

## Updated on 2/28/22

AB InBev [reported](#) Non-GAAP EPS of .74 and revenue of \$14.2 billion in the 4<sup>th</sup> quarter. Non-GAAP EPS missed by 3 cents and revenue beat by \$530 million. Normalized earnings per share were \$0.90.

Revenue increased year-over-year, but earnings were lower than Q4 2021 earnings. Margins contracted as well. The negatives of the quarter were margin contraction, the earnings miss and lower earnings this year versus Q4 21. Other than that, I thought there were a lot of positives.

AB InBev delivered 12.1% top line growth and 3.6% volume growth for Q4 21 and 15.6% top line growth for the full year. And compared to pre pandemic levels, revenue grew 10%.

Revenue and volume growth exceeding pre-pandemic levels is a sign of positive momentum. Another positive was that gross debt was reduced by nearly \$10 billion during 2021. The net debt to EBITDA ratio is now 3.96 times.

AB InBev proposed a dividend for the full year of €0.50. I would prefer they used the funds to further pay down debt instead though.

Michael Doukeris said on a [podcast with Yahoo Finance](#) in December 2021 that beer is growing. That sounded a little controversial at the time since there was a decline in beer consumption from 2010-2015. It also seemed like this decline didn't stop, but Michael said from 2015-2020 beer was growing. AB InBev's 2021 results show that it is continuing to grow for AB InBev globally.

Here is a summary from [AB InBev's press release](#) on the performance of its key markets:

**United States:** Third consecutive year of top-line growth in the U.S. Michelob Ultra is the number two beer in the U.S by volume now. The hard seltzer portfolio grew 1.7x the segment and Cutwater is still growing triple digits.

**Mexico:** Double digit top and bottom-line growth. The next phase of the OXXO rollout was launched, expanding into around 3,400 additional stores by January 2022.

**Columbia:** Double digit top and bottom-line growth. 85% of revenues in this market came digital channels (BEES).

**Brazil:** Double digit top-line growth, however, the bottom-line was impacted by elevated costs. Total volumes for the year grew by 7.3% with beer volumes up by 7%, but transactional FX, higher commodity costs and higher SG&A expenses were headwinds.

**Europe:** Top-line recovered to pre-pandemic levels. Premium and super brands make up over 50% of revenues in Europe now.

**South Africa:** Top-line growth and market share ahead of pre-pandemic levels. Almost 90% of revenues come through digital channels like the BEES platform. Beyond Beer is also growing double digits in this market.

**China:** Double digit top- and bottom-line growth with market share ahead of pre-pandemic levels. Volumes grew by 9.3% and revenue per hl grew by 7.9%.

Budweiser, Corona and Stella continue to grow outside of their home markets. In 2021, these brands grew by 23% outside of each brand's home market.

Other positive signs for AB InBev during the quarter was the growth from their DTC and B2B platforms. BEES now covers more than 85% of AB InBev's active customers and Ze Delivery fulfilled more than double the orders they fulfilled in 2020. Direct-to-consumer products also generated more than \$1.5 billion in revenue across 20 countries.

Other positives were the nonalcoholic beer portfolio grew by double digits and the Beyond Beer portfolio grew by over 20%, contributing \$1.6 billion of revenue in 2021.

*“Products, such as BEES, Ze Delivery and EverPro allow us to unlock value from our existing assets. This is enabling us to turn customer pain points into opportunities for growth. It is now lies in 16 markets offering our customers flexible delivery and data-driven insights, while empowering our frontline sales team with real time information on customer behavior through our BEES Force application. BEES has seen remarkable acceleration in usage and reach capturing approximately \$20 billion in gross merchandising value in 2021, up from \$3 billion in 2020. Total monthly active users, more than doubled this year.”*

- Michael Doukeris, Q4 2021 Conference Call

PerfectDraft, a beer-serving counter-top machine that AB InBev partnered with Phillips on, delivered more than \$170 million of revenue. This is a small percentage of revenue so it isn't relevant now, but I am content that they are innovating in markets that could possibly disrupt their business model in the future.

In my initial report, I highlighted four challenges that AB InBev needs to overcome – debt, coronavirus, cost inflation and new competition – to get back to fair value.

**Debt** - AB InBev continues to make progress on debt reduction. They just went below the 4x Net Debt to EBITDA ratio for the first time since 2016. They also announced in January of 2022 that they will [reduce debt by another \\$3.1 billion](#). In addition, the debt is well spread out with 94% of it fixed, and there are no financial covenants. 2x Net Debt to EBITDA is their target.

**Coronavirus** – revenue has surpassed pre-pandemic levels. We are two years into the pandemic and although there are new variants and occasional outbreaks, the world is starting to adapt. Vaccines and other remedies continue to save lives and make people feel more comfortable.

**Cost Inflation** – As I am writing this update on 2/28/22, AB InBev fell 6% on what appears to be concerns over high cost inflation due to the war in Ukraine. Margins were also contracted during the period with 2021 gross margin of 57.47% compared to 61% in 2019 and 58.1% in 2020. This will most likely be a headwind for all of 2022 but AB InBev should still weather this fine. They have valuable brands that will help pass along some of the higher costs, strong bargaining power with suppliers and a large number of volumes that they can spread their costs out over. Passing on the higher costs may help them deleverage quicker by paying the debt down with cheaper currencies.

**New Competition** – AB InBev is reporting strong revenues from beer despite the new competition. Their Corona, Budweiser and Stella brands are growing at very high rates outside their home markets and the Beyond Beer portfolio is now up to \$1.6 billion in revenue and still growing.

I am sticking with my price target of \$90.36.