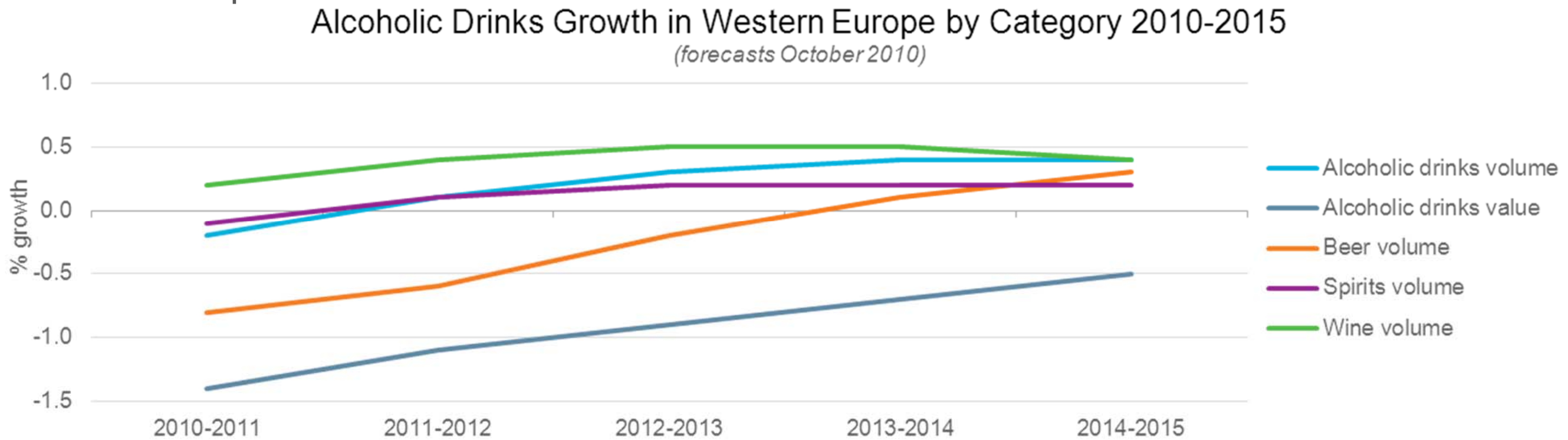
Western Europe’s prospects look bleak and could get worse

- Alcoholic drink sales in Western Europe offer limited opportunities for optimism, with volumes seeing minimal growth and value sales expected to decline throughout the forecast period. Value sales are expected to decline due to consumers’ preference for trading down due to tough economic conditions in many markets.
- The weak performance of beer is the main factor in this poor performance, due to the maturity of the category in the region, with volumes declining even in markets with strong economies, such as Germany.
- Future growth prospects are expected to worsen, with conditions deteriorating in a number of Western European markets, notably Greece, but also now Portugal, which has recently had to adopt austerity measures, thus worsening its growth prospects. While these are relatively small markets within the region, other much larger markets, such as Italy and Spain, are at time of writing coming under threat of facing possible economic crises. In 2010, they accounted for a combined 20% of all Western European alcoholic drinks consumption.



A balanced portfolio remains key to counteract volatile markets

Emerging markets drive growth

- The strong forecasts for emerging markets made in 2010 are if anything set to improve. The recovery in Eastern Europe was stronger than expected and company investment in Africa has driven growth. There is a note of caution with the potential of economies overheating. Most volume is driven by low priced local products, but as disposable income increases demand will continue to grow for premium international brands.
- Emerging market presence is imperative in beer and spirits. In beer large scale acquisitions led expansion, so that further growth will need to be driven organically or by smaller deals. The leaders AB InBev and SABMiller, will look to grab share and push their international brands. Other companies will find it hard to catch up, but even AB InBev has gaps to fill notably Africa. Spirits companies, have mainly grown organically, building presence around international brands. Diageo's Mey Içki acquisition, shows an alternative. For wine emerging markets offer longer term opportunities, these should not be ignored, but expansion needs to be targeted.

Mature markets offer value, despite slowdown

- In mature markets the bleak picture forecast in is set to remain if not deteriorating. Sovereign debt continues to undermine growth prospects in Western Europe and high unemployment levels in the US, particularly amongst the core beer drinking demographic, may drive further decline.
- With volumes under increasing pressure, generating value is a key focus for market leaders. Premium sales have remained relatively robust, with evidence that consumers are drinking less, but better. Some wine players have withdrawn economy lines in order to break the cycle of heavy discounting. Targeting niche segments will help generate value, this has been witnessed with the popularity of craft beers and cider launches.
- Mature markets still offer better margins and will continue to attract investment. The international brands of Beam Inc will attract high prices, from all leading players. A balanced portfolio remains key, SABMiller, has the highest percentage exposure to emerging markets and as such is addressing this by pursuing the acquisition of Foster's.