AB InBev Investor Seminar

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Good afternoon everyone, and let me add my welcome to Guangzhou.

I am sure that some of you are surprised to see the Technology Officer added to my title…..

In fact I have had responsibility for both functions since early 2014, and so today I am going to take the opportunity to talk to you not only about Finance but also about how technology is impacting our business.

My presentation is split into two parts. A short section dealing with our Financial Discipline and then a second, longer section highlighting the role of Finance and Technology as partners for the business.

So let's get started with Financial Performance

Brito referred to our business model earlier this afternoon. I am going to focus on the Financial Discipline pillar, and provide you with some examples of how this has driven our financial performance.

Our culture and our track record are full of examples of our ownership and entrepreneurial spirit, and as Brito explained we need to continue to act as insurgents going forward. But this entrepreneurial spirit has never come at the expense of strong financial discipline, with a sharp focus on cash generation and margin enhancement.

Strong EBITDA results and working capital improvements have helped us to increase our cash flow from operating activities to over 14 billion dollars in 2014.

Top line growth along with increased scale and operating efficiencies have driven steady margin expansion – but it's important to note there is not one magic bullet, rather it's a function of focusing on lots of little things that, when added together, have a powerful impact.

One example of this is best practice sharing between zones, which you will see in person on Thursday morning. Through best practice sharing, we are continuously looking to improve processes, and always striving to do better.

To this end, we continue to see opportunities to drive efficiencies, in part by closing gaps on our Zero Based Budgeting – or ZBB – journey towards Zero Overhead Growth or ZOG.

In 2015, we are leveraging our revamped ZBB management routines and productivity exercises to close the remaining gap to Zero Overhead Growth. As you can see from the graph on the right, which shows annual growth of our total overhead – less synergies and scopes – as a percentage of inflation, we started to make progress in the right direction already in 2014.

The first step in this journey was to go "back to basics" – bringing back the relevance and diligence to our ZBB routines through a series of quick wins, as you can see on the left side of this slide.

As I have said in the past, ZBB is much more than a set of programs or savings initiatives, it is a mindset that – when coupled with the Dream People Culture platform that supports ownership – can lead to very powerful results.

So, while we are proud of the progress we made in 2014, we still have much more work to do on our path towards ZOG and eventually NOG, or negative overhead growth

A dedication towards ZBB, and the resulting impact on EBITDA margins, has been hallmark of our company for many years. But this cannot be said about our working capital performance.

In 2008, the Board gave us the challenge to dramatically improve our working capital performance. At the time, what we now define as CORE working capital, in other words, those items of working capital which are core to our business, was just over 2% of our net revenues, and not a major focus for my team or the business.

So ….embracing the challenge, we benchmarked ourselves against other companies, identified the gaps, dug deep into the numbers to gain more visibility, set aggressive targets and established a disciplined tracking and monitoring processes. As a consequence, by the end of last year we had reduced core working capital as a percentage of net revenues to MINUS 11%. This 13 percentage point improvement over 6 years represents over 6 billion dollars of cash that has been "released", based on 2014 net revenues.

And the journey continues as we continue to see gaps across all zones and therefore plenty of opportunities for future improvements.

The sheer scale of our cashflow, together with the complexities that result from generating cash in many different currencies, requires us to use a holistic debt management approach which takes into account real life market constraints. So let me say a few words about how we think about debt portfolio management in relation to our cash flow generation.

As you can see here, approximately one third of our cash flows are denominated in US dollars and another third in Brazilian reals. The remainder come in a variety of different currencies, including less than 5% denominated in Euros.

In the absence of capital market constraints –such as issuance tenors, market liquidity and market depth – risk management theory would suggest that we could mitigate foreign exchange volatility by matching our outstanding debt to the same currency as our cash flows. However, given the absolute size of our debt portfolio, and real life capital market constraints, which are shown in the chart to the right, we chose to conduct most of our funding in USD and EUR.

In addition to the fact that there is little depth of liquidity or flexibility in terms of tenor in the BRL debt market, matching our BRL cashflows to BRL debt would be too expensive given prevailing interest rate levels in Brazil. As a result, we have found that Euro funding has proven to be the single best alternative as the EUR bond market is considerably deeper, cheaper and more flexible. Furthermore, our Euro liabilities have been a good hedge for offsetting some of the BRL translation impact over the long run.

As you all know, we do not hedge the foreign exchange risk embedded in our EBITDA translation and as a result, recent currency volatility has negatively impacted our reported EBITDA by almost a billion dollars during the first half of 2015 versus the same period of 2014. These currency losses more than offset the positive 7.6% organic growth as shown in the top chart of the slide.

However as you can see on the bottom of this slide, a good operating result, combined with sound financial discipline and a strong Core Working Capital performance allowed us to maintain an essentially flat level of nominal cash flow generation versus the same period of last year.

In other words, while we are not immune from worldwide FX volatility, we should be able to significantly mitigate its impact.

The outcome of these risk management choices is a healthy debt maturity profile which balances currency, cash flow generation, and capital market liquidity.

We seek to manage our debt portfolio to reduce annual concentrations in maturities; we aim to keep maturities in any given year at a level where – even if the capital markets were to "freeze" for a year— we could repay that maturing debt with our operating cash flow. The advantage of funding across a handful of debt markets, all with unique "benchmark" tenors, is the ability to maintain such a maturity profile that balances refinancing needs with cash flow generation.

Our cash flow generation, and our carefully crafted debt maturity profile, when combined with our risk management policies, have allowed us to balance deleveraging with returning cash to shareholders.

Following the combination with AB in 2008, our shareholder structure allowed for the flexibility to reduce our dividend payout in order to meet our 2012 deleveraging commitments. Since that time, we have significantly increased dividend payouts – with over 15 billion dollars in total capital being paid out to shareholders between 2012 and today.

Let me finish the finance centric chapter of this presentation with a reminder about our capital allocation priorities. We have always prioritized revenue and capital investment in the organic growth of our business. This has never been more important than it is today, and will continue to be our most important priority as we look to accelerate the growth of our topline.

Selective M&A will always be on our agenda since it is a core competency and has created significant value in the past, but we have no defined timetable and feel no pressure to do deals. Strict financial discipline is paramount when considering non-organic growth opportunities.

We will continue to distribute surplus cash to our shareholders and are targeting a dividend yield comparable with other consumer goods companies in the 3 to 4% range.

Finally, as you saw on the previous slide, after the combination with AB in 2008 we initiated a rapid and successful deleveraging of the company towards our optimal capital structure of a net debt to EBITDA ratio of around 2 times. Around that level distribution of surplus cash will consist of both dividends and buybacks.

So…to summarize…a strong financial discipline and a focus on cash generation, together with topline growth and increased efficiency over the years, has resulted in healthy EBITDA margin expansion and has driven value creation for our shareholders.

We continue to see opportunities to drive efficiencies, leading towards zero overhead growth, with room for improvement in areas including working capital. Our holistic debt management approach considers cash flow generation in different currencies, as well as real life constraints, and has driven us to structure a healthy debt maturity profile balancing currency, cash flow generation and capital market liquidity. And most importantly, we remain focused on cash generation and are guided by clear and consistent Capital Allocation priorities.

I now want to spend the rest of my time talking about Finance and Technology joining forces as partners to the business and helping to accelerate topline growth.

This slide, which we refer to as the ABI Ecosystem, aims to explain how the Technology team at AB InBev is interconnected with external and internal stakeholders as well as our role in leveraging different trends in technology to drive top line growth.

In the center of this slide, you will see a section called the “Top Line Gateway”…this describes our hub, which connects our back-end information systems – such as order taking, logistics planning, and systems which store consumer data – to the platforms that we have assembled to drive top line growth. I will go into greater detail on several of these platforms, but the Technology teams’ mandate is to build the different platforms at scale, with maximum flexibility and integrate them with other ABI systems and in a secure way. These platforms are essential for connecting with Consumers, Retailers and Distributors.

Let me also quickly describe the left part of the slide. On top, you see the Bud Intel platform, where we consolidate all of the relevant data from our systems to provide operational reports and insights to management. At the bottom left, we have the Supplier Gateway, which is where we interact with suppliers through, for example, web portals. At the bottom is the OneABI platform, where we promote employee efficiency through solutions that maximize collaboration.

So, let’s talk about the four of our top line focus areas: B2C, B2B, mobile, and the connected POC.

A few words on B2C, or business to consumer. To support the growing importance of B2C e-commerce sales, we are focusing on three main B2C channels

The first is the e-retailer channel which is very advanced in certain markets, such as the UK, which links us with major players such as Tesco, Ocada and Asda.

The second one is the courier model, which is growing especially in markets like the US and UK.

The third channel is comprised of proprietary platforms that we have built in markets such as Brazil, including Emporio de cerveja, and Mexico where we have Beerhouse and ModeloNow.

We have learned a great deal from our experience in Mexico with ModeloNow. Driven by a shortage of alcohol sales licenses, particularly in the North part of the country, we started to look for new sales channels to reach consumers directly and ended up creating ModeloNow as a home delivery model. Consumers can now order beer, with guaranteed delivery in 45 minutes or less, via phone or this app, with Modeloramas serving as warehouses for these deliveries. We have established a special function in our shared service center to oversee the ordering and delivery process, and this team will drive proactive sales based on data collected in a CRM database.

While we have made good progress on the B2C front in recent months, we still have much more work to do to scale our initiatives in the B2C arena. We are focusing on all three angles we discussed earlier: e-retailers, courier models and own B2C platforms allowing our consumers to enjoy our products whenever they want respecting of course any legal restrictions. Hopefully you all will have the opportunity to buy one of our products on-line very soon if you haven’t already done so.

Moving on to B2B, or Business to Business, we are building a platform which will allow us to digitalize our relationship with the POCs, enhancing sales force productivity by transferring certain basic activities –like order taking— to the POC.

Our B2B platform will be our main gateway to connect to all major POC stakeholders, including store owners, managers, and bartenders. This platform includes functionality around scheduling entertainment, ordering POC material – for example umbrellas, beer coasters, signage – and of course ordering beer! We plan to integrate additional features such as delivery tracking, a loyalty platform, analytics – including intel on brands that are "trending" with nearby points of sale, performance versus competition— and ultimately connect our systems to the point of sale terminals for automatic replenishment.

We are optimistic that initiatives such as these will help drive top line growth. The B2B agenda began with a pilot in Brazil, where we built a platform that allowed for simple beer orders and delivery tracking. Shortly after rolling out this platform, we saw an increase in sales, linked to the fact that the bar owner, who is often the main user of the app, was more inclined to roll out innovations and push promotions after being more involved in the process. More recently we have deployed similar systems in Seattle and New York, and we have seen some promising trends – particularly with younger POC owners.

To support these initiatives we have built a cloud-based global B2B platform, called TapWiser, to accommodate roll-outs in the US, Mexico, Columbia, Argentina and China. The TapWiser platform will be a key enabler in shifting transactional activities, such as taking stock counts and ordering, away from the salesforce and allowing sales to focus on higher value-add sales activities.

Let's quickly look at a video about TapWiser so that you can get a sense for how it works.

I hope that video gave you a sense for some of the cool things we are doing on the B2B front

I'd also like to spend a little time on some of the sales force initiatives that we have underway as it's clear that, looking ahead, our sales forces will only become more segmented and specialized.

Technology will be a key enabler to support the sales rep of the future in their main sales activities, which include prospecting, negotiating, order taking, identifying execution levers, activating consumers and compliance checks.

A few examples of what we are doing in these areas: in the area of prospecting, we are using social media insights to identify the best prospects; regarding the negotiation process, we have developed mobile apps with features including augmented reality which has been very helpful in assisting POC owners to visualize equipment placement. And in order to streamline compliance checks, we are integrating technologies such as digital image recognition.

We are already seeing productivity savings from the rollout of these initiatives and we are still early days. And while we will continue to look for opportunities to drive savings, we are most excited about the top line growth opportunities that are possible with these programs.

The final leg of our TOPLINE gateway platform – and perhaps the most exciting initiative of all – is what we call the "Connected POC". This refers to a POC that has been 'wired', and in which our POC assets – including coolers, neon signage, tap handles, etc. – are integrated to drive Category Management and Market Share.

The goal here is simple: we want to capture as much data as possible to drive extensive insights into the workings of the POC. Not only will this help POCs grow by selling more of our products, but a wired POC also helps us drive 1 to 1 targeting through specific promotions and allows for point of sale integration to facilitate automatic replenishment.

With a wired POC we can do other creative things such as altering digital signage to communicate different messages during the day, or offer programmatic ads depending on the type of bar or consumer.

A great example of the wired POC concept is live here in China, known as X-KTV, or the technology enabled version of the Karaoke TV.

You will visit one of these X-KTVs during your market tours tomorrow night and I encourage you to test your singing skills – optimally tuned by one of our beers! Our KTV app allows consumers to select their preferred KTV bar, reserve a table, select their music, order some Budweisers and have a fabulous experience.

We think that wired POCs have the potential to really change the consumer landscape, and will be an important tool in developing our brands, particularly in the "Changing the Mood" and "Serving up a Great Night Out" occasions that Brito and Miguel spoke about earlier.

So, we have reviewed four of the technology oriented Top Line growth priorities. Let me talk about a few complementary things that we are doing on the technology side to support our management to make even better decisions.

We continue to step up our investments in analytics and insights, focusing on understanding our consumers, brand, SKU, customer profitability and mix management, by building diagnostics and predictive & prescriptive analytics which deliver actionable insights.

In order for this to happen, we need first, a single repository for capturing all available data in one place and making it the source for reporting and secondly, an automated process and report creation which drives insights.

To this end, we have created a global analytics platform to focus on issues such as consumer insights for Marketing and brand P&L visibility for Finance. We tackle many of these challenges in Bud Lab, our collaboration with the University of Illinois. As we seek to build a leading edge insights capability, we will continue to use Bud Lab to help 'crack the code' on complex problems, leveraging the latest technologies to manage big data while exploring new topics such as Artificial Intelligence.

We will also deepen the analytics capabilities in our shared service centers, starting with our center in Bangalore, India which we opened in 2015.

In summary…

The Technology team at AB InBev is a critical partner in developing top-line growth solutions. We are building different platforms at scale, with maximum flexibility, to sell and interact with our consumers, digitalize the relationship with our POCs & retailers, and optimize product distribution to the market. These platforms will be integrated with other AB InBev systems and are essential components in connecting our brands and our supply chain with Consumers, Retailers and Distributors.

I have shared with you a few examples from each of these platforms – including proprietary e-commerce platforms, B2B solutions, such as TapWiser, and we have other programs in development to create the Sales Rep of the Future. Our Connected POC initiatives are well underway in China, but there is much room for growth on this front in other markets.

And finally, our analytics capabilities are evolving to help us better understand our consumers and to build diagnostic, predictive and prescriptive insights.

The Finance and Technology teams will be important partners in driving the Top Line Growth agenda throughout our company.