CFO

AB InBev Board Report

Board report analysing the key decisions made by the AB InBev Board

Compiled by: Great Empire

Chisha Sikazwe, Gabriella Bona, Anish Balasubramanian

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Introduction

AB InBev (Anheuser-Busch InBev) is a Belgian transnational beverage and brewing company, with a reported revenue (as of 2016) of $45.5 billion (excluding joint ventures and associates).

SAB Miller (South Africa Breweries Miller) is a South African multinational brewing and Beverage Company headquartered in Woking, England. They have a reported revenue (as of 2016) of $19.85 billion.

AB InBev had recently made a takeover offer to SAB Miller. This acquisition was to help AB InBev gain a foothold into Africa.

Prioritization of Issues

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Scenario 5

Summary

In order to finance the transaction of SABMiller (which was the final cash offer of $105.5 billion), AB InBev's Group Treasury[1] would have to pay by way of debt and/or equity[2] (since the company only had cash levels of $6.8 billion.

In September 2015, AB InBev visited various banks just after approaching SABMiller. The Retail analysist said: Giving the company's higher debt levels to finance the acquisition, its credit rating[3] would be affected. There could also be a possible reduction in dividend payouts soon after the merger.

[1] Group Treasurers are responsible for administering to the financial assets and holdings of a business
[2] Debt involves borrowing money to be repaid, plus interest, while equity involves raising money by selling interests in the company.
[3]A credit rating is an evaluation of the credit risk of a prospective debtor (an individual, a business, company or a government), predicting their ability to pay back the debt, and an implicit forecast of the likelihood of the debtor defaulting.

SWOT Analysis for Funding Strategy

S	1. AB InBev set up some good strategies to maximize shareholder value by setting key (financial) objectives
W	1. The cut of dividends will most likely upset and drive potential shareholders away
O	1. If AB InBev are able to pay back the debt, then their credit rating should rise significantly (they have never attempted such a big transaction before), especially after proving the credit rating agencies wrong.
T	1. Due to this acquisition, the credit rating may suffer, so it may be harder to gain loans from banks (or other businesses).

Recommendations

This acquisition is going to leave AB InBev in a lot of debt without question. This debt will be difficult to pay off and it is very likely to create a bad image; as A: Rivals may see this as an opportunity to climb the ranks; or B: the businesses track record will hold that large amount of debt the company ran into making banks skeptical to give loans in fear they won't be able to pay back. In order to minimize the negative effects, the debt needs to be decreased. Here are a few ways how:

- Asset sales.
  If done correctly, we can earn substantially from asset sales which can contribute towards repaying/ minimizing debt.
- Get a sponsor.
  Have a company sponsor your products, sell their merchandise for a short time until you have enough revenue from them to help pay debt.

Scenario 3

Summary

AB InBev has (in the past) used a planning horizon[4] of two years to fully integrate and realise all synergies[5] from their acquisitions. However, the acquisition of SABMiller is the single biggest acquisition that AB InBev has ever undertaken. Subsequently, the planning horizon has been revised to four years; with an estimated total cost of $290 million for the execution (of the acquisition) – to be incurred in four advance instalments; in line with the foreseen integration schedule for the acquisition, and the realisation of all synergies.

Right after announcing the SABMiller offer, AB InBev's share price[6] only rose up by 1.8% (far below the expected 25%). A separate market survey revealed that some investors felt that AB InBev overpaid for the deal. Many others feel that (despite SABMiller's successful acquisition and integration record) SABMiller is too big a company to successfully realise all the synergies.

[4] The planning horizon is the amount of time an organization will look into the future when preparing a strategic plan.
[5] Realisation of synergies is different from cost synergies. It relates to the combination potential of integrating. The combination potential is affected by the strategic similarities and complementarities found in the combining companies.
[6] A share price is the price of a single share of a number of saleable stocks of a company.

SWOT Analysis for Integration and Synergies

S	1. AB InBev are showing really strong growth skills because they are taking on a massive acquisition (the biggest they have ever done). They have potential to win even larger acquisitions
W	1. If there are some undiscovered synergies, AB InBev will lose out on some extra potential gains, and they will lose out on 'catalysing' the integration plan.
O	1. Ab InBev could take some of the investors advice, and try to investigate for more possible synergies to exploit
T	1. Some investors do not approve with the recent actions performed by AB InBev (e.g.overpaying for the acquisition of SABMiller), so there is clearly some conflict within the investors, AB InBev could make a decision that drives the investors away, or delays the integration.

Recommendations

In order to sort out the shareholder conflictions, AB InBev have to raise share prices. The share prices are down because the shareholders have doubts about the acquisition to SABMiller and how it will affect AB InBev financially. In order to fix this AB InBev need to heighten the shareholders' opinions on this integration. That is achievable with the following:

- Remind shareholders that once we merge with SABMiller we will have a foothold in Africa which has one of the largest alcohol consumption rates in the world. This is very likely to lead to increased sales as more people are willing to buy alcohol.
- AB InBev has a large presence in all regions except Africa. Once it has a presence in Africa, it will create a vision of a large, powerful company which can draw in business offers and scare away competitors.

Scenario 1

Summary

A contingency method (if the SAB Miller deal was to break down) to expand into Africa was to go through the Foreign Direct Investment[7] (FDI) in Nigeria.

The FDI that AB InBev planned to execute, required setting up a NGN[8]140 billion ($400 million) manufacturing capacity[9] (in Nigeria), to also cater for export sales to other West African countries. An investigation (costing $500,000) of Nigeria established that there were appropriate brewery facilities, with adequate transport links and a cheap, yet skilled, workforce. Although this plan has many strong sides, majority of it has downfalls, especially with moral implications.

Locally sourced beer is cheap and well known amongst the locals. Majority of Nigerians are either unemployed or in low paid jobs leaving them with little money to spend on alcohol, so they go to the cheapest brand which is locally sourced beer.

Our message of safe drinking may lead to our downfall as majority of alcohol intake is excessive or irresponsibly used.
Our target market is to the younger generations, roughly aged 18-29. 69% of Africa's population is 18-29, but the ethical dilemma stands: do we promote unsafe drinking and increase profits or do we go against unsafe drinking and loose roughly 30% of our consumers.

[7] A foreign direct investment is an investment in a business by an investor from another country for which the foreign investor has control over the company purchase

[8] NGN (Naira) is the currency of Nigeria.

[9] Manufacturing Capacity is the maximum output that a business can produce in a given period with the available resources.

SWOT Analysis (of using the FDI)

S	1. AB InBev's market strategy would be very effective to win market share from local rivals (their strategy is very sustainable)
W	1. Ab InBev have no experience of the African Beer industry, their forecasts may be obsolete, potentially due to the different market styles in the different continents 2. Ab InBev are still unknown in Africa, so customers may go for the familiar brewing companies (and neglect AB InBev)
O	1. Nigeria is one of the most populous countries in the world, their beer market is growing significantly, and they have the second largest beer consumption market (in Africa). AB InBev can capitalise on such large figures to really boost revenue 2. Using an FDI will challenge the Nigerian Breweries. This will be helpful to keep AB InBev on their toes, and they could learn from their potential rivals
T	1. Heineken have been forecasted to dominate AB InBev and they have projected to have 40% of the market share, while AB InBev have been forecasted to have 30% 2. AB InBev has invested millions on working towards the FDI entrance to Africa. If the FDI fails, AB InBev will incur massive losses

Recommendations/concerns

The ethical dilemma found: promote unsafe alcohol consumption=profit, Go against unsafe drinking=loss. It seems easy to solve, but think of the contributing factors. For starters, they're going against our own message.

Another problem arises as alcohol is often used as a "number" for depression as most people, some with and some without the proper education, do not realize that alcohol is a depressant and depressed people are likely to drink for the sheer pleasure they draw from it. A way around this would be to hold seminars explaining the dangers of alcohol and how to drink in moderation. If this is done effectively, the company is likely to raise awareness and lower the percentage of alcohol being used unsafely.

Scenario 2

Summary

In the brewing industry, the biggest changes in supply chain[10] practices are defined by some of the largest customers of the brewers (who are: supermarkets and wholesalers). Such groups are often at the forefront of downstream supply chain[11] development. Their technical expertise and ever-flexing buying power; drives changes in warehousing, transport and systems for the brewing companies. AB InBev are concerned about the ever-growing buyer power (possessed by the supermarkets etc.), and the impact they have on group profitability[12]. AB InBev envision that acquiring SABMiller will help flip back the bargaining power (over the major wholesalers and supermarkets) to NewCo[13].

SABMiller has faced inaccurate sales, lack of adequate shelf space and high servicing costs of some of the major supermarket customers in Africa. AB InBev are well aware that if they manage to succeed in these areas, it will contribute towards realising the anticipated cost synergies[14].

AB InBev then devised and are considering 4 strategies to deal with the least profitable supermarkets.

[10]Supply chains are the flow of goods and services; it involves the movement and storage of raw materials, of work-in-process inventory, and of finished goods from point of origin to point of consumption.
[11] Downstream supply chain refers to the flow of information and goods with clients and customers. It contrasts upstream supply chain management, which involves the flow of buying activities with suppliers.
[12] Group profitability is the profit the firm makes from serving a customer or customer group over a specified period of time, specifically the difference between the revenues earned from and the costs associated with the customer relationship in a specified period.
[13] NewCo is a generic name for proposed corporate spin-off, startup, or subsidiary companies before they are assigned a final name, or to proposed merged companies to distinguish the to-be-formed combined entity
[14] A Cost Synergy refers to the opportunity of a combined corporate entity to reduce or eliminate expenses associated with running a business.

SWOT Analysis (of each strategy)

“Stop selling to the least profitable markets – if they wish to sell NewCo’s products, these supermarkets will have to buy them through a wholesaler”			
S	You can get a lot of revenue from selling to wholesalers (they buy at bulk)	O	The NewCo products can spread to lots of supermarkets, by being distributed by the wholesaler, increasing product awareness
W	NewCo will be limiting their selling options by ruling out the supermarkets	T	The supermarket can end up buying NewCo’s products, for a cheaper price (and the money will go to the wholesaler), AB InBev will lose out

“Persuade the supermarkets to reduce the number of cost-generating activities”			
S	Once the prices are reduced, the supermarket will be much more favourable to NewCo	O	If one supermarket decides to reduce, then the other supermarkets may follow suite (to keep up the competition)
W	AB InBev are not familiar with the African supermarkets, so striking a deal through ‘personal’ advantages is out	T	The supermarket will be very unlikely to reduce the cost generating activities, they are just earning more money

“Venture into retailing direct to consumers”			
S	If NewCo start retailing, they will also be getting revenue from the retailing side of their business	O	NewCo will then sell other products, yet still prioritize their products, for effective promoting of their products
W	AB InBev (and SABMiller) are not experienced in retailing, so you will have to (forward) vertically integrate with a retailing business	T	Consumers will not be familiar with NewCo (they do not even know AB InBev), so it will take time for consumers to become familiar

“Introduce new technologies to reduce the cost of the cost-generating activities			
S	The technologies will help eliminate the cost activities, so the overall cost will be more bearable	O	NewCo will then be portrayed as a technologically advanced business, which could lead to a better goodwill
W	The new technologies may be quite costly to buy and/or operate (they are not experienced with technology)	T	The new technologies will have to be tested and regulated before being permitted for use (takes a lot of time)

Recommendations

The main problem we found lies in the 4 strategies given by the company. Particularly the third which states: "Venture into retailing directly to consumers." This is a problem as majority of people buy all of their groceries at the same time at the same place all together and don't like travelling to a different shop to buy your product; they will most likely buy a competitor's product instead.

Another problem found with the 4th strategy which states, "Introduce new technologies to reduce the costs of cost-generating activities." This is a problem as it is helpful in the long term, but a huge cost and liability in the short run.

With the upcoming acquisition with SABMiller plus the cost of training staff to use the technology or firing employees and replacing those with technology which will make people question their job security within the business. How to fix this:

- Keep products on sale at wholesalers and supermarkets
- Instead of purchasing new technologies try new techniques, cut costs or any other method.

Scenario 4

Summary

AB InBev has been developing its largest brewing facilities in China, and they are due to the commence productions in 3 months. The project has faced major difficulties with local protesters protesting about the discarding of building materials (the locals claim that the materials are discarded in the river), and their negative affect on the wildlife.

The Chief Project Engineer (Li Wang) conceded the fact that some of the waste was not disposed of in the correct manner. However, he stated that the issue was not of AB InBev's responsibility. He then further said, in a press release that: AB InBev is taking appropriate action, but the regards the issue as a minor one and does not intend to pursue it.

The protests have only delayed the opening of the facility by a maximum of one weekend.

SWOT Analysis of Environmental Issues

S	1. China is a country which is well experienced and well equipped in production, so AB InBev are capitalising by prioritizing their brewing facilities in China
W	1. The waste is being caused by AB InBev's projects, so they could still get blamed for the waste disposal
O	1. AB InBev could clean the waste from the river and show the public that they are a sustainable company (this will also help enforce their second core 'pillars' of their marketing strategy to : 'Deliver a better world'
T	1. Further protests from the locals can continue to delay the production or a much longer time

Recommendations

Environmental safety plays a large role in Chinese culture and religion. Protestors have a negative effect on media and company image. If AB InBev overlooks this, problems could rise.

Locals will not want to buy the company's product as it is not seen as eco-friendly.

The government could shut down the factory on account of environmental safety violations.

However, there may be ways to fix it:

- If AB InBev authorizes a lake clean-up for non-profit, the locals will be pleased as the business is doing something about the waste and has heard their concerns and the government has no reason to shut down the factory.
- A clean up on the lake also improves company image and has a positive effect on media. As news spreads, AB InBev becomes more popular.
- Another reason to do this as fast as possible is because competitors may see this as a chance to gain the countries/locals favour if they clean up the lake before AB InBev, leaving AB InBev with a negative image and their competitor with a strong, positive image.