

WRITTEN STATEMENT BY

**CARLOS BRITO
CHIEF EXECUTIVE OFFICER
AB INBEV**

**TO THE
SUBCOMMITTEE ON ANTITRUST, COMPETITION POLICY AND CONSUMER
RIGHTS
U.S. SENATE COMMITTEE ON THE JUDICIARY**

**HEARING ON
“ENSURING COMPETITION REMAINS ON TAP: THE AB INBEV/SABMILLER
MERGER AND THE STATE OF COMPETITION IN THE BEER INDUSTRY”**

DECEMBER 8, 2015

Chairman Lee, Ranking Member Klobuchar and Members of the Subcommittee:

Thank you for the opportunity to appear before this subcommittee. My name is Carlos Brito and I am CEO of AB InBev.

I am here today to discuss AB InBev’s proposed acquisition of SABMiller and our agreement with Molson Coors to divest SABMiller’s interest in MillerCoors, conditioned upon completion of AB InBev’s combination with SABMiller.

In particular, I would like to share with you the business rationale for this transaction and the impact — or more precisely, the lack of impact — that this transaction will have on our competitive position in the United States.

Put simply, the purpose of this transaction is to enhance our ability to serve new markets, particularly in Africa, Asia and Central and South America. It is about bringing more choices to more consumers around the world, including extending the reach of iconic American brands such as Budweiser to new markets.

What this combination is *not* about is changing our competitive position in the U.S. beer market. The agreement we reached with Molson Coors and the divestiture of SABMiller’s interest in MillerCoors ensure that our market share in the U.S. will not change as a result of the

combination. Upon regulatory approval, Molson Coors will acquire 100 percent of SABMiller's interest in MillerCoors, including all brands, breweries, intellectual property and other assets.

Today, the U.S. beer industry is more competitive than ever due to the strong growth of craft beer and increased competition from wine and liquor. If anything, this deal will create an even more competitive landscape in the U.S. by creating a stronger competitor in Molson Coors once it acquires SABMiller's interest in MillerCoors.

The Rationale for the AB InBev/SABMiller Combination

AB InBev is a global brewer and the parent company of Anheuser-Busch. We have the privilege of continuing Anheuser-Busch's proud history as a brewer in America.

Our employees work, live and participate in communities all across the country. We employ more than 16,000 people in the U.S. working in 49 states and approximately 70 facilities. And we committed in June to investing an additional \$1.5 billion by 2018 in our U.S. operations. I am proud to say that 98 percent of our products sold in the U.S. are made in the U.S.

We are pursuing this combination with SABMiller in order to enhance our ability to serve new markets and provide more choice to more consumers around the world.

The geographic footprints of AB InBev and SABMiller are largely complementary, which means the transaction will allow us to reach new markets without significantly raising concentration in any market. In particular, it will strengthen our position in key regions with strong growth prospects — including Africa, Asia and Central and South America. We expect the transaction to close in the second half of 2016, subject to satisfying the relevant regulatory clearances, and we are working proactively with the regulatory authorities around the world to ensure approval.

The Impact — or Lack Thereof — On the U.S. Competitive Landscape

This transaction is about new markets in the rest of the world, not the U.S. AB InBev will not acquire any SABMiller assets or operations in the U.S. The divestiture of SABMiller's interest in MillerCoors to Molson Coors means AB InBev's market share in the U.S. will not change. The other aspects of our operations, including total beer production, our utilization of

beer ingredients and supplies and our commitment to the three-tier system, will remain similarly unchanged as a result of this transaction.

Indeed, we expect that as a result of Molson Coors acquiring SABMiller's interest in MillerCoors, AB InBev will face a more competitive marketplace, similar to what we experienced following the 2013 divestiture of Modelo's entire U.S. business to Constellation. As will be the case with Molson Coors, the Modelo divestiture created an independent, fully integrated and vigorous domestic competitor. To date, Constellation has had 22 consecutive quarters of volume market share growth and represented 45 percent of total U.S. beer industry volume growth during Q2 2016.¹ Constellation's sales of brands such as Corona, Modelo Especial and Pacifico have grown at retail by 12 percent over the past year.²

In testimony before the House Judiciary Subcommittee on Regulatory Reform, Commercial and Antitrust Law, Assistant Attorney General William Baer noted that Constellation has "begun offering new products, bringing competition to segments of the market that Grupo Modelo had previously ignored. Constellation is also increasing capacity and, according to its executives, continues to grow its U.S. sales faster than the market as a whole."³

This type of competition and increased consumer choice is good news for U.S. consumers.

Robust Competition in the Beer and Alcohol Beverages Industries

The enhanced competition we expect from the divestiture of SABMiller's interest in MillerCoors will add to what is already perhaps the most competitive era in the history of the U.S. beer industry. Today's U.S. beer market offers a variety of choice to consumers, from iconic American brands such as Budweiser and Bud Light to the offerings of the more than 4,000 breweries currently operating in all 50 states and the District of Columbia.⁴

¹ "Constellation Brands Reports Second Quarter Fiscal 2016 Results" (press release), Constellation Brands, October 7, 2015, <http://www.cbrands.com/news-media/constellation-brands-reports-second-quarter-fiscal-2016-results>

² Tripp Mickle, "Will the Corona Flow Fast Enough to Meet U.S. Demand?" *The Wall Street Journal*, June 15, 2015.

³ *Oversight of the Antitrust Enforcement Agencies: Hearing Before the House Judiciary Committee, Subcommittee on Regulatory Reform, Commercial and Antitrust Law*, 114th Cong. (2015) (statement of Bill Baer, Assistant Attorney General), <http://www.justice.gov/opa/speech/assistant-attorney-general-bill-baer-delivers-testimony-us-house-representatives>

⁴ Bart Watson, "U.S. Passes 4,000 Breweries," *Insights and Analysis* (blog), Brewers Association, September 28, 2015, <https://www.brewersassociation.org/insights/4000-breweries/>

This highly competitive market is being driven first and foremost by the growth of craft beer, which has accelerated over the past five years to offer beers in a wide variety of new styles and flavors to suit the taste and occasion of every beer drinker in the country.

According to the Brewers Association, craft beer rose from 3.8 percent of the market in 2007 to 11 percent in 2014 and is expected to reach 20 percent by 2020.⁵ Bart Watson, chief economist for the Brewers Association, estimates that on average two new breweries open every day in the U.S.⁶

In addition to robust competition from craft, the beer industry itself faces ever-growing competition from wine and liquor. Since 2009, beer sales as a percent of total alcohol sales have declined, while sales of wine and liquor have increased.⁷

Nothing in AB InBev's combination with SABMiller will lessen that competition.

No Change in Distribution

While distribution is a separate topic from our proposed acquisition of SABMiller, I want to state very clearly that we do not expect any changes to the Anheuser-Busch distribution system as a result of the combination or divestiture. Our combination with SABMiller will have no impact on the three-tier system, which we have long supported and will continue to support.

Brewers rely on a vast network of wholesalers to distribute their beers to locations across the country. AB InBev counts on its wholesalers as trusted business partners to help us better serve beer drinkers. Just as there is robust competition among breweries, there is robust competition in the wholesaler system, with approximately 3,300 wholesalers across America.⁸ Additionally, more than 35 states allow for some form of self-distribution of beer. Together these distribution options ensure that brewers across the country can access the market.

More than 500 of the 3,300 wholesalers are Anheuser-Busch distributors, the vast majority of which carry competitive brands. Only 21 are owned and operated by Anheuser-

⁵ "2011 Craft Beer Data Infographic," Brewers Association, March 28, 2012, <https://www.brewersassociation.org/press-releases/2011-craft-beer-data-infographic/>; "Brewers Association Announced 2013 Craft Brewer Growth" (press release), Brewers Association, March 13, 2014, <https://www.brewersassociation.org/category/press-releases/page/3/?date=2014>; "Craft Brewer Volume Share of U.S. Beer Market Reaches Double Digits in 2014" (press release), Brewers Association, March 16, 2015, <https://www.brewersassociation.org/press-releases/craft-brewer-volume-share-of-u-s-beer-market-reaches-double-digits-in-2014/>

⁶ Watson, "U.S. Passes 4,000 Breweries, *Insights and Analysis* (blog), Brewers Association, September 28, 2015

⁷ Beverage Information Group, *2015 Handbook Advance* (Norwalk, CT: Beverage Information Group, 2015).

⁸ "Who Are America's Beer Distributors?" National Beer Wholesalers Association, <https://www.nbwa.org/about/what-beer-distributor>

Busch. Anheuser-Busch's modest footprint in the second tier has existed for over 100 years. As we have previously stated, it is our intention that approximately 90 percent of our volume be distributed by independent wholesalers. Around 10 percent of our volume will be distributed by our wholly owned distributorships.

Our small role in the second tier has not stood in the way of craft's remarkable growth. In fact, several of our owned and operated beer distributorships are in markets that are home to some of this country's most successful craft brewers, including Boston, Denver, New York and San Diego.

No Material Impact on Ingredients or Supplies for Beer Production

In addition to a vibrant independent distribution tier, the competitive landscape in today's beer industry is supported by broad, responsive markets for the ingredients and supplies that brewers rely upon.

These inputs are generally produced within large, highly responsive local, national and global markets. In none of these markets would the combined AB InBev and SABMiller be in a position to constrain competitors' access to those ingredients and supplies. The marketplace sets the prices and terms of ingredients and supplies.

For products like aluminum cans and barley, which are primarily domestically produced and sourced, the fact that our production volume is not expected to change in the U.S. means that this combination will have no impact on competitors' ability to continue to source these ingredients and supplies. Similarly, we expect no material impact on sourcing internationally. Anheuser-Busch uses approximately 1.2M metric tons of barley, representing just 25 percent of the U.S. market. Additionally, the U.S. currently produces close to 90 billion cans each year. Of that, Anheuser-Busch uses about 18 billion cans. It is worth noting that aluminum cans are a minor input for most craft brewers.

For hops, which does operate as a more global market, our footprint in the market is and will remain modest due to the fact that our beers require far less hops than those of our craft competitors. Indeed, the hops industry has already proven itself highly responsive to the needs of craft, more than doubling the acreage used to grow the type of hops most commonly used in craft

brews over the past several years.⁹ AB InBev purchases a total of approximately 2,260 metric tons of U.S.-grown hops from third parties, or approximately 8.1 percent of the total U.S. production.

Conclusion

In closing, we are proud of our contribution to the highly competitive U.S. beer market and excited for the future of beer — both in the U.S. and around the world.

The combination of AB InBev with SABMiller will allow us to bring more choices to consumers around the world and bring some of America’s most iconic brands to markets they have not yet reached. We look forward to the day when American travelers can find a cold Budweiser almost anywhere in the world.

This transaction will deliver that benefit without lessening competition in this country in any way. If anything, our divestiture of SABMiller’s interest in MillerCoors will create an even more competitive marketplace, building upon what is already a golden age of consumer choice in American brewing.

Again, thank you for the opportunity to appear before you. I look forward to answering your questions.

⁹ Bart Watson, “The Hops Market,” *Insights & Analysis* (blog), Brewers Association, May 11, 2015, <https://www.brewersassociation.org/insights/the-hops-market/>