

Tequila & Agave Spirits Newsletter

Industry Specialty Team | August 2024

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Tequila's Additive-Free Trend is Adding Momentum

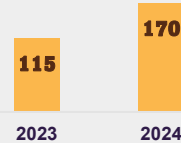
The consumer led additive free movement across the tequila industry has not only gained traction but now grabbing national attention with headlining visibility from mainstream media outlets like the Wall Street Journal and Forbes

- In the last 13 weeks ending 6/29/24, additive-free tequilas \$ sales and \$ velocities substantially outperformed the broader tequila market despite much less distribution across all channels:

	Additive-Free	Broader Category	Trend
\$ Sales	+52%	+3%	Growing 15.7x faster
\$ Velocities	+16%	0%	+16% above
Distribution	35% ACV	75% ACV	40% untapped ACV

Tequila Matchmaker - 2024 Commentary / Trends

New Tequila Entrants YoY as of 6/30/24



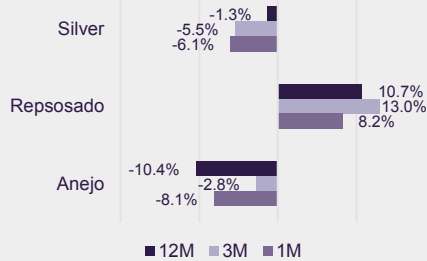
Tequila Matchmaker's Most "Liked" Brands thru 6/30/24

- Fortaleza
- LALO
- Tequila Ocho
- G4
- Siete Leguas
- El Tesoro de Don Felipe
- Mijenta Tequila
- El Tequileño
- Don Fulano
- Cazcanes

Tequila & Agave Spirits Trend Analysis

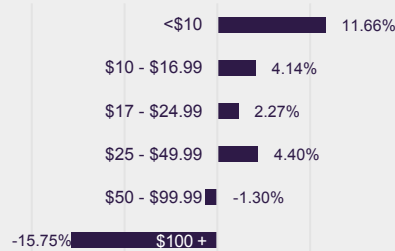
Agave Spirits % Volume Change as of 6/30/24

Despite slowdown, agave remains a bright spot in the industry delivering cont'd volume & share growth led by Reposado tequilas; thru LTM 6/30/24 total agave gained +2.3% vol. and +0.7% in share



% Vol Change by Pricing Tier- 6/30/24

Top shelf tequilas & agave spirits have faced challenges thru YTD 24, top pricing tiers >\$50/ bottle decelerated from years of growth, entering decline as of LTM 6/30; Super Prem. \$25-\$50 remains in growth as well as lower value priced tiers



Tequila's Holiday & Seasonal Sale Performance Trends vs. Total Spirits

	Tequila					Total Spirits				
	2021	2022	2023	2024	Avg	2021	2022	2023	2024	Avg
Valentine's Day		14%	14%	16%	15%		9%	8%	10%	9%
Cinco de Mayo		24%	36%	20%	26%			n/a		
Memorial Day		5%	6%		6%		8%	11%		9%
Father's Day	2%	4%	1%		3%	4%	5%	4%		4%
Fourth of July	16%	16%	10%		14%	11%	11%	6%		9%
Labor Day	5%	6%	10%		7%	6%	6%	7%		7%
Halloween/Dia de los Muertos	14%	13%	10%		12%	10%	8%	6%		8%
Week Before Thanksgiving	2%	2%	3%		2%	8%	9%	8%		8%
Thanksgiving Week	39%	39%	44%		41%	33%	34%	35%		34%
Week before Christmas	19%	17%	11%		16%	22%	19%	14%		18%
Christmas Week	66%	87%	81%		78%	54%	71%	69%		65%

Weekly Scans vs. rolling prior 3 weeks

Tequila / agave spirits sales have seen consistent success throughout the year benefiting from less seasonal volatility vs. other spirit categories driven by the diversity of agave and flexibility of occasions where products are consumed; despite its' seasonal balance, tequila / agave spirits have also outperformed & over-indexed sales growth of the total spirits category during key holidays of the year; importantly out-pacing the total category during crucial O-N-D period

Sipping Data... Agave Spirits On-Premise Industry Overview



Agave Spirits On-Premise Mix +28% Over indexes total Spirits category

Margaritas make up ~20% of US cocktail sales

America's Top Cocktails

- Margarita
- Martini
- Moscow Mule
- Espresso Martini
- Old Fashioned

Average US Cocktail Price \$13 up from \$12 in 2022

With the on-premise trade normalizing, agave spirits have grown volume, revenues, and share; The margarita continues its' well-established spot on top of America's cocktail list, while tequila mezcal & other agave spirits are being subbed into other cocktail classics such as the negroni & old fashioned



* Additive Free Alliance logo is a registered trademark of the Additive Free Alliance, Inc. & Tequila Matchmaker logo is a registered trademark of TequilaMatchmaker.com

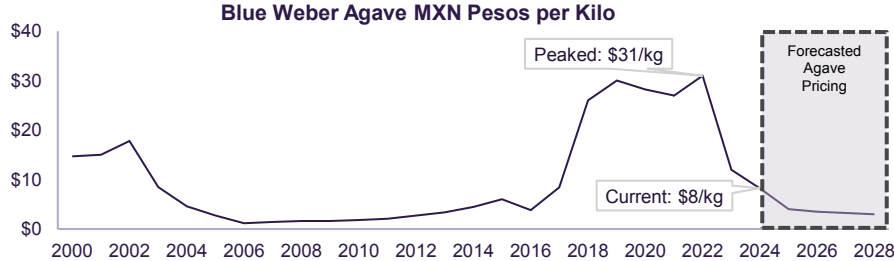
Sources: Sip Source, Tequila Matchmaker, IWSR, CGA NielsenIQ, Forbes, Wall Street Journal, Seasonality and Additive Free data sourced from private company and custom defined NielsenIQ report
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U.S. Spirits Industry Observations: Tequila

- Throughout FY23 and YTD24, agave spirits have been the top performing core spirits segment and one of the leading segments across all beverage categories; while some pricing trade-downs have been observed, premiumization trends have remained resilient with consumers continuing to migrate into Super Premium and Ultra Premium pricing tiers
- Agave spirits surpassed American whiskey as the 2nd most valuable spirits category in FY22; with continued growth, agave is closing the gap quickly on vodka, likely overtaking vodka as the leading category of USD value for the spirits industry in 2024 / 2025
- Additive-free brand messaging has taken hold across consumers and is now gaining momentum rapidly; clean labels and health / wellness consumer focus has spread across nearly all consumer goods; consumer engagement with additive-free tequila brands has sparked a movement with the potential to transform longstanding industry dynamics

Blue Weber Agave Supply Pricing Dynamics Evolve

In recent years, agave prices have soared due to demand growth outpacing agave supply, reaching historical highs of over \$30/kg; despite cont'd growth, pricing began stabilizing in 2023 as plantings & matured agave caught up with demand; current pricing has dropped quickly, falling back to \$8/kg where it has relatively stabilized but could moderate lower in future years

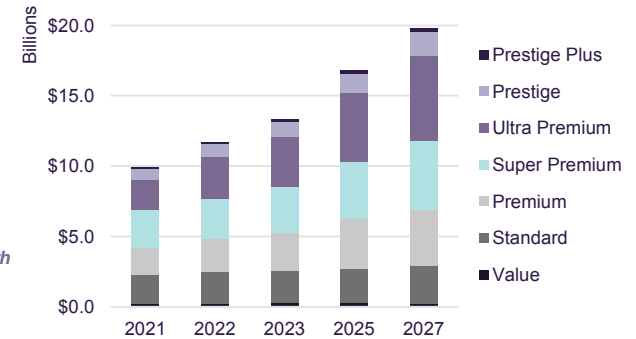


Tequila Industry \$ Growth by Pricing Tier 2021 - 2027

Tequila has grown category revenues at 16% CAGR since 2019, outperforming nearly every other spirit category

IWSR forecasts continued growth in Tequila albeit at a slightly slower pace with total Tequila \$ growth projected at 8% CAGR from 2023 - 2027

Premiumization trends are expected to remain strong with Super Premium and above accounting for +70% of projected revenue gains



Tequila Category Characteristics

Consumer Stats

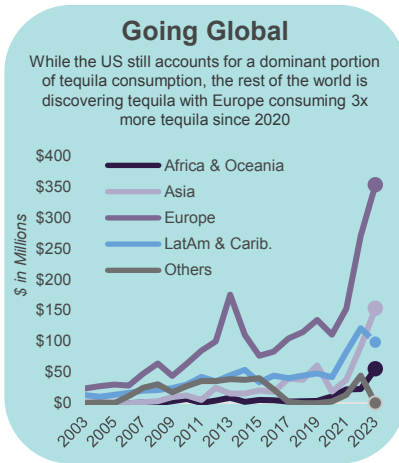
- Purchasing Breakdown**
52% Male
48% Female
- 3** Is average number of bottles at home
- 80% of recent Tequila consumers buying the same or more

Culture Carrier

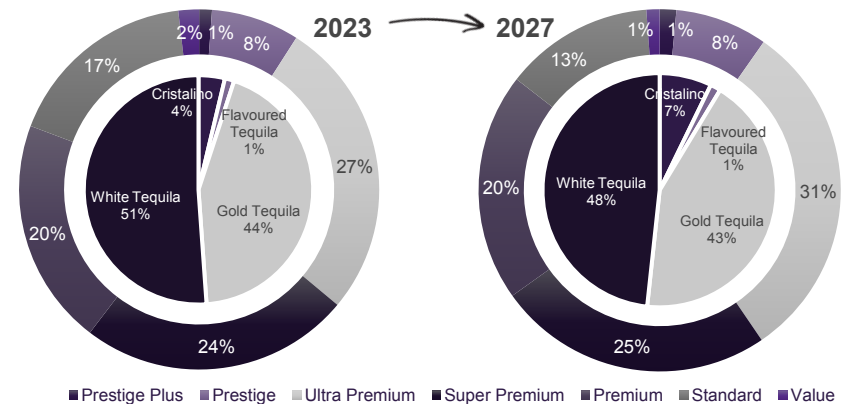
As Hispanic population has grown so has the Hispanic cultural influences across the US

Average monthly Google searches for Mexican restaurants are 20x greater than American themed food places

Mexican restaurant industry is nearly \$80 billion in size and has double over 10-year period



Tequila Composition: \$ Share by Sub-Type & Pricing Tier



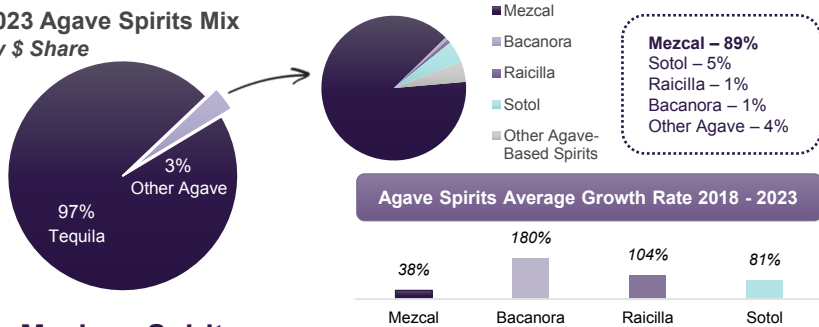
U.S. Spirits Industry Observations: Other Agave Spirits

- Other agave spirits capture a growing market presence of non-tequila products coming from Mexico, namely mezcal (the largest subcategory), sotol, raicilla, & bacanora
- Mezcal made up approximately 90% of the nearly \$500 million of other agave category in FY23, in total, other agave spirits have averaged category growth of ~40% since 2018 more than tripling in value over the period
- Other agave spirits, and particularly mezcal, have gained popularity among mixologists as the creative cocktail culture continues to grow across US on-premise channels, in FY23 ~56% of mezcal and other agave spirits were sold through on-premise channels, and are outpacing the growth of tequila in addition to many other spirit categories
- Despite some premiumization softening in FY23, Super Premium and above pricing tiers are expected to drive most of the industry growth in future periods, aligning with the Super Premium price of other agave spirits, with the average price per bottle at more than \$40.00

Growing Agave Spirits Goes Beyond Tequila

Agave spirits have been expanding in recent years: while tequila has grown significantly, other agave-based spirits have gained popularity as consumers discover agave spirits in deeper ways, elevating the entire agave category from shots and margaritas to a more sophisticated group of spirits

2023 Agave Spirits Mix by \$ Share



The Mexican Spirit

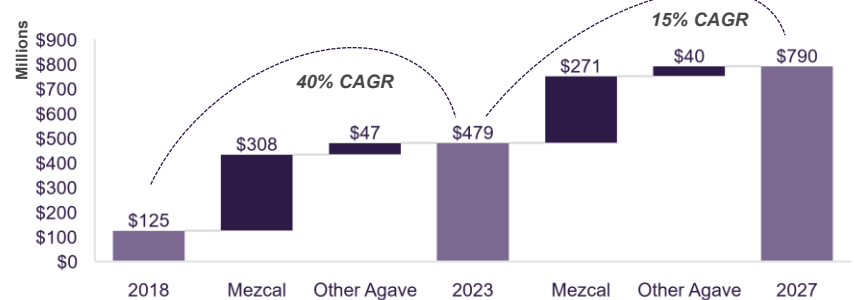
Much like how Champagne is made in France and Bourbon is America's native spirit, Mexico recognizes several denominations of origin that safeguard various spirits, allowing them to be produced only within specific states in the country

In Mexico, the \$20+ billion Tequila industry comes from 5 states, whereas Mezcal is produced from 9 states, and Sotol 3 states; while Raicilla is only produced in Jalisco and Bacanora in Sonora



Other Agave Spirits \$ Growth Bridge 2018 - 2027

Other agave spirits have observed tremendous growth, more than tripling from 2018; while the category is still relatively small compared to others, other agave spirits are expected to outpace industry growth rates at Super Premium and above price points



Other Agave: Category & Channel Characteristics

Category Callouts

Premiumization trends favor other agave spirits heavily with avg price per bottle at +\$40.00

M&A 2023 M&A in agave spirits was very active, with the marquee acquisition of legal Mezcal for +\$100 million putting mezcal onto the big stage

Salud! to Drinking Stats

56% Of mezcal & other agave is consumed on-premise

+20% FY23 mezcal cocktails are fastest growing category within agave spirits

Bartender's Choice *

Best Selling | Top Trending

"This year, 96% of our bars stocked at least one mezcal brand and 80% stocked three or more"

Drinks International Brands Report 2024