



Distilled Spirits Council

2017 ECONOMIC BRIEFING

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[@DistilledSpirit](#) [#USspirits](#)



Kraig R. Naasz
Distilled Spirits Council
President & CEO



Distilled Spirits Sector Achieves Record Sales

2017 Economic Overview

- Record sales and volumes
- U.S. revenue growth up 4 percent
- U.S. volume growth up 2.6 percent
- Eighth straight year of market share gains
- Export sales growth up 14.3 percent
- U.S. spirits exports hit new record: \$1.63B





2017 Public Policy Victories

First Federal Excise Tax Cut Since Civil War

Landmark legislation reduces federal excise tax on spirits producers for first time since the Civil War

- Two-year version of the *Craft Beverage Modernization and Tax Reform Act* included in the federal tax reform package, the *Tax Cuts and Jobs Act*
- Congress recognized the excessive tax burden faced by the more than 2,000 operating distilleries
- Equalizes the federal excise tax on spirits, beer and wine for the first 100,000 proof gallons for all producers
- Supported by 303 cosponsors in the House and 54 cosponsors in the Senate
- Enables distillers, large and small, to invest back in their businesses and communities, generate jobs and support agriculture and tourism

THE WALL STREET JOURNAL.

**A Potential First Since the Civil War:
Tax Cuts for Whiskey Makers**

CNNMoney

Tax bill does the booze industry a solid



What Distillers Are Saying About the Historic Tax Cut

News-Press.

PART OF THE USA TODAY NETWORK

Elardo already has decided to make three additional hires this year because of the tax savings.



"This tax reduction is really going to help a lot of the small distilleries like us survive," says Tyson Schnitker, owner of Skaalvenn Distillery.

recordjournal

"It certainly lets us plow money back into our operation, and offer incentives to grow our overall operation," said Dubay, who produces artisanal liquors, Wild Moon.



McDaniel, who founded a distillery in St. Augustine four years ago, says he'll put the money toward hiring more people and buying more equipment — for as long as the tax break lasts.

THE DAILY ASTORIAN

Lawrence Cary, co-owner of Pilot House Distilling, said the reduction in liquor taxes will help with his company's expansion. "It's long overdue for the spirit industry."



Distillers celebrate GOP's big tax cuts
Nagele said the savings will be immediately invested into growing the business, including increasing production and building a new visitors center.



2017 Public Policy Victories

- **Sunday sales bans lifted in Minnesota and Oklahoma, generating an estimated \$19.7 million in additional annual supplier revenue**
- **Defeated tax threats in 18 states, saving the sector \$321 million annually**
- **NFL modernizes policy to accept distilled spirits advertising league-wide**
- **Boston reverses ad ban on mass transit system**
- **Dried spent grains not subject to the *Food Safety Modernization Act's* preventive controls saving distillers approximately \$4.9 million per facility**
- **24 out of 27 successful wet/dry elections in Texas**

PIONEER PRESS

“How the 159-year-old Sunday liquor sales ban came to an end”

Chicago Tribune

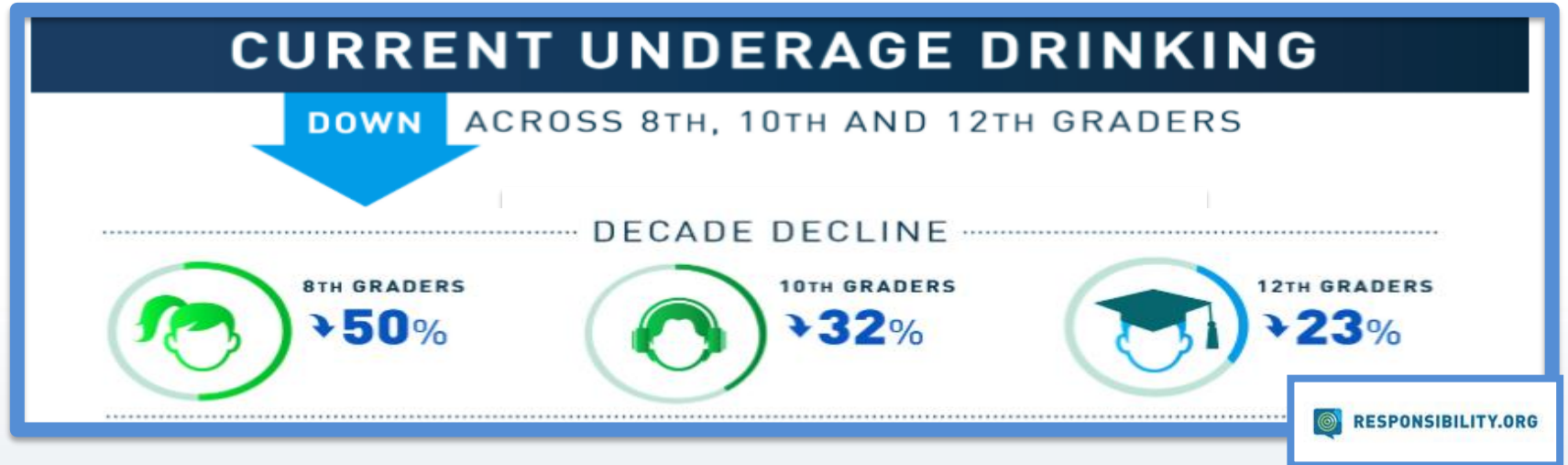
“Spirits rise, beer falls flat as NFL ends liquor ad ban”

Star-Telegram

“Cheers, spirits lovers! Liquor stores are pouring into this area of town”



Positive Social Responsibility Trend Continues



- Long-term declines in underage and binge drinking
- The rate of alcohol-impaired driving fatalities per 100,000 population was 3.3 in 2016, representing a 64 percent decrease since 1982
- Alcohol-impaired driving fatalities as a percent of total vehicle traffic fatalities is at its lowest level since 1982
- Spirits sector contributes to progress through responsibility programs and support for strict enforcement of existing laws



2018 Policy Priorities

- Laying groundwork for continuation of the FET reduction for distillers
- Repealing Sunday sales bans in Indiana, Tennessee and West Virginia
- Permitting spirits tastings in Georgia and North Carolina
- Pursuing spirits outlets expansion in Pennsylvania and Virginia to increase consumer convenience
- Protecting spirits in NAFTA modernization

The Patriot-News

**“Here's an easy budget fix:
Allow grocery stores to sell liquor”**

**South Bend
TRIBUNE**

**“Senate GOP makes repeal of Sunday
booze sales ban a priority”**



David Ozgo

Distilled Spirits Council

Senior Vice President

Economics & Strategic Analysis

Economic Review 2017



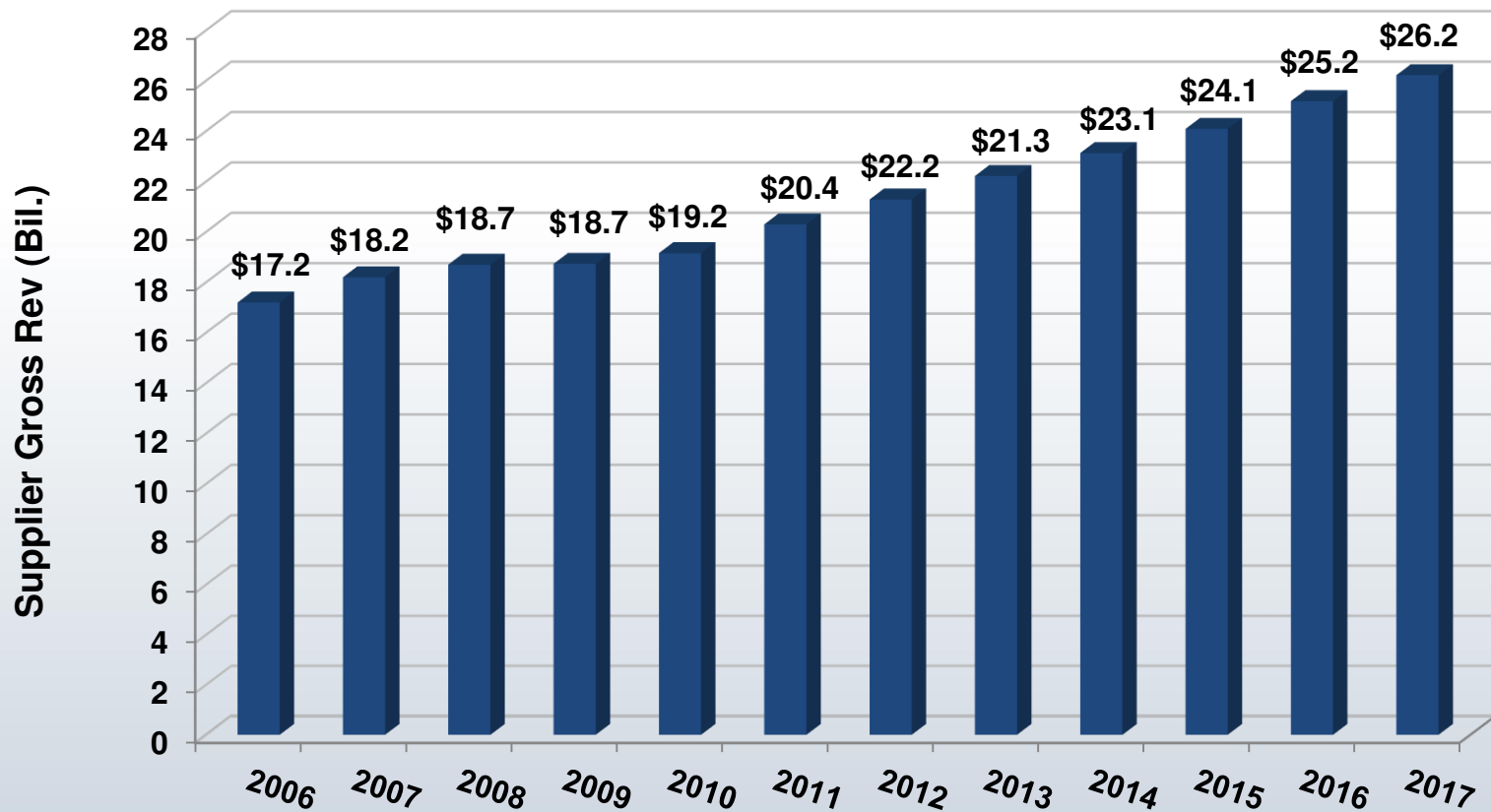
Economic Review 2017

- **Industry growth**
- **Market share**
- **Growth drivers**
- **Category performance**
- **Trends to watch**





U.S. Spirits Supplier Revenues Up 4 Percent to 26.2B – \$1 Billion Gain

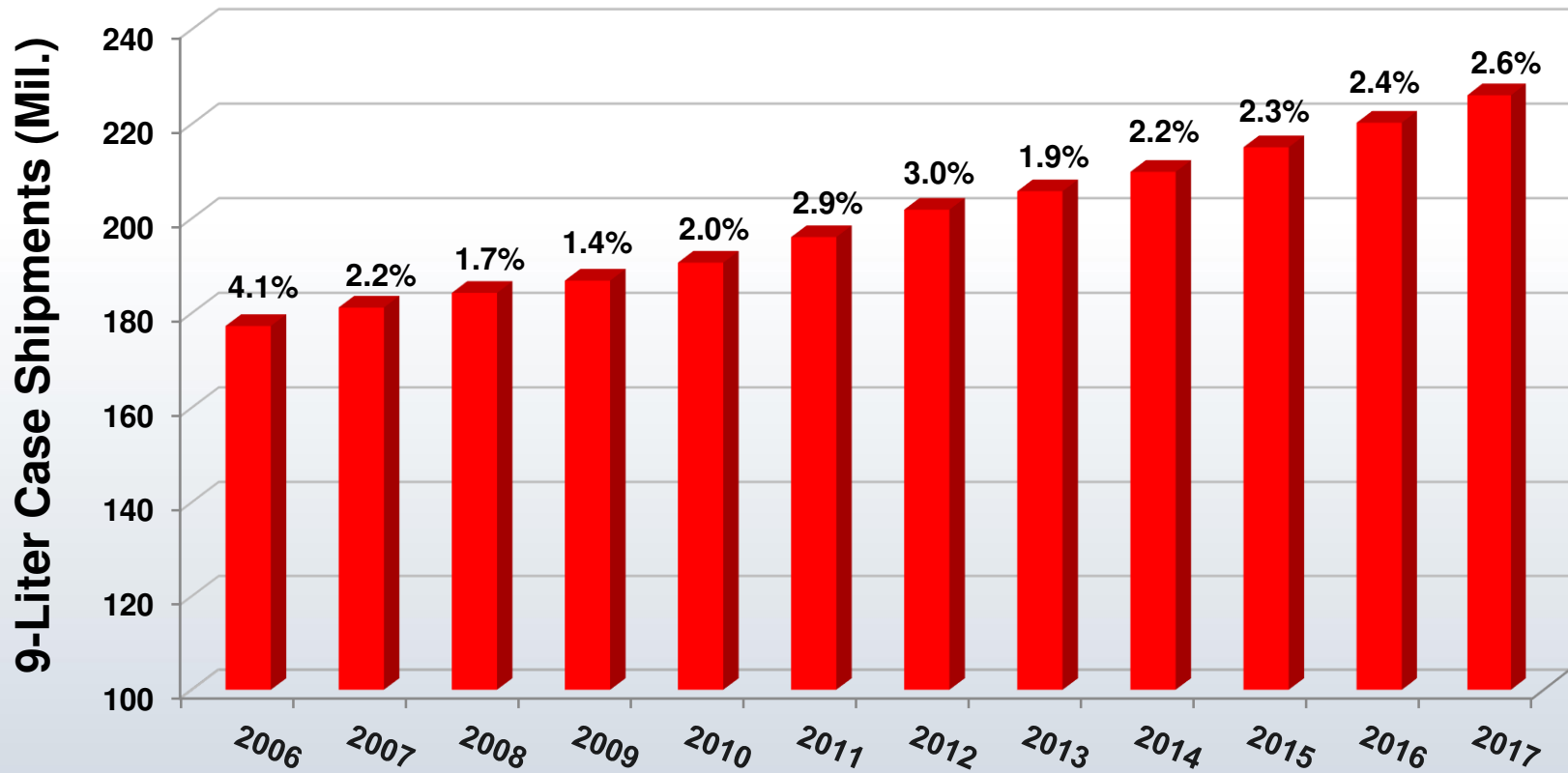


Source: Distilled Spirits Council Market Segmentation Database



U.S. Volume Up 2.6 Percent in 2017

Up 5.8 Million to 226 Million Cases

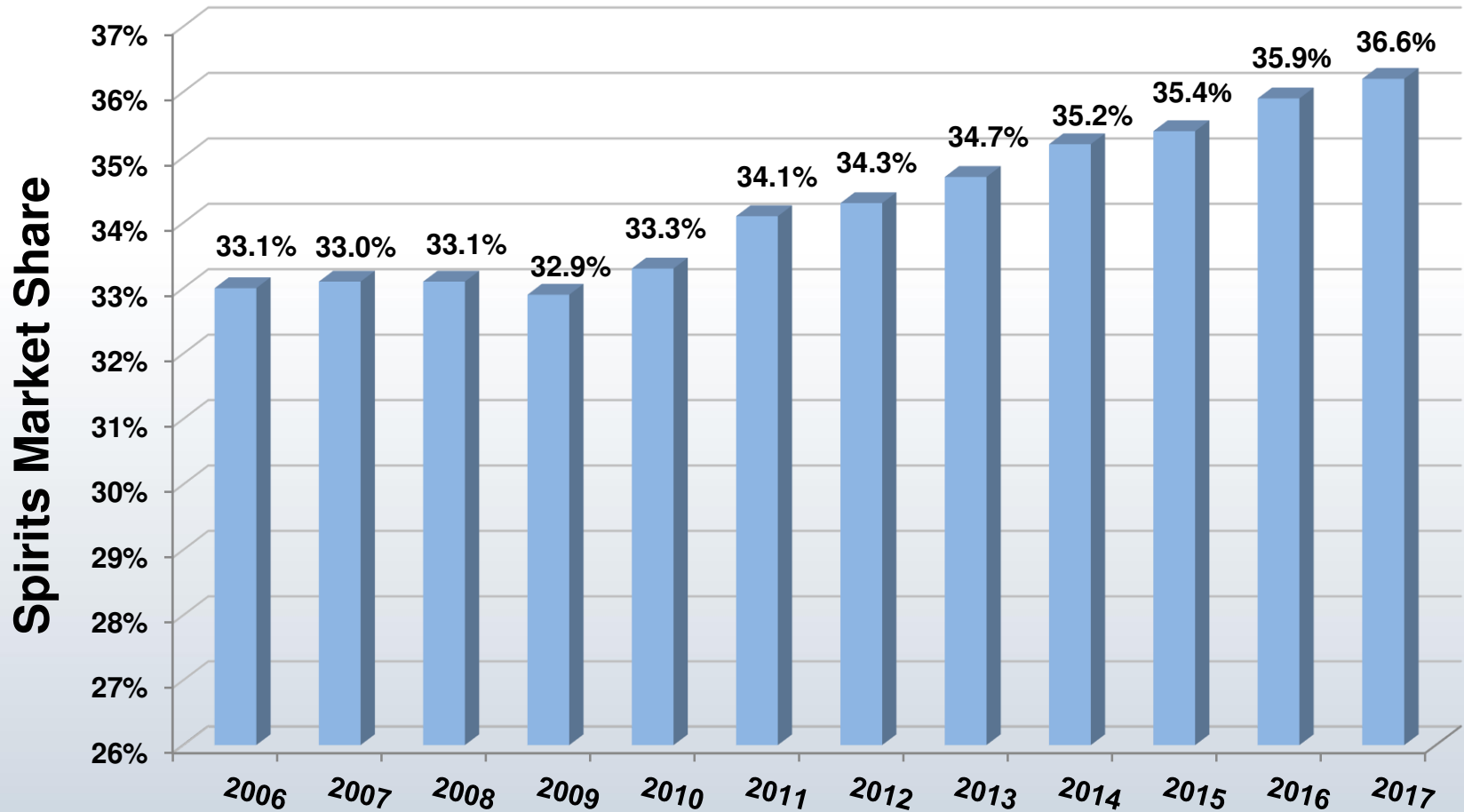


Source: Distilled Spirits Council Market Segmentation Database



Spirits Market Share – Revenue

Each Point of Market Share Worth \$720M

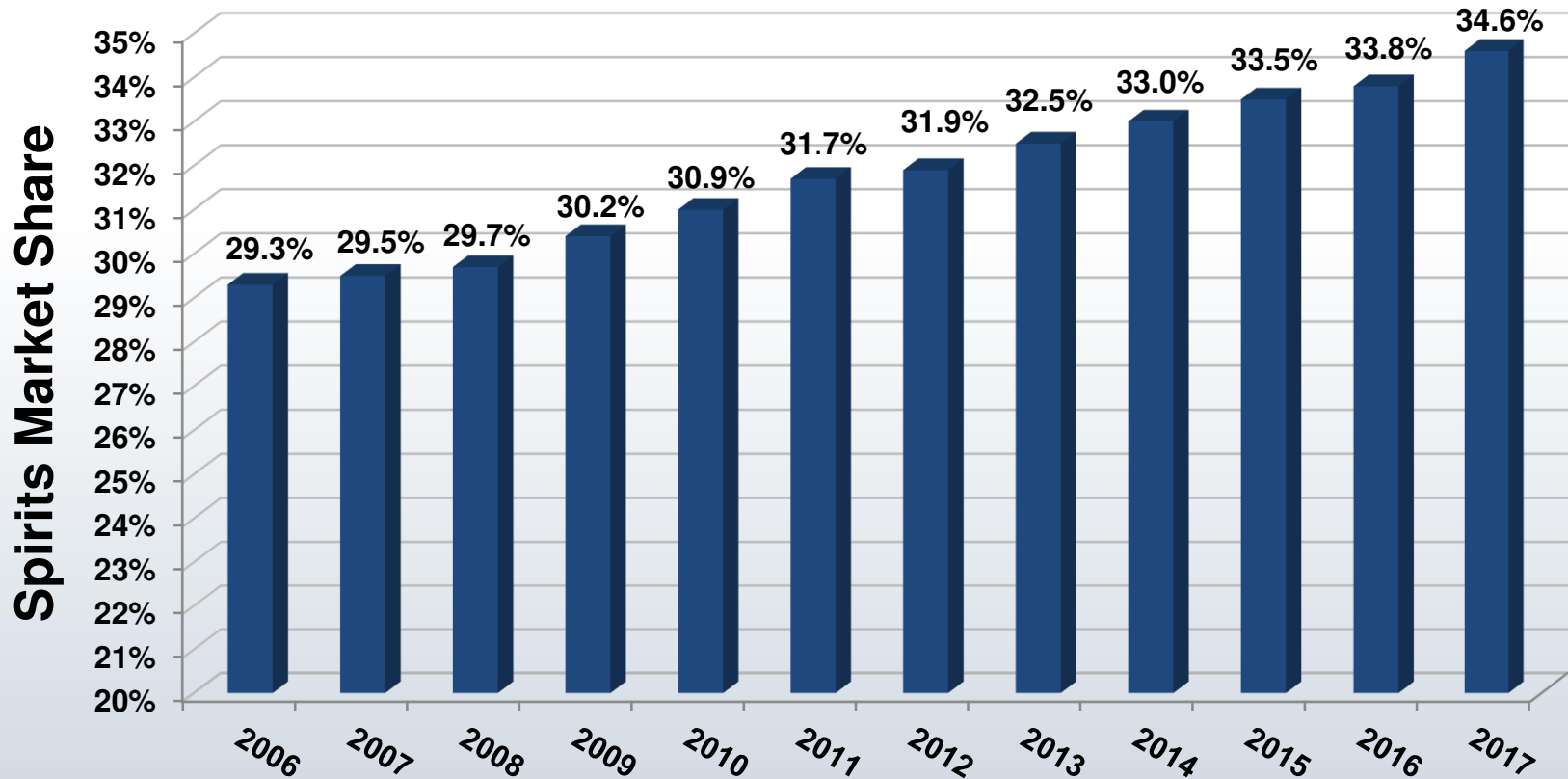


Source: Beverage Information Group Handbooks, Company Financial Reports, Council Estimates



Spirits Market Share – Volume

Each Point of Market Share is Worth 6.5M Cases



Source: Beverage Information Group Handbooks, Council Estimates



Price Segments

- Products are segmented on supplier prices
- Range varies by product category
- Use market leaders to define segments
- Average supplier gross revenue per case:

Revenue/9-Liters

Value \$54

Premium \$100

High End \$170

Super Premium \$265

Retail Bottle Price

<\$12/bottle at retail

\$12 - \$20/bottle at retail

\$20 - \$30/bottle at retail

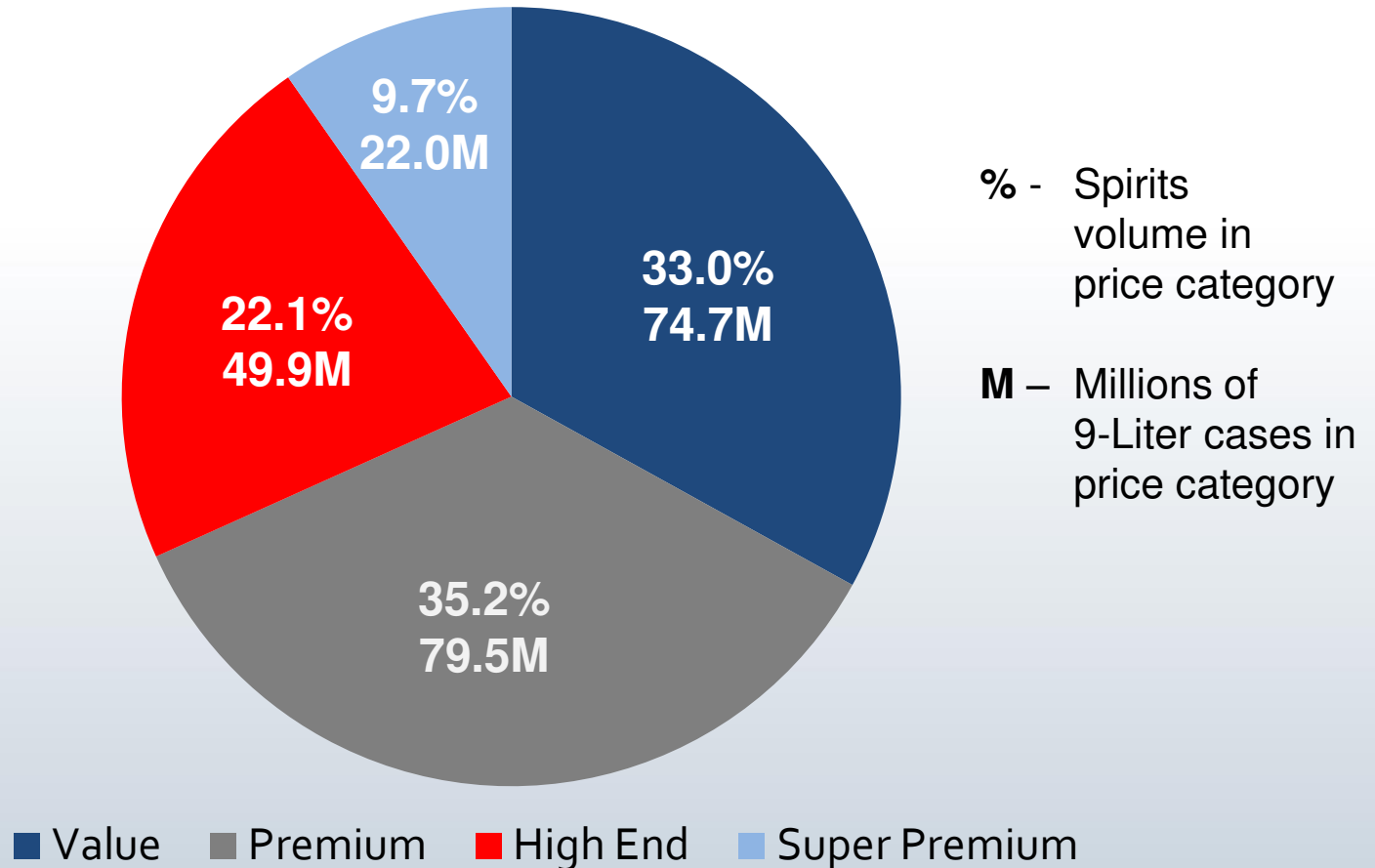
\$30+/bottle at retail





Volume Share by Price Category 2017

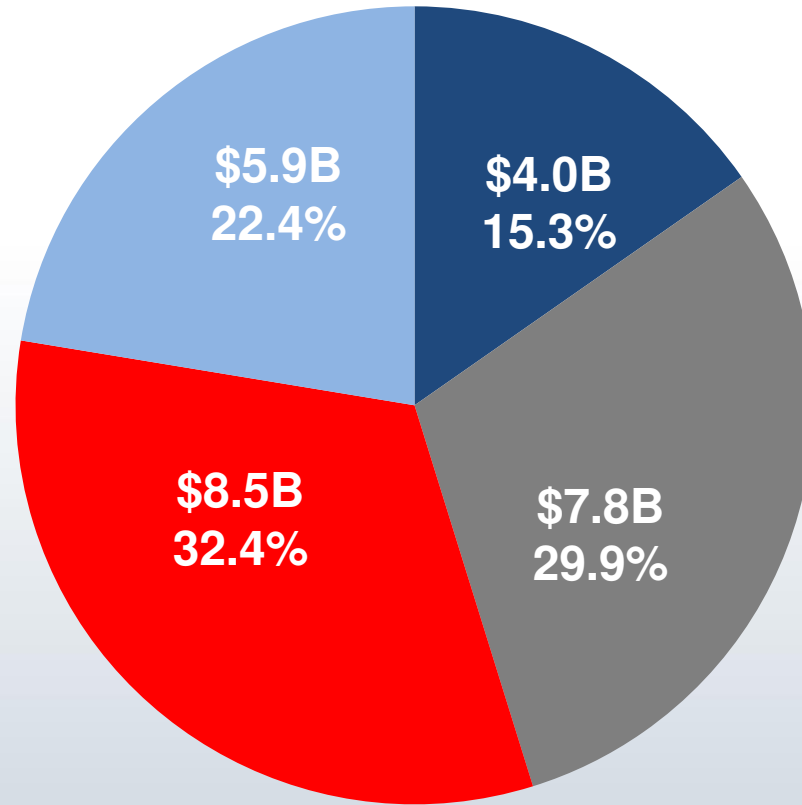
Share of U.S. Spirits Volume





Revenue by Price Category 2017

U.S. Supplier Gross Revenues



% – Spirits revenue in price category

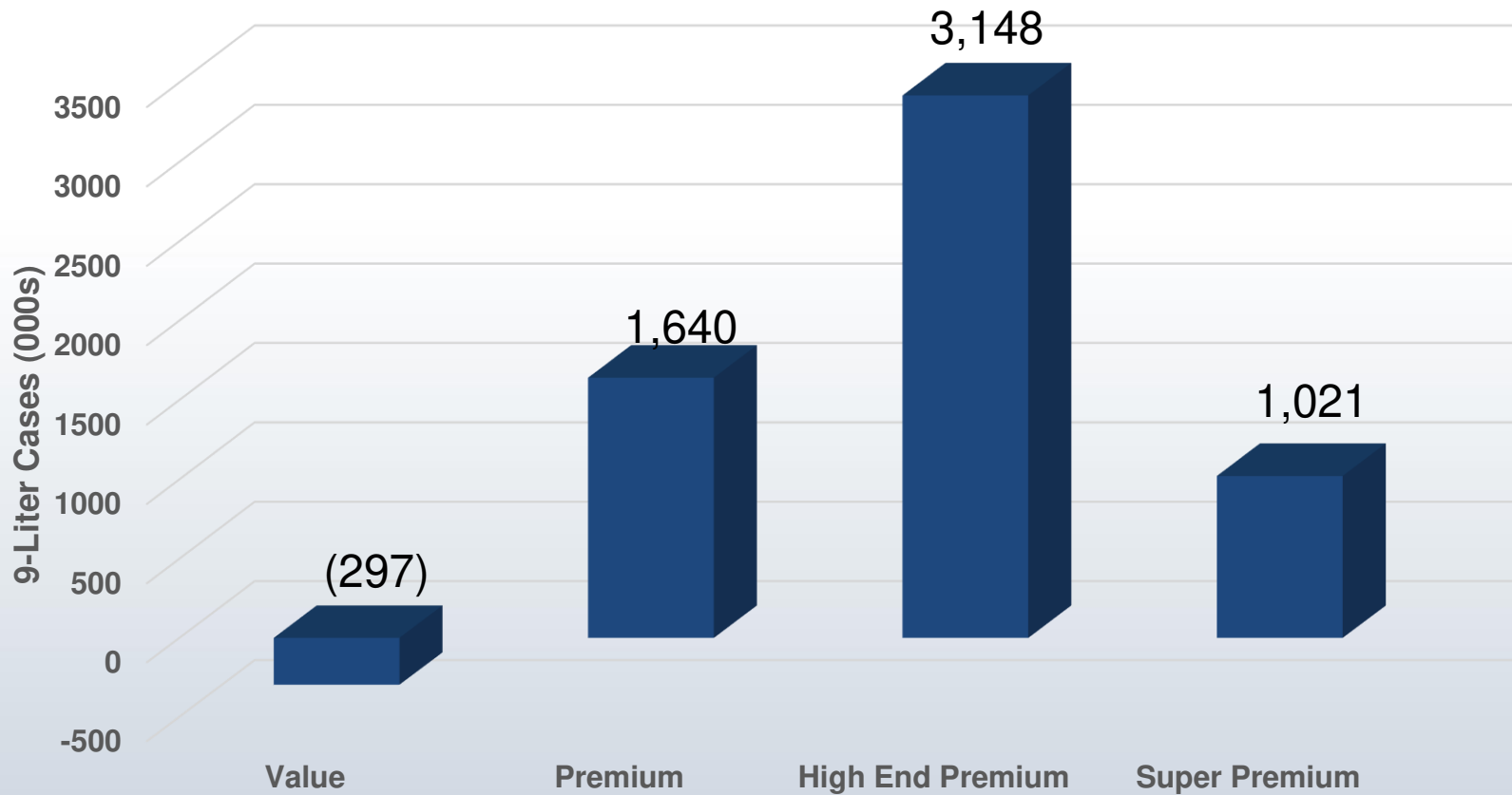
B – Gross revenue in price category, billions

■ Value ■ Premium ■ High End ■ Super Premium



Growth by Price Point (Volume)

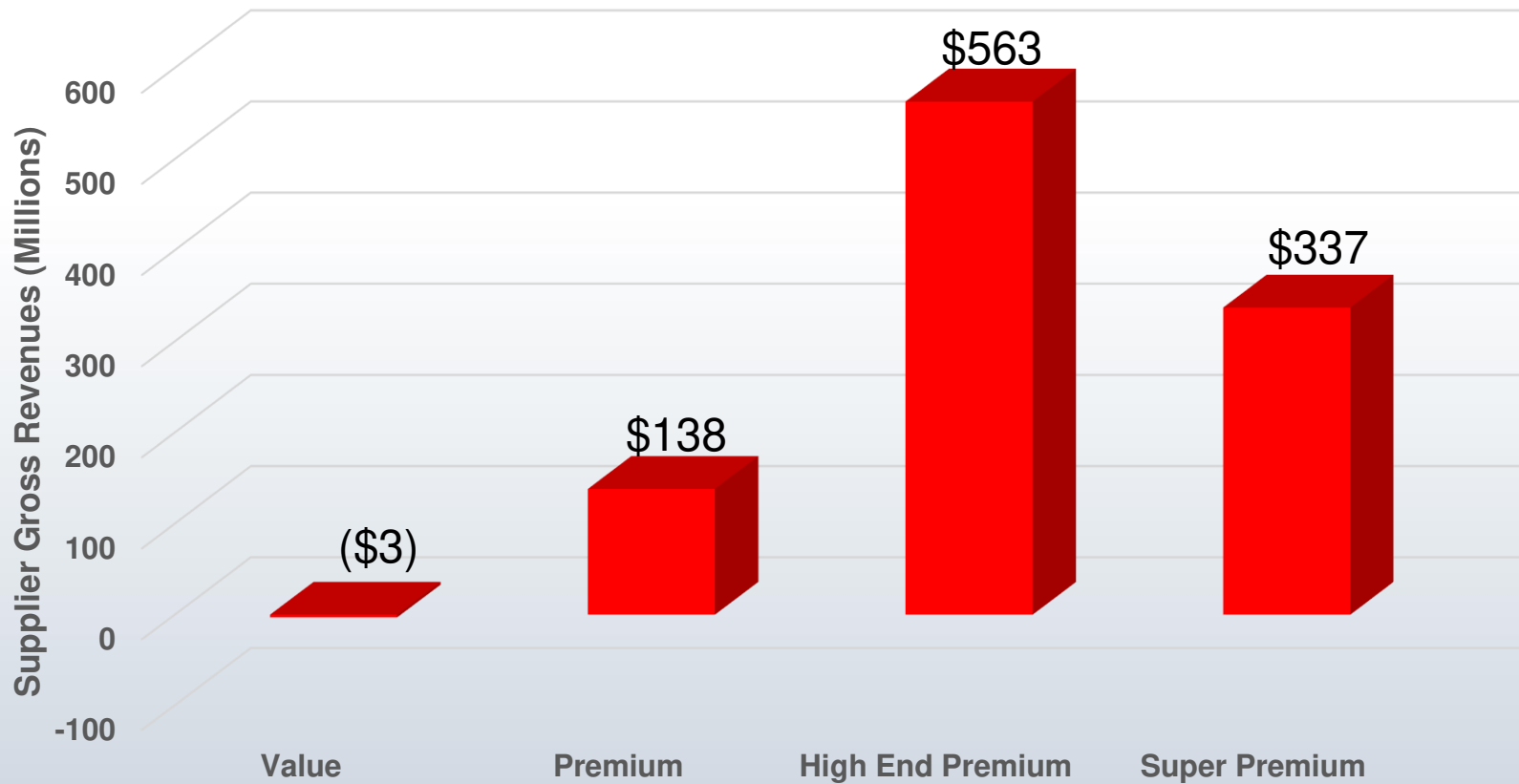
2017 Incremental Growth





Growth by Price Point (Revenue)

2017 Incremental Growth

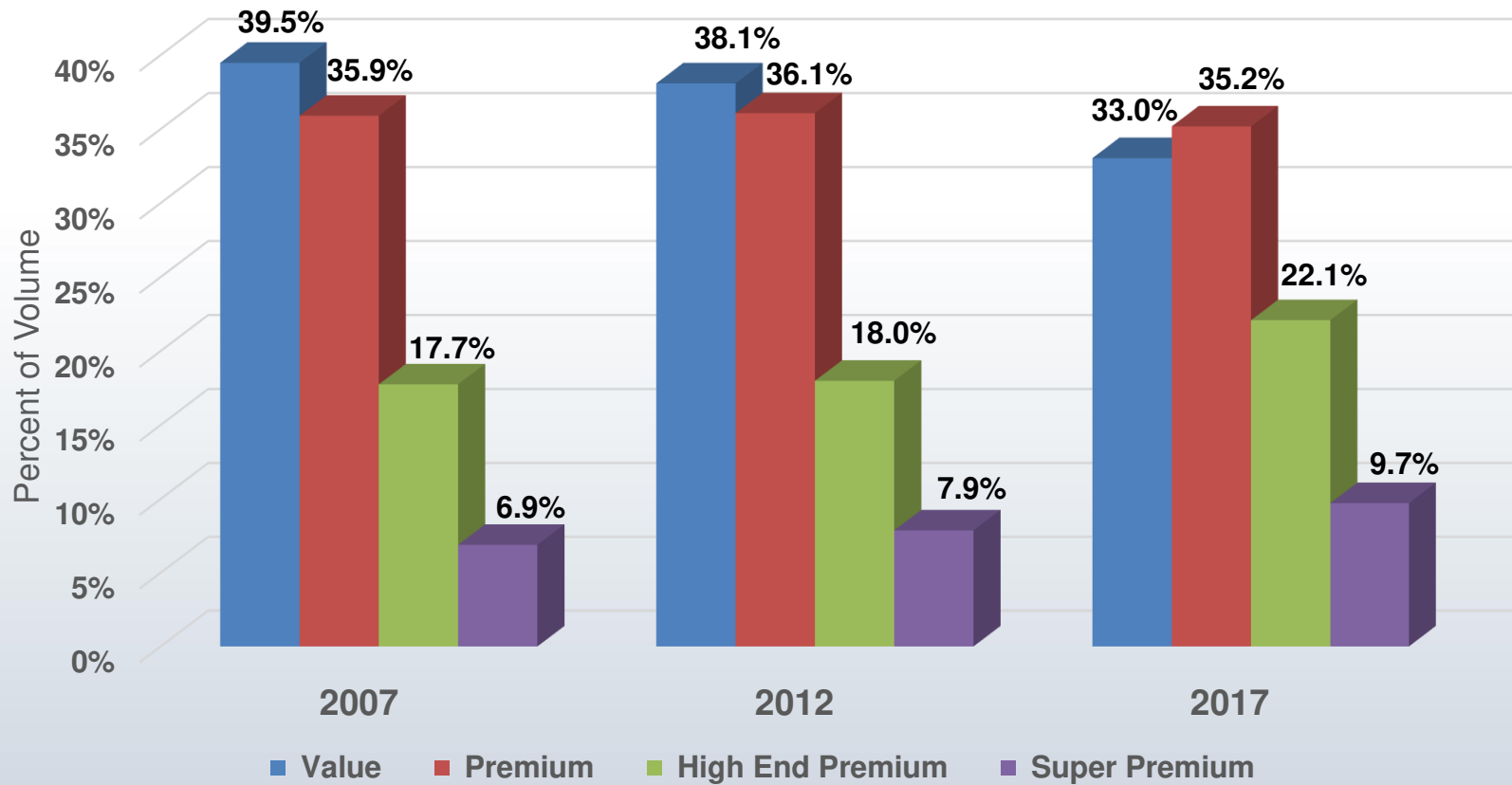




Premiumization Trend

\$2.4 Billion In Revenue Since 2007

Product Distribution by Price Tier





2017 Factors Contributing to Growth

- Consumer confidence in the economy
- Millennials preference for premium products
- Company product innovations/line extensions
- Consumer-friendly policies expand spirits access for adults
- Increasing interest in spirits among multicultural consumers
- Growth in small distillers continues to drive excitement for overall spirits category



American Whiskey

Bourbon, Tennessee, Rye, White



- Volume up 6.4% to 23.2M cases (+1.4M cases)
- Revenues up 8.1% to \$3.4B (+\$252M)
- Strength across all price categories
 - Value vol. up 1.4% (3.7M), rev. up 3.0% to \$224M
 - Prem. vol. up 6.4% (6.0M), rev. up 5.1% to \$628M
 - High End vol. up 5.9% (11.0M), rev. up 7.2% to \$2.0B
 - Super vol. up 18.3% (2.4M), rev. up 18.0% to \$551M
- Added 300K cases of flavored whiskey
- Bourbon/Tennessee up 6.7% to 20.0M cases
- White/Corn down -0.5% to 2.3M cases



American Rye Up 16.2 Percent to 900k Cases, \$175M Revenue

9-Liter Cases (000)



Source: Distilled Spirits Council Market Segmentation Database



Canadian and Irish Whiskeys

- **Canadian**

- Volume up 2.4 percent to 17.5M cases, 406K new cases
- Revenue up 2.0 percent to \$2.0B
- Growth came from Super Premium price points
 - Super Premium volume up 4.9 percent to 6.4M cases
 - Flavored products up +/-50K cases

- **Irish**

- Volume up 11.3 percent to 4.2M cases
- Revenue up 12.8 percent to \$897M
- Volumes concentrated in High End and Super Premium





Tequila/Mezcal



- Volumes up 8.5 percent to 17.2M cases (1.3M new cases)
- Revenues up 9.9 percent to \$2.7B (+\$246M)
- Strong growth across price categories:
 - Value vol. up 7.4% (3.4M), rev. up 7.9% to \$260M
 - Prem. vol. up 6.4% (8.7M), rev. up 6.5% to \$968M
 - High End vol. up 14.1% (1.8M), rev. up 14.6% to \$340M
 - Super vol. up 12.2% (3.2M), rev. up 12.0% to \$1.2B



Mezcal Grows to +/- 360K Cases

\$70M Revenue

9-Liter Cases (000)



Source: Distilled Spirits Council Market Segmentation Database



Cognac

- Volumes up 11.6 percent to 5.7M cases (600K new cases)
- Revenues up 13.8 percent to \$1.6B (+\$200M)
- Strong growth across price categories:
 - Prem. vol. up 33.8% (150k), rev. up 31.1% to \$20M
 - High End vol. up 7.7% (4.0M), rev. up 8.8% to \$911M
 - Super vol. up 20.8% (1.6M), rev. up 20.8% to \$692M





Vodka



- Almost one-third of all spirits volume
- Volume up 2.2 percent to 71.3M cases
- Revenues up 3.0 percent to \$6.2B
- Rapid growth in High End Premium
 - Volume up 14.5 percent to 18.1M cases
 - Revenue up 15.4 percent to \$1.6B
- Flavored vodka down 400K cases



Summary

- **Volume/Revenue**
 - Supplier revenue up 4 percent to \$26.2B
 - Supplier volume up 2.6 percent to 226M 9-liter cases
- **Bourbon/Tennessee significant growth driver along with Rye, Irish, Tequila, Mezcal and Cognac**
- **Premiumization has added \$2.4B in supplier revenue since 2007**
- **Continue to increase market share gains**
 - 36.6 percent revenue market share
 - 34.6 percent volume market share





2018 Trends to Watch

- Strength of whiskeys and brown spirits in the United States and abroad
- Companies leveraging new technology to communicate with their adult consumers
- Rise of new categories (Japanese Whisky, Mezcal) and new innovation within existing categories capture consumer interest
- Expanding routes to the spirits consumer; additional modernization in control states
- Vintage & collectors bottles and limited & special releases drive continued premiumization trend



Christine LoCascio

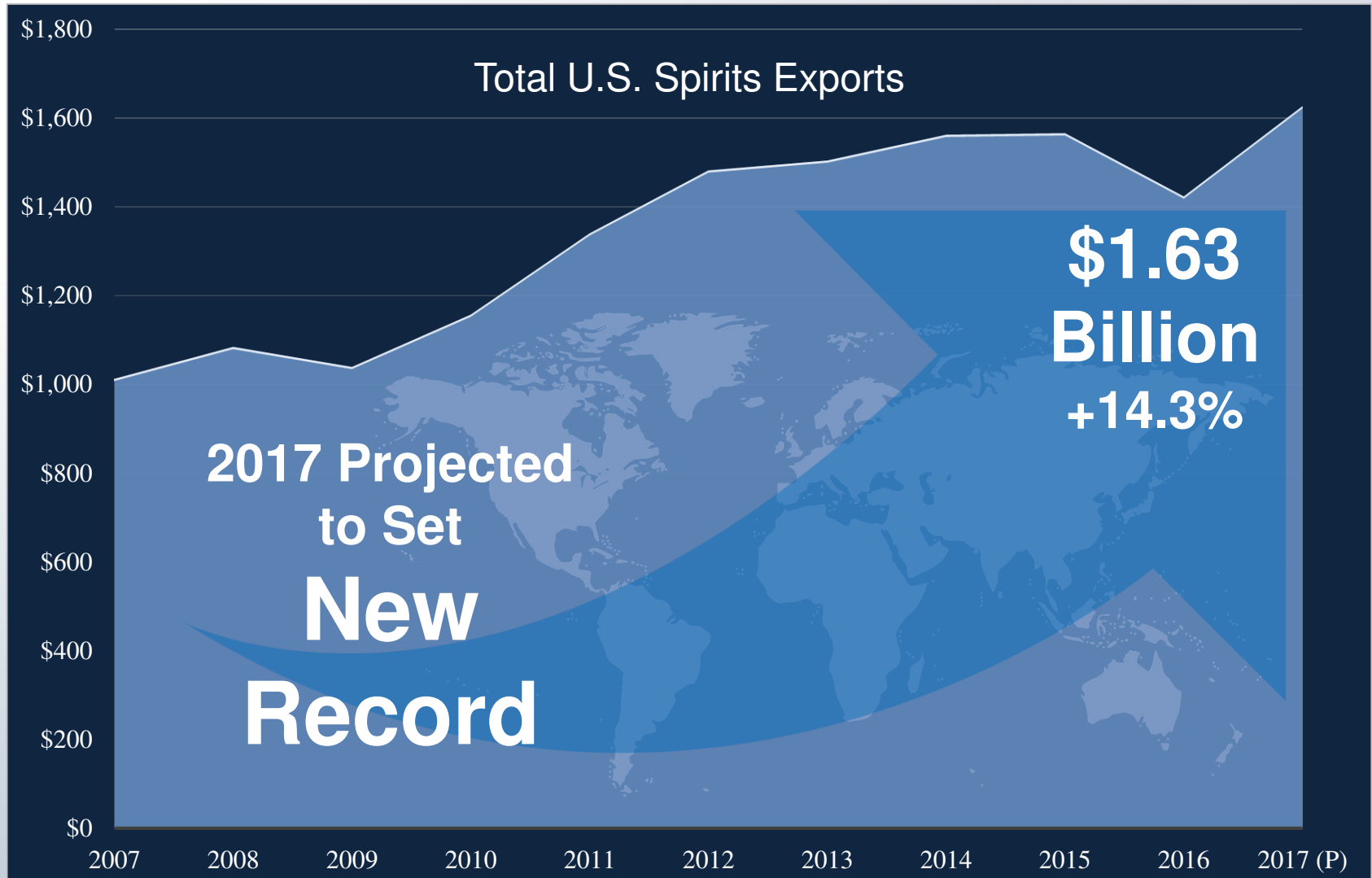
Distilled Spirits Council

Senior Vice President
International Trade

International Trade Review 2017

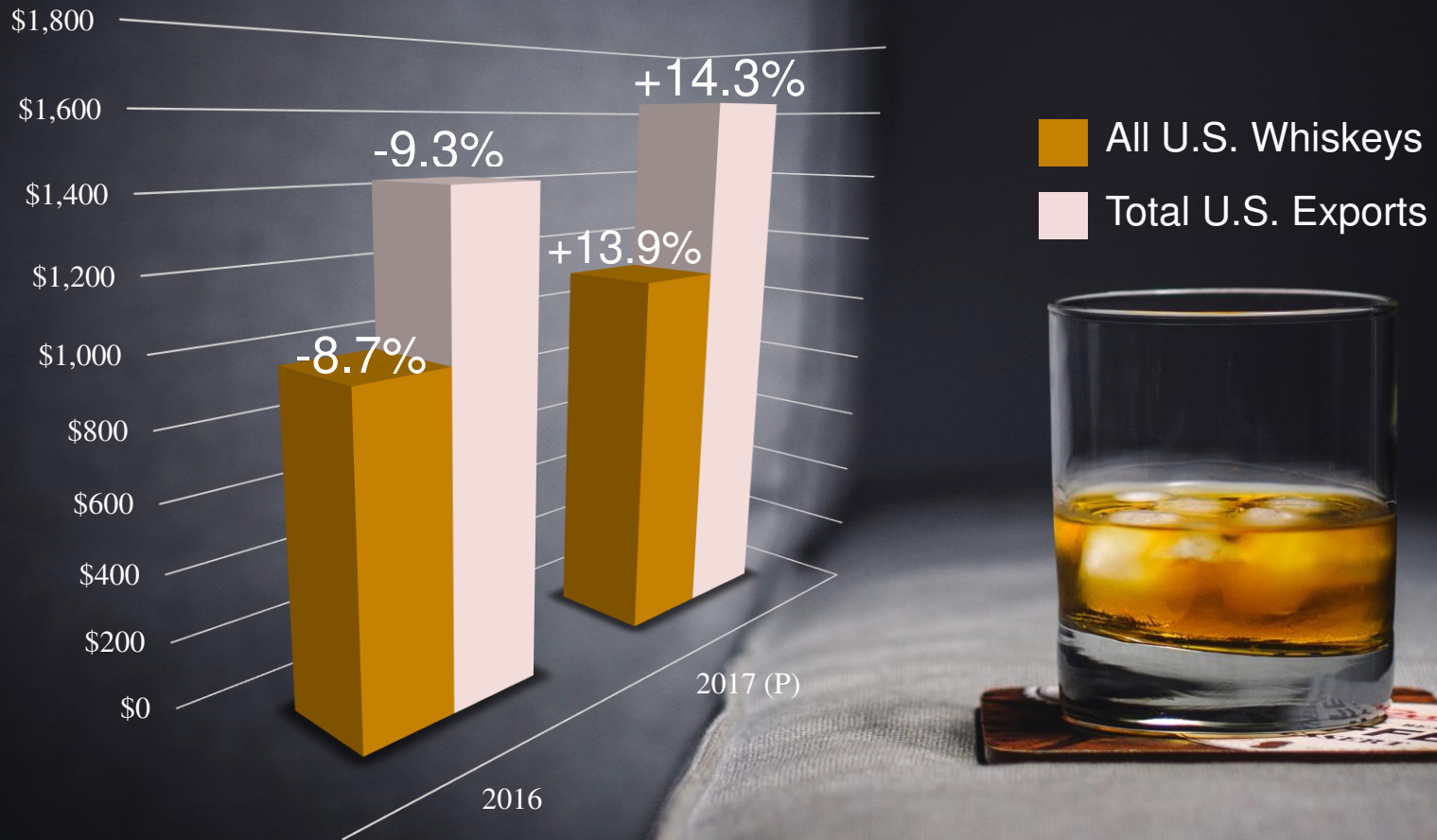


2017 Sets New Export Record





2017 Export Values Rebound Driven by U.S. Whiskeys (in \$ Millions)





Key to U.S. Spirits Export Success: American Whiskeys

68% of total by value and 48% by volume

Global fascination

American Whiskey story

Exporting cocktail culture

Mixability/versatility

Favorable exchange rate





Top 10 Export Markets in 2017 (in \$ Millions)

A world map with a white arrow pointing from the Americas towards the right, where a list of the top 10 export markets is displayed. The map is dark with city lights visible.

1		Canada	\$198.2	+3.7%
2		U.K.	\$177.9	+45.6%
3		Australia	\$127.7	+12.0%
4		Germany	\$123.5	+22.4%
5		Spain	\$117.1	+14.1%
6		France	\$114.1	+16.0%
7		Japan	\$111.6	+13.8%
8		Netherlands	\$59.1	-0.4%
9		Mexico	\$44.6	+21.2%
10		Italy	\$38.3	+46.4%



Top Five Export Growth Markets

		By Dollar	Value Growth 2016-2017 (USD Millions)	2017 Total Value (P) (USD Millions)
1		U.K.	55.7	177.9
2		Germany	22.6	123.5
3		Brazil	18.9	29.1
4		France	15.7	114.1
5		Spain	14.5	117.1
		By Percentage *	Percentage Growth 2016-2017	2017 Total Value (P) (USD Millions)
1		Brazil	+186.5%	29.1
2		Chile	+50%	21.6
3		Italy	+46.4%	38.2
4		U.K.	+45.6%	177.9
5		Panama	+44%	28.5

*Among countries whose U.S. imports exceed \$10 Million

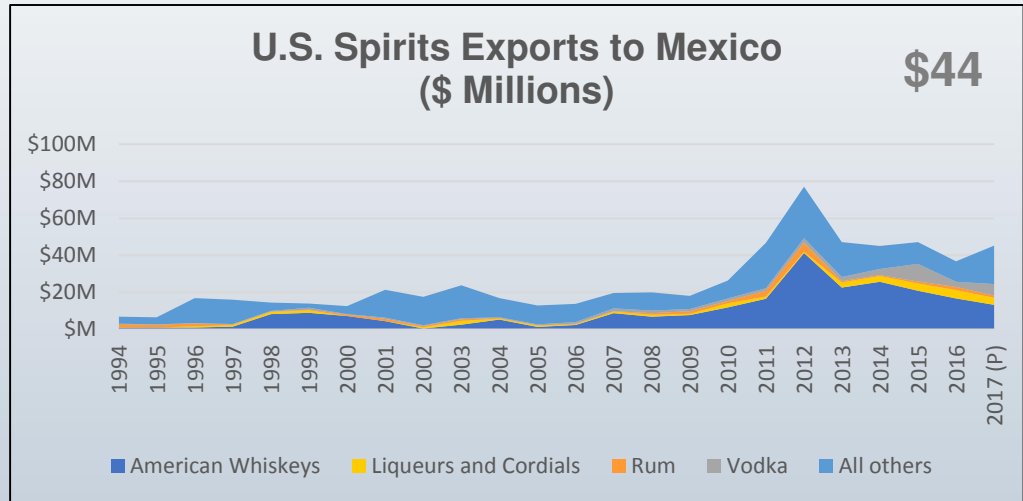


A Word About NAFTA: Huge Growth for U.S. Spirits Exports

Eliminated tariffs on U.S. exports to both countries

Established recognition of Bourbon, Tennessee Whiskey, Tequila, Mezcal and Canadian Whisky

Established new rules to ensure fair and equal treatment of U.S. spirits by Canada's state-owned beverage alcohol distribution and retail monopolies





Council's Export Promotion Program (MAP) Yields Results

Since 2006, conducted promotions with large and small distillers in 20 countries:

Austria	Hong Kong
Belgium	India
Brazil	Korea
Bulgaria	Romania
China	Russia
Chile	Singapore
Colombia	South Africa
Czech Republic	Thailand
France	United Kingdom
Germany	Vietnam



United States Department of Agriculture

Voyage au pays du bourbon

Forbes ^{INDIA}
The Interesting History of Bourbon Whiskey

*Para acc...
e do Novo Mundo
A origem do Bourbon e o seu conh...*

AMARILLO POR **TRADICIÓN**

喝它才有腔调!

编辑 / Mark Ma 图 / 品牌

男神去世了, 怀念他流行的那个硬汉时代。幸而男神们爱的酒
重温威士忌——硬汉的酒, 还有出硬汉的苏格兰。喝它, 才有腔调!

Whiskey o bourbon? **21世纪经济报道**
21ST CENTURY BUSINESS HERALD

THE SPIRITS BUSINESS

Largest gathering' of US distillers comes to UK



Questions