

THE MOUSE THAT ROARED

A daring young man comes to main street

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The sudden rise - and rise - of Royal Corporation chairman Vivian Imerman, and examines the challenges that lie ahead of the inspired acquisition of Del Monte Foods International.

Vivian Imerman's emergence last year as the entrepreneur to watch in the 1990s went down a treat in a time of spiritual and economic decline. He may have played Garbo to Sol Kerzner's Madonna, dodging the spotlight even when in early December his Royal Corporation and the Anglo American Corporation finally sealed their R2.2-billion acquisition of Del Monte Foods



International (see "Wooing the Gnomes"). But his gutsy activities were certainly not lost on a business community aching for a restoration of the glory days of deal making.

Imerman cuts an unlikely figure. He is ridiculously young, at 37, to be playing a Mike Rosholt to Anglo deputy chairman Graham Boustred's Punch Barlow, and he is not what you'd call refined. But this, ironically, has quickened public interest in him. There is a tendency at dinner tables to grope for reasons for his rapid success other than plain entrepreneurial ability. Not that gossips are silly enough to dismiss him as an upstart.

Hymie Levin, the attorney and Royal director who introduced Imerman to Boustred as a possible suitor in the pursuit of Del Monte, says it is a mistake to think of him as an ordinary chap who got lucky.

"He's not ordinary, he's special - he's a dynamo in business. He has charm, he's focused, he gets on with people, he's a long-term player, he's prepared to take risks... Vivian is worth backing all the way."

Yet Imerman's entrepreneurship does not appear to be built on the financial acumen of a young Donald Gordon, the acquisitive zeal of a young Manny Simchowitz, or the sportive vision of a Kerzner. Instead, the quality that springs to mind is zitzfleisch - Yiddish for heels-in tenacity and commitment - when it comes to tough-nosed trading ability, as well as opportunism and keen, long-term focus on building an internationally respected and integrated branded foods business. "I am a very tenacious person," he agrees, seated at a mahogany table in the boardroom at headquarters of what is now Del Monte Royal, a beautifully restored and decorated French provincial-style mansion in Rivonia Road, Morningside. "I don't give up easily. If I believe in something strongly, I fight hard for it. That's my make-up."

Along with good-looking, Greek financial director Jacques Fragis, Doug Johnston, who was appointed MD of Royal Beech-Nut (SA) in 1982 and group MD of Royal Corporation in 1990, forms part of Imerman's inner circle.



Says Johnston, warmly and wryly: "One of Vivian's greatest strengths is his entrepreneurial flair - he's always three steps ahead of anyone else in his pursuit of the next deal. He leaves more mundane chaps like me to get to grips with managing the acquisition that came before.

"Vivian's second greatest strength is he gets on very well with people." After all, implies Johnston, he charmed his way into Anglo American. "In other words, he's still a great salesman at heart."

Imerman's entrepreneurial appetite today is for branded foods only. But he cut his teeth on chemicals.

His father, Sam, bought chemicals broking business Lovasz, which was listed in 1987, out of a deceased estate 19 years ago. It was the platform used for honing his trading skills by Imerman junior, who joined straight from King Edward V II School, where, he chuckles, he "was not a star pupil".

It was also the platform he used, much to the market's astonishment, to acquire control in 1989 of Royal Beech-Nut (SA) from giant US food conglomerate RJR Nabisco in a R45-million transaction.

"I built up an enormous amount of contacts, here and overseas, by going from factory to factory buying and selling," he says. "The first financial backing I ever received was from a Danish exporter who gave me 180 days credit. In fact, most of the growth in the company was as a direct result of my overseas contacts. Business is, after all, a universal language.

"It was 95% perspiration, but it paid off in that as I matured and my contacts increased so did my awareness of other business opportunities. I am definitely an opportunist."

The goal Imerman set was to head a business in which he could constructively track and maximise his margin income, "a solid business into which I could build a clear-cut strategic plan for good long term growth and returns". He saw opportunities in two fields: food and pharmaceuticals not least because Lovasz had plenty of customers in both. It was food around



which he organised a 10-year plan, having pipped other, more powerful interested parties at the Royal Beech-Nut post.

The transaction was the first link in a chain of opportunities presented by the gladiatorial leveraged buyout and break-up of Nabisco by New York specialist Kohlberg Kravis Roberts (see "Just Say 'Yes'"), a deal exposed in the book *Barbarians at the Gate*. The second was Royal's outright purchase in 1990 of Sapco (South African Fruit Preserving Company) from Del Monte. (The local operation of Donald Cooks, which was not linked to Nabisco, and the Mars distributorship tumbled to him, too.) The third was, of course, the purchase of Del Monte itself by Royal and Anglo.

Imerman confirms that the chemical and pharmaceutical division, which he also built up through a canny merger with Holpro as well as the acquisition of US owned Ferro Industrial Products and separately listed as Raychem in 1991, may come up for sale. "We haven't made a final decision, but it's under discussion." (Speculation is that AECL, through Chemserve, may acquire a controlling stake.)

It was Imerman's entrepreneurship and unblinking focus on branded foods, not to say his position on the inside track of Nabisco that struck Boustred, now non-executive chairman of Del Monte Royal Holdings.

Boustred and Imerman make an odd couple at the summit of a board that includes Anglo heavyweights Nicky Oppenheimer, Leslie Boyd, Dave Rankin and Tony Trahar.

Though Boustred objects to the tendency to classify Anglo as a bastion of the old-school tie ("I've never had a personal assistant, and there are main-board executives here who never went to university"), he is, at 68, Oxbridge-educated, tall, elder states man-like, by turns avuncular and gruff, given to sarcasm, articulate, a tough industrialist through and through.

Imerman, on the other hand, had very little formal education; he is short, good-looking in a swarthy, little-boy way, longhaired, an orthodox Jew, fiery-tempered, given to talking in staccato bursts, a streetwise trader through and through.



It amazes many that they get on, though they clearly do. Still, as Boustred points out, a similar relationship exists between Anglo and Altron's Bill Venter, through Amic's 29% stake in Ventron, and Venter never went to university and was born in Tarkastad.

He warms to his subject - Imerman as a resourceful entrepreneur : "One of the things Vivian said upfront was he'd like management control of Del Monte. We accepted that if it were to be successful, we would have to rely on somebody with experience in this business.

"Vivian had certainly demonstrated a capacity to perform - even though he has been in the branded-foods business for only a short time. The way he purchased control of Royal Beech-Nut under the noses of other major food groups . . . the way he snatched Donald Cooks (for R22 million cash) last year as well as Mars . . .

"We met his people, we saw how he got along with them , he told us how he sets about running his businesses, how he would run Del Monte in Europe . . . We met (then Del Monte president and CEO) Enrico Sola, and saw how keen he was on Vivian as a potential owner. We did not make a concession to him by giving him management control. Instead, having confidence in his management ability was a condition precedent."

Boustred confirms Anglo had, "for some time, expressed interest in the same businesses Vivian is in. Companies in high value brands - whether foods, beverages, pharmaceuticals - are far more robust in a downturn than those geared to commodities. This is not to say we wish to withdraw from our existing businesses - if this were so we would not have gone ahead with ventures like the Columbus stainless steel project. It is to say we wish to diversify in order to bring balance into our overall portfolio. "

Boustred may have been impressed with Imerman during the wooing phase. But he really sat up and stopped yawning when the wheels of the deal were set in motion.

He refers to the "effort and energy" Imerman invested over the two months in which a due diligence that spanned Italy, Greece, the Philippines, Kenya . . . Was conducted. "To do a due diligence on a company as large and spread out as Del Monte is not an easy task."



Nor were negotiations with Charterhouse and its associates a breeze. "It was," says Boustred, "an exceedingly complex deal. I was very pleased with the way Vivian, together with my colleagues, conducted himself."

Imerman confirms that it was a nail-biting time. "Del Monte was a perfect fit in terms of our strategic planning. What helped me cope during the negotiations was that I had the support of its management. Royal was Del Monte's first choice. It was not a bed of roses. There were times when I felt like giving up, or as if we weren't going to be able to pull it through .

But, as I said earlier, I am tenacious. "I certainly had the right partner - a professional, honourable one - in Anglo. I respect the organisation and I respect Graham Boustred. "Though our relationship is pretty young, I think it's on a solid footing."

He confesses he had to learn a great deal initially. "Two things struck me about doing business abroad: that the entire banking system is different; and that international business is driven by the professionals. If you choose the wrong lawyers or merchant bank, if you do not listen to their advice, if you aren't guided by them . . . your chance of succeeding diminishes. And this is a general rule; it did not apply to me only because I was South African."

It helped, too, that Imerman eats, drinks and sleeps business. Says Werksmans partner Carl Stein, who acts for him in certain matters: "Vivian is probably the most highly motivated entrepreneur you'll ever meet. Nothing else matters except his family and his business. He is dedicated to building an empire, and he sees the broader picture before anyone else." But he is clearly a team player. "He listens to his people," says Hymie Levin, "and he draws the best out of them." (Especially when it came to funding acquisitions, Board of Executors' Bobby Favish and Richard Derman played important roles on this team.)

Imerman claims he delegates and tries not to interfere with his operations people. "I choose them carefully and let them run with their sides of the business. It is not my style to undermine my managers."

A bonus of the Del Monte acquisition is the depth of management it adds to Royal. "One of the strengths of a multinational company is that it enables you to move your people around," muses Imerman.

"It gives them a wider range of experience, and in so doing improves your core management." He is unabashed at having adopted - to the letter - Nabisco corporate ethos and systems. "I picked them up through Royal Beech-Nut and I stick to them rigidly. I subscribe to a very definite action path within the framework of the businesses we run. Principles governing cash-flow, brand-protection, gearing, the way we treat our staff . . . are dearly laid out. I think it's a successful formula."

He gives priority to focus - on branded foods only - and financial structure. "I try to keep debt as low as possible. I would never gear up significantly, which is why I have sought partners along the growth path."

Standing in the spotlight does not exactly please Imerman. "I do not want to conduct my life in the limelight. Of course, I will assist in whatever publicity the business needs. But my private life. . ." Assertively, even aggressively, he snaps off the tape recorder before completing the sentence.

Still, although he is guarded, even uptight, at first, he relaxes when discussing his favourite subject - business. There may have been a stony silence on the way up the winding stairs to the boardroom. (When I asked who was the previous owner of the mansion, his reply was a curt: "I don't know.") But on the way down he was for all the world like a genial host.

It turns out that Imerman has a younger brother, Johnny, who is also enormously successful. Based in the US, he has made a fortune out of a recycling business related to steel. He has an interest in Del Monte Royal, but it is not an active one.

"I'm not sure what influenced or motivated us," Imerman adds. "I think it's just that we started working at an early age, and that we were driven by achievement. We worked for my grandfather, a Russian immigrant who had a clothing business; then, too, my father gave us the utmost encouragement."



It is believed Imerman and his father have a touchingly close relationship. What does senior, who serves on all Del Monte Royal boards, think of junior's incredible success? "I think he's extremely proud," is all Imerman will say.

He chuckles when I inquire whether his youth was an advantage or disadvantage. "It was a huge disadvantage when it came to expanding the business and getting banking facilities. Overseas, too, I came up against scepticism as a result of my age. I really had to prove myself before someone decided to do business with me."

Imerman has no formal training, but a few years ago enrolled at Wits for a part time B Proc. "I only did three years of the five required, because running the business by day became too onerous. But I did get a reasonable understanding of the technical side of things."

The Financial Mail ranked Vivian Imerman 13th on its list of "SA's Super Rich". It valued his disclosed shareholdings at R175 million, up from R97 million in 1991. If his is not exactly a rags-to-riches rise, today he is staggeringly wealthy. Has it changed him? "Not as a person, no. I am driven by achievement."

Still, Royal Del Monte's headquarters is testimony to the kind of class money can buy. It was decorated by a professional firm, Head Interiors, but Imerman's elegant wife, Gina, played an important guiding role. There is evidence of the couple's passion for antiques in every glossily paint- or paper-treated corner.

The Imermans have three children aged between four and nine. I had heard Imerman was an involved parent, making sure, whenever possible, to be home in time to see his brood off to bed. He confirms he "tries to give them quality time", and that what he dislikes the most about business travel is "it can keep me away from my family for too long".

Although he has a voracious appetite for business Imerman is quite the all round sportsman, too, jogging, working out at gyms here and abroad, water-skiing, horse-riding and, of course, riding the Harley-Davidson that has so titillated the press. He was spotted with friends, including



Donald Gordon's son Richard, roaring around Cape Town, where he has a luxurious holiday home, on the motorcycle.

He lets on, too, that keeping fit helped him cope with the pressures of pulling off the Del Monte deal. Of course, it is still Royal and Anglo's honeymoon ; they have to see whether they can make the marriage - and especially its function of running Del Monte Foods International successfully work.

Chuckles Boustred: "You know what they say: 'Why ruin a good gold mine by sinking a shaft?' Trading conditions have become much tougher internationally. Vivian has told me Del Monte has set itself challenging targets, but its early days. This is a big meal to digest. However, a great attraction of the deal was Del Monte was part of the same family as Royal; it was as if the members were getting back together."

Imerman is confident. "Del Monte was a Nabisco business; it has excellent products, systems and controls on an international scale. We know it, we know its management, we have a commonality of product, systems, controls and ethos. It's not as if we bought a business we knew nothing about. And because we own it outright, we can exercise a proper influence over it. "I have no doubt it's going to be tough. But I like challenges. Time will tell whether I'm up to this one."

There is no doubt, either, that Imerman will examine the possibility of acquiring other brands. "It's part of my strategic planning. And I'm confident, once an interim government is in place, there will be plenty of other opportunities to do business with international parties."

Is there a chance he might move abroad? "If the business requires it, yes."

Boustred is certainly not immune to Imerman's excitement at the prospect of building an internationally respected branded foods conglomerate - and a powerful rand hedge. He has the last word: "You never know; perhaps in 50 years' time Del Monte Royal will be as big in the food business as Nestle. Then they could put my bust in the foyer of 44 Main Street."



WOOING THE GNOMES

How the deal was done



A daring dash is the only way to describe the reverse takeover by Royal and Anglo of Del Monte Foods International (DMFI), which has existed for more than 100 years and is Europe's premier canned fruit and juice brand.

It was daring because Royal has only been in existence in its present form since 1990, and, at the time of the transaction, it had earnings of about a quarter of those of DMFI. It was daring for Anglo because it pledged R875 million in a transaction structured to ensure it did not gain management control.

Royal chairman Vivian Imerman, who invested his consortium's original 77% stake in the Royal Holdings pyramid company plus R50 million, is leading the expanded group. The deal binds him for a minimum of five years.

For the 37-year-old it lent palpability to a dream he had harboured of expanding his group into a world player. Books about positive thinking maintain anything the mind of man can conceive and believe in can be achieved. Imerman, who was hardly known in Johannesburg business circles five years ago, is proof of the maxim.

The new Del Monte Royal (DMR) control pool of shares is held in equal numbers by Anglo and the Imerman consortium. This pool has 60% of the top company, DMR Holdings, in which



Imerman has also retained an historic 10% direct stake. That company has a controlling 51% of DMR Corporation, which, in turn, has a 44% stake in DMR Foods (reduced from 65% before the deal). Anglo has a further 6% direct holding in DMR Foods.

DMR Holdings also has 58% of Raychem, which operates chemicals manufacturing and trading businesses. It has been speculated that Roychem will be sold, allowing Imerman to concentrate on DMR.

Anglo's investment in DMR came despite the more than R1-billion investment it and JCI have in the Premier food group. Anglo also has Rhodes fruit farms, though these are small by comparison.

Speculation that Royal was negotiating to acquire DMFI, with the help of Anglo, first arose in early 1992.

Outsiders may have questioned whether there could be a cultural fit between Anglo and Imerman. But they did not doubt that Imerman could conceive of the David and Goliath deal. Twice before, he had engaged in takeovers of companies larger than his own - Royal Beech-Nut in 1989 and Sapco, South Africa's second largest deciduous fruit canner (almost all for export) in 1991.

Since the Sapco deal, Royal group has developed at stunning speed. In March 1991 it listed off its food and chemicals subsidiaries and held a R66-million rights offer in Royal Foods to finance the acquisitions of Sapco and the biscuit and cereal operations of Fedfood (since renamed Foodcorp).

In April 1992 Royal Foods acquired the Lecol division of Nestle (SA). In May 1992 it acquired Donald Cooks in South Africa, a processor of deciduous fruit and vegetables mainly for the export market, and in August 1992 it acquired Utica Holdings' Fresh-Up juice division. In November 1992 it signed to become the distributor in South Africa of the giant Mars food group.

During this period, Royal met its forecasts of earnings growth and kept gearing low. Royal's first cautionary announcement bearing the Board of Executors stamp as well as the name S G Warburg & Co of London, which indicated an off-shore deal, was made in July 1992. By then, speculation about a tie-up between Royal and Anglo to acquire Del Monte was rife.

The deal, after some four months of negotiation, revision, cajoling, speculation, rumour . . . was finally announced on 4 December 1993.

Placement of the Royal group shares with institutions to raise the necessary capital was undoubtedly the highest hurdle. The original price for DMFI was £360 million, a massive R2.4 billion at the going financial rand exchange rate.

All the money had to be raised in South Africa. Trying to raise the capital abroad for a South African company would apparently have been wasted effort. Earlier in 1992, Sappi had sweated to raise capital abroad for an acquisition in Germany - and that was before the breakdown of Codesa, Boipatong and Bisho.

In the stripping of RJR Nabisco, DMFI had been bought for £229 million by a consortium of more than 100 parties led by Charterhouse Development Capital. It had, like many other such buyouts, been bought with the express purpose of sale, probably in dismembered form, for capital profit.

Among various sales of former Nabisco assets were two to Royal - Royal Beech Nut and Sapco. Following these acquisitions, Imerman and his top managers - most of whom were assimilated from the acquisitions - had natural insight into and links with DMFI. Imerman in no way let those links fade and at an early stage he was promised an informal pre-emptive right to purchase DMFI.

That Imerman had pulled off such a right is not as surprising today as would have been previously. He has made a practice of winning over major business powerhouses of very diverse characteristics.



Other powerful established companies in the South African food business must have been disappointed that they were outbid and upstaged.

Imerman seems to have pulled off the acquisitions through a combination of factors: the ability to see the wood from the trees in a deal; his obvious talent as a trader; and the fact that he is apparently willing to pay prices based on his perception of earnings. Vitally important: in all cases he has got existing management to favour his bid.

Where other larger food companies would have rationalised the victim companies into their existing operations, Imerman promised to preserve them and their cultures. He could do this because in all cases management of acquired companies was of a high standard, and in most cases the culture had sprung from the Nabisco source.

Imerman may have been convincing to his international partners. But the gnomes of local institutions, whose financing was required, proved reticent. Royal, its advisers and brokers embarked on an impressive roadshow to drum up contributions.

The gnomes were impressed, yes, but they are conservative. Many said in effect: "Thank you. We do not wish to advertise in the first edition. Once you have it running, we will consider investing." Faith and hope, not to say charity; are not their strong suits.

The Royal roadshow ran out of option time in mid-November. At that stage, DMFI's ownership consortium could have cancelled the deal and opened fresh negotiations with one of the many other eager suitors. Somehow it was convinced to extend Imerman's option, encouraged probably by the progress he had already made.

The Royal roadshow redoubled its efforts. The proposed acquisition was advocated on the basis of: its rand hedge qualities; its potential once long-term leadership replaced the wham-bang vendors; the quality and experience of the existing management; and the almost inestimable value of having the number one brand.

DMFI derives about a quarter of its pre-tax income from pineapples, deciduous fruit and fruit juice. Fruit supplies are drawn from a variety of countries, especially South Africa and Greece

(for deciduous fruit) and Kenya and the Philippines (for pineapples). Its major markets are Britain and Italy, which account for about half of all sales, and North Eastern Europe. Markets in which it could grow are Germany, Spain, France, the Middle East and Eastern Europe. Imerman, who was pictured in the Sunday Times with a South African flag on his desk, promised the deal would boost forex earnings and create jobs.

The negatives the gnomes had to consider were the failure of most other investments by South African companies - despite high initial expectations - as well as the high price to be paid for DMFI because of the weakness of the financial rand and, of course, Imerman's short track record.

The task of the Royal roadshow was made much harder by a downward revision by DMFI of its profits in 1992. This resulted in the price being reduced by £15 million to £345 million.

The final profile of the deal showed that success in placing shares has not been overwhelming. Together, South African institutions have taken up R1.17 billion of the shares required, thus financing 54% of the total price.

Still, that was generous considering the muted success of a concurrent capital raising exercise for a giant project within South Africa. The R7.2 billion Alusaf expansion, backed by the IDC and Gencor, raised only R500million from institutions, against an anticipated R1.5 billion.

To clinch the financing of the DMFI deal, Anglo doubled its original pledge; to its original R400 million take-up of shares, it sub-underwrote placement of another R400 million. Despite this, the arrangement of sharing of control with the Imerman consortium, and the management arrangements, were maintained.

Anglo had also committed R75 million to underwriting offers that had to be made to minorities in Royal Holdings (not yet changed to DMR) and Royal Corporation. As control of Royal Food was not changing, no offer had to be made to its minorities. In the event, very few minorities accepted the offers.



Anglo's commitment to DMR came at the time of a number of other big developments which dispel suggestions that it desired only to develop off-shore - its R1.7-billion Moab mine, its one-third share in the R2.6-billion Columbus stainless steel project and its R1-billion Namakwa Sands project.

The vendors of DMFI also lent their shoulders to push through the deal. In part payment, they took 16.9 million Royal Food shares worth £30 million (R150 million then). About a quarter of these shares are to be held in escrow against performance of the various warranties made with the sale. Of the rest, 89% are trade locked - they may not be sold for one year, except under certain conditions.

If these sales occur in late 1993, they could place downward pressure on the DMR shares. On the other hand, if Imerman and company achieve their forecast earnings in DMFI in current weak trading conditions and with the weakness of sterling, sentiment about the group could be so strengthened that the share could soar from its existing heady heights.

Imerman and his management have forecast earnings per share of 60.1c a share in DM Foods for the year to end-November 1993, a massive 66% higher than the 36.2c reported by Royal Foods for the year to end-August 1992.

The £345 million price for DMFI took into account £138 million in debt and £207 million (60%) in equity. The debt was to be liquidated and replaced with £63 million in equity - making a total of £270 million in equity to be raised - and £75 million in new debt. The negotiations with Del Monte and the roadshow had all been against a backdrop of sterling that had plunged between August and November from R5.50 to R4.50.

The prospect of large financial outflows placed severe pressure on the blocked currency. Foreigners who had pre-existing investments via the financial rand, and other South African companies that wanted to invest abroad, were angered by the losses inherent in the fall in the value of the financial rand.

Royal pointed out that the weakness was not only being caused by the DMFI deal, but by political events and other overseas investments by South African companies. These



investments, sealed or suggested, included acquisitions by Sappi, Standard Bank, First National Bank and Sentrachem.

The Reserve Bank responded with an announcement of strict curbs on foreign investments by South African companies - they would need to show "immediate benefit". The DMFI deal was a coup for Royal in another way - it was the last deal before the gate was closed.

The full price of the acquisition has not yet left South Africa. The financial rand will be seeped out by DMR. Management believes South Africa's political and economic prospects could improve in 1993, thus firming the financial rand rate despite the closing of the investment gate; the further fall in sterling in early 1993 has helped.

The final price for Del Monte could therefore be below R2.17 billion. By the time the final price is paid, the gnomes and other investors should know whether Del Monte Royal's management has succeeded in its all-out effort to achieve their forecast profit and digest Del Monte.



JUST SAY "YES"

The Nabisco break-up and the Del Monte story



The man in the white suit and characteristic Panama hat arrives at the fruit farm. A pineapple is split open and presented to him. He tastes it, pauses, smiles and nods. Outside, thousands of fruit pickers throw their hats in the air. The Man from Del Monte has said "Yes".

Or rather, he has not. "He never speaks," says Eugene Bacot of Oakes Bacot, publicity consultant to Del Monte Foods International (DMFI), which has just been purchased by Royal Corporation and Anglo American for a basic price of £345 million (about R1.6 billion). Its canned fruit, particularly pineapple, juices and other products, turned over more than £250 million (R1 billion) in 1991 and the 1992 figure will be higher.

The enigmatic TV ads which help to shift its produce "are among the most famous campaigns in the UK", Bacot notes. "The Man from Del Monte has entered folklore. The ads have enormously high recall, prompted and unprompted. "Now South. African investors must decide whether to say "yes" to the man in the white suit.

The upheaval in Del Monte began in February 1989 when New York leveraged buyout specialist Kohlberg Kravis Roberts (KKR) took over RJR Nabisco, one of the biggest us food conglomerates. Del Monte was a subsidiary of Nabisco.



KKR split Del Monte in two. The fresh produce interests were sold to UK group Polly Peck for \$875 million (R2.6 billion). The canned and processed foods business went to a Merrill Lynch-backed consortium for \$1.4 billion (R4.2 billion); the non-us side of it was sold to its management and backers for \$375 million in May 1990.

Bacot is at pains to point out that DMFI has no connection with the part of Del Monte which Polly Peck bought. Polly Peck subsequently went into liquidation and its chairman, Asil Nadir, is in disgrace.

Following the collapse of Polly Peck, he of the panama hat and white suit made his debut in the print media with ads in the Financial Times - "The Man from Del Monte, he say 'Oil '" The intention was to make sure the financial markets were fully aware of the distinction between the two Del Monte companies.

The chief backer of the DMFI buyout was Charterhouse Development Capital (CDC), a subsidiary of Royal Bank of Scotland. Nigel Hamway, a director of CDC and one of its two representatives on the DMFI board, says that not long after the management buyout, Royal's Vivian Imerman made an approach to buy Sapco, DMFI's South African subsidiary.

The deal was completed early in 1991, but in Imerman's mind, at least, it was only the first step. "Vivian told us he'd like to consider buying the whole group in time," says Hamway. "We noted that and remained in regular touch."

The Sapco deal established a close relationship between Royal and DMFI. "It supplies 45% of our deciduous fruit," points out former DMFI president and CEO Enrico Sola, who is now chief operating officer.

CDC was adamant that it would sell the highly geared Del Monte when circumstances were propitious. As an important trading partner, Imerman had "a right to be informed and a right to bid for Del Monte", explains Hamway. "He did not have an option to buy - essentially he had a right to participate."

By virtue of owning Sapco, Imerman was better informed than other prospective buyers of the value of Del Monte. "They had a detailed knowledge of the business," Hamway says. "That was



an essential fact in their calculations – and they were able to move much faster than anyone else."

Negotiations started early last year and took four or five months to reach finality. "Par for the course," comments Hamway. There were other bidders to consider. "Not a huge number - but some large groups who were very interested," he adds. "We made the decision in July to run with Royal on an exclusive basis."

Hamway says Charterhouse did not conduct an auction of the company. "Our view was that all trade buyers would pay similar prices. We didn't go into an auction because we thought it would be bad for DMFI - and we concluded that Royal, with the backing of Anglo, was the most credible buyer."

The main negotiations were between Imerman, Hamway and Sola's predecessor Leon Allen. But Anglo was involved from the start. "The full might of Anglo's corporate finance and analytic ability was brought to bear behind the scenes," notes Hamway. "They put us through an exceptionally thorough due diligence process."

Originally, Charterhouse hoped to obtain about £450 million (R2.25 billion) for DMFI. "That was when stock markets were busier and commercial sentiments more aggressive," sighs Hamway. Recession in Europe and the devaluations in the UK and Italy - markets which account for 60% of DMFI's turnover - lowered expectations. The result, Hamway claims, is "nobody could say Royal paid a premium price".

Operating profits were £36.7 million (R180 million) in the year to end November 1991, up 19% on the previous year despite difficult trading conditions in Europe and substantially increased selling and marketing costs. The goodwill element in the £360 million DMFI purchase price is enormous, since net assets amount to only £100 million.

Having visited South Africa recently, chief operating officer Sola is bullish on the prospects for DMFI under Royal's control. "What is very important is that we are coming from an MBO where the company was highly geared," he explains. "Royal will de-gear and give us more scope to do the things we want to do."

A priority is to step up DMFI's presence in the major European markets - France, Germany and Spain - where it is at present weak. That means investment in distribution and marketing, Sola says. Local ads have already been screened in most of the markets.

Expenditure on marketing is a major commitment. From £9 million (about R45 million) in 1989, this item rose to £31 million (R155 million) in 1991.

"People believe that when you are in an LBO, you squeeze the marketing spend," says Sola. "In the last two years, we increased it. We are spending on the best asset we have - the brand. We have supported it for 50 years and we will spend more."

The commercial rationale for the heavy expenditure is only partly to maintain and increase market penetration. It is also to ensure that Del Monte products sell at a premium which Sola estimates to be about 5% more than competing lines.

Since Royal acquired Sapco, he notes, it has added on some South African vegetable and fruit producers. Their output will also be sold at a premium in Europe. "They will sell under the Del Monte label very much better than under private labels," Sola argues. "It is a definite plus." He believes the process of selling South African produce in Europe under the Del Monte brand has much further to go. "We are very strong in some countries, not so strong in others. If we succeed, more fruit will be needed to cover our needs; not just in Western Europe, but in the Eastern part of the continent."

"I have known Vivian for two or three years, since the negotiations over Sapco," Sola explains. "He doesn't want a day-today role. I don't see any major problem in working together."

