

# [Smc annual report essay](https://assignbuster.com/smc-annual-report-essay/)

UNIVERSITY OF THE PHILIPPINES COLLEGE OF BUSINESS ADMINISTRATION SAN MIGUEL CORPORATION Founded as a single-product brewery in 1890, San Miguel Corporation today is the Philippines’ leading publicly held food, beverage and packaging company. Its flagship product, San Miguel Beer, caters to over 80% of the domestic market. It is a formidable contender in the local food and agribusiness industry, and likewise runs domestic and international packaging and brewery operations. It accounts for a major share of the Philippine beverage industry, particularly in the soft drink, beer and liquor segments.

The past ten (10) years have seen a succession of transactions involving its acquisition and divestment of several subsidiaries and affiliates, not least of which involved Coca-Cola Bottlers Philippines Inc. All these activities point to a fundamental corporate strategy of investment and expansion. To quote Company Chairman and CEO Eduardo Cojuangco, “ We don’t want to buy anything just for the sake of acquiring something. We want something that fits. ” THE COMPANY On September 29, 1890, Don Enrique Ma.

Barretto de Ycaza, owner of the brewery La Fabrica de Cerveza de San Miguel had been authorized to brew beer in the Philippines under a Royal Grant. The new establishment located at No. 6 Calzada de Malacanang, in Manila’s San Miguel District, was inaugurated on October 4, 1890. FOR CLASSROOM DISCUSSION ONLY No. Arturo M. Ilano, Assistant Professor, University of the Philippines, with Melizza Freja G. Bautista, Mikhail Joseph T. Torres, and Biogene O. Yagong, prepared this case study as a basis for class discussion, and is not designed to illustrate effective or ineffective handling of managerial situations.

Certain names have been disguised. The writing of this case study was supported by the Commission on Higher Education. The University of the Philippines College of Business Administration prohibits any form of reproduction or transmittal without its written permission. To order copies or request permission to reproduce materials, contact UPCBA Case Study Services, College of Business Administration, University of the Philippines, Diliman, Quezon City, PHILIPPINES, 1101; Tel (632) 928-4571 to 76; Fax (632) 920-7990; e-mail Copyright © 2002 University of the Philippines College of Business Administration

After more than 110 years, San Miguel Corporation (SMC) now stands as one of the richest and most profitable companies in the Philippines, and is the country’s most recognized corporate brand. With nearly 30, 000 employees in 90 major facilities in the Philippines and overseas (China, Southeast Asia and Australia), San Miguel Corporation is the country’s largest food, beverage and packaging company. Its affiliated brands include Magnolia, Anchor, Coca-Cola, Ginebra San Miguel, Purefoods and Monterey. It produces and markets close to 300 products among which are Star, B-Meg, Wilkins, VIVA! Coca-Cola and Eight O’clock. San Miguel Corporation has three core businesses: Beverages — beer, hard liquor, soft drinks, bottled water, fruit juices; Food & Agribusiness – chicken, feeds, pork and beef, processed meats, dairy, oils and fats; and Packaging –glass, metals, plastics, paper products, flexible pouches and laminates. Its beverage sector is San Miguel’s largest business segment, comprising over 58% of its total sales in year 2000. Its Food & Agribusiness sector contributed 27% and its Packaging Sector contributed 15% of its total sales.

In terms of operating income, the beverage segment likewise contributed the largest, at 70%, with packaging coming in second at 22% and food & agribusiness at 8%. The company is a consistent entry in the list of the country’s Top 500 Corporations. In 1999, it was ranked ninth in total revenues and registered the third highest reported profit. Thus, it is not surprising to note that it is a major contributor to the Philippine economy, accounting for 3% of the GDP. Exhibit 1 presents selected financial data for the years 1998 to 2000. Managing San Miguel Eduardo “ Danding” Cojuangco, Jr. irst gained control of a 47% of SMC shares during the Ferdinand Marcos presidency. But he left with Marcos when the ousted Philippine President fled the country in 1986, and the new Corazon Aquino government promptly seized control of his corporate shares. Since he was reinstalled as Chairman and CEO by Philippine President Joseph Estrada in 1998, Cojuangco has engineered a dramatic turnaround at SMC. In 1997, the company was tottering under P47. 1 billion of debt, high fixed costs and weighed down by large-scale expansion projects in China. Its three breweries in the said country were operating way below capacity.

To realize the much-needed cash-infusion, Cojuangco sold off SMC’s 45% stake in Nestle Philippines in 1998. Additional cash was raised when its affiliate Coca-Cola Amatil divested its Europe operations. These sales brought in a cash war-chest of about $1. 2 billion (P42. 1 billion). SAN MIGUEL’S CORE BUSINESSES Food & Agribusiness San Miguel’s leadership in the food industry extends to the feeds, dairy and poultry segments of the market. With its various subsidiaries and affiliates, it is involved in practically all aspects of agribusiness, from the production of animal feeds to the distribution of processed meats.

Apart from its SAN MIGUEL CAMPOCARNE CORPORATION which is involved in the production and marketing of processed meats, its assets include SAN MIGUEL FOODS, INC. , which is into breeding, hatching, processing, and marketing of chicken as well as production and marketing of feeds; MONTEREY FOODS CORPORATION for hog breeding, hog and cattle fattening, processing and marketing of basic and value-added meat products; and, PHILIPPINE DAIRY PRODUCTS CORPORATION (STAR DARI, INC) for production and marketing of butter, cheese and margarine.

The company is likewise engaged in the production and export of coconut oil and other coconut products. In a bid to further solidify its formidable market presence in this industry, SMC acquired PUREFOODS CORP. from another Philippine corporate giant, Ayala Corporation, in 2001. The deal, valued around P 7 billion, delivers to SMC the 50% market share in the local refrigerated meats market and 17% of flour milling enjoyed by Purefoods at the time of acquisition. It likewise brings to SMC the goodwill and powerful brand equity of Purefoods nurtured by Ayala Corp. for the past two (2) decades.

Purefoods had year 2000 gross revenues of P6. 728 billion, as compared to San Miguel CampoCarne’s gross revenues of P1 billion. The P7 billion valuation covered all of the assets of Purefoods, except for its successful franchise chain of Burger King. SMC also had to allocate an additional P1 billion in order to cover the outstanding debt of Purefoods. Nevertheless, Purefoods had P500 million in cash, so it was actually a good deal. With this acquisition, the company now accounts for 74% of the hotdog market, 40% of Poultry, 32% of feeds, 24% of canned meats, and 17% of flour milling.

Incidentally, the deal also included the acquisition of the popular Purefoods basketball team franchise, although SMC had to sell this off since the Philippine Basketball Association does not allow companies owning more than two teams, and SMC already owned the San Miguel and the Ginebra teams. Packaging San Miguel’s influence also reaches metal, plastic, glass and composite packaging. Its Metal Packaging Division is into production and marketing of metal closure and two-piece aluminum cans, with three (3) plants located in he Philippines, a crown line in China, and a crown plant in Vietnam. Its Plastic Packaging Division, responsible for the production and marketing of plastic crates, pallets and R-PET bottles has three (3) domestic plants and one (1) plant each in Indonesia and China. The Glass Packaging Division, which is into the production and marketing of glass containers and glass molds, has three (3) domestic plants and one (1) plastic plant each in China and Indonesia. The company has a Paper Packaging Division that is responsible for the production and marketing of corrugated cartons.

It has two (2) plants in the country. It also owns RIGHTPAK INTERNATIONAL CORPORATION with one (1) domestic plant for the production and marketing of composites. Closely linked to the internationalization of its brewery operations is the activation of foreign packaging ventures. The San Miguel Shunde Packaging Corporation in China began its operations in 1994, the same year that the Shunde Brewery was established. On the other hand, the Vietnam plant, the San Miguel Phu Tho Packaging Co. , Ltd. commenced operations in 1996 upon the acquisition of the San Miguel Vietnam Brewery Ltd. Beverage From the inauguration of the original brewery more than 111 years ago, San Miguel Beer has transcended generations, witnessed several wars, and experienced numerous governments. It is not surprising, therefore, that it is the most widely known Philippine brand. San Miguel produces and markets its flagship product San Miguel Beer and its other malt beverages through the San Miguel Beer Division, located domestically as well as internationally.

It currently accounts for about 90% the local beer market estimated at 1. 2 billion liters a year. Its flagship product San Miguel Beer is packaged in four variants: the 320 ml steinie bottle, the 1000 ml Grande and in 330 ml. cans, and San Miguel Draft. San Miguel beer is exported to over 20 countries. SMC acquired LA TONDENA DISTILLERS, INC. in early 1987, and is now also dominating the Philippines’ hard liquor industry with 80% of the market share. La Tondena produces and markets gin, rum, mineral and distilled water as well as fruit juices and juice drinks.

The company has five (5) breweries in the Philippines, including the Davao brewery, which was established in 1995, and started to operate its overseas distribution in Hong Kong in 1948. In 1992, it acquired a stake in PT Delta Djakarta in Indonesia. The year after, it entered into a joint venture agreement to produce beer in Vietnam. In 1994, the Shunde Brewery in China was established. 1996 saw two milestones in the company’s beer operations when it entered into a brewing agreement with Miller and acquired San Miguel Vietnam Brewery Ltd.

To establish its presence in the Australian market, which it had not previously entered, SMC acquired J. Boag & Son in 2000. Though most of the company’s investment activities for the past 10 years have been in the beer division, SMC has also undertaken transactions to strengthen its Beverage business in general. In 1999, it acquired the Metro Bottled Water Corp. from the Metro Pacific Group. The Metro Bottled Water Corp. was the maker of the popular Viva! and Wilkins brands of bottled water. In 2000, SMC acquired the Sugarland Beverage Corporation from its founder Dante Y. Go.

Sugarland was the successful manufacturer of the JellyAce brand of jelly candies, as well as the market leading instant orange drink, Eight O’ Clock. And the year 2001 saw the reacquisition by the company of COCA-COLA BOTTLERS PHILS, INC. , (CCBPI) producer and marketer of soft drinks, including the world-recognized brand Coke, from Coca-Cola Amatil (CCA). Along with The Coca-Cola Company (TCCC), it had sold its stake in CCBPI to CCA in 1997. Real Estate Apart from the development of its three core businesses, San Miguel Corporation also diversified into the real estate industry.

It put up San Miguel Properties, Inc. for the development and management of commercial, industrial, office and residential properties. Among its projects are: The Legacy, Villa de Calamba, Primavera Hills, Bel Aldea, Maravilla, Buenavista Homes, Lexington and Greenwoods. COCA-COLA Divestment Former SMC Chairman and CEO Andres Soriano III saw that SMC was reaching a point where company growth was no longer a function of making additional products available to the customer but primarily increasing consumption levels. The potential for such growth is greater in many other countries besides the Philippines.

He recognized that there were great potential for markets in China as well as Vietnam and Cambodia. An opportunity in India was opening up and Indonesia’s potential for consumption growth was large. In 1997, he then agreed to a share-swap deal with Australia–based Coca Cola Amatil. With the concurrent sale of the 30% share held by TCCC, CCA gained full control of CCBPI. The US$ 2. 7 B deal involved a share-swap where SMC gave up its 70% stake in CCBPI for a 25% holding in CCA. With this share, SMC became the second largest stakeholder in CCA, next only to TCCC’s 33%. Coca-Cola Amatil

With the acquisition of CCBPI, Coca-Cola Amatil (CCA) became the largest bottler of trademarked products of The Coca-Cola Company in the world outside the US. After demerging its European operations, it now operates in seven countries within the Asia-Pacific region, and serves a total consumer population of 340 million people. CCA in Australia has the exclusive right to sell the trademarked products of The Coca-Cola Company to over 99% of the population. It currently has six plants in Australia, and an extensive delivery network, which services over 150, 000 retail outlets.

Reacquisition of Coca Cola Bottlers Philippines, Inc. Word of San Miguel Corp. ’s planned reacquisition of CCBPI from CCA barely four (4) years after it first divested its shares in 1997 elicited support from the industry. Under CCA management, profitability had weakened due to the falling peso and the deteriorating national economic condition. Further, Coke had slipped in both market share and total sales volume allegedly because of mismanagement and the loss of the considerable clout extended by San Miguel through its extensive marketing network.

The reacquisition agreement, reached in 2001, was valued at US$ 1. 24 billion, less than half of the 1997 valuation. San Miguel initially wanted to have a 70% share in CCBPI, with the balance held by TCCC of Atlanta, USA. They soon relented, however, and settled for a 65% share and full management control, in exchange for a discount on the royalties due to TCCC or the cost of the cola concentrate that is charged to SMC. In a media interview, Cojuangco explains, “ With the acquisition of CCBPI, SMC becomes the undisputed leader in the Philippine beverage Market.

This transaction represents acquisition of an excellent franchise whose products enjoy unrivalled brand loyalty. SMC is confident that it can effectively capture growth prospects and consolidate its position in the beverage industry. ” The deal is expected to address the deteriorating market share of Coke as well as consolidate SMC’s hold on the Philippine beverage industry, making it the undisputed primary player in the soft drink, beer and liquor markets. Acquisition of Cosmos Bottling Corporation

In July 2001, the RFM Corporation agreed to sell its entire 85% stake in Cosmos Bottling Corporation to SMC. Cosmos was a profitable soft drinks manufacturer and was second only to Coca Cola in nationwide sales. SMC and CCBPI jointly paid around P14. 5 billion for the company. With this acquisition, CCBPI was guaranteed an unquestionable dominance over the huge Philippine soft drinks market. THE REORGANIZATION With its widening portfolio of acquisitions, SMC finally decided to pursue a comprehensive reorganization in 2001.

By the end of the year, the following revisions were performed: •A new subsidiary, Philippine Beverage Partners (PhilBev), was formed under Coca Cola Bottlers Philippines, Inc. PhilBev was to be the non-carbonated soft drinks subsidiary of CCBPI. Therefore, the former juice and water businesses of La Tondena Distillers Inc. were sold to this subsidiary. These included Eight O’ Clock, Ponkana and Ice Cold Mix brands of powdered juice drinks, Viva! and Wilkins mineral waters, Magnolia fruit drinks, and Magnolia Funchum, Zip and Junior juice packs. The Sugarland Beverage Corporation, its beverages having been transferred to PhilBev, was transformed into the Sugarland Corporation, and would focus on its jelly-based snack food business. •La Tondena Distillers Inc. , now without its juice and bottled water businesses, became focused on the hard liquor business, which included the popular brands Ginebra San Miguel, Anejo Rum Oro, Vino Kulafu, Tondena Manila Rum Gold, and San Miguel Bravo Rum. Exhibit 2 shows SMC’s domestic business portfolio after the reorganization. THE PRESENT It is the start of 2002, and the acquisitions fever has not yet left SMC.

Chairman Eduardo “ Danding” Cojuangco has expressed that while the San Miguel Corporation conglomerate would still concentrate on the food and beverage businesses, its strategy was to be on the lookout for new opportunities. Exhibits 3 presents a press releases from SMC detailing its healthy financial position. And with Kirin Brewery of Japan apparently buying 15% of SMC (see Exhibit 4), the cash war chest of San Miguel is bound to be tremendous. In which case the challenge would be in finding the best possible targets for future acquisition. Guide Questions 1.

Given the corporate identity of San Miguel Corporation as well as the nature of its core businesses, what are possible “ new opportunities” that the company can venture into, and why? 2. What criteria should be used by SMC in acquiring new business units? 3. Assess the reorganized structure of SMC as outlined above. For instance, why was a “ subsidiary within a subsidiary” set up, as was the case with PhilBev, rather than a direct SMC subsidiary? Why not transform SMC into a holding company instead? SOURCES Public sources San Miguel Corporation Annual Report 1997 – 2000 Philippine Yearbook 2000, 2001

Web References www. asiaweek. comwww. bworldonline. comwww. financeasia. com www. sanmiguel. com. ph www. inquirer. net EXHIBIT 1. Selected Financial Data for San Miguel Corporation SELECTED FINANCIAL DATA (Amounts in Million Pesos Except per Share and Statistical Data) For the Year200019991998 Net Sales 88, 705 75, 619 78, 226 Income from Operations 7, 928 6, 688 4, 097 Net Income 6, 844 6, 016 24, 409 Basic Earnings per Share3. 042. 529. 83

Taxes 18, 458 17, 375 19, 282 Cash Dividends 2, 250 2, 759 1, 804 Cash Dividends per Share A1. 001. 230. 73 Stock Dividends-10%- At Year-End Working Capital 35, 581 34, 305 51, 752 Total Assets 153, 029 137, 410 139, 043 Property, Plant & Equipment – Net 49, 708 45, 553 48, 276 Stockholders’ Equity 65, 912 55, 733 67, 013 Stockholders’ Equity per Share A29. 824. 7726. 98 Number of Shares Outstanding – Net of Treasury Shares 2, 250, 734, 081 2, 249, 789, 366 2, 257, 516, 972 Number of Stockholders 49, 687 50, 245 51, 778 Number of Employees 14, 864 14, 511 15, 923 Financial Statistics % Return on Average Stockholders’ Equity11. 259. 8042. 18 Current Ration1. 811. 872. 97 Debt to Equity Ratio B0. 991. 110. 86 Market Price C Class A – High58. 0074. 0055. 00 Low44. 0039. 6732. 00 Class B – HIgh57. 086. 5075. 50 Low46. 5045. 4534. 00 A Based on the number of shares outstanding at the end of each year B Total debt to stockholders’ equity and minority interest C Adjusted to reflect the retroactive effects of stock dividend in 1999 Source: SMC Annual Report EXHIBIT 2. SAN MIGUEL CORPORATION’S DOMESTIC `BUSINESS PORTFOLIO San Miguel Beer Division (Domestic) – San Miguel Pale Pilsen and other beers La Tondena Distillers, Inc. – Gins and other hard liquors Coca Cola Bottlers Philippines, Inc. – Coca Cola carbonated softdrink products

Philippine Beverage Partners Inc. – Mineral waters, fruit juices Cosmos Bottling Company (subsidiary of CCBPI) – Sarsi, Pop Cola brands of carbonated soft drinks San Miguel Foods, Inc. – poultry breeding and processing, animal feeds plant Agribusiness – production and export of coconut oil and other coconut products San Miguel Campocarne Corp. – processed meats Monterey Foods Corporation – Hog breeding, hog & cattle fattening, processing and marketing of value-added meat products Pure Foods (recent acquisition) – canned and processed meats

Sugarland Corporation – Gel-based snacks and desserts Philippine Dairy Products Corp. Star Dari, Inc. (subsidiary of Philippine Dairy) – butter, margarine and cheese, esp. Star and Dari Creme San Miguel Packaging Products Division: Metals – production/marketing of metal closures & aluminum cans Plastics – plastic crates, pallets and R-PET bottles Glass – production/marketing of glass containers and glass molds Paper – production/marketing of corrugated cartons Composite – production/marketing of composites San Miguel Properties, Inc. management and development of office, commercial, industrial and residential properties EXHIBIT 3. SMC PRESS RELEASE – AUGUST 3, 2001 MANILA, Philippines – August 2, 2001 – San Miguel Corporation (SMC), after maintaining healthy gains in the 2001 first semester, will pursue its growth momentum by harnessing the full potentials of its recent acquisitions and further structural reconfigurations. Consolidated sales increased 35% to P57. 3 billion following sales revenue gains of 18% in the food business, 6% in beverage, and 5% in packaging.

Sales contributions of newly acquired Pure Foods Corp. and Coca-Cola Bottlers Philippines Inc. (CCBPI) were already felt starting in this year’s second quarter with CCBPI turning in P6. 7 billion for May and June, and Pure Foods accounting for P3. 9 billion in sales for the full second quarter. Operating income for the semester reached P5. 2 billion, up 29% from P4. 0 billion a year ago. Boosted by the continued favorable results from all of the Company’s businesses, SMC posted consolidated net income of P3. 8 billion in the first half of the year, up 10% from the P3. billion posted last year. Pure Foods registered a P190 million net income while CCBPI had P231 million. Synergies drawn from the full integration of all of San Miguel’s operations are expected to become more evident in the coming months as the Company further rationalizes its marketing and distribution systems. To bring customer service to a higher and customized level, for instance, SMC has created a Corporate Key Accounts Group (CKAG), an integration of the key accounts units of San Miguel Beer Division, La Tondena Distillers, Inc. and Philippine Dairy Products Corporation.

In the food business, San Miguel Food Group (SMFG) and Pure Foods are already harnessing each other’s strengths in processed meats and poultry feeds, which would eventually lead to an integrated approach in market positioning, sharing of facilities, technical know-how and distribution networks. With these combined food operations, SMC now accounts for 74% of the hotdog market, 24% of canned meats, 40% of poultry, 32% of feeds and 17% of flour milling Excluding Pure Foods and the coconut oil business, SMFG posted first semester revenues of P9. 5 billion, 18% above last year’s P8. billion on aggregate volume increase of 6%. Operating income for the first half totaled P309 million, 219% better than last year’s P97 million. Separately, Pure Foods’ sales for the second quarter rose 24% to P3. 9 billion while net income increased 11% to P190 million. CCBPI, on the other hand, had an operating income and net income for the second quarter of P322 million and P231 million, up 47% and 85% against last year, respectively. In SMC’s international beer business, an operating income of US$282, 000 was posted in the first half, representing a 238% turnaround from an operating loss of US$204, 000 last year.

Sales volumes, excluding Australian brewer J. Boag & Son, hit 16. 85 million cases in the first semester. Strong volumes were achieved in North China with an 18% improvement, and in Indonesia which grew by 10%. Total revenues of US$109 million was 3% above last year’s US$106 million. South China posted a 37% improvement in operating income due to a product mix favoring the higher margin Pale Pilsen in steinie bottles. Meanwhile, J. Boag continued its strong performance with 1. 6 million cases of sales volume and brewery operating income contribution of US$1. million. SMC’s Philippine beer operations posted operating income of P2. 53 billion, slightly higher than last year’s P2. 50 billion. Fixed costs were tightly managed and accounts receivables reduced by P1. 7 billion or 23%, from P7. 7 billion as of June 30, 2000 to P6. 0 billion as of June 30, 2001. La Tondena Distillers Inc. ’s consolidated sales revenues for the first half amounted to P7. 8 billion, up 12% from last year’s P7. 0 billion. The growth came from the water and juice businesses and the consolidation of Sugarland which registered sales of P1. 6 billion.

Operating income amounted to P1. 52 billion with liquor accounting for 84% of the total. San Miguel Packaging Products (SMPP) registered sales revenue of P7. 4 billion for the first semester, up 5% from last year’s P7. 1 billion. Improvements came mainly from paper and two-piece cans. Operating income in the first half amounted to P849 million. \*Income statement figures can be converted for reader convenience at the exchange rate US$1 = P50. 00 EXHIBIT 4. SMC PRESS RELEASE – FEBRUARY 27, 2002 Stockholders of San Miguel Corporation (SMC) approved by more than two-thirds ote in a special meeting today (February 27, 2002) an increase in SMC’s authorized capital stock from P15 billion to P22. 5 billion, and waived their pre-emptive rights to the issuance of 442. 56 million class “ B” shares. The approval and waiving of pre-emptive rights will enable Kirin Brewery Co. , Ltd. to invest in a minority stake in SMC. Under an agreement San Miguel signed with Kirin in December 2001, the Japanese firm will subscribe to 442. 6 million newly issued SMC “ B” shares, priced at P63 per share.

Kirin’s stake, representing approximately 15 percent of SMC’s increased capital, would entitle the Japanese company to two representatives in the San Miguel board. The total transaction is valued at P27. 88 billion or $536 million, and is expected to close in early March 2002. The investment of Kirin, Japan’s leading brewer and one of Asia’s largest conglomerates, would strengthen San Miguel’s regional presence in the food and beverage industry and afford the Company with considerable flexibility amid the challenging economic environment, SMC said.

It would also provide the means for San Miguel to better marshal its resources and continue expanding in current and new businesses beneficial to its shareholders and the Philippine economy, SMC added. “ Kirin’s entry into San Miguel is not only a vote of confidence in our Company and our ability to generate continuing profitable growth, but also a resounding vote of confidence for the Philippine economy,” SMC noted. “ It demonstrates Kirin’s belief that the Philippines is a strategic market and an important springboard to their plans to strengthen their Asia-Pacific franchise. ”