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## NEW ZEALAND CRAFT BEER INDUSTRY

AUGUST 2014

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# MARKET OVERVIEW

## SUMMARY

While beer consumption overall is decreasing, the craft beer segment is growing

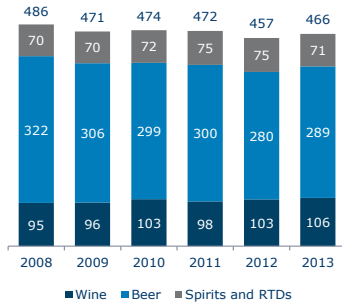
With a large number of craft brands in a small New Zealand market, the sector is highly competitive

Creating brand loyalty and expanding supply to meet growing overseas demand for craft beer are key success factors.

## DOMESTIC BEER CONSUMPTION

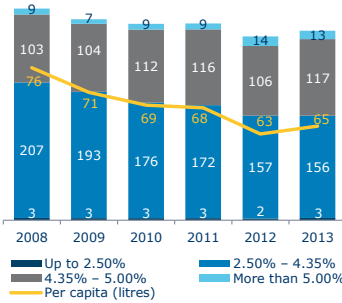
### ALCOHOL CONSUMED IN NZ

Volume of alcoholic beverage in millions of litres



### BEER CONSUMED IN NZ, BY ALCOHOL %

Volume of beer in millions of litres



### GROWTH OF NZ CRAFT BEER SEGMENT

- > Historically the New Zealand beer industry has been dominated by two large brewing companies: Lion Breweries (owned by Kirin) and DB Breweries (owned by Asia Pacific Breweries, now a subsidiary of Heineken)
- > More recently, Independent Liquor became the third major player and was acquired by Asahi for \$1.5bn in 2011
- > The number of beer firms has more than doubled since 2008, driven by new small and medium-sized brewing companies
- > In line with global trends, New Zealand consumers have been opting for more premium brands and craft beers. The volume of beer consumed in New Zealand has fallen 10% since 2008, reflecting an increasing preference for quality over quantity

Sources: Statistics NZ, Kirin Holdings, International Trade Centre, Demeter Group, Corioli, news reports, ANZ analysis

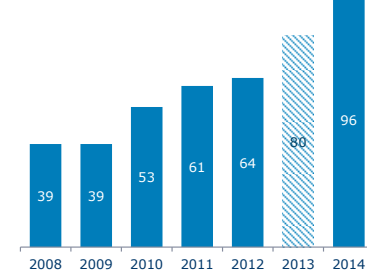
### BEER CONSUMPTION BY COUNTRY

Volume in millions of litres

Rank	Country	Litres per capita	Total consumption (million litres)
1	Czech Republic	148.6	1905
2	Austria	107.8	912
3	Germany	106.1	8630
4	Estonia	102.4	130
5	Poland	98.5	3790
6	Ireland	98.3	460
7	Croatia	85.9	390
8	Venezuela	85.5	2400
9	Finland	84.2	440
10	Romania	83.2	1820
11	Australia	83.1	1830
14	United States	77.1	24186
22	United Kingdom	68.5	4319
25	Canada	66.9	2300
27	New Zealand	64.7	280

### NUMBER OF BEER FIRMS

Year 2013 estimate only



"New Zealanders still love beer, there's no doubt, but they don't want to drink those classic big brands by the crate-load anymore"

Ralph Bungard,  
President of the Brewers Guild

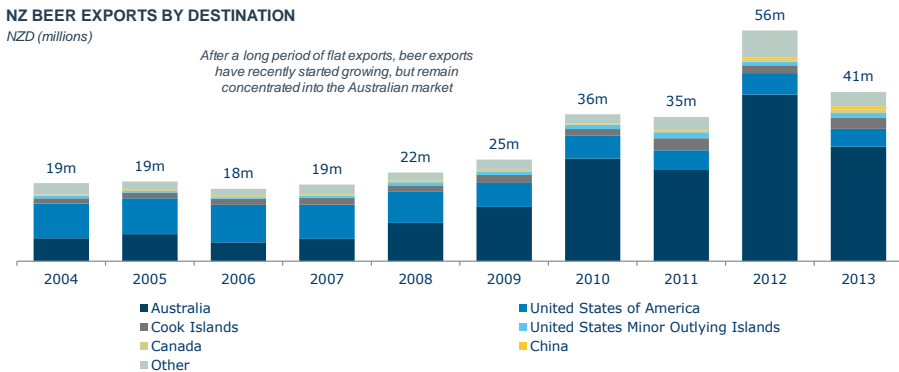
- > The volume of beer consumed over 5% alcohol is trending upward. High-alcohol beers tend to be high-hopped craft beers
- > Craft beer makes up around 2% of beer sales in New Zealand, and around 10% if the craft ranges produced by the three bigger breweries are included
- > However, craft beer is the fastest growing segment of the brewing industry at about 25% per year

## NEW ZEALAND BEER EXPORT MARKETS

### NZ BEER EXPORTS BY DESTINATION

NZD (millions)

After a long period of flat exports, beer exports have recently started growing, but remain concentrated into the Australian market



## KEY CHALLENGES AND OPPORTUNITIES

### COMPETING WITH LARGE SCALE BREWERIES

- > Large brewers are encroaching on the craft space with their own brands aimed at the boutique end of the market. These companies have well-established distribution networks, large teams of sales reps and high marketing budgets

"Craft beer is the shining light of the New Zealand beer market"

Ben Shaw,  
Head of Beer at Boundary Road Brewery

### CULTIVATING BRAND LOYALTY IN A CROWDED DOMESTIC MARKET

- > New Zealand has large number of craft beer brands for its small domestic market
- > Craft beer drinkers enjoy variation and tend not to be loyal to a particular brand. Craft beer enthusiasts may use social apps such as Untappd to share the beers they are drinking, which motivates them to clock up a wide range of brands
- > Some breweries address this challenge by frequently creating new beers, so their range is ever-changing
- > Successful craft brands have an authentic backstory, creating a connection with the region, the ingredients and the brewers
- > Craft beer is expected to grow as the Auckland market catches up with Wellington's, and as New Zealand catches up with more advanced overseas markets like Melbourne and Portland, Oregon

"Young people of today are growing up with craft beer as an option to drink. This will see the steady growth of craft beer in the coming generation. So long to a lifetime of brand loyalty"

Luke Nicholas,  
Owner of Epic Brewing Company

"Craft beer drinkers are not easily fooled by sleek advertising campaigns... if it's a big brewery pretending to be a little brewery they can see that"

Carl Vasta,  
Founder of Tuatara

### TAKING ADVANTAGE OF INCREASING DEMAND IN OVERSEAS MARKETS

- > The US beer industry has decreased at a compound annual growth rate of 0.3% over the last 5 years, but craft beer has grown at 10% annually. Demand in Europe is growing and Asia is in the early stages of adopting craft beer
- > Overseas craft beer markets have a taste for New Zealand hops and demand continues to grow
- > New Zealand brewers and hop growers will need to significantly expand production to meet demand

"There will continue to be a lot of craft brands, which isn't concerning for us - we think that's a good thing because it's driving growth in the overall category"

Geoff Ross,  
Chief Executive of Moa

# NEW ZEALAND SUPPLY CHAIN

# NEW ZEALAND CRAFT BREWERIES

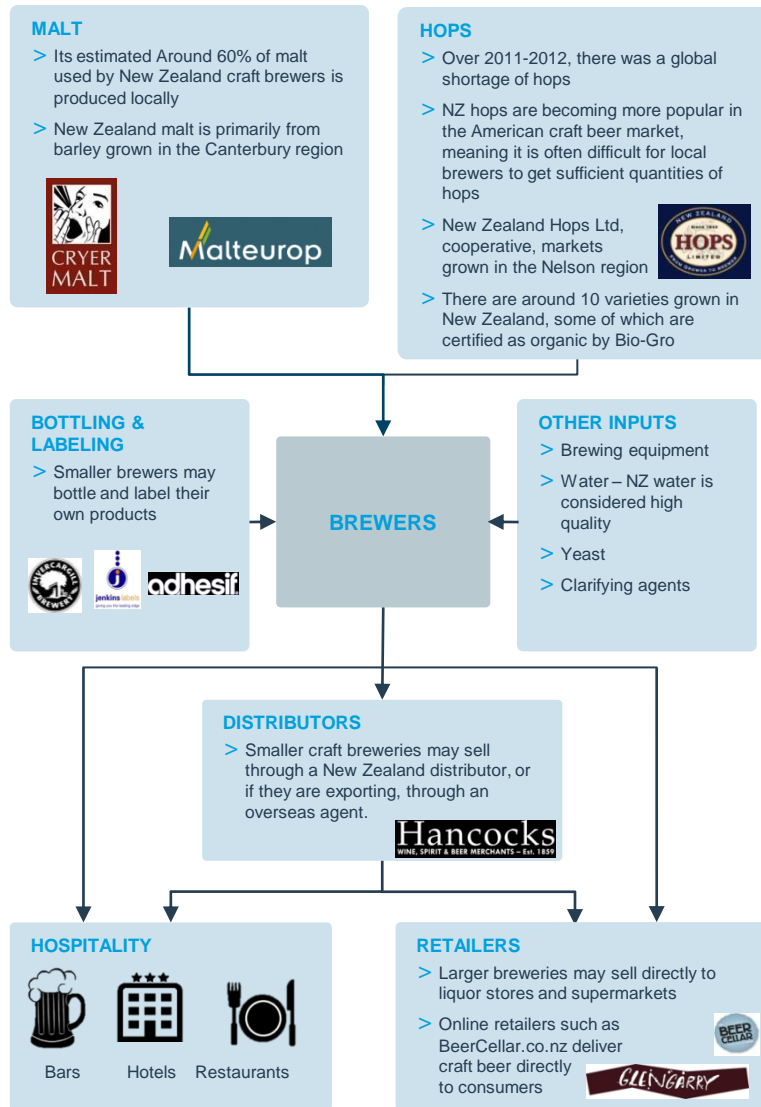
## SUMMARY

New Zealand hops are in high demand overseas, making it difficult for local brewers to obtain large quantities

Online retailers who deliver craft beer directly to consumers have the potential to disrupt traditional supply chains

The dominance of New Zealand's three largest brewers is being eroded by the large number of craft breweries

## NEW ZEALAND SUPPLY CHAIN



Sources: Brewer's Guild of New Zealand, The Beer Cellar, Beer NZ, news reports, ANZ analysis

## NEW ZEALAND CRAFT BREWERIES, INCLUDING CIDER

### AUCKLAND

- > Bach Brewing
- > Behemoth Brewing
- > Ben Middlemiss Brewing Co.
- > Boundary Road\*
- > Dedwood Brewing Co.
- > Deep Creek Brewing Co
- > Epic Brewing Company
- > Hallertau Brewbar & Restaurant
- > Hancock & Co
- > Leigh Sawmill Brewing Company
- > Schippers Bitter
- > Steam Brewing
- > Waiheke Brewery
- > Weezedog Brewing
- > Zeffer Brewing Company
- > Zeppelin Brewing

### NELSON & MARLBOROUGH

- > 8 Wired Brewing
- > Bays Brewery
- > Dale's Brewing Co
- > Founders Brewery\*
- > Golden Bear Brewing Company
- > Hop Federation Brewery
- > Lighthouse Brewery
- > McCashins Brewery
- > Moe Brewing Company
- > Mussel Inn
- > Peckham's†
- > Pink Elephant
- > Renaissance Brewing
- > Sprig & Fern
- > Townsend Brewery
- > Redwood Cider Co\*\*

### WEST COAST

- > West Coast Brewery

### SOUTHLAND

- > Dr. Hops
- > Golden Ticket Brewing
- > Invercargill Brewery

† Cider producers

\* Boundary Road and Founders Brewery are owned by Independent Liquor; Emerson's is owned by Lion and Redwood Cider Co is owned by DB Breweries.

### TARANAKI

- > Liberty Brewing
- > Brew Mountain
- > Mike's Organic Brewing

### WAIKATO

- > 666 Brewing Co. Ltd
- > Biggles Brewery Ltd
- > Boilerhouse Brewery Ltd
- > Brewaucracy
- > Coromandel Brewing Company
- > Crafty Trout Brewing Co
- > Good George Brewing
- > Hot Water Brewing
- > Lakeman Brewing

### BAY OF PLENTY

- > Aotearoa Brewery
- > Croucher Brewing Company
- > Fitzpatrick's Brewing Co Ltd
- > Kaimai Brewing
- > Mount Brewing
- > Two Fingers Beers

### GISBORNE & HAWKE'S BAY

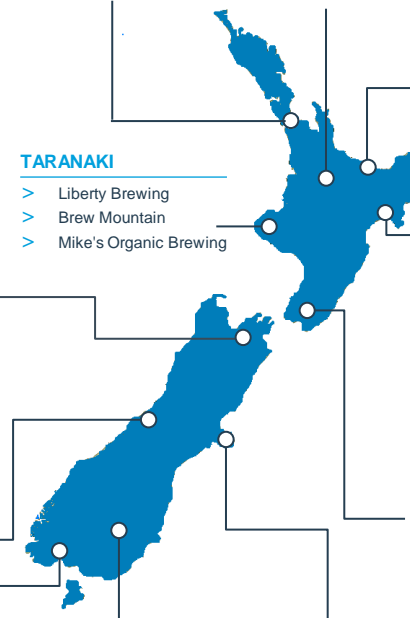
- > Bulmer Harvest†
- > Fat Monk Brewery
- > Giant Brewing Company
- > Hawkes Bay Independent Brewery
- > Sunshine Brewery
- > Zealandt Brewing Co

### WELLINGTON

- > Baylands Brewery
- > Black Dog Brew Co.
- > Fork & Brewer
- > Funk Estate
- > Garage Project
- > Geek
- > Kereru Brewing
- > North End Brewery
- > Panhead
- > ParrotDog
- > Regent 58 Brewery
- > Tuatara Brewing Company
- > Yeastie Boys

### CANTERBURY

- > Brew Moon Brewing Company
- > Cassels & Sons Brewery
- > Dux de Lux
- > Fiasco
- > Golden Eagle
- > Harrington's Brewery
- > Hop Baron
- > Kaiapoi Brewery
- > KJD Brewing Company
- > Raindogs
- > Three Boys Brewery
- > Twisted Hop
- > Two Thumb Brewing
- > Valkyrie Brewing Co
- > Valley Brewing Company
- > Wigram Brewing Company



# MARKET DATA AND TRANSACTIONS

## SUMMARY

This page provides a guide as to how the market values smaller breweries by observing market data and transactions

There are limited transactions within the NZ market with transaction data available. However, Independent Liquor was acquired for 14x EBITDA and Moa trades at 2.0x revenue

Of the selected group, 50% trade within a 6.0x – 16.2x EBITDA multiple and 50% trade within a revenue multiple of 0.5x – 2.4x

## CONTACTS

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## RECENT NEW ZEALAND TRANSACTIONS

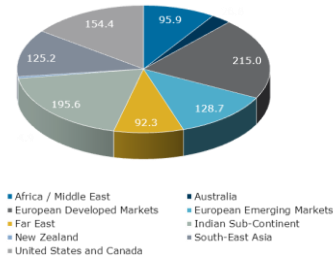
- > As consumers shift away from bulk beer producers toward more premium craft products, craft breweries are becoming attractive acquisition opportunities for larger beer companies in New Zealand and globally
- > There have been four major transactions in the New Zealand beer market recently, with indications that there is appetite for further acquisitions in the craft beer space

Target company	Acquirer	Date	Price	EV / EBITDA
Independent Liquor	Asahi	August 2011	NZD 1.5b	14x
Redwood Cellars (92%)	DB Breweries	June 2012	NZD 8.2m	Unknown
Emerson's Brewery	Lion (Kirin)	November 2012	NZD 8m	Unknown
Founders Brewery	Independent Liquor	February 2013	Unknown	Unknown

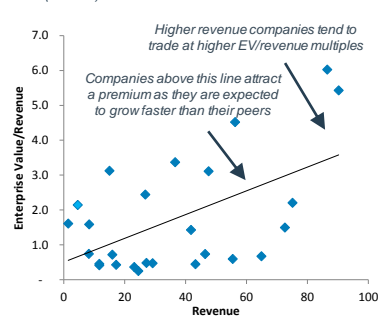
## GLOBAL PARTICIPANTS WITH LESS THAN NZD 100M REVENUE<sup>1</sup>

### COMPOSITION OF GROUP<sup>1</sup>

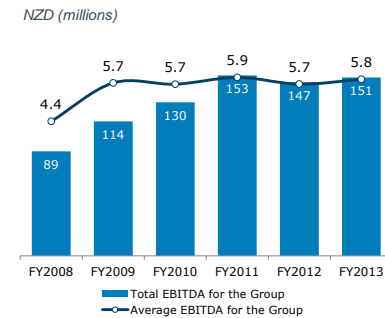
- > The group selected includes 27 publicly listed companies involved in brewing with turnover less than NZD 100m



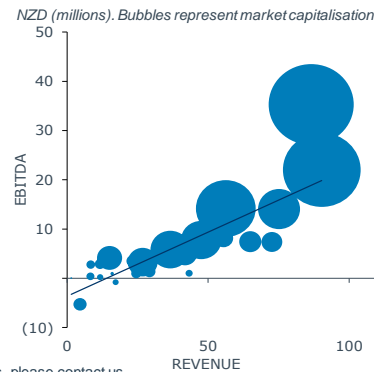
### REVENUE & "ENTERPRISE VALUE"/REV<sup>2</sup>



### EBITDA PERFORMANCE

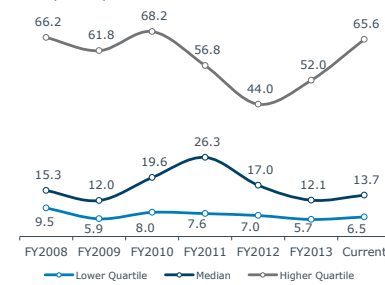


### REVENUE AND EBITDA

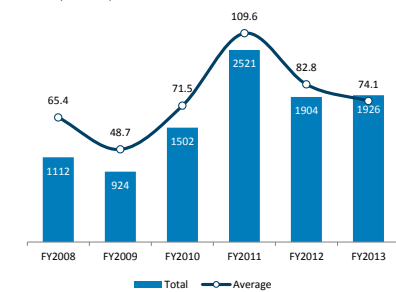


## GROUP MARKET CAPITALISATION

### MARKET CAP BY QUARTILE

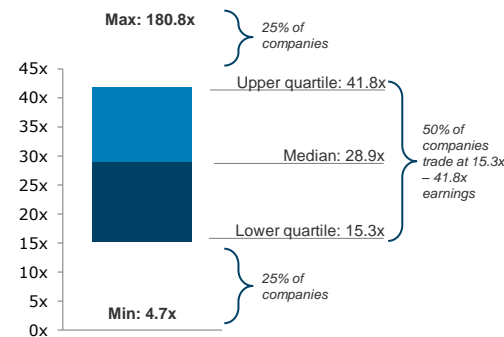


### TOTAL MARKET CAP OF PEER GROUP

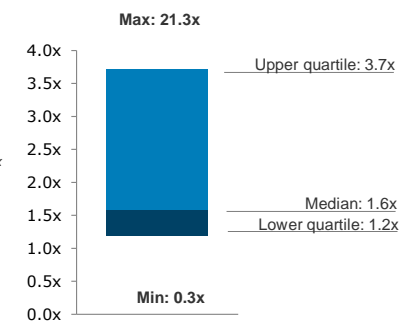


## GROUP TRADING MULTIPLES

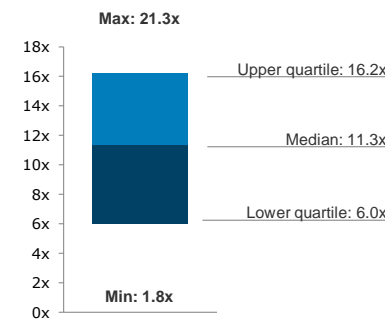
### PRICE / EARNINGS



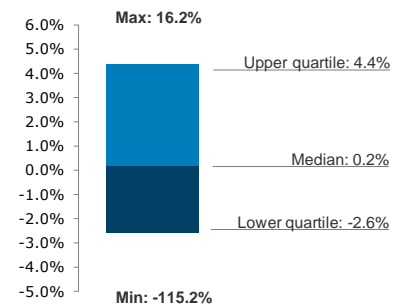
### PRICE / BOOK VALUE



### ENTERPRISE VALUE / EBITDA



### RETURN ON INVESTED CAPITAL<sup>1</sup>



<sup>1</sup> For further information on the companies used in the above analysis, please contact us

<sup>2</sup> Enterprise Value = Debt + Equity - Cash

Sources: Standard & Poor's Capital IQ, news reports, ANZ analysis

1. Return on invested capital = EBIT/(Equity + Debt - Cash)