Creditreform Corporate Rating
ANHEUSER-BUSCH INBEV N.V. / S.A. (Group)

Creditreform Rating Agentur
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Rating object	Rating information	
Anheuser-Busch InBev N.V. / S.A. (Group)	Rating: **A-**	Outlook: **stable**

Creditreform ID:	2000000583
Incorporation:	2008
(Main) Industry:	Brewery and soft drinks
Management:	Carlos Brito, CEO

Prepared on:	**October 7, 2016**
Monitoring until:	withdrawal of the rating
Publication:	October 14, 2016
Rating type:	**unsolicited**
Rating systematic:	corporate rating
Rating history:	www.creditreform-rating.de

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Abstract

Company

Anheuser-Bush InBev N.V. / S.A. ("ABI" or "AB InBev") is the world's leading brewing company. The group is the result of the merger of InBev (Interbrew and AmBev) and Anheuser-Busch in 2008. The Belgian-Brazilian group manages more than 200 beer brands, among them the global brands Budweiser, Stella Artois and Corona. The company is incorporated in Leuven, Belgium and is active in 26 countries worldwide where it employs over 150,000 people. In Latin America, ABI commercializes also soft drinks. AB InBev has more than 50% of market share in the following countries: Mexico (58.2%), Brazil (67.5%), Argentina (76.7%) and South Korea (57%) and is the market leader in most of its markets. The company is publicly traded (47.2% of the shares) and 41.3% of the shares are in possession of Stichting AK (NL).

In November 2015, ABI announced a proposition of acquisition of the SABMiller Group, the world's second largest brewing company by volume. The UK-based group is active in 80 countries and commercializes approximately 200 different beer brands. As of March 31, 2015, the company generated a turnover of USD 22.1 bn. and a net profit of USD 3.6 bn. The proposed transaction has recently been approved by AB InBev and SAB Miller shareholders and should be completed on October 10, 2016.

Rating result

The current rating attests a good credit rating (creditworthiness) to AB InBev, representing a low insolvency risk in comparison with the sector and the overall economy. The group is the world leader in the brewery market and records stable revenues as well as strong margins and liquidity. The announced acquisition of SABMiller is subject to considerable uncertainty regarding the integration of the company, sale of assets and the evolution of the credit risk position of the company following the partially debt-funded acquisition. The negative effects of the debt increase should be (partially) offset by the divestiture of certain SABMiller assets. However, we see also significant opportunities in the merger, which has contributed to the rating in the "A" range.

Outlook

The year-long outlook of the rating is stable. This appraisal is based on our expectations that the company will successfully complete the merger with SABMiller. The operating performance of the consolidated group should not be diluted. The strong cash flow generation and divestiture of some of SABMiller assets should not have negative long-term impacts on the group's financials and credit risk profile. Possible negative impacts of the takeover were taken into account when assigning the rating.

Rating relevant factors

Excerpts from the financial ratios analysis 2015

+ High profitability
+ Strong operating cash flow
+ High financial strength

- High fixed asset intensity
- Low asset coverage ratio
- High payout ratio
- Bound capital period
- Increased debt burden

Financial ratios' extract Basis: adjusted consolidated annual statement per 31.12. (IFRS)	Standardized balance sheet	
	2014	2015
Total assets	USD 104,376m	USD 97,655m
Turnover	USD 47,063m	USD 43,604m
EBITDA	USD 18,663m	USD 16,920m
EBIT	USD 15,308m	USD 13,767m
EAT	USD 11,302m	USD 9,867m
Equity ratio (after the deduction of 50% of the goodwill)	27.6%	21.2%
Bound capital period	146.7 days	158.2 days
Accounts payable trade ratio	18.1%	19.4%
Short-term capital commitment	19.5%	25.0%
Net debt / EBITDA adj.	3.6	4.1
Interest cost to debt ratio	3.7%	3.1%
Overall return	12.1%	11.6%

General rating factors

+ World leader in brewing industry
+ Stable sales volumes
+ Stable and strong margins
+ Strong liquidity and cash flow generation
+ High profitability

- Relatively low equity ratio after goodwill deduction
- High payout ratio

Current factors (rating 2016)

+ Organic growth of revenues
+ Increasing ROCE
+ Stable operating cash flow

- Declining equity ratio
- Increasing net debt / EBITDA adj.
- Decreasing annual net profit by increased payout ratio

Prospective rating factors

+ Creation of the first truly global brewer
+ Growth opportunities for the combined portfolio
+ Better products and geographical diversification especially in Africa
+ Cost synergies and savings to be achieved by the merger

- Expected increased leverage following SABMiller acquisition
- Uncertainties regarding SABMiller sale of assets
- Integration risks

Best-Case-Scenario: A

Worst-Case-Scenario: BBB+

Note:

The scenarios are based on the information available at the time of the rating. Within the forecast horizon, some circumstances could occur that would lead to a rating change out of the indicated range.

Best case scenario

In our best case scenario for one year, we assume a rating of A. It is assumed that the group realizes the integration of SABMiller successfully. Some synergies and cost reductions can be rapidly achieved. Revenues and EAT appear to grow. The debt level increase is offset by the divesture of certain SABMiller's assets. We expect that ABI is able to maintain its high profitability.

Worst case scenario

In our worst case scenario for one year, we assume a rating of BBB+. It is assumed that the integration of SABMiller has a significant impact on the group's financials. The synergies, cost reductions and sales of assets take longer than expected and operating performance is diluted following the merger, which directly impacts the cash flows and the profitability of the group. The financial situation deteriorates but is not critical.

Business development and outlook

During the business year 2015, eliminating the impact of changes in currencies on translation of foreign operations and scopes, the group registered, according to the annual report, an organic growth of 6.3% in comparison with 2014 and the global brands (Budweiser, Stella Artois and Corona) recorded a growth of 12.6%. The gross profit ratio increased by 0.5 percentage points up to 60.7%. EBITDA of the group decreased by 9.3% to USD 16.9 bn. but remained quasi constant in percentage of revenues (39%). The annual net profit in 2015 declined to USD 9.9 bn. (2014: USD 11.3 bn.). The payout ratio was 76.0% (2014:64.8%) as of December 31, 2015. The group generates a positive cash flow from operating activities amounting to USD 18.6 bn.

(Million USD)	2013	2014	2015	H1 2016*
Turnover	43,195	47,063	43,604	20,206
EBITDA	17,188	18,661	16,920	7,474
EBIT	14,203	15,308	13,767	5,915
EAT	16,518	11,302	9,867	829
Operating cash flow	-	18,213	18,603	2,453
Free cash flow	-	-706	10,316	-55,846

*Figures from the company's Half-Year Report 2016

In H1-2016, revenues of AB InBev fell by 6.0% in comparison to H1-2015, which was essentially influenced by changes in currency translations. Eliminating currency translations and changes in scope, the company achieved an organic growth of 3.6%. Nevertheless, despite a strong volume growth in Mexico of 9.9%, the volumes sold by AB InBev declined by 1.7% due to difficult macroeconomic situation especially in Brazil and the decreasing demand in general in Latin America. According to the H1-2016 report, the normalized EBITDA grew by 3.4%, while the EBITDA margin declined by 6 bps to 37.0%. The annual net profit for H1-2016 plummeted to USD 0.8 bn. compared to USD 5.4 bn. in H1-2015. This deterioration is mainly due to higher financing costs linked with the acquisition of SABMiller. For the whole year, the company expects organic revenue growth.

The transaction with SABMiller should be completed on Monday October 10, 2016. This strategic acquisition could improve the diversification of the company but the impacts on the existing partnerships in various countries as well as on the overall financial situation of the group remain uncertain. The integration of SABMiller entails also some organizational risks but can also create synergies and reductions of costs. The company estimates that approx. USD 2.45 bn. cost synergies and savings that can be realized. Planned combined revenues amount to USD 55 bn. and EBITDA to USD 21 bn. (excluding synergies).

Financially, the amount of debt will increase as a result of the partially debt-funded acquisition. ABI made a final cash offer of 45.00 British pounds per SABMiller share. In order to finance the transaction (about USD 103.6 bn., i.e. approx. 18 times SABMiller's EBITDA), ABI announced that the company has indeed entered into a USD 75.0 bn. Committed Senior Facilities Agreement dated 28 October 2015, which has been progressively reduced to USD 20.0 bn. (USD 10 bn. USD due in 1 year, will be repaid in full from the proceeds of certain disposals related to the proposed acquisition of SABMiller; USD 10 bn. due in 5 years). This decision follows two capital market issuances of respectively USD 47.5 bn. and EUR 13.3 bn. The aggregated proceeds of these issuances currently amount to USD 60.8 bn. Consequently, the high annual amount of dividends generally paid could be used to deleverage. This increase of debt will be partially offset by the divestiture of certain assets of SABMiller. The group announced that it will divest its stakes in SABMiller's US and Chinese activities as well as its EU beer business.

AB InBev's takeover of SABMiller has been accepted by antitrust regulators in more than 20 jurisdictions. The two companies will be integrated into a new holding company based in Belgium that will keep the name Anheuser-Busch InBev. After the transaction, the biggest sales volumes should be realized in Latin America (33%), North America (29%) and Asia Pacific (14%).

Structural risks

The company prepares financial statements in accordance with IFRS. The main shareholder of AB InBev is the Stichting AK (NL) (41.28% of the shares) and the public free float (47.23%). The company is traded on the Euronext Brussels (ABI) with secondary listings on the Mexican Stock Exchange (ABI) and the Johannesburg Stock Exchange (ANB) and with American Depositary Receipts on the New York Stock Exchange (BUD). After the takeover of SABMiller, the shares of the new holding will be traded on the same stock exchanges. The Board of Directors is currently composed of 14 members. AB InBev employs approx. 150,000 people and SABMiller approx. 69,000 but following the transaction, the combined group will lay off approx. 5,500 employees.

In the previous years, the company acquired several companies in the US and in 2015 AB InBev concluded other acquisitions in UK, Mexico, Canada, Colombia and Brazil. The acquisition of SABMiller, foreseen in 2016, entails several structural risks because it needs to occur in multiple legal jurisdictions, a very complex procedure which could prove costly for the group. Overall, the transaction will have an impact on the corporate governance structure, shareholder structure, capital structure as well as on the composition of the Board of Directors of the company. Nevertheless, thanks to the experience of the management, we expect a successful integration of SABMiller.

Regarding risk management, AB InBev uses derivative financial instruments to mitigate the transactional impact of foreign currencies, interest rates, equity prices and commodity prices on the company's performance. Furthermore, on the basis of public available information, we expect adequate risk management as well as a sufficient working accounting and controlling system within the group.

Business risks

The sector entails several risks: commodity price risks, exchange rate and interest rate risks, property rights risks and regulatory risks (changes in taxes or excise). The business fundamentally depends on the overall preference of consumers. The sector faces a seasonal consumption of its products, which is mitigated by the company's geographical diversification. Furthermore, the company depends on its local partnerships with independent distributors and wholesalers as well as on its suppliers. There are country risks, e.g. in Argentina (devaluation risks) and in Ukraine and Russia (political risks linked to a deterioration of the macroeconomic situation). The current macroeconomic situation in Brazil entails business risks for the company.

In 2015, the global beer market stood for 1.94 bn. hectoliters and revenues amounting to USD 176.3 bn. The most important world beer market is America with almost 30% of the global beer consumption and 39% of the total revenues. While the Asia-Pacific market represents 37% of the beer consumption, this region only achieves revenues of 27% of the total net sales. Regarding research activities, a CAGR of 6% for the industry's sales is expected for the period 2015–2020.

AB InBev is currently the world's largest beer company with a market share of 22% of the global beer sales, followed by SABMiller with a market share of 12%. While AB InBev sells almost 61% of its volume in America, SABMiller is focused on the growing emerging markets that represent approx. 65% of the company's revenue. The acquisition of SABMiller by AB InBev will therefore have a positive impact on the products and geographical diversification on the combined group thanks to additional brands and additional access to the African and Asia-Pacific regions.

Although the company primarily produces beer, AB InBev is allocated to the food and beverage industry. This industry is less sensitive to the macroeconomic environment than other industries, which enables AB InBev to reduce its business risks.

Financial risks

For analytical purposes, the CRA adjusted the original values in the financial statements in the context of financial ratio analysis. Contrary to our normal practice, we deducted the goodwill shown on the balance sheet from the equity only by 50%, suggesting a certain recoverability of the goodwill. The following descriptions and indicators are based solely on these adjustments.

The overall capital structure of the company contains some weaknesses as the company shows a relatively high level of indebtedness and high equipment intensity. The adjusted asset coverage ratio is low at 52.4%. The adjusted equity - after the deduction of 50% of the goodwill originally amounting to USD 65.1 bn. - amounted to USD 20.7 bn. as of December 31, 2015. Hence, the company's equity ratio at reporting date was 21.2%. The company's funding mainly consists of bonds (USD 45.4 bn. as of December 31, 2015; USD 47.5 bn. as of December 31, 2014), the majority of which is due in in the middle and long term. Additionally, the company uses unsecured bank loans and commercial papers to finance its business. The net debt / EBITDA adj. increased in 2015 by 0.5 points to 4.1 (2014: 3.6). As of March 31, 2016, SABMiller showed debts amounting to 12.54 billion USD and net debt / EBITDA ratio at 3.44 (2014: 4.23).

As of December 31, 2015, the company had obligations for operating leases amounting to USD 1.0 bn. The vast majority of the leasing obligations result from pubs, which AB InBev leased from Cofinimmo. Furthermore, the group also leases warehouses, factory facilities and other commercial buildings. The company has also collateral and contractual commitments for the acquisition of property, plant and equipment, loans to customers and others. These commitments add up to USD 3.2 bn, of which USD 1.7 bn. cover guarantees given to pension funds, rental and other guarantees. Contractual purchase commitments amount to USD 0.8 bn.

In addition, AB InBev has contingencies in the amount of USD 7.1 bn., mainly related to tax matters in connection with Ambev. In the management's opinion, losses arising from these risks are unlikely and therefore the company has not made any provisions. Off-balance-sheet commitments of AB InBev amount to more than USD 10.0bn. Given that the risks arising from contingencies are substantial and uncertain, we would expect the company to build up some provisions. We nevertheless assume that AB InBev would be able to cope with its contingent obligations, were they to arise.

In order to finance the transaction with SABMiller, AB InBev issued USD 47.5 bn. and EUR 13.3 bn. in the first half of 2016. The credit risk position of the company is expected to deteriorate in the short term following the acquisition of SABMiller, however they should recuperate in the medium term, which could have a positive impact on our outlook / rating.

Liquidity within the group amounted to USD 6.9 bn. in cash or cash equivalents as of December 31, 2015. The cash flow from operating activities is strong and improved compared with 2014 to USD 18.6 bn. In the same period, the cash flow from investment activity was USD 8.3 bn., so that AB Inbev achieved a free cash flow of USD 10.3 bn. for the business year 2015. Given the comfortable liquidity reserves of the company as well as its capacity to generate strong cash flows, the overall liquidity of the company can be qualified as excellent.

Financial ratio analysis

Appendix : key ratios

Asset Structure	2013	2014	2015
Fixed asset intensity (%)	81,09	82,68	83,68
Asset turnover	--	0,48	0,46
Asset coverage ratio (%)	66,59	61,01	52,37
Liquid funds to total assets (%)	9,44	8,30	7,15
Capital Structure			
Equity ratio (%)	30,33	27,58	21,20
Short-term-debt ratio (%)	24,79	26,74	30,15
Long-term-debt ratio (%)	23,67	22,86	22,62
Capital lock-up period (in days)	166,43	146,70	158,23
Trade-accounts-payable ratio (%)	18,67	18,12	19,36
Short-term capital lock-up (%)	20,74	19,54	24,97
Gearing	1,99	2,33	3,38
Financial Stability			
Debt / EBITDA adj.	4,28	4,05	4,55
Net Debt / EBITDA adj.	3,70	3,59	4,14
ROCE (%)	19,96	21,49	21,79
Debt repayment period	--	4,15	4,14
Profitability			
Gross profit margin (%)	59,27	60,15	60,70
EBIT interest coverage	4,66	5,47	5,70
EBITDA interest coverage	5,64	6,67	7,00
Ratio of personnel costs to total costs (%)	14,28	11,43	12,65
Ratio of material costs to total costs (%)	40,73	39,85	39,30
Ratio of interest expenses to debt (%)	4,14	3,70	3,14
Return on investment (%)	17,74	12,09	11,59
Return on equity (%)	--	39,68	42,43
Net profit margin (%)	38,24	24,01	22,63
Interest burden (%)	86,56	91,44	89,53
Operating margin (%)	32,88	32,53	31,57
Liquidity			
Cash ratio (%)	37,61	29,95	23,51
Quick ratio (%)	60,17	49,56	41,31
Current ratio (%)	76,27	64,77	54,13

Regulatory requirements

The present rating is an unsolicited corporate rating. Creditreform Rating AG was not commissioned by the company with the preparation of the rating. The present analysis was prepared on a voluntary basis.

The rating is based on the analysis of published information and on internal evaluation factors. The quantitative analysis is primarily based on the annual report for 2015, intermediate reports, and on press releases of the company. The information and documents meet the requirements and are in accordance with the published Creditreform Rating AG's rating methodology. An electronic version of our rating methodology can be found on our website www.creditreform-rating.de.

The rating was prepared by analysts Marie Watelet (lead analyst) and Christian Schneider (co-analyst). A management interview did not take place during the rating process.

A Rating Committee of highly qualified analysts of Creditreform Rating AG was called on October 7, 2016. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant risk factors, the Rating Committee arrived at a unanimous rating decision.

The rating result and a draft of the present rating report were communicated to AB InBev on October 7, 2016. The final version of the rating report has been sent to the company on February 13, 2017.

The rating will be monitored for the duration of one year, within which rating updates may occur. After the expiration of this term, a follow-up rating will be needed to maintain the validity of the rating.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRAG) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRAG will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRAG has used following substantially material sources:

1. Annual Report

2. Website

3. Internet research.

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website. Furthermore CRAG considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The “Basic data” information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the “Basic data” card as a “Rating action”; first release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade or downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data“ information card.

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An explanatory statement of the meaning of Creditreform`s default rates are available in the credit rating methodologies disclosed on the website.

Please note:

This report exists in an English version only. This is the only binding version.

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Creditreform Rating AG

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