



The Consolidation Landscape

March 2002

Dear Beverage Wholesaler,

The purpose of this brief update is to keep you informed about the current landscape of beer wholesaler consolidation. We will briefly cover 4 general areas: Prices that are being attained by sellers, supplier approvals, expanding supplier requirements, and IBG services designed to assist you. On an attached page IBG briefly introduces what we feel is happening to acquiring wholesalers. We will expand on our “Triangle of Tension” in our next update but wanted to offer a preview of what’s to come.

Price: IBG believes that selling prices have stabilized. Several things are causing this price stabilization but some of the key causes are escalating supplier requirements, the cost of competing, a slowing industry and weak overall economy. On a positive note the low cost of money and strong performances by the Import category and Malternatives is helping. An analysis of IBG transactions from January of 1998 through April of 2001 reveal the average “Blue Sky” price for 30 “vertically integrated” closed transactions was 2.05 times gross profit or \$5.84 per case. These numbers do not include buildings, equipment or inventory and are as close to an apple-to-apple comparison as we can get. Our review of transactions from May 2001 through January 2002 shows the “Blue Sky” price for 14 closed “vertically integrated” transactions to be 1.81 times gross profit or \$5.79 per case. While the most recent price is lower we feel this is due to the geography and brand mix of our transactions and not that prices are actually declining. We have removed the two A-B transactions we have completed because they were for enterprise value and not vertical consolidations. IBG does not think that prices are likely to change dramatically up or down any time soon, because the fundamentals of the industry are solid and we still see a strong desire from people to buy. However, if any one of several things such as a slowing Import category, rising cost of money or heavy discounting occurs prices will go down. Bottom line, we think prices are fairly solid. Now is a good time to accomplish consolidation.

Supplier Approvals: This is getting more and more complicated as “Globalization”, and consolidation of suppliers and wholesalers continues to unfold. Very few wholesalers know how to successfully navigate through the maze of supplier requirements and emotions. This is a bold statement but IBG is confident of its accuracy because we live daily in this minefield. Think about this sequence of events as a practical example. Once we know what a supplier wants they change their corporate philosophy. Once we adjust to their policy they decide to accommodate the request of a field sales rep that is not consistent with corporate policy. Occasionally, they turn you down simply because “they don’t like the buyer”. One supplier representative says one thing and his boss says something else. The supplier approval process is a fluid mix of demands and changes. Most of the time what is best for the market prevails. However, emotions can be a part of the approval process at the supplier level. Unless you live everyday in the dynamics of the approval process it is virtually impossible to know what to do or what not to do. When it comes to buying/selling/merging all decisions, positive and negative are magnified.

Supplier Requirements: Beverage suppliers know they are at the point of maximum leverage the moment before they approve a transfer of ownership. Most use this leverage to make sure that for the first several years moving forward they get their share of emphasis. They have the leverage and they squeeze. In some cases it is helpful because some suppliers use their experience to help consolidation go more smoothly. However, in other cases the supplier’s demands are wrong, expensive, and harmful to a wholesalers overall organization. Ask this question, is the supplier’s attitude such that they have the acquiring wholesalers overall interest at heart or do they put their interest first? One attitude is helpful the other could be extremely harmful. In any event, the acquiring wholesaler is pulled in many directions at once. (See “Triangle of Tension” on next page)

Conclusion: In terms of consolidation now is a good time to seriously consider your options. IBG believes that selling prices are very good and are not likely to change unless something catastrophic occurs. We can site several examples where wholesalers have waited too long to act and their value has declined to unbelievably low levels. Suppliers, retailers, and competitors are not making things any easier. In fact, they are all likely to escalate your cost of doing business in the future. Most wholesalers need assistance completing the consolidation process, not so much for emotional reasons anymore but for the complexity of the transaction.

IBG’s Services: Our growing Buy/Sell/Merger business is complimented nicely by our strong valuation business. We are also becoming more aggressive in the area of “How to run a beer distributorship” in today’s complex post acquisition environment. (Transition Management) IBG is firmly committed to the principle that our performance be measured by our results. We have a great passion for the people that market and sell great products at retail. IBG will provide references from either a former buyer, seller or people we have helped merge. Our experience will pay off for you. We keep the process moving. In the transaction arena we work on commission only so our incentive is to perform for our customer and to close as quickly as possible.

Wholesalers get pressure from at least 3 major areas after consolidation: Suppliers, retailers & competition, and banks. If any one of these 3 areas push or pull too hard in order to reach their own short-term objectives they run the risk of causing the entire operation to collapse.

Transition management (1 to 18 months) is critical to the buyer's success. First impressions are hard to change and often the normal problems associated with combining two companies can overwhelm most people. IBG's experience can help you get started on the right path. There are several forces pulling at you. IBG can help you push back with well thought out and properly planned performance.