

Dryish

THE OPPORTUNITY BEYOND DRY JANUARY & THE EVOLUTION OF THE NON-ALC DRINKER



In the US and UK, the Non-Alcoholic (Non-Alc) sector continues to evolve, and so too do perceptions and consumer behaviours around these products.

While growing at a rapid pace, the Non-Alc market is still ripe with opportunity; only 25% of consumers were aware of even the largest Non-Alc brands in a recent DV survey¹. Clear segmentations and occasions have begun forming within the space, from functional drinks to aperitifs, to botanical spirits and direct spirit replacements.

And with this broad acceptance comes an exciting and unexpected result: **Dry January and Sober October are no longer the most popular times of year for these products.** Though still an important awareness driver for retail and an educational moment for brands, today opportunities within Non-Alc exist throughout the entire year.

¹DV Non-Alc Tracker US Q3 2022

A CLOSER LOOK

Today, Non-Alc is part of many consumers' everyday repertoire, shifting them towards more regular purchase and consumption throughout the year.

- Non-Alc spirits consumption remained steady throughout 2021 and 2022; For Ritual Zero Proof, a leading U.S. Non-Alc spirit and a member of the DV portfolio, product sales rose from January 2022 - February 2022, and continued to grow throughout the year.

DV Non-Alc Tracker US Q3

- In the U.S., Non-Alc wine, beer and spirits sales peaked during 4th of July and year-end holidays; Dry January and October did not reflect major spikes at retail.

NielsenIQ Scan Off Premise Channels; latest 52 weeks ending



88.4%

Last year alone, U.S. Non-Alc spirits grew by 88.4%, outpacing Non-Alc Wine (+23.2%) and Non-Alc Beer (+19.5%)

IWSR 2022 UK Non-Alc strategic study

15.5%

In the UK, Non-Alc Spirits has a forecasted CAGR (Compound Annual Growth Rate) of 15.5% growth between 2021-25.

NielsenIQ Scan Off Premise Channels; latest 52 weeks ending 8/20/2022

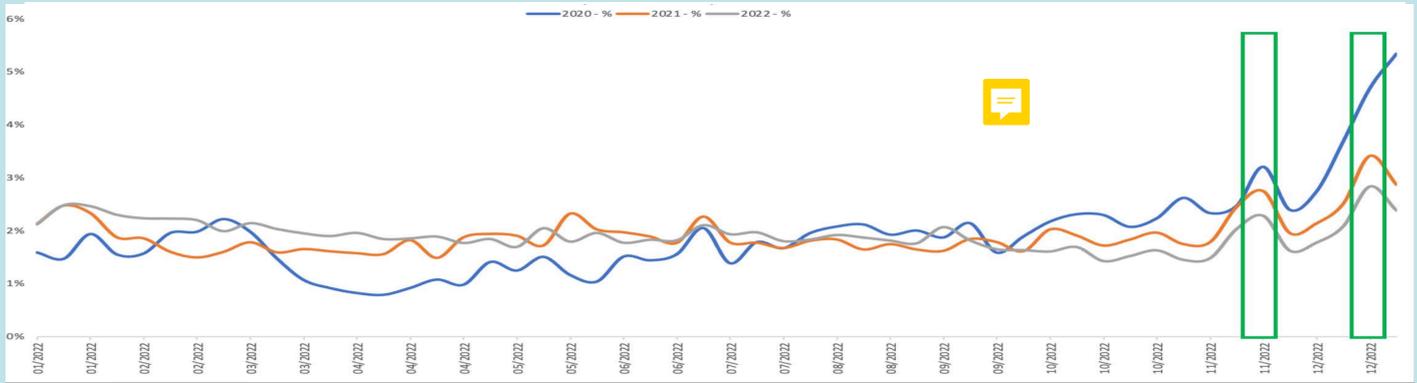
\$395M

Non-Alc beer, wine and spirits saw \$395 million in U.S. off-premise sales over the last year, up \$67.4 million/+20.6%

NielsenIQ Scan Off Premise Channels; latest 52 weeks ending 8/20/2022

WHEN ARE PEOPLE REACHING FOR NON-ALC?

In addition to year on year sales growth, US off premise sales data from the previous 36 months shows that consumer demand for Non-Alc is consistent throughout the year. In 2020, November to January represented a significant percentage of annual sales but by 2022, spikes have become much less pronounced and purchasing more regular. **Our conclusion is that while Dry January is still an important tool for education and trial, the sector isn't affected by seasonality, with steady monthly sales year after year.**



THE EXPERTS WEIGH IN

In leading bars and restaurants, Non-Alc drinks are usually available year-round. While many of these drinks destinations once created dedicated Dry January menus, the majority have been replaced with year-round offerings. Similarly, at retail, Non-Alc is evolving into a year-round shopping season. Non-Alc product sets and displays are appearing regularly in liquor chains (Total Wine, The Whisky Exchange and ABC Florida), grocery stores (Sainsburys, Waitrose and Tesco), and also in drug/wellness chains like CVS, which recently unveiled a standalone Non-Alc product display that will be rolled out to stores across the US.



Miranda Breedlove
US-based National Director of Bars for the Hyatt Lifestyle Hotels and Resorts

“Non-Alc is not slowing down, and it’s really important. Dry January is a chance to see what’s new - there’s so much out there, and there seems to be more access to products during this season. And though people may see it for the first time in January, they want to keep interacting with these products as the year continues.”



Monica Suh
Co-Owner of Toyer + Elementary, a London-based bar currently rated No. 2 best bar in the world by Worlds 50 Best Bars

“Regardless of ‘trending’ seasons like Dry January and Sober October, we see very little difference in demand for Non-Alc drinks throughout the year. Our guests most often order these Non-Alc drinks while switching between alcohol during the same evening, or because they abstain from alcohol altogether.”



Vaughan Yates
Founder of The Virgin Mary Bar & Online Store based in Dublin and Abu Dhabi

“While I don’t think Dry January is dead — it’s actually alive and is an opportunity, we are seeing a shift. People are no longer just signing up for Dry January - they’re making Non-Alc a part of their lifestyle.”

Why?

LET'S EXPLORE THE TWO KEY SHIFTS DRIVING THIS TREND:

1 THE PRODUCTION EXPLOSION



IN ADDITION TO BROADER ACCEPTANCE, WE'VE REACHED A NEW CHAPTER FOR NON-ALC SPIRITS. TODAY, THERE ARE MORE INNOVATIVE BRANDS AND QUALITY LIQUIDS, AND AS A RESULT, MORE CONSUMPTION OCCASIONS.

THERE ARE ROUGHLY

250

NON-ALC SPIRITS
GLOBALLY,
ACCORDING TO IWSR.

*IWSR No-and-Low Alcohol
Strategic Study 2022 UK*



— QUALITY

We're seeing more quality liquids than ever before enter the market. Five years ago, many of the early Non-Alc products couldn't compete with their spirited counterparts on flavor, but today they deliver quality, flavorful experiences. In the U.S., Consumers have net positive associations with No-and-Low brands, believing they deliver on reliability, value for money, and great taste¹.

— AVAILABILITY

While there is still much room for improvement, we're seeing even more products on shelves in new and different sales channels. From mainstream chains like CVS, to dedicated Non-Alc retailers like Boisson, to hotel groups like Hyatt, to specialty stores, these products are more accessible than ever.

— ONE FOR EVERY OCCASION

As highlighted in our previous report, sub-segmentations among Non-Alc spirits have appeared – there are now distinct product types, from RTDs to spirit replacements to functional drinks – providing offerings for distinct moods and occasions.

¹IWSR No and Low Alcohol Strategic Study 2022 USA

2 THE CONSUMER EVOLUTION



A SAVVIER SHOPPER WITH A MODERATION MINDSET.

Mixing Non-Alc and alcoholic drinks, even in the very same occasion, is widely part of the 2022 global consumer DNA. Despite media reports of ‘sober curious’ and all-or-nothing mindsets, the numbers speak otherwise and reinforces a larger trend: that the notion of balance and choice is increasingly part of the everyday.



30%

30% of US adults are Non-Alc buyers.

IWSR No-and-Low Alcohol Strategic Study 2022 USA

82%

82% of Low-and-No buyers also regularly consume alcohol. In fact, they're typically (83%) alternating between Non-Alc, Low-Alc and alcohol drinks on the same occasion.

IWSR Global No-and-Low Alcohol Strategic Study 2022

19%

19% of 25-34-year-olds (versus 6% of 45-year-olds) in the UK have consumed No-and-Low-Alc spirits in the past 4 months.

DV UK Quarterly Non-Alc Tracker Q3 2022

22%

Today, 22% of U.S. 25-44 year-olds are spending more on Non-Alc spirits. Those who are spending less tend to buy the same products, just less often.

DV Non-Alc Tracker US Q3 2022

THE DISTILL VENTURES PERSPECTIVE

The 2022 consumer isn't just a 'seasonal' enthusiast of Non Alc; rather, balance is a key consideration year-round. The brands best poised for success are those uniquely positioned to offer consumers complex flavor experiences and that are clear on when, where and how to enjoy their products both with and without alcohol.

Consumers, particularly younger LDA consumers, are broadly accepting of Non-Alc, which has led to steady sales throughout the year rather than jumps during Dry January and Sober October. That said, the sector is still small; even the largest brands within the space only have a 25% awareness¹.

Although many people are aware of Non-Alc, there is still a knowledge gap within the retail world and wholesale tier. New and growing brands need to follow the consumer need, and focus on awareness and education. Successful retailers and wholesalers should showcase a broad variety of Low-and-No offerings. While Dry January and Sober October can be a distinct time to focus on awareness and education, key retail periods like the Festive Period and Spring/Summer should not be overlooked. Retailers offering display opportunities, promoting tastings and driving other trial and awareness activities such as co-branded promotions have an even greater opportunity to build a more robust shopping basket for their consumer.



As only 19% of bars & restaurants surveyed stocked a Non-Alc spirit², bartenders too need better access to these offerings through the wholesale and retail tiers. With improved access to Non-Alc, this gatekeeping audience can better echo the consumer and better show them when and how to serve and enjoy.

Despite economic uncertainty, consumers are still looking to indulge, and they rank 'premium' as their most important criteria when choosing a Non-Alc spirit in the U.S.³

Through Dry January and beyond, there is ample opportunity for brands, retailers, and bars and restaurants in this promising and dynamic drinks sector.

Distill Ventures

¹DV Non-Alc Tracker US Q3 2022

²DV Non-Alc Retail Tracker, 52 of 261

³DV Non-Alc Tracker US Q3 2022 Page 24

About Distill Ventures

Distill Ventures was born out of a realisation that there were many visionary drinks entrepreneurs with barriers holding them back and little access to resources to help them build global brands. We brought together a passion for drinks and a range of experts to fill the void. We approached Diageo as a partner and in 2013, the world's first accelerator for the spirits industry was born.

Portfolio brands take advantage of our deep understanding of how the best drinks brands are built as well as our network of experts, giving companies of all sizes the support needed to succeed. Our team leverages our expertise to drive businesses forward, whether it's establishing an online e-commerce platform, brand & community building via social media, liquid development and supply chain management support, or helping to navigate the complexities of the three-tier system in the US.



Through our Pre-Accelerator program, Distill Ventures has created a more accessible runway to unlock seed funding, a key barrier reported by entrepreneurs from historically underrepresented communities. The Pre-Accelerator offers an initial investment of £350,000/ \$500,000 and six to twelve months of bespoke acceleration support to prospective founders. Afterwards, the company can seek further investment from Distill Ventures and Diageo, or from other capital sources or strategic partners without restriction.

Distill Ventures is committed to developing innovation in non-alcoholic drinks. We're proud to work hand-in-hand with the best entrepreneurs and their cutting edge brands, but we collectively continue to learn and evolve.



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REFERENCES

DV NON-ALC TRACKER

2022

Distill Venture's quarterly study that keeps the finger on the pulse of consumer attitudes and behaviours of non-alcoholic spirit drinkers in the US.

Survey conducted by Dynata with a representative sample of 2,000 US consumers of legal drinking age. Interviews were conducted online from April to June 2021.

NO-AND LOW: MORE THAN A TREND

2022

No- and Low-Alcohol Strategic Study
Conducted by the IWSR

Methodology comprises of IWSR industry research, consumer research undertaken by Wine intelligence, a division of the IWSR Group, stakeholder interviews, and publicly available sources. All data is sourced from the results of custom online survey conducted during Q4 of 2021 in the countries referent to the report. The total responses received represent n=9,970 consumers of legal drinking age, of which no/low-alcohol buyers was represented by n=4,714.

UNITED STATES: NO-AND LOW-ALCOHOL STRATEGIC STUDY

2022

Conducted by the IWSR

This report presents data of the No/Low universe in the US in 2022. Categories included are: Beer/Cider, Wine, Spirits, RTDs, Alcohol Adjacent. Methodology comprises of IWSR industry research, consumer research undertaken by Wine intelligence, a division of the IWSR Group, stakeholder interviews, and publicly available sources. All data is sourced from the results of custom online survey conducted during Q4 of 2021 in the United States. The total responses received represents n=2,560 consumers of the legal drinking age, of which no/low-alcohol buyers was represented by n=842.

THE RISE OF NON ALC

2022

Conducted by Nielsen IQ Beverage
Alcohol Vertical

This report presents sales and trend data on the growth of Non Alcoholic Beer, Wine and Spirits across the US in 2022.

UNITED KINGDOM: NO-AND LOW-ALCOHOL STRATEGIC STUDY

2022

Conducted by the IWSR

This report presents data of the No/Low universe in the UK in 2022. Categories included are: Beer/Cider, Wine, Spirits, RTDs, Alcohol Adjacent. Methodology comprises of IWSR industry research, consumer research undertaken by Wine intelligence, a division of the IWSR Group, stakeholder interviews, and publicly available sources. All data is sourced from the results of custom online survey conducted during Q4 of 2021 in the United Kingdom. The total responses received represents n=998 consumers of the legal drinking age, of which no/low-alcohol buyers was represented by n=430.