Mexico's grandest business dynasty, the Garza Sadas, built its wealth in a statist environment. How well will its offspring fare?

A tough new world

By Christopher Palmeri and Kerry A. Dolan

THIS TIME a year ago billionaires were common in Mexico: FORBES identified 24 of them, a larger number than in any other country save the U.S., Japan and Germany.

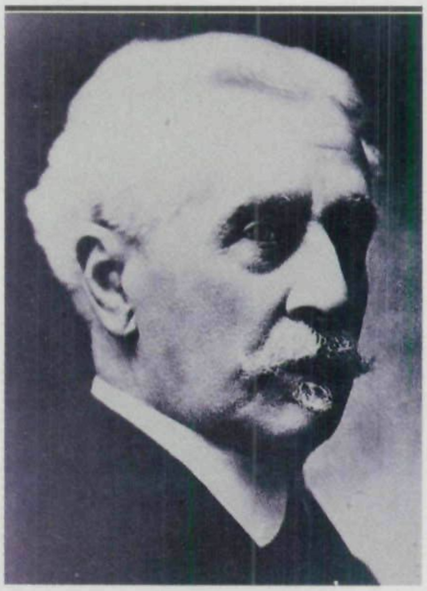
This year, with the peso's value cut almost in half, we identify ten Mexican billionaires *(see p. 194)*.

Particularly hard hit were the intertwined Monterrey-based Garza and Sada families, the descendants of Isaac Garza and Francisco Sada, who among them control seven of Mexico's largest public companies. Of the four Garza/Sada family members on last year's list only one remains: Bernardo Garza Sada, former chairman of steel and petrochemical conglomerate Alfa S.A., worth $1.2 billion.

Two other family members fell off the list: Adrián Sada González, head of Grupo Financiero Serfin and glassmaker Vitro S.A.; and Eugenio Garza Lagüera, chairman of beer and Coca-Cola bottler Femsa as well as Grupo Financiero Bancomer. Also off the list is a Garza son-in-law, Alfonso Romo Garza, chief executive of Pulsar Internacional, one of Mexico's largest conglomerates. As a group, these three are today worth $2 billion, down from $4.6 billion a year ago. Such numbers are, of course, misleading. The businesses remain viable and their ultimate worth formidable. As Mexico recovers, so will the fortunes of the various Garza Sadas. Their grip on the economy is as strong as ever.

The clan traces its modern roots to 1887, when Isaac Garza, an executive at a prosperous Monterrey trading house, married Consuelo Sada, the sister of one of his business partners, Francisco Sada. Later Isaac and Francisco started a brewery.

The founders and their descendants prospered under the statism that prevailed in Mexico under the Díaz dictatorship and under subsequent revolutionary and PRI governments: Regulation and high tariffs protected their steel, chemicals, glass, cardboard and banking businesses. Regardless of who sat in the presidential mansion, the clan got by, winning tax incentives, loans, trade barriers. As Mexico modernized in the 1980s, so did the Garza Sadas, preparing for the more open and competitive economy that was beginning to develop. They sold off noncore businesses, reduced debt taken on as oil prices surged in the 1970s, diversified overseas and invested in new technology.



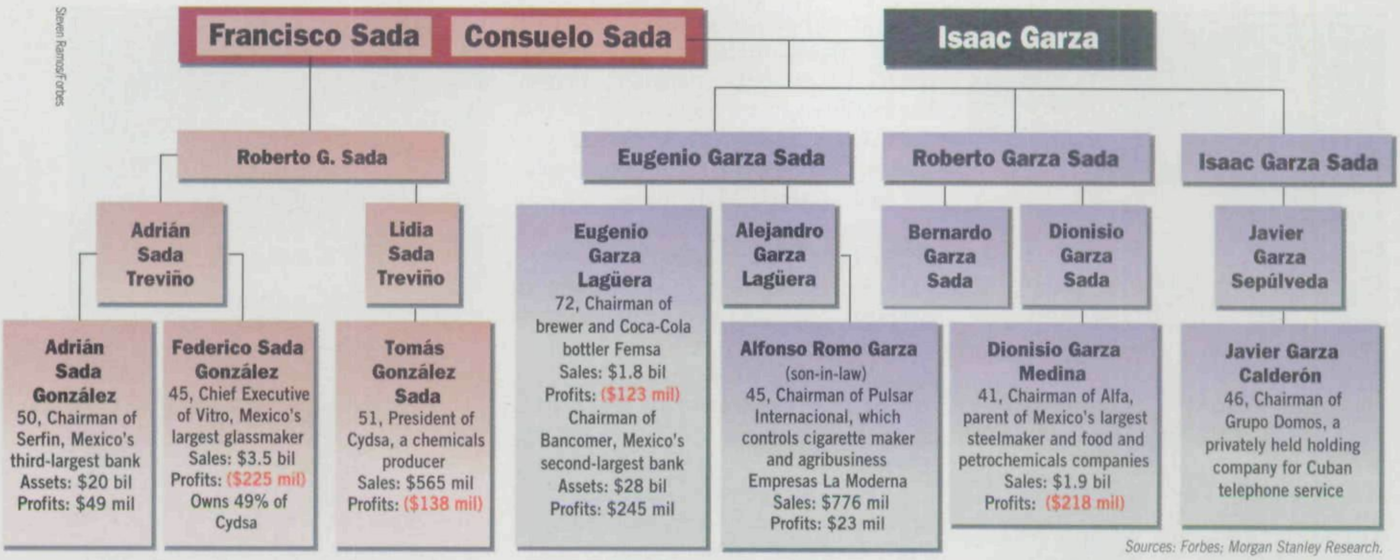
Isaac Garza (top) and Francisco Sada

Linked by marriage and money, the pair built a small brewery into one of the world's great family fortunes.

As they prospered under statism, so did they prosper in a more open economy. María de Lourdes Melgar Palacios is a political scientist who studied the Monterrey elite for her doctoral thesis at Massachusetts Institute of Technology. She says the Garza Sadas fully supported ex-president Carlos Salinas and met regularly with Salinas and his staff. Yes, they knew they would be hurt by the opening of the economy to foreign competition, but their companies were better positioned than most. And they would be more than compensated if they won the privatization bidding for formerly government-owned companies.

Inevitably, as generation succeeded generation, the branches of the family empire have been growing farther and farther apart. The process began when family patriarch Eugenio Garza Sada was murdered in a botched kidnapping attempt by leftist guerrillas in 1973. "Power has been lost since then," sighs Mauricio Fernández Garza, a family member who represents the state of Nuevo León in the

Steven Ramos/Forbes



Sources: Forbes; Morgan Stanley Research.

Mexican senate. "From there on everything changed."

By the early 1990s the separation had grown to the point where the Garza Lagüera branch of the family was bidding against the Sada Gonzálezes in the privatization of Mexico's Bancomer. (The Garza Lagüeras won.) And the Garza Sepúlveda branch vied with the Garza Lagüeras for control of the brewery and soft drink businesses. (The Garza Lagüeras won that one, too.)

The Garza Sadas, past and present

From cigarettes to telecommunications, Monterrey's Garza Sada clan has a huge stake in Mexico's future. Says one family member: "The end of the story is not today."

Chairman of Vitro and Serfin, Adrián Sada
"We are long-term investors," he says of Vitro's acquisition of Anchor Glass. He has no choice.

One of the weaker branches of the family is headed by 50-year-old Adrián Sada González and his brother Federico; together they run $3.5 billion (revenues) glassmaker Vitro S.A. Vitro has been a leader in adapting new technology and moving overseas, but the company is still struggling from its 1989 hostile takeover of Tampa, Fla.-based Anchor Glass. The acquisition made Vitro the second-largest glass container maker in North America (after Owens-Illinois), but the Sadas paid too much for a second-rate company in a no-growth business.

Adrián Sada insists Vitro will pull through with flying colors. "The decisions we made were correct," says this Sada cousin, interviewed in Vitro's sun-drenched Monterrey offices draped with classical and modern Mexican art. "The end of the story is not today. We are long-term investors."

He has no choice. Six years after the acquisition, Anchor Glass' operating margins are one-third those of competitor Owens-Illinois.

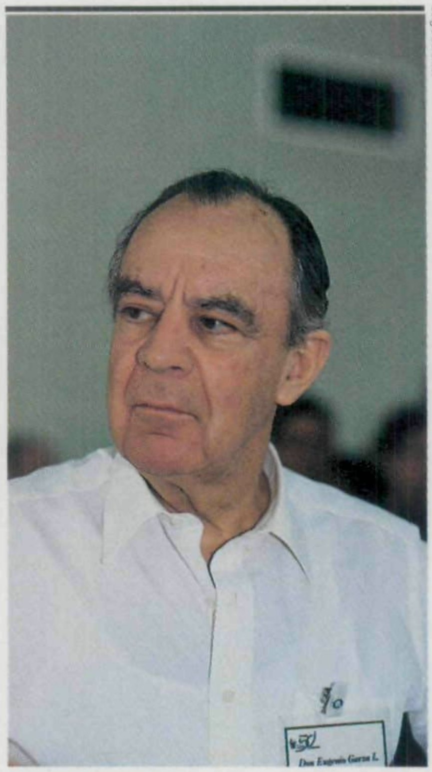
This side of the family is also suffering with its investment in Grupo Financiero Serfin, Mexico's third-largest financial group. After acquiring Serfin in a 1992 privatization, Adrián Sada's managers opened wide the lending windows and are now paying the price as the Mexican economy contracts. Burdened with bad loans,

Ellis Vener

Federico Sada, Vitro chief executive
"Once you open an economy, you either cope or get eaten alive."

Marco Ugarte/AP Wide World

Alfa Chairman Dionisio Garza Medina
Partnered with AT&T, Dionisio will butt heads with cousin Eugenio in Mexico's deregulated long distance market.



Sergio Dorantes

Eugenio Garza Lagüera
His brewery has lost market share, but one of the world's largest Coca-Cola franchises coins money for his branch.

Serfin was recently bailed out by the government. An investor group led by Adrián Sada has had to pump more money into Serfin. They are currently looking for a strategic partner.

But prospects are far brighter for other branches of the family. Femsa, the parent company of the brewing and bottling businesses, is in good shape. Femsa is controlled by 72-year-old Eugenio Garza Lagüera, the son of the murdered patriarch. Among Garza Lagüera's other holdings is Bancomer, Mexico's second-largest bank. Bancomer is in much better shape than Banca Serfin, so much so that it partnered with GTE in a venture that will compete in the Mexican long distance telephone market when Teléfonos de México's monopoly ends in 1997.

Femsa's brewing business is well known in the U.S. for its Tecate and Dos Equis brands. The company also controls the Coca-Cola bottling franchise for Mexico City, one of the biggest Coke franchises in the world. Femsa is now run by José Antonio Fernández Carbajal, Eugenio Garza's 41-year-old son-in-law. After several public stock offerings and investments by strategic partners, Femsa has finally whittled down much of the debt that held it back during the 1980s, according to Salomon Brothers analyst Marla Marron.

José Antonio Fernández says his father-in-law reminds him constantly of the need to reduce debt and expand overseas. "We will not be dependent on any one currency," says Fernández. "We must export more."

The best positioned of the Garza Sada groups, however, is headed by 41-year-old Dionisio Garza Medina, nephew of Bernardo Garza Sada, one of the two current Garza Sada billionaires. Once the family's largest holding, Alfa has shrunk considerably since its near-bankruptcy in the early 1980s, but it is reviving, since the peso devaluation has sparked a boom in Alfa's exports of steel and petrochemical products. Under the direction of Harvard-educated Garza Medina, Alfa also plans to enter the long distance telephone market, in partnership with AT&T. Its stock has been among the best-performing on the Mexican stock exchange this year.

Another player to watch is 45-year-old Alfonso Romo Garza, who runs Pulsar, a holding company whose publicly traded Empresas La Moderna controls cigarette, packaging and agribusiness interests. Though not a Garza Sada by birth, he is married to one—and coincidentally has the same last name. A skilled horseman, "Poncho" Romo started out in bakeries and expanded them into a powerful conglomerate. At a company event some years ago he noted how surprising it was his fortune started out in cakes. "Yeah," came a voice from the back of the room, "a wedding cake." Such cracks make him even more determined to show what he can do with the ventures he runs.

Danny Turner

Javier Garza Calderón
Hello, Havana! Javier has already made a killing on his Cuban telephone interests.

Finally, there is Javier Garza Calderón, the 46-year-old chairman of Grupo Domos and the only new Mexican name on our billionaires list this year *(see profile, page 189)*. This Garza cousin bought a 49% interest in Cuba's telephone system and then made a killing by reselling a piece of his holdings to Italy's telephone company Stet for $291 million.

Building on a family fortune created in cozier times, the various Garza Sadas are living in a different environment—global, competitive and less susceptible to political favoritism. Some will cut it in the new world. Others won't.

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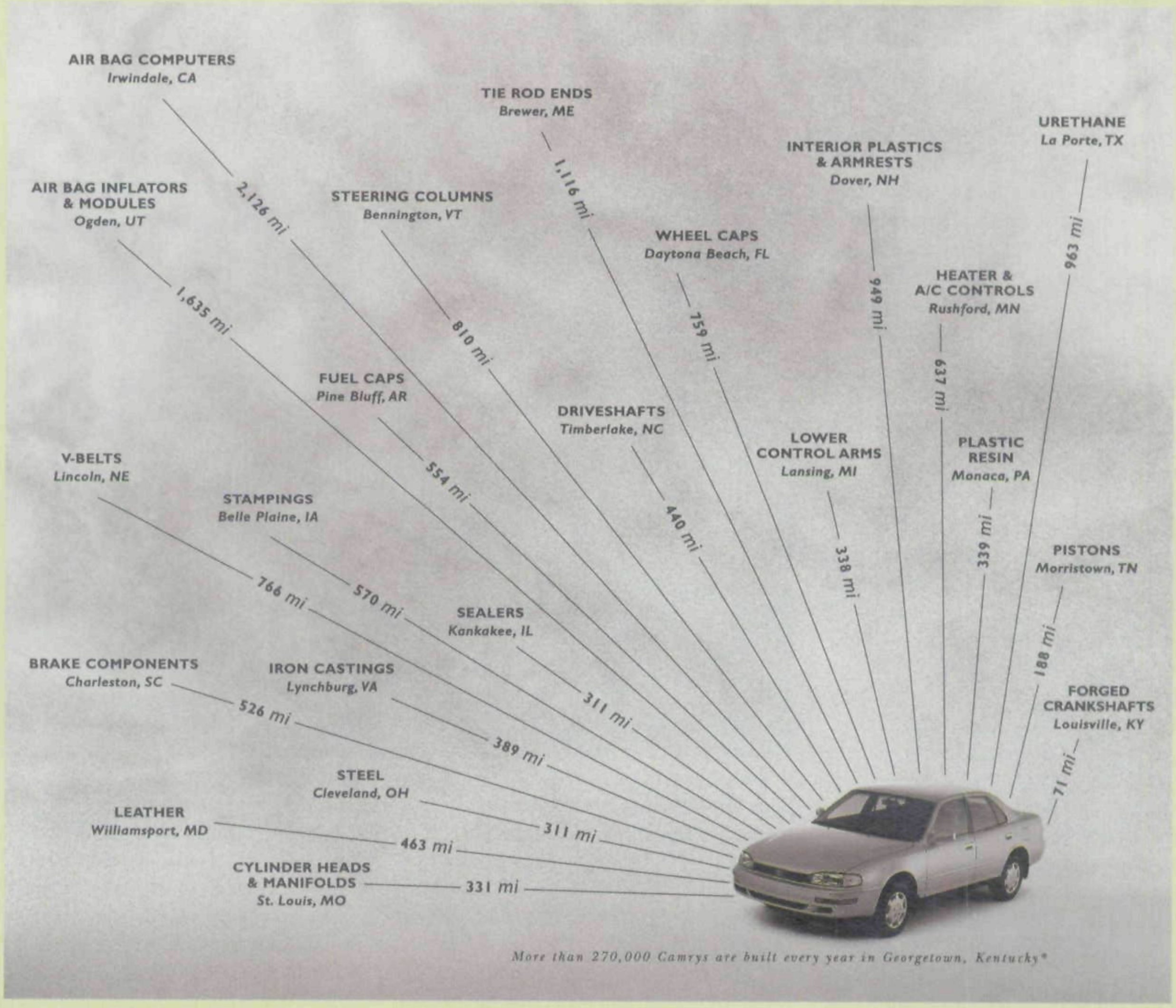

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