

Moldova

BEFORE AND AFTER TRANS-OIL GROUP

Although the Moldovan economy's dependence on agriculture is decreasing, that sector still accounts for approximately 40% of GDP and employs over 30% of the working-age population. After maize and wheat, sunflower seeds are the country's third-largest crop by volume, making it a key economic component.

One day in the summer of 1995, Georgian-born businessman Vaja Jhashi landed at the Italian port of Civitavecchia hoping to sell a cargo of Russian sunflower seeds that he hadn't yet paid for, to a man he hadn't previously met. What could possibly go wrong?

Jhashi can smile about it now. His contact honored the deal, the Russian farmers got their money and Jhashi had taken his first steps on a journey that would lead to the creation of the Trans-Oil Group, one of the leading agro-industrial businesses in Central and Eastern Europe. Trans-Oil is a vertically integrated business with a client base that stretches from Europe to the Middle East and North Africa (MENA) region and with a supply of berths and silos running from the Black Sea ports of Constanța and Rani to northern Europe. The company has grown into a \$1.5 billion enterprise that continues to expand at a compound annual growth rate of 44%.

On the face of it, Jhashi's story looks like a classic rags-to-riches tale of a man taking advantage of the collapse of the Soviet empire to sell some of its natural resources on the open market. But there is much more to the story. For one thing, Jhashi can take credit for helping transform the logistics infrastructure -- and by extension the entire economy -- of then-impoverished Moldova.

For another, Jhashi's policy of continual reinvestment in both company and country have won Trans-Oil worldwide respect. This regard persuaded both the European Bank for Reconstruction and Development (EBRD) and the International Finance Corp. to give the company financial backing during its development stage, the years 2008 to 2019. Today Oaktree Capital



Vaja Jhashi,
President of Trans-Oil Group of Companies

Management, major private equity specialists based in the U.S., is a minor shareholder. Trans-Oil remains the only company with headquarters in Moldova to have earned corporate credit ratings from the agency triumvirate of Moody's, Standard & Poor's and Fitch.

Jhashi's entrepreneurial flair, eye for an opportunity and sheer guts have never been in question since that first trip to Italy. That venture's successful conclusion led to a meeting with Jim Kelley, a well-known local businessman in the Indiana town where Jhashi was living (Jhashi has an MBA degree from Indiana University). Kelley agreed to finance Jhashi's next business trip and was so impressed by its success (not to mention the speed with which Jhashi paid back the loan) that he went into long-term business with him.

Over the next several years, the duo developed what was to become an extensive international network of customers for the Russian and

Ukrainian grains and oil seeds they were then trading in. Then a single phone call turned what was a moderately successful trading partnership into a spectacularly profitable corporation. "We were in Ukraine and Jim was on the phone to the son of a friend of his who had been posted to the U.S. Embassy in Chișinău [the capital of Moldova]," says Jhashi. "He got off the call, turned to me and said, 'where's Moldova?' I told him it was only a few hundred kilometers away and so off we went."

Jhashi soon discovered that sunflower seeds in Moldova were selling for as little as one-third what they were elsewhere in the former Soviet Republics. There was, however, one major problem: it was almost impossible to get the harvest out of the country.

"There was hardly any infrastructure to speak of," Jhashi recalls. "The roads were a disaster, and there was no loading port. People were having to transit their goods through Ukraine."

The two men quickly calculated that they could invest in the infrastructure themselves and still do good business. They were right. The acquisition of a state-owned grain elevator was the first step on a program of infrastructure and operational investments that continues to this day. Trans-Oil is now the largest buyer and exporter of cereals and oilseeds in the country, operating 18 storage facilities with a combined capacity of 850,000 tons and two vegetable oil-extraction factories with a combined daily processing capacity of 1,600 tons.

"People often ask how we managed to establish such a dominant position," says Jhashi. "The answer is that we took a big risk coming here and spending all the money we did on the plant and

trucks. The black soil almost guaranteed superb crops, but there was nothing else here."

Since those early days, the company has also invested heavily in the Giurgiulesti International Free Port. Situated on the banks of the Danube River, it is Moldova's sole water point of access to the Black Sea and Southern Europe. By 2020, Trans-Oil had built three terminals there, each fitted out with state-of-the-art processing equipment. That November, the International Investment Bank announced that it was granting Trans-Oil a loan to finance the acquisition of the Romanian vegetable oil producer Ultex. The acquisition increased the company's production capacity at the port by an additional 700 tons.

Trans-Oil has enjoyed a long-standing partnership with the EBRD. In 2019, the bank contributed \$30 million to a \$150 million loan facility arranged and managed by ING Bank to help Trans-Oil with its working capital. Later that year, Oaktree Capital Management bought shares in Trans-Oil's parent company, Aragvi Holding International, thereby becoming the first U.S. global asset management company to invest in a Moldovan company. Then this past April, investors from MENA and Asia, along with others from Europe and the U.S., queued up to subscribe to the company's latest five-year \$500 million Eurobond issue.

Their enthusiasm left Jhashi feeling vindicated for his steadfast commitment to Trans-Oil's strategy of continual investment. "We have taken a lot of calculated risks and sometimes we've made mistakes, but somehow that makes us even prouder of what we have achieved," he says.

"EVERY SUCCESS TAKES A LOT OF PREPARATION, AND YOU NEVER KNOW WHAT'S GOING TO HAPPEN NEXT, BUT IT ALL SEEMS WORTHWHILE WHEN EVERYBODY WANTS TO SPEAK TO YOU."

Trans-Oil and Jhashi's investments and efforts in Moldova have been some of the most significant private sector contributions to the development of infrastructure and modernization of the all-important grain and oilseed segments of the Moldovan agricultural sector. Jhashi takes pride in the fact that he is giving back to Moldova. In fact, Trans-Oil's business activity -- either directly or indirectly over the last 25 years -- has contributed close to 7% of Moldova's overall GDP.



The global sunflower oil market is projected to grow to \$29.6 billion in 2028, from \$19.53 billion in 2021, so the confidence of Trans-Oil is understandable. It is a ferociously competitive market nonetheless and, in this context, Trans-Oil's track record has set a benchmark for others to aspire to.

The figures speak for themselves, with profits (EBITDA) rising almost as fast as revenues. That is quite an achievement for a company as vertically integrated as Trans-Oil, which must coordinate the operational capacities of the origination and storage, processing, delivery and marketing elements of its supply chain. "

NOTHING WE DO HAPPENS IN ISOLATION BUT IS PART OF OUR BROADER BUSINESS VISION," SAYS JHASHI. "THE GROUP IS LIKE A WATCH. IT IS A COMPLEX MECHANISM AND FOR IT TO FUNCTION PROPERLY, EVERYTHING NEEDS TO WORK FLAWLESSLY."

Thanks to its success in sticking to this strategy, Trans-Oil has managed to extend its footprint outward from Moldova without either over-stretching its supply lines or ending up with an over-capacity at the silo end. As it moves towards globalization, the company has gradually diversified away from sunflower seeds into other crops, particularly soybeans, where Latin America is becoming an increasingly significant source of raw material. It has also invested heavily in several modern crushing plants, including one at Giurgiulesti, which is to start operation this year.

In the meantime, Trans-Oil remains committed to developing a pan-Danube hub. In October of 2020, it took possession of the largest modern crushing plant in Serbia when it acquired Victoria

Group's edible oil subsidiary. This past July, it increased its presence in Serbia when it acquired 34 grain storage sites and two port terminals on the Danube River. Trans-Oil's total processing capacity is 4,000 metric tons of oil seeds per day, or 1.2 million tons per year. The next stop is Romania. "Constanța is definitely in our sights," says Jhashi.

Environmental concerns have recently prompted Trans-Oil to explore ways of reducing its carbon emissions. As part of that effort, work will soon be completed on an eco-friendly processing plant that runs partially on the steam produced by the husks and other waste from the sunflower seeds. "All we need to run it are the raw materials," says Jhashi.

Like most successful companies, Trans-Oil ultimately relies on one other very important resource, its people. "Corporate governance" is not a phrase that sits naturally with Jhashi, but the care the company takes with the wellbeing of its staff and their families is second to none. On top of which, Trans-Oil is a generous sponsor of several kindergartens and one-off educational events.

What Jhashi is really good at is motivation, as anybody who has attended one of his staff meetings, often held on weekends to prove a point, will testify. "If you want, you can stop work at 6 o'clock and go and have a beer with your friends, but nothing exciting is going to happen. My slogan is that good things happen outside the comfort zone," he says.

It may be over 25 years since Jhashi disembarked in Civitavecchia, but time has not blunted his sense of adventure. His ability to nurture the best in his people, his opportunities and his environment mean Trans-Oil's harvests are destined to grow.



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