

PANRICO (A): from 1961 to 2004¹

Panrico is the second largest Spanish company in the bakery and cake sector. Its sales and profits have increased considerably over the last few years.

The company was founded in 1961 by Andrés Costafreda who was born in 1909 in Alfarràs (Lleida), father of Albert Costafreda, the future president of the company until 2004. Andreu came from a traditional family of millers and an indication of his drive was that his slogan was “*Always Forward*”. The original name of the company was Panificio Rivera Costafreda as it was made up of the Costafreda and Rivera families and the first products were the well-known breadsticks (*Grisines*). Below we explain some of the keys to its success.

INNOVATION

An often proposed technique to find new business opportunities is travel which is exactly what Andrés Costafreda did when he brought the idea of the Donut to Barcelona following a trip to the United States. In 1962 he made an agreement with the Donut Corporation America to start producing the Donut in Spain. The strong innovating drive became clear in the 70s when he introduced the *Donettes* and *Bollycao*, which were the first one-piece afternoon snack. Later, in 1978 they started to produce the sliced bread *Panrico* and from the 80s, they started the process of internationalization which began in Portugal, China and Greece.

The company’s main landmarks up to 2005:

- In 1962, Andrés Costafreda creates the Spanish Donut Corporation for the production and sale of *DONUTS* in Spain. This same year, together with the Rivera family, he creates Panificio Rivera Costafreda for the manufacture of breadsticks (*Grisines*).

¹ Case written by Oriol Amat and Pilar Lloret, Barcelona School of Management, Universitat Pompeu Fabra, 2014.

- In 1975 *Bollycao* is introduced on the market.
- In 1985 the first steps in the company's international expansion begin with the opening of the first factory in Portugal (Sintra).
- In 1997 Panrico enters the Asian market and it opens a production plant in China.
- In 1999 the Costafreda family buys the shares from Allied Domecq and starts the process of unification of the company which will end in it being called Grupo Panrico.
- In 2000 the expansion continues in Europe. Panrico builds a factory in Greece.
- In 2001, La Caixa and Banco de Sabadell become financial shareholders of the company.
- In 2004 Panrico launches its frozen products (bread and buns) on the market.

IMPORTANCE OF THE BRAND AND MARKETING

We must have all wondered at some time or other where exactly the success of the DONUT came from: a product with no secret formula as it is just made of dough and sugar. Without a doubt, the quality of the product is crucial but the continued effort and its successful marketing explain why the product is known to 99.7% of consumers according to a recent study.

Among the company's most important brands apart from DONUT, are *Bollicao*, and

Donettes in the cake range; and *Panrico*, *Primera Línea*, *Brooks* and *Grisines* in the bread and similar range.

An example of the importance of research and marketing is that it normally accounts for about 20% of sales.

PRODUCTION AND LOGISTICS

The company has ten factories in Spain, of which the main one is in Santa Perpètua de Moguda and it also has factories in Greece and China.

As the product has a one-day shelf life in the case of DONUT, the coordination of production and logistics is extremely important. The production begins each day at 4pm and continues until 2am. Logistics is one of the keys to the company's success given that the deliveries start from 3.30am and within a few hours they will have reached 150,000 sales points plus outlets following more than 3,000 different routes. For the president of Panrico, Albert Costafreda, the distribution is one of the most important barriers to entry in this sector. It is by no means easy to have this logistical set up at your disposal.

This distribution is possible thanks to the collaboration of its drivers/delivery people. Although some years ago there were some labour disputes with the delivery people, at present it is all resolved and there is a very low staff turnover. Some of them have been working for the company for more than twenty years. The delivery people are freelance workers who nowadays have the support of the trade unions, a work's committee and part of their salary is fixed.

Thanks to the popularity of the product and market awareness, the index of returned products, at about 6%, is very low.

ORGANIZATION AND FINANCE

Since 1998, one of the priorities has been to merger the companies which formed part of the Panrico Group so as to coordinate the activities better. This restructuring has meant the purchase of shares from some minority shareholders which has increased the financial needs of the company. This explains why recently La Caixa and the Banco de Sabadell have become financial shareholders of Panrico.

At the same time the company has grown in efficiency in recent years, as seen with the increase of profits which have been greater than sales.

With regard to finances, its solid financial situation needs to be highlighted, its capital and reserves representing 51% of the total balance sheet (total assets), which is quite a high percentage.

	1999	2000	2001	2002	2004
Sales (millions of euros)	394	426	522	588	436
Profits (millions of euros)	12.8	15.6	19.5	20.4	22
Equity / Assets	70%	66%	56%	54%	51%
Net profit / Equity	7.3%	9.2%	8.2%	8.2%	10.3%
Sales / Assets	0.96	1.39	1.08	1.11	1.03

FUTURE CHALLENGES

Among the future challenges is the need to continue investing in innovation to adapt to increasing demands of consumers. Also Panrico wants to keep working towards internationalization and therefore wants to open a second factory in China and is also considering entering the market in Morocco and Eastern Europe.

QUESTIONS FOR DISCUSSION

1. Identify the strengths and weaknesses of the company.
2. Make recommendations for improvement.
3. Work out the possible estimated value of the company at the end of 2004.

Annexes. Balance sheet and income statement of 2004 (thousands of euros)

Panrico - Balance sheet	31-12-2004	%
Fixed assets	319,192	74.40%
Intangible fixed assets	4,667	1.09%
Tangible fixed assets	114,673	26.73%
Other fixed assets	199,852	46.58%
Current assets	109,850	25.60%
Inventory	8,677	2.02%
Receivables	80,327	18.72%
Other liquid assets	20,846	4.86%
Total assets	429,042	100.00%
Capital and reserves	219,061	51.06%
Share capital	96,838	22.57%
Other capital and reserves	122,223	28.49%
Non current liabilities	76,618	17.86%
Long term bank loans	70,412	16.41%
Other long term liabilities	6,206	1.45%
Current liabilities	133,363	31.08%
Short term bank loans	20,086	4.68%
Suppliers	31,739	7.40%
Other current liabilities	81,538	19.00%
Total liabilities and equity	429,042	100.00%

Panrico – Income statement	2004	
Operating income	436,865	100.00%
Material consumption	-139,647	-31.97%
Gross profit	297,218	68.03%
Staff costs	-90,222	-20.65%
Depreciation	-15,872	-3.63%
Other operating costs	-168,227	-38.51%
EBIT	22,897	5.24%
Financial income	+7,997	+1.83%
Financial costs	-4,901	-1.12%
Financial results	+3,096	+0.71%
Ordinary profits before tax	25,993	5.95%
Income Tax	-3,167	-0.72%
Profits from ordinary activities	22,826	5.22%
Extraordinary income	+26,437	+6.05%
Extraordinary expenses	-26,623	-6.09%
Extraordinary losses	-186	-0.04%
Net profit	22,640	5.18%
Cash flow	38,512	
EBITDA	38,769	

PANRICO (B): from 2005 to 2014²

In 2005 something happened which was to affect the company's future. The Costafreda family sold 100% of the shares for 900 million euros to a global venture capital firm Apax Partners. The operation was leveraged.

Shortly afterwards in 2006, the company decided to concentrate all its production in the Iberian Peninsula and it sold its factories in China and Greece.

START OF THE GLOBAL FINANCIAL CRISIS

In 2008, the Lehman Brothers crash took place and so began the global financial crisis. This same year Panrico bought the *Artiach* biscuit business from Kraft Foods and its most emblematic brands including *Chiquilín*, *Filipinos*, *Artinata* and *Princesa*. With this operation the group became the second largest company in the Spanish biscuit market.

In 2009, it invested 35 million euros in the individual plastic packaging of Donuts with the aim of reducing transport costs and increasing the product's shelf life. However this decision proved to be a failure and in 2012 the original packaging was restored.

In 2010 it bought *La Bella Easo*, a leading brand on the market with traditional products such as sponge cakes, milk bread and croissants.

FINANCIAL PROBLEMS

In 2010 the company was going through a weak financial situation and it presented a plan to restructure half of its debt, estimated at 605 million euros. The creditor banks became part of the shareholders in July of the same year by way of a capital increase of 288 million euros. Finally in November 2011, the company was sold to the investment fund Oaktree, once a cut of the debt by 80% had been accepted. In 2012 they sold *Artiach* to the Nutrexpia Group.

² Case written by Oriol Amat and Pilar Lloret, Barcelona School of Management, Universitat Pompeu Fabra, 2014.

SITUATION IN 2014

In spite of the reduction in costs, Panrico continues to have serious financial problems and it has asked for a meeting with creditors; over the last five years it has lost 710 million euros, with a negative EBITDA of 13 million euros. This has been attributed to the high production costs, greater competition from generic brands and decreased consumption of its products due to the economic recession. On 25 September 2013, the management presented a feasibility study with a redundancy plan which would affect 1,914 people (almost half the workforce) and a reduction in wages of between 35% and 45% for those who stayed. The trade unions rejected this proposal and started preparing against its application, which even led to an indefinite strike in some factories. Finally on 14 November 2013 a pre-agreement was reached which led to about 745 job losses and a reduced salary of 18%.

QUESTIONS FOR DISCUSSION

1. Identify the strengths and weaknesses of the company.
2. Give your opinion on how the sale was financed in 2005.
3. Give your opinion on the price paid for Panrico in 2005.
4. Come up with recommendations for improvement in 2007 and 2012.

Panrico – Balance sheet														
Thousands of euros	31-12-12	%	31-12-11	%	31-12-09	%	31-12-07	%	31-12-06	%	31-12-05	%	31-12-04	%
Fixed assets	251,999	80.03%	337,249	87.27%	772,623	93.55%	782,717	92.73%	887,568	92.98%	790,934	94.79%	319,192	74.40%
Intangible fixed assets	48,295	15.34%	62,859	16.27%	410,647	49.72%	496,909	58.87%	550,182	57.64%	1,095	0.13%	4,667	1.09%
Tangible fixed assets	49,010	15.56%	94,552	24.47%	160,427	19.42%	138,653	16.43%	196,257	20.56%	0	0.00%	114,673	26.73%
Other fixed assets	154,694	49.13%	179,838	46.54%	201,549	24.40%	147,155	17.43%	141,129	14.78%	789,839	94.66%	199,852	46.58%
Current assets	62,893	19.97%	49,197	12.73%	53,298	6.45%	61,342	7.27%	67,018	7.02%	43,452	5.21%	109,850	25.60%
Inventory	8,509	2.70%	8,882	2.30%	11,506	1.39%	10,053	1.19%	9,327	0.98%	0	0.00%	8,677	2.02%
Debtors	18,968	6.02%	23,403	6.06%	18,618	2.25%	25,830	3.06%	29,197	3.06%	1,253	0.15%	80,327	18.72%
Other liquid assets	35,416	11.25%	16,912	4.38%	23,174	2.81%	25,459	3.02%	28,494	2.98%	42,199	5.06%	20,846	4.86%
Total assets	314,892	100.00%	386,446	100.00%	825,921	100.00%	844,059	100.00%	954,586	100.00%	834,386	100.00%	429,042	100.00%
Equity	1,062	0.34%	96,637	25.01%	-252,140	-30.53%	-101,145	-11.98%	-51,321	-5.38%	90,721	10.87%	219,061	51.06%
Capital	11,511	3.66%	11,511	2.98%	10,850	1.31%	10,850	1.29%	10,850	1.14%	10,850	1.30%	96,838	22.57%
Reserves	-10,449	-3.32%	85,126	22.03%	-262,990	-31.84%	-111,995	-13.27%	-62,171	-6.51%	79,871	9.57%	122,223	28.49%
Non current liabilities	181,074	57.50%	112,208	29.04%	345,429	41.82%	791,724	93.80%	781,264	81.84%	728,269	87.28%	76,618	17.86%
Long term bank loans	173,295	55.03%	99,618	25.78%	282,350	34.19%	737,946	87.43%	777,148	81.41%	728,269	87.28%	70,412	16.41%
Other fixed liabilities	7,779	2.47%	12,590	3.26%	63,079	7.64%	53,778	6.37%	4,116	0.43%	0	0.00%	6,206	1.45%
Current liabilities	132,756	42.16%	177,601	45.96%	732,632	88.70%	153,480	18.18%	224,643	23.53%	15,396	1.85%	133,363	31.08%
Short term bank loans	28,771	9.14%	2,007	0.52%	592,926	71.79%	19,062	2.26%	90,349	9.46%	0	0.00%	20,086	4.68%
Commercial creditors	52,836	16.78%	65,188	16.87%	58,375	7.07%	76,104	9.02%	67,257	7.05%	0	0.00%	31,739	7.40%
Other liquid liabilities	51,149	16.24%	110,406	28.57%	81,331	9.85%	58,314	6.91%	67,037	7.02%	15,396	1.85%	81,538	19.00%
Total liabilities and equity	314,892	100.00%	386,446	100.00%	825,921	100.00%	844,059	100.00%	954,586	100.00%	834,386	100.00%	429,042	100.00%
Working capital	-69,863		-128,404		-679,334		-92,138		-157,625		28,056		-23,513	
Number of employees	2,098		2,050		2,308		2,501		2,702		0		2,415	

Income statement

	miles eur		31-12-12		31-12-11		31-12-09		31-12-07		31-12-06		31-12-05		31-12-04	
Operating income	352,111	100.00%	389,008	100.00%	435,483	100.00%	494,094	100.00%	264,127	100.00%	476,978	100.00%	436,865	100.00%		
Materials consumption	106,241	30.17%	120,425	30.96%	113,227	26.00%	105,963	21.45%	58,713	22.23%	147,436	30.91%	139,647	31.97%		
Gross profit	245,870	69.83%	268,583	69.04%	322,256	74.00%	388,131	78.55%	205,414	77.77%	329,542	69.09%	297,218	68.03%		
Staff costs	100,262	28.47%	108,883	27.99%	104,064	23.90%	99,160	20.07%	56,121	21.25%	88,732	18.60%	90,222	20.65%		
Depreciation	19,434	5.52%	20,035	5.15%	19,917	4.57%	72,310	14.63%	44,517	16.85%	15,330	3.21%	15,872	3.63%		
Other operating costs	228,513	64.90%	430,329	110.62%	273,421	62.79%	221,756	44.88%	109,287	41.38%	196,644	41.23%	168,227	38.51%		
EBIT	-102,339	-29.06%	-290,664	-74.72%	-75,146	-17.26%	-5,095	-1.03%	-4,511	-1.71%	28,836	6.05%	22,897	5.24%		
Financial income	14,546	4.13%	5,919	1.52%	6,815	1.56%	14,765	2.99%	6,801	2.57%	7,700	1.61%	7,997	1.83%		
Financial costs	28,702	8.15%	41,494	10.67%	67,704	15.55%	70,910	14.35%	85,409	32.34%	5,204	1.09%	4,901	1.12%		
Financial results	-14,156	-4.02%	-35,575	-9.15%	-60,889	-13.98%	-56,145	-11.36%	-78,608	-29.76%	2,496	0.52%	3,096	0.71%		
Ordinary profits before tax	-116,495	-33.08%	-326,239	-83.86%	-136,035	-31.24%	-61,240	-12.39%	-83,119	-31.47%	31,332	6.57%	25,993	5.95%		
Income Tax	-9,894	-2.81%	-51,325	-13.19%	18,120	4.16%	-20,970	-4.24%	-39,169	-14.83%	-2,131	-0.45%	3,167	0.72%		
Profits from ordinary activities	-106,601	-30.27%	-274,914	-70.67%	-154,155	-35.40%	-40,270	-8.15%	-43,950	-16.64%	33,463	7.02%	22,826	5.22%		
Extraordinary income	0	0.00%	0	0.00%	0	0.00%	0	0.00%	2,172	0.82%	832	0.17%	26,437	6.05%		
Extraordinary expenses	0	0.00%	0	0.00%	0	0.00%	0	0.00%	13,011	4.93%	34,884	7.31%	26,623	6.09%		
Extraordinary losses	0	0.00%	0	0.00%	0	0.00%	0	0.00%	-10,839	-4.10%	-34,052	-7.14%	-186	-0.04%		
Net profit	-106,601	-30.27%	-274,914	-70.67%	-154,155	-35.40%	-40,270	-8.15%	-54,789	-20.74%	-589	-0.12%	22,640	5.18%		
Cash flow	-87,167		-254,879		-134,238		32,040		-10,272		14,741		38,512			
EBITDA	-82,905		-270,629		-55,229		67,215		40,006		44,166		38,769			