

Annual Economic Briefing

February 7, 2024



DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES

Presenters



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Analysis*



2023 Economic Overview

- U.S. spirits sector maintained market share lead of total beverage alcohol market
- Spirits sector reset following accelerated growth during pandemic
- U.S. spirits supplier revenue remained flat (+0.2%)
- U.S. spirits volume grew 1.2%

Spirits Industry is Major Contributor to U.S. Economy



U.S. is second largest spirits market in the world



Generates \$200 billion in U.S. economic activity annually



Supports around 1.7 million jobs through the production, distribution and sale of distilled spirits in the U.S.



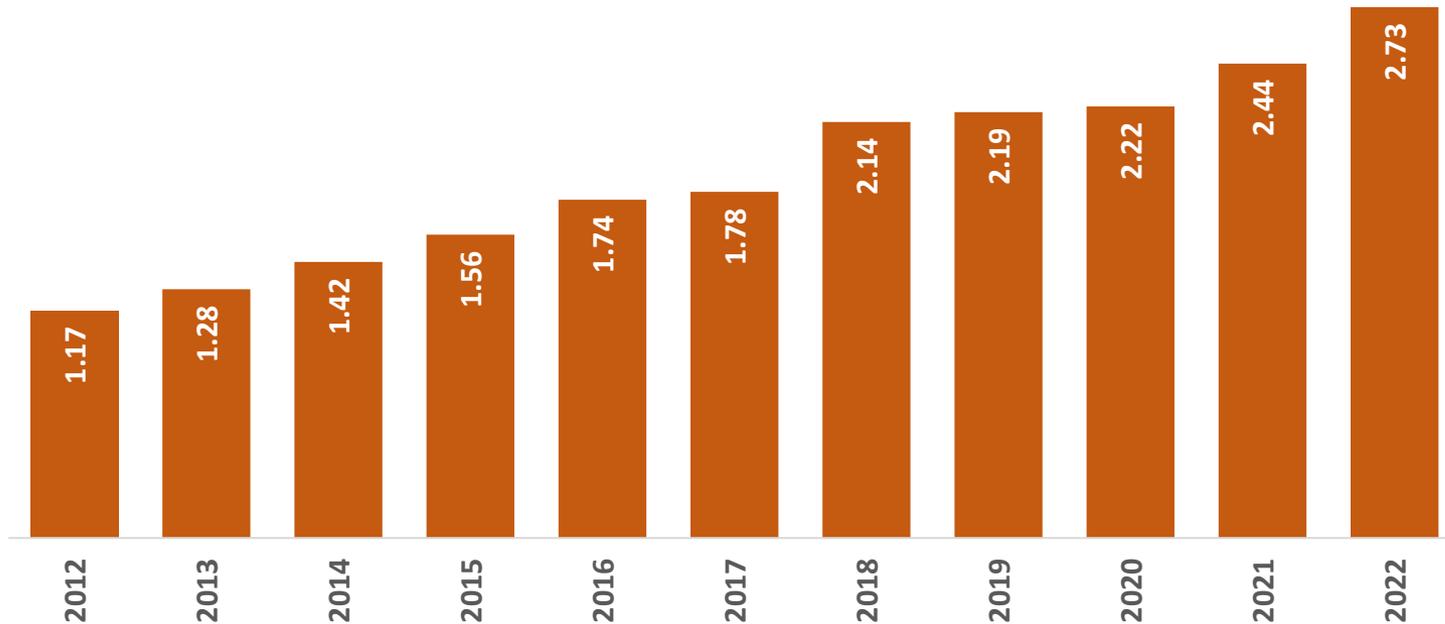
In 2022, 2.7 billion pounds of grains were used in production of U.S. whiskey, brandy, rum, gin and vodka

Grain Use in U.S. Distilled Spirits Production Up 133% Over Last Decade



From 1.17 billion pounds in 2012 to 2.73 billion pounds in 2022

Billions



Note: Includes only estimated grain use in the production of Whiskey, Brandy, Rum, Gin and Vodka.

Source: TTB, U.S. Department of the Treasury.



Christine LoCascio

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Marketplace Trends



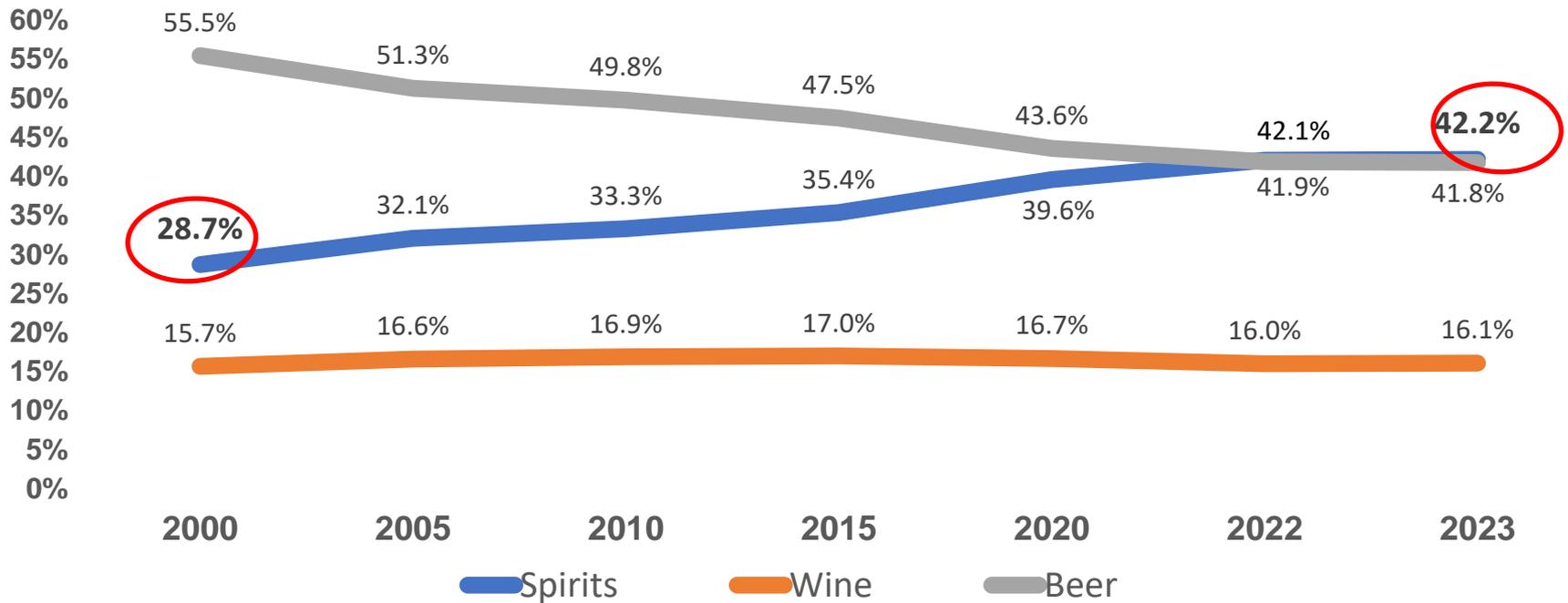
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Spirits Maintain U.S. Market Share Lead



13 Points of Market Share Since 2000. Each point worth \$890 million in supplier revenue.

U.S. Market Share by Supplier Revenue



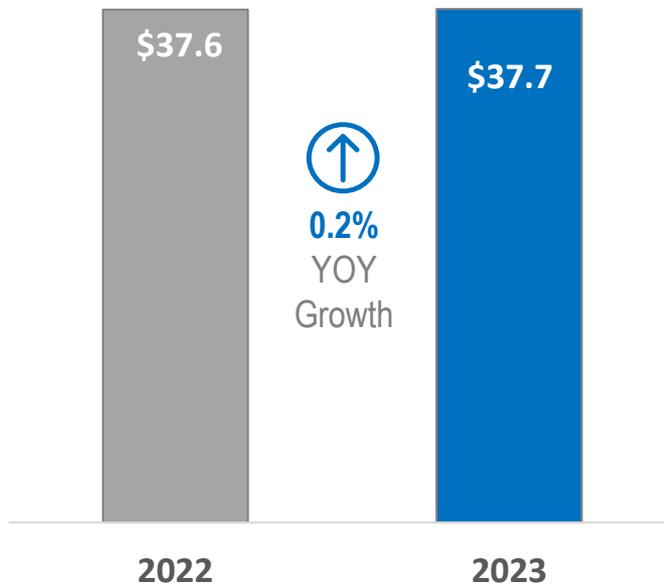
Sources: Derived from industry financial reports, Beverage Information Group Handbooks, NABCA FOB prices, DISCUS Brand Data and Council Estimates

U.S. Spirits Market Resets in 2023



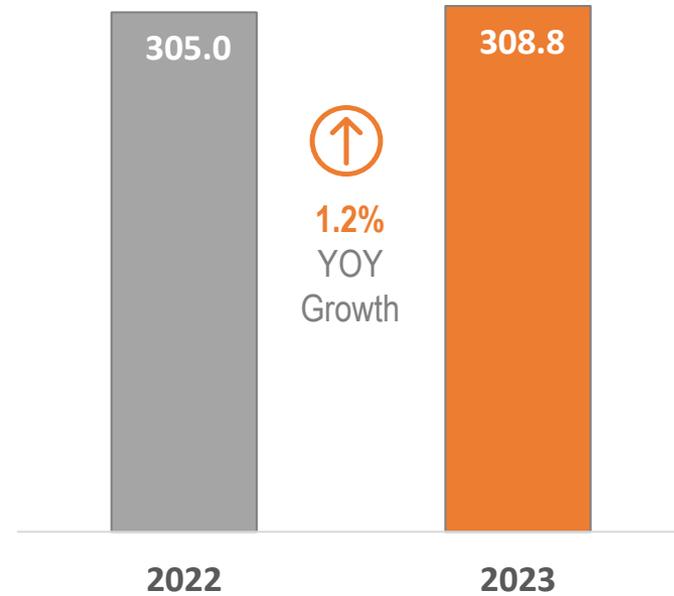
Revenue Increased by \$73M

Billions



Volume Increased by 3.8M

9-Liter Cases, Millions



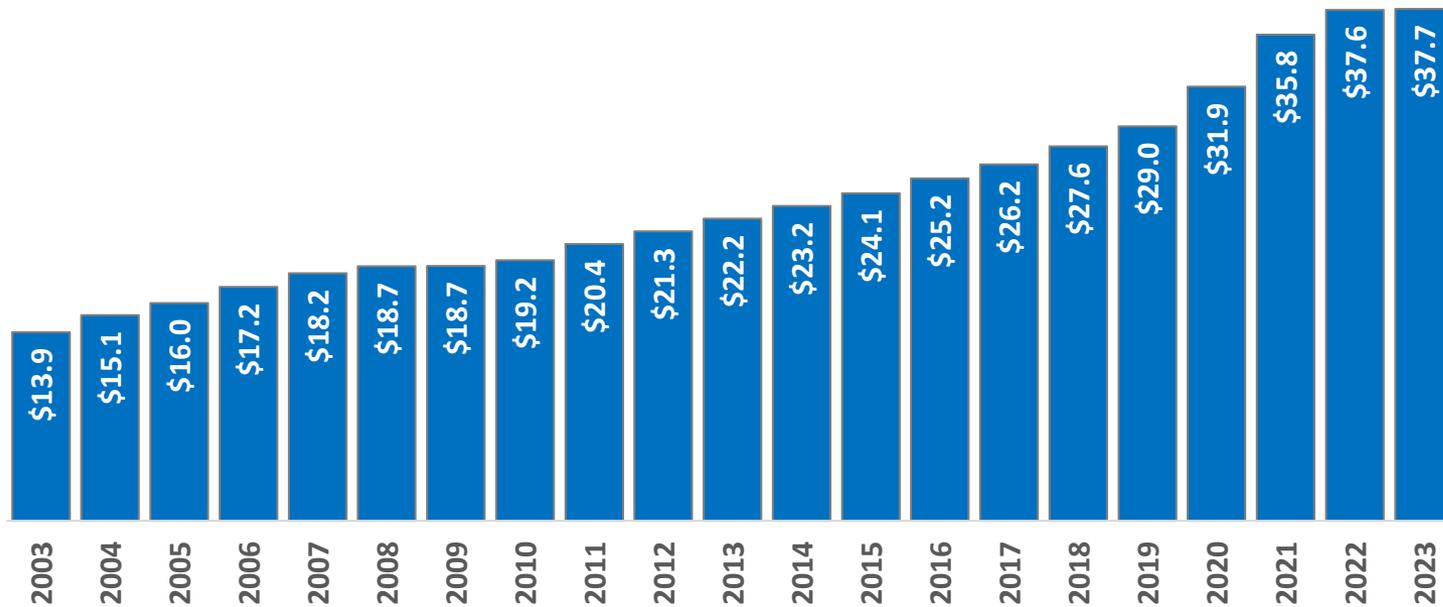
Source: DISCUS Market Segmentation Database, IWSR, and various industry publications.

Note: Excluding Cocktails/RTDs, the spirits industry revenue and volume declined by \$0.5 billion (1.5%) and 8.4 million 9-liter cases (3.3%), respectively.

Spirits Revenues Grew 5.1% Annually Over Past 20 Years



Spirits Revenue, Billions



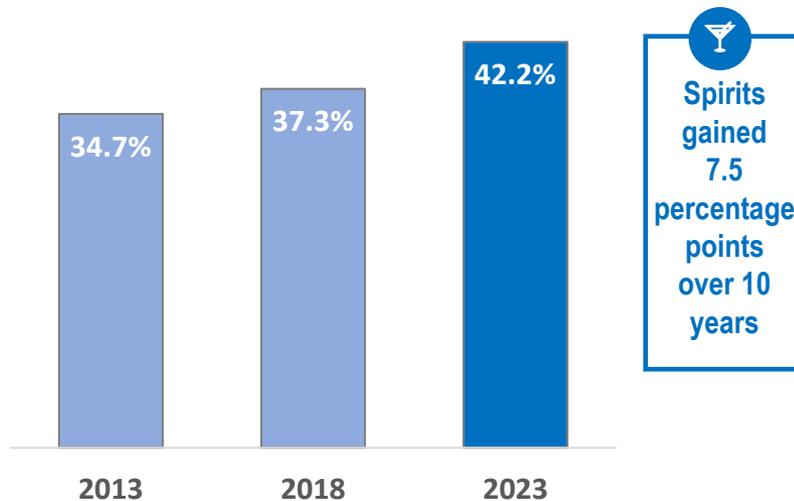
Source: DISCUS Market Segmentation Database, IWSR, and various industry publications.

2023 Market Share Snapshot

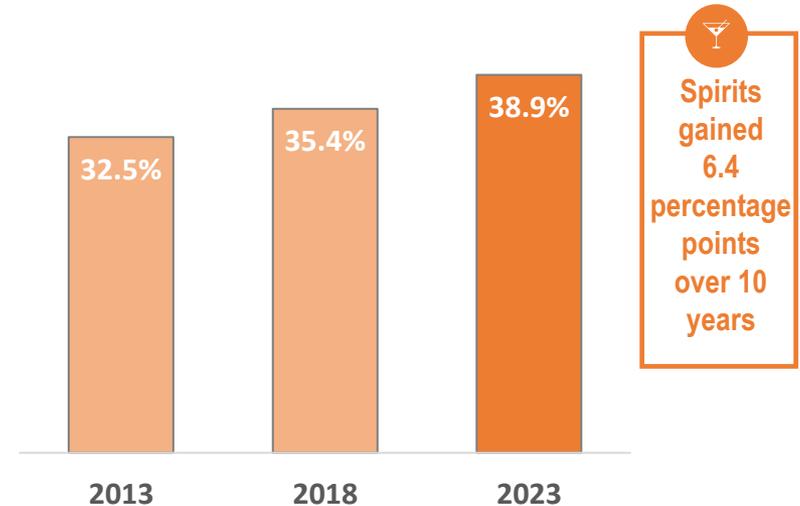
Spirits enjoy significant gains over last decade



Spirits Account for Over 42% of U.S. Alcohol Industry Revenue in 2023



Spirits Account for 39% of U.S. Alcohol Industry Volume in 2023



Challenging Market Dynamics Contributed to Reset in 2023

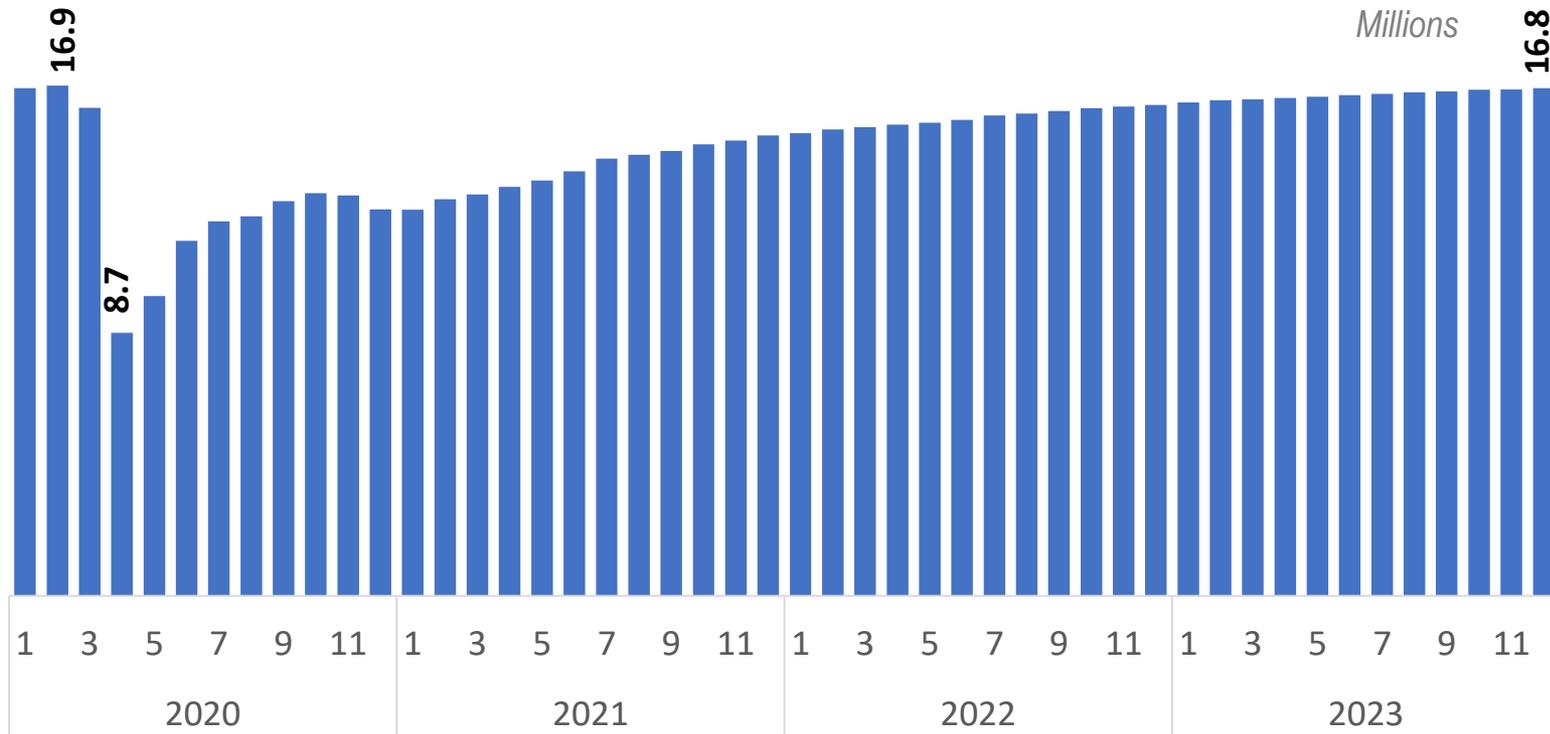


- Consumers returned to more normal routines and buying habits post-pandemic
- Retailers and wholesalers paused reordering as they reduce inventory build ups
- Difficult economic conditions with high inflation and interest rates have reduced consumer discretionary spending

Hospitality Industry Employment Still Not Recovered to Pre-Pandemic Level



Hospitality Industry Employment is Down 86,000 Compared to Pre-Pandemic Levels



Note: From Feb. 2016- Feb. 2020, industry added 1.4 million jobs. Absence of job growth from 4 years ago is significant.

Consumer Trends

Consumers continue to embrace spirits-based RTDS



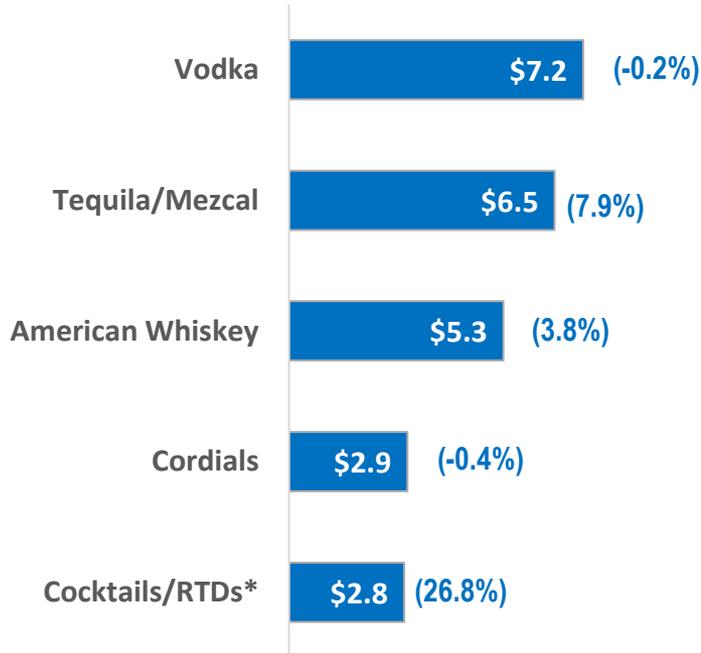
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Vodka Remains Top Spirits Category in 2023



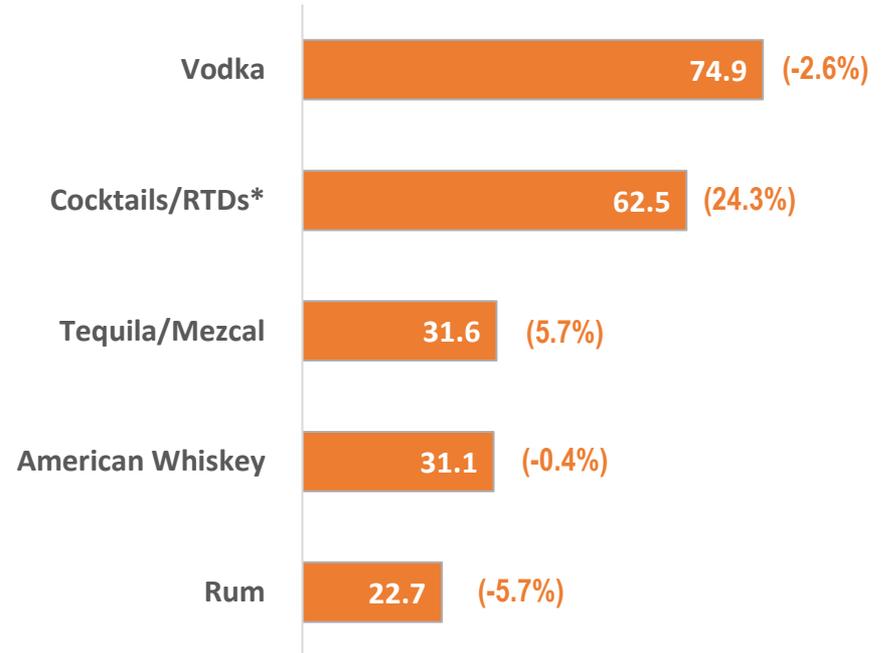
Top 5 Spirits by Revenue

Billions (2022-23 Growth)



Top 5 Spirits by Volume

9-Liter Cases, Millions (2022-23 Growth)



Source: DISCUS Market Segmentation Database, IWSR, and various industry publications.

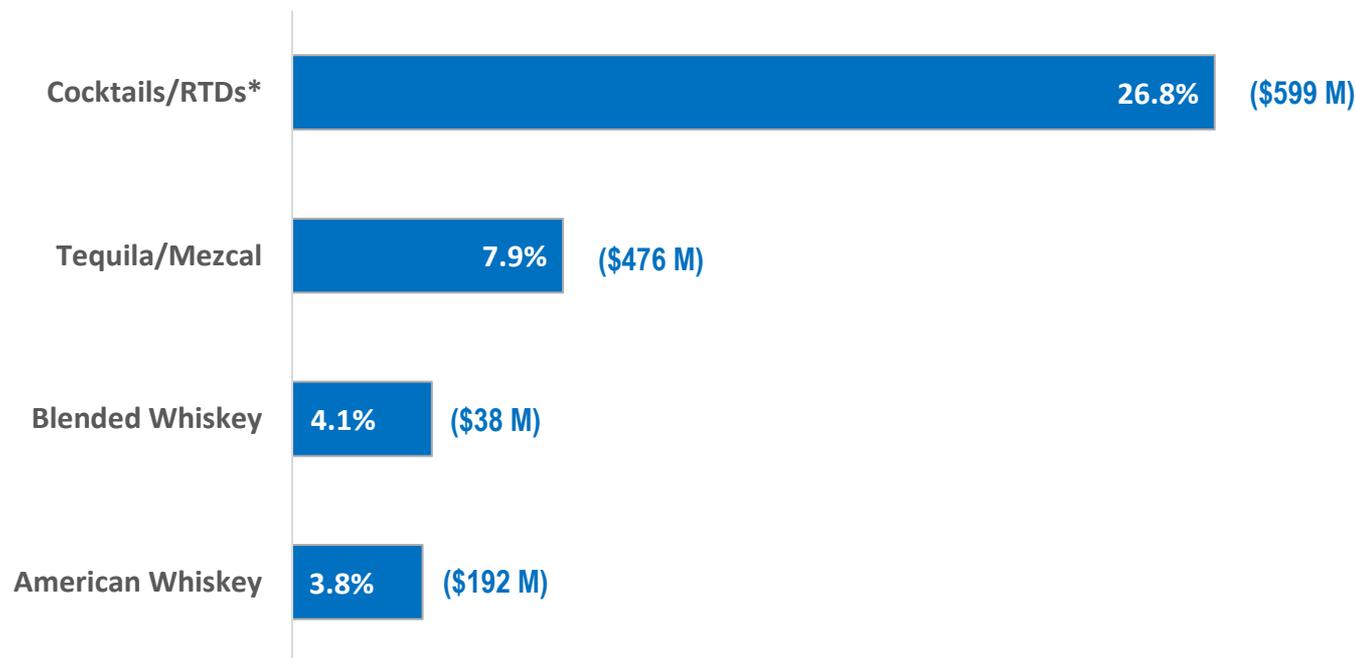
*Pre-mixed Cocktails, including spirits-based RTDs.

Cocktails/RTDs Remains Fastest Growing Spirits Category by Revenue



Fastest Growing Spirits by Revenue

2022-23 Growth Rate (Change in Revenue)



Source: DISCUS Market Segmentation Database, IWSR, and various industry publications.

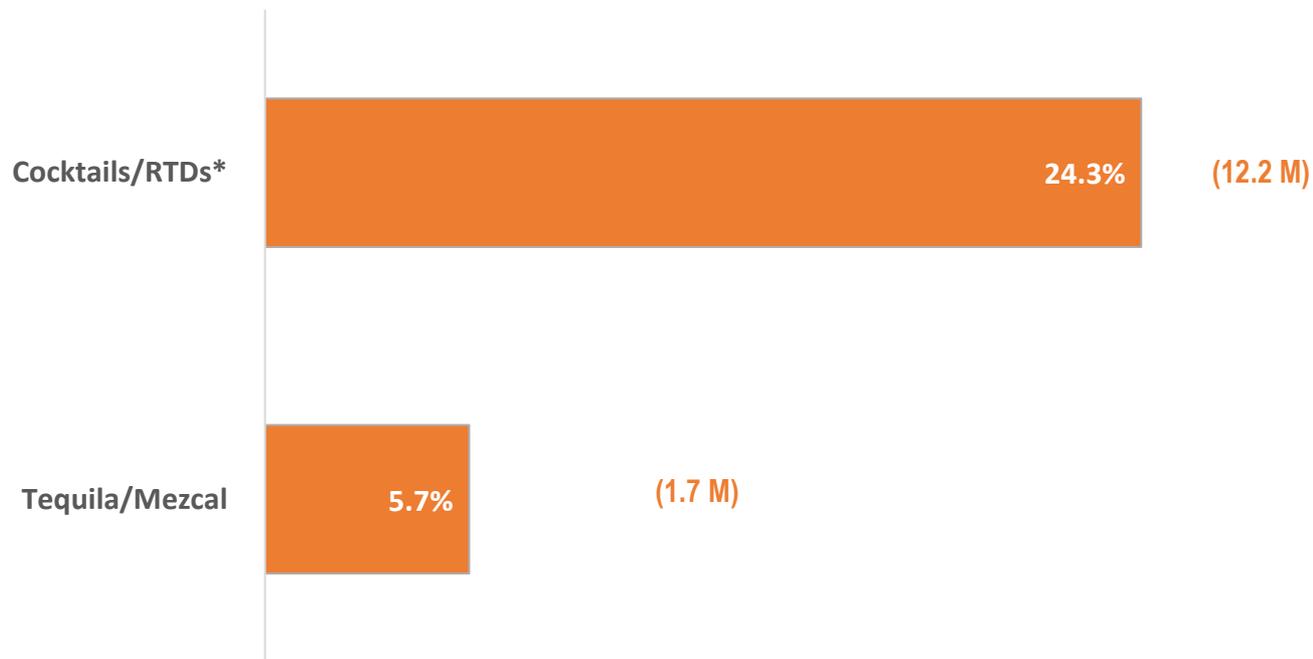
*Pre-mixed Cocktails, including spirits-based RTDs.

Cocktails/RTDs & Tequila Remain Fastest Growing Categories by Volume



Fastest Growing Spirits by Volume

2022-23 Growth Rate (Change in 9-Liter Cases)



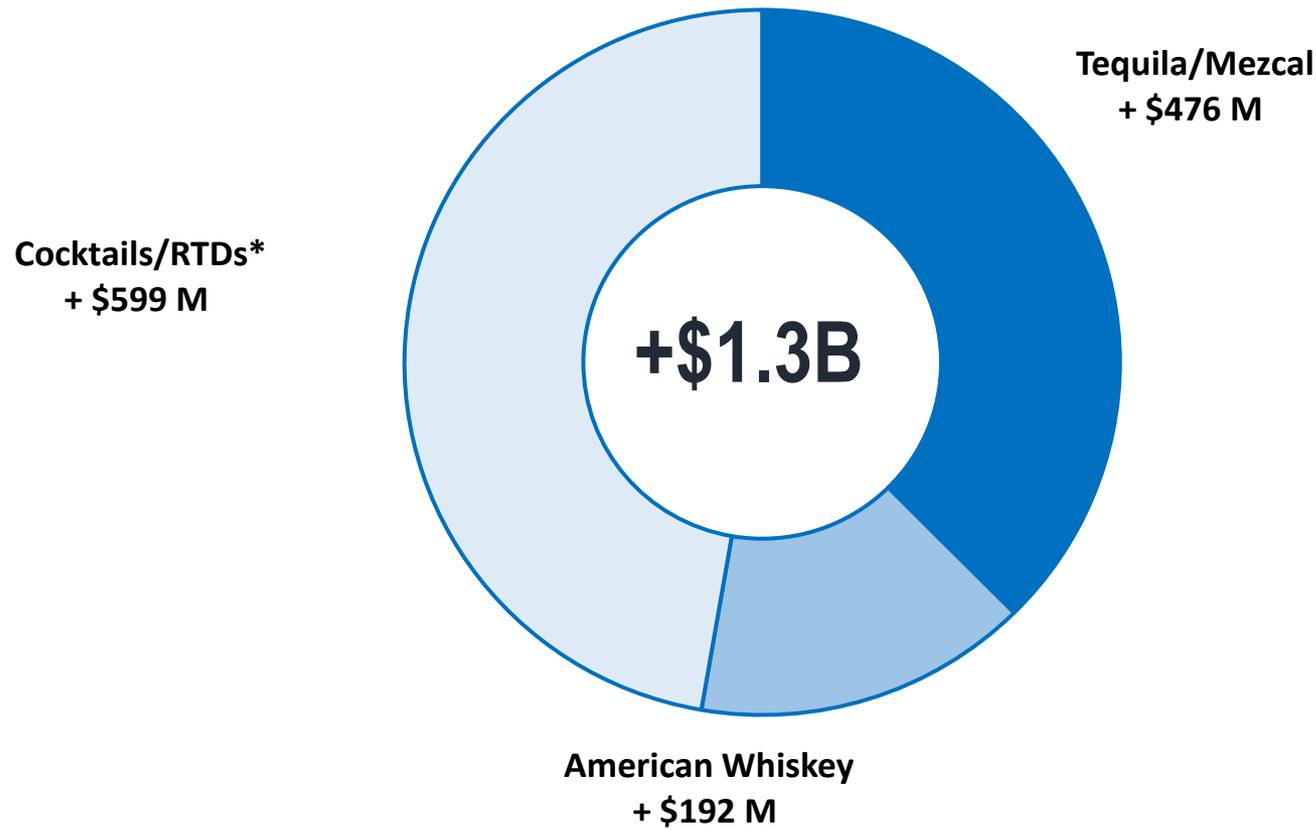
Source: DISCUS Market Segmentation Database, IWSR, and various industry publications.

*Pre-mixed Cocktails, including spirits-based RTDs.

Tequila/Mezcal, Cocktails/RTDs & American Whiskey Continue to Drive Industry Revenues



Revenue increases between 2022 and 2023



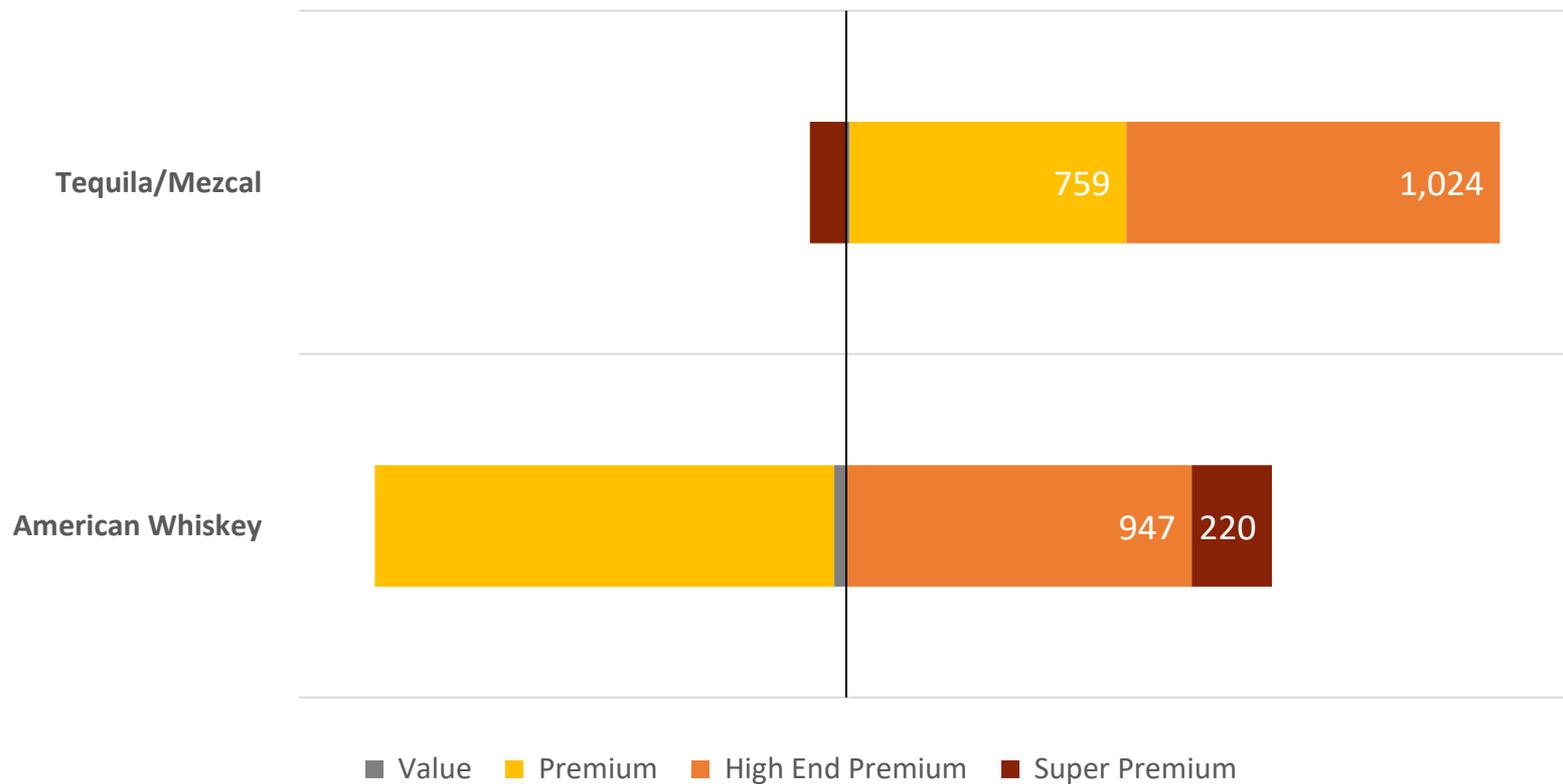
Source: DISCUS Market Segmentation Database, IWSR, and various industry publications.

*Pre-mixed Cocktails, including spirits-based RTDs.

Premiumization Continues for Tequila/Mezcal and American Whiskey



2022-23 Change in Volume, 9-Liter Cases, Thousands



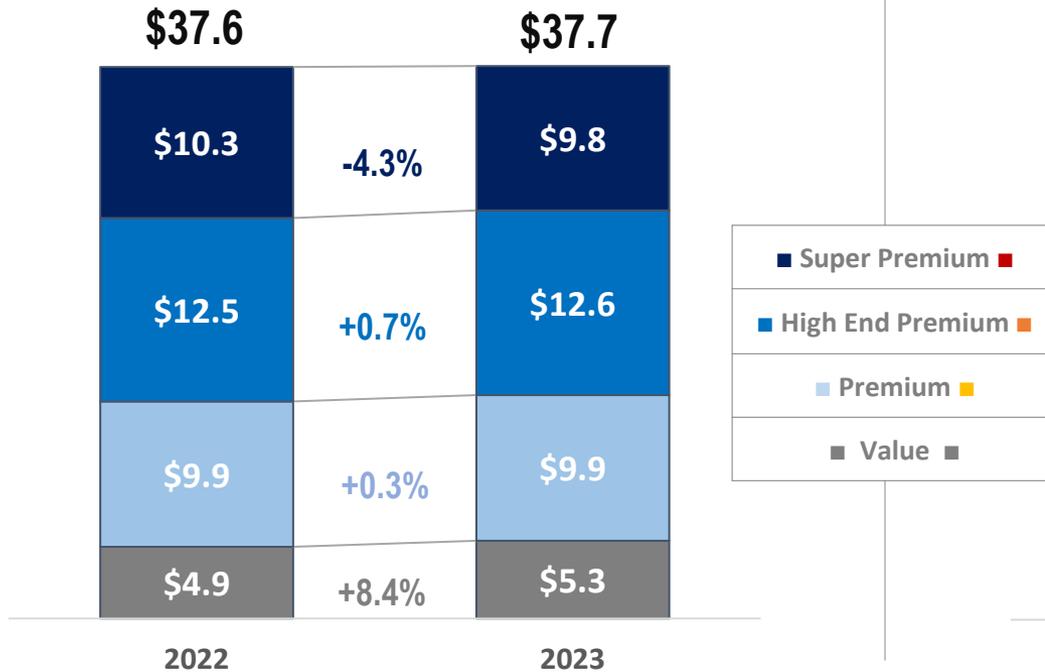
Overall Premiumization Stalls Amid Reset

60% of total revenue is accounted for by high end & super premium



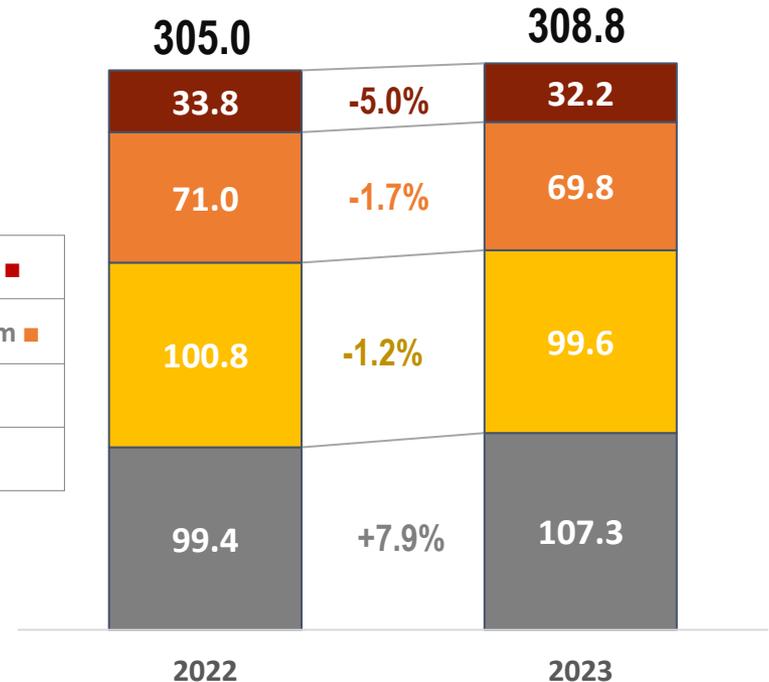
Total Spirit Revenue was Flat

Billions



Total Spirit Volume Rose 1.2%

9-Liter Cases, Millions

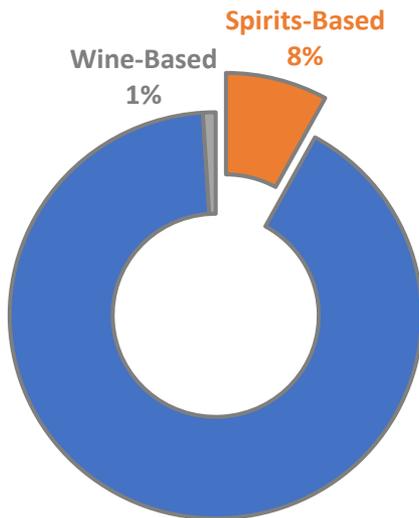


Consumers Increasingly Prefer Spirits-Based RTDs



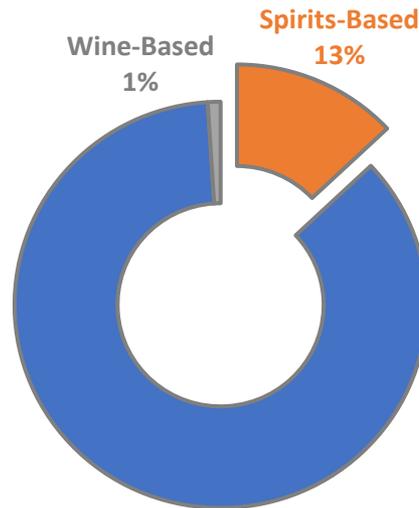
Spirits are still a small portion of the RTD market

Share of Market Volume



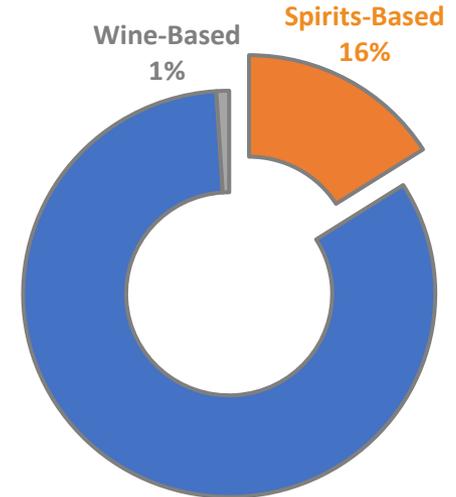
Malt-Based
91%

2021



Malt-Based
86%

2022



Malt-Based
83%

2023



Marten Lodewijks

IWSR Drinks Market Analysis

Head of Consulting - Americas



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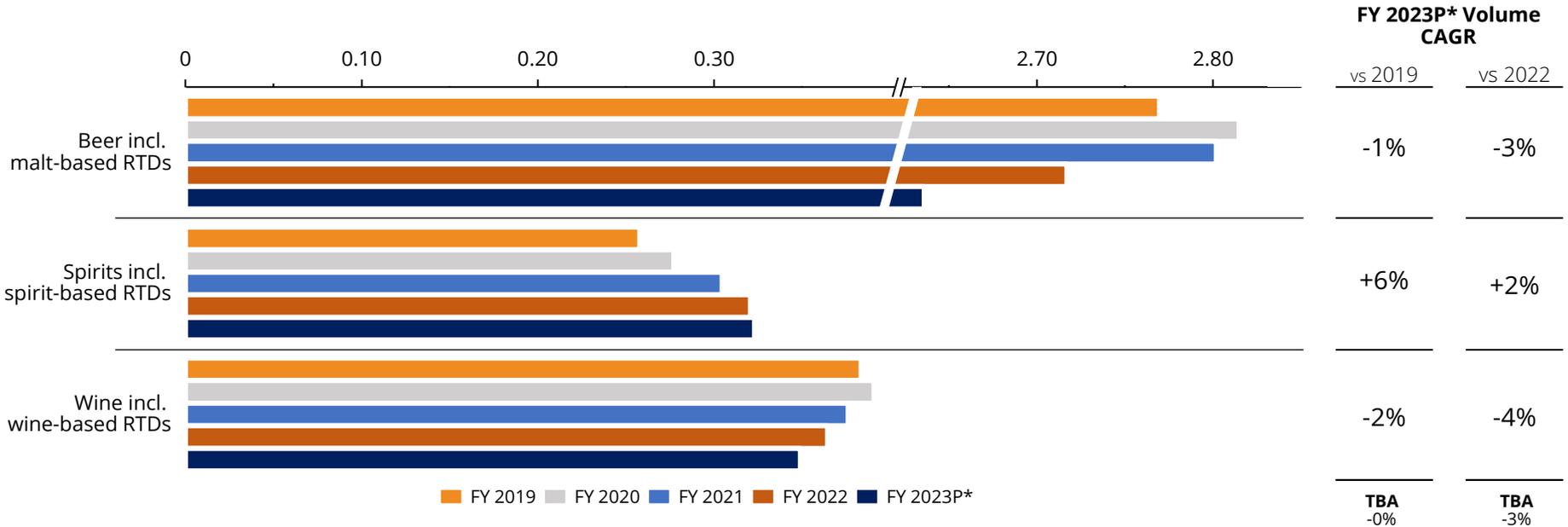
Spirits Only Alcohol Category to Grow in 2023

Beer & wine drive decline in total beverage alcohol volumes in 2023, spirits see some growth but at slower rate than previous years



US Volume by Category (FY 2019–23P*)

Volume (Billions of 9LCs)



*Note: 2023 data is preliminary and subject to change



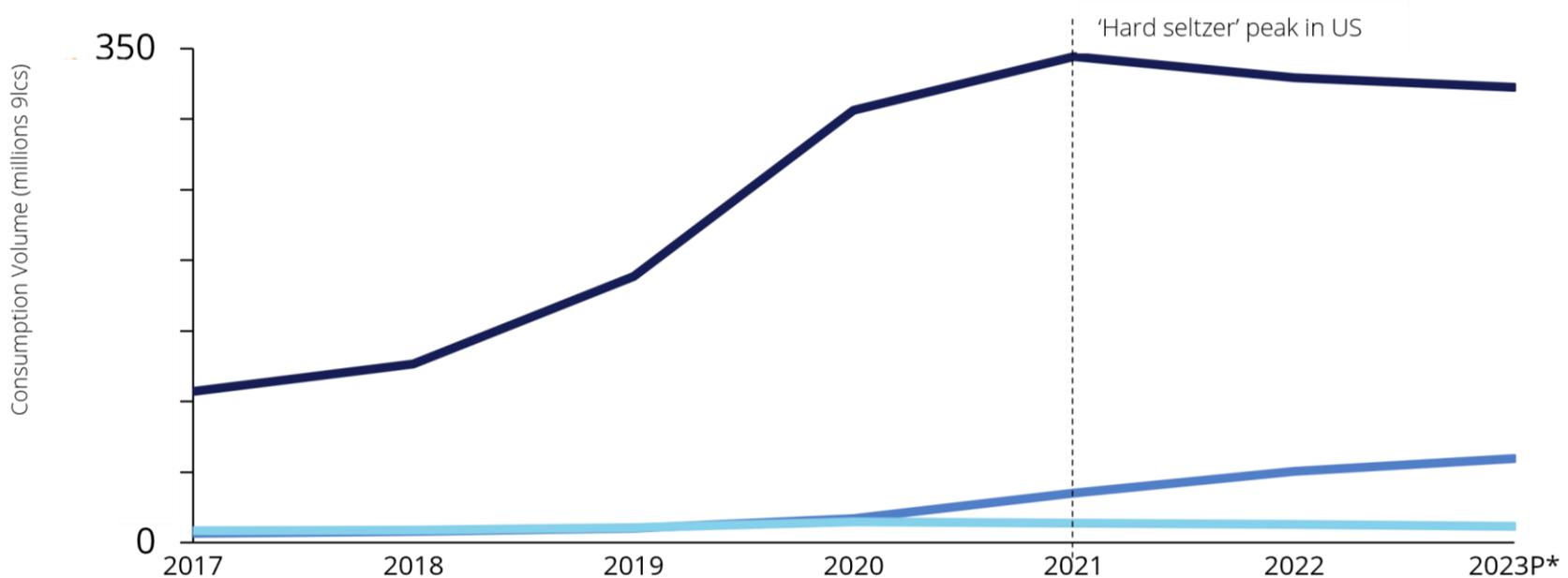
Spirits-Based RTDs Outgrowing Malt-Based

Despite rapid growth malt-based RTDs saw from '17-'21, spirit-based products have grown faster, albeit off a smaller base, and are continuing to see growth where malt-based products are in decline



RTD volumes by alcohol base 2017-2023P

United States



*Note: 2023 data is preliminary and subject to change

Volume CAGR

	'17-'21	'21-'23P*
— Malt base	34%	-3%
— Spirit base	51%	30%
— Wine base	19%	-7%



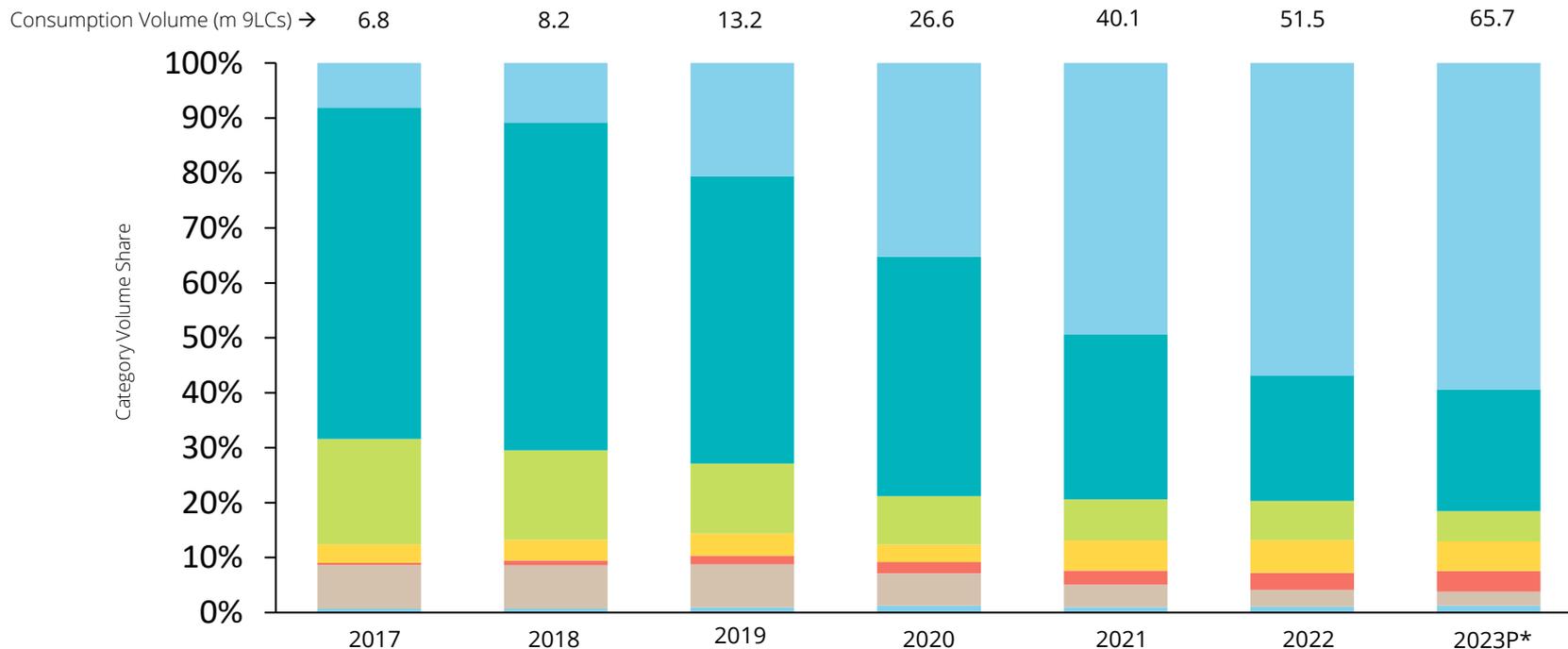
Vodka-Based RTDs Are Biggest Winner

Unpacking spirits-based RTD growth, we see a redistribution of share from Tequila and Rum to Vodka and, to a lesser extent, Whiskey and Gin



Share of RTD Volumes by Spirit Base 2017-2023P*

United States



*Note: 2023 data is preliminary and subject to change

- Vodka
- Tequila
- Rum
- Whiskey
- Gin
- Multiple
- Other

Volume CAGR

	'17-'21	'21-'23P*
Vodka	145%	19%
Tequila	31%	5%
Rum	23%	5%
Whiskey	76%	13%
Gin	146%	25%
Multiple	32%	1%
Other	70%	20%

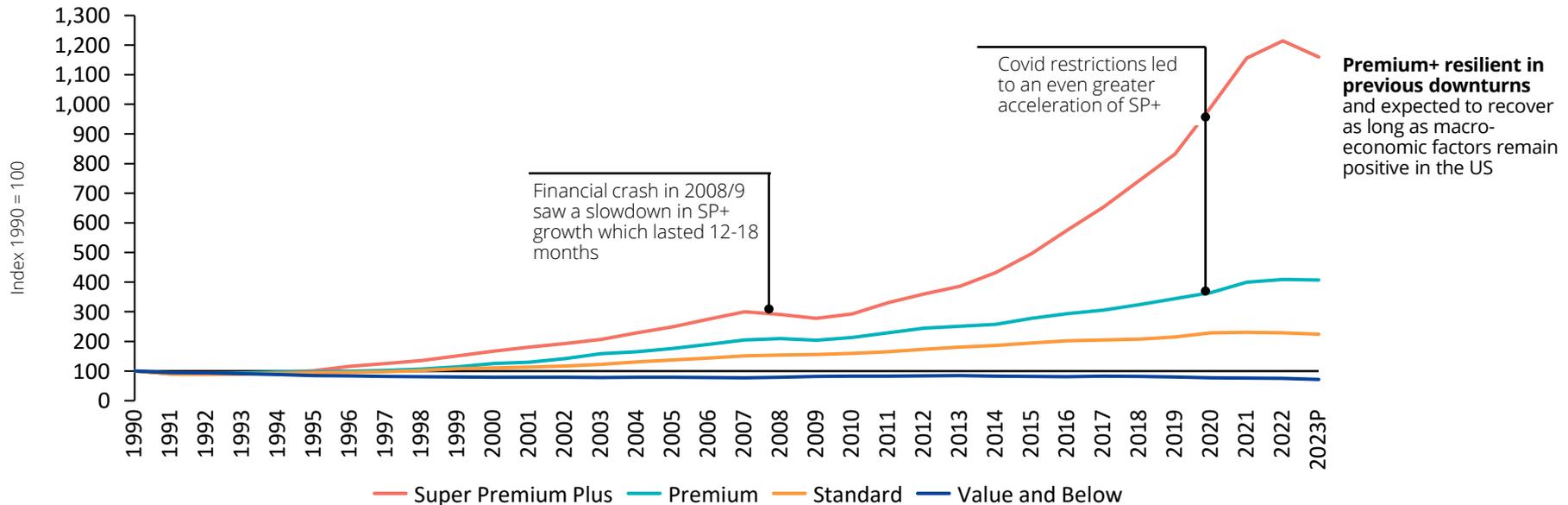
Crises Stall but Don't Stop Premiumisation

The '08/'09 financial crisis & pandemic + current economic pressures paused shift to premium, but long term trend continues



Spirits volumes by price band indexed against 1990

United States



Value: < \$9.99; Standard: \$10 – \$22.49; Premium: \$22.50 - \$30.49; Super Premium Plus: > \$30.50



Chris Swonger

**Distilled Spirits Council
of the United States &
Responsibility.org**

President & CEO



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Key Policy Victories & Legislative Priorities



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2023 Key Federal & International Victories



FEDERAL & INTERNATIONAL

- American Whiskey remains tariff free in the EU
 - Agreement between U.S.-EU extended the suspension the EU's retaliatory tariffs on American Whiskeys in the steel-aluminum dispute
 - Tariffs suspended for 15 months (March 31, 2025)
- As a result of the tariff suspension, American Whiskey exports to the EU increased by 29% in 2022 compared to 2021, reaching \$566 million in 2022.
 - This accounted for 44% of all American Whiskey exports, surpassing the pre-tariff level of \$518 million in 2017.
- Through October 2023 (latest data available), American Whiskey exports to the EU are up nearly 64% as compared to the same period in 2022 (Jan-Oct).



Whiskey distillers cheer as EU, U.S. strike deal to avoid 50% tariff on exports to Europe



2023 Key State Victories



- Secured 7-day sales in Montana, leaving 6 states with Sunday ban
- Increased Sunday sales hours in NY
- Cocktails to-go permanency in 5 new states bringing total permanent states to 23; extensions passed in 3
- Secured wins on spirits RTDs in 3 states
- Defeated tax threats in 6 states
- Retail tastings laws expanded in Arkansas and West Virginia
- Expanded distillery sales and/or measures signed into law in CT, TX and WV

GOVERNOR SIGNS HB867

- Allows agency liquor stores to be open Sundays, Mondays
- Distilled Spirits Council of the United States sent letter to Gov., urging him to sign it
- Only 6 state now ban retail sale of distilled spirits on Sundays



5:06
51°
3
KRTV



FEDERAL & INTERNATIONAL

- Securing the permanent suspension of EU, UK and U.S. retaliatory tariffs on all distilled spirits
- Defending distilled spirits sector from federal tax increases
- Supporting legislation to prevent retail theft

STATE

- Defending hospitality sector from state tax increases
- Fairer tax treatment & increased retail access for spirits ready-to-drink products in the states
- Expanded marketplace modernizations including cocktails to-go and spirits direct-to-consumer shipping

RTD Effort: Alabama Ready for Convenience Coalition



- Alabama Task Force creating bill on spirits ready-to-drink products
- **Market Access:** will allow where beer & wine are sold
- **Tax Fairness:** considering tax rate reduction
- Broad support across alcohol tiers and sectors working towards same goal: Increase market access for spirits RTDs and ensure they are competitive with fair tax rate
- Coalition:
 - Beer wholesalers
 - Grocers
 - Convenience store owners
 - Spirits producers



READY
4CONVENIENCE.COM

Spirits RTDs Have Great Opportunity for Expansion



Beer is Sold in 3.4 Times More Retail Outlets than Spirits



79,000

Retail Outlets
Selling Spirits

VS.



265,000

Retail Outlets
Selling Beer

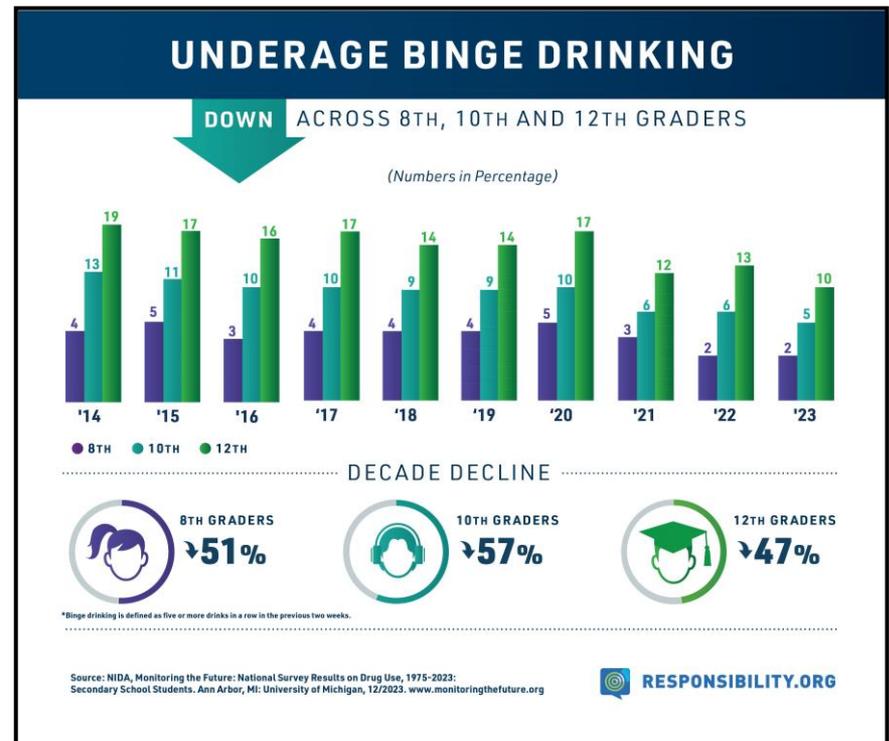
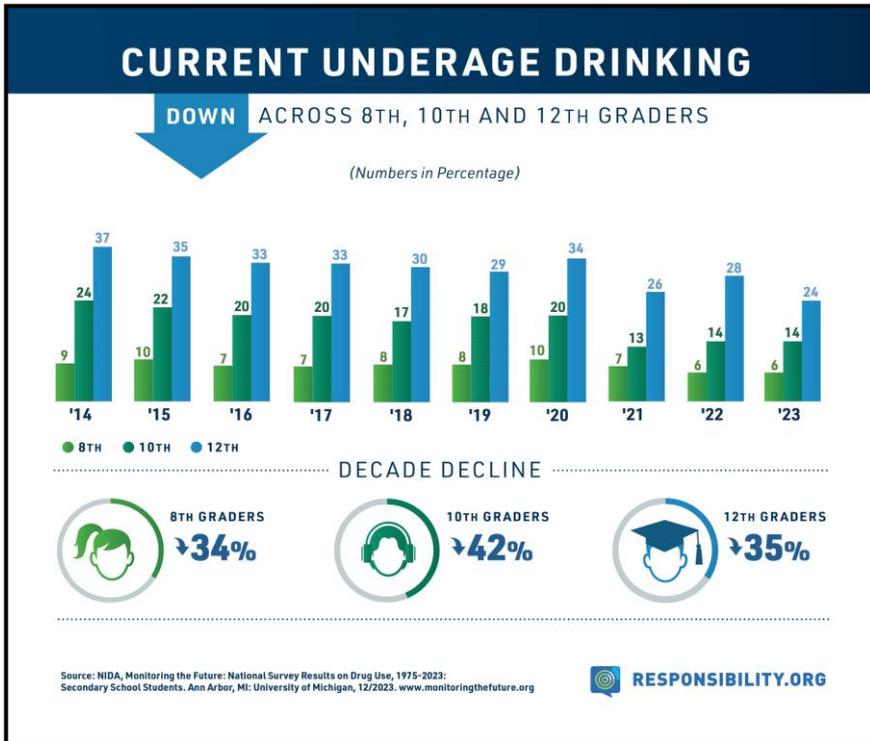
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Spirits Industry Committed to Preventing Underage Drinking

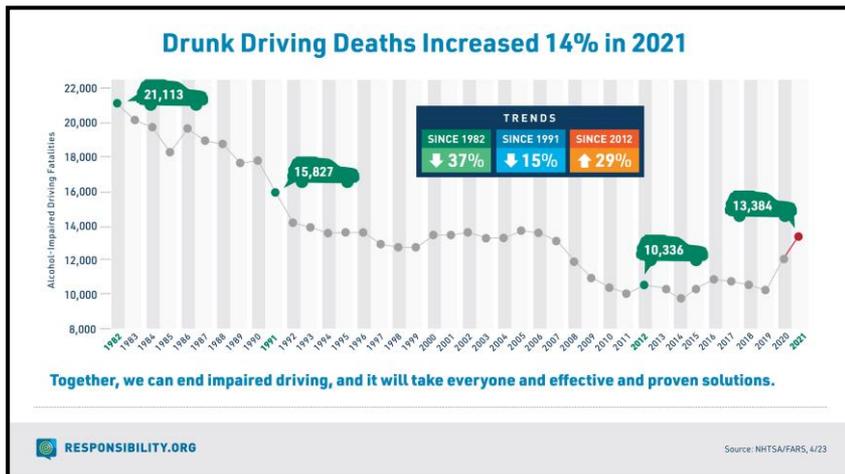
- Nearly 2 out of 3 teens have never consumed alcohol.
- Long-term declines in underage drinking noted over the past few decades remain, with prevalence rates at or near record low levels and below pre-pandemic prevalence rates.
- Among 12th grade students, lifetime, annual, current and daily prevalence rates declined significantly from 2022 to 2023.



Spirits Industry Committed to Eliminating Drunk & Impaired Driving



- Drunk driving fatalities increased 14% in 2021, but have decreased 15% since 1991, and 36% since 1982.
- In 2021, alcohol-impaired driving fatalities accounted for 31% of the total vehicle traffic fatalities. And 20% of driver fatalities in motor vehicle crashes involved a driver who tested positive for drugs and alcohol.
- High-risk impaired drivers continue to wreak havoc on our nation's roadways accounting for 70% of drunk driving fatalities.
- Among persons under 21, drunk driving fatalities have decreased almost 56% since 1991, but increased 17% from 2020 to 2021.



Responsibility.org Initiatives & Programs



Question & Answer



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