

AB InBev Investor Seminar
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Jean Jereissati, China President

Hello, good morning and welcome to Guangzhou. It's a pleasure to have you all here. My name is Jean Jereissati, I have been working for Ambev and ABI, for over 17 years, in a variety of roles, doing pretty much everything in the sales side of our organization, then moving to lead our Central America and the Caribbean business and, since the beginning of 2015, I have been President of our China business.

I would like to present a few pillars of our strategy, mostly the pillars related with Top Line Growth including trade-up, expansion, strongholds, sales machine, and disruptive growth. We are especially proud, here in China that we have a clear, simple and industry disruptive growth model. This chart summarizes our two-engine growth strategy to win in China: the premiumization and the distribution.

Michel spoke earlier, about the importance of looking beyond averages in China. China is too large and too complex to consider a single strategy, so it is essential to de-average, to break China down into smaller pieces and understand the differences beneath the size, the complexity, the competitive landscape and the projected growth....

With that context in mind, the first engine of our growth strategy is the premiumization. We aim to shape the industry towards trade up, from core to core plus, from core plus to premium and from premium to super premium.

The strategy is not to simply participate. In reality, we have had to build and develop these segments, which basically did not exist 10 years ago. While developing these segments, we also have been establishing our brands as the winners.

The second engine of our growth model is distribution. We still have more than 3 million clients that we do not reach. We carefully pick provinces that we want to bet on and we will go big on geographical expansion in those places.

The successful combination of these 2 engines, implemented in a very disciplined approach, has transformed us into the number 2 player in China by Traditional Trade (TT) revenue, Number 1 player in the premium and above segment, and the number 1 player by EBITDA.

Let's focus a little bit on premiumization and trade up efforts, and the journey from the China average to the High Road market transformation. Our strategy has been one of taking Budweiser national, and prioritizing cities with the highest concentration of middle and affluent class consumers. We built the Budweiser brand image, POC by POC, city by city, through the experiential moments of the night life channel. By doing so, we could target higher income consumers when they were having fun, in the moment of consumption. The Premium segment already represents more than 6% of the industry and has been growing consistently around 10% per year. And the super-premium, although very small, has been growing over 30% per year.

All of this premiumization and trading up is the biggest revenue driver of our industry, and it is very relevant for our company. Our volumes over-index in the high end, with nearly 25% of our volumes coming from the premium and super premium segments, while the industry is only 6%. We have been leading the growth of these segments, out-performing the industry by more than two-times.

These Top Line trends are also strong drivers of EBITDA: the Gross Profit of our premium brands are over 5 times that of Core and Value, and for super premium this ratio is over 9. Budweiser is a clear captain of premiumization in China, with consistent gains in brand preference and market share growth. As a result, between 2011 and 2014, Budweiser more than doubled both in terms of volume and top line. In 2014, Budweiser alone sold over 15 million hectoliters in China. So Budweiser in China is roughly on par with the total beer market size in Czech Republic or Peru.

When we come to the second engine of our strategy, distribution, our goal is to expand and build geographical leadership, province by province. We are very selective in terms of where to play. We first pick provinces with a sizeable beer industry and a healthy projection of future growth. We then build the team, establish the additional routes to market needed or expand our existing Budweiser Wholesalers and begin the distribution supplying from one of our existing plants.

By being selective and focused, we can concentrate our resources for maximum efficiency of marketing and sales investment. We expand our portfolio, open new channels, target more mainstream clients, and go beyond the big cities where Budweiser is already established to some county level and some rural areas. As we build momentum, we then look for more local production, either new breweries in Greenfield or available local M&A. The brand that is the captain of this strategy is our Harbin brand. Harbin has been growing double-digits, with focus on the young LDA consumers. It's our biggest brand in China with 26 million hectoliters.

I have been talking about our two-engine growth model pushing us into 2 different directions. But in the end, what we want is this tension leading us to move more and more areas from the China Average quadrant into the Stronghold quadrant. The stronghold quadrant is where we are leaders in terms of the total market and have highly developed premium and core plus segments.

To help you understand what a stronghold looks like, I'd like to share with you a little bit more information about our Fujian operation, in the Southeast, which is not too far from where we are now. Fujian is a province of 37 million people, with Beer industry volumes of 15 million hectoliters. In Fujian, we have 60% market share, almost 3 times the size of the second player and we have been developing and shaping the market, so the core plus and premium segments represent almost 80% of the industry. All of this combined, premiumization, leadership, and scale efficiencies, lead us there to an EBITDA margin way above the China average.

Let me show our efforts in building strongholds and how they have been evolving. In 2011, we just had 1 province in this quadrant. Let me show you how this province evolved, in the direction of driving industry trade up such that we then transformed 4 new provinces into strongholds. Let me show you how these provinces were positioned, and how they evolved from 2011 to 2014. (Text was accompanied by animation on the slide).

So now we are on the right track to build 4 new areas with high potential to become Strongholds. On top of that, these key 5 provinces are outperforming the China industry by 5.1 percentage points. So they are winning geographies, proving that they are the right bets.

So in summary, thinking about our strategy on a timeline perspective, our two-engine growth strategy begins with premiumization, focused in key cities with affluent consumers, then we invest to expand distribution, supported by the greenfield breweries and broader portfolio in all segments, and then create winning stronghold provinces.

The next step is what we call the sales machine, meaning how we build an organization to execute this strategy while also being efficient. The concept of the 'sales machine' is the way in which we organize and drive our commercial agenda to guarantee stability and consistency of execution, even while we are rapidly scaling up with hiring new teams, and partnering with new wholesalers, in new areas all over China. Another way to look at it, is how to manage the complexity of more elaborate strategies and build efficiencies on top of that. We have 7 pillars that support our sales machine, and in the interest of time I will highlight 3 of them today.

First is Revenue Management, where we have been very disciplined and have achieved a 8.6% net revenue per hectoliter growth CAGR. This is far ahead of the industry average. The concept here is to step up big time the market mix. To fight with Brands, in services and with Trade programs and avoid as much as we can fighting only on price. We are ahead of the market in terms of packs, aluminum bottles, extra small bottles, and we have a well-developed can footprint.

When it comes to channel activation we are recognized as an indispensable supplier by some of our clients, since our activations really add value for our customers, in terms of bringing traffic, and adding image and value to their business. And for sure, the biggest lever of revenue is the trade up strategy. Fabricio, will deep dive this chapter with you later today.

Another pillar, I would like to highlight, is our Wholesaler partnership and management. This is one of our most important competitive advantages. Our approach begins with the concept of partnership: Our wholesalers are partners, but we want to make them feel more like clients. We have 5,000 Wholesalers, and we elect a selected group among them, that we call the Elite Club. The election is mainly based on performance and their capabilities to expand with us, and then we go even deeper with an especially close relationship. We build business plans together each year, closely follow their performance, support their growth, and help them expand with us, taking care of their successor programs and transferring knowledge, for example on logistics processes, customers credit scoring, etc.

This group achieved a different scale, they are more than 10x bigger than an average wholesaler, they are on another level of professionalism, and we were able to build capabilities that enable them to unlock good value and return on their business. Through their success, our Elite Club wholesalers serve as an aspirational model for the wholesaler system. Let me show you, in a video, our journey of strengthening partnership with wholesalers!

The third pillar of our sales machine that I would like to highlight is what we call Trade solutions. We have a very clear focus on building brands through the trade, with a clear strategy of brands aligned to channels. Compared to many brand strategies that I've seen in the past, we over-index our investments to build our brands in the trade, during the moment of consumption. You saw a little bit yesterday, and will see more today, for example:

- Budweiser owns the Night, the brand very focused on Nightlife.
- Budweiser Supreme was tailor made for AB Chinese Restaurants
- Corona is a mix of Modern Trade activation and high end open spaces that allow us to facilitate mood shift. As you saw yesterday we are targeting roof top parties.
- Hoegaarden is our captain of Western draught bars
- Stella belongs in sophisticated restaurants and travel journey/hotels.
- And Harbin addresses Food streets and Chinese Mainstream Restaurants.

We had to build a sales organization to support these brand positionings, with all the knowledge per channel, with channel insights, and speed of execution to activate our brands in the right way in the right places. These capabilities are very unique. You will see in the best practice session tomorrow, for example, how we broke down the power of influence of the various stakeholders in the Chinese Restaurant channel to build an effective incentive to support our Budweiser Supreme brand, bringing technology as a key enabler for us to connect with tactical influencers.

I would like show you another example of how Budweiser activated the night life leveraging our global "Made for Music" platform. This platform is where we bring more elaborate entertainment for our night life POCs; we have to bring something that is very hard or expensive for them to develop alone. So we were able to book more than 400 dates of a group of international DJs, and design a concept party, work on the dancers and choreography, organize the productions and logistics and offer this to our best clients in over 130 cities in China. Let me show you, in a very short video, a little bit more on these program that brings great, but intangible, benefits to our clients!

A key challenge for our sales machine to resolve is how to manage the execution of this broad portfolio given the speed, evolution, and fragmentation of Chinese consumers. To address this, I would like to highlight a special topic, within the disruptive growth pillar, which is our strategy to manage the next wave of premiumization: the super-premium business. We believe that our super premium portfolio will be a major driver of business growth in the coming years, although today it is a small and niche business. With that in mind, we decided to create a stand-alone super premium company inside our company, to have the right focus on this fast growing segment, and to build the distinct capabilities this segment requires. So, we have a whole parallel organization, from the top to sales reps, to lead the growth of this segment in China and establish our brands as champions.

There are two capabilities in particular that we have had to step up. First, an enhanced and specialized wholesaler network for Western Channels and travel occasions. Just for you to understand the changes needed, most of our sales reps for this channel have to speak English. We also need to have the structure and capability to offer draught beer to reach this new and evolving channel.

The second capability is to play the game in the digital world. Digital requires comprehensive capabilities and strategy covering consumer connection, content development, the digital solutions, B2C logistics, and much more. We are quite happy so far, having quickly become the number 1 beer player in the most relevant 3 big e-retailers: Tmall, YHD and JD. As one example, we recently conducted a Corona activation on our Tmall page offering the iconic combination of Corona and limes, for home delivery. This, ritual, very well established in bars and restaurants, is not easy to ensure during In home occasions, but we found a way to do so with e-commerce.

The super-premium company is an example of how we plan to lead rather than simply participate. We want to be always ahead, betting on and shaping the trends, with the mindset of leading the development of new areas in the market, in a smart way, which is hard to copy.

So going back to the Sales Machine and how to manage all these new complex strategies all together, I'd like to illustrate by showing our performance in brand by channel. This is a graph that shows the volume representativeness of each brand per channel. We have been able to source most of Budweiser volumes from the Night Life and Top Chinese Restaurants in a strategy that we have been working for a while, nationally in China. The development of Harbin, and the adoption of our expansion strategies, brought the complexity of tackling the Traditional Trade execution together with the more mainstream restaurants. And in this new wave of super-premium, we are very much focusing on the Western Channels and Travel journey together with the E commerce.

So we have been successfully creating replicable models of growth and building then on top of our initial strategies, a capability that is crucial in China. And a big competitive advantage. We have seen China as a country that is going through a change in its growth model, and there are lots of different points of view on when, and how, that will play out. I will not dare to make predictions, except to say that we know change is coming. In these moments of change, there will always be winners and losers. The new model versus the old model. New sectors versus the old sector. And we have to be ready for the change that will come.

I feel we are very well positioned to go through this change, and come out of it with more strength. We have been winning with winners for a while now. We are over-indexed in the right segments. Super Premium, Premium and Core Plus already have better profitability and will continue to grow. We built the platforms to win with the fast growing channels. Modern Channels are out performing traditional channels. We have been growing in the mind of high income consumers, the ones who set the trends in China. And the geographic areas where we are strong, are also outperforming the total industry. Looking forward, our growth strategy will build on and improve the successes of the past. Premiumization is the biggest opportunity. We also have a big opportunity in expanding distribution: there are more than 3 million POCs that we do not touch today. We will expand and build our Strongholds, which comes with scales, productivity and margins. And we have a whole opportunity to shape new occasions with new liquids and innovation to drive Share of Throat.

We are very proud of the growth we have seen so far, growing our market share to over 18% in the first half of this year. But looking forward, the size of the opportunity I see ahead of us, is still much bigger

than the achievements we have accomplished looking back in the mirror. Thank you very much. Any questions, anything you need from me, I will be with you in the following two days.