

## Press Release – For Immediate Release

### AB InBev's \$71 Billion Hangover

It is one of the biggest deals of the year and has sent shockwaves through the brewing industry. The announced acquisition price of US\$107 billion paid by AB InBev for SABMiller implies a colossal value of US\$120 billion when debt is accounted for. Just US\$13 billion of this is made up of tangible assets such as property, plant, machinery. The remaining \$107 billion is composed entirely of intangible assets (formulas, recipes, customer relationships, Goodwill and brands) which constitute 89% of the value.

Leading brand valuation and strategy firm [Brand Finance](#) has examined this massive intangible asset value. Using widely accepted valuation techniques (mirroring AB InBev's own accounting policies) Brand Finance has estimated the split of different intangible asset types. Brands, as defined by AB InBev, constitute US\$32 billion of the total. Other specific identifiable intangibles, such as software, account for approximately US\$4 billion. The remainder or 'hangover' comes in the form of Residual Goodwill. Goodwill is defined very broadly by AB InBev in its accounting policies and at US\$71 billion, Brand Finance's calculations indicate that it represents 67% of the total intangible asset value and 59% of the total implied value.

Ab InBev will no doubt be more than pleased at the success of the deal, but will have to extract huge post acquisition synergies to justify the extraordinary Goodwill figure. It is looking to do just that, targeting savings of \$1.4 billion on top of the \$1 billion annual savings reported by Alan Clark to SABMiller's investors last month. This has further alarmed those concerned about the impact on employees and consumers of the deal. AB InBev is by far the most profitable of the major brewers with an operating margin of 32% compared to SABMiller, Heineken and Carlsberg's margins of 20%, 14% and 12% respectively. Such savings may justify the Goodwill figure in the end, at least to AB InBev's shareholders.

David Haigh CEO of Brand Finance plc says 'With this deal AB InBev has created a huge Goodwill figure in its balance sheet. It has no doubt created huge seasonal Goodwill with the happy shareholders at SAB Miller. For them Christmas has come early this year!'

#### SABMiller, key figures:

Element	Value (US\$bn)	
Purchase Price	107	
Debt	13	
<b>Implied Total Value</b>	<b>120</b>	
Tangible Assets	13	
Intangible Assets	107	
	<i>Goodwill</i>	71
<i>Intangible Asset Split</i>	<i>Brands</i>	32
	<i>Other Intangible Assets</i>	4
	<b>Total</b>	<b>120</b>

Brand Finance's analysis also reveals a number of other significant trends. The first is the importance of localism to the beer industry. 'Big beer' is facing an ever more pressing threat from locally based craft brewers that are growing rapidly. This is reflected in SAB Miller's brand portfolio. It includes more than 100 brands but only three (Peroni, Pilsner Urquell and Grolsch) are global and account for just 10% of the total brand value.

This percentage would be higher, however a regulatory condition of the deal was that SABMiller sell its 58% stake in MillerCoors, meaning that AB InBev will not take ownership of Miller, which had been SAB's most valuable brand.

David Haigh continues, "Probably the most important point is that the figures highlight the significance of intangible assets to beer companies. The return to SAB Miller shareholders over the last 15 years has been huge, driven by huge growth in the value of its intangible assets. The deal is predicted to presage further consolidation in the industry. Those acquiring should carefully examine the value of their target's assets to avoid overpaying, those being acquired should do the same – undervaluation of assets such as brands could lead to lost revenue, an inability to fend off hostile takeovers, and hence consolidation that may lead to job losses."

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## **About Brand Finance**

[Brand Finance](#) is the world's leading brand valuation and strategy consultancy, with offices in over 20 countries. We provide clarity to marketers, brand owners and investors by quantifying the financial value of brands. Drawing on expertise in strategy, branding, market research, visual identity, finance, tax and intellectual property, Brand Finance helps clients make the right decisions to maximise brand and business value and bridges the gap between marketing and finance.

## **Note to Editors:**

AB InBev's accounting policy defines brand as trademarks, trade names, formulas, recipes and technological expertise.

The Brand Finance estimate of US\$32 billion represents a valuation of the trademark and the recipes, formulas and technological expertise using the royalty relief methodology. We have estimated other intangibles, including software, to be US\$4 billion and the residual Goodwill to be US\$71 billion, being 67% of total intangible value. We have assumed that customer relationships and distribution agreements are subsumed within Goodwill. The relative proportions of intangible value are broadly in line with AB InBev's acquisitions of Grupo Modelo in 2013 and Oriental Brewery in 2014.

We have included the following SAB Miller brands in our valuation of its portfolio; Agua Tónica, Aguila, Amsterdam, Amsterdam Liberator, Amsterdam Navigator, Arany Ászok, Arequipeña,

Azuga, Birell, Black Douglas, Bluetongue, Brutal Fruit, Carling Black Label, Carlton, Carlton Cold, Carlton Draught, Carlton Mid Strength, Cascade, Castle, Castle Lite Lime, Chibuku, Ciucas, Club, Club Colombia, Cola y Pola, Colt 45, Cordillera, Costeña, Cougar, Cristal, Crown Lager, Cusqueña, Cusqueña de Trigo, Cusqueña Red Lager, Debowe, Dorada, Dreher, Dreher 24, Dreher Bak, Fiesta Real, Flying Fish, Foster's, Frisco, Gambrinus, Gingers, Gran Reserva, Grand, Great Northern Crisp, Grolsch, Grolsch Radler, Guaraná Backus, Guaraná Backus Light, Hamm's, Hansa Marzen Gold, Hansa Pilsner, Harvest, Haywards, Hero Lager, Hofbrau, Icehouse, Isenbeck, Kanizsai, Klasik, Knock Out, Kobányai Világos, Ksiazece, Lech, Leinenkugel, Magnum, Maltizz, Matilda Bay Fat Yak, Melbourne Bitter, Mercury, Mickey's, Miller, Miller Genuine Draft, Miller Lite, Milwaukee's Best, Olde English 800, Peroni, Peroni Nastro Azzurro, Pilsen, Pilsen Polar, Pilsener, Pilsner Urquell, Poker, Pony Malta, Powers Gold Label, Primus Klasik, Pure Blonde, Radegast, Raffo, Red Dog, Redd's, Reschs, Rocky Cellar, Royal Challenge Premium Lager, Saboré, San Juan, San Mateo, Saris, Sarita, Shingle Peak, Smadny Mnich, Sparks, Steel Reserve, Stejar, Strongbow, Timisoreana, Topvar, Topvar Marina, Trophy, Tropical Pils, Tropical Sin, Tyskie, Ursus, Ursus Cooler, Velkopopovicky Kozel, Victoria Bitter, Viva Backus, Wojak, Wührer, Zorok, Zubr.