

The crisis of CEMEX Transnational Mexican Firm, a Post Keynesian analysis

CEMEX WAY

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Since the seventies, the competition in the global cement industry is based mainly on international expansion by acquiring cement companies in strategic markets, which has resulted in the concentration of production in a few global corporations. During the last two decades the French cement maker Lafarge made numerous acquisitions across the globe, in 2001 it became the world's largest producer of construction materials due to the acquisition of Blue Circle of Britain. Meanwhile the Swiss Holcim major acquisitions were carried out in Europe. These two companies are seeking to take control quickly of the acquired companies to make them more profitable as soon as possible.

To survive against the competition Cemex should expand on the world market or else lose its position in the domestic market. Even when it had adopted a strategy of growth through acquisition since the late sixties, Lorenzo Zambrano's arrival as chief executive represented that this growth strategy acquired a new dimension, as it incorporated elements and processes that led to the acquisitions of Cemex to take a particular character. Since 1985 and through the years the company developed a unique model of growth that later became known as the "Cemex Way". This growth model is based on three fundamental elements: first, in a process of post-acquisition integration where the company is able to reduce costs, identify and disseminate best practices, standardize business processes and increase plant efficiency, thus increasing the profits of the newly acquired companies. Second, make use of information technology and global communication systems that maintain total control of each of the plants from headquarters. Third, in financial terms is

the leveraged buyout of the assets and a down payment financing through reinvestment of free cash flow generated in each acquired company.

Post-Acquisition Integration

Once Cemex acquires a new company, starts its absorption through the process known as PMI (Post Merge Integration), whose first step is to assemble a team of experts whose goal is to lower costs and increase productivity through the analysis of operations. This team is responsible for standardization and dissemination processes, practices, technology platforms and tools for information systems used by the company, some of them made long stays in the acquired companies, in order to disseminate technological knowledge and administrative practices and ensure its proper implementation.

Financing

The essential feature of its funding strategy was the use of cash flow to pay debts incurred for the acquisition of companies.

Alternatively to the reinvestment of profits, Cemex has diversified its sources of funding. Since 1976, listed on the Mexican Stock Exchange and in 1999 enters trading on the Stock Exchange of New York, representing the increase in its availability of resources through the issuance of shares in the U.S. and Mexico, and the placement of bonds in the capital markets of Europe and the United States. Furthermore, a significant portion of their funding comes from the hiring of private bank debt. The company also used derivative financial instruments as part of its strategy to manage its exposure to changing the profile of the risks associated with changes in interest rates and currency debt as a means of reducing the financial costs and lesser extent as an alternative source of financing.

Technology

Since the arrival of Lorenzo Zambrano to the direction, Cemex has invested a substantial

amount of resources to the development of communication and computing systems, in order to control the operations of the company, in 1987 installed the satellite communications system Cemexnet that connected all its operational facilities and could transmit the data to its base of operations in Monterrey, avoid using the telephone service, which at that time was inefficient and had high prices. In 1990 establishes the Executive Information System, through which all the plant managers had to enter the plant statistics (level of production, sales, inventory, deliveries and accounting), which could be consulted by all managers and above by Zambrano who had access to information from any of the plants from his office. In 1993 he created the subsidiary to provide services Cemtec information technology to all levels of the company. Then with four other companies from Spain, Argentina, Brazil and Venezuela created Neoris, a consulting firm that is responsible for providing support, service, consulting and infrastructure development in information technology. In 2000 the cement creates the company: CxNetworks to develop a network of e-business through the development of portals for online purchase of building materials such as Construmix for the Mexican market and in July of the same year, together with the Alfa Mexican and Brazilian Votorantim Bradespar agreed to create Latinexus, to develop an electronic supplies market in Latin America. Meanwhile Neoris continues with the expansion of consulting services in information technology, logistics and networks. The adoption of Global Positioning System (GPS, by its acronym in English) allowed satellite monitoring to each of its ships and trucks. This helped the logistics system, which not only analyzes the flow of cement between plants and ports of delivery, but also explores the ship loading rate, input and output ports, travel speed, storage capacity and regarding the trucks, the system not only calculates the fate of each truck but assigned the most direct route, thereby reducing the delivery time to 20 minutes in Mexico City. Having developed this type of corporate capabilities ... has facilitated the process of incorporating and using technology, and is incorporated as a key differentiating their competition.10

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The Cemex Way is the result of technological maturity and mastery of business processes, but overturned in ICT tools, which makes it a difficult ability to be copied by other companies of the sector. 94 Thesis.

Results

Once that Cemex adopted two strategies, first, the geographical diversification of its assets cement, concrete and aggregates in new and existing markets and second, the vertical integration of operations, by acquiring or developing complementary assets along the cement value chain, from extraction of raw materials from mining to marketing, Cemex developed a set of knowledge and skills that allowed him to compete in the global market. This body of knowledge and skills articulated in the growth model: the Cemex Way. It is recognized that emerged in the early twenty-first century, its key elements have already been implemented in its first acquisition of a foreign cement company, when I buy the Spanish cement Sanson and Valencia in 1992.

Despite the debt and distrust generated by each of its acquisitions, the company retained the investment grade issued by the international consultants. The main reasons for maintaining the confidence of investors, analysts and consultants, and investment grade, were financial strength and its continued profitable growth, enabling it to obtain credit on very favorable terms. The company had a great ability to regain financial flexibility very quickly after completing an acquisition, only financial data in 2003 indicate that the company used \$ 725 million of 1.143 million dollars in free cash flow to reduce its debt. As a result, managed to reduce its net debt to EBITDA of 3.2 times at the end of 2002 to 2.7 times by end of 2003. Furthermore, increased to 5.3 times interest coverage for the year and successfully refinanced 2.400 billion of debt maturing during the year 2003 (CEMEX-Annual Report, 2003)

The increase in free cash flow had originated in the standardization process, operational, administrative and information systems for their new ventures. The process of post-merger integration also achieves the identification of best practices in new businesses and then are transferred to all levels of the company.

Also before the implementation process of post-acquisition integration, new plants had to meet the investment criteria of the cement group:

- Acquisition will generate returns above their cost of capital, contributing to increase your cash flow
- The acquisition should allow for continued financial strength and credit rating of investment grade, reduce its cost of capital and consequently the cost of debt.

As we have seen Cemex Way was a major success for 15 years Cemex grew steadily, moved from sixth to third place among the world's largest cement companies, became the first global cement trading company and its free cash flow was greater than its two main competitors. But his last three big acquisitions pledged their financial situation. In 2001 he became the second largest cement producer in the United States, having acquired by MMD Southdown 2.500, this operation was the most important thing a Mexican company in that country made so far in 2005 it acquired Britain's RMC Corporation the company the world's largest Concrete by 5.800 MDD and in 2007 acquired the Australian firm Rinker, its size and cost 15.300 MDD. The money is achieved with short-term bank loans, part of the company's strategy was to sell some of its plants to pay their debts. Although from their purchases in Spain, the company borrowed heavily, the

degree of indebtedness of CEMEX reached its limits with the purchase of Southdown, even after the purchase Standard & Poor's BBB + rating granted to significantly negative.

When he bought RMC Corporation in 2005 and subsequently following the acquisition of Rinker in 2007, had contracted a high debt to finance these acquisitions, but its liquidity was supported by a significant generation of free cash flow as well as the availability of bank credit lines and access to diverse funding sources. The generation of free flow of operation amounted to about 2,000 Cemex MDD in 2007 and had about 1.500 MDD available committed credit lines and a MDD 1.600 in cash and negotiable instruments, which guaranteed that the company was able to meet their obligations. But the crisis came and everything changed, sales decreased, Cemex's debt lost its investment grade and pressured banks to collect their debts. In 2008 international standing lost because of the crisis and the cement had to be sold much of its operations in Australia and October 1, 2009 closed the transaction with the Swiss Holcim for 1,700 million dollars. The transaction included 249 concrete plants, 83 aggregates quarries and 16 plants producing concrete pipe in Australian territory. The company also captured resources with the conclusion of a global supply of capital, resources which were used to reduce debt.

But 2009 was also a bad year, net sales decreased 28% and EBITDA decreased 35%, free cash flow after capital expenditures for maintenance was reduced 53%, was put in place a program to reduce costs by \$ 900 million and decreased by 1.500 million capital investment in maintenance and expansion. However had to renegotiate its debt, which amounted to \$ 15,000 MDD in syndicated and bilateral banks and private placements of debt and the August 14, 2009 signed a Financing Agreement with one hundred of its major creditors. This contract provides a payment schedule that ends in February 2014, during which time the company has to meet certain measures that could put at a disadvantage, among which are: selling non-strategic assets, recapitalize the company through issuing shares, mainly to limit capital expenditures through 2013. This last measure is the main

obstacle for the company because on the one hand, their growth is based on the purchase of companies and on the other hand, is the form of competition in the global cement industry.

Mean while, in the third quarter 2010 consolidated net sales decreased 2% over the same period in 2009, reaching 3.765 million dollars, EBITDA was 13% lower in the quarter versus the same period last year, to settle at \$ 649 million and consolidated cement volume increased 2% versus the third quarter of 2009, while consolidated volume of concrete and aggregates are reduced both at 3%. Currently the main focus of the company is recovering its financial flexibility, through actions such as: 1) to maximize cash flow and devoted the proceeds from the sale of assets, debt reduction, 2) reduce costs in all operations and adapt to current market demand, 3) significantly reduce capital investments and 4) identify and sell various assets to strengthen its financial flexibility and overall strategy.

CONCLUSIONS

Occurred the structural reforms in the country, framed in the process of globalization, the goal that was adopted by Cemex's was growth and it positioned in the domestic and international markets. So the company is committed to their growth and the reduction of its competitors through a series of mergers and acquisitions. Among the elements that allowed the growth of the company we can count on: the appropriate choice of appropriate strategies at national and international economic environment, the leadership of Lawrence H. Zambrano gave further impetus to international expansion and the development of a sophisticated communications system, investment in growth countries that promise a high demand for cement in the future and the diversification and access to funding sources increasingly large. Cemex experienced growth from 1992 to 2007 is the product strategy of investment in the purchase of established companies and their financing strategy based on diversification of its sources.

El modelo llamado “Cemex Way” fue exitoso durante este periodo, sin embargo la crisis económica mundial puso en evidencia su punto débil; el abuso de la deuda de corto plazo. Un endeudamiento de corto plazo que sobrepasaba la capacidad de pago mediante el flujo de efectivo generado por la empresa representaba un gran riesgo para la empresa.

Con la reducción de las ventas y la consiguiente reducción de su flujo de efectivo le fue imposible continuar con sus obligaciones frente a sus deudores, al grado que tuvo que negociar un Contrato de Financiamiento con 100 de ellos, comprometiendo su crecimiento futuro.

Pero a pesar del descalabro sufrido en los últimos años, Cemex sigue siendo la cuarta cementera¹ más grande del mundo con una capacidad de producción de 96.1 toneladas anuales, 74 plantas de cemento de participación total o minoritaria, 1,997 plantas de concreto, 376 canteras, 71 terminales marítimas y cerca de 46,500 empleados alrededor del mundo. Hasta 2008 contaba con activos externos por 40, 258 millones de dólares, lo que la colocaba como la tercer mayor empresa trasnacional no financiera de un país en desarrollo en el mundo y es la única empresa mexicana dentro de las 100 mayores empresas transnacionales no financieras en el mundo, en el lugar 55, dos lugares por debajo de General Motors (UNCTAD, 2009). La empresa cuenta con once centros de investigación y desarrollo, el principal está ubicado en Suiza, en donde busca el desarrollo de cemento con nuevas características. Un ejemplo de los resultados en este aspecto es el aquacemento, un tipo de cemento que permite la filtración del agua de lluvia a través del concreto y que puede contribuir a la recarga de los mantos acuíferos. Actualmente se busca el desarrollo de cemento que permita el ahorro de energía en los edificios al mantener una temperatura constante dentro de los mismos, reduciendo así el uso del aire acondicionado.

En los últimos días del mes de marzo de 2011 las calificadoras internacionales daban buenas notas; Standard&Poor’s dio una calificación de B con perspectiva estable, mientras que Fitch dio una calificación de B con perspectiva positiva. Las ventas netas consolidadas en el primer trimestre de 2011 aumentaron 11% respecto al primer trimestre de 2010, ubicándose en 3,384 millones de dólares, sin embargo el flujo de efectivo libre registró una pérdida de 329 millones de dólares durante el trimestre, contra una pérdida de 178 millones

¹ “La revista líder mundial para la industria cementera, *International Cement Review*, confirma que la mexicana Cemex ocupa la cuarta posición en el *ranking* global, luego que la alemana HeidelbergCement la desbancara del tercer lugar.” De la Rosa, 2011.

de dólares registrada en el mismo trimestre de 2010, lo que representa una pérdida 66% mayor, lo cual fue debido al incremento de la deuda durante el trimestre, que fue del 4% con respecto al mismo trimestre del año anterior, así como al efecto negativo de conversión por 294 millones de dólares durante el trimestre entre otros factores. Sin embargo la gerencia y analistas mantienen expectativas favorables sobre la empresa pues reportó crecimientos de 16% en la utilidad de operación, 1% en el flujo operativo y una reducción de 19% en su pérdida neta. **Si consideramos que la empresa ya no realiza inversiones en activos fijos, la reducción del flujo de efectivo libre se debe a que sus utilidades son destinadas a reducir su deuda total.**

The model name "Cemex Way" was successful during this period, however the global economic crisis revealed their weakness, the abuse of short-term debt. A short-term debt exceeded the ability to pay by cash flow generated by the company represented a great risk for the company.

With the reduction in sales and the consequent reduction in its cash flow was unable to continue with their obligations to their debtors, to the extent he had to negotiate a financing agreement with 100 of them, compromising their future growth. But despite the setback suffered in recent years, Cemex remains the fourth largest cement producer in the world with a production capacity of 96.1 tons, 74 cement plants in whole or in minority participation, 1,997 concrete plants, 376 quarries, 71 marine terminals and around 46,500 employees worldwide. Until 2008 it had 40 foreign assets, 258 billion, placing it as the third largest non-financial transnational corporation in a developing country in the world and is the only Mexican company among the 100 largest nonfinancial corporations the world in 55 place, two places below General Motors (UNCTAD, 2009). The company has eleven research and development centers, the main is located in Switzerland, where he seeks to cement the development of new features. An example of the results in this aspect is aquacemento, a type of cement that allows the filtration of rainwater through the concrete and may contribute to the recharge of aquifers. Currently pursuing the development of cement that allows energy savings in buildings by maintaining a constant temperature within them, reducing the use of air conditioning. In the last days of March 2011 the international rating agencies gave good notes, Standard

& Poor's gave a rating of B with a stable outlook, while Fitch gave a B rating with positive outlook. Consolidated net sales in the first quarter of 2011 increased 11% over the first quarter of 2010, reaching 3.384 million dollars, but the free cash flow was a loss of \$ 329 million during the quarter, versus a loss of \$ 178 million recorded in the same quarter of 2010, representing a 66% higher loss, which was due to increased debt for the quarter, which was 4% over the same quarter last year, and the negative effect of conversion of \$ 294 million during the quarter and other factors. However, the management and analysts maintain positive expectations about the company as reported 16% growth in operating income, 1% in EBITDA and a reduction of 19% in its net loss. Considering that the company no longer invests in fixed assets, reducing the free cash flow because their profits are to reduce your total debt.