

AB InBev Investor Seminar

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APAC Zone Introduction Q&A Session

Participants: Carlos Brito, Miguel Patricio, Felipe Dutra, Michel Doukeris, Jean Jereissati

Mitch Collett: Hi, Mitch Collett from Goldman Sachs. You said D&A would stabilize in China. Did you mean that D&A stabilizes as a percentage of sales? Or stabilize in absolute. One means more investment to come along with growth the other would imply that you are not looking into investing in more production facilities. The other thing I wanted to check was that you said there are 3 million points of sale that you don't reach -- how many do you currently reach so what is the 3 million versus your current base? Thank you.

Jean Jereissati: Regarding the 3 million POCs that should be reached: we already have national distribution with Budweiser, but and we are well covered in the high end segments, night life channels and top Chinese restaurants. But we have a lot of work to do in traditional trade (TT) and with C&D restaurants. We only reach these clients in the geographic expansion areas where have breweries, and we believe we have 3 million POCs that we could still reach. On your second question, we believe that the number of POCs in China we can reach is around 5 million – or even a bit more if we extend distribution deeper in certain channels.

Carlos Brito: If I understood your question correctly, you asked about depreciation and amortization right?

Mitch Collett: Yes. When you said D&A would stabilize, because obviously it's been growing ahead of gross profit, which I presume reflects increased investments in breweries and facilities, do you mean stabilizing in an absolute sense or stabilizing as a percentage of the sales base? Clearly we would expect the sales base to continue to grow. Is D&A going to grow with the sales base, meaning your investments will only match your growth, or you are saying you've got enough production capacity to cover the growth you are expecting in the near future?

Carlos Brito: We are not giving any guidance in terms of the D&A going forward. But with regard to capacity, we have some Greenfields, some that we acquired as part of M&A, some are old breweries in inner –cities where we need to build new ones. We have a big project in Fujian province, in which we are combining 2 breweries into one with some government incentives. We had to take 2 breweries out of the city center because of complaints from neighbors and traffic restrictions. This becomes clear when you look at our EBITA margin and EBIT margins compared to competition - D&A being the difference. There are different approaches on how to depreciate things and at what speed - we take one view, some other people take a different view. That's why we are showing both cuts here, EBITA before D&A and EBIT after D&A. But no guidance. Maybe Felipe has something to add.

Felipe Dutra: Just one comment. As Brito mentioned, people take different views, and our view has always been - and will continue to be – that we should depreciate as much as possible, as fast as possible. Ultimately this is a tax-deductible expense and we would rather take today than over a 10 year time frame. So we are probably being more aggressive than others in taking the depreciation as fast as possible, while others take a different view.

Sanjeet Aujla: Hi Sanjeet Aujla from Credit Suisse. Just on your wholesaler network, you talked about having 5,000 wholesalers across the country. What are you doing, if anything to encourage

consolidation? Would you ever consider consolidating the wholesaler network yourselves? And also more broadly about consolidation in China. Would you consider larger scale consolidation yourselves?

Michel Doukeris: China is well known as a beer market where you have a huge number of wholesalers. We have a relationship with approximately 5,000 wholesalers. Sometimes they can be organized by tiers, 1<sup>st</sup> tier and 2<sup>nd</sup> tier wholesalers. We do not necessarily think that consolidation is the driver to improve anything in the industry with respect to wholesalers. Our focus is more on how can we develop the wholesalers, helping them to have the vision for growing together with us in the business. Whenever we expand the business, we touch more wholesalers, expanding our network in different regions. Jean mentioned that many of our wholesalers who are involved in our excellence programs, in succession planning programs, these guys are growing at a much faster pace than the rest of the network. These wholesalers are becoming more relevant in the areas in which they operate.

Carlos Brito: Michel I think it's important that we explain the difference between the role of the wholesalers in China, in terms of cash collection and wheels for distribution, as opposed to the way that people think about the role of wholesalers in other markets.

Michel Doukeris: Very good point, Brito. If you divide the world into two sections, you have the Americas and part of Europe, and then Russia and the rest of Asia. In Brazil or in the US, a wholesaler has territory where they are responsible for sales, logistics, and financing in that territory. In Asia, including Vietnam, Cambodia, Korea and China, the wholesalers are responsible for finance, which is basically cash collection, inventory buildup, and logistics. Most of the sales responsibilities are with the companies in positioning the brands and selecting clients, in increasing penetration in the right channels. Once the network is established, the wholesalers will of course be responsible for replenishment. So the wholesaler is hugely relevant in terms of logistics and finance, but the brewers are more responsible for sales and penetration in the POCs.

Vicky Hu: I have a couple of questions, the first question is on premiumization. You talked about the fact that your gross profit for the premium products is 5 times that of the core and value. For the high end product, you also need to invest more in SG&A, how do you think about this in terms of EBIT and EBITDA? And in general, how should we think about the EBITDA margin trajectory in the next few years in China?

Jean Jereissati: We are not going to give EBITDA margin projections. But you are right, we invest more in the premium segment with marketing and sales. But in the end, the premium segment has a much better EBITDA margin overall compared with the value and core segments. The value and core markets are focused on giving discounts. The super-premium and premium segments are much higher in terms of EBITDA margin, in terms of P&L, when we compare with core and value.

Vicky Hu: What about the trajectory in China? The second quarter was 26%, how will it be within the next 2 years? To what level is your targeting?

Jean Jereissati: We do not give guidance on the future projection of margin growth.

Carlos Brito: The question is important because some people think that, rightly so, on average, the margins in China are way lower than those in other countries. But we are not playing in the average of the market. As you saw from the presentation, our products are more focused in the High End. Premium and super premium represent 30% of the market, rounding up, while for us it's 50% of our volume and growing. So if you look at the margins, for example for Budweiser products in China, they

are comparable with those in US, and those are very good margins. So again, you can't look at the averages.

Vicky Hu: The second part of the question is on your new markets expansion. You've been very successful in penetrating the coastal areas, in areas where Sedrin and Harbin had large market shares when you acquired them, so I'm just wondering what are the provinces that you are targeting for expansion this year or next year? My assumption is that the further you go the more difficult it will be because the provinces you have been most successful in, relatively speaking, are the low hanging fruits. As you expand more and more into China, you are going to expand into territories where your competitors will be very strong. How are you going to compete and grab market share from your competitors?

Jean Jereissati: We have a very clear expansion strategy. Yes, it's easy for us to go for the low hanging fruits, but we are doing more than just that. We base our expansion strategy on the successful geographies, so we study how the provinces will evolve in the future in terms of beer industry. We still have a lot of room to grow market share in the provinces we are betting on today. For example, in the Guangdong area, in Guangzhou we are doing well in the night life channel but we are trying to expand. We are very well established with Budweiser and Harbin, but we still don't have core and value products in this market. We have focused on core plus, so we have a lot of Harbin Ice and a bit of Harbin Wheat, not much in terms of core and value – so this is the type of expansion that we still have to work on. We still have a lot of room to grow in the regions where we are making big bets today. We still have 3 million POCs and entire provinces to tackle. We still have room to grow in areas that are not consolidated by the competition. Then there is the premiumization trend. Some markets, even those where there is a lot of competition, still present opportunities for us because of premiumization. In some cases, our competitors are moving away from their established brands, moving away from international brands, moving away from premium brands – so in these cases penetration is getting easier and easier.

Anthony Bucalo: Tony Bucalo from HSBC. Traditionally, the wholesalers in China have been stuck, they tend to have low margins, with demanding retailers, such that they are involved in a lot of simultaneous cash collection activities. As your business has become more profitable over the past 5 years, are your wholesalers also sharing in the expanded profitability? Are they getting more profitable? How is that changing and also what is the philosophy on dedicated distribution here? How many of your houses sell exclusively your brands and how will that change in longer term?

Michel Doukeris: As Jean mentioned our focus is on creating a profitable business model for our wholesalers. Our understanding of a profitable business model is, number one, that a business must have growth. As Jean showed, our best performing wholesalers are growing more than the average. Secondly, they must have scale. They have a profitable business model thanks to our pricing policies and their participation in the margin pool, alongside tight management of their costs. We support them big time in terms of productivity initiatives and best practices, to make sure that they not only grow the top line, but also manage their costs, therefore improving their profitability. As we grow in terms of the territories we cover, and as we continue to develop our brands, we are focused on helping wholesalers to grow together with us.

Anthony Bucalo: On the dedicated distribution, how much of the network is dedicated purely for your brands and what's the philosophy here on dedicated distribution.

Michel Doukeris: We have a relationship with around 5,000 wholesalers in China. And as we have said, it's very difficult to talk about averages. There are places where the wholesalers are more dedicated to certain geographies, and regions where they are more dedicated to certain channels. There are also regions where they focus on a single brand, and regions where they work with several brands. In our most important regions, we have a large number of wholesalers that are dedicated to beer. In some of our most important regions, we have wholesalers that are dedicated to our portfolio for most of their sales.

Carlos Brito: Another important development is that in the last two years, hard liquor has been hit by new government regulations on frugality, and that has turned some wholesalers- that were not wholly dedicated to beer- to focus more on beer because their hard liquor business suffered. So that has been a silver lining for us.

Ashish Doshi, Soroban Capital: Could you speak to the role of M&A in China going forward, is it a big part of agenda? Is it focused on regions? Is it focused on capacity? Is it focused on brands? Do you feel you have the right set of assets to scale in China? I'd love to pose the same question for APAC more broadly.

Michel Doukeris: Because of the size of the APAC zone, we cannot grow by only using one engine, so we are looking at organic and inorganic opportunities all the time. Regarding inorganic opportunities, we are basically looking for geographies that we believe are winning geographies. In these places we want to leapfrog competition, to grow faster.

We are also looking at the quality of the assets that we have in certain regions, meaning production assets, route to market, brands, etc. – and we are focusing on the quality of the people that we can find there since it is important to engage with them to help our expansion.

So we have been looking for the best geographies, where we can try to leapfrog competition by using inorganic opportunities, as well as the quality of assets, including people. And there are still a lot of untapped geographies in China and in Asia. We don't give any guidance on this so I'm more referring to past strategies we've used so far for M&A.

Carlos Brito: Let me add one thing to what Michel said. In China, regarding the M&A agenda, it's important to note that we have a bit of a hedge – between greenfield and M&A – because of our national brands, especially Budweiser. Once our business gets to a specific size, we start to think about how to enlarge the portfolio in that region. So whenever we go into a 'new' region, either via greenfield or M&A, it's never completely new to us because we already have Budweiser business there. Sometimes we cannot have Harbin because of the distance, so when we acquire or build a brewery, we don't start from zero – there is a base business, a base knowledge of the market, and then we add the rest of the portfolio. When there are local brands, we sometimes use a co-branding strategy, where we start transforming local brands into Harbin family, little by little, throughout the years. So these are the factors that lower the risk of going into a new territory within China since we often already have a highly profitable base business with Budweiser.

Nick Stansbury: Nick Stansbury from Legal & General. Two questions please. How much more profitable, on a relative basis, is a province in that deep top right hand quadrant, the stronghold quadrant? The second questions is how much regional variation is there in pricing products in the premium and super-premium segments?

Jean Jereissati: On the first question, we are not going to give you a number because this is too sensitive. But the EBITDA margin is way above the average. This quadrant is way ahead of the China average. It's a very good place to be, so if you can build a stronghold, you can have a very healthy business in terms of EBITA margin.

Was the second question about the pricing across the country? OK. We try to have a national policy in premium. The difference here in China is that the range between core and premium is huge, compared with other countries. So the premium segment is not a 15% price premium over core, it's double the price. In super premium, the range is even wider. But nationally, we try to have consistent price policies to prevent products going from one place to another.

Michel Doukeris: As Jean noted, the ranges from value and core to super premium is huge across all provinces, but the segments are fairly consistent across the provinces. Core products are typically sold between 4 and 6 RMB across all provinces, and premium from 12 to 15 RMB in all provinces. The price ranges are pretty similar across the board.

Carlos Brito: I would add that, as is the case in many markets, the fewer the number of players and the more concentrated the market shares, the higher prices and margins tend to be. Fujian province is an example of this.

Eduardo Santos: Eduardo Santos from Dynamo Capital. You mentioned the gross profit of dollars of Budweiser in China is about the same as in the US. You also mentioned that Budweiser volumes in China are about 15 million HL out of 70 million, so it's quite representative. On the other hand, your gross margin in China is about 45%, which is about 15 points lower than the US. Given that Budweiser gross margin are so high, is there anything structural that keeps the gross margin in China from being as high in the US? Or is it just that the remainder of your portfolio has very low gross margins?

Michel Doukeris: As we saw during Jean's presentation, our premium and super premium volumes are around 25% of our overall business in China. Brito gave the example about the gross margin of Budweiser in China in dollars being similar to US. But don't forget, in addition to having 25% of our volumes in premium and super premium, we also have a big core and core+ business, and in several regions we have a large value business. So, the overall portfolio is trading up, overall margins are improving, but our business here is more than just premium. As I mentioned in the presentation, we are on a journey here in China. And if you look at this journey, over the last 5 years, the premiumization of our portfolio has been steadily increasing, and aligned with the premiumization of the portfolio, the margins are moving. The 45% gross margin that you refer to is the average of the entire portfolio, not just the Budweiser one.

Mark Swartzberg: Mark Swartzberg from Stifel Financial. Regarding Budweiser's recent trends, can you give us a sense for how much of that is coming from new accounts? How much is from same store sales? The motivation behind the question is to understand the underlying drivers there in a rather weak economy that's likely to get weaker.

Michel Doukeris: That's a very good question. We hear this question time to time from Brito as well. Our same store sales for Budweiser have essentially been growing at a rate of between 30 and 40%. Therefore our share of handlers has been increasing. About 60-70% of our sales are coming from expansion. Expansion, for Budweiser, means new accounts, not necessarily new geographies. So we can see expansion in Guangzhou city, including new Chinese restaurants, more night life accounts, and this does not necessarily add new overheads.

Mark Swartzberg: Given that, what does your research say about the outlook for the economy? Given the economic outlook, when you think about that 30-40 number, what does your research say about how that is likely to behave?

Michekl Doukeris: There are a couple of factors we really believe will help us. Number 1 is that the economy continues to grow. We cannot forget that 7% is still a sizable pace economic growth. This economic growth, together with urbanization, is driving 2 main trends in china. First, the growth of disposable income, and second, urbanization and premiumization. As we showed in the presentation, the super-premium and premium segments of the industry are much more resilient, and are in line with the overall GDP growth, then the total industry. The performance of the value and the core segments is aligned with fixed asset investments and employment especially of blue collar workers. So, our view is that premiumization will continue, and urbanization and real disposable income growth will continue to drive the industry.

Pablo Zuanic: Its Pablo Zuanic from SIG. Brito, 2 questions for you. When you look back, do you regret selling the stake in Tsingtao? Second question, when we look at the case of CR Snow, SAB aligned with the government there. How do you think about that? Does not being in partnership with the government in beer put you at a disadvantage in terms of M&A opportunities? Also, Michel and Jean, your market share has grown 12% to 18% organically and through M&A, but you have not closed the gap with Tsingtao and CR Snow. Both of those companies are also growing their share, they are also gaining organically and through M&A. Are those numbers right? I am basing this on Euromonitor. Can you put them in context? Are they are gaining share in the wrong places while you are gaining in the right places? Thanks.

Carlos Brito: Are you asking whether we are disadvantaged because we are not linked to the government in terms of our M&A agenda? OK. We've been in China for 30 years. And the way to enter China in those days, across all industries, was by means of joint venture. You had to partner with local governments, mayors, governors of provinces, and have a joint venture. When we joined with Interbrew in 2004, that's business we had in China -- we had investments in JVs. Very quickly we concluded that that was not the way we would like to pursue our future in China. We had different interests and objectives than local governments, and what they were trying to achieve was different than what we were trying to achieve. So, in 2006, we decided to go solo when we acquired Sedrin and we have never looked back. JVs at one point were 100% of our business, and today they represent less than 10-5% of our business, and the number is going down.

The other piece of good news is that the government in China, which some years ago was involved in almost every part of the economy, decided on 8 sectors that would be considered strategic industries, and all other sector holdings would be divested. And beer, of course, is not a strategic sector for any government. So, luckily for us, they are divesting, little by little, Sometimes they are not divesting necessarily, but just not further investing - and therefore losing relevance. That's good because you have fewer and fewer government sponsored companies in the market. The game becomes much more one of building brands and improving profitability, so that's been good for us. When you look at the top 5 brewers in China, we are the only ones that have no connection whatsoever with government. And I have to say, even to our surprise, this has never played to our disadvantage. I'll give you an example, when we did the AB deal in 2008, we had to request approval from MOFCOM here in China to permit the combination. We were the first company to submit a file under new MOFCOM rules for M&A, and we got the approval with some conditions. And more recently, when we wanted to increase our stake in

Zhuijiang Brewery from 25% to 29.99%, everybody thought that it would take a long time to get MOFCOM approval. And Frank Wang helped us to get the approval in no time. So, it can change tomorrow, but so far it hasn't been a problem for us. Right Michel?

Michel Doukeris: Without adding too much to the answer, the key point is that the government has their strategic sectors. Their agenda is focused on building capabilities for these strategic sectors, and building partnerships with private companies and public companies in the other sectors. We are not aware of any differences in the way that processes are conducted between companies with ties to the government and those without. We respect all the laws, and follow all the technical points for MOFCOM whenever there is any M&A in China. And they have great people, very technical people – it is a very serious institution.

Regarding the second question, I have a very short answer for that. You just mentioned 2 great companies. Snow/ CRB is a great company, Tsingtao is a great company. They've been expanding their market shares. China is a huge market, very diverse, and we are also increasing market share. I don't see good or bad market share gains. They are companies with their own strategies - and we are very clear about what we want. We want to win with the winners and we want to win where the growth will be. And I believe they are, in their own way, pursuing their own strategy and that has been very successful in driving growth.

Carlos Brito: Just going back to your first question. When we first came to China as ABInbev, it reminded us of what Brazil was like in 1989, when we first started in the beer business. The government was heavily involved the [beer] industry with price controls, and the margin pool favored the trade and wholesalers. So the brewers had a very small margin. That's why, in the summer, there was never beer, not because of demand, but because the brewers didn't have any money. So it was a terrible business. But because we've always been bullish about Brazil, we thought that, at some point, common sense would prevail and governments would have other things to worry about than regulating the price of the beer. That was the bet. In 2004, when we looked at China, we thought that if we could get out of JVs, we could control our own destiny. We knew the macro would take care of itself, because we could see that it was similar to what we had seen years before in Brazil - and today we have an amazing margin there. So our bet in China has always been that the government would shift out of beer into more strategic sectors like telecom, transportation, health care, education, etc., and the market would consolidate - and margins would get better. China has the added benefit of growing faster than Brazil for many years, and premiumization that is only now picking up in Brazil, has been a factor in China for a while. In China we decided 10 years ago, when it was not that obvious, that we would focus on the super-premium and premium segments. Today a lot of other people are trying to do the same. But we made that decision 10 years ago, and we never really changed course, and it's paying off.

Jeff Feng: This is Jeff Feng from Invesco. Question for Brito or maybe for Michel. I want to hear the rationale behind the OB acquisition in South Korea. With all the great potential you just shared with us in China, why did you acquire a beer business in South Korea which is not growing? It has an aging population, very high consumption per capita. In addition, you bought from private equity guys, so there are fewer opportunities for margin improvement.

Carlos Brito: We sold Korea in 2009, as part of the AB acquisition, when we had to sell some assets. The Korea asset was the toughest one to sell, in the sense that it was very good asset and we didn't want to sell. Maybe because it was such a good asset during the 08-09 crisis, it was one that had

interest from other buyers. So it was one of the first ones we sold and at the time we thought that we had sold for a very good price, given the world we were in. Felipe's team was very smart to put a clause in the contract that allowed us to buy [the asset] back in 5 years, at a multiple that - at the time - looked high. That's why the private equity agree to the clause, for them it had no value. And for us, if it didn't cost us anything, so we figured why not. Then the world got better, and 11x multiple looked very attractive in terms of buying the business back. So, that's the first reason -- we never wanted to sell since we have big plans for Asia, and Korea is important within Asia. We have amazing brands in Korea. We became the market leader [while KKR owned the asset], and when they bought we were already getting there. They did a very good job in accelerating market share. Michel can talk more about it, but the import segment in Korea is an amazing segment, growing very fast. And we are very under-represented, because during the 5 years KKR owned OB, they were not interested in investing for the long term, their line of sight was 5 years. Now the business is ours forever, and will invest big time in the international premium segment, and this will drive premiumization and margins because of the mix. So again, a market we never wanted to sell, that we bought for a very good price because Felipe and his team negotiated a good multiple. And if you want to be No. 1 in Asia, Korea is an important market to have [a presence in]. Plus international premium now is very important, and we have a very big opportunity because we are investing for the long run, versus KKR who never had it high on their agenda. We are very happy to have Korea back.

Michel Doukeris: Not much to add but Korea fits very well with our dream of being No.1 in Asia. Second, there are great people there and a great culture of efficiency and innovation. The influence of Korean culture is growing in Asia, we see brands from Korea, artists in Korea that have huge influences in different countries in Asia. On top of that, there is a unique opportunity for us as market leaders to premiumize the industry and drive per capita consumption. Beer per capita consumption is not that big compared to other alcohol. So there is a big share of throat opportunity.

Miguel Patricio: Just linking to what we saw yesterday, Korea is a pretty traditional beer market. Very concentrated in specific consumer needs. As a consequence, the per capita is quite low. There are good opportunities to extending our portfolio into different consumer needs.

Chris Pitcher: Brito you mentioned that government is expected to become less of an operator of beer assets over time. What does that mean for the taxation outlook for beer? How do you see excise tax developing? Within that, is the pricing environment strong enough to be able to pass increasing excise taxes on as and when they come? Also, you gave us a sort of market projection- which looked to be about 2% market growth rate. How long do you see the current period of market decline persisting in terms of your own expectations?

Michel Doukeris: I think the government in China has been working for several years on improving their tax system. From what we know, there are other priorities in terms of where to increase taxation. If you compare the percentage of the margin pool [represented by taxes], taxes in China are really not so low. But I have no way of knowing whether, if prices go up, taxes will also increase as a percentage of [retail price] or if they will evolve in line with the margin pool. I have no view on that today. But I know that the government is working and beer is not one of their priorities in regards to tax reform. And finally, taxes as percentage of margin pool is today not that small.

Can you clarify the second part of your question?

Chris Pitcher: The market projection you gave indicated about a 2% compound growth per annum, but



obviously we are in a soft period. I don't challenge that long term growth rate, but how long do you think this period of softness – and market declines - will continue?

Michel Doukeris: When we look forward, our estimation is that industry growth will be between 1 and 2 percent. This current period of industry declines has been ongoing for more than 12 months. I do not know how much longer this will last. But our outlook is that the industry will bounce back, and more importantly for us, super premium and premium segments have proven to be very resilient and growing at a rate of 10%.