Anheuser Busch InBev - SABMiller Merger Analysis

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History of SABMiller

In 1886 Charles Glass found Castle Breweries during the Gold Rush in Johannesburg, South Africa. Using the foundation Charles started, The South African Breweries (SAB) was later introduced to the brewery industry with Castle Glass being its head office. Two years later, SAB became the first industrial company to list on Johannesburg Stock Exchange. By 1955 SAB was one of the three largest brewers in South Africa and later Castle Brewing bought out their competitors Ohlsson’s and Changlers. This unity gave SAB 98% share of the South African beer market (SABMiller, Our History, n.d.).

For years SAB becomes the largest industrial group in South Africa and one of the world’s top brewing-based organizations. In 2002 SAB acquires 100% of Miller Brewing Company, the second largest brewer in the United States by volume, and changes its name to SABMiller plc, making SABMiller the second largest brewer by volume in the world. SAB launches a new corporate identity in 2004 and a new corporate brand campaign, the first time in more than a decade that a corporate brand campaign was run (SABMiller, Our History, n.d.).

SAB wins several awards, including the Best Company to Work for (Corporate Research Foundation and Finance Week); Top Marketing Company of the Year (National Business Awards) and Marketing Organization of the Year at the Louries Advertising Awards. In December 2004, SAB acquires 100% of Amalgamated Beverage Industries, which becomes the soft drink division of SAB, and the largest beverages company in South Africa is formed and the following year in 2005 they acquire Colombian based brewer, Grupo Empresarial Bavaria (The South African Breweries, 2016).

In 2006 SABMiller continues to grow its international business, making new acquisitions in several developing countries, and maintaining its position as the second largest brewer in the world by volume. SABMiller plc announces its acquisition of Fosters Group Limited in 2011. The deal provides SABMiller with exposure to Australia’s economic growth prospects; a leading position in the stable and profitable Australian beer industry; and the opportunity to apply SABMiller’s capabilities and scale to improve Foster’s financial and operating performance. By 2015 SABMiller has also acquired Meantime Brewing, making SABMiller the still remains the second largest brewer in the world (The South African Breweries, 2016).

History of Anheuser Busch

Anheuser- Busch was founded in St. Louis, USA, in 1852 and has been overseen by a member of its founding family since. Eberhard Anheuser, a very successful soap manufacturer bought a failing brewery from a Bavarian immigrant, George Schneider. Though Eberhard had no knowledge of the beer industry, he hired his son-in-law, Adolphus Busch, who is educated in the art of brewing, to be his general manager. Eberhard Anheuser was determined to turn the company around (Anheuser-Busch Companies, LLC, 2016).

Anheuser and Busch created an aggressive business strategy and knowledge in quality brewing. They would use only the finest “European” ingredients and the basic recipe will never be changed. By the following year, 1853, they have increased the rejuvenated brewery’s capacity from 3,000 to 8,000 barrels per year and began expanding to Texas and Louisiana. The beverage became very popular and later the light bohemian beer became known as Budweiser in 1891. In 1901 Anheuser-Busch became the leading national brewery, and they were considered the most popular beers in the country (Anheuser-Busch Companies, LLC, 2016).
August A. Busch Sr. took over for his father after his death in 1913. The younger Busch patented the first diesel engine, which helped increase brewery production. After the war in 1918, the prohibition caused Anheuser-Busch to adapt and diversified to the changing market. They focused on Malt syrup for homemade brews, soft drinks that contained beer and were successful for three years (Anheuser-Busch Companies, Funding Universe, 2000).

Anheuser-Busch also made many contributions to the war effort, WWI and WWII. Their patriotic actions; producing engines for Navy submarines, supplying military with gear, providing military transportation, elevated sales and advanced Anheuser-Busch’s image as a patriotic company (Anheuser-Busch Companies, LLC, 2016).

Throughout the early 1990’s the craft-brewing industry grew and Anheuser Busch faces many competition. Their closest rivals, Adolph Coors Company and Miller Brewing Company introduced many new brands into the market, but Anheuser-Busch stuck to their core brands. By the end of 1990’s, Anheuser-Busch Company’s share rises to 47.5 percent. In 2000, they launched a successful IPO, making them a publicly-owned company trading on the Euronext stock exchange. They expanded to other markets including Germany and China (Anheuser-Busch Companies, Funding Universe, 2000).

In 2004, Interbrew and AmBev combined to form InBev. Four years later in November 2008, they merged with Anheuser-Busch, creating Anheuser-Busch InBev, the world-class consumer goods company. In 2012 they acquired Grupo Modelo. By 2016 Anheuser-Busch InBev is considered the largest brewer in the world (Anheuser-Busch Companies, Funding Universe, 2000).

Background on Merger of Anheuser Busch InBev and SABMiller

Anheuser-Busch InBev (BUD) is the largest brewery in the world and their interest to expand brought them to propose an agreement with SABMiller (SAB.L), the second-largest brewer in the world, to merge. The maker of Budweiser and other global brands will pay SABMiller $104 billion in the deal (one of the top five biggest mergers), which has yet to be finalized. If the two join forces, they will control 30% of the global beer production, generate over $60 billion in annual revenue and have a market capitalization north of America. Before the union could be official, they would need to clear regulatory hurdles and manage a deal debt of $50 billion. Refer to Appendix A to see the merger schema.

Major Issues (Mario)

Antitrust Laws

The main issue concerning this merger is the regulatory hurdles the companies have to overcome. The combined global market share would be an estimated 30%, thus creating the first truly global beer company. In places such as the United States, European Union, China, Australia, and South Africa, both companies have been taking proactive steps to satisfy regulators and obtain their approval. AB inBev’s approach is to collaborate with regulators to speed and facilitate the merger.

In the United States, with over 70% combined market share, SABMiller is selling its 50% voting interest and 58% economic interest in MillerCoors to Molson Coors, its partner in joint venture, for around $12 billion to help appease rising antitrust concerns in the country (Contributor, Forbes, 2015). Furthermore, there are rising concerns from craft beer brewers who see this as a threat to distribution channels. An association representing the brewers told a Senate hearing in December that the Justice Department should require AB InBev to divest its...
company-owned wholesalers and change conduct that it says restricts distribution of rival products (McLaughlin, Bloomberg, 2016).

SABMiller decided to sell its 49% stake in China’s Snow beer company to government controlled China Resources Beer Holdings Co. According to Whitney Fillion from Eater, in her article *Tracking the Biggest Beer Merger in History*, the $1.6 billion purchase price was less than expected, which is indicative of AB InBev’s desire to push through its impending mega-merger by any means necessary (Fillion, Eater, 2016).

Following this trend, in Europe, Japanese brewery Asahi purchased the rights to beers Peroni, Grolsch, and Meantime from SABMiller for an undisclosed amount but it is estimated to have been in the realm of $2.9 billion according to The Globe and Mail (Reuters, The Globe and Mail, 2016). This sale is only conditional and it is contingent solely on the merger coming to fruition.

Furthermore, in Australia, the Australian Competition and Consumer Commission, or ACCC, has been scrutinizing the merger since mid-January. The main issue in this country is the licensing deal for Australia’s number one imported beer, Corona, which has about 5 per cent of the total Australian beer market, and the arrangements for beer distribution in Australian pubs and bars (Evans, Sydney Morning Herald, 2016). Following the acquisition of Foster’s group by SABMiller in 2011, the rights to sell Corona were transferred to Lion Co. This move gave Lion Co., an Australian brewery, an extra 5% market share to total a 48% market share in Australia. The ACCC is investigating the impacts of the merger in Australia, as well as allegations of onerous conditions being imposed on publicans by the big brewers on beer taps in pubs, in return for generous rebates and maintenance on those beer taps (Evans, Sydney Morning Herald, 2016). The ACCC has yet to give the results on their investigation.

The AB InBev-SABMiller merger seems to have a focus in emerging markets, in Africa, where AB InBev has lacks a significant presence, SABMiller has a significant established footprint. SABMiller has a commanding 34% market share in the continent which represents, according to Forbes website, Around 33% and 30% of SABMiller’s net revenues and EBITDA, respectively, came from Africa in its fiscal 2015 (Contributor, Forbes, 2015). The regulatory process in South Africa is estimated to last from a minimum of one year up to 18 months, which could potentially make it longer than the rest of the regulatory investigations in other countries. The Congress of South African Trade Union leads the opposition against the merger due to the rising concerns of local workers losing their jobs based on AB InBev reputation to cut its working force after acquiring other companies. According to The Wall Street Journal, in their article *Beer Megadeal Faces a Tall Hurdle in South Africa* by Tripp Mickle, the deal will test a unique aspect of South Africa’s regulatory process that requires weighing a deal’s impact on so-called “public interest,” namely employment in a country where about one in four people are unemployed (Mickle, Wall Street Journal, 2016).

**Major Stockholders**

Additionally, there were issues involving the major stockholders in SABMiller. Altria, which holds about 27% of SABMiller, and the Santos Dominguez family which currently owns about 14% of SABMiller. These parties were essential to the process in every step of the merger and played a significant role in the final stages of the negotiations before SABMiller finally agreed to accept AB InBev final offer before reaching the deadline. In order to prevent redundancy, and to maintain fluency throughout this analysis, the details on these issues, and the manner in which both parties overcame said issues, are tied directly to the negotiation strategies and tactics used by both companies in the following section.
Negotiation Strategies and Tactics (Kathryn and Melissa)

Anheuser-Busch InBev (Melissa)

Anheuser-Busch InBev used a mix of both distributive and integrative strategies. In other words, they adapted their strategy or used tactics based on the stakeholder that they were addressing. The three most important stakeholders that AB InBev needed to win over was SABMiller, the shareholders of SABMiller; namely, Altria (American tobacco giant) and Bevco (Colombian family, Santo Domingos) who together owned 40% of SABMiller and the South African government and local investors. Lastly, AB InBev would have to address regulations in both the United States and China where the brewers held overlapping assets. Should the deal go through, SABMiller would have to sell holdings in MillerCoors, a joint venture it formed in 2008 with Molson Coors as well as its 49% stake in a joint venture in China’s best-selling beer brand, Snow.

Anheuser-Busch InBev approached SABMiller with a buyout offer that was mostly distributive in style. Based on the articles, the buyout offer, which was first presented in September/October of 2015, was offered at just over £38 per share and did not indicate that it was based off of objective criteria. SABMiller said that the proposal greatly undervalued the present value (PV) of the company and its strategic global position, whose share price was trading at £29.34 at the time. (Shen, the Motley Fool, 2015). In a style that one could describe as haggling, AB InBev pursued heated negotiations over a restricted period of two weeks (as mandated by British takeover rules) that included three more offers, with the formal offer being accepted in principle at £44 per share on October 13, 2015.

Anheuser-Busch InBev also used a competing/forcing style. The company felt that their initial offer was almost 44% more than what the SABMiller shares were trading at before the buyout was offered. Since these are two publicly trading companies, the negotiation process was highly publicized and The Motley Fool web article suggests that AB InBev used media rhetoric to bully SABMiller into accepting their terms. For example, one headline read “AB InBev Says SABMiller Board’s Opposition Lacks Credibility.” (Mulier, Bloomberg, 2015). The article also proceeds to comment in the voice of AB InBev that SABMiller alone would not be able to achieve the offered cash price of the share in the near future. It also makes mention that the deal was a long time in the making and that SABMiller shareholders should speak up. AB InBev's strategy was to corner SABMiller into accepting the offer. In order to do so, it was important for them to be collaborative concurrent to pressuring SABMiller, which it did so by addressing SABMiller’s other concerns using an integrative style. This included listening to and giving assurances that it would use “best efforts” in pursuing regulatory approvals, and that if these regulations could not be met, that AB InBev would pay SABMiller a breakup fee of $3billion (Mulier, Bloomberg, 2015).

Anheuser-Busch InBev also displayed an integrative style by using problem solving strategies when addressing the two biggest shareholders of SABMiller, Altria and BevCo. By focusing on compatible interests, AB InBev offered a special deal that not only decreased the amount of upfront cash that they would have to come up with, but also addresses the big issue of capital gains tax for these two shareholders. So, by offering a cash discount to the offered share price with a 5-year lockup deal, the shareholders could avoid having to pay large sums of tax. Additionally, they would still get the same dividends, voting rights and director nomination rights as well as more stock options (Shen, The Motley Fool, 2015).
With regards to SABMiller, and holding its strongest presence in South Africa, AB InBev was effectively strategic in addressing the issues of national interest with an integrative style of problem solving. Since the South African economy is still in a depressed state, preserving brewery jobs is a major concern. With the AB InBev takeover, cutting costs by eliminating redundancies could mean loss of jobs for South Africa. The company therefore announced commitments to safeguarding jobs in the merger thus allaying concerns of loss of jobs that often comes with mergers and acquisitions. Additionally, their commitment to the South African economy was further augmented by AB InBev’s announcement that it would list on the JSE (Johannesburg Stock Exchange), further ingratiating it to both the government and investors (Zonke, Ventures Africa, 2016).

Assessment (Melissa)

Anheuser-Busch InBev’s strategies and tactics were mostly effective. While they used a distributive style with SABMiller in reaching a buyout agreement that was not necessarily efficient in terms of the back-and-forth offers and rejections, they were integrative with the company’s interests as well as the interests of their biggest stakeholders such as the shareholders, the South African government and investors, employees, service providers and unions.

Anheuser-Busch InBev is one of the biggest brewers in the world. With previous successful mergers and acquisitions under their belt, for example when it bought Anheuser-Busch in 2008 and Mexico’s Modelo in 2013, AB InBev had garnered respect in implementing tight operations and cost-cutting measures that fed into the success of their M & A’s. This put them in a confident and powerful position for a takeover bid of SABMiller. However, whereas before, they could leverage the buyout offer based on their highly efficient control of resources (including cost cutting synergies, layoffs, reevaluations and leveraging distribution channels), they had to be sensitive to the socio-political climate of South Africa—an important and strategic position to the previously untapped African market that they were looking to penetrate. They therefore had to allay concerns of all the invested stakeholders – government, investors, employees, service providers and unions – that the merger would not affect current jobs and further depress the South African economy. This meant that their bargaining zone would be less, since they would not be able to recoup the buyout cost of the final offer by downsizing on operations. To me, the strategy of this deal was one of checks and balances that they were finally able to accomplish.

Anheuser-Busch InBev also tactfully announced that they would be listing on the JSE (Johannesburg Stock Exchange)--a move that would signal to other international companies that South Africa is an attractive market for investment. Additionally, and more importantly, that the ruling ANC government is open to working with foreign investment. The listing, which took place on January 15, 2016, amounted to R4 trillion and was described by Mantshantsha as “a rare bit of truly good news” for South Africa in his article “AB InBev Listing Will Add Some Fizz to the JSE”. This was a key move on AB InBev's part that ultimately helped seal the deal with the stakeholders and served to underscore the qualities of integrity and trust that Carlos Brito used to ingratiate the country and win over SABMiller (Mantshantsha, Business day, 2016).

Although their style in the takeover offer was one of competitiveness and forcing, winning over the two shareholders, Altria and BevCo, was key to keeping SABMiller interested while they bargained for and reached the final terms of the deal. According to AB InBev’s website, their company strategy is one to enable them to compete on a global level. With craft breweries becoming a strong threat in the market of beer consumption, AB InBev identified key markets that they had yet to penetrate, and SABMiller held a strong foothold to these markets;
namely, Africa and China, where gross profit is expected to grow steadily in the coming years. In other words, AB InBev’s BATNA did not hold too many alternatives since these markets were the last frontier. However, AB InBev made it clear that in penetrating these markets, they and SABMiller would complement each other’s geographical footprint allowing them to act as complementary partners rather than competing forces which was clearly communicated (Gara, Forbes, 2015).

Lastly, and most importantly, AB InBev proposed a massive safety net for SABMiller of paying out a $3 billion breakup fee should regulations or other factors cause the deal to fall apart. This ultimately lured SABMiller forwards and proved an indelible mark attesting to AB InBev’s commitment to addressing their concerns. While AB InBev did not reach their target point of £40/share, but rather, the bottom line of £44/share, this break-up fee was a successful move in the negotiation strategy.

Based on AB InBev’s skilled negotiation strategies from past takeover bids, expanding the pie, addressing concerns and focusing on compatible interests, garnering trust and developing key relationships and communicating key objectives, it was able to clear their path forwards in acquiring SABMiller in the world’s fourth ranked largest takeover bid which ultimately led to the world’s first truly global beer company.

SABMiller (Kathryn)

It is logical to say that the notion of merging with AB InBev is integrative as whole, by initially identifying mutual gain and interests. The result would be large, creating the world’s first international brewery, which both parties wanted very much to be a part of. However, throughout the intense process of offers and decision-making, various strategies and tactics were displayed by SABMiller alone. Although AB InBev was quantitatively the world’s largest brewer, SABMiller took an initial power stance. Soon after, both competitive and accommodating strategies were displayed in order to achieve the goals in which they deemed as best-fitting for their overall valuation. However, there ultimately remained integrative strategies, which was displayed by all three major players; SABMiller, their shareholders, and AB InBev.

According to the article, AB InBev’s Bid for SABMiller Has No Bearing on U.S. Beer Drinkers, if InBev were to acquire SABMiller, who proudly stands as the world’s second largest brewer, then the profitable growth opportunity specifically lies within Latin America, the Middle East, Asia, and Africa. This, conversely, differs from the geographical locations that AB InBev dominates (Notte, The Market Watch, 2015). Prior to the negotiation, AB InBev had no dealings in Africa, for instance, while SABMiller holds breweries in the majority of South African parts. Along with a strong a Latin American presence, SABMiller even has a partnership with the world’s fifth largest brewer in China. In addition, AB InBev wanted to gain access into well-known brands such as Peroni, Grolsch, Pilsner, Urquell, and Miller. Therefore, SABMiller knew that they had control of, not only significant and profitable resources, but both vital information and expertise in differing geographical locations. With this in mind, they continued to make a firm stance.

After estimating that they had a great deal of power, SABMiller began to act as both competitors and compromisers. In another article 5 Key Facts to Know about the SABMiller-InBev Merger, they explained that SABMiller had rejected 4 proposals in a row (Sjolin, The Market Watch, 2015). SABMiller had a goal, which prioritized its shareholders, and had yet to receive the desired package offer. Prior to their agreement, SABMiller’s shares were trading at £29.34, and when AB InBev offered to buy out for £40 per share, SABMiller refused. They firmly
stated that this undervalued their company, and is ultimately unacceptable for reasons such as supreme footprints and standalone projections. In this state of the negotiation, they have chosen a potential lose-lose compromising style by making the following concession: if AB InBev offers a higher premium slice, then a profitable market slice will be provided. This strategy continued for the duration of October, by refusing to accept the buyout of shares equating to £42.15 and £43.50. Finally, the pie was distributed by reaching an agreement of approximately £44 per share.

The key elements were decided, yet there were still more detailed contractual decisions to be made. Soon after, SABMiller announced a strict bottom line. The article continues to explicate that because AB InBev requested an extension past the original October 14th deadline, SABMiller boldly defined it as a “put-up-or-shut-up deadline” to be reached by October 28. SABMiller declared that they needed a firm and final offer, or they would simply walk away from the entire transaction. This both exhibits a defined bottom line, as well as a competitively threatening tactic by utilizing an ultimatum.

Meanwhile, SABMiller was also reaching compromises with other important relationships, such as MillerCoors. The large merger would understandably affect MillerCoors, with whom they had a joint venture. Consequently, they worked together to reach an agreement. In another article, Molson Coor Nears Deal to Buy Remaining MillerCoors Stake, the author clarifies that the agreement concluded to Molson Coors acquiring SABMiller’s 50% voting interest, and 58% economic interest. This includes the infamous brand name, and right to continue both importing and distributing with the current established U.S. leading brands (Mattoli, The Market Watch, 2016). It appears that for these parties the pie was solely distributed, comparatively to being enlarged. However, Altria and Bevco were approached differently.

As they began to make progress and reached several progressive agreements, the negotiation tactics demonstrated a more integrative manner between SABMiller, their shareholders, and AB InBev. It was clear that SABMiller valued their shareholders, and wanted fair objective results. After taking the necessary time to touch all the important bases of the potential acquisition, they made an agreement altogether. Because AB InBev offered the shareholders, Altria and Bevco, special deals, as well as inherited SABMiller’s debt. SABMiller, in effect, could then comprehend the need to devalue their company’s overall valuation.

By AB InBev taking care of important shareholders, and accepting the current liability, both companies could reap the benefits of an even bigger market. After creatively collaborating with one another, the companies could establish the first truly global beer company. Both companies express excitement about the continuation of Africa’s vital role, in addition to a joined commitment to help better the world. The large, and inevitably influential companies, plan to do this by partnering with numerous sustainable-living shareholders. They also recognized that the synergy opportunities created between the two of them are tremendous, as a result. According to AB InBev’s PowerPoint, created for current and potential investors, Building the First Truly Global Beer Company, they have estimated an incremental recurring synergies run-rate at approximately 2.9 billion altogether, which will be delivered to the following: procurement and engineering, brewing and distribution efficiencies, best practice sharing, and overlapping regional HQ’s (Building the first, Slide 25, 2015).

Assessment (Kathryn)

As a team, we have witnessed both good and bad negotiation strategies. Despite the fact that there were various moments of competing, compromising, and accommodating styles,
the primary inspiration and end result was that of an integrative fashion. Therefore, we do believe that SABMiller was a successful negotiator for the following reasons: acknowledging and utilizing their power, the ability to withstand pressure, knowing and sticking to their bottom line, and encouraging objective criteria.

As discussed in the text *Practical Solutions to Global Business Negotiations*, by Claude Cellich and Subhash Jain, “Personal negotiating power comes from a variety of sources” (Cellich, pg. 189, 2011). Among those sources include experience, expert power, control over resources, knowing details in regards to competition, setting an agenda, knowing the bottom line, and having commitment power. All of these factors were, at one point or another, actively displayed by SABMiller. AB InBev, is also a powerful player, which leads us to believe that SABMiller had to optimize their power strategies to the best of their ability in order to optimally benefit. Although smaller in size, SABMiller knew that they had access to markets which AB InBev did not. This not only displayed their knowledge for the opposing team’s current position and interests, but gave recognition to their particular experience, expertise, and control over resources. In addition, they revealed power via communicating their bottom-line by repeatedly walking away as a response to unwanted offers. Their ability to accept the most attractive offer exhibited another power source, commitment.

Cellich and Jain later explain a multitude of attributes and actions that can make one an effective negotiator. This includes the ability to withstand pressure, and be firm with one’s bottom line (Cellich and Jain, pg. 199, 2011). SABMiller initially showed interest in the acquisition due to AB InBev’s large market penetration, and its potential profit gains in the long-run. However, SABMiller did not hesitate to say no when it felt necessary. With every rejection, came the risk of AB InBev reactively stopping the deal altogether. In their favor, however, their wants and interests were in effect communicated clearly, and AB InBev then created new alternatives and options as a result.

“It is far easier to deal with people when both of you are discussing objective standards for settling a problem…” (Fisher and Ury, pg. 83, 1991). As reasonably discussed in *Getting to Yes*, objective criteria produces wise agreements. In the case of SABMiller, they believed that both their company and shareholders deserved a fair share after years of established relationships and expertise. We do believe that this effectively contributed to the negotiation, because AB InBev could understand the underlying concerns, despite it being more costly than anticipated. In essence, they achieved goals by being reasonable, and without backing down or appearing weak.

Despite their ability to effectively negotiate in many areas, we do believe that they exhibited ineffective strategies as well. Specifically, it appears that there were moments of communication problems concerning the belief that issues are a fixed pie, as well as hasty decision-making and impatience. SABMiller exploited ‘if...then’ statements that created a distribution style. From our research, it appeared that AB InBev proposed more options and alternatives than did SABMiller. What may stand-out most is the publicly made statement “put-up or shut-up”. The choice of wording does carry a hostile and impatient connotation that could potentially cause the other party to react negatively, and ultimately hinder trust. According to Cellich and Jain, errors such as quick reactions and irritation are among the most common (Cellich and Jain, pg. 174, 2011). Nevertheless, as mentioned earlier, this did work in their favor considering AB InBev eventually made an attractive offer. SABMiller must have estimated their power, and understood their opposing party’s interest to behave confidently and competitively.
Recommendations (Dylan)

Overview
AB InBev began negotiations with what SABMiller considered to be a low offer. A series of preliminary offerings would be proposed only to be rejected by SABMiller. AB InBev needed to address the concerns and interests of shareholders at SABMiller, but until this point, they had not. AB InBev was eventually successful at opening a dialogue with the major shareholders of SABMiller. The major shareholders included Altria Group, with 27%, and BevCo, the holding company for Columbia’s billionaire Santo Domingo family with 14%. Working together with these shareholders, AB InBev was able to understand what concerns these parties had regarding the negotiated acquisition. A representative of the Santo Domingo family made their interests clear by telling AB InBev they wanted to remain in the brewing industry and continue their investment. In a joint effort, the partial share alternative (PSA) to an all cash option was developed and the two parties were effectively enlarging the pie. SABMiller shareholders could receive either an all cash payment or a partial share of the new AB InBev for each share of SABMiller. This would soon backfire as AB InBev shares rose 17% in four days, creating a scenario where the PSA was immediately becoming as valuable as the cash option. AB InBev should have known the value of their shares would increase beyond September 2015 values to where it is now, April 24, 2016, about 23.5% higher than the September low. This is cause for concern, but not immediately as the shares would be locked for 5 years, during which time the value will surely fluctuate.

However, AB InBev was very smart to limit the amount of restricted shares they would offer to shareholders at SABMiller in the PSA. There would be 326 million shares available for the PSA, which would allow for Altria Group and the Santo Domingo family to convert their SABMiller shares, but for less influential shareholders, like Blackrock with 4%, there would be few shares available. Both parties negotiated with an extreme level of expertise in order to get what they each felt was a beneficial deal. There had to be promises made about the future and the company's commitment to handling regulatory boundaries. It is in their best interest to divest in countries where lengthy antitrust proceedings and investigations would occur, this is where the recommendation will primarily focus because the mutually beneficial outcome negotiated left little room for improvement or recommendation. The negotiated agreement has been approved by shareholders, but is still awaiting to be approved by several governments.

Timeline
September 16, 2015 - AB InBev proposes a merger with SABMiller emphasizing global reach and growth in emerging markets.

Between September 17 and October 5, 2015 - AB InBev privately begins establishing their valuation of SABMiller. To do so AB InBev focused on the individual share price of SABMiller. On September 14th, several days before the possible mega beer company was publicized, the price per share of SABMiller was approximately $42.18. AB InBev creates their first proposal of 38 pounds, or $54.93, per share of SABMiller. This was a way of testing the other party, while starting at a point significantly below what AB InBev would be willing to pay. SABMiller shares had risen significantly since the acquisition was made public, which caused them to reject the first offer, believing it was not a realistic proposal.

October 6, 2015 - AB InBev begins developing another proposal. They continue their initial approach of a cash payment per share of SABMiller, but this time they increase it. The new offer is 40 pounds, or $57.83, per share. Once again, the offer is rejected. SABMiller shareholders and board realize the significance of this deal and are willing to hold out for more.
Integrative negotiating finally begins as Altria Group and the Santo Domingo family make their interests clear. They want to avoid capital gains taxation and continue being involved in the beer industry.

October 7, 2015 - Working together with two of the biggest shareholders of SABMiller, AB InBev announces a third proposal. The proposal includes two options, a cash payment or a PSA. The cash payment is a simple, one-time payment of 42.15 pounds, $60.93 per share of SABMiller. The PSA, which addresses the concerns of both Altria Group and the Santo Domingo family, is a combination of a 0.484 share of a new class of restricted stock in the new AB InBev plus a cash payment of 2.37 pounds, $3.43. AB InBev believes to have the backing of the two shareholders who helped develop the PSA, but are surprised to see the offer is rejected. Only Altria had supported the proposal, while other shareholders led by SABMiller chairman Jan du Plessis were still opposed. Although Altria and BevCo hold 41% of SABMiller, AB InBev needs to make the offer more attractive to the other 59% of shareholders who are more interested in seeing a higher cash offer.

October 12, 2015 - Late in the previous night, the CEO of AB InBev, Carlos Brito, requests a private meeting with decision makers from SABMiller including Jan du Plessis. The parties meet in the morning to discuss possible terms. There is a shift in the tone of the negotiations from AB InBev publicly pressuring SABMiller with the support of Altria Group to a more collective approach of privately working out a solution both parties can agree to. After the morning meeting the offer had been increased to 43.50 pounds, $62.88, with the PSA increasing to 3.56 pounds, $5.14. This offer would go on to be rejected and force AB InBev to increase their offer once again. Later in the day, AB InBev produced and offer of 44 pounds, $63.60, per share and also increased the cash payment in the PSA to 3.7788 pounds, $5.46. SABMiller chairman Jan du Plessis and AB InBev chairman Olivier Goudet agree to the general terms at Robey Warshaw LLP advisory firm in London. Finer details of the agreement are worked out overnight and into the next day at Lazard investment bank. Along with the finer details was a commitment to handle regulatory pressures in the future.

October 2015 till Now – Agreement reached to sell their 58% stake in MillerCoors to Molson Coors for an approximated $12 billion, appeasing antitrust regulators in the US market. Another agreement is reached to sell their 49% stake in China Resources Snow Breweries for approximately $1.6 billion, a severely discounted rate but nonetheless a very necessary move to avoid antitrust break ups in the China market. AB InBev accepts Asahi Group’s offer to buy premium brands Peroni, Grolsch and Meantime beer brands for $2.9 billion. The sale shows AB InBev’s commitment to following antitrust regulation in the European market and being proactive about it. This is a proactive move to decrease scrutiny in the European market. AB InBev made a promise to protect jobs in South Africa, where SAB was founded, establishing a $69 million fund to assist the local beer industry and to strengthen their chances of regulatory approval.

Positives

AB InBev is very experienced in mergers and acquisitions, along with the divestitures that often accompany the process. Leveraging their experience and dominant position within the industry, AB InBev is able to be perceived as the most likely acquirer of SABMiller, if it ever were to happen. AB InBev is able to easily finance the acquisition through bond sales and a package of loans, which gives more flexibility to the types of offers in their tool case. Quickly realizing the positional approach of starting with a low price and trying to slowly increase would not work was a strength of AB InBev. Their openness in trying to figure out what SABMiller’s shareholders were interested in was the key to creating a solution for the negotiation. Their valuation strategy of looking at SABMiller’s share price before speculation began is fair, honest,
and also makes their offer look like an irresistible premium to the old share price. Also, a major strength of AB InBev negotiators is the ability to restart negotiations after they have been outright rejected multiple times. The last notable positive is the implementation of a $3 billion negotiation breakup fee to instill confidence in SABMiller shareholders that a deal would be worked out. Lastly, as the deal moves forward and regulatory bodies begin their antitrust probes AB InBev has been positively handling their issues. There could still potentially be further divestiture if approval is not met. With proactive moves in China, Europe, and the US, it is possible AB InBev will be handling some partial divestitures of their South American beers.

SABMiller was able to remain united to seek a better offer, even after AB InBev had successfully persuaded Altria Group of recommending a lower offer. They handled the negotiation well, but quite honestly, I believe they could have received more. However, after the majority of shareholder concerns were addressed there was no immediate incentive to hold out any longer. The major shareholders were also an integral part of coming up with a creative solution in the form of the PSA. The Santo Domingo family and Altria Group will become significant shareholders in the new AB InBev, which represents a strength for future negotiations regarding acquisition of smaller craft beer companies. SABMiller is also the key to the African market, which is why it was so valuable to AB InBev.

Negatives

The new AB InBev may concede too much if they continue to proactively divest in countries where antitrust regulation is ongoing. However, this is not an easy issue to fix, because of possible government intervention if they do not make these divestitures. The selling of a 49% stake in CR Snow China is an example of a government taking advantage of the situation to get a discounted investment.

The PSA was initially perceived as an attempt to only address the concerns of the two biggest shareholders at SABMiller. AB InBev also made the mistake of believing both Altria Group and BevCo would support the first draft of the PSA, when in reality only Altria supported it at the current offer.

The new AB InBev is looking to secure future growth in the US through acquisition of craft beer companies. While on a much smaller scale than the acquisition of SABMiller, these acquisitions will still come under the scrutiny of US regulators simply because AB InBev is the largest brewer in the world.
References


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