Merger brews up unequal rewards

By Fifi Peters

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The $74bn union between brewing titans SABMiller and Anheuser-Busch InBev (AB InBev) is on the cusp of completion. After all the boxes are ticked, minority shareholders of the South African brewing icon will be first in line to cash in their shares at the lucrative offer price of £44 each.

SABMiller CEO Alan Clark will receive as much as R1.2bn in bonuses and share options when the merger with AB InBev is completed.

Picture: SABMiller

One shareholder, SABMiller CEO Alan Clark, stands to pocket an astonishing R1.2bn — one of the largest payouts in South African history. While this figure might cause beer drinkers to choke on their pints, the brewer says its boss is worth every cent.

Clark's career in what is today the second-largest brewing company — exceeded only by merging partner AB InBev — dates back to when the maker of Castle Lager and Black Label was a local company known as South African Breweries (SAB) that operated in a small and isolated economy.

He was hired before the company moved its primary listing from the JSE to London in 1999, and before it expanded into foreign geographies in Europe, China, Latin America, Australia, the US, and the rest of Africa.

When the name was changed to SABMiller after the merger with US brewer Miller Brewing in 2002, Clark, who joined SAB in 1991, had been with the company for 11 years.

He worked under the leadership of the late and esteemed Graham Mackay, who, in his capacity as CEO, captained SAB's foray onto the international scene.

Mackay transformed the brewer born during Johannesburg’s gold rush in 1885 to quench the thirst of local miners into a global business that today sells more than 200 beer brands in more than 80 countries.

In 2003, Clark was promoted to MD of SABMiller Europe, then executive director and chief operating officer of SABMiller in 2012. In 2013, he succeeded Mackay.

Along the way he was rewarded with several incentives, including a performance-related bonus and share options that fattened his remuneration package while — as is the intention with share option schemes — aligning his interests with those of shareholders, and motivating him to continue to add value to the company.

Clark did what he was tasked to do by his board.

When the board of SABMiller finally accepted AB InBev’s offer to purchase at £44 a share in November 2015, after twice rejecting lower bids, the value that the company’s management had created for shareholders had shot through the roof.

"SABMiller will have delivered total shareholder returns in pound sterling of around 1,400% from the price at the time of listing (in London) in 1999 to the £44 cash offer," says Robyn Chalmers, the head of SAB corporate communications.

Chalmers says the R1.2bn payout Clark stands to receive is theoretical at this stage (partly due to the volatility of the pound since the Brexit vote), and will be subject to UK income tax. However, "it is an indication of how much value has been created for shareholders", she adds.

While Clark has no doubt been good for the company, he was not the only contributor to the substantial profits made by SABMiller.

The company has about 70,000 employees who brew, bottle, and pack its products on production lines worldwide.

Ntozonke Ntloko, an administrator of brewing and packing at Chamdor Brewery on the West Rand, is near the bottom of the pecking order. "It is not as though we have been sitting around and sleeping on the job while management did all the work. We are all working here, and should be rewarded accordingly," he says.

Ntloko joined SAB 13 years ago, climbing the ranks from raw materials clerk and is a beneficiary of SAB’s employee share ownership scheme, Zenzele.

He is also a shop steward for the Food and Allied Workers Union (Fawu), which opposed the merger in hearings by SA’s competition authorities in the hope of obtaining a more equal deal for workers.

Fawu represents about 9,000 SAB workers who hold shares in the company under the scheme established in 2010. Zenzele allocated 8.45% of SABMiller shares to black staff, retailers and a foundation to support entrepreneurship. According to SAB, the main objective of Zenzele was social redress and all black employees qualified for shares, with those in higher positions receiving more.

Beneficiaries receive a dividend twice a year, in the same way as SABMiller’s ordinary shareholders. However, as SAB workers did not pay for their shares up front, 75% of the dividend goes towards repaying the notional loan.

To date, Zenzele has paid out a total R784m in cash dividends.

Ntloko says his payment since the scheme began does not amount to more than R10,000.

Under the initial terms of AB InBev’s offer to buy SABMiller, the Zenzele scheme was to continue operating until maturity in

2020. But unlike management, who can cash in their shares and options when the merger is completed, workers would not be able to cash in a single cent.

"This is unfair," says Fawu secretary Katishi Masemola. "Why should workers not be allowed to smile all the way to the bank when the deal is completed, like the managers can?

"If Zenzele was set up to be truly empowering, it must address inequality."

Under a clause in Zenzele, the scheme can be wound up if there is a change in ownership.

Fawu had planned to present this argument before the Competition Tribunal in June. Its argument is that after the merger, the scheme should end and a new empowerment vehicle under Megabrew, as the merged entity is informally known, should be formed.

The alternative proposal is that SABMiller compensate blue-collar workers for the opportunity cost of forfeiting payment today, if Zenzele is to continue until 2020.

Fawu proposed that each worker receive R165,000 after the merger, the equivalent of about R1.5bn for all the 9,000-plus workers who belong to Zenzele.

"After all, when one man is getting about R1.2bn in shares and bonus, this is not too much to ask," Masemola says.

Fawu never got round to presenting its case before the tribunal as AB InBev and SABMiller agreed to meet the union privately to negotiate a new deal that will suit both parties.

The new deal would have to top AB InBev's latest enhanced offer, says Masemola, one which offers Zenzele beneficiaries an advanced payment after the completion of the deal, and the guaranteed minimum offer of £44 per share escalated by inflation when the scheme ends.

But Masemola dismisses the advanced payment as an unsolicited loan, as it would be deducted from the final dividend paid by Zenzele in 2020. On the guaranteed minimum value, Masemola says: "These guys are going to make one in every three beers sold around the world when they merge. In four years, the share price will certainly be greater than £44."

The yawning gap between how those at the top of corporations and those at the bottom are rewarded is a controversial and thorny issue across the globe. But in SA, with the obvious need to redress the past, the matter needs even greater sensitivity.

SABMiller points out that such a scheme does not exist in any of the other 80 countries where it operates. But Gavin Hartford, a labour analyst at Stakeholder Solutions, says greater consideration needs to be given, during the design of these schemes, to whether they contribute to reducing the inequality gap or actually make it worse.

Hartford says the major issue with the allocation of rewards to relative stakeholders is the quantum of the allocation. "A director will be allocated 100,000 share options versus a sweeper on the shop floor, who may get 1,000 BEE (black economic empowerment) shares," he says.

"On vesting date, the realisations for the top amount to millions of rand, while those of the sweeper will be much less — widening the income inequality gap."

In contrast to BEE shares, options give the holder the right to buy the share in future, usually after three years, at the present price of the share. The assumption is managers will work hard to increase the company's profits, which will consequently increase the share price, thus making the option more valuable when it is cashed in.

The common argument used to justify more handsome rewards for managers than workers is that they have more responsibility and scarcer skills.

While Hartford acknowledges that this may be true, he also believes the social reality of SA cannot be ignored.

He says if SA is to truly address past imbalances, the country must address the "conflicting needs" of retaining and rewarding highly sought-after management skills, and narrowing the social inequality gap in a balanced way.

Institute of Race Relations chief economist Ian Cruickshanks has a different view. The rewards given to managers may seem difficult to justify, especially in SA, but very few people can do what some of these CEOs have done, he says.

He asks whether any Tom, Dick or Sipho could have achieved what Clark has achieved. "You have to reward unique abilities. It's difficult to justify, but we live in a global society, and our CEOs also need to be rewarded at the globally competitive rate," he maintains.

Clark's huge reward was brought about by circumstances not likely to be repeated soon in SA. SABMiller workers are going to want a special windfall too.

Source: Business Day