

CASE STUDY: Lafarge acquires Orascom Cement²³

On 10 December 2007, Bruno Lafont, chief executive of Lafarge, a French multinational cement and building products corporation, announced the surprise acquisition of the Middle East's largest cement maker, Orascom Cement. It was Lafarge's first major strategic acquisition since M. Lafont became chief executive two years earlier. Lafarge would pay a total of €10.2 billion (equivalent to US\$ 15bn) including additional €1.4bn debt. The acquisition was expected initially to add \$2.6bn of highly profitable sales to Lafarge's forecast of €17bn sales for the year.

Orascom was a nine-year old company based in Egypt; it was building leading positions in the Middle East and Mediterranean countries in building products and unrelated sectors such as mobile phone networks, largely through green-field investment. On behalf of the family investment company that owns Orascom Group, its chief executive, Mr Sawiris, agreed to pay €2.8bn to acquire an 11.4% share of Lafarge, making him Lafarge's second largest shareholder. He would become a director and also nominate another director.

The Orascom acquisition emphasised Lafarge's determination to dominate the global supply of cement, especially in developing countries around the world, which accounted for two-thirds of consumption. Under the single-minded leadership of previous Chairman and Chief Executive, Bertrand Collomb (1989–2003), Lafarge grew rapidly via internal development and global acquisitions. When it acquired the sixth largest global cement producer, Blue Circle Industries (UK), Lafarge catapulted to the world number-one position.

M. Lafont declared that since 2006 Lafarge's two strategic priorities were:

- To pursue growth in emerging markets.
- To accelerate innovation to increase its competitive advantage and to meet the need for more sustainable construction methods.

After 2007, Lafarge's growth ambitions were seriously dented by the global recession. Nonetheless, it remained confident of its long-term strategy. Its 2009 turnover was €15.9bn (2008: €19.0bn), yielding operating income of €2.5bn (2008: €3.5bn). Of these totals, cement generated 60% of sales (2008: 57%) and almost 95% of profits (2008: 84%).²⁴ Other major product categories included aggregates for concrete production, ready-mixed concrete delivery services, and gypsum and plasterboard for dry-wall construction. Geographic distribution of sales in 2009 was: Western Europe 29%; Africa and Middle East 25%; North America 19%; Asia 15%; Central and Eastern Europe 7%; other 5%.

Questions

1. Examine relevant data from the published accounts to help decide whether the price Lafarge paid for Orascom based on profitability performance and growth expectations was good value.

2. Is Lafarge's commitment to the long-term supply of basic construction materials wise or should it prioritise judicious diversification?²⁵
3. Since Orascom Group had been serving fast-growing markets for cement and related construction materials, why did it choose to sell this division in 2007?