Commodities

Margarita Louis-Dreyfus defends family buyout

Russian-born heiress on cusp of taking full control of agriculture trader

Neil Hume, Natural Resources Editor YESTERDAY

The life of Margarita Louis-Dreyfus reads like a classic rags to riches story.

Orphaned at an early age; raised by a grandparent; finding love on a transatlantic flight; a bitter family feud played out in the courts and press; a $900m buyout to seize control of a 167-year-old storied company; and a promise fulfilled. It has it all.

But Ms Louis-Dreyfus, now the majority shareholder of Louis Dreyfus Company, one of the world's biggest traders of crops and foodstuffs, is keen to separate fact from fiction.

In a rare interview weeks after the 56-year-old Russian-born heiress secured financing to complete the buyout of the group from family members, she hit back at suggestions she was squeezing the commodity trader for cash.

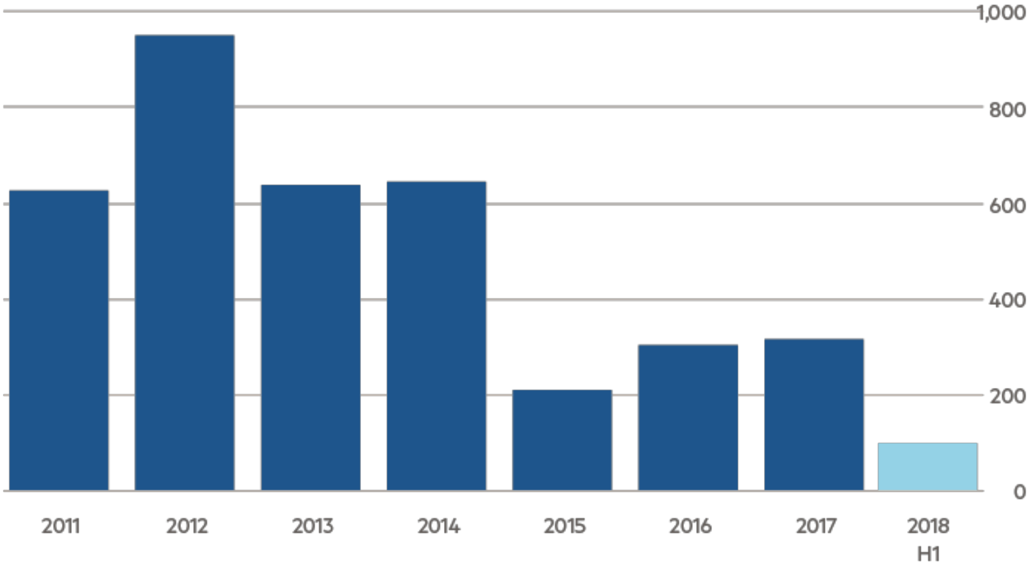
"We've got a very solid repayment plan that in no way damages the business," she said.

Once the buyout is complete in the next couple of months, Ms Louis-Dreyfus will cement her control over the company founded in 1851 by Léopold Louis-Dreyfus, allowing her to reposition it and strike strategic partnerships.

Today LDC is one of the world's biggest traders of grains, soyabeans, coffee and cotton, employing about 17,000 people across the globe. Its turnover in the first six months of 2018 was almost $19bn.

Louis Dreyfus' earnings

Net Income ($m)



Source: company
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"It is a big relief, not only for me personally but also for the company," added Ms Louis Dreyfus, whose rise from circuit board seller in the former Soviet Union to the majority shareholder of LDC is one of the most remarkable stories in the natural resources industry.

Born in 1962, Margarita Bogdanova was orphaned at the age of 11 when her parents died in a train accident. Raised by a grandfather in Leningrad (now St Petersburg), she graduated with a diploma in accounting from the local school of commerce.

She met Robert, the great grandson of Leopold, in 1988 on a flight between Zurich and New York. They married three years later and had three sons. (Ms Louis-Dreyfus also has twin girls with her partner Philipp Hildebrand, former chairman of Swiss National Bank).

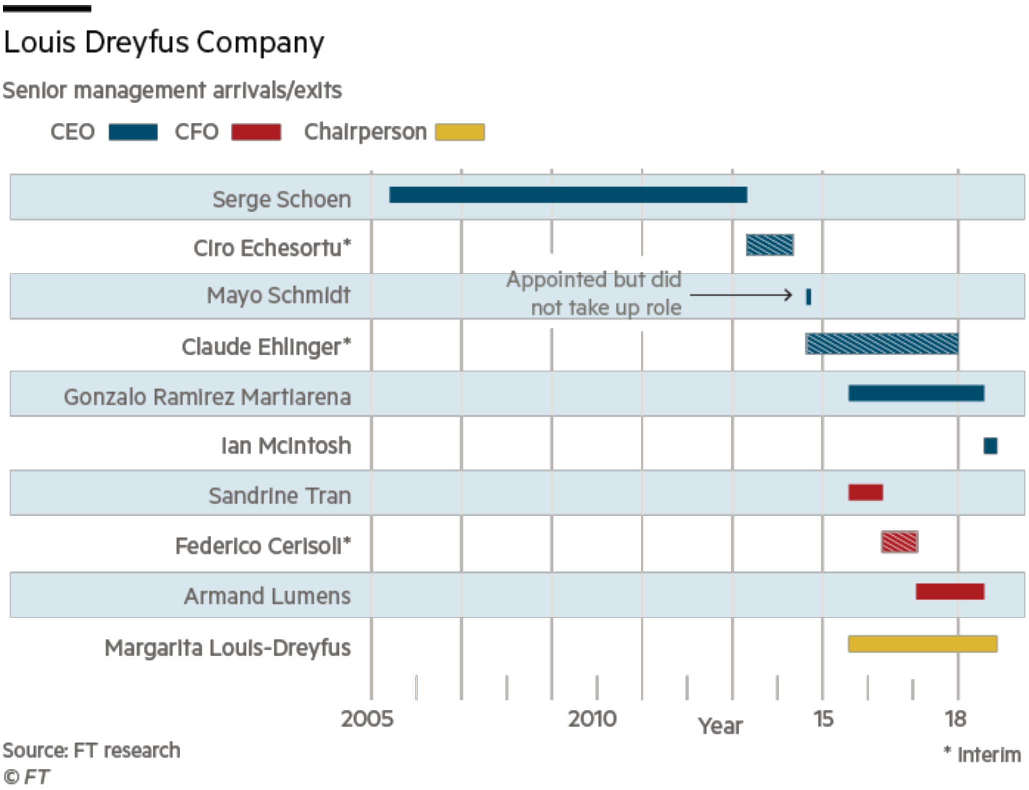
Before Robert's death in 2009, Ms Louis-Dreyfus promised she would safeguard the business. Since then she has steadily strengthened her grip, becoming chair of LDH in 2011. Sometimes portrayed in the press as a mysterious Russian who married into wealth, the determined heiress was soon at loggerheads with other members of the Dreyfus clan, including two of Robert's sisters.

As Ms Louis-Dreyfus became more involved in the business, they exercised a clause in a shareholder agreement forcing her to buy most of their remaining shares in LDC's parent company Louis Dreyfus Commodity Holdings BV (LDH).

A long-running saga ensued.

After several years of legal wrangling, the two sides finally agreed a value for the shares and Ms Louis-Dreyfus revealed in November that she had secured a loan to finance the buyout. This will see Akira, her family trust, own more than 95 per cent of LDH, up from 80 per cent.

"Robert always said it was preferable to have a strong shareholder than to serve the interest of multiple shareholders," said Ms Louis-Dreyfus.



A successful businessman in his own right, Mr Louis-Dreyfus returned to the family company in 2006 at the age of 60 and led a radical restructuring. He was worth an estimated €7bn when he died.

News of the buyout came just a month after LDC declared a $411m dividend in spite of a sharp drop in half-year profits, fuelling speculation that Ms Louis-Dreyfus was squeezing the business for cash to fund the purchase.

"Akira was set up with one purpose, to protect the business, not drain it of cash," she said, explaining the $411m payment revealed in October was made up of dividends declared in 2016 and 2017 plus a special dividend of $100m related to the sale of its metals business.

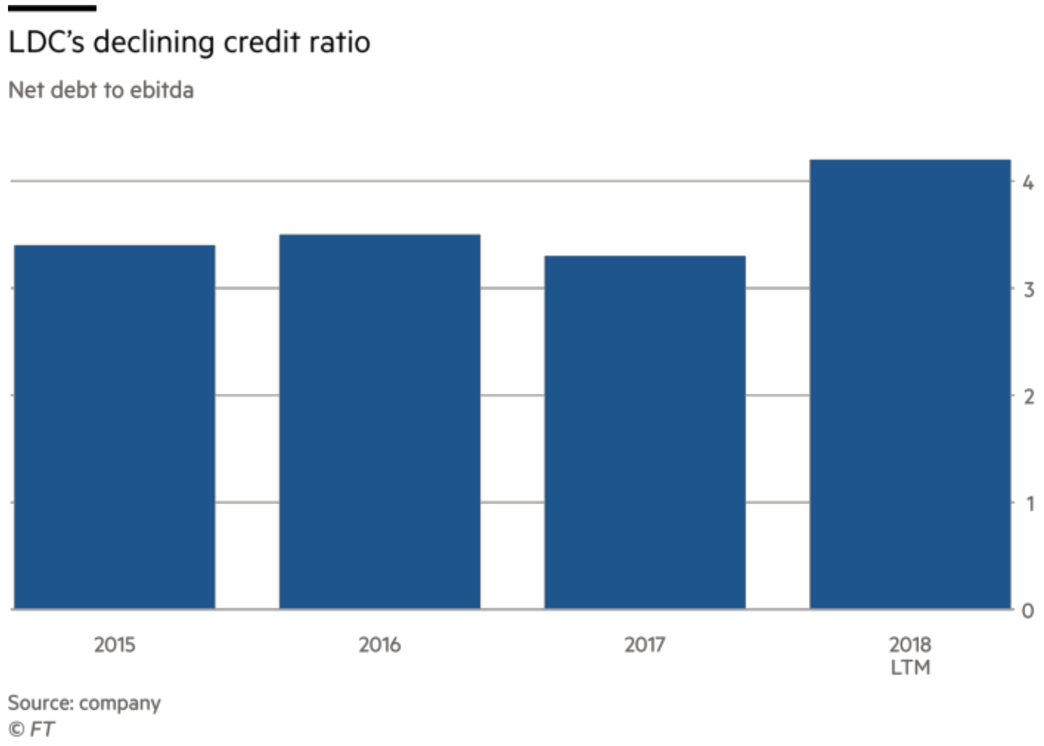
"The payments are completely in-line with our dividend policy. We never pay out more than 50 per cent of annual earnings," added Ms Louis-Dreyfus. "Those are the facts."

Like its rivals Archer Daniels Midland, Bunge, Cargill and Glencore, Geneva-headquartered LDC has been battling tough markets conditions and structural shifts in trading that have depressed profits across the industry and forced companies to rethink how they do business. In 2012, LDC recorded net income of more than $950m, last year it generated just $305m.

The traditional model of buying crops, storing them in silos and trading the inventory is being pressured by advances in technology and greater market transparency. In order to protect margins, food traders have been moving "downstream" into more complex processing activities and shifting their geographic footprint towards Asia, where there are favourable demographics and China, where the proportion of protein in diets is rising.

Ms Louis-Dreyfus said she was "satisfied" with LDC's recent results given the difficult market conditions, although the company's debts were a little higher than she would like.

LDC's net income fell 37 per cent to $100m in the six months to June, while its adjusted net debt hit $3.56bn, up from $2.6bn at the start of the year. That pushed net debt to 4.6 times earnings before interest, tax, depreciation and amortisation, well above the long-term target of 3. The yield on its bonds due in February 2022 has risen to almost 3.8 per cent from 2.5 per cent in September.



LDC executives said the spike in net debt reflected higher working capital utilisation over the period, mainly because of larger inventories and other capital items. They added that the decline in half-year profits included losses on derivatives used to lock in margins in its soy-crushing operations, which should be reversed by the end of the year and into 2019.

“Higher debt, weaker gross margins, a 37 per cent drop in net profit and reduced equity is not a very good trend,” said Jean-François Lambert of Lambert Commodities, a consultancy. “Hopefully, the second-half results will show that the strategy put in place to secure the margins pays off.”

Keen to set the record straight, Ms Louis-Dreyfus said she has no involvement in the day-to-day running of LDC and becomes animated when the conversation turns to the turnover of senior managers and whether she has clashed with executives

Since Serge Schoen stepped down in 2013, LDC has had a string of chief executives. The latest, Ian McIntosh, replaced Gonzalo Ramírez Martiarena, a hard-charging Argentine who left the company in September.

Ms Louis-Dreyfus is quick to point out that two of the CEOs were internal appointees, given the job on a temporary basis while LDC looked for a permanent successor to Mr Schoen. She notes one appointee, Mayo Schmidt — who was named CEO in 2014, never took up the job.

“All this stuff about changing CEOs . . . it’s just incorrect.”

Still, the sudden departure of Mr Ramirez — on the same day as chief financial officer, Armand Lumens, who left for “personal reasons” — shocked the industry.

Ms Louis-Dreyfus is tight-lipped on the reason why Mr Ramirez left and will not say if it was related to his management style.

“I cannot say why he left but I can say it was not because of a clash over strategy, or discovery of some misconduct or anything like that. It was also not my initiative” she said. “I would like to repeat that Gonzalo did a good job.”

Mr Ramirez declined to comment on his departure when contacted by the Financial Times.

Under Mr Ramirez, LDC had refocused on its core operations, trading grain and oilseeds, selling its metal and fertiliser businesses and searching for a partner to invest in its orange juice business.

After three years of consolidation under Mr Ramirez, Ms Louis-Dreyfus said the focus was now on growing and positioning LDC as a diversified food and nutrition company as well as a commodity trader.

This evolution will be led by Mr McIntosh, who joined the company as a trainee in 1986 and was running LDC's hedge fund business until it closed last year.

In a recent interview with the FT, Mr McIntosh said he fully supported the company's plans to realign its geographic footprint towards Asia and move further downstream into areas such as processing. As part of that strategy, LDC recently opened a new crushing plant in Tianjin, China.

Mr McIntosh is also keen to sharpen LDC's edge in trading, using its physical footprint of assets to really understand global supply and demand balances, move into food ingredients and invest alongside others in next generation proteins and agritech start-ups.

To achieve "fair and sustainable value creation", Ms Louis-Dreyfus said all options would be considered from joint ventures to strategic partnerships, acquisitions, and even a stock market flotation. "Why not if it helps the business. Nothing can be excluded," she said.

"Everything is changing so quickly, so I don't know, and probably no one knows how the business, how the agricultural business, will look in 10 years' time."

But the tycoon's widow is clear on one thing: she is now in control. "My family trust has now the full freedom to make decisions."

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