

Topics

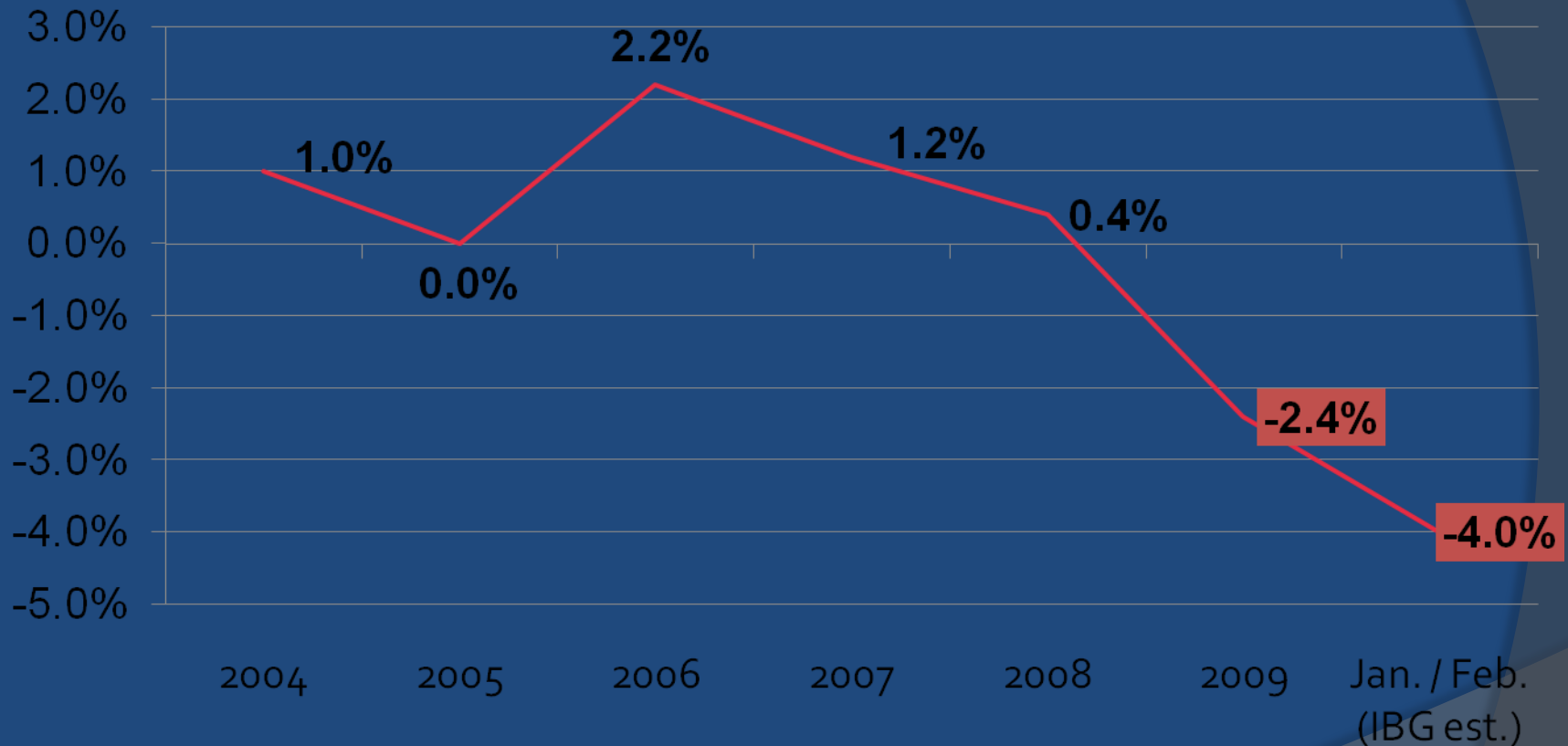
- I. Industry Overview.
- II. IBG's Concerns / Positives.
- III. Distribution Systems of 2015?
- IV. Previous Predictions.
- V. Conclusion.

I. INDUSTRY OVERVIEW

Industry Overview

- Distributors / suppliers have done a great job since 2005 in cutting costs / raising revenue.
- Consumer disposable income diminishing.
 - Our industry no longer has import and premium light growth.
- Industry is very stable but losing forward momentum.
 - Next 5 years will not be as good as last 5 years.
- Suppliers / distributors now more than ever must manage the relationship between their businesses / retailers / wall street / government.
- Consolidation will change significantly for some.
 - Buyers ability to get money.
 - Small value gap still exists.
- Price of everything is being reset.

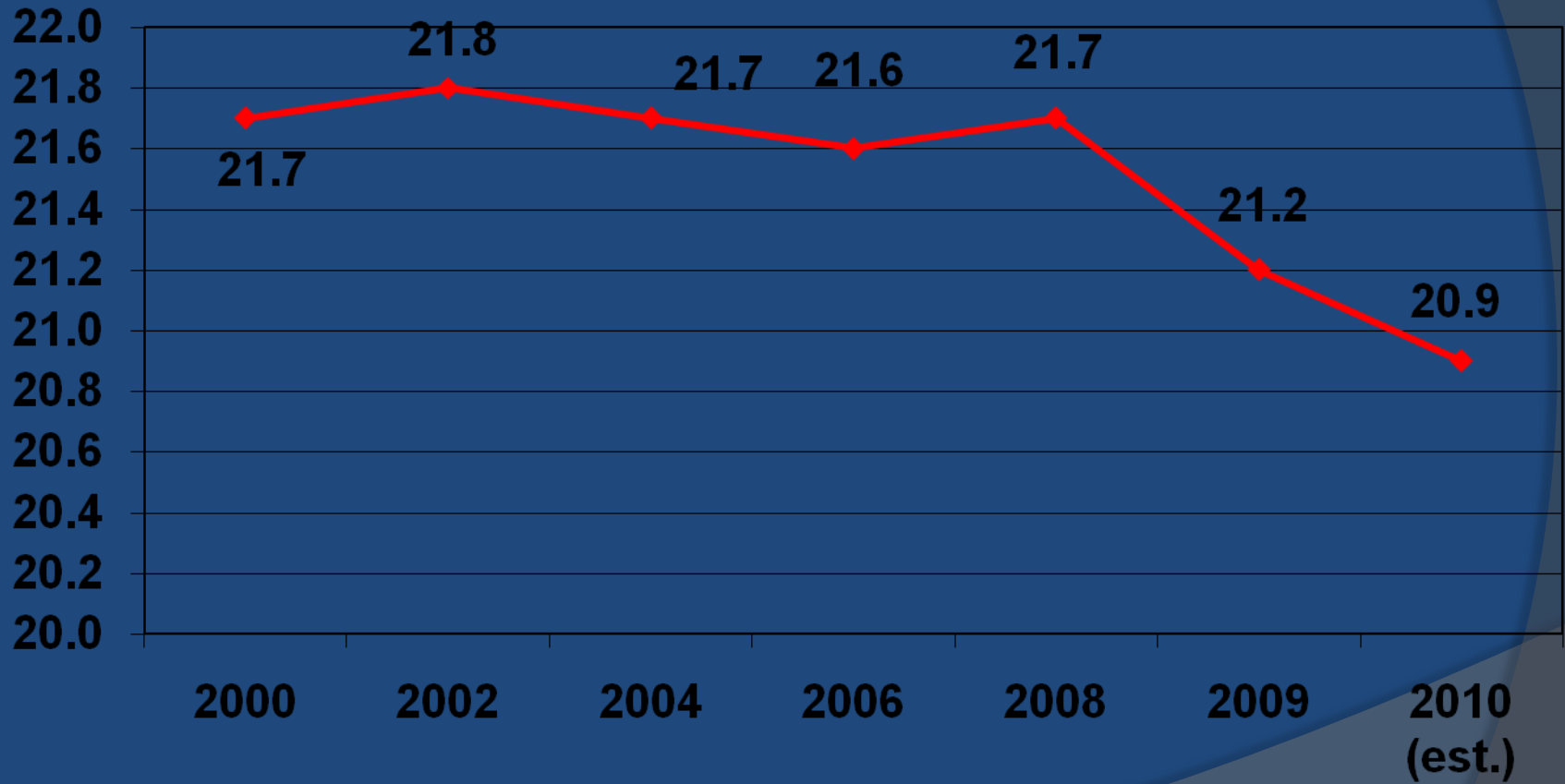
Industry Volume



Negative trends accelerated in 2009. IBG thinks negative trend of -4% is real current trend. March is pivotal.

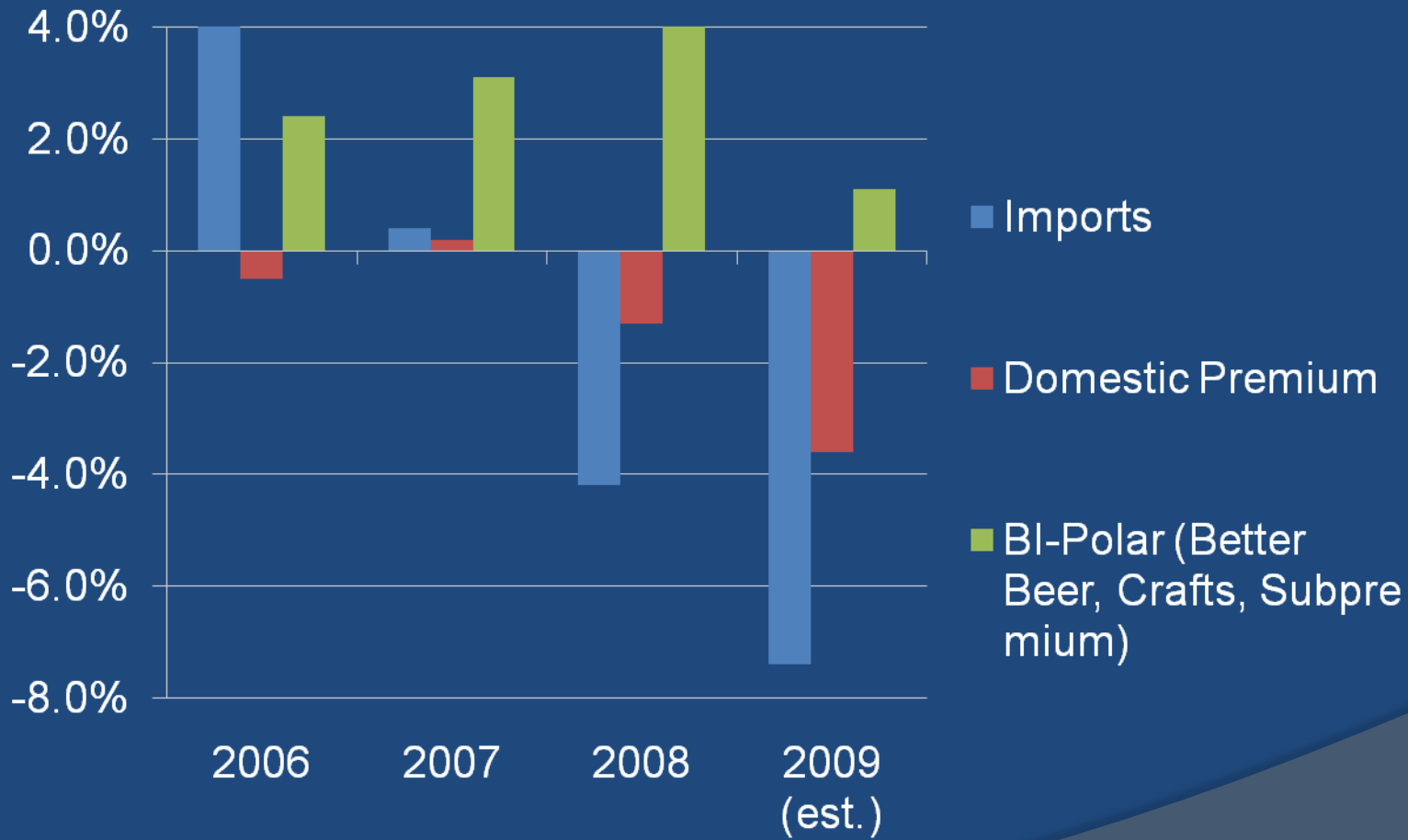
Per Capita Consumption - Beer

In Gallons

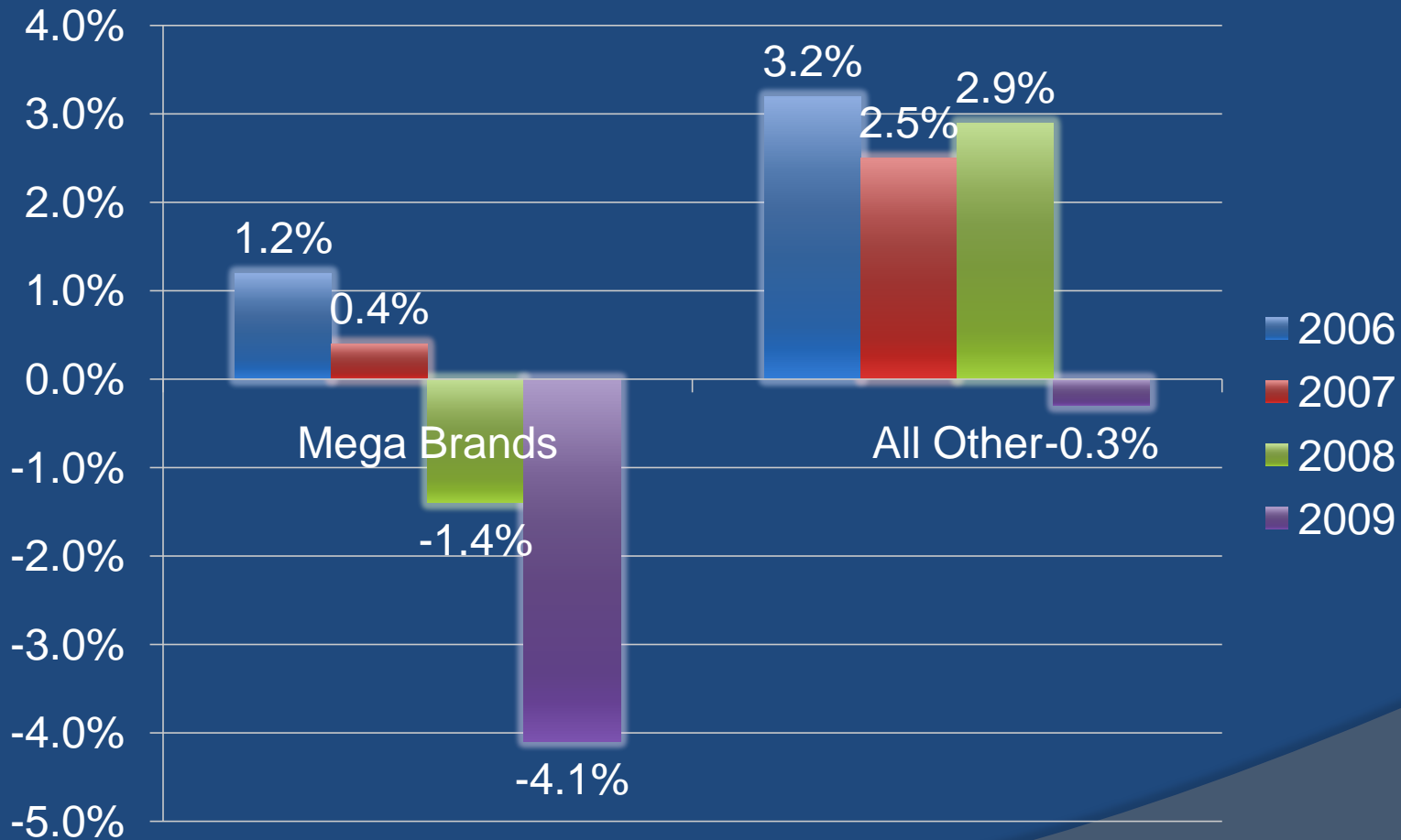


2000 – 2009 Actual

Beer Sales By Segment

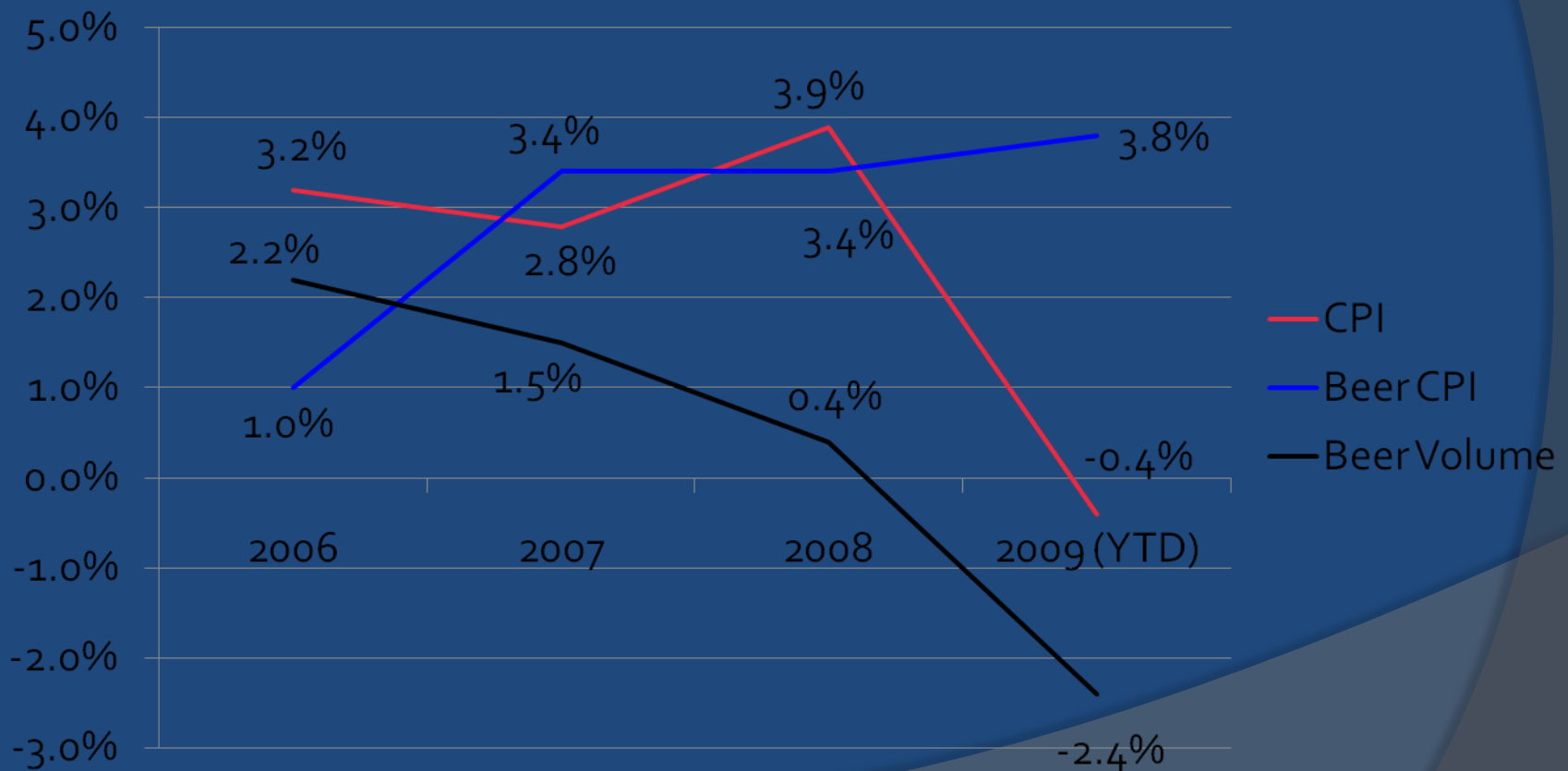


Volume Trends



2006 Mega Brands = 55.4% of total volume. In
2009 Mega Brands = 52.4%

Pricing vs. CPI vs. Volume



II. IBG'S CONCERNS / POSITIVES

IBG's Concerns

- ⦿ Volume, volume, volume, volume
 - Consumers
 - Aging demographic.
 - LDA – 24 unemployment (losing disposable income).
 - Men unemployment much worse than female.
 - Minorities compound problem.
 - Hispanic flight.
 - African American, 18 – 21, unemployment @ 48%.
 - How do we market to them?
 - Changing habits (finding out below premium is good proposition).
 - Long-term impact on buying behavior?
 - Bi-polar (30 packs sub-premium / 6 pack craft).

IBG's Concerns

⦿ Concerns

• Retailers

- 7-11 / Costco open disputes.
- Consolidation creating powerhouses.
 - Wal-Mart, Costco, Kroger, 7-11 and regional influences.
 - SKU's / brand reductions.
 - They have leverage (price / private label).
- Pushing for individualized service.
 - 7-11 pull-ups / time restrictions / night deliveries.
 - Time constraints / multiple pull-ups.
 - Stadium / arenas.
 - Entertainment venues.

IBG's Concerns

⦿ Concerns

• Distributors

- Built for volume.
- 50/50 issue (mega mentality vs. micro mentality).
- Disputes are distractions and dangerous.
 - Contracts with suppliers.
 - NBWA / suppliers.
 - Supplier / distributor litigation (CA, OH, NY).
- Old service habits hard to break.
 - Internet, tel-sell.
 - Every week service vs. minimum drops.
 - Old beer monthly vs. daily.
- Distributors constantly having to protect margin.

IBG's Concerns

⦿ Concerns

• Suppliers

- 80% of volume emphasizing efficiencies more than ever.
 - Capture synergies / zero-base budgeting.
- Marketing.
 - Quality, quantity, media vehicle issue.
- No one dominating industry landscape.
- Mega brands struggling (aging).

Industry Concerns

- ◎ Price / value / size / availability of money.
 - 1980's growth = 2%, driven by A-B.
 - 1990's growth = 1.5%, driven by domestic brands.
 - 2000's growth = 1%, driven by imports and crafts.
 - 2010 negative growth.

Question: Where do we go to get growth??

- Size of transactions getting much larger.
- The industry will soon need to consider alternative types of funding.

IBG's Concerns

⦿ Concerns

- More / better competition from other beverages.
 - Red Bull, wine/spirits, vitamin water, coffee, OTP.
- More / better competition for disposable income.
 - Fuel, lottery tickets, cigarettes, everyday cost of living.
- Federal / state tax increases.
- Lingering loss of disposable income.
- Using weather as an excuse.

IBG's Positives

⊙ Positives

- Supplier stability.
- Three-tier system solid.
- Profitability (supplier / distributor) great.
- The worst may be over for the overall economy.
- More disciplined approach from major suppliers.
- NBWA / State Associations strength.

Conclusion

- ⦿ If we don't fix our collective volume problem our collective profits will erode and we will be in a circular firing squad.
 - It is the cumulative effect of the issues that will impact industry / consolidation.

III. DISTRIBUTION SYSTEMS OF 2015?

Distribution Systems of 2015?

- ◎ ABI current consolidation.
 - Branches currently in several major markets.
 - Chicago, New York, Boston, San Diego, Los Angeles, Miami, Denver.
 - Will buy more major markets when possible.
 - Extra opportunity for markets contiguous to branches.
 - Economics more difficult than MC.
 - Stand alone (horizontal).
 - Buying 50% SOM vs. putting together 25% / 25% (vertical).
 - Mega distributor attitude vs. culture of control creates potential conflict.
 - More sellers now than in past.
 - Lost emotional hook associated with previous administration.
 - Fear of unknown.

Distribution Systems of 2015?

- ⊙ MC current consolidation.
 - 80% combined.
 - Several others in play.
 - IBG predicts 90% in next 3 years.
 - Price / size of remaining non-consolidated distributors an issue.
 - NY, Ft. Worth, Austin, Philadelphia, Minneapolis, Las Vegas.
 - Low fruit already picked.
 - People left are fighting to stay.

Distribution Systems of 2015?

- ◎ ABI / Pepsi and MC / Coke.
 - Currently working in Utah, Mississippi, Kentucky, Wyoming.
 - Coors / Canada Dry – New York. Initially / Philadelphia.
 - Way to dramatically improve ABI distribution efficiency.
 - Reduce cost.
 - Enhanced retail channel distribution flexibility.
 - Catch up fast on MC mega distributors.
 - ABI / Pepsi currently working together.
 - ABI / Pepsi and MC / Coke could capture major portion of the distribution profit pool.
 - MC / Coke less critical.
 - Cultural issues.
 - Beer is industry of turtles, not rabbits.
 - IBG prediction: ABI / Pepsi will lead the way by 2015. MC / Coke will fight their combination.

Distribution Systems of 2015?

- ◎ One distributor per market.
 - Supplier / anti-trust push-back.
 - Economic reality in some markets.
 - Rural
 - SOM imbalance.
 - Combine admin. / whse. / delivery and separate sales / marketing.
 - Currently working in CO, AZ, MN.

Distribution Systems of 2015?

⊙ Mergers

- More prevalent but difficult to accomplish.
 - Extended time line to complete.
- Solves money problem.
 - Particularly important for ABI.
- Currently 3 of 11 IBG transactions.

Distribution Systems of 2015?

- ⦿ Shared services.
 - Theoretically good but difficult to get done.
 - Start small.
- ⦿ Wine / spirits / beer.
 - Republic National.
 - Glazer's.
 - Northwest has unique approach.

Distribution Systems of 2015?

◎ Conclusion.

- Consolidation in the next 5 years will be a combination of all of the above.
- Funding for consolidation will be more creative.
 - Banks, venture capital, private equity, public ownership.
- Value gap between buyers / sellers will not go away quickly.

IV. PREVIOUS PREDICTIONS

Previous Predictions!

- ⊙ Pain / Pleasure concept.
 - Takes both with beer distributors.
 - Frustrating attitude for outsiders.
- ⊙ Consolidation phenomenon.
 - Since 1993 IBG recognized Miller / Coors could not compete separately (MBC / CBC constantly disagreed).
 - 2003 stated MC / All Other distributors worth more than A-B exclusive (NBWA presentation).
 - Recognized synergies of Shared Services (1998 Phoenix, Boise).
 - Began doing mergers in 1997 (4 distributors into 1).
 - Completed 7 since.

Previous Predictions!

- ⦿ 15% operating costs as a target to compete with large retail (Insights conference – 2004).
- ⦿ Price gap (value bubble) between buyers / sellers ++ 20% (California Beer Wholesalers Assn. - 2008).
 - Still exists but is now 10%
 - Buyers and bankers want to look forward, sellers want to look backward.
- ⦿ Money would be hard to get (NBWA 2007 before bank crash).

Future Value Questions

- ◎ You decide. Different for every market.
 - Will credit crisis ease?
 - Will slowing of imports / premiums stop?
 - Will consumers stop bi-polar buying habits (30 packs & craft 6-packs)?
 - Will there be tax increases on beer?
 - Where will industry growth come from?
 - Will franchise laws be tested?
 - Impact of retail litigation.
 - Current contract disputes.

V. SUMMARY

Summary

- ⦿ We have a volume problem and it is getting worse.
 - Must fix CPI pricing, marketing and execution ASAP.
- ⦿ There is still a value gap between buyers and sellers.
 - Price of distribution system being reset.
- ⦿ Consumer behavior is less predictable than ever.
- ⦿ The successful products of tomorrow have not been thought of yet.
 - Less stability in mega brands.
 - This reality affects the value of your business today.
- ⦿ The 3-tier system will change dramatically in the next 5 years.
 - Funding will need to change.
- ⦿ ABI / Pepsi will figure a way to work together more and MC / Coke will take longer.