Economic Overview: Trends in the U.S. Spirits Market

Distilled Spirits 2019

February 17, 2020 | New York City

DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES

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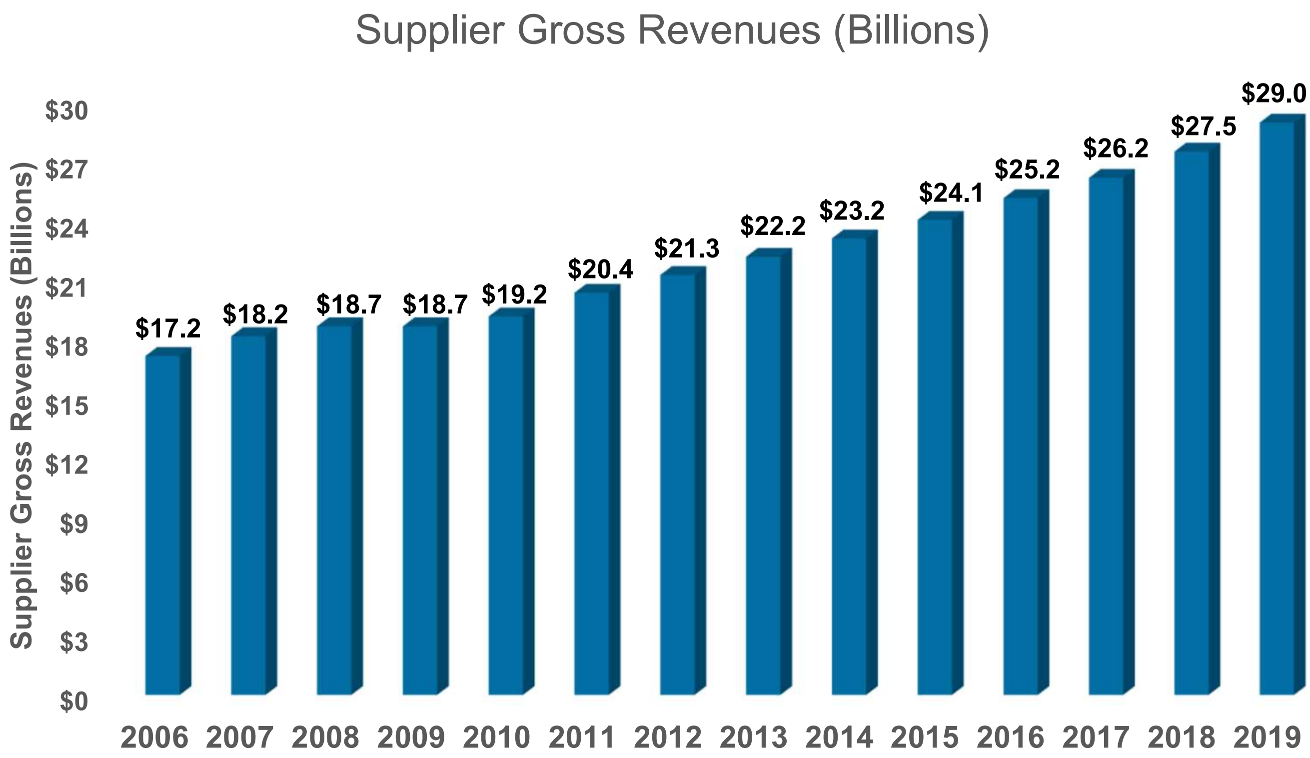
DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES

Economic Overview

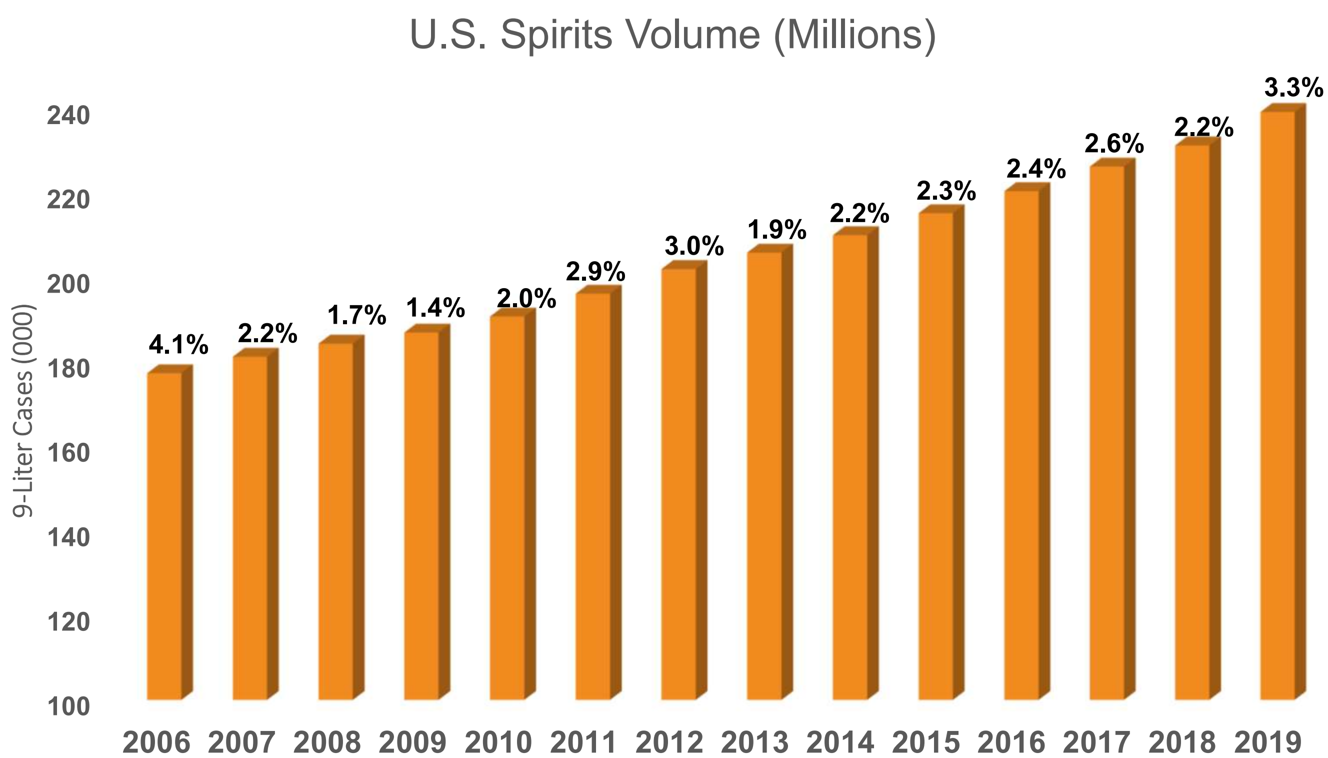
- Industry Growth
- Market Share
- Category Drivers
- Industry Potential

U.S. Supplier Revenues Up 5.3 Percent to $29 Billion - $1.5 Billion Gain



Source: Distilled Spirits Council Market Segmentation Database

U.S. Volume Up 3.3 Percent in 2018
Up 7.6 Million to 239 Million Cases



Source: Distilled Spirits Council Market Segmentation Database

Spirits Market Share – Revenue
Each Point Worth $770M

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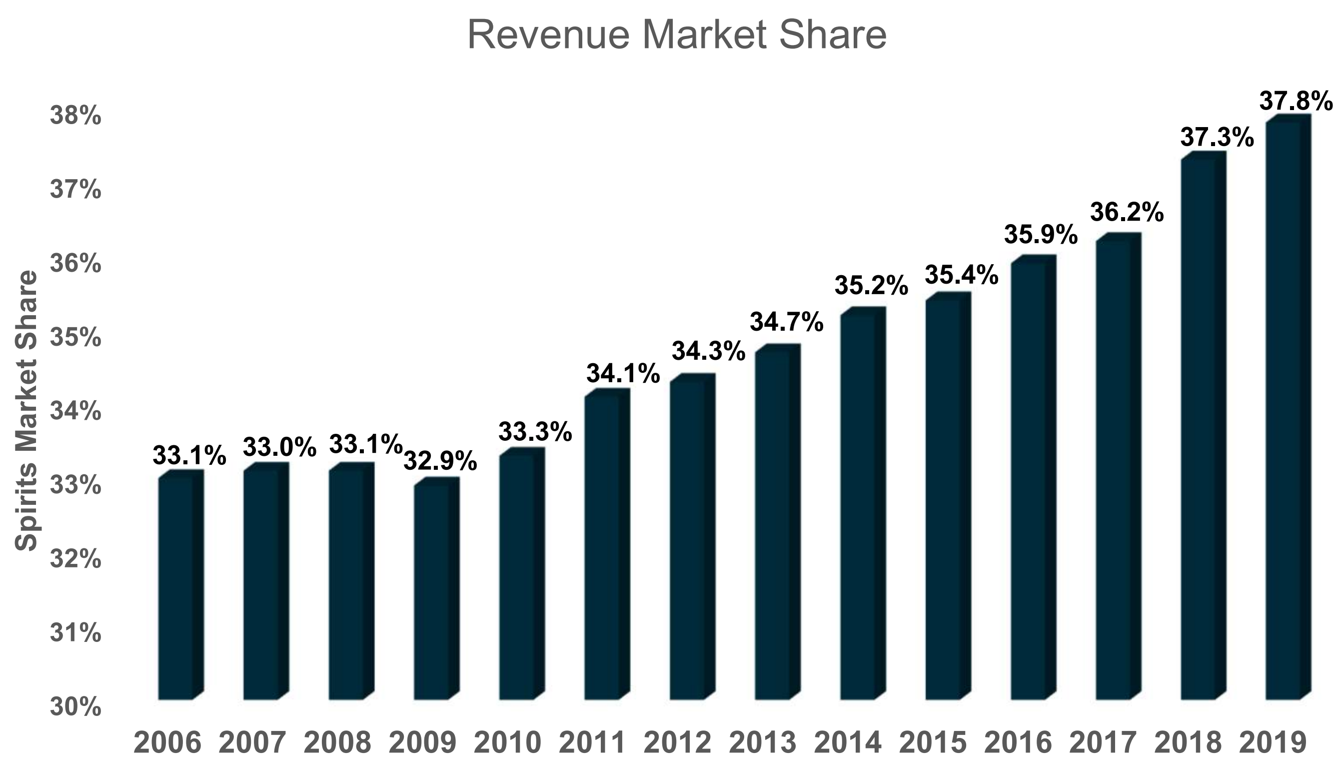
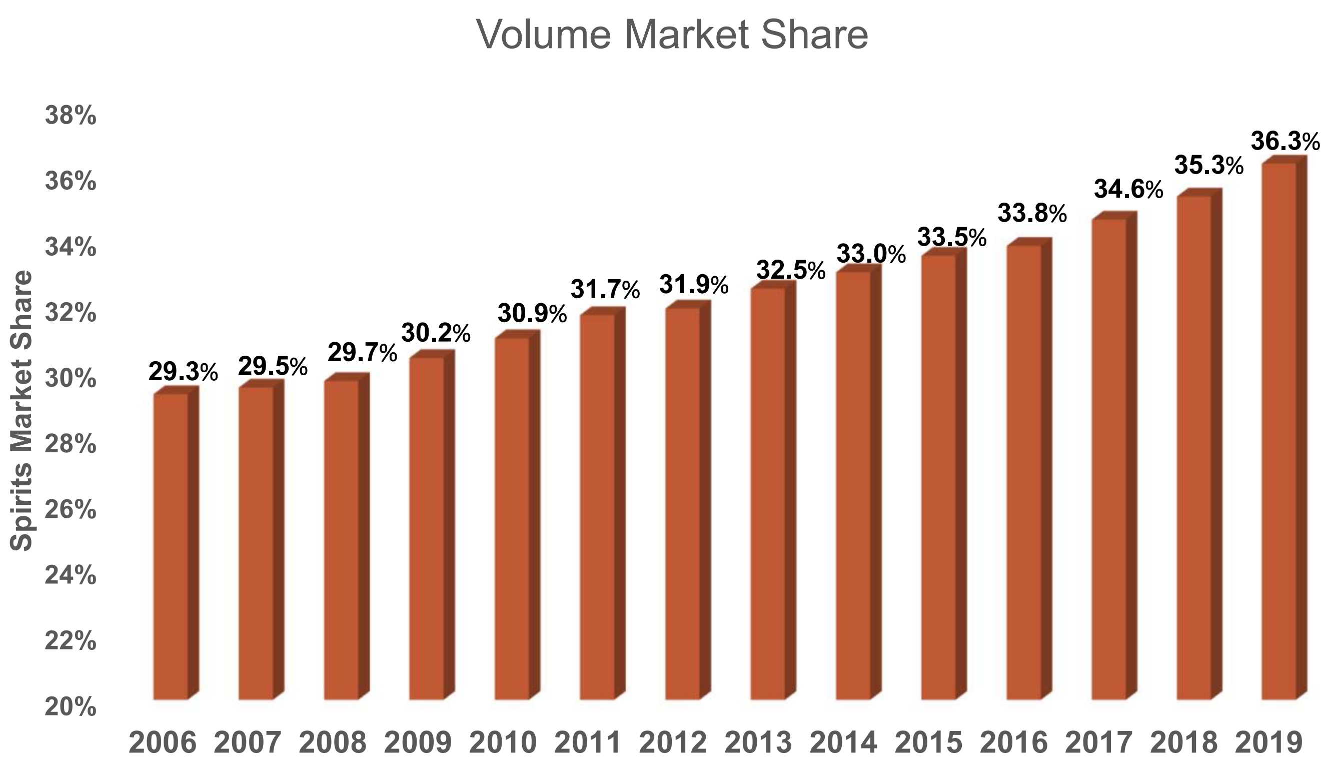


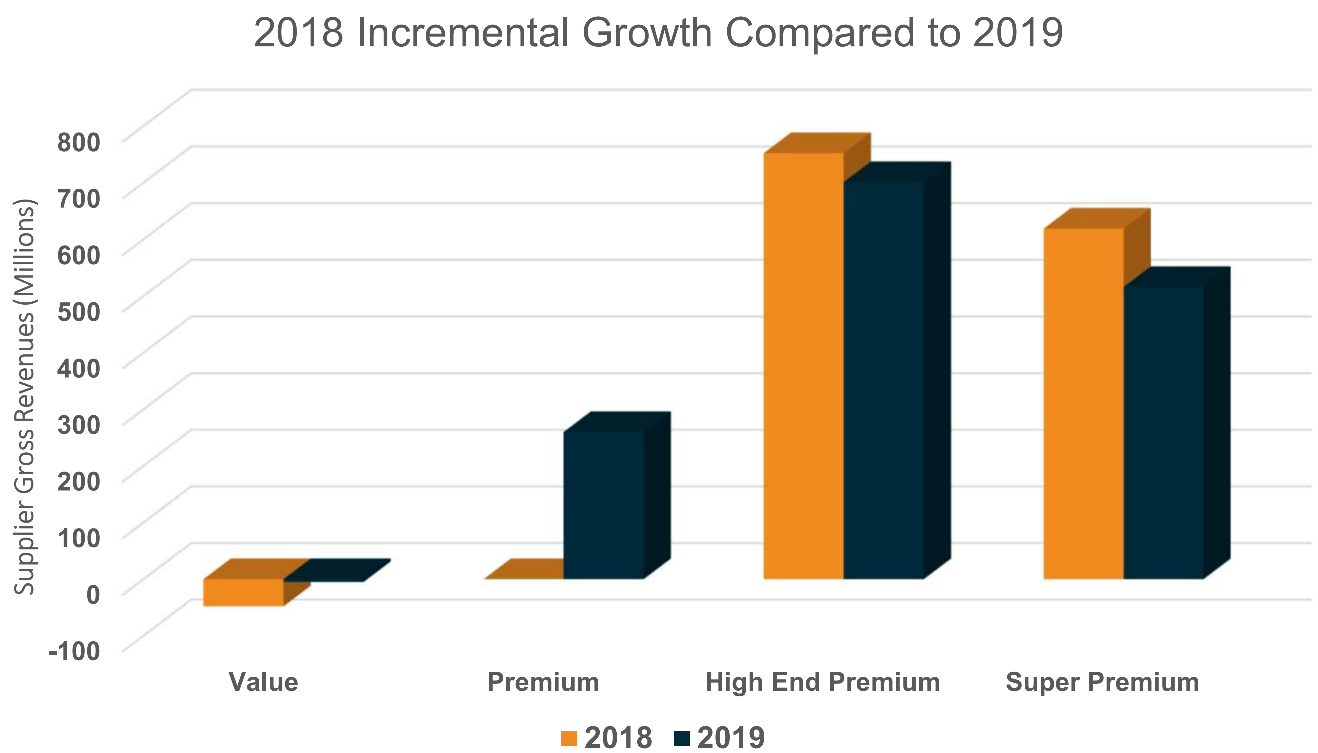
Source: Distilled Spirits Council Market Segmentation Database

Spirits Market Share – Volume
Each Point is Worth 6.6M Cases



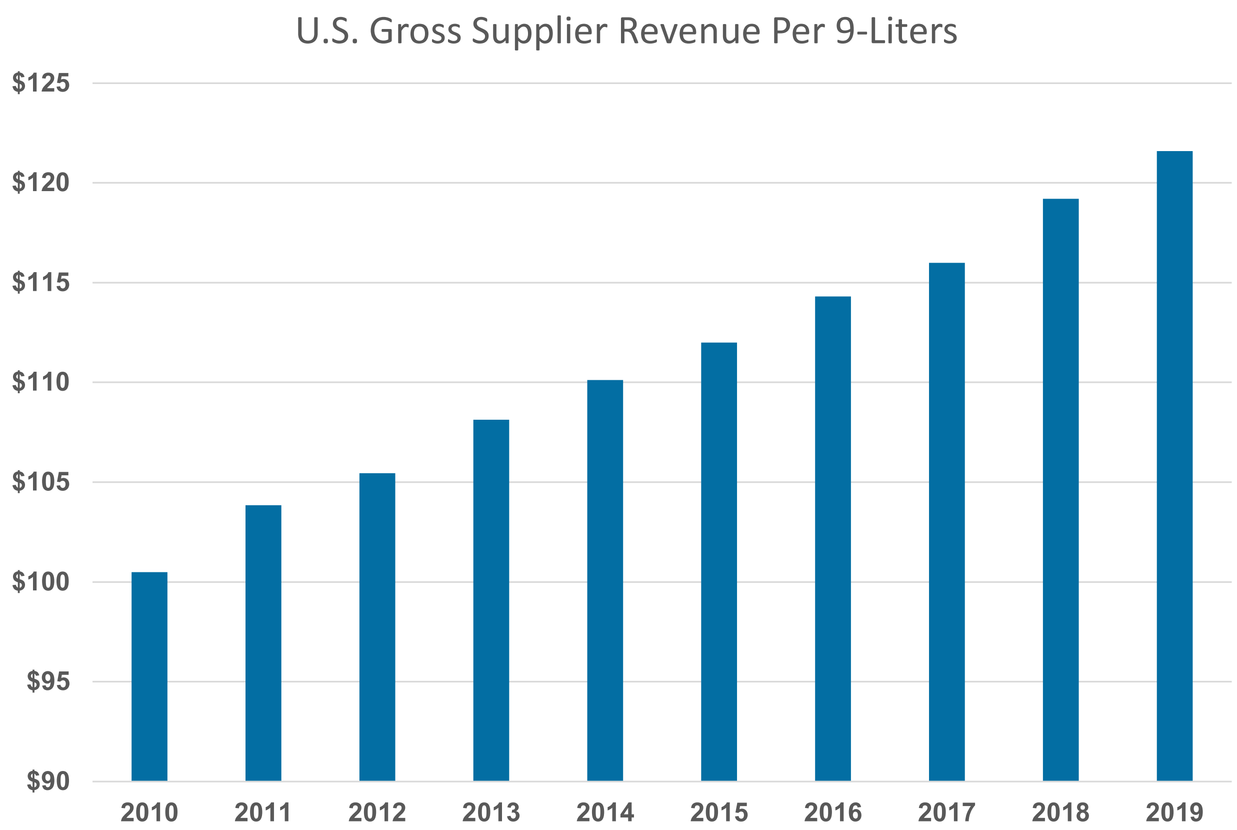
Source: Distilled Spirits Council Market Segmentation Database

Growth by Price Point
(Revenue)



Source: Distilled Spirits Council Market Segmentation Database

Rapid Growth in Revenue Per 9-Liters

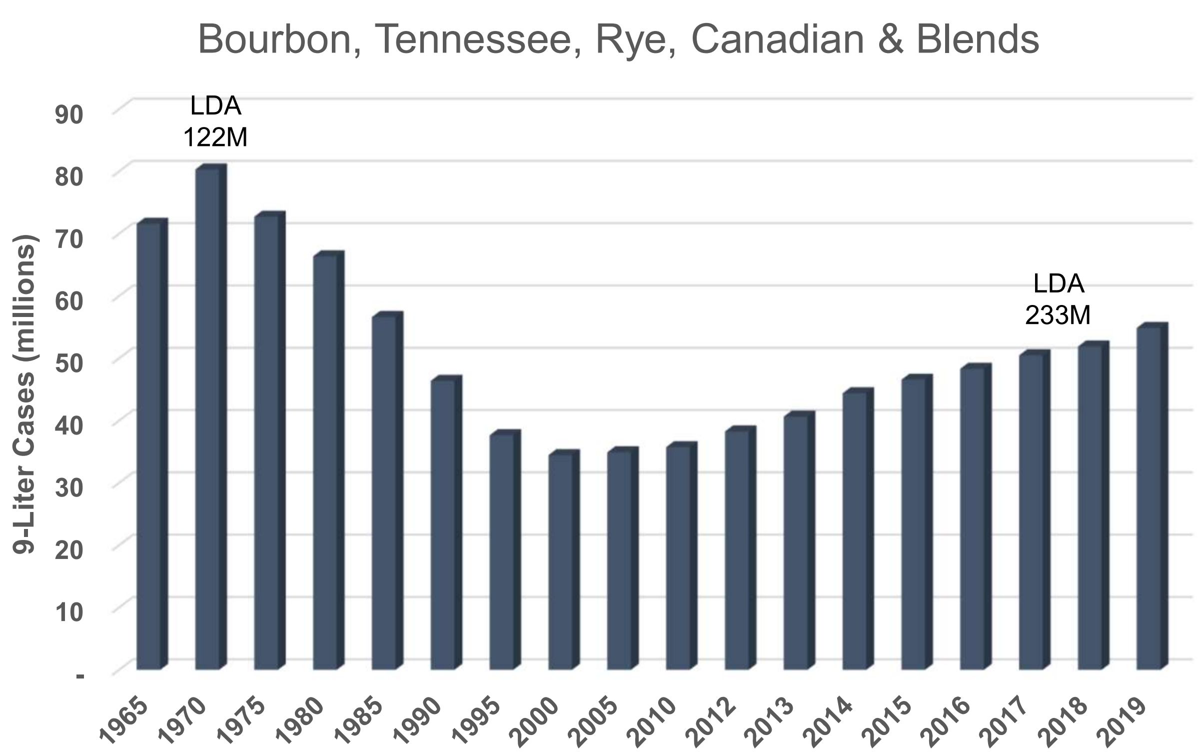


Source: Distilled Spirits Council Market Segmentation Database

Category Drivers

- American whiskey volumes up 8.4%
  - Bourbon/Tenness 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



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

WHAT	DIRECTION
Per capita Alcohol consumption	FLAT
% of people “drinking”	CONSTANT
LDA Population Growth	LIMITED

WE'RE COMPETING WITH…

Wine | **Beer**

% of Spirit drinkers drinking → Wine: **70%** | Beer: **65%**

Source: Nielsen Homescan (2019)

- **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**

Hard Seltzers | **Hard Tea/Coffee** | **Hard Kombucha** | **Hard Ciders**

Non Alc Bev

Sober Curious

52%/18%

The Harris Poll
Harris Insights & Analytics LLC, A Stagwell Company

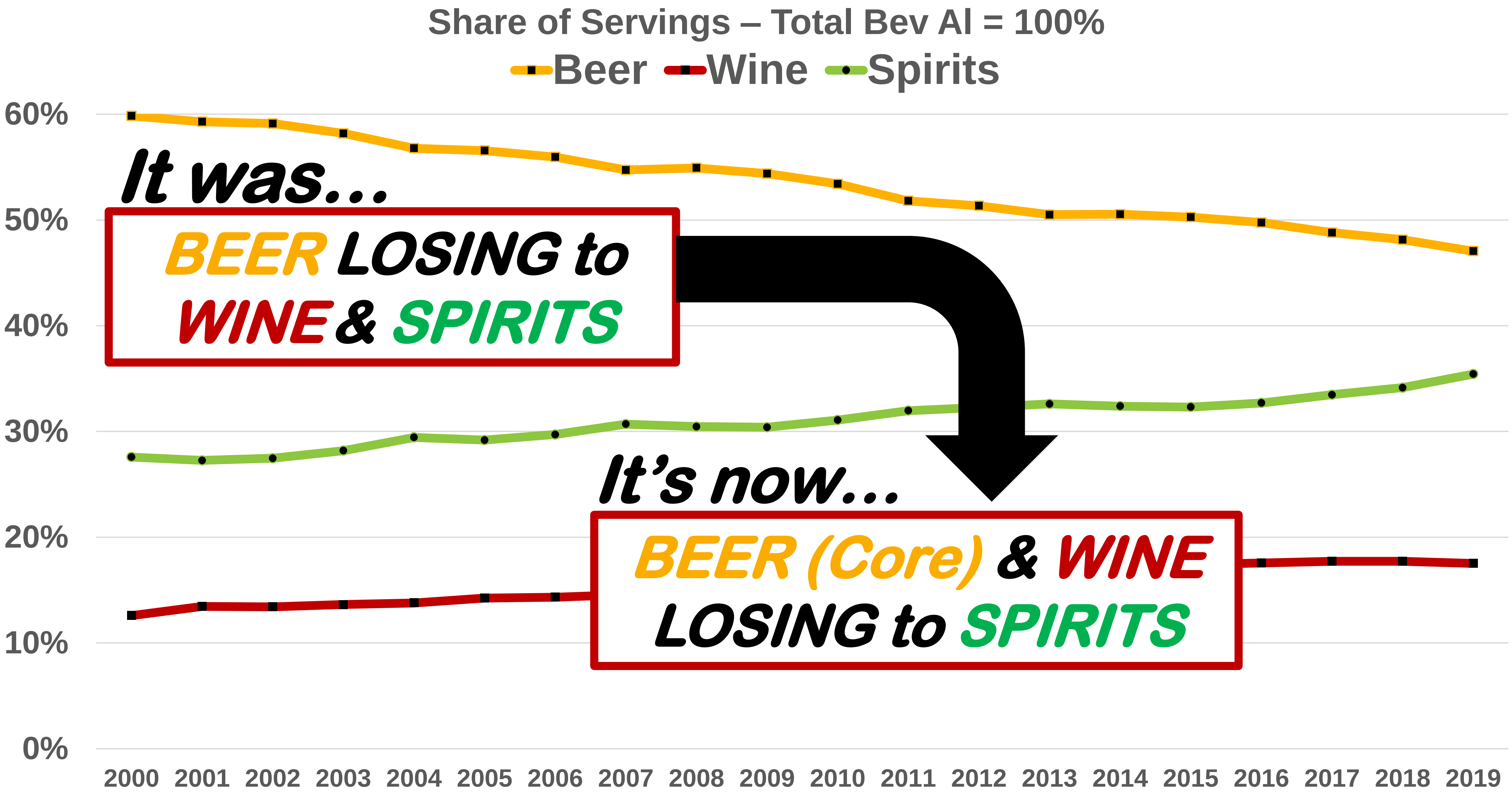
survey conducted online by The Harris Poll in partnership with **Nielsen** (Jan 30 – Feb 3, 2020)

Cannabis/THC

26%

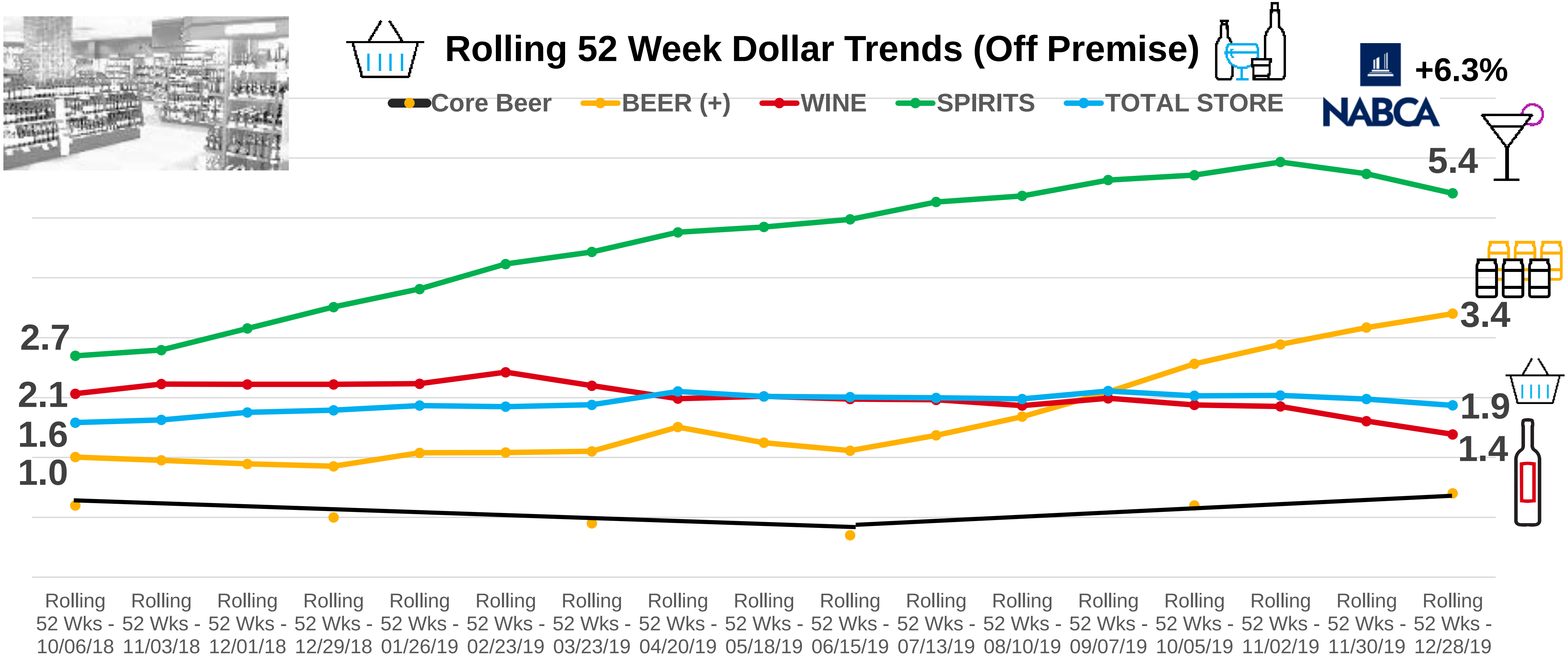
Source: Nielsen CannaUse Study (2019)

SPIRITS GAINING SHARE – AT BEER & WINE EXPENSE



Source: BW166

SPIRITS LEADING; "BEYOND" CORE BEER TURNING "TOTAL" BEER AROUND; WINE TRAILING



*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

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

HEALTH & WELLNESS

Better for ***Me***
Better for ***We***
Transparency

DRINKING *"BETTER"*

Premiumization

FLAVOR

Taste/Styles
Mixology

BLURRING/ PROMISCUITY

Categories
Channels
Competitors

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?

FMB Seltzer

Lager Kombucha Cocktail

Cider Coffee IPA

A TALE OF TWO CATEGORIES

TOTAL CATEGORY

% Dollar Change

Beer/FMB/Seltzer/Cider Category

CATEGORY EXCLUDING FMB/SELTZER

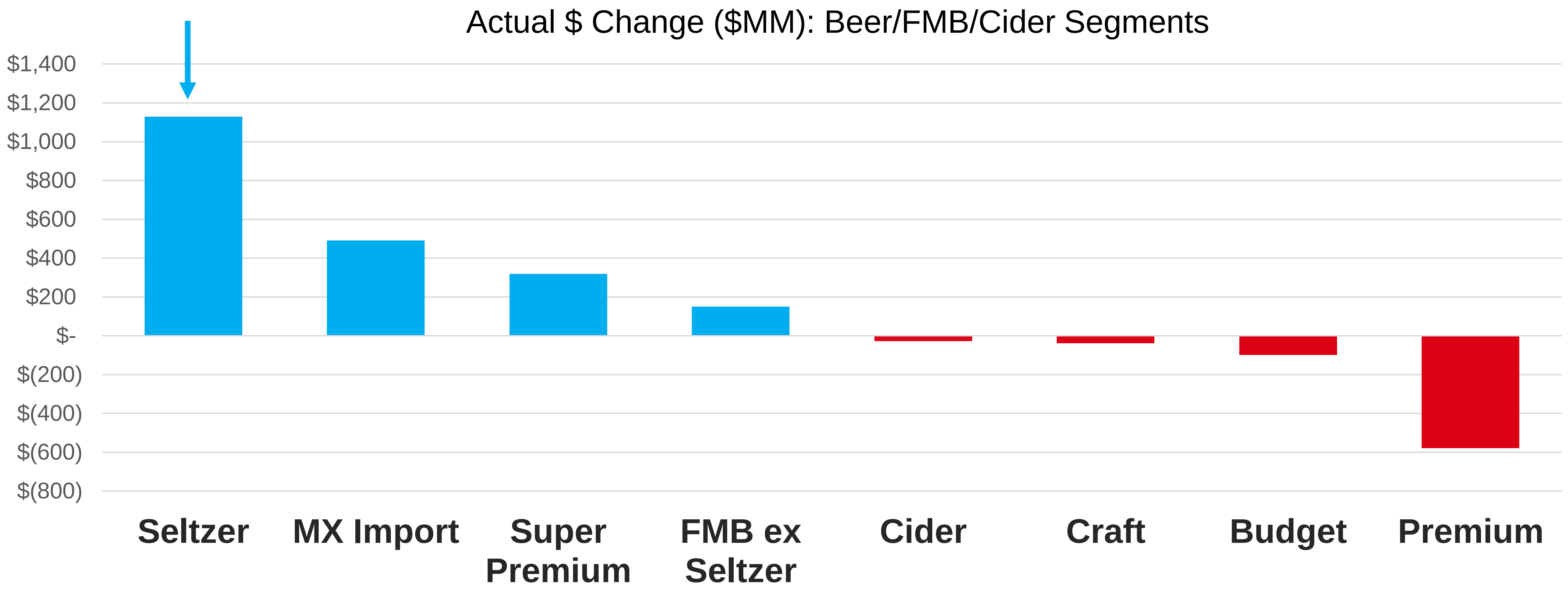
% Dollar Change

Category ex FMB/Hard Seltzer

Source: Nielsen Off Premise All Outlet Scan; 52 weeks ending 1/25/20

SELTZER GROWTH OFFSETS MAINSTREAM BEER DECLINES

Seltzers contributed more growth dollars than all other growth segments combined

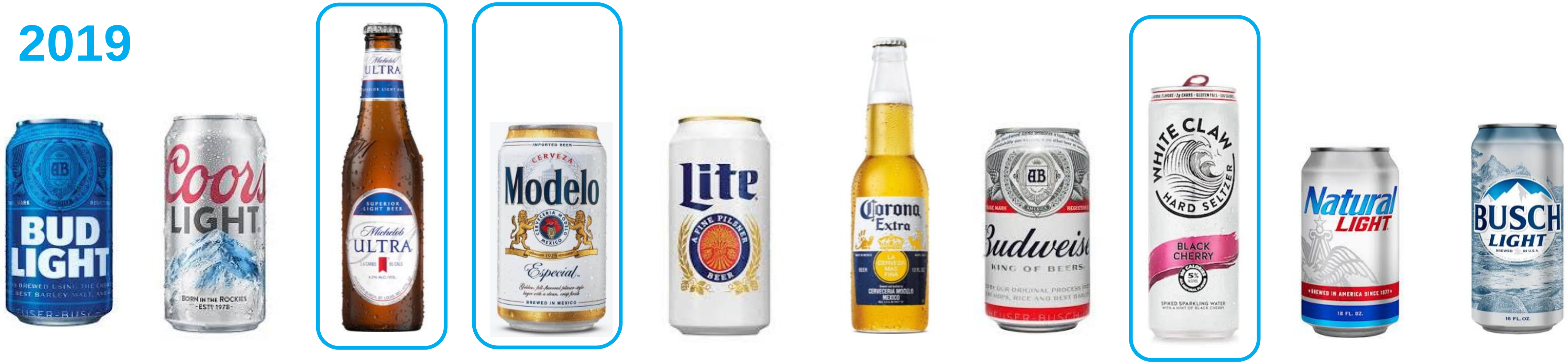


Source: Nielsen Off Premise All Outlet Scan; 52 weeks ending 1/25/20

TOP 10 BEER BRANDS THEN VS NOW…

2011

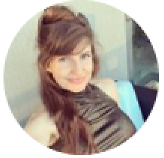
2019



Source: Nielsen Off Premise All Outlet Scan; 52 weeks ending 1/25/20

Did someone say Seltzers?

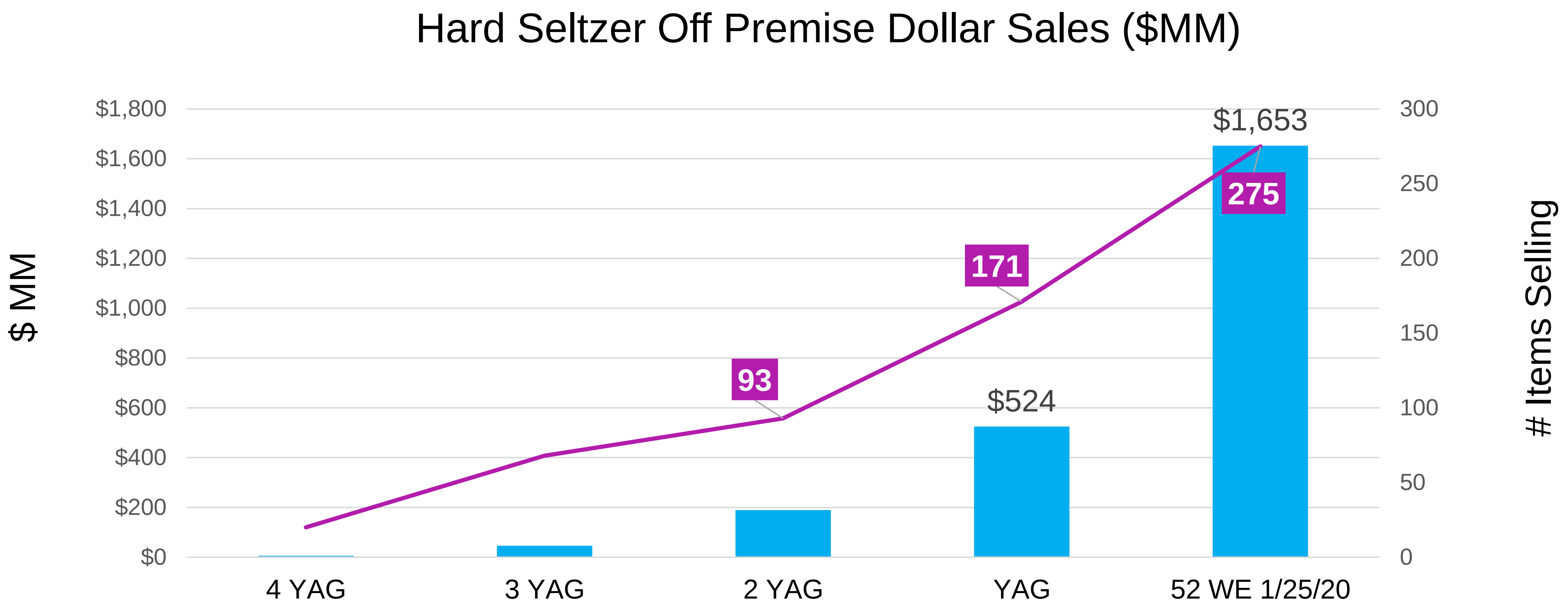
Tweet



brenna boy
@BonniePuns

La Croix walked so Hard Seltzer could destroy the galaxy

SELTZERS SURPASSED $1.5 BILLION IN 2019



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

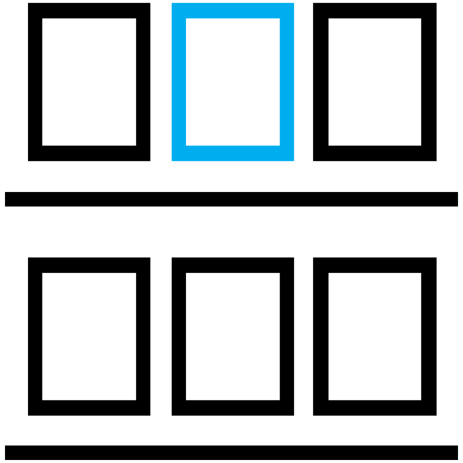
Source: Nielsen All Outlet Scan; 52 weeks ending 1/25/20

NOT ALL SELTZERS ARE THE SAME

***PRICE**	$33.61	$31.30	$32.74	**$26.07**	**$37.55**	$31.10
ABV	5%	**4.2%**	5%	**6%**	**8%**	5%
TOP FLAVOR	Black Cherry	Passion Fruit	Black Raspberry	Aloha Beaches	Lime	Black Cherry
CALORIES	100	**88**	100	133	**228**	100

*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

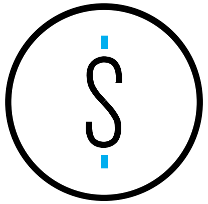
66%

of Hard Seltzer dollars

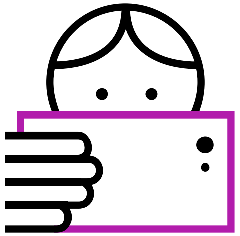
ASSORTED PACK IS #1 PRODUCT FOR NEARLY EVERY BRAND

Source: Nielsen All Outlet Scan; 26 weeks ending 10/05/19

SELTZERS ARE GENDER-NEUTRAL, AND APPEAL TO YOUNGER LDAC, LIVING IN AFFLUENT AREAS



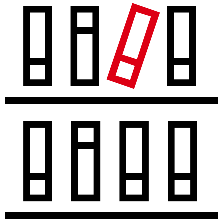
Higher Income



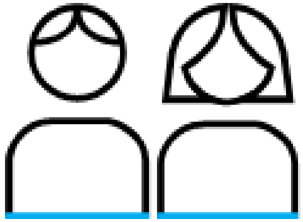
Millennials Age 21-44

Affluent Neighborhoods

White



College Educated



Gender Neutral

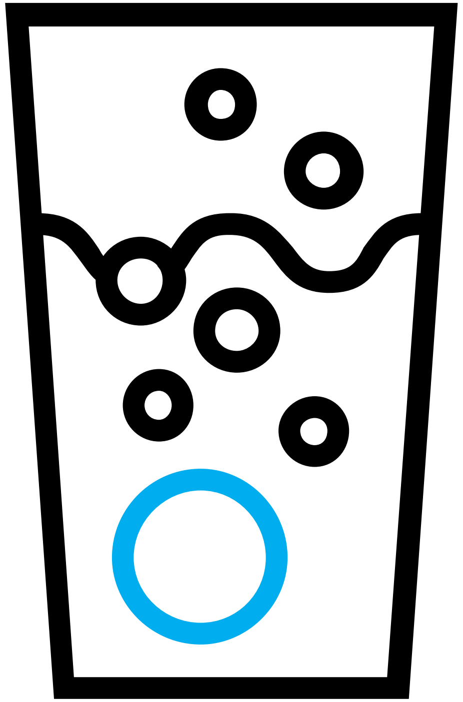
Source: Nielsen Homescan Panel: 52 weeks ending 10/05/19; Harris Poll conducted in collaboration with Nielsen, January 7-9, 2019

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.



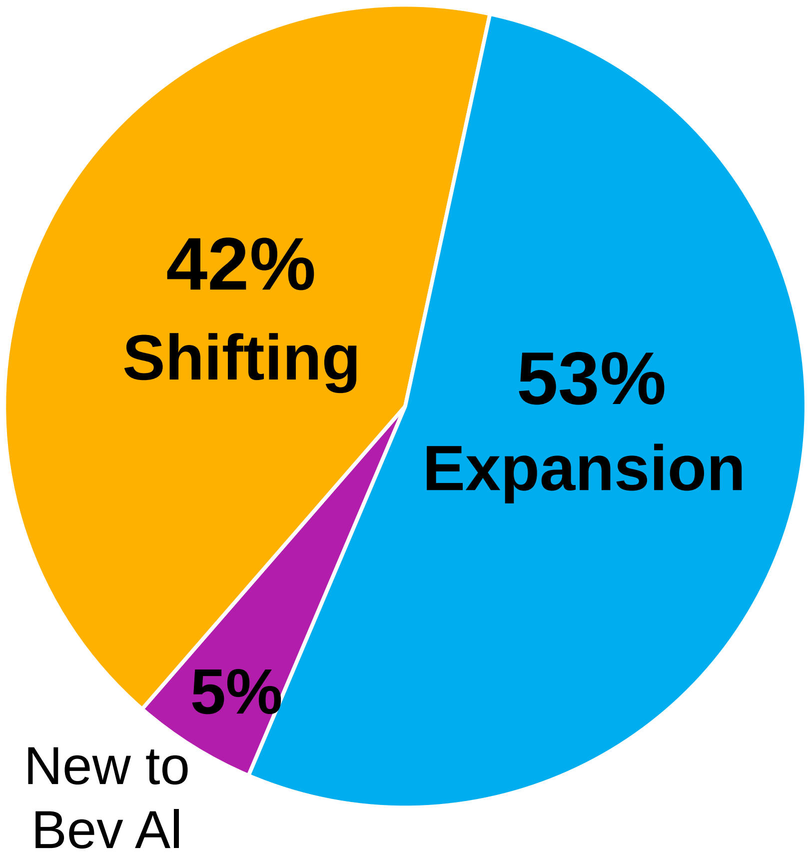
$477 vs $258

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

Source: Nielsen Homescan Premium 52 Weeks ending 9/719 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)

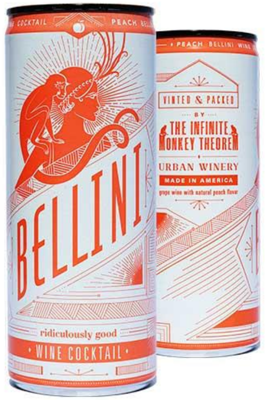
5% came from **New Alcohol** buyers

Source: Nielsen Homescan; 52 weeks ending 11/30/19 vs year ago

SELTZER AND RTD TAKING OVER THE SHELVES

GROWTH ACROSS MANY FRINGE SEGMENTS

HARD KOMBUCHA
$21MM
+69%



WINE COCKTAILS
$107MM
+45%

"BEER" COCKTAILS
$175.4MM
+207.4%

CANNED WINE
$111MM
+79%

HARD COFFEE
$2MM
+???%

RTD SPIRITS COCKTAILS
$105MM
+83%

Source: Nielsen AOD Syndicated Beer, Wine, and Spirits databases [Total US All Outlet, 52Wks W/E 12/28/2019]

BEER, WINE, or SPIRITS???

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

PROGRESSIVE ADULT BEVERAGES

$5.9 BILLION

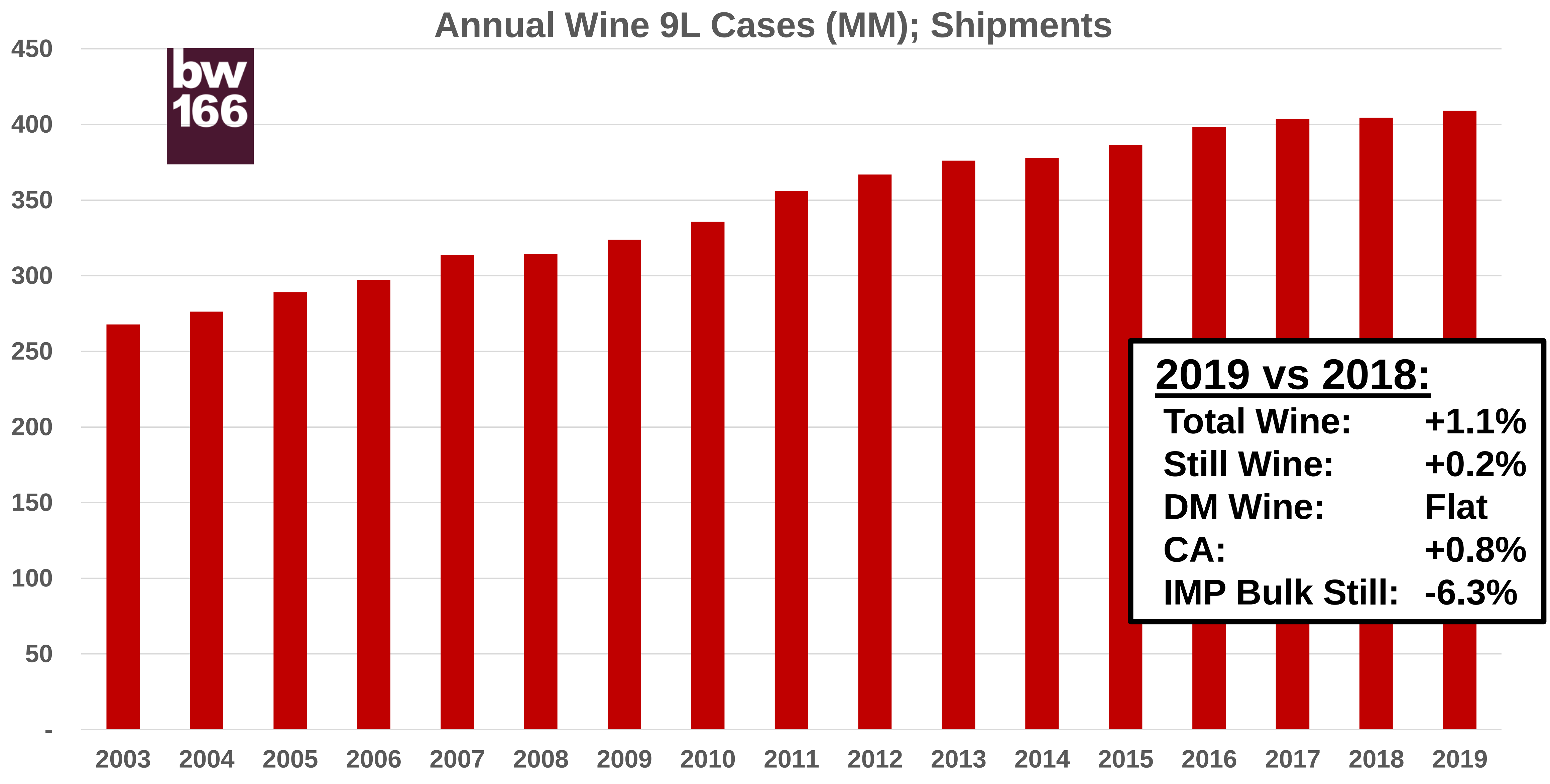
+30% vs YAG

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)



Source: BW166

January 2020

NEWS

№ 34747/53

Only fresh news — www.news.com — founded 1953

- ***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***

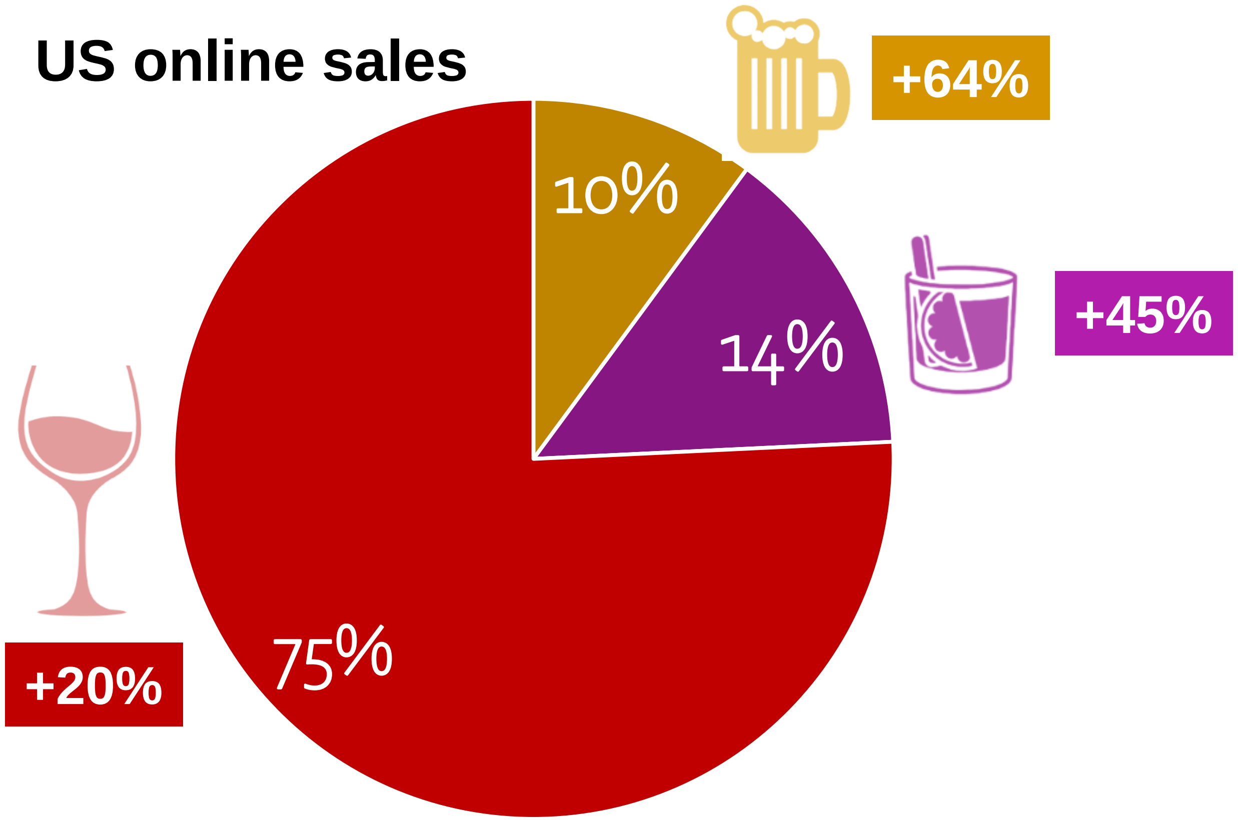
WINE – GROWTH WINNERS

Table Wine (100%)	Double Digits	Share	Mid to High Single Digits	Share
PRICE TIER			>$11+	39.5%
ORIGIN	Oregon	1.5%	New Zealand	3.5%
VARIETAL	Rose’	4.0%	Sauv Blanc	6.9%
PACKAGE TYPE	Cans	0.3%	3L Box	4.7%
Sparkling Wine (100%)				
PRICE TIER	$12-$15	21.8%	$11+	52.6%
ORIGIN/VARIETAL	Prosecco Rose’	22.7% 8.3%	Italy France	34.9% 20.8%
PACKAGE TYPE	Cans	0.8%		
Total Wine (100%)				
PACKAGE TYPE	Tetra Cans	1.5% 0.4%		

Source: Nielsen Total U.S. Measured Off-Premise Outlets – 52 w/e 12-28-2019

WINE LEADS IN BEV AL E-COMMERCE

- 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

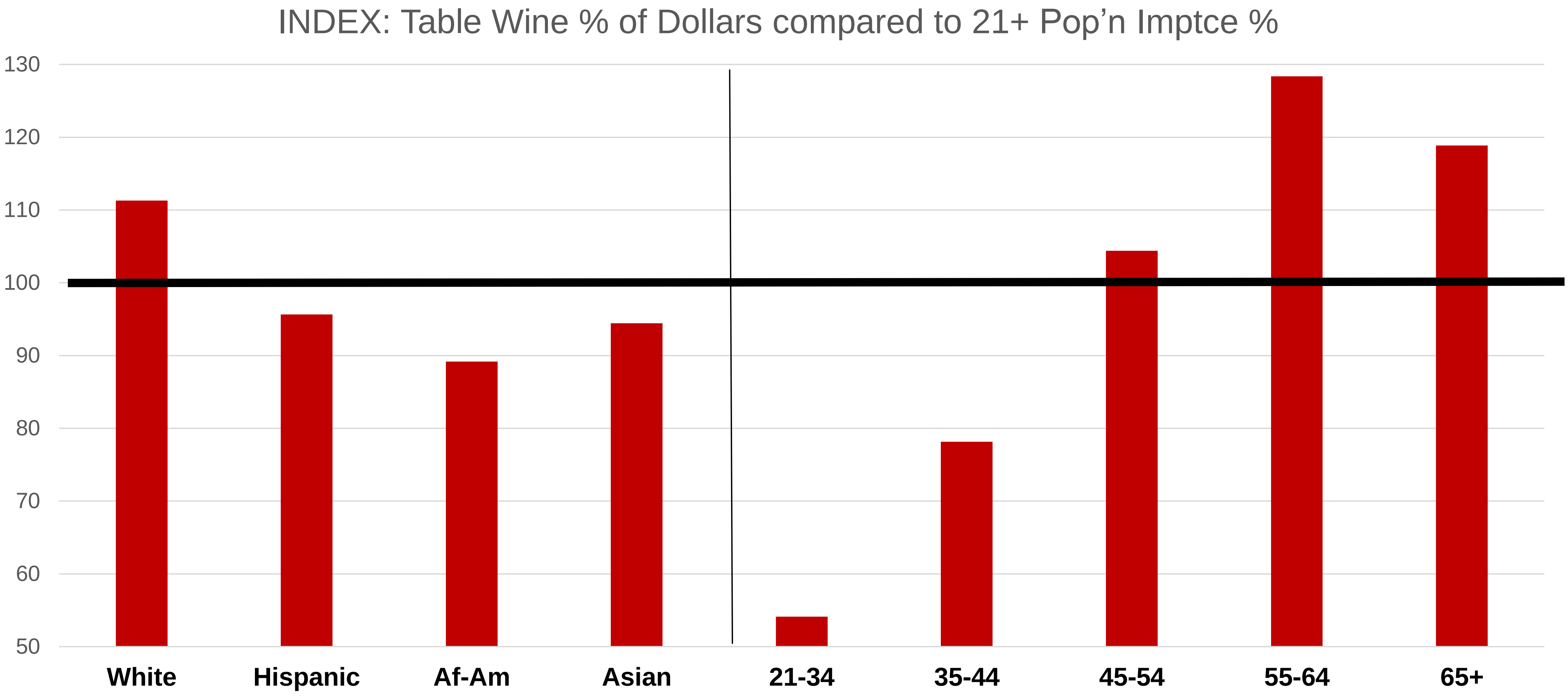
Source: Nielsen e-commerce measurement (12 Months ending Nov 2019)

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



Source: Nielsen Homescan (2019)

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

CHANNEL TYPE	WINE	BEER	SPIRITS
Airport Bar			
Brewpub			
Casino			
Casual Dining			
Fine Dining			
Game Bar			
Groceraunt			
Indep. Restaurant			
Neighborhood Bar			
Premium Bar			
Premium Nightclub			
Polished Casual			
Sports Bar			
Stadium			

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 Al e-comm (incl DtC)
- Expanding & larger location store count
  - Newer/different channels
  - State(s) legalization into mainstream channels

WHAT	DIRECTION
Per capita Alcohol consumption	FLAT
% of people “drinking”	CONSTANT
LDA Population Growth	LIMITED

SPIRITS	Direction
Growth	UP
Share	UP

BEER	Direction
(Core) Growth	DOWN
(Core) Share	DOWN
“Beyond” Beer	UP

WINE	Direction
Growth	FLATTISH
Share	DOWN

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