

FICOSA¹

Ficosa's origins date back to 1949 when Josep Maria Pujol and Josep Maria Tarragó founded Pujol and Tarrago SL a small workshop in Barcelona (Spain), dedicated to the manufacture of mechanical cables. In 1987 it was renamed Ficosa International, after successfully entering in the European Union market as one of main constructors strategic supplier.

In the early 90s as a result of poor economic performance, due to economic recession, car makers head for suppliers seeking to reduce costs. For builders supposed to globalize its purchasing structure on suppliers and prices. This trend towards globalization forced Ficosa to move again, stepping forward to access the global market, searching for operational efficiency, global objectives and growing technological capabilities to service this "globalization". Ficosa made the leap first, to America, settling in the U.S. and Mexico (1995) and in Brazil and Argentina (1997), and partly in Asia, creating in India (1998), a joint venture with Tata group. In 2000 the turnover of the Spanish multinational reached the 593 million Euros.

In 2008 Ficosa has factories in 18 countries, a turnover of more than 900 million Euros and employs around 6,500 workers. The products Ficosa is developing and producing are:

1. Rear mirror Systems. Interior and exterior mirrors for all types of vehicles.
2. Communications Systems and vehicle communication antennas on both emission and receiving of signals.
3. ADAS Systems. Systems ADAS (Advanced Driver Assistance Systems).
4. Gear Systems. Systems gear automatic or manual.
5. Brake Systems. Parking brake systems.
6. Drive Cables. Cables for command and control of mechanical systems in vehicle performance.
7. Fluid Systems. Propulsion systems, piping and fluid control in vehicle.
8. Aeration Systems. Propulsion systems, steering and vehicle air filter.
9. Industrial Vehicle Components. Systems and components for buses, commercial and industrial vehicles.
10. Seats and Door Systems. Systems and components that incorporate the seats and doors of vehicles.
11. Access and Security Systems. Systems access, security and detention of the car.

Although the Catalan firm has the mark of being an internationalized company, its leaders know that in the global automotive market where they compete circumstances are completely different "Ficosa, globally, is a medium sized company. But, in Catalonia, it's a locomotive; the worst is to ask how the 30st or 35th convoy is" points out the president of industrial holding.

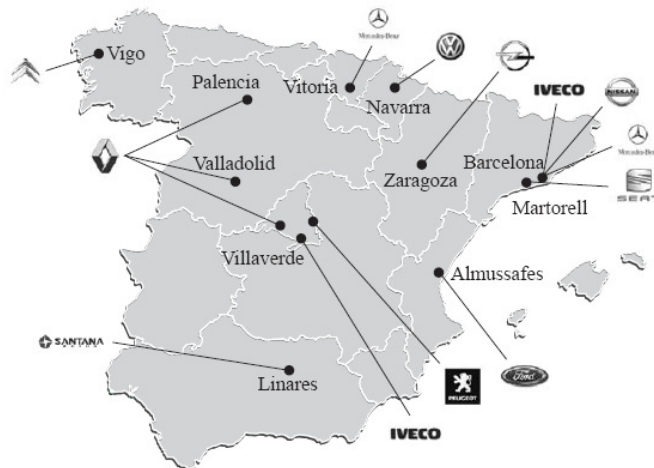
Automotive Sector

Spain is a real power in automobile manufacturing. Until 2006 it was the third largest producer of Europe, behind France and Germany and for several years has occupied the fifth place worldwide after the United States, Japan and the two European countries mentioned above. Spain is the first country worldwide in car producing after the home countries of the world's leading manufacturers. Up to 80% of vehicles produced in Spain have been exported. But in the last two years the relative position worldwide

¹ Case prepared by Luz Parrondo, Department of Economics and Business, Universitat Pompeu Fabra. 2010.

has fallen to seventh place, ahead of China and South Korea. Sooner or later Brazil, Mexico and even Canada will precede Spain, and behind them, Poland, Czech Republic or any another new member of the European Union. In 2010 Spain may have fallen to twelfth or thirteenth position. Growth simply will not happen in the natural market of Spanish factories in Western Europe. Of course, this decline can be accelerated if some of the factories in Spain is closed or reduces capacity. The future of the Spanish manufacturing centers depends exclusively on their productivity compared with other centers of the same company at the time of allocating new models.

Manufacturing Centers Map



Fuente: Elaboración propia.

The industrial structure that evolves these constructors has grown in capacity and efficiency, monitoring the growth of the sector, but it has a big weakness: the component industry imports much of what is produced because Spanish suppliers lack sufficient technology to meet the needs of manufacturers and, mostly, make processes basic or assemble, but do not develop components with higher content of technology, which are manufactured in Germany, France, USA and Japan.

There are suppliers, with international recognition, companies that have born in the heart of national sector development and have jumped over the borders, gaining the necessary size to maintain their independence. Unfortunately only five companies respond to this description: Ficosa is one of them, the others are Gestamp, Antolin, CIE Automotive and the car division Mondragón Corporación Cooperativa. The first three are companies controlled by family groups, CIE is listed and has a core of well defined shareholders and Mondragon is a cooperative society.

Other national capital providers: are companies of various sizes, in general not large, who serve as suppliers of suppliers. The dependence of their clients is very high, particularly of Spanish plants. These are companies that have decision-making capacity and that in a negative scenario, can remain viable leaving the sector and diversifying its business. In any case it would be desirable to monitor its evolution as sometimes have a high local relevance regarding the creation of employment and wealth and because of its lower structure, changes can surprise them unable to react sufficiently. And finally there are subsidiaries of multinationals, large as they settled in Spain acquiring national capital providers. Their future is highly uncertain. Some of these providers have their activity-dependent contracts with Spanish factories: will be open as long as they force the supply contract, otherwise, be sold or closed.

Strengths of the sector:

- Very large volume of activity.
- Sector open and globalized: it exports 80% of vehicle production and 60% production of components.
- Development of a real production system: we work with vehicle manufacturers, first-tier suppliers, vendors and third-tier manufacturers of facilities and machinery, sophisticated logistics and support, etc.
- Diversification: Spain is the European country where there is a greater number of factories of different manufacturers.

- **Materiality:** Spain is the second most important industrial country for most manufacturers to open plants on our soil. Spanish operations are not therefore, one more in a long list of countries. They are very relevant.
- **Multiculturalism:** the shareholders of the Spanish plants are essentially German, French and American, which gives a wide view of cultures of the car world.
- **Quality products and processes** are fully certified.
- **Great importance of R & D.**
- **Social stability and economic life.**

Weaknesses of the sector

- The main reason for foreign investment was the offer of low labor costs within the European Union, a situation that has changed today.
- Vehicles that are produced are lower-middle segment, and therefore with low margins.
- Suppliers produce low-tech components. The technology is imported mostly.
- Most of the companies operating in Spain have foreign capital, with the decision-making centers in other countries. The centers are mostly production units, not a company.
- The few international suppliers need to continue growing and still not have a size where they can enjoy economies of scale.
- There is a direct, smooth and effective cooperation between universities and industry.
- Few Spanish suppliers investing in R & D.
- Major R & D are in foreign capital companies.
- Increasing the number of conflicts between companies and unions, in both treaty negotiations and in implementing flexibility clauses.
- It is developing a bad international image regarding the flexibility of the workforce.
- Electricity is expensive compared with other countries and during peak (summer / winter) can be interrupted to give priority to urban centers.
- Far away from major markets of vehicles: France and Germany. Surcharge logistics.
- Far away from major technology providers like France and Germany.
- The car suffered some negative social pressure for his role in the pollution and emissions.

To conclude we can say that the industrial model of the sector has several weaknesses, the largest being the distance from the centers of decision making and the progressive loss of relative competitiveness. From a first reading of these strengths and weaknesses can be inferred with some justification that the automobile industry is a giant with feet of clay.

Ficosa's Dilemma

Josep Maria Pujol, one of the founders of Ficosa and President of the company, faces these days a difficult decision. He thinks that the time for another big step has arrived. He is convinced that the company's best growing opportunity is to undertake the aviation sector, an industry that fits in its strategic plan for diversification and growth, along with security and defense. His experience as a leading supplier of components for major automotive brands worldwide is the main card.

The company needs financing to go to the capital of Saces, which is a joint venture between Ficosa and Alcor, where the first would provide financial resources and the second some assets over their know-how. Alcor is a major supplier to Airbus and CASA, but also of other big companies like Embraer and Bombardier. The group has a turnover of more than 60 million Euros.

Some managers are skeptical about this new adventure; they think it might be too risky and dangerous to tackle a project of this size. The funds needed are important and, of course, the

company does not account with such an amount of money. Some negotiations with several banks have already started, and they have also considered entering the stock market. The financial manager is one of the most critical, he has been through some figures of the P&L and Balance Sheet and done some ratios (see next pages).

Assignment

1. Prepare a report for the Board of Directors describing the strengths and weaknesses of the company.

2. Is it likely a bank to give the 50 million Euros Ficosa needs to enter the aviation project? Describe why.

3. Would you recommend the company going for an Initial Public Offering (IPO)? Do you think investors would buy the shares?

4. What are your recommendations for the Board?

5. Can you forecast the impacts of your recommendations?

FICOSA Profit & Loss Accounts (Euros)

	2007		2006		2005		2004	
OPERATING TURNOVER	903.311.522	100,0%	853.867.535	100%	844.727.509	100%	793.984.650	100%
SALES ²	877.252.276	97,1%	835.262.620	98%	824.606.963	98%	774.202.328	98%
COSTS OF GOODS SOLD	545.253.861	60,4%	513.224.967	60%	499.761.108	59%	453.115.219	57%
GROSS PROFIT	358.057.661	39,6%	340.642.568	40%	344.966.401	41%	340.869.431	43%
OTHER OPERATING EXP.	306.637.579	33,9%	291.036.045	34%	282.131.919	33%	269.209.989	34%
DEPRECIATION	38.594.253	4,3%	36.061.865	4%	36.803.926	4%	34.759.666	4%
EBIT	12.825.829	1,4%	13.544.658	2%	26.030.556	3%	36.899.776	5%
FINANCIAL REVENUE	-	0,0%	949.566	0%	10.085.113	1%	1.485.953	0%
FINANCIAL EXPENSES	16.529.547	1,8%	15.850.356	2%	13.174.429	2%	13.794.259	2%
FINANCIAL PROFIT	- 16.529.547	-1,8%	- 4.900.790	-2%	- 3.089.316	0%	- 12.308.306	-2%
EBT	- 3.703.718	-0,4%	- 1.356.132	0%	22.941.240	3%	24.591.470	3%
TAXES	5.808.421	0,6%	- 3.703.764	0%	10.493.112	1%	9.660.643	1%
PROFIT AFTER TAXES	- 9.512.139	-1,1%	2.347.632	0%	12.448.128	1%	14.930.827	2%
EXTRAOR. REVENUES	18.892.471	2,1%	22.015.643	3%	7.788.225	1%	1.978.211	0%
EXTRAOR. EXPENSES	1.927.221	0,2%	16.409.698	2%	5.585.408	1%	3.809.107	0%
EXTRAOR. PROFIT	16.965.250	1,9%	5.605.945	1%	2.202.817	0%	- 1.830.896	0%
NET PROFIT	7.453.111	0,8%	7.953.577	1%	14.650.945	2%	13.099.931	2%

² Included in operating turnover.

FICOSA. Balance sheets (Euros)

	2007		2006		2005		2004	
	€	%	€	%	€	%	€	%
FIXED ASSETS	247.163.432	39,98%	235.987.383	41,06%	226.776.951	36,90%	217.503.250	36,42%
INTANGIBLE	98.300.224	15,90%	89.372.747	15,55%	86.078.638	14,01%	87.601.194	14,67%
TANGIBLE	119.058.846	19,26%	121.003.020	21,05%	127.757.888	20,79%	112.441.487	18,83%
OTHER	29.804.362	4,82%	25.611.616	4,46%	12.940.425	2,11%	17.460.569	2,92%
CURRENT ASSETS	371.116.953	60,02%	338.808.319	58,94%	387.780.910	63,10%	379.727.524	63,58%
STOCKS	125.662.490	20,32%	127.479.514	22,18%	138.106.205	22,47%	125.152.260	20,96%
DEBTORS	186.212.385	30,12%	144.020.083	25,06%	168.090.731	27,35%	157.201.653	26,32%
OTHER CURRENT ASSETS & CASH EQUIVALENTS	4.748.280	0,77%	5.784.338	1,01%	5.166.035	0,84%	6.351.926	1,06%
	54.493.798	8,81%	61.524.384	10,70%	76.417.939	12,43%	91.021.685	15,24%
TOTAL ASSETS	618.280.385	100,00%	574.795.702	100,00%	614.557.861	100,00%	597.230.774	100,00%
Equity	79.118.661	13,00%	84.320.731	15,00%	93.784.653	15%	82.240.048	14,00%
Capital	6.000.384	1,00%	6.000.384	1,00%	6.000.384	1%	6.000.384	1,00%
OTHER FUNDS	73.118.277	12,00%	78.320.347	14,00%	87.784.269	14%	76.239.664	13,00%
NON CURRENT LIABILITIES	108.600.469	18,00%	120.399.985	21,00%	144.292.641	23%	171.903.049	29,00%
LONG TERM DEBT	103.270.440	17,00%	115.148.044	20,00%	139.351.880	23%	167.400.071	28,00%
OTHER NON CURRENT LIABILITIES	5.330.029	1,00%	5.251.941	1,00%	4.940.761	1%	4.502.978	1,00%
CURRENT LIABILITIES	430.561.255	70,00%	370.074.986	64,00%	376.480.567	61%	343.087.677	57,00%
LOANS	168.685.224	27,00%	111.382.603	19,00%	99.542.392	16%	89.347.728	15,00%
CREDITORS	193.436.707	31,00%	192.715.371	34,00%	195.138.392	32%	183.042.986	31,00%
OTHER CURRENT LIABILITIES	68.439.324	11,00%	65.977.012	11,00%	81.799.783	13%	70.696.963	12,00%
TOTAL EQUITY & LIABILITIES	618.280.385	100,00%	574.795.702	100,00%	614.557.861	100%	597.230.774	100,00%

FICOSA. Ratios

	2007	2006	2005	2004
CURRENT RATIO (CA/CL)	0,86	0,92	1,03	1,11
LIQUIDITY RATIO (Stocks +Debtors / CL)	0,57	0,57	0,66	0,74
DEBT QUANTITY (Debt / Assets)	0,87	0,85	0,85	0,86
DEBT QUALITY (CL / Total debts)	0,80	0,75	0,72	0,67
ASSET TURNOVER (Sales / Assets)	1,46	1,49	1,37	1,33
FIXED ASSET TURNOVER (Sales / FA)	3,65	3,62	3,72	3,65
CURRENT ASSETS TURNOVER (Sales / CA)	2,43	2,52	2,18	2,09
ROE (Net profit / Equity)	9,4%	9,4%	15,6%	15,9%
ROI (EBIT / Assets)	8,3%	8,6%	10,2%	12,0%
SALES GROWTH	5,8%	1,1%	6,4%	