The Beverage Industry is ranked in the top quartile of the Value Line industry grouping for Timeliness. Indeed, near-term business prospects remain attractive despite various headwinds. Still, these companies continue to implement strategies and introduce new products in order to push the top and bottom lines higher. Investments in emerging markets remain important even if these region's high growth potential over the long term. What's more, mergers and acquisitions remain a key theme with numerous noteworthy deals consummated of late.

Industry Consolidation
Merger and acquisition activity has remained strong despite various challenges (discussed below). Most notably, Anheuser-Busch InBev's pending merger with SABMiller continues to garner a great deal of interest. Elsewhere, former industry member Coca-Cola Enterprises emerged with other bottlers to create Coca-Cola European Partners and is now the largest independent bottler. Brown-Forman made a bolt-on acquisition when it purchased BenRiach Distillery in Edinburgh in an effort to capitalize on strong demand for whiskey. Lastly, Dr Pepper Snapple acquired BodyArmor to better compete in the sports drink category.

Ongoing Challenges
Currency headwinds and economic weakness in emerging nations, such as Russia and Brazil, are weighing on results for this group. News of the U.K.'s plan to leave the European Union (known as the Brexit) has added uncertainty to the global financial markets. Potential regulation in Scotland has caught the eye of the management of these companies due its potential long-term impact. The government is considering setting a floor on alcohol prices in an effort to curb heavy drinking. If implemented, it could weigh on profits as it would force consumers to pay more for value products.

The beer business remains under pressure as other alcoholic drinks gain market share. Notably, the liquor category has seen increased interest of late. Brewers have responded with offerings such as hard sours and root beers as well as "malternatives," like Anheuser-Busch InBev line of margarita-like "near beers." Larger brewers are also contending with the rise of craft beer. New breweries are springing up and constantly creating an increasingly competitive operating environment. Further, consumers are happy to pay more for these premium beverages, which has allowed them to grab market share as interest for light lagers has waned. Even companies with strong roots in this trend, like Craft Brew Alliance and Boston Beer, have not been immune to the heightened competition. Both companies’ established beer brands have struggled to stand out on store shelves and at the bar.

Carbonated soft drinks continue to fall out of favor as consumer looks for healthier choices. Diet sodas have been particularly hit hard as they are no longer the solution people look for when they want to limit their sugar consumption. Water has been the primary beneficiary, and is on pace to eclipse soda as the number one drinking category in the near future. Also, sport drinks, ready-to-drink teas, and coffee have benefited from the shift to noncarbonated offerings. Finally, ingredients have also come into focus, as consumers are increasingly interested in what is in their beverage.

Business Strategies
Some companies are making changes to their business portfolios. There will be a variety of changes to the beer market if the Anheuser-Busch InBev-SABMiller deal is approved. Diageo sold some wine assets as it shifts its business toward spirits. New products remain crucial to keep up with a constantly evolving market. For example, SodaStream began selling a beer machine, which allows the company to tap a new market. Restructurings have been a frequently used strategy. Cost cutting remains a high priority in light of uncertain market conditions. Other suppliers have implemented price hikes to provide a boost to their sales in order to offset soft volume trends. Increased marketing budgets continues to be a key theme as these beverage companies try to push their brands to the forefront in a competitive market.

Collaboration has been more common in this industry of late. Anheuser-Busch InBev and Starbucks are working together on a line of non-alcoholic teas. Coca-Cola and SABMiller recently agreed to merge their bottling operations in parts of Africa, which follows the soda makers partnership with Monster.

Emerging markets remain an important growth avenue for the years ahead. Many of beverage companies have invested in expanding their business in these regions, given their attractive demographics. Indeed, these regions will make up a much larger part of this market over the long haul.

Conclusion
Most of the companies in the Beverage Industry are widely profitable, maintain strong balance sheets, and are committed to returning cash to their stockholders. Thus, these equities have broad investment appeal. Stocks that pay a dividend are particularly interesting, given the current market conditions. We expect merger activity to continue, with a focus in emerging markets, as these companies jockey for position amid industry consolidation.

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