

Initial Public Offering
Splash Corporation
Price range: P8.98
Buy upon listing

Shares in Offering	
Primary	188,848,107
Secondary	35,000,000
Shares applied for listing	223,848,107
Shares outstanding – post- offering	746,160,357
Par value per share	Php 1.00
Offer price	Php 8.98 per share
Pro-forma Book Value per common share after offer	Php 3.49
Offer proceeds -Gross	Php 1,695,856,000
Use of proceeds	To further enhance R&D, support brand building, fund future brand /product acquisition program
Minimum subscription	1,000 shares
Timetable of offering:	
Offering period	Nov. 6 to 12, 2007
Listing date	Nov. 15, 2007
Lock-up Period	Shareholders owning 10% or more of the issued and outstanding shares of stock of the company may not sell, assign, encumber or dispose their shares for a period of 180 days from listing date.

Principals : Rolando B. Hortaleza, M.D.-Chairman and CEO; Rosalinda Ang Hortaleza M.D.- Vice-Chairman, Treasurer, Corp. Secretary; Sinforsoso Jesus R. Soriano –Pres./COO; Emmanuel P. Manucom-SVP and CFO; Higinio P. Porte – COO; Domestic Operations; Edgardo I. Patron-COO, Intl Operations; Teresa M. Conde-AVP-Mktg/Brand Devt; DeoG. Orpilla-AVP, Customer/Channel Devt; Arturo Celso D. Baranda-AVP, Finance; Mari Grace Daleon-AVP HRD; ARthru Bautista- R&D Mgr.; Grace del Rosario-Regulatory Affairs Mgr.

Investment Highlights

- The company ranks second on overall product categories in the personal care products market. It leads in the exfoliants and skin whitening categories with 86% and 46% market shares, respectively. The skin care products market is expected to growth by 9.1% in the next five years to 2010 on account of strong demand for skin whitening. With Splash's lead position in this product category it is at a lead advantage in the coming years.
- The company's dominance is achieved through its in-depth knowledge of the local market, a strong competitive advantage through innovative product offerings over its multinational competitors.
- The company has established Splash Research Institute to develop new products that would satisfy the rapidly growing needs of the personal care market. Splash plans to have product offerings for two years at one point in time.
- Splash has established market presence since 1993 in over 20 countries which include Algeria, Australia, Bahrain, Canada, Egypt, Hong Kong, India, Indonesia Japan, Jordan, Korea, Malaysia, Nigeria Singapore and Vietnam among others, through its distributors and local exporters. Exports account for 10% of its total sales.
- Splash Corp. has invested in a manufacturing plant in Canumay, Valenzuela City in a 2-hectare property which will support the company's expansion program both locally and internationally.
- The market's potential hinges on the increased health and wellness spending of the population with the growing health consciousness among consumers. The market potential in the Philippines is estimated at Php5bn.
- The company's PER is at 23.6x on 2007 earnings which will improve to a level of 14x on its 2008 earnings. However, pricing for the offer is rather aggressive as average PER of foreign competitors is at 21x (Unilever NV at 17x, J&J at 18x, Avon Products Inc. at 29x) compared to Splash's 23x PER. We expect the aggressive price to limit upside of the share price upon listing.
- **Recommendation: Buy on listing; Long-term buy**



Splash Corporation

Company Background

Splash Corporate is a beauty and personal care manufacturing arm of the Splash Group of Companies. The Splash Group is composed of wholly –owned Philippines companies with businesses in the personal care manufacturing and marketing, international distribution and recently, health and wellness development and marketing. The company grew from a Php12k backyard business into a Php4bn enterprise through the vision and innovation of its founders spouses Dr. Rolando B. Hortaleza and Dr. Rosalinda A. Hortaleza. The company is the only Filipino company to have broken into the foreign/multinational dominated personal care companies in the country having been cited by Euromintor as the pride of the Filipinos in the personal care industry. It has successfully competed through an in-depth knowledge of the local market continuously coming up with acceptable product offerings. Its market has experienced high growth over the period 2000-2005 in a report by Euromonitor – sales of cosmetics and toiletries grew with a CAGR of 8%; sales of skin care products grew at a CAGR of 14.4%. Skin care industry is expected to grow significantly at 9% over the next 5 years from 2005 to 2010. The company is well-positioned in this product category with its strong whitening products as Skin White, Extraderm and Biolink Green Papaya.

The company has over the years invested in product development with an average budget of 1% of net sales for R & D. From 2004 to 2006 it has spent Php25m for product development. In 2004, it has invested in a P400m state-of the art manufacturing plant in Canumay, Valenzuela City. The facility comprises of sixteen (16) buildings occupying a total land area of 24k sq. meters. This manufacturing complex has 9 manufacturing lines operating at an average of annual capacity of 60,000 units or an estimated 50% utilization rate of its manufacturing lines, which would readily support future growth and expansion. Splash owns twenty-nine (29) registered trademarks and has thirty-four (34) pending trademark applications for new products. The company has deemed it prudent not to ascribe any value to its trademarks in its financial statements. Raw material requirements are sourced locally. Imported raw materials are sourced through foreign company affiliates or representatives and are paid in pesos.

Splash’s marketing infrastructure is a combination of in-house and third party distributors. The company delivers directly to strategic accounts (called national accounts). For other key accounts, it utilizes twenty –three (23) third party distributors. Each distributor is assigned to specific regions. The company employs demand-based production planning and inventory management systems, with each distributor maintaining optimal inventory levels, which are replenished at re-order point. It has established a marketing presence in over 20 countries through its distributors and local exporters.

Key Ratios

	2004	2005	2006	1H06	1H07
Net Sales (PM)	2,662	2,693	2,399	1,168	1,221
Net income(PM)	319	196	205	10	143
Operating margin	0.15	0.09	0.09	0.07	0.15
Net income margin	0.12	0.07	0.09	0.01	0.12
Return on Equity	0.63	0.38	0.28	0.15	0.39
Liquidity Ratio	1.09x	1.17x	1.41x	1.68x	1.50x
Debt to Equity	2.29x	2.64x	1.77x	1.05x	1.49x

Ownership structure of the company before and after the offer:

Shareholder	Before Offering		After Offering	
	No. of shares	Percent	No. of shares	Percent
Splash Holdings Inc.	557,312,243	99.99%	522,312,243	70.00
Rolando B. Hortaleza	1	0.00		0.00
Rosalinda B. Hortaleza	1	0.00		0.00
Susan M. Loyola	1	0.00		0.00
Maurice P. Ligot	1	0.00		0.00
Allue Krisanne A. Hortalieza	1	0.00		0.00
Jimmy T. Yaokasin	1	0.00		0.00
Rizalino D. Rivera	1	0.00		0.00
IPO Investors (Public)	-	0.00	223,848,107	30.00
Total	557,312,250	100%	746,160,357	100.00%



STATEMENT OF INCOME	2004	2005	2006	1H06	1H07
Net Sales	2,662	2,693	2,399	1,168	1,220
Cost of Goods Sold	1,151	1,256	1,093	550	549
Gross Profit	1,511	1,437	1,306	618	671
Operating expenses	(1,122)	(1,217)	(1,085)	(593)	(493)
Other income/Charges					
Interest expense	(49)	(54)	(63)	(30)	(28)
Reversal of excess provision			60		
Foreign exchange gain	8	(14)	(7)	(2)	(1)
Interest expense	6	32	3	2	0.5
Others	35	4	3	17	24
Income before inc. tax	389	189	217	12	173
Provision for inc. tax	69	2	11		-29
NET INCOME	319	196	205	10	144

Balance Sheet

	2004	2005	2006	1H07
Assets				
Current Assets	872	1,189	1,382	1,569
Non-Current Assets	788	702	633	614
Total Assets	1,660	1,891	2,014	2,183
Liabilities	1,155	1,371	1,288	1,309
Current Liabilities	799	1,018	979	1,050
Non-current Liabilities	356	353	308	259
Stockholders' Equity	505	520	727	874
Liabilities & SH Equity	1,660	1,891	2,014	2,183

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