

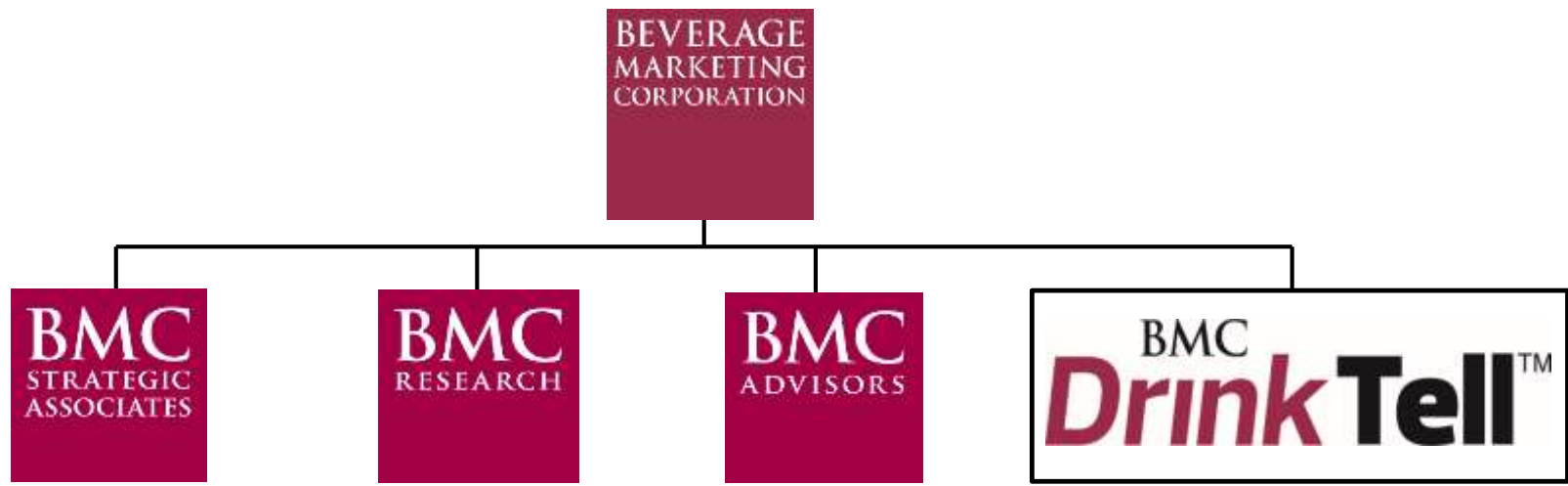


# 2023 Beverage Alcohol Trend Analysis

**May 2023**

**BEVERAGE  
MARKETING  
CORPORATION**

**Beverage Marketing Corporation utilizes an integrated model for providing information, analysis and advice to beverage industry clients**



**Unique Beverage Industry Expertise  
for Providing "Added-Value" to Selected Clients**



***Cutting Edge Insights: New Age Emergence, Multiple Beverage Competition, Specialty Beer Opportunity, Bottled Water Dominance, Hyper-Category Competition, Micro-Marketing Age***

All data in this presentation is supplied by:

**DrinkTell™** Database with Market Forecasts  
THE INDUSTRY'S ONE-STOP DESTINATION FOR ALL THINGS BEVERAGE

This powerful, customizable, easy to query database facilitates decision-making across the organization

- Enhance sales and marketing focus
- Zero in on growth segments
- Identify portfolio gaps and market opportunities
- Generate cross-category trend reports in just a few clicks
- Align management objectives around market-driven metrics

The graphic features a central red location pin icon with five white curved lines radiating from it to five white circular nodes, each containing a benefit. The background is a blue gradient.

All data is Beverage Marketing Corporation data



**Data is compiled from industry surveys**



**Data measures all channels so provides a total market perspective**



**Most importantly... BMC data is used in analysis**

# Agenda

-  **Total Beverage Alcohol**
-  **Beer**
-  **Spirits**
-  **Wine**
-  **Beverage Alcohol Evolution:  
Partnerships & Distribution**

# Agenda

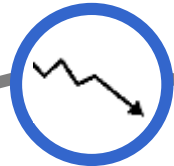
-  **Total Beverage Alcohol**
-  **Beer**
-  **Spirits**
-  **Wine**
-  **Beverage Alcohol Evolution:  
Partnerships & Distribution**

**The pandemic ushered in a whirlwind of shifts to Beverage Alcohol, from operational norms to consumer expectations and market trajectories, posing key questions on the future of the market**

**Shifting Landscape - A New Era of Beverage Alcohol**

**Consumption Downturn**

Per Capita consumption TBA Per Caps fell hard in 2022, renewing macro pre-pandemic trend



**Spirits Claim Leadership**

DISCUS heralding claims of TBA supplier \$\$ leadership, as Spirit market provides scaled growth engine and RTDs reach the mainstream



**Product Expectations**

Hard Seltzer reshaped consumer expectations for Bev. Alc, rejecting past "rite of passage" product cues. Yet, awareness of difference between Malt & Spirit RTDs remains low



**3-Tier Power Shifts**

Distributor consolidation & portfolio blurring driving outcomes where power lies with the distribution tier



**Equivalency**

Spirit Industry push for equivalency in taxation and/or distribution continues to heat up, with bills introduced in TX & WA since start of '23



**Increased Scrutiny**

Shift in product formats from historical archetypes (beer, wine, high-proof spirits) to RTDs, raises risk of backlash regarding appeal to sub-LDA consumers etc.



**Brand Relevance**

From viral Hard Seltzer crazes to Borgs, LDA Gen-Z consumers limit their participation in mainstream Beer; further confused by translations of beer trademarks (e.g. Bud Light Seltzer)



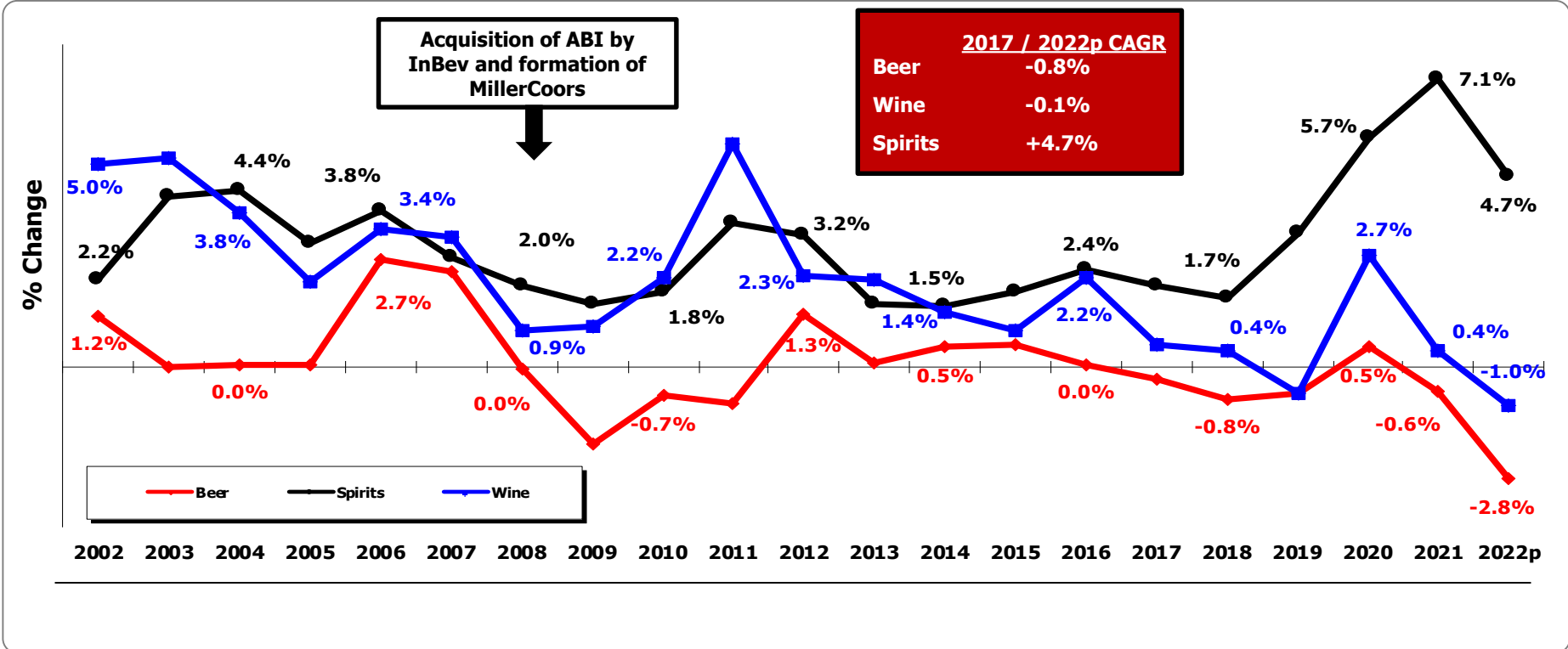
**Cannabis Occasions**

As cannabis becomes mainstream and new markets begin sales, consumer share of wallet and occasions may be at risk



**Despite a slight volume slowdown compared with 2021, Spirits are continuing to grow at accelerated levels, while Beer performance suffers**

*Beverage Alcohol Market Depletion Growth  
2002 – 2022 (p)*






p: Preliminary  
Source: BMC Strategic Associates, Wine Institute, DISCUS, Beer Institute





**Beer volume is challenged as few products are filling the growth void left by Hard Seltzer, while Wine concurrently declines, all in favor of sustained Spirits growth via RTDs & Tequila/Mezcal**

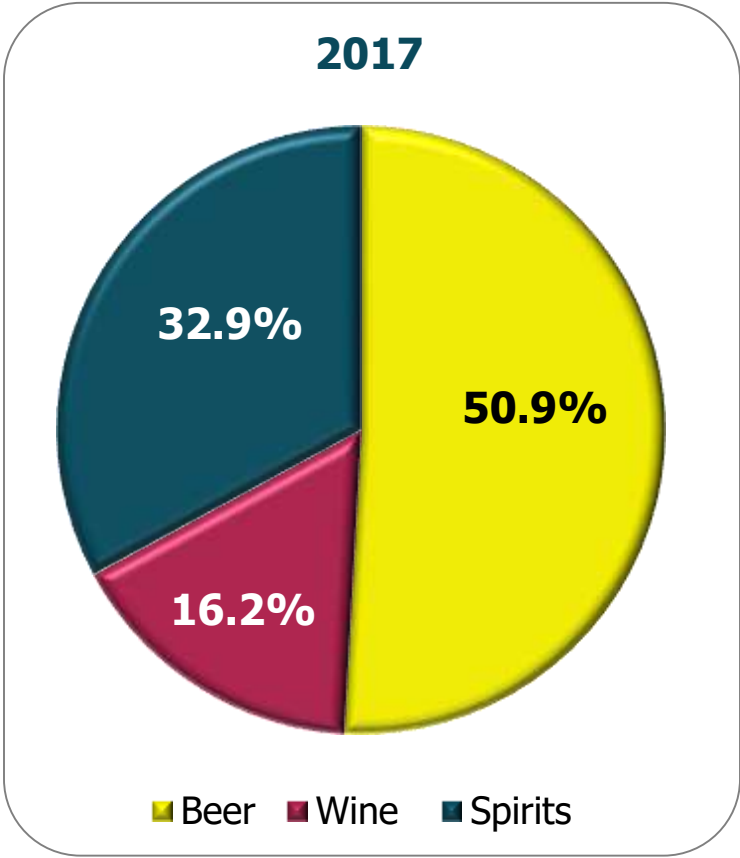
*Top Line Beverage Alcohol Market Performance, Trends & Projections*

	<b>Beer</b>	<b>Wine</b>	<b>Spirits</b>														
																	
<b>2022p Vol. :</b>	<b>-2.8%</b>	<b>-1.0%</b>	<b>+4.7%</b>														
<b>Top Performing Segments 2022:</b>	<table border="0"> <tr> <td><i>NA Beer</i></td> <td style="text-align: right;"><b>+21.3%</b></td> </tr> <tr> <td><i>Imported Beer</i></td> <td style="text-align: right;"><b>+2.7%</b></td> </tr> <tr> <td><i>FMBs</i></td> <td style="text-align: right;"><b>+1.3%</b></td> </tr> </table>	<i>NA Beer</i>	<b>+21.3%</b>	<i>Imported Beer</i>	<b>+2.7%</b>	<i>FMBs</i>	<b>+1.3%</b>	<table border="0"> <tr> <td><i>Specialty Wine</i></td> <td style="text-align: right;"><b>+12.0%</b></td> </tr> <tr> <td><i>Sparkling Wine</i></td> <td style="text-align: right;"><b>+2.9%</b></td> </tr> </table>	<i>Specialty Wine</i>	<b>+12.0%</b>	<i>Sparkling Wine</i>	<b>+2.9%</b>	<table border="0"> <tr> <td><i>RTD Cocktails</i></td> <td style="text-align: right;"><b>+45.0%</b></td> </tr> <tr> <td><i>Tequila/Mezcal</i></td> <td style="text-align: right;"><b>+10.5%</b></td> </tr> </table>	<i>RTD Cocktails</i>	<b>+45.0%</b>	<i>Tequila/Mezcal</i>	<b>+10.5%</b>
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<b>Major Trends:</b>	<ul style="list-style-type: none"> <li>• Hard Seltzer void has not been filled</li> <li>• Worst volume decline in recent memory</li> <li>• Q4 Price increases drove further volume downturn</li> </ul>	<ul style="list-style-type: none"> <li>• Total market plagued by aging demographic issue</li> <li>• Scaled and low-end product volumes driving losses</li> <li>• Specialty &amp; wine-based alternatives seeing growth</li> </ul>	<ul style="list-style-type: none"> <li>• RTD Spirits, while still small base, driving growth of Beverage Alcohol overall</li> <li>• Tequila scale continues to expand</li> <li>• Market access continues to grow</li> </ul>														
<b>2023 Full Year Projection:</b>	<b>-2.3%</b>	<b>-1.3%</b>	<b>+3.9%</b>														

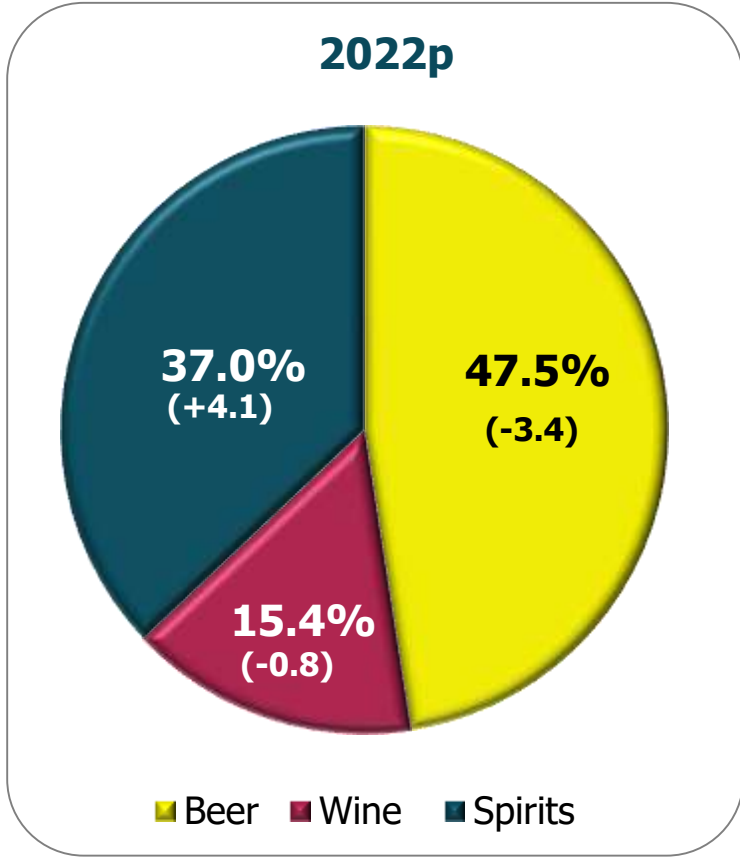


**Beer has lost more than 3 servings share points in the past 5 years, while Spirits have gained 4 plus share points in volume from both Beer & Wine**

*Beverage Alcohol Category Serving Share Evolution – 2017 vs. 2022p*



**135.9 Billion Servings\***



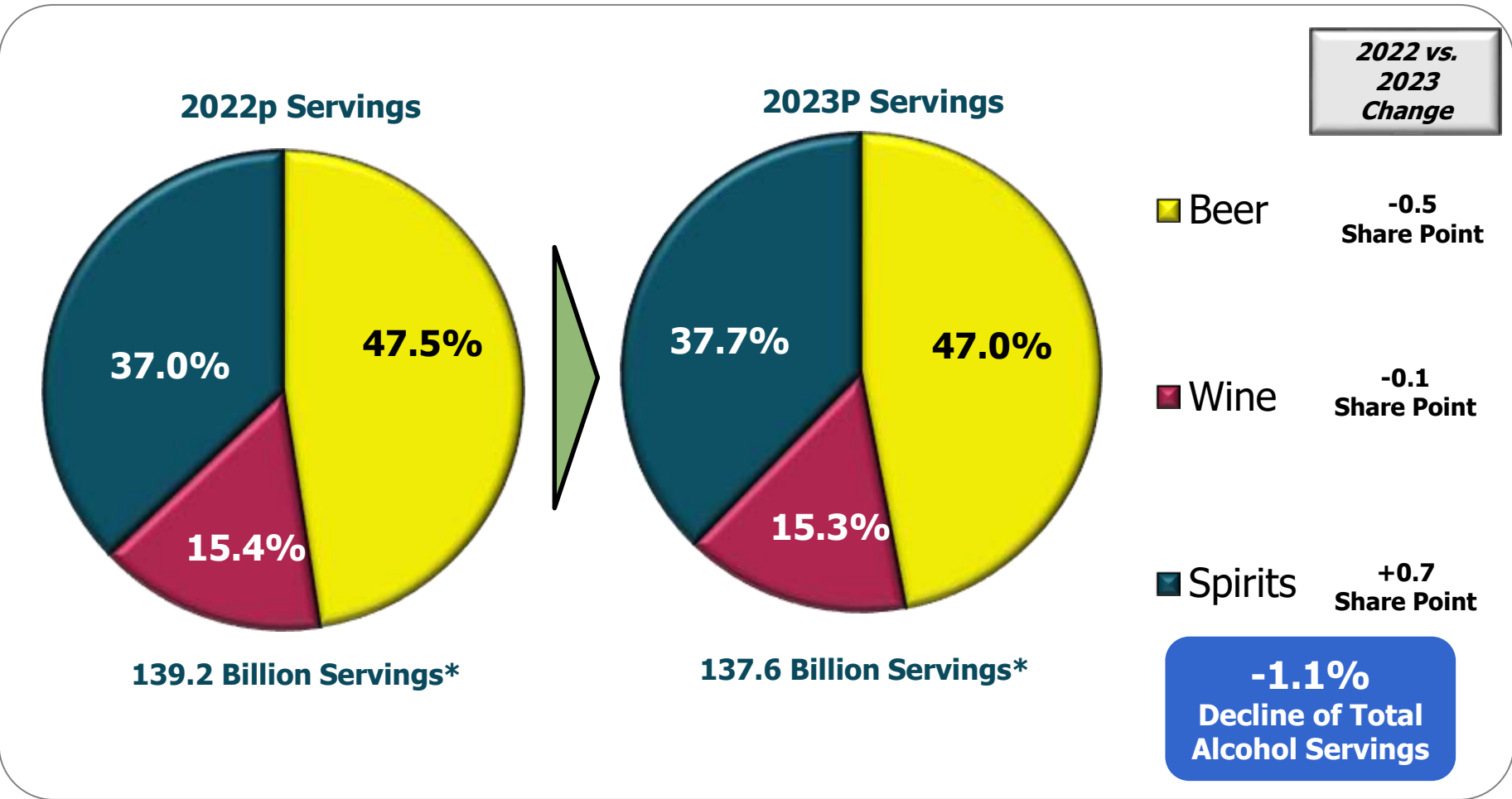
**139.2 Billion Servings\***

\*12 oz. beer, 5 oz. traditional wine, 8 oz. ABA wine, 1.5 oz. traditional spirits, 8 oz. RTD Spirits; All Volumes in Depletions  
p: Preliminary  
Source: BMC Strategic Associates, IWSR, Beer Institute



**BMCSA anticipates Spirits to further gain servings share in 2023, however, overall Beverage Alcohol servings are expected to contract after growing through the pandemic period**

*Beverage Alcohol Category Share by Servings:  
2022p vs. 2023P*



\*12 oz. beer, 5 oz. traditional wine, 8 oz. ABA wine, 1.5 oz. traditional spirits, 8 oz. RTD Spirits; All Volumes in Depletions  
Source: BMC Strategic Associates, IWSR, Beer Institute



**Beverage Alcohol pricing had lagged many other categories, but late 2022 developments are driving risk and opportunity for the category, especially in beer**

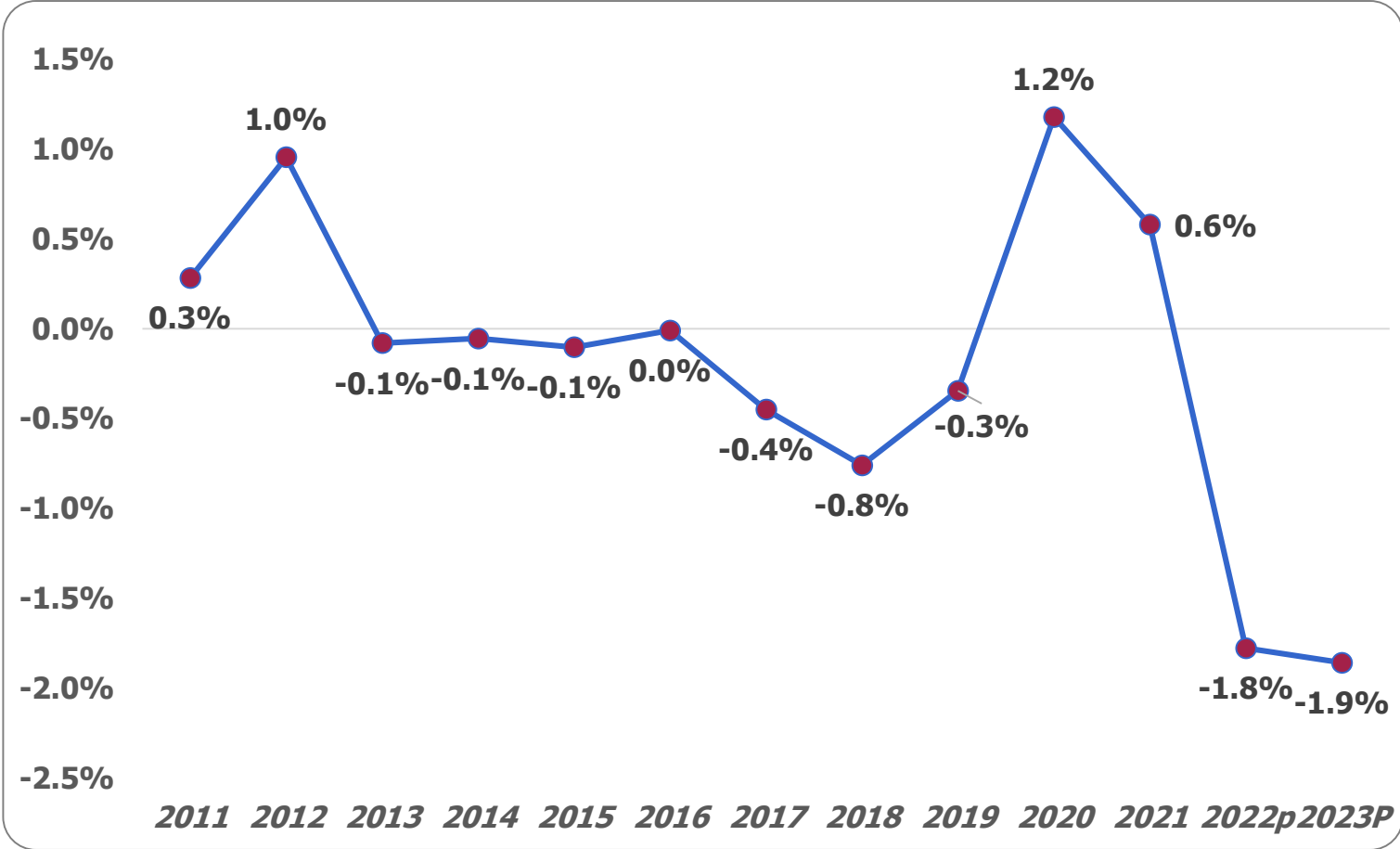
***TBA Pricing Trends/Implications***

		<p><b>Implication</b></p>
<p><b>Beer</b></p>	<ul style="list-style-type: none"> <li>• Beer continues to be an <b>affordable luxury</b>, as beer pricing <b>up ~ 8.0%</b> vs YAG, compared to food at <b>&gt;10%</b>.</li> <li>• Some consumers still <b>trading up</b> to craft/imports, managing pricing by cutting occasions or shifting SKU/Pack size selections.</li> <li>• Meteoric rise in Domestic Premium pricing at end of 2022, directly impacting category performance</li> </ul>	<p>Total beer market vulnerability to consumer exodus grows both due to pricing environment &amp; external factors (economy, spirits, etc.)</p>
<p><b>Spirits</b></p>	<ul style="list-style-type: none"> <li>• Historically premium pricing &amp; relative margin strength giving spirits an advantage in current inflationary market.</li> <li>• <b>Average Spirits pricing down</b> in measured channels due to the expanding scale and overall lower price of RTD Spirits.</li> <li>• Spirits occasion expansion drives opportunity for improving overall consumer value proposition.</li> </ul>	<p>Pricing environment further bolsters spirits to make gains on beer and may be further accelerated by tax/regulatory changes in future years.</p>
<p><b>Wine</b></p>	<ul style="list-style-type: none"> <li>• Wine suffering limited pricing elasticity due to historical consumer adoption issues, in tandem to overall value proposition issues</li> <li>• Greatest pricing lift coming from <b>small batch/specialty products and premium single serve offerings</b>.</li> <li>• High Value Wine Club/DTC opportunities bolstered by pandemic.</li> </ul>	<p>Wine category is at risk of being left behind in the on-going spirits/beer leadership battle.</p>
<p><b>TBA Outlook</b></p>	<ul style="list-style-type: none"> <li>• Alcohol has premiumized since the last period of economic downturn, yet premium categories appear to be weathering the storm better. Yet, pricing and disposable income may not yet have bottomed out.</li> <li>• Difficult times, anti-price gouging sentiments, blurred products and spirits gains creating opportunity for total category backlash.</li> </ul>	<p>As major category upheaval takes shape, value propositions and social responsibility will be paramount in achieving growth and overall category health.</p>



**Beverage Alcohol had been experiencing a downturn in aggregate per capita consumption prior to the pandemic, which reversed in 2020 & 21, and has now returned in an accelerated manner**

**Total Beverage Alcohol Servings LDA Per Capita Consumption Trends 2011 – 2023P**



Year	Servings/ Capita
2010	407
2016	419
2017	418
2018	416
2019	416
2020	420
2021	424
2022p	416
2023P	411

\*12 oz. beer, 5 oz. traditional wine, 8 oz. ABA wine, 1.5 oz. traditional spirits, 8 oz. RTD Spirits; All Volumes in Depletions  
 Source: BMC Strategic Associates, IWSR, Beer Institute, U.S. Census Bureau Data



## **Beverage alcohol trends that we expect will continue in 2023:**

### **“Ready to Drink” Segment Continues to Grow/Evolve**

- Prepared Cocktails / Canned wine will continue with strong growth; consumers still looking for convenience, simplicity and portability of RTDs
  - Spirits-based provide both quality & ease; wine-based attract younger consumers without the intimidation of wine, reduces cost/risk of trial
  - The RTD segment has captured momentum lost from malt/sugar based Hard Seltzers with brands like High Noon grabbing share
  - “Better for you” and flavor variety still resonate; can packaging benefits wine due to no UV light penetration or oxygen exchange, better shelf life, while providing better refreshment cues than glass

### **Partnerships between strange bedfellows driving activity in beverage alcohol**

- Coca-Cola has partnered with three companies to bring Coke brands to market in beverage alcohol format: Molson Coors, Constellation and Brown Forman
- Pepsi is disrupting the beverage alcohol distribution landscape with the formation of Blue Cloud to distribute across markets
  - Pepsi has licensed the Mountain Dew Trademark to Boston Beer to bring a Hard Seltzer to market utilizing the Blue Cloud network
  - Pepsi licensed the Lipton Tea Trademark to FIFCO to bring a hard tea to market again utilizing the Blue Cloud network
  - Others will likely follow
- Anheuser Busch has teamed up with Novamex, leading Mexican Soda Company, to bring a Hard Soda to market
  - The first Mexican soft-drink branded product to enter the beverage alcohol market
- While some spirit companies have licensed brands to beer companies to sell a malt based RTD, partnerships going in each direction are emerging
  - Boston Beer selling Truly Vodka via Beam Suntory and Beam Suntory selling Sauza branded malt based RTD and Jim Beam Kentucky Coolers via Boston Beer
- Beverage Companies, e.g. Monster, buying into beverage alcohol and selling non-alcoholic inspired beverage into FMB market
  - Beast Unleashed launched by Monster via its beer company Canarchy

**Designed for & targeted exclusively to adults, Alternative Adult Beverages are driving growth in total beverage alcohol, with product expressions in contrast to historically established formats**

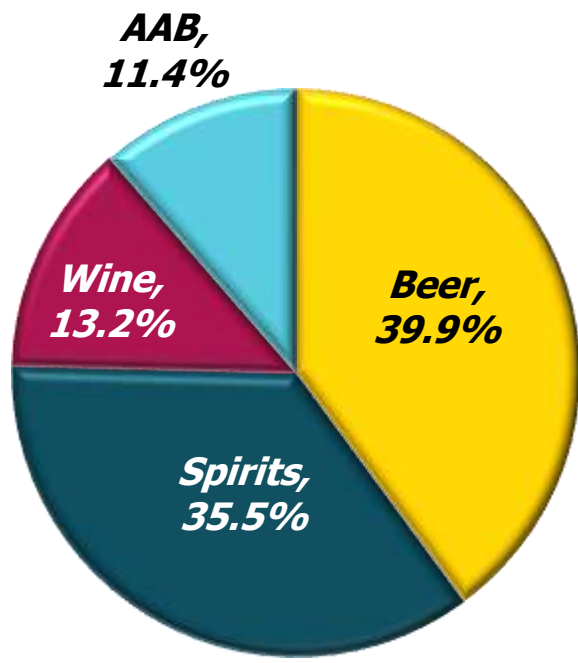
*Evolving Category  
Alternative Adult Beverages*

Evolution

• AABs have evolved from simply being adult beverages delivered in a non-traditional format to beverages that blur across formats, categories, alcohol base and company.

- *Category blurring:*
  - ❖ *Hard Mountain Dew (Boston Beer)*
  - ❖ *Topo Chico Hard Seltzer (MCBC)*
  - ❖ *Simply Spiked (KO/MCBC)*
  - ❖ *Fresca (Constellation Brands)*
  - ❖ *Cantaritos (AB InBev)*
- *Drivers:*
  - ❖ *Consumer expectation for variety & innovation (pull)*
  - ❖ *Stale existing product format driving consumer exploration (push)*
  - ❖ *Differential taxation & regulation by alcohol type*
  - ❖ *Stepping stone to cannabis beverages?*
- *Implications:*
  - ❖ *Shifting occasion definitions*
  - ❖ *Accelerating product lifecycles*
  - ❖ *Fragmented product universe*

**2022 Servings\* Share:  
Total Adult Beverages**



**139.3 Billion Servings**

**2022(P)  
Vol Performance**

<b>Beer*:</b>	<b>-3.3%</b>
<b>Wine*:</b>	<b>-4.2%</b>
<b>Spirits*:</b>	<b>+0.2%</b>
<b>AAB:</b>	<b>+7.2%</b>

*\*Traditional Beverage Alcohol Categories Exclude AAB Products for calculation*

Source: Beverage Marketing Corporation, BMCSA Analysis, Beer Marketer's Insights, Beer Institute

\* 12 oz. beer, 5 oz. traditional wine, 8 oz. ABA wine, 1.5 oz. traditional spirits, 8 oz. RTD Spirits; For AAB: Malt on 12-oz serving basis; Spirits, Wine & Cannabis on 8-oz serving basis



**Total Beverage Alcohol Blurring has accelerated in recent years, while lines between wine, spirits and beer drive consumer confusion**

Beer as a Spirit



White Claw Vodka Dogfish Head Truly Vodka

Spirit as a Beer



Crown Royal Jack Daniels & Coke Ketel One Cocktails

Examples of TBA Blurring

Wine as a Spirit



BeatBox Movo Spritzers House Wine Cocktails






Wine as a Beer



Barefoot Canned Wine Dark Horse Underwood



# Agenda

-  Total Beverage Alcohol
-  **Beer**
-  Spirits
-  Wine
-  Beverage Alcohol Evolution:  
Partnerships & Distribution

## Current Key Beer Market Trends & Activity

### Beer

- The total U.S. Beer market **volume performance deteriorated** in 2022 as the benefit seen during Covid eroded. **Depletions dropped near 3%** while **shipments eroded faster** at around 4%.
  - The difference was driven primarily by **distributor inventories** being brought in line after building in 2021.
- Beer was once again **led by three segments**, FMB's, Mexican Imports and Non-alcoholic beer while rest of market declined. These long-term trends are likely to continue in 2023.
- **Outside of Mexican Imports** which represent over 70% of total, **imported beer declined**. Growth in 2022 was led by Modelo Especial which once again grew in double digits.
- **Craft Beer grew for second consecutive year** after significant challenges due to Covid in 2020 growing around 5%.
- **Light beer and value beer continued to decline**; however, brands such as Michelob Ultra and Busch Light grew against the trend while brands like Miller Lite saw improved performance.
- **Non-alcoholic beer continues to grow** off small base as other major brands get **non-alcoholic brand extensions** introduced, e.g. Budweiser Zero and Corona Zero.
- Four of the top 5 suppliers **entered partnerships** with beverage companies to bring **beverage brands to market in an alcoholic form**. Only Mark Anthony did not enter the fray.

**2022 & 2023 has shaped up as a regrouping period for the U.S. Beer market, and while aggregate performance and macro trends point negative, some key growth areas provide opportunities**

**2023 Beer Segment Growth Drivers**



*Beyond Seltzer*

- Malt products beyond beer continue to outperform the category.
- Lines continue to blur as more LRBs Crossover into Malt.
- Success of Prepared Cocktails drives FMB Cocktail boom.
- Twisted Tea success spawns clones.



*Mexican Imports*

- Sustained success in face of declines in traditional beer has conglomerates to craft brewers launching "Mexican-style" lagers.
- Growing population of LDA Hispanics highlights growth opportunity.
- Industry sentiment on growth runway/proliferation souring to an extent.



*Craft Resurgence*

- Reduction in beer occasions has favored differentiated product.
- While nationally distributed craft volume in '22 was soft, on site and hyper local sales continue to rebound.
- Taproom visits remain key experiential touch point.
- Slowing of openings favoring staying power over novelty.



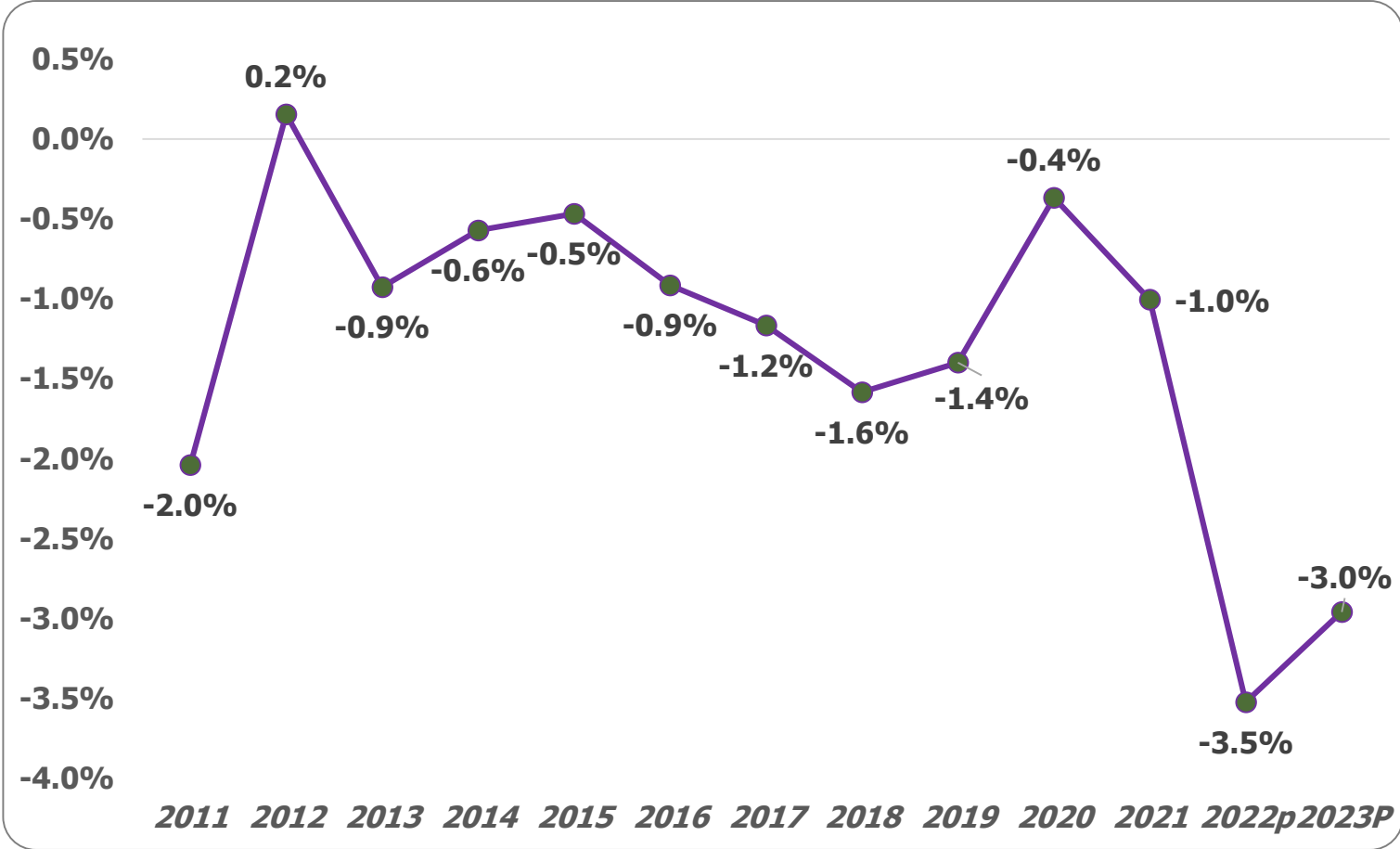
*Ultra Challengers*

- Consumers continue to choose beer with "low calorie" and H+W aligned product cues.
- 2023 innovation from major brewers focused on similar profiles to Michelob Ultra:
- STZ's Modelo Oro, going after Hispanics in the "better for you/ moderation space."
- Heineken Silver offers similar option for Euro Imports.



**As the major driving force in Total Beverage Alcohol per capita consumption declines, Beer per capita consumption has trended negative since 2012, reaching new lows in 2022**

*Beer Servings LDA Per Capita Consumption Trends  
2011 – 2023P*



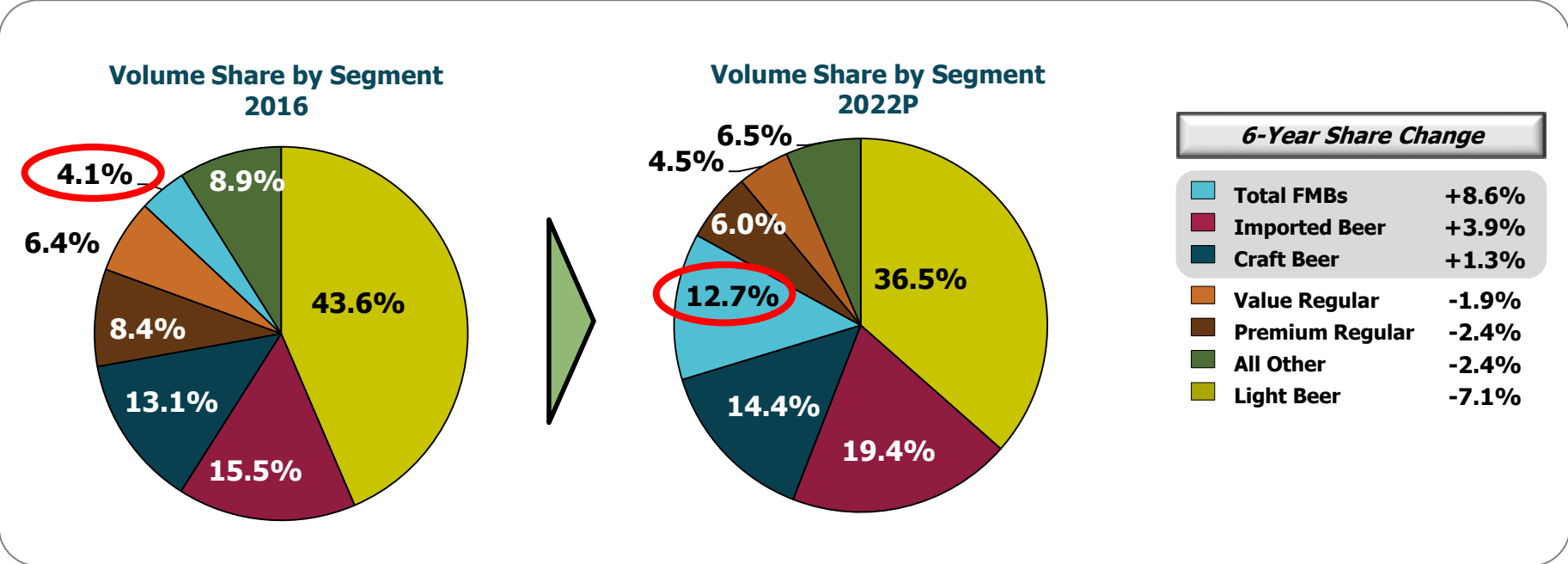
Year	Servings/ Capita
2010	302
2016	288
2017	285
2018	280
2019	276
2020	275
2021	273
2022p	263
2023P	255

\*12 oz. beer, 5 oz. traditional wine, 8 oz. ABA wine, 1.5 oz. traditional spirits, 8 oz. RTD Spirits; All Volumes in Depletions  
Source: BMC Strategic Associates, IWSR, Beer Institute, U.S. Census Bureau Data



**Representing nearly half the Beer category as recently as 2016, Light Beer is now approaching one third share of volume, while FMBs have more than tripled share, with Imports experiencing the 2nd largest share growth over the same period**

**U.S. Beer Market Sub-Segments – Volume Shares 2016 vs. 2022P**



\*All Other Includes Ice Beer, Super-Premium Regular Beer, Malt Liquor, Cider, & Non-Alcoholic Beer








**Total U.S. Beer depletions declined 2.8% in 2022; but when FMBs, Local Craft & Imports are eliminated, a decline greater than 6% for "Domestic Standard Beer" is revealed**

**Core Beer Trajectories – 2017-2026P  
(Depletions)**

	2017 Cases	2021 Cases	2022 Cases	2022 Growth	2017-22 CAGR		2026 Projected	2022-26P CAGR
<b>Total Beer</b>	2,882.4	2,836.4	2,756.4	-2.8%	-0.9%		2,612.0	-1.3%
<b>- FMBs</b>	120.3	336.9	341.1	+1.3%	+23.2%		410.6	+4.8%
<b>- Local Craft</b>	173.3	236.3	248.1	+5.0%	+7.4%		301.6	+5.0%
<b>"Standard Beer"</b>	2,588.8	2,263.2	2,167.2	-4.2%	-3.5%		1,899.7	-3.2%
<b>- Imports</b>	474.1	515.0	528.9	+2.7%	+2.2%		561.4	+1.5%
<b>Domestic Standard Beer</b>	2,114.7	1,748.2	1,638.3	-6.3%	-5.0%		1,338.3	-4.9%

Notes: Standard Beer – Beer styles broadly available to consumers  
Source: BMCSA Analysis, IRI MULO, Beer Business Insights

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-  Total Beverage Alcohol
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-  **Spirits**
-  Wine
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Partnerships & Distribution

## Current Key Spirits Market Trends & Activity

### Spirits

- **2022 was another year of growth & share gains across both volume & dollars for the Spirits category, bolstered by the continued recovery of the on-premise, up 12% according to DISCUS:**
  - Spirits volumes surged in the on-premise as total restaurant sales returned to only 5% short of pre-pandemic levels
  - Off-premise spirits volume grew 2%, after being flat in 2021
  - As a result of RTD strength, the value segment volume grew the fastest followed by premium as trading up slowed in 2022
- **Tequila/Mezcal (+~17% depletion growth) drove overall spirits revenue growth:**
  - Premiumization slowed as revenues increased in line with inflation
  - Tequila further penetrating into the general market and now the 3<sup>rd</sup> largest spirit and will likely become 2<sup>nd</sup> largest to only Vodka in 2023, excluding RTD's
  - Combining Mezcal with Tequila drinks for balance
- **American Whiskey, driven by Bourbon, +5.2% depletion growth**
  - Bourbon continues to be in high demand and short supply
  - With new distillation coming on board in 2023, American Whiskey's growth is expected to accelerate
- **Irish Whiskey had another solid year with + 4.3% depletion growth:**
  - Benefits from desire to "trade up" to High End & Super Premium products, but at a lower overall price point
  - Entry level: smooth & approachable taste profile, lower ABV, versatile spirit for mixology
- **Vodka continues to be the largest segment within spirits accounting for 25.2% of the overall category**
  - Vodka continued to lag other spirit segments declining -1.5%



# The spirits segment continues to benefit from premiumization, as consumer’s search for variety and versatility drove interest in more diverse yet accessible options

## 2023 Spirits Segment Growth Drivers



Prepared Cocktails

- Consumers looking for convenience and portability
- Spirits-based offerings provide both quality & ease
- Mass trial in 2020 has built a broad consumer base
- “Better for you” and flavor variety still resonate
- Known spirits brands launch RTDs



Tequila / Mezcal

- Premiumization continues, consumers shift to sipping
- Category interest drives Reposado & Añejo growth
- Ease of Margaritas as an “at home cocktail”
- Exploration beyond margaritas, i.e. Tequila Soda
- Combining Mezcal with Tequila drinks for balance



Irish Whiskey

- Benefits from desire to “trade up” to High End & Super Premium products
- Tariffs on single malt Scotch have helped growth
- Entry level: approachable taste profile, lower ABV
- Versatile spirit for mixology



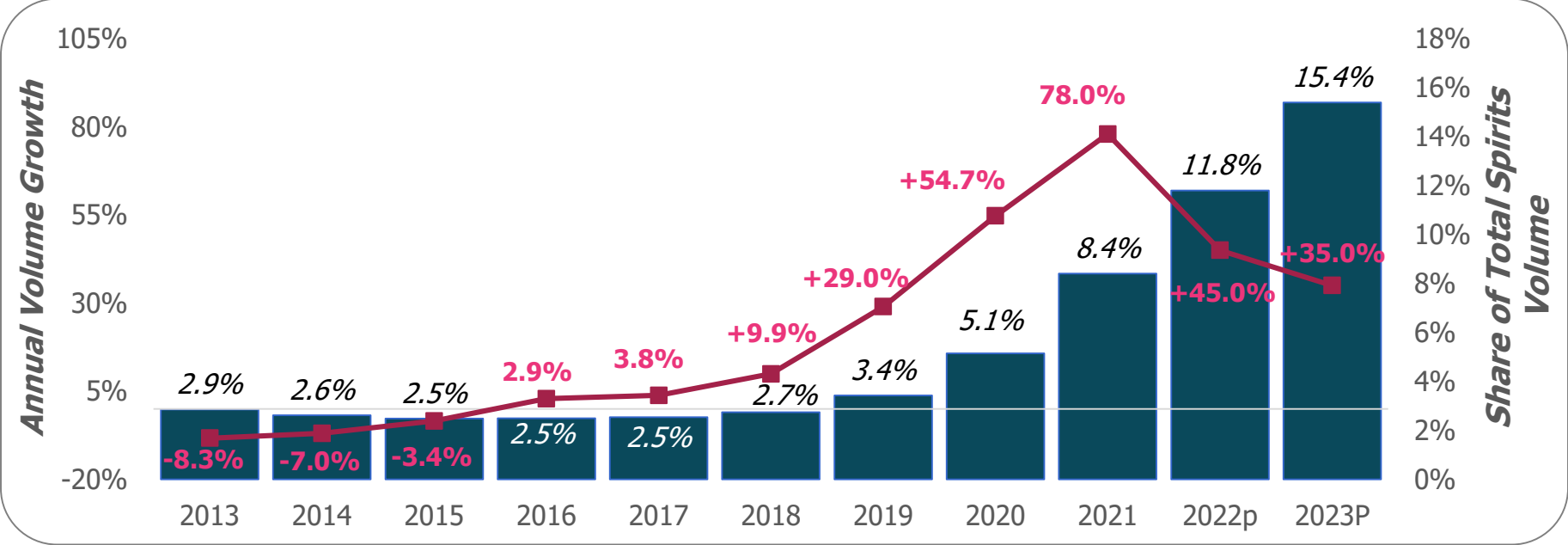
Cordials/Liqueurs

- Popular both as standalone, or as ingredient in cocktails
- Flavored offerings by big brands drive trial/awareness, i.e. Crown Royal
- Experimentation driven by at home bartenders in 2020
- Malt-based variants drive trial/awareness



**Historically, RTD Spirits had remained niche due to issues surrounding pricing and distribution, but recent Beverage Alcohol disruption has created an opportunity to drive future market growth**

*Prepared Cocktail & RTD Spirit Growth & Share of Total Spirit Liquid Volume  
2013 – 2023P*



**Early Days:** Relegated market position for both pricing and distribution, primarily multi-serve from major brands






**Single Serve Rise:** Advent of Cutwater & High Noon, and concurrent Seltzer development, drives tax parity discussions

**Future?:** Accelerating consumer interest and market appetite, renewed activity for multi-serve low-proof products

Source: BMC Strategic Associates, BMC DrinkTell



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-  **Wine**
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## Current Key Wine Market Trends & Activity

### Wine

- ***In 2022, the U.S. Wine market faced new headwinds as the premiumization continues overall but muted in D-t-C and demographic challenges persist driving volume declines***
  - Off-premise sales reverted back to pre-pandemic levels, as consumers returned to the on-premise and occasions moved beyond “at home”
  - Premiumization continues to occur with Boomers, younger consumers are not trading up to premium brands
  - Younger consumers continued to overlook wine; with RTD Cocktails competing for wine occasions, entry-level table wine continued decline
  - Only consumers over 60 experience volume growth
  - Unique pressures as the industry continues to suffer from climate effects out West such as drought, fire and low reservoir levels
- ***Sparkling wine continued to grow, with +2.9% depletion growth:***
  - Sparkling remains popular & continues to gain interest; sparkling/champagne expanded to everyday occasions
  - Prosecco wins with accessible taste, price and pronunciation
  - “Spritzers” mixology remains incredibly popular
- ***“Orange” wine continues to remain popular as its unique flavor continues to create a following***
  - Processed naturally “Skin-on,” using little/no additives, creating sour taste, nuttiness not typical in white wine
  - Overcomes classic connotations of “cheapness,” infiltrating new occasions with appeal to younger consumers, premiumization
- ***In 2022, online alcohol sales reached 4% (\$6.1B) of total off-premise alcohol sales, double the share in 2019 (1.9%)\****
  - Wine represented an estimated \$3.8 billion or 62% in total alcohol eCommerce sales\*

**2021 Wine growth defined by trend toward modernization, as younger generation embraces non-traditional packaging, production techniques and occasions**

**2023 Wine Segment Growth Drivers**



*Sparkling*

- Sparkling remains popular & continues to gain interest
- Sparkling/champagne expanded to everyday occasions
- Prosecco wins with accessible taste, price and pronunciation
- Single-serve packages drive trial & usage, "Spritzers" mixology incredibly popular



*"Orange Wine"*

- Processed naturally "Skin-on," using little/no additives, creating sour taste, nuttiness not typical in white wine
- Unique flavor drives curiosity, cult following
- Overcomes classic connotations of "cheapness," infiltrating new occasions with appeal to younger consumers, premiumization



*Natural/Organic/Clean*

- Brings modern sensibilities to wine for consumers concerned with health & wellness, sustainability
- A step-change from vintage, old, stuffy to craft, flavor variety & scarcity
- Difficult to track, as no accepted definition of "natural wine"



*Canned Wine*

- Attracts younger consumer without intimidation of wine, reduces cost/risk of trial
- Can packaging increases occasions, accessibility
- Benefits include no UV light penetration or oxygen exchange, better shelf life, while providing better refreshment cues than glass








**As consumers age, they engage more with wine as 35% to 40% of consumers over 60 y.o. are core/ marginal consumers while 36% under 50 yo engage in alcohol but not wine**

**Wine Market Council Survey  
Fall 2022**

**Definitions:**






- **Core Consumers:** Drink wine at least once a week.
- **Marginal Consumers:** Drink wine at least every 2 - 3 months. Also includes those who drink wine 1 - 3 times per month.
- **Alcohol, Not Wine:** Drink alcohol but not wine, every 2 - 3 months
- **Infrequent Alcohol:** Consume less than every 2-3 months
- **Abstainers:** Don't drink alcohol.

	Total 2017	Trend	Total 2022
Core	22%		18%
Marginal	19%		15%
Not Wine	26%		29%
Infrequent	9%		10%
Abstainer	24%		28%

Source: Wine Market Council – U.S. Wine Consumer Segmentation Surveys



# Agenda

-  Total Beverage Alcohol
-  Beer
-  Spirits
-  Wine
-  **Beverage Alcohol Evolution:  
Partnerships & Distribution**

**Beverage alcohol categories & distributors continue to blur together, bringing in influential beverage players, setting the potential for malt based Beer alternatives to become less dominant in the future**

*The Changing Landscape of Beverage Alcohol*

		<b>Implication</b>
<b>RTD Bases</b>	<ul style="list-style-type: none"> <li>• RTDs were traditionally malt/sugar based, but now are just as likely to be spirits or wine based.</li> <li>• RTD called "Margarita" could be malt, wine or spirits.</li> </ul>	<ul style="list-style-type: none"> <li>• Consumers concerned with ingredients, but often don't consider alcohol type.</li> <li>• "Quality" of spirits-based offerings may put them ahead.</li> </ul>
<b>Blurring in All Directions</b>	<ul style="list-style-type: none"> <li>• Product concepts and entries are coming from all angles and operators within beverage landscape</li> <li>• Spirits blur with Beer concurrent to NA Beverage brands blurring with Alcohol</li> </ul>	<ul style="list-style-type: none"> <li>• Beer, wine &amp; spirits occasions are overlapping impacting beer as largest category. Winners will come down to taste and/or messaging</li> </ul>
<b>Total Beverage Distributors</b>	<ul style="list-style-type: none"> <li>• Mega-distributors such as Reyes, Breakthru, Southern, Redwood Capital, etc. on buying sprees</li> <li>• Distributors are seeking additional permitting to enable them to distribute total beverage alc &amp; non-alc products.</li> </ul>	<ul style="list-style-type: none"> <li>• Scale &amp; efficiency of these total beverage players increasing rapidly, creating a more competitive environment.</li> </ul>
<b>Brand Rights</b>	<ul style="list-style-type: none"> <li>• Distributors trading brand rights, or off-loading all but select /non-alc brands has emerged as a core strategy to specialize or downsize.</li> </ul>	<ul style="list-style-type: none"> <li>• Larger distributors able to continue growing/ gobbling up brands, as small players evolve to more focused business models.</li> </ul>



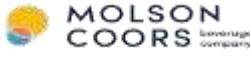













**Impact**

**As lines between product categories are blurred, and many distributors seek to become total Bev Alc, leading to the possibility of broader and/or market access parity, while driving participation interest from range of external players**



**Category and product blurring have created an environment where the biggest beverage companies are teaming up across the alcohol and non-alcohol space, though not all are hits**

*Overview of Partnerships & Ventures Today*

Corporate Partnerships		
		<ul style="list-style-type: none"> <li>Constellation produces, distributes and markets <b>RTD Fresca Mixed</b> as part of a brand authorization agreement with Coca-Cola.</li> </ul>
		<ul style="list-style-type: none"> <li>MCBC entered into an agreement with KO to manufacture, market, and distribute <b>Topo Chico Hard Seltzer, Simply Spiked Lemonade</b> and <b>Peace Tea</b>.</li> </ul>
		<ul style="list-style-type: none"> <li>B-F and KO announced a global relationship to launch the iconic <b>Jack &amp; Coke</b> cocktail as a branded, ready-to-drink (RTD) pre-mixed cocktail.</li> </ul>
		<ul style="list-style-type: none"> <li>Collaboration where Boston Beer develops and produces <b>HARD MTN DEW</b> while PepsiCo's Blue Cloud Distribution sells, delivers, and merchandises.</li> </ul>
		<ul style="list-style-type: none"> <li>FIFCO USA &amp; PepsiCo licensing agreement to launch <b>Lipton Hard Iced Tea</b> via PepsiCo's Blue Cloud Distribution.</li> </ul>
		<ul style="list-style-type: none"> <li>Long term partnership to produce <b>Truly Flavored Vodka</b>, Sweet Tea Whiskey, as well as malt-based and <b>Jim Beam Kentucky Coolers</b>. *Sauza-branded RTDs recently delisted.</li> </ul>
		<ul style="list-style-type: none"> <li>Partnership to license Jarritos CSD brand for new "<b>Cantaritos by Jarritos</b>" FMB brand to be produced and distributed by ABI in 2023</li> </ul>
		<ul style="list-style-type: none"> <li>Monster acquired CANarchy for \$330MM, giving them the platform to launch their first alcohol brand, <b>The Beast Unleashed</b>, with 6% ABV.</li> </ul>



Source: Beverage Marketing Corporation, BMCSA Analysis

**RTD Spirits continue to gain market focus and participation from established players, directly exploiting the occasions and consumption shifts initiated by Hard Seltzer over the past 5 years**

*The Success of RTD Cocktails is an Extension of Hard Seltzers*

- Malt-based hard seltzers found success with consumers looking for low sugar, carbs, alcohol, and natural flavoring.
  - The convenience of the can packaging aided in expanding occasions.
- Spirits/Wine-based seltzers began to gain popularity as consumers traded up into higher-priced, differentiated offerings, with innovation/ experimentation driving consumer trial.
  - Expanded malt occasions now faced competition from spirits/wine
- As consumers continue to respond to increasingly sophisticated flavors and better ingredients, spirit-based RTD cocktails are experiencing strong growth.
  - Beer, Spirits, Wine occasions now blur together, as consumers respond to offerings from well-known brands across all three segments.



**RTDs have experienced a long road across 4 well-defined chapters since the early 1990s, rising from niche alternatives to drivers of scaled growth across the U.S. Alcoholic Beverage market**

*History and Evolution of Inter-Category Participation in Beverage Alcohol*

**FMB Epoch**

**I**

1991-99



Following 1991 FET reform, early FMBs are launched, along with past Wine Cooler brands transitioned to Malt, forming a category dubbed "Malternatives", yet is held back by social stigma and concurrent Import & Craft movement

**RTD Share 1999:  
1.5%**

**LRB & Spirit Translations**

**II**

2000-09



The category evolves at turn of millennium, via launch of brands utilizing existing Spirit trademarks, along with national launch of future FMB leaders which directly borrow from NA beverage styles, such as Tea & Lemonade, yet scale remains hindered by social stigma

**RTD Share 2009:  
2.2%**

**The "Hard" Cycle**

**III**

2010-19



Beginning with Hard Cider, category begins to experience rapid "Boom/Bust" cycle of concepts, until 2018 when Hard Seltzer shifts paradigm, overcoming social stigmas, & onboarding consumers of mainstream Beverage Alcohol segments

**RTD Share 2019:  
7.3%**

**Trademarked RTDs**

**IV**

2020-Future



Hard Seltzer growth slows in 2021, partially due to rise of Spirit-based RTDs, but market landscape & consumer expectations are permanently rewritten, driving interest in participation & use of major brand trademarks from external players

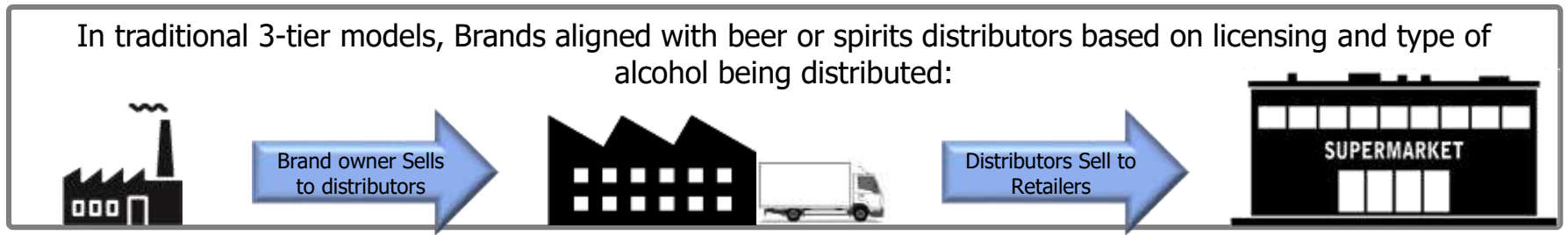
**RTD Share 2022:  
13.7%**

Note: RTD share is aggregate volume of RTD Spirits & FMBs as a share of Total U.S. Beer Volume



**Blurring among brands & products has helped drive vast changes to the alcohol distribution landscape, heavily influencing RTM dynamics and putting immense pressure on distributors**

***Traditional Alcohol Distribution Model***



***Modern Alcohol Distribution***

More and more distributors are now delivering across segments that they once would never touch:

- Beer Brands using spirits distributors
- Spirits brands using beer distributors
- Non-Alc Brands in the alcohol space
- Total Beverage distributors

Many forces are combining to create a complex distribution landscape:

- W&S push for tax & access parity
- LRB brands launching alcohol with established equity, raising branding bar
- Retailers expanding spirits space & sales

***As Distributors Gain Power, it Comes with Great Pressure***

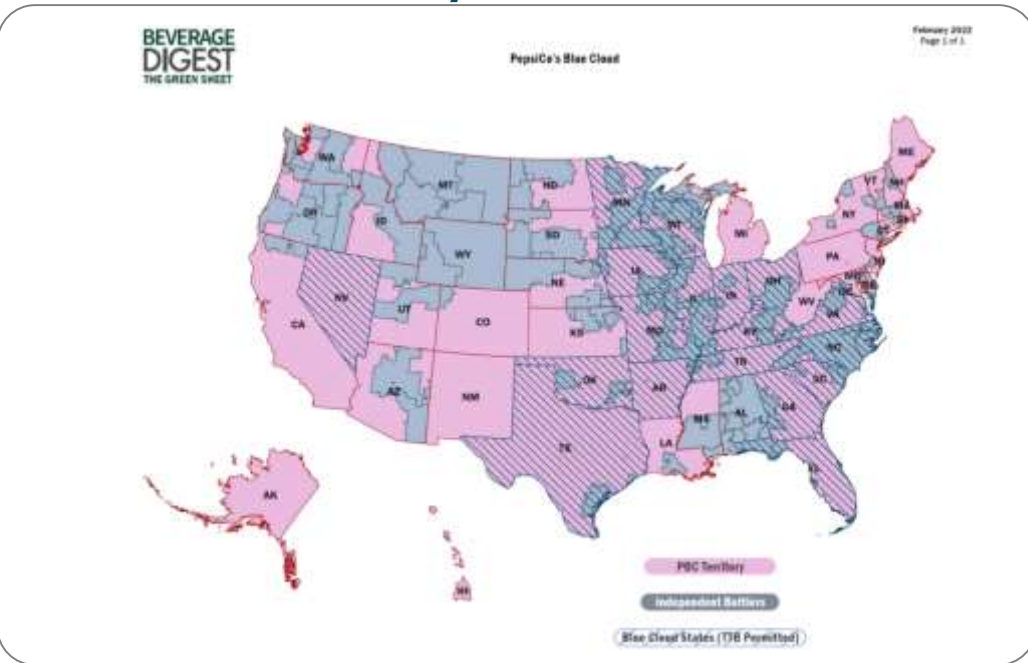
Pressure on our critical distributor partners is higher than ever, making it ever more difficult to focus & build brands:

- How many brands/categories/products are they willing to/ able to carry?
- How much attention do the battles for parity, Blue Cloud, etc. take from the business?
- Are they now expected to go head to head with the largest LRB companies?
- Will they continually lose brands that they have worked hard to build?



# PepsiCo facing headwinds with complex scheme to launch company owned Beer/Bev Alcohol Distribution system, Blue Cloud Distribution

## *PepsiCo Alcohol Distribution – Blue Cloud Distribution*



### *Blue Cloud Licensing:*

- Currently, BCD delivers Hard Mtn Dew in 12 states, soon to be 15. Targeted “national” in 2023, but tempered to 25 – 30 states by EOY.
- Pepsi/BCD has run up against hurdles in expanding permits/operations in varying state regulatory systems.
- GA has turned down a wholesaler dealer license for BCD, calling it a “Cross-tier statutory conflict of interest.”
- Utah Gov. Spencer Cox recently signed a bill requiring the Utah ABC to reject beer packaging that is “so similar” to well-known non-alc beverages that it is “likely to confuse or mislead a patron.”
- FL is latest state to challenge BCD licensing, alleging statute violations in nine license applications for its locations across the state

### *Controversy Brewing Among Wholesalers:*

- Calling out threats to 3-tier distribution system, with large manufacturer owning alcohol distribution.
- Challenging franchise laws in VA, which state that a brewery can sign with only one distributor in a given geography. Blue Ridge & Premium claim that BB broke law by giving distribution of Hard MD to BCD, and are attempting to nullify the appointment. This may cause a larger issue for PEP & BB.
- Believe soft drink slotting/display fees giving BCD an edge with retailers, consumer confusion with non-alc Mountain Dew
- Wholesalers challenging the notion that PepsiCo is not the “Supplier” of Hard MTN Dew, as PEP produces and owns the syrup used, controls the quality control with Boston Beer, and stipulates distribution through Blue Cloud. Although this is not uncommon in a licensing agreement in which brand is owned via license with a third party

### *Just the Facts:*

- BCD has ~200 employees, and is already a million-case operation.
- BCD long-term goal to distribute small portfolio of 6-12 products, not all of them Pepsi branded.
- Hard MTN Dew losing share in first three launch states, FL, TN, IA.
- PEP enters licensing agreement with FIFCO USA to launch Lipton-branded Hard Iced Tea products in 2023 — to be sold, merchandised and distributed by BCD.

## **As the Bev Alc market evolves, advanced by transformative partnerships across category, market, and product expressions, future outcomes may be defined by key emerging questions**

### ***Emerging Major Questions Facing Cross Category Partnerships & RTDs***

As the explosion of RTDs, particularly via partnerships of Beer organizations with NA and/or Spirits players continue to gain focus, future outcomes for the Beverage Alcohol market remain uncertain:

- ***What is the scale ceiling for the aggregate FMB/RTD market?***
  - Volume share already nearly 14% and many stakeholders view the segment as holding a very long runway for further expansion as launches accelerate
- ***Will brands utilizing established trademarks gain long-term traction, despite history favoring new-to-world brands?***
  - Smirnoff Ice remains near singular example of a translated trademark having market staying power in the 3+ decade history of RTDs, (e.g. Jack Daniels, Bud Light Extensions et. Al.)
  - Whereas new to the world brands have driven category success (e.g. Mike's, Twisted Tea, White Claw, Truly, High Noon, etc.)
- ***Will upstart Beverage Alcohol participants like Coca Cola & Pepsi further expand activity and/or center focus on Beer/FMBs vs. Spirits***
  - These players have shown early signs of playing both sides of Beer/Spirits divide, and do not broadly have any loyalty to the success of either
- ***Could a major acquisition or merger occur in the future?***
  - An acquisition of a major NA player or a major brewer by the latter is long rumored but has never come to fruition, could the cross participation make it a reality?
- ***Will regulatory parity for both distribution and/or taxation continue to expand for Spirit vs. Malt bases nationally or in key markets?***
  - RTD Spirits are accelerating despite patchwork of limited access or inflated prices via taxation, parity could open floodgates

