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EUROPEAN EQUITY ISSUE

Marfin Investment Group's €5.19bn capital increase

Just as investors were starting to become frustrated with a string of poorly performing permanent capital listings, one deal proved that with the right management, even the most ambitious goals are achievable. For its achievement in attracting €9bn of demand with minimum disclosure on its investment plan, Marfin Investment Group's €5.19bn capital increase is IFR's European Equity Issue of the Year.

Marfin marvels

ifr awards 2007

Permanent capital transactions are difficult at the best of times, relying on lengthy roadshows to drum up support from retail, high-net worth, and private banking networks. Management needs to display a proven track record of success, and proceeds need to be invested at lightening speed if the fund is to avoid the negative cash-drag impact.

On paper, the €5.19bn capital increase for Marfin Investment Group (MIG) was far from a guaranteed success. The proposed permanent capital listing had many factors in its favour, an entrepreneur with a proven track record, a unique investment strategy, and a market-friendly fee structure.

But management remained reticent on the exact nature of its plans, revealing only that it intended to focus on executing a pre-identified pipeline of private equity investments, with the entire €15.6bn war chest, including €10bn raised in the debt markets, to be invested within a year.

In the event, it became the largest ever capital raising for an investment company or private equity fund and the industry was left agog at the apparent ease with which it was carried out. Joint global co-ordinators Deutsche Bank and Merrill Lynch were joined by Citi as a joint bookrunner. Dubai Financial, Investment Bank of Greece and Keefe Bruyette & Woods were co-leads.

The deal was structured as a rights issue and marketed as an IPO, with shareholders of Marfin Popular Bank offered 775m shares in the shell company at a fixed price of €6.70 on a 14-for-1 ratio. MPB, a 97% shareholder in MIG, did not take up its rights, thereby reducing its stake in the vehicle to 6.5%.

With a dearth of specifics on the business plan, lead managers were left with the task of persuading investors to take a considerable leap of faith. Lead managers conceded that much of the deal's success rested on the persuasiveness of Marfin's founder and chairman, Andreas Vgenopoulos, a charismatic cigar-smoking entrepreneur who is well known in Greek and Cypriot business circles.

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The lack of specifics would normally make investors run, but bankers claimed that Vgenopoulos was so persuasive at roadshow presentations that investors "went in as sceptics and came out believers".

Vgenopoulos initiated last year's three-way merger of Marfin Popular Bank, Laiki Bank and Egnatia Bank, to build one of the largest and fastest growing financial players in the south east Europe region. The company's aspiration was to become the leading investment and holding company in south eastern Europe.

Several factors mark the company out from other private equity listings. The area of focus is Greece and the Balkans, which few other funds have looked at. That gives a great advantage to Vgenopoulos, who is one of the best-known entrepreneurs in a market where connections are all-important in building stakes.

The fee structure saw 1% paid to MPB in exchange for the use of its infrastructure, but other than that there are no cash fees. Instead, management is paid in out-of-the-money stock options, exercisable at €10, ensuring that compensation only occurs in the event that the company hits the targets promised to investors.

In spite of the opaque investment plans, roadshows were wrapped up early, generating €9bn of demand. More than 100 accounts requested stock, with 20 institutional orders of over €50m each and multiple orders over €100m. Unlike other fund issues, private banking money was dwarfed by institutional money. The bank rights issue structure also meant German investors could participate in private equity listings for the first time, as punitive tax arrangements had excluded them from Amsterdam-listed vehicles.

A commitment from cornerstone investors certainly helped to drum up support. Dubai Financial committed to taking €500m prior to launch while Vgenopoulos invested €50m of his own money and the CEO invested a further €20m. Local demand was also significant, with the leads surprised at just how much interest one man could create.

If the transaction itself was not already ambitious enough, then wider market turmoil through the bookbuild and negative sentiment surrounding permanent capital vehicles at that time made the result all the more impressive. Sub-prime woes began to take their toll on sentiment for the first time, and casualties included Carlyle Group, which was forced to delay its Amsterdam flotation of Carlyle Capital Investment, and Caliber Global Investment, which was forced to liquidate its London-listed vehicle that had been trading at just 60% of NAV.

Since the offer, MIG has made a series of investments in the region and its portfolio includes a 17% stake in Hellenic Telecom, a 56% stake in Attica Holdings, and a 50% stake in Blue Star Maritime.

Helen Bartholomew, Chris Vellacott