

TAVINA S.P.A.

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Tavina S.p.A. Corporate valuation

Corporate profile

Tavina S.p.A. was founded in 1973 by Mr. Amos Tonoli in order to develop the bottling of mineral water that springs from the natural sources of Salò, a town in the nearby of Brescia, Northern Italy. In 2003 the company was acquired for €18 million¹ by Gruppo Sangemini, another Italian mineral water marketer, that held it until 2006 when it was sold to Fontana, Tonoli e Zanini families (through the “newco” F.T.Z. S.r.l.) in joint with Primavera S.p.A. (a company held by Franco Colosio, a local entrepreneur).

F.T.Z. S.r.l. and Primavera S.p.A. bought the company through a leveraged buy-out using a “newco” named Acque Minerali Tavina S.r.l, that now holds the entire shareholders’ capital of Tavina S.p.A. and leads the group strategically (for more details see **Chart. 1**). The acquisition executed by Acque Minerali Tavina S.r.l. was closed at a price of €38 million and financed through a capital increase of €12 million and a loan provided by local banks for €23 million (granted by the shares of the two companies and by a cash deposit of the owners for €10 million), and by another mid-term loan provided by international financial institutions for €5 million.

In June 2008 Acque Minerali Tavina S.r.l. and Tavina S.p.A. signed a contract to merge into one single company with a “reverse merger” deal. The aim was to simplify the structure of the entire organization and to rationalize the operations to facilitate the development of the new production facilities.

Production and managerial features

During the years, apart from controlling the quality of the mineral water sources, the company has developed a productive system with high quality and flexibility, in order to answer promptly to the changing needs of its customers. The Salò plant has been developed during the past 20 years and now it grants a production of 200 million of litres of water, thanks to high tech plants for the glass bottling as well as for PET bottling.

At the end of 2006 Tavina S.p.A. made an agreement with the local municipality, Comune di Salò, by which the present production plant, that was built in the past for the purpose of serving the local community on small area, could be divested and replaced by a new and more modern plant with new equipment and machineries that could enhance the efficiency of the company.

Nowadays the company acts with three main commercial brands: “Fonte Tavina”, “Fonte Linda” and “Fonte Allegra”.

The distribution network is wide and it covers Italy and Europe (Germany, Austria, Spain, Switzerland, Holland, Denmark, England and Hungary) and the rest of the world (USA, China, Can-

¹ The price transacted relates to the Equity Value of the company.

ada, South Africa, Japan, Australia and Israel). The products packaged in the traditional glass bottles are distributed through different commercial channels (Ho.re.ca. and retailers) to reach a wide number of families; the PET bottles are mainly marketed through big retail chains.

The company workforce is made of 50 employees and 30 seasonal workers.

The water marketed by Tavina S.p.A. is particularly rich of minerals: this is due to the long permanence of the water under the soil. The water naturally springs from the rocks of the glacial basin of Prealpi Lombarde mountains within the Parco Naturale dell'Alto Garda, a natural park in the nearby of the Garda Lake.

Tavina S.p.A. has three lines of products with three different brands. Every brand is linked to a different natural source and has its dedicated commercial channels and sales force.

Fonte Tavina has been authorized to report on its bottle that its water can be helpful for the digestion and can be healthy for children. Furthermore the brand "Linda" has been certified for the Italian Ministry of Health as "oligominerale" that means it has a low rate of mineral salts, while water "Allegra" is particularly recommended for sporting activities.

The production is based on three daily working turnovers for seven days during the summer and three daily working turnovers for five working days during the rest of the year. During the summer the company employs seasonal workers.

The entire value chain, from the mineral water basins and sources to the logistics are certified by the quality standard UNI EN ISO 9001:2000. From January 2004 Tavina S.p.A. has an information system for the traceability of its products.

At the end of year 2008, the management of Tavina, in order to foster the development of the company in the future years, is considering the opportunity to raise capital from Private equity funds that showed their interests in the company. For this purpose the management needs to be comforted on the value of the company. The valuation needs to take into account the prospects of the company as well as the prices transacted on the market.

Assignment:

You are required to prepare the business plan of the company with a five-year horizon and evaluate the company with the **DCF technique** and **multiples** following these guidelines:

Business Plan

You are required to prepare the company business plan (2009-2013) using the excel file “Model BP”. In particular you should provide these main elements:

1. A business analysis in order to prepare the main assumptions for the business:
 - A brief description of the company and its business;
 - An industry analysis and the main competitive dynamics, (“Porter’s 5 forces”, “BCG matrix”, “SWOT Analysis”);
 - The Key Performance Indicators for the industry and for the main competitors (such as Ebitda Margin; ROS; ROI; working capital turnover);
 - A detailed description of the assumptions used in order to forecast the cash flows, mentioning also the sources of data (*on-line* e/o *off-line*) apart from the data reported in the excel “Assumptions”.
2. Prepare the business plan on an excel file that uses the basic scheme of “Model BP”.

Valuation

You are required to evaluate the company (providing the *Enterprise Value* and the *Equity Value*) starting from the *business plan*, using the DCF model and the multiples methodology. In order to apply the DCF valuation you have to collect data to estimate the cost of capital (data for the risk free rate calculation are provided in the attachments; data for equity risk premium calculation need to be gathered from the main provider of financial information).²

In particular you have to provide:

1. An **Excel file** with all the main assumptions and calculations.
2. A **PowerPoint presentation** (max 10-15 *slides*) with the key points of your work. The presentation has to be a sort of *information memorandum* containing the company profile, the industry analysis and the valuation.

² Bloomberg or Yahoo! Finance for beta analysis; Pablo Fernandez webpage for data regarding the Market Risk Premium in the EU context (URL: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1344209).

Chart. 1. – Tavina S.p.A. Shareholders' structure

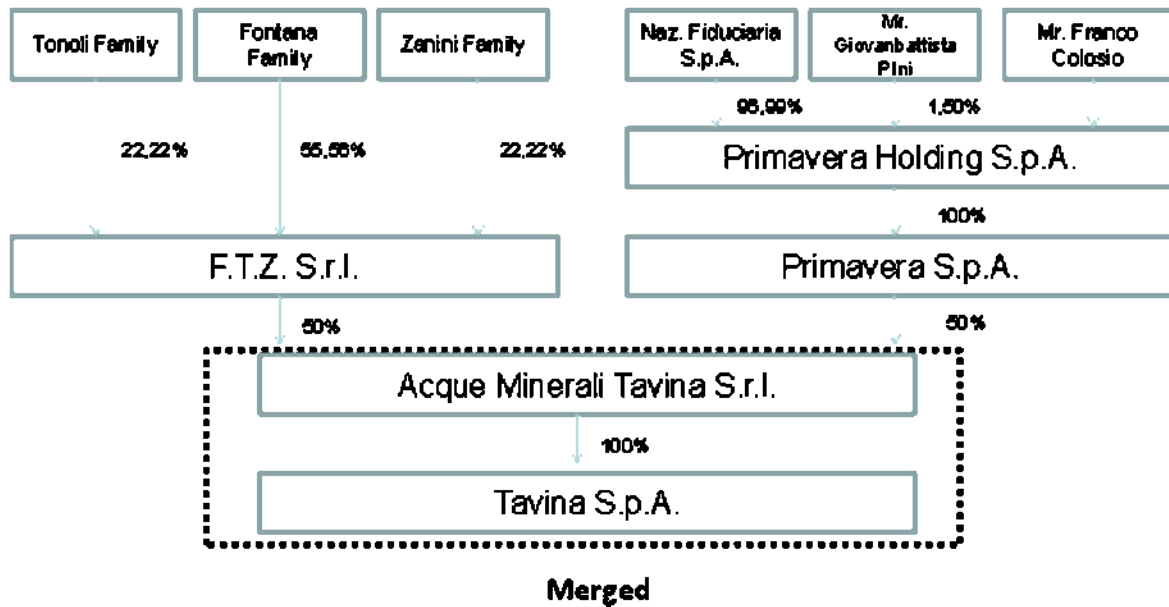


Chart 2. – Italian T-bond and T-bill yields in 2008

Type	Coupon yield
BTP Italy 01/08/18 10Y	4,50%
BOT Italy 15/12/08 1Y ZERO Coupon	2,63%

Chart 3. – Italian Interest Rate Swap (IRS) yields by maturity on 31st December 2008

Type	Yield
IRS 1 Y ITALY	2,68%
IRS 2 Y ITALY	2,76%
IRS 3 Y ITALY	2,96%
IRS 4 Y ITALY	3,12%
IRS 5 Y ITALY	3,24%
IRS 6 Y ITALY	3,36%
IRS 7 Y ITALY	3,46%
IRS 8 Y ITALY	3,57%
IRS 9 Y ITALY	3,66%
IRS 10Y ITALY	3,74%