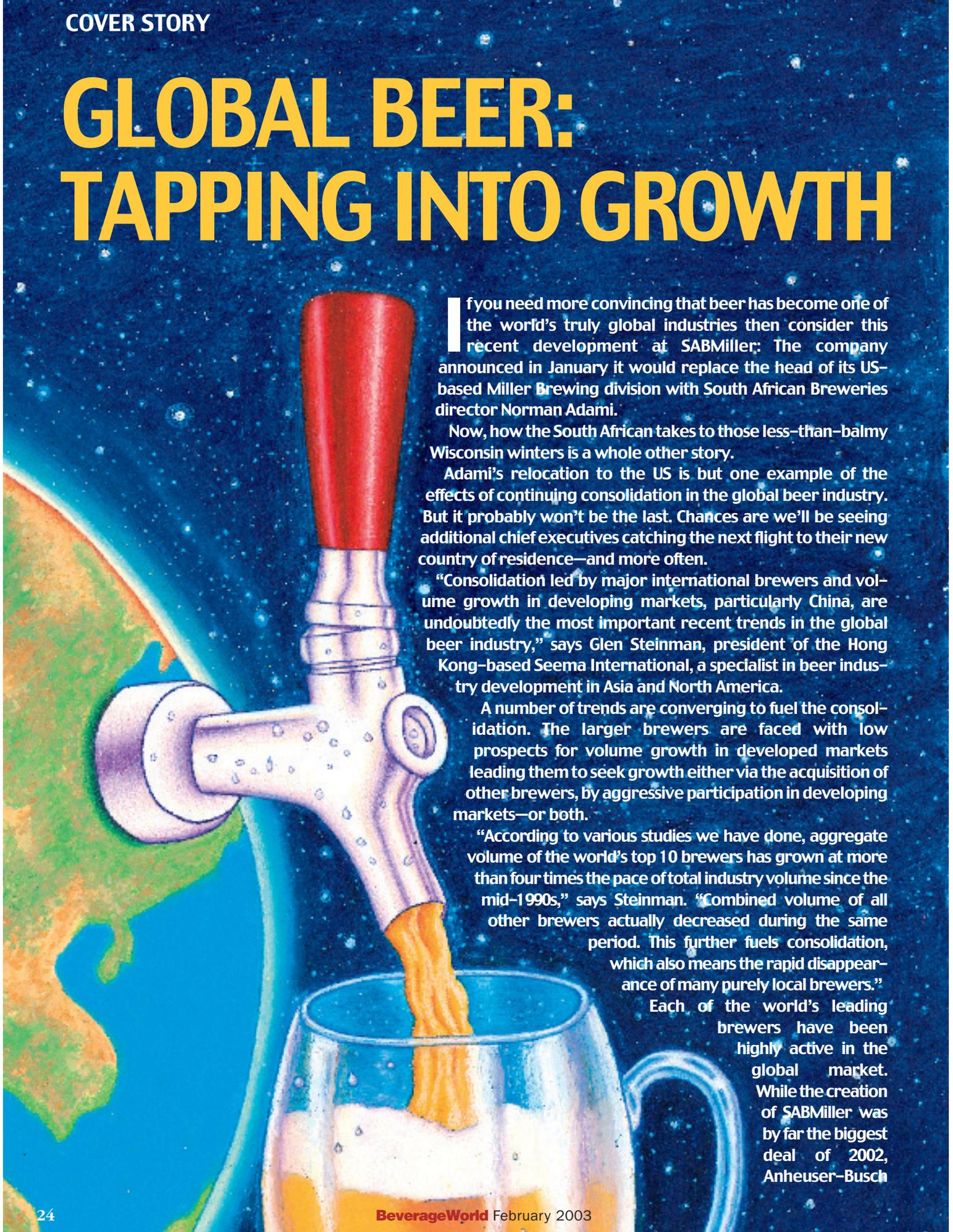


GLOBAL BEER: TAPPING INTO GROWTH



If you need more convincing that beer has become one of the world's truly global industries then consider this recent development at SABMiller: The company announced in January it would replace the head of its US-based Miller Brewing division with South African Breweries director Norman Adami.

Now, how the South African takes to those less-than-balmy Wisconsin winters is a whole other story.

Adami's relocation to the US is but one example of the effects of continuing consolidation in the global beer industry. But it probably won't be the last. Chances are we'll be seeing additional chief executives catching the next flight to their new country of residence—and more often.

"Consolidation led by major international brewers and volume growth in developing markets, particularly China, are undoubtedly the most important recent trends in the global beer industry," says Glen Steinman, president of the Hong Kong-based Seema International, a specialist in beer industry development in Asia and North America.

A number of trends are converging to fuel the consolidation. The larger brewers are faced with low prospects for volume growth in developed markets leading them to seek growth either via the acquisition of other brewers, by aggressive participation in developing markets—or both.

"According to various studies we have done, aggregate volume of the world's top 10 brewers has grown at more than four times the pace of total industry volume since the mid-1990s," says Steinman. "Combined volume of all other brewers actually decreased during the same period. This further fuels consolidation, which also means the rapid disappearance of many purely local brewers."

Each of the world's leading brewers have been highly active in the global market. While the creation of SABMiller was by far the biggest deal of 2002, Anheuser-Busch

Sustained Chinese growth and industry consolidation captured the headlines in 2002. Will 2003 mean more of the same? BY ANDREW KAPLAN

was also very active, especially with its deal to acquire 27 percent (over time) of Tsingtao Brewery, China's No. 1 brewer by volume.

Meanwhile, Coors demonstrated its readiness and ability to compete in the international big leagues with its acquisition of Carling Brewery in the UK. And each of Europe's brewing leaders, Heineken, Interbrew, Carlsberg and Scottish & Newcastle, have made significant acquisitions in the past two years.

"These brewers are active acquirers because in a consolidating and globalizing market environment they need to grow volume and, equally important, they need to keep pace with their competitors," explains Steinman.

At the same time, the leading brewer in Latin America, São Paulo, Brazil-based AmBev continues to publicize its plans to become a pan-American brewer. The brewer's moves into neighboring Argentina and Uruguay are shaking the foundations of South America's strong national brewers. Also in 2002, AmBev saw its direct—and only meaningful—competitor in Brazil (Kaiser) change hands to come under ownership of Canada's Molson.

So what's ahead for 2003? Steinman says the year will certainly see more acquisitions and a continued focus on China, as well as Russia and Latin America, which are the world's other leading markets for growth. These developing regions have all the ingredients for strong growth, including positive long-term economic outlooks, low per-capita beer consumption and youthful demographics.

"Behind the scenes," he says, "each of the leading brewers is exerting great efforts to establish global best practices programs that can enable

them to execute locally around the world at the same high levels they have established in their home markets. At Seema, we consistently emphasize that increasing profitable volume is key to victory. This means that while acquisitions are necessary to improve scale, execution is key to a profitable future."

SABMiller spokesman Nick Chaloner sees a trend whereby acquisitions become more complex and longer to resolve. "In general," he says, "the global beer market is beginning to consolidate rather faster than it was prior to our Miller acquisition, although it is a long way off some of the other sectors such as soft drinks."

In the next 12 to 18 months, Chaloner predicts further major mergers or tie-ups amongst the big brewers, to the detriment of the mid-

and small-size companies. "We plan to continue to play our part in the global consolidation of the sector and make value-adding acquisitions in both developed and developing markets," he says. "It is also true that while there are big beer brands present in the world—Budweiser and Heineken, for instance—these brands are only big because of their relative size in one or two markets. For example, 95 percent of Bud's sales volume is in the US, while Heineken is big in Western Europe and the US but not seriously elsewhere. There is still no sign of genuinely global beer brands."

Chaloner has a point. Tracking global brewers under No. 11-ranked Asahi's 2 percent market share gets tough, but try tracking top brands—none hold market share of more than Budweiser's 3.4 percent.

GLOBAL BEER CONSUMPTION

The US was expected to lose its place as the No. 1 beer consuming nation in 2002. The new title holder: China. But while China may now consume the most beer as a nation, when it comes to per capita consumption, the Chinese (at 15.8 liters) still have a ways to go before they catch up with Americans (83.1 liters). So why then does China now rank No. 1? With 1.2 billion people in China compared with the approximately 280 million in the US, there are simply a lot more Chinese consumers.

	Share (2001)	Change 2000-2001	Per Capita Consumption (in liters)
US	16.4%	-0.2%	83.1
China	14.3%	+5.6%	15.8
Germany	7.3%	-1.6%	123.1
Brazil	5.8%	-5.7%	46.7
UK	4.1%	+2.1%	97.1
Japan	3.6%	-1.9%	40.0
Mexico	3.5%	-0.7%	48.6
Russian Federation	3.1%	+5.2%	30.0
Poland	1.7%	+1.5%	60.5
France	1.5%	-0.5%	35.9
Czech Republic	1.2%	-1.3%	158.1

Source: Beverage Marketing Corporation; Productschap voor Gedistilleerde Dranken/ Commodity Board for the Distilled Spirits Industry (Netherlands); Joh. Barth & Sohn GmbH & Co.

CHINA EMERGES

China was expected to have surpassed the US as the world's No. 1 beer market by volume in 2002, although Seema estimates that will actually occur in 2003, says Steinman. "Of course," he adds, "this will merely turn out to be a historical footnote because China is set to continue to grow substantially."

Just consider this: conservative projections suggest that 80 million hectoliters of new volume will be created in the country by 2010. "Putting that in context," Steinman says, "China's volume growth alone will exceed the total volume of Japan, which is currently the world's fourth largest market."

SABMiller, which lays the claim to being the most profitable and second

largest brewer in China, sees this developing nation as mostly fueling volume, not margin growth. Adds its spokesman, Chaloner: "There is an increasing trend by other leading brewers to impact in our established markets, such as A-B's investment in China."

In fact, Anheuser-Busch and Tsingtao Brewery Co., Ltd., (China's leading brewer) signed an agreement in 2002 that will increase A-B's ownership in the company to 27 percent and provide Tsingtao with financial and technical resources to help it lead change and growth in the China beer industry, says Stephen J. Burrows, president and CEO of Anheuser-Busch International. The investment was recently approved by Tsingtao shareholders and is expected to close late in the first quarter.

"China's entry into the World Trade Organization in 2002 was significant, creating a new competitive landscape in the country," says Burrows. "In 2003, we'll be watching to see whether the overall economic benefits WTO brings to all of China are good for the beer industry. If so, it will help further advance China's economic reform and development, reduce the cost of goods and services, spur investments and create new jobs.

"China's 'opening up' policies have been widely praised worldwide and are recognized as instrumental to the development of the economy and the trading environment," Burrows continues. "However, China's WTO entry could result in a flood of sub-standard imports that would necessitate government oversight to ensure a level playing field for all brewers."

Steinman says China's growing importance in the global beer industry also is reflected by the fact that active in China along with A-B and SABMiller are Coors, Heineken, Interbrew and Carlsberg.

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US FEELS EFFECT OF GLOBAL CONSOLIDATION

In the United States, the biggest news in

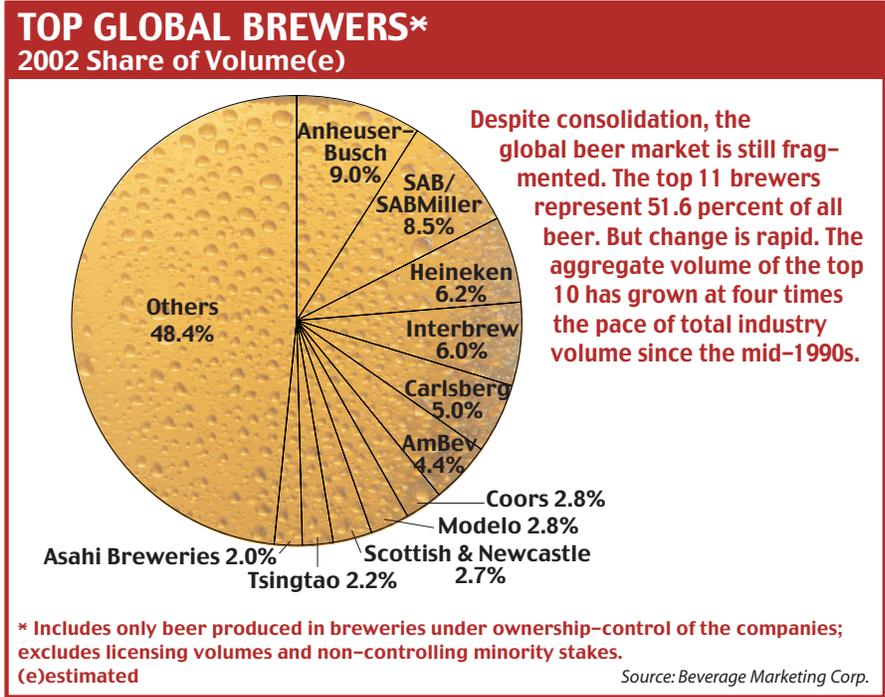
2002 was the Johannesburg-based South African Breweries' acquisition of Miller Brewing Co., announced in July. The deal transformed SAB into SABMiller, the second-largest global brewer by volume. Since then SAB has announced new senior management for Miller and closed the brewer's smallest plant in Tumwater, WA, USA.

"We are clearly focusing much resources and time on Miller, but this is not to the detriment of the other markets where we operate," Chaloner says. "It is quite likely that other progress we will make in 2003 will include further infill acquisitions in those markets as well as changes as required at Miller."

Chaloner predicts the US market will result in growth for Miller in 2003 of about 1 to 1.5 percent (about on par with predictions of 1.5 percent growth for the US this year). He attributes part of that growth to an

Hispanic-American demographic "bubble" that will reach drinking age

this year. "The malt flavored beverages are likely to stay with us and



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have carved a share of 3 to 4 percent in the US,” he adds.

While SABMiller has been tinkering with Miller, Anheuser-Busch achieved record US beer sales volume in 2002. “We are pleased to report that our domestic beer shipments to wholesalers grew to an all-time high of 101.8 million barrels in 2002—increasing 2.1 million barrels or 2.1 percent over 2001,” says A-B president August A. Busch IV. “For the first time, total domestic shipments exceeded the 100 million barrel milestone.”

Busch credited the successful introductions of Michelob Ultra and Bacardi Silver with the historic numbers. Ultra, a low-carbohydrate beer, represented about 2 percent of A-B’s volume in the US and one percent of US beer industry sales in December. In its Jan. 3 report on A-B, UBS Warburg noted that Ultra was doing very well in most parts

of the country. “In fact many distributors across the nation have had problems with production shortages—an issue we believe should be quickly resolved in 2003,” the report read.

A-B is looking to translate its success in the US to other markets. “In 2003, Anheuser-Busch will continue to focus on its international strategy, which is to grow Budweiser in foreign markets and invest in local brewers and brands in growth markets,” says Burrows.

He says the company’s selection of countries, partners and investment decisions are based on three things: a focus on countries with good beer industry volume and profit growth potential; creating partnerships with companies that are leaders in the local industry; and the ability of the partnership to add value for the company and shareholders.

Burrows adds that Budweiser bene-

fits from the continued globalization of American culture, including films, TV, music and products.

Another worldwide trend that is favorable for Budweiser is the move to lighter beverages. This generally involves a shift from hard liquor to wine and beer, and within beer to the lighter, less-bitter spectrum and away from the traditional European-style beers.

“Generally speaking, in our priority markets, we view all of these factors as favorable, that support Anheuser-Busch’s ability to grow,” adds Burrows. “In 2002, Anheuser-Busch experienced good volume growth in Canada, China, Mexico and the UK—four of the company’s largest markets outside the United States.”

And if the current trends continue, A-B and other global beer marketers should have plenty of additional markets to tap well into the future. **BW**

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