Corporate Finance Final Project
Spring 2015
Research on Beverage and Food Industries

Or 'a lifestyle that won't help you get to 60 years old'

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1. COMPANY OVERVIEW:

AB Inbev: Anheuser-Busch InBev (Euronext: ABI, NYSE: BUD) is the leading global brewer and one of the world's top five consumer products companies. The company's portfolio consists of well over 200 beer brands, including 6 of the 10 most valuable beer brands in the world. AB Inbev is based in Leuven, Belgium and employs 155 000 people, across 25 countries. AB InBev was formed in 2008 following the acquisition of American brewer Anheuser-Busch by Belgian-Brazilian brewer InBev, which itself is a merger of AmBev and Interbrew.

McDonald's: McDonald's (NYSE: MCD) operates and franchises restaurants across 119 countries. McDonald's started in 1940 as an innovative fast food chain that had a simplified menu of hamburgers, fries, and shakes, helping to streamline the ordering process. Today McDonald's has a diverse menu that now includes breakfast and a multitude of options to appeal to different tastes, such as salad, fish, and chicken. The company is going through a period of unstable leadership at the moment. After a short tenure as CEO, Don Thomas was fired this year and was replaced by long time McDonald's UK employee Steve Easterbrook. Easterbrook's main goal is to turn around the company's declining sales.

M Dias Branco: M. Dias Branco S.A. Indústria e Comércio de Alimentos (Bovespa: MDIA3) manufactures, markets and distributes food products derived from wheat. The company's products include biscuits and pasta, flour and wheat bran as well as margarine and vegetable fats. MDIA3 was founded in 1951, but it was only after 1990, with Brazilian government deregulating the wheat market, that a new cycle began in the company with the inauguration, in 1992, of the first wheat mill plant in the state of Ceará. Until 2003, expansion was mainly organic, through new plants and mills, but from that year on the company has made several acquisitions and, to finance them, in 2006, it went public. Today, MDIA3 is market leader in biscuits and pasta in the Brazilian market and one of the largest producers in the world.

BRF: BRF S.A. (Bovespa: BRFS3) is one of the world's largest producers of refrigerated and frozen protein foods. The company was created after the merge of two listed Brazilian companies: Sadia and Perdigão. The transaction was announced in 2009 and concluded in 2012. BRF operates in the meat (poultry and swine), processed meat, dairy, margarine, pasta, frozen pizza and vegetable segments, being responsible for 20% of the world's poultry trade. The company exports its products to many different nations and is a market leader in many Middle Eastern countries.
In 2013 there were several corporate changes in the company, after Tarpon Investimentos and Mr. Abilio Diniz bought a relevant stake on the company. A new Board of Directors was elected and departments were reorganized.

Pernod Ricard: Pernod Ricard S.A. (Euronext Paris: RI) is a French company established in 1975 as a result of the merger of two anise-based spirits companies, Pernod SA and Ricard SA. RI engages in the production and commercialization of wine and spirits distributed worldwide. The company's brand portfolio includes, among others, Absolut vodka, Ballantine's, Chivas Regal and The Glenlivet Scotch whiskies, Havana Club rum, Perrier Jouet champagne and Graffigna wine. As of FY14, RI employed 18,000 people in 80 countries and posted a turnover of EUR 8BN.

Boston Beer: Boston Beer (NYSE: SAM) is the second largest craft brewery and fifth largest overall brewery by volume in the U.S. with revenues of US$ 900M in 2014. Best known by its brand Samuel Adams, the company was founded in 1984 by Jim Koch, following 3 generations of brewers in his family, and received several awards for its quality. Boston beer debuted on NYSE in November 1995, but remains under control of Jim Koch. The company has its production, as most of its sales, concentrated in the U.S. and employed 1.120 people as of FY14.

2. CORPORATE GOVERNANCE:

A) Chief Executive Officer:

	McDonald's	AB Inbev	M Dias Branco	BRF	Pernod Ricard	Boston Beer
Name	Steve Easterbrook	Carlos Brito	Francisco Dias Branco Jr	Pedro Faria	Alexandre Ricard	Martin F. Roper
Age	47	55 years	54	39	42	52
Years as CEO	3 months	9 years	3 years	4 months	3 months	15 years
2014 Salary	N/A	USD 1.64 million	BRL 1,600,410	N/A	EUR 750k	USD 764,000
Stock Compensation	N/A	USD 19,224,267	-	N/A	EUR 287k	-
Bonus	N/A	USD 1.34 million	BRL 855,172	N/A	EUR 416k	-
Other Compensation	N/A	-	-	N/A	EUR 3k	USD 453,211
Total Compensation	N/A	USD 22,204,267	BRL 2,455,582	N/A	EUR 1,456k	USD 1,217,211
Stock Ownership (% of total)	< 1%	< 1%	< 5%	< 1%	0.01%	0,01%
Is the CEO Member of the Board?	Yes	No	No	No	Yes	Yes

AB Inbev: Mr. Carlos Brito has been the CEO of AB Inbev since 2008 when the company was formed. He had previously been CEO of Inbev since 2005 and Ambev since 2004. He is well known for paying attention to detail and a hands-on approach that earned him a place on Fortune's 2013 Executive Dream Team. The beer company financial performance over the past four years – the stock is up more than 150% from its original value – has earned Brito high remarks from Wall Street. He started in the brewery industry after his Stanford MBA in Brahma in the early 90's before it merged with Antarctica to form Ambev and was put in touch to the 3G capital partners management philosophy of excellence, competitiveness and cost cutting. Brito is a member of the Board of Directors of Ambev and Grupo Modelo, but he does not hold a seat at AB Inbev Board of Directors. His fixed salary in 2014 was USD 1.64 million and a variable compensation related to performance in 2014 of USD 1.34 million and also additional options compensation. The greatest part of his compensation is performance based, which together with his independence from the board, is good for corporate governance in the company.

McDonald's: Steve Easterbrook was hired as CEO in March 2015 to replace Don Thomas, who was fired for not improving the company's declining sales. Easterbrook has been with McDonald's since 1993 and has served as Global Chief Brand Officer and Executive Vice President sine 2013. His primary focus throughout his career has been on Europe, as he was responsible for covering the UK, Sweden, Finland, Denmark, Norway, Iceland, and Ireland. The Board of Directors is hoping that Easterbrook's marketing and consumer expertise will help turn around the company. While it is unclear what Easterbrook's compensation will be, Don Thomas received a total of $6.7 million in 2014 with a combination of cash, exercised options, and deferred compensation.

M Dias Branco: Mr. Francisco Ivens de Sá Dias Branco Jr., 54 years, is the Company's Chief Executive Officer and Industrial Vice President for Crackers, Cookies, Pasta, Margarine, Cakes and Snacks. Mr. Ivens Jr. began his career at the Company in 1976 working on several of its divisions. In 1981, he was appointed Industrial Officer of the Company and became a shareholder. In 2003, Mr. Ivens Jr. became the Company's Superintendent Office, in 2006 the Company's Industrial Vice President and in 2011 the CEO. Mr. Ivens Jr. has not worked for other publicly held companies and, as we can see from his last name, he is part of the controlling family. His father owns 63.07% and other family members, him included, hold more 11.44% of the shares. Although a large part of his total compensation is fixed, Mr. Ivens Jr. is a stockholder and a heir of the controller, so his actions as CEO are aligned with what a minority shareholder would expect.

BRF: In January 2015 Mr. Pedro de Andrade Farias assumed the position of Global CEO. Before that he was a board member, between April 2011 and November 2013. Between November 2013 and December 2014 Mr. Faria was BRF International CEO. Mr. Faria was a Board Member and CEO of Tarpon Investimentos until August 2013. Tarpon Investimentos is one of BRF's largest shareholders, with a 10.7% ownership as of March 17, 2015. BRF doesn't disclose individual compensation for its Executive Officers, what is a corporate governance issue. The company only discloses aggregate total compensation for all the Executive Officers and members of its Board, Fiscal Council and Statutory Audit Committee, which totaled R$47.7 million in 2014.

Pernod Ricard: Mr. Alexandre Ricard is the grandson of one of RI's founder, Mr. Paul Ricard, and was appointed as CEO of the company and Chairman of the Board on February 11, 2015. Prior to that, he spent seven years working outside the group for Accenture and Morgan Stanley. In 2003, Mr. Ricard joined RI in the Audit and Development Department. Since then, he has held the positions of CEO of Pernod Ricard Asia Duty Free, Chairman and CEO of RI's subsidiary, Irish Distillers Group, Deputy CEO and COO at RI, as well as board member as the permanent representative of Societe Paul Ricard (main shareholder). Mr. Ricard holds an MA in International Studies from University of Pennsylvania and an MBA from Wharton School of Business. Aside from RI, Mr. Ricard is also a board member at Bow Street Investments Ltd., Fitzgerald and Co. Ltd. and Martell and Co. SA, all subsidiaries of RI.

Boston Beer: Before joining Boston Beer, Martin F. Roper worked as a consultant and led turnaround situations in small manufacturing companies. He joined the company as VP of Operations in 1994 and became COO in 1997. In 2001 Mr. Roper was appointed CEO of the company adding to the President position he already held since 1999. As it stands, the company structure combines management and the board. Mr. Roper was appointed in 1999 to the Board and holds the positions of Chair of Compensation Committee and member of the Audit Committee, which can raise potential conflicts of interests. Since 2006 he also takes part in the Board of Directors of Lumber Liquidators, INC.
Martin F. Roper holds a master's degree in manufacturing and an MBA from Harvard Business School.

B) Board of Directors

	McDonald's	AB Inbev	M Dias Branco	BRF	Pernod Ricard	Boston Beer
Board Size	15	14	5	9	14	8
Insiders	1	0	3	0	8	2
CEOs at other companies	5	5	0	0	1	2
Members with connections to the company	4	0	3	0	8	2
Shares owned by the chairman (% of total)	< 1%	< 1%	63.07%	2.76%	0.01%	28.40%
Average Age	63	57	71	59	59	59
Term (Years)	no limit	4 years	1	2	4	1
Average Tenure (Years)	12	6.9	6	4	7.5	13

AB Inbev: The Board of Directors has 14 members, with no insiders from the company management. Four out of the 14 members are Independent Board Members and 10 members represent the main shareholders. The regular term is 4 years and can be renewed. The average tenure of the current board members is 6.9 years. The fixed compensation is an annual fee of EUR 75,000 and a variable performance-related compensation of stock options. Each Board Director owns less than 1% of company's outstanding shares. All of those are very good points for the company's corporate governance. Despite of that, there are some important points that could make the marginal AB Inbev investor concerned. The controlling shareholders from 3G Capital group are widely known for developing and retaining top tier talent and allocating them across different companies of the group according to their needs. The group also controls other companies like Burger King and Heinz and has recently done that when they transferred Burger King CEO Bernardo Hees to Heinz, which can be good to the interests of 3G Capital but not necessarily good to the interests of marginal investors of Burger King. With the recent acquisition of Kraft Foods by the group, there is a significant risk that part of the AB Inbev management be allocated to the new company of the group in order to implement their successful philosophy of cost efficiency and meritocracy. This could be bad for the interests of AB Inbev investors, especially if they are satisfied with the financial results of the current management team.

McDonald's: McDonald's has 15 board members, and while CEO Easterbrook is technically the only insider, there are many potential conflicts of interest for the board. The McDonald's Board of Directors is primarily made up of businesspeople from the Chicago area who are affiliated beyond McDonald's. Cary McMillan and Walter Massey are both on the Board of Governors for the School of the Art Institute of Chicago, where McMillan is the chairman. Enrique Hernandez is the CEO of a security systems company that is a supplier to McDonald's. Enrique Hernandez was also on the Board for Nordstrom with Jeanne Jackson, another McDonald's Board member. Other Board members who were previously suppliers to McDonald's are Roger Stone and Chairman Andrew McKenna. Directors Richard Lenny and Robert Eckert work at a private equity firm together. The Board has also been criticized for having long tenures (on average 12 years) and for not having a succession plan in place. The average age of the Board is 63, which is the largest in its peer group. There was a rule that Board members could not serve past the age of 73 but the Chairman of the Board, Andrew McKenna, is now 85. It is clear that the Board has power to amend their own rules and pass any vote they are in favor of, as seen by the proxy voting results.

M Dias Branco: MDIA3 is listed on the "Novo Mercado" segment of the Brazilian stock exchange, in which companies voluntarily undertake to abide by corporate governance practices and requirements that go beyond those required by Brazilian Law and CVM (Brazilian Securities and Exchange Commission). In respect to these requirements, MDIA3 must have at least 20% of independent board members (2 in its case): the first one is an experienced academic in management and member of other boards, while the other was the controller and president of bank and also a consultant to several financial and non-financial companies in Brazil. The other 3 position are occupied by members of the controlling family, being Mr. Francisco Ivens de Sá Dias Branco (who directly and indirectly controls 99.94% of Dibra Fundo de Investimentos em Participações, which in its turn controls 63.07% of the company) the chairman and the other two his spouse and his daughter (who is also the CFO). Although the company follows the most strict corporate governance rules in place in Brazil, when evaluating the board using the CALPERS test for independent boards, MDIA3 would fail 2.5 out of 3 questions (audit committee is independent, even though chosen by the board (in its turn controlled by the Dias Branco family), and the company does not have a compensation committee).

BRF: BRF has 9 board members, with no insiders from the company management. 7 are considered to be Independent Members, according to Bovespa's definition. The non-independent members represent two of the controlling shareholders: Previ and Tarpon.
Among the Independent Members is Mr. Abilio Diniz, (current Chairman), who owns 2.8% of the company and was one of the promoters (together with Tarpon) of the corporate restructuring that happened on the company in 2013. Mr. Diniz also holds shareholder participation on Carrefour Brasil,

one of the largest supermarkets chains in Brazil and a client of BRF. Although this could be seen as a potential conflict of interest BRF has a very diversified customer base, reducing the risk of conflict.

Pernod Ricard: RI's Board of Directors is comprised of 14 members, of which two are Employee Directors, designated by the European Works Council in accordance with the French employment law, and six are Independent Directors. Although the company opted for the dissociation of the functions of Chairman and CEO in 2008 and applied such policy until February 2015, it has recently re-aggregated the positions, which are currently held by Mr. Alexandre Ricard.

Of the six non-independent Directors, four are relatives of RI's founder, one is the company's former CEO and one has a shareholders' agreement with Societe Paul Ricard according to which it undertakes to consult with and vote the same way as Societe in all Shareholders' Meeting.

The fact that approximately 36% of the Board Members are connected to RI's major shareholder, Societe Paul Ricard, either through family ties or through shareholders' agreement, undermines RI's corporate governance. Such structure allows for decisions to be taken in favor of the founding family, which are not necessarily in line with the other stockholders' interests.

The issue above is slightly alleviated by the composition of the Audit and the Nomination and Governance Committees because in both committees the majority of members are independent. As such, to some limited extent, the Board is able to maintain its independence and supervision role.

Boston Beer: Boston Beer's Board of Directors is composed of 8 members, 6 of which are independent. The equity structure of the company allows founder Jim Koch to maintain control of decisions. He owns 100% of Class B stocks that account for 34% of the total shares outstanding, but provides him the rights to appoint 5 Board Members, of which himself as Chairman and CEO Mr. Roper were appointed. The other 73% of the shares (Class A) are publicly traded and give the owners the right to appoint 3 Board Directors. This structure affects directly the company's s managerial decisions and capital structure.

C) Relationship with Financial Market and Society

	McDonald's	AB Inbev	M Dias Branco	BRF	Pernod Ricard	Boston Beer
# of analysts	26	46	13	20	34	11
# buys	6	19	6	10	14	5
# holds	19	22	6	8	16	6
# sells	1	5	1	2	4	0
Average daily trading volume (# and % of total shares)	7,531,780 (0.8%)	1,492,222 (0.09%)	115,980 (0.10%)	2,230,000 (0.26%)	489,999 (0.18%)	92,000 (0.7%)

AB Inbev: The company was formed in 2008 with the acquisition of American brewer Anheuser-Busch by Belgian-Brazilian brewer InBev. The company is run following the philosophy of 3G capital group, of Brazilian partners Jorge Paulo Lehman, Marcel Telles and Beto Sicupira, known for extreme cost cutting initiatives and meritocracy (where top performers are promoted and laggards do not last long), causing significant lay offs after the acquisitions. The acquisition of a brand so symbolic for Americans by the Brazilian partners became a political matter when the then candidate for presidency Barack Obama claimed that it would be a "shame" if a foreign company purchased Anheuser-Busch. The CEO Carlos Brito had to deal with the American Senate and promised that the company headquarters would remain in Saint Louis, Missouri and plants would not be closed after the acquisition process. After some time, the company earned high remarks from Wall Street, with its very good financial performance.

The company promotes campaigns, encourage partnerships, public education initiatives, retailer training and other activities and practices that reinforce Responsible Drinking. The company is also committed with environmental goals for reducing water usage, energy usage and greenhouse gas emissions in beverage production.

McDonald's: McDonald's does a good job of communicating with its investors. The website has clear investor information that includes all company proxies and annual reports. 25 analysts cover the firm and only one has a sell recommendation, which is a surprise considering the firm's poor recent financial performance. One concern is that McDonald's discloses the result of proxy votes, but not the breakdown of the vote, which always favors the Board. This could be a sign of a corporate governance issue, but could also signal that the marginal investors trust the Board.
In terms of social impact, McDonald's is very involved in human rights and has a process for assessing human rights risk with each of their operations. 28% of shareholders voted for a proposal that McDonalds reports to them on human rights processes regularly. Proposal did not pass but McDonalds has provided information so that shareholders can see that they care. They require their employees to go through an annual test to certify that they know the standards for human rights. In order for someone to be a McDonald's supplier, they have to meet rigorous standards to make sure they follow the UN Declaration of Human Rights.

M Dias Branco: Due to its listing on "Novo Mercado", MDIA3 has some special obligations when interacting with the market and investors: disclosure of annual balance sheet, according to standards of the US GAAP or IFRS; improvements in quarterly reports, such as the requirement of consolidated financial statements and special audit revision; obligation to hold a tender offer by the economic value criteria, in case of delisting or cancellation of registration as publicly-held company; compliance with disclosure rules in trades involving securities issued by the company in the name of controlling shareholders. The company has a dedicated investors relations' webpage where anyone can have access to its bylaws, financial reports, and webcasts and speak with the IR. To ensure full assistance to investors and analysts, in 2014 the IR department has participated in four conferences and three non-deal road shows in Brazil and four conferences and three non-deal road shows abroad. Over 450 contacts were made during the year in order to clarify questions of stakeholders and contribute to the strengthening of company's transparency. Additionally, 13 different research analysts from the main brokerage houses in Brazil (including foreign banks like Goldman Sachs and Morgan Stanley) cover MDIA3.
The company sees itself as socially responsible and puts its focus of development on the "three bottom line" (economic, social and environmental), taking action on these different areas to support the local community. MDIA3 is a large company incorporated in a poor Brazilian state and, given its privileged condition on a difficult context, is seen as an organization that should give back to the society. The company perceives that and clearly includes community/society among its stakeholders, not to mention the environment.

BRF: Since 2006 BRF adopts Bovespa's Novo Mercado regulations, the one with the highest Corporate Governance standards in Brazil. The company is also part of Bovespa's Corporate Sustainability Index (ISE) and the Emerging Markets of Dow Jones Sustainability Index, what shows its commitment with sustainable development. Overall BRF has a very good relationship with investors. Besides a very complete IR website the company promotes frequent investors meetings and corporate presentations, both in Brazil and in other countries.

Pernod Ricard: The company has good disclosure to the market. Its financial statements and management reports are updated and comprehensive as well as its IR website. Despite being a French company, RI provides all information also in English. The company is covered by a wide range of analysts (34) and is rated by S&P and Moody's with a BBB- and Baa3 rating, respectively.
RI has clear and strict policies on social responsibility. It includes a section for Corporate Social Responsibility in its financial statements and counts with a Managing Director for Human Resources and

CSR and audit and internal control systems to monitor the issue. Furthermore, RI lists a group of benchmarks that set guidelines and principles to which the company commits itself. The list includes the OECD, UN, ISO 26000, International Labor Organization and others. All of those guidelines are also extended to its procurement and suppliers that must comply with it.

Boston Beer: A total of 11 analysts cover Boston Beer and none of them recommend selling the shares. The company publishes all relevant information about its results in its website, besides the decisions of both Class A and Class B Board Directors, and endeavor to communicate the importance of stockholders' commitment. Management wants consumers to be part of the company and share what they call 'the American dream': during the IPO, investors had the option to buy shares directly for $15 or through Goldman Sachs for $20, and the company make constant references about the number of American jobs it creates and the quality of the American product. On the social impact side, SAM engages in several initiatives: it educates its consumers about high quality beer and drinking responsibly, runs a philanthropic program to support small businesses (Brewing the American Dream), and takes part in sustainable programs, such as recycling, reuse and CO2 emission reduction.

3. STOCKHOLDER ANALYSIS

	McDonald's	AB Inbev	M Dias Branco	BRF	Pernod Ricard	Boston Beer
Listings	NYSE	NYSE and Brussels	BM&F Bovespa	BM&F Bovespa & NYSE	Euronext Paris	NYSE
Type of shares	Common	Common	Common	Common	Common	Common
# of Total Shares	959,000,000	1,608,242,156	113,450,000	872,473,246	265,816,388	13,340,000
Top 5 investors	Blackrock (7.00%)	Stichting Anheuser-Busch Inbev (41.23%)	Dibra Fundo de Investimentos em Paticipações (63.07%)	Fund. Petrobrás de Seguridade Social - Petros (12.10%)	Societe Paul Ricard (13.14%)	Jim Koch (28.4%) Class A (1.3%), Class B (27.1%)
	Vanguard (5.57%)	EPS Participations SARL (7.99%)	Massachusetts Financial Services (7.59%)	Caixa Prev. dos Func. Do Branco do Brasil (11.73%)	Massachusetts Financial Services (10.39%)	FMR LLC (8.2%)
	State Street (5.16%)	BRC SARL (2.13%)	Vanguard Group Inc (1.13%)	Tarpon Gestora de Recursos (10.49%)	Capital Group Companies Inc (9.95%)	Blackrock (5.4%)
	Massachusetts Fin. Serv. Company (1.85%)	Vanguard Group Inc (1.12%)	Blackrock (0.89%)	BlackRock, Inc (4.98%)	Groupe Bruxelles Lambert SA (7.49%)	Vanguard Group Inc (4.5%)
	BNY Mellon Asset Management (1.61%)	Norges Bank Investment Management (1.06%)	Franklin Resources (0.89%)	WEG Participações e Serviços (3.02%)	Harbor Capital Advisors Inc (2.88%)	Neuberger Berman (4.4%)

	McDonald's	AB Inbev	M Dias Branco	BRF	Pernod Ricard	Boston Beer
Total Shares Top 5 investors (%)	21.19%	53.53%	10.96%	42.32%	43.85%	50.80%
Total Shares Top 10 investors (%)	27.84%	56.67%	12.80%	53.40%	53.32%	61.90%
% shares held by institutions	68%	99%	25.48%	68.58%	63%	65.60%
% shares held by insiders	0%	<1%	74.52%	2.76%%	<1%	28.41%
Latest Public Offer	12/20/2013	1/7/2015	10/16/2006	7/21/2009	5/12/2009	11/01/1996
Shares offered (Million)	45,644,042.00	565,720,317	19,803,000	4,600,000	38,786,220	15,958,878
Share Price	USD 96.39	USD 123.4	BRL 21	BRL 40	EUR 26.70	USD $15/$20

AB Inbev: The controlling shareholder is the Stichting (with 41.23% of the shares), a foundation which represents the interests of the founding Belgian families of Interbrew and the interests of the Brazilian families (3G capital group, formed by Jorge Paulo Lehman, Beto Sicupira and Marcel Telles) which were previously the controlling shareholders of Ambev. The top 10 investors represent 56.67% of the shares. The marginal investor in AB Inbev is a largely diversified institutional investor.

McDonald's: McDonald's does not have a controlling shareholder. Institutional investors dominate the investor community with the largest shareholder being Blackrock, with 7% of the common shares outstanding, besides Vanguard and State Street. The top 10 investors represent 27.84% of the shares. The marginal investor in McDonald's is a largely diversified institutional investor.

M Dias Branco: Insiders, family members part of management and/or board of directors, hold around 74.5% of the common shares, making the free float of company shares be 25.5%, a number very close to the minimum required by the Brazilian stock exchange to list the company as part of "Novo Mercado" (25%). Several intuitional investors are on the list of top holders, but the largest one has only 7.59% and the top 10 holds 12.8%. The free float is widely dispersed among a large number of investors and no activist investor/individual is on the list, therefore it seems that no one is able to exert power over the board and that they would rather sell their positions than push for changes if they were dissatisfied with the course of action taken by MDIA3. Insiders are by far the largest holders and they don't trade the stock often or at all. In this scenario, the marginal investor must be the different intuitional investors that own a large portion of the shares that trade freely on the market. Since most of them are international investors, we can assume that they are fairly diversified and thus the benchmark for MDIA3 stock should be a diversified and global index like MSCI.

BRF: BRF doesn't have a controlling shareholder. Tarpon and Previ, with the backing of other minor shareholders, supported the appointment of the current chairman and the following corporate restructuring of the company in 2013. The top 10 shareholders own 53.40% of the company. The marginal investor at BRF is an institutional investor.

Pernod Ricard: Societe Paul Ricard, the founding family foundation, is the top shareholder of RI with 13.14% ownership. The next top four investors are institutional and hold 30.7% of outstanding shares.

It should be noted that although the company issued only one class of shares, according to French Commercial Code, a voting right doubles if the same shareholder holds the share for over 10 years. Therefore, Societe Paul Ricard holds 13.14% of shares but has 19.17% of voting rights. The company's marginal investor is an institutional internationally diversified investor.

Boston Beer: The company's equity is composed of two classes of shares: Class A shares account for about 66% of the company, are publicly traded, but have limited rights. These shareholders appoint 3 out of 8 Board Directors and oversee compensation decisions. Class B shares account for about 34% of the shares outstanding and the sole owner is Founder Jim Koch that has the right to appoint 5 Directors, giving him large influence over the Board, compensation and overall decisions.
The typical investors are large Investments institutions, accounting for 90% of Class A shares, and the top 10 investors own 52.28% of these shares. They can be considered long-term investors and none of them has a track record of taking majority ownership of companies.

4. RISK AND RETURN ANALYSIS

A) Top Down Beta

	McDonald's	AB Inbev	M Dias Branco	BRF	Pernod Ricard	Boston Beer
Intercept	0.238	0.790	1.49%	1.58	0.293	1.931
Beta (Slope)	0.360	0.881	0.621	0.331	0.534	0.621
R2	0.163	0.331	10.40%	4.20%	17.3%	0.061
Std Error of Beta	0.108	0.166	0.269	0.232	0.172	0.323
Risk Free Annual (avg 5y)	0.50%	0.50%	7.00%	7.00%	0.60%	0.50%
Jensen's Alpha	0.21%	0.79%	1.19%	1.04%	0.27%	1.92%
Annualized Excess of Return	2.70%	9.80%	15.19%	13.27%	3.28%	25.56%
Beta (68% range)	0.25 - 0.47	0.72 - 1.05	0.35 - 0.89	0.09 - 0.56	0.36-0.71	0.30 - 0.94
Reference Index	S&P 500	S&P 500	MSCI	MSCI	MSCI	S&P 500

B) Bottom up Beta

Sectors	Restaurant Industry	Beverage (Alcoholic)	Food Processing	Food Processing	Beverage (Alcoholic)	Beverage (Alcoholic)
Unlevered Beta	0.670	0.663	0.611	0.534	0.663	0.663
Company D/E	0.29%	46.20%	6.06%	19.81%	39.41%	0.11%
Company Levered Beta	0.780	0.913	0.6355	0.6402	0.8381	0.663

AB Inbev: The regression was run against S&P 500, which is similar to the diversification of the marginal institutional investor. AB Inbev's regression beta is 0.881, which is reasonable due to the less discretionary aspect of its beverage alcoholic products. Over the past 5 years, AB Inbev posted a sound 9.8% annualized excess return (Jensen's alpha), which shows that the company was able to outperform S&P 500 index. Finally, regression also shows that 33% of its risk is market- related, whilst 67% is company specific, which can be diversified away by the marginal investor.

McDonald's: The regression was run against S&P 500, which is similar to the diversification of the marginal institutional investor. MCD's regression beta is 0.36, which makes sense because food is non-discretionary and McDonald's is a low cost option for consumers. Over the past 5 years, McDonald's posted a 2.7% annualized excess return (Jensen's Alpha), which shows that McDonald's was able to slightly outperform the S&P 500 index. The regression also shows that only 16% of its risk is market-related and 84% of the risk is company specific, which can be diversified away by the marginal investor.

M Dias Branco: By running the regression on the returns of MDIA3 against the MSCI Index (5 years of monthly data), we can see that the company is actually less risky than the market, with a β of 0.621. R^2 from the regression is 10.4%, implying that a small fraction of total risk comes from market sources and that 89.6% is firm-specific and can be diversified away by the marginal investor.
Jensen's α calculations showed that MDIA3 did 1.19% better than expected, per month, from April 2010 to April 2015, implying an annualized excess return of 15.19%. As the largest part of MDIA3 total risk comes from firm-specific risk, we could argue that its management and/or its specific market played a role in the company outperforming expectations.

BRF: The regression was run against MSCI, which is similar to the diversification of the marginal institutional investor. BRF's regression beta is 0.331, which makes sense because food is non-discretionary and BRF is a market leader on most of the segments it operates. BRF posted an annualized excess return (Jensen's Alpha) of 13.27%, significantly outperforming the MSCI index. Regression shows that only 4.20% of BRF's risk is market related, while the remaining 95.80% is company specific and can be diversified away by the marginal investor.

Pernod Ricard: Assuming RI's marginal investor is institutional and is internationally diversified, the regression was run against the MSCI, for a 5-year period, resulting in a beta of 0.534. This figure is in line with the perception that, although discretionary, alcoholic beverage consumption tends to be less affected by economic fluctuations. However, as the company positions itself in the premium sector, it is still expected to be slightly impacted by market movements, as shown in the low positive beta. R^2 came at 17.3%, indicating that 82.7% of total risk is firm-specific that can be diversified. Annualized excess of return as measured by Jensen's alpha came at only 3.28% versus the MSCI in the period.

Boston Beer: The regression was run against S&P 500, similar to the diversification of the marginal investor. The regression beta is 0.662, reflecting the non-discretionary nature of soft alcoholic beverages, and 6.1% of its risk is market related, showing us that most of the risk of the company is specific and can be diversified by the investors. The Jansen's alpha (1.92%) indicates that Boston Beer outperformed the market during the last 5 years, delivering annualized excess returns of 25.56% in the period. The performance can be partly attributed to the growth of the craft beer market – a niche in alcoholic beverages and the company's capacity to differentiate its products from those of competitors.

C) Comparing Levered Betas

	McDonald's	AB Inbev	M Dias Branco	BRF	Pernod Ricard	Boston Beer
Regression Beta	0.360	0.881	0.621	0.331	0.534	0.621
Bottom-up Beta	0.780	0.913	0.636	0.604	0.838	0.663

AB Inbev: The bottom up beta (0.846) was calculated using the unlevered beta of beverage (alcoholic) sector (0.663), the company's marginal tax rate of 40% and D/E ratio of 0.462. Considering the fact that the regression beta (0.881) has a correlation of only 0.331 with S&P 500, the bottom up beta is inside the range of 68% (0.72 to 1.05) and the company D/E ratio (46%) is much higher than the sector (23.18%), we decided to use the bottom-up beta (0.846).

McDonald's: The bottom up beta (0.78) was calculated using the unlevered beta of the Restaurant and Dining Industry (0.67), the company's marginal tax rate of 40% and a D/E ratio of 0.29. The bottom up beta was also slightly downward adjusted for the cash balance, which makes up 1.7% of the enterprise value. The regression beta had a low correlation with the S&P 500 at only 16.3% and we feel that the bottom-up beta better represents the risk of McDonald's in an industry that is changing rapidly.

M Dias Branco: As the company is in the packaged food business, which is basically non-discretionary, a lower than 1 unlevered β for the business should be expected (pure play beta adjusted for cash is 0.66). When we compute the unlevered beta for the company, we get to an even smaller beta of 0.6111. Given its low leverage (D/E ratio is only 6.05%), the adjustment to get to the bottom-up levered beta for MDIA3 is small and make it be 0.6355. Comparing this number with the regression beta, we can see that they are really close to each other and that both are right in the middle of the one standard deviation range. Even though the regression number seems reliable, we will move forward with the computed bottom-up beta.

BRF: Bottom-up beta (0.604) was calculated using Food Processing Industry unlevered beta adjusted for BRF's cash, the company's D/E ratio of 19.81% and marginal tax rate of 34%. The result seems to make sense, since food is non-discretionary and a β lower than one should be expected. This number is relatively higher than the regression beta. BRF is a market leader in many of the industries it operates, what is reflected on the low regression beta. However, it is expected that on the long term the competitive advantage will reduce and its beta will be more similar to the industry average. For this reason we decide to use bottom-up beta.

Pernod Ricard: A bottom up beta was calculated for RI using an unlevered beta for the beverage (alcoholic) sector (0.663), the French marginal tax rate of 33% and a D/E ratio of 39.41%. The pure play beta adjusted for cash is 0.65 but since the company does not have a tendency to carry high levels of cash and the figure is close to the one from the sector, it was judged appropriate to keep the sector beta of 0.663. The bottom-up beta resulted in 0.838 vs. the regression beta of 0.534. Considering that R^2 for the regression is considerably low (only 17.3%), the bottom-up beta will be the one used in the following analyses.

Boston Beer: Due to the low leverage of the company, the bottom up beta (0.663) calculated was the same as the unlevered beta of beverage (alcoholic) sector (0.663). For the calculation, the company's marginal tax rate of 40% was considered and D/E ratio of 0.11%.
We decided to use the bottom up beta (0.663). Although the regression beta (0.621) is somehow close to the bottom up beta, it has almost none correlation (0.0621) with S&P 500, and the company's D/E ratio is very low when compared to the average of the sector (23.18%).

D) Cost of Equity

	McDonald's	AB Inbev	M Dias Branco	BRF	Pernod Ricard	Boston Beer
Risk Free Rate	2.13%	2.13%	10.46%	10.46%	0.36%	2.12%
Beta	0.782	0.913	0.636	0.604	0.838	0.663
Equity Risk Premium	6.21%	7.82%	8.60%	7.95%	6.82%	5.80%
Cost of Equity	6.99%	8.75%	15.93%	15.26%	6.07%	5.97%

AB Inbev: The company discloses its volume sales by region with 44% coming from Central and South America, 26% from North America, 18% from Asia and the rest from Europe. By using this mix, we get an ERP of 7.82% and the cost of equity is 8.75%

McDonald's: McDonald's breaks its sales volume into three regions: "United States" (36% of revenue), "Euro, UK, Australia, and Canada" (45%), and "Other International" (19%). To get a weighted average equity risk premium, we assumed even distribution between Europe, UK, Australia, and Canada, and we used a global historical ERP of 7.18% to estimate the "Other International" average ERP. This gave us an ERP of 6.21% and a cost of equity of 6.99%.

M Dias Branco: The company only does business in Brazil and in the food processing sector, thus getting to the cost of equity is very straightforward. With the bottom-up beta computed above, the Brazilian risk-free rate (10.46%) and the Brazilian ERP (8.60%), we compute a CAPM expected return on the stock (cost of equity) of 15.93%.

BRF: The company only separates its sales in Domestic (Brazil, 54% of revenue) and Foreign (46%). To get the Equity Risk Premium we used the Brazilian ERP (8.60%) and the global historical ERP for the Foreign (7.18%), as the company sells its products around the globe. This gave us an ERP of 7.95% and a cost of equity of 15.26%.

Pernod Ricard: Revenues' breakdown as disclosed by the company is 38% from Asia, 1% from Central and South America, 26% from North America and 35% from Western Europe, resulting in an ERP of 6.82%. As the analysis is conducted in Euro, the risk free rate reflects the German 10yr risk free rate of 0.36%. Using the bottom-up beta calculated in the section before, cost of equity for RI comes at 6.07%.

Boston Beer: The company's revenue comes strictly from selling beverage in the United States. For this reason we considered US risk-free rate (.5%) and ERP (5.8%) reaching the cost of equity of 5.97%.

E) Default Risk and Cost of Debt

	McDonald's	AB Inbev	M Dias Branco	BRF	Pernod Ricard	Boston Beer
Risk Free Rate	2.13%	2.13%	10.46%	10.46%	0.36%	2.12%
Rating	A2/A	A2 (Real)	A1/A+ (synt)	BBB- (Real)	BBB- (S&P)	AAA (synt.)
Estim. Default Spread	1.00%	1.00%	0.85%	2.00%	2.00%	1.00%
Country Default Spread	0.00%	0.00%	2.12%	2.12%	0.25%	0.00%
Pre-tax Cost of Debt	3.13%	3.13%	13.43%	14.58%	2.61%	2.52%
After-tax Cost of Debt	1.88%	1.88%	8.86%	9.62%	1.75%	1.51%

AB Inbev: When we calculate the synthetic rating using the interest coverage ratio of 4.04 we reach an A2 rating, which is the rating that Moody's classify AB Inbev credit risk. With that rating, we obtain a default spread of 1.00% and a pre tax cost of debt of 3.13%. Since AB Inbev's marginal tax rate is 40%, the after tax cost of debt is 1.88%

McDonald's: The company is rated A2/A by the major ratings agencies, which comes with a default spread of 1%. With no additional country risk, the default spread is added to the risk free rate of 2.13% to get a pre-tax cost of debt of 3.13%. The interest coverage ratio for McDonald's is 7.78, which yields a synthetic rating of AA2/AA and a 0.7% spread, but we feel that with the recent struggles of McDonald's, the ratings from the agencies is a better estimate. After taking into account McDonald's 40% marginal tax rate, their after tax cost of debt is 1.88%.

M Dias Branco: MDIA3 has no bonds outstanding and no public rating available, so to get to the cost of debt we needed to make use of the synthetic structure. As it is an emerging market company with a market cap of less than USD 5bn, we considered it as a small firm when looking at the table that matches interest coverage ratios to credit ratings. The 9.01 interest coverage ratio in its case resulted in an A1/A+ estimated rating, which is equivalent of having a default spread of 0.85%. By adding this spread to the Brazilian interest rate in BRL, we get to a pre-tax cost of debt of 13.43%. All the numbers and ratings we see here show that the company has a very good debt risk profile.

BRF: The company is rated BBB- by all three major credit agencies. With this rating we can obtain the default spread of 2.00%. Since the company is Brazilian we have to account the country default spread, what we can do by subtracting the US 10 year Bond rate of 1.96% from Brazil USD 10 year bond rate of 4.08. By doing that we get a Brazil default spread of 2.12%. We then add the company and the country default spreads to Brazil's risk-free rate to get the pre-tax cost of debt of 14.58%. With BRF marginal tax rate of 40% we get an after-tax cost of debt of 9.62%.

Pernod Ricard: Moody's and S&P rate RI with equivalent ratings of Baa3 and BBB-, which translates to a default spread of 2%. To that spread it was added a country risk of 0.25% to reflect the fact that the company is incorporated in France and the risk free rate of 0.36%. The result was a cost of capital of 2.61%, in line with the company's recent bond issuance that paid a coupon rate of 2.125%.

Boston Beer: The synthetic rating (AAA) was calculated taking into account the strong and consistent operating income of the company and the fact the company doesn't have almost any debt and operating leases. With the numbers presented in the table and the marginal tax rate of 40% for US, we reached an after-tax cost of debt of 1.51%.

F) Cost of Capital

	McDonald's	AB Inbev	M Dias Branco	BRF	Pernod Ricard	Boston Beer
Mkt Value of Equity (local currency) (mm)	92,448	198,457	10,039	54,837	29,461	3,383
Mkt Value of Debt (local currency) (mm)	26,567	91,698	608	10,866	11,611	3.7
Aft tax-Cost of Debt	1.88%	1.88%	8.86%	9.62%	1.75%	1.51%
Debt Ratio	22.50%	31.60%	5.71%	16.54%	28.27%	0.11%
Cost of Equity	6.99%	8.75%	15.93%	15.26%	6.07%	5.97%
Equity Ratio	77.50%	68.40%	94.29%	83.46%	71.73%	99.89%
Cost of Capital	5.81%	6.58%	15.52%	14.33%	4.85%	5.96%
# of shares	959.1	1,608,242,156	113,450,000	851,501,628	265,816,388	13,340,000
Stock Price (local currency)	96.39	123.40	88.49	64.4	110.83	253.61

AB Inbev: The company's debt weighted average maturity is 3 years with almost 31% of its debt and contractual obligations with less than 1 year. A big part of it represented by Trade and Purchase Commitments, which seems reasonable due to fast cyclical nature of the beverage alcoholic business. The company has a low cost of capital of 6.58%.

McDonald's: McDonald's has a debt weighted average maturity of 6.47 years, which includes a significant amount of operating leases. The market value of the debt outstanding is $15,568 (mm) and the present value of the operating leases is $10,999, which added together gives a total debt market value of $26,567. The Debt to Capital ratio is 22.5% and the Equity to Capital ratio is 77.5%, which put together yields a low cost of capital of 5.81%.

M Dias Branco: Stock price and shares outstanding are readily available numbers to compute the market capitalization. At the same time, the market value of debt requires some calculations, as MDIA3 has no public debt. Debt has an average maturity of 2.95 years and no leases to be added, making total capital for the company be BRL 10,646mm (5.71% debt and 94.29% equity). Using the previous numbers for cost of equity and cost of debt (after adjusting for taxes), we get to a WACC of 15.52%.

BRF: Most of the company debt is long-term bonds with average tenor of 7.6 years. Overall BRF's debt weighted average maturity is 5 years. BRF also has operational leases, which was added to the market value of debt. Overall the company Debt Ratio is 16.54. With a Cost of Equity of 15.26% and an After Tax Cost of Debt of 9.62% we can calculate BRF's Cost of Capital, of 14.33%.

Pernod Ricard: RI has ten outstanding bonds totaling EUR 9.7BN with an average maturity of 6.71 years. The company also has operating lease obligations with a market value of EUR 267m, which added to the market value of debt totals EUR 11.6BN. Considering a market value of EUR 29.5BN, computed WACC comes at 4.85%.

Boston Beer: Considering that the company has little debt and leases – in line with the founder's strategy of running the company – we would expect the cost of capital to be very close to the cost of equity. Together with its consistent profitable results, the company has very high financial flexibility.

5. INVESTMENT RETURNS

A) Accounting Returns on Projects and Economic Value Added (EVA)

	McDonald's	AB Inbev	M Dias Branco	BRF	Pernod Ricard	Boston Beer
Net Income (Million)	4,758	11,302	599	2,225	1,027	91
EBIT*(1-t) (Million)	5,139	12,376	610	2,983	1,357	92
Equity Book Value (avg t and t-1) (Million)	14,432	54,783	3,053	15,123	11,318	369
Debt Book Value (avg t and t-1) (Million)	27,730	87,326	604	10,885	8,283	48
Cash & Marketable Securities (avg t and t-1) (Million)	2,440	18,616	377	5,091	537	111
Goodwill (avg t and t-1) (Million)	2,805	6,993	837	2,814	4,890	4
Invested Capital (Million)	36,917	116,500	2,443	18,104	14,174	303
ROE	40.92%	23.65%	27.04%	18.07%	15.98%	24.82%
Cost of Equity	6.99%	8.75%	15.93%	15.26%	6.08%	5.97%
Excess Return	33.94%	14.90%	11.11%	2.81%	9.90%	18.85%
Equity EVA	4,897	8,161	339	425	1,121	70
ROIC	13.92%	10.62%	24.98%	16.49%	9.57%	30.55%
WACC	5.81%	6.58%	15.52%	14.33%	4.85%	5.96%
Excess Return	8.11%	4.04%	9.46%	2.16%	4.72%	24.58%
EVA (Million)	2,994	4,710	231	391	670	74

AB Inbev: The company has obtained excess returns of 14.90% for ROE compared to cost of equity and also excess returns of 4.04% for ROIC compared to WACC. The company has significant competitive advantage for its strong and balanced portfolio of brands, global logistic distribution capacity and management strongly focused on performing and achieving its targets. Therefore, such excess returns are very likely to be sustainable.

McDonald's: The company's ROE is 40.92% which is well in excess of their cost of equity of 6.99%, partly due to the large difference in the book value of equity and the market value of equity. The company's ROIC is 13.92%, which compared to the WACC of 5.81% yields an excess return of 8.11% and an EVA of $2.99 billion. These numbers reflect the company's strength and ability to compete in a global market without relying on acquisitions.

M Dias Branco: MDIA3 presents strong numbers for ROIC and ROE, earning excess returns and positive EVAs in both metrics. Past performance not only tells us how management is driving the company, but also helps us predict the future. We expect future projects and returns to look like the past ones for MDIA3, as company's present strategy of continuously strengthen its strategic pillars of action (brands, vertical, distribution, organic growth and acquisitions and efficiency operating) is a perfect reflection of the investments it made in the past.

BRF: The company has a ROE of 18.07%, which brings an excess return of 2.81% over Cost of Equity. The company also has excess return of 2.16% for ROIC over WACC. Although the company has a dominant position in many of the markets where it operates the excess returns aren't very high, reason why recently was implemented a corporate reorganization focused on improving company's results, with the support of many important shareholders.

Pernod Ricard: Following the company's acquisition of Vin&Spirit (owner of Absolut vodka) for EUR 5.7BN, RI has been able to reduce leverage and to post good return ratios. Excess return in Equity and Invested Capital of 9.90% and 4.72% respectively demonstrate that management was able to integrate such big acquisition and to navigate the financial crisis. The company is also pursuing to divest from brands that are not in line with its portfolio (premium wine and spirits) and to grow in Asia, a strategy that seems to be paying off.

Boston Beer: The company has both ROE and ROC above the cost of equity and capital, showing it has been able to invest in good projects and create values for their shareholders. Although both measures give excess return above 18%, the difference between them is mostly due to the high cash balance the company maintain and invested capital is lower than invested equity.

6. CAPITAL STRUCTURE CHOICES

A) Advantages of Debt

	Tax Benefit	Added Discipline
McDonald's	The marginal tax rate for McDonald's is 40% compared to a 5-year average effective tax rate of 32% and a 2014 effective tax rate of 35.5%. The tax rates are in line with their peers and suggests that McDonald's could benefit from adding debt	Adding debt should add discipline to the company because the shareholders are not concentrated and are not vocal in company matters. The insiders own less than 1% of the stock and so the managers don't feel pressure from shareholders.
AB Inbev	The marginal tax rate for AB Inbev is 40%. However, the effective tax rate was 18.1% in the year of 2014 and 11.1% in 2013 and is expected to remain in the range between 22% and 27% in the next 5 years, which is very low and significantly reduces the tax benefit advantages of holding debt.	The company already has a very big focus on cost cutting and managing properly the company cash, with very active participation of the main shareholders in the company board. The Return on Invested Capital (ROIC) has been higher than the cost of capital the last few years and the company has been showing a higher return than the market. Therefore, new debt would not significantly add discipline to the company management.
M Dias Branco	The effective tax rate for MDIA3 has been at an average of 8.61% over the past 5 years. This number is lower than marginal tax rate of 34% in Brazil and lower than the 30.46% from its industry, due to state and national tax incentives; to non-attributable for tax and tax exempt revenues; and to the benefits of IOE (interest on equity). We don't expect the effective tax rate to change much from its average and therefore, with low tax benefits, debt ratio for MDIA3 must be smaller than for its peers.	In terms of discipline, we observe that insiders have a large stake of company's total capital and thus every project has probably been and is probably going to be analyzed by management with a stockholder lens. Additionally, the company has generated sound accounting returns (ROIC/ROE), the stock performed well above the market in the past 5 years and its competitors in general have a much broader investors base. In a nutshell: we don't see more debt increasing discipline.
BRF	BRF's effective tax rate was 14.17% in 2014 and 11.24% in 2013, much lower than the Brazilian marginal tax rate of 34%. The main reasons for this difference are benefits of interest on equity and the existence of subsidiaries abroad. Once the effective tax rate for the company is not expected to increase, and is well below its industry peers, it debt ratio should be smaller than its peers.	Recently there was a corporate reorganization at the company, with changes on the management, all with the support of some of the major shareholders. The current CEO used to be an employee of Tarpon, BRF third largest owner. Besides, the current Chairman holds 2.76% of the company. For those reasons we would expect the management to hold to shareholders interest despite of the debt level.
Pernod Ricard	The company's effective tax rate as of Dec/14 was 25.3%, slightly below last fiscal year's 26.2%. This range is above the industry's average of 16.66% and, therefore, RI could benefit from increased debt and interest tax savings.	Although less than 1% of RI's shares are held by insiders, the company's CEO is a member of the founding family, which still is the top holder of shares. Additional debt would not benefit the company with increased discipline because top management is closely related to top shareholders and will comply with interests of the former. Furthermore, RI's ROIC of 9.05% is higher than the industry average of 8.40%, indicating that the company does invest in good projects and has been posting strong performance.
Boston Beer	Boston Beer's effective tax rate has been approximately 37% for the past 5 years, more than double the rate for the industry around the globe and it's a reflection of selling only in the US. Its marginal tax rate is 40%.	The strong influence of the founder and consistency in generating cash flows allows the company to maintain almost no debt. The company has historically made small acquisition using its cash generation ability. Although leverage might add discipline, it might also send a signal in strategy (such as taking on an investment only its cash flow can't pay for) and damage the credibility of the management team.

B) Disadvantages of Debt

	Expected Bankruptcy Cost	Agency Cost	Loss of Flexibility
McDonald's	McDonald's has an EBITDA/EV ratio that is higher than that of its competitors and a higher profit margin as well. McDonald's had a bad 2014 with revenue going from a steady 2% growth to a 2% decline. Despite the poor performance for one year, McDonald's has experienced stable growth and stable earnings and cash flow. The potential bankruptcy of the company is very unlikely and would be in a very long-term scenario.	McDonald's has a high fixed asset/total asset ratio with property, plant, and equipment that can back up the borrowing. McDonald's also has a lower P/BV (9.2x) than that of its peers, suggesting that the market is placing more value on the current value of the assets. McDonald's has a great credit history paying back their bonds and holds more cash and cash equivalents than their competitors. Overall, agency cost is in favor of McDonald's	The company has been expanding in Europe and has been using money to build new restaurants. The company has not discussed acquisitions, mainly due to a focus on fixing a poor 2014. Prior to 2014 McDonald's has enjoyed steady cash flows and the company's targets are for those trends to continue. McDonald's has the room to take on more debt without hurting flexibility.
AB Inbev	AB Inbev shows a similar EBITDA/EV ratio to the one of its main competitors, and does not show a high variance on its earnings in the last 5 years (after the merger of Budweiser with Inbev). Most of its assets are fixed (plants and equipment) and relatively liquid, the company does not depend on only one or two customers, but millions of them and we should not expect those customers to stop buying their beers if the company is threatened of bankruptcy. Thus, we should not expect a high bankruptcy cost for AB Inbev.	The company has a high fixed assets/total assets ratio, with plants, lands and equipment that can backup the borrowing. AB Inbev shows a pretty similar Debt Ratio to the average of its competitors (around 31%). However, one thing makes us think that agency costs might not be so favorable to AB Inbev: Its Stock Price/Book Value (2.31) is slightly higher than the average of its main competitors (1,89), which means that the market values the company based more on its growth perspective than on its existing assets. Thus, we can say that agency costs could present some significant disadvantage to the company if it takes on more debt.	The company had high amount of investment in acquisitions over the last 3 years (average of 20% of the sales) with acquisitions of beer brands like the Grupo Modelo. It also reinvests around 9% of the sales in its own assets. Such level of investment in acquisitions and reinvestments could result in a significant loss of flexibility if the company decides to take on more debt.
M Dias Branco	In terms of probability of default, we see MDIA3 with a slightly lower EBITDA/EV ratio than the industry and with a still high variability in earnings, what suggests us that the company should be incurring in less debt than its peers. MDIA3 focus in reaching small to medium size buyers that makes the company not dependent from a few customers, its market leadership position and its non-discretionary business sector per-se, on the other hand, allow the company to have more debt. In terms of the associated costs, MDIA3 should be following the industry, as both have assets that are mostly fixed and relatively liquid and as their products have very short lives, thus customers wouldn't stop buying from them even on a threat of bankruptcy. In short, the expected cost wouldn't push the company to have more or less debt.	Aligned with its industry, MDIA3 has a high fixed assets/total assets ratio and is inserted in a business in which it is easy to any lender to monitor production and the facilities. This would make us think that the company should have a similar debt ratio to its competitors. But from one side, we could think on a lower ratio, due to a higher P/B ratio giving more value to future growth than to actual performance and, from the other side, we could think that the company has an excellent credit history, having liquidated local bonds issued in the past long before maturity, and therefore could afford a higher ratio. Balancing out all the factors, agency cost is neutral for MDIA3.	By observing the amount of reinvestment and the positive history of acquisitions of the company, we can argue that the company should have a lower debt ratio to be ready to take on new opportunities when they arise. On the other hand, MDIA3 has been financing its projects mostly internally and, by being in a business that generates high cash flows, it could add more debt without fearing the loss of flexibility (a lender wouldn't push tough covenants to a firm with low indebtedness, with a good credit profile and in a cash generating and non-discretionary business).

BRF	BRF shows an EBITDA/EV ratio that is lower than it's competitors and a relatively high variability on its earnings (although they have been positive and increasing over the last three years), what could suggest less debt than its peers. However BRF is a market leader on the segments it operates in a non-discretionary industry, what allows the company to have more debt. Most of the company's assets are fixed and relatively liquid. BRF has a wide and diversified customer base that would not stop buying on the threat of bankruptcy. Therefore, overall, we shouldn't expect a high bankruptcy cost for the company.	BRF has a high fixed assets / total assets ratio, what can back borrowing. Moreover the company has a very high amount of trade receivables, that also can be used to back borrowings/ On the other hand, the company's P/B ratio is substantially higher than its peers, meaning the market values more the company future growth than its existing assets. On the other hand BRF have an excellent track record of issuing and repaying long term bonds on both local and international markets. Overall we can conclude that agency cost is neutral for BRF.	Recently BRF has been focusing on international expansion, both through acquisitions and investments on new plants abroad. However the amount expended on those is not very high as a percentage of sales. The company plans to make new acquisitions and is very likely that it would be able to increase debt in case an opportunity arises.
Pernod Ricard	RI's EBITDA/EV is lower than its competitors, coming at 5.18% vs 6.67%, which indicates lower debt capability. However, RI has posted stable Operating Income over the past five years, has liquid assets (101 plants located in 23 different countries) and wouldn't suffer from decreased customer consumption due to bankruptcy perception. As such, despite lower cash flow availability, RI does have low expected bankruptcy cost.	Although RI owns several plants, the company's fixed assets/total assets ratio is low, at only 7.30%. The main reason for it is its high intangible account of approximately EUR 11BN due to its brands' value. It should be noted, however, that the company has lands and vineyard crops that are posted as PP&E and Biological Assets but are not published at market value and could have a considerably higher value than that of its books. Notwithstanding the above, it still seems that the company does not have enough assets to back new borrowing. RI's total debt is currently at EUR 9.7BN (book value) and fixed assets stand at roughly EUR 2BN. Even if market value of assets is higher than book value, it seems that its existing debt, if collateralized, is already under collateralized and any additional debt would not be able to be attached to any of the company's fixed assets. RI's Agency Cost is alleviated by its low P/B ratio, easiness to monitor its assets and positive history on its past debt.	Since the acquisition of Vin&Sprit in 2008, the company has not made any new major acquisition and, according to its Management Report, it will only do so when it has concluded a deleveraging plan. CAPEX has been made mainly in increasing production capacity on its plants. The company, however, is close to reaching its desired capital structure and, as it manages to grow, it could in the near future consider new acquisitions, at which point it will need some flexibility.
Boston Beer	Boston Beer's EBITDA/EV ratio is in line with that of its competitors and has a strong balance sheet with little debt. The company is able to consistently generate cash and we wouldn't expect consumers to stop buying its products in an event of bankruptcy threaten. We consider the bankruptcy cost to be very low.	The company has most of its assets attached to PP&E and has little-to-no debt. On the business side it invests only in its core business and region (beverage US) and its niche market is constantly growing above the overall market (craft vs alcoholic beverage), which gives it some predictability on operations. On the other side, the company would incur in agency costs if it were to take on debt, not only because its P/BV is 8.93x indicating there are a lot of expectations on its future growth, but also because it would be a big change in its strategy.	As stated before, any debt the company takes will generate a loss in flexibility because, changing its capital structure, the company might raise questions related to cash flow generation and changes in its strategy. As for now, the company has been able to invest approximately 15% of its sales without raising debt and changing its profitability margins.

7. OPTIMAL CAPITAL STRUCTURE

	Cost of Capital					
Debt Ratio	**McDonald's**	**AB Inbev**	**M Dias Branco**	**BRF**	**Pernod Ricard**	**Boston Beer**
0%	6.09%	7.32%	15.72%	14.71%	4.88%	5.96%
10%	5.87%	7.05%	15.40%	14.43%	4.76%	5.71%
20%	5.65%	6.81%	15.72%	14.94%	4.64%	5.54%
30%	5.49%	6.67%	16.12%	15.77%	4.52%	6.38%
40%	5.36%	7.89%	17.93%	17.58%	4.49%	7.10%
50%	5.23%	8.62%	19.15%	18.84%	8.77%	8.39%
60%	10.08%	10.68%	21.60%	20.11%	9.85%	9.98%
70%	11.08%	11.73%	23.01%	21.37%	10.92%	11.03%
80%	12.08%	12.78%	24.42%	22.63%	12.00%	12.08%
90%	13.08%	13.83%	25.83%	23.89%	13.07%	13.13%

AB Inbev: The optimal debt ratio for AB Inbev is 35%, which is very close to the current capital structure, with 31.6% of debt. The cost of capital obtained at the optimal level would be 6.56%, while the current cost of capital is 6.58%, thus, changing the structure to the optimal level, would not present significant gains.

McDonald's: The optimal debt ratio for McDonald's is 50%, which is much higher than the current debt ratio of 22.5%. The cost of capital at the optimal level is 5.23% compared to the current cost of capital of 5.81%. McDonald's is losing a lot of potential value due to their unwillingness to take on more debt despite having minimal bankruptcy risk.

M Dias Branco: Based on the cost of capital approach, the optimal debt ratio for MDIA3 is 10%. As we saw in the discussion on advantages and disadvantages of debt, MDIA3 should have a lower debt ratio than the industry and even increasing the ratio to 10% would make it still way below the ratio of its peers. However, the addition of debt to company's balance sheet doesn't seem to improve WACC and Enterprise Value much. Notwithstanding that, the cost of capital approach uses the marginal tax rate to get to the optimal debt ratio, while MDIA3 in fact pays taxes at a much lower rate. By changing the tax assumptions in the model (using the effective tax rate instead of the marginal one), we observe that the optimal ratio goes to zero. Making the long story short, it seems like MDIA3 is already close to ideal debt ratio and should stay put at 5.71%.

BRF: The company is already at its optimal debt ratio, meaning its current WACC is lower than the one on the table above.

Pernod Ricard: The calculated optimal debt ratio for RI is higher than its current 28.27%, at around 40%. It should be noted that despite a higher indebtedness at that level, the synthetic rating calculated at that point is AA, higher than the current BBB-, which is not coherent with the present scenario. Were we to adjust calculation and manually input a rating of BBB-, cost of debt would increase from 1.31% to 2.61% (for all ranges between 40% and 0%) and at 40% debt ratio, WACC would reach 4.84%. This figure is extremely close to RI's current WACC of 4.85% and, therefore, it could be said that the company is already in its optimal debt range.

Boston Beer: According to the analysis, the optimal debt ratio for Boston Beer is close to 20%. It reflects the tax benefits the company would have when compared to no debt as it is now, and it is the limit in which the company sustains its current synthetic ratio. After that, the cost of debt would penalize its cost of capital. The company also gains from a low debt ratio because a lot of its value resides in its future growth, as we can see by comparing its operating income to its market value.

8. MOVING TO OPTIMAL WACC

	McDonald's	AB Inbev	M Dias Branco	BRF	Pernod Ricard	Boston Beer
Current Debt Ratio	22.49%	31.60%	5.71%	16.54%	28.27%	0.11%
Optimal Debt Ratio	50.00%	35%	10%	16.54%	40%	20%
Current WACC	5.81%	6.58%	15.52%	15.37%	4.85%	5.96%
Optimal WACC	5.23%	6.56%	15.40%	15.37%	4.49%	5.54%
Annual Savings (mm)	$679	$46.49	BRL 8.16	0.00	EUR 147.85	$13.7
Growth	1.95%	4.00%	10.46%	0.00%	0.36%	2.00%
Increase in Value (mm)	$20,711	$1,812.61	BRL 165.18	0.00	EUR 5,924.00	$387.00

AB Inbev: Since the company is already close to its optimal capital structure, a transition to its optimal scenario causes an increase in $1.13 per share (0.9%), so the additional benefits from matching the exact current debt structure are small compared to the company's value.

McDonald's: By moving to the optimal capital structure, McDonald's would add $20.7 billion in total value, which comes to $21.59/share, so McDonald's would significantly benefit from moving to the optimal structure.

M Dias Branco: Assuming the 10% debt ratio suggested by the cost of capital approach, the company should use debt to take on new projects instead of buying back stock. There are two reasons for that: the first is that the company is already very close to the minimum free float percentage required by Bovespa to classify MDIA3 as part of "Novo Mercado" (minimum is 25% and free float for the company is 25.48%) and the second is that there is room for the company to grow in Brazil (per capita consumption of cookies and pasta in Brazil is way lower than the average of the developed countries).

BRF: The company is already at its optimal capital structure, meaning there isn't room for increase in value from changes in the capital structure.

Pernod Ricard: If RI was able to retain an AA rating at the optimal capital structure of 40% debt ratio, it would gain a EUR 5.9BN in value increase, or EUR 23.29/share increase in price to stockholders.

Boston Beer: Changing to the optimal capital structure, the company would be able to increase its value by 11% in the long-term. By this analysis could benefit from the change, but the management team would have to take into account other factors as credibility and flexibility to assess if this increase is really gainful.

A) Debt Design

	McDonald's	AB Inbev	M Dias Branco	BRF	Pernod Ricard	Boston Beer
Duration	6.37	5.13	5.63	4.9	12.25	4
Cyclicality	-1.14	-8.40	-1.45	-12.91	2.02	8.28
Inflation	0.21	4.57	-1.79	12.28	-2.4	0.77
Currency	-0.57	0.30	1.44	-1.03	0.18	-1.75

AB Inbev: The company's debt maturity is 2.98 years, which is below the asset duration of 5.13 years. This makes sense, due to large fixed assets (plants, machines and equipment) while due to the nature of

the business, the working capital has a high turnover and needs to be financed. As mentioned before, since the company is very close to its capital structure, it might not be necessary to increase the debt to achieve the optimal structure and optimal cost of capital, but AB Inbev could try to replace the short-term debt with debts of longer duration, to match the asset duration.
When it comes to the other regression analysis, we can see that the company shows a negative relation to the GDP growth. It is important to take into account that the company has significantly increased value in 2008, at the time of the merger of Budweiser with Inbev, when the economy was in a recession period. All in all, we can see that even excluding the numbers of those years, the company still shows a negative relation with GDP, and that might seem that the market might expect the beverage consumption to increase when the economy is not going so well.
We also see that the company has a positive relation to inflation, which means that it has the pricing power in the very competitive beverage industry and is able to fully pass the inflation changes in the prices to the consumer. Finally, the company shows a low positive relation with the dollar currency, mostly because of the global nature of the company.

McDonald's: The company's debt maturity is 6.47 years which is very close to the duration of the assets of 6.37 years, so they have done a good job of matching the duration of the debt to its assets. McDonald's is well below the amount of debt needed to reach their optimal capital structure, so as they add more debt they can continue to match the new debt with the duration of the existing debt.
The company also has a positive relation to inflation, which means that the company has pricing power, which makes sense because McDonald's is a low cost option that competes on price. They are able to pass through all of their inflation charges to consumers. The low relation to the dollar currency reflects the fact that McDonald's is a global company.

M Dias Branco: Assessing the type of financing MDIA3 should use in qualitative terms and based on a typical project (expanding or building new facilities in Brazil), we can say that the company would make use of: long-term debt (plants generate cash flows many years into the future); in Brazilian Reais (to tie the currency of cash flows to the currency of interest and repayments); straight (given the characteristics of the Brazilian debt market and that the company is becoming more mature after years of rapid expansion); and fixed rate (from one side MDIA3 has some pricing power over small and medium retailers; on the other side, MDIA3 products are targeted to middle income final customers, customers that suffer more from inflation).
To add to the above analysis, we draw regressions of changes in operating income and in firm value to changes in Brazilian 10y interest rates, real GDP, inflation and BRL/USD exchange rates. The regression based on firm value presented very noisy numbers, but the slope versus interest rates could actually be we translated into duration of assets of 5.63 years. Of course that the assets last longer than that, but from here we can see that debt for MDIA3 is definitely not short-term. Moving to the regression based on operating income, we see the company with a negative number for changes in GDP, indicating, as we would expect from a non-discretionary business, that EBIT is not much impacted by GDP movements. A similar pattern is seen with inflation, indicating low pricing power. These two factors together reinforce our belief that the company should incur in fixed rate debt. Lastly, operating income has a positive slope when regressed against changes in the BRL/USD exchange rate. This result is surprising at first, as the main raw material for the company is a commodity traded in USD (wheat) and the company would suffer when the USD appreciates against the BRL; but not surprising after a deep examination, as the company has a verticalized strategy and can store wheat on its mills, achieving an average price lower than the market. Given that the slope on FX is not big and that the company is already exposed to FX risk when buying its raw materials, debt should be following the BRL receipts MDIA3 has from its customers.

BRF: The company's current debt maturity is 5.08 years, which is in line with the average duration of its assets. Therefore the company has successfully matched the duration of its debt with its assets.

Moreover, as mentioned on the section before, BRF is already at its optimal capital structure, meaning the company should maintain the current debt level.
Moving to the regression analysis we first need to consider that BRF has only been around for 5 complete years, reason why the results might be affected by "noise" on the data, what could be mitigated with a larger set of historical data. Moreover the company has a lot of derivatives to protect it from fluctuations on commodities prices (corn on cost side and poultry on the revenue side) and USD, however those protections cannot be seen on the EBIT, as they are shown on the financial results.
The regression shows a negative relation (-12.91) with changes in GDP. As food is seen as a non-discretionary product, we would expect the relation to be closer to zero and not so high. Regarding inflation the company has a positive relation (12.28), indicating it has enough pricing power to repass changes on inflation to the price of its products, what makes sense considering the leading position the company has on many of the industries it operates in. As for currency the relation is negative (-1.03) but relatively low, since BRF has both revenues and costs linked to USD this result seems to make sense.

Pernod Ricard: Regressions for RI were run against the Euro, GDP and inflation in the Euro region and returns on German 10 year bond. Results were expected to be noisy because the company operates not only in the Euro region but also in Asia and in the Americas. The regression against the interest rate change returned a duration of assets of 12.25 years, in line with the perception that RI's investments are made in distilleries and vineyards that have very long lives. As a response to this result, we should expect RI to carry debt with duration of around 12.25 years. Although the current average maturity of debt is close to 6.7 years, far from the assets duration, the company has been issuing long-term debts with maturities that range from 10 to 20 years. An average maturity of 12.25 years could be very hard to obtain due to its very long term that could increase RI's cost of debt considerably.
According to the regression, RI's business cyclicality is positively correlated to GDP movements. This is not the expected result because alcoholic beverages are assumed to move in opposite directions from the economy as people tend to consume more alcohol during downturns. However, if we take into consideration that the company's strategy is to operate in the premium brands market, than the idea that people tend to buy cheaper alcohol during a recession could support the results in the regression.
On sensitivity to inflation, the negative result indicates that RI is not able to pass on to consumers its increase in costs. Once again, this is a noisy result because the company operates worldwide and only inflation in the Euro region was considered.
The company's operating income has a positive correlation to the euro. RI has many subsidiaries around the world that have its financial results impacted by the euro when consolidated under RI's financial statements but that would suggest a negative correlation. The correlation, however, is small.
Based on the results above, we would expect the company to have a long term, fixed rate and mostly euro denominated, which is the current profile of RI's debt.

Boston Beer: Asset duration from the regression was 4, but in the case the company had debt we would expect its maturity to depend on the use of the money, whether fixed assets or to finance working capital. The large coefficient for cyclicality wasn't expected, but might reflect the rapid growth of the company in the last ten years. The positive signal was expected, since the company prices its products above non-craft beers and its brand is recognized as premium, thus creating a positive correlation with the growth of disposable income. The inflation analysis shows the company is capable of passing price to its consumers, whilst that's debatable because companies suffer from intense competition in the market. Again, it might be the result of the great job the company does branding its products.

9. DIVIDENDS POLICY AND ASSESSMENT

AB Inbev	2010	2011	2012	2013	2014	Aggregate
FCFE (USD Million)	2,105	3,738	12,111	3,519	7,172	28,645
Dividends/Buybacks (USD Million)	1,924	3,088	3,632	6,253	7,400	22,297
Delta (USD Million)	181	650	8,479	-2,734	-228	6,348
Cash Paid as % of FCFE	91%	83%	30%	178%	103%	78%

AB Inbev: Over the last 5 years, the company was able to accumulate cash but this capacity was reduced due to the company's priority of deleveraging after the merger between Budweiser and Inbev. This priority to pay the company's debt generated a 78% level of cash paid as dividends as a % of FCFE over the last 5 years. Based on the higher ROE (23.75%) than the cost of equity (8.75%) and the higher ROIC (10.62%) than the cost of capital (6.58%), we can say that the company has good projects to invest and that it should therefore try to reduce the dividends in order to reinvest more.

McDonald's	2010	2011	2012	2013	2014	Aggregate
FCFE (USD Million)	4833	5121	4978	5082	5273	25287
Dividends/Buybacks (USD Million)	5107	5973	5512	4893	6415	27900
Delta (USD Million)	-274	-852	-534	189	-1142	-2613
Cash Paid as % of FCFE	105.67%	116.64%	110.73%	96.28%	121.66%	110.33%

McDonald's: Over the past 5 years, McDonald's has returned more money to shareholders through dividends and buybacks than they have generated in free cash flow to equity. The company has a stable cash balance that is higher than their competitors and low debt so they have a higher capacity to pay shareholders. In 2014 McDonald's paid out 121% of their free cash flow to equity to shareholders. This can be a criticism of the company however, because they have generated an ROE and a ROIC that is higher than their cost of equity and cost of capital, respectively. These numbers suggest that McDonald's can benefit by paying less dividends and investing more cash into new projects.

M Dias Branco	2010	2011	2012	2013	2014	Aggregate
FCFE (BRL Million)	36.31	113.06	133.61	271.39	205.42	759.79
Dividends/Buybacks (BRL Million)	76.28	87.49	84.18	114.51	117.27	479.72
Delta (BRL Million)	-39.97	25.57	49.43	156.89	88.15	280.07
Cash Paid as % of FCFE	210.08%	77.39%	63.00%	42.19%	57.09%	63.14%

M Dias Branco: In the past 5 years the company has earned BRL 759.8 million in FCFE and has returned 63.14% of this amount to its stockholders, always taking advantage of interest on equity (when dividends are allowed to be deducted from the amount to be paid as interest expense). We could argue that the company should favor buybacks given that it has no clientele effect, that it doesn't need dividends to signal future expectations, that there is little potential for wealth transfer and that it's always better not to be stuck with high dividends, but the singular situation of company's free float (little room to buybacks) and the peculiarity of the Brazilian tax legislation are sufficient motivation for MDIA3 to keep using dividends (interest on equity) as its preferred way to return cash to stockholders.

In terms of accumulated cash, not only has the company shown strong ROE and ROIC (well above cost of equity and WACC), but it also presented positive Jensen's alpha, proving that it is able to manage stockholders money and that management deserves flexibility to handle the cash and set dividends.

BRF	2010	2011	2012	2013	2014	Aggregate
FCFE (BRL Million)	353	-574	-269	587	2,492	2,591
Dividends/Buybacks (BRL Million)	153.2	501.6	439.8	579.1	726	2399.7
Delta (BRL Million)	200	-1,076	-708	8	1,766	191
Cash Paid as % of FCFE	43.34%	-87.35%	-163.80%	98.58%	29.13%	92.63%

BRF: Over the last five years the company has paid 92.63% of the FCFE it generated to shareholders. Most of it was made through interest on equity, due to the tax advantage. However, last year the company only paid 29.13% of the FCFE it generated, suggesting the company is building a cash position, probably to finance its further international expansion, one of the targets of the new management. Given the company's positive ROE, ROIC and Jensen's Alpha shareholders should support the management in its decision.

Pernod Ricard	2010	2011	2012	2013	2014	Aggregate
FCFE (EUR Million)	-86	497	382	1	526	1320.00
Dividends/Buybacks (EUR Million)	174	459	458	435	464	1990.00
Delta (EUR Million)	-260	38	-76	-434	62	-670.00
Cash Paid as % of FCFE	N/A	92.35%	119.90%	43500.00%	88.21%	150.76%

Pernod Ricard: From the figures above, RI has distributed more dividends/buybacks then its FCFE can support. Although the company does not have a dividend policy, it seems that it tries to remain in the same range paid every year. At the same time, since Vin&Spirit's acquisition, the company has been amortizing part of the debt contracted for the deal, which has considerably reduced its FCFE. As the company now has reached a leverage ratio close to what it deems appropriate, debt amortization tends to decrease and cash paid as % of FCFE is expected to reach lower levels. Excess cash from that point on should be redirected to new investments and acquisitions in order to benefit from RI's favorable ROE and ROIC.

Boston Beer	2010	2011	2012	2013	2014	Aggregate
FCFE (USD Million)	48.00	61.50	0.10	10.50	-20.50	99.60
Dividends/Buybacks (USD Million)	68.00	62.80	18.00	29.60	7.90	186.30
Delta (USD Million)	-20.00	-1.30	-17.90	-19.10	-28.40	-86.70
Cash Paid as % of FCFE	141.67%	102.11%	18000.00%	281.90%	-38.54%	187.05%

Boston Beer: The company has never paid dividends and doesn't plan to start paying in the near future. For buybacks, Boston Beer repurchases stocks every year since its IPO, but in some part to keep in line with the stock compensation of employees. Historically, the company used excess cash to expand production and buy small breweries. Even though they paid $150M to purchase a brewery last year, the company still has $122 in cash. As stated before, this decision has strong influence from the founder/Chairman, and the shareholders, even in disadvantage when considered the power for decision-making, most probably haven't called for dividends payments, because the company is still going through strong expansion.

10. VALUATION

	McDonald's	AB Inbev	M Dias Branco	BRF	Pernod Ricard	Boston Beer
Enterprise Value (Million)	$100,195.00	$234,714.00	BRL 6,733.30	BRL 64,082.24	EUR 39,284.86	$3,267.50
Net Debt (Million)	$24,486.00	$51,917.00	BRL 148.91	BRL 5,465.52	EUR 9,368.47	-$75.00
Equity Value (Million)	$75,709.00	$182,797.00	BRL 6,584.39	BRL 58,616.72	EUR 30,196.39	$3,342.50
Target Share Price	$80.03	$111.92	BRL 58.04	BRL 68.38	EUR 112.22	$231.48
Current Share Price	$96.39	$123.40	BRL 88.49	BRL 64.40	EUR 111.30	$253.61
Upside/Downside	-16.97%	-9.30%	-34.41%	6.18%	0.83%	-8.72%
Recommendation	SELL	SELL	SELL	HOLD	HOLD	SELL

AB Inbev: The company had a significant increase in revenues over the past 5 years, especially considering the merger of Budweiser with Inbev and the recent acquisition of Mexican Grupo Modelo, so that is why we are considering an increase in revenues based on market expectations of 5.3% for the next 5 years, which decreases for the following 5 years until it reaches the risk free rate in perpetuity. We are also considering that AB Inbev will sustain its competitive advantage and maintain an operating margin of 33%. We used the current cost of capital and assumed that the company will maintain its current capital structure and Capex was estimated using the average sales/capital ratio of the industry. The discounted cash flow generates a target share price of $ 111.92 while the current price is $ 123.40, so our recommendation is SELL.

McDonald's: McDonald's has enjoyed slow yet stable revenue growth of roughly 2%, but had an unusually poor 2014, where revenue fell 2.7%. While it was an unusually down year, this could also signal changing consumer preferences towards more healthful foods where McDonald's does not have a strong brand image. The valuation is based on a 4% revenue growth over the next 5 years, due to management's stated goals of 3-5%. We assumed that the cost of capital after year 10 is similar to that of typical mature companies (risk-free +4.5%), and that McDonald's will earn a return on capital equal to their cost of capital after year 10. The discounted cash flow generates a target share price of 80.03, while the current price is $96.39, so our recommendation is SELL.

M Dias Branco: The estimate of the value of equity for MDIA3 is BRL 6.584 million or BRL 58.04 per share. These numbers compare to a current market capitalization of BRL 10,039 million or BRL 88.49, so we can observe that the valuation implies that the stock is overvalued in 35% and it should be sold.
Several assumptions were made in order to get to the estimated values and they are the ones to tell us the story about the future of the company and the future of the Brazilian market. First of all, we assumed that revenues will grow 10% over the next 5 years, a number that is 25% less than the average of the last 5 years, given the low expectations on the Brazilian economy for the short term future. Adding to that, we expect growth rate to decrease gradually from year 6 to year 10, reaching 8% in year 10. Operating margins are supposed to remain stable at last year's level (14.58%), which is a little bit

under last 5 year average and which seems pretty reasonable for the company to sustain. In terms of cost of capital after year 10, we expect the Brazilian economy to go back to more reasonable levels of interest rates and thus we forecast a risk free rate of 8% (vs. 10.46% today). With Brazil moving to a more stable situation, we also forecast country risk spread and market risk premium to go down by 25%. All these changes in components of the cost of capital would make it be 11.8% in year 10 (15.52% today), pushing up the terminal value (which makes up 85% of the PV of total cash flows). One final assumption made is that we believe that the company will enjoy tax benefits from local and federal governments for at least more 9 years into the future (based on information available in MDIA3's 2014 annual report), therefore we only start to move the effective tax rate towards the marginal in year 10.

BRF: The company estimated value of equity is BRL 58,616.72 million or BRL 68.38 per share. BRF current market cap is BRL 54,836.71 million or BRL 64.40 per share. Therefore the valuation implies the stock has an small growth potential and should be hold.
The assumption for revenue growth was 10% for the next 5 years and 9% after that, which is higher than the average of last years but in line with company strategy to further accelerate its international expansion. Operating margins are set to gradually increase from last year's 12.52% to 14% in 2025, as the company continues on its strategy to focus on products with higher margins (more industrialized and frozen food and less poultry and pork meat). As for the cost of capital, the assumption was that Brazilian interest rates will move to a more reasonable level, moving the risk-free to gradually move to 8% on year 10. Similar adjustment were made to the country risk spread and market risk premium, both to go down by 25% by year 10. With those adjustments the cost of capital would gradually move to 11.36% in year 10. Finally, it was made the assumption that BRF will be able to keep its tax rate at the current level until the year 10, when it would finally adjust to the marginal tax rate for the perpetuity.

Pernod Ricard: RI's estimated enterprise value came at EUR 39.3BN and equity value at EUR 30.2BN, representing a target share price of EUR 112.22/share. The valuation is slightly above the current price of EUR 111.30/share. The company's strategy is to grow in emerging markets, especially in Asia, and to focus in a portfolio of premium brands. RI has also been on a path of deleveraging and cutting costs in order to improve profitability. As a result, the company's sales have been growing organically at an average of 3.1% and it has been posting consistent Operating Cash Flows between EUR 1 - 1.2BN in the last five years. Furthermore, it has been able to successfully refinance its debt at lower interest rates and longer maturity, having recently issued a EUR 730M 10 year bond with a coupon rate of 2.125%.
The assumptions for the valuation take into consideration the elements above mentioned. While the company has grown at 3.1% in the last five years, analysts estimate RI's sales to grow by 6.7% p.a. This growth is based on the company's increasing presence in emerging markets, especially in China where GDP is expected to grow around 7.5%. Analysts' estimates, however, seems too aggressive for the current scenario, although we do expect RI to benefit from its global operations. As such, the projection was run using an annual growth of 5.5%, a number between its past performance and that expected by analysts. Margins and credit profile were considered stable and cost of capital was kept at the same rate as of today, at 4.86%. All in all, the company seems to be fair valued by the market.

Boston Beer: The company has been experiencing a great increase in revenues for the past 10 years and it seems the market is expecting this growth to sustain for a much longer period. We are using a market-based expectation of 8.5% growth of revenues for the next five years, expected operating margin of 20% (market average, it's slightly above the company's current margin) and sales to capital ratio of 2.0, above the market average but that reflects the company's structure and historical value. The DCF analysis generated a target share price of $231,48, lower than the price of $253.61 as of the time of analysis. It is good to point out that the shares price have been very volatile during the year, reflecting mainly expectations for the revenues of the company and growth of the market, thus indicating there's a strong component of the future growth in the market's valuation. Considering our own valuation, the recommendation is to SELL the stock.

11. SUMMARY OF FINDINGS

We have analyzed six different companies in the industries of Beverages (alcohol), Food Processing and Food Restaurant Chains, two of them located in Brazil (M Dias Branco and BRF), one located in the US (Boston Beer) and three global companies (AB Inbev, Pernod Ricard and McDonalds). In order to compare them, we graded from 1 to 5, with 1 being the worst and 5 the best grade for each one of the drivers we have previously analyzed in this project. Considering the 7 topics that we analyzed and the weights that we have assigned to each topic, BRF has the highest overall grade.

	Weight	Mc Donald's	AB Inbev	M Dias Branco	BRF	Pernod Ricard	Boston Beer
Corporate Governance	20.00%	2	5	2	4	2	3
Social Responsibility	5.00%	4	4	4	4	4	4
Relationship with Market	10.00%	4	5	4	4	3	2
Risk and Return	15.00%	4	3	4	3	3	5
Capital Structure	15.00%	1	4	5	5	4	3
Dividend Policy	15.00%	3	3	5	4	1	2
Valuation	20.00%	1	2	1	4	3	3
Weighted Average Grade	**100.00%**	**2.4**	**3.6**	**3.3**	**4**	**2.7**	**3.1**

Corporate Governance: Although we have a wide range of corporate governance quality, most of the companies present conflicts of interest because of the strong influence of a few shareholders – founders or large investors. Even for the exception, McDonalds, the board of directors has been consistently able to elect members of their own network outside the company. We elected AB Inbev because of the composition of the board and the measure they take to avoid conflicts, the experience of the members and how the decisions support the results orientation of the company. On the other side, Pernod Ricard and M. Dias Branco elected to the board members of the founder family with questionable managerial ability.

Social Responsibility: we have analyzed the commitment of companies to social development and their awareness of the impact of their operation on different stakeholders. It was a consensus among the results that all companies are socially engaged and follow and disclose clear guidelines on ethics and sustainable practices. Mc Donald's, M. Dias Branco and BRF have programs of community development and campaigns to raise funds and awareness to different social causes. On the other hand, all alcoholic beverage companies, AB Inbev, Pernod Ricard and Boston Beer, invest heavily in responsible drinking campaigns and have a strict screening process on procurement, requiring all suppliers to also comply with their social responsibility guidelines.

Relationship with Market: on this topic we analyzed how well each of the companies relate with its investors, mainly by the quality and amount of information they disclose and how and how often they do it. Overall the companies did a good job on this aspect, presenting an excellent Investors Relationship website, many presentations and always doing road shows. Because of that four out of six companies were graded between 4 and 5 (Mc Donald's, AB Inbev, M. Dias Branco and BRF). Pernod Ricard was graded 3 because it discloses a little bit less information than the former four companies. Boston Beer was the one outlier, since it only discloses the minimum required information.

Risk and Return: Given that we have very different companies in the peer group, the metric we used here to analyze and compare them was excess return in terms of ROIC (ROIC - WACC), which is a useful number for debt and stockholders and agnostic in relation to the capital structure. All the companies were able to deliver positive excess returns, indicating strong competitive advantages and good strategic positioning, but while Boston Beer stands out in our group, with almost 25% excess return, some companies like BRF, AB Inbev and Pernod Ricard present way smaller excess returns.

Capital Structure: We analyzed the capital structure choices of the companies and graded them based on how far they were from their optimal capital structure. The results showed that the companies generally did a good job of being close to their optimal capital structure except for McDonald's. McDonald's is using only about half of the debt that they should be, and further analysis of their cash flows and industry comparisons showed that they actually have the ability to take on more debt, however they are not doing so.

Dividend Policy: We looked at the dividend payouts of each of the companies and found that for the most part the companies have good payout ratios in relation to the projects that they can re-invest in. Pernod Ricard however, has paid more dividends than they have been able to afford. They don't have a written dividend policy but they have kept dividends consistent even though they are higher than the free cash flow to equity. This suggests that they are pressured to pay dividends they can't afford because they don't want to cut the payout. M Dias Branco on the other hand, has a payout ratio of 63% and have been able to accumulate a large amount of cash over the past five years. They have enough cash to reinvest in their projects and also take advantage of the tax deduction they get from dividends due to Brazilian tax policy.

Valuation: We placed a high importance on valuation because it represents the opportunities that investors have to make money in the companies. Overall, our valuations produced a bearish outlook for the companies analyzed based on their current stock price, with no "buy" ratings, four "sell" ratings, and two "holds". M Dias Branco has an especially bearish valuation that is 34% under their current share price.