



Company: La Polar
Operations: Chile
Investment (Date): \$33.3 million, (August 1998)
Initial Ownership: 100%
Exit (Results): Fully realized (8.1x ROI, 42% IRR)

Source Southern Cross identified this opportunity through its local network and approached the company's creditors as a potential buyer who was capable of restructuring La Polar's debt and putting the company back on solid operational footing.

Industry Retail and consumer finance

Business Overview La Polar was a family owned department store chain with a leading position in the retail and consumer finance markets focused on mid/low income consumers. Prior to Southern Cross' investment, La Polar had accumulated significant high-interest, short-term debt to finance its rapid expansion in Chile. La Polar had also lowered its consumer credit standards in order to attract customers to their new stores. These two factors resulted in strained cash flow due to increased accounts past due/uncollectible and increased debt expense. By mid 1998, La Polar was under increasing pressure from its creditors and at serious risk of going out of business.

- Key Business Attributes**
- Solid underlying assets: La Polar possessed the #1 brand focused on the fastest growing retail and consumer finance segment in Chile, an established distribution channel consisting of 12 strategically located stores, and a 400,000 client database. La Polar was a recognized leader in clothing retail and was often the sole source of credit for its customers.
 - Strong value creation potential: La Polar was a family controlled business with significant potential for financial and operational improvement.
 - Complex transaction: The Company was on the verge of being liquidated by its creditors, which included 18 banks and over 400 suppliers. There were very few buyers who were capable of developing an acceptable solution for all parties.
 - Attractive valuation: Due to the lack of alternative buyers, the acquisition price was less than the replacement cost of assets plus long term working capital already committed. The transaction structure significantly reduced past liabilities.
 - Exit visibility: Southern Cross pre-identified a number of regional and international buyers who would have interest in acquiring a well-managed asset in this space.

Co-investors None

- Investment Strategy** La Polar was a high quality business with an exceptional brand name that had lost its focus due to a lack of professional management. Southern Cross executed 6 key initiatives:
1. Negotiate debt restructuring: Southern Cross successfully negotiated a debt restructuring with 18 banks and approximately 400 suppliers. The restructuring reduced La Polar's debt from \$73.2 million to \$37.9 million and extended its payment terms from short term to an average maturity of 4 years.
 2. Install new management team: Southern Cross successfully recruited and hired a new management team led by CEO Pablo Alcalde who was the former CEO of Forus (a leading shoe retailer) and the former COO of Banco Edwards (an innovative commercial bank in Chile).
 3. Reposition the company: Southern Cross along with the new management team developed a strategy that was aimed at making LaPolar the leading retailer for the middle to lower income market segment in Chile. The strategy defined clear guidelines for assortment, pricing, store locations, decorating styles, salespersons' profiles and an innovative advertising campaign.

4. Control costs through improved operations: Southern Cross implemented systems and procedures to improve La Polar's consumer credit analysis. Southern Cross enhanced the company's logistics management by instituting just-in-time delivery practices.
5. Drive growth through organic expansion: Southern Cross along with management has successfully grown the number of stores from 12 to 26.
6. Introduction of new products and services: Southern Cross initiated an extensive analysis of the database of information from the consumer finance business in order to identify and develop new products and services aimed at increasing La Polar's share of their target consumer's wallet share. As a result of this program, La Polar has successfully introduced private label clothing, insurance products, mobile phone services, and basic healthcare services.

Limited Operating Statistics	(US \$ in millions)	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	Net Sales	124.6	133.9	159	192	226	323
	EBITDA	11.6	14.7	20	24	26.7	42.1
	# of stores	15	18	20	23	24	26

Exit/Current Status On September 17, 2003, La Polar and Southern Cross successfully executed one of the region's first IPOs, post the Latin American financial crises, when La Polar sold 20% of its common stock on the Chilean exchange raising in excess of \$32.0 million. Southern Cross has successfully liquidated its entire position in 3 subsequent offerings, the last of which occurred on October 12, 2006, generating aggregate net proceeds to Fund I of \$268 million representing a 8.1x ROI and a 42% gross IRR. Over the course of Southern Cross' ownership, La Polar's value increased from \$33.3 million to a market capitalization of greater than \$800 million.