2020: Consumer Resilience in Bev Alc

What Will 2021 Bring?

2021 Wine & Spirits Forecast

KEARNEY

Executive Summary

Projections based on forecasts for Nov and Dec 2020, to be refreshed and published once final YE SipSource results available

1. **COVID-19** dramatically transformed beverage-alcohol purchasing patterns
2. **What happens next and when does next happen?**
3. **Scenario based forecasting:** Better to be approximately right than to be precisely wrong
   – Effectiveness of a COVID-19 vaccine
   – Timing of economic recovery in the US
4. **Data science driven shape of demand modeling**
5. **What the future might hold:** 2021 case volume growth ranging **-5.8% (worst case) to 3.0% (best case).**
   – **On-premise:** Even in our best-case scenario, we do not project return to pre-pandemic volumes
   – **Off-premise:** We see little chance that exceptional volume growth experienced in 2020 recurs in 2021
6. Actions to take:
   – Build operational capabilities to ensure **supply chain adaptability**
   – Promote **data-driven decision-making** over intuition
   – Match **cost structures to channel needs**
   – Commit to **adopting e-commerce and digital tools**
   – Evaluate **potential partnerships** to accelerate growth

Kearney applied predictive analytics methodology, Janus®, to forecast wine & spirits performance in 2021

Context

– COVID-19 dramatically transformed beverage-alcohol purchasing patterns, rendering **traditional "look back" forecasting techniques ineffective**

– Industry executives are working to figure out **what happens next** and **when "next" happens**

– There are **few available sources of consolidated industry data** to ensure decisions are "fully informed"

– Executives are demanding more visibility, data and insights on future performance in a **time of increasing uncertainty**

Kearney's approach

– Applied **Kearney's proprietary predictive analytics methodology, Janus®,** to forecast future performance and define shape of demand

– Incorporated **30+ explanatory variables** from publicly available sources and leveraged data provided by **SipSource to provide a consolidated industry POV**

– **Surveyed 1,000+ consumers and conducted interviews** with leading executives and industry experts

– Leveraged AI and predictive analytics through **scenario-based approach** to evaluate plausible future markets for US Wine & Spirits industry in 2021

1 **Context and approach**

2021 Plausible Scenarios:

With futures defined, what choices must we make now?

Competing Visions of the Beverage Alcohol Industry Future

Strong

Economic Recovery

Weak

Low — Effectiveness of COVID-19 vaccine — High

"COVID hangover"

Economic stimulus, slow road to recovery

- Off-premise consumption volume builds upon ~20% 2020 growth
- Vaccine distribution to >60% of population: 2H 2021
- On-prem capacity restrictions eased, but not removed by Q4 2021
- On-premise consumption declines on top of ~45% decline in 2020
- Congress passes modest Q2 economic stimulus
- US unemployment remains in high single digits
- US GDP growth 0–1%

"Champagne-poppin' recovery"

Off-prem habits die hard, on-premise recovers

- Off-premise consumption volume builds upon ~20% 2020 growth
- Vaccine distribution to >60% of population: 1H 2021
- On-premise capacity restrictions eliminated by July 2021
- Consumers return to on-premise and "party like its 1999"; Q4 2021 consumption matches Q4 2019
- Congress approves robust Q1 economic stimulus package
- US unemployment rate falls to 4% target
- US GDP growth returns to 2–3%

Status quo quagmire of on-premise

- Off-premise consumption volume builds upon ~20% 2020 growth
- Vaccine distribution to >60% of population: 2H 2021
- Q1 national lockdown ordered to contain disease spread
- On-premise capacity restrictions retained through 2020
- On-premise consumption declines on top of ~45% decline in 2020
- Congressional gridlock: limited Q2 economic stimulus
- US unemployment rate increases to low double digits
- Persistent negative US GDP growth
- Emergence of vaccine-resistant virus mutation

"The double-shot recession"

Reversion to pre-COVID-19 consumption

- Off-premise consumption gradually gives back from ~20% 2020 growth as consumers revert to pre-pandemic behaviors
- Vaccine distribution to >60% of population: 1H 2021
- Consumers gradually return to on-premise as vaccine distributed
- On-premise consumption returns to 2019 levels by Q4 2021
- Congressional gridlock: limited Q1 economic stimulus
- US unemployment rate increases to low double digits
- US GDP growth hovers at ~0%

"Back to the future"

2 Plausible scenarios for 2021

2021 Wine & Spirits Forecast

Performance projections for 2021 vs. 2020 (sales volume: cases)

Strong

Economic recovery

Weak

Low — Effectiveness of COVID-19 vaccine — High

“COVID hangover”

Economic stimulus, slow road to recovery

	2021 vs. 2020		
	Off	On	Total
Wine	*To Be Shared Once YE SipSource Data Refreshed*		
Spirits			
Total			

“Champagne-poppin’ recovery”

Off-premise habits die hard, on-premise recovers

	2021 vs. 2020		
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“Back to the future”

Reversion to pre-COVID-19 consumption patterns

	2021 vs. 2020		
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3 Outcomes by scenario

Source: Kearney analysis

Game plan to navigate uncertainty in 2021

4 Proposed actions

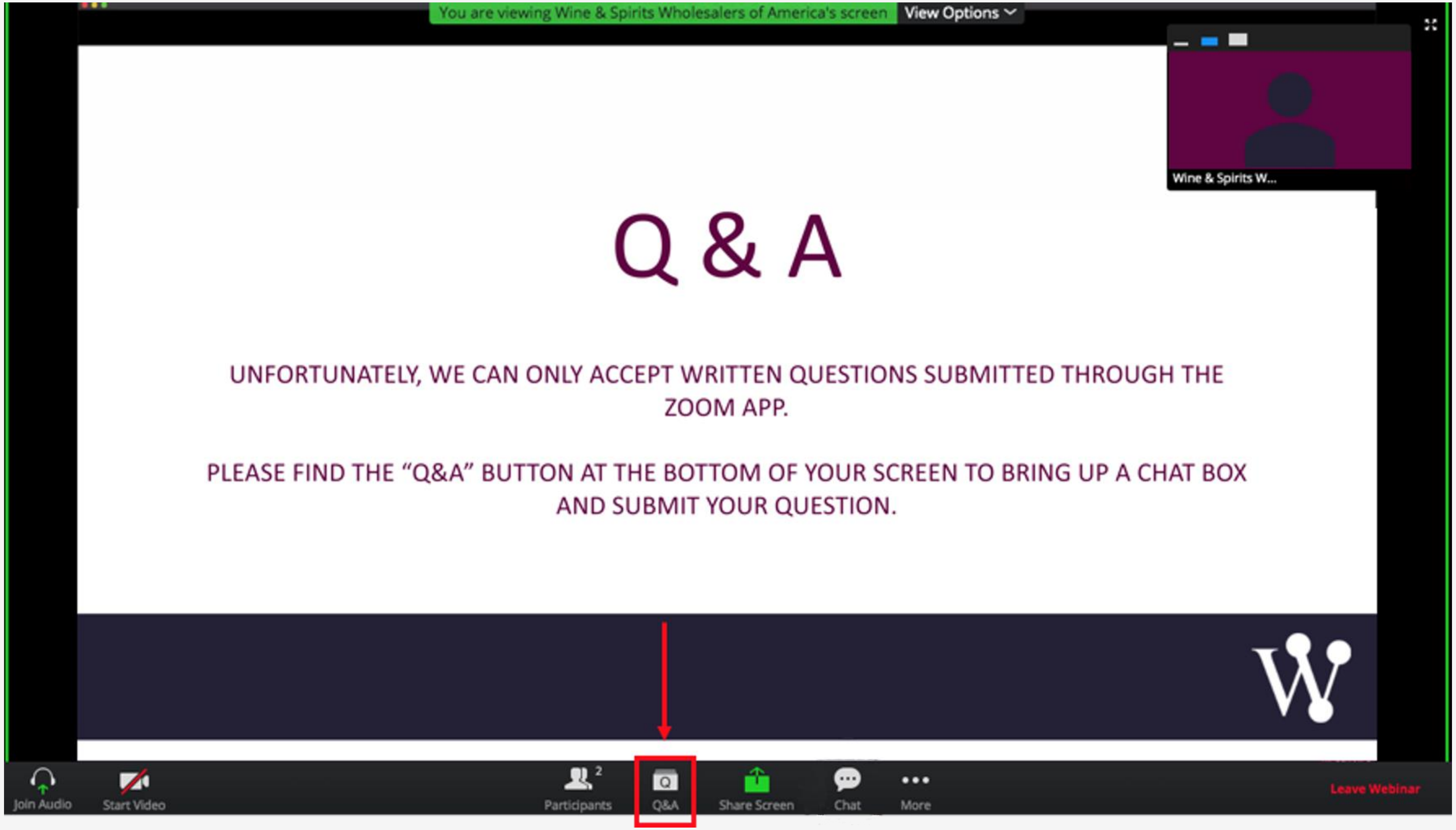
Foreseen Challenges in 2021	*Actions to Take Today*
Raw materials shortages (e.g. cans, bottles, agave, bourbon, cognac, etc)	Build operational capabilities to ensure supply-chain performance (flexible supply chain, dual sourcing)
Rapid shifts in consumer demand based on how recovery scenarios unfold	Promote data-driven decision making over intuition (real-time data feeds, predictive analytics)
Shift of consumers spend to new occasions and/or channels	Match cost structures to channel needs (route to market, channel mix)
e-Commerce share of wallet will continue to grow	Commit to adopting e-commerce and digital tools (B2B platforms, digital assets)
Increased chasms between winners and losers	Evaluate potential partnerships to accelerate growth (strategic alliances, last mile delivery)

FAQs

Question	Answer
What are the key variables that drive the predictive analytics model?	Overall Forecast: Historical growth trends from SipSource, seasonality, holiday effects COVID-19 Impact: Closures or stay at home orders, state-level restrictions, consumer mobility around hospitality sites, consumer sentiment
What has been the impact of COVID-19 on profitability of wine and spirits?	There are conflicting forces in action that impact profitability: 1) Premiumization of consumer purchases in the off-premise 2) Decline in more profitable on-premise business Overall impact estimated at flat profitability in 2020 vs 2019 but this was not modeled in our effort.
How have occasions where wine & spirits are consumed changed since COVID-19?	Growing Occasions: All at-home consumption occasions, “hometendering”, indulgent night at home, outdoor consumption with single-serve / RTD New Occasions: Guided online tastings, driveway tailgating
Why have products that are typically considered “on-premise” products (e.g., tequila, champagne, cognac / brandy) fared so well during the pandemic?	Consumers have tried to replicate the on-premise experience at home and purchased so much of traditional on-premise products for at-home consumption that they have driven supply shortages. The hometendering trend has also driven demand for traditional on-premise products (e.g. cordials/liqueurs) as consumers use them as ingredients in their at-home cocktails.

What other questions are on your minds?
Please use the chat to add them

Questions from You!



Thank you

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