SABMiller Gets Takeover Approach From Anheuser-Busch InBev

Deal would combine two of the world's largest brewers

Anheuser-Busch InBev has approached SABMiller with a takeover proposal that, if approved, could lead to a global brewing behemoth. WSJ's Marcelo Prince reports. Photo: Getty

By
TRIPP MICKLE, SAABIRA CHAUDHURI and **MATTHEW DALTON**
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Anheuser-Busch InBev NV launched an effort to take over SABMiller PLC, a bold move that, if successful, would create a brewing giant that would dominate much of the global beer market.
A deal would allow the new beer behemoth to take big mainstream brands like Budweiser and Stella Artois, which have been languishing in key markets, into new corners of the globe. It would help the two brewers resist the growing popularity of craft beers.

SABMiller said AB InBev had informed it that AB InBev intended to make an acquisition proposal, but cautioned that no deal was certain. No terms were disclosed, but it is likely that any bid would be well in excess of SABMiller's Tuesday market capitalization of $75 billion.

While AB InBev said it intends "to work with SABMiller's board toward a recommended transaction," it was unclear where SAB stood on the matter. SABMiller said its board "will review and respond as appropriate to any proposal which might be made."

It also wasn't certain whether such a combination would clear the numerous antitrust reviews it would likely trigger, particularly in China and in the U.S., where AB InBev has 45% of the market and SABMiller about 25% through its MillerCoors LLC joint venture with Molson Coors Brewing Co.
The beer industry has been rife with speculation about a merger of AB InBev and SABMiller for more than a year. The Wall Street Journal reported last year that AB InBev had discussions with some banks about possibly financing a deal.

Since then, the merger environment has heated up and is on a pace to hit the highest levels on record. There have been $3.2 trillion of deals globally so far this year, up 29% from the year-earlier period, according to data provider Dealogic.

SABMiller's share price has weakened from a year ago. The stock has declined almost 14% since the Journal reported AB InBev's financing discussions. In the meantime, AB InBev's performance has worsened, and conditions have grown tougher for big beer brands.

Consumers in North America and Europe have been steadily shifting toward wine or spirits such as bourbon over two decades. And when drinking beer, more are bypassing the mass-market lagers that are the mainstays of global beer giants such as AB InBev, SABMiller and Heineken in favor of craft beers and Mexican imports.

The consumer shift has helped cut AB InBev's market share in the U.S., which accounts for about a third of total profits, to 44.7% from 48.8% in 2008, according to the trade publication Beer Marketer's Insights.

In the past, AB InBev was able to offset such setbacks with gains in emerging markets like Brazil, which accounts for about 22% of its revenue. But Brazil now is wrestling with an economic downturn. AB InBev's second-quarter net profit plunged 32% as sales contracted in four of its six markets, including the U.S. and Brazil.

The possible addition of SAB Miller underscores AB InBev's unusual strategy. At a time when sales of many global consumer packaged goods are slipping, some companies are pursuing niche products.

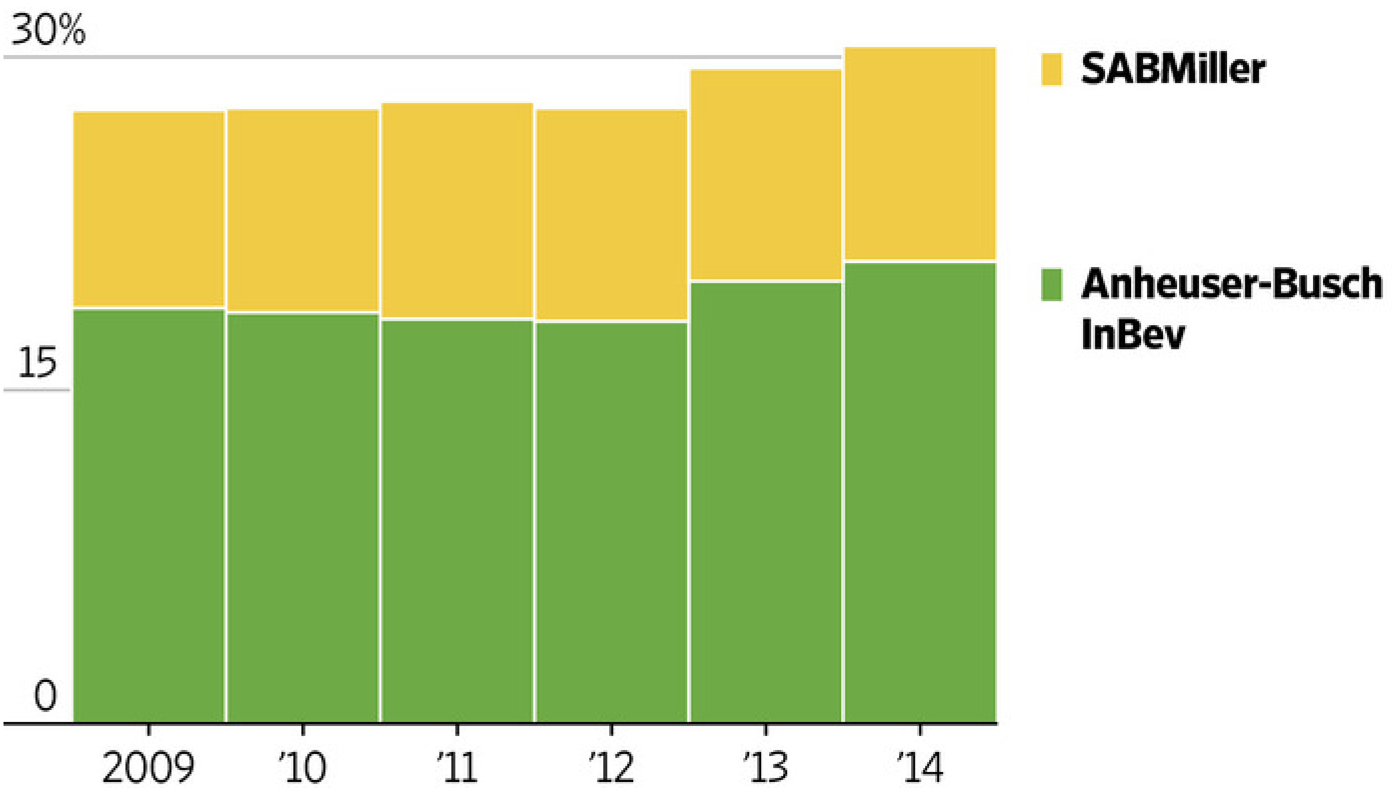
Coca-Cola Co., for instance, has said it is focusing these days on smaller, bolt-on acquisitions to diversify beyond its core business. Last month it agreed to pay roughly $90 million for a nearly 30% stake in California's Suja Life LLC, which plays in the small but fast-growing market for organic, cold-pressed juices. In recent years, Coke also acquired the makers of Zico coconut water and Honest Tea, an organic tea, and a stake in startup dairy brand Fairlife.

AB InBev, by contrast, is undertaking an ambitious effort to create the world's first global beer brands. The company, based in Leuven, Belgium, has been pushing its Budweiser, Corona and Stella Artois brands around the world and complementing them with sales of local beers such as Cass in South Korea and Brahma in Brazil.

A deal for London-based SABMiller would fit right into AB InBev's playbook. The world's largest brewer was built by a group of Brazilian businessmen who brought a private-equity approach to the beer business. It grew through a series of deals in Brazil before combining with Belgium-based Interbrew in 2004 and later going after Anheuser-Busch.

Beer Behemoths

Anheuser-Busch InBev and SABMiller together control a huge swath of the global beer market by sales.



Source: Euromonitor

THE WALL STREET JOURNAL

The company has proved adept at acquiring businesses and cutting costs but has struggled to increase its share in key markets. It has performed well in Brazil, where it has roughly a 70% market share, and China, where it has more than doubled Budweiser volume to 13 million barrels since 2011. But it struggles as a brand builder.

In the U.S., AB InBev has been unable to arrest a two-decade decline in Budweiser sales. As recently as last year, roughly 44% of 21- to 27-year-olds had never tried what it calls the King of Beers, according to the company. Bud Light, the U.S.'s best-selling beer, also has struggled.

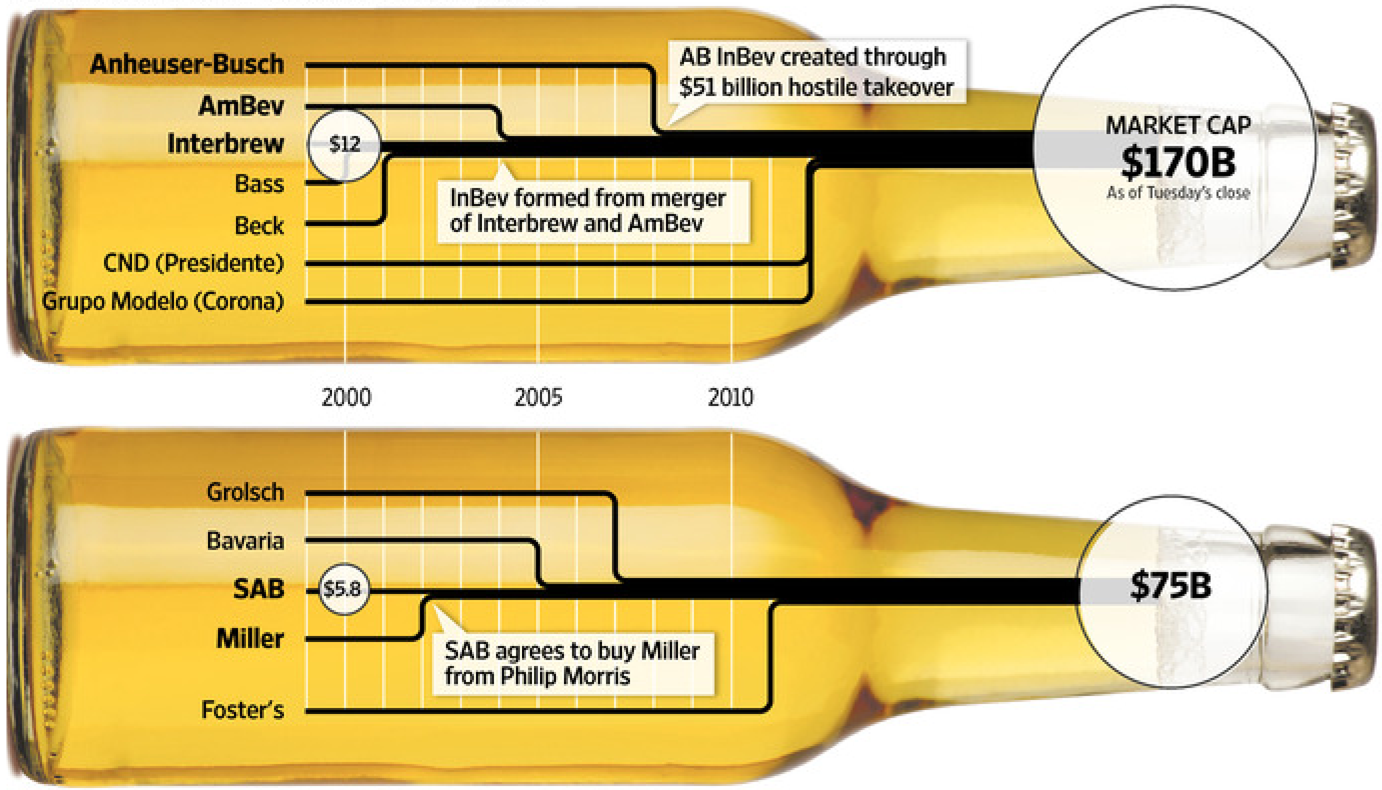
Acquiring four regional breweries appears to have done little to help the company stave off fierce competition from the disruptive craft-beer industry. Craft beers have doubled their share of the U.S. market since 2008, to 9%.

A deal for SABMiller—which makes more than 200 beers, including Peroni Nastro Azzurro, Pilsner Urquell and Grolsch—would offer AB InBev a chance to push those brands, plus its own, into new markets.

AB InBev has been using its global presence to help soften the blow from its problems in the U.S. It now sells more Budweiser outside the U.S. than domestically. The beer does particularly well in China, where it is considered a premium brew.

That is another beer-industry tactic AB InBev has perfected: selling a brand such as Stella Artois—which is a standard lager in its home market of Belgium—as a higher-priced premium beer in overseas markets such as the U.S. and China.

TOP ACQUISITIONS BY ANHEUSER-BUSCH INBEV



TOP ACQUISITIONS BY SABMILLER

Sources: Dealogic (deals); FactSet (market cap)   THE WALL STREET JOURNAL

An acquisition of SABMiller, with its big presence in Africa, would give AB InBev a major launching pad for its beers in markets where it has virtually no presence. Emerging markets such as Africa will become an ever-more-important part of the global pool of beer profits, analysts say.

“The future is already here, to a certain extent,” said Wim Hoste, an analyst at KBC Securities in Brussels, citing the 30% of annual profits SABMiller earns in Africa. In the Middle East and Africa, SAB has 40% of the market, while AB InBev has just 0.6%, according to market-research firm Euromonitor International.

Buying SABMiller would catapult AB InBev, valued at about $170 billion, into market-leading positions in Colombia and Peru as well. SABMiller stock closed about 20% higher. AB InBev shares rose more than 6%.

The expansion would also open the door for cost-cutting and supply-chain integration, giving AB InBev a chance to boost its profitability in ways it hasn't done since it bought Anheuser-Busch for $52 billion in 2008.

By acquiring SABMiller, AB InBev would be "buying growth in Latin America and in Africa and buying the opportunity to take a lot of cost out of SAB's back office operations," said Sanford C. Bernstein analyst Trevor Stirling.

Brazilian private-equity firm 3G Capital Partners, which was started by AB InBev's shareholders, is known for wringing costs out of the businesses it invests in. Mr. Stirling said owning SABMiller would allow AB InBev to apply its "frugal culture" to the London based brewer.

But if SABMiller and AB InBev ultimately strike a deal, the transaction will likely be a more difficult one than the others the Belgian-Brazilian brewing alliance has attempted in years past. InBev was able to extract large cost-savings from its acquisition targets, in particular Anheuser-Busch, where executives had access to a fleet of corporate jets and the culture was far from lean.

"AB InBev took over some companies in the past that were not run up to the same efficiency standards as InBev itself," said Mr. Hoste of KBC Securities. "It's clear that SABMiller today is already a well-run company, which means that the prospects of getting synergies from the transaction will be much lower."

—Shayndi Raice contributed to this article.

Brazilian Tycoons Pursue Capstone for Beer Empire

Billionaire co-founders of 3G Capital played key role in molding SABMiller suitor AB InBev

A barmaid hands a glass of London Pale Ale to a customer in the tasting rooms at the Meantime Brewing Co. in London on May 15, 2015. SABMiller agreed to buy the company as European craft beer makers start to gain attention from the world's biggest brewers. *PHOTO:BLOOMBERG NEWS*

By
ANUPREETA DAS
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A combination of the world's two biggest brewers would cap decades of beer-empire building by three Brazilian billionaires who control one of the hottest names in the takeover business and will likely play a key role in the proposed deal's outcome.

Anheuser-Busch InBev NV, which disclosed Wednesday that it approached SABMillerPLC about a tie-up, is effectively controlled by a group of investors that include 3G Capital Partners LP co-founders Jorge Paulo Lemann, Marcel Herrmann Telles and Carlos Alberto Sicupira.

In recent years, the trio has been behind some of the world's most ambitious takeovers, striking deals for well-known food and restaurant companies and imposing a formula that calls for drastic cost-cutting and profitability improvements.

Their deal making has kicked into an even higher gear this year. In July, 3G and Warren Buffett's Berkshire Hathaway Inc. closed a deal to merge H.J. Heinz Co., which they bought jointly in 2013, with Kraft Foods Group Inc. Now, just two months later, the investment firm's founders have even a bigger prize in their sights: A merger between AB InBev and SABMiller that would likely be valued at more than $75 billion and top the list of megadeals that puts put 2015 on pace to be the best year ever for takeover activity.

To fund its acquisitions, 3G with offices in Brazil and New York, raises multibillion-dollar funds from its own partners and a small global network of the superwealthy to fund its acquisitions. The firm was founded in 2004 as a way for the three men to invest in global companies while testing the management principles they had honed in Brazil.

The 3G trio has played a key role in molding AB InBev, the world's largest brewer by sales, into its current form. In many ways, the firm's recent deals for Heinz and Kraft—and restaurant chains Burger King Worldwide Inc. and Tim Hortons Inc.—echo the roll-up strategy that built AB InBev into a company with $47 billion in yearly revenue and about a fifth of the global beer market.

Based in Leuven, Belgium, AB InBev is an amalgamation of at least five different companies across three continents. It is publicly traded but jointly controlled by the Brazilian tycoons and a group of wealthy Belgian families. Through a network of holding companies based in Luxembourg and the Netherlands, among other places, they together own shares representing 52% of the company's voting rights.

The men began investing in beer long before they embarked on their food-industry deals. in recent years that made them one of the best-known names in mergers and acquisitions. Fifteen years before 3G was formed, they paid about $50 million for a Brazilian brewer called Brahma. They merged it with a domestic rival in 1999 to form AmBev.

In 2004, InBev, was formed by merging AmBev and Belgium's Interbrew. Since then, the Belgian and Brazilian shareholders have cooperated to guide the brewer, which in 2008 bought Budweiser maker Anheuser-Busch Cos. for about $50 billion.

Over the years, the Brazilians have widened their network to include a vast web of relationships that could come in handy as AB InBev pursues SABMiller.

Colombia's billionaire Santo Domingo family, whose interests are managed by New York-based Alejandro Santo Domingo, is SABMiller's second-largest shareholder with a roughly 15% stake. Along with Altria Group, which owns more than 25%, the family will have a big say on whether SABMiller is sold. Members of the Santo Domingo family already are on friendly terms with the 3G founders, having invested in their funds, people familiar with the matter have said.

3G may also benefit in the pursuit from the reputation it has built in the past few years on Wall Street for making successful acquisitions. Still, it's unclear how much AB InBev might offer to pay and how receptive SABMiller may be.

Ties between AB InBev and 3G are tight too. Carlos Brito, the chief executive of AB InBev, worked for the 3G founders starting in 1989, when he joined Brahma. Indeed, in late August, Mr. Brito and 3G officials met in Brazil and talked about the potential SABMiller deal, according to people familiar with the matter.

It isn't clear if Mr. Buffett will take part in any deal. He has publicly expressed admiration for 3G in the past and said he would like to team up with it again, on a friendly basis. As of early Wednesday, Mr. Buffett hadn't been approached about participating in the deal, according to people familiar with the matter.

—Matthew Dalton and Simon Clark contributed to this article.

AB InBev, SABMiller Deal Expected to Face Global Antitrust Grilling

World-wide footprint of the two brewers means any deal would face tough scrutiny

The biggest regulatory hurdle would be in the U.S. market, where AB InBev has a roughly 45% share of the market and SABMiller controls a further 25% through its MillerCoors joint venture with Molson Coors Brewing. *PHOTO: DANIEL ACKER/BLOOMBERG NEWS*

By
MIKE ESTERL
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Anheuser-Busch InBev NV is attempting to forge a global brewing juggernaut by acquiring chief rival SABMiller PLC, but a proposed tie-up would face intense antitrust scrutiny and send shock waves far beyond beer.

Regulators likely would press for major concessions from AB InBev, particularly in the U.S. and China, to put the brakes on two brewers that together already produce nearly a third of the world's beer and span hundreds of brands including Budweiser, Corona and Peroni. AB InBev and SABMiller had 20.8% and 9.7% world-wide market shares by volume last year, respectively, Euromonitor International estimates.

An intricate web of corporate alliances at AB InBev and SABMiller, including competing bottling operations for soda rivals Coca-Cola Co. and PepsiCo Inc., only heightens the complexity of negotiations.

Also factoring into any potential deal: U.S. cigarette giantAltria Group Inc., which owns a 27% stake in SABMiller.

Because of the global reach of AB InBev and SABMiller, they will likely have to seek antitrust clearance from jurisdictions around the world, a process that could easily take a year, antitrust experts said.

"A lot of different enforcers are going to want to look at this. You could have some surprises here and there," said Darren Tucker, an antitrust lawyer at Morgan Lewis & Bockius LLP.

In Latin America some divestitures could be required. SABMiller has a 95.1% market share in Peru, while AB InBev has 4.1%, according to Euromonitor. In Ecuador, SABMiller controls 92% of the market; AB InBev has 7.7%.

The biggest regulatory hurdle, though, is in the crucial U.S. market, where Belgium's AB InBev already has a roughly 45% market share and U.K.-based SABMiller controls a further 25% through its MillerCoors LLC joint venture with Denver-based Molson Coors Brewing Co. AB InBev and MillerCoors also control the only two U.S. beer-distribution networks.

The likely outcome? AB InBev would have to sell SABMiller's 58% stake in MillerCoors, whose brands include Coors Light and Miller Lite. It might have to settle for a discount because Molson Coors has the right to boost its stake to 50% and name MillerCoors's chief executive if SABMiller is acquired. Molson Coors also has the right of first refusal for the remaining 50%, and the brewer's share price surged more than 10% Wednesday in anticipation of a deal.

AB InBev already had to dramatically restructure its $20.1 billion acquisition of Mexican brewing giant Grupo Modelo SAB in 2013 after the U.S. Justice Department sued to block the deal. AB InBev eventually agreed to sell an additional $2.9 billion in assets to U.S.-based Constellation Brands Inc.

Another potential regulatory headache is China, where AB InBev had an estimated 14% volume market share last year, according to Euromonitor. Chinese authorities could require the brewer to exit SABMiller's joint venture with China Resources EnterpriseLtd., which has 23% of the market and produces the top-selling Snow brand.

While the companies' combined market share in Europe would be lower than in the U.S. or China, antitrust experts don't expect an easy ride in Brussels.

Margrethe Vestager, the European Union's new antitrust chief, has repeatedly warned that mergers shouldn't happen at the expense of consumers. Her agency filed formal charges against Google Inc. and Gazprom within a single week in April.

"The argument goes that we need to protect companies, to help them become bigger companies, otherwise they can't take on international rivals," Ms. Vestager said in March. "I'm not convinced about these arguments."

Diana Moss, president of the American Antitrust Institute, a group that favors strong antitrust enforcement, said a merger would likely spell higher prices for U.S. consumers and could also make life harder for smaller craft brewers. Given the already-concentrated U.S. beer market, it would be hard to find a buyer for divested assets that would be able to fully restore competition lost by the merger, she added.

AB InBev-SABMiller Merger Bash: Who Will Have the Most Fun

A combo would force valuable assets onto the market, lead to industry shakeout

A deal between Anheuser-Busch InBev and SABMiller would bring together companies controlling 30% of global beer volumes. An Anheuser-Busch Budweiser bottling facility in St. Louis, Mo. *PHOTO: LUKE SHARETT/BLOOMBERG NEWS*

By

HELEN THOMAS and **SPENCER JAKAB**

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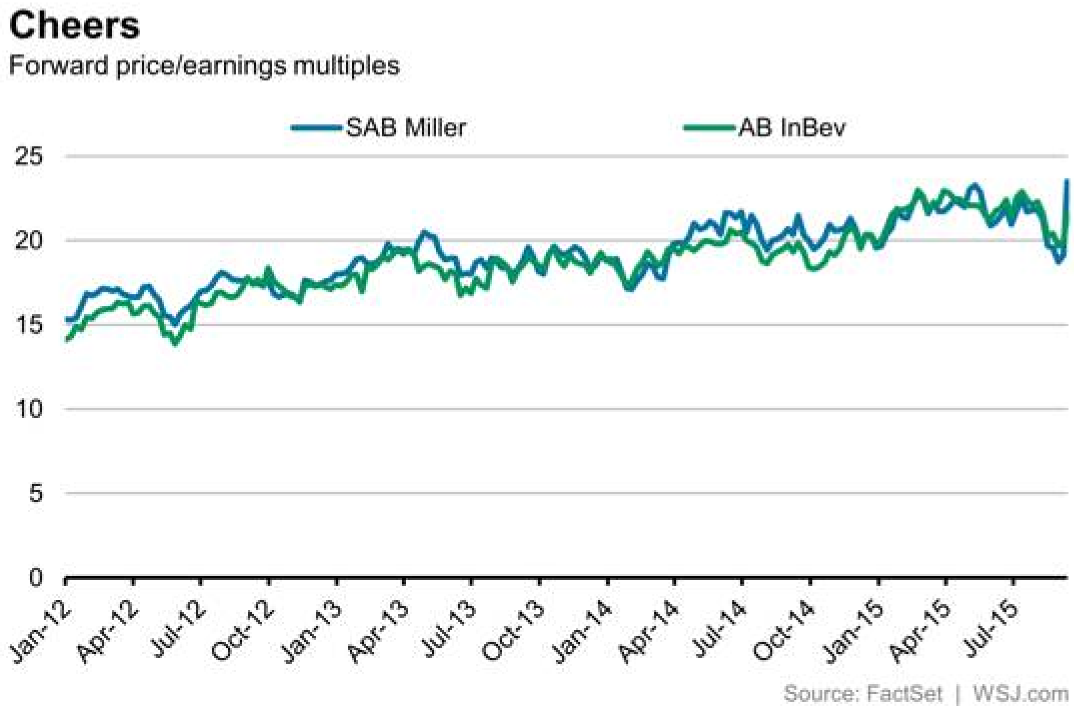
Anheuser-Busch InBev has finally opted to down its pint, but everyone else in the bar may end up having more fun.

The world's largest brewer by sales said Wednesday that it planned to make an offer to buy SABMiller, a long-awaited deal that would bring together companies controlling 30% of global beer volumes.

The timing, at least from AB InBev's standpoint, makes some sense. SABMiller has underperformed other beer companies this year, thanks to its huge emerging-markets exposure. Nearly 70% of its sales are made in China or markets reliant on commodities like Nigeria, Australia or sub-Saharan Africa, notes Barclays, the highest in the European staples sector.

Longer-term this should translate into higher growth. Indeed, increasing its exposure to markets like Colombia, Peru and in Africa may be part of the appeal for AB InBev. But given current anxieties, SABMiller's valuation had dropped to about 18 times forecast earnings, a slight discount to the sector. Over the past year, the stock has underperformed AB InBev by about 30 percentage points.



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SABMiller still won't come cheap. Even before the deal announcement, its valuation was at a slight premium to its five-year average of about 18.3 times. Its substantial shareholders, Altria and Colombia's Santo Domingo family, from whom SAB bought Bavaria in 2005, together control more than 40% of the company.

But AB InBev's formidable reputation in slashing costs means a deal helps to offset concerns about its own slowing growth. The fact that big investors like Altria may prefer to take shares, rather than cash for tax reasons could ease financing constraints, in a deal that could top $100 billion.

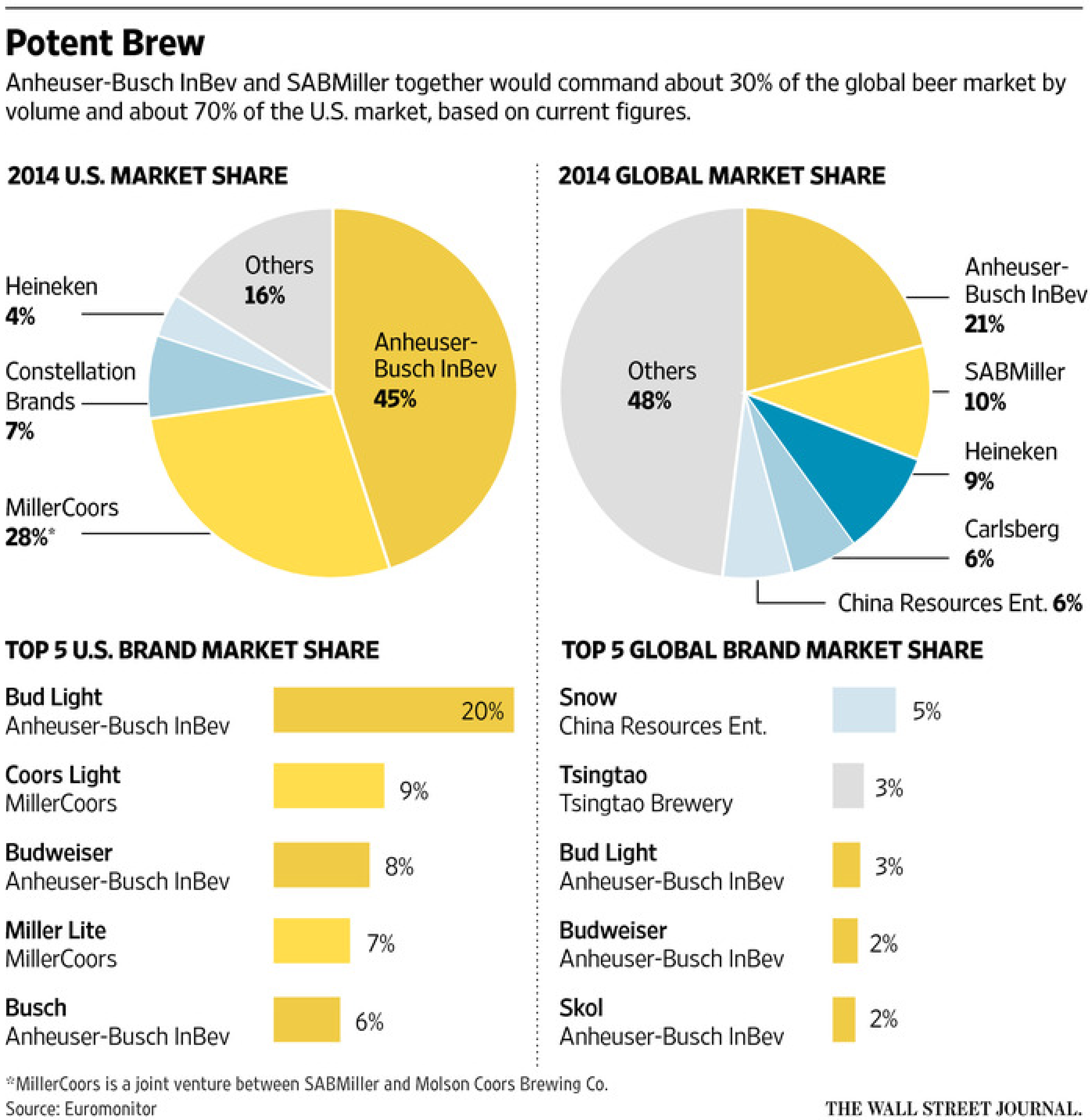
Emerging-markets issues are a near-term concern, but AB InBev may be wisely taking a longer view. Those markets, after all, are where the growth will be in coming years for big brewers. Beer consumption in developed markets like the U.S. has slowed in recent years and craft brewers, while still a small factor overall, have nonetheless been taking market share.

But it could be other brewers that are really raising their glasses. A combination would set off a chain reaction that would force valuable assets onto the market and lead to a shakeout in partnerships and alliances around the industry.

SAB last year agreed to merge its soft-drinks bottling operations with Coca-Cola's in Africa, a deal that has yet to close but presents a potential conflict with AB InBev's relationship with PepsiCo in Latin America. Antitrust concerns could force the sale of SAB's 49% stake in China Resources Snow Breweries, a potential opportunity for rivals to buy into the country's largest brewer by volume.
Meanwhile, the deal would almost certainly mean a windfall for North America's Molson Coors Brewing. Its MillerCoors joint venture with SABMiller controls two of the top four best-selling beer brands in the U.S. AB-InBev has the No. 1 beer by sales in the U.S., Bud Light. All this would push a combined global mega-brewer well past the threshold of what U.S. regulators could accept.
Molson Coors shares were up over 14% in early New York trading. The stunning results enjoyed by Constellation Brands are likely figuring in investors thinking.
Before 2012, Constellation was known for wine and spirits. But in that year, AB InBev made an offer for Mexico's Grupo Modelo. It had a 50-50 joint venture with Constellation in Crown Imports, which distributed Modelo's beer brands in the U.S. Constellation then became the only natural buyer for the other half of Crown when the merger forced a sale of that stake.

Constellation's stock has appreciated by 560% since that deal was announced. The shares had been moribund beforehand.

As lucky brewers all over the world may soon find out, sometimes the stars just line up perfectly.



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Carbonated soft drinks further complicate merger negotiations. AB InBev and its Brazilian unit AmBev have agreements to make and distribute drinks for PepsiCo across much of Latin America, including Brazil, Argentina, Uruguay, Bolivia and parts of Peru. SABMiller, meanwhile has bottling partnerships with Coca-Cola in 23 African markets as well as in El Salvador and Honduras.

Coke is believed to have contractual rights that would allow it to shift bottling to new partners if there is a change of control at SABMiller. SABMiller and Coke declined to comment, but SABMiller has disclosed in regulatory filings that a change of control at the company would give Coke "certain rights" under their bottling agreements.

AB InBev's bottling agreements with PepsiCo are set to expire at the end of 2017. The agreements are automatically extended for another 10 years unless either company gives written notice at least two years before they expire.

Altria, the largest U.S. tobacco company, will also have a big say in any deal. The Marlboro maker was left with 27% of SABMiller after its predecessor company Philip Morris Cos.sold Miller Brewing Co. in 2002 to South African Breweries PLC for $3.6 billion in stock.
Altria declined to comment Wednesday on AB InBev's approach to SABMiller.

Colombia's Santo Domingo family owns 14% of SABMiller and also will play an important role in clinching any deal. SABMiller bought the family's controlling stake in Grupo Empresarial Bavaria SA, South America's second-largest beer producer, in a $5.6 billion cash-and-share deal in 2005.
—*Brent Kendall, Tom Fairless and Saabira Chaudhuri contributed to this article.*