

**MERGER, ACQUISITIONS,
CONSOLIDATION AND JOINT
VENTURES AMONG
COOPERATIVES: Still an Elusive
Dream for the Movement**

ROY S. MICLAT

Cooperative Insurance System of the Philippines

Outline of Presentation

- **Definition and legal basis of merger, acquisitions, consolidation and joint ventures**
- **Philippine cooperative experiences in merger, acquisitions, consolidation and joint ventures**
- **Facilitating and hindering factors in merging, acquiring, consolidating and joint ventures of cooperatives in the Philippines**
- **Benefits of merger, acquisitions, consolidation and joint ventures**
- **What is to be done?**

Definition of Merger & Acquisition

- In the most simplest way, Merger can be defined as how a "**Marriage**" is; whereas an Acquisition can be referred to as an "**Adoption**" of a child.
- **Mergers and Acquisitions** (abbreviated **M&A**) refers to the aspect of corporate strategy, corporate finance and management dealing with the buying, selling and combining of different companies that can aid, finance, or help a growing company in a given industry grow rapidly without having to create another business entity.

Some notable M & As:

- Jollibee Food Corporation acquiring Mang Inasal for P3 billion pesos with 30% being retained by the original owner. Why acquire?
 - ✓ Before Mang Inasal came into picture, JFC controls 67% of the “chicken” business in fastfood chains, with KFC, McDonald’s, Wendy’s, etc., sharing the rest;
 - ✓ After 3 years in the business, Mang Inasal cornered 32% of the “chicken” business reducing JFC share to 52%; while 16% were shared by the rest of the players;
 - ✓ Projected to grow by at an average of 40 stores a year, Mang Inasal will eat the market share of JFC by as much as 40%++ - projected losses? P5.5 billion!

Some notable M & As of coops abroad:

- **Vancouver City Savings & Credit Union or VanCity:**
 - ✓ Acquired/merged 175 credit unions in British Columbia
 - ✓ \$C17.1 billion in assets; \$C423 million in revenues; \$C57 million in net income
 - ✓ Biggest credit union in Canada; 492K members; 57 branches; 2,542 employees; the biggest organization that is recognized as Living Wage Employer;
 - ✓ In 2009, Vancity launched the Smart Money™ Remittance program enabling members to send money to the Philippines quickly, conveniently and inexpensively
 - ✓ Vision: “**RE-DEFINE WEALTH** – re-envision prosperity as something we can only achieve if we are surrounded by and connected to a vibrant, healthy community that is sustainable for the long term.”

Definition of Consolidation

- **Consolidation** is the act of merging many things into one. In business, it often refers to the mergers and acquisitions of many smaller companies into much larger ones; when two companies combine together to form a new enterprise altogether, and neither of the previous companies remains independent.

Notable recent Consolidation in PHL

- Consolidation of the Lucio Tan Group of Companies to La Tondena Holdings, which includes Fortune Tobacco, PNB/Allied, La Tondena Distillery, etc.
- Consolidation of the SM Group of Companies into SM Prime Holdings

Definition of Joint Ventures

- **Joint venture (JV)** is a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets.

Recent Notable Joint Ventures in PHL

- Ayala and Aboitiz Groups in implementing the P35.42 billion Cavite-Laguna Expressway (CALAX)
- JFC, Sia Holdings, SM Prime Holdings forming the Double Dragon Properties which will construct community malls all over the country (*DDP shares have increased 10 times since its IPO*)

Legal Basis of Merger & Consolidation

- **RA 9520 or the Philippine Coop Code of 2008, as stated in Article 21, Paragraph 1, 2, 3 and Article 22, Paragraph 1, 2, 3, 4 and 5**
- **Rule No. 5, IRR of certain provisions of RA 9520 or the Philippine Cooperative Code**

Successful experiences in merger and consolidation of cooperatives

- Soro-soro Ibaba Development Cooperative and Soro-soro Ibaba Credit Cooperative in Batangas City
- First Community Credit Coop (FICCO) and Filipino Mercantile Development MPC in Davao City
- Coop Banks of Surigao Sur, Davao del Sur, Misamis Occidental now known as Consolidated Cooperative Bank

On-going merger and consolidation of cooperatives

- Coop Banks of Metro South, Bataan and Consolidated Cooperative Bank
- Coop Banks of Camarines Norte, Sorsogon, Capiz, Leyte, Southern Leyte and Agusan del Sur
- Coop Banks of Tarlac, Zambales, Cagayan, Benguet, Nueva Viscaya and Mountain Province

On-going talks of merger and consolidation of cooperatives

- Coop Banks of Aurora, Batangas, Quezon and Palawan
- Coop Banks of Ilocos Sur and Ilocos Norte
- Cooperative Insurance System of the Phils. (CISP) and CLIMBS Life and General Insurance Cooperative
- NATCCO and MASSPEC

Successful Joint Ventures of cooperatives in Investment

Creation of the National Cooperative Movement Mutual Fund (NCM Mutual Fund) a peso denominated, balanced fund owned by coops started in July 22, 2009 with P110 million:

- Investment in equities market and fixed income securities
- Has a NAVPS of Php 1.8066 as of May 31
- Total Fund Size - P540.24 million as of May 31

Successful Joint Ventures of cooperatives in other businesses

ACDI MPC venturing into other businesses:

- Two (2) McDonald's franchise
- Leading Edge Flying Academy
- RAM King Convenience Store

St. Martin of Tours Development Cooperative

- Gerry's Grill Food Franchise

San Dionisio Credit Cooperative

- Chop Shop Food Franchise

Possible Joint Ventures* of cooperatives in areas of production

Soro-soro Ibaba Development Coop with FICCO, Tagum Community Coop and other large coops:

- Poultry products, e.g., eggs and chicken
- Trading and Milling, e.g., rice and corn

**(FICCO has 180K members; Tagum has 90K – if 50% of their members will consume one (1) egg per week, it will be a demand of 125K pieces of egg per week)*

Possible Joint Ventures* of coops in affordable health care for members

The top 20 cooperatives in the country have a combined membership of at least 1.2 million members. Organizing a Cooperative Health Management Federation together with successful Medical Mission Group & Health Services Cooperatives can provide affordable preventive and curative health care to members while insuring its viability and sustainability due to captured market.

Cooperative experiences in merger and consolidation

Profile of Soro-Soro Ibaba Developmen Coop

- 32, 400++ members
- Operates in Regions 3,4,5 and 6 and parts of Metro Manila
- P3.2 B in Gross Sales in 2012
- Diversified business (Feed milling, Meat Processing, Livestock, Trading, Credit & Savings Operations, Gas Station, Consumer Goods)

Cooperative experiences in merger and consolidation

Profile of FICCO

- 192, 000 members (Regular and associate)
- 67 branches all over the country
- P7.3B in Assets; P2.6B in Paid-up Capital; P3.2B in Deposits for 2013
- P5.1B in Loan Portfolio in 2013
- P378 M Net Surplus in 2013
- 453 management staff

Cooperative experiences in merger and consolidation

Benefits of Merger, Acquisition & Consolidation

- Economies of scale
- Efficiency in operation
- Expansion of reach and business
- Diversified business operations
- Expanded products and services for members
- Leverage in all forms

Cooperative experiences in merger and consolidation

Facilitating Factors:

- Near the brink of failure or bankruptcy
- Insolvency
- Uncompetitiveness
- “Progressive ” mindset of cooperative leaders
- External pressure due to prevailing economic conditions

Cooperative experiences in merger and consolidation

Hindering Factors

- Knowledge
- Skills
- Competent Leaders
- “Stage”
 - of leaders
 - of Management Staff

“I have observed that the prosperity or misery of each people is in direct proportion to its liberties or its prejudices and, accordingly, to the sacrifices or the selfishness of its forefathers” – Juan Crisostomo Ibarra