



THE PROPOSED ACQUISITION OF DANONE BY UNILEVER

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During the last years, I worked hard to overcome my own goals and discover who I want to be as a professional. It is hard to say if this is the final year of my studying journey.

I thought this thesis would be the last chapter of my master's degree, but it was more than that. It was the realization that we can all finish what we set our mind to, even in unusual times. I would like to thank my Academic Advisor António Borges de Assunção for the support and availability he gave me since day one, not only in terms of guidance and theoretical background but also motivation. I would like to express gratitude to my friends Ana Prata and Tomi Siira for the support they gave me while writing this thesis.

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ABSTRACT

The purpose of this dissertation is to propose an acquisition in the Consumer Goods Sector. This Sector has been consistently growing in the last years, and Investment Analysts forecast it as one of the fastest moving in the next years.

The proposed companies are Unilever as acquirer and Danone as target. Danone is a unique opportunity for Unilever to acquire a company that has brands loved by million families across countries and a strong pathway for delivering long term sustainable value to the economy and environment.

Unilever and Danone have an intrinsic value of €123 046million and €44 507million, respectively. The acquisition would follow a friendly takeover with a bid price of €56 265 million, which represents a 30% premium over the market capitalization of the target as of 29th May 2020. The offer would be 80% cash and 20% equity, financed by cash reserves and the issuance of debt. In term of shares, Unilever would need to issue 242million shares for the acquisition. It is expected that the proposed acquisition yield €13 967million in synergies and deliver €2 208 million value to acquirer shareholders.

Keywords: Mergers & Acquisitions, Consumer Goods, Healthy Food

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ABSTRATO

Esta dissertação tem como objetivo propor uma aquisição no setor de Bens de Consumo. Este setor tem vindo a crescer nos últimos anos, e analistas preveem como um dos setores com maior mudança nos próximos anos.

Unilever é a empresa proposta como investidora e Danone como empresa adquirida. Danone é uma oportunidade única para Unilever adquirir uma empresa que tem marcas amadas por milhões de famílias em vários países e um plano forte para criar valor sustentável a longo prazo para a economia e ambiente.

Unilever e Danone têm valor intrínseco de €123 046 milhões e €44 507 milhões, respetivamente. A aquisição seguiria uma proposta amigável com uma oferta de €56 265 milhões, que representa um prémio de 30% acima do valor de mercado da empresa adquirida a 29 Maio 2020. A oferta seria em dinheiro e ações, financiada por capital próprio e emissão de dívida. Unilever emitiria 242 milhões de novas ações. Espera-se que a aquisição proposta gere sinergias no valor de €13 967m e crie um valor capturado de €2 208 milhões para os acionistas da Unilever.

Palavras-chave: Fusões e Aquisições, Bens de Consumo, Comida Saudável

Título: A Proposta de Aquisição da Danone pela Unilever

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LIST OF ABBREVIATIONS

APV	Adjusted Present Value
BRICS	Brazil, Russia, India, China and South Africa
CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenditures
CAPM	Capital Asset Pricing Model
CF	Cash Flow
COGS	Cost of Goods Sold
GDP	Gross Domestic Product
D&A	Depreciation and Amortization
DCF	Discounted Cash Flow
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EPS	Earnings per Share
EV	Enterprise Value
FCFF	Free Cash Flow to the Firm
FMCG	Fast Moving Consumer Goods
IPO	Initial Public Offering
M&A	Mergers and Acquisitions
MV	Market Value
PP&E	Property, Plant and Equipment
PV	Present Value
R&D	Research and Development
ROE	Return on Equity
SG&A	Selling, General and Administrative
TV	Terminal Value
WACC	Weighted Average Cost of Capital
WC	Working Capital

PART I – LITERATURE REVIEW

1. Mergers and Acquisitions

1.1. M&A Overview

Mergers and Acquisitions (M&A), also referred as “the market for corporate control” (Berk & DeMarzo, 2017), can either be the act of one company or group of individuals acquiring another company (acquisition), or the merge between companies (merger). When one firm acquires another, there is typically a buyer, referred as the acquirer or bidder, and a seller, called the target firm. When this happens, there is a change of ownership and control of the firm, usually referred as a takeover (Berk & DeMarzo, 2017).

Mergers can be characterized as horizontal when the firms operate in a similar industry, or vertical, meaning the merger take place between firms that operate in two distinct industries but within the same supply chain (DePamphilis, 2011). Conglomerate Merger is the term used when there is merge between firms that operate in different industries and their business activities are unrelated.

Additionally, a takeover can be denominated as friendly or hostile. While a friendly takeover happens with the approval of target’s management, a hostile takeover takes place when a deal happens against the wishes of the management team.

1.2. M&A Outlook

The M&A market tends to be characterized by peaks of heavy activity, followed by moments of few transactions, also called merger waves. Although Brealey & Myers (1996) argue that financial theory does not explain merger waves, Rhodes-Kropf, Robinson, and Viswanathan (2005) suggest that disclosure of private information on both sides can lead to increased merger activity that is correlated with market.

The “urge to merge” began in North America during the 60s and there has been a steady increase in the number of mergers and acquisitions since that time (Burke, 1988). In 2007, M&A deals broke new records and the second half of 2007 saw the end of one of the biggest merger wave in the U.S. market (Wruck, 2008).

With a more careful overview of last year, coming from a strong 2018, in 2019 global M&A deals declined both in volume and value. In fact, the results were the lowest for any year since 2013. Nevertheless, 2019 was the sixth highest year on record in terms of volume and the seventh highest in terms of value.¹ Although there was a decline in announcements of M&A activity, strategic dialogue remained strong as a driver for M&A activity and stronger business, being North America the region with highest number of megadeals^{2,3}. Figure 1 give additional understanding of Deal value and volume in the last 6 years.

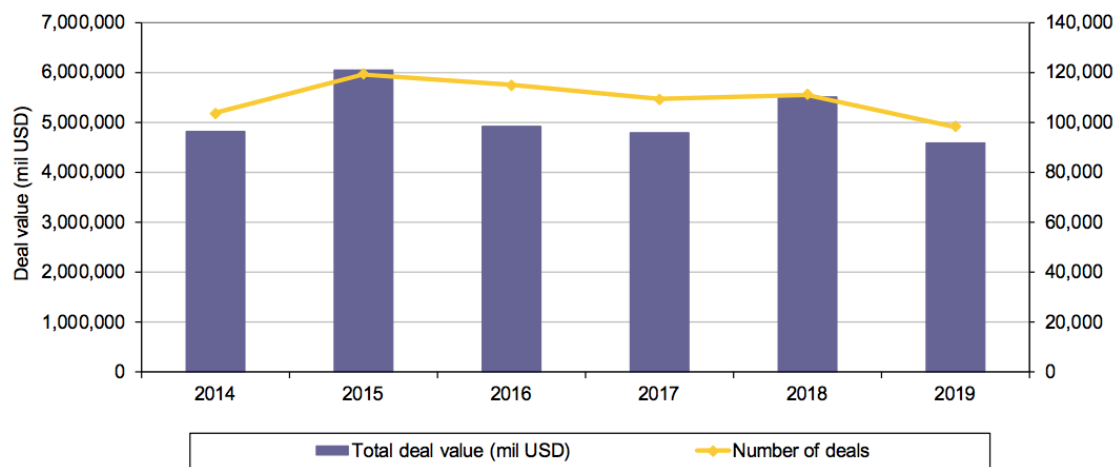


Figure 1- Global Deal Value and Volume; source: Moody's Analytics (2019)

M&A activity is expected to be driven by firms looking to strengthen their portfolio, particularly in times of prolonged uncertainty. Three trends are shaping the global M&A landscape in the future years: i) Portfolio optimization, ii) Health, ethicality and authenticity, and iii) Digital transformation.⁴ Companies with similar size are expected to continue to merge, to increase free cash flow, diminish earnings volatility and withstand risks raised from uncertainty in some markets. Studies suggest that Europe is at the verge of losing its competitive advantage in some markets, especially due to the tendency for bigger deals in North America and the increase of number of deals in Asia Pacific (driven mainly by the Chinese economy).⁵

¹ (Moody's Analytics, 2019)

² Transactions with size greater than 10million USD

³ (J.P. Morgan, 2020)

⁴ (KPMG, 2019)

⁵ (J.P. Morgan, 2020)

Global Scope deals have increased from 41% in 2015 to 58% in 2019, showing a consistent response of the market to growth pressures and disruption. Scope deals are prevalent in most of the industries, with healthcare, technology and consumer goods showing the strongest momentum.⁶

1.3. Motivations for M&A

Many acquisitions and large strategic investments are often justified with the argument that they will create synergies, which is the additional value that is generated when combining firms, creating opportunities that would not be available alone (Damodaran, 2005).

Trautwein (1990) categorizes seven theories of merger motives, as seen on Table 1.

Merger as rational choice	Merger benefits bidder's shareholders	Net gains through synergies	Efficiency theory
		Wealth transfers from customers	Monopoly theory
		Wealth transfers from target's shareholders	Raider theory
		Net gains through private information	Valuation theory
	Merger benefits managers		Empire-building theory
Merger as process outcome			Process theory
Merger as macroeconomic Phenomenon			Disturbance theory

Table 1- Merger Motives; adapted from Trautwein (1990)

Literature suggests that Merger Motives can be divided into three different groups: Economic, Personal and Strategic Motives (Brouthers, van Hastenburg, & van den Ven, 1998). In their study, Brouthers, van Hastenburg and van den Ven recognize that merger motives can range from increasing profitability to increasing managerial prestige and conclude that managers have often more than one motive to enter a deal. Walter & Barney (1990) and

⁶ (Bain & Company, Inc. , 2020)

Trautwein (1990) also state that mergers might be undertaken to enhance the economic performance of the firm and this Economic Motives can be marketing economies of scale, increase profitability, cost reduction, response to market failures, among others. Similarly, Berkovitch & Narayanan (1993) and Trautwein (1990) explain that Personal Motives such as prestige or remuneration play an important role in managers' final decision in entering a deal. Finally, Strategic motives, such as synergy, global expansion, pursuing market power, acquisition of new resources, improving the competitive environment by (1) acquiring a competitor or (2) creating barriers to entry, may motivate merger activities (Ingham, Kran, & Lovestam, 2007) and (Walter & Barney, 1990).

When valuing synergies, acquirers typically base their calculations on five major types of synergies: savings, revenue enhancements, process improvements, financial engineering, and tax benefits (Eccles, Lanes, & Wilson, 1999). Damodaran (2005) categorizes various sources of synergies into two groups: operating and financial synergies. The author examines how to value these synergies accurately and how sensitive they are to different assumptions made (Figure 2).

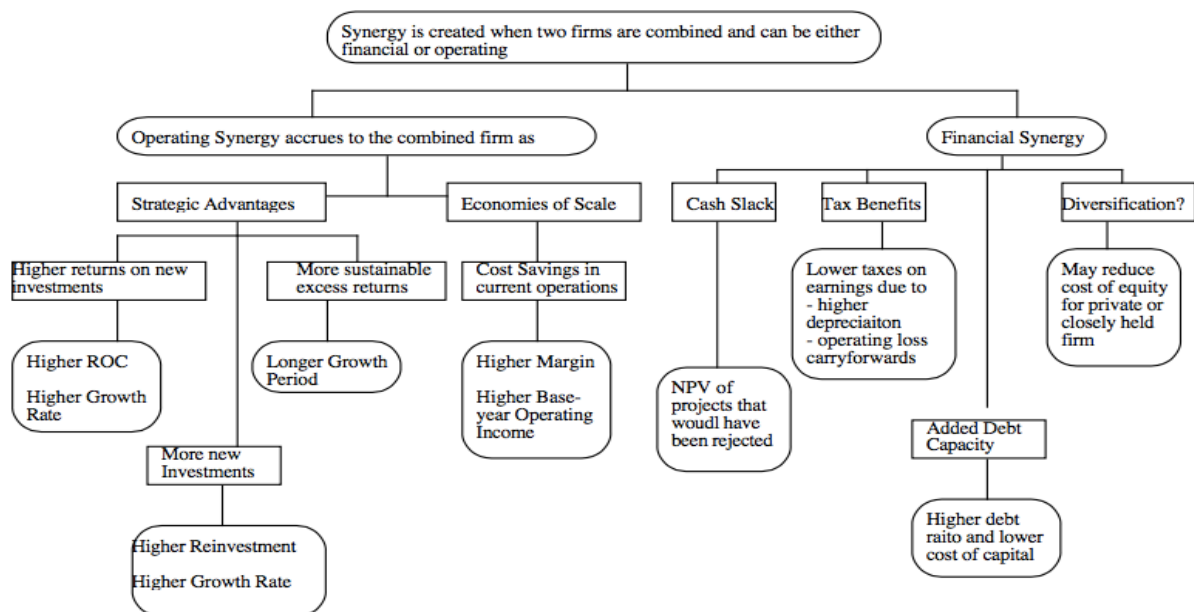


Figure 2- Operating and Financial Synergies; source: Damodaran (2005)

Finally, Bunter and Lintner (1951) study tax motivation to sell. The authors conclude that non-taxes motivations had greater importance than the tax motivation in contributing to the decision to sell.

1.4. Acquisition Premium

Nowadays, both the acquirer and the target company know that the purchase price will be higher than the intrinsic value, which means that the buyer will most likely pay a premium. (Eccles, Lanes, & Wilson, 1999). The acquisition premium represents the percentage difference between the acquisition price and the premerger price of the target firm (Berk & DeMarzo, 2017).

As table 2 shows, acquirers pay an average premium of 43% over the premerger price of the target.

Premium Paid over Premerger Price	Announcement Price Reaction- Target	Announcement Price Reaction- Acquirer
43%	15%	1%

Table 2- Acquisition Premium and Announcement Price Reaction; adapted from Berk & DeMarzo (2017)

Sirower & Sahni (2006) reported an average premium of 36%, while acquisitions with persistent positive returns had an average of 26% and acquisitions with persistent negative returns a 41% premium.

Literature gives evidence that the bigger the value from synergies, the larger the premium (Damodaran, 2005). The characteristic of the takeover also has an impact on premium paid. Hostile acquisitions have larger premiums than friendly mergers. Tender offers tend also to pay higher premium than the one on mergers (Damodaran, 2005).

While some authors (Eccles, Lanes, & Wilson, 1999) show that the size of the premium does not always correlate to the success of the deal, others (Trautwein, 1990) suggest that managers tend to set a bid price high enough to avoid competitors to bid.

1.5. Methods of Payment

Reasons that influence the method of payment in corporate acquisitions, can go from characteristics of firms to characteristics of the environment in which the acquisition takes place (Martin, 1996). Methods of payment in a corporate acquisition are divided into all-cash, all-stock and mixed payment of cash and equity.

Overall, the way an acquisition is paid determines how the risk is distributed between

the buyer and the seller. In a cash deal, the exchange of money for shares sets a simple transfer of ownership. On the other hand, in an exchange of shares, it becomes far less clear who is the buyer and who is the seller (Rappaport & Sirower, 1999). In a cash payment, there is no uncertainty and targets' managers walk away with cash once the payment is settled, while when there is a stock or mixed payment, uncertainty is faced since the value is tied up to post merger success (Amel-Zadeh & Meeks, 2019). Travlos (1987) explains the method of payment plays also a signaling effect, since when managers engage in an all-stock deal, they believe that its shares are overvalued (Rappaport & Sirower, 1999).

Evidence suggests that shareholder returns are also affected by the type of payment. Indeed, shareholders of acquiring companies fare worse in stock transactions than they do in cash transaction (Rappaport & Sirower, 1999). Furthermore, equity-financed transactions tend to create less value since obliges targets' shareholders to share the overpaying risk, according to their ownership of the combined firm (Rappaport & Sirower, 1999). The method of payment has also an effect on the acquiring firm's capital structure. When the payment is settled in cash, usually it is financed with additional borrowing which adds to the indebtedness of the acquiring firm (Travlos, 1987 and Berk & DeMarzo, 2017). Additionally, Damodaran (2005) finds that stock prices of target firms tend to do much better on the announcement of all-cash acquisitions than all-stock or mixed payment acquisitions.

Evidence suggest that stock financing is particularly popular in large transactions and friendly takeovers. Martin (1996) concludes that the higher the acquirer's growth opportunities, the greater the likelihood of the acquirer to use stock to finance the acquisition. On the other hand, when there is high availability of cash, high institutional shareholding and block holdings, the likelihood of a stock financing decreases, and managers tend to go for a cash payment. Tender offers also reveal to be most likely financed with cash (Martin, 1996).

Rappaport & Sirower (1999) sustain that also valuation plays an important role in what drives the method of payment- especially when shareholders accept an offer for an exchange of shares. Amel-Zadeh & Meeks (2019) conclude in their study that voluntary merger forecasts by the target only has a positive effect on the completion likelihood in stock-financed acquisitions, but not in cash acquisitions.

1.6. Profitability of M&A Deals

M&As are an effective way of transferring resources to where they are most needed and of removing underperforming managers (DePamphilis, 2011), but studies suggest that sellers

are the biggest beneficiaries of M&A transactions (Sirower & Sahni, 2006) and conclude that most acquisitions do not create any value for the acquiring firm shareholders, even though managers keep pursuing it, making bigger deals every year (Eccles, Lanes, & Wilson, 1999).

Literature gives a variety of arguments to the lack of good performance in deals, such as: irrational exuberance about the strategic importance of the deal, enthusiasm built up during the excitement of negotiations, weak integration skills, among others (Eccles, Lanes, & Wilson, 1999). Absence of an accurate due diligence process is also a strong candidate for poor performance of transactions, since “deal making is glamorous but due diligence is not” (Cullinan, Le Roux, & Weddigen, 2004), which leads companies to assemble large deals without carefully analyzing the size and scope of the transaction. Ingham, Kran and Lovestam (2007) suggest that smaller acquisitions are more beneficial because they are easier to integrate, leading to managerial, operational and financial synergies.

Cullinan, Le Roux and Weddigen (2004) claim that the momentum of the transaction is hard to resist once senior manager has the target in its sights. They claim that Due Diligence has shifted from a careful analysis of data, to a poor reading of financial statements. It is important to consider that this study was prior to the financial crisis, and more recent evidence suggests that successful acquirers view due diligence as much more than verifying data, as they put under microscope the strategic rationale of the deal.⁷

As cited in (Brouthers, van Hastenburg, & van den Ven, 1998), number of scholars have suggested reasons for the continued pursuit of M&A deals, regarding the success of them. Indeed, managers pursue different goals rather than shareholder wealth, and are also criticized by being overly optimistic. Past empirical studies on M&A profitability are also believed to give inaccurate information due to poor data collection, irrelevant time-periods covered, and misuse of statistical tools (Berkovitch & Narayanan, 1993) and (Ingham, Kran, & Lovestam, 2007).

2. Valuation

2.1. Valuation Overview

Investment bankers usually price acquisitions using multiples of current earnings or cash flows for comparable companies or transactions, while financial economists estimate the

⁷ (Bain & Company, Inc. , 2020)

market value of companies by calculating the discounted value of their expected future cash flows (Kaplan & Ruback, 1996). Little empirical evidence exists on whether any of these models provide reliable information, let alone which one provides the most accurate information.

When making a transaction, managers need to value three different parts of the deal- operation, opportunities and ownership claims, - and take into consideration three fundamental functions- cash, time and risk (Luehrman, 1997). Luehrman (1997) argues that even though the common practice is to make these valuations using only one tool, managers face several issues due to structural features that generate different analytical challenges when valuing the above-mentioned parts of the deal. The author suggests three complementary tools that outperform WACC-based DCF: for valuing operations, the Adjusted Present Value approach; for valuing opportunities, the Option Pricing approach; and for valuing ownership claims, the Equity Cash Flows approach.

Kaplan and Ruback (1996) show evidence that it is worthwhile to combine DCF Approaches and Multiple Valuation information when pricing a deal.

2.2. Discounted Cash Flow

The Discounted Cash Flow (DCF) technique emerged in the 1970s as the best tool for valuing corporate assets, and has two important distinct approaches: The Weighted Average Cost of Capital (WACC) and the Adjusted Present Value (APV), being the WACC method the most common version used (Kaplan & Ruback, 1996).

2.2.1. Weighted Average Cost of Capital

According to the WACC-based DCF, the value of a business equals its expected future cash flows discounted to present value at the weighted average cost of capital (WACC). The rate used to discount cash flows is defined as

$$\text{WACC} = \frac{E}{E + D} * Re + \frac{D}{E + D} * Rd * (1 - Tc)$$

Equation 1- WACC discount rate computation

Where E is the market value of equity, D the market value of debt, Re the cost of equity, Rd the cost of debt and Tc the corporate tax rate.

2.2.1.1. Cost of Equity

To compute the cost of equity we use the Capital Asset Pricing Model (CAPM), introduced independently by Treynor (1961), Sharpe (1964) Lintner (1965) and Mossin (1966), built under the theory of Markowitz (1952) of mean-variance optimization. Cost of equity is computed as follows:

$$E(R_i) = R_f + \beta_i(E(R_m) - R_f)$$

Equation 2- Cost of equity computation

Where R_f represents the risk-free rate; β_i beta of the firm; and $E(R_m) - R_f$ the market risk premium.

The market risk premium measures the excess return that investing in the market yields over a risk-free rate. It provides a benchmark by which is possible to assess investor's willingness to hold market risk (Berk & DeMarzo, 2017). The risk-free rate under the CAPM model corresponds to the rate at which investors can both borrow and save (Berk & DeMarzo, 2017). Bruner (1998) suggests using the yield of a long term (10 to 30 years) bonds to determine the risk-free interest rate.

2.2.1.2. Beta

The beta coefficient measures the systematic risk or volatility of the portfolio, being, theoretically, the percentage change in the return of a security for a 1% change in the return of the market portfolio (Berk & DeMarzo, 2017). Damodaran (2012) suggests that beta should reflect the risk added to the market portfolio by the investment. Kaplan and Ruback (1996) study valuations based on three different measures of systematic risk, namely firm-based measure, industry based and market-based measure of risk. After getting the unlevered beta for the industry, since the equity beta of a company is determined both by the riskiness of the business it operates in, as well as the amount of financial leverage risk it has taken, there is the need to incorporate the firm's capital structure as follows (Damodaran, 1999):

$$\beta_u = \frac{\beta_L}{1 + (1 - t) * \left(\frac{D}{E}\right)}$$

Equation 3- Beta unlevered computation

Where β_u represents the unlevered beta, β_L the levered beta, E the market value of Equity, D the market value of debt, and t the tax rate.

Blaume (1975) shows that company Betas tend to the mean of all betas, so it is justifiable to adjust Beta Levered as follows:

$$Adjusted \beta_L = \frac{2}{3} * \beta_L + \frac{1}{3}$$

Equation 4- Beta Levered Adjustment

Kaplan and Ruback (1996) conclude that the industry-based and market-based approaches perform the best, giving more realistic results.

2.2.1.3. Cost of Debt

The pre-tax cost of debt can be achieved by summing a default spread to the risk-free rate. The default spread can be given from the credit rating of a traded bond the company has, or, in another case, computed by its interest coverage ratio, as suggested in table 3 (Damodaran 2018).

For developed market firms with market cap > \$5 billion			
If interest coverage ratio is		Rating is	Spread is
>	≤ to		
8.50	100000	Aaa/AAA	0.63%
6.5	8.499999	Aa2/AA	0.78%
5.5	6.499999	A1/A+	0.98%
4.25	5.499999	A2/A	1.08%
3	4.249999	A3/A-	1.22%
2.5	2.999999	Baa2/BBB	1.56%
2.25	2.249999	Ba1/BB+	2.00%
2	2.249999	Ba2/BB	2.40%
1.75	1.999999	B1/B+	3.51%
1.5	1.749999	B2/B	4.21%
1.25	1.499999	B3/B-	5.15%
0.8	1.249999	Caa/CCC	8.20%
0.65	0.799999	Ca2/CC	8.64%
0.2	0.649999	C2/C	11.34%
-100000	0.199999	D2/D	15.12%

Table 3- Default Spread; source: Damodaran (2020)

To compute the after-tax cost of debt, and account for the tax shield savings from interest payments, the following can be done:

$$\text{After-tax Cost of Debt} = \text{Cost of Debt} * (1 - t_n)$$

Equation 5- After-tax cost of debt computation

Where t_n is the tax rate in period n.

2.2. Adjusted Present Value

While the discounted cash flow approach most commonly used, the WACC, has become obsolete, the Adjusted Present Value (APV) Technique has been gaining ground between investment bankers as a complementary tool to value acquisitions (Luehrman, 1997).

The APV relies on the principle of value additivity (Luehrman, 1997), and computes the value of the firm as the sum of two pieces: (i) the value of the firm as an unlevered, all-equity firm, and (ii) the value added by a firm's choice of capital structure, which comes in the form of the interest tax shield (Luehrman, 1997). The discount rate used to calculate the first part is the unlevered cost of capital, as follows

$$R_u = R_f + \beta_u(R_m - R_f)$$

Equation 6- Unlevered cost of capital computation

Where β_u is the unlevered beta, $R_m - R_f$ the market risk premium.

2.3. Relative Valuation

To value a firm using relative valuation, we multiply the ratio from the guideline companies by the performance measure for the company being valued (Kaplan & Ruback, 1996). There are three different approaches for relative valuation: Comparable Company, Comparable Transaction and Comparable Industry (Kaplan & Ruback, 1996).

This technique is based on two assumptions that are most of the times unrealistic. First, the expected future cash flows of the company are assumed to grow at the same rate and bare the same level of risk as those of the firm being valued. Secondly, the value of the company is

assumed to vary in direct proportion with change in the performance measure (Kaplan & Ruback, 1996).

Goedhart, Koller and Wessels (2005) suggest using four principles when performing a relative valuation: choose peers with similar return on invested capital and growth projections; rely on forward-looking multiples and not historical averages; give preference to enterprise value (EV) multiples; and adjust EV multiples for non-operating items.

PART II – INDUSTRY ANALYSIS

1. Industry Overview

Both Unilever and Danone operate in the Consumer Staples Sector, that takes part of the Consumer Non-Cyclicals Economic Sector. This sector is characterized as one of the largest, most competitive and fastest moving and includes well-known companies such as Walmart, Costco, Nestlé, Procter & Gamble, PepsiCo, L'Oréal, Philip Morris and AB inBev.

According to GICS, the sector can be divided in three industry groups: i) Food & Staples Retailing, ii) Food, Beverage & Tobacco, and iii) Household & Personal Products. Figure 3 represents the division of this industry groups by market capitalization.

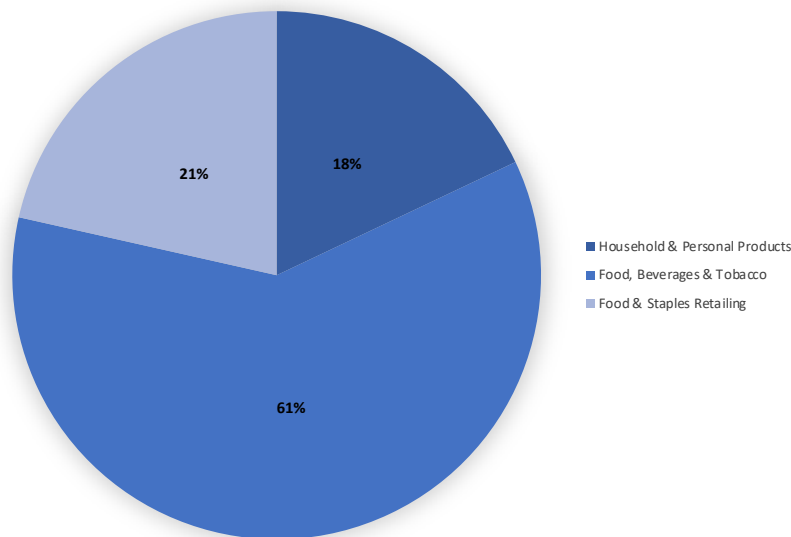


Figure 3- Market Capitalization Distribution of Industry; adapted from Eikon Thomson Reuters

In this analysis, the focus is Food and Beverages Industry, since the proposed target operates in this group.

1.1. Market Size and Segmentation

The Food and Beverages Industry is characterized by the production and distribution of fresh and packaged food and non-alcoholic and alcoholic beverages. To simplify the understanding of this business sector, we will focus on the characteristics that the industry shares with the proposed target, meaning Food and Water.

In terms of bottled water, Nestle SA is the leading player in the industry in value terms, while Coca-Cola and Danone accounted for second and third largest value shares, respectively,

in 2018.⁸ Figure 4 shows the distribution of market value through geographies. Asia-pacific accounts for 37.2% of the global packaged water market value.

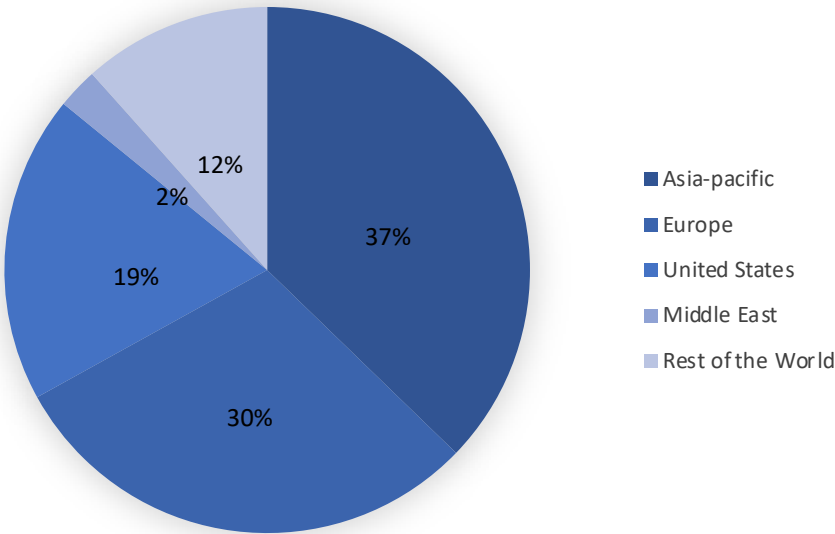


Figure 4- Bottled Water Market Value by Geography; adapted from MarketLine (2019)

In the dairy products segment, Danone Group is the leading market player, generating a 6% share of the market's value. Groupe Lactalis SA and Nestle SA account for the second and third largest market shares, respectively. Europe accounts for 38.3% of the global dairy market value, followed by Asia-pacific with 27%. Milk is the largest segment of the dairy market, with 36% of the market's total value, followed by cheese and yogurt, with 27% and 11% market value, respectively.

In the organic and natural food segment, the market remains dominated by Europe and the US, but growth in Asia-Pacific, especially China, is very strong. Expectations are the gap between Asia-Pacific and other regions will reduce over the coming years. The United States accounts for 42% of the global organic food market value, followed by Europe with 40% and Asia-Pacific with 12%.

⁸ Retrieved from MarketLine 2019

1.2. Growth Projections

The Consumer Staples sector is expected to reach \$14 trillion by 2025, with anti-aging creams, non-carbonated drinks and mineral water the categories revealing the biggest expected growth.⁹

With a closer look at the global Food and Beverages industry, growing at a fast pace and expected to show an annual growth rate (CAGR 2020-2024) of 8.4%, the market volume is expected to be of \$105,898 million by 2024.¹⁰

The global packaged water sector has experienced strong value and volume growth in recent years. In 2023, the global packaged water market is forecast (Figure 5) to have a value of \$196,864.6 million, an increase of 37.5% since 2018 and a volume of 294,825.9 million liters, an increase of 21.9% since 2018.¹¹

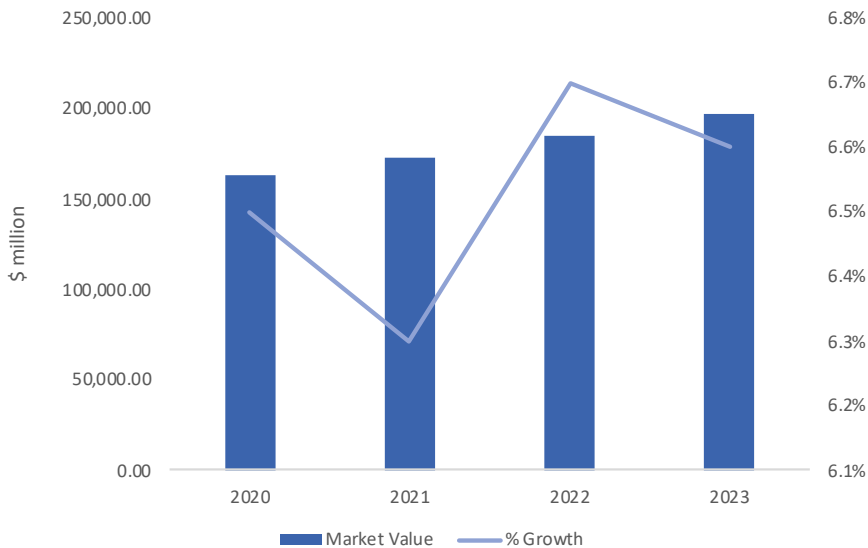


Figure 5- Bottled Water Market Forecast; adapted from MarketLine (2019)

Moreover, the global dairy market has experienced strong value growth and moderate volume growth in recent years. Robust growth registered in the dairy sector by Asian countries such as Indonesia, China and India supported the strong growth of the global dairy market. In 2023, the global dairy market is forecast (Figure 6) to have a value of \$520,343.6 million, an increase of 21% since 2018.¹²

⁹ (McKinsey & Company, 2015)

¹⁰ (McKinsey & Company, 2015)

¹¹ (MarketLine, Global Packaged Water Industry Profile, 2019)

¹² (MarketLine, Global Dairy Market Industry Profile, 2019)

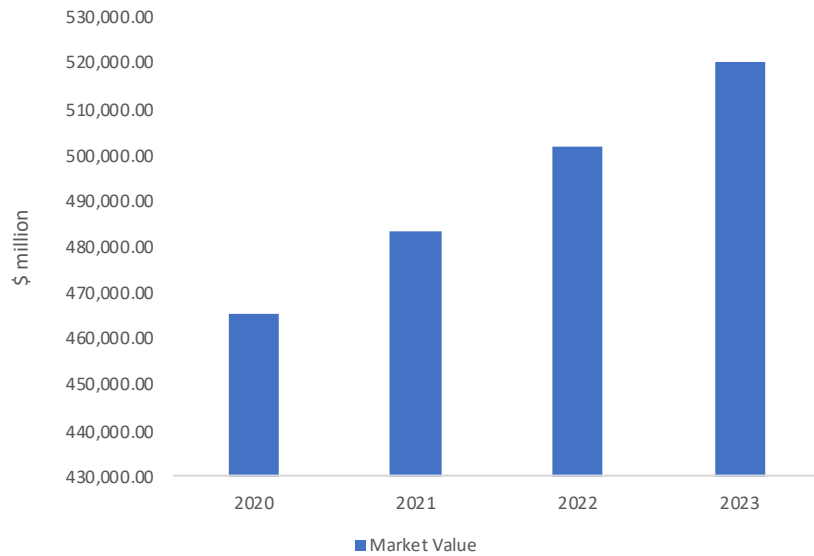


Figure 6- Global Dairy Market Forecast; adapted from MarketLine (2019)

The organic food market is the fastest growing segment in the US food market, according to the US Organic Trade Association (OTA). Growing population, rising income levels, increasing awareness of the benefits of organic and a series of scandals in the non-organic food market, have all helped to boost the growth of the organic food market, especially in the Chinese market. In 2023, the global organic food market is forecast (Figure 7) to have a value of \$164,788.8 million, an increase of 38.4% since 2018.¹³

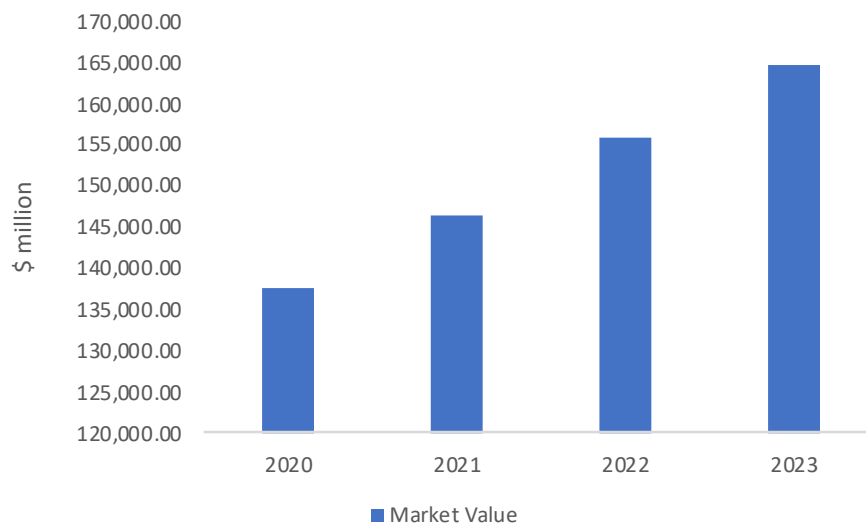


Figure 7- Organic Food Market Forecast; adapted from MarketLine (2019)

¹³ (MarketLine, 2019)

1.3. Drivers, Trends and Consumer Preferences

The growth in the food and beverages industry can be explained by diverse factors. Increasing population is without question the number one driver for consumption, with population expected to increase up to 9.7B by 2050¹⁴. Economic growth and rising disposable income in emerging markets, especially in BRICS nations, alongside with rapid urbanization are pressuring consumption towards the highest levels ever reported.

With increasing population, need to access quality water increases, and Asia and Africa scarcity problem will eventually increase prices and lower water quality, representing an opportunity to companies that offer quality bottled water.

Societies are becoming more diverse and fragmented. There has been growing split between generations, socio-economic groups and political affiliations, and therefore, consumers are making more decisions based on their values. The demand has been shifting in the most recent years to more natural, organic and probiotic food options, especially in the dairy products. Dairy products tend to be a staple in diets; therefore, they are unlikely to be replaced.

Higher awareness of health and wellness, alongside with functional oriented products and the need to tackle climate change, are making a pressure on the market to meet these preferences. Protein enhanced products have been appearing due to the increase of buying power in emerging economies, and a more nutritious and fitness culture in developed countries.

Clinical nutrition is also expected to grow in the next years with ageing populations, increasing numbers of celiac disease patients as well as lactose-intolerant and other disorders. The rise of premature babies since 2016 suggests also an increase in demand of clinical nutrition. This segment is also shifting to more organic and natural, triggered by some scandals in the last decade, such as the Nestlé baby infant formula in Africa, and the reputation of Chinese companies that used to add melanin and other hormones to their formulas, which lead to the death of infants and caused urinary problems in more than 300 thousand babies.

In this new digital era and retail landscape, brands must be visible, convenient and part of the conversation – taking a stand and action on the issues people care about and this has been represented by a high demand for local and environmentally sustainable foods. The growth in social media has helped to spread social awareness with regards to the practices involved in the food market and its impact on environment.

Finally, permanent changes in consumption are emerging due to COVID-19. Whilst the

¹⁴ United Nations Department of Economic and Social Affairs (2019)

outbreak and national lockdown leads companies to bankruptcy, it also provides enormous opportunities for industries than can rethink their portfolio, supply chain channel, and marketing fast. Food, Home and Care are seeing massive demand increases (Accenture, 2020) and in the long term, lasting changes will drive portfolio revaluation across industries. Consumers are choosing healthier products, trustworthy and supportive to the communities they live in, so to keep as a leader in the sector, companies need to reshape their marketing plan around new demand.

1.4. M&A Activity

Dealmakers are seeking fewer but bigger transactions. In 2019, M&A activity in the Staples Goods sector declined both in value and volume when compared to 2018, with Household & Personal Products being the only exception with an increase of 4% in value. Even though uncertainty in markets and high valuations lead to less competition between bidders, average deal size remained above records from previous years, reaching an average size of \$296.4 million in the industry.

Successful acquirers are focused on companies that complement their growth strategy and align response with changing consumer preferences, expanding into high growth segments and markets.

The acquisition of Laboratories Filorga Cosmetiques SAS by Colgate-Palmolive Co. for \$1.7 billion, accounted for 22% of the consumer goods category total value. With consumer preferences shifting to a more healthy and organic diet, Nestlé sold its Ice Cream business, which includes the famous *Haagen-Dazs* brand, for \$4 billion.

1.5. Key Challenges

Some challenges may arise in the sector in the next years. According to the World Bank, global growth decelerated in 2019, with continued weakness in global trade and investment affecting both developed and emerging economies. Geopolitical tensions and climate concerns are increasing the uncertainty. The effects of the newest pandemic, COVID-19, are still to be fully predicted.

The slow growth of wages in developed economies may represent a challenge for companies to increase their revenues in these geographies.

Regulations on competition or on product offering, pricing and plastic packaging, may represent a specific challenge to address in some regions.

The world was expected to face a recession, but with COVID-19, that expectation has been transformed into reality. The outbreak of COVID-19 is taking an extraordinarily heavy toll on the world economy, with world GDP falling at record levels, and all countries reporting positive cases. Borders were closed in most of the countries and national lockdown was implemented, which represented the entrance to a crisis territory for most of the business and eventually countries. The biggest outcomes of the pandemic are direct loss of output and unemployment, which are being tackled by the introduction from governments and institutions of strict measures and rescue plans.

The outbreak of COVID-19 demands rapid response from companies, especially on digital assets and talent. Companies should focus investments in digital training, knowledge systems, and accelerate move to intelligent operating models. Marketing should define brand actions that create positive impact during times of need, understand short term and structural behavioral change and channel impacts. In term of sales, companies can expect an increase in physical goods and decrease in services. Consumer behavior is also changing, since people prefer the safety of online shopping instead of crowded stores. Companies need to review stock allocation and prioritize demand planning, since product scarcity can cause consumers to look at other brands.¹⁵

In the consumer goods sector, a future strategic differentiator will be demand sensitivity and flexible manufacturing to consumers, to avoid lack of offering and the increase of Costs of Good Sold as a result from travel bans and bankruptcy of some suppliers.

Finally, the US elections in November 2020 may also affect the industry with new regulations on trade and corporate tax rate.

¹⁵ Accenture (2020)

PART III – COMPANY PROFILES

1. Unilever

1.1. Overview

Unilever is a global company selling FMCG, co-headquartered in the Netherlands (Unilever NV) and United Kingdom (Unilever PLC). NV and PLC, together with their group companies, operate effectively as a single economic entity.

Unilever sells more than 400 brands around 150 countries and employs over 155 thousand people. Its products are present in the house of around 2.5 billion people every day, with 60% of sales from emerging markets and 40% from developed economies. The firm has currently 310 factories in over 70 countries and a global network of more than 400 logistics warehouses that deliver products to 25 million retail sales outlets. In 2019, Unilever had an annual turnover of €52 billion.

From the over 400 brands sold, 85% of them are in a leading position in the industry, being family favorites around the globe, especially *Lipton*, *Knorr*, *Dove*, *Rexona*, *Hellmann's*, *Omo* and other 6 famous brands that represent an annual turnover of more than €1 billion. Unilever also gives response to specific consumer needs in different regions, under local brands such as *Brooke Bond* in India, *Brilhante* in Brazil, and *Suave* in the Americas. Figure 8 shows some of the most famous brands of the company.



Figure 8- Unilever Brands Example; adapted from Unilever Annual Report (2019)

Unilever operates in three divisions: i) Beauty and Personal Care which includes sales of skin care and hair care products, deodorants and oral care products, ii) Foods and Refreshment which includes sales ice cream and tea-based beverages, and sale of soups, sauces,

snacks, dressings, and iii) Home Care which includes sales of home care products, such as powders, liquids and capsules, soap bars and a range of cleaning products. Unilever has also two brands under the water purifier division and Unilever Food Solutions, a global provider of culinary and commercial inspiration to chefs.

1.2. Culture

Unilever believes that succeeding requires "the highest standards of corporate behavior towards everyone we work with, the communities we touch, and the environment on which we have an impact. "The Unilever Sustainable Living Plan" is based on the UN 2030 Agenda, and its focused on three main goals: i) improving health and wellbeing for more than 1 billion people, ii) reduce environmental impact by half (through greenhouse gases, water use, waste and packaging and sustainable sourcing), and iii) financing livelihoods for millions, by more inclusive business and fairness in the workplace.

Since 2010, Unilever already reached to more than 1.3 billion people to improve their health and hygiene, delivered a sustainable impact with 62% of agricultural raw material being sustainable sourced and uses 100% renewable grid electricity in 5 continents.

1.3. Strategy and R&D

Unilever's strategy is focused mainly on active management portfolio by disposal of obsolete brands and by acquiring fast growing brands, that are focused on customer needs and "good for the planet". In Unilever agenda, there is also powering emerging markets and a more focused execution based on 5 principles: improve penetration, innovate with impact, capturing growth in fast growing channels, purposeful brands, and fuel for growth with savings.

Unilever assumes that two categories will have high growth in the future: luxury beauty and health, wellness and personal nutrition. Alan Jope, CEO of the company explains that "the overall effect has been to improve Unilever's exposure to faster growing markets, those that offer better long-term prospects for value creation".

Innovation is a key factor for growth at Unilever and the company has six R&D locations in India, China, North America, Europe, and the HIVE, the so called "Silicon Valley" of food in the Netherlands. The firm has around 6000 people working in different R&D teams and in 2019 the amount spent in R&D accounted for almost 1 billion euros.

1.4. Structure and Ownership

Unilever N.V. and PLC have separate legal identities but operate as a single entity under equalization and other agreements. On June 2020, Unilever announced its plans to unify Group legal structure under Unilever PLC. The company explained that this will allow “strategic flexibility for portfolio evolution, including through equity-based acquisitions or demergers”.

Unilever N.V. ordinary shares are listed on Euronext Amsterdam and as New York Registry Shares on NYSE. The ordinary shares and the New York Registry Shares are exchangeable on a one-for-one basis.

Unilever PLC ordinary shares and depositary receipts of ordinary shares are listed on the London Stock Exchange and as American Depositary Receipts on NYSE. Each ADR represents 1 ordinary PLC share.

Unilever is owned by mainly investment managers. Figure 9 represents ownership of top 10 investment managers.

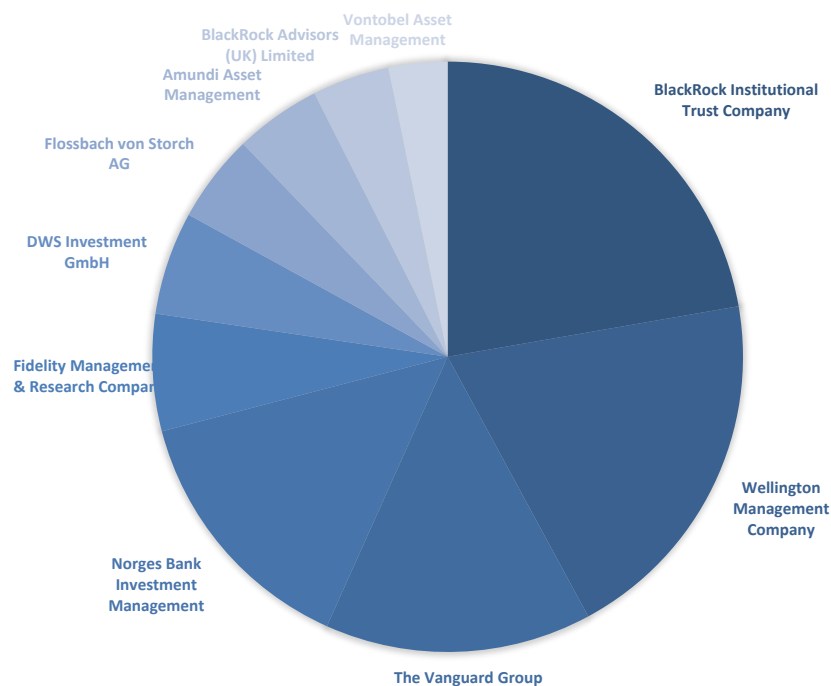


Figure 9- Ownership of top 10 Investment Managers (2020); adapted from Eikon Thomson Reuters

1.5. SWOT Analysis

A SWOT analysis (Table 4) was constructed to assess how internal and external factors affect Unilever's performance and assess the firm position within the industry.

Strengths	Weakness
Strong brands, high brand loyalty	Dependence on retailers
Vast network of retailers	Similar products with main competitors
Efficient supply chain management	Substitutes goods
Broad product mix	
R&D Facilities and Talent	
Opportunities	Threats
Business diversification	High competition
Product innovation (health)	Change in consumer's habits
Technology for environment conservation	Increasing popularity of retailer's house brands
Organic hypermarkets and supermarkets	

Table 4- Unilever's SWOT Analysis

1.6. Financial Analysis

1.6.1. Revenues and Costs

In 2019, Unilever revenues accounted for over €51 billion, an increase of around 2% from the previous year. Revenues have been split between 3 main geographies, with Europe generating historically around 20% of sales, North and South America 30% and the Rest of the World accounting for almost 50% of sales. The Rest of the world includes Asia, AMET (Africa, Middle East and Turkey), and RUB (Russia, Ukraine and Belarus).

In 2018, the company sold its spreads business as a strategy for growth and response to the shift in consumer preferences. This had an impact on revenues, which decreased in the Food and Beverages segment. Figures 10 and 11 give historical information about revenues per segment.

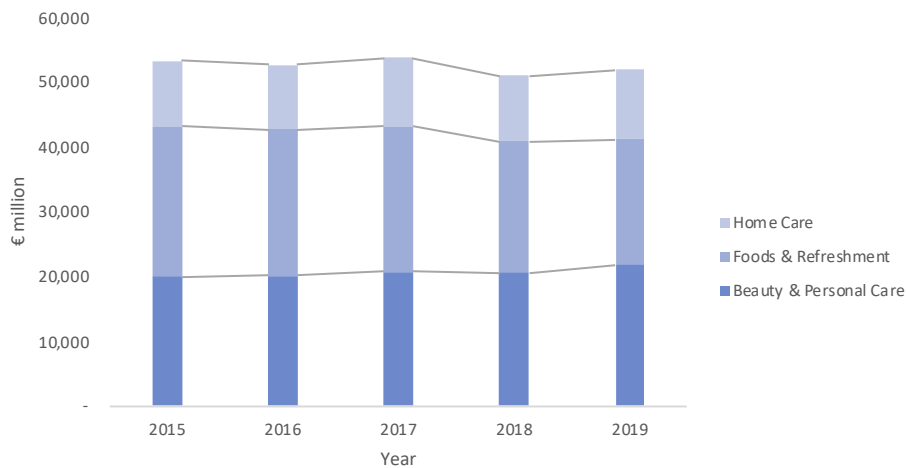


Figure 10- Unilever Historic Revenues by Business Line; adapted from Unilever Annual Report

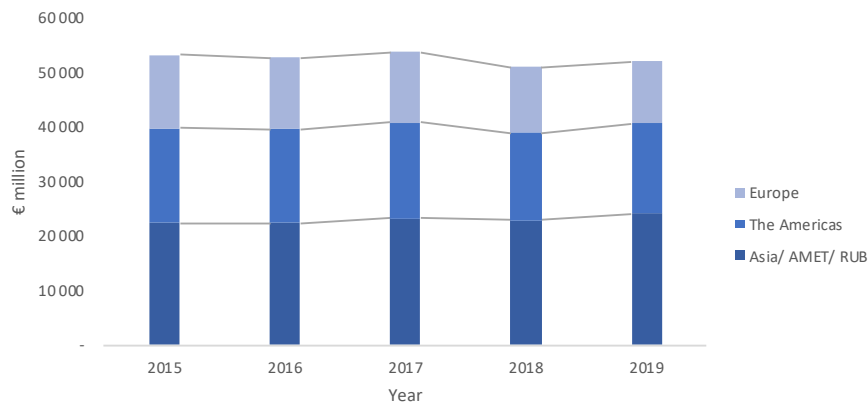


Figure 11- Unilever Historic Revenues by Geography; adapted from Unilever Annual Report

Unilever cost structure is very stable, with costs of goods sold being the main expense, followed by marketing expenses and staff costs. Research and Development accounts for almost 1million euros each year, as one strategy for revenues growth. Figure 12 divides costs by nature and gives historical information.

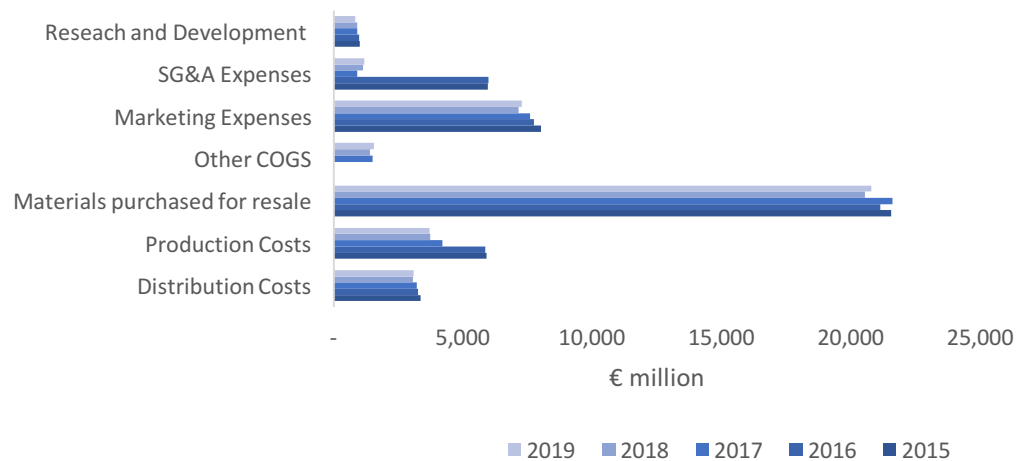


Figure 12- Unilever Historic Costs; adapted from Unilever Annual Report

1.6.3. Key Metrics

Table 5 provides metrics and ratios of Unilever and compares them to the Industry. In terms of profitability, the company has been performing in line with the industry, with 2018 being the year that highly surpassed industry values. With turnover growth average of 1.6% over five years and an operating margin of 16.8% in 2019, Unilever had a cash flow from operating activities of 10.6 billion euros last year, resulting in a net income of over 6 billion euros, a decrease of almost 40% from the previous year.

The year 2018 had an increase of over 50% in net profit, driven by high growth in Asia, especially in Chinese and Indian markets. However, the company faces a challenging market, in particular currency devaluations and rising commodity costs put pressure on demand.

Regarding financial performance, Unilever shows a high return on equity, which reaffirms the company ability to create profit.

In terms of liquidity, the company unveils a historical quick ratio, just as a current ratio lower to their industry median, and below zero. This reveals that the company is unable to meet its short-term obligations if needed. Additionally, in terms of leverage, Unilever has higher ratios than its industry, which indicates the it finances its operations and assets with debt.

As also confirmed by the volume of sales, the company has high inventory turnover, which signals the ability to sell goods very quickly and be an industry leader, since this metric is 2x higher than its industry.

	2015	2016	2017	2018	2019	Industry Median
Profitability						
Gross Margin	48,5%	48,8%	43,2%	43,7%	44,0%	47.8%
EBITDA Margin	16,0%	17,1%	21,5%	22,5%	22,9%	18.5%
Operating Margin	14,1%	14,8%	16,0%	25,1%	16,8%	15.3%
Net Margin	9,9%	10,5%	10,9%	19,3%	11,6%	10.4%
Earning Power						
Asset Turnover	1,06	0,97	0,91	0,83	0,83	0.83
ROE	33,8%	32,6%	36,6%	75,7%	45,8%	15.1%
Liquidity						
Quick Ratio	0,42	0,47	0,55	0,55	0,58	0.95
Current Ratio	0,63	0,68	0,72	0,77	0,78	1.26
Leverage						
Assets/Equity	3,39	3,45	4,62	5,36	4,91	1.68
Debt/Equity	0,91	1,00	1,97	2,30	2,11	0.17
% LT Debt to Total Capital	32,0%	33,3%	44,4%	59,7%	56,0%	10.4%
Net Debt / EBITDA	1,19	1,30	1,51	1,93	1,87	0.38
Operating						
Inv. Turnover	6,5	6,3	7,4	6,9	6,9	3.0
ROIC	17,7%	16,6%	16,1%	25,2%	14,5%	-

Table 5- Unilever Historic Key Metrics; retrieved from Eikon Thomson Reuters

Basic Earnings per Share (EPS) and Return on Equity (ROE) evolution can be seen in Figure 13. EPS registered a CARG of 3.39% over the last 5 years, while ROE performed consistently above the industry median (15%), reaching 75% in 2018.

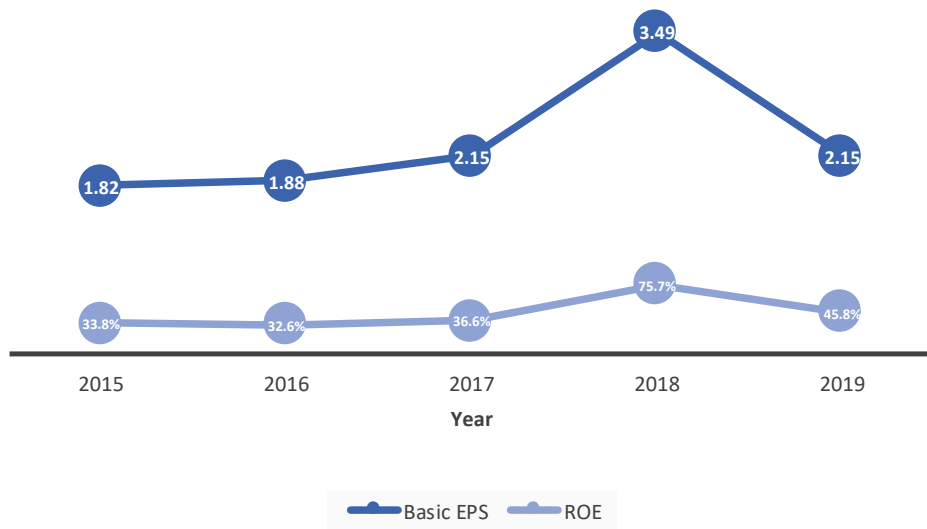


Figure 13- Unilever Historic EPS and ROE; retrieved from Eikon Thomson Reuters

Figure 14 shows the evolution of last five years Dividend Yield. In this period, it registered a CAGR of 1.56% and as of April 2020, it is currently at 3.53%. The company also has a dividend reinvestment plan.

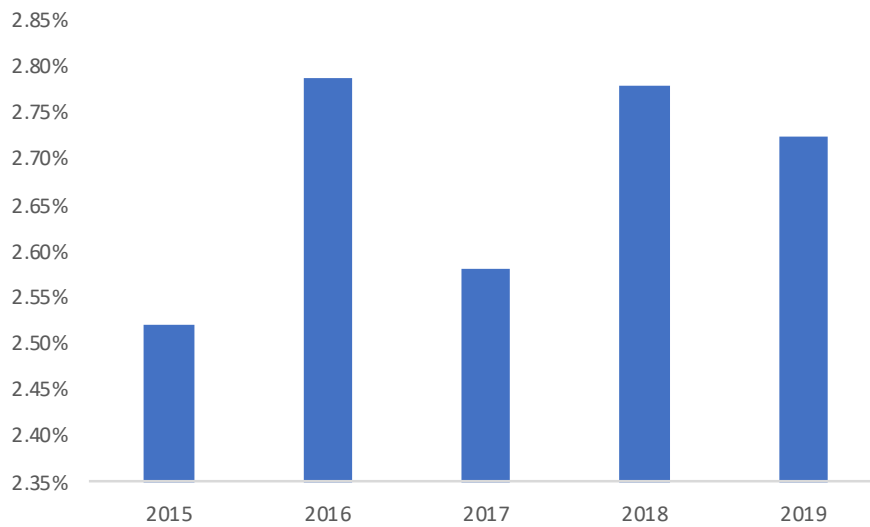


Figure 14- Unilever Historic Dividend Yield (%); retrieved from Eikon Thomson Reuters

1.6.4. Stock Market Performance

Unilever PLC is listed on London Stock Exchange and is constituent of FTSE 100 Index. Unilever NV is listed on Euronext Amsterdam and is constituent of AEX index. The company is also a component of the Euro Stoxx 50. The evolution of the monthly stock prices of last 20 years is represented in Figure 15 and Figure 16.



Figure 15- Unilever plc Stock Performance History; retrieved from Eikon Thomson Reuters



Figure 16- Unilever NV Stock Performance History; retrieved from Eikon Thomson Reuters

Unilever NV IPO was on January 1985, while Unilever PLC on August 1939. On September 2019, Unilever PLC reached a highest level of 5324 euros, while Unilever NV a maximum share price of 57 euros. Until the 2008 financial crisis, stocks were with steady

growth. After recovery from crisis, stocks started to perform incredibly well, growing more than before 2008, which indicates the success of the company in the last 10 years and confidence of shareholders. This is also observed when we look at Figure 17 and see how Unilever performed well above the FTSE 100 index.

As of 22th April 2020, 36% of the analyst coverage had a hold recommendation and 28% a buy recommendation (Reuters, 2020).

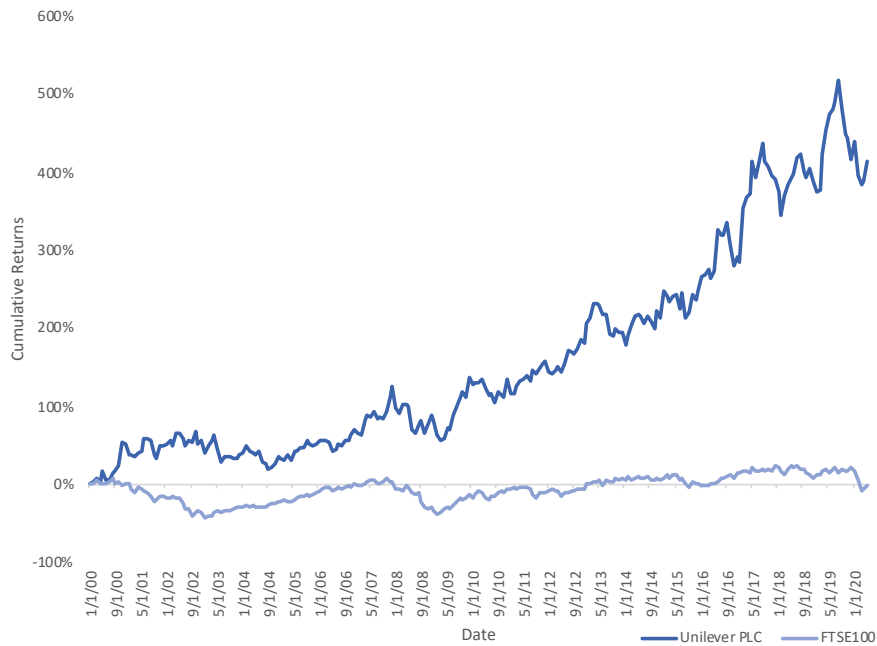


Figure 17- Unilever plc and FTSE 100 Historic Cumulative Returns; retrieved from Eikon Thomson Reuters

	Unilever	FTSE 100
CAGR (20y)	8.79%	0.75%
Last year standard deviation	4.71%	2.77%
Last year price change (%)	9.19%	4.55%

Table 5- Unilever vs FTSE Returns

2. Danone

2.1. Company Overview

Danone is a global company that operates in the food and beverages industry, headquartered in France.

Danone is the leading provider of fresh dairy products and plant-based products worldwide, the leader in advanced medical nutrition in Europe and is the number two in the global ranking of early life nutrition providers and packaged water.

The company sells around 25 brands to 120 countries and employs over 100 thousand people in 55 countries.

Most of Danone's sales come from three leading brands in the industry: *Aptamil*, *Activia* and *Danone*. Danone's portfolio covers family favorites' brands such as the ones represented in Figure 18.



Figure 18- Danone brands example; adapted from Danone Annual Report

Danone operates primarily in three divisions: i) Essential Dairy and Plant-Based Products (EDP), which produces and distributes fermented dairy products, plant-based and organic products and beverages, including coffee creamers; ii) Waters, which sells bottled water, and iii) Specialized Nutrition that can be divided in two segments, Early Life Nutrition and Advanced Medical Nutrition. The first one produces baby and infant formulas, milk, fruit-based desserts, cereals and baby food. The second, offers adult and pediatric clinical nutrition products related to malnutrition, illness or other causes.

2.2. Culture

Danone stands by ‘One Planet. One Health’ vision and believes in a food revolution to deliver sustainable impact to people and the planet. The company is committed to deliver not only economic but also social progress, by bringing health through food to society. Now more than ever, consumers are concerned with food, but it all started in 1919 when Isaac Carasso sold its first yogurt with bacteria for children with intestinal infections and started to sell its products under Danone name to pharmacies, before joining supermarkets.

Danone “2030 Goals Plan” is based on the UN 2030 Agenda, and its focused on nine goals, splitted between brand model, business model, and trust model of Danone. Under the business model, it aims to grow as a Certified B Corp, innovating to offer superior food experiences. Under the brand model, the company aims to grow their called “Manifesto” brands to protect and nourish both the health of the people and the health of the planet. Based on the trust model, the company will grow in an inclusive way, empowering their people and working with partners to create and share sustainable value.

The company has three social innovation funds to deliver impact: The Danone Ecosystem Fund, Danone Communities and the Livelihoods Fund.

2.3. Strategy and R&D

Being a leader in their business, Danone has built a unique portfolio focused on health which allows them to be a key player in the current market and give response to industry trends.

The company has been transforming its portfolio offering to target fast-growing channels. With convenience stores, discounters and e-commerce growing faster than hypermarkets, Danone has been also adapting its products, from single-serve to on-the-go.

With the acquisition of *WhiteWave* in 2017, that brought plant-based products and beverages to the business, Danone seeks to develop and promote the category as a response to consumer needs. Demand for new sources of protein as well as the growing demand for natural, nutritious and environmentally friendly products is an opportunity to Danone. Danone plans to triplicate its sales in the Plant-based segment, reaching 5 billion euros by 2025.

Specialized Nutrition represents a portfolio of science-based nutritional solutions designed to positively impact health through food, and it is the business that asks for more innovation. *Nutricia* is a world-class research and development facility in the Netherlands

focused on delivering evidence-based, and specialized nutrition for people of all ages. In 2019, 25% of the sales corresponded to innovation-based products.

Between 4% and 5% of each year sales are reinvested in for organic growth and efficiencies. R&D expenditure accounts for more than 300 million euros per year.

2.4. Structure and Ownership

Danone is owned by mainly institutional investors. Figure 19 represents Danone current ownership. Top 5 institutional investors are MFS Investment Management, BlackRock Institutional Trust Company, Amundi Asset Management, The Vanguard Group and First Eagle Investment Management.

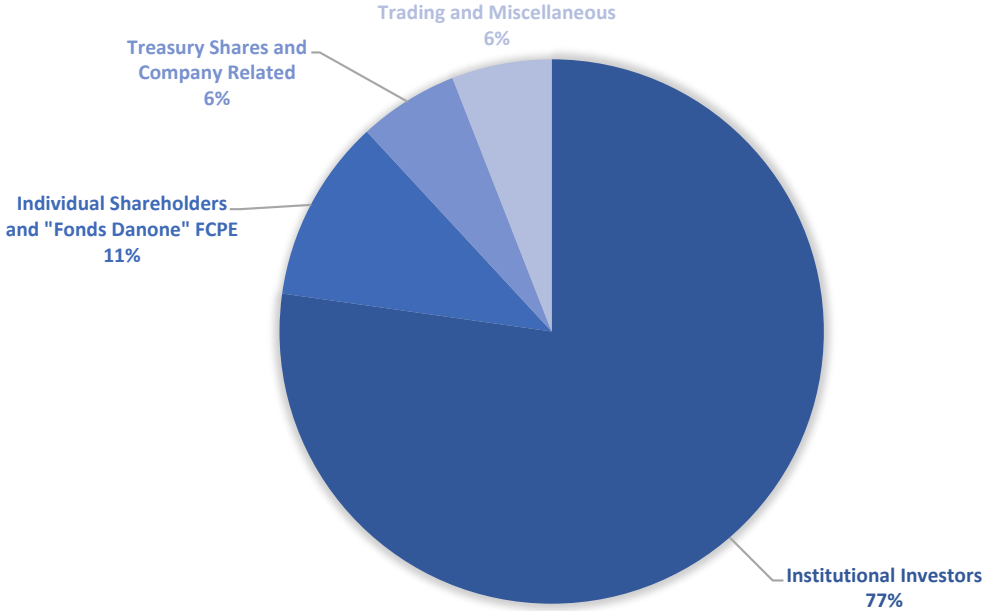


Figure 13- Danone Ownership (2020); retrieved from Eikon Thomson Reuters

2.5. SWOT Analysis

A SWOT analysis was performed to understand where Danone stands within the industry (Table 6).

Strengths	Weakness
Popular products (yogurt)	Low growth in Asia
Natural/ organic products	Dependence on retailers
Leader on bottled water	Limited products differentiation
R&D Facilities and Talent	High perishable products
	High raw material costs
	Focus on premium segments
Opportunities	Threats
Business diversification (coffee)	Fierce competition
Growth potential in emerging economies	Filtered Water
Environmental Policies and Regulations	Innovation for health in stronger players

Table 6- Danone SWOT Analysis

2.6. Financial Analysis

2.6.1. Revenues and Costs

In 2019, Danone revenues accounted for over €25 million, an increase of around 3% from the previous year. Revenues are reported from Europe and North America (Noram) and from the rest of the world, with Europe and Noram generating historically around 55% of sales.

Between 2015 and 2019, revenues grew at a CAGR of 2.44%. Figure 20 and Figure 21 reveal the revenues per business segment and geography for this period.

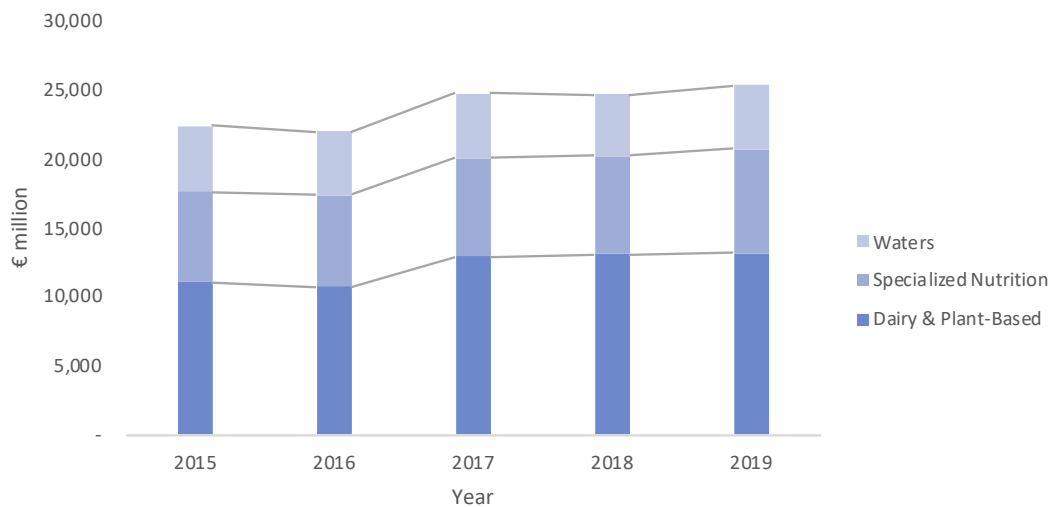


Figure 14- Danone Historical Revenues by Business Line; adapted from Danone Annual Report

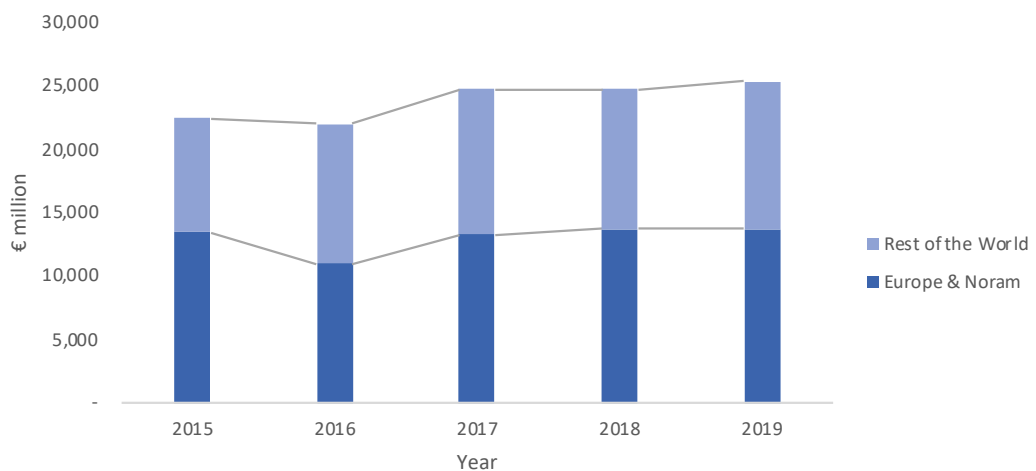


Figure 15- Danone Historical Revenues by Geography Segment; adapted from Danone Annual Report

Even though Danone has stable costs (Figure 22), they have been increasing in the most recent years regarding cost of goods sold and general and administrative expenses. This increase in costs is due to the growth of products being sold by the company.

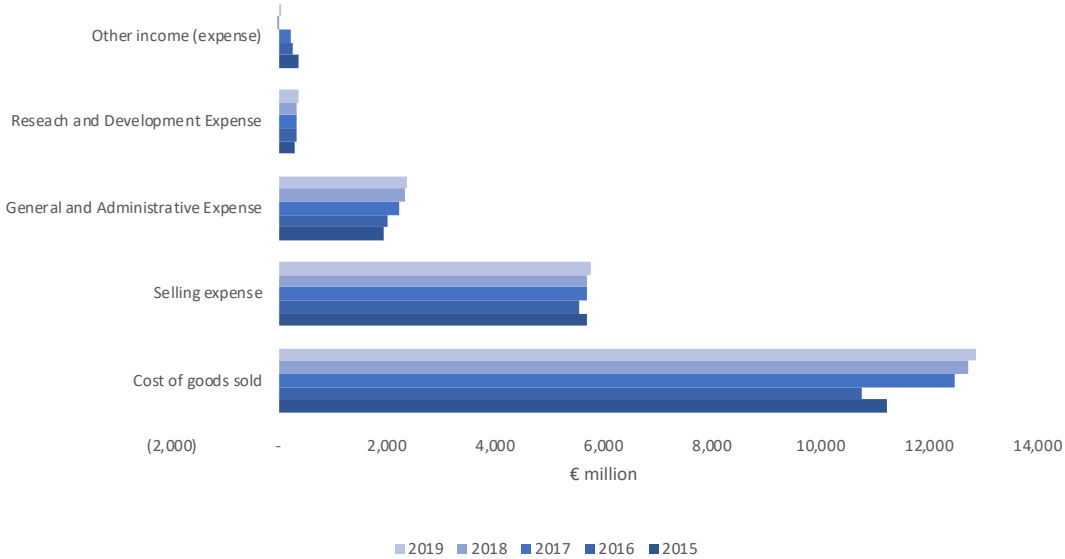


Figure 16- Danone Historical Costs; adapted from Danone Annual Report

2.6.2. Key Metrics

Table 7 provides metrics and ratios of Danone and compares them to the Industry.

In terms of profitability, the company has been outperforming the industry, with 2017 being the most profitable year. With turnover CAGR of 2.44% for last five years and over 25 billion euros in sales in 2019, Danone had an operating margin of 12.89% and generated a cash flow from operating activities of more than 3 billion euros last year, resulting in a net income of 2 billion euros.

Regarding financial performance, Danone performed in line with the rest of the industry showing a stable return on equity, which reveals the company ability to create profit.

In terms of liquidity, the company quick ratio and current ratio perform with some variations around industry median, with higher values in 2016. In contrast to the industry, Danone has higher leverage ratios, indicating that it uses more debt than its peers to finance operations and assets.

The company has high inventory turnover, which signals the ability to sell goods very quickly and be an industry leader, since the values are more than 2x higher than its industry.

	2015	2016	2017	2018	2019	Industry Median
Profitability						
Gross Margin	50,00%	51,00%	49,10%	48,40%	49,10%	34.4%
EBITDA Margin	16,70%	17,40%	18,80%	18,70%	19,30%	14.3%
Operating Margin	9,80%	13,30%	14,90%	11,10%	12,80%	8.4%
Net Margin	5,80%	8,30%	9,90%	6,80%	8,20%	5.5%
Earning Power						
Asset Turnover	0,70	0,57	0,56	0,56	0,56	0.81
ROE	10,60%	13,40%	17,80%	15,30%	11,50%	11.4%
Liquidity						
Quick Ratio	0,72	1,96	0,76	0,86	0,73	0.98
Current Ratio	0,72	1,96	0,76	0,86	0,73	1.72
Leverage						
Assets/Equity	2,59	3,35	3,06	2,70	2,63	2.02
Debt/Equity	0,81	1,57	1,30	1,06	0,98	0.29
% LT Debt to Total Capital	34,20%	54,60%	46,70%	42,30%	37,60%	15.1%
Net Debt / EBITDA	1,68	1,85	2,31	2,92	2,54	0.98
Operating						
Inv. Turnover	8,30	7,80	8,30	7,40	6,90	3.8
ROIC	5,80%	6,30%	7,10%	4,90%	6,10%	-

Table 7- Danone Historic Key Metrics; retrieved from Eikon Thomson Reuters

Earnings per Share (EPS) and Return on Equity evolution can be seen in Figure 23. EPS registered a CAGR of 7.03% over the last 5 years, while ROE performed consistently above the industry median, with an average of 13.72% during this period, reaching highest value (17.80%) in 2018.

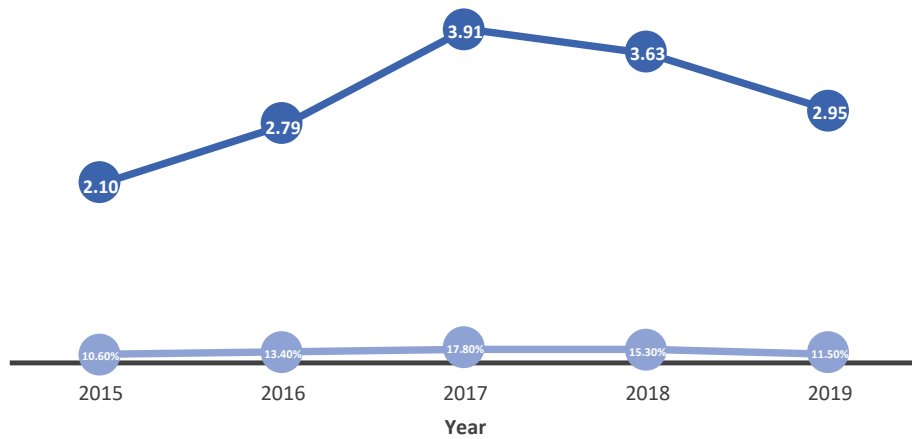


Figure 17- Danone Historic EPS and ROE; retrieved from Eikon Thomson Reuters

Average dividend yield can be found on Figure 24. In 2019, Danone proposed a payment of €2.10 per share, in line with earnings progression and that the company believes reflects its solid financial position.

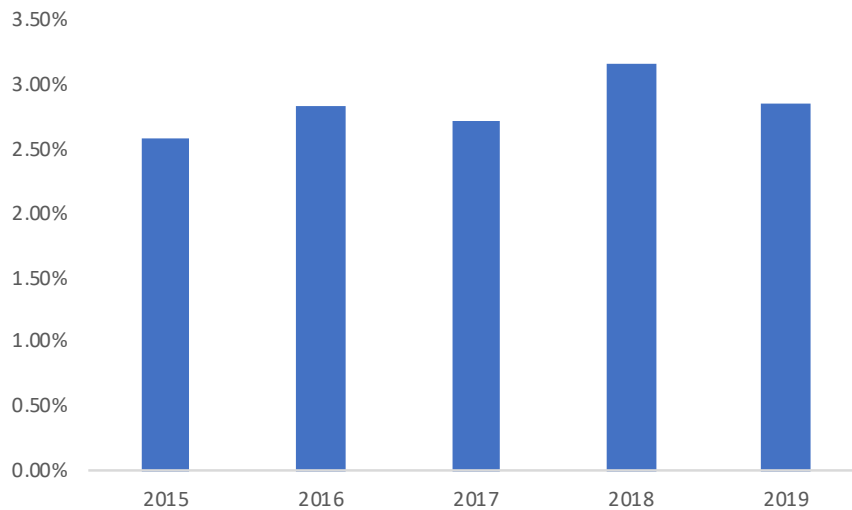


Figure 18- Danone Historic Dividend Yield (%); retrieved from Eikon Thomson Reuters

2.6.4. Stock Market Performance

Danone IPO was on January 1985 and its ordinary shares are listed on Euronext Paris where Danone is a component of the CAC 40 stock market index. The evolution of the monthly stock price of last 20 years is presented in Figure 25. As of 22 April, 70% of the analyst coverage had a buy or strong buy recommendation (Reuters, 2020). Figure 26 and table 11 represents relative comparison with the index CAC 40.

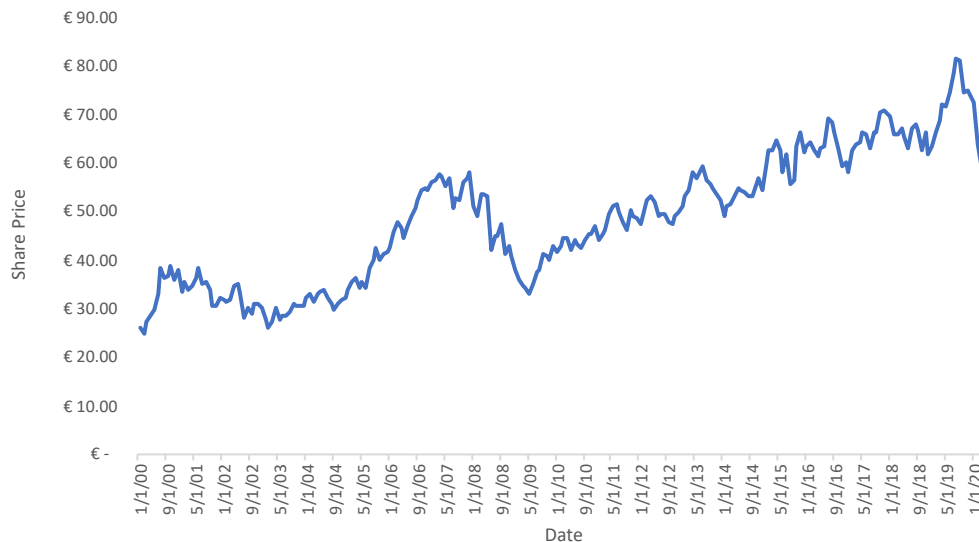


Figure 19- Danone Share Price Performance; retrieved from Eikon Thomson Reuters

Danone share price reached maximum value of €81,78 on September 2019. After the financial crisis in 2008, Danone has been recovering very well, compared to the index it is part of (Figure 26). In 2018 the stock price variation was the highest, which may be explained by the acquisition of WhiteWave that brought a new dimension to Danone.¹⁶ When compared to its benchmark index, in table 11, Danone had a CAGR of 5%, compared to 0.13% of the index. Even though Danone went through a loss of share value since the beginning of 2020 (from 75 euros in 15th February to 52 euros in 15th March), the firm announced the acquisition of majority stake in Harrogate Water, revealing confidence in the market besides the uncertainty that persists.

¹⁶WhiteWave acquisition delivered sales growth of 5% in the Plant-based segment in the first half of 2018



Figure 20- Danone and CAC 40 Stock Price Performance; retrieved from Eikon Thomson Reuters

	Danone	CAC 40
CAGR (20y)	5.26%	0.13%
Last year standard deviation	3.70%	3.43%
Last year price change (%)	16%	20%

Table 8- Danone vs. CAC 40 returns

PART IV – DEAL RATIONALE

With deals in US market being bigger in terms of value and volume each year, European companies may lose their competitive advantage if they do not keep up with US M&A pace. Bolder, bigger and more disruptive deals have been happening, and in times of uncertainty, companies invest more in already existing businesses.

With the appearance of COVID-19 at the end of 2019, the world is now facing a pandemic that is affecting the way we interact, work, travel and make decisions on what to buy or invest in. The Consumer Goods Industry is one of the few that has opportunity to grow, create positive impact in times of crisis and bring health to people and the planet.

With barriers to entrance coming down, and fragmentation increasing, Unilever has been seeking larger transactions. The shift to bigger transactions is explained by the high ambition in premium personal care and plant-based food growth, seek for volume growth and protection against another bid¹⁷.

Over the last years, Unilever has successfully completed numerous acquisitions and played active portfolio management. The rationale for the company's acquisitions has been mainly to accelerate long term sustainable value creation, while expanding to new markets and increase penetration in specific business segments. Unilever allocates part of its capital to portfolio reshape, focusing in bold and large acquisitions and disposables. (Investors Conference, 2020).

In the most recent years, Unilever revealed signs of reshaping its portfolio to more environmentally sustainable, natural and healthy products. During the acquisition of *The Vegetarian Butcher* in 2018, the company revealed its “strategy to expand portfolio into plant-based foods that are healthier and have lower environmental impact” and respond to the “growing trend among consumers to increasingly opt for vegetarian and vegan meals”.

In the last 4 years, Unilever finished 28 acquisitions and sold its spread business and baking and dessert category to reshape its Food and Beverages portfolio and eliminate categories that would not fit Unilever growth strategies.

During 2019, Unilever acquired *Graze* as a strategy for healthy snacking market acceleration, *Olly Nutrition*, to enter clinical nutrition market and *Frufru*, as a strategy for growth in the healthy food market. The company also acquired business that would bring

¹⁷ Kraft-Heinz \$143bn takeover bid for Unilever in 2017

sustainable and natural products to the rest of their business lines, such as *Laundress*, a premium eco-friendly line of detergent, fabric care, and home cleaning products.

Danone is a unique opportunity for Unilever to acquire a worldwide recognized company with a solid roadmap ahead and brands loved by million families across the globe. Danone is dedicated to bring healthy and sustainable eating and drinking practices to families across countries. Danone believes the health of the planet and people are interconnected and is one of the first multinationals certified as *B CorpTM*.

Danone and Unilever fit perfectly in terms of values and culture, but Danone would also accelerate corporate social responsibility of Unilever to meet its goals in terms of sustainable products and practices within the company and its relationship with stakeholders.

Unilever would be able to strength its global position through a broad differentiation strategy, introducing new products and reaching new markets where it has less penetration. Danone dairy and plant-based portfolio is focused in healthy and tasty products, something Unilever has been trying to develop and acquire recently. The deal would give the company access to new markets and accelerate grow in different segments, specifically in waters, medical nutrition and plant-based food. The deal would also create an intensive growth strategy by product development since Danone has unique food expertise, as well has in-depth knowledge of patients and life science.

In terms of consolidation, the deal would joint qualified talent in the industry. Focusing in R&D, Danone would bring enormous benefits for Unilever, not only in terms of talent but also assets, since *Nutricia* is one of the most recognized research and development centers in the world.

Economies of scale is probably the biggest synergy in the acquisition, since there would be cost efficiency from increase production levels, access to new suppliers and general access to new stakeholders.

PART V – VALUATION

A) Valuation of Standalone Firms

1. Unilever

For the Valuation of the acquirer, the last 5 years of all historical statements (Appendix B) of the firm were observed and three methods of valuation were applied, namely the WAAC-based approach of Discounted Cash Flow Model, and Multiple Valuation.

1.1. Discounted Cash Flow Model

The DCF was accomplished by forecasting firm's business plan for the next 7 years.¹⁸

Unilever's revenues should evolve in accordance to its most impactful drivers for revenue growth. The company defines acquisitions, disposals, exchange rates and underlying sales as the main determinants of revenue growth. Effect of acquisitions, effect of disposables and effect of exchange rates and hyperinflation are forecasted as an historical average of last 3 years. Underlying sales growth is based on population growth and shift in consumer preferences, as well as impact of covid-19 in consumption. Each segment was also forecasted based on future market growth individually.

According to Statista, since the 2008-2009 global crisis retail sales have been constantly growing between 2,2% to 4,2% yearly. Unilever forecasted in their Annual Report of 2019, underlying sales of 3-5% for the next years, but in 1Q results 2020, the CEO Alan Jope explained there was upswings in sales of hygiene and in-home food products, combined with some household stocking, and near cessation of out of home consumption. In 2020 and 2021, due to the higher demand of consumer goods due to lockdown, underlying sales are set to grow higher than previously forecasted rates.

Regarding to Costs of Goods Sold, in 2017 Unilever rolled out the 5S program to drive costs savings across all categories which delivered material savings of €450 million¹⁹ and would offset increases in commodity costs. Therefore, COGS were assumed to remain constant and close to 2018 and 2019 values, bearing in mind that COGS would hardly represent less than 55% of sales. In 2020 and 2021, due to the pandemic situation, that caused national lockdown

¹⁸ Appendix C

¹⁹ (Unilever, 2017)

and travel bans, COGS are expected to increase 5% in these years, remaining close to 55% of sales for the next years.

In terms of operational expenditures, they were divided between Staff Costs, Marketing Costs and Research and Development. Unilever has been constantly reducing their employees since 2003 (234.000 employees to 153.000 in 2019). In 2017, the firm implemented 5S and C4G Programs to improve its efficiency, which led to a decrease of 7000 employees in the same year, that was consider an outlier for this forecast. Alan Jope explained that Unilever has no plans to fire staff due to covid-19, but rather moving people for roles in need. Bearing this in mind, it was forecasted a decrease of 5000 employees in 2020 and 2021 followed by 2000 decrease per year and a growth of cost per employee at inflation. Marketing expenses have been decreasing in the past years due to shifting focus to digital advertising, so it was assumed marketing expense will remain stable and will not increase proportionally to sales. Since innovation is one driver for growth in the industry, Research and Development expenses were forecasted as an increase of around 2% per year, which remains close to the firm historical average.

Working capital items are driven by revenue straight-line forecasting. These items' connection with revenues are assumed to remain constant over time. Depreciation and Amortization and CAPEX followed the rules applied by the firm. Please refer to Annex C.

Finally, during the forecasted period, operational taxes were computed using a constant tax rate of 28,46%.

1.1.1. WACC

To compute Unilever discount rate (Appendix E), it was selected a reliable proxy for the risk-free rate. Therefore, it was computed a weighted average of 10yr Government Yield Curve from countries that generate most revenues. Germany and Netherlands 10-year government bond yields were used for Europe, China and India 10-year government bond yields for Asia, AMET and RUB, and USA and Brazil 10-year government bond yields for The Americas. The same rationale was applied to compute the corporate tax rate²⁰. Market risk premium was assumed 5.50%, which represents the historical average for last 10 years.

For the Beta computation, it was used the 5year monthly retrieved from Eikon Thomson Reuters, and then unlevered according to the firm capital structure. Unilever's Beta of 0.67 and

²⁰ Corporate Tax Rate 2020 retrieved from KPMG International

then adjusted using equation 4. Thus, the company has a Beta of 0.78. Applying Equation 2, Unilever's cost of equity equals to 7.50%.

With regards the cost of debt, since most of the debt outstanding is tradable, it was used the yield of a 10-year maturity bond issued by Unilever retrieved from Issuer curve Thomson Reuters. Therefore, the cost of debt of 1.94% was later renewed into an after-tax cost of debt of 1.39% under equation 5.

Finally, with the incorporation of Unilever's current capital structure in market values, using equation 1, the WACC equals to 6.34%.

1.1.2. Free Cash Flow to the Firm

Based on the abovementioned assumptions, the FCFE estimations were computed (Appendix D), which can be accessed in Table 12.

The firm's PV was computed, leading to a valuation of €147,066 million. To calculate Unilever's terminal value, it was assumed that the company would reach steady state in 2026 and that, given the firm's mature stage and growth opportunities in some of its segments, its terminal growth rate would equal 1.7%.

Furthermore, the value of net debt of €23,619 million as well as minorities interest of €401 million were subtracted to the enterprise value, which divided by the current number of outstanding shares lead to an intrinsic value of €46.96 per share, close to the current share price of €46.49 as of 29 May 2020.

€'000 000	2020	2021	2022	2023	2024	2025	TV (2026)
EBIT	7,364	7,993	10,611	11,320	12,249	13,308	14,372
NOPAT	5,268	5,718	7,591	8,098	8,763	9,521	10,282
D&A	(1,945)	(2,110)	(2,015)	(2,200)	(2,292)	(2,356)	(2,482)
Δ WC	(305)	(1,909)	(407)	(1,042)	(1,506)	(1,364)	(1,495)
Capex	(2,830)	(2,935)	(3,069)	(3,203)	(3,345)	(3,502)	(3,669)
FCFF	4,078	2,984	6,130	6,053	6,204	7,011	7,600

Table 9- Unilever Free Cash Flow to the Firm Forecast

1.1.1. Sensitivity Analysis

		WACC				
		5,94%	6,14%	6,34%	6,54%	6,74%
	46,96					
	1,30%	47,96	45,54	43,32	41,28	39,38
	1,50%	50,06	47,45	45,07	42,87	40,84
Perpetuity Growth	1,70%	52,36	49,54	46,96	44,59	42,42
Rate	1,90%	54,89	51,82	49,02	46,47	44,13
	2,10%	57,68	54,32	51,28	48,51	45,98

Table 10- Unilever WACC-based DCF Valuation Sensitivity Analysis

1.2. Relative Valuation

Unilever's relative valuation was based on competitor ratios. The peers selected are public traded, from the same business sector. Revenues, geography and capital structure were used to select the best group of peers and eliminate outliers. Seven firms were used to compute the relative Valuation, appendix F. The ratios used were Forward P/E, EV/EBITDA and P/CF. For the rationale behind the use of these metrics as well as model and main differences to the DCF Valuation, please see Appendix F.

Unilever's share price is within the 36.22-56.58 price range.

1.3. Valuation Summary

Figure 27 compares Unilever's valuation results with the 52-week high-low price range and current share price²¹.

²¹ Closing share price as of 29 May 2020

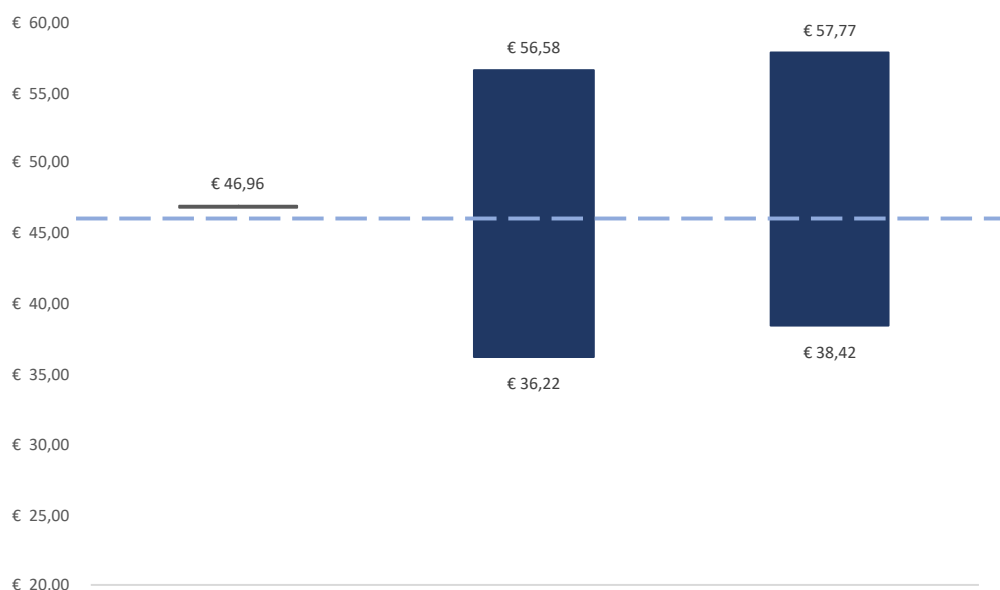


Figure 21- Unilever Valuation Football Field

2. Danone

For the Valuation of the target, the same rationale was applied in terms of financial statements²² and models used to value the firm and compute inputs.

2.1. Discounted Cash Flow

Unlike Unilever, Danone does not define drivers for sales growth. Even though its revenues have been increasing over the last years, they are still not stable. Bearing this, underlying sales growth was forecasted to be based on population growth, shift in consumer preferences in the industry, effect of innovation, as well as impact of covid-19 in consumption (years 2020 and 2021).

Regarding to Costs of Goods Sold, for the last 5 examined years, it has an average of 51.2% of sales, so it was assumed will remain an historical average of percentage of sales from last 3 years. In 2020 and 2021 to this value is added a 5% negative impact due to more expensive raw material and delayed and more expensive distribution has a negative side effect of pandemic situation.

In terms of operational expenditures, they were divided between Selling expense, that includes marketing costs and sales related staff costs, General and Administrative expense that

²² Appendix G

is mainly overheads, Research and Development, and other operational expenditures. Selling expense has an historical average of 24% of sales and since it is directly linked to success of sales, it was forecasted remain close to this value. Regarding overheads, there was a disinvestment in 2015 and since the firm aims to focus on staff efficiency and digitalization of some roles, it was forecasted a 2% decrease in staff costs per year.

Since innovation is main driver for revenues growth in the firm, R&D expenses were forecasted to have 5% increase annually. Other OPEX were forecasted as historical average from last 3 years.

Working capital, D&A and CAPEX forecast, please refer to appendix H.

2.1.1. WACC

To compute Danone discount rate (Appendix J), the same approach as Unilever was followed. Therefore, it was computed a weighted average of 10yr Government Yield Curve from countries that generate most revenues²³. The same rationale was applied to compute the corporate tax rate of 24.35%. Market risk premium was assumed 5.50%.

For the Beta computation, it was retrieved the 5year monthly beta, and then unlevered according to the firm capital structure. Levered beta 0.70 was then adjusted to 0.80 under equation 4. Applying Equation 2, Danone's cost of equity equals to 5.82%.

With regards the cost of debt, it was used the yield of a 9-year maturity bond issued by Danone, since it was the highest maturity available. The cost of debt of 0.38% was later transformed into an after-tax cost of debt of 0.28% under equation 5.

Finally, applying equation 1, the WACC equals to 4.24%.

2.1.2. Free Cash Flow to the Firm

After inputs to the WACC-based DCF were computed, and the FCFE estimations (Appendix I), the firm's PV was computed. Danone was assumed to reach a steady state in 2026, with terminal growth rate of 1.5%.

The DCF model performed lead to a valuation of €61,346 million.

²³ Danone Universal Registration Document (2019)

To bridge the enterprise value to the equity value, the value of net debt of €16 737 million as well as minorities interest of €103 million were subtracted, leading to an equity value of €44 507 million. The valuation gave an intrinsic value of €68.59 per share, an 11% upside considering the closing share price of €61.56 as of 29 May 2020.

€'000 000	2020	2021	2022	2023	2024	2025	TV (2026)
EBIT	1,087	1,015	1,949	1,997	2,061	2,184	2,263
NOPAT	823	768	1,474	1,511	1,559	1,652	1,712
D&A	(1,747)	(1,859)	(1,945)	(2,041)	(2,143)	(2,242)	(2,346)
Δ WC	(166)	(221)	(14)	(124)	(110)	(78)	(109)
Capex	(1,798)	(1,849)	(1,898)	(1,946)	(1,995)	(2,046)	(2,098)
FCFF	606	557	1,507	1,482	1,597	1,770	1,851

Table 11- Danone's Free Cash Flow to the Firm Forecast

2.1.3. Sensitivity Analysis

	WACC					
	68.59	3.84%	4.04%	4.24%	4.44%	4.64%
1.10%	70.37	63.67	57.83	52.69	48.13	
1.30%	77.15	69.47	62.84	57.06	51.97	
1.50%	85.08	76.18	68.58	62.02	56.29	
1.70%	94.51	84.04	75.23	67.70	61.20	
Perpetuity Growth Rate	1.90%	105.88	93.37	83.01	74.29	66.84

Table 12- Danone WACC-based DCF Valuation Sensitivity Analysis

2.2. Relative Valuation

For the Relative Valuation, the EV to EBITDA, Forwards Price to Earnings and EV to Operating CF were obtained from the same peer group as beta.

The fair share price range of the consolidated firm under this method is between 32.01 and 74.73 euros. Please find the detailed calculation in Appendix K.

2.3. Valuation Summary

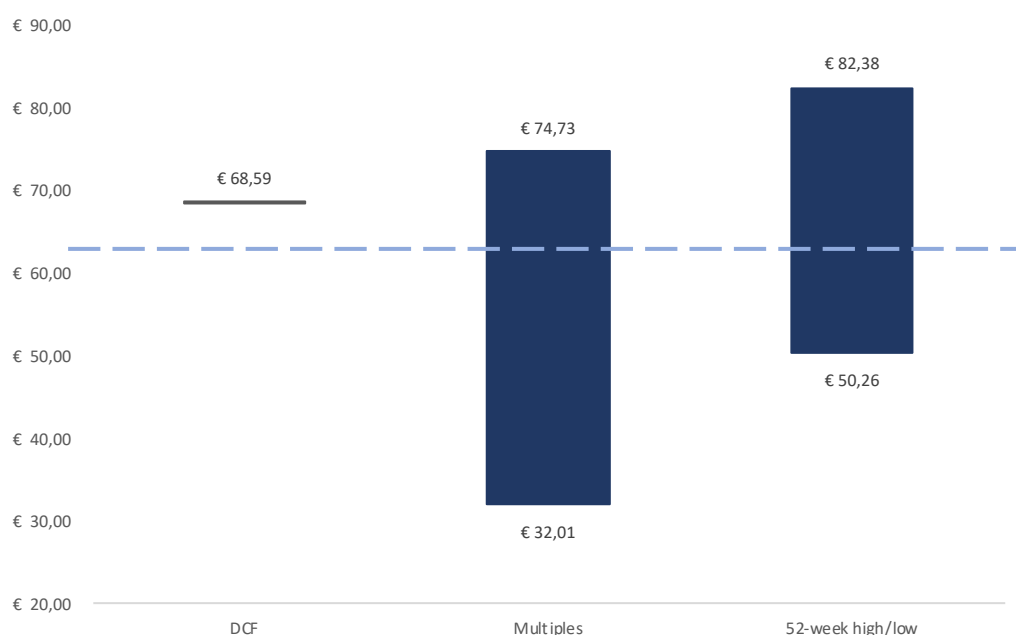


Figure 22- Danone Valuation Football Field

B) Valuation of the Combined Firm

1. Synergies

After the integration of the target company, Unilever expects the delivery of synergies, since it is the main motive for the transaction.

According to Damodaran (2005), synergies hardly ever appear instantly, so it was assumed that 2020 would not bear any synergies from the acquisition and year 2021 would have only partial impact. Full potential is expected to be achieved later, after the 3rd year from the settlement of the transaction. For synergies computation, please go to Appendix M.

In this transaction, cost savings are the main scenario. Economies of scale, bargain power and strong supply chain are the main drivers for positive synergies. Therefore, COGS

decrease 1% due to efficiencies in production in the Food and Refreshment segment, that would now incorporate (dairy and plant-based segment from Danone). The ice-cream business from Unilever and the dairy business from Danone would joint its production and not only increase bargain power that would lead to trade discounts in raw material (mainly milk), but also a decrease in distribution costs.

Regarding OPEX, the main synergy is in R&D. Danone and Unilever have innovation centers in the same countries (China, Netherlands, UK, USA) that could be not only shared but to some extent merged into one. Positive synergies would arise from Danone Nutricia, one of the highest quality centers in the world. Taking this into consideration, R&D expense would decrease 3%. Operating efficiency improvements would be possible by combining Property, Plant and Equipment (offices, factories, resources), and from a 1% reduction in advertising expenses, as well as in staff costs (due to overstaff).

As for revenues enhancements, it was assumed 1% sales increment only in Danone Brands from Dairy and Plant-based Segment, due to the entrance of some of the brands in new geographies and intensification of penetration in some markets. Water and Specialized Nutrition would have 0.50% increase due to access to new retailers under Unilever portfolio.

Regarding financing, it is likely that the borrowing capacity of the merged entity suffer alteration, namely an increase of cost of debt.

Regarding tax benefits, this was assumed to have little significant impact since both firms operate in basically same countries.

Overall synergies have a Present Value of €13 967million.

2. Premium

When deciding on the premium to offer, it is important to notice that this is negotiable, and the acquirer should play with it that in order not to pay extra and be competitive enough not to lose the target in case of an auction process. The average premium paid in the industry of 24% will be used as a base for the rationale.

The value obtained from synergies created is assumed to be the main driver of the price to pay for the acquisition. It is important to note that synergies created represent 32% of the current Market Value of the target. The maximum premium computed that Unilever could offer was 35%. If the Acquirer would offer this premium, its shareholders would not capture any value. Therefore, Unilever can only offer less than 35% as premium.

If on one hand the most relevant factor for the premium is undoubtedly the high value of synergies created, on the other hand, it is important to take into consideration that the

proposed acquisition will follow a friendly approach, which means lower premium than the one applied in a hostile takeover. In the same line of thought, Unilever should offer a premium high enough to prevent losing the target in case other companies want to bid. In this specific industry, Kraft Heinz would probably join the process, since it is a firm with an aggressive takeover approach and always looking for new targets.

Therefore, it was assumed that Danone shareholders would accept to trade their positions for an increment of 30% on the actual price of €61,56 that the target is trading, representing a price of €80,03 per share. Premium paid accounts for €12 984million.

3. Transaction and Integration Fees

To understand the impact of Transaction fees, meaning legal and advisory services, the past fees on acquisitions from the acquirer were retrieved and analyzed²⁴. Therefore, it was assumed a one-time fee accounting for 1.298 million euros.

Regarding integration costs, since the integration will be an ongoing process, the integration fees were assumed to be 20% in the first year, 30% in second year and finally 50% (Appendix N). This expense is valued as a total of €216 million and consists of integration fulfillment operations, IT systems, knowledge transfer, reshape of workforce, as well as facility closing.

4. Financing

Unilever will bid for Danone for €56 265 million, which represents Market Value of €43 281million plus 30% premium. The offer would ideally follow a mixed payment of 80% cash and 20% equity.

Being the acquirer shares undervalued, the offer should be ideally all cash which would also signal the management has confidence in the acquisition. The preference for offering 20% equity to target shareholders is in part to decrease the amount of debt issued, since it is a large transaction. Additionally, friendly takeovers tend to include equity in the offer. With the uncertain future related to covid-19 and other geopolitical factors, offering stock leads to risk's sharing between both the acquirer and the target. Thus, offering stock gives the acquired company's shareholders the chance to profit from the potential synergy gains that the acquiring shareholders expect to make above and beyond the premium. Since the proposed transaction is

²⁴ Appendix R

large, the stock offered to the target shareholders makes them hold only a negligible proportion of the combined company.

Part of the transaction will be financed with firm's excess cash, 242million new shares and the remaining amount through issuance of new debt.

5. Valuation Summary

For the valuation of the merged entity, the WACC-based DCF was performed (Appendix O). New WACC used was 5,78% and the growth rate in perpetuity was assumed to be 1.6%. The corporate tax rate used is the same as the acquirer had before the acquisition.

Table 13 shows the FCFF of the combined entity.

€'000 000	2020	2021	2022	2023	2024	2025	2026 TV
Revenues	80,263	83,128	86,402	89,769	93,207	96,961	100,900
EBIT	8,494	9,426	13,306	14,097	15,116	16,325	17,496
NOPAT	6,077	6,744	9,519	10,085	10,814	11,679	12,517
D&A	(3,692)	(3,970)	(3,960)	(4,241)	(4,435)	(4,598)	(4,829)
Δ WC	(471)	(2,130)	(421)	(1,166)	(1,616)	(1,441)	(1,604)
Capex	(4,628)	(4,784)	(4,967)	(5,149)	(5,340)	(5,549)	(5,767)
FCFF	4,670	3,799	8,091	8,011	8,293	9,287	9,975

Table 13- Combined Entity FCFF Forecast

With integration costs, as well as fees considered, the Enterprise Value of the merged entity reaches €222 380million. Figure 29 reveals summary of the valuation.

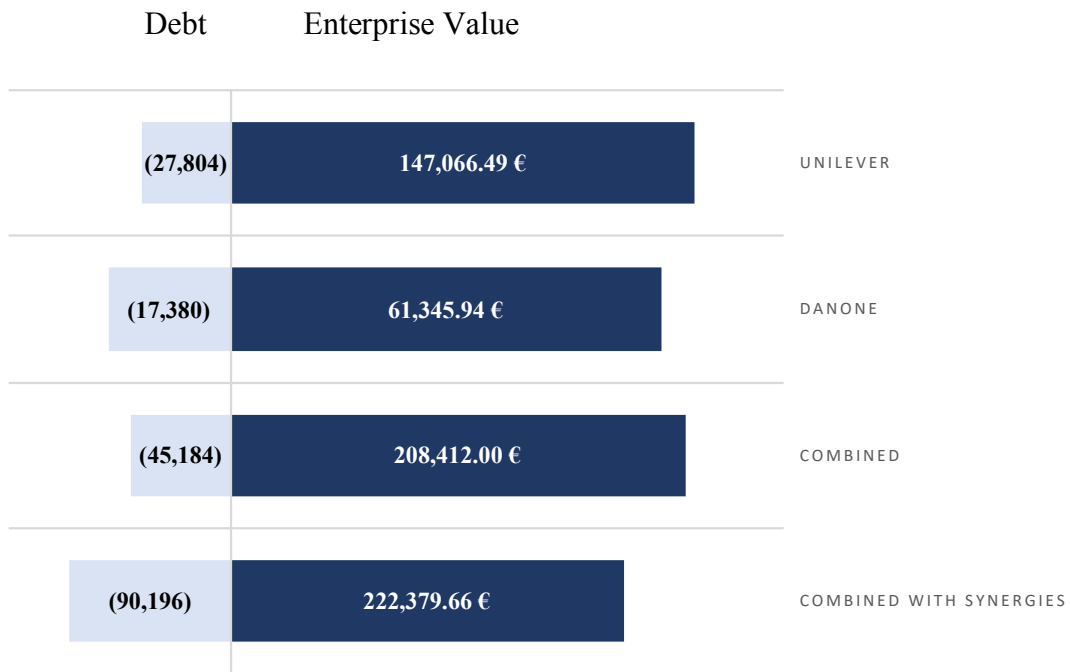


Figure 23- Summary Valuation

6. Accretive/ Dilutive Analysis

To measure the impact on the acquiring firm's shareholders' earnings, an Accretion/Dilution analysis was performed. The results obtained are in line with the success of the transaction. Value captured for acquirer shareholders reaches €2 208million and EPS have an accretion of 26,54% in the first year. Please go to appendix Q for the full analysis.

PART VI – TRANSACTION TOPICS

1. Takeover Approach

The proposed deal would ideally follow a friendly approach to the target board and negotiation of terms. This might occur due to times of uncertainty and since the acquirer is the one in the industry with higher culture fit. Besides, a hostile takeover would be costly.

Danone defenses are disclosed by the company and are mainly Golden Parachutes, Limitation of Director Liabilities, Pre-emptive rights and CEO as Board Member, so it is reasonable to admit this will also occur during the negotiation phase.

2. Post-Merger Integration Risks

After the settlement of the deal, usually the greatest concern of managers is failure to effectively integrate²⁵. This concern might exist in the proposed transaction since target has significant dimension and operations. In the same line of thought, the risk that concerns more CFOs is achieving cultural fit, which might not occur with high level in the proposed transaction. Problems with customer retention and less synergy capture might also emerge. In the proposed acquisition, a delay in synergy realization might occur due to times of uncertainty, as well as difficulties managing the supply chain.

An analysis was performed understand the type of long-term integration choices needed,²⁶ leading to preservation of the target (Figure 30).

²⁵ (Deloitte, 2015)

²⁶ adapted from: (Haspeslagh & Jemison, 1991)

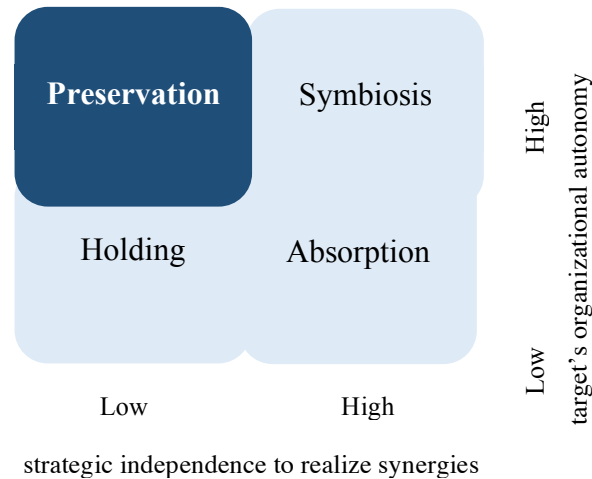


Figure 24- Post-Transaction Integration Matrix; adapted from Haspeslagh & Jemison (1991)

3. Alternative Target

Unilever acquisitions fall into three categories: premium, on-trend and local market expansion, so prior to the selection of Danone, other targets were analyzed.

Coty Beauty professional and luxury segments emerged as target since they fit the acquirer long term value creation strategy as well as the need for Coty to exit those categories due to poor management of recently acquired brands and poor results.

German privately held firm *IvyBears* produces 100% vegan and cruelty free gummy supplements for wellness, it is considered the most effective vitamins in European market and would fit Unilever in terms of growth acceleration in the Vitamins and Supplements Category.

The US company *Beyond Meat* engages in the provision of revolutionary plant-based meats, could also be considered a target and an opportunity for Unilever to increase market share in the US market. Though, its recent IPO in 2019 and the acquisition of *The Vegetarian Butcher* by Unilever in 2018, might disincentive the acquisition.

PART VII – CONCLUSION

This dissertation was intended to analyze the Consumer Goods Sector and propose a transaction. The acquirer selected was Unilever and after careful research of the current market, Danone was the Target found that would fit better not only in terms of Cultural fit but also the one that would meet the best the acquirer strategy for long term value creation.

With the acquisitions and disposals in the most recent years, Unilever is clearly following a pattern of investing in already existing businesses that bring healthy and environmentally sustainable products to the portfolio. Both European companies share the same values and follow a sustainable approach in their operations and relationship with stakeholders.

Both companies were valued separately and then as a combined entity. The Valuation followed a WACC-based DCF and Multiple Valuation. Under the models used, Unilever had an EV of €147 066 million and Danone an EV of €61 346million. Careful attention was given to years 2020 and 2021 due to the global pandemic of covid-19 and the related uncertainty.

I propose a bid price of €56billion which represents a 30% premium over the market value of the target as of 29 May 2020. The fees applied reach €1 298million, and the proposed transaction would follow a friendly approach with a mixed offering of 80% cash and 20% stock, financed by the issuance of 242 million new shares and debt.

In the case the transaction is settled, synergies realization account for €13 967million. Unilever Shareholders would capture a value of €2 208million and would have in the first year accretion of 26,54% on EPS.

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APPENDIX

A. Macroeconomic Assumptions

Historical and forecasted Consumer Price Index and Real Gross Domestic Product Growth were retrieved from IMF in order to base the assumptions for underlying sales growth, cost per employee, and growth rate in perpetuity.

Macroeconomic assumptions	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CPI (excludes Venezuela) (source: IMF)	2,8%	2,8%	3,2%	3,6%	3,6%	3,4%	3,2%	3,2%	3,2%	3,0%	3,0%	3,0%
Real GDP growth (PPP exchange rates) (source: IMF)	3,5%	3,4%	3,9%	3,6%	2,9%	-1,5%	3,9%	3,6%	3,5%	3,5%	3,5%	3,5%

B. Unilever Financial Statements

Unilever Financial Statements of previous 5 years were analyzed to perform the financial analysis and valuation of the acquirer. All Financial statements were retrieved from company annual reports and accounts of 2014, 2015, 2016, 2017, 2018, 2019 and 1Q earnings of 2020.

Consolidated income statement for the year ended 31 December	€ million 2019	€ million 2018	€ million 2017	€ million 2016	€ million 2015
Turnover	51 980	50 982	53 715	52 713	53 272
Operating profit	8 708	12 639	8 957	7 801	7 515
Which include non-underlying item credits/(charges) of	(1 239)	3 176	(543)		
Net finance costs	(627)	(608)	(1 004)	(563)	(493)
Finance income	224	135	157	115	144
Finance costs	(821)	(718)	(683)	(584)	(516)
Pensions and similar obligations	(30)	(25)	(96)	(94)	(121)
Net finance cost non-underlying items	-	-	(382)	-	-
Non-underlying item net monetary gain/(loss) arising from hyperinflationary economies	32	122	-	-	-
Share of net profit/(loss) of joint ventures and associates	176	185	155	127	107
Which includes non-underlying item credits/(charges) of	3	32	-	-	-
Other income/(loss) from non-current investments and associates	-	22	18	104	91
Profit before taxation	8 289	12 360	8 126	7 469	7 220
Taxation	(2 263)	(2 572)	(1 670)	(1 922)	(1 961)
Which includes tax impact of non-underlying items of	113	(288)	655		
Net profit	6 026	9 788	6 456	5 547	5 259
Attributable to:					
Non-controlling interests	401	419	433	363	350
Shareholders' equity	5 625	9 369	6 023	5 184	4 909
Combined earnings per share					
Basic earnings per share (€)	2,15	3,49	2,15	1,88	1,82
Diluted earnings per share (€)	2,14	3,48	2,14	1,82	1,72

Consolidated statement of comprehensive income for the year ended 31 December	€ million 2019	€ million 2018	€ million 2017	€ million 2016	€ million 2015
Net profit	6 026	9 788	6 456	5 547	5 259
Other comprehensive income					
Items that will not be reclassified to profit or loss, net of tax:					
Gains/(losses) on equity instruments measured at fair value through other comprehensive income ^(b)	29	51	-	-	-
Remeasurement of defined benefit pension plans	353	(328)	1 282	(980)	884
Items that may be reclassified subsequently to profit or loss, net of tax:					
Gains/(losses) on cash flow hedges	176	(55)	(68)	-	-
Currency retranslation gains/(losses)	(15)	(839)	(935)	-	-
Fair value gains/(losses) on financial instruments ^(b)	-	-	(7)	(15)	100
Total comprehensive income	6 569	8 617	6 728	4 552	6 243
Attributable to:					
Non-controlling interests	407	407	381	374	357
Shareholders' equity	6 162	8 210	6 347	4 395	5 405

Consolidated balance sheet for the year ended 31 December	€ million 2019	€ million 2018	€ million 2017	€ million 2016	€ million 2015
Assets					
Non-current assets					
Goodwill	18 067	17 341	16 881	17 624	16 213
Intangible assets	12 962	12 152	11 520	9 809	8 846
Property, plant and equipment	12 062	12 088	12 270	11 673	11 058
Pension asset for funded schemes in surplus	2 422	1 728	2 173	694	934
Deferred tax assets	1 336	1 152	1 118	1 354	1 185
Financial assets	874	642	675	673	605
Other non-current assets	653	530	441	718	771
	48 376	45 633	45 078	42 545	39 612
Current assets					
Inventories	4 164	4 301	3 962	4 278	4 335
Trade and other current receivables	6 695	6 482	5 219	5 102	4 804
Current tax assets	397	472	488	317	230
Cash and cash equivalents	4 185	3 230	3 317	3 382	2 302
Other financial assets	907	874	770	599	836
Assets held for sale	82	119	3 224	206	179
	16 430	15 478	16 980	13 884	12 686
Total assets	64 806	61 111	62 058	56 429	52 298
Liabilities					
Current liabilities					
Financial liabilities	4 691	3 613	8 378	5 450	4 789
Trade payables and other current liabilities	14 768	14 457	13 426	13 871	13 788
Current tax liabilities	898	1 445	1 088	844	1 127
Provisions	620	624	525	390	309
Liabilities held for sale	1	11	170	1	6
	20 978	20 150	23 587	20 556	20 019
Non-current liabilities					
Financial liabilities	23 566	23 125	18 039	11 145	9 854
Non-current tax liabilities	182	174	118	120	121
Pensions and post-retirement healthcare liabilities:					
Funded schemes in deficit	1 157	1 209	1 225	2 163	1 569
Unfunded schemes	1 461	1 393	1 509	1 704	1 685
Provisions	664	697	794	1 033	831
Deferred tax liabilities	2 573	1 900	1 888	2 061	1 744
Other non-current liabilities	339	346	700	667	393
	29 942	28 844	24 273	18 893	16 197
Total liabilities	50 920	48 994	47 860	39 449	36 216
Equity					
Shareholders' equity					
Called up share capital	420	464	484	484	484
Share premium account	134	129	130	134	152
Other reserves	(5 574)	(15 218)	(13 587)	(7 443)	(7 816)
Retained profit	18 212	26 022	26 413	23 179	22 619
	13 192	11 397	13 440	16 354	15 439
Non-controlling interests	694	720	758	626	643
Total equity	13 886	12 117	14 198	16 980	16 082
Total liabilities and equity	64 806	61 111	62 058	56 429	52 298

Consolidated cash flow statement for the year ended 31 December	€ million 2019	€ million 2018	€ million 2017	€ million 2016	€ million 2015
Net profit	6 026	9 788	6 456	5 547	5 259
Taxation	2 263	2 572	1 670	1 992	1 961
Share of net (profit) of joint ventures/associates and other income/(loss) from non-current investments and associates	(176)	(207)	(173)	(231)	(198)
Net Monetary (gain)/loss arising from hyperinflationary economies	(32)	(122)	-	-	-
Net finance costs	627	608	1 004	563	493
Operating profit	8 708	12 639	8 957	7 871	7 515
Depreciation, amortisation and impairment	1 982	2 216	2 025	1 464	1 370
Changes in working capital:	(9)	(793)	(68)	51	720
Inventories	313	(471)	(104)	190	(129)
Trade and other receivables	(445)	(1 298)	(506)	142	2
Trade payables and other liabilities	123	976	542	(281)	847
Pensions and similar obligations less payments	(260)	(128)	(904)	(327)	(385)
Provisions less payments	7	55	200	65	(94)
Elimination of (profits)/losses on disposals	60	(4 313)	(298)	127	26
Non-cash charge for share-based compensation	151	196	284	198	150
Other adjustments ^(b)	2	(260)	(153)	(81)	49
Cash flow from operating activities	10 641	9 612	10 043	9 368	9 351
Income tax paid	(2 532)	(2 294)	(2 164)	(2 251)	(2 021)
Net cash flow from operating activities	8 109	7 318	7 879	7 117	7 330
Interest received	146	110	154	105	119
Purchase of intangible assets	(210)	(203)	(158)	(232)	(334)
Purchase of property, plant and equipment	(1 316)	(1 329)	(1 509)	(1 804)	(1 867)
Disposal of property, plant and equipment	97	108	46	158	127
Acquisition of businesses and investments in joint ventures and associates	(1 122)	(1 336)	(4 896)	(1 731)	(1 897)
Disposal of businesses, joint ventures and associates	177	7 093	561	30	199
Acquisition of other non-current investment	(160)	(94)	(317)	(208)	(78)
Disposal of other non-current investments	55	151	251	173	127
Dividends from joint ventures, associates and other non-current investments	164	154	138	186	176
(Purchase)/sale of financial assets	(68)	(10)	(149)	135	(111)
Net cash flow (used in)/from investing activities	(2 237)	4 644	(5 879)	(3 188)	(3 539)
Dividends paid on ordinary share capital	(4 209)	(4 066)	(3 916)	(3 609)	(3 331)
Interest paid	(694)	(571)	(574)	(472)	(579)
Net change in short-term borrowings	337	(4 026)	2 695	258	245
Additional financial liabilities	5 911	10 595	8 851	6 761	7 566
Repayment of financial liabilities	(4 912)	(6 594)	(2 604)	(5 213)	(6 270)
Capital element of lease payments	(435)	(481)	(497)	(35)	(14)
Buyback of preference shares	-	-	(448)	-	-
Repurchase of shares	-	(6 020)	(5 014)	-	-
Other movements on treasury shares	(201)	(257)	(204)	(257)	(276)
Other financing activities	(464)	(693)	(309)	(506)	(373)
Net cash flow (used in)/from financing activities	(4 667)	(12 113)	(2 020)	(3 073)	(3 032)
Net increase/(decrease) in cash and cash equivalents	1 205	(151)	(20)	786	759
Cash and cash equivalents at the beginning of the year	3 090	3 169	3 198	2 128	1 910
Effect of foreign exchange rate changes	(179)	72	(9)	284	(541)
Cash and cash equivalents at the end of the year	4 116	3 090	3 169	3 198	2 128

After analyzing, financial statements were then converted into a Business Plan for forecasting purpose.

P&L €'000 000	2015	2016	2017	2018	2019
Revenues	53 272	52 713	53 715	50 982	51 980
Personal Care	20 074	20 172	20 697	20 624	21 868
Home Care	23 039	22 532	22 444	20 227	19 287
Foods & Refreshment	10 159	10 009	10 574	10 131	10 825
COGS	(30 808)	(30 229)	(30 484)	(28 703)	(29 102)
Distribution costs	(3 358)	(3 246)	(3 202)	(3 057)	(3 089)
Production costs	(5 907)	(5 861)	(4 190)	(3 732)	(3 701)
Raw and packaging materials and goods purchased for resale	(21 543)	(21 122)	(21 587)	(20 516)	(20 769)
Other	-	-	(1 505)	(1 398)	(1 543)
Gross Margin	22 464	22 484	23 231	22 279	22 878
<i>GM (%)</i>	42,2%	42,7%	43,2%	43,7%	44,0%
Brand and Marketing	(8 003)	(7 731)	(7 575)	(7 150)	(7 272)
Research and development	(1 005)	(978)	(900)	(900)	(840)
SG&A	(5 941)	(6 240)	(5 256)	(4 766)	(4 819)
Non-underlying items within operating profit before tax		-	(543)	3 176	(1 239)
EBITDA	8 885	8 999	10 495	14 972	10 234
<i>EBITDA (%)</i>	16,7%	17,1%	19,5%	29,4%	19,7%
Depreciation	(1 097)	(1 154)	(1 173)	(1 777)	(1 156)
Amortisation	(273)	(310)	(365)	(556)	(370)
EBIT	7 515	7 535	8 957	12 639	8 708
Net finance costs	(493)	(563)	(1 004)	(608)	(627)
Associated companies	107	127	155	185	176
Others	91	104	18	144	32
EBT	7 220	7 203	8 126	12 360	8 289
Taxes	(1 961)	(1 922)	(1 670)	(2 572)	(2 263)
Net income	5 259	5 281	6 456	9 788	6 026
Non controlling interests	350	363	433	419	401
Net income attributable to Shareholders' equity	4 909	4 918	6 023	9 369	5 625

Balance Sheet €'000 000	2015	2016	2017	2018	2019
Non current assets					
Tangible Assets	11 058	11 673	12 270	12 088	12 062
Intangible Assets	8 846	9 809	11 520	12 152	12 962
Goodwill	16 213	17 624	16 881	17 341	18 067
Pension asset for funded schemes (in surplus)	934	694	2 173	1 728	2 422
Deferred tax assets	1 185	1 354	1 118	1 152	1 336
Financial Assets	605	673	675	642	874
Other non-current assets	771	718	441	530	653
	39 612	42 545	45 078	45 633	48 376
Current assets					
Inventories	4 335	4 278	3 962	4 301	4 164
Trade receivables	4 804	5 102	5 219	6 482	6 695
Assets held for sale	179	206	3 224	119	82
Other current assets	1 066	916	1 258	1 346	1 304
Cash and cash equivalents	2 302	3 382	3 317	3 230	4 185
	12 686	13 884	16 980	15 478	16 430
Total Assets	52 298	56 429	62 058	61 111	64 806
Equity					
Share capital	484	484	484	464	420
Share premium account	152	134	130	129	134
Retained earnings	22 619	23 179	26 413	26 022	18 212
Other reserves	(7 816)	(7 443)	(13 587)	(15 218)	(5 574)
Non-controlling interests	643	626	758	720	694
Total Equity	16 082	16 980	14 198	12 117	13 886
Non current liabilities					
Borrowings	9 580	11 067	16 127	22 849	23 354
Deferred tax liabilities	1 744	2 061	1 888	1 900	2 573
Pensions	3 254	3 867	2 734	2 602	2 618
Provisions	831	1 033	794	697	664
Other non current liabilities	788	865	1 153	796	733
	16 197	18 893	22 696	28 844	29 942
Current liabilities					
Borrowings	4 382	5 275	7 705	3 337	4 450
Trade payables and other current liabilities	13 788	13 871	13 426	14 457	14 768
Provisions	309	390	525	624	620
Current tax liabilities	1 127	844	1 088	1 445	898
Liabilities associated with assets held for sale	6	1	170	11	1
Other current liabilities	407	175	263	276	241
	20 019	20 556	23 177	20 150	20 978
Total Liabilities	36 216	39 449	45 873	48 994	50 920
Total Shareholders equity & Liabilities	52 298	56 429	60 071	61 111	64 806

C. Unilever Business Plan and Forecasts

Profit & Loss	2020	2021	2022	2023	2024	2025	2026
Revenues	54 123	56 139	58 692	61 253	63 976	66 979	70 159
<i>Growth (%)</i>	4,1%	3,7%	4,5%	4,4%	4,4%	4,7%	4,7%
Sales	54 123	56 139	58 692	61 253	63 976	66 979	70 159
Beauty & Personal Care	22 830	23 850	25 143	26 466	27 935	29 587	31 384
Foods & Refreshment	19 872	20 431	21 053	21 677	22 315	22 981	23 662
Home Care	11 420	11 858	12 496	13 109	13 725	14 411	15 113
<u>Growth</u>							
Beauty & Personal Care	4,40%	4,47%	5,42%	5,26%	5,55%	5,91%	6,08%
Effect of acquisitions	2,2%	2,3%	1,8%	2,1%	2,1%	2,0%	2,1%
Effect of disposals	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Effect of exchange rates and Underlying Sales	-2,2%	-2,3%	-0,7%	-1,8%	-1,6%	-1,4%	-1,6%
Foods & Refreshment	3,03%	2,81%	3,05%	2,96%	2,94%	2,98%	2,96%
Effect of acquisitions	0,5%	0,6%	0,6%	0,6%	0,6%	0,6%	0,6%
Effect of disposals	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%
Effect of exchange rates and Underlying Sales	-2,1%	-2,2%	-1,1%	-1,8%	-1,7%	-1,6%	-1,7%
Home Care	5,50%	3,83%	5,38%	4,90%	4,70%	5,00%	4,87%
Effect of acquisitions	1,3%	0,7%	0,8%	0,9%	0,8%	0,8%	0,8%
Effect of disposals	-0,1%	-0,1%	-0,1%	-0,1%	-0,1%	-0,1%	-0,1%
Effect of exchange rates and Underlying Sales	-2,2%	-3,5%	-1,8%	-2,5%	-2,6%	-2,3%	-2,5%
COGS	(32 021)	(33 134)	(32 974)	(34 452)	(35 963)	(37 651)	(39 446)
<i>% of sales</i>	56,3%	56,2%	56,2%	56,2%	56,2%	56,2%	56,2%
OPEX	(12 793)	(12 902)	(13 092)	(13 281)	(13 471)	(13 664)	(13 858)
<i>% of sales</i>	23,6%	23,0%	22,3%	21,7%	21,1%	20,4%	19,8%
SG&A	(4 592)	(4 609)	(4 709)	(4 804)	(4 901)	(4 998)	(5 097)
Average n° of employees	148 000	143 000	141 000	139 000	137 000	135 000	133 000
+/-	-5 000	-5 000	-2 000	-2 000	-2 000	-2 000	-2 000
Cost per employee	(0,031)	(0,032)	(0,033)	(0,035)	(0,036)	(0,037)	(0,038)
<i>Growth (%)</i>	-1,50%	3,90%	3,60%	3,50%	3,50%	3,50%	3,50%
Brand and Marketing	(7 345)	(7 418)	(7 492)	(7 567)	(7 643)	(7 719)	(7 797)
<i>Growth (%)</i>	1,00%	1,00%	1,00%	1,00%	1,00%	1,00%	1,00%
Research & Development	(857)	(874)	(891)	(909)	(927)	(946)	(965)
<i>% of sales</i>	2,00%	2,00%	2,00%	2,00%	2,00%	2,00%	2,00%
EBITDA as reported	9 309	10 103	12 626	13 519	14 542	15 664	16 854
<i>EBITDA margin</i>	17,2%	18,0%	21,5%	22,1%	22,7%	23,4%	24,0%
Depreciation & Amortization	(1 945)	(2 110)	(2 015)	(2 200)	(2 292)	(2 356)	(2 482)
Depreciation	(1 463)	(1 583)	(1 504)	(1 635)	(1 698)	(1 738)	(1 824)
Amortization	(481)	(527)	(510)	(564)	(595)	(618)	(658)
EBIT	7 364	7 993	10 611	11 320	12 249	13 308	14 372
<i>EBIT margin (%)</i>	13,6%	14,2%	18,1%	18,5%	19,1%	19,9%	20,5%
EBT	6 854	7 590	10 167	10 868	11 817	12 865	13 930
Interest Expense	510	403	444	452	433	443	443

In the P&L Business Plan, it is possible to observe the forecast of sales growth. The forecast was made for each business line, taking into account the four drivers of revenues growth stated by the company: Effect of acquisitions, effect of disposals, effect of Exchange rates and

inflation, and underlying sales. Effect of acquisitions, disposals and exchange rates follow an historical average approach. Underlying sales are based on industry forecast, population growth. In 2020 and 2021, due to increase in demands in good and house stocking, underlying sales are forecasted to grow more than the rest of the period.

The business plan also forecasts capital expenditures. Since Unilever identifies acquisitions and disposals as one of the main drivers of their sales growth, it was assumed that Capex would grow at the same rate of sales.

Total Net Capex corresponds to the sum of tangible assets capex and intangible assets capex. Positive Net CAPEX in 2017 is explained by the sale of Unilever's spread business which reduced PP&E item.

Average depreciation rate, average disposals rate and average currency retranslation rate follow an average of last 3 years. Accumulated depreciation is the value of accumulated appreciation from previous year plus yearly depreciation, yearly disposal and yearly currency retranslation.

In terms of working capital forecast, Days Sales Outstanding, Days Inventory Hold and Days Payable Outstanding are based on historical average from previous 3 years.

D. Unilever DCF

In the next table, it is possible to observe last fiscal year and 7 forecasted years accomplished by the business plan forecast. The sum of the discounted cash flows lead to an enterprise value of 147 066million, which translates to 14.70 times EBITDA. Net Debt was subtracted, as well as minorities interest to arrive to Equity Value.

DCF €'000 000	2019	2020	2021	2022	2023	2024	2025	TV 2026
Revenues	51 980	54 123	56 139	58 692	61 253	63 976	66 979	70 159
EBITDA	9 947	9 309	10 103	12 626	13 519	14 542	15 664	16 854
EBIT	8 421	7 364	7 993	10 611	11 320	12 249	13 308	14 372
NOPAT	6 024	5 268	5 718	7 591	8 098	8 763	9 521	10 282
D&A	(1 526)	(1 945)	(2 110)	(2 015)	(2 200)	(2 292)	(2 356)	(2 482)
Δ Working capital	237	(305)	(1 909)	(407)	(1 042)	(1 506)	(1 364)	(1 495)
Capex	(2 718)	(2 830)	(2 935)	(3 069)	(3 203)	(3 345)	(3 502)	(3 669)
FCFF	5 069	4 078	2 984	6 130	6 053	6 204	7 011	7 600
Terminal Value								166 749
<i>Timing factor</i>		<i>0,1</i>	<i>1,1</i>	<i>2,1</i>	<i>3,1</i>	<i>4,1</i>	<i>5,1</i>	<i>6,1</i>
Discount factor		0,995	0,936	0,880	0,827	0,778	0,731	0,687
Discounted Cash flow	147 066	4 057	2 792	5 393	5 009	4 828	5 125	119 863
Enterprise Value @ 31 Dec 2019	147 066							
<i>EV / EBITDA</i>	<i>14,79x</i>							
Cash	4 185							
Debt	27 804							
Minorities	401							
Equity Value @ 31 Dec 2019	123 046							
Number of shares	2 620							
Price per Share	46,96							

For Terminal Value calculation, growth in perpetuity was assumed to be 1.7% and WACC computed was 6,34%.

E. Unilever WACC Computation

For the computation of the weighted average cost of capital used in the DCF valuation, it was first selected the following peer group after analysis of possible peers:

Identifier	Company Name	Country of Headquarters	GICS Industry Name	D/E	Beta Unlevered	Beta Levered	Tax
NESN.S	Nestle SA	Switzerland	Food Products	0,12	0,67	0,75	15%
DANO.PA	Danone SA	France	Food Products	0,40	0,50	0,70	28%
PG	Procter & Gamble Co	United States of	Household Products	0,10	0,38	0,42	27%
PEP.O	PepsiCo Inc	United States of	Beverages	0,18	0,51	0,61	27%
CL	Colgate-Palmolive Co	United States of	Household Products	0,13	0,52	0,59	27%
HNKG_p.DE	Henkel AG & Co KgaA	Germany	Household Products	0,14	0,58	0,66	30%
Average				0,18	0,53	0,62	28%
Median				0,14	0,52	0,63	27%
Minimum				0,10	0,38	0,42	27%
Maximum				0,40	0,67	0,75	30%

Source: Eikon Thomson Reuters

Then, the WACC for Unilever and for the peer group were computed, to compare the company's WACC to its competitors' average.

	Company	Peers
Cost of Equity		
Risk free	3,21%	3,21%
D/(D+E)	19,09%	17,00%
D/E	23,59%	13,75%
Beta Unlevered	0,54	0,63
Beta Levered	0,67	0,72
Beta Levered Adjusted	0,78	0,81
Tax	28,46%	27,80%
Market Risk Premium	5,50%	5,50%
Country Risk Premium	-	-
Company specific risk premium	-	-
Ke	7,50%	7,69%
ku	6,19%	6,69%
Cost of Debt		
Cost of Debt	1,94%	1,94%
Kd (1-t)	1,39%	1,40%
WACC	6,34%	6,62%

For the risk-free and tax rate used to compute Unilever's WACC, it was performed a weighted average based on revenues for each segment. On the other hand, to compute peers'

tax rate, the average tax rate was used. The country used to each tax rate for the peers was assumed to be the one where the firm is headquartered.

Risk Free and Tax Rate Weighted Average				
Geographic Segment	Europe	Asia /AMET/RUB	The Americas	Weighted Average
Total Revenues (2019) %	22%	46%	32%	100%
Countries	Germany & Netherlands	China & India	USA & Brazil	Total
Risk Free	-0,385%	4,320%	4,095%	3,21%
Tax	27,50%	27,50%	30,50%	28,46%

F. Unilever Multiple Valuation

The set of peers used for the multiple valuation is the same as used for WACC. The ratios used for the Valuation were: i) Forward P/E (NTM), since it is quite easy to use and all peers have same business models with similar growth rates, even if they sell different products; ii) EV/ EBITDA (LTM) because it does not consider the impact of different capital structures across companies, which is important in the valuation since some peers have different debt-to-equity ratio. This multiple also ignores distorting effects of different taxation policies across countries which is important to consider since our peers operate across the globe; iii) and P/CF (LTM) that takes into consideration Cash Flow from Operations, which adds non-cash earnings such as depreciation, amortizations and changes in working capital, to net income after tax. This multiple gives advantage to the valuation since unlike earnings that can be manipulated with non-cash items such as depreciation and aggressive accruals, the cash flows from operations cannot be manipulated easily.

Identifier	Company Name	Enterprise Value to EBITDA (LTM)	P/E (NTM)	P/CF (LTM)
NESN.S	Nestle SA	16,87	23,03	19,055
DANO.PA	Danone SA	11,02	16,65	12,31
PG	Procter & Gamble Co	17,00	22,64	18,90
PEP.O	PepsiCo Inc	16,20	23,65	19,02
CL	Colgate-Palmolive Co	15,77	23,46	19,06
HNKG p.D	Henkel AG & Co KgaA	9,124	17,15	11,83
Average		15,37	21,10	16,23
Median		16,20	22,84	18,90
Minimum		11,02	16,65	11,83
Maximum		17,00	23,65	19,06

Source: Eikon Thomson Reuters

Target Company

Unilever NV	Enterprise Value to EBITDA (LTM)	P/E (NTM)	P/CF (LTM)
Multiple from the peers sample	15,37	21,10	16,23
Financial indicator @ 31/12/2019 (€'000 000)			
EBITDA	10 234		
EPS (€)		2,15	
Cash Flow From Operations - Actual			10 641
Enterprise Value - Multiple Valuation	157 321	119 157	172 650
Debt	27 804	27 804	27 804
Cash	4 185	4 185	4 185
Minorities	401	401	401
Number of shares (in Millions)	2 627	2 627	2 627
Equity Value - Multiple Valuation	133 301	95 137	148 630
DCF Valuation			
Enterprise Value	147 066	147 066	147 066
Equity Value	123 046	123 046	123 046
Difference EV	10 255	(27 910)	25 584
<i>Difference (EV %)</i>	<i>7,0%</i>	<i>-19,0%</i>	<i>17,4%</i>
Difference EqV	10 255	(27 910)	25 584
<i>Difference (EqV %)</i>	<i>8,3%</i>	<i>-22,7%</i>	<i>20,8%</i>
Share Price	50,74	36,22	56,58

G. Danone Financial Statements

For the valuation of Danone, the same principles were applied as the ones for valuing Unilever.

P&L €'000 000	2015	2016	2017	2018	2019
Revenues	22 412	21 944	24 677	24 651	25 287
Dairy & Plant-Based	11 057	10 736	12 954	13 056	13 163
Specialized Nutrition	6 587	6 634	7 102	7 115	7 556
Waters	4 768	4 574	4 621	4 480	4 568
COGS	(11 212)	(10 744)	(12 630)	(12 730)	(12 878)
Gross Margin	11 200	11 200	12 047	11 921	12 409
<i>GM (%)</i>	<i>50,0%</i>	<i>51,0%</i>	<i>48,8%</i>	<i>48,4%</i>	<i>49,1%</i>
Selling Expense (marketing)	(5 677)	(5 677)	(5 677)	(5 677)	(5 677)
SG&A	(1 944)	(2 004)	(2 229)	(2 220)	(2 385)
Research and Development expense	(307)	(333)	(342)	(335)	(351)
Other income (expense)	(380)	(278)	(243)	(164)	(53)
Other operating income (expense)	(682)	(99)	192	(821)	(609)
EBITDA	3 427	3 595	4 722	4 305	4 720
<i>EBITDA (%)</i>	<i>15,3%</i>	<i>16,4%</i>	<i>19,1%</i>	<i>17,5%</i>	<i>18,7%</i>
Depreciation and amortisation	1 217	786	974	1 601	1 386
EBIT	2 210	2 809	3 748	2 704	3 334
Cost of net debt	(152)	(146)	(263)	(231)	(220)
Other financial income	1	67	137	48	37
Other financial expense	(134)	(214)	(311)	(165)	(188)
EBT	1 925	2 516	3 311	2 356	2 963
Income Tax expense	(626)	(804)	(842)	(716)	(793)
Net income	1 299	1 712	2 469	1 640	2 170
Non controlling interests	115	107	110	90	99
Net income attributable to Shareholders' equity	1 184	1 605	2 359	1 550	2 071

Balance Sheet €'000 000	2015	2016	2017	2018	2019
Non current assets	24 713	24 836	34 626	33 245	35 244
Goodwill	11 653	11 620	18 132	17 111	18 125
Intangible Assets (Brands)	3 833	3 879	6 412	6 359	6 329
Other intangible assets	292	304	401	376	348
Tangible Assets	4 752	5 036	6 005	6 175	6 844
Investments in associates	2 882	2 730	2 678	2 104	2 055
Other financial assets	274	288	260	278	482
Derivatives	125	148	16	81	271
Deferred taxes	902	831	722	761	790
Current assets	7 997	9 114	9 632	10 334	10 119
Inventories	1 374	1 380	1 668	1 789	1 933
Trade receivables	2 466	2 524	2 794	2 689	2 906
Other current assets	793	1 061	1 037	778	940
Short-term loans	40	18	14	13	6
Derivatives	120	419	19	27	16
Short-term investments	2 514	3 063	3 462	4 199	3 631
Cash and cash equivalents	519	557	638	839	644
Assets held for sale	171	92	-	-	43
Total Assets	32 710	33 950	44 258	43 579	45 363
Equity					
Share capital	164	164	168	171	172
Additional paid-in capital	4 132	4 178	4 991	5 805	5 859
Retained earnings	11 454	12 035	14 723	15 896	16 491
Cumulative translation adjustments	(1 177)	(1 460)	(3 182)	(3 332)	(2 941)
Accumulated other comprehensive income	(260)	(126)	(545)	(564)	(729)
Treasury shares and DANONE call options	(1 707)	(1 682)	(1 653)	(1 632)	(1 610)
Non-controlling interests	63	85	73	131	137
Total Equity	12 669	13 194	14 575	16 475	17 379
Non current liabilities	10 840	21 705	19 282	17 737	16 731
Borrowings	8 087	18 771	15 716	14 343	12 906
Provisions	793	959	919	868	1 091
Deferred taxes liabilities	1 126	1 090	1 644	1 537	1 556
Other non-current liabilities	834	885	1 003	989	1 178
Current liabilities	9 203	9 049	10 411	9 964	11 252
Borrowings	2 991	2 510	3 792	3 546	4 474
Trade payables	3 624	3 772	3 904	3 675	3 959
Other current liabilities	2 570	2 741	2 716	2 743	2 819
Liabilities associated with assets held for sale	18	26	-	-	-
Total Liabilities	20 043	30 754	29 693	27 701	27 983
Total Shareholders equity & Liabilities	32 712	43 948	44 268	44 176	45 362

H. Danone Business Plan Forecast

To achieve the forecast of FCFF, it was created a business plan model to forecast each item. Revenues growth is based on each business line. Dairy & Plant-based growth has accumulated effects from population growth and others (portfolio management, change in consumer preferences). Since Innovation is the main driver in the Specialized Nutrition segment, it was only considered the effects of innovation investment. The bottled water segment growth is forecasted based on population growth.

Profit & Loss	2020	2021	2022	2023	2024	2025	2026
Revenues	26 141	26 887	27 604	28 302	29 011	29 757	30 511
<i>Growth (%)</i>	3,4%	2,9%	2,7%	2,5%	2,5%	2,6%	2,5%
Sales	26 141	26 887	27 604	28 302	29 011	29 757	30 511
Dairy & Plant-based	13 630	14 043	14 324	14 608	14 894	15 183	15 473
Specialized Nutrition	7 894	8 180	8 570	8 937	9 315	9 727	10 147
Waters	4 616	4 664	4 710	4 756	4 802	4 847	4 891
<u>Growth</u>							
Dairy & Plant-based	3,55%	3,03%	2,00%	1,98%	1,96%	1,94%	1,91%
Effects of Population Growth	1,05%	1,03%	1,00%	0,98%	0,96%	0,94%	0,91%
Other Effects	2,50%	2,00%	1,00%	1,00%	1,00%	1,00%	1,00%
Specialized Nutrition	4,48%	3,62%	4,77%	4,29%	4,22%	4,43%	4,31%
Effects of Innovation	4,48%	3,62%	4,77%	4,29%	4,22%	4,43%	4,31%
Waters	1,05%	1,03%	1,00%	0,98%	0,96%	0,94%	0,91%
Effects of Population Growth	1,05%	1,03%	1,00%	0,98%	0,96%	0,94%	0,91%
COGS	(14 067)	(14 475)	(14 120)	(14 497)	(14 858)	(15 235)	(15 625)
<i>% of sales</i>	51,2%	51,3%	51,1%	51,2%	51,2%	51,2%	51,2%
OPEX	(9 239)	(9 537)	(9 591)	(9 766)	(9 949)	(10 097)	(10 277)
<i>% of sales</i>	35,3%	35,5%	34,7%	34,5%	34,3%	33,9%	33,7%
Selling expense (mainly marketing exp)	(5 967)	(6 122)	(6 261)	(6 441)	(6 596)	(6 763)	(6 939)
<i>% Sales</i>	22,83%	22,77%	22,68%	22,76%	22,74%	22,73%	22,74%
General & Admin. Expense (mainly ov)	(2 337)	(2 291)	(2 268)	(2 245)	(2 223)	(2 200)	(2 178)
<i>% of sales</i>	-2,00%	-2,00%	-1,00%	-1,00%	-1,00%	-1,00%	-1,00%
Research and Development expense	(369)	(387)	(406)	(427)	(448)	(470)	(494)
<i>Growth (%)</i>	5,00%	5,00%	5,00%	5,00%	5,00%	5,00%	5,00%
Other OPEX	(566)	(738)	(655)	(653)	(682)	(663)	(666)
<i>Growth (%)</i>	-14,3%	30,3%	-11,2%	-0,3%	4,4%	-2,7%	0,4%
EBITDA as reported	2 834	2 875	3 894	4 038	4 204	4 426	4 609
<i>EBITDA margin</i>	10,8%	10,7%	14,1%	14,3%	14,5%	14,9%	15,1%
Depreciation & Amortization	1 747	1 859	1 945	2 041	2 143	2 242	2 346
EBIT	1 087	1 015	1 949	1 997	2 061	2 184	2 263
<i>EBIT margin (%)</i>	4,2%	3,8%	7,1%	7,1%	7,1%	7,3%	7,4%
EBT	702	647	1 574	1 621	1 688	1 809	1 888
Interest expense	(385)	(368)	(375)	(376)	(373)	(375)	(375)

Capital Expenditures and Working Capital were also forecasted based on the same rules as the ones applied to Unilever valuation.

	2020	2021	2022	2023	2024	2025	2026
Fixed Assets							
Total Net Capex	(1 798)	(1 849)	(1 898)	(1 946)	(1 995)	(2 046)	(2 098)
	17,23%	8,81%	10,97%	12,34%	10,71%	11,34%	11,46%
Tangible Assets							
Capex	(1 356)	(1 395)	(1 432)	(1 468)	(1 505)	(1 544)	(1 583)
<i>% Tangible assets</i>	18,6%	18,0%	17,6%	17,3%	17,1%	17,1%	17,1%
Net Fixed Assets	7 298	7 731	8 134	8 478	8 783	9 044	9 254
Gross Tangible Assets	16 178	17 573	19 006	20 474	21 979	23 523	25 106
Accumulated depreciation	(8 880)	(9 843)	(10 872)	(11 996)	(13 196)	(14 480)	(15 853)
Yearly Depreciaton	(902)	(963)	(1 029)	(1 124)	(1 200)	(1 283)	(1 373)
<i>Average depreciation rate (%)</i>	-5.58%	-5.48%	-5.42%	-5.49%	-5.46%	-5.46%	-5.47%
Intangible Assets							
Capex	(441)	(454)	(466)	(478)	(490)	(502)	(515)
<i>% Intangible assets</i>	1,8%	1,9%	2,0%	2,1%	2,2%	2,3%	2,4%
Net Fixed Assets	24 399	23 956	23 507	23 068	22 615	22 159	21 701
Gross intangible Assets	26 156	26 610	27 077	27 554	28 044	28 547	29 062
Yearly Depreciaton	(845)	(897)	(916)	(917)	(942)	(958)	(973)
<i>Average amortization rate (%)</i>	-3,23%	-3,37%	-3,38%	-3,33%	-3,36%	-3,36%	-3,35%
Working Capital							
Net Working Capital	2 804	3 025	3 039	3 163	3 273	3 350	3 459
Investment (-) / Divestment (+) in WC	(166)	(221)	(14)	(124)	(110)	(78)	(109)
Accounts receivables	2 938	3 015	3 124	3 186	3 267	3 356	3 437
<i>DSO</i>	41,03	40,93	41,30	41,09	41,11	41,17	41,12
Inventories	1 982	2 082	2 047	2 076	2 140	2 195	2 246
<i>DIH</i>	51,43	52,50	52,91	52,28	52,56	52,58	52,48
Accounts payable	4 151	4 209	4 218	4 297	4 385	4 490	4 586
<i>DPO</i>	(65)	(64)	(65)	(65)	(65)	(65)	(65)
Other current liabilities	2 900	2 991	3 070	3 145	3 226	3 308	3 392
<i>% of Sales</i>	11%	11%	11%	11%	11%	11%	11%
Other current assets	4 935	5 128	5 157	5 343	5 477	5 598	5 753
<i>% of Sales</i>	18,9%	19,1%	18,7%	18,9%	18,9%	18,8%	18,9%

I. Danone DCF Valuation

In the next table, it is possible to observe last fiscal year and 7 forecasted years accomplished by the business plan forecast. The sum of the discounted cash flows lead to an enterprise value of 61 346million, which translates to 10.00 times EBITDA. Net Debt was subtracted, as well as minorities interest to arrive to Equity Value.

For Terminal Value calculation, growth in perpetuity was assumed to be 1.5% and WACC computed was 4,24%.

€'000 000	2019	2020	2021	2022	2023	2024	2025	TV 2026
Revenues	25 287	26 141	26 887	27 604	28 302	29 011	29 757	30 511
EBITDA	4 720	2 834	2 875	3 894	4 038	4 204	4 426	4 609
EBIT	3 334	1 087	1 015	1 949	1 997	2 061	2 184	2 263
NOPAT	2 522	823	768	1 474	1 511	1 559	1 652	1 712
D&A	(1 386)	(1 747)	(1 859)	(1 945)	(2 041)	(2 143)	(2 242)	(2 346)
Δ Working capital	412	(166)	(221)	(14)	(124)	(110)	(78)	(109)
Capex	(1 739)	(1 798)	(1 849)	(1 898)	(1 946)	(1 995)	(2 046)	(2 098)
FCFF	2 581	606	557	1 507	1 482	1 597	1 770	1 851
<i>Timing factor</i>		0,1	1,1	2,1	3,1	4,1	5,1	6,1
<i>Discount factor</i>		0,997	0,956	0,917	0,880	0,844	0,810	0,777
Discounted Cash flow	61 346	604	533	1 383	1 304	1 348	1 433	54 742
Enterprise Value @ 31 Dec 2019	61 346							
<i>EV / EBITDA</i>	13,00x							
Cash	644							
Debt	17 380							
Minorities	103							
Equity Value @ 31 Dec 2019	44 507							
Number of shares (in Millions)	649							
Price per Share	68,59							

J. Danone WACC Computation

For the WACC computation, the following set of peers was selected after careful analysis of the competitors in the industry.

Identifier	Company Name	Country of Headquarters	GICS Industry Name	D/E	Beta Unlevered	Beta Levered	Tax
NESN.S	Nestle SA	Switzerland	Food Products	0,12	0,67	0,75	14,84%
UNA.AS	Unilever NV	Netherlands	Personal Products	0,24	0,54	0,67	25%
PG	Procter & Gamble Co	United States of	Household Products	0,10	0,38	0,42	27%
PEP.O	PepsiCo Inc	United States of	Beverages	0,18	0,51	0,61	27%
KHC.O	Kraft Heinz Co	United States of	Food Products	0,81	0,56	1,02	27%
GIS	General Mills Inc	United States of	Food Products	0,40	0,41	0,57	27%
Average				0,31	0,51	0,67	24,64%
Median				0,21	0,53	0,64	27,00%
Minimum				0,10	0,38	0,42	14,84%
Maximum				0,81	0,67	1,02	27,00%

Source: Eikon Thomson Reuters

To compute Danone's WACC as well to compare it with its peers, the following inputs were used:

	Company	Peers
Cost of Equity		
Risk free	1,42%	1,42%
D/(D+E)	28,61%	16,47%
D/E	40%	21%
Beta Unlevered	0,50	0,53
Beta Levered	0,70	0,64
Beta Levered Adjustment	0,80	0,76
Tax	24,35%	24,64%
Market Premium	5,50%	5,50%
Country Risk Premium	-	-
Company specific risk pr	-	-
Ke	5,82%	5,59%
ku	4,17%	4,32%
Cost of Debt		
Cost of Debt	0,38%	0,38%
Kd (1-t)	0,28%	0,28%
WACC	4,24%	4,72%

Risk-free and tax rate computation are a weighted average based on revenues for each geographic segment.

Risk Free and Tax Rate				
Geographic Segment	Europe and North America	The Rest of the World	France	Weighted Average
Total Revenues %	46%	45%	9%	100%
Countries	UK & USA	China	France	Total
Risk Free	0,48%	2,66%	0,01%	1,42%
Tax	23,00%	25,00%	28,00%	24,35%

The following table provides a ranking based on 2019 revenues by country, that were used for the abovementioned Weighted average of risk-free and Tax rate applied to the valuation.

Countries	Sales (2019)
United States	19%
China	10%
France	9%
Russia	6%
Indonesia	6%
United Kingdom	5%
Mexico	5%
Spain	4%
Germany	3%
Brazil	3%

K. Danone Multiple Valuation

To perform the Multiple Valuation, the set of peers used was the same as the on WACC computation.

Identifier	Company Name	Enterprise Value to EBITDA (LTM)	Forward P/E (NTM)	P/CF (LTM)
NESN.S	Nestle SA	17,43	23,23	19,31
UNA.AS	Unilever NV	7,68	17,51	14,58
PG	Procter & Gamble Co	16,54	22,01	18,37
PEP.O	PepsiCo Inc	16,52	24,10	19,46
KHC	Kraft Heinz	11,04	13,33	10,55
GIS	General Mills Inc	13,85	17,69	13,40
Average		13,84	19,65	15,95
Median		15,19	19,85	16,48
Minimum		7,68	13,33	10,55
Maximum		17,43	24,10	19,46

Source: Eikon Thomson Reuters

The same multiples as the ones used for Unilever Valuation were selected.

Target Company				
Danone	Enterprise Value to EBITDA (LTM)	Forward P/E (NTM)	P/CF (LTM)	
Multiple from the peers sample	13,84	19,65	15,95	
Financial indicator @ 31/12/2019 (€'000 000)				
EBITDA	4 720			
EPS (€)		2,95		
Cash Flow From Operations - Actual			3 444	
Enterprise Value - Multiple Valuation	65 341	37 611	54 915	
Debt	17 380	17 380	17 380	
Cash	644	644	644	
Minorities	103	103	103	
Number of shares (in Millions)	649	649	649	
Equity Value - Multiple Valuation	48 502	20 772	38 076	
DCF Valuation				
Enterprise Value	61 346	61 346	61 346	
Equity Value	44 507	44 507	44 507	
Difference EV	3 995	(23 735)	(6 431)	
<i>Difference (EV %)</i>	<i>6,5%</i>	<i>-38,7%</i>	<i>-10,5%</i>	
Difference EqV	3 995	(23 735)	(6 431)	
<i>Difference (EqV %)</i>	<i>9,0%</i>	<i>-53,3%</i>	<i>-14,5%</i>	
Share Price	74,73	32,01	58,67	

L. Combined Entity DCF

Unilever DCF and Danone DCF were combined, without accounting for any synergies. The following table provides the forecast until year 2026. The growth rate in perpetuity used was 1.6% and the WACC applied is the one that leads the same Enterprise Value as the ones one could reach if only summed the Enterprise Value of both firms.

Pro forma Income	2020	2021	2022	2023	2024	2025	2026 TV
Revenues	80 263	83 026	86 297	89 554	92 987	96 737	100 670
Gross Margin	34 176	35 417	39 203	40 605	42 166	43 850	45 598
Opex	(22 032)	(22 439)	(22 683)	(23 047)	(23 420)	(23 761)	(24 135)
EBITDA	(3 692)	12 978	16 520	17 558	18 746	20 090	21 463
Depreciation	(3 692)	(3 970)	(3 960)	(4 241)	(4 435)	(4 598)	(4 829)
EBIT	8 451	9 008	12 560	13 317	14 311	15 492	16 635
NOPAT	6 046	6 444	8 985	9 527	10 238	11 083	11 900
Depreciation and amortization	(3 692)	(3 970)	(3 960)	(4 241)	(4 435)	(4 598)	(4 829)
Δ Working capital	(471)	(2 130)	(421)	(1 166)	(1 616)	(1 441)	(1 604)
Capex	(4 628)	(4 784)	(4 967)	(5 149)	(5 340)	(5 549)	(5 767)
Free Cash Flow to the Firm	4639	3499	7557	7453	7716	8691	9358
Terminal value							227258
<i>Timing factor</i>		0,1	1,1	2,1	3,1	4,1	5,1
Discount factor		0,995	0,941	0,889	0,841	0,795	0,751
Discounted Cash flow		3 483	7 111	6 629	6 488	6 908	177 793
Enterprise Value	208 412						

M. Synergies computation

Since synergies are the main reason for the acquisition, the following synergies were forecasted. Since the acquisition is a process, it will not yield any synergies in the first year, but rather only integration costs (assumed 20% as the total integration expense).

	2020	2021	2022	2023	2024	2025	2026 TV
Revenues	80 263	83 128	86 402	89 769	93 207	96 961	100 900
Beauty & Personal Care	22 830	23 850	25 143	26 466	27 935	29 587	31 384
<i>Synergies assumed</i>	0%	0%	0%	0%	0%	0%	0%
Home Care	11 420	11 858	12 496	13 109	13 725	14 411	15 113
<i>Synergies assumed</i>	0%	0%	0%	0%	0%	0%	0%
Food and Refreshment	33 502	34 544	35 449	36 431	37 358	38 316	39 290
<i>Synergies assumed</i>	0%	+0,5% Danone	+0,5% Danone	+1% Danone	+1% Danone	+1% Danone	+1% Danone
Specialized Nutrition	7 894	8 201	8 591	8 982	9 362	9 776	10 198
<i>Synergies assumed</i>	0%	+0,25% Danone	+0,25% Danone	+0,5% Danone	+0,5% Danone	+0,5% Danone	+0,5% Danone
Waters	4 616	4 675	4 722	4 780	4 826	4 871	4 916
<i>Synergies assumed</i>	0%	+0,25% Danone	+0,25% Danone	+0,5% Danone	+0,5% Danone	+0,5% Danone	+0,5% Danone
COGS	(46 088)	(47 371)	(46 623)	(48 460)	(50 313)	(52 357)	(54 521)
<i>Synergies assumed</i>	0%	-0,5%	-1%	-1%	-1%	-1%	-1%
R&D Costs	(1 225)	(1 248)	(1 272)	(1 296)	(1 334)	(1 374)	(1 415)
<i>Synergies assumed</i>	0%	-1%	-2%	-3%	-3%	-3%	-3%
SG&A	(6 929)	(6 900)	(6 941)	(7 014)	(7 088)	(7 163)	(7 239)
<i>Synergies assumed</i>	0%	0%	-0,5%	-0,5%	-0,5%	-0,5%	-0,5%

N. Integration Fees computation

	2020	2021	2022
Distribution		20%	30%
Total Expense	216,41 €	216,41 €	216,41 €
Expense per year	43,28 €	64,92 €	108,20 €

O. Combined Firm DCF with Synergies

	2020	2021	2022	2023	2024	2025	2026 TV
Revenues	80 263	83 128	86 402	89 769	93 207	96 961	100 900
Beauty & Personal Care	22 830	23 850	25 143	26 466	27 935	29 587	31 384
Home Care	11 420	11 858	12 496	13 109	13 725	14 411	15 113
Food and Refreshment	33 502	34 544	35 449	36 431	37 358	38 316	39 290
Specialized Nutrition	7 894	8 201	8 591	8 982	9 362	9 776	10 198
Waters	4 616	4 675	4 722	4 780	4 826	4 871	4 916
COGS	(46 088)	(47 371)	(46 623)	(48 460)	(50 313)	(52 357)	(54 521)
Marketing Costs	(13 312)	(13 540)	(13 753)	(14 008)	(14 238)	(14 481)	(14 734)
R&D Costs	(1 225)	(1 248)	(1 272)	(1 296)	(1 334)	(1 374)	(1 415)
SG&A	(6 929)	(6 900)	(6 941)	(7 014)	(7 088)	(7 163)	(7 239)
Other Opex (with integration)	(523)	(673)	(547)	(653)	(682)	(663)	(666)
EBITDA	12 186	13 396	17 266	18 338	19 552	20 923	22 325
Depreciation	(3 692)	(3 970)	(3 960)	(4 241)	(4 435)	(4 598)	(4 829)
EBIT	8 494	9 426	13 306	14 097	15 116	16 325	17 496
NOPAT	6 077	6 744	9 519	10 085	10 814	11 679	12 517
Depreciation and amortizatio	(3 692)	(3 970)	(3 960)	(4 241)	(4 435)	(4 598)	(4 829)
Δ Working capital	(471)	(2 130)	(421)	(1 166)	(1 616)	(1 441)	(1 604)
Capex	(4 628)	(4 784)	(4 967)	(5 149)	(5 340)	(5 549)	(5 767)
FCFF	4 670	3 799	8 091	8 011	8 293	9 287	9 975
Terminal value							242 230
Timing factor		0,1	1,1	2,1	3,1	4,1	5,1
Discount factor		0,995	0,941	0,889	0,841	0,795	0,751
Discounted Cash flow	222 380	3 781	7 613	7 126	6 973	7 382	189 506
Enterprise Value	222 380						
EV / EBITDA	18,25x						

P. Value Capture with Transaction

The following tables provide summary of the key points of the transaction.

Target intrinsic value	44,506.94 €
Value of synergies	13,967.22 €
Target value to bidder	58,474.16 €
Market value of target	43,281.00 €
Premium	12,984.30 €
Bid Price	56,265.30 €
Value creation	13,967.22 €
Value captured by the target shareholders	11,758.36 €
Value captured by the acquirer shareholders	2,208.86 €

R. Acquirer's Deal View

To assess integration costs and legal and advisory fees paid, the following information was retrieved from Eikon Thomson Reuters.

Thomson Reuters Eikon Company Deals View

Company: Unilever NV
 Date: 05/18/2020
 Product: M&A
 Time Period: 2018 - 2020
 Currency: EUR
 Deals Included: All Deals
 Note: Based on filter selections.

Banking Relationships				
Rank	Financial Advisor	Bank Value (MM)	Advised Fees (MM)	Number of Deals
1	UBS	53 489,474	2,783	2
1	Deutsche Bank	53 489,474	1,148	1
2	Morgan Stanley	26 745	1	1
Total		56 493,218	20,661	11

Deal Summary			
Year	Bank Value (MM)	Advised Fees (MM)	Number of Deals
2018	56 489,474	20,565	7
2019	3,744	0,096	4
2020	-	-	-
Total	56 493,218	20,661	11