

## EBRO FOODS 2014<sup>1</sup>

### INTRODUCTION

Antonio Hernández Callejas, Chairman of Ebro Foods, was returning to Spain after having spent a few days in Canada and the United States. On the plane, he went over some points of the Strategic Plan 2013-2015 and prepared for the press conference that would take place when he arrived in Madrid. The following years would be critical in consolidating the strategy that they had started to design back in 2004. Ebro Foods' main target was to become an international leader within the meal solutions<sup>2</sup> segment. This was to be based on the concepts of health, pleasure and convenience, focusing on the products it already commercialized: rice, pasta and sauces. Undoubtedly, they would have to think about other products that would allow them to build up a global leadership position.

After having prepared the press conference and before taking a break, Antonio began to recall the most significant developments since the Grupo Ebro Puleva<sup>3</sup> was created in 2000. He also reflected on how he had progressed from running the family business Arrocerías Herba in Seville, together with his uncles, father and brother Félix in 1989, to being the Executive Chairman of the largest Spanish food group, a world leader in the rice sector and the second biggest pasta manufacturer worldwide. In 2013, the company reported a turnover of €2.013 billion and a profit before tax of €199 million. Over this period, turnover had increased 25-fold and profits had risen at an even faster pace. (See Exhibit 1 for balance sheets and profit and loss accounts for recent years.)

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<sup>1</sup>Case approved by the Research Division of San Telmo Business School, Spain. Prepared by Professor Antonio Garcia de Castro with the collaboration of Mrs. Rocio Reina Paniagua as the basis for discussion and not as an illustration of good or bad management practice in a specific situation. October 2014.

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<sup>2</sup> Meal solutions are ready-to-eat and semi-prepared products and meals: pasta with sauce, pre-cooked rice, etc.

<sup>3</sup> This was the name of the company until the dairy division was sold in 2010.

## ESTABLISHMENT OF GRUPO EBRO PULEVA

Ebro was the result of a merger<sup>4</sup> between Ebro Agrícolas and Sociedad General Azucarera Española (SGAE) in 1998. At that time, Ebro was the largest Spanish company and the fifth largest European company in the sugar sector.<sup>5</sup> Moreover, it owned several businesses that Ebro had purchased in an effort to diversify. It also held financial shareholdings in other companies, but the only significant one was the rice company Herba, where the Hernández Barrera<sup>6</sup> family was still at the helm with 40% of the share capital.

In 2000, it was clear to management that there were several ongoing risks in the sugar sector: sugar was highly regulated and it was a very standardized product where branding and innovation did not seem relevant. In addition, regulations imposed from Brussels made the business extremely profitable although its future was uncertain. Therefore, the largest European sugar companies began expanding geographically, and diversifying via ingredients.

By the end of 2000, Ebro had therefore decided to merge with Puleva, a leading Spanish company in the functional dairy sector. This merger established Ebro Puleva as the largest Spanish food group with a turnover of €2.287 billion and a profit before tax of €104 million. In addition, 93% of EBITDA (earnings before interest, taxes, depreciation and amortization) was generated in Spain, and only 7% through group brands. The financier Javier Tallada ran Puleva after its financial crisis in the early 90s when the company purchased several competitors in Spain and invested in R&D. (See appendices 1 and 2 for a brief background summary of Herba and Puleva).

After the merger, all shares in other non-strategic companies and assets were sold and, in 2001, Ebro Puleva purchased the remaining 40% of Herba from the Hernández Barrera family and therefore owned 100% of the rice company. In the words of Elías, Antonio Hernández's uncle: *"The church was turned into a cathedral"*.

At that time, Herba had a turnover of €392 million (36% from Herba Industrial, 14% from Herba Comercial and 50% from Herba Internacional). EBITDA stood at €34 million (€12 million from Herba Industrial, €6 million from Herba Comercial and €16 million from Herba Internacional). The internationalization process had started in 1986 and continued throughout the 90s.

The following table shows the internationalization of its rice business with the acquisitions made from 1986 to 2000.

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<sup>4</sup> The merger was carried out in the face of the threat of a hostile takeover bid of Ebro Agrícolas by Saint Louis Sucre in 1997. From the early stages, the Minister of Agriculture of Spain, Ms. Loyola de Palacio, opposed the idea of foreign-owned capital controlling Ebro Agrícolas.

<sup>5</sup> The German cooperative Sudzucker (2,386,000 tonnes), the French cooperative Eridania Beghin-Say (2,140,000 tonnes), the British multinational British Sugar (1,144,000 tonnes) and the French Company Saint Louis Sucre (855,000 tonnes) had a larger output than Ebro.

<sup>6</sup> In 2000, the Hernández Barrera family held 5% of Ebro's shares and a seat on the Board of Directors, which was mainly composed of saving banks and state-owned companies.

Subsidiaries	Country	Year of acquisition	Sales*	Profit/loss*	Sales**	Profit/loss**
Arrozeiras Mundiarroz	Portugal	1986	4,143	386	38,534	3,739
Joseph Heap <sup>(2)</sup>	UK	1990	6,705	259	30,025	1,395
RFAC	France	1990	10,351	62	3,178	-10
Boost	Belgium	1991	31,917	395	60,407	392
Herto	Belgium	1991	2,218	228	17,271	559
Mundiriso <sup>(1)</sup>	Italy	1995	607	-204	37,544	-543
Herba Hellas <sup>(1)</sup>	Greece	1999	391	36	8,646	15
Mundiriz	Morocco	2000	438	-171	5,382	185
Euryza	Germany	2000	65,873	461	72,097	1,828

\* Sales and profit/loss for the year in which the companies were acquired (in € thousand).

\*\* Sales and profit/loss for 2002 of companies acquired up to 2000 inclusive (in € thousand).

(1) Industrial market only. (2) Main supplier in the sector (Kellogg's, Nestlé, etc.) in UK.

#### EVOLUTION OF EBRO PULEVA'S BUSINESSES FROM 2001 TO 2014

Although the margins of the sugar division were high in 2001 and the division management carried out a restructuring process in order to become more productive, regulatory changes introduced in Brussels in 2006 reduced the profitability of the sugar business. The following table shows the narrowing of margins for Ebro Puleva's sugar business.

	2001	2002	2003	2004	2005	2006	2007	2008
<b>Sales</b>	751.9	703.5	736.7	726.1	652.3	687.1	653.7	536.6
<b>EBITDA</b>	144.2	157.5	158.6	158.9	119.5	96.9	79.9	48.6

After the merger and during the early years of the 21<sup>st</sup> century, Puleva continued to launch new kinds of functional dairy products, such as milk with added soluble fibre and Omega-3 enriched milk which helped reduce cholesterol. Another element of Puleva's strategy was to launch specific segment products, particularly targeting children and the elderly, and with a focus on milkshakes. Puleva was the leading company in the functional dairy product sector in 2004, accounting for 42.7% of total sales. Family business Pascual was second with 21.6%, followed by the cooperative Central Lechera Asturiana (5.5%). Private-label brands obtained only a 12.5% share of total sales in the sector. In the words of Antonio Hernández Callejas:

*"The company decided some time back to exit the traditional liquid milk market dominated by private-label brands. The aim was to focus on value through functional dairy products and baby foods".*