AB InBev

Paving way to the acquisition of SABMiller

香港科技大學
THE HONG KONG UNIVERSITY OF SCIENCE AND TECHNOLOGY

Dark Horse

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Executive Summary

PRIORITIZATION	**Evaluate each issue by its urgency, financial impact and ethical impact**	
ISSUE 1	Africa Direct Entry via Nigeria: **M&A or FDI**	**M&A is a better option**
ISSUE 2	Downstream Supply Chain Strategy: **B2B or B2C**	**AB InBev should improve B2B and explore B2C**
ISSUE 3	Integration, Synergies and Execution Risk: **Value Creating or Value Destroying**	**M&A can create value but risks need to be handled carefully**
ISSUE 4	Environmental Hazard in China: **Take Corrective Actions or Not**	**AB InBev should take immediate actions**
ISSUE 5	Deal Funding Strategy: **Debt Financing or Equity Financing**	**Issue a mix of debt and equity to fund the M&A deal**

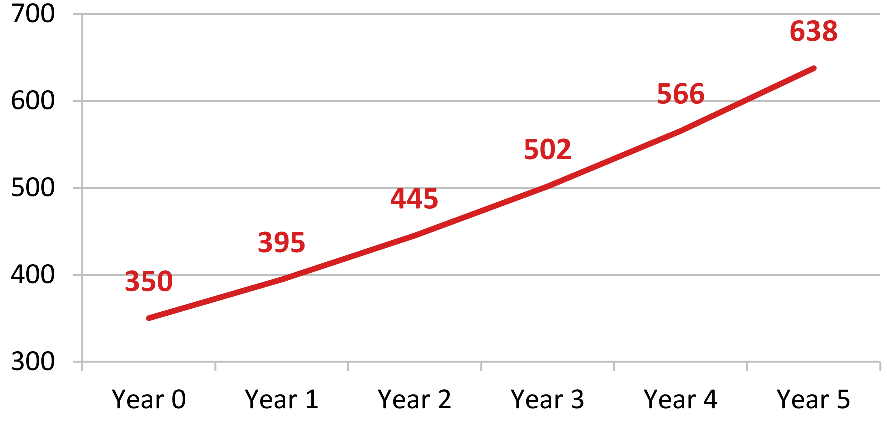
Priority of issues is evaluated by urgency, financial impact and ethical impact

More Important

	Issue 1	Issue 2	Issue 3	Issue 4	Issue 5
Urgency (30%)					
Financial Impact (50%)					
Ethical Impact (20%)					
Total (100%)					
Priority	**2nd**	**3rd**	**1st**	**4th**	**5th**

Loss in the foreign direct investment project is higher than the breakup fee

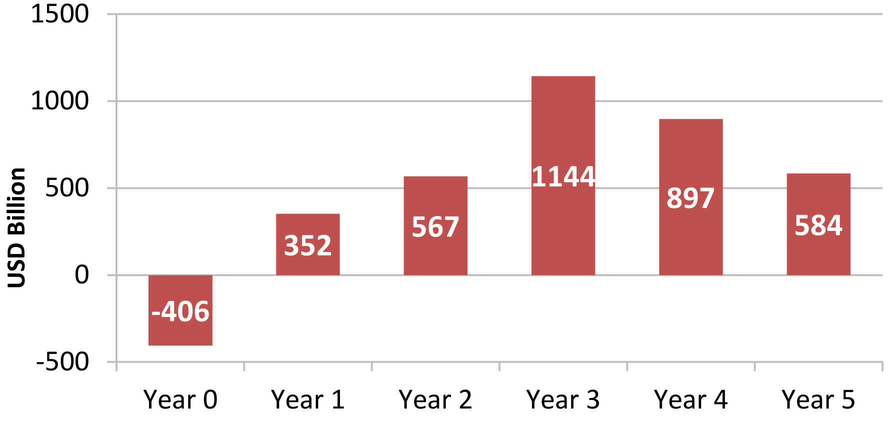
USD/NGN Exchange Rate



Different inflation rate in Nigeria and the United States

USD/NGN increases by 12.7% annually

Cash Flow of Foreign Direct Investment Project



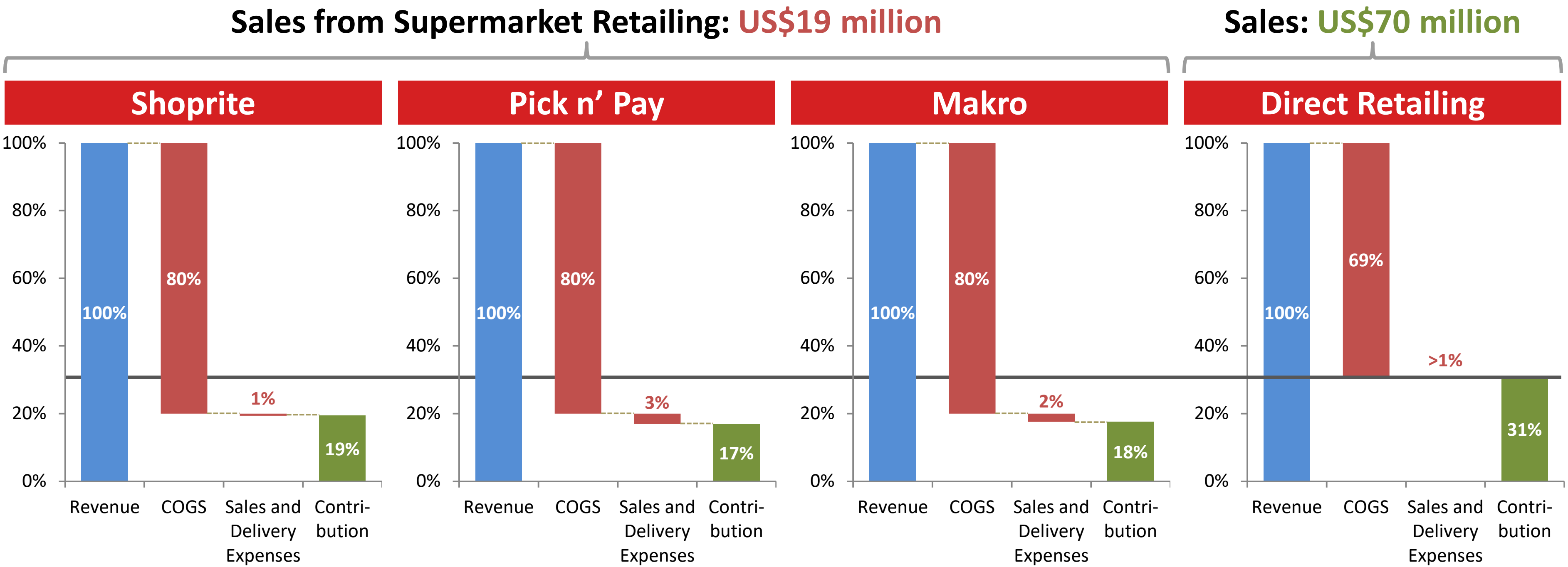
Consideration of potential real option

USD 2.3 billion gain before breakup fee

USD 3.7 billion loss after breakup fee

AB InBev should continue the current acquisition of SABMiller to enter the African market

B2C sales channel is more profitable in terms of market size and margin



Direct retailing contributes more revenue and higher margin

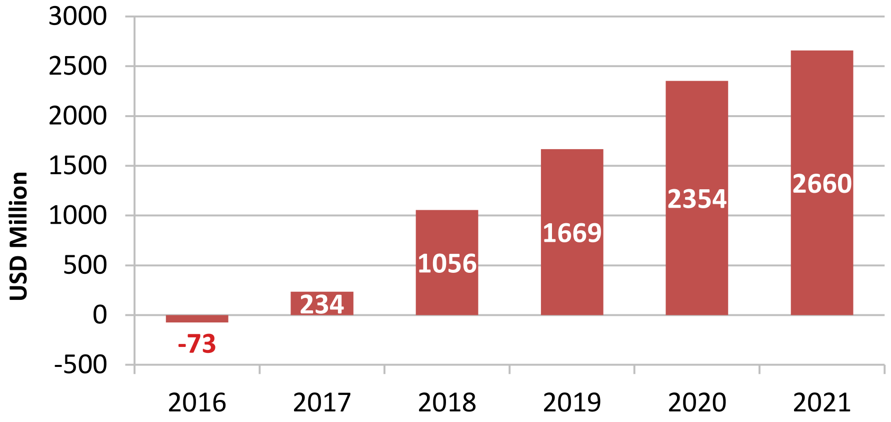
Other than B2B, AB InBev should also explore B2C sales channel through direct retailing

AB InBev should promote B2C channels and enhance efficiency of B2B channels

	Recommendation	Impact
B2C Sales Channels	Launch marketing campaigns to promote the B2C direct retailing platform	Collecting sales data for better analyses and sales forecasts
B2B Sales Channels	Integrate with retailors' POS systems	Reduce need for scarce physical shelf space
	Sell products to less profitable retailors through wholesalers	Reducing cost of servicing supermarket customers
	Negotiate price and contract terms with retailors by utilizing market power	

AB InBev would gain USD 7.9 Billion from the acquisition of SABMiller

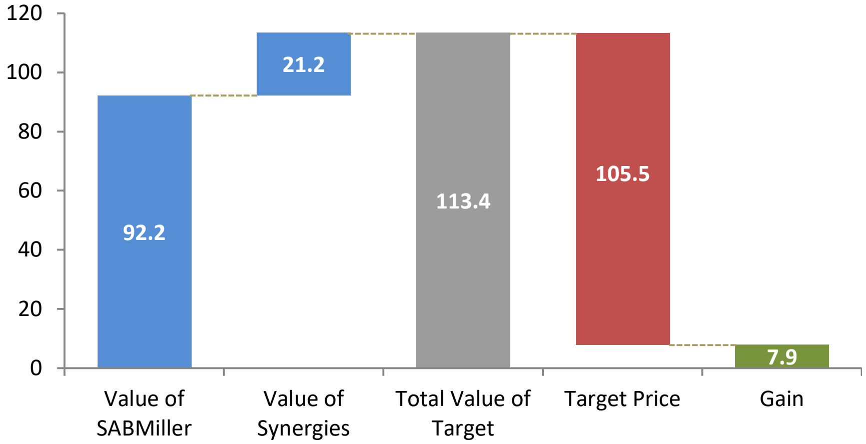
Incremental Cashflow of Synergies



Weighted cost of capital: 10%
Annual incremental cashflow from 2021: USD 2660 Million

Net Present Value of Synergies: **USD 22 Billion**

Gain from Acquisition of SABMiller



NPV of Synergies is adjusted by discounting by 5 months since integration starts in October 2016

Gain from the deal: **USD 7.9 Billion**

Acquisition of SABMiller creates value for AB InBev

AB InBev needs to mitigate execution risks to realize benefits of the deal

Execution Risks	Recommended Mitigations		
Delayed Integration Process	Constantly **perform earned value analysis** to monitor the progress		
Anti-trust Concern	Declare to **sell SABMiller's interest in MillerCoors in the USA** to address regulator's concerns of monopoly		
South African Government's Demand	**Maintain secondary listing status** in South Africa	+	**Establish local supply chain** in South Africa
Delayed Outsourced Work	**Hire other service vendors**	or	**Contact EVA and SAP** for latest information and updates
Laid-off Labor Issue	**Publish clear guideline** for dismissal	+	**Calm workers' worries**

AB InBev should not disregard environmental issues in China

Current Situation

Pollution in rivers and wildlife has ***caused protests***

What AB InBev does

Fool the public that they will take action

Trends

Customer

Emphasizes on environmental issues and sustainability

Have imposed ***new green policies*** which forced 18,000 factories to close down

Government

Implication

AB InBev ***should not disregard*** this issue

Recommendations

Punish contractor if inappropriate disposals continue

CSR

Polish the ***brand image as a sustainable company*** being socially responsible

Make the sustainability model ***more transparent*** to build community trust

AB InBev needs debt and equity issuance to fund the deal and achieve goals

AB InBev

Inputs

Financing Structure

USD 50 billion debt
USD 50 billion equity
(FY2016)

Dividend Growth

10%

Models

Debt Repayment Schedule

Dividend Discount Model

Goals

Gearing Ratio	Total Shareholder Returns	Dividend Growth
40% ✓	14% ✓	10% ✓

Influential Factors

- Realization of M&A synergies
- Sustainability of dividend payout
- Macroeconomic condition

Taking our recommendations and taking care of influential factors, AB Inbev can possibly achieve gearing ratio under 40%, TSR of 14%, and dividend growth of 10%.