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Pernod Ricard Buying Fever-Tree: An Acquisition Proposal Evaluation

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Abstract

The present dissertation analyzes a potential acquisition of Fever-Tree by Pernod Ricard. Pernod Ricard is the world's second-largest wine and spirits company, aiming to become the leading producer by organic growth and M&A activity. Fever-Tree is a producer of premium alcoholic mixer drinks with a promising revenue outlook and a strong focus on key industry trends. The study includes a detailed analysis of the businesses themselves and the respective industries as well as an in-depth valuation of the separate entities and the two entities combined. The objective is to evaluate the acquisition price of Fever-Tree and whether the acquisition is value-creating or value-destructing. The analysis indicates that an acquisition under the current market is more difficult due to an overvaluation of Fever-Tree. The combined entity has a value of €63.816 mm, including synergies of €693 mm. For Pernod Ricard's shareholders, value is only created by an acquisition price below €1.996 mm, indicating an acquisition premium below 20%. Given the current market overvaluation, negotiations with the co-founders are recommended. If the negotiations are not successful, a tender offer is suggested, offering a 15% premium with a minimum of 51% of shares sold.

Keywords: Acquisition, Valuation, Synergies, Alcoholic Beverages Industry

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Abstrato

A presente dissertação analisa uma potencial aquisição da Fever-Tree pela Pernod Ricard. A Pernod Ricard é a segunda maior empresa de vinhos e bebidas espirituosas do mundo, com o objectivo de se tornar o principal produtor através do crescimento orgânico e da actividade de fusões e aquisições. A Fever-Tree é um produtor de bebidas alcoólicas de mistura de qualidade superior, com uma perspectiva de receitas promissora e uma forte orientação para as principais tendências do sector. O estudo inclui uma análise pormenorizada das próprias empresas e dos respectivos sectores, bem como uma avaliação aprofundada das entidades separadas e das duas entidades combinadas. O objectivo é avaliar o preço de aquisição da Fever-Tree e determinar se a aquisição cria ou destrói valor. A análise indica que uma aquisição no mercado actual é mais difícil devido a uma sobreavaliação da Fever-Tree. A entidade combinada tem um valor de €63,816 milhões, incluindo sinergias de €693 milhões. Para os accionistas da Pernod Ricard, o valor só é criado por um preço de aquisição inferior a €1,996 milhões, o que indica um prémio de aquisição inferior a 20%. Dada a actual sobrevalorização do mercado, recomenda-se a realização de negociações com os co-fundadores. Se as negociações não forem bem sucedidas, sugere-se uma oferta pública de aquisição, oferecendo um prémio de 15% com um mínimo de 51% das acções vendidas.

Palavras-chave: Aquisição, avaliação, sinergias, sector das bebidas alcoólicas

Título: A Pernod Ricard na compra da Fever-Tree: Uma Avaliação da Proposta de Aquisição

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1 Introduction

Pernod Ricard, the second-largest producer of spirits and wines, has the ambition of becoming the leading manufacturer in the industry. The company aims to achieve this goal through, among other things, value-increasing M&A. Fever-Tree, a producer of premium alcoholic mixer drinks, represents a good growth opportunity, allowing Pernod Ricard to capture major trends in the alcoholic beverages industry.

This thesis studies the hypothesis of Pernod Ricard acquiring Fever-Tree. In the scope of the current environment with high inflationary pressures, rising interest rates, and high uncertainty regarding the future economic outlook, firms should analyze accurately the worthiness of acquiring or merging with another company. This dissertation evaluates the two companies, their respective industries, the two companies combined, and the synergies resulting from an acquisition. The objective of this paper is to answer the question whether a takeover of Fever-Tree by Pernod Ricard is value-increasing or value-decreasing.

The thesis is structured as follows: Chapter 2 summarizes the academic literature on M&A and valuation methods; Chapter 3 provides an overview of the respective industries in which the companies operate; In chapter 4, a detailed analysis of the two companies is presented; In chapter 5, the rationale behind the deal is elaborated; Chapter 6 and 7 consists of a valuation of each company; In chapter 8, the combined entity is valued with a detailed analysis of the retrieved synergies; Chapter 9 contains an overview of the transaction and its parameters; The conclusion is presented in chapter 10.

2 Literature Review

2.1 Merger & Acquisitions

2.1.1 M&A Motives

In 2010, the total value of global M&A transactions equaled \$2.410,64 bn (Statista, Value of M&A transactions worldwide, 2023). In 2021, completed M&A transactions worldwide reached an aggregate value of \$5.857,38 bn. The value of global M&A deals has risen significantly over the past decades leading to an increasing impact on the economy and industries. These market developments lead to the question: What are the motives behind companies doing mergers and acquisitions? M&A motives can be grouped into two classifications, value-increasing and value-decreasing (Nguyen, Yung, & Sun, 2012).

Value-increasing M&As intend to benefit from synergy by integrating two or more business units of two merging companies (Bradley, Desai, & Kim, 1988). Synergy is defined as the “additional value that is generated by combining two firms, creating opportunities that would not have been available to these firms operating independently“ (Damodaran, 2005). Damodaran (2005) distinguishes between operating synergies and financial synergies. Operating synergies are synergies that give the company the opportunity to improve its operating income from existing assets or increase growth, such as economies of scale, greater pricing power, the combination of different functional strengths, or higher growth in new or existing markets. On the other hand, financial synergies are synergies that lead either to a higher cash flow, lower cost of capital, or both. Carpenter and Sanders (2007) introduce five forms of synergy: Reducing threats, increasing market power, cost savings, increasing financial strength, and leveraging capabilities. Value-increasing mergers and acquisitions are often linked to the company’s strategy. These M&A motives include the enlargement of the product line or the complementation of the products or services (Levinson, 1970), an increase in market power (Trautwein, 1990), or an increase in market share (Gopinath, 2003).

Value-decreasing M&A motives include hubris and agency problems. Agency conflicts arise when managers make decisions that favor personal interests at shareholders’ expense. Various evidence of agency problems can be found in the literature. Morck et al. (1990) find evidence that many buyers are more interested in increasing firm size compared to firm value. These M&A decisions are often driven by personal interests of the managers. Although an acquisition may lead to a value decrease, some managers still conduct M&A transactions to increase the dependency of the company on the competencies of the manager (Shleifer & Vishny, 1989). Amihud and Lev (1981) suggest that managers diversify and engage in

conglomerate mergers to reduce their own “employment risk”. Malatesta (1983) concludes that M&A transactions that are driven by agency problems usually lead to a value decrease for the buyer.

The second value-decreasing M&A motive is hubris. Managers often have excessive self-confidence and overpay for acquisitions (Roll, 1986). According to Moeller et al. (2004), larger companies are more likely to be managed by hubristic executives and have the tendency to pay higher acquisition premiums. Furthermore, signals of CEO hubris are highly associated with the size of target premiums paid (Hayward & Hambrick, 1997). Berkovitch and Narayan (1993) and Barnes (1998) show that many acquisitions are motivated by hubris.

In most cases, acquirers have two or more motives. Single-motive mergers and acquisitions are less common (Nguyen, Yung, & Sun, 2012). This finding is supported by Hodgkinson and Partington (2008) and Arnold and Parker (2009) who investigate mergers in the United Kingdom and suggest that acquisitions often have multiple motives.

2.1.2 Does M&A create value?

To answer the question if engaging in M&A is beneficial, we first need to define how we measure value creation and what is the benchmark. This benchmark is the shareholders required returns, defined as the return that shareholders could have earned on other investment opportunities of similar risk (Bruner, 2004). Three outcomes are possible:

1. *Value is created.* The rate of return on the investment is higher than required.
2. *Value is preserved.* The rate of return equals the required rate of return.
3. *Value is destroyed.* The investment earns a rate of return lower than required.

Hence, the M&A transaction is successful, when either value is created, or value is preserved. Shareholders should be satisfied in both cases.

In general, the market is rather skeptical about M&A activities. Sirower and Sahni (2006) show that in more than half of the major deals, the acquirer's stock price has depreciated after the deal announcement. The author identified several reasons for this skepticism. First, an acquisition requires full payment upfront. Second, significant performance improvements are already reflected in the share prices of the buyer as well as the target even when the buyer does not pay a premium. Third, achieving synergies almost always involve financial costs. Revenue as well as cost synergies require additional capital investments to realize them. Fourth, during

acquisitions and the following integration process, there is a higher vulnerability to competitive attacks as firms may be more focused on integration rather than competitors. Lastly, a failed merger or acquisition is difficult and costly to reverse.

Even though there are several reasons for skepticism towards M&A activities, research has shown that M&A transactions create value at the macro economical level (Sirower & Sahni, 2006). However, the returns are not equally divided between the shareholders of the acquirer and the target. The target's shareholders benefit the most from a transaction and earn large returns (Bruner, 2004). According to Bruner (2004), and Sirower and Sahni (2006), M&A activity does create value for the combined entity of target and buyer and, thus, for the economy. For the shareholders of the buying company, studies revealed mixed results. On the one hand, Bruner (2004), who investigated 100 studies, reveals that two-thirds of the studies conclude, that value is either preserved or created. On the other hand, Sirower and Sahni (2006) conclude that shareholders of the buying company often lose value. Consequently, research does not provide a clear answer.

2.1.3 Success factors

Acquisitions are influenced by industry and general economic turbulences (Bruner, 2004). Hence, the success of the deal is impacted by the context. However, several indicators of success can be found in the literature. In the following, five success factors will be elaborated.

Pay the right price

One of the key success criteria is the price paid for the target (Kitching, 1967). Paying too much is an important cause of failure in acquisitions (Hayward, 2002) and is a major source of value destruction in M&A transactions (Goold, Campbell, & Alexander, 1995). A thorough analysis of the firm's value is important and necessary to offer a fair purchase price and maximize the benefits of the deal (Calipha, Tarba, & Brock, 2010).

Size mismatches

Research indicates that the relative organizational size of the acquirer and the target has an important impact on the success of the merger or acquisition. If the target company is very small relative to the acquirer, or vice versa, this may result in underperformance of the M&A transaction (Kitching, 1967) (Moeller, Schlingemann, & Stulz, 2004). A size balance between both parties is favorable (Ahuja & Katila, 2001).

Strategic fit

Strategic fit is another success factor emphasized in literature and is defined as “the degree to which the target firm augments and complements the parent’s strategy and thus makes identifiable contributions to the financial and non-financial goals of the parent” (Jemison & Sitkin, 1986). M&A transactions where both parties fit strategically are more likely to be successful than those transactions where both parties fit less well (Howell, 1970).

Communication

Communication in the acquisition process plays a major role in determining the success of the transaction. Effective communication is important to manage stakeholders’ expectations and avoid uncertainty among employees. Appropriate expectations as well as fair, accurate, and reflexive communication are key aspects of effective communication (Hubbard & Purcell, 2001). Poor or lacking communication can have harmful effects on the transaction process (Angwin, 2001), as the resulting uncertainty may lead to a loss of confidence from employees and key stakeholders.

Post-acquisition integration

One vital cause of M&A failure is the lack of integration (Schweiger & Weber, 1989). To benefit from synergies and create value from M&A activities, an effective integration process is crucial (Schweiger & Goulet, 2005). Therefore, managers often concentrate on acquisition-related topics and disregard the day-to-day business (Howell, 1970). Successful companies build a post-merger integration team to ensure that the acquired firm is successfully integrated, and the firm maintains its attention on the day-to-day business (Inkpen, Sundaram, & Rockwood, 2000). An early team creation increases the possibility of determining strategic fits between the two entities (Schweiger, Csiszar & Napier, 1993).

2.1.4 Cross-Border M&A

The number of cross-border M&A deals is increasing in the past 30 years (Statista, Number of cross-border merger and acquisition (M&A) deals worldwide from 1985 to 2022, 2023). In 2021, cross-border deals reached their highest level on record by surpassing \$2,1 tn in deal value as a consequence of readily available, cheap financing and booming stock markets.

Zenner et al. (2008) identified three long-term drivers for the increasing foreign M&A deal activity: globalization, diversification, and deregulation.

Even though cross-border deals have an increasing impact on today's economy, companies engaging in foreign acquisitions face greater challenges. The evaluation of targets is more complex and needs to be done more carefully due to the higher information asymmetry (Seth, Song, & Pettit, 2000). The greater information asymmetry leads to a reduction in the value of the assets being exchanged (Stiglitz, 2000) and explains the underperformance of the buyer in foreign M&A deals (Moeller & Schlingemann, 2005). Different accounting practices and disclosure requirements may hinder the due diligence process and varying legal systems add uncertainty to future cash flows (Mantecon, 2009). Another challenge to consider when acquiring a foreign company is that cultural differences complicate the acquisition and integration process. Therefore, communication must be handled with particular care (Schweiger, Csiszar & Napier, 1993).

2.2 Valuation methods

Valuation is core to every M&A deal. Defining a firm's value is a crucial process in every transaction and significantly impacts the success of the deal, as mentioned earlier, "paying too much" is a major cause of M&A failure (Hayward, 2002). In the following, the most common valuation methods will be elaborated.

2.2.1 Discounted-cash-flow (DCF) valuation

In the DCF valuation, the value of a company is the present value of the expected cash flows that the firm generates, discounted back at a rate that reflects the riskiness of these cash flows (Damodaran, 2005). The main idea behind this method is a firm with high and stable cash flows should be valued higher than a firm with small and volatile cash flows. The cash flows are typically projected for a time period of five to ten years and are calculated as follows:

$$\begin{array}{r}
 \text{EBIT} \\
 - \text{Taxes} \\
 + \text{Depreciation \& Amortization} \\
 - \text{CAPEX} \\
 - \text{Change in Net Working Capital} \\
 \hline
 \text{FCFF}
 \end{array}$$

Formula 1: FCFF Calculation

The projected cash flows are then discounted to their present value. The most used discount factor is the weighted-average cost of capital (WACC) (Kaplan & Ruback, 1996). The WACC is defined as the average of two different magnitudes: The cost of debt and the cost of equity (Fernandez, 2010). Both costs are opportunity costs, each consisting of time value and its own risk premium (Luehrman, 1997). The WACC is a tax-adjusted discount rate that incorporates the tax advantage associated with corporate borrowing.

Another essential component of the DCF valuation is the terminal value. The terminal value is the value of a firm's free cash flow beyond the projection period. The terminal value is calculated by determining a final year cash flow, which is assumed to grow at a constant nominal rate in the perpetuity (Kaplan & Ruback, 1996). The final enterprise value is then derived by adding all discounted cash flows and the discounted terminal value together.

2.2.2 Relative valuation

In relative valuation, companies are valued based on how similar firms are priced in the market (Damodaran, 2005). Firms can be valued by using the precedent transactions or public comparables valuation method. Precedent transaction valuation determines the value of a firm by analyzing recent acquisition prices paid in comparable M&A deals. Whereas, in the public comparables valuation method, a firm's value is derived by comparison to present share prices of similar firms in the market. Both methods use a multiple of value relative to a performance measure to determine the value of the company. The most commonly used performance measures are EBITDA, EBIT, and revenue. Value is derived by multiplying the average of comparable companies' multiples by the performance measures of the firm being valued. Under normal market conditions, the precedent transactions method tends to provide higher company valuations than the public comparables method as buyers typically pay a control premium when acquiring another firm. In return for this premium, the buyer obtains the right to control the company (Rosenbaum & Pearl, 2021). The public comparables method does not take the control premium into account.

According to Kaplan and Ruback (1996), a relative valuation is based on two assumptions. First, expected future cash flows of the comparable firms increase at an equal rate and have an identical degree of risk as the cash flows of the firm being valued. Second, the companies' values vary proportionally to changes in their performance. In practice, however, these assumptions are not always valid as comparable companies are not perfect matches.

3 Industry Analysis

This thesis portrays two companies in the beverage market segment: Pernod Ricard and Fever-Tree. More precisely, Pernod Ricard operates in the wine and spirits industry, whereas Fever-Tree conducts business in the carbonated beverages industry. In this chapter, a broad analysis will be given of the industries of the two respective companies.

3.1 Spirits and Wine Industry

3.1.1 Industry Overview

Spirits

The spirits industry consists of several alcoholic products including brandy, gin, liqueurs, specialty spirits, tequila, vodka, and whiskey. The global spirits market was severely impacted by the COVID-19 pandemic, with many countries imposing lockdown measures that restricted on-trade sales and large social events. However, the market is recovering from the pandemic and the market growth is expected to accelerate in the future. In 2021, the total revenue of the spirits market equaled \$707.230,3 mm, which represents an increase of 9,6% compared to 2020 (MarketLine, Global Spirits, 2023). The global spirit market reached a volume of 34,5 bn liters in 2021.

Consumer preferences strongly determine the spirit industry. Spirit manufacturers invest heavily in marketing campaigns as consumer demands significantly impact the stocking decisions of supermarkets, food and drinks specialists as well as on-trade businesses. On-trade businesses represent the leading distribution channels and account for 93,2% of the global market value (MarketLine, Global Spirits, 2023). Since retailers stock the products which customers demand and product differentiation within each spirit category is difficult, brand building is crucial for reducing the buying power of retailers and being successful.

The market can be segmented into seven categories: Whiskey, Vodka, flavored alcoholic beverages, brandy, specialty spirits, liqueurs, and others. Specialty spirits represent the largest category of the global spirit market (44,5% of the market's total value), followed by whiskey (16,2%) and Vodka (10,4%). The segmentation of the market into geographical regions shows that Asia-Pacific represents the largest market for spirits, accounting for 54,8% of the total spirits market value. Europe and the United States account for 21,1% and 15,5%, respectively (MarketLine, Global Spirits, 2023).

Wine

The wine industry includes the production and sale of still wine, sparkling wine, and fortified wine (MarketLine, Global Wine, 2022). The wine market has been impacted by the pandemic as well. The imposed lockdowns led to a strong reduction in on-trade sales. However, the wine market is expected to grow in the future due to premiumization and innovations in wine flavors, which are going to be key market drivers. The global wine market's total revenues and total volume equaled \$320.778,7 mm and 24.520,5 mm liters in 2021, respectively. The compound annual growth rate (CAGR) of the industry was only 0,5% in the period 2016 to 2021, which was mainly caused by the pandemic. Total revenues dropped by 9,2% in 2020 compared to 2019 (MarketLine, Global Wine, 2022).

As in the spirits industry, the main distribution channels in the wine industry are supermarkets, food and drinks specialists, and on-trade businesses, accounting for a share of 43,6%, 28,8%, and 16,2% of the total markets volume in 2021, respectively (MarketLine, Global Wine, 2022). Wine producers must persuade those businesses to stock their products. Especially in Western Europe, there is a high concentration in the food and beverage retail industry, enabling those retail chains to negotiate strongly on prices with wine producers. In these concentrated markets, economies of scale increase in relevance as switching costs for buyers are comparatively low. However, the buying power can be reduced by the wine producers as they can differentiate their products quite strongly. Products can be differentiated by the segment (still, sparkling, or fortified wine) as well as the region, grape type, harvesting process, production process, etc.

As mentioned above, the wine industry is segmented into three different categories: still wine, sparkling wine, and fortified wine. Whereas still wine is the dominating segment, accounting for 82,1% of the market's total value in 2021. Sparkling wine and fortified wine account for 14,5% and 3,5% of the global market value, respectively (MarketLine, Global Wine, 2022). Contrary to the spirits industry, Europe represents the largest market for the sale of wine. 56,7% of total revenues are generated in Europe in 2021, followed by Asia-Pacific (21,3%) and the United States (13,0%) (MarketLine, Global Wine, 2022).

3.1.2 Key Trends

Premiumization has had a significant impact on the spirits and wine market for more than a decade. Further, the alcoholic beverage industry will continue to be shaped by this trend in the future. Consumers are looking for distinctive and premium-quality alcoholic drinks, which

caused rising demand for high-quality alcoholic beverages in the industry. Due to the increased health consciousness, consumers seek to limit their consumption. Consumers tend to acquire fewer alcoholic beverages but at the same time opt for premium-quality drinks. Customers are willing to spend more to ensure that they receive high-quality ingredients and drinks. A broad set of customers is attracted by the integration of varying natural and exotic ingredients. This trend is also reflected in other food and beverage industries.

Customers' desire for more advanced and appealing ingredients and flavors in the spirits selection resulted in a growing popularity of craft spirits. Consumers' interest and trust are gained by focusing on the development of innovative and high-quality products. Craft distillers use a broad range of herbs, spices, botanicals, and fruits to create new and appealing products. Continued innovation and new product creation are expected to increase future revenues for craft distillers and increase sales for the overall spirit market.

A similar development can be seen in the wine industry. There is an increasing demand for fortified and other premium ingredients infused wine. Leading wine manufacturers are focusing on the creation of new flavored fortified wines to adapt to changing customers' tastes.

Alcoholic ready-to-drink products (RTD), including wine-based and spirit-based drinks, are currently the fastest-growing segment in the wine and spirits market (BevSource, 2023). Consumers appreciate the simplicity and convenience of RTD beverages. RTD beverages tried to attract customers who seek low-carb and low/no-sugar offerings. However, customers' preferences are evolving towards alcoholic RTDs with natural and herbal flavors. Hence, innovation and new product offerings are crucial to stay competitive. Herbal, botanical, and citrus flavors as well as natural ingredients are increasingly valued in the RTD segment by the rising number of health-conscious customers.

3.1.3 Forecast

In 2026, the spirit industry is forecasted to increase by 38,9% compared to 2021, reaching a value of \$982,3 bn (MarketLine, Global Spirits, 2023). This results in a CAGR of 6,8%. Nevertheless, the market volume is growing at a smaller rate. The global spirits market volume is expected to reach a value of 41,2 bn liters in 2026, equaling a CAGR of 3,6%. Similar forecasts are obtained in the global wine market. Value and volume of the global wine market are expected to have a value of \$438,8 bn and 26,9 bn liters in 2026, respectively (MarketLine, Global Wine, 2022). Thus, market value is expected to increase by an average of 6.5% per year, while market volume is forecasted to grow by an average of 1.9% per year. The discrepancies

between the market value and volume growth rates in the wine and spirit industries can be explained by the trend towards premiumization in both markets, resulting in lower volumes and higher revenues.

One key growth driver is the increasing purchasing power of people, especially in developing countries. Developing economies become wealthier and the number of people living from paycheck to paycheck is decreasing in countries like China and India. China already beat the US and became the richest country in the world with an accumulated total wealth of \$514 tn (IndustryARC, 2022). Moreover, the per capita income in many Asian-Pacific countries significantly increased in recent years and is forecasted to grow even further. A higher disposable income enables customers to spend more on commodities such as alcoholic beverages.

3.2 Carbonated Beverages Industry

3.2.1 Industry Overview

The carbonated drinks industry consists of the sale of carbonated non-alcoholic drinks including cola beverages, lemonades, carbonated juices, soda water, tonic water, and carbonated flavored water. The carbonated beverages industry experienced moderate growth in recent years. Like all beverage segments, the carbonated drinks market was hit significantly by the COVID-19 pandemic. The market's total revenue decreased by 11,0% in 2020 compared to the previous year (Statista, Carbonated Soft Drinks - Worldwide, 2023). Nonetheless, the industry quickly recovered from the restrictions imposed by the pandemic. In 2021, the total revenue of the market increased by 13,6% again, resulting in a value of \$333,9 bn (Statista, Carbonated Soft Drinks - Worldwide, 2023). The total market volume increased by 2,7% in the period of 2016 to 2021, reaching a value of 189,1 bn liters.

The main distribution channels of the carbonated drinks industry are convenience stores, supermarkets, on-trade businesses, and vending machines. Convenience stores and supermarkets are the leading distribution channels, accounting for a 76,7% share of the total market's value in 2020 (MarketLine, Global Carbonated Soft Drinks, 2022). Hence, the average size of customers is relatively large in the market, increasing their bargaining power. However, consumers determine the stocking of supermarkets and convenience stores. In this industry, brands play a major role in consumers' decisions, therefore it is crucial for such stores to stock popular brands to stay competitive.

The geographical segmentation clearly shows the importance of the US market for the carbonated beverages industry. 40,9% of the market's total revenue was generated in the United States in 2021 (Statista, Carbonated Soft Drinks - Worldwide, 2023). The second and third largest markets are Europe and Asia-Pacific, accounting for 22,1% and 19,6% share of the market's total revenue. Even though the US market significantly outperforms the other regions in terms of revenue, the volumes of the European, Asian-Pacific, and US markets are on a similar level. In 2021, the total market volume reached a value of 45,6 bn liters in the United States, 40,8 bn liters in Europe, and 44,3 bn liters in Asia-Pacific (Statista, Carbonated Soft Drinks - Worldwide, 2023).

3.2.2 Key Trends

One major trend in the carbonated drinks industry is the rising demand for low/zero-calorie beverages. The consumers enhanced preference for gluten-free, low-calorie, and low-carb beverages accelerates the market growth of low-calorie drinks. Consumers' growing health consciousness and the growing number of governmental regulations reducing sugar consumption have driven the growth of the market. For example, the UK government has introduced a tax on soft drinks containing more than 5g of sugar per 100 ml. Innovation and the creation of new flavors play a major role in attracting new customers.

Especially in the tonic water segment, there is a growing demand for low-sugar and naturally flavored tonic water. The increasing demand for high-quality spirits and the customers' willingness to buy more expensive, innovative drinks with distinct characters led to a preference for high-quality mixers, including tonic waters. In the tonic water segment, naturally flavored waters are on the rise to meet customers' specific needs for health awareness and flavor factors. The growing number of people with diabetes and obesity, or with a health-conscious mindset appreciate drinks with little/no sugar, healthy ingredients, and good taste.

Mindful consumption as well as environmental and sustainable topics become more important to consumers, representing a key trend in the carbonated beverages industry. Consumers are paying more and more attention to short transport routes, local ingredients, plastic reduction, and transparent and sustainable production when making their purchasing decisions.

3.2.3 Forecast

The global carbonated beverages industry is forecasted to grow by 27,3% until 2026. Total revenue is expected to reach a value of \$425 bn, resulting in a CAGR of 4,9% (Statista, Carbonated Soft Drinks - Worldwide, 2023). In contrary, the total volume is forecasted to increase by only 3,8 % in 2026, resulting in a total volume of 196,3 bn liters and a CAGR of 0,8%. Key growth drivers are the increasing consumer disposable incomes and a large population in developing countries, especially in Asia-Pacific. The rising investments by the major carbonated drinks manufacturers to increase their customer base in countries like China and India are forecasted to greatly contribute to the industry growth. Increasing innovations and new product launches related to low/zero calorie and sugar beverages owing to the growing health consciousness of consumers will further drive the growth of the market.

4 Company Analysis

4.1 Pernod Ricard SA

4.1.1 Company Overview

The acquirer, Pernod Ricard SA (Pernod Ricard), is a worldwide distiller that manufactures wines and spirits including Scotch, Whiskey, Cognac, Vodka, Gin, Liqueurs, Rum, Champagne, Tequila, and other non-alcoholic beverages. Pernod Ricard is the second-largest producer of spirits and wines in the world with the ambition of becoming the leader in this sector. In total, the company holds a portfolio of 240 premium brands that are available in over 160 countries all over the world. Pernod Ricard has a direct presence in 73 countries and owns 96 production sites in 24 countries.

To ensure an efficient allocation of resources, the company implemented the brand planning tool, “The House of Brands”, which encompasses seven categories: Strategic international brands, prestige brands, specialty brands, strategic wines, strategic local brands, non-alcoholic brands, and ready-to-drink brands. A definition of each category can be found in Appendix 1.

Pernod Ricard uses a decentralized approach to organize the group. The group is headquartered in France and further holds autonomous affiliates, brand companies, and market companies. The overall strategy is defined at the group level, whereas the affiliates lead the operations autonomously. In total, the group owns six brand companies, which are based in the home country of each brand. The brand companies are responsible for developing a brand strategy and activations. The production and management of industrial facilities are also part of their remit. The implementation of the group strategy and brand strategy at a local level is the responsibility of the market companies. The decentralized approach gives the company the ability to act agilely in the face of uncertainty and to anticipate trends quickly.

Pernod Ricard targets growth of 4% to 7% annually for the next three years. The company aims to achieve this growth by investing in future organic growth, especially through strategic inventories and capital expenditures. The company further engages in active portfolio management, including value-creating M&A. Brand acquisitions or disposals allow the firm to be in line with future trends and fuel future growth.

4.1.2 Revenue Segments

Pernod Ricard operates through three geographical segments: Americas, Europe, and Asia/ Rest of the World. The company generates most of its revenues in Asia and the Rest of the World, accounting for 42% of the revenue in 2022. Europe and the Americas are on a similar level in terms of revenue. Both regions account for 29% of the revenue.

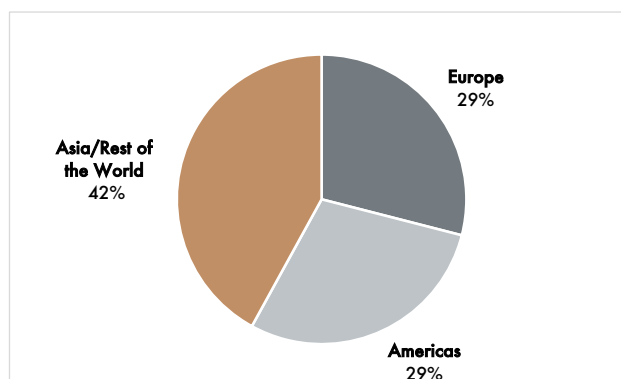


Figure 1: Pernod Ricard's revenue by geographic region

The largest product category in terms of revenue is the strategic international brands. The strategic international brands report a revenue of €6,780 mm in 2022 and account for 63% of the revenue. The strategic international brands are followed by the strategic local brands, accounting for 18% of the revenue. The specialty brands experienced strong growth in recent years. Compared to 2019, specialty brands doubled their share of sales in 2022 and now account for 6% of total sales. The strategic wines segment recorded negative growth rates in recent years and lost shares of total revenues. The segment generates 5% of the revenues in 2022, resulting in a value of €485 mm revenue. The prestige brands, non-alcoholic brands, and ready-to-drink brands generate together 9% of the revenues and represent the smallest product categories.

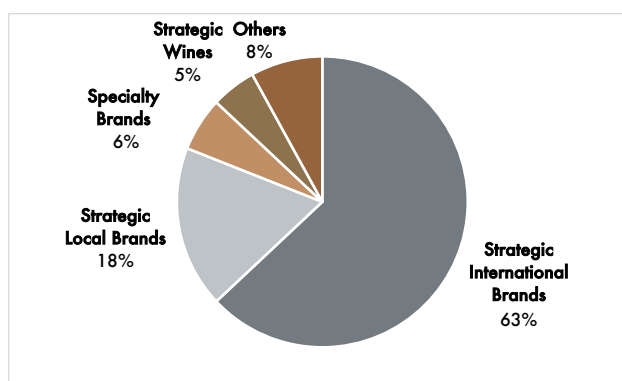


Figure 2: Pernod Ricard's revenue by product category

4.1.3 Financials

Pernod Ricard's total revenue reached a new high of €10,7 bn in 2022, which constituted a 21,3% increase compared to its 2021 revenue. After experiencing a major setback in 2020, the company managed to successfully recover from the pandemic and the imposed restrictions. Both had a significant impact on the sales of the company. The total revenue decreased by 8,0% in 2020 compared to the previous year. Despite the decrease in revenue due to the pandemic, Pernod Ricard's revenue achieved a CAGR of 7% over the 2019-2022 period, driven by its strong performance in 2022.

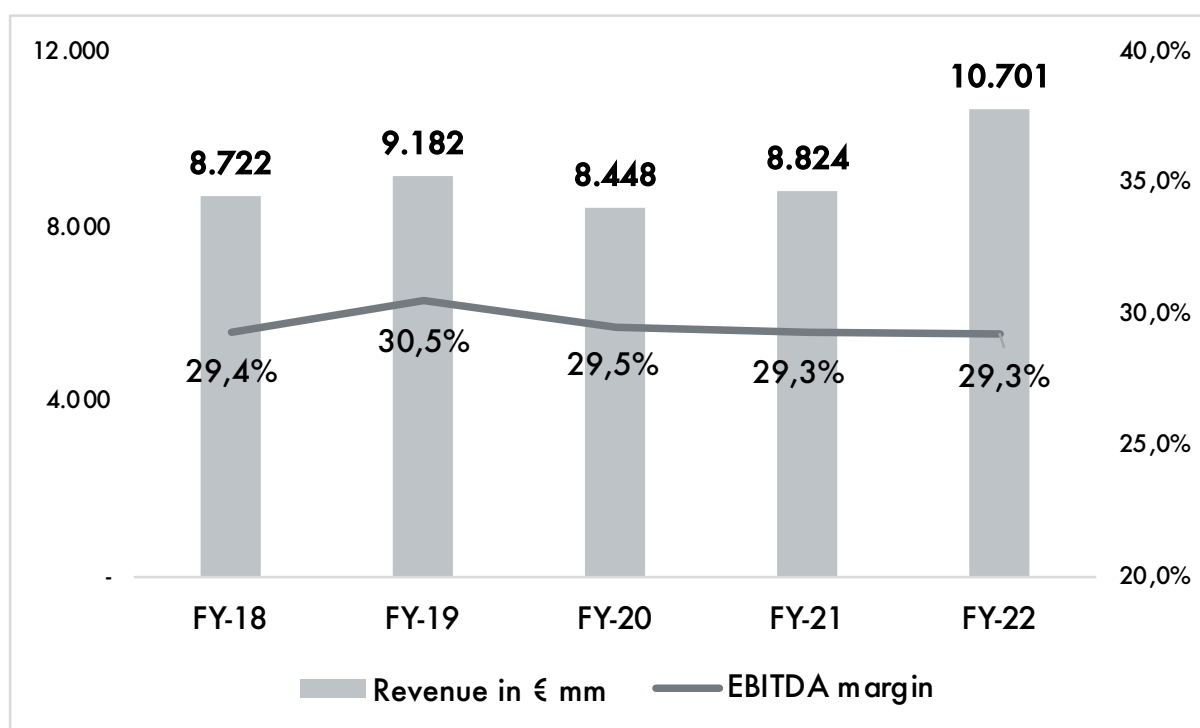


Figure 3: Pernod Ricard's revenue and EBITDA margin 2018-2022

In 2022, the EBITDA equaled an amount of €3,1 bn, which constitutes an increase of 21,2% compared to the previous year. The EBITDA margin has been relatively constant with only small fluctuations. The company's operational profitability can be evaluated as strong with an average EBITDA margin of 29,6% during the 2018-2022 period.

The evaluation of the company's financial profitability reveals stable Net Income margins. During the last five years, the Net Income margin ranged from 15% to 18% with one exception in 2020. In 2020, the Net Income margin decreased to 3,9% and amounted to a value of €329 mm, the lowest Net Income in the last ten years. The weak performance in 2020 was mainly driven by an asset impairment of €1 bn triggered by the COVID-19 pandemic. Even

though 2020 constituted a decline in Net Income as for many other indicators, the company managed to quickly recover. 2022 has been the most successful year, not only in terms of revenue but also in terms of net income, reaching a value of €1.996 mm.

Pernod Ricard's Free Cash Flow peaked in 2022 with a value of €1,8 bn. As with the other financial metrics, the Free Cash Flow increased steadily in recent years with the only exception in 2020. The company reached a CAGR of 4,8% over the period of 2018-2022. The strong Free Cash Flow performance enabled the company to accelerate returns to shareholders. The company distributed a dividend of €4,12 per share in 2022, which constitutes an increase of 32% compared to the previous year.

Even though the net debt of Pernod Ricard increased from €7.517 mm in 2021 to €8.663 mm in 2022, Pernod Ricard still managed to drive leverage down due to the strong performance in 2022. The Net Debt-to-EBITDA ratio decreased from 2,7 in 2021 to 2,6 in 2022. The interest coverage ratio increased from 10,1x in 2021 to 14,9x in 2022. The Debt-to-Equity ratio equals 0,69 in 2022 but is still at a relatively low level compared to peers. Hence, the overall financial health of the company can be evaluated as solid.

4.1.4 Shareholder Structure

Pernod Ricard has 256.1 mm shares outstanding. The main shareholders are listed in Table 1. Institutional investors account for 41,6% of total shares outstanding, followed by public owners, who account for 36,0%. The third largest shareholder group is corporations, that hold in total 21,8% of the total shares outstanding.

Shareholder	Number of Shares	% of Total Shares Outstanding
Société Paul Ricard SA	35.939.659	14,0%
Groupe Bruxelles Lambert SA	19.891.870	7,8%
Massachusetts Financial Services Company	12.994.021	5,1%
BlackRock, Inc.	12.067.435	4,7%
The Vanguard Group, Inc.	7.443.017	2,9%
Invesco Ltd.	6.598.665	2,6%
Caisse des dépôts et consignations, Asset Management Arm	6.376.245	2,5%
Fidelity International Ltd	4.551.211	1,8%
FMR LLC	4.310.251	1,7%
Amundi Asset Management	3.965.340	1,5%
Norges Bank Investment Management	3.917.610	1,5%

Table 1: Pernod Ricard - Main shareholders

4.2 Fevertree Drinks PLC

4.2.1 Company Overview

The target, Fevertree Drinks PLC (Fever-Tree) is a United-Kingdom-based supplier of premium carbonated mixers for alcoholic spirits. The product portfolio includes Indian Tonics, Flavored Tonics, Ginger Ales, Ginger Beers, Cola, Lemonades, Sodas, and Refreshingly Lights. The company is headquartered in London and distributes its products to over 80 countries globally.

Fever-Tree's business model is based on an outsourcing approach. The manufacturing is outsourced to five bottlers and two canners across Europe and one bottler in the US. Within each market, the company works exclusively with importers and distributors. The largely outsourced business model allows for scalability and operational flexibility. This approach has the advantage to forego large capital commitments. The core of the business model is offering premium, high-quality products. High-quality ingredients are sourced from around the globe. Deep and long-standing relationships with suppliers are crucial for high product quality. The close interaction with growers enables the company to understand how local climates and growing techniques impact the ingredients and contribute to the taste. Fever-Tree's products are sold in cans which are infinitely recyclable. The decision to neglect the usage of plastic bottles is due to quality and environmental considerations. Environmental awareness plays a major role in the business model of Fever-Tree. All beverages sold in the UK are already carbon neutral and the company strongly focuses on further reducing carbon emissions throughout the supply chain.

The company's future growth strategy includes capitalizing on market trends, strengthening distribution in existing markets and identifying new opportunities, extending co-promotional activities with spirit partners, and innovation.

4.2.2 Revenue Segments

Fever-Tree distributes its beverages to over 80 countries in the world. The revenue is segmented into four regions: UK, US, Europe, and the Rest of the World. The firm generates most of its revenues in the UK, accounting for 34% of the total revenues in 2022. Europe and the US represent the second largest markets in terms of revenue, accounting for 29% and 28% of the total revenue, respectively. The remaining 9% of the total revenues are generated in the Rest of the World. However, the share of revenues earned in the Rest of the World is expected

to further increase in the future, due to the expansion to new markets and the growing demand, especially from emerging markets.

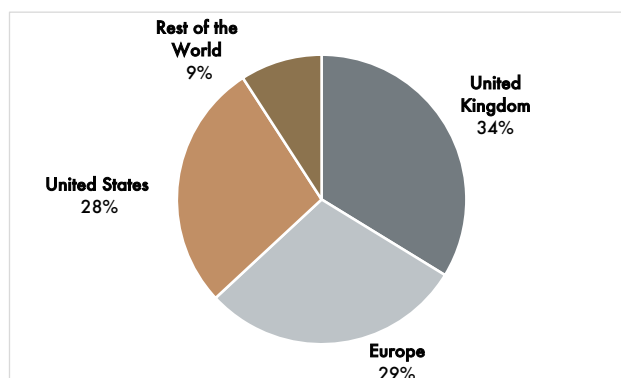


Figure 4: Fever-Tree's revenue by geographic region

4.2.3 Financials

As well as Pernod Ricard, Fever-Tree's revenues peaked in 2022. The company generated revenues of £344 mm, representing a year-on-year revenue growth of 10.7%. Figure 5 shows the development of the revenues and EBITDA margin during the 2018-2022 period. The company has experienced strong revenue growth rates in recent years, with 2020 being the only exception. In 2020, Fever-Tree earned revenues of £252 mm, down 3.2% compared to 2019. This decrease in revenue was mainly driven by the COVID-19 pandemic and its imposed restrictions on society. However, like the whole industry, the company quickly recovered from the pandemic and increased its sales by 23,4% the following year.

In contrast, the EBITDA margin shows a negative development during the past five years. The EBITDA margin decreased from 32,4% in 2018 to 10,6% in 2022, indicating a decline in operational profitability during this period. The reduction in EBITDA has been specifically strong in 2022. The EBITDA decreased by 38,8% compared to the previous year, reaching a value of £36,4 mm in 2022. The most significant impacts on the EBITDA margin have been rising European energy costs, which strongly affected material costs across categories. Cost increases have been most notably in glass, to which Fever-Tree is particularly exposed. Increases in Trans-Atlantic shipping, supply chain disruptions, and labor cost inflation led to a further decline in margin.

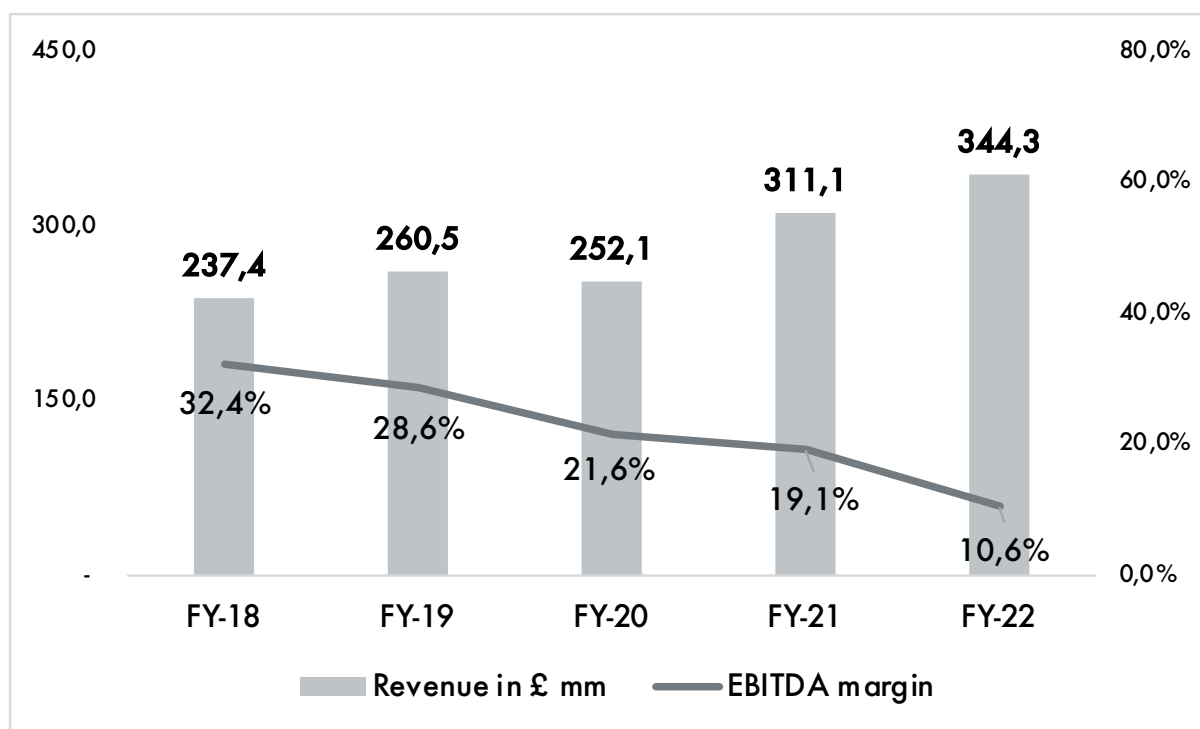


Figure 5: Fever-Tree's revenue and EBITDA margin 2018-2022

The Net Income margin shows a similar development as the EBITDA margin due to the same reasons as the decline of the EBITDA margin. The Net Income margin decreased from 26,0% in 2018 to 7,2% in 2022, reaching a value of £24,9 mm.

Due to the reduction in operational profitability, Fever-Tree's Free Cash Flow significantly decreased compared to 2021. The Free Cash Flow diminished from £42,2 mm to £1,4 mm. Even though the Free Cash Flow shows a negative development, the dividends per share increased steadily in recent years. The dividends per share increased from 14,5 pence per share in 2018 to 16,31 pence per share in 2022, constituting an average annual growth rate of 3,0%.

Evaluating Fever Tree's capital structure, a low level of debt can be observed. The debt-to-equity ratio equals 0,07 in 2022, the interest coverage ratio reaches a value of 91x and the Net Debt is significantly negative, which implies that the company possesses more cash and cash equivalents than financial obligations. The low level of debt is enabled by the firm's outsourcing business model approach, which does not require major capital commitments.

4.2.4 Shareholder Structure

Fever-Tree has 116.6 mm shares outstanding. The main shareholders are listed in Table 2. Most shares outstanding are held by institutional investors (84,1% of total shares outstanding), followed by the individuals Charles Rolls and Timothy Warrillow, the Co-Founders of Fever-Tree, who hold together 9,7% of total shares outstanding.

Shareholder	Number of Shares	% of Total Shares Outstanding
Lindsell Train Limited	15.987.868	13,7%
Capital Research and Management Company	9.919.433	8,5%
Fundsmith, LLP	8.909.250	7,6%
Rolls, Charles Timothy (Co-Founder & Former Non-Executive Deputy Chairman)	5.685.928	4,9%
Warrillow, Timothy Daniel Gray (Co-Founder, CEO & Executive Director)	5.575.172	4,8%
Ninety One UK Limited	3.820.495	3,3%
Teachers Insurance and Annuity Association-College Retirement Equities Fund	3.542.370	3,0%
Baillie Gifford & Co.	3.465.370	3,0%
Troy Asset Management Ltd.	2.450.527	2,1%
Invesco Ltd.	2.087.638	1,8%

Table 2: Fever-Tree - Main shareholders

5 Deal Rationale

Pernod Ricard has the ambition of becoming the global leader in the wine and spirits industry. The company wants to achieve this goal by investing in future organic growth as well as active portfolio management, including value-creating M&A. Pernod Ricard's portfolio management approach is to always be in line with new trends. Fever-Tree represents an optimal target as the company capitalizes on the major trends of the industry. Spirits continue to take shares from beer and wine in the alcoholic beverages industry and there is a growing demand for mixed drinks. These trends are underpinned by broader macro trends such as the rising interest in origin and craft, health and wellness, and premiumization.

An acquisition of Fever-Tree by Pernod Ricard fits strategically well as both companies are active in the premium sector, with Pernod Ricard offering premium spirits and wines and Fever-Tree offering premium mixers. Fever-Tree already has a partnership with Lillet, a brand owned by Pernod Ricard that offers aromatized aperitif wines. The partnership includes co-promotional activities. Further partnerships with other spirit brands by Pernod Ricard could be established and intensified in the event of an acquisition.

Both companies could benefit from co-promotional activities and cross-selling opportunities, ultimately boosting revenues. As mentioned previously, the RTD category is the fastest-growing segment in the spirits and wine industry. An acquisition would enable the companies to easily introduce new premium RTD beverages, addressing this growing demand by consumers. Fever-Tree's promising growth prospect could be beneficial for Pernod Ricard's ambition of becoming the global leader in the wine and spirits industry as Fever-Trees owns a strong brand positioning that tackles key future trends in the industry. Pernod Ricard already has a strong presence in emerging markets, which represents a significant growth opportunity for Fever-Tree. More than 90% of the revenues of Fever-Tree are generated in mature markets, demonstrating its limited presence and expertise in emerging markets. In the event of an acquisition, Pernod Ricard's distinct knowledge about the markets as well as the strong distribution network could be used for Fever-Tree to expand to these markets.

In conclusion, a deal of this nature would be beneficial for both parties. An acquisition of Fever-Tree would give Pernod Ricard access to key industry trends as well as promising growth prospects, while Fever-Tree could benefit from Pernod Ricard's expertise and distribution networks specifically in emerging markets. In addition, both companies could profit by cross-selling effects as well as the creation of new RTD beverages.

6 Valuation: Pernod Ricard SA

Before valuing the combined entity of the acquirer Pernod Ricard and the target Fever-Tree, each entity is valued separately. The DCF valuation method as well as the relative valuation method were used to determine the value of each individual company. Both valuations are presented in the home currency of each company.

6.1 Discounted-Cash-Flow Valuation

As mentioned in Section 2.2.1, in the DCF valuation, the value of a company is the present value of the expected cash flows that the firm generates, discounted back at a rate that reflects the riskiness of these cash flows. In the case of Pernod Ricard, the Free-Cash-Flow is forecasted for the next six years, and the terminal value is determined for the time horizon beyond the forecasted period.

6.1.1 Financial Forecast

6.1.1.1 Revenue

The management of Pernod Ricard predicts yearly revenue growth of 4% - 7 % for the period of 2023-2025, aiming for the upper end of the range. The company intends to achieve this growth via two channels. First, Pernod Ricard invests in future organic growth, particularly through strategic inventory and Capex. In addition, organic growth is to be reinforced by significant advertising and promotional investments, maintained at approx. 16% of sales. Secondly, further growth should be achieved via continued portfolio management, including value-creating M&A.

For future estimates, Pernod Ricard's revenue is expected to grow in line with its preceding 4 years' CAGR of 5,2% p.a., especially due to the positive industry outlooks of the wine and spirits market and Pernod Ricard's favorable position in the market. As indicated earlier, the spirits and wine industry are expected to increase by 6,8% and 6,5% p.a., respectively. Emerging markets, which already account for 44% of the revenues, are expected to contribute significantly to the alcoholic beverages market growth. The 5,2% annual revenue growth estimate is rather at the lower end of the management forecasts range since a more conservative approach was taken for the valuation.

6.1.1.2 Operating Expenses

The share of Cost of Goods Sold (COGS) as well as the share of operating expenses in relation to revenues has been relatively constant over the past five years. Indicating that the respective shares will also be constant for the upcoming years. For the forecasting period, the average share of COGS and operating expenses of the past five years was taken and then multiplied by respective revenues. Hence, COGS and operating expenses were projected at 39,4% and 31,0% of revenues, respectively, resulting in an EBITDA margin of 29,6% for the forecasting period.

6.1.1.3 Capex, PPE, and D&A

Capex was projected based on its historical values as a percentage of revenue. The gross PPE (Property, Plant & Equipment) values were then retrieved by adding the Capex to the gross PPE value of the previous year. Depreciation and amortization were as well forecasted based on their historical values. A historical average of 3,8% depreciation and amortization expenses in comparison to gross PPE was retrieved and then multiplied by the forecasted gross PPE values to obtain the respective depreciation and amortization values.

6.1.1.4 Working Capital

The current assets and current liabilities have been forecasted to predict the working capital for the upcoming years. For the Inventory, Accounts Receivable, and Accounts Payable forecast, the historical days outstanding have been used. Inventory has been forecasted based on inventory days, which means how quickly inventory moves (612 days). For Accounts Receivable and Accounts Payable, the Accounts Receivable Days, which means how long it takes customers to pay the firm (45 days), and Accounts Payable Days, which indicates how long it takes the firm to pay the suppliers (195 days), have been used respectively. To obtain the forecast values, the averages of historical days outstanding have been retrieved. The averages were divided by the number of days of the year and then multiplied by either the forecasted revenue in the case of Accounts Receivable or the forecasted COGS in the case of Inventory and Accounts Payable.

On the assets side, Cash & Cash Equivalents, Other Receivables, and Prepaid Expenses were either computed as a fixed percentage of historical revenues or expenses. Other Current Assets account has been forecasted based on their average value of the past 5 years and is expected to remain constant over the forecasting period.

On the liabilities side, accrued expenses were forecasted based on its historical percentage share of expenses, and the Current Portion of Long-Term Debt, as well as Current Income Taxes Payable, were predicted based on its historical percentage share of revenues. The same approach as for the Other Current Assets forecast has been applied to Other Current Liabilities and Short-Term Borrowings. In the past two years, the Current Portion of Leases increased with a compound annual growth rate of 10%, which is expected to persist for the forecast period.

The Working Capital was then estimated by subtracting the Current Liabilities (excluding debt) from the Current Assets (excluding Cash & Cash Equivalents).

6.1.1.5 Free Cash Flow

The Free Cash Flow was then calculated based on the previously described assumptions and is specified in Table 3.

FCF Forecast								
€ mm								
Period	-1	0	1	2	3	4	5	6
Date	30.06.21	30.06.22	30.06.23	30.06.24	30.06.25	30.06.26	30.06.27	30.06.28
EBIT	2.406,0	3.013,0	3.071,4	3.226,0	3.388,6	3.559,7	3.739,9	3.929,4
Taxes	(600,8)	(752,4)	(767,0)	(805,6)	(846,2)	(888,9)	(933,9)	(981,3)
NOPAT	1.805,2	2.260,6	2.304,4	2.420,4	2.542,4	2.670,8	2.805,9	2.948,2
plus: D&A	181,0	122,0	261,7	282,0	303,4	325,9	349,6	374,5
minus: CAPEX	(433,0)	(506,0)	(506,1)	(532,7)	(560,6)	(590,0)	(621,0)	(653,5)
minus: Δ NWC	(359,0)	(124,0)	(729,4)	(291,0)	(305,5)	(320,6)	(336,5)	(353,1)
FCF	1.194,2	1.752,6	1.330,6	1.878,7	1.979,7	2.086,1	2.198,1	2.316,1

Table 3: Pernod Ricard - Free Cash Flow Forecast

6.1.2 WACC

6.1.2.1 Cost of Equity

For the cost of equity (R_e) estimation, the Capital Asset Pricing Model is used:

$$R_e = R_f + \beta * (R_m - R_f)$$

The R_f represents the risk-free rate and accounts for the time value of money. The market risk premium ($R_m - R_f$) measures the additional return expected from investing in the stock market instead of a riskless asset. The beta measures the volatility of the individual stock compared to the stock market as a whole.

The risk-free rate was assumed to equal the yield of a France 10-year government bond. As of 05/04/2023, the bond yield equaled 2,7% and was retrieved from the Refinitiv Database. France's expected market risk premium is 6,8% (Damodaran, 2023). The beta of Pernod Ricard was estimated based on its share price volatility relative to the CAC 40 Index using daily changes in share and index closing prices during the past ten years. A beta of 0,67 is retrieved by regressing Pernod Ricard's daily excess returns on the Index's daily excess returns. Consequently, a cost of equity of 7,2% for Pernod Ricard was retrieved.

6.1.2.2 Cost of Debt

The cost of debt is the rate at which the firm can currently borrow. Pernod Ricard does not have any outstanding long-term straight bonds that are liquid and widely traded. Therefore, the cost of debt is calculated by estimating the default spread based on the financial rating of the firm.

$$k_d = r_f + \text{default spread}$$

For the estimation of the risk-free rate, the same approach as for the cost of equity has been used. The company's median bond rating by Standard & Poors is BBB+, which results in a default spread of 2,0% (Damodaran, 2023). Hence, the cost of debt equals 4,7%.

6.1.2.3 Capital Structure

As Pernod Ricard shows a relatively stable capital structure over the past five years, the current capital structure is expected to remain constant over the forecasting period. The current Debt-to-Equity Ratio equals 68,8%. The company does not provide any information about the target capital structure for the future.

6.1.2.4 WACC Computation

With all the steps taken, the WACC can be calculated by using the following formula.

$$WACC = k_e * \left(\frac{E}{D + E} \right) + k_d * (1 - T) * \left(\frac{D}{D + E} \right)$$

By inserting the previously mentioned values, we retrieve a WACC of 5,7%.

6.1.3 Terminal Value

The Terminal value determines the value of the company beyond the forecasting period and is computed by using the perpetuity growth approach. This approach assumes that the Free Cash Flow of the final forecast year will increase at a constant rate in perpetuity. It is common practice to assume that the growth rate is equal to the country's nominal GDP growth rate. As the nominal GDP growth rate of France is at a high level due to the recovery of the pandemic, the average nominal GDP growth rate of the last five years is used. The five-year average nominal GDP growth rate of France equals 2,4% (OECD, 2023). The use of the following formula results in a Terminal value of €71.112,3 mm:

$$TV = \frac{FCFF_{2028} * (1 + g)}{(WACC - g)}$$

6.1.4 Equity Value

To determine the enterprise value, the present values of the Free Cash Flows and Terminal value must be computed. The present values are obtained by discounting the Free Cash Flows and Terminal value using the WACC. The sum of the discounted Free Cash Flows and discounted Terminal value is the enterprise value.

EV	61.647,9
Less: Net Debt	8.663
EQ	52.984,9
Shares Outstanding (in mm)	265,1
Share Price	199,87

Table 4: Pernod Ricard - Equity value determination

The equity value is obtained by deducting the Net Debt from the enterprise value of 61.647,9 mm EUR, resulting in an equity value of €52.984,9 mm (Table 4). Pernod Ricard has 265,1 mm shares outstanding, which leads to a share price of €199,87.

6.1.5 Sensitivity Analysis

A sensitivity analysis is conducted to understand how changes in key input variables impact the enterprise value. In the DCF valuation, the WACC as well as the perpetuity growth rate are important factors in determining the enterprise value. The analysis shows how a change in

WACC by +/- 0,2% or in perpetuity growth rate by +/- 0,25% affects the value of the company. The results are presented in Table 5.

WACC	Growth Rate					
	61.647,9	1,9%	2,1%	2,4%	2,6%	2,9%
5,3%	61.056,1	65.252,4	70.163,7	75.989,9	83.012,9	
5,5%	57.645,2	61.344,5	65.633,9	70.667,0	76.655,4	
5,7%	54.590,6	57.873,1	61.647,9	66.034,7	71.195,4	
5,9%	51.839,1	54.769,0	58.113,5	61.967,0	66.455,7	
6,1%	49.347,9	51.976,9	54.957,9	58.366,7	62.302,4	

Table 5: Pernod Ricard - Sensitivity analysis enterprise value

6.2 Relative Valuation

The relative valuation method uses multiples to value the company. The multiples used for the valuation of Pernod Ricard are EV/Revenue, EV/EBITDA, EV/EBIT, and P/E. The peer group under analysis was chosen based on industry, business model, and geographical distribution. The multiple values were computed by estimating the average as well as the median of the peers' ratios. The peers' ratios were retrieved from the Capital IQ database. The multiples retrieved for the calculation are shown in Table 6.

Company Name	Country	EV/Revenue	EV/EBITDA	EV/EBIT	P/E
Diageo plc	United Kingdom	5,9x	16,1x	17,6x	23,6x
Davide Campari-Milano NV	Italy	5,4x	23,0x	26,2x	39,6x
Rémy Cointreau SA	France	5,6x	18,1x	19,6x	28,7x
The Duckhorn Portfolio Inc	United States	5,5x	20,4x	22,9x	24,3x
Brown-Forman Corporation	United States	7,9x	27,8x	30,8x	41,8x
Average		6,1x	21,1x	23,4x	31,6x
Median		5,6x	20,4x	22,9x	28,7x

Table 6: Pernod Ricard - Multiple Calculation

The retrieved multiples resulted in a price range between €193,4 and €243,0 per share. A detailed overview of the share price calculation can be found in Appendix 12.

6.3 Valuation Results

The valuation results are summarized in Figure 6. Considering Pernod Ricard's current share price of 210,0 EUR (as of 19/04/2023), the company appears to trade at fair value. The only values exceeding the current share price are the valuation results obtained by the P/E multiple and EBIT-Multiple. However, the accuracy of the P/E multiple is, in general, distorted by non-cash charges, capital structure, and tax rates, which is why the P/E multiple is less commonly used.

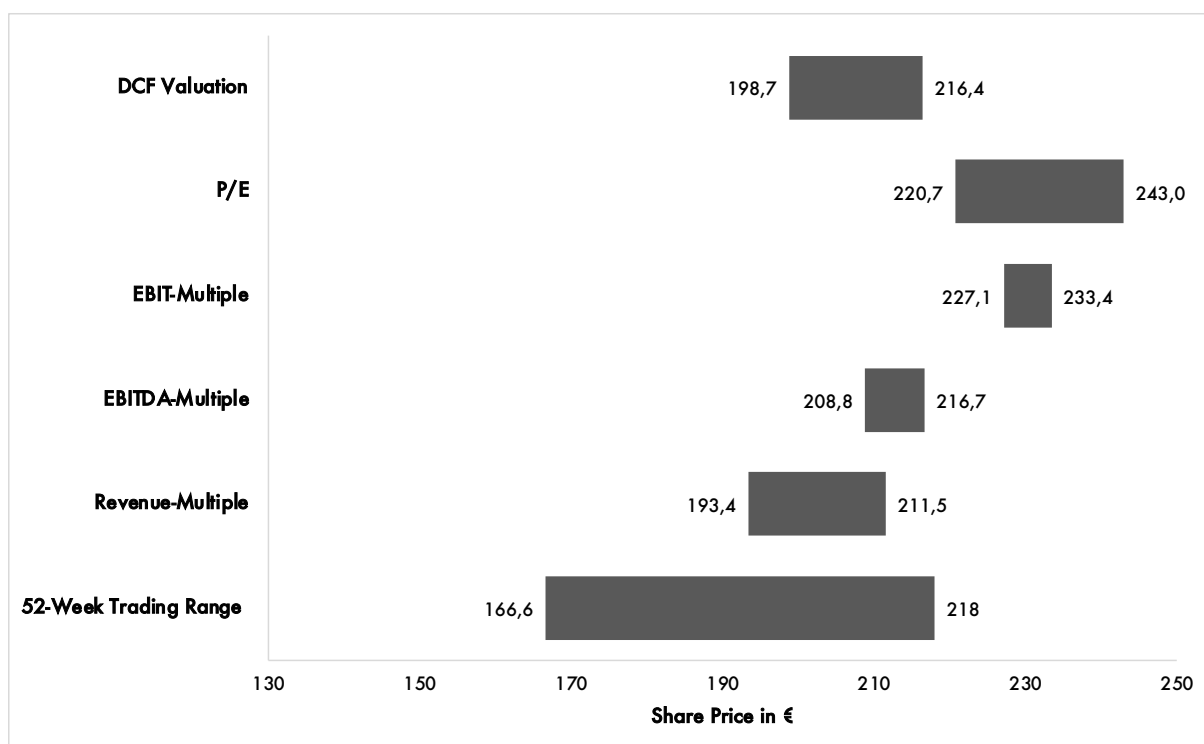


Figure 6: Pernod Ricard - Valuation results

7 Valuation: Fevertree Drinks PLC

7.1 Discounted-Cash-Flow Valuation

7.1.1 Financial Forecast

Fever-Tree is not as mature as Pernod Ricard and the time until Fever-Tree reaches a steady state is expected to take longer. Therefore, the forecast period for the Free Cash Flow as well as the individual statements is eight years instead of six years.

7.1.1.1 Revenue

For the financial year 2023, the management of Pernod Ricard expects to reach a revenue of £390-405 mm. This growth is mainly driven by the regions US, Europe, and the Rest of the World. The revenue in the UK is expected to remain stable by the management. As the management has information that is not publicly available, the same forecast is assumed for the DCF analysis. To follow a more conservative approach, revenue at the lower end of the range is assumed at £390 mm.

The carbonated beverages market is expected to increase by 4,9% annually in the future. Nonetheless, Fever-Tree is positioned in a premium niche for alcoholic mixers. The premium mixers category increased in the past at almost five times the rate of the total mixer category (Fever-Tree, 2023). As the premiumization trend as well as the growing number of health-conscious consumers that look after local, high-quality ingredients are expected to persist in the future, Fever-Tree's revenues are forecasted to increase at a higher rate than the carbonated beverages market. The main drivers for Fever-Tree's revenue growth in the future are continuous innovation, an increasing presence in the US market, and entering new markets, especially in Asia and the Rest of the World.

As mentioned previously, Fever-Tree experienced strong growth rates with the only exception being the COVID-19 pandemic in recent history. Fever-Tree grew at a CAGR of 9,7% during the 2018-2022 period. Considering the recent growth history, Fever-Tree's position in the market as well as the promising industry outlook, the annual revenue growth for the period of 2024-2026 is assumed to equal the 9,7% CAGR of the recent history. As the company becomes more mature, revenue growth is forecasted to decline in the following years. Each year the revenue growth decreases by 1% until the firm reaches a revenue growth of 5,7% in 2030.

7.1.1.2 Operating Expenses

When looking at the recent development of the gross profit margin, a strong decline can be seen, especially in 2022. This decrease in margin was driven mainly by labor cost inflation, elevated energy prices, raw material increases (especially glass), and trans-Atlantic freight price increases. These drivers are expected to persist in 2023. The company implements countermeasures such as price increases across markets globally and increased local US production, which allows the company to reduce trans-Atlantic freight. Nonetheless, glass prices, as well as inflationary pressures, are forecasted to outweigh and drive down the gross profit margin. Hence, the share of COGS in relation to revenue is expected to increase by 3% compared to 2022, reaching a share of 68,5%. In 2024 and the years beyond, the gross profit margin is forecasted to improve as the company is planning to implement a program of efficiency and profit enhancement projects across global operations, which includes an increased focus on cost management and operational improvements as well as expanding the production footprint closer to markets. As trans-Atlantic freight prices and energy prices are already recalibrating, inflationary pressures and glass prices are expected to decrease in 2024 and beyond. Taking these margin improvements into consideration, the gross profit margin is forecasted to increase yearly by 1,5% until 2028 and remains constant in the years beyond at 58,5% (similar level as in 2021).

For the operating expenses forecast in 2023, the five-year average share of operating expenses in relation to revenue has been estimated. As the company is planning to implement a program to improve its operational capabilities and is expected to capture economies of scale in the future, the share of operating expenses in relation to revenue is forecasted to decrease by 0,2% each year until it reaches a percentage share of 21,1% in 2030.

7.1.1.3 Capex, PPE, and D&A

The Capex of Fever-Tree has been calculated based on its historical values as a percentage of revenue. However, the percentage of revenue has not been constant for the projection period, as Fever-Tree is planning to expand its production footprint closer to markets, requiring higher Capex. The percentage of revenue is forecasted to increase by 0,2% yearly until 2027 and remains constant at 2,3% in the projection period beyond 2027. The gross PPE value was forecasted by the same approach as for Pernod Ricard. The depreciation and amortization expenses were calculated as a percentage of gross PPE. Following the historical trend, the percentage share of depreciation and amortization in relation to gross PPE is forecasted to decrease by 1% yearly.

7.1.1.4 Working Capital

The current assets and current liabilities have been forecasted to estimate the working capital in the forecasting period. Inventory, Accounts Receivable, and Accounts Payable have been forecasted by the same approach as in the case of Pernod Ricard. The average historical days outstanding calculated were 74 Inventory Days, 66 Accounts Receivable Days, and 42 Accounts Payable Days.

The other accounts of the current assets have been forecasted either based on their historical percentage share of revenue (Cash & Cash Equivalents, Other Receivables, and Other Current Assets) or expenses (Prepaid Expenses).

On the liabilities side, Accrued Expenses, Current Portion of Leases, and Current Income Taxes Payable have been projected by a fixed percentage of historical revenues or expenses. The Current Portion of Long-Term Debt and Other Current Liabilities have been forecasted based on their average value of the past 5 years and is expected to remain constant over the forecasting period.

7.1.1.5 Free Cash Flow

The Free Cash Flow was then calculated based on the previously described assumptions and is specified in Table 7.

FCF Forecast										
£ mm										
Period	-1	0	1	2	3	4	5	6	7	8
Date	31.12.21	31.12.22	31.12.23	31.12.24	31.12.25	31.12.26	31.12.27	31.12.28	31.12.29	31.12.30
EBIT	55,6	30,6	28,6	40,9	55,3	72,0	90,7	111,2	120,2	128,7
Taxes	(10,9)	(6,0)	(5,6)	(8,0)	(10,9)	(14,2)	(17,9)	(21,9)	(23,6)	(25,3)
NOPAT	44,7	24,6	23,0	32,8	44,4	57,9	72,9	89,3	96,5	103,4
plus: D&A	3,9	5,8	6,8	7,5	8,3	9,2	10,1	10,9	11,5	11,8
minus: CAPEX	(3,6)	(4,6)	(6,1)	(7,5)	(9,2)	(11,2)	(13,3)	(14,3)	(15,2)	(16,1)
minus: Δ NWC	(5,1)	(17,4)	9,4	(3,4)	(7,3)	(8,0)	(7,8)	(7,5)	(7,0)	(6,4)
FCF	39,9	8,4	33,1	29,4	36,2	48,0	61,9	78,4	85,7	92,7

Table 7: Fever-Tree - Free Cash Flow Forecast

7.1.2 WACC

7.1.2.1 Cost of Equity

As for Pernod Ricard, the cost of equity has been calculated by using the CAPM model. Since Fever-Tree is headquartered in the UK and the company generates most of its revenues in the UK, the risk-free rate is assumed to equal the yield of a UK 10-year government bond. As of 05/04/2023, the bond yield equaled 3,4% and was retrieved from the Refinitiv Database.

The expected market risk premium for the UK is 7,0% (Damodaran, 2023). The beta is estimated based on Fever-Tree's share price volatility relative to the FTSE 100 Index using daily changes in share and index closing prices during the past nine years. The time horizon under analysis consists only of 9 years instead of 10 years (as used for Pernod Ricard's beta calculation) because the company is only listed since November 2014. A beta of 0,83 is retrieved by regressing Fever-Tree's daily excess returns on the Index's daily excess returns.

With the previously estimated values, the cost of equity can be calculated, resulting in a value of 9,2%.

7.1.2.2 Cost of Debt

The cost of debt of Fever-Tree is as well estimated by the sum of the risk-free rate and the default spread of the company. As in the cost of equity estimation, the risk-free rate equals the yield of a UK 10-year government bond.

However, the company does not have any outstanding bonds and is not rated by any major credit rating agency. Therefore, the implied rating of the Refinitiv Database is taken, which equals an A+. A rating of A+ relates to a default spread of 1,23% (Damodaran, 2023). Consequently, a cost of debt of 4,7% is obtained.

7.1.2.3 Capital Structure

Since Fever-Tree does not provide any information about the target capital structure, the current capital structure is assumed to remain constant in the forecasting period. The current Debt-to-Equity Ratio equals 7,1%.

7.1.2.4 WACC Computation

The effective tax rate was obtained by dividing the Income Tax Expense by the EBT, resulting in an effective tax rate of 19,7%. As all the variables have been determined, the WACC is computed as follows:

$$WACC = 9,2\% * 93,4\% + 4,7\% * (1 - 19,7\%) * 6,6\% = 8,8\%$$

7.1.3 Terminal Value

As in Pernod Ricard's valuation, the Terminal Value of Fever-Tree has been determined by the perpetuity growth model. The growth rate is assumed to equal the five-year average nominal GDP growth rate of the UK. A growth rate of 2,7% results in a Terminal Value of £1.564,0 mm.

7.1.4 Equity Value

To obtain the enterprise value, the Free Cash Flows and the Terminal Value were discounted using the WACC. The sum of the discounted Free Cash Flows and discounted Terminal Value results in the enterprise value. The equity value was then retrieved by deducting Net Debt from the enterprise value (Table 8). Yet, in this case, the net debt is negative, leading to an equity value higher than the enterprise value.

EV	1.095,0
Net Debt	(78)
EQ	1.173,4
Shares Outstanding	116,6
Share Price	10,06

Table 8: Fever-Tree - Equity value determination

7.1.5 Sensitivity Analysis

To understand how the key input variables, WACC and growth rate, affect the enterprise value, a sensitivity analysis is conducted by the same approach as for Pernod Ricard (Table 9). The sensitivity checks for changes in WACC of +/- 0,2% and changes in growth rate by +/- 0,25%.

		Growth Rate				
		2,2%	2,5%	2,7%	3,0%	3,2%
WACC	1.095,0					
	8,4%	1.107,2	1.143,0	1.181,9	1.224,4	1.271,0
	8,6%	1.067,9	1.101,0	1.136,9	1.176,0	1.218,8
	8,8%	1.031,1	1.061,8	1.095,0	1.131,0	1.170,3
	9,0%	996,5	1.025,0	1.055,7	1.089,1	1.125,3
	9,2%	963,9	990,4	1.019,0	1.049,8	1.083,3

Table 9: Fever-Tree - Sensitivity analysis enterprise value

7.2 Relative Valuation

As in the valuation of the acquirer, the same multiples and approach were used to value Fever-Tree. The peer group under analysis was determined by mainly three criteria: Industry, business model, and geography. The peer group and their respective multiples are shown in Table 10.

Company Name	Country	EV/Revenue	EV/EBITDA	EV/EBIT	P/E
A.G. BARR plc	United Kingdom	1,6x	9,5x	11,9x	16,8x
Britvic plc	United Kingdom	1,8x	11,4x	15,0x	17,0x
Coca-Cola Europacific Partners plc	United Kingdom	2,0x	12,5x	16,5x	16,6x
Nichols plc	United Kingdom	2,3x	12,3x	14,8x	20,4x
Average		1,9x	11,4x	14,5x	17,7x
Median		1,8x	11,4x	15,0x	16,8x

Table 10: Fever-Tree - Multiple calculation

The estimated multiples resulted in a price range between £3,6 to £6,3 per share. A detailed overview of the share price calculation is given in Appendix 13. However, the results of the relative valuation are questionable. The peer group differs from Fever-Tree in terms of size, capital structure, revenue segmentation, and maturity. Fever-Tree's unique positioning in the market makes it difficult to find comparable publicly traded companies.

7.3 Valuation Results

A summary of the valuation results is shown in Figure 7. Taking into consideration the current share price of £12,81 (as of 19/04/2023), the company appears to be overvalued. However, as mentioned before, the accuracy of relative valuation results is highly questionable as the comparable companies strongly differ from Fever-Tree. Therefore, the results obtained by the DCF valuation should rather reflect the fair value of the company. Fever-Tree still appears to be overvalued by the DCF valuation, which may be explained by past strong growth rates as well as favorable industry outlooks. Furthermore, investors may be more optimistic about Fever-Tree's ability to recover operating margins.

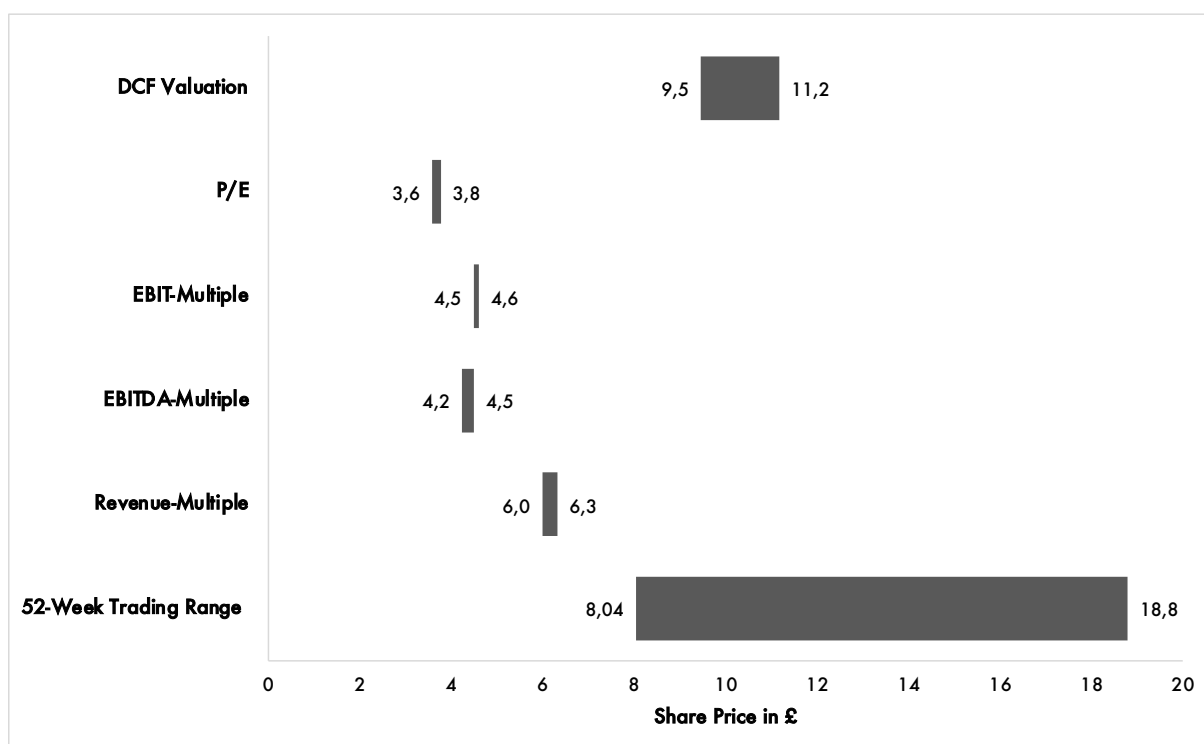


Figure 7: Fever-Tree - Valuation results

8 Combined Firm Valuation

The main reason why firms engage in M&A activities is to benefit from synergies. Synergy is the increase in value that is generated by combining two firms, creating value that would not be available to these companies operating separately (Damodaran, 2005). Synergies are usually valued in three steps. First, each entity is valued separately. Second, the value of the combined entity without synergies is estimated. Third, the value of the combined entity including synergies is determined. Nevertheless, in this case, there is a large size difference between Pernod Ricard and Fever-Tree. The enterprise value of Pernod Ricard is approx. 50 times larger than the enterprise value of Fever-Tree. Due to the large size difference between the two companies, cost synergies that relate to Pernod Ricard are only marginal and are not considered in the valuation. In this case, each company is valued including the synergies it derives from the acquisition. The synergy value is then obtained by deducting the value of each firm including synergies by the value of each firm without synergies.

8.1 Synergy Valuation

8.1.1 Revenue Synergies

An acquisition of Fever-Tree by Pernod Ricard is expected to increase Fever-Tree's and Pernod Ricard's revenues via cross-selling opportunities, and the development of new RTD alcoholic beverages.

Cross-selling involves the sale of related and supplementary products based on consumer's interest, thereby increasing revenues and customer loyalty. As both companies are active in the premium segment with Pernod Ricard offering spirits and wines and Fever-Tree offering mixers for spirits and wines, the products perfectly supplement each other. A combined firm would have the opportunity to offer product bundles, e.g., consisting of a gin and two bottles of tonic water, or offer pre-mixed drinks. As mentioned earlier, the RTD segment is growing faster than any other segment in the spirits and wine industry. This trend could be easily captured by offering high-quality RTD alcoholic beverages and pre-mixed cocktails, boosting revenues.

Fever-Tree generates further revenue synergies through faster expansions to new markets. Currently, the company generates 9% of its revenues in emerging markets, whereas Pernod Ricard already gains 44% of its revenues in emerging markets. Pernod Ricard possesses great knowledge and extensive expertise in these markets, which can be used by Fever-Tree to expand and adapt more quickly to these markets. The expertise may also reduce the probability

of failure, as the managers of Pernod Ricard already know the consumer preferences, cultural differences, and necessary measures to be successful in the market.

The cross-selling benefits, the development of new RTD beverages as well as the higher growth in new markets are assumed to account for revenue synergies of yearly 3% of Fever-Tree's revenue and 0,5% of Pernod Ricard's revenue. Since revenue synergies are generally more difficult to capture and take longer than cost synergies, the full potential of revenue synergies is forecasted to be reached in 2026. In 2023, no revenue synergies are expected to be captured, gradually increasing each year until 2026. The rationale for the revenue synergies forecast is a study conducted by Deloitte, which analyzes synergy data from over 800 global transactions. The study shows that the median revenue synergy size equals 4% revenue synergies of target revenue in the consumer and industrial product industry. As not all revenue synergies relate to Fever-Tree and some are also captured by Pernod Ricard, 3% revenue synergies are forecasted that relate to Fever-Tree and 0,5% revenue synergies that relate to Pernod Ricard.

8.1.2 Cost Synergies

Besides the revenue synergies, Fever-Tree is also expected to benefit from cost synergies through the acquisition of Pernod Ricard. Fever-Tree is forecasted to reduce COGS as well as operating expenses.

Fever-Tree's gross margin has been steadily decreasing since 2019. The most significant impacts on the gross margin have been inflationary cost pressures and increasing trans-Atlantic shipping costs. In 2022, the volatility in European energy has had a significant impact on product costs across categories, whereas the cost increases have been most notably in glass. Pernod Ricard, on the other hand, was influenced by the same impacts but still managed to keep the gross margin on a constant level. The knowledge as well as the supplier contracts would be beneficial for Fever-Tree to be less impacted by the inflationary cost pressures. Furthermore, Pernod Ricard produces at a much larger scale and buys material in higher volumes, which allows the company to have higher bargaining power with suppliers. In case of an acquisition, Fever-Tree would be able to benefit from these economies of scale effects and the higher bargaining power, allowing Fever-Tree to become more cost-efficient and profitable. In addition, Pernod Ricard possesses an unrivaled distribution network with a direct presence in 73 countries. By incorporating Fever-Tree, Fever-Tree could profit from this

strong distribution network, becoming less vulnerable to shipping and transportation cost increases.

These mentioned synergies are forecasted to reduce the COGS by 5 %. As cost synergies are easier to capture than revenue synergies, the full potential is expected to be reached in 2025, gradually increasing in the next two years. The synergies allow Fever-Tree to reach again the gross margin level of 2019 in the upcoming years.

The operating expenses of Fever-Tree are also forecasted to be reduced by synergy effects. Both companies strongly invest in marketing. Pernod Ricard's marketing spending is maintained at 16% of the revenue and Fever-Tree spends 10% of the revenue for marketing purposes. Fever-Tree's marketing expenses can be reduced by joint marketing campaigns. As mentioned previously, a partnership with Lillet is already established. The operating expenses can be further decreased by a reduction of Selling, General & Administrative costs (SG&A). As the main tasks of support departments such as the legal, accounting, IT, or administrative department of Pernod Ricard and Fever-Tree are overlapping, Fever-Tree's number of employees in these departments can be reduced.

The operating expenses are forecasted to be reduced by 2% annually due to synergy effects in marketing and SG&A costs. While the synergy effects of joint marketing campaigns can be captured directly, the analysis of which departments are necessary and which departments can be run jointly, as well as the implementation of joint departments, takes some time. Therefore, the full synergy potential is not expected to be achieved until 2025.

8.1.3 Synergy Value

To obtain the synergy value of the combined entity, the previously mentioned synergies were included in the EBIT and cash-flow projection of Fever-Tree and Pernod Ricard (see appendix 14 & 15). The newly calculated cash flows are then discounted using the respective WACC and the terminal value is estimated based on the new cash flows (the respective growth rate is applied as in the valuation of individual companies). The respective WACC for each firm is applied instead of a combined WACC because the cost of capital is effectively an opportunity cost of investing in similar cash flows risk-wise. As most synergies are Fever-Tree related and only revenue synergies are identified for Pernod Ricard, the use of the respective cost of capital is more appropriate than using a combined WACC (which would be very close to Pernod Ricard's WACC due to the large size difference).

The enterprise value of each firm including synergies is retrieved by calculating the sum of the discounted cash flows and the terminal value, resulting in an enterprise value including synergies of €1.674,2 mm for Fever-Tree and €61.909,4 mm for Pernod Ricard. The synergy value of €431,4 mm for Fever-Tree and €261,4 mm for Pernod Ricard is then estimated by deducting the enterprise value including synergies of the combined entity by the respective enterprise value without synergies. To obtain the synergy and company value of Fever-Tree in euro, the current exchange ratio of 1,13 €/£ (as of 19/04/2023) was applied (ECB, 2023).

8.1.4 Sensitivity Analysis

A sensitivity analysis was conducted on how the synergy value is impacted by changes in the percentage value of the revenue and cost synergies. A sensitivity analysis was performed for each company. Due to the fact, that there are two types of cost synergies in the case of Fever-Tree, COGS and operating expenses synergies, two sensitivity analyses were performed for Fever-Tree. One sensitivity analysis checks the synergy value of Fever-Tree against changes in revenue and COGS synergies, keeping operating expenses synergy constant at two percent (Table 11). The second sensitivity analysis focuses on the synergy value of Fever-Tree based on changes in revenue and operating expenses synergies, keeping the COGS synergies constant at five percent (Table 12). The third sensitivity analysis investigates how changes in revenue synergies of Pernod Ricard influence the synergy value of the company (Table 13)

Synergy Value (in €)		Revenue Synergy				
		1,0%	2,0%	3,0%	4,0%	5,0%
COGS Synergy	3,0%	226,6	283,5	340,5	397,4	454,3
	4,0%	272,1	329,0	385,9	442,8	499,8
	5,0%	317,5	374,5	431,4	488,3	545,2
	6,0%	363,0	419,9	476,8	533,8	590,7
	7,0%	408,4	465,4	522,3	579,2	636,1

Table 11: Fever-Tree - Sensitivity analysis revenue and COGS synergies

Synergy Value (in €)		Revenue Synergy				
		1,0%	2,0%	3,0%	4,0%	5,0%
Op. Expenses Synergy	0,0%	283,9	340,5	397,1	453,7	510,3
	1,0%	300,7	357,5	414,2	471,0	527,8
	2,0%	317,5	374,5	431,4	488,3	545,2
	3,0%	334,4	391,4	448,5	505,6	562,7
	4,0%	351,2	408,4	465,7	522,9	580,1

Table 12: Fever-Tree - Sensitivity analysis revenue and op. expenses synergies

Synergy Value (in €)	Revenue Synergy				
	0,1%	0,3%	0,5%	0,7%	0,9%
	52,3	156,9	261,4	366,0	470,6

Table 13: Pernod Ricard - Sensitivity analysis revenue synergies

8.2 M&A Integration Cost

M&A integration costs are all costs that relate to the combination of the acquired firm with the acquirer to capture synergies and realize the deal strategy. A study conducted by EY showed that the median integration cost in the consumer sector is 7,5% in relation to target revenue (Salsberg & Kaske, 2023). In the case of Fever-Tree and Pernod Ricard, the M&A integration costs are assumed to equal the industry median of 7,5% of Fever-Tree's revenue.

8.3 Summary Combined Firm Valuation

Taking into consideration Fever-Tree's and Pernod Ricard's individual enterprise values before the acquisition, the value of the synergies arising from the combination of the two companies and the cost of integrating Fever-Tree into Pernod Ricard, a combined enterprise value of €63.816 mm is estimated. An overview of the combined enterprise valuation is shown in Figure 8.

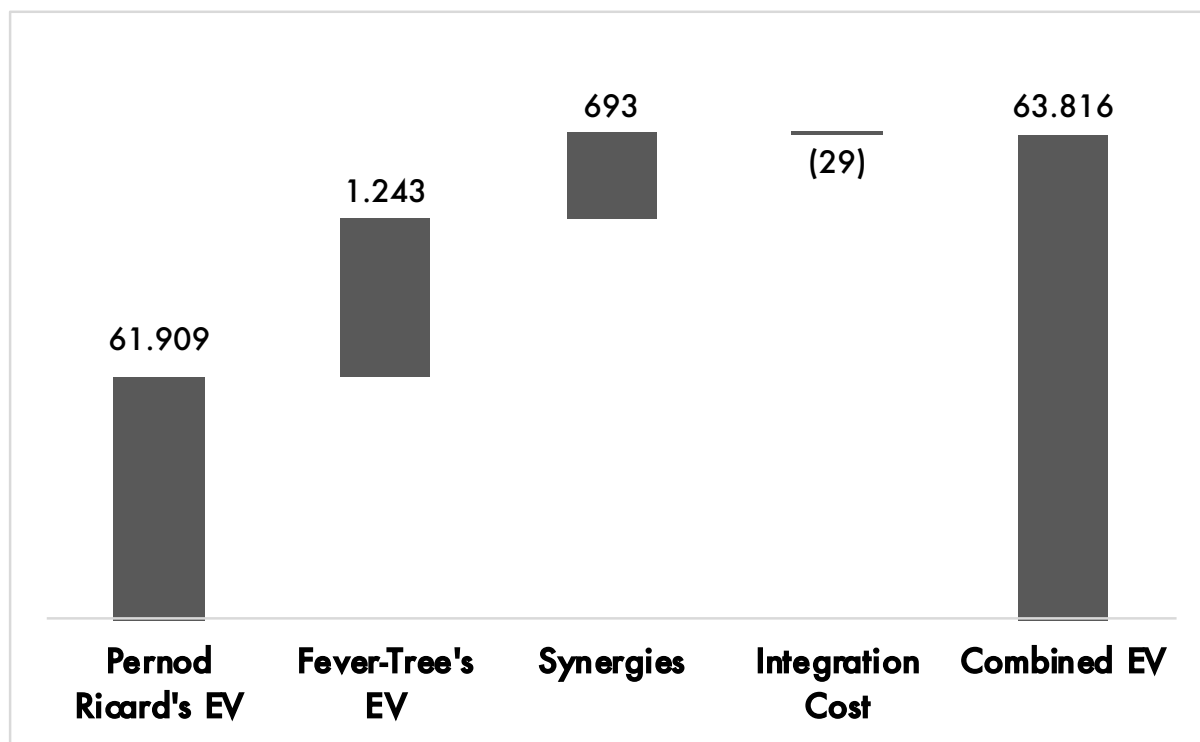


Figure 8: Valuation overview of combined entity, in mm EUR

9 The Transaction

9.1 Acquisition Price

As mentioned in the literature review Section 2.2.2, in order to obtain the right to control the company, the acquirer must pay an acquisition premium. Typically, an acquisition premium ranges between 20% – 30% of the target's current share price. Fever-Tree currently trades at £12,81 per share (as of 19/04/2023) and has 116 mm outstanding shares, resulting in a market value of £1.493 mm (€1.695 mm). However, Fever-Tree's intrinsic equity value is only €1.332 mm. Hence, the company is currently overvalued by 27%. A 20% acquisition premium would result in an acquisition price of €2.034 mm and Pernod Ricard would need to pay a premium of €702 mm (53%) over the current intrinsic equity value. However, the synergies obtained from the acquisition, including integration cost, equal only €664 mm. Hence, Pernod Ricard would destroy shareholder value in case of an acquisition premium of 20%. Shareholder value is only created if the acquisition price is below €1.996 mm.

9.2 Approaching the Target

There are two ways to approach the target: Hostile vs. friendly takeover. Research has shown that hostile takeovers provide positive abnormal returns (Bruner, 2004). However, there are several takeover defense options that increase the difficulty of a hostile takeover (poison pills, pac-man defense, leverages recapitalization, etc.). As the post-merger integration and realization of synergies may be more easily achieved with the approval of the current management, a friendly approach is recommended.

As mentioned earlier, an acquisition premium of 20% is usually required to obtain control of the company. In the case of Fever-Tree, a lower acquisition premium may be feasible as the company is currently overvalued, which is also the analysts' consensus. Fever-Tree is currently covered by 19 analysts in the Refinitiv Database, who value the company with a mean target price of £10,89 per share. Shareholders face the risk of a share price correction by the market. Negotiations with the co-founders (one co-founder is also the CEO), who hold together approx. 10% of the shares, are recommended. In the negotiation, an acquisition premium of 10% can be offered, which can be increased to a 15% acquisition premium during the negotiation process, creating shareholder value on both sides. Incentives such as earn-outs or offering Timothy Warrilow to maintain the position as CEO may convince the co-founders to sell. If the two co-founders can be convinced, the other shareholders will most likely follow, considering the current overvaluation and influence of the co-founders. Furthermore, the

shareholders can generate safe returns and do not face the risk of a market correction of the share price.

If the negotiation process does not lead to success, a tender offer can be taken into consideration. Pernod Ricard can offer a 15% premium with a minimum of 51% of shares sold. Given the current analysts' reports, the offer is likely to succeed.

9.3 Method of Payment

As research has shown that cash deals outperform stock deals (Sirover & Sahni, 2006), an all-cash deal is recommended in the instance of Fever-Tree and Pernod Ricard for several reasons. In an all-cash deal, the entire risk of not capturing the synergies embedded in the acquisition premium is with the buyer, whereas in an all-stock deal, the risk is split in proportion to the ownership share. Since Pernod Ricard's company size is much larger than Fever-Tree, the risk would largely be borne by Pernod Ricard's shareholders anyway. Given the situation, most analysts assess Fever-Tree as overvalued, the shareholder of Fever-Tree may be willing to accept a lower acquisition premium in an all-cash deal as they are not exposed to the risk of a dropping market value and the risk of not capturing the synergies. An all-cash deal signals that Pernod Ricard is confident in capturing the synergies. Offering stocks could also be misinterpreted by the market, signaling that the share price of Pernod Ricard may be overvalued (DeAngelo, DeAngelo, & Rice, 1984).

The deal could be financed mostly by the large cash reserves of Pernod Ricard and in case of a successful acquisition with an accurate acquisition price and captured synergies, shareholders' returns could be amplified.

10 Conclusion

Pernod Ricard pursues the strategy of becoming the world's leading premium spirits and wine company. The company wants to achieve this goal through organic growth and value-creating M&A. An acquisition of Fever-Tree fits strategically well in the strong brand portfolio, as both firms are operating in the premium sector and the products perfectly complement each other.

Pernod Ricard could benefit by getting access to a new market, the premium mixer market, capturing key industry trends, and gaining value from Fever-Tree's promising revenue outlook, fueling the future growth of Pernod Ricard. Both companies could profit by cross-selling opportunities and by the development of joint RTD alcoholic beverages. Due to the large size difference, synergies are mostly captured by Fever-Tree. Fever-Tree can benefit from Pernod Ricard's expertise and knowledge in emerging markets, enabling the company to expand to new markets quickly and successfully. Further advantages for Fever-Tree are increased operating efficiency due to economies of scale, greater bargaining power, shared marketing campaigns, and reduction of employees (IT, Legal, Accounting, Administrative).

The combined entity was valued to equal €63.816 mm, including a synergy value of €693mm. The current overvaluation of Fever-Tree by 27% increases the difficulty of an acquisition. A common acquisition premium of 20% - 30% over the current market value would lead to value destruction for Pernod Ricard's shareholders. For the shareholders of Pernod Ricard, value is only created by an acquisition price below €1.996 mm. Therefore, negotiations with the co-founders are recommended, offering an acquisition premium of 10% - 15%. The other shareholders will most likely follow if the co-founders accept the offer, given the current overvaluation and the signal that would be sent by the two co-founders selling their shares. Taking into consideration Pernod Ricard's large cash reserves, an all-cash deal is recommended.

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Appendices

Appendix 1: Pernod Ricard “House of Brands” categories definitions

Category	Definition
Strategic international brands	Strategic international brands are the brands that account for the highest share of the global business and potential (e.g., Ricard, Mumm, Beefeater, Havana Club).
Prestige brands	The prestige brands belong to the highly desirable luxury brands, that target wealthy customers in leading and iconic outlets (e.g., Jameson, Avion, Perrier-Jouët).
Specialty brands	The specialty brands target the rising demand for smaller-scale craft drinks and try to meet new customer trends and expectations (e.g., Lillet, Monkey 47, Pernod).
Strategic wines	The strategic wine brands include wines with a broad variety of origins and flavors (e.g., Brancott Estate, Campo Viejo, Jacob's Creek).
Strategic local brands	The strategic local brands are present only in a limited number of specific markets and benefit from a high customer value and loyalty (e.g., Pastis 51, ARARAT).
Non-alcoholic brands	The non-alcoholic brands target the increasing demand for healthier drinking alternatives (e.g., Ceder's, Cinzano Spritz 0%, Pacific).
Ready-to-drink brands	The ready-to-drink brands offer quality beverages in a convenient format (e.g., Jameson, Malibu, Absolut).

Appendix 2: Pernod Ricard – Balance Sheet

Balance Sheet					
	FY-18	FY-19	FY-20	FY-21	FY-22
€'000,000					
ASSETS					
Cash And Equivalents	754	923	1.935	2.078	2.527
Total Cash & ST Investments	754	923	1.935	2.078	2.527
Accounts Receivable	1.122	1.226	906	1.126	1.388
Other Receivables	353	350	359	427	446
Total Receivables	1.475	1.576	1.265	1.553	1.834
Inventory	5.472	5.756	6.167	6.555	7.369
Prepaid Exp.	77	85	66	88	83
Other Current Assets	44	40	139	58	98
Total Current Assets	7.822	8.380	9.572	10.332	11.911
Gross Property, Plant & Equipment	4.468	4.673	5.403	5.651	6.357
Accumulated Depreciation	(2.049)	(2.132)	(2.332)	(2.481)	(2.775)
Net Property, Plant & Equipment	2.419	2.541	3.071	3.170	3.582
Long-term Investments	33	221	129	331	595
Goodwill	5.319	5.391	5.611	5.505	6.145
Other Intangibles	11.539	11.683	10.965	10.725	11.512
Loans Receivable Long-Term	110	129	156	105	170
Deferred Tax Assets, LT	1.556	1.590	1.678	1.623	1.844
Other Long-Term Assets	760	1.110	343	356	253
Total Assets	29.558	31.045	31.525	32.147	36.012
LIABILITIES					
Accounts Payable	1.951	2.187	1.877	2.337	3.019
Accrued Exp.	613	636	628	718	785
Short-term Borrowings	280	-	299	7	180
Curr. Port. of LT Debt	173	1.121	804	185	1.068
Curr. Port. of Leases	-	-	88	103	107
Curr. Income Taxes Payable	225	307	232	282	263
Other Current Liabilities	501	578	651	586	685
Total Current Liabilities	3.743	4.829	4.579	4.218	6.107
Long-Term Debt	7.234	6.408	8.791	8.895	9.435
Long-Term Leases	31	28	433	405	400
Pension & Other Post-Retire. Benefits	526	559	605	477	361
Def. Tax Liability, Non-Curr.	2.593	2.756	2.596	2.825	3.139
Other Non-Current Liabilities	453	283	310	252	317
Total Liabilities	14.580	14.863	17.314	17.072	19.759
Common Stock	411	411	411	406	400
Additional Paid In Capital	3.052	3.052	3.052	3.052	3.052
Retained Earnings	1.577	1.455	329	1.305	1.996
Treasury Stock	(329)	(153)	(684)	(140)	(152)
Comprehensive Inc. and Other	10.086	11.222	10.860	10.206	10.648
Total Common Equity	14.797	15.987	13.968	14.829	15.944
Minority Interest	181	195	243	246	309
Total Equity	14.978	16.182	14.211	15.075	16.253
Total Liabilities And Equity	29.558	31.045	31.525	32.147	36.012

Appendix 3: Pernod Ricard – Income Statement

Income Statement					
€'000.000	FY-18	FY-19	FY-20	FY-21	FY-22
Revenue	8.722	9.182	8.448	8.824	10.701
year-on-year growth	n/a	5,3%	-8,0%	4,5%	21,3%
Other revenue	-	-	-	-	-
Total Revenue	8.722	9.182	8.448	8.824	10.701
in % of revenue	100,0%	100,0%	100,0%	100,0%	100,0%
COGS	(3.433)	(3.533)	(3.361)	(3.531)	(4.228)
in % of revenue	39,4%	38,5%	39,8%	40,0%	39,5%
Gross Profit	5.289	5.649	5.087	5.293	6.473
in % of revenue	60,6%	61,5%	60,2%	60,0%	60,5%
Operating expenses	(2.729)	(2.847)	(2.595)	(2.706)	(3.338)
in % of revenue	31,3%	31,0%	30,7%	30,7%	31,2%
EBITDA	2.560	2.802	2.492	2.587	3.135
in % of revenue	29,4%	30,5%	29,5%	29,3%	29,3%
D&A	(216)	(226)	(231)	(181)	(122)
EBIT	2.344	2.576	2.261	2.406	3.013
in % of revenue	26,9%	28,1%	26,8%	27,3%	28,2%
Interest expense	(284)	(297)	(318)	(238)	(180)
Currency exchange gains (losses)	1	2	(19)	(37)	(20)
Other non operating income (expenses)	(4)	(11)	(30)	(84)	(20)
Unusual items	(62)	(206)	(1.283)	(62)	(86)
EBT	1.995	2.064	611	1.985	2.707
in % of revenue	22,9%	22,5%	7,2%	22,5%	25,3%
Other taxes	-	-	-	-	-
Taxes on income and earnings	(392)	(582)	(258)	(667)	(676)
Minority interest in earnings	(26)	(27)	(21)	(13)	(35)
Earnings of discontinued operations	-	-	(3)	-	-
Net Income	1.577	1.455	329	1.305	1.996

Appendix 4: Pernod Ricard – Cash Flow Statement

Cash Flow Statement					
€'000,000	FY-18	FY-19	FY-20	FY-21	FY-22
Net Income	1,577	1,455	329	1,305	1,996
Depreciation & Amort.	216	226	350	367	381
Amort. of Goodwill and Intangibles	-	-	-	-	-
Depreciation & Amort., Total	216	226	350	367	381
Minority Int. in Earnings	26	27	21	13	35
(Gain) Loss From Sale Of Assets	(48)	-	(27)	(16)	(5)
Asset Writedown & Restructuring Costs	69	66	1,004	74	6
(Income) Loss on Equity Invest.	-	-	-	4	(5)
Stock-Based Compensation	35	40	23	28	40
Net Cash From Discontinued Ops.	-	-	3	-	-
Other Operating Activities	1	68	(89)	278	98
Change in Acc. Receivable	(28)	-	-	-	(185)
Change In Inventories	(245)	-	-	-	(632)
Change in Acc. Payable	137	-	-	-	550
Change in Other Net Operating Assets	36	(181)	(433)	(54)	15
Cash from Ops.	1,776	1,701	1,181	1,999	2,294
Capital Expenditure	(374)	(388)	(365)	(433)	(506)
Sale of Property, Plant, and Equipment	17	50	14	63	25
Cash Acquisitions	-	-	-	-	-
Divestitures	-	-	-	-	-
Invest. in Marketable & Equity Secur.	(47)	(178)	(584)	(116)	(723)
Net (Inc.) Dec. in Loans Originated/Sold	-	-	-	-	-
Other Investing Activities	-	-	(1)	-	1
Cash from Investing	(404)	(516)	(936)	(486)	(1,203)
Short Term Debt Issued	-	-	-	-	-
Long-Term Debt Issued	320	163	3,822	1,788	1,564
Total Debt Issued	320	163	3,822	1,788	1,564
Short Term Debt Repaid	-	-	-	-	-
Long-Term Debt Repaid	(1,033)	(431)	(1,653)	(2,476)	(608)
Total Debt Repaid	(1,033)	(431)	(1,653)	(2,476)	(608)
Repurchase of Common Stock	(23)	(121)	(526)	(20)	(813)
Common Dividends Paid	(551)	(645)	(849)	(704)	(826)
Total Dividends Paid	(551)	(645)	(849)	(704)	(826)
Special Dividend Paid	-	-	-	-	-
Other Financing Activities	-	-	1	-	-
Cash from Financing	(1,287)	(1,034)	795	(1,412)	(683)
Foreign Exchange Rate Adj.	(8)	1	(26)	43	42
Misc. Cash Flow Adj.	-	17	(2)	(1)	(1)
Net Change in Cash	77	169	1,012	143	449

Appendix 5: Fever-Tree – Balance Sheet

Balance Sheet					
£'000,000	FY-18	FY-19	FY-20	FY-21	FY-22
ASSETS					
Cash And Equivalents	90	128	143	166	95
Total Cash & ST Investments	90	128	143	166	95
Accounts Receivable	54	51	48	58	72
Other Receivables	4	7	5	8	1
Total Receivables	59	58	53	66	74
Inventory	28	21	39	36	60
Prepaid Exp.	4	3	4	6	-
Other Current Assets	-	0	1	1	-
Total Current Assets	181	210	240	276	229
Gross Property, Plant & Equipment	4	10	13	17	36
Accumulated Depreciation	(2)	(3)	(5)	(7)	(10)
Net Property, Plant & Equipment	3	7	8	10	26
Long-term Investments	-	2	-	-	-
Goodwill	32	32	32	32	-
Other Intangibles	10	10	17	16	53
Deferred Tax Assets, LT	-	1	2	3	2
Other Long-Term Assets	-	-	-	-	2
Total Assets	225	261	298	336	312
LIABILITIES					
Accounts Payable	11	5	21	20	51
Accrued Exp.	18	20	16	26	-
Curr. Port. of LT Debt	6	-	0	0	-
Curr. Port. of Leases	-	1	1	1	3
Curr. Income Taxes Payable	3	5	-	1	1
Def. Tax Liability, Curr.	-	-	-	-	2
Other Current Liabilities	4	3	5	4	-
Total Current Liabilities	42	33	43	51	57
Long-Term Debt	-	-	-	-	-
Long-Term Leases	-	1	1	2	14
Def. Tax Liability, Non-Curr.	0	-	2	2	2
Other Non-Current Liabilities	-	-	-	-	-
Total Liabilities	42	34	46	55	72
Common Stock	0	0	0	0	0
Additional Paid In Capital	55	55	55	55	55
Retained Earnings	128	171	197	227	185
Treasury Stock	-	-	-	-	-
Comprehensive Inc. and Other	-	0	1	(0)	(1)
Total Common Equity	183	226	253	282	239
Total Equity	183	226	253	282	239
Total Liabilities And Equity	225	261	298	336	312

Appendix 6: Fever-Tree – Income Statement

Income Statement					
£'000.000	FY-18	FY-19	FY-20	FY-21	FY-22
	ACT	ACT	ACT	ACT	ACT
Revenue	237,4	260,5	252,1	311,1	344,3
<i>year-on-year growth</i>	<i>n/a</i>	<i>9,7%</i>	<i>-3,2%</i>	<i>23,4%</i>	<i>10,7%</i>
Other revenue	-	-	-	-	-
Total Revenue	237,4	260,5	252,1	311,1	344,3
<i>in % of revenue</i>	<i>100,0%</i>	<i>100,0%</i>	<i>100,0%</i>	<i>100,0%</i>	<i>100,0%</i>
COGS	(114,5)	(129,0)	(135,8)	(180,2)	(225,5)
<i>in % of revenue</i>	<i>48,2%</i>	<i>49,5%</i>	<i>53,9%</i>	<i>57,9%</i>	<i>65,5%</i>
Gross Profit	122,9	131,5	116,3	130,9	118,8
<i>in % of revenue</i>	<i>51,8%</i>	<i>50,5%</i>	<i>46,1%</i>	<i>42,1%</i>	<i>34,5%</i>
Operating Expenses	(46,1)	(57,0)	(61,8)	(71,4)	(82,4)
<i>in % of revenue</i>	<i>19,4%</i>	<i>21,9%</i>	<i>24,5%</i>	<i>23,0%</i>	<i>23,9%</i>
EBITDA	76,8	74,5	54,5	59,5	36,4
<i>in % of revenue</i>	<i>32,4%</i>	<i>28,6%</i>	<i>21,6%</i>	<i>19,1%</i>	<i>10,6%</i>
D&A	(1,4)	(2,3)	(3,2)	(3,9)	(5,8)
EBIT	75,4	72,2	51,3	55,6	30,6
<i>in % of revenue</i>	<i>31,8%</i>	<i>27,7%</i>	<i>20,3%</i>	<i>17,9%</i>	<i>8,9%</i>
Net Interest expense	0,2	0,3	0,3	-	0,4
EBT	75,6	72,5	51,6	55,6	31,0
<i>in % of revenue</i>	<i>31,8%</i>	<i>27,8%</i>	<i>20,5%</i>	<i>17,9%</i>	<i>9,0%</i>
Other taxes	-	-	-	-	-
Taxes on income and earnings	(13,8)	(14,0)	(9,9)	(11,0)	(6,1)
Net Income	61,8	58,5	41,7	44,6	24,9

Appendix 7: Fever-Tree – Cash Flow Statement

Cash Flow Statement					
£'000,000	FY-18	FY-19	FY-20	FY-21	FY-22
Net Income	62	59	42	45	25
Depreciation & Amort.	1	2	3	3	4
Amort. of Goodwill and Intangibles	1	1	1	1	2
Depreciation & Amort., Total	1	3	4	5	6
Other Amortization	-	-	-	0	-
(Gain) Loss From Sale Of Assets	-	-	-	0	-
Stock-Based Compensation	2	2	2	3	3
Provision & Write-off of Bad debts	-	-	-	4	(3)
Other Operating Activities	1	2	(7)	0	(0)
Change in Acc. Receivable	(7)	1	4	(15)	(2)
Change In Inventories	(16)	6	(17)	1	(24)
Change in Acc. Payable	4	(4)	11	8	1
Change in Other Net Operating Assets	-	-	-	(3)	2
Cash from Ops.	46	68	38	47	9
Capital Expenditure	(2)	(3)	(3)	(4)	(5)
Cash Acquisitions	-	-	(2)	-	(4)
Divestitures	-	-	-	-	-
Sale (Purchase) of Intangible assets	-	-	-	(1)	(3)
Invest. in Marketable & Equity Secur.	-	-	-	-	-
Net (Inc.) Dec. in Loans Originated/Sold	-	-	-	-	-
Other Investing Activities	0	1	1	0	1
Cash from Investing	(1)	(2)	(4)	(4)	(10)
Short Term Debt Issued	-	-	-	-	-
Long-Term Debt Issued	-	-	-	-	-
Total Debt Issued	-	-	-	-	-
Short Term Debt Repaid	-	-	-	-	-
Long-Term Debt Repaid	-	(7)	(2)	(1)	(2)
Total Debt Repaid	-	(7)	(2)	(1)	(2)
Issuance of Common Stock	1	-	-	-	-
Common Dividends Paid	(14)	(18)	(18)	(18)	-
Common and/or Pref. Dividends Paid	-	-	-	-	(69)
Total Dividends Paid	(14)	(18)	(18)	(18)	(69)
Special Dividend Paid	-	-	-	-	-
Other Financing Activities	(0)	(2)	(0)	(0)	(0)
Cash from Financing	(13)	(27)	(20)	(19)	(71)
Foreign Exchange Rate Adj.	1	(0)	0	(0)	1
Net Change in Cash	33	39	15	23	(71)

Appendix 8: Pernod Ricard – EBIT Forecast

€'000.000	FY-22	FY-23	FY-24	FY-25	FY-26	FY-27	FY-28
		E	E	E	E	E	E
Revenue	10.701	11.262	11.853	12.475	13.129	13.818	14.542
year-on-year growth	21,3%	5,2%	5,2%	5,2%	5,2%	5,2%	5,2%
Other revenue	-	-	-	-	-	-	-
Total Revenue	10.701	11.262	11.853	12.475	13.129	13.818	14.542
in % of revenue	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
COGS	(4.228)	(4.441)	(4.674)	(4.919)	(5.177)	(5.448)	(5.734)
in % of revenue	39,5%	39,4%	39,4%	39,4%	39,4%	39,4%	39,4%
Gross Profit	6.473	6.822	7.179	7.556	7.952	8.369	8.808
in % of revenue	60,5%	60,6%	60,6%	60,6%	60,6%	60,6%	60,6%
Operating expenses	(3.338)	(3.488)	(3.671)	(3.864)	(4.067)	(4.280)	(4.504)
in % of revenue	31,2%	31,0%	31,0%	31,0%	31,0%	31,0%	31,0%
EBITDA	3.135	3.333	3.508	3.692	3.886	4.089	4.304
in % of revenue	29,3%	29,6%	29,6%	29,6%	29,6%	29,6%	29,6%
D&A	(122)	(262)	(282)	(303)	(326)	(350)	(375)
EBIT	3.013	3.071	3.226	3.389	3.560	3.740	3.929
in % of revenue	28,2%	27,3%	27,2%	27,2%	27,1%	27,1%	27,0%

Appendix 9: Pernod Ricard – Current Assets and Current Liabilities Forecast

€'000.000	FY-22	FY-23	FY-24	FY-25	FY-26	FY-27	FY-28
	ACT	E	E	E	E	E	E
CURRENT ASSETS							
Cash And Equivalents	2.527	2.660	2.799	2.946	3.100	3.263	3.434
in % of revenue	23,6%	23,6%	23,6%	23,6%	23,6%	23,6%	23,6%
Accounts Receivable	1.388	1.388	1.461	1.538	1.618	1.703	1.793
Other Receivables	446	465	484	505	526	548	572
in % of revenue	4,2%						
Total Receivables	1.834	1.853	1.946	2.043	2.145	2.252	2.364
Inventory	7.369	7.447	7.838	8.249	8.682	9.137	9.616
Prepaid Exp.	83	98	103	109	115	121	127
in % of expenses	1,1%						
Other Current Assets	98	76	76	76	76	76	76
Total Current Assets	11.911	12.134	12.762	13.422	14.117	14.848	15.618
CURRENT LIABILITIES							
Accounts Payable	3.019	2.376	2.501	2.632	2.770	2.915	3.068
Accrued Exp.	785	830	874	920	968	1.019	1.072
in % of expenses	10,4%						
Short-term Borrowings	180	153	153	153	153	153	153
Curr. Port. of LT Debt	1.068	806	848	893	940	989	1.041
in % of revenue	10,0%						
Curr. Port. of Leases	107	118	130	143	158	174	192
Curr. Income Taxes Payable	263	323	340	357	376	396	417
in % of revenue	2,5%						
Other Current Liabilities	685	600	600	600	600	600	600
Total Current Liabilities	6.107	5.206	5.446	5.698	5.965	6.246	6.543

Appendix 10: Fever-Tree – EBIT Forecast

£'000.000	FY-22 ACT	FY-23 E	FY-24 E	FY-25 E	FY-26 E	FY-27 E	FY-28 E	FY-29 E	FY-30 E
Revenue	344,3	395,0	433,5	475,7	522,0	567,6	611,6	652,8	690,3
year-on-year growth	10,7%	14,7%	9,7%	9,7%	9,7%	8,7%	7,7%	6,7%	5,7%
Other revenue	-	-	-	-	-	-	-	-	-
Total Revenue	344,3	395,0	433,5	475,7	522,0	567,6	611,6	652,8	690,3
in % of revenue	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
COGS	(225,5)	(270,6)	(288,2)	(306,8)	(326,2)	(343,4)	(357,7)	(381,9)	(403,8)
in % of revenue	65,5%	68,5%	66,5%	64,5%	62,5%	60,5%	58,5%	58,5%	58,5%
Gross Profit	118,8	124,4	145,2	168,9	195,8	224,2	253,8	270,9	286,5
in % of revenue	34,5%	31,5%	33,5%	35,5%	37,5%	39,5%	41,5%	41,5%	41,5%
Operating Expenses	(82,4)	(89,0)	(96,8)	(105,3)	(114,5)	(123,4)	(131,7)	(139,3)	(145,9)
in % of revenue	23,9%	22,5%	22,3%	22,1%	21,9%	21,7%	21,5%	21,3%	21,1%
EBITDA	36,4	35,4	48,4	63,6	81,3	100,8	122,1	131,6	140,6
in % of revenue	10,6%	9,0%	11,2%	13,4%	15,6%	17,8%	20,0%	20,2%	20,4%
D&A	(5,8)	(7)	(8)	(8)	(9)	(10)	(11)	(11)	(12)
EBIT	30,6	29	41	55	72	91	111	120	129
in % of revenue	8,9%	7,2%	9,4%	11,6%	13,8%	16,0%	18,2%	18,4%	18,7%

Appendix 11: Fever-Tree – Current Assets and Current Liabilities Forecast

£'000.000	FY-22 ACT	FY-23 E	FY-24 E	FY-25 E	FY-26 E	FY-27 E	FY-28 E	FY-29 E	FY-30 E
CURRENT ASSETS									
Cash And Equivalents	95	109	122	136	152	168	185	200	215
in % of revenue	27,7%	27,7%	28,2%	28,7%	29,2%	29,7%	30,2%	30,7%	31,2%
Accounts Receivable	72	72	79	86	95	103	111	119	125
Other Receivables	1	7	8	9	10	11	11	12	13
in % of revenue	0,4%	1,9%	1,9%	1,9%	1,9%	1,9%	1,9%	1,9%	1,9%
Total Receivables	74	79	87	95	105	114	122	131	138
Inventory	60	55	58	62	66	70	72	77	82
Prepaid Exp.	-	6	7	7	8	8	9	9	10
in % of expenses	0,0%	1,8%	1,8%	1,8%	1,8%	1,8%	1,8%	1,8%	1,8%
Other Current Assets	-	1	1	1	1	1	1	1	1
in % of revenue	0,0%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%
Total Current Assets	229	250	275	302	332	361	389	419	446
CURRENT LIABILITIES									
Accounts Payable	51	38	41	44	46	49	51	54	57
Accrued Exp.	-	29	31	34	36	38	40	42	45
in % of expenses	0,0%	8,1%	8,1%	8,1%	8,1%	8,1%	8,1%	8,1%	8,1%
Curr. Port. of LT Debt	-	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1
Curr. Port. of Leases	3	3	4	4	5	5	6	6	7
in % of revenue	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%
Curr. Income Taxes Payable	1	3	3	3	4	4	4	4	5
in % of revenue	0,2%	0,7%	0,7%	0,7%	0,7%	0,7%	0,7%	0,7%	0,7%
Def. Tax Liability, Curr.	2	-	-	-	-	-	-	-	-
Other Current Liabilities	-	-	3	3	3	3	3	3	3
Total Current Liabilities	57	74	82	88	94	99	104	110	116

Appendix 12: Pernod Ricard – Share Price Calculation (Relative Valuation)

Multiple Valuation - Average	EV/Revenue	EV/EBITDA	EV/EBIT	P/E
2022 Value	10.701,0	3.135,0	3.013,0	7,7
Multiple	6,1x	21,1x	23,4x	31,6x
Enterprise Value	64.741,1	66.098,3	70.540,4	73.075,2
Net Debt	8.663,0	8.663,0	8.663,0	8.663,0
Equity Value	56.078,1	57.435,3	61.877,4	64.412,2
Shares Outstanding	265,1	265,1	265,1	265,1
Share Price	211,5	216,7	233,4	243,0

Multiple Valuation - Median	EV/Revenue	EV/EBITDA	EV/EBIT	P/E
2022 Value	10.701,0	3.135,0	3.013,0	7,7
Multiple	5,6x	20,4x	22,9x	28,7x
Enterprise Value	59.925,6	64.016,7	68.877,2	67.171,4
Net Debt	8.663,0	8.663,0	8.663,0	8.663,0
Equity Value	51.262,6	55.353,7	60.214,2	58.508,4
Shares Outstanding	265,1	265,1	265,1	265,1
Share Price	193,4	208,8	227,1	220,7

Appendix 13: Fever-Tree – Share Price Calculation (Relative Valuation)

Multiple Valuation - Average	EV/Revenue	EV/EBITDA	EV/EBIT	P/E
2022 Value	344,3	36,4	30,6	0,2
Multiple	1,9x	11,4x	14,5x	17,7x
Enterprise Value	659,3	415,8	444,8	361,6
Net Debt	(78,4)	(78,4)	(78,4)	(78,4)
Equity Value	737,7	494,2	523,2	440,0
Shares Outstanding	116,6	116,6	116,6	116,6
Share Price	6,3	4,2	4,5	3,8

Multiple Valuation - Median	EV/Revenue	EV/EBITDA	EV/EBIT	P/E
2022 Value	344,3	36,4	30,6	0,2
Multiple	1,8x	11,4x	15,0x	16,8x
Enterprise Value	619,7	415,0	459,0	339,2
Net Debt	(78,4)	(78,4)	(78,4)	(78,4)
Equity Value	698,1	493,4	537,4	417,6
Shares Outstanding	116,6	116,6	116,6	116,6
Share Price	6,0	4,2	4,6	3,6

Appendix 14: Fever-Tree – Synergy Forecast

£'000.000	FY-23	FY-24	FY-25	FY-26	FY-27	FY-28	FY-29	FY-30
	E	E	E	E	E	E	E	E
Revenue	395,0	433,5	475,7	522,0	567,6	611,6	652,8	690,3
year-on-year growth	14,7%	9,7%	9,7%	9,7%	8,7%	7,7%	6,7%	5,7%
Other revenue	-	-	-	-	-	-	-	-
Revenue Synergies	-	4	10	16	17	18	20	21
in % of revenue	-	0	0	0	0	0	0	0
Total Revenue	395,0	437,8	485,2	537,7	584,7	629,9	672,4	711,0
in % of revenue	100,0%	101,0%	102,0%	103,0%	103,0%	103,0%	103,0%	103,0%
COGS	(270,6)	(288,2)	(306,8)	(326,2)	(343,4)	(357,7)	(381,9)	(403,8)
in % of revenue	68,5%	65,8%	63,2%	60,7%	58,7%	56,8%	56,8%	56,8%
COGS Synergies	3	9	15	16	17	18	19	20
in %	1,0%	3,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%
Gross Profit	127,1	158,2	193,7	227,8	258,4	290,1	309,6	327,4
in % of revenue	32,2%	36,5%	40,7%	43,6%	45,5%	47,4%	47,4%	47,4%
Operating Expenses	(89,0)	(97,8)	(107,4)	(118,0)	(127,1)	(135,7)	(143,5)	(150,3)
in % of revenue	22,5%	22,3%	22,1%	21,9%	21,7%	21,5%	21,3%	21,1%
Operating Synergies	1	1	2	2	3	3	3	3
in %	1,0%	1,5%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%
EBITDA	39,0	61,9	88,5	112,2	133,9	157,1	169,0	180,1
in % of revenue	9,9%	14,3%	18,6%	21,5%	23,6%	25,7%	25,9%	26,1%
D&A	(6,8)	(7,5)	(8,3)	(9,2)	(10,1)	(10,9)	(11,5)	(11,8)
EBIT	32,2	54,4	80,2	102,9	123,8	146,2	157,5	168,3
in % of revenue	8,2%	12,5%	16,8%	19,7%	21,8%	23,9%	24,1%	24,4%

Appendix 15: Pernod Ricard – Synergy Forecast

€'000.000	FY-23	FY-24	FY-25	FY-26	FY-27	FY-28
	E	E	E	E	E	E
Revenue	11.262	11.853	12.475	13.129	13.818	14.542
year-on-year growth	5,2%	5,2%	5,2%	5,2%	5,2%	5,2%
Revenue Synergies	-	12	37	66	69	73
in % of revenue	0,0%	0,1%	0,3%	0,5%	0,5%	0,5%
Total Revenue	11.262	11.865	12.512	13.195	13.887	14.615
in % of revenue	100,0%	100,1%	100,3%	100,5%	100,5%	100,5%
COGS	(4.441)	(4.678)	(4.933)	(5.203)	(5.476)	(5.763)
in % of revenue	39,4%	39,4%	39,4%	39,4%	39,4%	39,4%
Gross Profit	6.822	7.187	7.579	7.992	8.411	8.852
in % of revenue	60,6%	60,6%	60,8%	60,9%	60,9%	60,9%
Operating expenses	(3.488)	(3.675)	(3.876)	(4.087)	(4.301)	(4.527)
in % of revenue	31,0%	31,0%	31,0%	31,0%	31,0%	31,0%
EBITDA	3.333	3.512	3.703	3.905	4.110	4.325
in % of revenue	29,6%	29,6%	29,7%	29,7%	29,7%	29,7%
D&A	(262)	(282)	(304)	(326)	(350)	(375)
EBIT	3.071	3.229	3.400	3.579	3.760	3.951
in % of revenue	27,3%	27,2%	27,3%	27,3%	27,2%	27,2%