A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

AB InBev Equity Research - The beer market leader

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

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Abstract

This project is part of the completed report: “AB InBev Equity Research” under the premise of elaborate a recommendation about the AB InBev’s share price in January of 2021. For that purpose, it was conducted a deep analysis of the beer market and it was elaborated an investment thesis with all the projections needed. The valuation model used was Adjusted Present Value, in order to achieve a fair share value, in accordance with all the research carried out in this work project. It was reached as final recommendation “to buy”.

Keywords

AB InBev Equity Research

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This report is part of the AB InBev Equity Research report (annexed) and should be read has an integral part of it.

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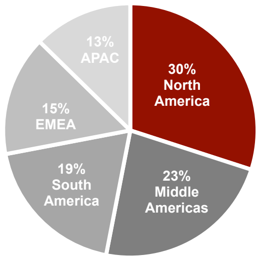
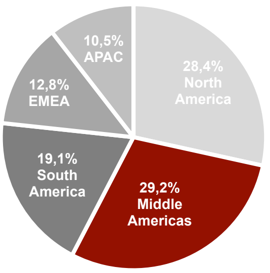


Figure 1 – Revenues by segment, 2019
source: Company's Report



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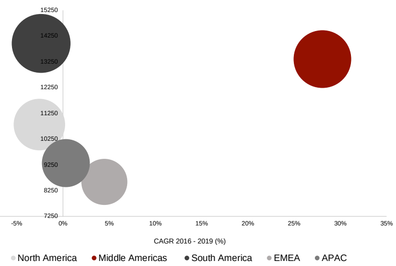
source: Company's Report



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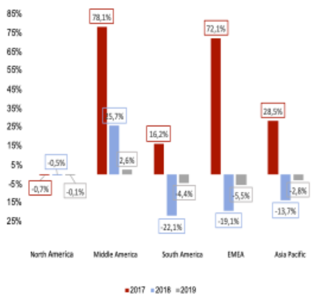
source: Company's Report



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source: Company's Report

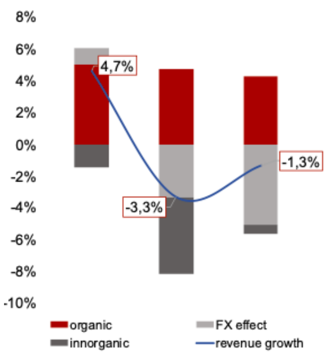

Figure 4 – AB InBev's revenue growth rate
source: Company's Report

Company Overview

Headquartered in Leuven, AB InBev is the largest brewing company worldwide (~29% global market share in volume). Anheuser-Busch InBev results from a merger of the American brewer Anheuser-Busch and the Belgium-Brazilin brewer InBev, in 2008. With around 170 thousand employees in more than 50 countries worldwide, AB InBev includes in its portfolio over 600 beer brands. The company is geographically diversified, having its operational activities grouped by regional segments: North America, Middle Americas, South America, EMEA, and the Asia Pacific.

Revenues from the group reached $ 52,3 billion in 2019 and a NOPLAT growth of around 7%. Last year, AB InBev's performance was mainly motivated by growth in leading business segments like North America and the Middle Americas (respectively 30% and 23% of total revenues). AB InBev's business model is based on cost efficiency (40,3% 2019A EBITDA), focus on innovation through research and development, and in a grow top-line faster investment.

The acquisitive growth makes part of the vision of the company. In the last decade, AB InBev has merged with three different important brewers: in 2004 it became InBev arise from the merger of Interbrew and Ambev, then in 2008 acquired the 2nd largest brewer in the market (Anheuser-Busch for $52 billion), and in 2016 another important acquisition (SABMiller for $107 billion), plus around 10 smaller acquisition in the last years.

Performance Analysis

AB InBev delivered annual worldwide volume growth rates above the market with CAGR of 5,15% compared to 0,1% of the market between 2014 and 2019. In 2019, the revenue growth was -1,3% divided into organic (4,3%) and inorganic growth (-0,6%) and FX effect (-5%). Foreign Exchange effects were negative in the last two years for AB InBev. This means that the foreign currencies used in the AB InBev's operations lost value in relation to US dollar and that has negatively impacted the revenues by the company, since they are reported in US dollars. AB InBev's results of operations are exposed to fluctuations in exchange rates, that impact the share price translating in possible losses. Additionally, these currencies losses can obligate the company to increase costs using financial instruments to mitigate the currency risk. Regarding revenues growth by regions, in 2019 the only segment that delivered positive growth was Middle America. North America growth was near to zero due to stagnation of volume consumed in the market. The other segments (South America, EMEA and APAC) had negative growth in 2019. In the last three years growth has been very inconstant, mainly because in 2017 the company felt the integration of the acquisition of SABMiller and the revenues grew two digits in every segment, except for North America that revenues growth in the last three years were almost zero. The beer segment has been familiar with mergers and acquisitions from the main players. After the last main acquisition from AB InBev the geographical overlap between large brewers has drastically due to the continuous investment in Africa from Heineken and Diageo, turning the market very competitive.

Heineken is the main competitor in markets where AB InBev wants to continue to lead, such as Middle and South Americas, and in markets where AB InBev wants to increase his market share.

	Gross Margin	EBITDA Margin	Operating Margin
AB InBev	66,5%	39,7%	30,8%
Heineken	60,9%	23,3%	15,2%
Carlsberg	49,5%	23,1%	16,2%
Molson Coors	39,7%	16,0%	7,2%
Average	54,2%	25,5%	17,3%
Median	55,2%	23,2%	15,7%

Figure 6 – Industry competitors' margins
source: Bloomberg, Company's Report

In terms of profitability, AB InBev has a better gross margin comparing to the main peers, being that margin constant in the last years, around 66,5% of revenues. EBIT margin has also been constant around 31-32%, with SG&A costs very constant. Comparing to Heineken and Carlsberg, AB InBev reached almost double digits of difference in operating margin (30,8% against 15,2% and 16,2%from Heineken and Carlberg respectively) that is a reflex that a better use of economy of scales and efficiency of AB InBev

	ROE	ROIC
AB InBev	13,1%	7,30%
Heineken	14,1%	7,6%
China Resourc	6,8%	17,6%
Carlsberg	14,8%	1,5%
Asahi Group	11,9%	6,3%
Boston Beer C	18,40%	17,57%
Molson Coors	1,8%	1,5%
Average	11,6%	8,5%
Median	13,1%	7,3%

Figure 7 – Industry competitor's return on equity and return on invested capital
source: Bloomberg, Company's Report

Ab InBev's ROIC has been slightly below the top competitor Heineken and below the average of the main competitors. ROIC in 2019 was 7,3%, being in line with the average of the last three years.

Regarding ROE, AB InBev is again below to the main competitors. On the other hand, ROE is above the estimated cost of equity (re = 11,6%), meaning that is generating value for its shareholders.

Economic & Industry Overview

Macroeconomic & Demographic Overview

In 2019 the global economy grew 2,9%, in terms of Gross Domestic Product.

In 2020, with the big impact COVID-19 had in global trade GDP growth is expected to be -4,4%.

Global projections for 2021 are positive, with real GDP growth forecasted to recover to 5,2% [1] worldwide. By region we expect emerging countries to grow at a higher pace (4,7%) than developed economies (1,7%) in the following years[2]. Given that the optimal GDP per capita for beer consumption is around $ 27 000[3] and that the vast majority of these emerging countries have GDPs per capita lower than this value it could be a good indicator to the increase in beer consumption in these economies. All in all, in lower levels of income, GDP growth increases beer consumption.

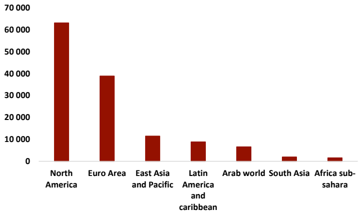

Figure 8 – GDP per capita per region in US dollars
source: Statista

The target population of beer is population above 18 years old. Where young adults (<40) are the ones that consume beer more frequently. According to the World Bank Asia and Africa are the regions with not only the highest population growth but also the ones with the highest percentage of young adults. This means a higher growth in the target population in the future which could be a good indicator of a higher growth in the beer market in these regions. Finally, according to the United Nations[4] in 2018 55% of the world population lived in urban areas with an expected to 68% in 2050, with 90% coming from Asia and Africa. This rise could have a potential increase in the most premium segments (premium, super premium, and craft) of the beer market given that most of the supply is located in urban areas (Premium bars, restaurants and supermarkets).

[1] International Monetary Fund, Accessed November 25, https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD

[2] International Monetary Fund, Accessed November 25, https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD

[3] DeGeorge, Patricia, 2020, Beer industry's evolution in the developed and emerging markets, Accessed 10 November

[4] United Nations, 68% of the world population projected to live in urban areas by 2050, accessed 25 November, https://www.un.org/development/desa/en/news/population/2018-revision-of-world-urbanization-prospects.html

Industry Overview

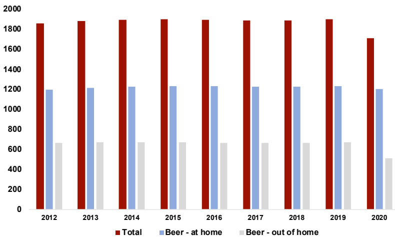

Figure 9 – Beer volume split into at home and out of home segments, 2012-2020.
source: Statista

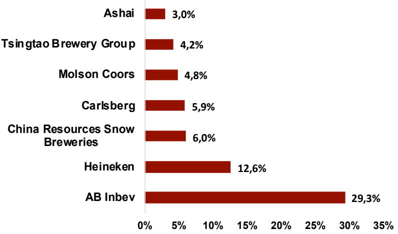

Figure 10 - Market Share by sales volume in 2019
source: Barth- Haas Group Report

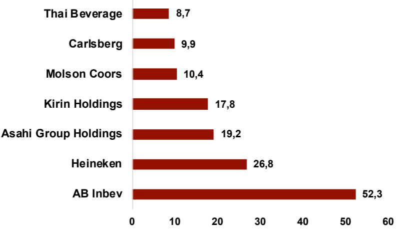

Figure 11 – Revenues in billion US dollar in 2020
source: Forbes

Beer is one of the most popular drinks around the world, being produced more than 1800 million hectolitres of it worldwide each year. Consumption at home is done by using the off-premises channels of distribution and out of home fuelled by the sales in on-premises channels.

The global beer market registered moderate growth during the last five years period (2015-2019). Urbanization sprawl and expansion in Emerging Markets are major factors driving the growth of the beer industry. Strong revenue growth in several developed countries is driving the growth of the global market. The United States and China are the big players accounting for more than 220 billion of the global revenues. Additionally, the growing popularity of microbreweries is estimated to increase the demand in the beer market globally. Worldwide the beer market had total revenues of $ 650 billion in 2019, materializing in a compound annual growth rate (CAGR) of 3.6% between 2014 and 2019. The big five players in this industry are: AB InBev, Heineken, China resources beer holding, Carlsberg and Molson, together accounting for ~60% of all market[5].

The most important value driver in the beer industry has been the rise of the craft beer segment worldwide. The substantial growth in the industry has come from this segment, resulting in increase in investment by the main players looking for opportunities. The consumers are following the trend of “drink less, drink better”[6], making the average consumption per capita decrease in developed countries, as in Europe and North America. Consumers are looking for premium products and are becoming less concerned about price. This is a direct result of premiumization and the impact of craft beer. This is reflected in annual sales statistics where beer is selling less volume but hitting higher prices at the point of sale.

Industry Trends

Figure 12 – BCG Matrix of the beer segment
source: own estimates

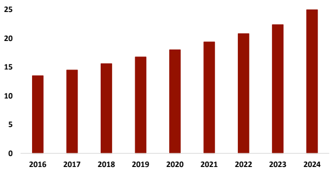

Figure 13 – Market size of non-alcoholic beer in billion US dollar worldwide
source: Statista

- Shift towards non- and low-alcoholic drinks & women market

Consumers are more concern with health[7], and we expect this trend to increase even more in the following years. This trend is increasingly important in younger populations who are expected to drink more beer than the rest. This is changing the beer market since consumers are now shifting their preferences towards non-alcoholic and low-alcoholic beer. We believe this is an important trend because this is a way to not only keep the consumers that already consumed beer and are now concern with its calories but also to catch potential new consumers that did not drink beer because of health concerns. In this trend there is a certain demographic group that we consider paramount which are women. A study done in the UK[8] found that fear of beer belly is one of the top 3 barriers for women to drink beer (one fifth of

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[5] Barth-Haas Group Report, 2019, Accessed 1 November

[6] DeGeorge, Patricia, 2020, Beer industry’s evolution in the developed and emerging markets, Accessed 8 November

[7] Ellet, Linda, 2019, “Rise of the health conscious consumer continue to redefine consumer markets”, KPMG, Accessed 4 December, https://home.kpmg/uk/en/home/media/press-releases/2019/03/rise-of-the-health-conscious-consumer-continue-to-redefine-consumer-markets.html

[8] Darren, 2018, “Why isn’t beer industry engaging better with female drinkers?”, Beer today, Accessed 4 December, https://beertoday.co.uk/beer-industry-female-drinkers-0518/

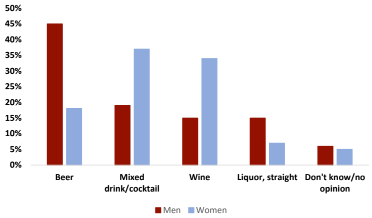

Figure 14 – Preferred alcoholic beverages in the US
source: Statista

the women in the survey said that high caloric content is one of the three main barriers). We assumed that although this study was only done in the UK this could be similar all over the world as women tend to have more health concerns than men. This could be a good opportunity for companies to capture this market that is yet to be explore and the company that is investing more on changing this perception that beer is for man is AB InBev. They have been investing in marketing towards this trend. Budweiser which also has its version of no-alcohol became the first beer sponsor of the US National Women's Soccer League, sponsored partner with a women football team in the UK, and a partner of the "#seeher" movement to have a bigger impact in women. Finally, this type of beer is attractive to companies since the although the price is smaller (6 pack of 33cl Heinekens is € 12,83 and the same 6 pack of Heineken 0.0 is € 11,45) and cost structure is similar to the ones with alcohol these products will an excise tax (this tax varies country by country) at a lower rate due to its low quantity of alcohol creating the same margin or even an increase in margins.

- Premiumisation

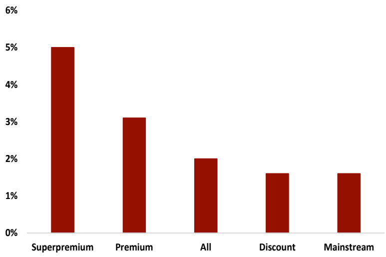

Figure 15 – CAGR of each beer segment 1999-2017
source: Statista

Increasing urbanization and GDP growth has made consumers move from the core brands to the premium and super-premium brands[9]. The trend of "Drink less, drink better" is all over the world and we believe it will stay. These premium brands are extremely attractive to the breweries since producing these beers is just marginally more expensive than the core ones, but they could be sold at a higher price than the core brands which will lead to an increase in margins (the increase in marginal cost is lower than the increase in marginal revenue)[10]. This trend is already established in the mature markets (Europe and US) where, for example, in Europe, premium brands already represent 30% of revenues. Also, a study done by Global Data found that 37% of the alcoholic beverage's consumers would be willing to pay premium to have extra levels of enjoyment. We believe that the next big boom of the premium and super premium sector will happen in Asia, where westernization has impacted societies over the years and it will keep on doing so, making this region the one with the highest potential growth in the premium and super premium sector in a near future.

- Craft Beer

The most important development in the beer industry of the last decade has been the rapid rise of the craft beer industry. This trend has helped retain some consumers that were drifting away from beer towards wine and spirits (Beer, wine and spirits are substitutes when one increases the other decreases). In fact, it has gained some new consumers with the new flavours this segment has. A significant part of growth in the industry has come from craft beer and the result is that big breweries became very interested in new opportunities. Not only can they make good craft beers but also synergize their already existing distribution channels, labour force, and machinery capital to have higher profits

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[9] Rutishauser, Estevez, 2015, "A perfect storm brewing in the global beer business", Mckinsey, Accessed 5 December, https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/a-perfect-storm-brewing-in-the-global-beer-business

[10] DeGeorge, Patricia, 2020, Beer industry's evolution in the developed and emerging markets, Accessed 10 November

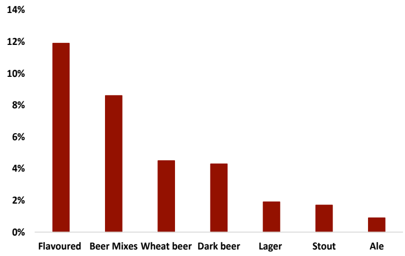

Figure 16 – Beer growth by category worldwide source: Statista

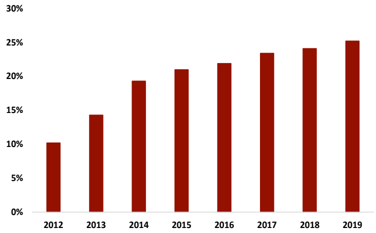

Figure 17 – Market share of craft beer in US source: Statista

than small breweries. While small and independent breweries claim that this is not craft beer and the quality might not be as good, consumers do not think that way. Only 1 out of 10 adults says that "not being owned by a large company" is their primary consideration for buying beer[11]. This trend is already established, although still growing at a higher pace than the value-for-money segment, in most mature markets (Europe and the US), but it is the early stage in most emerging markets like Asia, Middle and South America. We estimate the market value of craft beer worldwide in 2020 to be around 100B with a growth rate 14% until 2025 where Asia is again predicted to be the fast-growing market with a CAGR of 22% during the same period followed by Latin America with an estimated CAGR of 19,1%.

On average the price for craft beer is the double compared to brands such as Bud Light. Regarding the costs raw materials represent almost 40% of the costs, packaging around 55% and labour 5%. As mentioned above, what was once a market ran by small breweries, nowadays is not. The big breweries are more involved each day to be able to catch the potential growth this segment has to offer. This could be a problem for these small players due to the ability of these big breweries to utilize economies of scale to have higher margins than small breweries. These economies of scale happen especially in raw materials where macrobreweries have more bargaining power over suppliers and can reduce prices by half and in packaging due to their ability to buy in bulk. Not only does this segment has higher growth (CAGR of around 10% 2013-2019) than the beer market (CAGR of around 4% 2013-2019) but it also as a higher ROIC as we will be explained in the valuation section.

- At Home

There is a new reality due to COVID-19 in which makes people stay more at home and consume more at home. This is no different in the beer market, where breweries had to adapt and change their way of delivering beer to the consumers. More consumption at home means more consumption at supermarkets where, normally, breweries have lees margins due to less bargaining power. There are some analysts that believe this trend will continue in the next years, but we do not agree. We believe that this trend will be around until 2022 maximum if we consider the scenario that COVID-19 pandemic will be over by the end of 2021. We believe the beer market out-of-home vs at-home is similar to the food market out-of-home vs at-home since when restaurants are full, bars and discos (main places to consume beer) out-of-home will ºalso be full. We could also see that when governments relief some restrictions people tend to go back to these places although COVID-19 is still among the communities. A study from Morgan Stanley[12] concluded that 2019 (before COVID-19) was the year that people ate the most out-of-home since at least 2010 (47% in 2010 compared to 53% in 2019). This study also predicts that in 2020 and 2021 people will eat more at home due to the pandemic, however in 2022 out-of-home segment will become again bigger than the at-home segment. We believe that from 2023 onwards the out-of-home segment will go back to the trend that was in before COVID-19

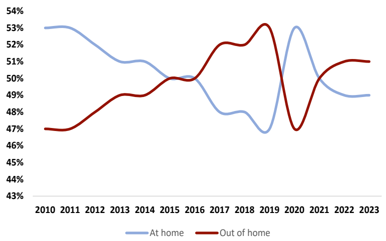

Figure 18 – Percentage of food at home vs Out of home source: Morgan Stanley

[11] Roderick, Leonie, 2017,"Global behemoths versus small brewers: The battle for the craft beer market", Marketing week, Accessed 5 December, https://www.marketingweek.com/battle-craft-beer-market/

[12] Morgan Stanley, 2020, "Covid-19 era serves up big changes for US restaurants", Accessed 5 December, https://www.morganstanley.com/ideas/coronavirus-restaurant-trends

and that the impact on the beer market will only happen from 2020-2023.

Strategic partnerships – marketing

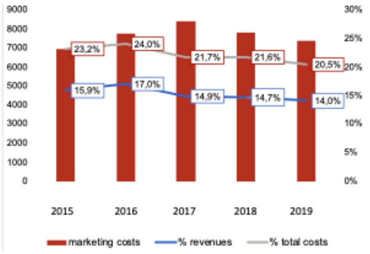

Figure 19 – AB InBev's marketing costs as % of revenues and total costs
source: Company's Report

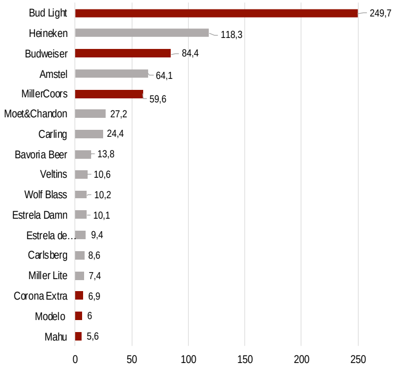

Figure 20 – Expenses with sponsor deals by beer brand
source Global Data

It is evident that the strong brand recognition and customer loyalty are key for the success of AB InBev, arising from strategic partnerships across different sectors. The company's marketing expenses as percentage of total revenues have been near to 15% in the last years, and when comparing to the rest of the companies in the sector, AB InBev is the company that more invested in terms of value reaching $ 70 billion in 2019.

The sports industry is highly connected with the beer's market as these are considered to be two complementary experiences, thus resulting in natural partners in sponsorship.

The annual spend estimation of sports sponsorship reaches $ 764,4 million, which are generated by around 280 active deals, 89% being represented by beer brands, according to Global Data.

According to Sportcal's latest report in 2018, AB InBev has 2 brands (Bud Light and Budweiser) on top 3 deals in expense value[13].

The European region accounts for the majority of the sports sponsorship spend, being responsible for almost half of the existent deals. As a matter of fact, AB InBev signed in 2019 a 3-year deal with Italian football club Juventus and Budweiser took a decisive step forward to its worldwide operations by becoming the official beer brand of La Liga (the first Spanish Football league) and the Premier League (the most important football league in Europe that is played in UK). With these partnerships is estimated that AB InBev shall reach an audience of 3.2 billion of potential consumers in around 22 countries every year. In Europe, Heineken is one of the most important brands and, highlighted by its UEFA Champions League contract, that reaches $ 74,6 million payments, per year.

In North America, brands like Bud Light and Budweiser already have a strong presence in different competitions. Since 1985, AB InBev is sponsor of the Major League Baseball and of the National Basket league since 1998 with estimated cost per season of $ 43 million and around $ 22 million per season, respectively. In 2019, Budweiser became the major sponsor of the US National Women's Soccer League, being the first beer brand in that position.

We forecast that AB InBev will maintain its investment connected to the most important sports events and that makes possible to introduce their most important brands to new markets.

[13] SportCal, 2018 "Sponsorshp Sector Report Alcoholic Beverages"

Segments

North America

- Market overview

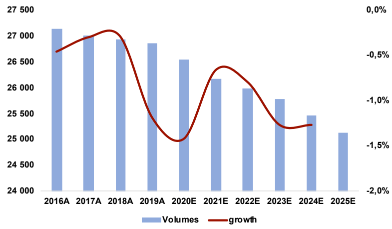

Figure 21 –Beer volumes in North America
source: Statista; own estimates

Market	Beer Volume
[2016A-2019A]	-0,3%
[2020E-2025E]	-1,1%
[2026E-2031E]	-1,3%

Figure 22 – Beer market growth in North America
source: Statista, own estimates

With a market value of $115,6 billion in 2019, according to Statista, the United States is forecasting to be the number one worldwide in terms of revenues in the beer market, in 2020. At the same time, market consumption volumes declined with a compound annual rate of change of -0.35% between 2016 and 2019, reaching a total of 26,9 billion litres in 2019.
In this segment, the market has been changing with the craft segment becoming an important part of that market, following the global market trend of premium beer which has been shifting the consumer towards the quality of the beer and reducing in quantities. In 2019 the volume share of craft beer in the global U.S. beer production was 13,6%, with a CAGR of 9,7% between 2013 and 2019.
This together with a saturated market where the historical volumes per capita have been falling, we forecast that the average volumes per capita will decrease at CAGR 2020-2025 of -1,4%. After that, we expect that the segment continues to follow the trend and decrease at a constant rate until 2030. Moreover, the growing demand for craft and premium beer among the younger population is driving up the growth of this market motivating to an increase of price per litre. The health and wellness awareness among US consumers are also impacting the revenues of beer in the country, turning the non-alcoholic segment a larger portion of the pie[14]. The global non-alcoholic beer market is expected to get to $7,3 billion by the end 2024, becoming a larger portion of the US and Canada.
The beer market in North Americas has reached a high level of concentration, with AB InBev as the top player accounting for 40% of market share in 2019 and the other major part accounting for Molson Coors and Heineken (around 40% together). This powerful market share is driven by his top brands that have been outperforming the market (Bud Light and Budweiser) in the last years.
In the US market the top 5 brands in the market are Bud Light, Coors Light, Miller Lite, Budweiser, Michelob Ultra, where 3 out of 5 are AB InBev's brands and the other two being Molson Coors's brands.

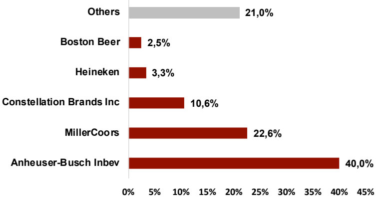

Figure 23 – United States market shares by revenues in 2019
source: Marketer's Insights, company report

- AB InBev

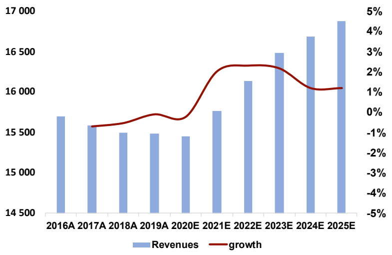

Figure 24 – AB InBev revenues in North America.
Source: Company's report; own estimates

During 2019 AB InBev reported $15.5 billion of revenue (29,6% of total revenues) and a normalized EBITDA of $6,2 billion (29,3% of revenues) in North America (United States and Canada).
AB InBev's core brand portfolio increased its market share by 0,9%, delivered by regional brands like Michelob Ultra, but also by the regional craft brands, that have been increasing its value in the market. Core regional craft brands increased more than 20% of share in AB InBev's core portfolio.

[14] DeGeorge, Patricia, 2020, Beer industry's evolution in the developed and emerging markets, Accessed 10 November

AB InBev	Revenues
[2016A-2019A]	-0,4%
[2020E-2025E]	1,8%
[2026E-2031E]	0,7%

Figure 25 – AB InBev revenues growth in North America
source: own estimates

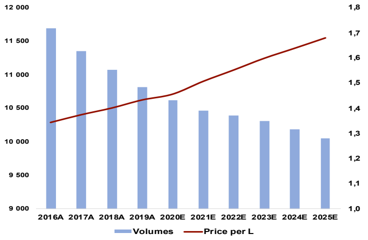

Figure 26 – AB InBev volumes and price per liter in North America
source: Company's Report; own estimates

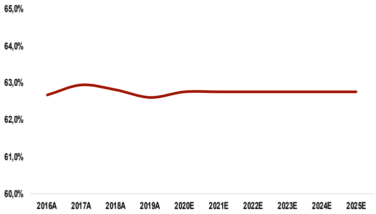

Figure 27 – North America gross margin
source: Company's Report

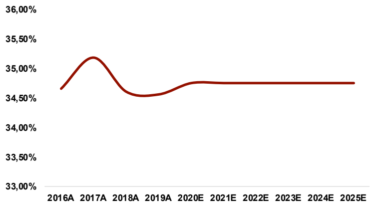

Figure 28 – North America operating margin
source: Company's report

In the North America segment, AB InBev has 35 craft brands, most of them through Wicked Weed Brewing. AB InBev moved forward in the craft beer segment acquiring, in November 2019, the 68,8% missing of Craft Brew Alliance having spent, according to Forbes, roughly $351 million for the rights of the company, that is now 100% the owned by AB InBev. Such acquisition depicts the growing importance the company places on the craft segment. In that way, we believe that AB InBev will continue to invest in the craft segment, by increasing their portfolio in the malt beverage category brands as well as by acquiring regional breweries. This will lead to an increase in the price per unit, that we forecast to grow at a CAGR 2020-2025 of 2,9%, above the inflation for that region, that is expected to be in 2025 2,2% according to the International Monetary Fund[15], afterwards we expect to converge towards the long-term inflation.

AB InBev continues to invest to diversify their portfolio since they have the capability to be strong in different segments and increase their brand value, in segments such as non-alcoholic beer.

Consumer demand for high-quality ingredients is increasing, and in this regard, we believe that AB InBev will continue to follow the premiumization trend with focus on possible small acquisitions to expand in this segment, where the small breweries can easily penetrate de market. Therefore, we expect that AB InBev will continue to adapt to the market and retaining its market share constant at 40%.

Considering profitability, we expect that margins continue stable, since we do not expect any important changes in operational costs. We expect AB InBev to maintain its percentage of SG&A relatively to revenues and we considered that marketing costs will continue to have an important role in this market. We forecast an EBIT for 2025 of 34,8% of revenues and assumed this margin will continue until 2030.

Middle Americas

- Industry overview

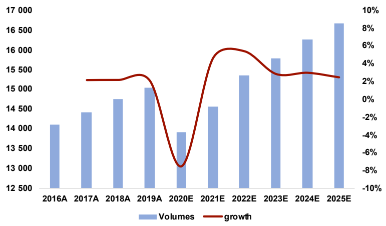

Figure 29 –Beer volumes in Middle Americas
source: Statista; own estimates

Beer Volume	Market
[2016A-2019A]	2,2%
[2020E-2025E]	3,7%
[2026E-2031E]	1,2%

Figure 30 – Beer market growth in Middle Americas
source: Statista, own estimates

The Middle Americas segment include as main countries Mexico, Colombia, and Peru. Contrary to most of the countries, Middle American countries such as Mexico and Colombia have increased the younger population, being an opportunity for the beer market to follow their needs and reach out for more potential consumers. However, this region was the most affected in America by COVID-19 in 2020. Thus, we expected a decrease of 7,6% in beer volume consumption. Nonetheless, we believe that despite the disastrous numbers in 2020 the market's positive prospects before the pandemic will conduct to an increase in volume for the next years, reaching the 9,3 billion liters in 2025, expected to grow annually by 8,1% (CAGR 2020-2025).

In Mexico, the beer market value was $ 22,9 billion and has been growing at a CAGR 2014-2019 5,87%. Moreover, the craft beer is also gaining popularity as consumers choose to try

[15] International Monetary Fund, Accessed November 25, https://www.imf.org/external/datamapper/PCPIPCH@WEO/OEMDC

new products and different tastes[16]. The craft beer in Mexico is growing by 53% ever year, according to the Mexican craft beer association ACERNEX in their report of 2019[17]. Corona Extra (owned by AB InBev) is the most popular brand in the Mexican beer market. Furthermore, Tecate Light (owned by Heineken) and Victoria (owned by AB InBev) are also top brands, delivering organic growth in the last years. In Mexico, AB InBev owns Grupo Modelo that is the leading brewer with 57,3% market share, sharing the market with Cervecería Cuauhtemoc Moctezuma, which is Heineken's subsidiary that holds 40,4% share.

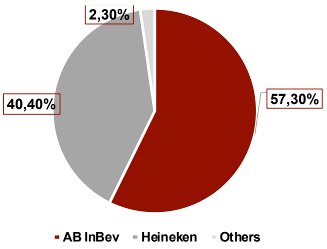

Figure 31 –Mexico market share by revenues in 2019
source: Euromonitor

In Colombia, we expected that volumes will increase at a lower rate, reaching in 2025 2,4 billion litters. In fact, population is growing but all challenging macroeconomics conditions in this country and the shifting for the premium segment led to the market stagnation.

- AB InBev

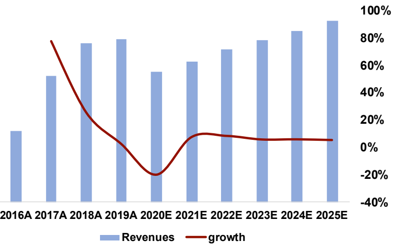

Figure 32 – AB InBev revenues in Middle Americas.
source: Company's report; own estimates

Revenues	AB Inbev
[2016A-2019A]	31,9%
[2020E-2025E]	6,8%
[2026E-2031E]	4,2%

Figure 33 – AB InBev revenues growth in Middle Americas
source: own estimates

In FY2019, the Middle Americas segment reported revenue of $11,9 billion, which accounted for 22.8% of the company's revenue. In the last fiscal year, this segment delivered the largest EBITDA of all segments ($5,4 billion, margin of 53,4%), due to exceptional cost-effective efforts from the last years.

Revenue grew by 2,6% reaching $ 11,9 billion (22,8% of total) in 2019, mostly led by solid growth in Mexico and Colombia.

We forecast that all the important investments that the company had in 2019, such as the new brewery in Apan (an investment estimated to reach $756 million) which will contribute to produce up to 2,4 million liters per year, will lead to organic growth in Mexico, after 2021. AB InBev main focus regarding commercial expansion is advancing into new channels across Mexico in an attempt to gain more presence within the consumers.

That was materialized by opening almost 200 new Modelorama stores (Mexico's second largest convenience store chain) and to gain more space for its brands in about 7 700 OXXO stores (a convenience store chain as well).

Contrarily to most of the markets, Mexico has its core brands outperforming the market, driven by Corona and Victoria, according to AB InBev's report of 2019.

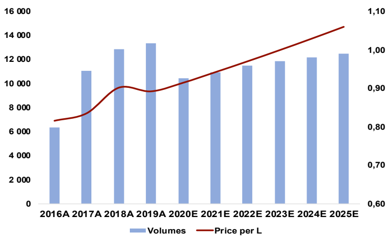

Figure 34 – AB InBev volumes and price per liter in Middle Americas
source: Company's Report; own estimates

In Peru, the craft portfolio has been expanding with the acquisition of Barbarian brewer, one of Peru's most successful early craft breweries. AB InBev's is very strong in this market and has invested in order to continue to protect its market share in the craft beer segment. In contrast, the launch of a new brand called Golden, in line with the affordability strategy, that we estimate will decline the price per liter in that region, as well as in the rest of the regions of Middle Americas.

In Colombia, AB InBev's global brand portfolio included in the premium segment grew more than 50% in 2019.

We predict that revenues will grow at a CAGR 2020-2025 of 5,5% with AB InBev continuing to have the first position in the market and being able to have a constant market share for the next years.

Regarding the price spectrum AB InBev has been undertaking affordability initiatives to meet

[16] Deloitte, Craft Beer A multisensory experience, Accessed November 5 https://www2.deloitte.com/content/dam/Deloitte/mx/Documents/consumer-business/2017/Craft-Beer-in-Mexico-2017.pdf

the needs of part of the society in Middle American countries. Initiatives like returnable glass bottles and more sharing packs will negatively impact the price per unity and the margins of that products. As we mentioned, in this market there is a duality of strategy, on one hand notably following the needs of most of the population with affordable options, but on the other hand continuing to invest in opportunities into the craft and premium segments. Thus, we estimate the price to grow less than inflation since we do not expect that investment in the craft beer segment will be able to impose to the significative affordable strategy mention before, reaching, in 2025, a price per litre of $1,05.

Regarding profitability, Middle America is the region where margins are significantly higher mainly due to the low COGS (being around 29% of revenues). In 2020 and 2021 due to Covid-19, we expect that margins will decrease significantly due to increases in COGS and decrease in sales on the on-premises channels (where margins are higher when comparing to off-premises channels), since most of them were closed most part of the year.

After 2023, we project an increase with continued operational efficiency and extra capacity in Mexico, which will return to the efficiencies across supply chain in all Middle America segment, the operating margins will be maintained at a constant level of 45% from 2030 onwards.

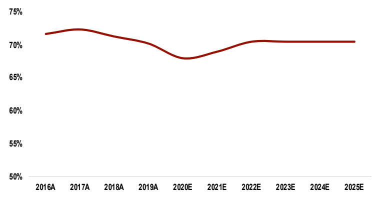

Figure 35 – Middle Americas' gross margin.
source: Company's report

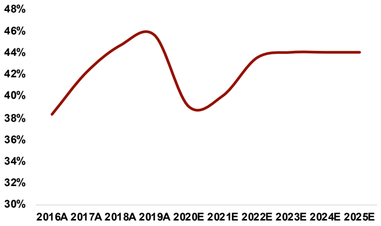

Figure 36 – North America operating margin
source: Company's report

South America

- Industry overview

The market size in 2019 value was around $17,2 billion, being Brazil and Colombia the most important markets. In 2025 we expect that the Brazilian market volume will be 13,3 billion litres, with a CAGR of 3% between 2020 and 2025.

In 2019, Brazil was pointed out as one of the worst countries in Latin America in terms of economic growth, according to the World Bank, being exposed to a lot of uncertainty, generating risk for the investors in this market.

Brazil's real GDP grew by 7.7% in Q3 2020 comparing to the previous quarter. The recovery in Q3 was primarily due to a strong rebound in domestic demand that we forecast to continue. Brazil benefits from positive demographic changes, where the population between 20 and 39 years old is expected to grow up to 1/3 of all the country population. Young adults are the key consumers to generate growth in the beer market. In line with these projections, we believe that AB InBev's volume will reach 18 billion litres in 2025. Over the forecast period (2020-2025), we forecast beer consumption to grow at an average annual rate of 3,5%.

The most consumed beer segment is the Lager, followed by non-alcoholic and dark beers. According to a Euromonitor's research, the most consumed beers by brand are Skol, Brahma, Antarctica (AmBev), Itaipava (Grupo Petropolis), and Nova Schin (Heineken). These brands are considered low-price brands and with very easy access through mostly off-premises channels, leading to less margins. Even though the market is less impacted with craft and premium segments (since the market share is still a small part), the rapid growth in these segments in the last years and the investment from the main players in the market makes us believe that in the following years the market will suffer a transformation, as happened in more devolved markets as United States and Europe.

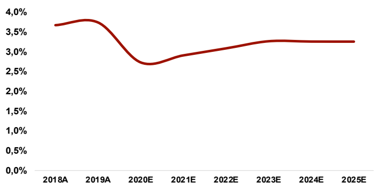

Figure 37 – Brazil historical and expected inflation
source: International Monetary Fund, October 2020

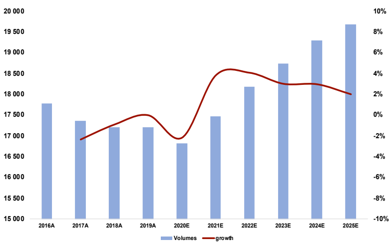

Figure 38 –Beer volumes in South America
source: Statista; own estimates

Beer Volume	Market
[2016A-2019A]	-1,1%
[2020E-2025E]	3,2%
[2026E-2031E]	1,7%

Figure 39 – Beer market growth in South America
source: Statista, own estimates

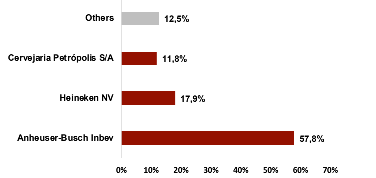

Figure 40 – Brazil market share by volumes in 2019
source: Euromonitor

- AB InBev

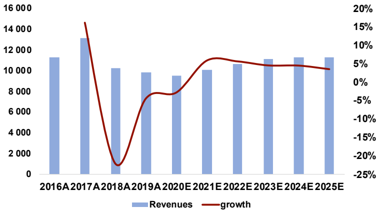

Figure 41 – AB InBev revenues in South America
source: Company's report, own estimates

AB InBev	Revenues
[2016A-2019A]	-4,7%
[2020E-2025E]	4,8%
[2026E-2031E]	3,2%

Figure 42 – AB InBev revenues growth in South America
source: own estimates

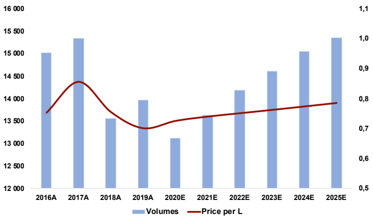

Figure 43 – AB InBev volumes and price per liter in South America
source: Company's Report; own estimates

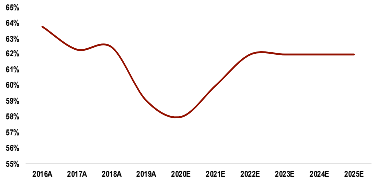

Figure 44 – South America' gross margin
source: Company's report

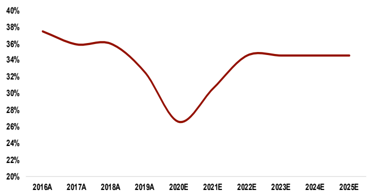

Figure 45 – South America operating margin
source: Company's report

The company's operations in the South America segment are present in Brazil, Uruguay, Paraguay, Chile, Argentina and Bolivia.

In 2019, AB InBev South American region reported a revenue of $9,8 billion (18,7% of total revenue) and a $4,1 billion normalized EBITDA (19,7% of total EBITDA).

The volume growth in 2019 was 3% reaching 14 billion litres, making this region the biggest in volume sold for the company.

Brazil's market has very strong core brands such as Brahma, that continues to deliver growth and has been diversifying into the premium segment that we believe will make the market share of the brand consolidate. Also, Brazil's non-alcoholic segment delivered a revenue growth of 17%, being one trend of the market, we expect this segment to deliver growth.With the dominant position of AB InBev in South America, we expect it to collect the organic long-term growth of the emerging markets in this segment despite short-term volatility. We forecast that volume, after 2020, will continue to grow, first as result of the increase of population in this region, and secondly as result of increasing the volume per capita which we estimated that will be 79 litres in 2025, with a CAGR of 2% between 2020 and 2025. AB InBev has been affected by the conditions of the economy in these regions and trying to reach more consumers with its affordability strategy in emerging markets (as most of the countries in South America). With this strategy, combined with the offering of more accessible price contacts to more consumers, we expect AB InBev to create new packaging formats, and introduce beers brewed with local crops that will generate a brand portfolio with low average price.

AB InBev aims to incorporate local farmers into production in order to offer new affordable brands making us believe that AB InBev can easily gain share in the value segment.

In this sense, we forecast that the average price will grow less than inflation until 2025 (inflation 3,5% 2020-2025). We considered that even with the premium sector expansion which leads to an increase in price per litre, the affordable strategy has much more impact in the price considering the market share that Lager brands have.

Concerning cost efficiency, we estimate a decrease in margins in 2020 until 2022, due to Covid-19 that forced on-trade revenues to decrease substantially. In 2020, the margins will impact normalized EBIT leading to a decrease of roughly 20%. After 2023, we expect AB InBev's EBIT to tend towards the numbers before the constraints of Covid-19 and we expect an operating margin of 35% from 2026 onwards.