Anheuser gives sunnier forecast to analysts

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"Anheuser-Busch's top priority in 2005 has been to restore volume and market share growth momentum," A-B vice president and CFO W. Randolph Baker told investors and analysts at the presentation. "We implemented a number of domestic beer initiatives to accomplish this objective and we are seeing progress,"

According to the company, financial results have been impacted by significant commodity cost pressures, higher investment in marketing, and the company's initiative to reduce promotional price premiums to competition as part of its strategy to restore its volume and market share momentum. The company said it continues to expect earnings per share for the full year 2005 to be down approximately 10 to 11 percent, excluding one-time items.

"With market share and volume trends now improving, our objectives for 2006 include achieving balanced volume and revenue per barrel growth and stimulating category growth," said Baker. The company has announced plans to implement price increases and discount reductions on the majority of volume in early 2006 and considers the domestic beer pricing outlook to be favorable for next year.

"While cost pressures are expected to continue, we expect to return to earnings per share growth in 2006," Baker continued. "Clearly, Anheuser-Busch has experienced significant challenges in 2005, but the company's substantial competitive advantages in domestic beer provide a strong foundation for long-term success and the company is well positioned in international beer for long-term growth through our important market positions in China and Mexico."

Analyst Mark Swartzberg of Stifel Nicolaus & Company, Incorporated (formerly Legg Mason) reports that A-B 4Q shipments to retailers are up approximately 3%, after five consecutive quarters in which shipments were flat or down.

"At a minimum, we take this as proof that shipment trends have stabilized," Mr. Swartzberg wrote in a recent investment note. "Most importantly, in the mind of A-B management, this is likely encouraging vis-a-vis their plans to retake industry leadership on price growth. For example, the company again emphasized that Bud Light's price gap with Miller Lite has been successfully narrowed to targeted levels, and that the gap remains largely stable."

Regarding marketing spend, Mr. Swartzberg noted that Anheuser-Busch is looking to make a slight increase.

"[Anheuser-Busch] emphasized that the absolute level of spending is the more important metric than rates of growth," Mr. Swartzberg wrote. "[Since] it spends multiples of its competitors' levels on a per-barrel basis. In follow-up conversations with management, we were told the company is not sure the message behind Bud Light is on-target enough to justify a higher level of brand spend. This is reasonable and something we would not challenge...but we do believe that the short-term risk of wasting money is typically superior to the risk of compounding momentum problems."

At the analysts meeting, chief financial officer Baker said A-B will push price increases and cut discounts next year.

Analyst Swartzberg said "the company's optimism about improved net revenue per barrel trends is well-founded." Mr. Swartzberg said his analysis supported A-B's prediction of revenue per-barrel growth, which is projected to be in the neighborhood of 1.5%-2.0%.

And Mr. Swartzberg said a rising price tide may lift all boats. "Miller is likely to follow A-B, in our view," he wrote in his note. "This much is suggested by Miller acting as the leader in several markets this fall, including Florida. We think this is symptomatic of an attitude change at Miller, not only accepting A-B's price leadership, but actually supporting it, given its own earnings disappointments in 2005."

Stifel Nicolaus analysts stood by Mr. Baker's plan to cut discounts. "If A-B experiences disappointing share and volume trends in 2006 versus plan, we expect it to respond through measures other than materially stepped-up discounting," Mr. Swartzberg wrote. "We believe that the financial pain of discounting in 2005 has exceeded A-B's expectations, increasing its resolve to lead on prices. A silver lining in the discounting of 2005 is that it appears that the beer category is less elastic than industry leaders previously believed."

In a bulletin, Mr. Swartzberg concluded, "We continue to believe that a period of negative earnings revisions [for A-B] has ended due largely to our belief that new pricing will stick."

A-B Sales of San Diego receives retail award

The California Independent Grocers and Convenience Stores Association recently recognized Anheuser-Busch Sales of San Diego as its 2005 Supplier of the Year. The group said that the award goes to the company that has demonstrated "above and beyond" service to the over 500 convenience stores and independent markets, and for "outstanding sales and service." The Award was presented at the 10th Annual IGCS Banquet held at the Marriott Hotel & Marina in San Diego. In the photo above, Ms. Denise Cooper, vice president and general manager of AB Sales of San Diego accepts the award from the IGCS President Auday Arabo. At right is Tim Tucker, A-B Sale of San Diego's director of sales, off-premise.

HUSA renews contract with Satellite Logistics

Heineken USA recently renewed its agreement with the Satellite Logistics Group to provide full-product distribution from four of its warehouses to supply several regions in the U.S. Satellite said HUSA will become one of the first companies to use its new on-line service to monitor inventories and shipping status.

This contract, which runs through 2008, coincides with the brewer's current agreement with Satellite Logistics Group to manage its entire U.S. keg return operation.

"Satellite Logistics Group has been a trusted and valued partner for Heineken USA as we have evolved and refined our supply chain," said Dan Sullivan of HUSA. "Continuing this relationship was important to us, and we look forward to utilizing the expertise and support that Satellite Logistics provides in the coming years."