# Beverage market update

## Industry Consulting Team | Q3 2022

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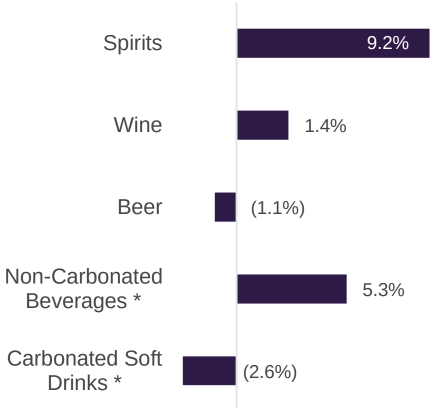
Table 1

**Total Beverage Industry Volume LTM June 2022 vs. 2021 ***




* CSD & NCB data as of Q1 22

Table 2

**US Spirit Industry Volume YoY LTM June 2022 vs. 2021**


1: Unless otherwise noted, YTD and YoY statistics throughout the newsletter reflect data through 2Q'22

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### Highlights

- Through 2Q'22 the total Beverage category is starting to see some mixed results broadly; certain markets are facing steep comps YoY while the recalibration from off-premise to on-premise continues across the country
- Wine & Spirits accelerated growth over Beer; Wine +1.4% YoY LTM through 2Q'22 while Spirits are +9.2%
- Beer shipments are stable despite negative (1.1%) volume trend YoY through LTM 2Q'22
- Non-Alcoholic (NA) beverage volumes continue to show mixed results in FY 22, Carbonated Soft Drinks (CSDs) faced tough comps from 2021 while certain Non-Carbonated Beverages (NCBs) continue to grow

## 2022 Industry Trends & Observations [1]

**BEER:** Beer has faced some challenges through the first half of 2022. The year was off to a slow start in January and February while March began to show signs of improvement with a 5.3% increase for the month YoY. The segment posted moderate gains in standalone Q2 at 1.6% YoY reflecting some needed strength heading into the critical summer season. All in all, total beer volumes fell (1.1%) through LTM 2Q'22. Much like other industries, we're observing broad price increases across the category which has mitigated some of the volume challenges. Imports have continued to drive much of the growth in the industry with import volumes up 3.0% through LTM Q2'22. Mexican imports continue to perform well and drive much of the segment growth gaining 11% LTM YoY. In contrast, key domestic producers like Anheuser-Busch InBev (ABI) were flat and Molson Coors (MC) saw production volumes decline (1.4%) of sales growth for the same period. Overall, the beer segment has continued to lose volume share to spirit producers as innovations across categories have evolved and the battle for consumer occasions has become more competitive.

**SPIRITS:** The spirits sector continued its strength over other bev-alcohol categories with YoY volume growth of more than 9% through LTM ending 2Q'22 and a gain of just under 5% share points across total bev-alcohol servings. Within spirits, the Ready-to-Drink (RTD) or canned cocktails continue their rocketship of growth and are becoming a powerful force within the category. RTD volumes gained over 60% through LTM ending Q2'22 accounting for just under 30% of the total category growth. Tequila and mezcals are another core growth engine within spirits attributing more than 20% of the category's growth with total tequila and mezcal seeing volume growth of +18%. Whiskey continued to show strong volume gains of 4.7%. The Whiskey category is the second largest in volume (only behind vodka) and the largest segment in terms of revenue. Both Whiskey and Tequila have capitalized on strong premiumization trends which make volume gains even more impressive given that the consumer is not only buying more but also more premium to prestige plus products. Other spirits segments demonstrated mixed results with vodka declining (2.9%), gin gaining +6.4%, and rum declining (7.8%).

**WINE:** Total wine volumes increased 1.4% YoY through LTM 2Q'22, led once again by sparkling wines. Sparkling wine have snapped back from international supply chain problems that were experienced heavily during COVID periods and gained nearly 25% growth through LTM period ending 2Q'22. Table wines continued to grow adding 3.1% YoY for the total category. Domestic table wines were effectively flat YoY at 0.5%, while imported table wines gained nearly 6% during the same period. Table wines still set the tone for the category making up more than 80% of total wine sales.

**NON-ALCOHOLIC:** Total Non-Alcoholic beverages (NAs) delivered mixed results through Q1 2022 with challenging comps given the elevated spending levels seen from COVID in Q1'21. Many CSD brands are experiencing some volume softness as they cycle off big volume quarters. Flavored/Enhanced waters led category volume gains at +7%. While the energy sector gave up the pole position it still delivered strong volume growth at +6% YoY through Q1 2022. CSDs continue to face volume challenges with Q1'21 volume declining (2.6%) reflecting tough comps along with the ongoing shift to other more health-conscious carbonated beverages. Keurig Dr. Pepper (KDP) led in CSDs with 0.4% volume gains, ahead of PepsiCo's and The Coca-Cola Company's (6.1%) and (1.4%) declines, respectively. Despite these volume challenges, the CSD industry saw large pricing gains with revenue increasing 10.2%, led by Coca-Cola and KDP with 12.6% and 12.1% gains, respectively. Lastly, plain bottled water and sports drinks showed good growth at 5.8% and 2.4% which are slight setbacks in growth from last quarterly trends.

## Beverage Sectors In-Focus

**ENVIRONMENTAL RESPONSIBILITY IN BEVERAGE:** Environmental impact is increasingly top of mind across all industries with many companies issuing goals to reduce carbon emissions with the goal of becoming net zero. The beverage industry is no different with key industry players making numerous announcements such as:

- Pernod Ricard has committed to halving the intensity of its overall carbon footprint by 2030 and reaching net-zero by 2050
- Coca-Cola has committed to a 30% reduction by 2030, and net zero by 2040
- PepsiCo has pledged a 40% reduction by 2030, and net zero by 2040
- Diageo has pledged to achieve net zero across direct operations by 2030
- AB InBev has pledged a 25% reduction by 2025 in $CO_2$ emissions across its value chain
- Nestlé has pledged to halve emissions by 2030, and achieve net zero by 2050

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Table 3

**US Wine Industry**
**YoY LTM March 2022 vs. 2021**

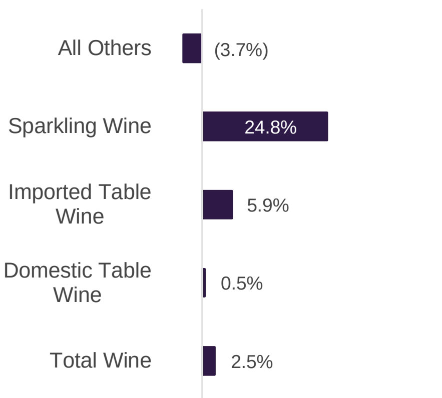
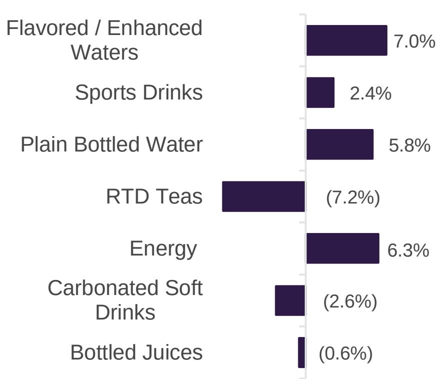



Table 4

**Total Non-Alcoholic Beverages**
**FY 2022 vs. 2021 Volume Trends**




## Beverage Sectors In-Focus (Continued)

**Waste-** There are several avenues to evaluate as companies look to achieve their carbon footprint goals, from production methods to packaging. As it relates to production, the key is maximizing efficiencies and recycling waste. One method that is under consideration is using waste to generate energy. For instance, some breweries have converted their malted barley waste to produce green gas, a sustainable alternative to fossil fuel natural gas. This is achieved through a process called anaerobic digestion, where bacteria break down into organic matter in a sealed vessel and produce biogas as well as digestate. The biogas can be used as energy while the digestate can be recycled for horticulture products and other materials. Solar and Wind energy continue to be great alternatives and shifting one's fleet to electric facilitates a move away from reliance on fossil fuels.

**Packaging-** Yet another key dynamic as beverage companies look to reduce their environmental impact, as an example, Carlsberg indicates that packaging is responsible for 41% of its carbon footprint. One of the more surprising dynamics is packaging's effect as it relates to logistics. For instance, on international shipments that move liquid by using a flexitank, a container that holds 24,000 liters, instead of transporting finished goods, savings of over 4.5 tons of $CO_2$ can be achieved. Aside from international shipments, managing the bottles themselves can provide a lift with Pernod Ricard reducing the weight of Alto's tequila bottles by 22% and Absolut Vodka achieving 50% recycled content in its bottles in 2021.

One longstanding packaging trend related to beverages' environmental impact has been the use of plastic rings. Companies have responded with investment and innovation. Heineken's 100% plastic-free cardboard topper saves 94 million plastic bags worth of plastic a year. Anheuser Busch's adoption of the paperboard KeelClip tech has replaced 67 double-decker buses' worth of plastic rings and shrink wrap per year. Molson Coors' plastic-free six-pack ring uses recycled fiber and is itself recyclable.

These are great examples of what is necessary in order to carry the beverage industry towards a carbon neutral state. However, individual investment is not enough, as competitors, suppliers, governments, non-profits and waste contractors need to work together in collaboration in order to maximize the impact across the industry. While reserving innovation for your own stakeholders is a great marketing piece and may give a competitive advantage, the issue is bigger than a pure economic play.

**B-Corp:** One increasing trend as the business community aligns with social responsibility is acquiring B-Corp classification. According to the U.S. Small Business Administration, a B-corp is a for-profit corporation that is driven by both mission and profit. Companies that are registered as a B-corp must achieve a minimum score on the B Impact Assessment, an evaluation of the company's impact on its workers, customers, community and environment, done by a governing body called B Lab. Outside of the benefit to the environment and communities, a business's B-corp certification will attract like-minded consumers and employees in addition to having access to B-corp community data, which provides insights on cost-effective sustainability.

**INPUT COST PRESSURES UPDATE:** In our last update, we reported on the impact the Russian invasion of Ukraine was having on input costs including major grains, containers, and transportation costs. As you may recall, February 21st was used as a reference date as that was when much of the inflationary momentum began to build leading up to the invasion taking place on February 24th. We'll evaluate where the same raw materials are today relative to the 21st but also address the movement since our last update which was through April 21st.

Wheat was the second largest mover over the last quarter with prices falling nearly 27% from April 21st to July 5th but falling just under 1% since February 21st. You may remember that most wheat exports take place at the beginning of the marketing year in July, so this movement is particularly important to input costs this year. Also of note, Corn has fallen nearly 8% over the quarter but has risen over 12% since February. Despite the cost falling recently, the price is still the highest it's been in the 5 years prior to 2022 outside of a 10-day stretch in May of '21.

One of the key container input costs we evaluated in the last update was aluminum. Aluminum was an early mover in the midst of the invasion as it jumped over 17% from February 21st to March 4th. However, its price fell 14% from March to April and as a result, its pricing was down just under 1% from February to April. Since then, prices have continued to fall with Aluminum declining nearly 28% since April, and thus over 27% from our February timeline. This is certainly a positive as aluminum challenges have persisted throughout the industry with companies often having to substitute a lower quality aluminum which leads to increased spoilage and filling defects.

Moving on to energy prices and transportation costs, oil peaked in March much like the other materials but has not returned to pre-invasion levels despite an over 4% price decrease to Brent oil. It still maintains a nearly 13% price increase from February to July 5th. This represents the highest Brent oil has been since late 2014. On top of this, insurance premiums remain elevated, particularly any shipments that pass through or around the contested area. With delivery challenges continuing it would be wise to continue to evaluate this sector's impact.

Recently released drink concentrate data from Beverage Digest revealed there was no cost increase in Coca-Cola concentrates from 2020 to 2021, while Pepsi saw a 3% increase across the board and KDP saw between a 3.6-4.1% increase in concentrate prices per 288-oz case. 2021 to 2022 is a different story as Coca-Cola saw 8% price increases across the board, Pepsi increased an additional 7.5% and KDP followed suit with an additional increase between 6.5-7.5%. Given the thinner margin, high-velocity nature of CSD's, consumers should anticipate these cost increases to be passed on.

With rising input costs, consumers are experiencing increased pricing at retail across many CPG categories. Nielsen recently published a pricing comparison across CPG segments which showed the average price increase in bev-alcohol at just 4% compared to the entire CPG category which averaged ~10%. Non-Alc. was more in line with the CPG category at ~10% increase. There is much chatter in the industry of substantial price increases coming in the beer industry and some initial pricing movement being seen in spirits. Clearly pricing and inflationary movements will be something to monitor closely in future periods.

TRUIST

Sources: bw166, Beer Institute, DISCUS, Beverage Digest, Brewers Association, Nielsen, CGA, Footprint Intelligence