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Creating a Beer Behemoth: AB InBev Interested in Purchasing SABMiller

By Richard Johnson, J.D. Candidate 2017 | October 1, 2014

Over the last fifteen years numerous mergers and acquisitions have consolidated the global beer market into relatively few mega-corporations. What appears to be the next step in this trend is that AB InBev NV, the world's largest brewing company, is reportedly interested in purchasing SABMiller PLC, the world's second largest brewing company, for over $120 billion.

Speculation about a potential deal stems from SABMiller recently making an offer to purchase the Dutch company Heineken NV, the world's third largest brewing company, which was rejected. The offer from SABMiller to Heineken was viewed as "an attempt to bulk up" and prevent a possible purchase by AB InBev, a claim SABMiller has denied. The rebuffed offer, though, has left SABMiller vulnerable because shareholders may now be more likely to accept a bid from AB InBev.

Speculation aside, financing this deal would be a monumental task for AB InBev because the vast majority of the purchase price would come from debt. The credit rating agency Fitch has echoed the concern that the enormous figure would crush AB InBev, noting that this much debt for the acquisition could result in AB InBev's investment grade being downgraded significantly.

But investors are traditionally not as concerned about high debt-to-income ratios in industries with consistent earnings like the alcohol industry. In addition, AB InBev has a track record of successful large acquisitions and the ability to pay off debt. In 2008 InBev purchased the American company Anheuser-Busch for $52 billion to become AB InBev, $45 billion of which was financed with debt. Moreover, just last year AB InBev purchased the half of Grupo Modelo (a Mexican brewery) it did not already own for over $20 billion, about $14 billion of which was funded by bank debt.

Despite taking out close to $100 billion in debt over the last decade (including about $6 billion in the last six months alone), AB InBev currently only has $39 billion in debt. The company has been able to pay down its debt in large part because it is known for cutting costs to such extremes that Carlos Brito, the CEO of AB InBev, takes a train to work. AB InBev's strategy is to purchase a brewery, cut billions of dollars in production costs, and dramatically increase profit margins even if sales remain the same.

While mergers and acquisitions are "almost unanimously approved nowadays," there are some potential antitrust concerns lurking in the background if this deal comes to fruition. AB InBev already owns about 20 percent of the global beer market share, and SABMiller owns almost 10 percent; owning nearly one-third of the global beer market might be too much for antitrust authorities. But some believe this will not be an issue since AB InBev and SABMiller do not share many of the same markets. For example, while AB InBev is strong in Mexico and Brazil, SABMiller is strong in Columbia and Peru. This market diversity is presumably one of the

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reasons AB InBev is so interested in acquiring SABMiller, which also has large markets in Australia and Africa.

Antitrust issues may be more likely to arise in the United States. SABMiller is currently involved in a joint venture with Molson Coors (brews Coors, Blue Moon, and many other brands) – MillerCoors LLC – which combines the production and distribution efforts of Coors and Miller products in the United States. If AB InBev were to purchase SABMiller, in turn acquiring 50% of MillerCoors, then it would be in control of close to three-quarters of the American beer market. Some have proposed that AB InBev sell its acquired portion of MillerCoors to Molson Coors to curtail antitrust issues, but giving Molson Coors control over the production and distribution of all Miller products and other SABMiller brands included in the joint venture hardly seems worth it to AB InBev.