



I. CONTINUED MOMENTUM IN THE GLOBAL SPIRITS AND ALCOHOLIC BEVERAGE INDUSTRIES

Global spirits industry mergers and acquisitions activity as measured by transaction volume has increased over the past five years from 200 deals announced in 2013 to 257 in 2017. Of these 257 deals, 68% were in Europe and North America with the majority (38%) in Europe. Global transaction value witnessed an enormous spike in 2015 due to SAB Miller's acquisition of Anheuser-Busch for \$113bn. Not including the Anheuser-Busch acquisition, global transaction value declined slightly over the past three years from \$18bn in 2015 to \$17bn in 2016 and \$14bn in 2017. The majority of 2017 transaction value (66%) originated in Asia and the Pacific, a significant change from 2016 and 2015 when the majority of global spirits transaction value (71% and 87%, respectively) originated in Europe.

II. GLOBAL TRANSACTIONS

The global M&A Market has been active with a number of high profile spirits industry mergers and acquisitions. In the first quarter of 2018, notable deals included CRE Yang Company's acquisition of Shanxi Xinghuacun Fen Wine Factory for \$819m and Carlyle Group's acquisition of Accolade Wines Australia for \$768m. Accolade Wines maintains a portfolio of 25 brands and is the fifth largest wine company in the world by volume.

In 2017, the ten largest spirits and alcoholic beverage transactions represented approximately \$12bn in transaction value. Of the top ten transactions, four originated in Asia, three in North America, two in Europe and one in Latin America. The largest announced transaction in 2017 was the December acquisition of Sabeco (SaigonBeer - Alcohol - Beverage Corporation) by ThaiBev for \$4.9bn.

Chart I: *Global Spirits and Alcoholic Beverage M&A Announced Transactions 2013-2017*

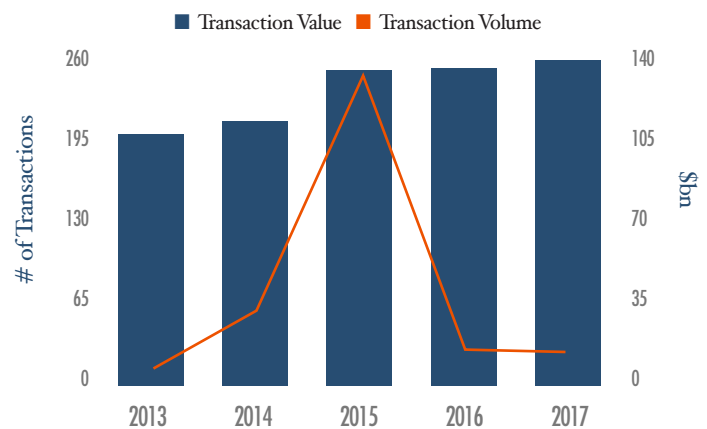
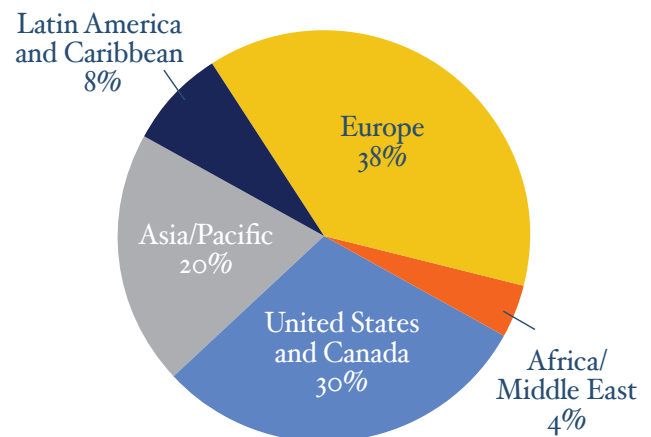


Chart II: *2017 Global Spirits and Alcoholic Beverage M&A Transactions by Region*





This transaction represents both the continuation of ThaiBev's broader strategy to dominate Southeast Asia's beverage market and a bet on significant growth in Vietnam. Billionaire and controlling owner of ThaiBev, Charoen Sirivadhanabhaki, already holds a large stake in Vietnam's largest dairy producer and paid \$700m to acquire Vietnamese company Metro Cash & Carry in 2015. The largest European transaction was the April 2017 acquisition of 22% of BrewDog by TSG Partners for \$264m, valuing the company at \$1.2bn. BrewDog is a multi-national craft beer brewery and pub chain based in Scotland that is known for its creative marketing tactics.

Table I: Largest Announced Global Spirits and Alcoholic Beverage Transactions from 2017-2018

Announcement	M&A Closed Date	Target	Buyers	Total Transaction Value (\$m)	Sector
12/18/2017	Pending Completion	Saigon Beer - Alcohol - Beverage Corporation ("Sabeco")	Thai Beverage Corporation	4,939.2	Beer
11/06/2017	Pending Completion	51.2% Stake in San Miguel Brewery, Inc. and 75.8% Stake in Ginebra San Miguel Inc.	San Miguel Food and Beverage, Inc.	2,554.65	Beer
12/20/2017	03/19/2018	Tsingtao Brewery Company Limited	Fosun Industrial Holdings Limited & Co - Investors	1,081.47	Beer
06/21/2017	08/15/2017	Casamigos Spirits Co.	Diageo North America Inc.	1,000.0	Tequila
12/01/2017	01/18/2018	Cervecería Nacional Dominicana, S.A.	Ambev S.A.	926.5	Beer
02/04/2018	Announced	Shanxi Xinghuacun Fen Wine Factory Co., Ltd. (SHSE:600809)	CRE Yang Company Limited	819.2	Spirits & Liquors
04/05/2018	Announced	Accolade Wines Australia Limited	The Carlyle Group L.P.	768.2	Wine
02/13/2017	06/01/2017	Brasil Kirin Holding S.A.	Bavaria S.A.	707.1	Beer
03/16/2018	Announced	Freixenet, S.A.	Henkell & Co. Sektkellerei KG	270.3	Wine
04/09/2017	04/09/2017	BrewDog PLC	TSG Consumer Partners	264.23	Beer
03/20/2017	03/23/2018	Fenglian Wine Holdings Limited	Hebei Hengshui Laobaigan Liquor Co., Ltd.	210.96	Wine
07/27/2017	07/06/2017	SAS Chateau Mondot	ScorAuber	207.65	Wine
12/13/2017	Pending Completion	Pendleton Whisky Brands of Hood River Distillers, Inc.	Becke, S.A.B. de C.V.	205.0	Whisky
				Total \$13,954	

III. CONTINUING PREMIUM BRAND TRENDS

Dollar volume of sales for premium (\$15-\$25 per 750ml) and ultra-premium (>\$25 per 750ml) spirits has increased over the past year to the detriment of lower-price offerings. This is consistent with trends in both the beer and wine sectors, where sales of craft beers and premium wines have outpaced mid and lower-priced options.

Dollar sales of premium and ultra-priced spirits grew 4.5% and 5.9%, respectively. Within the premium spirits sector, the ultra-premium tequila market has seen significant activity and increasingly high premiums over the past three years. Diageo's acquisition of Casamigos in March 2017 for \$1bn exemplifies the trend of strategic buyers paying sky-high premiums for strong brands and perceived quality. Diageo, which already owns premium tequila brands Don Julio, Peligrosso and De Leon, paid a staggering 20x sales for the company co-founded by George Clooney in 2013. By comparison, in 2006 Brown-Forman paid \$876m for El Jimador (3.9x sales) and Herradura.



IV. CONCLUSIONS

Over the past five years, spirits have consistently demonstrated the ability to grow in dollar sales volume in established and emerging markets. We anticipate that the spirits industry will continue to grow in 2018 and offer the following observations:

- Spirits M&A activity will increase across the premium and ultra-premium spirits market, driven primarily by the fragmented brand landscape and the continuation of the consumer trend to perceive premium alcoholic beverages as an affordable luxury and thus seek quality over price.
- Craft beer M&A activity will continue as large industry players acquire unique brands with local and millennial followings and attempt to leverage the scale of their operations to drive long-term sales growth.
- Wine M&A activity is expected to increase as consolidation amongst wholesalers and retailers pressures mid-sized suppliers to expand their portfolios. Furthermore, ongoing consolidation of vineyard assets by large industry players will pressure smaller producers looking to expand, as consolidation will drive up prices for increasingly scarce small and independent vineyards.

ABOUT WINCHESTER CAPITAL

Since 1986, Winchester Capital has represented international acquirers and sellers of wine and spirits owned businesses, establishing industry records in both process speed and valuation. We have offered advisory services and asset management with a record of transactions in 40 countries. In 2017, we received the Distinguished Award for International Private Equity Deal of the Year. We excel in direct transaction research, initiation and execution. If you are considering a wine and spirits acquisition or sale, or you desire further research, please contact our Managing Director, Dr. David Bowen at David.Bowen@WinchesterCapital.com. Please visit our website at www.WinchesterCapital.com.

This research is not offered as advice or guidance for investment purposes. The research contained herein has been compiled from publicly available sources at the time of publication and may be subject to change without notice.

© **COPYRIGHT Winchester Capital 2018**. ALL RIGHTS RESERVED.

