



Global Investment Research  
The Goldman Sachs Group, Inc.

# The Coca-Cola Bottlers' Association Financial Forum

## Current Trends in the Convenience Store Channel and the Beverage Industry

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- **Wrap up – Beverage manufacturer top and bottom line performance in a recessionary env**

# **What's Top of Mind**

## **Pulse check on the consumer & inflation concerns**

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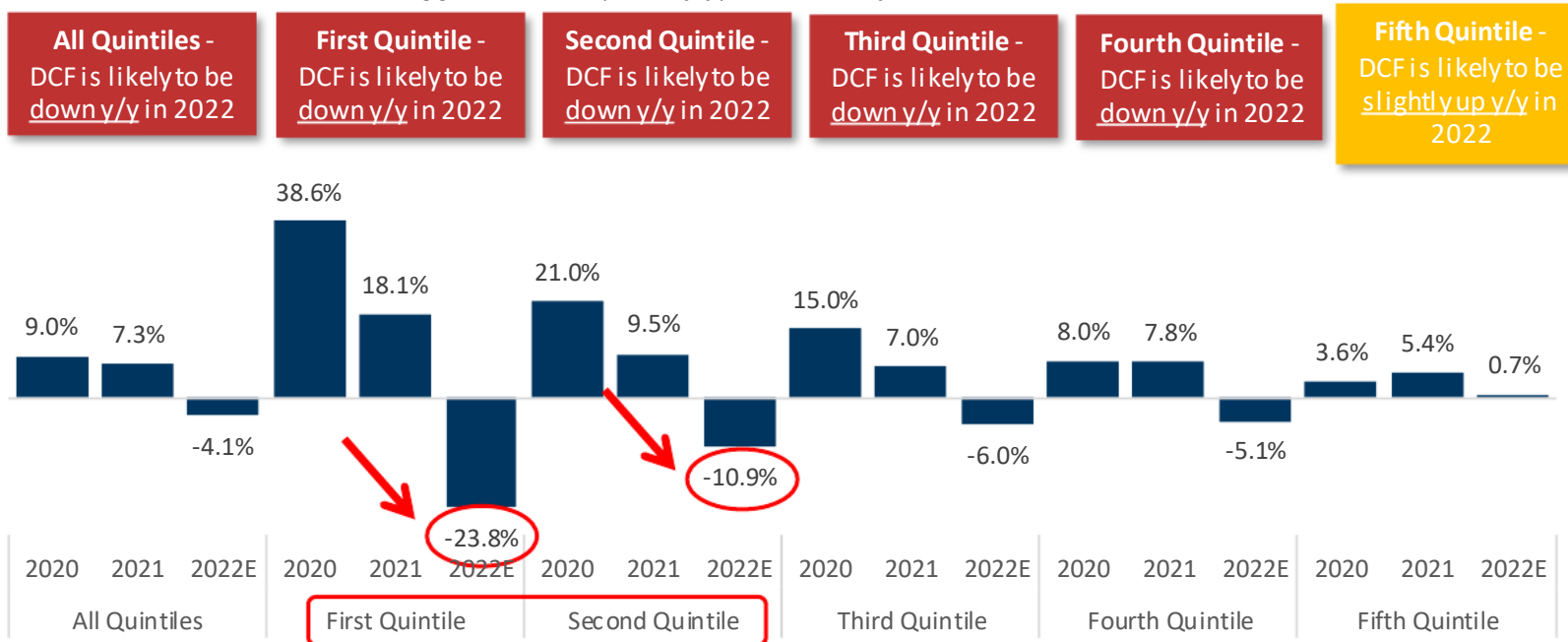
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# Outlook on the Consumer Remains Cautious

Income pressures suggest consumers at the low end will face tough purchase decisions

**We anticipate double-digit declines in discretionary cash in-flows for the bottom two US income quintiles in 2022**

With the biggest decline (-24% y/y) expected by consumers in the lowest quintile



Note: The average US household income for families in the lowest (first) and second lowest quintiles was \$14,600 and \$39,500 in 2020, respectively, according to US Census Bureau data.

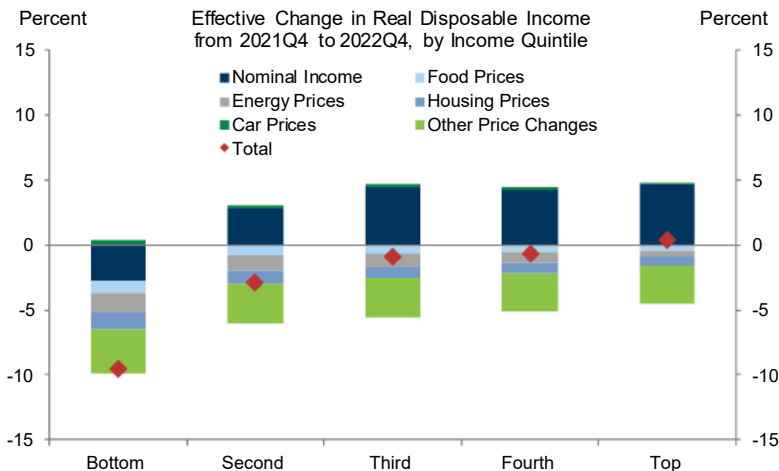
Source: BEA, BLS, Federal Reserve, EIA, CMS, U.S. Census Bureau, Goldman Sachs Global Investment Research

# Lower Income Consumer At Most Risk

The impact of inflation is much more intense for this group vs other income quintiles

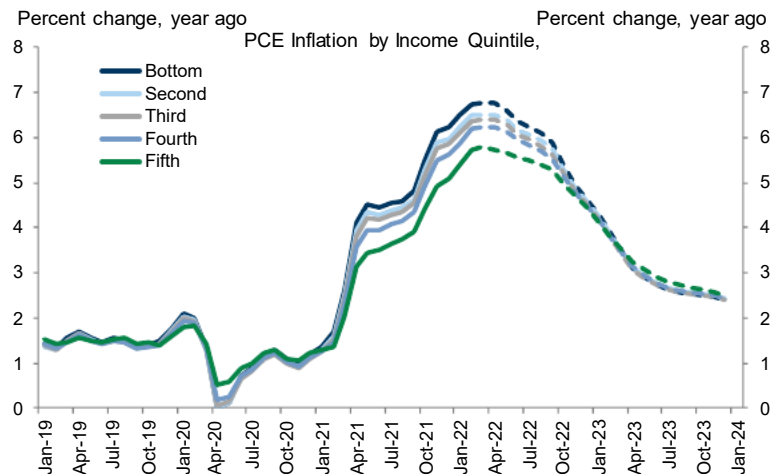
## Rising prices are weighing on purchasing power

Especially for lower-income households



## Rising energy, food & housing costs will keep

Inflation very elevated in 2022, esp for lower income households

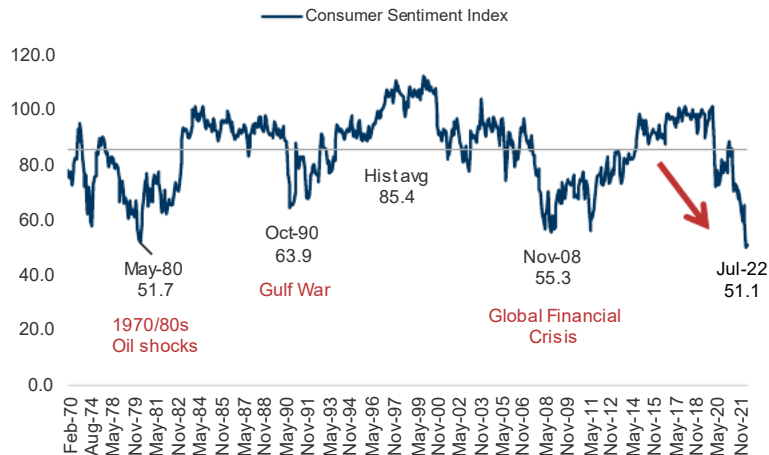


- Strong inflation & the end of govt stimulus more than offset benefits of wage growth & low unemployment
- For bottom income quintile HHs, inflation is >1ppt above top quintile, according to GS economists

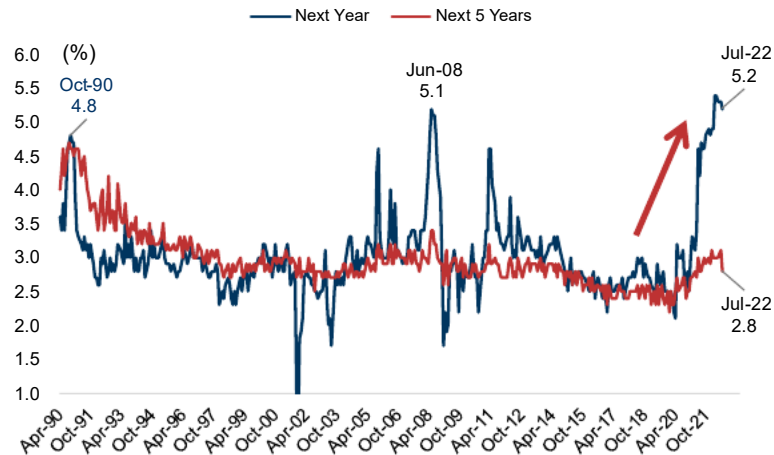
# Consumer Sentiment Has Materially Worsened

As consumers brace for the worst in terms of inflation over the next 12 months

**Consumer sentiment has significantly weakened,**  
We expect many consumers will have to dip into savings this year



**Inflationary fears are at all-time highs**  
Expected change in inflation rates



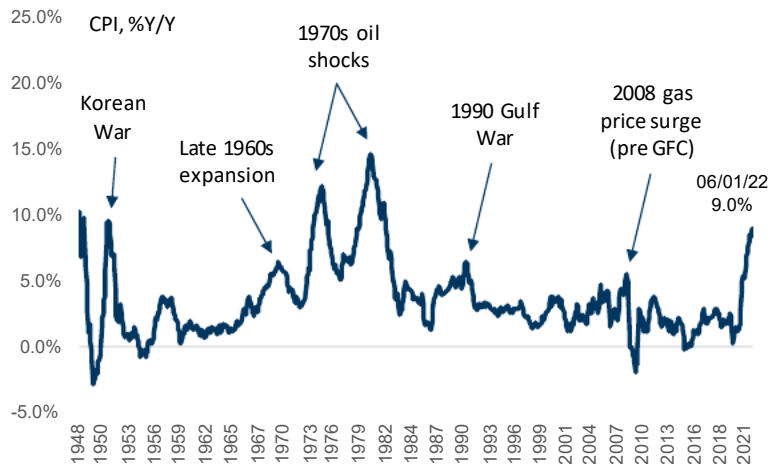
- The University of Michigan's most recent sentiment reading (July '22) remains at historic lows
- Consumers are bracing for the worst with inflation expectations at record highs and above 2008 levels

# Inflation Still Very Much Top of Mind

Even if the worst is over in the US, it's a considerable descent back toward normal levels

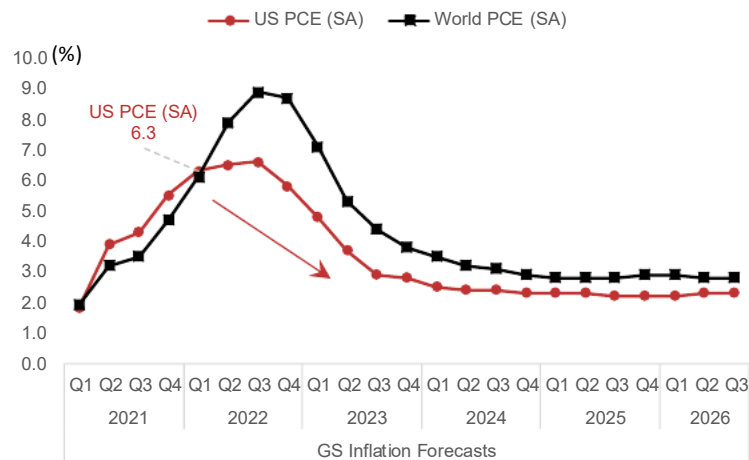
## Rarely has inflation been higher since WWII

Expected change in CPI inflation rates



## Inflation appears to have peaked

GS economists expect inflation to ease in coming quarters

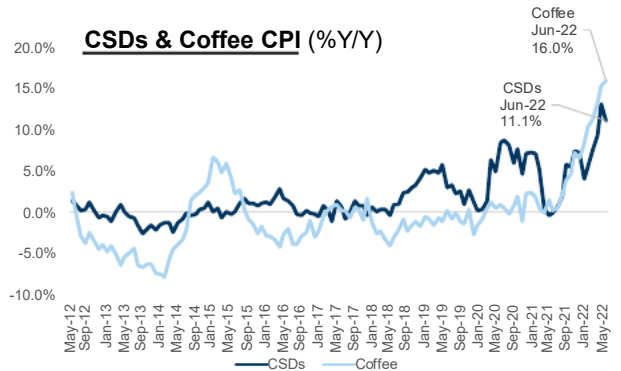
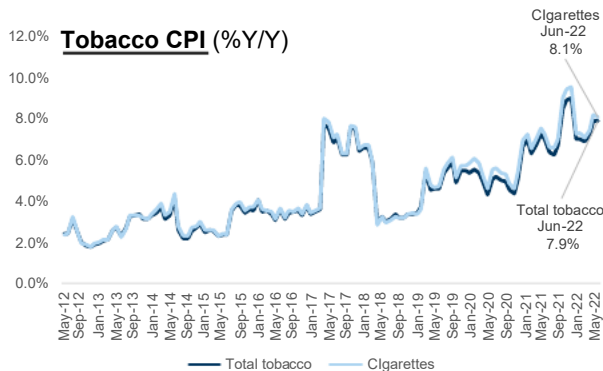
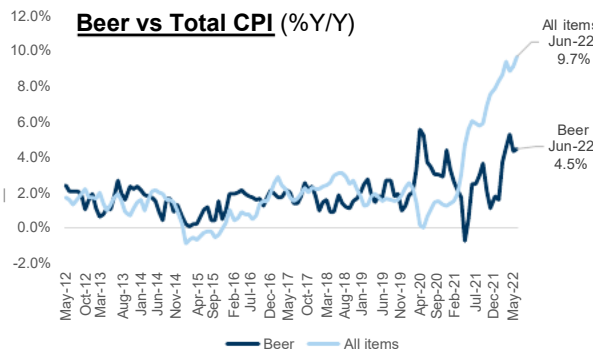
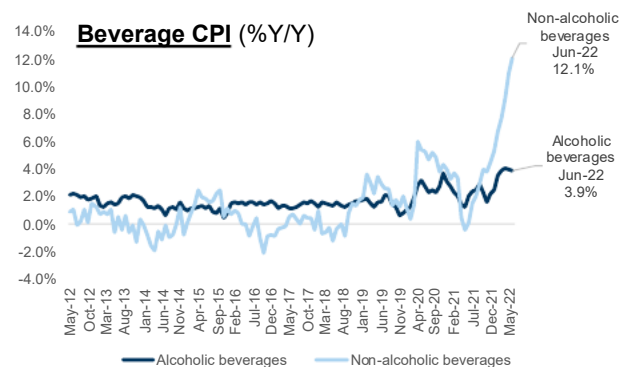
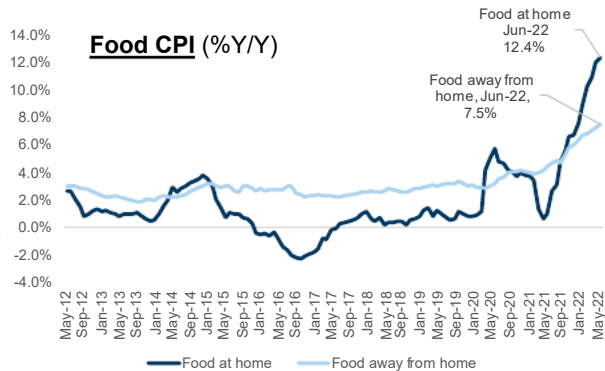
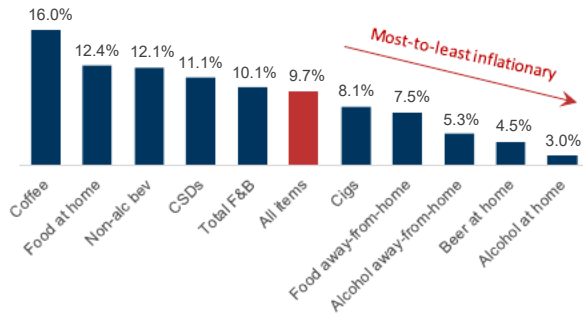


- Since World War II, there have been only a handful of periods where inflation was 5% or higher
- Headline PCE inflation should peak in 3Q22, according to GS economists, suggesting worst is almost over

# Food & Bev Inflation Trending Slightly Ahead of Broader CPI

With coffee, food at-home and non-alcoholic beverages the most inflationary

**CPI by F&B Category**  
(June 2022)



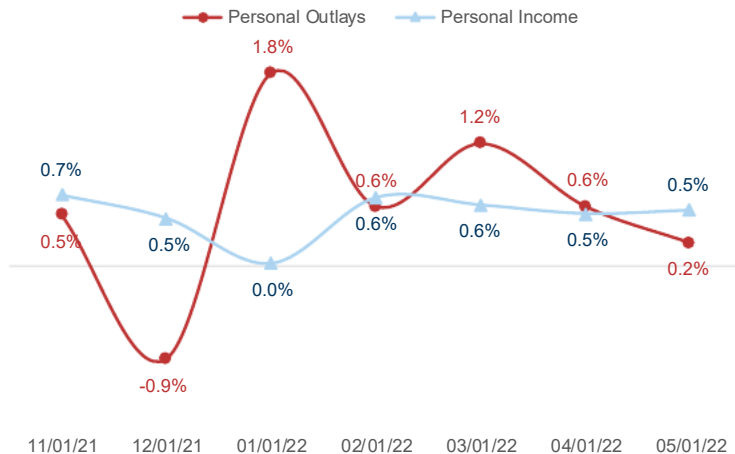
Source: U.S. Bureau of Labor Statistics, Haver Analytics, Goldman Sachs Global Investment Research

# Consumer Spending Starts to Moderate Amidst Rampant Inflation

Wage growth is strong at 6-7%, but not enough to offset sharp inflation at 9-10%

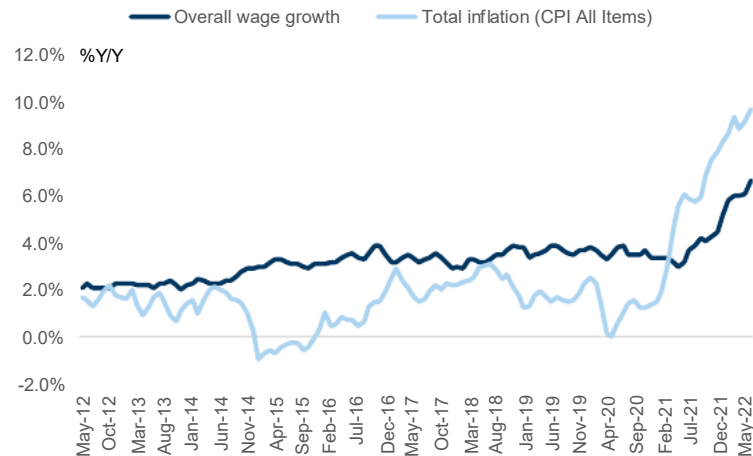
## Consumer expenditures moderate relative to income

Month-over-month change in consumer spending vs income



## Inflation outpacing wage growth

CPI growth was 9.7% in June 2022 vs avg wage growth of 6.7%



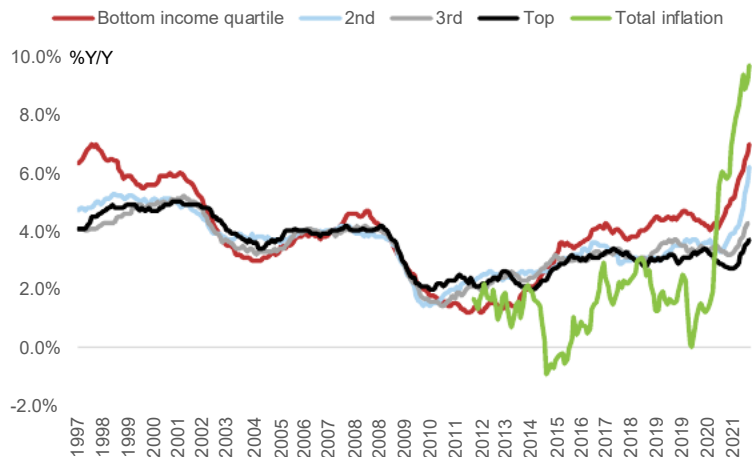
- Despite higher prices, consumers have been willing to spend
- A tight labor market and wage increases have helped, but not enough to fully offset inflation
- The pullback in transfer income from the gov't has pushed some HHs to finance spending through other means

# Consumers Leaning Heavily on Savings to Offset Inflation

Not a sustainable formula, especially if inflation persists at high levels

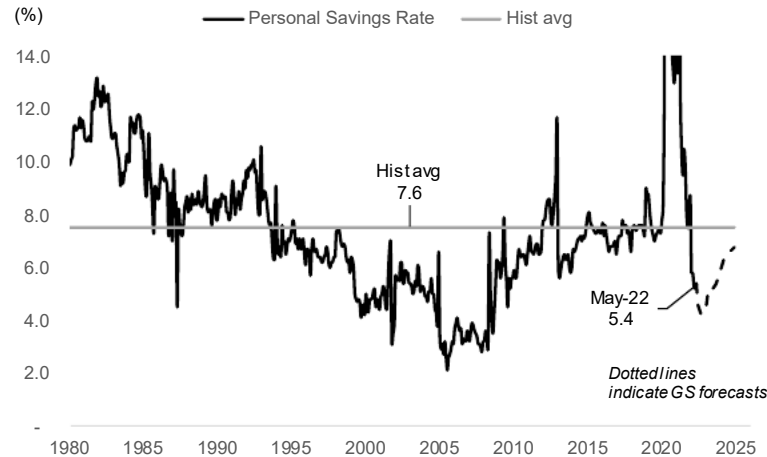
## Lowest income quartile seeing fastest wage growth

Average wage growth by income quartile



## Consumers are drawing down savings rapidly

to support spending, leading the savings rate to fall



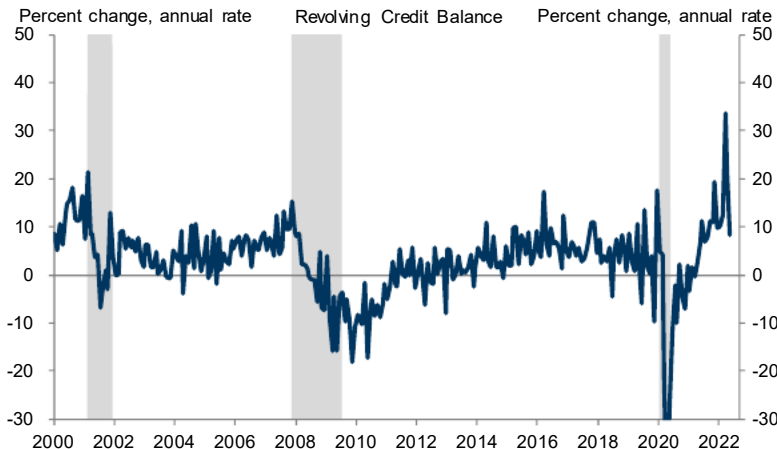
- Household balance sheets remain strong due to asset appreciation, healthy wage growth & a high savings rate thru Covid
- This has allowed consumers to support spending by rapidly drawing down savings – OK for now, but not sustainable alone
- As savings dwindle, expect pressure on consumer spending to mount

# Credit Card Balances Are Up, Supporting Consumer Spending

Consumer use of credit to support spending is growing, raising concerns about sustainability

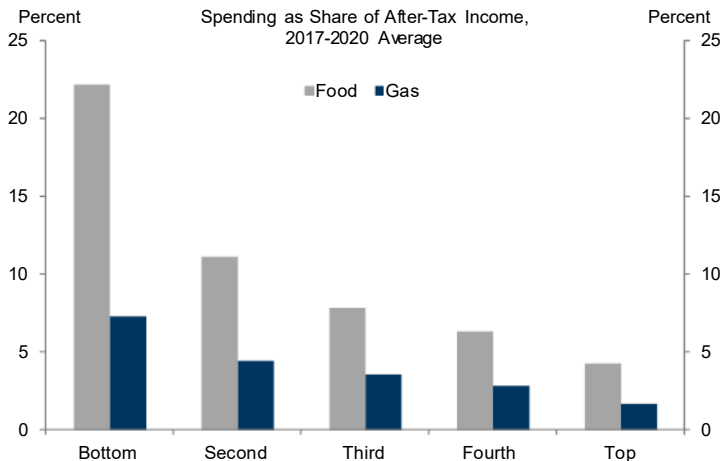
## Consumers are charging up their credit cards

Revolving consumer credit growth remains elevated



## Rising prices are a bigger financial burden

on lower-income HHs given the disproportionate amount spent on basics



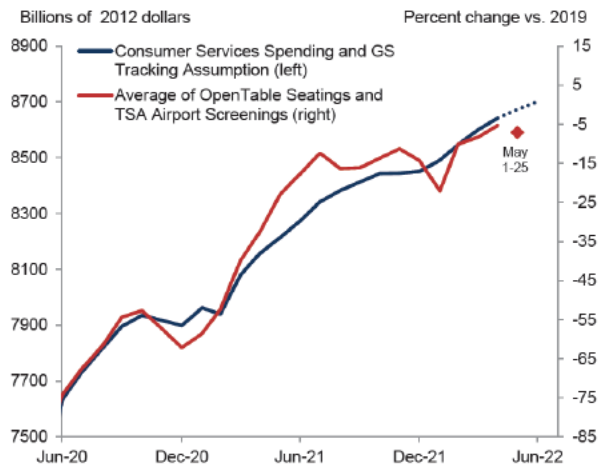
- As consumers spend down excess savings, they are also releveraging with credit cards (>8% annualized in May)
- Inflation outpacing wage growth could drive further drawdown of savings and higher borrowing costs
- Lower income households are most at risk given the disproportionate burden of inflation on their budgets

# Signs of Consumer Spending Shifting in Response to Inflation

Consumer spending likely slowed in May, particularly for Discretionary Goods categories

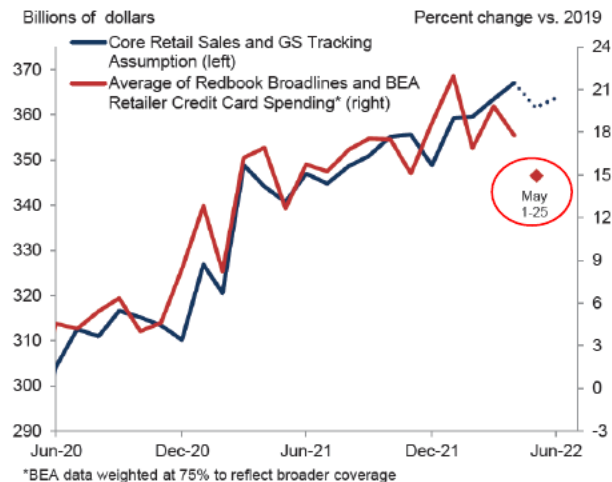
## Consumer spending on services on the rise

GS economists expect a rebound in services consumption in 2H22



## Redbook headline sales dipped significantly in May

As consumer demand shifts from goods back to services

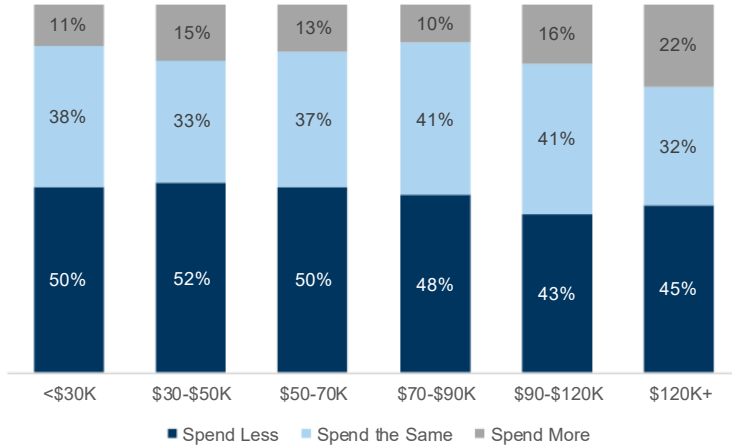


- GS economists see signs of consumer weakness in May that are not yet reflected in the official data
- But weakness is not across the board as consumers shift purchases away from retail goods toward services
- Tighter financial conditions, higher consumer prices and weak consumer sentiment driving sequential decline in Goods

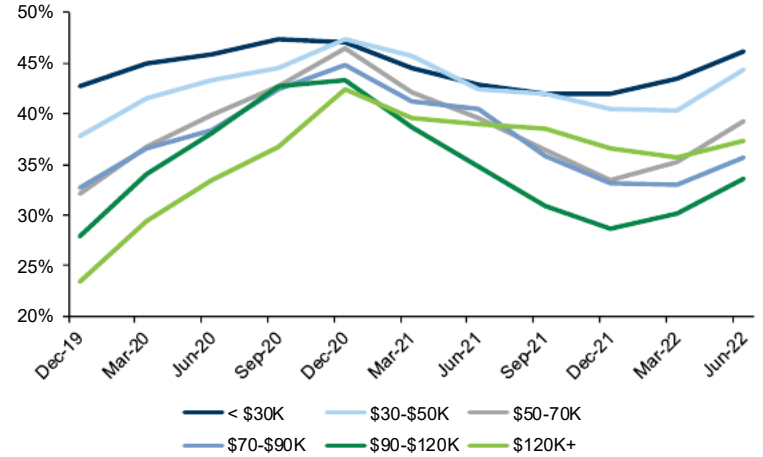
# What Are Consumers Telling Us?

Low income consumers are among the most intent on cutting back spend over the next 6 months

## What is your outlook on your discretionary spending? In the next six months (excl spending on home/utilities/commute)



## Consumer Outlook on Discret. Spending – N6M Spend Less All income brackets plan to spend less, led by lowest end



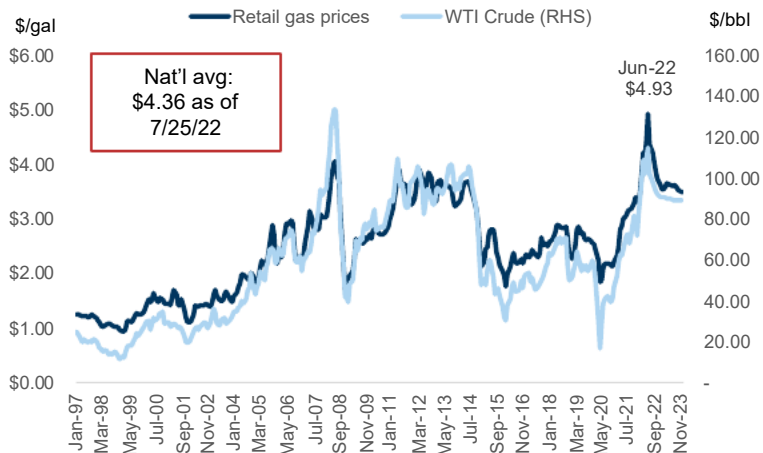
- We surveyed ~2,000 consumers across different age, income, education and employment backgrounds in June on their spending outlook
- Respondents in the lower income brackets showed the strongest intent to spend less going forward (~50%)

# Pain at the Pump

Gas prices off record highs but still elevated, contributing to pressure on consumer wallets

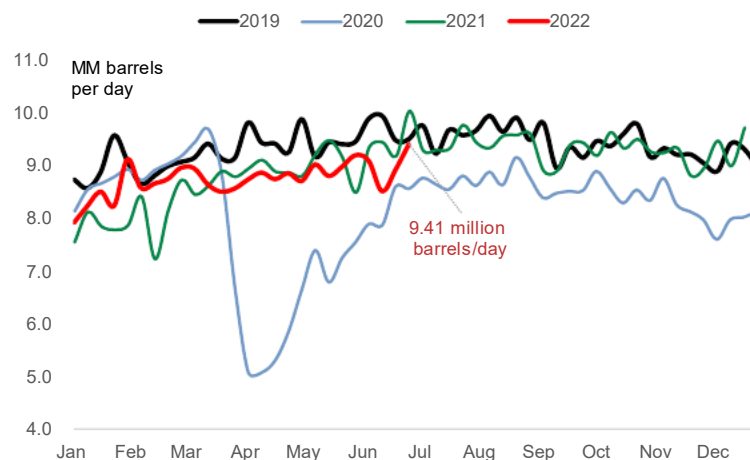
## Retail Gas Prices Rising

Regular grade gas retail price vs WTI crude



## Weekly Gas Demand Under Pressure

A concern as we enter the important summer driving season



- Concerns about inflation for US consumers & trade-down risk have crystallized in record high gas prices at the pump
- Retail gas prices have moderated, but remain elevated & a source of pressure on wallets & gasoline demand
- GS energy team forecasts steady erosion of US gasoline volumes well into 2030

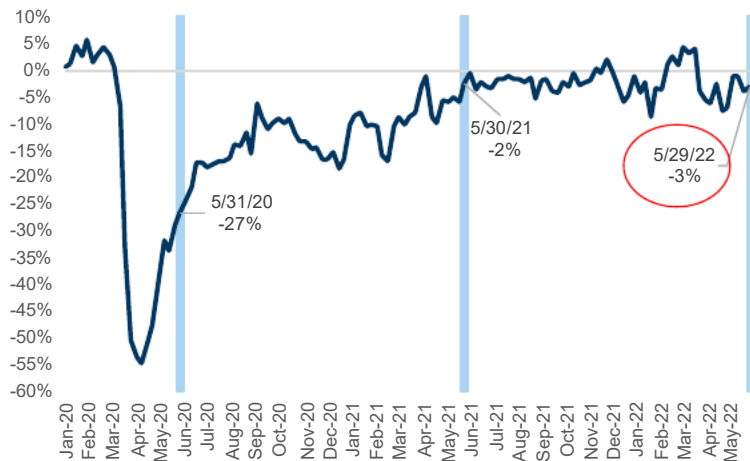
Note: Retail gas price data forecasts (left chart) are EIA forecasts as of 7/12/22 and weekly gas demand data (right chart) are thru 7/1/22. Source: EIA; Goldman Sachs Global Investment Research

# Demand Destruction Is a Concern, But We Are Not There Yet

Pump prices would have to reach \$6.30/gal to see meaningful destruction of overall demand

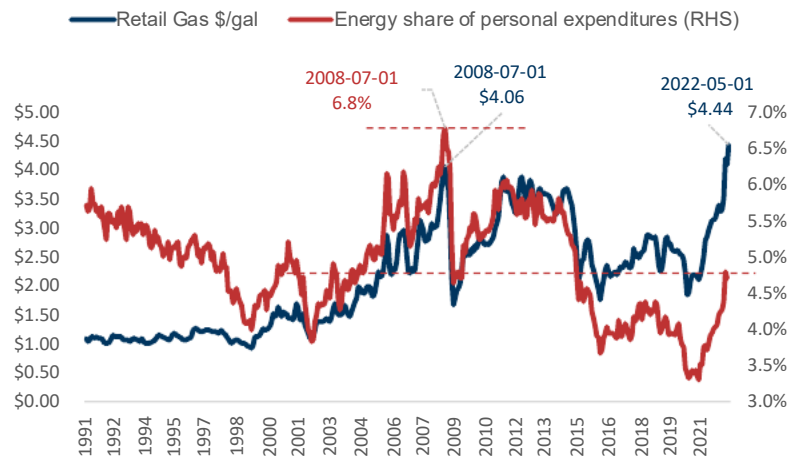
## Passenger Miles Driven Has Deteriorated

Est interstate passenger vehicle miles traveled vs same wk 2019



## Retail Gas Prices Would Need to Hit \$6.30/gal

(\$200/bbl) to see meaningful demand destruction

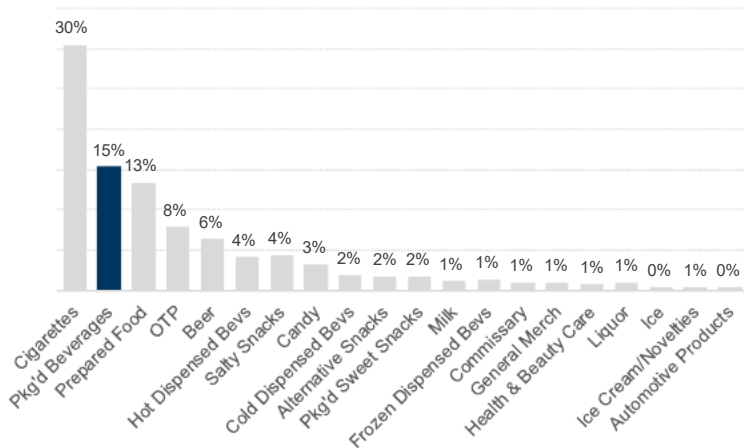


- It's clear that high gas prices have impacted gasoline demand and miles driven
- However, we are not yet at a critical point to see meaningful demand destruction
- GS commodities team ests prices would need to hit \$6.30/gal (\$200/bbl) to trigger a radical change in consumer behavior

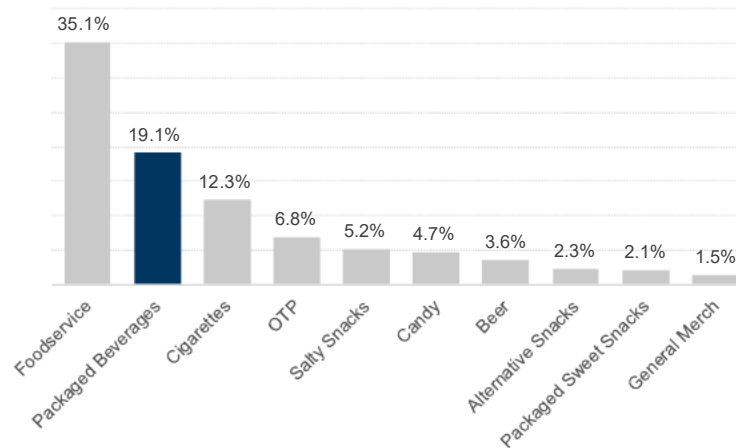
# **The Importance of Beverages in the C-Store Channel**

# Beverages Are A Key Driver Of Sales & Profitability In The C-Store Channel

**Pkgd Bevs Represent 15% of In-Store Sales**



**But Pkgd Bevs Represent ~20% of In-Store Gross Profit**

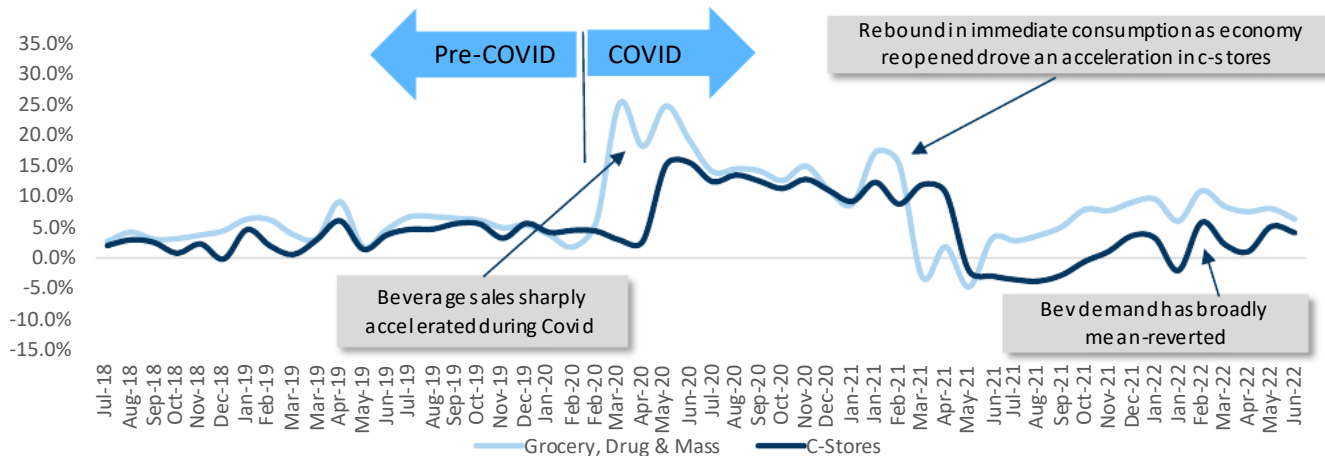


- We expect packaged beverages to be a key long-term contributor to c-store revenue growth & profitability
- A critical offset to tobacco's broader secular decline

**Total Inside Sales GM ~34%**  
**Prepared Food GM ~54%**  
**Packaged Bevs GM ~42%**  
**Cigarettes GM ~14%**

# Consumer Channel Preferences For Beverages Have Evolved Since Covid

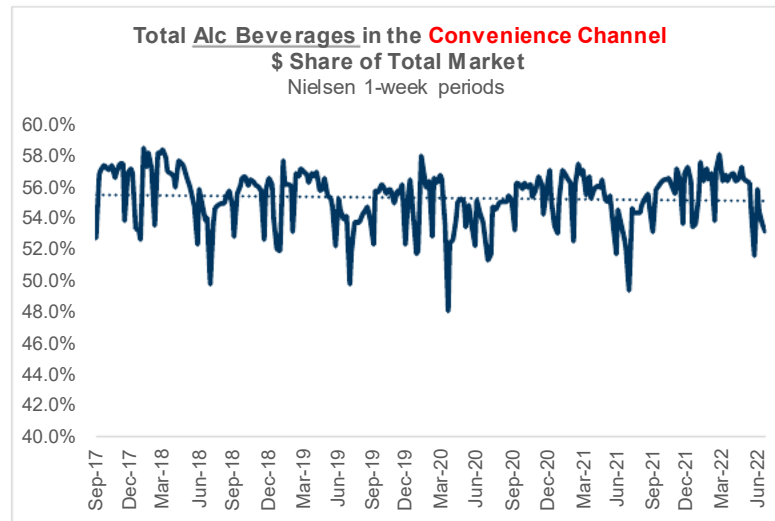
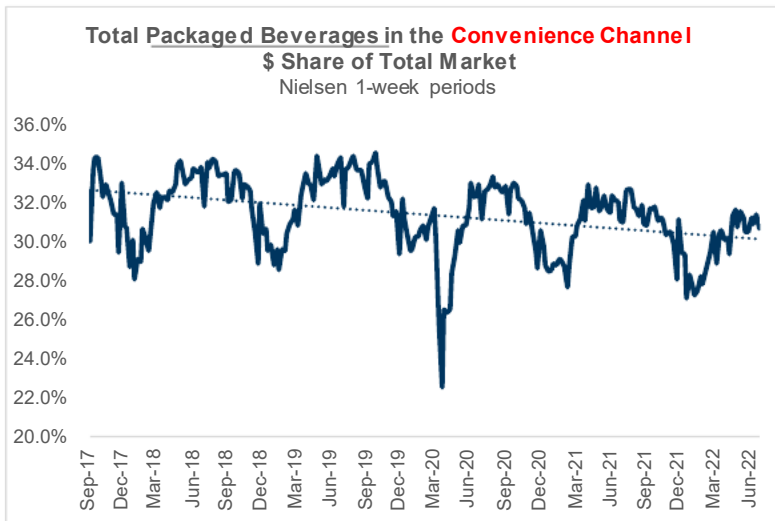
## Beverage Sales Growth Across C-Stores & Grocery, Drug & Mass



- Beverage sales in C-stores continue to broadly underperform other channels post-Covid
- Recently, high retail fuel prices have led to less fill-ups & have likely dampened in-store conversions
- C-stores could benefit from more frequent trips, though consumers are likely trading down to smaller pack sizes (lower ticket, but higher margin for C-stores)

# Consumer Channel Preferences For Beverages

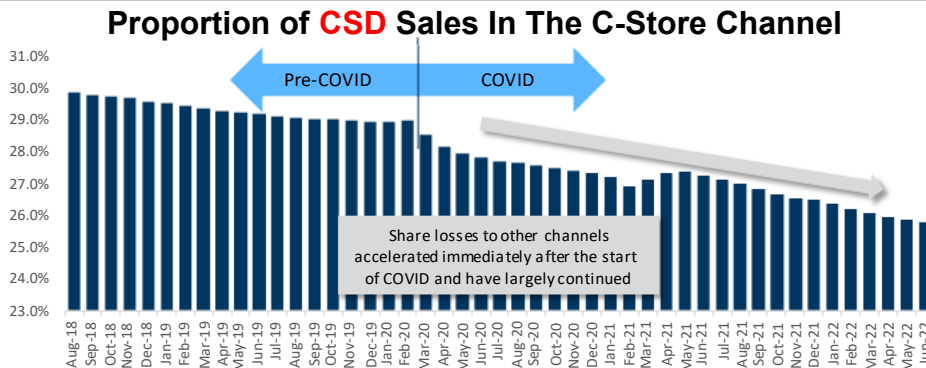
Consumers are broadly shifting bev purchases away from c-stores to food/drug/mass



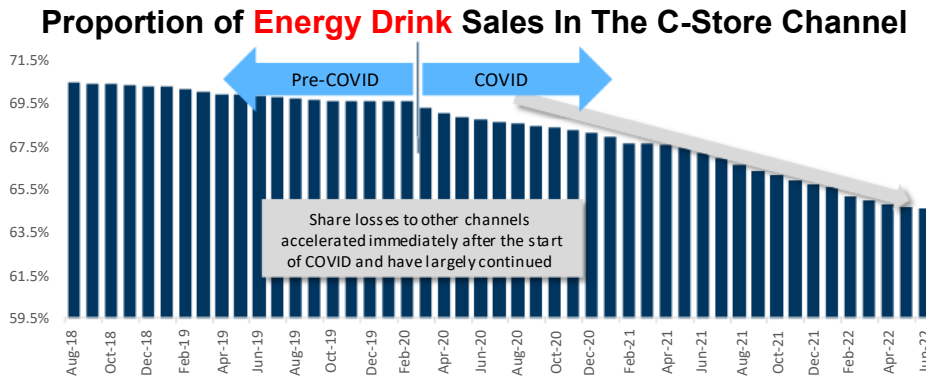
- Total share of Packaged Beverage sales within the C-Store channel has been on a steady decline the last few years...
- ... While total share of Alcohol sales within the C-store channel has broadly remained steady
- Beverage sales in take-home channels could accelerate in a recession as consumers cut back on dining out / entertainment

# Consumer Channel Preferences For Beverages

Share of CSD & Energy Drink sales in the c-store channel have continued to decline



Consumers continue to shift CSD demand to other channels – a trend that continued throughout '21 and into '22



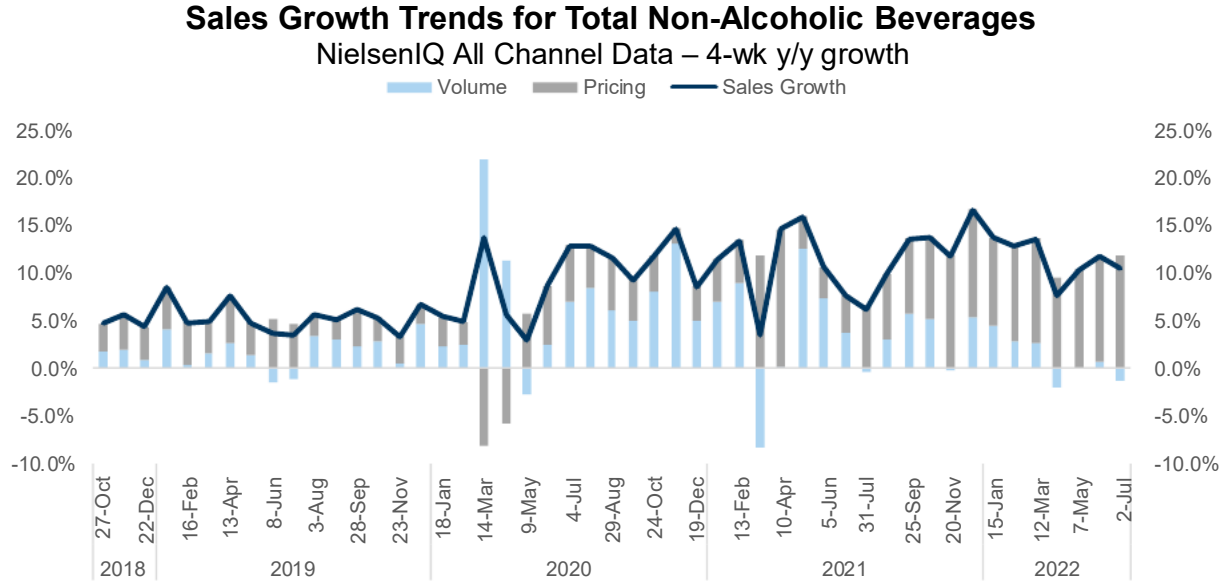
Consumers have shifted some energy drink demand to the food, grocery & mass channel – likely in an effort to reduce trips to the store. These trends continued in '22

Note: Data in the charts above reflects proportion of sales in the c-store channel on a trailing 52-week basis to smooth for volatility; Source: Nielsen; Goldman Sachs Global Investment Research

# **Our Latest Thoughts On The Non-Alcoholic Beverage Category**

# Non-alcoholic bev sales growth strong and largely stable

As volume pressures continues to be offset by strong price growth



- Volume declines are led by CSDs, sports drinks, RTD tea and sparkling/still flavored water, while volume growth in energy drinks still remains solid
- Pricing growth reflects strong DD% price growth in categories like CSD, bottled water, sports drinks and still flavored water

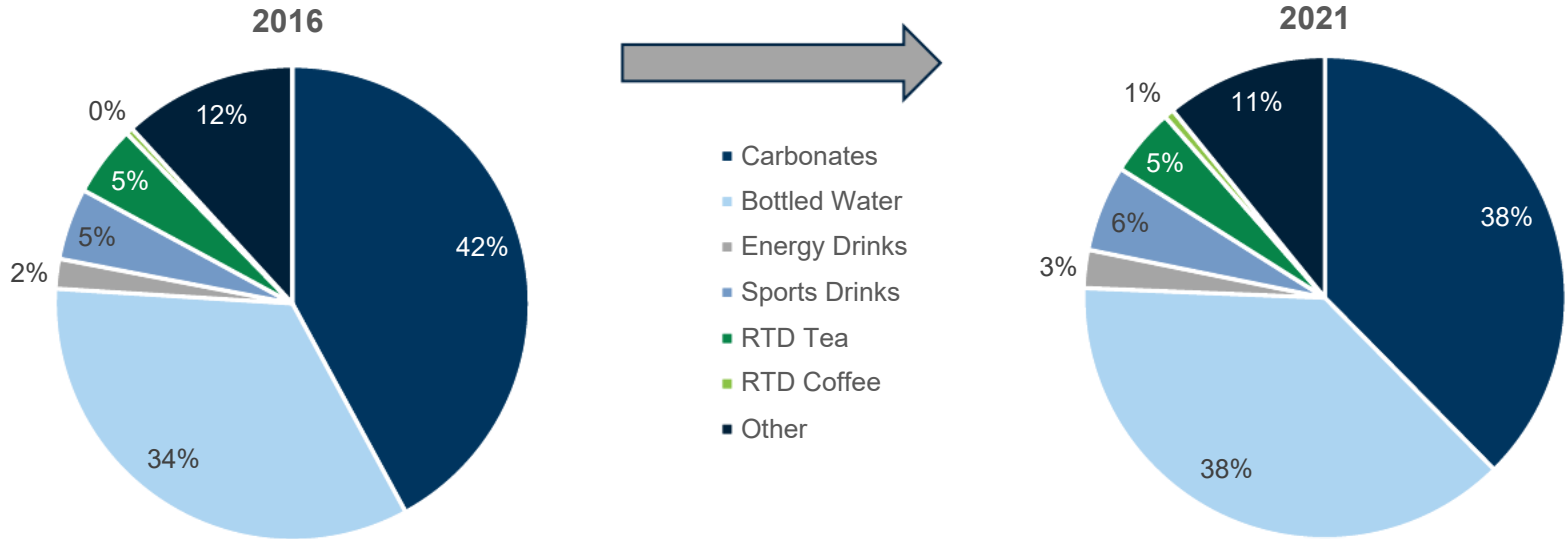
Source: NielsenIQ xAOC including Convenience Stores, Data compiled by Goldman Sachs Global Investment Research

# Non-alcoholic beverages – Category mix

CSDs losing volume share while bottled water gains

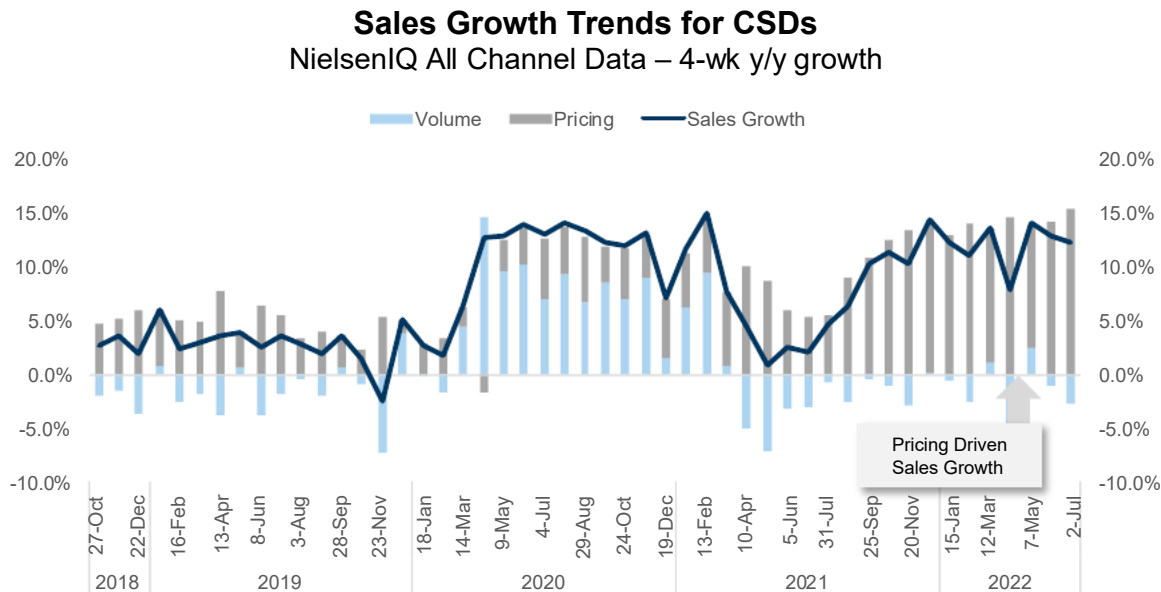
## Category Mix for US Non-Alcoholic Beverages

Based on Volume



# CSD Category Sales Growth Remains Strong

Driven primarily by strong pricing that is offsetting volume pressures



- CSD volumes have been pressured, likely reflecting sharper price increases (up DD)
- Manufacturers have been taking sharp price increases & pulling back on promos to offset commodity/supply chain pressures

Source: NielsenIQ xAOC including Convenience Stores, Data compiled by Goldman Sachs Global Investment Research

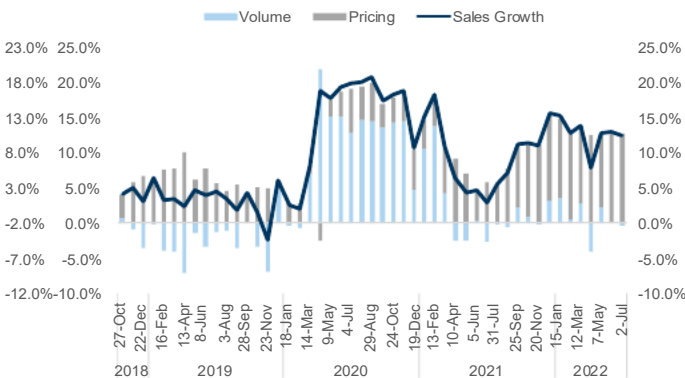
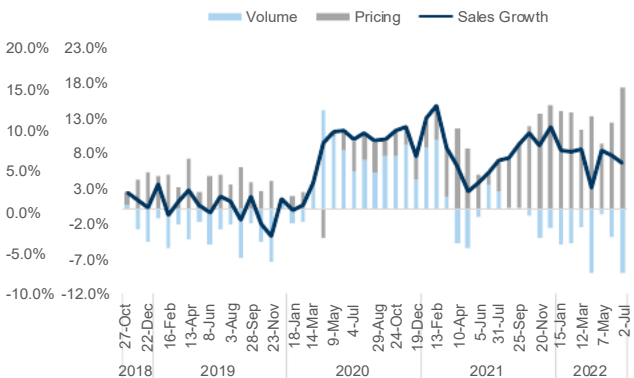
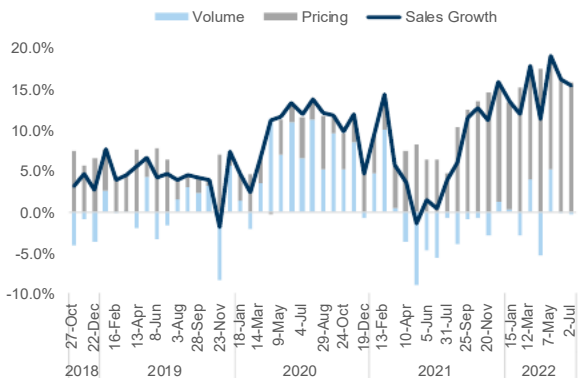
# CSD Category Sales Growth Remains Strong (Con't)

Coca-Cola vs Pepsi vs Keurig Dr Pepper

**Sales Growth Trends for Coke's CSDs**  
NielsenIQ All Channel Data – 4-wk y/y growth

**Sales Growth Trends for PepsiCo's CSDs**  
NielsenIQ All Channel Data – 4-wk y/y growth

**Sales Growth Trends for KDP's CSDs**  
NielsenIQ All Channel Data – 4-wk y/y growth



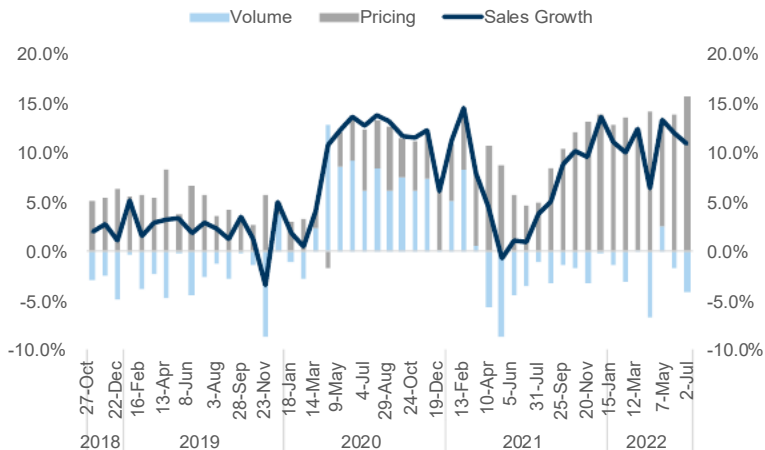
- Coca-Cola and Keurig Dr Pepper's CSD volumes have held up relatively better than Pepsi's recently
- That said, pricing has driven the vast majority of growth, as seen industry-wide
- In a recession, Coke should benefit from its leadership in small pack offerings as consumers pivot back to single-serve packs to reduce expenditures

Source: NielsenIQ xAOC including Convenience Stores, Data compiled by Goldman Sachs Global Investment Research

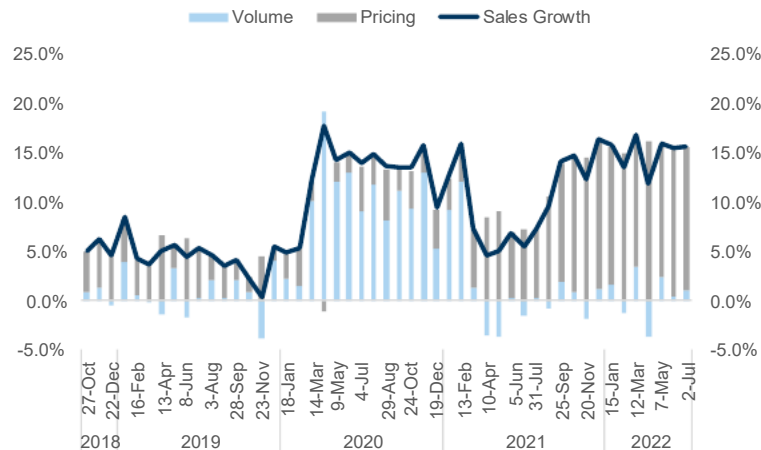
# Within CSDs, low calorie volumes fared better than regular

But again, primarily reflecting strong pricing growth

**Sales Growth Trends for Regular CSDs**  
NielsenIQ All Channel Data – 4-wk y/y growth



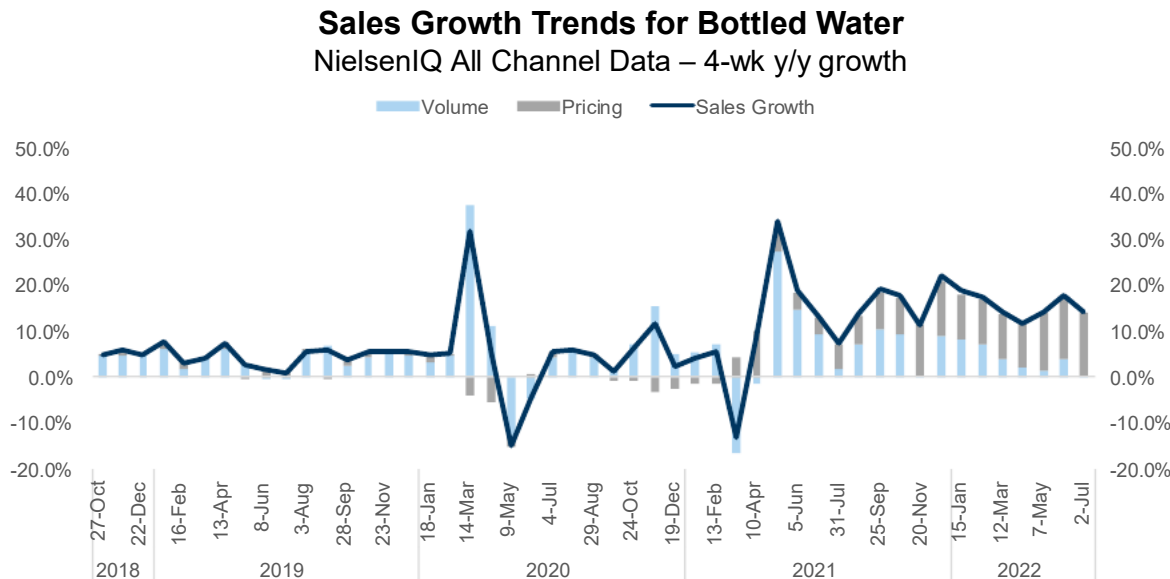
**Sales Growth Trends for Low Cal CSDs**  
NielsenIQ All Channel Data – 4-wk y/y growth



- Recent innovation within CSDs, by both Coca-Cola & Pepsi are focused on ‘zero’ offerings given evolving consumer preferences
- Trends toward healthier beverage options likely supporting low cal volume outperformance vs. regular

# Bottled Water Sales Growth Solidly Positive

But primarily reflects strong pricing growth



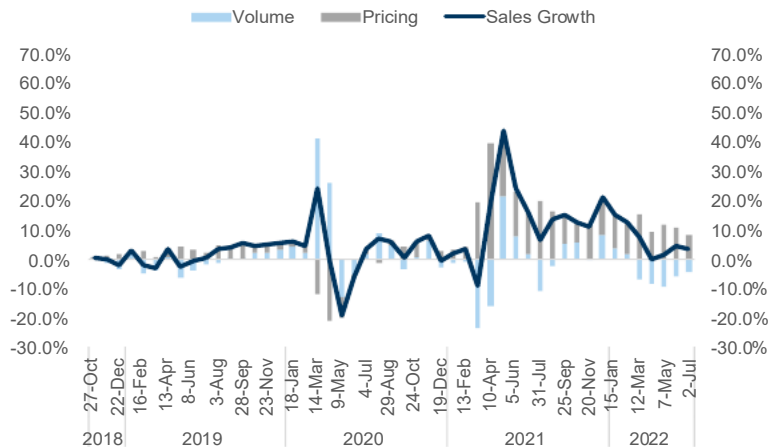
- Bottled Water category growth driven nearly entirely by pricing (up DD), with volumes marginally positive
- Category should continue to benefit from increased consumer mobility, particularly in the peak summer selling season

# Bottled Water Sales Growth Solidly Positive (Con't)

However, sales growth for Coke & Pepsi bottled water brands is decelerating...

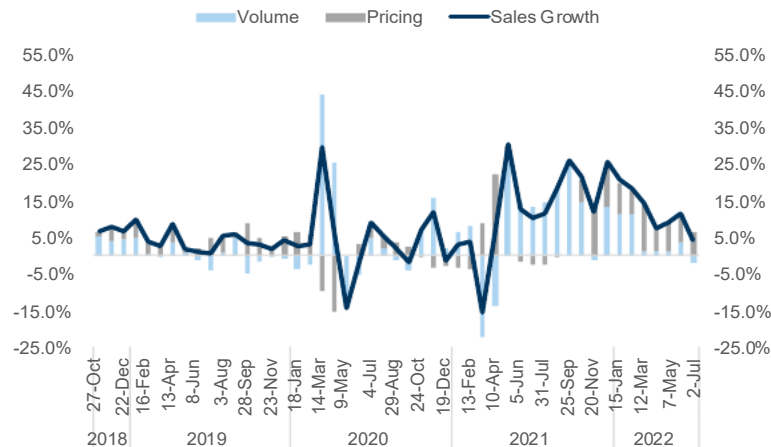
## Sales Growth Trends for **Coke's** Bottled Water

NielsenIQ All Channel Data – 4-wk y/y growth



## Sales Growth Trends for **PepsiCo's** Bottled Water

NielsenIQ All Channel Data – 4-wk y/y growth



- Coca-Cola's volumes within the bottled water category have declined in the MSD/HSD% range recently, which has been partially offset by stronger pricing
- Pepsi's volumes have largely trended positive, but recent trends indicate declining volumes and decelerating sales growth

# Bottled Water Sales Growth Solidly Positive (Con't)

...As private label continues to gain share, reflecting downtrading

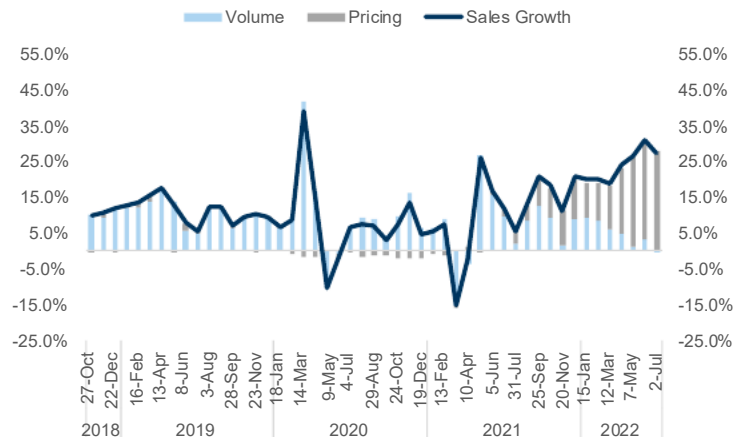
## Private Label Share by Beverage Category

NielsenIQ All Channel Data

Category	Private Label Share (%)			
	5-yr avg	L4-wks	L12-wks	L52-wks
Bottled Water	27.9%	30.6%	30.4%	29.2%
RTD Tea	5.9%	5.9%	6.0%	5.8%
CSDs	2.7%	2.3%	2.2%	2.2%
RTD Coffee	1.8%	1.8%	1.8%	1.9%
Sports Drinks	0.4%	0.6%	0.6%	0.6%
Energy Drinks	0.1%	0.1%	0.1%	0.1%
Beer	0.0%	0.0%	0.0%	0.0%
Hard Seltzer	0.0%	0.0%	0.0%	0.0%

## Sales Growth Trends for Private Label Bottled Water

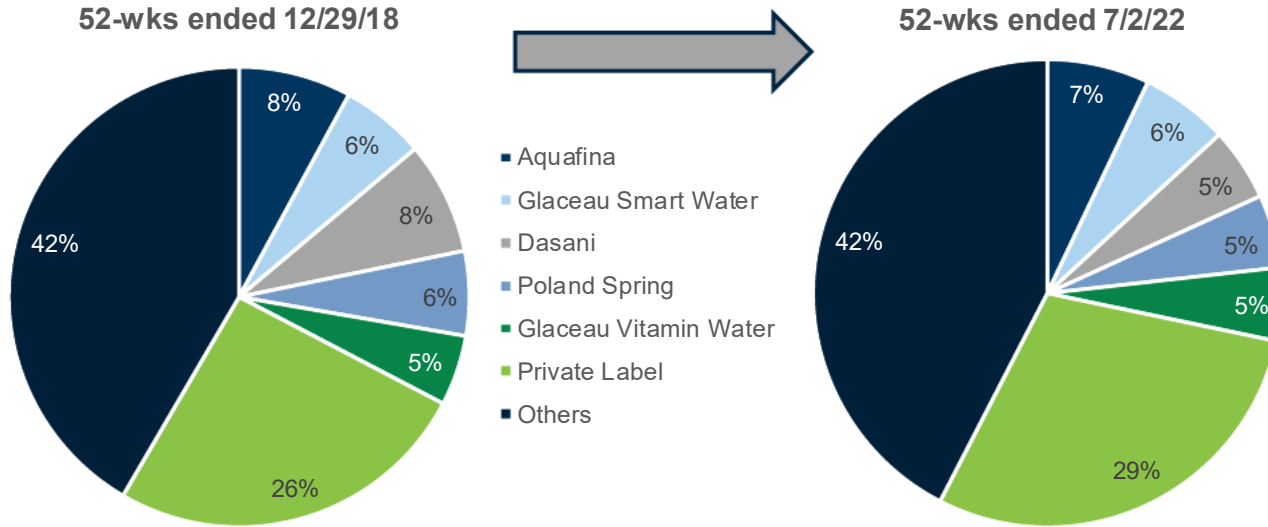
NielsenIQ All Channel Data – 4-wk y/y growth



- Private Label share represents ~30% of the bottled water category, the highest among key beverage categories
- Recent economic pressure on consumers has led to increased downtrading, resulting in strong private label sales growth in bottled water

# Bottled Water Sales Growth Solidly Positive (Con't)

Top brands in the bottled water category



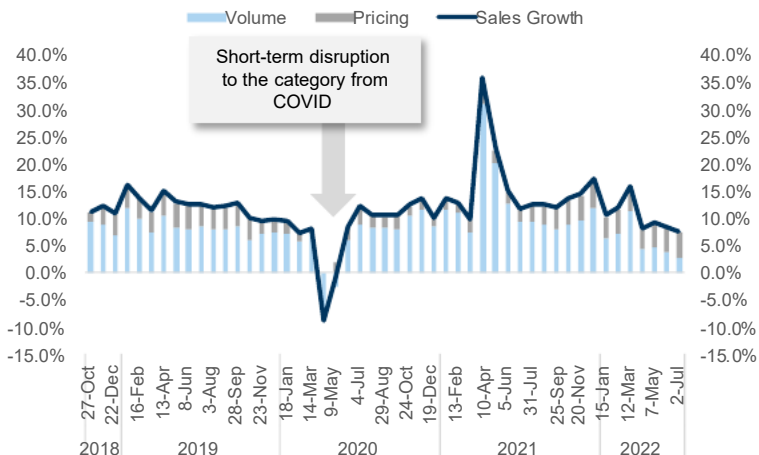
Source: NielsenIQ xAOC including Convenience Stores, Data compiled by Goldman Sachs Global Investment Research

# Energy Drink Category Sales Growth Remains Solid

Retailer sentiment on energy drinks remains upbeat

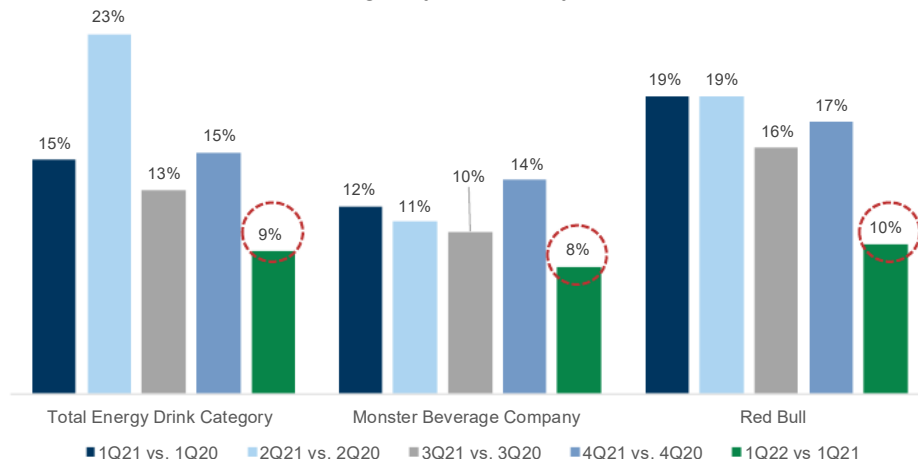
## Sales Growth Trends Across Energy Drinks

NielsenIQ All Channel Data – 4-wk y/y growth



## Growth Trends Across Energy Drinks

Beverage Bytes Survey, Apr 2022



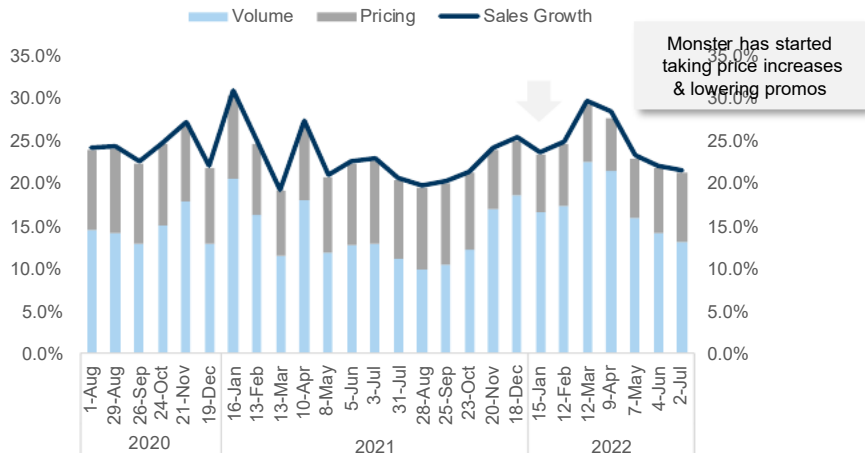
- Topline growth in energy drinks remains robust, reflecting strong underlying demand for products typically viewed as ‘affordable luxuries’
- Recent FQ4 commentary (6/28) by Alimentation Couche-Tard pointed to robust demand continuing for energy drinks

# Monster and Red Bull Sales Growth Robust

Nielsen all channel 3-yr stack data – 4-wk y/y growth

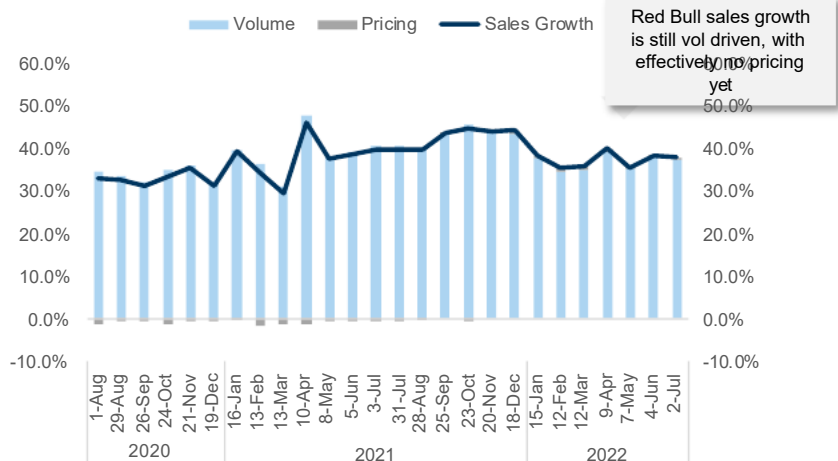
## Monster Sales Growth Trends

NielsenIQ All Channel Data 3-yr stack – 4-wk y/y growth



## Red Bull Sales Growth Trends

NielsenIQ All Channel Data 3-yr stack – 4-wk y/y growth



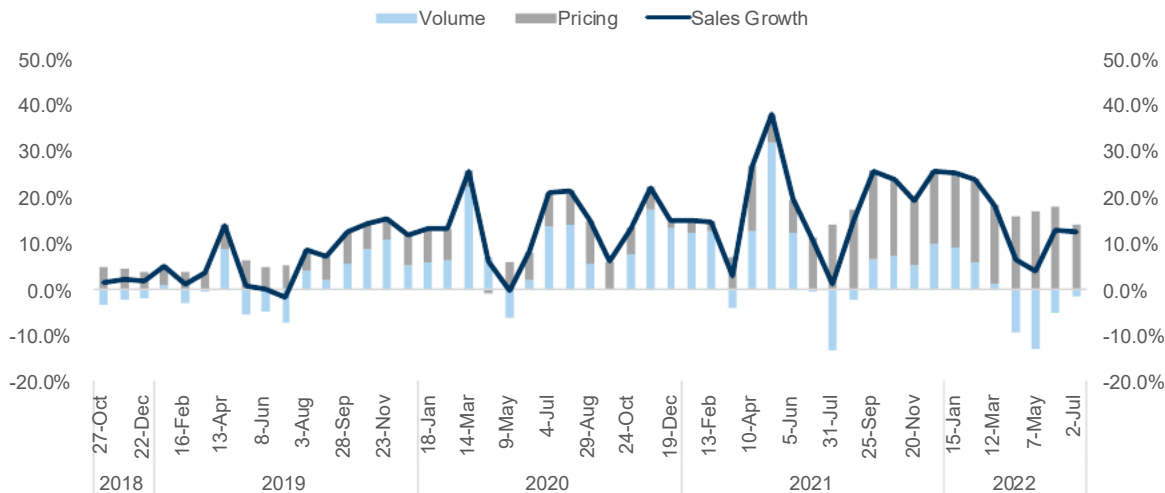
- 3-yr stack sales growth for Monster remains strong, led by strength in both price and vol growth
- Red Bull’s 3-yr stack sales growth in tracked channels is also strong, driven entirely by vol growth
- Our recent Beer Distr survey suggests Red Bull price increases should benefit Monster and distributors don’t expect any meaningful pushback given consumer willingness to spend on energy drinks remains high

Source: NielsenIQ xAOC including Convenience Stores, Data compiled by Goldman Sachs Global Investment Research

# Sport Drinks category a similar story - strong growth, driven by price

Strong growth in pricing offsetting volume declines

**Sales Growth Trends for Sport Drinks**  
NielsenIQ All Channel Data – 4-wk y/y growth

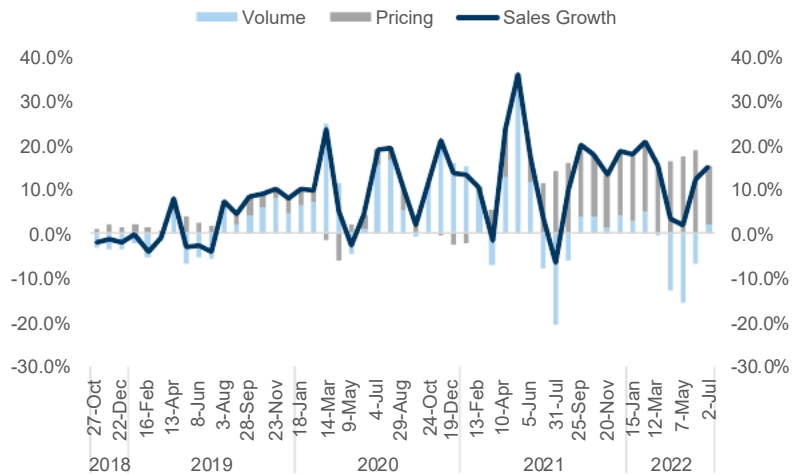


- Sport Drinks sales growth has improved recently, with price growth offsetting volume declines
- Innovation within the space will likely continue to drive segment growth

# Sport Drinks category a similar story (Con't)

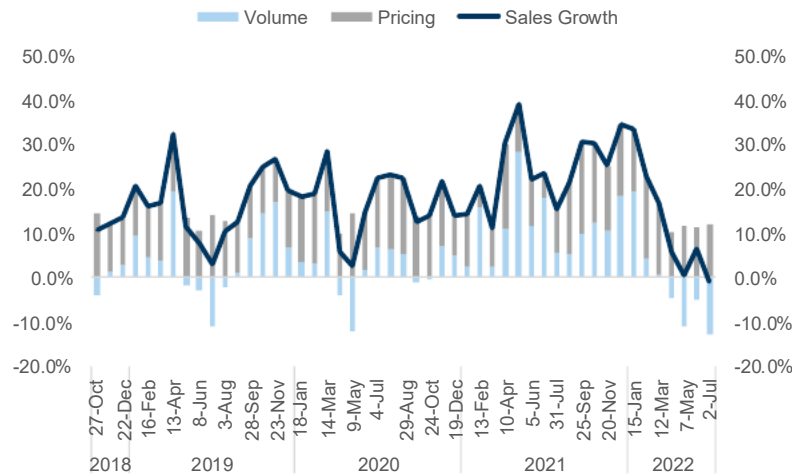
## Sales Growth Trends for **PepsiCo's** Sport Drinks

NielsenIQ All Channel Data – 4-wk y/y growth



## Sales Growth Trends for **Coke's** Sport Drinks

NielsenIQ All Channel Data – 4-wk y/y growth



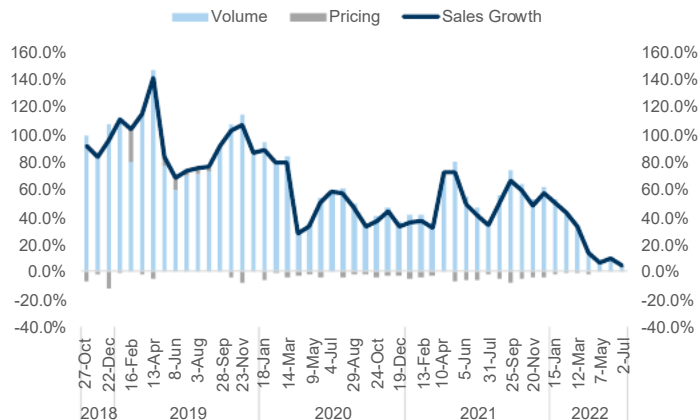
- Pepsi and Coca-Cola's Sport Drink volumes have declined recently, with pricing being the offset
- Gatorade has been the primary driver within Pepsi's Sport Drinks category, and should likely drive further growth
- Coca-Cola's sport drink portfolio should continue to grow, reflecting its acquisition of BODYARMOR

Source: NielsenIQ xAOC including Convenience Stores, Data compiled by Goldman Sachs Global Investment Research

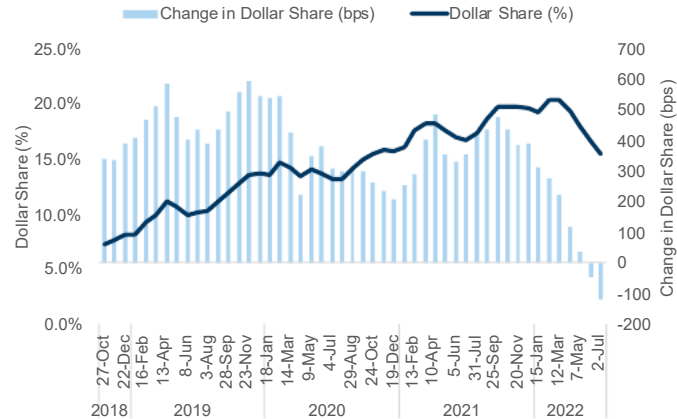
# Sport Drinks – Coca-Cola’s Acquisition of BODYARMOR

Platform for Coca-Cola Company to expand in hydration

**Sales Growth Trends for BODYARMOR**  
NielsenIQ All Channel Data – 4-wk y/y growth



**\$ Share Trends for BODYARMOR**  
NielsenIQ All Channel Data – 4-wk y/y growth



- Coca-Cola paid \$5.6B cash for the remaining 85% stake of BODYARMOR in Nov 2021
- BODYARMOR is a highly attractive asset with: (1) significant brand momentum, (2) strong category fundamentals, and (3) a robust innovation pipeline
- Advantages for Coca-Cola include (1) the ability to extend BODYARMOR’s reach further in the US & international markets, and (2) create a more formidable competitive moat of sports drinks for KO – including POWERADE

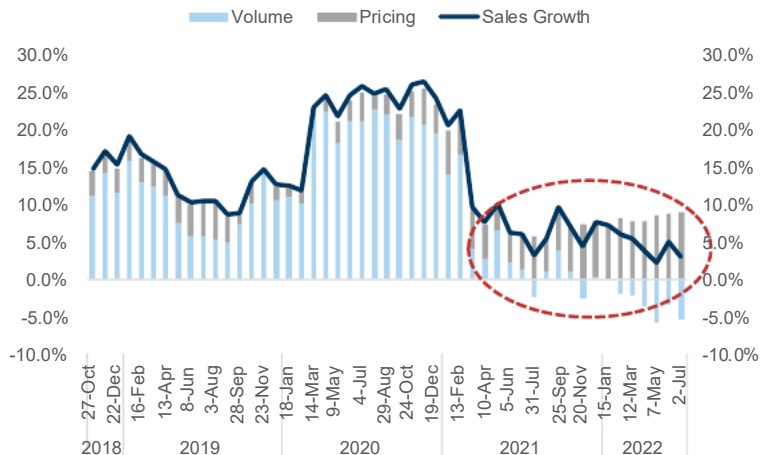
Source: NielsenIQ xAOC including Convenience Stores, Data compiled by Goldman Sachs Global Investment Research

# At-Home Beverage Category Growth Decelerating

Lapping tough pantry-loading comps and reflecting improving consumer mobility

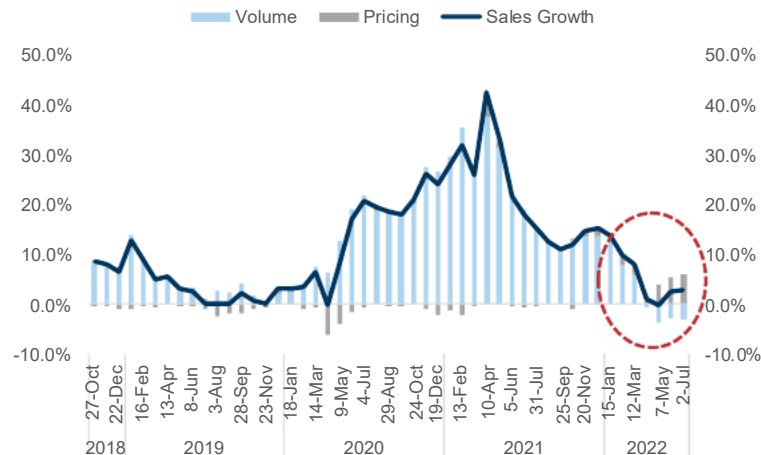
## Sales Growth Trends - Sparkling Flavored Water

NielsenIQ All Channel Data – 4-wk y/y growth



## Sales Growth Trends – RTD Coffee

NielsenIQ All Channel Data – 4-wk y/y growth

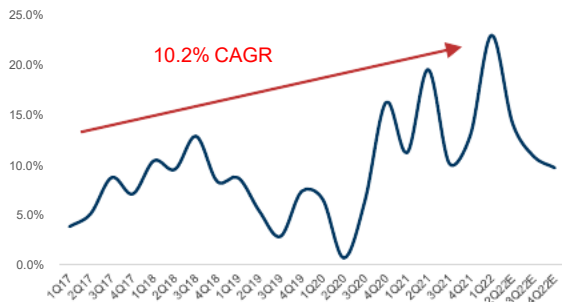


- Sparkling Water, which was a key beneficiary of the At Home Economy, has seen sales growth decelerating with the ongoing rebound in consumer mobility and as the category laps tough comps
- Decelerating sales for RTD Coffee likely reflects a return to on-premise consumption at Coffee Shops & away-from-home options

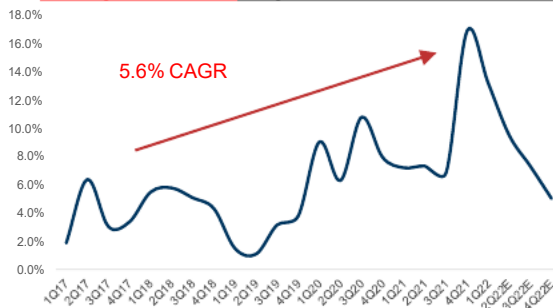
# Sales Growth Performance by Manufacturer

Coke's N. American sales 5-yr CAGR is an impressive 7.1%

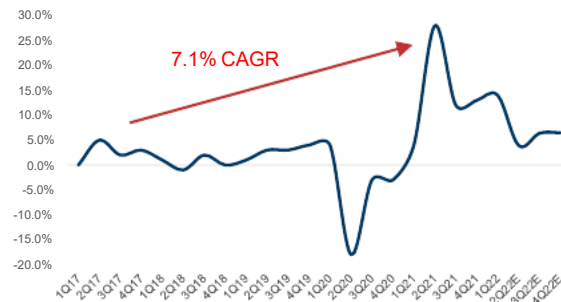
**Monster US Sales Growth/Est**



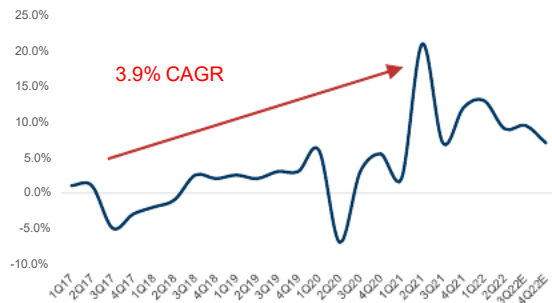
**Keurig Dr Pepper Pkgd Bev Sales Growth/Est**



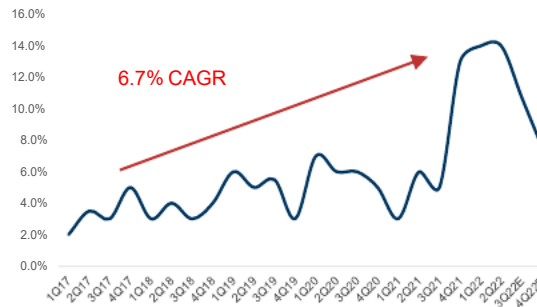
**Coca-Cola N. America Sales Growth/Est**



**PepsiCo's Pkgd Bev Sales Growth/Est**



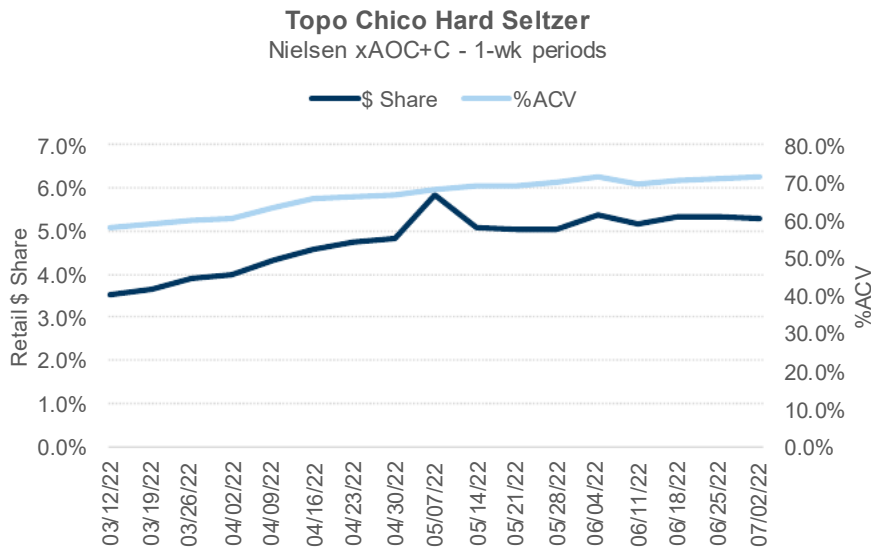
**Frito Lay N. America Sales Growth/Est**



# **Our Latest Thoughts On The Alcoholic Beverage Category**

# Lines Blurring between Alcohol & Non-alc Categories

Convergence & blurring of the lines continue to be a major theme for beyond beer

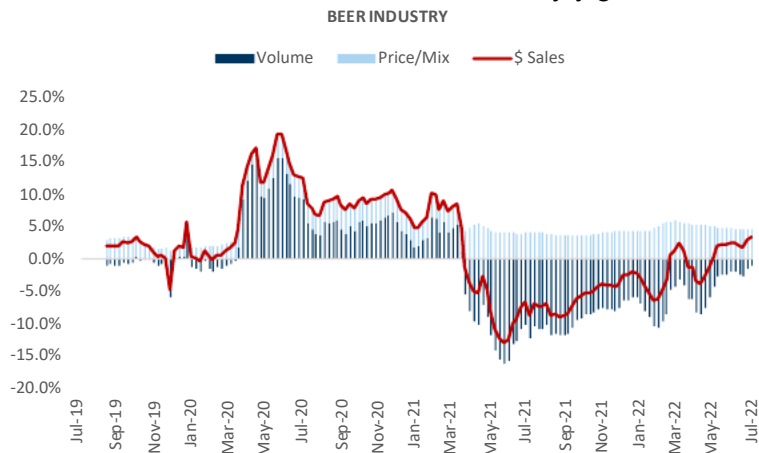


- Brand innovations have pushed the envelope with popular non-alcohol brands being combined with alcohol:
  - Topo Chico Hard Seltzer (KO & TAP)
  - Hard Mtn Dew (PEP & SAM)
  - Fresca Mixed RTD (KO & STZ)
  - Simply Spiked Lemonade (KO & TAP)
- Topo Chico Hard Seltzer has steadily increased share in hard seltzers over time – showcasing the opportunity for growth
- Companies are also thinking outside of the box and exploring ways of doing things differently - such as **PEP with its new Blue Cloud distribution**
- We think this is just the beginning and over the next handful of years we will continue to see even more disruption

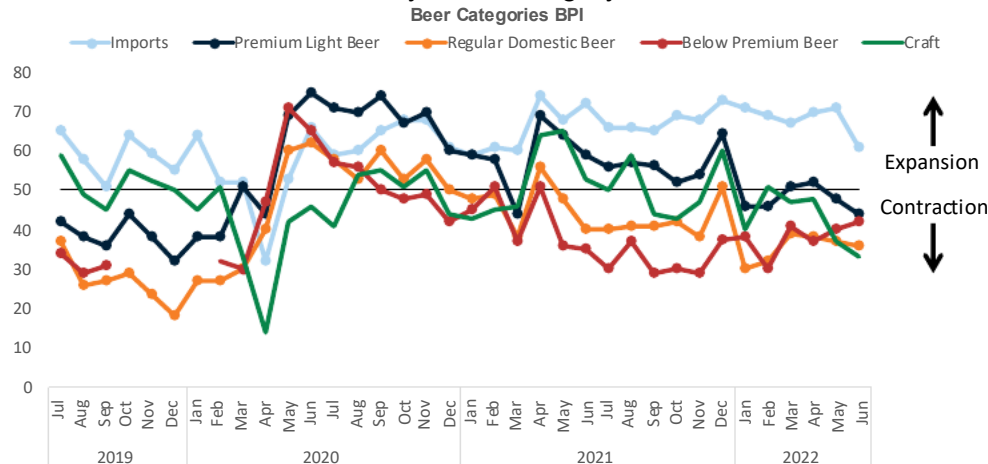
# Beer Category Sales Growth Remains Pressured

Reflecting decreased consumption in tracked channels

**Sales Growth Trends Across Beer**  
NielsenIQ All Channel Data – 4-wk y/y growth



**Beer Purchaser's Index**  
By Beer Category



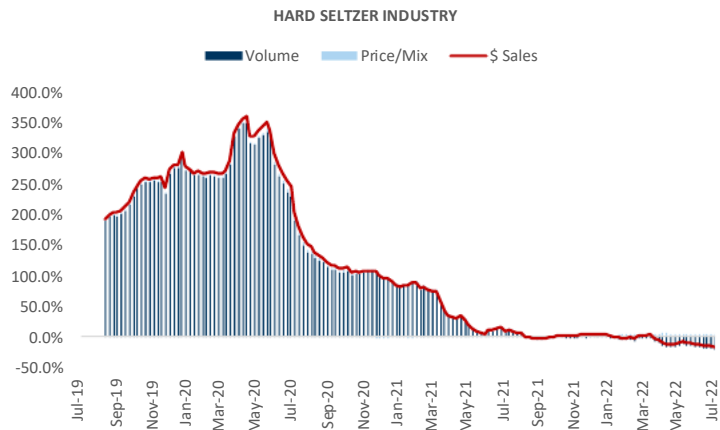
- Beer sales growth in Nielsen tracked channels primarily reflects ongoing pressure from a continued volume shift to on-premise
- Beer industry purchasing activity has also been in the 'contraction' phase for most categories (index <50 for domestic regular, below premium & craft beer) over the past few months – while import beer purchasing activity remains expansionary (>50)

# Hard Seltzer Category Momentum Fades

Beer distributors expect hard seltzers to decline -8% in 2022 & -2% in 2023

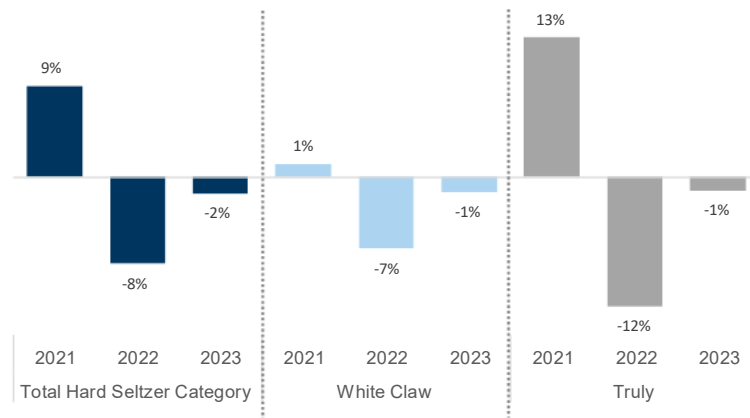
## Sales Growth Trends Across Hard Seltzers

NielsenIQ All Channel Data – 4-wk y/y growth



## Beer distributor expectations for hard seltzer growth

Beverage Bytes Survey, June 2022



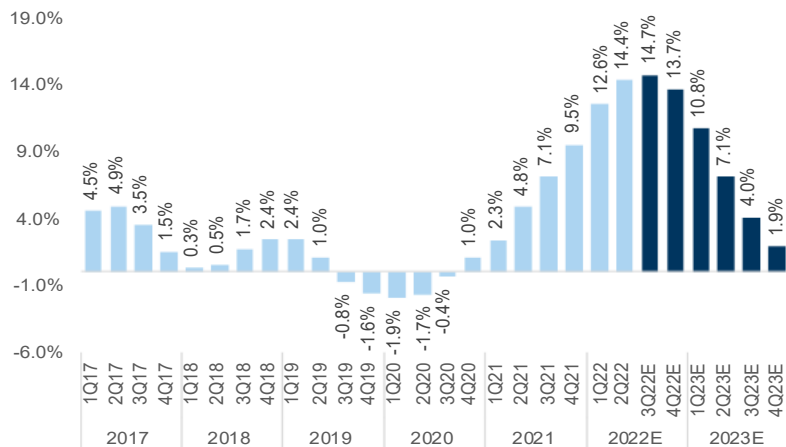
- The slowdown in the Hard Seltzer category is multi-pronged, from tough prior year comps, to the reopening of the on-premise channel, to the over-proliferation of SKUs/brands causing customer/retailer confusion
- Boston Beer now expects the category to decline 15-20% (vs 0-10% growth prior)

# **Key Considerations for 2022 & Beyond**

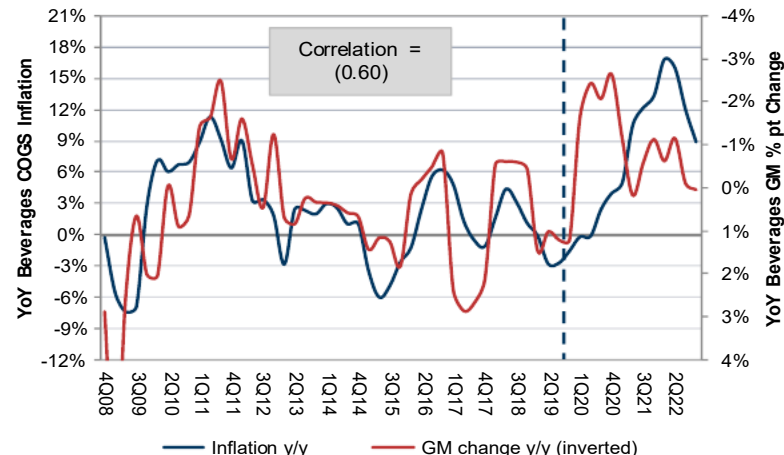
# Cost & Supply Chain Pressures Remain A Key Headwind

Resulting in gross margin compression for beverage manufacturers in 2022

**Total Beverage COGS Inflation (%)**



**Beverage COGS inflation vs Gross Margin change**



- Current spot rates imply 2022 COGS inflation of ~14% for Beverages – with inflation peaking in ~Q3
- Beverage manufacturer gross margins are highly correlated with COGS inflation trends
- Beverage companies have layered on additional hedges – some into next year as well.
- Suggests path to gross margin recovery in late 2022 and 2023 as companies start to cycle significant inflation

# GS modeled commodity inflation for Beverage Companies

Our spot model indicates ~14% COGS inflation for the Beverage sector in FY22, tempering to ~6% in 2023

			Input class													
			Agricultural Inputs					Dairy	Energy	Packaging					Factory/Over head/Freight	Total
			Grains & Oils	Sweeteners	Fruits, Veg & Nuts	Coffee, Cocoa & Flavorings	Total Agricultural Inputs			Aluminum	Glass	PET / Plastic	Other Packaging	Total Packaging		
Beverages	2023	CY inflation	9.3%	5.2%	15.2%	2.5%	7.6%	2.7%	14.8%	3.1%	3.4%	5.2%	3.8%	4.0%	1.5%	6.0%
	2022	CY inflation	26.8%	15.0%	20.9%	10.0%	15.9%	52.3%	21.7%	17.5%	10.7%	13.2%	14.8%	14.3%	7.6%	14.3%
	2021	CY inflation	18.3%	6.9%	4.5%	5.3%	6.6%	11.3%	4.8%	3.0%	3.3%	-0.4%	5.7%	2.8%	7.6%	6.0%
	2020	CY inflation	1.8%	2.7%	-6.1%	3.2%	0.0%	-10.3%	-3.7%	-0.2%	2.6%	-3.8%	-2.5%	-1.6%	0.5%	-0.8%
		% of COGS	4.5%	4.9%	11.4%	14.4%	35.1%	1.1%	13.3%	4.7%	3.0%	6.3%	6.2%	20.3%	30.1%	100.0%
KDP	2023	CY inflation	-	5.7%	8.1%	3.2%	3.8%	2.0%	14.8%	3.1%	3.4%	5.2%	3.4%	4.1%	2.1%	4.3%
	2022	CY inflation	-	14.5%	11.4%	28.4%	25.2%	54.9%	24.7%	17.5%	10.7%	13.2%	16.4%	14.8%	5.7%	17.5%
	2021	CY inflation	-	5.6%	-0.2%	11.7%	9.8%	19.8%	6.3%	3.0%	3.3%	-0.4%	7.3%	3.2%	5.2%	6.7%
		% of COGS	0.0%	5.5%	1.9%	24.7%	32.1%	3.0%	9.5%	4.0%	2.0%	10.0%	8.9%	24.9%	30.5%	100.0%
KO	2023	CY inflation	-	5.0%	17.3%	3.5%	11.3%	2.0%	14.0%	3.1%	3.4%	5.2%	3.6%	4.5%	0.7%	6.7%
	2022	CY inflation	-	15.3%	22.7%	15.3%	19.2%	54.9%	19.8%	17.5%	10.7%	13.2%	12.9%	14.1%	9.0%	14.8%
	2021	CY inflation	-	7.8%	9.5%	7.4%	8.6%	19.8%	4.2%	3.0%	3.3%	-0.4%	5.5%	1.3%	9.8%	7.5%
		% of COGS	0.0%	9.0%	15.3%	8.3%	32.5%	0.5%	15.0%	3.0%	0.5%	8.0%	1.5%	13.0%	39.0%	100.0%
MNST	2023	CY inflation	-	5.0%	15.5%	2.0%	2.9%	-	14.4%	3.1%	3.4%	5.2%	1.8%	3.0%	2.1%	4.3%
	2022	CY inflation	-	15.3%	20.9%	6.3%	7.6%	-	20.9%	17.5%	10.7%	13.2%	9.6%	15.4%	5.7%	11.6%
	2021	CY inflation	-	7.8%	9.3%	4.4%	4.8%	-	4.8%	3.0%	3.3%	-0.4%	6.0%	3.4%	5.4%	4.5%
		% of COGS	0.0%	4.5%	1.5%	33.0%	39.0%	0.0%	13.0%	23.0%	4.5%	0.5%	4.4%	32.4%	15.6%	100.0%
PEP	2023	CY inflation	9.0%	5.9%	12.7%	2.0%	6.3%	3.6%	15.6%	3.1%	3.4%	5.2%	3.8%	4.2%	2.3%	6.1%
	2022	CY inflation	38.2%	14.2%	18.8%	5.0%	15.1%	48.9%	23.1%	17.5%	10.7%	13.2%	15.9%	14.7%	5.0%	14.2%
	2021	CY inflation	32.3%	4.9%	-7.1%	3.1%	5.1%	2.0%	5.4%	3.0%	3.3%	-0.4%	6.6%	3.2%	4.5%	4.5%
		% of COGS	5.8%	6.0%	8.6%	15.3%	35.6%	1.0%	14.0%	4.0%	2.0%	9.9%	10.5%	26.4%	23.0%	100.0%

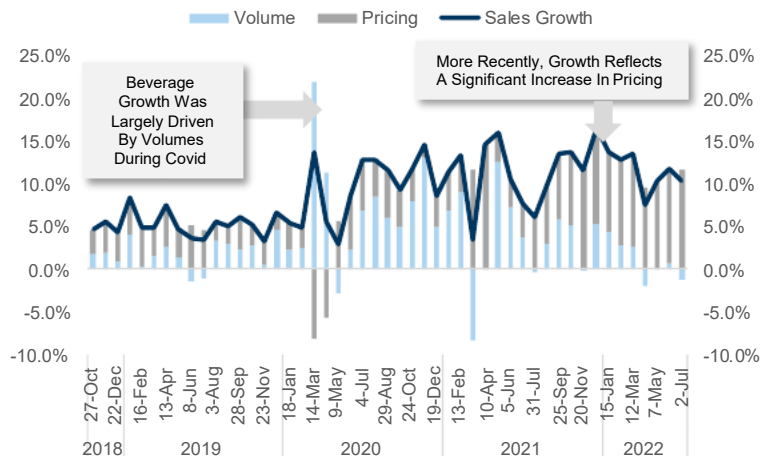
Source: Company data, Goldman Sachs Global Investment Research, Bloomberg, FactSet, Haver Analytics

# Pricing Is Likely To Be A Big Driver For Sales Growth In 2022

Beverage companies are taking pricing to help offset stepped-up input costs

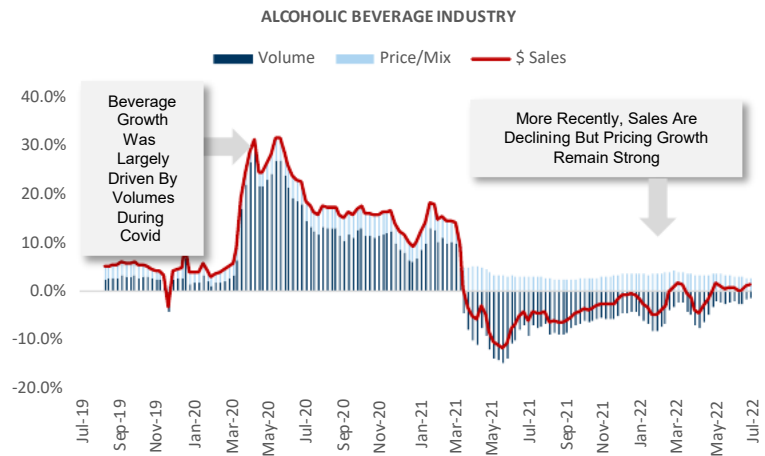
## Sales Growth Trends Across **Non-Alcoholic** Beverages

NielsenIQ All Channel Data – 4-wk y/y growth



## Sales Growth Trends Across **Alcoholic** Beverages

NielsenIQ All Channel Data – 4-wk y/y growth



- Pricing is already driving the majority of non-alcoholic/alcoholic beverage sales growth today – while vols remain pressured
- Many beverage companies plan to take additional rounds of pricing in 2H 2022 – particularly on brands with strong equity
- Beverage mfrs are not seeing signs of consumer pushback to price actions thus far, with little changes to elasticities
- Best positioned companies are nimble and able to offer a portfolio of price & pack options to address affordability (e.g., **Coke**)

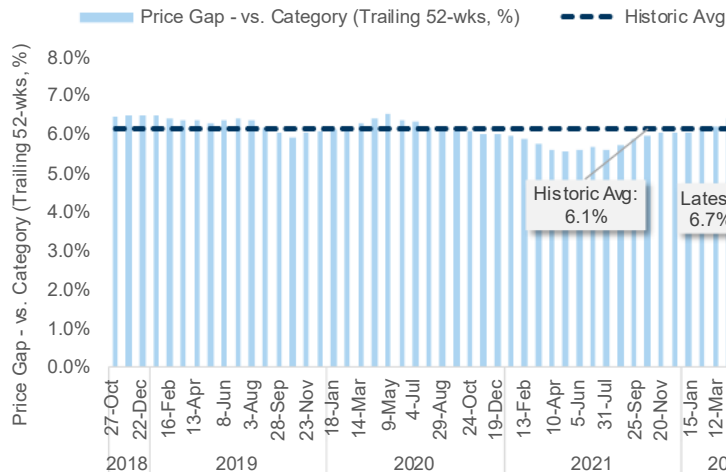
Source: NielsenIQ xAOC including Convenience Stores, Data compiled by Goldman Sachs Global Investment Research

# Pricing Is Likely To Be A Big Driver For Sales Growth In 2022

Beverage companies are taking pricing as a way of offsetting stepped-up input costs

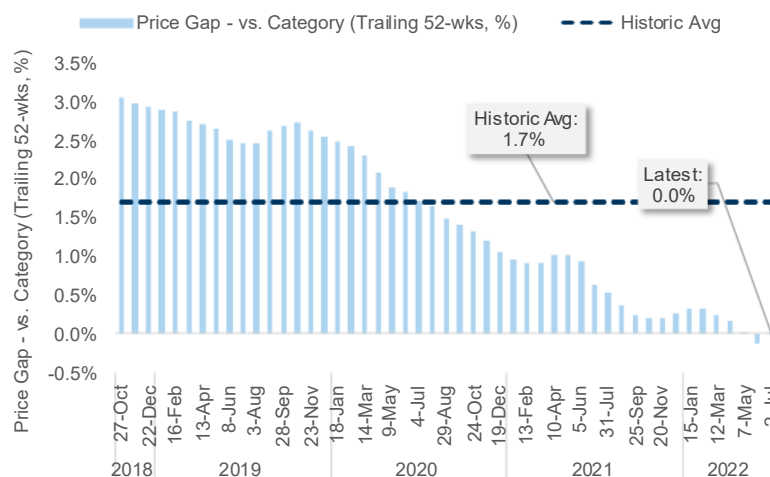
## Coke's Price Gap vs CSD's

NielsenIQ All Channel Data – 4-wk TTM %



## PepsiCo's Price Gap vs CSD's

NielsenIQ All Channel Data – 4-wk TTM %



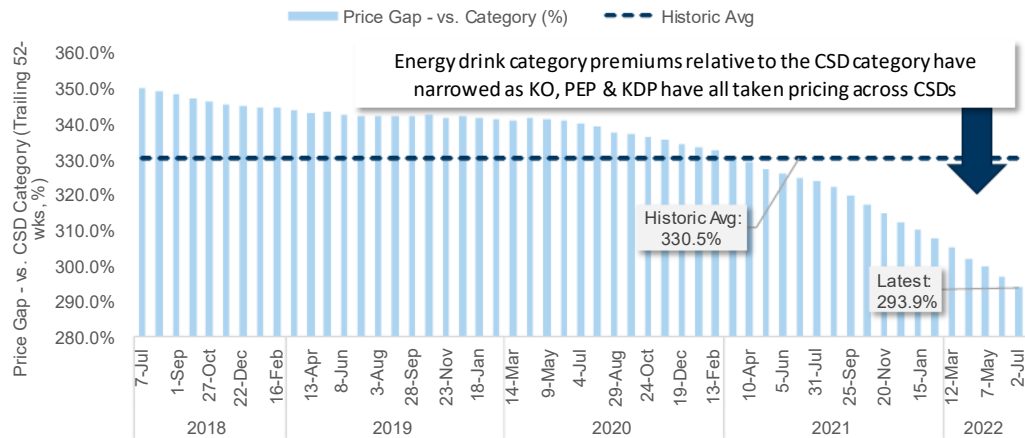
- Coca-Cola's pricing strategy relies on a mix of price, package differentiation, and targeted promotional strategies
- Coca-Cola & PepsiCo's mgmt. teams are cognizant that price elasticities could increase in the months ahead
- Both Coca-Cola and Pepsi have strong pricing power in our view, though Pepsi could be a potential trade down beneficiary in the event consumer spending tightens with economic uncertainty

# We believe Monster's recent pricing actions will stick

Our price gap analysis shows the spread between CSDs & energy drink pricing is narrowing

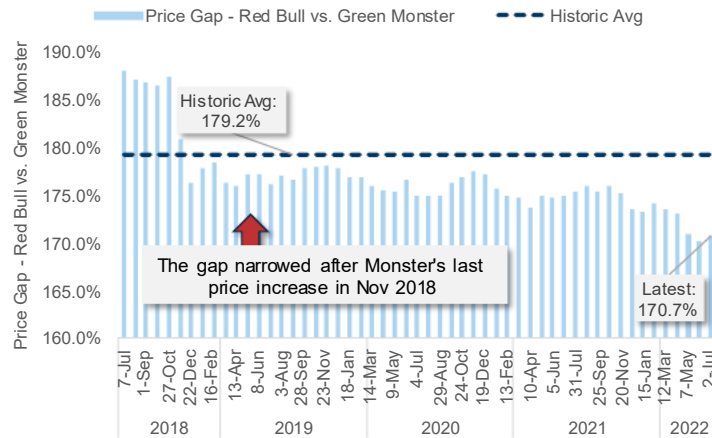
## Energy Drink Category Price Premium vs. the CSD Category

NielsenIQ All Channel Data – 4-wk data (Trailing 52-wks, Average)



## Red Bull Price Premium to Green Monster

NielsenIQ All Channel Data – 4-wk

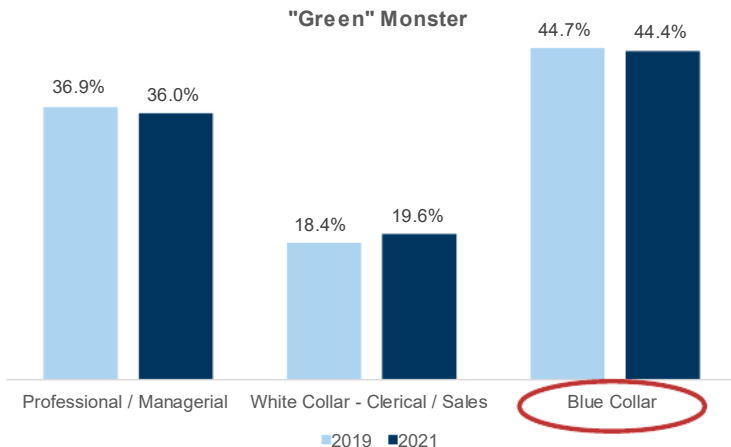


- Monster announced a 6% price increase effective 9/1 in the U.S. (on top of >3% pricing actions already taken); Red Bull to take a 7% price increase in September – which created a favorable pricing environment in energy drinks
- Red Bull is almost ~2x as expensive as MNST
- The relative price gap between energy drinks & CSDs has narrowed, suggesting there is ample room for stronger pricing in Energy Drinks

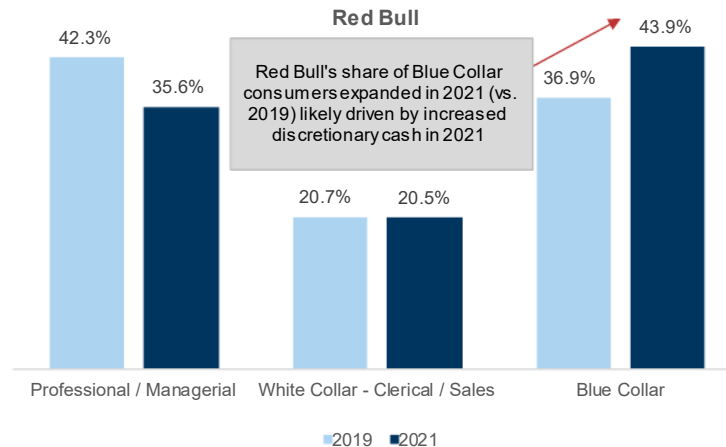
# Monster Well-Positioned As A Potential Downtrade Beneficiary

Our demographic analysis shows opp'ty for Monster to win consumers back from Red Bull

**Monster consumer demographic by occupation type**  
NielsenIQ Homescan Data



**Red Bull Consumer demographic by occupation type**  
NielsenIQ Homescan Data

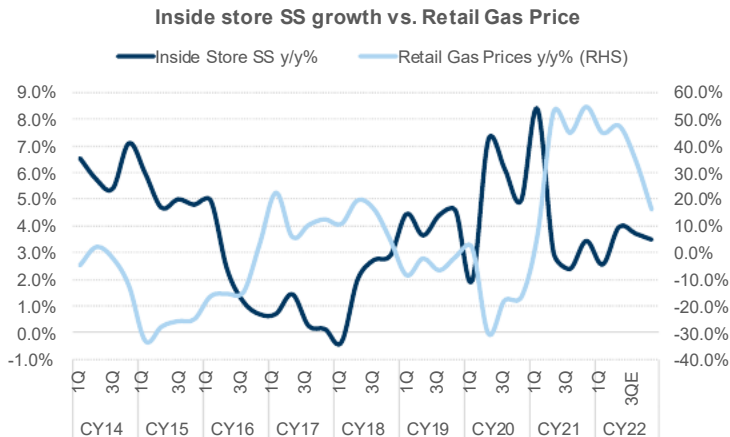


- ~44% of Red Bull's consumer base was blue collar in 2021 ( a ~7pt increase vs 2019) suggesting blue collar consumers likely traded up in the wake of government stimulus support
- As discretionary cash comes under pressure in 2022, consumers seeking more affordable options could trade down to Monster

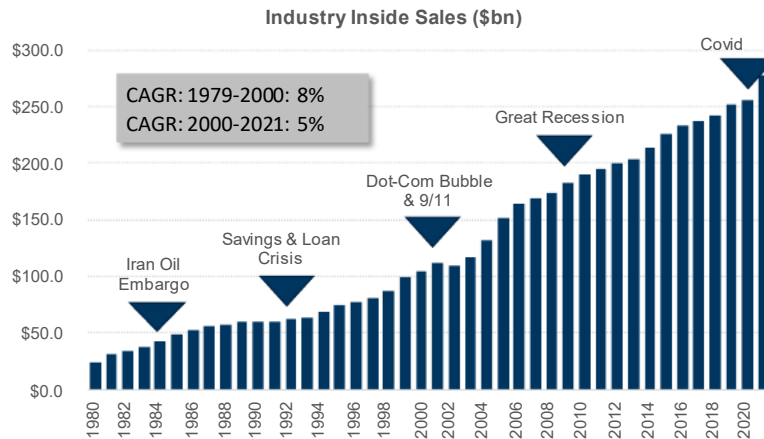
# Other Potential Headwinds For C-Store Beverage Sales

Elevated gas prices could drive lower beverage purchases in c-stores

## C-Store Inside Sales vs Gas Prices



## C-Store Inside Sales Over Past Recessions



- Higher gas prices tend to be a headwind for in-store food/merch sales as consumers often look to offset higher gas expenditures by cutting back on other discretionary in-store purchases, such as immediate consumption beverages
- Recent trends toward smaller pack sizes (higher margin) & more frequent trips resulting from high gas prices
- However, c-store inside sales have consistently increased over the last four decades, even during major recessionary periods – illustrating the resiliency of the c-store channel

# Innovation Broad-Based Across Beverages

Retailers seeing a pick-up in innovation across both alc & non-alc categories

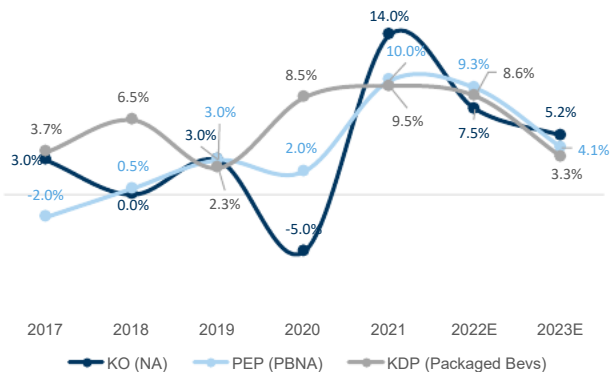
➤ Specific innovations / categories call outs:

- **Energy Drinks** – Monster’s True North, Monster Aussie, Red Bull Summer Edition (Strawberry Apricot), Starbucks Baya Energy, ZOA and new/newer energy drink brands (Ghost Energy, Rowdy Energy, C4 and Alani Nu)
- **CSDs** – Coke’s limited edition flavors, Poppi prebiotic sodas
- **Hydration/Sports drinks** – Electrolit Zero, Body Armor Flavors, Biolyte, Gatorade Fit, Gatorlyte, Pedialyte
- **Hard Seltzers** – Truly innovation incl. Truly Flavored Vodka, Truly Margarita & Truly Poolside, Mtn Dew Hard, Topo Chico, Simply Spiked Lemonade

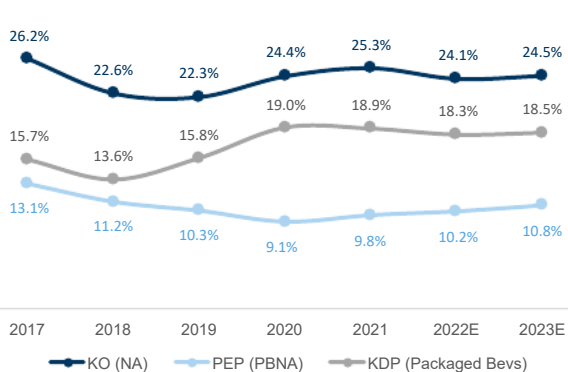


# Final thoughts – Moderate risk to sales growth and margins in a recessionary environment

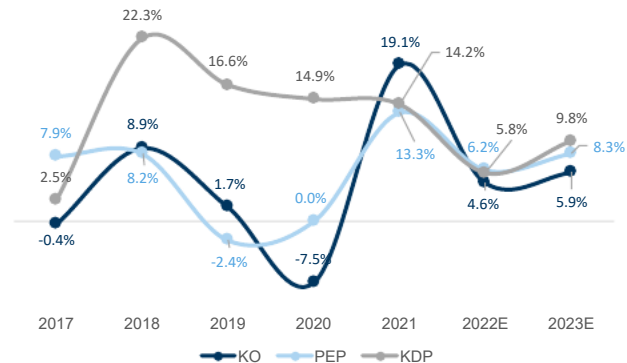
Organic Revenue Growth



Operating Margin



Consolidated EPS Growth



- Overall, beverage manufacturers are relatively better positioned to weather a recession given recession - resistant characteristics of beverages
- But there is still some risk to vol growth as consumers come under pressure and start to scale back consumption
- Beverage margins likely to remain stable – reflecting pricing benefits offset by lingering COGS inflation and volume deleverage

# Disclosure Appendix

July 29, 2022

### Reg AC

We, Bonnie Herzog, Patty Kanada, CFA, Akshatha Kulkarni, and Ethan Huntley hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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### GS Factor Profile

The Goldman Sachs Factor Profile provides investment context for a stock by comparing key attributes to the market (i.e. our coverage universe) and its sector peers. The four key attributes depicted are: Growth, Financial Returns, Multiple (e.g. valuation) and Integrated (a composite of Growth, Financial Returns and Multiple). Growth, Financial Returns and Multiple are calculated by using normalized ranks for specific metrics for each stock. The normalized ranks for the metrics are then averaged and converted into percentiles for the relevant attribute. The precise calculation of each metric may vary depending on the fiscal year, industry and region, but the standard approach is as follows:

**Growth** is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

For a more detailed description of how we calculate the GS Factor Profile, please contact your GS representative.

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Goldman Sachs Investment Research global Equity coverage universe

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