

Navis Capital finds a tough hunting ground in China

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Navis Capital expected to find a company to buy in China, but try as it might it could not unearth one - it is still looking.

Richard Foyston, managing director and a founder of the Kuala Lumpur-based private equity firm, says: "We like control. We like to invest in industries we understand or think we understand. For us China is difficult. There must be opportunities there but we haven't found one yet."

Navis was started by three Boston Consulting Group partners with, currently, \$1.8bn (€1.2bn, £900m) of commitments. It made its first investments in 2000 with clear if slightly idiosyncratic ideas about how private equity might work in Asia.

Asset prices are higher in China and most companies are looking for funding, without loss of control, which does not suit Navis. But more than that there is a cultural divide for foreign experts schooled in a tradition of gritty Boston Consulting type logic.

"We like managers who have some years operating the business, with at least a knowledge of the same things we look at, even if it's in an unsophisticated way - return on capital, shareholder governance, the [simple] structures we like," says Mr Foyston. "Most companies [in China] don't fit these criteria. We don't understand their management very well; they don't understand us very well. There are lots of ways for things not to go as planned.

"We believe in the China story and if we really focused I'm sure we could find something. Many of our companies do a lot of business with China, but we're not kidding anyone, if you want to invest in China go to a China fund," he adds.

Japan and Korea pose somewhat different problems than China. Their typically "gigantic, complicated" businesses are simply too big, too tricky for a company that is too small to acquire control of industry leaders and, therefore, can have no logical role to play there.

A putative management relationship also has to work at the emotional and personal level. "We have to be able to understand a market and have a high level of ability to interact [with other players]. That means it must be possible to use English in the boardroom and to be at least half-way accepted by the people you work with," says Mr Foyston.

You may be respected in Japan and Korea, but no matter how long you remain in either country you will always be seen as the foreigner, he adds. In south east Asia - lately overshadowed by booming China and India - you stand a good chance of being treated as at least "half local".

The idea of remaining an "explorer" after a dozen years in Asia seemed extremely interesting to Mr Foyston when he began to feel that his work with Boston Consulting had inclined to the "farming and administration" side of consultancy. The 1997 regional crash stripped away overpriced assets to provide Navis with its opening.

"I like to build businesses and south east Asia was ripe for a certain type of investing. We are very analytical. You live and die on logic and facts. We have a very flat management structure and I hope it will stay that way. People should be well rewarded but no one should work at Navis for the money. Boston Consulting always believed that too," he says.

The first fund was set up with contributions from 40 BCG partners (although no direct relationship exists).

Eight years on the company has closed its fifth private equity fund at \$1bn and its managers have expanded from three to 35. On the way it has acquired interests as various as Australia's Dome Coffees, Bangkok Ranch - a duck business, bookshop chains, River Kwai foods (60 per cent of Thailand's canned sweet corn), building materials, packaging, and Cemex Asia (part of

the Mexican cement giant).

Navis feels uncomfortable taking on much leverage, but expects to spend lots of time with its acquisitions. The focus is on the business rather than on the finance, which probably makes investment bankers snigger, Mr Foyston concedes. "We act more like a consultancy than an investment company," he says.

Among its 30-odd investments is Asia's leading private investigation firm, Hill & Associates. "We liked it because it is a leader in its field going through a period of transition. We thought it could be made much more profitable with relatively modest improvements."

The firm is willing to wait months, even years, for a deal to come to fruition, unlike the "Hong Kong outfits who come over for a few days and then expect to have everything tied up by the lawyers". Yet, because Navis does not like to be involved with government in any way - for example, heavily regulated, quasi-private or crony companies - its corporate universe in south-east Asia is relatively limited. This helps explain the move into India four years ago.

"We looked at the economies, deal flow, management structures and concluded that India would suit us, but that China wouldn't. That India would have a far better fit with our approach than China. We've seen [in pre-Navis days] all the positives of the China story, but we also realise how different things are in China."

The firm's Indian portfolio now includes a specialist aviation catering firm and two "iconic" restaurant chains that needed reviving in New Delhi and Mumbai, respectively.

Mr Foyston's teams do not have much time for the big picture wealth flows beloved of some fund managers and economists.

"We don't invest in macro themes. In fact I'm not sure we believe in them too much. We've tried to debunk the Asian consumer boom a little - in percentage GDP terms consumption has hardly changed in 20 years. The real key is to know where that fixed spend is moving to so, for example, there comes a tipping point when everyone can afford a car."

Mr Foyston converted to Islam several years ago, along with one other senior partner, which helped when Navis decided to set up two Sharia compliant parallel funds after requests from Gulf investors. Some 15 per cent of capital commitments are screened for Sharia compliance (low debt, non-injurious, no forbidden foods, etc). A much bigger percentage might be difficult.

More controversial among Navis's investors was the decision to set up an equity fund. "We had complaints about losing focus. We did it because we came across lots of companies we liked but that are listed." The equity fund runs to about \$100m and could grow to about a third of the size of the private equity funds, says Mr Foyston.

Navis has not set itself a limit on how big it can get. It will however remain cautious and, almost certainly, located in its current geographic region. Mr Foyston says: "We are much more likely to expand into other asset classes than into other parts of the world. We are comfortable here."

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