Anheuser-Busch Inbev SA ABI (XBRU) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
117.25 EUR	111.00 EUR	77.70 EUR	149.85 EUR	Medium	Wide	Stable	Exemplary	Beverages - Alcoholic

Asset Swap With Ambev Beneficial to Moats and Margins as ABI/Ambev Set to Dominate Latin America

See Page 2 for the full Analyst Note from 13 May 2016

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The primary analyst covering this company does not own its stock.

Research as of 13 May 2016
Estimates as of 09 May 2016
Pricing data through 04 Jul 2016
Rating updated as of 04 Jul 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Investment Thesis 09 May 2016

Anheuser-Busch InBev has one of the widest economic moats in our consumer defensive coverage and is among the most efficient operators. Vast global scale and near-monopoly dominance in several Latin American markets give AB InBev significant fixed cost leverage and pricing power in procurement, a cost advantage that is likely to expand further following the acquisition of SABMiller. This plays out in the firm's excess returns on invested capital and best-in-class operating and cash cycles, asset turnover ratios, and working capital management. It delays payments to trade creditors 17% longer than its closest rival SABMiller, and it converts around 30% of its revenue to free cash flow, more than 3 times that of the number-two player. Driving AB InBev's profitability is its majority stake in Ambev, the Latin American brewer that generates a whopping near-50% EBIT margin in beer in Brazil.

Highly effective management is at the core of AB InBev's success. The firm has been acquisitive, having made transformative deals for Interbrew and Anheuser-Busch, and more recently acquiring Grupo Modelo, Oriental Brewery, and SABMiller (the closure of which is pending). Management's playbook is to buy brands with a promising growth platform, expand distribution, and ruthlessly squeeze costs from the business. We think the acquisition of Modelo perfectly demonstrates the strategy. Corona is a premium brand, so it plays well in an environment of premiumisation in beer consumption. AB InBev can enhance profitability by removing duplicate costs, expanding volume (it has tripled Budweiser's volume in China in less than three years and has doubled its share in the United Kingdom), and bringing distribution in-house, thereby capturing the downstream margin opportunity. While the acquisition of SABMiller will undoubtedly offer opportunities to cut costs, particularly in Europe and Latin America, and across centralized functions, it is the access to Africa that is the crown jewel in the deal. The high-single-digit revenue growth generated in Africa will help offset the secular decline of midpriced brands in developed markets.

Vital Statistics

Market Cap (EUR Mil)	188,566
52-Week High (EUR)	124.20
52-Week Low (EUR)	87.73
52-Week Total Return %	11.6
YTD Total Return %	4.2
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	3.6
5-Yr Forward EPS CAGR %	3.7
Price/Fair Value	1.06

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	18.8	26.3	*30.7*	*26.5*
EV/EBITDA	12.2	14.4	*16.5*	*14.3*
EV/EBIT	14.9	17.6	*19.9*	*17.0*
Free Cash Flow Yield %	5.3	4.7	*3.5*	*3.9*
Dividend Yield %	4.1	4.0	*3.1*	*3.2*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	47,063	43,604	*43,805*	*45,969*
Revenue YoY %	9.0	-7.4	*0.5*	*4.9*
EBIT	15,427	13,912	*12,695*	*14,862*
EBIT YoY %	4.0	-9.8	*-8.7*	*17.1*
Net Income, Adjusted	9,467	8,271	*7,294*	*8,513*
Net Income YoY %	3.6	-12.6	*-11.8*	*16.7*
Diluted EPS	4.99	4.35	*3.82*	*4.43*
Diluted EPS YoY %	2.7	-12.8	*-12.3*	*16.1*
Free Cash Flow	1,991	8,640	*7,825*	*8,335*
Free Cash Flow YoY %	-40.0	334.0	*-9.4*	*6.5*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Anheuser-Busch InBev is the largest brewer in the world and one of the world's top five consumer product companies, as measured by EBITDA. After the Modelo acquisition, the company's portfolio now contains five of the top 10 beer brands by sales and 17 brands with retail sales over $1 billion. AB InBev was created by the 2008 merger of Belgium-based InBev and US-based Anheuser-Busch. The firm holds a 62% economic interest in Ambev and intends to close the acquisition of SABMiller by the end of 2016.

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Morningstar Analysis

Asset Swap With Ambev Beneficial to Moats and Margins as ABI/Ambev Set to Dominate Latin America

13 May 2016

Anheuser-Busch InBev answered one of the final outstanding questions of its acquisition of SABMiller with the announcement that it will enter into an asset swap with Ambev to distribute SAB's Latin American assets. Subject to the closure of the transaction, AB InBev will transfer SAB's Panamanian business to Ambev, and in exchange, Ambev will transfer to AB InBev its business in Colombia, Peru, and Ecuador. This distribution of the Latin American businesses across the two firms is something of a surprise to us. We had expected SABMiller's Latin American business to be transferred in its entirety to Ambev, with AB InBev taking a higher equity stake in Ambev. Nevertheless, we believe this asset swap is neutral to our valuation and our wide economic moat rating, as it ultimately leaves AB InBev with monopolistic control over some growing and premiumising Latin American markets. We are reiterating our EUR 111 and $126 fair value estimates for the ordinary shares and ADRs respectively, as well as our BRL 20 and $5 fair value estimates of Ambev.

With this deal, AB InBev is transferring to Ambev a high-volume but stagnating business, and in return, it is receiving businesses that represent lower total volumes than Panama, but have solid growth rates, low current per capita consumption, and opportunities to premiumise. These deals will give AB InBev full control over some monopolies in a region that boasts some of the most profitable beer markets in the world. EBIT margins tend to be around 40% in Latin America, supported by the dominance of either Ambev or SABMiller. Where one is the market leader, the other usually has a small market share. The combination of those shares to create one dominant player in each market is likely to dampen competitive friction, which we believe will be positive for pricing power, margins, and the competitive advantages of both AB InBev and Ambev in the region.

SABMiller has a volume share of around 70% in Panama, but volumes in the year ended March 31 fell 16%, driven by an excise duty increase at the beginning of the fiscal year and increased competition. Panama is one of the smaller Latin American markets, at around 3 million hectolitres a year, despite per capita consumption in line with developed markets, at 90 litres per year.

In Colombia, Ecuador, and Peru, SABMiller is dominant, with market shares in the 90% range. The assets being transferred to AB InBev by Ambev, therefore, are minority market shares, but when combined with the SABMiller assets, they will make AB InBev essentially the only major operator in those countries. In aggregate, we estimate the volumes represent only 75% of those in SAB's Panama business. Colombia and Peru, however, are experiencing healthy growth, with beverage volume up 8% and 11%, respectively, in the past fiscal year. Both markets benefited from positive pricing to the tune of 3%. Although volumes in Ecuador declined 2%, we believe this is cyclical in nature, and the long-term trends are fairly healthy. Per capita consumption in all three markets is in the range of 40 litres per year, slightly below average in Latin America, creating a long-run opportunity for per capita consumption growth, and in Ecuador and Peru, continued premiumisation.

Progress towards the completion of the SABMiller acquisition has been steady, with several major hurdles now cleared. Most recently, AB InBev confirmed it had reached an agreement with the South African government to approve the deal, and we think the asset sales in Europe will help ease the deal past the European Commission's antitrust scrutiny. Assuming the Castel family does not cause any wrinkles as a result of the change of ownership of SABMiller, we think this asset swap is one of the final pieces of the jigsaw that is this complex deal. Management has stated that the deal is likely to close in the second half of this year, and we believe this announcement keeps the deal on track with that timeline.

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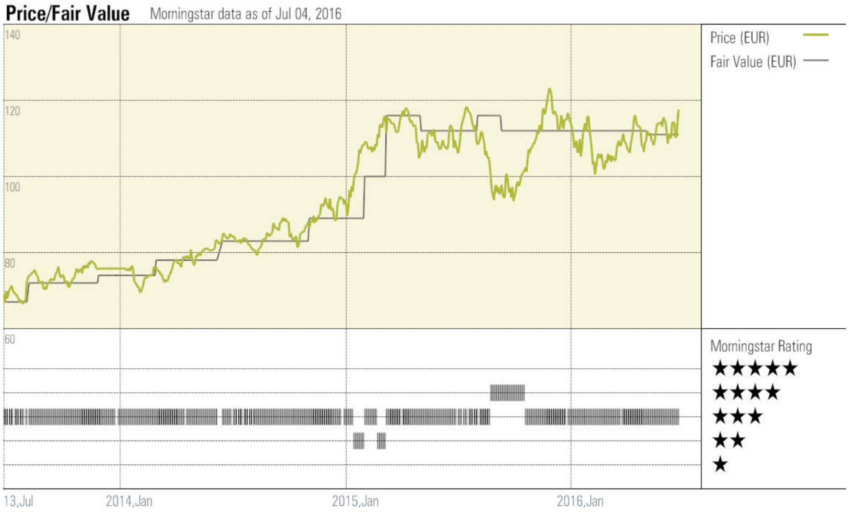
Price/Fair Value Morningstar data as of Jul 04, 2016



In our view, these deals also answer investors' long-standing question relating to AB InBev's economic interest in Ambev. If AB InBev had wanted to take full control over Ambev, folding SABMiller's Latin American business into Ambev would have given it an ideal opportunity to do so. Under such a structure, AB InBev would have had opportunities to remove duplicate costs across the Latin American business and further raise some of the highest margins in any global consumer staples market. While we still believe this will happen eventually, we now believe such a transaction is unlikely until SABMiller is fully integrated over the next few years.

Valuation, Growth and Profitability 09 May 2016

After first quarter earnings, which narrowly missed our expectations due to a sharp volume decline in Brazil, we are lowering our fair value estimate for the ordinary shares to EUR 111 from EUR 112. Our valuation assumes a EUR/USD exchange rate of 1.14, the spot rate on May 9, 2016, and implies 2017 forward multiples of 27 times earnings per share, 15.5 times adjusted enterprise value/EBITDA, and a free cash flow yield of 4.1%. Although these implied multiples are well above the level that AB InBev has traded at historically, near-term earnings are likely to be temporarily depressed owing to macroeconomic headwinds and costs relating to the SABMiller acquisition.

We continue to value AB InBev as a stand-alone entity, and we will fold SABMiller into our forecasts when we have more certainty that the deal will close. We expect 2016 to be a challenging year, and we forecast just 0.5% revenue growth; modest margin contraction owing to higher selling, general, and administrative spending; and EPS around 12% lower than that of 2015. We believe 4% organic revenue growth, balanced roughly evenly between volume and pricing, is appropriate for the firm in the medium term. We forecast a 59.5% normalised gross margin, slightly lower than the 2015 gross margin of 60.7%, which was boosted by a favourable commodities environment. The firm has cost opportunities in indirect overhead, and we believe that through headcount reduction, duplicate cost elimination, and distribution leverage, AB InBev could add a further 200 basis points to its EBIT margin by 2020. A normalised EBIT margin of 35% would be a peak margin for the company since its transformative acquisition of Anheuser-Busch, but it would still be well short of the mid-40s margins generated by Ambev, its Latin American subsidiary.

Although we think AB InBev is highly likely to be acquisitive in the short and medium term, our valuation is based on the cash flows generated organically by the business and excludes any acquisition-driven growth assumptions.

Scenario Analysis

The balance between volume and pricing and the sustainability of AB InBev's cost-cutting strategies are the key variables in our scenario analysis. In our bull case, we forecast a revenue CAGR of 5% over the next five years. The scenarios most likely to drive this level of growth are taking share in the North American craft beer segment and/or Latin America rebounding faster than the 2% volume growth we assume in our base case. In either event, faster-than-expected top-line growth would have a knock-on effect on margins, owing to the fixed-cost structure of the business. In our bull case, therefore, we forecast a further 150 basis points of gross margin expansion through our forecast period. We also assume that management generates more than our $500 million in cost savings from the Oriental acquisition, increasing the EBIT margin by a further 140 basis points by 2018 to 35.4%. Savings would come from distribution synergies and back-office restructuring, and the implementation of these would not require a reduction in marketing expense as a percentage of sales. Under these conditions, we estimate that AB InBev shares could be valued at EUR 127, 15% above our fair value estimate and 29 times our 2015 bull-case EPS estimate. If this scenario plays out, we estimate AB InBev could generate almost $7 in EPS by 2020.

In our bear case, both the top line and cost savings from the Oriental acquisition undershoot our base-case expectations. We forecast top-line growth of 3%, in line with our estimate of long-term global GDP, which implies that AB InBev fails to generate revenue synergies from its latest acquisition and that attempts to gain share in the North American craft beer segment fail. We forecast a 110-basis-point drop in the gross margin from the 2015 level of 60.7%, as no near-term deflationary tailwind materialises. Given GDP-like revenue growth, we think margin deterioration is an unlikely outcome, but could occur if increased investment in marketing spending is required in order to drive that level of growth. Therefore, we forecast a normalised EBIT margin of 31.5% by 2020, 290 basis points below the peak of 2013, and implying less than 3% EBIT growth in the last three years of our forecast period. Under these circumstances, we estimate that AB InBev would be worth EUR 79 per share, or 29% below our fair value estimate and less than 16 times our bear-case 2017 EPS estimate. In this scenario, EPS would be flat to 2020, and the firm would generate less than $5 in EPS annually by that time.

Economic Moat

We believe AB InBev has a wide economic moat derived from two sources: a material cost advantage over its peers and its intangible assets. The strongest source of AB InBev's moat, in our opinion, is its cost advantage. In 2015, the firm sold 457 million hectolitres of beverages, giving it materially greater scale than SABMiller (with 324 million hectolitres) and Heineken (with 188 million hectolitres). AB InBev's procurement advantage is significant. For example, the firm buys 8% of the US rice crop every year, according to the Rice Almanac. Furthermore, AB InBev's scale is concentrated in local markets, which allows it to generate meaningful cost economies from its size. The firm holds a dominant market share of around 70% in Brazil, the third-largest beer market in the world by volume, and controls around half of the U.S. market, the world's second largest. This concentration of scale in its key markets reduces manufacturing complexity, leverages the firm's high-fixed-cost base, and lowers the average cost of production, which is apparent in AB InBev's best-in-class profitability. The firm generated almost $37 in EBITDA per hectolitre in 2015, well above the $24 per hectolitre generated by second-place Heineken, and it boasts industry-leading operating margins in the low 30s. This is all the more remarkable considering that the firm's two leading brands, Budweiser and Bud Light, are mainstream rather than premium brands.

AB InBev owns five of the world's largest beer brands by volume, either directly or through equity ownership in the brand operator. Two of those brands, Corona Extra and Brahma, are in the premium category, where brand loyalty is higher than the mainstream and craft beer segments. Even in the mainstream category, the firm's leading brands have instantly recognisable brand equity among global consumers.

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Morningstar Analysis

AB InBev's competitive advantages have allowed the firm to generate excess returns on invested capital for several years. ROIC, including goodwill, has remained in the low-double-digit range over the past five years, even throughout the Great Recession and the large acquisitions made since then. Adjusted for excess cash, we forecast the company to consistently generate low-double-digit ROIC throughout our explicit forecast period, and we believe its cost advantage will sustain this level of returns for at least the next two decades.

Moat Trend

We believe AB InBev's wide economic moat is stable. Despite the absence of consumer switching costs, market share trends have historically been fairly stable in the brewing industry. Even during the disruptive emergence of craft beers in the U.S., the market share loss of AB InBev's two large mainstream brands, Budweiser and Bud Light, has been fairly slow. In 2013, for example, while the craft segment grew more than 16%, the combined market shares of Budweiser and Bud Light fell just 60 basis points, according to Beverage Insider. This is in no small part due to the $6 billion, or almost 14% of revenue, that the company spends on sales and marketing every year, an investment that we believe will sustain the equity of its leading brands.

However, market share erosion alone would not lead to the deterioration of AB InBev's wide economic moat. For returns on capital to begin to materially decline, share and volume declines in the United States and other developed markets would have to accelerate to a rate significantly faster than the volume growth in developing markets, a scenario we regard as having a low probability, given the strong long-term growth drivers in emerging markets, such as a swelling of the age-appropriate population categories, increasing disposable incomes, and urbanisation.

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Bulls Say/Bears Say

Bulls Say

- AB InBev's worldwide scale and distribution is massive. It is the leading global brewer, and 17 of its brands each generate more than $1 billion per year in sales.
- AB InBev has a 62% economic stake in Ambev, which has dominant share in several key markets, including Brazil (64%), Argentina (77%), and Canada (41%). Additionally, AB InBev has leading share in the United States (48%), Belgium (57%), and Ukraine (36%).
- The company has been an efficient acquisitor. The pending acquisition of SABMiller should result in $1.4 billion of annual cost synergies.

Bears Say

- The company's flagship Budweiser brand and sister brand Bud Light are both facing meaningful headwinds in the US from craft brewers, spirits companies, and persistently high levels of unemployment.
- Beer remains a competitive industry, particularly in developed markets, and the recent elevation in marketing spend may not reverse in the near future.
- With its 62% economic interest in Ambev, AB InBev is heavily leveraged to Latin America. Continued economic weakness in Brazil would be detrimental to AB InBev's financial results.

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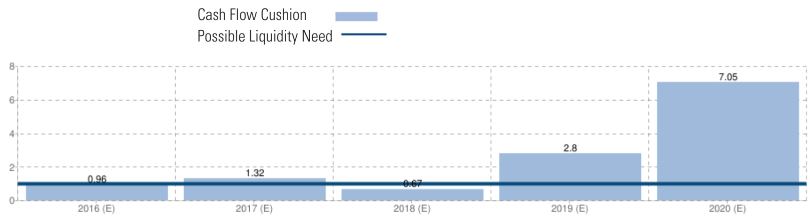
Five Year Adjusted Cash Flow Forecast (USD Mil)

	2016(E)	2017(E)	2018(E)	2019(E)	2020(E)
Cash and Equivalents (beginning of period)	6,923	5,283	3,856	11,995	7,557
Adjusted Available Cash Flow	3,252	3,733	4,605	5,259	5,747
Total Cash Available before Debt Service	10,175	9,016	8,461	17,254	13,305
Principal Payments	-6,348	-5,074	-10,123	-4,073	—
Interest Payments	-1,764	-1,872	-2,668	-2,372	-2,176
Other Cash Obligations and Commitments	-2,529	91	98	287	289
Total Cash Obligations and Commitments	-10,641	-6,855	-12,693	-6,158	-1,886

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	6,923	18.1
Sum of 5-Year Adjusted Free Cash Flow	22,597	59.1
Sum of Cash and 5-Year Cash Generation	29,520	77.2
Revolver Availability	2,000	5.2
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	31,520	82.4
Sum of 5-Year Cash Commitments	-38,233	—

Financial Health

AB InBev is in excellent financial health, although it will releverage significantly for the SABMiller acquisition. Outside of Ambev, in which the company owns a majority stake, AB InBev has the lowest net debt/EBITDA ratio in the brewing industry at 2.3 times. In the absence of further acquisitions, we forecast that net debt/EBITDA could fall to 2.0 by 2020. EBITDA covers interest expense by 7 times, and with $7 billion in cash on the balance sheet, the ability to delay payments to suppliers, and outstanding free cash flow generation of 30% of revenue, we do not anticipate any liquidity issues.In fact, we believe the balance sheet could withstand further leverage. At its peak following the Anheuser-Busch deal in 2009, debt/EBITDA stood at over 9 times. We do not regard this as a sustainable normalised capital structure, and management aggressively increased EBITDA and reduced debt in the years immediately following the transaction to dramatically bring leverage, but we do think it indicates that there is plenty of scope for incremental gearing. Therefore, we do not rule out a transformative acquisition in the near term.We assign AB InBev an issuer credit rating of A-, implying that the firm has low default risk; however, we have placed our rating under review with negative implications after the announcement that SABMiller's board has agreed in principle to an offer from AB InBev to acquire the firm. Previously, AB InBev's management had said that it intends to fund the cash portion of the transaction with internally generated funds and debt, which we expect to significantly increase debt leverage at a combined entity.

Enterprise Risk

AB InBev has a broader geographic footprint than most of its brewing peers, and although that reduces geographic concentration risk, it also creates foreign exchange risk. There is a high correlation between per capita GDP growth and per capita beer consumption, particularly in Latin America, one of AB InBev's key markets, so the firm is highly leveraged to global economic growth.Additionally, through the firm's 62% economic interest in Ambev, AB InBev is heavily exposed to the Latin American market, with 52% of EBIT generated in the region in 2015. The current geopolitical environment in Brazil is weighing heavily on the firm's results.Integration risk is significant with AB InBev, particularly relating to the SABMiller acquisition. The terms of the transaction include a $3 billion break fee, payable to SABMiller if the deal does not close. Assuming a smooth ride through the regulatory hurdles, AB InBev will have to execute well in order to achieve the $1.4 billion in annual savings it says it can achieve from the deal.Input costs are a risk, particularly if commodity inflation occurs during a period of economic weakness, when it is more difficult to pass through cost inflation to the consumer. Input costs are, in turn, sensitive to the harvest of various agricultural commodities.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard Total Intl Stock Idx Fund	0.53	0.53	161	31 May 2016
Harbor International Fund	0.46	2.28	—	31 Mar 2016
WisdomTree Europe Hedged Equity Fund	0.31	5.95	-110	29 Jun 2016
iShares MSCI EAFE (AU)	0.24	0.87	—	29 Jun 2016
Fidelity® Series International Growth	0.20	3.32	—	31 May 2016
Concentrated Holders				
iShares MSCI Belgium Capped	0.04	22.64	—	21 Jun 2016
BNP Paribas Structure Court Terme	0.01	17.08	149	31 May 2016
Initiative Modéré	—	16.38	1	30 Jun 2015
iShares STOXX Europe 600 Food&Bev (DE)	0.01	15.02	—	29 Jun 2016
KBC Multi Track Belgium	—	11.85	—	29 Feb 2016

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
THEAM	0.06	6.54	636	31 May 2016
BlackRock Advisors LLC	0.08	0.20	625	31 May 2016
BNP Paribas Asset Management	0.06	4.60	562	31 May 2016
Ivy Investment Management Co	0.04	0.68	506	31 Mar 2016
British Columbia Inv Management Corp	0.03	0.07	440	31 Mar 2010
Top 5 Sellers				
Amundi	0.08	1.18	-1,223	31 May 2016
Principal Management Corp	0.01	0.93	-237	31 May 2016
KBC Asset Management N.V.	0.01	1.22	-196	30 Jun 2015
Natixis Asset Management	0.06	2.23	-153	30 Apr 2016
Templeton Asset Management Ltd.	0.02	1.97	-141	31 Mar 2016

Management 09 May 2016

We believe AB InBev's management team has been an Exemplary steward of shareholders' capital. Through a series of acquisitions and a focus on cost control, the global brewer has built a wide economic moat. AB InBev's culture instils the responsibility for the company's performance and the creation of shareholder value into each of its managers. Compensation is determined on the basis of a 'stretched but achievable target', which requires detailed, quantitative performance goals throughout the organisation. Management's control over expenses is so tight that, when it acquired Anheuser-Busch, it introduced a zero-budgeting policy that requires all expenses to be justified before being spent.

A significant portion of AB InBev's senior management consists of the Brazilian team that bought Brazil-based Brahma in 1989, merged the company with Antarctica in 1999 to form Ambev, and then merged with Interbrew in 2004 to create InBev. The team has significant experience dealing with the nuances of integrating acquired firms. CEO Carlos Brito joined AB InBev's predecessor Ambev in 1989, having held various roles in finance, operations, and sales before becoming Ambev CEO in 2004 and AB InBev CEO in 2006. Anheuser-Busch's culture encourages senior management to rotate through different roles throughout the business, a strategy that we think will create a deep bench of management talent. We think management's private equity background helps to keep them focused on cost management.

Perhaps the only blot on management's copybook is the $5.8 billion reacquisition in 2014 of Oriental Brewery, a business it previously owned and sold five years earlier for a third of the price when it was in deleveraging mode following the Anheuser-Busch acquisition. However, KKR, its owner in the interim, had doubled the earnings of the business in that time, and we believe AB InBev can create value from the deal by extracting duplicate costs and sharing a distribution platform to drive penetration of the Budweiser and Corona brands. With attention now turning to the closing and integration of SABMiller, we think this strong management team has the ability to deliver on its targeted $1.4 billion in annual cost savings, while offsetting secular volume declines in the U.S.

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Analyst Notes

Big Volume Miss in Brazil, but U.S. Shows Signs of Life; ABI Fairly Priced 04 May 2016

AB InBev reported a first quarter that puts the firm on track to meet our full-year expectations, with volumes that undershot our forecast in Brazil largely offset by a better performance in the U.S. and Mexico, and fairly strong pricing. We will not adjust our assumptions or our EUR 112 and $126 fair value estimates for the ordinary shares and the ADRs. Our wide moat rating remains in place. AB InBev's scale gives it a cost advantage over smaller brewers, a moat source that will only be strengthened by its acquisition of SABMiller, which is expected to close at the end of the year.

Volumes in Brazil fell 8.5%, with beer down 10.0%, a material shortfall to our internal estimate of a 4% decline in the first half of the year. The recession and political instability in the country are clearly having a severe impact on the Brazilian consumer, but we are encouraged by management's comments that volumes in the second quarter are "significantly better" so far than in the first. AB InBev may yet hit our volume estimate, so we are unlikely to make material changes to our forecasts.

In the U.S., volumes fell 1.2%, though with positive pricing, revenue was flat year-over-year. This is a sequential improvement over the low-single-digit decline that has become the norm in the U.S., and is particularly pleasing given the ongoing growth in the craft category. Nevertheless, we think this performance is indicative of strong execution, which may not be sustainable. We continue to believe that unless AB InBev grows its craft beer footprint, its medium term revenues are likely to fall in the low single digits.

There was no new news in the firm's update on the proposed acquisition of SABMiller, but in recent weeks considerable progress has been made towards the completion of the deal. AB InBev has accepted an offer from Asahi for Grolsch and Peroni, and intends to sell SAB's Eastern European assets. It has also received approval from the South African government.

Divestiture of SAB's CEE Assets Not Surprising and a Net Positive to ABI, Valuation Notwithstanding 29 Apr 2016

We have long viewed SABMiller's Eastern European business as a source of cash in the acquisition of the company by Anheuser-Busch InBev, so we are not surprised by today's announcement that the firm will seek to divest the SABMiller assets in the region. Although we have been somewhat concerned by the value leakage in some of the proposed asset sales, particularly in China, we will wait until we know the value of any transaction before making adjustments to our EUR 112 and $126 respective fair value estimates for AB InBev's ordinary shares and ADRs. We are also reiterating our wide economic moat rating for both companies, and we still regard the transaction as being positive for AB InBev's cost advantage. There is limited upside to the shares at current prices, in our opinion.

The assets being sold are those in Hungary, Romania, Czech Republic, Slovakia, and Poland, and do not include the 24% interest in Anadolu Efes. We estimate those regions will generate $705 million in fiscal 2016 EBITDA, and assuming a valuation multiple of 11 times, the multiple that Molson Coors paid for StarBev in 2013, the sale could fetch $7.75 billion in cash. We expect Carlsberg and Heineken to be interested in these assets, with Carlsberg the most likely buyer, although it may not acquire the Polish business because of antitrust constraints. Carlsberg's balance sheet is fairly leveraged, however, and with debt/EBITDA of around 2.8 times, a debt-financed deal of this magnitude may be out of reach. At 70% debt, debt/EBITDA would be pushed closer to 4.0 times. However, in October 2013, the Carlsberg Foundation amended its charter to allow the

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Analyst Notes

foundation to own just 51% of the voting rights and 25% of the share capital (down from 75% and 30%, respectively). We estimate that a further 200 million shares could be released into the float; at the current share price of DKK 640, this could raise DKK 128 billion, or almost $20 billion, so Carlsberg has ample capacity for a stock deal.

The elimination of the businesses in Eastern Europe will leave the combined AB InBev-SABMiller with a share of around 15% in Russia and around 35% in Ukraine, as well as an indirect presence in Turkey and other markets through Efes. The rationale given for the disposal was that these divestitures will appease the European Commission in its review of the proposed deal. Given that little overlap exists between the CEE footprint of AB InBev and SAB, we think this is unlikely. Instead, we believe that Eastern Europe, with a declining population and consumption per capita in structural decline, is not a region that matches AB InBev's mandate for growth, and that management is willing to jettison the business in order to focus on the enormous task in hand: integrating the two largest brewers in the world. In our opinion, the Eastern European markets may have provided an unwelcome and unnecessary distraction, and valuation notwithstanding, we regard this asset sale as a net positive.

Value Leakage in Sale of CR Snow Immaterial to Our AB InBev Valuation; Upside to Shares 02 Mar 2016

Anheuser-Busch InBev confirmed that it has entered into an agreement to sell SABMiller's 49% stake in the China Resources Snow Breweries for $1.6 billion to its joint-venture partner China Resources Beer. The valuation of the transaction, which represents around 6 times EBITDA, is significantly below our estimate of $3 billion. However, we are reiterating our $126 and EUR 112 fair value estimates for the ADRs and ordinary shares, respectively, as the value leakage is immaterial to our valuation. Our wide moat rating for AB InBev also remains intact, and we think the purchase of SABMiller is likely to enhance the firm's cost advantage. We think the shares offer upside, which could be triggered by excess cost synergies and accelerated organic growth after the deal closes.

The transaction price undershot our assumption by more than $1 billion, and we now believe the deal is value-neutral under current exchange rates, and assuming management's synergy guidance is accurate. The acquisition is likely to be earnings- and free cash flow-accretive in three to four years under such conditions. However, management has a track record of exceeding its cost synergies targets, and we think the $1.4 billion in targeted annual cost savings could be beaten this time. We also do not model revenue synergies from the deal, and this may underestimate the organic revenue growth of the combined company if AB InBev's global brands enter new markets and take share from competitors.

The valuation shortfall does not affect the structure of the deal. In January, AB InBev raised $46 billion in debt for the SABMiller acquisition, exactly the amount it needs to finance the deal, given that the sale prices of Grolsch, Peroni, and now CR Snow are known. Our valuation and accretion estimates assume all of this debt is taken on the combined firm's balance sheet.

The valuation multiple of this deal is at the bottom end of historical deals in the brewing industry, which is disappointing, given the long-term volume growth and premiumisation opportunities in China. There are, perhaps, legitimate reasons for this. First, profitability in China is low. In AB InBev's own Chinese business, its EBITDA margin of around 23% is well below the group margin of 38%. The brewing industry in China remains very regional, and we think consolidation will be required before profitability matches global levels. Second, organic growth has stagnated recently, and the continued slowdown in China may cause continued volatility in volume growth for some

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Analyst Notes

time to come. Third, the disposal of CR Snow was a necessary part of the completion of the SABMiller acquisition, and as there were unlikely to be other bidders, it is likely that AB InBev did not have a strong negotiating position.

With the sale of MillerCoors to Molson Coors, the disposal of the Grolsch and Peroni brands to Asahi, and now confirmation that CR Beer will acquire the 49% of the CR Snow joint venture, the major pieces of the jigsaw are in place, and we see few major antitrust hurdles remaining. One outstanding unknown, however, is the Eastern Europe business, where the market share of the combined entity could raise eyebrows at local regulators. In addition, we think the Eastern European markets are structurally less attractive than most of AB InBev's existing core markets, and would provide an unwelcome distraction at a time when management will be focused on a global integration. Therefore, we would not be surprised if asset sales in the region were used to bolster the cash contribution to this mammoth transaction.

ABI's 2016 Guidance Disappoints But Long-Term Thesis Intact; Shares of this Quality Name Undervalued 25 Feb 2016

Anheuser-Busch InBev reported fourth-quarter and full-year results very close to our below-consensus forecasts. However, 2016 guidance implies the firm may not generate the modest EBIT margin expansion we had anticipated this year, so we are likely to lower our near-term forecasts slightly, but do not expect material changes to our $126 and EUR 112 fair value estimates for the ADRs and ordinary shares, respectively. Having pulled back materially since the immediate aftermath of the announcement of the acquisition of SABMiller, we now believe the stock offers a fairly attractive level of upside. AB InBev's wide economic moat, derived from a cost advantage, remains in place and was evident again this quarter.

Organic fourth-quarter revenue growth was an impressive 7.0%, above most of AB InBev's global peers in consumer staples, albeit a slight sequential slowdown from the third quarter as China and Brazil continued to deteriorate. In spite of the negative macro environment in emerging markets, AB InBev posted a strong finish to the year in Mexico (9% of revenue) with 11.3% organic sales growth and 18.2% EBITDA growth. In both Brazil and China, however, volumes declined slightly, confirming our thesis that beer consumption in China has not just slowed but is temporarily declining.

In another indication of the challenging macroeconomic environment, management guided to higher SG&A spending in 2016, at a rate higher than sales growth. This will act as an unexpected constraint on near-term earnings and cash flow growth, but it is AB InBev's cost advantage that gives it the financial flexibility to increase marketing spending during periods of soft demand.

Many investors have been concerned about the sustainability of the dividend in light of the $100 billion acquisition of SABMiller, and we regard the 20% increase in the annual payout as a signal no dividend cut is imminent.

Sale of Peroni and Grolsch Confirmed at Low End of Our Estimate; Immaterial to Value Creation 10 Feb 2016

Anheuser-Busch InBev confirmed that it has received a binding offer from Asahi to acquire SABMiller's Peroni and Grolsch brands for EUR 2.55 billion ($2.9 billion). The sale price is below our estimated valuation of $3 billion-$4 billion, and we estimate that it represents around 2 times 2015 sales. This is at the low end of historical transactions in the industry, and we believe this reflects a lack of competitive interest from other multinational brewers. Although we don't think the sale price maximises value for Anheuser-Busch shareholders, any value leakage is

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Analyst Notes

minimal, and does not affect our $126 and EUR 112 respective fair value estimates for the ADRs and ordinary shares. In the context of the bigger picture, we think the deal was worth doing at this price, from AB InBev's perspective, in order to push through the acquisition of SABMiller. Our wide moat rating for AB InBev remains intact, and we think the purchase of SABMiller is likely to enhance the firm's cost advantage.

The sale of Grolsch and Peroni should help clear the way for regulatory approval for the SABMiller acquisition in the European Union. We have identified the Netherlands as being the market most likely to cause antitrust issues, as AB InBev and SABMiller hold a combined 30% market share. Grolsch holds a share of around 13%, so its disposal should eliminate antitrust concerns. In Italy, the combined share of the two firms is around 27%; this is slightly less problematic, but is still likely to raise antitrust concerns. Peroni holds around 25% volume share.

This latest development is a significant step forward for the completion of the SABMiller acquisition, but outstanding issues remain. We suspect that SABMiller's 49% stake in CR Snow, its Chinese joint venture with China Resources Enterprise, will be divested, most likely to CRE. We assume an EBITDA multiple of 15 times, a level we think is fair for the joint venture, which enjoys faster growth but is less profitable than MillerCoors. In the United Kingdom, the potential sale of the Meantime brand is ongoing. Any transaction will be immaterial to the SABMiller acquisition, and we suspect the brand may remain in the AB InBev portfolio. We would also not be surprised to see a divestiture of SABMiller's Eastern European business, excluding its stake in Efes. The rationale behind AB InBev's purchase of SABMiller is gaining access to fast-growth frontier markets in Africa, and cutting costs globally. We think the Eastern European markets are structurally less attractive than most of AB InBev's existing core markets, and would provide an unwelcome distraction at a time when management will be focused on a global integration. Therefore, we would not be surprised if asset sales in the region were the final piece of the jigsaw for the closing of this mammoth acquisition.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in March

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	*2016* (Forecast)	*2017* (Forecast)	*5-Year Proj. CAGR*
Revenue	*3.1*	8.6	9.0	-7.4	*0.5*	*4.9*	*3.6*
EBIT	*1.2*	10.7	4.0	-9.8	*-8.7*	*17.1*	*5.5*
EBITDA	*1.5*	8.1	6.9	-9.5	*-9.7*	*14.9*	*4.5*
Net Income	*4.8*	27.1	3.6	-12.6	*-11.8*	*16.7*	*4.2*
Diluted EPS	*3.9*	25.4	2.7	-12.8	*-12.3*	*16.1*	*3.7*
Earnings Before Interest, after Tax	*-1.5*	10.2	-10.6	-3.1	*-7.2*	*14.6*	*4.7*
Free Cash Flow	*73.1*	99.0	-40.0	334.0	*-9.4*	*6.5*	*5.8*

Profitability	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Operating Margin %	*33.0*	34.4	32.8	31.9	*29.0*	*32.3*	*33.0*
EBITDA Margin %	*39.9*	40.7	39.9	39.0	*35.0*	*38.3*	*38.9*
Net Margin %	*20.1*	21.2	20.1	19.0	*16.7*	*18.5*	*18.5*
Free Cash Flow Margin %	*10.6*	7.7	4.2	19.8	*17.9*	*18.1*	*19.8*
ROIC %	*11.1*	11.9	11.2	10.3	*9.9*	*11.3*	*12.0*
Adjusted ROIC %	*30.7*	31.6	31.5	29.2	*28.0*	*31.3*	*32.4*
Return on Assets %	*7.8*	10.9	6.5	6.0	*5.5*	*6.4*	*6.5*
Return on Equity %	*22.6*	31.5	18.4	18.0	*17.2*	*19.5*	*19.4*

Leverage	3-Year Hist. Avg	2013	2014	2015	*2016*	*2017*	*5-Year Proj. Avg*
Debt/Capital	*0.51*	0.49	0.51	0.54	*0.53*	*0.51*	*0.51*
Total Debt/EBITDA	*2.81*	2.80	2.72	2.91	*3.11*	*2.60*	*2.58*
EBITDA/Interest Expense	*7.01*	6.36	8.21	6.46	*8.70*	*9.41*	*8.70*

Valuation Summary and Forecasts

	2014	2015	*2016(E)*	*2017(E)*
Price/Fair Value	1.05	1.02	—	—
Price/Earnings	18.8	26.3	*30.7*	*26.5*
EV/EBITDA	12.2	14.4	*16.5*	*14.3*
EV/EBIT	14.9	17.6	*19.9*	*17.0*
Free Cash Flow Yield %	5.3	4.7	*3.5*	*3.9*
Dividend Yield %	4.1	4.0	*3.1*	*3.2*

Key Valuation Drivers

Cost of Equity %	8.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	7.5
Long-Run Tax Rate %	25.0
Stage II EBI Growth Rate %	6.0
Stage II Investment Rate %	15.0
Perpetuity Year	25

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	38,130	15.2	22.85
Present Value Stage II	123,365	49.0	73.94
Present Value Stage III	90,214	35.8	54.07
Total Firm Value	**251,710**	**100.0**	**150.87**
Cash and Equivalents	6,978	—	4.18
Debt	-49,466	—	-29.65
Preferred Stock	—	—	—
Other Adjustments	-2,713	—	-1.63
Equity Value	**206,509**	**—**	**123.77**
Projected Diluted Shares	1,668		
Fair Value per Share (EUR)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in March

	2013	2014	2015	*Forecast* 2016	*Forecast* 2017
Revenue	**43,195**	**47,063**	**43,604**	***43,805***	***45,969***
Cost of Goods Sold	17,594	18,756	17,137	*17,980*	*18,614*
Gross Profit	**25,601**	**28,307**	**26,467**	***25,825***	***27,355***
Selling, General & Administrative Expenses	9,482	10,924	10,515	*11,498*	*10,797*
Other Operating Expense (Income)	-1,160	-1,386	-1,032	*-1,008*	*-1,057*
Other Operating Expense (Income)	-294	-9	-10	*-11*	*-11*
Depreciation & Amortization (if reported separately)	2,735	3,351	3,083	*2,650*	*2,763*
Operating Income (ex charges)	**14,838**	**15,427**	**13,912**	***12,695***	***14,862***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	341	110	134	—	—
Other Non-Cash (Income)/Charges	-6,240	197	-136	—	—
Operating Income (incl charges)	**20,737**	**15,120**	**13,914**	***12,695***	***14,862***
Interest Expense	2,764	2,288	2,631	*1,764*	*1,872*
Interest Income	561	969	1,178	*366*	*369*
Pre-Tax Income	**18,534**	**13,801**	**12,461**	***11,297***	***13,359***
Income Tax Expense	2,016	2,499	2,594	*2,598*	*3,206*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-2,124	-2,086	-1,594	*-1,405*	*-1,640*
(Preferred Dividends)	—	—	—	—	—
Net Income	**14,394**	**9,216**	**8,273**	***7,294***	***8,513***
Weighted Average Diluted Shares Outstanding	1,650	1,665	1,668	*1,677*	*1,686*
Diluted Earnings Per Share	**8.72**	**5.54**	**4.96**	***4.35***	***5.05***
Adjusted Net Income	9,137	9,467	8,271	*7,294*	*8,513*
Diluted Earnings Per Share (Adjusted)	**5.54**	**5.69**	**4.96**	***4.35***	***5.05***
Dividends Per Common Share	3.32	3.90	4.19	*3.43*	*3.54*
EBITDA	**23,472**	**18,471**	**16,997**	***15,345***	***17,626***
Adjusted EBITDA	**17,573**	**18,778**	**16,995**	***15,345***	***17,626***

Anheuser-Busch Inbev SA ABI (XBRU) | ★★★

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in March	2013	2014	2015	*Forecast 2016*	*2017*
Cash and Equivalents	9,839	8,357	6,923	*5,283*	*3,856*
Investments	123	301	55	*45*	*47*
Accounts Receivable	2,935	3,363	3,241	*3,029*	*3,172*
Inventory	2,950	2,974	2,862	*3,096*	*3,242*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	2,843	3,546	5,213	*2,431*	*2,544*
Current Assets	**18,690**	**18,541**	**18,294**	***13,883***	***12,861***
Net Property Plant, and Equipment	20,889	20,263	18,952	*21,471*	*23,654*
Goodwill	69,927	70,758	65,061	*65,061*	*65,061*
Other Intangibles	29,338	29,923	29,677	*29,327*	*28,977*
Deferred Tax Assets (Long-Term)	1,180	1,058	1,181	*1,181*	*1,181*
Other Long-Term Operating Assets	1,642	2,007	1,470	*1,773*	*1,847*
Long-Term Non-Operating Assets	—	—	—	—	—
Total Assets	**141,666**	**142,550**	**134,635**	***132,696***	***133,581***
Accounts Payable	9,834	10,913	11,616	*11,937*	*12,596*
Short-Term Debt	5,365	2,957	5,925	*6,555*	*7,282*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	7,941	8,803	10,915	*8,494*	*8,681*
Current Liabilities	**23,140**	**22,673**	**28,456**	***26,986***	***28,559***
Long-Term Debt	43,761	48,165	43,541	*41,119*	*38,545*
Deferred Tax Liabilities (Long-Term)	12,841	12,701	11,961	*11,961*	*11,961*
Other Long-Term Operating Liabilities	6,616	4,754	4,958	*6,109*	*6,137*
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	**86,358**	**88,293**	**88,916**	***86,175***	***85,202***
Preferred Stock	—	—	—	—	—
Common Stock	1,735	1,736	1,736	*1,736*	*1,736*
Additional Paid-in Capital	17,608	17,620	17,620	*17,630*	*17,640*
Retained Earnings (Deficit)	31,004	35,174	35,949	*36,678*	*38,381*
(Treasury Stock)	—	—	—	—	—
Other Equity	18	-4,558	-13,168	*-13,168*	*-13,168*
Shareholder's Equity	**50,365**	**49,972**	**42,137**	***42,876***	***44,589***
Minority Interest	4,943	4,285	3,582	*3,645*	*3,790*
Total Equity	**55,308**	**54,257**	**45,719**	***46,521***	***48,379***

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in March

				Forecast	
	2013	2014	2015	*2016*	*2017*
Net Income	16,518	11,302	9,867	*8,699*	*10,153*
Depreciation	2,401	2,967	2,715	*2,300*	*2,413*
Amortization	334	384	368	*350*	*350*
Stock-Based Compensation	240	249	221	*200*	*200*
Impairment of Goodwill	341	110	134	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	—	—	—	—	—
Other Non-Cash Adjustments	-6,183	-1,225	-521	—	—
(Increase) Decrease in Accounts Receivable	-25	-371	-138	*212*	*-143*
(Increase) Decrease in Inventory	-129	-354	-424	*-234*	*-147*
Change in Other Short-Term Assets	—	—	—	*2,782*	*-113*
Increase (Decrease) in Accounts Payable	1,020	1,540	2,348	*321*	*659*
Change in Other Short-Term Liabilities	-653	-458	-449	*-2,421*	*187*
Cash From Operations	**13,864**	**14,144**	**14,121**	***12,209***	***13,559***
(Capital Expenditures)	-3,869	-4,395	-4,749	*-4,818*	*-4,597*
Net (Acquisitions), Asset Sales, and Disposals	-13,237	-6,584	-109	—	—
Net Sales (Purchases) of Investments	—	—	—	*10*	*-2*
Other Investing Cash Flows	6,825	-173	-72	*848*	*-46*
Cash From Investing	**-10,281**	**-11,152**	**-4,930**	***-3,960***	***-4,645***
Common Stock Issuance (or Repurchase)	73	83	-995	*10*	*10*
Common Stock (Dividends)	-6,253	-7,400	-7,966	*-6,565*	*-6,810*
Short-Term Debt Issuance (or Retirement)	—	—	—	*630*	*727*
Long-Term Debt Issuance (or Retirement)	4,458	3,223	457	*-2,422*	*-2,574*
Other Financing Cash Flows	2,063	239	-777	*-1,542*	*-1,694*
Cash From Financing	**341**	**-3,855**	**-9,281**	***-9,889***	***-10,342***
Exchange Rates, Discontinued Ops, etc. (net)	-1,142	-654	-1,316	—	—
Net Change in Cash	**2,782**	**-1,517**	**-1,406**	***-1,640***	***-1,427***

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings 2015	2016(E)	2017(E)	EV/EBITDA 2015	2016(E)	2017(E)	Price/Free Cash Flow 2015	2016(E)	2017(E)	Price/Book 2015	2016(E)	2017(E)	Price/Sales 2015	2016(E)	2017(E)
SABMiller PLC SAB GBR	1.04	22.8	—	*32.7*	10.7	—	*11.3*	34.9	—	*18.1*	3.0	—	*2.3*	4.2	—	*4.4*
Heineken NV HEIA NLD	1.06	27.5	*22.0*	*20.5*	12.7	*11.6*	*11.2*	24.6	*28.5*	*20.9*	3.4	*3.5*	*3.6*	2.2	*2.2*	*2.2*
Molson Coors Brewing Co TAP USA	1.21	25.0	*28.1*	*21.3*	17.6	*13.1*	*8.8*	43.2	*22.0*	*17.7*	2.6	*2.2*	*2.1*	5.1	*3.9*	*1.8*
Average		25.1	*25.1*	*24.8*	13.7	*12.4*	*10.4*	34.2	*25.3*	*18.9*	3.0	*2.9*	*2.7*	3.8	*3.1*	*2.8*
Anheuser-Busch Inbev SA ABI BE	**1.06**	**26.3**	***30.7***	***26.5***	**14.4**	***16.5***	***14.3***	**21.3**	***28.4***	***23.4***	**4.7**	***4.9***	***4.7***	**4.6**	***4.8***	***4.6***

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC % 2015	2016(E)	2017(E)	Adjusted ROIC % 2015	2016(E)	2017(E)	Return on Equity % 2015	2016(E)	2017(E)	Return on Assets % 2015	2016(E)	2017(E)	Dividend Yield % 2015	2016(E)	2017(E)
SABMiller PLC SAB GBR	— USD	10.5	*12.0*	*11.7*	17.2	*19.1*	*18.5*	13.3	*11.4*	*11.6*	6.7	*6.0*	*6.3*	2.5	—	*2.5*
Heineken NV HEIA NLD	37,883 EUR	10.2	*11.5*	*11.9*	19.0	*21.1*	*21.6*	14.6	*15.6*	*16.2*	5.2	*5.6*	*5.6*	2.0	*1.9*	*1.9*
Molson Coors Brewing Co TAP USA	12,276 USD	6.0	*5.8*	*6.6*	7.4	*8.3*	*10.2*	4.8	*8.5*	*10.0*	2.7	*3.8*	*3.9*	1.7	*1.5*	*1.7*
Average		8.9	*9.8*	*10.1*	14.5	*16.2*	*16.8*	10.9	*11.8*	*12.6*	4.9	*5.1*	*5.3*	2.1	*1.7*	*2.0*
Anheuser-Busch Inbev SA ABI BE	**134,635** USD	**10.3**	***9.9***	***11.3***	**29.2**	***28.0***	***31.3***	**18.0**	***17.2***	***19.5***	**6.0**	***5.5***	***6.4***	**4.0**	***3.1***	***3.2***

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth % 2015	2016(E)	2017(E)	EBIT Growth % 2015	2016(E)	2017(E)	EPS Growth % 2015	2016(E)	2017(E)	Free Cash Flow Growth % 2015	2016(E)	2017(E)	Dividend/Share Growth % 2015	2016(E)	2017(E)
SABMiller PLC SAB GBR	16,534 USD	-1.0	*-8.8*	*6.6*	5.7	*-17.1*	*15.6*	3.9	*-18.3*	*5.2*	57.0	*34.6*	*-41.5*	3.5	*-7.8*	*11.0*
Heineken NV HEIA NLD	20,511 EUR	6.5	*3.8*	*3.4*	1.8	*23.9*	*3.2*	12.1	*32.7*	*7.4*	6.6	*19.6*	*23.7*	26.4	*-0.8*	*8.1*
Molson Coors Brewing Co TAP USA	3,568 USD	-14.0	*56.4*	*113.2*	-17.4	*41.7*	*41.0*	-9.0	*-4.8*	*32.4*	-60.6	*-2,444.5*	*-115.5*	10.7	—	*4.4*
Average		-2.8	*17.1*	*41.1*	-3.3	*16.2*	*19.9*	2.3	*3.2*	*15.0*	1.0	*-796.8*	*-44.4*	13.5	*-4.3*	*7.8*
Anheuser-Busch Inbev SA ABI BE	**43,604** USD	**-7.4**	***0.5***	***4.9***	**-9.8**	***-8.7***	***17.1***	**-12.8**	***-12.3***	***16.1***	**334.0**	***-9.4***	***6.5***	**7.4**	***-18.0***	***3.2***

Anheuser-Busch Inbev SA ABI (XBRU) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
117.25 EUR	111.00 EUR	77.70 EUR	149.85 EUR	Medium	Wide	Stable	Exemplary	Beverages - Alcoholic

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin % 2015	2016(E)	2017(E)	EBITDA Margin % 2015	2016(E)	2017(E)	Operating Margin % 2015	2016(E)	2017(E)	Net Margin % 2015	2016(E)	2017(E)	Free Cash Flow Margin % 2015	2016(E)	2017(E)
SABMiller PLC SAB GBR	3,618 USD	72.5	*73.8*	*71.8*	43.1	*40.6*	*43.0*	35.7	*32.5*	*35.2*	21.9	*19.7*	*19.5*	12.0	*25.5*	*24.4*
Heineken NV HEIA NLD	1,639 EUR	60.4	*61.6*	*61.1*	21.6	*24.1*	*24.0*	14.2	*16.9*	*16.9*	8.0	*10.0*	*9.9*	9.0	*7.8*	*10.3*
Molson Coors Brewing Co TAP USA	700 USD	39.4	*42.5*	*40.0*	33.2	*30.1*	*21.2*	24.3	*22.1*	*14.6*	19.6	*12.8*	*8.5*	11.8	*17.6*	*10.3*
Average		57.4	*59.3*	*57.6*	32.6	*31.6*	*29.4*	24.7	*23.8*	*22.2*	16.5	*14.2*	*12.6*	10.9	*17.0*	*15.0*
Anheuser-Busch Inbev SA ABI BE	**8,271** USD	**60.7**	***59.0***	***59.5***	**39.0**	***35.0***	***38.3***	**31.9**	***29.0***	***32.3***	**19.0**	***16.7***	***18.5***	**21.5**	***16.9***	***19.5***

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2015	2016(E)	2017(E)	Debt/Total Cap % 2015	2016(E)	2017(E)	EBITDA/Interest Exp. 2015	2016(E)	2017(E)	Total Debt/EBITDA 2015	2016(E)	2017(E)	Assets/Equity 2015	2016(E)	2017(E)
SABMiller PLC SAB GBR	12,544 USD	54.1	*53.0*	*51.1*	35.1	*34.7*	*33.8*	6.8	*5.8*	*5.5*	1.8	*2.5*	*2.2*	1.9	*1.9*	*1.8*
Heineken NV HEIA NLD	12,597 EUR	93.1	*95.1*	*104.2*	48.2	*48.7*	*51.0*	9.4	*10.8*	*10.5*	2.8	*2.6*	*2.6*	2.8	*2.8*	*3.0*
Molson Coors Brewing Co TAP USA	2,937 USD	41.7	*136.2*	*123.0*	29.4	*57.7*	*55.2*	10.6	*5.2*	*4.8*	2.5	*7.9*	*5.1*	1.7	*2.6*	*2.5*
Average		63.0	*94.8*	*92.8*	37.6	*47.0*	*46.7*	8.9	*7.3*	*6.9*	2.4	*4.3*	*3.3*	2.1	*2.4*	*2.4*
Anheuser-Busch Inbev SA ABI BE	**49,466** USD	**117.4**	***111.2***	***102.8***	**54.0**	***52.7***	***50.7***	**6.5**	***8.7***	***9.4***	**2.9**	***3.1***	***2.6***	**3.2**	***3.1***	***3.0***

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2015	2016(E)	2017(E)	Current Ratio 2015	2016(E)	2017(E)	Quick Ratio 2015	2016(E)	2017(E)	Cash/Short-Term Debt 2015	2016(E)	2017(E)	Payout Ratio % 2015	2016(E)	2017(E)
SABMiller PLC SAB GBR	70,837 GBP	0.59	*7.02*	*8.33*	0.59	*1.86*	*2.04*	0.45	*1.73*	*1.90*	0.49	*3.91*	*4.34*	51.7	*53.6*	*51.8*
Heineken NV HEIA NLD	47,557 EUR	1.83	*2.31*	*1.55*	0.73	*0.92*	*0.86*	0.52	*0.66*	*0.60*	0.64	*2.39*	*1.29*	48.0	*41.5*	*41.8*
Molson Coors Brewing Co TAP USA	21,627 USD	2.31	*9.14*	*10.24*	1.03	*2.13*	*2.11*	0.89	*1.77*	*1.76*	15.01	*63.76*	*76.37*	84.4	*45.5*	*35.9*
Average		1.58	*6.16*	*6.71*	0.78	*1.64*	*1.67*	0.62	*1.39*	*1.42*	5.38	*23.35*	*27.33*	61.4	*46.9*	*43.2*
Anheuser-Busch Inbev SA ABI BE	**188,566** EUR	**4.15**	***3.15***	***2.29***	**0.64**	***0.51***	***0.45***	**0.54**	***0.40***	***0.34***	**1.17**	***0.81***	***0.53***	**96.3**	***90.0***	***80.0***

Research Methodology for Valuing Companies

Components of Our Methodology

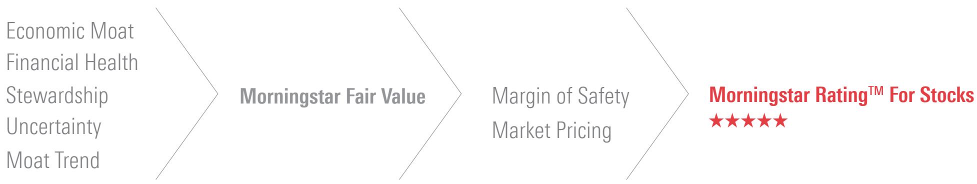
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

We believe that a company's intrinsic worth results from the future cash flows it can generate.
The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our actual calculation of our fair value estimates. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns on invested capital over at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. The assumptions that we make about a firm's economic moat play a vital role in determining the length of "economic outperformance" that we assume in the terminal sections of our valuation model. To assess the sustainability of excess profits, analysts perform ongoing assessments of what we call the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from one year (for companies with no economic moat) to 10-15 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard perpetuity formula. In deciding on the rate at which to discount future cash flows, we use a building block approach,

Morningstar Research Methodology for Valuing Companies



Source: Morningstar, Inc.

Detailed Methodology Documents and Materials*
- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

*Please contact a sales representative for more information.

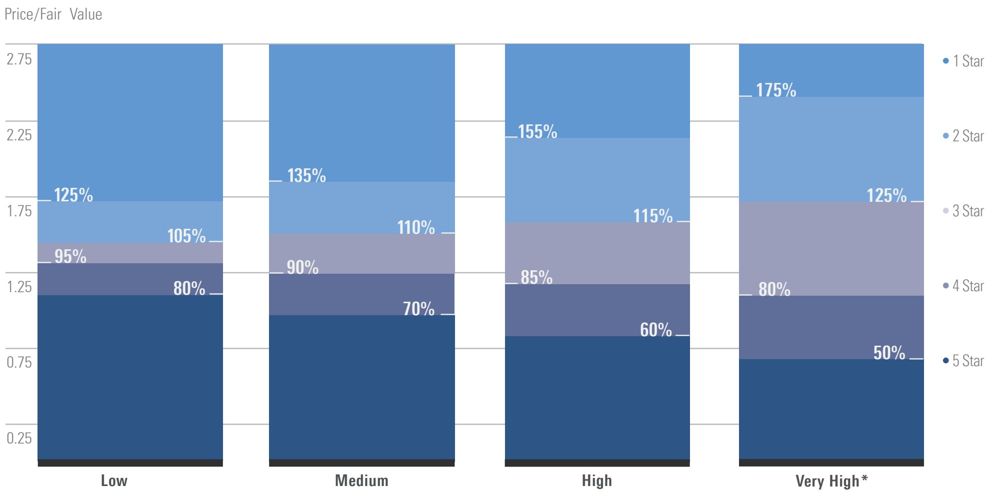
which takes into account expectations for market real return, inflation, country risk premia, corporate credit spread, and any additional systematic risk.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts model three scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of likely potential fair values and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions. M

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Source: Morningstar, Inc.

Anheuser-Busch Inbev SA ABI (XBRU) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
117.25 EUR	111.00 EUR	77.70 EUR	149.85 EUR	Medium	Wide	Stable	Exemplary	Beverages - Alcoholic

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Anheuser-Busch Inbev SA ABI (XBRU) | ★★★

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