Food & Drink (Non-Alcoholic Drinks) Risk/Reward Index

Please note: BMI is enhancing its risk analysis with a new scoring system following acquisition of GeoQuant, a market-leading provider of political risk data. From March 27 2024, risk scores are inverted: zero now represents the lowest risk and 100 the highest, for clearer, industry-standard assessments. This methodology document has been updated accordingly.

Our Food & Drink (Non-Alcoholic Drinks) Risk/Reward Index (RRI) quantifies and ranks a market's attractiveness within the context of the Food & Drink (Non-Alcoholic Drinks) industry, based on the balance between the **Risks** and **Rewards** of entering and operating in different markets.

We combine industry-specific characteristics with broader economic, political and operational market characteristics. We weight these inputs in terms of their importance to investor decision making in a given industry. The result is a nuanced and accurate reflection of the realities facing investors in terms of:

- The balance between opportunities and risk; and
- Between sector-specific and broader market traits.

This enables users of the index to assess a market's attractiveness in a regional and global context.

The index uses a combination of our proprietary forecasts and analyst assessments of the regulatory climate. As regulations evolve and forecasts change, so the index scores change providing a highly dynamic and forward-looking result.

The Food & Drink (Non-Alcoholic Drinks) Risk/Reward Index universe comprises **106 markets**.

Benefits of using BMI's Food & Drink (Non-Alcoholic Drinks) RRI

- **Global Rankings:** One global table, ranking all the markets in BMI's universe for Food & Drink (Non-Alcoholic Drinks) from most attractive (closest to zero) to most risk (closest to 100).

- **Accessibility:** Easily accessible, top down view of the global, regional or sub-regional Risk/Reward profiles.

- **Comparability:** Identical methodology across 106 markets for Food & Drink (Non-Alcoholic Drinks) allows users to build lists of markets they wish to compare, beyond the confines of a global or regional grouping.

- **Scoring:** Scores out of 100 with a wide distribution, provide nuanced investment comparisons. The higher the score, the less favourable the profile.

- **Quantifiable:** Quantifies the rewards and risks of doing business in the Food & Drink (Non-Alcoholic Drinks) sector in different markets around the world and helps identify specific flashpoints in the overall business environment.

- **Comprehensive:** Comprehensive set of indicators, assessing industry-specific risks and rewards alongside political, economic and operating risks.

- **Entry Point:** A starting point to assess the outlook for the Food & Drink (Non-Alcoholic Drinks) sector, from which users can dive into more granular forecasts and analyses to gain a deeper understanding of the market.

- **Balanced:** Multi-indicator structure prevents outliers and extremes from distorting final scores and rankings.

- **Methodology:** The Index is created using a combination of proprietary BMI forecasts, analyst insights and globally acceptable benchmark indicators.
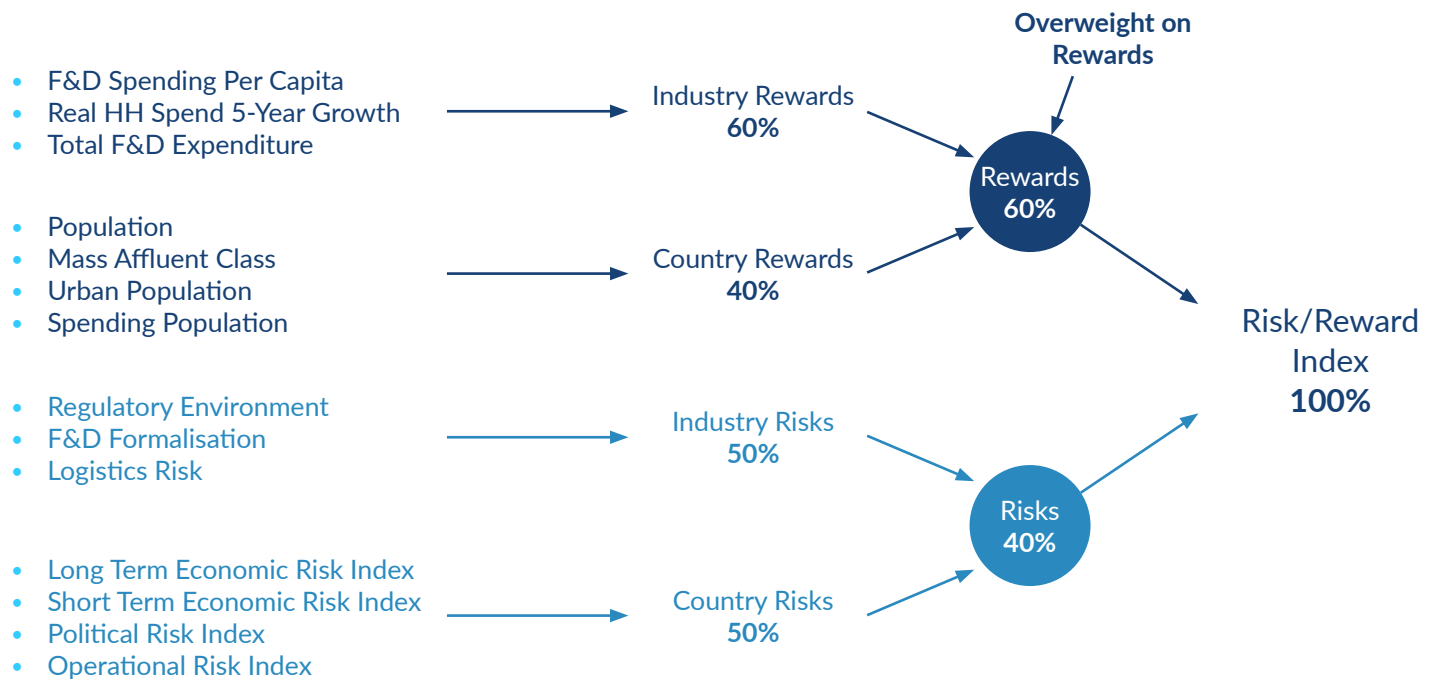
Weightings of Categories and Indicators

Food & Drink (Non-Alcoholic Drinks) Risk/Reward Index

- F&D Spending Per Capita
- Real HH Spend 5-Year Growth
- Total F&D Expenditure

→ **Industry Rewards 60%**

- Population
- Mass Affluent Class
- Urban Population
- Spending Population

→ **Country Rewards 40%**

Overweight on Rewards

Rewards 60%

- Regulatory Environment
- F&D Formalisation
- Logistics Risk

→ **Industry Risks 50%**

- Long Term Economic Risk Index
- Short Term Economic Risk Index
- Political Risk Index
- Operational Risk Index

→ **Country Risks 50%**

Risks 40%

Risk/Reward Index 100%

The RRI matrix divides into two distinct categories:

- **Rewards:** Evaluation of an Industry's size and growth potential (**Industry Rewards**), and also macro industry and/or market characteristics that directly impact the size of business opportunities in a specific sector (**Country Rewards**).

- **Risks:** Evaluation of micro, industry-specific characteristics, crucial for an industry to develop to its potential (**Industry Risks**) and a quantifiable assessment of the market's political, economic and operational profile (**Country Risks**).

Assessing our weightings

Our matrix is deliberately overweight on **Rewards** (60% of the final RRI score for a market) and within that, the **Industry Rewards** segment (60% of final **Rewards** score). This is to reflect the fact that when it comes to long term investment potential, industry size and growth potential carry the most weight in indicating opportunities, with other structural factors (demographic, labour statistics and infrastructure quality) weighing in, but to a slightly lesser extent. In addition, our focus and expertise in Emerging and Frontier Markets has dictated this bias towards industry size and growth to ensure we are able to identify opportunities in markets where regulatory frameworks are not as developed and industry sizes not as big as in developed markets, but where we know there is a strong desire to invest.

Indicators, Rationale and Sources

Table: Food & Drink (Non-Alcoholic Drinks) Reward Index, Indicators

Indicator	Source	Rationale
REWARDS		
Industry Rewards		
F&D Spending Per Capita	BMI Forecast	Denotes per capita spending on food & non-alcoholic drinks in USD. Wealthier populations spend more on F&D products.
Real HH Spend 5-Year Growth	BMI Forecast	Denotes consumer & retail sector dynamism as a %. Scores based on annual average growth in real household spending over our five-year forecast period.
Total F&D Expenditure	BMI Forecast	Denotes total household spending on food & non-alcoholic drinks in USDbn. Large markets score better than smaller ones.
Country Rewards		
Population	BMI Forecast	Size of the population in millions as a measure for the total addressable market.
Mass Affluent Class	BMI Forecast	Proportion of households with an income that exceeds USD10,000. Excludes those in poverty but demonstrates potential demand for branded alcohol products.
Urban Population	BMI Forecast	Size of the urban population in millions. Higher urban population size is a positive for distribution, higher economic development and accessing products through a network of retailers.
Spending Population	BMI Forecast	Proportion of the population between 20-39 years old as a %. This is typically the range that companies target as a high spending/ trendsetting generation.

Source: BMI

Indicators – Explanation and Sources

Table: Food & Drink (Non-Alcoholic Drinks) Risk Index, Indicators

Indicator	Source	Rationale
REWARDS		
Industry Risks		
Regulatory Environment	BMI Operational Risk Index	Uses Operational Risk's Economic Openness as a proxy for determining the ease of entering and doing business in a market.
F&D Formalisation	BMI Forecast	Uses our Urban/Rural Split (%) data as a proxy for determining the level of retail/hospitality formalisation in the market. Highly urbanised markets allow companies to easily serve more consumers.
Logistics Risk	BMI Operational Risk Index	Uses Operational Risk's Logistics Risk to determine the risks and costs associated with moving products around a market. Better scores indicate quality transport, cheap fuel/electricity and high levels of tech adoption.
Country Risks		
Long Term Economic Risk Index	BMI Country Risk Index	The LT ERI takes into account the structural characteristics of economic growth, the labour market, price stability, exchange rate stability and the sustainability of the balance of payments, as well as fiscal and external debt outlooks for the coming decade.
Short Term Economic Risk Index	BMI Country Risk Index	The ST ERI seeks to define current vulnerabilities and assess real GDP growth, inflation, unemployment, exchange rate fluctuation, balance of payments dynamics, as well as fiscal and external debt credentials over the coming two years.
Political Risk Index	BMI Country Risk Index	The Political Risk Index is a score made up of the mean average across three distinct pillars: Governance Risk, Society Risk, and Security Risk that are aggregated into an overall assessment of 'Political Risk'.
Operational Risk Index	BMI Operational Risk Index	The ORI focuses on existing conditions relating to four main risk areas: Labour Market, Trade & Investment, Logistics, and Crime & Security.

Source: BMI

About BMI

In an uncertain macroeconomic environment, BMI's systematic, independent and data-driven market insights, analysis and forecasts enable you to recognize and assess risks and opportunities across 200+ markets and 20+ industries.

For more than 40 years, we have provided impartial and transparent analytics, data and research across themes, countries and sectors, with deep insight into emerging markets. Our detailed intelligence is frequent, consistent and systematic, enabling you to easily make comparisons and interrogate data to support your strategic plans and investment decisions.

Learn more at **fitchsolutions.com/bmi**

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