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Table 1

Total Beverage Industry Volume 2020 vs. 2019

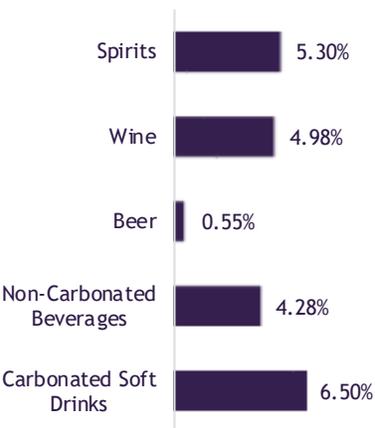
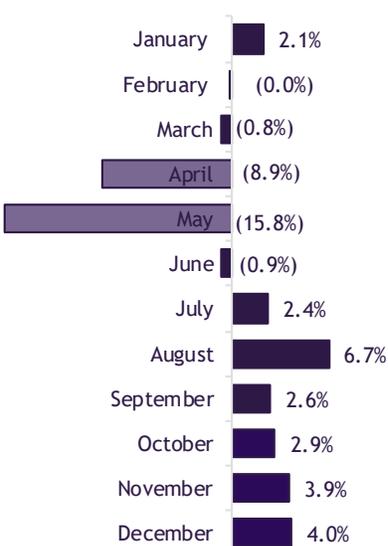


Table 2

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



Takeaways:

- The Beverage Industry performed in 2020 with Total Beverage Alcohol +3% and Non-Alc. ~+5%
- COVID-19 closures resulted in a tremendous shift from on-premise to off-premise channels
- Despite industry growth, certain segments face major challenges as a new normal emerges
- Product innovations are galore across every category and changing the industry in real time

2020 Industry in Review

- **NON-ALCOHOLIC:** Total Non-Alcoholic beverages (NAs) weathered FY 2020 relatively well with most categories gaining volume and revenue compared to 2019 levels. Carbonated Soft Drinks (CSDs) gained 6.5% on volume and 9.8% on revenue while Non-Carbonated Beverages (NCBs) grew ~4.3% by volume and 4.8% by revenue for 2020. Keurig Dr. Pepper (KDP) led traditional CSD players with nearly 12% volume gains ahead of Pepsi's 5.7% and Coca-Cola's 5.6% growth in FY20. Energy, Sports Drinks, and Enhanced/Flavored Waters led NCBs gaining volume of 6.7%, 7.3%, and 8.3% respectively. Healthier & Better for You brands continue to be on-trend across nearly every category.
- **BEER:** FY 2020 produced total volume gains of 0.55% reversing multiple years of slight volume declines. The 2020 Beer story is complex. While the entire category gained in volume and revenues only certain companies were responsible for generating industry growth. Anheuser Busch InBev (ABI) observed (2%) volume decline while MillerCoors (MC) dropped more than (6%) in volume YoY through FY20. Beer's industry leaders are Constellation Brands (Corona & Modelo), Boston Beer (Truly) and Mark Anthony (White Claw). Indicative of these volume gainers Mexican Imports and Hard Seltzer Waters remain the hottest categories in Beer. The Craft Beer segment in 2020 faced significant challenges. COVID forced closures of on-site Craft taprooms disproportionately impacted small brewers throughout the US. To offset lost taproom revenues many Craft Brewers pivoted operations to traditional wholesale sales as well as DTC shipping models. In total, the Brewers Association reported that Craft Brewers incurred a (9%) volume decline in 2020. Craft taprooms weren't the only retailers affected by closures. The Beer industry saw total volume declines of (46%) in the On-Premise trade while consumers shifted Off-Premise which gained 11% in FY 20.
- **SPIRITS:** 2020 Spirits industry posted another strong year with total volume growth of 5.3% compared to FY 2019, led by continued growth in American Whiskey (Bourbon / Rye / TN Whiskey) and Tequila / Mezcal which increased 9L volume sales by 7% and nearly 23%; respectively. Other Whisky varieties (Canadian, Irish, Scotch) offset the strength of American Whiskey sales due to COVID and ongoing tariffs between the US and Europe. As a result, total Whiskey volumes gained nearly 5% in FY2020. Discussed more later, Ready-To-Drink (RTD) cocktails added to Spirits growth increasing +35% by volume and nearly 40% in terms of revenue. Spirits continue to benefit from ongoing Premiumization. Per DISCUS, Spirits' Premium, High End, and Super Premium price points generated 40% of the category's growth in FY20 illustrating consumer's willingness to reach for affordable luxury items such as high end spirits and the reallocation of dollars from On-premise spending to the Off-premise. Through FY20 Spirits On-Premise volumes declined (48%) compared to 2019 while Off-Premise trade gained nearly 17%. Prior to 2020 and COVID, the Off-Premise to On-Premise split was ~80/20.
- **WINE:** Total Wine volumes increased ~5% in 2020 vs. 2019 led by strength in Domestic Table Wines which improved 3.6% in FY20 and make up approximately 60% of total Wine sales. Imported Table Wines gained slightly at 1.3% YoY. Beyond Table Wines, Sangrias/Coolers/Other Wine Products drove the remaining industry growth increasing nearly 20% in FY20. Similar to Beer and Spirits, Wine On-Premise trends declined (44%) while Off-Premise jumped 14.5% YoY. Overall Total Beverage Alcohol (Beer/Wine/Spirits) gained ~3% by total volume with Wine and Spirits continuing to outpace the Beer industry. As a result Total Beverage Alcohol market share shifted again with Beer at 46.6% share down (-1.9%), Spirits at 35.8% share (+1.9%), and Wine at 17.6% share (+1.4%).

2021 Beverage Sectors In-Focus

THINGS ARE GETTING BLURRY IN TODAY'S SELTZER AND RTD COCKTAIL MARKET

Walking down the beverage aisles in today's grocery store, bottle shop, or big box retailer is looking a whole lot different with the explosion of new brands and flavors on the shelves. Retailers have commonly merchandized and sold Beer, Wine, and Spirits together in an alcoholic beverage section; however, beers are typically sold next to other beers, wine with other wine, and spirits with spirits. Well all that is changing now too; with new innovations across the Beverage industry leading to products such as Hard Seltzer Waters and Ready-to-Drink (RTD) cocktails.

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2021 Beverage Sectors In-Focus (Continued)

Table 3

US Wine Industry 2020 vs. 2019

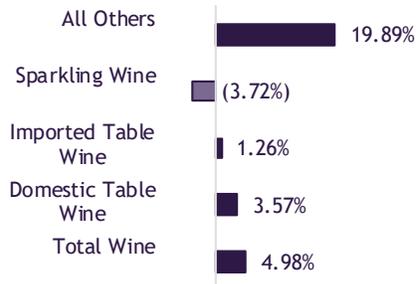


Table 4

US Spirit Industry Volume 2020 vs. 2019

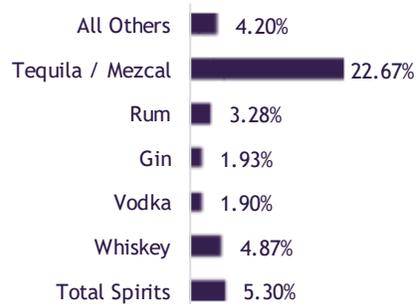
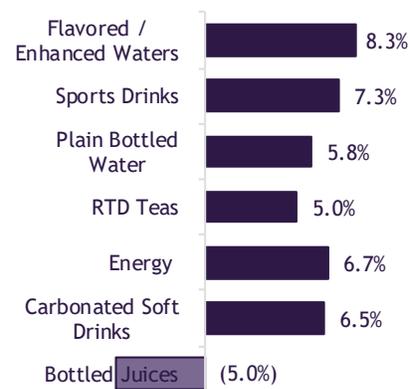


Table 5

Total Non-Alcoholic Beverages 2020 vs. 2019 Volume Trends



Seltzers and RTD cocktails tend to share common characteristics; they're light, refreshing and sessionable with ABV levels mainly in the 4 - 9% range. The main difference between Seltzers and RTDs is the base liquid they're made from with Seltzers being derived from a malt/sugar base and RTD cocktails being made from either a Wine or Spirits base. But how many everyday consumers know that? Based on a recent Nielsen study, not many, with ~60% of consumers associating Hard Seltzers as their own category and less than 10% of consumers associating Seltzers with Beer. Seeing the tremendous success and consumer demand for products such as White Claw and Truly, the Wine and Spirits industries delivered innovative products to compete in a quickly evolving new category. Seltzers and RTDs have created a new gray space between Beer, Wine, and Spirits and blurring categories that have largely been kept separate. The end result is an eruption of new brands, innovations and products that are coming to market and arguably leading to the most competitive square feet in beverage retail.

So who are the players and what does this emerging Seltzer/RTD industry look like? Beer based Seltzers enjoy a healthy first mover advantage led by two powerhouse brands, White Claw and Truly, which collectively make up nearly 75% of the \$4Bn Hard Seltzer market in FY20. Bud Light Seltzer and Corona Seltzer rank 3rd and 4th in the Seltzer category with estimated sales of \$440MM and \$200MM per Nielsen, respectively. Within Spirit based RTD brands only two have generated sales of more than \$100MM; Jose Cuervo's tequila based Playamar brand and E&J Gallo's vodka and soda themed High Noon. Rancho La Gloria is Wine's largest RTD brand with sales of around \$70MM. Despite the appearance that Beer's Seltzer brands dominate this new "tweener" category, Wine and Spirit brands are coming on strong and catching up quickly. According to Spirits industry trade group DISCUS, through FYE 2020 RTD's only accounted for 2.6% of Spirits' total volume but contributed more than 17% of the industry's growth. Moreover, large producers like Diageo are just getting started making several big bets into the RTD space with an \$800MM investment in production capacity for their Crown Royal and Ketel One cocktails along with other acquisitions to build out a portfolio of brands. Even though Wine and Spirit RTDs are gaining traction they still face challenges in higher excise tax requirements and limited sales channels as compared to Beer's Seltzer brands in some markets.

One thing is clear, Seltzers and RTDs have shaken up the market; but key questions remain unanswered: (1) Is the growth in Beer's Seltzers a training ground for consumers to move further and more frequently into Wine and Spirits? Or (2) Are Seltzers the new found weapon to re-take consumption and occasions that Beer has been losing to Wine and Spirits for years? Given the pace of the market we'll find out soon.

COVID-19 MAY HAVE CHANGED ALCOHOLIC DIRECT-TO-CONSUMER (DTC) SALES FOREVER

FY 2020 created a number of transformational moments directly and indirectly related to the COVID-19 pandemic. One notable event was the impact that COVID had on DTC sales and more specifically DTC sales for alcoholic beverages. MasterCard recently shared that global E-commerce sales jumped \$900Bn in 2020 increasing E-commerce sales to nearly 20% of all retail spending. COVID forced shutdowns caused a tremendous lift in E-commerce and DTC sales for the total beverage industry at 140% increase in FY20 vs. FY19 according to Nielsen. Total Beverage Alcohol outpaced the broader beverage index growing +230% YoY. Spirits led the way gaining +396%, followed by Beer +233%, and Wine +198%. In nominal terms, Wine largely dominates DTC for Beverage Alcohol with total industry sales of around \$3.7Bn in FY20 compared to Spirits at approximately \$900MM and Beer at ~\$400MM. Wine's strength in DTC stems from the regulatory benefits of being able to legally ship to 45 states within the US as compared to Beer and Spirits where only +/- 12 states allow for some form of DTC shipping currently (although expanding).

Companies are embracing DTC strategies to capture and create multiple revenue streams as described by E-commerce and digital platform provider, Craftpeak. Craft breweries pivoted to DTC after COVID forced them to shut down highly profitable taprooms. Many brewers found DTC sales helped to offset their lost taproom business while maintaining strong margins. Additionally brewers found other revenue channels through subscription programs and VIP clubs where exclusive offerings were only shared with members. VIP clubs not only created excitement around the limited release offerings but also produced favorable cash flow dynamics as most memberships are paid upfront and inventory is predetermined.

Lastly it's worth noting that not all DTC models are the same. Companies such as Craftpeak can connect a manufacturer directly to the end consumer, while other models operate as "E-tailers" where product is received from traditional distributors and then sold through their website. Unique still is a last mile delivery model like Drizly who receives inbound orders, purchases the products from participating retailers, and then delivers the order to the end consumer for a fee.

Despite 2020's many challenges it highlighted and accelerated the emerging DTC industry within Beverage Alcohol; a shift that could have a material impact across the category.