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Message in a bottle

Prospects of mergers and acquisitions in the beverage segment in Brazil are restricted to the distillates segment, due to high concentration of breweries and notable conflict of interest between producers and distributors of wines.

By

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Since its opening under the government of former President Collor, the alcoholic beverages market in Brazil has experienced consistent growth and has been greatly increasing in importance in the Brazilian economy.

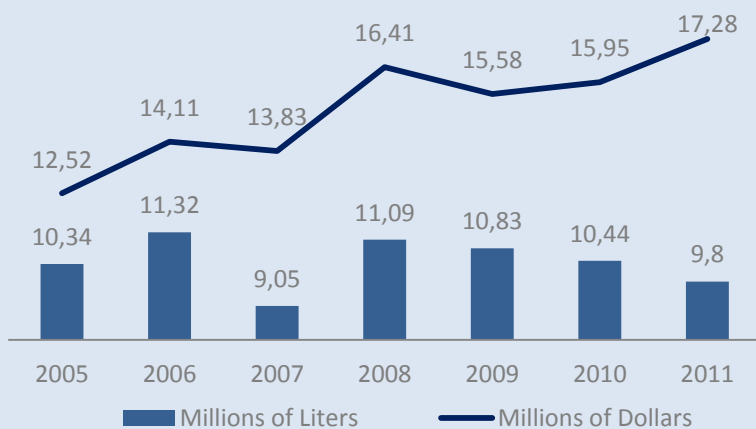
The food and beverage industry currently represents approximately 9% of the Brazilian Gross Domestic

Product (GDP), and the share of alcoholic beverages is nearly 3% of GDP. This significance was consolidated over the last 10 years, mainly due to the increased levels of technology and competition of Brazilian industry.

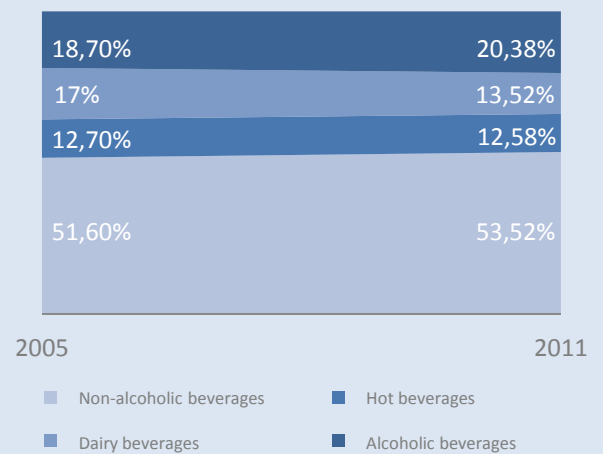
The biggest example of this increased relevance is represented by Anheuser-Busch InBev (AB-InBev), with Belgian-Brazilian capital. The company owns 25% of the world's beer market and is the third largest FMCG (Fast-moving consumer goods) company in the world, which is the consumer goods category with rapid turnaround in

retail, second only to Procter & Gamble and Nestlé and ahead of Unilever, Coca-Cola, PepsiCo and Kraft Foods (FMCG top companies, Forbes, 2010). AmBev is currently the largest company in market value on BM&FBovespa.

Evolution of Cachaça Exports



Evolution of the share of sales in Brazil



The liquor industry can be divided between beer, spirits and wines (including sparkling). The beer segment, composed of a few players who control the market, receives the largest marketing investment in the industry and is still among the most widely consumed alcoholic beverages in the country.

Brazil is an important market for spirits, represented mainly by Brazilian sugar cane rum (cachaça), the second

most consumed beverage in the country, and representing 80% of the spirits market. The remaining 20% are split between brandy, whiskey, vodka, and others. The annual consumption of spirits in the country is around 1.8 billion liters and revenues reached U.S.\$ 4 billion, half the total segment of alcoholic beverages.



Trends

Although cachaça has great sales potential in foreign markets, especially with the movement in the industry to cause the product to be recognized as genuinely Brazilian, its expansion in the domestic market is limited due to the entry of new products with greater interest from young consumers, such as "ready to drink" beverages, "ice" drinks, among others.

The logistics of distribution is a strategic factor essential for maintaining competitive advantages in the market. Therefore, there is a strong trend of industry consolidation through mergers and acquisitions in Brazil, led by large companies seeking to access the network of large regional brands, with a broader portfolio of products with higher added value. As an example, the acquisition of Ypióca by Diageo in 2012 gave the buyer 20% growth in the number of outlets in the country, adding products such as Red Label, Smirnoff, among others. The exploitation of these synergies substantiated the multiple of 19 times EBITDA in this transaction. Another example of industry consolidation is the acquisition of Sagatiba by Campari (David Campari-Milano) in 2011, this time driven by the already established brand in the Brazilian market.

The wine segment has a different dynamic. Since most of the wine consumed in this country is imported, the market is controlled by distributors. What was observed from 2005 to 2010 was the creation of hundreds of importers due to strong industry growth in the period, as

well as the preference by producers for smaller distributors to build their brand. However, a large part of the smaller distributors lack sufficient scale to compete on price, and in order to remain in the market, they will have to obtain competitive advantages based on the strategy of differentiation. Moreover, large retailers are not interested in developing brands, because the vast majority of wine consumers seek to try new products without necessarily becoming loyal to a particular brand (totally different dynamic from the spirits segments, where the brand even supersedes product quality).

Accordingly, mergers and acquisitions movements in the sector are very rare, both due to fragility of the brands and their distribution. Therefore, consolidation in the sector is slow and occurs through natural selection supported by competitive advantages of larger distributors.

Therefore, considering the slow consolidation in the wine segment and great concentration of breweries, opportunities for acquisitions are restricted to the spirits segments, where there are still family businesses with strong brands and an outstanding regional presence.

Source:
ABIA.ORG.BR; INDUSTRIADEBEBIDAS.COM.BR;
BNDES; IBRAVIN.ORG.BR; ABIR; ABRIAC.

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