Economic Overview: Trends in the U.S. Spirits Market
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Distilled Spirits Council of the United States
Senior Vice President, Economic and Strategic Analysis
Economic Overview

- Industry Growth
- Market Share
- Category Drivers
- Industry Potential
U.S. Supplier Revenues Up 5.3 Percent to $29 Billion - $1.5 Billion Gain

Supplier Gross Revenues (Billions)

Source: Distilled Spirits Council Market Segmentation Database
U.S. Volume Up 3.3 Percent in 2018
Up 7.6 Million to 239 Million Cases

U.S. Spirits Volume (Millions)

Source: Distilled Spirits Council Market Segmentation Database
Spirits Market Share – Revenue
Each Point Worth $770M

Source: Distilled Spirits Council Market Segmentation Database
Spirits Market Share – Volume
Each Point is Worth 6.6M Cases

Volume Market Share

Source: Distilled Spirits Council Market Segmentation Database
Growth by Price Point (Revenue)

Source: Distilled Spirits Council Market Segmentation Database

2018 Incremental Growth Compared to 2019

Source: Distilled Spirits Council Market Segmentation Database
Rapid Growth in Revenue Per 9-Liters

U.S. Gross Supplier Revenue Per 9-Liters

Source: Distilled Spirits Council Market Segmentation Database
Category Drivers

• American whiskey volumes up 8.4%
  • Bourbon/Tennessee 5.5%
  • Rye 14.6%
• Tequila up 8.5%, Mezcal up 15.7%
• Single malt Scotch up 6.9%
• Pre-mixed cocktails up 6.1%
• Super premium up across all categories
U.S. Historical North American Whiskeys

Bourbon, Tennessee, Rye, Canadian & Blends

Source: DISCUS MSDB, Beverage Information Group Handbooks
ECONOMIC OVERVIEW: TRENDS IN THE U.S. SPIRITS MARKET

The Competitive View – Beer and Wine

INAUGURAL DISCUS CONFERENCE – February 18, 2020
Danny Brager – SVP Beverage Alcohol Practice, Nielsen
Danelle Kosmal – VP Beverage Alcohol Practice, Nielsen
BEV AL SIMPLE & HARD FACTS

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WE’RE COMPETING WITH…

- Exclusive Spirit drinkers account for only 7% of Spirit sales;
- Non Exclusive Spirit drinkers contribute the other 93%; 68% from Spirit drinkers who ALSO drink Beer AND Wine

% of Spirit drinkers drinking

Wine 70%  
Beer 65%


Hard Seltzers  Hard Tea/Coffee  Hard Kombucha  Hard Ciders

Non Alc Bev  Sober Curious  Cannabis/THC

52%/18%

26%

Source: Nielsen CannaUse Study (2019)
SPIRITS GAINING SHARE – AT BEER & WINE EXPENSE

Share of Servings – Total Bev Al = 100%

- Beer
- Wine
- Spirits

It was...

**BEER LOSING to WINE & SPIRITS**

It’s now...

**BEER (Core) & WINE LOSING to SPIRITS**

Source: BW166
SPIRITS LEADING; “BEYOND” CORE BEER TURNING “TOTAL” BEER AROUND; WINE TRAILING

Rolling 52 Week Dollar Trends (Off Premise)

*Total Store Definition – Includes Departments Bakery, Baby Care, Dairy, Deli, Frozen, General Merchandise, Grocery, Health & Beauty Care, Household Care, Meat, Pet Care, Produce….

Does NOT Include Alcohol and Tobacco Products (UPC Coded + Random Weight)

Off Premise Source: Nielsen Measured Off-Premise Outlets – Total U.S.

Beer includes ALL Flavored Malt Beverages, Hard Cider, Hard Kombucha
HEALTH & WELLNESS
Better for *Me*
Better for *We*
Transparency

DRINKING “BETTER”
Premiumization

FLAVOR
Taste/Styles
Mixology

BLURRING/PROMISCUITY
Categories
Channels
Competitors

TODAY’S BEV AL U.S. CONSUMER DRIVEN LANDSCAPE

EXPERIENCE
Food & Entertainment led
Authenticity & Local
Cocooning

CONVENIENCE
How/where we buy (e-comm)
What we buy (packaging)

POP’N/GEN SHIFTS
Multi-Cultural
Ageing Population
Gen Z/Millennial vs Boomers+
Spirits Category Strengths/Growth Drivers

• Diversity
  - Drink types/flavors (Mixology; Cocktail culture) – every drink can be a new one
  - Broad Consumer Base – Age/Generation, Gender, Multi-Cultural
  - Broad Company/Brand Growth Contribution – Big & Small/Craft; Public & Private

• Premiumization
• Attractive Price per serving/great value
• Range of Pack Sizes
• Innovation
• Marketing Support
• Strong(er) Brand Loyalty
WHAT IS “BEER” TODAY?
# A Tale of Two Categories

<table>
<thead>
<tr>
<th>TOTAL CATEGORY</th>
<th>CATEGORY EXCLUDING FMB/SELTZER</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Dollar Change</td>
<td>% Dollar Change</td>
</tr>
<tr>
<td><strong>3.3</strong></td>
<td><strong>0.0</strong></td>
</tr>
</tbody>
</table>

- **Beer/FMB/Seltzer/Cider Category**
- **Category ex FMB/Hard Seltzer**

Source: Nielsen Off Premise All Outlet Scan; 52 weeks ending 1/25/20
Seltzers contributed more growth dollars than all other growth segments combined.

Source: Nielsen Off Premise All Outlet Scan; 52 weeks ending 1/25/20
TOP 10 BEER BRANDS THEN VS NOW...

2011

2019

Source: Nielsen Off Premise All Outlet Scan; 52 weeks ending 1/25/20
Did someone say Seltzers?

Tweet

La Croix walked so Hard Seltzer could destroy the galaxy
SELTZERS SURPASSED $1.5 BILLION IN 2019

Hard Seltzer Off Premise Dollar Sales ($MM)

Hard Seltzers generated $1 billion with just over 200 items on shelf!

Source: Nielsen All Outlet Scan; 52 weeks ending 1/25/20
# NOT ALL SELTZERS ARE THE SAME

<table>
<thead>
<tr>
<th>*PRICE</th>
<th>ABV</th>
<th>TOP FLAVOR</th>
<th>CALORIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>$33.61</td>
<td>5%</td>
<td>Black Cherry</td>
<td>100</td>
</tr>
<tr>
<td>$31.30</td>
<td>4.2%</td>
<td>Passion Fruit</td>
<td>88</td>
</tr>
<tr>
<td>$32.74</td>
<td>5%</td>
<td>Black Raspberry</td>
<td>100</td>
</tr>
<tr>
<td>$26.07</td>
<td>6%</td>
<td>Aloha Beaches</td>
<td>133</td>
</tr>
<tr>
<td>$37.55</td>
<td>8%</td>
<td>Lime</td>
<td>228</td>
</tr>
<tr>
<td>$31.10</td>
<td>5%</td>
<td>Black Cherry</td>
<td>100</td>
</tr>
</tbody>
</table>

*Average EQ Case Price (288 oz)
Source: Nielsen All Outlet Scan; 52 weeks ending 1/25/20
ASSORTED PACKS ACCOUNT FOR 2/3 OF HARD SELTZER DOLLARS

Assorted packs represent 66% of Hard Seltzer dollars

ASSORTED PACK IS #1 PRODUCT FOR NEARLY EVERY BRAND

Source: Nielsen All Outlet Scan; 26 weeks ending 10/05/19
SELTZERS ARE GENDER-NEUTRAL, AND APPEAL TO YOUNGER LDAC, LIVING IN AFFLUENT AREAS

Source: Nielsen Homescan Panel: 52 weeks ending 10/05/19; Harris Poll conducted in collaboration with Nielsen, January 7-9, 2019
SELTZER DRINKERS ARE ENGAGED DRINKERS

Hard Seltzer buyers spend an average of $219 more on adult beverages annually compared to the average alcohol-buying household.

$477 vs $258

Hard Seltzer buyers increased their total alcohol spend by 10.2% in the latest year

Source: Nielsen Homescan Premium 52 Weeks ending 9/7/19 vs YAG, Total US, All Outlets – Off Premise
WHERE IS SELTZER SOURCING VOLUME?

SELTZER SOURCE OF DOLLAR GAINS

- **53%** came from **Expansion** (adding Seltzer purchase)
- **42%** came from **Shifting** (swapping other alcohol for Seltzer)
- **5%** came from **New Alcohol** buyers

Source: Nielsen Homescan; 52 weeks ending 11/30/19 vs year ago
SELTZER AND RTD TAKING OVER THE SHELVES
GROWTH ACROSS MANY FRINGE SEGMENTS

BEER, WINE, or SPIRITS???

How much does the base Liquid matter compared to other factors?
PROGRESSIVE ADULT BEVERAGES

$5.9 BILLION

+30% vs YAG

What’s included:

• Flavored Malt Beverages inclusive of Hard Seltzers, Teas, Ciders, Kombuchas

• RTD Prepared Cocktails (Spirits)

• Wine Tetra Packs, Cans, Small Sizes in Glass (inclusive of Wine Spritzers and Cocktails)

Source: Nielsen Measured Off Premise Channels (52 weeks ending 12/28/2019)
WINE MARKET VOLUME GROWTH STALLED (at best)

Annual Wine 9L Cases (MM); Shipments

2019 vs 2018:
- Total Wine: +1.1%
- Still Wine: +0.2%
- DM Wine: Flat
- CA: +0.8%
- IMP Bulk Still: -6.3%

Source: BW166
Is the U.S. Wine consumption boom over?

Oversupply of premium wine, slower sales growth

Millennials not embracing wine

Millennials like White Claw better than wine

Hard times ahead for U.S. Wine

Wine grape growers felt the squeeze in 2019; 2020 looks no friendlier
# WINE – GROWTH WINNERS

## Table Wine (100%)

<table>
<thead>
<tr>
<th>Price Tier</th>
<th>Double Digits</th>
<th>Share</th>
<th>Mid to High Single Digits</th>
<th>Share</th>
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</thead>
<tbody>
<tr>
<td>PRICE TIER</td>
<td></td>
<td></td>
<td>=&gt;$11+</td>
<td>39.5%</td>
</tr>
<tr>
<td>ORIGIN</td>
<td>Oregon</td>
<td>1.5%</td>
<td>New Zealand</td>
<td>3.5%</td>
</tr>
<tr>
<td>VARIETAL</td>
<td>Rose’</td>
<td>4.0%</td>
<td>Sauv Blanc</td>
<td>6.9%</td>
</tr>
<tr>
<td>PACKAGE TYPE</td>
<td>Cans</td>
<td>0.3%</td>
<td>3L Box</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

## Sparkling Wine (100%)

<table>
<thead>
<tr>
<th>Price Tier</th>
<th>$12-$15</th>
<th>21.8%</th>
<th>$11+</th>
<th>52.6%</th>
</tr>
</thead>
<tbody>
<tr>
<td>ORIGIN/VARIETAL</td>
<td>Prosecco</td>
<td>22.7%</td>
<td>Italy</td>
<td>34.9%</td>
</tr>
<tr>
<td></td>
<td>Rose’</td>
<td>8.3%</td>
<td>France</td>
<td>20.8%</td>
</tr>
<tr>
<td>PACKAGE TYPE</td>
<td>Cans</td>
<td>0.8%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Total Wine (100%)

<table>
<thead>
<tr>
<th>Package Type</th>
<th>Tetra</th>
<th>1.5%</th>
<th>Cans</th>
<th>0.4%</th>
</tr>
</thead>
</table>

Source: Nielsen Total U.S. Measured Off-Premise Outlets – 52 w/e 12-28-2019
Consumers shopping more online; and less in stores (17 fewer Grocery store trips per year now vs 2000)

Alcohol is a want (not need) - impulse in-store purchases at risk

Consumers must have convenient & affordable online browsing & shopping experiences, plus convenient & affordable options for receiving what was purchased

Source: Nielsen e-commerce measurement (12 Months ending Nov 2019)
WINE DtC SHIPMENTS

• $3.2 Billion; +7.4% vs YAG
• Almost 7MM 9L cases; +4.5% vs YAG
• Average bottle price $40.70
• Of note…
  • Large Wines producers (15% of the volume of all winery DtC Shipments) growing fastest
  • Shipments to CA represent 30% of total U.S.

11% of Domestic Off Premise Retail $
Wine Age/Race Demographics – White & Older

INDEX: Table Wine % of Dollars compared to 21+ Pop’n Impcte %

## WINE WELL BEHIND SPIRITS (& BEER) ACROSS ON-PREMISE CHANNEL TYPES

<table>
<thead>
<tr>
<th>CHANNEL TYPE</th>
<th>WINE</th>
<th>BEER</th>
<th>SPIRITS</th>
</tr>
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<tbody>
<tr>
<td>Airport Bar</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brewpub</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Casino</td>
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<td></td>
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<tr>
<td>Casual Dining</td>
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<td></td>
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<tr>
<td>Fine Dining</td>
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<td></td>
<td></td>
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<tr>
<td>Game Bar</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Groceraunt</td>
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<td></td>
<td></td>
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<tr>
<td>Indep. Restaurant</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Neighborhood Bar</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Premium Bar</td>
<td></td>
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</tr>
<tr>
<td>Premium Nightclub</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Polished Casual</td>
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<td></td>
<td></td>
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<tr>
<td>Sports Bar</td>
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<tr>
<td>Stadium</td>
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**What drinks do you typically drink when at (this channel)?**

>20% Response
Wine Headwinds/Tailwinds

**CATEGORY HEADWINDS**

- Demographic challenges
  - Underdevelopment among younger generations, and Multi-cultural consumers
  - Reliance upon ‘older’ generations that will drink less as they age
- Relatively low brand loyalty
- Highest price per serving
- Narrowly confined in On Premise
- Wine hasn’t effectively enough addressed (or messaged) aspects around…
  - Local/craft marketing
  - Being part of a healthy lifestyle
  - Single serve options

**CATEGORY TAILWINDS**

- Gender equality
- Alternative Packaging diversity
- Growth in Eating AND Drinking occasions
- Winner among Bev AI e-comm (incl DtC)
- Expanding & larger location store count
  - Newer/different channels
  - State(s) legalization into mainstream channels
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<tr>
<td>Growth</td>
<td>UP</td>
<td>(Core) Growth</td>
<td>DOWN</td>
<td>Growth</td>
<td>FLATTISH</td>
</tr>
<tr>
<td>Share</td>
<td>UP</td>
<td>(Core) Share</td>
<td>DOWN</td>
<td>Share</td>
<td>DOWN</td>
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<tr>
<td></td>
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<td>“Beyond” Beer</td>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>UP</td>
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