DISCUS annual conference





Premiumization is not Passe Examination of the Drivers and Future of this Growing Trend

Dr. Harry Kohlmann CEO Park Street Companies **Jon Berg** Thought Leadership VP – Beverage Alcohol Vertical NielsenIQ

What are Premium Products?

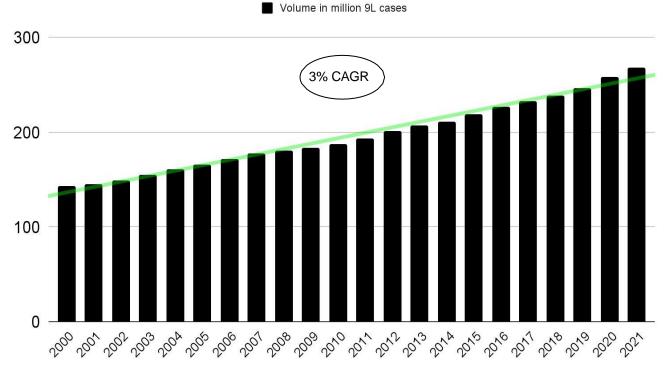
- **Dictionary:** A commodity or product of superior quality and therefore a higher price
- Nielsen: Goods that cost at least 20% more than average price for the category
 Prestige Plus
 Over \$200
- IWSR Price Bands:

| Prestige Plus | Over \$200 |
|-------------------|------------------|
| Prestige | \$100 - 199.99 |
| Ultra - Premium | \$45.00 - 99.99 |
| Super Premium | \$30 - \$44.99 |
| Premium | \$22.50 - 29.99 |
| Standard | \$10 - 22.49 |
| Value | \$9.99 and Under |
| | |

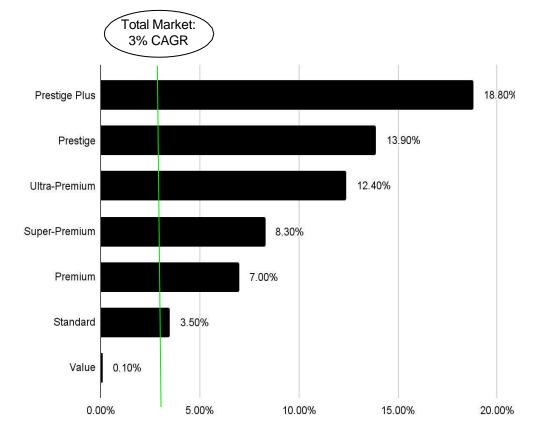


Premiumization Has Driven Spirits Industry Growth for Over 20 Years

U.S. Spirits Market Volume by Category from 2000-2021



US Spirits Market By Category 2000-2021 CAGR in %



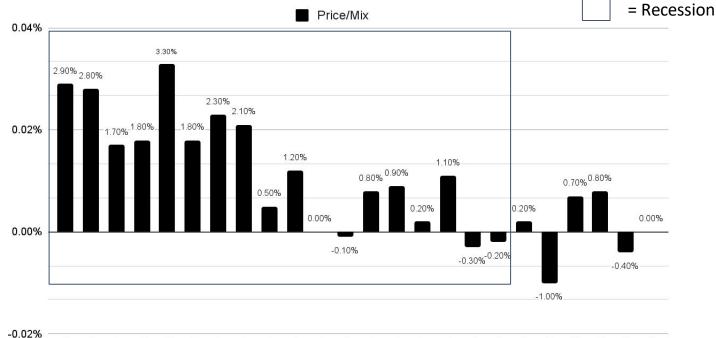
Source: IWSR, Park Street Analysis



Premiumization Trends During Great Recession

- Relatively moderate price/mix growth through first half of recession
- Relatively flat through second half of recession
- No quick recovery after official end of recession

Spirits Market Price/Mix in 2008-2009 in Control States



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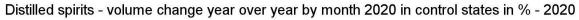
Source: NABCA, Park Street Analysis

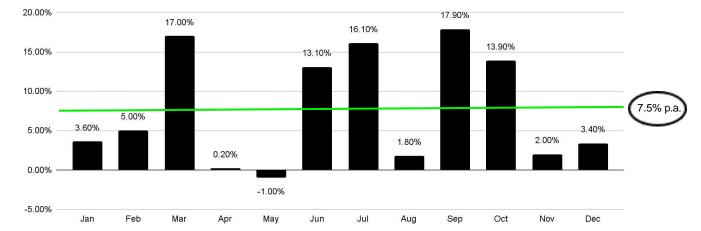


Premiumization Trends During Covid-19

Covid-19

- Overall a record year with volume growth of 7.5% and price/mix growth of 5.6% "Normal" start into the year (Jan/Feb) "Pantry stocking" in March Premiumization acceleration in May Vacation replacement trade-up during 6 consecutive record setting premiumization months from May through October Four record setting volume growth months from June through October
- Market normalization during holiday months





Distilled spirits – price/mix change year over year by month 2020 in control states in %



Source: NABCA, Park Street Analysis





Current Environment and Consumer

Current Environment

| Inflationary | Rising Interest | Rising |
|-------------------|------------------------|------------------|
| Pressures | Rates | Gas Prices |
| Inflation*: +7.9% | Household Debt | +49% |
| CPG: +9.9% | \$15.6 Trillion in '21 | Monthly increase |
| Income: +5.2% | +\$1 Trillion | of +\$87/ car |
| Net Loss | | |

Source: NielsenIQ. Total US xAOC Period ending February 26, 2022. *US Media



Consumer Confidence Trends

Consumer confidence has declined slightly while savings rates are down and wages have increased

Consumer Confidence April

107.3

Down slightly from March

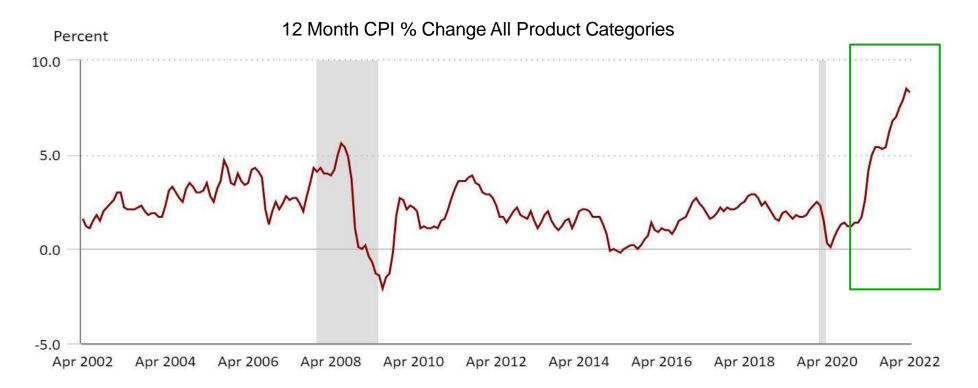
| Unemployment 3.6% | Flat (Apr '22 vs Mar '22) -2.4 pts (Apr '22 vs YAGO) | Unemployment is down |
|-----------------------------|---|-----------------------------------|
| Savings Rate | -0.6 pts (Apr '22 vs Mar '22) -8.2 pts (Apr '22 vs YAGO) | Savings rates continue to fall |
| Average Wages \$31.85 | \$0.10 (Apr '22 vs Mar '22) \$1.65 (Apr '22 vs YAGO) | Average wages up significantly |

Sources: Consumer Confidence Board, Latest Update: April 2022; Federal Reserve Bank of St. Louis | Latest Update: April 2022



Consumer Price Index

CPI Over Time – Indicators of cyclical change



Note: Shaded area represents recession, as determined by the National Bureau of Economic Research. Source: U.S. Bureau of Labor Statistics.



Inflationary Pressures

CPG inflation primarily driven by food departments

Pet Care 13 CPG Household 13 Meat 12 Inflation Seafood 12 Produce 11 +10%Dry Grocery 11 Frozen 10 **Baby** Care 10 Dairy 8 Regular Promoted Deli 8 Price Price Health & Beauty 8 Bakery +8% +12% Alcohol Tobacco

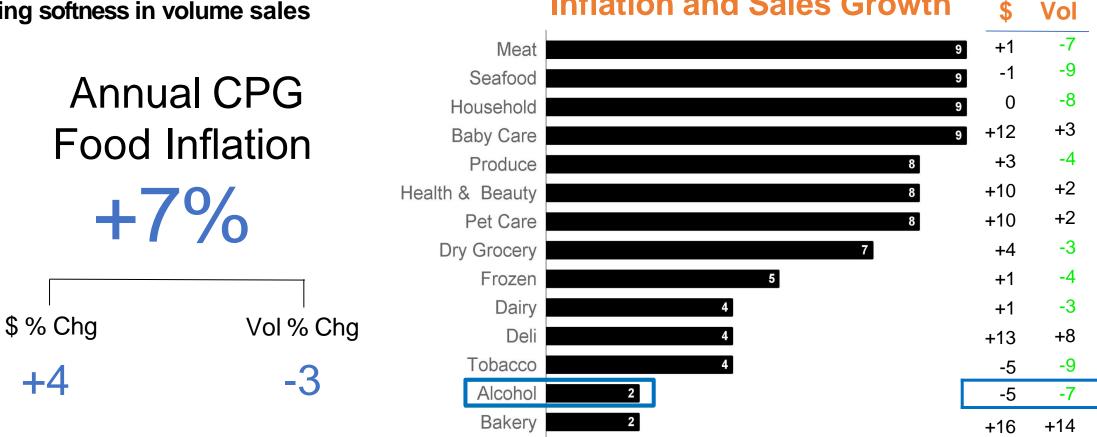
Inflation Varies By Department

Source: NielsenIQ, Total US xAOC, 4 weeks ending February 26, 2022



Stagflation

As prices rise, the majority of CPG departments are reporting softness in volume sales

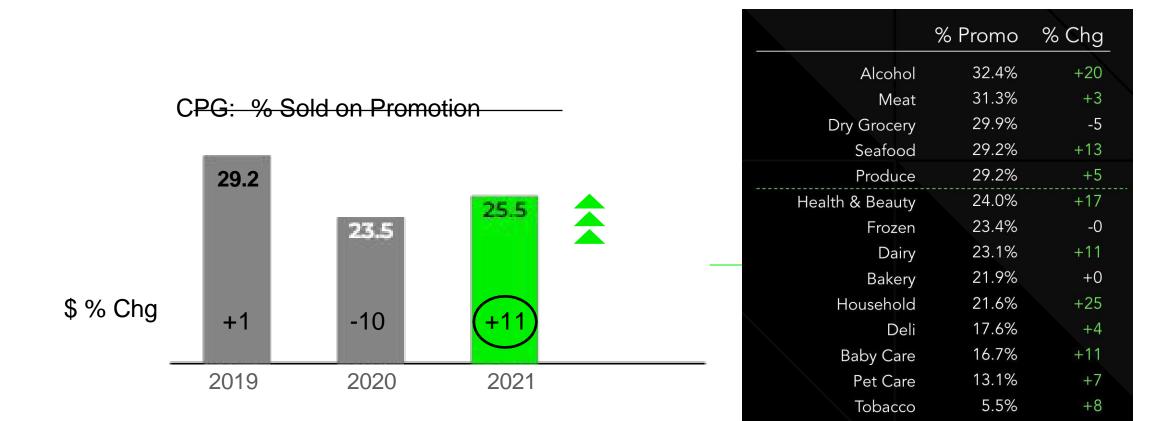


Inflation and Sales Growth

Source: NielsenIQ, Total US xAOC, 52 weeks ending March 19, 2022 - Volume = Units



Promotional Sales Return, but Lag Pre-Pandemic Times

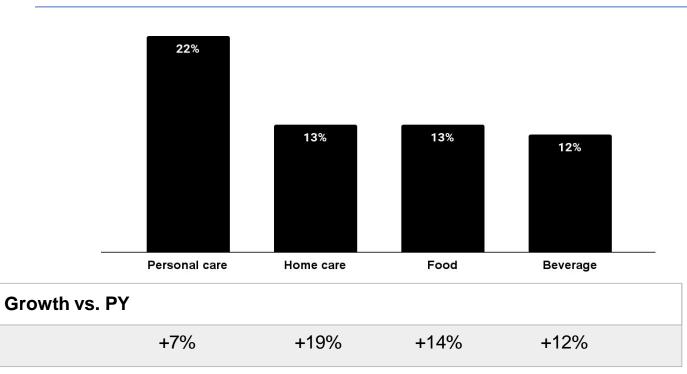


Source: NielsenIQ, Total US xAOC, 52 week periods



Consumers Willing to Pay a Premium for the Right Product

The share of premium products* across categories US continues to increase.



Premium share of category \$ sales (USA)

Source: Nielsen Retail Measurement sales data. * Premium defined as being at least 20% more expensive than the category average price



US Retail Price Tier Trend – Total Spirits

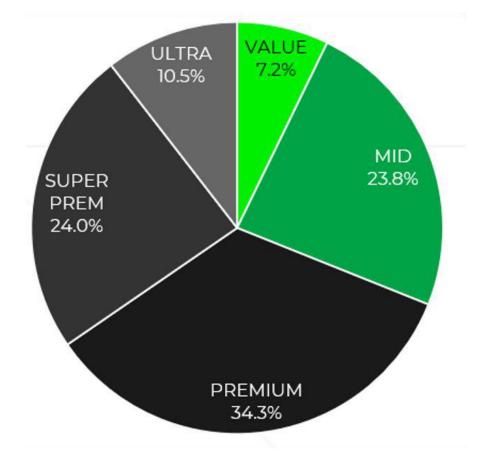


Premium+ is responsible for about 69% of Spirits Value

 Price change is a combination of PI and promotional changes to the shopper.

| | \$ Change | Price Change |
|------------|-----------|-----------------|
| VALUE | -6.9 | 0.3 |
| MID | -2.9 | -1.8 |
| PREMIUM | 1.5 | -1.8 |
| SUPER PREM | -6.7 | 3.2 |
| ULTRA | 2.7 | 1.8 |

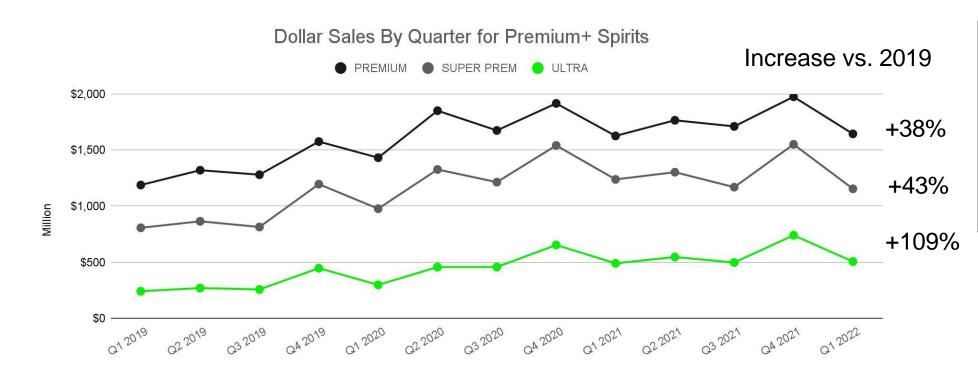
Spirits Price Tier Share of Dollar Sales





Premiumization in Spirits a Driving Force

• While growth is slowing, significant trade up value is still in place



| YTD % Price Change | | | |
|--------------------|--|--|--|
| 2 | | | |
| | | | |
| 3 | | | |
| 3 | | | |
| | | | |
| | | | |
| | | | |

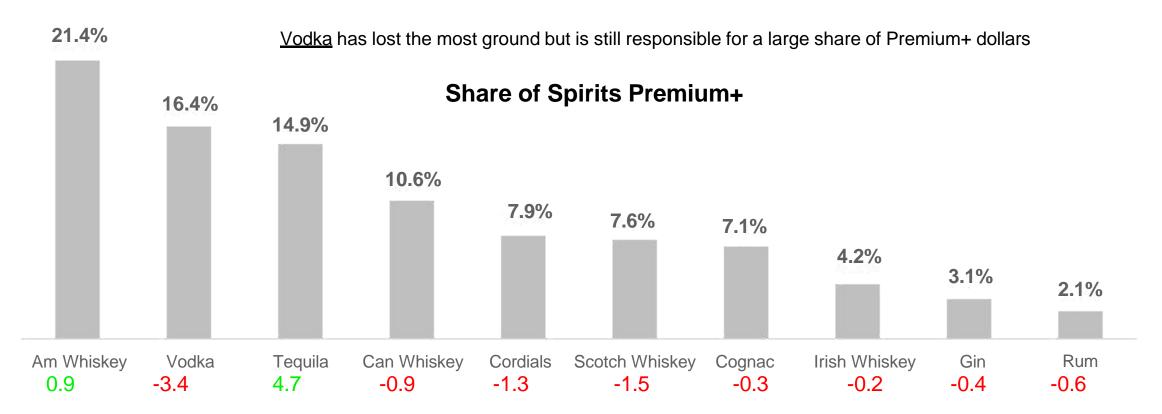
Super Premium and Ultra

continue to increase average retail price. Switching and trade up especially with Tequila is a driver.

Total US xAOC Liquor+ Conv



Premium+ Spirits Driven by Tequila & Whiskey

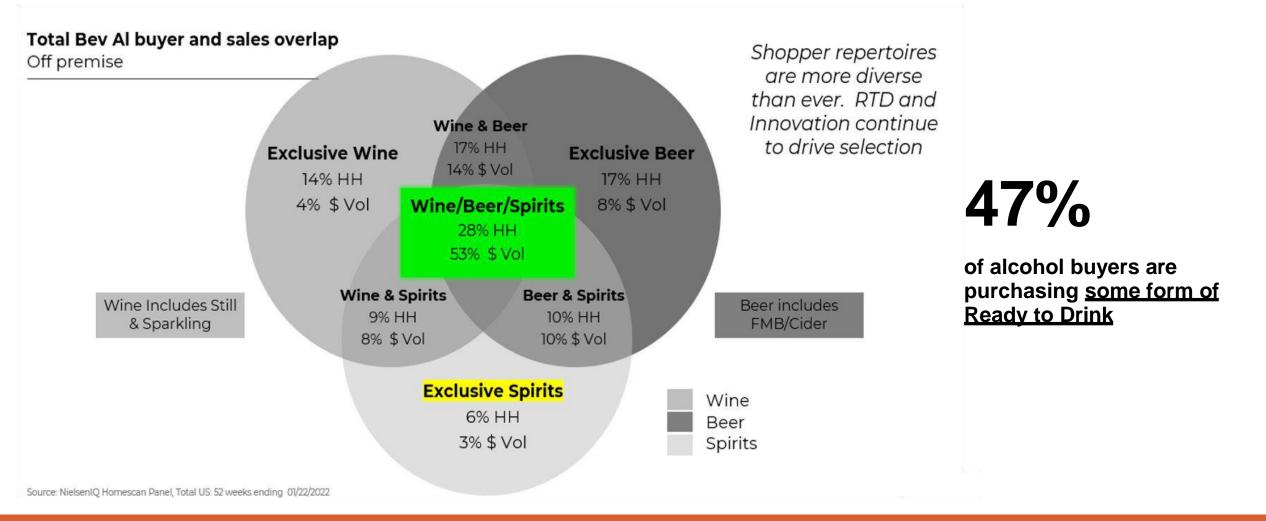


Share Change of Premium+ Since 2019

Total US xAOC Liquor+Conv April 2022



Repertoire Could Impact Premiumization

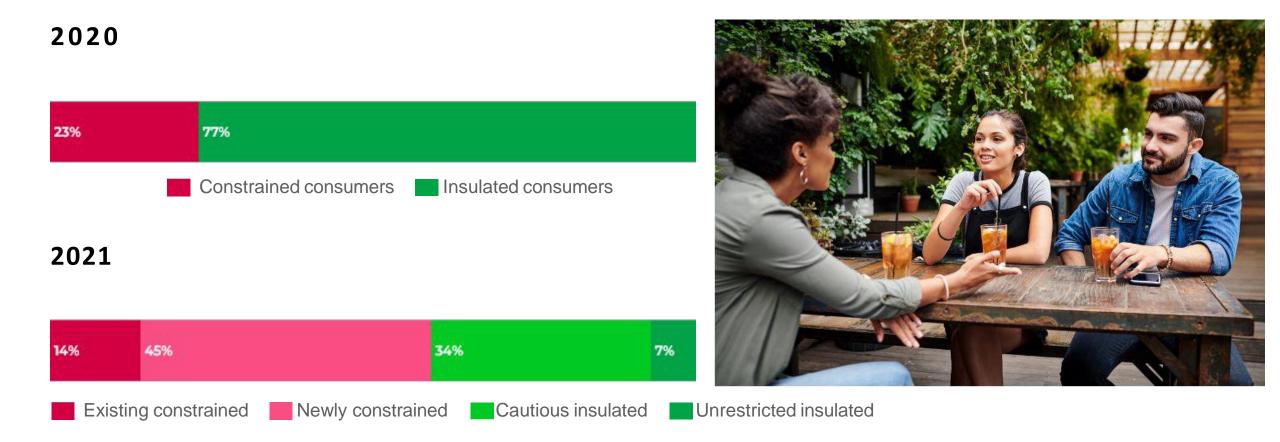






Consumer Evolution Post-Covid

How consumers were evolving the past 2 years

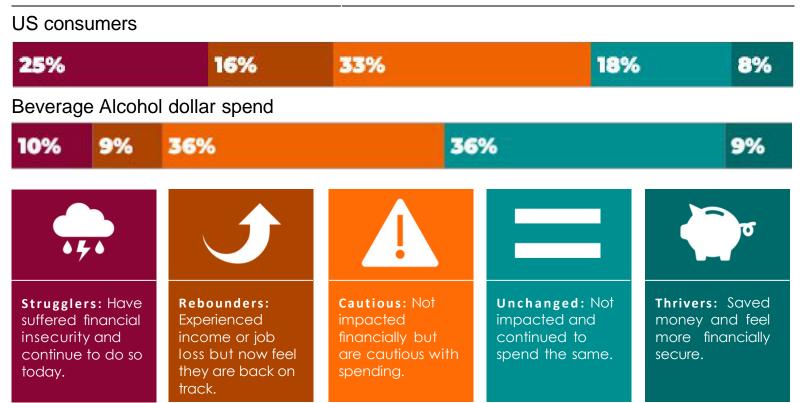


Source: NielsenIQ Unlocking Consumption global survey. Early COVID-19 September 2020, Current COVID-19 December 2020/January 2021



What are consumer and shopper trends telling us?

2022 US consumers vs Beverage Alcohol dollar spend

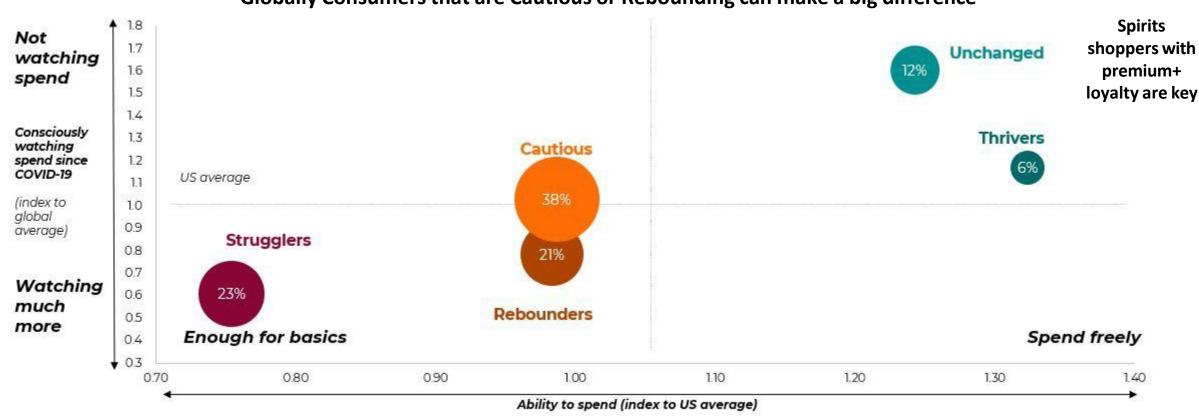


Source: NielsenIQ 2022 Consumer Outlook Survey, Dec 2021 . United States.

Q. Which of the following best describes how COVID-19 impacted your overall household financial situation over the last 2 years?



Cautiousness in spend will prevail even if financially comfortable



Globally Consumers that are Cautious or Rebounding can make a big difference

Source: NielsenIQ 2022 Consumer Outlook Survey, Dec 2021 Is your household consciously watching what it now spends because of the impact of COVID-19? X Which of the following statements best describes your current ability to spend?



Consumer Lifestyle Changes



How they live

- Trying to live a healthier life (exercise/food choices)
- More household chores
- More media/entertainment content
- Mental and planet wellness



How they consume

- More discerning about what I eat
- The way I cook/prepare meals is very different
- Focused on essentials
- Trading down and out



How they shop

- Prefer local neighborhood store
- Value for the money
- Pantry stock to avoid OOS
- Online and offline focused
- Combining trips to adapt to rising gas prices





What Will the Future Hold?

Consumer Lifestyle Changes

• The sun goes down at the end of every day and the economy will go into a recession after every expansion. Will the next recession be more like the COVID recession, the great recession or worse?



Great Recession

- Longer
- Moderate government response

Pandemic Economy

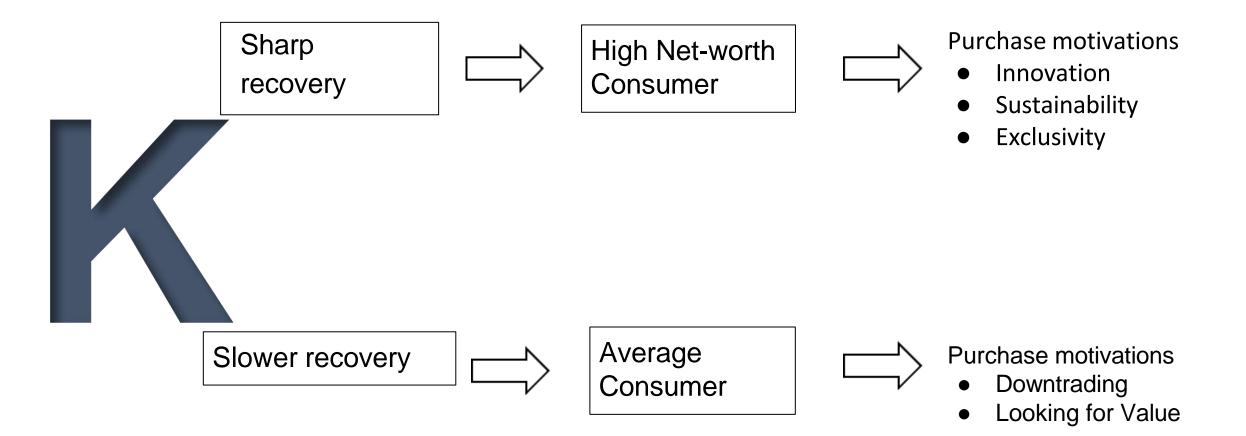
- Ultra short
- Very strong government response

Future

comments***

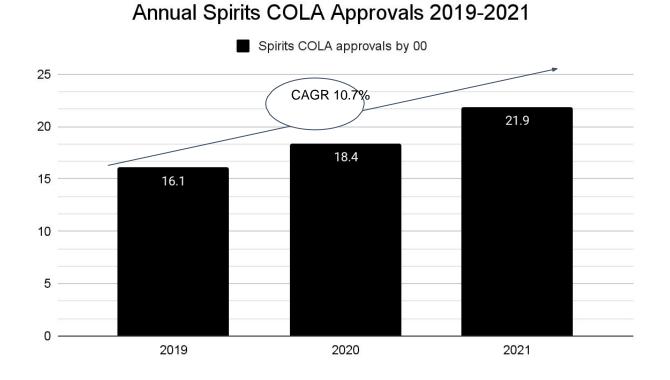


K Recovery - Tale of Two Different Recoveries





The Innovation Pipeline is Strong



CINCO UTTERELY MR·BLACK

Examples

Source: BW166



Exclusivity - NFTs

- Collaboration with artists or other influencers to create limited edition releases.
- Products are attached to NFTs which are being sold and traded.
- Physical fulfillment not tied to initial release and/or purchase.

Hennessy 8



Designed by artist Arik Levy

Baccarat crystal decanter

only 2 units released via

NFT to start.

Dictador Orlinski 5 Decades



- Designed by artist Richard Orlinski
- Decanter is part of a sculpture
- Only 6 units released via NFT to start.

Source: Blockbar, Dictador Rum, Hennessy Cognac



Sustainability

Sustainability

- EPA Definition: "Everything that we need for our survival and well-being depends, either directly or indirectly, on our natural environment. To pursue • sustainability is to create and maintain the conditions under which humans and nature can exist in productive harmony to support present and future generations."
- Categories: Sustainability typically has four pillars: social, economic, environmental and humanity
- Sustainability is a driving force for consumption as 48% of US consumers report their purchase decisions are positively influenced by a company's sustainability initiatives.
- Many of those consumers are willing to • pay a premium for sustainable products.
- Net-zero carbon objectives will be a • strong driver of premiumization for years to come.





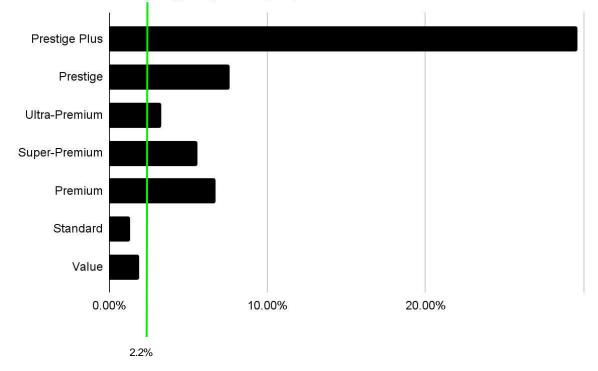
VODKA



Source: IWSR, Drink Magazine, EPA, EcoSpirits, Drake's Organic, The Lost Explorer, Gray Whale Gin

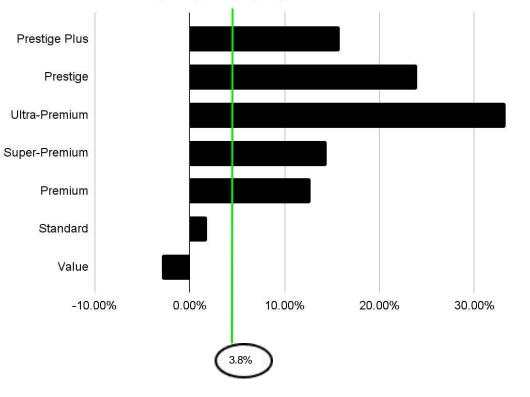


Category Growth Rates One Year After Recession



YoY volume change by category in 2009-2010

YoY volume change by category in 2020-2021



Source, IWSR; Park Street Analysis



Takeaways

- CPI has increased rather dramatically and conditions are favorable for correction in economic growth.
- Supply chain issues, premiumization and a widening divide amongst consumer economics, points to uneven growth rates the rest of 2022.
- Economic circumstances have created a unique consumer segmentation, but about 45% of BevAl spend remains with the status quo or thriving shopper.
- The top three price tiers for Spirits continue to show growth since 2019, though that growth may be slowing.
- More choices in BevAI has created larger repertories for consumers and the initial reaction to inflation can be to trade within the repertoire.
- On / Off trade mix is changing, with On Trade a large part of the revenue generation for Spirits.
- Subsidizing the shopper at retail remains important as a way to influence brand loyalty within a very fragmented BevAl environment.
- No matter how long the recession will last, the recovery will benefit premium products

