Adam Johnston, Rodney Hamunyela and Vijanda Pack
AB InBev Case Study

The CFO Junior aspirants of team St. Paul's 10 LV have tackled the case study presented in of AB InBev. We have analysed the enigmatic problems with inferential thinking and have strived to adhere to adhere to all the criteria. AB InBev is a multinational company specialising in the brewing of beer. The company owns over 400 brands. It is impossible to run all these business seamlessly. The case study included 5 scenarios:

AB InBev were determined to get into Africa, after seeing their global rivals; Guinness Nigeria Plc, Heineken and SABMiller, all reaping substantial profits from the industry in Africa. They looked prepared to go to unimaginable lengths to establish an operating presence in Africa. Thus, they launched one of the world's biggest acquisitions in corporate history, an attempt at acquiring their rival SABMiller. A reverse breakup fee of between US$3-6 billion, a range of payments of about US$100 million and the idea of an FDI. AB InBev knew it was never going to be an easy job acquiring not only one of the world's biggest beverage companies, but also their direct rival, so they put precautions in place. In the meantime, though, finances may have been heavily mismanaged. Our main problems are the ethical strain behind the payments amounting to US$100 million, the mismanagement of finances and the opportunity management by AB InBev.

The company was desperate to break into the African market, and though what they were doing was not illegal, it challenged their ethics. The firm had made a range of payments towards improving the welfare of the Nigerian state. This was seen in their books, and from the point of view of many others in the corporate industry, as strategic marketing initiatives. When looked at again, one can see hints of bribery and extra incentives for the Nigerian government as they sought a way into Nigeria and Africa as a whole. Indeed, it was stimulating the consumption of its products, but there were different, and much better ways of doing this, all while avoiding the ethical problem. AB InBev could have, and in our opinion, it should have branched out to other African countries. In this way, they would be stimulating the consumption of its product, while still having the idea of strategic marketing incentives. AB InBev's consolidated Statement of Financial Position showed that goodwill was one of its largest assets. One that they risked severely damaging with these payments and giving them a disadvantage in negotiations as no company would seek to be involved with one that 'boats' a poor goodwill.

A reverse breakup fee is defined as, "a fee paid by the buyer if it breaches the acquisition agreement or is unable to consummate the transaction due to lack of financing". AB InBev was, from the beginning, placing itself in a position of big financial loss. Their last quarter balance sheet is able to give us an indicator of the direction in which the company had been going. A positive one, at most, with a balancing figure of US$6.8 billion, but it was not enough. Why was a company, who just recorded near US$7 billion, offering a large chunk of that in a breakup fee? We believe that it was a show of confidence and power. The company wanted to show that they hand the upper hand in terms of finances, while displaying its confidence in the success of the deal. This can be seen once again in the final accepted offer of US$105.5 billion, which was more than 10 times their last recorded balance. Why would a company be putting itself at such risk? The answer lies within their confidence. AB InBev were confident that with the acquisition of SABMiller, its share price would skyrocket, but that was not the case. Instead, it rose by a mere 1.8%, knowledge that we have, but that was unpredictable for them. The increase is a staggering 23.2% less than prediction. There was no reason, and, debatably, no benefit in making such offers, which later led them into a position of financial fragility, which is immensely difficult to recover from. The company was supposed to play it according to its financial position, which would be showing a transparent company with nothing to hide, and the chance of acquiring SABMiller at a much lower price than they eventually had to pay.

After AB inBev's acquisition with SABMiller, it took over the business in its current state, flaws and all. The problem which now belongs to AB inBev, previously to SABMiller, is that the business is very high up the supply chain and it lacks retailers. As a result, SABMiller and AB inBev rely heavily on supermarkets and other retailers to distribute their products to different parts of a country.
AB inBev has a vision of dominating the African Beverage market. It is a utopian dream which ignores all the problems to be faced. The business then formulated a mission. The hindering factors facing AB inBev is that they must contend with other companies to gain the control over the market. However, there is another major problem which they must face. The power the suppliers or supermarkets have over them as a business. Hypothetically, AB inBev has a cost price of $5 per litre and they have a selling price of $7.5. The supermarkets claim that they cannot pay the asking price due to their fixed and variable costs in their daily running of the business. They can only afford to pay $6 because they have to pay salaries, rent and internet etc.
AB inBev proposes the following strategies to solve the problems. The strategies will be analysed on the basis of advantages and disadvantages.
1. Stop selling to the least profitable supermarkets.
By by prohibiting the sales of goods to these supermarkets, the high profit is forfeited. A profit is still made, maybe not as high, so goods must still be sold because the benefit is present?Unlikely, money is saved in the transport of the products as the goods do not have to taken to the specific supermarket anymore. Also, since the supermarket is a distributor of goods, you lose a distributor of your products, and therefore customers.But, if advertising and public relationships are good, these customers will remain loyal to the brand and travel to the next supermarket to buy the beverages. The cause for concern is that in some cases, the least profitable distributor is the only supplier of the beverages in an area, so a drop in customer numbers is inevitable. However, the amount is unnoticeable.
2. Persuade the supermarkets to reduce the number of cost-generating activities and 3. introducing technologies to reduce cost generating activities. Both strategy 2 and 4 tie together. By doing this, the supermarkets will be able to afford the $7.5 price. Cost-generating activities include expenses such as salaries, electricity and water. However, by informing those of the long-term

benefits of investing in automated paying-stations will decrease the major profit-eating expense, salaries. To persuade them to convert from manned-tills to automated tills, enlighten them on the benefits on machine and the flaws of man. With machines, customers are in and out of the shop quickly therefore more customers can be dealt in a day, subsequently producing higher profits. Do not draw their attention to the initial upfront heavy investment. This will deter them away from the idea. A good persuasion requires empathy as it causes them to warm up to the idea more effectively. In addition, one has to subtlety get them to do what you want to do.
4. Venture into direct retailing. The strategy may be of the most controversy within the business. Due to a lack of ownership regarding retailers (downstream supply chains), the company will have to invest a great deal of money into the construction or rent of brick and mortar businesses. It might not be possible due to the purchase of SABMiller for US$105.5 billion in addition to the NGN 140 billion manufacturing capacity and the investment of PR and advertising. Additionally, problems of bad customer service are no longer the problems of supermarkets, a separate entity, but now the problem of AB InBev. However, due to direct retailing, AB InBev will be able to maintain the $2.50 profit per litre.

After publicizing the takeover offer, AB InBev's share price was acknowledged. Being 23.2% lower than the expected twenty five percent target, the company was not only alarmed, but concerned and disappointed too. Their share price, that has still not been ameliorated by the markets, had increased by 1.8% only. Supply and demand control share prices, as the more consumers want to purchase stock (demand) rather than attempt to peddle it (supply), the more the price is likely to increase. However, in contrast, if the supply defeats the demand and people are selling more than buying, the share price and the price of the goods will lose value and decrease. Therefore, AB InBev should, in order to boost their share prices and meet their 25% aim, attempt to stimulate the market and reach out to undiscovered branches of the market. This would in turn increase the demand of their products. This could prove to be a challenge, however, as the acquisition was intended to cause the needed rise in demand. They will have to explore other options.
Furthermore, after further analysis, an appraisal unearthed a paramount quandary. That the deal could be uneconomical. In order to dwindle the price, AB InBev could have polished their negotiation skills. For example, they should significantly value their communication with SABMiller, as well as delve into the actual costs, make it seem as though they are not desperate and do not really need SABMiller and uncover areas where both benefit. In addition, another nodus that was picked up was that the SABMiller case is too colossal and perplexing to recognise the foreseeable costs and revenue synergies in the bid and the impact it would have over the next four years. The increased amount of anti-competitive trade unions and other execution risk factors that are starting to be uncovered, worsen the situation. However, AB InBev could take the risk, because the valuable companies do not come easy. They should think about the positives and try to eliminate the negatives. For example, in order to combat the costs issue, they could further delve into their capital market and may need to take out a loan, as well. To overcome

the effects of execution risk factors, AB InBev could market themselves in a way that persuades the viewers. They could come up with a way to soften the people's hearts by doing charitable deeds. They strengthened public relations by sponsoring the Nigerian national soccer team, consequently gaining thousands of new supporters.

With the largest brewery to commence production in a mere 3 months, a pothole has been hit with the car going at a 120 km/h, which will bear heavy consequences for the passengers and people around the road. This is only one of the many examples of the implications caused by the construction of the new brewery. It has been brought to light that the contractors have been illegally dumping construction waste into a nearby river in the Fujian province of China. Fujian is a tourist hub and provides a livelihood for a great deal of people in the area. When tourists visit and see rubbish in the rivers, the word will be spread and in the blink of an eye, the tourist industry will plummet and so will the salary of those involved. The contractors, as well as AB InBev, can be held accountable for the damage the ongoing construction is causing. The government can sue the contractors on the grounds of illegal dumping and in turn, may cause implications for AB InBev both ethically and financially. AB InBev did not make sure who they were getting into bed with, so they are partly responsible for the actions of the contractors they hire. The factory is the face of AB InBev and the actions of the contractors represent AB InBev, so the actions sorely influence the PR of the company as the media and law are brought into the problem. People will no longer have the respect for the company as once before. In addition, potential workers in the area may be sceptical to work for a company which has poisoned their water; the wastes contaminate the water. Together, the two problems will postpone the commencement of production. Subsequently, the loss of valuable time results in the loss of profits. Big profits! The factory is believed to produce 1.5 million tonnes of beer a year. Due to legal actions taken by the public, AB InBev may be forced to compensate for the rehabilitation of the land such as waste removal.

After the acquisition of SABMiller, AB InBev was faced with a few questions. They seemingly fulfilled their 5-strategy, set back in 2014, almost perfectly. The firm had; (1) undertaken M&As due to the its growth slowing down, (2) they had used cash to pay for the most recent acquisition, which was in line with what they wanted and (3) they were able to integrate cost and revenue synergies ahead of schedule. It all seemed to be running smoothly, albeit the company still had a huge US$105.5 billion fee hanging over its head, share prices were expected to rise significantly in the very near future. When this did not happen, the company was faced with having achieved none of their financial objectives.
Carlos Brito, CEO of AB InBev, immediately knew that the fee would mean that they would need to delve into the capital market to raise more cash, or the company would be left in a rather awkward situation with being in debt right after the acquisition of such a big company. The company's easiest and seemingly only way of raising capital amounting to close to US$100 billion was to sell shares, and quite a lot of them. At their current price of $111, the company was not going to get there, but that was not a problem as they

predicted a rise of 25% in the share price. It rose by a mere 1.8%, which signaled disaster for the company. The company was faced with a problem many could have predicted from their first few months of research of a venture into the African market. It was clear, they overpaid. They paid more than what the company was worth and in turn, when it came to revenue synergies, the figures did not add up. The solution, in hindsight, was a merger. AB InBev would then have had their way into Africa and on the other hand, they would not have had to pay as much as they did.

In terms of their financial objectives, the company hugely struggled. They were unable to achieve the essentials of; (1) growing dividends per share by 10% yearly, (2) delivering total shareholder returns and (3) keeping gearing below 40%. All in all, the acquisition and AB InBev's approach towards it was poor and in hindsight, should have done differently, in the form of a merger and not an acquisition. We believe that would have been the best form of execution if they wanted to achieve all their financial objectives and their 5-year strategic plan.

In conclusion, after thorough scrutinisation of the case study presented to our team, we have come to conclusion that, based on all ethical factors and financial obstacles, AB InBev were in no way prepared to take on an acquisition as large as that posed by SABMiller. The company has failed to reach financial objectives that were previously set and this further contributes to our statement. In the aftermath, the company struggled to overcome the financial burden caused by the large fee it had to pay to acquire the company. There are many ways for AB InBev to combat their current situation, but the choice of what to do lies within their power and they will determine their own fate.