



# **WATERLOO**

## **BREWING**

**Ontario's First Craft Brewer**  
35 Years of Brewing Success

## Disclaimer and Forward-Looking Statements

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All statements in this presentation that do not directly and exclusively relate to historical facts constitute forward-looking statements as of the date of this presentation. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “estimate”, “intend”, “anticipate”, “seek”, “plan”, “believe”, “continue” or the negatives of these terms or variations of them or similar terminology. Although the Corporation believes that the expectations and assumptions reflected in these forward-looking statements are reasonable, undue reliance should not be placed on these forward-looking statements, which are not guarantees and are subject to certain risks, uncertainties and assumptions, which may cause actual performance and financial results to differ materially from such forward-looking statements. The forward-looking statements included in this presentation are made only at the date of this presentation and, except as required by applicable securities laws, the Corporation does not undertake to publicly update such forward-looking statements to reflect new information, future events or otherwise.

# Today's Presenters



**George Croft**  
President & CEO

- With Waterloo Brewing for 11 years
- Prior Experience / Board Membership:
  - ▶ Board Director – The Beer Store (3 years)
  - ▶ Chairman of the Board – Beer Canada (2 year)
  - ▶ President and COO – Lakeport Brewing (2 years)
  - ▶ President – Labatt Breweries of Ontario / AB InBev (21 years)



**Russell Tabata**  
COO

- With Waterloo Brewing for 10 years
- Prior Experience:
  - ▶ Chief Technical Officer – Lakeport Brewing (6 years)
  - ▶ Director of Operations, Director of Process Improvement – MolsonCoors Brewing (13 years)



**David Birch**  
CFO

- With Waterloo Brewing for 3 years
- Prior Experience:
  - ▶ Vice President (Finance and Administration) – McClelland Premium Imports (4 years)
  - ▶ Labatt and AB InBev (15 years)
    - Director of Finance and Performance Supply Chain – Labatt Canada
    - Vice President of Commercial Finance – InBev USA



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A stylized white fox head is centered on a red background. The fox's face is composed of white shapes, with its eyes closed in a peaceful expression. The fur is represented by white, flame-like or leaf-like shapes radiating from the head. Two horizontal white lines with rounded ends are positioned above and below the fox's face. The text 'I. Executive Summary' is located between these two lines, centered horizontally.

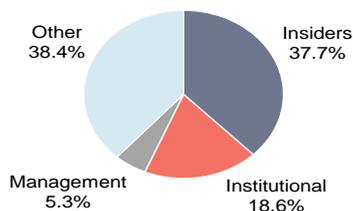
# **I. Executive Summary**

# Executive Summary

## Our Background

- Founded in 1984, Waterloo Brewing is a publicly traded Canadian beer, ready-to-drink ("RTD"), cider and co-pack beverage company
- Went public in 1986 and is currently traded on the Toronto Stock Exchange (TSX: BRB)

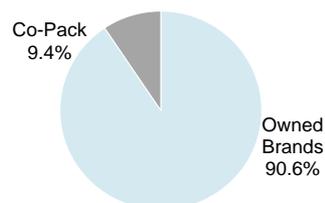
## Shareholder Summary<sup>(1)</sup>



## Our Business

- We brew and blend high quality beers, RTDs and cider products in our flexible state of art facility in Kitchener, Ontario
- We produce all products for our owned brands and co-pack customers
- Our long-term strong organic growth is driven by expansion of our owned brands and co-pack business

## FY18A Gross Revenue

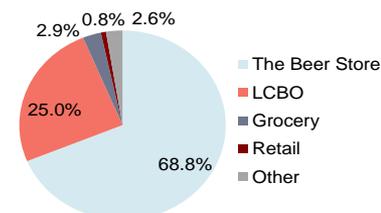


(C\$ in millions, except per share values)

## Our Markets

- We sell our products primarily in Ontario, with coverage across Canada and into parts of the U.S.
- We sell mainly through The Beer Store, a brewer-owned Ontario retail business
- In Ontario, craft beer has legally protected shelf space at retail
- Legalization of cannabis in Canada is anticipated to drive growth in cannabis-infused beverages ("CIBs")

## FY18A Gross Revenue by Channel



## Capitalization Table

Share Price (3/19/19)	\$4.06
Fully Diluted Shares Outstanding (mm)	35.4
<b>Equity Value</b>	<b>\$144</b>
Plus: Debt <sup>(2)</sup>	13.86
Less: Cash & Cash Equivalents	(1.1)
<b>Net Debt</b>	<b>\$13</b>
<b>Enterprise Value</b>	<b>\$157</b>

Note: Waterloo Fiscal Results exclude the Formosa brands sold by Waterloo in FY18A

(1) As of 18/01/19. Management refers to the share ownership of George Croft (CEO), Russell Tabata (COO), David Birch (CFO)

(2) Includes C\$3mm equipment lease

## Operating Performance and Trading Multiples

	LFY	FY19E	YoY	FY19E
			Growth (%)	Multiple
Owned Brands Volume (HL)	238,100	238 to 240	0.5%	
Net Revenue	\$49.1	\$49.5 to \$50.2	1.9%	2.7x
SM&A	\$9.1	\$9.0 to \$9.2	0.0%	
EBITDA (excl. one-time costs)	\$8.8	\$9.8 to \$10.1	12.4%	13.5
Net Income	\$2.6	\$2.7 to \$2.9	3.8%	44.7

A stylized white fox head is centered on a red background. The fox's face is composed of bold, white, curved shapes that define its features, including its eyes, nose, and whiskers. The fox is looking slightly to the right. Two horizontal white lines with rounded ends are positioned above and below the text, framing it. The text is in a bold, black, sans-serif font.

## **II. Key Investment Highlights**

# Key Investment Highlights

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- 1 Flexible, State-of-the-Art and Expandable Production Facility
- 2 Well-Positioned for North American Non-Alcoholic, CIB Opportunity
- 3 Multiple Avenues for Continued Strong Organic Growth
- 4 Strong and Diverse Portfolio of Compelling Owned Brands
- 5 Consistent Record of Co-Pack Growth Offsetting Fixed Costs
- 6 Advantaged Regulatory Framework for Craft Beer Sales in Ontario
- 7 Strong, Sustainable Financial Performance
- 8 High Quality Management Team with Significant Beverage Industry Experience

# 1 Flexible, State-of-the-Art and Expandable Production Facility

Waterloo's state-of-the-art production facility is a strategic asset ensuring high quality production and consistent supply across an extensive range of liquid and packaging formats



# 1 Flexible, State-of-the-Art and Expandable Production Facility

Waterloo's facility is a competitive advantage that allows the Company to produce a broad range of products

## Differentiators

### Equipment / Facility



- State-of-the-art technology is flexible and regularly produces a wide variety of beverages including beers, RTDs, cider and co-pack beverages
- Anticipating extension of this capability into the development and production of CIBs, expected to become legal in Canada in October 2019 after the publication of federal regulations

### Leadership / People



- Waterloo's team has expertise in successfully developing and producing new beverages
  - ▶ Examples include Grapefruit Radler, Oktoberfest Festbier and Salted Caramel Porter
- Understand the high quality necessary for new product introductions

### Capability / Quality / Safety



- Invested C\$33mm in capacity, capability, safety and quality improvements
  - ▶ Certified under the internationally recognized Global Food Safety Standard (GFSI-FSSC 22000)
- Large brewers rely on these standards when awarding co-pack business

### Geographic Presence



- Waterloo is located in an ideal geographic location to service and support the high population areas of Ontario and Quebec and eventually the U.S.
  - ▶ Ontario represents 98.6% of Waterloo's FY18A revenue and 38.7% of Canada's population

### Size / Capacity

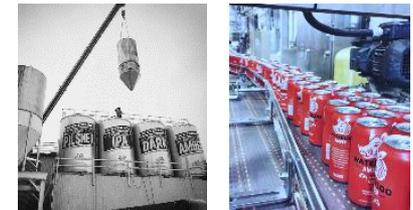


- Waterloo's facility has optimal flexibility and scale for success as a licensed CIB manufacturer
- Available production capacity allows Waterloo to scale up for widespread national production of multiple products
- Expandable to further increase plant capacity to 1mm HL / year

### Speed to Market



- Waterloo's team produces multiple new products each season and has the experience to develop, manufacture and distribute CIBs
- Already working on cannabis R&D and processing licenses and supply agreement with a federally licensed partner



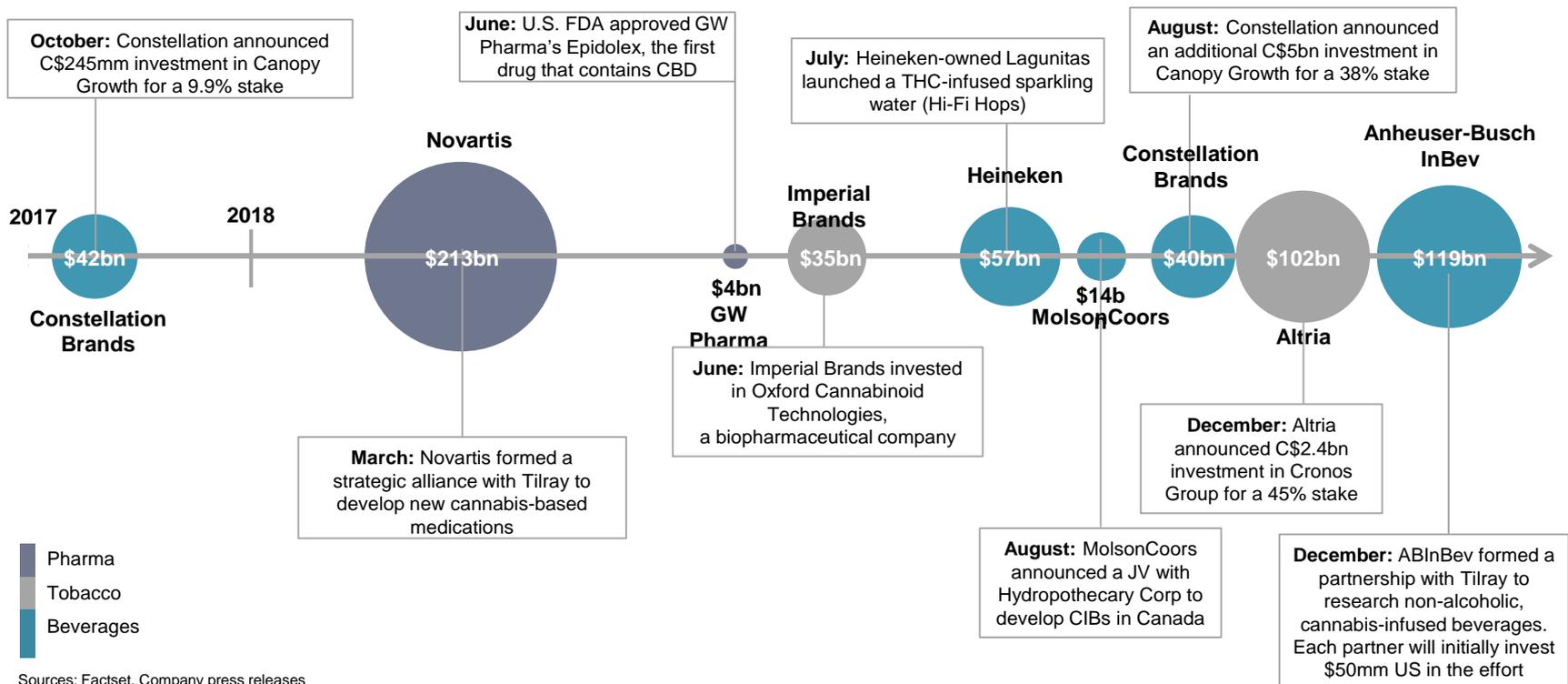
## 2 Well-Positioned for North American Non-Alcoholic, CIB Opportunity

CIBs have the potential to fundamentally change the consumer beverage landscape; they could form a multi-billion dollar market if consumers treat them as substitutes for alcoholic beverages

(US\$ in billions)

### Cannabis Activity in 2017 and 2018

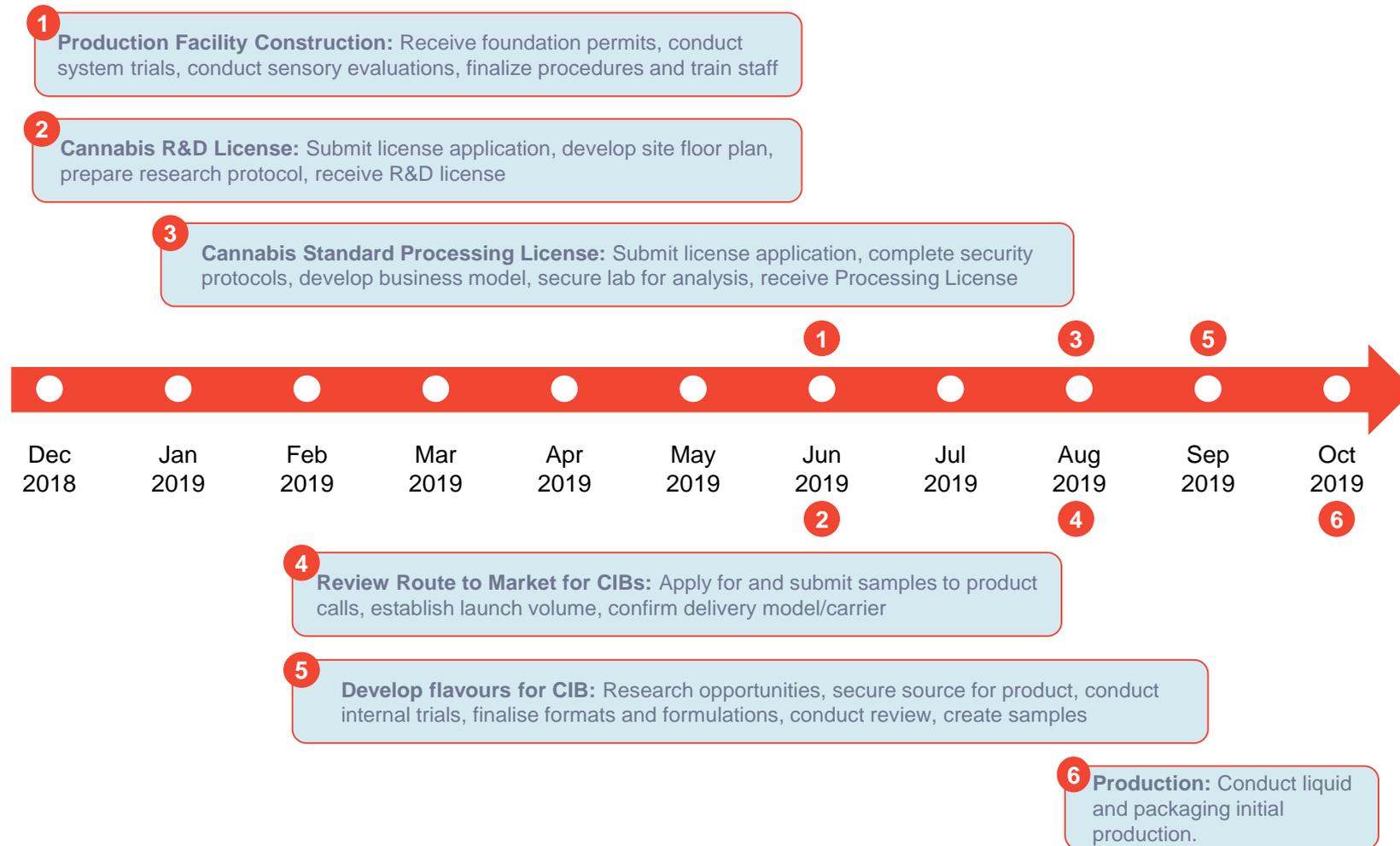
*There has been a recent flurry of deals in the cannabis sector – companies of varying sizes are acquiring capabilities to develop products across the health, vaping, edible and infused-beverage sectors*



Sources: Factset, Company press releases  
 Note: Bubble size and dollar amount represent approximate market capitalization (US\$) as of announcement date

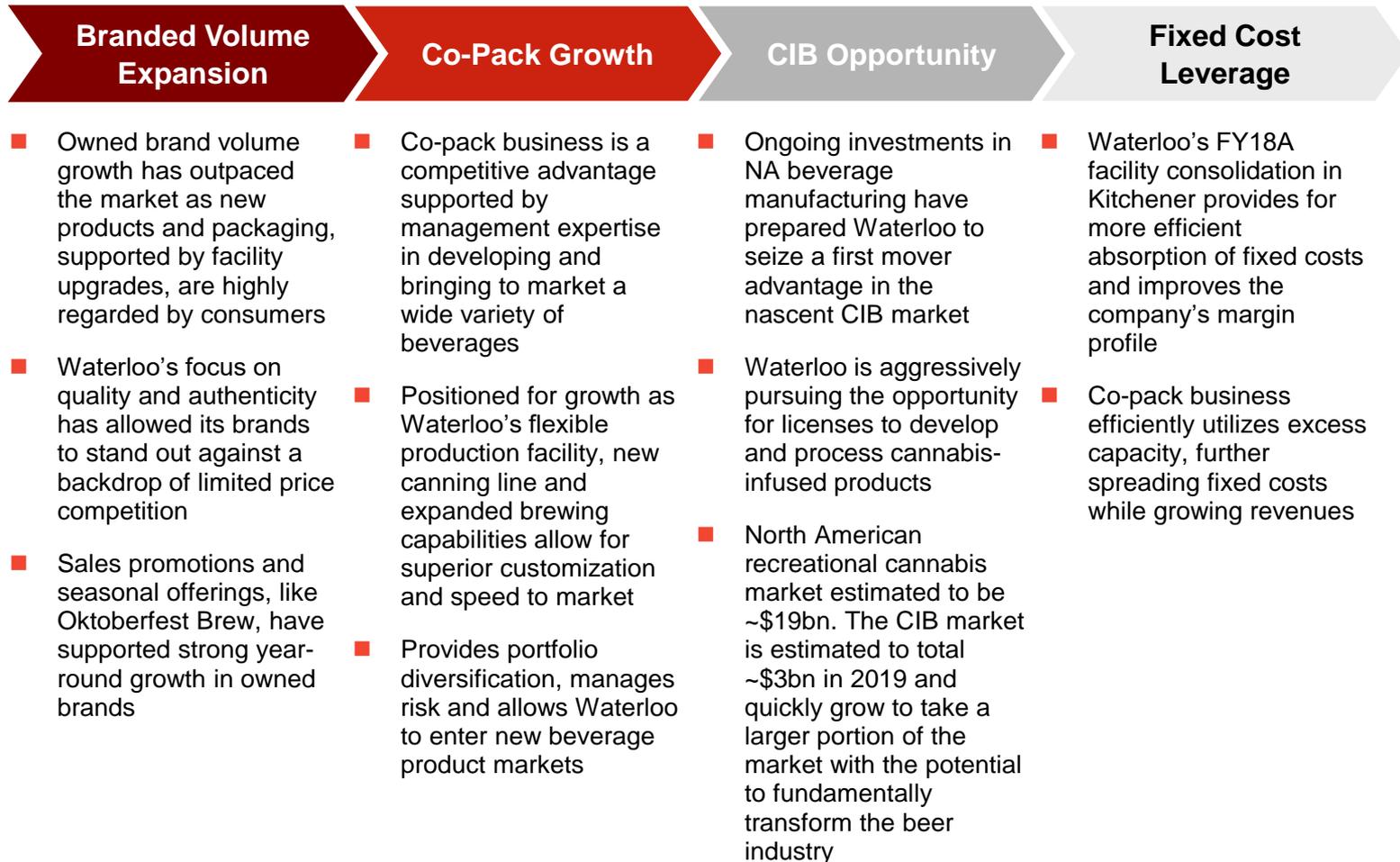
## 2 Well-Positioned for North American Non-Alcoholic, CIB Opportunity

Waterloo has engaged professional consultant Cannabis Compliance Inc. and is undertaking multiple processes simultaneously to be ready for launch in October 2019



### 3 Multiple Avenues for Continued Strong Organic Growth

Waterloo's investments in infrastructure, sales and marketing allow the company to amplify multiple organic growth opportunities



Source: Wall Street research

## 4 Strong and Diverse Portfolio of Compelling Owned Brands

Waterloo's portfolio covers a wide range of alcoholic beverages and is well-positioned in the attractive, growing sub-segments of both premium and value beer

### Top Brands



#### Superior Ontario Craft Beer at a Reasonable Price

#### The Best Value in Value Beer

#### Premium Beach Beer

- High quality, simple core beer styles with seasonal offerings
  - ▶ 17 SKUs
- Serves growing consumer demand for seasonal beers, particularly in the summer
- Numerous local and global brewing awards
- Volume +0% in F19 Q3
  - ▶ 10% of F19 Owned Brands volume
- New packaging launch well received
  - ▶ Sells in cans and bottles
- National expansion opportunity

- Well-positioned value beer
  - ▶ 19 SKUs
- FY19A packaging redesign delivering positive growth
  - ▶ Effective marketing includes in-case sales promotions
- Volume +1% in F19 Q3
  - ▶ 74% of F19 Owned Brands volume
- Leading consumer offerings:
  - ▶ 473 mls single cans
  - ▶ 24 pack bottles

- Exclusive long-term Canadian license for LandShark Lager and Margaritaville
  - ▶ 9 SKUs
- Launched in Canada in spring 2016
- Potential for expansion into CIBs with Jimmy Buffett Coral Reefer RTD
- Volume (LandShark and Margaritaville) +2.5% in F19 Q3
  - ▶ 11% of F19 Owner Brand volume
- National expansion opportunity

#### Core

#### Seasonal



Note: Volume data excludes the Formosa brands sold by Waterloo in FY18A

## 5 Consistent Record of Co-Pack Growth Offsetting Fixed Costs

Waterloo's co-pack business is a competitive advantage as it spreads fixed costs and contributes to scale and efficiency; the co-pack business grew by 26% in FY18A, on top of 20% growth in FY17A

### Overview

- Co-packing brings diversification and reduced risk against branded portfolio performance
- Recent capital upgrades to Waterloo's canning line (doubled capacity) have fostered co-pack revenue growth
  - ▶ 200K HL capacity in F18 with plan to expand to 450K Hls capacity in F20
  - ▶ Consumer demand for cans is growing
- Actively pursuing opportunities to grow existing co-pack agreements and secure new co-pack customer relationships
- Global Food Certification ("GFSI"), packaging flexibility, and effective execution provide competitive advantage
- Continually updating production capabilities (i.e.. sleek cans) offer customers unique packaging options at competitive prices

### Competitive Advantages

#### Product Expertise

Formulating new products and flavours for co-pack clients gives Waterloo expertise in product development and management

#### Speed to Market

Rapid production of new co-packed beverages drives higher volumes and becomes a differentiator in the nascent CIB market

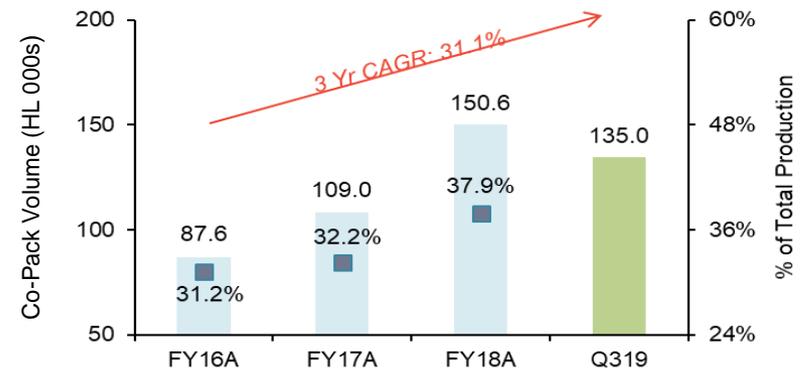
#### Access to Consumer

Waterloo serves as key gateway between large co-pack clients and their customers; it efficiently provides critical supply that co-pack clients cannot provide themselves

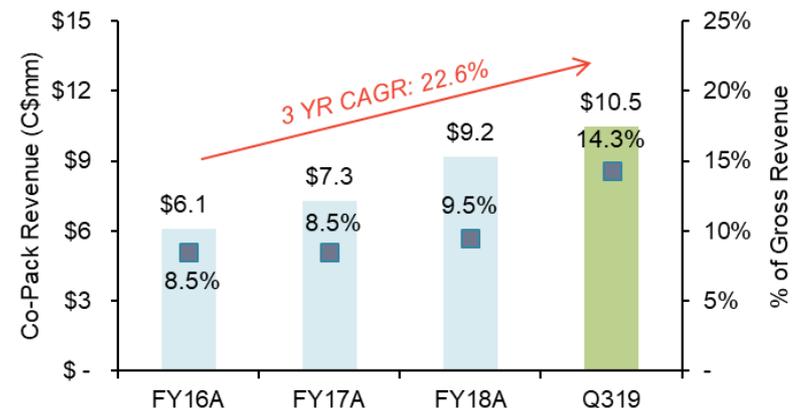
Note: Revenue and Volume data exclude the Formosa brands sold by Waterloo in FY18A

### Consistent Co-Pack Growth

#### Volume



#### Gross Revenue



## 6 Advantaged Regulatory Framework for Craft Beer Sales in Ontario

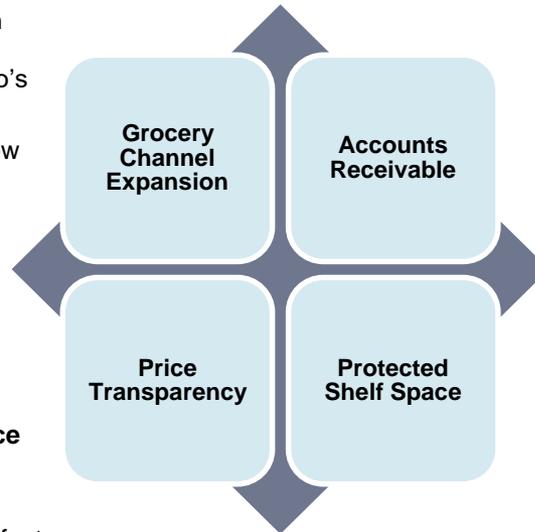
The regulatory environment in Ontario provides a competitive advantage to Waterloo due to the favourable treatment of craft brewers and de facto government backing of accounts receivable

### Introduction of the Grocery Channel has Provided Greater Access to Waterloo's Products

- In 2015, Ontario legalized beer sales in grocery stores, greatly expanding the number of retail outlets selling Waterloo's products
- The grocery channel is expected to grow from ~200 stores in 2017 to ~450 by December 2018; has the potential to become Waterloo's largest channel

### Perfect Price Transparency Reduces Price Competition and Promotes Competition Based on Quality and Value

- Ontario beer market offers brewers perfect price transparency, with pricing across all brewers published each Monday morning
- The resulting price uniformity has elevated quality as a key differentiator, which plays to Waterloo's strengths



### Government Regulation of Beer Distribution Creates a Beneficial Accounts Receivable Dynamic

- The Liquor Control Board of Ontario ("LCBO") is an Ontario government enterprise that regulates the alcohol market in Ontario
- Accounts receivable from the sale of beer are paid to Waterloo in 10 days, benefiting Waterloo's cash and working capital position
- Nearly 100% of Accounts Receivable are collectible annually and bad debts are almost eliminated

### Craft Brewers Are Guaranteed Shelf Space

- In Ontario, craft brewers are guaranteed a minimum of 20% of shelf space at The Beer Store ("TBS")
- In addition, craft brewers are entitled to offer two products at TBS without a stocking fee; Waterloo grandfathered into craft brewer status

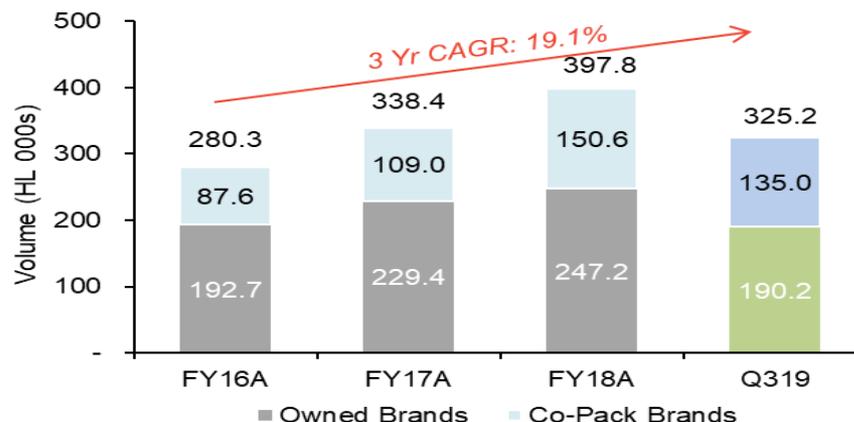
## 7 Strong, Sustainable Financial Performance

3 consecutive years of strong performance with Revenue and EBITDA growth

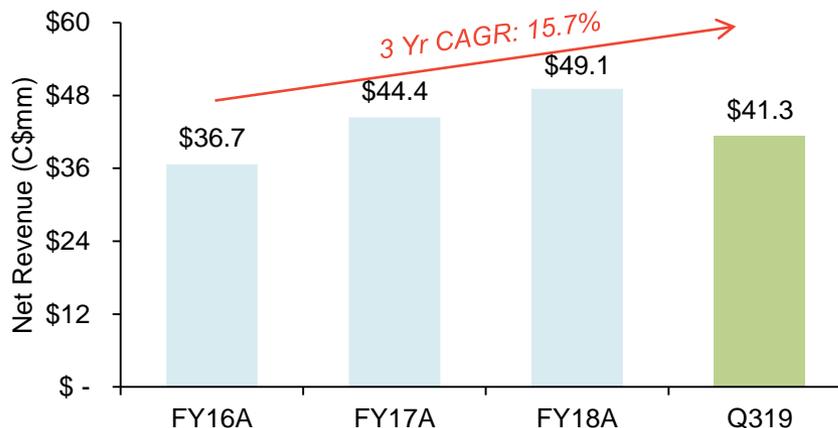
### Growth Drivers

- **Macro:** Canadian craft beer market is growing while overall beer market has reached maturity
  - ▶ Consumers now favour premium craft beers that experiment with flavours and ingredients
- **Brand growth:** Each of Waterloo's brands has grown due to increased brand awareness and availability in grocery stores which began in 2015
- **Cost consolidation:** Waterloo sold its Formosa brands in September 2017 (FY18A); consolidated production in Kitchener is expected to drive gross margin expansion from FY19 onward
- **Pricing:** Higher revenue CAGR vs. volume CAGR for Owned Brands over the past 3 years demonstrates favourable pricing power
- **Marketing initiatives:**
  - ▶ Waterloo: Free sampling at local summer events, seasonal offerings, packaging redesign.
  - ▶ Laker: Digital media campaign to communicate price advantages, packaging redesign in July 2018
  - ▶ LandShark: Free sampling at local summer events, free t-shirt in every case, cross promotion (sweepstakes to win trip to Hollywood Beach) Winter Events

### Consistent Volume Growth



### ...With Accompanying Revenue Expansion

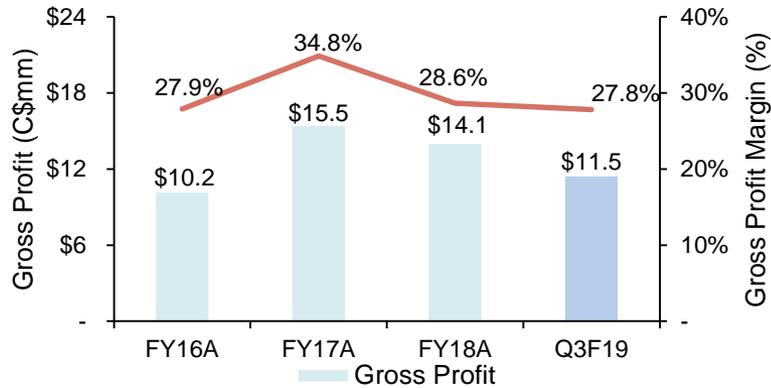


Note: Revenue and Volume data exclude the Formosa brands sold by Waterloo in FY18A

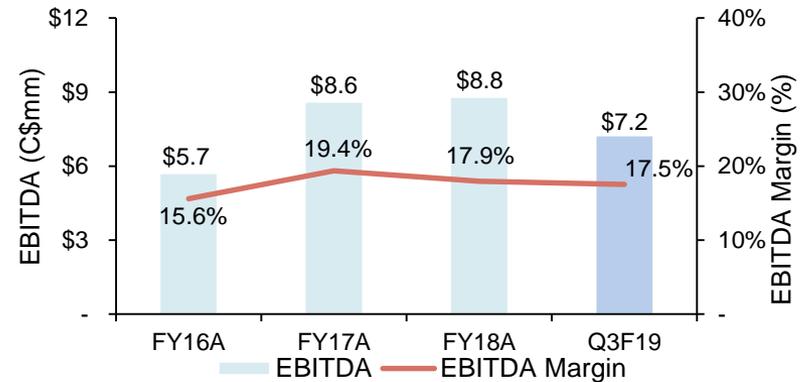
## 7 Strong, Sustainable Financial Performance

Consolidation of the Kitchener and Formosa facilities (with the sale of Formosa in FY18A) led to some short term disruption and incremental costs, but will yield savings and volume expansion from FY19E onward

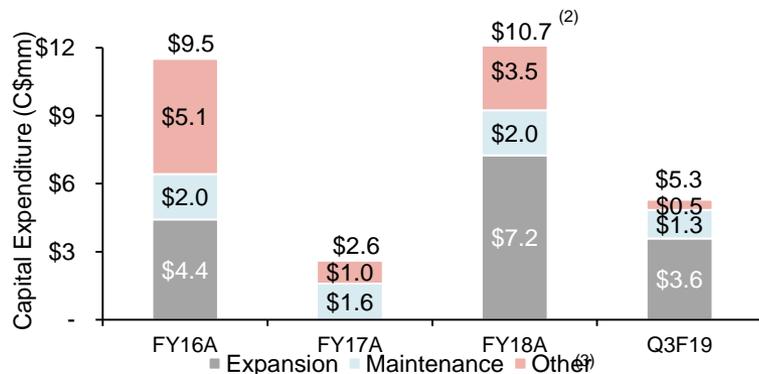
Gross Profit<sup>(1)</sup>



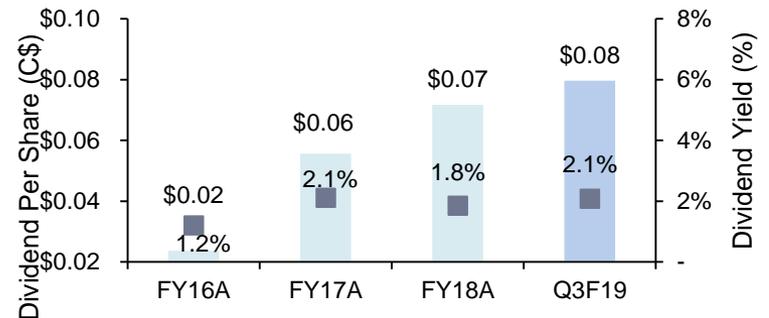
EBITDA<sup>(1)</sup>



Capital Expenditure



Dividend Yield



Note: Financial data excludes the Formosa brands sold by Waterloo in FY18A

(1) Decline in FY18A performance due to heavy rain in Spring 2017 and the delay and complexity of facility consolidation; Waterloo outperformed industry average of 8-9% declines

(2) Increase in FY18A capex due to one-time cost of consolidating production at Kitchener facility

(3) Other includes returnable containers, computer equipment, furniture and fixtures, vehicles and spare parts

# Key Investment Highlights

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- 1 Flexible, State-of-the-Art and Expandable Production Facility
- 2 Well-Positioned for North American Non-Alcoholic, CIB Opportunity
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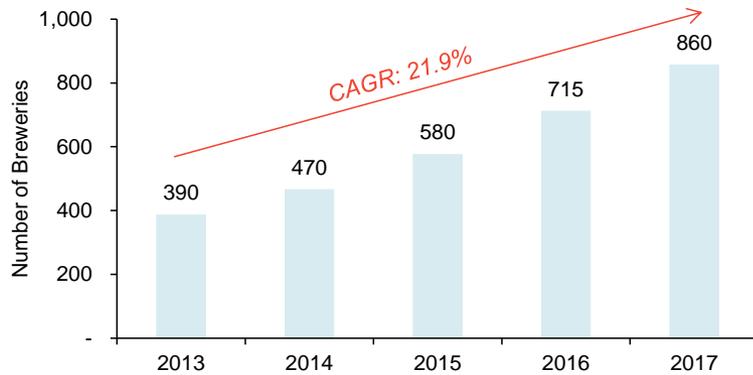
The background features a stylized white fox head with red accents, set against a solid red background. Two horizontal white lines with rounded ends are positioned across the middle of the image, one above and one below the text. The fox's eyes are closed, and its ears are pointed upwards.

### **III. Appendix**

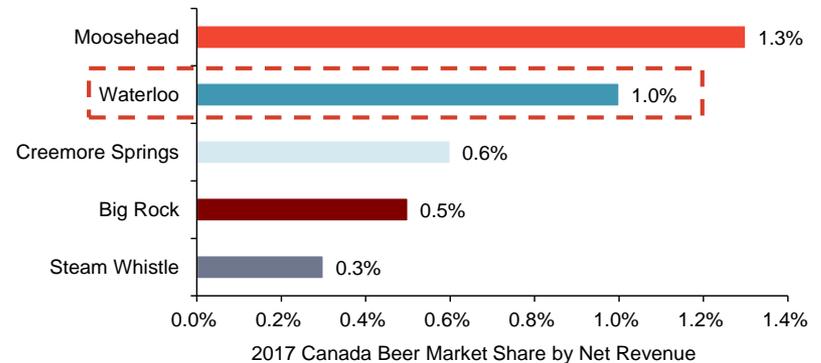
# Industry Overview

Canadian craft beer market is a growth market while the overall beer market has matured; creates an opportunity for craft brewers to take share from established players

## Craft Breweries Have Consistently Grown in Canada



## Waterloo Is Second in Share Among Regional Brewers

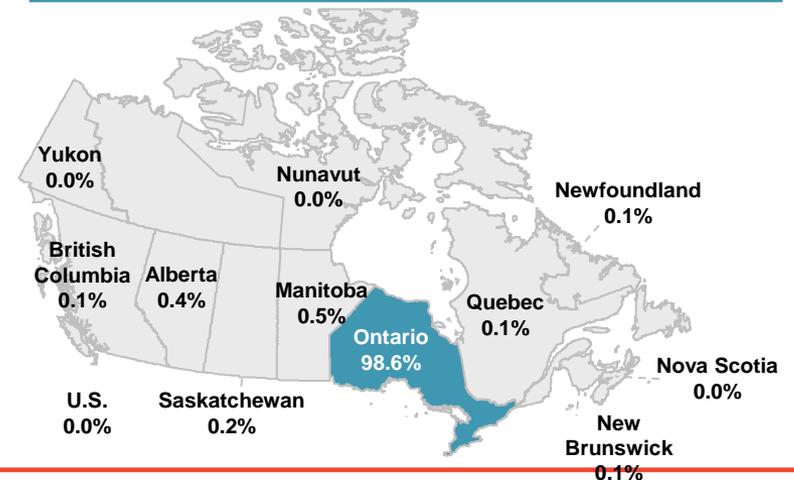


## Ontario Is Canada's Largest Market, and Waterloo's Location in Ontario Is Prime for Expansion

- Canada is a highly profitable market for beer companies
- Ontario is the largest beer market in Canada, accounting for ~35% of volume and ~40% of the margin pool
- The craft beer market in Ontario is still underdeveloped and growing quickly
- Craft beer is less than 10% of volume in Ontario, compared to ~20-30% in British Columbia and ~40% in the U.S. Pacific Northwest
- Ontario is the most efficient beer distribution system in Canada

**The large majority of Waterloo's sales are in Ontario, and it is well-positioned to expand into the U.S.**

## FY18A Waterloo Gross Revenue by Province<sup>(1)</sup>



Source: Euromonitor

(1) Revenue does not sum to 100% due to rounding

# Current Facility Capabilities

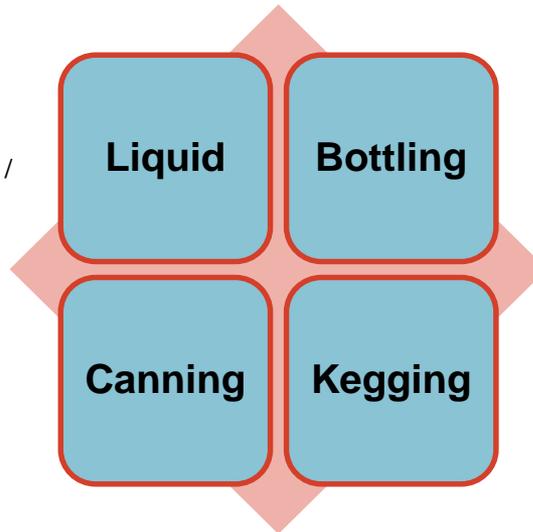
A wide variety of liquid and packaging capabilities allows Waterloo to distribute its products into more channels and attract a larger number of co-pack clients

## Liquid

- Beer and flavoured beer derivatives
- Cider and flavoured cider derivatives
- Spirit-based alcoholic RTD beverages
- Malt-based alcoholic RTD beverages
- Non-alcoholic beer (summer 2019)
- Flavoured water beverages – sparkling / still, alcoholic / non-alcoholic
- Tea-based beverages – sparkling / still, alcoholic / non-alcoholic

## Canning

- 355ml / 473ml / 568ml can formats
- 355ml “sleek” can format
- Liquid nitrogen dosing for still non-carbonated products
- Pasteurized or non-pasteurized product
- Five separate hicone and tray formats
- Shrinkwrapping



## Bottling

- Various 341ml / 355ml bottle formats
- Returnable and non-returnable bottles
- Pasteurized or non-pasteurized product
- Body front, back and neck labeling
- Two basket carrier and five carton formats
- “Can in case” or promotional insertion for 24 pack carton
- Shrinkwrapping

## Kegging

- 20L keg format with sankey keg fitting
- 30L keg format with sankey keg fitting
- 50L keg format with sankey keg fitting
- 58.6L keg format with sankey keg fitting

Waterloo received a renewed FSSC 2000 Food Safety System Certification in December 2018 (valid until December 2021)

# Current Facility Capabilities (Cont'd)

Waterloo's facility features state-of-the-art equipment at each step of the production process



Facility Site



Filtering



Canning



Cellar



Blending



Brewing



Centrifuge



Canning

# Future Facility Capabilities

Waterloo is investing C\$12.6mm to expand its facility, enhance its operations and support continued growth, creating no disruption to its existing business

## Overview

### ■ Facility Expansion

- ▶ 50,000 square foot warehouse expansion to eliminate off-site warehousing, provide full control and segregation of raw material and full goods (*requirement for CIB license*)
- ▶ 3,500 square foot production / processing expansion to allow for the development of NA beer, provide full control and segregation of raw material and full goods (*requirement for CIB license*)

### ■ Increased Capabilities

- ▶ New E-cellar to allow for inexpensive expansion of Aging and Fermentation capacity
  - NA beer
  - 355 ml sleek can
  - Still liquids (e.g., iced teas)

### ■ Retail and Small Batch Brewhouse

- ▶ A larger retail store, taproom and 6500 sq.foot small batch brewhouse will be added to the brewery, greatly enhancing the craft brewery experience for visiting customers

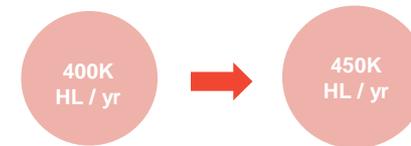
### ■ Financial Impact

- ▶ The project is expected to deliver over C\$1.1mm annually in margin enhancement through revenue growth and operational cost savings

(1) \$6.4mm of warehouse expansion paid for by landlord of Kitchener facility

## Capacity Expansion

### Canning Line



- Can line increase from 400K HL / yr to 450K HL / yr because of increase to 500cpm on 355 ml format

## Expansion Capital Expenditure

Capability	Cost
Warehouse expansion <sup>(1)</sup>	\$6.6
E-Cellar tank additions	4.4
NA Beer / CIB upgrades	2.7
Can palletizer and shrinkwrapper	2.6
Retail and Brewhouse	1.0
Blending system upgrade	1.0
Flash pasteurizer	0.8
<b>Total</b>	<b>\$19.0</b>

# NA Beer Buildout

Waterloo has begun construction on non-alcoholic beer equipment that will serve as the basis for CIB production and will produce beverages alongside Waterloo's current brewing systems

## Facility

- Waterloo's non-alcoholic beer processing system enables the company to use standardized beer as the input
  - ▶ The NA beer system will extract alcohol from the beer, creating a 0% ABV beverage
- Following the de-alcoholization process, the remaining product can further be processed through filtration and blending with flavour components to deliver a finished product with the same characteristics as standardized beer
- The finished NA beverage can be filled into finished containers using the same bottle, can and kegging equipment
- The NA beer equipment will exist in an expanded area within the Kitchener facility and will produce concurrently with its current beer systems, creating no disruption to Waterloo's existing business



De-alcohol system



Alfadose system

## Preparation for CIBs

- **December 2018:** Begin construction
- **May 2019:** Equipment delivery on site
- **July 2019:** Install and commission equipment, commence trials
- **August 2019:** Conduct trials and sensory evaluations
- **September 2019:**
  - ▶ Finalize NA beer product

## CIB Production

- **January 2019 to April 2019:** Secure liquid-infused cannabis from third party suppliers
- **May to September 2019:** Develop brand marketing plan
- **July to September 2019:** Conduct product development process
- **October 2019:** Begin CIB production and ship CIB finished goods from Waterloo facility to customers