BEN & JERRY

This case study, written by Antony Page and Robert A. Katz, discusses the founders, Ben and Jerry, and how they came to be involved in the ice cream business. Ben and Jerry's is a well-known ice cream brand that started in 1978 and has become a becoming a leader in the premium ice cream segment. Ben & Jerry's has used its success to support several charitable and social causes. However, Ben and Jerry's has come under fire for its financial practices. The company has not been as successful as it and could have followed more sound financial practices to improve the company's financial health since they were not able to make profits so the company. Considering the above benefits, the company had to move to mergers, acquisition and to accept takeover offers with various investors where Unilever has taken over the company where the case study deals with few defence strategies which the company could have used in order to stop the takeover which helps the shareholders interest and company ownership to be held back strongly.

Questions & Answers

1. Explain if three dimensions of Ben & Jerry's mission statement are compatible with each other or there are conflicts among them, and identify some examples of corporate policy conflicting responses?

Ben & Jerry's mission statement is to make, distribute and sell high quality ice cream products in an innovative and social manner. The three dimensions of Ben & Jerry's mission statement are product, economic, and social.

- Product dimension deals with making, distributing, and selling best quality ice-creams with new varied flavors.
- Economic dimension deals with the financial part by developing career options, financial rewards for employees and increasing the growth and value for shareholders.
- Social dimension plays a major role in the company as it focuses on helping the local community.

Ben & Jerry wanted to create a product that is socially responsible with high quality however there are some conflicts between them which reflects on the corporate policy.

For example,

- In the economic dimension they require focus on profits and cost savings, whereas the social dimension of supporting foundations and committing to social activities weighed more than profit focus.
- Ben & Jerry wanted to create highly sustainable products for its consumers which sources the dairy products from local, sustainable farmers which may conflict with the need of sourcing ingredients which creates an environmental impact.
- The company is known for its unique flavor and its varieties in products, but it conflicts with limited-edition flavors making constant efforts to expand their product line.

2. Evaluate the performance of the three dimensions in question 1 above, and provide the necessary evidence regarding Ben & Jerry's performance on each of the three dimensions of the mission statement?

There are three dimensions used by the company from the case exhibit which states how the performance of each dimension is determined in the company's management.

Product - Average performance
Economic - Below Average performance
Social - Good performance

The Product dimension performance of Ben & Jerry seems to be average as its homemade products had a wide range of products including ice- cream, frozen yoghurt, and sorbet. However they need to satisfy consumers with unique flavors and more varieties. This makes the company to focus more on investing in more products and incurring more cost without focusing on profits. They are in constant focus to expand the products for reaching new consumers, so product line diversification shows the performance as average as they did not satisfy with the products, and they also worked on giving sustainable products with high quality ingredients.

The Economic dimension of B & J shows they were below average which is the reason they wanted to sell the company. Through increased competitive pressure and declining financial performance by poor stock performance which led them in considering various offers like mergers and acquisitions, they were discriminating shareholders by not considering the voting powers and making decision and promoting society with more focus on social activities which led to takeover. All financing decisions were based on community focus, for example B & J first public offering were restricted for Vermont residents and they did not practice traditional investor- related practices so economic dimension was below average. They donate 7.5% of pre-tax profits to social causes which shows that the company focuses more on social activities than on financial performance which makes the company perform low.

Social dimension is good compared to other dimensions since Ben & Jerry was one of the companies to use social mission in 1978 where the mission statement mentions they wanted to provide products in a healthier environment by their uniqueness. This creates social objectives and awareness that the company relates to good causes like "Greenwashing" which support various foundations like Greenpeace International and Vietnam Veterans. Operating decisions were also considered with community welfare motives by making a win scenario in disposal of factory wastewater, So they sacrificed short term profits for social gains.

3. Discuss as to why Ben & Jerry's became a takeover target by providing appropriate evidence. Explain if the current investors will support any of the takeover offers?

- Ben & Jerry's was a takeover target due to a number of reasons. Firstly, the company had a strong brand reputation and loyal customer base, which made it an attractive takeover target for bidders.
- One of the important reasons why they became a takeover target was because they were declining in financial performance by focusing more on society.
- Additionally, Ben & Jerry's had a relatively small debt, making it a more attractive target for potential buyers.
- The company also had a strong presence in the market and had a wide distribution network. This made it easier for potential buyers to integrate the company into their own operations, which further increased its attractiveness as a potential acquisition target.
- Moreover, the company had a long history of innovation and had developed a wide range of products. This meant that the company had a good chance of continuing to develop new products and ideas, which made it even more attractive to potential buyers.
- Ben & Jerry's was profitable at the time of the takeover. This meant that the company had the potential to increase its value in the future, which made it an attractive target for potential buyers
- They supported a lot of social activities and helped many foundations which was another reason for decline in financial performance was due to poor decisions and sales growth decreased from 1994, and high price of cream and milk are factors the company cannot control, which reflected as poor stock performance in exhibit 2 which shows Ben & Jerry stock performance for cumulative years is low compared to other competitors in the industry.

- Investors may be more interested in the financial returns of the takeover and may choose to support an offer that will maximize their returns, while others may be more motivated by the social and environmental impact of the takeover and might choose to support an offer that aligns with their values. Ultimately, the decision to support a takeover offer is up to the individual investor.
- Some group of investors including (Body shop founder, Anita Roddick) tried to invest however Current investor Dreyer's Grand tried to merge and offer a price to buy the company which made Unilever offer a high price. Investors were attracted by looking at stock performance however many other investors could not invest since they had a strong social mission.

4. Estimate the fair value of the company based on:

a. Multiples

Competitors fair value are calculated using EPS & BPS.

The Price Earnings ratio of multiples and Earnings Per Share of multiples are being calculated to know the share price of them.

(Attached in Excel Calculation)

	FAIR	VALUE	
Company	Price / Earning	EPS	Share Price
Dreyer Grand	47.2	1.06	50.032
Eskimo	30.7	1.06	32.542
TCBY	12.5	1.06	13.25
Yocream	9.4	1.06	9.964
Company	Price / Book	BVS	Share Price
Dreyer Grand	7.8	11.82	92.196
Eskimo	1.1	11.82	13.002
TCBY	1.2	11.82	14.184
Yocream	1.8	11.82	21.276

The fair value of comparables are estimated.

b. Discounted cash flow (DCF) analysis to calculate implied stock prices and this will require to calculate the weighted average cost of capital as well)

(Attached in Excel)

CALCULATION OF WEIGHTED AVERAGE COST OF CAPITAL

- Market Capitalization is calculated based using

Market Capitalization = Market Price of shares * No. of Outstanding shares

Market Capitalization	
Share Price	27.5
No. of Outstanding shares	6759276
	801813
Class A + Class B Shares	7561089
Total No. of Outstanding shares (in millions)	7.561089
Market Capitalization	**207.93**

- To calculate Total Capital Market value of equity is used as stockholders' equity from above calculations with Long debt

Total Capital = Market Value of equity + Net Debt	
Stockholders' Equity	207.93
Long Term Debt and Obligations	16.7
Total Capital	**224.63**

- **% of Debt and % of Equity is calculated as follows**

  E – Equity
  D – Debt

E / D+E *100	
= 207.93 / 224.63 * 100	
% of Equity	**92.57**

D / D+E *100	
= 16.7 / 224.63 * 100	
% of Debt	**7.43**

Re – return on equity
Rd – return on debt
T – Tax rate given in exhibit

Tax	40%

- Cost of Debt is the Yield of Ben & Jerry's debt which is given in exhibit as

Cost of Debt	8.00%

- Cost of equity has been calculated based on CAPM model since beta is involved in form of risk factor, and its explicit.

COE – Cost of equity
Rf – 30 yr. treasury bond of 6.5% rate is followed as its long term
Rm -rf is the market risk premium given in exhibit as 5.5%

COE = $rf + \beta(rm - rf)$	
Beta	0.95
rf	6.50%
rm	5.50%
Cost of Equity = $re = rf + \beta\ (rm - rf)$	**11.73%**

- Weighted Average cost of capital are being calculated using Cost of Equity and Cost of Debt considering the tax rate with risk beta factor

Weighted Average cost of Capital	
$= E/ D + E\ re + D/D + E\ rd\ (1 - t)$	
= 92.57*0.1173+7.43*0.08*(1-0.40)	
WACC	**11.21**

CALCULATION OF DISCOUNTED CASH FLOW

WACC = 11.21%
N – no. of years includes 2011 Cash Flow

Cash Flow 2011(in millions)	
CF 2010	62.87
Growth	3.00%
CF 2011	**64.76**
Terminal Value	= CF2011 / WACC - g
= 64.76 / (0.1121- 0.03)	
Terminal Value	**788.75**
PV of Terminal Value	= Vt/ (1+WACC) n
= 788.75 / (1+0.1121) ^11	
PV of Terminal Value	**245.107**

PV of Cash Flow 2000 to 2010	
Year	CF
2000	19.34
2001	23.92
2002	26.38
2003	29.1
2004	32.12
2005	35.48
2006	42.98
2007	47.2
2008	51.88
2009	57.09
2010	62.87
NPV (in excel)	**$212.38**

NPV is calculated as $212.38

= PV of Terminal Value + Net Present Value (245.107 + 212.38)	
Total DCF Value	**$457.49**
= (457.49 / 7.56)	
DCF Value/Share	**$60.51**

- ***Do you think the current takeover offers are justifiable based on the valuations above?***

Takeovers are justified using factors like Price Earnings ratio, Book Value and Market Capitalization, Earning per share in Discounted Cash Flow compared with Unilever.

- By considering current and future performance Discounted Cash Flow analysis are made and it shows the present value of the company which is calculated as $60.51 for Ben & Jerry and it seems the higher DCF with offer price of $36 by Unilever shows that the DCF is high and is great for considering the opportunity for takeover to get greater return of investment.

- Using P/E ratio Ben & Jerry share price was $27.50 and Market Capitalization is $207.93 millions and Unilever has total Market Capitalization with $18billion showing Unilever as high value $34 as offer price and Eps $36/1.06 = $33.96 shows that Unilever has higher P/E ratio therefore proving the takeover offer as justifiable

- Using Book value $11.82 of Ben and Jerry where DCF is higher than BV since they have already been discounted.

Based on the valuations above, it appears that the takeover offer from Unilever is a justifiable offer, The other offers from Dreyer's Grand and Meadowbrook Lane are not as close to the NPV and are lower than the DCF valuation, making them less justifiable the greater return the investment will be incurred. For Ben & Jerry takeover a higher discounted cash flow DCF indicates that the business is generating more cash flow, making it a more attractive target.

SENSITIVITY ANALYSIS BASED ON DCF VALUATION

Growth Rate			WACC			
60.51	10.00%	11.00%	12.00%	13.00%	14.00%	15.00%
1%	62.746	55.060	48.859	43.764	39.516	35.927
2%	67.198	58.314	51.293	45.620	40.953	37.056
3%	72.923	62.381	54.267	47.847	42.652	38.374
4%	80.556	67.610	57.986	50.568	44.691	39.931
5%	91.242	74.583	62.766	53.970	47.184	41.799
6%	107.271	84.344	69.141	58.344	50.299	44.083

From the sensitivity analysis, The Discounted Cash Flow decreases and is affected by WACC and growth rate because Weighted Average Cost Capital is the discount rate which is used to calculate the present value of future cash flows. If the WACC increases with respect to increase in growth rate, then Discounted Cash flow gradually decreases. However, as the growth rate increases DCF is of higher value.

USING RATIOS OF THE CLOSE COMPETITOR

Based on valuations made, the Ratio of close competitors was Dreyer’s Grand which had the Highest Price Earning P/E ratio.

- Dreyer’s Grand had a very good offer proposal where Ben & Jerry management team will be maintained, and quasi autonomous business will be generated.
- Dreyer’s Grand main proposal attractiveness was they encourage social activities which Ben & Jerry mission statement runs for mostly with all corporate action responsibilities which creates a good brand reputation for the company and if this offer had been acquired, they would have maintained the mission without any hindrance along with gaining profits.
- The company Dreyer’s Grand had a very good scale of performance which acts as a close competitor for Ben and Jerry where the P/E ratio 47.2 is high compared to other competitors of Ben & Jerry.

- The offering Price listed was $31 stock where if acquisition made them the seller can defer paying tax since its stock offer. This stock deal adds benefits by sharing the growth in future.

DISCUSSION AND CONCLUSION ON VALUATION

- Stock prices for all competitors were calculated using Earnings Per Share and Price Earnings Ratio to know how much the company can make if invested and higher EPS for the company shows they have good earnings which helps in high stock price. Price Earnings ratios show that the investors pays more for every unit of share.
- The current Cash Flow for 2010 as 62.87 however the estimated CF 64.76 for 2011, with growth rate 3% in future Net Present Value $ 212.38 a positive NPV shows that cash flow covers all interest connected with financing activities. Considers the present value of future cash flow and Terminal Value using future Cash flow $ 245.107 WACC of 11.21% is calculated considering Beta risk factor the estimated value of the asset or company Discounted Cash Flow DCF is $60.51. DCF considers current cash flow This is a conservative estimate, as the company may be worth more than this amount in the future. However, it is still important to consider the risks associated with company when making a final decision on its value. DCF are used to compare the relative attractiveness of different potential targets.
- Cost of equity is calculated based on the CAPM model since beta is involved in the form of risk factor, and its explicit. The difference in valuation might be due to synergies for economic reasons in B&J, which may not be reflected in traditional DCF analysis.
- DCF valuation is very useful since it is more objective and it's helpful for companies to know the current value based on future cash flows being discounted and its part of the due diligence process when acquisition takes place. By calculating the takeover company will be able to make a better decision on whether to acquire or let go of the acquisition.
- From the sensitivity analysis The DCF is affected by WACC and growth rate because WACC is the discount rate which helps to calculate the present value of future cash flows. If the WACC increases with respect to increase in growth rate then Discounted Cash flow gradually decreases, For example 15% WACC and growth rate 1% the DCF $35.93 been said the DCF decreases, the present value of future cash flows will be discounted more heavily, resulting in a lower overall value. Additionally, the growth rate is used to project future cash flows. If the growth rate increases, the projected cash flows will be higher, For example 6 % growth rate the firm gained Discounted Cash Flow $107.27 high resulting in a higher overall value.

- Since the valuation is a detailed analysis taking interest, weighted average cost of capital, tax rate and other measures. with a growth rate of 3%, DCF will be less for future years if the DCF valuation is higher than the cash offer price, the seller may be more likely to accept it.
- A high discounted cash flow value is a good sign for acquirer as it shows the potential high returns in the future, also the target company will bid for higher offer price, a high DCF value $60.51 shows that the Ben and Jerry has high potential for generating returns as it increases the growth rate in future, but it also suggests that the acquirer must pay a higher price to acquire the target company Ben & Jerry takeover has higher discounted cash flow DCF shows that it will be generating more cash flow making it a more attractive target.

5. Assume you are an independent director on the board of the company for the last 5 years. Would you defend the agenda of the current management team or support one of the acquisitions offers?

As an independent director on board for the last 5 years,

- I would review the financial performance and terms of the offers and compare them to industry standards and the current market conditions of the companies and analyse the potential strategic benefits for the shareholders of Ben & Jerry in this scenario. I would also need to understand the potential risks and liabilities associated with each offer.

- When compared with other bid offers, I would defend the agenda of current management in taking up Unilever acquisition offer as the company financial and operational performance was declining so takeover by Unilever is a better offer than the other acquisition offers though they restrict social commitments, since the company must give importance to the interest of shareholders. Unilever is a large established and successful company, which will provide the necessary resources and help Ben & Jerry's grow. The cash payment proposed by Unilever's offer of $36 (cash) would provide immediate liquidity to the company, allowing it to reinvest in its operations and better serve its customers is also more attractive than the stock payment proposed by Dreyer's Grand and Meadowbrook Lane. Furthermore, Unilever has promised to keep Ben & Jerry's in control of the current management team, which will ensure that the company's culture and values remain unchanged.

6. Briefly discuss the takeover defence strategies used by the management of the company and the state of Vermont, and explain if the defence strategies were adequate to stop the takeover of the company?

The common takeover defence strategies *adopted by the Vermont state,* was according to Vermont legislature, Vermont Business Corporation Act 1998 a provision for directors to limit the ability of companies to take over Vermont based companies was enacted. The Vermont State used a strategy of peaceful negotiation and compromise to reach a friendly solution in Ben and Jerry's takeover. The state ensured the ice cream company was owned and operated by local Vermonters, while also ensuring that the company still had access to the resources it needed to continue its success in takeover with Unilever. This strategy allowed Ben and Jerry's to remain a Vermont-based company, while still allowing the state to protect its interests.
The common takeover defence strategies *adopted by the Management are:*

- The poison pill defence was used to make the company less attractive to an acquirer by issuing additional shares to existing shareholders at a discounted rate. Adopting a **poison pill** defence that would have triggered a significant stock dilution if any large shareholder accumulated more than 15 percent of the company's stock.
- The unfriendly board was used to make it difficult for a hostile bidder to gain control of the board of directors. Another takeover defence strategy used by Ben & Jerry's to avoid Unilever's takeover was the creation of a new board of directors and including an unusual class of preferred stock. They would have given the company's founders veto power rights over any takeover bid, since it was made up of representatives of Ben & Jerry's stakeholders, including its employees, suppliers, customers, and community members. This board had the power to reject any takeover offer and was seen to ensure that Ben & Jerry's would remain independent and true to its values.
- Another strategy used by the company and establishing a Shareholder interest and trust that would have allowed long-term shareholders to retain control of their shares, so they stated that it was a forced sale to accept Unilever's rich offer as they had to consider the highest bidder, according to corporate law which states that law must look at shareholders wealth maximization,

The above defence strategies were adopted by management and state for takeover of the company, however none of the strategies they used was adequate to stop the takeover.

- Poison pills could have been applied by the company to avoid the acquisition accomplishment by making them expensive. This defence strategy will have a need for the acquirer to find it difficult to acquire since additional shares, repurchase of shares would have bought Unilever could not have implemented it in this case since two founders and other members of board controls the vote and maintains control. So, Ben and Jerry could have used this defence mechanism to stop the takeover. The poison pill defence was used to make the company less attractive by significantly increasing the cost of the takeover to an acquirer by issuing additional shares to existing shareholders at a discounted rate during takeover. These included increasing the company's share price by repurchasing its own stock.

- The board was unfriendly and made it difficult for a hostile bidder to gain control of the board of directors since they can be changed any time of the year, which is a strategy of using existing shareholders to create a voting block that would oppose a hostile takeover. These shareholders are encouraged to purchase additional shares if they feel the takeover offer is inadequate. This is another defence mechanism where if super voting power was not sufficient then they could have used a class of preferred stock held veto rights which Ben & Jerry's Foundation owns. So, for takeovers to happen they want Foundation agreement where two directors of the three were founders stockholders, board members cannot be targeted since they have control and can use it as a defence strategy to stop the takeover and corporate independence can be maintained.

- Ben and Jerry's management also made use of public opinion to create a positive image of the company in order to dissuade potential bidders..

Despite many defence strategies and the company's attempts to block the takeover of Ben & Jerry like poison pill, setting up foundation, raising capital, establishing board of directors to protect the company's mission and value with high voting power. The company could have used any of this defence strategy, but they have used Corporate law as an excuse to be acquired and gain benefits by acquirer Unilever.

The tactics they used were ultimately unsuccessful as Unilever is large and powerful with huge financial resource and they can overcome any resistance that B&J brings up. The takeover of Ben & Jerry's by Unilever in 1978 was successful, since it was also able to use its large shareholder base to acquire a majority of Ben & Jerry's stock.

Overall, Ben & Jerry's has employed a variety of defence strategies to defend itself against Unilever's hostile takeover. Ultimately, Ben & Jerry's was unable to ward off the takeover and Unilever ultimately acquired the company. These strategies have been largely successful in helping Ben & Jerry's maintain its independence and protect its unique culture.

REFERENCE

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