Expansion ahoy: VC plant in Turkey

Heavyweight newcomers

Votorantim Cimentos and InterCement, which belongs to the Camargo Corrêa Group, only started to go international with their operations this century but already occupy outstanding positions in the sector globally

DARIO PALHARES

Some observers attribute the caution to a certain aversion to competition on a grand scale while others relate it to the satisfaction with the domestic Brazilian market which is one of the biggest in the world. The fact is that the large Brazilian corporations usually give a lot of thought before taking the decision whether to go abroad or not. Votorantim Cimentos (VC) and InterCement, which belongs to the Camargo Corrêa Group, were no different. It was only in this century that both of them, which jointly had around 60% of the sector sales in Brazil, decided to raise their banners abroad for good. Despite the delay, the results achieved to date have been impressive. Thanks to a great extent to acquisitions made abroad, both are already among the 20 largest corporations in the sector in the world in terms of installed capacity, with Votorantim in 12th position and InterCement in 18th. When Chinese and Indian cement producers are excluded – since their overseas operations are insignificant or non-existent as they give priority to their home markets – the two Brazilian firms stand out even more in the ranking. They jump to fifth and ninth positions, respectively, with around 80 plants, two thirds of which are in other countries and have a total production potential of 100 million tons a year.

Cemex´s thrust was a stimulus and alert for Brazilian companies

"Although they are highly successful, the delayed move towards international expansion by InterCement and Votorantim Cimentos, in particular, were in response to the lower rate of growth in Brazil in the 1990s and the start of the next decade," said economist Albino Fernando Colantuono, author of the master's dissertation "International expansion of raw material producers in developing countries – Analysis of steel and cement companies" which he presented to the Science and Literature Faculty of the Paulista State University (Unesp) in Araraquara in 2009. Colantuono said an external factor also influenced the decisions in both cases. This was the thrust by Mexico's Cemex (see box on page 56) from the end of the 1980s, which also served as a spur and alert to other cement producers from emerging countries. "Cemex began its expansion in the United States and shortly afterwards started setting up in other countries. By the 1990s, it was the third-largest global cement producer. In the wake of this process, a number of its rivals went shopping to gain muscle, thereby reducing the risk of being swallowed up," he added.

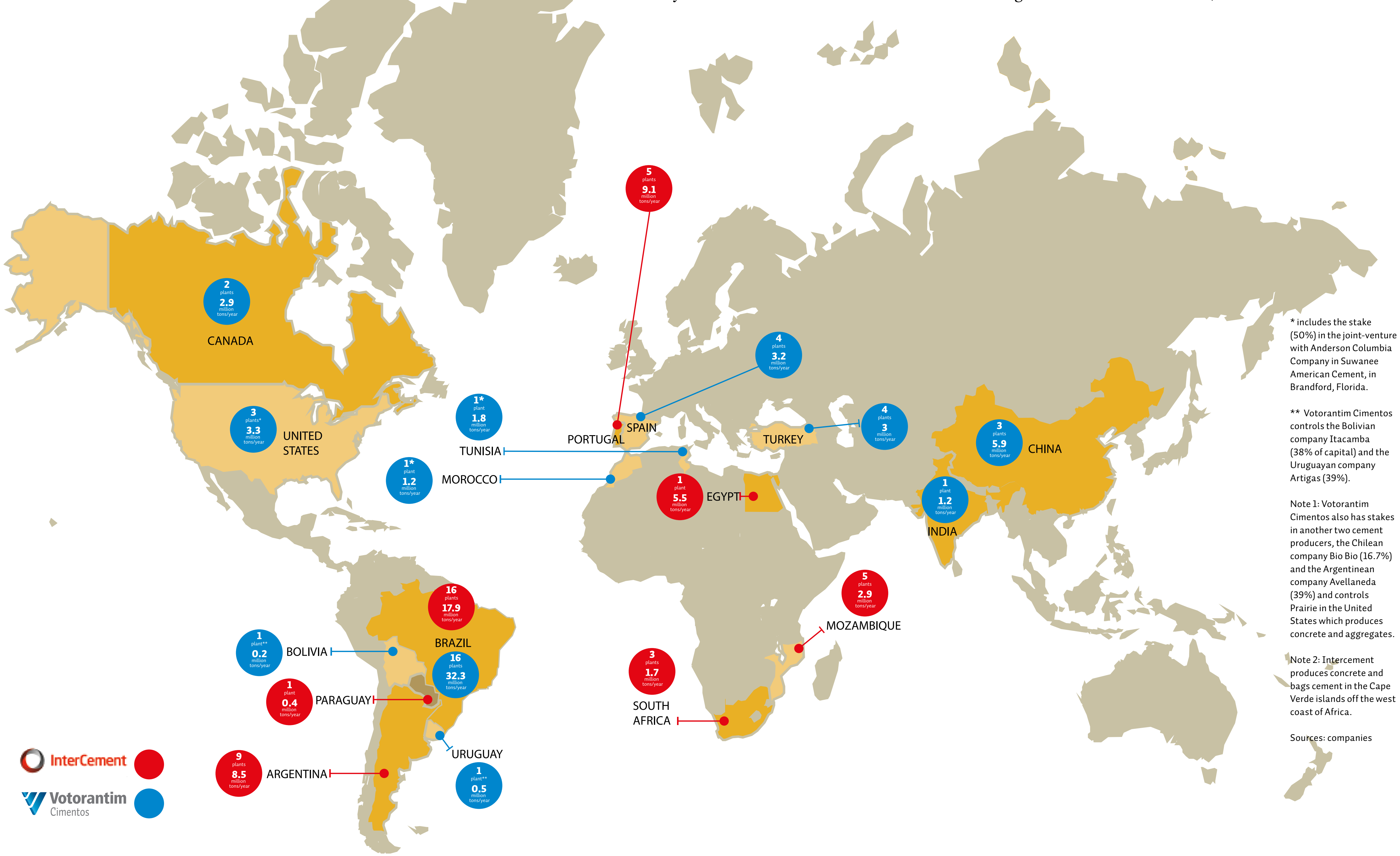
VC was founded in 1933 and had an additional reason for pursuing business abroad. As it had a domestic market share of around 42% at the end of the 1990s, it had little room to grow at home by buying other producers, due to the tight grip of the federal anti-trust body, the Economic Defense Administrative Council (local acronym CADE). The company had actually made a step towards international expansion in 1989 when it linked up with the Bolivian company Tumpar Materiales de Construcción to create the Compañia de Cemento Camba, a crushing mill in Puerto Quijarro, a town near the border with Brazil's Mato Grosso do Sul state. It then decided to go on higher and longer flights.

Its first big opportunity abroad arose ironically thanks to a decision by the Canadian anti-trust body known as the Competition Bureau. At the turn of the century, it decided that the French producer Lafarge would have to sell off some of its assets in Canada. The part that ended up in the hands of VC, which is controlled by the Ermírio de Moraes family, was respectable. It paid US$ 727 million and assumed control of St. Marys Cement in 2001. The company had two cement plants in Ontario province, a crushing mill in Detroit, in the United States, seven terminals on the shores of the Great Lakes, a transporter and 39 concrete production units. "The Great Lakes region where St. Marys operations are situated is strategic. The business is carried out by barges and is intense," said André Leitão, global executive director of corporate development.

The experience paid off. So much so, that VC crossed from Canada to the US shortly afterwards. It paid around US$ 104 million for a 50%

GLOBAL REACH

OPERATIONS OF Votorantim Cimentos and InterCement – cement production plants and installed capacity



1 Leitão: solid base in the Great Lakes

2 Self-cleaning concrete: innovation in São Paulo

stake in Suwanee American Cement in Florida in 2003 and became the owner of Badger Cements, a cement crusher in Wisconsin. In November of the following year, it consolidated its presence in the Great Lakes region by acquiring two plants in Charlevoix (Michigan) and Dixon (Illinois) from Cemex for US$ 413 million. The package also included eight cargo terminals and some boats. "We opted to strengthen our presence in the United States, which was the biggest cement consumer at the start of the century. It's true that the Americans were later overtaken by the Chinese and Indians but their market is still very strong. Lafarge and the German company Heidelberg were the only producers with a national reach and, even so, they had to work hard as no-one had a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share of more than 20% of sales in the 50 states," Leitão added.

At that time, in the second half of 2004, the attention of the cement giants was directed at the southern hemisphere. More precisely on Argentina, where Loma Negra, with 48% of local sales, was put up for sale to would be buyers by Amalia Lacroze de Fortabat, the widow of the founder, Alfredo Fortabat. The price was high at around US$ 1 billion, equivalent to nine times the expected operating cash flow for that year. Cemex pulled out of the dispute after acquiring the British company RMC for US$ 5.8 billion and, by doing so, doubling its size. Another three strong candidates, Cimpor from Portugal, Switzerland's Holcim and Lafarge also withdrew. Those left were Votorantim, which hoped to see a fall in the price demanded, and a name that coveted a place on the international front, Camargo Corrêa Cimentos, a subsidiary of the conglomerate founded by Sebastião Camargo, which was created in 1968

At first, the aspiring multinational proposed paying partly with shares but its offer was rebuffed. It then offered to pay the whole amount in installments. Amalia Lacroze de Fortabat agreed but raised the asking price to US$ 1.2 billion. Camargo Corrêa did not give up and, with a lot of cool and patience, presented all the arguments possible to convince the widow that its final offer was the most generous.

The soap opera only ended in July when Camargo Corrêa Cimentos concluded the biggest transaction in its history until then and paid US$ 1.025 billion for Loma Negra's nine cement plants and all its subsidiaries. These included Cementos del Plata, a joint-venture with the state-owned Uruguayan company Ancap, Recycomb, which treated industrial waste, and Ferrosur Roca, a railroad with 3,300 kilometers of track that interlinks the Argentinean group's production units. "Loma Negra's installed capacity, of seven million tons a year, was higher than our capacity in Brazil. This allowed us to quadruple our sales in a short time – from 2.7 million tons to 10.2 million between 2004 and 2009," said Ricardo Lima, InterCement's CEO, who headed the operation in Argentina between 2008 and 2010.

Besides leveraging its business, the acquisition ensured the company learned the fast way on its first venture abroad. Lima recalled that Loma Negra already had a modern research center, a key factor in


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TECHNICAL STANDARDS BOOST INTERNATIONAL EXPANSION

THE INTERNATIONAL expansion process of Votorantim Cimentos and InterCement also occurred at domestic level. They were accompanied by the sector's trade body, the Brazilian Portland Cement Association (ABCP), which also started looking abroad. The association's head office is located near São Paulo University and it did not open or intend setting up offices and laboratories abroad. However, it already has an international presence, thanks to its work on the Cement, Concrete and Aggregates Committee of the Brazilian Technical Standards Association (ABNT), which represents the country in the International Organization for Standardization (ISO) on issues related to concrete. The first achievement of the group, in which technicians from institutions of the industry and academics participate, occurred in 2008 when the ISO evaluated the ABNT's NBR 6118 standard which established the framework for concrete structure projects. The ABCP and its partners repeated the analysis in October of this year, thereby ensuring a new international recognition for the Brazilian standard.

"We needed the ISO to be re-endorsed, as the NBR 6118 standard has been improved in recent years, particularly in terms of sustainability and durability," said geologist Arnaldo Battagin, director of the ABCP's laboratories. "We were given the green light at a meeting in South Korea two months ago. For the second time in seven years, our standard was regarded as being 100% in line with the global benchmark in the ISO 19338 area."

As a result, Brazil ensured its position within a select group consisting of the European Union and eight other countries, including the United States, Japan and Australia. This is a breakthrough for the projects and buildings offices of the members of this "club" as they can now plan and execute concrete structures anywhere in the world in the same way they do in their head offices. "This represents a good saving for Brazilian companies operating abroad as they do not have to hire foreign technicians to adapt projects to the standards of this or that country," Battagin explained.

The ABCP was founded in 1936 and, although it is a benchmark in standards, its main purpose is research. Around 25 years ago, for example, its laboratories put Brazil on the world map in terms of co-processing – which involves using waste in cement kilns – with the burning of tires. This technique was established in the mid-1990s and brought about an environmentally correct way of burning. In 2011, 220,000 tons of rubber tires, equivalent to 45 million units, which if placed one after the other would stretch from Rio de Janeiro to Tokyo, were burnt. "As well as reducing the effects on the environment with the decomposition of those that take the longest time to break down and bring a decline in the use of fossil fuels, the co-processing of tires led to the emergence of a business chain. The collectors and processors of the material are at one point of the chain and are remunerated by the cement producers when they supply a refined input. Companies involved in projects and adapting kilns, some of which also have clients abroad, are at the other end," Battagin added.

The Association's latest innovation may be seen shortly by the people of São Paulo. These are blocks of self-cleaning concrete, developed in partnership with the city's São Judas Tadeu University, which are being installed on the pavement in the Sete de Abril street area in the center. The technology was created by the Italian company Italcementi and incorporates titanium oxide to the cement blocks which then manage to free themselves of stains and odors in a few weeks by means of vaporization. Furthermore, to the delight of the street cleaners, the material makes it easy to remove sticky chewing gum. "Our touch in the European invention is the use of a paint based on the main active ingredient that guarantees the same benefits at a much lower cost," Battagin said. ∎

HANDOUT

DIANA QUINTELA / GLOBAL IMAGENS

1 Loma Negra: "baptized" InterCement abroad **2** Lima: eyes on the emerging markets

product development, and excellent practices in retaining client loyalty. The combination of these factors with the new controller in monitoring markets guaranteed greater technical and business negotiating expertise in the dual national project. "Years earlier, Cemex had begun to assimilate modern managerial techniques in its expansion. This experience also encouraged the Brazilian cement producers to follow its example," said Colantuono.

The following investments by VC and Camargo Corrêa Cimentos, which had still not changed its name, made the differences between their international expansion strategies more evident. VC had invested around US$ 190 million at the end of the last decade to become a partner in three South American cement producers – Chile's Bio Bio (16.7%), Argentina's Avellaneda (39%) and the Uruguayan company Artigas (39%). On the other hand, it spent an estimated three times as much in the same period to strengthen its operations on its priority foreign market, by obtaining control of the concrete producers Prestige and Praierie in the US. For its part, Camargo Corrêa began building a cement plant in Paraguay in 2009 and signed an agreement with an Angolan company, Gema, the following year to set up another plant in Lobito, in Benguela province. "Our focus is centered on emerging markets with a growth potential above the world average. This includes Africa and South America, as well as Brazil. Obviously, the risks are greater but the return is much higher and well above that from the developed countries," Lima said.

The range of the two companies' preferences would be expanded when the battle to win the giant Portuguese company Cimpor started. It had plants in nine countries (six in Brazil) and installed capacity of 46 million tons a year and was being looked at by CSN Cimentos, a subsidiary of Companhia Siderúrgica Nacional (CSN) which had just started operations. It presented a hostile bid of US$ 5.5 billion for control at the Lisbon Stock Exchange at the end of 2009. It used the same tactics as Cemex in its first attempt to take over the Australian company Rinker three years earlier. VC and Camargo Corrêa wasted no time in reacting.

Votorantim rehearsed its expansion process, in Bolivia in 1989

Cimpor's jewel in the crown was its Brazilian arm which was responsible for almost 40% of its global production potential. It was a great chance for CSN and Camargo Corrêa to gain positions in the domestic ranking. Votorantim, with 40% of the local market, had nothing to lose. It would be difficult to obtain the anti-trust body's approval for the incorporation of the sector leader's plants in the country. However, if the attempt should fail, taking over the Portuguese company's plants abroad would still be a good deal.

Despite getting to the forefront, CSN soon fell behind. Its offer was not well received and the competition gained time to react. In February 2010, Camargo Corrêa and Votorantim already held stakes of 32% and 21.2% in Cimpor, respectively. Two years later, Camargo Corrêa, which had changed its official name to InterCement in 2011, acquired another 41% of Cimpor's shares, making it the majority shareholder. It then assumed the Votorantim stake in exchange for 12 plants abroad, raising its total spending on gaining control to around US$ 3 billion. The CADE, which ended up vetoing the Ermírio de Moraes family's participation in the company, approved the partition.

"Before the acquisition of Loma Negra 10 years ago, we were the fifth-largest producer in Brazil, with five plants and sales of 2.7 million tons of cement a year. Now we are the vice-leaders on the domestic market, have 40 plants, are present in eight countries and our sales have reached the 30 million ton mark," said Lima. Before taking over InterCement's global operations, Lima ran Cimpor in Lisbon for three years between 2012 and last July.

Portugal, as we saw, did not figure in the company's expansion plans. However, the five plants located there have become valuable triumphs, thanks to the recovery in local sales which have jumped by 10% and also for the prospects of penetrating on new fronts. The Portuguese have been playing a decisive role in exploiting the Africa market – one of the priorities of InterCement which is present in four African countries. They have also helped in taking the brand to Paraguay through exports. "When our plant in Yguazú was ready in 2014, we already had a 40% share of the local market. We only had to replace the cements of Cimpor, Loma Negra and ours, here in Brazil, by the Paraguayan cement."

Dispute for control of Cimpor involved three Brazilian companies

Votorantim, which considered opening its capital two years ago, also changed level. Its installed capacity at the time jumped in the blink of an eye from 35.9 million tons to 52.2 million a year with the incorporation of the Cimpor plants in Africa, Spain, Turkey, China and India. Revenues grew between 2010 and last year at an even greater rate – from R$ 8.5 billion to R$ 12.8 billion, an increase of 50.6%. "We began operating in markets we knew nothing about, with very different customs. We then decided to adopt a governance with a world character," Leitão said.

The process began with the arrival in December 2013 of the German executive Walter Dissinger who became the general CEO, heading all the businesses in Brazil. As soon as he assumed command of the company, with its head office in a modern tower in the Vila Olímpia district of São Paulo, he began to form his senior staff of eight executives, including those responsible for operations in Europe, Asia and Africa, based in Madrid, and for North America, with its main office in Toronto. The company had around 16,000 employees worldwide in February and took a further step to enhance its global management with the holding of its first international meeting in São Paulo which was attended by 80 directors and managers from various countries.

VC operates like InterCement and prefers to keep local people in charge of its foreign operations. Africa is the only place where this rule was not followed. "We have different levels of social and economic development in the various countries where we operate along with spe-

LEONARDO RODRIGUES

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1 On the edge of the Sahara: VC team in Morocco **2** Dissinger: “Integration of different accents” **3** New front: InterCement plant in Portugal

cific cultural factors. We integrate new accents, learn with them and prepare the company for a new wave of value creation,” Dissinger said.

Appreciating the local people from its operations abroad facilitates their integration with the head office. It also allows a greater flexibility in identifying and absorbing the innovations of the subsidiaries. For example, VC “imported’ logistical systems from its American operations that allow it to manage its concrete mixer fleets in Brazil better. It is now preparing to adopt an African creation. “We learned that our people in Tunisia have developed a technology that transforms the heat generated by the cement kilns into energy and are evaluating its implementation in Brazil and other countries,” Leitão said.

VC will increase installed capacity in the US and three other countries

The company raised € 500 million to extend its debt profile and promises to expand installed capacity abroad shortly. Four new production lines will come into operation in the next three years – in Turkey, Bolivia, the US and Argentina. VC is a partner of Cementos Avellaneda in Argentina which will account for a large part of the investments scheduled for the 2012-2018 period amounting to a total of R$ 5 billion. Therefore, everything indicates that the share of revenues in foreign currency of the total, currently around 40%, should increase. There may also be new overseas investments which could arise by the end of the decade.

“We are currently examining various opportunities at global level,” said Leitão, indicating that Latin America was one of the regions the company is considering. “Peru, Colombia and Mexico, for example, are very interesting markets. However, the opportunities must have a growth potential and important positions as far as market share is concerned.”

InterCement considers the entry of partners to leverage business

InterCement is also planning to increase its firepower in emerging countries. This is a natural choice, as Brazil, which previously accounted for over 50% of revenues that came to € 2.6 billion in 2014, saw its share shrink to 35% as a result of the crisis caused by the adjustment in the public accounts. Among the priorities are Egypt, Argentina and Mozambique, where the economy has been growing at double digit rates for some time and the company has a share of 60% of sales.

“There is a lot of growth potential in these markets due to their housing shortages and need to build infrastructure projects,” said Lima who is currently considering potential partners to serve these overseas demands. “Minority partners will help us a lot in expanding the business and meeting two of our main goals – to remain among the 10 largest cement producers, excluding those from India and China, and figure among the five most profitable.”

MEXICAN BOGEY MAN

THERE IS nothing like a large, prosperous neighbor to encourage the adventurous spirit of companies. As Mexico´s Cemex gained muscle in the first half of the 1980s, it began exporting to the United States. The growing sales led the company to sign partnerships in 1986 with Southwestern Sunbelt Cement and Texas Sunbelt Cement, control of which it would assume shortly afterwards. It would subsequently take over another five American companies. These acquisitions were rehearsals for the undertaking of the next step in the expansion plan which foresaw the company moving overseas. Cemex´s appetite for the undertaking won it headlines in the foreign business media. This was because its first investment – the purchase of the Spanish companies Valenciana and Sansón for US$ 1.8 billion in 1992 – was followed by another 12 big deals by 2007. The highlight was the acquisition of Australia´s Rinker for US$ 14.2 billion in June of that year.

“Cemex´s international expansion strategy, which influenced those of Votorantim Cimentos and Intercement, was audacious. The group, which had divested all of its non-core businesses in the 1980s, looked for distant markets and stood out as a result of the sheer size of some acquisitions. It often took out loans to make the deals possible,” said economist Albino Fernando Colantuono, author of a master´s dissertation entitled “International expansion of raw material producers in developing countries – Analysis of steel and cement companies” which he presented to the Science and Literature Faculty of the Paulista State University (Unesp) in 2009.

Cemex is currently present in around 50 countries – including Brazil, where it has a riverside terminal located 20 kilometers from Manaus. The Mexican bogey man has annual revenues of US$ 15.7 billion and 57 plants worldwide. It is seventh in the sector ranking, with installed production capacity of 94 million tons of cement a year – 8.4 times higher than in 1985. However, its firepower is not what it used to be. Cemex has been hit by a double blow from the effects of the international financial crisis, which toppled its sales and increased its liabilities to US$ 16 billion – mainly related to the acquisitions carried out until 2007. As a result, the Mexicans have become mere onlookers at the negotiations to buy the assets estimated at € 5 billion which France´s Lafarge and Switzerland´s Holcim are having to sell off as part of the conditions imposed by the anti-trust bodies of a number of countries to approve their merger. This new merged company will be the largest cement company on the global market.