EBRO PULEVA 2009[1]

INTRODUCTION

Antonio Hernández Callejas, Chairman of Ebro Puleva, returned to Spain after spending a few days in the United States. The company had changed a great deal since he had first been appointed Chief Executive Office in 2004 and furthermore, the sugar division, the first division to be set up by the group, had just been sold.

Although he was satisfied with the results obtained, he knew that 2009 would be a very important year for the future of the company. The main objective was to ensure the company became an international leader in the "meal solutions"[2] segment by increasing the product range, based on the concepts of health, enjoyment and convenience and the development of an advanced R&D&i policy.

He also considered the most significant events that had occurred since the Ebro Puleva group had been set up in 2000 and how he had personally gone from managing the family business Arrocerías Herba in Seville, along with his father and uncles, with a turnover of 79 million euros in 1989, to becoming the Chairman of the leading Spanish food group in 2009 and also the international leader in the rice sector, the second most important international manufacturer of pasta and the number one company in the marketing of added-value dairy products in Spain. In 2008 the group's turnover had amounted to 2,367[3] million euros with a profit before taxes of 103 million euros.

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1 Case study by Instituto Internacional San Telmo (San Telmo International Institute) Research Division, Spain. Prepared by Mr Ángel Ortega Sánchez, trainee student of the CIPE (Introduction to Managerial Practice Course) at San Telmo, under the supervision of Professor Antonio García de Castro, in collaboration with PricewaterhouseCoopers. Updated in 2009 by Research Assistant Mrs Rocío Reina Paniagua for use as a basis for discussion and not as an example of adequate or inadequate management in a specific situation.

2 Meal solutions: Elaboration of semi-prepared, ready to eat products and foods, due their ease of preparation: pastas in sauce, ready-cooked rice, etc.
3 This figure does not include the sugar activity; if that were included, sales would amount to 2,974 million euros and profit before taxes, 191 million euros.

CREATION OF THE EBRO PULEVA GROUP

Ebro, a sugar manufacturing company

Ebro was the result of the merger of Ebro Agrícola and Sociedad General Azucarera Española -SGAE- in 1998. The merger of these two companies had resulted in a group that at that time had 14 sugar plants, more than 4,500 employees and a production of 782,000 tons of sugar; these figures made it the leading Spanish sugar company and the fifth in Europe.[4]

That merger was carried out in view of the potential threat that Saint Louis Sucre would launch a hostile takeover bid for Ebro Agrícola at the end of 1997. From the very start, the Spanish Minister of Agriculture, Mrs Loyola de Palacio, was opposed to allowing Ebro Agrícola to be controlled by foreign capital. To counter-arrest this takeover bid, negotiations were undertaken with the Torras Group (Spanish subsidiary of the holding company Kuwait Investment Office -KIO- which held 34.8 percent of the sugar company), offering it the purchase of 18 percent of its shares in cash at a price of 18 euros (which were listed at 16.1 euros) and the deferred purchase of the remaining 16.8 percent, paying either the market price or 18 euros, whichever was greater. After reaching agreement to disburse 158 million euros, the transaction was carried out by several savings banks and rural banks from the Castile-Leon region and shareholders of SGAE, which was also listed on the Stock Exchange.

Following the merger, Mr Manual Guasch (chairman of Ebro) and Mr José Joaquín Ysasi-Ysasmendo (chair of SGAE) were designated as joint chairmen. One year later, Mr Vicente de la Calle occupied the post of chairman, following the proposal of the Ministry of Agriculture. The new chairman left the company at the beginning of 2000 and Mr José Manuel Fernández Norniella, Secretary of State for Trade Tourism and Small & Medium Business from 1996 to 1998, was appointed as chairman, at the proposal of the Minister of Finance, Mr Rodrigo Rato. Mr Eugenio Ruiz Gálvez, from Grupo Uralita, was also appointed as Chief Executive Officer.[5]

Ebro held financial stakes in other companies such as IANSA, a leading sugar company in Chile, in which it held a share of 23 percent, and also in Jesús Navarro, S.A., the owner of the Spanish herbs brand Carmencita, in the canning firm Vasco de Gama, in the ornamental plants firm Volckert Pérez Borrás, in the rice company from Seville, Herba (of which Mr Antonio Hernández Callejas was Director General together with his uncle Mr Elías Hernández Barrera, the company’s Chairman), etc.

[4] The German cooperative society Sudzucker had a higher production level, with 2,386,000 tons, together with the French cooperative society Eridania–Beghin Say with 2,140,000, the British multinational British Sugar with 1,144,000 and the French company Saint Louis Sucre with 855,000 tons.
[5] Grupo Uralita was the leading Spanish group in the sector of building materials for the construction industry.

In October 2000, the shareholding structure of Ebro was as follows: 13.8 percent was owned by Saint Louis Sucre, 7.8 by KIO, 7.2 percent by Caja Duero, 5 by the Hernández Barrera family, 4.5 by the public company MERCASA, 3.4 by Caja España, 2.6 by Corporación Financiera Galicia, 2.6 by Alycesa (SEPI[6]) and other minority shareholders with 11.9. A free float was estimated of approximately 42 percent. The company Board of Directors before the merger is shown in Exhibit 1.

At that time, company management was well aware of the risks that the company was facing. The sector was highly regulated and sugar was a standard product in which branding and innovation did not appear to play a relevant part. The regulation imposed by Brussels meant that the business was profitable but its future was uncertain.[7] For this reason, the major European sugar companies embarked on a strategy of geographic expansion and diversification of products and began to attach greater importance to the brand. Until that time, Ebro had not invested in R&D, or tried to maintain reputed labels in the markets.

The merger with Puleva

At the end 2000, Ebro merged with Puleva,[8] and became the largest Spanish food group with a turnover of 2,287 million euros and a profit of 104 million euros. 93 percent of the group's EBITDA was generated in Spain and only 7 percent through the group's brands. Exhibit 2 contains a brief history of Puleva.

The new group was converted into the second most important food group in the Spanish market in terms of its turnover, but was still at quite a distance from the larger European companies from the food sector. Appendix I contains some information about the most important food international food companies in 2000.

The first decision taken by the company following the merger was to sell the Ebro shares, which were not important in terms of strategy, or shares in which it was not possible to be the sole shareholders. As a result, all the companies were sold except for a stake of 23 percent in IANSA and 60 percent in Herba. In turn, the company sold real estate that was non-productive or of little worth; for all these transactions, the company earned a profit of 180 million euros.

In 2001, Ebro purchased Herba's 40 percent remaining share from the Hernández Barrera family, which meant it now had a stake of 100 percent. The 60 percent stake in Herba had been purchased in 1989 from the Hernández Barrera family in cash and the 2 percent stake in Ebro, Cía. de Azúcar y Alcoholes. After more than 10 years of cooperation, it had been decided to take a step further in involving both companies; during this process

[6] Sociedad Estatal de Participaciones Industriales (National Industrial Holding Company).
[7] Ever since France had suffered a sugar boycott during the time of Napoleon, sugar beet had started to become a source for producing sugar, despite being a much less efficient industry than sugar cane. As a result, it had always been protected through special tariffs and regulated prices.
[8] A Spanish company from the dairy sector and a leader in the highest added-value segment, that of functional milk.