AB InBev Investor Seminar
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Good morning everyone!

I'm Luiz Edmond and I've headed the North America zone for the last five years, which encompasses the time since the combination of Inbev and Anheuser-Busch. I joined Brahma in Brazil in 1990 through our first trainee program and worked most of my life in distribution, sales and supply operations and general management positions.

Before I moved to the United States, I served as Zone President of Latin America and CEO of Ambev. I'm happy to be here today to share in more detail our business in the U.S.

I've divided my presentation in three basic chapters: A quick review of who we are and what we represent; Our results over the last five years, with special attention to our top-line growth and the challenge we face; And finally, some of the initiatives we've put in place that will serve as an introduction to our team that will present to you today.

First, let me start by describing more about who we are in the U.S. as an organization. As you probably know, the U.S. is the biggest beer profit pool in the world, despite being the second in terms of volume – China being the first. Every year, consumers spend almost 250 billion dollars to buy beer, or 1.6% of the total GDP. The industry generates, directly and indirectly, around 2 million American jobs and pays almost $40 billion dollars in total taxes. In such a big and profitable market, competition is fierce and growing, with more than 2,000 breweries offering thousands of brands and even more SKUs, sold through five completely different channels, governed by specific alcohol beverage laws and regulations in each of the 50 states.
AB alone has close to 500 wholesalers serving approximately 500,000 accounts every week.

The ABI volume in the U.S. represents almost 30% of the total global volume, while delivering 37% of total EBITDA with a 42% margin, resulting in almost $5 billion dollars of free cash flow for the company.

We have a unique position in the U.S. We sell one in every two beers in this country. We have 6 of the top 10 brands, and, yes Michelob ULTRA just joined that list. The list of top brands is led by Bud Light, which is nearly 3 times the size of Coors Light, even before including its line extensions. AB leads every single segment except the high-end, which, by the way, is a great opportunity for us.

Our state-of-the-art U.S. breweries combine years of tradition and heritage with a unique footprint and unparalleled scale to produce the highest-quality beers at a very competitive cost. Our breweries use state-of-the-art science and technology with advanced controls to consistently produce and package the best-quality beers on a large scale. But the controls are only part of the equation of producing a fine beer.

We have the strongest team of brewmasters of any brewer, each averaging 16 years of experience. Our brewers go through uncompromising training, and their ultimate goal is to become brewmasters, who have the top responsibility for our beers. Our brewers are responsible for delivering hundreds of amazing beers, and our teams produce and package them in almost 2,000 SKUs. Just to put in perspective, one average ABI brewery produces the equivalent volume of all U.S. craft beers combined, or almost the total beer sold annually in the entire Canadian market.

Our vertical operations are much more than a cost advantage. We produce malt, rice, bottles, cans, lids and grow hops at very high quality and a very competitive cost, yes we do. But here you can see two examples that go beyond the cost and quality. At our Elk Mountain Hop Farm in Bonners Ferry, Idaho, we own the largest hops research lab in the world, which enables us to develop unique hop varieties for our beers. Goose Island, for example, is developing some new IPAs that I'm sure craft drinkers will love. MCC, or our metal container group, produces 50% of our cans and consistently wins first place in quality. But ,we've added a second priority to the group: Developing innovations. You will see today our new aluminum bottle with a screw-top that not only beats competition, according to consumer research, but uses a lot less metal than our earlier version.

Finally, to serve such a complex and wide geographic market, we have, by far, the best group of wholesalers in the country. AB pioneered the development of a strong wholesaler system years ago, establishing standards that assure our beers receive the best treatment and are well-represented in local markets. As business practices have developed over the years, and consumers have changed, we believe there are more ways for the system to improve, and our focus is on opening this gap and creating the best route to market possible. We all know that, just like in any other business, there will be consolidation opportunities in our wholesaler system. It is voluntary for wholesalers who want to sell or to grow. Consolidation provides the opportunity to create larger wholesalers with greater scale and efficiencies, enabling them to invest more in their business, our brands and in the marketplace. We support and interact with our wholesalers through proprietary tools that create competitive advantages to our system.

The Ambassadors of Excellence program was already in place when we arrived and was designed to recognize and incentivize wholesalers who continually improve their business, taking it up to the next level. Originally, it was focused more on infrastructure; we have converted it to focus more now on sales and execution. Our Ambassadors program helps us drive more standardization in the system, collect best practices and provide playbooks, or How-To's, on ways to improve their business, all while respecting the wholesaler's independence. A higher level of uniformity creates a competitive advantage, as we've experienced in other countries, and results in superior execution in the market. Our mobility system allows us to completely integrate high-level analysis all the way down to an independent retailer's objectives, and then track execution all the way back to evaluate its success.

Finally, we continue to invest in our anchor wholesalers, the ones with the best performance, financial capabilities, people bench-strength to grow and who are aligned with us. Our anchor wholesalers are the ones we would like to see grow when consolidation opportunities arise. Our wholesaler branches, or WODs, operate under the same legal and regulatory framework as every independent wholesaler in each state, bringing value to retailers and communities, while helping us develop best practices and great people. We will continue to consider WOD opportunities when and if it makes sense. But let me make clear: We will always respect the wholesalers contracts and their desire to sell – or to not sell. Our number-one priority with our wholesalers is to create the best route-to-market system and beat competition in every corner of this country through superior execution.

In this next chapter, I will discuss our results since the merger. Our focus here is not on the short-term performance, but this will give you a sense of the evolution. I will concentrate more on the top-line than on synergies. As you can see from the slide, from 2008 to 2012 we grew our EBITDA by more than 2 billion dollars. EBITDA reached almost 6 billion dollars in 2012. Even more impressive, our cash flow generation more than tripled, reaching $4.7 billion last year. I could spend hours giving you examples of synergies and how we continue to evolve after the integration was complete.

Water and energy consumption, extract losses, back-office centralization, electronic auctions, using our global procurement organization for better pricing and payment terms and a strong discipline in the use of cash are basic examples of how we continue to become more efficient, while driving top-line growth. Our organizational structures have fewer levels now, accelerating the decision-making process. They are also more focused on the core of the business. Our shared service center takes care of most transactional activities. Our teams are committed to continually finding efficiency opportunities, as everyone understands our cost-connect-win framework.

There are several examples of how we were able to free up resources and re-invest them to grow the business. Just to give you one concrete example, our new aluminum bottles required investments of around $150 million, but our CAPEX numbers are still significantly below the ones from the past. Bigger and bolder innovations, both new liquids and packages, require significant funding, as does securing the best sports and entertainment proprieties in the country.

We have built an experienced and more diverse team of people, bringing the best of the two companies together. Since people are our most important asset, I’m very happy to see the progress we have made to bring our team together. Integrations are very stressful for everyone, but when you look at our engagement numbers you can see that we have turned the corner and our people feel better about the company every day. We are heavily investing in training and development of our people. Specifically, we are working on everyone’s ability to solve problems through training on our belt programs. We’ve trained more than 330 people to solve complex problems applying proven methodology. If in the past a problem was something no one wanted to have, the organization now understands the need to transparently identify opportunities, or areas that need attention, or that could be holding back greater progress. Opening these gaps enables us to continue to evolve and improve.

Finally, we are very happy with the caliber of the people we are attracting to the company. Our global trainee and MBA programs have recruited more than 100 individuals from only the top schools in the country. I'm very excited with the new mix of people we have and am very confident in their future with the company.

One last slide before I move into top line. You all know we strive for excellence, and a cornerstone of that are our excellence programs in each area of the company. They define the what, the how and expected results of our most-important processes that apply across all countries. Every year we compete against each others' organizations to define who was the best in sales, in marketing, in brewing and in People, among others. Well, after only three years of the implementation, the U.S. and North American zone were the most rewarded last year. It's a confirmation that we are now part of a bigger company and, more importantly, that we have the fundamentals, the controls, the knowledge and the people to achieve great results in a sustainable way.

Let's move now to top line. The first thing you will notice is that our net revenues grew by almost 5% from 2008 to 2012. Let's understand each component of our performance, to have a better view of what's going on.

First, let's take a look into net revenue per hectoliter. You can see that between price and mix, we were able to create 1.7 billion dollars in additional revenue. In 2009,we conducted a major deep dive into the U.S. price environment, our internal policies and governance. The first findings were that beer in the U.S., compared with similar nations, was very affordable and price/volume elasticity was very low. For years, price had lagged inflation. Since then, we changed almost everything we had, first by taking a much more disciplined approach, completely redefining our governance model and centralizing all price and promotion decisions. A very strict number of employees can touch price in the U.S. now.

We have invested and continue to invest heavily in understanding price. We are developing state-of-the-art and proprietary tools, from modeling to tracking, placing the best people in the pricing organization, developing deep analytical capabilities supported by big data. We moved from pure price increase to revenue management where mix, innovation, pack-price became part of the tool kit. You will hear a lot more from our team today on revenue management.

Next, let's take a look at the industry performance. As you can see, volume declines represented a negative impact of 700 million dollars in our performance alone. So, we have some headwinds here. For almost 10 years, the U.S. industry was consistently growing around 0.8% a year – a very good performance for a developed country. When the recession hit, we went from growth into decline. Many believe the decline has to do with our price strategy. However, when we look into our econometric models, we find very low correlation between price and the industry decline. There's some, but those represent a small fraction of the impact, as you can see. Our model is very accurate with a 98.5% R square. According to our model, the variable that better and most explains the decline is labor participation. And that is something where we have zero involvement and would happen despite our pricing.

When you look at the chart on the bottom, you see two lines, both declining. Yes, the unemployment has improved in the last three years, but you don't see that reflected in the labor participation. There are simply fewer people working. And the number grew worse in every single year, reaching a 35-year low at the beginning of 2013. The labor participation rate alone explains 100% of our industry decline, everything else being quite a wash. After a promising 2012, with even some growth, we were surprised with a strong decline in the 1st quarter of this year. I mean surprise because decisions in Washington to increase the payroll taxes and the sequestration did not happen until the last minute. They had serious impacts in our first-half performance, especially when you combine those with very poor weather during spring. True also that we came from a very good weather in 2012, too. If you average the last three years, the performance is already much better than the previous three years at the peak of the crisis.

The good news is that the scenario is improving month after month. We see stabilization in the workforce, and disposal income seems to be gaining traction again. Hopefully, we will see the industry becoming less of a drag in the future.

Finally, let's talk about market share. If the industry is difficult to influence and is driven mostly by external factors, share is something we can address. And in terms of our recent performance, we feel we can do better and are committed to stopping the decline while preserving profitability.

First, let me quickly explain how we, from a very high level, segment the U.S. market. In the slide you can see three major rectangles. From left to right we have the value, premium and above premium segments and their relative sizes. In each one of them you can also see the market share break down by brewer. I will use this framework several times to discuss the share performance with you It's important to understand that 100% of the share losses come from the impact of mix shifts across segments, not the performance within each segment.
Let me repeat that: 100% of the share losses come from the impact of mix shifts across segments, not the performance within each segment. The above-premium segment, where we are under-represented, continues to grow its participation, while value and premium segments are declining, with our core consumers pressured by the weak economy. Graphically you can see how our market share is much higher in the first two segments, the evolution of the segments and our share performance in each year, declining around half a point, on average, after reaching one of the highest in 2009.

Let's dig a little deeper into each one of the segments. First, we'll cover the value segment. The segment represents 24% of the volume and we enjoy a very solid position with almost 60% share of the segment. MillerCoors and Pabst define the rest of it. As you can see in the upper left corner, in 2009 the segment started to spike, which is one of the reasons we decided it was time to start closing our gap against the premium segment. The key consumers of value beers are blue-collar workers and college students aged 21 or older. These groups were significantly impacted by the economy. Our model estimates that half of the value segment decline would have happened because of the economic factors alone, while 25% was actually a trade-up to the premium-and-above segments.

But as you can see, another 25% was lost to other forms of cheaper alcohol, something we call trade out. After losing share for two years, we introduced several initiatives to reverse it. One example is the repositioning of Rolling Rock to play in a value-plus space, although at a higher price point than the average in the segment. Since then, we have not only been gaining share in the segment, but in recent weeks we delivered the all time high share. Although this segment is less profitable than the others, we still make more than a billion dollars here. We have learned enough about it to improve our price points, the portfolio of brands and even innovation for better performance and to protect our business here in a much smarter way.

Let’s move now to the premium segment, another one of our key areas where Bud Light leads with a significant advantage. The segment alone represents almost 50% of the total industry. But before we go deeper, and to do justice to our performance, let me add another segment to the group.

Some years ago, we realized there is enough open space between the premium and high-end segments and decided to occupy that space by “premiumizing” our core brands. Since then, we’ve created Bud Light and Budweiser extensions that drive a premium, sophisticated image, bringing liquids that are usually found only in the high-end and with that are able to command a better price, around 15% premium to the mother brand. We also decided to invest in Michelob ULTRA, a brand that already had a clear, strong claim as a superior light beer. Lori will share more on ULTRA later. As you can see, yes the premium segment suffered, a lot of it driven by the economy, but also some was self-inflicted.

Combining the two segments, you get a completely different picture, a much more stable performance. Budweiser is still in decline, it’s true. But we made significant progress in the last three years and especially in 2013 with the introduction of Black Crown. But other actions behind Budweiser also drove the progress, as you will see later in Brian’s presentation. We innovated even more with Bud Light. The base brand has suffered somewhat since then, but total Bud Light has being at the all-time high performance since last year. We still have work to do in better positioning Bud Light for the future. Consumers are changing, and the brand must be in tune with those changes. Rob McCarthy will go into more detail later.

We are very pleased with our performance in the premium plus segment. As I said, we charge a premium price on all brands, while enjoying a very solid market share position, with Michelob ULTRA leading the way. All but one brand in the top six are ABI brands. It was even more exciting to find we could create an extension of an extension to play in a completely different environment, what people in the industry usually call the PAB/FMB category. The Ritas family, with only one year in the market, has taken the lead. And there’s much more to come from the Ritas in the future. Let’s move now into the high end.

There are three pieces of information I want you to be aware before we go into more detail. As you can see, the segment is growing despite a bad year in 2009. However, moving to the right, you will also see that a lot of the growth is coming through the big brewers, and this number is increasing year after year. Also, the total number of brands started to stabilize this year. Let me break down the segment in two completely different sets of beers. We’ll start with the imports. One interesting thing about all relevant players in the segment is that, different than crafts, the beers are similar – they are all lagers. The key differentiation factors are the image, the origin, the color of the bottle. The segment is fairly stable with some ups and downs, but it has been slightly improving in the last 18 months. However, the segment has maintained flat pricings, and with that, closed the gap to premium beers by almost 50% since 2009. That has definitely helped the performance. We will discuss more later.

ABI's biggest player in the imports is Stella Artois and, as you can see, the brand has had impressive performance since it was transitioned from InBev to AB in 2007, growing double-digit every single year. Stella is considered by consumers to be the most sophisticated brand in the U.S., and is well positioned to grow in a very profitable way. Corona is the biggest brand in the segment and enjoys a very strong position. But interestingly, Bud Light has closed the gap as favorite brand across Latino consumers.

Finally, let's look at the craft segment. Sometimes it feels that this segment is much bigger, given all the press and noise out there. Although it's growing and crafts are really popular, it represents only 7% of all beers sold in the U.S. But we're convinced that big brewers will play a key role in this segment. One can list the several hundred different styles craft breweries offer. But you can boil it down to five big areas, or palates: Ales, wheat, IPAs and dark beers represent the bulk of the volume.

The next big area is seasonal beers – pumpkin in fall, for example. Consumers see craft in two different groups, accessible and discovery. The segment is extremely fragmented. It takes 15 brewers to make up 80% of the volume and more than 600 to make the other 20%.

The big brewers have demonstrated their ability to compete in crafts and represent most of the growth in the segment. Although we were late getting into the segment, and I will not discuss the reasons today, we are making a lot of progress.

Let's look at Shock Top. The brand was originally launched under the Michelob brand in 2006-2007, and we separated it to be an independent brand in 2010. In its seven years of existence, we were able to sell what took Blue Moon 15 years to achieve. Shock Top continues to grow and, with its unique flavors and position, will compete against multiple sub-segments in craft.

To close on craft, you will remember our acquisition of Goose Island in 2011. Since then, and despite some skepticism, the brand has been performing extremely well. In recent weeks we had triple-digit growth, and the different portfolios provide us with exciting opportunities. The EBITDA has multiplied by 10 times, and distribution continues to expand. We are leveraging AB's superior brewing capabilities with the craft credential and unique beers rom Goose Island. Adam will go into more detail on the high-end segment. So that's it for performance.

Moving into my last chapter for the day, I am proud of what we have delivered over the past 5 years, but what really excites me is what lies ahead. In the initial phase of the integration we were busy delivering against short-term priorities. Over the last few years, we have had much more time to plan for the future, and I am confident that we will be prepared to face the challenges ahead. Our future steps, as always, will be guided by our core principle that WE DREAM BIG. That is our starting point. Our team is not content to just ‘weather the storm.' We will always look for breakthroughs to create value for the company. Dreaming big is essential to us, because another one of our core principles is to hire the best people – people who are better than us. And trust me, the people we are hiring and developing will not accept anything other than aspiring to change the game in our favor. They are not here to just tread water, they are smart and ambitious.

We are building new capabilities for the company, but we will never compromise on the strengths that have brought us this far. We share a deep commitment to operational excellence - not just programs, but a consistent approach. Anheuser-Busch has always had a commitment to excellence, and we have only added to that. We will always be committed to excellence.

But we have been developing new muscles. Three years ago, we started a significant transformation, recognizing the need for us to be forward-thinking – to innovate and to explore. A significant amount of time has been spent developing these muscles. We’ve had our most-senior leaders spend time at top universities, embracing the latest thinking on how best to explore, including elements such as design thinking and rapid prototyping.

At a basic level, we have identified critical platforms that, when mastered will allow us to lead our industry, shape the industry to our favor and create new opportunities for our products and people. Our Explore agenda is already paying off. The visible proof is the success and strength we have see in our brand and packaging innovation. Beer has gone from being a category perceived to be stale and old, to one that is leading in innovation.

ABI is leading the way. In 2012 we launched the #1 innovation across all FMCG – Bud Light Platinum. We have followed that up with Lime-a-rita and Straw-Ber-Rita. The willingness to innovate, and the quality of those innovations, is a direct result of our commitment to our Explore agenda. Expect more great brand and package innovations to come from us in the future.

A deep understanding of consumers is at the heart of our Explore agenda. We have recently reviewed our consumer segmentation, and have broadened our perspective. Through our Explore process, we have better understood the impact of hard liquor and wine, and have expanded our demand landscape to include them. That basic insight has helped us design brands like Platinum, the Rita family and Stella Artois Cidre.

The benefits our explore agenda are not confined to package and brand innovation. An example is the progress we are seeing in our King of Sales Platform. The work being done within this platform is completely changing the way we execute in the US market. We are already seeing clear and tangible improvements in our execution metrics, and I am convinced we will only continue to open the gap versus competition big time in this area. They may try to copy us here, but we will continue to move ahead of them.

Another Platform that is already creating separation between us and our competition is our digital approach. The world is changing in front of us with millennial consumers (age 21-27) changing their media consumption habits and the way they interact with brands. Being ahead in digital is a major competitive advantage. We are well on our way in digital. We have an office in Palo Alto – our Beer Garage - where our teams interact at an early stage with some of the most innovative people and companies in this space, allowing us to adopt technologies early. We have recently also created our Bud Lab in partnership with the University of Illinois. We have created a group of people exclusively dedicated to staying on the forefront of big data and identifying pragmatic ways to take advantage of new information processing capabilities. Our progress in this area has been publicly recognized by the leaders in this space, such as Facebook.
During the day, you will see some examples of how we are building our future.

So to summarize, let me leave you with four main points: First, the US beer industry has been challenged by headwinds, but it is still a leading category that is profitable, efficient and growing dollar sales. Second, Anheuser-Busch is well positioned with leading brands in most segments and its scale advantages translate into superior profitability. Third, we are beginning to see the benefits from our renewed top-line focus through our explore agenda and are confident we will be prepared to face the challenges ahead. Fourth, we are building a world class team - top notch people who are completely aligned to the ABI culture. In the long term, this will make the difference.

Our goal for today is to convince you that, while the environment is challenging, we are equipped to succeed now and in the future. The best way for you to see our view of the future is to expose you to our great teams.

In the morning session, you will hear from David Almeida, our VP of sales and his team, on how we are re-shaping our sales capabilities in the United States, creating what will truly be a sales machine. They will share our results and strategies across critical disciplines such as category leadership, revenue management, sales execution and trade marketing with a focus on the shoppers.

In the afternoon, you will hear from Paul Chibe and the key leaders in our marketing organization. You will hear about the changing consumer landscape, and how we will turn that landscape to our advantage. You will hear from our brand teams, our digital team and our innovations group, what they are doing to delight consumers. By the end of the day, I believe you will see we are well-positioned to lead, shape and create opportunities for ABI in the US beer industry for the years to come. Thank you very much and enjoy the day. I will be back during the Q and A sessions.