CFO AB InBev Case Study

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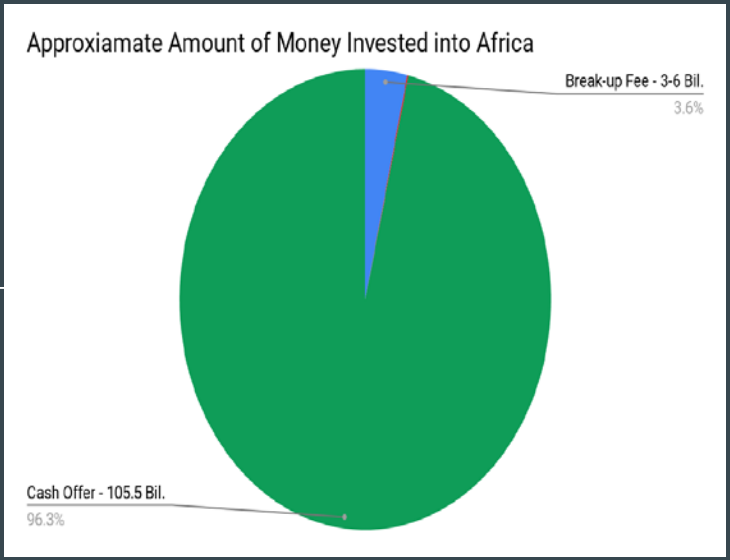
The CFO Junior Aspirants Team of St. Paul’s 10LV have thoroughly analysed the problems presented by the AB InBev case study. We have deduced that AB InBev had made a number of errors leading up to, during and after their purchase of SABMiller. CFO has presented the problems in 5 different scenarios, and we have assessed it as such.

Africa Direct Entry via Nigeria

Due to the desire to establish an operating presence in Africa, AB inBev have undergone an acquisition with SABMiller. Questionable financial and ethical management is indicated.



A reverse breakup fee of between US$3-6 billion

A range of payments adding up to US$100 million

Ethical strain behind these payments threatened to damage their goodwill - “Largest Asset”.

B2B and Downstream Supply Chain Strategy in Southern Africa

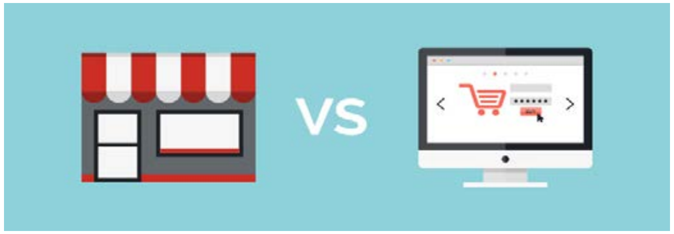
After the acquisition with SABMiller, AB inBev found themselves without retailers and subsequently difficult retailers. They have four possible plans of action.

1. Stop selling to the least profitable supermarkets.

2. Encourage supermarkets to reduce expenses.

3. Introduce cost-reducing technology.

4. Venture into direct retailing through online shopping or brick and mortar shops.



Integration, Synergies and Execution Risk

1. Share price increased by 1.8% which is 23.2% lower than they had predicted.
Solution:
- Stimulate market to increase demand.

Reality

Predictio
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2. Impossible to predict the synergy of the two companies prior to the acquisition.
Solution:
- Efficient communication.

3. Entered an overpriced deal due to the total dependency on a 25% increase in stock price prior to the acquisition.
Solution:
- Sponsorships will soften public.
- Acquire a loan.
- Polish negotiation skills

Environmental Hazard in China

Builders of the largest brewery in the world have been illegally dumping waste in a nearby river in the province of Fujian. The actions of the contractors have detrimental effects on the public relations of AB InBev.

Fujian is a tourist hub and the waste of the factory ruins the landscapes and destroys livelihoods in the area.

River rehabilitation services.

As a result, AB InBev's public relations worsen and they lose potential chinese workers of the factory in the surrounding area. AB inBev can still improve PR.

Deal Funding Strategy and Group Financial Funding

AB inBev fulfilled their 5 year strategy set in 2014.

1. Underwent M&As when growth showed signs of decreasing.
2. Pay cash for the most recent acquisition.
3. Integrate cost and revenue synergies promptly.

However, the acquisition with SABMiller was priced too high at U$D105.5 billion. CEO Carlos Brito decided to delve into the capital market to finance the acquisition.

In the hindsight the solution was a Merger.

Number	Benefits of a Merger
1	No cash required
2	Shareholders receive more profit
3	Quicker than an acquisition as no purchase of assets is required

In conclusion

The company failed to achieve their financial objectives:

1. Increase share price by 10% yearly.
2. Deliver total shareholder returns.
3. Keep gearing well below 40%.

The decision to carry out an acquisition with SABMiller was poorly chosen and in hindsight, should have been a merger.

AB inBev were not prepared to undergo an acquisition on that large of a scale.