

**Joseph Goode**  
Beverage Industry Consultant  
[Joseph.Goode@SunTrust.com](mailto:Joseph.Goode@SunTrust.com)  
(770) 851-1190

### Takeaways:

- Beverage businesses were deemed “Essential” throughout the COVID-19 pandemic
- COVID-19 closures resulted in a tremendous shift from on-premise to off-premise channels
- The Beverage Industry overall remained stable and performed well through 2020
- Despite stable industry volume, certain sub-industries are experiencing major challenges

## Industry Overview & 2020 Themes

Table 1

### Total US Beverage Industry YTD Q3 Volume 2020 vs. 2019

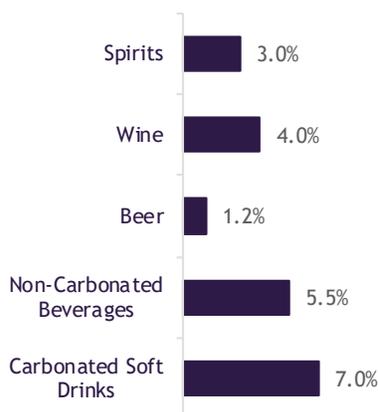
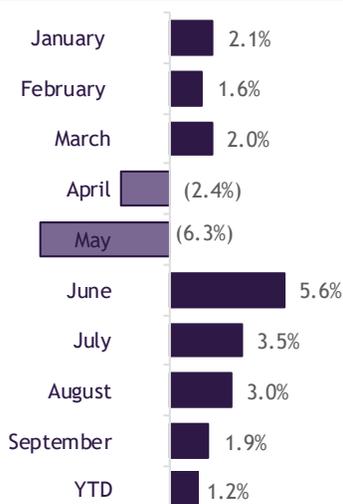


Table 2

### 2020 vs. 2019 Beer Volume US Domestic & Import by Month



- Throughout 2020 the beverage industry remained resilient to pandemic pressures and performed relatively well with stable overall volume trends across alcoholic and non-alcoholic beverages. Illustrated in Table 1 in the aside, beer, wine, spirit, non-carbonated and carbonated soft drinks all increased sales volume through Q3-20.
- Despite total beverage consumption remaining stable in 2020, tremendous channel shifting occurred between the on-premise trade (bars, restaurants, hotels) and the off-premise trade (grocery, big box, independent retail). Mandated closures from the surging COVID-19 pandemic caused significant declines across on-premise retailers. Through the third quarter of 2020 on-premise Total Beverage Alcohol (beer, wine, and spirits) retail sales declined (19.8%) year-over-year. Meanwhile Total Beverage Alcohol off-premise sales increased more than 8% during the same period.
- Non-alcoholic beverages fared better than alcoholic beverages due to strong grocery and big box retail sales and overall better performance in the on-premise trade.
- 2020 was particularly harsh on the bar and restaurant industries, which were severely impacted by COVID forced closures. Bar and full service restaurant revenues declined nearly (40%) through the third quarter of 2020 compared to 2019, whereas fast food and limited service restaurants suffered only a moderate (5%) sales decline during the period. Beverages sales and particularly alcoholic beverages have greater exposure to bars and full service restaurants causing larger declines; while non-alcoholic beverages generate more of their on-premise revenues from fast food and limited service restaurants.
- Channel shifting from on-premise to off-premise consumption also created an industry wide shortage of aluminum creating supply chain issues for many US and international producers. Can capacity was already tight from the booming growth of hard seltzers, ready-to-drink (RTD) canned cocktails and wines; but with the acceleration of can demand due to on-premise closures, many suppliers quickly encountered supply issues which ultimately led to out-of-stocks at retail. Suppliers that were impacted included: Mike’s (White Claw), Molson-Coors, Anheuser Busch, Boston Beer (Truly), and PepsiCo. Constellation Brands, maker of Corona and Modelo brands, also experienced severe supply chain issues as brewing operations were not considered essential in Mexico, which forced the closure of Mexican production facilities. As a result, many of Constellation’s key SKUs were quickly depleted and suffered continual out-of-stock challenges throughout the critical summer selling season and remainder of 2020. Once permitted Constellation resumed brewing operations but it will take the company until late 2021 to return supply and inventory levels back to historic norms.

## Beverage Industry Sector Performance

- **BEER:** YTD Beer volumes through 9/30/20 gained 1.2% in total. Pre-COVID, total beer shipments were up 1.9% YTD Q1-20 before COVID shutdowns caused significant volume declines in April and May. Summer months rebounded as the US reopened (see Table 2). Within total Beer, off-premise volume increased nearly 9% through Q3-20, while the on-premise trade saw volumes decline by roughly (45%) during the same period. At the supplier level Anheuser Busch InBev (ABI) incurred a (3.6%) volume decrease with MillerCoors (MC) declining nearly (7%) YoY Q3-20. Imports further lagged given the noted supply chain issues and fractured «Essential Business» classifications in different countries. Total imports volumes declined more than (11%). Import sales are largely influenced by Mexican imports which represent ~70% of all imports. The shining star in Beer continues to be the Hard Seltzers. Mark Anthony’s White Claw brand is a clear #1 with Boston Beer’s Truly brand #2; collectively they make up ~75% of the Hard Seltzer market in what is now a \$4Bn category and nearly ~10% market share of overall Beer.
- **WINE:** Total YTD Wine shipments through Q3-20 gained 4% YoY. Domestic «Still/ Table» Wine is the largest segment within Wine, which grew 3.8% through Q3-20. Imported Table Wine shipments fell (2.9%) due to the combination of COVID impacts and punitive tariffs. Domestic and Imported Table wines make up more than 80% of the Wine Industry.

## Beverage Industry Sector Performance Continued

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Table 3

### US Wine Industry YTD Q3 Volume 2020 vs. 2019

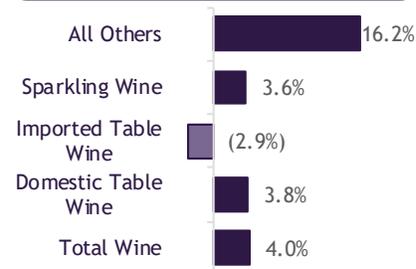


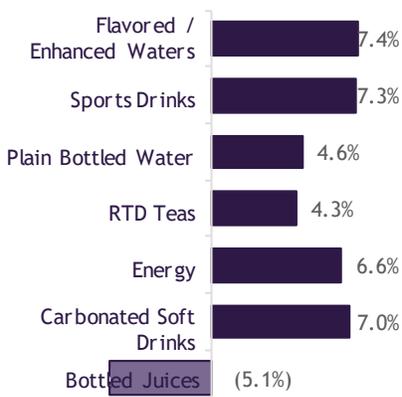
Table 4

### US Spirit Industry YTD Q3 Volume 2020 vs. 2019



Table 5

### Total Non-Alcoholic Beverages YTD Q3 Volume Trends (YoY)



- WINE (Continued):** Sparkling Wine and Other Wines (Sangria / Coolers / other wine based products) rose 3.6% and +16% respectively through Q3 YoY (see Table 3). Off-premise Wine sales climbed 12.6% while the on-premise volume dropped nearly (41%) through Q3-20. The dramatic shift between off and on premise channels again reflect the influences of COVID-19 on retail sales. While the on-premise channel has been negatively impacted, many Wineries have pivoted to Direct-to-Consumer (DTC) Ecommerce sales. Per Nielsen, DTC sales are up 234% through Q3-20 with online Ecommerce sales eclipsing \$4Bn in 2020. DTC Ecommerce sales still represent a small but clearly growing facet of Wine and Total Beverage Alcohol sales. 2020 also witnessed tremendous damage from multiple California wildfires. Much of the wine growth is still on the vine and it is yet to be determined the overall impact wildfires and related smoke damage will have on Domestic and particularly California produced wines in the near future.

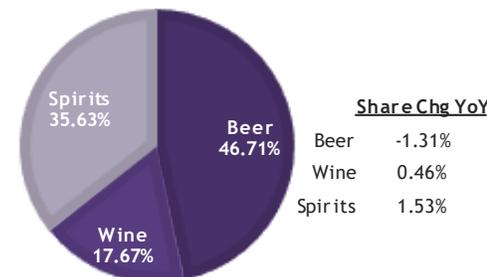
- SPIRITS:** Total Spirits volumes increased 3% YTD through Q3-20. Vodka and Whiskey represent the two largest categories in the broader Spirits industry making up approximately 28% and 22% by volume terms respectively. Through Q3-20 Vodka gained 1.4% YoY with Whiskey increasing similarly at 1.3%. Tequila and Mezcal brands continue to show strong growth trends increasing 12.2% YoY. See Table 4 for comparative volume trends across Spirit categories.

Similar to Beer and Wine, off-premise Spirit volumes increased 13.5% YoY through Q3 with on-premise sales falling nearly (42%) due to retail closures noted throughout. Overall the Spirits industry demonstrated the strongest category health and performance compared to Wine and Beer. Spirits gained 1.53% of Total Beverage Alcohol market share compared to 0.5% share gain in Wine and a (1.3%) share loss in Beer. Market share figures reflect total volume sales. Beer is still the leading segment; however, Beer has been gradually losing share to Wine and Spirits for years.

- NON-ALCOHOLIC:** Total Non-Alcoholic Beverages (NA)

showed very strong growth throughout Q3-20. Carbonated Soft Drinks (CSD) grew sales volume approximately 7% and Non-Carbonated Beverages (NCB) gained 5.5% YoY (see Table 1). CSDs largely reflect an oligopoly dominated by The Coca-Cola Company, PepsiCo., and Keurig Dr. Pepper. Through Q3-20 Keurig Dr. Pepper led the pack growing volume 11.7% followed by Coca-Cola at 6.5% and PepsiCo. at 5.5%. The NCB category is more fragmented albeit marginally with each of the large CSD players having key NCB brands. Illustrated in Table 5, within the NCB category Flavored / Enhanced Waters performed very well gaining 7.4% through Q3. Sports Drinks gained 7.3%, followed by Energy up 6.6%, and Plain Bottled Water growing 4.6%. Juices lagged the group declining (5.1%) YoY. NAs overall have benefited from COVID induced channel shifting given CSD and NCB products have a large presence in the off-premise trade, especially in grocery which has observed significant increases in foot-traffic and consumer spending driven by COVID. One noteworthy caveat is Convenience retail, which experienced significant softness in Q2-20. As the COVID-19 pandemic temporarily halted transient consumer activity the impact was disproportionately felt across Convenience retailers and the Energy Drink category. By mid summer as stores re-opened and activity picked up Convenience retail and the Energy Drink segment improved collectively. Energy has since rebounded and is expected to return to historic growth levels by FYE 20.

BEVERAGE ALCOHOL SHARE



## Expectations for 2020 & 2021

With 2020 (thankfully) behind us, we've identifying several themes and industry trends that we will continue to monitor and discuss in future newsletters.

- Q4-20** - Early indicators suggest a weak Q4 with surging COVID cases stymieing the holiday season
- Seltzermania** - Alcoholic and non-alcoholic seltzers are on a rocket ship of growth with no signs of the category slowing. More players are jumping in causing an explosion of brands and SKUs for 2021
- Blurry Vision** - Growing demand of Hard Seltzer is leading to new innovations across Beer, Wine, and Spirits resulting in a new competitive set of premixed canned cocktails and canned wine spritzers
- Ecommerce** - Online beverage sales were unprecedented in 2020, we'll closely monitor this 2021
- Healthy Mindset** - "Healthier & Better For You" is driving innovation across alcoholic / non-alcoholic industries with increasing momentum, watch for growth and the impact on traditional brands