LIVE WEBINAR

Have Two Years of COVID Permanently Changed the Alcohol Industry?

Wednesday, March 30
at 1:00 pm EDT

WINE & SPIRITS WHOLESALERS OF AMERICA

SipSource By WSWA

Have two years of COVID permanently changed the Alcohol industry?

3 D's - Dale, Danny, & Danelle

Industry & SipSource Analysts

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VP Research – Beer Institute

SipSource By WSWA

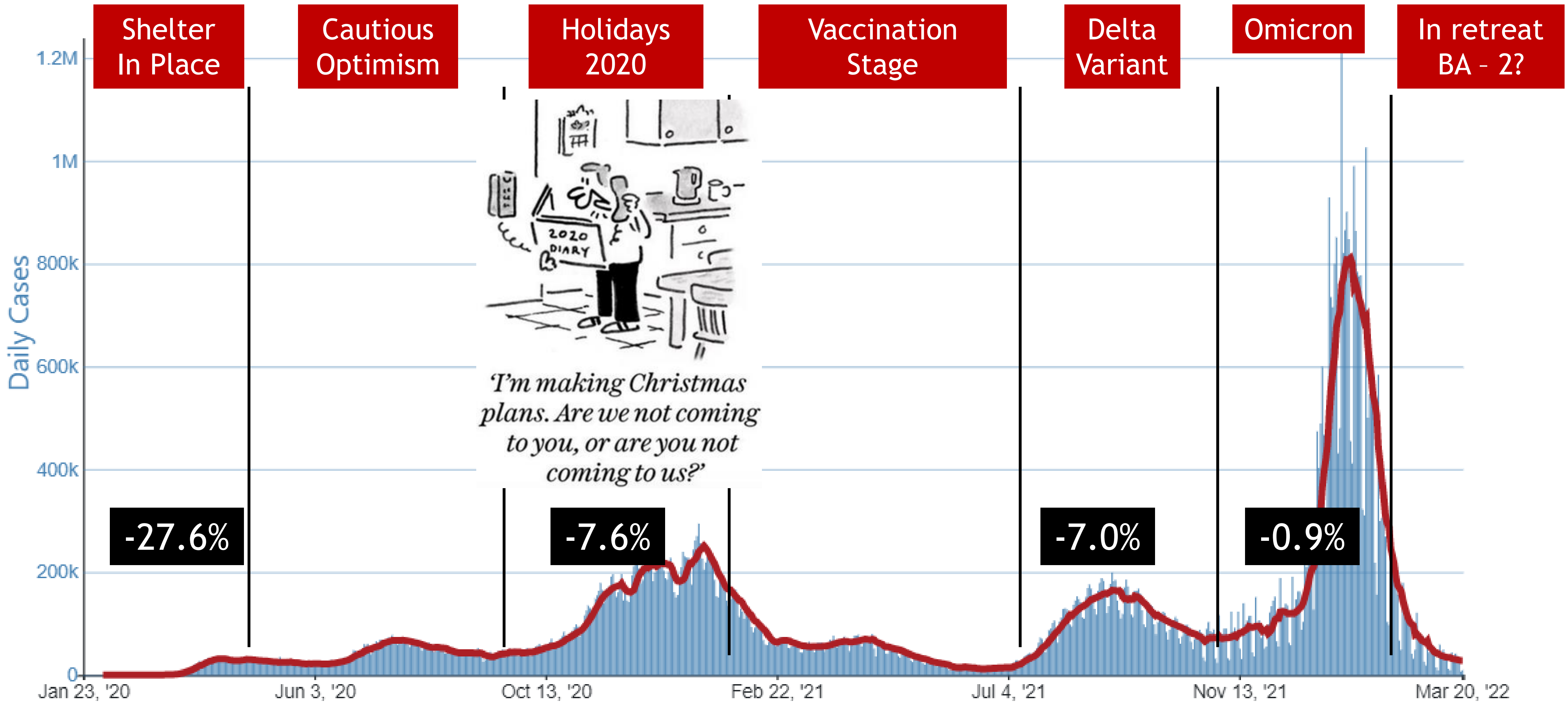
CHEERS TO BEER INSTITUTE 160 YEARS!

Our Agenda

- Are we still talking about COVID?
- Where are we now? What’s changed?
- What could lie ahead?

COVID-19 calendar – waves having lesser consumer sentiment impacts

Daily trends in Number of COVID-19 cases in U.S. reported to CDC



Source: www.COVID.cdc.gov 7-Day Moving Average New COVID Cases (red line)

Source: Morning Consult: U.S. Index of Consumer Sentiment Rolling 30 days % change

COVID has made data messier, and more difficult to measure trends, due to…

- COVID channel shifting (to & from) - related comps
- E-commerce
- DtC growth
- Tariffs in/out

CY 2022 should normalize – but at what levels?

Channel

Shifting

Where does that leave **Off-Premise?**
2021: Down vs 2020; **Up** vs 2019

Where does that leave **On-Premise?**
2021: Up vs 2020; **Down** vs 2019

Broad consumer drivers - COVID accelerated some existing trends

	Driver		Trend
1	Total Beverage	▶	Growing cross category drinking
2	Experience	▶	Authenticity; Discovery; Entertainment
3	Flavors	▶	Flavor seekers – what's new
4	Convenience	▶	Shopping; Right pack type/size
5	Wellness – for 'me' & 'we'	▶	Healthier choices/ transparency; Sustainability/CSR
6	Trading up	▶	Drinking "better"
7	Demographics	▶	Gender; Age; Ethnicity

BEER

Viva Mexico!

& Non Alc

WINE

Trade Up on Steroids

SPIRITS

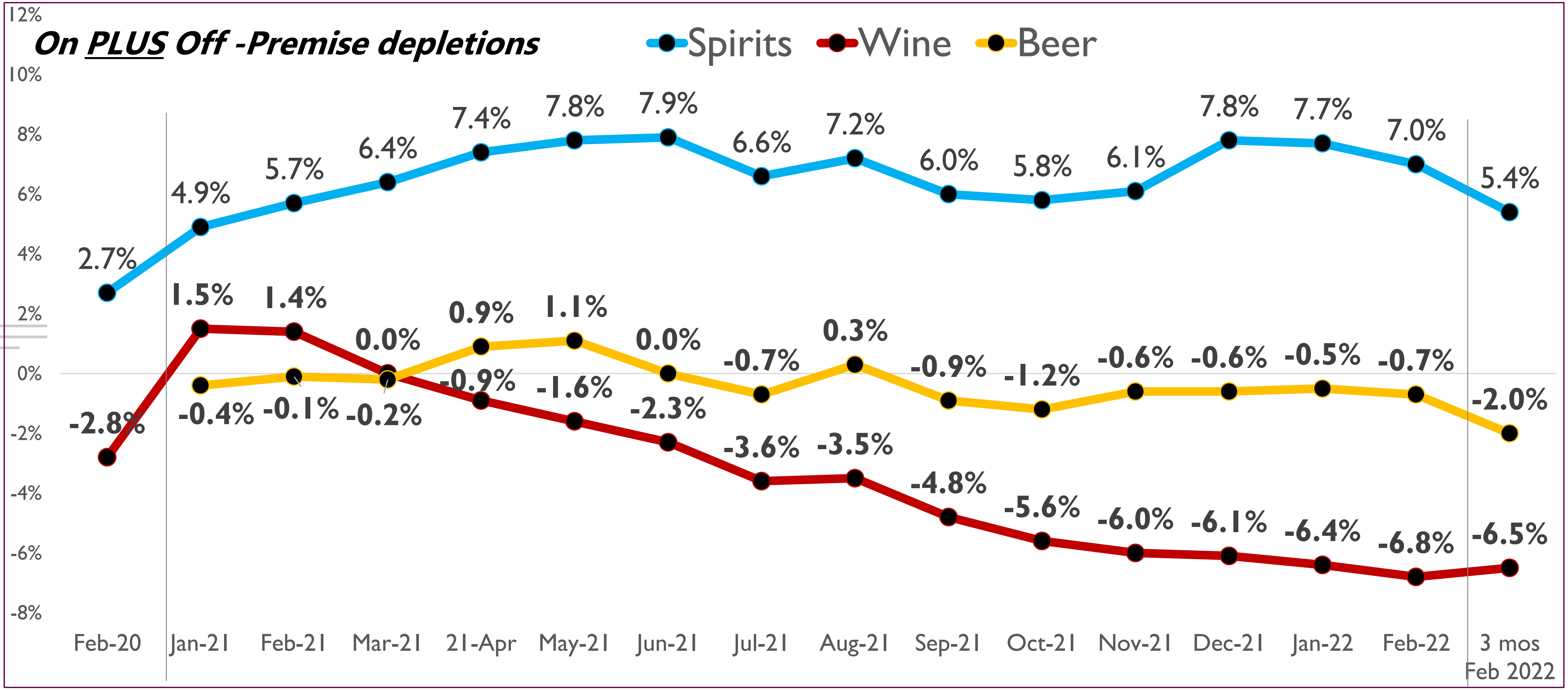
The Darling of the Industry

RTD’s *(or whatever you call them)* the talk of the town

Some data sources for today

SipSource By WSWA	All 3 Tier channels and sub-channels: On AND Off-premise depletions aggregated from participating wholesalers
Wine Market Council	Consumer Research
NielsenIQ	Retail sales in certain off-premise channels (impacted by channel shifting and comps)
Sovos ShipCompliant; Wines Vines Analytics	DtC Wine shipments (impacted by channel shifting)
Beer Institute	On and off-premise depletions and sales to wholesalers; TTB; Dept of Commerce and other government data; BPI and Harris consumer surveys

Spirits lead, Wine trails, and Beer between the two

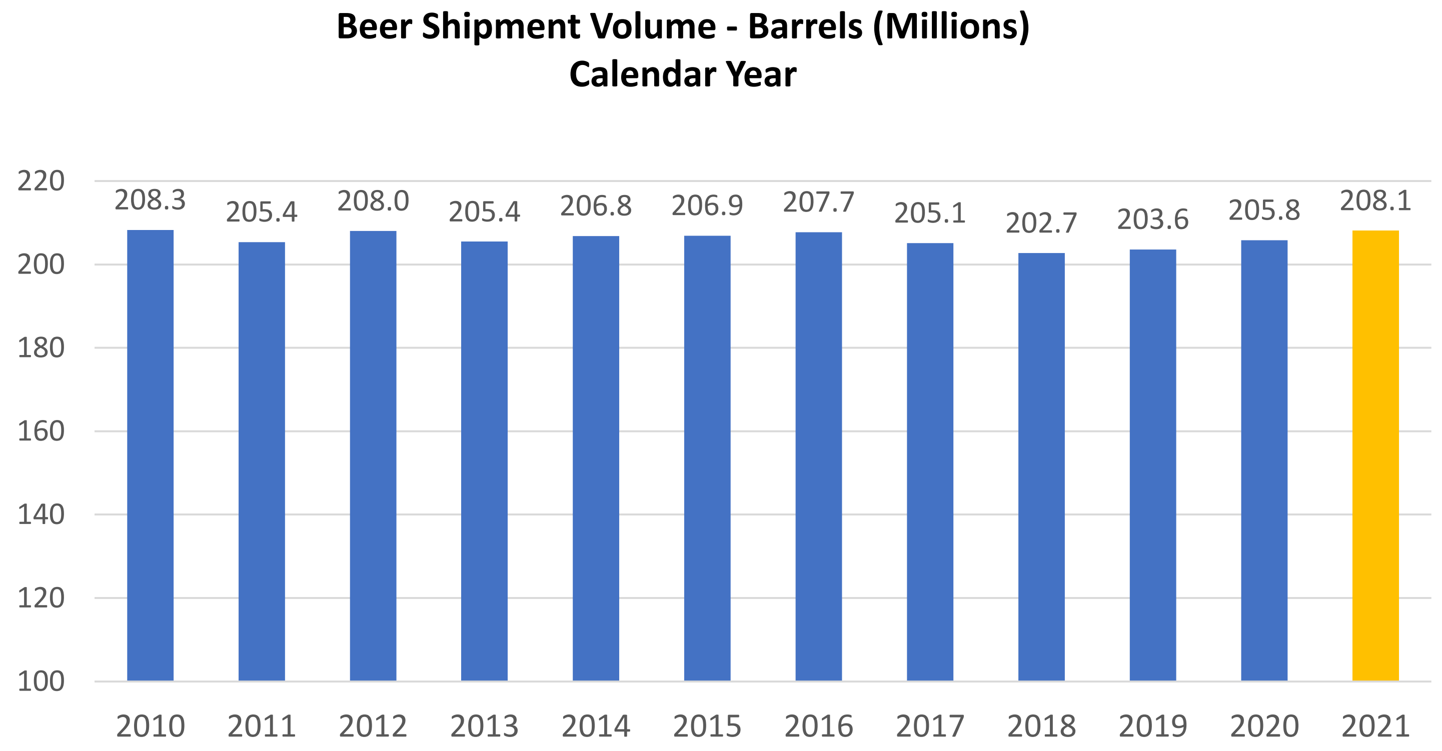


Sources: Beer Institute

12 Month Rolling Volume % Change vs. LY

BEER

Beer shipments outpaced depletions, and ended the year up 1.1%



2021 Beer shipments grew

+1.1%

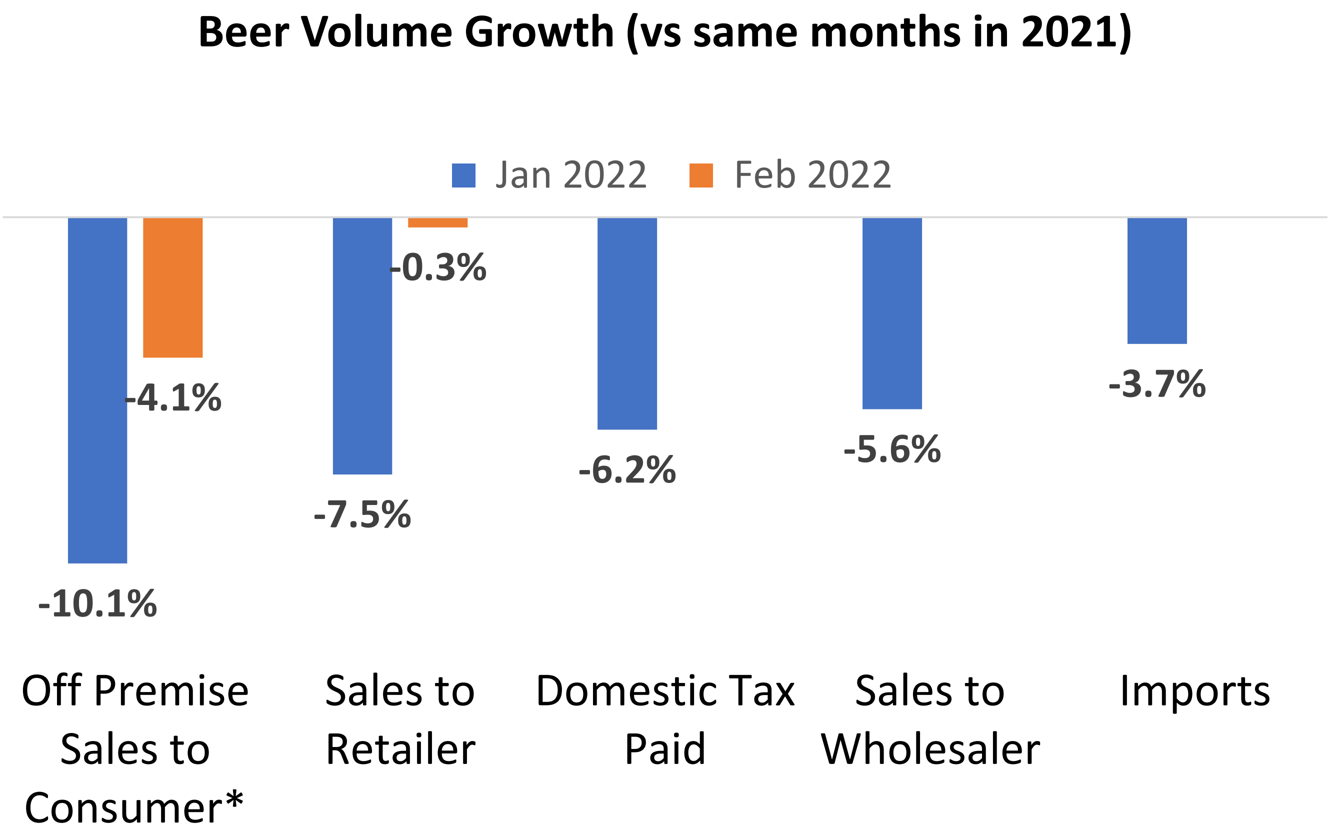
vs 2020

+2.2%

vs 2019

Source: Beer Institute estimated annual shipments; CY 2020 and CY 2021 subject to revision

A rough start to 2022; February more promising



Source: Beer Institute

* Off-premise sales to consumer source: NielsenIQ 4 weeks ending 1/29/22 and 2/26/22

Imported beer is biggest share gainer

YTD Off-Premise $ Growth and Share Change vs Year Ago

	$ % Change	**$ Share Change**
BEER/FMB/CIDER	-2.4	
PREMIUM	-4.5	-0.6
IMPORT	5.5	1.6
BUDGET	-8.1	-0.8
CRAFT	-8.9	-0.9
SUPER PREMIUM	-0.2	0.2
HARD SELTZER	-1.1	0.1
FMB (ex Seltzer)	3.0	0.4
CIDER	-5.9	0.0
NON-ALCOHOLIC	18.1	0.1

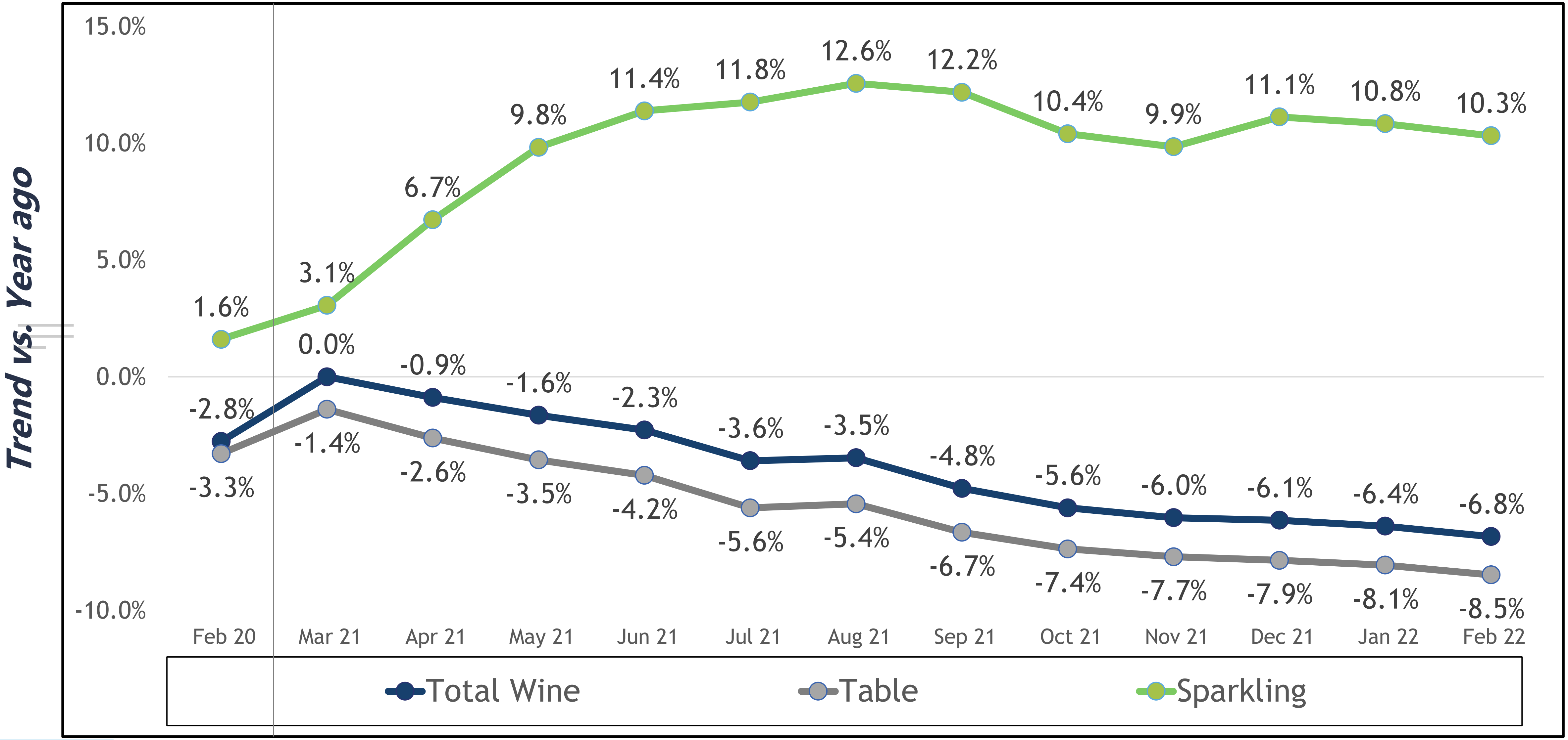
- **Non-alcoholic** beer is the fastest growing segment
- Most **high-end** segments are gaining share, with the exception of craft
- Hard seltzer holding share, but remaining **FMB/Beyond Beer driving growth** (hard tea, etc.)
- **Mexican imports** driving nearly all growth within Imports

NielsenIQ

Source: NielsenIQ, Total US off-premise channels, YTD week ending 3/12/22

WINE

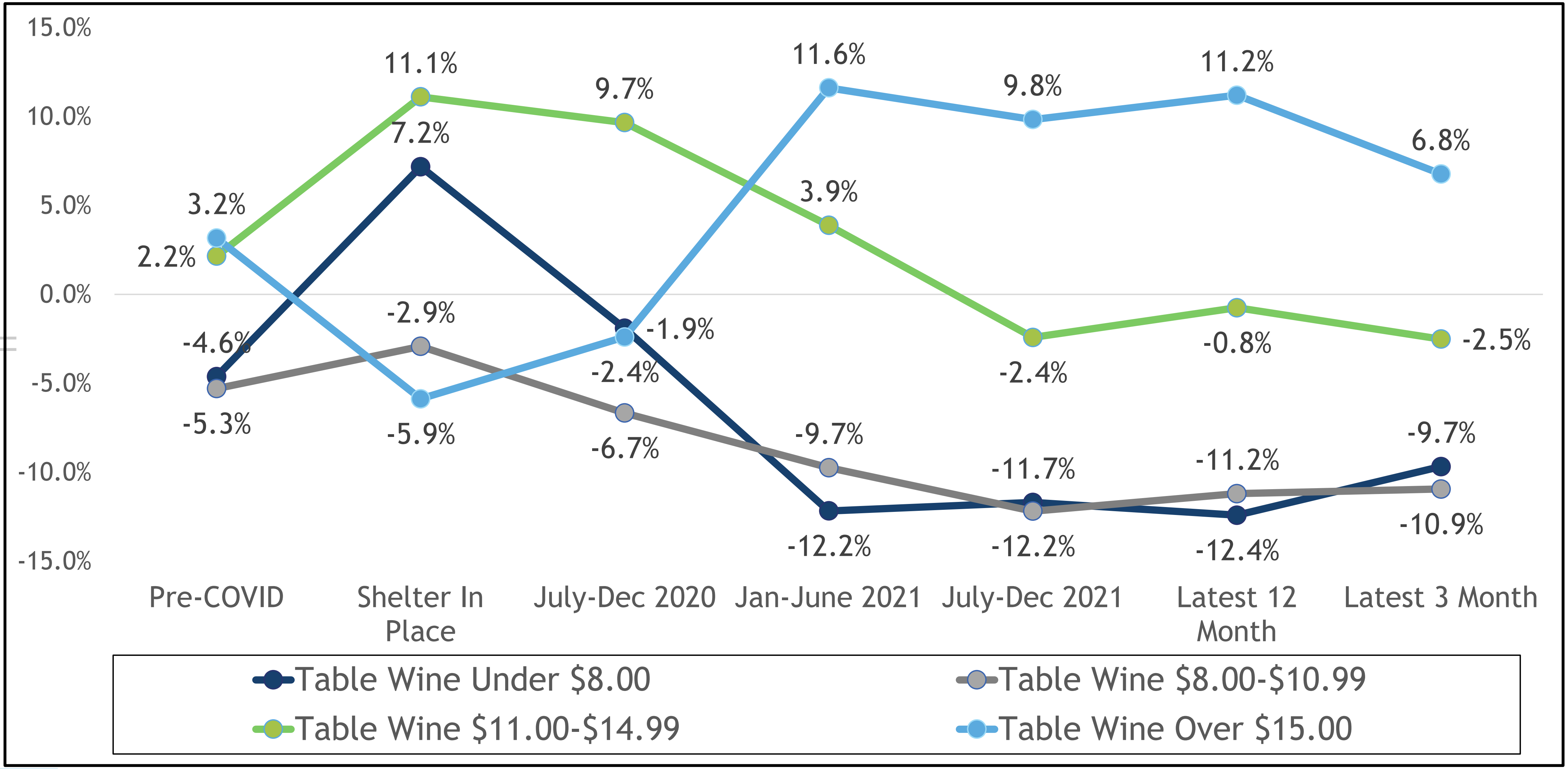
Wine trends highly impacted by COVID reactions, and differentiated Table vs Sparkling



12 Month Rolling Volume % Change vs. LY

SipSource By WSWA

Wine price tiers highly impacted by COVID



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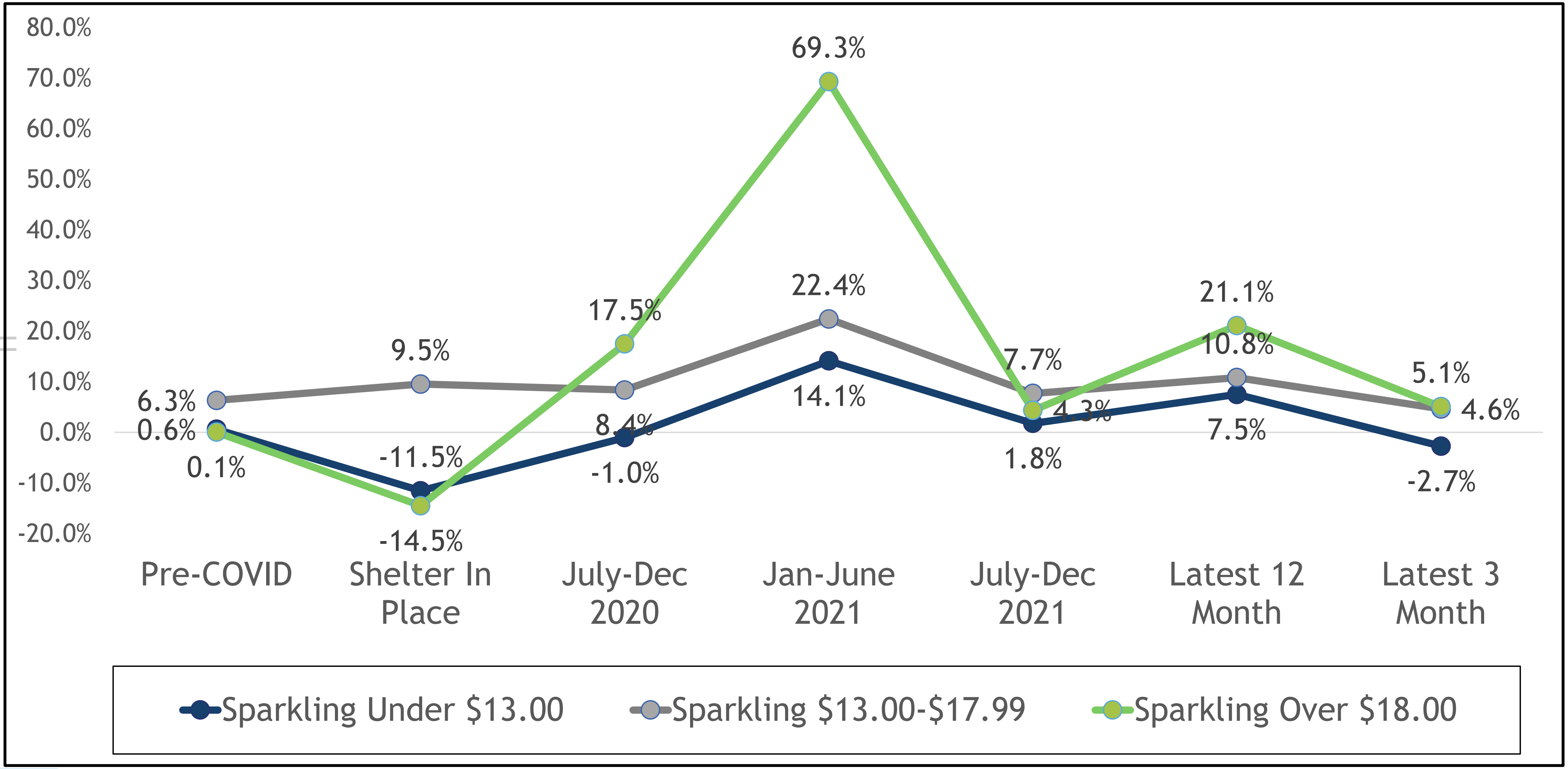


DtC Wine Shipments - 2021

Total U.S. – 2021

8.5 million Number of 9L cases sold;

+1.4% vs 2020; 2MM more cases than 2019

$4.2 billion Dollar value

+13.3% vs 2020; +$1 billon more than 2019

$41.16 avg price paid per bottle

+$4.33 vs 2020

DTC $ (with carryout) now >10% of Wine,

2022 will be a key year for DtC trends!!!

25 States **GREW** volume vs 2020;
23 did **NOT**

12 additional states since 2013 helping to propel growth

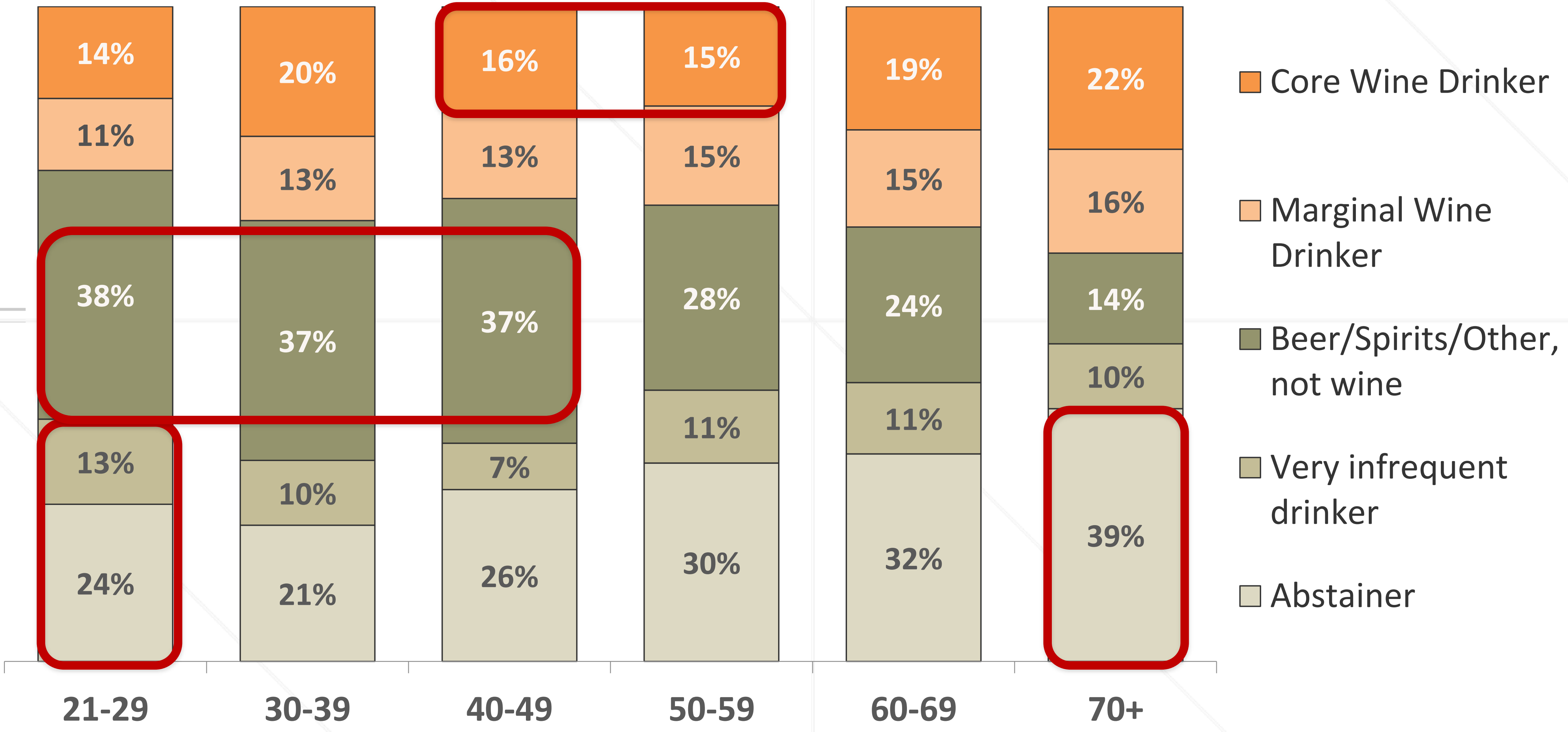
YTD 2022 (Jan + Feb)

- Volume: -1.6%/Value: +11.6%

WINES VINES ANALYTICS SOVOS ShipCompliant

18

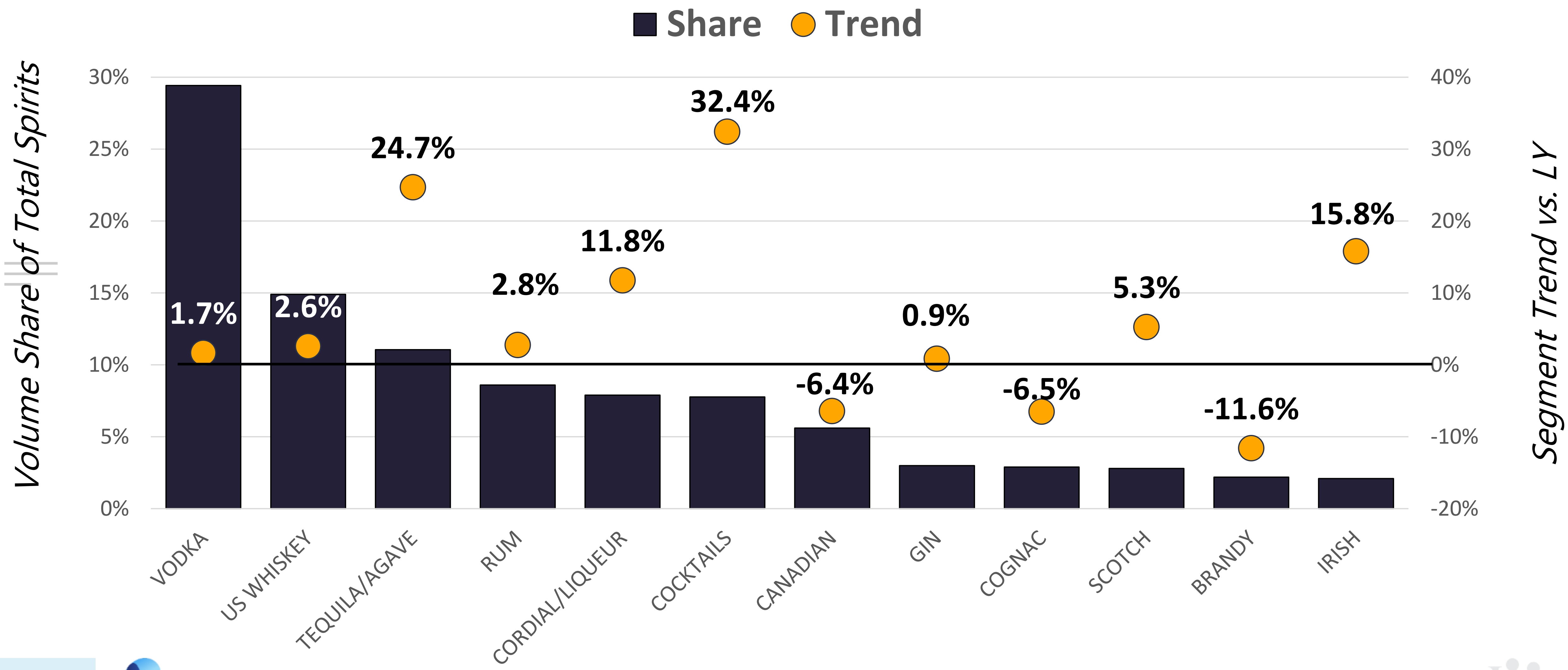
Age cohort impacts wine business



Base: U.S. wine drinkers, n=1,772
Source: WMC – U.S. Wine Consumer Segmentation Survey, October-November 2021

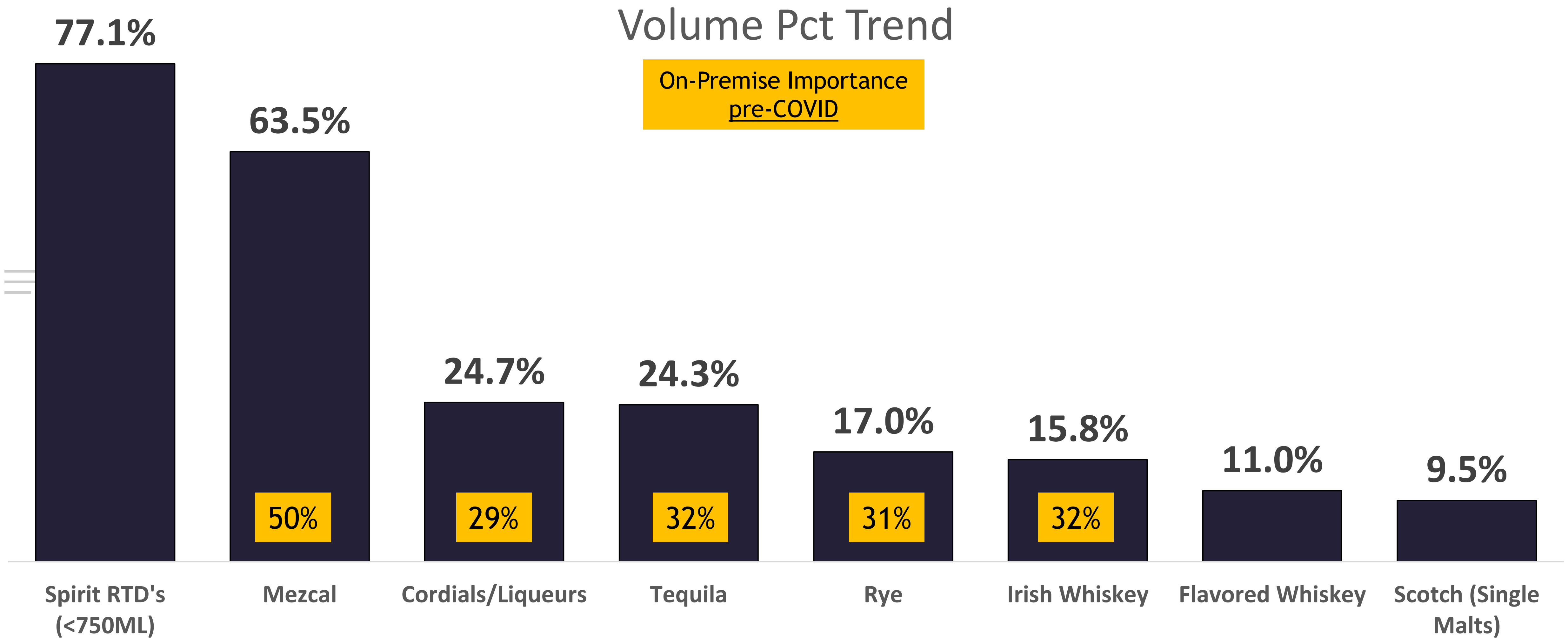
SPIRITS

Spirits RTD growth explosive; Tequila and Irish continues to expand



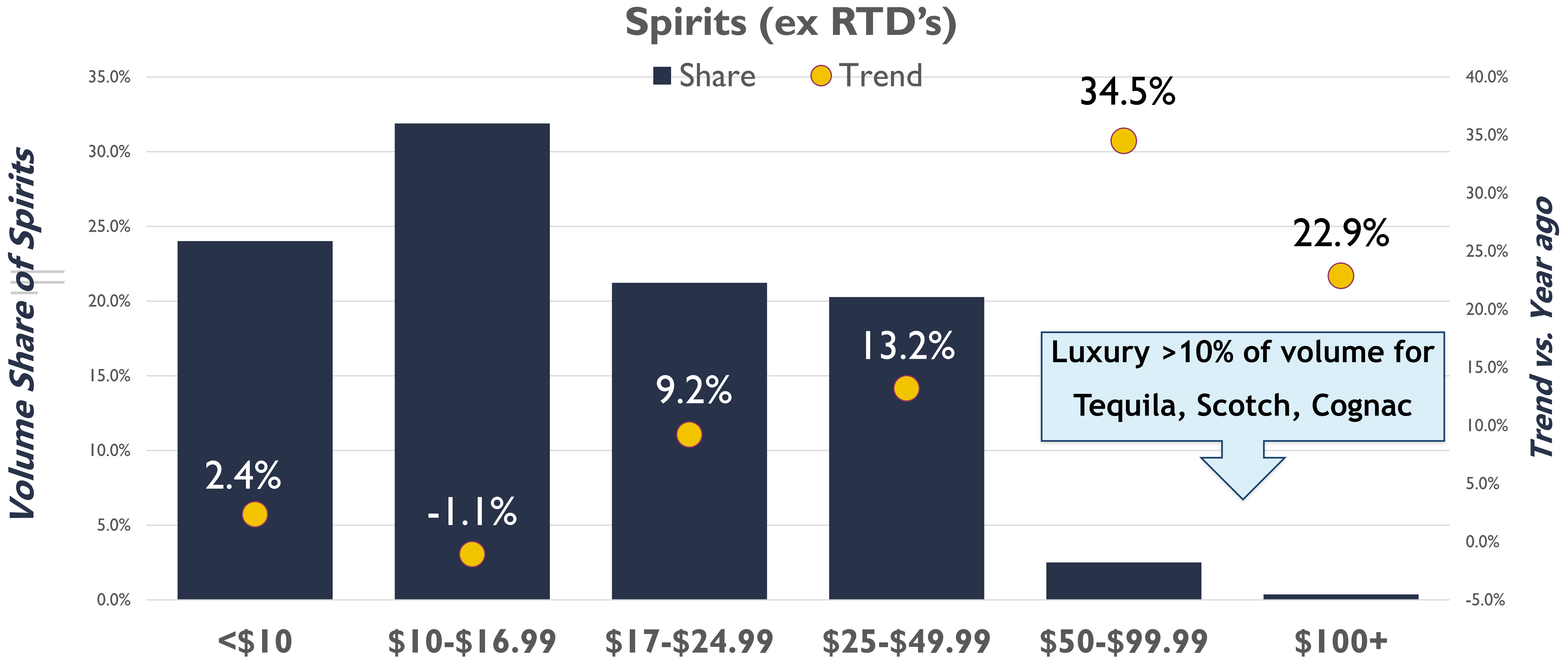
Feb 2022 12 Month Volume % Change vs. LY

Spirits growth superstars…in some cases also fueled by recovering On-Premise



Feb 2022 12 Month Volume % Change vs. LY

Spirits growth led at the higher end, but unlike Wine, mid to lower ends hanging in there



Feb 2022 12 Month Volume % Change vs. LY

RTD's

BEER

WINE

SPIRITS

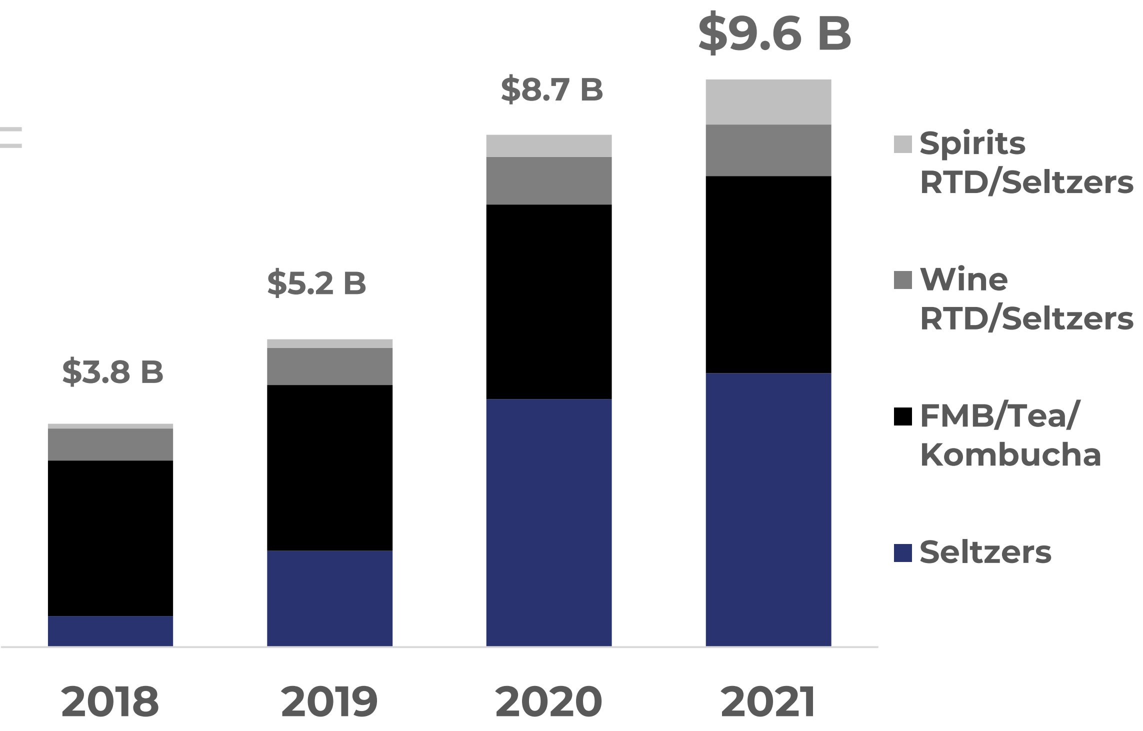
RTD's *(or whatever you call them)*

Key consumer drivers: convenience, flavor, "better for you"

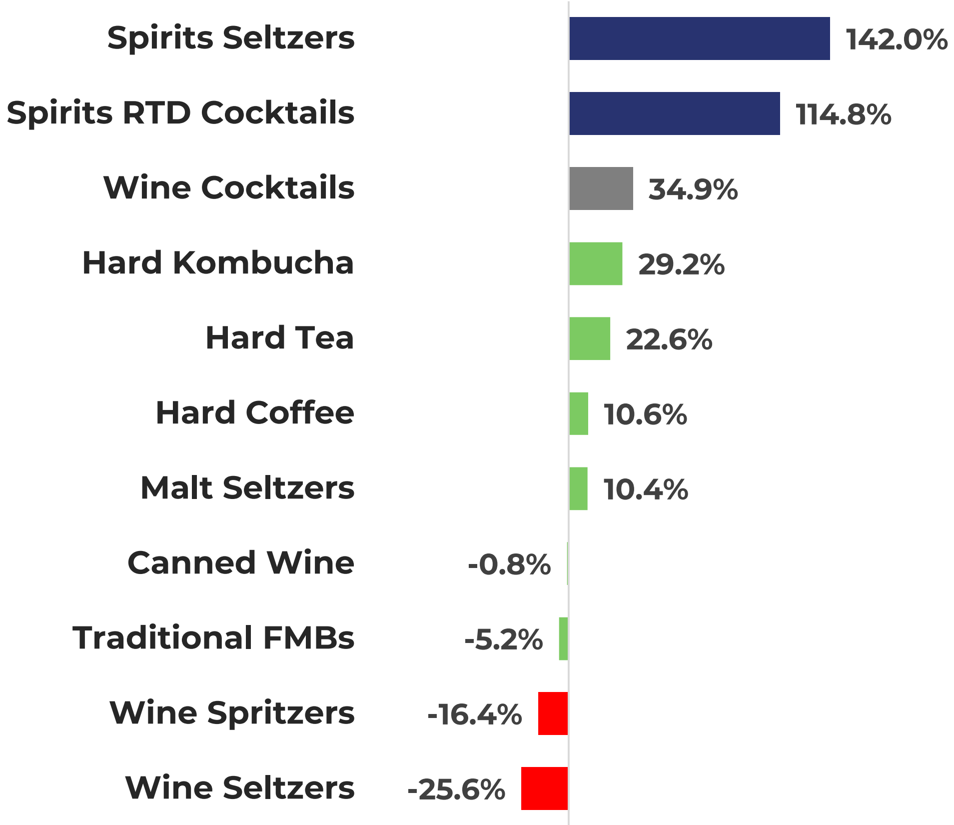
Spirits-based seltzers & cocktails leading growth across RTDs, but still significantly smaller than Hard seltzers/FMB's

Core consumer drivers: *Convenience, Flavor, Better for You*

Ready-to-drink dollar sales
NielsenIQ off premise channels



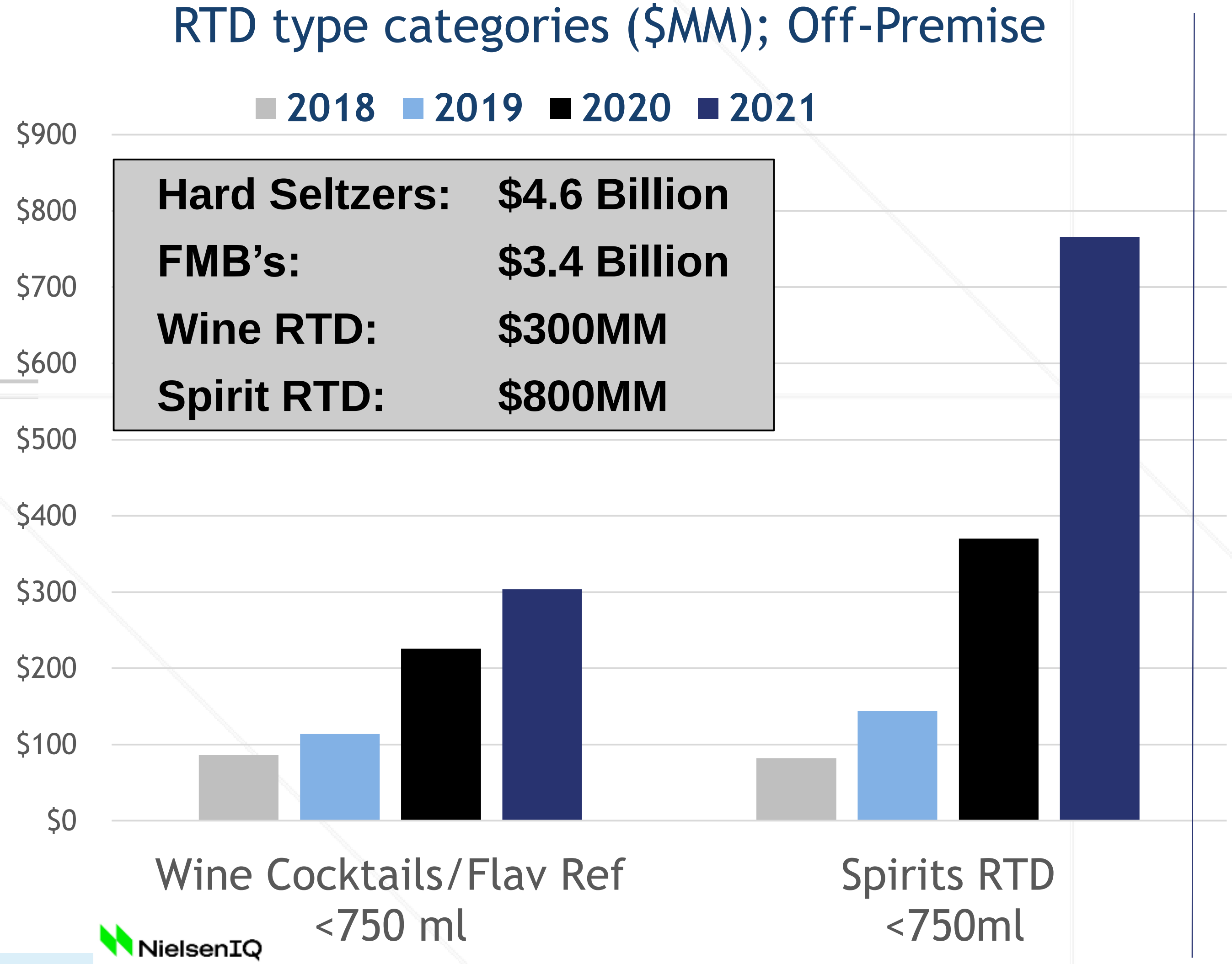
Ready-to-drink dollar growth
NielsenIQ off-premise channels



NielsenIQ

Source: NielsenIQ Scan Off-Premise Channels; latest 52 weeks ending 1/8/2022

Wine/Spirits RTD's driving and leading growth; still much smaller than Hard Seltzer/FMB's



Dollar % Chg Thru 2/26/2022	52 wks	26 wks	13 wks
Hard Seltzers	+5.3%	+0.7%	+/-0%
FMB	+0.4%	+4.5%	+4.1%
Wine RTD's	+32.2%	+31.2%	+32.2%
Spirit RTD'S	+106.2%	+91.7%	+72.3%

Source: NielsenIQ Scan Off-Premise Channels; 52 weeks ending 1/1/2022

Many bigger brands - considerable churn in top brands but also a considerably longer tail

	# Brands with sales	# Brands >$5MM annually		TOP 12 BRANDS % Importance of top 12	TOP 12 BRANDS # Brands New to top 12 vs 2019
Time Period	Latest 52 weeks	2019	Latest 52 weeks	Latest 13 weeks	Latest 13 weeks
Hard Seltzers	265	9	32	95%	7
Wine RTD's	213	5	10	88%	4
Spirit RTD's	286	7	19	77%	6

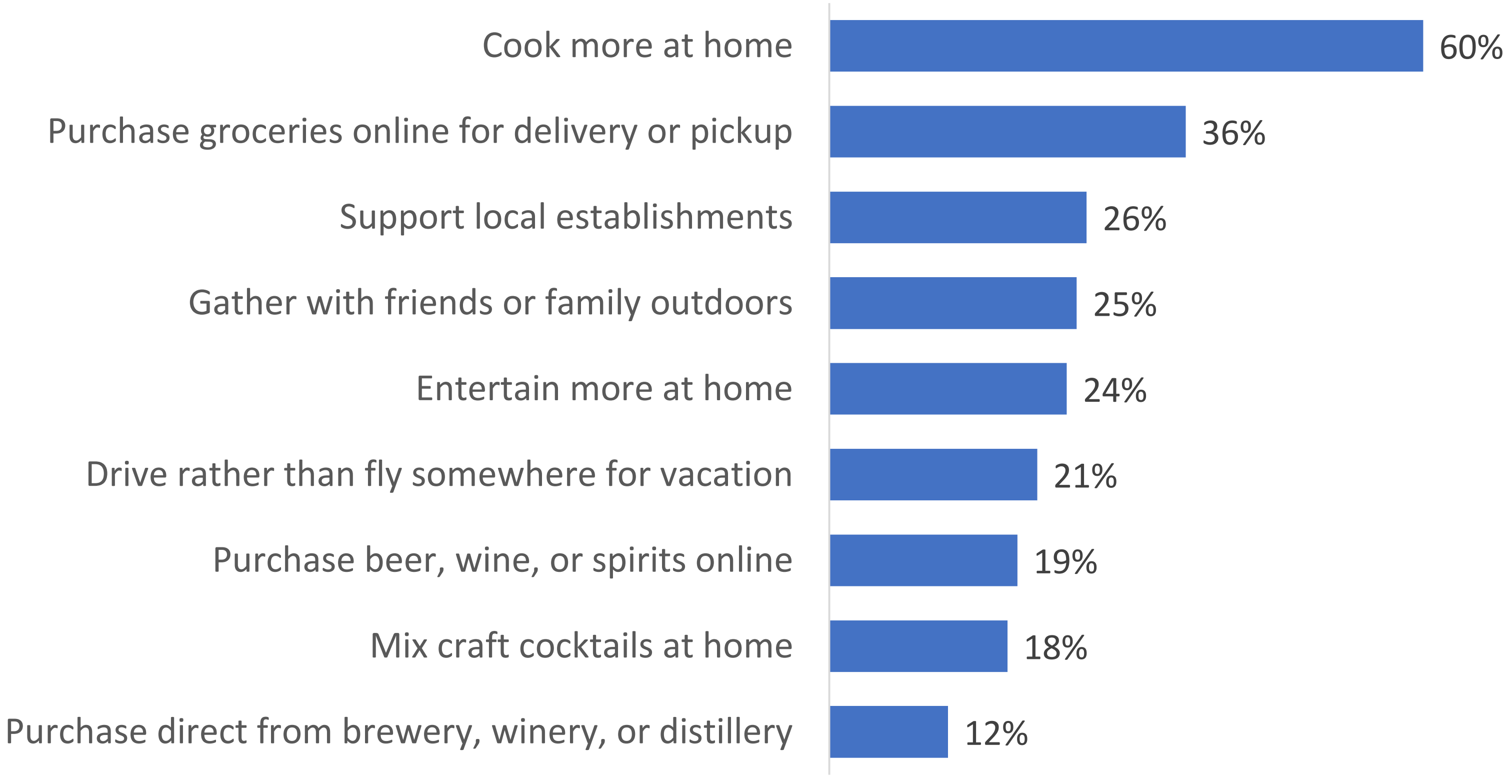
NielsenIQ

Source: NielsenIQ Scan Off -Premise Channels (Dollars); latest 52 weeks thru Feb 26, 2022

CHANNELS

Cooking tops the list for habits started during the pandemic

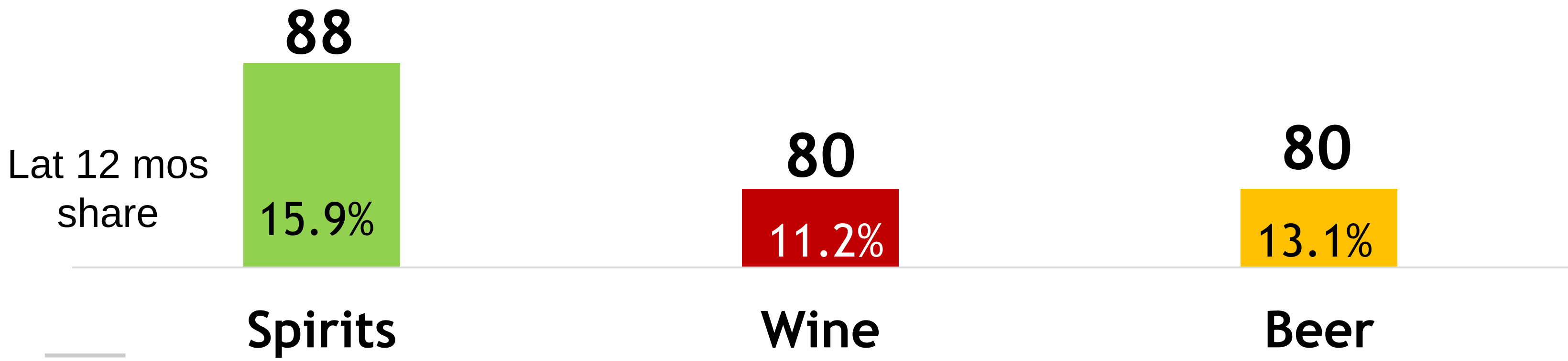
Which of the following activities did you start doing during the COVID-19 pandemic (March 2020-now)? Please select all that apply.



Source: This survey was conducted online within the United States by The Harris Poll on behalf of **Beer Institute** from March 17-21, 2022 among 1,978 U.S. adults ages 21 and older, among whom 1,484 drink alcohol several times a year or more often. The sampling precision of Harris online polls is measured by using a Bayesian credible interval. For this study, the sample data is accurate to within + 2.8 percentage points using a 95% confidence level.

On-Premise recovering, but NOT recovered

Channel Shifting Index (CSI)
On-Premise share index (vs pre-COVID) & current share



- Assortment streamlined (e.g Wine 2021: **-16%** BTG; **-17%** BTB)

WINEMETRICS

- Open on-premise accounts down **-10%; 40K less accounts** (Jan 2022 vs Jan 2021); fine dining sub-channel down the most

VIP

- Labor staffing issues
- Frequency of takeout & delivery persisting

Some consumer shifting behaviors re: where they choose to eat/drink persisting!

On-Premise Sources
Wine & Spirits: SipSource: *12 mos to Feb 2022 vs vs 12 mos to Feb 2020 share On-Premise share
Beer from Beer Institute: 12 mos to Feb 2022 vs vs 12 mos to Feb 2020 share On-Premise share

SipSource By WSWA

Some On-premise channels lagging more than others; some Off-premise channels holding better to COVID gains

Channel Shifting Index*	WINE	SPIRITS
Dining/Restaurants	84	91
Bars/Nightclubs	86	89
Recreation	78	89
Lodging	60	79
Transportation	43	39
Liquor	109	103
Grocery	103	101
Drug	84	76
Club	105	109
Mass Merchandiser	94	96
Convenience	114	114

SipSource By WSWA

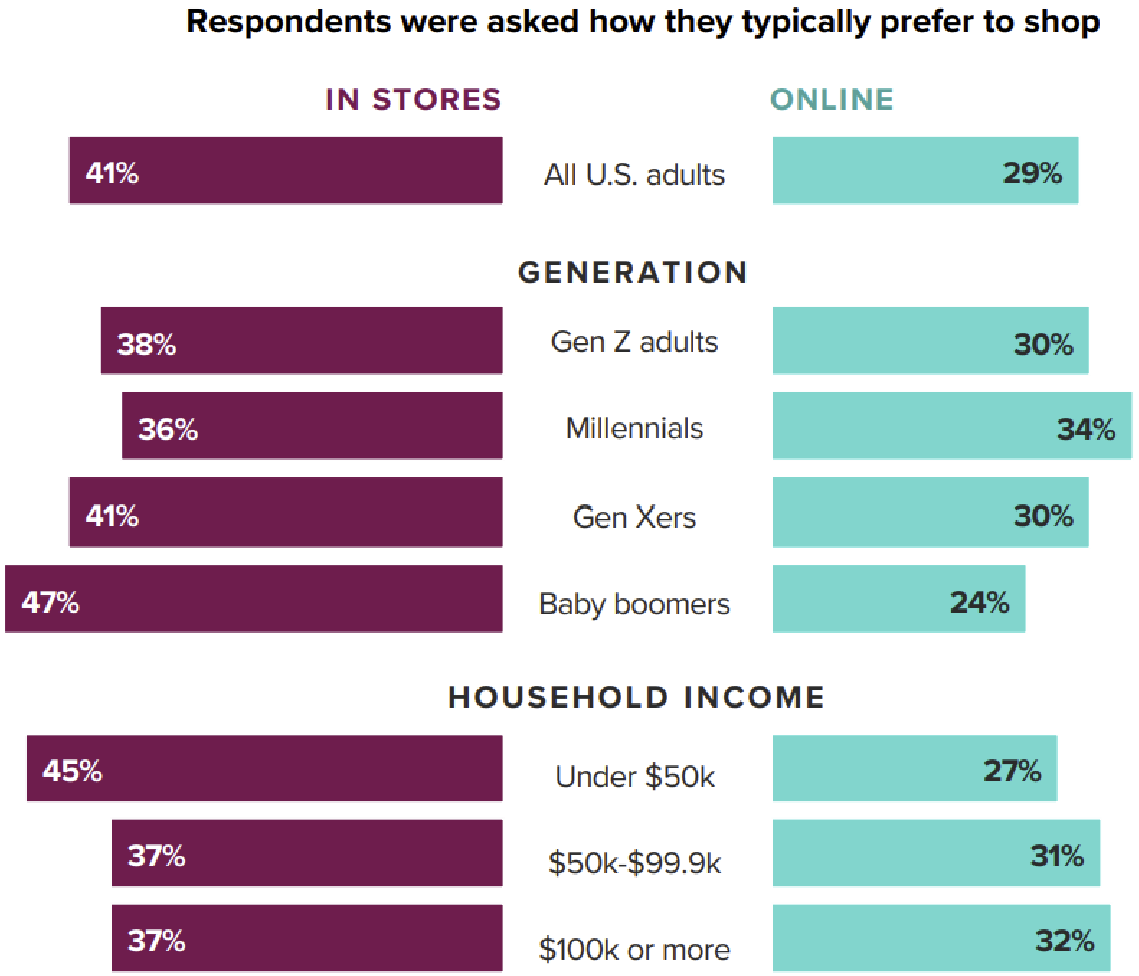
*Channel Shifting Index
- Index: Channel share of category
- 12 mos ending Feb 2022 vs 12 mos ending Feb 2020

Channels differ significantly in their importance to each of BWS

Channel Importance (Volume)	BEER	WINE	SPIRITS
1	Convenience	Grocery	Liquor
2	Grocery	Liquor	Grocery
3	Liquor	Mass Merch	Dining
4	Mass Merch	Dining	Convenience
5	Bar/Tavern	Club	Bars
6	Restaurant	Convenience	Club
7	Recreation	Drug	Mass Merch
8	Drug	Bars	Drug
9	Dollar Store	Recreation	Recreation
10	Concession	Lodging	Lodging

- Channel share of category (volume)
- 12 mos ending Feb 2022

Online Shopping – in greater favor among younger generations and higher income consumers



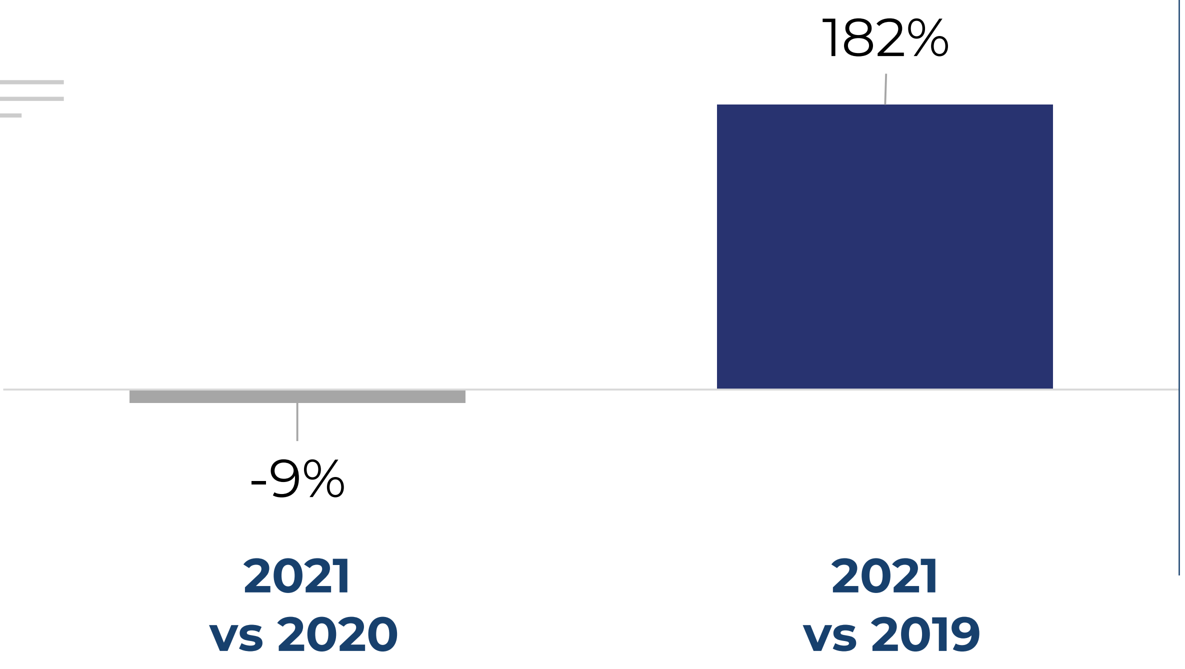
Source: Morning Consult The State of Retail and E-Commerce Report Q-1 2022

MORNING CONSULT

Online alcohol sales almost 3x pre-COVID levels – driven largely by ‘new to online’ for Bev Al buyers

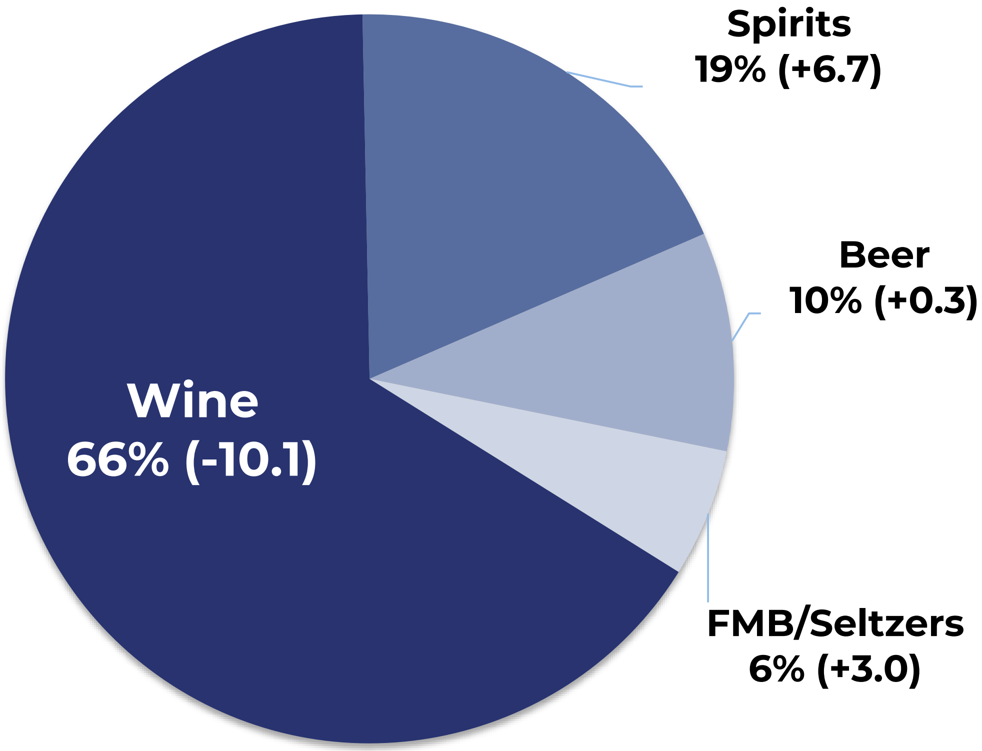
Online alcohol sales

Dollar percent change vs year ago



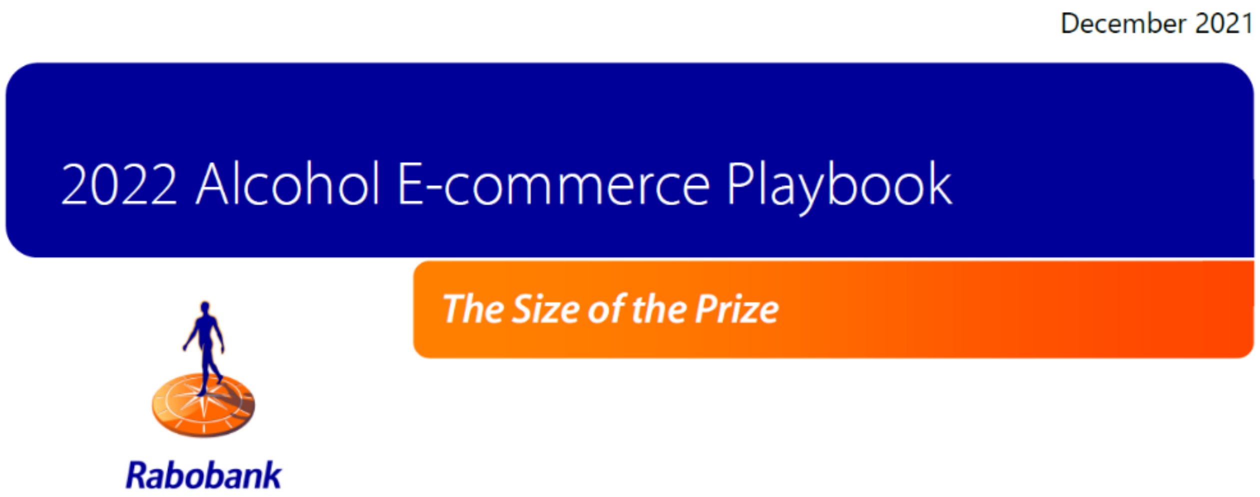
Share of ecommerce

Dollar share of ecommerce & point change vs 2 YAG



NielsenIQ

Source: NielsenIQ Total US Ecommerce measurement (variety of specific merchants)



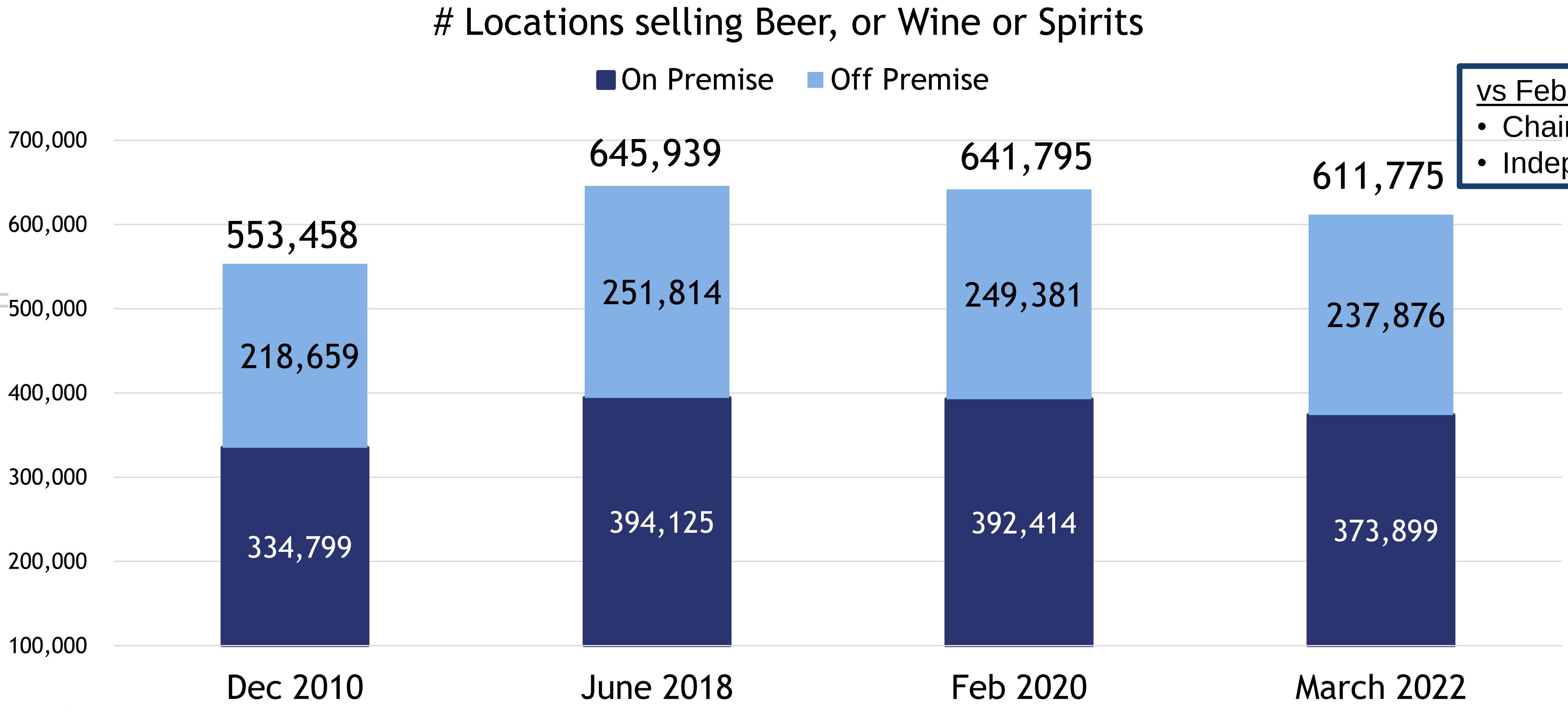
U.S. online Bev Al sales estimated at just over $6 billion; with Wine the dominant category ($4 billion)

E-commerce share of off-premise (3 tier + DtC)

- ➢ 10.9% for wine
- ➢ 3.1% for spirits
- ➢ 1.5% for beer

Source: RaboResearch; 2022 e-commerce playbook; bw166, Euromonitor 2022

Not just On-Premise locations closed; some Off-Premise too!



vs Feb 2020
- Chain: -1K
- Indep: -29K

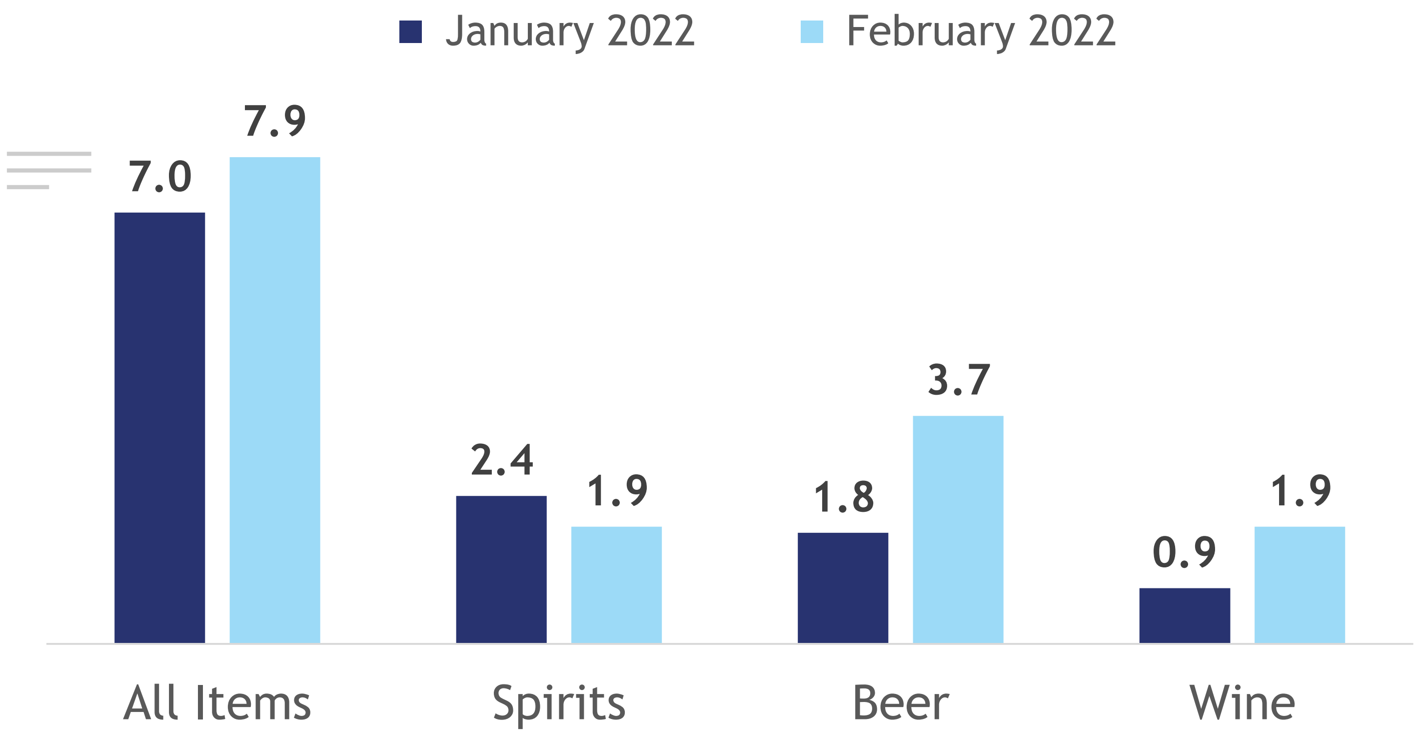
NielsenIQ

Source: NielsenIQ TDLinx

INFLATION

Bev Alc inflation remains well below “all” items; within, Beer prices have increased the most to date

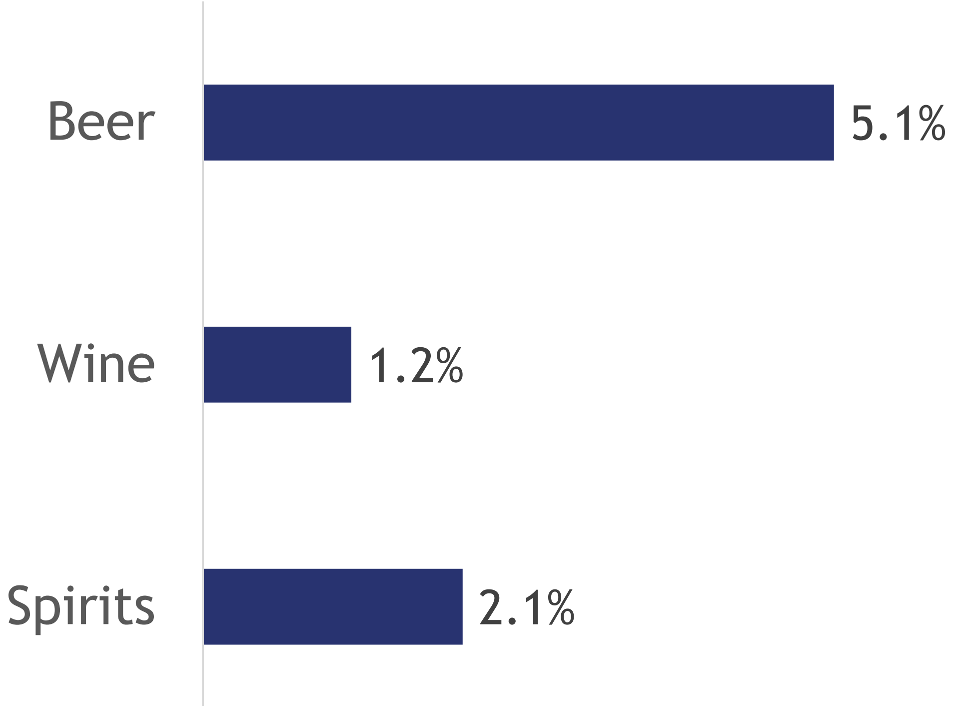
Consumer Price Index - % Change vs Year Ago



Source: Bureau of Labor Statistics, Consumer Price Index for all urban consumers (CPI-U)

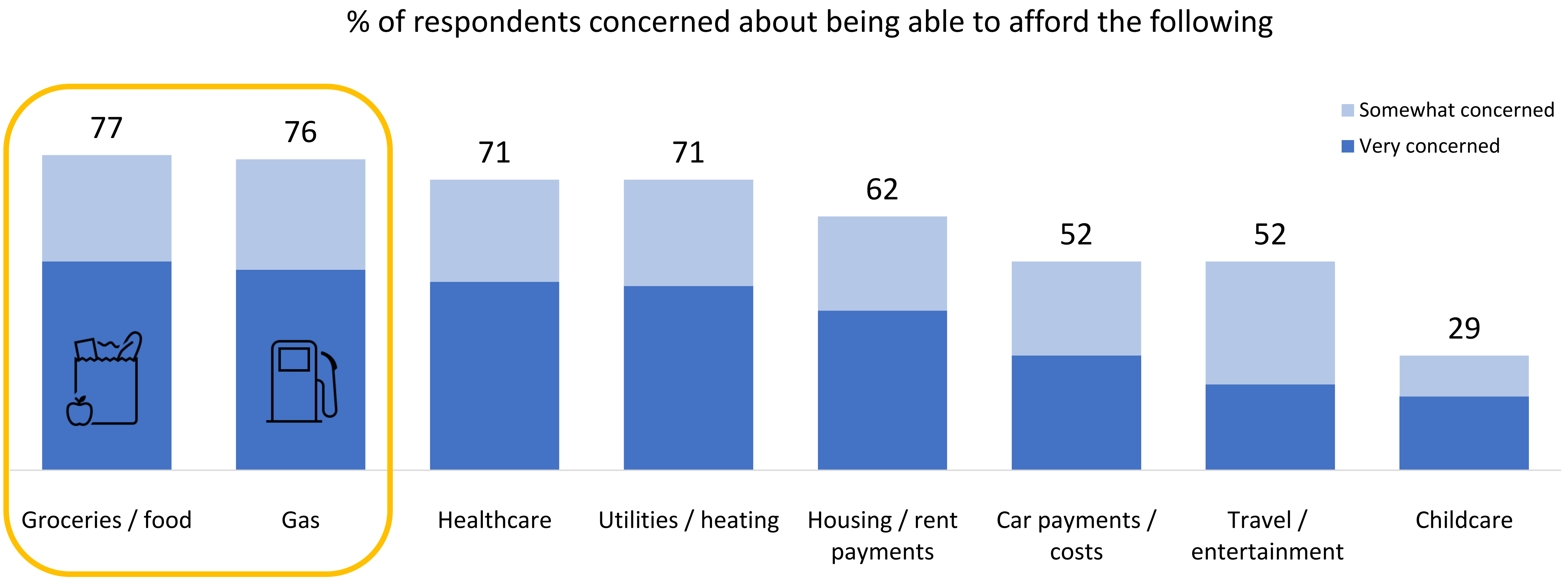
NielsenIQ

Top 500 items in each category
4 w/e Feb 26, 2022 vs 1 Yr Ago



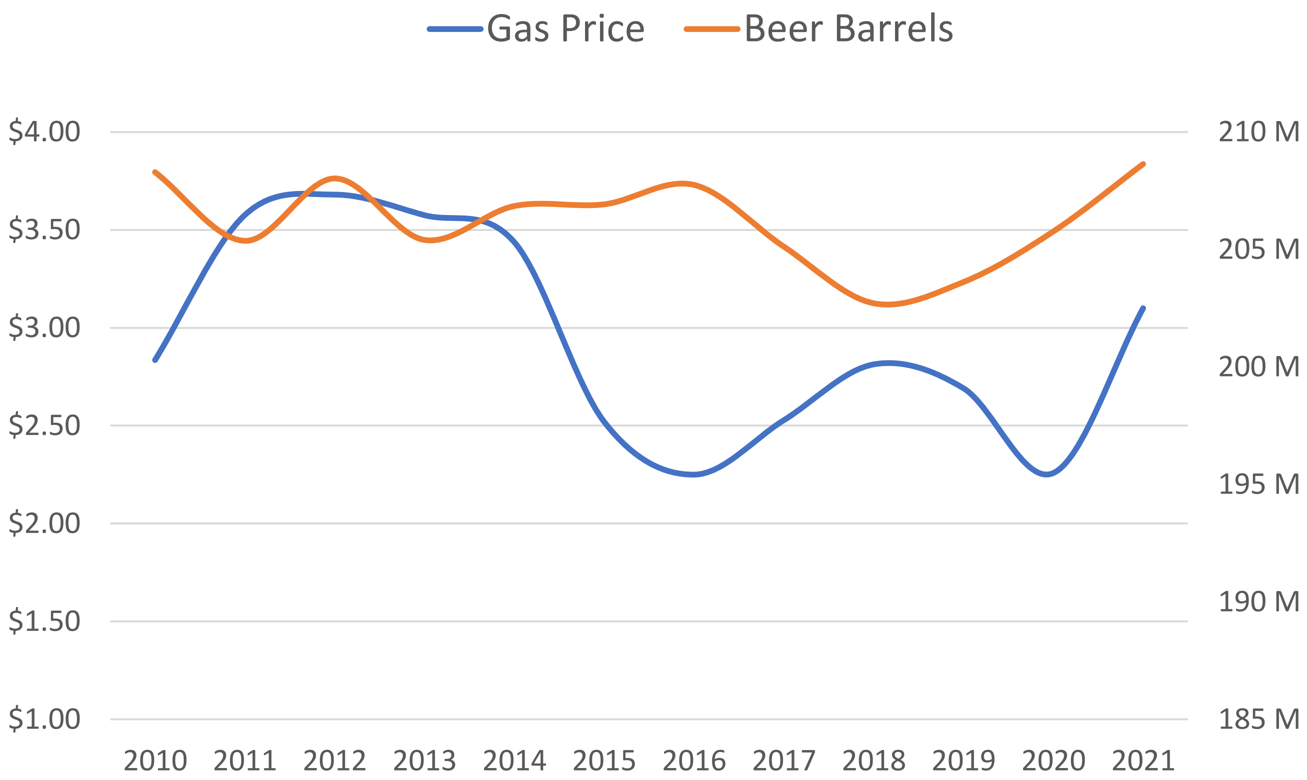
Source: NielsenIQ: Total U.S.; measured off-premise channels
Excludes any new items not available year ago

More than ¾ respondents concerned about affordability of groceries and gas



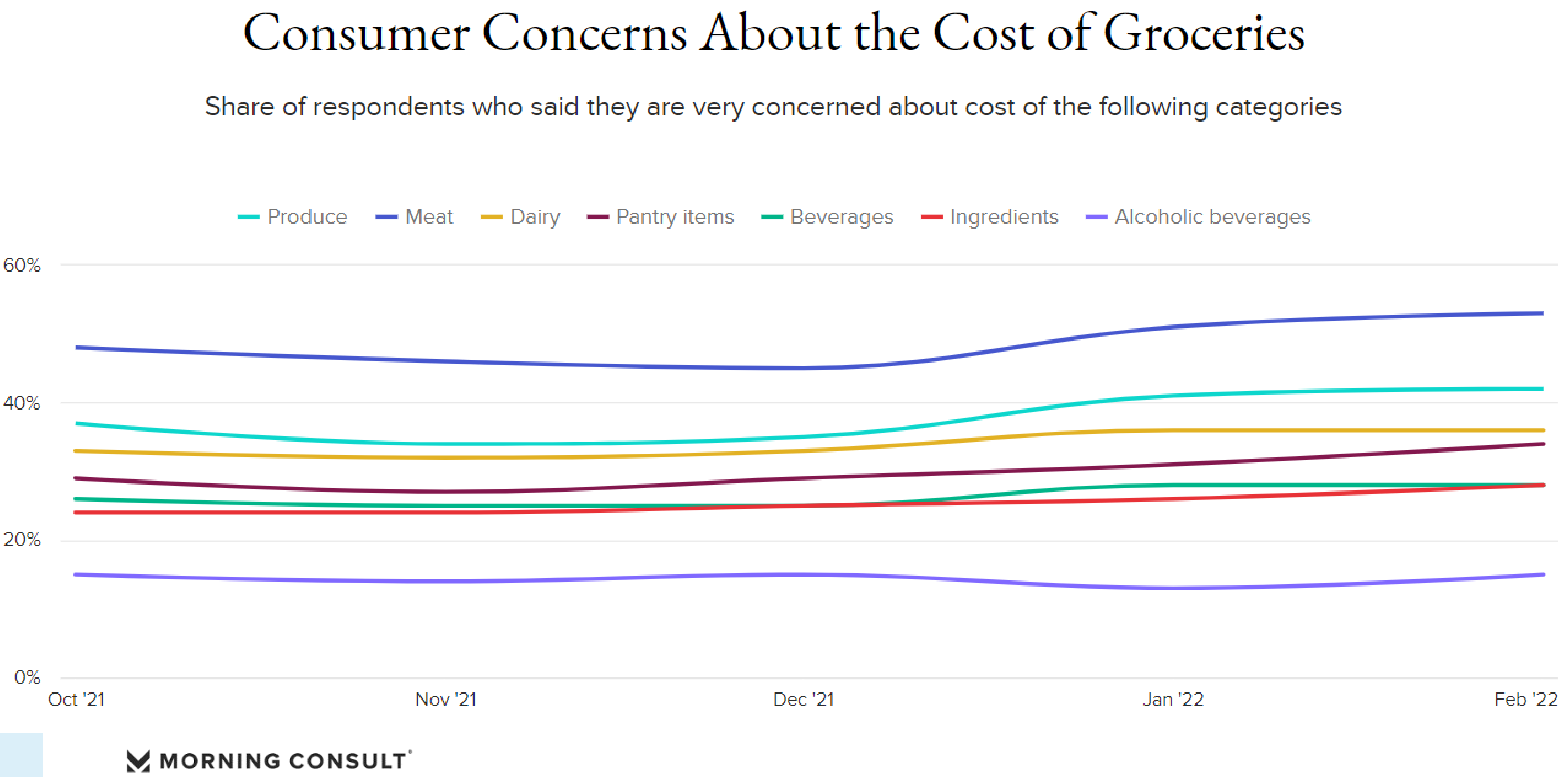
Source: Bully Pulpit Interactive online survey conducted on behalf of Beer Institute. 800 age 21+ respondents across six battleground states. January 10-15, 2022
Question: How concerned are you about being able to afford each of the following?

Historically, beer volume has fallen as gas prices increase



Source: U.S. Energy Information Administration; Beer Institute

Concerns about Alcohol prices not increased appreciably



However, nearly 2/3 of drinkers say the are cutting back on alcohol spend due to inflation

Which of the following alcohol beverages are you spending less money on due to inflation? (Please select all that apply.)

Spirits	Beer	Wine	Seltzers/ FMBs	RTD Cocktail	Cider
35%	31%	28%	22%	20%	14%

65% spending less on some type of alcohol due to inflation

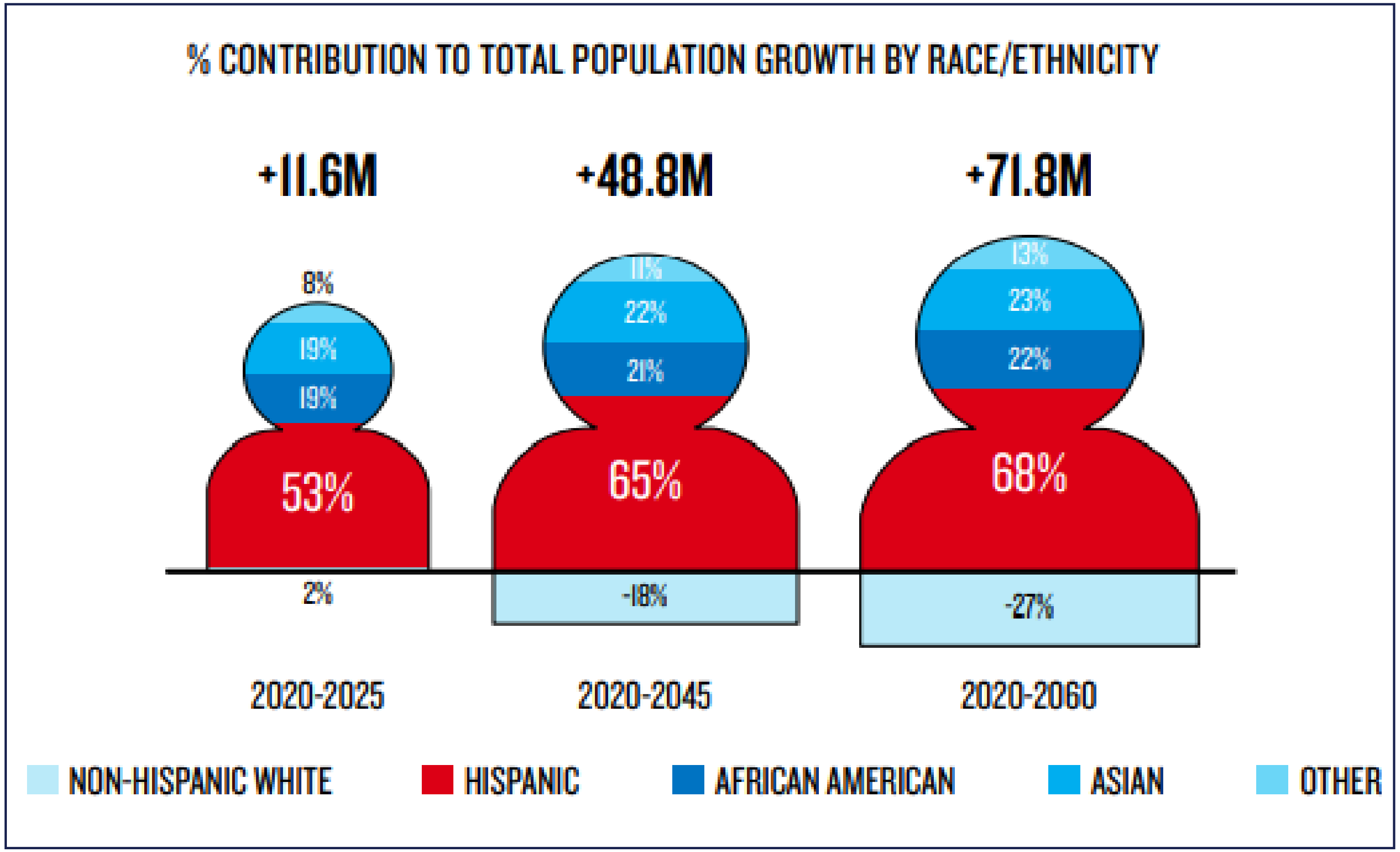
(highest among drinkers age 21-44, income <$50K, and Hispanic drinkers)

Source: This survey was conducted online within the United States by The Harris Poll on behalf of **Beer Institute** from March 17-21, 2022 among 1,978 U.S. adults ages 21 and older, among whom 1,484 drink alcohol several times a year or more often. The sampling precision of Harris online polls is measured by using a Bayesian credible interval. For this study, the sample data is accurate to within + 2.8 percentage points using a 95% confidence level.

DEMOGRAPHICS

Demographics are changing quickly

- Younger generations significantly more diverse than older generations
  - 61+: over 70% non-Hispanic white
  - 21-40: 54% non-Hispanic white
- Between 2020 and 2045 <u>ALL</u> of the growth of the U.S. pop’n will come from non Whites



Latinos responsible for 90.8% of labor force growth from 2010 to 2020

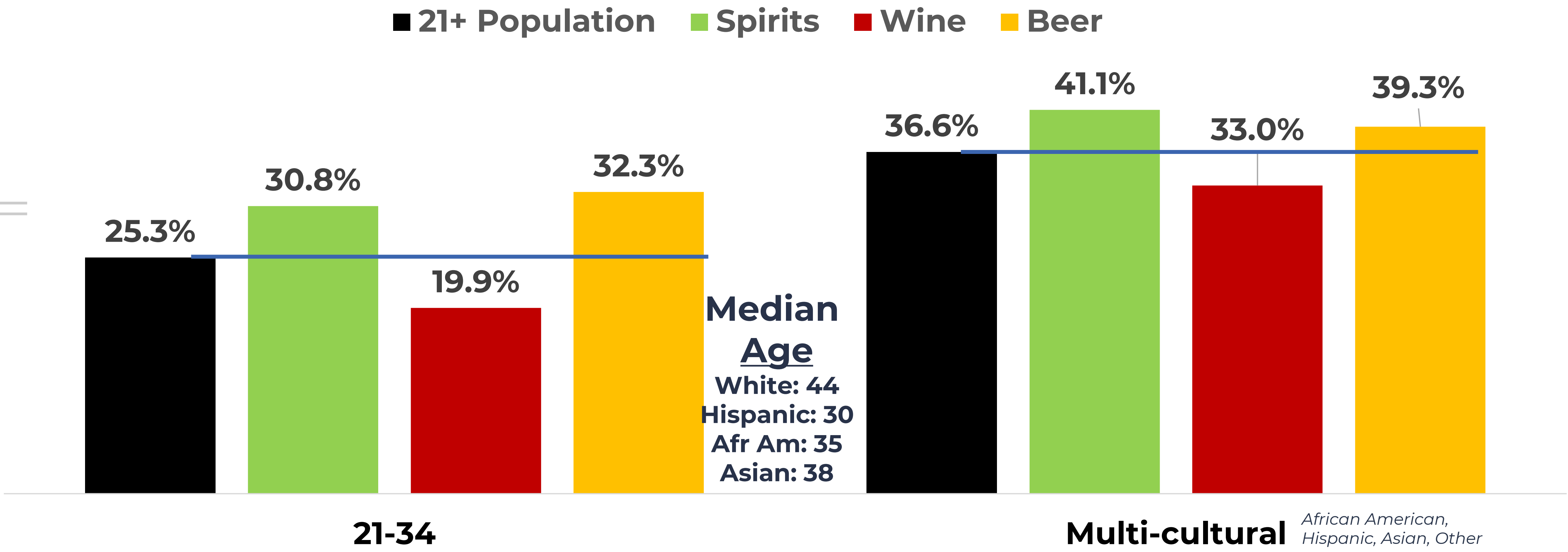
U.S. Census Projections, Bureau of Labor Statistics. (2021). Civilian Labor Force Level

EthniFacts

WINE MARKET COUNCIL

Wine is competitively disadvantaged among 21-34 and LDA Multicultural consumers (significant co-mingling of the two)

21-34 and Multicultural share of category volume



21–34-year-olds are 25.3% of LDA population; only 19.9% of wine volume

Multi-cultural represent 36.6% of LDA population; only 33% of wine volume

NielsenIQ Spectra/Simmons (2021)

Investing in multicultural consumers will have a high return




	NON-HISPANIC WHITE	AFRICAN AMERICAN	ASIAN AMERICAN	HISPANIC
LIFE EXPECTANCY	78.7	74.3	87.3	83.5
MEDIAN AGE	42	32	35	27
YEARS OF EFFECTIVE BUYING POWER	36.7	42.3	52.3	56.5

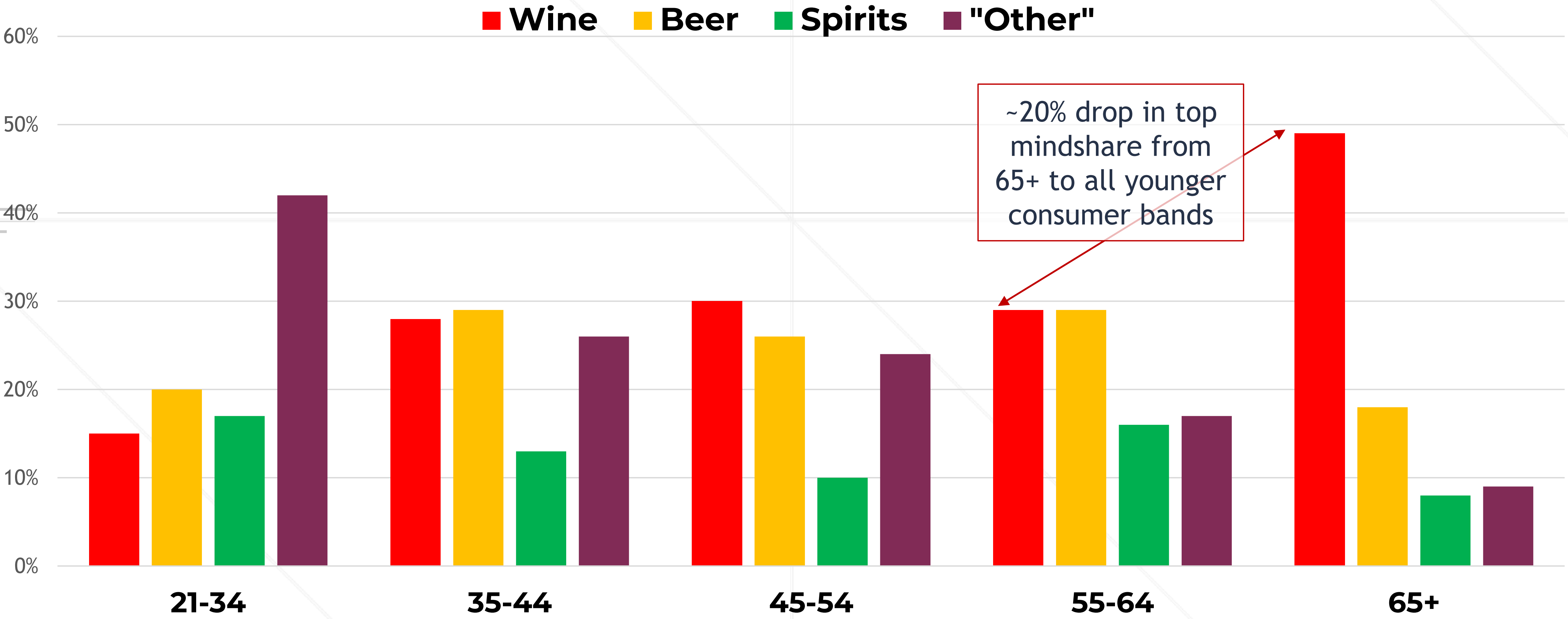
Source: U.S. Census ACS, CDC Life Expectancy

EthniFacts

WINE MARKET COUNCIL

Material difference by age in preferred alcohol types

Q: If you were asked to bring an alcohol beverage to share with others at a party, which one type of beverage would you most likely bring?



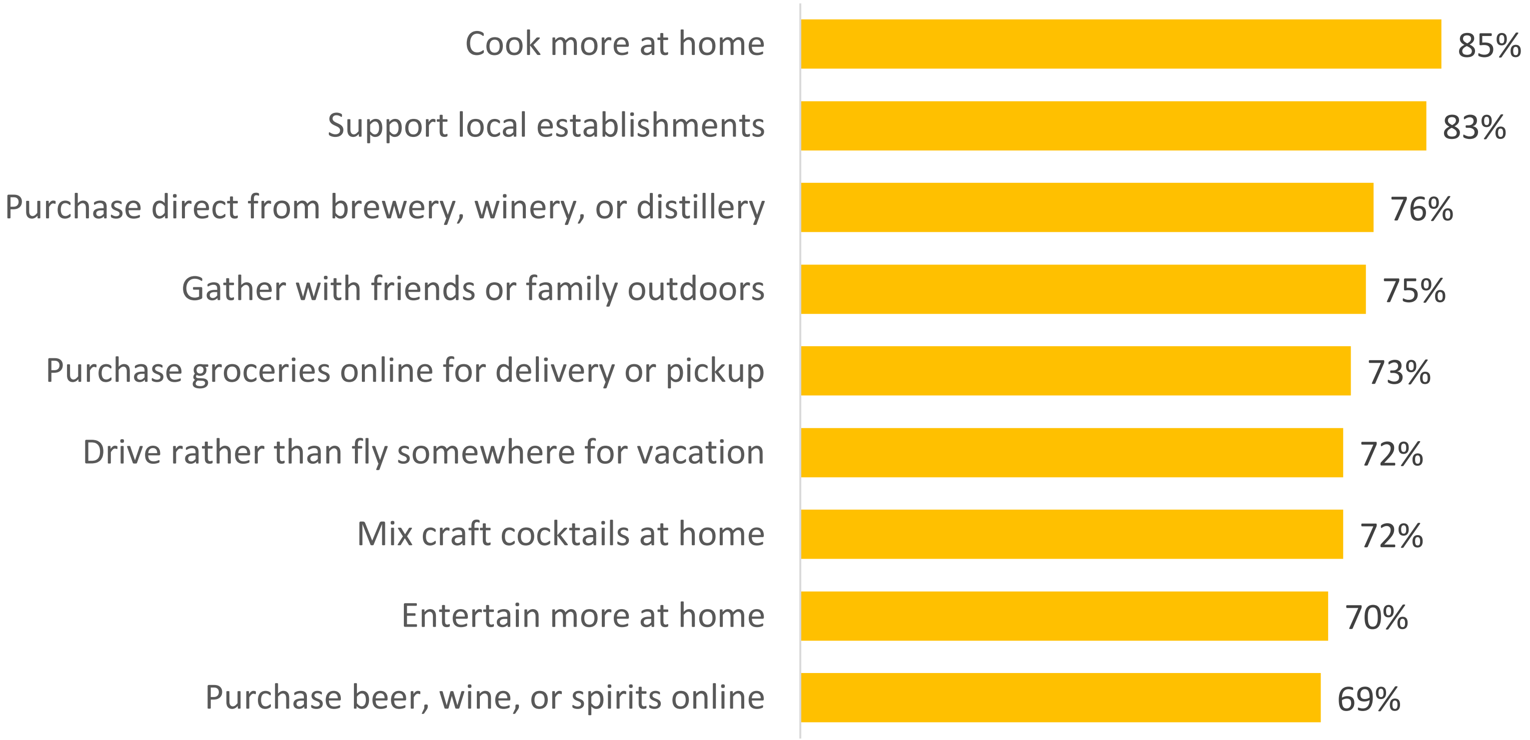
The Harris Poll Survey conducted online by The Harris Poll on behalf of Wine Executive Exchange November 9-11, 2021 among 1,949 U.S. adults ages 21+.

What should we expect in 2022?

uncertainty

Drinkers say they plan to continue habits picked up during the pandemic

Which of the following activities that you started doing during the pandemic will you continue to do once the COVID-19 pandemic is over? Please select all that apply.



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Questions re: what lies ahead

Channel Shift Impacts

- When will the On-premise fully recover? Will it?
- How do you picture assortment playing out in the On-Premise?
- What will the growth rates be for e-commerce?
- Any significant changes in traditional retail?

Legislation Impacts

- To what extent would DTC law changes impact Beer & Spirits suppliers?
- Are "Cocktails to Go" the savior for On-premise operators?
- Cannabis legalization impacts?

Economic/Inflation Impacts

- Which categories are impacted the most by Inflation?
- How much impact will high gas prices have on Beer, Wine, and Spirits?

Technology Impacts

- At what rate, and how will B2B platforms continue to grow?
- What is the biggest B2C breakthrough you predict for wholesalers and retailers?

Product Impacts

- Are RTD's here to stay? What's the future for Hard Seltzers? Will there be a shakeout?
- Will premiumization slow? end?
- Is Cannabis or Non Alc Bev impacting Bev Alc?

Demographic Impacts

- What category/categories will gain from the changing ethnic makeup of the U.S. population?
- Will younger consumers simply "age into" traditional consumption habits? Or not?

THANK YOU!

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What do <u>you</u> call them poll

In thinking about <u>relatively</u> newer segments such as Hard Seltzers, Hard Teas, Hard Kombuchas, RTD Spirits, Wine Cocktails, Wine Spritzers, Flavored Beverage Wines, etc. in aggregate, they've been called a lot of different things by a lot of different people and companies. Which do you think is the best "description' of this segment of the Beverage Alcohol industry...

- RTD’s (ready to drink)
- 4th Category
- Progressive Adult Beverages
- New Age Beverages
- Mosh Pit
- Beyond the Core (or Mainstream)
- Hard Beverage Alternatives
- Convenience Drinks
- None of these

and if None of These.. what do you think is an appropriate name?