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A. NON-ALCOHOLIC BEVERAGES

Trends in the non-alcoholic beverage industry in 2017 in Mexico (Source: EcoFocus):

- **Millennials and their impact:** this sector is leading the growth in foods and beverages with fewer additives. They are demanding less use of artificial ingredients and preservatives, and more flavour and nutrients.
- **Added value: Fresh + Clean = Healthy:** clean ingredients have gone from being a trend to being the norm. The creation of fresher and more environmentally friendly products is the new go-to and has become a priority for consumers.
- **Functional drinks:** Consumers are increasingly looking for drinks that match their diets and health routines. BevNet reports that the carbonated beverages category has declined in the last five years, while the demand for natural and organic drinks has risen as consumers look for healthier options.

New consumer demands (drinks that provide energy, strengthen the immune system, help control sleeping patterns, manage blood sugar and the series of benefits associated with multifunctional energy drinks).

1. THE SOFT DRINKS INDUSTRY IN MEXICO

According to figures from the National Association of Producers of Soft Drinks and Carbonated Water (ANPRAC) and auditor KPMG Mexico, **18.824 billion litres** of soft drinks were consumed in Mexico in 2016, approximately 1.5 litres per person on average.

Sales volume. The industry closed 2016 with a sales volume of around 18.824 billion litres of soft drinks, an increase of 3.8 per cent compared to the previous year.

The non-alcoholic beverage industry in Mexico is very competitive. It comprises various market segments which include carbonated beverages such as sodas and non-carbonated drinks such as juices, bottled waters, teas, flavoured waters and isotonic drinks.



The carbonated beverage category, commonly known as 'sodas', is one of the most ambivalent in the global beverage market. Blamed to a large extent for the country's obesity and diabetes problems, its growth has been continuous for many years and expert analysts are still pointing to **continued growth of 7 per cent from 2015 to 2019** as the market adapts to local preferences, creating new flavours and formats that address consumer needs and the health and fashion trends prevalent in each region.

Despite the increased prices of flavoured drinks in Mexico, consumer patterns have remained steady and the industry continued to grow in 2015 and 2016.

In the last 16 years, the soft drinks industry has experienced compound annual growth of 1.2 per cent, which reflects a sustained positive performance between 2000 and 2016.

In 2015, the **soft drinks industry** posted the highest sales figures in the non-alcoholic beverage sector, with an average of 67.5 per cent of the total volume (of which 20 per cent corresponded to flavoured soft drinks); while purified bottled still water accounted for 27.7 per cent, energy and/or sports drinks 1.4 per cent, and juices 3.4 per cent.

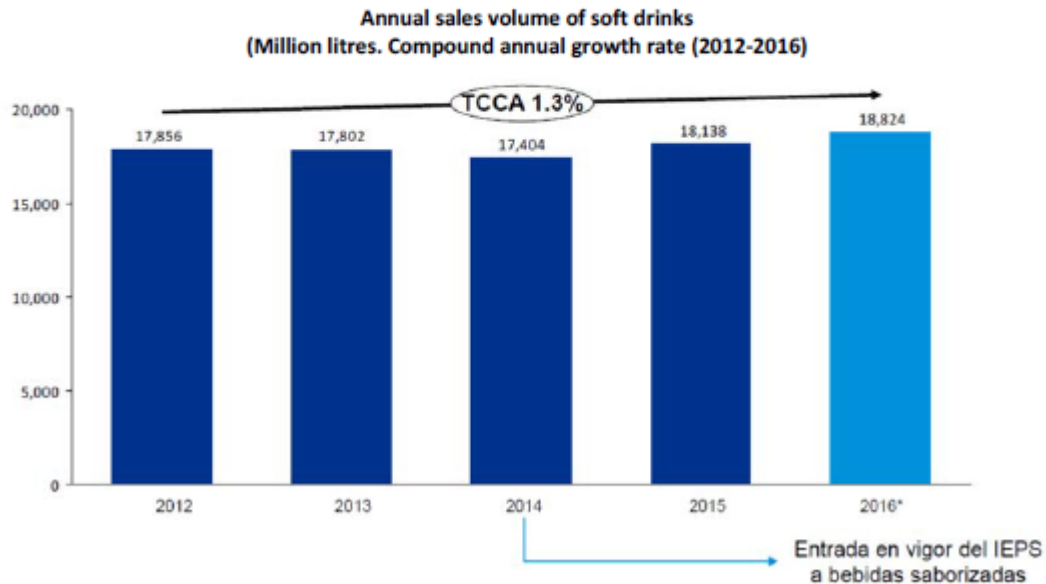
Consequently, the value of the **soft drinks and other non-alcoholic beverage industry** amounted to just over 161.61 billion pesos that year, indicating a nominal increase of 3.3 per cent compared to sales in 2014.

The annual compound growth rate from 2014 to 2016 of this indicator was 4 per cent, which is higher than the level observed between 2000 and that date (1.2 per cent).

Sales volume.

2016 was a positive year for the industry's sales

The sales volume of soft drinks grew at a sustained rate of 1.3 per cent each year from 2012 to 2016, despite the application of a tax on flavoured beverages in 2014.



Nota: Los datos de 2016 fueron proyectados asumiendo que el incremento reportado hasta el Q3 2016 se mantiene.

The energy drinks market in Mexico has been one of the most dynamic in recent years; in 2016 sales of these drinks maintained their upward curve.

This is primarily driven by young consumers, who demand these products to maintain the concentration and energy they need to engage in their numerous daily activities, characterised by long working hours, study hours, commuting time, etc.



According to figures from Euromonitor, 'off-trade' sales (bottle sales) of energy drinks in 2016 reached **135 million litres, equivalent to 9.1 billion pesos (MXN), around 487 million US dollars**, and it is expected that by **2020 this figure will reach 188 million litres**.

According to figures from the Mexican Secretariat of Economy, in 2016 imports of energy drinks came to 109.2 million dollars, equivalent to 100.4 million litres. Some 86 per cent of these imports came from the USA, which is the main supplier of this type of product.

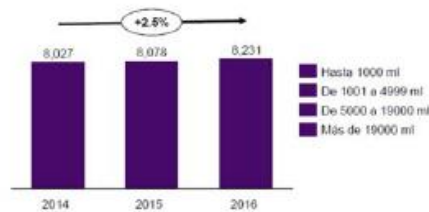
B. NON-CARBONATED DRINKS

It is worth noting that since 2014, when the tax on carbonated and sugary drinks came into effect, the manufacturers of these products have sought alternatives in order to depend less on their carbonated drinks sales, as consumers are now realising the negative effects on health of daily consumption of soft drinks with a high sugar content.

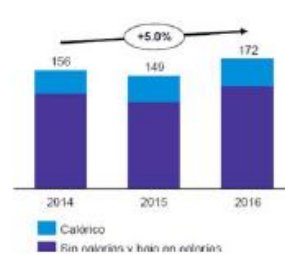
This situation has generated greater diversification and innovation in the sector, and consequently the growth of other categories such as bottled water, diet drinks, isotonic drinks (rehydrating) and energy drinks.

The industry has diversified towards non-carbonated beverages

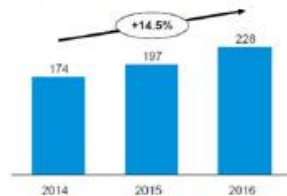
Volume of bottled water sales



Volume of flavoured water sales



Volume of energy and sports drink sales



BOTTLED WATER. Mexico, the leading consumer of bottled water

The bottled water market is one of the most important in the beverage sector and its boom in terms of formats and flavours appears to be unstoppable. Almost all Mexican households, **98 per cent, buy bottled water**, according to a market research survey by Kantar World Panel. Their figures indicate that every household buys an average of **1,530 litres of water per year**.

At present, the average household uses four litres of bottled water per day.

Yet these figures only refer to the consumption of bottled water in the home, as on an individual basis a study by the Center for Research and Teaching in Economics (CIDE) for the central region estimates that every Mexican drinks



between **215 and 234 litres of water per year**, which computes to around one one-litre bottle every two days; and in the hottest regions of the country consumption is higher.

Whatever the case, the figures show that the bottled water market in Mexico is growing strongly, as between 2009 and 2014 sales of this product went from 5 to 7.7 billion US dollars, representing **growth of 55.5 per cent** over that period, with **forecast growth of 15 per cent through to 2019** to reach USD 9 billion, according to Euromonitor International.

According to Euromonitor, the consumption of bottled water in Mexico will continue to increase, estimating that it could reach 355 million litres by 2019. More and more processors are launching new products on the market in the form of specific varieties or enriched waters. The image of water as the healthiest product will also reach a milestone that year.

NATURAL AND FUNCTIONAL BEVERAGES

Consumers are increasingly interested in drinks that reflect their diets and health routines. The category of natural and organic drinks has grown in the last five years as consumers search for healthier options.

A study by BevNet notes that industry leaders should be ready for new consumer demands (drinks that provide energy, strengthen the immune system, help control sleep patterns, manage blood sugar and a series of other benefits associated with multipurpose energy drinks).

- 63% of consumers are looking for drinks containing calcium.
- 61% are looking for drinks with added fibre.
- 61% want their drinks to contain less sugar.
- 60% are attracted by drinks containing antioxidants.
- 57% are looking for drinks containing protein.
- 55% buy drinks that contain a source of Omega 3 fatty acids.
- 46% of consumers want drinks that contain probiotics.

JUICES, NECTARS AND NON-CARBONATED FRUIT DRINKS

The market for **juices, nectars and non-carbonated fruit drinks** recorded growth of **9 per cent** to June 2016, boosted by the rise in the juice and nectar segment, with more than 11 per cent by volume, and 14 per cent in value, as revealed by the **Tetra Pak 100% Juice Index Report**.

The 100% juice segment continues to play an important role in the average diet and today **more than 40%** of people drink them daily. Consumers are also willing to pay more for premium juices which they associate with healthy options.



In Mexico, juices and nectars account for 26 per cent of the juices, nectars and non-carbonated fruit drinks market, yet represent 40 per cent of the total value of this category, which has a volume of more than **2 billion litres** and a value of over **30 billion pesos**.

These results indicate great growth potential for the 100% juice segment, which represents products that meet consumer needs by focusing on health, and drinks outside the home, both strong trends amongst Millennials, which is currently the most influential generation.

In Mexico, **70 per cent of the population** say they buy drinks outside the home, making it the world's leading market in terms of percentage of consumers. In view of this trend, the industry has launched innovations in three key areas: Vegetable Nutrition, All Natural and Speciality 100% Juice.

CONSUMPTION OF TEA IN MEXICO WILL GROW BY 20 PER CENT IN 2017

In Mexico a tea-drinking culture is only just starting to take hold as the tradition is to drink herbal infusions rather than tea, but this consumer niche is steadily increasing beyond simply medicinal reasons.

The tea market reached a value of USD 62 billion in 2016; however, it is forecast that tea consumption in Mexico will grow by 15 to 20 per cent in 2017 and in the next five years it will increase by 10 per cent to reach USD 68 billion.

The preference of the domestic market is mainly for green tea, black tea and tisanes.

CONSUMPTION OF COFFEE IN MEXICO IS GROWING THANKS TO THE CAFÉ CULTURE

The growth in this industry is due to the emergence of more independent cafés and growth of between 1.6 and 1.8 per cent in the consumption of coffee by the end of 2015.

Around 22 per cent of the coffee drunk in Mexico is sold through cafés.

The growth in this industry will continue, as consumption is still low. At present 67 per cent of Mexicans drink coffee and 48.9 per cent customarily go to cafés to drink it.



The survey by Profeco notes that 53 per cent of Mexicans drink coffee daily while just one per cent never drink it. According to FIRA, of all consumers in Mexico, 64.9 per cent drink instant coffee and 35.5 per cent prefer roasted and ground coffee.

Mexican consumers now drink 1.7 kilos of coffee compared to the 500 grams they drank a decade ago.

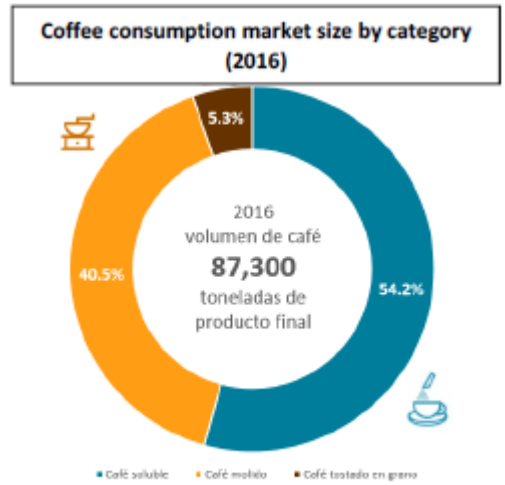
Coffee consumption is rising gradually; in 2014 it was drunk by 66.2 per cent of Mexicans and in 2016 it was drunk by 67 per cent. Consumption by 20 to 45-year-olds is increasing.

Coffee consumption could grow by as much as 20 per cent this year, according to Federico Hernández Urtiz, general manager of La Flor de Córdoba, a Guadalajara-based brand.

Volume of coffee by category in Mexico in 2016 and forecast (in tonnes)

Fuente: Euromonitor Internacional

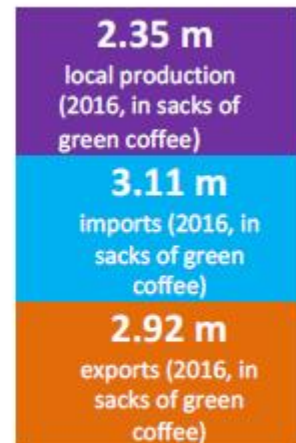
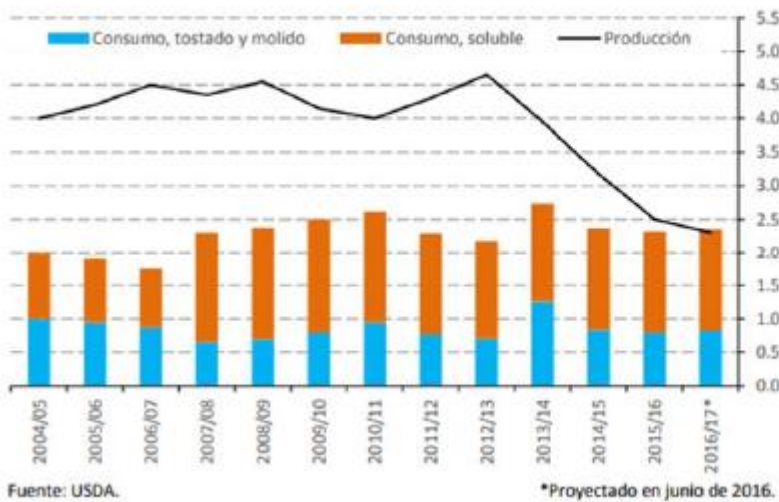
Categoría de café	Toneladas en 2016	%	% TCAC 2016-2021
 Café soluble	47,344	54.2%	2.1%
 Café molido	35,339	40.5%	2.9%
 Café tostado en grano	4,616	5.3%	2.5%
Café total	87,300	100%	2.4%



Fuente: Euromonitor Internacional

At present, Mexicans drink around 1.4 kilos of coffee per capita and the consumer base is growing by 1.5 to 2 million people each year. In contrast, national production to supply the market will drop by 8 per cent between 2016 and 2017, according to a 2016 report by Trust Funds for Rural Development (FIRA).

Production and consumption of coffee in Mexico, 2004/05-2016/17 (in million sacks of 60 kg, equivalent in green coffee)

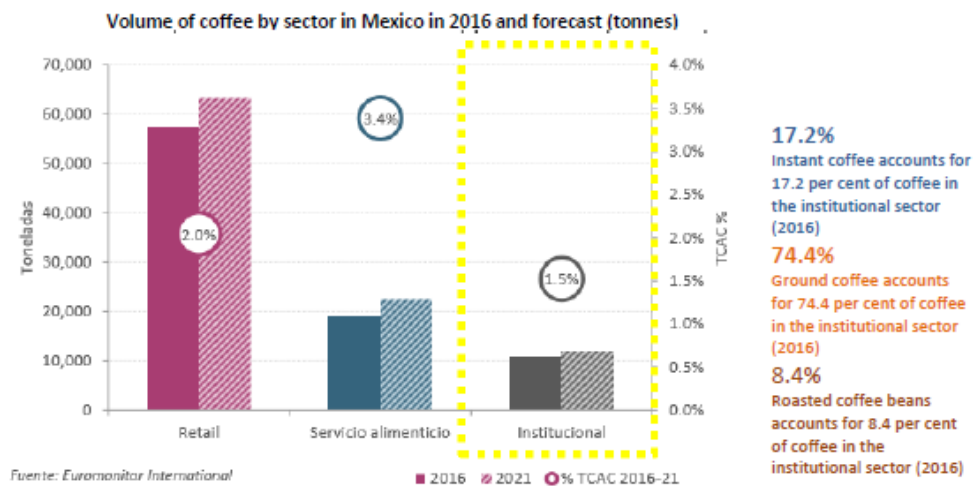


Production can be seen to be falling because farms have failed to adopt technology to deal with pests.

‘There is a **deficit of almost 5.5 million sacks**, consumption is increasing and the gap is covered by bringing in international stock of seven to eight million sacks a year,’ says Félix Martínez, president of the National Association of the Coffee Industry (ANICAFE).

The upward trend is due to the increased consumption by Millennials, and the forecast is that they will start drinking more black coffee, such as Americanos and espressos, instead of cappuccinos and lattes, due to the perceived status of this type of coffee, a trend that comes from the USA.

The volume of coffee sold to the institutional sector remains stable, which is affected by the opening of cafés on the premises.



2. ALCOHOLIC BEVERAGES

BEERS

The beer market in Mexico continues to be one of the most buoyant in the Americas. Growth is constant. Beer is the **most popular alcoholic beverage** and accounts for almost **55 per cent of all alcohol consumed**.

According to consultancy firm Kantar Worldpanel, the city with the highest beer consumption per capita is Monterrey, and the Mexicans who typically drink the most beer are middle class families with more than five members with adult or teenage children.



Since 2006, the beer sector has witnessed annual growth of **3.5 per cent**.

With its 122 million inhabitants, Mexico currently consumes **60 litres** of beer **per capita**.

Increased thirst for foreign beer in Mexico: In the last eight years, Mexican palates have developed a taste for **foreign beers**, with the result that imports have grown by 80 per cent, going from 142.3 million litres in 2007 to 256.7 million litres in 2015, according to figures from the **Secretariat of Economy**. This means that the share of these imported drinks in **national consumption grew from 0.2 per cent to almost 3 per cent between 2007 and 2015**.

This market penetration contrasts with that of **Mexican craft beer**, whose national market share is still nascent and currently accounts for just 0.12 per cent, despite registering annual growth of 30 per cent, according to figures from the Brewers' Association of the Republic of Mexico (ACERMEX).

At present, imported and craft beers are starting to be considered as an **alternative to mass-produced beers**. Of the **256 million litres of beer imported in 2015**, 94 per cent came from the United States and the rest from Belgium, Germany, Guatemala, England, Ireland, Spain and the Czech Republic.

The thirst for **foreign beers** is not just reflected in the **increase in the volume of imports but also in the increase in the number of labels from importers**, which have multiplied tenfold over the last few years (and currently exceed 20).

Most of the beer drunk in Mexico is lager; but **consumers are now looking for beers from other countries with a fuller body and flavour and an alcohol content of over 10 per cent, especially those from Europe**.

WINE



Wine consumption per capita, at less than one litre per person, is still very low in Mexico, giving the market a lot of scope for growth in the coming years.

Mexico is in thirty-fifth place in the ranking of the main wine drinking countries, with 0.9 million hl in 2016.

A total of 89.5 million litres of wine were drunk in Mexico in 2016. However, 63 million of those litres were foreign wines,

as local production is not enough to satisfy demand.

Imported wines represent almost 80 per cent of all wine consumption, originating mainly from:

Spain: 30%	Italy: 30%	Chile: 24%	Argentina: 10%	USA: 7.8%
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Wine imports accounted for 68.1 million litres and 220 million US dollars. They have quadrupled since 2000.

Some 88.6 per cent of Mexicans who drink wine choose red wine. White wine is the preferred choice of 4.1 per cent, including sparkling wine, which is chosen by 5.4 per cent.

According to ANAM, sales of table wines grew by 12.5 per cent in the last year (March 2016-2017).

Sparkling wine sales grew by 11 per cent in volume in 2016.

The profile of the typical Mexican wine drinker has changed. It is no longer that of a middle-aged man with a medium to high socio-economic profile, but rather a younger and more dynamic segment of the population, a segment that many wine producers are starting to target with their labelling. In addition, consumption by women is growing thanks to their increasing prevalence in the labour market.



In Mexico there is a large number of brands (more than 4,000 different labels, of which over 2,000 are Spanish) given the country's modest consumption levels: it is estimated that only two-and-a-half million people drink wine, of whom half account for 80 per cent of sales.

Spain is Mexico's main wine supplier in terms of both value and volume. In terms of value, in 2015 Spain exported wine to the tune of 66.5 million US dollars, representing a market share of 29.6 per cent of all Mexican imports.

Spanish wine enjoys considerable prestige, especially those from the Designations of Origin of Rioja and Ribera del Duero, the regions consumers are most familiar with. However, in the last few years there has been a growing interest from importers in working with wines from other Spanish regions, which helps when introducing new wines to the Mexican market.

SPIRITS: WHISKY, BRANDY, LIQUEURS AND PREMIUM DRINKS

Whisky, one of the drinks with the most robust growth and concentrated advertising. According to figures from ANAM (National Association of Wholesale Grocers) on the sale of other alcoholic beverages, whisky sales grew by 20.8 per cent in the last year (March 2016-2017).

'**Premium products posted a very dynamic performance** in 2016, contributing to strong growth in the value of the alcoholic beverage industry. Part of this growth was driven by the wider availability of premium brands and products, but also by greater knowledge and interest from consumers, who are looking for better quality and new experiences,' said consultancy firm Euromonitor in a recent report.



Consumers are increasingly **willing to spend more on quality and the premium segment** has benefited from the new offers on the market.

The trade regulations adopted by the countries in the Pacific Alliance, opening up borders and eliminating customs tariffs, means that **Scotch whisky is opening up an even bigger niche in Latin American markets.**

The volume of sales of **spirits—such as brandy, whisky, tequila, rum, gin, vodka and liqueurs—rose by 57 per cent.**

Some of the premium products with **the highest growth figures in 2016 were English gin and Scotch malt whisky**, which rose by 41 and 18 per cent respectively in terms of volume sold.