



You Ready for This?

International deals can take a business to new heights. But when the demands are extreme, it makes a tough call tougher

The company: Melville Corporate Finance is a boutique investment bank based in Vancouver. Founded in 1990 by CEO Christian Haselboeck, the company has grown by focusing on deals that are too small for large banks — usually in the tens of millions of dollars — but still large enough to generate decent fees for a small firm.

The situation: Melville has been invited to raise \$300 million to build a petrochemical plant in China. If it accepts, the deal will be the firm's biggest ever. The rewards could be huge, but the risk is also high, thanks to the deal's unusual compensation and Haselboeck's concerns over Melville's capacity to handle a highly complex international project.

CHRISTIAN HASELBOECK HAD A LOT on his mind as he hustled across London's famed Berkeley Square on his way to a meeting in nearby St. James Square. But one thought weighed more heavily than the others: Should his firm, Vancouver-based boutique investment bank Melville Corporate Finance, accept the massive job it had recently been offered to raise \$300 million for a proposed petrochemical plant in China?

It was the search for an answer that had brought Haselboeck to England on this day in early September 2007. He was here to meet with potential investors to test the level of support for Guangdong Superior Oil's proposed Tai Ping Petrochemical Plant in China's Guangdong province. Such meetings were standard practice before signing on to any deal. But Tai Ping was different. For starters, if Haselboeck accepted the

offer, it would be the largest job his company had ever taken on in its 27-year history. More significantly, Melville was being offered an entirely new form of compensation: Instead of a fee for its services — usually a small percentage of the funds raised — Melville would receive an equity stake in the project itself. It was a tempting proposal. If Tai Ping was successful, Melville would earn

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more money than it had from all of its deals over the last two years – combined.

Getting to that point, however, wouldn't be easy. Melville, which usually worked on deals measured in the tens of millions, would have to invest \$1 million of its own money in pre-deal financing expenses. Plus, there was the possibility that it would have to open an office in China, which would be costly. A third of its staff would end up working on Tai Ping full time, limiting the company's ability to take on other business. And Melville wouldn't see any return from Tai Ping until it was up and running,

And this was just the beginning of the process. Meeting prospective investors, as he was now, would give Haselboeck a sense of whether he would be able to put a financial package together. But once a deal was in place, would he be able to manage the team so that the project would succeed?

HASELBOECK FOUNDED MELVILLE Corporate Finance in the summer of 1990, just as the Canadian economy was slipping into recession. He worked alone for the first two years, but was eventually able to start hiring associates as

opportunity to participate in Tai Ping. But as he worked through the details with Chen, he could see the extent of the challenge.

Upon his return to Vancouver, Haselboeck discussed Tai Ping with his team, which included individuals with management and finance experience in a broad range of industries. Most had lived and worked in Europe, Latin America and Asia, and were familiar with working in cross-cultural settings. All agreed that Tai Ping would be one of the most difficult projects they had ever faced.

For Haselboeck, the main issue was how

“There are too many factors that have to come together for this deal to succeed. The big ones aren't even within Haselboeck's control. And not having compensation to cover basic expenses makes me nervous”

meaning the company wouldn't earn its first dollar back for at least four years.

On top of that, Haselboeck worried about the project-management challenge Tai Ping would present. As an investment banker, he would be the lynchpin in the process, trying to coordinate a group of international backers that was both far-flung and diverse. There would be issues with time zones, languages and culture. Depending on what problem he was trying to resolve at any given moment, his presence could be needed in any one of perhaps a dozen cities around the world. Just last night, for instance, he'd been discussing Tai Ping over dinner with potential backers at Aker Brygge, a hot spot in Oslo, Norway. Today he was in London. In two days, he'd be on his way to China.

business picked up with the economic recovery. Over the next decade, Melville continued to grow, adding staff and focusing on deals that were too small to be attractive to large investment banks yet large enough to generate healthy fees for a boutique firm.

Haselboeck came across Tai Ping during a business trip to Hong Kong in the spring of 2006. On that trip, he met a financier named James Chen, who was planning to enter into a joint venture with the owners of Guangdong Superior Oil – a large distributor of petroleum products in China – to build a plant that would produce ethylene and styrene.

Haselboeck was aware of the rising demand for petrochemical products in China and he felt honoured when Chen offered him the

well Melville could manage the flow of information to avoid having inevitable mini-emergencies blow up and become major crises. In past projects, due to the close proximity of the players and their common North American culture, he had been able to mediate disputes within a team with a telephone call or by corralling the parties into a room. “I've read that 80% of communication is non-verbal and, from my experience, I believe that to be true,” he says. “I've seen two parties who had taken opposing sides come to an agreement within an hour of meeting each other.”

With Tai Ping, he wouldn't be able to convene face-to-face meetings every week. He would have to find other ways to keep the process on track.

INNOVATIVE IDEAS.
RELEVANT EXPERTISE.

WALKING BRISKLY, Haselboeck continued on his way towards St. James Square, stopping only for a moment to check his PDA for messages. There were plenty. His lawyers had called about an amended agreement for a different project his company was working on. The Melville team had also emailed the latest version of an investors' presentation for yet another deal. A third email contained a question from a potential investor. All these issues required his attention in the next few hours, and Haselboeck took comfort in the fact that at least he was used to working remotely. That bode well for Melville's prospects with Tai Ping. But this project would still be a challenge of a whole different order of magnitude.

As he started walking again, Haselboeck once more started running through the pros and cons of the offer. Yes, there was the potential for excellent returns. But if he signed on with Tai Ping, how would he build what amounted to a virtual team and put in place the feedback loops to ensure issues were handled before they had a chance to become major problems?

The Expert View

By John Eckert

Managing Partner,
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MY ADVICE TO Haselboeck would be to not proceed with Tai Ping on the terms he was presented. There are numerous risks, many of which are not yet even known. Normally, when considering a deal, I ask myself how many things have to happen in order for it to be successful. In this case, there are an unquantifiable number of things that have to come together – and the big ones are not even within Haselboeck's control. All this, together with no cash compensation or even funds to cover basic expenses, makes me very nervous.

I believe Haselboeck's approach to first seeking potential investors provides little comfort, even if the investors appear enthusiastic. In my experience, investors really only make decisions once all risks have been firmly addressed, and that day is far down the road. At this point, if an investor says, "yes, I am interested," what he is really saying is, "sure, if everything goes according to plan and you are able to deliver a deal as attractive as you are representing today, of course I am interested." Who wouldn't be? The real question is whether Haselboeck will ever get to that stage. There are big risks surrounding regulatory and government approvals, contract negotiations, construction issues and partnership agreements, to name but a few – and all still need to be addressed.

I also can't get past the issue of zero compensation along the way. In fact, it is worse in that the expected out-of-pocket costs will be \$1 million, not including the cost of tying up one-third of his staff for several years. I also believe that if an adviser is not getting paid some fees – even a modest amount – there is considerably less respect and commitment from the client. For a project this big, I find it suspicious that a minimum amount of money cannot be found to pay for the services of the individuals who will be so vital to the success of the project. I am not adverse to success-based remuneration. In fact,

I encourage it as it is a way of having 'skin in the game.' However, without some fees being paid, I don't see the client as having a sufficient commitment. If the deal becomes tougher than expected and takes longer to close, this will create unnecessary friction.

Perhaps most important of all are the cultural issues surrounding doing business in China. Haselboeck needs to be acutely aware of these. China is rapidly evolving, but it still has much of the Wild West frontier mentality. When you're doing business in North America, Western Europe or other parts of Asia, such as Japan or Singapore, the rules of business engagement are very clear. These places all operate on comparable systems of accounting, law and business practice. They also have sophisticated systems for formal dispute resolution. I am not referring to issues of trust, friendship or reputation as I see these as common across all peoples everywhere. However, official rules do differ between countries – sometimes dramatically – and these differences can often lead to big problems with limited recourse for foreigners in particular.

If I were Haselboeck, the only way I'd consider the deal it is to have all my costs covered and to receive some ongoing fees, even if that means taking a smaller share of equity down the road. The ongoing payments could be based on achieving certain milestones. That way, if things go off the rails, at least he will not be looking at a major setback.

If that's not an option, I'd forget it. There are too many unquantifiable risks that are out of his control. As a businessman, Haselboeck has to anticipate the catastrophic effect of spending years of his life, plus escalating costs, only to have a project this complicated come crashing down for reasons he can't even anticipate today. Haselboeck has clearly worked very hard for many years to achieve significant success

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already. To risk it all at this point for a 100% back-end-loaded deal simply does not make sense for his company.

By Michael de Carle

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THE PROSPECT OF conducting international business has become a reality for Canadian investment banks as their clients' activities have pushed geographic boundaries. International ventures, however, can be risky. So in assessing this project, Haselboeck and his colleagues at Melville need to assess the potential return and attendant risks from an investment banking perspective before deciding whether to proceed with the project.

If the decision is to move forward, Melville needs to organize and add structure to an otherwise unstructured situation. A number of

other team leaders should invest time at the outset to fully understand the objectives of all participants – Chinese management, regulatory and government organizations, joint venture partners and potential investors. A team mentality needs to be adopted and mutual trust fostered: listen before speaking, ask before acting, avoid making assumptions and show consideration and respect.

There are obvious hurdles when it comes to working with international clients, and communication is top of the list. Certainly the breadth of the financing and the complexity of the underlying Tai Ping project will force Haselboeck to consider the optimal means to manage information. Some suggestions include: prepare an agenda for each meeting; keep to scheduled timing and deadlines; consider time zones and holidays when scheduling meetings and establishing deadlines; hold regular conference calls (again, send an agenda in advance of each call) to ensure regular communications and schedule them at times that fit relevant time zones; include team members (at Melville and the client) who have bilingual language skills for impromptu translation; designate individuals to be responsible for key information, both within Melville and on the client side; designate individuals at relevant geographical points of contact and utilize technology (e.g. email, video conference and wireless devices) to their full potential, but deliver all sensitive or important information by telephone or in person.

respect to transaction expenses. In this case, if Melville is to absorb \$1 million in pre-closing costs and commit staffing, Haselboeck should consider phasing the project expenses (and, for that matter, fees) against milestones and utilizing staff from the Chinese partners.

As the due diligence required for the Tai Ping project will be significant, Melville will need to investigate drawing on experts and consultants that work with them on an as-needed basis. Such external advisors may even consider investing their time and resources if they see additional benefits from being associated with financing this venture. Even more, Melville may want to consider finding an investment banking partner that can bring either scale or deeper local resources to the table in exchange for a share of the revenue – and, at the same time, absorb a proportion of the upfront deal costs.

As a final thought, I'd ask Haselboeck and Melville to remember that while international business can require a significant upfront investment in time and capital, China's remarkable growth presents unlimited new business opportunities. The Chinese market, however, is hyper-competitive – and it is every bit as challenging for investment bankers as it is for any other business.

The Outcome

Haselboeck accepted the Tai Ping opportunity in late September 2007. "The chance to work on this project could not be passed up," he says. Melville has since opened an office next to Superior Oil's in Guangzhou, the main city in Guangdong. It is staffed with an associate dedicated to the project who works for both Chen and Melville, with the costs split evenly. Haselboeck has also visited the owners of Superior Oil and has toured the proposed plant location on three occasions. Haselboeck is still working on the financing, a process that has been slowed by turmoil in the credit markets.

Note: The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The views represented here are solely those of the case authors and are based on their own professional judgment. Certain names, scenarios or identifying information may have been disguised to protect confidentiality.

There are hurdles when working on international projects. Communications is at the top of the list

steps should be taken ahead of convening an organizational kickoff meeting. The company should consider a project code name to protect confidentiality, it should prepare a working group list of team members with relevant contact information and it should draft an early timetable with key milestones and assigned responsibilities.

In approaching any project, Haselboeck and

The allure of new revenue opportunities often draws people to international business. International business, however, will invariably stretch an organization's resources. In many cases, businesses have found that international projects consume time and resources disproportional to revenue. Also, while it is often true that one needs to "spend money to make money," one should be careful with