AB InBev Investor Seminar
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Sales Q&A Session
Participants: Luiz Edmond, David Almeida, Ricardo Melo, Sanjiv Chhatwal, Chris Williams, Graham Staley

Caroline Levy: [Caroline Levy, CLSA] Good morning. So just a question on scaling up these programs, you've got some proven' results mainly in the off-premise I guess at this point. Could you estimate what sort of scale increase you're going to see? I mean are you going from a one to a 10 or a one to a four, what do you think – or was that something that you have to run by the retailers before you really get a good sense?

And then secondly in partnering with Pepsi, for example, what made you choose Pepsi over a Coke, for example? And, you know, is that a long-term program that you think is very important part of where you go partnering with other channels, other products?

Luiz Edmond: Let me start here just by saying in terms of dollars in the scale up, first if you look back at what AB was doing, we had the menu that they were offering the wholesalers in terms of choices they could make in a lot of programs.

So for example in caps, they had 1,500 different caps that people could use in the market. The first thing we are doing is streamlining this program, testing alternatives and then concentrating the dollars behind the things that work

So, the first thing we're doing is getting all internal resources, maximizing the internal resources and also convincing the wholesalers to invest their money behind those programs, so that's the first thing I need to say.

Because in terms of dollars, we will always allocate our money, our investments in the things that we know work and the first step is to prioritize from those that are not working and making less and bigger and bolder bets than in the past, that is the first that will fund a lot of these programs

In terms of the scale up impact, perhaps David can comment

David Almeida: Yes, I just want to say that, you know, I don't want to get too specific because I think we shared a lot of information and we don't want to tip our hats even more in terms of weights, number of accounts and that kind of thing.

But we're making a substantial, as Luiz said, centralization of our programs towards things that we know work. And because they work, as you know, we as a company, we invest behind things that work, we are ready to do it, so excited about that.

On Pepsi, we will let Sanjiv talk about it but we've had a relationship with PepsiCo for years, right, and that allowed us to have a conversation and I think both of their team and our team mutually understood the opportunity to drive this program and it's been very successful for us. I don't know if you want to add something.

Sanjiv Chhatwal: I think that Pepsico, the genesis of that was really Frito-Lay because if you see the map -– the basket typically, over-indexes to the tune of about 225, 250 with salty snacks and beer.

And, of course, Frito-Lay is by far the category leader in that segment which is why we chose to go with Frito and then Pepsi came along for the ride, if you will, and it's been a great combination of the three products together as you can see from the results.

Luiz Edmond: The starting point of the programming was Super Bowl. So, when we acquired the NFL rights, in that the last year before, we took over the NFL rights, Coors Light was actually activating the Super Bowl together with Frito-Lay.

And we said, "Well, what better opportunity to partner leading companies with leading companies and have the Super Bowl activation?" So actually it was in 2011 that we had the first big programming with them during Super Bowl and since then, we found opportunities to expand into other occasions….

Tony Bucalo: It's Tony Bucalo from Santander. I understand why you're segregating the impact of excess labor and pricing on the conditions of the industry over the past five years but you really have collectively, you've probably lost maybe 10 or 11 million hectoliters during that period of time.

And at what point do you start worrying that your business is going to get inefficient from a production standpoint or a fixed cost standpoint in the next few years and how would you address that in terms of maybe looking at value brands again as a volume driver later in a few years?

Luiz Edmond: We have enough scale and flexibility to adapt to different market conditions. So we have, we can produce more than we're producing today, but we are also adjusting some of our infrastructure to drive innovation.

You will remember that, for example, last year, we had a significant impact of our innovations in our footprint, we had to optimize this footprint. We made some investments and we adjusted this footprint and now, we have some products that are more complex but they also drive a premium to justify this complexity that we brought to the system.

Having said that, we don't expect that we [will] have the same kind of decline going forward. We went through a major crisis in the country, we do expect that the industry will turn around and will flatten first and then we'll go back to traditional or historical levels of growth in the past.

So we are not worried about that but we have flexibility that we can adjust. We can adjust -– we can work if we need, we'll do over time if we need. We leverage a lot of our people by working more hours for example and working during the weekends as opposed to an increased infrastructure so we can always scale it out in case of need. But that's not our plan. Our plan is to grow and we believe the industry will resume [growth]

David Almeida: If I can just, in your question, you've kind of added on the value segment, I think the same way we were evolving our revenue toolbox, we're also evolving in that area as well. And what we've seen is that in some regions of the country where as time, the price gap is larger, somewhere it's smaller and as we're fine tuning our approach going forward, we're looking just at that, where is it that we have too much of price gap, too little of price gap, we're being much more specific in our planning of pricing between our brands, within the segment of our brands.

Mark Swartzberg: Mark Swartzberg, Stifel Nicolaus. David or Luiz, why have you lost share this year and how has that affected your plans for the coming year?

Luiz Edmond: David can take this because he explains this to me every month.

David Almeida: Yes. The basic fundamental, the basic reason why we're losing share as Luiz described in his presentation mechanically is that we have kept share in every segment that we operate, some we gain, some we lose. On average, we keep share of our segments.

But there’s a shift going on for the high-end segment where we under index is growing faster than the segments where we have higher market share, right? So that -– that number that we call, we call that, basically a mix shift which impact us, right?

And there’s a lot of connection going on. If you go back to 2012, for example, an industry where given stable macroeconomic fundamentals, right, blue collar consumer was doing better. We didn’t have the payroll tax increase. Our premium brands performed better. So while the high end was growing at a specific rate, our premium brands and our value brands did better because the blue collar consumers did better. The mix shift was smaller.

Fast forward one year where you have the blue collar consumer under pressure with everybody’s salaries across the country down 2 percent starting January 15th, that put some pressure on the mix shift. And it’s important, we’ve been asked many times, how can a 2 percent salary reduction yield that kind of impact?

Well, the reality is what you’ll factor in, what the consumer spends for rent, what he spends for health, what he spends for the basic needs he has, at the last end of day he has, you know, 15 percent, 20 percent of his income for discretionary income and if we reduce 2 percent of his salary, that’s 10 percent of his discretionary income. So, our blue collar consumer who drinks our beer, that’s a substantial impact.

Luiz Edmond: That’s part of the explanation but you also [have] a lot of competition out there. They also do a lot of things. We have better years and worse years in terms of innovations. Last year, we had an amazing year with Platinum and Lime-A-Rita, that helped a lot. But we need to continue to work in building our pipeline so we have consistently every year good things in the market.

So we know there are headwinds there, though the high end continues to grow at similar pace, though slower than in the past, so the mix shift will continue to impact us even if the economy doesn’t perform better.

If the economy performs better, we should have some good news. If not, we need to have plans in place and make our bets in the right places. But that’s why we decided we were going to show the results of the last five years but we're building the foundation and building the infrastructure to be able to compete despite the headwinds we have out there.

Mark Swartzberg: If you could put something at the top of the list in terms of how you’re adapting whether it was innovation or the focus on the on-premise, what do you think from the experience over the last year is most influencing or, most different to your plans for this year, this coming year?

Luiz Edmond: I think the biggest shift we're making in the organization is the sales focus. We relied too much in the wholesaler’s ability to execute in the market and they were commanding all the activities in the market. When we said we need to standardize more, we need to have better data and better analysis to support the programs, we have been going on a journey with our wholesalers to first convince them that we have the knowledge and the programs, .and as they adopt these programs, we're making them bigger and more effective in the market. So I honestly think that we lacked a big sales organization in the past compared to other benchmarks we have in other countries and as most of you know, we had to make significant changes in our commercial organization to have a different approach than two years ago, we had to turn around the organization. The mindset wasn’t there.

Alice Longley: Hi, Alice Longley, Buckingham Research. My question is about pricing. I think you indicated that you think your pricing has been relatively inelastic.

What do your models show if your leading competitor doesn't have similar pricing to yours?

David Almeida: I think I mentioned that one of the key insights we found four years ago is cross price elasticity is very high. So if price gaps exists in the market and we're undercut on price that leads to [share] erosion, so that's clear. So the industry demand elasticity is fairly low. Cross price brand elasticity is very high. I hope I answered your question.

Alice Longley: OK. Are you concerned about that at this point?

David Almeida: We are always concerned about that. And as I said in my presentation, going back to the factors on pressures on our business, the high end price compression is something that puts some share tangentially on our premium brands. As the gap between imports and premiums has eroded, that puts some pressure on our brands.

Historically, we were much more focused on looking making sure our prices were competitive looking across segments and one of the learnings is that we need to make sure we look at different levels and different segments across the market.

Luiz Edmond: We are not more concerned today than we were a year ago or two years ago. Price is a key element of your market share performance so we watch it very closely and we watch our behavior and of course we follow what the competitors are doing and we adapt and make decisions if you still want to take more price, and price activity from our competitors is different, we will need to invest more to support our market share.

So we're watching everyday our price environment, our brands performance, and everybody else's performance, and competitors are leading with their strategies and we make decisions based on that. I think that it's the same for everyone.

Alice Longley: Thank you.

Robert Ottenstein: Robert Ottenstein, ISI. You, guys, have, what really looks like overwhelming in a sense competitive advantages in terms of distributor alignment, marketing muscle, the platforms, the brands.

And I guess what I'm a little puzzled on is just in terms of top-line. Obviously, you're much more profitable on a per case basis but in terms of top-line performance, why you weren't doing even [better] than you are now over the last two years versus Miller Coors?

Luiz Edmond: Why we're not doing much better?

Robert Ottenstein: I mean, of all those advantages…

Luiz Edmond: I think that we are doing much better than them. And you can just say that top-line is not necessarily the fair way, because you need to look at the cost implications of their initiatives too. So when you look at the bottom line, right, you've got combination of what you see at the surface with the price we charge for things translated into profitability.

We have been beating them, I would say consistently every quarter, but they're also good competitors, don't get me wrong. They're good competitors. They will be competing in every market in every segment in the market. Beating them, after the transformation that we went through, consistently, is very positive ….

David Almeida: But Robert, I don't know what you're looking at but if you look at the last, you know, seven quarters or you know, and the last one has, you know, price noise in it, I mean we're confident that we've delivered more top-line growth than our competitor is more comparable to us.

So in that sense, yes, they are great competitors and, you know, they're very competitive, they've got a great portfolio brands, a great high end portfolio. But we think our strategies have allowed us to build more top-line growth than they have if you look over the past quarters.

Chris Pitcher: Chris Pitcher from Redburn. Obviously, innovation has become a really important part of your business and with it, the increased complexity you've talked about. Can you give us a bit more insight into how you manage, certainly at the wholesaler, there is a finite amount of time and attention that they can give to each of your different parts or initiatives?

Particularly years two and three have a big innovation launch, so we have Bud Light Platinum, we have Bud Light Lime-A-Rita, both of which are down in share terms this year. But we've got very good growth from the innovations that are coming this year.

But how you manage years two and three in innovation? Is a big push every year really the right strategy? Is it worth bedding them down a bit deeper? Thanks.

David Almeida: I think Luiz can address and Paul later in terms of the marketing emphasis but the core of what we just presented to you is exactly that. Our game plan is trying to drive focus behind the things that we are aligned on from the commercial perspective.

So if you look at our game plan framework, our national big bet always starts with Bud and Bud Light, the brands that, you know, pay the bills for everybody. And then we look at the other opportunities and the most relevant ones, right? Platinum, in a specific month, Lime-A-Rita….

So our game plan brings that focus and that's how we're trying to connect with our wholesalers to ensure we have the focus behind the right brands at the right time when we have the media support behind that.

And go even further, when you look at the POC level planning, that is one of the key drivers of POC level planning. The biggest benefit we're going to see in POC level planning is our ability to because, you know, Bud and Bud Light for the most get executed and POC level planning is going to guarantee that even more.

But the biggest opportunity we have now in planning by POC is in our plans, we want to make sure do we have the right display coverage for Bud Light Platinum? Do we have the right display coverage for Bud Light Lime? Do we have the right display coverage for the Goose brands? Do we have the right distribution objectives?

So that is what we're trying to change with the whole sales mechanism to ensure we are focused. And I think the fundamental point that’s always worth remembering is that as Brito said, we represent 90 percent of our wholesalers’ volume.

So we depend on each other. So we get the attention, we get attention from our wholesalers and we're trying to put the technology and the processes in place so that we can together make the right bets and drive the portfolio in the right direction.

Luiz Edmond: So just to finish on the innovation cycle, we don’t take innovations as a one-year cycle. We did that in the past. Today, it’s at least a two-year cycle to a three-year cycle.

And when you see the numbers and the results, we use our scale to take innovation quickly to the market as David showed. So in some other cases you see competitors doing kind of a build up and they go POC by POC. They grow distribution over time.

We believe that the benefit of having our scale and our influence in the market is to bring things quickly to consumers. And obviously, you create a lot of experimentation at the very beginning and then you see things leveling down a little bit.

Having said that, Platinum has been stable now for at least the last 12 months in terms of its performance in the market. But you see a big lift, at the very beginning, because we can get distribution to 80 percent levels, you know, in a week or so and then you’ll see consumers after they try and experiment, a lot of them adopt the brand, a lot of them say, “Well, I will have that once in a while,” and then you flatten a little bit of the volume.

But our cycle with innovation is at least a two-year cycle. So you will see activation for Budweiser Black Crown next year as you saw this year. You are seeing now Bud Light Platinum activation as you saw in the first year of the launch.

Lime-A-Rita is a bit different because the flavor [inaudible] will not, you are adding flavors and there will always be a cannibalization, every time you introduce a new flavor. So Lime-A-Rita is somehow cannibalized from Straw-Ber-Rita but the two together are composing a much higher market share.

Chris Pitcher: But based on that two to three-year cycle, should we assume in year three which is a year from now, if Lime-A-Rita is still down that you've cut these brands, so you're not going to leave flavor proliferation in the market and massive complexity in the channel?

Luiz Edmond: We'll learn more as we go with the Ritas family. We are learning how many different alternatives the market can handle but we'll continue to bring innovation in that family, too. But we're committed to maintaining the base that we have, support the brand over time as opposed to using innovation as a drug. They just get the volume lift from experimentation and then it goes away. We'll take innovation as a volume and share lift but also as a brand building tool.

Shane Finemore [Shane Finemore, Manikay Partners] Given that you've done a good job with the Lime-A-Rita family and the change in the industry with the Crown divestiture, do you think you need a Mexican brand with provenance to compete in that category long term? And if you do, how do you go about doing that or do you just sort of cede that share?

Luiz Edmond: I think Paul could help me with the answer because it's more of a marketing question…

Graham Staley: Maybe we'll come back to that this afternoon, and see the marketing presentations first and we'll pick that up later, Shane, if that's OK

Luiz Edmond: Bud Light Lime-a-Rita was introduced as a margarita like thing and somehow people go to Mexico and think that it's a Mexican thing ….

Shane Finemore: [Inaudible]

Luiz: Not necessarily. What surprised us is that Lime-A-Rita and Straw-Ber-Rita, they pretty much talk to everybody. So they talk to Anglos, African-Americans, Hispanics and men and women and with different ages, so the penetration with Lime-A-Rita and Straw-Ber-Rita has been higher than expected and it's not a Hispanic phenomenon, quite the opposite, it's appealing to a lot of people

Mitch Collett: Thanks. It's Mitch Collett from Goldman Sachs. I thought that analysis, I think it was Chris showed of operating margins for the retailer was very interesting. And I wondered when you showed that to a retailer, do they agree that beer ultimately gives them a better operating margin than other categories?

How does that compare to other alcohol categories, so crafts, spirits and wine perhaps? And then when you combine that with what you said about having -– I think it was sales per foot that is 50 percent higher than the rest of the store, like it seems like quite a compelling case for them increasing the space devoted to beer. Do you tend to show them that analysis and get a big uplift in how much space they've devoted to beer or not?

David Almeida: Chris, before you answer, could I could just put this chime in on one piece here. A lot of you as analysts, probably, buy the guys who write about the beer industry, right? Beer Business Daily, those other guys, and a lot of the commentary is very negative.

But just addressing your point first, if you look at what's happening in retail right now, some of the smart big retailers are getting into beer big time. So you probably read about Wal-Mart, how Wal-Mart is getting into beer big, dramatically, it's a huge opportunity to step up.

And we’ve heard of other big retailers that are doing the same. So people recognize the value of beer. The big retailers recognize the value of beer and I think this platform we put together has helped crystallize that.

And what’s good is when we provide that data, there’s an interesting dynamic. For example, you present to the buyer, and the buyer sees the data and you’re basically giving him ammunition to go talk to senior management, right? So that’s some of the benefits that we're seeing from the toolkit, right, Chris?

Chris Williams: Yes. So it’s the retail value quantification. We validate at the most senior level with each customer to make sure we're aligned. If you look at C-stores that deliver from their distribution commissaries, they’re charging each store $50 a day for delivery. So we start to work with their own P&L to make sure our value quantification is aligned.

David Almeida: And I think one of the benefits, one of the interesting things, for example, is that there are different cultures out there. So we bring the data in and sometimes, you know, the first reaction from a retailer would be: “That comparison is not like for like. I’m not comfortable with that comparison.”

But the tool we have now gives us the capability to flip that on its head and say, so, for a second, let’s forget your competitors. Let’s look at your stores. So let’s look at your stores and compare better performing and underperforming stores, and the beautiful thing is that the insights and the drivers are all the same and the data is compelling.

So even retailers that aren’t willing to engage with data from competitors, when they have the opportunity to look at their own stores and look at the beer performance from the lens of the drivers and what drives beer, they get totally engaged into the database.

Chris Williams: I think they’re pretty clear that adult beverages, that half of sales is coming from beer, a third of the space, and an eighth of the inventory. And they look at the category as a traffic driver for adult beverages while [inaudible] more in the basket for adult beverages.

Mitch Collett: So do you think in the round, beer is getting more space now? Is the space devoted to beer overall increasing do you think?

David Almeida: I was recently with a large retailer and it’s really fun to present this stuff because it’s fun to be with data and as we're presenting, the senior leader in the room, as we're showing the data, –is like “so in our store, we have more than 60 feet of beer space right?”

So we're seeing beer space being added and again, the big smart retailers are catching on. So we expect to see space gains and we're already starting to observe that.

Chris Williams: And David, the gross margin return on invested inventory is substantial on beer versus other adult beverage categories.

David Almeida: Yes.

Mitch Collett: Thank you.

Lauren Torres: Thank you. Lauren Torres from HSBC. Your competitor recently said that they plan and will focus more on the economy beer drinker. And we understand your strategy from a pricing standpoint but, you know, in light of your competitor said and in light of the economy still being what it is, does it make you rethink at all your positioning in the value portfolio? You know, do you need to defend your position there or if the premium grows then you can kind of disregard some respects, or do you have a strategy to defend that category?

Luiz Edmond: As we said, the value beers for us represent almost 30 percent of our total volume and we are very committed to protecting that segment. We call it value but it’s a very profitable segment for us in the U.S.

But we believe it can be even more profitable and that’s why we have been closing the gap against premiums over the last four years. We track and monitor all activities and quite frankly, we have been very successful in the last 12 months. We grew share every single month and we achieved the highest share ever in the segment in the last few weeks.

So we are very happy what we have there and we have a lot of ammunition to protect the segment, too. But we're trying to make the segment more profitable. When we moved Rolling Rock there, we had an alternative to price Rolling Rock at the same price as we have Busch and Natural, for example and we said there was an opportunity to drive consumers up and capture a kind of in between price point that was not occupied by anybody at that point in time.

So we gained share in the segment at the same time, we made the segment more profitable for us. So we have portfolio management. Price point management will be critical in the segment but also the relevance of the segment.

I think as we took price in the past, a lot of people [thought] that we are not committed to the segment as much. And as Ricardo showed here the value segment in our game plan, that drives execution and attention on a weekly basis to the value segment too.

And we learn more and more how to interact, how we need to manage price points. We're very committed and we're not giving any inch in the value segment because of competitor activity and we will maintain our commitment to that segment.

Pablo Zuanic: Pablo Zuanic, Liberum. Look, I have three questions mostly revolving around pricing. The first one I think you said at one point that your revenue per hectoliter has on average increased more than retail beer consumer prices. If that’s the case, who’s losing there, the retailer, the wholesaler? That’s the first question.

The second question…

Graham: One question at a time please

Pablo Zuanic: OK. No, I think at the beginning, I don’t remember if it was David or Luiz. They said that the company’s revenue per hectoliter in the U.S., the price they charge to wholesalers had gone up more than the average price to the consumer. So I'm just wondering…

David Almeida: Sure. If you look at without getting into specifics, but if you look at the value chain in the U.S., you have retailers, taxes, wholesalers and us. And I don't want to get into specifics but through our strategy, we've been able to increase our revenue more than the total PTC chain.

A couple of things. The mix has improved, the way mechanically that taxes are established in the U.S., and a couple of other drivers that have led to us increasing our percentage over the total.

But I don't want to get into too much strategy or what we're doing specifically but the end result is we have increased our share of the margin pool in the U.S.

Pablo Zuanic: And just to follow up on pricing, I really struggle trying to understand how important is pricing. I mean I know the macro and we hear all the commentary from everyone. But, you know, the companies that are growing the most in this industry are Crown Imports and Sam Adams, right and craft beer, and all those guys have higher prices. So I'm just wondering, you know, is the pricing issue more an issue just in the value end of the market? That's one question.

And -– but more important than that, if then pricing is not such a major issue in the other parts of the business, how do you could we make the argument that going forward then, the environment would be getting better on the higher end because I understand that liquor after five, six years of no price increases, which in a way helped them gain share from beer, now is starting to take prices. And at the same time, you know, for the first time in five or six years, we are hearing Corona and Heineken taking pricing up.

So I'm just, you know, to rehash, I find the pricing issue it's more of a value end issue and that actually in the higher end, it's never been an issue because again, liquor is growing and now things are even getting better in that segment. And can you comment on that?

Luiz Edmond: Yes, it's difficult to comment on any competitive pricing. You know, we just don't speculate on that. And as I said, we track and monitor our competitors every single day in the market and based on the learnings we have we adapt our strategy as we go.

Having said that, yes, the craft brands and others in the import segment have not taken price in many years. And, of course, every time they take price, as David said, there is cross-elasticity in this segment that helps our market share performance. If they don't, we still need to come up with initiatives to offset or to compensate for price pressures in our performance.

It's difficult to speculate and people have different strategies and at the high-end, they sell at a high price, yes they sell at a higher price, but given that, they cannot command a higher profitability. So at one point in time, cost goes up, it puts pressure and who takes the lead to change that price dynamic, we don't know, right? We have our own price strategy and we'll continue to follow that.

Rob Forker: Rob Forker, Loomis Sayles. Back to your BPA, how do you convince your retailer that they are not offering too many SKUs? And are you winning that argument?

Chris Williams: Yes, so, the SKU density measure that we showed in the example was just a multiplication back on the 60 feet. So we're just showing where they have an opportunity to reduce a little bit of the space without losing the assortment.

So the better retailers out there are taking the same amount of space but they're able to turn packages just slightly and to go to pack a little bit more assortment in the same space.

And I think it's been an opportunity for out of stocks which is probably around a $2 billion opportunity for the industry. So when you start to talk about the balance they need and the days of supply they need on the bigger segments, it's a fairly substantial point to make within the merchandising strategy.

David Almeida: Yes, to be honest, I mean just to explain the basic insight, right, so what best practice is for the retailer is a deep understanding that for your fast moving items, top 10 items, the top 20 items, what's critical is, if the typical retailer has three days of supply and on a given Friday he might sell three times more than average, he does not want to be out of stock on a critical Friday night, critical Saturday night. So for those items that are fast moving, he needs to have more days of supply to make sure he's not out of stock.

He needs to provide a certain level of variety, right? But he needs to provide that variety in a way that will not compromise the space he needs for the fast moving items so that he is in stock at the right time.

So the better retailers have a decent amount of high-end SKUs but they manage the space in a better way so that they provide a variety without comprising the space. And again, putting your money where the smart money is, some of the bigger retailers out there, when we explain this concept to them, then they say, "I get it."

And we've seen some decisions where customers have said, "I'm going to four days of supply in my top items. I'm going to make sure,". -- We've seen senior management ask questions to the buyers, "Did we go too far with the SKU proliferation?" So there's a whole topic out there about SKU proliferation and the need to manage assortment better. And I think we have a good answer on how to do that.

Luiz Edmond: We have clear KPIs in how we measure that, it's part of his [David's] targets this year and next year. So yes, we learned a lot and there's a lot of room to really get the results based on the learnings we have. So we continue to stay focused on that. We believe there are a lot of opportunities to get better.

David Almeida: And I think just coming back to Chris's presentation and going to what we've said, the way the dynamics work, it's not like you have a great idea overnight then people buy in, right?

So first, you have to rebuild the trust, right, because the customers perceived us as being transactional, et cetera, then build the content, and then together with that, you’ve got to come in, come in, come in. And we're very excited with the progress.

And I think the numbers that Chris showed about category captaincies, that we’ve gained showed that we're on the right path, and it’s not a three-month thing, not a six-month thing, it’s really the platform for now and for the future.

Lauri Brunner: Hi, thank you. (Lauri Brunner, Thrivent Asset Management in Minneapolis). Chris, back to that slide that you showed with your beer category P&L and the retailer P&L, I’m sure, you know, that the retailers have that data as well.

So is it just the case that you’re now bringing this conversation to them where you may be weren’t a couple of years ago? And it sounds like you have this big data engine in place and so now, you’re able to do this, because I’ve got to believe you’ve had this P&L for a long time and so have they, so what’s kind of different in the last couple of years is my question?

And then the second piece is, how far rolled out is this? How much more of this are we going to see? Thank you.

David Almeida: Before you go Chris, I think you’d be surprised at the level of information the way the information looked at. Retailers look at different areas of the store, right? Sometimes for some retailers, it is a surprise. You have to remind them that the beer category is different.

With the three-tier system, with direct store delivery, we are different from other categories. Sometimes, they don’t have time to reach that conclusion. So while some do and the smart money again, those guys are betting behind beer, others were not. And I think providing, in a constructive framework all the details, is a big impact, but you may jump in Chris.

Chris Williams: I think from a competitive standpoint if you look at the license proliferation in drug and you look at dollar stores as well and then what the largest retailers doing on the category, there are more eyes and ears now on the category.

So I think senior management of our customers are now interested in trying to understand how it fits into the overall merchandising plan. So to start with the understanding that it is a bit of decriment from a rate, but here is what we build in and when we do DSD right, regardless of the category, the store wins. So I think they're a little more keen on that fact as well.

The cascade has begun. We've been on the road for six months, between David and I, we've hit just about every major retailer in the country, our team has expanded as well to hit key regional customers.

And then you saw on the video what we were going to cascade to our wholesalers so we can go to our largest independents, that will happen and be tracked over the next 90 days, so to be expansive quickly. But to Luiz's point, the opportunities that we've cataloged out of each account will be tracked and measured to be part of the compensation structure that we use in 2014 for our category folks.

Luiz Edmond: We presented here the best of the two companies. And it's unbelievable we found in terms of infrastructure that AB built over time. But the use of that infrastructure, for the benefit of driving the top-line agenda was not there.

So all this data was already available, but then analytical capability of transforming this analysis into strategies that can be used in the market, and wrap them in a consistent way, was not there.

So game plan, for example, the programs already existed in some of them. We moved them together and said [inaudible]They understand what they're doing and connect all the way from the merchandiser that they use in stores to the digital programs that Azania will show here today.

So we're wrapping the information, using the infrastructure. We don't have to invest a lot to build the infrastructure, we just need to invest in analytical capability and strategic mindset.

Ed Mundy: Ed Mundy from Nomura. You indicated in your presentation that 8 percent of your volumes in the U.S. are going through wholly-owned distribution which carries a higher margin and is getting better volume than third party distribution. And how do you look at the medium term opportunity to increase the portion of your volume which goes through wholly-owned distribution by either inorganic or inorganic means?

David Almeida: As I've said, I think if you look at the route to market strategy outline in terms of stronger wholesalers, WOD and raising the bar, our focus, 80 percent of our focus and our time is on raising the bar because the biggest benefit is us raising the bar so that our wholesalers operate better and that our WODs operate better. And our WODs again help us develop best practices that we can then share with our wholesalers.

So I go back to the basic point that we have an amazing route to market system. Our wholesalers, while they're independent from us, they're deeply connected to us, and 90 percent of the volumes with our brands.

And, there are all types of communications. We're not going to be 100 percent aligned and there's always friction, that's part of the relationship but the bottom line is that they execute what we ask them to execute.

Whenever we have programs such as AOE, such as, our game plan, the execution measures are off the roof, higher or as high as what we see anywhere on the world. So it's a very disciplined and execution-oriented system. So raising the bar and making sure we're providing the right content is our top priority.

Brett Cooper: Brett Cooper, Consumer Edge Research. What happens to the revenues that the quartile 1 retailer when their competitors are implementing strategies that are clearly working for them? And so is the entire pie within a market or DMA growing?

David Almeida: What we look at, when Chris mentioned the pricing question, he mentioned more between segments. But obviously, when a retailer is going aggressive on price, he is going to gain market share, we see that.

For example, you know, Wal-Mart, why is Wal-Mart going well ahead of the rest of the category? Well, Wal-Mart has made a big decision to invest and even operating lower in many markets with lower margins and that fluctuates from time to time.

So that is the -- that's one of the things we show our retailers, which is, if you're in a market and you're losing market share because you have a competitive retailer next to you, that's something you, guys, to keep an eye on, but you have your own strategies, you make your own decisions.

And you need to know the balance you need to have -- between how aggressive you want to be compared to what Wal-Mart needs to be. I can't -- I can't help you. I can illuminate the problem but in the end, it's your decision.

And what I can tell you is, with the given resources you have, with the space you have, with the display space you have, with how you're allocating your promotional dollars, I can tell you how best to allocate that. But what they want to do in terms of them versus an aggressive competitor who's gone superhot, it's their decision.

Brett Cooper: And not in so much on the pricing side but so I think you showed that there is in the example, right, there was 9 feet of a space gap between Store X in top quartile stores. So when that Store X implements -- or adds 9 feet, my question is, do you -- within a particular market, do you see an increase in overall year spend or does the retailer in quarter A or 1 lose share?

David Almeida: No, the data suggests that there is an overall -- first of all, there could be a share gain from other competitors, right, and actually an overall expansion of beer volume because you're actually increasing space for beer, right? It's not just a share gain between retailers but it's an expansion of the beer category as well.

So I think the bottom line infrastructure we have is a database which correlates success to the drivers. I mean I can't have a specific answer to your question in terms of, you know, once people go with the balance and more people going to balance, what happens in the overall beer category, but I can tell you that winning retailers adopt these practices.

Chris Williams: And it's not just within their footprint so we're using a comparison across a thousand of like competitors across the country so it enables them to see what opportunities they have within their stores.

And we can actually them take the data and show within their own stores top quartiles and what they're doing from a merchandising standpoint or execution standpoint to drive revenue up in their underperforming quartile stores. So just like the like within, their own chain.

Luiz Edmond: We did a significant deep dive to understand beer against other categories. We have to go back years from now to see how the net change will affect other categories too. The critical one at the beginning is to show that beer is profitable, therefore it's worth looking at beer, compared to other things not just beer by beer inside beer., so are you allocating enough space to grocers [inaudible]

Are you getting the money that you expect to get, are you having the return on the money and the space you have in other categories as much as you have in beer, so in the future as you have rice space or you have less rice space without losing any sales, and then you can add racks or you can add kind of the shelf space or you can add cooler space, that will help beer overall but not necessarily just interacting beer and beverages, the revenues can come from other categories too. And how they optimize the overall business as opposed to just one piece of that.

David Almeida: And if I could just, Luiz, for example, this dynamic between a buyer, for example, and senior management is really important. So the senior management look at the total store and the beer buyer is trying to gain relevance for beer because that's what he lives on, right? He lives on the beer category.

So we're equipping him with the tools to go sell internally, to go fight for more space. So when Sanjiv showed you the Basket Plus One program, how we want out of isle beer displays, right, together with the sushi, together with the prepared foods. That's something that the local beer buyer has to negotiate with another buyer from another -- from another category.

So when we show them the data, we say beer is a great category to invest and you'll see this kind of lift, that facilitates his internal sale, that's an extra location for beer and we do know that extra locations drive and impulse buys and expand the category.

Karel Zoete: Karel Zoete, Rabobank. First, the question on the size of the value segments in other markets which you think are relevant for you or markets where you look at.

The second question would be on the beer category as a whole. You showed a lot of data on the category and how you've taken up the category leadership and innovating the category. But how is the beer category today relevant compared to consumers like three or four years ago? Has that improved or are other categories still more relevant in terms of consumer perception?

David Almeida: I'll just say that coincidence or not, before the balanced portfolio approach was implemented a year ago, beer had been losing share of retail. For the last 20 months, beer has gained share of retail every single month and has actually comped very difficult numbers.

So beer continues to be gain. So we're very excited about the beer category but when we talk to industry participants, we always remind people that when retailers look at business, we look at cases, we look at hectoliters, and they look at dollars, right?

And from the metrics they use, beer is outperforming most categories across store in terms of dollars but it's actually one of the best category drivers. We've talked about share of throat issues, beer, wine, if you look at overall dollar growth contribution, beer is contributing roughly the same amount of dollar growth, than wine and hard liquor combined. So beer is a vibrant category for our retailers.

Karel Zoete: OK. And have your efforts to innovate more and to act as a true category captain seems to be already, well, resulted that beer becomes a more attractive category from a consumer perception than…[inaudible]

Karel Zoete: Have your actions in terms of innovations and category captainship really resulted in a consumer perception change within beer versus other alcoholics.

Luiz Edmond: I don’t know if we have any specific tracking of that but definitely we are making some strides into segments that we couldn’t in the past. So Lime-A-Rita is already sourcing a lot of the volume from outside beer. Stella Cidre is also sourcing a lot of volume from white wine.

So yes, we're making progress there. We are still at the very beginning of our journey. By recognizing that in the past we were looking to just beer segmentation and just expanding that segmentation to understand total alcohol share of throat, we are learning. And as we learn, we are filling our pipeline with initiatives that, of course, we don’t want to go after share of throat and take our eyes out of the beer segment.

But there is an opportunity for volume, there’s an opportunity for share, there’s also opportunity of revenues because a lot of these categories charge a higher price too. So it’s a combination of mix management, revenue management and also share and volume.

But never losing sight of beer. Beer is our core business and we're going to near beer alternatives, we're trying to leverage our scale. If we were to compete against wine with wine, we had better buy a winery.

All right, we're trying to develop things that we can brew in our breweries. We can use our packaging lines and then appeal to consumers in the way that’s different, than other categories appeal today, but never having to compete wine with wine or liquor with liquor. That’s not the idea.

Graham: OK, Luiz, David and team, thanks very much for that. When you see this afternoon’s presentation, I think you’re going to have new sales questions, brand questions, but the two will come together and you’ll have a different set of questions where sales and marketing both come together. So we want to give you lots of opportunities to network, not just with Luiz and his team but also with Brito, Felipe, Sabine, etc..…