



BOTTLED WATER IN THE WORLD AND IN ITALY

The global market will grow by between 7% and 8%, due to the increase in income, the decline of soft drinks and the unreliability of the water supply in various countries

Italy is a mature but large market for bottled water, ranking ninth in the world by size and second for per capita consumption; it is also the third largest exporter of bottled water in the world

Italian producers are growing but margins are shrinking: the main drivers for growth are diversification, with functional waters, and sustainability, in particular packaging emissions due to transport

Milan, 23 April 2021

The **Mediobanca Research Area** has presented its new report on the **bottled water industry**, which combines the earnings and financial data of 82 Italian companies with 2019 total sales of over €1m for the 2017-19 three-year period.

Italy: ninth in the world and third by exports, with one of the lowest prices per litre

The **global market** for bottled water has been estimated at over 387 billion litres, with a **retail value** of €155bn. The **average price per litre** is around 40 cents, declining to 30 cents in the EU and to 20 cents in Italy. In terms of quantity, **global consumption has increased at an annual rate of 7.4% in the last twenty years**, and **estimates** for the next five years suggest similar rates of between 7% and 8%. In Italy the sector's performance for 2020 was stable. **China** is the largest market in the world, with 103.1 billion litres with a retail value of €26.1bn. Its position in first place has been unchallenged since 2009, when China first overtook and then doubled the **United States**, which now has 50 billion litres worth \$34.6bn. Since 2000 the Chinese market has grown by 13.7% per annum, whereas the US market's annual average growth rate has been 5.8%. **Other important, growing countries** include: Mexico (up 5.9%), Indonesia (up 11.4%), India (up 13.7%), Brazil (up 6.9%), and Thailand (up 6.8%). **Global individual consumption** stands at 50.4 litres per inhabitant, but around half the population shows consumption levels of 17.7 litres per capita. **Italy**, with 13.5 billion litres, is the **ninth largest market in the world**, driven by its abundant resources (over 300 springs) and high per capita consumption levels (222 litres, second in the world behind only Mexico). **Italy can also boast other achievements in this sector**: it is the second largest exporter of bottled mineral water in the EU with exports of €605m, behind only France (€761m), and is the third largest exporter in the world, with China also ahead of it in the rankings. In the EU again, Italy is by far the largest exporter of fizzy water, with exports of €440m, almost 50% of the EU total. Finally, in Italy mineral water represents 76.2% of the consumption of all non-alcoholic drinks, the highest percentage in the EU which has an average figure of 45.8%. The average annual family budget for bottled water (assuming a family made up of three persons) is currently around €130. In Italy, **if we assume a shelf price of 30 cents for a 1.5 litre bottle**, 45% consists of the bottle itself (empty and full), 37% of other expenses (including transport plus the retailer's own margin), and the remainder VAT.



Mature markets: innovation and sustainability issues

The EU market reflects a total of 63,7 billion litres, representing 16.5% of the world's total, with a retail value estimated at some €19.1bn. overall consumption has increased by 2.3% per annum since 2012 (compared with global consumption, which has increased by 7.8%); 63% consists of natural water, the rest of fizzy water. Individual consumption comes in at 142 litres per inhabitant, but the figures are much lower in the northern countries (United Kingdom: 37.4 litres, Netherlands: 27.9 litres, Sweden: 10 litres, Finland: 17 litres, Norway: 9.3 litres), due both to the colder weather and to greater use of tap water. Part of the increase in consumption of bottled water is also due to stagnation in the soft drinks segment, as these have come to be associated with unhealthy lifestyles, with the result that no calorie and low calorie drinks have increased from 21% to 27% of the total. In the United States the consumption of water overtook that of soft drinks in 2017, while in Italy the ratio between them is 3.2 to 1. However, the bottled water market **is mature in many countries and in Italy especially**, where individual consumption levels are very high. Since 2012 the Italian market has grown by 2.4% per annum, while the German market has been stagnant, the French market has grown by 2.5%, and the Spanish market by 2.9%. Conversely, the markets of Northern and Eastern Europe have been more dynamic: Poland (up 4.9%), the United Kingdom (up 5.7%), Romania (up 4.4%), Bulgaria (up 5.9%), the Netherlands (up 4%), Ireland (up 9.9%), Lithuania (up 4.6%), Latvia (up 4.5%), Finland (up 5.1%), and Estonia (up 5.6%). In Germany sales of fizzy water dominate, accounting for 74.4% of the total, while in Italy it is still water (69%). **Manufacturers are seeking to innovate** by offering aromatic, enhanced or functional waters (for sport, study or beauty reasons), kid-friendly products, attractive, environmentally-friendly packaging, product differentiation in the premium bracket with exclusive mineral waters in terms of origin or content. In the US market, these are segments which are expected to grow between 6% and 9%. Bottles made out of PET, which in Italy constitute 82% of the market, can be a major component of the final cost of the product, including in relation to **price fluctuations in raw materials** which currently cost more than €1,150 per ton (vs €770 in 2020). It is one of the industry's prime objectives to **reduce the physical weight of the bottle**, not least in order to reduce the impact on the environment given that **in Italy 46% of bottles are recycled**, a long way off countries that are further ahead in this area, in particular Germany (95%) where a deposit return scheme for empty bottles is in force, which Italy is not close to adopting. Use of **recycled PET (R-PET)** is expected to increase in Italy, following the recent change to the regulations removing the 50% limit on R-PET in bottles for sale. The alternative is **biodegradable bottles made out of Bio-PET**, i.e. plant-based material provided it does not originate from raw materials used for food purposes.

The Italian bottled water industry: performances and margins

In Italy there are a total of 82 companies operating in the bottled water industry, with **aggregate total sales in 2019 of €3.8bn**. The main operators **also sell soft drinks** (fizzy drinks, fruit juices, iced tea and non-alcoholic drinks for aperitifs). The top five operators account for 65.8% of the total. There are also six **non-Italian-owned companies**, reporting total sales of €1.5bn. Central and Southern Italy, including Sicily and Sardinia, is the area with the highest number of companies (32), but the highest turnover is reported by the 23 companies located



in North West Italy (some €2bn). In the 2017-19 three-year period, aggregate sales increased by 3.9% per annum on average, with domestic sales up 2.9% and exports up 6%. Overall **exports account for 32.7% of total sales**, worth some €1.3bn, with the other €2.5bn represented by domestic sales. The largest companies, as well as those whose ownership is not in Italian hands, both generate high percentages of their sales from exports (48% in the case of the former, and 55.5% in the case of the latter), while for the small and medium-sized Italian firms the international market is fairly negligible (accounting for between 2% and 6% of total sales). **The Ebit margin** reported by the segment in 2019 was 9.6%, much lower than the 13% reported in 2017. ROI was substantial in 2019, at 14.9%, albeit lower than in 2017 (20.9%); and the same is true for ROE, which in 2019 stood at 20.3%, down from 26.9% in 2017. **Profitability was higher for the larger groups** (which posted an Ebit margin of 11.4% in 2019) and for those whose parent company is located outside of Italy (10.7%). The small and medium-sized firms lag behind with margins of 6.6% and 8.2% respectively. Productivity is also declining: down from €117,700 in 2017 to €103,200 in 2019, with the cost of labour increasing in relative terms, rising from 44.3% of productivity to 51.2%. The sector shows **high investment rates**: the figures here vary over the three years from 6.5% to 7% of total sales, meaning that the average age of assets in accounting terms has decreased from 17.2 years in 2017 to 15.8 years in 2019. The companies' **financial structure** is solid: the net equity/debt ratio for 2019 came in at 63.2%, with cash and liquid assets in turn representing 54% of borrowings, making for a cash pile of €528m at the period-end. Between 2017 and 2019 **the sector accumulated profits of €806m**, equal on average to 7.3% of total sales.