sri Lankan American joint venture between the Pathfinder group of Sri Lanka and Denmar Associates of the United States. Business Today spoke with K Balasunderam, Managing Director of Pathfinder Management Services and Director, Finance and Treasury, MMBL about the group's business model which successfully brings together global brands, high net-worth investors and blue chip companies, spearheading MMBL's emergence as a leader in the boutique private-equity and investment-banking sector.



What are the objectives of MMBL?

Our primary aim is to acquire and/or build companies that have excellent potential for equity appreciation. MMBL and its affiliates invest in a wide range of business sectors, including financial services, business logistics, information technology, trading and distribution, property development, petroleum-related services, quality

assurance services and the hospitality sector. Our approach is to develop relationships with exceptional strategic partners, global brands and/ or management teams to improve the longterm value of a business. The careful selection of strategic partners and the incentive-based compensation of management has been a critical ingredient of MMBL's success.

MMBL's professional staff is one of the most experienced in the private investment industry. The group has the depth and capability to support management teams directly in the areas of strategy development, market research, finance, management recruiting, project development and portfolio management. Responsible corporate citizenship is a central tenet in the MMBL philosophy. To this end MMBL and its affiliates are working with a network of local and international non-profit organisations on a range of socio-economic and cultural initiatives.

What is your investment philosophy?

We evaluate potential acquisitions and new business opportunities by analysing the financial performance and prospects of the company or venture and the capability of its management, the attractiveness of its industry, as well as its competitive position within such industry. We typically make investments and acquisitions where we can identify a clear opportunity to enhance the value of the business. Our team carries out extensive, detailed evaluations of potential acquisitions and ventures to identify areas where a company's growth and profit could be enhanced. Growth opportunities include developing new strategies, acquiring related companies, or launching new products or services. Profit improvement opportunities involve increasing operating efficiencies, exploiting alternative channels of distribution or re-engineering business processes. MMBL has a strong track record of consistently enhancing the value of acquired companies and ventures.

What are MMBL's comparative advantages?

We have several which I will list out for you: A broad base of experience: MMBL's team of executives has substantial experience in the private equity investment business. Our team has completed a large number of investments, serving as lead sponsor for new venture promotions and leveraged acquisitions in a wide range of industries. In addition, our professional staff has significant expertise in the areas of brand/franchise management, investment banking, accounting, law, general management project promotion and management consulting. Creative transaction structuring: The experience acquired in raising resources for new ventures, acquisitions and restructuring-related financing, enables the MMBL team to develop

innovative capital structures. By using public and private sources of debt and multi-tiered capital structures, and by identifying suitable strategic partners, MMBL ensures that the acquired company /venture has the appropriate capital structure to support the company's growth and maximise equity value.

Capital market strength: MMBL's investment track record and its reputation for providing for providing thorough pre-acquisition due diligence and post-acquisition strategic, operating and protect development support to portfolio companies have helped the firm to develop excellent relationships. These include select international and local investment banks, financial institutions and high net-worth individuals. These relationships enable MMBL to obtain advantageous financing with superior terms and rates. Furthermore, working with blue-chip institutions and high-net worth individuals who are partners in existing ventures as well as with other specialized sources of capital, allows MMBL to speedily furnish all the capital required to closed a transaction.

Strategy development capability: MMBL staff are experienced in providing extensive analytical, strategic and operating support to portfolio companies, where appropriate. These capabilities have enabled many portfolio companies to develop and execute strategies rapidly, to gain competitive advantage and achieve superior returns. Additionally, MMBL enjoys a close and supportive working relationship with its shareholders and strategic alliance partners. Strong corporate relationships: MMBL has participated in many transactions in parh1ership with large corporations and high net worth individuals both from Sri Lanka and overseas. These transactions have yielded attractive financial and strategic benefits for all parties involved and have often helped to create an additional competitive advantage for the acquired portfolio companies. Experience in representing global brands and franchises: MMBL has managed, worked and represented a wide variety of global brands and franchises. Rapid-response capability: MMBL' s industry expertise and extensive analytical capabilities allow for quick evaluation and closure of transactions when necessary. This gives M..viBL an edge over traditional investment institutions that are encumbered by constraints in their decision-making process.

How do you select your target investments?

Our target investments are companies and new ventures operating in niche markets. Preference is given to strategic alliances with strong global brands and/or franchises and to projects with clear niche focus or a high level of value addition. In general, MMBL participates as a lead investor in acquisitions or private equity

placements. Some of the areas where we look for investment opportunities include: Traditional management buy-outs, where subsidiaries and divisions are sold or spun out by corporate parents in an effort to change strategic focus or strengthen corporations. The purchase of private companies, in cases where owners seek to sell their business entirely or partially to a private investor. Sometimes these transactions include 'management buyins' whereby existing, non-shareholder managers are given the opportunity to participate in the equity ownership of their company and benefit from the value created under a new ownership group. We may also make capital infusions to enhance the growth of companies to gain market-share more quickly, develop new products, or improve their competitive position. We also look for strategic opportunities driven by changes in regulation, cost structure, or global competition that require new business combinations. MMBL also capitalises on investment opportunities in cases where MMBL shareholders, professionals, portfolio company managers, or the firm's affiliates and/ or strategic partners have a specific industry background, personal contacts, and unique analytical capabilities. We enter into joint ventures with corporate or strategic partners, whenever we feel that the combined skills and resources of MMBL and the partner lead to a superior investment opportunity for all parties.

MMBL enjoys a close and supportive working relationship with its shareholders and strategic alliance partners.

Who are your shareholders?

Both our companies are control led by high net-worth shareholders from the United States and Sri Lanka, who have access to a strong network of institutions and high net-worth individuals from around the world. When appropriate, the managers of MMBL and its portfolio companies draw upon the resources of its shareholders to evaluate strategic options, support management initiatives and to assist in the structuring of financing arrangements. The contribution made by MMBL's shareholders has been an important factor to the firm's success. We are also associated with an exceptional group of strategic partners consisting of both institutions and individuals. These strategic partners are often a source of high-quality investment opportunities, industry-specific knowledge, technological know-how, management talent and transaction specific equity and debt financing. The advice, support and resources of this group are extremely beneficial to MMBL and its portfolio companies.

Can you give us some examples of the types of transactions you have done in the recent past?

One of our subsidiaries, or as we call them, ‘portfolio companies,’ is a principal representative in Sri Lanka for Western Union, the US-based money-transfer company. After building this business to a reasonable size, we recently established a strategic alliance with Aitken Spence and Company, and sold them a 50% stake in the venture. Aitken Spence will also manage the company. The synergies they will bring into the deal, will lead to a win-win formulation for all parties. In 2006, MMBL Money Transfer will handle inward remittances in excess of US\$70 million. This deal will bring substantial benefits to Sri Lankans living at home and their relatives abroad, as well as bringing much needed foreign currency into the country from across the globe. Similarly, another one of our other portfolio companies is the global-service partner for FedEx. After building up a significant market share for this brand over the last decade, last year we established a strategic alliance with the Hayley’s group, and sold them a 50% stake. This arrangement too, has been beneficial to all parties involved. Another example is our joint-venture with Capital Maharaja, through which we will operate the local franchise for IT training and development company, NIIT. This company operates seven IT training centres across the country. In all these cases, we have used our strengths to develop and establish a global brand and then at an appropriate time, brought in leading companies as partners. In other cases, when it made good business sense, we have completely sold out our interests. For example, this was the case for our investments in the stock and produce broking sectors. We also have smaller holdings and board positions in the DFCC-Vardhana Bank, and the local subsidiary of the US-based battery producer, Energizer. These companies are privately held and have significant potential for value enhancement given their local brand value and exceptional management. At an international level, we have offshore, associate companies that look at global and regional business opportunities.

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Finally, given MMBL’s network of strategic alliances both local and global, do you see regional or international growth in your future?

Both. Clearly Asia, including India, as the globe’s fastest growing region. With our

investment network we are well positioned to exploit opportunities in many countries in the region. However, the private-equity industry in Sri Lanka is still embryonic and there are many opportunities for us here. We are a Sri Lankan company and will always give priority to investment opportunities locally. ®



Global service partner for FedEx



Intertek testing lab

