Company Business Report
— Based on analysis of Bellamy's Australia

BELLAMY'S ORGANIC

A pure start to life!

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Executive Summary

Bellamy's Australia is a major Australian food and beverage company, and is the parent company of Bellamy's Organic, Australia's largest organic infant formula producer. It was established in 2003 and was listed in 2014 (ASX: BAL). The brand is established in Australia and has a growing presence in China and southeast (SE) Asia. Bellamy's is a young company but with very fast growing as its benefits from the accurate market position of 100% certified organic food, ability to expand the geographical distribution, and growing demand for Australian made infant formula and food products in China and SE Asia. Currently, Bellamy is on the way of a turnaround strategy, transitioning its distribution from lower margin Australian retail and pharmacy channels towards higher margin China channels. However, the main risks for Bellamy's also obvious, including lack of ownership of the supply chain, competitive environment in IMF (infant milk formula) market as well as political and regulatory risks associated with operating in foreign countries, particularly in China. Based on all these facts, this report aims to provide a comprehensive coverage for Bellamy's with company valuation, credit risk analysis, and M&A (merger & acquisition) strategy.

- Valuation

To generate the valuation of Bellamy's, two methodologies are selected, multiples method and discounted cash flow (DCF) method. For multiple method, the most similar comparable companies are selected from a universe of comparable ones firstly, and then P/E ratio and EV/EBITDA ratio are applied respectively. The final two implied share prices are overlapped, indicating that the implied share price of Bellamy's is ranged from $8.87 to $9.65. For DCF method, the projected FCF and terminal value are discounted to the present value at the target's weighted average cost of capital(WACC) to determine an enterprise value. In this case, three key assumptions underlie the DCF method, which are 5-year growth rate of sales, WACC and long-term growth rate, and all these assumptions are based on the analysis of Bellamy's turnaround strategy and its operating environment. Accordingly, the DCF method brings us a target price with $11.57.

Although there is around 2-dollar difference between the valuation of two methods, both

are larger than Bellamy's current share price ($7.59 Oct 2), indicating that the company is undervalued and deserved to invest.

- Credit Analysis

Based on the current strategy of Bellamy's including the plan of supply chain agreement rest and acquisition of Camperdown, an extension to its current credit has been issued in this report, that is, a $20 million fully amortised debt at a fixed rate of 5.5% in 5 years. Subsequently, in order to evaluate the creditworthiness of Bellamy's of this extension credit from a commercial bank's perspective, the 5Cs of credit analysis, a classical widely used way by the lender, is employed first. Accordingly, for Bellamy's, by knowing each of the "5 Cs," a better understanding of what is needed and how to prepare for the loan application process will be developed. Next, the financial simulation is conducted to further estimate whether Bellamy's has the chance of default. In the simulation, both quantitative analysis and qualitative analysis are included, which are scenario analysis, breakeven analysis and SWOT analysis. Overall, since on the one hand, cash flows are projected to be enough to repay the bond even in the pessimistic scenario and the collateral is ten times higher than the repayments; and on the other hand, breakeven analysis provides strong evidence that Bellamy's has low default possibilities and high creditworthiness. The final recommendation is that the commercial bank would accept to grant Bellamy's the proposed borrowing.

- Mergers and Acquisitions

The suggested acquisition target company for Bellamy's is Tatura Milk Industry Ltd, a fully owned subsidiary firm of the Bega Cheese (ASX: BGA). This is so for three reasons. Firstly, it is a strategic initiative in order to cope with the changes of Chinese regulations. since Tatura Milk is one of the Australian suppliers who owns the CFDA registration, this acquisition could help Bellamy's keep selling into the world's the world's second-biggest economy through offline channel. Secondly, this takeover could help Bellamy's expand its industry to upside of supply chain and hence increase its competitive strength. Thirdly, there will be a great synergy value merged from higher growth and cost savings for both companies because of combination of Bellamy's excellent brand awareness and abundant distribution channels with Tatura's capacity to source high quality milk from the farms.

Based on these analysis, a friendly takeover through off-market bid is suggested. To be more precise, a $100 million payment by the combination of cash and stocks is thought to be a proper offer that both sides would like to accept.

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Introduction

Bellamy's Australia(BAL) is a Tasmanian company which specializes in certificated 100% organic baby food and infant formula. Bellamy's has been on a strong earnings trajectory since listing in August 2014 on the Australian Stock Exchange. Its growing mainly benefits from the customer's preference for organic food and the increasing demand for safe and high quality Australian infant formula and food products in China and SE Asia. This report will initiate a comprehensive finance analysis of Bellamy's in three major aspects based on publicly available information and financial data. A business overview will be stated at first, including a brief introduction of Bellamy's and the baby food market, as well as an analysis of the value drivers and potential risk for the company. Based on the business overview, this report will value Bellamy's by making use of multiples method and discounted cash flow method respectively, aiming to get a more reliable and reasonable valuation than just rely on one methodology. Following that, a credit risk analysis of a proposed new 5-year debt will be conducted. In this part, after both quantitative analysis and qualitative analysis, a final funding decision will be given. Finally, for Bellamy's better future development, this report will illustrate a M&A (merger and acquisition) strategy for this firm, including the suggested target company, transaction approach, proposed financing package and a brief teaser document.

Chapter 1: Business Overview

1.1 Company Overview

Bellamy's Australia is a Tasmanian-based food and beverage company listed on the Australian Stock exchange (ASX: BAL). It was established in 2003 and was purchased by Tasmanian Pure Foods company in 2007. In 2014, the company completed an IPO offering 25 million shares at an issue price of A$1 per share to raise A$25 million (Bellamy's Australia Limited, 2014). This IPO was seen as an "outstanding success" by financial analysts because there was a more than 30% rise in initial share price in the first trading day(Briscoe,2014). After the fast growing in the following years, Bellamy's has become Australia's largest organic infant formula producer in Australia so far.

The brand is well established in Australia, and has expended its market to overseas step by step. Bellamy's began exporting organic baby formula to China in 2008 and in 2012, Bellamy's opened its first offshore office in Shanghai (Bellamy's Australia Limited, 2016). In 2014, Bellamy's opened its second oversea office in Singapore(Ibid.). Following the trend of oversea expansion, BAL also exports its products to Hongkong, Malaysia, Vietnam and New Zealand. While increased focusing on the development of the greater Asian market, Bellamy's has been planning to expand into the US and the UK in 2016(Ibid.).

BAL offers a range of organic infant formula and food for babies and toddlers. But unlike traditional companies, BAL operates a capital light business model (Morgans, 2015). Under this type of model, BAL does not possess or manage any manufacturing facilities and organic farms and its operating focus is on the management of supply chain and distribution network(Ibid.).

1.2 Industry Overview

Along with the steady growth of the new babies born in Australia and the idea of organic

dietary, the baby food market in Australia has experienced a relatively medium to high-speed increase during the past few years. And the blooming performance is projected to continue with an annualized 2% to 2.5% growth rate in the next five to ten years (Goldman Sachs, 2016).

Despite the high growth in the domestic market, many Australia baby food companies have also been reaching the oversea markets, especially in China. China has a huge population base therefore has created a huge market for the baby foods and related products. And China not just has this enormous market, the growth rate is also very promising. Since 2014, many Australian Infant milk formula companies have shifted geared to Chinese market, and have deployed many resources in this market, hence, many of them have witnessed a very strong revenue growth in the past few years (Australian Food News, 2017).

However, many Australian baby food companies especially those providing formula for infants have been struggling with the regulation environment in China. Many baby foods companies have lost their permission to export their products to China hence witnessed a slump at their sales numbers as well as their share price. As a result, the consolidation between vertical industry chain is very popular under this market condition.

The companies that are more likely to trump in this competition are those with ability to develop their unique formula with new technology, having high quality and wide product range and those that can crack down the oversea markets and outsell their competitors.

1.3 Market Position

With the mainly segments are growth categories, Bellamy's focus on making a point of difference by offering 100% Australia-made and organic food in this competitive industry. All of products that Bellamy's offered are 100% certificated organic. Consequently, the

parents are willing to accept the premium price so that their babies can have more natural and healthier food as well as better nutrition. As one of the fastest growing baby formula company in Australia, its market share is over 14% (Bellamy's Australia Limited, 2016). Generally, Bellamy's supplies its products through the local supermarket, independent store, discount and specialty retailers, pharmacies, organic and health store, and sells direct to consumers via an online sales portal.

Bellamy's is also a major exporter of organic infant formula to the Chinese organic infant formula market and is positioned as a "super premium" brand within that market. Since 2014, it has seen strong revenue growth mainly from Chinese consumers who purchase products sold in Australia (C2C or "Daigou" trade) (Goldman Sachs,2016). The company is also increasingly selling direct into China (B2C, offline and online) (Ibid.). The market share has grown to 3.8 % in 2H16 on Chinese e-commerce platforms (Bellamy's Australia Limited, 2016).

1.4 Value Drivers

Since Bellamy's is highly dependent on Chinese market, the main value drivers come from the increasing income level and the increasing birth rate in Chinese major cities. Along with the economy growth, the rising disposable income level and the requirement for higher standard of living drive Chinese parents to buy better quality Australia IMF products instead of domestic products.

Moreover, the unleashed of one-child policy has become the second impetus for the increasing demand of IMF products (Bell Potter,2016). Other than that, the developing internet technologies provide a new distribution channel for Australian products to be sold in this foreign country.

Lastly, the aggressive advertising strategy and the transform of social culture lead to a lower breastfeeding rate in the developed countries, and this has also contributed to the increasing sales of infant food products.

1.5 Major Risks

There are several risks for BAL. Firstly, BAL focus on building the organic food brand. The quality control is important for retaining the premium products, otherwise, BAL has the potential loss of organic certification.

Secondly, BAL does not have fix suppliers, with the increasing demand for organic dairy productions and the instability of production, they face the potential risk for a sudden supply shortage. Also, the small organic farming market and this limited supply would increase the price of organic ingredients (Morgans, 2015). Thus, the lack of ownership of the supply chain could be the main risk factor for BAL's future financial prospects.

Moreover, with BAL entered Chinese market in recent years, the political and regulatory risk arise. Chinese government requires a certain foreign manufacturers of dairy food products to complete a registration process, but the unforeseeable and adverse China regulatory changes would impact BAL's overseas sales.

Last but not least, the fierce competition is also a major risk for Bellamy's. China is considered as an undeveloped market. therefore, with the entries of various IMF brands, the competition has reached to a very high level.

Chapter 2: Valuation

2.1 Multiples Method

Multiple methods are relatively easy and popular methods for analysts to compute valuations based on easily calculated data. Their widespread use can be attributed to their simplicity (Schreiner, 2007a). In this report, P/E ratio and EV/EBITDA are selected as the multiple to calculate the valuation of Bellamy's. In terms of P/E ratio, it is a widely recognized multiple since earning power is the primary determinant of value. Compared to P/E ratio, EV/EBITDA ratio is helpful to value firms with different debt level and when EPS is negative. And EBITDA is usually positive, which is more common and effective to value the firms. Therefore, with the combination of P/E ratio and EV/EBITDA ratio, the calculated valuation of Bellamy's by multiple method can be more reasonable.

2.1.1 Analysis

First of all, comparable company analysis should be carried out. To find comparable companies, the preliminary step is to look for universe of companies that are in the same industry of Bellamy's, namely, the food products industry in the consumer staples sector. Followed by that is to locate the necessary financial information combined with the key characteristics of Bellamy's (see Appendix 1) and determine primary financial statistics of these selected comparable companies. Then based on the key financial data calculated (see Appendix 2) and the performed benchmark analysis, the companies that have relatively remote relationship with Bellamy's are abandoned. Therefore, only five most similar comparable companies (see Table 1) are chosen to calculate the valuation of Bellamy's.

Table 1 Selected Comparable Companies

No.	Company	ASX code
1	The a2 Milk Company Limited	A2M
2	Bega Cheese Limited	BGA
3	Freedom Foods Group Limited	FNP
4	Webster Limited	WBA
5	Costa Group Holdings Limited	CGC

After the selection of comparable companies, P/E ratio and EV/EBITDA ratio are then used as the two multiples to find Bellamy's stock price.

Table 2 P/E Ratio Multiple Result

Multiplier	Financial Metrics	Multiple Range	Implied Share Price
EPS	0.386	23X-25X	8.878-9.65

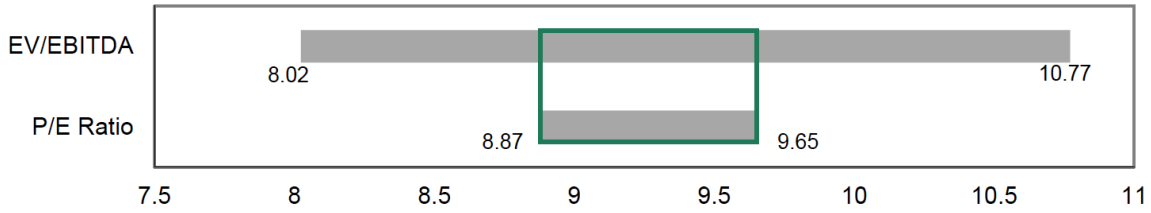
The calculation of P/E ratio is conducted by multiplying 0.386, the diluted EPS of Bellamy's (Bellamy's Australia Limited, 2016), with the multiple range to achieve the implied share price. According to the number line drawn in the appendix 2, the multiple range is determined between 23X to 25X as the averaged multiple is in this range. Thus, the implied share price range can be computed to the range, from 8.787 to 9.65.

Table 3 EV/EBITDA Ratio Multiple Result

Multiplier	Financial Metrics	Multiple range	Implied EV	Implied Share Price
EBITDA	54.61	14X-19X	764.54-873.76	8.023-10.7713

Similarly, the EV/EBITDA ratio is calculated by multiplying 54.61, the EBITDA of Bellamy's (Bellamy's Australia Limited, 2016), with 14X to 19X, the selected multiple range. The selection of multiple range is similar to that in P/E ratio (see Appendix 2). However, unlike the method of P/E ratio, EV/EBITDA needs to translate the enterprise value to equity value to find out the implied share price. The detailed calculation of EV/EBITDA multiple valuation is in the Appendix 3. As a result, the final implied share price is from 8.023 to 10.7717.

Figure 1 Football Field – Implied Share Price



According to the previous results of valuation from multiple methods, the implied valuation range is shown in the above football field format (Figure 1). Those two implied share prices are overlapped, showing that the final implied share price of Bellamy's is ranged from $8.87-$9.65. It is indicated that the comparable companies are closely related to Bellamy's, and the valued price of Bellamy's is rational.

2.1.2 Limitations

Although the multiple methods are easy to acquire the value of the firm, this apparent simplicity is quite illusory, as all the explicit assumptions needed during the fundamental analysis are still implicitly synthetized in the multiples, such as the risk, growth, potential cash-flows as well as the market mood (Couto & Cerqueira, 2016). On the other hand, it is difficult to identify the "pure play" comparable and if the comparable companies are chosen based on different selection criteria.

In addition, some limitations are existed in the two comparable valuation multiples that we choose:

- P/E ratio

Accounting numbers have the strong linkage with the several multiple valuation methods and they are sustained by the imperfectness and uncertainty of the markets (Alford,1992). Firstly, some comparable companies' earning is volatile. If the earning is volatile, not stable, the calculated value cannot correctly reflect the firm's value and it is irrational. Similarly, the accounting discrepancies, such as different depreciation and amortization methods, can also make P/E ratios among comparable companies less comparable and make the calculated value less rational. Also, the management discretion can distort P/E ratio as well. For example, the company can sell off a business, manipulating earnings by one-time accounting gains (Morningstar,2015).

- EV/EBITDA ratio

Although EV/EBITDA ratio is independent of capital structure and can reduce the effects of amortization and depreciation among different companies, the EBITDA will overstate CFO if working capital is growing. Besides, since the EBITDA does not include the tax factor, the EV/EBITDA ratio can be unreasonable when the tax policy among comparable companies is largely different.

2.2 Discounted Cash Flow Method (DCF)

Unlike multiple methods, discounted cash flow method (DCF) determines the current value of a company by using future free cash flows adjusted for time value. The DCF method is a forward-looking method based on the expectations about the company's future performance, and thus the enterprise value derived by a DCF is known as intrinsic value, instead of a market value (Pearl & Rosenbaum, 2013). Therefore, DCF method usually is regarded as a significant alternative to market valuation methods such as comparable companies(Ibid.). As a DCF can combine a number of value drivers of a company, and thus financiers and investors could have a great insight of what is the actual driver of the share

price. In this section, a DCF method will be used to determine Bellamy's enterprise value.

2.2.1 Analysis

A DCF output is viewed in terms of a valuation range based on a range of key input assumptions, rather than as a single value. Therefore, after studying Bellamy's target and its operating sector, three major assumptions have been made as following:

Assumption 1. 5-year growth rate of revenue

As five years is typically sufficient for spanning at least one business or economic cycle and allowing for the successful realization of in-process or planned initiatives(Steiger,2010) and Bellamy's is in the growing stage, the projected period about Bellamy's sales growth rate is determined as 5 years.

Furthermore, the projection is based on this company's development strategies. Bellamy's is in the midst of transitioning its distribution from lower margin Australian retail and pharmacy channels towards higher margin Daigou and China direct channels (Bell Potter,2016). So how the sales perform depend on how the China market perform to a large extent.

Although the sales growth rate of Bellamy's has grown continuously since 2014, it has run into trouble in China in 2016. On the one hand, China tightened its infant formula regulation (Goldman Sachs,2016). On the other hand, the oversupply of inventory in China has caused widespread discounting on Chinese e-commerce platforms, which was revealed after the results of Singles Day were known (Financial Review,2016). These has impacted the competitiveness of the Daigou channel and has slowed Bellamy's Australian sales. Based on this fact, the sales growth in 2017 is expected be only 5%.

However, BAL is on the way of a turnaround strategy and is tracking well to plans. The acquisition of Camperdown cannery and the further reset the company's supply agreement

with Fonterra will provide a clear path to CFDA (the China Food and Drug Administration) registration of 'Chinese labelled' product", allowing it to keep selling into the world's second-biggest economy, improves Bellamy's control of its supply chain and thus enhances its overall competitiveness (Bellamy's Australia Limited,2016). These strategies are rebuilding a foundation for future growth. After the solve of regulation problem and restructure of supply chain, it can be supposed that the Australian sales will keep the stable level and the sales in China will achieve a relatively high increase. Therefore, it is assumed that the growth rate of revenue will peak to 45 percent in 2019 and then gradually become stable and decrease to 10 percent in 2021.

Moreover, sales are used to form the basis for developing a set of other projections, including profit margins, capital expenditures, and net working capital (NWC). In this case, the free cash flow in the next 5 years can be projected (details can be seen in Appendix4).

Assumption 2. WACC

Table 4 WACC Calculation

Capital Structure	
Debt-to-Total Capitalization	1.0%
Equity-to-Total Capitalization	99.0%
Cost of Debt	
Cost of Debt	6.6%
Tax Rate	30.0%
After-tax Cost of Debt	**4.6%**
Cost of Equity	
Risk-free Rate	2.0%
Market Risk Premium	7.6%
Levered Beta	0.97
Cost of Equity	**9.3%**
WACC	**9.2%**

In terms of the WACC, the first part is the cost of debt and it can be reasonable assumed that over the long haul the debt component will not have a major shift measured by the debt to equity ratio. Currently the number is zero because Bellamy's is a company that do not own many assets and it certainly will not need too much borrowing for its supply chain expansion, since it has outsourced most of its manufacturing and labelling. However, the recent trend of vertical merger does imply that Bellamy's might subsequently buy its own suppliers with borrowings. Therefore, 1% debt to total capitalization ratio is projected. And because of the insignificant of the ratio, the cost of debt is simply calculated as the interest payments during the year divided by the company's total borrowings (DatAnalysis Premium,2017).

The cost of equity consists of the risk-free rate as which ten-years Australia government bond has been chosen as the proxy, market risk premium sourced from (Bloomberg, 2017) and the leveraged Beta comes from the average number (0.97) of two prestigious research institutions' analyst report (Goldman Sachs 1.2 & Bell Potter 0.75). In total, the WACC number adds up to 9.2%.

Assumption 3. Long term growth rate

The long-term growth is a hard decision because it need to forecast the company's performance in a very far future. And currently the major sales come from two markets: the domestic market and the Chinese market, but the major impetus for growth in sales comes from China. Therefore, in terms of the long-term growth rate, the elements that have been considered are the birth rate in major Chinese cities, the growth of income level in Chinese urban family, the declining breastfeeding rate in the Chinese urban areas and most importantly, the shares in Chinese market, which gives a nice projection of 3% (Goldman Sachs,2016).

Based on the key assumptions above, the Enterprise Value for Bellamy's can be calculated, which is $1247.4 million and will translate to an implied share price of $11.57(refer to Table 5).

Table 5 Discounted Cash Flow Analysis Output ($M)

Cumulative Present Value of FCF	$102.7
Plus: Present Value of Terminal Value	$1,144.7
Enterprise Value	**$1,247.4**
Less: Total Debt	(131.0)
Plus: Cash and Cash Equivalents	32.3
Implied Equity Value	**$1,148.7**
Fully Diluted Shares Outstanding	99.3
Implied Share Price	**$11.57**

2.2.2 Limitations

DCF method relies on lots of assumptions, which are both its primary strength and weakness. On the negative side, only when the assumptions are strong, can the valuation implied by the DCF method be reliable and meaningful (Pearl & Rosenbaum, 2013). In this report, the major assumptions of the free cash flow of the firm is based on the hypothesis that Bellamy's turnaround strategy will work well in the future, which may be affected by many external factors, such as the Chinese regulator environment. If a single unexpected event happens, the results may show a big difference. Also, the complexity in calculation is a problem.

2.2.3 Sensitivity Analysis

Because the DCF valuation method is very sensitive to the key assumptions, the WACC and the long run growth rate have been tested in a matrix form.

Table 6 Sensitivity Testing - EV

Enterprise Value					
	Long-Term growth rate				
WACC	2.6%	2.8%	3.0%	3.2%	3.4%
8.2%	1427.52	1479.15	1534.75	1594.80	1659.85
8.7%	1290.00	1332.59	1378.17	1427.06	1479.64
9.2%	1173.82	1209.44	1247.37	1287.82	1331.06
9.7%	1074.44	1104.61	1136.57	1170.50	1206.58
10.2%	988.55	1014.35	1041.58	1070.37	1100.85

Table 7 Sensitivity Testing - Implied S/P

Implied Share Price					
	Long-Term growth rate				
WACC	2.6%	2.8%	3.0%	3.2%	3.4%
8.2%	13.38	13.90	14.46	15.07	15.72
8.7%	12.00	12.43	12.88	13.38	13.91
9.2%	10.83	11.19	11.57	11.97	12.41
9.7%	9.83	10.13	10.45	10.79	11.16
10.2%	8.96	9.22	9.50	9.79	10.09

As illustrated in the form, the enterprise value ranges from $988.55 to $1659.85, which are converted to $8.96 and $15.72 per share respectively. If the Bellamy's can maintain a long-term growth of 3.4% after the year of 2021 due to its successful brand building lead to the higher market share in China, and the WACC decrease to 8.2% as a result of worse market condition and lower market premium then the share price is anticipated to reach $15.72. If the firm cannot properly manage the risk profile and lose their market share in China, the long-term growth rate can drop to 2.6% as a result. Together with a high market premium and higher capital charge, the share price will only reach 8.96 as participated.

Chapter 3: Credit Analysis

3.1 Reasons for Borrowing

Through the past few years of development, Bellamy's is highly dependent on Chinese market in recent years. And due to the tightening regulation of imported infant milk formula (IMF) product in China, Bellamy's has two major reasons for the borrowings. Firstly, Bellamy's are planning to reset the supply agreement with its supplier Fonterra. After the resetting, Bellamy's cost position is expected to grow and the technical support from Fonterra are expected to be improved(Boot,2017). Subsequently, Bellamy's would need to pay a large amount of money to Fonterra to reset their supply agreement. Secondly, Bellamy's needs to directly buy a supplier who has the required license. It seems that Bellamy's management already has a target, the Camperdown Company (Bellamy's Australia Limited,2016). Therefore, this is the second reason why they need to borrow. And with the borrowing, Bellamy's can seize the opportunity and be the very first among IMF brands and products that sell in China.

3.2 Synopsis of Borrowings

Specifically, a bank loan is assumed to finance this project of Bellamy's. The proposed loan in 2017 for Bellamy's supply chain resets project is $20 million at a fixed rate of 5.5%. The suggested debt will be fully amortized in 5 years (the specified debt payment schedule is illustrated in the Appendix 5). In addition to the current borrowings, the rollover credit and the letter of credit are added for reducing the potential liquidity risk resulted from recent volatility of inventory position and securing the export sale orders of Bellamy's respectively. For instance, the rollover credit is declared of $0.3 million with an interest rate of 10.9%. This facility may comprise of some specific conditions and limits. It should be only used to purchase assets and finance trade. In terms of letters of credit, it is proposed of 1 million with a rate of 0.5%.

Both types of borrowings are guaranteed by assets of Bellamy's and are subject to the complying with debt covenants prescribed in these loans.

3.3 5Cs of Credit Analysis

The 5Cs of credit is employed by the commercial bank, the lender, to evaluate the creditworthiness of Bellamy's, the potential borrower. The performance on the five aspects of Bellamy's can imply its possibility of future default and whether it is of reasonable or high creditworthiness. To be specific, the 5Cs of credit are condition, character, capacity, capital, and collateral.

3.3.1 Condition

Bellamy's is a growing company and plans to expand the market in recent years. The core strategy of Bellamy's is to shift gear from traditional Australia and New Zealand market to Chinese and South Asia markets. Along with this strategy, a better supply chain which can provide stable and qualified products will be constructed and hence can produce more revenue in following years. Thus, it can be indicated that Bellamy's has a strong condition to prove to the bank that it is of high creditworthiness.

3.3.2 Character

According to the information in annual report, the management team of Bellamy's has a very large change of personnel in 2017, and the new managements team is presumed to be more competent in the new business settings. Andrew Cohen, the new CEO, has a very extensive experience in FMCG industry and he is a former partner in Bain & Company. Many new non-executive directors have been working closely with Chinese market in the past. For instance, the new non-executive chair, John Ho has been a long-term investor in Chinese health sector. However, since most of the new management team are mainly from

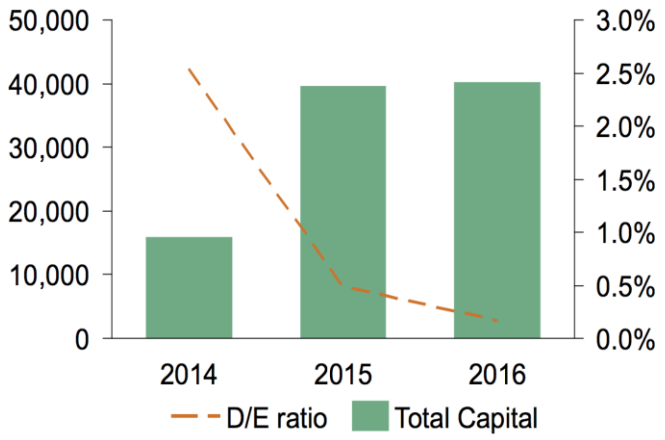
consulting and finance industry, their ability to operate a company in the real world is open to doubt. Therefore, whether the new management will have a greater ability to generate revenue and cash is recognized as neutral.

In terms of the credit history, Bellamy's used to be a very conservative firm and did not operate in a highly leverage condition. For a very long time, the debt to equity ratio has been maintained in less than 0.5%, which means, the potential of Bellay has not been activated in full. Hence, from the track records point of view, the credit history does not really show Bellamy's will default if they borrow a loan.

3.3.3 Capital

The capital structure identifies the different sources employed by Bellamy's to finance its operation and future growth, which has a significant influence on the overall risk and cost equity of the firm (Baker & Martin, 2011). Figure 2 displays the Bellamy's debt-to-equity ratio (D/E ratio) from 2014 to 2016, implying that the D/E ratio of Bellamy's is decreasing and extremely low. This also proves that Bellamy's could borrow large amount money with less strict debt covenants in future years.

Figure 2 Historic D/E ratio and Capital

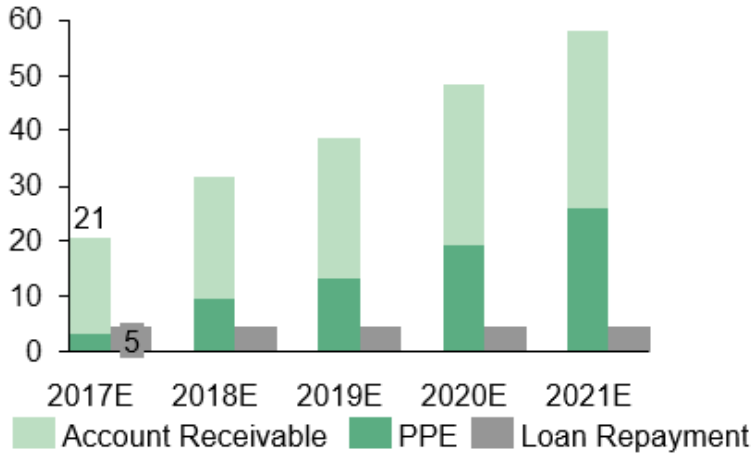


Source: DatAnalysis Premium

Although the debt-to-equity ratio may increase in future if Bellamy's borrow a term loan to reset the contract and buy new supplier, the D/E ratio is still low and will stay at a stable level. This is because Bellamy's will repay the debt per year while issue some shares, increasing its amount of equity.

3.3.4 Collateral

Figure 3 Collateral and Potential Loan repayment



Notes: For more detailed information, refer to Appendix 6

Collateral is a property or other assets that company offers to the commercial bank as a second source of loan repayment. Since Bellamy's only has very limited amount of property, plant and equipment (PPE) but has a large amount of account receivables before FY2016, it can use PPE (collateral A) plus account receivables (collateral B) as the collateral for the 5-year loan application starting from 2017. However, as the above chart shows, based on the forecast, the PPE will increase rapidly from 2017 and can totally cover the debt repayment in each year. As the total collateral exceeds the debt repayment, it is implied that there is enough secondary source of liquidity when Bellamy's cannot pay back their debt.

3.3.5 Cash Flow

In the cash flow analysis, it is forecasted that the sales growth of Bellamy's for next 5 years

is based on segment markets, namely, Australia, China and Southeast Asia market. To be more conservative, the sales growth rate in China market is only assumed to be 0.2%. In Australia market, it is suggested that forecast future sales will steadily grow according to current market situation.

Followed by the sales assumptions, the costs will increase in 2017 because it will take the turnaround plan, such as acquiring Camperdown company and resetting the supply agreement with Fonterra. These actions will increase general and administrative expenses. However, after that, Bellamy's will pay more attention to control costs in the following years. Thus, it is presumed that its costs will be reduced gradually in future years.

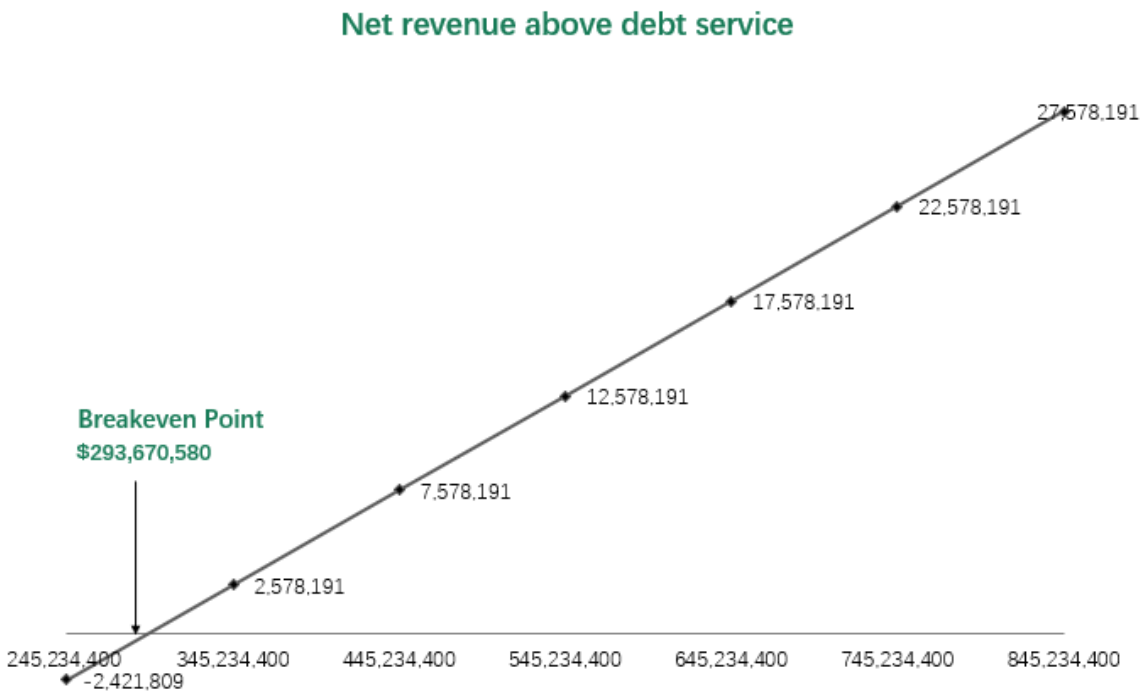
Based on the assumptions above, the cash flow for next 5 years can be forecasted (presented in the Appendix7). In 2017, cash flow is around $26.63 million, which is larger than each year loan repayment. And in the next four years, cash flow will experience an increasing trend. Therefore, it is believed that Bellamy's has enough cash flow to repay its loan.

3.4 Financial Simulation

In addition to the 5Cs of credit analysis, the financial simulation is conducted to further estimate whether Bellamy's has the chance of default and accordingly to identify and justify its risk ranking plus rate setting. The breakeven analysis is firstly applied to find out the breakeven point under a specific condition where the company can no longer meet the debt service. Then the scenario analysis is added to further diagnose the performance of Bellamy's when considering the effect of changing more than one variable at a time.

3.4.1 Breakeven Analysis

Figure 4 Breakeven Analysis



From the figure above, it is seen that the company cannot repay its debt when the revenue is below $293,670,580. The occurred default can be explained by the slower increase in revenue than the increase in cost under a specific condition. However, the default only occurs in 2017 and in the following years, the net revenue is above debt service. Besides, based on its current performance, the cost in 2017 is much less than the one assumed in the breakeven analysis. Therefore, it can be implied that the company has low possibility to default both in the current years and future years.

3.4.2 Scenario Analysis

In the scenario analysis, it is suggested to change EBIT+ /- 1 sigma to get the optimistic and pessimistic situation. For example, in the optimistic situation, EBIT for 5 years is $575.65 million, which is about more than 20 times of $23.4 million loan payment. In the pessimistic situation, EBIT is around $220.24m which also significantly larger than debt.

Therefore, in either case, Bellamy's would not default to the proposed debts (see Appendix 8)

3.5 Conclusion and Recommendation

According to the previous breakeven analysis and scenario analysis, it provides strong evidence that Bellamy's has low default possibilities and high creditworthiness. However, since all the analysis shown before is quantitative, it can be doubted that whether Bellamy's will default if without reasonable qualitative analysis.

Thus, combined with the previous quantitative analysis, the SWOT analysis as a qualitative method is used to further analyse the creditworthiness of Bellamy's.

Table 8 SWOT analysis

Strength	Weakness
Healthy capital Structure and low credit risk	Single product ranges
Sustainable cash flows	No independent owned pasture
Opportunity	**Threat**
New management team	Intensive competition
Potential suppliers purchase	Regulations limitations in China
Large demands in China market	

Table 8 summarizes the market position and business performance of Bellamy's. On basis of previous analysis, although Bellamy's has enough cash flow and collateral and it is very unlikely to default the proposed debts even in the pessimistic situation in scenario analysis, Bellamy's faces intensive competition and regulation limitation in China.

Therefore, it is suggested that Bellamy's needs to find some stable relationship with suppliers that have required license of China government. Alternatively, Bellamy's may need to reduce the reliance on China market and explore the market of Southeast Asia market, alleviating the constraint sale from China government and stabilizing the earning trend. Moreover, it can explore some new product range, expanding the existing product varieties and hence secure its competitive position in the market.

To conclude, based on the quantitative and qualitative analysis above, it is accepted for the commercial bank to grant Bellamy's the borrowings.

Chapter 4: Mergers and Acquisitions

4.1 M&A Objectives

The main idea behind mergers and acquisition is one plus one makes three. After mergers and acquisition, the acquiring company can have access to the target company's business resources which are already formed, which could help the acquiring company obtain the desired results effectively in a relative short period of time (Pearl & Rosenbaum, 2013). Acquisition seems to be a good option for Bellamy's currently. The major reasons are as following:

Firstly, the acquisition aims to help Bellamy's keep selling into the world's second-biggest economy through offline channel. Bellamy's has run into trouble in China in 2016 when that country tightened its infant formula regulation. One of the major challenges came from a regulatory requirement that any Chinese labelled product will require registration from the China Food and Drug Administration (CFDA) from 2018(Sky News,2017). Since Bellamy's does not own the required license, it seems wiser and takes less time to acquire one company who already have this license than apply for the CFDA registration by its own self.

Besides, integrating supply chain plays a significant role in infant products. Nowadays, Bellamy's has achieved good performance in the downside of supply chain. The acquisitions of suppliers could make Bellamy's strengthen strategic position and build brand credibility with consumers (Lambert & Cooper, 2000).

The economy of scale is another major concern. Currently, Bellamy's has adequate products to enter into the Chinese market. Although the demand of Australian Agricultural & Dairy Products from Asia and China is expected to increase in long term, only part of the products could be exported successfully. With the help of acquisition, the aim of product

export could be achieved easier.

4.2 Target Company – Tatura Milk

According to our analysis, Tatura Milk Industries Limited is the most appropriate target company for mergers and acquisitions.

Tatura Milk is the 100% subsidiary of Bega Cheese Limited (ASX: BGA) and is an Australia owned manufacturer and packager of infant formula, cream cheese, butter and nutritionals. Tatura's rich experience and detailed knowledge of infant formula products has won the market's trust. Bellamy's already has a longstanding deal with Tatura since 2007, to process the products (Goldman Sachs, 2016).

The most important reason for potential takeover is that Tatura Milk is one of the Australian suppliers who hold the CFDA registration licensed. Acquisition of Tatura Milk Power could help Bellamy's export its formulas to China easier and reducing costs more effectively. By this way, Bellamy's is able to meet the satisfactions of consumers' needs and generate more profits in Asian and China market. Secondly, although Bellamy's now has various distribution channels such as offline sales, online platforms and C2C channels in the form of ecommerce platforms in China, Bellamy's is famous for its brand reputation influence rather than have its own effective suppliers. the takeover of Tatura means the obtain of Tatura's great production capacity, which can help achieving the upgrading of the supply chain of Bellamy's. Also, Bellamy's has realized the important role that the CNCA has in protecting Chinese consumers and the support of the Australia trade officials in assisting Bellamy's throughout the process.

Moreover, Tatura Milk is one of the excellent Australian manufacturer of infant formula and private label cream cheese, which has major products such as cream cheese, milk

products and life-stage formulas, while Bellamy's is majorly focused on organic food and formula for babies and toddlers. After purchasing Tatura Milk Power, Bellamy's is able to make use of supply a wider range of products and attract customer of different ages. In addition, from the target company's perspective, due to the result of resource integration,

Tatura could increase its customer base and save the cost of production development. Tatura has been struggling with improving its low level of profit margin in the past 3 years (Morgans, 2016). Also, Tatura can transfer some risks, such as operating risk, to Bellamy's.

Considering all elements mentioned above, synergy in this case mainly comes from the higher growth of sales and cost savings due to a more solid supply chain and market expansion in China. To quantify it, according to valuation analysis by DCF method, the enterprise value of Tatura is expected to be $80.16 million and the sum of the values of Bellamy's and Tatura should be $20.8 million large than the value of merged firm (see Appendix 9). The premium part indicates that there is a synergy for $20.8 million.

Above all, since Tatura not only holds the accreditation with the Chinese authorities but also owns great production capacity and rich knowledge as well as experience of milk products, the essential synergies could be achieved after the acquisition, although the quantified synergy value is not big enough compared to Bellamy's market cap.

4.3 Transaction Approach

The transaction is considered to be a friendly off-market takeover bid. The takeover approach determined is based on the facts that the target company is a fully owned subsidiary of its parent company, Bega Cheese Ltd, which means all the shares of Tatura are held by Bega Cheese. Consequently, there is no need to make the scheme of arrangement, because this approach should be applied when bidder wants 100% of company but there exist another parties who already control close to 10% or more of the firm (Allens,2017). In other words, the off-market bid is a more convenient and acceptable

way for both bid and target sides in this case. Besides, Bellamy's can negotiate and make a bid implementation agreement with the target company, Tatura Milk. Therefore, it is determined that off-market bid should be the transaction approach to takeover.

In the takeover transaction, except the acquiring and the target firm, the key stakeholders also include the regulators. Since the target firm is in Australia, the key takeover regulators in the takeover process are the Australian Securities and Investments Commission (ASIC), the Takeovers Panel and Courts (Allens,2017). And the main supervisor of the takeover by Bellamy is the ASIC. Besides, as the target firm and Bellamy are both ASX-listed entity, the regulations that Bellamy's should follow are the Corporate Act and the rules of the ASX.

4.4 Suggested Financing Package

After considering the single value of Tatura and the synergy value, it is believed that $100m would a premium offer that Tatura Milk shareholders are likely to accept. To be more precise, transaction payment method is suggested to be a combination of shares and cash.

On the one hand It is obvious that if just relying on cash, the acquirer shareholders have to bear with the entire risks if the expected synergy value cannot translate into reality (Alfred & Mark, 1999). Additionally, offering shares to Tatura's shareholders could let them share certain synergy benefits if the acquisition premium finally materializes, and hence they will be more likely to accept this offer.

On the other hand, based on the credit analysis in the third part, as Bellamy's does not have a large weight of liability, and has a relatively stable cash flow (especially after 2018), it is an ideal way for Bellamy's to invest a part of cash to afford the acquisition payment.

Thus, the suggested financing package of this transaction will comprise of 3 parts: $25

million is offered by company's cash reserve, another $25 million is offered from Bank loan and the rest 50millon is offered by issuing 5m Bellamy's shares. Note that because of the dilution effect, the earning price per share will unavoidably decrease, around 2 dollars.

4.5 Brief Teaser Document

4.5.1 Company Overview

Tatura Milk Industries Limited is a wholly owned subsidiary of Bega Cheese Limited (ASX: BGA). This company mainly focus on the manufacturing and package of milk products, cream cheese, and life-stage formulas. It is famous for the long history and rich experience of infant formula productions as well as the capacity to source high quality milk. Tatura begins to supply its products with Bellamy's since 2007.

4.5.2 Summary of Financial Information

Generally, Tatura Milk has strong financial performance on its balance. The Profit after tax in FY2016 returns to $15,849 thousands, while the number in FY2015 is only $1,097 thousands because of a continued contraction in dairy commodity values for Australian milk suppliers (Bega Cheese limited,2016). It seems that Tatura has overcame this challenge by focusing on their operations on optimizing financial returns. The key financial data of IAB is summarized in the table below.

Table 9 Key Financial Data of Tatura Milk

	FY2014	FY2015	FY2016
EBITDA ($000)	31,334	12,381	34,162
EBIT ($000)	22,188	2,161	24,197
Profit after Tax ($000)	15,108	1,907	15,849
ROE (%)	8.2%	7.0%	9.1%

4.5.3 Investments Highlights

- Market position and Regulatory Concerns

Tatura Milk has CFDA certification in China. The obtain of Tatura could help retain and increase the organic infant formula products market share in China through offline channels, which has contributed about 14% of Bellamy's revenues in FY2016(Bellamy's Australia Limited,2016). On the other hand, this acquisition is good for improving product diversity in the milk products segment.

- Strategic Fit and Synergies

The value of this takeover comes from the twin value of higher growth and cost savings, which is $20.8 million based on our assumptions. Also, this investment has corresponded to Bellamy's turnaround strategy very well.

- Effects on Supply Chain

This takeover could help Bellamy's expand its industry to upside of supply chain and hence increase the production efficiency and achieve a sustained development in this fiercely competitive industry.

4.6 Conclusion and Final Transaction Recommendation

Bellamy's is experiencing the booming development in the infant formula market especially in Asian area, and it is the ideal time for Bellamy's to acquire a company to improve their business in higher level and more importantly, expend and permeate their products into the world's second-biggest economy, China. Based on the analysis above, Tatura Milk can be the most suitable target company. In this acquisition, besides Tatura Milk's stand-alone value, a great value of synergy will be created. Additionally, the takeover of Tatura Milk will bring a great strategic value to Bellamy's. It can comply with its development strategies well. The final recommendation for Bellamy's is to offer $100 million to complete this transaction by a mixed deal method, finish the payment by half part of cash and half part of stocks.

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Appendix

Appendix 1. Key characteristics of Bellamy's

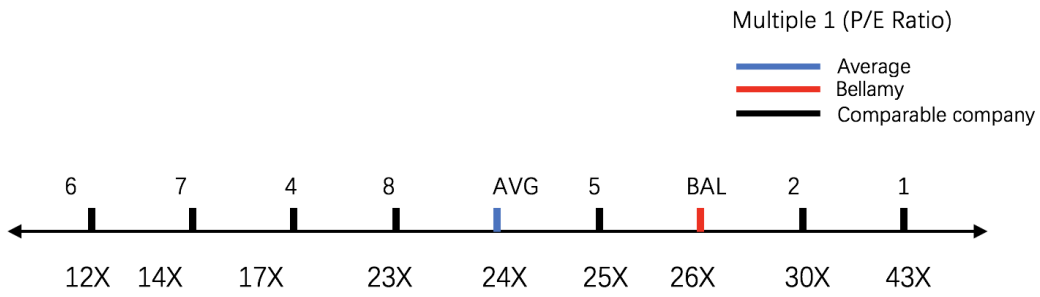
Business profile		Financial profile		
GICS Sector	Consumer Staples	Size	EBITDA: $54.61million	Net income: $38.33million
GICS Industry	Food Products			
Products and services	Organic food and formula products for babies and toddlers	Profitability	EBITDA Margin: 22.33	Net income Margin: 15.67
Customers and End Markets	Customer: Woolworth, Coles, Chemist Warehouse, Online store. End Market: Operation in Australia, China and South-East Asia.	Growth	Earning growth rate: 629.36% in FY 2015, 274.34% in FY 2016 EPS growth rate: 255.02%	
Distribution channels	1.Active sales: direct to customers or wholesale to retailers through offline and online 2. Passive sales: customers to customers	Return on investment	ROE: 46.06% ROA: 26.71%	
Geography	Australia	Credit profile	Debt ratio:0.16 Financial leverage: 1.72	

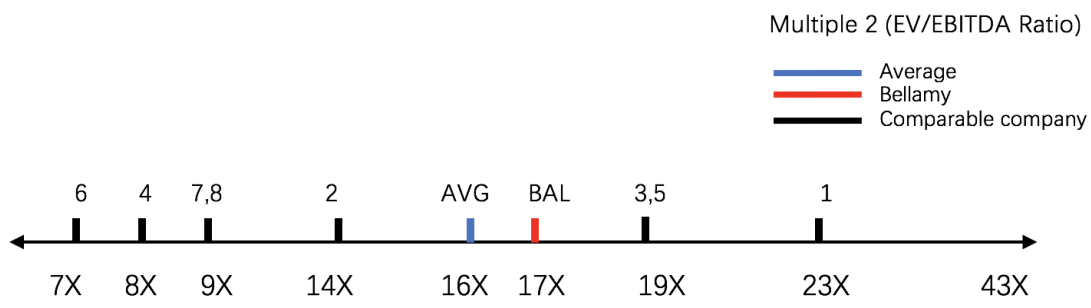
Appendix 2. Comparable companies related data

No.	comparable company	diluted EPS (cents per share)	net income	dilued shares	share price	equity value	net debt	enterprise value	revenue	EBITDA	EPS (cents per share)
			universe of comparable company ($millions)								
1	The a2 Milk Company Limited	4.31	29.02	673.32	1.75	1178.31	-66.13	1179.87	336.33	52.19	4.11
2	Bega Cheese Limited	18.90	28.41	150.32	5.53	831.26	53.08	1280.00	1203.18	65.40	18.61
3	Freedom Foods Group Limited	28.54	27.33	95.76	3.98	381.13	39.92	861.79	218.37	41.40	15.37
4	Ridley Corporation Limited	9.00	25.16	279.56	1.34	374.60	40.97	471.91	924.68	58.18	8.17
5	Webster Limited	-23.28	15.78	-67.78	1.10	-74.56	184.50	647.21	187.79	29.71	4.55
6	Tassal Group Limited	32.78	48.49	147.93	3.78	559.16	135.37	721.24	453.54	97.06	32.78
7	Select Harvests Limited	46.00	34.18	74.30	6.24	463.66	67.27	417.16	251.78	62.81	46.52
8	Costa Group Holdings Limited	7.96	25.26	317.34	2.61	828.25	99.76	1660.00	821.86	72.47	7.96
	Average	15.53	29.20	188.09	3.29	567.72	69.34	904.90	549.69	59.90	17.26
	Ballamy's Australia Limited	38.60	38.33	99.30	9.93	986.05	-32.16	912.20	245.10	54.61	38.60

		Valuation multiples	
No.	Comparable Company	P/E	EV/EBITDA
1	The a2 Milk Company Limited	42.58	22.61
2	Bega Cheese Limited	30.41	14.02
3	Freedom Foods Group Limited	26.42	18.78
4	Ridley Corporation Limited	17.14	8.11
5	Webster Limited	24.51	19.37
6	Tassal Group Limited	12.14	7.43
7	Select Harvests Limited	14.49	8.90
8	Costa Group Holdings Limited	22.78	8.90
	Average	23.81	13.52
	Ballamy's Australia Limited	26.45	17.48

Based on the data in the valuation multiples of the above 8 companies, the number line of P/E ratio and EV/EBITDA ratio is displayed below:





Selected Comparable Companies			
No.	comparable company	P/E	EV/EBITDA
1	The a2 Milk Company Limited	42.58	22.61
2	Bega Cheese Limited	30.41	14.02
3	Freedom Foods Group Limited	26.42	18.78
4	Costa Group Holdings Limited	22.78	8.9
5	Webster Limited	24.51	19.37

Appendix 3 Calculation of EV/EBITDA ratio multiple

Multiplier	Financial Metrics	Multiple Range	Implied EV	Less Net Debt	Implied Equity Value	Fully Diluted Shares	Implied Share Price
EBITDA	54.61	14X-19X	764.54-873.76	-32.16	796.7-905.92	99.3	8.023-10.7713

1.EV (enterprise value) = equity value + total debt + preferred stock +non-controlling interest –cash or cash equivalents

2.Diluted shares = net income/diluted EPS

Notes: In the calculation of EV, the data of each item in the presented formula is taken from the financial data part in DatAnalysis Premium. Similarly, when applying diluted EPS to calculate the fully diluted shares, the diluted EPS is picked from the 2016 annual report in each company. The calculated financial statistics are displayed in appendix 4.

Appendix 4 Projections of free cash flows

Operating Scenario	1											
Mid-Year Convention	Y	Historical Period			CAGR		Projection Period					CAGR
		2014	2015	2016	('14 - '16)	2016	2017	2018	2019	2020	2021	('08 - '13)
Sales		**$48.9**	**$125.3**	**$244.6**	*123.7%*	**$244.6**	**$256.8**	**$372.4**	**$434.2**	**$486.3**	**$535.0**	*16.9%*
% growth		*NA*	*156.2%*	*95.2%*		*95.2%*	*5.0%*	*45.0%*	*16.6%*	*12.0%*	*10.0%*	
EBITDA		**$3.1**	**$13.0**	**$54.6**	*319.7%*	**$54.6**	**$51.4**	**$74.5**	**$86.8**	**$97.3**	**$107.0**	*14.4%*
% margin		*6.3%*	*10.4%*	*22.3%*		*22.3%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	
Depreciation & Amortization		0.3	0.4	0.3	*0.0%*	4.9	0.8	3.7	6.5	7.3	8.0	
EBIT		**$2.9**	**$12.6**	**$54.3**	*332.7%*	**$49.7**	**$50.6**	**$70.8**	**$80.3**	**$90.0**	**$99.0**	*14.8%*
% margin		*5.9%*	*10.1%*	*22.2%*		*20.3%*	*19.7%*	*19.0%*	*18.5%*	*18.5%*	*18.5%*	
Taxes		0.8	4.0	16.6		14.9	15.2	21.2	24.1	27.0	29.7	
EBIAT		**$1.9**	**$9.3**	**$38.3**	*349.0%*	**$34.8**	**$35.4**	**$49.5**	**$56.2**	**$63.0**	**$69.3**	*14.8%*
Plus: Depreciation & Amortization		0.3	0.4	0.3	*0.0%*	0.3	0.8	3.7	6.5	7.3	8.0	
Less: Capital Expenditures		(0.4)	(0.4)	(2.4)	*144.9%*	(2.4)	(5.1)	(9.3)	(10.9)	(12.2)	(13.4)	
Less: Increase in Net Working Capital		(0.7)	(5.3)	(31.9)	*598.4%*	(31.9)	(28.0)	(25.0)	(20.0)	(20.0)	(20.0)	
Unlevered Free Cash Flow		**$1.1**	**$4.0**	**$4.3**			**$3.1**	**$18.9**	**$31.9**	**$38.1**	**$43.9**	
WACC		9.2%										
Discount Period							0.5	1.5	2.5	3.5	4.5	
Discount Factor							0.96	0.88	0.80	0.73	0.67	
Present Value of Free Cash Flow							**$2.9**	**$16.6**	**$25.6**	**$28.0**	**$29.6**	

Appendix 5 Debt payment schedule

	2017	2018	2019	2020	2021
Payment	4,683,528.72	4,683,528.72	4,683,528.72	4,683,528.72	4,683,528.72
Interest	1,100,000.00	902,905.92	694,971.67	475,601.03	244,165.00
Amort.	3,583,528.72	3,780,622.80	3,988,557.06	4,207,927.70	4,439,363.72
EoP Balance	16,416,471.28	12,635,848.47	8,647,291.42	4,439,363.72	-

Appendix 6 5Cs – Collateral

	06/2014	06/2015	06/2016	06/2017	06/2018	06/2019	06/2020	06/2021
account receivables	6443000.00	20867000.00	33887000.00	35280906.98	42220527.23	45724733.43	4862249.58	51516460.49
operating revenue	50927000.00	125302000.00	244583000.00	245234400.00	293471074.00	317828495.00	33797058.00	358086267.00
receivable/sales	0.13	0.17	0.14					
averaged receivable/sales	0.14							
collateral A (Account Receivable)	3221500.00	10433500.00	16943500.00	17640453.49	21110263.62	22862366.72	2431124.79	25758230.24
capital expenditure				5100000.00	9300000.00	10900000.00	12200000.00	13400000.00
PPE	553000.00	617000.00	1105000.00	6205000.00	15505000.00	26405000.00	38605000.00	52005000.00
collateral B (PPE)	276500.00	308500.00	552500.00	3102500.00	7752500.00	13202500.00	19302500.00	26002500.00

Appendix 7 5Cs - Cash Flow

	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Growth rate consumed in Australia		68.38%	47.21%	66.21%	4.36%	0.20%	0.60%	0.45%	0.40%	0.40%
Growth rate consumbed in China		n/a	1140.00%	375.00%	117.32%	0.20%	25.00%	10.00%	7.50%	7.00%
Growth rate in China		34.21%	5.88%	161.11%	339.01%	0.20%	25.00%	10.00%	7.50%	7.00%
Growth rate in south east Asia		28.57%	-22.22%	95.24%	9.76%	1.20%	8.00%	7.00%	6.00%	4.00%
Average Growth rate in Goroup						0.53%	11.20%	5.82%	4.63%	3.80%
Sales										
Australia- Consumed in Australia	11.70	19.70	29.00	48.20	50.30	50.40	50.70	50.93	51.13	51.34
Australia- Consumed in China	0.00	1.00	12.40	58.90	128.00	128.26	160.32	176.35	189.58	202.85
China/Hong Kong	3.80	5.10	5.40	14.10	61.90	62.02	77.53	85.28	91.68	98.10
China mkt	3.80	6.10	17.80	73.00	189.90	190.28	237.85	261.63	281.26	300.95
South East Asia	2.10	2.70	2.10	4.10	4.50	4.55	4.92	5.26	5.58	5.80
Total sales						245.23	293.47	317.83	337.97	358.09
Cost										
Cost of goods sold			32.50	84.10	132.90	133.61	148.57	157.21	164.50	170.75
SG&A			16.30	28.90	47.10	85.00	80.00	75.00	70.00	70.00
R&D			n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total			48.80	113.00	180.00	218.61	228.57	232.21	234.50	240.75
Cash flow						26.63	64.90	85.61	103.47	117.34

Appendix 8 Scenario Analysis

Scenario	2017E	2018E	2019E	2020E	2021E	Total
Expected EBIT	26.63	64.90	85.61	103.47	117.34	397.94
optimistic	62.17	100.44	121.15	139.01	152.88	575.65
Pessimistic	-8.91	29.36	50.07	67.93	81.80	220.24

Appendix 9 Calculation of Synergy

Tatura Milk		Combined Firm Value		Value of Firm With Synergy		Value of Synergy
Cumulative Present Value of FCF	$ 1.37	Cumulative Present Value of FCF	$ 104.06	Cumulative Present Value of FCF	$ 19.22	
Terminal Value		Terminal Value		Terminal Value		
Terminal Year FCF (2021E)	$ 12.87	Terminal Year FCF (2021E)	$ 119.86	Terminal Year FCF (2021E)	$ 124.23	
Long-Term growth rate	2.5%	Long-Term growth rate		Long-Term growth rate	3.0%	
WACC	12.0%	WACC		WACC	9.2%	
Terminal Value	$138.84	Terminal Value	$1,916.30	Terminal Value	$2,063.82	
Discount Factor	$ 0.57	Discount Factor		Discount Factor	$ 0.64	
Present Value of Terminal Value	$ 78.78	Present Value of Terminal Value	$1,223.47	Present Value of Terminal Value	$1,329.11	
Enterprise Value	$ 80.16	Enterprise Value	$1,327.53	Enterprise Value	$1,348.32	**$20.80**