CEMEX Global Expansion

From a relatively modest Mexican family-owned conglomerate, CEMEX was since 1996, the 3rd largest cement company in the world measured by cement production capacity. Having completed the acquisitions of Southdown in the USA and RMC in the UK, the group was a well established three-legged player in America, Europe and Asia. However global competition was tough and CEMEX was not positioned in the two emerging giant markets of China and India.

CEMEX strategy to become one of the leading players in the world of cement took place in three major steps: (1) consolidating its presence the Mexican market, (2) internationalization, (3) global management

1) Mexico

In1985, when Lorenzo Zambrano was appointed to head CEMEX, the company was pretty much as any other developing country conglomerate. Founded in Mexico in 1906, CEMEX had grown from a regional cement producer to a diversified group of companies with interests in tourism, petroleum and mining projects, and was listed on the Mexican stock exchange.

The signing of the GATT agreement in 1985 turned Mexico, the world's 13th largest cement consumer, into an open marketplace and at the same time an interesting expansion terrain for cement multinational companies (MNC's). The demographics, the attractive market characteristics and the expected infrastructure development all gave Mexico a huge growth potential. With the increased competition from more efficient international players, a consolidation movement was inevitable.

Zambrano implemented a deliberate strategy to make cement its core business. CEMEX divested most all non core cement related businesses, reinvesting the proceedings into cement assets. It acquired the two major cement manufacturers in Mexico, thus becoming the main national player and the tenth largest cement company in the world.

2) International

Cement is a very cyclical industry and the presence in several countries with counter cyclical economies would ensure a more predictable stream of cash

flows. The company's performance was intimately pegged to the evolution of the Mexican economy. This meant high cash flow volatility and high costs of capital.

In the mid 1980's, international opportunities were substantial, but CEMEX would have to focus because of its reduced amount of available resources and also because only a focused player would be able to compete with the large size MNC's on various markets worldwide. The man with this vision was Lorenzo Zambrano. Mr. Ricardo Castro, CEMEX's Senior Vice President of Strategic Business Development for Asia and Africa, describes his Chairman's vision:

> *"He saw opportunities in both the Mexican cement market and markets beyond its national borders. So his strategy was to transform the Mexican conglomerate into a focused cement player with global coverage. Initially, the company divested its non-core assets, becoming first a regional Mexican cement producer. Subsequently, the company expanded nationally, and finally became global."*

One of the early steps to internationalisation was to export cement from Mexico to the USA and Latin America. However given its structural economic characteristic and particularly the high transport costs (See Appendix 2 for a summary of the industry features), international trading had limited potential.

In 1992, CEMEX first direct investment was in Europe with the acquisition of Valenciana and Sanson in Spain. At the time, Spain was one of Europe's most attractive markets and through this acquisition CEMEX instantly became the market leader in Spain and the world's fifth cement producer, with 36m tones of capacity. It was also the first major encounter with its global competitors the French Lafarge and the Swiss Holcim (at the time Holderbank).

The success in Spain spurred further international expansion, this time in South and North America. In 1994 it acquired Vencemos, Venezuela's largest cement company, Cemento Bayano in Panama and a plant in Texas. Further acquisitions in the Dominican Republic in 1995 and Colombia in 1996 were completed. By this time the expansion strategy was already paying off. When Mexico entered its 1994 crisis, leading to the Peso's massive devaluation, CEMEX was able to offset severe losses with profits from its international operations.

In the mid 1990's CEMEX expansion was in Asia, a region that clearly matched its strategy for high growth potential markets. Government infrastructure spending was on the rise, and per capita cement consumption was still very low but growing fast. Asia represented more than % of the world 1.4bn tons capacity. By 1994 CEMEX setup a trading operations in the South East of Asia and in 1999 established CEMEX Asia Holdings (CAH), with a mission to develop new

partnerships and cement - related businesses in Southeast Asia. In 1997, it made its first acquisition, a 30% stake in Rizal Cement in the Philippines. However, immediately after acquiring Rizal Cement, the Asian crisis set in and caught CEMEX, and all others, by surprise.

The industry saw a huge reduction in demand throughout the region –the Philippines by 17%, Indonesia by 30%, Malaysia by 37%, Thailand by 35%. But the crisis, which made many to regret the high acquisition prices paid prior to 1997, also presented the cement MNC's with an opportunity. Local producers heavily indebted now wanted to sell, and prices were going down. By late 1998, CEMEX had guaranteed a 70% stake in Rizal Cement, and also bought Apo Cement, the lowest cost producer in the Philippines.

In Indonesia, CEMEX was named preferred bidder for Sement Gresik, a state-owned company that had consolidated 3 out of the 5 state-owned cement producers and controlled about 40% of domestic production. The government wanted to privatize the company and by May 1998 CEMEX was planning on taking a majority stake. But after strikes and protests, the government backed off and CEMEX only took a 25%. Since it was unable to take control of the company CEMEX divested its stake in August 2006.

With Asia on hold in, CEMEX expanded its operations in America and Europe. In November 2000 CEMEX acquired Southdown, No.2 in the USA with 12 plants serving 27 states. Southdown operates at full capacity and serves only the American market, providing a stable stream of cash flows. In 2005 it acquired the RMC group based in the UK, which increased its capacity by around 20%, strengthened its positions across the cement value chain, reinforced its presence in Europe and made CEMEX the largest world producer of ready-mix.

3) Global?

Since 1996, CEMEX had consolidated as the No. 3 cement producer in the world, behind Lafarge/Blue Circle and Holcim. By 2005 it had achieved an estimated production capacity of 94 million tons per year. It was the number one producer of ready-mix with 76 Million Tons, one of the largest aggregate producer with 175 Million tons and one of the top cement traders in the world, selling more than 17Million tons in 2005.
But what truly makes CEMEX a global company, and not simply multinational? According to the company's executives, there are several factors that make CEMEX a truly global company. Firstly, the international expansion strategy was a planned and organized move rolled out in several phases. As a consequence, CEMEX's international network today is not a sum of different operations in different locations, which can be seen as a network of systems. Initially, CEMEX represented a Mexican cement production system. Later it became a system of cement production and trading in the Caribbean region, with ramifications in Europe, Latin America and North America. It later advanced in the Mediterranean

region, and went as far as Asia in 1995 - although the first acquisition in Asia only occurred in 1997. Secondly, CEMEX fully integrates its international operations into the CEMEX network. This is mainly achieved via a common technological platform, organizational structure and corporate culture.

In addition the trading activity is important in achieving a true interconnection between CEMEX and independent production systems. This activity allows CEMEX to maintain a strong relationship between cement producers and customers worldwide.

Finally, the company has developed a knowledge community through a series of practices known as the "*CEMEX Way*"

The Cemex way

- Identify and disseminate best practices, standardize our business processes,
- Common management principles and systems to the entire organization.
- All managers to "speak the same language" when discussing business issues
- Implementation of knowledge and experiences gathered over many years of doing business in various countries
- The CEMEX Way specifies everything, down to the make of computers employees must use
- Mutual learning across subsidiaries
- Post Merger Integration (PMI) that is put in place after each acquisition.

  Extensively leverage on technology (ready-mix concrete trucks became equipped with computers on board. This allowed for central tracking by global-positioning satellite systems, and precise planning of cement delivery schedules. Technology has allowed CEMEX to be one of the lowest cost producers anywhere in the world The technological backbone also allowed CEMEX to specialize in markets that lack highly developed road systems or solid telephone networks, and where competing becomes a matter of showing customers that you can save them from uncertainty. What CEMEX did was adapting global technology to the developing world's almost limitless range of local problems.

The Future

CEMEX is absent from the two leading emerging countries, China and India, that represent more than 50% of world markets. Could it ignore those giant source of demand and if no how to develop a presence? The China market in particular is very fragmented with about 1000 local producers.

Exhibit 1
Cemex Financial and Business data (2005)

Million US$

	1999	2000	2001	2002	2003	2004	2005
Net Sales	4793793	5590453	6831115	6654052	7072925	7806225	15221804
Operating Income	1428629	1644439	1630788	1333863	1436723	1771730	2469439
Consolidated Net Income	1022377	1071929	1314135	572999	652003	1273398	2149845
EBITDA	1779448	2018466	2225030	1950982	2081157	2429097	3534090
Free Cash Flow *	866000	920000	1127000	982895.8	1118000	1384000	1993000

CEMEX Website

CEMEX Breakdown by regions	% of total sales	% of total assets	Number of cement plants	Installed capacity (Mtons)
Mexico	19	17.5%	15	27.2
USA	25	17.5%	12	13.3
South and Central America, Caribbean	9	8.0%	13	15.4
Spain	9	6.8%	8	11
UK	9	11.9%	3	2.7
Rest of Europe	16	11.7%	9	13
Asia	2	2.9%	4	10.7
Africa and Middle East	3	2.2%	1	4.9
Others (Trading)	8	21.6%	-	-
TOTAL	100	100	65	98.2

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