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Subject name	Corporate Finance
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Executive Summary:

FPT Long Chau Pharma Joint Stock Company (FPT Long Chau) is a well-known pharmacy chain in Vietnam, with over 200 locations spread over 50 provinces. It is a member of FPT Retail, which is a part of FPT Corporation. FPT Long Chau offers a diverse selection of prescription drugs, over-the-counter medications, vitamins, healthcare equipment, cosmetic pharmaceuticals, and fast-moving consumer items (Apea editor n.d). FPT Long Chau aims to prioritise the well-being of Vietnamese individuals by providing top-notch items at highly competitive pricing. The company is presently expanding its operations to the Philippine market and contemplating the introduction of two new product lines for its pharmaceutical retail business: (1) liquid multivitamins specifically formulated for infants, and (2) liquid multivitamins tailored for young people.

Potential business risks for the projects may encompass the disruption of the global supply chain, which could impact the availability and cost of components, as well as the relatively higher price of plant-based meals compared to animal-based foods. Furthermore, FPT organisations may also face additional financial risks, such as fluctuations in interest rates, changes in tax policies, and exposure to foreign exchange risk. To conclude, this analysis will also cover non-financial factors related to the multivitamin project in the Philippine market, including legal, economic, social, and environmental concerns. The purpose is to offer recommendations for FPT Group's market entry and long-term international expansion.

1. Philippines market entry, project evaluation:

Based on Statista's data (Appendix 1, 2024), the average inflation rate in the Philippines is projected to be 4.24% from 2020 to 2024. Furthermore, the expected inflation rate from 2025 to 2028 is 3%. Therefore, it may be inferred that the inflation rate will persist at 3% starting from 2025 and will remain constant till the project concludes. Therefore, beginning in 2025 and persisting until the project is finished, the selling price and cost of goods sold per unit

will see an annual increase of 3% for infant multivitamins and 5% for young adult multivitamins.

Statista (2024 Appendix 2) predicts that the Philippines pharmacies industry will experience a compound annual growth rate (CAGR) of 3.85% from 2024 to 2028. Similarly, the multivitamin market is also expected to have a CAGR of 3.85% over the same period. As people's work schedules become busier and their disposable income increases, they are consuming a greater amount of instant and specialty coffee. This trend is expected to lead to market expansion. Consequently, FPT expects the sales volume of the Multivitamin in the Philippine market to increase by 3.85% per year till the project concludes. The expected income and production cost for two projects will be calculated, as demonstrated in Appendices 2.

Based on the data from Trading Economics (Appendix 3), the yield of the 10-year Philippine Government Bond on Friday, April 26, 2024, was 6.92%. Therefore, we make the assumption that the risk-free rate is 6.92%.

Aswath Damodaran's survey in 2024 found that the risk premium in the Philippines is 2.78%. The beta value of FPT is 0.42.

The cost of equity, denoted as $E(r)$, can be calculated by adding the risk-free rate to the product of beta and the risk premium. In this case, the risk-free rate is 6.92%, the beta is 0.42, and the risk premium is 2.78%. Therefore, the cost of equity is 8.09%.

The weighted average cost of capital (WACC) for the multivitamin designed for newborns is 7.54%, whereas the WACC for the multivitamin designed for adults is 10.75%. It is assumed that the discount rate or needed rate of return for both projects is equivalent to the data provided above.

Capital budgeting method

Criteria	Product (1)	Product (2)
	Liquid multivitamins for infants	Liquid multivitamins for young adults
NPV	\$1,724,264.63	\$133,878
IRR	9.63%	8.18%
Payback period	3.45	4.54
Discounted payback period	4.45	6.16
EAA	\$202,523.83	\$15,209.96

Figure 3: capital budgeting method table

The internal rates of return for the two projects are 9.63% and 8.18%, as shown in the tables below. Hence, Project 1 proves more financially rewarding to undertake. The EAA (Equivalent Annual Annuity) of Product 1 is \$202,523.83, much surpassing the EAA of Product 2, which is \$15,209.96. The EAA quantifies the yearly profits of the project, taking into account the opportunity cost incurred by investors. The significant disparity between the two EAA levels indicates that Product 1 possesses a stronger capacity to generate profits. Based on all of these factors, it is clear that Product 1 is a more effective and viable investment proposal. Hence, it is imperative for FPT Company to allocate resources towards the manufacturing and distribution of liquid vitamins specifically designed for infants in order to optimise advantages for all parties involved.

2. Business and Financial risk & solve:

Risk

After evaluating financial indicators such as net present value (NPV), payback period internal rate of return (IRR), and estimated annual growth rate (EAA), FPT Company has established that investing in the manufacturing of infant liquid vitamins (Product 1) is the most economical and practical alternative. However, there are still financial and business risks linked to introducing this programme in the Philippine market, and the organisation must proactively strategize to minimise them.

FPT's effort is vulnerable to the potential risks posed by fluctuations in interest and currency rates that forecast that the inflation rate in the Philippines will reach ~ 3.5% by the end of year (Statista 2024, appendix 1). Consequently, the company's cash flows and profitability suffer

adverse effects due to the fact that investment costs, operational expenses, and production costs are all denominated in Philippine Pesos. In addition, the Philippine Central Bank's consistent implementation of tighter monetary policy has led to a continuous increase in market interest rates (Cliff Harvey Venzon and Ditas B Lopez 2023). The result is a heightened liquidity risk and an escalation in the cost of obtaining funds to engage in the project.

An imminent peril to your company lies in the profusion of well-established competitors for vitamins and nutraceuticals for children such as USANA Health Sciences, Abbott, Nestle, and Herbalife in the Philippines and the world market (International Trade Administration editor 2022). These businesses possess a competitive advantage because of their well-known brands, large networks for distributing their products, long-standing presence in the sector, and significant financial support. Consequently, FPT, being a recently established company, will face challenges in gaining confidence with Filipino clientele, expanding its market share, and attracting new customers.

Solve

From a financial perspective, FPT needs to adopt a proactive approach in managing its cash flows in order to mitigate the risks associated with interest rates and currency exchange rates. Forward contracts, interest rate swaps, and currency swaps are risk mitigation strategies that can be employed to stabilise borrowing expenses and cash flows (Troy Segal 2021). An optimal capital structure, including both equity and debt, can optimise the cost of capital and improve operational efficiency. Developing positive relationships with financial institutions offers several advantages, one of which is obtaining favourable loan terms. Furthermore, using accurate prediction methods, strict management of expenses, and optimising production efficiency are crucial strategies to ensure profitability.

To surmount these challenges, FPT must define its brand and formulate a comprehensive strategy for executing the project. It significantly influences client loyalty, provides firms with a competitive advantage, and shapes consumers' ultimate purchasing decisions (Katie Terral Hanna 2023). Consumers are more likely to choose a widely recognised brand over other alternatives, even in a fiercely competitive industry. Prior to creating vitamin products tailored to the preferences of various consumer categories in terms of quality, pricing, flavour, formula, and packaging, the company should conduct comprehensive market research to gain a deep

understanding of the requirements and behaviours of those segments. In addition, FPT should enhance its communication, promotion, and trust-building efforts by emphasising the outstanding characteristics and advantages of its products in contrast to its competitors.

Subsequently, FPT must develop a dedicated staff in the Philippines to oversee sales, consulting, and customer service operations. Furthermore, these personnel should possess extensive knowledge of the local culture, consumer psychology, as well as paediatric healthcare and nutrition. They will play a vital role in engaging with consumers, providing guidance on products, and building long-lasting relationships. FPT should consider integrating loyalty programmes and personalised care services to enhance customer satisfaction and improve customer retention. Customer satisfaction level serves as a reliable gauge of the reception of your product or service by your intended audience. High levels of satisfaction have a beneficial impact on customer retention, lifetime value, and brand reputation (Alaina Franklin 2024).

FPT's liquid vitamin production project for babies in the Philippines presents a compelling investment opportunity. Nevertheless, for the organisation to achieve success and maintain long-term growth, it is imperative to first identify and assess all conceivable financial and business risks, and subsequently develop comprehensive strategies to address them. The success of FPT in the Philippine children's vitamin sector will hinge on its capacity to effectively incorporate market research, product development, cash flow management, promotion, staff development, and distribution. The likelihood of effectively securing and creating a strong position for the company's products is increased by having a thorough comprehension of the specific economic and social conditions of the country, as well as by being flexible enough to align with them.

3. Discuss qualitative factors and recommendations strategy:

3.1 Environment

In the Philippines, there will be significant environmental concerns, including air pollution, plastic pollution, ocean pollution, and rising sea levels (Khalib Raji 2024). The ramifications of these problems will have significant impacts on ecosystems and human welfare, while also hindering the country's potential for economic and social progress.

Ensuring effective plastic waste management is of utmost importance for FPT's newly established liquid vitamin production operation in the Philippines. The average yearly per capita plastic pollution in the Philippines is 3.30 kilograms, making it the primary source of worldwide ocean plastic pollution Cong Corrales (2023). If the FPT does not handle its production and packaging procedures in an environmentally conscientious manner, it could inadvertently contribute to the escalating issue of plastic pollution in the Philippines. In order to demonstrate their concern for the environment and reduce their adverse impact, FPT might explore the use of recyclable and environmentally friendly materials for product packaging, as well as develop a system for collecting and reusing products. The firm should actively engage with and provide its backing to environmental organisations' and governmental efforts to reduce plastic waste.

If FPT is genuinely committed to environmental preservation, it will give precedence to the adoption of eco-friendly industrial technologies and integrate sustainable development objectives into all of its decision-making processes. Around 57% of consumers are willing to modify their purchasing behaviours to support the environment, and an impressive 66% are willing to spend more money on companies that prioritise sustainability (Alejandra Dueñas 2023). In order to bolster the sustainable development of the Philippines and strengthen the company's long-term reputation and competitive edge, FPT should employ recyclable materials for packaging, incorporate climate change adaptation considerations into its planning, and establish close collaboration with the government and local communities.

3.2 Social

The liquid vitamin manufacturing project by FPT in the Philippines aims to enhance the nutrition and overall health of infants. However, in order to achieve sustained growth and success, it is imperative for the firm to thoroughly examine the particular social and cultural factors associated with this market. The Philippines, a country known for its rich biodiversity, is ranked seventeenth among the most megadiverse nations in the world (Embassy of the Philippines n.d.). To develop impactful marketing and communication strategies, FPT needs a comprehensive grasp of Filipino lifestyle, dietary patterns, and child-rearing customs, given the cultural heterogeneity, religious perspectives, and robust familial bonds that characterise the Filipino population.

According to the National Nutrition Council (2020), a considerable proportion of children in the Philippines still suffer from stunting and other types of malnutrition, which involve deficiencies in specific micronutrients and vitamin A. Infants and young children often have insufficient intake of specific nutrients in their diet. By delivering additional vitamins, FPT has the potential to meet the actual demand of the market. Despite the Philippines' continued efforts to recover and implement reforms, the country still encounters challenges regarding the affordability and availability of goods and services because of its relatively low average income per person (World Bank 2024). FPT should collaborate extensively with local health organisations, clinics, and hospitals to foster and establish confidence in its products, while concurrently formulating a varied distribution plan and taking into account appropriate pricing.

3.3 Governance

The country's political stance has become increasingly complex due to its status as a nascent democracy grappling with several institutional and rule of law challenges (Janvic Mateo 2022). The several strategic recommendations for FPT, which include complying with all relevant rules and regulations in the Philippines, enhancing its internal risk management and monitoring systems, and actively participating in initiatives that foster ethical, transparent, and responsible governance (United Nations n.d). To develop a successful strategy in the complex political and social landscape of the Philippines, FPT must first gain a thorough grasp of the risks related to governance. Gaining a deep understanding of these governance risks will serve as the basis for FPT to formulate a suitable and enduring strategy in the intricate political and social landscape of the Philippines. Additionally, it can open up new avenues and possibilities for growth and development (Sean McDonald 2022). It has the capability to mitigate hazards and facilitate expedited and secure expansion.

3.4 Economic

FPT shall conduct a comprehensive analysis of economic factors, as well as economic, social, environmental and governance issues, in relation to its liquid vitamin manufacturing initiative for infants in the Philippines. From an economic standpoint, the FPT company's liquid vitamin production initiative for infants in the Philippines faces both opportunities and challenges. According to Statista 2024 appendix 4, predicts that the Philippines' rapidly developing economy will achieve a remarkable growth rate of 6.2% in 2024, followed by a growth rate of 6.4% in the following years. Other economic indices, such as unemployment and inflation also show positive trends. However, there are notable risks such as substantial trade deficits,

currency instability, and dependence on imported energy. As the industry becomes more competitive, it is crucial for FPT to cultivate its distinct advantages and to have a well-defined positioning plan.

In order to achieve sustainable development, FPT must closely monitor macroeconomic data and anticipate market fluctuations in order to promptly adapt its strategy. In order to penetrate new markets, the firm should form partnerships with organisations such as hospitals, government and trade associations (Davion Percy 2022). Additional crucial approaches to enhance competitiveness and brand reputation encompass allocating resources towards product research and development, streamlining the supply chain, formulating an integrated marketing plan, and implementing community aid initiatives. If these activities are successfully integrated, the children's vitamin project has the potential to become a strategic leader for FPT in the Philippine market.

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Appendix



Appendix 1. Philippines: Inflation rate from 1987 to 2028 (Statista 2024).

Market Insights > Health

Pharmacies - Philippines

Philippines

HIGHLIGHTS | MARKET DEFINITION | IN-SCOPE / OUT-OF-SCOPE | MARKET STRUCTURE | REPORTS | METHODOLOGY

- In the Philippines, the revenue in the Pharmacies market is estimated to reach US\$6.44bn by 2024.
- It is expected that the revenue will exhibit an annual growth rate (CAGR 2024-2028) of 3.85%, resulting in a market volume of US\$7.49bn by 2028.
- When compared globally, United States is projected to generate the highest revenue of US\$387.30bn in 2024.
- In terms of per person revenues, it is estimated that US\$54.09 will be generated in 2024.
- The pharmacy market in the Philippines is experiencing a surge in demand for herbal remedies and traditional medicine.

Key regions: United States, China, Germany, Japan, Europe

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REVENUE (2024)
US\$6.44bn

REVENUE CHANGE (2024)
4.2%

Market: Pharmacies | Region: Philippines | Region comparison: Compare to other regions | Currency: USD (US\$)

Appendix 2. Pharmacies - Philippines (Statista 2024).

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Philippines 10-Year Government Bond Yield

Quote - Chart - Historical Data - News

Summary | Forecast | Alerts | Export

Philippines 10Y Bond Yield was 6.92 percent on Friday April 26, according to over-the-counter interbank yield quotes for this government bond maturity. Historically, the Philippines 10-Year Government Bond Yield reached an all time high of 20.75 in October of 2000.

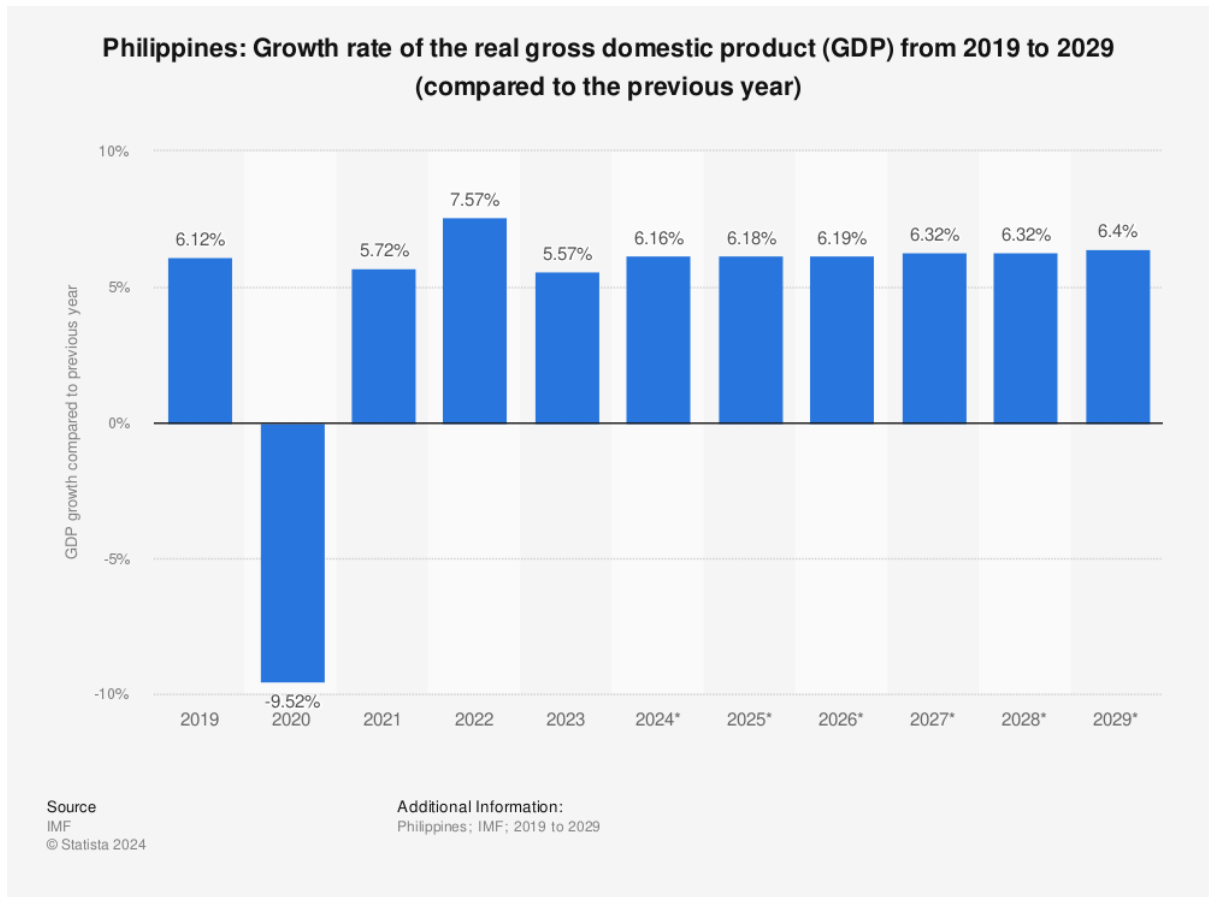
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Commodity	Actual	%Chg
United States	4.6670	-0.04%
United Kingdom	4.3265	-0.05%
Japan	0.9280	0.03%
Australia	4.5400	-0.05%
Germany	2.5770	-0.05%
Brazil	11.5870	-0.05%
Russia	14.4500	0.18%
India	7.1990	-0.01%
Canada	3.8510	-0.05%
Italy	3.8850	-0.10%
France	3.0640	-0.07%
South Africa	11.0580	-0.13%
China	2.3140	-0.02%
Switzerland	0.6995	-0.01%
Chile	6.1200	-0.04%

<https://tradingeconomics.com/philippines/government-bond-yield>

Appendix 3



Appendix 4. Philippines: Growth rate of the real gross domestic product (GDP) from 2019 to 2029 (Statista 2024).

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