“THE BIDFOOD M&A METHOD IN EMERGING MARKETS”

Author: Abraham (Abi) Moskovicz

Supervisor: Emeritus Professor Robert Wood

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Dedication

I dedicate this book to my three wonderful daughters that remain babies for me, despite the time: Dana, Dalia & Debora.

Many thanks to my triplets sons in-law & sons in-love: Ezequiel, Tatiana and Matías.

I’m proud to confess that without the permanent support of my treasure in earth, my loving wife Dr Sary Sujovolsky, this project wouldn’t have been possible. Her parents, Samuel and Lidia must be proud of their princess, they did a great work.

I’ve to highlight my siblings: Raquel, Bernardo and Leo, for taking care of their little brother since the very first instant.

Thanks to my friends in Uruguay, Chile and Israel. They are more than family for me.

I wish especially to express my gratitude to my admirable parents. This academic challenge started just as a gift for them, as a symbolic reward for their everlasting dedication to their sons and grandsons, even today, although they are passed the age of ninety years old.

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In writing this dissertation, I had the benefit of the input of Mr. Martyn Shaw. Thanks Sir for all of your efforts to assist me from the beginning of this project. And even before then, when you encouraged me to move my studies from the United States of America to the United Kingdom, where the University of Bolton headquarters are located.

All of my virtues, however few, are the result of attending Yavne for fourteen years (from kindergarten, all the way through high school). My many defects are despite this institution. Its values are well represented by its former Director: Professor Nestor Florio Rey. His rigorous yet warm personal approach stayed with us through our entire life: as students, sons, brothers, friends, professionals, and parents.

Finally, I wish to thank the former president of my country: Dr Julio María Sanguinetti, for accepting to donate his amazing preface to a person whom he had never met before, and who dared to ask this of him solely because “we are both Uruguayans”. This explains very well why we are so proud of our homeland.
Declaration

This study contains no material that has been accepted for the award of any degree in any university or equivalent institution and, to the best of my knowledge and belief, the research contains no material previously written or published by any person, except where due reference is cited within the text of the work.

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PREFACE

Companies and Competition

Irineu Evangelista de Souza, remembered in history as Barón de Mauá (Yaguarón, Río Grande del Sur, 1813- Petrópolis, 1889), was the first Brazilian entrepreneur to open up his country to the modern economy.

He closed the stage to slave labor, which he always abhorred, the bold entrepreneur proposed the creation of a bank. It was so that on March 2, 1851, he met, in Rio de Janeiro, a group of wealthy people who could no longer find a purpose for their wealth.

He delivered a memorable speech there, in which he said: "The spirit of association is one of the strongest elements of prosperity in any country, and so to speak, the soul of progress. When the wise man in his meditations discovers the secrets of nature, he barely shows us the germ; it is the spirit of association that, by developing, grows the tree that later gives us its seasoned fruits. It is the spirit of association that made and makes the prosperity of England, because it provides the means to execute those gigantic works that, giving value to all corners of that nation, operate this prodigious multiplication of the capitals observed there."

Mauá, who became a member of Baron Lionel de Rothschild in England, incorporated to that monarchical and agricultural country, one of the roots of the verve of the market system: the association of capitals, the culture of society, the vision that development requires economies of scale when it comes to the fate of a large state.

This spirit of association leaves behind the patriarchal individualism of wealth only settled on the land and the exploitation of those who worked; of the patrimonies born from inheritances; the slow and weary rhythm of the colonial structures. It was the
spark that ignited the new businesses, those of the industrial revolution that had widened England and generated the momentum of the United States of America.

Naturally, he was able to develop by the parallel improvement of an institutional system that protected property, in its many forms, stabilized the modalities of commerce and made possible the advent of societies by way of contract.

This spirit of association, essential for great works, has coexisted in dialectic tension with competition, the foundation of the market economy, of the capitalist system that was born in the fifteenth century in Northern Italy and Central Europe. Competition is a consequence of individual freedom, freedom of trade that overcomes medieval corporate structures and opens the way to the birth of the bourgeoisie, described by Werner Sombart (Ermsleben, 1883- Berlin, 1941), in his classic book. There appears the figure of the entrepreneur, who has put Joseph Schumpeter (Moravia, 1883- Salisbury, 1950) at the center of his theory of development, confronting diametrically with Marx's ideas of structural, impersonal factors, as generators of economic development.

Much has been discussed about that role of the individual who innovates, which generates the "creative destruction" of Schumpeter, who boldly invents, creates, overcomes something and replaces it with something new. Our time seems to give more reason than ever to the significance of that individual figure, when we observe the sudden irruption of the biggest companies in the world, to the creative impulse of young people, apparently from nothing, who revolutionize the very nature of wealth. That intangible world of GAFAM calls (Google, Apple, Facebook, Amazon, Microsoft), today the five companies with the highest stock market price in the world, are exactly the unequivocal testimony of that personal factor.

On the contrary, the losers in this accelerated and relentless career are also a testimony. Where is Nokia, which a few years ago was the largest provider of cell phones? Where is Yahoo, which in 2010 was at the head of Internet search engines and has been bent by Google? In a word, the freedom to create must be assumed
as a constant innovation, including the opportune and saving association when the road alone, for one reason or another, does not offer better perspectives.

There seemed to be a contradiction in Schumpeter between the recognition of the rational nature of the new economy, with that somewhat romantic character of the entrepreneur, a kind of crusader of novelties. It is not, however, insofar as this rationalist system is part of the framework of individual freedoms, naturally generating this formidable creative spirit.

Max Weber, who shared with Schumpeter that general view, points out that what created capitalism "is the lasting rational enterprise, the rational accounting, the rationalization of the conduct of life, the rational economic ethos". Which, as soon as the analysis is deepened, is perfectly consistent with this innovative entrepreneur, whose innovative mentality is born of innovative products that will mark their time.

In the end, everything is freedom and everything is the reason. In a word, the liberating vision of Renaissance humanism that inaugurated the 500 years of growth of our Western civilization. The one that today faces, still, the aggression of those visions of religious fanaticism that preceded him and that anachronically today return. Their "ethos", the son of those values, continues to overpower their opponents again and again and while nothing is eternal in history, until today there is no social system that has survived with more success than liberal democracy and the market economy. So much so that he had enough flexibility to take socialism's spirit of solidarity and thus associate the idea of freedom with justice.

May these reflections count as an introductory appetizer to the profound work of Abraham (Abi) Moskovicz, on the Acquisitions and Mergers of Companies.

The author belongs to a rare breed, a mix of businessman and academic, who lives the vicissitudes of commercial life along with intellectual speculation.

Graduated in Political Science at the University of Tel Aviv (Israel) and Master in Business Administration at the University of Santiago (Chile), he has continued with
his training, as fully accredited by this thesis which he presents for his PhD in Business from the University of Bolton (England).

It is a serious work, in which the doctrine is combined with the experience, which gives it an unusual relief.

Dr. Julio María Sanguinetti

President of the Oriental Republic of Uruguay

Note: The Spanish version is available in the Appendix N° 1
INDEX

Chapter 1- Introduction
1.1 Background to the problem situation
1.2 Some reasons why companies engage in M&A
1.3 Qualitative and Quantitative approach to M&A
1.4 The significance of targeted Business Evaluation
1.5 Valuation Methods
1.6 The researcher
1.7 Aims and objectives of this study
1.8 Research questions
1.9 Significance of the study
1.10 PhD by Professional Practice thesis
1.11 Structure of the thesis

Chapter 2- The Bidvest/Bidcorp Group
2.1 The origins of the company
2.2 The Organization
2.3 Bidvest tailor-made management style
2.4 The crucial inorganic growth

Chapter 3- Literature review
3.1 Mergers and Acquisitions
3.2 Sinergy relevance in M&A
3.3 Friendly and Hostile M&A
3.4 To merge or acquire?
3.5 Some motives to engage in M&A
3.6 Types of Merger
3.7 Steps toward M&A ................................................................. 49
3.8 Factors impacting post-Merger performance .......................... 53
3.9 Accounting principles applied in M&A ................................. 57
3.10 A worldwide Business Evaluation Model proposal for M&A .... 58

Chapter 4- Research Method .................................................. 61
4.1 Research Process Flow ..................................................... 61
4.2 Research Model ............................................................... 63
4.3 Research Design .............................................................. 63
4.4 Qualitative and Quantitative research .................................. 65
4.5 Objectivity and Subjectivity ................................................. 68
4.4 Approaches ...................................................................... 69
4.7 Case study ....................................................................... 70
4.8 Case study method ............................................................ 74
4.9 Case Selection ................................................................. 76
4.10 Data Collection ............................................................... 76
4.11 Fulfillment of the steps in the case studies ............................ 77
4.12 Reliability, validity and quality of the information .......... 79
4.13 The Reflective Practice .................................................... 82
4.14 Analysis Criteria .............................................................. 87
4.15 Data Analysis ................................................................. 88
4.16 Analysis and Findings ....................................................... 90
4.17 Analysis and Interpretation of the findings ......................... 92
4.18 Implementation of the findings .......................................... 97

Chapter 5- Case Studies: The three acquisition attempts .......... 100
5.1 First Case Study: The aborted acquisition of “B” ................. 101
5.1.1 “B” Business Evaluation using the proposed Model ...... 110
5.2. Second Case Study: The attempt to acquire “A” ................. 111
5.2.1 “A” Business Evaluation using the proposed Model .......... 116
5.3 Third Case Study: Comon’s Acquisition ........................................118
5.3.1 Comon Business Evaluation using the proposed Model ........... 125
5.3.2 Comon’s case review using the new M&A technics ................. 126

Chapter 6- Conclusions and Recommendations .......................... 131
6.1 Limitations and vision for future ............................................. 137

References .................................................................................... 140

Appendices .................................................................................. 148
Appendix N°1 Preface, spanish original version .............................. 149
Appendix N°2 Bidvest Group Acquisition Table ............................. 154
Appendix N°3 Confidential data regarding “A” Acquisition ............ 158
Appendix N°4 Deli Meals + “A” Post-acquisition Budget ............... 161
Appendix N°5 Internal emails regarding “B” Acquisition ............... 165
Appendix N°6 Deli Meals + Comon Forecasted Budget ................. 173
Appendix N°7 Formal Acquisition offer for Comon ....................... 180
Appendix N°8 Deli + Comon Post-merger Projected Organigram .... 183
Appendix N°9 Prof. Silverman’s email ........................................... 186
Appendix N°10 Acquisition attempt in Argentina ......................... 188
Appendix N°11 Acquisition attempt in Uruguay ............................ 190
Appendix N°12 Acquisition attempt in USA ................................. 192
Appendix N°13 The Press & Fairs Network .................................... 196
Appendix N°14 The author in the media ...................................... 202
Appendix N°15 Author’s Academic background ............................ 209
Chapter 1- Introduction

1.1 Background to the problem situation

In the current business world, it seems to be impossible for companies to survive without expanding through deals that sometimes result in M&A. An understanding of Mergers and Acquisitions therefore turned very important, because they are occurring more and more, even between the private and public sector.

This research scrutinizes the issues by using the perspective of methods to determine merger and acquisition value. The study is based on the current literature available on M&A from the recent past, in the attempt to start covering some background issues.

When organizations make a decision to go through M&A, it is crucial that they pay significant attention to understand and deal with opportunities and challenges presented during the process. Due to competition and globalization, the economic environment has changed in recent years and, as a result of this, the challenges most of the companies face have become even larger and more demanding. One consequence of this has been an increase in the number of acquisitions, both within and across borders.

For companies of every size, mergers or acquisitions has become increasingly important and has at least partially replaced organic growth. The number of M&A as well as the value of these transactions has risen significantly through time. However, the increase in the M&A activity is not stable, in fact it moves up and down over time with an overall rising tendency. This phenomenon is usually called ‘merger waves’. These waves might be partially explained by several local and/or global factors, some of them as a consequence of the economic cycles.

Lately in business literature, great attention has been paid to M&A deals and several studies have focused on it to understand and determine the trends and the characteristics in this field.
The main aim for the acquirer company is value creation and in the light of increasing M&A activity it is relevant to examine whether or not value is created. There’s no consensus on whether or not value is created for the acquiring firm. Moeller (2005) has concluded that value is severely damaged when engaging in acquisitions. The reason for this conclusion is evident in the fact that the largest M&A are the ones experiencing massive loss. A remaining part from the initially denominated “large loss deals”, experience gains from M&A after a few periods. The conclusions from his paper are based on US companies and have not yet been fully explored in Europe.

1.2 Some reasons why companies engage in M&A

Companies that decide to engage in M&A can be motivated by several different objectives. Some of them, as presented by Sudarsanam (2003), are cost savings, increased growth, efficiency and synergies. Synergie clearest definition is when the combined power of a group of things working together is greater than the total power achieved by each working separately. In addition to these motives, decreased transaction costs, increased knowledge, and so forth, might also be included. Not only the reason as to why a company decides to engage in mergers or acquisitions affects the type of merger, but also the industry in which the company operates. The motive for the M&A in the case of a mature industry could be quite different from the motive which is prevalent in an immature one. Paying attention to the motive that drives the acquisition and the industry in which the acquirer is located increases the importance of the strategic rationale for M&A.

It is well known that for any company it is decisive to set up a strategy to face the threats from competitors and from a quickly changing environment. The strategy a company chooses to follow should be one that allows it to achieve value creation. A decision to expand through acquisitions has to be aligned with the strategy of the firm. In line with this, the strategy or the motivation behind an
acquisition is, according to Bower (2001), an important factor in the decision making process, whether or not an acquisition becomes a success, meaning that value is created.

It is more necessary than ever before for companies to maintain and sustain a competitive advantage in today’s dynamic, global market. In fact, business world is characterized by an increase of M&A. Through these kinds of transactions, companies can enter new markets, incorporate new technologies, reinforce their competitive position, and acquire new competencies, according to Jackson and Schuler (2001). As quoted by Leroy (2003), today, mergers and acquisitions are happening across diverse industries, ranging from bank and insurance sectors to oil, aeronautic, high-tech, and automotive industries.

M&A today have become an ongoing phenomenon constructed numerous times, and sometimes various attempts are made along the lifetime of a single organization. Although, empirical studies reveal very high failure rates. According to Cameron and Green (2009), up to 75% of the M&A result in failures.

1.3 Qualitative and Quantitative approach to M&A

Up to date the impact of many variables on the success of M&A have been examined. Some of the variables are external to the companies, and are directly related to the type of industry, the market, or the legal frame. Others are internal variables, related to the management style, to the organizational culture, the manner of performance of processes, etc. However, the opinion of researchers regarding the variables that influence the grade of success of any M&A are up to this day very partial, due to two reasons. Firstly, every M&A transaction is unique, since each firm involved in the process is different from other companies. Secondly, there are many variables that influence the degree of success of the M&A, but their outcome depends also on a
combination that is comprised among them, so that the isolation of just one variable without also examining the other ones does not always describe the whole picture.

Professor Joseph Bower, a recognized defender of the qualitative approach, wrote in the Harvard Business Review (2001) that most of the M&A’s fail. He said that there is a great deal of writing on the subject, although these articles are largely opinions and are just based on one-off cases. Because of this, general rules cannot be reliably determined.

On the opposite side, for instance, the Edinburgh Business School quantitative approach maintains that M&A is a discipline closely related to the Strategic Focus Wheel, developed by Prof. Alex Roberts. The aforesaid, to explain that M&A represents a major source of organizational change. On his “Mergers & Acquisitions course text” (2011), Professor Alex Roberts argues that companies are not capable of identifying the need for change and later on they’re not able to adapt to change.

Many variables were examined in studies using a number of research methods. However, the fact is that there’s still no unmistakable formula that combines all of the variables known to predict a high likelihood of success of a given M&A. Even variables whose impact can increase the chances of M&A success in a way that appears to be very logical, such as a proper valuation, have not been proven to predict success.

Additionally, many variables influence the M&A process. Therefore, it is required to examine the impact of at least a number of them: First, the type of M&A: is it an international one or is it domestic. Second, the combination of the different characteristics of the companies involved in the M&A, such as: cumulative and relative firm size, acquired age, level of relatedness between the firms, previous M&A acquisition experience, organizational and cultural differences, acquirer nationality. Finally: the integration approach.

It is clear that, if the M&A is successful, it would lead to higher levels of profit, creation of value for shareholders, and an increase in the company’s market
shares. However, the success of these activities, as previously stated, is by no means assured.

Over the recent years, calls to develop theories in M&A research has been made. This argument has been raised, for instance, in conference panels such as the Strategic Management Society Special Conference Finland 2010, quoted by Cartwright (2012).

Trautwein (1990) argues that research on M&A should move away from efficiency theories and towards more process related theories. Schweiger and Goulet (2000) claim there is a need for a general theory on M&A. The subject still remains under increasing criticism, specifically with regards to what M&A performance is and how it is measured, as discussed by Meglio and Risberg (2011).

For this research particularly, it is remarkable that Leon-Darder (2011) found that, in international business, environmental and behavioral uncertainties are considered core attributes. Villar (2012) has suggested that knowledge regarding overseas markets evolves in a very dynamic way. Therefore, the ability to learn and apply knowledge is crucial for the success of international M&A.

Particularly with reference to the knowledge transfer in emerging economies, in the context of rapid globalization in the form of FDI and international trade, Barber and Camps (2012) have emphasized on the “springboarding concept” for the success of business geographical expansion, including M&A’s. They are referring to the complex environment where investing firms deal with issues for which they don't have proper knowledge. They investigated that such knowledge related to potential customers, competitors, and market conditions in a particular country can be acquired through the firm's direct experience in the target country, through their own subsidiaries in the region having direct business connections with the country where target business exists. This concept was adopted by The Bidvest/Bidcorp Group, as it will be shown in the next chapters.
1.4 The significance of targeted Business Evaluation

Business evaluation is related to processes which would ensure efficient handling of the causes of M&A failures researched so far. This has not been investigated enough and requires a more detailed study, as argued by Haleblian (2009). This has also been substantiated on the basis of the conclusion that none of the variables (strategic or financial) are able to predict variance in post-acquisition performance, according to King (2004). Remarking the significance of business evaluation in the M&A transactions, Chase (1997) has also argued that well-evaluated mergers enhance the value of the firm and the value of the firm to society, whereas not properly planned mergers or undesired takeovers not only damage the acquiring firm but also the whole of society due to external costs not borne by the acquiring company. This also remarks the role of managers undertaking business evaluation and how they should consider the direct and collateral effects of the merger/acquisition on all stakeholders.

Studying the concept of evaluation of targeted business, Gande (2009) has analyzed that, just like for any other business proposition, successful transactions should show a reasonable proportion between the return/gain likely to incur and the investment amount. Overpayment has been reported among the main reasons of M&A failures.

Child (2001) wrote that significant part of the literature explains failures as the result of paying excessive premiums or unavoidable problems associated with post-acquisition integration.

Astrachan (2008) argued that business evaluation, is normally conceived as a calculations exercise based on a method which suitable to the cases, involving a large number of intangible factors. Reuer (2003) sustains that in most of the cases it is not being carried out in a way that would deliver reliable results, varying from a case to case basis due to the fact that either the sphere of valuation
process is not clearly defined or it’s not in accordance with the merger’s objectives, or the factors involved are not given their required weight. As per Basu’s (2008) argument, the process should, however, start from the stage of selection of a business.

1.5 Valuation Methods

As it was well described by Kennet Ferris and Barbara Petit (2013), there are several valuation methods available. They have been classified into four categories, based on two dimensions. The first dimension distinguishes between directs (or absolutes) and indirects (or relatives). The second dimension separates models that rely on cash flow from those that rely on another variable, such as revenues, earnings or book value[1].

Direct methods provide a direct estimate of a company’s fundamental value, whilst relative valuation methods only indicate if it is fairly priced relative to some benchmark or peer group.

By using the direct valuation method, it is possible to compare the company’s fundamental value obtained (the premium) versus the company’s market value. Valuing using indirect methods requires identifying a group of comparable companies, thus, the relative ones are also called the comparable approach.

There are two types of direct valuation models based on cash flow: those using discounted cash flow, such as free cash flow to the firm model, free cash flow to the equity model, and adjusted present value model.

The second kind is based in option pricing models, denominated the real option analysis.

Direct ones based on other variables are the economic income models, usually called the economic value analysis.

Among the indirect methods, we find only one that is based on cash flow: price to cash flow ratio, using price multiples. Based on other variables while keeping price multiples we can identify: price to earning ratio, price to Ebit ratio, price to sales ratio and price to book ratio.

Ebit is a measure of a company`s ability to produce income on its operations in a certain period of time. It`s calculated as the company`s revenue less it`s expenses (such as overhead) but not subtracting its tax liabilities and the interest paid on debt. Ebit does not account unusual revenues and expenses, only the recurring ones.

Firm value can be calculated by an “X” Ebit or sales multiple, according to each industry. Ebit (earnings before interest and taxes) is the unique method accepted by the Bidvest Board of Directors, to unify divisional annual reports and to compare investments globally. This method of valuation is a relative one (indirect) because it relies on a financial variable rather than on cash flow.

If the candidate`s company accounting treatments do not follow Ebit rules, then the price to offer by Bidvest/Bidcorp will only consider the formal accounting part of the business that can be audited using this method.

To decide on an acquisition, it is essential to evaluate the future reward after the purchased company is successfully incorporated to the Bidvest/Bidcorp Group, through properly exploiting the synergies, such as: the same target market, same suppliers, a good blend of products offered, the same geographical coverage, similar organizational culture, and others.

The first objective pursued through the acquisition is that the final profit must be higher than the sum of each parts individually, usually called “the bounty”, which is the goodwill.

A brief introduction to the Bidvest/Bidcorp Group world is required to assist the reader with a basic understanding of the reasons behind the decision making process.

It seems necessary to explain a bit related to the Bidvest/Bidcorp organizational culture, to allow the reader to understand why some candidate companies available for acquisitions were rejected in advance by Bidvest/Bidcorp, even when they looked so attractive to its competitors that they accepted to deal with a certain level of
informality, mainly explained by not billed revenues (black sales), no formally hired staff (paid under the table) or inaccurate data.

1.6 The researcher

The researcher has extensive experience on working with different cultures during several years in the foodservice industry and through formal research.

He was the founder and General Manager of the international organization “The Press & Fairs Network”, (As shown in Appendix N°13) organizing trade fairs around the world.

Serving for several years as General Manager, Executive Director and Board Member (see Appendix N°14) has taught the researcher that any performance can never be assumed as being good enough in a long term perspective. Therefore, change is always required.

The author holds a B.A. degree in Political Sciences and Labor Studies from the Tel Aviv University. His M.B.A. (honors) is from the Universidad de Santiago de Chile, and his thesis “A Corporate Analysis of the Food Industry: Bastien’s marketing strategy”, received the highest qualification in 2005. Additionally, the author has published several research papers in indexed Journals from the United States, Ukraine, United Kingdom, India and Chile. (Further detailed information is available in Appendix N°15)

This represents an existing knowledge base relating to this matter from which to draw on new aspects of related subjects by undertaking an updated literature review expanded in scope.

Both organic and non-organic growth are essential for company sustainability in a quick changing and very competitive scenario. By organic we mean internal growth, while non-organic refers directly to acquisitions. Therefore, to look for companies as potential candidates to be purchased is a never-ending task for Bidvest/Bidcorp Directors, at any subsidiary across the world.
The first contact of the researcher with the multinational was when he informally offered to evaluate a partial acquisition deal to Bidvest/Bidcorp during a private visit to New Zealand, by invitation of the CEO of the Asia-Pacific division. Later, formal negotiation begun, led on Deli Meals’ side by himself, and by the CEO in the Bidvest side. After the partial acquisition, the researcher served as Executive Director in Deli Meals for 3 years, and focused in purchases and sales, until May 2016 when the Bidvest Group split happened.

The researcher was directly involved in many other acquisition attempts, not just in Chile, but also abroad. For instance, in Argentina (see Appendix N°10), the United States, (Appendix N°12) and Uruguay (Appendix N°11). This training allowed to him to face firm acquisitions as a routine task, making them as common as the daily negotiation with suppliers and customers.

Through undertaking the PhD on Professional Practice, the researcher will review some of the highlights of his career, where he was directly involved. Therefore, three cases will be presented as part of this research to demonstrate the singularity of the M&A method applied by Bidvest in emergent countries.

1.7 Aims and objectives of this study

This study presents a research in the field of business strategy and focuses on the strategy of mergers and acquisitions (M&A), at the stage of the target firm selection, valuation and finally the negotiation between firms.

Considering the previous statement, the research area is related to the performance of M&A with reference to the selection of target firm, business evaluation, and the negotiation undertaken by the acquiring firm, and how these processes can impact the outcome.

The research objective is to add managerial knowledge in the field of M&A, when the assumption is that valuation method influences M&A success. The research is supposed to add knowledge in this field for managers who are facing a decision in
the stages of selecting, evaluating, and negotiating the integration between companies.

The general objective of this research is to estimate the grade of success of M&A when the target firm is valuated using exclusively the Ebit method.

Two specific objectives will be addressed in this research.

1. To estimate the accuracy grade of the target firm valuation by using only the Ebit method.
2. To propose the use of different methods to evaluate target firms, located in small and under-developed emergent markets such as Chile.

And lastly, we will derive an encompassing conclusion based on the main findings and reflections, and close with a short discussion on the limitations of this research.

1.8 Research questions

The research questions are:

1. What are the factors that influence the selection of a firm for M&A?
2. What is the role of the valuation in the M&A success?
   The research assumption is that the valuation method has a crucial influence on the M&A’s success.
   The above discussion can lead to the following research questions:
3. What is the role played by the business evaluation process in the outcome of a merger or an acquisition?
4. How M&A performance can be better assessed by using different valuation methods?

The research area of M&A is immense. A study of mergers and acquisitions can be investigated from various disciplines points of view, such as finance, accounting, management, organizational behaviour, corporation law, and social science. The study of mergers and acquisitions in the present study will be limited on a particular
discipline to obtain a focused result. Namely, it will focus on an economic aspect: business valuation.

1.9 Significance of the study

Research carried out over a period of time has analyzed the reasons for the failure of M&As in the context of varied management, organizational, social, political, and geographical issues. But the business evaluation process, adopted by the acquiring firms while undertaking such transactions, as a reason, was not thoroughly investigated, and required detailed study. To emphasize the significance of business evaluation while carrying out M&A transactions, Chase (1997) has planned and executed mergers that increase the value of the firm and the value of the firm to society. Well-planned means proper assessment covering the choice of a target firm and an analysis about how possible benefits (tangible and intangible) can be derived. This creates an issue, because it is an attempt to include intangible benefits in an economic model.

The scope of this research is, accordingly, related to addressing the question of the business evaluation process, covering selection of target firm (based on a well-defined merger objective), basis adopted for the evaluation of selected firm (covering all related subjective and objective factors), and how the performance assessment mechanism has been defined to ensure that the merger objectives have been achieved.

The research has been designed on a case study basis covering, primarily, internal information handled by key persons involved in the process of evaluating the target firm for M&A transactions. Additionally, information publically available as well as documents and record pertaining to the events surrounding the transactions, maintained by the acquiring firms, when available, were also examined. It is remarkable that only an insider can explain the reasons why some decisions were made among many available unknown others, because managers usually don’t unveil to researchers the entire list of options that was available when they
made the decision, mentioning just a few among them, mainly the most convenient to justify their election.

The outcome of the study would help not just the investors and sponsors, but also the management to carry out a more trustworthy business evaluation process. It will develop a better understanding of its scope, particularly with reference to the valuation method. More importantly, this would also help to unveil the relationship and behavior between different components and related factors of business evaluation.

1.10 PhD by Professional Practice thesis

A PhD is an academic degree focused on original research, data analysis, and the evaluation of theory.

A practice-based PhD can be distinguishable from a conventional PhD since creative outcomes from the research process may be included in the submission for examination and the claim for an original contribution to the field are held to be demonstrated through the original creative work.

Therefore, the PhD by Professional Practice must demonstrate a substantial contribution to knowledge, showing doctoral level powers of analysis and mastery of existing contextual knowledge, in a form that is accessible to and auditable by knowledgeable peers.

Practice-based research should be an original investigation undertaken to gain new knowledge partly by means of practice and the outcomes of that practice. In a PhD by Professional Practice doctoral thesis, claims of originality and contribution to knowledge may be demonstrated through creative outcomes in the form of designs, models, digital media, performances, music or exhibitions, among others. Whilst the significance and context of the claims may be described in words, a full understanding can only be achieved with direct reference to the outcomes.
The relationship of this reflective commentary to the other forms of material submitted must be clearly articulated so that the work forms a single coherent body, considered collectively as the thesis. Within the thesis, the balance between the reflective commentary and the creative work, publications or equivalent plus the relative weighting given to each element, must meet subject-specific requirements and be agreed by the candidate’s Faculty Research Degrees Committee.

In 1997 the United Kingdom Council for Graduate Education (UKCGE) addressed the variance between practice-based doctorates. It is now possible to do a practice-based PhD in several universities, although what is expected from doctoral students varies considerably across institutions. A great development of professional doctorates is noted also in the United States, Canada, and Australia. Similar growth patterns for applied doctorates have occurred in other countries, reshaped existing PhD programs to meet changing external requirements.

For each of the universities, the relative difficulty in obtaining consistent definitions of professional doctorates, and reliable statistics on the numbers of students enrolled in and graduating from such programs, suggests the need for continuing discussions within and across countries concerning these emerging professional doctorates.

An empirical study of the Doctoral education experience in Australian universities included an examination of doctoral experiences in departments offering both PhD and professional doctorates. This paper discusses professional doctorates in education, management, law and the creative arts, remarking on similarities and differences found between PhD and professional doctorate programs, providing an insight into practice. Three specific areas were discussed. The first was the recruitment and selection of students, student choice of professional doctorates and perceived career benefits. The second area was the structure and organization of PhD and professional doctorate programs, including the identification of the
research topic. The third area was the perceived status of professional doctorates vis-à-vis the PhD.

An important practical problem currently faced by students and tutors in higher education is how to differentiate and judge practice-based PhDs from the traditional ones, especially regarding doctorates awarded for a `thesis' reporting an inquiry, rather than the collection of reflective exercises which may constitute, for instance, a doctorate in Business Administration (DBA), although in practice this distinction may not be absolutely clear.

In his paper, Sarro (2005) demonstrates areas of confusion surrounding the purpose and nature of the DBA degree in Australia, especially as a research degree in comparison to the PhD. He concludes that quality controls are needed to ensure that this growing addition to management education adds to, and aids, the goal of strengthening management research, in ways that link theoretical insights with management practice.

This thesis is submitted in partial fulfillment of the requirements of the University of Bolton for the degree of Doctor of Philosophy (PhD) by Professional Practice. In a practice based PhD, the thesis should reflect a coherent research process, demonstrate a critical appreciation of the context of the research, its relationship to existing literature/practices and received opinion, and show that the research has produced an original contribution to knowledge.

The Institute of Management Greater Manchester (University of Bolton) offers a “Route A” which is retrospective, designed for candidates who already have a portfolio of publications or substantial and evidenced involvement in a project or projects which develop innovative professional or creative practice. This thesis follows Bolton’s Route A, designed for those who have a portfolio of works that are worthy of publication.
1.11 Structure of the thesis

The thesis is organized into seven chapters.

Chapter one consists of the introduction, the background of the M&A study, the researcher, aims and objectives, research question, the significance of the project and finally its structure.

Chapter two is a presentation of the Bidvest Group.

Chapter three is the literature review. For this study, a comprehensive theoretical basis will be cited, among a wide bibliographic source, especially books and academic journal papers, such as the Journal of Management, University of Oxford press, the Journal of Financial Economics, University of Chicago publications, and others.

Chapter four describes research paradigms and methodology.

Chapter five presents three study cases. First, the case of the “B” failed acquisition will be presented. Secondly, the aborted “A” negotiation. The third case will take focus on the acquisition of Comon, including a deep review of the former valuation method applied, using the new M&A techniques.

Chapter six is the analysis and findings.

Chapter seven presents the conclusions and recommendations.

Bidvest/Bidcorp is a stock exchange company; therefore, all the implemented policy is properly published in the quarterly reports.

In spite of the former, it is noted that some appendixes are purely internal information.

Therefore, some names from the unpublished data will be striked out, but a total comprehension of the main idea is guaranteed. Additionally, nothing related to the 2016 financial year will be mentioned, according to confidentiality compromises signed by the author.

Keywords: Merger and Acquisitions, Business Evaluation.
Chapter 2. The Bidvest/Bidcorp Group

2.1 The origins of the company

To understand the importance of acquisitions to the Bidvest Group, the following is a short review of the highlights.

The real start of the Bid group occurs in 1988 in South Africa when the first acquisition was made: Chipkins (catering suppliers), followed shortly thereafter by Sea World (fish and seafruits).

In 1989 the acquisition of Afcom (a packaging manufacturer) demanded an organizational change: Bid Corporation becomes the pyramid holding company of Bidvest. In 1991 Steiner Services (hygiene) was incorporated. For the next few years at least one company was acquired in the country, such as Crown Food Holdings, Safcor Freight and others. In 1995 Bidvest made the first steps to international expansion, taking up 50.1% of Australian Stock Exchange-listed Manettas (food service) acquiring it and renaming it Bidvest Australia. In 1997, 100% of Waltons Group was acquired, Bid Corporation unbundled and Bidvest incorporated into the JSE (Johannesburg Stock Exchange) industrial index. In 1999, it enters the U.K foodservice market and the next year opens a Bank in South Africa, followed by the acquisition of John Lewis, the leading foodservice company in Australia.

Between 2004 and 2010, Bidvest enters the South Africa’s motor retailer market, purchases 100% of the Netherlands foodservice’s companies, operates Mumbai International Airport, acquires 100% of Angliss, a leading foodservice wholesaler and distributor in Singapore and China, and also acquires the largest foodservice group in Czech Republic, Slovakia and Poland. Additionaly, a small Dubai-based distributor was bought. 2012 is the year for several acquisitions on South America (Chile & Brazil), followed by Italy, Turkey, Spain and other countries.

(Further information is available in Appendix №2.)
2.2 The Organization

In 2016, due to the large size and to focus efforts, Bidvest Group splits into Bidvest Group and Bidcorp (also known as Bidfood) Group. Currently, the group operates two totally separated units: Bidvest and Bidcorp. [2] Bidvest still manages everything related to Africa’s business; food factories, car rental, local foodservice distribution, electricity, freight, bank, fisheries, airports operation, office equipment, supermarkets and laboratories.

Using their own words, as explained in Bidcorp’s website: “Bid Corporation Limited, known as Bidcorp, separated from Bidvest and listed on the JSE on Monday 30 May 2016. The unbundling provides Bidvest shareholders with the opportunity to participate directly in Bidcorp’s foodservice operations, as well as enabling each of the businesses to achieve their respective strategic goals. Bidcorp will focus on realising the potential that exists in its current foodservice operations as well as acquisitive growth opportunities”.

![Figure N°1- Bidvest split. (Unbundling roadshow April 2016)](http://www.fin24.com/bizNews/The-Bidvest-story-with-Brian-Joffe-20150904)
Thus, Bidcorp is an international broad-line foodservice group, listed on the JSE, and present in developed and developing economies across five continents. Focused on foodservice, the business comprises a mix of well-established leading and rapidly growing market-share, offering significant future upturn. The profile of the customer base is strategically targeted to fully service the foodservice industry’s needs.

The achievement of a good performance track record is a result of strong organic and acquisitive growth, positive market fundamentals and the advantages of shared operational best practices, network density, deep local customer and supplier relationships, effective world-wide procurement, and a successful model of decentralized management.

Bidcorp Group runs exclusively Foodservice deals out of Africa, a unique kind of business managed abroad. Today, the group manages subsidiaries in 37 countries across all five continents, employs 141,000 people, and has a net annual revenue of USD $14.5 billions.

Bidcorp is now divided in 4 units: Australasia, United Kingdom and Emerging Markets (Middle East, America, China, etc).[3]

Each zone is managed by one CEO, who leads several subsidiaries. The daily management is kept in the local remaining shareholder’s hands (usually the founders of the company), being audited by KPMG.

Bidvest Group manages 4 units: Bidvest Corporate (headquarters, Bidvest Bank, Budget car rental, Airport operations, Yamaha, etc) Bidvest Industries (electric centrals, food factories, pharmaceutical labs), Bidvest Namibia (fisheries) and Bidvest Properties (office supply, among others).

Bidvest Corporate complements the work of decentralized operational divisions. Johannesburg-based Bidvest Corporate complements the work of decentralized operational divisions through a range of services, including access to corporate finance, Bidvest brand support, compliance, executive training, oversight and

management of Group-wide financial services, investor relations and corporate communications, risk and sustainability, among other many daily issues.

The corporate centre adds further value by identifying strategic and investment opportunities while promoting experience sharing across divisions and fostering synergies and savings. Bidvest Corporate also houses certain Group investments.

The Industrial division includes a variety of service and product offerings: freight management; logistics services; terminal operations and marine services; office automation; stationery and furniture; leading motor brands and vehicle auctioneering; travel management solutions; aviation services; airport lounge access and car rental; outsourced cleaning; landscaping; catering services; security as well as specialized services to the industrial and public sector; hygiene rental equipment; cleaning consumables; laundries; and public indoor plants; water coolers and light industrial and commercial products; the full range of Yamaha products; consumer appliances; packaging closures and catering equipment; distribution of electrical products and services, and a comprehensive range of banking and insurance products; printing and related products.
Bidvest Namibia is listed on the Namibian Stock Exchange. The group comprises the following divisions: Bidvest Namibia Fisheries, Bidvest Namibia Commercial, Bidvest Namibia Commercial and Industrial Services and Products; and Bidvest Namibia\[4\]

2.3 Bidvest tailor-made management style

The greatest strength in this food group is the diversity which is reflected by a comprehensive product offering, range development, logistical capability, market penetration, and technology.

The team is empowered at a local level to use their initiative to deliver the required results. Central to this is the ability to serve the customers with understanding, in a win-win relationship. Equally important to them is the development of people in the business by providing opportunities for personal growth.

An added-value mind set is a proactive approach, delivering a direct benefit to customers. They service a wide mix of small, medium and large customers with tailor made solutions fit for the outlets’ purpose. Bidvest/Bidcorp staff strives to; understand every market segment that they operate in; stay close to customers; and anticipate their requirements. Bidvest continually looks for areas where they can add value and deepen the relationships with their customers.

The Bidvest/Bidcorp (Bidfood) model is built on the concept of ownership by independent teams who decide day-to-day what is best for business. Local autonomy accelerates decision making and leverages local knowledge.

Of course, this model is not exempted of conflicts of interest.

Partnering with responsible supply partners allows them to bring a broad range of product solutions to suit customer’s needs. Sustainability and food safety (acting

\[4\] http://bidvest.com
strictly according to the local sanitary rules) are major themes in the businesses where their adherence to industry regulations helps mitigate risk for the customers. E-commerce is an important part of this modern and constantly evolving infrastructure, with experiences and know-how shared through the group with the objective of enhancing the customer service experience. In several markets, BidCorp is a leader in e-commerce and investment is ongoing.

The foodservice business has elements of “commoditization”, (commodities are bulk goods and raw materials, such as grains, metals, livestock, oil, cotton, coffee, sugar, and cocoa, that are used to produce consumer products), that implies a very poor added value. However, great strides have been made by teams developing product, menu and delivery solutions based on collaboration and fully understanding their customer’s needs.

2.4 The crucial inorganic growth

The permanent search for geographical expansion and new market niches as well, cannot be sufficiently explained by the desire to become foodservice market leaders in every country just for commercial reasons, such as: economies of scale, entrance barriers or market definitions.

In this particular case, since The Bidvest Group is quoted on the stock exchange company, its share price varies according to several factors, one of which is its expansion policy, aligned with the Board of Directors’ defined Strategic Plan.

In December 2011, when Deli Meals purchase was announced, Bidvest’s market capitalization on the Johannesburg Stock Exchange (“JSE”) increased several times the price of acquisition due to the fact that the market perception was that Bidvest was making its first step into the Americas.

Share price volatility at Johannesburg Stock Exchange must be deeply evaluated when entering new markets, because in case of success the price of the shares will
increase, but if a wrong decision is made Bidvest’s overall value could be seriously adversely affected. In fact, Deli Meals was purchased only after Chile was chosen for its legal and economic stability, serving as a springboard for a subsequent acquisition conquest across the South American continent. In a similar way of thinking, Bidvest’s Board of Directors rejected an investment opportunity in Argentina, (although the target company was a very attractive one), to avoid any risk to its share price on the JSE, as a result of the social, political and economic situation of the country.

The criteria used to select a candidate company depends on the country’s characteristics: how concentrated is the foodservice industry in that region, the grade of informality (for instance: non-billed sales, staff hired without formal contracts), market growth trends, availability of accurate and updated data, the degree of strategic fit with Bidvest, the threat of a foreign investor entry, the total amount required for the acquisition, plus any additional fixed asset investment or working capital requirement. At the decision making process these factors might be considered as an opportunity or as a threat. For instance, an atomized industry with few actors, might be very attractive to acquire the market leader firm, assuming that the rest of the variables are aligned with Bidvest/Bidcorp strategy. Every company could become a potential candidate if its core business is focused on foodservice, offers a wide range of products, has a good customer portfolio (in terms of contribution and collection), and looks as if it could be much more profitable under Bidvest’s management.

When negotiating a partial acquisition, it is hard to define yourself just as a buyer, because even if you are the one who pays, the idea is to retain the current owners as managers and as future minor partners. Then, your goal is to push down the purchased percentage price as much as possible by convincing your counterpart that his remaining share value will be worth more than the discount he should accept, to close the partial acquisition. This idea was properly sustained by Thomas W.

A very soft approach is recommended when dealing with the vendor shareholders, because the day after the acquisition is complete it will be necessary to run the company with them. If they feel injured then the entire project is in great danger. When Bidvest acquires a large company, including strong management, in the near future that team might well be expected to act on behalf of the Bidvest group when a new domestic acquisition opportunity arises.

Sometimes a candidate company was offered directly to Bidvest by brokers at the South Africa headquarters (Comon, for instance), but other examples were selected by the Chilean partners (the founders of the company) like in “A” & “B” cases, or were offered to them among other potential domestic buyers.

One of the noticeable differences between the western negotiation way and the chosen one, is that the Chilean shareholder, the author of this research himself serving as the Executive Director, personally handled the direct discussions with the sellers (usually the owners of the targeted firm are 2 or 3 partners), avoiding an intermediate. It involves a lot of risk because usually none of the counterparts have any expertise in the purchasing or selling of companies, but this direct way ensures to go forward faster and avoid common mistakes that intermediates do when defending their own interest, while not always being aligned with the buyer and seller. For instance; the commercial consequences of some clauses.
Chapter 3- Literature review

3.1 Mergers and Acquisitions

To properly understand the subject we are facing, it seems necessary to present to the reader the different points of view regarding why so many companies are as of lately trying to merge or to acquire others. Indeed, M&A represents the latest in change for a business. No other event is more difficult, traumatic, challenging, risky and chaotic for an organization. In spite of the previously mentioned, they are a normal way of life within today’s global business world.

A merger or an acquisition in a company can be defined as the blend of two or more companies into one new company or corporation. The main difference between the above mentioned lies in the manner in which the combination of the companies is carried out.

![Diagram: Differences between Consolidation & Acquisition](image)

Figure N°2- Differences between Consolidation & Acquisition. (CFA Institute 2013)

When a negotiation process exists prior to the blend, with a proper evaluation of possible future benefits for both sides, then we are faced with a true merger.
Every merger has its own unique reasons as to why the combining of the two companies is a good business decision.

A merger is a mutual collaboration between the two enterprises in becoming one, while the acquisition is the takeover of the weaker firm by the stronger one. Both firms gain the advantage of taxation, synergy, financial benefit, and increment in competitiveness, however some adverse effects must be taken into account, such as organization culture collision, an increase in employee turnover and many others.

Table N°2: M&A in the world. (Heldenberg, A 2011, ‘Finance d’entreprise’, University of Mons.)

Different clarifications can be found in the literature concerning the causes of M&A. Professor Frederik Trautwein in his 1990’s article “Merger motives and merger prescription” studied various theories regarding merger explanations and classified them into seven groups. These groups can be ordered into 3 groups according to the level of feasibility:
Mergers and acquisitions not only affect the value of merging firms, but also generate a positive or negative effect for shareholders of firms involved.

The Hubris theory hypothesis that as a result of M&A the value of target firms rises, whilst the value of bidding firm decreases. Therefore, shareholders of the acquirer company suffer a negative wealth effect.

Harford (2005) argues that economic, regulatory and technological factors have an impact on the creation of a "merger wave". One of the factors was the introduction of the Single Market in 1992, as well as the single European currency in 1999.[5]

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3.2 Sinergy relevance in M&A

Several authors such as Schuler & Jackson (2001), H. Leland and J. Skarabot (2003), Frank C. Evans and David M. Bishop (2005), among many others, define “synergy value” as the additional value created as a result of the joining or merging of two companies.

Synergies, as explained in the previous chapter, refer to the expected cost savings, growth opportunities, and other financial benefits that occur as a result of the combination of two companies.

A correct estimation of synergies is needed to produce a successful transaction.
The combination of two entities will not create value if the value of the synergies is zero or negative.

The synergy from a merger or an acquisition is the value of the combined entity minus the fair value of the two firms as separate entities.

The fair value is the true or intrinsic value of the entity which is exclusive to any element of value arising from the expectation of a merger or acquisition.

The gain in value of the combined entity is the present value of the synergy cash flows.

The synergy creates opportunities that would not be available to the acquirer and to the target firm operating separately.

Kode, Ford and Sutherland (2003) have been motivated to create a framework for synergy realization, when they found out that M&A failure was mainly a consequence of unrealized synergies and lack of integration planning.

The realization of perceived synergies is to justify the premium paid and this remarks the importance of a successful implementation phase.

To reach the desired success, Kode, Ford, and Sutherland highlight three techniques of realizing synergies: planning of the integration process, establishment of efficient and effective incentive schemes, and founding the acquisition premium compared to the expected synergies between the firms involved.

These underlying success factors have created the framework to be presented on the following page.
Figure N°4: Value creation through the synergy evaluation model (Kode, Ford & Sutherland, 2003)
Bhide (1993) examined the motives behind 77 acquisitions along 1985-86 and reported that operating synergy was the primary motive in one-third of the studied cases.[6]

There are various sources of synergy and they can be categorized into operating and financial ones.

Operating synergies affect the operation of the post-merger firm and include economies of scale, increasing pricing power and higher growth potential, predicting higher cash flows as well.

Financial synergies are more focused and include some tax benefits, diversification, a higher debt capacity and even uses for excess cash. They sometimes result in a higher cash flow and sometimes take the form of a lower discount rate.

One school of thought argues that synergy is too hard to be valued and that any systematic attempt to calculate it is useless. Therefore, large premiums for synergy should not be paid.

On the opposite side, there are many supporters of the idea that we have to make the best effort to estimate how much value can synergy create in any M&A, (although it is necessary to make some assumptions regarding an uncertain future), and then decide how much should be paid according to that.

The value of synergy can be calculated in 3 steps: first, we value the companies separately by discounting each expected cash flow at its weighted average cost of capital. Second, we estimate the value of the combined firm, with no synergy, by just adding the values obtained previously. Then, as a third step, we introduce the effects of synergy into the expected growth rates and cash flows and proceed to revalue the resulting blend. The difference between the value of the combined firm with synergy and the company without synergy provides a value for synergy.

3.3 Friendly and Hostile M&A

At this stage it is crucial to maintain the value of synergy apart from the control one. The value of control is the incremental value that an acquirer believes can create by managing the target company more efficiently than how it is currently being managed. To value control, it is necessary to revalue the target firm under better management, and to compare it with that forecasted under the former staff. When one company takes over another and establishes itself as the new owner, then this is clearly an acquisition. From a legal point of view, the target company ceases to exist. This process can be friendly or hostile.

The first case is when the target is willing to be acquired (even secretly), for example, due to lack of capital. On the other side, an acquisition might be hostile because the target is opposed to the acquisition, due to commercial reasons. The real difference lies in how the purchase is communicated to and received by the target company’s Board of Directors, employees and shareholders. In the end, the shareholders will decide if they sell their shares as per their Board recommendation, but they will finally take into account their own benefit (price), which isn’t necessarily aligned with their company objectives.

3.4 To merge or to acquire?

In the case of a merger, keeping the pure sense of the term, it can be said that it occurs when two companies agree to go forward together, such as a merger of equals, although in the real world it is very rare to find similar size firms merging. Usually one company buys another one, and, as part of the contract, allows the acquired company to declare that it is a merger, because being bought often carries negative connotations and the senior managers try to avoid them.
The main question is to find out the reason why one company chooses to merge or to acquire another one.

One plus one makes three: this equation is the special alchemy that explains M&A. This outcome can be obtained as a result of synergies of revenues (a higher final amount than the sum of the current sales of the two companies), synergies of expenses (lower expenses than operating separately) or cost of capital synergies (achieving a lower overall cost of capital cost as a result of better banking loan conditions due to higher amounts).

Therefore, when merging the acquiring company is seeking for the acquisition premium, the gap between the post-merger firm value and the acquisition price paid. To be clear: while the goodwill represents the difference between the book value of equity of the target company and its acquisition price, the acquisition premium is the incremental value between the acquisition price paid for the target firm and its market value prior to the merge.

The key behind buying a company is to create shareholder value over and above that of the sum of the two companies. Even if the final goal is to sell the second in parts after a short process to produce benefits to the acquirer or to reduce its commercial risks.

Firms are acquired for a number of reasons. M&A seem to offer firms a short cut to their strategic objectives, but the process has its costs. It is likely that the overall goal of value creation is in fact not the only aspect in explaining the M&A activity, but also to survive within the industry.

3.5 Some motives to engage in M&A

Professor Duncan Angwin, in his 2008 survey groups, divides the motives for M&A in four categories: *exploitation of the target* through synergies to increase acquirer value with a high degree of certainty, *exploration of new territories* of latent value
and for future opportunities, with low certainty of improving returns for the acquirer but with a big potential, *preservation* to defend the acquirer’s competitive situation through control of potential new competitors, and finally *survival*, attempting to prevent the acquirer’s end through its own acquisition.\(^7\)

In the United States, only if the merger of two companies involves stock then the principle of “pooling of interest” applies, combining just the book value of the companies, without recognition of goodwill. But, because intangibles have become so important to the business, the failure to recognize these assets from M&A can seriously distort the financial statements.

Mergers are also subject to government regulation. One of them is the anti-trust, which attempts to prevent companies from forming a monopoly.

The literature suggests that the underlying motivation to merge is motivated by a series of rationales and drivers. Rationales consist of the higher-level reasoning that represents decision conditions under which a decision to merge could be made. Drivers are mid-level specific (often operational) influences that contribute towards the justification, or otherwise, for a merger.\(^8\)

For example, a strategic rationale is when one company acquires the other due to its over-capacity in the market sector where both operate. The underlying driver for acquiring the company is the desire to control a larger capacity in this sector.

There are some underlying *rationales*:

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\(^7\) Angwin Duncan, Advances in Mergers and Acquisitions, Volume 6, 2007.

Management failure rationale: M&A is forced as a result of management failures, when the outcomes cannot be achieved without merging with or acquiring another company that will assist in correcting the path.

Strategic rationale: it makes use of the merger or acquisition in achieving a set of strategic objectives.

Speculative rationale: the target company is viewed as a commodity by the acquirer. For instance, when the candidate to be purchased is a player in a new and developing field. The idea is to buy the company and to sell it later with a potential profit.

Political rationale: for example, when the government gives the instruction to rationalize the operation cost of several departments to reduce their cost. As a result of this, a number of public departments were absorbed by others.

Financial necessity rationale: frequently, M&A is required for reasons of lack of capital. One solution is to merge with a more successful company or to acquire smaller more successful companies.

Regarding merger drivers, we can list several ones:

Globalization drivers: Since distance is no longer an obstacle, synergies and opportunities can be found across the entire world.

National and international consolidation: when compatible companies available for merger operate within the same geographical area.

Due to the need for special skills and/or resources: for instance, when a small company has developed high-value, specific skills. It is cheaper and faster to acquire the company than investing resources and time to develop that skill.
**Diversification drivers**: a company wants to diversify its investments to balance its portfolio’s risk profile.

**National and international stock markets**: variations in share processing can explain several mergers and acquisition. A stock market boom tends to make acquisitions more attractive since it is easier to use the acquirer’s shares as the basis for a transaction. On the other hand, a falling stock market value can be viewed as an opportunity to purchase stock cheaper than before.

**Industry and sector pressures**: For instance; the case of oil exploration.

**Capacity reduction**: when a given sector exceeds or is close to filling the demand completely, then the price of the product is low. The idea is to merge with or to acquire a competitor towards securing a greater degree of control over the sector.

**To enter or grow a market or sector**: if the acquirer expects a market or sector expansion in the future to provide profits.

**Vertical integration**: to integrate with a supplier to ensure continuity of supply.

**New market or consumer base**: For instance, when Bidvest acquired Deli Meals because it provided a direct and fast route to a lower risk level.

**Management efficiency**: Some companies are very attractive due to their management expertise. It’s a similar case as developing a skill. By replacing an inefficient management with an efficient one, savings might occur. The principal-agent problem is another example of asymmetry of information, because the managers know more about the company, but the owner may not have enough information to properly monitor the manager’s decisions.
3.6 Types of Merger

There are three basic types of merger: vertical integration, horizontal integration and conglomereration.

<table>
<thead>
<tr>
<th>Type</th>
<th>Characteristic</th>
<th>Example</th>
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<tbody>
<tr>
<td>Horizontal merger</td>
<td>Companies are in the same line of business, often competitors.</td>
<td>Walt Disney Company buys Lucasfilm (October 2012).</td>
</tr>
<tr>
<td>Vertical merger</td>
<td>Companies are in the same line of production (e.g., supplier–customer).</td>
<td>Google acquired Motorola Mobility Holdings (June 2012).</td>
</tr>
<tr>
<td>Conglomerate merger</td>
<td>Companies are in unrelated lines of business.</td>
<td>Berkshire Hathaway acquires Lubrizol (2011).</td>
</tr>
</tbody>
</table>

The first case is an integration along the supply chain, supplier or customer. Two firms are merged along the value-chain, such as the case of a manufacturer merging with a supplier. Vertical mergers are often used as a way to gain a competitive advantage within the marketplace. For instance, when Merck, a large manufacturer of pharmaceutical products, merged with Medco, a large distributor, to gain an advantage in the delivery of its products.

M&A is often used in pursuit of vertical integration due to its advantages, for instance: *Combined processes*: when production processes carry a fixed overhead price, including human resources and IT support.

*Configuration management*: when seeking for an efficient an effective flow of information both within and outside the company, vertical integration seems as an easy solution.
Risk management: vertical integration reduces supply risk, making it easier to acquire the raw material needed for the production process.

Quality management: allows the acquirer to control the entire production process, even from the beginning.

Proprietary and intellectual property protection: to prevent a supplier from entering contracts or similar with a third party.

Reduced negotiation: If you acquire your supplier there’s no longer a need to invest time and resources in negotiating with them.

Individualization: Controlling both supplier and customer allows for a particular classification of trading known as brand. This total domain of the commercial chain allows to charge a premium rate to the consumers.

Horizontal integration is when one company acquires another one which operates in the same area or sector, frequently a competitor. This kind of integration occurs when two companies engaged in the same service or product merge to improve their combined value. Horizontal mergers are often used as a way for a company to increase its market share by merging with a competing company. For example, the merger between Exxon and Mobil will allow both companies a larger share of the oil and gas market.

A conglomerate is when unrelated companies continue to produce in unrelated sectors as they did before the transaction. This type of integration is often a result of the intention of minimizing business risk across different areas. This aim is not always achieved due to the fact that the acquiring company is entering an unfamiliar market and/or industry. Therefore, the risk increases rather than decreasing.
Conglomerates are usually used as a way to smooth out wide fluctuations in earnings and provide more consistency in long-term growth.\[^9\]
Divestment might also be proposed as an alternative.

![M&A Types Diagram](image)

Figure N°6: M&A Types (Omni Morag, Pecs University, 2011)

### 3.7 Steps toward M&A

The first step for M&A is to assess your own situation and determine if a merger and acquisition strategy should be implemented. If a company expects hard times in the future when it comes to keeping its core competencies, market share, return or capital, or other key performance drivers, then M&A is necessary.

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The second step is to search for candidate firms to be acquired. Target companies must fulfill a list of variables to fit with the acquiring company. For example, the target’s drivers of performance should complement the acquiring’s. Compatibility should be assessed across a range of criteria: type of business, size, capital structure, organizational culture, core competences, market channels, organizational strengths, etc.

Firms that are undervalued by financial markets can be targeted for acquisition by those who can recognize this mispricing. The acquirer can then gain the difference between the value and the purchase price as a bounty.

Although it seems obvious, the real challenge is to detect an undervalued firm. A capacity to find such companies requires access to better information than that available to other investors in the market, or a better analytical staff and tools than those used by other investors. The previous, assuming that all the investors are searching for candidate companies to be purchased, or specifically that kind of firms.
Desire is not enough. Access to the funds is needed to complete an acquisition. Additionally, if the acquirer in the process of the acquisition drives the stock price up and beyond the estimated value, then there will be no acquisition premium.

The third step is to perform a more detailed analysis of the target company.

Most M&A start when high level managers make discreet contact with their colleagues within the candidate company, sending a tender offer. This phase is usually followed by a feasibility stage, where the financial, commercial and logistical considerations are taken into account. Confidentiality is required and
it is signed for an N.D.A. (non-disclosure agreement) It is not uncommon for many conditions to remain open and, thus, the M&A agreement may require amendments to cover the results of future due diligence. Investment bankers now enter into the M&A process to assist with the evaluation.

The due diligence is an effort to identify issues that must be resolved for a successful merger to occur. This process must be intensive, collecting as much information as possible on the target company, taking anywhere between 4 to 6 months. Undercover work is not uncommon. This information includes: corporate records (minutes of meetings, shareholders list, meeting regulations), financial records of the last 5 years, tax records, regulatory records (for instance: licenses and permits), debt records, employment records, property records (insurance policies, trademarks) and miscellaneous agreements (contracts, and others).

A key part of the due diligence is the evaluation of the target company. In the preliminary phases of M&A, we will calculate a total value for the post-merger company. Therefore, it is necessary to evaluate the acquiring firm as well to reach the combined value. This is the sum of the value of the acquiring company, plus the value of the target firm, plus the value of the synergies, minus the legal and other costs involved in any M&A.

In the case of compatibility, when the feasibility phase is completed, the next stage is to sign a commitment to the merger and to allocate funds and resources for it. Then, the pre-merger negotiation step begins. The senior managers of both organisations enter firmly into the negotiation process to reach an agreement on the structure and format of the resulting company. A negotiation plan is required, considering: resistance level from the target company, bidding strategy, gradual increase of price, etc.

Once the negotiation phase is completed, a formal and detailed contract is signed. This is the fifth and last step: the post-merger integration.
The implementation process (a stage that often represents the failure of the merge) starts immediately after the monetary transaction occurs, and it consists of actually making the merger happen.

Every company is different (culture, information systems, strategies, goals, structures, etc). A successful blend of two companies into a new one requires extensive planning and design throughout the entire organization. Analizing in advance both companies’ characteristics is a crucial task to forecast the post-merger scenario and, therefore, the level of success of the transaction.

Failure has been understood in terms of being as extreme as divestment, or so conservative that it does not reach a certain projected growth or profit in benchmarking. As a result, the proper definition of failure and success depends on the performance measures applied and, thus, it is exceedingly broad and almost a complete peculiarity for every case.

### 3.8 Factors impacting post-Merger performance

There are several factors that impact any post-merger performance:

- **a)** The level of the acquisition premium (price paid) has a strong negative effect on performance across most measures of shareholder performance. The higher the premium, the larger the subsequent loss.

- **b)** The presence of multiple bidders has a negative impact, tending to drive up the acquisition premium.

- **c)** An all-cash offer results in better performance than an all-equity or a combination of the both, because the market understands that a takeover paid with equity means that the firm’s shares are overpriced or a long-term underperformance of the post-merger company is expected.
d) Majority holdings in the target firm correlate positively with the acquiring firm’s long-term performance.

e) The fraction of managerial ownership in the acquiring firm has been found to be of importance for future performance.

f) In comparison to friendly M&A processes, hostile bids trigger large positive abnormal returns for the target shareholders, but negative returns for the bidder.

g) There are more successful M&A cases found, across various industries, in their opening and accumulation phase than in their subsequent focusing phase. The reason behind this is decrease in realizable synergy potential due to the raising in the price of the premium paid for the target firm. When the industry reaches maturity, the value chains have already been substantially optimized.

There are some factors in which no significant relation to the acquiring firm’s performance or heavy conflicting evidence is found, such as: stock market behaviour at announcement, purchasing experience of the acquirer firm, diversification grade, size of the merging firms, post-merger degree of integration between the companies.

McKinsey and Co. examined 58 acquisitions between 1972 and 1983 to answer two questions: a) does the return on the amount invested in the acquisition exceeds the cost of capital and b) does helping the acquired firm allow the parent firms to outperform. They concluded that 28 out of 58 cases failed both tests and 6 failed at least one of them. A follow up study of 115 mergers in the U.K. and the U.S. during
the 90s concluded that 60% of the transactions earned returns on capital that were less than that of the cost of capital, and only 23% of them earned excess returns. [10]

According to Professor Jeff H. Dyer, acquiring firms lose, on average, 10 per cent of stock value in a five-year period. Only about 35% of acquisitions show positive stock market return.

Agus Sugiarto, in his 2000 doctoral thesis, analyzed the average abnormal returns of target and bidding firms, showing the trend within 10 days before and after the announcement (market adjusted model).

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Figure N°8: Average abnormal returns of target firms (Agus Sugiarto, Victoria U. of Technology, 2000).

Figure N°9: Average abnormal returns of bidding firms (Agus Sugiarto, Victoria U. of Technology, 2000).

KPMG, after its 2000’s study, published that 83% of the recent deals failed to deliver shareholder value and 53% actually destroyed value.

Also, Porter (in Datta), basing on an analysis of acquisitions made by 33 Fortune-500 firms, concluded that acquisitions have been largely unsuccessful when one considers that more than 50% were later on divested.

But, when gains to targets and bidders are combined most acquisitions created value. This proves that M&A is a reasonable way to earn money.

There are at least 6 types of “fit between two companies” required to achieve an acceptable post transaction outcome: investment fit regarding the financial resources and the level of risk, strategic fit regarding the management strengths resulting of the merger, marketing fit related to the grade of complement between the products and services of each firm, operating fit regarding how both companies will create synergies from human resources, technologies, production capabilities, etc. A financial fit is how well do financial elements work together, regarding profitability, revenues, return on capital, cash flow, credit access, etc.

Last but not least, the management fit refers to the expected grade of expertise and talent to be achieved as a result of the merger.

The integration process (post M&A) can take place at 3 stages:

*Full* when all functional areas (human resources, finance, operations, marketing, systems, etc) will be merged into one new company. The idea is to use the “best” practices within both firms.

*Moderate*, when certain key functions or processes will be merged together, but daily management is kept separate.

*Minimal* is called when only a portion of selected personnel will be merged to exploit synergies, but all of the operations remain just as before.

Professor David Schweiger (2002), suggests four measures that can define the intensity of the integration: *Consolidation* is when the activities and functions of both companies are physically joined, like in the “Deli Meals + Comon” case. *Standardization* is when the companies are formalized, but not consolidated into one. *Coordination* is when the companies are coordinated together, and *intervention*
occurs when the acquirer changes the target firm’s management.[11] In our study case

3.9 Accounting principles applied in M&A

One last item that should be discussed is the application of accounting principles to mergers and acquisitions. There are two main methods used to account for M&A: 

*Purchase:* The M&A is viewed in perspective by treating the merging process as a purchase. Therefore, the assets of the target company are subtracted from fair market value and the difference between the price paid and the fair market values are posted on the post-acquisition Balance Sheet as goodwill.

*Pooling of Interest:* The transaction is viewed in retrospective (historic values) by combining the book values of both companies. Therefore, there’s no goodwill. This method applies only when the firms have stock.

A post-M&A firm performance can be measured relative to each former company, by looking at the turnover and profit growth, relative firm value, short and long term stock price (event study methodology), abnormal stock return (comparing current ones vs pre-merger outcomes) and present value of post-M&A incremental cash flows.[12]

Mace and Montgomery already noted in 1964: “The values to be derived from an acquisition depend largely upon the skill with which the (...) problems of integration are handled. Many potentially valuable acquired corporate assets have been lost to neglect and poor handling during the integration process”

There are several sources of failure for M&A. When one of these components is individually or jointly mismanaged it results in failure.


The four arenas of mismanagement, according to Dr. Bjorn Bjerke, are cultural mismatch, missed synergy, weak leadership, and conflicts of interest between partners.\footnote{Bjerke Bjorn. The Mismanagement of Mergers and Acquisitions, Linnaeus University, 2012.}

The sheer difficulties in obtaining data from managers and honest answers on their true motives and thoughts tend to overcomplicate empirical M&A studies since researchers must rely on relatively small samples and unknown data quality. This point precisely was mitigated in this project, because the author was directly and personally involved in the negotiations, and now decided to show all of the cards, since he does no longer belongs to the acquirer’s organization, therefore cannot be harmed by his former boss or other managers.

3.10 A Worldwide Business Evaluation Model proposal for M&A

Author’s intention is to propose a business evaluation Model for M&A as useful and general as possible, attempting to list all the involved variables, and to assess them according to its grade of impact in each case, to be used in every industry, market and country.

The Model is divided in 3 steps: the first one is the national level, therefore is general, not influenced by researcher’s (or manager’s) point of view, and no related to the acquirer firm or the targeted company. This step is the first one, because the country at the specific moment of the M&A must be convenient for this kind of investment. This step is calculated separately since it is absolutely independent of the firms involved in the M&A process. Anyway, for corrupted firms or very risky transactions, a poor national percentage could be the opposite: a very attractive deal. Therefore, must be remarked that this Model is intended for legal, formal and "normal" companies.

The second step is related exclusively to the targeted firm.
The third step is the evaluation of the possible combination between the acquirer and the targeted firm. That’s the reason why the percentage of the second and the third steps are calculated together: both steps refer to the M&A involved firms level. The last two stages are calculated in one grand total percentage, since the pro and cons of each targeted company are according to the acquirer’s point of view.

The positive impact range is between +5% to +10%, the negative impact goes from -5% to -10%, and a neutral variable is considered 0%.

The assumption is that the first 3 columns of the table should be completed in a very similar way by any expert at the specific moment of the study, but since they are comparatives, might be one manager consider a variable as medium level instead low/high, or low/high instead medium, but the grade of discussion will not be between high and low.

The last 4 columns are absolutely dependent on the acquirer firm managers point of view, because for some companies, for instance, a very concentrated market might be seen as an opportunity instead as a threat. Internal discussions are expected related to the consideration as a positive or negative situation and its relevance (%) due personal interests, but only the final decision is relevant.

Therefore, the acquirer firm Board of Directors decides, but being very influenced by the presentation of the managers who lead the possible M&A.

This Business evaluation Model for M&A was developed by the author, and shall add more variables in the future as a result of peer’s feedback and a deeper research.
### BUSINESS EVALUATION MODEL FOR M&A

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Table No4: A worldwide Business Evaluation Model proposal for M&A
Chapter 4- Research Method

Research method define the process that can be followed to reach the answers to the research questions. Methodology is the study of methods. Gustavsson (1992), Ghauri and Gronhaug (2002) elaborate it on the process of planning, executing and investigating, to find answers to the research questions, so that it is easier for others to understand and to believe in the study’s findings.

According to Strauss and Corbin (1998), a method is a way to study social reality. It helps readers to understand the vision of the researcher and the aim that was applied while conducting the study. It represents a powerful instrument that helps authors to develop and to properly understand the different notions that they approach, as argued by Daudi (1987).

A method will encourage a better use of the collected data. It will allow to extract as much and as relevant information as possible, to answer the various research questions. Then, it is crucial to use it to create and express knowledge in an appropriate and meaningful way, while conducting a research or writing an academic paper. Finally, a method allows readers to understand how the thesis has been built, and, therefore, help them to understand in a better way the addressed subject.

4.1 Research Process Flow

Research itself is a process defining different activities to be completed over a period of time. Each one of these activities contributes to the understanding of the subject. Therefore, its conduct in a systematic manner, on an activity/stage basis, defined in a flow, as described by Ghauri and Firth (2009).
4.2 Research Model
While understanding strategy as the plan of action designed to achieve a long-term or overall aim, it could be said, on the other hand, that a theoretical model gives an abstract description of a given system. A model usually contains enough formalism such that it is not ambiguous. As a consequence of this characteristic, theoretical experiments can be designed to estimate the performance of the system within different environments. Given a good theoretical model, the performance of a strategy can also be evaluated. A model can be considered a theoretical construct and it attempts to capture the essence of an underlying situation.

In this research the structure will be divided into three phases:

1- Analysis of the selection of the candidate firms.
2- Valuation method applied.
3- If a new valuation technique is used, then the decisions might vary from the previous ones made.

4.3 Research Design

Research design is a comprehensive plan to relate the conceptual questions to relevant and practicable empirical research. It plays a prominent role in connecting research activities, such as data collection and the subsequent analysis. According to Gustavsson (1992), Ghauri and Gronhaug (2002), there are three main classes of research based on problem structure: exploratory research, descriptive research, and causal research.

*Exploratory research* – It is appropriate at an early stage to help define the nature of the research problem when it is less understood, and perhaps to formulate a relevant hypothesis for later testing, as described by Chisnall (2001). It may include secondary data sources, observation, interviews with experts, and the use of qualitative assessments instead of detailed quantitative data.
Descriptive research – It is when the research problem is structured and well understood. According to Kinnear and Taylor (1996), effective descriptive design is recognizable by a clear statement of the decision problems, specific research objectives, detailed information needs, and measurement. Cross-sectional design is popular when using descriptive research, as it focuses on data collected at a single, specific point-in-time, rather than over a period of time. Depending on the focus groups and the variable you have chosen, this makes cross-sectional research a valuable tool for assessing attitudes, preferences or knowledge.

Causal research – It is designed to gather the evidence of cause-effect relationships. Kinnear and Taylor (1996) thought it is appropriate to achieve the research objectives: to understand which variables can be identified as the causes of what is being predicted; and to understand the functional relationship between the causal factors and the effect.

Exploratory research has been used in this study. This is based on the logic followed for the selection of broader parameters needed for exploration, while clearly defining how the mechanics and related factors will be worked out. It all depends upon what is available and how it can be correlated with the research objectives.

In this study, qualitative research (text) has been combined with some quantitative data (figures) with the objective of enhancing the understanding of the complex phenomenon of evaluation of business. Some authors such as Bryman (1989) argue that the combination of qualitative combined with some quantitative data can contribute to a better understanding of different aspects of the same phenomenon.

4.4 Qualitative and Quantitative Method
The quantitative approach can be based, for example, on the frequency of occurrence of a phenomenon. It can help draw conclusions that can then be generalized to a whole studied population, as written by Lewis, Saunders and Thornhill (2009). The truth comes from numbers.

On the other hand, Strauss and Corbin (1998) describe qualitative research as any type of research that produces findings not arrived at by statistical procedures or other means of quantification.

In fact, this method is focused on situational concepts with non-statistical approaches, described just a few years before by Strauss (1987). It allows to study people’s lives, experiences, and behaviour, as well as the functioning of some entities and social movements.

According to Arbnor and Bjerke (2009), the qualitative method allows to have more freedom in collecting data and information.

Other authors, such as Kervin (1992) argue that qualitative methods provide a more subjective and personal understanding of a particular phenomenon by getting inside of it. On the opposite end, quantitative research tends to deal less efficiently with the processual aspects and it is difficult to understand organizational change in this respect, according to Bryman (1989).

However, some researchers prefer the use of quantitative research because it offers a more scientific emphasis, a formal hypothesis, and rigorous statistical procedures. Bryman compares these two types of methods according to eight dimensions.
Every method has its own particular strengths and weaknesses. A research method should be tailored to suit its research needs, as was explained by Parkhe (1993).

M&A research, in general, uses either a qualitative or quantitative research design. There appears to be a lack of research undertaking a mixed method approach. As a consequence of the multifaceted nature of M&A, the use of mixed methods of research seems appropriate because they combine elements (for instance, use of the qualitative and quantitative approaches, data collection, analysis, and inference techniques) for the purposes of width of understanding and corroboration, as sustained by Johnson (2007). Teddlie and Tashakkori (2008) argue that, in social sciences, a mixed method research has emerged as an alternative to the dichotomy of qualitative and quantitative traditions.

Quantitative methods are more focused in gathering as much data as possible using third party sources, without direct interaction from the researches, either by way of questionnaires through email or by asking participants to answer...
a predefined list of questions, and later proceeding to make an empirical analysis of the data by applying different statistical methods to reach a conclusion.

Quantitative methods are focused on the strict quantification of the observations (data) and on the careful control of empirical variables. Quantitative research frequently incorporates large-scale sampling and the use of several statistical procedures to examine group means and variances, as described by Ponterotto and Ingrid (1999).

These studies stress the measurement and analysis of causal relationships between the different variables, according to Denzin and Yvonna (2000). The combination of qualitative and quantitative data demonstrates a more holistic scenario of the research phenomenon. Bryman (1988) mentioned that it was hard to find examples of investigations in which quantitative and qualitative research have a roughly equal role.

This study is focused on the qualitative method, while some quantitative analysis has been done by using secondary data; publically available and internal (but non-confidential) as well. This combination led to a triangulation, enriching the study to and giving it a clear advantage, including more valid results, as sustained by Ghauri and Gronhaug (2005).

Therefore, the study focuses on the qualitative method, which is designed to describe and interpret the experiences of research participants in a context-specific setting and information is gathered by having a personal interaction with the participants, by discussing in detail how things happened, and gathering from such deliberations information on the issues directly or indirectly connected with the various research areas.

This research is based on the analysis of the premise that the outcome of M&A is crucially influenced by the valuation method used for the evaluation of the target firm.

In simple words, valuation is the analytical process of determining the current (or projected) worth of a company. Think the business valuation as a "subjective
science”. The science part is when valuing your business - you have to apply standard valuation methods. The subjective part is that every buyer’s circumstances and considerations are different, so for the same business two buyers may propose two different offers.

The value might be calculated, but the price is negotiated.

In general, no fixed rules or formulas apply to value how much your business is worth. Its value will always be what you are willing to sell for and what the potential buyer is willing to pay. Nevertheless, as previously shown, there are a few frequently used valuation methods that can help you to start the negotiation process.

For this, it is necessary to know the opinion of the people who were involved in such deals, like the researcher himself, in this particular case.

The qualitative method has been chosen because the main objective of our thesis is to explain the relevance of the valuation method in mergers and acquisitions. Moreover, as the qualitative approach allows more freedom in collecting data and information, as defended by Bjerke and Arnbor (2009), it will enable us to study the valuation method implemented through different angles and perspectives, without restricting us to rigid definitions.

4.5 Objectivity and subjectivity

According to the qualitative method, the subjectivity of the researcher is closely involved in the scientific research. It can be said that subjectivity guides everything, from the choice of the subject being studied, to the formulating of hypotheses, to the selection method and the way data is interpreted. Ratner (2002) argues that for the qualitative method, the researcher is encouraged to reflect on the values and objectives he takes into consideration for his research and how these affect the research project.
Therefore, the question is how much subjectivity affects objectivity.

Objectivity is considered to be a negation of subjectivity, since it renders the observer a passive recipient of external information, devoid of agency. And the researcher's subjectivity is said to negate the possibility of objectively knowing a social psychological world as well.

As per subjectivism, every point of view is just another way of approaching a thing. Sometimes, subjectivism is interpreting and is regarded as a fundamental component of the qualitative methodology. However, this is not true, since the qualitative methodology has an objective strand as well. Objectivism sustains that the researcher's subjectivity can enable him to accurately comprehend the world as it exists in itself.

On the contrary, one of the advantages of recognizing subjectivity is to reflect on whether it facilitates or impedes objective comprehension.

4.6 Approaches

The highlights of the approaches prepared by Creswell (1998) Hek (2002) and Endacott (2005) have been summarized in the following table:

<table>
<thead>
<tr>
<th>Approach</th>
<th>Focus</th>
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| Ethnography | · Understanding cultural rules  
· Observer role includes some participation in the situation  
· Observation is a key data collection method, with informal and formal interviewing |
Phenomenology  · Exploring a phenomenon in depth, may include ‘lived experience’

Grounded theory  · Developing theory inductively from the data
· Relies on iterative process of data collection and data analysis
· Generating hypotheses which are then tested through data collection

Action research  · Attempts to bring about change in practice during the research
· Attempts to influence the real world through a spiral process of change and evaluation

Feminist research  · Non-threatening and non-hierarchical relationship between researcher and participants
· Two-fold goal:
   · to raise consciousness of women’s issues
   · to empower women as a result of the research

Table N°6: Different research approaches (Creswell 1998, Hek 2002 and Endacott, 2005)

Grounded Theory and Phenomenology are generally used for such studies. The former originated with positivist and post-positivist components, but later on researchers adapted their own version of approach by moving more closely towards constructivist, like Charmaz (2000). It can, therefore, be understood as the combining of post-positivist and constructivist paradigms, as defined by Haverkamp (2005). However, phenomenology is commonly used for developing a qualitative approach. Creswell (1998) sustains that it is the narration of an essence of experience, where the grounded theory results in a visual model or theory.

4.7 Case study

Quoting Llewellyn and Northcott (2007), Yin describes the case study as “an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used”. For this research, case studies have been chosen to analyze two aborted M&A attempts and, lastly (it might be a little bit influenced by what was previously mentioned), a successful one. Through these cases, data has been collected and analyzed to clarify the criteria the acquirer company used to make decisions regarding whether or not to engage in a merger and acquisition process.
Furthermore, we have used a number of cases that allows for more general results, as opposed to just one. It is more appropriate, according to Yin (2003), because it allows to have a more robust conclusion and the obtained analytical benefit is more substantial. Not to mention that every part of the process interferes with each other, and also how dynamic the development of the research is, as shown below:

![Diagram](image)

**Figure N°10: Outline of a case study research (Yin, 2009)**

The planning process is when the research questions, the rationale behind study, and the method of the case study must be identified, as well as being aware of the strengths and weaknesses of the case study that was chosen. According to Yin (2009):

1. A case study is an empirical enquiry that:
   a. investigates a contemporary phenomenon in depth and within its real-life context, especially when;
   b. the boundaries between phenomenon and context are not evident.
2. The case study inquiry
   a. copes with the technically distinctive situation in which there will be many more variables of interest than data points, and because one result:
   b. relies on multiple sources of evidence, with data having to converge in a triangulating fashion, and as another result;
c. benefits from the prior development of theoretical propositions to guide data collection and analysis.

One concern of the case study method is that it gives limited basis for scientific generalization, as argued by Yin (2009). A simple answer to this is that case studies are able to generalize with regards to theoretical propositions and not with entire populations or universes. As such, the case study research does not represent a sample and the aim, when performing a case study, is to expand and generalize theories – analytic generalization, and not to specify frequencies – through statistical simplification.

Based on this, the exact aim of the project is to expand the theory of firm valuation using the new available technics, and to not consider the Ebitda method as mandatory, to see if theory and practice coincide.

Yin (2009) argues that, when determining the research design, the unit of analysis and the case to be studied should both be defined; develop the theory, propositions and issues underlying the anticipated study; identify the case study design; and define the procedures to maintain the quality of the study.

According to him, a research design should include many subsequent elements.
- The questions to be answered are based on “who”, “what”, “where”, “how”, and “why” – especially the “how” and “why” questions when it comes to the case study method.
- The unit of analysis should be determined during the elaboration of the research questions. When the case and the unit of analysis are established, other clarifications appear, such as the people involved within the topic and which persons might be included as part of the context of the study.
- When linking data to your propositions to create the connection between the collected data with the established propositions, several techniques are available. The requirement is that the data collected is combined as instant evidence of the initial study propositions.

- Criteria for interpreting the findings: As the three case studies in this project will not contain statistical tests, the interpretation of the data found will mainly consist of the explanations for the findings.

- Developing the theory by covering the topic of the case study is essential in the research designing phase. In this project, all theory examination has been completed before the case study research and, as such, the theory has been developed before designing the study.

- The ability to generalize the findings of the study with theory. However, when doing case studies, the aim is to perform an analytical generalization which, according to Yin (2009), implies that previously identified theory functions as a template with which the findings of the case study is compared.
Must be recognized that Yin’s case study method was not strictly implemented in this project, since some stages were not duly fulfilled, due to the characteristics of the 3 cases analyzed.

As a reminder, the assumption is that by using the new M&A available techniques the decision previously made by Bidvest Directors based only in Ebitda valuation method, as a compulsory decision, might’ve been quite different.

4.8 Case study method

Yin (2003) argues that case studies are often applied to understanding the areas of organizational functioning that are not well documented and which are difficult to investigate through distant contact with organizations.

This particular research is aligned with Ghauri’s opinion (2004), because it is expected to provide insights into an issue or a particular management situation.
Accordingly, it requires insight of the situations accruing at the time when the particular event took place by interacting with those involved in the processes. With this backdrop, a comparative case study method has been applied in this research, valuating different companies, with a similar aim and approach.

The study mechanism has been developed, as suggested by Bonoma (1985), as shown in the following chart.

![Process Model for case research](image)

Figure N°12: A Process Model for case research (Ghauri 2004)

**Drift Stage** – It is to try to learn the area of research’s concepts and terminology in the field.

**Design Stage** - It facilitates the conceptualization of the research areas/problems.

**Prediction Stage** - Compiling more cases with the final purpose of drawing conclusions. As a result, the researcher can develop a tentative explanation.
Disconfirmation Stage – It refers to further testing/analyzing of the results suggested by the prediction stage, by applying results to a different case or a border set of cases.

Qualitative researchers have to be reflexive around how the researcher and the research process have shaped the data, including the role of pre-assumptions and experience, as argued by Mays and Pope (2000).

4.9 Case Selection

Silverman (2017) sustains that an adequate selection of cases ensures the possibility of legitimate generalization and theory development. Representative sampling is an available method within the qualitative framework for the selection of cases that contain related characteristics. Therefore, the sample must be representative or typical, as described by Merkens (2004). The researcher will present three cases of similar companies, all of them focused in the foodservice industry and located within the same market.

4.10 Data Collection

This research model has been conceived to provide the basis of the analysis for the case studies undertaken, as discussed later in this paper, to investigate the business evaluation method used as a fundamental reason to determine the future outcome of the M&A transactions. Secondary data, used in this study, refers to the information available even before starting the research, coming from different sources.

The secondary data was required for the selection of the study cases as well, for conducting analysis of available facts and figures of the eventual merger transactions. Such data (publications, reports, etc) was corroborated with emails,
and certain internal information (not any longer under confidential restraints) forms the basis for this research.
In our special case, the information shown is so confidential (mainly drafts and minutes) that only those who took part of the negotiations have access to it.

4.11 Fulfillment of the steps in the Case Studies

When writing a business case study analysis, it is critical to have a good understanding of each case study, making the best effort to identify key issues, key players, and the most pertinent facts.

Therefore, a complete revision of the cases previously presented seems necessary to ensure that the procedure was properly followed, fulfilling the required 9 steps, particularly in the case of the acquisition of Comon, because it is the only one that was completed.

First: To investigate and analyze target company’s history and growth. It is well known that a company’s past can greatly affect the present and future state of the organization. Hence, it is essential to investigate a company’s founding, critical incidents, structure, growth, issues, and achievements. In the first case study, the researcher himself founded “B” and managed it for an entire decade, until just three years before the acquisition attempt. Regarding the second case study, the researcher knew about “A”’s history from the very beginning and followed up on the company for a number of years. Regarding the last case study, the author gathered enough information and data about Comon, as a result of the due diligence process.

Second: To identify strengths and weaknesses within the company. It can be said that a wide description of both of these were presented to the three companies, and the point of view and relevance regarding each variable was explained to Bidvest. A partial SWOT analysis (strengths, weaknesses, opportunities and threats) was made for every case.
**Third:** To gather information on the external environment. This step involves identifying opportunities and threats within the company’s external environment. This is where the second part of the SWOT (opportunities and threats) includes competition within the industry, bargaining powers, and the threat of substitute products. As previously shown, considering the researcher was a competitor of the three target firms, this analysis seems sufficiently detailed in every case.

**Fourth:** To analyze the findings. At this stage it is necessary to create an evaluation for this portion of each case study analysis, to compare the strengths and weaknesses within the company to the external threats and opportunities, and to later determine if the company is in a strong competitive position to decide if it can continue with its current pace and trend. As shown in each case’s description, this step was accomplished at the decision making part of the process, by aborting the negotiations with “A” and “B” as a consequence of this analysis.

**Fifth:** To identify a corporate level strategy. For this step it is necessary to identify and evaluate the target company’s mission, goals, corporate strategy, line of business and its subsidiaries, and acquisitions. It’s the time to debate the pros and the cons of the company strategy to determine whether a strategy change might benefit the post-acquisition company in the short or long term. For this research, this stage was achieved only for the third case, and, therefore, it’s an analysis that sets itself apart.

**Sixth:** To identify the business level strategy. In Comon’s case it was a single business, thus, the corporate strategy and the business level strategy were one and the same.

**Seventh:** To analyze implementations. This step requires the identification and analysis of the structure and control systems the target company is using to implement its business strategies. It seems crucial to evaluate organizational change, levels of hierarchy, employee rewards, conflicts, and other relevant points. In Comon’s case, not only was the post-acquisition organigram presented, but also
“The three sacred steps process”, which described the implementation of the M&A process.

_Eighth:_ To make recommendation to the acquirer company owners. As shown, the author sent in each case study to the Bidvest Group Board of Directors with a complete report, including his recommendations. Every suggestion was properly based on and supported by the context of the analysis. Due to previously discussed issues, the reasons as to why the researcher had recommended to abort negotiations with “B” (their informal accountancy impeded to justify the price), to abandon the M&A process with “A” (consequence of lack of human, material and monetary resources to face two processes simultaneously), and to proceed with Comon´s acquisition were expressed in writing.

_Ninth:_ To review. This was achieved by putting together a professional report analysis that was as accurate and as professional as possible.

### 4.12 Reliability, validity and quality of information

Reliability is the level of consistency with which instances are assigned to the same category by different observers or by the same one in different moments. In this research, the procedure was properly documented and the categories have been used consistently to maximize credibility.

According to Helen Simons (2009), the use of these kind of documents in case study research (such as memos, mails, audit reports, and reviews) enriches the context and contributes to the analysis, providing clues regarding the participating firms.

Despite the former, since the researcher is the main instrument for data gathering, it should be acknowledged that the author is in an inescapable part of the study. The researcher’s world view, predilections and values influence the research. Subjectivity is inevitable in research, and, therefore, it isn’t something that can be eliminated. The researcher should be permanently acutely aware of this. To
minimize personal influence, the researcher did his best to keep emotions from affecting the project, asking several of his peers to review it during the entire writing process.

Validity refers to the credibility of the researcher’s interpretations. Silverman cites Perakyla´s (2011) definition: “the validity of research concerns the interpretation of observations: whether or not the inferences that the researcher makes are supported by the data, and sensible in relation to earlier research”.

As per Catherine Riessman (a great supporter of narrative analysis), investigator’s interpretation of data should be persuasive and plausible, reasonable and convincing, even when the argument an author was making is counterintuitive. In this study, it can be said that persuasiveness is strengthened since the researcher´s theoretical claims are sufficiently supported with evidence, basing himself on documents such as: memos, mails, reports and reviews. Negative cases were also included (2 of the 3 study cases were unsuccessful) and alternative interpretations were also presented, with no intention of making the extension of this research any shorter.

The author has avoided the use of fragments, informal information, temporary notes (such as work in progress reports) or conversations, in an attempt to make this study as representative and as general as possible.

As argued by Bryman (1988), there´s a great temptation to use the data as evidence in relation to conclusions or explanations in qualitative research. This is known as anecdotalism. This is done to convince that the findings are genuinely based on a critical investigation of all the data, and not just reflecting upon a few well selected, “tailor-made” examples.

Regarding the data trustworthiness of this research:
a.- *The researcher’s prolonged or intense engagement with the matter of study.* Since the author led all three transactions, there’s a relationship with the data that spans many years. In any case, there might be some biases impacting the study.

b.- *Triangulation of sources, methods and investigators.* Often it is not feasible or practical at all to design a study in which the means of triangulation (a mix of different data obtained from different sources), methods, and investigators can all work together or simultaneously. The information shown in this research is based mainly on emails and internal memos, which provide a high level of trustworthiness, since the results can be checked and cross checked by triangulation.

c.- *Feedback and discussion with the population.* Although some informal conversations were sustained between the researcher and other stakeholders during the research that was undertaken (for instance: his boss, the former owners, the auditor and the lawyer), this is not documented in the report because they were unfruitful. This poor result was basically a consequence of personal reticences to explain their decision making processes, or to the risk of unveil confidential information that might still be subject to the Non-Disclosure Agreement.

d.- *Peer review.* The researcher showed a preliminary version of this work to colleagues, generally receiving a good opinion regarding the information, justification and conclusions. Additionally, the researcher has proceeded to clarify some subjects (specially related to the decision making process), as was suggested by some colleagues.

According to Silverman, there are 5 interrelated ways of thinking critically about qualitative data analysis that allows the reaching of more valid findings:

1.- *The refutability principle:* The researcher seeks to refute the initial assumptions made on the data to achieve objectivity. The research design and model were revised by the supervisor. The data that was used is reliable (only first hand
accounts from written documents), the findings are acceptable and credible, and the evidence can be generalized for similar cases.

2.- *The constant comparative method*: There’s an issue regarding situations where other cases can be considered to be similar. A qualitative researcher should always be looking to find a different case through which to test a provisional hypothesis. Although this seems simple and logical, it is made difficult by two conditions: firstly, by the difficulty to assemble both case data in a form that allows for its analysis, and secondly, by requesting the researcher to compare data at an early stage, before a provisional hypothesis can be formulated. To start by analyzing a small part of the gathered data can solve this problem. By generating a set of categories, emerging hypotheses can be tested out to expand data corpus.

3.- *Comprehensive data treatment*: The repeated use of the comparative method demands to eventually begin inspecting and analyzing the data.

4.- *Deviant case analysis*: A qualitative researcher should not feel satisfied by explanations which appear to explain almost all of the variance in the gathered data. As stated, every piece of available data was used in this research.

5.- *Using appropriate tabulations*: It allows the reader to see the data as a whole, and the researcher to revise his doubts regarding data accuracy and the generalizations he’s made.

4.13 The Reflective Practice

We often assume learning is an activity which involves reading books or attending courses, but we are learning all the time, from everything we do, every conversation we have, every strand of information that comes our way. Reflective Practice is a way of recognizing and articulating what we’re learning on a moment by moment basis.
Reflective practice is, in its simplest form, thinking about or reflecting on what you do. It is closely linked to the concept of learning from experience, in that you think about what you did, and what happened, and decide from that what you would do differently next time.

Thinking about what has happened is natural. However, the difference between just thinking and reflective practice is that the second requires a conscious effort to think about events, and develop insights into them.

Essentially Reflective Practice is a method of assessing our own thoughts and actions, for the purpose of personal learning and development.

Reflective Practices are methods and techniques that help individuals and groups reflect on their experiences and actions to engage in a process of continuous learning.

Reflective Practice is the foundation of professional development. It makes meaning from experience and transforms insights into practical strategies for personal growth and organizational impact. It involves integrating activities into daily life on a routine basis which raise awareness, prompt critical analysis and aid self-management and decision making.

Reflective Practice can help to understand our own intentions, values and visions and support us to work in a challenging field where ethics and morals may be tested, where power relations might be unequal, and where we may be working in emotionally and physically stressing environments.

Schon defines it as the practice by which professionals become aware of their implicit knowledge base and learn from their experience. It must be noted that what Schon says is not anything entirely new, since Dewey, in 1933 introduced the concept of “reflective conversation with the situation” a way of looking at an epistemology of practice based on examining what practitioners do.
Schon sustains that design is not a problem solving activity in the way that problem solving is generally considered. Starting with problems as given, matters of choice or decision are solved through the selection, from available means, of the one best suited to established ends.

As a collateral effect, being focused on problem solving, we ignore problem setting, that means: the process by which we define the decision to be made, the ends to be achieved, and the means that might be chosen.

Schon differentiates between reflection in action and reflection action, while reflection in action is to reflect on behavior as it happens, whereas reflection on action reflecting after the event, to review, analyze, and evaluate the situation. By the term “knowing in action” he describes practitioner’s tacit knowledge.

Schon argues that every design task is unique, and that the basic problem for designers is to determine how to approach such a single unique task, positioning it at the centre of design practice, a notion he terms knowing-in-action: reflection-in-action is the reflective form of knowing-in-action.

To Schon, competent practitioners usually know more than they can say.

As per his own words “In reflection-in-action, doing and thinking are complementary. Doing extends thinking in the tests, moves, and probes of experimental action, and reflection feeds on doing and its results. Each feeds the other, and each sets boundaries for the other”

Reflexivity involves acknowledging the researcher’s central role in the construction of knowledge. Self- reflection is an essential type of quality assurance because it encourages the open acknowledgement of biases that are inevitably and involuntarily brought to the study by the researcher. The author of this study has periodically evaluated and written down assumptions and feelings, and shared them with his supervisor.
Some ethical dilemmas arise: Who wins and who loses by publishing this information? Were all the legitimate interests well represented? How to ensure that the researcher has done enough to justify the data to assume all of the participants might share in his decisions? Will each reader believe that, for this research, the authority of the most powerful stakeholders was fairly balance with the authority of knowledge of the practitioner? These are just a few dilemmas among many others that the researcher had to deal with along this project.

Another enquiry is how should the reflective documentation must be written. Monitoring and recording events for reflective practice, for instance an online diary or blog, or a hand written notebook. It can be helpful, to keep a journal of learning experiences. This is not about documenting formal courses, but about taking everyday activities and events, to consider what you have learned from them, and what you could or should have done differently.

Keeping a Reflective Journal (also known as a Learning Journal) can help to:

a- Focus your thoughts and develop your ideas  
b- Develop your writing style and skills, and explore different styles of writing  
c- Experiment with ideas and ask questions  
d- Organize your thinking through exploring and mapping complex issues  
e- Develop your conceptual and analytical skills  
f- Develop a conversation with others.  
g- Reflect upon and make sense of experiences and the processes behind them  
h- Express your feelings and emotional responses  
i- Develop your voice and gain confidence  
j- Become aware of your actions and strategies

It is advisable to designate time for reflection after the events and to record your reactions and emerging thoughts at specified review points. Good questions to ask
are: what was proposed, discussed, decided and carried through, what obstacles arose and how they were addressed, whether lessons were learnt from failures, etc.

Reflective practice is the ability to reflect on one’s actions so as to engage in a process of continuous learning. According to one definition it involves paying critical attention to the practical values and theories which inform everyday actions, by examining practice reflectively and reflexively. The author engaged in this process were undertaking this project, and the process of reflection was developed and delivered by the researcher.

Various academics, including Argyris, agree that reflective practice is a skill which can be learned and enhanced.

Reflective practice is an active, dynamic action-based and ethical set of skills, placed in real time and dealing with real, complex and difficult situations.

Academics also tend to agree that reflective practice helps us to explore theories and to apply them to our experiences in a more structured way. These can either be formal theories from academic research, or own personal ideas. It also encourages to explore own beliefs and assumptions and to find solutions to problems.

Another question is what can be done to help develop the critical, constructive and creative thinking that is required for reflective practice?

The researcher have followed the six steps suggested by Thompson:

1. Have read around the topics, general literature and specific documents.
2. Asked peers about the way they do things and why.
3. Watched what is going on around.
4. Felt, paid attention to the emotions.
5. Talked and shared views and experiences with colleagues in the firm.
6. Learned to value time spent thinking about this work.

Thus, it’s not just the thinking that’s important. It’s also necessary to develop an understanding of the theory and others’ ideas and practice.

Reflective practice can be a shared activity, in fact, every meeting with his tutor provided to the researcher new tools and different approaches.

Reflective Practice enables future personal growth, and addresses how we think and feel about ourselves and situations in the present, and how we think and feel about ourselves and situations in the past. Therefore, Reflective Practice is a valuable methodology for using insights and learning from our past, to assess where we are now and to improve our present and future.

As such, Reflective Practice is a theory by which ideas can be more clearly defined, refined, expanded, adapted, taught, adopted and applied, for the purposes of personal development, teaching and coaching, and wider organizational improvement.

Reflective Practice enables clearer thinking, reducing the human tendencies towards emotional bias. The reflective process encourages the researcher to work with others as it allows to share best practice and draw on others for support. Certainly, reflection allowed the researcher to learn more effectively, as learning was tailored to him.

The author spend more than three months after his dissertation, as an additional reflective period, being now confident with the outcome of this revised version of the thesis.
4.14 Analysis Criteria

This research requires a study around different components of business evaluation: selection of firm and valuation method used, influence on each other that impact the decision to continue or to abandon the M&A transaction. Thus, demanding analysis of each component to determine its strength by going through its intrinsical process, later measuring its impact on the subsequent component, and finally on the eventual merger outcome.

4.15 Data Analysis

Marshall and Rossman (1999) describe data analysis as the process of bringing order, structure and meaning to the mass of collected data. It is described as messy, ambiguous and time-consuming, but also as a creative and fascinating process. Broadly speaking, it is the activity of making sense of, interpreting and theorizing data that signifies a search for general statements among categories of data, as argued by Schwandt (2007). Therefore one could infer that data analysis requires some sort or form of logic applied to research. Best and Khan (2006) sustain that the analysis and interpretation of data represent the application of deductive and inductive logic to the research. Morrison (2012) on the other hand, argues that the interpretive approach involves deduction from the data obtained, and relies more on what it feels like to be a participant in the action under study, which is part of the qualitative research. According to Savage (2000), data analysis is the most complex part of the qualitative research process, but, in spite of this, it has received less theoretical attention.
Dierckx (2012) argues that, due to the complexities of qualitative data analysis, any description of the practical aspects of the analysis process runs the risk of oversimplification, because we usually use what serves our purposes. Jennings (2007) taught that this process requires expertise in reading, thinking, imagining, conceiving, conceptualizing, connecting, predicting, condensing, categorizing, and, therefore, even creating a new storyline. Interpreting and analyzing qualitative data cannot be a result of telling convincing stories, as per Silverman’s (1989) opinion.

Sinkovics (2008) defends that, in qualitative research, trustworthiness and authenticity rather than reliability are the main issues. This means not just understanding the point of view of the individuals and organizations being studied; in addition, data has to be interpreted taking into account the background of the context in which it was produced, as described by Hammersley and Atkinson (1983).

With the help of the above mentioned strategies, recommended by Ghauri and Firth (2009), the conclusions drawn were compared with how things really happened to find out the reasons for significant variance, if there are any.
This helped in corroborating the results, as well as in identifying areas for further research.

4.16 Analysis and Findings

‘Not everything that can be counted counts, and not everything that counts can be counted“. Albert Einstein

This is a qualitative exploratory subjective case study interpretative research. Eatough and Smith (2008) define interpretative phenomenological analysis as the detailed examination of individual experiences and how individuals make sense of said experiences. As argued by Simons (2009), there is no doubt that the author indeed has an intrinsic interest in this particular study. Each case is unique and none is typical of another. Therefore, the first criterion should be, as sustained by Stake (1995), to maximize what can be learned from the research.

Since the three case studies in this project do not contain statistical tests, the interpretation of the data found will mainly consist of identifying and addressing some of the explanations for the findings, serving as a criteria for interpreting them.

The main enquiry that arises at this point is how to analyze the qualitative data. As suggested by Silverman (2017), the researcher has analysed the data while gathering it, and not just at the end of the process, giving himself a strong grip that suggests it might come to generate interesting generalizations. The lack of previous research findings that seem to apply to this project data rise the question of how can the gathered data be used to develop this research’s findings.

Stake (1980) defines Naturalistic Generalization, as “a form of generalization arrived at by recognizing similarities and differences to cases or situations with which readers are familiar. It appears much more to tacit knowledge than propositional knowledge, to understanding rather that explanation”. Naturalistic
generalizations develop within a person as a result of his own experience, being built from the tacit knowledge of “how” and “why”, things are like they are, how the people feel about them, and how these things are likely to be later or in other places with which this person is familiar. They seldom take the form of predictions but regularly of expectations.

Simons (2009) sustains that “given sufficient detail and rich description, a reader can discern which aspects of the case they can generalize to their own context and which they cannot. The way of learning from the case is applicable in many policies and practice contexts. It is particularly useful in professional practice to encourage professionals to take action in relation to the findings of the case or to research their own situation”

To face “How” questions, and after that “what” ones, is the chronological order to face data, avoiding the natural temptation to try to find explanations as to “why” it happens.

Regarding context, as stated, the data refers exclusively to three similar size and structure foodservices firms participating in the same industry and within the same market, while being evaluated in all of the cases by the same acquirer firm team. Since it was not possible to pursue data comparison using similar research data, the researcher has tried to divide the gathered data into different sets (each study case) and to compare them. Regarding the implications of this research, although it’s a very narrow topic (almost a niche one), it may be related to much broader M&A processes. Finally, the researcher didn’t establish rigid borders between concepts, exploring relations between apparently diverse models, detailing them.

This research require a study of how different components of a target firm selection and company valuation method used influence each other to impact the decision to continue or to abandon an M&A transaction. Thus, demanding
analysis of each component to determine its strength by going through the intrinsic process, and then to measure its impact on the subsequent component, and, finally, on the eventual merger decision.

From the carrying out of the research, some interesting points have appeared regarding different target firm valuation methods.

Analyzing the results and being conscious on the fact that only the information considered to be relevant and useful for the goals of the project has been reported. In this chapter, I will try to get some conclusions that could help improve the current situation.

The purpose is to highlight the comparative advantages of using a case study research to contribute to the M&A field and to provide some recommendations on how this could be better executed.

4.17 Analysis and interpretation of findings

Qualitative data consists in words and observations, not figures. As will all data, analysis and interpretation are necessaries to bring order and understanding.

This section deals with the processes of conducting overall analysis of all of the gathered and reviewed information, checking its trustworthiness, presentation, interpreting, and use of the findings.

The purpose of analyzing data is to obtain usable and useful information. The analysis may: Describe and summarize the data, identify relationships between variables, compare variables, identify the difference between variables, and forecast outcomes. The findings from qualitative research can be represented as a story, a description of an experience. Regardless of the way the final outcome is presented, the researcher should discuss the findings in the context of the already known.
Thorne and Darbyshire (2005) sustain that the researcher should relate the findings of the study back to the original research purpose, and illustrate whether or not it has been properly addressed.

In qualitative studies, the process by which data analysis is undertaken is crucial to determining findings credibility.

According to Gretchen Rossman and Sharon Rallis, the assumptions are:

- a) The researcher has capacity in relation to his qualitative method.
- b) The gathered data (emails, memos, etc) is good enough.
- c) The researcher has been reflexive about his time in the field.
- d) The author has a detailed knowledge of the literature and theory relevant to the topic.
- e) The researcher has a high level skills for the writing-up the qualitative data.

One of the hardest dilemmas faced by the author was when to begin data analysis. Merriam (2009) argues that the researcher has undermined the entire project by waiting until after all the data are collected before beginning the analysis. The researcher begun the analysis from the very beginning of this project.

According to Stake (1995), qualitative data analysis is an iterative and reflexive process that begins as data are being collected rather than after data collection has ceased.

This process of reading through the data and interpreting them continues throughout the project. The analyst adjusts the data collection process itself when it begins to appear that additional concepts need to be investigated or new relationships explored. Parlet and Hamilton (1976) called this process as progressive focusing. Initial project questions may be modified or even replaced along the study by the researcher.

If early questions are not working well, or new issues become apparent, then Stake argues that the design must to be changed.
Therefore, the author started data analysis from the very beginning.

The researcher avoided to collect not important information by asking himself how he’s going to make sense of each particular data.

As he gathered data, the researcher asked:

a) Why do the participants act as they do?

b) What does this focus mean?

c) What else do I want to know?

d) What new ideas have emerged?

e) Is this new data?

Mills (2007) differentiates between analysis and interpretation, arguing that analysis involves summarizing what’s in the data, whereas interpretation involves finding meaning in that data. In other words, all of the ways that people understand the world are filtered through systems of meaning-making, so the researcher scrutinizes the data for evidence of meaning, values and attitudes, which construct knowledge, talk and practices. This facilitates a level of abstract thinking about the concepts underpinning the data and allows the researcher to draw some general inferences.

When analyzing the data in this project, the author’s key principles are:

a) What does the researcher expects the data to do? Always guided by the argument, and then to choose what data is needed to show. Then, the author tells the story.

b) To avoid overwhelming the reader with too much detail, although, some context is necessary.

c) To be rigorous and thorough. To make clear the relationship of the data he has selected to those he hasn't.
d) Not to select data that suits the argument and ignoring those that don’t, to make a neutral analysis

e) To test and challenge his own arguments and assumptions in ways that the reader can see.

Schensul (1999) defines analysis as the process a researcher uses to reduce data to a story and its interpretation.
Miller and Crabtree (1999) define interpretation as a dynamic craft, with creative artistry and technical exactitude as well. They identify three different modes of reading the text within the qualitative analysis, using a couple of dancers for illustration:

a- When the researcher reads the text literally, he is focused on its literal content and form, so the text is who commands the dance.

b-When the researcher reads the text reflexively, focusing on how his orientation shapes his interpretations. Then, is the researcher who leads the dance.

c- When the researcher reads the text interpretively, trying to construct his own interpretation of what the text means.

As argued by Simons (2009), interpretation is a highly skilled cognitive and intuitive process, often involving total immersion in the data. Although it is possible to make a distinction between analysis and interpretation, these are not discrete processes. Each may be present to a different degree and at different stages. They are interactive throughout the research and within the researcher’s thinking.

There are four main stages in the analysis and interpretation of qualitative information, as sustained by several authors, mainly Silverman.

It should be noted that the following description is more focused on practical tasks, rather than on theoretical issues.
1.- **Descriptive Analysis**: It focuses on the information gathered in relation to how it was gathered, by whom, and where. This requires the revision of information to identify links, patterns, and common themes, organizing the facts in a chronological order, and to present them just as they are, avoiding any comment on their significance. This condition was fulfilled by the researcher.

2.- **Interpretation**: To determine what the results mean and how significant they are in the specific context to which they belong. Interpretation goes beyond description. It means attaching significance to what data is telling, making sense of the findings, offering explanations, drawing conclusions and lessons learned, and imposing order onto a complex and messy world.

   The findings should aim to:
   a) Confirm what you know that is supported by the data.
   b) Get rid of any misconceptions.
   c) Illuminate important things that you didn’t know but should know.

   It is always best to take a cautious approach to the interpretation of the data. This means avoiding leaping to conclusions or making assumptions about why something happened. The researcher believes that it is useful to discuss the interpretations at length with his colleagues, therefore he looked for feedback and support from others.

   Learning how to produce a good interpretation of the data can be challenging and is likely to take some time but is worth persevering with as an effective and rigorous interpretation can improve data analysis reports.

   The reasons behind Bidvest’s mandatory use of Ebit as the exclusive valuation method were well explained: It was a logical consequence of the absence of fixed assets in its worldwide foodservice business model structure.

3.- **Judgement**: A descriptive analysis and interpretation of the results lead to defining the findings as positive or negative (or both), and to explain why. The findings may show what is good, bad, desirable or undesirable.
In the context of this project, should be remarked the promotion of the implementation of various firm valuation methods, instead of the use of the Ebit as the unique acceptable method, since Bidvest/Bidcorp Group is a multinational and this method doesn´t fit all the industries neither all the countries across the world.

4. Recommendations: To draw some recommendations for action to be taken on the basis of the previous stages. Once main research findings have been identified and summarized, it’s time to make some conclusions and recommendations, by showing how the interpretations justify the conclusions and recommendations. In addition, the researcher translates his recommendations into action plans that set out who will do what and by when.

This work presents a record of the study processes and findings. Considering the fact that the study must be made available to general public (and not just to experts), some terms were thoroughly explained.

Usually, the methods and tools described in this kind of research naturally lead from the stage of collecting and analyzing data to planning out which steps are necessary to address the issues raised.

The author’s main recommendation is the use of several target firm valuation methods, instead of only relying on Ebit. The researcher argues that a follow-up action should include the use of all available methods, and the managing of a decision making process that is based on all of them, to get an acquisition price estimation that is as close to reality as possible.

4.18 Implementation of the findings

Based on the research conducted, the followings are the findings:

1-M&A is an effective, fast and efficient growth strategy in worldwide business organizations such as Bidfood.
2-The share price rises after each M&A, therefore the market rewards geographical expansion.

3-There has been efficient allocation of resources and risk reduction arising from management expertise.

4-M&A brought about local synergic benefits.

5-Target firm valuation seems crucial, but the Ebit valuation method used as per Board of Directors instructive as the exclusive one, seems unsuitable to be used in emerging countries.

To implement the findings, four factors have been identified and found to be influencing (personal and consequently organizational) behavioural change:

1.- *Facilitation*: The manager assumes that the implementation of several valuation methods instead of the exclusive use of the Ebit, would in the end makes his decision making process easier, and the figures even more defendable before Bidvest Board of Directors.

2.- *Understanding*: Once the new practices make sense in the context of existing local knowledge. In our specific case, when the Bidvest Group Board of Directors understood that due to the existence of fixed assets in its non-food service business, they had to allow at least the use of the Ebitda method. Additionally, because never a target company that handle own fixed assets will accept to be valuated using the Ebit method. For the author, that started this project on May 2015 fighting against this no-sense policy, it’s gratificant to see (as a very modest prophet) that the Board of Directors of the Bidvest Group finally decided in April 2016 to split the Group, isolating its very singular foodservice business. Currently, Bidcorp Group runs the former foodservice business of Bidvest Group, as a totally separate company.
3. *Approval.* After the Board of Directors decided to implement the new practices in the organization, its adoption was mandatory for the subordinated.

4. *Ability to make change.* In our case, once the Directors allowed the use of other valuation methods (especially in the non-foodservice business) and sent out some instructions to the managers, it was a very affordable task for them, therefore the change was immediately implemented.
Chapter 5-Case Studies: The three acquisition attempts

To proceed according to Yin’s outline of a case study research and case study method, it seems necessary to remark the two specific objectives of this research as components of the planning step: first, to estimate the grade of M&A success using only the Ebit method, and second, to propose a different valuation method for companies located in small and undeveloped markets, such as Chile. The developed theory is that using the new M&A available techniques the decision previously made by Bidvest Directors through the mandatory Ebit valuation method might be quite different. The assumption is that the valuation variable has a crucial influence on the success of M&A, and, furthermore; in the decision to continue or to abort an M&A process. This leads to research questions regarding the role played by the business valuation process in the M&A and its future outcomes, which are the factors that influence the selection of a firm, and it is how the performance of the M&A can be better assessed by using different valuation methods. Certainly, being aware of the strengths and weaknesses of each case study chosen.

Regarding case selection step, the three case studies are very similar. All of them referred to foodservice firms located in Chile, and, as previously announced, these cases were selected because the researcher was directly involved as a key person in the transactions.

Related to design data collection, the documents regarding these cases were examined, when possible, to develop a better understanding of the process, as well as to substantiate the information gathered through internal memos, emails, and other means. Additionally, information publically available from the websites, and other sources of the acquirer, as well as of the target firm, was also referred and used for the purpose.
Through these cases, data has been collected and analyzed to try to clarify the criteria the acquirer company used to make decisions regarding whether or not to engage in an M&A process.

Presenting three case studies allows to obtain more general results. It is more appropriate, according to Yin (2003), because, after conducting and analyzing each case study, it allows to draw more robust conclusions and the obtained analytical benefit is more substantial.

As mentioned, each part of the process interferes with each other because the development of the research is dynamic.

The three case studies to be presented in this chapter are empirical enquiries that investigate the contemporary M&A phenomenon in depth and within its real-life context. Especially when (as it will be described in each case) the boundaries between phenomenon and context are not clear, in particular for outsiders.

The case study inquiry faces the technically distinctive situation in which there will be many more variables of interest than just data points, some of them still being unveiled. Therefore, it is based on multiple sources of evidence, with data having to converge in a triangulation (as shown in Yin’s scheme) and, because another result benefits from the prior development of theoretical propositions, to guide data collection and analysis.

### 5.1 First Case Study: The aborted acquisition of “B”.

This case study is related to an acquisition of 100% ownership of a bakery-pastry & raw goods distribution company, oriented exclusively to the food service market in Chile, mainly in the city of Santiago and the near shore.

This company was founded in 1990, achieving market leadership in terms of prices and share in just two years.
As a result of synergie reasons, it became very attractive for Bidvest to acquire this firm, because there was a complete similarity in terms of customers, suppliers, and goods offered.

Therefore, to acquire this competitor will allow Bidvest to capture more than 80% of the fresh bakery-pastry available for offer (therefore controlling market prices too, under one administration (app. 40% less than the prior M&A payroll of both companies), making transport more efficient, achieving lower costs due to a stronger power of negotiation with suppliers as a result of a greater volume, and an inferior cost of premises rent (just one production plant and one distribution center and headquarter). Additionally, revenue level, size, and structure of both firms were very similar. (Further information is available in Appendix N° 5).

The target company was a familiar one, managed in fact by one of the two partners serving as general manager. There was no board of directors.

Daily management was carried out also by a second manager in charge, but being only involved in matters regarding sales.

The number of employees, including the external transport crew, was around 80 people.

At this time, April 2013, an instructive email was received by Deli Meals, the Chilean Bidvest subsidiary, to immediately proceed with acquisitions, aligned with the macro strategy of the group, and to expand their foodservice business across the world as much and as soon as possible. The reason for this was known one year later in 2014: Bidvest Foodservice Ltd. itself received in South Africa a total acquisition offer from a multinational fund.

The negotiation with “B” was very hard from the beginning, since the researcher, at the time manager and shareholder of Bidvest, served as general manager at the
target company from its foundation until a family dispute in 2010, totaling 10 years in the position. Therefore, it was necessary to create an indirect using lawyers to present the acquisition offer and every subsequent interaction or contact.

Once the NDA was signed, the first obstacle was presented: they carried out their purchases and sales in black. That means that there was no formal accounting.

Bidvest, as a multinational corporation listed in JSE, cannot accept any grade of informality. For Bidvest purposes, only the formal part of the business can be considered, not to mention the risk of future labor, legal, or tax contingencies. Therefore, only formal transactions can be considering, which means missing out on great part of the “B” firm’s earnings. However, the owners had calculated their price based on their total profits. They agreed to disclose all of the “black” transactions, to explain the earnings shown in the following figure.
An additional issue was labor because their payroll was undervalued by approximately 40% because they used to pay half of the salaries “under the
counter”, avoiding having to pay a big amount of taxes and labor duties, such as: health, pension, vacations, seniority, etc.

The first decision that was made was to not purchase the tax id, not to hire managers from neither medium or employee level from the target firm, and to consider only the formal accounting as it stood.

It was not possible to calculate the Ebit (only an estimation was made), since there were no actual figures available, and the accounting was not carried out following formal rules.

They reported an “actual profit” of $608 MM in 2011 and $776MM in 2012, but without an explanation as to why the margin had increased from 11% to 13%. Therefore, the predicted $987 MM for 2013 (rising by +1%) was not accepted.

The following is the Bidvest Group Board of Director´s position on the matter that was sent to the Chilean subsidiary:

“We have always paid a fair market price for the businesses we have acquired based on the following normal business valuation factors used in our industry:

Foodservice wholesale businesses internationally tend to sell for similar multiples of earnings. The larger and the more diversified they get, the greater the multiple. For businesses the size of “B”, in our experience, the market price is calculated by taking earnings before interest and tax (EBIT) and multiplying it by a factor of 5 – 6 times. The value calculated by this formula is the total purchase price/investment required, i.e., it is inclusive of stock, debtors, creditors (deducted) fixed assets, goodwill.

The multiple used will move up to the higher end of the scale if the following factors are positive:

i. History of consistent profitability
ii. Diversified (thereby reducing risk) – this may be with products, customers or multiple branches
iii. Unique characteristics that create extraordinary long term value
iv. Minimal dependency on key people
v. The larger the business, the more diversified the risk

Irrespective of the factors just mentioned, the earnings multiple range will always be around the level stated as our industry has relatively low barriers for entry. The products we sell are not unique and, therefore, the business and margins are always vulnerable. The manufacturing side of the business (bakery) does have some intellectual value within the recipes and processes, but even that sector is internationally heavily populated by many businesses offering a similar range of products.

Business observations
There are four big issues we need to take into account when valuing the business.

**Issue 1** - The positive issue is that there must be some synergies for Bidvest by bringing together our existing investment in Chile and “B”. The businesses are similar. There is competitive pressure between them so the ability to gain some collective economies of scale and reduce some market margin pressure exists.

**Issue 2** – The “B” business is very dependent on two key managers. They are the leaders, controllers and managers of the business. Although we have not discussed this in detail, I assume for this valuation that, due to past history, it would be difficult for those managers to work with our existing business in Chile. This leaves a big hole of business experience and expertise.

**Issue 3** – There will be some customers that do not want to deal with the combined business, either because they don’t like Deli Meals or they don’t like dealing with a bigger business. There is also the merger risk that problems may occur during this period and, as a result, customers might be lost.

**Issue 4** – Payroll treatment. After benchmarking your business against similar businesses in the industry, it was discovered that your payroll cost is substantially lower. We are concerned that a material amount of payroll is paid in the “black” and, therefore, reducing formal payroll costs and avoiding taxes and social duties. This is difficult to detect in a due diligence process without interviewing staff directly and confirming their total remuneration. The attached offer builds in a process to address this issue. We are open to other suggestions if this is not acceptable.

To sum up, the impact of these large issues are difficult to quantify in the form of money, but they have to be taken into consideration in the valuation and the multiple of earnings that will be used to arrive at the valuation.

**Further Observations**

From the information you have provided I have made the following comments/observations which I am happy to receive your feedback on. These are not negative nor positive, but merely observations which contribute to the valuation:

1. Your business has a consistent history of improving on its profitability

2. Sales show steady growth in the profit statement, but the monthly figures show a sales decline in the last four months of 2012 vs 2011. This trend casts some doubt on the ability of the business to grow at forecasted levels.

3. Assets appear to be managed well
4. It will be difficult to verify accounts against tax records

5. The business has a small retail component that is not included in the sale and has been extracted from the accounts. This extraction will potentially make it difficult to verify accounts. Post-acquisition, there is also the risk the retail operation might not be able to compete.

6. For the purpose of this valuation, we have assumed the financial information provided has been prepared using recognized professional accounting standards and specifically:
   a. A full commercial profit has been used
   b. Full market remuneration is in the accounts for the Senior managers
   c. All payments to staff, both formal and informal, are fully costed into the accounts and all government taxes and social duties are paid correctly

Valuation

Based on the observations mentioned above and the information you have provided, we have taken the EBIT for the year 2012 have made two adjustments:

- We assume we will lose 15% of your business because of disaffected customers. Our experience with international mergers suggests that 10% is usually the case, but we are aware in this case of an intense competition between businesses in a relatively small market, so we have made it 15%. A loss of 15% of the customers, in our experience, has a multiple effect on profitability by a factor of two, i.e., profit would be reduced by 30% (2 x 15%).

- There will be some synergies and, because we have factored in customer loss, it is only fair we share the synergies. We have added back CLP 100,000,000

We believe the correct earnings multiple for your business is 4.7X adjusted EBIT. This would arrive at a price of CLP 3,025,000,000.

Based on the information I have, the structure of the purchase price would be:
**EBIT**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT</td>
<td>776,613,860</td>
</tr>
<tr>
<td>Less lost business on merger</td>
<td>- 232,984,158</td>
</tr>
<tr>
<td>Plus Synergies</td>
<td>100,000,000</td>
</tr>
<tr>
<td><strong>ADJUSTED EBIT</strong></td>
<td>643,629,702</td>
</tr>
</tbody>
</table>

**Price Multiple**

- 4.70

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Price</strong></td>
<td><strong>3,025,059,599</strong></td>
</tr>
</tbody>
</table>

**Fixed Assets**

- 260,000,000

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock</td>
<td>300,000,000</td>
</tr>
<tr>
<td>Debtors</td>
<td>1,010,000,000</td>
</tr>
<tr>
<td>Creditors</td>
<td>- 386,000,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Price</strong></td>
<td><strong>3,025,059,599</strong></td>
</tr>
</tbody>
</table>

**Goodwill**

- 1,841,059,599

**Payroll Price Payment deferment**

*In order to satisfy our concerns in regards to Issue 4, we propose that CLP 500,000,000 of the above purchase price is held in escrow for a period of three months following settlement. During this period, if it is identified that any staff member has received remuneration/benefit other than through the formal payroll system, then, that amount of benefit will be calculated, annualized, taxed and social duties added and then multiplied by the earnings multiple of 4.7 times. This amount will then be returned to Bidvest from the escrow funds. The remainder of escrow funds will be paid to “B” after three months.*

**Summary**

*If this valuation meets target firm partners expectations, we would move to document this in the form of a Heads of Agreement, where we would address such issues as property, due diligence, employment contracts, restraints of trade, etc."

Despite Bidvest opinion to go forward (as shown), the researcher finally convinced his Chilean partner to abruptly abandon conversations as a result of not trustable
data and informal accounting that made absolutely impossible to offer a fair and attractive price to the target firm, that would later be explained to Bidvest as “x” times Ebit, when at the local foodservice industry the usual multiple to pay is between 6 to 7 times Ebitda (including assets depreciation and brand amortization), but never more.

Since Ebit was the only valuation method allowed, there was no chance to continue and to later explain to the Bidvest Board of Directors what the price paid was by using multiples. It was neither possible to consider $40 MM of annual depreciation that could help add $240 MM to the offered price, since the Ebitda method was not acceptable.

Figure N°13: “B” Acquisition price according to Bidvest, local market and owners
It was impossible for the Chilean partners to justify to the Bidvest Board of Directors why they should pay the requested price ($4,200,000) for company "B", since it was almost 40% more than the suggested amount, because Bidvest's price offer was exclusively based on the Ebit method of calculations.

5.1.1 “B” M&A Business Evaluation using the proposed Model

As previously explained, the Model is divided in 3 steps: the first one is the national level, no related to the acquirer firm or the targeted company.

The second step is referred exclusively to the targeted firm.

The third step is the evaluation of the possible combination between the acquirer and the targeted firm. The last two stages are calculated in one grand total percentage, since the pro and cons of each targeted company are according to the acquirer’s point of view. In this project: it depends on Deli Meals’ (the Bidvest Chilean subsidiary) managers.

BUSINESS EVALUATION OF “B” USING THE MODEL

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As shown in the table, at National level all the variables are positives, therefore Chile seems as a very attractive country to invest achieving 80%, but “B” only got a Grand Total of 50%.

5.2 Second Case Study: The attempt to acquire “A”.

Continuing the efforts to find new target companies under a very strong pressure from Bidvest side, the almost immediate attempt was to acquire “A”.

This company was a familiar, medium sized one, owned by people (father & son) that were known to both of the Chilean partners. This firm was founded in 2000, and was completely focused on seafood, mainly prawns.

| Grade of dependence on expert staff | x | x | -5 |
| Customer’s concentration grade | x | x | -5 |
| Product concentration level | x | x | -5 |
| Suppliers concentration grade | x | x | -5 |
| Relevance of the exportations in the total revenues | x | x | -5 |
| Feasibility to import its procurements | | x | 5 |
| Local grade of maturity of the industry | x | x | -10 |
| Capital requirements | | x | -5 |
| Local market size | x | x | -5 |
| Level of accurate data availability | x | x | -10 |
| Level of accounting formality | x | x | -10 |
| Competitors formality level | x | x | -5 |
| Cost dependence level on foreign currencies | x | x | -5 |
| Statistical records availability | x | x | -5 |
| Targeted firm market atomization grade | x | x | -5 |
| Ownership (public, private, one partner, or just a few) | x | x | 5 |
| Global situation of its industry | x | x | 5 |
| Regional growth of its industry | x | x | 5 |
| Managers can be retained? | x | x | -5 |

| Presence of global competitors in the region | x | x | 5 |
| Organizational culture similarity | x | x | -5 |
| Similar size | x | x | -5 |
| Incremental profits in acquirer hands | x | x | 0 |
| Plug & play post-acquisition | x | x | -5 |
| Organigram similarity | x | x | -5 |
| Horizontal/vertical integration | x | x | 5 |
| Indirect additional benefits for the acquirer | x | x | 5 |
| Acquirer presence in the region | x | x | 5 |
| Current presence in this industry | x | x | 5 |
| Acquisition impedes competitor’s strategy | x | x | 0 |
| Corporate reasons for this acquisition | x | x | 5 |
| Distance to acquirer headquarters | x | x | 5 |
| Language and cultural gaps | x | x | 5 |

| SUBTOTAL 2 | 30% |
| GRAND TOTAL 2+3 | 50% |

Table N°7: “B” Business Evaluation using Author’s Model
They were oriented towards hotels, restaurants, caterers and resellers, managing 4 small vehicles in Santiago and near the coast, and were outsourcing fleets for more distant locations.

Premises' rent was very cheap, but the lack of space prevented any organic grow. That was one of the reasons they accepted at first: To discuss a partial acquisition. Their accounting was formal (there was no black transactions or black payroll), but it did not follow GAAP (generally accepted accounting principles) criteria. Therefore, to valuate according to Ebit required a complete recalculation. (See Appendix N°3)

For Bidvest the company was very attractive since it was mainly focused in foodservice, covering the same geographical area. The administration and operational processes were very similar to Deli Meals, as well as the commercial approach. Additionally, post-acquisition drop on sales would have been less than 10% due to the fact that the former owners would continue serving their customers.

On 2013, the frozen sea food category in the Chilean foodservice market was atomized and poorly exploited.

This category was continuously growing, not just in terms of volume, but also quality, incorporating added value goods and not just commodities.

The potential acquisition could bring to Deli Meals a new integral specialization identity.

In the hands of Deli Meals, import cost would decrease because of Bidvest’s power of purchase, maximizing the profit margins. The Deli Meals +"A" post-merger consolidated budget is shown in the Appendix N°4.

Their lack of sufficient working capital was also a clear obstacle for growth, not to mention that a new potential, bigger competitor was a permanent threat.

The previous comment doesn’t argue that, for a successful transaction to happen, there weren’t few disadvantages and weaknesses to be dealt with.

At first, the integration process would last six months, due to premises contracts, sanitary requirements, permits, etc.
Additionally, it became known that 40% of their sales were concentrated in only 2 products: tuna and prawns, both with a very unstable supply chain (frequently sold out) and depending on just a few suppliers.

Resellers (high credit risk, low margin) represented almost 40% of their sales. Without a total sales credit coverage, it could not continue under Bidvest management.

Finally, Deli Meals total lack of expertise in the local sea food market would also require a learning period to take place.

As per their data, once the N.D.A. was signed, the following calculations were made:

Table N°8: "A" Monthly Income Statement

Their impressive growth on sales (which might not sustainable), with an economy of scale focused on imported goods (under a very volatile foreign currency exchange scenario), encouraged them to assume a revenue growth of 60%, with no drop for the next year, and keeping the same growth rate using current customer base.
This position made it impossible to convince them to calculate the Ebit using (at this moment) the available figures.

On Bidvest’s side, due to the strong growth based on large imports, it is important to acknowledge that frozen fish and seafood market depends mainly on product availability and price opportunity. At “A”, they have taken inventory positions and have released them when the product was not available at the market.

As per their explanation, the business can afford up to 15% extra growth, with no incremental expenses. Purchasing the right products on time made them reach over 21% at the bottom line (Ebit/Sales), with the same infrastructure up to date.

Sales track has shown strong growth since 2011 (70% 2012/11 and 67% 2012/13*).

However, margin improvement is shown only in 2013. This was Bidvest’s strongest argument.

Their Ebit expectation was $600MM.

As occurred with the previous case study, Bidvest allowed to use only the Ebit valuation method, even though Chile is not a developed country, local foodservice market is very small, and there are no similar companies to compare or even statistical data to use.

The following memo from Bidvest was received:

“A” Valuation Discussion

Introduction

The purpose of this document is to suggest an approach to value “A”.

Issues/assumptions

1. “A” has shown good growth over several years. We assume this momentum can continue
2. In the current year the margin has increased considerably due to good buying and short supply. This can happen in the seafood market occasionally, but it is not sustainable over the medium term as other supplies are found, other traders enter the market, and prices/margins return to normal levels and sometimes go lower before they come up again.
   a. The assumed sustainable margin is 27%, which is the average over the last three years.
3. Expenses
a. Please make sure all expenses are included, specifically market remuneration for working shareholders. The operating profit must be the profit we will realistically achieve under deli meals ownership, while paying people proper salaries

b. We have assumed 13% is more sustainable, as with a fast growing business you tend to operate in an over capacity situation that is not sustainable.

4. Profit

a. Using the above adjustments on a 15% profit increase is still, to my belief, I way above what is sustainable in any market I know of, for this type of business. But this needs to be your assessment. It has been 8% for the previous two years.

### Year Income Statement

<table>
<thead>
<tr>
<th></th>
<th>12 mths to Jun-13</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong> sustainable</td>
<td>3,170,339</td>
<td>2,185,113</td>
<td>1,281,415</td>
</tr>
<tr>
<td><strong>Cost of Good Sold</strong></td>
<td>2,314,347</td>
<td>1,712,561</td>
<td>916,764</td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td>855,992</td>
<td>472,552</td>
<td>364,651</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td>-412,144</td>
<td>293,402</td>
<td>255,762</td>
</tr>
<tr>
<td><strong>Operating Margin</strong></td>
<td>443,847</td>
<td>179,150</td>
<td>108,889</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td>4,200</td>
<td>3890</td>
<td>5776</td>
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</table>

### Valuation Methodology

1. I think I have sent this to you before, but the factors I would take into account when assessing the multiple this business should be valued with are:
   a. What are the barriers for entry – not that many
   b. Are there many players
   c. How scarce is supply
   d. You are losing a key person – the father
   e. The business is operating at full capacity, so you will need to add more capacity, which will impact profit

2. In NZ we value wholesale distribution businesses between 3 and 5 times the EBIT

3. In this case, once you have chosen the multiple and provided justification for it I suggest you split the price into two payments
   a. Payment 1 – Sustainable 12mth July EBIT x Multiple (eg 443,847 x 4 = 1,775,388). Paid at settlement.
   b. Payment 2 – It is to reward sustained extraordinary profit over the 12-month period following settlement. This would be based on GP. I have done this in the past and I attach and example for your information. If you want assistance in adjusting the numbers, please let me know. Even with some integration with Deli Meals it is still possible to extract sales and margin and this will be the main driver of profit.
As previously stated, local foodservice industry in Chile usually pays 6 to 7 times audited Ebit, thus, it doesn´t matter if in other countries the multiple is less than 5 times.

Bidvest local partners offered to defer the payment of 50% of the price for 2 years and to reward according to the future two Ebit, but the target firm owners were rigid in not accepting to postpone more than 30% of the price.

The final decision that was made was to leave the negotiations table, informing to the target firm that this was a direct consequence of the absence of strong statistics background capable of supporting the owner´s forecasted organic growth. Another justification was that their supplier’s portfolio was too concentrated and the range of products was very narrow as well, not to mention the 40% re-seller’s sales. After this, the acquisition became quite risky.

At this M&A stage, Bidvest sent to its Chilean partners a countermand to stop the conversations, because they received a total acquisition offer at Johannesburg headquarters from another Chilean company, and, obviously, there was no way to simultaneously face two acquisitions due to limited human and monetary resources.

### 5.2.1 “A” M&A Business Evaluation using the proposed Model

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<th>Variable</th>
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<td><strong>80%</strong></td>
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</table>
As shown in the table, at National level all the variables are positives, therefore Chile is seemed as a very attractive country to invest achieving 80%.

“A” got a grand total of 80%, but just a remarkable poor subtotal 2 of 15%, as a result of its risky dependence on imported goods, product high concentration grade, excessive dependence on just a few suppliers, and competitor’s informality.
5.3 Third Case Study: The Acquisition of Comon

Immediately following the withdrawal from negotiations with the owners of "A", Bidvest local partners received a complete brochure regarding Comon, a Chilean company that was presented to Bidvest in South Africa by a broker, which was offering a total acquisition.

The firm was founded in 2010 and was completely focused in the foodservice industry, mainly specializing in the fast food niche. Their sales continued to grow from the very beginning. The logistical issue was crucial because this segment requires heavy transport of commodities with poor added value, but permanent and stable consumption.

Comon’s customers were usually located at the same shopping centres where Deli Meals (gourmet level) attended its restaurants daily, where they didn’t serve high quality brands, but had similar suppliers (manufacturers and importers as well). The synergy in procurement, sales, and logistics were obvious.

Comon had only 39 employees (half of Deli Meals), and very similar revenues to Deli Meals’.

Its structure was very simple, just as Deli Meals’, and quite similar.
Some opportunities were found while analyzing the pros and cons of an eventual acquisition, such as: low customer cross-selling, because their major clients were fast food resellers and caterers, not hotels, restaurants or cafeterias (Deli Meals niche). Despite this, more than 35% of their sales were in the Deli Meals geographic area of coverage.

After a short inspection it was noted that not only the administration was very similar, but also the operations. A very similar administration and operational process, with the same commercial approach. The expected drop on sales was estimated at less than 10% as consequence of a merge, because their strong categories were, coincidently, our weak ones. This acquisition would certainly provide a new nationwide identity for Deli Meals.
Like in the previous two cases, once Deli Meals was incorporated into the imports world, it would maximize margins and take advantage of the Bidvest network. Even if it was a total acquisition, the former general manager and owner would join Deli Meals management for at least one year, bringing not just expertise, but contributing greatly with the managing of the newly acquired business and command the veteran staff’s loyalty and commitment, mitigating any traumatic process. It can be said it was a “plug & play” M&A.

A regionalization (first stage; maximum 200 km distance to Santiago) that grows not only in size but also in quality (specialized, not just commodities) would allow the use of better tools to compete for a better post-acquisition scenario. They also had a stronger distribution service than Deli’s.

It was detected that their lack of working capital for growth and a reduced organization restricted potential deals. Deals that under Bidvest’s hand would surely come to fruition.

In any case, there were also some threats and weaknesses: it would take not less than 6 months to operate under the same management. Their DC was better than Deli Meals’. It had enough room for the post acquisition headquarters. Therefore, the raw goods would operate separately for one month after the merge, but the bakery would remain in the current premises till the next stage, which could be more than a year away.

There were few, yet crucial weaknesses: Comon´s rigid administration model faced Deli Meals’ very flexible one. The risk of inherited managers resigning in the near future, a very poor margin of commodities sold due to a large number of competitors in a small market, among others. According to their expectations, the forecasted Ebitda for 2013 was $648 MM, with a depreciation of $49 MM.
Regarding the merger itself, Bidvest, within Chile, allowed for the implementation of an integration that was quite different to the traditional European one.

The researcher has developed his own M&A post-merger procedure, called “The Three Sacred Steps Process”. First, it requires not losing any customers for a period of 60 days, mitigating any traumatic change to the company, and keeping the purchased company’s staff working through the acquisition. Only after this stage, the implementing of synergies in procurement and logistics should be carried out, and the purging of low contribution products and customers should follow suit along the following 60 days. The last step is to decide who should remain with the company, from either of the companies (only by considerations of merit), and to begin working under the same management.

Table No 12 Comon’s past and predicted Ebitda.

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013 ENE</th>
<th>2013 FEB</th>
<th>2013 MAR</th>
<th>2013 APR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>3.184.855.566</td>
<td>5.802.965.219</td>
<td>603.666.338</td>
<td>506.988.197</td>
<td>625.918.887</td>
<td>700.954.294</td>
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<tr>
<td>Exploitation costs</td>
<td>2.458.578.850</td>
<td>4.503.421.035</td>
<td>459.670.517</td>
<td>389.495.667</td>
<td>484.629.736</td>
<td>542.597.885</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>726.276.716</td>
<td>1.290.544.204</td>
<td>143.995.821</td>
<td>114.942.530</td>
<td>141.280.151</td>
<td>158.356.409</td>
</tr>
<tr>
<td>%</td>
<td>22.8%</td>
<td>22.4%</td>
<td>23.9%</td>
<td>23.2%</td>
<td>22.6%</td>
<td>22.6%</td>
</tr>
<tr>
<td>Earnings after taxes</td>
<td>85.738.001</td>
<td>270.143.424</td>
<td>32.352.130</td>
<td>17.886.002</td>
<td>28.386.921</td>
<td>35.751.162</td>
</tr>
<tr>
<td>EBITDA</td>
<td>176.288.877</td>
<td>412.268.486</td>
<td>50.021.120</td>
<td>30.206.203</td>
<td>45.021.542</td>
<td>53.703.217</td>
</tr>
<tr>
<td>Table N°9 Comon’s selection and valuation.</td>
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<td>-------------------------------------------</td>
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</tr>
</tbody>
</table>

**Selection of Target Firm**

**Acquiring Firm’s Characteristics**

1. **Objectives**
   - What was the objective and motive behind the merger, whether it was clearly defined? Faster inorganic growth

2. **Management Structure**
   - What was the composition of the board of directors/sponsors, and pattern of shareholding? 2 partners

3. **Viability Assessment**
   - Whether the merger requirement was initiated on the basis of detailed report, highlighting the potential benefits? Yes

**Target Firm’s Characteristics**

1. **Potential Assessment**
   - Whether the selection of the firm was based on well-defined criteria by preparing detailed working and evolving list of prospective target firms? Yes, but Comon was selected by Bidvest

2. **Impact Assessment**
   - Whether initial assessment of impact of merger of selected entities/entities covered other related parties? Yes

**Merger & Acquisition Layout**

1. **Selection Parameters**
   - Whether brief layout of the expected merger firms, highlighting post-merger eventualities, was drawn? Yes

2. **Shareholding Structure**
   - Whether the shareholding structure in the post-merger or acquisition period was planned? Is a total acquisition, it remains the same

3. **Mode of Settlement**
   - Whether the nature, mode and basis of settlement of merger transaction were discussed in detail, and planned? Yes

4. **Approval**
   - Whether all the material shortcomings regarding the firm identification process were documented in the proposal, and presented to the board of directors for approval? Not really

**Valuation of Target Firm**

**Valuation Process**

1. **Valuation Parameters**
   - Whether the valuation process had accounted for, in detail, the impact upon the transaction on competitors, market and other stakeholders? Not
   - Whether the valuation basis accounted for post-merger, after considering restructuring on location, division, product, process, etc; covering in detail technical and financial issues? Yes
   - Whether the non-financial or subjective (intangible) matters were identified and their impact was evaluated? Yes
   - Whether feedback of the target firm on the valuation criteria, process and results was obtained? No

2. **Valuation Determination**
   - Whether the offer price was determined by following one of the established methods and by justifying the logic in detail? Not the final price paid
   - Whether valuation carried out by independent professional? No
   - Whether the valuation was carried out on more than one basis, to justify the value so arrived? No
   - Whether in case of discounted cash flow method, the applied discount rate was realistically adjusted according to the transaction’s requirement? No
   - Whether the risk factors, as stated above, have been logically defined? No
Bidvest first price offer was $2.921 MM (as shown in the Appendix N°7), exclusively calculating the Ebit. Therefore, depreciation (approximately $250 MM) was not included, (as shown in Appendix N°5) while in the local food industry, the usual multiple paid is no less than 6 times the Ebitda.

After their immediate refusal, Bidvest increased the price to 6 times the Ebit, but faced a new rejection. Comon’s owner argument was that, according to the audited Ebitda, they cannot accept less than $3.900 MM (6.5 times), due to their investment in fixed assets and the new deals and contracts with large customers they had recently signed.
Finally, once more and after a hard negotiation, Bidvest agreed to pay $3.780 MM, and saw it as a “fair amount”, explaining it had adjusted for the price, even though all of the managers involved in the transaction (Bidvest’s CEO included) knew perfectly well it was just a retroactive explanation in an effort to justify the price paid “X” times in terms of the Ebit.

As it had occurred in previous cases, Bidvest allowed exclusively for an Ebit valuation method, although Bidvest’s local partners repeatedly warned the Board of Directors that Chile was not a developed country. Local foodservice market was very small and there were no similar companies to compare, or even statistical data to use. Additionally, local companies had fixed assets (not as Bidvest foodservice style), which were not included or were even being considered in the Ebit method (depreciation is not included), and the audited Ebit does not consider trend growth or projected target firm incremental earnings when valuing a recently founded start-up or immature company.

(“Deli + Comon” consolidated post-merger budget is available in the Appendix N°6).

At this point, a confidential term should be disclosed: the Chilean partners (one of them being the researcher itself) were not totally aligned with Bidvest Group when we were faced with Comon´s acquisition, since the post-merge share price original formula was:

Bidvest Chile S.A. shares value = 6.5 x Ebit

But, when Comon´s acquisition was about to be signed, Bidvest Group changed the formula for the local partners to:

Bidvest Chile S.A. shares value = (6.5 x Ebit) - bank debt.

Although for Bidvest Group post-merger interest rate and leverage was not relevant, for the owners of the remaining 20% of the shares it was a crucial issue. Therefore,
the researcher’s review is from his own particular point of view as a shareholder dependent on this formula. This fact had to be accentuated when a comparison with the former situation is made, because local partner’s acquisition decision was made and the price offer was presented to Comon´s owners before the mandatory formula change.

5.3.1 Comon Business Evaluation using the proposed Model

<table>
<thead>
<tr>
<th>COMON BUSINESS EVALUATION TABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable</td>
</tr>
<tr>
<td>----------------------------------</td>
</tr>
<tr>
<td><strong>The country</strong></td>
</tr>
<tr>
<td>a Clear and stable commercial rules</td>
</tr>
<tr>
<td>b Technological development</td>
</tr>
<tr>
<td>c Communications development</td>
</tr>
<tr>
<td>d Infrastructural development</td>
</tr>
<tr>
<td>e Justice courts independence level and stability</td>
</tr>
<tr>
<td>f National political stability</td>
</tr>
<tr>
<td>g Macroeconomic stability</td>
</tr>
<tr>
<td>h Local corruption level</td>
</tr>
<tr>
<td>i Protective laws and/or importation barriers</td>
</tr>
<tr>
<td>j Unemployment rate</td>
</tr>
<tr>
<td>k Local currency stability</td>
</tr>
<tr>
<td>l Rigid labour rules</td>
</tr>
<tr>
<td>m Investment trend</td>
</tr>
<tr>
<td>n Incentives for foreign investment</td>
</tr>
<tr>
<td>o Free access to foreign currency exchange</td>
</tr>
<tr>
<td>p Dividends taxation or limitations for foreign firms</td>
</tr>
<tr>
<td><strong>SUBTOTAL 1</strong></td>
</tr>
<tr>
<td><strong>The targeted firm</strong></td>
</tr>
<tr>
<td>a Eco-sustainable</td>
</tr>
<tr>
<td>b Level of dependence on imported raw goods</td>
</tr>
<tr>
<td>c Use of very specific supplies</td>
</tr>
<tr>
<td>d Level of dependence on limited natural resources</td>
</tr>
<tr>
<td>e Patents or royalty payments</td>
</tr>
<tr>
<td>f Grade of dependence on expert staff</td>
</tr>
<tr>
<td>g Customer's concentration grade</td>
</tr>
<tr>
<td>h Product concentration level</td>
</tr>
<tr>
<td>i Suppliers concentration grade</td>
</tr>
<tr>
<td>j Relevance of the exportations in the total revenues</td>
</tr>
<tr>
<td>k Feasibility to import its procurements</td>
</tr>
<tr>
<td>l Local grade of maturity of the industry</td>
</tr>
<tr>
<td>m Capital requirements</td>
</tr>
<tr>
<td>n Local market size</td>
</tr>
<tr>
<td>o Level of accurate data availability</td>
</tr>
<tr>
<td>p Level of accounting formality</td>
</tr>
<tr>
<td>q Competitors formality level</td>
</tr>
<tr>
<td>r Cost dependence level on foreign currencies</td>
</tr>
<tr>
<td>s Statistical records availability</td>
</tr>
<tr>
<td>t Targeted firm market atomization grade</td>
</tr>
<tr>
<td>v Ownership (public, private, one partner, or just a few)</td>
</tr>
<tr>
<td>w Regional growth of its industry</td>
</tr>
<tr>
<td>x Global situation of its industry</td>
</tr>
<tr>
<td>y Managers can be retained?</td>
</tr>
<tr>
<td><strong>SUBTOTAL 2</strong></td>
</tr>
<tr>
<td><strong>Acquirer’s M&amp;A scenario</strong></td>
</tr>
<tr>
<td>a Presence of global competitors in the region</td>
</tr>
<tr>
<td>b Organizational culture similarity</td>
</tr>
<tr>
<td>c Similar size</td>
</tr>
</tbody>
</table>
As shown in the table, at National & Regional level all the variables are positives, therefore Chile is seemed as a very attractive country to invest achieving 80%. Comon got an impressive 75% outcome as targeted firm, and a 65% as Acquirer M&A scenario, due it similarity to Deli Meals, the synergies and mainly because all the negatives variables shown in “A” and “B” cases turned into positives.

5.3.2 Comon´s case review using the new M&A technics

It seems that the acquisition was a good decision in any case, and the price paid was fair enough, according to three direct (absolute) methods of valuation that rely on cash flow.

**A-Free Cash Flow to Firm**

FCFF = (Ebit +tax+ depreciation + amortization) x (1 - tax rate) + (depreciation x tax rate) – (long-term investments - investments in working capital)

The free cash flow to firm formula is used to calculate the amount available for debt and equity holders.

This calculation is a good representation of a company's operations and its performance, since it takes into account all cash inflows as revenues, all cash outflows as ordinary expenses, and all reinvested cash needed to keep the business growing. The money left over after conducting all of these operations represents a company's FCFF.
This is essentially a measurement of a company’s profitability after all expenses and reinvestments. That’s the reason why it’s one of the many benchmarks used to compare and analyze financial health.

For Bidvest’s purposes, capital limitations were not an obstacle (since they are the owners of the Bidvest Bank) and the primordial aim was to increase share value at JSE, as a result of acquisitions across the world or by entering into new industries.

Capital expenditures (better known as Capex) can be found on a company’s cash flow statement. It is the capital used to fund operations in the long run.

As mentioned before, Bidvest policy is to rent premises, to hire the required equipment, and to outsource transportation. All of this is done to avoid any fix asset investment. Therefore, this valuation method is not relevant for the acquirer firm’s strategy.

Working capital is much more crucial for the foodservice industry (in Chile there’s a 30-day gap between liabilities and receivables) because it is the amount used to fund operations in the short run. Working capital is the current assets minus the current liabilities. As opposed to longer term capital expenditures, working capital connotes expenses that are due within one year or less. The change in working capital can be calculated using Comon’s balance sheet.

**B-Free Cashflow to Equity Method**

Free cash flow to firm differs from free cash flow to equity in that it calculates the amount available to both debt and equity holders, as opposed to simply equity holders. One way of how this difference is shown in the free cash flow to the firm formula is through the Ebit adjusted for taxes. This allows interest expenses to be included as they are paid to debt holders.
Another difference between both methods is that the free cash flow to firm formula does not subtract change in debt. The main difference is then applied to include the amount available for debt. Since in the case of Comon´s acquisition there is no debt involved at all (it was paid using their own resources and the target company was received free of any debt), this difference between models just doesn’t seem relevant.

Free cash flow to firm method might be used within valuation models for a company's stock, like Bidvest, to discount future cash flows, instead of dividends. It includes both bondholders and stockholders when considering the money left for investors.

\[
\text{FCFE} = (\text{Net Income} - \text{Net Capital Expenditure}) - (\text{Change in Net Working Capital} + \text{New Debt}) - \text{Debt Repayment}.
\]

For many authors, free cash flow is arguably the most important financial indicator of the value of a company's stock. The value, and therefore the price, of a stock is considered to be the sum of the company's expected future cash flows, assuming that case stocks are accurately priced. But these authors refer to developed markets, and not subsidiaries.

For Bidvest Group shareholders, the value they take into account is the one from JSE. What happens with any one subsidiary in particular is not relevant, except in the case of great losses, political scandals, or economic instability that could provoke value loss for shares in Johannesburg. Although, a negative FCFE value indicates that the target firm has not generated enough revenue to cover its costs and investment activities. This might be why they agreed to the sale, but on Bidvest’s side it may have looked like the opposite: like a great opportunity to manage the company.

This method of valuation gained popularity as an alternative to the dividend discount model, especially when a company like Bidvest does not usually pay a dividend. Although free cash flow to equity may calculate the amount available for shareholders, it does not necessarily equate to the amount paid out to shareholders.
FCFE is also used to determine if dividend payments and stock repurchases are paid for with free cash flow to equity or some other form of financing. Investors want to see a dividend payment and share repurchase that is fully paid by FCFE.

If FCFE is less than the dividend payment and the cost to buy back shares, then the company is funded with either debt or existing capital, or issuing new securities. Existing capital includes retained earnings made in previous periods. This is not what investors want to see in a current or prospective investment, even if interest rates are low. Some analysts argue that borrowing to pay for share repurchases when shares are trading at a discount and rates are at a historical low is a good investment. However, this is only the case if the company's share price goes up in the future. But, as stated, shareholders of Bidvest Group are interested in the group's consolidated outcome.

C-The Adjusted Present Value

This is the net present value of a project or company if financed solely by equity, plus the present value of any financing benefit, which constitute the additional effects of debt. By taking into account financing benefits, it includes tax shields such as those provided by deductible interest.

To calculate the adjusted present value, first, it is necessary to calculate the Net Present Value of the project or company without debt. Then, the NPV is adjusted to include the benefits of financing. Main benefits from this approach are often tax shields resulting from one or more tax deductions of interest payments, or a subsidized loan at below-market rates. In our case, Bidvest achieved a very unusual 0.5% monthly interest rate using their Bidvest Bank as assurance. Leveraged buyout situations are the most effective situations in which to use the adjusted present value methodology.

For the Chilean shareholders, this is a very remarkable point, because interest rates will directly impact their future bank debt, which will be considered in their share price formula.
While the adjusted present value method is similar to the discounted cash flow methodology, adjusted present cash flow does not capture taxes or other financing effects in a weighted average cost of capital or other adjusted discount rate.

Adjusted Present Value = Base-case net present value + net present value of all financing side effects

In practice, the adjusted present value is not used as much as the discounted cash flow method. It is more of an academic calculation but is often considered to result in more accurate valuations.

Along with the initial NPV estimate, three other variables must be calculated. The first, which is widely considered to be the most important side effect of financing, is the interest tax shield, when the interest on the debt is tax-deductible. Unfortunately, this is not the situation in Chile.
Chapter 6- Conclusions and Recommendations

M&A have been the inorganic route by which firms across the world have been growing. This, as a consequence of the immense competition that provokes the need to enter to emerging countries due the saturation in their domestic markets.

Along this study was showed that knowledge is power, to take time might even help to reduce the final price and to obtain better conditions. Despite the previous, sometimes to move quickly is the best procedure when the preparatory work was properly done. Therefore, manager´s expertise is fundamental. To walk away from a bad deal might be the best step, but a rookie never will do so. To spend time with shareholders when they sale only partially the company is crucial. The negotiation is just a mean, the future coexistence is the real challenge. As shown in the case studies presented at this research, never can be assumed that everything regarding the target firm can be known before the acquisition.

Bidfood isn´t a so very singular case. Large companies such as Schneider Electric (France), Precision Castparts (U.S.), Westfarmers (Australia) and many others have used serial acquisitions effectively to expand geographically entering into new markets, emerging countries or both, thus boosting their growth. Such firms often hone their M&A skills on smaller deals, enabling them (as Bidfood) to move quickly to acquire a larger target company when the time seems right.

The research questions of this study were:

1-What are the factors that influence the selection of a firm?

Deli Meals was purchased only after Chile was chosen for its legal and economic stability, serving as a springboard for a subsequent acquisition conquest across the South American continent. The same is valid for Comon´s acquisition.
The criteria used to select a candidate company depends on the country’s characteristics: how concentrated is the foodservice industry in that region, the grade of informality (for instance: non-billed sales, staff hired without formal contracts), market growth trends, availability of accurate and updated data, the degree of strategic fit with Bidvest, the threat of a foreign investor entry, the total amount required for the acquisition, plus any additional fixed asset investment or working capital requirement.

Every company could become a potential candidate if its core business is focused on foodservice, offers a wide range of products, has a good customer portfolio (in terms of contribution and collection), and looks as if it could be much more profitable under Bidvest’s management. Sometimes the candidate company was offered directly to Bidvest by brokers at the South Africa headquarters, but other examples were offered to the subsidiaries.

2- What is the role of the valuation in the M&A success?

Business evaluation is related to processes which would ensure efficient handling of the causes of M&A failures researched so far. Well-evaluated mergers enhance the value of the firm and the value of the firm to society, whereas not properly planned mergers or undesired takeovers not only damage the acquiring firm but also the whole of society due to external costs not borne by the acquiring company. Mergers can be successful when the price to be paid by the acquiring company to the target firm is based on a realistic amount that is in viable proportion to the tangible and intangible returns as well. Overpayment has been reported as the main reason of M&A failure, while less quantifiable causes such as strategy and merger execution have been downplayed. Astrachan (2008) argued that business evaluation, is normally conceived as a calculations exercise based on a method which suitable to the cases, involving a large number of intangible factors. As per Basu’s (2008) argument, the process should, however, start from the stage of selection of a business. Valuation is crucial, as repeatedly sustained along this research.
3-The above discussion can lead to the following research questions:

a-What is the role played by the business evaluation process in the outcome of a merger or an acquisition?

M&A can be successful when the price to be paid by the company to the target firm is based on a realistic amount that is in viable proportion to the tangible and intangible returns as well. Overpayment has been reported as the main reason of merger failure, while less quantifiable causes such as strategy and merger execution have been downplayed.

b-How M&A performance can be better assessed by using different valuation methods?

As cited in Chapter 1, Kennet Ferris and Barbara Petit (2013) describe several valuation methods. They have been classified into four categories, based on two dimensions. The first dimension distinguishes between directs and indirects. The second dimension separates models that rely on cash flow from those that rely on another variable, such as revenues, earnings or book value.

Direct methods provide a direct estimate of a company’s fundamental value, whilst relative valuation methods only indicate if it is fairly priced relative to some benchmark or peer group.

By using the direct valuation method, it is possible to compare the company’s fundamental value obtained (the premium) versus the company’s market value.

Valuing using indirect methods requires identifying a group of comparable companies, thus, the relative ones are also called the comparable approach.

There are two types of direct valuation models based on cash flow: those using discounted cash flow, such as free cash flow to the firm model, free cash flow to the equity model, and adjusted present value model.

The second kind is based in option pricing models, denominated the real option analysis.
Direct ones based on other variables are the economic income models, usually called the economic value analysis. Among the indirect methods, we find only one that is based on cash flow: price to cash flow ratio, using price multiples. Based on other variables while keeping price multiples we can identify: price to earning ratio, price to Ebit ratio, price to sales ratio and price to book ratio. Therefore, M&A performance can be better assessed by using simultaneously different valuation methods, taking the most suitable for each case. The real problem appears when only one method is allowed to be used, and this is a comparative one, where no comparable firms are available.

Among other limitations, must be noted that the Agency Problem was not enough studied in this research, because the author served as Manager, but was also shareholder and member of the Board of Directors. The Board of Directors is an organism created to control managers and mitigate those agency problems that exist between shareholders and managers. Anyway, as sustained by Jensen (1986) some conflicts were faced by the researcher when acting as a shareholder (profits) and manager (remuneration) simultaneously. However, when the same person acts as Manager and as Director of the company, the Board of Directors may be less efficient. Managers are always fighting to achieve the control of the firm. In this arena, the market will punish any managerial divergence from shareholders’ value maximization goal. In this case, the stock price of those companies will drop. As a consequence, those companies appear to be attractive targets for other companies. M&A is a perfect field for the exacerbation of divergence of goals between managers and shareholders. Shareholders only have one goal: getting rich through increasing the value of their investments. Managers have a variety of goals, and maximizing company’s value is just one of them. Certain clues suggest that company’s size or power may be more valuable for managers than maximizing shareholders’ value.

Roll (1986) proposed in the Hubris hypothesis that acquisitions are the result of managers’ mistakes in evaluating target firms and that the synergy gain is zero.
Consequently, when managers make errors of overestimating the synergies of the merger or the acquisition, the takeover may take place and as a result there might be an overpayment for the target.

There are a lot of perils as well as opportunities accompanied by international M&A which may affect their performance in comparison with domestic acquisitions. Finkelstein and Larsson (1999) present a theory of greater employee resistance in cross-border transactions. In their opinion, the reason for the underperformance is that the employees react negatively to change. Therefore, since the management style, as well as the alteration of the career paths or compensation structures, is much more different between companies from different countries than in companies from the same country, international acquirers are expected to underperform their domestic rivals. According to this research, due to the high level of autonomy of the local management, this never happened.

Another reason why underperformance is expected in international M&A in comparison with domestic acquisitions stems from the problem of Information Asymmetry. This asymmetry and lack of information in cross-border deals may cause international acquirers to overvalue the targets and be more prone to overbid. In this research, local shareholders direct participation avoided this problem.

Flyvbjerg (2006) sustains that “working from cases and context-dependant knowledge is the way in which novices on rule-base become experts”. This kind of research suffers from different causes that are responsible for the quality and validity of the study. Research strictness not only depends upon the quality of the design and its implementation, but is also conditioned by the researcher’s skills and experience. Qualitative researchers frequently use the case study method to test and advance an existing theory, as well as to build new ones. Indeed, it is a legitimate tool of qualitative research to analyze critical organizational events in any given setting, both to find a problem and to arrive at a conclusion.

This study draws attention to the exploration of case studies in M&A related to the valuation of target firm methods. The characteristics and reasons as to why a
multinational group participates in overseas emerging market acquisitions, together with how employee training and organizational change performance offer a unique setting to adopt the case study method in similar future researches.

This research shows that even if it is quite logical for Bidvest to implement an exclusive valuation method for all of their businesses across the world to unify criteria, it doesn’t recognize local market and industry differences. The western world isn’t always synonymous with the developed world (for instance, South America). Even if Bidvest’s policy is to rent premises, all of the required equipment and to outsource transportation, Ebit is not a proper valuation method for foodservice target firms that handle fixed assets. Additionally, the lack of statistics and accurate data, the lack of similar companies to compare to, and a very small market doesn’t encourage the use of a comparative method such as Ebit, except only as a means to arrive at a final valuation that should include more variables (cash flow among them).

All the available research studies faced serious difficulties in obtaining data from managers and honest answers regarding their true motives and thoughts, which tended to overcomplicate the empirical M&A studies since researchers must rely on relatively small samples and unknown data quality.

The main aim of this project was to mitigate this issue, since the author was directly and personally involved in the cases from the very beginning and up until the very end, and after three years is now authorized to “show all of the cards” without breaking any confidentiality restraints and does no longer belong to the acquirer’s organization.

Therefore, the contribution of this research is to allow the reader to see how the person that made the decision to purchase a large company just three years ago using a compulsory Ebit method (as instructed by the Board of Directors) reviews the case using the new M&A techniques and to conclude that the previous valuation was partial and not capable of predicting post-merger profit and performances. Indeed, the price that was offered and finally paid was retroactively constructed to justify “x” times the Ebit, which in any case was over the multiple that is usually
allowed by Bidvest to pay for foodservice businesses in western developed countries.

M&A do not create immediate shareholder wealth and margins for the acquiring firm in the short term. However, from a longer perspective a consolidated company would be able to better cope up with competition, increased pressure to cut costs and grow in the changing business environment.

Researcher endorsement to academics and practitioners is given to ensure that what drives a company’s fundamental value is its future cash flow.

6.1 Limitations and Vision for future

This paper pretension is to help decision makers know exactly why they are buying a company and to valuate it properly, because this is crucial.

The findings of this research underline the relevance of the consideration of culture, politics, market size, industry, macroeconomic policy, national level of development, data availability, organizational structure, synergies, and leadership (among many other variables), while planning to engage in an M&A process.

This study can serve as introductory ground work for people who want to go deeper and expand into the research on mergers and acquisitions.

The greatest limitation to this project might be the fact that the study cases were shown through the researcher’s own perspective, knowing he was a very relevant participant in the decision making process for each of them.

On the other hand, this fact also makes this research both attractive and original.

Another limitation regarding this research that should be noted is the fact that it analyzes an unusual case: a giant multinational group attempting to (remotely) manage the acquisition of three small target firms, while considering them as counterparts. Therefore, this research is related to a particular place, a particular time, and to very unique circumstances, since it reflects the meeting of firms which are
absolutely different from one another in terms of size, culture, location, systems, etc.

This study examines M&A in which Chilean firms are involved as acquirer (although acting on behalf of the Bidvest group) and as target companies, within the context of the foodservice industry.

It’s recommended in future research to examine additional variables related to the M&A process, such as: kind of political regime, market size, level of technological development of the country, accurate data availability, statistical records, communications, level of target’s firm market atomization, the existence of similar companies competitors, national legal and economic stability, grade of maturity of target firm industry, ownership, local corruption level, the existence of protective laws and/or importation barriers, the use of local natural resources, sustainability, among many others.

Because this study was completely focused in Chile, it is recommended to validate the research results by using a larger sample and a different cultural environment. For instance, the research results could be validated using a sample that includes M&A cases that were conducted in other countries and different industries.

The research of more M&A cases studies is a necessary and immediate task. So far, their absence seems to be more of a result of pessimistic avoidance than a consequence of the high failure rates published for M&A.

This research adds further information to the limited available knowledge of the field of M&A’s, and it focuses on the impact of the valuation method used on an M&A process. In light of the research results it is necessary to emphasize the valuation method as a crucial parameter that should be taken into consideration when any M&A process between companies is planned and performed.

Many firms engage in M&A process as a long-term strategic activities which they expect to generate high profits in a sustainable way. Therefore, future research
should examine time periods longer than three years, to check whether or not impacts on the operating performance of firms change over longer time periods.

Finally, this research may be relevant to companies that are planning to engage in a M&A process, as they can gain insight of the process through it.

As said, author’s intention is to continue the investigation while seeking for a business evaluation model as general as possible, listing all the involved parameters, and to assess the variables according to its grade of impact in each case, to be used in every industry, market and country.

Every researcher should be optimistic. Therefore, the author already started to ask for collaborations from academic and professional colleagues for this purpose.
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APPENDICES
Appendix N°1: Preface’s original Spanish version
SOCIEDADES Y COMPETENCIA

Irineu Evangelista de Souza, recordado en la historia como Barón de Mauá (Yaguarón, Río Grande del Sur, 1813- Petrópolis, 1889), fue el primer empresario brasileño que abrió su país a la economía moderna.

Cerrada la etapa del trabajo esclavo, que él siempre repudió, el audaz emprendedor propuso la creación de un Banco. Fue así que el 2 de marzo de 1851 reunió, en Río de Janeiro, a un conjunto de gente adinerada que no encontraba ahora destino para su riqueza.

Pronunció allí un memorable discurso, en que dijo: “El espíritu de asociación es uno de los elementos de prosperidad más fuertes de cualquier país, y por así decirlo, el alma del progreso. Cuando el sabio en sus meditaciones descubre los secretos de la naturaleza, apenas nos muestra el germen; es el espíritu de asociación quien, desarrollándose, hace crecer el árbol que más tarde nos brinda sus frutos sazonados. Es el espíritu de asociación quien hizo y hace la prosperidad de Inglaterra, porque es el que provee los medios para ejecutar esas obras gigantescas que, dando un valor a todos los rincones de aquella nación, operan esta prodigiosa multiplicación de los capitales que allí se observa”.

Mauá, que llegó a ser socio del Barón Lionel de Rothschild en Inglaterra, incorporó a ese país monárquico y agrícola, una de las raíces del brío del sistema de mercado: la asociación de capitales, la cultura de la sociedad, la visión de que el desarrollo requiere economías de escala cuando se trata del destino de un gran Estado.
Este espíritu de asociación dejaba atrás el individualismo patriarcal de la riqueza solo afincada en la tierra y la explotación de quienes trabajaban; de los patrimonios hijos de la herencia; el ritmo lento y cansino de la estructuras coloniales. Era la chispa que encendía los nuevos negocios, los de la revolución industrial que había ensanchado a Inglaterra y generado el impulso de los Estados Unidos de América.

Naturalmente, él pudo desarrollarse por el paralelo perfeccionamiento de un sistema institucional que protegió la propiedad, en sus muchas formas, estabilizó las modalidades del comercio e hizo posible el advenimiento de las sociedades por la vía del contrato.

Ese espíritu de asociación, imprescindible para las grandes obras, ha convivido en dialéctica tensión con la competencia, fundamento de la economía de mercado, del sistema capitalista que nació en el Siglo XV en el Norte de Italia y de Europa central. La competencia es consecuencia de la libertad individual, de la libertad del comercio que supera las estructuras corporativas medievales y abre el camino al nacimiento de la burguesía, que describe Werner Sombart (Ermsleben, 1883- Berlín, 1941), en su clásico libro. Allí aparece la figura del emprendedor, que ha puesto Joseph Schumpeter (Moravia, 1883-Salisbury, 1950) en el centro de su teoría del desarrollo, confrontándose diametralmente con las ideas de Marx de los factores estructurales, impersonales, como generadores del desarrollo económico.

Mucho se ha discutido sobre ese rol del individuo que innova, que genera la "destrucción creativa" de Schumpeter, el que con audacia inventa, crea, supera algo y lo sustituye con algo novedoso. Nuestro tiempo parece darle más que nunca razón a la significación de esa figura individual, cuando observamos la irrupción repentina de las mayores empresas del mundo, al impulso creativo de jóvenes salidos, aparentemente de la nada, que revolucionan la naturaleza misma de la riqueza. Ese
mundo inmaterial de las llamadas GAFAM (Google, Apple, Facebook, Amazon, Microsoft), hoy las cinco empresas de mayor cotización bursátil en el mundo, son justamente el testimonio inequívoco de ese factor personal.

Por la contraria, son también un testimonio vívido los perdedores en esa acelerada e implacable carrera. ¿Dónde está Nokia, que hace pocos años era la mayor proveedora, exclusiva de teléfonos celulares ¿Dónde está Yahoo, que en el 2010 estaba a la cabeza de los buscadores de Internet y ha sido doblegada por Google? En una palabra, la libertad para crear debe asumirse como una innovación constante, incluyendo la asociación oportuna y salvadora cuando el camino en solitario, por una razón u otra, no ofrece mejores perspectivas.

Parecía haber en Schumpeter una contradicción entre el reconocimiento de la naturaleza racional de la nueva economía, con ese personaje algo romántico del emprendedor, una especie de cruzado de las novedades. No lo es sin embargo, en cuanto ese sistema racionalista se inscribe en el marco de libertades individuales, naturalmente generadoras de ese formidable espíritu creativo.

Max Weber, que compartía con Schumpeter esa visión general señala que lo que creó el capitalismo “es la empresa racional duradera, la contabilidad racional, la racionalización de la conducción de la vida, el ethos económico racional”. Cosa que, en cuanto se profundice el análisis, es perfectamente congruente con ese emprendedor novedoso, de cuya mentalidad creativa nacen los productos innovadores, que marcarán su tiempo.

Al final de cuentas, todo es la libertad y todo es la razón. En una palabra, la visión liberadora del humanismo renacentista que inauguró los 500 años de auge de nuestra civilización occidental. La que hoy afronta, todavía, la agresión de aquellas visiones de fanatismo religioso que le precedieron y que anacrónicamente hoy
retornan. Su “ethos”, hijo de aquellos valores, sigue sobreponiéndose una y otra vez a sus adversarios y si bien nada es eterno en la historia, hasta hoy no hay sistema social que haya sobrevivido con más éxito que la democracia liberal y la economía de mercado. A tal punto que tuvo la flexibilidad suficiente para tomar del socialismo su espíritu de solidaridad y así asociar la idea de libertad con la de justicia.

Valgan estas reflexiones como aperitivo introductorio al profundo trabajo de Abraham (Abi) Moskovicz, sobre las Adquisiciones y Fusiones de Empresas. El autor es una rara avis mezcla de empresario y académico, que vive la peripecia de la vida comercial a la par de la especulación intelectual. Graduado en Ciencias Políticas en la Universidad de Tel Aviv (Israel) y Master en Administración de Empresas en la Universidad de Santiago (Chile), ha seguido adelante con su formación, como lo acredita cabalmente esta tesis que presenta para su Doctorado (Ph.D) en Negocios de la Universidad de Bolton (Inglaterra). Es un trabajo serio, en que la doctrina se combina con la experiencia, lo que le da un relieve poco usual.

Dr. Julio María Sanguinetti
Presidente de la República Oriental del Uruguay
Appendix N°2: Bidvest Group Acquisition Table
BIDVEST GROUP ACQUISITION TABLE

1988- Chipkins was the first acquisition, followed shortly thereafter by Sea World, this is the start of Bidfood.
1989- Acquisition of Afcom.
1990- Bid Corporation becomes the pyramid holding company of Bidvest.
1991- Acquisition of Steiner Services, beginning of the hygiene services business.
1993- Safcor Freight acquired the start of Bidfreight. Prestige Cleaning Services acquired and grouped with Steiner to form Bidserv.
1994- Rights offer raises R300 million, 10-for-1 share sub-division.
1995- First steps to international expansion taken 50.1% of Australian Stock Exchange-listed Manettes acquired and renamed Bidvest Australia.
1996- Empowerment programmes begin with Women Investment Portfolio Holdings and Worldwide African Investment Holdings each acquiring a 5% shareholding in Bid Corporation.
1997- 100% of Waltons Group acquired, Bid Corporation unbundled and Bidvest incorporated into the JSE industrial index.
1998- Bidvest plc, incorporating Bidvest Australia, was created with dual listings in Australia and Luxembourg. Acquisition of Lithotech.
1999- Booker Foodservice, renamed 3663 First for Foodservice, acquired by Bidvest plc. Acquisition of Rennie’s Group.
2000- Acquisition of Island View Storage. Banking licence granted to Rennies Bank and 77% of I-Fusion acquired. Bidvest plc enters the New Zealand foodservice market with the acquisition of Crean Foodservice, renamed Crean First for Foodservice.
2001- John Lewis Foodservice acquired and incorporated into Bidvest Australia, creating the leading foodservice distributor in Australia. The Group-wide area network, Bidnet, developed by I-Fusion. mymarket.com, Bidvest’s e-commerce initiative, launched.
2002- Acquisition of 56.7% of LSE-listed Jacobs Holdings plc, which was renamed Bidcorp plc. Paragon acquired and merged with Lithotech. Remaining 68% of Voltex
acquired to form part of the Commercial Products division. The minority shareholding in I-Fusion acquired.


2004-R 2.1 billion BEE transaction for 15% of Bidvest with Dinatla finalised. McCarthy, South Africa's second largest motor retailer, acquired for R980 million. Acquisition of minority interests of Bidvest plc.

2005-Cyril Ramaphosa takes the reins as chairman. Successful buyout of Bidcorp plc minority interest. Acquisition of 20% of Tiger Wheels. G. Fox acquired.

2006- Acquired 100% of Netherlands foodservice company, Deli XL and a controlling stake in Horeca Trade, a small Dubai-based foodservice distributor. Concluded sale of Dartline Shipping for GBP58.9 million (R650 million) and loss-making Lithotech France. Global footprint expanded through investment to develop and operate Mumbai International Airport. Non-executive component of the board strengthened.


2008-R1,5 billion raised via domestic loan. Viamax acquisition concluded. Revenue exceeds R100 billion for the first time. First carbon footprint analysis prepared.

2009-The Bidvest business model was tested by the worst economy in its 21year history and has risen to the challenge of the "new normal".

2010-The Nowaco Group, foodservice businesses operating in Czech Republic, Slovakia and Poland were acquired for €250 million.

2011-Seafood Holdings, market leading fresh fish foodservice business in the United Kingdom acquired for GBP45 million. Realignment of South African based businesses (excluding food businesses) into Bidvest South Africa. Businesses grouped into similar product and service offerings.

2012-Acquisition of Deli Meals in Chile, Bidvest's first entry into South America.

2013-Acquisition of Aktas Holdings, the Mansfield Group and Home of Living Brands, formerly Amap. Lorato Phalatse appointed as new chairperson 2013

2014-Acquisition of Mvelaserve Limited.
2015-DAC (Italy); PLC Transport 24/7 (UK) acquired. Global Footprint continues to expand.

2016-Split of the Bidvest Group into Bidvest Group and Bidcorp Group
Appendix N°3: Confidential data regarding “A” Acquisition
## ESTADO DE RESULTADOS - JULIO - DICIEMBRE 2012

### COMERCIAL LIMITADA

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**A** Company P&L 2012 Report

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“A” company author’s analysis
Appendix N°4: Deli Meals+“A” Post-Acquisition Budget
## Merge Budget 2013/14

### Bakery Division

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### Raw Goods Division

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### Total Business

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### The Bidfood M&A Method in Emerging Markets


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<td>Waste Disposal &amp; Cleaning</td>
<td>359,894</td>
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<tr>
<td>Depreciation Plant &amp; Equipment</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Fortress</td>
<td></td>
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<tr>
<td><strong>Total Warehouse</strong></td>
<td><strong>6,490,848</strong></td>
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### Distribution

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<td>Labour</td>
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<td>Road Tolls<em>parking</em>Urban Tolls</td>
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<td>Field Purchasing vehicle</td>
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<tr>
<td>Others</td>
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<td><strong>Total Distribution</strong></td>
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<td><strong>13,501,071</strong></td>
<td><strong>13,870,071</strong></td>
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### Sales

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<td>Mobiles</td>
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<tr>
<td>Publicity, Brochures, etc</td>
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<tr>
<td>Customer Entertainment</td>
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### Administration

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<td>Year 2</td>
<td>Year 3</td>
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<tr>
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<td>Gross Margin</td>
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Appendix N°5: Internal emails regarding “B” Acquisition
Attached is a numeric simulation for X Income Statement.

1. Source

We took as information 2011 Balance Sheet, 2012 sales forecasted (and checked by us through VAT statements payments), Rebates as of 2012, 2012 Payroll (not balance sheet). I addition information provided by Api for certain expenses as: not declared Payroll (20% app.), certain direct expenses, rent, logistic expenses, etc. Also for margins, market information provided by customers and suppliers.

2. Simulation

Based on Deli Meals Income Statement for January 2013, we made the following math (average month plus full year):

A (What they should perceive as their P&L)
2012 average month sales as VAT payment statements.
Cost of Good Sold and Contribution based on Api and market information which is less than ours.
Expenses from 2011 based on Balance Sheet
Extra contribution added for difference on sales increase contribution from 2011 to 2012
Breakdown on expenses based on Api information plus our knowledge of the business.
Payroll recorded in Labour Distribution (just to put them in a place, based on 2011 Balance Sheet). Non declared Payroll is on Labour Sales (information provided by former X employees upto October 2012).
Just an observation, they have for Logistic a third party which make more expensive that item but with lower depreciation.

B (Bidvest Criteria P&L)
Same above plus:
* Premises Rent
* Provision for Bad Debt (1% on sales)
* Provision for Vacations (6% on Payroll)
• Non declared Payroll is on Labour Sales (information provided by former X employees up to October 2012).

3. Conclusions

X Owners could have a P&L of CLP 710 MM. With Bidvest criteria decreases up to CLP 332 MM. We know their margins are less what they declared. We know they are in some cases keeping sales by sacrificing margins and rebates (invoices in our hands).
We recorded 2012 sales but 2011 expenses (we don’t have 2012 expenses). Inflation for food should have been at least 9%, Labour 5%. That makes our simulation be very conservative. They cannot be more profitable as % between 2011 against 2012. Even they keep proportion on sales (Bakery against Raw Goods).
Margins should be worse than ours. They have some economy of scales we don’t have yet.

4. Questions for X

• Is rent part of general expenses in Balance Sheet in 2011 and 2012 Forecast? How much?
• Is Provision included for vacations in expenses and Payroll in Balance Sheet in 2011 and 2012 Forecast? How much?
• Is Provision included for Bad Debt in expenses and Payroll in Balance Sheet in 2011 and 2012 Forecast? How much?
• In 2009 Balance Sheet ("8 columns"), P&L fits perfect. In figures from 2010 and 2011 doesn’t. Maybe is a mistake or a scanned print problem.
• As you see there is a huge difference on Payroll. Please conduct as you have experience on this sensible subject.

Our next step is to set the added value of the Merger. But we need answers to our questions.

Regards,
Below are the responses to my questions. It would appear that the only material adjustment is perhaps a bit more rent.

What is your view now? Did Rodrigo have any further comments?

Regards

MANAGING DIRECTOR

ddi: +64 9 520 8055
m: +64 27 580 2128

From: [redacted]
Sent: Tuesday, 5 March 2013 1:34 a.m.
To: [redacted]
Cc: [redacted]
Subject: Re: Financial Information

Dear [redacted],

Together with hello and hoping you are very well, thank you for your stance to avoid any misunderstanding.

For us it is not surprising that you find our cost structure to be lower than you expected because we put a lot of effort to keep our cost the lower as possible. It is important to understand that the management of this manufacture relays only in us, so the company benefits with lower costs. Finally, but not less important, our pricing strategy is client to client, which leads to change every client with the
maximum price willing to pay. This is a direct benefit.

Since we sent you the data, we have spent some time auditing the information and we corrected some items, but as you can see in the final version of the file attached in this mail, there are no significant differences.

Below I answer your questions and added our comments:

- Is the property rent included in the EBIT calculation for all years reported? How much is it?
  - Yes, it is considered. The annual amount is $60,000,000 and it considers a discount because of the relationship with the owners. The actual market price could be 30% or 50% more.

- Is provision included for vacations owing to staff in the EBIT calculation? How much? If not can you please tell me what the accrued cost is?
  - The cost of this provision, specially at this point, is insignificant because what is owed for vacations is low, most of the employees have used their legal holidays for 2012. The balance should not be higher than 10%.

- Is there any provision for Bad Debt or potential doubtful debt in expenses? How much?
  - We don't consider this necessary because, for example for 2012, the only amount not recovery does not exceed US$ 5,000

- Payroll questions – I understand there are formal and informal practices used in Chile sometimes to pay staff. As a public company we need to have strict formal ways. Can you please confirm the following
  - Is the full remuneration paid to all staff paid through the business formally and reflected in the EBIT you have given me
    - The number used to calculate the EBIT corresponds to the real
remuneration paid by the company.
- Is the full commercial remuneration of working shareholders and senior management formally reflected in the EBIT calculation?
- Yes, we included all the remunerations, included our salaries.

It is important we are really clear on the above issues as I do not want to misinterpret your numbers and then find out during the due diligence period.

For us is very important too to clear all your doubts. This way we avoid delays in the process of due diligence because we wish this process to be quick for the good of the business and the sensitivity of the operation.

Best Regards,

Fono: (56-2)
E-Mail:
Dirección: 

Página 3 de 5
AVISO LEGAL:

Este mensaje es confidencial y contiene información amparada por el secreto profesional. Si usted ha recibido este e-mail por error, por favor infórmenos inmediatamente respondiendo a este e-mail y luego elimínelo de su sistema. El contenido de este mensaje no deberá ser copiado ni divulgado a ninguna persona.

This e-mail is confidential and contains legally privileged information. If you have received this e-mail by mistake, please notify us immediately by responding to this e-mail and then delete it from your system. You should not copy this message or disclose its contents to anyone.

El 03-03-2013, a las 18:12, escribió:

* * *

Thanks for the financial information you provided. Can you please just clarify a few questions before we give you our indicative valuation?

The business has a much lower cost structure than what I was expecting so I just wanted to make sure that we both are of the same understanding as to what is included and what is excluded. I do not want to base the valuation on a number which I have misunderstood.

Can you please comment
• Is the property rent included in the EBIT calculation for all years reported? How much is it?
• Is Provision included for Vacations owing to staff in the EBIT calculation? How much? If not can you please tell me what the accrued cost is?
Is there any provision for Bad Debt or potential doubtful debt in expenses? How much?
Payroll questions — I understand there are formal and informal practices used in Chile sometimes to pay staff. As a public company we need to have strictly formal ways. Can you please confirm the following:
- Is the full remuneration paid to all staff paid through the business formally and reflected in the EBIT you have given me?
- Is the full commercial remuneration of working shareholders and senior management formally reflected in the EBIT calculation?

It is important we are really clear on the above issues as I do not want to misinterpret your numbers and then find out during the due diligence period.

Thank you.

Regards

MANAGING DIRECTOR

Bidvest

ddt: 

m: 

Level 1, 1 Mintwark Rd, Greenlane, Auckland 1551. PO Box 74-022 Greenlane, Auckland 1546. Ph: +64 9 520 8056 Fax: +64 9 520 8051
Appendix N°6: “Deli Meals + Comon” Forecasted Budgets
### Tabla de Datos

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<th>Año</th>
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| Otros de Operación   | 1.146 | 1.146 | 1.146 | 1.146 | 1.146 |
| Depreciación y Amortización | 1.146 | 1.146 | 1.146 | 1.146 | 1.146 |

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<td>-500</td>
<td>-800</td>
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| Resultado a/Impuestos | -166  | 3.514 | 5.354 | 10.374 | 9.578  |
| Impuestos             | 0     | 703   | 1.071 | 2.075  | 1.936  |
| Resultado d/Impuestos | -166  | 2.811 | 4.283 | 8.299  | 7.743  |

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Appendix N°7 Formal Acquisition Offer presented to Comon
Santiago, 26 de septiembre de 2013

Key Capital Asesores Financieros,
San Sebastián 2807, Ofic. 317.
Las Condes
PRESENTE

Attn: 

Ref: Comon S.A.

Por medio de la presente, tenemos el gusto de dirigirnos a ustedes en relación al proceso que están llevando a cabo, a efectos de poder encontrar eventuales inversionistas para Comon S.A. (“Comon”).

El objeto de esta carta es poder comunicar a ustedes, en su calidad de asesores de Comon, una indicación de la valorización que hemos podido hacer de dicha compañía hasta esta fecha.

Les hacemos presente que esta carta no constituye en caso alguno una oferta de nuestra parte, y que no nos obliga a proseguir en negociaciones con ustedes o Comon.

Para efectos de la valorización de Comon, hemos considerado una eventual adquisición del 100% de su operación.

Nuestra valorización asume los siguientes supuestos:

- Un escenario base de proyección de EBITDA de $648,4 MM para el 2013, según el presupuesto entregado en el prospecto preparado por ustedes.

- Nuestra evaluación incluye el inventario, cuentas por cobrar, cuentas por pagar, activo fijo y goodwill de Comon. No se consideran pasivos con bancos e
CONFIDENCIAL

instituciones financieras ni la caja del negocio, las cuales no serían objeto de una eventual transacción.

- Provisiones o deducción de un monto equivalente a la indemnización legal o contractual por el término del contrato de trabajo y de cualquier contingencia legal que mantenga Comon con el Gerente General actualmente en ejercicio.
- Continuidad laboral de los gerentes comerciales y de operaciones de la empresa.
- Permanencia en sus actuales funciones del Gerente General por mínimo seis meses sin costo.
- Inexistencia de contingencias legales, administrativas, contables o tributarias.
- Continuidad por al menos 6 meses de perfeccionada la transacción, de los niveles de venta de los 2 principales clientes de Comon.

Basado en los supuestos anteriores, hemos considerado que una valorización indicativa de la adquisición de la operación de Comon, ascendería a la suma de $2.921 MM (dos mil novecientos veintiuno millones de pesos).

Esta valorización es meramente indicativa y está sujeta a una confirmación a través de un proceso de due diligence legal, tributario y contable de Comon y de su operación.

A efectos de poder considerar la continuidad de nuestra empresa dentro del proceso llevado a cabo por Key Capital, les agradeceremos informarnos si los términos antes señalados son satisfactorios para Comon, y así poder proseguir con las negociaciones tendientes a alcanzar un acuerdo respecto de la eventual compra de dicha compañía.

Les agradeceremos poder comunicarnos lo anterior a más tardar el próximo 02 de Octubre de 2013.

Atentamente,

[Nombre]

Gerente General
Deli.Meals Chile S.A.
Appendix N°8 “Deli Meals + Comon” Post-merge Organigram
Appendix N°9 Professor David Silverman’s email
Dear Abi

Thank you for your message. I've scanned your methodology chapter.

Qualitative Research is, unfortunately, not the coherent paradigm you imply. There are many, competing, approaches.

For instance, my approach differs from grounded theory and from many approaches which use the label phenomenology.

Moreover, if you read carefully what I say about mixed methods research in dqr5, you will see that I differ from the usual opinion about the relevance of mixed methods research.

However, since you say that your dissertation is already submitted, these are only issues to think about for your viva defence. You might also study what I say about vivas in a chapter in dqr5.

Finally, I have noted many typos in your work. I suggest you carefully go through your thesis and give your examiners a list of corrections at the beginning of your viva.

Good luck!
Sincerely,

David Silverman
Appendix N°10: Acquisition Attempt in Argentina
Blancaluna’s Offering Memorandum
Appendix N°11: Acquisition Attempt in Uruguay
MANDATO PARA LA COMPRAVENTA
En la ciudad de Montevideo, el 30 de septiembre de 2014

POR UNA PARTE

Mandante, argentino, con residencia permanente en la República Argentina en Av de los Constituyentes 7245 Barrio Tierra con documento de identidad no. 78021461 con dirección electrónica emarok@gmail.com en adelante denominado como el "Mandante",

POR OTRA PARTE

Intermediario, con documento de identidad no. 19225721 en calidad de Dueño de MAOSOL S.A. con domicilio en José Luis de la Sagra 2780 Montevideo, Uruguay, dirección electrónica paulina@maosol.com (en adelante denominado como el "Intermediario"), en adelante denominado como el "Intermediario" y "Mandante", cuyo objeto es el intermedio para la negociación de las acciones de MAOSOL S.A. (en adelante, entre los dos partícipes, el "Acuerdo" o el "Mandato"), el cual se regirá por las disposiciones de esta escritura de constitución.

PRIMERO (Anotaciones):
1. El Intermediario se reserva la intermediación en la compraventa de empresas industriales y comerciales y propiedades, principalmente en Argentina, Bolivia, Brasil, Paraguay, Chile y Uruguay.
2. El Intermediario ha contactado y ofrecido a la empresa BOGEPT FOODSERVICE GROUP LTD, la adquisición de socios en Uruguay, los cuales forman parte de la empresa MAOSOL S.A. como controladora.
3. A través de la empresa MAOSOL S.A. la Mandante ha dado su consentimiento para iniciar las conversaciones de una posible venta del acto para que sean en el objeto de la presente se detallen a continuación.

SEGUNDO (Objeto):
2.1. Por el presente, el Mandante encomienda al Intermediario que realice todos los procedimientos necesarios para la venta de la Compañía.

Maosol’s acquisition Mandate
Appendix N°12: Acquisition Attempt in the United States
CONFIDENTIAL DISCLOSURE AGREEMENT

This agreement made 13/February/2017, on the city of Plant City, Florida, United States,

between: Abraham Moskovicz and/or Deli Meals Chile S.A. (hereinafter “the Disclosure”)

and Sysco Foodservice Group (hereinafter “the Recipient”)

Whereas:

A. The Recipient has been or will be provided with certain information relating to the Discloser's Financial Accounts and/or business which is secret and of value to the Discloser.

B. The Recipient has agreed to be bound by certain duties of confidentiality and non-use in respect of the information.

Now Therefore The Parties Agree:

Definition

"Confidential Information" shall mean all and/or part(s) of information, data and know how, whether technical or not, which is disclosed (in writing or otherwise) to the Recipient, and which relates to the Discloser's Financial Accounts and/or business activities of the Discloser and/or an Associated Company and/or to information as summarized and, which is either marked or stated to be confidential, or is by its nature, reasonably intended to be confidential, but shall not include information which can be established by written records to be already known to the Recipient or the public at the time of its disclosure or that which has subsequently entered the public domain through no fault of the Recipient, or an employee, officer or agent of the Recipient.

1. Disclosure - The Recipient agrees not to disclose or otherwise publish the confidential information without the prior written consent of the Discloser, nor to disclose to third parties that the business is for sale.
2. Use - The Recipient agrees not to use the confidential information for any purpose other than that for which the information was or is provided. In the case of any uncertainty, the Recipient agrees to obtain prior written clearance from the Discloser.

3. The Recipient will not visit the premises or approach the Discloser without the express approval of the Discloser.

4. Employees and Agents – Where disclosure to employees, officers or agents is necessary to advance the purpose for the disclosure by the Discloser to the Recipient, the Recipient shall ensure that such parties are bound by the duties of the Recipient asset out in this agreement.

5. Injunctive Relief - The Recipient agrees a breach of a duty of the Recipient under this agreement will lead to damage to the Discloser not reparable solely by an award of damages.

6. Other Agreements - the Recipient's obligations in respect of the confidential information shall apply to and be in addition to any other obligations under any other agreement(s) which involve the confidential information unless the same are expressly excluded by reference.

7. Facsimiles/Email - All parties agree that facsimiles and/or e mail of this agreement, and any agreed alterations shall be considered legal and binding.

8. Upon the Discloser's request, the Recipient shall (i) cease using the Confidential Information; and (ii) return the Confidential Information and all copies, notes or extracts thereof to the Discloser within seven (7) days of receipt of demand.

9. This Agreement shall remain in effect for a period of two (2) years from the date hereof, unless earlier terminated by either party upon a thirty (30) day written notice to the other. Notwithstanding the termination or expiration of the Agreement, the obligations of the Recipient not to disclose any Confidential Information to third party pursuant to this Agreement shall remain in effect for a period of two (2) years following the date of its disclosure by the Discloser to the Recipient.
Apendix N°13: The Press & Fairs Network activities
Las ferias, nacionales e internacionales, son una herramienta sumamente útil para la actualización de nuestra profesión. En el mercado de la panadería, pastelería y negocios afines hay un sinnúmero de eventos que agrupan a proveedores de productos y servicios, con miles de empresarios y personas que integran la industria alimentaria. Para garantizar el éxito de un evento ferial la promoción es primordial, donde los medios de comunicación cumplen un rol fundamental. Las empresas expositores mantienen permanente contacto con sus agentes de medios, como lo son las revistas especializadas.

Esta creciente categoría de alianzas de beneficio mutuo hizo necesario la creación de una red que incluya a los principales medios de prensa del mundo con las más importantes ferias. Es así que nace THE PRESS & FAIRS NETWORK (Red de Prensa y Ferias), como un foro privilegiado para el diálogo, con el objetivo de representar, promover y respaldar a sus miembros. A través de ello se concretará un puente para la colaboración, una red de contactos que abarque acuerdos de reciprocidad entre las ferias y las revistas, y entre ellas mismas.

Ello ha sido posible gracias a la iniciativa y colocación de ideas de Abi Moskovicz Goldstein, organizadora de la Gala Bastien. Precisamente la primera sede que presidirá esta importante entidad mundial es el Perú, designando a nuestra directora Carmen López Gómez como la primera presidenta, logro que coincide con las celebraciones por nuestro 20° aniversario. Compartimos con ustedes esta importante noticia que pone al Perú en un sitio privilegiado y que nos permitirá tener alianzas con las organizaciones más destacadas a nivel mundial. Mucho pronto les daremos más novedades.
GALA BASTIEN 2009

EL 25 DE MARZO PASADO SE LLEVÓ A CABO EN CASAPIEDRA LA GALA BASTIEN 2009, EVENTO QUE CONTÓ CON MÁS DE 60 EXPOSITORES Y MÁS DE TRES MIL ASISTENTES, ENTRE EJECUTIVOS, EMPRESARIOS, GERENTES Y CHEFS, QUE PRESENTARON LAS NOVEDADES DEL SECTOR DE LA HOSPITALIDAD.
Gala Bastien 2010, brochure for the USA.
ExpoGala 2011 brochure, back cover

Appendix N°14: The Author in the Media
Abi Moszkovitz, gerente general de Bastien:

"Nuestros clientes se mantienen en el tiempo"

Según el ejecutivo, una de las cosas que caracterizan a esta compañía es el generador de relaciones de largo plazo.

Los clientes son felices porque conviven con el producto y lo conocen, y además, son cómodos porque aportan un producto de calidad. Así, no hay que comprar otro producto.

A propósito de esto, ¿hay un motivo para que no sea tan importante ser clientes de Bastien?

A.M.: No, se puede decir que son los mejores. El cliente es quien define el producto y el servicio. En Bastien, siempre hay un cliente para seguir mejorando el producto.

¿Qué elementos se pueden mencionar como características de Bastien?

A.M.: Nuestros clientes se mantienen en el tiempo. Nuestros clientes son nuestros clientes por lo que nosotros los comparamos con nosotros. Bastien privilegia las relaciones de largo plazo, trabajando con ellos cuando hay una gran demanda. Es un negocio en el que hay una gran demanda. Es un negocio en el que hay una gran demanda. Es un negocio en el que hay una gran demanda.

¿A quién llama compañía para ser clientes de Bastien?

A.M.: A nosotros llamamos a los clientes que tenemos. El cliente es quien define el producto y el servicio. En Bastien, siempre hay un cliente para seguir mejorando el producto.

¿Qué productos se pueden mencionar como características de Bastien?

A.M.: Nuestros clientes se mantienen en el tiempo. Nuestros clientes son nuestros clientes por lo que nosotros los comparamos con nosotros. Bastien privilegia las relaciones de largo plazo, trabajando con ellos cuando hay una gran demanda. Es un negocio en el que hay una gran demanda. Es un negocio en el que hay una gran demanda. Es un negocio en el que hay una gran demanda.
El Señor Bastien

Como pocas, la empresa Bastien se ha definido –por excelencia– como un proveedor del sector horeca. Definición nada de fácil, hace algunos años atrás, en una industria que ya había sufrido altibajos y cierres de negocios. De nacionalidad uruguaya, Abi llega a Chile cuando su suegro chileno y un amigo argentino están frente de dos de los más grandes locales de gastronomía en la Vega Central. Con una mirada siempre atenta a los valores del mercado y a su formación de economista, vislumbra que hay una oportunidad de solucionar los requerimientos del sector horeca, pues a la propia vega llegaban ejecutivos del sector. Es una demanda que estaba insatisfecha, no por calidad de producto, sino porque los proveedores no llegaban en tiempo a sus dependencias, destaca.

En ese entonces –año 2000– Bastien era una panadería-pastelería, encargada de abastecer a los propios restaurantes de la compañía, ubicados en Vitacura, Lo Barnechea y Las Candelas, y a lo que se agregaban como clientes a los banqueteros de la capital. “Es decir, teníamos la calidad de producto, eran capaces de cumplir con lo que necesitaban nuestros clientes, pero la fábrica no llegaba al punto de equilibrio”, destaca. Y en esa época la empresa tuvo que tomar una decisión importante, que fue cerrar los restaurantes, porque además los banqueteros cada vez hacían menos eventos y más reducidos. Contra la opinión de su propia familia, Abi toma esa difícil decisión, pues eran establecimientos que apenas tenían tres años y había demandar importantes inversiones.

Una orientación irreversible

Es así como Bastien parte atendiendo a tres hoteles, en un horario que implicaba estar en la cocina hasta la madrugada, y fuera de producto en horario, lo que después de dos años y medio en ese proceso, y gracias a que estos clientes hablaban bien de nuestro trabajo, nos fuimos expandiendo en función a que elaborábamos productos con la calidad que el horeca deseaba, a la vez que con la cantidad que necesitaba. Empezamos a encajar como empresas especializadas del sector horeca”, enfatiza. Embarcaban dentro de esta denominación horeca, “todo lo más fino en alimentación, con valor agregado”, bajo el giro que la empresa cuadriplicó sus ventas. Abi Moscovitz destaca que entre el año 2002 y el 2004 captó como clientes al 80% de los hoteles de Santiago además del Casino de Viña del Mar. Por especializarse en el mercado se creó su división insumos además de la de elaborados, de modo que hoy Bastien provee a los hoteles y restaures a través de algunas de sus dos divisiones. “Con el tiempo fuimos creando alianzas con diversas empresas, donde Bastien era el proveedor horeca de sus diversas marcas. Pantanos en mayo de 2005 con Pizarro y Watt, y hoy se ha incorporado una docena de empresas”, explica.

Crecer junto a los clientes

El modelo de negocio desarrollado por Abi Moscovitz con Bastien, tiene un enorme potencial de crecimiento, pero el no se aparta una millonada de la vocación de la empresa y define así: “somos la panadería y pastelería del hotel”.

El sector horeca es un mercado muy dinámico, donde los clientes están pidiendo que los abastecemos de bizcochos, dulces y otros productos, y eso es una tendencia”, destaca, rotando un posible deseo pero con la claridad de no apartarse de su definición horeca, y seguir engranando calidad y tiempo a sus clientes.

Canal Horeca Magazine, 2009 (Chile)

Universidad de Santiago de Chile Business School website (up to date)
**2º caso: Bastien**

**Ficha Técnica**

Nombre de la empresa: Bastien.
Razón Social: Bastien S.A.
Alto de la dirección: Abi Moskovicz (43), el gerente general de la empresa, Pablo Landau (50) y Marcos Kowalski (47) son los socios fundadores y parte del directorio de Bastien.

**Producción o servicios que ofrecen:** Fabricación y despachos de alimentos de panadería y pastelería para el sector hogar, en decor, hoteles, cafeterías y casas, a través de las divisiones inos y productos elaborados.

**HISTORIA**

Pablo Landau y Marcos Kowalski tenían el local de venta mayorista más grande, en facturación y tamaño, de La Vega Central. Por años, escucharon las quejas de empresas culinarias ya que sus pedidos no llegaban a la hora o no les mandaban lo que solicitaban. Por esto, compran un proyecto que contemplaba dos restaurantes en el sector oriente y una planta elaboradora de alimentos de panadería y panadería, para abastecer al segmento premium.

“En la gastronomía las líneas divisoria entre lo que sirve o no es simplemente la hora del evento, es por eso que decidimos distribuir nosotros mismos, pero con la calidad requerida y en el tiempo solicitado”, aseguró Abi Moskovicz, gerente general.

**Reinvención**

En sus inicios el pie de negocios se basaba en abastecer a los locales propios ubicados en Vitacura y Las Condes. Pero los costos de mantenimiento y el gran tamaño de los restaurantes hicieron inviable el proyecto, por lo que finalmente fueron cerrados y sólo mantuvieron la planta. Luego y gracias a la idea de un vendedor de la empresa, reorientaron el negocio y destinaron toda la producción solamente a la distribución de alimentos al mercado hogar, convirtiéndose en poco tiempo en un referente gastronómico. "Es doloroso echar cuenta de que la empresa puede terminar mal. Hay que advertir los señales que entregan los números y saber tomar decisiones con la cabeza fría, de lo contrario, las pérdidas pueden ser mayores", indica Moskovicz.

**Inversión inicial**

La inversión inicial fue de $500 millones, los que fueron capitales propios. Sin embargo, el sostén inicial al cambio se logró gracias a las ganancias obtenidas por el negocio de La Vega, ya que los permitía no hacer retiradas mensuales del capital de Bastien.

*City Magazine, 2009 (Chile)*
Abi Moskovicz
Abierto a un nuevo horizonte profesional

Fue el alma de una de las empresas más exitosas del rubro Horeca: la comercializadora Bastien. Su alejamiento de esta firma es inminente, y ahora va tras una nueva etapa profesional, con toda la trayectoria y habilidad que le caracterizan.

Gran sorpresa ha causado en el ámbito del food service, el alejamiento de Bastien, de su funda, Abi Moskovicz. Gracias a su inigualable talento y visión, esta compañía se convirtió en un emprendimiento pionero en el segmento de la distribución. "Las sociedades empresariales se pueden terminar por dos motivos: por perder dinero o por ganar demasiado", ejemplifica respecto de su alejamiento de Bastien.

Problemas de estilo, así como una diferente manera de entender el negocio, resultarían ser la causa principal de su desinculación.

Los inicios de la empresa se remontan al año 2000, época en que la empresa familiar maneja un local mayoritario en la Vega Central. A instancia de sus propios clientes, descubren que hay en el mercado una carencia de proveedores de productos elaborados de panadería y pastelería.

Es así como esta empresa familiar de la cual Abi era parte, crea una planta elaboradora para suministrar productos a sus propias pastelerías, emprendimiento de dos locales en la comuna de Las Condes: "gastronómicamente fueron un éxito pero no se puede decir lo mismo desde el punto de vista económico", señala respecto de los mencionados puntos de venta.

Ante esta realidad, Moskovicz avanza que lo más conveniente es reorientar la empresa, cerrando los locales de productos elaborados, y dirigiendo la planta industrial al segmento Horeca. "Sin duda, este desafío era enorme, porque implicaba grandes riesgos y esfuerzos adicionales. Era una propuesta nueva en ese entonces porque significaba centrarse en los hoteles y restaurantes de la necesidad de tercerizar esta área de producción", indica.

Considerando de la facilidad de su apuesta, es el mismo Abi quien entrega a sus clientes Horeca desde el comienzo de la mañana cada día, por dos años seguidos, para supervisar que la mercadería llegan en tiempo y calidad. "Los resultados no se hicieron esperar porque Bastien llegó a tener el 80% del abastecimiento de productos de panadería y pastelería en el segmento horeca", recuerda el ejecutivo.

El crecimiento de la compañía se hace sostenido, fortalecido por la incorporación de nuevos, a instancias de su tío. Al poco tiempo, basado en una tesis de M.B.A. elaborada por Moskovicz, incorpora a Bastien los denominados "convenios de distribución asociada de exclusividad no recíproca", cuya aparente unilateralidad le permita a la empresa, por los significativos volúmenes de productos distribuidos, que en definitiva es la mejor garantía de cumplimiento por la firma. "La sostenibilidad del modelo, en definitiva se basa en las confianzas personales. Así, partimos con tres empresas asociadas y llegamos a tener dieciocho", afirma.

Diferencia de estilos.
Ante el crecimiento sostenido, de la planta arrendada que poseía la empresa, dan el paso de construir las actuales y modernas instalaciones en la comuna de Recoleta, en el año 2008.

En ese momento, que los dos socios directores de la empresa, se trasladan desde el local de la Vega Central, a esta nueva planta.

Al poco asumir comienzan a afinar insabiosables diferencias en el manejo y estilo de gestionar la empresa, lo que rápidamente erosiona la cohesión gencial de la firma, lo que tiene el futuro más evidente en el reciente alejamiento de Abi de la empresa, que fuera diseñado por el mismo.

"Mi estilo de trabajo es lúdico, creo que el gente estaría comienzo rinde más. De alguna manera, mi salida se vea venir, porque el Bastien de los primeros tiempos, el que fuera un éxito rotundo como modelo de negocios, ha sufrido una severa desintegración en este último período", señala el ejecutivo.

Abi es una persona con enorme tensión, incalificable cuando emprende un proyecto, pero sin duda, que la ausencia absoluta de su propio talento, construyendo la empresa, ha dejado huellas en su espíritu. "Hicieron en Bastien un joven y grandes amigos, que son los que se han batido consigo en el último tiempo", dice brevemente, sin más que unirse a reinar otra generación en el mercado.

Proyectos de futuro.
Durante los próximos meses, se espera que se inicie una nueva etapa para la empresa, que puede ser el comienzo de un nuevo camino, por de pronto, relato.
Abi Moskovicz

Un reencuentro con Chile

Tras una larga estadía fuera de nuestro país realizando diversas actividades, el experto consultor y empresario regresó para dar a conocer su actual momento, hablar de sus proyectos profesionales y el tema servicio en gastronomía.

Test: Ricardo Hurtado M. / Fotografías: Kenny Belmar V.

Un reencuentro con Chile

Tras ausentarse largo tiempo de Chile, el conocido empresario y consultor Abi Moskovicz, se referiría a diversos tópicos relacionados con su trayectoria profesional, el todavía no resuelto servicio en la gastronomía local y algunos momentos difíciles que le ha tocado vivir, proceso que no lo ha frenado para pensar, como siempre, en nuevos y creativos proyectos.

Lo primero es que hubo de cumplir estrictos requerimientos para obtener, luego de tres largos años - con la correspondiente defensa de la tesis doctoral, ante un tribunal compuesto por miembros de varias universidades - el grado de PhD en negocios del Institute of Management

Greater Manchester, dependiente de la University of Bolton, en Inglaterra. En el doctorado “enfrenté el desafío intelectual de aprender a aprender. A diferencia de los computadores que simplemente se presionó la tecla enter y se ingresan nuevos datos, a los humanos nos cuesta interiorizar y adaptarnos a las nuevas realidades”, explica Moskovicz, agregando: “a las estudios sumé la autoría de varios artículos de investigación, publicados en revistas académicas de Estados Unidos, India, Ucrania y Reto Unido.”

En cuanto a lo profesional, realizó consultorías a varias empresas de Chile y fondos de inversión. También, junto a su compañero de ruta, Joel Solotra, organizó las Pasantías Gastronómicas, llevando decenas de chefs chilenos a Europa y Asia, los años 2017 y 2018.

Y como todo en la vida es de dulce y agridulce, Moskovicz hubo de enfrentar disputas legales, refinándose al abrupto final de la empresa DeliMeals. “Si bien debí sobrellevar algunos momentos dolorosos, la reacción de los clientes, en su inmensa mayoría, fueron gritos sorpresas para mí. Entre muchos, quisiere mencionar a Marcos Contreras, actual gerente general de Big Deal, a Enrique Camus, amigo por décadas y hoy director a Raúl Pérez, que acompañó sin titular y hoy en día es socio de la empresa; a mi gran amigo y abogado Claudio Hortbro, y en especial a la familia”.

Chef & Hotel magazine, 2018 (Chile)
Appendix N°15: Author's academic background
THE RECTOR OF THE UNIVERSITY
AND THE DEAN OF THE FACULTY OF SOCIAL SCIENCES

HEREBY CONFER ON
MR. ABRAHAM MOSKOVICZ
THE DEGREE OF
BACHELOR OF ARTS
UPON COMPLETION OF 3 YEARS COURSE OF STUDIES
IN POLITICAL SCIENCE - AS AN HONORED MAJOR
AND HAVING PASSED THE EXAMINATIONS

TEL AVIV, June 5, 1990

[Signature]
Dean

I HEREBY CERTIFY THAT THE ABOVE IS A CORRECT
TRANSLATION OF THE ORIGINAL DIPLOMA IN HEBREW.

DATE December 27, 1990
REPUBLICA DE CHILE
UNIVERSIDAD DE SANTIAGO DE CHILE

Por cuanto don Abraham Moskovicz Goldstein,
con fecha 13 de marzo de 2006, ha completado
satisfactoriamente las pruebas y requisitos para obtener el Grado de

M B A
Magister en Administración y Dirección de Empresas,

se le confiere el presente Diploma que acredita la posesión de dicho Grado.
Aprobado con Distinción.

Dado en Santiago a, 08 de mayo de 2006.

Secretario General

Rector
Financial Markets, Institutions and Risks (FMIR)

This hereby awarding this certificate to Dr. Abraham (Abi) Moskovitz.
In recognition of the publication of the paper “Helping State Agent to understand the Private Sector”
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