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General retailers

Carrefour set for battle in Brazil

Group plans local merger with GPA

Move will spark fight with Casino

By Jennifer Thompson in Paris and Joe Leahy in São Paulo

Carrefour is looking at a complex deal to merge its assets in Brazil with Grupo Pão de Açúcar, the country's leading retailer.

The move will spark a heated battle with Carrefour's French arch-rival Casino and reshape Brazil's supermarket sector.

Under the proposal, Carrefour's assets would be merged with those of GPA in an equally owned joint venture that would control 27 per cent of Brazil's formal retail market. It would be backed by BNDES, Brazil's state-owned development bank. The move could boost the influence of Carrefour's dominant shareholders, Colony Capital of the US and Groupe Arnault, the investment arm of French luxury tycoon Bernard Arnault, over the French retailer.

> Casino is angered by the move, which it describes as of 'an obvious hostile nature'

However, Casino, which already co-controls GPA with its Brazilian partner the Diniz Group, is deeply angered by the move, which it describes as "illegal" and of "an obvious hostile nature".

If the proposal goes ahead, it would make Casino and Carrefour shareholders in the same venture.

Abilio Diniz, whose family founded GPA, agreed he had "initiated conversations with the principal shareholders in Carrefour to develop a project in Brazil".

The proposed deal has come from Gama, a company set up by Brazilian investors, and would involve complex steps before a unification of assets. Gama is owned by an investment fund managed by BTG Pactual, the Brazilian investment bank.

The merger would be accompanied by a capital injection of €1.7bn ($2.4bn) from BNDES and €300m from BTG, which would also lend €500m for expansion. There would then be a further merger with Carrefour's Brazilian assets. Carrefour's board received the proposal and met on Monday, a person with knowledge of the situation said.

Gama would also enter into a shareholders' agreement with Colony Capital and Groupe Arnault, which together own 14 per cent of Carrefour and have a fifth of the voting rights.

It is envisaged that Gama would gain three seats on Carrefour's board by 2013, which is the year in which Carrefour would fully consolidate GPA in its accounts, although the three parties would have no more than 30 per cent of the voting rights, Carrefour pointed out.

One investor expressed concern that the deal would consolidate Mr Arnault's control of Carrefour, without the need for any extra financial outlay.

Gama said that the move could lead to synergies of about €700m-€800m a year and would create an entity with more than 1,000 stores in Brazil.

Carrefour estimated that it could lead to combined sales of more than €30bn.

Additional reporting by Andrea Felsted in London and Samantha Pearson in São Paulo

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GPA founder has a bold goal in mind

GENERAL RETAILERS

News analysis

A tie-up with the chain's French rival could benefit both, say **Joe Leahy** and **Samantha Pearson**

There is nothing Abilio dos Santos Diniz and his close adviser Pèrcio de Souza like better than to talk about the game so beloved in Brazil – football.

The 74-year-old Mr Diniz is especially keen because the retail group he founded, Grupo Pão de Açucar, owns its own team. It was after one of these discussions that the pair turned their thoughts to the game of retail and hatched a bold idea.

What if Mr Diniz could join forces with Carrefour in Brazil and perhaps overseas as well? A merger between Mr Diniz's GPA and the Brazilian assets of Carrefour, the country's number one and two retailers, would create a domestic group large enough to stand up to the likes of Walmart with R$65bn ($41bn) of combined sales.

"This proposal is a win-win for everyone – for Pão de Açucar, Carrefour and the customers of both companies," says Mr de Souza, whose company Estáter is one of the principal advisers on the proposed merger.

However, the biggest hurdle facing the deal is that not all of GPA's shareholders agree. Mr Diniz's main partner in GPA, French retailer Casino, is incensed at the idea of sharing ownership of its prized Brazilian operations with its arch-rival Carrefour. Casino is already pursuing arbitration against Mr Diniz for allegedly violating their shareholder agreement by talking to Carrefour.

However, Casino will have its work cut out stopping Mr Diniz. The son of a Portuguese immigrant who started a bakery in Brazil, Mr Diniz is known for his determination and business acumen. A fitness fanatic, he survived a kidnapping in 1989 when extremists held him for seven days.

The Brazilian establishment is also behind the proposed merger. Under the deal, GPA will be revamped to include two powerful new shareholders – BNDES, the country's development bank, and BTG Pactual, one of Brazil's principal home-grown investment banks.

> The deal would create a domestic group large enough to stand up to the likes of Walmart

An agreement between Mr Diniz and Casino giving the French retailer the option to take control of their joint investment company, Wilkes, will stand, according to Mr de Souza.

Before the merger proposal, this would have given Casino in effect control over GPA. But, if the merger with Carrefour goes through, Casino will have to share control of the new group with its French rival. This seems an unpalatable outcome for Casino, but Mr de Souza is not perturbed. "This is a situation between shareholders," he says.

The deal faces other hurdles in Brazil. With an estimated 1,022 stores across the country and 27 per cent of the formal retail market, such a large group is likely to raise concerns among antitrust regulators.

However, advisers to the deal say they have hired consultants to analyse the market and pre-empt any problems they might later have with the authorities.

Crucially, the deal also has the implicit backing of the Brazilian government, thanks to a €1.7bn ($2.4bn) loan from BNDES.

According to Carlos Fonseca, a BTG partner, BNDES has been looking for a way to invest in Brazil's booming retail market. "The chance to create a huge company and also become a shareholder of Carrefour in France seemed to be a strategic move for the country," he says.

Perhaps more importantly, the chance to sell Brazilian goods across Carrefour's global network was the biggest pull factor, says Mr de Souza. "The discussion was more focused on the huge export opportunities to use all the stores of the international Carrefour business," he says.

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Casino faces tough battle

beyondbrics, the FT's emerging markets hub

Casino was quick to brand Carrefour's negotiations with GPA as "illegal" – and if Casino cannot be persuaded to go along with the deal it will be dead in the water, **writes Jonathan Wheatley.**

The deal's backers must hope their business case is strong enough to bring irresistible pressure to bear from Casino's shareholders.

A glance at the advisers and others involved suggests Casino has a tough battle on its hands.

Never mind that, according to Carrefour, the deal has the backing of the BNDES, Brazil's government-controlled development bank. Or that Gama, the special-purpose enterprise created to make it possible, is the offspring of BTG Pactual, the fastest, sharpest and most successful investment bank in Brazil.

What should really have Casino worried is the involvement of Estáter, adviser to Abilio Diniz, GPA's founder. That's because it was Estáter – like BTG, one of the smartest operators in Brazil's financial sector – that advised Mr Diniz when he made his original deal with Casino in 2005.

Estáter is not like other M&A houses. In a conversation with beyondbrics at its São Paulo headquarters late last year, Pércio de Souza, Estáter's founder, talked about how it does business. "I always believed that M&A isn't just a product to be offered along with others," he said. "In M&A you are involved in a critical moment in a company's life. It's a matter of fundamental strategy. I believed that if you really understood strategy and ownership, you could fill a space in the market."

Mr de Souza has little time for "relationship banking".

"Of course relationships are important, but they are a consequence. You have to focus on intellectual property. It's not who you know. It's what you know. If you have a deep understanding of ownership structure and strategy, then you can find solutions to complex problems. We believe a lot in the strategy of negotiation. The sector doesn't matter. The sector is something you can study."

The Diniz family and GPA are among Estáter's first and longest-lasting clients. Estáter's first task was to adjust Mr Diniz's shareholding so that his interests were more aligned with those of minority shareholders. Then came the Casino deal. Estáter's other clients (there is a list on its website) reads like a roll-call of some of the biggest names in corporate Brazil.

That is something else that makes Estáter stand out. It had just 35 employees when beyondbrics went to visit. But it insists on doing mainly big deals, taking smaller ones on rare occasions only if they promise more later.

"You have to know when to say Yes and when to say No. We work on six or seven projects in a year. Some of the projects we are working on now have been going for two to three years. And we never work as consultants – only on a percentage basis."

The business plan seems to have worked. When Estáter was founded in 2003, Mr de Souza and his partners set $30m annual income as their target. They passed it in 2007, made $90m in 2010 and expect $90m-$100m this year.

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