

Merger between brahma and antarctica essay sample



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1. SWOT analysis

Brahma Antarctica

Strengths: The largest producer; Improved productivity; strategic with foreign producers; Two independent distribution Weaknesses: Low volume of sales of nonbeer products; Antitrust restriction Opportunities: Positive volume growth of beer sales; New and attractive market Threats: Rising foreign firms' competition; Tariffs elimination; Rising imported ingredients cost

Strengths: Brazil's second-largest brewer and its largest soft-drink producer; World- famous brand; Expansion of production capacity(in the long term) Weaknesses: Sales decline; lack of a customer focus; regional distribution; Expansion of production capacity(in the short term); low efficiency; high levered Opportunities: Positive volume growth of beer sales; New and attractive market Threats: Rising foreign firms' competition; Tariffs elimination; Rising imported ingredients cost

Since Antarctica was high levered and decline in sales, a merger would make sense. The value will generate from cost savings and enlarged market shares. 2. No. MOE is the combination of two firms of about the same size to form a single company. In a merger of equals, shareholders from both firms surrender their shares and receive securities issued by the new company.

Brahma and Antarctica didn't have the similar market size; Brahma apparently had a higher market value. In this case, Brahma would use some of its stock shares to exchange Antarctica's but no the new company's shares will be issued. 3. In our estimation, the stand-alone value of Antarctic is R\$49. 04 per share. The value of synergies is R\$53. 55 per share.

The maximum price per share I would pay for Antarctica is R\$102. 59 per share. See the calculation in Appendix a. 4. The stand-alone value of Brahma is R\$841. 67 per share. This valuation is bigger than market price. That might be because of the fact that the Brazilian market is pretty not liquid, its market price can be far from its intrinsic share price. We cannot summarize the decomposition of Brahma to acquire Antarctica because we do not know the offer price. That makes the premium unavailable to us. From the difference between stand-alone valuations of Brahma and Antarctica and their market prices, we may infer that the Brazilian market is illiquid. The market price cannot reflect the on-going daily changes in the companies as well as in the market. See the calculation in Appendix a. 5. The intrinsic stock price of Antarctica and Brahma, by using ECF method, are R\$132. 99 and R\$879. 54 respectively. They are higher than the ones in Q3 and Q4. 6. See appendix b.

7. The merit of paying by stock is it does not need to increase company's debt and would not cause any liquidation issues. On the other hand, paying by cash is a quicker way than by stock. It would not cause earnings dilution and ownership loss. Moreover, paying by cash can produce tax shield to the company. In this case, FAHZ held 88. 1% of Antarctica's voting common stock and it was exempt from taxation. Besides, delays in the process may threaten the survival of Antarctic. So FAHZ preferred a cash offer. On the other hand, Brahma's stock price might be undervalued, so the amount of consideration to be paid may change depend on the form of payment. 8. Using the exchange ratio (Brahma: Antarctica) of 0. 096: 1, which implied

R\$61. 20 per share, the deal is dilutive both on historical basis and on future basis (from 2000 to 2004).

The synergies that are necessary to make the deal break-even for each year from 2000 to 2004 are R\$134. 74, R\$144. 60, R\$133. 61, R\$114. 92, R\$86. 68 (all in millions) respectively. See Appendix c. 9. Assuming the exchange ratio is X: 1. Number of new company's shares= Number of Brahma's shares+ Number of new issued shares= 6, 907, 600+ X*12, 000, 000. In order to keep control of the company, the number of the stakes of both Garantia and Telles has to be bigger than 50% of the number of new company's shares: $(3, 522, 876+462, 809) > (6, 907, 600+X*12, 000, 000)*50\%$. $X < 0. 0886 10$. Assuming the exchange ratio is X. The synergy brought by Antarctic should be larger than the loss of Brahma's equity value due to the new issued stakes: $642. 5 \geq 5807. 5*(1-6. 9/(6. 9+12X))$. $X = 0. 071$ Synergy is the main factor that the exchange ratio sensitive to. The exchange ratio includes acquisition premium.

11. The average historical stock price of Antarctic and Brahma are 63. 3 and 657. 2 respectively. The historical natural exchange ratio is $63. 3/657. 2 = 0. 0963$. The NewCo's P/E ratio can be derived from the peer companies: $(23. 2+20. 1+17. 9)/3 = 20. 4$ Assuming ER= Exchange Ratio, S= Number of outstanding shares. The basic requirement of Brahma's stockholders can be considered as: $P_{New} = P/E_{New} * EPS_{New} \geq P_B$. Substitute $EPS_{New} = (NIB+NIA)/(SB+SA*ERB)$ in formula above, we get: $ERB \leq 0. 29$ For Antarctic, the basic condition is $P/E_{New} * EPS_{New} * ERA \geq P_A$. Like what we did above, substitute $EPS_{New} = (NIB+NIA)/(SB+SA*ERB)$ in the formula, we get: $ERA \geq 0. 044$

These exchange ratios don't include acquisition premium.

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12. Based on the relative contribution analysis (Appendix d), the ownership that Brahma should have is: $(70\%+87\%+93\%)/3= 83\%$. Assuming the exchange ratio is X. $6.9 / (6.9+12X) = 83\%$ X= 0.117

13. Basing on a stand-alone valuation ranges for both companies, we got an implied exchange ratio of 0.105. See calculation in Appendix e.

14. &15.

Term sheet

Parties Brahma(buyer); Antarctica(target)

M & A Type Merger

Name of NewCo AmBev

Acquisition of Outstanding Antarctica Equity Securities Brahma would acquire 100% of the outstanding equity securities of Antarctica Means of Payment Stock for Stock

Exchange Ratio 0.096: 1 (Brahma : Antarctica)

Tax Treatment Tax-deferred

Law governing Transaction Antitrust agency CADE

Headquarters Location Sao Paulo

Choice of CEO Marcel Herman Telles

Board Seats Banco Grantia(more than half); FAHZ

Union Relations Brahma's union takes the domination

Other issues should be included in the term sheet: transaction Expenses, confidentiality, "no talk" clause, employment agreement, dividend payments, executive appointment, effective date, etc. 16. Yes. There is a sequence order in the merger process so some of the terms have some kind of relevance. Other links are such like: the choice of headquarters location <https://assignbuster.com/merger-between-brahma-and-antarctica-essay-sample/>

and CEO should make for Brahma because Brahma wanted to show control power to the NewCo's employees and shareholders.