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Following successful investments in bonds from IDB, Matomy, Jerusalem Economy, Blue Square Israel and others, **Brosh Capital** is interested in purchasing Africa Israel. This is how the fund of Roni Biram and Gil Deutsch operates. * Hadas Magen

Barring any unforeseen developments, the well publicized struggle over acquiring control of Africa Israel will conclude in the coming weeks. The final decision is still remote, but it is already evident that one of the more intriguing competitors among the eight bidders is Brosh Capital, a private fund which holds Africa Israel bonds worth approximately 80 million ILS, and which bid 1.9 billion ILS for the company, 1.5 billion in cash and the remainder in new bonds from subsidiaries.

“A significant portion of the players competing,” says a source involved in the sale, “are players from the real estate field, who wish to take the company, or parts of it, and manage it over a long period of time. Brosh is atypical since it does not have the know-how to manage such a company, and there’s doubt as to whether it has the capital to complete the purchase.”

Why is Brosh interested in Africa Israel, competing against local investors and entrepreneurs such as Moti Ben Moshe (who submitted a bid together with Lev Leviev, Africa Israel’s current controlling shareholder), the Siedhoff Brothers, who recently competed for control of Jerusalem Economy, and against international funds such as Lone Star which specializes in real estate?

“They have no intention to manage,” a source familiar with Brosh explains. “They have investors behind them, some of which are interested in Africa Israel’s subsidiaries and some are financial investors. They’ve already determined who gets what.”

“They’ll try to add value to the remaining assets” another source adds, “they believe they can unlock value, as they usually do, and then sell. They have no interest in keeping the assets.”

“As bondholders in Africa Israel,” a third source explained the way matters developed for Brosh Capital, “they thought that the initial offers received were ridiculous because of the massive haircut for bondholders. And if that’s the situation, then there’s also a business opportunity here and so they began putting together a group and made their own offer.”

In the meantime, due to Brosh Capital’s involvement in the competition, among other causes, some of the bidders improved their proposals to the bondholders. The others can submit improved bids all the way up to the last minute, and in the coming weeks a representative of the bondholders will decide who Africa Israel’s next proprietor will be.

Biram, Deutsch, and the exit funds

In 2013 businessmen Roni Biram and Gil Deutsch completed an enormous exit in which they sold Excellence, the investment house they controlled, to the Phoenix Company over the span of several years and for an overall value of more than 700 million ILS. 70-80 million ILS of this sum were invested in Brosh, which was intended to be an activist fund in the capital market. Brosh currently manages about 550 million ILS.

At the head of the fund, the two placed Amir Efrati, who prior to Brosh, managed a fund at Migdal Capital Markets, and had worked for Morgan Stanley and other US investment funds in the past. Uri Rubin, former CEO of Excellence Nessuah Underwriting, came along with him to Brosh. Since then, they had established another fund, named Shaked, focusing on private debt, which Rubin heads, while Efrati continues to lead Brosh independently.

The fund began seeking investment opportunities. "They mainly seek distressed situations," a source in the capital market explains, "and try to influence and initiate steps to increase value. The implication is that they look for distressed companies, on the verge of bankruptcy, or companies that are at a major crossroads. In both cases, these are companies where the potential upside is significant while the downside is limited. During the preliminary stages, they build a management team that sits on the bench and could be brought in if necessary, for example, when they considered taking over Edriel (which held, among others, areas of Dizengoff Center and commercial assets in the north, HM) they had a real estate expert "sitting on the fence" just waiting for a call.

"At Edriel there was a liquidity problem and the bond traded at a yield of 24%. After Brosh's thorough research and business analysis, it reached the conclusion that the company has good underlying real estate assets but suffers from liquidity issues, and they purchased a significant portion of the company's bonds. Gabi Edri, the controlling shareholder, tried to reach a debt settlement, that included a haircut and postponing the redemption date. When they realized that they couldn't reach an agreement with him, Brosh proposed that if he fails to meet the payment to bondholders, they would inject 33 million ILS in exchange for a percentage of the company. The bond holders liked the offer very much, Edri didn't like it at all. The story ended with Edri bringing in capital from his own resources and paying back the bonds. This is one example of a situation where, if there wasn't an active investor involved, there would have been a significant haircut. In practice, the bonds were redeemed in full."

Incidentally, this laconic description minimizes the drama that took place at Edriel. Sources affiliated with the company claimed at the time that even after the company explicitly announced that it would make the full payment to holders of series A bonds (there were two series, HM), there were holders who "acted in bad faith and with a complete conflict of interests", and accused Brosh of interfering in the controlling shareholder's repayment of the debt. "The creditor," it was maintained at the time, "is in fact doing all that it can to obstruct and thwart any step required for the repayment, and its steps are taken with the intent, which it keeps hidden, to take over the company and its assets at a bargain price."

Companies where Brosh has held bonds in the past:

Edriel
Menofim Finance
Kamor
Engel Resources
Blue Square Israel

Companies in which Brosh still has holdings:

IDB (bonds)
Alcobra (shares)
Matomy (shares)

Without an investments committee

Sources familiar with Brosh Capital's activity speak of the thorough research, which are accompanied by extensive legwork that its people conduct before investments are made. "They speak with a lot of people in the industry, assess the value of the basic assets and prepare a contingency plan for each of them. They also prepare in advance for situations of insolvency, liquidation, and in fact prepare a plan for every possible scenario."

One of the more effective involvements by Brosh was in IDB, during the negotiations for the debt settlement. At that point in time three proposals were under consideration: from a group where former controlling shareholder Nochi Dankner was a member, from Eduardo Elsztain, and from Moti Ben Moshe (later, the latter two would join forces). Brosh Capital's people, according to a source close to the fund, conducted thorough research into the two in the United States and Germany, where they're both active. After reaching the conclusion that the deal is sufficiently interesting they entered a position that eventually gave them – and due to remarkably low voting percentages among the other investors - almost a quarter of the votes in the ballot. "They added value for all the bond holders," says a source who was involved in the process and claims that Brosh was the main catalyst for improving the offers submitted. Brosh, according to that same source, tipped the scale in deciding on the new controlling shareholder, or as they describe it there, "they were the ones who sent Nochi home."

"What made them decide the way they did," says a source in Brosh Capital's environment, "was the fact that one of the central people in Dankner's group was Alexander Garnovsky, which was a 'red flag' as far as Brosh were concerned. In retrospect, when you see what happened at BGI (of which Garnovsky eventually took control and later sold), it was clear that this was the right decision. Conversely, they assessed that Elsztain and Ben Moshe's group was financially solid."

To this day Brosh holds IDB development bonds (given as part of the settlement) and source at the fund say that it is satisfied with the investment. "When the debt settlement began," a source among the holders states, "IDB had a net debt of 4.8 billion ILS, which was reduced to 2.5 billion ILS due to an influx of capital by Elsztain. The situation improved for the subsidiaries as well: Cellcom and Shufersal overcame a state of aggressive competition. The price of the bond went up, the yield decreased, and the holders received all their money." Incidentally, it is important to state that this is wisdom in hindsight since throughout the period of friction between Elsztain and Ben Moshe Brosh had unrealized paper losses in the bonds.

A senior operator in the debt settlement industry does not conceal his admiration for the process at IDB: "they led the entire final round of elicitation which brought about an improvement in the offers. They will end up teaching this in business schools. They completely maximized the proceeds for the investors, and they were able pull it off because they're free of all sorts of constraints and limitations others have; they are not subject to regulation and they don't have an investments committee. They made a cold economic calculation, and unlike other organizations that have worked with Nochi in the past, who had all sorts of considerations and were influenced by personal emotions, they operated from the purely financial aspect."

Matomy and the loss at Kamor

Matomy, the digital marketing company, is one of the companies where Brosh's entry made waves. Brosh prepared a comprehensive report on the company, pointing to weaknesses and potential strengths and possible courses of action, and even recommended engaging an investment bank to evaluate strategic alternatives. Incidentally, the report also hinted at the option of replacing the CEO. "They followed this industry for two years," says a source involved in the issue. "They spoke to dozens of people, sat with competitors and CEOs of companies in the field, and with people who worked for Matomy, with everyone."

In the follow up to its activity, Brosh brought about the termination of two directors. In their place, Efrati and an additional director, Nir Tralovsky, were appointed, and the investment bank already went into action. From the moment they initiated the position to today, Matomy's stock rose by some dozens of percents. "The market recognized that there's going to be a change," said a source close to the company. In an entirely different field, Brosh recently notified NASDAQ that it had reached a position of 7.5% in the publicly traded biomed company, Alcobra, which is in the field of ADHD. "The company invested 62 million dollars in R&D," states a source familiar with the subject, "it's sitting on 50 million dollars in cash and trades below the cash." There is no dominant shareholder in the company, and the expense structure is high – a classic position for a company at a crossroads. Since Brosh came in, the company is examining new directions. Brosh is being assisted by experts from academia and the pharmaceuticals industry, and is examining the new direction in collaboration with them. "At any rate, since Brosh came in, the stock rose by 36% within a week."

Conversely, Kamor is an example of an unsuccessful investment by Brosh, where the fund entered during discussions regarding a debt settlement, but the settlement fell apart and the company entered a state of insolvency and liquidation. At the end of the process, the investors received a portion of their investment at a certain loss. These days the bond holders submitted a claim against the controlling interests at Kamor, and the outcome of this suit will impact Brosh as well.

Brosh Capital's additional involvements include Scailex, Jerusalem Economy, Blue Square Israel, Engel Resources and Menofim Finance. "At Menofim," explains a source close to the issue, "there was a situation of bonds that traded at very high yields, of 30% or more, with unknown controlling shareholders (meaning the Swiss Marcus Weber) and of colorful characters (Jacky Ben-Zaken and Avraham Nanikashvili). In the end, following informal talks with the company, they managed to bring about a situation where the bondholders received their money. The owners sold the Arena Mall and wish to sell another asset. For Brosh, activism is not a goal, but a means to an end, they would be happy if the owners repaid their debt on time, but in case they don't, they know what to do."

In the case of Africa Israel as well, sources close to the matter claim that though Brosh has plans for each one of the assets, it would prefer for the bonds to simply be paid off. "They have a management team sitting on the bench and waiting for the moment that they're needed. Their analysis is rational and matter-of-fact; there are no emotions, there are no personal relationships, and there's no history of personal relationships. The only interest that stands before them is that of their investors. Happily for them, their investors have patience, and this enables them to operate over an extended period of time, unlike other funds, which only want to make a quick profits hit and exit."