



Q&A

## Navigating Nicaragua

Jesse Bogan, 10.20.09, 8:50 PM ET

Carlos Pellas Chamorro is directly involved in just about everything in Nicaragua but politics, a choice he says that has helped his family thrive for over a century. Pellas is the controlling shareholder of Grupo Pellas, a conglomerate involved in banking, sugar, rum, ethanol, media, insurance, citrus, health care, auto dealerships and high-end tourism that employs 25,000 people.

Forbes sat down with Pellas last week at his Managua office, which looks down from a hill into the capital city. On the horizon downtown is a building that was home to the family's Banco de America until the leftist Sandinista government nationalized it and many other businesses following the revolution in 1979.

The Pellases have rebounded in Nicaragua, the second-poorest country in the Western Hemisphere. GE Capital Global Banking bought 50% of the family's BAC-Credomatic (\$236 million in profit in 2008, \$7.5 billion assets) in 2005, a year before leftist leader Daniel Ortega became president again. His rhetoric may still veer to the anti-capitalist extreme, but the Sandinista tempers his stance these days with sayings like "words are stronger than bullets."

The Stanford-educated Pellas, 56, says it's a different deal this time around with Ortega. Representing the fourth generation of the family business in Nicaragua, Pellas encourages foreign investment in the country, but not without a few words of caution.

Forbes: What was the initial investment that put the family on the map in Nicaragua?

Carlos Pellas Chamorro: My great great grandfather, who was a well-known businessman in Genoa, Italy, sent one of his 13 sons, Francisco Alfredo Pellas, in 1875 to oversee an investment he had in Nicaragua. He fell in love with the country. He convinced his father to give him his inheritance, and with \$225,000, he purchased and built a small fleet of 23 ships to connect the Atlantic with the Pacific Ocean. His vision was to have the U.S. build a canal in Nicaragua. You could navigate from the Atlantic to the Pacific almost entirely by ship. Well-known figures like Mark Twain "crossed" the U. S. through Nicaragua. When the U.S. decided to build the canal in Panama, my great grandfather sold his shipping company and with the proceeds founded Nicaragua Sugar Estates in 1890 in England, the granddaddy of all of the group's companies.

Why was it registered in England?

He did that to make the point that this is going to be a world-class company.

What has helped the sugar company and other investments be successful for so long?

That sense of entrepreneurship that my grandfather brought with him I think runs through our veins and has allowed us to look beyond our borders for business opportunities. We're obsessed with quality. We have been very socially conscious. We have an enormous thirst for innovation.

How much has business grown, and what is the geographical reach?

The group operates in the entire Central American region with some investments in the United States and South America, but products like our rum, Flor de Caña, is now sold in 43 countries. All our businesses have different levels of growth and profitability. We have multiplied by almost 100 times the size in assets and net worth in our group in the last 25 years.

In 2005, GE bought half of BAC-Credomatic, where you are chairman, and then another quarter in June. Why did you sell?

About a decade ago, we undertook a strategic planning exercise and concluded that the group needed an outside strategic partner for its financial services arm. While the operation was very profitable, we felt a need for cutting-edge technology and additional capital as competition in the business was likely to intensify.

Since you started selling bank interests, you've invested in thousands of acres of beachfront land in Costa Rica and Nicaragua. How are these investments performing during the economic downturn?

None of our tourism investments are in the construction stage. This is a temporary glitch in the worldwide growth of tourism. There is no business that doesn't have a negative cycle. The trick is to be prepared for when it comes and find the opportunities it brings.

Why are you producing ethanol?

One of our innovations was to turn a traditional sugar mill into a business that through technology could provide sugar, rum or energy in the form of ethanol, depending on the relative attractiveness of the different products and markets.

How much of a market does Flor de Caña have, and how has it gone taking on Bacardi in the U.S?

Our objective is not and has never been to take Bacardi head on in the U.S. Our model is to position ourselves as premium rum. We are aware of our limited resources, so we are targeting that category

where we can obtain a price to match the quality of our product.

What are the main obstacles to overcome doing business in Nicaragua for 100 years, and how did you and your family manage to keep moving forward?

With no doubt, the '80s were the most difficult time. Many of my colleagues opted to leave the country, and I don't blame them, as their assets and homes were nationalized. We suffered much of the same. I said at the time that there is no way this is going to last for long. So we stayed here. Once the new government took power [in 1990], it helped us to quickly get back into business to reactivate the economy and reactivate our companies. We invested about \$250 million between 1990 and 2000.

Do open and free markets really work in Nicaragua?

Open and free markets work everywhere when you let them. Of course there are many obstacles in Nicaragua, as in all emerging nations.

Any caution investing in Nicaragua?

Many sophisticated foreign investors like Citibank, GE, Grupo Roble, Cemex, America Movil, Telefonica, Pricemart, Wal-Mart, Cargill and many others have invested large sums of money in Nicaragua, obtaining very attractive returns. My recommendation for foreign investment is that they do it in partnership with a local because Nicaragua can be very peculiar how things are done.