

Student 6: High Not Achieved

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ABC Eggs is a company that produces eggs and a broad range of egg and non-egg products. The company is vertically integrated which means it owns and manages everything from production to supplying their products. This is a point of difference to many other similar large-scale companies as ABC Eggs does not have many people 'clipping the ticket' along the supply chain. ABC Eggs is an innovative company with many goals for expansion. Recently, challenges within the market for eggs have arisen, such as a new law banning caged egg sales by 2022, and the challenge of pushing egg products further up the value continuum.

In order to face business challenges ABC Eggs has created goals which include growing their market share, creating an exit strategy for shareholders, creating a platform for growth, and maintaining short-term profitability. The Board has decided to achieve their goals by expanding, building two new large scale farms in [location 1] at a cost of \$20M, and [location 2] for \$40M. As these are costly large projects ABC Eggs has had to go through intensive strategic capital expenditure planning in order to find suitable finance options for the operations.

A **bank loan** was considered. This would have allowed ABC Eggs to keep 100% ownership of the company, but it wouldn't free up any cash for shareholders who want to get out of the company. Shareholders would only be able to sell their shares to each other. **The bank would want ABC Eggs to specify a fixed asset that could be used as security in a worst-case scenario.**

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A **merger** was also considered. The merger option could have added combined knowledge to ABC Eggs and could have allowed struggling firms to benefit. However, the process of finding a business with synergy and a suitable partner proved too difficult. This option would have also increased the price for consumers as a result of increased market share. If established, this would have gone against the goal of short-term profitability as a result of higher prices.

1

To fund the two builds ABC Eggs decided to pursue a **private equity partner**, DEF Capital. This company is located offshore and allows current shareholders in ABC Eggs to release shares (75%). As an exit strategy for shareholders was a goal for ABC Eggs, having a private equity partner creates the opportunity for shareholders to sell up when they want to. The DEF Capital option for financing also provided large amounts of funding with active involvement. This will prove beneficial to get the ball rolling on ABC's expansions because the access to capital over a short time frame will allow the company to build the new plants and start producing before the shutdown of the caged egg farms. This relates to the goal of maintaining short-term profitability which works to counteract the challenge of the government intervention of no caged egg production by 2020.

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The decision to use DEF Capital as a financing option has potentially serious consequences for ABC Eggs. The change in ownership status has meant that the previous management control is lost as DEF now have their input into ABC. This could influence the values and direction of the company. The equity partner is offshore. This means there will be more of an international perspective on decision-making, which could be positive or negative for ABC. The equity partner could bring innovative new ideas and add value to the company. On the other hand, ideas/decisions could clash. DEF might just want to make decisions that lead to the most profit, but the current shareholders will be more aware of the New Zealand market, caring for the chickens, etc.

2

The short-term benefits of the decision to take on DEF as an equity partner is the ability to start the building programme and maximise profits before the 2020 ban on caged egg production kicks in. ABC Eggs can also release shareholders who want to sell their shares to the company, in many cases because of the upcoming ban on caged egg production.

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The equity partner decision also involves active involvement by DEF and high returns for them. Other financing options could have provided straight financing but would not have added to the knowledge pool of ABC Eggs. An incentive for DEF Capital is to help grow and diversify the eggs company in order to maximise their profit share.

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