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Consolidation in the Beer Industry Generates Robust EBITDA Multiples

Recently, the largest transactions in the beer sector have been made by companies seeking entry into the fast-growing emerging markets arena, the newest of which is Friday's announcement of Anheuser-Busch InBev's ("AB InBev") purchase of the remaining 50% of Mexican beer maker Grupo Modelo. *The Wall Street Journal* ("WSJ") reported AB InBev will purchase Mexican beer maker Grupo Modelo for $20.1 billion - the second largest beer deal on record, according to Dealogic. The transaction however still faces anti-trust scrutiny in the United States where AB InBev controls nearly 50% of the beer market.

The average TEV/EBITDA purchase multiple for beer industry transactions since 2010 has been a robust 18.57x across all transactions including five major pace-setting transactions greater than $1 billion. Coincidentally, the multiple of the impending AB InBev deal is also 18.57x. *The Wall Street Journal* reported that on a per share basis, AB InBev is paying $9.15 for Grupo Modelo, a 30% premium to where the stock closed on June 22, 2012 the final day of trading before the story was reported. AB InBev already owns 50% of Modelo, which it acquired through its purchase of Anheuser-Busch in 2008.

The Wall Street Journal reported that for Modelo a tie up with the distribution juggernaut AB InBev will help the company accelerate its expansion outside Mexico, and more deeply penetrate the U.S. and other markets. In particular, with the sluggish European economy hampering sales, AB InBev is looking for ways to expand outside its key market. *WSJ* reports that the deal will give AB InBev access to 2-3% annual growth in the Mexican market and produce at least $600 million per year in cost savings and other synergies. Currently, Modelo has a 50% plus market share of the Mexican beer market, but a relatively low gross profit margin of around 26% which AB InBev will look to push towards the margin of 60-65% that it earns in Brazil. Mexico is the world's sixth largest beer market, fourth most profitable, and is a virtual duopoly between Modelo and Heineken.

Since January of 2010 there have been 124 M&A brewery transactions. More than one-third of these transactions have been of breweries with annual revenue less than $50 million. Examples of these transactions include Anheuser-Busch InBev's acquisition of a majority stake in Chicago brewer, Goose Island, and Molson-Coors' acquisition of Georgia brewer, Terrapin Brewing. In both cases, the acquirers are creating economies of scale for the craft brewers leading to higher margins and lower price points relative to their competitors.

Tully & Holland advised the majority owner of Independent Brewers United Inc. ("IBU"), in the sale of Magic Hat, Pyramid and MacTarnahan's beers to North American Breweries, Inc. ("NAB"). Based in Burlington, VT, IBU's specialty craft beers are sold on both the East and West Coasts. Magic Hat has been one of the fastest growing beers within the craft beer segment.

The largest independently-owned beer company in the US, North American Breweries, has grown through strategic acquisitions during recent years. Labatt USA and Genesee Brewing Company were acquired by NAB in 2009. The acquisition of IBU's craft brands is a strong strategic fit for NAB and will expand the company's presence in the rapidly growing craft beer segment, particularly on the West Coast.

About Tully & Holland

Tully & Holland Inc. (www.tullyandholland.com) is a leading Boston-based investment bank established in 1992. For 20 years the firm has successfully provided corporate finance and mergers & acquisitions advisory services to middle market consumer product companies.
Tully & Holland has particular expertise representing food & beverage companies, multi-channel marketers, retailers, and consumer product manufacturers and distributors.