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Beverage Retail Sales Tracker

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SECTOR REVIEW

Trends Decelerating Slightly but Still Outpacing Broader Food and Bev

Beverage sales appear to have stabilized in the 4 weeks (period ending 15 July) after looking soft last month. While the retail trends are decelerating on a 12-wk rolling basis, our beverage coverage is faring better than the broader food and beverage industry. Median sales growth for our coverage was +1.4% (ex. FIZZ, SAM) in the 12 weeks, while total branded food and beverage sales were down nearly 1%. We expect that as the e-commerce channel grows (especially given Amazon's pending acquisition of Whole Foods), retail tracking will become less reliable for some manufacturers, but as we highlight within for Coca-Cola and PepsiCo, the trends still appear directionally relevant versus reported sales growth.

- **Spirits still performing best:** The US spirits category grew 4.3% in the 12-wks driven by tequila, cognac, and whisky (specifically bourbon and Irish whisky) growing 10.2%, 9.2%, and 6.5% in the 12-wks, respectively.
- **Non-alcoholic beverages stable:** Total NAB was up 1.6% in the 12-wks with tea, RTD coffee and sparkling water driving growth (+2.3%, +8.1%, +13%, respectively). Energy grew 1.8% and CSD declined 2.4%.
- **Beer decelerates, except craft:** The US beer category was up only 0.1% in the 12-wks. Premium grew 2%, light declined 4.9%, economy declined 1.7%, imports grew 7.7%, and craft was +1.4% (+3.5% ex top 5 brands).

Best performers relative to our expectations and ratings:

- **Monster Energy:** Sales accelerated to 6% in the last 4-wks (up from 4.3% in the 12-wks) despite Java still down by 18.7%. Mutant and Hydro added $11M and $14M, respectively, in the 12-wks.
- **Brown-Forman:** Sales growth accelerated to +7.6% in the 4-wks vs +4.3% in the 12-wks driven by very strong performance of its most premium brands Woodford Reserve and Herradura (+26% and +16%, respectively).

Weakest performers relative to our expectations and ratings:

- **PepsiCo:** Total 12-wk sales decelerated sequentially to -1.4% (from -0.6% last month) with beverage sales down 3.9%. CSD was down 7% and NCB declined 1.8%. Food sales were up more than 2%.

Constellation Brands and National Beverage slowed modestly. Coca-Cola, Dr. Pepper Snapple, and Molson Coors were stable in the 12-weeks, generally in-line with our expectations.

Please see the full report for a detailed summary of each company and this month's featured beverage product.

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CS Relevancy Index

In order to better assess the value of the monthly Nielsen data release, we present our Relevancy Index (i.e. what the US Nielsen tracks as a percent of the total company business). Using Nielsen's stated US retail coverage, we factored in the size of the non-tracked US business (mostly on-premise) and the size of the international business for each company.

For example, we estimate the MNST Relevancy is 61% (Nielsen covers an estimated 90% of the NAB business in the US, we estimate on-premise for MNST is 10% of the total US, and International is 15%, leading to a relevancy index of 61% = 90% x 100-10% x 100-15%); on the other extreme, the BFb Relevancy is 11% as Nielsen only covers 40% of the spirits business in the US and the company has a relatively large on-premise and international business.

We think this helps investors put the Nielsen data into perspective.

Figure 1: Our relevancy index reveals that the US retail scanner data is most relevant to analyze trends for FIZZ, MNST, DPS, STZ and SAM

Source: Company data, Nielsen, Credit Suisse estimates

Summary by Company

Non-Alcoholic Beverage

- **Monster (Outperform, *Top Pick*):** *Relevancy 61%*: total sales were up 4.3% in the 12-wks (well ahead of the energy category at 1.8%) and accelerated to 6% in the 4-wks. Java sales declined 18% from continued supply issues creating a 2-pt drag on the total company. Overall, we expect Monster's sales trends to continue to improve as Mutant and especially Hydro gain additional distribution. The Hydro launch is off to a strong start with retail sales of $10M in just the last 12 weeks and ACV has already reached nearly 22%.

  Investment thesis and how results support it or not: We expect that 2017 is the year that international sales and innovation outside of the US retail core energy segment will drive reported sales growth reacceleration.

  Management said on the last earnings call that April gross sales (reported, not retail) increased by 10.6% on a constant currency basis, which implies by our math a hefty ~15% comparable growth rate (adjusted for differences in trading days). We estimate Q2 organic sales up 10% despite a strong year-ago comp. Comparisons become easier in the second half of the year and Java is expected to start coming back online by the end of the summer. In addition, Hydro is being rolled out not only in the US but also in the Europe. We expect organic sales growth of 14% in FY17.

- **PepsiCo (Outperform):** *Relevancy 50% for PepsiCo Beverage*: total sales were down -1.4% in the 12-wks (including JVs and snacks) with beverage sales down 3.9%. Within the beverage portfolio, CSD declined 7% with Pepsi down -4.9%, core Mtn Dew -4.5% and, of continued concern, Kickstart declining now around 18%. NCBs (roughly 60% of the retail beverage portfolio, including JVs) continued to decelerate, down 1.8% in the 12-wks. Pure Leaf remains the bright spot growing 19.6% in the 12-wks and Life WTR is off a good start generating $14.4M in the last 12-wks, Gatorade lost share and declined by more than 6%.

  Investment thesis and how results support it or not: Part of what we like at PepsiCo is the fact the company already built a "total beverage company" to respond to new consumer demands and that its growth algorithm is playing in its favor. However, we caveat that NCBs should grow twice as much as CSD declines in order to keep building a positive financial algorithm in our view.

  The data remains weaker than we would like to see, in particular the NCB portfolio is not performing as expected. We think that management's guidance for "at least 3%" organic growth this year is starting to look like a stretch even if the company is spending an additional $100M A&M in 3Q to support its brands. The Nielsen data will be a key indicator of performance for PepsiCo as there is a clear correlation with reported numbers by the company (see next figure).

Figure 2: Strong correlation between Nielsen and PEP NAB reported numbers

Source: Company data, Nielsen xAOC+C, Credit Suisse
Note: PepsiCo Beverage US Retail excludes Frito-Lay and Quaker, includes the Starbucks and Lipton JVs

- **Coca-Cola (Outperform):** *Relevancy 34%***:** total sales were down 0.6% in 12-wks with CSD sales down 0.4% with Diet Coke still struggling. The company's strategy to manage the CSD business with a focus on value appears to be working as volumes declined 2% with promotions stable. The NCB portfolio declined 0.7% with Gold Peak (+4.5%) and Simply (+0.5%) performing well, but Honest, Dasani, Smartwater, Odwalla, and Fuze all declined.

  Investment thesis and how results support it or not: We recently upgraded to Outperform (**see note**) based on 1) Coke is nearing the end of the refranchising which was a disruption and 2) our expectations that new CEO James Quincey will seek to better align the portfolio for growth and that 3) FY17 will be the trough year for EPS.

  Refranchising in the US is now nearly complete and the company already announced that Canada should advance in FY18. As for the portfolio, and before even considering any acquisitions, Coke will benefit from new launches in its global network such as the SmartWater expansion in Europe, AdeS and Monster Hydro launches in Europe, the roll out of its Georgia coffee franchise in SE Asia, and Dunkin Donuts RTD in the US. In addition, in the short term, Coke will enjoy a weaker dollar and emerging markets reacceleration with the exception of Brazil and Turkey.

- **Dr. Pepper Snapple (Outperform):** *Relevancy 60%***:** total sales were up 1% (including Bai, excluding Allied Brands) in the 12-wks with CSD up 0.4%. Dr Pepper brand was up 0.7% and 7Up up 2.6%. Shelf stable juices were up 8.4% (led by Bai) with most of the line-up declining. The Snapple brand gained +3.6%. Bai grew 45% (within management's revised guidance range of 40-50% this year) and the Allied Brand portfolio was up ~21%, led by Body Armor, Core Hydration, High Brew, and Fiji.

  Investment thesis and how results support it or not: We expect the core DPS business can continue to deliver strong free cash flow driven by the Dr Pepper brand while the Allied Brands portfolio and Bai fuel the growth, although to a less degree than originally thought following management's recent revision.

  The resignation of Bai's CEO increases the risk associated with its integration, but we remain cautiously optimistic that Bai will continue to be a DPS growth engine despite early setbacks. It's clear that DPS is taking a more active role in managing Bai, but the key now is for DPS to find the right balance between being involved while not suffocating the entrepreneurial spirit of the Bai team.

- **National Beverage (Underperform):** *Relevancy 72%***:** total sales were up 25.6% in the 12-wks driven by LaCroix +51% (velocity +33%). The 4-wks was a bit softer at 46% with LaCroix retail ACV hovering around 71%. The remainder of the business declined 5% (although this is not likely indicative of the actual reported performance given the high degree of untracked sales for Shasta, Faygo, and Rip It).

  Investment thesis and how results support it or not: We recently downgraded to Underperform (**see note**) based valuation. We continue to think the fundamentals of the business are solid, as evidenced by the continued strong retail sales growth for LaCroix, but we see a higher degree of risk than just six months ago.

Alcoholic Beverage

- **Anheuser-Busch (Outperform):** *Relevancy 16%***:** total sales declined more than 3% with beer sales down -2.1%. Premium brands grew 2%, light brands declined 6.6%, and economy brands were down 1.3%. Bud Light declined 6.5% and lost share of the light segment and dropped $34M in retail sales. Michelob Ultra remains the bright spot, up 24% but not fully compensating for the Bud Light decline.

- **Brown-Forman (Neutral)**: *Relevancy 11%*: total sales increased 4.3% driven by very strong performance of its most premium brands Woodford Reserve and Herradura, both up roughly 20%. Sales of Jack increased by 2.2% with Gentleman Jack at a more premium price point enjoyed a 15.9% uplift in the 12-wks.

  Investment thesis and how results support it or not: We continue to think that management took the right steps to position the business for the long-term by investing in more premium brands such as BenRiach Scotch whisky, Slane Castle Irish whisky, and Coopers Craft American whisky. While the short-term financial impact is dilutive to sales and margins, there is a clear benefit in terms of the longer-term sales and profit algorithm. We downgraded the stock to Neutral, primarily on the basis of valuation.

  Current trends in the US are very encouraging especially as we see more premium brands (also more profitable) growing very healthily. Brown-Forman international sales should also benefit from improved travel retail business, emerging markets resurgence ex Brazil and Turkey and a weaker US dollar.

- **Constellation (Neutral):** *Relevancy 57%***:** beer sales grew 12.9% in the latest 12-wks with a continuous deceleration for Corona +6.1% (from +8.2% in last 52 weeks to +5.5% in the past 4 weeks). Modelo remains strong at +23.9% and as we have been predicting, Ballast Point sales are declining at an alarming rate now, down 8.5% and 9% for the last 12-weeks and 4-weeks, respectively, as ACV remains relatively stable. Constellation spirits were up nearly 2% and the wine business was stable at +3.1%.

  Investment thesis and how results support it or not: We continue to caution that 1) the Mexican beer portfolio growth appears to be inflecting as Corona cans, and eventually Modelo (now around 80% ACV), run out of distribution room; and 2) that Ballast Point will be a drag for most of FY18.

  While sales growth is clearly decelerating, the company recently beat earnings expectations due to strong profit growth. Beer operating margins topped 40% and wine / spirits reached nearly 30%, well above Street (and even internal) expectations. In our view, management certainly deserves credit for taking the necessary steps to improve profitability by terminating the ABI supply agreement, investing in the Obregon facility, and premiumizing the wine/spirits portfolio. However, we expect that these benefits are largely one-time in nature (and some will even reverse).

- **Molson Coors (Neutral):** *Relevancy 45%*: total sales remain down more than 2% with beer sales (93% of total) down 2%. FMB / cider sales remain at +2%. Light brands

were down 2%, with Coors Light and Miller Lite down 3.4% and 2%, respectively in the last 12 weeks, and economy brands declined nearly 3%. Blue Moon remains a bright spot with sales growing around 6% and Belgian White accelerated to around +11%.

Investment thesis and how results support it or not: We see limited, if any, upside to the already communicated synergies and cost cutting targets while we also think that sales growth will remain challenged owing to its over-exposure to underperforming US light and economy beer segments that represent 85% of the company's US portfolio. This poses a risk to both the top line and margins if the cost structure continues to be deleveraged. We calculate that 1% point of volume drop in the US is hurting FCF by roughly $60M per year.

The results support our view that it will be difficult for Molson Coors to reinvigorate the top line to the degree needed to achieve US volume growth by FY19. While the addition of Sol will help, it is too small to make a significant impact any time soon.

- **Boston Beer (Underperform):** *Relevancy 54%***:** total sales continue to decline significantly at Boston Beer with -9.4% in the last 12 weeks. Samuel Adams declined 20.3%. In just 1 year, the primary brand lost almost a third of its market share (from 9.3% a year ago to 6.9% in the last period). Twisted Tea (+16%) and Truly Spike are performing well but not enough to offset the beer and cider (Angry Orchard down 7%) in the last 12-wks.

  Investment thesis and how results support it or not: We continue to think there are still difficult days ahead especially now that the incumbent long-time CEO is retiring. We continue to believe an acquisition by a strategic buyer or a financial sponsor in an LBO is the most logical outcome.

  Trends are not good heading into the summer and we can now forecast sales will continue to be down significantly for the year. 2018 will probably be the last opportunity for Jim Koch to turn his business around. With a new CEO to be found and resources diminishing by the month, the task is becoming more challenging.

This Month's Product Focus

Bai Brands (Owned by Dr. Pepper Snapple)

Figure 3: Bai's product range includes Bai Infusions, Supertea, Cocofusion, Bubbles, Black, and Antiwater

Source: Company website

Bai Brands grew roughly 45% in the last 12-wks led by Bai (including Infusion, Supertea, and Cocofusion) at +47%. Bai Bubbles grew only 4%. Total brand distribution growth has slowed to roughly 9% as ACV has reached 86%.

Management explained in April that since owning Bai, insights have revealed that the brand gets low trail but high repeat. Since then, the DPS team is taking a more active role in managing Bai and is shifting the focus away from the club channel to focus on single serve to drive trial.

Bai's founder and CEO recently resigned from the business, highlighting the risk of executive departures. Two key elements to watch closely going forward will be 1) DPS management's ability to keep the Bai team energized, especially in marketing / innovation, and 2) continuing to the build the brand through a strong marketing agenda. Lain Hancock (previously EVP of Human Resources for DPS) will assume the role of Bai CEO.

We point to a few positives that give us confidence that Bai can regain its footing and continue to drive DPS growth: 1) Bai has loyal consumer base with very high repeat purchase; 2) its unique capability to travel well across beverage segments such as tea, flavored water, sparkling flavored water, and even CSD; and 3) it has promising international prospects and already made its first export shipments to the UK in 1Q.

Figure 4: Bai grew 45% in the last 12-wks, a modest sequentially uptick from only 41% last month

Source: Nielsen xAOC+C, Credit Suisse

Supporting Exhibits

Group Summary

Figure 5: Performance snapshot, period ending 15 July

Current Year Period (% change y/y)	Sales (% y/y)			Units (% y/y)			Unit Price (% y/y)			Sold on Promo (% y/y)		
	4-wk	12-wk	52-wk	4-wk	12-wk	52-wk	4-wk	12-wk	52-wk	4-wk	12-wk	52-wk
National Beverage	23.5%	25.6%	26.8%	9%	12%	12%	13%	12%	13%	(3%)	4%	6%
Constellation Brands	9.2	9.3	11.0	7	8	10	2	1	1	2	1	(0)
Monster Beverage	6.0	4.3	4.7	6	4	5	(0)	0	0	(2)	(3)	1
Brown-Forman	7.6	4.3	4.1	7	4	4	1	0	(0)	2	1	1
Dr Pepper Snapple [1]	2.4	1.0	1.2	1	(1)	(1)	2	2	2	2	1	1
Coca-Cola	(0.6)	(0.6)	0.6	(2)	(2)	(0)	2	2	1	(0)	(0)	(0)
PepsiCo [2]	(1.6)	(1.4)	0.0	(4)	(4)	(2)	3	3	2	(0)	(1)	(0)
Molson Coors US	(1.2)	(2.3)	(1.7)	(2)	(2)	(1)	0	(0)	(1)	0	1	1
Anheuser-Busch	(2.4)	(3.1)	(1.2)	(3)	(3)	(2)	0	0	1	1	2	1
Boston Beer	(7.5)	(9.4)	(8.4)	0	(1)	(1)	(8)	(9)	(7)	(2)	(2)	(3)
Group Median	**0.9%**	**0.2%**	**0.9%**	**0%**	**(1%)**	**(0%)**	**1%**	**1%**	**1%**	**0%**	**1%**	**1%**

Source: Nielsen xAOC+C Credit Suisse
1. Dr Pepper Snapple does not include the Allied Brands
2. PepsiCo includes 100% of Starbucks and Lipton Partnership sales, except for promotions

Figure 6: Group Median 12-week trailing sales trends

Source: Nielsen xAOC+C, Credit Suisse
Note: Includes companies under coverage shown above in Figure 1

Trends by Company

We draw attention to a number of companies where *total sales are growing at a slower pace (or declining faster) than volume*. This is an indication that the company is *reducing price or promoting heavily to drive volume growth*, which is an unsustainable strategy but could also be detrimental to brand health in the long-term. These include Boston Beer and Molson Coors mostly notably, and Monster to a lesser degree.

Figure 7: Anheuser-Busch 12-week trailing sales

Source: Nielsen xAOC+C, Credit Suisse

Figure 8: Boston Beer 12-week trailing sales

Source: Nielsen xAOC+C, Credit Suisse

Figure 9: Brown-Forman 12-week trailing sales

Source: Nielsen xAOC+C, Credit Suisse

Figure 10: Coca-Cola 12-week trailing sales

Source: Nielsen xAOC+C, Credit Suisse

Figure 11: Constellation 12-week trailing sales

Source: Nielsen xAOC+C, Credit Suisse

Figure 12: Dr Pepper Snapple 12-week trailing sales

Source: Nielsen xAOC+C, Credit Suisse
Note: Does not include Allied Brands

Figure 13: Molson Coors 12-week trailing sales

Source: Nielsen xAOC+C, Credit Suisse

Figure 14: Monster 12-week trailing sales

Source: Nielsen xAOC+C, Credit Suisse

Figure 15: National Beverage 12-week trailing sales

Source: Nielsen xAOC+C, Credit Suisse

Figure 16: PepsiCo 12-week trailing sales

Source: Nielsen xAOC+C, Credit Suisse
1. PepsiCo includes 100% of Starbucks and Lipton Partnership sales

Figure 17: PepsiCo's rolling retail sales trends are clearly divergent from its primary NAB competitors

Source: Nielsen xAOC+C, Credit Suisse
Note: PepsiCo Bev excludes Frito-Lay and Quaker, includes the Starbucks and Lipton JVs; Coca-Cola includes Fairlife

Companies Mentioned *(Price as of 26-Jun-2017)*
Amazon com Inc. (AMZN.OQ, $993.98)
Anheuser-Busch InBev (ABI.BR, €102.05)
Boston Beer Co. Inc. (SAM.N, $129.95)
Brown Forman Corporation (BFb.N, $48.9)
Constellation Brands Inc. (STZ.N, $182.47)
Dr Pepper Snapple Group (DPS.N, $92.92)
Molson Coors Brewing Co (TAP.N, $86.35)
Monster Beverage Corp (MNST.OQ, $51.52)
National Beverage Corp. (FIZZ.OQ, $92.36)
PepsiCo, Inc. (PEP.N, $117.12)
The Coca-Cola Company (KO.N, $45.43)
Wal-Mart Stores, Inc. (WMT.N, $75.5)

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