Spain - Recovery, transformation and resilience

Having bounced back strongly after more than a year of pandemic-induced crisis, Spain's economy is gaining momentum. Real GDP growth is set to hit 4.6% this year and employment soared, exceeding pre-pandemic levels by October. Fitch Ratings reports that Spain's economic recovery will only accelerate in 2022: GDP growth is forecast to reach 6.2%, underpinned by a €140 billion EU recovery fund spending package, a robust, value-added economy, and rising investment in new green and digital initiatives. Investors are already taking note.

Spain has benefitted from the steady hand of Prime Minister Pedro Sánchez, who negotiated one of the most robust EU recovery fund packages among all 27 member states last year, and who sees opportunity in the crisis, as he explained: "The Recovery, Transformation and Resilience Plan approved by the European Commission is the most ambitious economic plan in the recent history of Spain. It is a plan that will be our best opportunity since we joined the European Communities in 1986. We do not only want to be able to regain our GDP levels, we also want to transform our economy, by making it more digital and greener, and also more inclusive and fair."


Pedro Sánchez
Prime Minister of Spain

Even before the pandemic hit, Spain's economy was a star performer in western Europe. GDP growth averaged nearly 3% between 2014 and 2019, in sharp contrast to many of its neighbours. A large base of well-developed food processing and manufacturing companies pushed export growth to nearly 60% between 2005 and 2020, and Spain's highly-internationalized construction and service companies supported the powerhouse tourism sector in expanding service growth: according to the United Nations Conference on Trade and Development, Spain's service exports surged by 29% between 2015 and 2019 to hit $157.1 billion.

The pandemic has shone a light on areas where Spain holds a significant competitive advantage in driving future digital, green economic growth. Renewable energy is abundant, and the country's solar industry is one of the most well-developed in the world. A large, efficient, and skilled workforce, ideal geographic position, and high quality of life make Spain the ideal location for major multinationals.

Many, including IBM, Pfizer, Oracle, Celgene, Caterpillar, AIAC, Freeport Moran, Microsoft, Cargill, Abbott Laboratories, Agilent Technologies, and Costco manage their southern European and North African operations from Spain. Foreign direct investment in the country actually rose in 2020, hitting $9 billion against $8.5 billion in 2020.

For Sanchez, this is only the beginning: "The Spanish Recovery and Resilience Plan will open tremendous partnership opportunities in areas as smart mobility, digitization and clean energy. We will continue to facilitate business development and a close cooperation between foreign and Spanish companies in order to promote a more resilient and sustainable growth model," he concluded.

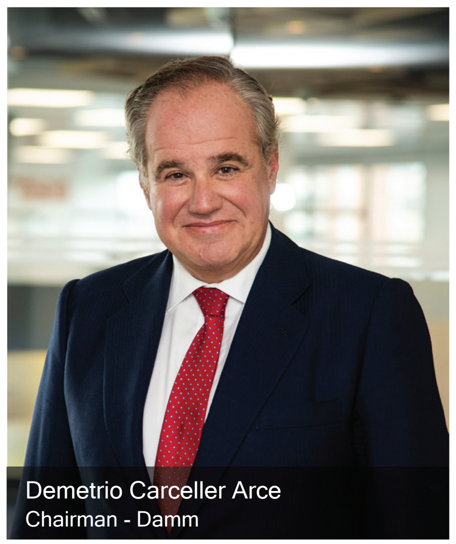
Damm - The Mediterranean beer looks to the world

"A splendid combination of economic potential, culture and quality of life" is a compelling billing for a country, and a deserved one for Spain. The description comes from a recent report on the country by business association Circulo de Empresarios and consultancy BCG which highlighted the fact that Spain had the highest growth in the eurozone on the eve of the covid-19 pandemic. The report asserts that Spain "possesses the necessary talent and resources to continue leading growth over the coming years".

This economic resurgence is good news for the Spanish consumer sector, as reflected in findings by data and consultancy company Kantar in late 2021 - 89.2% of Spanish consumers are optimistic about the future, and the majority (70.2%) of Spanish have not seen their level of income affected by the pandemic.

This air of optimism is buoying Damm, a leading Spanish brewery now diversified into sectors including logistics, restaurant services, and distribution. The company expects 2021 financial results to match those of 2019, a record year, and 2022 to set new records. It is targeting turnover of €2bn ($2.3bn) by 2025. But above all, the past two years have reaffirmed the business's values.

"Last year was an opportunity to show to the 10,000 people that work in the group that they are part of a family," says Demetrio Carceller Arce, chairman of both Damm and DISA, an energy company which has a 35% stake in the brewer. "This is a company with over 100 years of history and which is run by families; we have a responsibility to hand it on to the next generation. The team's reaction during the recent crisis was superb: we found very good leaders among our people and we showed tremendous energy to cope with the different challenges we faced."


Demetrio Carceller Arce
Chairman - Damm

Carceller Arce places strong emphasis on "decency quotient" as well as the "emotional quotient" and IQ that are already widely prized in business. It is an approach that has benefitted Damm's shareholders, with an appetite for opportunity and risk married with the need to deliver sound balance sheets and provide security for investors and partners.

Both groups are set to benefit from the ongoing business expansion of both Damm and DISA. Damm's success in a range of European markets continues, and the company is seeking partners for distribution and to develop new markets. DISA, with 300MW of renewable energy capacity in Spain, has recently made acquisitions in Portugal and Uruguay, and is eyeing opportunities for clean energy investment in regions including South America and Africa.

Carceller Arce is proud that Spain is the ideal springboard for his companies' international growth. "We have great infrastructure, culture, and people," he says. "We'd like to create a network of Spanish companies to make the market better for everyone."

Damm

Content from
The International Investor

Bon Preu - Catalan Retail Champion Puts Proximity First


Joan Font
Chairman - Bon Preu

Forecasting "robust growth rates… accompanied by falling unemployment", ratings agency Fitch gave a strong vote of confidence to the Spanish economy in October 2021, noting falling debt and a shrinking deficit. Fitch forecasts stellar growth of 6.3% this year and 6.4% in 2022, with the EU's Next Generation funds boosting medium-term growth potential thereafter and accelerating the pace of public debt reduction. The report came four months after the agency affirmed Spain's A- investment-grade rating, with stable outlook, citing the country's "high value-added economy, strong governance indicators, and ease of doing business and human development rankings". Fitch has noted that Spain entered the COVID-19 pandemic in much stronger macroeconomic shape than it faced the 2008-09 global financial crisis, thanks to impressive economic growth and economic rebalancing.

The rising economic tide is lifting Spain's dynamic retail sector, with sales soaring in the second quarter of 2021. The industry is one of the country's strongest and liveliest: it saw four consecutive years of all-time highs of investment in 2015-18. In 2019, the last full year before the pandemic, 27 new retailers launched in Spain, and even before COVID-19, e-commerce was growing at nearly 30% a year. The food and grocery market alone is expected to be worth nearly $160bn by the end of 2023, says business information provider MarketLine. Indeed, with a market of nearly 50m people, plus more than 80m tourist visits per year, Spain's retail sector is one of the most enticing in the world.

Catalonian retail champion Bon Preu is in prime position to capitalise on the next wave of retail growth, to the benefit of its customers, employees and suppliers. The company generated more than $1.9bn in turnover in 2020, up 9% on 2019 despite the deep recession, and the company expects to top $2.2bn in the next one to two years. The food business alone grew by 20% in 2020. Bon Preu's success is founded on being rooted in the Catalan communities in which it operates.

"Emotional proximity is an essential factor for us," says Bon Preu chairman Joan Font. "People really appreciate the companies which are committed to their environment in all aspects: physical, emotional, intellectual, branding, culture. We want Bon Preu's emotional proximity to be concretely perceived. It's a value of the company that all 9000 employees have. Proximity with people on the street, honesty, working as a team: the company's interests go farther than shareholders and directors."

Bon Preu's business model stands out as benchmark in Catalonia in providing a wide variety of fresh and quality products, excellent customer service, very competitive prices, and a pleasant shopping environment. The company is committed to a local commercial policy and promotes quality local produce. Its product range continues to evolve constantly, incorporating items to enhance the daily life of customers and meet their evolving needs.

Following its strategy of being a provider of essential services, Bon Preu has expanded its businesses beyond the Bonpreu and Esclat supermarkets, into segments including fuel -through the EsclatOil gas stations - and energy, through the electricity marketer BonpreuEsclat Energia.

The company's commitment to people is reflected in its approach to its employees as well as customers. More than a fifth of Bon Preu's staff have been with the company more than ten years, 75% of the company's positions of responsibility are held by women, and it offers a range of training programmes for professional development. Bon Preu hired an additional 1000 people in 2020, reflecting both commercial success and its appeal as a workplace.

The retailer also has a long track record of working with a range of international and domestic partners, helping them tap into the Spanish retail growth story. One of the most significant has been with British online grocery and logistics solutions company Ocado, one of the world leaders in its segment. Bon Preu was the first international Ocado partner and in 2017 they signed a contract which includes delivery to local collection points and home delivery in Catalonia. Bon Preu operates Ocado's "Smart Platform" using in-store fulfilment technology both in its main outlets and in dark stores. After having launched this technology, Bon Preu was well-placed to deliver to the rapidly-evolving needs of customers during the pandemic and associated lockdowns; its online sales grew 118% in 2021, via both deliveries and its 20 collection points.

To continue growing, to continue satisfying the necessities of its clients, and to continue improving and innovating, the company's will to invest continues to stay intact. "We have invested $680m in the past five years, and will invest another $170m this year," says Font. "We have no problems with financial support. We aren't speculating with our company, we are staying the course and committing to expanding and improving the business. We have a good business model, with higher productivity than our competitors. We foresee excellent growth in the coming years, and as the market changes, we will continue to seek partners who can help us innovate and develop in new areas."

Bon Preu's focus on innovation exemplifies its home region. Catalonia's openness to business and excellent education has made it a locus for investment in innovation, talent, and technology. It is a global leader in cultivating entrepreneurship, grounded in its history, culture, and location - aspects of which Font is justly proud.

"There is an instinct for business here that compliments the local talent and knowledge and makes it a strong investment destination," he says. "We have other strong fundamentals: good infrastructure and good business schools. Our environment is very attractive, we have a strong cultural appeal, and an ideal geographical position."

Bonpreu ESCLAT

CIE Automotive

Flexibility and adaptability prove key to success for Spanish auto giant

After a difficult 2020, Spain is forecast to see strong economic growth over the coming years, aided by the Next Generation EU European recovery funds, which the government predicts will create 800,000 jobs over the next three years alone. Spain's prime minister, Pedro Sánchez, has described the plans as the "most ambitious" economic transformation program in the country's modern history.

One area that could strongly benefit is the country's automotive industry. Spain is the second largest automaker in Europe and the eighth largest in the world; the automotive industry makes up roughly 10% of Spain's GDP and 18% of its exports.

"In the automotive sector, Spain, and the Basque country in particular, is a world reference, " says Jesus María Herrera, chief executive of CIE Automotive, an integrator of the automotive components industry. "We do not have an automotive brand; in cars all the brands are German or French. We are in the second level, and here you need different abilities, especially efficiency. In the Basque country, for example, we can get more than €300,000 worth of production a year from each worker - you can't get that anywhere else in Europe."


Jesus María Herrera
CEO - CIE Automotive

For over 25 years CIE, a supplier of components, assemblies and sub-assemblies for the global automotive market, has been at the forefront of the Spanish automotive industry, supplying the majority of the world's original equipment manufacturers (OEM) and Tier 1 automotive brands. The company now has over 25,000 employees across 110 production sites in 16 countries, with an expansion strategy that combines both organic growth and acquisitions.

"We consider ourselves consolidators in the automotive sector. We are present in almost all the countries where our clients are," says Herrera.

Despite being forced to close for three months at the height of the pandemic, CIE has had an impressive few years, aided by a big recovery in the second part of 2020. This year, the company is expecting to have its second-best year ever; in the first nine months of 2021 the company saw revenues of €2.46 billion, 23% higher than in the same period of 2020, with net profits up 75% to €206 million.

From an investor's perspective, CIE also delivers strong returns of around 20%. "It's a hard sector, but it's possible to achieve success by doing things well, with an important diversification model that allows you to obtain this level of profitability," Herrera says. "CIE is an industrial company, but with a very strong financial mentality, and that's why we obtain these results."

"Crises create opportunities, as many competitors are forced to leave the market," he adds. "Those of us with a healthy balance sheet, and who continue to make a profit, find ourselves in a market with fewer players and more opportunities."

The company retains a long term vision, and over the last few years has been focusing on expanding in Asia, while continuing to rely on its decentralised management approach, led by local teams. "We started in India where today we have a very important presence," says Herrera. "We also continue to work with China; the last important acquisition we made was the purchase of Inteva's roofing division, which gave us technology and a very important presence in the country. And we continue to look towards Southeast Asia and South Korea."

While some still talk of globalisation as if it's a new trend, CIE has been focused on internationalising its business for 25 years. "We have always been global and we have always wanted to be among the first in every country," says Herrera. "One key for us is that every time we go to a new country, we go with a local partner who shows us how things work, and then we bring the technological know-how and our culture, ambitions and financial mentality."

For CIE, people and culture are the most important attributes. "It requires a lot of flexibility and adaptation, having a presence in so many countries requires well-trained teams, with clear ideas and the ability to perform tasks as fast as needed."

Herrera acknowledges the challenges of operating in the automotive industry, but sees the rewards for doing it right. "In the automotive industry, making money is very difficult. CIE has always known how to adapt with economic and growth ambitions, which is what has allowed us to be a benchmark in the sector," he says.

The company is now looking to play a significant role in the electric car revolution currently underway.

Regarding his home country, Herrera believes Spain has been under-appreciated as an economic force. "Spain has done a very important job over the last 20 years, we have world benchmark companies, some of the best players in the global market," he says. "In Spain we have concentrated on technological knowledge and on a culture of continuous searching for efficiency and competitiveness - this is a merit both to the companies and also to the workers who understood and followed that culture."

CIE Automotive

Content from
The International Investor

Grupo Ortiz - Sustainable infrastructure for global growth

Spain's construction sector benefits from a strong base of highly-internationalized companies that have made their mark on the global construction industry, and the ongoing global green transition presents major opportunities to forward-thinking firms. Swiss Re reports that green and sustainable infrastructure projects will offer private investors an estimated $1.4 trillion of annual global opportunity between 2021 and 2040, meaning green builders will be in extremely high demand. Grupo Ortiz is ready for its next growth phase.

Founded in 1961, Grupo Ortiz has grown from humble roots to become a leading specialist in concessions, photovoltaic renewable energy, and an expert in sustainable infrastructure. It has flourished over the years by remaining customer-oriented, flexible and able to adapt to projects´ current and future needs, and by believing in their work, according to Juan Antonio Carpintero López, group chairman:

"During the crisis of 2007-2008 we realized we needed to change the way we do things, and so we internationalized. We developed the economic, legal and financial capabilities to become a good fit for international concessions, and changed enormously from 2008 onwards. That's when we started doing concessions in energy, infrastructure and healthcare. The merit of Ortiz is our readiness to participate in the new ways of investing in different countries around the world."


Juan Antonio Carpintero
Group Chairman - Grupo Ortiz

The group has spent the past 13 years expanding its horizons, boosting its project portfolio to more than €6 billion along the way, with the bulk of its revenues now derived from international projects. Annual turnover hit €450 million in 2020 despite the challenges brought on by the pandemic, and it is expected by the company to reach pre-pandemic levels by 2022. Today the group employs more than 2000 people, with projects in 13 countries including Japan, Mexico, Colombia, France, Panama, and Chile.

As the world emerges from the worst of the pandemic and green infrastructure spending surges, Mr. Carpintero is looking to the future. He's open to new partnerships, investment, and opportunities to collaborate in concessions and engineering, procurement and construction contracts: Grupo Ortiz benefits from diversified business lines that enable it to invest in, operate, and execute international infrastructure and energy concessions, and new collaborations would bring many benefits to all parties, he explained:

"We have been resilient throughout multiple crises, and we have the capacity to deliver infrastructure operations through international multilateral financing; we are a global company with multilateral financing. Within the next two to three years we foresee many new concessions where we could bid competitively and successfully, most notably in Latin America and the US."

GRUPO ORTIZ
commitment to sustainability

Marqués de Riscal Winery

Award-winning Spanish winery pushing organic wines

The wine industry continues to play a major role in Spain, with wine being one of the country's main agrifood exports, behind only pork, citrus fruits and olive oil. Spain is also the world's second largest exporter of wine in terms of volume, and third in value, according to CaixaBank Research.

Some Spanish wineries, like the Marqués de Riscal Winery, have been in operation for over 160 years. Marqués de Riscal was also the first vineyard in the Rioja region to introduce the French method of ageing wine, which creates a much better quality. "From the beginning, the Marqués had to export his wines, because the Spanish market wasn't really there for these types of wines and was not ready to pay those kinds of prices," says Alejandro Aznar Sainz, president of Marqués de Riscal Winery.

Marquésde Riscal is now sold in more than 120 countries, notably the USA, south and central America and Europe, with more than 60% of its wines exported. "We have a very strong market in Japan. We would like our presence in China to grow, but it's difficult to consolidate. Same in India. In South Korea we have developed really well in the last few years," says Sainz.

In 2021 it was named the best vineyard and winery in Europe by World's Best Vineyards, and second best in the world, and while 2020 was a disruptive year, with restaurant purchases impacted by lockdown restrictions, consumer sales have risen significantly. "The reality is that the market is very strong now, 2021 will be close to 2019," says Sainz.

Marqués de Riscal has invested heavily in building its brand in recent decades. "It's very costly for a medium size company to invest in 120 countries worldwide in marketing," says Sainz. "We did it through architecture. We created the City of Wine in Elciego, which has our winery and hotel and has been a very powerful tool for us to promote the brand worldwide."

The winery is also focused on making all its vineyards ecological. It already has the organic label for its white wine vineyards, and about 50% of its vineyards in the Rioja region. "We're in the process of getting it for all of them," says Sainz. "Our new facilities in Rueda, which we will start building next year, will be fully designed according to our organic philosophy."

Sainz says the challenge for the Spanish wine industry as a whole, apart from the Rioja region where values are already higher, is to raise the price of its wine. "Spain still produces a lot of bulk wine which is exported worldwide. If this would be bottled and labeled, it would add a lot of value for all."

Content from
The International Investor

Grupo Número 1 - Bold strategy and vision

"Economic activity will pick up strongly" in Spain in the wake of the covid-19 pandemic, the Organisation for Economic Cooperation and Development (OECD) forecast in mid-2021, with growth reaching 5.9% in 2021 and 6.3% in 2022. The organisation expects a significant acceleration of investment, which will continue to "grow robustly", and the continuation of supportive fiscal policy, which has helped companies, workers, and regions affected by the pandemic and related lockdowns. The government's national recovery plan is worth $80bn, or almost 6% of pre-covid GDP, over the coming three years. Next Generation EU funds will supplement national spending, and provide a platform for long-term growth. The OECD noted that consumers will respond to the positive macroeconomic news, with precautionary saving falling and private consumption rising.

Amid Achi Fadul
Founder and President - Grupo Número 1

As early as March 2021, these effects were already being seen, as a report by global consultancy McKinsey noted, recording "steady overall optimism" and "signs of a spend recovery". The official retail trade index produced by the National Institute of Statistics leapt by 18% in March, 38.4% in April, and 18.9% in May, before settling to a steadier pattern in the third quarter. McKinsey also reported an increase in spending on discretionary categories, a trend which is accelerating, and that 40% of consumers were planning to "splurge or treat themselves", with a spike in spending on categories such as apparel expected.

Grupo Número 1 is riding this wave of growth as one of Spain's leading retail businesses. Founded more than 40 years ago as a modest fashion shop in the Canary Islands, the company now has activities in retail, real estate, and a range of other services. Throughout its history, Grupo Número 1 has consistently delivered the best consumer experience for its customers, rapidly adapting to changes in the market, and always seeking new solutions in this dynamic sector.

"After opening our first shop, we rapidly became recognised as the family store of the Canary Islands," says Número 1 founder and president Amid Achi Fadul. "Wherever there was a church, or a pharmacy, or a savings bank, there was a Número 1 shop too. We became part of the Canarian urban landscape, and this is our greatest milestone. We have always bought good brands and quality merchandise, and we sell at a good price; the motto is to earn little and sell a lot."

The company now operates nearly 20 shopping centres across the Canary Islands, with a gross leasable area of more than 250,000 sq m and more than 900 commercial premises. It is also the largest multi-franchisee in Spain, managing 17 commercial brands and more than 150 shops as franchises and private-label businesses. Grupo Número 1's understands the local market, and its successful business strategy has led to long-standing partnerships with leading European and US brands including Levis, Guess, Inditex, and Portugal's Sonae Group.

"We have a wide range of flourishing partnerships," says Fadul. "We are open for new proposals and are always seeking activities that can be developed here in the Canary Islands. Our door is open to any company that wants to have us as their 'travel companions' for its activities in the Canary Islands and beyond."

Grupo Número 1's versatility and resilience has been demonstrated through the pandemic, in which it has boosted its online sales and developed home delivery services to serve its large customer base. It has also invested in expanding its real estate portfolio, with the support of banks, which have focused on lending to leading entrepreneurs with solid and trustworthy businesses during the recession.

"We decided to look ahead into the future, and to do that you need to adapt and be positive," says Fadul. "There is something positive in everything – you have to discover it and capitalise on it; that's our vision. It's important to make bold decisions, to know when to invest, and make swift decisions. Thanks to this, we still managed to carry on and maintain ourselves throughout the covid-19 pandemic."

Expansion in Africa is a key part of this strategy. Grupo Número 1 is already present in nine markets in West Africa and is preparing to enter nine more, using the same model that has proved so successful in Spain: buying quality brands and selling them at affordable prices. Buying end-of-season summer stock in Europe has helped the company deliver lower prices to its African customers, and it had acquired 20m units in Europe by mid-November 2021 alone. Grupo Número 1 is also starting to develop its construction and real estate business in Africa, along the lines of its Canarian operations.

These developments capitalise on the Canary Islands' key competitive advantages as a bridge between Europe and Africa. He asserts that European and American investors should see the islands as an ideal place to offer services including education and healthcare to affluent Africans, who can travel easily to the Canaries and find them warm, welcoming and safe.

"The Canary Islands are a door to Africa, which is growing at an incredible pace," he says. "By 2050 there will be more than 2bn Africans, and some countries have GDP growth of 8-10%. We have to look towards the continent, and the Canaries are a window, the exchange platform that unites Africa and Europe."