



PREDICTIVE
ANALYTICS
INTEGRATORS

**CANBACK'S M&A DUE DILIGENCE
EXPERTISE**

April 2018

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Founded by Dr. Staffan Canback, we are an elite management consulting firm anchored in predictive analytics and market knowledge.

Canback serves clients through five practices: Strategy, M&A Due Diligence, Sources of Growth, Corporate Finance, and Organizational Performance.

We operate globally with the world's largest companies as clients. This has taken us to 87 countries since our founding in 2004.

We also offer analytic services with the Canback Global Income Distribution Database (C-GIDD) as our cardinal product.

Canback is a subsidiary of The Economist Group since 2015.



Canback has built its M&A due diligence track record through a combination of experience, technical strengths, and in-market capabilities



CANBACK'S M&A DUE DILIGENCE CAPABILITY

Due diligence experience

- Independent decision making
- Completed over 50 due diligence projects since 2009

Local research

- In-market research merged with local insight
- International expertise, particularly in emerging markets

M&A framework

- Standardized and highly efficient processes
- Unique due diligence approach emphasizing market potential

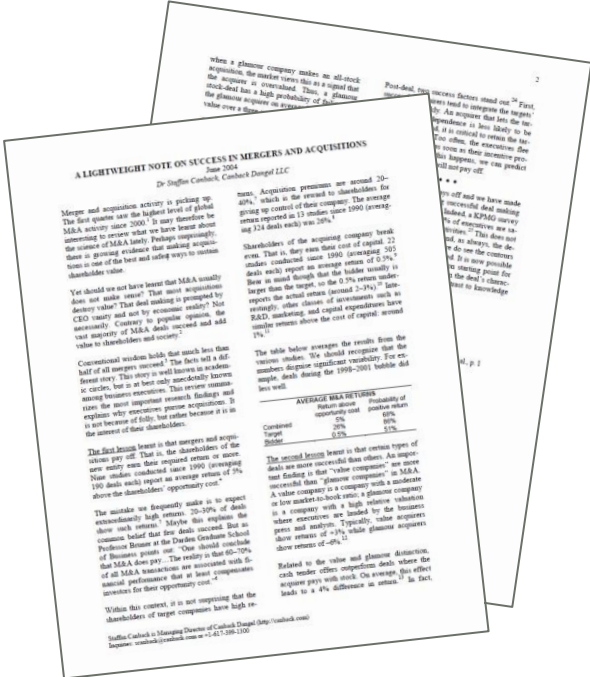
Quantitative approach

- Unique focus on demand modeling
- Market sizing and forecasting using rigorous statistical models

Click on image below for a copy of

M&A "A LIGHTWEIGHT NOTE ON SUCCESS IN MERGERS AND ACQUISITIONS"

This 2-pager by Staffan Canback is the third most downloaded paper on SSRN's M&A Practice download list. (more...)

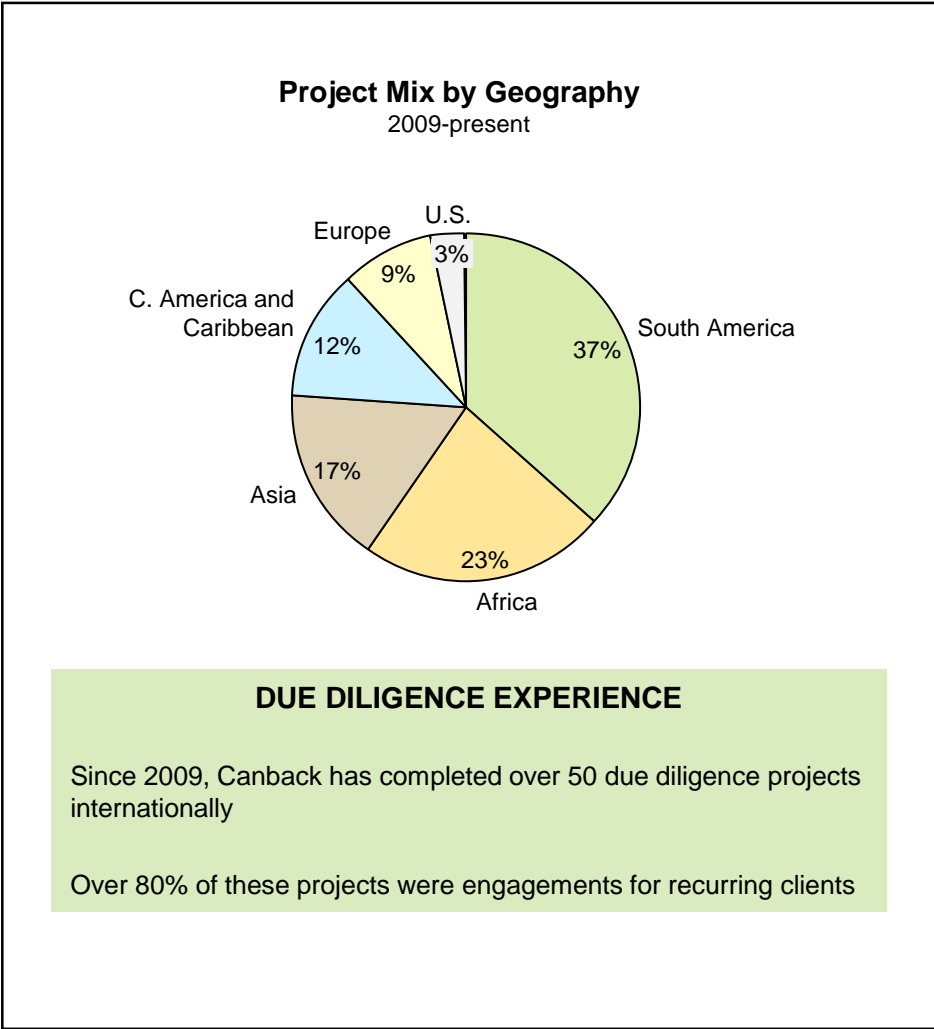




Since 2009, we have completed over 50 due diligence projects globally, most of which for recurring clients



CANBACK'S DUE DILIGENCE WORK

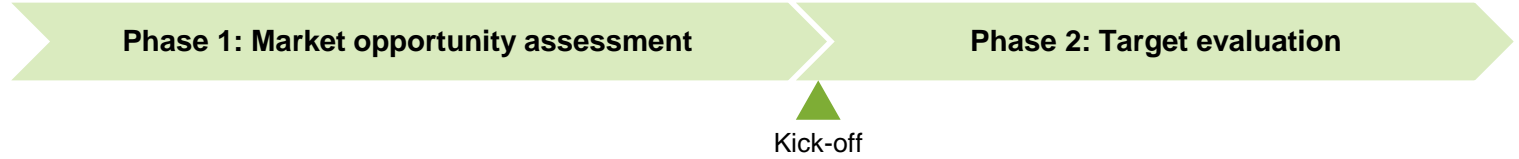


- Due Diligence Project Examples**
- \$5 billion FMCG acquisition in Brazil
 - \$2 billion acquisition in the Caribbean
 - \$8 billion acquisition in Mexico/Brazil
 - \$12 billion acquisition in the United States
 - JV evaluation in 8 sub-Saharan Africa countries
 - Commercial due diligence for acquisition in Turkey

The Canback commercial due diligence approach involves two phases over the course of 6 to 8 weeks. Sometimes clients commission both phases, sometimes one or the other. Note that the market opportunity assessment often is done before the kick-off



M&A COMMERCIAL DUE DILIGENCE TIMELINE



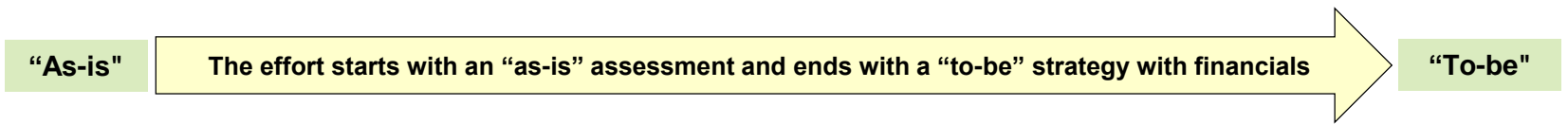
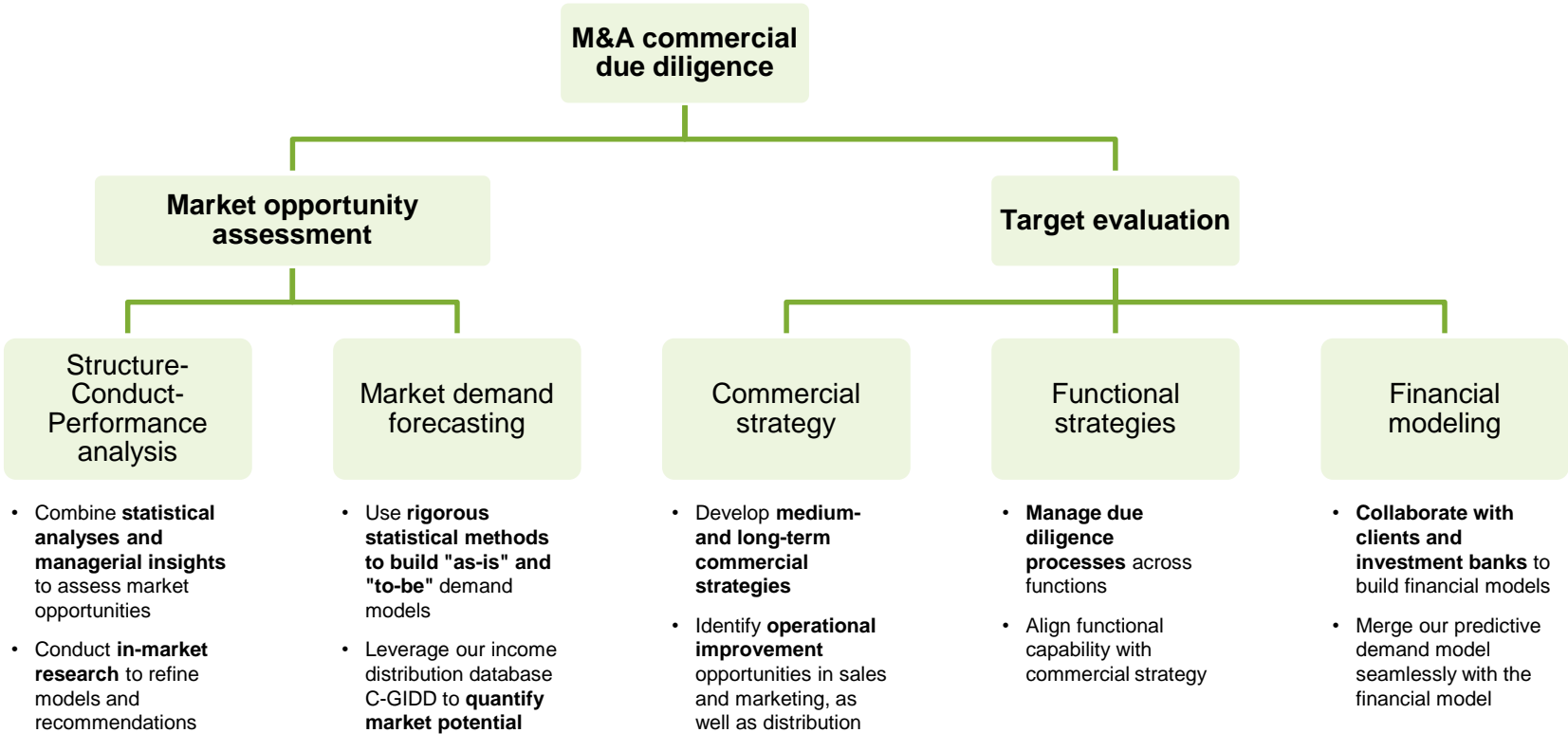
Timing	3 - 4 weeks	3 - 4 weeks
Objectives	<ul style="list-style-type: none"> Assess market environment and opportunities Conduct market structure, conduct and performance analyses Create "as-is" demand model 	<ul style="list-style-type: none"> Develop commercial strategy Identify operational improvement opportunities and quantify synergies Build "as-is" and "to-be" financial models
Key tasks	<ul style="list-style-type: none"> Analyze macroeconomic environment Perform SCP analysis Conduct in-market research Build "as-is" predictive demand model (10-year forecast) to quantify market potential 	<ul style="list-style-type: none"> Create commercial strategy for pricing, sales and marketing, and distribution to capture market potential Manage due diligence across functional groups Collaborate with corporate finance team and investment banking team to build financial models
Deliverables	<ul style="list-style-type: none"> Market analysis and player assessment Predictive demand model 	<ul style="list-style-type: none"> Operational due diligence report Post-acquisition strategic blueprint for next 3 years Valuation and financial models



The two phases takes us from understanding the current situation (“as-is”) to finding the future potential (“to-be”)



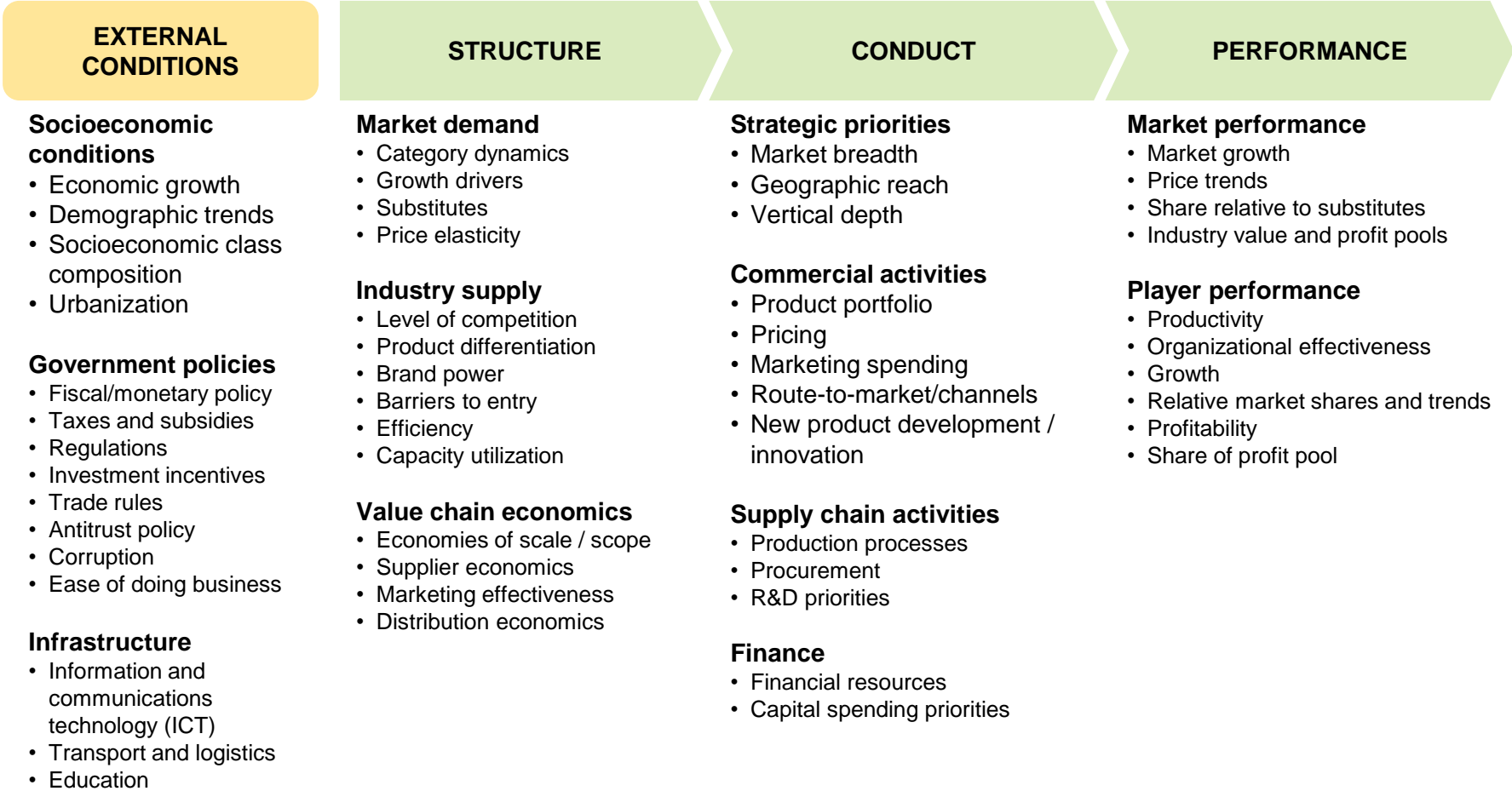
CANBACK’S M&A COMMERCIAL DUE DILIGENCE FRAMEWORK



The SCP framework is a standard approach for understanding market dynamics. It is used by corporations and consulting firms all over the world for more than 50 years and is therefore well tested and recognized



STRUCTURE-CONDUCT-PERFORMANCE FRAMEWORK



Note: The Structure-Conduct-Performance framework was first developed by Joe S. Bain in the late 1950s and was later popularized through Michael Porter's Five Forces



An important part of the due diligence effort are the market visits. These typically happen early in the process. We follow a rigorous protocol to maximize productivity



Canback market visits generate valuable data directly relevant to the acquisition target. To ensure success, we rely on a detailed market visit protocol that has been tested and refined over the past ten years

MARKET VISITS

Meet with key stakeholders

- Meet with local partners, government officials, and competitors
- Use meeting takeaways to refine model and long-term strategy



Determine margins across value chain

- Quantify margins for various product channels
- Margins used in financial and demand modeling as well as commercial strategy formation

Collect price points

- Collect price points by channel and product or brand
- Measure price variation between channels and discover realistic prices facing consumers

Understand discounts and promotions

- Determine how trade discounts and promotions impact retail prices and producer margins
- Evaluate effective promotional techniques



Examine RTM and delivery standards

- Assess RTM strengths and weaknesses
- Evaluate product availability and identify strong distribution partners



Profile competitors

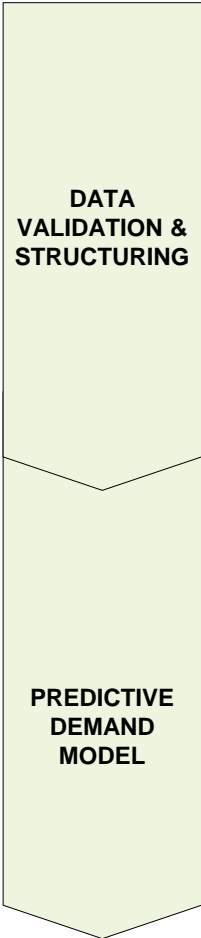
- Determine competitive landscape of international and local players
- Identify and quantify competitive trends



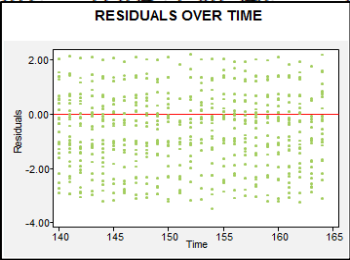
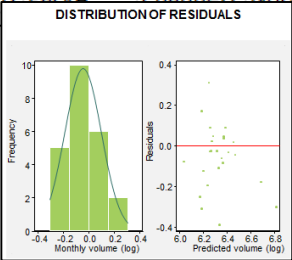
A detailed “as-is” demand model is developed with a 10 year horizon. It is broken down by specified characteristics like geography and channel



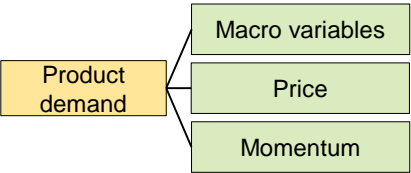
DEMAND MODELING OVERVIEW



Product	Pack Type	Channel	Region	Year	Volume	Populatio	Income_cap
Product A	PackA	Channel1	North	2012	12,423	1,567,348	31,679
Product B	PackA	Channel1	North	2012	15,937	1,567,348	31,679
Product C	PackA	Channel1	North	2012	9,876	1,567,348	31,679
Product D	PackA	Channel1	North	2012	17,654	1,567,348	31,679



- Category data from the client and third party sources is cleaned and integrated with C-GIDD
- The category data is combined with macroeconomic variables in a format facilitating statistical analyses
- The data is evaluated for normality, colinearity, linearity in order to specify an appropriate model
- We always screen for nonsensical outliers and remove when necessary



Scenario A		Region					Channel	
		Region 1	Region 2	Region 3	Region 4	Region 5	Channel A	Channel B
Volume	Year	2014		2014		2014		2014
	Month	Jan	Feb	Mar	Apr	May		
	Total Market	1,865,231	1,916,737	1,953,084	1,963,406	1,979,551		
	Client	1,360,314	1,362,138	1,365,711	1,366,771	1,392,121		
	Packtype A	783,122	793,009	804,517	809,262	815,765		
	Packtype B	153,434	157,737	160,599	163,695	166,818		
	Packtype C	17,734	18,263	18,653	19,232	19,355		

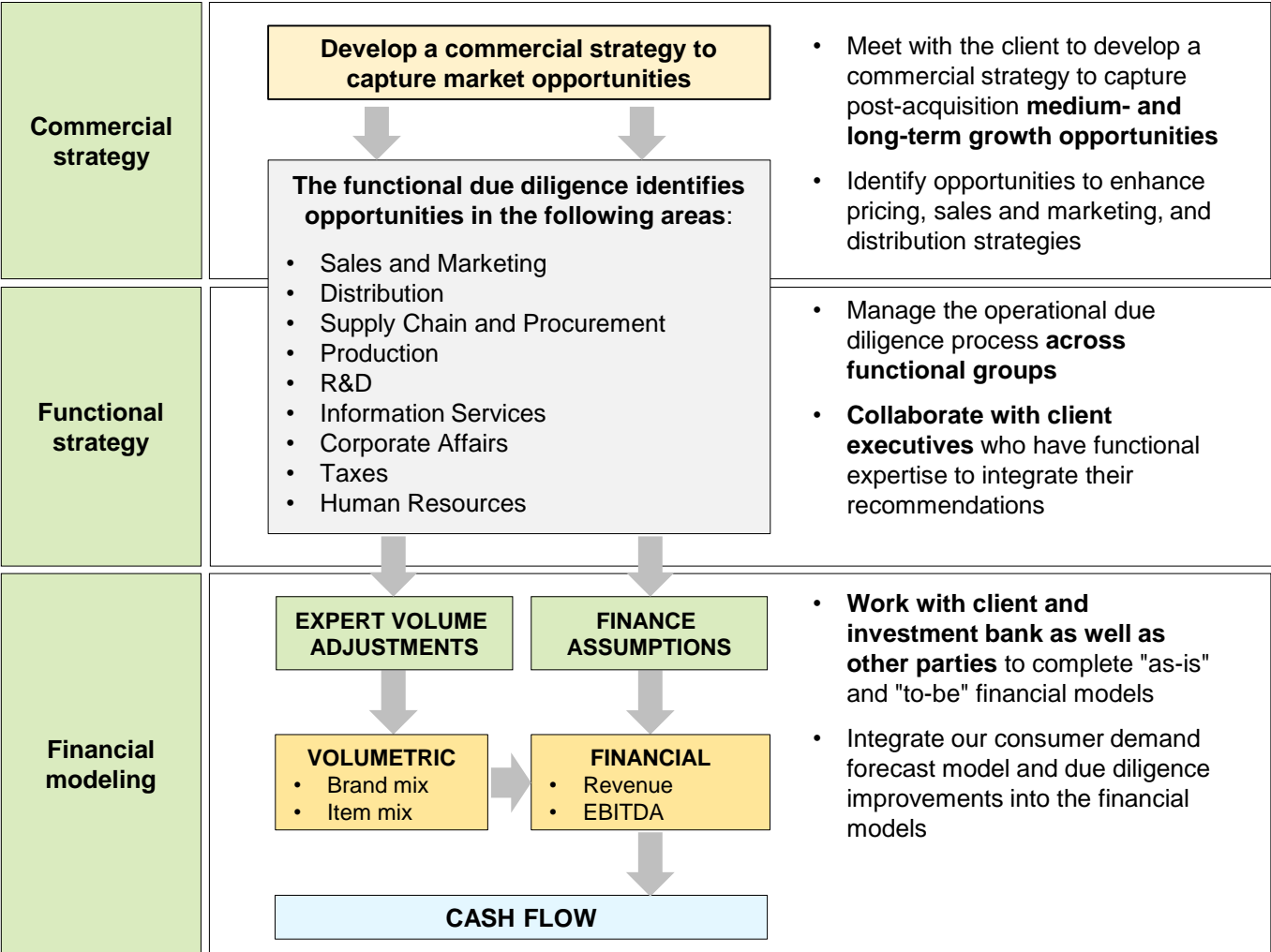
- A demand model is used to create projections using varying statistical techniques including pooled cross sectional models and time series
- Models can be granular at the brand, pack type, channel, and region level spanning 5 to 10 years



Our target evaluation framework develops a commercial and functional strategies, and quantifies the acquisition synergy opportunities and financial implications



DUE DILIGENCE TARGET EVALUATION



ACQUISITION SYNERGIES SAMPLE ANALYSES

Our due diligence examines the target's "as-is" operational capability and develops a "to-be" strategy. Acquisition synergy opportunities including:

- Organic growth (e.g., new complementary products or sales channels)
- Increased customer penetration/cross-selling
- New market segments/customers
- Strategy for selecting and entering new market segments
- Cost-reduction/margin improvement



Canback's main role during the target evaluation phase is to develop the commercial strategy together our client's strategists and commercial executives



COMMERCIAL STRATEGY DEVELOPMENT

CAPTURE MARKET OPPORTUNITIES

In the commercial strategy, we identify commercial improvement opportunities to capture market potential in areas including:

- Product portfolio
- Pricing
- Sales and marketing
- Route-to market
- Channel strategy

GENERATE PREDICTED MARKET VOLUME

The commercial strategy lays out a post-acquisition strategic blueprint for how to generate the market volume projected by our demand model as well as volume from potential synergies

DEVELOP COMMERCIAL STRATEGY

We work with the client team to develop an integrated commercial strategy that harmonizes the different value chain components of our client and the target. Specific questions to consider are:

- *Is there a need to improve current sales and market strategy to support the change in product and pricing strategy?*
- *How can the target restructure the distributor footprint and relationship to capture the volume growth?*

The functional strategies are mostly developed by our client's executives. Canback's role is to assist with targeted analyses and to help create meaningful presentations. Our client executives are likely to visit the target's facilities to inform their functional assessments



ENHANCE EXISTING FUNCTIONAL CAPABILITY

After the commercial strategy is developed, a sound functional strategy is crucial to ensure successful implementation of the commercial strategy.

We are experienced in **managing this process across functional teams** and identifying functional improvements.

FUNCTIONAL STRATEGY SAMPLE TOPICS	
Sales and Marketing	<ul style="list-style-type: none"> • Promotion and advertising activities • Marketing operations • Sales representative training program • Sales network
Distribution	<ul style="list-style-type: none"> • Route-to-market structure • Distributor footprint and operations • Fleet mix
Supply Chain and Procurement	<ul style="list-style-type: none"> • Supply chain model • Facilities/offices (locations, sizes, functions) • Product vendor management
Production	<ul style="list-style-type: none"> • Facilities/offices (locations, sizes, functions) • Production capability • Manufacturing operations and staff
R&D	<ul style="list-style-type: none"> • R&D process • New product development
Human Resources / Organization	<ul style="list-style-type: none"> • Organizational structure • Number of employees by location and functional department • HRM policies (e.g. recruiting, comp levels, comp structure, etc.) • Incentive plans and employment contracts
Other Functions	<ul style="list-style-type: none"> • IT infrastructure and support • Strategy • Finance, taxes, corporate affairs integration



The financial modeling is typically done by our client's finance experts, with Canback providing inputs and being a sounding board



FINANCIAL MODELING OVERVIEW

DEMAND MODEL OUTPUT						
Scenario A	Region					Channel
	Region 1	Region 2	Region 3	Region 4	Region 5	Channel A
Volume	Year	2014	2014	2014	2014	2014
	Month	Jan	Feb	Mar	Apr	May
	Total Market	1,865,231	1,916,737	1,953,084	1,963,406	1,979,550
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SKU LEVEL P&L FOR TARGET COMPANY					
Product	Income Statement	Forecast F15 USD	Forecast F16 USD	Forecast F17 USD	
Product A	Volume		715	1,078	1,545
Product A	Gross Sales		5,005	7,546	10,815
Product A	Excise		400	604	865
Product A	Net Producers Revenue		4,605	6,942	9,950
Product A	Total Costs		3,085	4,651	6,666
Product A	Gross Profit		1,520	2,291	3,283

TARGET COMPANY DCF						
	2014	2015	2016	2017	2018	2019
Revenue	1,605,724,148	1,653,895,872	1,703,512,748	1,754,618,131	1,807,256,675	1,861,474,375
COGS	963,434,489	992,337,523	1,022,107,649	1,052,770,879	1,084,354,005	1,116,884,625
Gross Profit	642,289,659	661,558,349	681,405,099	701,847,252	722,902,670	744,589,750
Total expense	224,801,381	231,545,422	238,491,785	245,646,538	253,015,934	260,606,413
EBIT	417,488,278	430,012,927	442,913,315	456,200,714	469,886,735	483,983,338
EBITA	417,488,278	430,012,927	442,913,315	456,200,714	469,886,735	483,983,338
Tax Rate	45%	45%	45%	45%	45%	45%
Operating Profit After Taxes	229,618,553	236,507,110	243,602,323	250,910,393	258,437,705	266,190,836
Amortization add back	-	-	-	-	-	-
Adjusted NOPAT	229,618,553	236,507,110	243,602,323	250,910,393	258,437,705	266,190,836
Net Fixed Capital	105,491	121,314	139,511	160,438	160,438	160,439
Change in Net Fixed Capital	13,760	15,823	18,197	20,927	-	1
Working Capital	271,367,381	279,508,402.42	287,893,654.50	296,530,464.13	305,426,378.06	314,589,169
Change in working capital	49,120,463	8,141,021	8,385,252	8,636,810	8,895,914	9,162,791
Free Cash Flow	180,484,330	228,350,265	235,198,874	242,252,656	249,541,791	257,028,043
Discounting period	0.3	1.3	2.3	3.3	4.3	5.3
Present Value Index	1.0	0.9	0.8	0.7	0.6	0.5
Present Value of Free Cash Flow	186,902,005	205,626,053	184,167,935	164,948,924	147,749,624	132,332,272
Sum of Present Value	2,627,235,889					
Plus excess cash						
Enterprise value	2,627,235,889					
Value of Tax Passthrough	493,535,909					
Enterprise Value inc. Tax Passthrough	3,120,771,799					

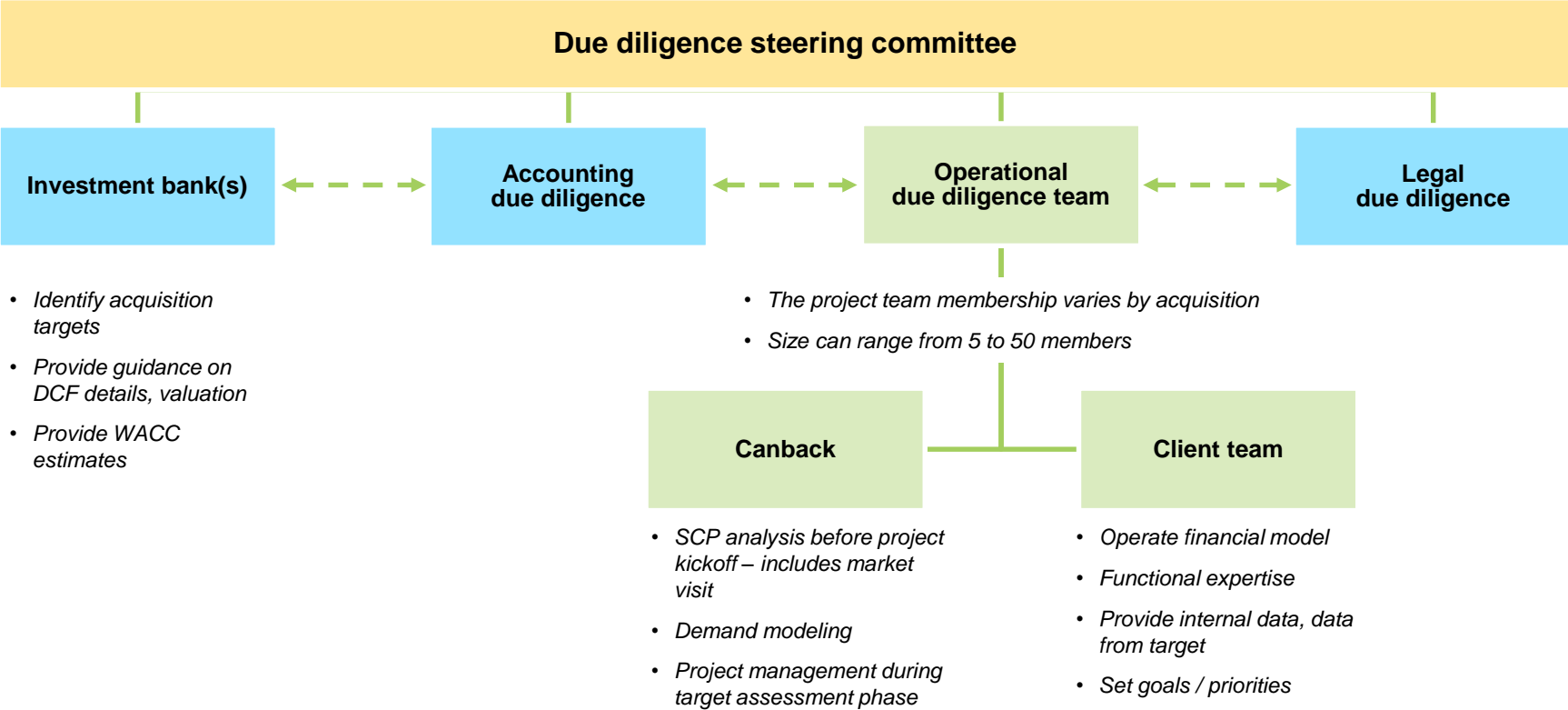
- The demand model output can be used to project financial results down to the SKU level for the target company's products using volume and price forecasts
- This SKU level outputs aggregate to a company level income statement that can be used for valuation
- We have built numerous discounted cash flow models using our demand modeling output as the basis for revenue projections



Canback frequently works with other professional services firms in small and large teams to deliver on due diligence engagements



DUE DILIGENCE TEAM STRUCTURES



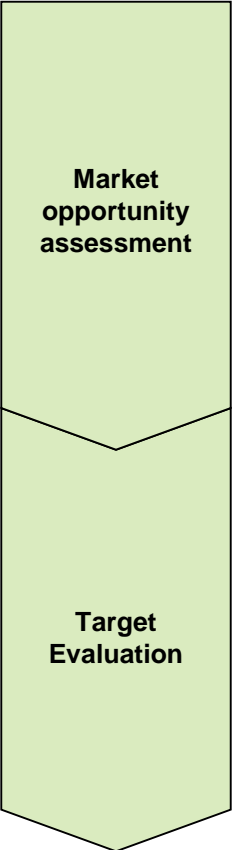


Case study 1: In early 2013, Canback completed a due diligence project in Southeast Asia. We conducted a thorough assessment of local players and partnership opportunities for our client



Southeast Asia due diligence effort

Client: Global beverages client
Target: Large beverage player in Southeast Asia
Context: Client is looking to strengthen position in the beverage market through partnership with a large local player. We were engaged to conduct a thorough analysis of the local market and assess JV potential through conducting commercial due diligence



M&A due diligence framework

SCP

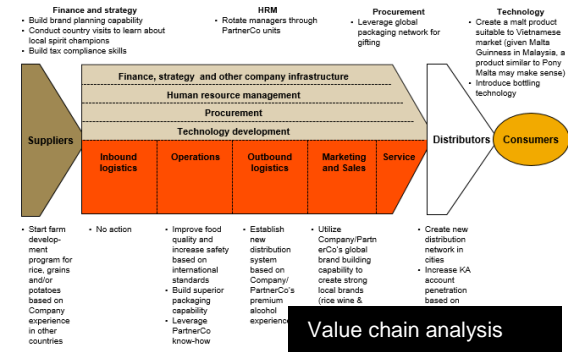
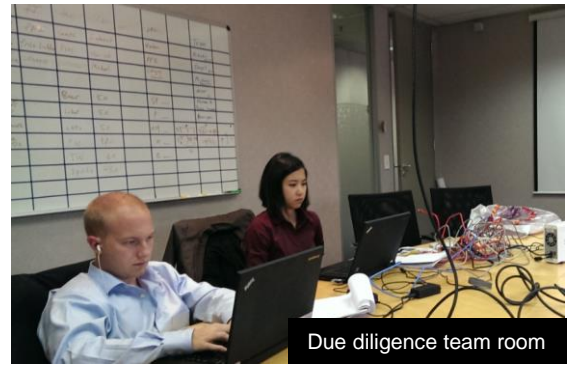
- Assessment of political and economic risks, demographics
- Analyze market by category, brand, and player share
- With a team of 4, the entire project ran for 8 weeks, including 1 week of in-market research
- Worked on the ground and remotely with local researchers who assisted with translation and in-market visits

Demand modeling

- Model demand at the regional level, over a 10 year time horizon
- Modeling done at the SKU level and includes value and volume
- Demand is forecasted on both an "as is" (organic market growth) and "to be" (organic growth with strategic initiatives) scenario

Commercial due diligence

- Collaborated closely with client's management team based in Southeast Asia
- Assessed multiple local players and profiled most attractive player for potential partnerships
- Analyzed partnership opportunities for client and target local player to jointly improve market positions, value chain performance, and profitability
- Identified specific partnership opportunities for client and local player such as portfolio improvement, new category rollout and value chain improvements





Case study 2: In early 2014, Canback completed a lengthy due diligence project in West Africa, assisting our client with negotiation and valuation of a joint venture

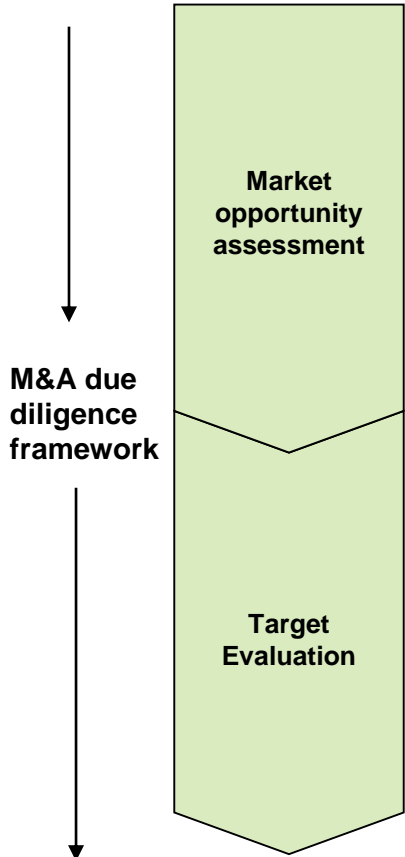


West Africa due diligence effort

Client: Global FMCG client based in Africa

Target: Distribution company

Context: Client is looking to enter a West African market. JV partner – distribution company – has been identified and parties have engaged in substantial talks. Our key tasks were to quantify future demand, value the venture, and negotiate distribution fees



SCP

- Assessment of political and economic risks, demographics
- Analyze market by category, brand, and player share
- Walk the ground to understand consumer behavior, establish prices, and frame competitor conduct
- Analytical framing of market using Canback toolbox

Demand modeling

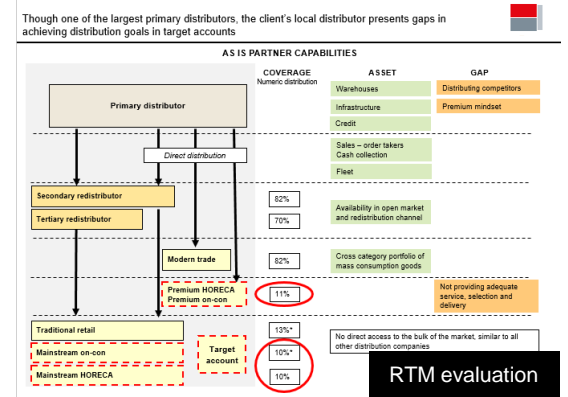
- Model demand for current and new product recommendations over a 10 year time horizon and 3 phases
- Modeling done at the SKU level and includes value and volume
- Demand is forecasted on both an "as is" (organic market growth) and "to be" (organic growth with strategic initiatives) scenario

Commercial due diligence

- Route to market challenges and distribution gaps were identified due to nature of JV partner business
- Proposal of a new sales and service model was introduced to minimize partner shortcomings and maximize value

Financial modeling

- Demand projections and costs were input into Canback financial model to determine payback period and valuation
- Financials led to a need for distribution fee renegotiation
- Canback team present during final negotiations to offer strategic advice and update financial model





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