Heineken's Acquisition Of FEMSA Increases Its Exposure To Key Latin American Markets

Contributed by Euromonitor International
Tuesday, 02 February 2010

Heineken, the world's third largest brewer, has announced the US$7.6 billion acquisition of the beer operations of the Latin American company FEMSA.

Several other large brewers were interested in FEMSA's beer assets, including the global number two brewer SABMiller due to FEMSA's unique position in the Latin American market and its small but expanding export operations.

On a global level this acquisition should increase Heineken's share of the beer market from 6.9% to 9.2%, thus closing the gap on second-placed SABMiller, which in 2009 held a share of 9.5%.

Acquisition to reduce Heineken's reliance on the European market

The deal will considerably strengthen Heineken's position in the Americas, significantly increasing its share in Mexico and Brazil as well as securing its joint venture with FEMSA in the US premium import market.

Mexico and Brazil are the two leading markets in Latin America and, combined, accounted for just under 63% of the region's beer volumes in 2009.

The Brazilian and Mexican beer markets are forecast to post CAGRs of 2.4% and 2.1%, respectively, over 2009-2014, which will be significantly better than the CAGRs of 0% and 0.5% forecast for Western and Eastern Europe, respectively.

Heineken's previous operations in the region were limited to an equity stake in CCU, which has operations in Chile and Argentina, and a small equity holding in FEMSA's Brazilian operation, so this deal will increase its presence in Latin America significantly.

Heineken increased its exposure to Western Europe through the Scottish & Newcastle acquisition but has been hit hard by the economic crisis in the region, which has also spread to its Eastern European markets.

Heineken's global volumes declined slightly in 2009 by 0.9%, with declines in North America, Western and Eastern Europe partially offset by gains in Asia-Pacific and Africa and the Middle East.

Given the level of debt Heineken accumulated following the Scottish & Newcastle acquisition, many discounted its capacity to acquire FEMSA, but its all-share offer shows what an important opportunity FEMSA is, given its growth potential and pre-existing tie-ups with Heineken.

Heineken will secure its premium import business in the US; it already distributes FEMSA products in this market under a licence agreement signed in 2007.

FEMSA brands have shown increases in volumes in the US, unlike Heineken's Dutch brands Heineken and Amstel, which have seen declines, thus strengthening Heineken's operations in this lucrative segment of the US market.

The brands that Heineken gains from the acquisition could also benefit from its global distribution; in particular, the Sol and Dos Equis brands could be rolled out across Heineken's Western and Eastern European operations and possibly its equity holding Asia-Pacific Breweries.

Targets in Latin America become scarce
The acquisition of FEMSA means the best chance to gain scale in Latin America has gone.

To acquire volumes in Latin America potential acquirers would now have to look at smaller players that only have operations in one country and are considerably smaller in size than FEMSA.

Brazil, the region's largest beer market, is dominated by Anheuser-Busch InBev, but there are a few brewers which could facilitate entry into this attractive market, namely Schincariol and PetrÃ³polis.

Mexico, after this deal, could be closed to acquisitions due to its duopolistic landscape, with Heineken/FEMSA and Modelo being the major brewers with a combined 97% market share.

Anheuser-Busch InBev, with a substantial stake in Modelo, means acquisitive entry into this market would be impossible unless it decides or is forced to sell or reduce its stake in Modelo.

Outside the two major markets of Brazil and Mexico, Anheuser-Busch InBev is dominant in Argentina, Uruguay and Bolivia and has operations in other countries in the region.

SABMiller has a stronghold in Central America, Peru, Ecuador and Columbia. This leaves several smaller brewers in the region that are focused mostly on one country but are nowhere near the size of FEMSA.

The dominance of Anheuser-Busch InBev, Modelo and SABMiller and the instability of certain markets leave little room for acquisitive growth in the region.

Heineken may have paid a high price for FEMSA but this deal will transform the company, giving it access to the two largest markets in Latin America with a partner which retains a vested interest in these markets through an equity holding.

It seems that Heineken wanted the deal more than its rivals, but had to pay for it.

For further insight, please contact Paul Curran, Alcoholic Drinks Analyst at Euromonitor International on paul.curran@euromonitor.comFor further related articles, please visit Euromonitor International .

13 January 2010