

AB InBev Investor Seminar

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Paul Chibe, VP Marketing - Winning with a Changing Consumer

Good morning everyone. My name is Paul Chibe and I'm responsible for our Marketing in the United States. I joined the company just over two years ago and before Anheuser-Busch, I worked at iconic companies in consumer packaged goods for the last twenty years.

I'm proud to be here today to share with you some perspective on our marketing initiatives here in the US. Our amazing portfolio of brands and the dynamic US beer category create an environment for breakthrough marketing.

The foundation of this dynamic category is the dynamism and evolution of the US consumer. We'll show you today how we're leveraging our insights to prepare and position ourselves to win.

I'll cover 7 key topics in my presentation:

First, I'll share some Key Mega trends Shaping our Consumer

Second, some dynamic changes in the American Consumer landscape

Third, we'll dig deeper into the digitally savvy Millennial

Forth, I'll share Our Consumer Segmentation Framework

Fifth, How we structure our US portfolio to win

Sixth, I'll share a snapshot of Our key strategic priorities

And, Finally I'll show how our impressive scale helps us to win here in the US.

So let's start with some Mega trends shaping our consumer.

More so than ever, Individualism is a cultural force in American consumer lives. Our consumer is seeking out opportunities for self-expression and the chance to break convention and to establish their own rules. Millennials are especially looking for ways to customize products to fit into their lifestyles. They want to buy things that others don't have, and they want to be seen as willing to defy convention. This leads them to seek out or create their own custom experiences. We leverage this insight in building marketing programs and new products that connect with consumers.

Shock Top, with its Live Life Unfiltered positioning, brings this insight to life in its approach to beer and its marketing.

Another key megatrend being shaped by consumers is the desire for the sense of well-being. We hear this often in the vernacular of everyday conversation with our consumers. People are seeking healthy active lifestyles, People strive for work life balance, People talk about a healthy mind, body, and soul. A lot of this is fueled by our youth driven culture and it drives why the well-being megatrend is a powerful economic force.

One example of this is the projected 43 percent increase in anti-aging products spending between 2011 and 2015. \$80 Billion to over \$114 Billion.

Another example is the 77% increase in plastic surgery procedures in 2010 versus 2000. We leverage this insight in how we shape the positioning and communication of our brands.

A specific brand example of this is Michelob Ultra. Lori will show how this insight comes to life on Michelob Ultra.

Another powerful consumer trend is premiumization. Consumers are trading up in quality and price in the mass market. It's affecting all consumer categories from soft goods to durables. I'll use cars as an example, features found 5 years ago in luxury cars are now expected in the standard vehicle.

Our US mass retailers compete on style and design.

One way that this has expressed itself with consumers in connoisseurship.

I'll quote Dr. Laurence Kanter from the Yale University Art Gallery Connoisseurship has never been more popular... "it is now applied to an endless cascade of pursuits... coffee, cupcakes, craft beers, cars, watches, fountain pens, stereo system, TVs, computers, tacos, pizza, pickles, chocolate, mayonnaise, and cutlery..."

Consumers have an incessant expectation of more premium products and experience and they'll share it, they'll talk about it, they'll pin it on pinterest. We apply the premiumization insight to everything we do.

One brand especially leveraging this Megatrend is Stella Artois. Adam will show you more Stella Artois brings this insight to life.

The next key megatrend is Localization. Consumers are expressing a demand for local products in the quest for more authentic personal experiences. This is rooted in the sense of identity one gets from their community and the desire to make a positive impact at a local level or to a locale that they are familiar. The local Farm to table movement in the restaurant community is an example of this.

Another key component of the localization trend is the storytelling of local brands. The story of brands is where people sense their authenticity and build their emotional attachment. We leverage this insight in our brand identity and communication.

Here's an example for Budweiser, (Bud quality spot plays).

The final megatrend I'll discuss is the shift to flavor across all food and beverage segments observed over the last several decades. This is most obvious in the changing cuisine of the everyday American consumer.

Over the last few decades, foods like sushi, or ethnic cuisines like Thai and Indian have become mainstream and are readily available in the fresh prepared food sections in your standard grocery store. This is true as well as well in the beverage segment where even flavored water is a diverse and broad segment.

We are leveraging this trend in our Innovation to meet consumer expectations. A great example of this is Bud Light Lime Limerita. It's delicious flavor that builds upon the now mainstream appeal of Mexican Margaritas have been a massive success.

The next chapter I'll cover is around the dynamic changing landscape of the American consumer.

The good news is that the US population is growing and the number of adults over 21 is expected to grow 15% of the next two decades.

A key observation though is that the population of 21-27 will remain relatively constant between now and 2030 while we'll see growth in the percentage of Hispanic consumers. That shift will be driven by the large increase in the Hispanic 21-27 population. Hispanics 21-27 years old will grow by 31%, to 8.5MM , by 2030.

This growth is one of the drivers of the increasing influence of the Hispanic consumer in the US. Given the growth in 21 to 27 year old Hispanics, they contribute 5 x the beer sales growth rate versus the total US. Hispanic consumers drive over \$1.4 trillion dollars of economic activity out of our total \$15.7 Trillion dollar US GDP. Hispanics are a young population. When you compare Hispanics to non-hispanics, 70 percent of Hispanics are under 40 while for non-hispanics the age must go to 50 to get to 70% of the total population. By 2060, the Hispanic percentage of the population will double.

Today 1 in 6 Americans are Hispanic. By 2060 that number will be 1 in 3. And this fact is very telling of the growing economic influence of Hispanic consumers. In 2011, 39% of real expenditure growth was driven by Hispanic consumers.

Another powerhouse in the US consumer landscape is quite familiar to all of us. The Baby boomer. Baby boomers, now almost all over 50 years of age, account for 40% of the US population. They have enormous spending power, holding over 70% of total US disposable income and accounting for half of CPG products purchased in the US.

But boomers are not the largest generation. Millennials are the largest generation in history, larger than the Boomer generation and larger than my cohort, Generation x. The size of the Millennial group, its diversity, and their impact on culture will perhaps make them the most influential generation so far.

To that point, let's take a deeper look at the digitally savvy, culturally diverse millennial. I professionally know this target extremely well as I have spent the last 13 years marketing and developing brands and innovation for this target.

Millennials are culturally diverse. An exhibit of this is the proportion of Millennials that are Hispanic. Over 20 percent of Millennials are Hispanic. This percentage becomes dramatic when we dig into the population statistics of some key states. In Arizona, 51% of Millennials are Hispanic, in California 42%, and in Texas 40%.

Millennials are also culturally non-traditional. Take a look at the chart. On the top is what a boomer or even a gen x'er might expect as the key life stage building blocks of their lives.

Boomers and Gen X'ers expect their lives to progress through key milestones in an orderly, expected, linear timeline.

On the bottom, is the life stage expectations of a Millennial. There is no linear order, and one stage doesn't necessary infer another is next. It is a set of experiences, all collected as part of a full, unexpected life to be shared in digital social media.

And Millennials will share their lives digitally. They are the most digital savvy generation, at least until the Digital Natives get older! Take a look at some comparisons on some digital measures. Millennials send more than double the average number of texts. In terms of social networking, 75% of Millennials have a profile on a social networking site, and the other 25% won't admit it.

Just kidding.

For Millennials, much of life experiences are social currency to be shared on Facebook. It is the sharing of life in real time, with all of their friends, that makes Millennials different.

Another key differentiator of Millennials are their attitudes towards social causes. Millennials are genuinely driven in their brand choices by a company's involvement in protecting the environment and helping local communities. Millennials expect companies to have a positive social impact in their communities.

Trust is also key component in Millennial brand choice. Millennials use it as a key dimension in spending the over \$300 Billion in annual spending power they yield. So overall, Millennials are the emerging economic force that is culturally diverse, digitally savvy, and socially conscious. We have significant insight and world class marketing capability to connect with Millennials.

Now let me share some insight into our segmentation framework of the Total Alcohol Market. You'll notice that some of what I'm sharing has been blurred to protect commercial confidentiality.

The reason we feel our segmentation, and the work and insight that created, is a competitive advantage we want to protect.

So let's step back for a moment and look at our prior segmentation model for context. Our prior segmentation was beer centric and used palate preference one of the key dimensions. But it was incomplete. It only looked at the world through a beer lens.

And we know that was not realistic from a consumer basis. One chart that demonstrates this well, is the share of throat by segment, beer, wine, hard liquor, that shows some long term shifts in share among the segments. We needed a broader perspective on total alcohol to better play in total alcohol. Sanjiv has already shared some of the ways we are doing that in our Sales Initiatives.

Another chart that supports this is one. It shows the reality of consumer behavior. People generally do not drink only from one segment. Folks drink beer, and they also drink wine and hard liquor. 63% of people drink more than one type of alcohol.

So given real consumer behavior and long term trends among segments, we developed a comprehensive, consumer focused view of all alcohol drinkers.

We started with a psychographic segmentation of all alcohol drinkers. We used techniques to understand attitudes and values to start building our framework. A few examples of our psychographic segments are shown here: Traditionalists and Fun Lovers.

Then we added functional and emotional benefits to construct need states. Our consumer research identified 9 specific need states that cover the spectrum of alcohol consumption.

We then combined the psychographic segments and need states to complete our segmentation framework. This framework identified 4 key opportunities for our business. We use these four key opportunities as the basis of our brand portfolio approach and our investment choices. I'll summarize each so that you can understand more clearly how we use them.

Now let's talk about the first Opportunity area. Win in beer centric occasions. These are the core, most easily understood, consumer occasions associated with beer. Watching a football game, enjoying a BBQ. It's when people want a refreshing easy to drink beer when they're hanging out with friends. We must win here because these are the key volume occasions of beer.

The next opportunity area is we must gain is share of food occasions. This is when someone wants to enhance their enjoyment with food with a beer or drink that complements their meal. Beverages that complement the meal, that are flavorful, and of perceived quality play well here.

Winning here is an opportunity to grow both share of beer and share of total alcohol as wine is a key player in the area.

The next opportunity area is innovating for mood shift. These are moments when consumers, especially female consumers, look to reward themselves with a sweet fruity refreshment. Easy drinking, fruity alcoholic beverages play well here. Winning here presents a key opportunity to source volume from outside beer.

The final opportunity area is innovating to win in party time occasions. This is when consumers, especially Millennials, want to let loose, celebrate, and have fun. They want drinks that mix well and are easy to drink. Winning in party time lets us grow our volume from occasions now led by

hard liquor.

We use this framework to structure our portfolio to win because it's a simple clear north star for our brands.

We use this growth framework to make portfolio positioning, innovation, and investment choices on our US Business. It lets us position our brands efficiently to cover the total segmentation opportunity and focus on driving incremental growth on our business. Here's a snapshot of our portfolio approach.

For the first growth opportunity, winning in beer centric occasions, we position our flagship brands Bud Light and Budweiser.

For the opportunity to grow in food occasions, we position Stella Artois, Shock Top, and Goose Island against the opportunity giving us a range of sophisticated import, accessible craft, and discovery craft brands to access the broad array of food occasions.

Bud Light Lime and the Ritas are positioned against the opportunity for Mood Shift and are platforms for sourcing volume from consumers and occasions generally served by fruity sweet mixed drinks.

Bud Light Platinum and Budweiser Black Crown are designed and positioned to win in the Party Time occasion. Winning Party time, now led by mixed drinks, gives us the opportunity to grow our business outside of beer by sourcing volume from hard liquor.

Now that you have seen our Segmentation and how we use it to make portfolio choices, we have the right context for understanding our strategic priorities. I will share these with you now.

We will become best in class in Digital. And our objective is not just among alcohol companies or beverage companies. We want to be the best in digital among all CPG. It's key to winning Millennials in a changing media landscape. We will do it by monitoring our impact on sales and brand health.

We will grow share of beer and share of throat with Bud Light. Our mega brand strategy is working. We will use our millennial insights to address the opportunity on Bud Light base and will leverage Bud Lights unmatched portfolio of marketing assets to build the franchise to even higher share.

Budweiser is an American icon brand. We will continue our reinvigoration of Budweiser. We will continue our effort to stabilize it leveraging platforms designed to reach our traditionalist drinker and to continue attracting new drinkers to create the future for this brand in the US.

We will continue to fuel the growth of Michelob Ultra. Michelob Ultra has enjoyed strong growth, over a 6% cagr over the last 3 years. This growth is driven by its well-being and active life-style positioning that is on trend and extremely relevant for attracting new drinkers.

We will win in the High End segment. As you heard Luiz and David share, big brewers and big brands are winning in the High End. We have permission to play and win here and have a very competitive portfolio to win. We are increasing our investment to win to seize this opportunity.

And finally, our strategy is to maintain our share of value. This is an important segment of the US beer market and we are leaders here. It is a profitable business that delivers resources to win.

Our position in the Value segment is impressive. Our value business is almost 80% larger than the entire craft segment. In 2012 our Value business was 32 million hectoliters versus 18 mm for craft.

Our value strategy on pricing is also working. Since 2008 we have closed the gap on value pricing as a percentage of premium beer pricing a full 6 percentage points.

We activated this pricing agenda while delivering our all time high share of the value segment. We achieved a 58.2 share of the Value Segment, the highest level in company's history in the US.

I talked about how our Value brands enable us to deliver resources to win. Now let me share how our significant scale in marketing enables us to win in the US.

First let's revisit the chart Luiz shared in his presentation. We have six of the top ten brands in the US. And here is an amazing fact that deserves attention. Bud Light alone is bigger than the remaining competitive brands in the top ten.

Let me repeat that, Bud Light alone is bigger than the remaining competitive brands in the top ten.

Bud Light's resources are formidable in marketing our brand to consumers. Bud Light is a partner with the NFL, the number one sport in fans, viewership, and loyalty in the US. Bud Light also sponsors the NBA, UFC, and the Mexican National Soccer Team key sports assets that appeal to Millennial, ethnically diverse consumers. Bud Light also is a key player in the music scene as well.

Budweiser also has an equally impressive roster of assets. Budweiser has an array that delivers our traditional drinker as well as new Millennial drinkers. Only Budweiser could leverage Major League Baseball and Nascar but also create a new property, Budweiser Made in America to reach new Millennial drinkers.

Bud Light and Budweiser's impressive property list translates to scale at a local level as well. We sponsor 28 of 32 NFL teams, 23 of 29 Major League Baseball teams, 22 of 29 NBA teams, and 19 of 23 National Hockey League teams. This gives a unique opportunity to connect at the local level with content that is designed to drive local relevance among sports fans.

Michelob Ultra also invests in sports assets. But here you can see our strategy at work. We invest in properties, like PGA, and in sports like running and cycling that reinforce Ultra's lifestyle

positioning and premium imagery.

Using the right properties is also key to Stella Artois. Stella Artois carefully selects its partnerships to reinforce its sophisticated and elegant imagery.

Stella Artois has the most sophisticated and elegant properties in the world, the Cannes Film Festival, Sundance, the Kentucky Derby, and Pebble Beach Food and Wine Festival are examples of the assets we activate to build the sophisticated image of Stella Artois.

In summary there are 4 key messages I want you to walk away from my presentation:

1. We understand our changing consumer.
2. Our segmentation enables us to address our changing consumers' needs.
3. We have the brand portfolio to win.
4. We have the marketing scale to win

Now let me introduce our US Marketing team.

You'll see here some of the finest marketing talent in the US and the world. We have a broad array of talent from around the ABI world. The United States, Canada, the UK, South Africa, and Brazil are all represented on my marketing leadership team.

I am proud to lead this diverse group and I will think, after today's presentation, you will concur with my view that this is one of the finest marketing team's among any company on the world.

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