CFO Case Study 2018

A detailed report addressing the issues facing AB InBev

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Table of contents:

Executive Summary: Introduction

Beer is usually a refreshing beverage enjoyed on a hot summer's day with no contemplation of the massive corporate world that is the crux of its existence. Anheuser-Busch InBev is the largest brewer worldwide. They control the main breweries such as Inter Brew in Belgium and Anheuser-Busch in the US. The companies' growth strategies are built around mergers and acquisitions and they saw an opportunity to gain market share in unchartered territories that they have not been able to penetrate before, the African market. Thus, the introduction of the potential NewCo merger. With great power however, comes great responsibility as well as great risk. Therefore, many issues could arise in the integration of these two leading brands as well as within the two separate companies.

Terms of Reference

The purpose of this report is to identify and prioritize the key issues facing AB InBev and to recommend appropriate solutions to the board.

Identification and Prioritization of Key issues

The criteria used to determine the priority of each issue is based on the *likelihood* of their occurrences and the strength of their potential impact on Ab InBev, their ability to produce profits and their reputation.

1. **Deal Funding Strategy and Group Financial Performance**

AB InBev needs to decide what the best financing method will be, between debt and equity, for the settlement payment to SABMiller. The decision needs to take all stakeholders into consideration. AB InBev's debt levels are already quite high, however using equity can result in the dissatisfaction of shareholders due to potential dilutions.

2. **Africa Direct Entry via Nigeria**

The main issue is the risk that the merger with SABMiller can fail due to regulatory clearances not being met or AB InBev's shareholders not approving the merger. The potential profitability of the FDI in Nigeria needs to be investigated.

3. **Integration, Synergies and Execution Risk**

Cost and revenue synergies do not outweigh the cost to integrate. Post-merger integration issues such as job losses, culture issues and monopolistic concerns are also under consideration.

4. **Environmental Hazard in China**

AB InBev's negative impact on the environment by means of pollution is a concern as well as the lack of integrity and unethical behaviour portrayed by the staff.

5. **B2B and Downstream Supply Chain Strategy in South Africa**

The supply chain structures cost effectiveness needs to be evaluated as more expenses are incurred in B2B supply chains thus making B2C supply chains of direct retailing the more profitable option.

Key Recommendations

1. **Deal Funding Strategy and Group Financial Performance**

AB InBev should rather use equity than debt to fund the merger as it will be more beneficial in the long run.

2. **Africa Direct Entry via Nigeria**

AB InBev should ensure that they comply with all the regulatory clearances to merge with SABMiller. They should also consider investing in the FDI in Nigeria as it will generate positive future net inflows.

3. **Integration, Synergies and Execution Risk**

AB InBev should reconsider their cost and revenue synergies as they do not exceed cost of integration and the timeframe of the integration project needs to be adjusted. Post-merger issues need to be taken into consideration and action plans need to be implemented to address these.

4. **Environmental Hazard in China**

AB InBev should accept responsibility for the damage, implement correction and future prevention steps for the damage. Ethical codes should be adapted and monitored.

5. **B2B and Downstream Supply Chain Strategy in South Africa**

B2C supply chain strategy of direct retailing incurs less costs and greater profit margins than B2B and should thus be focused on more as well as moving more towards e-commerce.

Detailed Report

This part of the report will focus on the issues that require attention of the board of director's and they have been prioritized in order of likelihood and impact.

Detailed findings and recommendations:

1. Deal Funding Strategy

In this scenario the main issue described is the method AB InBev needs to use to fund the deal. The company wants to make use of either debt or equity to pay SABMiller. The main issues concerning the deal funding strategy:

1. **Deal funding strategy**

While companies generally finance their operations through a mixture of debt and equity, looking at total debt or net debt of a company in isolation does not give us an overall accurate impression. Since a specific amount of debt may be to the detriment of one company yet barely affect another, analyzing how big a portion of the capital employed consists of debt gives a more faithful representation of the company's well-being.

While debt can swiftly provide for a short-to-medium-term growth phase, the long-term benefits of acquiring the correct equity partner can prove to be vital in attaining the businesses' long-term growth plans, often by means of synergy cost savings and revenue synergies.

2. **Debt Issue Analysis**

a.) Gearing ratio/Debt to capital ratio

This ratio measures the company's financial leverage. Financial leverage shows us to what extent the company uses debt and equity to finance its operations.

The higher the debt-to-capital ratio, the more risk (APPENDIX 1: Weakness) is placed on the company as more debt is used for financing. AB InBev's ratios for 2013 and 2014 respectively are 47.04% and 48.51%. (APPENDIX 2) Compared to the industry average of 49% this does not seem too bad, however the company had set a goal in 2014 to keep this ratio below 40%. If AB InBev decides to finance the merger by means of debt this decision will cause this ratio to increase and could potentially be to the detriment of AB InBev's goals.

b.)Debt Ratio

This ratio measures the proportion of total assets financed by the firm's creditors. It shows us how much external financing is used to create profit. The higher the percentage, the more we depend on other people's money to generate profit.

AB InBev's debt ratio is substantially high, which means that the company has a lot of debt relative to its assets. AB InBev thus needs a lot of financial resources to cover its interest payments. Their debt ratio also increased with 1% (19.09%-18.09%) from 2013 to 2014.(APPENDIX 2)

c.) Financial leverage

This measures the company's ability to cover its financial responsibilities. It shows us to what extent the company uses liabilities and debt to finance its assets. The high leverage indicates that the company's assets are primarily financed by debt and liabilities. This will lead to a higher risk and return. The financial leverage also increases with only 0.04 (2.84-2.24) (APPENDIX 2) from 2013 to 2014.

d.) Interest coverage

This ratio measures the firm's ability to make contractual interest payments. When the ratio is low, it means that we are overleveraged. When the ratio is high it means we have enough operating profit to cover our interest payments. Only when the ratio is below 1.0, will the company not be able to meet its interest obligations. AB InBev's interest coverage ratio also increased with 0.39 (8.01-7.08) (APPENDIX 2). Therefore, the company is more than able to cover its interest payments.

3. Dividend growth and payouts

A number of considerations go into interpreting the dividend payout ratio where the most important part is the company's level of maturity. This ratio is the percentage of earnings paid to shareholders.

AB InBev's dividends ratio increased from 2014 to 2015 with 0.12 %. (APPENDIX 2) They also want to grow their dividends per share by 10% in the upcoming years but only had an increase of 0.12% in the preceding years. Using equity to finance could further dilute these dividend pay-outs.

Debt	
Pro's	Con's
1. Retain control as the bank does not play a role in decision-making or gaining ownership.	1. An increase in interest payments, which could negatively influence the company's profitability.
2. Interest expense incurred on loans will reduce the taxable income thus less income tax will be incurred.	2. A result of the increased interest payments will lead to a reduction in Earnings Per Share, which could discourage our shareholders as their return on shares will decrease.
3. Financial plans can be easily made when you know exactly how much principal and interest you will pay back each month.	3. Times interest earned will also be influenced adversely. As the interest increases, the ratio will decrease. This could result in the company not being able to cover its interest obligations.
	4. Credit ratings are already negative and will only become worse if the deal is financed with debt.
	5. Debts need to be repaid within a certain timeframe; this could place the entity in a difficult position if it experiences cash flow problems.
	6. Debt could hinder the growth of the business since A InBev will have to use part of the revenue to repay debt instead of reinvesting it in the company.

Equity	
Pro's	Con's
1. The main advantage is that the company does not have that obligation to pay back that money as it does with debt financing. If the business does not generate enough profits they do not need to pay an ordinary dividend for that year.	1. If the entity decides to keep total dividends payout the same it will need to dilute the DPS it is paying out as there are more shareholders and in turn diluting the happiness of its shareholders.
2.Good credit ratings will be easier to achieve by means of equity financing as there is no obligation to be paid to a third party.	2. Increasing the number of shareholders also means that the entity will have to pay more dividends and retain less profit in order to keep all shareholders happy.
3.Equity financing requires no monthly payments as are required with debt financing thus the entity has more capital at its disposal to invest in growing the business.	3. It will be difficult to convince investors to bankroll the deal, as all the risk will be given to the investors.
4. In the business environment there will be partnerships formed as well as more knowledgeable individuals interacting with each other and this will lead to an advantage in the network of the business.	4. The price to pay for equity financing and all of its advantages is that you need to share control of the company between all shareholders.

Recommendations:
When deciding whether to use debt or equity to finance the deal, we need to look at the optimal capital structure to ensure that the decision will increase the value of the company.
The board needs to consider the overall profitability as well as the well-being of the company and they also need to keep their shareholders content.

When comparing all the pros and cons, it is obvious that the pros of equity outweigh the pros of debt. Although debt will be more beneficial to the shareholders in the short term, as it will not negatively affect their dividend pay-outs as much as equity financing would, using debt will have more fatalistic consequences in the long run. The debt ratings are already negative and will only become more unfavourable.

If management decides to use debt for the deal funding strategy, the break-even point is raised by the fixed costs (interest) of the company.
During hardships in the financial periods of a company, the risk of insolvency will be increased by the high interest costs. Companies with a high leverage ratio will find it difficult to grow due to the high costs they incur in servicing the department. A business can be limited by the amount of debt it can carry, as the larger its debt-equity ratio, the more risky it will be considered by potential and existing lenders and other creditors. (APPENDIX 1)

If management decides to use equity for the deal funding strategy, they would be acting in the best interest of the shareholder in the long run. Thus, no agency problem will arise, as there is no conflict of interest between the agent (managers) and the principal (shareholders).

In conclusion, we recommend using equity to funding the merger.

African Direct Entry via Nigeria

1.What if the transaction fails with SABMiller:

The financial risk is the payment of a fee without gaining any benefits of it. AB InBev will need to pay a termination fee of US$3 billion if the necessary approval for the transaction is not obtained. AB InBev will not gain anything from this settlement. It should be a priority to avoid this.

AB InBev will still have a rival with which they will need to compete in order to remain number 1 in the world if they do not merge with SABMiller. If AB InBev wants to gain shares in the South African Market, they will have to merge with less successful companies, which could be even more risky (as merging is the business strategy to grow).

Fortunately, a back-up plan is already in place if the merger fails, AB InBev can make use of the alternative route into Africa via Nigeria.

a. Requisite regulatory clearances:
Barriers to enter into the South African market :

- AB InBev will need the approval from the European Commission to have merger regulation clearance. The Commission's major concern is that the merger will lead to a too monopolistic beer market, where NewCo will have control over pricing. One of the prerequisites of the Commission is that NewCo will have to sell SABMiller's beer business into Europe. This would be a disadvantage for AB InBev, as the primary goal was to grow with the merger, selling SABMiller brands would defeat the point. The Commission is also concerned that the merger will cause an important competitor to be eliminated.
- In terms of South Africa's foreign exchange control measures, SABMiller is required to obtain permission for the transaction from the South African Minister of Finance and the South African Reserve Bank.
- The South African government also wants to enforce a requirement on Newco to spend over US$5million in the next 5 years which will go towards developing local suppliers as well as moving South Africa from a net importer to a net exporter for the primary raw materials in the brewing industry.

- Tax officials can also block the merger, as the merger will cause SABMiller's income to flow out of South Africa into other countries, which will mean that the SA government will have less tax income.
- Competition Commission South Africa: Barriers to entry enforced by the Competition Commission create a restrictive environment for dominant firms to abuse their positions or firms to coordinate without threat of competition. Examples of abuse of power are market allocation, price fixing, restrictive vertical practice and price discrimination. If the two largest brewers in the world combine forces they could easily abuse their power.
- BEE Regulations in SA; Public interest criteria

b) Inability to obtain the approval of AB InBev Shareholders:
The shareholders are already unhappy with the offer that AB InBev made to SABMiller to merge, as they believe the transaction is overpriced. AB InBev will also make use of debt and equity to reimburse SABMiller as they do not have enough cash to finance it, which will lead to a higher debt ratio, and result in lower pay-outs for shares if they decide to finance by means of debt. (Scenario 1)
The share price is already in jeopardy, as it only increased by 1.8% (which is far under the required) when AB InBev announced the offer.

Mergers also always result in retrenchments; this is also one of the reasons why AB InBev shareholders would not fully support the fusion. In the past, huge mergers like this one, had a low probability to be successful, shareholders would rather not take the risk for the merger to be unsuccessful than the opportunity to grow.

2. Africa Direct Entry via Nigeria issue

It is important for management to decide whether they want to invest in the FDI in Nigeria, as they need to dismiss any unnecessary costing. If the merger is successful, it is recommended that AB InBev should reconsider any investment in the FDI as they will already have a foothold into Africa via SABMiller beer brands. If the merger would fail, having direct entry into Nigeria could only be beneficial as AB InBev will now be in the same beer market as SABMiller.

One of the risks to consider is the highly competitive environment in Africa, as Nigerian breweries dominates the local market. It is clear that Nigerian beer drinkers strongly support local brands.

Whichever outcome, it will be top priority of AB InBev to invest into Africa, as Africa has a fast growing beer market which will be an important contributor to the company's growth.

AB InBev has already incurred costs of US$101.5 Million of sunk costs (APPENDIX 3) that cannot be undone in terms of research and other costs for the FDI in Nigeria. However, using the Net Present Value of the investment into Nigeria it can be clearly seen that the future potential cash flows more than make up for this with an NPV of US$8,636,096,206.26. (APPENDIX 3)

Recommendations :
To address the shareholders concern's AB InBev should re-evaluate the pros versus the cons. The board should set out a 10 year expectation as to what the company anticipate to achieve with the merger and reassure shareholders that the long term advantages compensate for short term expenses.

To address the concerns of the European Commission, NewCo. will have to sell some of SABMiller's beer brands. They will need to identify the popular brands, and sell the rest to their rivals. Selling these brands will also solve the competition related concerns in the market, as the buyers of SABMiller brands will automatically become bigger and the competition in the beer market will level back to normal.

The NPV of the FDI in Nigeria is US$8,636,096,206.26 which is desired as it is a rather large and positive amount (APPENDIX 3). A positive NPV indicates that the net income of the investment is more than the net outflow generated by its operations thus indicating that the investment in FDI is very profitable.

Integration, synergies and execution risk

Synergies can be seen as the incentive behind pursuing mergers and acquisitions as revenues can increase due to increased market power and cost reductions. These cost reductions are a result of increased efficiency arising from eliminating repeated processes such as in areas of recruitment and marketing and from consolidating production facilities and suppliers.

1. **The Newco Integration Project - Cost and revenue synergies vs. cost to integrate**

As seen in Appendix 4, the costs to integrate (105.79 billion) far exceed the expected combined cost and revenue synergies (10.64 billion). Some investors felt that AB InBev overpaid for the deal according to a market survey as it was the largest acquisition the company had ever considered thus far.

Shareholder value: growth expected has not been achieved thus far. AB InBev's share price rose only by 1.8% when the deal was announced not by the 25% that was expected and this has not been corrected at this point.

The merger has an expected timeframe of 4 years for completion but upon analysis of the integration costs and performance data (APPENDIX 4) it is evident that this is not going to be realised in 4 years as planned. When comparing the ETC (Estimate to complete) that is given at the midway-milestone to the EAC (Estimate at Completion) it can be seen that 50% progress has not been made in all areas and more time could be required.

2. **Unfair competitive advantage – too monopolistic**

If AB InBev and SABMiller combine forces to form NewCo it could lead to a monopolistic market. A monopolistic company will dominate the market and will have almost exclusive control over supply of beer. This master supplier could also have control over prices. It will also be very difficult to enter the market as NewCo will have sovereign power over the market. There could be very little or even no competition, as barriers block new entry into the market, possibly resulting in a decrease in innovation. Further mergers are expected, as other companies need to get similar economies of scale, scope, and leverage with distribution, to survive in the industry which can become a threat for NewCo if other smaller companies also gain larger market share and control.

3. **Problems in SA after merger**

Job losses and cultural stress: (APPENDIX 1)
Post-merger management tends to be so focused on the financial and operational aspects of the merger and culture management generally becomes a lower priority. The human element is more important than it seems as human resource issues are responsible for a lot of merger failures.

Employees from SABMiller might have reduced morale post-merger if the corporate culture changes a lot due to AB InBev taking over. This could occur with the job losses due to the Strategic Head Count Reduction and Retrenchment Programme to reduce costs and enhance efficiencies. Employees from the subordinate company (SABMiller) might be inclined to have increased stress levels as they no longer have job security and significantly lower job satisfaction.

As SABMiller is the acquiree, it has been proposed that they would need to resolve this redundancy issue by retrenching some of their employees. Thus, unemployment levels in South Africa will rise tremendously (6433 employees in South Africa) which will be to the detriment of the South African economy as unemployment is already a large issue.

Recommendations:

Managing corporate culture post-merger:
Integration is the best way to manage corporate culture post-merger as this retains the cultural identity of both identity companies' InBev and SABMiller should develop a culture change plan that addresses all possible cultural issues that can be encountered from the merger. Progress regarding cultural integration should be sustained and monitored.

Job redundancies: The South African government should intervene in this aspect by prescribing conditions for the merger that protect the South African employees. They can require that AB InBev

retain at least a certain % of employees or provide them with proper retrenchment packages to support them for a decent amount of time to compensate for their loss.

They should also require that all employees that are retrenched due to these redundancies be kept on a list as first preference for job openings for the next year or two at least.

NewCo should strongly support local South African suppliers in the sourcing of raw materials used in their production and assist their growth.

NewCo can use their power as the leading global beer brand to move South African from a net importer to a net exporter by supporting local suppliers and using their raw materials in other countries production as well.

The integration plan should be adjusted to a more accurate timeframe and the cost and revenue synergies need to be re-evaluated as they are not feasible.

AB InBev needs to sell SABMiller's interest in MillerCoors in the USA in order to address the monopoly issue and the concerns of the regulator.

Environmental Hazard in China

Environmental hazard in China

The major issues facing AB InBev are:

1. The delay in opening up the new facility in China as a result of the protests regarding environmental issues. AB InBev has disposed of building-waste materials in a nearby river which is affecting the surrounding wildlife and river water.
2. The CPE's unethical behaviour on addressing the matter is also of concern as he does not act with integrity or professional behaviour. He makes false statements and avoids corrective action as he is only trying to make the issue go away, not resolve it.
3. The protestors have also caused a lot of negative publicity for AB InBev and this could adversely affect their reputation if not approached and dealt with timeously and ethically.

Recommendations:

When a company needs to address an issue like this a number of factors come into play. The harmful effects of certain actions can never be undone and in a lot of instances businesses just want to "throw money at the problem" to make it go away, however this does not accurately address the issue. Corrective actions need to be taken to best resolve the issue as well as implementing plans for future to prevent the same problems occurring again.

- Social media can be used as a tool in restoring the company's reputation as it can easily reach a wide target audience.
- A press release should be arranged in response to the protest actions to communicate to the public that the company does intend to address the matter and to convey the company's plan of action to do this. In doing so, the company holds themselves accountable and creates transparency in their actions as they will be scrutinized if they do not stay true to their word.
- Corporate social responsibility: As the global leader in brewing, AB InBev has an environmental footprint that extends worldwide and with great power comes great responsibility. AB InBev should thus take advantage of this power by developing and sharing best practices and implement actions that make a genuine, lasting difference. The company has a responsibility towards society to make efficient use of natural resources. Water is a finite resource that needs to be preserved and a principal ingredient in the company's products and we therefore need to strive towards sustainable and responsible water use.

The water pollution:

- Firstly, the company needs to stop the source of pollution by finding an alternative way to dispose of the waste materials that is not harmful.
- Secondly, management should implement technological innovations to build infrastructure that can treat contaminated water on a large scale.

- Management should revise their ethical policies and procedures to ensure that all possible issues can be addressed.
- The Code of Ethics (APPENDIX 5) can be used as a framework. Management should then ensure that all employees comply with the relevant code of ethics implemented by the company. Procedures should be in place for non-compliance such as disciplinary action.

5. B2B and Downstream Supply Chain Strategy in South Africa

B2B: Commerce between two businesses
B2C: Commerce between a business and a customer (Direct retailing)

1. The impact of the ever growing buyer power on group profitability (APPENDIX 7)

Buyer power is essentially the ability of a buyer to obtain more favourable buying terms than would be possible in a fully-competitive market. The more buyers there are in the market the more power they have over suppliers. Customers have quite a bit of bargaining power and can affect market share by way of their support, marketing, and promotions depending on the incentives offered by the manufacturer.

With the merger however, NewCo will be able to reduce this bargaining power of buyers again a bit as they will gain a larger portion of the market share (APPENDIX 7). For end-user consumers there would be reduction in barriers to entry as they will have greater choice which is actually in contradiction to Porter who believes that choice would be reduced. However, there will only likely be an increase in choice of NewCo brands, while limiting the choice on other brands. Consumers' power over the two companies as individuals however is greater than their power over NewCo as it has much more market power as one unit.

2. High cost of servicing major supermarket customers in Africa

The cost of servicing major supermarkets in Africa can be quite high as can be seen in the customer profitability analysis (APPENDIX 6). **B2C** is far more profitable **(US$2 098 745 500)** than B2B **(82 671 350+34 974 270+66 486 400= US$ 184 132 020).** When using Activity Based Costing, it can be seen that certain costs are being incurred for B2B that do not need to be incurred with direct retailing(B2C) such as making sales visits and processing purchase orders which can be eliminated when using just B2C. Making B2C more profitable.

3. Lack of adequate shelf space given relative to rivals

As the leading brewer in South Africa SABMiller wants to have way more shelf space than its rivals, as what consumers see is what they might be more inclined to buy. This shelf space however has to be paid for and this is not always desired as it is a cost that needs to be incurred. The bigger a company is the more shelf space it will tend to take up relative to its rivals. NewCo will ultimately take up more space as it will have both AB InBev products as well as SABMiller products on the shelves ultimately resulting in more sales.

4. Inaccurate sales forecasts

Inaccurate sales forecasts due to fluctuations can cause improper planning/budgeting of resources. This can result in cash flow problems if too much materials are ordered and resources on hand could become obsolete before they are used resulting in losses.

Recommendations:

- In improving on losses due to inaccurate sales forecasts Enterprise Resource Planning systems can be implemented to reduce inaccuracies
- Just-In-Time Inventory systems increase efficiency and decrease waste and obsolete inventory levels and thus improve cash flows
- E-commerce: when retailing directly to customers this method can save a lot of costs due to lack of sales visits, purchase orders processing, etc. thus a lot of costs can be saved on. Concerns of lack of adequate shelf space can be taken away as no shelf space is needed, everything can be advertised and sold via a website.

- Shifting towards more direct retailing to customers and less servicing of supermarkets reduces a lot of costs
- Introducing new technologies can reduce the cost of a lot of cost generating activities.
- B2B Infrastructure: Management can plan to integrate their business system with the systems of their suppliers and logistics partners so that they can manage purchasing, stockholding and distribution efficiently.

Conclusion

The above five issues are considered the most likely and urgent matters that need to be attended to, by the board of directors. Appropriate recommendations relating to these issues have been included.

Appendices:

Appendix 1: SWOT Analysis

INTERNAL	
STRENGTHS	WEAKNESSES
👍 Global leader of the beer industry. 👍 Core competencies in marketing, distribution, production & procurement. 👍 Excellent manufacturing facilities worldwide. 👍 Cost advantages due to synergies from M&A's.	👎 Low cash flows and high debt levels. 👎 All efforts focused only on beer while consumption trends are moving to other alcoholic beverages 👎 Merger integration issues e.g. work culture.
EXTERNAL	
OPPORTUNITIES	THREATS
☺ Further M&A's could strengthen the position of the company. ☺ Expansion into new markets in Africa. ☺ Expand product lines for new areas & to accommodate changes in taste and preference. ☺ Integration forwards & backwards i.e. downward supply-chain. ☺ Selling beer in developing markets (Asia, Africa, Australia)	☹ The merger could result in other larger beer companies considering acquisitions in order to compete. ☹ Tax regulations and requisite regulatory clearances. ☹ Trying to enter new markets where people are very loyal to their local brands e.g. SA & Nigeria ☹ Existing brands may have to be eliminated due to as antitrust regulators in the U.S

Appendix 2: Ratio Analysis

Current vs. Goals (Million US dollar)		
Ratios	**2014**	**2013**
Debt ratios		
Gearing Ratio/Debt to capital ratio $= \frac{D}{D+E} \times 100$	$= \frac{43\,630+41+7451}{(43\,630+41+7451)+54\,257} \times 100$ $= \frac{51122}{105379} \times 100$ =48.51%	$= \frac{41\,274+6+7\,846}{(41\,274+6+7\,846)+55308} \times 100$ $= \frac{49\,126}{104\,434} \times 100$ = 47.04 %
Debt Ratio$= \frac{Total\ Liabilities}{TotalAssets} \times 100$	$= \frac{61\,085+27\,208}{124\,009+18\,541} \times 100$ $= \frac{27208}{142\,550} \times 100$ = 19.09%	$= \frac{60\,731+25\,627}{122\,976+18\,690} \times 100$ $= \frac{25\,627}{141\,666} \times 100$ =18.09%
Financial Leverage $= \frac{Total\ Assets}{Ordinary\ share\ equity}$	= 2.81	= 2.85
Interest coverage $= \frac{Operating\ profit}{Interest}$	= 7.08 times	= 8.01 times
Profitability ratios		
Earnings per share $= \frac{Profit\ for\ year - preferred\ dividends}{\#ordinary\ shares\ issued}$	= US$ 5.54	= US$ 8.72
Shareholders interest ratios		
	TTM	**2014**
Dividend Growth $= \frac{Present - Past}{Past} \times 100$	$= \frac{3.49-3.25}{3.25} \times 3.25$ = 7.38%	$= \frac{3.25-3.03}{3.03} \times 3.03$ = 7.26%
Total Shareholder Return $= \frac{Change\ in\ Market\ price + Dividends}{Initial\ stock\ price}$	$= \frac{(111-110)+3.49}{110} \times 100$ = 4.08%	$= \frac{(110-95.39)+3.25}{95.39} \times 100$ = 18.72%

Appendix 3: NPV

1. Sales NGN				2. Cost of production and selling			
Year	**Selling price per batch**	**Batches sold per year**	**Total sales revenue**	**Year**	**Production and selling costs per batch**	**Batches produced per year**	**Total costs of sales**
1	= 286 050	1000 000	286 050 000 000	**1**	= 35 600	1000 000	35 600 000 000
2	=300 352.50 (286 050 x 1.05)	1500 000	450 528 750 000	**2**	= 39 160 (35 600 x 1.10)	1500 000	58 740 000 000
3	= 315 370.13 (300 352.50 x 1.05)	3000 000	946 110 375 000	**3**	= 43 076 (39 160 x 1.10)	3000 000	129 228 000 000
4	= 331 138.63 (315 370.13 x 1.05)	2600 000	860 960 441 250	**4**	= 47 383.6 (43 076 x 1.10)	2600 000	123 197 360 000
5	= 347 695.56 (331 138.64 x 1.05)	1500 000	521 543 344 218.75	**5**	= 52 121.96 (47 384 x 1.10)	1500 000	78 182 940 000

3.Special Packaging Material				4.Training and development		
Year	**Cost (US$100 x NGN350)**	**Batches**	**Total Costs**	**Year**	**Calculation (x production and selling costs)**	**Total Costs**
1	= 35 000	1000 000	35 000 000 000	**1**	80% x 35 600 000 000	28 480 000 000
2	= 36 750 (35 000 x 1.05)	1500 000	55 125 000 000	**2**	20% x 58 740 000 000	11 748 000 000
3	= 38 587.50 (36 750 x 1.05)	3000 000	115 762 500 000	**3**	0% x 129 228 000 000	0
4	= 40 516.88 (38 587.50 x 1.05)	2600 000	105 343 875 000	**4**	0% x 123 197 360	0
5	= 42 542.72 (40 516.88 x 1.05)	1500 000	63 814 078 125	**5**	0% x 78 182 940 000	0

5. Depreciation			6. Profit on sale of asset		
Year	**Calculations**	**Total**	**Description**	**Calculation**	**Total**
1	70 000 000 000 x 0.10	7 000 000 000	Cost price – accumulated depreciation – selling price	70 000 000 000 – (5 x 7000 000 000) -28 000 000 000	7 000 000 000
2	70 000 000 000 x 0.10	7 000 000 000			
3	70 000 000 000 x 0.10	7 000 000 000			
4	70 000 000 000 x 0.10	7 000 000 000			
5	70 000 000 000 x 0.10	7 000 000 000			

Sunk costs
Study: US$ 1mil + **Strategy cost:** US$ 100 mil + **Lagos investigation:** US$0.5 mil = **US$101.5mil**

Calculating Net Inflow per Year					
Year	1	2	3	4	5
Sales (1)	286,050,000,000	450,528,750,000	946,110,375,000	860,960,441,250	521,543,344,218.75
Cost of Sales	(99,080,000,000)	(125,613,000,000)	(244,990,500,000)	(228,541,235,000)	(141,997,018,125)
Cost of production and selling(2)	35,600,000,000	58,740,000,000	129,228,000,000	123,197,360,000	78,182,940,000
-Special Packaging material (3)	35,000,000,000	55,125,000,000	115,762,500,000	105,343,875,000	63,814,078,125
-Training and development cost (4)	28,480,000,000	11,748,000,000	0	0	0
Gross profit	186,970,000,000	324,915,750,000	701,119,875,000	632,419,206,250	379,546,326,093.75
-Depreciation (5)	(7,000,000,000)	(7,000,000,000)	(7,000,000,000)	(7,000,000,000)	(7,000,000,000)
+Profit on sale of asset (6)	0	0	0	0	7 000 000 000
= EBIT	179,970,000,000.00	642,831,500,000.00	694,119,875,000.00	625,419,206,250.00	379,546,326,093.75
-Tax@25%	(44,992,500,000)	(160,707,875,000)	(173,529,968,750)	(156,354,801,562.50)	(94,886,581,523.44)
= Net operating profit	134,977,500 000.00	482,123,625 000.00	520 589,906 250.00	469,064,404,687.50	284,659,744,570.31
+Depreciation	7,000,000,000	7,000,000,000	7,000,000,000	7,000,000,000	7,000,000,000
=Operating Cash In/(Out)flows	141,977,500,000.00	489,123,625,000.00	527,589,906,250.00	476,064,404,687.50	291,659,744,570.31

Conversion of NGN to US $		
Year	**Calculation**	**Answer**
1	141,977,500,000 ÷ 350	$405,650,000.00
2	483,123,625,000 ÷ 350	$1,397,496,071.43
3	527,589,906.25 ÷ 350	$1,507,399,732.14
4	476,064,404,687.50 ÷ 350	$1,360,184,013.39
5	291,659,744,570.31 ÷ 350	$833,313,555.92

NPV Calculation		
Year	Calculation	PV per year
0	(140 000 000 000 + 2 000 000 000) ÷ 350	(405 714 285.70)
1	$= \frac{405,650,000.00}{(1+0.10)^1}$	368,772,727.27
2	$= \frac{1,397,496,071.43}{(1+0.10)^2}$	1,154,955,430.93
3	$= \frac{1,507,399,732.14}{(1+0.10)^3}$	1,049,959,482.67
4	$= \frac{1,360,184,013.39}{(1+0.10)^4}$	1,029,574,299.67
5	$= \frac{833,313,555.92}{(1+0.10)^5}$	935,976,636.06
NPV	Sum of 5	**$8,636,096,206.26**

Appendix 4: Integration cost synergy analysis

Integration costs and performance data									
	Strategic cost engineering theme	**1 BAC US$M**	**2 BCWS US$M**	**3 BCWP US$M**	**4 ACWP US$M**	**5 SV%**	**6 CV%**	**7 EAC US$M**	**8 ETC US$M**
A	Procurement and engineering: raw materials and packaging	80	40	2	50	-95%	-2400%	2000	1950
B	Alignment of brewery, bottling and shipping productivity	120	60	15	100	-75%	-566.67 %	800	700
C	Staff cost management, best practice sharing and efficiency improvements	70	35	40	50	+14%	- 25%	87.5	37.5
D	HQ/Regional Office Costs	20	10	10	48	+0%	- 380%	96	48

Cost Synergies (Post Tax)								
	Strategic cost engineering theme	**Strategy / strategic initiative**	**KPI Targets (per annum)**	**KPI Forecast Schedule Variance on 31/10/2018**	**Cost per annum**	**1 BAC US$ mil**	**2 BCWS US$ mil**	**3 BCWP US$ mil**
					KPI Targets p.a * Cost	**Cost per annum * 4 years**	**Cost per annum * 2 years**	**BCWS * KPI Forecast Schedule Variance**
A	Procurement and engineering: raw materials and packaging	Reduction in number of orders @ **US$ 2100 per order**	108000	-95%	108 000* $2100 = US$ 226 800 000	907.2	453.6	430.92
B	Alignment of brewery, bottling and shipping productivity	Reduction in cycle time between brewery, bottling and shipping @ **US$ 3 900 per hour**	436000	-75%	436000 * 3 900 = US$ 170040 0000	6801.6	3400.8	2550.6
C	Staff cost management, best practice sharing and efficiency improvements	Reduction in staff size @ **US$ 140 000 per employee**	3200	+14%	3200 * 140 000 = US$ 448000 000	1792	896	1021.44
D	HQ/Regional Office Costs	Costs saved from collapse SABMiller corporate office in London into AB InBev's in Brussels and save corporate taxes in SA.	US$ 748000 00	+0%	US$ 748000 00	299.2	149.6	149.6

Calculations (Integration costs and performance data) :

$BCWS = BAC \times 50\%$ $\quad$ $SV\% = (BCWP - BCWS) / BCWS \; x \; 100$

CV% = $\frac{BCWP - ACWP}{BCWP} \; x \; 100$ $\quad$ EAC $= \frac{BAC}{BCWP/ACWP} \; x \; 100$ $\quad$ $ETC = EAC - ACWP$

Cost-benefit analysis of the merger				
	Cost synergies (post tax) US$ Millions	**Revenue synergies (post tax) US$ Millions**	**Integration costs US$ Millions**	**Cost of merger**
Calculations	A = 907.2 B = 6801.6 C = 1792 D = 299.2	$(160 + 11 + 20 + 15 + 4) \; x \; 4 \; years$	A = 80 B = 120 C = 70 D = 20	105.5 billion
Total	9800	840	290	105.5 billion
	Total benefit= 10 640 000 000		Total cost = 105 790 000 000	
The cost by far outweighs the benefit				

Appendix 5: Code of Ethics (based on the Fundamental principles of the CIMA Code of Ethics)

Fundamental principle	
Integrity	• An employee should be honest, diligent and responsible in all professional and business relationships. • The business and its employees should not associate themselves with any information that is believed to contain a materially false or misleading statement or which is misleading by omission.
Professional behaviour	• An entity and its employees should comply with relevant laws and regulations • No action should be taken that could negatively affect the reputation of the profession or the business.
Objectivity	• The employees should not allow bias, conflict of interest or the influence of other people to override their professional judgment
Professional competence and due care	• Employees should have an ongoing commitment to their level of professional knowledge and skills.
Confidentiality	• Employees should not disclose professional information unless they have specifically have permission or a legal or professional duty to do so.

Appendix 6: Customer profitability analysis

Customer Profitability Analysis				
Customer				
	Top 3 Supermarkets			Direct retailing
	Shoprite	Pick n' Pay	Makro	
	US$	US$	US$	US$
Sales revenue (before discounts and returns)	580 000 000	240 000 000	1 080 000 000	7 000 000 000
Cost of goods sold	(464 000 000)	(192 000 000)	(864 000 000)	(4 830 000 000)
Gross profit margin (20; 20;20;31)(%)	116 000 000	48 000 000	216 000 000	2 170 000 000
Customer-level operating costs:	(33 328 650)	(13 025 730)	(149 513 600)	(71 254 500)
Average discount given (3;2;8;0)(%)	17 400 000	4 800 000	86 400 000	0
Damaged products returned (%of sales revenue) (2.1;2.0;3.4;1)	12 180 000	800 000	36 720 000	70 000 000
Making a sales visit	82 200	102 750	1 493 300	0
Processing a purchase order	873 200	38 480	1 124 800	0
Making a "standard" delivery	2 340 000	7 155 000	13 545 000	1 125 000
Making a "rush" delivery	453 250	129 500	10 230 500	129 500
Customer profitability	82 671 350	34 974 270	66 486 400	2 098 745 500

Appendix 7: Porter's Five Forces of Competitive Analysis