Mark Swartzberg: Yes, thanks. Mark Swartzberg, Stifel. A question for Brito. From a U.S. perspective, you talked about gaps and opening gaps and closing gaps. As you think about the last five years, where do you think you’ve been most effective closing gaps and what gaps have been most challenging or what do you consider the most important gaps, looking forward?

Brito: In terms of closing the gaps I think the whole integration went smoothly but at first it was a gap because you had two different companies, and then it was closed. I think people gaps, we addressed that, and what you see here today is a mix of people who were here before and people who were added to the talent mix, so I think there was also a gap we had in some places.

I think in terms of execution in the marketplace we had a gap, and we are still closing it, we are not there yet, as David and his team showed. As you close some gaps, you open the next gap.

And today, what we're seeing here is that Bud Light, which is a “millennial” brand, number 1 brand in the U.S. with an all time high market share as a family, we believe the communication can evolve with the millennial consumer so that’s a gap in terms of communication.

The brand is strong but we believe it can be even stronger. What we want is not to keep share of Bud Light, we want to grow share of the Bud Light brand, and not just the Bud Light family, which is doing better because of all the success of the line extensions.

I think we need to continue to evolve on Better World. I think that’s something that A-B did a lot in the ‘80s and the ‘90s. We are still living from a lot of those credits, but I think we need to add more credits to the bank, because consumers have changed, and things have changed. Our guys here are doing a lot of things, but I think as a company we need to step up those efforts
because there are new gaps being opened every day because of the world that we live in. So I think these are the things I would mention.

Mark Swartzberg: Thank you.

Chris Pitcher: [Chris Pitcher, Redburn]. Two questions, one on your wholesale channel in terms of alignment. When you talk about the retailers, you talked about the balanced approach. When you go to the wholesalers and look for alignment, do you look at other brands, other portfolios outside of yours, where your brands potentially interact well with, so it would be worth bringing to the system because at the moment it is 90 percent of your brands? How do you approach that balanced approach to the wholesaler?

And then secondly, on employee engagement, dramatic improvement in 2011 having been declining, sorry to be specific here. But is it that current employees are feeling better, more engaged, or is it that new people coming in who are more engaged? Did you manage to turn minds within the business?

Luiz Edmond: Engagement is improving because of course new people come with new blood and new energy and they know exactly what they are coming for, so when they decide to come and join us, they know exactly what we stand for and what we are trying to achieve.

But it is also coming from 90-95 percent of the people who were there before the integration, so you see a clear improvement there too. We restated the 2008 numbers. A-B had an engagement survey in the past, we compared the metrics and we are above the level of even before the acquisition started. So we are very happy, but we still need to do a lot more when we compare to other countries, we still have to a gap to close there too, but it’s going in the right direction.

David Almeida: And the question on the balance, I think the same thing applies across beer segments. What we found is that while there is incremental opportunity to put an extra case of something on your truck to drive, our wholesalers come to realize more and more, that focus is critical.
And the more we dilute the focus, you can do great, you can have great trends in small part of the market. But if you don’t have the focus and the balance on what’s going to drive the bread and butter, and what pays the bills, what you can lose there is much greater than what you gain on the other side.

So I think a lot of wholesalers realize that, and we're trying to drive that focus on our beers, and in particular on our premium brands. That’s a big part of our message.

Alice Longley: [Alice Longley, Buckingham Research] Could you detail where you see the greatest opportunity for EBITDA margin expansion in the U.S.?

Brito: That’s easy. As they deliver all these plans here for next year, there’ll be margin expansion for sure, that’s a no brainer. So that’s why I’m here, to witness all these commitments, everything is being taped here, cameras everywhere, so big brother is watching. [laughter]

So I think margin expansion is a hallmark of our company. Of course, we want to have both. If you have margin expansion with a shrinking pie or a shrinking industry, at some point, that is not as interesting. We like margin expansion with the pie also expanding, that’s the magic, and that’s how we build value in our company and that’s how we built our business.

But I think we have the plans and we have the people. Of course, the economy getting better would help, but that’s not within our control. So we're going to focus on the things we can control, and I think you’ve seen here today, from sales to marketing, to all sorts of brand plans, there are a lot of things we are investing in.

Alice Longley: Can you expand margins while volume is still declining?

Brito: We have done that. So if you look at where we came from in the last four years with the exception of one, volumes have declined in terms of industry and margin went from 29% to 42%, including synergies, trade-up and revenue management initiatives also played a role.

Alice Longley: And you think that can continue even if volume continues to shrink a little bit?
Brito: Well, we are not going to give any guidance, but we have a joke in our company that says that margin expansion up to 100 percent is OK and beyond 100 percent we will begin to doubt a little bit. Well, it’s just a joke.

I’ve been in the business for 24 years and some of my colleagues here have been with me for 22-23 years. And I remember there were points when we looked at other companies and said, “Oh my God, if we ever could get to that margin level.” And then we’ve got there.

And then as we always do, we open the gap again, we picked another company and said, “Oh, my God, if we could ever get there.” But we got there. So it’s hard to say when this is going to stop. Of course, when you do something like what we did here five years ago, or something like we’re doing in Mexico now, the speed of the margin expansion is much higher but when it’s business as usual, or the organic side of the business, then the margin expansion is not every year or every quarter but we don’t see why it shouldn’t continue. That’s what we always say. But there’s not guidance for every year, in every business unit, or every quarter, but that’s the general direction.

Alice Longley: Would it make sense if the greatest opportunities [are] in gross margin as opposed to anything in SG&A, or you don’t want to commit to that maybe?

Brito: No, no, no, it’s the whole mix

Alice Longley: All right, thank you.

Kris Kippers: Kris Kippers, Petercam. Back in St. Louis in 2010, there was a slide stating there is 3.6 billion margin opportunity in the high end, of course, in the meanwhile Corona could not be taken over in the U.S. but I heard from Mr. Almeida indeed that the problem is a bit the skew of the portfolio.

So I’m just wondering, being so pleased with the Goose, and with your leverage on the operational level, why haven’t you shifted gears by inorganic growth in the high end yet, except for Goose of course?
Luiz Edmond: We are not in the business of acquiring cases -- we get this question from our wholesalers all the time, [they ask] why we are not buying more cases. We are in the business of building brands, and we believe our brands can compete in the high-end segment. So, we acquired Goose, and Goose is growing, so why would we dilute that effort with something else, and put dollars into two brands as opposed to putting dollars into one brand.

So, we have an amazing opportunity to take this brand to the next level. It has been growing phenomenally well, but we need to guarantee that we are not just gaining distribution by using our national scale, but that we are also supporting the gains in distribution with increase awareness and consideration. We believe we have enough portfolios inside Goose that we can bet with one bigger brand as opposed to betting on a lot of different things.

Having said that, if we find something that is unique, that can add value to our portfolio, we are happy to discuss. But the focus now is to grow with the brands that we have. By the way, we have more brands than we showed you today, there are several other brands that we didn’t even share with you today, like Beck’s for example, we didn’t even discuss, but it is a brand that we need to support.

Brito: It’s interesting, because a couple of years ago when we came here to the U.S. and then a year later when the ‘so-called craft beer’ phenomenon started, happening, I was asked time and again in quarterly calls and meetings like this: Well, how do you see the so called craft segment evolving?

And I always said, I think – because we believe that we can shape the industry together with some other players – if we could shape the craft segment as the import segment was shaped by accident or by plan, in that five brands, or five manufacturers have 80 percent of the action, and then you have a long tail, and we said, “Well, maybe that could happen with craft as well, why not?” And we said, “What about this brand, this brand, this brand?” As they grow, they could command most of the growth. And more and more, through the last three years, we’ve seen that - to the extent that this year, we have seen that 81 percent of the growth of the so-called craft, came from national brands,
supported by national companies, and not from the every ‘ten block’ type brand, the regional brands.

Now, I’m not discounting them [the small regional craft brands], I’m not discounting them. I think they have a very important role to play to bring interest to the category. But I’m just saying that yes, I think that it can be shaped in a way that most growth will be commanded by few brands, and by a few national brands, and I think that some of the numbers support that.

Zachary Sacks: Zach from Triology Advisors. Just a question on the price gap with the high end I guess between the premium and the high end segment. What’s the appropriate level, do you think, and is it a strategic priority to correct it? Do you really have control of it? I mean how much is it in your power to control the premium end coming up or not moving and the high end coming down?

Luiz Edmond: The high end is composed of a lot of different brands and some of them are very small and some are much bigger. The craft producers, they don’t have enough margin to bring the price down. The profitability level of the craft beer business is very low and with that I believe they don’t have a lot of room to bring prices down to compete. That’s the reason why they price up, they could not make any money. And by pricing it up – which is why we call them high end – they develop different beers and the prices of these beers are much higher but the fact is that they could not charge a lower price because simply the profitability is not there because the scale is not there.

When you talk about the import segment, it’s a different game. Of course, especially Heineken and Corona, they have more firepower to bring prices down if they want. Having said that, you also destroy value in your brands when you do that – because you lose your image. So it’s not about what is the perfect price point.

What we are doing is that as we move our price, we are always looking at the gaps versus our other competitors, and seeing if we are losing share, then we will have to manage the price point, then we will need to come with a different program, to avoid that the shorter [smaller] gap is affecting our market share.
So, it’s price point management, and gap management, and it happens against several different brands in different regions and in different ways. There is no perfect price point for that.

David Almeida: I was going to add that for any given price relationship, so wherever our price is, what we observe in the market place, is that there’s different execution store by store. So for any given relationship on average in a market, there’s an opportunity to talk to the guys [retailers] that are where they shouldn’t be, to work with them, to go to where it makes sense for the industry, where it makes sense for them to sell more beer. So that’s a big focus. So, for example, in some markets, the relationship between us and the high end imports, it might be in one market 120, it might be 140 in another market, but again, when you look at it store by store, you will see a wide dispersion.

For us, the key thing from a PTC excellence perspective, is how do we work with the guys [retailers] that are not optimally positioned and get them to where they should be? That’s a big focus for us.

Brito: I’ll take advantage of this question just to try to go back to a point I made in the opening, a few people came up to me with questions on this point, maybe I did not communicate it well. I said that one of the things about our culture is that we are not afraid to create short term problems as long as they lead us to a better future. And I’ll give you two or three examples connected to your question.

So we came here in 2008/2009, during tough economic times, the worst in I don’t know how many years. And we said OK, we are new to this market, we are market leaders. We're going to do what we think is right for the long term [health] of the business. Yes, there will be bumps along the road, but we are here for the long term and we want this industry to be – in what depends on us – a good one.

So, look at that, in the segment that we had the biggest share, which was the value segment, we decided to give it a bump and decrease the gap to the premium segment, to Bud and Bud Light, so decrease the discount, going
against our highest share segment. But we thought, that will force us to look up, not look down, and not use that as a valve and now look for market share opportunities up here which is a much better place to be than down here.

The other thing we did, as the import segments didn’t increase their prices, of course, we have no control of that. The price compression came from a 160 price index to a 130 [index]. We could have said “OK, well, that changes our plan in terms of trying to recover the price level in the U.S.”

But we said, “No”, this would just put more pressure on us to make the Bud Light, the Budweiser line extensions more of an equity play so we that we can live with this narrower gap to the high end. That’s how we built our company. That’s why we have these kinds of margins.

Because we're not afraid -- and I’m not saying that we are perfect, or that we solve all of the problems exactly as planned, in the time frame that we planned, far from it. But for us to continue to expand margins, going back to your question, we will have to create problems so that we can solve the problems.

So, yes, our share depends a lot on value brands. We don’t like that for the future. We don’t think that’s a viable proposition for expanding margins, for a profitable business in the future, or for an industry. So let’s take that price up. [And critics said] “Oh, but it’s a bad time to do it, you’re going to lose share in the segment where you have the highest share”. [And we said], OK, no problem we’ll have to recover that share elsewhere but up, not down.

Also, the high-end brands, the import brands are not growing their prices as much as we are, so there is price compression, so somebody could say “OK then let’s stop increasing prices”. We said, no, we’ll continue to increase prices, get the money in the pocket first as we always like to do and then re-invest to get more equity in our brand, so they can live in this different environment, which is a 130 price point as opposed to 160.

So again: creating a problem for the short term, but forcing our people to come with line extensions, with more premium brands, with better solutions
and communications for Bud Light, so our brands can live with that kind of price compression that was not here before - as opposed to giving up on a strategy that makes sense long term.

So: we're not afraid of creating these short term issues, that go against some of our targets, and our performance, because we believe those things are good for the long term value creation in the industry and for our company, as long as we solve them. But if you don’t create the problem first you never solve them.

Because it’s much more comfortable to say, “Oh, let’s continue to sell lots of value brands because that’s good for the share and not good for anything else. And oh, the pricing compression, so let’s stop increasing prices as we're doing because those guys are not increasing prices.”

No. We’ll continue to do what we think is best for our business and our brands will have to have more equity in their bank to live with a different kind of scenario. That’s how we conduct the business. In Brazil, for example, everybody was going to one-way presentations. And we said, “No, one-way is good for the consumer, and for the customer, [but it’s] not good for the brewer because it has a lower margin. Why are we going to do this?”

[So we said], No, we're not going to do this. We’ll continue to invest in the returnable bottle. It’s a much longer way to get there but it’s a more profitable way long term. It creates issues in the present, but we believe in good problems, so that we can solve that problem, and that’s why we came to market with proprietary bottles, different size of bottles in Brazil, which is beginning to make sense now, but first we had to create the problem.

Mitch Collett: Hi. This is Mitch Collett from Goldman Sachs. I’ve got three questions if I’m allowed. First of all, some of your innovations, and I’m specifically thinking of Bud Light Platinum and the Ritas, seem to me to essentially provide quite a lot more alcohol for a little bit more money. How convinced are you that this is the right direction to move in?
Secondly, we haven’t talked that much about how you’ve been able to get to your best-ever market share position in sub-premium despite the gap closing you’re going through, so a bit of color on that would be really helpful.

And then thirdly, Paul, you were saying how you think in the new type of marketing age that we're moving into, which I guess goes away from TV advertising into digital - that you think your scale is an advantage. I love a bit more color on that because for me, I think that the new type of marketing perhaps actually dilutes the strategic advantage you have from scale that you would have got from TV, so maybe you could just explain your thoughts around all that.

Paul Chibe: Sure, I’ll talk about the alcohol question, then on your second and third question, I’ll let others jump in. So with respect to the question on alcohol, is more alcohol something that we see as a trend? I don’t necessarily think it is because I think that there is opportunity to just provide lower alcohol and higher alcohol in our array.

So, if you think about it from our portfolio standpoint, most of our brands have been between 4.2% and 5%. Budweiser is 5.0% and Bud Light is 4.2%. And there are opportunities to potentially bring alcohol down from more sessionable liquid and then there are opportunities to go up to speak to certain occasions where either the higher alcohol is an enabler from more flavor delivery, it provides that functional benefit, or is part of being more relevant to a particular occasion like party time. But in terms of it being one direction, I don’t agree with that.

The second question again?

David Almeida: Can I just add another little point?

Paul Chibe: Yes.

David Almeida: Just on the comment of charging [only a little for higher alcohol content] - don’t put everything together. Bud Light Lime Lime-A-Rita is at a 170 index, it’s a big brand at a 170 index, which is a big value.
Mitch Collett: But it is, you know, roughly twice as alcoholic at 8 percent so it’s not two times as alcoholic, but Bud Light Lime-A-Rita comes in a 24-ounce can, or you can get one that’s 8 percent. I mean that’s a lot of alcohol in one serving.

Paul Chibe: Well, it’s intended for sharing.

Mitch Collett: Right, I appreciate that you can consume that responsibly but I’m just -- I’m just wondering, is this the right direction to move in ultimately, to give people a lot more alcohol for a little bit more money, I accept that it seems to be working, but I’m just asking, how do you tally that with…

Luiz Edmond: I don’t think [we’re] talking about more alcohol, [we’re] talking about different liquids that deliver for different occasions and opportunities that we have. So you are talking about the two of them that you know have higher alcohol, but you are not talking about all the others for which we did not mention the alcohol. For example all of the Shock Top innovations are not higher in alcohol. For example, Stella Artois Cidre does not have higher alcohol. There are other things there that are not higher in alcohol, and we are not discussing them here today.

These are the very successful ones, and lucky us that we are very successful with them. Platinum specifically is higher in alcohol but the liquid is something that we could make, and that others couldn’t make. That’s why so far, we have not seen anybody reacting to that - how you make such a smooth and drinkable beer at a higher alcohol [level], is not something that everybody can make. We had an opportunity to bring the night time type occasion into Bud Light, since we were missing the party occasion. That’s why the bottle is blue because it also addresses the cues that we have in that occasion. But that’s just it.

Then you have Michelob Ultra. There is not an innovation, but we are heavily investing behind it, and it has lower alcohol too. So, it’s not one dimensional, as Paul said, it’s a coincidence I would say, that we are very successful with the two of them. We will continue explore other opportunities at higher alcohol, and lower alcohol, and the same alcohol level.
Paul Chibe: What was your second question?

Mitch Collett: Well, the second one was, it seems like a very good performance that you’ve managed to gain share in sub-premium despite the fact you’re taking up the price -- that you’re closing the price gap. We haven’t talked a lot about the sub-premium stuff and how you’re doing that, so maybe just a bit of context about what you’re doing right there?

Paul Chibe: I think it just comes down to [the fact that] we put someone on the team, a very talented young man, who is very analytically driven and worked extremely well with David’s organization and with each of the regional V.P.s that we have in our sales organization, to identify where the problems were, and then get to better execution across the portfolio while we implemented our plan.

So sometimes there’s not some amazing magic behind better improvement or better performance. It’s around the nuts and bolts, and it was nuts and bolts analytics, around nuts and bolts execution, around nuts and bolts communication with the sales organization on programming, on activation, on execution, making sure that if there were issues with, let’s say, a price gap in a particular account, that those things were being brought forward and that yielded better performance -- delivering on our price agenda.

Mitch Collett: And then the final one on whether your scale is really an advantage in an age where we’re moving from mass media and into digital?

Paul Chibe: Yes, and so let me go back to that comment around how does our scale prevent us from being more efficient or very efficient for bringing content to life in digital. So one of the things that you have to keep in mind is that we, as a marketer, are spending a lot on local activation, event activation and programs.

In the past, these things weren’t documented, they weren’t filmed, we didn’t have people creating digital or video content around them. So, if you’re a marketer who does not have events like Bud Light Hotel, the concerts of Bud Light Hotel or the concerts of Budweiser Made in America or the things that we do at the Super Bowl at Bud Light Hotel, you’re going to have to create
those events and then also create the video, to spend the money to document or create the digital content.

For us, we're doing all those things. So it’s very, very easy for us to spend a small increment to bring someone there to help us create digital content that we can then share on our platforms. So us being where we are, with all of the programming and the scale and the event activation that we do, creates a great opportunity for us to use that to create digital content.

Luiz Edmond: Let me give you one interesting example of how these things work and how we start to build on these capabilities. David was visiting the market and we had an amazing display of Bud Light that one of our merchandizers built with a football man made of Bud Light cases. We took a picture and sent it to our digital group, and we posted that picture on Facebook, and it was one of the highest engagements that we ever had on our Facebook page.

And now we have every single wholesaler documenting and taking pictures of the great execution they have in the market and we post that execution to their geolocated fans on our Facebook page. Our wholesalers are trying to do that by themselves, but we have 10 times more scale [fans] even in their territory, on our facebook page with our fan base. We can geolocate those posts to that consumer in that location based on what the wholesalers are getting, using digital cameras or iPhones, taking pictures and then we are post them back into that region. So, things like that you [can] only do if you have scale.

David Almeida: Right, scale still matters. The example of the local wholesaler’s Facebook page being able to promote a party via that [page], compared to us, and we amplify that through our Bud Light fans, that’s true across the country, that’s scale that we bring. So things like, for example, our Palo Alto beer garage, the fact that we can be there and we can interact with the venture capital companies, and we could provide what they need which is a bigger platform to roll out their products, That is something we can provide with our scale that other people can't do. So scale still provides a benefit, right Paul?

Paul Chibe: Yes, absolutely.
Richard Taylor: Rich Taylor here from Morgan Stanley. I want to ask about Oriental Breweries and how that fits into the -- I’m sorry, Rich Taylor from Morgan Stanley. I want to ask about Oriental Breweries and how that fits in with the overall dream.

I understand that the current caretakers, shall we call them, have done a phenomenal job with the business and that the option expires next year and that it’s heavily in the money. Can you just talk about that a little bit please?

Felipe Dutra: So Korea is one of the assets that we sold that we wouldn’t have sold in normal circumstances. That was part of the deleveraging commitment. By the time we sold it, the business was in very good momentum in terms of brand trends, so on and so forth. And KKR and Affinity, together with the management team, they took the business to an even better performance over the last few years.

As you said, we have a call option window that is between [July] next year and [July] 2015. We have the option, but not the obligation, to buy and if we feel comfortable about that market, we will strongly consider that option – but that is to come.

Graham: And with that, it’s time to sample some products. Thank you gentlemen.