

# Ab InBev's Strategic Report

The CFO Junior Competition

By: Team Hermés



**Crawford College**  
**Sandton**

**Joshua Jankelow • Njabulo Tsela • Motlodiwa Modise**

# Prioritization of Issues

(in order from most important to least important)

1

Africa Direct Entry Via Nigeria



2

Deal Funding Strategy and Group Financial Performance



3

Integration, Synergies and Execution Risk



4

B2B and Downstream Supply Chain Strategy in Southern Africa



5

Environmental Hazard in China



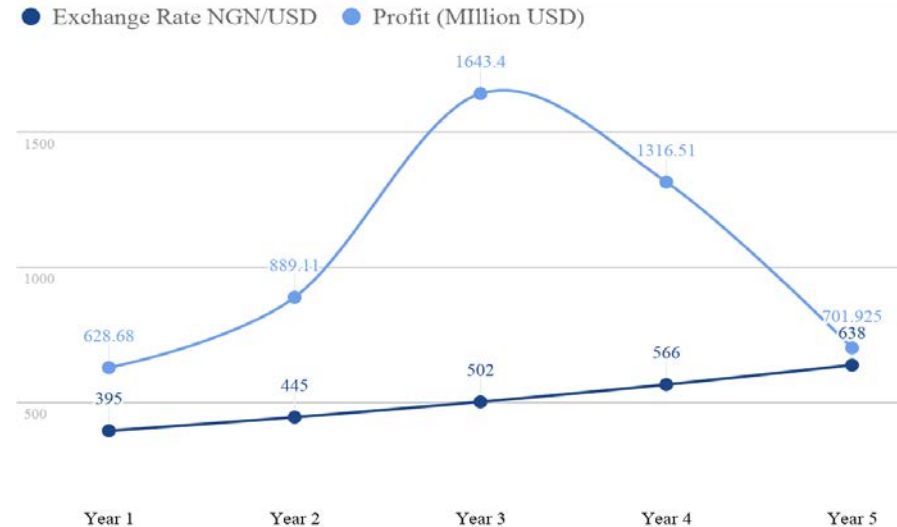
# 1. Africa Direct Entry Via Nigeria

## Challenge 1

- **Establishing a strong foundation in Nigeria**
  - \$100M worth of groundwork for marketing and competitive strategy.
  - Weak groundwork can lead to the downfall of AB InBev in the Nigerian market.

## Challenge 2

- **The declining worth of the Nigerian market**



## Recommendations

- Get involved in CSR projects to market “a better world”
  - Reallocation of funds
- Market Research
- Increase selling price of batches by 15% annually

# 2. Deal Funding Strategy and Group Financial Performance

## Management's Objectives

### 1) Keep Gearing below 40%

- For interest cover to be a decent rate, the transaction should be funded entirely through shares.
- This funding will keep the gearing ratio at 24%, which is incentivized by a discount.
- If funded through issuing shares, interest cover = 11.7

### 2) Grow Dividends per share by 10% year on year

- Current payout ratio of 1.7
- New operating profit will increase by 16%
- By increasing payout ratio from 1.7 to 1.55, DPS can grow by 10%

### 3) Deliver Total shareholders Returns of 14% year on year

- Return based on the share price movement "today" = 4%<sup>[1]</sup>
- Return on shareholders' funds ratio = 15.95%<sup>[2]</sup>

[1] Dividends ÷ price in the previous period  
(\$111 + DPS 3.68) ÷ \$110

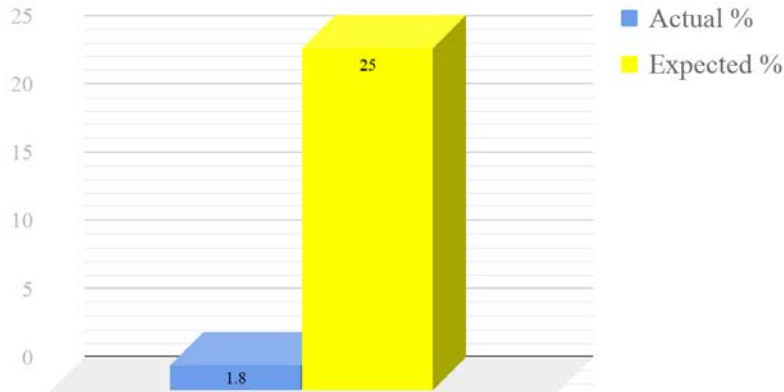
[2] Income after interest & tax, including savings ÷ Average Shareholders' funds  
14964 ÷ 93807

# 3. Integration, Synergies and Execution Risk

## Challenge 1

- **Below expected market share price.**

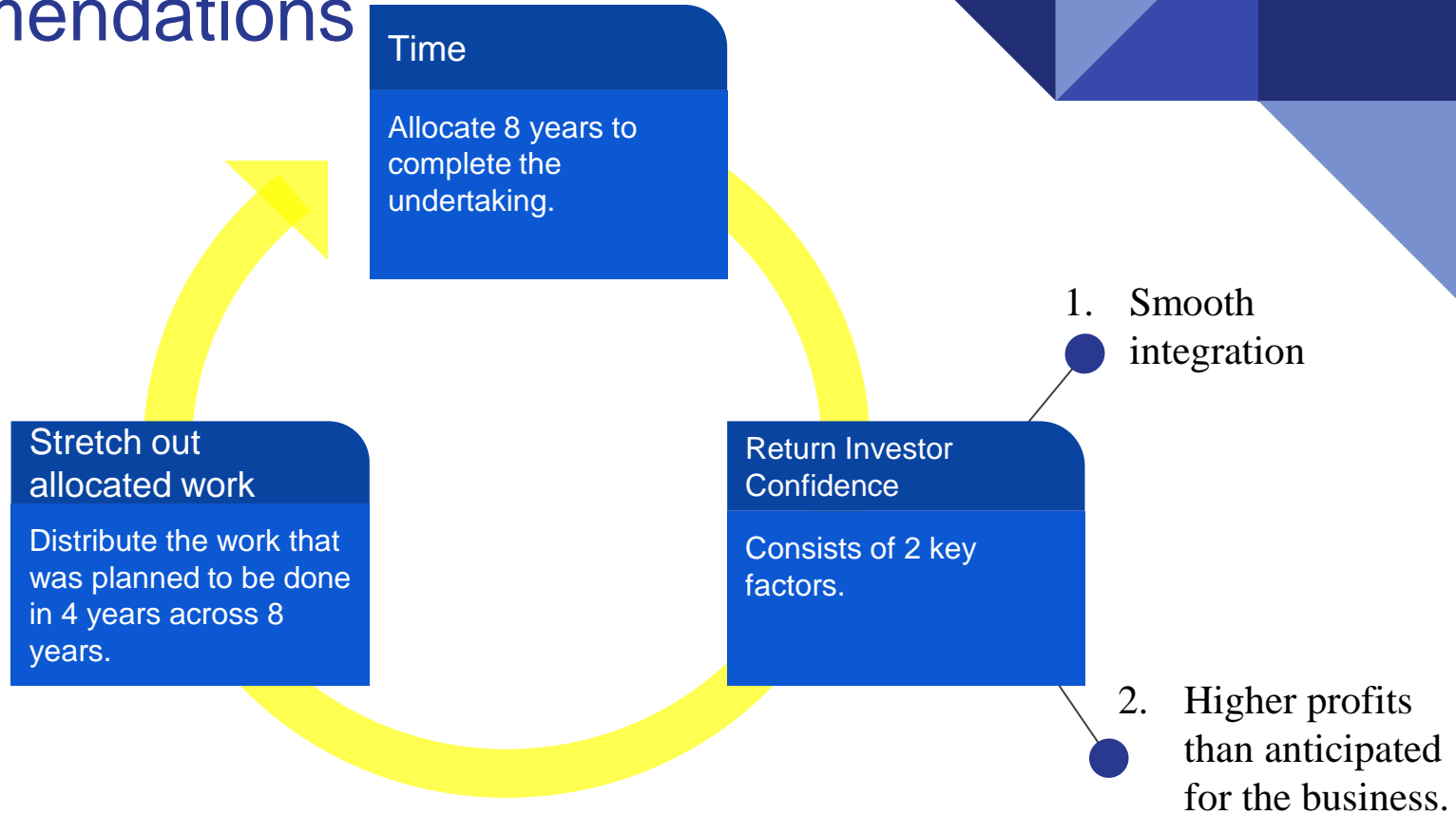
Increase in Market Share



## Challenge 2

- **Higher costs than expected and time frames to integrate SABMiller.**
  - \$80M budgeted for procurement and engineering but is expected to cost \$2B = 2500% more than expected.
  - Midway through project, 50% was expected to be complete but only 2.5% was completed.

# Recommendations



# 4. B2B and Downstream Supply Chain Strategy in Southern Africa

## Challenges

- High level of buying power
- Inaccurate sales forecast
- Lack of adequate shelf space
- High cost of servicing some major supermarkets

### Venture into Direct Retailing customers in Africa

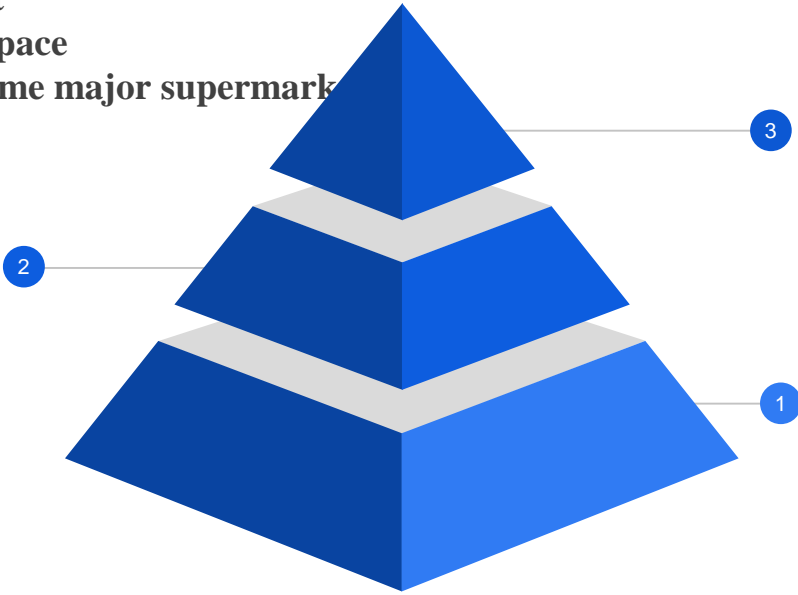
Profits  
Shoprite - \$547 Million  
Pick n' Pay - \$223 Million  
Makro - \$933 Million  
Direct - \$6.998 Billion +  
benefits of less cost  
generating activities

## Recommendations

### Obtain A Liquor Licence to Sell to the Public

- Gross profit margin increases to 31%
- Therefore a higher operating margin
- \$2.45 Million estimated synergies

### Stop Selling to Least Profitable Supermarkets





# 5. Environmental Hazard in China

## Challenges

- **Affected wildlife and water sources surrounding the Putian Brewery.**
- **Protests that have delayed the opening of the plant.**

## Recommendations

- **Expanding the water restoration and conservation initiatives in China (“Cleaner World” initiative).**
- **Ensure that the benefitting communities experience a positive change.**

# Ethical Issues

## Integration, Synergies and Execution Risk

- **AB InBev may have to reduce the total staff positions after the acquisition to minimise costs.**

## B2B and Downstream Supply Strategy into Southern Africa

- **The accessibility of alcohol to the underage population.**

## Environmental Hazard in China

- **All actions to rectify the problem created may be questioned as being reactionary.**

# Conclusion

**After working on the abovementioned recommendations, Ab InBev can:**

- Build an even stronger global presence
- Meet their financial objectives in terms of performance
- Maximize the possibility of success in their acquisition of SABMiller
- Create new methods to make their product available to the public at minimal costs
- Better the environment and create a positive image of themselves in China

