CANBACK’S EXPERTISE IN ALCOHOLIC BEVERAGES

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CANBACK
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A member of The Economist Group
Introduction to Canback

Perspective on the global alcohol market

Alcohol expertise

Cases studies
Founded by Dr. Staffan Canback, we are an elite management consulting firm anchored in predictive analytics and market knowledge.

Canback serves clients through five practices: Strategy, M&A Due Diligence, Sources of Growth, Corporate Finance, and Organizational Performance.

We operate globally with the world’s largest companies as clients. This has taken us to 87 countries since our founding in 2004.

We also offer analytic services with the Canback Global Income Distribution Database (C-GIDD) as our cardinal product.

Canback is a subsidiary of The Economist Group since 2015.
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On a global scale, beer has overtaken spirits as the dominant alcohol category on a per unit alcohol (LAE) basis while wine has steadily become less popular.

Note: Alcoholic beverage intake is limited by the strength of the beverage consumed. Therefore, when comparing alcohol volumes and prices to each other, we employ LAE (liquid alcohol equivalents) analysis, based on the liters of pure alcohol consumed.
Canback’s diagonal determines whether a country is reaching its volume potential given income and population. Falling below the line indicates the potential for untapped volume.

**CANBACK ALCOHOL DIAGONAL**

\[ \beta_1 (\text{Income per capita}) + \beta_2 (\text{Population}) \]

Based on a regression of the 62 standard Canback countries

**BEER CONSUMPTION AS A FUNCTION OF POPULATION AND INCOME**

*khl, 2015*

**SPIRITS CONSUMPTION AS A FUNCTION OF POPULATION AND INCOME**

*khl, 2015*

The envelope - a maximum consumption given the size of the population and the average income. As countries approach the envelope it becomes increasingly difficult (but not impossible) to achieve beer growth above population and income growth.

* Regression run on Canback standard 62 countries. Includes both formal and informal volumes.
Work hours, or the hours an individual must work at average wages to buy a beer, allow for cross-country comparisons of affordability.

- Work hours accounts for both the price of beer and income per capita, providing a standardized measure of affordability. The work hours metric corrects for the disparities in economic stability and cost of living across global markets to allow for cross-country comparison.

- Price declines proportional to income growth, leading to a quadratic decline in hours/minutes required as income grows.

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**PER CAPITA BEER CONSUMPTION (PCC) VERSUS WORK HOURS**

As work hours increase, beer becomes less affordable and per capita consumption declines.

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**WORK MINUTES FOR A 500ML BEER**

<table>
<thead>
<tr>
<th>Country</th>
<th>Beer PCC</th>
<th>Spirits PCC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mozambique</td>
<td>269</td>
<td>6.0</td>
</tr>
<tr>
<td>Zambia</td>
<td>256</td>
<td>5.4</td>
</tr>
<tr>
<td>Kenya</td>
<td>212</td>
<td>9.9</td>
</tr>
<tr>
<td>Myanmar</td>
<td>148</td>
<td>1.7</td>
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<tr>
<td>Nigeria</td>
<td>76</td>
<td>6.9</td>
</tr>
<tr>
<td>Brazil</td>
<td>28</td>
<td>54.2</td>
</tr>
<tr>
<td>South Africa</td>
<td>19</td>
<td>73.2</td>
</tr>
<tr>
<td>Panama</td>
<td>6</td>
<td>64.1</td>
</tr>
<tr>
<td>United States</td>
<td>5</td>
<td>76.2</td>
</tr>
<tr>
<td>Germany</td>
<td>4</td>
<td>108.4</td>
</tr>
</tbody>
</table>

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**BEER PCC**

- Liters

**SPIRITS PCC**

- Liters
The global alcohol s-curve allows us to segment markets and predict future demand growth using historical market level data integrated with macroeconomic indicators. With additional data sources, the curves can be constructed by price point.

**CANBACK GLOBAL S-CURVES**

The relationship between market development and income per capita can result in s-curves, which are useful to segment markets and identify inflection points for demand. The s-curve is segmented into three phases, *latent* – the initial phase of flat demand; *emerging* – a period of demand takeoff; and *developed* – when the market has matured and demand has plateaued.

**GLOBAL BEER S-CURVE**

2015

- Beer demand accelerates around PPP$ 5,500 per capita and starts to plateau after PPP$ 30,000.
- The craft beer movement and its promotion of more expensive beers has prevented a complete flattening of the S-curve across developed countries.

**GLOBAL SPIRITS S-CURVE**

2015

- Spirits demand takes off before beer at around PPP$ 4,500 per capita. However, the emerging stage is much narrower, as consumption begins to plateau at PPP$ 10,000.

Source: World Health Organization, Canback analysis, C-GIDD
Consumer segmentations at the global, national and subnational levels reveal which motivations and occasions are common across the world vs. which are region and/or country specific.

### CONSUMPTION MOTIVATIONS

- **Relaxation**: Looking to enjoy an easy-going, low stress environment with an easy-to-drink product.
- **Unity**: Choosing the favored drink option amongst a group as a means to bond and/or fit-in.
- **Quality**: Basing one’s drink choice solely on personal preference and perceived quality.
- **Style**: Using category or brand image to establish a certain persona, such as wealthy, intelligent, masculine, etc.
- **Boldness**: A statement of individuality, asserting one’s self through choice.

### GLOBAL ALCOHOL CONSUMPTION BY MOTIVATION 2015

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relaxation</td>
<td>29%</td>
</tr>
<tr>
<td>Unity</td>
<td>25%</td>
</tr>
<tr>
<td>Quality</td>
<td>19%</td>
</tr>
<tr>
<td>Style</td>
<td>16%</td>
</tr>
<tr>
<td>Boldness</td>
<td>11%</td>
</tr>
</tbody>
</table>

Note: Motivation percentages based on LAE volumes
Source: Canback analysis
Agenda

Introduction to Canback
Perspective on the global alcohol market
Alcohol expertise
Case studies
Canback has experience working with some of the largest alcoholic beverages companies in the world, and has done so on a global scale.

To date, Canback has completed over 150 projects within the alcohol industry spanning across 6 continents and 58 countries.
Canback has maintained strong partnerships with clients in the alcohol industry through the years. The success of initial projects has led to ongoing collaboration across all parts of the value chain.

### ALCOHOLIC BEVERAGES PROJECT EXAMPLES

<table>
<thead>
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<tbody>
<tr>
<td>Global beer opportunities</td>
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<td>Regional market beer mix models</td>
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<td>Acquisition evaluations</td>
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<td>Female RTD consumption opportunities</td>
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<td>Sizing SSA homebrew markets</td>
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<td>Growing underserved occasions for beer</td>
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Our unique approach leveraging predictive analytics allows us to deliver client strategies unmatched by other consulting firms, through five different types of projects.

### ALCOHOLIC BEVERAGES PROJECT TYPES

<table>
<thead>
<tr>
<th>Project type</th>
<th>Key questions</th>
<th>Examples</th>
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</thead>
</table>
| M&A due diligence            | *Is there a significant opportunity in the market and is the target positioned to succeed?* | • Opportunity assessment for 2<sup>nd</sup> largest beer player in Brazil  
• Local spirits player evaluation in Africa  
• JV negotiation for a ready-to-drink (RTD) alcohol player in China |
| Sources of Growth™           | *Strategic projects, with market deep dives. What are the growth opportunities and how large are they?* | • Strategic growth options for a Tanzanian beer, wine and spirits company  
• Route-to-market optimization across Latin America  
• Growth drivers for low-alcohol RTDs in Italy |
| Pricing and commercial strategy | *Strategic projects with a focus on execution and pricing. How can each step of the value chain be optimized?* | • Pack size optimization for beer in Colombia, Panama and Ecuador  
• On-trade beer price compliance in Sub-Saharan Africa  
• Modern trade channel strategy for beer in Colombia |
| Predictive modeling          | *Size markets and predict growth with the use of cutting edge statistics and analytics. How large will the market be in 10 years?* | • Long-term beer and spirits global demand by category and price segment  
• Demand forecast following the introduction of cider and FABs in Asia  
• SKU-level forecasts for spirits |
| Consumer segmentation        | *Understanding why consumers prefer certain categories and brands. What is motivating drinking habits and how will that change?* | • Consumer characterization by spirits type and occasion for a major spirits player in Latin America  
• Action segmentation of consumers spanning all categories across Sub-Saharan Africa |
Canback has built its M&A due diligence track record through a combination of experience, technical strengths, and in-market capabilities.

**CANBACK’S M&A DUE DILIGENCE CAPABILITY**

**Due diligence experience**
- Independent decision making
- Completed over 50 due diligence projects since 2009

**Local research**
- In-market research merged with local insight
- International expertise, particularly in emerging markets

**M&A framework**
- Standardized and highly efficient processes
- Unique due diligence approach emphasizing market potential

**Quantitative approach**
- Unique focus on demand modeling
- Market sizing and forecasting using rigorous statistical models

**M&A due diligence projects**
Since 2009, Canback has completed over 50 alcohol-related due diligence projects internationally.

Over 80% of these projects were engagements for recurring clients:
- USD 5 billion beer acquisition in Brazil
- USD 2 billion multi-beverage acquisition in the Caribbean
- USD 8 billion beer and spirits acquisition in Mexico/Brazil
- JV evaluation in 8 sub-Saharan Africa countries in spirits and beer
- Commercial due diligence for beer acquisition in Turkey
Sources of Growth projects explore opportunities across the value chain. In each engagement, Canback teams dare to think big and encourage senior executives to do the same.

“Beyond the analytics, what you do is dare to think big. When you say we are actually capable of doing 10 times the volume we budget, we have to stop and think. Good consultants challenge management and have the imagination to think big.”
– Senior executive of USD 300 million company

STRATEGIC SOURCES OF GROWTH FRAMEWORK AND EXAMPLES

- Optimize portfolio choice and focus
  - New category development
  - Compete in adjacent categories like non-alcoholic malts

- Improve pricing decisions
  - Alter price positioning of a major brand
  - Align the price ladder with consumer tastes

- Identify gaps in distribution, including geographies
  - Improve distribution in underperforming regions
  - Change distribution partners to align with portfolio

- Explore opportunities in emerging or under-developed consumer occasions
  - Offer returnable bottles for on-trade consumers
  - Introduce low-alcohol products for daytime consumption

- Establish a long term corporate position
  - Create strategic marketing campaigns
  - Establish a corporate foundation

- Identify inorganic growth opportunities
  - Purchase a local player in the market
  - Merge with a competitor to expand portfolio

- Explore internal efficiencies
  - Improve sales force incentives
  - Initiate corporate education programs

The list above is not exhaustive. The seven categories outlined above are a starting point, but Canback customizes areas for growth by market.
In the commercial strategy, we identify commercial improvement opportunities to capture market potential in areas including:

- Pricing
- Product portfolio
- Sales and marketing
- Route-to-market
- Channel strategy

Commercial strategy projects seek to optimize each aspect of the value chain to maximize market potential, or focus on individual points including pricing, portfolio or route-to-market.

Value chain activities:

- Suppliers
  - Procurement and inbound logistics
  - Production
- R&D
- Route-to-market
- Marketing
- Service
- Distributors
- Outlets
- Consumers

Examples:

- Source barley locally
- Improve bottle supply accuracy
- Expand brewery capacity
- Cater to local tastes with a new flavor profile
- Co-distribute through peer network
- Achieve economies of scope through TV advertising
- Expand direct delivery service
- Work with outlets to improve price compliance

Sources of growth:

- M&A due diligence
- Pricing and commercial strategy
- Predictive modeling
- Consumer segmentation

Value chain activities:

- Procurement and inbound logistics
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Sources of growth:

- M&A due diligence
- Pricing and commercial strategy
- Predictive modeling
- Consumer segmentation
Canback is a trusted partner in predictive modeling, allowing clients to make more accurate demand predictions.

**CANBACK’S PREDICTIVE MODELING EXPERTISE**

**Canback Global Income Distribution Database (C-GIDD)**

The cornerstone of Canback’s predictive modeling capabilities, C-GIDD is the world’s only database with GDP, population, household income and spending data and forecasts covering:

- 210+ countries
- 690+ subdivisions
- 990+ cities, other urban, and rural areas

And with the flexibility to align seamlessly with outside data sources, unlocking actionable market strategies.

**Our predictive modeling process leverages our core competencies:**

- **C-GIDD**
- **Statistical expertise**
- **Predictive models**
- **Managerially relevant output**

Nearly all of our strategically-focused products are accompanied by a predictive model, and we have also done a variety of “pure modeling” projects.

We build models for a variety of different purposes:

- 10-year horizon predictive models for M&A due diligence valuation projects
- Short term (1-3 year) models with highly granular, monthly outputs for internal commercial planning efforts
- Very long term-horizon models (10-20 years) showing the ultimate market potential and overall trend of the market

We employ a variety of statistical and other modeling techniques depending on the goal of the model.
Canback’s approach combines proprietary socioeconomic data and state-of-the-art methods in survey design, consumer segmentation, and segment dynamic modeling.

**OBJECTIVE**
Canback approaches segmentation both in terms of the current situation and how segments will grow so that insights provide the best return. Our model lets clients understand what is driving segmentation, and take into account both consumer values and selection preference.

**TRADITIONAL SEGMENTATION APPROACH**
- **SURVEY DESIGN**
  - Survey questions designed:
    - Traditional macroeconomic and demographic indicators
    - Consumer insights
- **CONSUMER SEGMENTATION**
  - Segment consumer into groups based on k-means clustering that are useful for:
    - Developing marketing and sales strategies
    - Tracking

**CANBACK SEGMENT DYNAMIC MODEL APPROACH**
- **CANBACK DATA**
  - Income and socio-economic level data from C-GiDD
- **SURVEY DESIGN**
  - Surveys developed through conversations with client and with their feedback
  - Survey questions based on global experience
  - Surveys consider consumer values and selection
- **CONSUMER SEGMENTATION**
  - Segmentation into groups relevant to the client
  - Analysis uses robust statistical methods including but not limited to k-means clustering
- **CONSUMER SEGMENT EVOLUTION**
  - Ability to predict the evolution of consumers based on combined Canback and client data
  - Projections based on statistical methods that determine the most relevant predictors
- **COMPLETE CONSUMER FRAMEWORK**
  - Canback provides a transparent consumer segmentation, with features including:
    - Robust survey design, collecting all important data
    - External variables that reflect managerial insight and statistically-backed analysis
    - Consumer segmentation today and into the future
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Alcohol expertise

Case studies
- Sources of growth for the Botswanan beer market
- U.S. vodka consumer segmentation
- Due diligence for a beer and spirits target in Thailand
- Global spirits demand forecasting
- Price optimization for beer portfolio in Southern Africa
Canback teams have completed Sources of Growth projects in both affluent and emerging markets. An engagement in Botswana identified nearly USD 200 million in hidden value.

### SOURCES OF GROWTH STRATEGY IN BOTSWANA

<table>
<thead>
<tr>
<th>Client</th>
<th>Key question</th>
<th>Major considerations</th>
<th>Outcome</th>
</tr>
</thead>
</table>
| • Multinational alcohol company  
• Market leader in beer, flavored alcoholic beverages (FABs) and soft drinks | How can the company grow beyond natural market growth? | • Price ladder optimization  
• Geographic strategy  
• Portfolio expansion | Canback identified 300 million liters of additional volume and USD 200 million of revenue opportunities |

### Generate Ideas
- Expand premium offering
- Introduce an easy-to-drink beer

### Quantify Potential Sources of Growth
- Improve beer pricing decisions
- Optimize opaque beer packaging
- Evaluate the spirits market opportunity
- Target women with low-ABV FABs

### Recommend Strategies
- Identify distribution gaps, including geographies
- Combat new players in the soft drinks market

All figures are illustrative
In Botswana, premiumizing a mainstream brand would fill a gap in the price ladder, serving to unlock latent demand in a growing premium beer market and improve margins.

**BEER TRANSACTION PRICE LADDER**

<table>
<thead>
<tr>
<th>Price per unit</th>
<th>Mainstream</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand X</td>
<td>Brand Y</td>
<td>Brand Z</td>
</tr>
</tbody>
</table>

**BRAND-LEVEL PRICE ELASTICITIES**

500ml returnable bottle

- Brand X: -0.5
- Brand Y: -1.1
- Brand Z: -1.3

**INSIGHTS AND METHODOLOGIES**

- There is a gap in the price ladder for an upper-mainstream beer.
- Case studies show that premiumizing a mainstream brand is a successful tactic for raising margins without losing volume.
- Brand X is determined to be the product best-suited for premiumization through:
  - Brand-level price elasticities of demand
  - Consumer survey analysis
  - Market visit insights

*All figures are illustrative*
Analyzing regional consumption trends highlighted weaknesses in the client’s route-to-market structure. Canback recommended targeting high potential regions outside of Region A and B.

**REGIONAL COMPARISON**
- Share of total volume:
  - Dry areas
  - Low volume regions
  - Region B
  - Region A

**BEER OUTLET COVERAGE**
- Serviced
- Unserved

**BEER CONSUMPTION AS A FUNCTION OF POP. AND INCOME**
- Actual volumes (log scale)
- Expected consumption (log scale)

80% of beer volume comes from districts with ~30% of the population, so there is a large volume opportunity in penetrating dry areas.

Canback modeled the impact of servicing outlets on volume, controlling for regional differences to estimate the volume upside from servicing outlets in dry areas.

Comparing the current volume with the expected consumption revealed the regions with the highest potential. Adding ease of capture to the model resulted in a prioritization of high potential dry regions.

All figures are illustrative.
Case studies show a trend of switching from traditional beers to less bitter varieties. Botswana is well-suited for an easy-to-drink option given its growing preference for less bitter, low ABV beer.

- Most developed beer markets trend toward lighter and easy-to-drink beers, shifting from a more traditional profile. Botswana has yet to make the leap to low-bitterness unit beers.
- Within the limits of the portfolio, Botswanan consumers have shown a growing preference for less bitter and lower ABV beer over time. Introducing an easy-to-drink beer with low-ABV would capitalize on this growing trend.

All figures are illustrative.
The price ladder, geographic, and portfolio growth opportunities were the largest evaluated, accounting for ~80% of the total revenue growth potential.

**RECOMMENDATIONS**

1. Optimize the clear beer price ladder
   - Premiumize Brand X to fill the upper-mainstream gap

2. Grow geographic coverage through RTM investment
   - Target regions A and B in the East and C and D in the North

3. Introduce an easy-to-drink beer
   - The easy-to-drink brand with low ABV for sessionability should be priced on par with Brand W

**SOURCES OF REVENUE GROWTH**

M 2015 USD

- Price ladder
- Geographies
- Easy-to-drink
- Other

200

2015  Natural Growth  Sources of growth  2021

All figures are illustrative
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- Sources of growth for the Botswanan beer market
- U.S. vodka consumer segmentation
- Due diligence for a beer and spirits target in Thailand
- Global spirits demand forecasting
- Price optimization for beer portfolio in Southern Africa
Canback provided a segmentation of vodka consumers in the U.S. that helped the client better understand and improve upon brand positioning.

### U.S. VODKA CONSUMER SEGMENTATION

<table>
<thead>
<tr>
<th>Client</th>
<th>Key question</th>
<th>Major considerations</th>
<th>Outcome</th>
</tr>
</thead>
</table>
| Multinational spirits company   | Why and where are U.S. consumers drinking vodka and how do the client’s offerings fit these preferences? | • How do vodka motivations differ from those of other spirits?  
• What brands can be repositioned to appeal to a wider consumer base? | Canback recommended targeted marketing campaigns that helped the client better capitalize on vodka consumers’ preferences |

### PROJECT FRAMEWORK

- **MOTIVATION BREAKDOWN**
- **BRAND PERCEPTION**
- **MARKETING EFFORTS**
Nearly a quarter of U.S. vodka consumers associate the category with style and class. This association is less pronounced for total spirits and alcohol.

### U.S. Consumption by Motivation

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Total Alcohol</th>
<th>Total Spirits</th>
<th>Total Vodka</th>
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</thead>
<tbody>
<tr>
<td>Style</td>
<td>30%</td>
<td>26%</td>
<td>25%</td>
</tr>
<tr>
<td>Quality</td>
<td>15%</td>
<td>16%</td>
<td>18%</td>
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<tr>
<td>Boldness</td>
<td>17%</td>
<td>20%</td>
<td>18%</td>
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<tr>
<td>Unity</td>
<td>24%</td>
<td>17%</td>
<td>14%</td>
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<tr>
<td>Relaxation</td>
<td>30%</td>
<td>21%</td>
<td>24%</td>
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</tbody>
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### Example Occasions

- **Formal business dinner**
- **Special occasion at an upscale bar**
- **Cocktail party**
- **At home consumption**
- **Fine dining with partner/spouse**
- **Wine tasting**
- **Craft brewery tour**
- **Exploring a trendy bar**
- **Trying new and less popular drink variations**
- **Night out at a sports bar or club**
- **After-work drinking with coworkers**
- **On vacation with friends**
- **Unwinding at home after work**
- **Watching sports with friends**
- **Casual meal with extended family**

All figures are illustrative.
With almost 30% more volume than its closest competitor, Brand A leads the U.S. vodka market, primarily through relaxation-based consumption.

### U.S. Vodka Consumption by Brand

<table>
<thead>
<tr>
<th>Brand</th>
<th>Client</th>
<th>Competitor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand A</td>
<td><img src="image" alt="Client" /></td>
<td><img src="image" alt="Competitor" /></td>
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<td>Brand B</td>
<td><img src="image" alt="Client" /></td>
<td><img src="image" alt="Competitor" /></td>
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<tr>
<td>Brand C</td>
<td><img src="image" alt="Client" /></td>
<td><img src="image" alt="Competitor" /></td>
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<tr>
<td>Brand D</td>
<td><img src="image" alt="Client" /></td>
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<td>Brand E</td>
<td><img src="image" alt="Client" /></td>
<td><img src="image" alt="Competitor" /></td>
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### Brand Consumption by Motivation

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<tr>
<th></th>
<th>Style</th>
<th>Unity</th>
<th>Boldness</th>
<th>Quality</th>
<th>Relaxation</th>
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<tbody>
<tr>
<td>Brand A</td>
<td>12.8%</td>
<td>24.8%</td>
<td>17.3%</td>
<td>11.4%</td>
<td>33.7%</td>
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<tr>
<td>Brand B</td>
<td>31.0%</td>
<td>14.2%</td>
<td>19.3%</td>
<td>19.5%</td>
<td>15.9%</td>
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<tr>
<td>Brand C</td>
<td>31.9%</td>
<td>3.7%</td>
<td>17.4%</td>
<td>20.3%</td>
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<tr>
<td>Brand D</td>
<td>0.0%</td>
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<td>14.0%</td>
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<td>38.5%</td>
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<tr>
<td>Brand E</td>
<td>0.0%</td>
<td>0.0%</td>
<td>54.3%</td>
<td>0.0%</td>
<td>45.7%</td>
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<tr>
<td>Brand F</td>
<td>53.0%</td>
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<td>0.0%</td>
<td>47.0%</td>
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<tr>
<td>Brand G</td>
<td>85.8%</td>
<td>4.1%</td>
<td>0.0%</td>
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<td>10.1%</td>
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</table>

*All figures are illustrative*
Canback used its consumer and brand findings to produce several actionable recommendations, including the introduction of a premium spin-off of Brand A.

**MOTIVATION BREAKDOWN**

**BRAND PERCEPTION**

**MARKETING EFFORTS**

**CURRENT LANDSCAPE**

Brand A has established strong brand power as a relaxation oriented product but isn’t perceived to be as stylish as competing brands.

Consumers looking to be bold and express individuality make up nearly 20% of the market, yet only Brand E has been positioned to capture that potential.

Vodka under-indexes as a group oriented unity drink compared to total spirits and alcohol, in part because of its bite and lack of a distinct taste.

**RECOMMENDATIONS**

Launch and market a high-end Brand A spin-off that will be more appealing to style motivated consumers.

Begin a marketing/sponsorship campaign focused on new and trendy on-premise outlets that eccentric consumers frequent.

Explore a partnership and advertising with a CSD producer to promote a popular and easy-to-drink combo beverage.

All figures are illustrative
Introduction to Canback

Perspective on the global alcohol market

Alcohol expertise

Case studies

• Sources of growth for the Botswanan beer market
• U.S. vodka consumer segmentation
• Due diligence for a beer and spirits target in Thailand
• Global spirits demand forecasting
• Price optimization for beer portfolio in Southern Africa
Canback routinely provides clients with in-depth due diligence work on industries, markets and players globally. In 2012, we evaluated opportunities in Thailand’s alcoholic beverage market.

### DUE DILIGENCE IN THAILAND

<table>
<thead>
<tr>
<th>Client</th>
<th>Key question</th>
<th>Major considerations</th>
<th>Outcome</th>
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<tbody>
<tr>
<td>Asian alcohol company</td>
<td>Is there a long-term opportunity for alcoholic beverages in Thailand? Is the target a suitable partner?</td>
<td>• Current trajectory for beer, spirits, and soft drinks&lt;br&gt;• Actionable improvement opportunities for target player</td>
<td>Canback evaluated the opportunity in each alcohol category and quantified the revenue potential for the target</td>
</tr>
</tbody>
</table>

### PROJECT FRAMEWORK

- **STRUCTURE-CONDUCT-PERFORMANCE**
  - Understand beer, spirits and soft drinks market dynamics using the SCP paradigm

- **FUTURE DEMAND**
  - Project beer and spirits category demand and pinpoint areas of high growth

- **IMPROVEMENT OPPORTUNITIES**
  - Identify opportunities for target to unlock volume and revenue growth
Insights from the SCP analysis show that Region C over-indexes on beer consumption and that Player D has quickly become the second largest player.

Thailand’s region C has high beer consumption given its income per capita, while regions D, E, and F fall far below the average. With a majority of spirits volumes passing through on-trade channels, players must prioritize delivery to those outlets. Player D has gained 20% of the market in the last 8 years, while other major players have consistently lost market share.
Canback provided future demand projections to better quantify the opportunities presented in the target country, predicting substantial relative growth in soft drinks.

- Beer is predicted to maintain its position as the leading category through 2025, but government efforts are expected to help soft drinks close the volume gap.

- Spirits volumes will experience high growth over the next 15 years. If illicit spirits can be successfully converted into officially taxed volumes, the category will grow even faster.

All figures are illustrative.
After identifying key improvement opportunities for the potential partner, Canback presented detailed recommendations for how a combined operation could unlock maximum incremental revenue.

The target is the largest alcohol player in Thailand, with majority share of the beer category and a small presence in spirits and soft drinks. While it has experienced consistent growth in recent years, it has lost market share to new entrants.

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>RECOMMENDATIONS</th>
<th>POTENTIAL REVENUE*</th>
</tr>
</thead>
</table>
| Mainstream spirits | • Introduce a mainstream offering in the southern regions  
                     • Capture consumers switching from illicit to official spirits                                  | USD 103 million     |
| Premium spirits   | • Introduce a super premium spirit to complete the price ladder  
                     • Engage consumers as incomes rise to drive the shift from mainstream to premium products     | USD 42 million      |
| Soft drinks       | • Refresh what has become a worn-out brand  
                     • Broaden portfolio with new traditional flavors  
                     • Introduce and promote malts                                                                  | USD 37 million      |

* Represents organic growth + actionable gains from combined client and partner operations
All figures are illustrative
Introduction to Canback

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In 2013, Canback modeled demand in 30 countries globally and formulated a global expansion strategy, allowing the client to focus on high potential markets.
The premium spirits category was modeled using macroeconomic variables as well as category momentum. The United States, China, and India are expected to outperform.

**GROWTH MODEL VARIABLES**

**VARIABLE INPUTS**
- Income per capita
- Urban Population
- Momentum

**Forecast Growth**

**PREMIUM SPIRITS MARKET FORECAST**

Top 20 countries, millions liters

<table>
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<tr>
<th>Country</th>
<th>2013</th>
<th>2018</th>
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<td>United Kingdom</td>
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<td>Canada</td>
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<tr>
<td>Germany</td>
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<td>3%</td>
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<tr>
<td>Viet Nam</td>
<td></td>
<td></td>
<td>5%</td>
</tr>
<tr>
<td>Poland</td>
<td></td>
<td></td>
<td>4%</td>
</tr>
</tbody>
</table>

All figures are illustrative.
Using a top-down modeling approach, the spirits subcategories were modeled and constrained to the spirits category model and price segment model.
Canback classified the countries into three groups based on 5-year prospects in various premium subcategories. The portfolio strategy was segmented into vodka-focused and whisky-focused plans.

### Strategic Market Classifications

<table>
<thead>
<tr>
<th>Group 1: Build</th>
<th>Group 2: Advance</th>
<th>Group 3: Seed</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>Viet Nam</td>
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<tr>
<td>Mexico</td>
<td>United Kingdom</td>
<td>Vietnam</td>
</tr>
<tr>
<td>Australia</td>
<td>Spain</td>
<td>Ghana</td>
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</tbody>
</table>

- **Grow**: with the market
- **Develop a market position**
- **High growth**

<table>
<thead>
<tr>
<th>Group 2: Advance</th>
<th>Group 3: Seed</th>
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<tbody>
<tr>
<td>Viet Nam</td>
<td>South Africa</td>
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<td>Germany</td>
<td>India</td>
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<td>France</td>
<td>Cambodia</td>
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<td>United Kingdom</td>
<td>South Korea</td>
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<tr>
<td>Spain</td>
<td>Canada</td>
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</table>

- **Grow**: client share
- **Protect grow market position**
- **Slow growth**

<table>
<thead>
<tr>
<th>Group 3: Seed</th>
<th>Group 3: Seed</th>
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</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>Congo-Kinshasa</td>
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<td>Uganda</td>
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<td>Angola</td>
<td>Ukraine</td>
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<tr>
<td>Kenya</td>
<td>Malaysia</td>
</tr>
<tr>
<td>Myanmar</td>
<td>Ghana</td>
</tr>
</tbody>
</table>

- **Grow**: the market (develop)
- **Not a focus, but monitor for prime opportunities**
- **High growth**

### Portfolio Segmentation

<table>
<thead>
<tr>
<th>Vodka Focus</th>
<th>Whisky Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>United States</td>
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<tr>
<td>Russia</td>
<td>China</td>
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<td>Poland</td>
<td>Taiwan</td>
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<td>Venezuela</td>
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<td>Nigeria</td>
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<td>Canada</td>
<td>Spain</td>
</tr>
</tbody>
</table>

- All figures are illustrative

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39
Introduction to Canback

Perspective on the global alcohol market

Alcohol expertise

Case studies
- Sources of growth for the Botswanan beer market
- U.S. vodka consumer segmentation
- Due diligence for a beer and spirits target in Thailand
- Global spirits demand forecasting
- Price optimization for beer portfolio in Southern Africa
Canback evaluates pricing strategy by making practical sense of econometric concepts such as price elasticity of demand. An effort in southern Africa led to an EBITDA increase of USD 90M for the client.

### PRICING IN SOUTHERN AFRICA

<table>
<thead>
<tr>
<th>Client</th>
<th>Key question</th>
<th>Major considerations</th>
<th>Outcome</th>
</tr>
</thead>
</table>
| African beer company       | How can the client adjust pricing in its beer portfolio to generate higher profits? | • Consumer transaction price sensitivity  
• Price ladder optimization  
• Mitigating the impacts of RTM surcharges                                              | Canback’s recommendations helped adjust the portfolio to better satisfy demand and improve EBITDA by USD 90M |

### PROJECT FRAMEWORK

<table>
<thead>
<tr>
<th>PRICE ELASTICITY STUDY</th>
<th>PROFIT IMPROVEMENT</th>
<th>FINANCIAL IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understand the volume-price relationship across different regions, outlets, consumers and products</td>
<td>Build pricing strategy to boost profit potential, leveraging price elasticity work</td>
<td>Measure the financial gain captured through each recommendation</td>
</tr>
</tbody>
</table>
Performing elasticity analysis for different cuts of the market allows us to understand the true impact of pricing decisions.

**PRICE ELASTICITY OF DEMAND**

Elasticities are measures of responsiveness – price elasticities measure how much demand changes following a change in price. Canback uses elasticities to understand the impact of a pricing change on sales, shares, revenues, costs, and margins.

### SUBNATIONAL BEER PRICE ELASTICITIES

#### By urban class

- **Metro**: -1.19
- **Urban**: -1.05
- **Rural**: -0.92

*Rural consumers tend to be least responsive to price changes due to the lack of choice of competitive products.*

#### By region

- **Region A**: -1.10
- **Region B**: -1.42
- **Region C**: -1.08
- **Region D**: -1.49
- **Region E**: -1.06

*Rural consumers tend to be least responsive to price changes due to the lack of choice of competitive products.*

*Regional differences are attributed to differences in income, product choice, or cultural differences.*

#### By channel

- **Modern trade**: -1.34
- **Traditional trade**: -1.19
- **On-trade**: -0.86

*Consumers shopping in the modern trade tend to be the most price sensitive, while on-trade consumption is the least responsive.*

All figures are illustrative.
Canback proposed a pricing strategy to improve the client’s profitability, re-indexing mainstream products to take share from other mainstream brands’ aspirational and value consumers.

**Mainstream Proposed Indexing**

- Elasticity analysis shows Brand B to be the least price sensitive and Brand A to be the most price sensitive.
- Increasing Brand B’s price will boost profits with a smaller volume loss.
- Decreasing Brand A’s price will promote affordability and result in a larger volume gain, increasing revenue.
- Overall, this strategy will increase both volume and revenue.

**Client Brand Elasticities**

- Brand A: -1.40
- Brand B: -0.80

*All figures are illustrative.*
Canback estimated the impact of the proposed plan. The client’s successful implementation of the recommended pricing strategy resulted in revenue and profit growth with little volume effect.

Canback projected the financial benefits of the improvement opportunities to allow the client to understand the direct impacts of the pricing strategy. The client achieved a USD 90 million EBITDA improvement using this strategy.

All figures are illustrative.
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<thead>
<tr>
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<th>Address</th>
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