

## Q3 2003 Earnings Call

### Company Participants

- John Brock, CEO

### Other Participants

- Mackey Jordan, Analyst
- Michael Blakeley, Analyst
- Nicole Van Putten, Analyst
- Nikolaas Faes, Analyst
- Olivier Lebrun, Analyst
- Ralf Knabe, Analyst
- Sandy Soames, Analyst
- Shai Hill, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. My name's Brian. Welcome to BT Conference Call, Chairperson Mr. Patrick Verelst. You'll remain on listen-only until the question-and-answer session begins. If anybody requires any assistance whilst you're on the conference, please key star-zero and your conference coordinator will be happy to assist you.

I'll turn the conference over to you, Mr. Verelst.

#### John Brock {BIO 1799139 <GO>}

Thank you. Good morning, everyone. I'm John Brock, CEO of Interbrew. I'm joined this morning by Francois Jaclot, our CFO. And Patrick Verelst and Sophia Baah of our investor relations organization. Welcome to our conference call.

I'd like to provide you a flavor of how the trading has developed in the first nine months of 2003 and then we'll open it up for questions and answers. We have about 40 minutes this morning.

Overall, we've seen a continuation of the trends that were present in the first half of the year and, in fact, the Third Quarter has been somewhat stronger, both in organic volume and revenue growth. Organic volume growth accelerated, as I said, in the Third Quarter. It's now 5.7% for the first nine months compared to up 4.5% in the first half of the year.

Based on our market estimates, we believe we have continued broadly to grow market share. Profit growth in terms of organic EBITDA growth was 5%, up slightly from 4.7% growth in the first six months.

By region, Western Europe contributed to this positive trend. The Americas were broadly flat and the emerging markets were somewhat less favorable for the nine month period than for the six month period.

Our EBITDA margin grew from 21.1% pre-structuring in '02 to 21.4% in '03.

Turning to Western Europe, organic volume growth was 3.5% versus 1.1% in the first half. The trends in our major European markets didn't change substantially, either.

In Germany, things have improved a little. The industry is down by 3.9% in the first nine months of the year and, in fact, our volume performance there is broadly flat, which is better than for the first six months. Beck's grew by 8.3% and Hasseroder by 5.5%.

Turning to the U.K., the growth of Stella Artois continues to be strong. Overall volume is up now for the first nine months 13.8% and Tennent's volume is up 7.6% in a declining, slightly declining, Scottish market. The growth of Castlemaine XXXX remains broadly on track and, turning to Belgium, Jupiler continues to perform well.

Moving to the Americas, organic volume performance was down .9%. In Canada the overall industry grew by .7% in the first nine months. Our market share performance continues to be encouraging.

We now have a final estimated cost of the strike at our Montreal brewery and it's EUR16m, after tax. We reached a settlement after agreeing to a 1.6% increase in pension cost and a 1.4% wage increase.

In the U.S., Beck's volume was down 8.2% in the first nine months versus 12.7% in the first half. The overall U.S. performance has been negatively impacted by the important inventory buildup of Bass Ale. Labatt's USA shipments were down 1.3% in the first nine months, which compares to a minus 2.3% in the first half of the year.

Turning to emerging markets, organic volume growth was 12.7% compared to 11.8% in the first half of the year. Our volume developments by region were broadly in line with the trends at the first of the year.

Asia/Pacific came in with an organic volume decline of 3.7%. In South Korea we continue to maintain stable market share with good performance of Cass.

In Central Europe we realized an organic volume growth of 11.8%, continuing the momentum from the first half. However, the bulk of the volume performance came from the outstanding turnaround in our Eastern European business, which delivered organic

FINAL

Bloomberg Transcript

volume growth of 23.5%, which compares with an industry volume growth of 4.3% in the first nine months.

Now before opening it up to Q&A, I'd like to draw your attention to 6.7% organic EBIT growth and the currency translation, which amounted to EUR55 million for the first nine months versus a minus EUR30 million in the first half of the year. And as far as the full year of '03 is concerned, we continue to expect our EPS to come in slightly below EPS of '02 before restructuring, assuming that exchange rates remain stable.

I'd now like to open up the lines for Q&A. Operator, can we get the questions from the participants in this call?

## Questions And Answers

### Operator

Thank you. Ladies and gentlemen. if you wish to ask a question, please key star-one on your tone-dial phone. You'll be prompted to record your name. If you change your mind and decide to withdraw your question, simply key star-two. All questions will be answered in the order received and you'll be advised when to ask your question. All other lines will remain on listen-only.

### Q - Unidentified Participant

Can I start?

### A - John Brock {BIO 1799139 <GO>}

Yes. Go ahead.

### Q - Unidentified Participant

Yes. Good morning. I have two questions. One on the organic EBIT growth you mentioned there of 6.7% and you say you expect a continuation of that for the full year. After the first half you-- the outcome was 10.5% and then you also said that there was a continuation of that growth for the full year. Does this mean that you lower your guidance or did something-- is there an exceptional charge included?

Then I into my second question. It is on the strike, the cost of the strike of EUR16m, after tax. Can you divide that between what we have seen in the first half included in results and in the Third Quarter?

### A - John Brock {BIO 1799139 <GO>}

Yes. Okay. I'll answer the second question first. The strike cost is an after-tax cost. It's broadly EUR10m, pretax, in the first half and EUR14m, pretax, in the second half. And so, therefore, the after-tax cost is as you see it.

FINAL

Bloomberg Transcript

In terms of guidance, no. Clearly, we're not providing any change at all. It is the same. Depreciation and amortization was slightly higher in the Third Quarter. But our outlook and our guidance for the year remains unchanged.

### Q - Unidentified Participant

And concerning the EUR16m, that is now-- nothing is left for in the Fourth Quarter?

**A - John Brock** {BIO 1799139 <GO>}

Correct. It's finished.

### Q - Unidentified Participant

Okay, thank you.

**A - John Brock** {BIO 1799139 <GO>}

You're very welcome.

### Operator

Thank you. Your next question comes from Michael Blakeley [ph].

**Q - Michael Blakeley** {BIO 4430788 <GO>}

Yes, hi. Good morning. I had just a couple of questions. The first was on the United Kingdom where, obviously, you've had fantastic with Stella. But you are mentioning here that prices are continuing to be under pressure. I just wondered whether you can give us a feel for what the sort of profit growth in the U.K. market has been?

Then, secondly, on the Eastern European business I just wanted to confirm-- I mean, in Russia, your nine-months market volumes are up by just 3%, by the looks of it. I mean, do you see the market share you're gaining there continuing to be-- to be easy, going forward in the Fourth Quarter, or do you think there's going to be some kickback from competitors now?

**A - John Brock** {BIO 1799139 <GO>}

Let's start with the second question first. We continue to have outstanding growth in Russia. I'm not sure by the 3% you mentioned. Our results year-to-date are some 25% increase in volume. And so the Third Quarter for Russia, for Eastern Europe, was just as strong as it was in the first two and, frankly, we anticipate that to continue for the year. Our volume growth in Russia, as I said, was up 25% and that's in a market growth of 3%. Actually, we were at 26.4%.

So we continue to be very excited about Russia. Our PET packaging there continues to drive excellent volume growth and we continue to gain market share in what is, admittedly, a bit more of a sluggish market than we anticipated. But we're doing exceptionally well.

Turning to the U.K., I think about the only kind of further perspective we could give there, considering this is really just a trading update, is that, as you indicated and as we indicated, the business is challenging from a margin standpoint because of pricing pressure. On the other hand, volume growth is excellent and our overall profit situation is not substantially changed from the first half.

**Q - Michael Blakeley** {BIO 4430788 <GO>}

Okay. That's very kind. Thank you.

**A - John Brock** {BIO 1799139 <GO>}

You're very welcome.

**Operator**

Okay. Your next question--

**Q - Olivier Lebrun** {BIO 3512454 <GO>}

Olivier Lebrun. Good morning. Olivier Lebrun from Natexis Bleichroeder. Could you give us an idea of the market share of Beck in the U.S. imported beer market compared to last year? Thank you.

**A - John Brock** {BIO 1799139 <GO>}

I think the better way to look at our Beck situation is that we are continuing to see it improving off, admittedly, a very challenging first half of the year and at the half-year we provided some guidance, which was that Beck had had a tough first half because of a variety of things, largely the uncertainty that the organization there had about their future, which has now been clarified. And also a substantial correction in inventory days. And as a result, we said at the half-year that Beck's was down broadly 12%-- a little more than 12%.

That has now been-- that decline is now at 8% and if you look at the Third Quarter results, I mean, what it means is that Beck's volumes have been broadly flat in the Third Quarter, which means the results year-to-date are down 8%, which is a substantial improvement.

We don't really have the latest market share figures. But I think it's an indication that Beck's is clearly heading in the right direction. The new marketing campaign is beginning to kick in and we would expect to see the Fourth Quarter much more like the Third Quarter than the first two.

**Q - Olivier Lebrun** {BIO 3512454 <GO>}

Thank you.

**A - John Brock** {BIO 1799139 <GO>}

You're welcome.

## Operator

Thank you, sir. Your next question comes from Mackey Jordan [ph].

## Q - Mackey Jordan

Yes, hi. It's Mackey Jordan [ph] from ABN Amro. Just a quick question on your Montreal EUR16 million cost. Can I assume that that was netted off against your organic EBIT rather than being taken as an exceptional?

## A - John Brock {BIO 1799139 <GO>}

Absolutely.

## Q - Mackey Jordan

Great.

## A - John Brock {BIO 1799139 <GO>}

No plan to take any exceptional charge there.

## Q - Mackey Jordan

Okay, thank you very much.

## A - John Brock {BIO 1799139 <GO>}

You're welcome.

## Operator

Thank you, sir. Your next question comes from Shai Hill.

## Q - Shai Hill {BIO 3144270 <GO>}

Hello. I just wondered if, John, you said that you Q3 in Eastern Europe saw a strong improvement. I just wondered if you could flesh that out with a bit more detail as to which parts of your Central and Eastern European operations improved and why you think that was?

## A - John Brock {BIO 1799139 <GO>}

I wouldn't call it a strong improvement. I mean, Eastern Europe has done exceptionally well for the whole year. For us, Eastern Europe is, broadly, Russia and the Ukraine and at the half-year we had excellent results and those results have accelerated slightly in the Third Quarter.

But-- I mean, it's been an excellent performance all the way around. As I said, we've gained significant market share, largely driven by excellent brand programs, coupled with PET packaging.

FINAL

**Q - Shai Hill** {BIO 3144270 <GO>}

And in Central Europe?

**A - John Brock** {BIO 1799139 <GO>}

In Central Europe-- again-- we had a solid performance, as I indicated. We've introduced PET packaging in a number of places. That has driven our business very well. Overall volume growth there is some 12% up-- 11.8% and Bulgaria was a challenge last year -- you may recall when we talked about results last year -- and so that's been a significant part of the turnaround.

**Q - Shai Hill** {BIO 3144270 <GO>}

Okay. Just a final quick question--

**A - John Brock** {BIO 1799139 <GO>}

Just-- It's up 24% in Bulgaria. So that's obviously, driven a significant part of the turnaround in Central Europe. I'm sorry, go ahead.

**Q - Shai Hill** {BIO 3144270 <GO>}

Sorry, I was just following up on Beck's and what you said about Q3. Would you be of the view now-- from what I've seen, that there or thereabouts total U.S. market was broadly about flat in calendar Q3. Would you suggest now going forward that Beck's has stabilized?

**A - John Brock** {BIO 1799139 <GO>}

That Beck's has what?

**Q - Shai Hill** {BIO 3144270 <GO>}

Stabilized, that it's-- I mean, your volume was about flat in Q3. You're estimating a similar performance in Q4. Are you suggesting now that going forward Beck's performance in the U.S. market is about flat?

**A - John Brock** {BIO 1799139 <GO>}

I think it's a positive trend and we're obviously excited about it. But I don't think three months makes a year. So I would suggest let's wait and see. The signs are optimistic and certainly the consumer data, as well as the syndicated data we have -- as well as our shipment data -- all indicates we're moving in the right direction.

I think it's a little too early to predict that we've got it exactly where we want it. But we're encouraged.

**Q - Shai Hill** {BIO 3144270 <GO>}

Thanks a lot.

## Operator

Thank you, sir. Your next question comes from Ralf Knabe.

### Q - Ralf Knabe {BIO 1929660 <GO>}

Yes. Thank you. Good morning. John, a quick question. Can I come back to Russia, please, for a second? Obviously very impressive to see you maintain that very strong rate of volume and share growth in Q3. I was just wondering whether you had a corresponding number in terms of sales growth to that 26.4% in terms of volume, please? Thank you.

### A - John Brock {BIO 1799139 <GO>}

I'm sorry. A corresponding number in what?

### Q - Ralf Knabe {BIO 1929660 <GO>}

In terms of sales growth through that volume number of 26.4% for Russia, please?

### A - John Brock {BIO 1799139 <GO>}

I don't have that right at my fingertips. Our sales growth has obviously been substantial and, again, broadly in line with what we had at the first half. I don't have a revenue number right at my fingertips here for Russia. We could probably get that for you. It's certainly been a-- it's been a good set of results.

### Q - Ralf Knabe {BIO 1929660 <GO>}

Okay. Thank you.

### A - John Brock {BIO 1799139 <GO>}

I think the one thing in Russia that you should keep in mind is the Fourth Quarter we begin to pick up results last year. So while we anticipate a solid Fourth Quarter in Russia this year I wouldn't necessarily predict that it's going to continue at 25%-plus volume growth because we're going to begin to lap some of our improvement in Russia, which did start in the Fourth Quarter last year.

### Q - Ralf Knabe {BIO 1929660 <GO>}

Sure. Sure. Understood. Thank you.

## Operator

Thank you, sir. Your next question comes from Nik Faes.

### Q - Nikolaas Faes {BIO 1507416 <GO>}

Hi, guys. Good morning. Two questions, please. Firstly, I just wonder whether you could give us a little bit more guidance on the U.S. business. I was looking, I think you gave a

FINAL

Bloomberg Transcript



FINAL

volume number for Labatt, whether it would be possible to get one for Tecate and Rolling Rock and linked to that question, your competitors in the U.S. import segment are taking very different strategies in terms of pricing, some very aggressive, some holding prices back. I wonder whether you could just talk a little bit about your pricing strategy for the U.S.?

Then my final question just related to Korea. Given the difficulties that you're seeing in that market and given, obviously, that the put on the final stake in Oriental can be exercised in January next year, could you give us a feel for the-- if that put is exercised in January next year, what the likely impact on earnings will be in 2004?

**A - John Brock** {BIO 1799139 <GO>}

Okay. On the U.S., volumes were a bit better. I think as I commented, overall U.S. shipments-- Labatt's USA shipments were down 2.3% in first half and now, if you look at the first nine months, they were down 1.3% and that's for the first nine in total, which means that the Third Quarter was a measurably better quarter for us and Labatt's USA than the first half. And that was driven by results across the board.

And I mentioned a couple of brands there that have done particularly well. So overall, volume is moving in the right direction.

Pricing -- we're not price leaders in that market. We watch what happens and then we decide where to go. So I would say our pricing situation in the U.S. continues to be one of carefully watching what's happening, both in the domestic market -- because from a Rolling Rock standpoint we tend to watch carefully what happens with the other leading domestic brands -- and then in the import segment we, obviously, watch what happens with Heineken and with Corona. Then we make our decisions appropriately.

So that is our pricing strategy. And I wouldn't characterize it as being significantly different from everybody else. I would characterize it as being we're waiting and watching and we will make some decisions as we go forward, which I think you'll find are very rational and broadly in line with what other people are doing.

**Q - Nikolaas Faes** {BIO 1507416 <GO>}

Okay. I'm sorry, my question on Korea?

**A - John Brock** {BIO 1799139 <GO>}

Korea. Volumes in Korea, frankly-- I wouldn't call it so disappointing. We're basically maintaining market share in Korea. The overall market is down substantially and so that's what's really our situation there.

Our actual turnover's up. As you know, we got a price increase in Korea at the beginning of the year of some 6% and in terms of the put call, it's clearly going to be exercised in January and it's broadly neutral from an earnings standpoint. I think that would be the best operating assumption -- it's broadly neutral.

Bloomberg Transcript

**Q - Nikolaas Faes** {BIO 1507416 <GO>}

Thank you.

**Operator**

Thank you, sir. Your next question comes from Sandy Soames.

**Q - Sandy Soames** {BIO 6736579 <GO>}

Yes, hi. Good morning. Could I just ask, firstly, about the bond issue in the States and in terms of what you see the average effective coupon is on that bond issue of a few days ago? Would it be about sort of 4.5%, 4.7%?

**A - John Brock** {BIO 1799139 <GO>}

I think that's broadly correct, yes.

**Q - Sandy Soames** {BIO 6736579 <GO>}

Thank you. And secondly, we've heard about the consolidation of your advertising agencies. I just wondered if you could give us a flavor of how substantial you see the savings from that and whether you could comment on the-- on your advertising spend as a percentage of net sales?

**A - John Brock** {BIO 1799139 <GO>}

Well the consolidation of advertising agencies and media buying agencies is an ongoing process. We started that about a year ago. Brent Willis, our new head of global marketing, has really driven that whole program and some of those funds have been put into working media dollars and, frankly, one of the reasons I think you're seeing the kind of organic volume growth that we're seeing, frankly, which is well above what the beer industry globally is achieving and certainly above what our competitors are achieving is because we are doing a better job of investing our money behind brands and behind programs that are working.

And so that's principally what's happened. I wouldn't characterize it as a significant savings which we've dropped to the bottom line. It's actually more efficient and effective use of our monies and it's an ongoing process. I think you'll continue to see that happening. We think in 2004 there's actually more to be had as we continue to look at ways of streamlining and consolidating both agencies and-- advertising agencies and media buying agencies. We see it as a continuum.

**Q - Sandy Soames** {BIO 6736579 <GO>}

Yes. Yes. Thank you. Could I, lastly, just ask about FEMSA? There's not a lot of comment in the statement about FEMSA in terms of their own business or their brands in the U.S. I mean, should we presume that negotiations are still going on between you and FEMSA over the various issues and should we expect some sort of resolution in the next few

FINAL

Bloomberg Transcript

months? I mean, is it this side of Christmas, next year, it's a very long process? Can you give us a flavor of what's going on?

**A - John Brock** {BIO 1799139 <GO>}

First of all, on the brand front, I did comment. Dos Equis had a good nine months and so we're-- we're encouraged by that and I would say, in general, our performance in the Third Quarter with the Mexican brands was stronger than it was in the first two. So things seem to be moving in the right direction.

Our relationship with FEMSA continues to be one that I would characterize as "improving," and we are continuing to talk about how we can work together more effectively. I wouldn't characterize the situation as one of negotiations. You asked where the negotiations stand. I would say we -- as we said before -- have an ongoing series of very open conversations and that's where they stand. And is there a need for resolving anything? You know, I think as long as our business continues to improve and as long as we continue to have a relationship that continues to improve, for me, that's moving in the right direction. And in terms of "resolving" anything, that's probably the best way to resolve something, which is to continue just to see business improvement.

If at some point down the road we decide to try something differently we'll comment on that at that moment in time. At this stage of the game, I'd say, again, we're optimistic and encouraged by what we see happening with our relationship and our performance.

**Q - Sandy Soames** {BIO 6736579 <GO>}

Thank you.

**Operator**

Thank you, sir. Your next question comes from Nicole van Putten.

**A - John Brock** {BIO 1799139 <GO>}

Hi, Nicole.

**Q - Nicole Van Putten** {BIO 3992655 <GO>}

Hello. Can you hear me?

**A - John Brock** {BIO 1799139 <GO>}

Yes, I hear you. Go ahead.

**Q - Nicole Van Putten** {BIO 3992655 <GO>}

Yes. I have a question regarding the Benefralux issue, call it, which has shown an increase of 2%. Do you give a breakdown of that specifically in the French market? That was very weak during the first half of the year.

FINAL

Bloomberg Transcript

**A - John Brock** {BIO 1799139 <GO>}

Which number did you mention, 2% in volume?

**Q - Nicole Van Putten** {BIO 3992655 <GO>}

That was the Benefralux, as you call it, of plus 2%.

**A - John Brock** {BIO 1799139 <GO>}

Yes, volumes were up 2% and, actually, revenues were up about 6% and you asked specifically about France?

**Q - Nicole Van Putten** {BIO 3992655 <GO>}

Specifically what the French market that was negative in the first half of the year, what has changed in Q3?

**A - John Brock** {BIO 1799139 <GO>}

We didn't really say the French market was negative in the first half. We said it was under some pressure. I think that was the specific way I described the French market at the half-year and I would say the Third Quarter's broadly the same. The French market is-- it's under pressure. But it's doing Okay. It's broadly flat.

**Q - Nicole Van Putten** {BIO 3992655 <GO>}

Okay. Thank you.

**Operator**

Thank you. And your next question is from (inaudible)

**A - John Brock** {BIO 1799139 <GO>}

Okay.

**Q - Unidentified Participant**

Two additional-- additional questions. Am I right that in the Third Quarter K.K. group is consolidated and that it's impact on the EBIT Was around neutral? And my second question, do you have your own growth figure for the Russian market in that Third Quarter?

**A - John Brock** {BIO 1799139 <GO>}

Let me answer the first question and then ask you to clarify the second one. The K.K. results are in the Third Quarter numbers. But, of course, they're not in the organic numbers because it's not an organic part of the business. It's a scope change. So all of the organic growth we've talked about is not including K.K.

## Q - Unidentified Participant

Of course.

## A - John Brock {BIO 1799139 <GO>}

Okay? And what was the second question about Russia? I didn't get that one.

## Q - Unidentified Participant

Concerning K.K. group, did it add to EBIT or did it have the neutral contribution?

## A - John Brock {BIO 1799139 <GO>}

Yes. It added to EBIT and we'll give you some results on that at the full-year. There will be - again, it won't be included in the organic numbers. But in our EPS numbers, certainly, the benefit of K.K. will be there on a full-year basis.

## Q - Unidentified Participant

And that's positive?

## A - John Brock {BIO 1799139 <GO>}

Yes.

## Q - Unidentified Participant

And concerning Russia, I meant the volume growth in market, Third Quarter 2002-- or Third Quarter 2003-- what have you seen as the number?

## A - John Brock {BIO 1799139 <GO>}

In Russia, our volume growth?

## Q - Unidentified Participant

No, no, no, for the market, the Third Quarter.

## A - John Brock {BIO 1799139 <GO>}

Oh, it's still about the same. It's about 3%. I mean broadly.

## Q - Unidentified Participant

For the Third Quarter?

## A - John Brock {BIO 1799139 <GO>}

Yes. Which is about what it was for the first half. I mean market growth numbers in Russia are not the easiest thing to get. But it's--

FINAL

Bloomberg Transcript

## Q - Unidentified Participant

I know.

## A - John Brock {BIO 1799139 <GO>}

But it's somewhere 2% and 3% for the first, second and Third Quarters.

## Q - Unidentified Participant

Thank you.

## A - John Brock {BIO 1799139 <GO>}

Yep.

## Operator

May I remind all parties, if you wish to ask a question to key star followed by one now. At the moment we have no further questions in queue.

## A - John Brock {BIO 1799139 <GO>}

Operator, let's wait about 20 more seconds and see if we have any further questions. We do have just a few more minutes if anyone does have a question.

## Operator

Okay, We have no further questions.

## A - John Brock {BIO 1799139 <GO>}

Ok, well let me again than you all of you, thanks you for joining us on this conference call today and have a good day, thank you very much.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*