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[PET Strategies](#)
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[Sale Studies](#)
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Alcoa's Brazilian Sell-Offs Not a Precursor to a Company Pull-Out

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While some red flags appeared to be raised when Alcoa sold its Brazilian can business in March and then its PET operations last month, the Pittsburgh-based company has no intentions of abandoning South American operations. Instead, the moves are better classified as continuations of Alcoa's previously announced divestiture program to sell certain non-core businesses in order to pay down debt.

"Alcoa is definitely not getting out of Brazil. It has a US\$3 billion investment there," says Graham Wallis, director of the Sao Paulo-based consultancy Datamark Ltda. "Alcoa will now concentrate on its core aluminum producing business which was the original intention."

Alcoa's interest in cans in Brazil was considered temporary by many in the industry from the time it took over Reynolds in June 2000, says metal packaging guru Philip Rogers, principal of Metals for Packaging.

"The Latasa stake was always a loose holding," Rogers says. "The problem was that other Brazilian shareholders -- including Reynolds' partner and Brazil's largest private bank, Bradesco -- were unwilling to sell when Ball bought the Reynolds can factories in the U.S.A., so Alcoa was forced to hang on to the holding." Once Alcoa declared it was selling off non-core divisions however, "the race was on" as rival companies -- like eventual buyer Rexam PLC, London -- put together bids.

Wallis seconds Rogers' sentiments, further explaining, "the deal with Rexam is probably the third attempt to sell the business." Rexam agreed to pay \$355mn to Alcoa as well as assume an additional \$107mn in debt.

With the purchase, Rexam strengthens its position on a global scale and is now considered the largest packaging company in Brazil, with a diverse combination of health, beauty, and medical products, and almost 70 percent of the two-piece can market.

Rogers further classified Brazil as one of the last big prizes in beverage can sales where competition considerations allow consolidation on this scale.

As for the PET sale, Wallis contends PET bottles were never a core business for Alcoa but were simply an interesting, relatively low-risk opportunity for the company since it also makes the Wing-Lok caps for carbonated soft drink (CSD) bottles. The way he sees it, Alcoa simply received an attractive offer from Amcor for \$75mn in cash and took it, allowing them to continue to make caps.

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