

**Carlos Brito's Responses on Behalf of AB InBev to  
Questions for the Record from Senator Patrick Leahy**

**Question 1:**

In your testimony, you indicated AB InBev's support for a "strong, independent distribution tier." Yet just two days before the hearing, news outlets reported that a new incentive program launched by AB InBev will offer independent distributors in the U.S. annual reimbursements of as much as \$1.5 million if 98 percent of the beers they sell are AB InBev brands. There are also reports that a distributor will not be approved for purchasing another wholesaler if under 90 percent of the beers they sell are AB InBev brands. What is your response to concerns that, given the large number of distributors who participate in the AB InBev network, incentive programs like these severely restrict the ability of other brands to compete?

**Response to Question 1**

AB InBev does indeed support a strong, independent distribution tier. Our business practices, including our voluntary incentive programs, are entirely consistent with that position.

Here are the relevant facts:

- Anheuser-Busch has had voluntary incentive programs for over 15 years. During that period, the market share of craft beers increased from 2.4 percent to over 11 percent in 2014. The market share of competitors from Mexico owned by Constellation has similarly risen sharply, while Anheuser-Busch's sales and market share have declined. Clearly, Anheuser-Busch's incentive programs have *not* restricted the ability of other brands to compete.
- The revisions to the Voluntary Anheuser-Busch Incentive for Performance (VAIP) program announced on November 18th, which was the specific focus of the news report referenced in your question, was developed with input from an advisory panel made up of independent wholesalers. Their participation helped ensure that the program reflects their interest in preserving a strong, independent distribution tier.
- Participation in VAIP is purely voluntary. The program is intended to encourage wholesalers to focus on our brands and enhance performance. At a time when Anheuser-Busch's sales and market share are declining, it is natural and appropriate that we work with our wholesalers to strengthen our shared ability to compete more effectively.
- The new VAIP incentive takes into account wholesalers' interest in distributing craft brands. Wholesalers that choose to participate at the highest level of benefit in the program can distribute brands from 93 percent of all craft brewers in America in any quantity.
- The new VAIP incentive provides for benefits based upon performance scores and are available *regardless* of how many competitive brands a wholesaler carries. Wholesalers

## **Carlos Brito's Responses on Behalf of AB InBev to Questions for the Record from Senator Thom Tillis**

### **Question 1:**

At several points in the hearing, it was noted that this deal is more about other countries and that the United States beer market will remain relatively unchanged. However, representatives of the distributor sector are concerned that the merger will drastically impact their industry, as the new entity will control the distribution of a significantly greater volume of product than what either entity currently controls. Will this not result in changes to the beer market within the United States?

### **Response to Question 1**

Anheuser-Busch supports a strong, independent distribution tier and values our independent distributors. Any concerns expressed to your office regarding changes to our company's distribution, total volume of product sold in the U.S. or any other changes to the marketplace as a result of this transaction are simply misplaced and not grounded in fact.

AB InBev will not acquire any new brands in the U.S., and its production of beer, sales volume and market share in the U.S. change will also not change as a result of this transaction. AB InBev will not acquire any rights to distribute any additional products in the U.S., nor will we acquire any new distributorships as result of this transaction.

Indeed, the *only* change to the U.S. beer market resulting from this transaction is that the MillerCoors joint venture will be solely owned by Molson Coors. The CEO of Molson Coors testified at the hearing that he expects this will make MillerCoors a more efficient and effective competitor in the U.S.

### **Question 2:**

At present, do you have any expectation that the entity will add wholly-owned distributorships?

### **Response to Question 2**

No, Anheuser-Busch will not acquire any new distributorships as a result of this transaction. In the future Anheuser-Busch may, under the appropriate circumstances, consider an acquisition of a distributorship that is for sale, just as it may under certain circumstances consider divesting part or all of a distributorship that it already owns. For example, we recently announced the divestiture of company-owned territories in Colorado and New Jersey to independent Anheuser-Busch wholesalers. However, in this regard two things are certain. First, we will abide by our commitment to distribute approximately 90 percent of our volume through independent wholesalers and approximately ten percent of our volume through our wholly owned distributorships. Second, any future decision to acquire or divest a distributorship will have nothing whatsoever to do with this transaction.

### **Question 3:**

Concerns have been raised about ABI's business incentive programs that could stifle the growth and future business opportunities of an ABI distributor that agrees to sell non-ABI brands or brands that ABI does not otherwise approve. In the alternative, under the same incentive programs, a distributor that agrees to sell exclusively ABI products – thereby reducing avenues to market for other brewers and undermining a competitive marketplace – is rewarded in a variety of ways that serve to help that distributor grow its business. Both of these business practices arguably work to disadvantage competing brands, including craft beers and imports, undermining competition in the marketplace and restricting consumer access and choice.

Does ABI currently maintain or is ABI or the successor company considering or planning for the implementation of a distributor incentive program that will either directly or indirectly impact an independent ABI distributor's decision to represent and sell non-ABI brands, including craft beers and imports? If so, please provide the Committee with a detailed description and explanation of that program, including any written materials, explanations or descriptions of the criteria of the program that have either been provided or presented to ABI distributors or of any incentive program that is currently under consideration. In addition, has ABI ever directly or indirectly instructed or encouraged an independent distributor to decline to represent, carry or sell a non-ABI brand, including craft and imports? Is there any penalty or loss of opportunity for a distributor that agrees to represent, carry or sell a non-ABI brand, including craft and imports?

### **Response to Question 3**

- Yes, Anheuser-Busch does have a voluntary incentive program for our distributors. This program has existed for over 15 years. During this period, the market share of craft beers increased from less than 4 percent to over 11 percent in 2014. The market share of competitors from Mexico owned by Constellation has similarly risen sharply, while Anheuser-Busch's sales and market share have declined. Clearly, Anheuser-Busch's incentive programs have *not* restricted the ability of other brands to compete.
- In response to your request, we are providing here communications sent out to our distributors explaining the Voluntary Anheuser-Busch Incentive for Performance (VAIP) program.
- No, Anheuser-Busch has never instructed one of our independent wholesalers not to carry non-Anheuser-Busch brands. In fact, Anheuser-Busch's contracts with each of its wholesalers *expressly recognizes their right to carry competitive brands*. Today, 94 percent of our independent wholesalers carry non-Anheuser-Busch brands. We do encourage our wholesalers to focus on our products, just as we believe other beer makers encourage their wholesalers to do the same.

- No, there is no penalty or loss of opportunity for a wholesaler that carries non-AB brands. Indeed, under the newly revised voluntary incentive program wholesalers that participate are eligible to receive benefits regardless of how many competitive brands they carry.

The bottom line is that Anheuser-Busch depends on the strength of our distributors. Over 90 percent of our products in the United States are distributed by independent wholesalers, each of which have an exclusive sales territory in which they are our sole route to market. In those markets we rely entirely upon their efforts to promote, sell, merchandise and protect the quality of our products. Therefore, it is in our business interest to see their businesses thrive. That has been our approach to our independent distributors for decades. That approach will not change in any way as a consequence of this deal, and history has proven that it is entirely consistent with a robustly competitive beer marketplace.

that have a significant percentage of competitive volume have the option to qualify for benefits by establishing a separate sales force.

Senator Tillis requested a copy of our recent communication to our wholesalers on VAIP. That communication provides greater detail on the program and we are including it with this response to your question.

Finally, we would note that any reports that a wholesaler will not be approved for purchasing another Anheuser-Busch wholesaler if Anheuser-Busch brands are under 90 percent of the beers it sells are simply false.

The bottom line is that Anheuser-Busch depends on the strength of our wholesalers. Over 90 percent of our products in the United States are distributed by independent wholesalers, each of which have an exclusive sales territory in which they are our sole route to market. In those markets, we rely upon their efforts to promote, sell, merchandise and protect the quality of our products. Therefore, it is in our business interest to see their businesses thrive. That has been our approach to our independent wholesalers for decades. That approach will not change in any way as a consequence of this transaction, and history has proven that it is entirely consistent with a robustly competitive beer marketplace.

## **Question 2:**

Some have raised concerns that the creation of a new entity (Newco) that AB InBev is partner to, or any transfer in legal ownership of AB InBev that occurs in the course of this transaction, could expose independent distributors to termination or renegotiation of their contracts with AB InBev or Newco, especially in those states that do not address the “successor owner” scenario in state law. During the hearing, you were asked to provide reassurance that AB InBev would not terminate any distributor or seek to renegotiate existing distribution contracts as a result of the merger. I appreciated your response, “Yes, I can commit, as a result of the transaction there will be no such thing.”

- a. Is your testimony under oath on this point binding in the future on behalf of AB InBev and Newco, the successor entity that will result from the transaction?
- b. Will you stipulate as part of a consent order with the Department of Justice that there will be no terminations of independent distributors or renegotiations of their contracts due to the “successor owner” scenario referenced above, or as a result of the proposed merger?

## **Response to Question 2**

### **Part A**

As I testified on December 8th, I can commit that this transaction will not affect Anheuser-Busch’s distribution system in the United States — no independent wholesalers will be terminated and our distribution contract will not be amended or renegotiated as a result of this transaction. It is important to note that the independent distributor contracts referred to in your question are with Anheuser-Busch, not Newco. Therefore, Newco is not in a position to

terminate or amend contracts held by Anheuser-Busch in the United States. This applies equally to states whose laws do not address the “successor owner” scenario.

### Part B

We are optimistic that we have proactively addressed any regulatory considerations arising from the transaction in the United States. As stated in my answer to Part A above, our distributor relationships will not change as a result of the combination with SABMiller. The distribution agreements of independent wholesalers are with Anheuser-Busch, not with Newco, and will continue to be with Anheuser-Busch post-transaction. Therefore, Newco would not be in a position to terminate or amend contracts held by Anheuser-Busch in the United States. Because Anheuser-Busch’s distribution contract is unrelated to and unaffected by the transaction, I respectfully decline to stipulate that any Department of Justice consent decree should contain a provision relating to the termination of Anheuser-Busch independent wholesalers or the renegotiation of their contracts with Anheuser-Busch.

### **Question 3:**

During my opening statement, I asked you to commit that, if the proposed merger is approved, AB InBev will not increase its ownership of distributors above its current level of “10 percent of volume.”

- a. Can you affirm that commitment in writing?
- b. Is your commitment binding on behalf of Newco, the successor entity to AB InBev that will result from the transaction?
- c. Can you please explain what you mean by “10 percent of volume?” How is volume defined? What is that number today, and what was it five years ago?
- d. Will you stipulate as part of a consent order with the Department of Justice that AB InBev’s ownership of distribution operations will not exceed 10 percent of volume?

### **Response to Question 3**

#### Part A

I can confirm what I testified to on December 8th. It is our intention that approximately 90 percent of our volume be distributed by independent wholesalers and approximately 10 percent of our volume by our wholly owned distributorships. This policy was also communicated this past fall to the National Beer Wholesalers Association and its members at its annual convention, and to all Anheuser-Busch wholesalers at our November 18th meeting in St. Louis.

#### Part B

Newco is not the successor entity to AB InBev. Rather it is a holding company for the combined AB InBev-SABMiller entity. Our commitment to having no more than approximately 10 percent

of our volume distributed by company-owned wholesalers will not be affected by Newco becoming the holding company.

### Part C

“Volume” is the quantity of beer produced or sold that in the U.S. is generally expressed in terms of barrels or case equivalents. Here “volume” includes the total of all AB InBev brands that we produce and sell in the United States through independent distributors and our wholly owned distributorships.

Currently we distribute approximately 7.8 percent of our volume through our company-owned wholesalers. Five years ago that percentage was 6.37 percent.

### Part D

Anheuser-Busch’s ownership of distributors will not be affected by this transaction. As such, we do not expect any DOJ consent decree to address this topic, as it is unrelated to and outside the scope of the transaction, and respectfully decline to stipulate that it should.

In addition to being irrelevant to the transaction, any such provision based on a “hard cap” on the percentage of volume would be largely unworkable given the realities of our industry.

As I stated in response to Part C above, the percent of Anheuser-Busch’s volume sold by company-owned wholesalers has varied over time. These variations are driven partly by factors outside of our control.

For example, the volume of products distributed by any particular wholesaler will go up or down from year-to-year based on their performance and the dynamics of their markets. If wholesalers owned by Anheuser-Busch perform particularly well in a given year, the percentage of total volume distributed by those wholesalers would tick up. Given the fact that these owned distributorships deliver less than 10 percent of total volume, such outperformance in their markets would likely cause only a small increase in their percentage of volume distributed. However, even that slight uptick could conceivably put Anheuser-Busch above a “hard cap” without Anheuser-Busch having changed our distribution footprint at all.

Similarly, the volume sold by company-owned wholesalers can vary due to the timing of acquisitions and divestitures.

For example, today approximately 7.8 percent of our volume is distributed by company-owned wholesalers. It is conceivable that at some point in the future due to the timing of an acquisition or divestiture that that percentage could tick up or down, and could conceivably go slightly past the 10 percent threshold. Again, were that to happen it would reflect nothing more than circumstance and would in no way contradict the commitment provided under oath to the committee, affirmed in writing here and stated repeatedly in various public forums.



**From: A Message from Bob Tallett**  
**To: EAMs**  
**CC: Management and Field Sales Team**  
**Subject: Voluntary Anheuser-Busch Incentive for Performance Program**

To All A-B Equity Agreement Managers,

As a follow up to our 3YP meeting in St. Louis on Nov. 18, we are excited about our improved incentive program—developed with input from the Panel—to strengthen our and *your* ability to compete, and deliver against our Win Together platform.

For many months, we worked with the Panel to create an incentive program that better reflects today's industry and offers more options for more wholesalers. Our improved performance incentive is more inclusive and beneficial, and offers something for everyone. VAIP is linked to our AOE program and is designed to reward focus and performance that will enable you to go to market with a portfolio tailored to your territory.

We lowered the threshold for participation, added a small craft beer provision—which includes 93% of craft breweries in America, at the highest level of benefit—and enhanced the benefits to our wholesaler partners. All wholesalers, regardless of A-B volume percentage, can be eligible to receive benefits.

**Additional details and a breakout of benefits can be found on ABMarketing.com. Click [here](#) to review the information. Please keep confidential.**

**In the near future, we will also make available upon request an individualized tool to measure potential benefits.**

Again, we are excited about this improved Voluntary Anheuser-Busch Incentive for Performance Program. We are eager to meet and hear from you directly and discuss how we can win together.

We are investing heavily in this program to better equip you to compete in the future. The Wholesaler Advisory Panel helped shape VAIP from the beginning, and we are excited about this “work together, win together” initiative. We hope you will give this program the serious consideration that it deserves. Of course, the decision on whether to participate and on what level is up to you.

Please work with your RVPs to learn more. Our field sales teams will be in your markets in January to answer questions.

Happy holidays and good selling!

Thanks,  
Bob Tallett  
VP, Business and Wholesaler Development

###





# 2016 H1 VAIP Program Details

*Confidential*

## TREATMENT OF CONSTELLATION BRANDS WITHIN THIS PRESENTATION

Throughout this presentation, any and all references or proposals that may involve the treatment of Constellation Brands' products shall treat them as "aligned" through June 7, 2016. By being "aligned", a wholesaler's carrying of Constellation Brands products will not be considered adverse in any proposed wholesaler incentive program nor will it be considered to be an adverse factor in determining whether to allow a wholesaler to acquire another wholesaler.

# Voluntary AB Incentive for Performance

	Aligned Brand % (AB + CBA + Crown*)	Alternative Path	Min Marketing Spend Benefit	Benefit if AOE >850
<b>A+</b>	98%	All Non AB is small Craft	75%	100%
<b>A</b>	95%	Incremental Sales Forces options to be announced	50%	75%
<b>B</b>	90%	(Not available in H1)	10%	35%
<b>C</b>	<90%	NA	0%	25%

All measurements done at WEA territory level

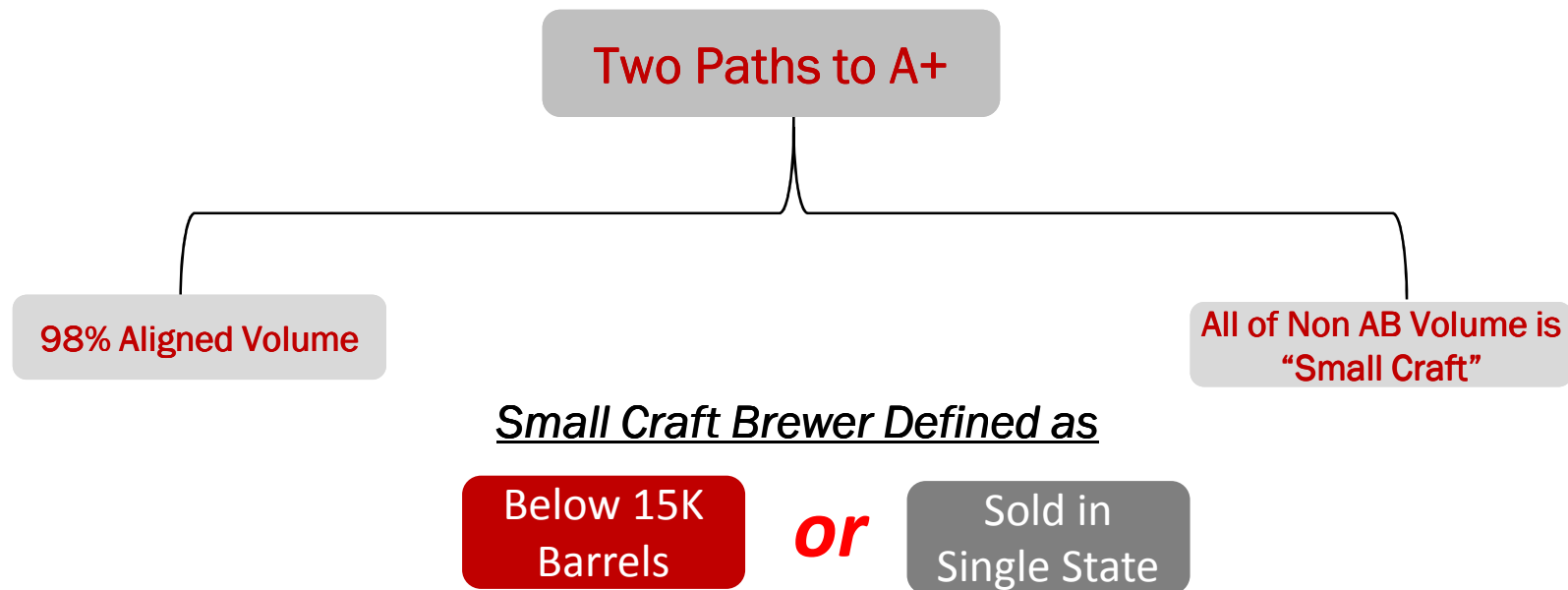
## Program Criteria (All for the duration of measurement period)

- ☐ Must not sell any beer product outside EA territory or own an interest in a distributor who does
  - ☐ If a wholesaler acquires a business that sells outside EA, the acquiring business still receives VAIP benefits for 2 years after close date. Acquired business remains ineligible
- ☐ Sell AB & Alliance brands as requested
- ☐ Notify AB of any portfolio changes post acquisition
- ☐ Wholesaler/Management does not participate in competitive beer wholesalers outside EA territory
- ☐ Benefit is a reimbursement as % of base min marketing spend (excludes new brands and CSR)

\*Crown brands considered aligned for H1 2016 only

**Confidential**

# Small Craft Brewer Application



## Small Craft Brewer Guidelines

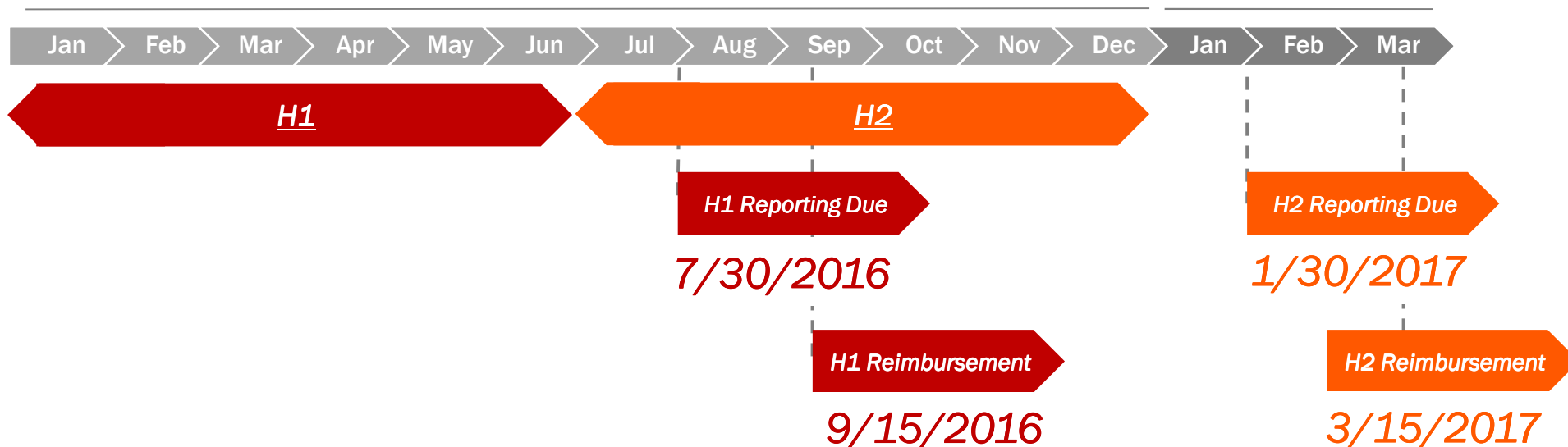
- ☐ Volume levels and craft designation are based on previous year third party release
  - ☐ i.e. if a brewer comes off of the third party craft list due to change in ownership, they are no longer considered "small craft"
- ☐ All brewers currently in house and under 15K per the 2014 third party release will be grandfathered
  - ☐ i.e. if a brewer is below 15K in 2015, but then grows to 17K in 2016:
    - ☐ Considered small craft in all houses that carried in 2015
    - ☐ Not considered small craft in houses that did not carry in 2015
- ☐ List is posted on AB Marketing in the new VAIP section

**Confidential**

# VAIP | Timing of Implementation

2016

2017



## Program Criteria

Effective January 1, 2016

2 Reimbursement Windows

AOE Score Calculated after second reimbursement window for full year

Separate/incremental sales force options not available in H1

**Confidential**