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Estáter – the dealmakers behind Brazil's retail war

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There must have been the sound of wailing and gnashing of teeth above Avenue Kléber in Paris on Monday night when news arrived at Casino's head office that its Brazilian partner, Grupo Pão de Açúcar (GPA), had reached a deal with Carrefour, its French arch-rival.

Casino's press statement on Tuesday morning didn't leave much doubt about the reaction of Jean-Charles Henri Naouri, Casino's CEO, and his colleagues. They thought they had a deal with GPA that would give them control of Brazil's biggest retailer next year. They may very well have a case. But a look at the advisers behind Tuesday's deal suggests it may be time for some deep breathing.

Never mind that, according to Carrefour, the deal has the backing of the BNDES, Brazil's national development bank – which has been used before to fund deals that fit with government policy of creating "national champions".

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 reaching for the Prozac is the involvement of Estáter, revealed by documents seized in France to be advising Carrefour and Abilio Diniz, GPA's founder. That's because it was also Estáter – up there with BTG Pactual among the smartest operators in Brazil's financial sector – that advised Diniz when he made his original deal with Casino back in 2005.

Estáter's involvement will have been key in convincing Carrefour and GPA they would be able to go ahead with their deal – which Casino immediately branded as "illegal". Pércio de Souza, Estáter's founder, told reporters on Tuesday it would not go ahead without Casino's approval – which suggests he is aware of some leverage. As we write this, the FT in Brazil is on its way for a chat with de Souza to find out more.

Meanwhile, we'd like to share some insights into Estáter's business model.

Estáter is not like other M&A houses. In a conversation with beyondbrics at its São Paulo headquarters late last year, de Souza talked about how it does business. Here is some of what he had to say.

> *I always believed that M&A isn't just a product to be offered along with others. In M&A you are involved in a critical moment in a company's life that makes a difference forever. It's a matter of fundamental strategy. The big dealmakers – Dillon Reed, Wasserstein, Warburg, Morgan Grenfell – had all disappeared. I believed that if you really understood strategy and ownership, you could fill a space in the market.*
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> *We don't believe in relationship banking – of course relationships are important, but they are a consequence. If we hired somebody from a big bank they would spend all their time at meetings. But you have to get your hands dirty. You have to focus on the 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.*
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> *We believe a lot in the strategy of negotiation. The sector doesn't matter. The sector is something you can study. But understanding the psychology and strategy of negotiation is something you have to build over time. It's part of the culture [of Estáter].*

One of Estáter's first and longest-lasting clients is the Diniz family and GPA. Estáter's first job was to adjust Abilio 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 only big deals, taking smaller ones on rare occasions only if they promise something bigger 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. When we started [in 2003] we thought we could aim at income of $30m. We got that in 2007. This year [2010] we'll make $70m to $90m.*

The next step was to open an office in London – now up and running.

> *It may seem insane or exaggerated and in the past it would really have been crazy to think like this. But there is a shortage of boutiques focused on M&A. And we think we can identify opportunities there. It's our main focus and it may sound like dreaming but we think our model can work.*

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