



Beer Industry

«Beer is living proof that God loves us and wants us to be happy» - Benjamin Franklin

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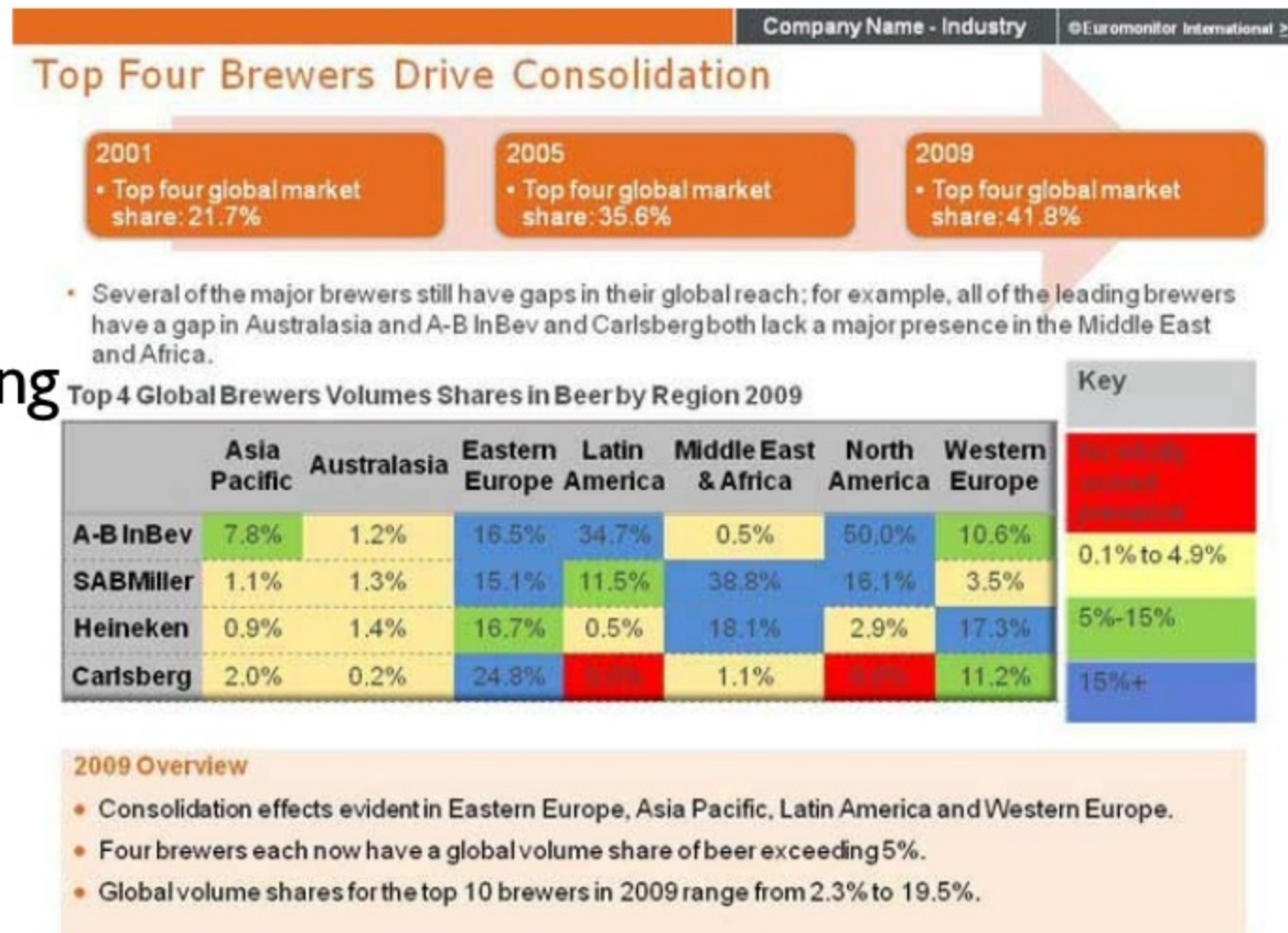
History of Beer

- Beer is one of the world's oldest beverages, recorded back to the 6th millennium
- A very important drink in many cultures
- Family and microbreweries dominated around the world up until the 20th century
- The hunt for taste versus the hunt for profits
- The development of the beer industry in the USA
- Today a global and fiercely competitive business



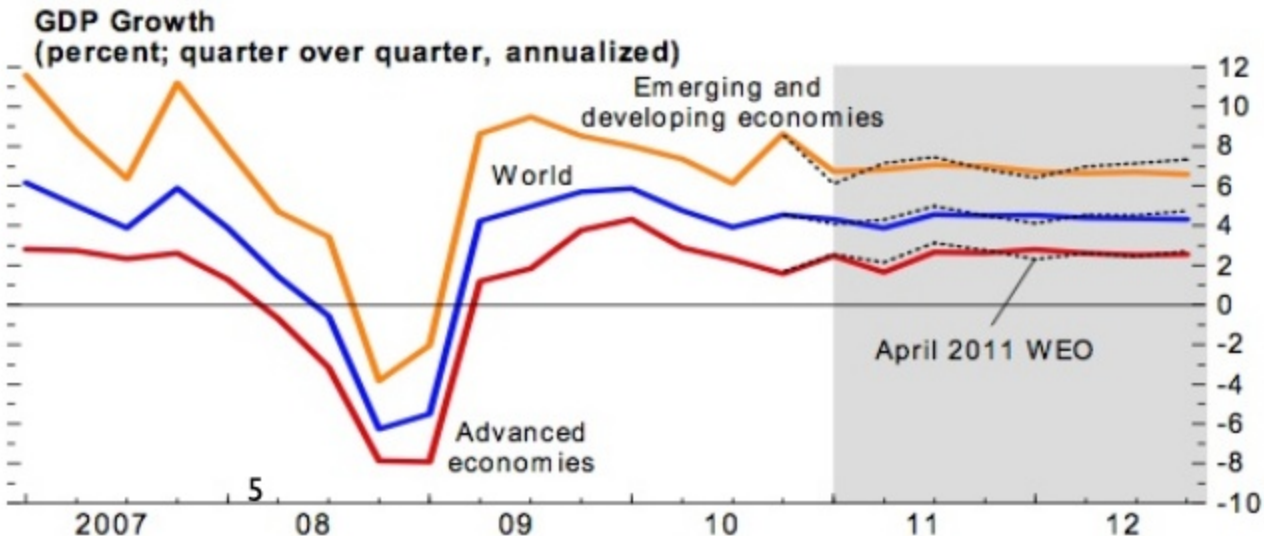
History of beer – the last decade

- Consolidation trends going even further
- The top 10 and their market share
- The top 4 today dominating
- Other trends
- Financial crisis impact



Global Macro Environmental Analysis

- Emerging markets almost 50% of global growth (4.3% Q1)
- Advanced economies weak growth, 2.5% compared to 3% from last year.
- Developing economies projected a strong growth, but will decline from 7.5% (2010) to 6.5% (2011)
- IMF figures usually over-optimistic, so we estimate slightly weaker global growths



Global Beer Environmental Analysis

- 2010 - Beer brewers sales increase of 2.6% (2009 - 9.2%).
 - Overall beer sales remain flat
 - US beer sales down 1% (only growth seen in craft beers)
 - US brewers 81% of US market share (imports gradually increasing share)
 - Consumer still remain taste conscious
 - Beer industry performance correlated with economy
- Law and ethics:
 - Stricter laws = drunk driving and smoking ban
 - US Federal beer tax = 40% of retail cost of beer
 - \$18/gallon barrel (if produce <2million --> discount \$7 for first 60,000barrels).





Global Beer Environmental Analysis

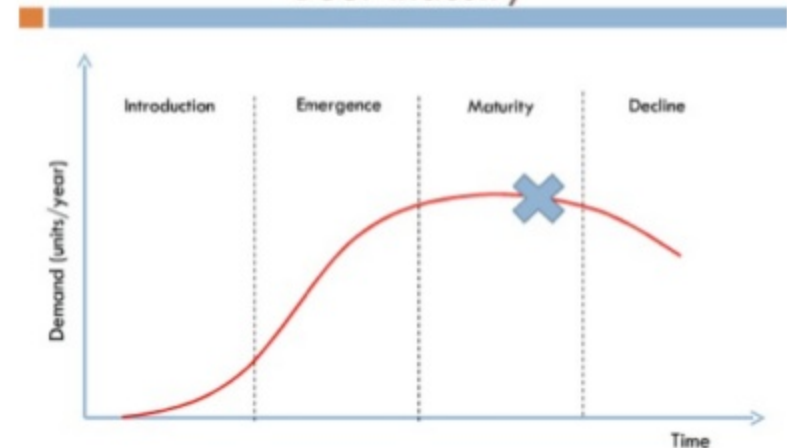
- Diversity & Global Trends:

- 2011 global population 7bn --> in 2050 - 9.5bn (majority growth in developing countries)
- Wealth shifting to East&South countries (Globalization)
- Changes in preferences and attitudes toward beer consumption

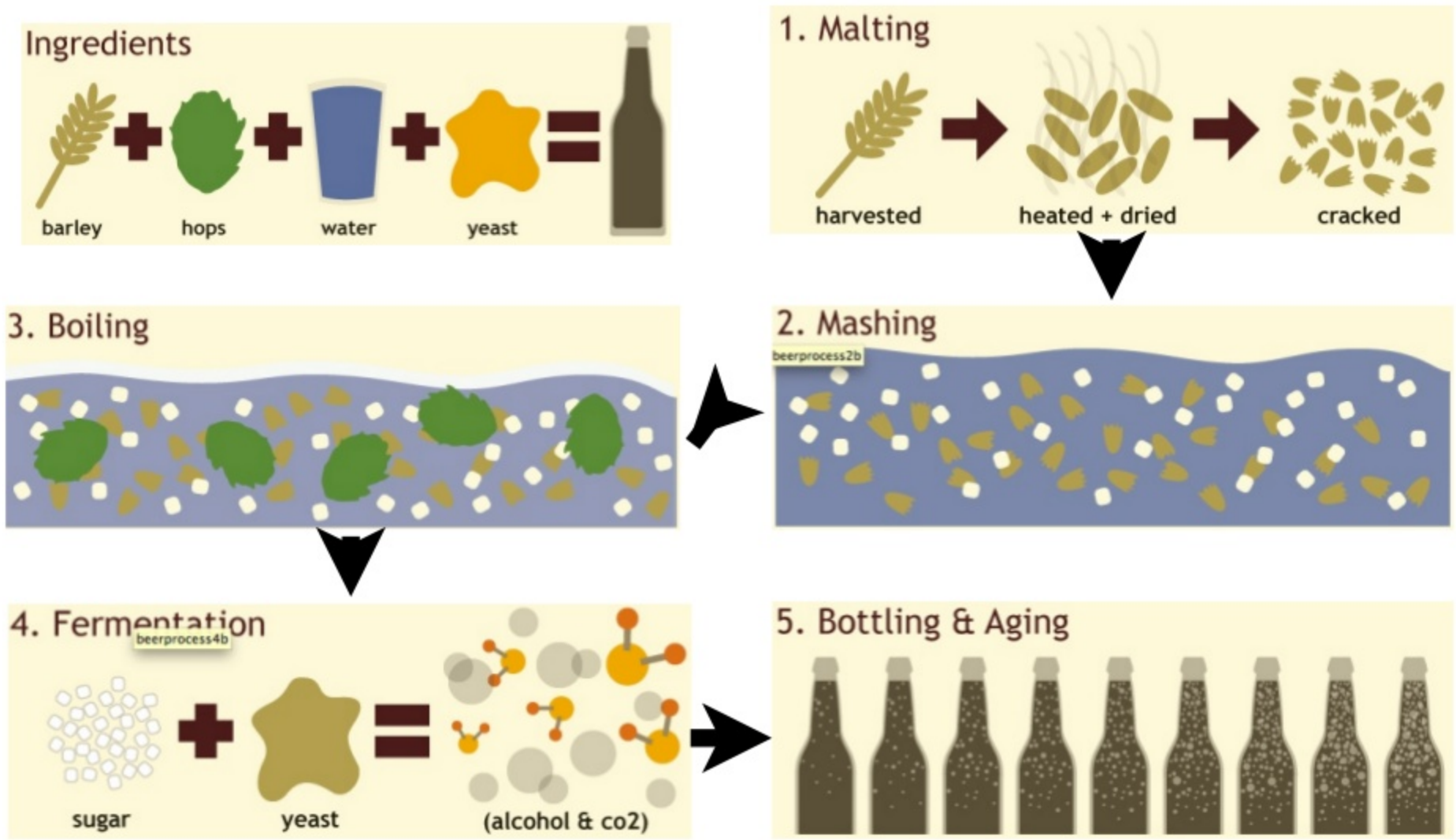
- Technology:

- Advances --> necessary to maintain competitive advantage & efficiency

Problem: The maturing competitive Beer Industry



How is beer made?



Overview of the global beer market

- The beer industry:
 - Consumer non-cyclical
- Outputs
 - Beer, measured in barrels
- Major trends
 - Consolidation
 - Shifting in preferences in emerging markets
 - Shifting in preferences in developed markets
- **Compound annual growth rate of 3,5% globally – two very different pictures**
 - Emerging markets showing strong growth with 6.8%
 - Developed markets showing a negative growth of 3.4%



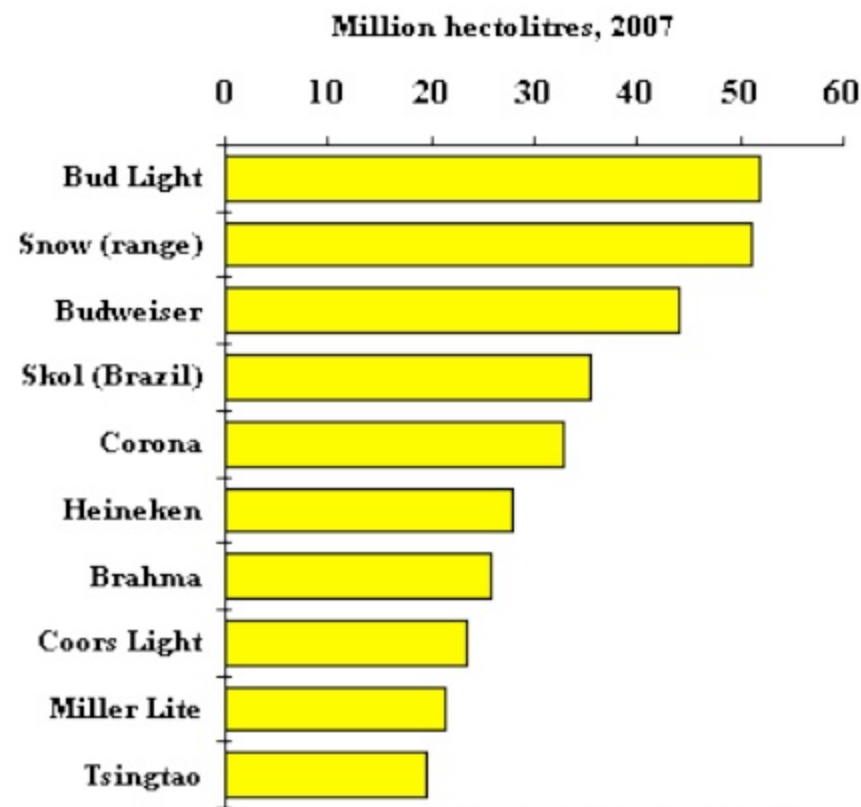
Overview of the global beer market

Global per capita consumption heavily skewed towards developed countries

- Global per capita consumption at 28l a year
- North America 75 l
- Western Europe 66 l
- China 30 l
- Nigeria 10 l

Changes...

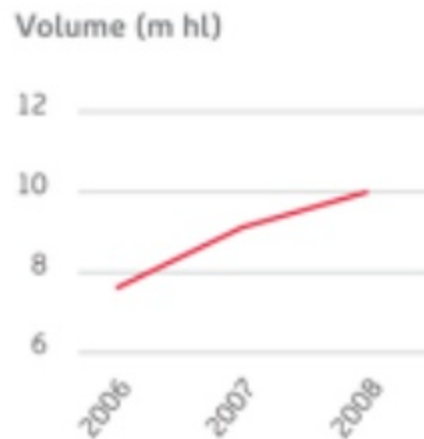
- Growth changed in light of crisis
- Who drives the growth?
- Distribution changes
- New segments
- Global beer?



Source: Plato Logic Limited

Overview of the global beer market

- Where do we see growth?
 - Emerging markets
 - China the biggest consumer & producer
- Fastest growing international beer brand:
 - **Tuborg**
 - Premium segments rising
 - Microbreweries – big business?



Overview of the global beer market

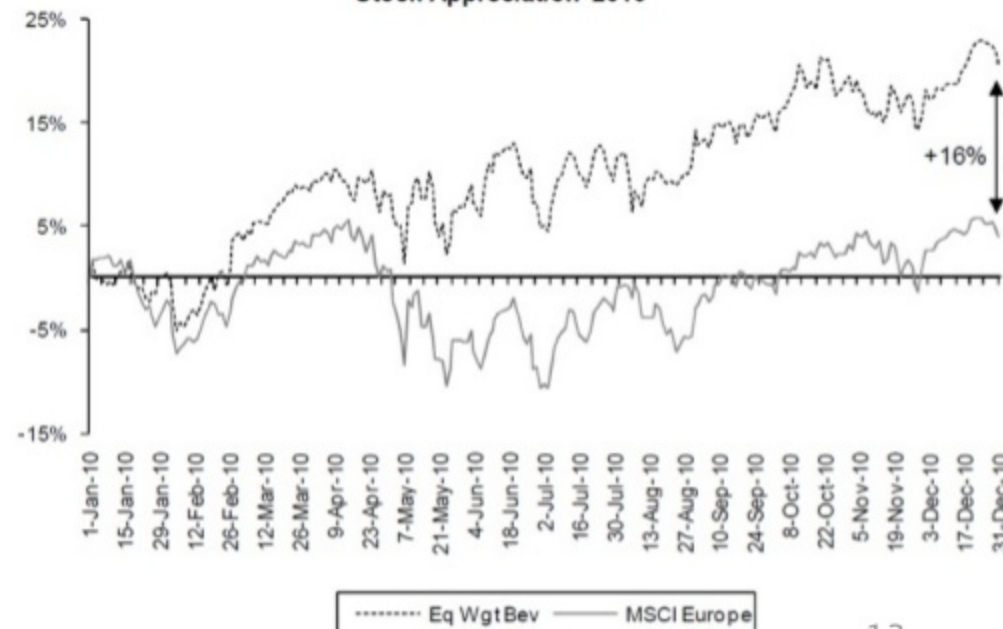


Briefly – European Beverages

- Outperformed index – does that count?
 - Outperformed the Morgan Stanley Capital International Europe Index (MSCI) by 16% - but underperformed the market
 - Sector is estimated to trade around 30% premium to the index
 - Strong relative performance the last years
 - Top-line prospects accelerating
 - Earnings growth affected by grain prices
 - Decrease in consumption from 374
 - Sales in Europe:
 - €110 bn
 - 2.1 mn jobs
 - 17% of production is exported
 - 10% of consumption is imports

The European Beverages sector outperformed the market by 16% in 2010...

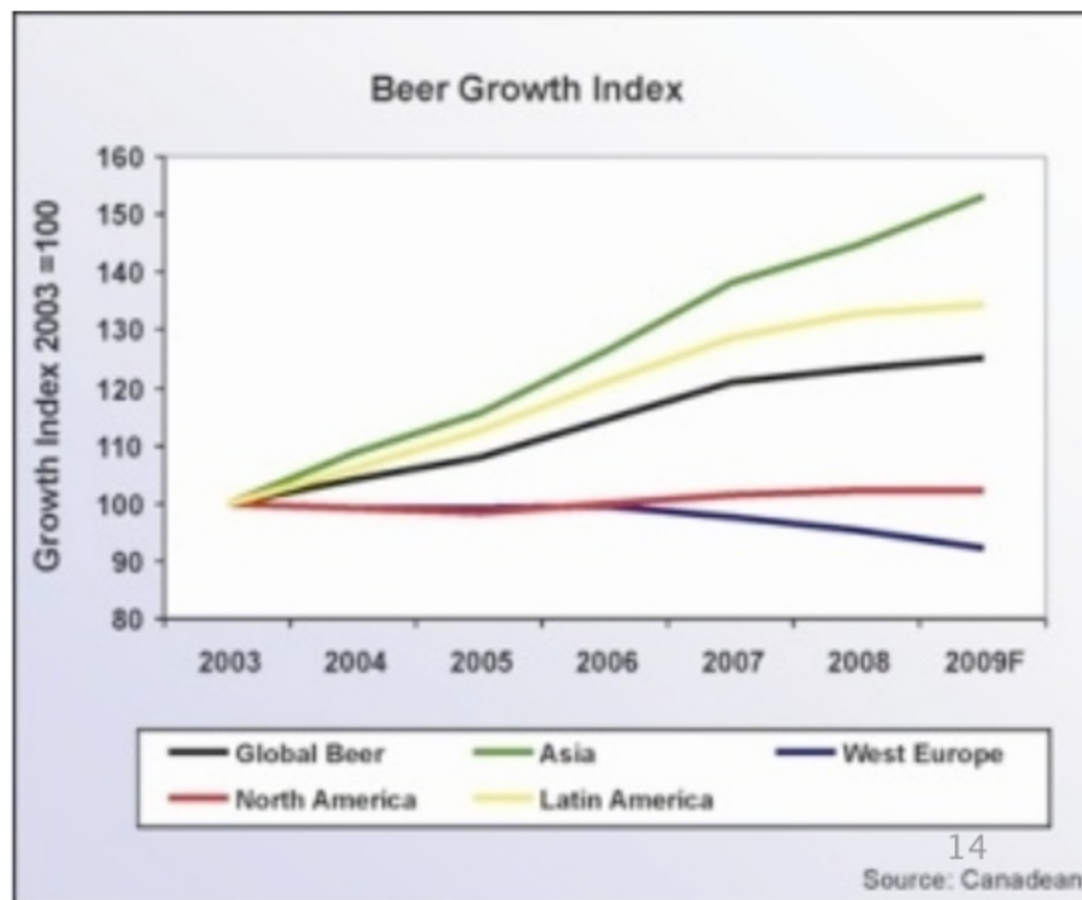
Stock Appreciation 2010




EUROBEV

Briefly – Asian Markets

- Strong growth
- Double-digit for all major Asian emerging markets
- Number one consumer of beer
- Accounted for 37.7% of global consumption in 2010

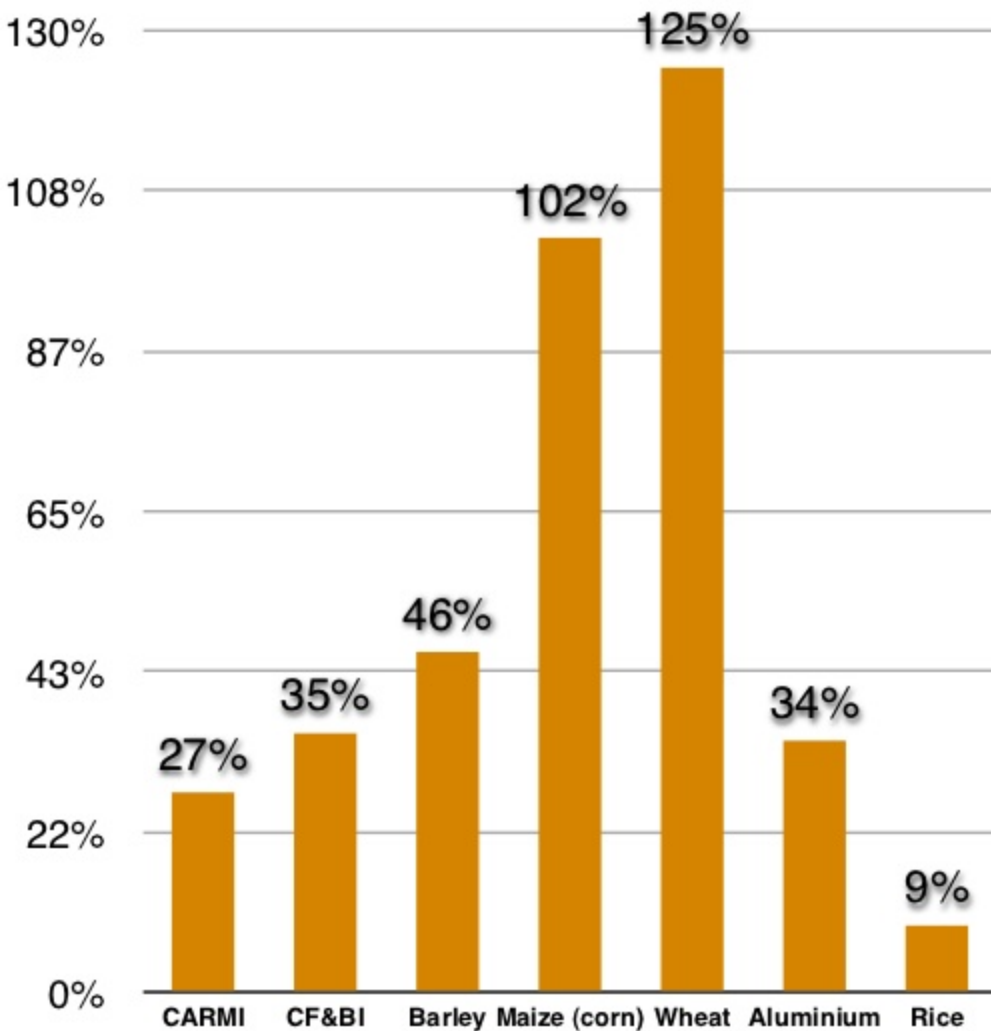


Beer the natural choice?

- 95% of beer is water
 - 3rd most popular drink (after water&tea)
 - Easy to make, but standards are high
- 
- One of the healthiest drinks
 - 0 fats & cholesterol
 - 94 calories (as in other drinks)
 - Contains vitamins (barley when malted --> vitamin B)
 - Fibre, antioxidants and minerals - silicon
 - Low in sodium(salt) and high in potassium

Commodity prices & effects on beer prices/volumes

YoY % change of main commodities affecting beer companies



* CARMi - Commod. Agri.Raw Material Index

* CF&BI - Commod. Food&Beverage Index

- Forecast to raise next decade (40% by 2020 - global cereal stock in lowest)
- Guilty:
 - Unfavourable weather
 - Catastrophe in Japan
 - Political uncertainty Africa & Near East
 - Strong increase oil prices
 - Uncertainty financial mks and global economy

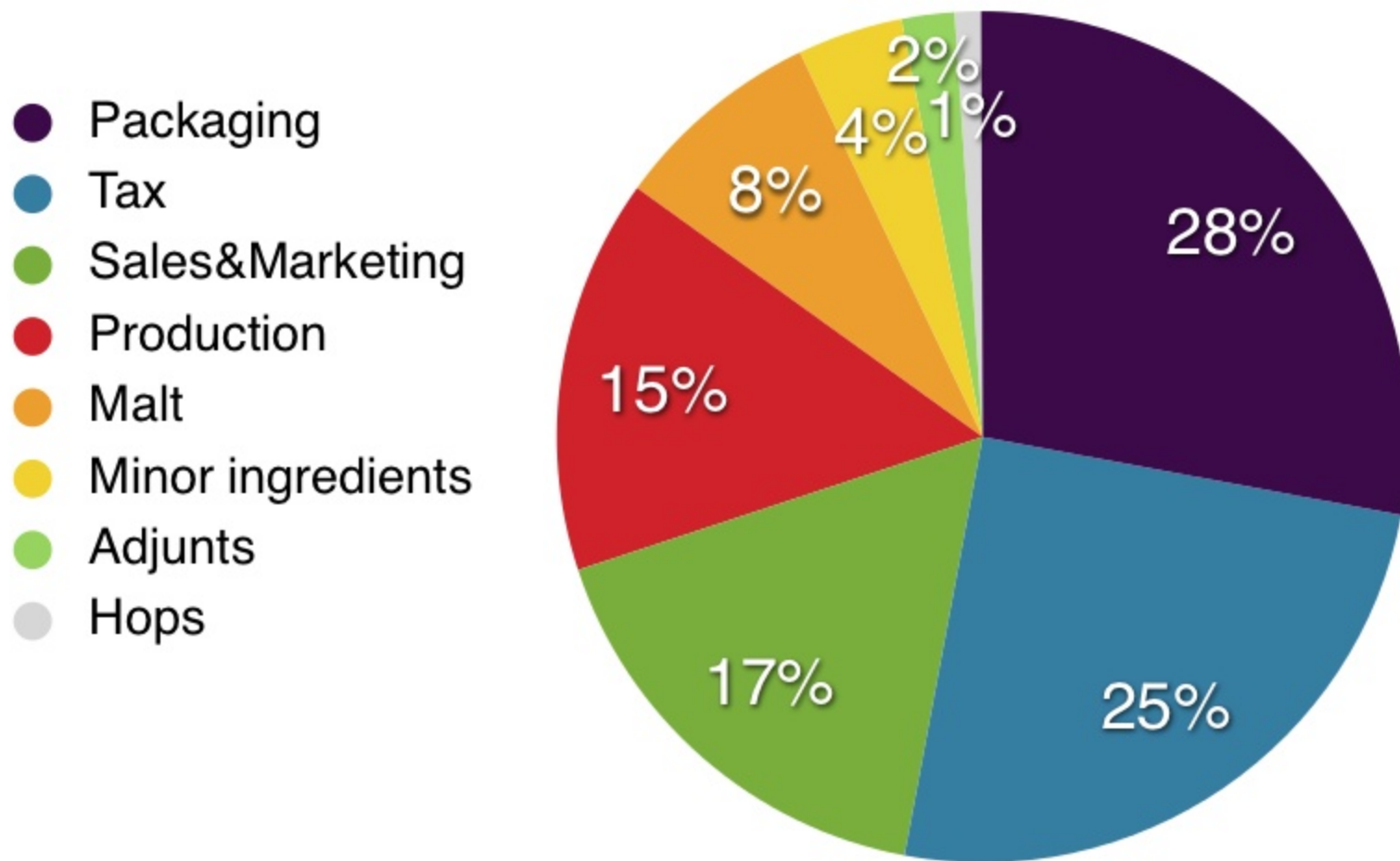
Commodity prices & effects on beer prices/volumes

- Corporate responses/strategies:
 - Consumer price increases
 - need of strong consumer loyalty to ensure sales
 - Cost-cutting
 - absorbing costs = cost-cutting
 - Supply chain M&A and strategic alliances
 - fix price purchasing with commodity derivatives
 - forward-buying --> to minimize value at risk



Production Margins

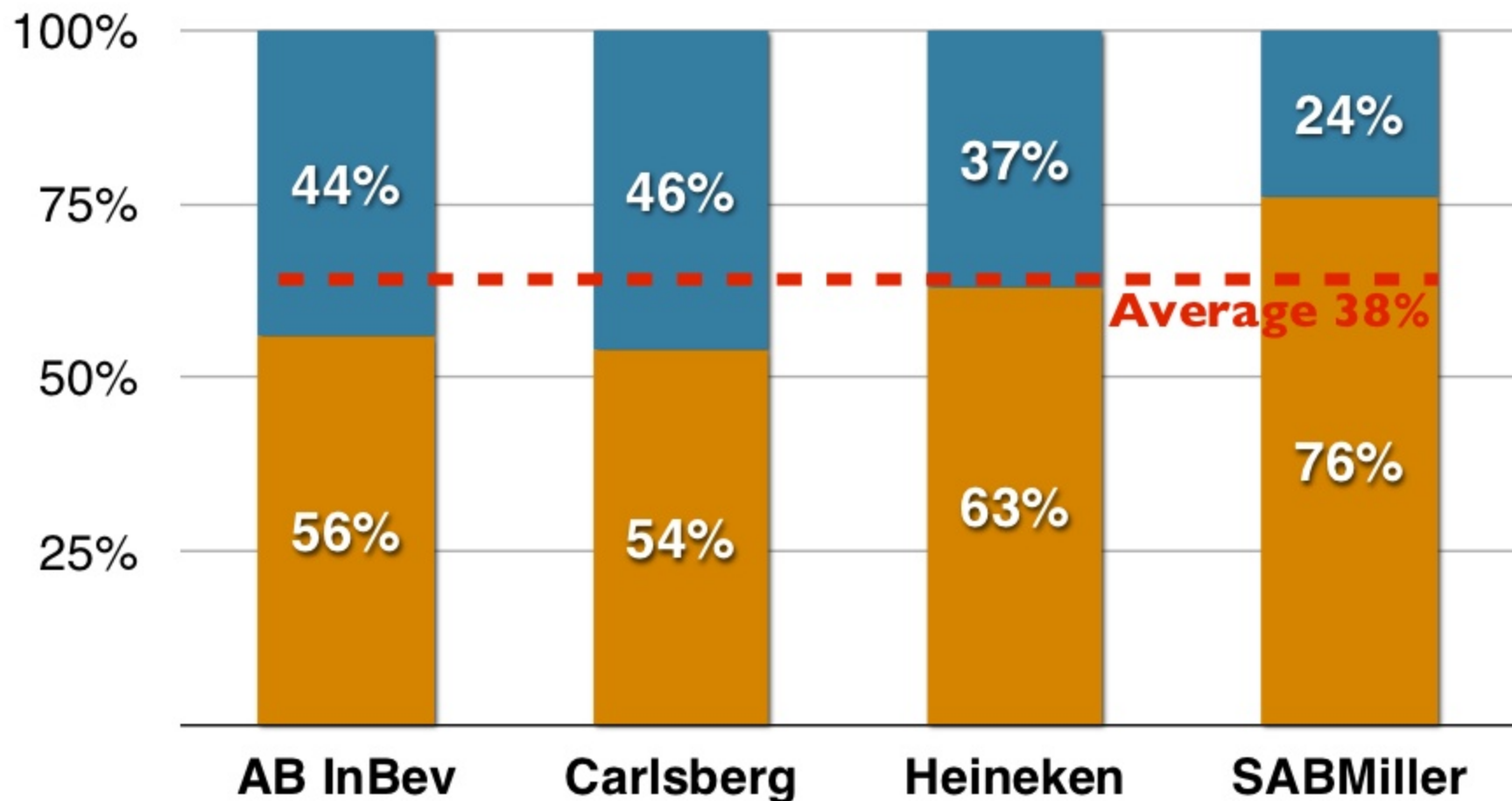
Costs Breakdown Large Brewery



Production Margins

- COGS Margin
- Gross Profit Margin

Gross Profit & COGS Margins as % of Revenues



PORTER's 5 Forces

Force	Key Drivers	Effect on Industry Profit
Intensity of Rivalry	High concentration; high innovation	0
Substitutes	Growing substitute industry; low switching cost	-
Bargaining power of Suppliers	Small suppliers relative to brewers	+
Bargaining power of Buyers	Consolidation of industry; distribution connected to retailers	-
Threat of Entry	High capital requirements, economies of scale, closed distribution channels, high government regulation	+
Overall market		0