JOÃO PAULO GUTIERREZ MALANDRINO

A FINANCIAL AND STRATEGIC CASE STUDY ABOUT THE LARGEST BREWERY IN THE WORLD

Trabalho de Formatura apresentado a Escola Politécnica da Universidade de São Paulo para obtenção do Diploma de Engenheiro de Produção.

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I always say, to have a big dream requires the same
effort as having a small dream. Dream big!
(Jorge Paulo Lemann)

ABSTRACT

The purpose of the present thesis is to assess and draw recommendations regarding to financial and strategic aspects of AB InBev SA/NV. The suggestions are developed through the use of analytical methodologies, based on information provided on documents officially disclosed by the breweries involved in the study, academic articles, books and websites.

This case study is divided in two broad parts. In the first, an introduction about AB InBev SA/NV is presented and open issues are raised. Afterwards, a discussion is realized.

The introduction includes information about history, growth, investors, the CEO, notion of size, culture, corporate governance, geographic segmentation, shareholding, voting rights, listings, bonds, Income Statement and Balance Sheet of the company. The open issues are related to the selection of the best geographic segments to invest in, the most adequate way to expand the business (organically or inorganically) in each one of them, the most suitable financing strategies (internal, debt and equity financing) and the valuation of another cross-listing. In the discussion, the issues raised previously are addressed one by one and the recommendations are drawn.

The analyses give the impression that the brewery should focus investments in EMEA (Europe, Middle East and Africa) and Asia Pacific segments. The suggested way to expand differs depending on the country of the segments, however, the largest move would be in Japan, where the Brazilian-Belgium firm should consider the acquisition of Kirin Holdings. Regarding to the sources of funds, AB InBev SA/NV should resort firstly to its own retained earnings and then, to one or more equity financing solutions, according to the intentions of the firm for the future. With respect to a new cross-listing, the firm could consider the Tokyo Stock Exchange only if it wishes to acquire Kirin Holdings, otherwise, it should not proceed with another listing.

Keywords: brewery; geographical expansion; growth strategies; financing strategies; cross-listing.

RESUMO

O objetivo da presente tese é avaliar e elaborar recomendações sobre aspectos financeiros e estratégicos da AB InBev SA/NV. As sugestões são desenvolvidas através do uso de metodologias analíticas, com base em informações fornecidas em documentos divulgados oficialmente pelas cervejarias envolvidas no estudo, artigos acadêmicos, livros e sites.

Este estudo de caso está dividido em duas partes amplas. Na primeira, uma apresentação sobre AB InBev SA/NV é feita e questões abertas são levantadas. Em seguida, uma discussão é realizada.

A introdução inclui informações sobre história, crescimento, investidores, o CEO, noção de tamanho, cultura, governança corporativa, segmentação geográfica, participação acionária, direitos de voto, listagens, títulos, demonstração do resultado do exercício e balanço patrimonial da empresa. As questões abertas estão relacionadas à seleção dos melhores segmentos geográficos para investir, a maneira mais adequada de expandir o negócio (organicamente ou inorganicamente) em cada um deles, as estratégias de financiamento mais adequadas (financiamento interno, dívida e capital acionário) e a avaliação de outra *cross-listing*. Na discussão, as questões levantadas anteriormente são abordadas uma a uma e as recomendações são elaboradas.

As análises dão a impressão de que a cervejaria deve concentrar os investimentos nos segmentos EMEA (*Europe, Middle East and Africa*) e Ásia Pacífico. A maneira sugerida de expandir difere dependendo do país dos segmentos, no entanto, a maior mudança seria no Japão, onde a empresa brasileira-belga deveria considerar a aquisição da Kirin Holdings. Em relação às fontes de recursos, a AB InBev SA/NV deve recorrer em primeiro lugar aos seus próprios lucros retidos e, em seguida, a uma ou mais soluções de financiamento através de capital acionário, de acordo com as intenções da empresa para o futuro. Com respeito a uma *cross-listing*, a empresa só poderia considerar a Bolsa de Valores de Tóquio se desejar adquirir a Kirin Holdings, caso contrário, não deveria prosseguir com outra listagem.

Palavras-chave: cervejaria; expansão geográfica; estratégias de crescimento; estratégias de financiamento; *cross-listing*.

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LIST OF ABBREVIATIONS AND ACRONYMS

AB	Anheuser-Busch
ADR	American Depositary Receipt
ADS	American Depositary Share
CAGR	Compound Annual Growth Rate
CEO	Chief Executive Officer
E	Equity Value or Equity
EBIT	Earnings before Interest and Tax
EBITDA	Earnings before Interest, Tax, Depreciation and Amortization
EMEA	Europe, Middle East and Africa
EPS	Earnings per Share
EV	Enterprise Value
D	Debt
Market Cap	Market Capitalization
M&A	Mergers and Acquisitions
ROA	Return on Assets
ROE	Return on Equity
SAB	South African Breweries

SUMMARY

1 INTRODUCTION

1.1 Objective

The present work aims to assess, discuss and draw recommendations related to financial and strategic aspects of AB InBev SA/NV, considering the information provided by various sources, the company current situation and the global context.

1.2 About the Company

1.2.1 History and Growth

Anheuser-Busch InBev SA/NV is the largest brewery in the world. The Brazilian-Belgium group has offices and operations worldwide and owns approximately 500 brands, reaching over 150 countries with its products. The history of the firm is full of M&A deals and can be described through the establishment of four major breweries: AmBev, Interbrew, Anheuser-Busch and SABMiller.

Even though the global headquarters are currently located is in Leuven, Belgium, the history of this conglomerate started in Brazil in the year 1885. It was this year that Antarctica was founded in São Paulo and 3 years later it's most relevant national competitor, Brahma, was established in Rio de Janeiro. Both companies have acquired many other smaller breweries in South and Central Americas and after more than 100 years competing for the leadership in the Brazilian market, in 1999, they merged after the sale of some plants and brands as imposed by the Brazilian market authority. At that moment, the fifth largest brewery in volume of the world was born and named AmBev.

Many years before the beginning of AmBev, the history of Interbrew started. The company was created in 1988, through the merger of two Belgium breweries: Artois, which is the producer of Stella Artois (registered in 1366) and Piedboeuf (established in 1812), producer of Jupiler. Interbrew by itself also has a successful expansion background, including the acquisition of the Beck's (German) and the Labatt (Canadian), which was the owner of breweries, sport teams and even a communication network in Canada.

In Belgium, 2004, AmBev and Interbrew merged creating InBev. Before the deal, the beer market, in volume, was led by Anheuser-Busch, followed by SABMiller, Interbrew, Heineken and AmBev. The merger of the fifth and the third largest breweries created a new global market leader: InBev, a Belgium company controlled by Brazilians.

It is important to clarify that, in Brazil, AmBev has continued to exist as a subsidiary of AB InBev SA/NV, even after the merger with Interbrew in Belgium. In fact, AmBev S/A is the most valuable company on the São Paulo Stock Exchange (BM&FBOVESPA: ABEV3) as of January 2, 2017, with a market capitalization of roughly US$80 billion[1]. The company is also listed on the New York Stock Exchange (NYSE: ABEV) via American Depositary Receipts (ADRs). AB InBev SA/NV is a controlling shareholder of AmBev S/A with approximately 62%[2] ownership. The two entities are independent and each one has its own management. They have signed agreements referring to production and commercialization of beers.

Meanwhile, in the United States, the Anheuser-Busch company was growing. The American brewery has its roots in Missouri since 1852, and is the owner of well-known brands such as Budweiser, Bud Light and Michelob. At the time, AB had 12 plants in the US and 17 overseas.

Nonetheless, the leading position did not stop InBev owners from expanding and controlling the beer market even more. In 2008, InBev and Anheuser-Busch merged, creating Anheuser-Busch InBev (AB InBev). The company, at that moment, had around 200 brands and reinforced InBev's previous status of world's largest beer producer. AB InBev became one of the largest Fast Market Consumer Good companies, together with Nestlé, P&G, Unilever, PepsiCo and others.

In 2012 AB InBev made another deal acquiring the Mexican group Modelo, owner of the famous brand Corona. After 4 years of operations and consolidation, AB InBev decided to make another big move: the target now was its largest competitor, the UK-based SABMiller.

SABMiller was created 1999 through the merger of South African Breweries (founded in 1895) and the US-based Miller (founded in 1855), was the owner of key brands like Miller and Foster and more importantly, had a good penetration in markets where AB InBev did not.

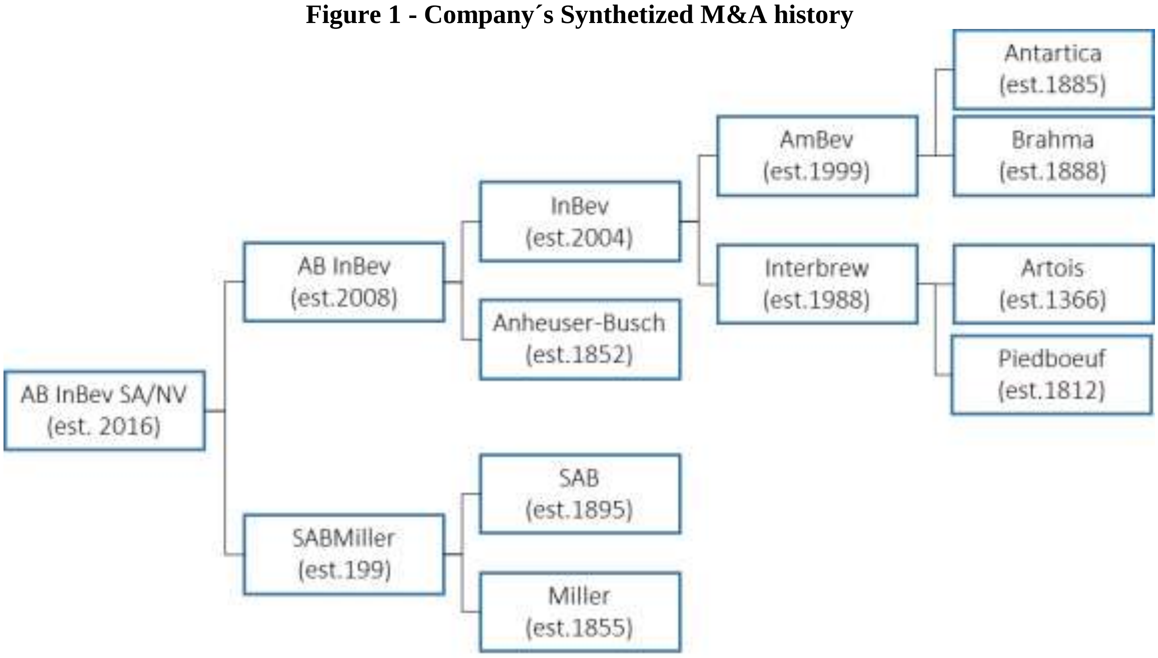
By the end of 2015, AB InBev made a bid for its rival. SABMiller accepted the offer of more than US$100 billion[3] but the deal still required the approval of regulatory agencies, especially the US Department of Justice. Due to its size, SABMiller had to spin off a part of its holdings, which resulted in the sale of many brands (including Miller) to different brewery groups.

[1] São Paulo Stock Exchange (2017)
[2] AB InBev SA/NV Full Annual Report (2016)
[3] Wall Street Journal (2016)

In October, 2016, the third-largest M&A deal in history[4] was completed and Anheuser-Busch InBev SA/NV was created as the absolute global leader in the beer market, with a combined annual revenue of US$55.5[5] billion (about 30% of the global market[6]) and approximately 500 brands.

The synthetized M&A history and the timeline of the company are in Figure 1 and Figure 2:

Figure 1 - Company´s Synthetized M&A history



Source: Author, based on company´s information

[4] Financial Times (2016)
[5] AB InBev SA/NV Analyst Call Presentation (2016)
[6] Business Insider (2016)

Figure 2 - Company´s Timeline

Source: Author, based on company´s information

Currently, AB InBev SA/NV's main competitors are The Heineken Company, Carlsberg Group, MolsonCoors and other Asian breweries. The competitors and the brands they possess are in Figure 3:

Figure 3 - Scenario of the Beer Global Market

Source: Equities (2016)

1.2.2 Investors and the CEO

The history of Jorge Paulo Lemann is strictly related to the growth of the largest brewery in the globe. Lemann was born in Rio de Janeiro in a family of Swiss immigrants. During his youth, he used to play tennis at a professional level. He has won the Brazilian national championship five times and has even played both the Davis Cup and Wimbledon tournaments.

A 22-year-old Lemann received a bachelor's degree in economics from Harvard University, where he graduated in only three years. He did not like Harvard and missed Rio de Janeiro's beaches, so he created a system that allowed him to graduate faster. Before signing up for a subject, he would gather as many information as possible by interviewing professors and students and even seeking for previous exams. The final exams varied little from year to year, which made easier for him to always be approved.

According to Lemann, going to Harvard was worthwhile for two main reasons. First, because it motivated him to be creative in reaching his goals, and second because he developed the crucial skill of choosing excellent partners. The career of a natural winner and a goal-driven entrepreneur began to be drawn.

After working as a trainee in Credit Suisse in Switzerland, Lemann returned to Brazil in 1971, partnering with Carlos Alberto Sicupira and Marcel Herrmann Telles to found the investment bank Garantia. The firm was ahead of its time and it is still known for being one of the most innovative and prestigious investment banks in Brazilian history, described by Forbes as the "Brazilian version of Goldman Sachs".

Among other nationally relevant deals such as Lojas Americanas (a large retailer), Garantia acquired Brahma in 1989. This was the first moment when Jorge Paulo Lemann invested in a brewery. The seed of one the largest corporate groups in the world had been planted.

Due to a series of personal and economic reasons, Garantia was sold to Credit Suisse First Boston in 1998. Of course, Lemann and his partners would not stop investing and expanding their businesses. Through the first Brazilian private equity fund, GP Investments, Lemann and his partners orchestrated the merger of the two largest national breweries, creating AmBev in 1999.

Under a complex ownership structure involving the Brazilian private owners (Lemann, Sicupira and Telles), Belgium families, funds and holdings, AmBev merged with Interbrew and then with Anheuser-Busch. More recently, in 2016, AB InBev acquired SABMiller, creating AB InBev SA/NV.

In 2004, Lemann, Sicupira and Telles founded 3G Capital: a Brazilian private equity fund with headquarters in Brazil and US, through which investments in breweries were made. 3G Capital has become even more famous after partnering up with Warren Buffet's Berkshire Hathaway for some acquisitions. Lemann and Buffet are friends and together they have invested in world famous companies unrelated to the beer market such as Burger King, Tim Hortons and Kraft Foods.

Under the management of the two funds, in 2015, Kraft merged with Heinz, creating The Kraft Heinz Company, a new giant in the Fast Market Consumer Good. Following the expansion spirit of the beer tycoons, Kraft Heinz placed a takeover bid in February, 2017, for Unilever. The Dutch-British company's shareholders refused the US$143 billion[7] offer. This would have potentially been one of the largest corporate deals in history.

[7] Financial Times (2017)

Besides the three Brazilian investors who founded Garantia, another key character of the group's development is Carlos de Alves Brito, who joined Brahma back in 1989. After holding several positions in AmBev, Brito became its CEO. Afterwards, he became North America Zone President of InBev, CEO of AB InBev and is currently the CEO of AB InBev SA/NV. He is known for cost efficiency strategies like zero-based budgeting, high performance requirements, strong corporate culture implementation, massive layoffs and for supporting aggressive bonuses for top managers. One example of compensation plan is the 2020 Dream Incentive Plan, which was designed to pay out a bonus pool of around US$350 million to 65 senior managers if annual revenue reaches US$100billion between 2020 and 2022[8].

Even though Lemann is often seen as an overly ambitious businessperson, he supports many social and entrepreneurial initiatives in Brazil. Among others, he is the founder of Fundação Lemann and co-founder of Fundação Estudar and Instituto Tênis: the first two being foundations focused on education and the third focused on sports. The other Brazilian shareholders of the conglomerate also support social projects in the country.

According to Forbes 2017, Jorge Paulo Lemann is the twenty-second richest person the world and first in Brazil, with a net worth of US$29.2billion[9]. Telles is the third and Sicupira is the forth in the national ranking. The sources of wealth of the three are mainly participations in AB InBev SA/NV, 3G Capital and Lojas Americanas.

1.2.3 Figures and Notion of Size

The group Anheuser-Busch InBev SA/NV is big. But how big?

The annual revenue reached more than US$45 billion in 2016, and after the acquisition of SABMiller the expected top line for 2017 is around US$55.5 billion, which represents an increase of more than 20%. Nestlé, the consumer goods market revenue leader, had a US$91 billion[10] income in 2016, of which US$42 billion[11] came from all kinds of its beverages. The Heineken Company, second largest brewery in the world, had US$23 billion[12] in revenue.

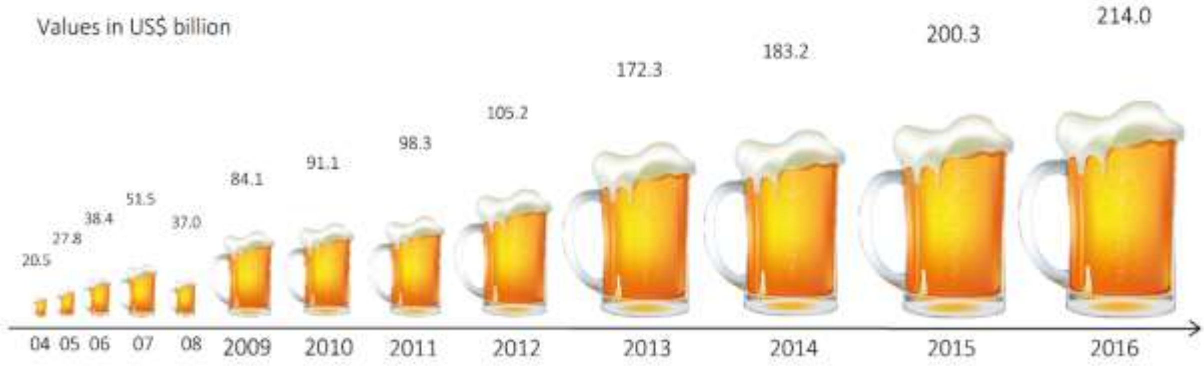
According to 2016's full year financial report, the brewery's market capitalization is US$214 billion. Based on the raking developed by PwC of the most valuable companies, using data as at March 31, 2016, AB InBev used to occupy the twenty-second position[13]. However,

[8] City A. M. (2016)
[9] Forbes (2017)
[10] Nestlé Full Annual Report (2016)
[11] Nestlé Full Annual Reports (2016) considering revenues from powdered and liquid beverages, water, milk products and ice cream
[12] Heineken Full Annual Report (2016)
[13] PwC (2016)

it is important to remember that the group tends to increase its value and improve its position due the acquisition of SABMiller. In fact, in the moment of the writing of this chapter, on May 11, 2017, AB InBev SA/NV is valued at US$229 billion and occupies the sixteenth position[14].

Figure 4 considers the market capitalization since 2004, when InBev was created, according to annual reports disclosed by the group from 2004 to 2016:

Figure 4 - Market Capitalization from 2004 to 2016



Source: Author, based on company´s information

It is clear that the acquisitions of the conglomerate have a direct impact on the market capitalization. The largest percentage increases were from 2008 to 2009 and from 2012 to 2013, respectively at 127.5% and 63.8%. In 2008, the merger with Anheuser-Busch occurred and in 2012, the Modelo group was acquired. Overall, from 2004 to 2016, the market cap increased more than 10 times and the compound annual growth rate (CAGR) was 21.6%.

AB InBev SA/NV reaches more than ¾ of all the countries in the world and has operations in more than ¼ of them. The number of plants is around 155[15], with approximately 26% in Asia, 25% in Latin America and 16% in North America. The Brazilian-Belgium group counts on more than 200,000 collaborators, which is equivalent to the population of a medium-large Italian city such as Brescia or Parma.

The volume of beer produced in 2016 disclosed was more than 43.4 billion liters. The Heineken Company produced 22.8 billion liters, Carlsberg Group produced 11.6[16] and MolsonCoors 6.6[17]. By itself, AB InBev SA/NV could fill almost 14,000 long course Olympic swimming pools[18] with beer. Additionally, AB InBev SA/NV produced other 6.6 billion liters

[14] Dog of the Snow (2017)
[15] Statista (2016)
[16] Carlsberg Full Annual Report (2016)
[17] MolsonCoors Quarterly Reports (2016)
[18] Olympic long course swimming pool’s dimensions: 50m x 25m x 2.5m

of non-beer volume, including for instance Guaraná Antartica, a worldwide famous Brazilian soft drink.

The brewery possesses over 500[19] brands, including sub-brands, local brands, multi-country brands and global brands. For means of comparison, Unilever, that produces food, beverages, home care and personal care items, owns around 400[20] brands. According to BrandZ[21], out of the ten most valuable beer brands in the world, seven are in possession of AB InBev SA/NV. The worldwide most valuable leader, Budweiser, is one of the three global brands the company owns, together with Stella Artois and Corona.

Figure 5 - Company´s Key Facts

Source: Author, based on company´s information

1.2.4 Culture and Building a Better World

The company follows 10 guiding principles that describe the group’s dream, people and culture. The dream, which is to become the *Best Beer Company Bringing People Together for a Better World*, energizes everyone to work in the same result-oriented direction. The recruitment and the career development are thought to retain employees, who are motivated to never be completely satisfied and always consider cost efficiency. The consumer is the boss and collaborators, who are the firm’s main asset, must have an “owner thinking”: results, leadership, quality and hard work should always be kept in mind.

[19] BrandZ (2016)
[20] The Guardian (2010)
[21] BrandZ (2016)

Besides the aggressiveness in relation to financial results, AB InBev SA/NV has a strong social and environmental bias and thus conducts projects in many fields, especially in developing countries. These are some examples from Building a Better World Program:

- Investments in small retailers
- Enhancement in growers' productivity and livelihood
- Boost of communities through use of local ingredients
- Enhancement of access to clean water and watershed restoration
- Use of renewable energies and recycled materials
- Increase in awareness about harmful drinking
- Improvement of road safety

1.2.5 Corporate Governance

AB InBev SA/NV's adheres to the principles and provisions of the Belgian Corporate Governance Code, once it is incorporated under Belgium law and listed on Euronext Brussels. The corporate governance ensures responsible management and proper control of the company, through framework of best practices, way of thinking and modus operandi.

As the brewery has the listing of ADSs (American Depositary Shares) representing ordinary shares on the New York Stock Exchange (NYSE), the NYSE Corporate Governance Rules for Foreign Private Issuers are applicable to the company. Moreover, the firm has registered with the SEC (Securities and Exchange Commission) and as a result, it is subject to Sarbanes-Oxley Act of 2002 and the SEC rules about corporate governance.

Since the company has operations spread all over the globe, it faces a broad range of business practices and cultures. As a result, it is key that the code of conduct is clear, strict and consistent. AB InBev SA/NV's Code of Business Conduct provides information about the principles, compliance, human rights and ethical conduct to be followed by the employees. Besides the code, the brewery developed an Anti-Corruption Policy to alert the collaborators about corruption when dealing not only with commercial partners, but also with public officials.

As mentioned before, AB InBev SA/NV's CEO is the Brazilian Carlos de Alves Brito, who first joined the company in 1989, when it was still Brahma. To perform his duties of daily management, Brito is assisted by the Executive Board of Management (EBM). The EBM is composed by the 21 members:

- Chief Executive Officer (the chairman of the EBM)

- Chief Financial and Technology Officer
- Chief Marketing Officer
- Chief Supply Officer
- Chief People Officer
- Chief Legal and Corporate Affairs Officer
- Chief Procurement Officer
- Chief Sales Officer
- Chief Integration Officer
- Chief Supply Integration Officer
- Chief Disruptive Growth
- Chief Strategist & External Affairs Officer
- Asia-Pacific South Zone President
- Asia-Pacific North Zone President
- Middle Americas Zone President
- Europe Zone President
- North America Zone President
- Latin America North Zone President
- Latin America South Zone President
- Latin America COPEC Zone President
- Africa Zone President

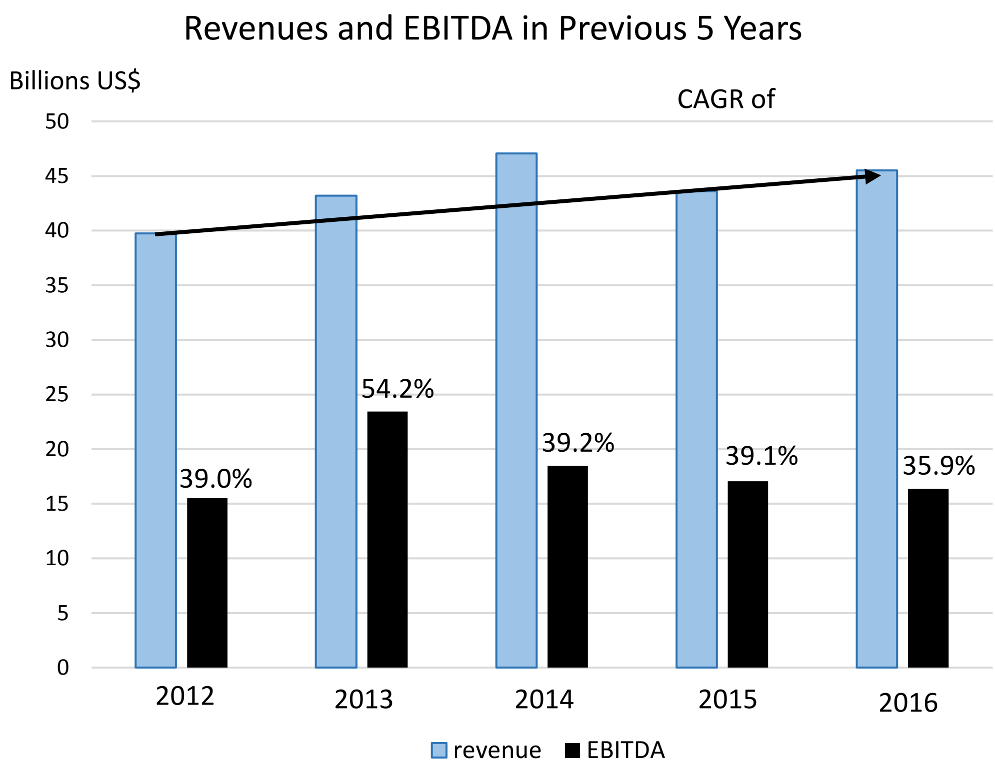
The Board of Directors is composed of three independent directors, three members appointed by the restricted shareholders and nine members appointed by the Stichting Anheuser-Busch InBev, a foundation that represents interests of the Brazilian and Belgium founding families. The influence of the three founders of the investment bank Garantia is still very clear: Marcel Herrmann Telles, Carlos Alberto Sicupira and Paulo Alberto Lemann (Jorge Paulo’s son) are three of the nine members appointed by the foundation. Four committees assist the Board of Directors: Audit, Finance, Nomination and Remuneration committees.

The group issues the Corporate Governance Charter, whose aim is to provide transparent disclosure of the company’s corporate governance in detail. The information of this section was removed from the 2016´s Corporate Governance Charter. The document also presents rules and agreements related to: shareholders, capital, shares, voting rights, meetings, dividends, communication, the board, committees, executive management and code of conduct.

1.2.6 Revenues and Geographic Segmentation

In Figure 6, there are the revenues accompanied by its CAGR and the earnings before interest, tax, depreciation and amortization (EBITDA) accompanied by the EBITDA margin of past 5 years. All the information was extracted from the firm's official annual reports.

Figure 6 - Company´s Revenues and EBITDA from 2012 to 2016



Source: Author, based on company´s information

As a whole, revenue has been growing in past years, except from 2014 to 2015, when it fell almost US$3.5 billion. The growth from 2012 to 2016 was 14.5% and the CAGR equal to 3.4%. Annual average revenue in this period was US$43.8 billion.

EBITDA and EBITDA margin has been falling slightly in the past 3 years. In 2013, however, they were much higher and the margin reached almost 55%. The abrupt increase on both values from 2012 to 2013 catches attention: EBITDA raised more than 50% and EBITDA margin almost 40%. From 2012 to 2016, average EBITDA was US$18.2 billion and EBITDA average margin was 41.5%.

AB InBev SA/NV is currently geographically segmented in North America, Latin America West, Latin America North, Latin America South, Asia Pacific and Europe, the Middle East and Africa (EMEA). The countries currently belonging to each segment are shown in Figure 7.

It is relevant to highlight that the regions and their composition change based on the M&A deals that happen during the fiscal year. For instance, after the acquisition of SABMiller, Australia, Vietnam and India were added to Asia Pacific segment; and Middle East and Africa began to be reported together with Europe as EMEA.

Figure 7 - Company´s Geographical Segments

Source: Adapted from AB InBev SA/NV First Quarter Presentation (2017)

Table 1 shows the complete revenue breakdown, based on information disclosed by the brewery, in percentage:

Table 1 - Company´s Revenue Breakdown by Region

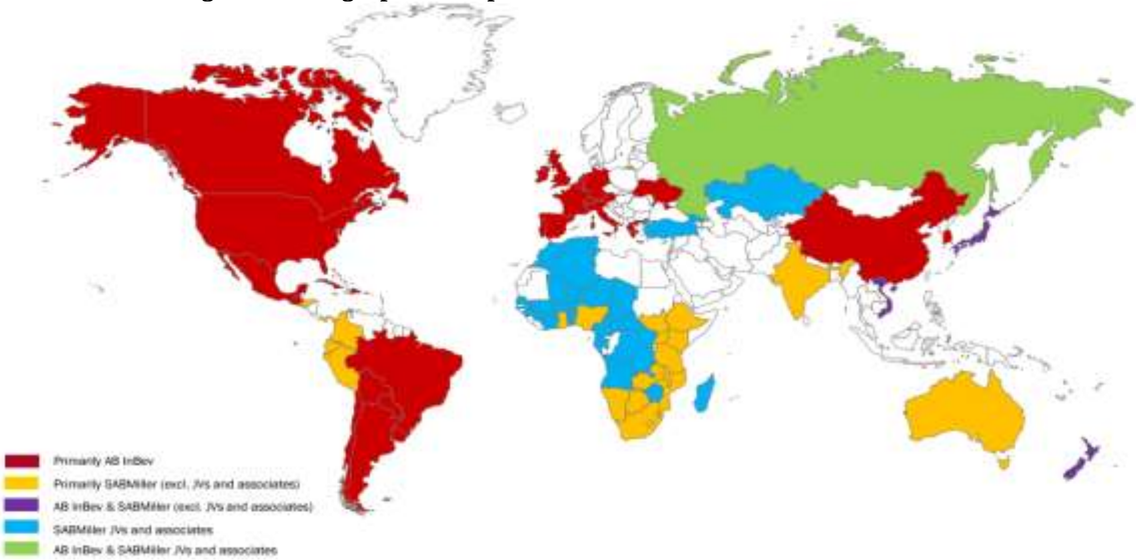
	North America	Latin America West	Latin America North	Latin America South	EMEA: Western Europe	EMEA: Central and Eastern Europe	EMEA: Middle East and Africa	Asia Pacific	Global Export and Holding Companies
2012	40.3%	0.0%	28.8%	7.6%	9.1%	4.2%	0.0%	6.8%	3.2%
2013	37.1%	6.4%	25.2%	7.6%	8.4%	3.3%	0.0%	7.8%	4.3%
2014	34.2%	9.8%	23.9%	6.3%	10.3%		0.0%	10.7%	4.7%
2015	35.8%	9.1%	20.9%	7.9%	9.2%		0.0%	12.7%	4.4%
2016	34.5%	11.4%	18.6%	6.3%	13.2%			13.3%	2.7%

Source: Author, based on company´s information

Analyzing the data, one will notice that North America's participation in total revenues has been falling. The same is happening happens to Latin America North, where the main consuming country is Brazil. Together, the participation of those two regions has fallen more than 23% in the past 5 years. The European market has also demonstrated a slight decrease in participation, possibly due to the fierce competition, seeing as The Heineken Company and Carlsberg Group own strong brands in the area.

On the other hand, the growth on Asia Pacific Market is remarkable: the increase in participation from 2012 to 2016 is almost 100% and the CAGR is 18.5%. Latin America West has also seen a major raise in percentage of total revenues, mainly due to the acquisitions of Grupo Modelo and SABMiller, owners of brands in this region. The SABMiller acquisition was also key for Africa, from where AB InBev did not have revenue flowing. As a matter of fact, the complete geographic footprint of the group in relation to the combination with the UK-based brewery is represented in Figure 8:

Figure 8 - Geographic Footprint of the Combination with SABMiller



Source: AB InBev SA/NV Analyst Call Presentation (2016)

The Global Export and Holding Companies include the company’s global headquarters, the export businesses that have not been allocated to the regions, and the interim supply agreement with Constellation Brands, a beer import company.

1.2.7 Shareholding and Voting Rights

The following information is also based on data from the Corporate Governance Charter as at October 11, 2016.

There are mainly two types of shares: ordinary and restricted. The restricted shares are unlisted and are subject to rules laid out by the issuing company and agreed upon by the owner of the shares. There are also treasury shares (included in the ordinary shares), which are held by AB InBev SA/NV and some of its subsidiaries. All the stocks of the company have the same rights (each share entitles its owner to one vote).

Table 2 represents the number of each type of share:

Table 2 - Company´s Quantities of Each Type of Share

Share	Quantity
outstanding shares	2,019,241,973
outstanding ordinary shares	1,693,242,156
-ordinary shares of major shareholders	847,648,483
-ordinary treasury shares	85,540,392
-ordinary shares not of major shareholders and not treasury (public free float)	760,053,281
outstanding restricted shares	325,999,817
-restricted shares of major shareholders	281,978,135
-restricted shares not of major shareholders	44,021,682

Source: Author, based on company´s information

The holding percentages (percentage of voting rights) are calculated excluding treasury shares, which means the base for the calculation is the number of outstanding shares net of the number of ordinary treasury shares: 1,933,701,581.

Table 3 - Company´s Holding Percentage of Each Type of Shareholder

Holding Percentage	Percentage
ordinary shares (excluding the treasury shares)	83.14%
-major shareholders of ordinary shares	43.84%
-public free float	39.31%
restricted shares	16.86%
-major shareholders of restricted shares	14.58%
-not major shareholders of restricted shares	2.28%

Source: Author, based on company´s information

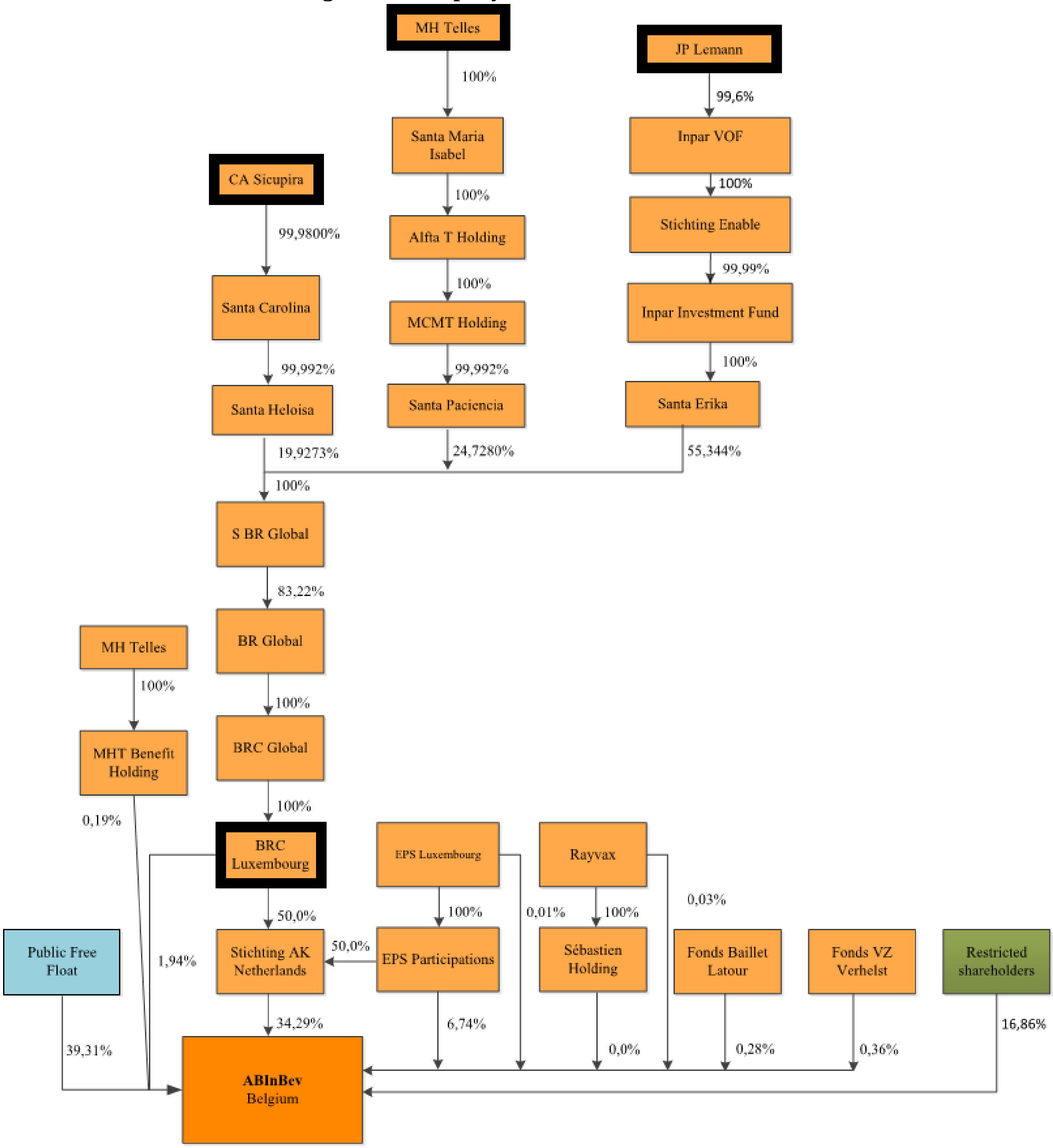
As seen in Table 3, less than half of the company's equity value is traded on Stock Exchanges. The free float is composed of 760,053,281 ordinary shares or 39.31%. This represents approximately US$84 billion, based on the US$213.99 billion market cap reported in 2016.

The AB InBev SA/NV has a complex shareholding structure including ownership by many entities under laws of different countries. Once again, it is strong the presence of Marcel Herrmann Telles (MH Telles), Carlos Alberto Sicupira (CA Sicupira) and Jorge Paulo Lemann (JP Lemann) as owners of great majority of BRC Luxembourg, which possesses 50% of Stichting Anheuser-Busch InBev (Stichting AK Netherlands). Besides, BRC Luxembourg directly owns another 1.94% of the brewery.

Stichting Anheuser-Busch InBev possesses 34.29% of the group, and it is by far the major shareholder. Therefore, based on market cap disclosed on 2016's full financial report, the three Brazilian founders are owners of almost US$35 billion[22] of company's equity, only through BRC Luxembourg. Telles, for instance, is the only owner of MHT Benefiting Holding, which has 0.19% of the brewery (around US$407 million). The list of major shareholders is on Appendix A and in Figure 9, there is the company's full ownership structure:

[22] US$34.68 billion=213,993*0,3429*0,5*0,8322 + 213,993* 0,0194

Figure 9 - Company´s Shareholder Structure



Source: AB InBev SA/NV Website (2017)

1.2.8 Listings on Stock Exchanges

AB InBev SA/NV is traded on the Brussels Stock Exchange (Euronext: ABI), with secondary listings on the Mexican Stock Exchange (BMV: ANB) and on the Johannesburg Stock Exchange (JSE: ANH).

Moreover, the group has American Depositary Shares (ADSs) on the New York Stock Exchange (NYSE: BUD). They are represented by American Depositary Receipts (ADRs) and each ADR is equivalent to one share.

The company's ordinary shares are included in 56 indexes all over the world, including Euronext, DJ (Dow Jones), FTSE (Financial Times Stock Exchange), MSCI (Morgan Stanley Capital International), S&P (Standard & Poor's) and TRIB (Temple Records Index Bureau) indexes.

1.2.9 Bonds

The conglomerate has 70 bonds outstanding as of May 16, 2017. The offers vary in terms of size, currency, type of coupon, value of coupon, maturity and market of trade. The company has offers from US$726 thousand up to US$11 billion and periods of duration from 3 years up to 40 years. Among the 70 outstanding bonds, only five have floating coupons.

Appendix B shows the list of outstanding bonds.

1.2.10 Income Statement and Balance Sheet

According to 2016's full report, AB InBev SA/NV disclosed the subsequent key facts:

- Revenue: US$45.517 billion
- EBITDA: US$16.360 billion
- Normalized EBITDA: U$S16.753 billion
- Profit attributable to equity holders: US$1.241billion
- Normalized profit attributable to equity holders: US$4.853 billion
- Weighted average number of ordinary and restricted shares: 1.717 billion
- Normalized earnings per share (EPS): US$2.83
- Earnings per share (EPS): US$0.72
- Dividends per share: U$S3.85 (US$1.71 interim dividend + US$2.14 dividend)
- Payout ratio: 136%
- Net financial debt: US$107.953 billion
- Non-current assets: US$215.320 billion
- Current assets: US$43.061 billion
- Non-current liabilities: US$136.841 billion

- Current liabilities: US$40.116 billion
- Equity: US$81.425 billion

The normalized values are the ones adjusted for non-recurring items, defined by the company as “those that in management’s judgment need to be disclosed by virtue of their size or incidence”.

It is interesting to highlight that goodwill corresponds to 63.4% of non-current assets and 52.8% of total assets. Another point that catches attention is that US$10.086 billion of equity are non-controlling interests related to AB InBev SA/NV’s 62% ownership of AmBev S/A, the Brazilian subsidiary mentioned previously.

A curiosity is that the par value of shares is only €0.6134, which multiplied by the number of outstanding shares (2.019 billion), results in an issued capital of €1.239 billion (or US$1.736 billion)

The Consolidated Income Statement is on Appendix C and the Consolidated Balance Sheet or Consolidated Statement of Financial Position in on Appendix D. In addition, the detailed calculation of weighted average number of ordinary and restricted shares and earnings per share is described on Appendix E.

Besides the key facts of 2016, in Table 4, there is relevant information provided in the previous full year reports, from 2012 to 2016:

Table 4 - Company´s Relevant Information from Reports from 2012 to 2016

(data in millions US$)	revenue	EBITDA	EBIT (operating profit)	profit attributable to equity holders of AB InBev	net financial debt*	market cap	total assets	equity attributable to equity holders of AB InBev	total equity	total liabilities
2012	39,758	15,493	12,733	7,160	30,114	138,716	122,621	41,142	45,441	77,180
2013	43,195	23,428	20,443	14,394	38,800	171,142	141,666	50,365	55,308	86,358
2014	47,063	18,465	15,111	9,216	42,135	183,167	142,550	49,972	54,257	88,293
2015	43,604	17,057	13,904	8,273	42,185	200,302	134,635	42,137	45,719	88,916
2016	45,517	16,360	12,882	1,241	107,953	213,993	258,381	71,339	81,425	176,957

Source: Author, based on company´s information

* net financial debt defined as non-current and current interest-bearing loans and borrowings and bank overdrafts minus debt securities and cash and cash equivalents

According to the information provided, it is possible to calculate some important indicators:

Table 5 - Company´s Important Indicators from 2012 to 2016

	EBITDA margin	EBIT margin	profit margin	return on assets	return on equity**	D/E***	D/E****	net financial debt / EBITDA
2012	39.0%	32.0%	18.0%	10.4%	17.4%	1.70	0.98	1.94
2013	54.2%	47.3%	33.3%	14.4%	28.6%	1.56	0.90	1.66
2014	39.2%	32.1%	19.6%	10.6%	18.4%	1.63	0.94	2.28
2015	39.1%	31.9%	19.0%	10.3%	19.6%	1.94	1.08	2.47
2016	35.9%	28.3%	2.7%	5.0%	1.7%	2.17	1.51	6.60

Source: Author, based on company´s information

**return on equity defined as profit attributable to equity holders divided by equity attributable to them

***leverage ratio defined as total liabilities divided by total equity

****leverage ratio defined as non-current interest bearing loans and borrowings + current interest bearing loans and borrowings + bank overdrafts, divided by total equity

Analyzing the data provided, it is reasonable to affirm that from 2012 to 2015 revenues, EBITDA, EBIT and profit were relatively stable, except in 2013, when the company had a great performance in terms of profitability due to new business in Mexico, after acquiring Grupo Modelo, in 2012. In 2016, year of the combination with SABMiller, revenue, EBITDA and EBIT were similar to previous years, but profit attributable to equity holders was much lower due to high non-recurring finance costs related to the deal. The Appendix F shows the composition of the net finance cost as well as the reconciliation between normalized EBITDA and profit attributable to equity holders.

It is interesting to point out that in this 5-year period, total assets had a CAGR higher than 20% and the market capitalization, higher than 10%, which indicates a fast growth of the company. However, net financial debt and total liabilities have also increased year after year, in an even faster pace. In 2016, all those figures faced an abrupt increase because of the combination with the UK-based brewery: total assets and total liabilities almost doubled, while net financial debt increased by 156%.

The margins and indicators calculated follow a tendency: EBITDA margin of 39%, EBIT margin of 32%, profit margin of 19%, return on assets of 10% and return on equity of 18%, with exceptions in 2013, when they were much larger and in 2016, when they were lower.

The first two leverage indicators are approximately stable from 2012 to 2014 and in the last two years they have raised considerably. In 2016, for the first time, total liabilities became more than double of total equity. A third leverage indicator used by the company is net financial debt/EBITDA, which has been increasing since 2013. Once again, it is clear the impact of the combination with SABMiller, making the indicator reach 6.60 in 2016.

1.3 Definition of Open Issues for Discussion

As mentioned before, in 2015, AB InBev SA/NV developed an incentive plan for its managers with the intention of motivating them to reach US$100 billion revenue between 2020 and 2022. The plan is called 2020 Dream Incentive Plan and is properly registered in the Securities and Exchange Commission of the United States. According to it, the company will award a maximum of 6,000,000 stock options to eligible employees and each option will give the right to purchase one ordinary share of the company in Belgium (Euronext: ABI).

The eligible employees are 65 senior managers, excluding members from the Executive Board of Management (EBM), to help them work towards the internal stretch target and future growth. Each employee has received an offer letter from the group indicating the number of call options offered and their exercise price.

The Terms and Conditions of the agreement state that the options can only be exercised if the performance test is met. The performance test in this case is net revenue reported equals, at least, to US$100 billion.

Based on the information provided in the introduction and the description of the 2020 Dream Incentive Plan, some questions can be raised:

i) In which geographic segments would it make more sense to focus investments?

ii) Which is the best way for the company to expand its business? Should AB InBev SA/NV choose organic or inorganic growth? If organic, how? If inorganic, which would be interesting companies to acquire?

iii) Which would be the best financing strategies for the investments?

iv) Would a listing in another Stock Exchange make sense? If yes, in which one?

In order to address the issues presented, it is relevant to mention that AB InBev SA/NV considers its optimal capital structure as a net financial debt/EBITDA ratio of approximately 2x. The brewery also disclosed its capital allocation objectives in the first quarter 2017 results presentation, and they are, in order of priority:

1. Organic growth: investing in the organic growth our business.
2. Deleveraging: deleveraging to around the 2x level remains our commitment.

3. Selective M&A: non-organic, external growth is a core competency and we will continue to consider suitable opportunities when and if they arise, subject to our strict financial discipline and deleveraging commitment.
4. Return of cash to shareholders: our goal is for dividends to be a growing flow over time in line with the non-cyclical nature of our business. Given the importance of deleveraging, dividend growth is expected to be modest.

1.4 Motivation

AB InBev SA/NV and the topics approached in this case study were chosen by the author due to a series of reasons.

The firm has an admirable success history, which certainly has attracted the author´s attention, but more importantly, the conglomerate has a Brazilian origin and had its expansion orchestrated by Brazilian entrepreneurs and executives, who are still in control of the company. At present, the thousands of brands the brewery manages are known all over the world and the aggressive business strategy is an example for many.

Furthermore, the issues approached in this study are strictly related to subjects the author has coursed at Escola Poltécnica da USP and Politecnico di Milano, particularly the ones regarding to strategy, accounting, corporate finance, financial markets and entrepreneurship.

Moreover, the author has developed an internship in one of the largest consumer goods companies in the world and is currently working at a consultancy firm. Combined, these two experiences have instigated the will to assess large corporations, its markets and draw suggestions to improve performance.

1.5 Document Structure

This document is divided in six chapters, plus appendices.

This first chapter, Introduction, contains the objective of this study, information about the company, the definition of the open issues that will be discussed on chapter 4 and the author´s motivation.

The second chapter, Literature Review, includes theories and concepts that belong to the areas of strategy and finance that will be mentioned in the development of the discussion.

The third chapter, Methodology, consists on the explanation of the case study methodology employed in this work.

The forth chapter, Discussion, presents the analysis and drawing of suggestions for each of the open issues proposed.

The fifth chapter, Conclusion, covers the results of the work and proposals for future studies.

The sixth chapter, References, enumerates the bibliographic references used in this work

Lastly, the appendices used are exhibited.

2 LITERATURE REVIEW

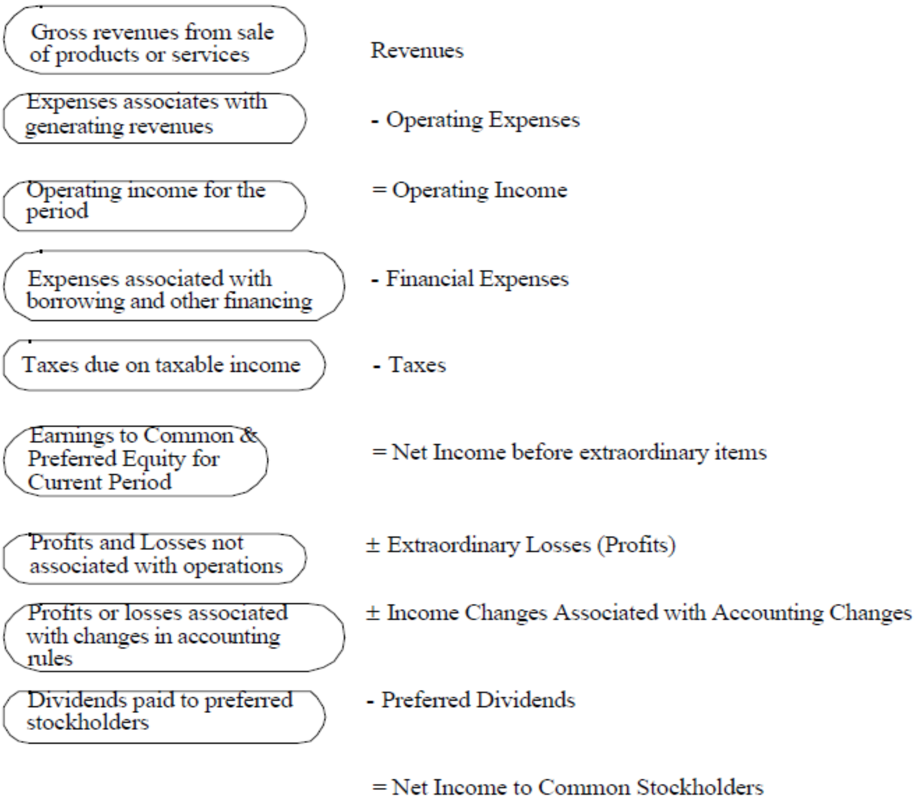
The literature review presented in this chapter provides theoretical foundation for this work. This chapter is divided in four parts: Accounting and Annual Report, Corporate Governance, Financing and Leverage and Growth Strategies

2.1 Accounting and Annual Report

Mott (2005) affirms that annual accounts are essentially composed by two documents, the Income Statement and the Balance Sheet. Additionally, there is a third document, which is the Cash Flow Statement.

According to Damodaran (2012), the **Income Statement** shows the results of a company during certain period and is composed mainly by revenues and expenses, as shown on Figure 10.

Figure 10 - Income Statement



Source: Damodaran (2012)

It is a structured way of demonstrating the results of the firm, starting from the revenue obtained through sales, discounting all kinds of expenses and adding other revenue streams. On the bottom line, it is possible to reach the net income, which can be positive (profit) or negative (loss).

A well-known acronym used in financial markets is EBITDA, which stands for earnings before interest, tax, depreciation and amortization. Rosembaum and Pearl (2009) state that EBITDA is the sum of EBIT (earnings before interest and tax) and depreciation and amortization. EBITDA is not an accounting measure and therefore, if disclosed in financial reports, is presented separately from the Income Statement. Is important to mention that EBITDA is useful for understanding the potential of cash flow generation of a company, as well as for comparing the profitability of different businesses, once it considers only operating results.

The **Balance Sheet** shows the financial position of the company in terms of its goods, receivables and payables. Differently from the Income Statement, which shows the results of the firm during certain period, the first refers to a specific moment. A Balance Sheet is a snapshot picture at a moment in time. On the one-hand it shows the value of assets (possessions) owned by the business and, on the other, it shows who provided the funds with which to finance those assets and to whom the business is ultimately liable (MOTT, 2005).

Therefore, the document is composed by two parts, assets and liabilities and shareholder´s equity, as shown on Figure 11. Both parts are divided into accounting lines, which represent rights or obligations of the company concerned. It is important to emphasize that the sum of the assets of the company must always be equal to the sum of the liabilities and shareholders' equity.

Figure 11 - Balance Sheet

ASSETS	LIABILITIES AND SHAREHOLDER´S QUITY
	Current Liabilities
Current Assets	Accounts payable
Cash and Cash Equivalents	Accrued wages
Investments, within twelve months	Accrued compensation
Inventories	Income taxes payable
Accounts receivable	Debt, within twelve months
Pre-paid expenses	Others
Others	Non-current Liabilities
Non-Current Assets	Defered tax payable
Property, plant and equipment	Debt, over twelve months
Leasehold improvements	Others
Investments, over twelve months	Shareholder´s Equity
Intangible assets	Investment capital
Others	Accumulated retained earnings
	Reserves
Total Assets	Total Liabilities and Shareholder´s Equity

Source: Author, based on Mott (2005) and Marion (2015)

Marion (2015) states that in order to be considered an asset, the following characteristics are required: be a good, right or property, be measurable in cash and generate present or future benefit. It should be mentioned that some durable assets lose their potential to generate value gradually, and this loss is discounted from the asset value as time goes by. The discount is called depreciation.

The liabilities represent debt and obligations the organization owes to other parties, while shareholder´s equity refers to the net value of the company (total assets net of total liabilities), as is composed by invested capital, accumulated profit or loss and reserves.

Assets and liabilities are divided between current and non-current, according to the time horizon considered. Current represents a horizon of 12 months or less and non-current for over 12 months. Current assets and liabilities suffer frequent variations in value, since they are moving constantly.

From the Income Statement and the Balance Sheet, some useful well-known indicators can be calculated: return on assets (ROA) and return on equity (ROE). ROA is defined as the ratio between operating profit (EBIT) and total assets, while ROE as the ratio between profit and equity attributable to equity holders. Margins such as EBITDA margin, EBIT margin and profit margin are the ratio between the figure considered and revenue. Another relevant figure is earnings per share (EPS), defined as the ratio between net profit and the quantity of outstanding shares of the firm.

Accounting information is included and communicated periodically by listed companies through an official document called an **Annual Report** which summarizes the monetary value of assets the company holds at a given moment (usually, the end of the year), and the economic and financial transactions the company undertook in a given period (usually, a fiscal year). Reports are one of the most crucial ways a firm communicates with investors and the market as a whole, and due to its relevance, the documents, the figures and all the calculation undergo an auditing process by third parties according to the applicable standards and regulations.

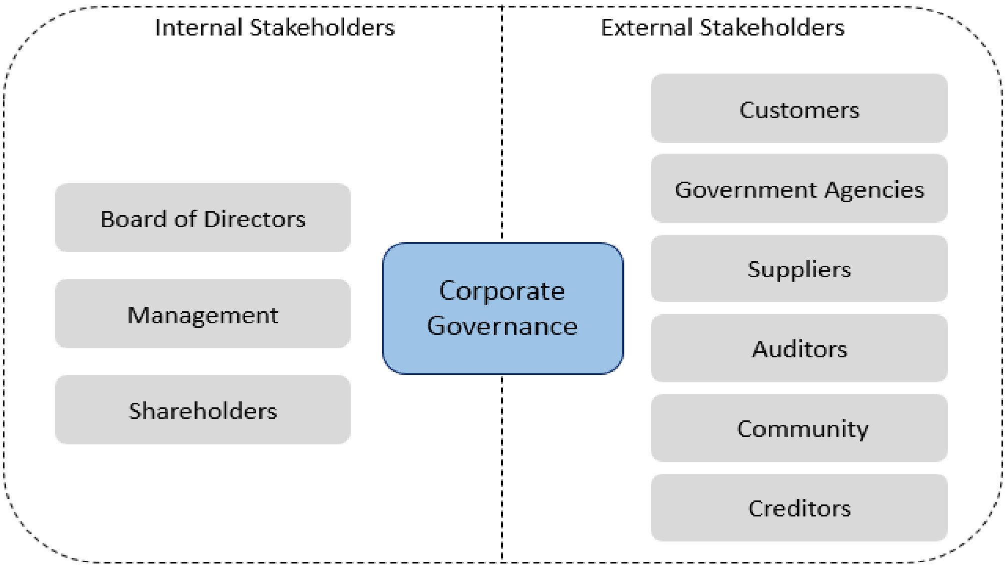
2.2 Corporate Governance

Listed firms suffer from incentive problems, which are a consequence of different objectives of managers, shareholders and stakeholders. Therefore, a system of checks and balances is required, in order to maintain the company in the path to maximize its value and create benefits to all stakeholders.

Corporate governance is about how public companies are structured and directed. Every strategy, every innovation in product, operations, and marketing, every acquisition and divestiture, every decision about asset allocation, finance, joint ventures, financial reports, systems, compensation, and community relations – every decision and every one of the thousands of decisions within each one – is determined by some part of the system of corporate governance (MONKS e MINOW, 2011).

Hence, corporate governance is a set of systems, principles and processes through which a firm is governed in the direction of its objectives. Its main players are the executives, the board of directors and the shareholders of a company. However, it is relevant to stress that corporate governance considers not only internal stakeholders, but also external ones, as shown on Figure 12.

Figure 12 - Corporate Governance



Source: Author, based on Monks and Minow (2011)

The main principles of corporate governance are related to rights and treatment of shareholders, interest of stakeholders, responsibilities of the board, integrity, ethical behavior, disclosure and transparency. The principles are crucial for the maintenance of a prosperous business and a good relation with investors.

In essence, according to Monks and Minow (2011), corporate governance is a structure intended to guarantee that the right questions are being asked, and to provide checks and balances that secure that the answers reflect the intention of creating long-term, sustainable and renewable value.

2.3 Financing and Leverage

Brealey, Myers and Marcus (2001) classify the **financing strategies** as internal and external. The first refers to the situation where company´s own retained earnings, coming from its net profit, are ploughed back to the firm, increasing shareholder´s investments. The second covers all the solutions of debt and equity financing.

Generally, debt financing is related to scenarios where the lender borrows money and agrees to repay it in the future, with the addition of interest. The most usual forms of debt are bank loans and bonds. A peculiarity of this strategy is the limited liability of corporations, which means that the repayment commitment is not always met. If a firm has financial problems, it has the right to default and hand over its assets to the lenders.

Equity financing, on the other hand, is associated to the raise of capital through the issue of shares. This happens considering a restricted group of investors or the general public, in private placements or public issues, respectively.

There are many differences between debt and equity solutions: when the firm borrows, it promises to repay the debt with interest. If it doesn't keep its promise, the debtholders may force the firm into bankruptcy. However, no such commitments are made to the equity holders. They are entitled to whatever is left over after the debtholders have been paid off. For this reason, equity is called a *residual claim* on the firm (BREALEY, MYERS e MARCUS, 2001).

Different possibilities of debt and equity financing will be exposed in detail on the Discussion chapter of this work, as well as the Pecking Order Theory by Myers and Majluf (1984). This theory states that, as a consequence of the increasing cost of financing, firms will resort firstly to internal funds, then to debt solutions and lastly to equity financing.

A relevant observation by Brealey, Myers and Marcus (2001) is the existence of innovative and unusual products, such as indexed bonds, asset-backed bonds, reverse floaters and even convertible securities. The latter are hybrid products that can be converted from debt to equity and vice versa, based on the interest of the party that holds the right to exercise the conversion.

Another key concept related to this issue is the **financial leverage**. Financial leverage refers to the extent to which a firm relies on debt. The more debt financing a firm uses in its capital structure, the more financial leverage it employs (BREALEY, MYERS e MARCUS, 2001). In order to explain the leverage more in detail, it is fruitful to introduce the weighted average cost of capital (WACC) and the optimal capital structure.

WACC represents the firm´s overall cost of capital, based on the ratio between debt and equity, the cost of debt and the cost of equity. According to Brealey, Myers and Marcus (2001), in order to maximize stock value, the company will seek the lowest possible WACC, once it enables the maximization of the firm´s cash flows, and consequently, the maximization of the value of the organization. A particular debt-to-equity ratio represents the optimal capital structure when it results in the lowest possible WACC.

In financial markets, there are several indicators used to assess the leverage degree of a company and the most common one is the debt-to-equity ratio (defined as total liabilities divided by total equity or the sum of non-current interest bearing loans and borrowings, current interest bearing loans and borrowings and bank overdrafts, divided by total equity). Other indicators may be used, such as the ratio between net financial debt (defined as non-current and current interest-bearing loans and borrowings and bank overdrafts minus debt securities and cash and cash equivalents) and EBITDA, as used AB InBev SA/NV.

Companies use the financial leverage in order to make investments funded by debt and to disclose more attractive indicators to investors, especially ROE and EPS. However, it is crucial to stress that the higher the debt-to-equity ratio, the higher is ROE´s variance and the amount of interest to be repaid to lenders, resulting in a riskier perception of the firm by the market.

2.4 Growth Strategies

According to Lockett, Wiklund, *et al.* (2009), managers of a company face mainly two strategic options regarding to growth: organic growth and acquisitive growth (referred to as inorganic growth in this work). Both strategies incur adjustment costs, which consist of time, effort and resources required to expand the firm in terms of integration of new managers and the operations.

Organic growth refers to internal generation of resources such as new competences, new staff, new business lines, new products, new markets and new operations. An adequate indicator to measure organic growth is company´s revenue.

Many resources are complex, integrated, firm specific and involve tacit knowledge, which means they are extremely difficult to trade individually. Furthermore, the construction of a solid foundation that can sustain growth takes a long period of time.

Those barriers lead to the second type of growth: acquisitive or inorganic growth. This strategy arises when one firm buys controlling interest in another firm and the acquired business is integrated within current operations or becomes a subsidiary of the acquirer´s portfolio (LOCKETT, WIKLUND, *et al.*, 2009). It enables the managers to acquire complete sets of resources, being an attractive alternative to organic growth, especially considering the time span.

Penrose (2009) affirms inorganic growth allows firms to break new paths of development and access new opportunities, being best suited for companies that lack ability to expand organically. She also mentions that adjustment costs in a merger or acquisition arise because manager´s time and capabilities will have to be dedicated to the integration of resources of the acquired firm, rather than to internal activities.

The recommendations about expansion in the selected geographical segments will be drawn based on the concepts and considerations presented in this chapter, AB InBev SA/NV´s capital allocation objectives and its current situation.

3 METHODOLOGY

In this chapter, an explanation about the case study methodology will be introduced.

3.1 Selection and Dimensions of a Case Study

Yin (2009) states that case study is only one among many several ways of developing science research. In general, case studies are preferred method when (a) “how” and “why” questions are being posed, (b) the investigator has little control over events, and (c) the focus is on a contemporary phenomenon within a real-life context (YIN, 2009). Therefore, it is reasonable to justify the selection of such methodology to develop the present work about AB InBev SA/NV: “how” and “why” open issues are raised from actual context where the author has no interference.

According to Yin (2009), case studies are used in many situations and fields of knowledge, from psychology and sociology to political sciences and business. However, in all these scenarios the need for such method arises out of the desire to understand complex phenomena. The present work is an application of the case study methodology to the beer business.

A peculiarity of case studies is that there will be many more variables of interest than data points. In response, an essential tactic is to use multiple sources of evidence, with data needing to converge in a triangulating fashion. This challenge is only one aspect that makes case study research “hard”, although it has classically been considered a “soft” form of research. (YIN, 2009).

Scholz and Tietje (2002) point seven dimensions of case studies: design, motivation, epistemological status, purpose, data, format and synthesis. Each dimension presents two or more classifications as shown on Figure 13.

Figure 13 - Case Studies Dimensions and Classifications

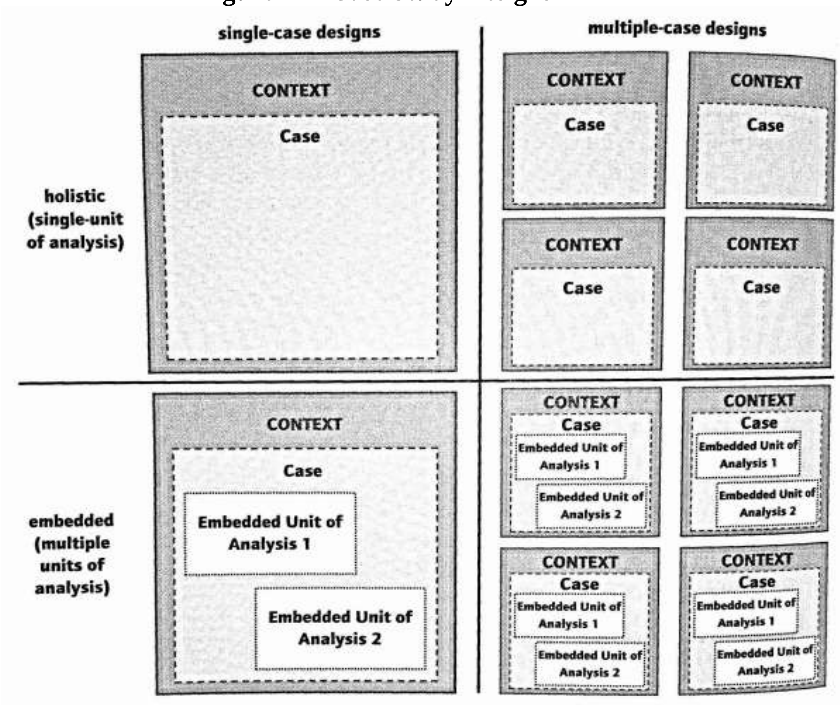
Dimensions	*Classifications*
Design	Holistic or embedded Single case or multiple case
Motivation	Intrinsic or instrumental
Epistemological status	Exploratory, descriptive, or explanatory
Purpose	Research, teaching, or action/application
Data	Quantitative or qualitative
Format	Highly structured, short vignettes Unstructured or groundbreaking
Synthesis	Informal, empathic, or intuitive Formative or method driven

Source: Scholz and Tietje (2002)

The adequate classification is an important step to introduce the discussion and to align expectation with the readers of this work.

Regarding to design, this case study is considered as embedded, once it involves more than one unit or object of analysis and is not limited to qualitative analysis alone (SCHOLZ e TIETJE, 2002). It is a multiple case, once the units or objects of analysis are approached under different sets of information. Figure 14 illustrates the possible designs of case studies.

Figure 14 - Case Study Designs



Source: Yin (2009)

This work is intrinsically motivated, once it was a result of the will of the author to investigate the case of AB InBev SA/NV for nonscientific reasons, which means that the objective of the present analysis is not related to the development of new theories or application of scientific methods. It is considered an exploratory case study, once it helps to gain insight into the structure of a phenomenon in order to develop hypotheses, models or theories and it is not based on a reference theory or model (SCHOLZ e TIETJE, 2002).

The purpose of the present work is mainly related to teaching intentions. Clearly, the goal of teaching by case studies is to improve one's ability to solve problems. Case studies are good for problems where truth is relative, reality is realistic, and a structural relationship is contingent. Hence, case teaching focuses primarily on the development of understanding, judgment, and intuition (SCHOLZ e TIETJE, 2002). The "learning by doing" principle applies and the problem becomes the student´s own. This way, readers shall develop the capacity to ask appropriate questions, to listen carefully and respond constructively, to deal with uncertainty, to reward and to punish, and to create learning environments of openness and trust (BARNES, CHRISTENSEN e HANSEN, 1994). Thus, teaching by means of case studies should be conceived of as open learning approaches that encourage community involvement-an active, democratic approach (SCHOLZ e TIETJE, 2002).

In terms of data, this a typical mixed case study. Both types of data are crucial to the discussion of the open issues proposed. For this reason, in each topic, both qualitative and quantitative data are provided.

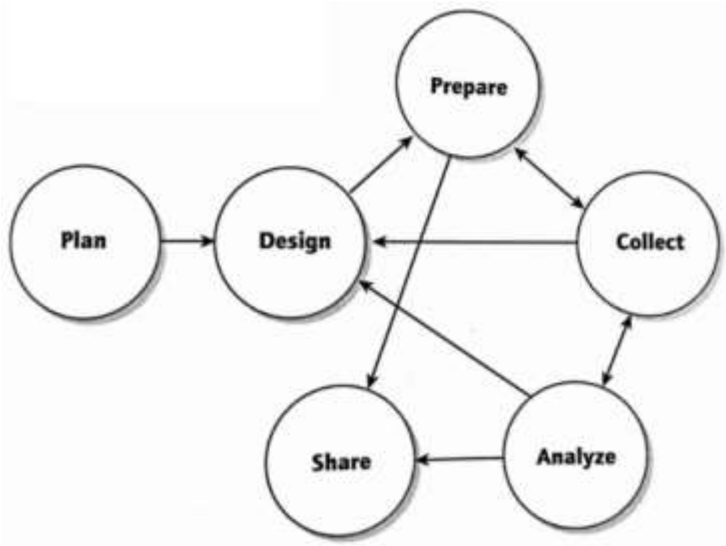
The format of the present work is an unstructured case due to three reasons: it has no best solution, some theory is explained during the resolution and contextual information is necessary to propose solutions.

As the case study report is similar to a narrative, its synthesis process is considered to be informal, emphatic or intuitive, once the author guides the audience through data and several assessments, pointing out possible recommendations.

3.2 Case Study Process

Yin (2009) divides the case study research in six stages, resulting in a linear but iterative process, as show on Figure 15.

Figure 15 - Case Study Process



Source: Yin (2009)

The first stage, "Plan", consists on the selection of the case study method as the proper method to assess the issue and also on the understanding of the scope, strengths and limitations of such a method. The case study is selected to analyze financial and strategic aspects of AB InBev SA/NV once, as mentioned in the beginning of this chapter, "how" and "why" open issues are raised from actual context where the author has no interference.

Subsequently, in the "Design" stage, the units of analysis that will be studied are defined and the dimensions are set. To fit the characteristics expected by the author, the present work was developed as an embedded, multiple, unstructured, exploratory, intrinsically motivated case study, with mainly teaching purpose, qualitative and quantitative data and an informal, emphatic or intuitive synthesis. A research design is the logic that links the data to be collected (and the conclusions to be drawn) to the initial questions of the study (YIN, 2009).

In "Prepare", the investigator of the case study (i.e. the author of this work) shall hone their skills in order to develop an enriching assessment. The preparation of the investigator is considered one of the most important steps in the whole process, especially because of the high degree of difficulty imposed by such method. In fact, case study research is among the hardest types of research to do because of the absence of routine procedures. Case study investigators therefore need to feel comfortable in addressing procedural uncertainties during the course of a study (YIN, 2009). Besides coursing subjects related to strategy, accounting, corporate finance, financial markets and entrepreneurship at Escola Polténica da USP, in São Paulo and Politecnico di Milano, in Milan, the author of this case study has attended mentoring meetings with professors from both Universities for guidance and counseling referring to the structure and content of the present work.

Afterwards, in “Collect”, multiple sources of information are used, a case study database is established and a chain of evidence is drawn. According to Yin (2009), these three paramount principles are crucial to any data collection effort in doing case studies. In the present work, reports and presentations disclosed by breweries around the world, academic articles, books and websites represent the main origin of data, and from them, the database is set.

In the fourth stage, “Analyze”, theoretical propositions and strategies are applied and discussed. Analyzing case study evidence is especially difficult because the techniques have not been well defined. To overcome this circumstance, every case study analysis should follow a general analytic strategy (YIN, 2009). In the present work, depending on the open issue approached, a different strategy to guide the assessments was selected by the author, in order to reach possible recommendations.

The final stage, “Share”, represents the concerns about textual and visual aspects of the material and the display of evidence for the reader to reach his/her own conclusion. Reporting a case study means bringing its results and findings in a clear and data-supported manner, and more importantly, leaving the discussion open to other viewpoints and judgements. In the present work, the conclusion synthetizes the suggestions drawn by the author and introduces correlated issues that can be approached in future studies.

4 DISCUSSION

In this chapter, an analysis of each of the open issues raised will be developed. Alongside the discussion, possible recommendations for the company will be drawn.

4.1 In which geographic segments would it make more sense to focus investments?

As seen previously, the largest portion of the company's revenue comes from North America, followed by Latin America North, Asia Pacific, EMEA, Latin America West and Latin America North. In order to choose one or more geographical segments to focus, it is crucial to understand the beer market in each.

Table 6 shows the distribution of volume of beer around the globe in 2015, together with the global market share in decreasing order, according to Kirin Holdings Company:

Table 6 - Distribution of 2015 Beer Volume per Region

Region	2015 Consumption in Billion Liters	Global Market Share
Asia	63.300	34.4%
Europe	49.572	27.0%
Central and South America	28.325	15.4%
North America	26.263	14.3%
Africa	12.952	7.0%
Oceania	2.175	1.2%
Middle East	1.195	0.7%
Total	183.782	100.0%

Source: Adapted from Kirin Holdings (2015)

As the table informs, the global total volume was 183.78 billion liters. According to the data disclosed in the 2015 full reports, AB InBev SA/NV has produced 22.49% of it and The Heineken Company, the second largest, has produced around 11%.

Table 7, with data from the same source, shows 2015 volumes of the top 25 beer consuming countries in the world, together with the percentage of global market share. The last column indicates the geographic segment of the country according to AB InBev SA/NV's division.

Table 7 - Beer Volumes of the Top 25 Consuming Countries in 2015

Country	Ranking	Volume in Billion Liters	Global Market Share	Geographic Segment for AB InBev SA/NV
China	1	43.266	23.54%	Asia Pacific
USA	2	24.245	13.19%	North America
Brazil	3	9.283	5.05%	Latin America North
Russia	4	8.633	4.70%	EMEA
Germany	5	8.45	4.60%	EMEA
Mexico	6	7.371	4.01%	Latin America West
Japan	7	5.38	2.93%	Asia Pacific
United Kingdom	8	4.404	2.40%	EMEA
Vietnam	9	3.832	2.09%	Asia Pacific
Poland	10	3.823	2.08%	(no sales)
Spain	11	3.821	2.08%	EMEA
South Africa	12	3.072	1.67%	EMEA
India	13	2.457	1.34%	Asia Pacific
South Korea	14	2.35	1.28%	Asia Pacific
Colombia	15	2.289	1.25%	Latin America West
Venezuela	16	2.101	1.14%	(no sales)
Canada	17	2.018	1.10%	North America
France	18	2.012	1.09%	EMEA
Czech Republic	19	1.93	1.05%	(no sales)
Thailand	20	1.881	1.02%	Asia Pacific
Ukraine	21	1.878	1.02%	EMEA
Argentina	22	1.875	1.02%	Latin America South
Romania	23	1.797	0.98%	(no sales)
Australia	24	1.735	0.94%	Asia Pacific
Italy	25	1.73	0.94%	EMEA

Source: Adapted from Kirin Holdings (2015)

Some points from the tables catch attention: firstly, the top 25 countries consumed 82.51% of the total consumed in 2015; and secondly, the largest brewery in the world has no sales in 4 of them: Poland, Venezuela, Romania and Czech Republic. The last one is the country with highest volume per-capita in the world, for the 23rd consecutive year. Poland is currently the 6th.

Table 8 indicates the total beer volume in each of AB InBev SA/NV segments and how the group is performing in each one of them. Information from Table 6 and Table 7 as well as the group's full 2016 annual report were used. The rows on the right side show the maximum increase that would be possible if the Brazilian-Belgium brewery, in an ideal scenario, could capture all the existing demand from its competitors, based on the revenue the company had every 100 liters in each segment in 2016.

Table 8 - Beer Market, Company´s Performance and Potential per Segment

	Total Volume per Segment* (2015) (billion liters)	AB InBev SA/NV Market Share per Segment**	Potential Maximum Increase in Volume per Segment*** (billion liters)	AB InBev SA/NV Revenue every 100 liters**** (US$)	Potential Increase in Revenue per Segment with Current revenue/100 liters (US$ billion)
North America	26.26	38.60%	16.12	134.30	21.65
Latin America North	13.46	76.03%	3.23	71.70	2.31
Asia Pacific	65.48	12.22%	57.47	65.82	37.83
EMEA	63.72	10.26%	57.18	79.76	45.61
Latin America West	11.33	48.69%	5.81	81.55	4.74
Latin America South	3.53	79.03%	0.74	88.62	0.66
Total	183.78	-	140.56	-	112.81

Source: Author, based on company´s information and Kirin Holdings (2015)

*total volume based on Table 6 and distributing Central and South America according to the countries in each segment

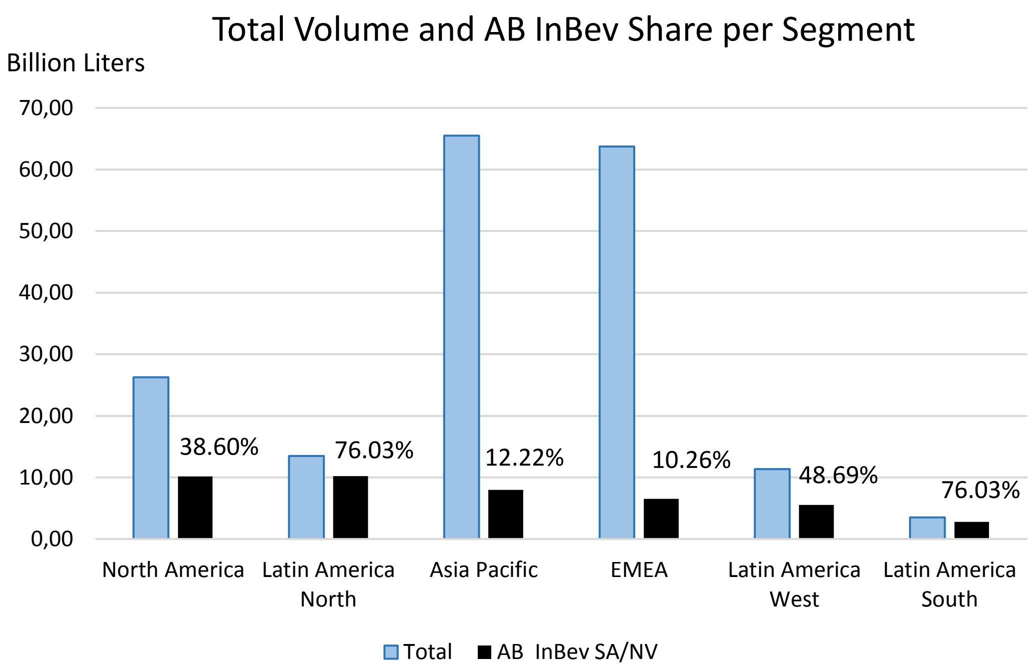
**market share calculated using volumes produced by the company in 2016 considering only beer (the discount of not-beer beverages was done using the proportion of the whole company to all the segments)

***potential maximum increase considers that the overall consumption of beer is stable for the future years, as Kirin Holding Company Reports indicates

****2016 revenue every 100 liters was calculated considering all the beverages

Figure 16 illustrates the current situation:

Figure 16 - Total Volume and AB InBev SA/NV Share per Segment



Source: Author, based on Table 8

Analyzing both Table 8, especially the row on the right, and Figure 16, it is reasonable to affirm that the brewery’s challenge is complicated. If it is assumed that the beer market as a whole is not growing, the maximum potential increase in revenue the company may have is US$112.81 billion. This means that, based on the combined expected revenue for 2017, US$55.5 billion, the company still has to capture US$44.5 billion from its competitors, increasing its income by 80%. Considering the most feasible case, in which the company reaches the goal by 2022, it would mean a CAGR of 12.50%.

The **three Latin American segments** do not present good perspectives, once in the best-case scenario the group would be able to raise its revenue only by US$7.71 billion. Considering also the market shares on those segments one can assess that it would be really difficult to increase participation in Latin America South (currently 79.03%) and Latin America North (currently 76.03%). The market share the group possess is already high and trying to increase it further could generate a series of reactions from market authorities. Another point that would make improvement in these segments hard is the fact that competing breweries, who control the rest of the market, probably have loyal customers and its owners may not want to sell their businesses. Thinking about Latin America West, where the market share is 48.69%, the possibilities are better. The segment has two top 25 consuming countries (Mexico and Colombia) where AB InBev already operates. Furthermore, the brewery has no sales in Venezuela, the 16th largest beer consumer, probably due to the country's risk caused by general crisis of past years. However, even if AB InBev could capture the whole demand of the region, the increase in sales would be US$4.74 billion.

Concluding, it would not make sense to focus on any of the three Latin American segments for now. Maybe, in the longer-term, especially if Venezuela recovers, the company could try to raise its participation in Latin America West.

Going in deep in the **North America segment**, where AB InBev SA/NV has a market share of 38.60%, it is possible to estimate that in the US, the Brazilian-Belgium conglomerate has a market share of around 42%, (followed by MolsonCoors with approximately 25%[23]) and in Canada, a market share close to 31% (followed closely by MolsonCoors with approximately 27%[24]). Once again, even though the market size is large (with almost US$22 billion to capture), the difficulty to beat competitors and market regulations might be a huge challenge for AB InBev SA/NV. Remembering the issues the company faced in the SABMiller acquisition by the end of 2016 having to sell Miller to MolsonCoors, it is clear that depending on the market regulators the perspectives for an acquisition and a large improvement are not good. The only option in North America would therefore be organic growth: competing with

[23] Statista (2017)
[24] Statista (2017)

the other breweries could generate some new income. However, even raising market share by 10%, which for sure would be a tremendous challenge, the extra revenue would be only US$3.52 billion.

For those reasons, it seems that investing in growth in the North America segment is not an attractive idea. As a whole, the American continent does not show good perspectives, except for Latin America West, in the long-run.

Both **EMEA and Asia Pacific** are segments where the presence of AB InBev SA/NV is not strong, in fact, they are by far the lowest market shares the company has, with respectively 10.26% and 12.22%. Another appealing fact is that those are the two largest markets by-far, together representing more the 70% of the world's demand. The participation of the Brazilian-Belgium brewery is more recent in Asia, Oceania and Africa and not as consolidated as it is in Latin America, North America and Europe, from where the first three breweries that merged come from: AmBev from Brazil, Anheuser-Busch from US and Interbrew from Belgium. This means that problems with authorities regarding the free competition would be theoretically less severe if the company opts for inorganic growth. On the other hand, cultural, post-merger, corporate governance and legal mismatches are more likely to arise due to large amount of differences between those markets and the ones where the brewery is more used to sell its products.

In terms of the operational challenge, it is believed that AB InBev SA/NV is capable of being economically competitive even in markets where it does not have tradition, as it has proven many times throughout its expansionary background. For those reasons, it looks like both organic and inorganic growth are viable in EMEA and Asia Pacific.

Asia Pacific has seven representatives in the top 25 consuming countries, consuming 35.63% of the global volume, while EMEA has eight and consumes 34.67%. Furthermore, China is the global leader (with almost the double of the volume consumed by US) and among the 25 countries in the ranking, there are three where AB InBev SA/NV does not operate that could be added to the EMEA segment: Poland, Czech Republic and Romania.

It is true that the competition in both segments is tough, The Heineken Company and Carlsberg Group have strong presence in Europe but the combination with SABMiller can be a game-changer in the EMEA region in favor of the world leader, especially due to Africa. The Asia Pacific market also has large companies, and the major players are: Asahi Group, Beijing Yanjing Brewery, Carlsberg Group, United Breweries Group, SABMiller (already a part of AB InBev SA/NV group), Tsingtao Group, China Resource Snow Breweries and Kirin Holdings.

Even though the world consumption as a whole is expected to be stable, the perspectives for Asia Pacific are attractive: the market size is expected to grow with a CAGR of 7.3% between 2014 and 2020, reaching US$202 billion[25] annually by the end of the period. For this reason, the major players in the global brewing industry have their sights firmly set on the area. They are motivated by the ease of gaining market share when the market is growing, once there is no need to capture a customer that already has an established relationship with another brand.

It is important to highlight that even a small percentage increase in large markets like EMEA and Asia Pacific can represent a large amount in terms of revenue. For instance, capturing 20% of the Potential Maximum Increase in both markets would create almost US$17 billion in sales.

Other information from Table 8 that seems promising is the fact that Asia Pacific and EMEA are the last and the 4th in terms of revenue generated every 100 liters of beer sold. Following the *premiumnization*[26] trend that happens worldwide, it might be profitable to make marketing efforts with the aim of raising prices. Another initiative could be a change in brand mix which would increase sales of more expensive beers.

Finally, it is possible to **conclude** that AB InBev SA/NV should focus its investments in Asia Pacific and EMEA for a series of reasons: these are the two largest markets and where the company has the lowest market share; both organic and inorganic growth are possible; the group has proven to be able to deal with new different landscapes; SABMiller combination can be a game-changer in these segments; Asia Pacific market is growing in a fast pace; small percentage volume increase means large increase in income; it seems feasible to raise prices.

4.2 Which is the best way for the company to expand its business? Should AB InBev SA/NV choose organic or inorganic growth? If organic, how? If inorganic, which would be interesting companies to acquire?

According to the analysis developed in the previous section, it was possible to conclude that EMEA and Asia Pacific are the most appealing market segments to focus investments, but which is the best way to expand in each one?

The **EMEA segment** is composed by Europe, Middle East and Africa.

The **European** beer market is very competitive and AB InBev SA/NV has a good presence in Western and Central Europe, Russia and Ukraine, but not in the Eastern or Nordic countries.

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[25] The Drinks Business (2015)
[26] Forbes (2016)

Actually, in order to fulfill antitrust requirements, AB InBev SA/NV sold SABMiller's brands that are well recognized in the east (such as Pilsner Urquell, Kozel and Tyskie) and even some important brands in the west (such as Peroni and Grolsch) to the Japanese Asahi Group. The Belgium-Brazilian group has no presence in crucial countries in the east market such as Czech Republic, Poland, Hungary, Slovakia, Croatia and Romania. However, the presence is satisfactory in Russia and Ukraine and as show on Table 7, they are the 4th and 21st largest markets in the world.

According to Appendix G, it is clear that Carlsberg Group and The Heineken Company focus much more effort on the east and in the Nordics, making it difficult for the world leader to penetrate without an acquisition. However, as has already happened, market authorities do not seem to let AB InBev SA/NV inorganically expand its business in this area. The same restrictions in terms of takeovers apply to the west, once the brewery had to sell brands in the region to close the SABMiller deal. Hence, in the European market as a whole, it looks that the best option is organic growth in Western and Central Europe, Russia and Ukraine. Fortunately, expanding existing sales is the priority of the group according to the capital allocation objectives disclosed.

AB InBev SA/NV does not own national brands in many countries in the west and center of the continent, which means that in those countries the revenue flows from the sales of brands imported from countries in the European Union. Belgium, Germany, UK and Spain are the places where the conglomerate owns well-recognized brands. On the other hand, Italy, France, Switzerland, Austria, Netherlands and Portugal are countries with no important national brands, as seen in Table 9, with the relevant brands in terms of volume:

Table 9 - Relevant Local Brands in Western and Center Europe

	Key Local Brand	Owner
Italy	Moretti	The Heineken Company
	Peroni/Nastro Azzuro	Asahi Group
	Poretti	Carlsberg Group
France	Kronenburg/1664	Carlsberg Group
Switzerland	Feldschlösschen Getränke	Carlsberg Group
Austria	Brau-Union Österreich	The Heineken Company
	Stiegl	Stieglbrauerei zu Salzburg
Netherlands	Heineken/Amstel	The Heineken Company
	Groslch	Asahi Group
	Bavaria	Bavaria Brewery
Portugal	Super Bock	Unicer
	Sagres	The Heineken Company

Source: Author, based on Euromonitor (2017)

The imported beers in those countries are always more expensive, making competition with local brands a challenge. Once EU has generally no taxes between member states, lowering profit margins in order to compete in price with national brands may be feasible and interesting, especially because the imported beers from Germany and Belgium (countries with tremendous tradition and quality in beer production and where AB InBev SA/NV owns a series of worldwide known brands) are usually already seen as *premium*. As the goal was developed in terms of revenue and not necessarily profit, reducing the margin for some years should make sense to boost organic growth and create more brand recognition. Of course, for longer-term, after volume expansion and brand building, the company could raise margins again.

In Russia, AB InBev SA/NV has a market share of around 17%[27], in the second position after Carlsberg (39%) and right ahead of Heineken (15%). The Belgium-based group has its revenues flowing from national brands and from imported global brands such as Stella Artois and Budweiser. The Ukrainian market is led by AB InBev SA/NV, with 35%[28] volume market share. The company own three brands including the market leader, Chernigivske. The most relevant competitor is the Carlsberg Group, with 29%.

With the intention of growing revenues, the company could focus on the more expensive imported brands in Russia, once the difficult economic environment and pressure from smaller local breweries create a scenario in which is not rational to compete in price. Moreover, the

[27] Global Agricultural Information Network of the United States (2016)
[28] Euromonitor (2017)

beer market is expected to decline with a CAGR of -2%[29] until 2020 due to economic recession. In situations like this, usually the volume of high-end beer is the one that varies the least, with high-income citizens being the less impacted ones.

In Ukraine, there will be the halt of the importation of Russian beer, meaningful in terms of volume, because of the introduction of a trade embargo. This means that local brands will have a chance to fill this demand. AB InBev SA/NV, as the market leader, is in the best position to seize this opportunity: focusing strategy in marketing efforts and low prices could improve sales and raise market share.

The representation in **Middle East** is given by Anadolu Efes, a Turkish associate company responsible for production and commercialization of Efes Pilsen, the market leader in the country with 63%[30] market share. The company is 24% owned by AB InBev SA/NV. Nevertheless, an expansion in the Middle East seems unlikely due to market restrictions and Islamism, the predominant ideology in the area that considers alcohol consumption unlawful. Additionally, the minority stake the Belgium-based firm owns in Anadolu Efes does not grant a commanding position, which means the decision-making is mostly done by other shareholders.

As mentioned before, the acquisition of the SABMiller group has created great opportunities for the world leader to penetrate the **African market**. Currently, AB InBev SA/NV has participations in breweries in nine countries in Africa: Botswana, Ghana, Mozambique, Nigeria, South Africa, Tanzania, Uganda, Zambia and Zimbabwe. The national market share position and the participation of Brazilian-Belgium group are shown in Table 10:

Table 10 - Participation and Market Share Ranking of African Breweries

Country	Population (million)	% of African Population	Company	National Market Share Ranking	AB InBev SA/NV Partcipation
Nigeria	182	16.0%	Intafact Beverages	second	37.5%
			International Breweries	third	36.0%
South Africa	55	4.8%	South African Breweries	first	100.0%
Tanzania	51	4.2%	Tanzania Breweries	first	36.0%
Uganda	37	3.1%	Nile Breweries	first	61.8%
Mozambique	28	2.2%	Cervejas de Moçambique	first	49.1%
Ghana	27	2.2%	Accra Brewery	second	59.84%
Zambia	15	1.3%	Zambiam Breweries	first	54.0%
Zimbabwe	14	1.2%	Delta Corporation	first	25.0%
Botswana	2	0.2%	Kgalagadi Breweries	first	31.0%

Source: Author, based on company´s information, Worldometers (2017) and Euromonitor (2017)

[29] Euromonitor (2017)
[30] Euromonitor (2017)

Africa is the most promising of the emerging markets, as it is projected that by 2025, one-fifth of the world's population will be living in the continent[31]. Furthermore, over half of the expected growth worldwide between 2017 and 2050 is likely to occur in Africa. Nigeria, for instance, is expected to become the world's third largest population by 2050 according to the United Nations[32]. Considering also the highest urbanization and GDP growth rates, the scenario of this region seems quite attractive.

An interesting African trend is the related to the craft beer market: as the middle class grows, the microbrew market is also predicted to flourish. Craft beer is expected by specialists to appear in large urban centers, particularly the ones with intense business and tourism activities[33].

The list of the top 15 African countries by population is also a relevant data in order to appraise what are the most interesting moves for the world leader in the African continent:

Table 11 - Top 15 African Countries by Population

Country	Ranking	Population (million)	% of African Population	AB InBev SA/NV Presence
Nigeria	1	182	16.0%	yes
Ethiopia	2	99	7.8%	no
Egypt	3	89	7.7%	no
D. R. Congo	4	77	6.7%	no
South Africa	5	55	4.8%	yes
Tanzania	6	51	4.2%	yes
Kenya	7	46	3.8%	no
Sudan	8	40	3.3%	no
Algeria	9	40	3.3%	no
Uganda	10	37	3.1%	yes
Morocco	11	34	3.0%	no
Mozambique	12	28	2.2%	yes
Ghana	13	27	2.2%	yes
Angola	14	25	2.1%	no
Ivory Coast	15	23	2.0%	no

Source: Author, based on company´s information and Worldometers (2017)

Based on the information provided, is possible to draw some suggestions regarding the African market.

[31] Borgen Maganize (2016)
[32] CNN (2017)
[33] Beverage Daily (2016)

On the countries where AB InBev SA/NV is already present, organic growth focusing on marketing efforts to expand consumer base or to create new products is recommended, particularly in Nigeria, South Africa, Tanzania, Uganda, Mozambique and Ghana, due to the high population (and consequently higher potential of growth in terms of volume) and the solid presence of the group. It is important to stress that one of the two countries where the Belgium-based company does not own participation of the market share leader is Nigeria, the largest market. The Heineken Company owns more than one third of the absolute leader, Nigerian Breweries, with about 65% of volume share[34]. Therefore, the perspectives in Nigeria are not the best.

Out of the top 15 most populated African countries, AB InBev is present only in 6, which means there is a lot of room for growth within the continent. It would make more sense for the company to avoid large acquisitions at the moment as their first priority in the capital allocation is their organic growth. Egypt, Sudan, Algeria and Morocco are countries where Islam is the dominant religion, being practiced by more than 90% of the population in each country. As mentioned previously, alcohol consumption is considered unlawful by this ideology, which means that AB InBev SA/NV should not focus on such countries, which summed up, represent roughly 19% of the African population.

Ethiopia, Democratic Republic of Congo, Kenya and Angola represent more than 20% of the population and do not have Islam as their main religion. Once the potential market is meaningful, putting effort in trying to expand the brands present in other African countries sounds attractive. All four of these markets are relatively close to Uganda, Tanzania, Zambia, Zimbabwe, Mozambique, South Africa and Botswana, countries where the brewery already possesses a good presence. The same expansion logic applies to the Ivory Coast, but with brands being imported from other countries: Ghana and Nigeria. As organic growth in Nigeria is unlikely due to Heineken clear dominance, maybe an expansion to other country can bring positive results in terms of sales.

A final suggestion to Africa would be to analyze small craft breweries and acquire them if it they are a suitable opportunity, in order to seize the tendency of this kind of product. This applies particularly to countries with large business centers such as South Africa, Kenya and Nigeria.

Regarding the **Asia Pacific segment**, it is key to restate that this market has an expected growth with a CAGR of 7.3% between 2014 and 2020 and that, out of the six segments used

[34] Euromonitor (2016)

by AB InBev SA/NV, it is already the largest. Another key fact is that the segment has the lowest revenue/liter ratio.

In the Table 12, there are the top 15 Asian countries by population:

Table 12 - Top 15 Asian Countries by Population

Country	Ranking*	Population (million)	% of Asian Population*
China	1	1,387	34.8%
India	2	1,299	32.9%
Indonesia	3	255	6.4%
Pakistan	4	192	4.9%
Bangladesh	5	159	4.0%
Japan	6	127	3.1%
Philippines	7	101	2.4%
Vietnam	8	92	2.2%
Thailand	9	68	1.7%
Myanmar	10	52	1.3%
South Korea	11	51	1.2%
Uzbekistan	12	31	0.8%
Malaysia	13	31	0.8%
Nepal	14	28	0.7%
Afghanistan	15	27	0.7%

Source: Author, based on Worldometers (2017)

*ranking and % of Asian Population without considering Russia and Middle East countries

Besides the Asian countries listed above, another relevant market in the Asia Pacific segment is Australia, with a population of 24 million people.

Before going in deep into the analysis of the Asia Pacific market, it is reasonable to discard expansion in the subsequent countries due the elevated percentage of adherents of Islam: Indonesia, Pakistan, Bangladesh, Uzbekistan, Malaysia and Afghanistan.

Hinduism (predominant in India and Nepal) and Buddhism (predominant in Thailand and Myanmar) are ideologies that are not clear about alcohol consumption (differing from the practices of Islam, which explicitly prohibits it), resulting in a taboo related to this issue. Consequently, depending on the geographic area, the sect, the degree of religiousness and even the event, the consumption of alcoholic beverages is accepted or not. Furthermore, in India and Thailand, there are leading local breweries that control close to 50%[35] of the national volume (United Breweries Group and Roon Rawd Breweries, respectively), besides possessing the

[35] Euromonitor (2017)

know-how on dealing with the religious taboo. Thus, it seems logical to avoid dedicating effort to delicate markets where the Hinduism or the Buddhism are so predominant.

Of the remaining relevant countries in the Asia Pacific segment, AB InBev SA/NV sustains leading positions in Australia (with 34% volume market share[36]) and South Korea. In the Oceanian country, the world leader owns 100% of Carlton & United Breweries (CUB). CUB possesses five out of the top ten most sold brands in the country. Lion, a company that belongs to Kirin Holdings, owns four of the top ten most sold[37] and it is AB InBev's main competitor. In South Korea, the Brazilian-Belgium organization fully owns of the Oriental Brewery (OB), number one company in terms of volume[38] closely followed by Hite-Jinro. OB owns top national brands and manages 18 imported brands.

Since AB InBev SA/NV already is the leader in Australia and South Korea with at least one big competitor in both markets, it seems like that organic growth is the only feasible option. Acquisitions, besides not being company's priority, seem unlikely to happen due to eventual restriction by regulators. Hence, in addition to focusing on the increase of number of liters sold, CUB and OB could consider the possibility of raising prices to boost the revenue/liter ratio and make the company achieve higher global revenues.

The remaining countries in the top 15 list are China, Japan, the Philippines and Vietnam.

The Chinese annual beer volume is approximately 4 times the volume of the other three together, and on this country, AB InBev SA/NV holds the rights of eight brands, including the fourth most sold beer: Harbin[39]. In 2015, the Brazilian-Belgium brewery was third with 15.7% market share, after China Resource Snow Breweries (24.6%) and Tsingtao Group (17.9%) and ahead of Beijing Yanjing (10.5%) and Carlsberg (5.0%). Since 2010, the presence of the world leader in China has been growing roughly 1% per year and since 2016, it has been pushing strongly the sales of the US-produced craft-beer Goose Island, as a strategy of promoting pricier beer. [40]

In Japan, however, the conglomerate is not present. Asahi Group leads the market in the land of the rising sun with 35.5% share, followed by Kirin Holdings (30.3%), Suntory Holdings (15.3%) and Saporro Holdings (10.2%)[41].

AB InBev SA/NV is also not present in the Philippines, where San Miguel Brewery controls the market with 93%[42] volume share (the company is 48.6% owned by Kirin Holdings)

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[36] Euromonitor (2017)
[37] Beer and Brewer (2015)
[38] Euromonitor (2017)
[39] Ceoworld Megazine (2014)
[40] Fortune (2017)
[41] Wall Street Journal (2016)
[42] Euromonitor (2017)

and in Vietnam, where Sabeco (51.4%) leads market, followed by Vietnam Brewery Limited (29.7%) and Habeco (13.9%)[43]. The Vietnamese Government holds 89% of the leader and 82% of Habeco, but is has been planning to divest completely in the short-term[44]. Heineken has a 60% stake in the second largest player and Carlsberg has a 10% stake in Habeco[45].

To raise revenues in the Asia Pacific segment, the Brazilian-Belgium conglomerate could therefore seize the leading position in Australia and South Korea as well as try to increase sales of Harbin, Goose Island and the other seven brands it owns in China. However, as the AB InBev SA/NV sales goal of the 2020 Dream Incentive Plan represents an 80% increase by 2022, growing organically in these markets may not be enough. The intense cultural difference between Western and Eastern Hemispheres is another barrier for a fast organic expansion. Hence, the possibility of M&A deals will be analyzed.

It is essential to clarify that, even though deleveraging is second in the capital allocation objectives and that selective M&A is only third, it seems that making a big move in Asia is promising. Solidifying the presence in the continent is not only key to achieve the revenue goal set by the plan, but also to keep the company growing in the longer-run. Additionally, in the EMEA segment, the recommendation is to grow organically in almost the entire segment (accordingly with the number one objective), with exception of acquisitions of minor craft-beer makers in Africa.

As a big move in the Asia Pacific region is what makes sense, the **selection of potential targets** includes only large Asian companies, that is, the ones based in China and Japan. First, an assessment of the **qualitative characteristics** of each company will be made, with the objective of understanding if an acquisition is feasible in terms of restrictions and if it is strategically attractive. Afterwards, a quantitative analysis based on the information provided in 2016 annual reports will be developed, in order to appraise the main figures and indicators.

[43] Industry Sourcing (2015)
[44] Forbes (2016)
[45] Forbes (2016)

Table 13 - Qualitative Aspects of Target Companies

Target Company	Company Presence	Main Possessions	Shareholding Structure	Relevant Facts	Listing
China Resources Beer (CR Beer) [CHINA]	First in China Market Share	Snow: the leading brand by volume in China and in the world 98 breweries in China	51.91% owned by China Resources National Corporation (a state-owned firm that has many different businesses) 0.09% owned by other entities 48.00% free float	CR Snow was a joint venture between CR Beer and SABMiller, but in order to complete the combination with AB InBev, the UK-based firm was forced to sell its 49% stake in CR Snow to China Resources Beer The company is state-controlled and it is unlikely that the Chinese Government would allow a takeover by AB InBev SA/NV	Hong Kong Stock Exchange OTC Markets Group (US)
Tsingtao Brewery [CHINA]	Second in China Market Share Tsingtao brand is present in 94 countries in the world	Tsingtao: second brand by volume in China and spread all over the world 62 breweries and 2 joint-investment breweries in China	30.83% owned by Tsingtao Brewery Group (a state-owned firm) 19.99% owned by Asahi Group 6.12% owned by other entities 43.05% free float	Anheuser-Busch used to own 27% of the Tsingtao Group and it sold 20% to Asahi Group in 2009, one year after the merger with InBev. The other 7% were sold to a Chinese tycoon. In the beginning of 2017, Asahi Group announced that it wants to sell its 20% stake in the Chinese company because it did not meet Tokyo-based firm's expectations Even though the free float share is larger than the state-owned part, the Chinese Government may impose barriers to an eventual deal	Hong Kong Stock Exchange Shanghai Stock Exchange OTC Markets Group (US)

Beijing Yanjing Brewery [CHINA]	Fourth in China Market Share Yanjing brand is present in 15 countries in the world	Yanjing: third brand by volume in China and spread in Asia 43 breweries and 8 affiliated breweries in China	57.40% owned by Beijing Yanjing Beer Investment (a state-owned firm) 7.71% owned by other entities 34.89% free float	The company is state-controlled and it is unlikely that the Chinese Government would allow a takeover by AB InBev SA/NV From all the target companies selected, this is the only with no financial reports or website in English. The cultural difference in this case seems to be the most severe	Shenzhen Stock Exchange
Asahi Group [JAPAN]	First in Japan Share Asahi is present in countries in Asia, Oceania, North America and Europe Second in Italy Share Tenth in Market Share + Craft Beer in the UK Second in Netherlands Market Share First in Czech Republic, Poland, Hungary, Romania and second in Slovakia Market Share	Asahi: leading brand by volume in Japan and spread all over the world 9 breweries in 8 counties 19.99% of Tsingtao Group: second in China Market Share (Asahi announced in 2017 that wishes to sell this stake) Peroni: second brand by volume in Italy Peroni Nastro Azzuro: tenth brand by volume + Meantime: pioneer craft beer in the UK Grolsch: second brand by volume in the Netherlands Key brands in eastern Europe including: Pilsner Urquell, Tyskie, Lech, Dreher and Ursus	5.26% owned by the company itself 28.62% owned by other entities 66.12% free float	Focused also on other alcoholic beverages (besides beer), soft drinks and food. However, alcoholic beverages represented roughly 60% of 2016's revenue Asahi Holdings acquired Peroni, Grolsch and Meantime from AB InBev and Eastern Europe brands from SABMiller in 2016, as the world leader was pressured by authorities in order to close the deal with SABMiller	Tokyo Stock Exchange OTC Markets Group (US)

Kirin Holdings [JAPAN]	Second in Japan Market Share Second in Australia Market Share First in New Zealand Market Share First in Philippines Market Share First in Myanmar Market Share	Kirin Lager: second brand by volume in Japan 9 plants in Japan + breweries of fully or partly owned companies 100% of Lion Brewery: second in Australia Market Share with 4 out of 10 most sold brands and leader in New Zealand 48.6% of San Miguel Brewery: absolute leader in Philippines Market Share 55% of Myanmar Brewery: absolute leader in Myanmar Market Share	0.16% owned by the company itself 20.43% owned by other entities 79.41% free float	Focused also on other alcoholic beverages (besides beer), soft drinks, pharmaceuticals and bio-chemicals. However, alcoholic beverages represented roughly 40% of 2016's revenue Kirin Holdings sold Brasil Kirin to The Heineken Company in the beginning of 2017. The subsidiary represented 11% of the Brazilian beer market and 5.8% of Kirin Holding's 2016 revenue Kirin Holdings invested in Mandalay Brewery in Myanmar, in the beginning of 2017 Kirin plans to invest in Vietnam, once the country's Government wants to divest from local breweries	Tokyo Stock Exchange Nagoya Stock Exchange Fukuoka Stock Exchange Sapporo Securities Exchange OTC Markets Group (US)

Source: Author, based on companies´ information, 4-traders Quotes (2017) and Wall Street Journal Quotes (2017)

Evaluating the information from Table 13 it is possible to draw some conclusions and taper the selection of target companies.

The three Chinese corporations have similar characteristics: they are all focused on the national market and on beer production, they have state organizations as the largest shareholder and all their plants are in Chinese territory. A takeover under these circumstances is unlikely due to protective measures from the Chinese Government, especially when the firms in question are the largest in their market and are literally controlled by the state.

It is true that, between the three, Tsingtao is the most internationalized one: its main brand is available in 94 countries, it has stocks in OTC Markets Group, it has a Japanese company as second largest shareholder and its free float is larger than the Government's stake (which, by its turn, is lower than 50%). Nevertheless, Anheuser-Busch sold its stake in the company in the past and Asahi Group is currently seeking for a buyer for its 20%, since it wants to divest. These are indications that holding a participation in a massive Chinese beer maker may create more concerns than business opportunities.

Besides, AB InBev SA/NV already holds a satisfactory third position in the largest beer market in the world, and more importantly, it has been raising its market share organically 1% per annum since 2010. Therefore, it appears reasonable to concentrate attention in the two Japanese companies for now. It is also valid to remember that AB InBev SA/NV is not present in Japan as of now.

Asahi Group and Kirin Holdings also share some features: they have meaningful presence in other markets rather than Japan, they have no equity participation of Governmental bodies, they have large free floats and they produce other items in addition to beer. Regarding to qualitative aspects, their main difference is given by the presence in foreign countries: while Asahi has sales in high-volume countries in Europe such as Poland, Czech Republic and Italy, Kirin is effective in the Southeastern Asia and Oceania.

The two firms operate other lines of non-beer drinks, which might be strategically attractive to AB InBev, once, as mentioned before, almost 15% of the 50 billion liters of beverage produced in 2016 is not beer. Both firms also sell products that are completely unrelated to the Brazilian-Belgium brewery business: Asahi produces food and Kirin produces pharmaceuticals and bio-chemicals.

An eventual acquisition of one of the companies would generate, for sure, a debate regarding the competitive landscape in some country. As shown on the table, Asahi Group has recently purchased brands from AB InBev and from SABMiller in order to create the necessary market conditions for the closing of the combination. This means that, if the world leader acquires Asahi, the same restrictions faced previously would regain momentum. Conversely, in case of a takeover of Kirin Holdings, the most likely difficulty to emerge could be regarding the Oceanian market. CUB (already owned by AB InBev SA/NV) and Lion (owned by Kirin), together, would control close to 70% of market share and own nine out of the ten most sold brands in Australia. Kirin has just sold Brasil Kirin to Heineken, which means that an eventual pressure from Brazilian authorities is now unlikely to happen.

For both strategy and volume reasons, an acquisition of the two companies seems interesting for the main brewery in the world. However, with the aim of analyzing the situation more in depth the situation, Table 14 and Table 15 can be built using **quantitative data** from the 2016 annual reports officially disclosed.

Table 14 - Key Facts about Asahi, Kirin and AB InBev

	beer volume (billion liters)	non-beer volume (billion liters)	% of beer volume on beverage volume	number of employees	revenue* (billions US$)	beverages revenue (billions US$)	% of revenue coming from beverages
Asahi Group	7.56	5.01	60.14%	23,616	15.69	14.29	91.05%
Kirin Holdings	6.95	6.43	51.94%	39,733	19.07	15.76	82.63%
AB InBev SA/NV	43.40	6.60	86.80%	200,000	45.52	45.52	100.00%

Source: Author, based on companies´ information

*the figure is referring to the whole company, including all business lines

Table 15 - Relevant Information from Asahi, Kirin and AB InBev Reports

(data in billions US$)	revenue*	EBITDA*	EBIT (operating profit)*	profit attributable to equity holders*	net financial debt*	total assets	equity attributable to equity holders	total equity	total liabilities
Asahi Group	15.69	1.89	1.26	0.82	4.77	19.18	7.69	7.78	11.40
Kirin Holdings	19.07	2.33	1.30	1.67	5.42	21.59	6.70	8.70	12.89
AB InBev SA/NV	45.52	16.36	12.88	1.24	107.95	258.38	71.34	81.43	176.96

Source: Author, based on companies´ information

*the figure is referring to the whole company, including all business lines

Based on the information provided, the indicators from Table 16 can be calculated:

Table 16 - Important Indicators about Asahi, Kirin and AB InBev

	EBITDA margin	EBIT margin	profit margin	return on assets	return on equity**	D/E***	D/E****	Net Financial Debt / EBITDA	revenue / employee (thousand US$/person)
Asahi Group	12.06%	8.02%	5.23%	6.56%	10.67%	1.47	0.67	2.52	664.40
Kirin Holdings	12.19%	6.84%	8.73%	6.04%	24.85%	1.48	0.69	2.33	480.07
AB InBev SA/NV	35.94%	28.30%	2.73%	4.99%	1.74%	2.17	1.51	6.60	227.59

Source: Author, based on companies´ information

**return on equity defined as profit attributable to equity holders divided by equity attributable to them

***leverage ratio defined as total liabilities divided by total equity

****leverage ratio defined as non-current interest bearing loans and borrowings + current interest bearing loans and borrowings + bank overdrafts, divided by total equity

Analyzing data from Table 14, it is possible to point out that:

- The Japanese companies have a lot in common and they are both much smaller than AB InBev SA/NV. In general, Kirin is a little larger than Asahi.
- They dedicate much more effort to non-beer beverages (alcoholic or not) than the Brazilian-Belgium group. Between them, Asahi has a higher proportion of beer in the overall drinks volume when compared to Kirin.
- Asahi generated only ⅓ of AB InBev's revenue and Kirin, ⅖.
- They have important participation of businesses unrelated to beverages in their revenue. Kirin Holdings depends more on other businesses than Asahi.

From Table 16, the following statements can be made:

- The Belgium-based company had a much stronger EBITDA and EBIT margin but a lower profit margin when compared to the Japanese, who presented a similar performance.
- Both ROA (return on assets) and ROE (return on equity) of Asahi and Kirin were considerably higher. The low profit margin and return on equity presented by AB InBev can be explained by the combination with SABMiller. Kirin's high ROE catches attention.
- Considering all three leverage ratios, it is clear that the Japanese firms use lighter leverage and show close indicators to each other.
- In terms of revenue/employee, the world leader stands far behind the Japanese, and Asahi demonstrated a better performance than Kirin.

Asahi and Kirin share many great characteristics that make them interesting investment options. Both show strong performance in the Japanese market (where AB InBev is not present) and in other foreign markets, they do not have Government bodies as stockholders, they have more than 65% of free float, they are listed on a global Stock Exchange (Tokyo), more than 80% of their revenue comes from beverages, they presented satisfactory financial indicators in 2016, they have a high revenue/employee ratio and a low leverage if compared to AB InBev. All these common features are attractive, but in order to choose one firm,

Table 17 points out pros and cons comparing the two:

Table 17 - Pros and Cons about Asahi Group and Kirin Holdings

	Asahi Group	Kirin Holdings
Pros	Stronger in Japan Good presence in Europe, especially on the eastern countries Higher proportion of beer in overall beverage volume Higher proportion of beverages revenue in overall sales Higher revenue/employee ratio	Good presence in Southeastern Asia, where AB InBev is not present Higher free float Recently sold Brasil Kirin to Heineken, which reduces authority pressure Plans to invest in Vietnam, where AB InBev is not present Higher overall revenue and higher absolute beverages revenue Better financial performance (especially regarding to ROE)
Cons	Recently acquired European brands from AB InBev SA/NV and SABMiller in order to make the deal between them feasible and this increases the probability of facing difficulties to close deal due to European market authorities.	High probability of facing difficulties to close deal due to Australian market authorities.

Source: Author, based on companies´ information

According to the date presented and the overall context, it seems that Kirin Holdings would be a better acquisition for AB InBev SA/NV because its pros are stronger and its cons are less severe.

Asahi market share in Japan is only 5.2% higher and the markets where Kirin is present can aggregate much more value to the Belgium-based group, once they are mainly Japan and Southeastern Asia, where AB InBev is not present. Moreover, Asia Pacific is the part of the world with the highest expected of growth for beer consumption for the future years.

The countries where Asahi has key brands are not that interesting for AB InBev, once as mentioned earlier, the pressure from market authorities would be greater because many of these brands used to be owned by AB InBev or SABMiller.

It is true that beer represents a higher proportion of Asahi's beverage volume and that Kirin's revenue depends more on other business, however, in absolute numbers, the revenue flowing to Kirin Holdings from beverages is larger than the ones flowing to Asahi. The fact that Kirin has other crucial business lines rather than beverages can actually be converted into an advantage, once the if AB InBev purchases the whole group, it could think about the possibility of selling non-beverage lines and avoid raising the leverage ratios too much.

Other points that favor Kirin are the higher free float, the plans to invest in Vietnam (where the Brazilian-Belgium conglomerate is also not present), better-performing financial indicators and the recent divesture in Brazil, where AB InBev would probably have to struggle with the authorities due to its controlling positon in the country.

Regarding to the cons, suffering pressure from the Australian market authority is of less concern since the Australian market is much smaller than the European and because in the worst-case scenario, AB InBev could negotiate Lion (Kirin's subsidiary in Australia) with another conglomerate.

Of course, a deeper analysis would have to be developed to eventually close the deal with Kirin Holdings, especially in terms of the valuation of the company. Refreshing some concepts is interesting at this point. The market cap or equity value (E) is given by the product between the number of outstanding shares and the share price. The enterprise value (EV), on the other hand, reflects the market value of the entire business, including its net financial position (synthetically, enterprise value equals the sum of equity value and net financial position, where net financial position equals debt minus cash). EV can be considered the takeover price of a business, since the eventual purchaser would take on the company's debts and pocket its cash, gaining the right to all future earnings of the firm.

For a matter of notion of size, Table 18 shows EV and E of the three companies under discussion. The values used were extracted from YCharts and the 2016's average EV an E were calculated based on monthly figures of the last year. It is crucial to mention that the market cap disclosed by AB InBev SA/NV on its annual report (and used earlier on this document) differ from the one show in Table 18.

Table 18 - Equity and Enterprise Values of Asahi, Kirin and AB InBev

(data in billions US$)	2016 EV average	2016 E average	EV as at June 29, 2017	E as at June 29, 2017
Asahi Group	18.41	15.21	30.51	17.60
Kirin Holdings	23.10	14.44	26.78	19.04
AB InBev SA/NV	241.88	192.97	301.21	182.86

Source: Author, based on YCharts (2017)

Both companies enterprise value as of June 29, 2017, are close to only 10% of AB InBev SA/NV, which would represent a small acquisition when compared to SABMiller's, acquired by more than US$100 billion. Therefore, it looks that the acquisition is in fact feasible, even though a more complete M&A assessment is indispensable before any move.

Finally, it is possible to draw some **conclusions** on how the AB InBev SA/NV could act in EMEA and Asia Pacific segments in order to reach the 2020 Dream Incentive Plan goal.

In Europe, the company should push the sales of *premium* German and Belgium brands in countries like Italy, France Switzerland, Austria and the Netherlands, where the brewery does not own national relevant beers. In Russia, where the group is currently second in market share, the focus could be on high-end beer as the country's beer consumption is expected to decrease as consequence of economic recession. AB InBev is the market leader in Ukraine and therefore it could seize the trade embargo, which will stop Russian beer from entering the country, to improve its market share by filling the demand previously attended by the importations from the neighbor country.

In the Middle East, where the Turkish leader Anadolu Efes represents the brewery, the suggestion would be to hold the position. The recommendation is sustained by the fact that AB InBev is only a minor shareholder of Anadolu and that the Islamism is predominant in the region. According to the ideology, alcoholic consumption is unlawful.

Regarding to the African market, it would make sense for the brewery to try to grow organically in high population countries where it is already present: Nigeria, South Africa, Tanzania, Uganda, Mozambique and Ghana. From those markets, AB InBev SA/NV could also export beer to other five countries in the continent. Moreover, the acquisition of minor craft breweries in large business centers may be interesting.

In the Asia Pacific segment, where the expected growth is the largest in the globe, the moves could be: seize market leadership in Australia and South Korea to push revenue by raising the revenue/liter ratio and the absolute volume and, in Japan, acquire Kirin Holdings. The group demonstrates many great features such as good presence in Japan (where it is only 5.2% after the leader) and in Southeastern Asia, large revenue coming from the sales of beverages, interesting expansion plan and a lower leverage when compared to AB InBev. Furthermore, the difficulties regarding to market regulators and other non-beverage businesses could be overcome. Nevertheless, a deeper M&A analysis should be developed before negotiations.

4.3 Which would be the best financing strategies for the investments?

With the aim of developing a more complete analysis, first, **two theories related to financing** will be introduced: the Pecking Order Theory and the Market for Lemons.

The Pecking Order Theory by Myers and Majluf (1984) postulates that the cost of financing increases as the level of asymmetric information raises. As a consequence of this statement, in order to avoid high costs, Myers and Majluf (1984) affirms that companies will fund its projects using firstly internal financing, then debt financing and lastly equity financing.

The internal financing happens when firms use their own earnings to fund projects. Alternatively, debt financing occurs when the company raises money by selling bonds, asking for credit or any kind of borrowing that is repaid with the addition of interest. Equity financing appears when capital is raised through the sale of shares of the company, as happens in public offerings, private placements and rights issue.

The increasing cost of capital from internal to equity financing is explained through adverse selection, a phenomenon caused by asymmetric information. Using retained earnings has no adverse selection problem, thus, there is no cost. Oppositely, equity is subject to severe adverse selection problem, while debt also faces the issue, but in a lesser manner. The stronger is the adverse selection question, the riskier is for the outside investor and therefore, the higher is the risk premium charged. The risk premium makes the financing strategies more or less costly.

But how does asymmetric information create adverse selection? This can be explained based on the Market for Lemons by Akerlof (1970). The study is originally about the market for used cars, but it can also be applied to companies raising capital.

The used car buyers cannot tell the difference between good cars (plums) and bad cars (lemons), since there is information asymmetry and only the owners know which kind of car they possess. As the information coming from the sellers is not credible because they have an incentive to say they own a plum, the buyers are willing to pay only an average expected value for any car (average of the values of good and bad cars).

At this amount, only the lemons will be sold, since the offered quantity is larger than the value of the car. In contrast, plums will not be sold and its owners tend to leave the market. According to Akerlof (1970), the sale of bad cars instead of the good ones represents the adverse selection.

Following the same logic, it is possible to think about the external financing market. Well-run firms tend to avoid market and use internal financing as much as they can, once due to the presence of information asymmetries, lenders and investors usually attribute an average value for items which harms good firms and favors the bad ones. This means that, when it comes to financing, the well-managed companies offset the poor performance of the others.

Between many occasions in which this effect can be noticed, these are three examples:

- Good firms will have to accept a higher interest than they should in order to borrow money (debt financing).
- Well-managed firms will have to sell bonds at lowers price and thus, they have reasons not to issue bonds or try a private placement (debt financing).
- Stocks of good companies will be undervalued and thus, there is an incentive for owners not to list or delist them (equity financing).

The adverse selection problem influences the economy as a whole, once good companies will eventually pass up promising projects because they were not able to raise capital properly. The most obvious way to deal with this question is through the reduction of information asymmetries. In this sense, solutions include the disclosure of information by companies (borrower) and private collection of data followed by screening by financial institutions (lender). Nevertheless, other actions might be taken to weaken the adverse selection complication, such as requiring firms to invest resources of their own or pledging of collateral to insure lenders against borrower’s default.

Firms who wish to raise funds might incur costs to signal their creditworthiness with the intention of arranging inexpensive capital in the market. An example of signaling cost would be fees charged by independent rating agencies to assess debtor's ability to pay back debt and the likelihood of default. Normally, the more renowned is the rating agency, the more effective the signaling and the higher the fees they charge. That is the reason why the big-three rating agencies (Standard & Poor’s, Fitch and Moody’s) are frequently the priciest to hire.

Considering the two theories presented, it is reasonable to assume that firms will prefer to use their **retained earnings** to invest, because this option does not suffer from information asymmetries and therefore, is the least costly. However, it is true that companies need to trade-off retained earnings and dividends, once the first is the aggregate of every year’s difference between net profit of the firm and dividends paid to shareholders. If the firm wishes to keep all its net profit of the year for future business investments, it means that it will not pay dividends, which may displease stockholders. On the contrary, if the enterprise distributes generous dividends, the lower will be the amount saved as retained earnings.

At this point is important to refresh the distinction between retained earnings and reserves. Both belong to the equity of a company, but the first is the part of the net profit kept for reinvestments or debt repayment, while the second is designated to cover future unforeseen losses. In this appraisal, AB InBev SA/NV's reserves will not be considered as a source of funds.

Table 19 shows data related to retained earnings and the dividends of the brewery according to the annual reports from 2012 to 2016:

Table 19 - Retained Earnings and Dividend Information from 2012 to 2016

(data in millions US$ or US$ for per-share)	aggregate retained earnings	aggregate retained earnings / total equity	basic earnings per-share (basic EPS)*	dividend per-share	payout ratio	ploughed-back ratio
2012	21,677	48%	4.53	2.24	49%	51%
2013	31,004	56%	8.90	2.83	32%	68%
2014	35,174	65%	5.64	3.52	62%	38%
2015	35,949	79%	5.05	3.95	78%	22%
2016	28,214	35%	0.72	3.85	535%	-435%

Source: Author, based on company´s information

Analyzing the table, it is acceptable to state that AB InBev SA/NV does not follow a tendency regarding to these indicators. The variation from year to year of profit attributable to equity holders and the payout ratio, caused among others by M&A deals and shareholders wills on each specific year, can explain the instability in the other figures. For instance, in 2016, although the company had a thin 2.7% profit margin (the average from 2012 to 2015 was 22.5%) due the SABMiller acquisition, the payout ratio was 535%, resulting in a generous US$3.85 dividend per-share. A payout ratio higher than 100% means the enterprise distributed more than its net profit in the fiscal year, and thus, retained earnings were discounted.

Even though the preferable financing option is retained earnings, it seems that AB InBev cannot rely only on it because the amount suffers variations depending on the events and the decision-making of the fiscal year. Moreover, a firm should not spend all its retained earnings, once it has to consider, among other questions, longer-term expenditures, buffer for dividends and debt repayment.

Furthermore, the investments the firm would have to make to put in practice some of the suggestions given in this case study would probably overcome 2016's retained earnings. For instance, only to acquire Kirin Holdings, the brewery would have to spend something around US$30 billion, which by itself is larger than the all firm's current amount of US$28.2 billion. Therefore, besides partially using its retained earnings, AB InBev SA/NV should examine other substantial sources of funds related to debt financing and equity financing. Next, the main aspects related to these two areas of capital raising will be presented.

Debt financing for public large companies, in general, is associated with the subsequent characteristics, as stated by Brealey, Myers and Marcus (2001):

- The lender is entitled to repay the principal plus interest at certain dates, as agreed beforehand through a contract.
- Independently of company's performance, debtholder must receive the amount agreed earlier. In case of firm's success, it has no right to claim its profits. In case of default, it is normally protected by a borrower's pledged asset (collateral), which can be liquidated.
- Part of the cash flow of the firm will be dedicated to repay debt and interest.
- Cost of debt is lower than cost of equity.
- The more urgent is the need to raise debt, the higher will be the interest rates.
- Interest paid on debt is tax deductible.
- No dilution of shareholders' ownership.
- The company that raises debt has full control and make all the decisions.
- Frequently, the more indebted is the firm, the pricier it becomes to raise more funds.
- Among other aspects, company's background, rating, assets and future perspectives influence on the firm's creditworthiness, and consequently on the cost of debt.
- The process is less complicated and faster than equity financing. However, bond issues require a prospectus.
- Debtholders have priority over equity holders in recovering funds from a bankrupt firm.
- Debt has direct impact on the debt-to-equity ratio [D/E]: the more debt the company has in relation to its equity, the higher is the ratio and the more leveraged is the firm. A leveraged firm can be perceived as riskier by market, once its profit or loss will be intensified (and its return on equity variance, amplified).

On the other hand, **equity financing** for large listed firms, is usually linked with the following aspects raised by Brealey, Myers and Marcus (2001):

- The investor becomes owner of part of the company or enlarges its pre-issue stake.
- There is no contract regarding to the repayment of the invested amount or interest.
- The remuneration will depend on company's performance. In case of success, investors will appreciate profits through dividends or selling their shares in the market. In case of loss and/or depreciation of stock value, investors may lose their money.
- No cash flow dedicated to repay investors.

- Cost of equity is higher than cost of debt.
- Previous shareholders will be diluted and therefore, they may impose barriers for the approval of the equity issue.
- New stockholders will probably have voting rights, thus they may take part in the decision-making. Normally, the larger is the capital invested, the higher is the number of shares owned and the broader is the control.
- New investors may offer valuable business assistance to the firm, but they might also damage company's performance.
- The capital raising will depend on market reaction to the equity issue, which, by its turn, is based on company's background and mainly on expectations about the future.
- The process is more complex, risky and time consuming. Public issues require a prospectus.
- New shares have to be issued at discount, otherwise no investor would subscribe. This discount provokes the dilution of pre-issue stockholders.
- Equity holders have no priority in recovering funds in case of bankruptcy.
- It has direct impact on the debt-to-equity ratio [D/E]: the larger is the equity of the company, the lower is the ratio and the less leveraged is the firm.

Both debt financing and equity financing solutions present advantages and drawbacks. Briefly, raising debt is cheaper, control and shareholding are kept, the process is faster and preferred according to the Pecking Order Theory, but, it increases the leverage, business risk and cash outflows. Alternatively, raising capital through equity creates dilution and loss of control, but there is no direct repayment and it reduces the debt-to-equity ratio.

The best financing option for a firm will depend on its characteristics, its current situation and its objectives. Furthermore, firms could opt for a hybrid solution, mixing both debt and equity.

As mentioned previously, the AB InBev SA/NV uses net financial debt/EBITDA as a leverage indicator. The values from 2012 to 2016 are shown in Table 20:

Table 20 - Net Financial Debt/EBITDA from 2012 to 2016

(data in millions US$)	EBITDA	net financial debt	net financial debt / EBITDA
2012	15,493	30,114	1.94
2013	23,428	38,800	1.66
2014	18,465	42,135	2.28
2015	17,057	42,185	2.47
2016	16,360	107,953	6.60

Source: Author, based on company´s information

According to information disclosed and mentioned earlier, the conglomerate considers its optimal capital structure as a net financial debt/EBITDA ratio of 2x and besides, deleveraging is the firm’s second capital allocation objective, only after organic growth.

Since 2014, the brewery has been using a ratio larger than 2x and furthermore, the indicator grew considerably in the period. Therefore, it seems that raising capital via debt financing does not match the company’s optimal financing mix neither its objectives, especially taking into account that from 2015 to 2016, net financial debt more than doubled.

The expectation for this specific indicator is better for the next year, as AB InBev SA/NV successfully completed the acquisition of SABMiller recently, the forecasted revenue for 2017 is US$55.5 billion, representing a 21.9% leap from 2016’s top line. Assuming that EBITDA will also grow and that net financial debt is likely to decrease, the tendency is to enter a deleveraging path.

It is important to assess also the other leverage indicators used by the market. Two of them are total liabilities/total equity and (current and non-current interest bearing loans and borrowings + bank overdrafts)/total equity. Both indicators have equity as denominator, which means that an equity increase accompanied or not by a debt decrease will generate a reduction on the ratio.

Hence, the fact that the brewery is already overleveraged in relation to its optimal capital structure and that raising equity will impact market ratios in the desired way towards the deleveraging objective, gives the impression that equity financing is a suitable strategy for AB InBev SA/NV.

There are **six forms of equity financing** that might be interesting for the group and will be discussed in this appraisal. All six involve issuance of discounted shares, capital raising by the firm and dilution of pre-issue shareholders. The solutions are seasoned public offering, private placement, rights issue, warrants issue, leveraged employee share ownership plan and contingent equity line.

- Seasoned public offering (SPO): it is an offer of new shares of a listed firm to all retail investors in the market. The process needs the authorization of the market authority and requires a detailed prospectus. It can be considered as a costly, time-consuming and even risky method, once its success depends on the market appreciation. An underwriter usually guarantees the issue by purchasing unsubscribed shares.
- Private placement: it is an offer of new shares to specific entities. Investors may be financial institutions, companies, institutional investors and others. However, in a private issue, potential investors have large bargaining power in terms of the price of the new stocks. The process is faster, requires lighter bureaucracy and is generally linked to smaller capital raising when compared to a public offering.
- Rights issue: all existing shareholders of the company are granted a number of rights equal to the number of shares they own. The rights give the stockholders the right, but not the obligation, to buy an amount of the new shares at discount on a stated future date. The quantity of discounted shares depends on the subscription ratio, which represents the number of new stocks per right. Therefore, the rights have a value and can be traded independently in the market. If all shareholders exercise their rights, the ownership structure is maintained. An underwriter usually guarantees the issue by purchasing unsubscribed shares.
- Warrants issue: warrants are usually issued in correspondence to public or private capital increases or bonds, and they allow issuing company to raise capital in the future. Warrants give the holders the right, but not the obligation, to buy an amount of the new shares at pre-set price at certain day or during a certain period. Hence, they are similar to call options, but a warrant is issued by the firm and implies the subscription of new shares. The quantity of shares depends on the subscription ratio, which represents the number of new stocks per warrant. Likewise rights, they have a value and can be traded independently in the market.
- Leveraged employee share ownership plan (LESOP): it is a share ownership and investment plan addressed to workers of a company. According to it, the company may grant free shares to its employees and allow them to acquire discounted shares (together, these stocks are the “invested shares”). Besides the invested shares, employees may acquire extra discounted shares (the “leveraged shares”) issued by the firm, with funds provided by an investment bank. At maturity, the employees deliver all their shares (invested and leveraged) to the investment bank, and receive the initial market value (without the discount) regarding to the invested

shares, which represents a protected capital independent of downside in stock price. Furthermore, workers get a percentage of an eventual appreciation of the stock price, computed on all shares (invested and leveraged).

- Continent equity line (CEL): it is an agreement between a company and an investment bank where the latter commits to subscribe new shares that the firm may issue in case of need for additional capital. The new shares are issued following a request by the company or a trigger event, and at a lower discount when compared to market prices. This process provides flexibility to the firm and a faster capital raising when compared to other solutions.

The most appropriate solutions depends on factors that AB InBev SA/NV has to ponder accordingly to its intentions. Among other the relevant aspects to address, some topics that affect the selection of the equity raising approach are:

- Size of the issue: the amount of capital to be raised according to the investment needs, equal to the product between the number of new shares and the discounted price.
- Discount of the new shares: the percentage of discount in relation to market value of the share has impact on the subscription of the issue and on the dilution intensity.
- Required effort: complexity of the process, bureaucracy, costs and regulation related to the issue.
- Time frame: time required to complete the process and raise capital, combined with timing required by the investments.
- Approval of the issue by the meeting of shareholders: equity issues normally have to be approved by the meeting of shareholders, where the dilution and the objectives of the issue may create controversy among owners of the firm.
- Target of the issue: from whom the capital will be raised. New equity may come from retail investors, specific large entities, existing shareholders and employees.
- Risk: the likelihood of success of the issue. Methods present different risks, and this has to be considered by the firm when choosing the most appropriate solution.

From the information presented, it is possible to **conclude** that AB InBev SA/NV should, at first, resort to its own retained earnings, as recommended by the Pecking Order Theory. This solution should not suffer from information asymmetries and is the most inexpensive, hence, it sustains a better potential of generating larger returns to the brewery. However, in order to make big moves, the retained earnings would probably be insufficient, especially considering that the brewery would not exhaust all the US$28.2 billion of accumulated retained earnings disclosed in the 2016 annual report.

The other two broad sources of funds the firm could refer to are debt financing and equity financing. Both options present pros and cons, and the selection of one instead of the other will depend on company's characteristics, situation and objectives, among other aspects. AB InBev SA/NV's current situation in terms of leverage, its optimal capital structure and its capital allocation objectives create the sense that debt financing is not adequate. Therefore, equity financing sounds more attractive to the group in that moment, particularly considering the fact that leverage ratios used by the market (with total equity as denominator) will decrease with the expansion of equity.

With the intention of presenting alternatives to raise equity capital, six solutions were introduced: seasoned public offering, private placement, rights issue, warrants issue, leveraged employee share ownership plan and contingent equity line. However, the selection of a specific method that best fits AB InBev SA/NV depends on factors that the company would have to balance based on its plans for the future. Some of these features are the amount of capital that has to be raised, the discount of the new shares, the effort demanded, the timing, the permission of shareholders, the targets and the risk.

4.4 Would a listing in another Stock Exchange make sense? If yes, in which one?

As mentioned previously, AB InBev SA/NV is traded on the Brussels Stock Exchange (Euronext) with secondary listings on the Mexican Stock Exchange (BMV) and on the Johannesburg Stock Exchange (JSE). The group also has American Depositary Shares on the New York Stock Exchange (NYSE).

The shares are currently commercialized where major breweries in the company's M&A history were listed: Anheuser-Busch is originally from the US, Interbrew from Belgium, SAB from South Africa and Grupo Modelo from Mexico. Nevertheless, the stocks are not traded in the UK (home of Miller) and in Brazil (home of AmBev). The company is probably not listed in the London Stock Exchange because it is already listed in Euronext, second largest Exchange in Europe. The absence in Brazil is possibly due to the effects it could create in the trading of the shares of AmBev, subsidiary of AB InBev SA/NV and largest market cap in São Paulo Stock Exchange.

In order to discuss the question properly, first, it is important to understand the current scenario of the **Stock Exchanges where AB InBev is traded**, as well as the **global landscape**.

In Table 21, there is key information about NYSE, Euronext, JSE and BMV:

Table 21 Relevant Information about Stock Exchanges where AB InBev is Listed

	Rank by Market Cap	2015 Overall Market Cap (US$ billions)	Number of Companies Listed	2015 AB InBev Market Cap / Overall Market Cap**	2015 Overall Volume Traded Monthly (US$ billions)	Turnover [Volume Traded Monthly / Overall Market Cap]
New York Stock Exchange [NYSE] (via ADRs)	1	19,223	2,406	1.04%	1,520.0	7.91%
Brussels Stock Exchange [Euronext]*	7	3,321	1,299	6.03%	184.0	5.54%
Johannesburg Stock Exchange [JSE]	17	951	374	21.06%	27.6	2.90%
Mexican Stock Exchange [BVM]	over 20	418	146	47.92%	11.2	2.69%

Source: Author, based on NYSE (2017), Eurnoext (2017), JSE (2017) and (BMV 2017)

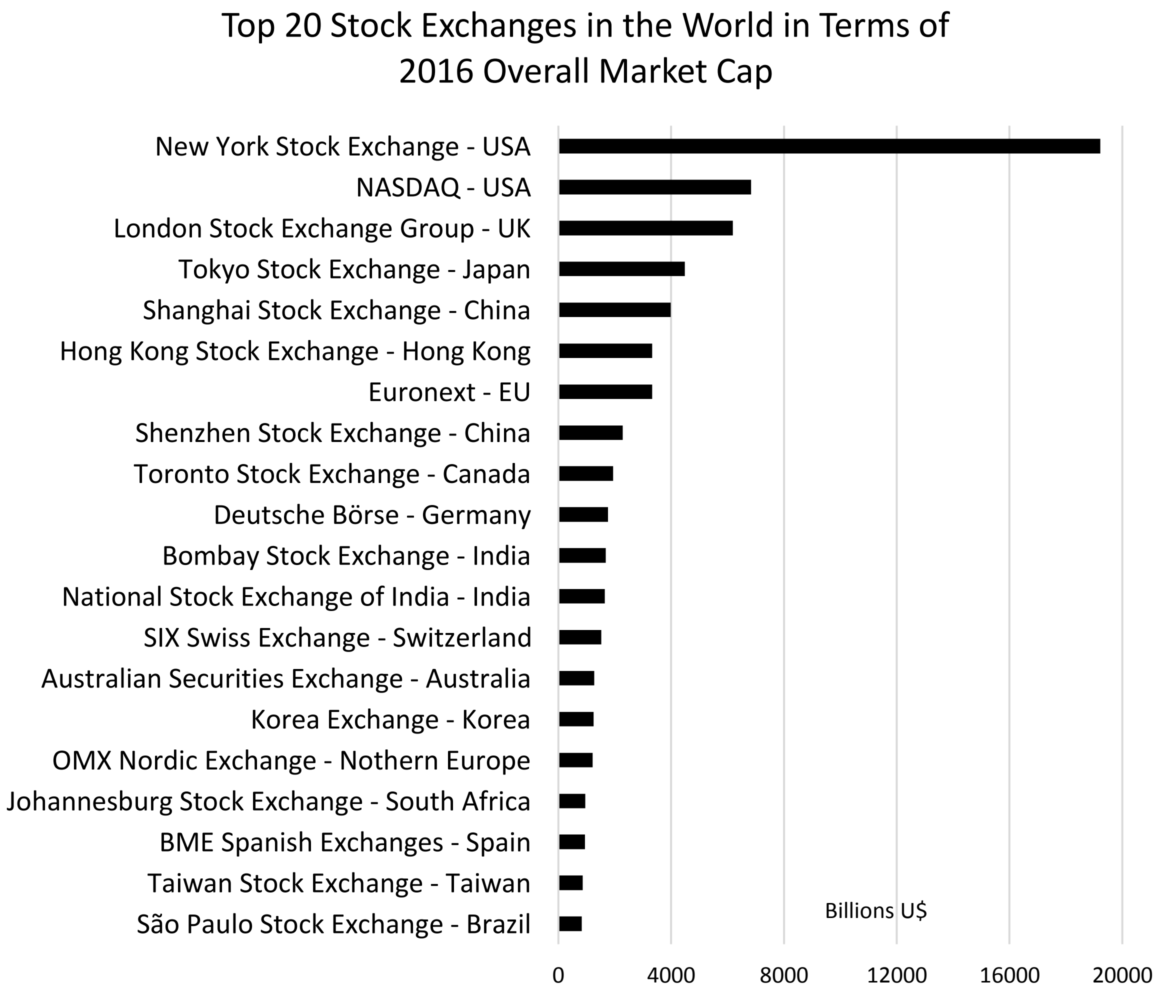
*Brussels Stock Exchange is part of the Euronext Exchange, composed also by Exchanges in Amsterdam, Lisbon, London and Paris. Euronext merged with NYSE in 2007, creating the NYSE Euronext Inc.

**calculation considering 2015 market cap officially disclosed in the annual report: US$200.3 billion

From Table 21, it is possible to confirm what is usually expected. The larger is the Stock Exchange in terms of total market cap and quantity of listed companies, the larger is the overall volume traded monthly and the turnover, and the lower is the relevance of AB InBev SA/NV. The company is listed in two global Exchanges (NYSE and Euronext) and in other two houses that are much more irrelevant: together, JSE and BMV represent 7.1% of NYSE's market cap and 2.6% of its monthly volume. Furthermore, JSE and BMV have a much narrower reach in terms of potential investors than the Exchanges located in North America and Europe.

Figure 17 shows other set of interesting information regarding the top 20 Stock Exchanges globally, in terms of market cap:

Figure 17 - Top 20 Stock Exchanges in the World in Terms of Market Cap



Source: Author, based on The Money Project (2016)

A point that catches attention in the ranking is the presence of nine Asia Pacific Exchanges. As mentioned before, the Brazilian-Belgium group is represented in North America, Europe, Africa, Central America and South America (through its subsidiary AmBev), but not in the Asian market.

There are facts seen earlier that make a listing in this part of the world attractive:

- Asia Pacific is the largest market in terms of beer volume.
- It is the market with the best growth expectation.
- In 2016, 13.3% of AB InBev SA/NV revenue flowed from the segment.
- Organic and inorganic expansion in this region are suggested to reach the 2020 Dream Inventive Plan goal.

Additionally, according to BCG 2016 Global Wealth Report, on Appendix H:

- In 2015, 29.9% of global financial private wealth was concentrated in Asia Pacific.

- In 2020, this percentage is expected to grow up to 33.5%.
- China, Japan and Taiwan were 2^{nd}, 3^{rd} and 10^{th} countries with most millionaire households in 2016.
- China, India and Hong Kong were 2^{nd}, 4^{th} and 12^{th} countries with most UHNW (upper-high net worth) households in 2014. UHNW individuals are the ones who own more than US$100 million in private financial wealth.

The beer market in the continent is large and important to AB InBev, especially due to its potential for future expansion. Furthermore, Asia Pacific holds a meaningful share of financial private wealth, which is expected to grow even more, and has representatives in the rankings of millionaire and UHNW households. Therefore, it seems that a listing in an Asian market makes sense.

However, before making a recommendation, it is crucial to acknowledge the **advantages and disadvantages of cross-listing**. There is a wide academic literature about motivations, costs and impact in firm's value related to cross-listing. Most of the studies are related to US-based firms that are considering a listing outside the country or foreign companies analyzing a listing in the US, which means they cannot be perfectly applied to AB InBev SA/NV, once it is a Belgium-based enterprise listed in US (via ADRs), Belgium, South Africa and Mexico. Nevertheless, some ideas and notions regarding this topic will be used on the subsequent assessment. The most common pros and cons associated to cross-listing are listed in Table 22:

Table 22 - Advantages and Disadvantages of Cross-listing

Advantages	Disadvantages
Benefit from a lower cost of capital due to increased accessibility to shares, contact with other financial markets and stronger contractual power towards credit entities	Incur costs such as listing expenses and fees charged by legal and financial advisors Have to dedicate time and effort to the listing
Increase shareholders base by lowering the perceived risk. By raising the level of investor protection ("bonding") it is possible to attract investors that were previously reluctant to invest.	Be subject to eventual expenses to comply with the requirements of the Stock Exchange, such costs related to auditing, accounting standard, the board, investors relations office and others
Increase liquidity of the stocks and enlarge the period when shares are traded in the worldwide market	Deal with pressure from foreign market and authorities Be exposed to foreign market turmoil
Enhance information management and disclosure	Increase the chances of information spill-over to competitors in the foreign market

Strengthen company's image, media attention, visibility and in a foreign market, which is important to boost sales Intensify analyst coverage Create an environment more prone to M&A deals in a foreign market Have the possibility to offer share and option plans to foreign employees Facilitate foreign business operations Increase firm value may or may not happen	Be subject to reduction in the control of the company in case of acquisition of large stakes by foreign investors Cause a decrease in the traded volume in other Stock Exchanges where the firm is already listed

Source: Author, based on Roosenboom and van Dijk (2009), Doobs and Goedhart (2008), Sarkissian and Schill (2009)

With the intention of making a precise suggestion, checking if the advantages overcome the disadvantages is an interesting path to follow.

Some of the positive aspects presented would probably create no impact to AB InBev SA/NV, since the firm is a global mega cap already listed in four Exchanges, including the largest in the world. For instance the better information management and disclosure or the enlargement of trading hours. From the advantages, the ones with the most promising results in the Asian continent are lower cost of capital, larger shareholder base, stronger image and visibility, easiness for business operations and a more tendentious environment for M&A negotiations. It is essential to point out that the advantages in Asia depend on the plans of the company for this continent.

Regarding to the value creation of cross-listings, the appraisals developed in the past years point to different outcomes. Roosenboom and van Dijk (2009) analyzed 526 cross-listings of companies from 44 countries on 8 major Stock Exchanges, and the result indicates that this move can generate a positive price reaction: the average return of cross-listing in US Exchanges was 1.3%, 1.1% in the London Stock Exchange, 0.6% in continental European Exchanges and 0.5% on the Tokyo Stock Exchange. Contrariwise, Doobs and Goedhart (2008) explain why cross-listing shares does not create value, stating that the expected advantages do not actually arise. Additionally, according to Sarkissian and Schill (2009), any valuation gain created by a cross-listing is not permanent. Hence, it is not possible to claim that cross-listings increase the firm value, neither that an eventual increment will be long-lasting.

The benefits of a cross-listing seem to be only partly applicable to the situation of AB InBev SA/NV, but all the drawbacks presented can negatively impact the brewery. The listing and advisory fees will incur for sure and other compliance expenses will vary depending on the Stock Exchange chosen. Additionally, another listing will expose the firm to risks associated to market turmoil, spill-over, loss of control and reduction in volume traded elsewhere. Last but not least, the time and effort required by a new listing could be dedicated to more rewarding activities inside the enterprise.

Based on the pros and cons description and also on AB InBev SA/NV current situation, it is possible to conclude that a fifth listing is not suitable, once the disadvantages are more certain to happen and impact the firm than the eventual benefits. However, supposing a scenario in which the Brazilian-Belgian conglomerate wishes to acquire the Japanese Kirin Holdings, as recommended previously, the suggestion may differ.

If AB InBev thinks that proceeding with the deal is an auspicious move, listing in a Japanese Stock Exchange can be considered. In 2016, before the closure of the deal with SABMiller in October, the company debuted in Johannesburg Stock Exchange (where SABMiller was listed) in January. According to financial publishers[46], this action removed hurdles regarding to market authorities and investors, besides the demonstration of commitment to plans for the continent. Therefore, following the same logic, it seems reasonable to consider a listing in Japan as an important move towards a successful negotiation with Kirin.

In the top 20 largest Stock Exchanges shown on Figure 17, there is only one Japanese representative, the Tokyo Stock Exchange. Kirin Holdings is listed in Tokyo and in the Exchanges of Nagoya, Fukuoka and Sapporo. However, the Exchange house of the capital of the country is much more relevant than the others in terms of size and internationalization. The Tokyo Exchange trades shares of 3560 companies, while the largest of the other three, Nagoya Stock Exchange, has only 293 listed firms[47]. Hence, if AB InBev would like to cross-list in Japan and then acquire Kirin, the only adequate Stock Exchange to its size and worldwide exposure is the Tokyo Stock Exchange.

A listing in Tokyo would provide AB InBev certain benefits that could make a takeover much more propitious:

- AB InBev SA/NV would be able to raise money at lower cost and in the same currency used by Kirin, which is indispensable for an acquisition.
- The company would show commitment to the development of the Japanese economy, which could reduce difficulties related to regulations or market authorities in the future.

[46] Financial Times (2016); Business Report (2016); Wall Street Journal (2016)
[47] Tokyo Stock Exchange (2017); Nagoya Stock Exchange (2017)

- Image and visibility in Japan would be enhanced and that is especially important once the firm is currently not present in the country.
- The brewery would be able to develop relationships with local banks, funds, M&A boutiques and other entities that could support the acquisition.
- The negotiation with the major shareholders of the firm could become less complicated with a listing in Japan, particularly in case they become stockholders of the combined firm. The four largest holders are Japanese entities that own approximately 16% of Kirin Holdings.

Therefore, a listing in Tokyo Stock Exchange is recommended if the plans include the acquisition of Kirin Holdings. This way, AB InBev SA/NV would be traded in global Exchanges in North America, Europe and Asia, and it would also become more accessible to investors based in all Asian countries.

Concluding, all ideas and analysis developed give the impression that another listing would only make sense if the Brazilian-Belgium brewery wishes to acquire Kirin Holdings. In the no-acquisition scenario, the disadvantages are more certain and therefore they overcome any eventual benefits the firm could appreciate. Oppositely, in case of desire to negotiate with Kirin Holdings, AB InBev SA/NV could consider a listing in the Tokyo Stock Exchange, in order to create an atmosphere favorable to the deal in terms of cost of capital, image, visibility, regulations, market authority and relationship with shareholders and financial institutions.

5 CONCLUSION

5.1 Synthesis about the Company

Anheuser-Busch InBev SA/NV is a global brewery with approximately 500 brands and is the largest beer producer in the world. The firm has an intense M&A background, with deals involving four mega caps: AmBev, Interbrew, Anheuser-Busch and SABMiller. Its main competitors in most of the countries are The Heineken Company and the Carlsberg Group.

The growth of the world leader is related to the history of Jorge Paulo Lemann, Marcel Herrmann Telles and Carlos Alberto Sicupira, three Brazilian businessmen that are still very influential in the company. AB InBev SA/NV's CEO is another Brazilian, Carlos de Alves Brito, who joined the brewery almost 30 years ago.

Currently, the company counts with roughly 200,000 collaborators and has a market cap of more than US$200 billion. From 2004 to 2016, the equity value increased more than 10 times and the CAGR was over 20%.

The revenue in 2016 was US$45.5 billion and the expectation is to reach a US$55.5 billion top line in 2017, as consequence of the merger with SABMiller completed in October, 2016. The CAGR of the revenue from 2012 to 2016 was a modest 3.44%.

In terms of geographic segmentation, the company currently divides its operations in North America, Latin America West, Latin America North, Latin America South, EMEA (Europe, Middle East and Africa) and Asia Pacific. In 2016, almost 35% of the group's revenue came from North America (due to US) and almost 20% from Latin America North (due to Brazil). However, the participation of these two segments have been decreasing year after year. On the other hand, the Asia Pacific segment participation had an 18.5% CAGR from 2012 to 2016.

AB InBev SA/NV is mainly listed in Euronext Brussels, with secondary listings in Mexico and South Africa. The shares are also traded in the New York Stock Exchange via ADRs. The shareholding structure of the conglomerate is complex and its public free float represents around 40% of its stocks. Furthermore, as of May 2017, the company had 70 bonds outstanding in different markets.

Regarding to the financial indicators, from 2012 to 2016, the group presented satisfying averages of 39% EBITDA margin, 32% EBIT margin, 19% profit margin, 10% ROA and 18% ROE, with variations depending on major events during the fiscal years, such as the acquisition of the Mexican Grupo Modelo or the UK-based SABMiller.

The open issues proposed in this case study are related to the goal set by an incentive plan designed by AB InBev SA/NV, called the 2020 Dream Incentive Plan. The scheme motivates 65 senior managers, awarding them with stock options, to reach US$100 billion revenue between 2020 and 2022. In order to address the questions proposed, the current capital allocation objectives disclosed by the company were also introduced.

5.2 Recommendations Drawn

Based on the analyses and discussion developed, these are the suggestions drawn in this study for each one of the four open issues:

i) In which geographic segments would make more sense to focus investments?

AB InBev SA/NV could focus investments in EMEA (Europe, Middle East and Africa) and Asia Pacific, once these are the largest markets and where the firm holds its lowest market shares. Furthermore, other characteristics make these segments attractive, such Asia Pacific´s 7.3% expected CAGR in terms of beer volume until 2020 and the possibility of raising prices in the region.

ii) Which is the best way for the company to expand its business? Should AB InBev SA/NV choose organic or inorganic growth? If organic, how? If inorganic, which would be interesting companies to acquire?

In Europe, AB InBev should push sales of *premium* from Germany and Belgium to Italy, France, Switzerland, Austria and the Netherlands. In Russia, the group could focus on high-end beer and in Ukraine, it could seize opportunity to fill the demand previously attended by Russian importations.

In the Middle East, the suggestion is to hold the position by keeping the stake the firm has in the Turkish market leader, Anadolu Efes.

In Africa, it would make sense to try to grow organically in Nigeria, South Africa, Tanzania, Uganda, Mozambique and Ghana. Nevertheless, it is true that the perspectives for Nigeria, the most populated country in Africa, are not the best. The company could also export beer from these countries to Ethiopia, Democratic Republic of Congo, Kenya, Angola and the Ivory Coast. Furthermore, acquiring minor craft breweries might be interesting in relevant business centers.

In the Asia Pacific segment, the firm could seize the leadership position in Australia and South Korea by increasing revenue/liter ratio and absolute volume. Moreover, it should consider a next big move through the acquisition of Kirin Holdings, in Japan.

iii) Which would be the best financing strategies for the investments?

Firstly, AB InBev SA/NV should resort to its own retained earnings. Then, the firm could select one or more equity financing solutions, based on their features and on the company's intentions for the future.

The recommendation does not follow the Pecking Order theory completely, once it affirms debt financing should be the second source of funds, only after internal financing. However, raising debt does match the brewery´s deleveraging objective and its current capital structure situation.

iv) Would a listing in another Stock Exchange make sense? If yes, in which one?

It seems that another listing would only make sense if AB InBev SA/NV wishes to acquire Kirin Holdings. In this case, the firm could consider a cross-listing in the Tokyo Stock Exchange.

In the scenario without the acquisition, the drawbacks of another listing are more likely to happen, and therefore, they overcome eventual advantages. On the other hand, it the conglomerate wishes to proceed with a deal with the Japanese group, the benefits of a listing in Tokyo become more intense than the downside.

5.3 Proposals for Future Studies

Any other assessment and opinion based on the information provided in the preset work is encouraged by the author, once an intrinsic characteristic of a case study is the collectiveness, the debate and the sharing of ideas. The awakening of curiosity in the readers is desirable and might result future discussions.

In addition to the financial and strategic aspects discussed, the present work has raised topics that certainly can be approached in more detail. Suggestions of topics correlated to the open issues presented in this case study are:

- Complete M&A analysis including a valuation of Kirin Holdings, funding and the steps of a deal

- Net present value (NPV) and payback calculation of investments funded by the recommended financing strategies

- Listing process in a foreign Stock Exchange such as the Tokyo Stock Exchange

- Assessment of the options distributed in the 2020 Dream Incentive Plan (proper strike price, payoff and value)

- Assessment of company´s fair share price (and market capitalization) according to its growth towards the goal set by the incentive plan

- Assessment of the payout ratio (and ploughed-back ratio) that the company could practice in order to reach its goal, as well as dividend payout strategies

Furthermore, a company with the characteristics of AB InBev SA/NV is likely to face challenges and require improvements frequently. Therefore, analyses in many areas may be developed. Innovative incentive plans, market entry options, portfolio analysis, marketing efforts, cost efficiency, operations management and logistics management are only some of the topics that can be studied.

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APPENDIX A

Major Holders of Ordinary and Restricted Shares.

Major shareholders	Number of Shares	% of voting rights [1]
Holders of Ordinary Shares		
1. **Stichting Anheuser-Busch InBev,** a stichting incorporated under Dutch law (the **"Reference Shareholder"**)	663,074,832	34.29%
2. **EPS Participations Sàrl,** a company incorporated under Luxembourg law, affiliated to EPS, its parent company	130,257,459	6.74%
3. **EPS SA,** a company incorporated under Luxembourg law, affiliated to the Reference Shareholder that it jointly controls with BRC	99,999	0.01%
4. **BRC Sàrl,** a company incorporated under Luxembourg law, affiliated to the Reference Shareholder that it jointly controls with EPS	37,598,236	1.94%
5. **Rayvax Société d'Investissements SA,** a company incorporated under Belgian law	484,794	0.03%
6. **Sébastien Holding SA,** a company incorporated under Belgian law, affiliated to Rayvax, its parent company	10	0.00%
7. **Fonds Verhelst SPRL,** a company with a social purpose incorporated under Belgian law	0	0.00%
8. **Fonds Voorzitter Verhelst SPRL,** a company with a social purpose incorporated under Belgian law, affiliated to Fonds Verhelst SPRL with social purpose, that controls it	6,997,665	0.36%
9. **Stichting Fonds InBev-Baillet Latour,** a stichting incorporated under Dutch law	0	0.00%
10. **Fonds Baillet Latour SPRL,** a company with a social purpose incorporated under Belgian law, affiliated to Stichting Fonds InBev-Baillet Latour under Dutch law, that controls it	5,485,415	0.28%
11. **MHT Benefit Holding Company Ltd,** a company incorporated under the law of the Bahamas, acting in concert with Marcel Herrmann Telles within the meaning of Article 3, §2 of the Takeover Law	3,645,605	0.19%
12. **LTS Trading Company LLC,** a company incorporated under Delaware law, acting in concert with Marcel Herrmann Telles, Jorge Paulo Lemann and Carlos Alberto Sicupira within the meaning of Article 3, §2 of the Takeover Law	4,468	0.00%
Holders of Restricted Shares		
1. **Altria Group Inc.**[2]	185,115,417	9.57%
2. **Bevco Lux Sàrl**[3]	96,862,718	5.01%

Source: AB InBev SA/NV Corporate Governance Charter (2016)

APPENDIX B

Outstanding Bonds as at 16,May,2017.

BONDCHAIN	DESCRIPTION	ISSUER	AMT OUTSTD	CRNCY	AMT OUTSTD (USD)	CPN TYP	COUPON	ISSUE_DT	MATURITY	ID_ISIN	ID_CUSIP
EH866372	ABIBB 6.500 06/23/17	ANHEUSER-BUSCH INBEV SA	750.000.000	GBP	$1.078.125.000	FIXED	6,500%	23-Jun-09	23-Jun-17	BE6000183549	EH8663724
EJ280560	ABIBB 1.375 07/15/17	ANHEUSER-BUSCH INBEV WOR	2.000.000.000	USD	$2.000.000.000	FIXED	1,375%	16-Jul-12	15-Jul-17	US03523TBN72	03523TBN7
EH090972	ABIBB 5.500 01/15/18	ANHEUSER-BUSCH COS LLC	500.000.000	USD	$500.000.000	FIXED	5,500%	30-Nov-07	15-Jan-18	US035229DD29	035229DD2
EJ514752	ABIBB 1.250 01/17/18	ANHEUSER-BUSCH INBEV FIN	1.000.000.000	USD	$1.000.000.000	FIXED	1,250%	17-Jan-13	17-Jan-18	US035242AC00	035242AC0
EJ522220	ABIBB 2.375 01/25/18	ANHEUSER-BUSCH INBEV FIN	600.000.000	CAD	$459.171.960	FIXED	2,375%	25-Jan-13	25-Jan-18	CA03524BAA40	03524BAA4
EK148516	ABIBB FRN 03/29/18	ANHEUSER-BUSCH INBEV NV	850.000.000	EUR	$957.100.000	FLOATING	0,695%	31-Mar-14	29-Mar-18	BE6265140077	EK1485169
EC891878	ABIBB 4.500 04/01/18	ANHEUSER-BUSCH COS LLC	200.000.000	USD	$200.000.000	FIXED	4,500%	11-Mar-03	1-Apr-18	US035229CS07	035229CS0
EI223956	ABIBB 4.000 04/26/18	ANHEUSER-BUSCH INBEV SA	750.000.000	EUR	$844.500.000	FIXED	4,000%	26-Apr-10	26-Apr-18	BE6000782712	EI2239560
EK855842	ABIBB FRN 10/19/18	ANHEUSER-BUSCH INBEV NV	750.000.000	EUR	$844.500.000	FLOATING	0,261%	20-Apr-15	19-Oct-18	BE6276038419	EK8558422
EH677744	ABIBB 7.750 01/15/19	ANHEUSER-BUSCH INBEV WOR	3.143.000	USD	$3.143.000	FIXED	7,750%	12-Jan-09	15-Jan-19	USU03597AB45	EH6795858
EI571530	ABIBB 7.750 01/15/19	ANHEUSER-BUSCH INBEV WOR	2.496.857.000	USD	$2.496.857.000	FIXED	7,750%	14-Mar-11	15-Jan-19	US03523TBE73	03523TBE7
EK041667	ABIBB FRN 02/01/19	ANHEUSER-BUSCH INBEV FIN	250.000.000	USD	$250.000.000	FLOATING	0,642%	27-Jan-14	1-Feb-19	US035242AF31	035242AF3
EK041679	ABIBB 2.150 02/01/19	ANHEUSER-BUSCH INBEV FIN	1.250.000.000	USD	$1.250.000.000	FIXED	2,150%	27-Jan-14	1-Feb-19	US035242AE65	035242AE6
JV6417622	ABIBB 1.900 02/01/19	ANHEUSER-BUSCH INBEV FIN	4.000.000.000	USD	4.000.000.000	FIXED	1,900%	25-Jan-16	1-Feb-19	US035242AG14	035242AG1
ED352144	ABIBB 5.000 03/01/19	ANHEUSER-BUSCH COS LLC	300.000.000	USD	$300.000.000	FIXED	5,000%	1-Mar-04	1-Mar-19	US035229CW19	035229CW1
EH824641	ABIBB 6.875 11/15/19	ANHEUSER-BUSCH INBEV WOR	2.370.000	USD	$2.370.000	FIXED	6,875%	14-May-09	15-Nov-19	US03523TAE82	03523TAE8
EI571578	ABIBB 6.875 11/15/19	ANHEUSER-BUSCH INBEV WOR	997.630.000	USD	$997.630.000	FIXED	6,875%	14-Mar-11	15-Nov-19	US03523TBH05	03523TBH0
EJ370009	ABIBB 2.000 12/16/19	ANHEUSER-BUSCH INBEV NV	750.000.000	EUR	$844.500.000	FIXED	2,000%	25-Sep-12	16-Dec-19	BE6243180666	EJ3700097
EI009833	ABIBB 5.375 01/15/20	ANHEUSER-BUSCH INBEV WOR	750.000	USD	$750.000	FIXED	5,375%	16-Oct-09	15-Jan-20	USU03597AJ70	EI0108692
EI101720	ABIBB 5.375 01/15/20	ANHEUSER-BUSCH INBEV WOR	2.249.250.000	USD	$2.249.250.000	FIXED	5,375%	5-Feb-10	15-Jan-20	US03523TAN81	03523TAN8
JK482254	ABIBB FRN 03/17/20	ANHEUSER-BUSCH INBEV NV	1.250.000.000	EUR	$1.407.500.000	FLOATING	3M EURIBC	29-Mar-16	17-Mar-20	BE6285450449	JK4822546
JK482520	ABIBB 0.625 03/17/20	ANHEUSER-BUSCH INBEV NV	1.750.000.000	EUR	$1.970.500.000	FIXED	0,625%	29-Mar-16	17-Mar-20	BE6285451454	JK4825200
EI199969	ABIBB 5.000 04/15/20	ANHEUSER-BUSCH INBEV WOR	4.162.000	USD	$4.162.000	FIXED	5,000%	29-Mar-10	15-Apr-20	US03523TAU25	03523TAU2
EI349110	ABIBB 5.000 04/15/20	ANHEUSER-BUSCH INBEV WOR	995.838.000	USD	$995.838.000	FIXED	5,000%	2-Sep-10	15-Apr-20	US03523TAV08	03523TAV0
EJ841776	ABIBB 2.250 09/24/20	ANHEUSER-BUSCH INBEV NV	750.000.000	EUR	$844.500.000	FIXED	2,250%	24-Sep-13	24-Sep-20	BE6258027729	EJ8417762
JV6456216	ABIBB 2.650 02/01/21	ANHEUSER-BUSCH INBEV FIN	7.500.000.000	USD	7.500.000.000	FIXED	2,650%	25-Jan-16	1-Feb-21	US035242AJ52	035242AJ5
JV6457792	ABIBB FRN 02/01/19	ANHEUSER-BUSCH INBEV FIN	500.000.000	USD	500.000.000	FLOATING	US0003M +	25-Jan-16	1-Feb-21	US035242AK26	035242AK2
EI550508	ABIBB 4.375 02/15/21	ANHEUSER-BUSCH INBEV WOR	500.000.000	USD	$500.000.000	FIXED	4,375%	27-Jan-11	15-Feb-21	US03523TBB35	03523TBB3
EI691989	ABIBB 4.000 06/02/21	ANHEUSER-BUSCH INBEV SA	750.000.000	EUR	$844.500.000	FIXED	4,000%	2-Jun-11	2-Jun-21	BE6221503202	EI6919894
EK148546	ABIBB 1.950 09/30/21	ANHEUSER-BUSCH INBEV NV	650.000.000	EUR	$731.900.000	FIXED	1,950%	31-Mar-14	30-Sep-21	BE6265141083	EK1485466
JK482619	ABIBB 0.875 03/17/22	ANHEUSER-BUSCH INBEV NV	2.000.000.000	EUR	$2.252.000.000	FIXED	0,875%	29-Mar-16	17-Mar-22	BE6285452460	JK4826190
EJ280565	ABIBB 2.500 07/15/22	ANHEUSER-BUSCH INBEV WOR	3.000.000.000	USD	$3.000.000.000	FIXED	2,500%	16-Jul-12	15-Jul-22	US03523TBP21	03523TBP2
EJ514757	ABIBB 2.625 01/17/23	ANHEUSER-BUSCH INBEV FIN	1.250.000.000	USD	$1.250.000.000	FIXED	2,625%	17-Jan-13	17-Jan-23	US035242AA44	035242AA4
EJ522225	ABIBB 3.375 01/25/23	ANHEUSER-BUSCH INBEV FIN	600.000.000	CAD	$459.171.960	FIXED	3,375%	25-Jan-13	25-Jan-23	CA03524BAB23	03524BAB2
JV6459715	ABIBB 3.300 02/01/23	ANHEUSER-BUSCH INBEV FIN	6.000.000.000	USD	6.000.000.000	FIXED	3,300%	25-Jan-16	1-Feb-23	US035242AL09	035242AL0
EK855908	ABIBB 0.800 04/20/23	ANHEUSER-BUSCH INBEV NV	1.000.000.000	EUR	$1.126.000.000	FIXED	0,800%	20-Apr-15	20-Apr-23	BE6276039425	EK8559081
EK041703	ABIBB 3.700 02/01/24	ANHEUSER-BUSCH INBEV FIN	1.400.000.000	USD	$1.400.000.000	FIXED	3,700%	27-Jan-14	1-Feb-24	US03524BAE65	03524BAE6
EH698690	ABIBB 9.750 07/30/24	ANHEUSER-BUSCH INBEV SA	550.000.000	GBP	$790.625.000	FIXED	9,750%	30-Jan-09	30-Jul-24	BE0934986036	EH6986903
EJ370004	ABIBB 2.875 09/25/24	ANHEUSER-BUSCH INBEV NV	750.000.000	EUR	$844.500.000	FIXED	2,875%	25-Sep-12	25-Sep-24	BE6243179650	EJ3700048
JK482715	ABIBB 1.500 03/17/25	ANHEUSER-BUSCH INBEV NV	2.500.000.000	EUR	$2.815.000.000	FIXED	1,500%	29-Mar-16	17-Mar-25	BE6285454482	JK4827156
EJ841794	ABIBB 4.000 09/24/25	ANHEUSER-BUSCH INBEV NV	500.000.000	GBP	$718.750.000	FIXED	4,000%	24-Sep-13	24-Sep-25	BE6258029741	EJ8417945
JV6466116	ABIBB 3.650 02/01/26	ANHEUSER-BUSCH INBEV FIN	11.000.000.000	USD	11.000.000.000	FIXED	3,650%	25-Jan-16	1-Feb-26	US035242AP13	035242AP1
EK148564	ABIBB 2.700 03/31/26	ANHEUSER-BUSCH INBEV NV	1.000.000.000	EUR	$1.126.000.000	FIXED	2,700%	31-Mar-14	31-Mar-26	BE6265142099	EK1485649
DD114713	ABIBB 6.750 12/15/27	ANHEUSER-BUSCH COS LLC	100.000.000	USD	$100.000.000	FIXED	6,750%	16-Dec-97	15-Dec-27	US035229BP76	035229BP7
DD115183	ABIBB 6.500 01/01/28	ANHEUSER-BUSCH COS LLC	100.000.000	USD	$100.000.000	FIXED	6,500%	12-Jan-98	1-Jan-28	US035229BQ59	035229BQ5
JK482752	ABIBB 2.000 03/17/28	ANHEUSER-BUSCH INBEV NV	3.000.000.000	EUR	$3.378.000.000	FIXED	2,000%	29-Mar-16	17-Mar-28	BE6285455497	JK4827529
EK855926	ABIBB 1.500 04/18/30	ANHEUSER-BUSCH INBEV NV	1.250.000.000	EUR	$1.407.500.000	FIXED	1,500%	20-Apr-15	18-Apr-30	BE6276040431	EK8559263
EC298296	ABIBB 7.550 10/01/30	ANHEUSER-BUSCH COS LLC	200.000.000	USD	$200.000.000	FIXED	7,550%	5-Oct-00	1-Oct-30	US035229CF85	035229CF8
EC320131	ABIBB 6.800 01/15/31	ANHEUSER-BUSCH COS LLC	200.000.000	USD	$200.000.000	FIXED	6,800%	19-Dec-00	15-Jan-31	US035229CG68	035229CG6
EC408122	ABIBB 6.800 08/20/32	ANHEUSER-BUSCH COS LLC	300.000.000	USD	$300.000.000	FIXED	6,800%	22-Jun-01	20-Aug-32	US035229CJ08	035229CJ0
EC741543	ABIBB 5.950 01/15/33	ANHEUSER-BUSCH COS LLC	300.000.000	USD	$300.000.000	FIXED	5,950%	31-Oct-02	15-Jan-33	US035229CQ41	035229CQ4
EJ523596	ABIBB 3.250 01/24/33	ANHEUSER-BUSCH INBEV NV	500.000.000	EUR	$563.000.000	FIXED	3,250%	23-Jan-13	24-Jan-33	BE6248644013	EJ5235969
JV6468336	ABIBB 4.700 02/01/36	ANHEUSER-BUSCH INBEV FIN	6.000.000.000	USD	6.000.000.000	FIXED	4,700%	25-Jan-16	1-Feb-36	US035242AM81	035242AM8
JK482849	ABIBB 2.750 03/17/36	ANHEUSER-BUSCH INBEV NV	2.750.000.000	EUR	$3.096.500.000	FIXED	2,750%	29-Mar-16	17-Mar-36	BE6285457519	JK4828493
EF316890	ABIBB 5.750 04/01/36	ANHEUSER-BUSCH COS LLC	300.000.000	USD	$300.000.000	FIXED	5,750%	10-Mar-06	1-Apr-36	US035229DA89	035229DA8
682753AS7	ABC 4.950% 07/01/36	ANHEUSER-BUSCH COS LLC	2.200.000	USD	$2.200.000	FIXED	4,950%	21-Jul-06	1-Jul-36	US682753AS77	682753AS7
EG758701	ABIBB 6.450 09/01/37	ANHEUSER-BUSCH COS LLC	500.000.000	USD	$500.000.000	FIXED	6,450%	24-Aug-07	1-Sep-37	US035229DC46	035229DC4
EH677752	ABIBB 8.200 01/15/39	ANHEUSER-BUSCH INBEV WOR	726.000	USD	$726.000	FIXED	8,200%	12-Jan-09	15-Jan-39	USU03597AC28	EH6795338
EI571554	ABIBB 8.200 01/15/39	ANHEUSER-BUSCH INBEV WOR	1.249.274.000	USD	$1.249.274.000	FIXED	8,200%	14-Mar-11	15-Jan-39	US03523TBF49	03523TBF4
EI571574	ABIBB 8.000 11/15/39	ANHEUSER-BUSCH INBEV WOR	450.000.000	USD	$450.000.000	FIXED	8,000%	14-Mar-11	15-Nov-39	US03523TBJ60	03523TBJ6
EI101732	ABIBB 6.375 01/15/40	ANHEUSER-BUSCH INBEV WOR	500.000.000	USD	$500.000.000	FIXED	6,375%	5-Feb-10	15-Jan-40	US03523TAP30	03523TAP3
EC474849	ABIBB 6.000 11/01/41	ANHEUSER-BUSCH COS LLC	250.000.000	USD	$250.000.000	FIXED	6,000%	6-Nov-01	1-Nov-41	US035229CL53	035229CL5
EC561532	ABIBB 6.500 05/01/42	ANHEUSER-BUSCH COS LLC	250.000.000	USD	$250.000.000	FIXED	6,500%	2-May-02	1-May-42	US035229CM37	035229CM3
EJ280570	ABIBB 3.750 07/15/42	ANHEUSER-BUSCH INBEV WOR	1.000.000.000	USD	$1.000.000.000	FIXED	3,750%	16-Jul-12	15-Jul-42	US03523TBQ04	03523TBQ0
EJ514762	ABIBB 4.000 01/17/43	ANHEUSER-BUSCH INBEV FIN	750.000.000	USD	$750.000.000	FIXED	4,000%	17-Jan-13	17-Jan-43	US035242AB27	035242AB2
EC601408	ABIBB 6.500 02/01/43	ANHEUSER-BUSCH COS LLC	300.000.000	USD	$300.000.000	FIXED	6,500%	27-Jun-02	1-Feb-43	US035229CN10	035229CN1
EK041721	ABIBB 4.625 02/01/44	ANHEUSER-BUSCH INBEV FIN	850.000.000	USD	$850.000.000	FIXED	4,625%	27-Jan-14	1-Feb-44	US03524BAF31	03524BAF3
AF236170	ABIBB 4.600 07/23/45	ANHEUSER-BUSCH INBEV FIN	565.000.000	USD	$565.000.000	FIXED	4,600%	23-Jul-15	23-Jul-45	XS1261286147	AF2361703
JV7662598	ABIBB 4.915 01/29/46	ANHEUSER-BUSCH INBEV FIN	1.470.000.000	USD	1.470.000.000	FIXED	4,915%	29-Jan-16	29-Jan-46	XS1351803355	BG00BZ25JK3
JV6469441	ABIBB 4.900 02/01/46	ANHEUSER-BUSCH INBEV FIN	11.000.000.000	USD	11.000.000.000	FIXED	4,900%	25-Jan-16	1-Feb-46	US035242AN64	035242AN6

Source: AB InBev SA/NV Fixed Income (2017)

APPENDIX C

2016 Consolidated Income Statement.

For the year ended 31 December Million US dollar, except earnings per shares in US dollar	Notes	2016	2015
Revenue		**45 517**	**43 604**
Cost of sales		(17 803)	(17 137)
Gross profit		**27 715**	**26 467**
Distribution expenses		(4 543)	(4 259)
Sales and marketing expenses		(7 745)	(6 913)
Administrative expenses		(2 883)	(2 560)
Other operating income/(expenses)	7	732	1 032
Profit from operations before non-recurring items		**13 276**	**13 768**
Restructuring	8	(323)	(171)
Business and asset disposal	8	377	524
Acquisition costs business combinations	8	(448)	(55)
Impairment of assets	8	–	(82)
Judicial settlement	8	–	(80)
Profit from operations		**12 882**	**13 904**
Finance cost	11	(5 860)	(2 417)
Finance income	11	652	1 178
Non-recurring net finance income/(cost)	8	(3 356)	(214)
Net finance income/(cost)		**(8 564)**	**(1 453)**
Share of result of associates and joint ventures		16	10
Profit before tax		**4 334**	**12 461**
Income tax expense	12	(1 613)	(2 594)
Profit from continuing operations		**2 721**	**9 867**
Profit from discontinued operations	22	48	–
Profit of the year		**2 769**	**9 867**
Profit from continuing operations attributable to:			
Equity holders of AB InBev		1 193	8 273
Non-controlling interest		1 528	1 594
Profit of the year attributable to:			
Equity holders of AB InBev		1 241	8 273
Non-controlling interest		1 528	1 594
Basic earnings per share	23	0.72	5.05
Diluted earnings per share	23	0.71	4.96
Basic earnings per share from continuing operations	23	0.69	5.05
Diluted earnings per share from continuing operations	23	0.68	4.96
Basic earnings per share before non-recurring items and discontinued operations[1]	23	2.83	5.20
Diluted earnings per share before non-recurring items and discontinued operations[1]	23	2.77	5.10

The accompanying notes are an integral part of these consolidated financial statements.

Source: AB InBev SA/NV Full Annual Report (2016)

APPENDIX D

2016 Consolidated Statement of Financial Position.

As at Million US dollar	Notes	31 December 2016	31 December 2015
Assets			
Non-current assets			
Property, plant and equipment	13	27 522	18 952
Goodwill	14	136 533	65 061
Intangible assets	15	44 568	29 677
Investments in associates and joint ventures	16	4 324	212
Investment securities	17	82	48
Deferred tax assets	18	1 261	1 181
Employee benefits	25	10	2
Derivatives	29H	146	295
Trade and other receivables	20	874	913
		215 320	**116 341**
Current assets			
Investment securities	17	5 659	55
Inventories	19	3 913	2 862
Income tax receivables		1 112	687
Derivatives	29H	971	3 268
Trade and other receivables	20	6 391	4 451
Cash and cash equivalents	21	8 579	6 923
Assets classified as held for sale	22	16 439	48
		43 061	**18 294**
Total assets		**258 381**	**134 635**
Equity and Liabilities			
Equity			
Issued capital	23	1 736	1 736
Share premium		17 620	17 620
Reserves		23 769	(13 168)
Retained earnings		28 214	35 949
Equity attributable to equity holders of AB InBev		**71 339**	**42 137**
Non-controlling interests	33	10 086	3 582
		81 425	**45 719**
Non-current liabilities			
Interest-bearing loans and borrowings	24	113 941	43 541
Employee benefits	25	3 014	2 725
Deferred tax liabilities	18	16 678	11 961
Derivatives	29H	471	315
Trade and other payables	28	1 328	1 241
Provisions	27	1 409	677
		136 841	**60 460**
Current liabilities			
Bank overdrafts	21	184	13
Interest-bearing loans and borrowings	24	8 618	5 912
Income tax payables		3 922	669
Derivatives	29H	1 263	3 980
Trade and other payables	28	23 086	17 662
Provisions	27	869	220
Liabilities associated with assets held for sale	22	2 174	–
		40 116	**28 456**
Total equity and liabilities		**258 381**	**134 635**

The accompanying notes are an integral part of these consolidated financial statements.

Source: AB InBev SA/NV Full Annual Report (2016)

APPENDIX E

2016 Weighted Average Number of Shares and EPS Calculation.

Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of AB InBev of 1 241m US dollar (31 December 2015: 8 273m US dollar) and a weighted average number of ordinary and restricted shares outstanding (including deferred share instruments and stock lending) per end of the period, calculated as follows:

Million shares	2016	2015
Issued ordinary shares at 1 January, net of treasury shares	1 606	1 607
Effect of restricted share issuance – SABMiller combination	94	–
Effect of shares issued and share buyback programs	(20)	(2)
Effect of stock lending	12	10
Effect of undelivered shares under the deferred share instrument	23	23
Weighted average number of ordinary and restricted shares at 31 December	**1 717**	**1 638**

The calculation of diluted earnings per share is based on the profit attributable to equity holders of AB InBev of 1 241m US dollar (31 December 2015: 8 273m US dollar) and a weighted average number of ordinary and restricted shares (diluted) outstanding (including deferred share instruments and stock lending) per end of the period, calculated as follows:

Million shares	2016	2015
Weighted average number of ordinary and restricted shares at 31 December	1 717	1 638
Effect of share options, warrants and restricted stock units	38	30
Weighted average number of ordinary and restricted shares (diluted) at 31 December	**1 755**	**1 668**

The calculation of earnings per share before non-recurring items and discontinued operations is based on the profit from continuing operations attributable to equity holders of AB InBev. A reconciliation of profit before non-recurring items and discontinued operations, attributable to equity holders of AB InBev to profit attributable to equity holders of AB InBev is calculated as follows:

Million US dollar	2016	2015
Profit before non-recurring items and discontinued operations, attributable to equity holders of AB InBev	4 853	8 513
Non-recurring items, after taxes, attributable to equity holders of AB InBev (refer to Note 8)	(304)	(26)
Non-recurring finance income/(cost), after taxes, attributable to equity holders of AB InBev (refer to Note 8)	(3 356)	(214)
Profit from discontinued operations (refer to Note 22)	48	–
Profit attributable to equity holders of AB InBev	**1 241**	**8 273**

The table below sets out the EPS calculation:

Million US dollar	2016	2015
Profit attributable to equity holders of AB InBev	1 241	8 273
Weighted average number of ordinary and restricted shares	1 717	1 638
Basic EPS from continuing and discontinued operations	**0.72**	**5.05**
Profit from continuing operations attributable to equity holders of AB InBev	1 193	8 273
Weighted average number of ordinary and restricted shares	1 717	1 638
Basic EPS from continuing operations	**0.69**	**5.05**
Profit from continuing operations before non-recurring items, attributable to equity holders of AB InBev	4 853	8 513
Weighted average number of ordinary and restricted shares	1 717	1 638
EPS from continuing operations before non-recurring items	**2.83**	**5.20**
Profit attributable to equity holders of AB InBev	1 241	8 273
Weighted average number of ordinary and restricted shares (diluted)	1 755	1 668
Diluted EPS from continuing and discontinued operations	**0.71**	**4.96**
Profit from continuing operations attributable to equity holders of AB InBev	1 193	8 273
Weighted average number of ordinary and restricted shares (diluted)	1 755	1 668
Diluted EPS from continuing operations	**0.68**	**4.96**
Profit from continuing operations before non-recurring items, attributable to equity holders of AB InBev	4 853	8 513
Weighted average number of ordinary and restricted shares (diluted)	1 755	1 668
Diluted EPS from continuing operations before non-recurring items	**2.77**	**5.10**

The average market value of the company's shares for purposes of calculating the dilutive effect of share options and restricted stock units was based on quoted market prices for the period that the options and restricted stock units were outstanding. 5m share options were anti-dilutive and not included in the calculation of the dilutive effect as at 31 December 2016.

Source: AB InBev SA/NV Full Annual Report (2016)

APPENDIX F

2016 Reconciliation and Net Finance Cost.

Reconciliation between normalized EBITDA and profit attributable to equity holders

Normalized EBITDA and EBIT are measures utilized by AB InBev to demonstrate the company's underlying performance.

Normalized EBITDA is calculated excluding profit from discontinued operations and the following effects from profit from continuing operations attributable to equity holders of AB InBev: (i) Noncontrolling interest, (ii) Income tax expense, (iii) Share of results of associates, (iv) Net finance cost, (v) Non-recurring net finance cost, (vi) Non-recurring items above EBIT (including non-recurring impairment) and (vii) Depreciation, amortization and impairment.

Normalized EBITDA and EBIT are not accounting measures under IFRS accounting and should not be considered as an alternative to Profit from continuing operations attributable to equity holders as a measure of operational performance or as an alternative to cash flow as a measure of liquidity. Normalized EBITDA and EBIT do not have a standard calculation method and AB InBev's definition of normalized EBITDA and EBIT may not be comparable to that of other companies.

Million US dollar	Notes	2016	2015 Reported
Profit attributable to equity holders of AB InBev		**1 241**	**8 273**
Non-controlling interest		1 528	1 594
Profit		**2 769**	**9 867**
Profit from discontinued operations		(48)	–
Profit from continuing operations		**2 721**	**9 867**
Income tax expense	12	1 613	2 594
Share of result of associates and joint ventures		(16)	(10)
Non-recurring net finance cost/(income)	11	3 356	214
Net finance cost	11	5 208	1 239
Non-recurring items above EBIT (including non-recurring impairment)	8	394	(136)
Normalized EBIT		**13 276**	**13 768**
Depreciation, amortization and impairment (excluding non-recurring impairment)		3 477	3 071
Normalized EBITDA		**16 753**	**16 839**

Non-recurring items are either income or expenses which do not occur regularly as part of the normal activities of the company. They are presented separately because they are important for the understanding of the underlying sustainable performance of the company due to their size or nature. Details on the nature of the non-recurring items are disclosed in Note 8 *Non-recurring items*.

11. Finance cost and income

Recognized in profit or loss

Finance costs

Million US dollar	2016	2015
Interest expense	(4 092)	(1 833)
Capitalization of borrowing costs	12	28
Net interest on net defined benefit liabilities	(113)	(118)
Accretion expense	(648)	(326)
Net foreign exchange losses (net of the effect of foreign exchange derivative instruments)	(21)	–
Net losses on hedging instruments that are not part of a hedge accounting relationship	(797)	–
Tax on financial transactions	(70)	(61)
Other financial costs, including bank fees	(131)	(107)
	(5 860)	**(2 417)**
Non-recurring finance cost	(3 522)	(725)
	(9 382)	**(3 142)**

Finance costs, excluding non-recurring items, increased by 3 443m US dollar from prior year driven by higher interest expense, mainly as a result of the issuance of bonds in January and March 2016 in connection with the funding of the combination with SABMiller, as well as higher accretion expenses and net losses on hedging instruments that are not part of a hedge accounting relationship.

Mark-to-market result on certain derivatives related to the hedging of share-based payment programs reached net losses of 384m US dollar in 2016 (31 December 2015: 844m US dollar income).

Borrowing costs capitalized relate to the capitalization of interest expenses directly attributable to the acquisition and construction of qualifying assets mainly in Brazil and China. Interest is capitalized at a borrowing rate ranging from 4% to 8%.

In the light of the combination with SABMiller, AB InBev recognized non-recurring expenses of 3 522m US dollar, of which:

- 2 693m US dollar negative mark-to-market adjustments as a result of derivative foreign exchange forward contracts entered into in order to economically hedge against exposure to changes in the US dollar exchange rate for the cash component of the purchase consideration of SABMiller in pound sterling and South African rand, for which a portion of the hedges could not qualify for hedge accounting – see also Note 29 *Risks arising from financial instruments*;
- 306m US dollar related to accelerated accretion expenses associated to the 2015 Senior Facilities Agreement, as well as commitment fees and other fees. The accelerated accretion follows the cancellation of 42.5, 12.5 and 2.0 billion US dollar commitments available under the 2015 Senior Facilities Agreement in January, April and October 2016, respectively. See also Note 24 *Interest-bearing loans and borrowings*;
- 304m US dollar resulting from mark-to-market adjustments on derivative instruments entered into to hedge the deferred share instrument issued in a transaction related to the combination with Grupo Modelo (31 December 2015: 511m US dollar income). By 31 December 2016, 100% of the deferred share instrument had been hedged at an average price of approximately 68 euro per share. See also Note 23 *Changes in equity and earnings per share*;
- 127m US dollar exceptional finance cost resulting from mark-to-market adjustments on derivative instruments entered into to hedge the shares issued in relation to the combination with SABMiller – see also Note 29 *Risks arising from financial instrument*;
- 92m US dollar mainly related to the early redemption of SABMiller bonds – see also Note 24 *Interest-bearing loans and borrowings*.

Interest expense is presented net of the effect of interest rate derivative instruments hedging AB InBev's interest rate risk – see also Note 29 *Risks arising from financial instruments*.

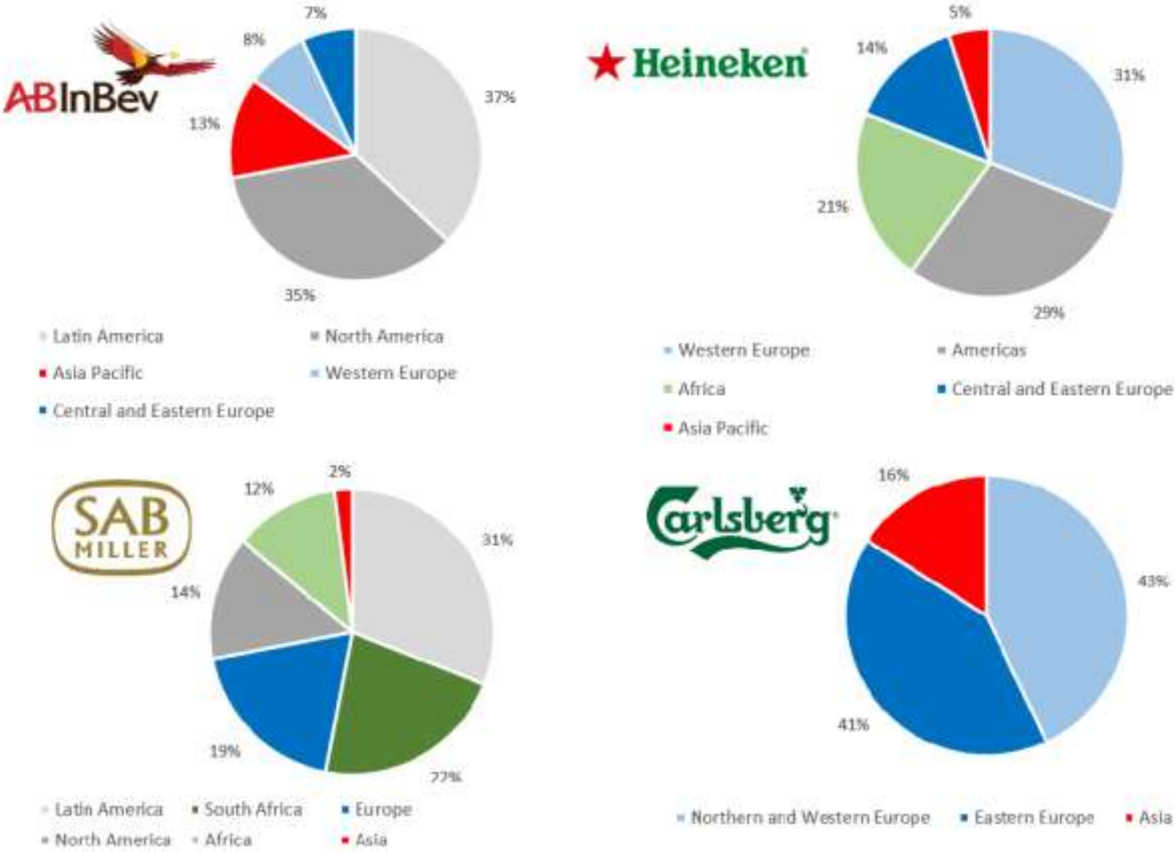
Finance Income

Million US dollar	2016	2015
Interest income	561	339
Net foreign exchange gains (net of the effect of foreign exchange derivative instruments)	–	378
Net gains on hedging instruments that are not part of a hedge accounting relationship	–	399
Other financial income	91	62
	652	**1 178**
Non-recurring finance income	166	511
	818	**1 689**

Source: AB InBev SA/NV Full Annual Report (2016)

APPENDIX G

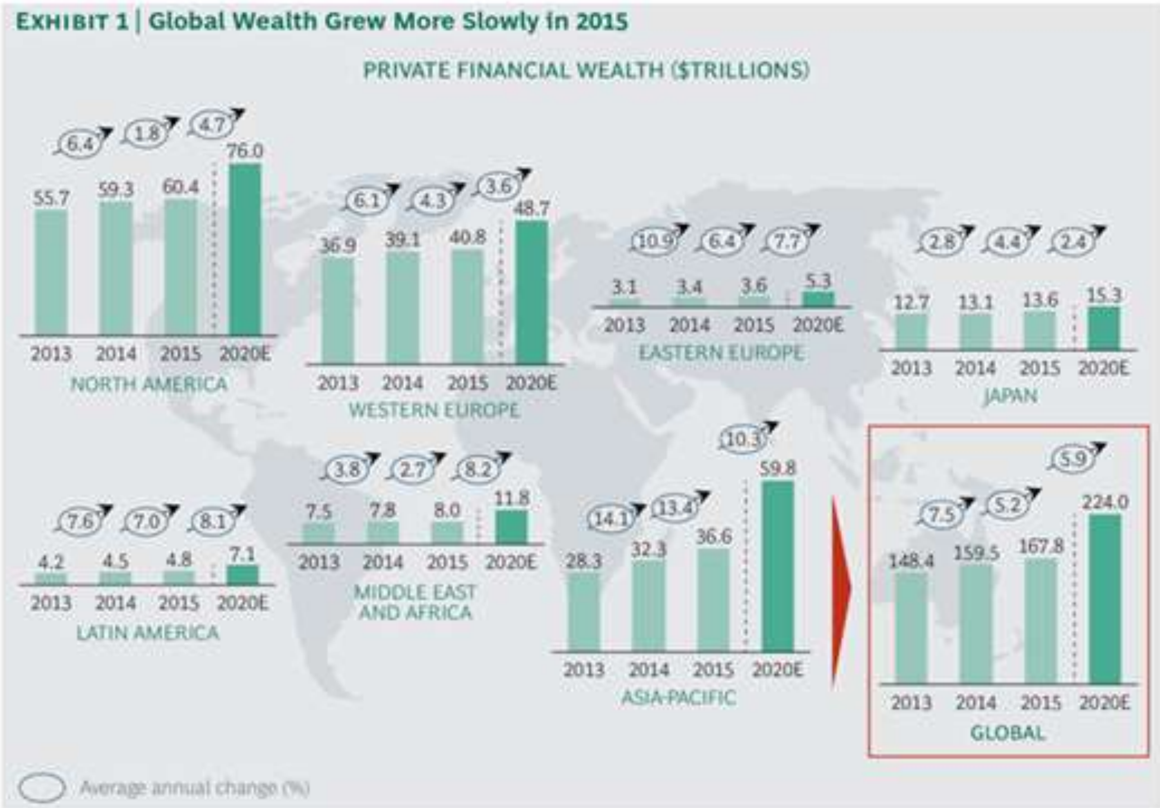
Regional Breakdown of the Four Largest Breweries.

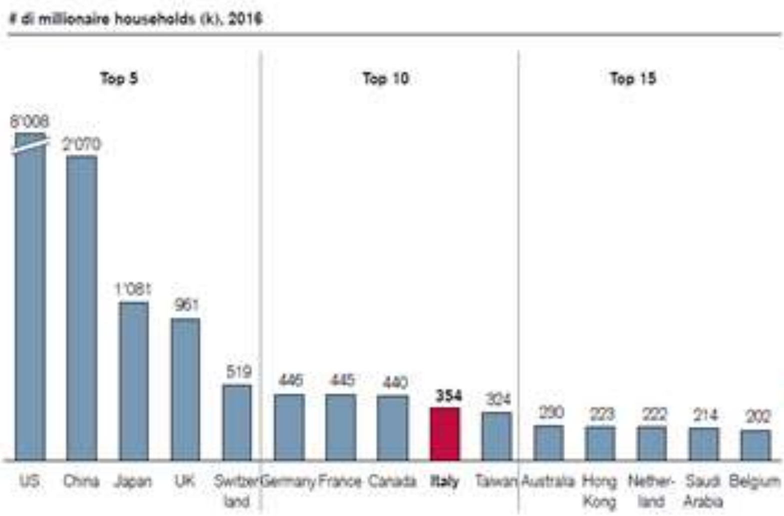


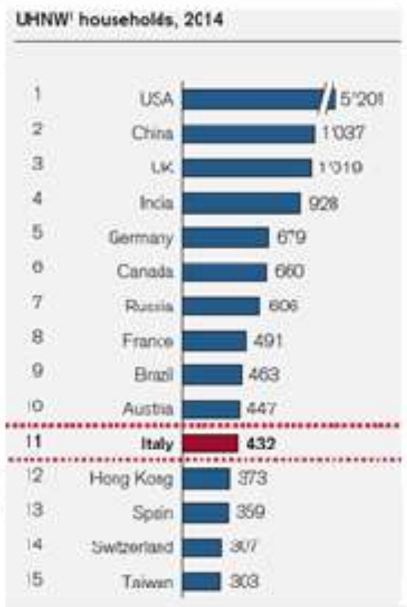
Source: Author, based on companies' information

APPENDIX H

Global Wealth Report Information.







Source: BCG Global Wealth Report (2016)