

The Beverage Industry is made up of companies that sell and market nonalcoholic and alcoholic products. This group is facing a variety of challenges, including new ones such as the unprecedented coronavirus. Strategic actions are important for these businesses to maintain and grow market share during the challenging times. Emerging regions remain a key long-term growth driver in this mature market. The recent uncertainty has led to a lull in deal activity, but we expect industry consolidation to pick up soon.

COVID-19 Impact

These companies continue to face their share of headwinds. The coronavirus pandemic is at the top of the list for an industry challenge. The virus has impacted business all over the world. In the beverage market, consumption has changed as a result of social-distancing and stay-at-home mandates. Retail sales for nonalcoholic companies have been pressured, while on-premise sales have fallen considerably for alcoholic drink makers. Indeed, consumers have increasingly been enjoying their drinks at home, though this trend may reverse with the relaxing of restrictions and eventual progress with a solution to COVID-19. Elsewhere, supply chain disruptions and higher input costs are other challenges worth noting. All told, the disruptions related to the pandemic have impacted these businesses to varying degrees. Some have performed well, while others have had to adjust their businesses to these difficult times.

Operational Challenges

Outside of COVID-19, many of the players are facing ongoing challenges. A shift away from sugary beverages as a result of a more health-conscious consumer has led some nonalcoholic beverage companies to shift their business mix. Elsewhere, growth in developed markets has been tough for some larger players in recent years. On point, some big brewers have faced declining interest in lagers, most notably light lagers, and have worked to offset these losses with investment in craft breweries and alternative alcoholic drink products. In short, changing consumer preferences will continue to be worth tracking for the foreseeable future.

Business Strategies

Beverage companies have worked hard to adapt to the aforementioned challenges. While expense reduction has been a core strategy for some time, it has increased in importance as companies have looked to preserve capital amid COVID-19. On point, many of these companies have tapped into available financing to shore up their balance sheets and sometimes have suspended stock-repurchase and dividend programs for the same reason. Product line extensions, like at *Coca-Cola European Partners*, remain prevalent. Many companies have been adjusting their business mix to adapt to changing consumer spending and tastes.

Growth Markets

These companies are constantly looking to tap new growth markets. As mentioned, brewers are investing in nontraditional beer innovation, such as hard seltzer and other flavored offerings. Hard seltzer is particularly

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noteworthy with many companies entering this exploding market. For example, *Constellation* found success extending its Corona brand into the category, while *Molson Coors* is trying to grab market share with its Vizzy label. The rising importance of having a strong e-commerce presence has been highlighted by the COVID-19 pandemic. Health and wellness is a key opportunity for nonalcoholic companies to invest in as more consumers avoid offerings with unhealthy ingredients. Lastly, investments in emerging regions remain a long-standing strategy. These markets ought to benefit from favorable demographic trends, so many larger players are investing in developing regions, given the enticing long-term growth potential.

Deal Activity

Mergers and acquisitions remain an industry fixture. A few deals have been completed in recent months. Additionally, a couple of others are nearing approval that were agreed upon prior to the outbreak of COVID-19. Otherwise, deal activity has been pretty quiet over the past few months. The uncertainty regarding the extent of the pandemic and its economic impact has led many companies to pause certain strategic efforts. Many have preserved capital in order to weather the challenging market conditions. However, we expect deal activity to perk back up once there is greater clarity about the coronavirus and its impact on these businesses. The recessionary environment may provide some interesting buying opportunities for the well-capitalized names in this group.

Conclusion

The Beverage Industry sits near the top of the pack for Timeliness. Consequently, subscribers may find some stocks of interest for the near term. Momentum plays are not the only options available. Many of these equities feature defensive characteristics. Indeed, numerous companies have strong finances, steady cash flow, and have maintained their stockholder-friendly actions amid the market uncertainty. What's more, a few of these names offer attractive capital appreciation potential over the 2023-2025 time frame.

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