MEDIA RELEASE

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COMPETITION COMMISSION CONCLUDES ASSESSMENT OF AB INBEV/ SABMILLER MERGER

The Competition Commission (Commission) has recommended to the Competition Tribunal (Tribunal) that a large merger whereby Anheuser-Busch Inbev SA/NV (AB InBev) intends to acquire SABMiller plc (SABMiller) be approved with conditions. The Commission has found that the proposed merger raises several competition and public interest concerns, and has thus recommended conditions to the Tribunal to address these concerns.

AB InBev is a public company listed on the Euronext Brussels and New York Stock Exchanges. AB InBev is active in the production, marketing and distribution of beer, near beer and soft drink products. In South Africa, AB InBev only supplies beer products and its brands include Corona Extra, Stella Artois, Beck's Blue and Budweiser which are imported and sold through DGB (Pty) Ltd (DGB), a global distributor of alcoholic beverages.

SABMiller is a public company with a primary listing on the London Stock Exchange and a secondary listing on the Johannesburg Stock Exchange (JSE). Through its subsidiaries, SABMiller is involved in the manufacture, distribution and sale of various types of alcoholic and non-alcoholic beverages. In South Africa, SABMiller is the largest producer of beer products and its main brands include Carling Black Label, Castle Large, Hansa, Castle Light and Peroni. In addition to beer and non-alcoholic beverages, SABMiller, through South Africa Breweries (Pty) Ltd (SAB), owns a hop production company (SAB Hop Farms (Pty) Ltd), a barley farming company (SAB Barley (Pty) Ltd), a barley malting company (SAB Maltings (Pty) Ltd) and holds a significant interest in Coleus Packaging (Pty) Ltd, a tin metal crown producer. SAB, through its subsidiary ABI Bottling (Pty) Ltd, is an authorised Coca-Cola bottler.

Concerns arising from the merger and proposed conditions

The Distell Shareholding

The Commission found that SABMiller, through SAB, holds a significant shareholding in Distell Group Limited (Distell). Distell is the largest producer of ciders in South Africa, followed by SAB. Upon implementation of the merger, AB InBev will be entitled to appoint a certain number of directors to the board of Distell, its direct competitor.

The Commission is of the view that this relationship creates a platform for the exchange of commercially sensitive information between AB InBev and Distell. Further, the ownership of an economic interest in a direct competitor is likely to dampen potential competition that could occur between AB InBev and Distell in relation to the production and supply of ciders in South Africa. **In order to address the above concerns, AB InBev will divest (i.e. sell off) the Distell shareholding within 3 (three) years after closing date of the transaction.**

Coca-Cola and Pepsi bottling arrangements

The Commission found that AB InBev bottles soft drinks for Pepsi in other jurisdictions and will post-merger also bottle soft drinks in South Africa for Coca-Cola. The Commission is concerned that these bottling arrangements for the two global leading soft drinks manufacturers could be a platform for coordination. In order to address this concern, AB InBev has undertaken to ensure that its employees who are involved in bottling operations for Coca-Cola will not also be involved in its bottling operations for Pepsi, and there will be no sharing of commercially sensitive information between the two.

Supply of tin metal crowns

The merged entity will continue to be the dominant supplier of tin metal crowns through the ownership of Coleus, the sole producer of tin metal crowns in South Africa. The Commission is concerned that the merger will increase the likelihood of the merged entity foreclosing its competitors by refusing them access to tin metal crowns. To remedy this concern, AB InBev has undertaken that it will supply tin metal crowns to third parties for a period of 5 (five) years after closing date of the transaction and that it will not enter into any exclusive agreements nor induce Coleus not to deal with or supply third parties.

Access to cold room and fridge space

The Commission is concerned that the transaction will have a negative impact on the ability of small beer producers, such as craft brewers, to compete effectively. There are over 100 types of craft beers in the South African market and these are typically displayed in cold room fridge or in stand-alone fridges. As their rate of sale is small in comparison to the larger brewers, craft brewers are allocated limited space in retail outlet cold rooms. In order to address this concern, AB InBev has undertaken to ensure that retail outlets and taverns which are solely supplied by it with beverage coolers or refrigerators are free to provide at least 10% of the capacity of 1 (one) such beverage cooler or refrigerator in such retail outlets or taverns, to the beer products of small beer producers. This condition will endure in perpetuity.

In addition to the above, AB InBev has also undertaken that it will not preclude or induce any retailer from offering non-merged entity owned cold storage and non-merged entity owned refrigerator space to competing third parties. Furthermore, AB InBev will implement a compliance programme to ensure that all of its employees who are responsible for the beverage refrigerator and cooler space policies in South Africa, adhere to the provisions of the Competition Act.

Creation of a fund

AB InBev has committed to make available over a 5 year period an aggregate amount of R1 billion for investments in South Africa. This investment will be utilised for the development of the South African agricultural outputs for barley, hops and maize, as well as to promote entry and growth of emerging and black farmers in South Africa. The investment will also be utilized for enterprise development through the creation of a dedicated business incubator facility which will provide South African suppliers with training to develop various skills.

Employment

The Commission received concerns regarding the potential impact of the proposed merger on employment. These concerns relate to job security and post-merger restructuring which may result in the loss of employment. In this regard, AB InBev has undertaken that it will not retrench any employee in South Africa as a result of the merger. This condition will endure in perpetuity.

There are also potential negative employments effects arising from the potential termination of the distribution agreements with DGB. To address this concern, AB InBev has undertaken that it will offer employment to those employees of DGB who may be retrenched in the event that AB InBev terminates the DGB distribution agreement.

Small beer producers

Craft brewers source the majority of their hops and malt requirements from SAB Hops Farms and SAB Maltings respectively (both controlled by SAB). The Commission identified concerns relating to security of supply of raw materials to small beer producers. Accordingly, the Commission has recommended a condition that AB InBev continues to supply input products, such as hops and malt that are currently supplied by SAB to small beer producers.

Local production

AB InBev has undertaken that it will continue SAB’s policy and practice of maximizing local production of beer and cider. In this regard, it will ensure that South Africa maintains at least the same ratio of local production.

Suppliers of input products

In order to address any potential impact that the merger may have on the South African suppliers of input products such as glass bottles, cans, ends, crowns, paper labels, kegs and raw materials required for beer production, the merged entity has committed to source its inputs from local suppliers and comply with the terms and conditions of SABMiller’s existing supply agreements. The merging parties have also undertaken that the merged entity will not induce or prevent input suppliers from dealing with small beer producers.

BBBEE

The Commission also found that there may be a potential dilution of ownership by historically disadvantaged South Africans at the maturity of the empowerment Zenzele Scheme in 2020. The Zenzele scheme is a BBBEE scheme which was established by SABMiller in 2010. In an endeavour to address this potential dilution effect, the merging parties have agreed to submit to

Government and the Commission by no later than 2 (two) years after closing the merger and outline its black economic empowerment plans setting out how the merged entity intends to maintain black participation in the company, including equity.

Owner drivers

AB InBev has undertaken to comply with the terms and conditions of the current agreements that exist between SAB and owner-drivers.

“These conditions address issues that were raised by various stakeholders since the announcement of the acquisition of SABMiller by AB InBev, including the South African government, which ultimately reached an agreement with the merging parties on its concerns, trade unions, market participants as well as the Commission’s own investigation. We are confident that these comprehensive conditions address the competition and public interest concerns emanating from the merger”, said Competition Commissioner, Tembinkosi Bonakele.

ENDS

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