



SBS PHILIPPINES CORPORATION

29 October 2015

PHILIPPINE STOCK EXCHANGE, INC.

PSE Plaza, Ayala Triangle
Ayala Avenue, Makati City

Attention: **Ms. Janet A. Encarnacion**
Disclosure Department

Subject : **Clarification of News Report**

Gentlemen:

This is with reference to the attached news article of Mr. Emeterio Sd. Perez entitled "Paying Debt with Other People's Money" which was posted online on 22 October 2015 9:09 pm in The Manila Times.net. and which we learned about only on 28 October 2015.

We wish to clarify that it was only in August 2015 that SBS Philippines Corporation (the "Company") undertook an initial public offering and not in April 2014 as stated in the news article. Gross proceeds of P1.155 billion were raised from the sale of 420,000,000 shares. The net IPO proceeds received by the Company were all deposited in a dedicated bank account and earmarked for the following planned uses as disclosed in the Company's Prospectus: (a) finance the prepayment of Company's long term debt, (b) broaden its product offerings, (c) expand its facilities and (d) acquire additional equipment to promote operating efficiencies. In accordance with such business plan, P282.9 million were used to prepay its long term debt with BDO Unibank while importations for the new product offerings are well underway. Under review are the projects details of the capital expenditures to be undertaken.

As disclosed in the Prospectus, the timing and amount of disbursements are to be spread over a 12-month timeframe to implement. For this reason, IPO proceeds which are not yet scheduled for disbursement were invested in short term fixed interest placements with our bankers, currently earning a gross interest of 1.7% to 2% per annum. The Company will

continue to make periodic announcements on the use of the IPO Proceeds as and when the funds are materially disbursed.

We wish to clarify further that as reported in our Progress Report on the Utilization of the IPO Proceed dated 15 October 2015, the total IPO expenses incurred and disbursed as of 30 September 2015 amounted to P42,755,704.55. This is inclusive of the P22.1 million IPO-related expenses incurred and disbursed prior to the IPO date. However, while already expensed by the Company and initially charged against its working capital, the P22.1 million pre-IPO expenses were not yet claimed or deducted against the bank balance of the IPO proceeds as of 30 September 2015 as these IPO funds have been invested in fixed short term placements with our bankers. Hence, this amount was explained to be chargeable or applied against the bank balance of IPO proceeds in the fourth quarter of 2015 upon maturity of the short term placements. This is the meaning of the footnote in our progress report which stated as follows: *"[includes] IPO related expenses amounting to P22.1 million, which were incurred prior to the receipt of the offering proceeds, were initially funded using the Company's working capital. The Company will charge this against IPO proceeds in the last quarter of 2015"*. There was no deferment in the take up of the IPO expenses.

The Company is committed to effectively and efficiently use such IPO funds and will ensure transparency and accountability in disbursing and managing such resources.

Sincerely yours,



REGINA SIMONA B. DE GUZMAN
Corporate Secretary, Compliance Officer
& Corporate Information Officer

Encl. a/s

Source: <http://www.manilatimes.net/custom-search/?search=EMETERIO%20SD.%20PEREZ>

The Manila Times

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Paying debt with other people's money

October 22, 2015 9:09 pm



EMETERIO SD. PEREZ

WHEN a company taps the public for funds by selling them shares under an initial public offering, it should tell its prospective investors how it would use other people's money (OPM) that it expects to generate from such an offering.

SBS Philippines Corp. did this as expected. It laid down the projects that it intended to finance with the public's money. Expansion is one of them, but it also happens to be the most abused reason for undertaking an IPO.

The company did disclose that it would pay its biggest creditor, which was good for the public, but failed to tell them that it could not proceed with its plan as it had stated in the prospectus it filed with the Securities and Exchange Commission (SEC).

All SBS did was to meet its obligation with one bank creditor, which was BDO Unibank Inc., with still a lot of money left for the company to pursue its expansion plan.

The IPO of SBS Philippines is a good story to tell.

SBS Philippines reported P42.75 million as "IPO-related expenses." Then in a footnote, it said it also spent P22.1 million "prior to the receipt of the offering proceeds," which it "will charge against the IPO proceeds in the last quarter of 2015."

This “deferment” should bring the total “IPO-related expenses” of SBS Philippines to P64.85 million.

Timely disclosure

Perhaps, SBS should have explained to the public the difference between reporting now and reporting later when numbers are supposed not to change at all. Has anyone heard about mathematics being a perfect science?

Re-computation of the numbers as they appear in SBS’s filing showed that the company spent a total of P64.85 million and not only P42.75 million in “IPO-related expenses” To the public, delaying some deductible expenses for the sake of accounting convenience would not be fair to them.

Since SBS also included P22.1 million as “IPO-related expenses,” it should have made a separate computation to show the effect of said amount NOW and not later, which would be in the last quarter of 2015.

The outsiders who are not privy to the board but who nevertheless bought SBS shares require more details of how the company used the proceeds raised from the public offering. Did the company sell shares to them so that it could use their money to pay BDO Unibank Inc. P282.9 million including interest? The filing, by the way, did not state the principal amount.

Auditors’ report

Punongbayan & Araullo is the external auditor of SBS Philippines which analyzed the company’s financial filing. Again, in a footnote to its report, it reported that “...the offering proceeds from the IPO are not immediately applied to the specified purpose stated in the offering circular.”

Really? Why didn’t SBS use the net proceeds of P829.3 million for, among others, “product expansion,” as it said so in its posting on the website of the Philippine Stock Exchange? It would appear to the public that the company needed the money only to be able to pay its debt with BDO which, at five percent interest per annum, “carried higher interest rates compared to other credit facilities.”

The P&A audit report listed some of the projects lined up for financing with the proceeds from SBS’ sale of shares. Among them was “the acquisition of a 19,373-square meter industrial property located at the west side of the National Road within Barangay Tunasan, Muntinlupa City.”

Money market placements

If the public stockholders of SBS Philippines are interested to know where their money went, rely on P&A to provide them the answer. “As of Sept. 30, 2015,” the external auditor said, “the remaining balance of the offering proceeds was invested in short-term money market placements.” That’s a lot of money to play with in over a year.

In April last year, SBS Philippines sold to the public 420 million shares at P2.75 each. From this public offering, it grossed P1.15 billion. Minus "IPO-related expenses" of P42.75 million, the company had P1.11 billion in net proceeds. After paying BDO P282.9 million, it still had P829.3 million left.

The public investors should not be satisfied with SBS' own presentation because they should have been told that the company had yet to deduct P22.1 million, which it chose to defer to the "last quarter of 2015." By proceeding with their own computation, they would arrive at net IPO proceeds of P807.22 million.

Here are two questions that the public stockholders of SBS should ask: How much of the IPO money did it invest outside the company? What happened to the purpose of the offering?

Finally, the public should wait for SBS' financial filing for the third quarter of the year. They would probably be interested to know how much their money earned from the company's money market placements.

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