

BASKAN GIDA

A Successful Syndication Story

Baskan Gida, has recently received a 35-million dollar pre-export financing from international banks. This was important news as it was the first time a Turkish company received a structured financing loan after the crisis. What was more important is that, the road show was already completed in the summer of 2001 and the agreement was signed in principal, in July. So, at the peak times of the crisis and at a time when foreigners didn't want to hear Turkey's name. Even more interesting, the cost of this financing is lower than that of Baskan's prior financing arrangements from Turkish banks.

Of course, the prestige that Baskan's name provides from being the leader in hazelnut export cannot be ignored. But, because Baskan did not have experience in dealing with international banks, and because at the time it had serious debt and limited capital, there is something else that is very important in the process. And that is, the financial advisory company PRI that was running the project and the determination of the team led by Victor Politis...

PRI is a company doing project development and financial advisory work especially in the emerging markets whose headquarters are in New York. The company has provided consulting services to many companies from various sectors in countries like

Russia, Romania, Israel, Czech Republic, North America and Western Europe.

The president and CEO of PRI, Victor Politis has an interesting story with Turkey. He started out by trying to implement the mortgage system in Turkey that is widely used in the U.S. but due to the crisis this project could not be completed. During this period, he worked on Halkbank's real estate investment project. Although the project was completed, because of all the other things going on in the bank, this project was also interrupted together with all the other projects.

After that, he said his experience with Baskan Gida.

Upon Baskan Gida's referral, Yavuz Gida has also recently requested PRI's services for a similar project. PRI currently has one more important project in Turkey. Victor Politis describes this as: "The major banks in Turkey appreciated our project with Baskan Gida and some of them have started to work on bringing this financing structure to Turkey. PRI may start to work with one of the these banks in the near future."



Victor Politis: "There are very important opportunities in Turkey"

Q: How and when was PRI founded?

A: I founded PRI seven years ago. Our first projects were in the former Soviet countries. The reason for this was, because there were the hardest markets. These were the places where there was no entrepreneurial culture. I thought if we were successful here, we would be successful anywhere. Our first project was in Lithuania. Our task here was to provide financing to a

state-owned company, an oil refinery that was about to go bankrupt. We saved the company, brought it to a profitable state and even though it was a state-owned company we did not ask for guarantee from the Treasury. This was what led us to our future projects.

Q: When did you first come to Turkey and what was the purpose?

A: I had traveled to Turkey many times

during the 1990's but the reason I came to Turkey in 1999 was because I saw many special opportunities. PRI's first plan was to create liquidity in the Turkish market to start up the mortgage program in the real estate field. Unfortunately, as we were about to start the program, we experienced the November crisis. So we stopped it for this reason and returned the investors their money. During this 3-year period, I traveled to Turkey more than 30 times. Even though our first project in Turkey didn't go as planned, I received my diploma in how to do business in Turkey. When the crisis hit, instead of abandoning the country, we focused on doing what we call our "core work" and this was the advisory business.

Q: How did you get the project with Baskan Gida?

A: People who know and trust us introduced us to Baskan Gida. Baskan Gida trusted us and signed an agreement with us. At first they thought that this was impossible but there was no harm in trying. In July, meaning within 2 months, we arranged the banks to lend \$50 million but in the meanwhile, because the price of the commodity dropped down, Baskan Gida no longer required \$50 million. So we had to renegotiate with the banks for the amount of the financing. This obviously delayed us a bit. Finally, we closed the

deal in December after solving all the problems.

Q: What is the cost of the financing to Baskan Gida?

A: The interest rate of the financing is variable. The cost for the first year including legal fees and the bank fees is in the vicinity of 7%. 3,5% over LIBOR plus fees and expenses.

Q: How is the term structure?

A: The financing structure is different than the common practices in Turkey. There is a credit line of \$35 million. Theoretically, if there are orders from customers, \$35 million can be drawn immediately. The Company goes and purchases raw material with this money, processes the raw material and sells it to the customer. It can be \$2 million or \$15 million, whatever the need is. Then the credit is paid back with the payment from the customer. Therefore this type of financing is legally possible. This facility is not comparable to credits that need to be paid back in three months or one year. You cannot draw funds unless you are making a sale. When you ask, what is the term, the answer is "as long as you have customers". Due to tax concerns and other considerations, the financing agreement is executed for a period of one year but it is renewed upon expiration. And when it is renewed, the borrower obtains even better conditions.

Q: From which banks were the financing obtained from?

A: Bank of Tokyo Mitsubishi and KBC in Belgium

Q: Have you worked with these banks in other transactions before?

A: This is a very good question. Our business does not depend on connections. I hear people saying to me, "Victor, you have good connections with the banks". It is not true; PRI does not have connections with the banks. We do not want it to have connections with the banks. For example, if I want to produce one thousand glasses, I go to X and say, "I want to produce one thousand of this glass but I don't have the money to do so. Will you provide financing for this?" X would ask, "OK, but how will you sell them? Who are your customers, show me how your are going to make profit?" If you can sell the product, you will work with Bank X today and maybe with Bank Y tomorrow. They would approach you and compete among themselves to provide financing for you. This is not about connections. It is about information, transparency and ability to negotiate. What you need to tell the banks that Turkey is a good place to invest in and that the borrower is a good company to lend to. No banker would give financing to an incomplete project because he likes me very much or he is my relative.

Q: How did you convince them?

A: We have had a lot of correspondence with these institutions as well as among ourselves. We have had dozens of meetings. More

importantly, we have collected all information about Baskan Gida in a booklet. All kinds of information, about raw materials, warehousing, quality control, transportation, packaging, competition, historical information about customers ... We have developed this information internally. The Company did not have this information available. This is very important for the banks. We have provided the committee all the information they need about Baskan Gida even before they met with the Company. Country information is in the final section of the booklet, because we believe that the project is not related with the conditions in Turkey.

Q: Didn't it create any problems that the company was Turkish?

A: It did. But we did not let anybody to talk about political risk. When the banks said, "This project is in Turkey, therefore there is political risk involved", we asked them what the risk was. When they mention the risk of military intervention, I asked them what they would do with the hazelnuts if that were the case. "Are they going to keep them in the warehouses or are they going to export the nuts? What kind of regime would stop exporting? So where is the risk?" I told them.

Q: Apart from the political risk, foreign banks also have a financial risk concern...

A: This facility is not comparable to a \$5 million credits whereby the borrower can use the

financing for any purpose it wants to. In structured trade financing, banks open a credit line to you in order for you to create business. If there are customers and if these customers pay for the goods, the credit is repaid. Therefore it is a very secure structure. Turkish banks saw how we work with Baskan Gida. A major bank understood how secure the structure is and appreciated it. That's why major Turkish banks what to understand and apply the same structure now; and this is very good for Turkey because it will reduce the cost of financing for the companies. If we assume that the bank charges 7% and borrows at LIBOR plus 2.5, it is still make money on that credit. Moreover, they have the opportunity to compete with international banks because they have broad networks. Since it is clear that the financing will not be used for wrong purposes. It will be used for producing profits, not for repaying old debts. Good banks will start this business soon, and others will follow. Perhaps we will be providing advisory services to one of the banks.

Victor Politis

A white-man in Harlem

The life of 51 year-old Victor Politis who was born in Greece is full of interesting anecdotes. His relationship with Turkey goes back many years. His father was a descendant of an Ottoman Jewish family that settled in Izmir after

being drawn out of Spain. Politis lived in Greece until he was 17, and then lived in a number of countries, including England, Israel, US, and France. After working as a professional manager usually in new ventures in various industries, he established his own company in 1986, when he was 35. His primary focus was real estate projects in the black-populated areas of the US. He is the first person to obtain financing from major banks for a project in Harlem. He recalls those days: "I was driving many people to Harlem in my minivan. One of these people was Guillian, who later became the mayor of New York. I was taking bankers and senators to Harlem and explaining them why they should invest in Harlem. It took me one year to convince them. These people were living in Manhattan but had never been to Harlem before. Later, when Guillian became the mayor, he took many people to Harlem with my minivan."

"Now I am coming to Istanbul and bringing people along with me", says Mr. Politis, who has been managing his own business for the last seven years. "I came here 30 times in the last 2.5 years but now I am not alone. I work with a very young and successful team." Mr. Politis was elected "the Entrepreneur of the Year" by the Inc. Magazine. He has also received several awards from institutions such as Merrill Lynch, Ernst&Young and New York University. He is also teaching finance and investments