

Beam Inc. to be acquired by Japan's Suntory in deal worth \$16 billion

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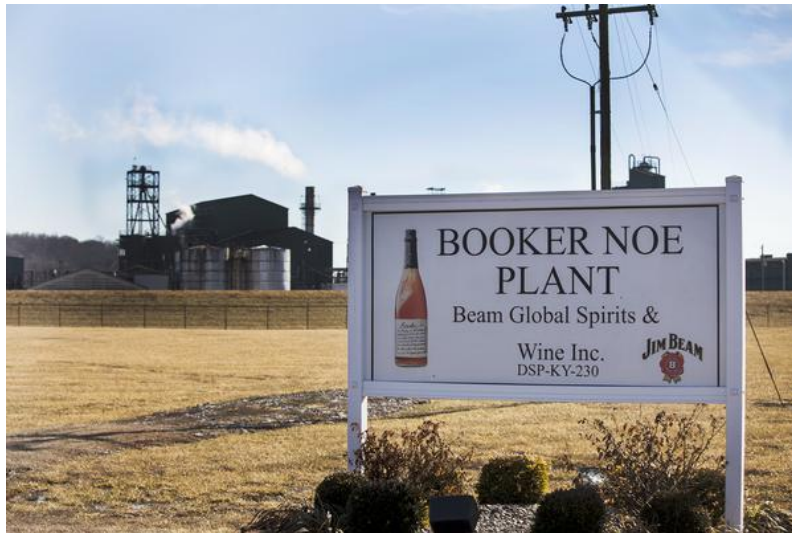


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The Booker Noe Plant just over the Bullitt County line in Nelson County is one of Beam Inc.'s operations locally. Beam employs about 75 people and warehouses around 750,000 barrels of bourbon in Nelson County. The company announced Monday it was merging with the Japanese beverage company Suntory.

Beam Inc., the parent company of Kentucky bourbons Jim Beam and Maker's Mark and other top premium brands, announced Monday a merger with Japanese spirits and beverage company Suntory.

Suntory will acquire Deerfield, Ill.-based Beam in a deal valued at \$16 billion, or \$83.50 a share, 25 percent above the stock's closing price Friday, the companies said in a joint news release.

Beam shares closed at \$83.42 on Monday, up \$16.45, or 24.56 percent.

The transaction was unanimously approved by both companies' boards of directors and is expected to close in the second quarter, subject to the approval of Beam shareholders and regulators.

But the backlash against the top-selling bourbon being owned by a foreign company was swift. Facebook pages for both Jim Beam and Maker's Mark filled Monday with posts by consumers planning to boycott the bourbons in favor of U.S.-owned brands.

It's unclear what, if any, effect the negative reaction might have on the value of the brands, which include several premium whiskeys.

"It's business as usual at Beam," spokesman Clarkson Hine said. "Our brands will continue to be made the exact same way, with all the heritage and authenticity they've always had. In fact, federal regulations require that bourbon be made in the United States. We operate in a global economy, and the fact is, international ownership is relatively common among successful Kentucky distilleries and bourbon brands.

"Suntory, with its more than 100-year history, shares much the same values and heritage as Beam."

When final, the sale will mean that three major Kentucky distilleries will be Japanese-owned (Jim Beam, Maker's Mark and Four Roses, which is owned by Kirin). A fourth, Wild Turkey, is owned by the Italian spirit company Campari. And Bulleit is owned by London-based Diageo, but distilled at Four Roses. (Hine pointed out that Maker's Mark was owned by a British company when Beam acquired it in 2005.)

Of the remaining major players, Louisville-based Brown-Forman, which has Woodford Reserve and Old Forester bourbons in its large brand portfolio, is publicly traded, with majority ownership held by family members; Heaven Hill is owned by the Shapira family of Louisville and Bardstown; and Buffalo Trace and sister distillery Barton 1792 are privately owned by New Orleans-based Sazerac.

"Today's announcement is further proof that Kentucky bourbon is a growing and global force in the spirits marketplace," Eric Gregory, president of the Kentucky Distillers' Association, said in a statement. "The commonwealth has longstanding ties to Japan, with more than 150 Japanese companies doing business in the Bluegrass. ... We're excited that Suntory has chosen to invest in Kentucky."

Bourbon has been on a boom, with sales of bourbon and Tennessee whiskey (including top seller Jack Daniel's, owned by Brown-Forman) up 28 percent from 2000 to 2012. The increase in brown liquor sales outstripped white or clear spirits for the first time in 2012. More than \$700 million in bourbon and U.S. whiskey was exported in 2012, but bourbon makers have said there is a lot of room for growth globally.

The Beam-Suntory deal will create a global spirits portfolio with annual net sales of \$4.3 billion, according to the announcement. Brands include Beam's Jim Beam and the Beam family, Maker's Mark and Knob Creek bourbons; Teacher's and Laphroaig Scotch whiskies; Canadian Club whiskey; Courvoisier cognac; Sauza tequila; Pinnacle vodka (and assorted flavored extensions); Suntory's leading Japanese whiskeys Yamazaki, Hakushu, Hibiki and Kakubin; Bowmore Scotch; and Midori liqueur.

"Strategically, it makes sense for Suntory," Trevor Stirling, an analyst at Sanford C. Bernstein & Co. in London, told Bloomberg News. "I'm a little surprised they decided to go it alone, but at the moment there are low yen interest rates."

According to the news release, Beam's president and CEO, Matt Shattock, and the current Beam management team will stay on and Beam's brands will continue to be managed from Beam headquarters outside Chicago.

"This is a very exciting development that delivers substantial value for our stockholders and creates an even stronger global company with an excellent platform for future growth," Shattock said in the news release. "Together, we will be a global leader in distilled spirits, with the No. 3 position in premium spirits and a dynamic portfolio across key categories."

Nobutada Saji, president and chairman of Suntory's board, said, "I believe this combination will create a spirits business with a product portfolio unmatched throughout the world and allow us to achieve further global growth."

Beam and Suntory already had partnered on distribution in Asian markets.

Suntory is known to many as the brand Bill Murray's character pitched in the 2003 movie *Lost in Translation*, with the line, "For relaxing times, make it Suntory time."

Founded in Osaka, Japan, in 1899, Suntory Group is Japan's leading player in alcoholic and non-alcoholic beverages, with sales of \$17.6 billion in 2012.

Besides premium Japanese whiskeys, Suntory has grown the non-alcoholic side of its business, acquiring New Zealand beverage company Frucor Group and French beverage company Orangina Schweppes Group in 2009, and GlaxoSmithKline's Lucozade and Ribena drink brands in 2013.

"Suntory has virtually no U.S. presence," Mark Swartzberg, an analyst at Stifel Financial Corp. in New York, said in a research note. "This will take their share from less than 1 percent to 11 percent."

The takeover is the largest this year and the sixth-largest ever in the beverages industry, according to data compiled by Bloomberg.

Beam, which was spun off as a standalone company from Fortune Brands in 2011, is one of the world's leading premium spirits companies, with 2012 sales of \$2.5 billion. Besides the Beam family of brands, the company owns Skinnygirl cocktails, Cruzan rum, Hornitos tequila, Kilbeggan Irish whiskey, Larios gin, Whisky NYC and DeKuyper cordials.