

**SYNERGY VALUATION OF PT INDOFOOD CBP SUKSES MAKMUR IN ACQUISITION TOWARDS
PT PEPSI COLA INDOBEVERAGES**

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Abstract .This research is conducted to evaluate whether decision made by PT Indofood CBP Sukses Makmur was the right thing to do to increase firm value through acquiring PT Pepsi Cola Indobeverages. Benefit consideration gained by PT Indofood CBP Sukses Makmur for this takeover are cost saving, time saving, and all resources ready to be used by the time this acquisition was established. It was a great opportunity for PT Indofood CBP Sukses Makmur as new player in Indonesian beverage market to also earned business network chain that PT Pepsi Cola Indobeverages used to have.Synergy value for this acquisition activity calculated from information in press-release news that has become expectation for company future target has resulted increasing. In 2012 synergy value amounts in Rp3,862,409,077,069 has increased to amounts Rp4,169,928,210,000 in 2015.Moreover, feasibility study of this proposed acquisition activity also tested with NPV and IRR calculation. NPV result for this proposed acquisition activity was Rp3,832,115,754,137 which means it was economically feasible and should be accepted. IRR result was 25.72%, higher than its Cost of Capital 23.96%, which means this project is potentially feasible to increase value of the firm and should be accepted. According to Pro-Forma Income Statement, if there is no change in annual increasing of percentage of sales, company's target to achieve net profit of Rp 5 trillion in year 2017 would not be able to be achieved. To suppress cost, PT Indofood CBP Sukses Makmur should targeting optimal sales target and efficient operating activity in which cost can be minimized.

Introduction

Mergers and acquisitions have been one of the most popular growth strategy for company to diversify its business network. From the strategic perspective, the main focus is about whether and how acquiring company will restructure the company, and how this activity will contribute to company's competitive advantage. Acquisitions can give the opportunity for company to develop through rapid expansion, significant economies of scale, competitive advantages, less vulnerability to market threads, and adding debt capacity. After acquisition process completed, company will going through expansion and also gaining more competitive advantages of what it doesn't have before besides minimizing weakness by complementing with each other. The evaluation of a merger or acquisition is measured by looking at acquiring company's capacity to bring in good conditions of integration to the acquired enterprise. An efficient company valuation including three considerations for company (Peterson 1990). The two of them are related to firm assets and firm earning power, represents with both earnings and cash flows. The third component is about the company's uniqueness, which determines the risks and desirability of firm's securities holdings.

Literature Review

When a company interested in acquisition plan, acquiring company will do evaluation of acquired company. The valuation result can be used as reference to negotiate future transaction process.

$$\text{Net Value} = V_{bt} - (V_b + V_t)$$

where

V_{bt} = value of both companies combined

V_b = value of bidder company

V_t = value of targeted company

Synergy is the additional value that is generated by combining two firms, creating opportunities that would not been available to these firms operating independently. The difference between the value of the combined firm with synergy and the value of the combined firm without synergy provides a value for synergy. There are two ways synergy between companies can be evaluated. The first is on a forward-looking basis, by looking at market reactions to acquisition announcements and gauging what the expected synergy value is and who gets the gains. The second is to track acquisition after it occur and evaluate the success of firms in delivering synergy gains.

$$\text{Synergy} = \text{Net Value} - \text{Net Cost}$$

Net Cost is total amount needed as payment for acquisition activity. It depends on share price at the day acquisition is executed.

$$\text{Net Cost} = \text{Cash} + VT$$

Cash = number of shares outstanding X share premium percentage

VT = implied price per share X number of shares outstanding

$$NPV = \text{Synergy} + VT$$

If $NPV > 0$, maximum cost to be spent will be equals to Net Value + V_t

Methodology

Data gathered for this research is from PT Indofood Consumer Branded Product Sukses Makmur Tbk. which is subsidiary food company of PT Indofood Sukses Makmur Tbk. PT Indofood CBP Sukses Makmur was established in January 2012. In June 2012, PT Indofood CBP Sukses Makmur published press-release that it will acquire PT Pepsi Cola Indobeverages. The methodology used for the research is information tracking for future potential added value generate from acquisition activity. Data gained from news and official press release of the company. Researcher use company target expectation as base for acquisition motivation.

Using synergy formulation, this research will calculate present value of gain about to be earned by the company in some future time. In period before acquisition activity, synergy value and net cost are used to calculate maximum price should be paid for acquisition. After calculating synergy value in post-acquisition period, the result can be compared to determine whether both parties involved are integrating and whether acquisition has been beneficial or not. Then, gap between synergy gain from before and after acquisition will be analyzed to assess performance and determine whether potential gain is truly earned or not. Synergy calculation can use Inflation Rate as discount rate to determine present value of future cash flow. Projects can be evaluated in terms of nominal costs and benefits expected at future times, embodying expected inflation. Then, discounting at rate that includes inflation rate will reduce inflated future value to its present value. (Pearse, 1990)

Findings

There are three scenarios to execute synergy valuation of an acquisition activity. Each of scenario is calculated in Present Value amount using different inflation rate as discount rate in Synergy gain valuation. First, is to use lowest rate of inflation rate as discount rate (in this research 5 years backward).

This scenario referred as Best Case scenario. Second, is to use actual inflation rate of that year as discount rate. This scenario referred as Base Case scenario. Third, is to use highest rate of inflation rate as discount rate (in this research 5 years backward). This scenario referred as Worst Case scenario. This table below using expected cash flow from information gathered as potential value of gain to be earned by company. This calculation assumed before acquisition activity execution in the past.

Issue	Best Case	Base Case	Worst Case
Expected Net Profit in 2020 (assuming 40% beverage market value)	Rp2,868,192,000,000	Rp3,258,086,400,000	Rp3,258,086,400,000
Acquisition Cost	Rp284,400,000,000	Rp284,400,000,000	Rp284,400,000,000
Total investment needed for acquisition activity	Rp145,000,000,000	Rp145,000,000,000	Rp145,000,000,000
Annual operating income expected to be earned after acquisition	Rp160,000,000,000	Rp1,064,016,000,000	Rp1,064,016,000,000
Gain (Present Value)	Rp3,892,702,400,000	Rp3,892,702,400,000	Rp3,038,696,000,000
Net Cost	Rp30,293,322,931	Rp30,293,322,931	Rp30,293,322,931
Synergy	Rp3,862,409,077,069	Rp3,862,409,077,069	Rp3,008,402,677,069

This table below used to calculate NPV value of acquisition activity:

Amount	Best Case	Base Case	Worst Case
Synergy	Rp3,862,409,077,069	Rp3,862,409,077,069	Rp3,008,402,677,069
VT	Rp562,691,500,000	Rp562,691,500,000	Rp562,691,500,000
NPV	Rp3,832,115,754,137	Rp3,832,115,754,137	Rp2,978,109,354,137

Since $NPV > 0$, maximum cost to be spent will be equals to Net Value + V_T

This table below used as reference for maximum price should be prepared to pay:

Amount	Best Case	Base Case	Worst Case
Gain	Rp3,892,702,400,000	Rp3,892,702,400,000	Rp3,038,696,000,000
VT	Rp562,691,500,000	Rp562,691,500,000	Rp562,691,500,000
Maximum Price	Rp4,455,393,900,000	Rp4,455,393,900,000	Rp3,601,387,500,000

Maximum price (assumed from Base Case) is Rp16,868.25 or \$ 1.78 per share.

Maximum price should be paid for this acquisition activity is Rp 4,455,393,900,000 or \$ 469,978,259.5

Post-acquisition performance can be assessed by seeing whether synergy created has been increasing/decreasing, and track back what brings it to increase/decrease. This table below using lowest rate of inflation rate used as discount rate (in this research 5 years backward) for Best Case scenario. Average past 5 years inflation rate used as discount rate in Base Case scenario. Slightly difference method implied because it is used to calculate present value of future cash flow. Highest rate of inflation rate used as discount rate (in this research 5 years backward) in Worst Case scenario.

Issue	Best Case	Base Case	Worst Case
Expected Net Profit in year 2020	Rp5,999,000,000,000	Rp5,651,058,000,000	Rp4,869,928,210,000
Investment for new production plant	Rp700,000,000,000	Rp700,000,000,000	Rp700,000,000,000
Gain (Present Value)	Rp4,951,058,000,000	Rp4,169,928,210,000	Rp3,311,531,300,000
Net Cost	Rp32,766,859,994	Rp32,766,859,994	Rp32,766,859,994
Synergy	Rp4,918,291,140,006	Rp4,169,928,210,000	Rp3,311,531,300,000

From calculations above, there is positive outcome as a result from acquisition activity. Synergy value created as result of business integration of both firms involved. In Common-Size Analysis, PT Indofood CBP Sukses Makmur Net Profit Margin decreased through years due to increased operating costs. Biggest contributor in Net Profit is Noodle division, and as this division has become mature business, PT Indofood CBP Sukses Makmur seek for opportunity in beverage market to add diversification in its business portfolio to anticipate future risk. Moreover, feasibility study of this proposed acquisition activity also tested with NPV and IRR calculation. NPV result for this proposed acquisition activity was Rp3,832,115,754,137 which means it was economically feasible and should be accepted. IRR result was 25.72%, higher than its Cost of Capital 23.96%, which means this project is potentially feasible to increase value of the firm and should be accepted. According to Pro-Forma Income Statement, if there is no change in annual increasing of percentage of sales, company's target to achieve net profit of Rp 5 trillion in year 2017 would not be able to be achieved. To suppress cost, PT Indofood CBP Sukses Makmur should targeting optimal sales target and efficient operating activity in which cost can be minimized.

Conclusion

It can be concluded that acquisition activity done by this company has been beneficial decision made. Synergy value added can be tracked down to some reasons. First reason is cost and time saving; acquiring company do not have to start business from the bottom, all transferrable resources are ready to be used by the time agreement is signed. Second reason is tax benefit gained from deduction due to acquisition activity. Larger share of the premium generated from excess income will get synergy benefit. Another reason is acquiring company will also own business supply chain network that acquired company used to have. It is a big deal especially when acquiring company is new player in the business.

Moreover, this research has proven that acquisition activity executed has been resulted relatively good result, since it has generated more synergy value within less than three years. In normal condition, it approximately takes three years at least for company to generate synergy value added in new business field. Other factors such as company reputation, income growth, and precise market targeting may influence success achieved by company in this research.

In 2012, acquisition activity of PT Indofood CBP Sukses Makmur towards PT Pepsi Cola Indobeverages is expected to create synergy in amounts of Rp 3,862,409,077,069. One main parameter can be used to categorize acquisition activity was the right decision is that the synergy amount is increased after acquisition happened. Increasing synergy amounts can be interpreted as value creation has been resulted by combining company brings impact to increase value of PT Indofood CBP Sukses Makmur. By the time this research is conducted, synergy of this acquisition activity has increased to amounts Rp 4,169,928,210,000.

According to Pro-Forma Income Statement, PT Indofood CBP Sukses Makmur has annual increasing percentage of sales in 15.8%. If there is no change in annual increasing of percentage of sales, even if new

factory plant is expected to increase annual sales in amounts Rp 772,413,800,000 company's target to achieve net profit of Rp 5 trillion in year 2017 would not be able to be achieved. Historical record shows reason why PT Indofood CBP Sukses Makmur is still earning lower net profit on year on year basis due to costs.

This project NPV value is < 0 , means that this project is acceptable. And IRR of this project is 25.72%, greater than Cost of Capital 23.96%. Therefore, this project is not only acceptable and feasible, but also can be seen as potential chance to improve value of company PT Indofood CBP Sukses Makmur. For transaction method, Cash Offer is chosen by PT Indofood CBP Sukses Makmur to pay for this acquisition process. This is the right method to do proven by NPV result of Cash Offer Rp3,832,115,754,137 is lower than NPV result of Script Offer Rp3,872,402,400,000.

To suppress cost, PT Indofood CBP Sukses Makmur should targeting optimal sales target and efficient operating activity in which cost can be minimized. This way, Operating Cost for each product can be reduced efficiently. However, PT Indofood CBP Sukses Makmur should be careful of arising potential of diseconomies of scale. The larger an organization becomes in order to reap economies of scale, the more complex it has to be to manage and run such scale. This complexity incurs a cost, and eventually this cost may come to outweigh the savings gained from greater scale. Therefore, it is safer to say that PT Indofood CBP Sukses Makmur should try to conduct economies of scope strategy instead. It is factors that make it cheaper to produce a range of products together than to produce each one of them on its own. Such economies can come from businesses sharing centralised functions, such as finance or marketing. Or they can come from interrelationships elsewhere in the business process, such as cross-selling one product alongside another, or using the outputs of one business as the inputs of another.

Further Discussion

This research has proven to company that acquisition activity done by this company has been beneficial decision made. This research will also help company to evaluate its performance within period after acquisition. Further discussion for this research is needed. It can be about how far company has gone in progress to achieved target, and evaluation whether resources available has been put in optimal capacity use. Back in 2012, Euromonitor record for world Compound Annual Growth Rate (CAGR) in non-alcohol beverage industry from 2008-2013 is 13%. Indonesian beverage market amounts to \$4 billion in 2011 and by 2020, it will potentially double. Therefore, company should form an effective business strategy to increase its market value proportion in Indonesian beverage market.

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