Bulacan, Laguna targeted for pharma ecozones

By Justine Irish D. Tabile
Reporter

THE Philippine Economic Zone Authority (PEZA) said it is in talks with three economic zone (ecozone) developers to build pharmaceutical industrial parks in Bulacan and Laguna.

"We hope to roll out this new type of ecozone within the year with the proclamation of First Bulacan Industrial Park, which is adjacent to the existing First Bulacan Industrial city..." PEZA Director General Tereso O. Panga told *BusinessWorld* via Viber.

Under the Philippine Development Plan 2023-2028, PEZA is tasked with accelerating the development of new types of ecozone, including pharma industrial parks.

In a statement on Friday, the investment promotion agency (IPA) said that it is yet to draft the guidelines for the registration of pharma zones under PEZA.

"We are coordinating with the Department of Health (DoH), Food and Drug Administration (FDA), Department of Trade and Industry and the Philippine Chamber of Pharmaceutical Industries (PCPI) in the guidelines for the registration of pharma zones under PEZA," Mr. Panga said.

"We will collaborate as well with the Office of the Special Assistant to the President for Investment and Economic Affairs (OSAPIEA) and PCPI for the needed support and assistance to be able to attract key players in the pharma industry and to complete the supply chain for drug manufacturing in the country," he added.

According to PEZA, President Ferdinand R. Marcos, Jr. brought up the idea of establishing pharma zones to serve as one-stop shops for pharma-related investment in a meeting with the FDA.

"These pharma ecozones will, in the future, boost local supply as well as provide business and capability-building opportunities particularly for Filipino small and medium enterprises into manufacturing and tolling of drugs and food supplements," Mr. Panga said.

Mr. Panga noted that domestic manufacturing is an eligible activity for registration with PEZA and other IPAs under the Corporate Recovery and Tax Incentives for Enterprises law.

"Given the fiscal incentives available for domestic market enterprises, this should encourage both Filipino and foreign investors to engage for instance in the manufacturing of drugs and medical products to address the growing local demand for generic as well as affordable but quality medicines," he said.

"As (establishing) pharma zones is a top priority now overseen by OSAPIEA Secretary Frederick D. Go, PEZA will vigorously promote this to achieve the goal of the President of making more affordable medicines available for Filipinos," he added.

As of last year, PEZA hosts a total of 26 companies that manufacture pharmaceutical products and medical equipment or devices generating about P25.49 billion of investments and more than 19,000 direct jobs.

Consumer confidence seen boosted by stronger job market, retreating inflation

CONSUMERS are expected to have more purchasing power this year amid improved labor market conditions and easing inflation, First Metro Investment Corp. (FMIC) and the University of Asia and the Pacific (UA&P) said.

"Record high employment and all-time lows for total unemployed persons in December and inflation back to the Bangko Sentral ng Pilipinas (BSP) target should provide the necessary wherewithal to consumers to open their wallets in 2024, starting in the first quarter," it said in its Market Call released over the weekend.

The unemployment rate fell to 4.3% in 2023, the Philippine Statistics Authority (PSA) reported, the lowest jobless rate in nearly two decades.

Headline inflation declined to 2.8% in January from 3.9% in December and 8.7% a year earlier. This was also the second straight month inflation was within the 2-4% target band.

Private consumption typically accounts for three-fourths of the economy. In 2023, household spending expanded by 5.6%, much slower than the 8.3% in 2022.

FMIC and UA&P said they expect inflation to average 3.1% in the first quarter, with full-year inflation to settle at 3.8%.

"Inflation will continue to slide into BSP's target range as crude oil prices will trend slightly lower while imports and better harvests (in the second half) should limit rice price gains," it added.

The BSP expects inflation to average 3.6% this year and 3.2% for 2025.

However, FMIC and UA&P noted that the El Niño phenomenon could derail the downtrend in inflation. — **Luisa Maria Jacinta C. Jocson**

BoI can still grant RBEs pioneer status — DoJ

THE Corporate Recovery and Tax Incentives for Enterprises (CREATE) law did not take away the power of the Board of Investments (BoI) to confer pioneer status on registered business entities (RBEs), the Department of Justice (DoJ) said in a legal opinion.

It also found no conflict between conferment of pioneer status and the authority of local government units (LGUs) to grant exemptions from local business tax (LBT).

In the legal opinion addressed to Trade Secretary Alfredo E. Pascual, Justice Undersecretary Raul T. Vasquez said nothing in the CREATE law revoked the BoI's authority to classify RBEs as pioneer or non-pioneer enterprises.

Pioneer enterprises make goods or raw materials not previously produced in the Philippines.

Mr. Pascual had asked the DoJ to weigh in on whether the CREATE law had eroded the legal basis for the LBT exemption of businesses registered with the BoI, and whether the BoI could still certify RBEs as pioneer enterprises.

"It appears the intention of the framers of the CREATE Act is to rationalize and delineate into one menu the tax incentive system," Mr. Vasquez said.

"The fundamental rationale behind the current principle of local fiscal autonomy lies in the principle of empowering local government units and ensuring their sustainability and self-reliance through the direct conferment of comprehensive and extensive tax powers."

He noted that the opinion was purely for guidance and is not legally binding.

He said that LGUs have the authority grant exemptions to LBTs, while the BoI only classifies RBEs.

In 2022, the BoI had issued a memorandum circular granting RBEs an exemption from LBT under the Strategic Investment Priority Plan for six years (pioneer) or four years (non-pioneer). The BoI had sought the Justice department's advice on whether the memo had legal basis.

The DoJ said it could not form an opinion on the matter, citing incomplete facts in the BoI's memo.

"It would require us to make assumptions about the circular, not apparent in the query," Mr. Vasquez said.

"The Secretary of Justice does not render opinions on questions the resolution of which hinges on factual matters that are not readily discernible from the query." — **John Victor D. Ordoñez**

Office vacancy fall to single digits seen in 2027

REAL ESTATE firm CBRE said that it projects the office market vacancy rate to be in the single digits by 2027, pushing back its earlier estimate of 2026, after a weaker-than-expected performance in the last quarter of 2023.

"(In) the quest (for) single-digit vacancy, we initially projected that to happen in 2026, but because the fourth quarter was not as strong ... our projection of a 5.4% vacancy will (take place) in 2027," CBRE said.

It now sees vacancies in 2024 to fall to 18.8%, to 15.1% in 2025, and to 10.6% in 2026.

According to CBRE, office vacancies in the last quarter of 2023 rose to 19.4% from 18.8% in the third quarter. The trend was most pronounced in the so-called Bay Area (33.4%) and Alabang (30.9%).

It added that the increase in vacancy was also due to projects like Megaworld's Uptown Eastgate (69,000 square meters) in BGC and Filinvest's Studio 7 (14,500 square meters) in Quezon City.

"Fourth quarter demand was not able to offset the significant reinfusion of both buildings into the market to stem an increase in overall vacancy," the firm said. — **Justine Irish D. Tabile**

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OPINION

The IPO journey for family businesses

SUITS THE *C*-SUITE
KRISTOPHER S. CATALAN *and* **PATRICIA JAZMIN D. PATRICIO**

Taking a family business public through an Initial Public Offering (IPO) is a significant milestone that requires strategic planning and careful execution. The transition can unlock new opportunities for growth, but also brings challenges brought by increased scrutiny, regulatory requirements and stakeholder expectations.

In an IPO, a private company becomes a publicly traded entity, offering its shares to the public through a stock exchange. This transition from private to public status is marked by the issuance of new equity shares to institutional and retail investors, expanding the company's ownership base. This may not be appealing for some family businesses, as it may dilute the family's ownership and even run the risk of losing control.

Looking at it from a different perspective, an IPO lets family owners realize previously unmeasured value of their companies with the opportunity to cash in through secondary offer during the IPO or later on subject to lock-up restrictions. On the other hand, the public will now have a chance to invest in what it used to be a private company with hopes of future capital gains or dividend payouts. For the company going public, it is an important step in accessing significant long-term capital that can fund expansion programs or new strategic investments that bank creditors or private investors may not be able to provide.

KNOWING WHEN TO DO THE IPO

In the 2023 EY Global IPO Trends Report, the ASEAN IPO market was generally challenging, with high inflation rates and elevated interest rates reducing IPO activities for most countries in ASEAN. In the Philippines, there were only three IPOs, all completed in the first half of 2023. Globally, moderating inflation rates and interest rate cuts could attract investors back to IPOs. Locally, a good number of IPO transactions are expected this year due to strong economic fundamentals, but the government and private sector remain wary of global and local headwinds which may undermine investor confidence.

Company or sector specific conditions must be considered when going listed. For example, the Philippine Securities and Exchange Commission (SEC) requires a company to establish three years of profitable operations, i.e., at least P75 million of cumulative net income, excluding non-recurring items, for the latest three full fiscal years and a minimum net income of P50 million for the most recent year. Companies with established profitability and cash flows that are consistent with their equity story will generally generate good valuations.

Up and coming sectors and economies with good outlooks, such as those in mining and minerals due to the global demand for raw materials for batteries of electric vehicles, or technology companies in South Korea due to advances in artificial intelligence (AI), have had good valuations recently. Growing interest in critical minerals such as lithium and nickel are heavily influenced by environmental, social and governance (ESG) factors which has lately been a focal point for benchmarking companies' potential. These conditions are hard to predict and are often "one without the other," making it key for companies to prepare early to move fast when the right time and conditions come into play.

DEFINING CORPORATE IDENTITY WHILE BUILDING A LASTING LEGACY

Often characterized by tradition and family values, family businesses may hesitate to go public. The business-as-usual attitude must cease as companies will need to revisit and upgrade certain aspects of their operations, talent, performance measurement, and even redefine strategies.

That is not to say that the family legacy and tradition are lost during the transition to being a public company. Family businesses need to tread this line carefully to ensure that what made them thrive in the past can be part of their current business narrative while adopting new ways of working. Family businesses will need to start the IPO readiness assessment as early as possible to know what needs to change and when. From detailed elements such as the operating or accounting manual to complex business processes such as entity-wide risk management or investor relations, they must assess their level of maturity to know what, where and when help is needed.

A readiness assessment also enables aspiring family businesses to determine current structures and policies (i.e., operating policies and processes, financial and management reporting, data, systems and technology, risk management, etc.) that need to evolve to be future-fit, while retaining the rich history that defines the identity of the family business.

STRENGTHENING PEOPLE AND PREPARING THE NEXT GENERATION

Family businesses must assess how capable their current management teams are in leading them to their desired future. A compelling equity story and strong financials are futile without captains who can steer the ships. Strengthening the management team can include hiring experienced professional managers who are equipped with expansive business networks to help the company grow and thrive as a listed entity. Companies may need to create new positions to help grow and sustain their businesses or manage risks in navigating regulatory complexities and complying with securities laws.

Companies must identify family members who can retain key leadership positions in critical areas of the business and in the board, as well as a succession plan that enables NextGen family members to train early in the ways of the business. Based on the 2023 EY and University of St. Gallen Family Business Index, only 13 out of 179 board seats (7.3%) for 17 family enterprises in ASEAN were occupied by NextGen family members, with practically zero NextGen on the boards of the four Philippine companies included in the study.

Family businesses have rich histories and backgrounds which are integral to a compelling equity story. Company history can demonstrate the readiness of the company to navigate the future while defining what the company represents. A compelling equity story should be able to narrate the humble origins of the business and where it wants to go in the future.

OPTIMIZING INFORMATION WITH THE RIGHT INFRASTRUCTURE AND TEAM

Often, some IPO aspirants inadequately prepare their financial, management and tax reporting, with outdated legacy systems or predominantly manual reporting processes that cannot produce the required reports on a timely basis. Worse, private companies may not have a complete finance team capable of providing these reports and an IT team who can support these organizations.

Prior to going public, these companies must be able to produce financial and non-financial reports with material business information within the required reporting timelines. During IPO, the Prospectus must include three years of annual audited financial statements, reviewed by the underwriters and approved by regulators. Post-IPO, annual and quarterly reports must be submitted to the Philippine Stock Exchange and SEC within the deadlines set.

Suffice to say, these instances highlight the importance of an efficient and effective financial and management reporting process that can generate timely and reliable reports. Information reliability and relevance depends on whether the companies have the right infrastructure and team that can generate reasonably accurate corporate reports. The right infrastructure means that organizations need IT systems and policies that support how data is accumulated, recorded and reported so that management and the public can optimally use this information in making decisions. The right team does not only refer to competent manpower — it means a continuously trained talent pool, periodically replenished through strategic hiring.

PROTECTING THE REPUTATION OF THE FAMILY BUSINESS

Going public raises the company's profile, making it more visible among customers, partners, and potential business collaborators. This increased visibility exposes the public company to higher reputational risk, thereby increasing scrutiny on the family's brand. Companies need to institutionalize enterprise-wide risk management and strengthen compliance to protect their reputation.

Family businesses may seek guidance from third-party legal and business advisors to help their companies prepare. They must involve underwriters and regulators early to anticipate issues that may hinder the IPO. Family businesses must also be ready with alternative fund-raising activities in case the IPO is deferred or abandoned so that their growth objectives can remain on track.

ASSESS, PLAN, EXECUTE — AND FOLLOW THROUGH!

An IPO should not only be viewed as a one-time event focused on raising capital. It starts from the decision to do an IPO and transform the company before the listing happens. It is a meaningful journey for the companies and its owners which requires a paradigm shift from the entire organization that cannot be done overnight.

The strategic decision of a family business to go public demands meticulous planning and near seamless execution. Post IPO, these family businesses must be able to deliver what they committed to investors. When done right, barring unanticipated unfavorable economic events, this beneficial corporate tool called an IPO should enable family businesses to sustain the value promised to both the family and public investors.

This article is for general information only and is not a substitute for professional advice where the facts and circumstances warrant. The views and opinions expressed above are those of the authors and do not necessarily represent the views of SGV & Co.

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