The rise and fall of Polly Peck

Britain's most successful share of the 1980s succumbed to the first year of the new decade. FT writers tell the story of Polly Peck's voyage from obscurity to riches, which ended in administration earlier this week

On a sultry Mediterranean evening just six weeks ago, Mr Asil Nadir savoured what was to prove a fleeting moment of triumph.

Hundreds of guests had been invited to celebrate the opening of the new Sheraton Voyager hotel in Antalya, Turkey, built in lavish style by Polly Peck International, the company Mr Nadir headed.

Bankers and stockbrokers flown in from London for the weekend on Nadir's own airline, Noble Air, mingled with other business associates and employees of Mr Nadir's privately-owned Turkish interests.

In the middle of a Turkish fashion and music show, the host arrived. "He walked in, surrounded by all these people," said one guest, "and the show stopped. A spotlight was trained on him. All the Turks and Cypriots in the audience immediately jumped to their feet and applauded rapturously. He acknowledged the applause like some kind of film star."

Mr Nadir strode towards Rauf Denktash, the leader of northern Cyprus and his guest for the weekend, and they greeted one another enthusiastically.

The warmth of his reception was not surprising, according to a visitor from London. "Don't forget," he said, "this man employs one-third of the working people in northern Cyprus. The economic impact if they lost their jobs would be catastrophic."

By contrast with the exuberance in Antalya six weeks ago, the proceedings in the Companies Court in London on Tuesday lacked drama.

Court 55 is one of a dozen new courts opened earlier this year in a far corner of the Victorian Gothic law courts in the Strand. Its atmosphere of functional austerity – light oak benches, bare painted walls and concealed strip lighting contrasts with the gloomy magisterial aura of the older courtrooms.

The listing for Court 55 on Thursday was brief to the point of obscurity: Companies Court, Ex Parte Application.

Behind that curt announcement lay the legal moves that would strip Mr Nadir of his power as chief executive and chairman of Polly Peck. The application was by the company's directors for an order placing it in administration.

And, after a hearing conducted in characteristically low-key manner by the lawyers, that is exactly what they got.

Mr Nadir himself was not present. At about nine o'clock the previous night, after having shuttled between Cyprus, Istanbul and London for 48 hours of fruitless talks, he was at home, sounding weary and depressed and preparing to take what he said would be a long, hot bath.

His mood was fragile, to say the least. At times he sounded disgusted with the world, railing at what he termed "silly" bankers and "cock-ups" by British investigators from the Inland Revenue and SFO. At times he sounded drained, admitting he was exhausted and saying he had had "a . . . rotten day".

He talked at length of what he said was the unwillingness or inability of UK officials and investigators to understand how the complexities of Greek-Turkish relations over Cyprus could affect a listed UK company.

Mr Nadir complained about investigators at the Serious Fraud Office and the Inland Revenue who had been looking into his affairs. "These people went on hearsay and gossip," he said, and claimed to have "a series of documents that will show what nonsense the whole affair has been".

Toward the end of the conversation on Wednesday he lapsed into a moment of self-mocking humour: "I broke the record, you know. I am the person who has received the most coverage in the British press in square inches since 1943." He paused for dramatic effect before identifying his record-breaking predecessor in the square inch league.

"It was Churchill," said Asil Nadir. "It was Winston Churchill."

Churchill was prime minister when Asil Nadir was born in Famagusta in Cyprus 1942, where his family lived before moving to the island's capital, Nicosia. His father, Irfan Nadir, was a constable in the British colonial police force before starting a small stationery and book shop.

Irfan gained a reputation among his fellow Turks as an innovative businessman – if not a terribly successful one.

One of his innovations was to bring English buses to Famagusta. He had the reputation of being one of the few Turks capable of competing with the Greek dominance of the commercial life of the island. Greek opposition to Irfan, including setting fire to his buses, is said in some quarters to be the reason for his move to the UK with his family in the late 1950s – leaving behind several debts on the island.

After a year or two in London, Irfan Nadir started a clothing company, Wearwell, in which he was joined by his son Asil.

Towards the end of the 1970s Asil Nadir spotted the potential of the citrus business in northern Cyprus. In the wake of the Turkish conquest of northern Cyprus in 1974, the orange groves were left untended and their commercial potential was ignored. "We had lemons rotting under the trees," says a Cyprus lawyer, "English friends who saw them told me: 'We buy these at home yet you plough them into the soil.'"

Mr Nadir decided that if the fruit was properly graded and packed, he could do better. The essential step was to build and operate his own packaging plant in northern Cyprus. To get the necessary cash for this, Mr Nadir decided to tap the stock market. He opted for a reverse takeover, backing into Polly Peck – at that point only a shell company – followed by a rights issue.

With the cash, he set up Sunzest, a subsidiary of Polly Peck, to export fruit from Cyprus, and Unipac, a cardboard box factory. The opportunity was a straightforward business one – but to take advantage of it required exploiting an elaborate network of political and personal favours.

Polly Peck rapidly became central to the northern Cyprus economy. "Asil Nadir brought us marketing expertise which we desperately needed," said one local observer. Mr Alex Shevkat, manager of a holiday company, who comes from a citrus growing family, said: "Asil Nadir came like a knight in shining armour. He gave us a new lease of life."

Success attended Sunzest's efforts, and Polly Peck's share price began a seemingly inexorable climb. Its share price rose from 9p in 1980 to £35 in 1983 (equivalent to a rise from less than ½p to 181p in terms of today's shares). Soon the group was announcing its diversification into other areas: fruit and vegetables operations out of mainland Turkey and consumer electronics. Then, when Polly Peck seemed set for success in April 1983, disaster struck.

In the City doubts began to circulate, fanned, most Turks believe, by Mr Nadir's enemies among the Greek Cypriots who were resentful of his success in making profits out of their former orange groves.

Rumours that the Turkish Cypriot authorities were about to withdraw tax concessions helped fuel a market panic and a plunge in the share price. Polly Peck lost more than a quarter of its market capitalisation in 20 minutes.

However, the company continued trading, apparently unaffected, and in time its share price resumed its rise. By early 1990, it was close to 450p, valuing the company at nearly £2bn.

It remained unclear, however, exactly how Polly Peck made its steadily rising profits. This ignorance was not confined to outsiders. Few, if any, of Polly Peck's executives in London had any idea how the Turkish and northern Cypriot operations – which accounted for 70 per cent of the group's reported profits – made their money. One executive, who visited operations in the area several times, admits: "I've been out to Cyprus, but I don't understand it. I just don't know how it was done."

Unofficial estimates of northern Cyprus citrus exports put them at £8.9m in 1988, £9.3m in 1989. Yet Polly Peck claimed to be making advance payments to farmers many times larger than that. There seemed a large discrepancy between the supposed size of advance payments and total value of crop.

As a whole, the fruit business in the eastern Mediterranean was eating up Polly Peck's cash at a phenomenal rate. "All the money always went out to Turkey," one of those at the company says. "New facilities from the banks were used to pay interest expenses, dividends and head office expenses."

None of the Turkish operations was financed by local borrowings – at first, at least – due to high local interest rates which would have wiped out reported profits. The corollary of this, though, was that the company experienced foreign exchange losses due to the fact that much of its working capital was in a depreciating currency.

Trading profits went through the profit and loss account, while the attendant exchange losses were shown as adjustments in reserves. In the past two financial years alone, covering the 29 months to December 1989, £215m was written off in this way.

Certainly, Polly Peck knew all about cash crises. Early in 1987, things had got so bad that assets were being sold and some head office staff were going without pay as the company struggled towards a dividend payment due in early April. "Every phone call was a creditor," one former executive recalls.

A lifeline from Hongkong Bank, at the time the company's largest creditor, was proffered and then withdrawn at the 11th hour – a day one former executive still refers to as "Black Friday" – before another bank could be found to tide the company over. The outside world was none the wiser and Polly Peck went on to ever higher profits and share price.

POLLY PECK'S PROGRESS

Mr Nadir himself ran the expanding empire from an office in Berkeley Square elaborately furnished with antique mahogany chests, expensive looking Turkish rugs and a clutter of *objets d'art*.

Visitors could expect warm hospitality: traditional Turkish yellow mint tea, plates of olives, cheese and tomatoes and as many Silk Cut cigarettes as Mr Nadir, a chain smoker, has left in his nearest packet.

Tall, his dark hair slicked back above a high forehead, Mr Nadir has a preference for hand-tailored Navy blue blazers, grey flannel trousers and Gucci-style loafers. His style of dress and manner are those of international cafe society, rather than of the chairman of a large British quoted company.

His way of running the company was also distinctive. "I am a workaholic. Work is my hobby," he said a year ago. He made little distinction between weekdays and weekends – executives were not surprised this August to be summoned to a Sunday board meeting at one day's notice.

Bank mandates allowed Mr Nadir and other directors to make payments on the strength of a single signature. One large shareholder says now: 'Is that a satisfactory way for a public company to run its affairs? Is there a single other public company where an individual could wield the pen to move the funds in that way? I've never come across another company like it'

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He adds: "One does wonder what the other directors have been doing over the years to allow this."

Executives came and went. The climax was the resignation in June 1989 of Mr Tony Reading, the company's managing director and a former senior executive at BTR, widely regarded as one of Britain's best-run companies. His departure after 21 months was apparently triggered by Mr Nadir's decision to downgrade his role.

Mr Reading's resignation failed to shake City confidence. Mr Nadir met institutional shareholders to explain why he had gone. A shareholder recalls: "It came across as very convincing – Mr Nadir was portraying himself as a hands-on chief executive, trying to get things done, make it work."

A former director says that Mr Nadir came to believe his own favourable publicity. But the banks fuelled his belief that the company's future knew no limits. From 1988 onwards, they began to knock on Polly Peck's door offering credit lines, he says. Mr Nadir could not say no – and did not.

His opportunity to move his company decisively into the big time came just a year ago, with the £577m acquisition of the fresh fruit business of Del Monte of the US. The deal – partly financed by a £283m rights issue, the second big cash call in a year – made Polly Peck the world's third-largest fruit distributor. The City fell over itself to approve: the company's share price rose 38 per cent.

The purchase was seen as a good fit: Del Monte's strength in the US market for bananas and pineapples would complement Polly Peck's strength in citrus fruits in Europe, and Polly Peck would be able to use the well-known Del Monte brand name for its own produce.

Within weeks, another deal was on the way. In late October 1987, Polly Peck agreed to buy 51 per cent of the shares of the tiny and troubled audio group Sansui, for £69m. The deal was greeted by the Japanese establishment with rapturous enthusiasm, because it allowed the Japanese authorities to make a point they badly wanted made – that it was possible for a foreign company to make a successful takeover bid for a quoted Japanese company.

Mr Nadir announced at a lavish press conference in a Tokyo hotel: "Today is almost an historic landmark in the relationship between Japan and other trading nations."

"This demonstrates that Japanese financial markets are open," said Mr Hikaru Matsunaga, then minister of international trade and industry.

The fact that Polly Peck got its chance to buy Sansui only because the Japanese company was virtually bankrupt and no other Japanese was willing to take it on was not highlighted.

Still, the relationship appeared to work well in its first few months. Polly Peck put new life into the Japanese company by selling it its own successful electronic subsidiaries, Capetronics and Imperial.

At Polly Peck's annual general meeting earlier this year , in the packed ballroom of the Grosvenor House, Mr Nadir stood against a backdrop saying "Growth on a global scale". He said: "May I congratulate you for being investors in the stock of the decade . . 1989 was our coming of age." Behind the scenes, things were a bit more complicated.

The Del Monte deal had brought new respectability, but it also brought its own problems. Too much of the finance for the Del Monte deal was in the form of uncommitted bank facilities. The risk was worth it to get Del Monte, suggests a non-executive director, but it made Polly Peck vulnerable to any change in bankers' sentiment.

And, he says, no one on the board – not even Mr Nadir – realised how illiquid the company's huge bank balances in northern Cyprus were. Taken together, these facts created the potential for a cash crisis if the company sustained a public setback.

Such a setback was not long in coming. As well as the uncertainties of its own finances, Polly Peck was having to cope, by the summer of 1990, with rumours of market manipulation or insider dealing. These stories were not new. "There were always stories in the background of funny dealings going on," says one large shareholder. "But we never saw any evidence of a sustained operation."

Others had heard the same rumours, and were beginning to look into them: the International Stock Exchange's insider dealing group, the Inland Revenue and – this autumn – the Serious Fraud Office.

Their inquiries have focused on two suspicions: that there had been a concerted effort over several years to buoy up the company's share price, and that there had been cases of possible insider dealing.

Many of the dealings in Polly Peck shares now under investigation had been carried out by Mr Jason Davies, a young stockbroker who had once worked with Mr Nadir's son, Birol. Mr Davies had since moved into the Berkeley Square offices of South Audley Management, a company owned by and set up to manage Nadir family interests. He shared an office overlooking Berkeley Square with Elizabeth Forsyth, the director who ran South Audley. South Audley Management was owned by a circular chain of companies which included Restro of Jersey.

Mr Nadir told the Financial Times in early October that it had been a property and payments vehicle which handled the purchase and furnishings of Baggrave Hall, his Leicestershire stately home. It was also used to handle many other miscellaneous payments, including the cost of some of his press operations.

People who visited South Audley say it was a sleepy company, with little outward sign of activity. "No one ever seemed to be doing much except drink coffee," says one.

Another visitor recalls: "It was amazing how many people there were feeding off Nadir's wealth. Quite literally. Bacon and egg breakfasts from the kitchen in the basement would be served at 10.30 in the morning for those who wished."

There were questions about how well South Audley was run: margin calls from banks, which held Mr Nadir's shares as collateral, were frequently missed.

Two questions remain unanswered: who were the beneficial owners of the shares bought by Mr Davies, which were registered in the names of Swiss nominee companies? And where did the money come from to buy them?

One allegation being investigated by the SFO is that some of Polly Peck's own money was routed through Unipac, its Cypriot cardboard box manufacturer, to the Nadir-owned Industrial Bank of Cyprus, before being remitted to Midland Bank International in London and paid out to stockbrokers for Polly Peck shares.

Nadir himself strongly denies such suggestions, claiming that a ham-fisted and wrong-headed approach by the investigators, who raided South Audley last month, is to blame for his company's demise.

Stories about the investigations were under preparation in two London Sunday papers by the late summer of 1990. But the day before they appeared – in the Observer and the Sunday Times – Mr Nadir took a step that was ultimately to to prove disastrous. At a hastily arranged Sunday afternoon board meeting on August 12, he made a tentative proposal to buy out the 75 per cent or so of the company's shares that he did not already own. Then, just as abruptly, he withdrew the proposal five days later. This bizarre episode led to a Stock Exchange investigation, which produced a damning censure of his actions which was forwarded to the Department of Trade and Industry and the Serious Fraud Office.

Frcm that moment on, events were out of Mr Nadir's control. Mr Nadir's insistence that he had wanted for several years to take the company private has been confirmed by his sister, Mrs Bilge Nevzat, and by non-executive directors. His argument that the London stock market was not a friendly environment for a company like Polly Peck fell on fertile ground in board meetings. Directors looked at the possibility of changing the domicile to Switzerland – where Mr Nadir has been establishing personal and business residence – the US or even Japan.

The episode raised serious questions about the management of the company, and about Mr Nadir's own position. As Polly Peck's shares fell, in the aftermath of his bid withdrawal, Mr Nadir's personal finances were coming under strain. Banks which had lent him money secured by his shares in Polly Peck began to sell them.

On September 19, the Serious Fraud office raided South Audley Management, and banks dumped big blocks of Mr Nadir's shares on the market, helping to drive the price down from 243p to 108p, at which price the shares were suspended. Mr Nadir began an increasingly desperate search for cash, for himself and for the company. On September 28, it stopped paying its debts.

As the cash crisis loomed, Nadir's first thought seems to have been that he would be rescued by the Turkish President, Turgut Ozal.

"Nadir's Turkish operations are all products of the Ozal era," says one Turkish banker.

During the early stages of Polly Peck's problems in the early summer, Turkey's political establishment threw itself behind Mr Nadir and the group. At the end of August, a foreign ministry spokesman in Ankara denounced alleged Greek Cypriot machinations against Mr Nadir and Polly Peck.

Mr Nadir decided to fly to New York on September 28 to see President Ozal who was in the city for a UN meeting.

That day, Mr Günes Taner, Turkey's economics minister, wrote a letter to the British Foreign Office, saying that the Turkish government was examining an aid package for Polly Peck. He asked that London "hold the situation steady" with the company's UK-based bank creditors. The Foreign Office asked the Bank of England for soundings from the bank creditors and based on these drafted a reply (in the form of a telegram) that was handed to the Turkish foreign ministry the next day. The message was immediately sent to Mr Ozal in NY, who was, says an aide, "furious". The letter warned that Polly Peck faced the appointment of administrators within 48 hours (by Monday 10am London time) unless the Turkish government produced £100m of rescue money.

Mr Ozal's aide says the president called off a planned Turkish bail-out because he took the telegram to be an ultimatum. He said later: "We decided that Turkish banks should not have to bail out Standard Chartered and other UK banks."

Behind the scenes, the Turkish cabinet seems to have been split on whether or not there should be a rescue operation for Polly Peck, but Mr Taner's caution seems to have held the day.

At this point the Turkish banks themselves seem to have decided to mount a resistance against helping Nadir. They felt they did not want to be embroiled in what would be by Turkish standards a very large syndication of £100m on behalf of a foreign company with which most of them had had no dealings.

"Mr Nadir has never dealt with us. Until now he avoided doing business with us," said one state bank "Why should we help him now, especially when we do not know what we would be letting ourselves in for?"

His mission in New York a failure, Mr Nadir flew back to London. There, on October 1, he and the Polly Peck board issued statements about the condition of the company which admitted for the first time that both were suffering from liquidity problems. They announced an investigation into the company's financial position by Coopers & Lybrand, the accountant.

Different rescue plans to staunch the liquidity crisis were hastily drawn up. Del Monte Tropic Fruits or a minority stake in it could be sold, it was thought. One of Mr Nadir's Turkish advisers believed three buyers might be interested and the deal would raise more than enough cash to rescue the day.

That hope was held out at a meeting with Polly Peck's bankers in London on October 5. The meeting was restrained, but Mr Nadir's failure to give direct answers to questions antagonised the bankers.

"It was all very British," said one of those there. "People got up and asked questions, and when they weren't answered just sat down again."

Though cash flow statements were produced which showed the need for big new infusions of money over the next few months if Polly Peck was to meet its debt service obligations and continue trading, the bankers agreed to give Mr Nadir a week's grace. He promised to mobilise cash reserves from Cyprus and elsewhere.

A week later, Mr Nadir was talking about a new rescue plan. It had taken years to acquire Del Monte and Sansui; such opportunities might not come again. Why not hang on to them by selling the group's Turkish assets? Unfortunately Turkish buyers did not step forward. Hopes of a green light from President Ozal for a rescue campaign faded.

When the banks met again on October 12, tempers were shorter. Mr Nadir's calm manner began to grate. One banker at the meeting said: "He seems to have no idea of the trouble he's in." The creditors were told that Coopers & Lybrand Deloitte had failed so far to trace £200m of Polly Peck's money.

Tensions between the banks added to the confusion, with some pushing for an administration while others favoured keeping the company alive. Coopers & Lybrand, meanwhile, was having trouble getting access to Polly Peck's Turkish subsidiaries.

Though the accountants managed to got access to Vestel Elektronik fairly easily, they found their path blocked when they came to approach Meyna, the citrus fruit exporter which is said to be behind Polly Peck's extraordinary profits.

On October 21, a Turkish Cypriot court delivered a further blow by handing out an injunction to a group of orange farmers which prevented the group and its employees from showing any documents to outside parties.

Against this background, the bankers' sentiment crystallised against Mr Nadir. His increasingly desperate attempts to raise cash in Cyprus and Turkey led nowhere. By last weekend, banks were agitating for Polly Peck to be put into administration – and after a long meeting on Wednesday, the board decided to comply.

Asil Nadir is deeply hurt. In conversations over the past 72 hours he has given the impression of a man who feels grievously wounded and under siege. Soft-spoken and even childish at times, his attitude is that of a wealthy anglophile who feels that his work and material success in London has not been rewarded by acceptance into the establishment.

In northern Cyprus, sentiment is more ambiguous. The impact of administration is not yet manifest but the first signs of job worries among the 5,000 permanent and 3,000 seasonal workers said to be employed in north Cyprus by Nadir and Polly Peck interests are beginning to emerge. One hotelier said: "Staff in his hotels have been coming up to me and asking for jobs."

It is politically sensible to support Mr Nadir outwardly in the business community. Privately, however, business people are beginning to reassess his contribution to the economy. Rival hoteliers are angry at the way he poached their best staff with promises of much higher salaries.

In Turkey, Mr Nadir's newspapers are starting to publish criticisms of Mr Ozal for the first time. His appeals for support, at the end, were no longer being directed to Ankara, but to President Rauf Denktaş in Nicosia.

Mr Nadir's underlying message seemed to be that if he went, the position of Mr Denktaş – the elected president of a self-proclaimed republic of 180,000 people unrecognised anywhere else except in Turkey – might also be under threat.

In London, shareholders and bankers' concerns were more mundane. The administrators appeared to be promising them that – perhaps with the help of a little more cash – most of Polly Peck could be rescued as a going concern. There might even be some money left over for the shareholders. For those people – institutions and individuals – who had invested in Polly Peck at its peak, that prospect offers little consolation. Few of them, at any rate, are likely to be offering Mr Nadir the film star's welcome he could claim only six weeks ago.

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