Dark Horse

The CFO 2018 Case Study Competition

The Charter Quest Institute

The CFO Case Study Competition 2018

Strategic Report for AB In Bev
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1.0 Executive Summary

1.1 Prioritization of focus

Issue	Description	Urgency	Financial Impact	Ethical Impact	Score	Ranking
Africa direct entry via Nigeria	Creates an option to enter Nigeria and African markets	4	4	2	3.6	2
B2B & Downstream supply chain strategy	Cost reduction is not as substantial as the M&A synergy	3	4	1	3.1	3
Integration, synergies and execution risks	Over billions worth of synergy	5	5	4	4.8	1
Environmental Hazard in China	Damage reputation and sales	3	2	5	2.9	4
Deal funding strategy & group financial performance	1. Dividend payout policy only has little impact on company's fundamentals 2. Capital structure has impact on cost of capital and tax shield, but it is not significant	3	3	1	2.6	5
Weighting		30%	50%	20%	Out of 5	

1.2 Key recommendations

By considering urgency, financial and ethical impacts, we have prioritized issues according below, with key recommendations suggested

1. Strictly monitor the execution of the integration

2. AB InBev should continue its current acquisition plan to enter African market based on the NPV of both project, which is continue M&A

3. AB InBev should deal with problems of SABMiller and increase bargaining power of NewCo through venturing into B2C sales channel and enhancing cost-efficiency of B2B sales channel

4. On the corporate side, AB InBev should warn the contractor to stop all inappropriate disposals. On a social side, AB InBev should put more effort in corporate social responsibility. On top of this, information regarding the company's sustainability model should be more accessible to the public.

5. Based on our estimation model, we figured out the way to achieve all three financial objectives of dividend growth, total shareholder return and gearing ratio. Our model explains how financing options and growing dividend payment interact with gearing ratio, also total shareholder returns can be delivered.

2.0 Situational Analysis

Strengths

- **Extensive brand portfolio**
Allow AB InBev to capture immense market potentials with a large customer base
- **Strong operational network**
Allow AB InBev to cater different needs of the wide customer base

Weaknesses

- **Decline in cost efficiency**
This could adversely affect the operational efficiency
- **Poor business performance in North American**

Opportunities

- **Strategic Acquisition**
Growth through strategic acquisition helps the company expand and strengthen its product portfolio and market presence
- **Strong market prospects in APAC market**
AB InBev can leverage on its strong brand name to the fast-paced emerging markets
- **Growing global beer market**
Global beer market is expected to grow at CAGR 2.8%, with Asia, Middle east/ north Africa and Africa at 5.5%

Threats

- **Stringent government regulations**
There's a rapid changing legislation with challenges to operations
- **Competitive environment across the globe**
There are strong competitors across different markets
- **Limitations on advertising alcoholic products**
This causes difficulties in promoting the brand especially in new markets

3.0 Integration, Synergies, and Execution Risk

3.1 Situation

Since SABMiller is the single biggest acquisition AB InBev has ever undertaken, AB InBev has revised the planning horizon to 4 years in order to fully integrate and realize all synergies from acquisition. However, there are several execution risks which could potentially hinder the integration process and lower the actual synergies gained from the acquisition, leading to a question that whether US$ 105.5billion is overpaid or not.

3.2 Valuation of Costs and Synergies

We assume SABMiller will pay the integrated costs in four installments in October of each year from 2016 and the corresponding synergies will be realized gradually in the four years. Therefore, the value of the revenue synergies of each financial year is calculated based on the average realized synergies of the previous and the current years.

We calculate the incremental free cash flows due to the revenue synergies and discount them by the suggested WACC of 10%. Since the cash flows occurs in October of each year, we make adjustments and discount them back to the financial reporting date. Overall, the NPV of the synergies is US$ 22billion which covers the premium of US$ 13billion paid for the deal.

3.3 Execution Risk

Although the forecast proves the synergies exceed the deal's premium, it is doubted if AB InBev can achieve the forecasted targets to realize the synergies.

From the earned value analysis, the actual cost of work performed is higher than the budgeted cost of work scheduled and the budgeted cost of work scheduled is higher than the budgeted cost of work schedule, implying that the project may spend over budget and cannot achieve the expected synergies.

<u>Anti-competitive Concerns</u>

According to the United States antitrust law, the US Department of Justice prohibits the creation of a monopoly and the abuse of monopoly power. Since after the acquisition of SABMiller, AB InBev will have a market share of approximately 80% of the US market, the acquisition has aroused the attention of the country's Department of Justice.

In order to address the concern, AB InBev has reacted first to announce the plan of selling SABMiller's interest in MillerCoors in the USA. Although this has opened the door for its competitor to acquire and compete with AB InBev, it still has a strong business in the US with 46.4% market share, ranked number 1 in the United States. Currently the process for obtaining antitrust clearance from jurisdictions around the world could take up to 12 months. Fortunately, the integration starts at 3 Oct 2016 with possibly 1 month of postponement, which does not have a great impact on the whole acquisition.

<u>South African Tax Issue</u>

For the South African tax issue, AB InBev will maintain the secondary listing status in South Africa, so the company will continue to pay taxes to Africa. Although before the CEO of AB InBev confirmed that Newco would continue to have a secondary listing on the JSE, there was concern that it could not obtain the government clearances, it has now resolved the issue.

The requirement planned to be imposed by the South African government could be one of the difficulties to AB InBev. However, this is also a necessity for AB InBev to develop local supply chain connection to capitalize its synergy opportunities. Seeking local suppliers could possibly improve AB InBev's international competitiveness as well.

3.4 Delayed commencement of Business Process Re-engineering (BPR) and Enterprise Resource Planning (ERP)

EVA the consulting firm and SAP the software firm have revised their cost estimates and indicated they cannot yet plan the availability since there are still too much uncertainty on whether and when the deal will close. AB InBev can consider the following options to mitigate the risk.

Option 1	Cooperate with another 2 firms
Option 2	Negotiate with EVA and SAP, provide necessary information and updates as soon as possible

The above-mentioned are 2 possible mitigation methods, yet the final decision can only be made with more information given (i.e. the revised cost, the attitude of the current 2 partners etc.)

3.5 Trade union's concern regarding possibility of job losses among SABMiller's

A cut in headcount and an organizational restructure are inevitable after the deal closure – to cut costs, and also for a better development of the NewCo. But due to the affections in staff morale and concerns of the trade union, AB InBev should consider a gradual and reasonable methodology.

In terms of who to dismiss, a set of better criteria should be used, that will allow NewCo to make the best out of "people", whom are the roots of post-merger integration.

Criteria	Description
Adaptability to new culture	Culture, is an important part of post-M&A, yet because it is difficult to measure or manage, it is often overlooked. According to SHRM, over 30% of mergers fail because of simple culture incompatibility. When people do not work along, efficiency and productivity will be slow down, leading to less synergies created. Therefore, SABMiller Group HR **should look into people who has a personality that match with the culture of NewCo.**
Ability	Salary should not be the prioritized criteria when deciding on dismissal. Instead, ability is more important. Some senior employees with high salary are experienced experts of a particular aspect, this brings value to NewCo since they help to enhance efficiency, that will ultimately polish results. Therefore, SAB Miller Group HR **should evaluate the performance of people, figure out who worth that salary (i.e. cost efficiency), instead of dismissing him/ her just because he/ she is highly-paid.**
Willingness to drive/ adapt to changes	After NewCo is formed, changes are expected to be made. Yet, implementation of changes is as important as planning changes. Employees are the ones who implement changes, therefore it is important to **retain those who have to flexibility to cope with changes and bring positive impact to the company.**

With the above-mentioned criteria, a fair process can be realized, in which employees being dismissed will perceive this as business rather than personal. It is understandable that they will be frustrated, therefore the HR should negotiate properly. For instance, the SABMiller HR Group should set up a consultation team for those who are being dismissed. On a basic level, a fair monetary compensation is needed. Take a step further, to address their needs and concerns – new job opportunities, their strengths and room for improvements, emotional or family issues etc. This lowers the risk of labor unrest and discontentment from the related parties.

On the other hand, in terms of the time frame of implementing the restructuring, a gradual way is the most suitable.

If AB InBev decides to dismiss all 3200 employees all-at-once, staff morale will definitely be damaged. Stepping into the shoes of remaining employees, they will be worrying that they are the next ones to be dismissed since the acquirer is so relentless. They will also be asked around by their families that will give them extra burden. Since then, they can't focus on their job duties because they are discouraged and worried. This ultimately lowers the productivity of NewCo, and synergies planned will not be able to achieve.

To sum up, SABMiller Group HR should look at a wider perspective when deciding on the criteria to dismiss employees, and also, they should take a gradual approach in order to minimize the risk of losing good employees, lower staff morale and getting labor unrest. This will be able to address the concerns of Trade Union and FAWU, but not losing the company's interests at the same time.

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4.0 Africa Direct Entry via Nigeria

4.1 Situation

In pursuit of a foothold into Africa, AB InBev has announced an offer to acquire SABMiller who has its presence in 16 African countries. Yet, there is still possibility that the transaction will be failed due to failure in obtaining all the requisite regulatory clearances or inability to obtain the approval of AB InBev shareholders. Because of this, AB InBev is considering a Foreign Direct Investment (FDI) in Nigeria as an alternative path into Africa with a reverse breakup fee.

4.2 Evaluation of Options

	Option 1 Pay the breakup fee and enter a 5-year Foreign Direct Investment	**Option 2** Continue with the acquisition for SABMiller
Possible reverse breakup fee	US$ 6billion	US$ 3billion
Condition of paying the breakup fee	If AB InBev decides to withdraw from the acquisition without any reason linked to SABMiller's responsibilities	If AB InBev fails to obtain all the requisite regulatory clearances or approval of its shareholders
Chance of paying the breakup fee	100%	Possible, but uncertain
Cash flow generating activities	Sales of beer in African countries	Efficient operation and cost cutting strategy, and global market expansion
Cost incurred	Capital expenditure on land and buildings and machinery	No CAPEX, but one-off payment for acquisition

4.3 Valuation of FDI project

The sunk costs of US$ 1million paid for a market share study and forecast and another US$ 100million spent on the investigation and support to the FDI in Nigeria are not considered in the NPV calculation.

Assumptions made on the FDI project:

- Rate of inflation in the United States is same as that in Belgium which is 2%, so the exchange rate of USD/NGN grows by 12.7% per annum
- Working capital is maintained in NGN and exchanged back to USD when the project is closed
- AB InBev pays taxes in only Nigeria because taxes in Belgium are exempted due to the bilateral tax treaty permitting offset of overseas tax

Since AB InBev enjoys flexibility to terminate the project at any time after investment, the value of the project is derived by Black-Scholes model. Comparing to typical DCF model which discounts all five years' free cash flows and gives a valuation of US$ 2,217million, Black-Scholes model gives a valuation of US$ 2,307million, implying the flexibility is worth US$ 90million.

Due to the breakup fee of US$ 6 billion, withdrawing from the acquisition would have a negative NPV of US$ 3,693million.

	Option 1 Pay the breakup fee and enter a 5-year Foreign Direct Investment	**Option 2** Continue with the acquisition for SABMiller
NPV if the acquisition is withdrawn or fails	over -US$ 3.7billion	-US $ 3billion

4.4 Recommendation

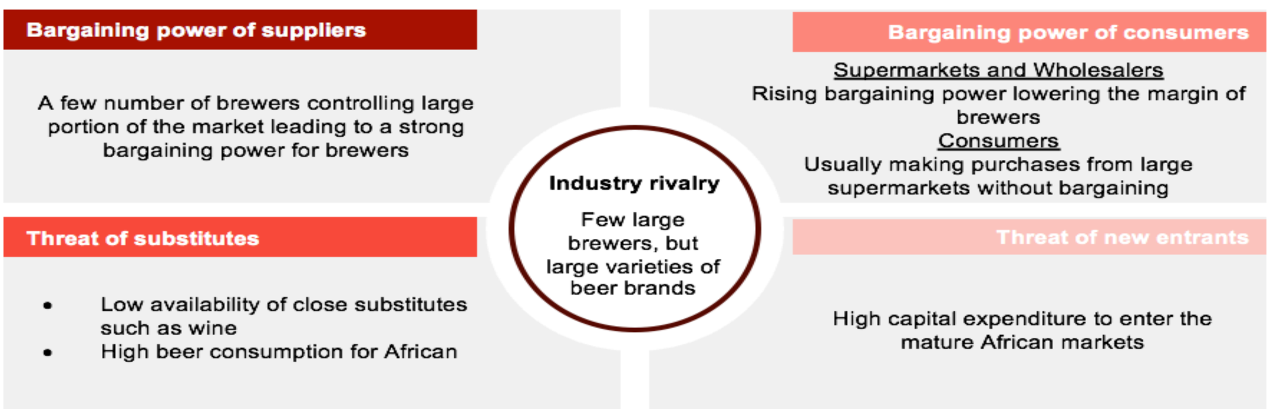
We recommend AB InBev to continue its current acquisition plan to enter African market based on the NPV of both project. For the FDI option, since AB InBev has to withdraw from the acquisition, a reverse breakup fee of US$ 6billion must be paid regardless of whether AB InBev is able to obtain both approval of regulator and its shareholders, but the payment will lead to a negative NPV for the investment.

However, for the acquisition option, if the acquisition is successful, there is no reverse breakup fee needed and cost and revenue synergies could be realized globally for AB InBev. Even if the acquisition fails, the maximum AB InBev has to pay is only US$ 3billion which a relatively smaller cost compared to the NPV of FDI.

5.0 B2B and Downstream Supply Chain Strategy in South Africa

5.1 Situation

While considering an entry to the African markets, an ever-growing bargaining power of brewers' largest customers concerns AB InBev. In order to avoid the cost increment, the acquisition has to be done to flip back the bargaining power over the major wholesalers and supermarkets. At the same time, addressing the inaccurate sales forecast, lack of shelf space compared to the rivals and high costs of servicing the major supermarket customers, which SABMiller has been facing, appropriately could facilitate the realization of anticipated synergies.



With the acquisition, AB InBev can further enhance its bargaining power to gain advantages over its suppliers and B2B customers and thus is able to execute strategies to deal with its least profitable customers.

5.2 Evaluation of B2B and B2C models

(in USD)	Shoprite	Pick n' Pay	Makro	Direct Retailing
Sales revenue	580,000,000	240,000,000	1,080,000,000	7,000,000,000
Less: Cost of goods sold	(464,000,000)	(192,000,000)	(864,000,000)	(4,830,000,000)
Gross profit	116,000,000	48,000,000	216,000,000	2,170,000,000
Less: Sales visits	(82,200)	(102,750)	(1,493,300)	0
Less: Processing a purchase order	(873,200)	(38,480)	(1,124,800)	0
Less: Standard deliveries made	(2,340,000)	(7,155,000)	(13,545,000)	(1,125,000)
Less: Rush deliveries made	(453,250)	(129,500)	(10,230,500)	(129,500)
Contribution	112,251,350	40,574,270	189,606,400	2,168,745,500
Contribution Margin	19.4%	16.9%	17.6%	31.0%

According to the forecast for the Top 3 supermarkets and Direct Retailing, the contribution margins of the Top 3 supermarkets are all far below that of venturing into Direct Retailing, which shows that B2C selling channel is more profitable than B2B one which requires budgets to perform sales visits and more deliveries and process any purchase orders from supermarket customers. Moreover, it is believed that customers could be reached more readily with the B2C sales channel so as to boost the quantity of beer sold.

5.3 Recommendation

It is recommended that AB InBev to deal with problems of SABMiller and increase bargaining power of NewCo through venturing into B2C sales channel and enhancing cost-efficiency of B2B sales channel.

Engaging in B2C sales channel will provide NewCo with an extra point of sale to reach different customers, expanding its customer base. This can be achieved through establishing its own online platform to start reaching customers directly. Different from B2B marketing, NewCo has to channel more resources to actively conduct marketing activities mainly through media to promote the brand to the public and convince B2C customers to purchase, instead of providing various discounts to build up relationship with B2B customers.

Whiling exploring the B2C market, NewCo can at the same time boost the cost-efficiency of the existing B2B sales channel in the following steps. First of all, through conducting similar forecast of all the supermarkets in Southern Africa, NewCo can easily identify the least profitable supermarket customers and only supply them the NewCo products from wholesalers. Then, NewCo can provide the remaining supermarket customers with a Point of Sale (POS) system solution to integrate with their POS system for NewCo and supermarkets to monitor the remaining stock in warehouses and to make purchase order electronically, which allows a better planning for supermarkets and possibly reduce the request of rush delivery . Finally, since NewCo is large enough in size in order to bargain with large supermarkets and wholesalers, it is easier to negotiate with large supermarket customers to lower the discount rate and reduce number of cost-generating activities such as sales visit.

5.4 Risk and mitigation

While enjoying an autonomy for decisions made on production and delivery and bargaining power over its B2B customers, the following problem faced by SABMiller will be solved:

Problem	Solution	Explanation
Inaccurate Sales Forecast	Venturing into Direct Retailing	• Minimizing the bullwhip effect through direct sales to customers, which allows NewCo to forecast sales accurately
	Introduction of integrated POS system	• Monitoring the selling activity of supermarkets and wholesalers customers through a real-time system
Lack of Adequate Shelf Space	Completion of the acquisition	• Larger market share and distribution network for NewCo to bargain for more shelf space
	Venturing into Direct Retailing	• Establishing new sales channel which offers shelf space for NewCo's products
High Cost of Servicing Major Supermarket Customers	Stop selling directly to least profitable supermarkets	• Reducing discount rate and cost-generating activities such as rush deliveries and sales visits provided
	Completion of the acquisition	• Obtaining a stronger bargaining power to negotiate with larger supermarket customers to lower the costs
	Venturing into Direct Retailing	• Lowering number of sales activities in supermarkets, and switching to direct retailing which incurs much fewer costs
	Introduction of integrated POS system	• Avoiding paper documents for purchase order and rush deliveries which are costly

6.0 Environmental Hazard in China

6.1 Situation

The factory construction of AB InBev in China has caused protests and aroused the interest of local media due to its pollution in rivers and wildlife. This is expected to delay the opening of facility by a week. A solution is needed to deter the project from any further delay.

The Chief Project Engineer, Lu Wang, thinks the blame should be on the contractor instead of AB InBev, therefore he proposed not to take any action but to fool the public that actions will be taken.

6.2 Trend

Yet, China is increasingly emphasizing on environmental impacts and sustainability. A series of new green policies so hard-hitting and extensively which 18,000 factories were punished and 12,000 officials are being disciplined. Local governments as well have forced few factories to shut before inspectors arrive. The implication here is that AB InBev should not disregard this matter.

6.3 Recommendation

Therefore, on the corporate side, it is recommended to warn the contractor to stop all inappropriate disposals. AB InBev should be clear and strict, if the contractor does not behave, AB InBev should now renew or allocate new contracts with them. On a social side, AB InBev should put more effort in corporate social responsibility. Specifically, you should focus on schemes like “cleaning up beaches”, “saving animals” etc., this main focus here is to polish the brand image as a sustainable company being socially responsible. On top of this, information regarding the company’s sustainability model should be more accessible to the public, so that the community trust the company has been working towards their promises. For example, publicize more news and updates on social media like Facebook, LinkedIn, Twitter etc. These promote a stronger and healthy company image to consumers’ mind, that will ultimately benefit the company.

6.4 Risk and mitigation

Despite a possible slow down on company growth, it is important for AB InBev to cope tightly with the concerns of the government and public. Cases have shown that sustainable companies in China have started to outperform. For instance, Chinese companies ranked in the top ten percentile according to their ESG-disclosure score (environmental, social and governance) outperformed the Hang Seng China Enterprise Index. Therefore, AB InBev should immediately act accordingly for this issue, in order to prevent further or larger-scale protests and delays and also bring the company a step forward – to become a sustainable company in consumers’ mind.

7.0 Deal Funding Strategy and Group Financial Performance

Based on our estimation model, we figured out the **way to achieve all three financial objectives of dividend growth, total shareholder return and gearing ratio.** Our model explains how financing options and growing dividend payment interact with gearing ratio, also total shareholder returns can be delivered. We first assume to pay 10% growing dividend with USD 3.6 per share in 2015. Also, we proposed debt and equity issuance both USD 50 billion in FY2016, and yearly debt repayment schedule. After that, gearing ratio is expected to be controlled under 40% by FY2020. For total shareholder return, using dividend discount model (DDM), expected total shareholder return equals to dividend yield plus dividend growth. As long as the AB InBev will be able to pay USD 4.3 per share in FY2016 and grow its dividend at 10%, the shareholders who purchase the stock at current stock price of USD 111 will be able to realize a return of 14%.

The big picture depicted by our model could fulfill both three financial objectives. However, they are sensitive to the M&A performance and economic situation. For example, the dividend discount model assume that AB InBev could grow its DPS by 10% YoY, in short run, the earnings growth incurred by M&A and synergy could support the objective. However, AB InBev need to figure out the way to sustain DPS growth in the long run to realize 14% TSR. For the gearing ratio, 40% gearing ratio depends on cash flow generated from acquisition of SABMiller and synergies to repay its debt. If AB InBev need to decide on trade-off between the three goals, TSR and DPS growth should be preferred because 40% target gearing is significantly lower than the current 49.1%. AB InBev can possibly still sustain its credit rating without controlling gearing under 40%.

8.0 Conclusion

The above strategy evaluation, recommendation and implementation plans have taken into account of varies company related factors. Based on urgency and impact, we have prioritized (i) integration, synergies and execution risk, (ii) Africa direct entry via Nigeria, (iii) B2B and downstream supply chain strategy in South Africa, (iv) environmental hazard in China, and lastly (v) deal funding strategy and group financial performance.

Due to limited page requirement, our report has included the most relevant details. For further information, please look at the appendix, or we welcome any questions during the Q&A session.

9.0 Appendix

Africa direct entry via Nigeria (issue 1)

	Growth	Y0	Y1	Y2	Y3	Y4	Y5
Exchange Rate (USD/NGN)		350	395	445	502	566	638
(in USD billion)		**Y0**	**Y1**	**Y2**	**Y3**	**Y4**	**Y5**
Batch sales (Units)		0	1	2	3	3	2
Selling price per batch	5%	0	0	0	0	0	0
Revenue		0	725	1,013	1,886	1,522	818
Less: Cost	10%	0	(90)	(132)	(258)	(218)	(123)
Less: Training and development cost		0	(72)	(26)	0	0	0
Less: Special packaging materials	5%	0	(100)	(105)	(110)	(116)	(122)
Less: Depreciation		0	(20)	(20)	(20)	(20)	(20)
EBIT		0	443	729	1,498	1,169	554
Tax		0	(111)	(182)	(375)	(292)	(138)
NOPLAT		0	332	547	1,124	877	415
Add: Depreciation		0	20	20	20	20	20
Less: Increase (decrease) in net working capital		(6)	0	0	0	0	3
Less: CAPEX		(400)	0	0	0	0	146
Free Cash Flow		(406)	352	567	1,144	897	584

WACC	10%	Volatility	25%	N(d1)	0.99998
PV(Investment)	406	Interest Rate	5%	N(d2)	0.99996
PV(Return)	2,623	Maturity	5	**Value**	**2,307**

B2B & downstream supply chain strategy (issue 2)

(in USD bllion)	**Shoprite**	**Pick n' Pay**	**Makro**	**Direct Retailing**
Sales revenue	580.00	240.00	1,080.00	7,000.00
Less: Cost of retailing				
Less: Discount	(17.40)	(4.80)	(86.40)	0.00
Less: Returns inwards	(11.81)	(4.70)	(33.78)	(70.00)
Less: Sales visits	(0.08)	(0.10)	(1.49)	0.00
Less: Processing a purchase order	(0.87)	(0.04)	(1.12)	0.00
Less: Standard deliveries made	(2.34)	(7.16)	(13.55)	(1.13)
Less: Rush deliveries made	(0.45)	(0.13)	(10.23)	(0.13)
Net sales revenue	547.04	223.07	933.42	6,928.75
Revenue conversion ratio	94.3%	92.9%	86.4%	99.0%

Integration, synergies and execution risks (issue 3)

Integration costs

	1	2	3	4	5	6	7	8
A	80	40	2	50	-95%	-25%	2000	-30
B	120	60	15	100	-75%	-75%	800	-20
C	70	35	40	50	14%	6%	57.75	-37
D	20	10	10	48	0%	-381%	96.2	28.1

Cost synergies

	1	2	3
A	907	113	6
B	6,802	850	213
C	1,792	224	255
D	299	37	37

(In USD billion)	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
A	-	28.35	85.05	141.75	198.45	226.80
B	-	212.55	637.65	1,062.75	1,487.85	1,700.40
C	-	56.00	168.00	280.00	392.00	448.00
D	-	9.35	28.05	46.75	65.45	74.80
Revenue synergies	-	-	210.00	210.00	210.00	210.00
Synergies	-	306.25	1,128.75	1,741.25	2,353.75	2,660.00
A	20.00	20.00	20.00	20.00	-	-
B	30.00	30.00	30.00	30.00	-	-
C	17.50	17.50	17.50	17.50	-	-
D	5.00	5.00	5.00	5.00	-	-
Integration costs	72.50	72.50	72.50	72.50	-	-
Incremental free cash flow	(72.50)	233.75	1,056.25	1,668.75	2,353.75	2,660.00
Terminal value						26,600.00

WACC	10%
NPV (Synergies)	22,042.5
Adjusted NPV (Synergies)	21,184.3
Value of SABMiller	92,199.1
Value of SABMiller with synergies	113,383.4
Proposed price	105,500.0
NPV (M&A)	**7,883.4**

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Deal funding strategy & group financial performance (issue 5)

Statement of Shareholders' Equity

(in USD billion)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Net earnings (AB InBev)	8.10	8.69	9.32	10.00	10.73	11.50
Net earnings (SABMiller)		2.64	2.85	3.07	3.32	3.58
Net earnings (Syngergies)		(0.18)	0.53	2.11	2.95	3.69
Revaluation gains (losses)		(8.60)				
Net earnings	8.10	2.55	12.70	15.18	16.99	18.78
Dividends	(6.25)	(8.62)	(9.48)	(10.43)	(11.47)	(12.62)
Proposed equity issuance		50.00				
Change		43.93	3.22	4.75	5.52	6.16

Statement of Cash Flow

(in USD billion)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Organic cash flow (AB InBev)		11.77	12.63	13.55	14.53	15.59
Organic cash flow (SABMiller)		3.38	3.65	3.94	4.25	4.58
Organic cash flow (Synergies)		(0.18)	0.53	2.11	2.95	3.69
Cash flow (M&A)		(103.75)				
		(88.77)	16.80	19.59	21.73	23.86
Dividend		(8.62)	(9.48)	(10.43)	(11.47)	(12.62)
Interest payment		(2.60)	(3.36)	(3.19)	(2.98)	(2.74)
CF from equity financing		50.00	-	-	-	-
Free cash left for paying debt		(50.00)	3.97	5.97	7.28	8.51
Proposed debt issuance (repayment)		50.00	(4.00)	(6.00)	(7.00)	(8.00)
Debt	54.40	104.40	100.40	94.40	87.40	79.40
Equity	56.47	100.40	103.62	108.37	113.90	120.06
Gearing	**49.1%**	**51.0%**	**49.2%**	**46.6%**	**43.4%**	**39.8%**
Number of shares	1,600	2,004	2,004	2,004	2,004	2,004
DPS	3.91	4.30	4.73	5.20	5.72	6.30
EUR/USD	1.086					
GBP/USD	1.474					
USD/NGN	350	395	445	502	566	638

Key assumptions

Dividend growth	10.0%	<--- financial target
Estimated SABMiller Book Value of Debt+Equity	96.9	<--- analyst consensus in 2015
AB InBev earnings and free cash flow (in USD) grov	7.3%	<--- analyst consensus in 2015
SABMiller earnings and free cash flow (in USD) grc	7.9%	<--- analyst consensus in 2015
Cost of debt	4.1%	<--- CDS in 2016
Tax rate	20%	<--- Belgium tax rate

Dividend discount model (DDM)

Dividend	4.30
/ Stock price	111
Dividend yield	4%
+ Dividend growth	10%
Expected total shareholder return	14%