A Work Project, presented as part of the requirements for the Award of a

International Master in Finance from the

NOVA – School of Business and Economics

and a

Professional Master in Finance from the

Fundação Getulio Vargas – São Paulo School of Economics

AB INBEV AND SABMILLER: BUILDING THE FIRST TRULY GLOBAL BEER COMPANY

Hippolyte Bourban, no. 29366

A Project carried out on the International Master in Finance Program, under the supervision of:

Pr. Paulo Soares de Pinho & Pr. Joelson Oliveira Sampaio

September 2017

Abstract

Title: AB InBev and SABMiller: Building the first truly global beer company

This case study describes the attempt from AB InBev to acquire SABMiller all along the way, from the initial approaches in 2015 until July 2016. It adresses the issues caused by attempting to combine the two largest brewers in the world and the unexpected vote on Brexit which forced AB InBev to revise its initial offer.

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AB InBev and SABMiller: Building the first truly global beer company

On July 23rd, after more than ten months of negotiations, AB InBev was at a decisive turn on its path to acquire its biggest rival SABMiller to create the first truly global beer company. In a slowing beer market, this seemed like one of the only way for AB InBev to keep growing. The Board of AB InBev was wondering what it should do with the formal offer they submitted to SABMiller a few months back. All parties had agreed on a deal back then, however, the unexpected outcome of the vote on Brexit made the original offer much less attractive for AB InBev's small shareholders. Some activist shareholders also entered to negotiations pushing for a higher cash bid. AB InBev was thinking on how to balance its own interests with those of its main shareholder groups. Furthermore, the company was still waiting for the Chinese government's approval for this merger. AB InBev wanted to close this acquisition as soon as possible and a meeting of the Board was scheduled in the next few days to try to decide the future of this deal.

SABMiller Background

SABMiller started when British sailor Frederick Mead purchased the Castle Brewery in Johannesburg in 1892. The company was then taken public in 1885 as The South African Breweries Limited (SAB) on the London Stock Exchange and was the first industrial company to be listed on the Johannesburg Stock Exchange in 1897. In 1898 the company started producing its infamous Castle Lager which was huge success and still is until the day.[1]

With the demand for beer lowering, the three largest brewers in South Africa, SAB, Ohlsson's Cape Breweries and United Breweries, which controlled about 90% of the market together, merged in 1956 under the SAB name.[2] All along the 20th century SAB made acquisitions in carbonated drinks, wineries, hotels and pubs mostly in South Africa.

The post-apartheid era marked the start of the international expansion for SAB. In 1993, it acquired majority control in Dreher Breweries, the largest brewer in Hungary for $50 million. In 1994, it entered the Chinese market through a joint venture with Hong-Kong based China Resources Enterprises Ltd. By 1997 the company was the world's 4th largest brewer and began divesting non-core assets.[3] The year 1999 was very important for SAB, as it relocated its headquarters and primary stock exchange listing from South Africa back to London. There were also big changes in management and 300 million pounds were raised to fund further international expansion.[4] That year SAB started producing in Russia, acquired another brewery in China, two in Poland (Lech and Tyskie, later merged to form Kompania Piwowarska S.A.) and most importantly Czech Pilsner Urquell and Radegast, thus making it the leader of the central European beer market and the world's third biggest brewer. The Pilsner Urquell was especially important as it was the most famous Czech beer and the original pilsner style beer first produced in 1842. In the early 2000's the expansion continued with acquisitions and joint ventures in India (Narang, Mysore and Rochees Breweries), Africa (Castel Group), China (Sichuan Blue Sword) and Central America (Cerverceria Hondurena in Honduras and BevCo in El Salvador).

In 2002 SAB acquired 100% of Miller Brewing from Phillip Morris (who later changed its name to Altria) for $5.6 billion thus making it the second largest brewer in the world only behind Anheuseur-Busch, and changed its name to SABMiller (See

Exhibit 2 for world’s largest brewers).[5] Phillip Morris became the largest shareholder with 36% of economic rights and 25% of voting rights, and gained three seats on the board of directors.[6] The acquisition of Miller, who was the second largest brewer in the US by volume at the time, gave SAB access to the North American market, the largest in the world.[7] SABMiller then moved into Western Europe with the acquisition of Italian brewer Birra Peroni in 2003 for $270 million and South America with the acquisitions of Bavaria S.A, property of the Santo Domingo Family. SABMiller continued to grow internationally by making acquisitions in several developing countries and maintaining its positions as second largest brewer in the world.[8] Other notable acquisitions include Royal Grolsch in 2008 for $1.2 billion and Australia's Foster's Group in 2011 for $12.2 billion, its biggest acquisition ever.[9]

In 2015 SABMiller celebrated 120 years of brewing beers. The company owned more than 100 breweries (See **Exhibit 3** for SABMiller’s portfolio), 40 bottling plants in 80 countries[10] and had over 70000 employees.[11] It produced more than 200 international, national and local beers which included some famous brands such as Foster, Pilsner Urquell, Miller Genuine Draft, Castle Lager, Peroni or Grolsch. The company was also one of the major bottlers for the Coca-Cola Company. SABMiller sold approximately 90% of its beverages in markets in which it was the number 1 or 2 beer maker. Its major markets were Africa with 33% of revenue and Latin America with 35% of revenue (See **Exhibit 4** for SABMiller revenue by geography). In 2015 SABMiller reached a 324 million hl output, $16.5 billion in sales and $5.7 billion in EBITDA.[12] The success of the company was not only due to its aggressive acquisition strategy but also to the increase in beer consumption from 22 litres per person in 1999 to 28 litres in 2009, a 21% increase led by Chinese consumption, which went up by 48% during this period.[13]

AB InBev Background

AB InBev's history dates back more than 600 years and resulted from a series of mergers. It started in 1366 when the Den Hoorn Brewery was founded in Leuven, Belgium, where it is still headquartered today. It was then renamed Artois in 1717 after its purchase by the master Sebastiaan Artois. In 1987 Interbrew was formed by the merger of Artois and Piedboeuf, another Belgian brewery born in 1853 in Jupille, Belgium. In the 20th century the company grew through acquisitions all around the world.[14]

Ambev (short for Companhia de Bebidas das Américas) was created in 1999 from the merger of two brazilian giants Brahma and Antarctica (founded in 1885). At the time, it was the world's fifth largest brewers with brands such as Skol, Brahma and Antarctica. In 2003, it also acquired initial interest in Quilmes Industrial S.A., Argentina's largest beer maker. In 2004, Ambev and Interbrew combined under the name InBev.[15]

Anheuser Busch dates back to 1860 when Eberhard Anheuser took control of Bavarian Brewery in St Louis, USA. In 1876 Adolphus Busch, Eberhard’s son-in-law created the famous American lager beer Budweiser. The company was then renamed Anheuser-Busch Brewing Association. In July 2008, Anheuser Busch agreed to be acquired by InBev for $52 billion thus giving birth to the largest brewer in the world AB InBev.[16] This deal was orchestrated in part by the Brazilian hedge fund 3G. Soon after the merger, it cut 1400 jobs from the American company and brought in InBev’s Brazilian executives.[17] Warren Buffet was also involved in the deal as his company Berkshire Hathaway was Anheuser-Busch’s second largest shareholder.[18]

AB InBev then proceeded with the acquisitions in 2012 of Grupo Modelo from Mexico, another beer giant and owner of the Corona brand (Mexico's bestselling beer), for $20.1

billion.[19] AB InBev had a strong presence in the Americas, Europe and Asia. Its portfolio included more than 30 brands segmented into global, multi-country and global brands. 16 brands such as Budweiser, Stella Artois, Beck's, Modelo Especial, Bud Light, Corona, Skol, Brahma, Antarctica, Michelob Lager, Harbin, and Jupiler were worth over $1 billion (See **Exhibit 3Exhibit 5** for AB InBev's portfolio and brand segmentation).[20] In 2015, the company had about $43 billion in Revenues, $16.8 billion in EBITDA and over 150'000 employees for an output of 457 million hls.[21] AB InBev had operations in 25 countries and sales in more than 100.[22] The company was also the 5th largest consumer goods company in the world by revenues and 2nd by EBITDA (See **Exhibit 6** for comparison with other consumer good companies).[23] The company's CEO was the Brazilian business man Carlos Alves Brito. In September 2015 AB InBev made a first private offer to acquire SABMiller.

Shareholders

The two companies each had two major shareholder groups that played an important role in the transaction (See **Exhibit 7** for shareholders distribution). AB InBev biggest shareholder was 3G Capital, a Brazilian private equity firm controlling about 22.7% of the company. 3G Capital was founded in 2004 by Carlos Alberto Sicupira, Jorge Paulo Lemann and Marcel Telles and was reputed for its aggressive cost-cutting strategies and lay-offs in its acquired companies. The company had recently completed a series of megadeals including the acquisition of Burger King, the merger of Anheuseur-Busch and InBev and the merger of Kraft and Heinz. Another important shareholder group consisted of three Belgian families who, together, held about 28.6% of the company: The De Spoelbergh family, Artois' owners, the Van Damme family of the Piedboeuf brewery and the De Mevius family. On the SABMiller side, the largest shareholder with a 26.6% stake was Altria (previously Philip Morris), owner of famous wine and cigarette brands such as Marlboro, Chesterfield, Benson & Hedges and L&M. The other big shareholder was the Santo Domingo family from Colombia. The family acquired 13.9% stake in the company when they sold Colombia's main brewer, Bavaria to SABMiller in 2005.[24] The Santo Domingo was also an investor in 3G capital.[25]

The Offer

Everything started on September 16th 2015 when SABMiller published a press release to inform its investors that it had been approached by AB InBev regarding a potential acquisition. The statement said that the Board of SABMiller had not received a formal proposal yet but that it would consider and respond appropriately to any proposal if it were to happen. According to the British legislation, AB InBev had until Wednesday October 14th 2015 at 17h to submit a formal proposal.[26]

A first proposal was made privately on September 17th to Board of Directors of SABMiller for £38 per share in cash with a partial share alternative (PSA). The PSA was the possibility to convert shares in SABMiller to about half a share (0.483969) of AB InBev and receive cash as well (£2.39 in the first offers). This new class of “Restricted Shares” would rank equally with AB InBev shares regarding dividends and voting rights. However, they would not be listed and would be subject to a 5-year lock-up period after which they could be converted to ordinary AB InBev shares on a 1-for-1 basis. The partial share offer was designed to please SABMiller’s two biggest shareholders, Altria and BevCo who together held approximately 41% of the SABMiller shares. The PSA was designed essentially to defer the tax hit they would have suffered if their shares had been sold for cash. It also allowed to propose a higher cash offer for public shareholders and provide a continuing attractive investment for Altria and BevCo.[27]

AB InBev then revised its private proposal on September 22nd and offered £40 per share with a PSA. Both proposals were dismissed by SABMiller. Finally, on October 7th AB InBev submitted a formal proposal of £42.15 per share in cash with a PSA. This represented a premium of 44% to SABMiller's closing share price of £29.34 on September 14th 2015 (See **Exhibit 8** for share prices), before the first offer was made. The partial share alternative would be available for approximately 41% of the SABMiller shares and would represent a 28% premium based on October 6th exchange rate (EUR 1.3515: GBP 1.0000).[28] AB InBev urged SABMiller to accept this offer arguing that it provided a highly attractive opportunity for them. The CEO of AB InBev Carlos Brito stated: "Our proposal creates significant value for everybody. How long will it be before shareholders see a value of over £42 in the absence of an offer from AB InBev? If shareholders agree that we should be in proper discussions, they should voice their views and should not allow the Board of SABMiller to frustrate this process and let this opportunity slip away."[29] However, the Board of SABMiller once again rejected the offer arguing that it "still very substantially undervalued SABMiller", despite the presence on the Board of Directors of three representatives of Altria who were favorable to the merger. The Santo Domingo Family with two board seats voted against the deal.[30] AB InBev needed BevCo's support to finance its offer which was dependent on the two largest shareholders accepting the PSA, even if it was technically open to all shareholders. SABMiller also put forward the highly conditional nature of the proposals including significant regulatory hurdles in the US and China which had not been addressed by AB InBev.[31] On October 12th, the offer was raised once again at £43.5 per share with a PSA, which would have represented a 48%

premium on the cash offer and a 33% premium on the PSA. The cash component of the partial share alternative was £3.56.[32] Behind the scene, negotiations took place between 3G and the Santo Domingo Family.[33] Finally, on October 13th both companies announced that they had reached an agreement in principle on a cash offer at £44 per share (a 50% premium) and a partial share alternative for a total price of about $108 billion (See **Exhibit 9Exhibit 10**

Exhibit 11 for details about the offer). The cash component of the partial share alternative was raised to £3.7788 (a 33% premium) which was probably one of the decisive factors in securing the Santo Domingo Family's approval. The Board of SABMiller declared that it would recommend the offer to its shareholders if AB InBev was to obtain the regulatory approval for the transaction to go through. AB InBev agreed to pay a $3 billion reverse break fee if the deal failed because of regulatory clearance or the approval by AB InBev's shareholders.[34] The shares of SABMiller would be acquired by a new company incorporated in Belgium and formed for the purpose of the transaction. AB InBev would subsequently merge into the new company which would become the holding company for the combined group (See **Exhibit 12** for Post Completion Corporate Structure). The takeover was formally launched on November 11th when AB InBev announced that it had secured a $12 billion spin-off and $75billion in bridge financing.[35]

Synergies

For more than a decade, rumors had it that AB InBev had been examining the possibility of a takeover of SAB Miller. The merger would potentially create a truly global beer giant and one of the world's leading consumer goods companies. Given the complementary geographic footprints and portfolios of the two companies (See **Exhibit 13 & Exhibit 14** for geographic footprint and distribution of revenues), the combined group would be present on almost all markets including some key emerging regions with solid growth prospects such as Africa, Asia, Central and South America. SABMiller who earned almost a third of its revenues from Africa would give AB InBev a strong presence in the continent which was perceived as critical for future growth. The beer volume for Africa was expected to grow at almost 3x the global rate (44% vs. 16%) on the 2014-1025 period.[36] The combined entity would generate revenues of $64 billion and EBITDA of $24 billion (without synergies).[37] The group would also benefit from a highly complementary distribution network, experience and the best practices of both companies.[38] This deal looked even more attractive for AB InBev because SABMiller was relatively cheap at the time thanks to the recent slow growth in emerging markets where more than two third of its profits came from and the weak South African Rand and Colombian peso.[39]

The announcement of the merger came at a time were beer consumption had been falling in big markets. This collapse was due to demographic changes, emergence of new beverages (wine, cider), stricter regulation and economic slowdown. Competitive pressure also intensified with the boom of small craft beer brewers.[40] In this context, it made sense to try to merge with other firms to keep growing, as proved the 2014 attempt of SABMiller to buy Heineken, the world's third largest brewer. Furthermore, AB InBev was having difficulties in Brazil and the US, two of its key markets.[41] Carlos Brito commented about this merger: “We believe this combination will generate significant growth opportunities and create enhanced value to the benefit of all stakeholders. By pooling our resources, we would build one of the world’s leading consumer products companies. […] Our joint portfolio of complementary global and local brands would provide more choices for beer drinkers in new and existing markets around the world.".[42] The chairman of SABMiller Jan Du Plessis also demonstrated his company's interest in this merger by saying that "SABMiller has an unmatched footprint in fast-growing developing markets, underpinned by our portfolio of iconic national and global brands. However, AB InBev's offer represents an attractive premium and cash return for our shareholders, and secures earlier delivery of our long-term value potential, which is why the Board of SABMiller has unanimously recommended AB InBev's offer."[43]

Synergies were expected to come from four main areas: procurement and engineering, brewery and distribution efficiency, best practice sharing and corporate HQ and overlapping regional HQs. In total, there would be an estimated $1.4 billion pre-tax cost synergies per annum which would be phased in over four years after the completion of the merger.[44] The synergies would equal 9% of SABMiller's sale which was much lower than previous deal organized by 3G such as Modelo (21% of sales) or Anheuser-Busch (18% of sales).[45] In addition, there would be $1.05 billion of synergies identified by SABMiller earlier when it was trying to get a higher price bid. To deliver all of these synergies there would be an estimated one-off cash costs of $0.9 billion in the first three years after completion.[46] According to company information, the profit from operation would be over $17 billion billion USD (See **Exhibit 15** Pro forma combined adjusted operating profit (billion USD).

Regulators

Some preconditions for the acceptation of the transaction by SABMiller included the receipt of regulatory clearance in many countries where the announcement of the merger had sparked antitrust reviews: the EU, US, China, South Africa, Colombia, Ecuador, Australia, India and Canada (See **Exhibit 16** for the deal timeline). In the US, AB InBev and MillersCoors were the two largest brewers with 46% and 27% market shares respectively[47]. AB InBev knew that the combined company would have had too much market share and the merger would not have been accepted by US antitrust regulators. AB InBev thus started by adopting a proactive approach to the problem. On November 11th 2015 it announced an agreement with Molson Coors to acquire SABMiller's interest in Miller's Coors. With this agreement, AB InBev would not own any of SABMiller's US business (including import brand such as Peroni and Pilsner Urquell) and would give up ownership of the Miller brand globally. This transaction was valued at $12 billion and was conditional on the completion of the acquisition of SABMiller.[48] This proposed divesture was eventually accepted by the US Department of Justice, the relevant authority, on July 20th 2016. AB InBev also made a commitment not to acquire a distributor that would give it more than 10% of its annual volume being distributed through the same distributor and not to terminate any wholesalers.[49] Deputy assistant attorney general at the DoJ's antitrust division Sonia Pfaffenroth declared: "The two largest U.S. brewers will now remain independent competitors after the deal. The settlement also preserves the ability of smaller brewers – including brewers of craft and import beers – to compete against ABI by protecting their access to important distribution networks. Independent distributors that sell ABI's beer will have the freedom to sell and promote the variety of beers that many Americans drink."[50]

In November, AB InBev also started exploring the possibility to spin-off part of SABMiller's European business, namely the Peroni and Grolsch brands, in order to head off regulatory concerns on the dominance over Europe's premium beer market. They later reached an agreement to sell Peroni, Grolsch and Meantime to Japan's Asahi for €2.8 billion.[51] European regulators (the European Commission) generally get involved when a combined company would get more than 40% of the market. Belgium was the only market in Europe where AB InBev crossed this threshold with 53.1% market share (SABMiller's was 0.2%)[52]. Later on April 29th, it updated its remedy package by offering to also sell the entirety of SABMiller's business in Central and Eastern Europe (Hungary, Romania, Czech Republic, Slovakia and Poland). On May 24th 2016, with the proposed divestments program, AB InBev finally received the approval of the European Commission for the merger.[53]

In March AB InBev also entered into an agreement to sell SABMiller's interest in China Resources Snow Breweries to China Resources Beer for $1.6 billion.[54] Chinese antitrust authorities', China's ministry of commerce, approval was still pending as of July 23rd.

AB InBev was also able to secure approval of the government in South Africa, where it planned to list part of its shares, by agreeing to maintain current jobs for the next five years and by investing R1 billion to support various programs (support of small-holder farmers, local production and alcohol prevention).[55] The Competition Commission of South Africa, after an investigation, then made the recommendation to accept the offer to the Competition Tribunal.[56] On June 30th the Competition Tribunal accepted the offer based on the previously agreed conditions.[57]

Meanwhile in Latin America the companies were also engineering an asset swap deal in which SABMiller's Panamanian business would be transferred to Ambev in exchange for AB InBev's units in Colombia, Peru and Ecuador. This would allow AB InBev to focus on countries where SABMiller had a well-established business and allow it to initiate operations in Central America.[58]

Problems arose when EU antitrust regulators ordered an investigation on June 30th on whether

AB InBev had abused its dominant position in Belgium by hindering cheaper imports of its beer from neighboring countries which is against European antitrust regulation. If it were found to be guilty AB InBev could be fined or at least forced to change its practices.[59]

Financing the Deal

On November 11th AB InBev announced the details about the financing of the deal. The $104 billion deal would be financed with a $75 billion syndicated loan which represented the largest commercial loan in history.[60] AB InBev organized the loan itself with a treasury team that was in charge of assembling the group of relationship banks. Self-arranging the loan is very unusual for a multibillion acquisition but allowed AB InBev to lower its borrowing costs by reducing the fees to the lenders.[61] The loan was primarily syndicated in London and New York. The syndicate included 21 banks among which AB InBev's main banks: Banco Santander, Bank of America Merrill Lynch, Bank of Tokyo-Mitsubishi UFJ, Barclays, BNP Paribas and Deutsche bank.[62]

The loan was divided in 5 tranches (See **Exhibit 17** for Financing Overview): 3-year term $25 billion loan with a 1-year extension option, 5-year term $10 billion loan, $10 billion one year disposals bridge facility, $15 billion 1-year bridge to cash/DCM facility and $15 billion 1-year bridge to cash/DCM facility with a 1-year extension option. The weighted average cost of funding across the five tranches would be LIBOR + 110bp based on the initial starting margin. The net proceeds from the sale of SABMiller's interests in MillerCoors would be used to repay and cancel the Disposals Bridge Facility and in turn the Bridge to Cash/DCM Facility A and B if there were any excess. The remaining amount would be repaid by raising money in the debt markets. AB InBev also indicated that its target capital structure for the long term remained at a net debt to EBITDA ratio of 2x.[63] In September analysts at Standards & Poor's projected that leverage could exceed 4 times in the first year of the combination.[64] Other analysts at Wells Fargo forecasted that the combined company would be able to reduce debt at a pace of $5 billion per year.[65]

On January 13th 2016, AB InBev started issuing a $46 billion bond, the second largest in corporate debt sale history. The issue came in six tranches with maturities of 3, 5, 7, 10, 20 and 30 years and was being run by BoA Merrill Lynch, Barclays and Deutsche Bank.[66] The bond also had a special covenant stating that if the acquisition of SABMiller was not completed, AB InBev would be required to redeem all the outstanding notes (other than the 20-year and 30-year maturity notes) at a price of 101% of the principal plus the accrued interests.[67] At that time, the company had a rating of A-/A-2 and already had a net debt of 2.6 times EBITDA.[68] The issue attracted more than $110 billion in demand and roughly 80% of it was allocated to US accounts. The appeal for the issue came not only from AB InBev's investment grade safety in time of uncertainty, but also from the company's easily understandable business and the liquidity that comes with large bond issues.[69] AB InBev announced on January 28th that it had repaid the $42.5 billion of the loan thanks to the success of this bond. A senior banker said: "This is a big relief for banks, which can reuse the capital. It's a successful transaction - we made tons of fees on the bonds and the bridges have been paid down which is a great result for everyone in a difficult market.".[70] AB InBev paid $725 million in fees to its financing banks for this issue. In total, the deal cost the company more than $1.4 billion in fees to investment banks, consulting firms, law firms, PR firms and accounting firms.[71]

Molson Coors was also backing the acquisition of Miller's with debt financing from Citigroup, Bank of America Merrill Lynch and UBS.[72] In the Asahi deal Lazard and Deutsche Bank also advised AB InBev.[73]

Brexit and activist investors

On June 23rd 2016, in a referendum, the British people voted in favor of leaving the European Union. The result of the vote surprised pollsters and caused some turmoil on global markets. The Prime Minister David Cameron who had campaigned to remain in the EU resigned and was replaced by Theresa May. As a result, the British pound crashed 11.1% against the dollar, its biggest ever one day fall, and fell to its lowest level against the dollar in 30 years. Markets also fell sharply after the announcement (the FTSE 100 fell 8.7%) but quickly recovered unlike the pound (See **Exhibit 18** for the evolution of the FTSE 100 and the pound).[74] The goals of cutting immigration and leaving the EU's single market and customs unions also threw a lot of uncertainty on the economy. Dealmakers had warned previously of the chaos that would ensue for overseas buyers trying to complete UK acquisitions. According to analysts the SABMiller deal had looked pretty safe. Just before the vote the partial share alternative to which Altria and BevCo had already committed was valued at £46 per share.[75] Theoretically all shareholders could choose the partial share alternative but the share issued couldn't be traded for the next 5 years which was really unattractive for most fund managers.

After Brexit Investors started putting pressure for a higher cash bid. The crash in the pound coupled with the increase in AB InBev's share price, increased the value of the partial share alternative to about 51 pounds which represented a premium of about 15% over the cash offer.[76] This meant that SABMiller's two main shareholders were getting a sweeter deal than the other investors. Another issue was the fact that British companies selling globally would get a boost in their earnings when converting their international sales in the devalued pound. The share of SABMiller however didn't see an increase similar to that of other companies because the £44 cash offer caped the possible gains.[77] The chairman Du Plessis defended the partial share alternative arguing that it had been crucial in securing the approval of the two main shareholders of SABMiller Altria and BevCo.[78]

The disparity started attracting some of the world's most powerful activist shareholders such as The Children's Investment Fund (TCI), Davidson Kempner Capital Management and the hedge fund Elliott Advisors who started building small stakes.[79] Before SABMiller's annual meeting in London, British TCI started building a stake in the company of about 1%. TCI was well known for investing in troubled companies like Volkswagen and Safran. London-based Elliott Advisors was a privately-owned hedge fund that specialized in investments in companies undergoing bankruptcy, reorganization or restructuring.[80] Elliott advisors also sensed an opportunity and first took a 1.3% stake in SABMiller before raising it to 1.5% according to regulatory filings. Davidson Kempner also owned between 1 and 1.5%.[81] Although TCI and SABMiller declined to comment on the matter, it was obvious that the investor had an interest in the deal and how it unfolded. The underlying assumption was that these activist investors would push for a higher cash offer. This was a dangerous strategy as there was no certainty that AB InBev would raise its offer. Most shareholders wanted to get the deal done quickly and the pound was going back up which played in favor of the existing offer. According to some sources close to the deal Aberdeen Asset Management Plc and Legal & General Group Plc were also concerned with the deal structure as they owned 2.6% and 1.7% respectively.[82]

At the company's annual general meeting on July 21st Jan Du Plessis announced that the board would consider the offer taking into account the drop in the pound following the Brexit vote after receiving preconditions from Chinese regulators. He also insisted that he would "make a point" of asking AB InBev to issue shares as part of a share swap to allow SABMiller shareholders to have a stake in the combined company.[83] Nik Oliver, a UBS analyst, announced that AB InBev could increase the cash offer by as much as 15% with limited impact on the economics of the deal.[84] However, changes in the cash offer would first need to get the approval of Altria and BevCo unless the partial share alternative were changed by a proportional or greater amount.[85] An alternative to raising the cash offer to minority investors could also be to decrease the cash component offered to Altria and BevCo or reducing the lock-up period on the shares. The current arrangement needed approval by 75% of shareholders but AB InBev could also attempt a straight takeover which would only require the majority.[86]

Decision

It was now July 23rd. AB InBev's board was wondering what they should do. Although they were likely to get it, there was still uncertainty regarding regulatory approval in China. The EU probe into AB InBev dominant position abuse could also complicate the deal later on. Should AB InBev keep its offer as it was and risk having the deal not accepted by small shareholders? It could raise the cash offer to increase the probability of getting it accepted, however it would expose itself to the discontent of its own shareholders. Raising the offer would also signal that it was willing to pay more and would expose AB InBev to further bargaining from SABMiller's shareholders. Another option would be to decrease the partial share alternative or reduce the lock-up period to make both alternatives fairer. However, this would displease Altria and BevCo and therefore would most likely get the deal rejected. Finally, AB InBev could also try a hostile takeover at the risk of failing the merger altogether. What should AB InBev do?

Teaching Notes

This case study takes the perspective of the board of AB InBev during a takeover attempt of SABMiller. It gives background on both companies and information on the whole M&A process until July 2016, just after Brexit. The main task of the case is what to do with the offer to acquire SABMiller. The discussion covers different M&A topics such as strategic rationales, synergies, value creation, regulation, financing and the EPS accretion fallacy. The case also requires students to do a small valuation and to think about the implication of Brexit on this deal. Proposed questions and solutions are presented below.

1. **What are the strategic rationale behind this merger?**

This deal happened in the context of a slowing beer market in developed economies which were the main markets of AB InBev (almost 50% of revenues came from developed economies). This decline was due to the emergence of new beverages such as wine and cider, stricter regulation, economic slowdown and the quick rise of craft beer which intensified competitive pressure. AB InBev was experiencing some financial difficulties especially in the US and Brazil and in this context, it was difficult to keep growing organically and it made sense to try to merge to keep expanding.

SABMiller on the other hand had most of its revenues coming from emerging market. Due to lower beer penetration and lower health concerns and regulations, the beer consumption in these countries was still growing at a high rate. Africa which represented 1/3 of SABMiller's revenue was expected to increase its beer consumption at dramatic rate.

Although the main rationale was definitely about growth in emerging market, the complementary footprint and the subsequent possibility to increase the reach and availability of AB InBev's brand probably played a role. This diversification rationale poses once again the question of whether the firms should diversify themselves, and if the potential synergies will cover the costs, or if the individual investors should do it. One could also argue that this deal was a matter of hubris from 3G who are looking for bigger deals all the time.

2. **What is the role played by 3G Capital in this deal? What could they strategy look like in the future if they successfully conclude this deal?**

3G was already responsible for the acquisition of Anheuser-Busch by InBev in 2008 which paved the way for the acquisition of SABMiller. For this deal, it was once again 3G who initiated and orchestrated the whole process. 3G initiated the negotiations with Altria and got them to accept the acquisition. They also successfully convinced the Santo Domingo family, who were investors in the hedge fund, to accept the offer. 3G's proven track record of improving margins by cutting costs ensured that some synergies would materialize, at least in the short term, and therefore probably played an important role in convincing the shareholders of both companies to accept the deal.

Given AB InBev's potential ultra-dominant position in the market (about 30%) it would be impossible for them to acquire other beer companies and they would probably make a move for companies in other industries such as CocaCola. This would follow other megadeals such as Burger King (2010), Heinz (2013), Tim Horton's (2014) and Kraft (2015). Although 3G does not own these companies entirely it is the most important shareholder in each of them. This could be worrisome for regulators as a lot of food and drink products would end up in the hands of 3G.

3. **Where will the synergies come from? Do you think this merger has the potential to generate synergies valuable for AB InBev's shareholder's?**

According to investors presentation, synergies would come from four main areas: procurement and engineering (20%), brewery and distribution efficiency (25%), best practice sharing (20%) and corporate HQ and overlapping regional HQs (35%). All these synergies would be mostly operational in areas such as sourcing and producing. A lot of them were also supposed to come from administrative cuts which seemed consistent with 3G's strategy of firing executives. Additional strategic synergies could also come from the potential monopolistic position. By controlling about 1/3 of the beer supplies worldwide, AB InBev could also exploit its position and engage in price wars with its competitors for example.

Like in previous deals, 3G would probably incur in drastic cost reductions and lay-offs that were not announced during the M&A process. And like in its previous acquisitions 3G would probably get big profits which would be beneficial for all AB InBev shareholders. Given 3G's track record, it seemed likely that AB InBev shareholders would get value from this acquisition. The question is more to know how much long-term value would actually be created and how much would be due to short-term gains provoked by acquisitions and cost reduction.

4. **How much are the companies worth on a standalone basis and how much could they be worth combined? Is AB InBev overpaying for SABMiller with the current offer? Will the AB InBev shareholder receive value? Will the SABMiller shareholders receive value?**

Since no Pro-Forma information is given on EBITDA and Net Income, it is difficult to use multiples to do a valuation of the combined company. We can then use a standard DCF or APV valuation to get a ballpark valuation. For details on the valuation and the assumptions, see the excel file.

The valuation for SABMiller are $35 billion (APV), $64 billion (DCF) and $76 billion (Ratios) which seems to indicate that it is slightly overpriced. For AB InBev the values range from $132 billion (APV) to $190 billion (DCF) and $223 billion (Ratios) which is in line with the current market capitalization.

By using the DCF analysis, we get a combined firm value of $409 billion. By resting the current value of the two firms we find that the PV of the synergies equals $154 billion and the gain for AB InBev's shareholders will be $111 billion. With the APV valuation we get a PV of the synergies of $112 billion and an gain of $40 billion for AB InBev's shareholders. These values are considerable and are to be taken lightly. This is because the synergies used in the valuation are the one disclosed by the companies and are therefore probably exaggerated. However, given 3G's tradition of cost cutting and not announcing them beforehand the disclosed synergies probably represent a good proxy for the real ones. Furthermore, the acquisition debt will increase the value of the tax shield. The other assumptions are relatively conservative and everything seem to indicate that there is an important potential gain from this merger for AB InBev's shareholders. SABMiller shareholders will also definitely receive value thanks to the bi g premiums that AB InBev is going to pay. The premium is valued at about $43 billion in the DCF and $72 billion in the APV.

5. **What were the measures taken by AB InBev to have this deal approved by antitrust authorities? What will be the impact of the remedies on the deal?**

Executing a merger between the two largest brewers worldwide was very challenging and regulators clearance was needed all over the globe. In the whole process, AB InBev acted proactively and started by spontaneously proposing “Fix it first” remedies. In Europe, China and North America where it would have gotten a too large market share, it spinned off part of its business without first entering into negotiations with the antitrust authorities. In the US, it then committed to respect some rules regarding distribution. In other countries like South Africa, it had to offer behavioral remedies such as investing in development programs and promise not to cut any jobs. This system of negotiating spin-offs and remedies before allowed them to proceed immediately with the merger once they received all the clearance. For the authorities, it ensures that the divesture will take place for sure and that the divested companies can be allocated efficiently to maintain competition. However, it also puts more pressure on the regulators who have to review all the spin-offs along the main transaction.

6. **Discuss the method of payment. How do the financing arrangements contribute to value creation and EPS accretion (or dilution)? What are the risks associated with this type of financing?**

In this deal, more than 60% of the price will be paid in cash. Stock payment allows the sellers to avoid capital gains. Some agency problems can arise when the payment is made with only stock or cash. Companies tend to pay only in cash if they believe the target is cheap. They pay in stock when the target as perceived as overvalued, when they don't believe in synergies and to hide the fact that they are overpaying (by not having to borrow a lot to finance the acquisition). Here the method of payment is pretty balanced and therefore these agency problems are less likely to arise.

In this deal, all the cash component of the acquisition will be financed with debt. AB InBev successfully obtained a syndicated loan of $75 billion of which $46 billion were repaid with a bond issue. Even if the synergies do not materialize, value will be artificially created through the tax shield. EPS accretion will occur if the buyer has a higher P/E ratio at acquisitions. The debt financing will create artificial value through the tax shield and financial leverage on the EPS. This mechanism can allow negative NPV transaction to become EPS accretive. In the case, AB InBev had a lower P/E ratio than SABMiller but artificially raised it with the conversion rate in the PSA. This coupled with the tax shield would probably prove EPS accretive for AB InBev shareholders. However, evaluating the value of an acquisition with EPS accretion is very misleading and risky. Financing an acquisition with too much debt will also increase its risk and reduce the financial flexibility of the acquiring firm in the future.

7. **What were the challenges imposed by Brexit? What is the role played by activist shareholders?**

Brexit caused a lot of uncertainty on the financial markets which made the British pound crash. As a result, the value of the PSA jumped but not that of the cash offer. The disparity was further increased by the fact that the gains for SABMiller's shareholders were capped at £44 and could not benefit from the potential boost in revenues from international sales that other British companies would experience. The total value fell from $106 billion to $100 billion which a lot of investors felt was not an adequate valuation. The vote thus changed completely the logic behind the architecture of the offer. Activist shareholders also sensed an opportunity with this change and starting lobbying for a higher cash offer. Their activity served to put pressure on the board of AB InBev and served the interests of all smaller shareholders.

8. **What is your final recommendation to the board of AB InBev regarding their offer to acquire SABMiller?**

I would recommend increasing the cash offer by a little bit and leave the PSA untouched. I think it is necessary to make both offers a bit more even.

Diminishing the PSA alternative would not be an option as this would probably displease the big shareholders and increase the risk that they would not support the acquisition. Diminishing the lock-up period on the PSA would also open it to small investors and go against the whole logic of the offer. I believe increasing the PSA would not be necessary either, as it already benefited from the drop in the pound. The premium had already increased from 43% when the offer was submitted to about 74%.

Although raising the offer once again would signal it was willing to negotiate, AB InBev could probably manage a small increase in the cash offer without increasing the cost of the acquisition too much and displeasing its own shareholders. Increasing the cash offer by 1£ or 2£ would put the deal value back at its pre-Brexit valuation. This could easily get the approval of Altria and BevCo and would ensure that activist shareholders would support the deal.

What really happened?

On July 26, AB InBev submitted a final offer to the board of SABMiller. The final offer was raised to £45 in cash, or a Partial Share Alternative comprised of 0.483969 Restricted New Shares plus £4.6588 in cash, which represented a premium of 53% and 74% respectively. On July 29, China’s ministry of commerce gave its clearance and the board of SABMiller unanimously recommended the acquisition to its shareholders. In September shareholders of SABMiller overwhelmingly accepted the offer at more than 95% and, in October, the third largest merger in history was finalized.

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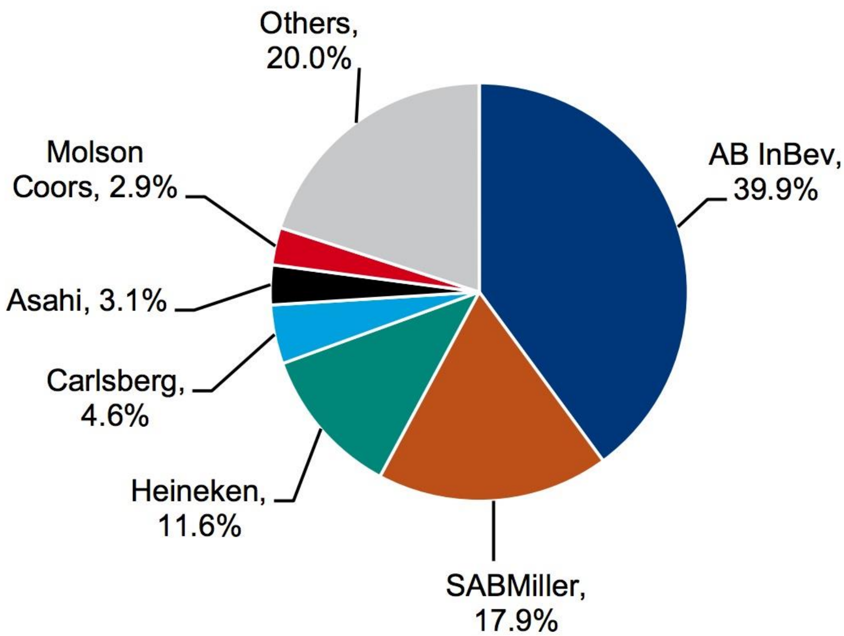
Appendix

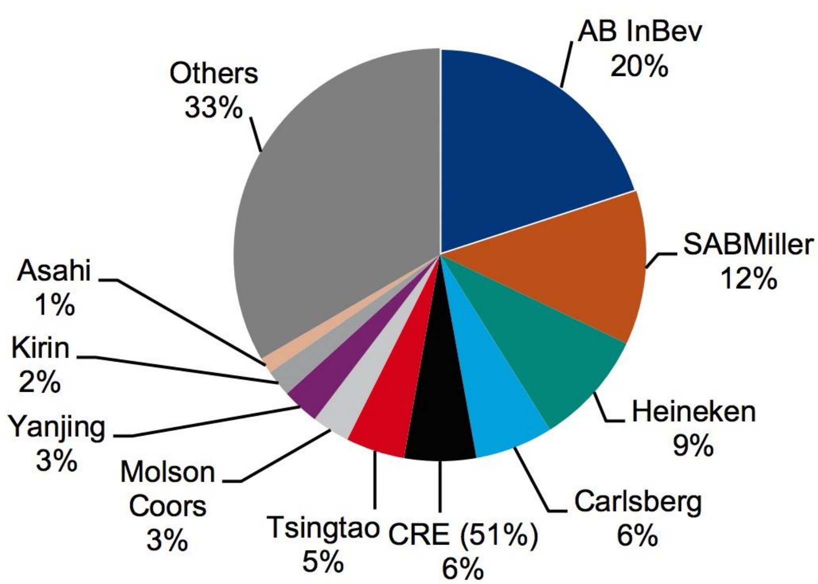
Case Study Exhibits

Exhibit 1 World's biggest brewers by profits (2014)



Source: Business Insider

Exhibit 2 World's biggest brewers by Volume (2014)



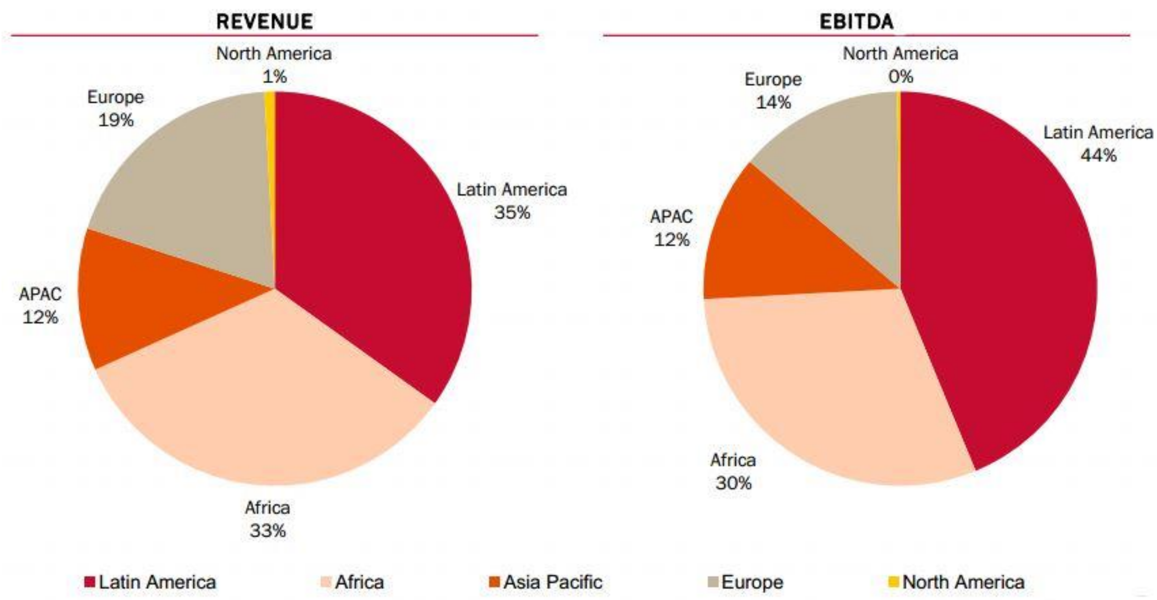
Source: Business Insider

Exhibit 3 Brand Portfolio of AB InBev and SABMiller as of September 2015

ANHEUSER-BUSCH INBEV	SABMILLER		
BUDWEISER	2M	FRISCO	PILSENER
BUD LIGHT	AGUILA	GAMBRINUS	PLISNER URQUELL
MICHELOB ULTRA	AGUILA LIGHT	GINGERS	POKER
BECK'S BUD ICE	ALPHA PALE ALE	GOLDEN LIGHT	PORT ROYAL
BUD LIGHT LIME RITAS	ARANY ASZOK	GREAT NORTHERN BREWING CO.	PURE BLONDE
BUSCH	AREQUIPENA	GREEN MILL CIDER	RADEGAST
CHELADA	ATLAS	GROLSCH	RAFFO
GOOSE ISLAND	BALBOA	HAMM'S	REDBACK
JOHNNY APPLESEED HARD APPLE	BALIMI	HANSA	REDD'S
KIRIN	BARENA	HAYWARDS 5000	REGIA EXTRA
LANDSHARK LAGER	BEEZ NEEZ	HELGA	RESCHS
HURRICANE	BIRELL	HENRY WEINHARD'S	RHINO LAGER
KING COBRA	BLUE MOON	HERO	ROYAL CHALLENGE
MICHELOB	BOHEMIAN PILSNER	ICEHOUSE	SAFARI
NATURAL	BOHLINGER'S LAGER	IMPALA	SALVAVIDA
OCULTO	BRUTAL FRUIT	IMPERIAL	SAN JUAN
O'DOUL'S	BULMERS ORIGINAL	INDUS PRIDE	SARIS
ZIEGENBOCK	BULMERS PEAR	KEYSTONE ICE	SARITA
KOKANEE	CARLING BLACK LABEL	KILIMANJARO	SHEAF STOUT
ROLLING ROCK	CARLTON	KNOCK OUT	SIBEBE
BUDWEISER SELECT	CASCADE	KOBAYANI SOR	SKELTER'S STRAIGHT
STELLA ARTOIS	CASTLE	KSIAZECE	SMADNY MNICH
HOEGAARDEN	CHARIMAN'S EXTRA	LAURENTINA	SNOW
LEFFE	CHIBUKU	LECH	ST. LOUIS
SHOCK TOP	CIUCAS	LEINENKUGEL'S	ST. STEFANUS
REDBRIDGE	CLUB COLOMBIA	LION	STEJAR
WILD BLUE	CONQUER	MALUTI	STONE LAGER
BLUE POINT	COORS BANQUET	MANICA	STRONGBOW
10 BARREL	COORS LIGHT	MELBOURNE BITTER	SUPREMA
ELYSIAN	COSTENA	MERCURY	TIMISOREANA
GOLDEN ROAD BREWING	CRISTAL	MICHEY'S MALT LIQUOR	TOPGAR
SPYKES	CROWN LAGER	MILLER 64	TROPHY
	CUSQUENA	MILLER 64	TROPICAL
	DOGBOLTER	MILLER LITE	TYSKIE
	DORADA	MILWAUKEE'S BEST	USUS PREMIUM
	DREHER	MOSI	VELKOPOPOVICKY
	EAGLE	NDOVU	VICTORIA BITTER
	FAT YAK	NILE	WHITE BULL
	FLYING FISH	OLDE ENGLISH 800	WOJAK
	FOSTER'S	PERONI	WUHRER
		PILSEN	ZOROK ZUBR

Source: Wall Street Journal

Exhibit 4 SABMiller Revenue and EBITDA by geography (2015)



Source: AB InBev

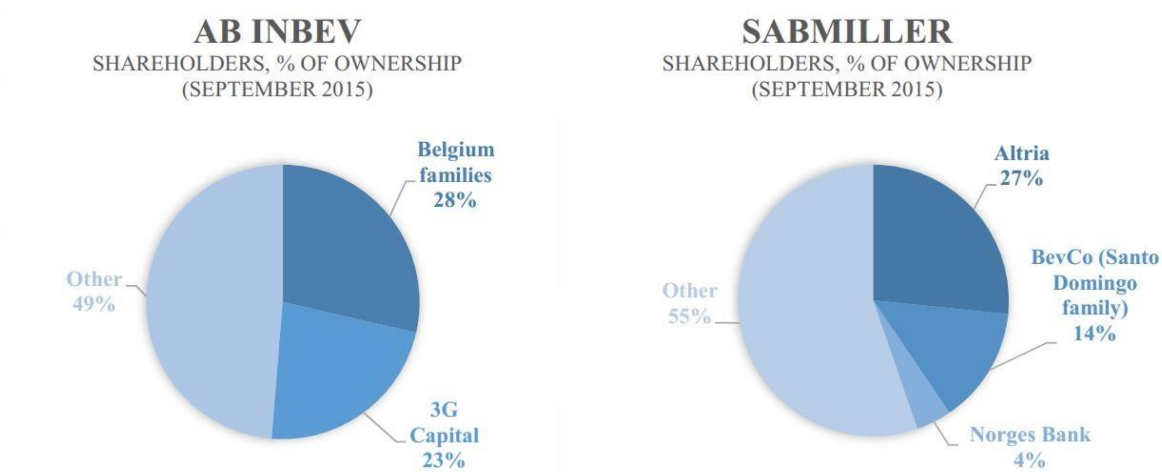
Exhibit 5 AB InBev brand segmentation

Source: AB InBev

Exhibit 6 The Combined company would be one of the biggest consumer goods company by revenues and EBITDA ($ billion)

Source: AB InBev

Exhibit 7 Shareholders distribution



Source: Financial Times

Exhibit 8 Share Prices

Source: AB InBev

Exhibit 9 Final Offer - Cash component

Cash Offer

- Each SABMiller shareholder will be entitled to receive £44.00 in cash for each SABMiller share
- This offer represents:
  - A premium of approximately 50% to SABMiller's closing share price of £29.34 on 14 September 2015[(a)]
  - A premium of approximately 36% to SABMiller's three month volume weighted average share price of £32.31 to 14 September 2015[(a)]

(a) Being the last business day prior to renewed speculation of an approach from AB InBev.

Source: AB InBev

Exhibit 10 Final Offer - Partial Share Alternative

Partial Share Alternative ("PSA")

- For each SABMiller share, recipients of the PSA will receive 0.483969 Restricted Shares and £3.7788 in cash[(a)]
  - The PSA is equivalent to a value of £41.85 per SABMiller share as of 10 November 2015[(b)] before applying any discount for the unlisted nature of these shares and the other restrictions applying to them
  - As of 10 November 2015, the PSA represents a premium of approximately 43% to SABMiller's closing share price of £29.34 on 14 September 2015[(c)]
- The PSA comprises up to 326 million Restricted Shares
- This separate class of Restricted Shares has the following characteristics:
  - Unlisted
  - Subject to a 5 year lock-up from closing
  - Convertible into Newco ordinary shares on a 1-for-1 basis from the 5th anniversary of completion
  - Ranking equally with Newco ordinary shares with regards to dividends and voting rights
- Altria and BEVCO have signed irrevocable undertakings to elect for the PSA in respect of their entire beneficial holdings of SABMiller shares
- Any SABMiller shareholder can elect for the PSA in respect of their entire holding of SABMiller shares (not part thereof)

(a) In the event that elections for the PSA represent more than 326 million Restricted Shares, then such elections will be scaled back pro rata to the size of such election.
(b) The premium is calculated on the basis of a value of the Partial Share Alternative of GBP 41.85. The calculation is based on the closing price of AB InBev's ordinary shares on 10 November 2015 of EUR 111.20 and a GBP:EUR exchange rate of 1.4135, which was derived from data provided by Bloomberg as of 4.30 pm GMT on 10 November 2015. This value is stated before taking into account any discount for the unlisted nature of the Restricted Shares and the other restrictions applying to them.
(c) Being the last business day prior to renewed speculation of an approach from AB InBev.

AB InBev 35

Source: AB InBev

Exhibit 11 Final Offer - Transaction Value

Transaction Value Overview

- **The transaction values SABMiller's entire issued and to be issued share capital at approximately £71.4 billion ($107.9 billion), consisting of:**
  - £44.0 billion ($66.5 billion) for the Cash Offer,
  - £2.5 billion ($3.7 billion) for the cash portion of the PSA[(a)], and
  - £24.9 billion ($37.7 billion) for the shares portion of the PSA[(b)]

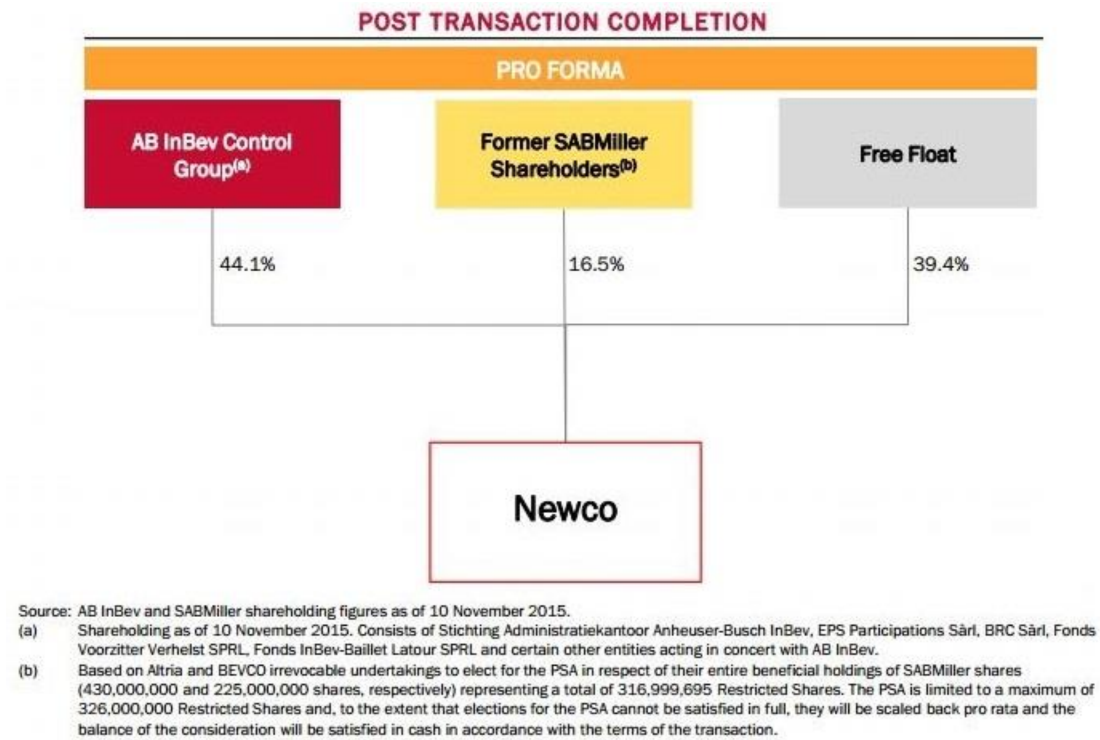
	SABMiller Fully Diluted Shares Outstanding[(c)]	Offer per SABMiller Share: Restricted Shares	Offer per SABMiller Share: Cash Consideration	Transaction Equity Value: Restricted Shares[(b)]	Transaction Equity Value: Cash Consideration	Transaction Equity Value: Total Value
Assumed Cash Offer election	999,630,463	–	*£44.00*	–	£44.0 billion	£44.0 billion
PSA[(a)] (Altria and BEVCO)	655,000,000	*0.483969*	*£3.7788*	£24.9 billion	£2.5 billion	£27.4 billion
Total	**1,654,630,463**			**£24.9 billion**	**£46.5 billion**	**£71.4 billion**
Estimated Proceeds from Options/SARs[(d)]					*(£0.6 billion)*	
Net Transaction Cash Consideration					***£45.8 billion[(e)]***	

Sources: SABMiller shareholding figures as of 10 November 2015.
Note: Figures may not sum due to rounding. Exchange rates as of 10 November 2015 with GBP:USD of 1.5110, GBP:ZAR of 21.5433, and GBP:EUR of 1.4135.
(a) Based on Altria and BEVCO irrevocable undertakings to elect for the PSA in respect of their entire beneficial holdings of SABMiller shares (430,000,000 and 225,000,000 shares, respectively) representing a total of 316,999,695 Restricted Shares. The PSA is limited to a maximum of 326,000,000 Restricted Shares and, to the extent that elections for the PSA cannot be satisfied in full, they will be scaled back pro rata and the balance of the consideration will be satisfied in cash in accordance with the terms of the transaction.
(b) Based on AB InBev closing share price of €111.20 on 10 November 2015, based on a GBP:EUR exchange rate of 1.4135. Value of the PSA calculated before taking into account any discount for the unlisted nature of these shares and the other restrictions applying to them.
(c) Based on total ordinary shares outstanding of 1,619,269,166 and total dilutive securities outstanding of 47,071,951 (excluding 52,381 cash settled Stock Appreciation Rights ("SARs")), netted off against 11,710,654 ordinary shares held in SABMiller's Employee Benefit Trust, on 10 November 2015.
(d) Based on assumed exercise of 18,523,184 and 8,427,785 share options and SARs outstanding on 10 November 2015 with a weighted average exercise price of £26.70 and R391.28 (£18.16), respectively, and 52,381 cash settled SARs with a weighted average exercise price of £28.09.
(e) $69.2 billon based on 10 November 2015 exchange rate of GBP:USD 1.5110.

AB InBev 38

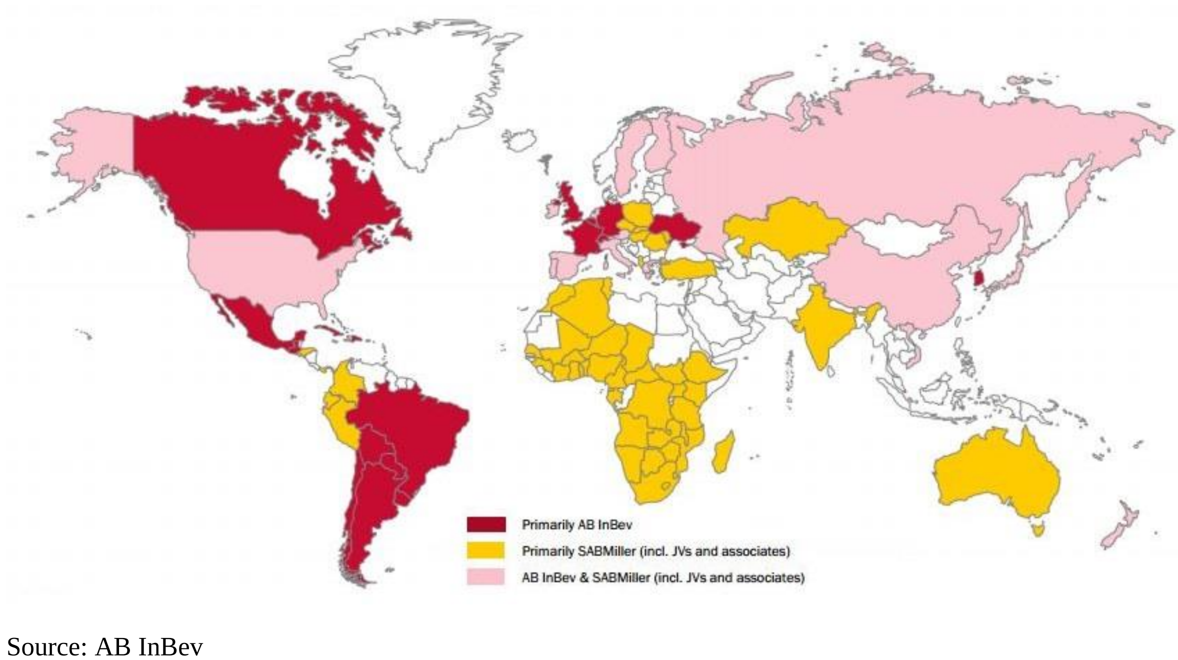
Source: AB InBev

Exhibit 12 Post Completion Corporate Structure



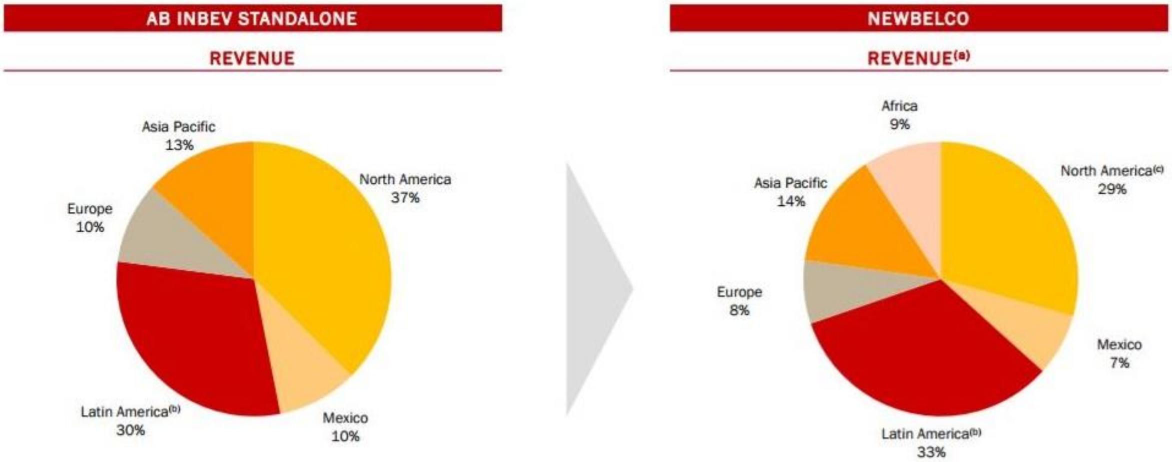
Source: AB InBev

Exhibit 13 Complementary geographic footprint



Source: AB InBev

Exhibit 14 Geographic distribution of revenues



Note: Newbelco revenue split does not reflect the new organisational structure reflected on page 19; reference base data will be provided in due course.
(a) The historical revenue figures of Newbelco represent the aggregate consolidated revenue of (a) the amount for the 12 month period ending on 31 March 2016 (in the case of SABMiller) and (b) the amount for the 12 month period ending on 31 December 2015 (in the case of AB InBev). The following transaction-related divestitures have been reflected in the pro forma AB InBev and SABMiller figures; MillerCoors and the Miller brand portfolio outside of the US, European premium brands, CR Snow, Central and Eastern European brands and Distell Group Limited. AB InBev figures exclude Global Export and Holding Companies.
(b) Latin America includes Argentina, Bolivia, Brazil, Chile, Colombia, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Panama, Paraguay, Peru, and Uruguay.
(c) Includes results from SABMiller in Mexico.

Source: AB InBev

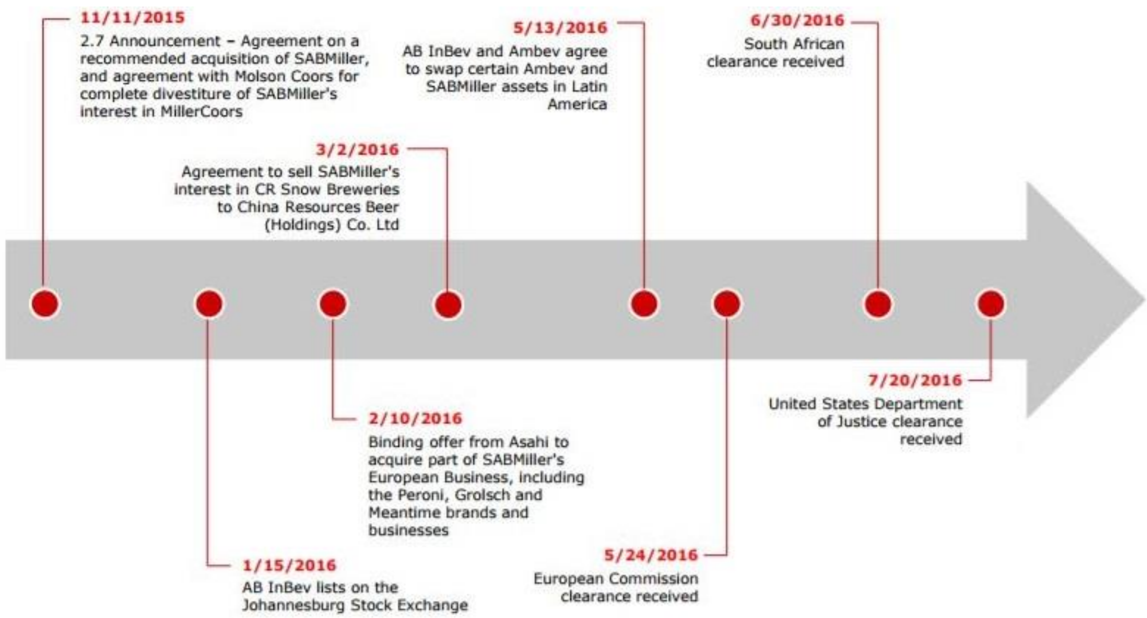
Exhibit 15 Pro forma combined adjusted operating profit (billion USD)

	AB InBev for the fiscal year ended 31 December 2015	Adj. SABMiller for the fiscal year ended 31 March 2016 (a)	Acquisition Adjustments(b)	Divestitures Adjustments(c)	Total Pro Forma Combined
Revenue	$43,604	$14,895	--	($3,043)	$55,456
Cost of sales	(17,137)	(5,588)	(106)	1,306	(21,525)
Gross Profit	$26,467	$9,307	($106)	($1,737)	$33,931
Distribution expenses	(4,259)	(1,421)	(6)	236	(5,450)
Sales and marketing expenses	(6,913)	(2,211)	265	659	(8,200)
Administrative expenses	(2,560)	(1,798)	(8)	240	(4,126)
Other operating income /(expenses	1,032	133	--	(68)	1,097
Profit from Operations (Before Exceptional Items)	$13,768	$4,010	$145	($670)	$17,252
Exceptional Items	136	(556)	194	7	(219)
Profit from Operations	$13,904	$3,454	$339	($663)	$17,033

Source: Unaudited Pro Forma Condensed Combined Financial Information published by AB InBev on 26 August 2016. The historical figures of the combined group represent the aggregate consolidated financials of (i) the amount for the 12 month period ending on 31 March 2016 (in the case of SABMiller) and (ii) the amount for the 12 month period ending on 31 December 2015 (in the case of AB InBev). Figures may not sum due to rounding.
(a) Certain pro forma reclassifications and accounting policy adjustments have been made to SABMiller's financial statements in order to present them on a basis consistent with AB InBev's. Reflects AB InBev's best estimates based upon the information currently available to AB InBev, and could be subject to change once more detailed information is obtained.
(b) Includes purchase price allocation and fair-value adjustments.
(c) Reflects the following transaction-related divestitures: MillerCoors and the Miller Brand portfolio outside of the U.S., European Premium Brands (Peroni, Grolsch, Meantime and associated European businesses) and CR Snow. SABMiller's Central and Eastern European brands and ownership in Distell Group Limited are presented as assets held for sale and excluded from the pro forma income statement.

Source:AB InBev

Exhibit 16 Deal Timeline



Source: AB InBev

Exhibit 17 Financing Overview

- **The financing for the transaction consists of:**
  - AB InBev's internal financial resources, and
  - New $75.0 billion Committed Senior Facilities, consisting of:

Amount	Term	Facility
$25 billion	3 Year	Term Facility A
$10 billion	5 Year	Term Facility B
$10 billion	1 Year	Disposals Bridge Facility
$15 billion	1 Year	Bridge to Cash/DCM Facility A
$15 billion	2 Year	Bridge to Cash/DCM Facility B
$75 billion Total – Up to 18 Months Availability of Funding – Weighted Average Cost of LIBOR + 110 bps[a]		

- **Net Proceeds from the announced sale of both SABMiller's interests in MillerCoors and the global Miller brand will be used to pay down and cancel the Disposals Bridge Facility and thereafter (in turn) the Bridge to Cash/DCM Facility A and the Bridge to Cash/DCM Facility B**

- **AB InBev's optimal long term capital structure target remains a net debt to EBITDA ratio of approximately 2x**

Source: AB InBev

Exhibit 18 Evolution of FTSE 100 and GBP/USD FX rate

Source: Financial Times

Exhibit 19 Comparable firms financials

as of 2015	Heineken	Carlsberg	Asahi	Molson Coors	Nestlé	P&G	Pepsico	Unilever	Coca Cola
beta	-0.58	2.47	-8.79	0.71	0.93	1.73	0.80	-4.26	0.34
EV/EBITDA	9.87	10.19	10.83	16.64	14.38	14.02	13.38	13.53	17.04
P/E	19.33	20.59	22.54	24.35	24.16	19.96	20.69	22.11	19.98
Debt ratio	0.61	0.62	0.53	0.42	0.25	0.32	0.73	0.49	0.68

Source 1: Bloomberg

Exhibit 20 AB InBev and SABMiller Financials

	Anheuser-Busch InBev SA/NV (ABI BB) - Adj Highlights					SABMiller PLC (SAB LN) - Adj Highlights				
In Millions of USD 12 Months Ending	FY 2011 12/31/2011	FY 2012 12/31/2012	FY 2013 12/31/2013	FY 2014 12/31/2014	FY 2015 12/31/2015	FY 2011 03/31/2011	FY 2012 03/31/2012	FY 2013 03/31/2013	FY 2014 03/31/2014	FY 2015 03/31/2015
Market Capitalization	**98,463.9**	**139,400.2**	**171,289.8**	**182,649.0**	**199,915.8**	**56,012.3**	**63,671.3**	**83,657.4**	**79,867.8**	**84,368.7**
- Cash & Equivalents	5,447.0	13,903.0	9,985.0	8,679.0	6,995.0	1,102.0	776.0	2,193.0	2,103.0	986.0
+ Preferred & Other	3,552.0	4,299.0	4,943.0	4,285.0	3,582.0	751.0	959.0	1,088.0	1,163.0	1,183.0
+ Total Debt	40,165.0	44,341.0	49,126.0	51,122.0	49,466.0	8,460.0	19,226.0	18,548.0	17,047.0	12,544.0
Enterprise Value	**136,733.9**	**174,137.2**	**215,373.8**	**229,377.0**	**245,968.8**	**64,121.3**	**83,080.3**	**101,100.4**	**95,974.8**	**97,109.7**
Revenue, Adj	**39,046.0**	**39,758.0**	**43,195.0**	**47,063.0**	**43,604.0**	**15,145.0**	**16,713.0**	**17,385.0**	**16,704.0**	**16,534.0**
Growth %, YoY	*7.6*	*1.8*	*8.6*	*9.0*	*-7.3*	*6.7*	*10.4*	*4.0*	*-3.9*	*-1.0*
Gross Profit, Adj	**22,412.0**	**23,336.0**	**25,601.0**	**28,307.0**	**26,467.0**	—	—	—	—	—
Margin %	*57.4*	*58.7*	*59.3*	*60.1*	*60.7*	—	—	—	—	—
EBITDA, Adj	**15,254.0**	**15,484.0**	**17,086.0**	**18,489.0**	**16,783.0**	**4,536.0**	**5,125.0**	**5,721.0**	**5,750.0**	**5,723.0**
Margin %	*39.1*	*38.9*	*39.6*	*39.3*	*38.5*	*30.0*	*30.7*	*32.9*	*34.4*	*34.6*
Pretax Income, Adj.	**10588**	**11075**	**11979**	**13484**	**12519**	**3918**	**4557**	**4879**	**5050**	**4986**
Net Income, Adj	**6,141.3**	**7,197.2**	**7,953.3**	**8,967.7**	**8,473.3**	**2,616.8**	**3,426.0**	**3,383.2**	**3,546.6**	**3,551.2**
Margin %	*15.7*	*18.1*	*18.4*	*19.1*	*19.4*	*17.3*	*20.5*	*19.5*	*21.2*	*21.5*
EPS, Adj	**3.81**	**4.42**	**4.82**	**5.39**	**5.08**	**1.65**	**2.14**	**2.10**	**2.19**	**2.19**
Growth %, YoY	*34.6*	*16.2*	*8.9*	*11.9*	*-5.8*	*12.9*	*29.8*	*-1.8*	*4.3*	*-0.1*
Cash from Operations	**12,486.0**	**13,268.0**	**13,864.0**	**14,144.0**	**14,121.0**	**3,954.0**	**4,954.0**	**5,101.0**	**4,559.0**	**5,129.0**
Capital Expenditures	**-3,376.0**	**-3,264.0**	**-3,869.0**	**-4,460.0**	**-4,944.0**	**-1,189.0**	**-1,473.0**	**-1,335.0**	**-1,401.0**	**-1,394.0**
Free Cash Flow	**9,110.0**	**10,004.0**	**9,995.0**	**9,684.0**	**9,177.0**	**2,765.0**	**3,481.0**	**3,766.0**	**3,158.0**	**3,735.0**

Source: Bloomberg

as of 2015	AB InBev	SABMiller
beta	-3.61	2.17
Cost of equity	8.01%	8.41%
Cost of debt	1.11%	1.05%
Country risk premium	9.43%	6.72%
Debt ratio	0.52	0.34

Source: Bloomberg

Endnotes

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