



Business Valuation  
& Advisory

Industry Update

# Beverage Industry

June 2016



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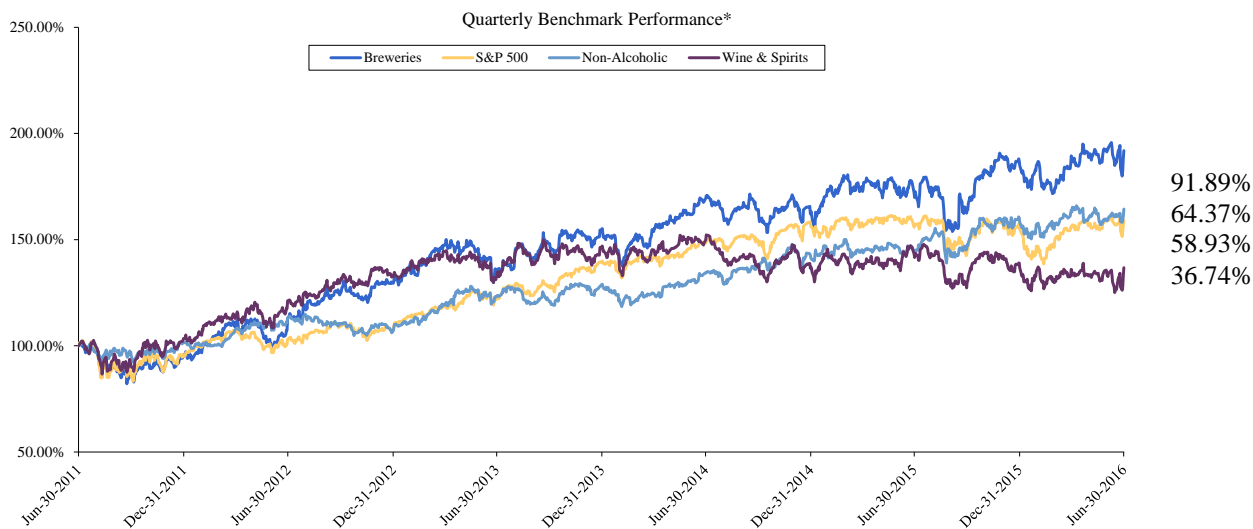
## Industry Overview

This publication focuses on major events, developments and trends happening within the brewery, wine and spirits and non-alcoholic beverage (such as soft drinks and energy drinks) segments of the Beverage Industry.

The Beverage Industry is predominately composed of a few large industry players that are currently in the mature stage of their lifecycles. Large and small industry participants alike are constantly faced with internal and external challenges. Presently, the following trends are reshaping the industry:

- **Health-consciousness:** Health-consciousness has matured into consumer activism, leading big beverage companies to tailor products in response to customer feedback. States are also being faced with legislation aimed at educating consumers on the dangers of specific beverages, and taxation of carbonated soft drinks.
- **Shifting consumer preference:** As consumers continue turning away from carbonated soft drinks, alternatives such as energy drinks and coconut water have seen dramatic growth. In addition, the craft beer industry continues to expand, which has sparked major industry players to organically and inorganically revamp their craft beer product lines.
- **Innovation:** Product innovation remains crucial as consumer preferences continue to shift. Exotic products such as relaxation drinks, energy drinks, and kombucha have picked up popularity in the last year. Companies must continue to be creative with products to respond to demands.

As shown on the stock price performance graph below, the Breweries segment of the Beverage Industry has outperformed the S&P 500 in recent years, while the Wine & Spirits segment has lagged behind. The non-alcoholic segment's performance was generally in line with the S&P 500 in recent months.



Source: S&P Capital IQ.

\*Includes selected companies presented on pages 8 and 9.

Chart above is presented on an index basis: Q2 2011.

## In the News...

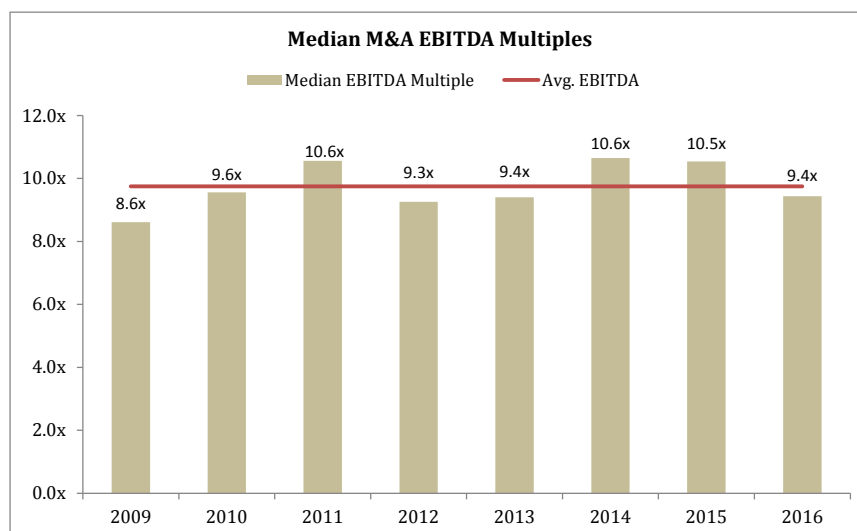
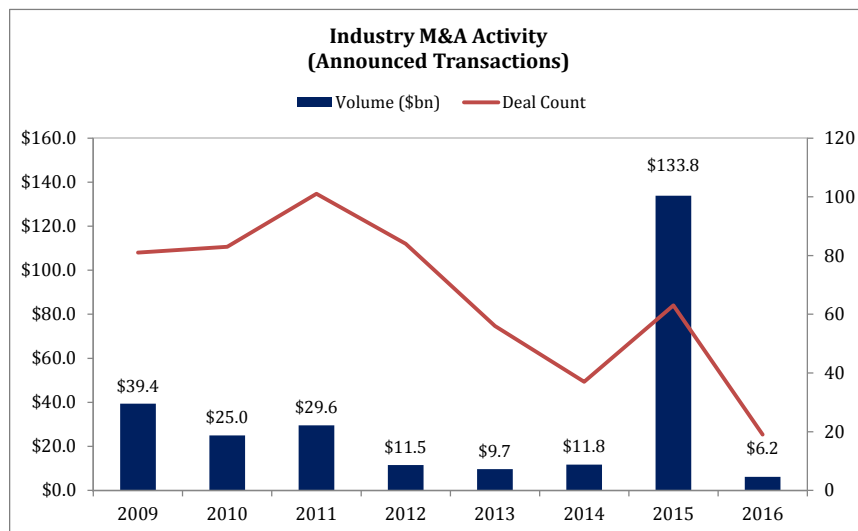
- Craft brewer competition hurts Boston Beer earnings: “Boston Beer Co. said its earnings were nearly cut in half in the first three months of the year as the maker of Samuel Adams Boston Lager faces increased competition from brewers of craft beers...Craft breweries are springing up at a rate of nearly two a day, according to the Brewers Association, an organization which represents over 3,000 small-scale beer producers. As these smaller-scale brewers snatch up shelf space and sales, Boston Beer has become a victim of its own success, too big and familiar to be considered by many as an authentic craft brewer, but without expanding enough to have the cost advantages of bigger brewers.” (Wall Street Journal, 4/21).
- Budweiser capitalizing on election for beer rebranding: “The nation’s largest brewer is stamping the word America on beer cans and bottles that would usually say Budweiser. The packaging also substitutes ‘US’ in the logo’s crest that would usually say ‘AB’ and drops ‘King of Beers’ for ‘E Pluribus Unum.’ The packaging, which will be on shelves from May 23 through the November presidential election, is part of Budweiser’s summer long campaign—‘America is in Your Hands.’ It comes during the important beer-selling period between Memorial Day and Labor Day that account for about a third of U.S. beer sales. It also seeks to capitalize on a summer when the news cycle will be dominated by the presidential campaign.” (Wall Street Journal, 5/11)
- Cold coffee is booming as global giants are putting their brews on ice: “While sugary iced-coffee concoctions, like Starbucks’ Frappuccinos, have been popular for years, baristas and coffee bars are seeing an increasing demand for more sophisticated iced espressos and lattes. Many now say they serve more cold coffee than hot -- even during winter. For the fourth quarter of 2015, Starbucks reported a 20 percent increase in iced drink sales nationwide following its introduction of a new cold brew coffee in its retail stores. Now, coffee makers are making a push for getting more of those high-end, lower-calorie and less-sugary cold brews and lattes on the shelves of stores like Wal-Mart, Kroger and Costco.” (Bloomberg, 5/23).
- Philadelphia hits soft-drink industry with historic tax: “Philadelphia became the first major U.S. city to pass a tax on soft drinks, dealing a significant blow to an industry increasingly facing a consumer backlash over health concerns. In a 13-4 vote met with cheers and applause, the City Council approved a plan to add a 1.5-cents-per-ounce tax on soft drinks containing added sugar or artificial sweeteners.” (Bloomberg, 6/16).
- Coca-Cola is investing in a new aloe-water beverage that touts improved health claims: “On Wednesday, the maker of Aloe Gloe, announced that Coca-Cola had obtained a minority equity stake in the company. The business will join Coca-Cola’s Venturing and Emerging Brands (VEB) unit, alongside beverages such as Honest Tea and Zico coconut water.” (Business Insider, 6/22).
- Expectation of poor robusta coffee crops could spur price rally: “Output of Brazilian robusta, or conillon, is forecast to be down this year due to prolonged dry weather in key growing areas such as Espirito Santo, and trade sources are now voicing concerns about prospects for next year’s crop... In top robusta grower Vietnam, dry weather in April and May and below average rainfall in June, augured for a drop in output in the next harvest due to start around October/November” (Reuters, 6/23).

## M&A Overview<sup>1</sup>

### Industry Trends

As shown below, deal volume within the Beverage Industry has normalized through June in 2016, after skyrocketing in 2015. The increase in 2015 was mostly attributable to Anheuser-Busch InBev's announcement in September 2015 to buy SABMiller PLC, which had an implied enterprise value of approximately \$115.7 billion. In addition to the decrease in volume, deal count through the end of June totaled 19, on pace for a substantial decrease from 63 in 2015.

The median EBITDA multiple for announced transactions in 2016 was 9.4 times, lower than an average multiple of 9.8 times exhibited from 2009 to 2016.



<sup>1</sup> Covers activity for announced deals with reported transaction values.  
Source: S&P Capital IQ.

*Recent Transactions*

| Announced Date | Buyer  | Target   | Target Description  |
|----------------|--|--|---|
| 06/07/2016     | Cott Corporation                                     | Eden Springs (Europe) SA   | Eden Springs (Europe) SA provides water and coffee solutions to companies in Switzerland and internationally. The company also supplies bottled water coolers, plumbed-in filter systems, and coffee machines and systems, as well as PET and sports bottles. The company was founded in 1997 and is based in Preverenges, Switzerland. It has Locations in Denmark, Spain, Estonia, Finland, France, Germany, Luxembourg, Latvia, Lithuania, the Netherlands, Norway, Poland, the Russian Federation, Sweden, Switzerland, the United Kingdom, and Israel. As of July 2007, Eden Springs (Europe) SA is a former subsidiary of Mayanot Tamra Ltd. As of October 23, 2013, Eden Springs (Europe) SA operates as a subsidiary of Rhone Capital IV LP.  |
| 06/01/2016     | The Coca-Cola Company; Coca-Cola FEMSA S.A.B de C.V. | AdeS Alimentos de Soja SA  | AdeS Alimentos de Soja SA manufactures soy-based beverages. The company was founded in 1988 and is based in Buenos Aires, Argentina. AdeS Alimentos de Soja SA operates as a subsidiary of Unilever PLC.  |
| 04/27/2016     | Brown-Forman Corporation                             | The BenRiach Distillery Company Limited                            | The BenRiach Distillery Company Limited produces and sells single malt whiskies. It serves customers through a network of stockists and outlets in the United Kingdom and internationally. The company was founded in 1898 and is based in Edinburgh, United Kingdom. As of June 1, 2016, The BenRiach Distillery Company Limited operates as a subsidiary of Brown-Forman Corporation.   |
| 04/19/2016     | Asahi Group Holdings, Ltd.                           | SABMiller plc, European Business                                   | SABMiller plc, European Business comprises beer brands Peroni, Grolsch, and Meantime families and related businesses in Italy, the Netherlands, the United Kingdom and internationally.   |
| 04/06/2016     | Constellation Brands Inc.                            | Huneus Vintners LLC, Portfolio of The Prisoner Wine Company Brands | As of April 29, 2016, Portfolio of The Prisoner Wine Company Brands of Huneus Vintners LLC was acquired by Constellation Brands Inc. Huneus Vintners LLC, Portfolio of The Prisoner Wine Company Brands comprises wine brands of The Prisoner Wine Company.   |
| 03/29/2016     | Refresco Gerber N.V. (nka:Refresco Group N.V.)       | DIS B.V.   | DIS B.V. operates as a contract filler of drinks in cans and bottles for the beverage industry in the Netherlands. The company offers its services for soft drinks and juices, mixed drinks, energy drinks, beer and beer mixtures, dairy drinks, wines, milk permeate, and foaming coffee. Its packaging lines include standard, sleek, slim line, and fusion cans with a variety of closing mechanism; multipacks; and trays. The company also provides private label products for retail and convenience sectors; standard products, such as soft drinks, cola, and orangeade; and A/B brand products. It serves leasing breweries, soft drink   |
| 02/23/2016     | Monster Beverage Corporation                         | American Fruits And Flavors  | American Fruits And Flavors manufactures and distributes fruit-based products and fruit concentrates worldwide. It also engages in supplying flavors to food and beverage manufacturers in Southern California; processing fruit juices and concentrates; and producing blends of fruit and flavor combinations. American Fruits And Flavors offers blended concentrates, cloud emulsions and clouding agents, coconut products, colors, vegetable flavors, dairy bases, drink bases, essences, flavor bases, powder blends, sweet flavors, spray dried concentrates, gums and gum blends, syrups, sweeteners, savory flavors, fruit concentrates, diet blends, smoothies, and tropical blends. The company serves various applications, including alcoholic beverages, bakery products, bar mixers, cakes, candies, cereals, chewing gum, coffees, confectioneries, cookies, cordials, dairy, dry mixes, energy drinks, frozen novelties, functional products, gelatin, health and beauty aids, herbal and vitamin ice cream, jams and jellies, jello, juices/ciders, mixers, muffins, novelty products, nutraceuticals and pharmaceuticals, popsicles, prepared foods, preserves, puddings, sauces/glazes, smoothies, snack foods, soft drinks, sorbet, sports beverages, syrups, teas, tobacco, toppings, and yogurt. American Fruits And Flavors was incorporated in 1975 and is based in Pacoima, California. As of April 1, 2016, American Fruits And Flavors operates as a subsidiary of Monster Beverage Corporation. |
| 2/19/2016      | Feudi di San Gregorio S.p.A.                         | Business Unit Related to Tuscan Wine Production                    | As of February 19, 2016, business unit related to Tuscan wine production was acquired by Feudi di San Gregorio S.p.A. Business Unit Related to Tuscan Wine Production engages in production of wines and is located in Italy.   |
| 1/14/2016      | Sazerac Company, Inc.                                | Brown-Forman Corporation, Southern Comfort and Tuaca               | As of March 1, 2016, Southern Comfort and Tuaca of Brown-Forman Corporation was acquired by Sazerac Company, Inc. Southern Comfort and Tuaca comprises two liquor brands, Southern Comfort is a well known global whiskey flavored liquor and Tuaca is an Italian liqueur with tastes of vanilla and orange that Brown-Forman acquired in 2002.   |

Source: S&P Capital IQ.

### *Notable Transactions*



In April of 2016, Asahi Group Holdings, Ltd. (“Asahi”) announced an agreement to buy the European business from SABMiller plc (“SABMiller”) for a deal valued at around \$2.9 billion. The deal is conditional on completion of Anheuser-Busch InBev’s pending acquisition of SABMiller. According to Reuters, the announced deal is valued at approximately 21.5 times EBITDA.

The transaction was entered into as a result of the announced Anheuser-Busch and SABMiller deal as an attempt to ease regulatory pressures. Asahi is attempting to widen its international footprint by taking advantage of the need to divest European assets.



In February of 2016, Monster Beverage Corporation (“Monster”) agreed to purchase American Fruits and Flavors (“AFF”) for approximately \$690 million. According to S&P Capital IQ, the announced deal is valued at approximately 7.9 times EBIT.

The transaction will allow Monster to expand its flavor development operations with the integration of AFF’s development and production. AFF has been in business with Monster since the 1990’s and is their primary flavor supplier.



In January of 2016, Sazerac Company, Inc. (“Sazerac”) announced an agreement to acquire Southern Comfort and Tuaca liqueur brands from Brown-Forman Corp. (“Brown-Forman”) for approximately \$543.5 million. According to Bloomberg, the Southern Comfort brand comprised 5.2% of the liqueur market in 2014.

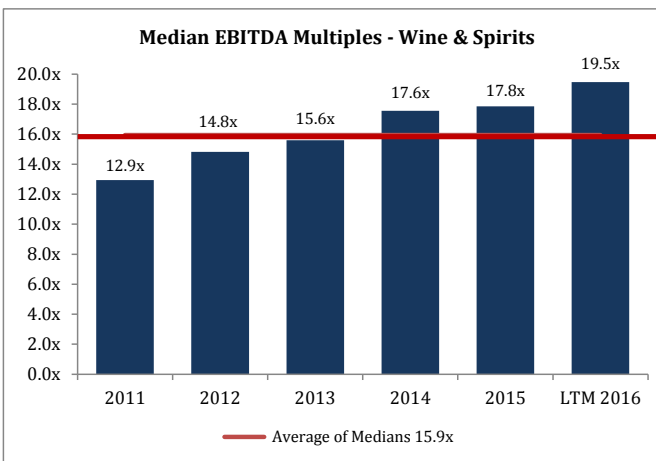
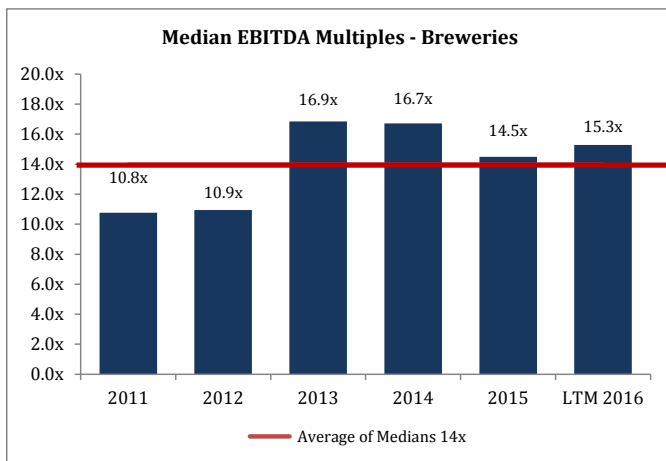
Brown-Forman is also the maker of Woodford Reserve bourbon, and sold the two liqueurs to focus on its core whiskeys. In addition, Brown-Forman acquired BenRiach Distillery Company Ltd. in April 2016 for approximately \$416 million. This acquisition added Scotch whisky to their portfolio following the sale of the liqueur brands.

Source: S&P Capital IQ and Bloomberg.

Public Market Data <sup>(1)</sup>

| Company                          | 6/30/2016<br>Close <sup>(2)</sup> | 52-Week |        | Enterprise<br>Value (EV) <sup>(3)</sup> | EV/EBITDA    |              | EBITDA Margin |              | Market Cap/Earnings |              |
|----------------------------------|-----------------------------------|---------|--------|---|--------------|--------------|---------------|--------------|---------------------|--------------|
|                                  |                                   | High    | Low    |   | LTM          | NFY          | LTM           | NFY          | LTM                 | NFY          |
| <b>Breweries</b>                 |                                   |         |        |   |              |              |               |              |                     |              |
| Anheuser-Busch InBev SA/NV       | 107.50                            | 124.20  | 87.73  | 229,581                                 | 14.2x        | 13.7x        | 38.0%         | 38.6%        | 33.0x               | 29.7x        |
| Big Rock Brewery Inc.            | 6.20                              | 6.95    | 4.05   | 48                                      | 61.9x        | NA           | 1.9%          | NA           | NM                  | NA           |
| The Boston Beer Company, Inc.    | 171.03                            | 260.51  | 145.33 | 2,118                                   | 11.1x        | 11.6x        | 20.0%         | 19.3%        | 23.6x               | 25.1x        |
| Carlsberg A/S                    | 634.50                            | 651.50  | 479.30 | 133,450                                 | 10.5x        | 10.5x        | 19.4%         | 19.8%        | NM                  | 24.2x        |
| Constellation Brands Inc.        | 165.40                            | 166.22  | 114.49 | 41,466                                  | 18.5x        | 16.8x        | 33.0%         | 33.8%        | 29.2x               | 25.8x        |
| Craft Brew Alliance, Inc.        | 11.52                             | 11.77   | 6.80   | 248                                     | 22.8x        | NA           | 5.4%          | NA           | NM                  | NM           |
| Heineken NV                      | 82.77                             | 86.95   | 64.54  | 60,445                                  | 14.1x        | 12.0x        | 20.9%         | 23.7%        | 24.9x               | 23.8x        |
| Molson Coors Brewing Company     | 101.13                            | 104.15  | 63.91  | 22,166                                  | 34.6x        | 14.5x        | 18.2%         | 44.8%        | 49.7x               | 30.5x        |
| SABMiller plc                    | 43.70                             | 45.91   | 27.73  | 78,348                                  | 15.9x        | 13.9x        | 33.0%         | 35.9%        | 26.1x               | 21.4x        |
| Tsingtao Brewery Company Limited | 26.85                             | 48.60   | 25.35  | 30,673                                  | 14.6x        | 13.4x        | 7.7%          | 8.4%         | 23.9x               | 27.1x        |
| <b>Median</b>                    |                                   |         |        |   | <b>15.3x</b> | <b>13.5x</b> | <b>19.7%</b>  | <b>28.8%</b> | <b>26.1x</b>        | <b>25.4x</b> |

|                           |        |        |       |        |              |              |              |              |              |              |
|---------------------------|--------|--------|-------|--------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Wine &amp; Spirits</b> |        |        |       |        |              |              |              |              |              |              |
| Brown-Forman Corporation  | 99.76  | 111.06 | 90.02 | 21,586 | 19.5x        | 19.6x        | 35.9%        | 27.4%        | 19.1x        | 29.1x        |
| Diageo plc                | 20.87  | 20.87  | 15.93 | 63,215 | 19.6x        | 18.4x        | 30.7%        | 32.5%        | 21.1x        | 22.5x        |
| Pernod-Ricard SA          | 100.10 | 111.70 | 88.00 | 35,808 | 14.2x        | 14.1x        | 28.4%        | 28.9%        | 27.4x        | 19.4x        |
| <b>Median</b>             |        |        |       |        | <b>19.5x</b> | <b>18.4x</b> | <b>30.7%</b> | <b>28.9%</b> | <b>21.1x</b> | <b>22.5x</b> |

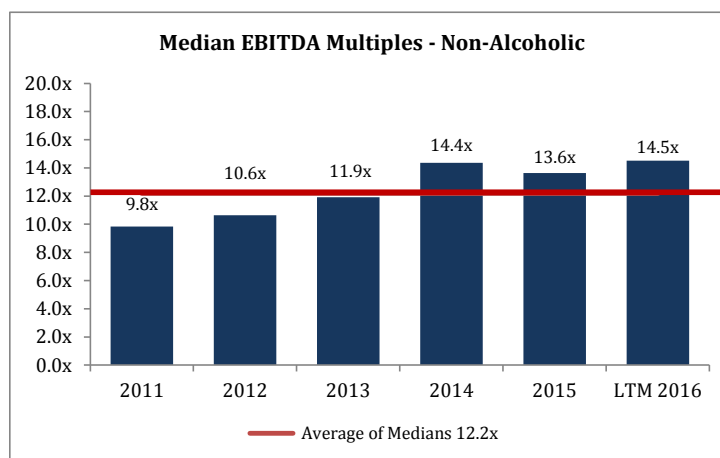




Public Market Data <sup>(1)</sup>

| Company                        | 6/30/2016<br>Close <sup>(2)</sup> | 52-Week |        | Enterprise<br>Value (EV) <sup>(3)</sup> | EV/EBITDA |       | EBITDA Margin |       | Market Cap/Earnings |       |
|--------------------------------|-----------------------------------|---------|--------|---|-----------|-------|---------------|-------|---------------------|-------|
|                                |                                   | High    | Low    |   | LTM       | NFY   | LTM           | NFY   | LTM                 | NFY   |
| <b>Non-Alcoholic Beverages</b> |                                   |         |        |   |           |       |               |       |                     |       |
| A.G.Barr p.l.c.                | 4.84                              | 6.43    | 4.55   | 572                                     | 11.7x     | 10.7x | 18.9%         | 20.0% | 16.3x               | 16.1x |
| Cott Corporation               | 18.06                             | 21.16   | 11.97  | 4,468                                   | 13.0x     | 11.9x | 11.7%         | 12.4% | NM                  | NM    |
| Dr Pepper Snapple Group, Inc.  | 96.63                             | 96.65   | 72.00  | 20,589                                  | 13.2x     | 12.7x | 24.7%         | 25.3% | 22.8x               | 22.0x |
| Farmer Brothers Co.            | 32.06                             | 32.94   | 20.90  | 487                                     | 12.4x     | 11.0x | 7.2%          | 8.1%  | NM                  | NM    |
| Monster Beverage Corporation   | 160.71                            | 160.85  | 113.08 | 29,595                                  | 28.3x     | 23.5x | 37.7%         | 41.3% | 46.2x               | 41.6x |
| National Beverage Corp.        | 62.81                             | 63.26   | 22.42  | 2,833                                   | 29.2x     | NA    | 14.0%         | NA    | NM                  | NA    |
| Pepsico, Inc.                  | 105.94                            | 106.94  | 76.48  | 175,938                                 | 14.5x     | 13.9x | 19.5%         | 20.2% | 29.5x               | 22.8x |
| Starbucks Corporation          | 57.12                             | 64.00   | 42.05  | 85,256                                  | 18.7x     | 16.3x | 22.7%         | 24.4% | 32.9x               | 29.9x |
| The Coca-Cola Company          | 45.33                             | 47.13   | 36.56  | 221,204                                 | 18.3x     | 18.1x | 27.6%         | 28.8% | 26.9x               | 25.2x |

|               |              |              |              |              |              |              |
|---------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Median</b> | <b>14.5x</b> | <b>13.3x</b> | <b>19.5%</b> | <b>22.3%</b> | <b>28.2x</b> | <b>24.0x</b> |
|---------------|--------------|--------------|--------------|--------------|--------------|--------------|



Notes:

(1) Source: As reported by S&P Capital IQ.

(2) Reported in local currency.

(3) In millions of local currency.

Definitions:

Enterprise Value – defined by S&P Capital IQ as “market cap. + total debt + preferred equity + total minority interest – cash and equivalents”

LTM – the latest twelve months.

EBITDA – adjusted earnings before interest, taxes, depreciation and amortization.

NFY – next fiscal year.

NA – not available

NM – not meaningful

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