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Industry Update

Beverage Industry

A Report on Q1 2018



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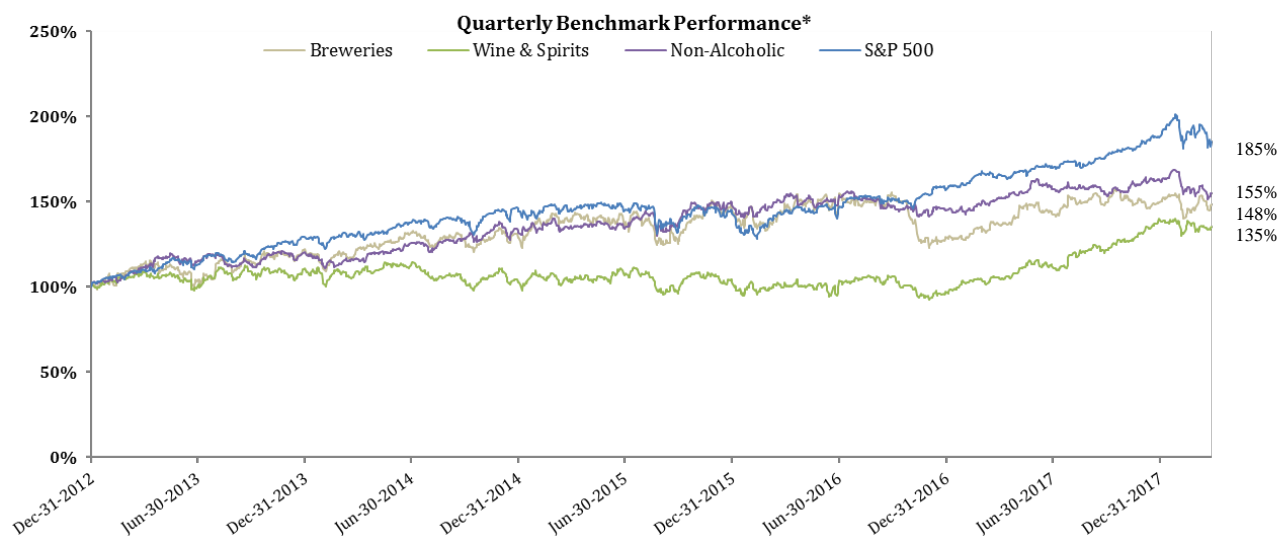
Industry Overview

This publication focuses on major events, developments and trends happening within the brewery, wine, 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.
- **Triple Bottom Line:** Consumer preference is shifting toward companies that go beyond measures of profit. The Millennial generation, especially, has a strong preference for firms that donate profits, improve surrounding communities, and represent a positive and clean image.
- **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 in response to demands.

As shown on the stock price performance graph below, the S&P 500 was rarely outperformed. With minor decreases throughout, the period shown below was lucrative for the Beverage industry and market as a whole. Non-alcoholic beverages were the most successful out of the beverage indices listed below at 155%, while Wine & Spirits finished behind all beverages with 135%. The first quarter of 2018 was difficult for all sectors of the market, but the returns over the period of December 2012 through March 2018 look promising going forward.



Source: S&P Capital IQ.

*Includes selected companies presented on pages 8 and 9.

Chart above is presented on an index basis: Q4 2012.

In the News...

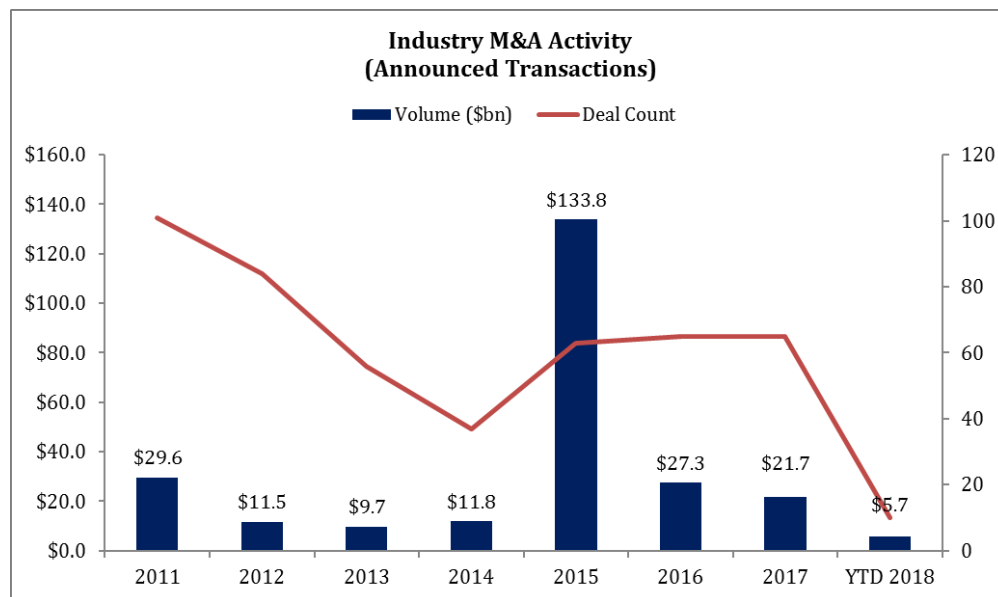
- **Cancer warning requirement stuns U.S. coffee firms in California:** “Starbucks and other coffee companies in California should have to post warnings because the brew may contain an ingredient that's been linked to cancer, a judge has ruled. The culprit is acrylamide, a chemical produced in the bean roasting process that is a known carcinogen and has been at the heart of an eight-year legal struggle between a tiny nonprofit group and Big Coffee. The Council for Education and Research on Toxics sued to require the coffee industry to remove acrylamide from its processing — like potato chip makers did when it sued them years ago — or disclose the danger in ominous warning signs or labels. The industry, led by Starbucks Corp., said the level of the chemical in coffee isn't harmful and any risks are outweighed by benefits.” (*CBS News*, 3/30)
- **Companies concerned over Trump tariff:** “Beverage makers, including Heineken, Molson Coors Brewing Co. and Coca-Cola Co., who use aluminum cans had warned Mr. Trump last month of increases in production costs if the tax were imposed. Some of those costs are likely to be passed on to consumers, according to analysts. The Beer Institute, a trade group, said Thursday the tariff would amount to a \$347.7 million tax on brewers and result in the loss of tens of thousands of jobs.” (*Wall Street Journal*, 3/2)
- **Sparkling drinks continue to grow in popularity:** “The potential for growth is bubbling to the top now. Nearly 574 million gallons of sparkling water — \$6.1 billion worth — were sold in the U.S. in 2016, the last full year of data, according to Beverage Marketing. And that figure was expected to reach 790 gallons and more than \$8.5 billion in 2017. Compare that to about 263 million gallons and \$2.6 billion in 2011... Bottled water overtook carbonated soft drinks as America's favorite drink for the first time in 2016 — 12.8 billion gallons sold versus 12.4 billion, Beverage Marketing reported.” (*USA Today*, 2/1)
- **Online beverage sales keep growing:** “Although shelf space in grocery stores has become fiercely competitive, there are other attractive selling channels taking rise. Today, sales on direct-to-consumer sites and third-party e-commerce platforms account for 36 percent of specialty food and beverage sales. With Amazon's acquisition of Whole Foods, the demand for online delivery and subscription food services will continue to grow in 2018 as busy consumers show their preference for doorstep delivery.” (*Boston Business Journal*, 1/29)
- **Wine consumers adapting to unorthodox packaging methods:** “In an increasingly crowded wine marketplace, wine package design has become a key purchase driver. While we started to see early growth of canned wines back in 2016, it's clear that glass bottles still own the lion's share of total wine sales (nearly 73%). However, alternative wine packaging like canned wine, premium boxed wine and Tetra Paks are gaining attention and saw tremendous dollar growth over the last year. In a recent Nielsen omnibus survey, wine drinkers said they prefer canned and Tetra Pak wine at outdoor events like picnics, festivals and barbeques, while boxed wine is consumed with relaxation and everyday-convenience in mind. Whatever the occasion, wine producers can create stability and continue fostering growth within alternative packaging by driving higher retention with current buyers of alternative packaging.” (Nielsen, 1/16).
- **Consumers continue to seek out sugarless beverages, and La Croix is benefiting greatly:** “Shares of La Croix maker National Beverages jumped 93.8% in 2017, according to data provided by S&P Global Market Intelligence, as the company continued to grow both volume and pricing power. Right now, there doesn't seem to be anything stopping the company's growth as consumers look for no-sugar beverages that taste better than water.” (*The Motley Fool*, 1/11).

M&A Overview¹

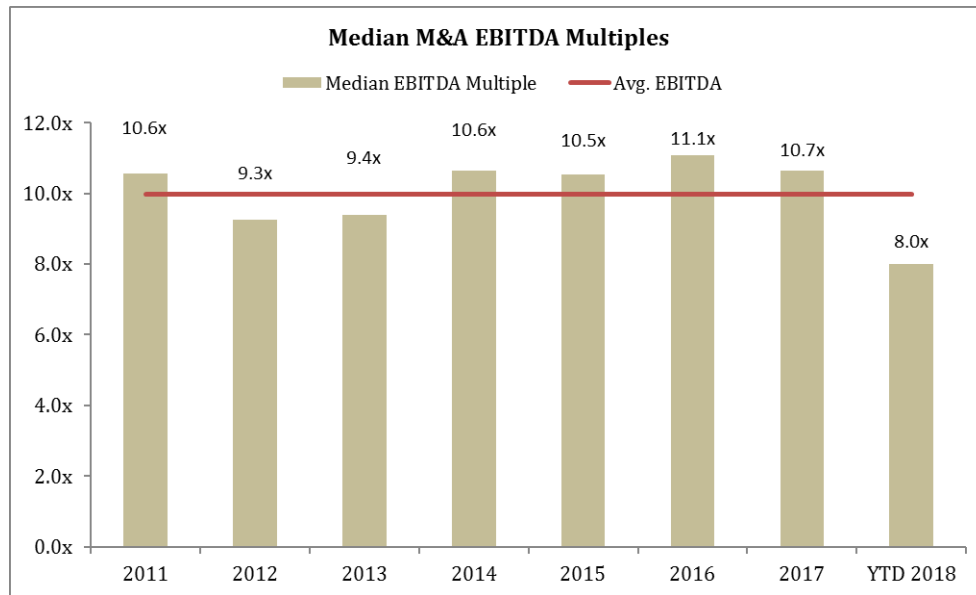
Industry Trends

Two years removed from the massive Anheuser-Busch InBev deal of 2015, the transaction market has been steady for the second year in a row. The total deal value of all 2017 transactions was \$21.7 billion, which is \$5.6 billion short of the \$27.3 billion total deal value from 2016. As of March 2018, there is just over \$5.7 billion of announced total deal value. Annualized, this is just shy of \$23 billion, indicating that 2018 is on pace to have a higher total deal value than 2017.

As was the case in 2016, there were 65 mergers and acquisitions in 2017. There have been 10 transactions as of March 2018, putting the projected annual amount at 40. If accurate, this will represent a significant decrease in the number of industry transactions. The median EBITDA multiple for announced transactions in 2017 was 10.7 times, down from the average of 11.1 times in 2016. The median EBITDA multiple in the first quarter of 2018 was 8.0 times, indicating a continued decline from the prior year.



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



Recent Transactions ⁽¹⁾

Announced Date	Buyer	Target	Target Description
1/22/2018	Bacardi Limited	Patrón Spirits International AG	Patrón Spirits International AG manufactures and markets alcoholic drinks including rum, vodka, and tequila. The company is based in Schaffhausen, Switzerland.
12/18/2017	Vietnam Beverage Company Limited	Saigon Beer - Alcohol - Beverage Corporation	Saigon Beer - Alcohol - Beverage Corporation, together with its subsidiaries, produces and sells beer, alcohol, beverages, and related materials and packaging products in Vietnam. The company produces and trades in beer, canned foods, sub-materials, wines, fizzy beverages, other chemicals, alcoholic and packaging materials, beer yeast malts, mineral water, bottled pure water, liquors, and alcoholic and non-alcoholic beverages, as well as metal packaging products; and imports and exports related raw materials. It also invests in real estate. In addition, the company offers road and water-way transportation, restaurant and hotel, and warehousing services; fabricates food-processing machinery; installs and maintains mechanical systems; and organizes and promotes trade fairs. Further, it exports its products to approximately 28 countries. Saigon Beer - Alcohol - Beverage Corporation was founded in 1977 and is headquartered in Ho Chi Minh City, Vietnam. Saigon Beer - Alcohol - Beverage Corporation is a subsidiary of Ministry of Industry and Trade.
11/3/2017	San Miguel Pure Foods Company, Inc.	San Miguel Brewery, Inc. (51.2%) and Ginebra San Miguel, Inc. (75.8%)	San Miguel Pure Foods Co Inc. acquires majority ownership in Ginebra San Miguel Inc., a producer of spirits, and San Miguel Brewery Inc. As per the agreement, San Miguel Brewery issues 4.24 billion new shares to San Miguel Pure Foods Company. San Miguel Pure Foods Company is the Philippines' largest food distributor with around 3,000 employees and a vertically-integrated supply chain with activities that range from farming to distribution. ⁽²⁾
10/16/2017	China Foods (Holdings) Limited	4 subsidiaries of China Foods Limited	As of December 18, 2017, 4 subsidiaries of China Foods Limited was acquired by China Foods (Holdings) Limited. 4 subsidiaries of China Foods Limited represents the combined operations of COFCO Wines & Spirits Co., Ltd., COFCO Premier Brands Limited, Global Lander Limited, and Superb Vision Limited in their sale to COFCO Corporation. COFCO Wines & Spirits Co., Ltd., COFCO Premier Brands Limited, Global Lander Limited, and Superb Vision Limited are investment holding companies. The companies, through their subsidiaries, produces and distributes wine. COFCO Wines & Spirits Co., Ltd. is based in China. COFCO Premier Brands Limited is based in British Virgin Islands. Global Lander Limited is based in Hong Kong. Superb Vision Limited is based in Western Samoa.
10/3/2017	PAI Partners; British Columbia Investment Management Corporation	Refresco Group N.V.	Refresco Group N.V., together with subsidiaries, operates as a bottler of soft drinks and fruit juices serving retailers and branded customers in Europe and North America. The company offers various fruit and vegetable juices; carbonated soft drinks; nectars, fruit drinks, and fruit lemonades; functional/still drinks; mineral and functional waters; ready-to-drink/ice teas; beers; and other drinks, such as seasonal and specialty drinks. It packages its products in carton, PET, Aseptic PET, cans, and glass bottles. The company was formerly known as Refresco Gerber N.V. and changed its name to Refresco Group N.V. in May 2016. Refresco Group N.V. was founded in 1999 and is headquartered in Rotterdam, the Netherlands. As of April 3, 2018, Refresco Group N.V. was taken private.
9/30/2017	The Coca-Cola Company	Compañía Topo Chico, S.A. De C.V.	Compañía Topo Chico, S.A. De C.V. produces and bottles mineral water, primarily in the Southwest United States. The company was founded in 1895 and is based in Monterrey, Mexico. As of September 30, 2017, Compañía Topo Chico, S.A. De C.V. operates as a subsidiary of The Coca-Cola Company. Topo Chico joins Coca Cola's line of bottled water products alongside Dasani, Smart Water, and Vitamin Water.
6/21/2017	Diageo North America Inc.	Casamigos Spirits Co.	Casamigos Spirits Co. produces tequila brand under the name Casamigos Tequila. The company was founded in 2013 and is based in Manhasset, New York. As of August 15, 2017, Casamigos Spirits Co. operates as a subsidiary of Diageo North America Inc.
2/13/2017	Bavaria S.A.	Brasil Kirin Holding S.A.	Brasil Kirin Holding S.A., through its subsidiaries, is engaged in the production, wholesale, and retail sale of beverages in Brazil. Its portfolio of products includes beers, soft drinks, juices, energy drinks, and water. Brasil Kirin Holding S.A. was formerly known as AAJDG Participações S.A. and changed its name to Brasil Kirin Holding S.A. on September 30, 2013. The company was founded in 1939 and is based in Itu, Brazil. As of June 1, 2017, Brasil Kirin Holding S.A. operates as a subsidiary of Bavaria S.A.

Notes:

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

(2) Source: Reuters and San Miguel Pure Foods

Notable Transactions



On January 22, 2018, Bacardi Limited announced it would acquire Patron Spirits International in a deal worth \$5.1 billion. The largest private spirits company increases its product offerings and makes itself a worthy competitor in the Beverages Industry.



Though Bacardi previously owned 30% of Patron, the firm made it a priority to own it outright. The acquisition places Bacardi in a strong competitive position going forward.



San Miguel Food Corp, a Philippine food corporation, agreed to terms with Ginebra San Miguel Inc. and San Miguel Brewery Inc. in a share swap valued at \$6.6 billion on November 6, 2017. The food giant makes another large stride into the Beverage industry by adding a brewery in San Miguel Brewery Inc. and spirit maker through the acquisition of Ginebra San Miguel.



Pai Partners, along with British Columbia Investment Management Corp., made their intent to purchase Refresco official on October 3, 2017. Refresco is the world's largest independent beverage bottler. Pai Partners, a private equity firm, was pressured by an activist investor to pursue the transaction, which resulted in the acquisition of Refresco for \$1.9 billion.



CEO Hans Roelofs said the transaction should help to generate cash "that will be available to invest in opportunities." Refresco has been successful as a leading firm in the industry and should bolster Pai Partners' portfolio in the near-term.



Coca Cola made a strong commitment to its line of bottled water products by acquiring Topo Chico, a mineral water brand that began in Mexico. The brand became very popular in the Southwest United States leading up to the announcement of the acquisition on September 30, 2017. Coca Cola further improves its worldwide brand with this transaction, adding Topo Chico to a list of bottled water products that includes Dasani, Smart Water, and Vitamin Water.

Matt Hughes, Coca Cola's VP of Emerging Brands, says that the acquisition is exciting and allows the company to mix a 90-year history with a new brand such as Topo Chico. Sparkling water has become very popular in recent years and offers Coca Cola consumers an alternative, healthier choice compared to soda.

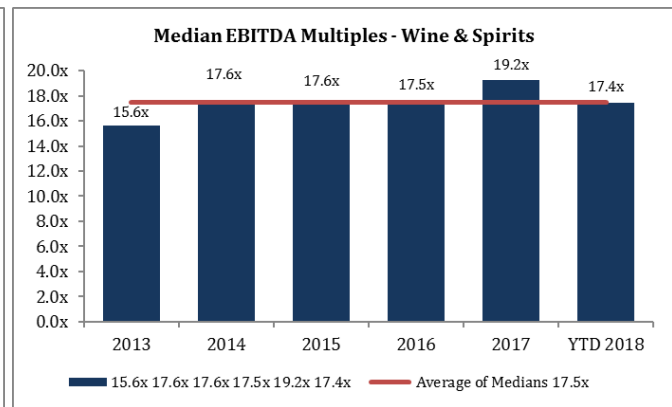
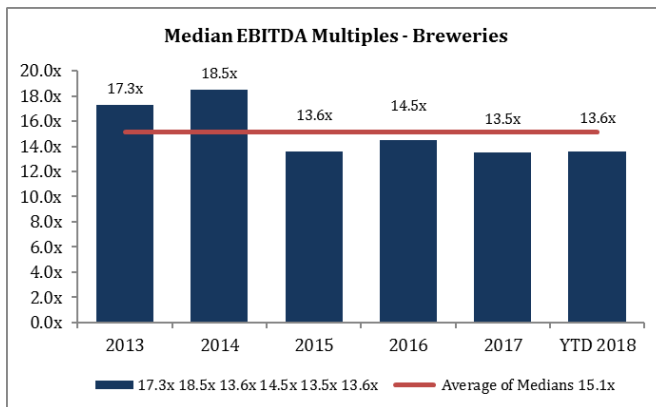
Source: S&P Capital IQ and Bloomberg.

Public Market Data ⁽¹⁾

Company	Guideline Ticker	3/31/2018 Close ⁽²⁾	52-Week		Enterprise Value (EV) ⁽³⁾	EV/EBITDA		EBITDA Margin		Market Cap/Earnings	
			High	Low		LTM	NFY	LTM	NFY	LTM	NFY
Breweries											
Anheuser-Busch InBev SA/NV	ABI	89.28	110.10	82.03	267,059	12.4x	11.1x	38.0%	41.4%	21.6x	17.7x
Big Rock Brewery Inc.	TSX:BR	4.88	8.23	4.80	40	22.9x	NA	3.8%	NA	NM	NA
The Boston Beer Company, Inc.	SAM	189.05	202.35	128.70	2,111	12.5x	12.9x	19.6%	18.4%	22.0x	27.3x
Carlsberg A/S	CARL B	720.80	781.40	638.50	132,868	10.2x	9.8x	21.1%	22.0%	87.0x	21.2x
Constellation Brands, Inc.	STZ	227.92	231.83	160.53	54,532	19.1x	17.6x	37.7%	38.1%	19.2x	23.2x
Craft Brew Alliance, Inc.	BREW	18.60	20.10	12.00	392	23.4x	18.0x	8.1%	10.3%	NM	NM
Heineken N.V.	HEIA	87.30	91.42	79.56	64,049	13.6x	11.9x	21.5%	23.7%	25.7x	23.4x
Molson Coors Brewing Company	TAP	75.33	97.50	72.07	27,360	10.4x	10.6x	23.9%	23.1%	11.5x	14.6x
Tsingtao Brewery Company Limited	168	41.00	51.70	29.65	50,442	20.7x	18.9x	9.3%	9.6%	49.1x	41.3x
Median						13.6x	12.4x	21.1%	22.6%	22.0x	23.2x

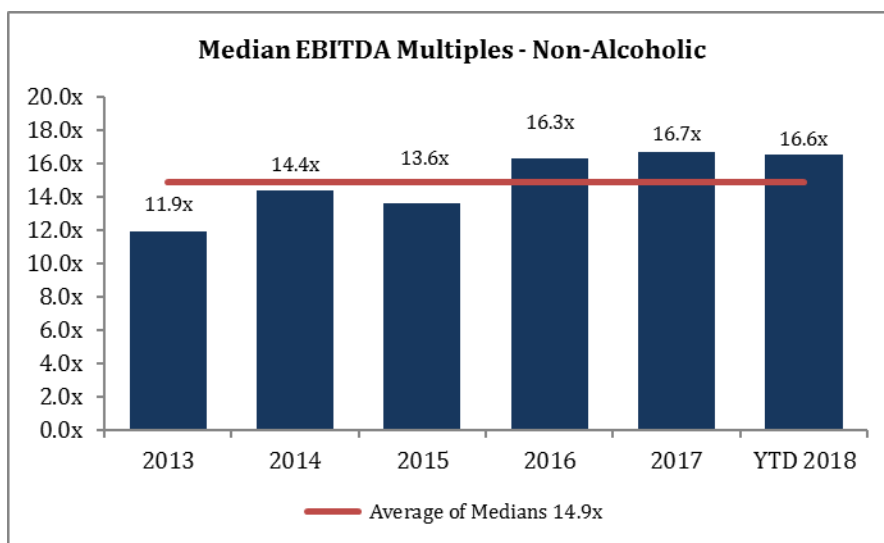
Wine & Spirits

Brown-Forman Corporation	BFB	54.40	56.81	36.33	27,286	23.1x	24.1x	36.8%	34.6%	33.9x	35.2x
Diageo plc	DGE	24.12	27.36	21.87	70,031	17.4x	16.7x	33.1%	34.6%	18.5x	19.0x
Pernod Ricard SA	RI	135.25	136.25	110.25	43,282	16.6x	16.5x	28.9%	29.1%	22.0x	22.7x
Median						17.4x	16.7x	33.1%	34.6%	22.0x	22.7x



Public Market Data⁽¹⁾

Company	Guideline Ticker	3/31/2018 Close ⁽²⁾	52-Week		Enterprise Value (EV) ⁽³⁾	EV/EBITDA		EBITDA Margin		Market Cap/Earnings	
			High	Low		LTM	NFY	LTM	NFY	LTM	NFY
Non-Alcoholic Beverages											
A.G. BARR p.l.c.	BAG	7	6.85	6	730	13.3x	13.2x	20%	19%	20.0x	20.1x
Cott Corporation	BCB	19	22.75	16	5,416	19.8x	17.2x	12%	13%	NM	52.0x
Dr Pepper Snapple Group, Inc.	DPS	118	126.65	83	25,704	16.3x	15.4x	24%	24%	19.8x	22.1x
Farmer Bros. Co.	FARM	30	37.55	29	584	13.7x	11.0x	7%	9%	NM	NM
Monster Beverage Corporation	MNST	57	70.22	44	31,202	24.3x	22.2x	38%	37%	39.5x	32.0x
National Beverage Corp.	FIZZ	89	129.82	82	3,989	18.8x	18.0x	22%	23%	29.1x	27.4x
PepsiCo, Inc.	PEP	109	122.51	106	174,639	13.7x	12.8x	20%	21%	31.9x	19.2x
Starbucks Corporation	SBUX	58	64.87	53	82,525	16.6x	14.3x	22%	23%	18.6x	18.0x
The Coca-Cola Company	KO	43	48.62	42	214,191	19.7x	18.5x	31%	37%	NM	20.3x
Median						16.6x	15.4x	21.9%	22.6%	24.6x	21.2x



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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