THE AB INBEV 2018 CASE STUDY PACK

(5 Scenarios For You To Resolve For The Board)

Researched, Designed and Developed by:

Grooming financially qualified business leaders

Contents

NB: This pack contains the ONLY 5 scenarios to be solved and included in your report. Before you proceed, please ensure you have read and understood the background case study, published separately and titled **'Anheurser-Busch InBev [AB InBev] and SABMIller: Would Strategic Benefits Come Easily With ''Newco''?**

1. INTRODUCTION

The CFO (Chief Financial Officer) is an international, annual multi-stage business strategy and leadership-focused case study competition organised by The CharterQuest Institute South Africa. It challenges university students around the world to prove they can compete at the highest level: by solving a set of complex and integrated finance, operational and strategic problems that beset a real-world global business in the emerging markets.

CharterQuest is a global institute with local and international students, at the forefront of grooming financially qualified business leaders of tomorrow, working alongside global professional bodies such as: the South African Institute of Chartered Accountants (SAICA), the Association of Chartered Certified Accountants (ACCA), the Chartered Institute of Management Accountants (CIMA) and the CFA Institute; underpinned by 3 core values:

- **Rectitude**: Always act ethically and muster the courage to do what is right.
- **Exceptionalism**: Aim for exceptional standards for our employees and customers.
- **Determination**: Observe teamwork in our relentless pursuit of stakeholder promises.

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2. ASSESSMENT CRITERIA

We seek to highlight the centrality of teamwork, creativity, presentation skills, business acumen as well as the value of taking a holistic and strategic approach to management. The CharterQuest Competency Framework for *grooming financially qualified business leaders* will guide the report marking as below:

PROBLEM SOLVING ACUMEN	Finance & Technical	Diversity, Business, Entrepreneurial	Ethics & People	Presentation (incl. Question & Answers)	Innovation & Integration	Decisiveness & Leadership	Total
Strategic analysis *(Prioritisation & focus)*	5%	10%					**15%**
Strategic choice (*Impact & options evaluation)*	10%	10%	10%	10%	5%		**45%**
Strategic implementation *(Recommendation & Actions)*			5%	10%	5%	20%	**40%**
	15%	20%	15%	20%	10%	20%	**100%**

For best practice interpretation and application of the above marking grid, it is crucial that teams and mentors access samples of good reports, examiner's comments and also watch our *'Master Class Videos'* 1 of 2 Scene 1 of 3, 2 of 3 and 3 of 3 in our Case Study Resources section.

3. SUBMISSION FORMAT AND RULES

In addition to the standard Competition Rules, your final report should be in English Language, not more than 15 pages (or 4000 words, inclusive of appendices) and must not contain any text, sound or images that we, in our sole opinion, find vulgar, offensive or inappropriate for public viewing. Reports with attachments must be submitted ONLY by the team leader as a single document/file in pdf/acrobat and no more than 5MB, through the same CFO account you used to register. Submission deadline is 30 April, 2018 at midnight, without any exceptions. You will receive an automatic message to confirm that upload was successful. Once you submit, no communication is allowed until we announce. The submitted report should be the original work of the team members alone and should not contain internal information from any other organisation. You may be disqualified and other penalties applied in case of any violations.

4. DISCLAIMER AND WARNING

The case study is based on the 2015 AB InBev acquisition of SABMiller and attempts to simulate the strategic decisions its Group CFO and the Board faced (or potentially faces). While the facts cited are intended to re-create the general circumstances that exist or once existed, this case study has been adapted for the purpose of **The CFO Case Study Competition 2018** and now provides a hypothetical situation. Apart from the background case study we provided separately, all data presented in these scenarios are for illustrative purposes only and do not necessarily represent current or historical events or projections from any of the companies cited therein. *Whilst you are encouraged to research publicly available information about Ab InBev and SABMiller and familiarize yourself with the industry, you are ONLY allowed to apply this in your analysis (or include this in your report) if any of the data so gleaned from public sources do not contradict the background case study and/or any information presented in these scenarios.* Any discussion with the staff, associates or competitors of any real life companies comparable to the case company is strictly prohibited and is cause for disqualification. You are not allowed to discuss the case with anyone other than your mentor (who must be formally registered on 'The CFO' portal).

5. THE REQUIREMENT

Throwback -and assume today is 1 May, 2016!

The AB InBev Board of Directors meets next week. Your task is to identify and define the main problem (s) in each scenario, prioritise and evaluate these, including the embedded ethical dilemmas –where applicable, and provide strategic advice. You are accordingly required to produce and present such report directly to the AB InBev Board.

NOTE:

Your report should focus on the following 5 separate yet highly interconnected problems/issues scenarios. These scenarios have been broadly defined -and deliberately so, to allow a considerable degree of good judgment in deciding the core matters your report must address. A separate tutorial article has been published in our 5th edition of The Future CFO Magazine; you may find it helpful. It's FREE! Subscribe and Download Now!

5. THE CASE SCENARIOS *(Your Task/For ACTION)*

Issue/Scenario: Africa Direct Entry via Nigeria

As part of the SABMiller offer, AB InBev had agreed to pay a reverse breakup fee of US$3 billion in the event that the transaction fails to close as a result of any two of the following factors: failure to obtain all the requisite regulatory clearances, or, the inability to obtain the approval of AB InBev shareholders. The fees was to be double this sum, if AB InBev decided to walk away on its own accord –or, for any other reasons not linked to the responsibilities of SABMiller to provide all the access and support that AB InBev would need to conduct any pending due diligence, or any special inquiries necessary to advance the deal towards a successful close.

As the strategic rationale for the acquisition was to help AB InBev to gain a foothold into Africa –the only region it had not yet gained any presence, the group had, prior to making the SABMiller offer, considered (and are still considering, in case the SABMiller deal failed to close) alternative paths into Africa -through a Foreign Direct Investment (FDI) in Nigeria. The investment will be part of a strategy to initially challenge the Nigerian Breweries and Guinness Nigeria, both of whom currently control the beer market, but also take on the same SAB Miller in that country before launching an attack against other SABMiller's strongholds in South Africa, Ghana, Zambia as well as other African countries.

Nigeria is one of the most populous countries in the world, according to United Nations; the country is set to become the world's third largest population by 2050. Nigeria's beer market is also growing significantly than any other African country and is the second largest beer consumption market on the African continent –after South Africa. AB InBev recently commissioned and paid US$ 1million for a study which produced the following market share and forecast data about batches of drink sales (average of beer, craft, soft drinks, wines, spirits) in Nigeria:

Brewery companies in Nigeria	Current Market	Forecasted market share				
		Year 1	Year 2	Year 3	Year 4	Year 5 and growing at 12% onwards
No of batches of drinks produced and cold (in millions)		20	24	32	39	45
Diageo (Guinness Nigeria Plc)	21.2%	22%	22%	19%	18%	15%
Heineken (Nigerian Breweries Plc, Consolidated Breweries)	52.5%	51%	50%	48%	45%	40%
SABMiller (Pabod Breweries, Standard Breweries, Voltic)	18.6%	16%	12%	8%	5%	3%
Castel (International Breweries)	5.1%	6%	6%	5%	6%	5%
AB In Bev	0%	3%	8%	19%	23%	30%
Others	2.9%	2%	2%	1%	3%	7%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

To support its direct entry strategy, AB InBev had paid a further US$ 100 million for the initial ground work that will form the key pillars of its marketing and competitive strategy to win market share from local rivals, some of which are global brands operating through defined subsidiaries in the Nigerian market and across Africa. The marketing strategy, underpinned by its sustainability strategy, focusses on delivering a 'A better

world', anchored around 3 core pillars: ''(1) A **growing world** where everyone has the opportunity to improve their livelihoods -most especially, our barley farmers who grow the agricultural inputs we need, their communities as well as small scale entrepreneurs and retailers of our drinks; (2) **A cleaner world** where natural resources are shared and preserved for the future, with a focus on water access and security across our markets; (3) A **healthier world** where every experience with beer is a positive one for lives well lived, extending and expanding our Global Smart Drinking Goals, to help ensure the harmful use of alcohol is reduced significantly and measurably across all of our markets.''
The data below is a breakdown of how the US$100million was spent:

	Amount (US$ million)
Sponsorships:	
• Payment to local private university to sponsor research on the harmful effects of alcohol in general and the specific ingredients used to produce its beers.	**20**
• Payment towards securing rights to sponsor the Nigerian Football (Premier) League.	**5**
• Payment to local brewery industry trade body towards campaigns for industry self-regulation.	**10**
Billboards and digital marketing:	
Payment for the design and erection of marketing billboards and social media campaigns around areas where its youth and millennial market segment frequently visit (e.g. facebook, youtube, schools and universities)	**60**
Market Research	
Payment to local research consultancy to recommend how the 'Smart Drinking Goals –'ensure no – or lower – alchohol beer products represent at least 20% of AB InBev's global beer volume by the end of 2025,' can be adopted for Africa to meet its main aim of increasing the overall size of the beer market through an expanded range of products.	**5**
Total	**100**

The FDI that AB InBev planned to execute, entailed setting up a NGN140 billion manufacturing capacity in Nigeria to also cater for export sales to other countries in the West African Region. An initial investigation costing US$ 500,000 had established that just outside of Lagos, there are appropriate brewery facilities, adequate transport links and a reasonably skilled but cheap work force. The investigation also concluded that an entry into Africa through Nigeria will give AB InBev an advantage over its competitors for a period of 5 years, after which the current project will cease, due to the development of new advance brewery technologies; but that such an initial foothold will allow AB InBev, after the initial five years, to open up more manufacturing facilities to meet demand in Nigeria, and also explore further strategic moves in the form of other FDIs in other African countries, including South Africa, for an estimated amount of US$200 billion.

The CharterQuest Institute has compiled the following data relevant to the Africa Direct Entry via Nigeria:

Currency of Nigeria	Nigerian Naira (NGN) and working/reporting currency of AB InBev is US$
Exchange Rate (at the time of SABMiller Offer)	NGN 350 per US$1
Current rate of inflation	15% in Nigeria and 2% in Belgium and these will be same into the foreseeable future
Initial investment (required immediately)	NGN140 billion (Land and buildings –NGN70 billion; and Machinery – NGN70 billion)
Tax allowable depreciation on machinery	10% on cost on a straight-line basis, with balancing adjustment required at the end of five years when machine is expected to be sold for NGN28 billion (after inflation)

Market value of land and buildings in five years	80% of the current value (this is inclusive of any tax impact)
Working capital requirements	NGN2billion at year 1 and no further injections needed; and working capital will be released back to fund future operations in Nigeria.
Nature of production	In batches of product mixes.
Current selling price per batch	NGN286,050, increasing at 5% per annum
Batches produced/sold each year	(Y1) 1,000,000 (Y2) 1,500,000 (Y3) 3,000,000 (Y4) 2,600,000 (Y5) 1,500,000
Costs relating to producing and selling each batch	NGN35,600, increasing at 10% per annum
Special packaging materials	US$100, increasing at 5% per annum
Training and development costs, related to the production of batches	80% of the production and selling costs (excluding the cost of special packaging) in the first year, before falling to 20% of these costs (still, excluding the cost of special packaging) in the second year, and then nil for the remaining years.
Current annual corporation tax rate	25% in Nigeria and 20% in Belgium (tax in both countries payable in the year the liability arises). A bilateral tax treaty exists between the two countries which permits offset of overseas tax against any liabilities Ab In Bev incurs on overseas earnings.
Risk-adjusted cost of capital applicable to the project on US$-based cash flows	10% and this is considerably higher than the return on short-dated US$ treasury bills of 5%
Standard deviation associated with the project cash flows in Nigeria and rest of Africa	25%

Issue/Scenario: B2B and Downstream Supply Chain Strategy in Southern Africa

In the global brewery industry, the biggest changes in supply chain practices are driven by some of the largest customers of the brewers –supermarkets and wholesalers. These groups are often at the forefront of downstream supply chain developments, always seeking to leverage both their technical expertise and their ever-flexing buying power, to drive changes in warehousing, transport and systems for the brewing companies. The AB InBev Board is concerned about the impact of this ever-growing buyer power on group profitability, envisioning that SABMiller acquisition will help flip back the bargaining power over these major wholesalers and supermarkets to the advantage of Newco.

A major challenge SABMiller has hitherto faced however, is the inaccurate sales forecasts, lack of adequate shelf space given to its products relative to rivals and the high cost of servicing some of the major supermarket customers in Africa. The AB InBev Board knows too well that success at this will contribute towards realising the anticipated cost synergies, and are considering 4 strategies to deal with the least profitable supermarkets, starting with a pilot study on the Top 3 supermarkets and direct retailing to customers, as part of the overall integration project: (1) Stop selling to the least profitable supermarkets –if they wish to sell Newco's products, these supermarkets have to buy them through a wholesaler; (2) Persuade the supermarkets to reduce the number of cost-generating activities; (3) Venture into retailing direct to consumers; and/or (4) Introduce new technologies to reduce the cost of the cost-generating activities.

The CharterQuest Institute has compiled forecast data for next year relating to the Top 3 supermarkets, and venturing into retailing direct to consumers:

Supermarkets data (US$ millions)

Forecast for the next year	Notes	Top 3 Supermarkets			Direct Retailing
		Shoprite	Pick n' Pay	Makro	
Sales revenue (before discounts and returns) (US$ millions)	1	580	240	1,080	7,000
Average discount given (%)		3	2	8	0%
Number of sales visits made		120	150	2,180	0
Number of purchase orders processed	2	5,900	260	7,600	0
Number of standard deliveries made	3	1,040	3,180	6,020	500
Number of 'rush' deliveries made	4	70	20	1580	20
Damaged products returned (% of sales revenue)	5	2.1	2.0	3.4	1%

Operational cost data:

Forecast averages for the next year	Cost data (US$)
Making a sales visit	685
Processing a purchase order	148
Making a 'standard' delivery	2,250
Making a 'rush' delivery	6,475

Notes:

1. The prices charged to supermarket customers are calculated to generate a gross profit margin, before any discount, of 20% for supermarket customers; this will be 31% for direct retail customers;
2. Purchase orders are paper documents, specifying items and quantities required, and the expected date of delivery;
3. A 'standard' delivery is one that is ordered and scheduled in the normal way, that is, at least 24 hours before the delivery is required;
4. A 'rush' delivery is one that is ordered and scheduled for delivery on the day of the order. This normally happens as a result of unexpected high demand, causing a super market to run out of stock, or due to a customer error in calculating order quantities; and
5. Customers are given a full refund for all damaged goods. These goods cannot be re-used or resold.

Issue/Scenario: Integration, Synergies and Execution Risk

The Board of AB InBev had prior to tabling their offer to SABMiller, appointed The CharterQuest Institute to quantify the potential revenue and cost synergies arising from the deal. AB InBev has in the past used a planning horizon of 2 years to fully integrate and realise all synergies from acquisitions, but it is well aware that the acquisition of SABMiller is the single biggest acquisition it has ever undertaken, so, it had revised its planning horizon to 4 years, with an estimated total cost of US$290 million for the implementation - to be incurred in 4 advance instalments, in line with the envisaged integration schedule for the acquisition, and the realisation of all synergies.

On announcing the offer, AB InBev's share price rose by only 1.8%, far below the 25% expected - and to date, this is still not corrected. A separate market (investor) survey revealed that some investors felt AB InBev had overpaid for the deal; yet many others felt despite its past successful acquisition and integration track record, the SABMiller were far too large and complex to successfully realise the envisaged synergies; or if realised, it would be over a horizon much longer than the even the 4 years revised horizon. The plan was to obtain all regulatory approvals for the deal to close and allow for integration to commence by 3 October 2016, so that by 3 October 2018, the integration process will be 2 years in full swing -with 50% (2 of the 4 years) of the project integration costs incurred -and the cost synergies realised.

The CharterQuest Institute has compiled the following data pertinent to this analysis:

Newco Integration Project (integration costs & performance data –all figures in US$ millions)

	Strategic cost engineering theme	Strategy/strategic initiative	1	2	3	4	5	6	7	8
A	Procurement and engineering: raw materials and packaging.	Implement an upstream supply chain strategy that combines and centralises procurement, including JIT – **cutting down number of orders** and forcing down prices, by exploiting stronger bargaining power arising from bigger size and scale.	80	?	2	50	?	?	?	?
B	Alignment of brewery, bottling and shipping productivity.	Implement Business Process Re-engineering (BRP) including Enterprise Resource Planning (ERP) -to better synchronise operations, outbound logistics, marketing and sales as well as customer service, thereby **reducing the cycle time between brewery, bottling and shipping.**	120	?	15	100	?	?	?	?
C	Staff cost management, best practice sharing and efficiency improvements.	Strategic Head Count Reduction and Retrenchment Programme.	70	?	40	50	?	?	?	?
D	HQ/Regional Office Costs.	Collapse SABMiller corporate office in London into AB In Bev's in Brussels and save corporate taxes in South Africa.	20	?	10	48	?	?	?	?

Cost synergies (post tax)

	Strategic theme.	Cost Driver/Key Performance Indicator (KPI).	KPI Targets (per annum) .	KPI Forecast Schedule Variance (SV)% on 3/10/2018.	1	2	3
A	Procurement and engineering: raw materials and packaging.	Reduction in number of orders @ US$ 2100 per order.	108,000	-95%	?	?	?
B	Alignment of brewery, bottling and shipping productivity	Reduction in cycle time between brewery, bottling and shipping @ US$ 3900 per hour.	436,000	-75%	?	?	?
C	Staff cost management, best practice sharing and efficiency improvements.	Reduction in staff size @ US$ 140,000 per employee.	3200	+14%	?	?	?
D	HQ/Regional Office Costs.	Costs saved from collapse SABMiller corporate office in London into AB In Bev's in Brussels and save corporate taxes in South Africa.	US$ 74,800,000	+0%	?	?	?

Revenue synergies (post tax)

	Strategic initiative	Revenue synergies per annum
Growing our global brand: Leveraging the strength of Corona, Stella Artois and Budweiser to form a distinct image, customer positioning and strong connections in the Africa Market through SABMiller's distribution channels.	Yet to be developed.	US$160 million
Cross sales of SABMiller's Castle and Castle Light beers in Europe, North and South America.	Yet to be developed.	US$11million
Premiumizing and invigorating bear: Creating excitement and aspiration around beer for the rapidly growing millennial consumers in Africa.	Strategic Marketing Campaign ('Smart Drinking Goals'!)	US$20million
Elevating the core: Raising the perception and relevance of our core beers - compelling differentiation messaging, programmes conveying the unique character and quality of our brands, and large-scale activations.	Yet to be developed.	US$15million
Developing the near beer segment: More consumer choice and excitement – innovative products that offer malt beverage and alternatives, expanding share of local alcohol market.	Yet to be developed.	US$4 million

Earned value conventions

1	BAC	Budget At Completion	Estimated integration cost budget (and cost savings) over the 4-year planning horizon.
2	BCWS	Budgeted Cost of Work Scheduled	Targeted integration costs (and cost savings) at the mid-way milestone -3/10/2018.
3	BCWP	The Budgeted Cost of Work Performed	Forecasted integration costs (and cost savings) at the mid-way milestone -3/10/2018.
4	ACWP	Actual Cost of Work Performed	Projected integration costs at the mid-way milestone - 3/10/2018.
5	SV%	Schedule Variance %	Estimated schedule deviation encountered in executing the integration/synergies.
6	CV%	Cost Variance%	Estimated deviation in integration costs encountered in executing the integration/synergies.
7	EAC	The Estimate At Completion	Estimated integration costs to be incurred by end of integration.
8	ETC	The Estimate To Complete	Estimated integration costs yet to be incurred from midway to the end of integration.

Other Data:

AB InBev's Cost of Capital	10%
Average share price of SABMiller just before the Offer	US$61 per share

Anti-competitive and Other Concerns

The combined company which would now have a market share consisting of approximately 80% of the US market would be problematic for that country's department of justice, as it would give the new group an unfair competitive advantage and create a monopoly in the market. However, AB InBev reacted first and announced on 11 November 2015 that it was going to sell SABMiller's interest in MillerCoors in the USA, to address any concerns of the regulator; yet, some analysts believed that the process of obtaining anti-trust clearance from jurisdictions around the world could easily take up to 12 months. Any breweries becoming available as a result of Newco having had to sell them, opened up acquisition possibilities for breweries such as Heineken, Carlsberg and Diageo, which now faced increased competition from Newco.

On the South African front, there are now heightened fears that the merger would lead to tax revenue losses as SABMiller, one of the country's biggest corporate taxpayers, had paid ZAR15.68 billion in taxes in the

2014/15 tax year. In accordance with South Africa's foreign exchange control measures, SABMiller would have to obtain permission for the transaction from the South African Minister of Finance and the South African Reserve Bank (SARB). Whether AB InBev would allow SABMiller to retain its listing on the JSE was cause for concern for some stakeholders, considering that it was the largest company on the JSE, with a market value of US$94.2 billion. Brito however had laid these concerns to rest in November 2015, when he confirmed that Newco would continue to have a secondary listing on the JSE.

Furthermore, the South African government is seeking to impose a requirement that Newco spends over US$5million in the next 5 years, developing local suppliers and moving South Africa from a net importer to net exporter of the primary raw materials to the brewery industry. A recent investigation shows that in anticipation of the stronger bargaining power of Newco, the major suppliers have counteracted by forming an industry body that will bargain with Newco on behalf of their membership.

The strategic consulting firm, EVA, as well as SAP (the German Software firm) that was to implement the Business Process Re-engineering (BPR) and the Enterprise Resource Planning (ERP) aspects once the deal closed, have revised their cost estimates and indicated they cannot yet plan their availability as there was still considerable uncertainty as to whether and when the deal was to close and allow them to commence with the project.

Trade unions, on the other hand, were more concerned about the possibility of job losses among SABMiller's 6 433 employees in South Africa. "We know that AB InBev wants to reduce its cost structure in South Africa and job losses would be inevitable," noted Food and Allied Workers Union (FAWU) representative, Katishi Masamola. The SABMiller Group HR Director, HRD, has on the request from AB InBev, provided some proposals on how it could go about implementing a Strategic Head Count Reduction and Retrenchment Programme (SHCRRP) to **reduce costs and enhance efficiencies,** without inviting labour unrest once the deal closed. It is proposed that all 8 SABMiller Divisions should each declare 400 redundancies, saving a total of US$448 million per annum (US$140,000 * 3200 employees). Each Divisional General Manager (DGM) should choose who will lose their job and notify them –with preference given to employees over the age of 50 and who are earning higher salaries or at least the average of US$140,000. It is believed that the participation of the DGMs in the programme will have a positive effect on them, and this could lead to savings in later years which would exceed the estimated US$448 saving each year that was to arise from the programme.

Issue/Scenario: Environmental Hazard in China

AB InBev has been developing its largest brewery facilities in the world to date in China which is due to commence production in 3 months. The project has encountered some major difficulties with local protesters claiming that the contracted construction workers on site have been discarding building waste materials in a nearby river. They claim wildlife has been affected and that the water has become polluted and the situation has aroused the interest of the local media.

The Chief Project Engineer, Li Wang, has confirmed that some waste from the site was not disposed of in the correct way but has reported to senior management that the issue is not AB InBev's responsibility. Li Wang proposed to issue a press release stating that AB InBev is taking appropriate action, but regards the issue as a minor one and does not intend to pursue it. So far, the protests have only delayed the opening of the facility by a maximum of one week and Li Wang is anxious not to risk increasing the delay.

Issue/Scenario: Deal Funding Strategy and Group Financial Performance

When Carlos Brito, CEO of AB InBev on 11 November 2015, presented his final (cash) offer of US$105.5 billion (£69.8 or £44 pounds per share) which SABMiller accepted, analysts agreed that in order to finance the transaction, AB InBev's Group Treasury would probably have to do it by way of debt and equity, since the company only had cash levels of US$6.8 billion (as per its last quarter, which ended on 30 June 2015).

In September 2015, the media reported that AB InBev had visited various banks just prior to approaching SABMiller. Reacting to this, retail analyst Phalguni Soni commented: "Given the company's higher debt levels to finance the acquisition, its credit rating of A and A2 by credit rating agencies, Standard & Poor's and Moody's Investor Service, respectively, would likely be affected." In the short term, a negative for AB InBev shareholders could be a possible reduction in dividend pay-outs following the merger. After the acquisition of InBev in 2008, AB InBev had made reduced dividend pay-outs in order to lower its debt levels.

The company last set its 5-year strategy in January 2014 in which it re-adopted key tenets of its corporate strategy -acquisitions, acquisitions, acquisitions: (1) undertake Mergers and Acquisitions (M&As) whenever growth starts to slow down (2) prioritise cash to pay for acquisitions ahead of special dividends or share buy backs (3) integrate acquisitions to realise cost and revenue synergies ahead of schedule. To maximize shareholder value, its overarching aim, it had set the following 3 key financial objectives:

(1) Grow Dividends Per Share (DPS) by 10% year-on-year;
(2) Deliver Total Shareholder Returns (TSR) of 14% year-on-year; and
(3) Keep gearing (debt/debt + equity) below 40%.

The CharterQuest Institute has compiled the following data pertinent to this issue:

Share price at close of 2013, 2014; and Today	US$ 95.39; US$ 110; and US$111
Cost of debt (Kd or i) Today	6.10%
After tax cost synergies (per annum)	US$ 2,450 million
After tax revenue synergies (per annum)	US$210 million
Industry average gearing (D/D+E)	49%

=====================================**The END**================================