

# Beverage Market Update

Industry Specialty Team | April 2024

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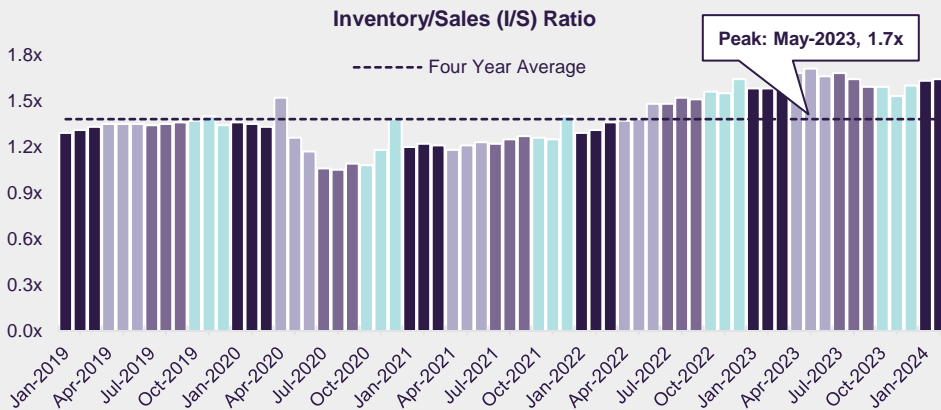
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Category Volume Performance	Beer	Spirits	Wine	Soft Drinks
LTM volumes through 12/31/23	-3.1%	2.6%	-4.1%	-3.2%

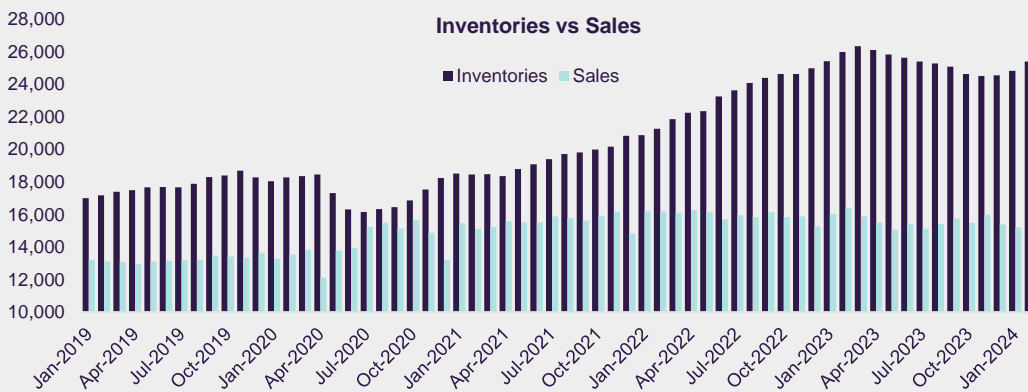
## Industry Highlights & Overview

- Total Beverage industry faced multiple challenges throughout 2023 across nearly all categories resulting in a year with more volatility and softness as compared to previous years driven by a multitude of factors impacting the industry in different ways leading many to recalibrate going into 2024
- Inventory build-ups resulting from turbulent Covid periods became the focal point for wholesalers & retailers in FY23 choosing to destock and work down heavy inventories to return to pre-Covid levels, which led to a delay in new supplier shipments
- Other major events occurred in FY23 with Sazerac moving distribution away from Republic National Distributing Company (RNDC) causing a ripple across the spirits sector, and Anheuser Busch InBev's (ABI) marketing controversy led to disruption across the beer category & ABI distributors
- While all categories faced headwinds in FY23, spirits fared the best maintaining growth in volume, revenue & share as compared to beer and wine

## US Wholesaler Data: Inventories Remain Elevated vs. Historic Levels



- US Census Bureau data shows moderation in wholesaler inventories across beer, wine & spirits; Dec. inventory/sales ratio increased to 1.60x and remains above the 3yr average of 1.44x
- As sales to retailers improve, excess inventory at the distributor level will be digested. If growth stalls, there is a risk that shipments continue to underperform the rate of depletions resulting in continued pressure on future supplier shipments
- Despite improvements, overall wholesale inventory across beer, wine & spirits continue to run higher than historical levels; December's slowdown is due to a decline in sales from wholesalers to retailers and their focus on destocking of existing inventories



**December 2019**  
LTM Revenues - \$158.8 Billion  
Inventory - \$17.1 Billion  
Inv% of LTM sales - 10.8%  
Estimated days Inv (20% GP Margin) - 49 days

**December 2023**  
LTM Revenues - \$187.0 Billion  
Inventory - \$24.6 Billion  
Inv% of LTM sales - 13.2%  
Estimated days Inv (20% GP Margin) - 60 days

Data shows distributor inventories have grown significantly. Historically, wholesalers have targeted inventories levels of ~45 days; however, as recent inventories have grown to ~60 days, wholesalers must also manage pressures of labor, inflation, and interest rates. Inventory problems have not yet been fully corrected, and we expect to see continued adjustments through 2024. Suppliers may see additional challenges in 2024 while inventories continue to reset. Some industry discussion has occurred regarding extending supplier A/R terms to entice wholesalers support of higher inventory.



Sources: US Census Bureau, IWSR, Nielsen, CGA

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## Beer

### Total Segment

Volume trend periods through December 31, 2023

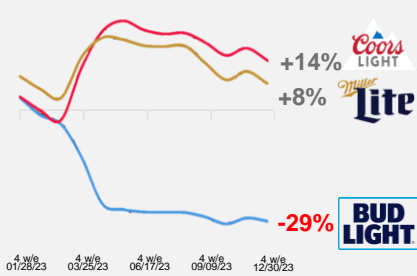


12Mo Volume  
-3.1%

3Mo Volume  
-5.5%

1Mo Volume  
-6.6%

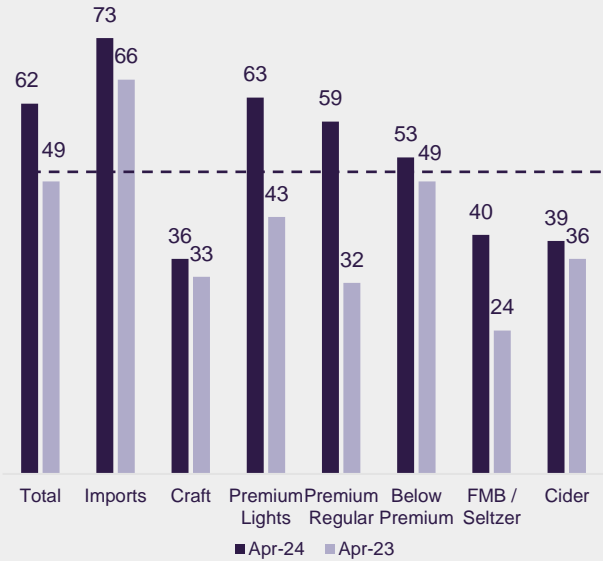
### 2023 Key Premium Domestic Brands Performance



- Domestic Premium brands faced contrasting performance in 2023
- ABI's marketing controversy in April '23 reset industry trends for the rest of 2023

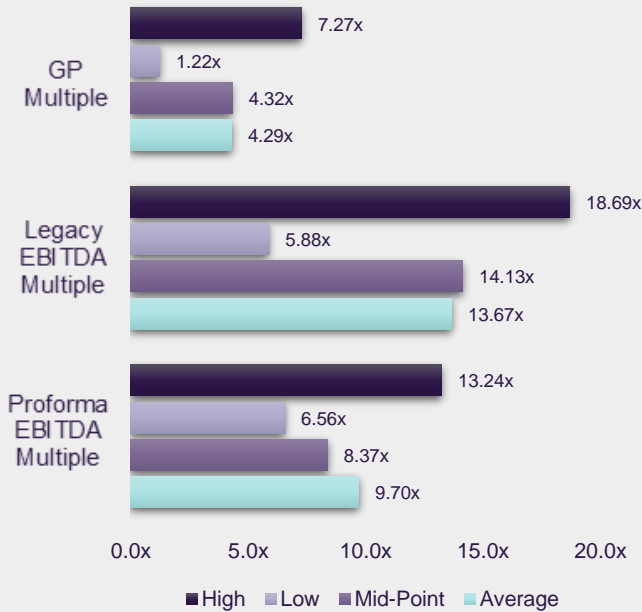
### Year over Year Beer Purchaser's Index Trends

- Total BPI for April 2024 of 62 vs. 49 in 2023 represents the strongest expansionary reading since December 2021
- April 2024 readings were higher YoY for every category the first time since March 2021 that readings for the BPI and all segments increased in the same month
- Higher YTD readings point to an optimistic ordering environment as the industry heads into summer



--- BPI reading above / below 50 indicates the segment is expanding / contracting

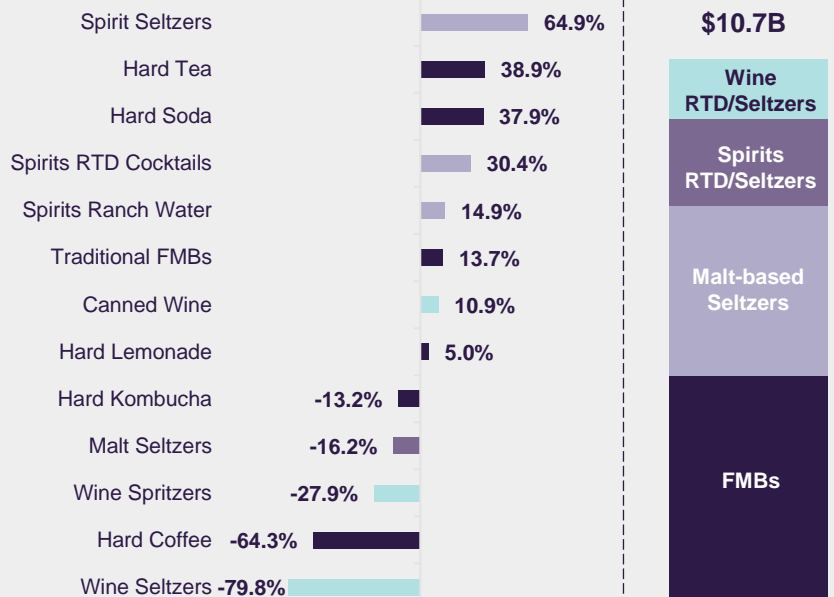
### Beer Distribution M&A Observations (Distribution Rights Only)



\* Valuations above reflect real transactions over a 3-year average

- Beer Distribution Right values have remained strong and stable despite market softness; potential downward pressures still exist with a higher rate environment and supplier volatilities
- M&A transaction slowed in FY23 due to supplier volatility while new volume and revenue baselines are reset

### Total RTD \$ Growth and \$ Share by Alcohol Base



Ready to Drink product sales approached \$11 billion in FY23, up 6% from FY22. Spirits-based RTDs and FMB segments are driving the growth of RTDs with Hard Soda and Hard Tea driving continued growth alongside Traditional FMBs. Spirit-based cocktails were up nearly 39% in FY23 outpacing Malt-based Seltzers, FMBs, and Wine RTD/Seltzers while also at generally higher price points



Sources: IWSR, bw166, Beer Institute, DISCUS, Beverage Digest, NBWA, Brewers Association, Nielsen, Roth MKM

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## Spirits

### Current Market Trends



RTDs, Agave spirits and American Whiskey account for nearly all of spirits category growth for FY23 while other categories face challenges



Inventories across the spirits sector have come into focus as distributors & retailers destock inventory following covid, causing a supplier shipment slowdown



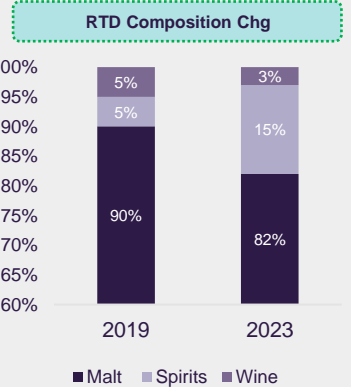
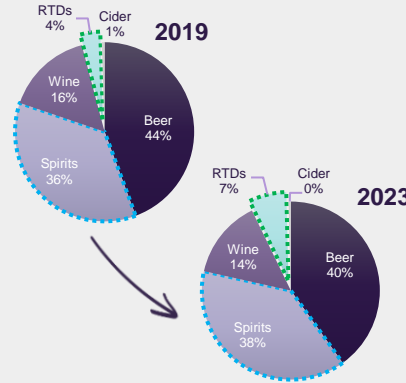
M&A within spirits remained active in 2023 with Agave spirits & American Whiskey drawing much of the attention from strategics & outside investors



Sazerac's departure from RNDC marked a meaningful supplier / distributor breakup & disruptor to the broader market as RNDC rebalanced after the loss

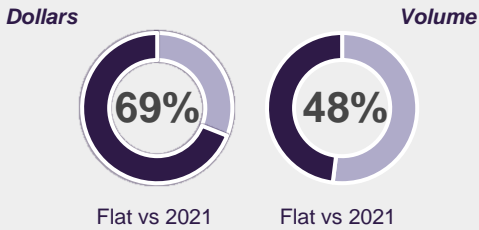
### Core Spirits & Spirits RTDs Take Volume Share

Core Spirits categories and Spirit based RTDs have taken meaningful share from Beer and malt based Hard Seltzers industries over the five-year period 2019 - 2023



### Spirits Premiumization is Resilient

#### Premium+ Share of Spirits



Spirit Categories Driving 2023 Premiumization

Share contributors of Spirits \$50+

Tequila

55%

Cognac

15%

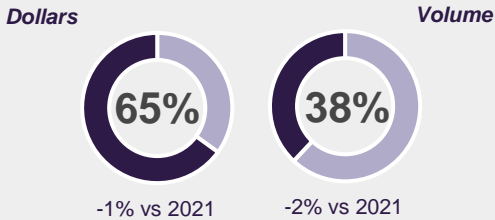
US Whiskey

14%

Scotch

12%

#### Premium+ Share of Spirits – Without RTD



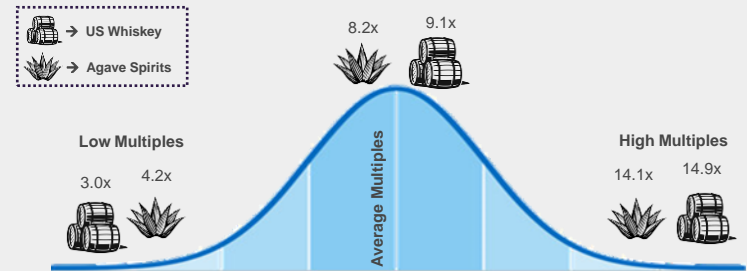
### Spirits Category Performance by Product Type

Spirit Type	YoY Volume Growth	YoY Revenue Growth
Vodka	-3.8%	0.3%
US Whiskey	-0.1%	4.6%
Tequila	4.4%	9.6%
Rum	-5.2%	-1.1%
Gin	-5.7%	1.1%
Brandy / Cognac	-9.2%	-8.1%
Cordials	-0.9%	0.2%
RTD Cocktails	36.8%	38.6%

- With ~16% share of distilled spirits market, US Whiskey is second in volume share only to Vodka (~30%), but its growth rate continues to exceed that of its larger counterpart and Vodka continues to lose market share to other spirits
- Tequila and RTD Cocktails continue to drive the strongest growth trends within the entire Spirits industry; Tequila posted second highest growth rate only behind RTDs, with US Whiskey ranking third in growth

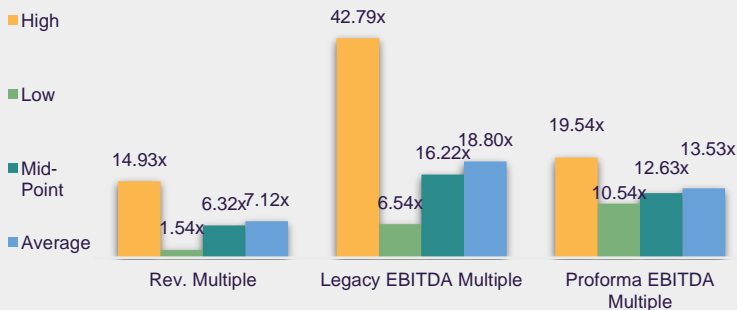
### M&A Analytics: What's Driving Value in Spirits

Agave & US Whiskey Revenue Multiples Across Pricing Tiers



Rev. Multiple	Pricing Bands <sup>(3)</sup>	Agave	American Whiskey
Prestige +	\$200.00 +	N/A	N/A
Prestige	\$100.00 - \$199.99	10.34x	10.77x
Ultra Premium	\$45.00 - \$99.99	8.65x	9.99x
Super Premium	\$30.50 - \$44.99	7.88x	8.23x
Premium	\$22.50 - \$30.49	N/A	7.21x

### Wine & Spirits M&A Observations <sup>(1)</sup>



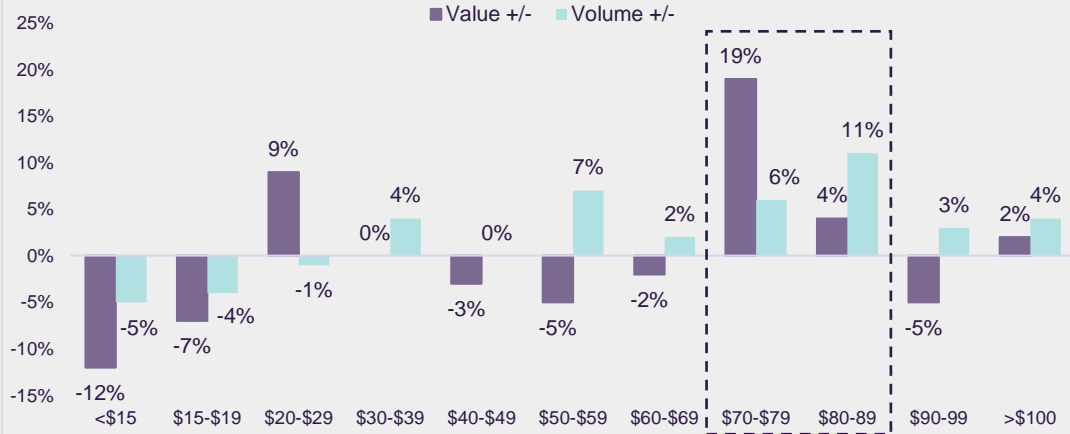
Sources: IWSR, bw166, DISCUS, Nielsen, CGA, Footprint Intelligence, BLS.gov, Drizly, Bump Williams Consulting  
W&S Manufacturer & Brand Company M&A Transaction multiples reflect real transactions observed over a series of years & maintained by internal database.

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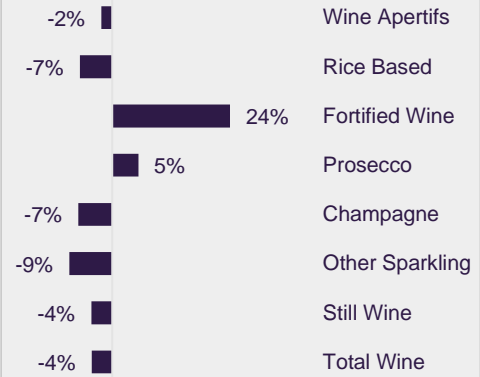
## Wine

### 2023 % Chg. in Value and Volume by Price Range



- Wine's sweet spot in 2023 was premiumization. Total Still Wine dollars were down 2% versus a year ago, Still Wine (\$18-\$20) was up 4%, luxury priced wines (\$70 - \$89) tier also observed growth
- Overall, the Wine category saw total volume decline by ~4%, impacted by the broader challenges of 2023 along with a growing concern of interest from younger legal drinking age (LDA) consumers

### Wine Volumes % Chg. YoY LTM Q4'23



- Total Wine volume declined by -4.1% over the LTM Q4'23
- Still Wine was down -4.2% YoY & continues to be the largest segment of the wine category accounting for over 80% of volume

## Non-Alcoholic (NA)

### No-Alcohol Overview

No-alcohol Volume Growth 2022-23

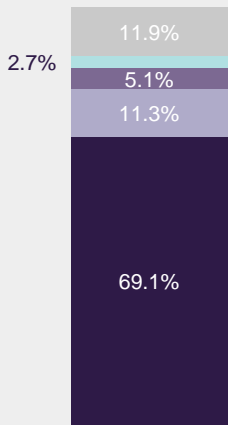
28.7%

No-alcohol Volume CAGR 2023-27F

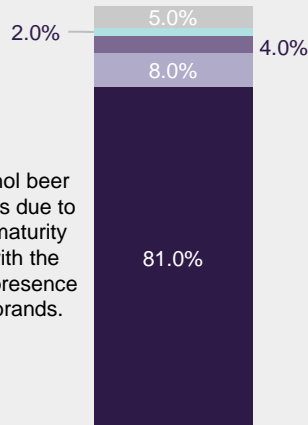
17.4%

Growing consumer interest in moderation, health, and wellness is driving higher growth rates for all no-alcohol sub-categories compared to full-strength equivalents.

#### No-Alcohol Value Share

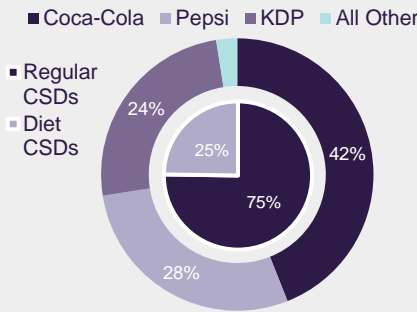


#### No-Alcohol Servings Share



No-alcohol beer dominates due to market maturity along with the growing presence of new brands.

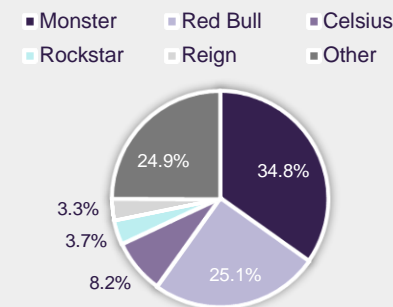
### Carbonated Soft Drinks (CSD) \$ Share



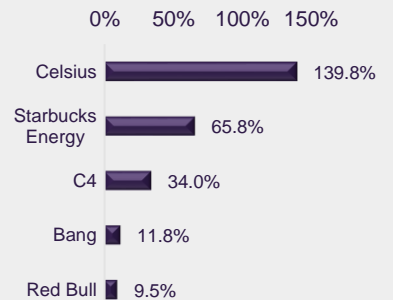
### CSD Top 10 Brands

Brand	Share	Share +/-	Vol +/-
Coke	16.3	0.1	9.5%
Pepsi	7.8	(0.3)	4.3%
Dr. Pepper	7.5	Flat	8.6%
Mtn Dew	7.2	(0.6)	1.1%
Sprite	6.7	(0.3)	4.7%
Diet Coke	6.2	(0.1)	6.7%
Coke Zero	4.2	0.2	14.1%
Diet Pepsi	3.1	(0.2)	2.5%
Diet Mtn Dew	2.2	(0.1)	2.3%
Canada Dry	2.2	Flat	6.8%

### Energy Brands Top 5 \$ Share



### Energy Top Growing Brands



Sources: IWSR, bw166, Beer Institute, DISCUS, Beverage Digest, NBWA, Brewers Association, Nielsen, CGA, Footprint Intelligence, BLS.gov, Drizly, Bump Williams Consulting

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\* Non-Alcoholic Top Shares and Brands as of 12/31/2023