

AB INBEV'S INVESTOR SEMINAR 2018

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Global VP of SEGMENTATION, CATEGORY AND PORTFOLIO STRATEGY – ANNE STEPHENS

Good afternoon.

I'm Anne Stephens, Global VP of Category Strategy.

As my accent might indicate I was born in Johannesburg and graduated from Wits.

I've worked on and off for SAB and AB InBev for 20 years.

Today, as Brito mentioned I'm going to talk to you about the Category Expansion framework, he has described as "intellectual synergies" from the SAB combination.

Actually, in my opinion, this strategy is being given its value by the remarkable adoption and bias for action that is the hallmark of how AB InBev approaches things.

In the relatively short 2 years from its first exposure to the strategy to the current progress report, the pace of change in our business has breath-taking.

I'm going to describe this strategy to you in 3 interlocking frameworks – but before I do that, let's pause a moment to think about beer.

Beer is an extraordinarily versatile beverage – it can be sour, bitter or sweet, fizzy or flat, transparent or opaque, refreshing or savoring.

Beer can be sophisticated or crafty or down to earth.

Beer can do just about anything a consumer could need from a beverage in any occasion. Given this, we have an immediate next question.

Why don't we automatically think of beer like this?

Why don't we think of beer as a diverse category made up of different offerings instead of thinking immediately of slightly bitter refreshing lager?

The singular perception of beer as bitter, masculine, unsophisticated and unpretentious is the reason lots of people drink it and also the reason other groups of people do not drink it.

It's not because beer can't be more than these things.

We must understand why beer stays such a singular proposition and just how much opportunity we have for growth, if we use beer's inherent versatility, to address other preferences.

In every substantial beer market, the category is predominantly lager.

Although we do see significant style shares show up in individual geographies, for example, in flavoreds in Europe, ales in America, UK, Canada and Australia and wheat beer emerging in Asia.

These are more demonstrations that it is possible to grow beer by offering versatility in styles at scale, rather than a deliberate evolution of the beer category to emerging tastes and needs.

The frameworks that I want to introduce you to, tell you why we are on a path to utilize the variety inherent within beer to provide a beer category offering with more diversity and allow beer to grow in any market type.

The three interlocking frameworks start with:

1. a story about how markets and beverage consumption evolve, and then it shows
2. a vision of what beer could & should become and
3. finally, a system we are going to use to make that happen

Internally, the story about how beer and markets evolve is called the market maturity model, the vision is the category expansion framework and the system is called Growth Champions.

Together they are designed to change AB InBev's organic growth profile from good but base-price dependent to an outstanding performance with a profile balanced between volume growth, mix and price.

Let's start with the story of how beer evolves as markets mature.

In low maturity markets alcohol consumption tends to be led by men, seeking escape from challenging economic circumstances through the company of others, in taverns or bars, outdoors or sometimes in home.

Unless it is a core wine or spirits producing country – beer is most popular beverage because it is perfectly suited to the men socializing occasion, you can see how much this occasion over-indexes versus average in the chart.

Its suitability to the occasion comes from it being refreshing, session-able, mildly alcoholic and in more ethereal terms “an equalizer of men” promoting conviviality.

We are in Africa and if you travelled the continent you would find this behavior in most rural environments.

We also find markets at this level of maturity in South America and Asia.

The chart notes some of the measures that underpin our market maturity model; affluence, abstinence and per capita consumption of alcohol.

The nature of competition is also pretty specific to market maturity.

Then markets evolve, women enter the workplace and play a more equivalent role to men, homes are nicer and people are busier so occasions split more evenly between the on and off trade.

Home is the woman’s domain so she has a substantial say over what comes into the home and the fridge – and dictates a shift in the nature of occasions to more mixed gender and meals.

Women also do more of the household shopping and while men may still do most alcohol purchasing and consumption in these markets, the influence of women is felt more strongly than just what they drink.

Alcohol and beer are still a small luxury choice and consumption is social and special through this phase of maturity.

Finally in the mature stage of markets we see people age, homes become as or more comfortable often than the on-trade bars and restaurants.

You see the relax family occasion emerging and relax alone resurfaces as a treat rather than escape – socializing is almost always mixed gender and much less substantial share of occasions.

Shopping becomes bulk buy oriented – allowing the family to consume more and better but leaving less disposable income with the man of the house.

Everything is relatively easily available - all beverage categories compete for attention and alcohol is no longer special but more of a consideration of if one feels like drinking at the time.

The final maturity phase is largely found in Europe and North USA, selectively in South America and Australia.

You might note that abstinence is now 26% down from nearly 65% in maturity one.

Both usage at all and frequency of consumption almost double between the lowest market maturity and the highest one, but per capita of consumption on occasion declines as markets mature – so each drinker is only a little more valuable as markets mature, but there are a much higher prevalence of drinkers in the population.

This market maturity model story is used to describe common market conditions (in shopping and trade profile, competitor categories, and consumption occasions) for businesses within our group.

To summarize, the Lowest Maturity level is predominantly on premise, men socializing or relaxing and the competition is informal alcohol or spirits.

The Middle Maturity level is a mix of on and off premise – although off premise is largely informal, drinking is mixed gender and social.

Occasions are balanced between home and on premise although beer remains stronger in the on premise.

Competition remains primarily spirits, and alcohol appropriate occasions in which soft drinks consumed are substantial. Wine emerges.

Finally, in the High Maturity level, shopping is mostly off premise and modern trade, consumption is in home and meal and relax occasions dominate the landscape.

Competition from wine and spirits is intense, smaller alcohol categories arise and in the non-alcohol space variety explodes.

We have tested this model for robustness based on markets at a point in time as this chart shows, when their maturities are known through affluence and appeal of alcohol.

We have also tested it longitudinally within markets e.g. for the USA the stages of market maturity equate roughly as the low maturity stage going up to the 50's, the second stage to the socializing 60 – 80's, and the third stage to the 90's and noughties.

It's a quantitative two-layer model that we update annually and forecast every 3 years.

The model tells us what to expect next in lower maturity markets, which helps us develop our portfolios and commercial capabilities with a future facing mind-set.

In high maturity markets we are now conscious what variables change with maturity; retailing, types of occasions, demographics and competition, so we are watching out for the revolution in marketing and retailing driven by digital, the growing older population and increased multi-culturalism and by competitor trends related to what people care about such as environmental impact, and wellbeing.

So that is model number 1 – the market maturity model which while easy to tell as a story is based on extensive data and has been rigorously tested.

It is such a useful short-hand way to understand the environment that we use it to cluster our markets into groups with like opportunities – and based on the model we give every group a mission orienting our businesses to the big growth areas for beer at that stage.

These clusters and their missions are the language of our business now – and they are keeping us focused on growth.

Model number 2 is a response to the market maturity model, given what beer is capable of, you recall that we agreed at the beginning that beer is versatile and could offer any kind of benefit – but that largely it is consumed as slightly bitter, refreshing lager – which is perfectly suited to the way men socialize on premise.

The Category Expansion strategy is about how beer would optimally evolve to address the changing market opportunities.

Beer is consumed in every type of occasion but as maturity increases, it competes with occasion specialists like spirits, soft drinks and wine.

And occasions move from dominantly men socializing to mixed gender socializing to meals and relaxing – moving competition from occasions in which beer is best suited, to ones in which it competes with spirits and soft drinks and finally also with wine in occasions to which some people think beer competitors are more suited.

Other categories offer variety in a logically structured way – spirits for example is organized by style but each of those styles has a way to drink it, an occasion it is suited to and an appeal to some consumers.

For example white spirits are generally consumed mixed, offering the versatility and reduced strength appropriate to mixed gender occasions while dark spirits are often consumed neat, a simple solution to needs in the men social occasion.

In this way, spirits is able to offer versatility without confusing consumers who can easily navigate what it has to offer.

The spirits category evolves by stretching its price point relevance lower and higher and its variety to more occasions as they emerge.

This same pattern is followed by non-alcoholic beverages and to an extent even wine.

So, we need to present beer diversification similarly to this – and offer variety carefully, in a way that is easy for consumers to understand and relevant for them to learn.

Meaning that we start out offering Classic Lager for men in socializing occasions - its nature is perfectly suited to the dominant occasion and needs of low maturity

And then we offer it at different price points so men can express status and mark special occasions.

The importance of offering beer at different price points cannot be over-stressed.

One of beers biggest limitations as markets mature is the concentration of price between the cheapest value brand and the most expensive premium brand.

This concentration limits beers appeal over time and it limits our capacity to grow revenue through mix rather than base price

When women enter the workforce and potentially the alcohol consuming public, then we need to further premiumize (so men can show off more) and add Easy Drinking Lager which is less bitter, more versatile and modern, flavorful and fresh.

These are needs that inherently have more appeal in mixed gender occasions where the beverage is less central and more supportive of the socializing that happens in the occasion.

When women are involved the conversation and social interaction tends to be more important, with men only, the socializing is more about being and doing things together.

Easy Drinking lagers are a more versatile lager type which contrasts with the tradition of Classic Lager.

To compete for the meal occasion more effectively against soft drinks and wine, we need even more variety – in addition to our lager types.

Flavored beers can compete with soft-drinks offering a lower sugar, more natural and session-able alternative.

In addition, beer needs a type more sophisticated, less carbonated, tasteful but not bitter - we think the natural spicy/ tanginess of wheat beer can be put to this purpose.

Finally, ales are more intense either hoppy or malty offerings that are meant for savoring – the discerning will appreciate their intricacies.

If beer is to offer these 5 types (classic and easy drinking lager, flavored beer, wheat and ales) – each clearly with different attributes suited to a different purpose - then it will have

the necessary variety to maintain a more significant share of throat as women join men in consumption occasions and they migrate towards home based, meal and relaxing occasions.

Currently the more likely divides consumers will experience in beer is craft vs mass, international vs local and premium vs value.

As competition increases and the category fragments – these organizing principles don't help beer expand its user groups or usage occasions.

Don't get me wrong, beer is the most preferred beverage of the key drinking demographic of LDA to 49 year old men, over 45% share of throat by drinks equivalent – however as markets mature, this group shrinks in importance and we must expand beer relevance. And do it in a way that less interested consumers can easily understand.

So we have a vision for beer's evolution – to a structure that more closely emulates spirits or non-alcoholic beverages where people understand the variety by the different types or styles on offer and know when and how to drink them.

And that brings us to the last of the interlocking frameworks – the system we call Growth Champions.

This system is designed to ensure that we expand our portfolios – and related commercial practices at the right time and in the most efficient way.

It follows the process of one of AB InBev's most successful business systems – Efficiency Champions.

The process is one of benchmarking to open gaps, sharing best practice and then deliberately and in a measured way executing that shared best practice to deliver increasing cost efficiency.

This same learning system is being applied to our approach to generate growth.

We have already instituted a method for benchmarking our capacity to extract value from markets, opening gaps appropriate to local circumstances.

Dashboards that measure our individual market performance against the cluster missions (remember those from the market maturity model) orients our gap opening to the biggest and most likely to grow opportunities for the category in that market at the time.

These dashboards are now tracked as a matter of course. A capability framework consisting of commercial best practices has also been developed.

This system standardizes our approach to codifying best practice and provides a

mechanism for us to ensure we are continually experimenting to develop new capabilities in line with our market led priorities.

Global brands and positioning territories which Miguel will describe to you in the next session are complimented by practices on route to market, customer and shopper and pack and revenue management.

We use technology for sharing best practice and also a high engagement workshop approach that energizes the business for change.

The last two steps in this system ensure that we follow up growth oriented gaps with shared proven capabilities to address those gaps, with the investment and targets in our one-year planning to ensure execution.

Growth champions ensures that we can make longer-term bets aligned with the potential for exponential growth in the future – in addition to the effective optimization of investment for delivery of immediate results.

We have done this same thing with Efficiency champions for the past 6 years and shown the internal discipline to deliver results consistently and the ability to scale this practice to new markets.

AB InBev's familiarity and success with learning systems structured like this give me great confidence that Growth Champions is the way of optimally turning strategy into action.

This is our businesses biggest strength.

In the next presentations you are going to see the progress already made in the short time we have been clustering our markets by market maturity, pursuing a vision for developing variety in beer by taste and price point and instituting a system that makes sure we execute the most important portfolio moves at the right time for each business.