

Kraft Heinz may have to pass hat to buy Unilever

ROB COX and RICHARD BEALES

The world's wildest takeover artists have found their biggest target yet. Kraft Heinz, the Kool-Aid-to-Velveeta conglomerate, has offered \$143 billion for Unilever, its Anglo-Dutch rival. Even for 3G Capital, the private investment firm behind Kraft Heinz, beer giant Anheuser-Busch InBev and Burger King owner Restaurant Brands International, it's an audacious move. To land Unilever, which rejected the offer, Kraft Heinz may need to pass the hat around to shareholders like Warren Buffett.

The secret sauce that 3G's five Brazilian founders apply to the companies they invest in is what's known as zero-based budgeting. This is the practice of starting from scratch in assessing the expenses of every part of the business. As frightening as that sounds for employees, it has been a boon for shareholders. So much so, that rivals of 3G enterprises now often pepper their corporate-speak with the short-form "ZBB."

Unilever offers a salivating opportunity for 3G to work their cost-cutting magic. The sprawling group led by Paul Polman, whose



A Heinz Ketchup bottle sits between a box of Kraft macaroni and cheese and a bottle of Kraft Original Barbecue Sauce on a grocery store shelf in New York City.

brands spread from Magnum ice cream and Dove soaps to Lipton teas, reported a 2016 operating profit margin of just 15 percent, compared to 23 percent at Kraft and around the same at Procter & Gamble. If 3G could capture

Unilever, slash expenses and close that gap, it might generate more than \$4 billion a year of extra pre-tax profit.

The present value of those potential savings, after tax, is more than sufficient to cover the roughly

\$20 billion premium Kraft Heinz offered. In fact, it leaves room to sweeten the 18 percent uplift significantly. The problem, though, is paying for it. As it stands, the offer is over 60 percent in cash. Funding that \$86 billion slug with debt would triple the net amount currently borrowed by the two companies combined to roughly \$130 billion. Even allowing for generous cost savings, the ratio of debt to EBITDA could surge well above five times, Breakingviews calculates.

Of course Kraft Heinz could also raise cash by issuing new shares, reducing the need to borrow. Here's where 3G and its cash-rich partner, Buffett's Berkshire Hathaway, come in. If they want to retain their current majority control, they might have to pony up \$50 billion or more between them. That would bring the enlarged company's leverage down to below three times EBITDA.

As well as keeping the two investors in charge, the Kraft Heinz M&A machine would then have much more capacity to continue devouring other food companies and spreading the ZBB cult across the planet.

The writers are Reuters Breakingviews columnists.

bKash offers 10pc cashback on purchase at book fair

STAR BUSINESS DESK

Customers of bKash will get 10 percent cashback if they purchase books through bKash from the select publishers' outlets at the month-long Amar Ekushey Grontho Mela.

A total of 112 publishing houses will accept bKash payment at the book fair which began on February 1, 2017 on the Bangla Academy premises, according to a statement.

The cashback offer remains available for

the customers till February 28, the last day of the fair. bKash extended the same offer to its customers in the previous three occasions as well.

Customers will receive the cashback amount in his or her bKash account within two working days.

Launched in 2011, bKash, a joint venture of Brac Bank, US based Money in Motion, World Bank's private sector investment arm IFC and Bill and Melinda Gates Foundation, offers mobile financial services in Bangladesh.

Run research on impact of patent waiver on drugs

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For example, cancer drugs in the US mostly cost \$100,000 a year per patient, which is much higher than the income of a middle-class person. It is the same with Hepatitis C drugs that cost \$84,000 a year, with each pill coming to \$1,000.

Global trade, because of the removal of barriers to trade, is supposed to cut down prices of goods, but the phenomenon does not apply to pharmaceuticals.

"Nowadays everybody buys cheaper Chinese toys and Americans are buying clothing from Bangladesh. But medicines are under patent, under intellectual property. This is not the free market. This is a monopoly."

This is the reason why the cancer drugs are very expensive, she said.

Companies have been given the right to patent on the argument that they need it to

recoup their cost and investment on research and development.

"But the problem is that we do not know how much it cost them. Governments and companies need to be able to work on the basis of true information."

She cited that estimates to develop a medicine vary from \$100 million to \$4.2 billion.

"It is really impossible," she said, adding that there should be transparency in this area.

Trade ministers must be aware of the health consequences of the trade agreements that include the provision that can affect the pharmaceutical market.

"So, there must be a health impact assessment of any trade agreement. This is the essential I want to make."

When a trade requires Bangladesh to revise the patent law, the consequences of that on the medical system will have to be carefully studied, she added.



Mustafa Jabbar, president of Bangladesh Association of Software and Information Services, and Ilias Kanchan, brand ambassador of Walton, open a new Walton Plaza at BCS Computer City in Dhaka on February 15.

Event on public procurement starts in Colombo today

STAR BUSINESS DESK

The fourth South Asia Regional Public Procurement Conference starts in Sri Lanka's capital Colombo today.

The four-day conference under the auspices of South Asia Public Procurement Network (SAPPN) is hosted by the Sri Lankan Department of Public Finance, the Central Procurement Technical Unit (CPTU) under the planning ministry said in a statement.

The theme of this conference is "e-GP in South Asia: Achievements, Opportunities and Challenges". The e-GP stands for electronic government

procurement which is an ICT based public procurement system.

The CPTU of the Implementation Monitoring and Evaluation Division had hosted the third regional conference in November 2015 in Dhaka.

Director General of CPTU Md Faruque Hossain, the current chair of SAPPN, is representing Bangladesh in the conference.

He will make a country presentation highlighting e-GP progress in Bangladesh and another presentation on e-GP interoperability.

Md Mosharrar Hussain, system analyst of CPTU, will make a presentation on e-GP business model in the conference.

The SAPPN for the first time is going to make public procurement award under some categories. BRAC Institute of Governance and Development has been selected for an award for its case study on citizen engagement in public procurement.

The World Bank, the Asian Development Bank and the Islamic Development Bank are the sponsors of the conference.

The SAPPN is a platform of heads of public procurement regulatory bodies in South Asian countries.

The participants of the conference exchange ideas and experiences to innovate good practices to improve public procurement management.

Yahoo paying small price for big hacks

REUTERS, New York

Yahoo Chief Executive Marissa Mayer may soon be breathing a sigh of relief. The \$40 billion internet company is on the verge of cutting the price of its core-business sale to Verizon Communications by \$250 million to \$350 million, less than a 10 percent discount to what was originally agreed, according to media reports. That would be a small price to pay for massive hacks that affected over 1 billion users' account data.

In an effort to add online value to its increasingly commoditized telecommunications business, Verizon acquired onetime internet darling AOL and last July agreed to buy Yahoo's advertising and search businesses for \$4.8 billion. That left Mayer, who will be stepping down from the board of the rebranded AltaB once the deal closes, with little to worry about except huge stakes in Chinese e-commerce behemoth Alibaba and Yahoo Japan.

Things soon started unraveling with the muddled disclosure of a Yahoo security breach dating back to 2014 in which information for at least 500 million accounts was

compromised. Then the company revealed another earlier hack possibly affecting over 1 billion users.

The potential financial and reputational costs opened the door for a renegotiation or, conceivably, for Verizon to walk away. The legal bar to abandon a transaction because of an unexpected hit to an M&A target's business is a high one, however. Now it seems Verizon is settling for a relatively small reduction in the price it is paying, although a Reuters source said the two companies also would share the cost of any lawsuits relating to the data breaches.

That may save Verizon more money over time. Indeed, just as news broke of a possible settlement on Wednesday, Yahoo was issuing fresh warnings to users about potentially malicious activity on their accounts.

For now, the reputational hit of serious and initially undetected flaws in Yahoo's security is being valued, in round numbers, at 25 cents per affected customer. Yahoo reported about \$5 billion of revenue last year for its more than 1 billion users. On a simple calculation, the deal-price discount only covers the loss of one in 20 of them for one year.

ECB member welcomes inflation rise

REUTERS

European Central Bank board member Sabine Lautenschlaeger has said the ECB needs to wait to see if inflation stabilizes in its target zone of just under 2 percent before interest rates can be raised, but that she hopes its bond-buying program can be scaled down before year-end.

Euro zone consumer prices were up by an annual 1.8 percent in January, the highest rate since February 2013, according to a Eurostat estimate, after 1.1 percent in December.

"Has inflation returned just because we've had one month of that kind of inflation?" Lautenschlaeger said in an interview with German Deutschlandfunk radio.

"I'm very pleased to say, quite honestly, that we're close to our target of just under 2 percent. But what's important for me is that it's not a temporary, ephemeral outlier on the upside.

"For January, we don't yet know for sure. For December, it was largely due to energy prices and the so-called basis effect ... and, hold onto your hats, due to holidays booked by German tourists.

"So it's really important to ascertain that there is a trend, that the inflation has really returned," she added.

No sincere efforts to deepen financial inclusion: analysts

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Most countries that are successful in MFS run a hybrid model where banks, mobile operators and other stakeholders can participate, said Pial Islam, managing director of PI Strategy Consulting, a research firm working in this segment.

But in Bangladesh, the industry is only following a bank-led model, which cannot give the ultimate result in financial inclusion.

Around 70 percent of the government-to-government payment goes through the digital channel and a third of public-to-government transactions are also run digitally.

But for person-to-person transactions, only 3 percent have adopted a digital model. "So, there is scope for growth here," Islam added.

The costs and financial literacy are the main challenges to financial inclusion, said M Anwarul Islam, deputy general manager of the BB's financial inclusion department/

At present, there are 4.11 crore MFS accounts but only 1.59 crore are active (that have made at least one transaction in the last 90 days).

"This also shows us why inclusion is not happening properly," he added.



Ashrafur Rahman, president of Bangladesh handicrafts manufacturers and exporters association, and Kazi Ahmed, chairman of Bangladesh Trade Development Council, attend a business-to-business meeting in the capital on Saturday.

Cash benefit scheme launched for poor, pregnant women

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The beneficiary mothers and pregnant women will receive quarterly electronic cash transfers for utilising services related to the health and development of children under the age of five at the community clinics, the WB said.

"The Jawtno Programme will contribute to the empowerment of women, which will help Bangladesh achieve sustainable development goals and reduce poverty," Local Government, Rural Development and Cooperatives Minister Khandker Mosharrar Hossain said at the launch.

"The programme will also establish safety net cells at the union parishads, which will strengthen the union parishad's capacity to implement safety net programmes. As a result, I believe, sustainable development will be ensured."

"Despite Bangladesh's remarkable progress in immunisation coverage, and infant mortality reduction, about 36 percent of children under five are stunted," said Qimiao Fan, World Bank country director for Bangladesh, Bhutan and Nepal.

"The children from poor households bear a disproportionate burden of stunted growth," he said.

"The World Bank places a high priority on supporting Bangladesh to improve the nutrition and cognitive development of children in their early years," Fan said.

The Jawtno Programme focuses on prenatal care, and young children's nutrition and cognitive development, and these efforts help poor children to do better in adult life."

The Programme will select eligible beneficiaries using the National Household Database being developed by the Bangladesh Bureau of Statistics.

An automated management information system will help the programme monitor beneficiary enrollment, attendance, payments and grievances, the WB said.

The programme will be implemented in 43 upazilas with a high prevalence of poverty and malnutrition in Jamalpur, Mymensingh, Sherpur, Gaibandha, Kurigram, Lalmonirhat, and Nilphamari.

The programme is built upon the success of the pilot Shombhob, which found that beneficiary households experienced an increase in consumption of nutritious foods and children's health outcomes when cash transfers were linked to the use of growth monitoring and nutritional counseling services.

The programme will also strengthen the capacity of the union parishads to administer the conditional cash transfer programme; community clinics to deliver nutrition counseling, growth monitoring and child cognitive development services; and the union post offices to use biometric technology for cash transfers.



Surendra Kumar Sinha, chief justice, opens a clinic in the capital. MA Halim Chowdhury, managing director of the bank, was also present. The bank donated Tk 20 lakh as part of its corporate social responsibility to build the clinic.