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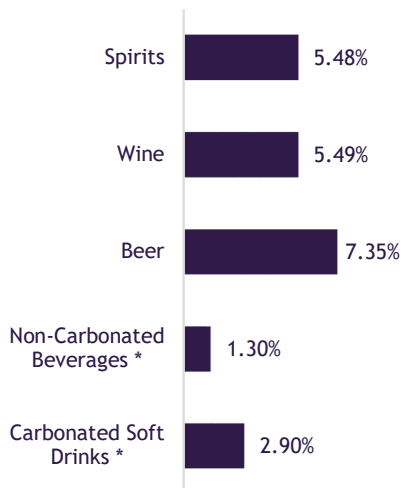
Takeaways:

- The Beverage Industry continues to perform well in 2021, maintaining the tailwinds of 2020
- The COVID induced shift between off premise and on premise channels is quickly reversing
- Despite strong momentum and consumer demand, supply chain and labor challenges remain
- Combination of stimulus, surplus capital, & expected increase in capital gains tax is driving M&A

2021 Industry Trends & Observations ⁽¹⁾

Table 1

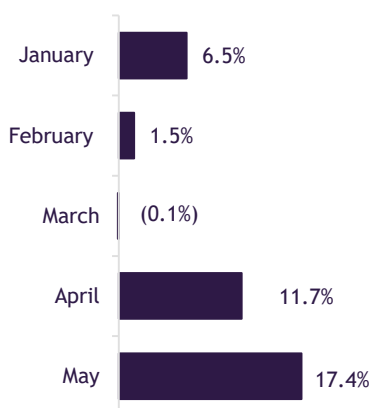
Total Beverage Industry Volume YTD May 2021 vs. 2020



* CSD & NCB data as of Q1-21

Table 2

2021 vs. 2020 US Beer Volume Dom & Imp Shipments by Month



- **BEER:** Beer trends continue to improve with YTD volume gains of 7.4%. Domestic shipments through May increased 5.4%, while Import shipments jumped 16.9% during the same period reflecting international COVID closures in FY20 and an improving supply chain. Mexican shipments account for more than 70% of all imports and gained nearly 21% YTD. As the US economy broadly reopens many of the COVID trends from FY20 are reversing course. Most apparent is the reopening of restaurants and the return to on premise channels, which is discussed in more detail later in the memo. Mexican Imports and Hard Seltzers remain the hottest categories in Beer. Craft Beer is showing signs of improvement from 2020 with YTD volumes +6%. Early indications suggest Craft Beer is rebounding particularly on premise with draft volume share improving from 40% to 56% post Memorial Day as more on premise channels and critically important taprooms reopen.
- **SPIRITS:** Mid-year Spirits trends remain positive delivering continued growth on a strong 2020 base. Total Spirits volume gained ~5.5% YoY. Tequila and Mezcal continue to lead the category gaining 23% in volume YoY. Albeit still small, Spirit based RTD (ready to drink) Cocktails shot up 47% and there's no signs they will slow down anytime in the near future. More RTDs are in the pipeline too. Industry firm bw166 reported that nearly 1,400 Spirit based RTD labels have been approved by the Trade & Tax Bureau through June and Spirit brands accounted for nearly 50% of all approvals. Other Spirits segments have moderated illustrating the strong comps from FY20. Vodka declined (3.6%) followed by Whiskey which fell (1.6%) while Rum eked out a 1% volume gain and Gin was flat. Industry wide supply chain challenges remain with glass shortages becoming an increasing issue leading to out of stocks at retail. Additional tariff related burdens have persisted through 2021 as many tariffs have been removed but not EU tariffs on US Whiskey, which has reduced Whiskey exports by nearly half.
- **WINE:** Total Wine volumes increased ~5.5% YoY led by the 'All Other' segment which includes Sangria, Coolers, and Wine based RTDs which increased by more than 23% YoY. Like Spirits, Wine based RTDs are still a small segment within the Wine category, but driving sizable growth. On an LTM basis through Q1-21, Wine based RTDs generated more than \$300MM in revenues which was up +130% YoY and nearly 83MM CEs resulting in volume growth of 98%. Domestic Table Wines showed continued health adding nearly 4% in volume terms YoY. Domestic Table Wine makes up approximately 60% of total Wine sales. Imported Table Wines gained 1.9% YoY. All together Domestic and Imported Table Wine makes up nearly 77% of total Wine Sales.
- **NON-ALCOHOLIC:** Total Non-Alcoholic beverages (NAs) are keeping pace YoY through Q1 of 2021 comping some of the initial pantry loading and panic buying weeks of 2020. As with most segments, NAs comped against 2019 show significant gains ranging from 5 - 15%. Carbonated Soft Drinks (CSDs) continue to lead the way with volume +2.9% and revenue +9.5% as of Q1-21. Non-Carbonated Beverages (NCBs) have moderated growing volume by ~1.3% and revenue by ~3.6% YoY Q1-21. Keurig Dr. Pepper (KDP) continues to lead in CSDs with +6% volume gains, ahead of Pepsi's 4% and Coca-Cola's 3.2% growth. Energy and RTD Teas are leading NCBs increasing volume +6% and +4%, respectively while Plain Bottled Water and Juices lag YoY from the COVID buying sprees in Q1-20.

Beverage Sectors In-Focus

REVERSING COVID - THE ON PREMISE SNAPS BACK TO LIFE

It wasn't until late June before 100% of US states allowed bars and restaurants to reopen, with indoor seating either at full capacity or with restrictions. That marks nearly 15 months since the worst of COVID's forced closure of the on premise trade in March 2020. As states rolled back COVID restrictions and started broadly reopening, a pent-up consumer was waiting and it didn't take long to find their way back to the on premise trade with discretionary dollars to spend.

Despite the encouraging rebound being seen, there will be some lasting challenges across the on premise sector. Industry research firm CGA reported that total on premise closures will shrink available outlets by nearly 8%, reducing the number of retailers back to 2009 levels. **Continued to next page...**

1: Unless otherwise noted, YTD and YoY statistics throughout the newsletter reflect data through May 2021

Beverage Sectors In-Focus (Continued)

Of note, these permanent closures have thus far disproportionately affected independent bars / restaurants vs. chain operators. The on premise is also working through labor shortages to re-hire and or staff up with adequate bartenders, cooks, and wait staff to accommodate the increasing capacity. Retailers have adjusted quickly though with every state surpassing 2020 sales and most tracking to and even exceeding 2019 volume levels. It is the consumer leading the way and that is one very important bright spot in what will be a lengthy process to rebuild the on premise trade.

| | On & Off Premise Volume Trends ending May 2021 | | | |
|---------|--|-----------|-------------|-----------|
| | On Premise | | Off Premise | |
| | L3 - Mths | L6 - Mths | L3 - Mths | L6 - Mths |
| Beer | 163.2% | 13.6% | (7.7%) | 2.7% |
| Wine | 158.0% | 6.9% | (0.1%) | 1.5% |
| Spirits | 151.8% | 11.4% | (4.4%) | 4.8% |

The top right table provides a 3 & 6-Month view of the transition between On and Off Premise sales

BEER: Beer trends have bounced back the strongest. On premise volumes have ramped in the latest 3-Mth period +163% while off premise declined -(8%), showing the shift of consumers back to bars / restaurants
WINE: Over the 3-Mth period on premise Wine is +158% while the off premise has held flat
SPIRITS: On premise Spirit volumes over the latest 3-Mth period +152% with off premise dropping (4%)

DEALS, DEALS, DEALS! TAKING THE TEMPERATURE OF THE M&A MARKET HALFWAY THROUGH 2021

With anticipated capital gains tax increases, historically low interest rates, and a market saturated with cash, 2021 was poised to be a breakout year for deals in the beverage industry. Halfway through the year we're taking a temperature check on M&A and notable trends from the transactions that have been done thus far through the year.

First a quick look back, recognizing there were very few transactions done in 2020 for obvious reasons. COVID turned the world upside-down creating tremendous volatility in every market while also reshaping supply chains and causing widespread disruption. As the pandemic abated, the country began its reopening. Before long some sense of normalization became clear and with a light at the end of the tunnel deal flow returned at a rapid pace.

In a year primed for M&A, FY21 hasn't disappointed. Transaction volume has been significant from the early months with deals between EJ Gallo and Constellation Brands followed by the joint venture announcement between Molson Coors and D.G. Yuengling & Sons. EJ Gallo continued its expansion with the acquisition of Agave Loco, makers of RumChata. Anheuser Busch InBev expanded further into the spirits category with an investment in Canteen Spirits. Wineries Duckhorn and Vintage Wine Estates went public through IPOs while Delicato Family Wines and Francis Ford Coppola announced they will come together. It was also recently reported that St. Michelle Wine Estates will be sold to private equity firm Sycamore Partners for an estimated \$1.2B. On the non-alcoholic front Nestle USA acquired Essentia Water and Vita-Coco announced plans of their own for an IPO later in the year. Meanwhile, M&A has kept a similar pace in the distribution tier. RNDC bought Opici Family Distributing of Florida in early 2021 and then continued expanding into IL through a partnership with Heritage Wine Cellars. Always active Reyes Holdings closed on its acquisition of Redding Distributing Company in Mar-21 and then announced the purchase of G&G Distributors in MD and GreenCo Beverage in SC. Redwood Capital announced it will be acquiring Pepin Distributing in Tampa, FL and Ft. Myers' based Suncoast Beverage Sales completed the acquisition of neighboring Peace River Distributing in Punta Gorda, FL.

With a significant number of deals already completed, can the pace of M&A continue through the remainder of 2021? Many think so. FY21 uniquely aligned multiple factors helping support and accelerate deal volume. Interest rates have remained at very low levels to help maintain and revive the US economy following the pandemic. Moreover, the amount of stimulus and other forms of Fed assistance has flooded the markets with tremendous amounts of liquidity; creating an aggressive environment amongst lending institutions and alternative financial partners at compressed rates. Add in the risk, or the expectation, that capital gains taxes will increase in the near term and you have a recipe for strong deal flow.

So there will be deals to be made, but at what price? Certainly as recent deals suggest, valuations have continued to increase fueled by super low interest rates and a hyper liquid market supporting aggressive terms. But, if there is one friction point developing it's normalizing the Covid impact on a business, good and bad. Buyers are generally looking through the volatility to try and value a normalized operation while sellers would love to exit on a high multiple of their record earnings; thus the negotiating begins. Based on the first half of the year, 2021 is sure shaping up to experience a wild finish.

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Table 3

US Wine Industry YTD May 2021 vs. 2020

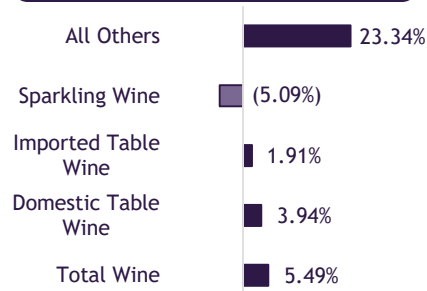


Table 4

US Spirit Industry Volume YTD May 2021 vs. 2020



Table 5

Total Non-Alcoholic Beverages YoY Q1-21 Volume Trends

