Financial analysis of the anheuser-busch inbev company

Finance, Financial Analysis

The Anheuser-Busch InBev Company (AB InBev) was established throughout the years through mergers and acquisitions. AB InBev is the largest brewery in Jupille, Belgium. They operate in North America, Latin America, South America, Europe, and Asia Pacific. Due to political upheavals in Germany and Bohemia in 1848, many German immigrants settled in St. Louis, Missouri (“ Anheuser-Busch,” 2011). Eberhard Anheuser was a trained soap maker and became part owner of the Bavarian Brewery. By 1860, he bought the investors’ shares and the brewery name was changed to E. Anheuser & Co. Adolphus Busch married Lilly Anheuser, Eberhard’s daughter and later Adolphus purchased half ownership of Anheuser’s brewery, becoming a partner (“ Anheuser-Busch,” 2011). Due to Busch’s innovations, the brewery became the first to use pasteurization, allowing the beer to be shipped long distances without spoiling. By the early 1880’s, the brewer introduced artificial refrigeration, rail-side icehouses, and refrigerated railcars. These innovations allowed the company to grow and distribute their beer across the country.

To market the beers Busch used traditional selling methods; however, Busch’s methods were more organized and deliberate than his competitors. Busch “ pioneered the use of giveaways and premiums, and used his brewery as a showplace for the public to visit” (“ Anheuser-Busch,” 2011). The brewery company was renamed Anheuser-Busch Brewing Association in 1879 to recognize Adolphus’ efforts. The company became one of the nation’s leading breweries in 1901 when it broke the one million barrels of beer sales mark (“ Anheuser-Busch,” 2011).

Over the years, the company grew through acquisitions and mergers and became AB InBev. In 1989, a group of investors purchased Brahma, the number two beer in Brazil. In 1999, the brand took over the number one spot and was combined with its chief competitor to form AmBev. AmBev expanded throughout South America and became the third-largest brewer in the world. In 2004, Interbrew, the European beer company, acquired a majority stake in AmBev, which created InBev. In 2008, InBev purchased Anheuser-Busch; resulting in the new company AB InBev (Allen & Zook, 2012).

Anheuser-Busch (AB InBev) The publicly traded company (Euronext: ABI) is based in " Leuven, Belgium with American Depositary Receipts on the New York Stock Exchange (NYSE: BUD)" (Anheuser-Busch InBev [AB InBev], 2011) and is not only the leading global brewer, but is one of the world's top five consumer product companies. AB InBev's portfolio contains over 200 brands of beer with fourteen brands that generate over $1 billion per year in revenue. The brewer invests in their greatest growth potential brands such as Budweiser with 45% of sales originating in North America.

The company owns 50 percent equity interest in Mexico's leading brewer and owner of the Corona brand, the subsidiary Grupo Modelo. With their approximate 116, 000 employees based in twenty-three countries worldwide, AB InBev is geographically diversified, along with a balanced exposure to developing and developed markets, the company has a completive edge. AB InBev is a multinational beverage company and is the largest brewer, with almost 25 percent global market share. They are the third largest FMCG company by firm value (AB InBev, 2011).

AB InBev was chosen for a financial analysis due to its longevity and innovated ideas and marketing. It is hoped that AB InBev’s financial records will show that their innovated methods will show a continuous financial growth. The Annual Report For this analysis, AB InBev’s 2011 annual report is used and it compares 2010 and 2011. The audit was performed by Pricewaterhouse Coopers. The report is in millions and AB InBev saw a $2, 197m in profit gain from 2010 to 2011 and a $1, 114m in cash flow from operating activities before changes in working capital and use of provision.

The change in working capital was $1, 183m resulting in an increase of $2, 581m of cash flow from operating activities. There was a negative increase in the investing and financing activities, $185m and $2, 239m respectively. In 2010, AB InBev had a net increase in cash and cash equivalents of $602m and $759m in 2011. Overall, in 2011 AB InBev realized $39 billion revenue (AB InBev, 2011). The Balance Sheet When assessing the financial report, it may be difficult to see positive revenue. In order to understand, one must know how interpret thefinancial statementas a whole.

The balance sheet provides information about AB InBev’s assets, liabilities, and shareholder’s equity. Assets are things that a company can sell or use. These items include physical property, inventory, equipment, etc. Intangibles are also assets – things that cannot be touched, but nevertheless have value, i. e. patents and trademarks, investments the company makes. And of course cash is the main asset. Liabilities are amounts that the company owes to others. These amounts can include a loan secured to launch a new product, rent for use of a factory, ormoneyowed to a supplier, etc.

Liabilities also include future obligations, i. e. goods or services promised to be provided in the future. Shareholder equity (or capital or net worth) is the money that would be left if a company sold all of its assets and paid off all their liabilities. Any money left over belongs to the owners (or shareholders) of the company. The balance sheet’s “ equation” is Assets = Liabilities + Shareholders’ equity (Garrison, Noreen, & Brewer, 2010). The balance sheet is set up with the assets listed and tallied on the left side, while liabilities and shareholders’ equity on the right.

The assets are usually listed in order of how quickly they can be converted into “ real” cash. Current assets are things that the company plans to convert to cash within one year, i. e. inventory. Noncurrent assets are things that are expected to be converted to cash longer than a year. Noncurrent assets include fixed assets (not available for sale, i. e. office furniture). Liabilities are usually listed according to their due dates. Liabilities are either current or long-term. Current liabilities are debts that the company expects to pay off within a year; on the other hand, long-term liabilities are due in more than a year.

Shareholders’ equity (SE) is the amount invested by the owners. SE is calculated by subtracting the company’s earnings or losses from the owner’s investment in the company’s stock (Garrison, Noreen, & Brewer, 2010). In assessing AB InBev’s balance sheet for 2011, the company had $39, 046 million in revenues, a 4. 6% increase, and a gross profit of $22, 412 million. It is stated in the annual report that a selective price increase was taken in the last quarter in anticipation of higher commodity costs. Cost of Sales (CoS) increased by 1. 6%.

This increase was due; according to AB InBev in part to lower aluminum can costs in Latin America and procurement savings and implementation of their best practice programs in North America. The total operating expenses increased by 3. 7%. This was partly due to distribution expenses increasing by 9. 2%. Brazil had higher transportation costs, while Latin America South saw higher labor costs and higher transport tariffs in Ukraine and Russia. Sales and marketing expenses increased by 4. 1% because, specifically in North America, more investments in brand offset savings in non-working money. Administrative expenses increased by 0. % due to fixed cost savings in the United States offset by salary increases and expansion costs in China and Brazil. Other operating income was $694 million compared to $64 million in 2010 mainly because of tax incentives in China and Brazil (AB InBev, 2011). The Income Statement An income statement shows how much revenue a company earned and the costs associated with earning said revenue. The bottom line of an income statement normally shows the company’s net losses or earning. This statement tells how much the company has made or lost over the accounting period, usually for a year or a portion thereof.

Income statements reports earnings per share (EPS). (To calculate EPS, the total net income is divided by the number of outstanding shares of the company). An income statement also shows how much shareholders would receive if the company distributed all of the net earnings for the accounting period; however, most companies reinvest their earnings (Garrison, Noreen, & Brewer, 2010). Income statements begin with the total amount of revenue made during an accounting period and then deduct certain costs and operating expenses associated with earning said revenue. The bottom line tells how much the ompany earned or lost during the period. The beginning is the " gross" revenue (or sales). The next line is the amount the company does not expect to collect (referred to as allowances), i. e. discounts, or returns. After deducting these allowances from the gross revenues (or sales), the result is net revenues. The next lines are operating expenses. Although these expenses can be listed in various order, the line after net revenues is usually costs of sales. Costs of sales is the amount the company has spent producing the goods or services sold during the accounting period.

Subtracting cost of sales from net revenues gives a subtotal of gross profit (also known as gross margin) (Garrison, Noreen, & Brewer, 2010). The operating expenses are listed next on the income statement. These expenses support a company's operations, i. e. salaries, marketing, etc. Because operating expenses cannot be linked to the production of products or services being sold, they are different from costs of sales (Garrison, Noreen, & Brewer, 2010). Depreciation is also deducted. Depreciation is the amount of wear and tear on assets (machinery, tools, etc.) that are used over long term.

This amount is spread over the periods they are used and is called depreciation or amortization. After this deduction from the gross profit, the income from operations is arrived. This amount is before interest and income tax expenses (Garrison, Noreen, & Brewer, 2010). The next section allows companies to account for interest income and interest expense. Interest income is earned from interest-bearing savings accounts, money market funds, etc. Interest expenses are monies paid in interest on loans, etc. Some companies show these separately and some combine the two.

The income and expenses are totaled and then deducted from the operating profit to arrive at operating profit before income tax (EBIT). Finally, income tax is subtracted and the bottom line of net profit or net loss (also known as net income, net earnings, or net operating income) is calculated (Garrison, Noreen, & Brewer, 2010). On AB InBev’s income statement, sales are the same as on the balance sheet. (AB InBev, 2011). In North America, EBITDA increased 1. 5%, $6. 573 million with a margin expansion increase up to 42. 9%, driven by growth in overhead cost reductions and gross profit.

In the combined statement (the gathering of all AB InBev’s companies), the EBIT for 2011 is $12, 607 million and an EBITDA of $15, 357 million (AB InBev, 2011). Cash Flow Statements While a balance sheet is a snapshot and the income statement shows if the company made a profit or lost money, a cash flow statement shows if the company generated cash. Cash flow statements shows the inflow and outflows of the company's cash. This statement is very important because it proves that the company has enough money to pay expenses, purchase assets, and stay competitively profitable.

Whereas other financial statements shows an absolute dollar amount at a particular time, a cash flow statement show changes during the accounting period. The cash flow statement uses the information from both balance sheet and income statement. Cash flow statements are divided into three major sections: operating activities, investing activities, and financing activities. (Garrison, Noreen, & Brewer, 2010). AB InBev's financial report consolidates the activities, followed by a breakdown of the activities including explanations.

Operating activities rose from $9, 905million to $12, 486 million; investing activities increased from a negative $2, 546m in 2010 to negative $2, 731m in 2011; and financing activities rose from $6, 757m to $8, 996m in 2011. However, the net increase in cash and cash equivalents increased from $602m to $759m (AB InBev, 2011). Operating activities. The first section of a cash flow statement analyzes inflow from net income or loses. This section usually reconciles the net income (taken from the income statement) to the actual cash the company received from and used in its operating activities.

This process adjusts net income for any non-cash items, i. e. adding depreciation expenses back, and for any cash that was a source or a use provided by other operating assets and liabilities (Garrison, Noreen, & Brewer, 2010). AB InBev's financial report of cash flows shows an increase in operating activities. This increase is due to a higher profit and strong contribution from changes in the working capital. The increase in working capital is the result of on-going trade initiatives; furthermore, there is an increase in trade payables that are linked to higher capital expenditures.

These expenditures have longer payment terms (AB InBev, 2011). Investing activities. Investing activities shows the inflow from all investing activities. These activities usually include purchases or sales of long-term assets, i. e. property, plant, and equipment (PPE) as well as investment securities. If a company buys machinery, this activity would be listed as a cash outflow because cash was used. However, if the company sold some investments from their portfolio the proceeds would be an inflow from investing activities because it is a source of cash (Garrison, Noreen, & Brewer, 2010).

AB InBev's investing activities were $2, 731m in 2011, compared to 2010 which was $2, 546m. This increase is by higher capital expenditures mainly in Brazil and China. To partially offset this increase, the company sold short-term debt securities. The company invested in 2010 to facilitate liquidity and capital preservation in Brazil. Net capital expenditures were $3, 256m in 2011 and $2, 123 in 2010. This increase is primarily linked to investments for expansion in China and Brazil in order to meet demands in the growing market.

Approximately 57% was used to improve production facilities while 33% was used for logistics and commercial investments. Ten percent was used for purchase of hardware and software and improving administration (AB InBev, 2011). Financing activities. The last section is financing activities. This part of the cash flow statement shows the typical sources of inflow, including cash raised by selling stocks or bonds and borrowing funds from a bank (Garrison, Noreen, & Brewer, 2010). Cash inflow from financing activities was $8, 996m in 2011, compared to 2010's $6, 757m.

The 2011 amount reflects higher dividend payouts, net repayments, and settlements of derivatives that were not part of a hedge. AB InBev could borrow enough to meet its liquidity needs; the company's policy is to rely on cash flows from operating activities to fund its continuing operations (AB InBev, 2011). Analysis of AB InBev's Financials According to the 2011 annual report, Anheuser-Busch InBev saw a year of solid performance and progress. AB InBev experienced growth, expanded their EBITDA margin, grew EPS, and made strides in de-leveraging the balance sheet.

AB InBev experienced a strong growth from their three well-known global brands: Budweiser, Stella Artois, and Beck's. These brands were up by 3. 1%. Stella Artois volumes increased by 5. 9%, with a 24% surge in sales in the United States, 13% in Argentina, and 200% in Brazil. The company continues to expand and grow in China and Brazil. The company raised its dividends to 1. 20 euros per share, a 50 % increase. " These results were achieved despite weak consumer confidence in several markets and increases in commodity prices. Faced with adverse conditions, our people did what they do best.

They took ownership of the situation, focused on what they can impact, and did not let short-term factors distract from our long-termgoalsof connecting with consumers, driving shareholder value, and working toward our dream: to be the Best Beer Company in a Better World" (AB InBev, 2011). The United States shows signs of an economic recovery. An increase in US profits are supported by the company's new NFL sponsorship. Felipe Dutra, AB InBev's CFO said the increase could also " have something to do with the unseasonably mild weather" (AB InBev, 2011). The newly launched Bud Light Lime and Bud Light Platinum performed well.

Dutra said " We believe we have the right brands to exploit that opportunity," before, during and after the Olympic games. Budweiser has also extended sponsorship of thesoccerWorld Cup through 2018. AB InBev will continue to rely heavily on their strategic brands (AB InBev, 2011). Conclusion A fundamental part of theircultureis never being entirely satisfied with their results: " we always challenge ourselves to dream bigger and achieve more. . . " (AB InBev, 2011). With continued global growth and expansion and early payoffs of debt, AB InBev will continue to see profits. The company's innovated thinking will carry it into the millennium.

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