Yale SCHOOL *of* MANAGEMENT
135 Prospect Street, P.O. Box 208200
New Haven, Connecticut 06520-8200

Molson Inc.

April 30, 2002

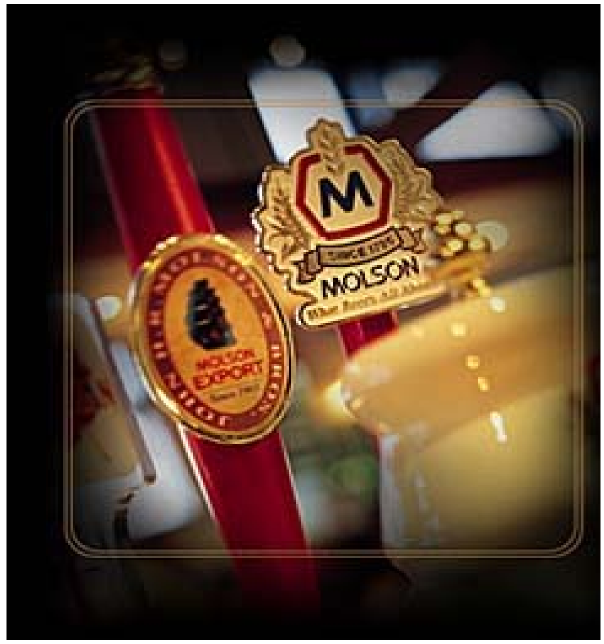
Time Frame – 12 months

Recommendation:

BUY

Types of Recommendations

Buy – 20% undervalued
Hold – Fairly valued.
Sell – 20% overvalued



"Value and Growth on Tap!!!"

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% Return over the last 12 months:
(all info as of April 30, 2002)

DJ Brewers and Distillers Index	**34.12%**
TSE 300	**-5.2%**
Molson Inc. (MOL.A on TSE)	**71.0%**
Current Share Price (CAD)	**$36.00**
Target Share Price	**$45.47**
Implied Return	**26.3%**

MOLSON

Recommendation: BUY

- **Shares a basic duopoly position in Canada and uses it as a "cash cow".**
- **Access to coveted American and Latin American markets.**
- **Well positioned for global consolidation -Long term acquisition target at a premium price.**
- **Management refocused on maximizing shareholder value.**
- **Minimal risk in a mature industry, TSE as a whole 20% discounted.**

Case

- Molson and Labatts are a duopoly in the Canadian beer market together controlling 90% of the domestic beer market in terms of sales and volume. In this industry, margins are high and Molson has been able to become a cash cow. In the past, Molson had used these funds to explore other non-brewing businesses such as sports and entertainment, but over the last 24 months Molson has transformed itself from a family run Canadian brewing company, which spent company funds on personal interests, into an efficient global brewing powerhouse. The management team, some of which include Molson family members, has indicated its understanding of global consolidation profitability and has started running the company as if it was managed with public shareholders in mind. The following are the signals that we believe indicate the company has changed its strategy:

    - Sold off non-core assets
    - Purchased Brazilian Breweries
    - Focusing on operations cost control – improved margins
    - Evaluation US market opportunities
    - New management underscores new strategy

  While the market has already awarded the company with a 30% share increase since the beginning of the year, we believe that the scope of the change has not yet fully been priced into the market. This is in part because the market is still in the process of digesting all the information and activity revolving around the Company over the last couple of years and that management's controlling stake has been awarded a higher then justified risk premium.

Current position

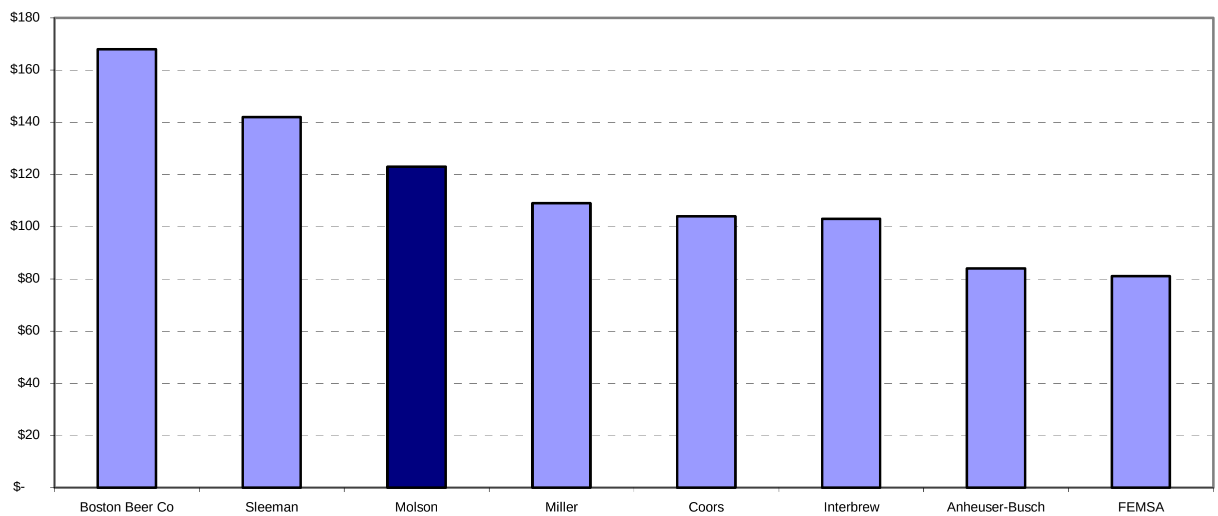
- Molson's current estimated volume of share of the Canadian market is 45.1%, ending December 2001, which is an increase of 0.2% over the previous year.

This number has hovered around the 45% range for several years and is unlikely to move significantly in the near term. Total volume of sales were up 29% for the third quarter ended December 2001, this is due mainly to the acquisition of Bavaria and non-core brands outside Canada. The story behind Molson's expected performance is not one of domestic volume growth, but one of cost cutting in core domestic operations and the commitment to positive EVA projects.

Cost cutting improves margins

- Management has committed to cutting costs of $150m by 2003 and a further $100m in 2004-2006. The cost cutting program started in 2000 after a company review found its costs to be over $39 per hectoliter above its toughest competition. Molson has successfully reduced its procurement expenses and has cut back slightly on capacity. The Company has set up an in-house system that benchmarks operating performance against eight of its international peers, and in 2000, management compensation became linked to that performance. One area where Molson is careful not to scale back is in marketing and sales expenditure, which we see as a positive. In 2001, Molson met its price reduction targets and started on the second stage of cost cutting.

2000 Operating Costs per Hetcolitre



- We expect that by 2006 the cost cutting program will produce an EBITDA/Revenue margin of 19%, in line with Coors and Interbrew. This is based on volume growth in Brazil and the US, as well as margin improvements for Molson's domestic operations.

Domestic Growth

- Growth in the Canadian market will be 3% pa based mostly on annual price increases in line or slightly above inflation until 2006. We do not anticipate that Molson will lose significant market share to other domestic brewers (Sleeman or Labatt). While imports are a growing share of the Canadian beer market, Molson has positioned itself to take advantage of this trend and currently has distribution agreements with Heineken, Coors and Corona. Heineken and Corona are the two fastest growing import brands in Canada (CIBC World Markets). We expect Molson's Canadian volume increases to come from distribution and profit sharing of these two brands and expect import agreements to add 1.5% revenue growth annually over the next four years.

Positive EVA projects

- One of the main qualitative components to our Buy recommendation is management's commitment to positive EVA projects. While this may sound intuitive, in the 1990s and up until the end of 1999, Molson was investing in projects that had negative return on investment, including the purchase of the Montreal Canadien hockey team and investments in home improvement stores. In 2000, management stated a new mission that explicitly set out new criteria for investments as well as performance-linked compensation, which aligns management and shareholder interests and should create sustainable shareholder value. In 2000 and 2001 Molson sold off all of its non-core assets and started making acquisitions to broaden its market base in Latin America.

Capturing Growth in Latin America

- In December 2000, Molson acquired Bavaria, a Brazilian brewery that controls 4% of the market. In February 2001, Molson continued to consolidate its interest in Brazil's beer market by acquiring Kaiser, the third largest brewer in Brazil and bringing Molson's total share to 18% of the market. We expect these two companies should create positive synergies, especially in the costly area of distribution. Latin America is the fastest growing beer market with a volume growth rate of 6.9% per annum with Brazil and Mexico accounting for 66% of Latin American sales. We believe that Bavaria and Kasier will contribute 6% revenue growth to Molson, implying a 24% sales growth rate for Kaiser and Bavaria combined. Beer sales are more highly correlated to economic performance in Latin America than in North America; therefore higher growth rates can be achieved. Paribas analysts expect Brazil beer volume to increase 10% annually and we believe that with price, distribution and marketing increases, Kaiser and Bavaria can sustain a 24% increase in sales over the next 4 years.

Re-designing US Strategy

- One disaster area in 1990s was Molson's foray into US import beer market, a market that is the size of the total Canadian beer market. Under the new President of Molson USA, David Perkins, Molson decided to re-think its strategy in 2001. Under Perkins direction, Molson is the fourth largest beer importer to the US and expects 6% near term sales growth, which Molson plans on achieving by extensive marketing of its *Canadian* brand and through improved distribution. While we believe that the US market will be difficult to penetrate, Molson's alignment with Coors and Perkins's experience should add 1% growth per annum to Molson's total revenues. Coors is the third largest brewer in the US and Molson USA has full access to its distribution network through profit sharing agreements.

Management and Acquisition Position

- In May of 2000, Daniel O'Neill was appointed President, CEO and Director of Molson Inc. and with his appointment came the sweep of reform. Eric Molson, great-great-great-grandson of the founder of the brewery (1786) remains Chairman of the company, but seems to be fully behind Molson's new strategy and entry into global markets. As mentioned above, David Perkins has taken over Molson USA after his extensive experience in Molson Canada and has been given performance-based incentives to create and implement a profitable strategy for the US market.

- Since a controlling stake is still owned by the Molson family, it is unlikely that Molson will be easy to pick up as an acquisition target, however, we believe that the strategy is in place for Molson to either survive and become a large global player, or if the price is dear enough that in the long term, Molson could be acquired. With access to North and South American markets, Molson is a very attractive target and a premium would be justified if a buyout were to occur.

Added Incentives

- The beer industry overall is mature. One factor of interest in this industry for portfolio managers is the low correlation to general economic performance (for instance Molson's low raw beta of 0.45). This industry represents a good diversification pick. An investment in Molson brings the added option of investing in a company that will exhibit above average industry growth in the near future.

- In addition, Canada historically trades at a 20% discount to the US market. In the long term, the two markets may converge. We have done our analysis with the assumption that the Canadian discount will apply in the investment horizon.

MOLSON

Molson Inc. Valuation

- In our analysis we employed three valuation methods to arrive at our target share price of $45.47; discounted cash flow, comparable company analysis and transaction analysis.

	Implied Share Price
Discounted Cash Flow	57.19
Comparable Companies	39.11
Transaction Analysis	40.10
Average	45.47

Discounted Cash Flow (please see exhibit 1)

- In our DCF analysis of Molson we took into consideration a few very important qualitative aspects about the company and its future. Currently, Molson is part of a basic duopoly in the Canadian beer market, since it and Labatts control roughly 90% of the entire market. This market has been a source of serious cash flow for the company for many years. However, the importance of this cash flow was masked by forays into sports and entertainment industry (i.e. ownership of the Montreal Canadiens). Recently, the company has sold off these “distractions” and refocused on the beer industry.

- Going forward we expect Molson will obtain growth rates over the next few years of around 10%. Although this number may seem high for a company within this mature industry, it is important to note a few specifics about the company. Molson has access to two of the worlds most lucrative markets: the US and Latin America, which, together make up close to 40% of the company’s revenues. The latter market is highly concentrated and Molson has just increased their position there. The Latin American market should very easily provide double-digit growth to its beer industry and Molson will be in a good place to take advantage of this. Nearer the home front, Molson USA will see an increase in sales in excess of the US market as it positions itself as an import, which is a very important distinction.

- In calculating Molson’s expected costs we see COGS&SG&A/Revenues margin falling from its current level of 61% to the mid 50s in 2006. The justification for this comes in the form of the eventual increased importance that cash flows from the Latin American market, which has lower operating costs, and the Company’s aggressive domestic cost-cutting program. Also, Molson is still in the process of waiting to see what benefits will arise from its two newly renovated plants in Ontario and Quebec. In regards to future capital expenditures we have forecasted it as a function of sales, higher than it has been over the last three years to be on the conservative side.

Comparable Company

- In our comparable companies analysis we looked at three North American pure play brewers from mid to large market caps (Boston Brewing Company, Adolph Coors and Anheuser Busch) and three European brewers with global reach (Carlsberg, Heineken and Interbrew). Our analysis showed that Molson traded at a discount to its North American peers, which we attributed to Molson's implicit discount as a Canadian company. However, we feel that this discount is unfair for three reasons. One is that Molson has a basic duopoly in the Canadian beer market, which it uses as its "cash cow" to fund acquisitions and maintain a consistent and stable cash flow. Also, Molson does have a decent import market into the US and has access to American Consumer. In addition, Molson has access to the lucrative and highly concentrated Latin American markets. We feel that for these operational and strategic reasons the discount Molson receives from its peers in the US is unwarranted and shortsighted.

- As was mentioned earlier we also used three European brewers to add some diversity to our comparables. As we expected these three brewers had lower multiples than their North American counterparts since they do not have nearly the same level of access to the American consumer. Even though Molson should trade at a much higher premium than its European counterparts, it only has a mild advantage in the way of multiples. We sight this as further evidence of Molson's under-valued status.

- To be conservative we used both sets of multiples in arriving at our valuation of Molson based on multiples. Therefore, if one were to take out the European players we should see an even higher target price for the company.

MOLSON

Company Name	Stock Price	Market Cap (million)	Trading Range 52 Wk High	Trading Range 52 Wk Low	Price/ Sales	Price/ EBITDA	Price/ Earnings
North American							
Anheuser Busch	52.61	46,200	53.35	38.74	3.60	12.98	26.72
Coors	65.97	2,380	67.77	42.65	0.90	8.75	18.17
Boston Beer Co.	14.07	230	8.56	18.16	1.21	12.64	40.35
Average					*1.91*	*11.45*	*28.41*
Global							
Carlsberg	323	21,716	380.00	285.00	0.63	3.89	14.41
Heineken	50	19,598	50.50	37.38	2.47	12.23	25.55
Interbrew	33	14,173	33.95	25.10	1.94	9.24	20.31
Average					*1.68*	*8.45*	*20.09*
			Average		1.79	9.95	24.25
Stock price is as of April 30, 2002			**Implied Value**				
			Molson Inc.		42	44	31
			Average	39.11			
			Based on year end results.				

Information provided by Yahoo Finance and Bloomberg.

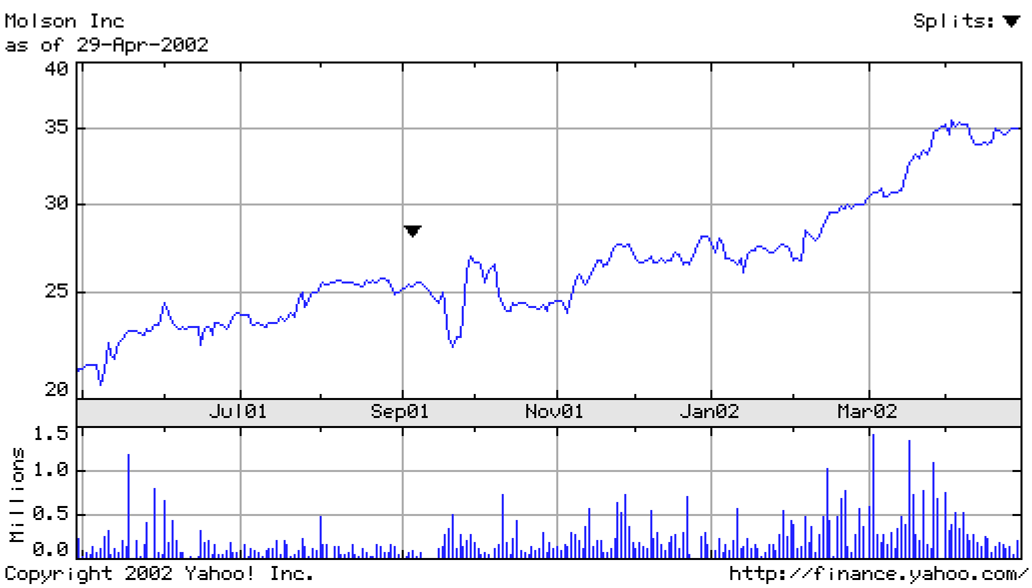
Transaction Analysis

- In our analysis we also relied on transaction analysis since we feel that Molson could be viewed as a possible takeover candidate for the global brewer looking for a chance to expand into North America and has the cash or is willing to expand its debt. The data we used for our transaction analysis came from a recent CIBC World Markets report and looked at select large cap acquisitions of various target sizes over the last year and a half. The analysis was from the time period up until December 31, 2001. In order to be consistent with our other valuation methods, which relied on more recent data we attached a 17% premium on the multiples from this analysis, which is in-line with the increase from December 31, 2001 in the Dow Jones Brewers and Distillers Index. We could have even attached a higher premium since most of the acquisitions and their respective multiples happened prior to the year-end date we used, however, we decided to be conservative. We should also note that there were not North American brewers among the targets in the transaction analysis, which gives us another reason to believe a 17% premium is a very prudent premium.

	EV/Sales	EV/EBITDA
High	3.1	13.0
Average	1.7	9.9
Low	0.5	6.6
Median	2.0	9.7
Molson		
EV + 17% premium	5,810	3,983
Less Debt	*699*	*699*
Equity	5,112	3,285
Shares O/S	105	105
Implied Share Price	49	31

Source:
CIBC World Markets
Transactions used for the anlaysis are from March 200 to December 2001 with a focus on large cap acquirors.

Stock Graphs



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Molson Inc.- Discounted Cash Flow Analysis
Exhibit 1
Canadian Dollars (millions)

		For the periods ending March 31,								
		1999	**2000**	**2001**	**2002E**	**2003E**	**2004E**	**2005E**	**2006E**	**2007E**
Revenues	$									
Brewing		1,959	2,375	2,483	2,731	3,004	3,305	3,635	3,999	4,399
Other		161	-	-	-	-	-	-	-	-
% growth rate		*N/A*	*12%*	*5%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*
Total revenues		2,120	2,375	2,483	2,731	3,004	3,305	3,635	3,999	4,399
Excise and sales tax		536	621	626	710	781	859	945	1,040	1,144
as a % of revenue		*27%*	*26%*	*25%*	*26%*	*26%*	*26%*	*26%*	*26%*	*26%*
COGS & SGA					-	-	-	-	-	-
Brewing		1,177	1,433	1,506	1,557	1,713	1,851	2,036	2,199	2,419
Other		156	-	-	-	-	-	-	-	-
		1,333	1,433	1,506	1,557	1,713	1,851	2,036	2,199	2,419
as a % of revenue		*63%*	*60%*	*61%*	*57%*	*57%*	*56%*	*56%*	*55%*	*55%*
EBITDA		251	321	351	464	511	595	654	760	836
EBITDA Margin		*12%*	*14%*	*14%*	*17%*	*17%*	*18%*	*18%*	*19%*	*19%*
Cash Taxes **41%**		102	130	143	189	207	242	266	308	339
Changes in Working Capital		(43)	(18)	45	-	-	-	-	-	-
Capital Expenditures		61	53	57	109	120	132	145	160	176
as a % of revenue		*3%*	*2%*	*2%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*
Free Cash Flow to the Firm	$	45	120	196	167	183	221	243	291	320
as a % of revenue		*2%*	*5%*	*8%*	*6%*	*6%*	*7%*	*7%*	*7%*	*7%*
Terminal Value										**9,000**

Enterprise Value of the firm	**$**	**6,687**
Less: Debt		*699*
Equity Value		**5,988**
Shares Outstanding (millions)		105
Share Price	**$**	**57.19**

Notes:

(1) Growth rates breakdown as follows: Canada 4.5%, Lat. Amer. 24%, US 7%.
(2) Historical Numbers from company annual reports of off SEDAR.
(3) COGS&SGA show a decline from increased efficiencies from mgmt's refocus on core business.
(4) Capex of 6% is greater than the average of the recent past to include the potential costs from aging facilities.

MOLSON

Notes & Assumptions:

Revenue growth rate is based on		**10%**
Excise tax		**26%**
COGS & SGA		**57%**

Capital expenditures		**4%**
Cost of debt.		**6%**
Cost of equity.		**10%**
Debt/BV of Equity	**Target**	**0.80**
WACC		**7.6%**
Terminal growth		**4.00%**

Capital Asset Pricing Model	
10 year rate (Bank of Canada)	6%
Beta	0.67
Equity Premium	6%
Beta unlevered	0.45

Levered Beta formula:= {1+(1-T)B/S}*Beta-Unlevered.

Capital Structure As of January 1, 2002	(millions)
Short-term debt	-
Long-term debt	699
Equity	872

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Disclaimer