



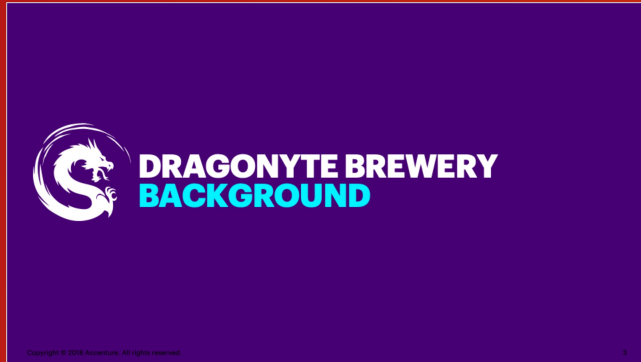
# DRAGONYTE BREWERY

## CASE STUDY—PARTICIPANT



# MENU

Click on the sections below to learn about the case.





# DRAGONYTE BREWERY BACKGROUND



## PRODUCT OFFERING BY CATEGORY

### Domestic Premium

DragonYTE	Gold Lager
Lilith	Pilsner

### Imported/International

Tiamat	India Pale Ale
Halo	Imperial Red Ale

### Flavored Malt Beverages/Cider

Minerva	Lambic
Nightshade	Hard Soda
Weiss	Hard Cider

### Craft

Lady Beth	Porter
Sir Carver	Irish Cream Stout

### Economy

Ember	Pale Lager
Silvernyte	Pale Lager

## HISTORY

DragonYTE Brewery began as a family hobby in Kingston, Ontario. Bethany Hawke loved to develop interesting beers and brewed seasonal flavors for friends and family. After several years, her brother Carver suggested that they market her beers to the public.

In 1888, the Hawke siblings moved to Burlington, Vermont, and opened their first brewery named Hawke BC. Carver managed the business, while Bethany continued her passion as chief brewer.

Bethany named her most popular beer “DragonYTE” for its deep golden color and explosive flavor. The overwhelming success of DragonYTE prompted the Hawke sibling to rename the brewery DragonYTE Brewery in 1893. Bethany and Carver worked tirelessly to share their passion for beer, eventually developing their flagship lager Ember, a light, bronze-colored brew with a crisp flavor profile.

DragonYTE Brewery went public in 1898 and expanded their brand presence across Canada and the United States. Faced with the threat of Prohibition, Bethany and Carver opened Hawke Creamery, making ice cream and root beer to weather the alcohol ban. When Prohibition was lifted in 1933, DragonYTE Brewery resumed operation. Hawke Creamery is still in operation today.

Today, DragonYTE Brewery is considered a major powerhouse in the beer industry, with brand presence in the United States, Canada, Europe, and several international market segments. They have grown largely through perfecting recipes in popular beer styles and strategic business acquisitions to extend their product offerings.

Through six generations, DragonYTE Brewery remains a family-owned business with Bethany and Carver’s families retaining majority ownership of the business. Bethany’s descendant, Meredith Vael, is DragonYTE’s chief brewer and chairwoman, and Sebastian Hawke (Carver’s descendant) is the current CEO.

DragonYTE Brewery has product offerings in four major categories, as well as two craft brews that commemorate DragonYTE’s founders. As one of the last family-owned major breweries, DragonYTE Brewery’s vision is to **“Be THAT beer that everyone enjoys and savors. Inspire moments of friendship and connection through our brands and actions.”**

# DRAGONYTE BREWERY PRODUCT OFFERINGS

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DragonYTE Brewery has strong presence within Premium Light and Economy segments in the US which are structurally challenging categories

DragonYTE Brewery Brands

Current Trend

## Premium



- Domestic premium beer in the US has been one of the weakest performing sub-segments over the past few years
- Premium Light make up ~80% of the domestic premium segment in the US

## Imported / International



- Imports are seeing strong growth as younger consumers prefer imported beer
- Dollar share for imported beer has increased from 15% in 2012 to 19% in 2016

## FMB / Cider



- In addition to craft, one of the key sub-segments that has exploded over the past couple of years has been the emergence of Flavored Malt Beverages
- DragonYTE Brewery has captured significant share of this category

## Craft



- Craft has shown explosive growth over the past few years
- Craft beer segment has been facing slowdown recently as the craft beer industry gradually matures

## Economy



- Aside from the domestic premium segment, the below premium category is the weakest performing sub-segment in beer over the past few years



Dragonyte Brewery is committed to delivering sustainable, long-term shareholder value and to becoming a top global brewer. Our growth strategy rests on three pillars:

**DRIVE TOP-LINE GROWTH** throughout US, Canada, Europe, and international markets

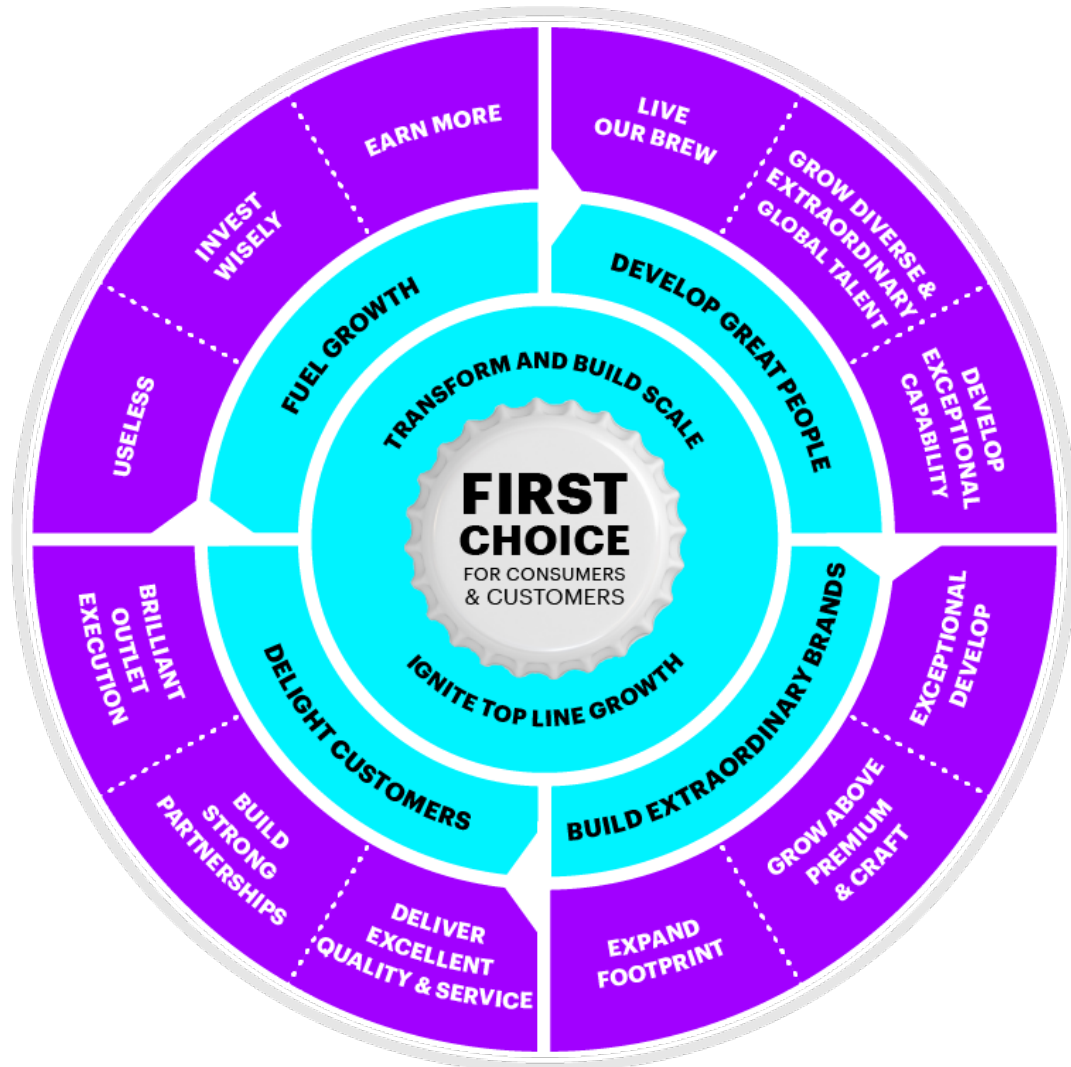
**FUEL GROWTH** through innovation, focus on the consumer experience and cost management

**DRIVE COMMERCIAL EXCELLENCE** that provide solid growth platforms for our business and brand

# STRATEGY (1/3) – STRATEGIC FRAMEWORK

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DragonYTE Brewery manager has laid out a framework which highlights growth and shareholder value creation, customer and brand strategies



## Driving top-line growth

### US

- Flat volume by 2018, volume growth by 2019 & beyond

### Canada

- Reigniting growth

### Europe

- Portfolio premiumization & building off a strong base

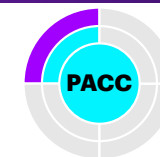
### International



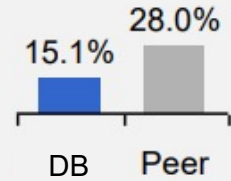

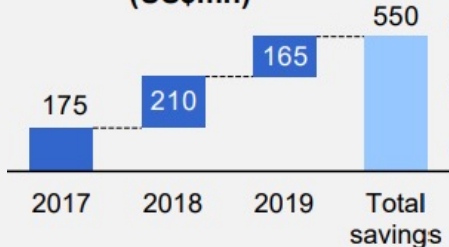
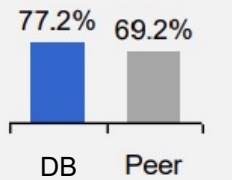
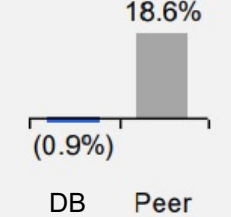

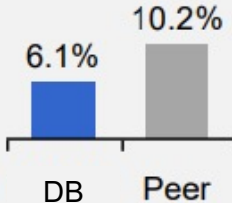
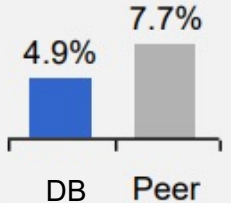
- Above premium portfolio focus in high growth markets

# STRATEGY (2/3) – FUEL GROWTH (PROFIT AFTER CAPITAL CHARGE)

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**While Dragonyte Brewery has a solid cost savings target of \$550M by 2019, its growth targets are subdued especially in the US**



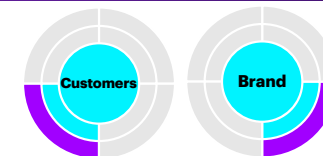
	Strategic Objectives	Goals	Financial Performance (TTM 06/2017)	
 <p><b>BRAND-LED PROFIT GROWTH</b></p>	<ul style="list-style-type: none"> <li>Investing behind core brands</li> <li>Driving share in above premium</li> <li>Delivering value-added innovation</li> <li>Commercial excellence</li> </ul>	<ul style="list-style-type: none"> <li>US: Flat growth by 2018, volume growth by 2019</li> <li>Canada: Cost efficiencies along with revenue growth</li> <li>Growing Above Premium brands in high growth international markets</li> </ul>	<div style="display: flex; justify-content: space-around;"> <div data-bbox="1770 435 2127 706"> <p><b>Revenue</b></p>  </div> <div data-bbox="2178 435 2407 706"> <p><b>EBIT Margin</b></p>  </div> </div>	
 <p><b>CASH GENERATION</b></p>	<ul style="list-style-type: none"> <li>Cost reductions</li> <li>Capital expenditure driving efficiencies</li> <li>Working capital improvements</li> <li>Sale of non-core assets</li> </ul>	<p><b>Cost savings target (US\$mn)</b></p>  <ul style="list-style-type: none"> <li>20% - Shared Services/ IT/G&amp;A</li> <li>40% - Supply Chain</li> <li>40% - Procurement</li> </ul>	<div style="display: flex; justify-content: space-around;"> <div data-bbox="1821 749 2051 1013"> <p><b>Opex/ Revenue</b></p>  </div> <div data-bbox="2127 749 2356 1049"> <p><b>Working Capital/ Revenue</b></p>  </div> </div>	
 <p><b>CASH AND CAPITAL ALLOCATION</b></p>	<ul style="list-style-type: none"> <li>Disciplined cash use</li> <li>Return-driven criteria</li> <li>Balanced priorities</li> </ul>	<ul style="list-style-type: none"> <li>Pay Down Debt/Pay Dividends                             <ul style="list-style-type: none"> <li>~4x leverage by end of 2018</li> <li>Revisit dividend policy when deleverage well underway</li> </ul> </li> <li>Underlying free cash flow target:                             <ul style="list-style-type: none"> <li>\$1.2 billion +/- 10% for FY 2017</li> </ul> </li> </ul>	<div style="display: flex; justify-content: space-around;"> <div data-bbox="1770 1071 2000 1363"> <p><b>Pre-tax ROIC</b></p>  </div> <div data-bbox="2153 1071 2382 1363"> <p><b>Cash / Revenue</b></p>  </div> </div>	



# STRATEGY (3/3) – COMMERCIAL EXCELLENCE

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## DragonYTE Brewery plans to drive commercial excellence which underlines Above Premium and Craft growth agenda across key regions



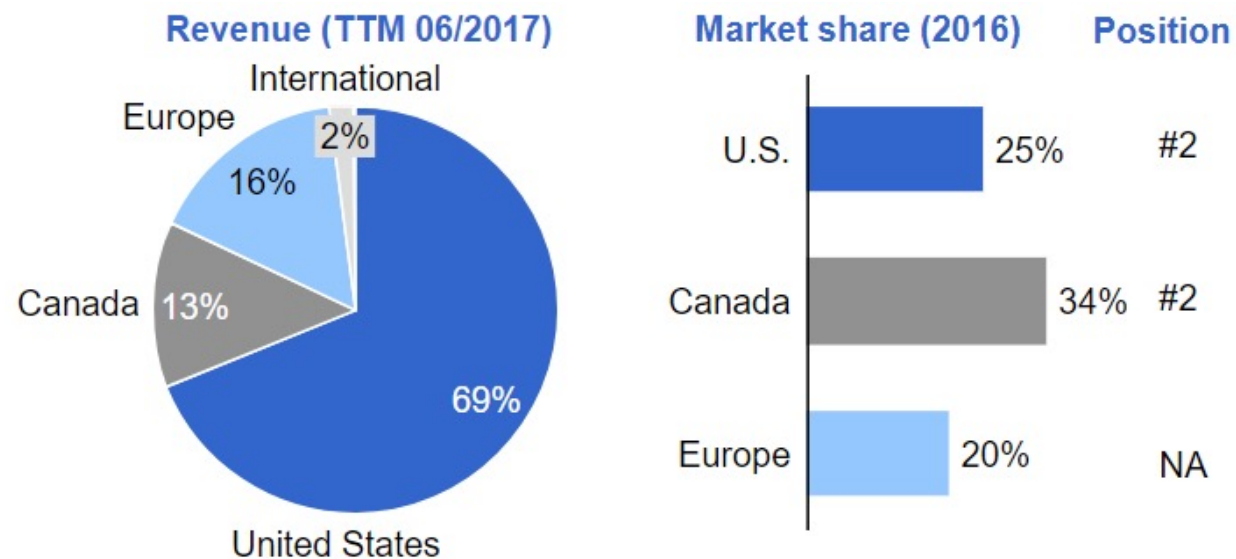
	US	CANADA	EUROPE	INTERNATIONAL
	Flat by 2018, growth by 2019	Top-line growth coupled with cost efficiencies	Driving upside potential from a solid base	Driving growth from a strong platform
Consumer Excellence	<ul style="list-style-type: none"> <li>Continue growing share in <i>Premium</i></li> <li>Accelerate growth in <i>Above Premium</i></li> <li>Stabilize <i>Economy</i> to expand the beer category</li> </ul>	<ul style="list-style-type: none"> <li>Re-energize <i>DragonYTE Golden Lager</i> and <i>Tiamat IPA</i></li> <li>Accelerate share gains in <i>Above Premium, Craft &amp; FMBs</i></li> </ul>	<ul style="list-style-type: none"> <li>Energize core brands</li> <li>Accelerate <i>Above Premium</i> and <i>Craft</i> growth</li> <li>Push harder into cider</li> </ul>	<ul style="list-style-type: none"> <li>Leverage global brand portfolio</li> <li>Rapidly expand craft beers <i>Lady Beth</i> and <i>Sir Carver</i></li> <li>Expand portfolio footprint</li> </ul>
Customer Excellence	<ul style="list-style-type: none"> <li>Expanding <i>Building with Beer</i>, a comprehensive education and training program to build more profits with beer</li> <li>Continue improving field sales execution</li> <li>Ranked #1 supplier in <i>Tamarron Distributor Survey</i></li> </ul>	<ul style="list-style-type: none"> <li>Accelerate field sales management impact</li> <li>Embrace <i>Building with Beer</i></li> <li>Enhance revenue management approach</li> </ul>	<ul style="list-style-type: none"> <li>Maintain and develop First Choice for customer reputation</li> <li>Enhance revenue management approach</li> <li>Accelerate field sales management impact</li> </ul>	<ul style="list-style-type: none"> <li>Utilize global segmentation approach</li> <li>Deliver world class in-outlet tools</li> <li>Strengthen distributor partnerships</li> </ul>

# KEY FINANCIAL DATA

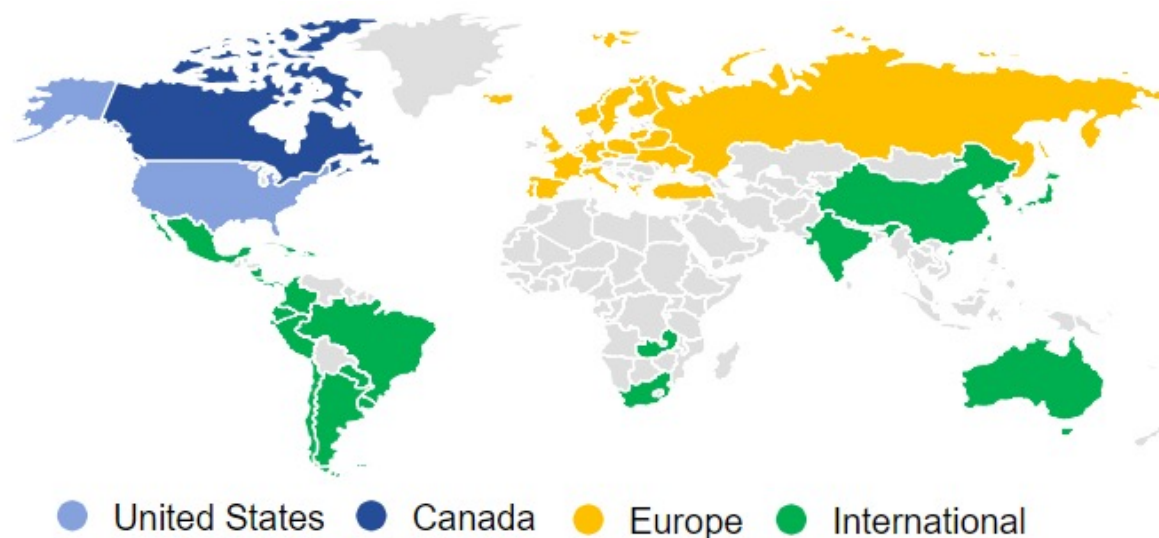
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Market Cap	\$14.72 billion USD
Revenue	\$10.89 billion USD
Net Income	\$1.49 billion USD
Geographic Market	United States Canada Europe International
Operating Enterprise Value <sup>1</sup>	\$30.38 billion USD
Invested Capital <sup>2</sup>	\$27.25 billion USD
WACC	5.2%

## Revenue and Market Share by Geography



## Geographical Footprint



Note: (1) Operating Enterprise Value = Sum of market capitalization and net debt (total debt less total cash) less long term investments and assets held for sale, calculated as on Sep 30, 2017; (2) Invested Capital is defined as total cash investment that shareholders and debt holders have made in a company; Source: Bloomberg; quarterly and annual reports; Accenture Value Lab analysis



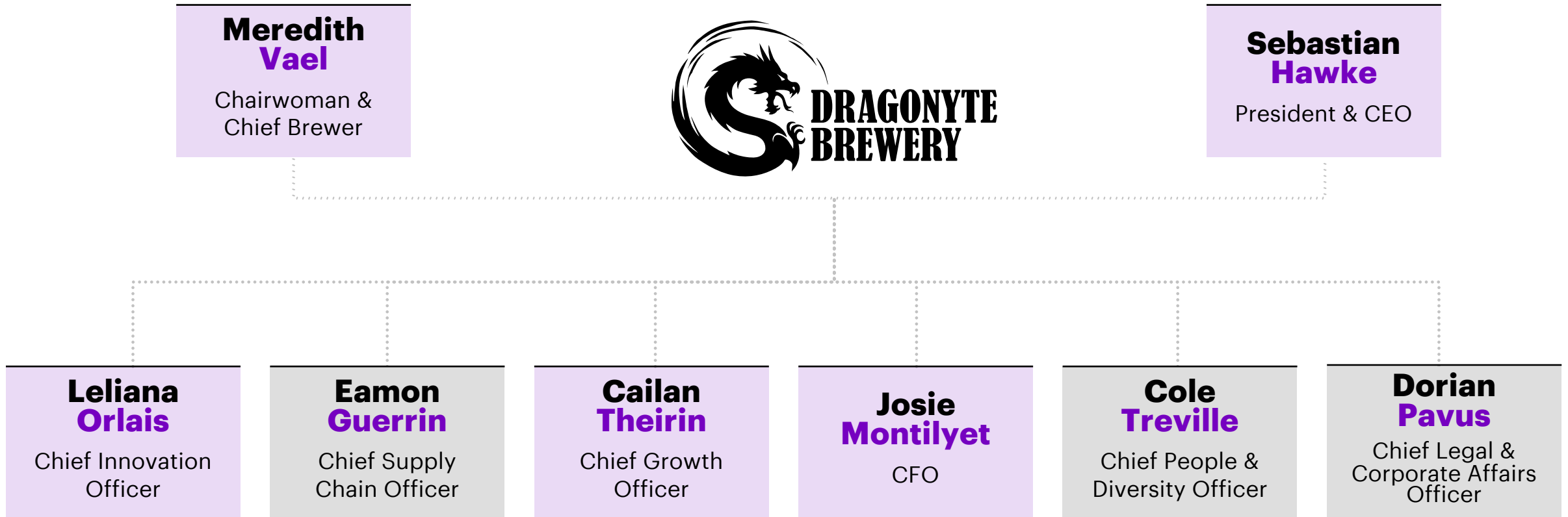
# **DRAGONYTE BREWERY** **RELATIONSHIP WITH** **ACCENTURE**

## PAST TWO YEARS

Past Projects	Fees	Work/Value Delivered	Perception from Dragonyte Brewery
Supply Chain Re-engineering	\$350,000 USD lost	Analyze Dragonyte Brewery's supply chain and provide best solutions to recapture quality of the brews and production targets.	Mediocre. Accenture did not have strong relationships with Dragonyte Brewery and the work ultimately went to a competitor.
eLearning	\$213,000 USD won	Develop a corporate onboarding strategy to better enable internal department interactions and increase understanding of cross-business objectives.	Very well-received. A multimedia solution utilized microlearning and resulted in a drastic increase in employee engagement.
Acquisition of MobilePub Distributors (MPD)	\$507,000 USD won	Assist Dragonyte Breweries to define a strategy to acquire MPD, an independent wholesaler in Arizona. Implement an incentive program that encourages MPD to prioritize sales of Dragonyte products.	Well-received. There were some delays in establishing an incentive program. However, Cailan Theirin (CGO) felt the strategy was well executed and, ultimately, achieved the desired results. Accenture is now tasked with scaling this strategy across all states that allow self-distribution.

# DRAGONTYE BREWERY LEADERSHIP

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Executive relevant to this current opportunity

## **Sebastian Hawke** | *President & CEO*

Being related to the Dragonyte Brewery founders, Sebastian takes his job very seriously. He feels obligated to preserve his family's history and vision and often relies on historical ways of doing things. He is meticulous and careful to consider all options before taking action. Sebastian is very demanding on his executive officers, requesting detailed reports under quick turnaround times, so that he can check facts and figures and be sure that they are right. Although he works closely with all of his chief officers, he particularly trusts Cailan to give him all the necessary details to make sound decisions.

Sebastian is aware that Dragonyte Brewery has worked with Accenture on past engagements. However, he is skeptical on the value Accenture can bring for long-term projects.

## **Meredith Vael** | *Chairwoman & Chief Brewer*

Meredith believes she has the best job in the firm – making the beer! She thoroughly enjoys being out in the “field” to personally take a pulse on what consumers like to drink. It gives her inspiration for her new beer recipe. Meredith is spontaneous and often makes decisions based on her “gut”. She is forward-thinking and is quick to jump on the next “it” thing. She routinely speaks with Sebastian, giving her opinion on Dragonyte's business direction. Strategic business decisions are not approved unless she and Sebastian agree to them.

Meredith does not have an opinion on Accenture, but she is eager to hear what they can offer.

## **Cailan Theirin** | *Chief Growth Officer*

Cailan works across key areas to drive growth within Dragonyte Brewery. He often looks to challenge how things are typically done in the business, alter corporate culture, and drive innovation for best growth-based results. Cailan relies on facts and data from marketing, sales, research & development, and finance to create and implement a longer-term vision and enterprise-wide execution of growth-generating strategies. He strives for results, is decisive, and acts quickly to achieve his goals. Cailan easily dominates any discussion and has been known to ignore other people's opinions on matters where he has strong points of view. He works closely with Josie and Leliana to ensure alignment with financial and technology priorities.

Cailan has worked closely with Accenture on M&A projects and believes Accenture will be able to handle other projects across the business.

## **Josie Montilyet** | *Chief Financial Officer*

Josie has the primary responsibility of managing the company's finances, including financial planning, management of financial risks, record-keeping, and financial reporting. She prefers to work with people across the business in a team effort, rather than individually, and strives to find consensus in financial decisions. Although Josie is very knowledgeable, she has been known to compromise on her decisions in order to avoid conflict with others.

Josie knows that Accenture has helped them sustain their profit margins through strategic acquisitions of distributors. She is uncertain whether Accenture can do more.

## **Leliana Orlais** | *Chief Innovation Officer*

Leliana is responsible for managing the innovation process inside the company that identifies strategies, business opportunities, and new technologies, and then develops new capabilities and architectures with partners, new business models, and new industry structures to serve those opportunities.

Having just accepted the CINO position six months ago, Accenture has not had the opportunity to work with Leliana.



# **DRAGONYTE BREWERY** **BUSINESS CHALLENGE**



Dragonyte Brewery's beer sales have been declining for the last several years. The company has continued to make profits by cutting costs and reducing overhead; however, they are no longer able to make up the losses on cost management alone.

**“OUR CONSUMER BASE ARE SHIFTING THEIR TASTES TO IMPORTS AND CRAFT BEERS. THIS IS WHERE WE’RE LOSING GROUND!”—CAILAN THERIN, CGO**



# PREMIUM LIGHT/ECONOMY WORST HIT

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## Premium Light and Economy Beer segments are facing structural headwinds

### Premium Light:

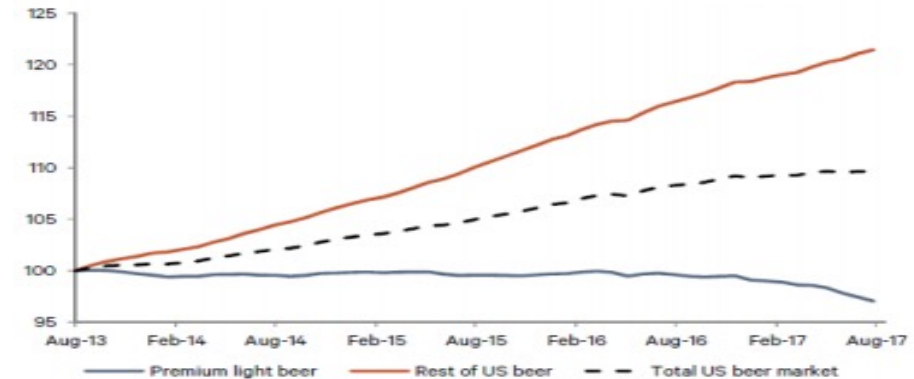
- Domestic premium beers have lost 640 bps of total Beer/FMB/Cider value share over past three years
- In the US, Dragonyte Brewery hold majority of the Premium Light sub-segment dollar share through Dragonyte Gold Lager (23%) and Lilith Pilsner (19%)
- In Canada, Dragonyte Brewery is positioned mostly in the Premium Light segment

### Economy:

- Economy or below premium segment has been losing ~360 bps of dollar share over the past for years
- Dragonyte Brewery have underperformed in this category over last four years

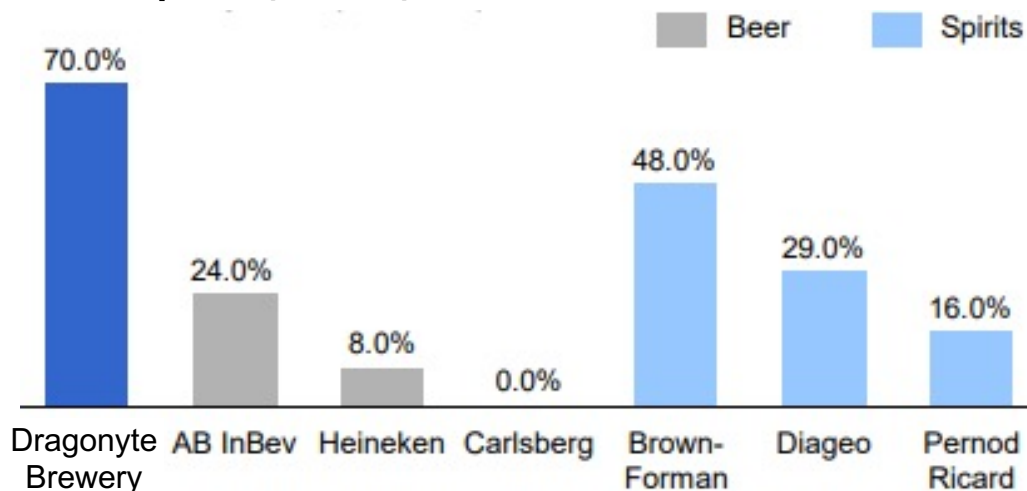
## Premium Light beer has been worst hit in the US market

### US Premium Light beer volume versus rest of market<sup>1</sup>



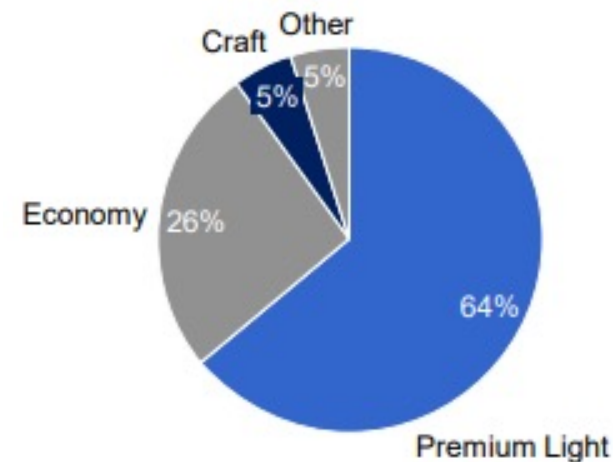
## Dragonyte Brewery has the highest presence in the US market among competitors...

### US net sales exposure (FY2017E)



## ...and very high exposure in the challenged categories i.e, Premium Light and Economy

### Dragonyte Brewery US Beer Sales



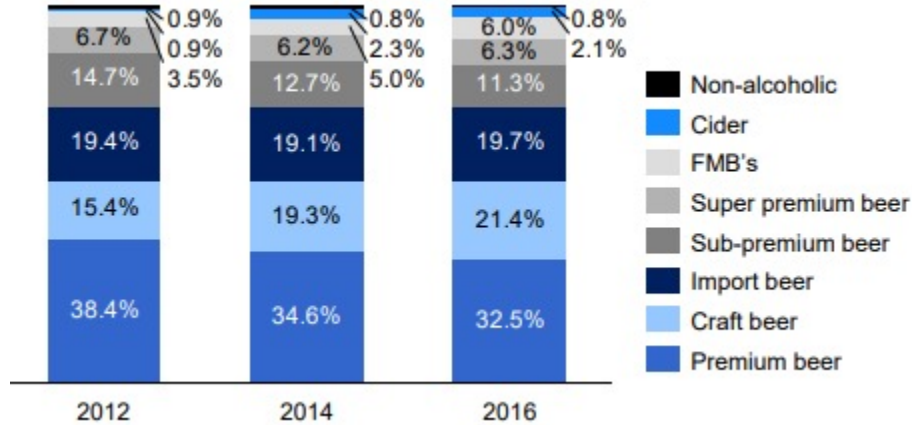
Dragonyte's Premium Light category accounts for around 70% of company's net sales

# CRAFT BEER CHANGING BEER LANDSCAPE

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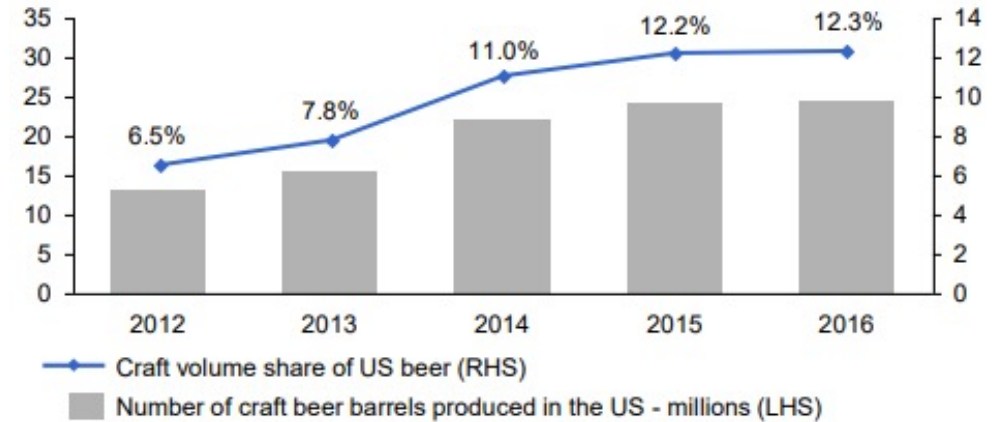
**Craft beer is gaining popularity in the US while share of premium and sub-premium beer are declining**

**Beer dollar sales share in the US supermarkets by segment**



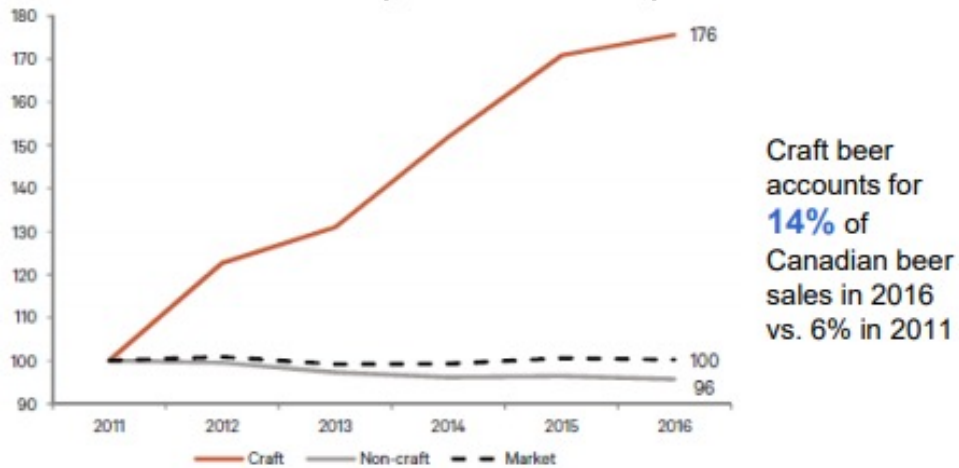
**Small and independent craft brewers have been expanding fast over past few years in the US**

**US craft beer market**



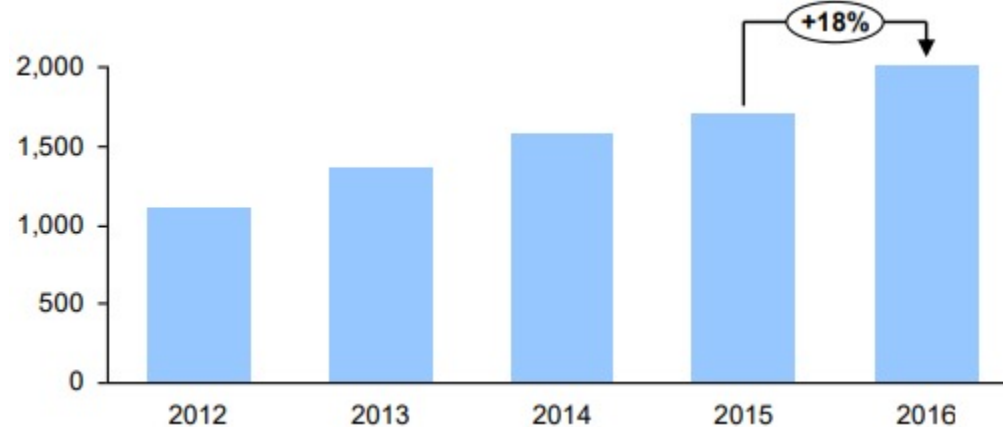
**The Canadian beer market is quite consolidated, but is increasingly becoming fragmented with rapid craft growth**

**Canada beer market volumes (index=100 at 2011)**



**UK market has also seen craft beer boom with number of craft breweries growing by 18% in 2016**

**Number of UK breweries**



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**Be the #1 in sales and consumer choice in connection with our Vision - "Be THAT beer that everyone enjoys and savors. Inspire moments of friendship and connection through our brands and actions"**