



MEASURING ECONOMIC VALUE ADDED (EVA), SYNERGY VALUE, & MSMEs UPGRADE POST-ACQUISITION: A CASE STUDY OF ULTRA-MICRO HOLDING IN INDONESIA

Bayu Hidayat^{1✉}, Eko Rizkianto²

^{1,2}Master of Management, Faculty of Economics & Business, University of Indonesia, Indonesia

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The purpose of this research is to reveal the creation of corporate value through economic value added, value synergy, and MSMEs upgrade after the formation of ultra-micro holdings. The Indonesian government assesses the urgency of the presence of a formal financial institution through the establishment of an ultra-micro holding. The formation of a holding is expected to be able to provide positive synergy and added value, which will have an impact on increasing the welfare of shareholders. The research data comes from the financial reports for the last 2 years before the formation and the last 1 year after the formation of ultra-micro holding. EVA is calculated using items that determine operational and capital costs. Calculation of synergy value using the discounted cash flow (DCF) model. The results obtained are that EVA is positive and higher than before the establishment of the ultra-micro holding, which shows management's ability to create an increase in the value of the company's assets. The resulting positive synergy reflects a successful holding process. The findings may help the company management and investors to analyze value creation and calculate the value synergies of the ultra-micro holding ecosystem.

✉correspondence Address:
MM UI, Jl. Salemba Raya No.4, RW.5, Kenari, Kec.
Senen, Kota Jakarta Pusat, Daerah Khusus Ibukota
Jakarta 10430
E-mail: bayu.hidayat@ui.ac.id

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INTRODUCTION

Through the Ministry of State-Owned Enterprises, the Government of the Republic of Indonesia, has taken a big step towards integrating state-owned enterprises (SOE) in Indonesia. The purpose of this integration is a manifestation of creating strong SOEs and making a greater contribution to the state. The process of integrating SOEs through the holding mechanism has been carried out since 1995 (Ministry of Finance, 2018). Furthermore, the government will have completed the establishment of Ultra-Micro Holding in 2021.

The government evaluates the urgency of the presence of formal financial institutions that focus on the ultra-microbusiness sector because this sector has various challenges in increasing its business scale, such as a lack of access to formal financial services and a lack of business

empowerment. Another challenge is the high interest rate on loans originating from non-formal institutions. This is due to low financial inclusion and literacy in the ultra-micro sector. Ultra-micro empowerment, which includes access to formal finance, can help accelerate the growth of MSMEs in Indonesia. With more than 45 million ultra-micro entrepreneurs, the potential for economic growth from the MSME sector in Indonesia is enormous. However, 30 million of them do not have access to formal financial services, such as banks or other financial institutions (BRI Research Institute, 2021). This can hinder the growth of ultra-micro entrepreneurs, as access to capital and financial support are essential for expanding ultra-micro businesses.

Taking into these conditions, the establishment of the ultra-micro holding is

expected to be able to generate cheaper borrowing costs and provide convenience to the ultra-micro community with a wider reach, deeper services, and sustainable empowerment. The formation of the ultra-micro holding on September 13, 2021 brought together three SOE entities, BRI, Pegadaian, and PNM. The appointment of BRI as the holding company is in line with Himbara Bank's focus, which has been determined by the Indonesian Ministry of SOE, that is BRI focusing on MSMEs and ultra-micro business.

Every company, including BRI, seeks to maximize the wealth of its shareholders by creating value. In order to create value, a company's return on invested capital must exceed its cost of capital. The importance of company value stems from the fact that it is a market and investor performance indicator (Warapsari, 2016). Economic value added (EVA) is a measure of company performance that emphasizes the creation of value.

The realization of synergies subsequent to an acquisition also contributes to the creation of corporate value (Feldman and Hernandez, 2022). However, creating value through synergies is difficult in practice. According to Ficery et al. (2007), companies' inability to identify potential synergies, missing potential synergies that can be obtained, incompatibility of corporate systems and cultures after acquisitions, and inadequate processes in creating synergies are factors that contribute to failed synergies. According to Fiorentino (2013), the synergy assessment procedure and the efficient application of the synergy assessment model are crucial for reducing the failure rate of mergers and acquisitions.

The following is the EVA value generated by BRI prior to the establishment of ultra-micro holding:

Table 1.1 BRI EVA Value in 2019 - 2020

BRI (Rp Million)	2019	2020
Operating Profit (Loss)	43.022.057	26.191.735
Tax Rate	20,77%	29,85%
Net Operating Profit After Tax (NOPAT)	34.085.860	18.374.787
Interest Debt	1.105.502.052	1.101.348.233
Equity	203.665.462	199.012.282
Sum of Capital (Interest Debt + Equity)	1.309.167.514	1.300.360.515
WACC	3,70%	3,00%
Cost of Capital	48.467.020	39.056.813
EVA	(14.381.160)	(20.682.025)

Based on the table, it is known that the EVA generated by BRI in 2019 has a negative value and will continue to decline in 2020 due to a decrease in NOPAT as a result of the COVID-19 pandemic. Furthermore, stock returns are measured to determine the company's success in achieving the goal of creating value for shareholders. Judging from BBRI's stock returns in the last year for the period of October 1, 2021, to September 30, 2022, BBRI's stock return was 16,62% higher than the JCI return, which was 11,99%. However, when compared to BRI's

competitors, BRI's stock return is still lower than the stock returns of BNI, BCA, and Mandiri, which are respectively 66,98%, 53,25%, and 22,14%.

Based on this, problems related to research that will be discussed by the author are as follows:

1. Is there any creation of corporate value through economic value added and synergy value resulting from after the establishment of the Ultra-micro Holding ecosystem at BRI ? If so, how much EVA and synergy value can be created?
2. Is there any impact in terms of business scale of MSMEs ?
3. Is there any impact at BRI, Pegadaian, and PNM in terms of financial performance when compared to before the existence of Ultra-micro Holdings ?

Numerous studies have been conducted on the performance of companies before and after acquisitions, as well as the evaluation of synergies. This study will analyze the influence and impact of the formation of Indonesia's first and only ultra-micro holding on the performance of the holding entity, as well as how the synergy value and business scale of MSMEs changed after the formation of the ultra-micro holding.

This study aims to determine the creation of corporate value through economic value added, the value of synergy, and the business scale of MSMEs after the formation of an ultra-micro holding, as well as the impact on the company's financial performance prior to and after the formation of the holding.

This study is limited to the analysis of ultra-micro holding entities, BRI as the holding's parent and Pegadaian and PNM as its members. The process will determine the company's EVA and synergy value before and after the establishment of ultra-micro holding. The data consists of the company's audited financial statements for the two years preceding the establishment of ultra-micro holding and the year following its formation.

LITERATURE REVIEW

2.1 Definition of Acquisition

According to Ross et al. (2019), acquisitions can take one of three fundamental forms: (1) merger or consolidation, (2) purchase of shares, or (3) purchase of assets.

a. Mergers and Acquisitions

A "merger" is the process of one company being absorbed by another. The acquiring company retains its name and identity and acquires the acquired company's assets and liabilities. The acquired corporation ceases to exist as a distinct entity following a merger. In

contrast, consolidation is identical to merger except that a new company is formed. In a merger or acquisition, both the acquiring company and the acquired company cease to exist and become a part of the new company.

b. Shares Acquisition

The second method for acquiring another company is to acquire voting shares in exchange for cash, stock, or other securities. This process can begin with a private proposal from one company's management to another. Eventually, the offer is presented directly to the company's shareholders, typically through a tender offer.

c. Asset Acquisition

A business may acquire another by purchasing all of its assets. The selling company will not necessarily cease to exist, as its "shell" can be preserved. Asset acquisition requires the costly transfer of title to individual assets.

According to DePamphilis (2022), an acquisition occurs when one company acquires a controlling stake in another company, a legal subsidiary of another company, or certain assets of another company, such as a manufacturing facility. The company may entail acquiring the assets or shares of another company, with the acquired company continuing to exist as a subsidiary.

2.2 Economic Value Added (EVA)

According to Grant (2003), there are two common or operational methods to define EVA: the "accounting" way and the "financial" way. From a financial standpoint, EVA is defined as the "market added value (MVA)" of a company. MVA is equal to the present value of the firm's expected future EVA in this context.

EVA is the difference between a company's net operating profit after taxes (NOPAT) and its weighted average cost of capital. EVA differs from traditional accounting measures of a company's earnings, such as EBIT (earnings before interest and taxes), EBITDA (EBIT + depreciation and amortization), net income, and even NOPAT, because it accounts for a company's total capital expenditures. This distinction is significant for company proprietors because the net EVA metric represents the aggregate of the direct cost of debt capital and the indirect cost of equity capital, as reflected in the required return on common stock. EVA can be expressed more generally in this context as follows: $EVA = NOPAT - \text{Cost of Capital}$

The cost of capital is determined by multiplying the cost of capital percentage by the quantity of capital invested. In turn, the percentage cost of capital is determined by calculating the "weighted" average of the

company's after-tax cost of debt and equity capital.

A positive EVA demonstrates management's ability to increase the value of a company's or capital owner's wealth and serves as a benchmark for investors or potential investors to use when making investment decisions. A negative EVA denotes a decline in the value of wealth and is followed by an investor's desire to sell company stock. If a company is able to generate positive EVA values, it is regarded to have superior performance. This demonstrates that management has fulfilled its obligations.

2.3 Synergy Value

The existence of acquisitions and business combinations will create synergies for companies that carry out these actions. Synergy is so important that the company takes the intended action. If there is no synergy, there is very little possibility for companies to make acquisitions and business combinations. The synergy has value and can be calculated. Synergy occurs if the value of the combined company after the acquisition and business combination is greater than the sum of the value of the acquiring company and the value of the company acquired before the acquisition and business combination.

According to Patrick A. Gaughan (2018), synergy is the capacity of a combination of companies to be more profitable than the individual companies. According to Ross et al. (2019), synergy is a profit source for shareholders. Synergy exists when the value of the merged company is higher than the aggregate of the values of the acquiring company and the acquired company before the merger. According to Fiorentino (2013), the synergy assessment procedure and the efficient application of the synergy assessment model are crucial for reducing the merger and acquisition failure rate. Companies must comprehend the potential dangers associated with inaccurate synergy estimates and must also be able to evaluate the efficacy of synergies.

The most prevalent method for evaluating synergy is the net present value (NPV) method. Under this methodology, the synergy value is the present value of the anticipated synergies from the process agreement, discounted at a rate that reflects the risk associated with these expected synergies. This strategy incorporates revenue and capital flow metric-based models.

The calculation of company synergy according to Ross et al. (2019) as follows:

$$V_{\text{Synergy}} = V_{AB} - (V_A + V_B)$$

where,

V_{Synergy} = Combined synergy value of companies A and B

V_{AB} = Combined value of companies A and B
 V_A = Value of Company A
 V_B = Value of Company B

2.4 Formation of Ultra-Micro Ecosystem

The majority of microbusinesses do not receive funding from formal entities, according to Prijadi et al. (2020). In other words, business proprietors increasingly rely on informal institutions for financing. This is due to the general incapacity of these business managers to prepare loan applications and/or their lack of financial knowledge and/or training. They are hesitant to borrow from traditional financial institutions because the rates are high and the processing times are lengthier than those of the loan sharks.

The establishment of the ultra-micro holding is in line with the government's goal of increasing penetration of the potential of the unbanked population and accelerating the process of financial inclusion and literacy, as well as in order to strengthen the empowerment of the ultra-micro ecosystem nationally. Ultra-micro empowerment can be done in various ways, such as by providing training and financial education or by providing access to more affordable and accessible financial products. With access to these financial products, ultra-micro entrepreneurs can improve their ability to manage finances, increase productivity, and expand their businesses.

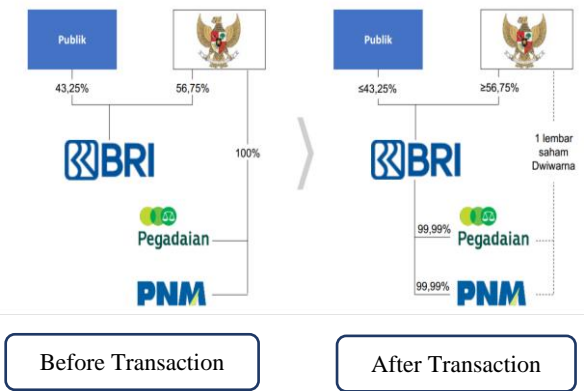


Figure 2.1 Ultra-Micro Holding Transaction Structure

The formation of the ultra-micro holding was carried out through a BRI rights issue mechanism. The rights issue was carried out with reference to POJK No 14/2019 concerning additional capital through pre-emptive rights. In accordance with PP (Peraturan Pemerintah) No 73/2021, the government participates in a non-cash (inbreng) manner by transferring all government-owned shares in Pegadaian and PNM to BRI in the amount of IDR 54,77 trillion. After the rights issue transaction, BRI will own all of Pegadaian's and PNM's B series shares, while the Government of Indonesia still has 1 dwiwarna series A share in each of Pegadaian and PNM.

BRI minority shareholders are also given the opportunity to participate in cash.

2.5 Journey of Business Scale of MSMEs Upgrade

The ultra-micro business ecosystem is formed based on the synergy of business models between BRI, Pegadaian, and PNM, which will create integrated customer journeys through unique value propositions that complement each other for the sustainability of ultra-micro business empowerment. The following is the journey of the ultra-microecosystem:

1. Empowerment: PNM will empower unfeasible and unbanked ultra-micro customers to become more independent ultra-micro entrepreneurs. PNM will provide ultra-micro customers with the necessary training, support, and financing to start their businesses and become self-sufficient.
2. Integration: Pegadaian and BRI Ultra-micro will serve the loan needs of individual PNM customers who are eligible and banked. Through increased capabilities and broader product offerings, Pegadaian and BRI Ultra-micro will integrate their services to meet the growing needs of their customers.
3. Upgrade: As the business scale becomes more mature, ultra-micro customers will be upgraded to the micro segment. This level will enable them to access more advanced financial products and services tailored to their business needs. The upgrade phase is the ultimate goal of the integrated journey in the ultramicro ecosystem.

METHOD

3.1 Selection of Research Objects and Data Collection

3.1.1 Research Object Selection

The objects of this research are three entities in the ultra-micro holding, such as PT Bank Rakyat Indonesia (Persero) Tbk or BRI, PT Pegadaian or Pegadaian, and PT Permodalan Nasional Madani or PNM.

3.1.2 Data Collection

This study utilizes secondary data extracted from the annual financial statements of each organization (BRI, Pegadaian, and PNM). This investigation obtained its information from the company's internal and financial report publications. In addition, for the purpose of completing the literature review pertinent to this analysis and discussion, data and information were gathered from various reading sources and interviews were conducted with the liaison unit of ultra-micro holding.

3.2 Data Processing Methods

In this study, the economic value added and synergy value of the firm before and after the formation of ultra-micro holdings are calculated and determined in several stages. There are several steps involved in the calculation procedure, including:

3.2.1 Economic Value Added

EVA calculation is done in the following way:

EVA = Net Operating Profit After Tax – Cost of Capital

Net Operating Profit After Tax (NOPAT) is calculated from the difference between Operational Profit (Loss) and the taxes paid by the company

NOPAT = Operational Profit (Loss) – Tax

The company's cost of capital is calculated by multiplying the percentage of the cost of capital by the amount of capital invested, namely:

Cost of Capital = [% cost of capital/100] x Capital

The cost of capital percentage is obtained by taking the "weighted" average" of the company's after-tax cost of debt and equity capital, as shown by:

% Cost of Capital = [Weight of Debt x %Cost of Debt after Tax + Weight of Equity x %Cost of Equity]

Thus, the components that influence the EVA calculation are Net Operating Profit After Tax and Cost of Capital. The following describes the calculation steps for each component:

3.2.1.1 Net Operating Profit After Tax

The components that make up the net operating profit after tax include:

1. Operating profit (loss) is the difference between operational income and operating expenses.
2. Tax is calculated from the number of tax obligations that must be paid by the company from operational activities that generate profits. The tax rate is obtained from the ratio of the value of the tax paid by the company to Profit Before Tax.

3.2.1.2 Cost of Capital

The cost of capital is determined by calculating the "weighted" average of the costs of debt and equity capital. The weighted average cost of capital (WACC) is the weighted average cost of business capital, which includes financing costs and own capital, calculated based on the formula:

$$WACC = \frac{D}{D + E} Kd (1 - t) + \frac{E}{D + E} Ke$$

where,

D = the amount of the interest-bearing loan used (debt).

E = own capital (equity)

Kd = cost of debt

Ke = cost of equity

t = tax rate

1. The cost of debt is a source of funding that comes from loans. The amount of the cost of debt is equal to the company's loan interest rate. The loan interest rate is related to the health and rating of the company. In general, it can be said that a company with a high rating will get a loan with a lower interest rate. This rating applies if the company needs funds for expansion.
2. The cost of equity is the opportunity cost to the company owner if the funds are invested in businesses for expansion or new projects. One approach that can be used to calculate the cost of equity is the capital asset pricing model (CAPM).

$$Ke = RF + [Rm - Rf] \beta$$

where,

Ke = cost of equity

Rf = risk-free rate

Rm = market rate of return

Rm – Rf = risk premium

β = beta

To calculate the cost of the equity measure, the following assumptions are made:

- a. The risk-free rate is based on the yield of 30-year Indonesian government bonds. This is predicated on the establishment of an ultra-micro holding that is anticipated to last a long time and develop sustainably, so the risk-free rate approach employs a 30-year government bond yield.
- b. Risk Premium uses the risk premium estimation approach published by Aswath Damodaran through the website <https://pages.stern.nyu.edu/adamodar/r/> where Indonesia's equity risk premium is 9.23% (as of January 2023).
- c. Beta is a measure of the sensitivity of a company's shares to overall market movements or the Jakarta Composite Index. The stock betas used are:

1. The beta value used for BRI is the beta of BRI shares listed on the Indonesia Stock Exchange because BRI is a company that has been listed on the IDX. The beta value of BRI's shares was recorded at 0.66.
2. The beta values used for Pegadaian and PNM use the beta value approach based on the average beta of 45 listed companies in the non-bank financial and non-insurance financial sectors for the period of

March 2023. The average beta value obtained from the 45 companies is 0.20.

3.2.2 Synergy Values

In calculating the synergy value using the discounted cash flow (DCF) model, The DCF model is one method to calculate firm value. McKinsey (2017) states the DCF model formula for measuring company value as follows:

V = \sum_{t=1}^n \frac{CF_t}{(1 + WACC)^t}

where,

- V = value of the company
- N = the number of periods used in the calculation.
- CFt = Operating free cash flow in period t
- WACCj = Weighted average

CFt can be calculated using the following formula:
CFt = EBIT (1 – t) + Depreciation - Capex - Incremental - Working Capital

RESULT AND DISCUSSION

4.1 Analysis of Ultra-Micro Enterprises in Indonesia

According to the Ministry of Cooperatives and SMEs (Kemenkop UMKM), approximately 98% of the total number of business actors in Indonesia are micro, small, and medium-sized enterprises (MSMEs). Less than 2% of the remaining business entities in Indonesia are classified as significant businesses. This data shows how important the role of MSMEs is in the Indonesian economy and the sustainability of economic growth in the future. Based on data from the Ministry of Cooperatives and MSMEs for the period of March 2021, the contribution of MSMEs to the gross domestic product (GDP) of Indonesia was 61.07 percent, or 8,573.89 trillion IDR. In order to enhance the business performance and competitiveness of MSME actors, the government and various associated stakeholders continue to work toward providing simpler access to support and resources.

The development of MSMEs in Indonesia is still experiencing many obstacles. In addition to limited access to capital, MSMEs in Indonesia also experience problems in terms of market access, technology, and skilled human resources. This makes it difficult for MSMEs to compete with large companies in Indonesia and the global market. Ultra-micro businesses are micro businesses owned by individuals whose business activities are smaller than micro businesses, and most of these businesses do not have access to capital through banking.

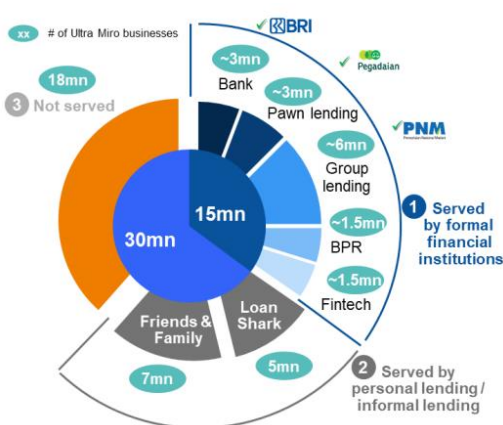


Figure 4.1 Access to Ultra-Micro Business Funding

Of the 45 million ultra-micro business actors, 34% or around 15 million have obtained access to capital from formal financial service institutions (27% or 12 million business actors have obtained access to funding from BRI, Pegadaian, and PNM; the remaining 7% or around 3 million business actors get access to capital from other financial institutions), 26% or around 12 million get capital assistance from non-formal financial institutions such as moneylenders and closest relatives, and the remaining 40% or around 18 million business actors do not get access to capital. This shows that further efforts are still needed from the government and related institutions to increase access to capital for ultra-microbusiness actors so that they can develop their businesses and contribute to national economic growth.

4.2 Analysis of Ultra-Micro Holding Formation

The purpose of establishing an ultra-micro holding, in accordance with the Strategic Plan of the Ministry of SOE for 2020-2024, which is stated in the Minister of SOE Regulation No PER-9/MBU/08/2022, and the embodiment of the Government's vision for Advanced Indonesia by advancing the ultra-micro segment, the establishment of an ultra-micro holding with a parent BRI holding, whose members consist of Pegadaian and PNM.

Are as follows:

1. SOE synergy in the ultra-micro sector can optimize the potential of the unbanked and accelerate financial inclusion and education in the ultra-micro sector.
2. Integration and coordination of financial services can expand formal financial services to the ultra-micro segment.
3. Emerging ultra-micro ecosystems driving sustainable business growth.
4. The development of an ultra-micro ecosystem with the synergy of SOEs can create value as a whole and for each entity involved, maintaining a specific business model for each company.

5. Strengthen the SOE ecosystem structure to respond to sustainable development challenges.

4.3 Analysis of Risk Ultra-Micro Holding Formation

4.3.1 Principal-Agent Problems

The risk of Principal-Agent Problems can occur in the formation of Ultra Micro Holdings. This was due to a change in authority from the management of Pegadaian and PNM which were previously directly under the Ministry of SOEs but after the establishment of Ultra Micro Holding became a BRI Subsidiary Company. This resulted in a breach of decision-making authority for Pegadaian and PNM management which required BRI approval and a General Meeting of Shareholders (GMS), previously only requiring approval from the Ministry of SOEs for certain levels of decision-making authority.

Some of the steps taken to overcome the risk of Principal-Agent Problems include:

1. Amendments to the Company's Articles of Association (Pegadaian and PNM) in which the stages of decision-making authority for Pegadaian and PNM management are written after the formation of Ultra Micro Holding which was agreed upon by the GMS.
2. The Government of the Republic of Indonesia owns 1 Series A Dwiwarna share, which is a special share owned by the Republic of Indonesia which provides special rights to its shareholders, including requesting approval from the GMS which is consulted with the Series A Dwiwarna Shareholder in terms of management changes, amendments to the Articles of Association, and determination of the RKAP and company KPIs.
3. The presence of organizational tools that facilitate the implementation of good corporate governance, including the composition of independent members of the board of commissioners and members of committees under the board of commissioners, such as audit committees, risk management monitoring committees, nomination and remuneration committees, and integrated governance committees. In addition, an external auditor evaluates the performance of the company.
4. The Minister of SOE Regulation regulates the compensation for the Board of Commissioners and Board of Directors.

In addition, following the formation of the Ultra Micro Holding, BRI has perfected the Integrated Governance framework, determined

the management style of Subsidiaries, and assessed the level of maturity of the implementation of Integrated Governance and each integrated work unit of the BRI Financial Conglomerate.

4.3.2 Failed Integration Process

The process of integration and achieving synergy does not always go well. Many factors can influence the success of an acquisition, including poor planning, lack of communication, different corporate cultures, technical challenges, and internal and external resistance. If the integration process is not carried out properly, the consequences can be a burden for the parent company. The acquired company may face operational disruptions, management instability, or financial problems that may affect the company's overall performance. In addition, high integration costs can also burden the parent company if management is not effective.

The risks faced by Holding Ultra Micro can be overcome by implementing a parenting strategy to create good parent-subsidiary relationships. BRI's parenting strategy is as follows:

1. Financial sponsorship. A strategy that focuses on financing and corporate finance. This strategy aims to create financial stability, maximize corporate value, and minimize financial risks that can affect the health of the company.
2. Synergy creation. The strategy in which BRI as the parent company optimizes the synergy potential of the activities of its subsidiaries.
3. Strategic guide. Strategies that focus on establishing strategic advantage. The parent company increases value through explanation of the company's mission as well as various insights and experiences

4.4 Analysis of Operational Profit from Ultra-Micro Holding

Operating profit is a fundamental performance measure and a measure of the effectiveness of the company's operational activities. Operating profit is generated from the difference between total operating income and total operating expenses. The higher the operating profit generated, the better the company performs its operational activities.

The operating profit of the 3 entities is the sum of the operating profit generated by each entity, BRI, Pegadaian, and PNM. This operating profit is a measure of ultra-micro-holding operating profit. The operating profit generated by BRI is the main contributor to the operating profit of the three entities. Following is the operational profit of the 3 entities after ultra-micro holding was formed.

Table 4.1 Ultra-Micro Holding's Operating Profit for 2021 – 2022

Operating Profit (Rp Million)	31-Dec-21	31-Dec-22
Ultra Micro Holding	43.747.240	64.709.270

4.5 Analysis of Weighted Average Cost of Capital (WACC)

WACC is the weighted average cost of business capital based on the cost of borrowing and owning capital. The WACC calculation is needed to obtain the cost of the capital component that will be used in calculating economic value added (EVA). WACC 3 entities are a financial consolidation of each entity BRI, Pegadaian, and PNM. These WACC 3 entities become ultra-micro holding WACC measures. Following is the ultra-micro holding WACC:

Table 4.2 Ultra-Micro Holding's WACC 2021 – 2022

Ultra Micro Holding (Rp Million)	2021	2022
Capital Structure		
Interest Debt	1.297.364.244	1.465.935.698
Equity	319.114.584	329.418.408
Total Capital	1.616.478.828	1.795.354.107
Composition of Interest Debt	80,26%	81,65%
Composition of Equity	19,74%	18,35%
Cost of Debt		
Interest Expenses	28.526.502	26.857.090
Total Interest Debt	1.297.364.244	1.465.935.698
Interest Rate	2,20%	1,83%
Tax Rate	18,53%	19,88%
Cost of Debt (Kd)	1,79%	1,47%
Cost of Equity		
Risk-Free Rate	7,14%	7,29%
Beta	66,00%	66,00%
Equity Risk Premium	9,23%	9,23%
Cost of Equity (Ke)	8,52%	8,57%
WACC	3,12%	2,77%

Based on the table, it is known that the WACC of three entities has decreased after ultra-micro holding. The decrease in WACC came from a decrease in the cost of debt (Kd), which indicated that the loan interest rates charged to the 3 entities had decreased and reduced operating expenses.

4.6 Analysis of Economic Value Added (EVA)

The EVA value is obtained from the difference between the Net Operating Profit After Tax (NOPAT) and the Cost of Capital. The following is the value of EVA Holding Ultra-micro for 2022:

Table 4.3 Ultra-Micro Holding's EVA in 2022

Ultra Micro Holding (Rp Million)	2022
Operating Profit	64.709.270
Tax Rate	19,88%
Net Operating Profit After Tax (NOPAT)	51.845.458
Total Interest Debt	1.381.649.971
Total Equity	324.266.496
Total Capital	1.705.916.467
WACC	2,77%
Cost of Capital	47.266.836
EVA	4.578.622

The EVA value generated by ultra-micro holding in 2022 is positive. This shows that the formation of the ultra-micro holding has succeeded in creating economic added value for the Holding.

4.7 Analysis of Ultra-Micro Holding Synergy

Synergy management is one of the strategic factors in creating value for the company. This is because the synergy activities are aimed at two things: increasing revenue contribution (revenue enhancement) and cost efficiency (cost reduction) for members of ultra-micro holding. There are several forms of synergy as the main strategy for the formation of ultra-micro holdings, including:

1. Implementation of shared network utilization in BRI work units by establishing ultra-micro service center (Senyum) outlets throughout Indonesia, which by the end of 2022 had 1.013 outlets, a significant increase of 562,1 percent from 2021 with 153 outlets. The Senyum Outlet initiative utilizes the BRI, Pegadaian, and PNM networks, which are used as joint offices as a form of service center for ultra-micro customers. Through this outlet, BRI's service network is equipped with counters for Pegadaian nd a post office for PNM Mekaar account officers. The current implementation of the Senyum outlet will generate efficiency by reducing operational costs, work unit infrastructure costs, and increasing service time efficiency.

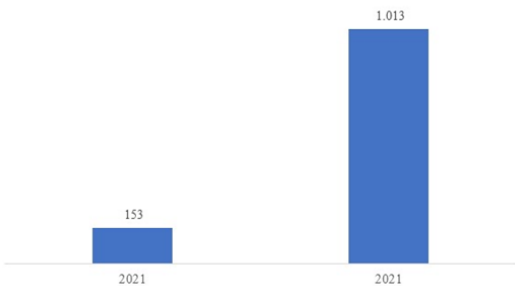


Figure 4.2 Number of Ultra-Micro Holding Smile Outlets

2. Another synergy realized from the formation of this holding is access to funding at a lower cost for Pegadaian and PNM. As one of the commitments in ultra-micro holding is support for capital and funding. For this reason, the existence of this ecosystem provides an opportunity for BRI to provide funding to Pegadaian and PNM at lower interest rates, which will certainly have an impact on reducing lending rates for customers. In 2021, the cost of funds for BRI, Pegadaian, and PNM were recorded at 2,10%, 6,00%, and 8,60%, respectively, and one year after the Ultra-micro Holding was formed, the cost of funds for BRI, Pegadaian,

and PNM recorded a decrease of 1,90%, 4,90%, and 7,40% respectively. In the future, with the existence of ultra-micro holding, it is hoped that the cost of funds for Pegadaian and PNM will decrease, which will have an impact on the efficiency of the cost of funds.

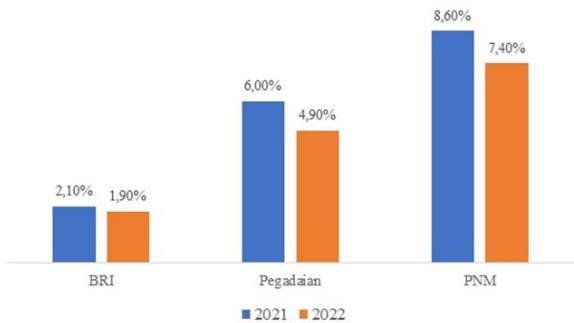


Figure 4.3 Pegadaian and PNM Cost of Funds for 2021 and 2022

3. Another form of synergy is through the integration of ultra-micro customer data. This data integration can function as lead sharing and cross-sell products that suit the needs of BRI, Pegadaian, and PNM customers. By offering cross-sell products that suit customer needs, the establishment of a holding can increase customer loyalty and increase overall revenue. In addition, data integration can become big data, which is used as a tool to analyze the behavior of ultra-microbusiness actors so that it can become a more accurate scoring tool and early warning system. The integration of ultra-micro customer data can also provide benefits for the government by increasing the validity of the ultra-micro community database in the context of implementing social programs and assistance distribution.

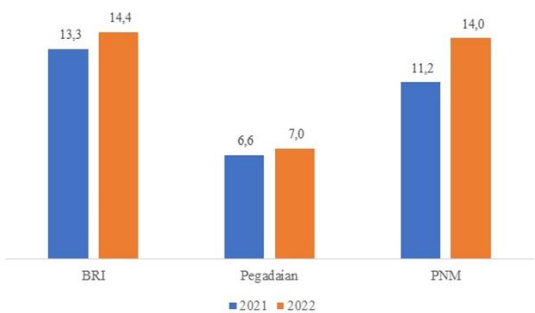


Figure 4.4 Number of Ultra-Micro Holdings Customers in 2021 and 2022 (Million Customers)

The number of ultra-micro holding customers in 2021 will be 31,1 million, consisting of 13,3 million BRI customers, 6,6 million Pegadaian customers, and 11,2 million PNM customers. In 2022, the number of customers will increase by 13,8% to 35,4 million, consisting of 14,4 million BRI customers, 7 million Pegadian customers, and 14 million PNM customers.

4. To accelerate the marketing of ultra-micro holding's products in the context of financial inclusion, especially for the ultra-micro community, ultra-micro holding has also developed the Senyum Mobile application. This application is an integrated digital sales platform that can be carried out as a joint acquisition by three entities for various products and services of ultra-micro holding. The features included in the Senyum Mobile application include product information; lead submissions; application tracking; comprehensive customer database; and perform monitoring. Senyum Mobile will be able to be used by end users or ultra-micro customers to obtain information and make submissions for ultra-micro products. As of December 2022, Senyum Mobile has been used by > 69 thousand marketers from three entities, and > 600 thousand BRILink agents and Pegadaian agents.

4.8 Synergy Value Analysis

4.8.1 Macroeconomic Conditions

Global economic uncertainty is still quite high, causing the trend of global economic recovery to slow down. The causes of the global economic slowdown were geopolitical pressures and high inflation rates, followed by monetary normalization by various central banks through aggressive increases in benchmark interest rates. Geopolitical pressures have the potential to disrupt world trade supply chains and impact the trend of global economic recovery. Inflationary pressure will disrupt people's purchasing power, thereby driving down aggregate demand. Aggressive monetary normalization could also hurt aggregate demand due to high credit and investment costs.

In 2022, the domestic economy of Indonesia will continue to recover. This is reflected in the economic growth rate of 5.72 percent per year in the third quarter of 2022, up from 5.44 percent per year in the previous quarter and 3.51 percent in the third quarter of 2021. The attainment of impressive economic growth was bolstered by a robust increase in public consumption, consistent with the relatively effective management of COVID-19. In fact, domestic consumption grew by 5.39% in the third quarter of 2022, which was slightly slower than the previous quarter's growth rate of 5.51% but significantly higher than the third quarter of 2021's rate of 1.02%. Moreover, national investment growth accelerated significantly, reaching 4,96% in the third quarter of 2022, compared to 3,07% in the preceding quarter and 3,74% in the same quarter of 2021. Strong exports also contributed to the robust economic growth in the third quarter of 2022,

with year-over-year growth of 21,64% compared to 20,02% in the previous quarter.

In terms of national banking conditions, the performance of the domestic banking sector was consistently expansive until the end of 2022. Since June 2021, banking credit distribution has recorded a strong and positive growth trend. In December 2022, annual credit growth reached 11,35%, far above the 2021 annual growth rate of 5,24%. Expansive credit growth in December 2022 is supported by all types of credit in investment, working capital, and consumption loans, as well as in most economic sectors. Increased credit growth was also matched by healthy credit quality, as reflected in the ratio of gross non-performing loans, which was below 3%. However, banking liquidity is still on a downward trend, as reflected in deposit growth of 9,01% in 2022, much lower than the 12,21% in 2021.

Table 4.4 National Macroeconomic Indicators

No	Indicators	2020	2021	2022
1	Economic Growth (%) (yoy)	-2.07%	3.70%	5.31%
2	BI 7 Days rate (%)	3.75%	3.50%	5.50%
3	Inflation (%) (yoy)	1.68%	1.87%	5.51%
4	Exchange Rate (Rp/USD)	14.050	14.269	15.568
5	Loan Growth (%)	-2.41%	5.24%	11.35%
6	Deposits Growth (%)	11.11%	12.21%	9.01%
7	Gross NPL (%)	3.06%	3.00%	2.65%

4.8.2 Assumptions: Assumptions used for Financial Projections

By taking into various macroeconomic factors, including economic developments after the COVID-19 pandemic, inflationary pressures, and global geopolitical dynamics, several

assumptions are used to prepare the financial projections for ultra-micro holdings as follows:

1. Assets are projected to grow conservatively by 5%–10% annually. This increase was dominated by the growth of productive assets in the form of loans and financing disbursed.
2. Total credit is projected to grow by around 10%–12% annually. This growth was obtained through selective expansion with a focus on quality. Financing includes exploring new growth engines in the ultra-micro segment.
3. Third-party funds and public deposits are projected to grow by 11%–14% annually. Growth in deposits is pursued by maintaining the CASA ratio in the range of 65%–70%.
4. With the projected total deposits and loans, Holding Ultra-micro's lending ratio is projected to be in the range of 80%–90%. The loan-to-deposit ratio (LDR) is maintained at an optimal level in accordance with regulations while still implementing prudential principles.
5. Credit quality, as reflected in the non-performing loan (NPL) ratio, is projected to range from 3% to 4%.
6. The efficiency ratio, as reflected in the ratio of operating expenses to operating income is projected to be around 65% to 70%.
7. The cost of funds will be more efficient after the ultra-micro holding is formed, which is projected to be around the level of 2%–3%.

4.8.3 Financial Projections

Financial projections are needed to measure cash flow projections in order to calculate the synergy value generated by ultra-micro holding. Financial projections are prepared for the next five years (2023–2027), with 2022 as the base year for the projection, one year after ultra-micro holding was formed. Based on predetermined assumptions, the following is the financial projection of ultra-micro holding:

Table 4.4 Financial Projection of Ultra-Micro Holdings for 2023 – 2027

Ultra Micro Holding (Rp Million)	2022	2023	2024	2025	2026	2027	CAGR
Financial Position							
Total Asset	1.871.047.608	2.012.036.290	2.157.801.887	2.317.413.472	2.492.334.918	2.684.192.811	7,48%
Loan	1.039.918.899	1.157.457.764	1.288.523.983	1.434.719.200	1.597.842.831	1.779.917.920	11,35%
Liabilities	1.541.629.199	1.664.284.932	1.798.956.382	1.946.936.023	2.109.661.174	2.288.730.552	8,22%
Debt	1.465.935.698	1.586.427.943	1.718.850.089	1.864.490.967	2.024.784.082	2.201.324.153	8,47%
Equity	329.418.408	347.751.358	358.845.505	370.477.450	382.673.743	395.462.259	3,72%
Statement of Profit (Loss) Report							
Operational Income	197.869.888	224.194.208	247.846.504	274.957.248	306.107.183	341.981.967	11,56%
Operational Expenses	(133.160.618)	(152.353.621)	(164.055.389)	(176.772.817)	(190.599.538)	(205.638.138)	9,08%
Operational Profit (Loss)	64.709.270	71.840.588	83.791.116	98.184.432	115.507.645	136.343.829	16,07%
Net Profit	52.072.290	57.710.285	67.282.598	78.809.736	92.681.416	109.364.129	16,00%
Financial Ratio (%)							
CASA Ratio	66,93%	68,39%	69,82%	71,22%	72,57%	73,89%	
LDR	79,93%	81,76%	83,55%	85,32%	87,06%	88,77%	
NIM	7,14%	7,50%	7,55%	7,59%	7,64%	7,69%	
NPL Gross	2,68%	3,35%	3,24%	3,14%	3,05%	2,96%	
Cost of Fund	1,83%	1,76%	1,69%	1,62%	1,55%	1,48%	
ROA	2,78%	2,87%	3,12%	3,40%	3,72%	4,07%	
ROE	15,81%	16,60%	18,75%	21,27%	24,22%	27,65%	

Total assets grew with a 2022–2027 CAGR of 7,5%, which was largely contributed by the growth in lending of 11,4%. In terms of liabilities, it grew by 8,2%, while equity grew by 3,7%. In terms of profit and loss, operating revenue growth is projected at 11,6% with projected operating expenses of 9,1%, so that ultra-micro holding records operating profit growth of 16,1% and net profit growth of 16%.

Table 4.5 Firm Value for 2023 – 2027

Firm Value (Rp Million)	2023	2024	2025	2026	2027
BRI	1.178.906.539	1.199.801.188	1.180.645.629	1.226.503.689	1.236.101.092
Pegadaian	156.671.099	152.527.868	148.715.204	148.178.797	146.866.717
PNM	45.078.375	43.656.823	42.683.407	42.178.668	42.167.055
Ultra Micro Holding	1.402.658.171	1.408.239.118	1.417.385.214	1.430.489.459	1.448.007.686

*Perpetual Period Cash Flow Growth Assumption 1%

4.8.4 Firm Values

Utilizing the discounted cash flow approach and the Free Cash Flow to the Firm (FCFF) method, firm value is determined. The following are the firm values of each entity and the ultra-micro holding firm:

4.8.5 Synergy Values

After obtaining the firm value of ultra-micro holding and each entity, synergy value can be obtained from the difference between the firm

value of ultra-micro holding and the firm value of each entity. The synergy value of ultra-micro holding is presented in Table 4.6

Table 4.6 Synergy Value Ultra-Micro Holding

Synergy Value (Rp Million)	2023	2024	2025	2026	2027
Value of Ultra Micro Holding	1.402.658.171	1.408.239.118	1.417.385.214	1.430.489.459	1.448.007.686
Value of BRI + Pegadaian + PNM	1.380.656.013	1.395.985.879	1.372.044.240	1.416.861.154	1.425.134.864
Synergy Value	22.002.158	12.253.239	45.340.974	13.628.304	22.872.823

CONCLUSSION & RECOMMENDATION

5.1 Conclusion

The formation of ultra-micro holding has shown good financial performance results in 2022, where management is able to create economic value added as indicated by a positive EVA value. Thus, it can be said that the management of Ultra Micro Holding has a good ability to obtain the profit expected by shareholders so that, in the end, it is considered capable of increasing the wealth of these shareholders. The resulting synergy value is positive, which shows that the firm value generated from holding Ultra Micro is higher than the firm value of each entity. However, operating profits from each entity can be further optimized in two ways, by increasing revenue contribution and implementing cost efficiency. Both of these can be done by optimizing the synergy that is formed within the ultra-micro holding. The BRI, Pegadaian, and PNM business ecosystems are designed to provide a smooth and integrated customer journey to meet the evolving needs of customers at various stages of their financial journey. By offering a unique value proposition tailored to the needs of different customer segments, this ecosystem aims to create a more inclusive and accessible financial system that empowers individuals. In the long run, ultra-micro empowerment can help create new jobs and improve the Indonesian economy as a whole. For each entities, ultra-micro holding can provide better financial performance through increasing

profitability and efficiency, as well as reducing the cost of funds originating from low-cost funding in the ultra-micro segment and alternative funding sources.

5.2 Implication

The formation of ultra-micro holding can bring many benefits to companies, the government, and society. For companies, it can have an impact on increasing the company's valuation and also assist in building an ESG (environmental, social, and governance)-based organization. Not only responsible business practices, but also social and environmental impact alongside financial performance. By integrating ESG factors into their decision-making processes, these company can help create a more sustainable and equitable future. For the government to help achieve the SME credit ratio target in line with Indonesia's national development agenda. It can also improve economic equity in remote areas by increasing access to ultra-micro credit, creating new jobs and businesses, and strengthening the framework of Indonesia's financial system through strategic integration of financial services. In addition, it can increase the efficiency of SOE governance by reducing the number of SOE entities and establishing a government program distribution platform that targets the ultra-micro segment. Inclusive financial systems are essential for promoting economic growth and reducing poverty, as they provide people with access to

financial products and services, which can help them save, invest, and build wealth. This, in turn, can lead to the creation of new jobs and the expansion of small businesses, which can have a positive impact on the overall economy. For the society, the establishment of a ultra-micro holding can provide easy access to formal financial services, reduce the cost of funding ultra-micro businesses, improve people's lives through the distribution of guarantees and social assistance through ecosystems, and contribute to increasing national financial literacy

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