Distilled Spirits Council

2018 ECONOMIC BRIEFING

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DISTILLED SPIRITS COUNCIL

Chris R. Swonger

Distilled Spirits Council

President & CEO

Nine Consecutive Years of Market Share Growth

2018 Economic Overview

- **U.S. revenue growth up 5.1 percent**
- **U.S. volume growth up 2.2 percent**
- **Ninth straight year of market share gains**

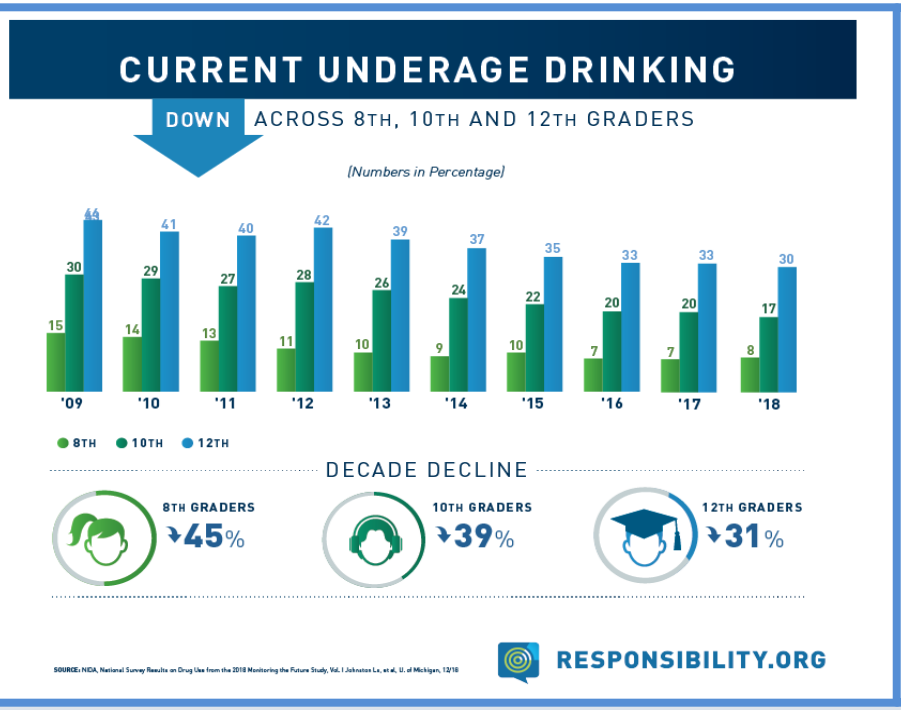
Economic Impact of the Spirits Industry

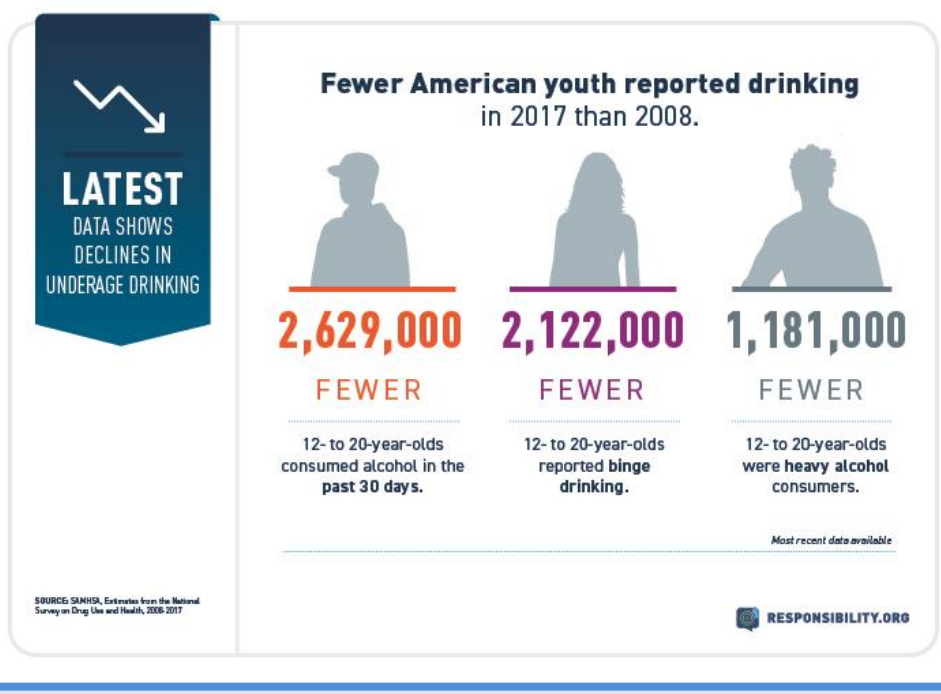
- $178 billion in economic activity
- 1.6 million jobs
- Nearly $30 billion in federal, state and local taxes
- More than 2,800 craft distillers in the United States
  - This segment has increased by 107 percent since 2013 (TTB)

2018 Key Policy Victories

- Defeated tax threats in 19 states, saving industry $540.4 million
- Sunday sales bans lifted in Indiana and Tennessee
  - Since 2002, 20 states have passed Sunday sales legislation bringing the total to 42
- Passed “Brunch Bill” in Georgia allowing earlier on-premise Sunday sales; More than 54 localities approved earlier hours

Commitment to Social Responsibility Results in Sustained Progress





Commitment to Social Responsibility Results in Sustained Progress

- Long-term declines in underage and binge drinking continue
- Alcohol-impaired driving as a percent of overall traffic fatalities is at the lowest percentage since Department of Transportation began reporting alcohol data 1982
- Spirits sector contributes to progress through evidence-based underage drinking programs, support for strict enforcement of existing laws, and comprehensive anti-drunk driving legislation
- Drug-impaired driving on the rise:
  - In 2016, 44 percent of fatally-injured drivers with known results tested positive for drugs, up from 28 percent just 10 years prior. (2018 GHSA Report)
  - Spirits industry (R.org) has supported increased awareness on drug- and polysubstance-impaired driving and provided funding for advanced law enforcement training
  - Spirits industry (DISCUS) has lobbied in support of funding for the development of accurate and reliable roadside testing technology for marijuana

2019 Issues to Watch

- Efforts to end retaliatory tariffs on U.S. spirits products
- Craft Beverage Modernization and Tax Reform Act (S. 362) reintroduced February 6
  - Industry-wide effort to extend FET reduction
  - Two-year tax cut for distillers, brewers and vintners ends in 2019
- TTB rulemaking on modernization of labeling & advertising regulations
  - First revision in decades of labeling & advertising rules for spirits, wine and beer
  - DISCUS fully engaged to ensure regulations reflect ever-evolving marketplace
  - Comments due March 26, likely to be extended to June 26
- Sunday sales ban repeal efforts in South Carolina, West Virginia and Texas
- Spirits tastings lobbying efforts in Georgia and North Carolina
- United States-Mexico-Canada trade agreement signed; Congress consideration likely
- Deadline looms for another possible government shutdown
  - TTB's approval of beverage alcohol formulas, labels and permits is critical to getting products to market and generating both federal and state revenue
  - TTB reports the recent shutdown roughly doubled the agency's existing backlog

DISTILLED SPIRITS COUNCIL

David Ozgo

Distilled Spirits Council

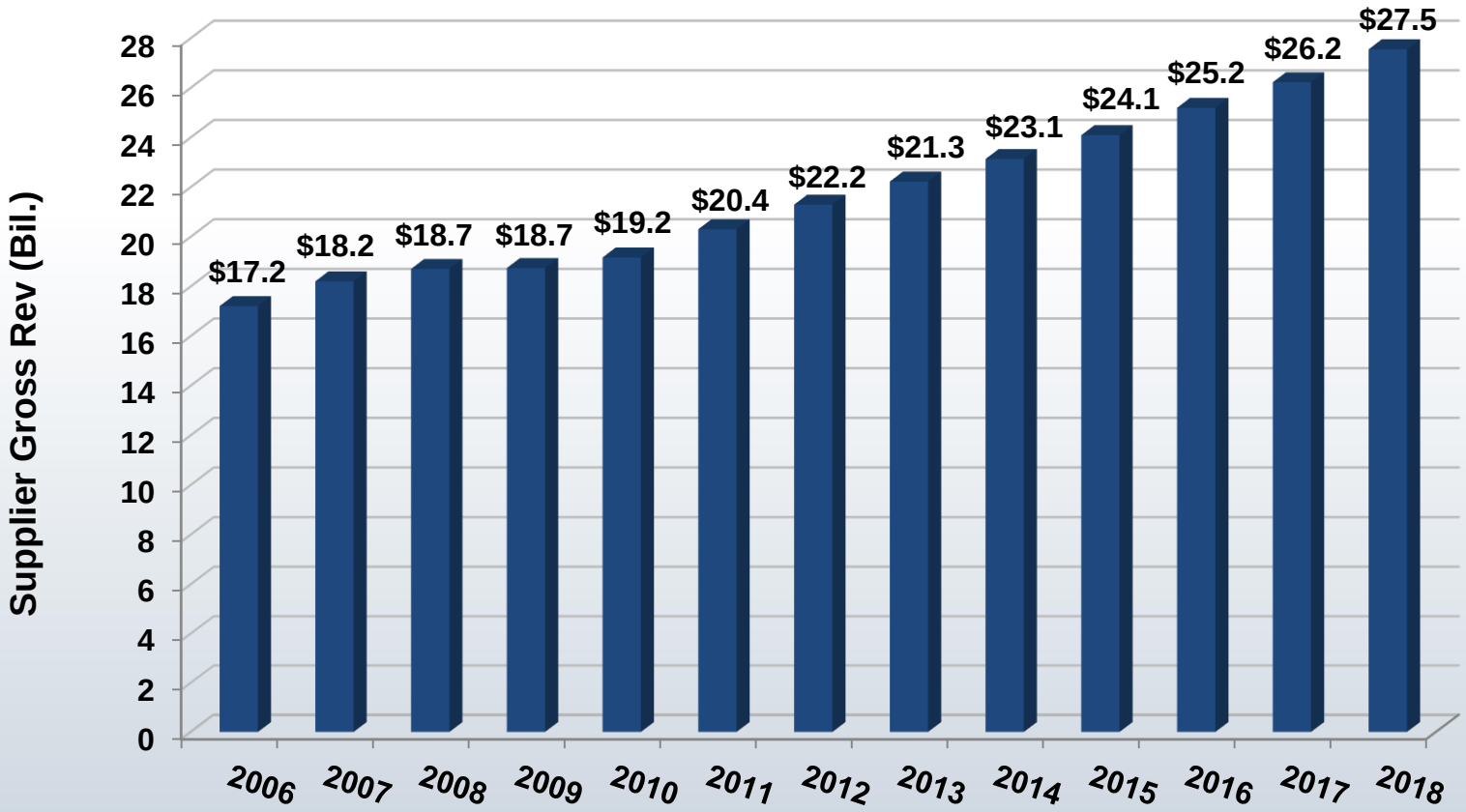
Senior Vice President
Economics & Strategic Analysis

Economic Review 2018

Economic Review 2018

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

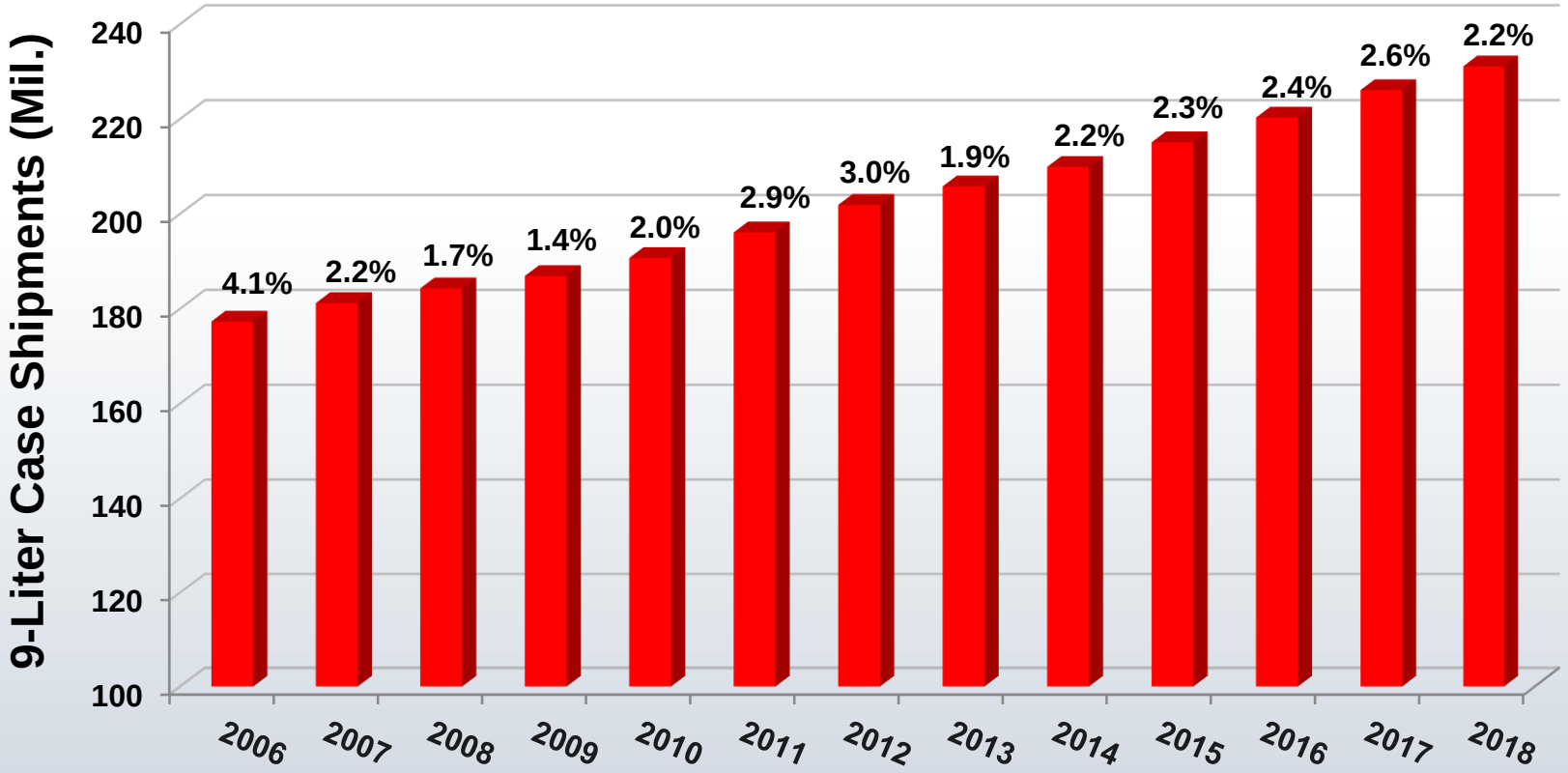
U.S. Spirits Supplier Revenues Up 5.1 Percent to $27.5 – $1.3 Billion Gain



Source: Distilled Spirits Council Market Segmentation Database

U.S. Volume Up 2.2 Percent in 2018

Up 5.0 Million to 231 Million Cases



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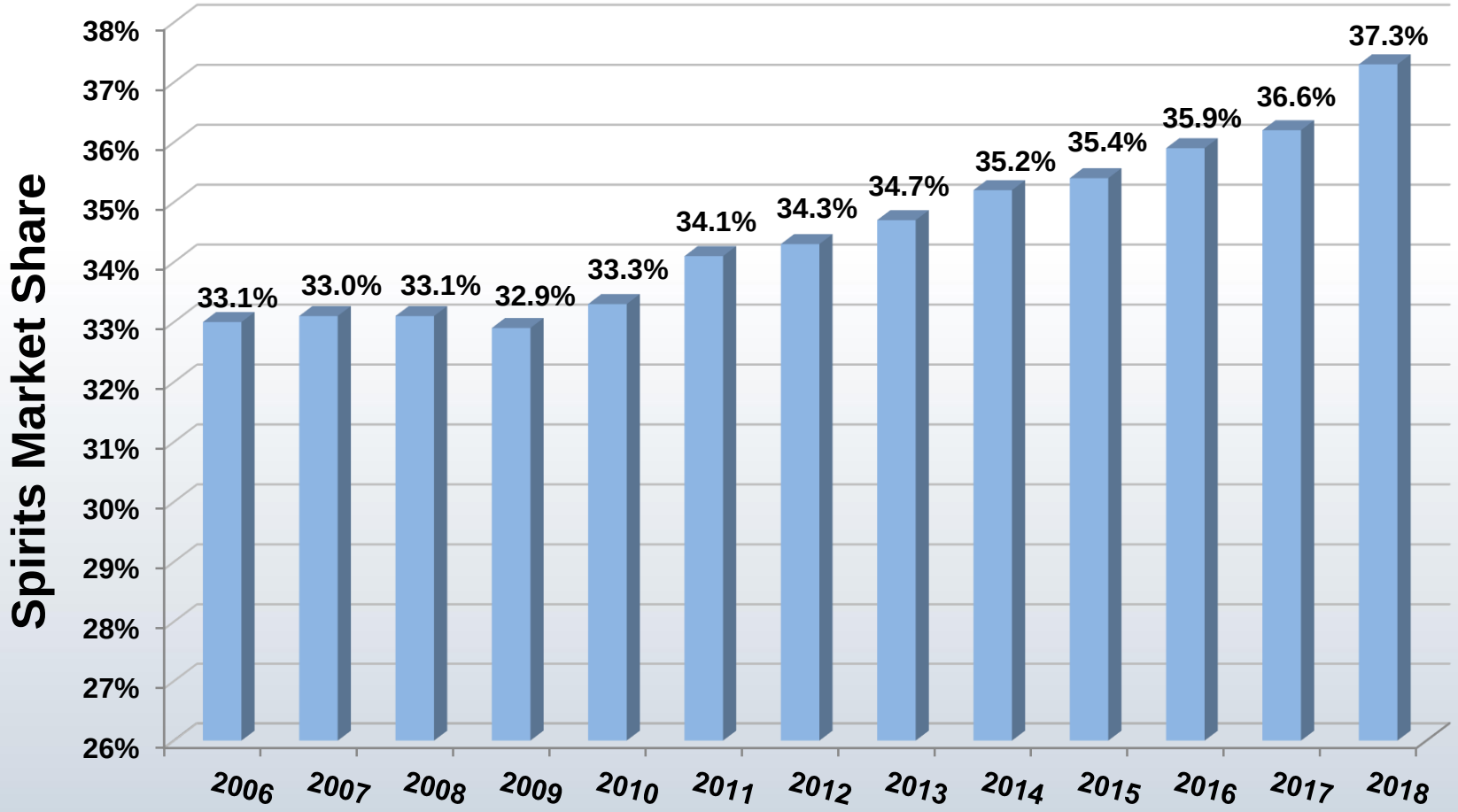
Spirits Market Share – Revenue

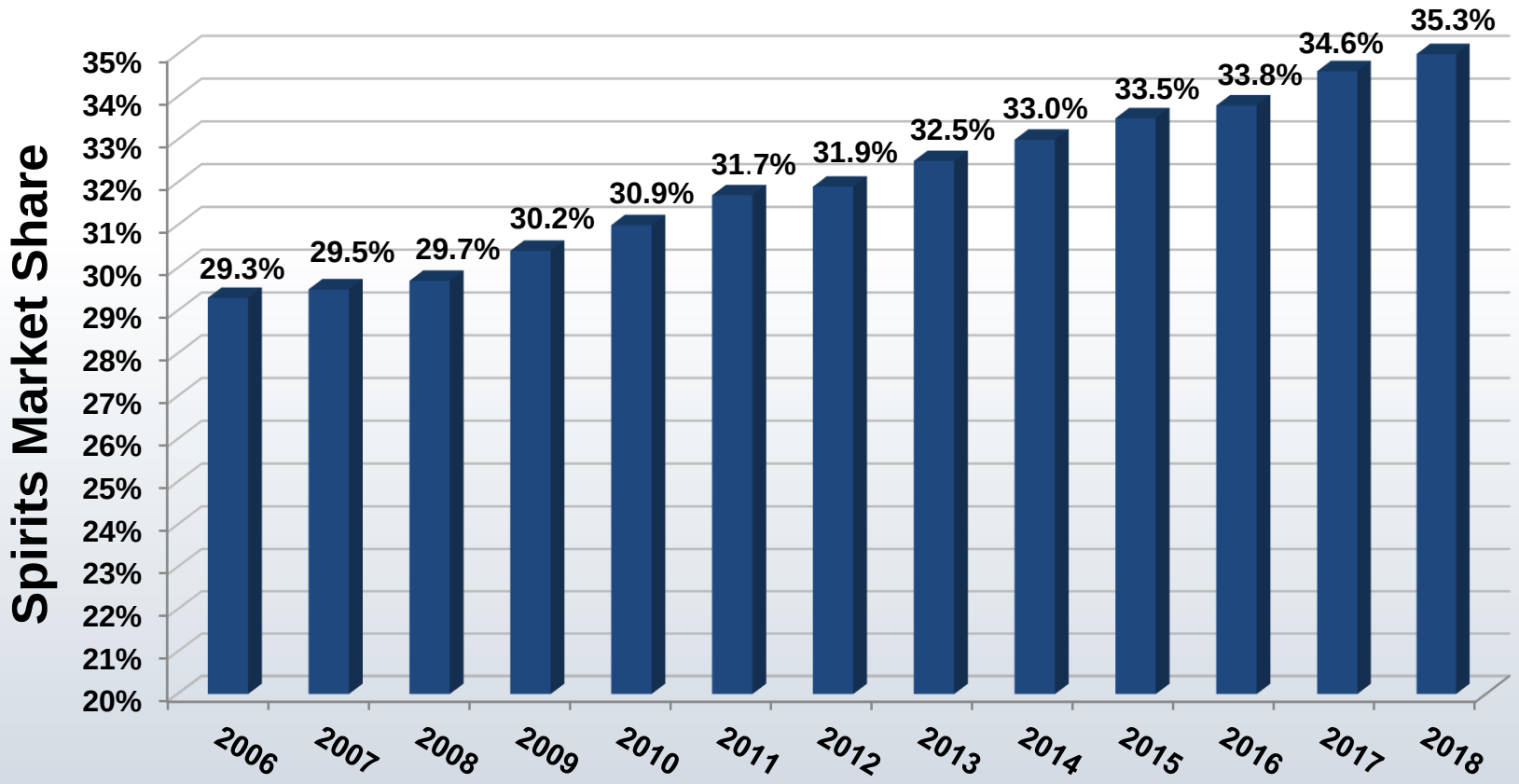
Each Point of Market Share Worth $740M



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

Spirits Market Share – Volume

Each Point of Market Share is Worth 6.5M Cases



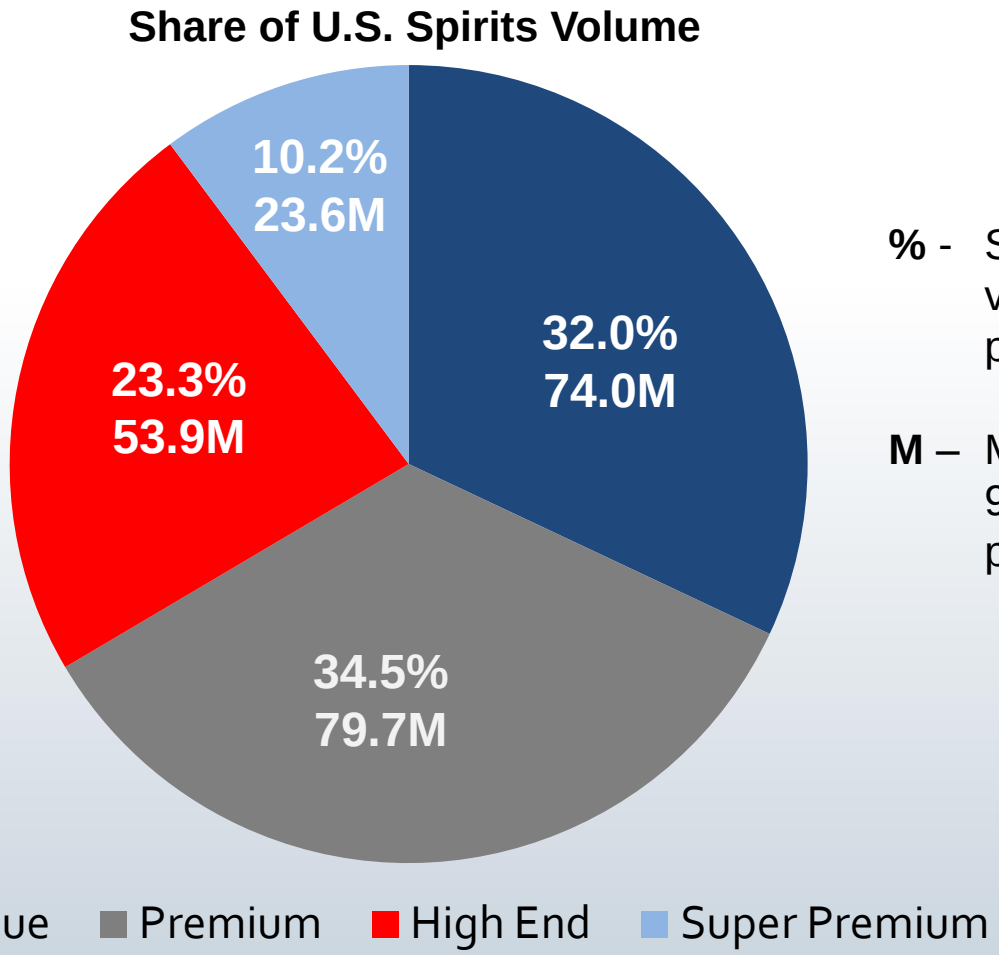
Source: Beverage Information Group Handbooks, Council Estimates

Price Segments

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

Revenue/9-Liters	**Retail Bottle Price**
Value $54	<$12/bottle at retail
Premium $100	$12 - $20/bottle at retail
High End $170	$20 - $35/bottle at retail
Super Premium $275	$35+/bottle at retail

Volume Share by Price Category 2018

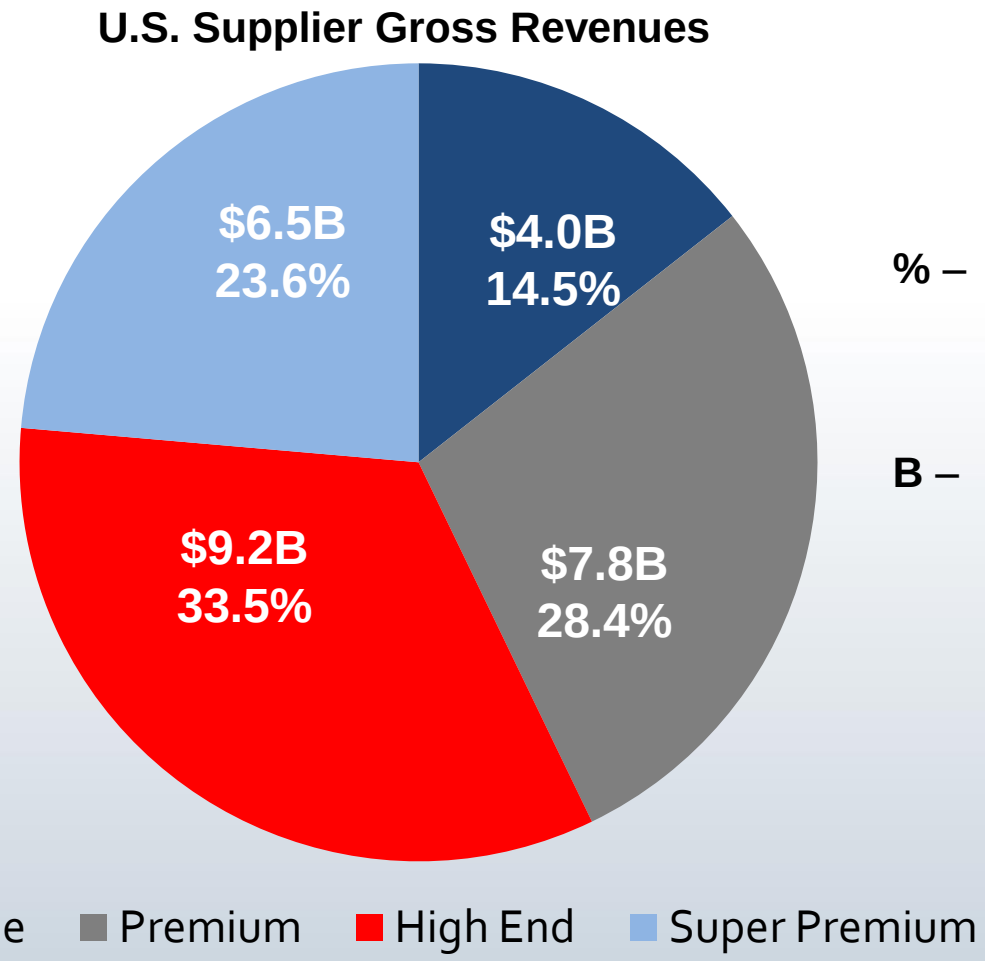


% - Spirits volume in price category

M – Millions of 9-Liter cases in price category

Source: Distilled Spirits Council Market Segmentation Database

Revenue by Price Category 2018

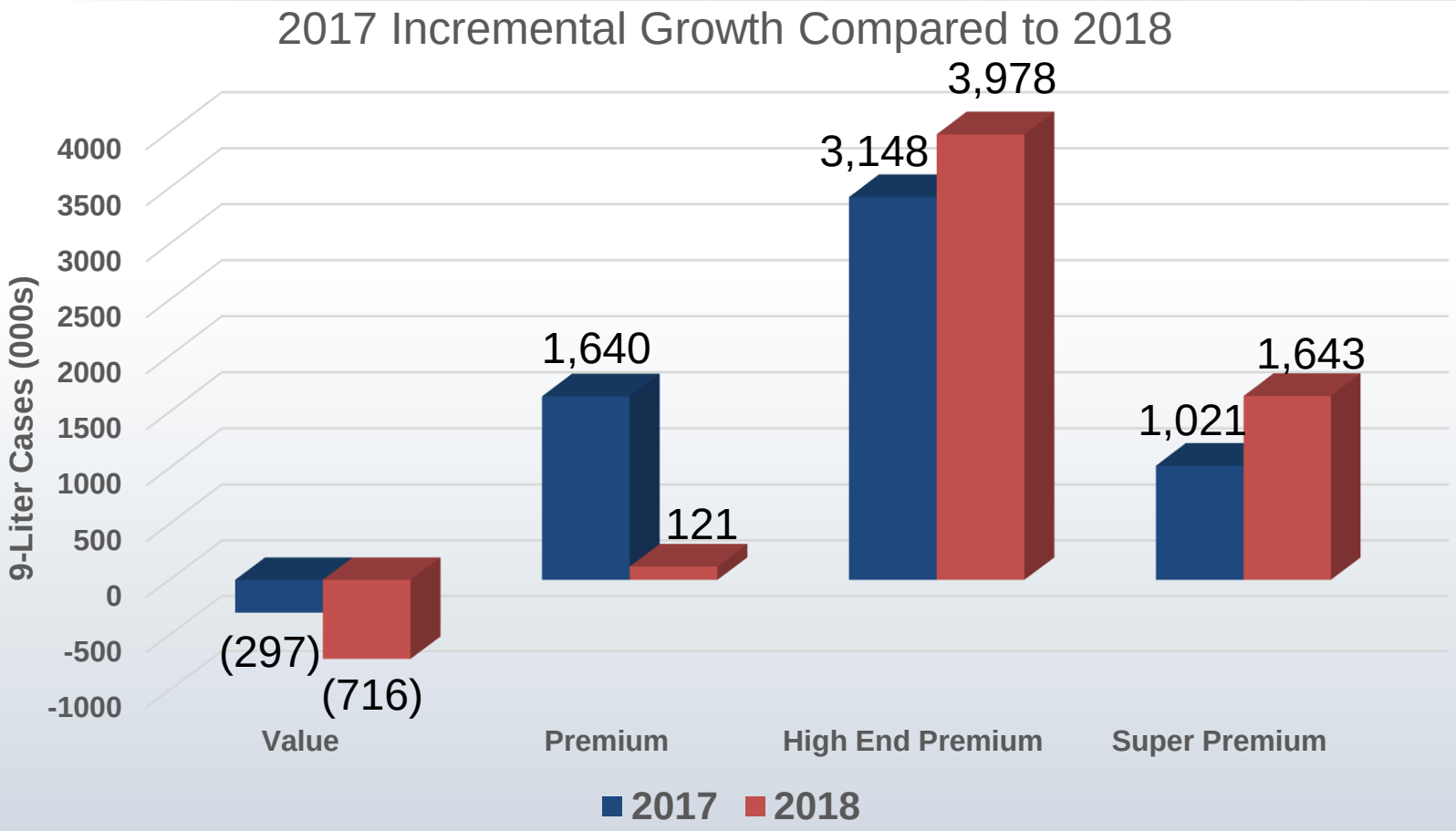


% – Spirits revenue in price category

B – Gross revenue in price category, billions

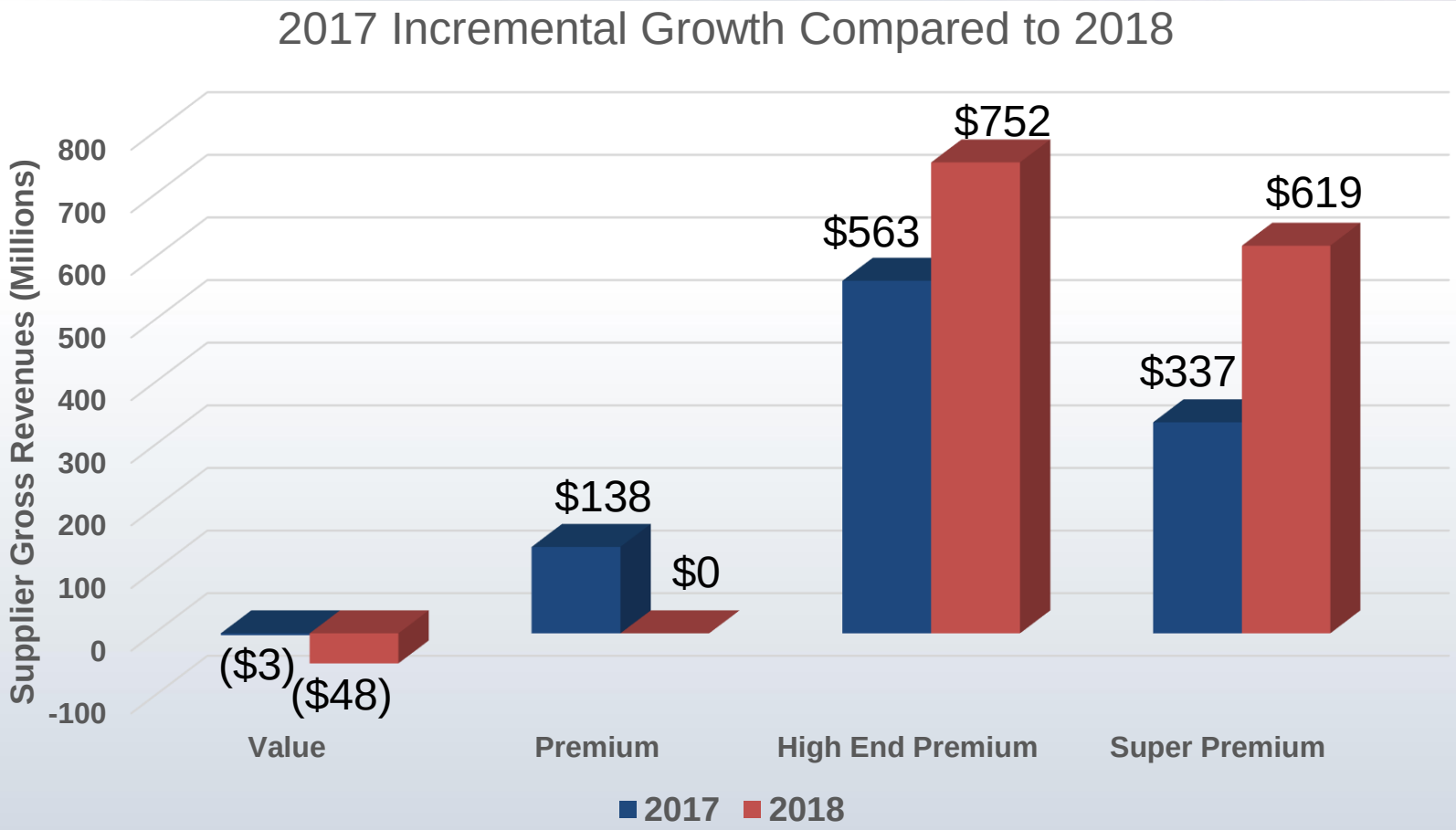
Source: Distilled Spirits Council Market Segmentation Database

Growth by Price Point
(Volume)



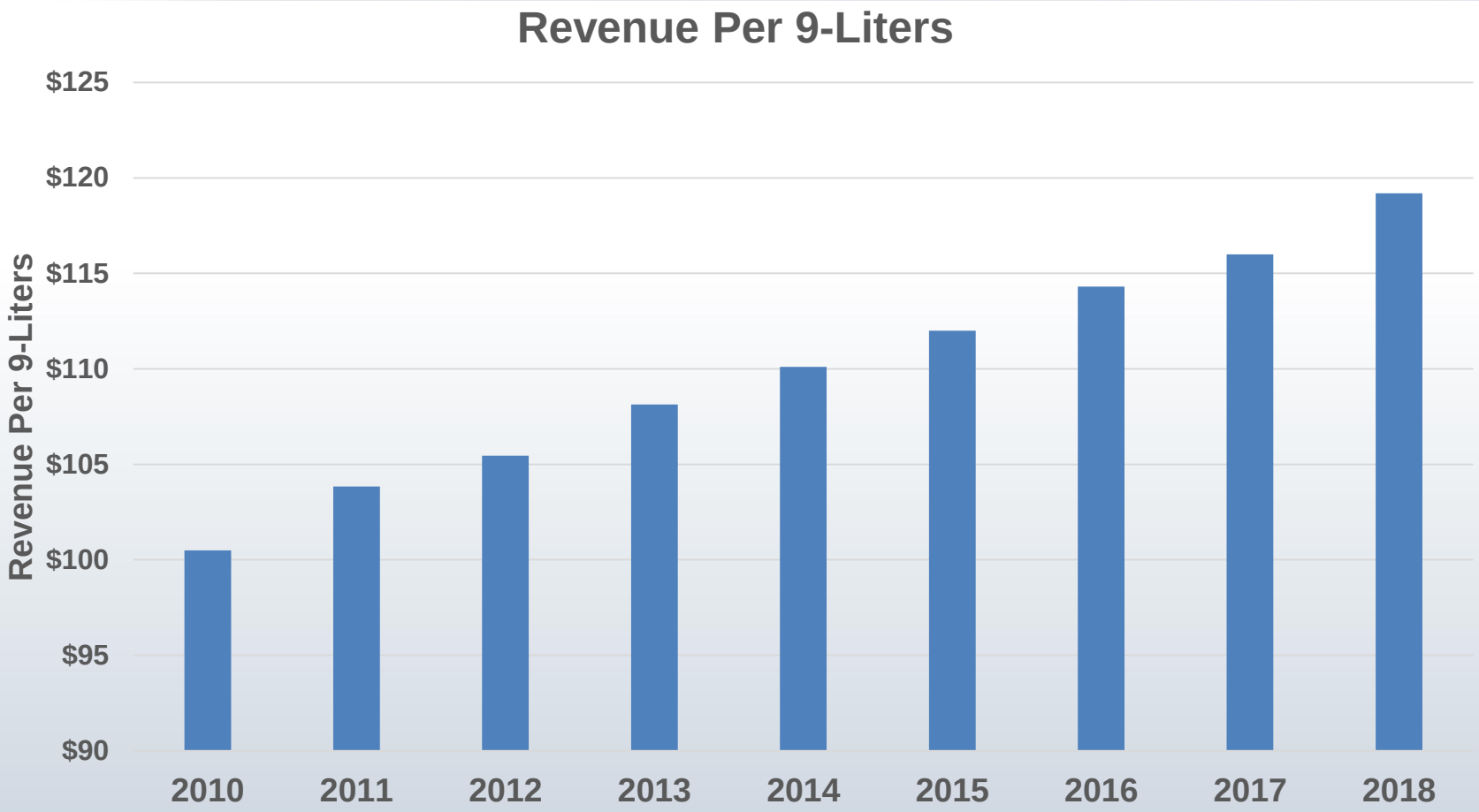
Source: Distilled Spirits Council Market Segmentation Database

Growth by Price Point
(Revenue)



Source: Distilled Spirits Council Market Segmentation Database

Steady Growth in Revenue Per 9-Liters



Source: Distilled Spirits Council Market Segmentation Database

2018 Factors Contributing to Growth

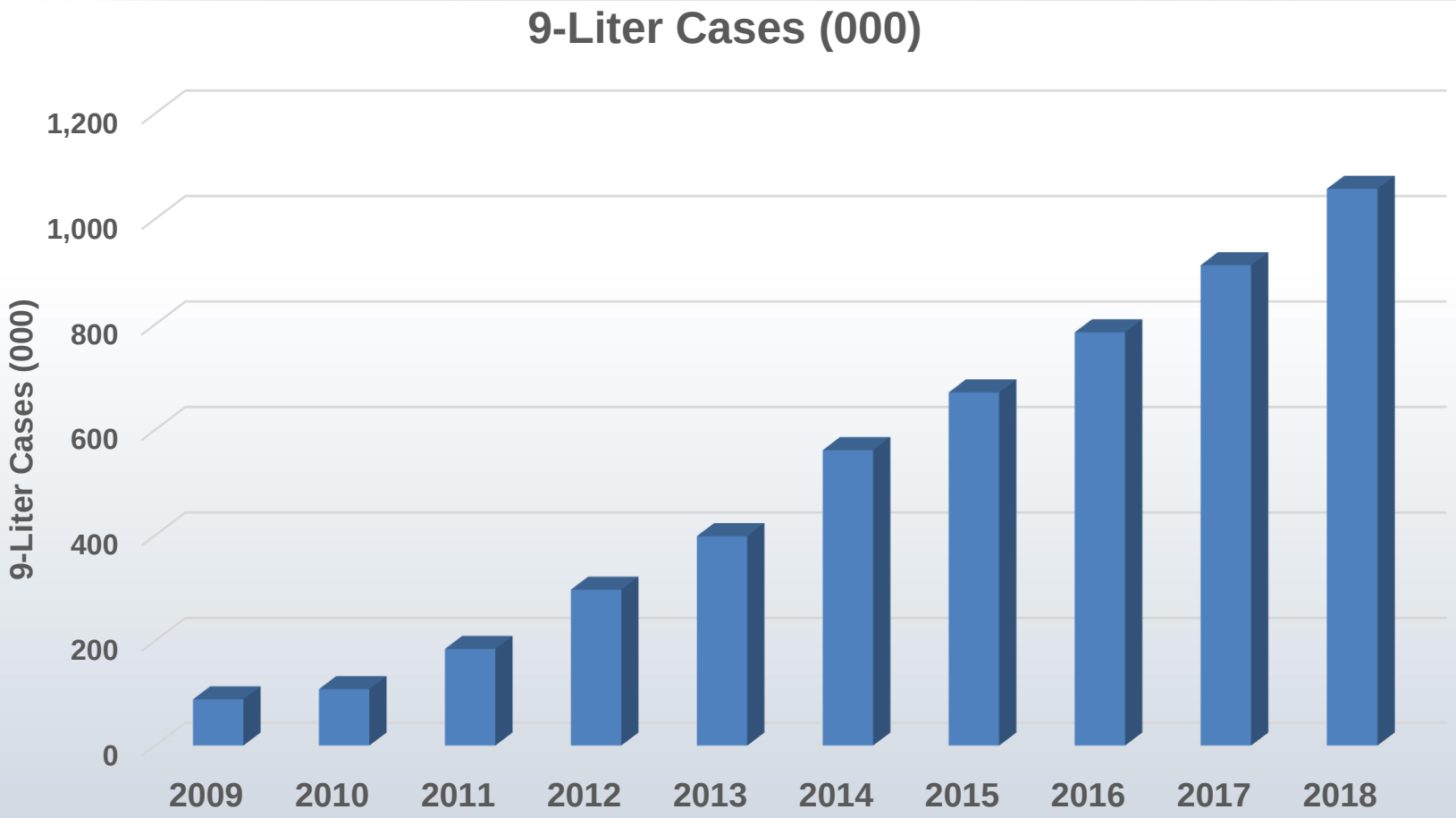
- Social currency of brand authenticity and heritage
- Modern consumers seeking unique and personalized experiences
- Millennials drawn to the cache of luxury brands including super premium spirits
- Improved consumer access to spirits products
- Growth of craft distillers across country help to modernize laws, build excitement and increase spirits consumer base
- Diversity of spirits categories and cocktails meet wide-ranging consumer preferences

American Whiskey

Bourbon and Rye

- Volume up 5.9% to 24.5M cases (+1.4M cases)
- Revenues up 6.6% to $3.6B (+$224M)
- Strength across all price categories
  - Value vol. up 2.0% (3.8M), rev. up 2.5% to $230M
  - Prem. vol. up 7.5% (6.5M), rev. up 7.5% to $676M
  - High End vol. up 3.9% (11.4M), rev. up 4.0% to $2.0B
  - Super vol. up 16.9% (2.8M), rev. up 16.9% to $643M
- Added 215K cases of flavored whiskey
- Bourbon/Tennessee up 6.4%, (+1.3M cases)
- White/Corn down -2.8% to 2.2M cases

American Rye Up 15.9 Percent to 1.1M Cases, $205M Revenue

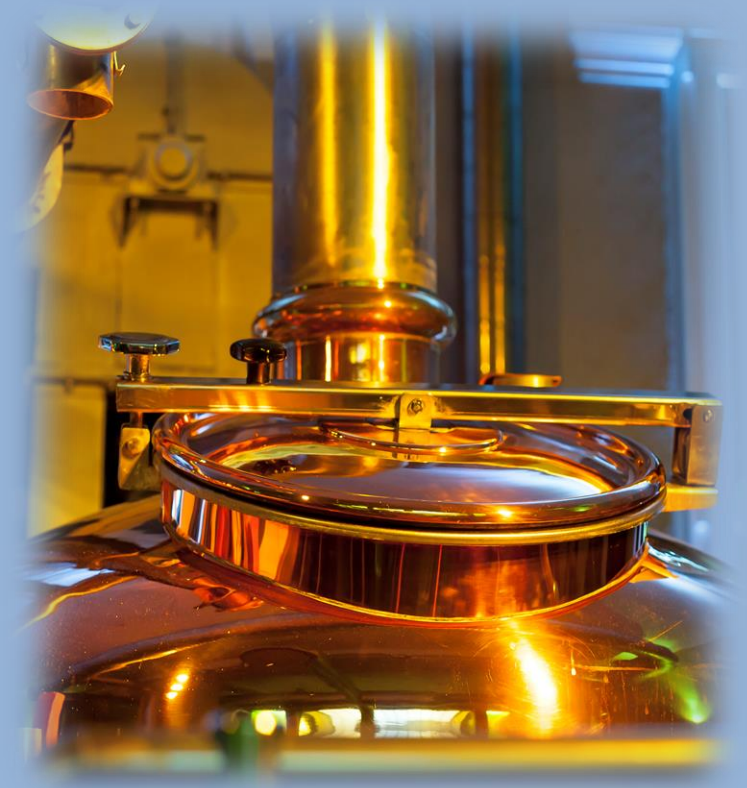


Source: Distilled Spirits Council Market Segmentation Database

Scotch

- **Single Malt**
  - Volume up 7.6% to 2.3M cases
  - Revenue up 9.4% to $843M
  - Turn around from 2017
- **Blended**
  - Volume up 1.0% to 7.2M cases
  - Revenue 4.6% to $1.5B
  - Rapid growth in High End and Super Premium Volumes up 7.5% and 13.4%

Irish Whiskey



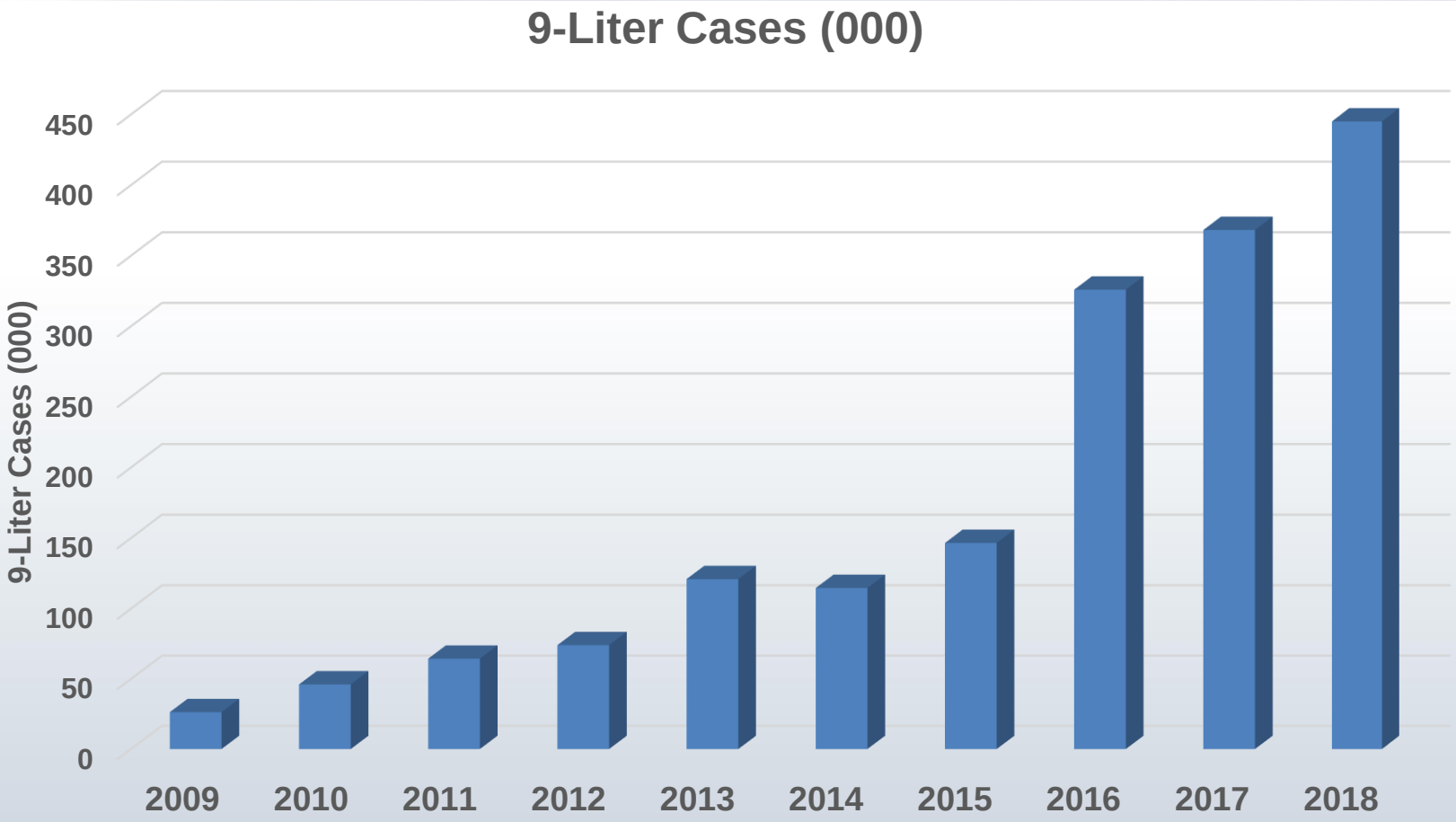
- Volume up 10.2% to 4.7M cases (+435k cases)
- Revenue up 12.0% to $1.0B (+108M)
- Volumes concentrated in High End and Super Premium

Tequila/Mezcal

- Volumes up 7.7% to 18.5M cases (1.3M new cases)
- Revenues up 10.2% to $3.0B (+$279M)
- Strong growth across price categories:
  - Value vol. up 1.5% (3.4M), rev. up 5.5% to $274M
  - Prem. vol. up 7.1% (9.3M), rev. up 7.7% to $1.0B
  - High End vol. up 18.2% (2.2M), rev. up 18.9% to $405M
  - Super vol. up 9.7% (3.6M), rev. up 10.8% to $1.3B

Mezcal Grows to +/- 445K Cases

$90M Revenue



Source: Distilled Spirits Council Market Segmentation Database

Cognac

- Volumes up 12.5% to 6.4M cases (700K new cases)
- Revenues up 14.2% to $1.8B (+$250M)
- Volumes concentrated in High End and Super Premium:
  - High End vol. up 7.3% (4.3M), rev. up 7.2% to $978M
  - Super vol. up 26.2% (1.9M), rev. up 22.5% to $848M

Super Premium Gin and Rum

- **Gin**
  - Volume and revenue down
  - Super Premium volume up 14.7% (183k cases), revenue up 15.6% ($32M)
- **Rum**
  - Volume down and revenue down
  - High End volume up 0.9% (2.8M cases) revenues up 5.5% ($350M)
  - Super Premium up volume 26.8% (692k), revenue up 28.5% ($179M)

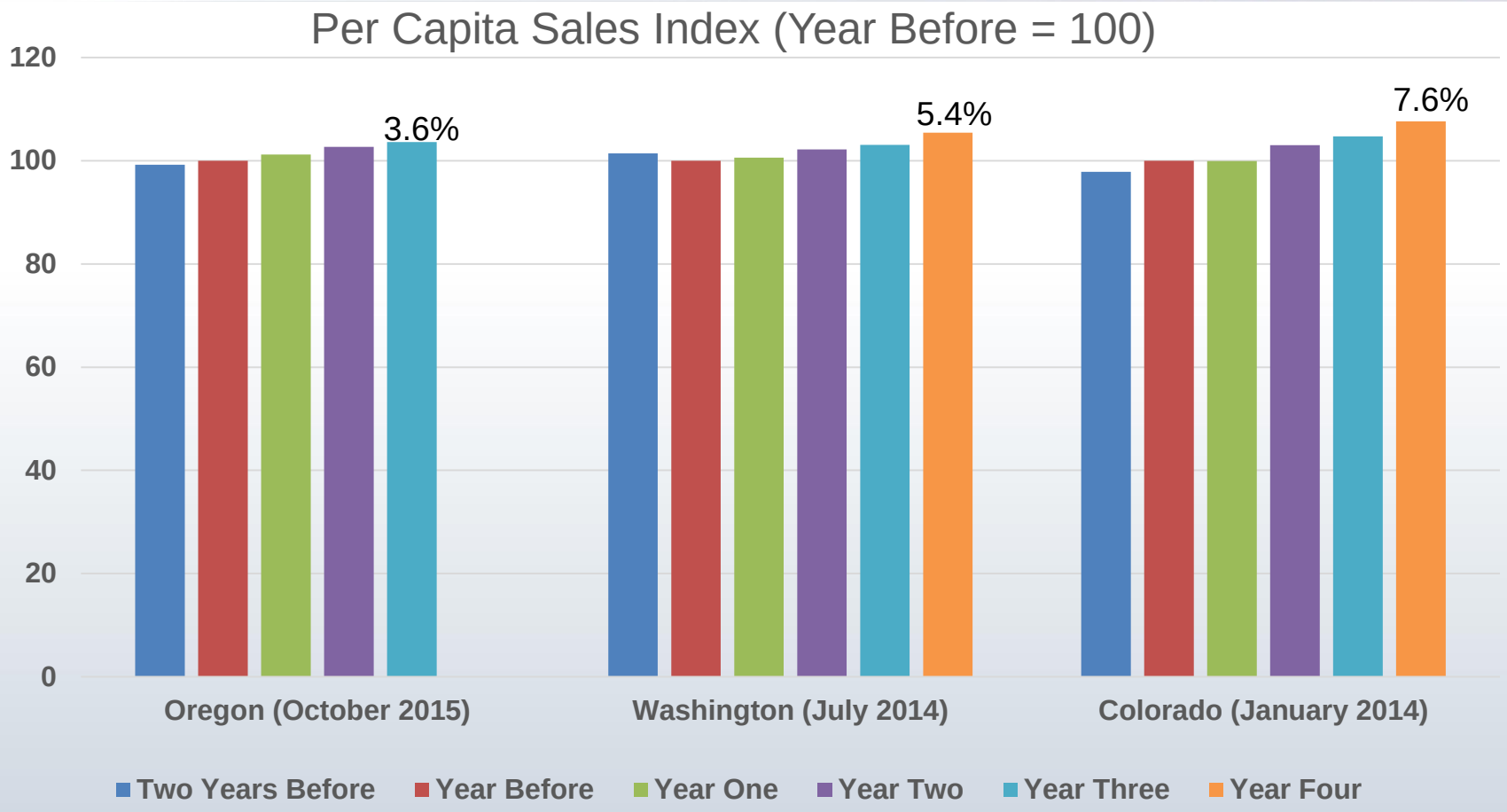
Vodka

- Accounts for 31% of total volume
- Volumes up 1.6% to 72M cases (1.1M new cases)
- Revenues up 2.9% to $6.4B ($178M gain)
- Category driven by High Premium
  - Volumes up 11.4% to 20.2M cases (2.1M new cases)
  - Revenues up 11.4% to $2.6B ($271M gain)
- Flavored vodka down 100k cases

Summary

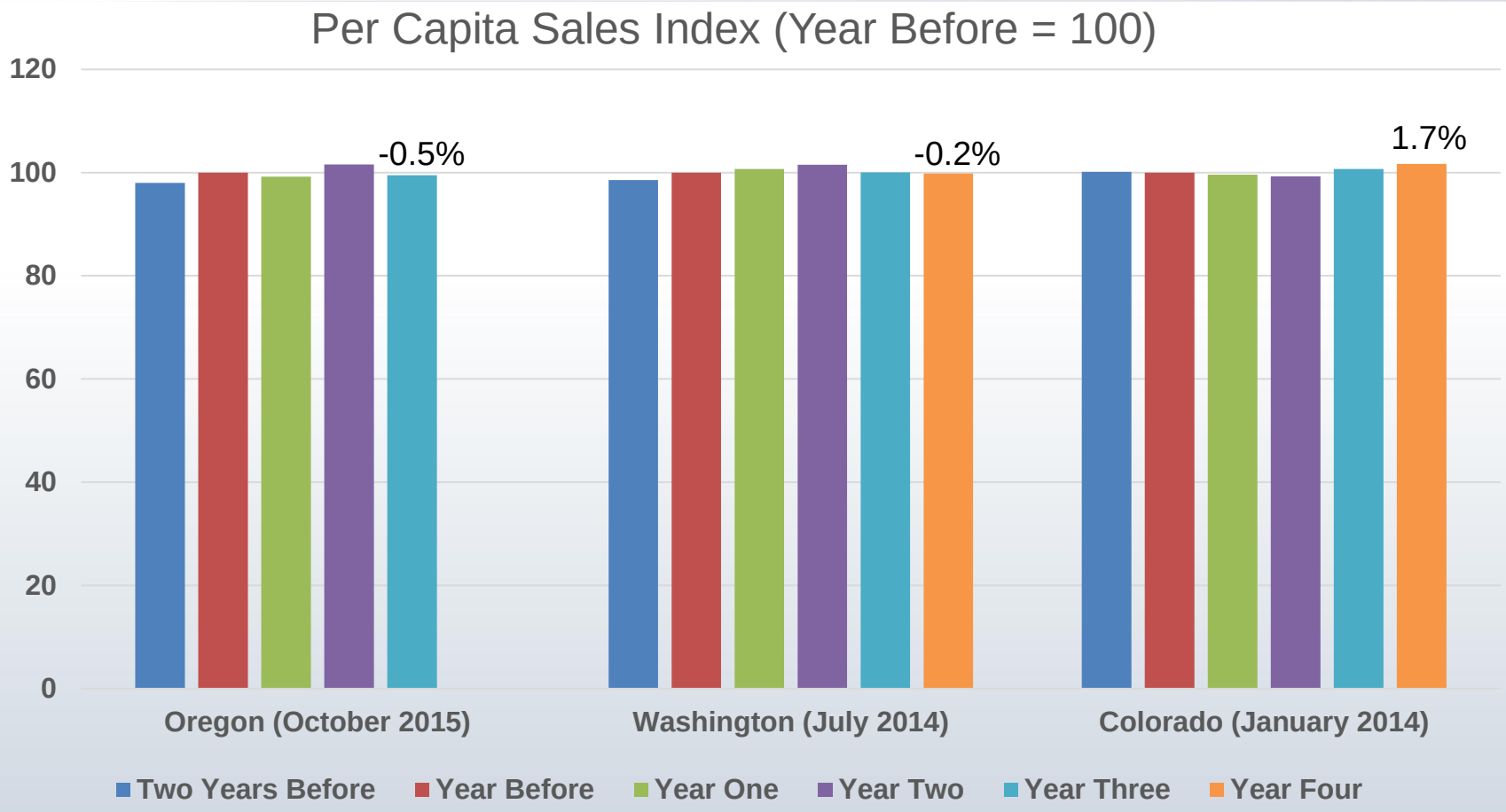
- **Volume/Revenue**
  - Supplier revenue up 5.1% to $27.5B
  - Supplier volume up 2.2% to 231M 9-liter cases
- **Bourbon/Tennessee significant growth driver along with Rye, Irish, Tequila, Mezcal and Cognac**
- **Revenue per 9-liters up nearly 19% since 2010**
- **Continue to increase market share gains**
  - 37.3% revenue market share
  - 35.3% volume market share

Spirits Consumption Prior To and Following Recreational Marijuana Legalization



Dates in () represent date of implementation

Total Alcohol Consumption Prior To and Following Recreational Marijuana Legalization



Dates in () represent date of implementation

2019 Spirits Trends

- **American Made:** Accelerating popularity of American Rye; American Single Malt
- **Unique Innovations**: Distillers experimenting with different cask finishes, hybrid crossovers, along with unusual base ingredients and botanicals
- **Be Bespoke**: Consumers are looking for personalized drink experiences and having open dialogue with bartenders about preferred flavors and spirits
- **Bitter Appreciation:** Bartenders experimenting with new/unique bitters to create tailored flavor experiences
- **Rare Spirits as Investments:** Rising interest in rare spirits, particularly whiskey, as collectible investments with continued auction frenzy and company limited editions
- **Brands With a Cause:** Millennials want brands that share their same values; Increasing brand involvement with social causes and charitable giving
- **Millennial Mindful Drinking**: From session cocktails, to sustainability, to locally grown ingredients, millennial purchasing decisions go beyond just taste

Christine LoCascio

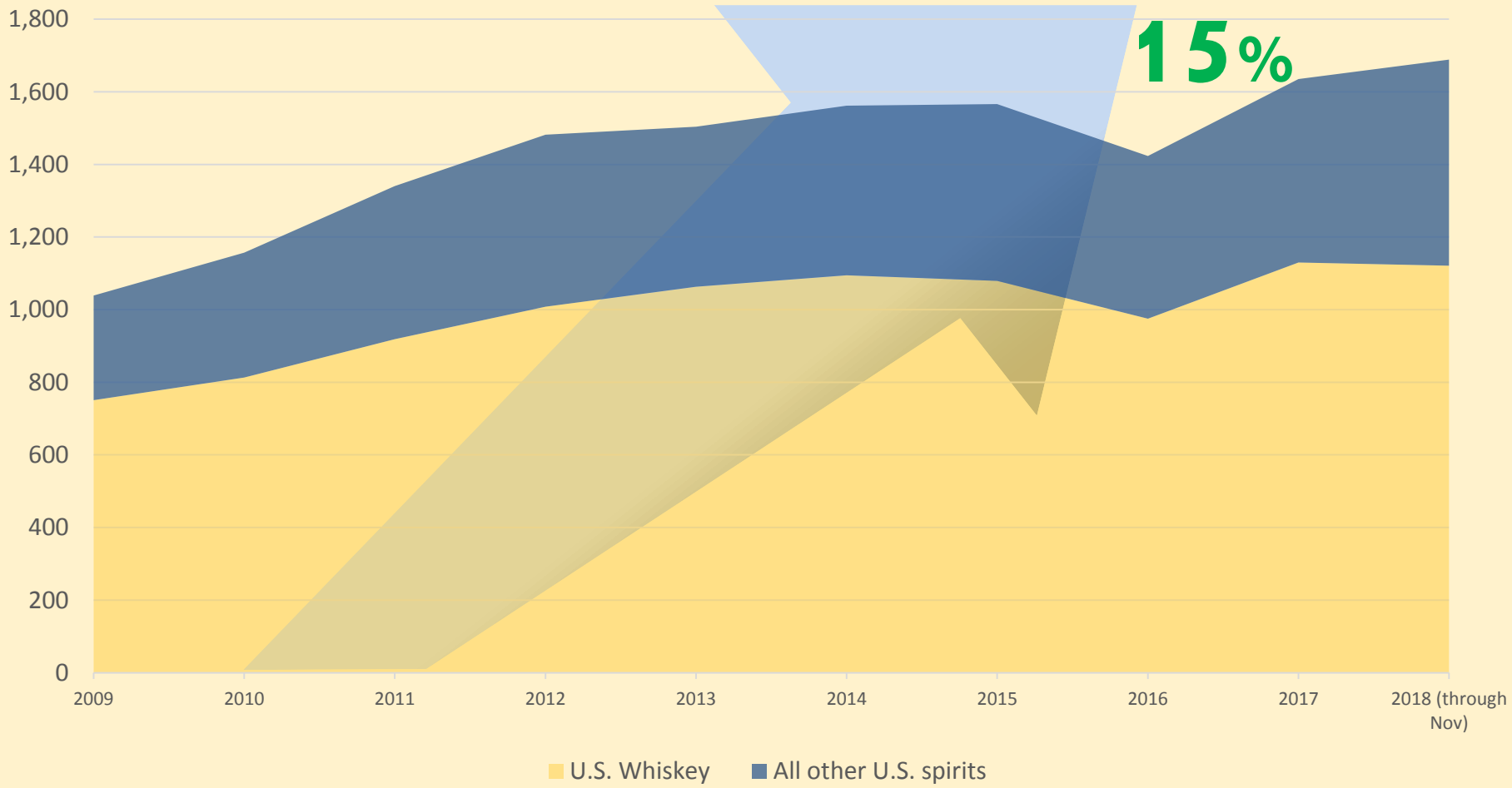
Distilled Spirits Council

Senior Vice President
International Trade

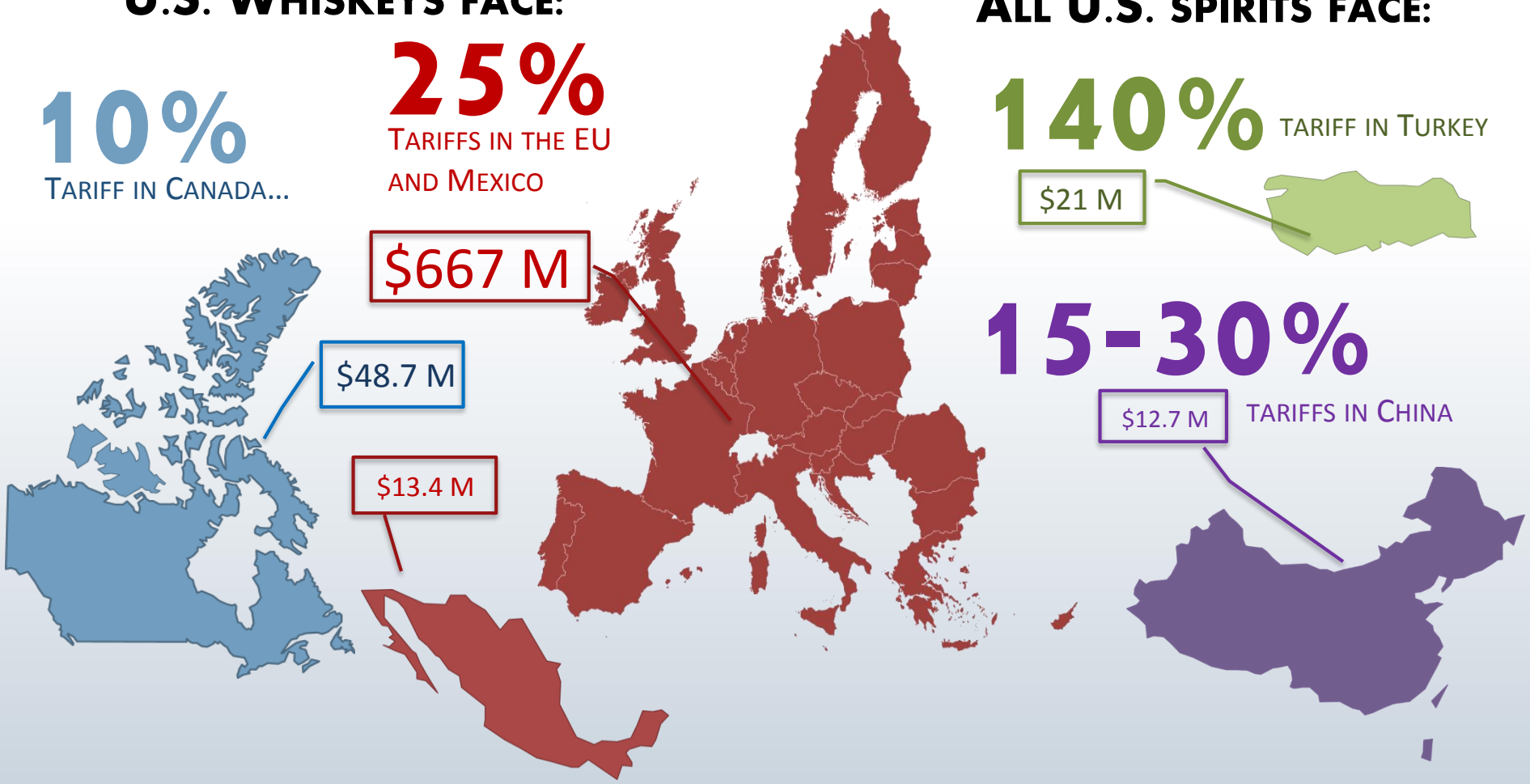
International Trade Review 2018

Global U.S. Spirits Exports: 2009-Nov. 2018

(in USD millions)



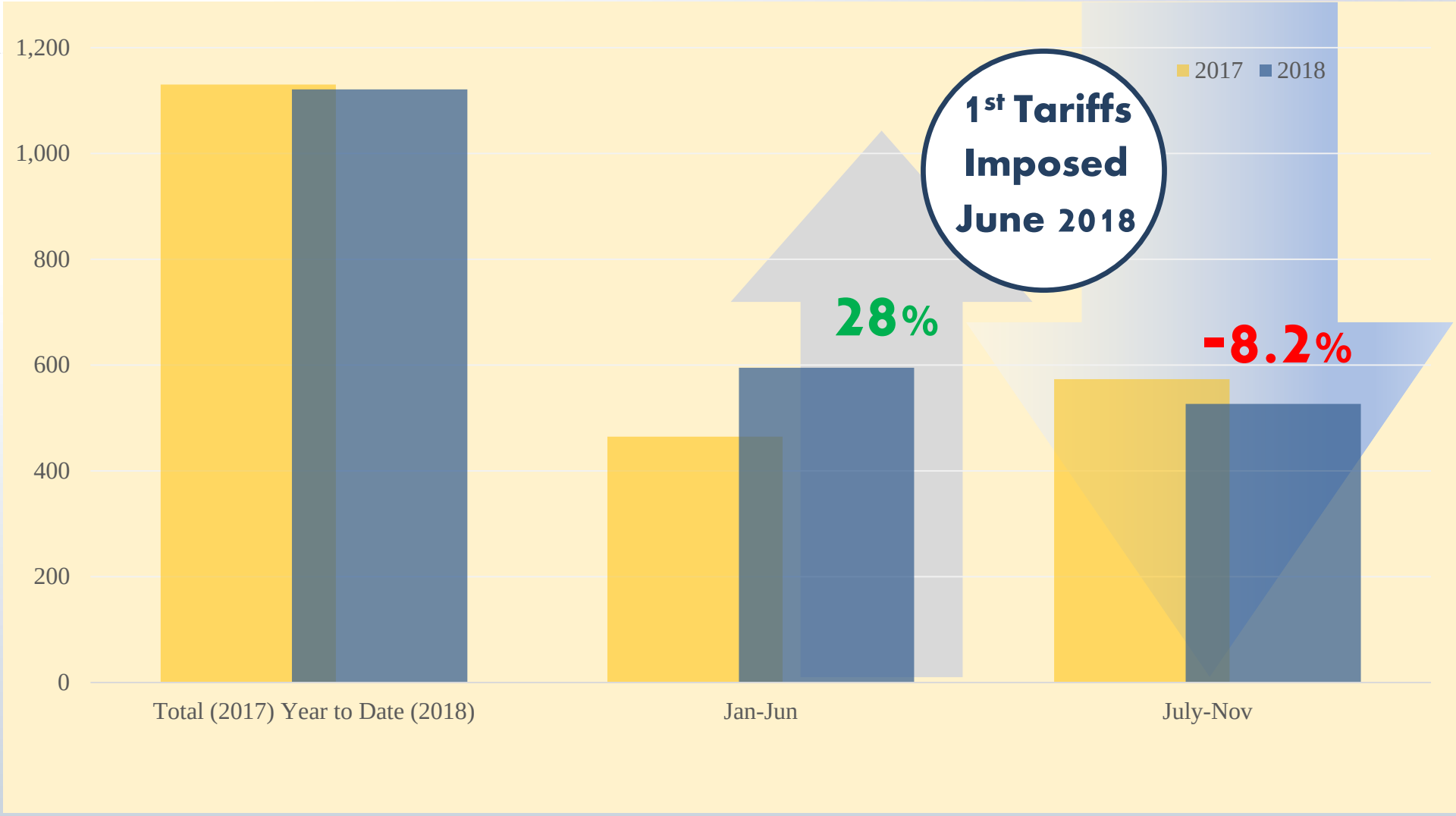
U.S. Spirits Valued at $763 million Subject to Retaliation:



Note: All values are 2017 exports, source: U.S. International Trade Commission.

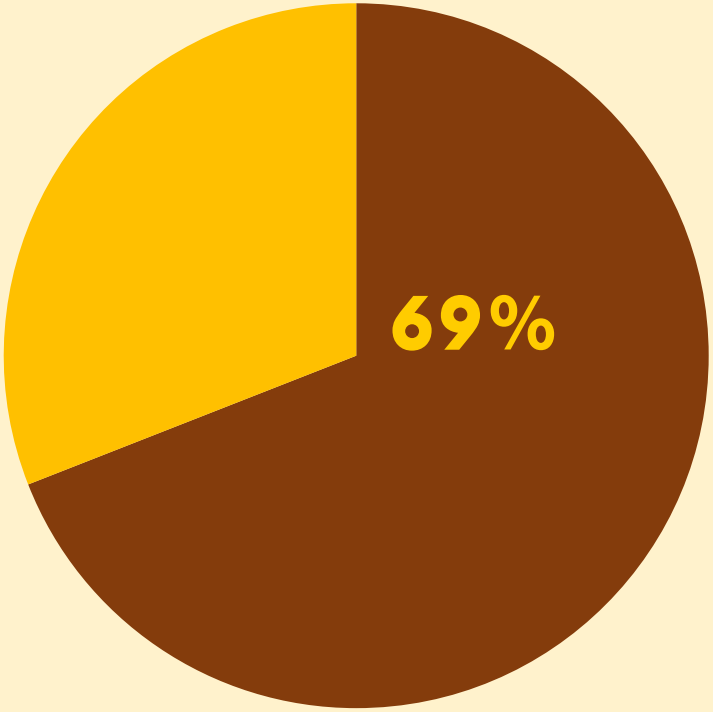
Global U.S. Whiskey Exports: 2017 vs. 2018

(in USD millions)



Importance of EU Whiskey Market

Total U.S. Spirits Exports ($1.6B)

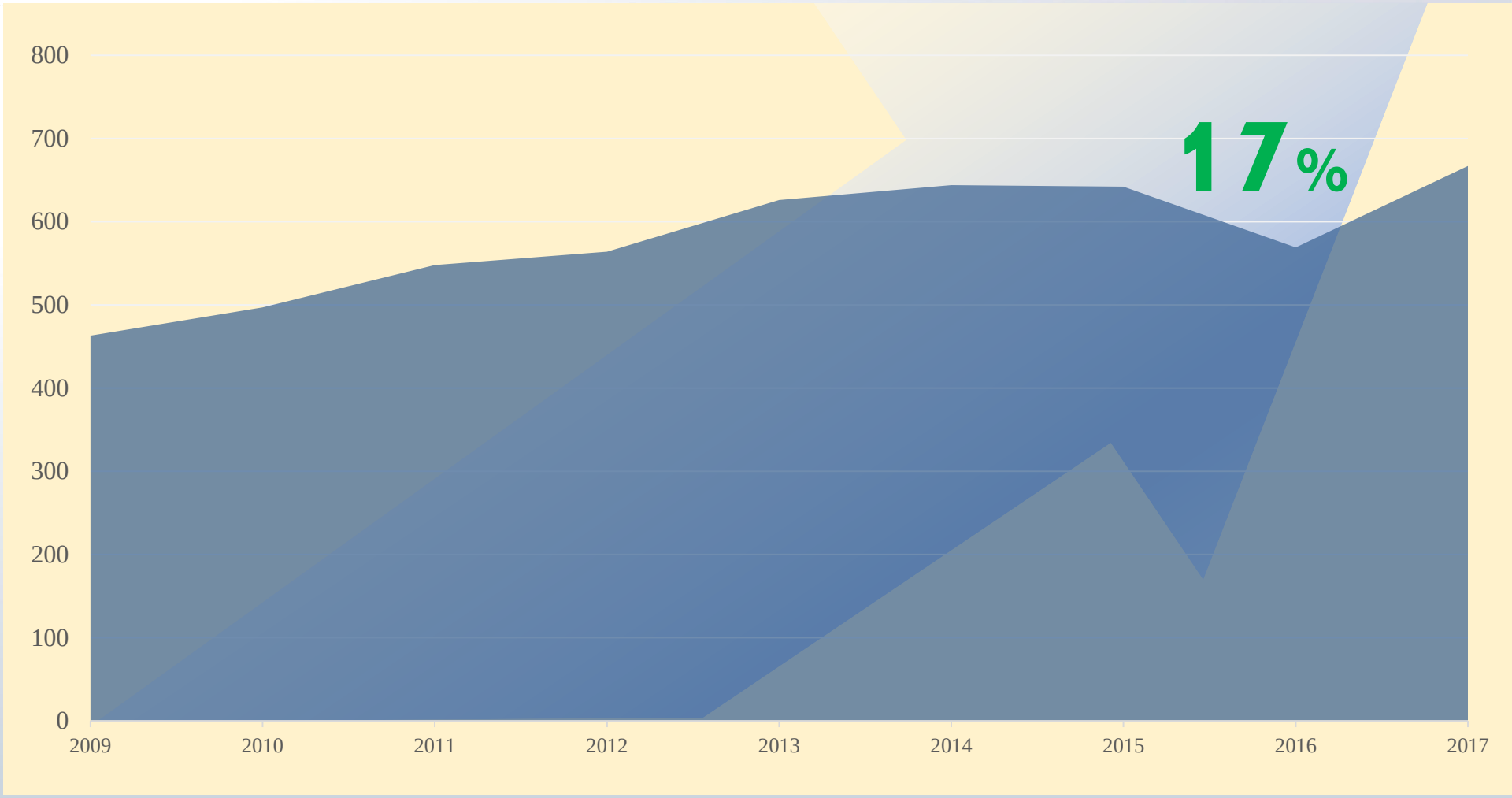


U.S. Whiskey Exports ($1.1B)

Note: Full Year 2017 Data

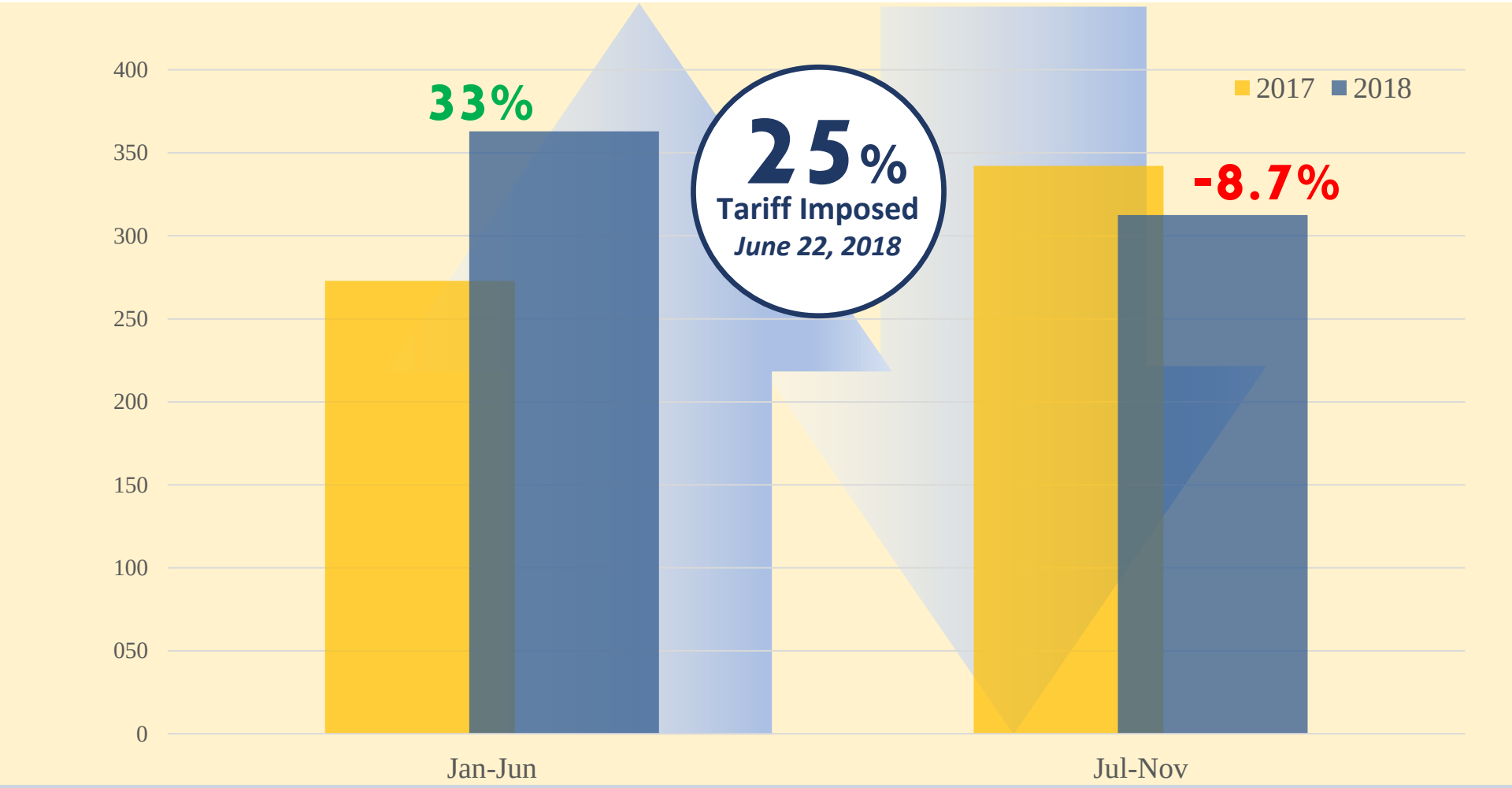
U.S. Whiskey Exports to the EU: 2009-2017

(in USD millions)



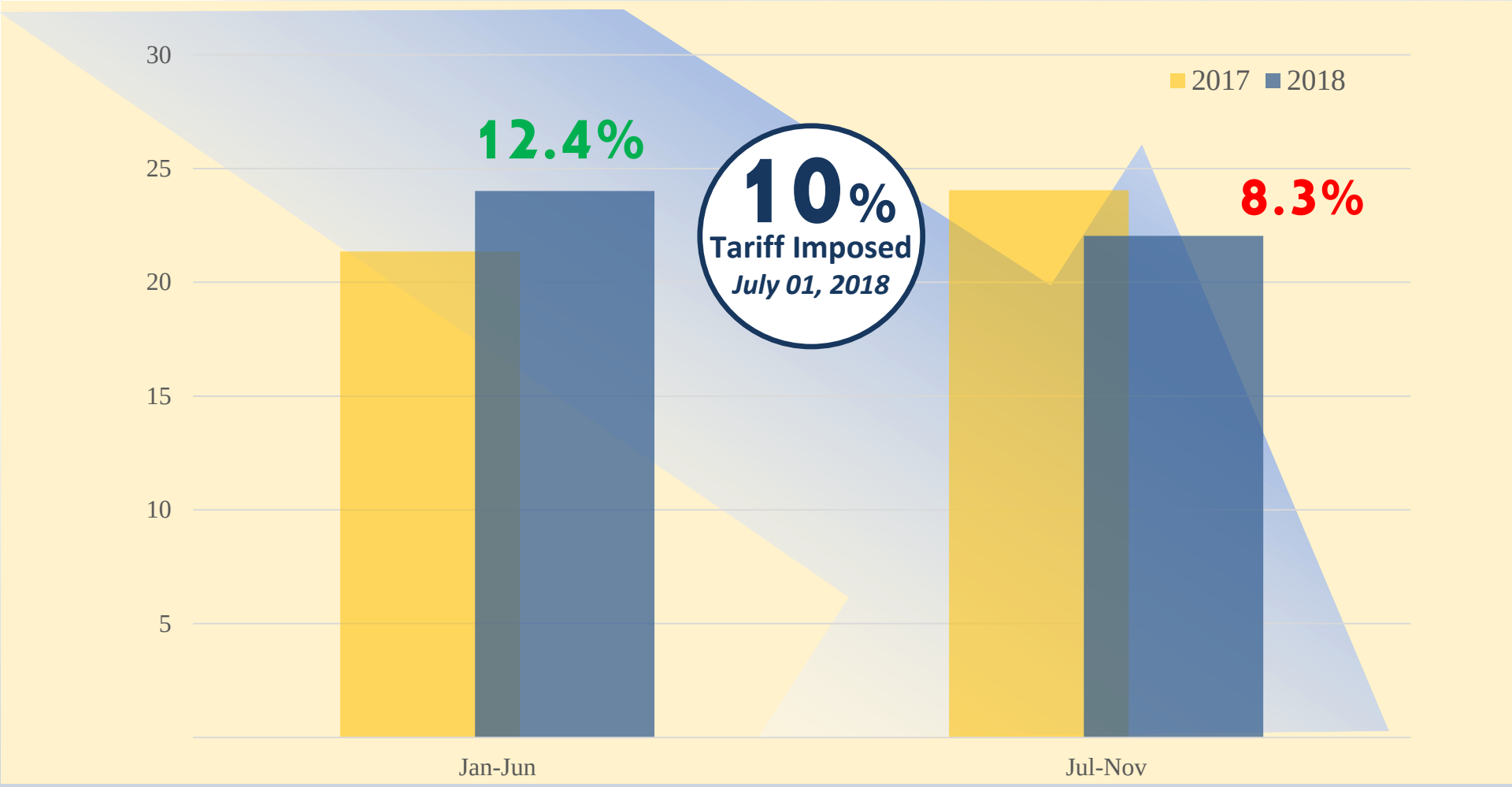
Impact of Retaliatory Tariffs on U.S. Whiskey Exports to the EU

(in USD millions)



Impact of Retaliatory Tariffs on U.S. Whiskey Exports to Canada

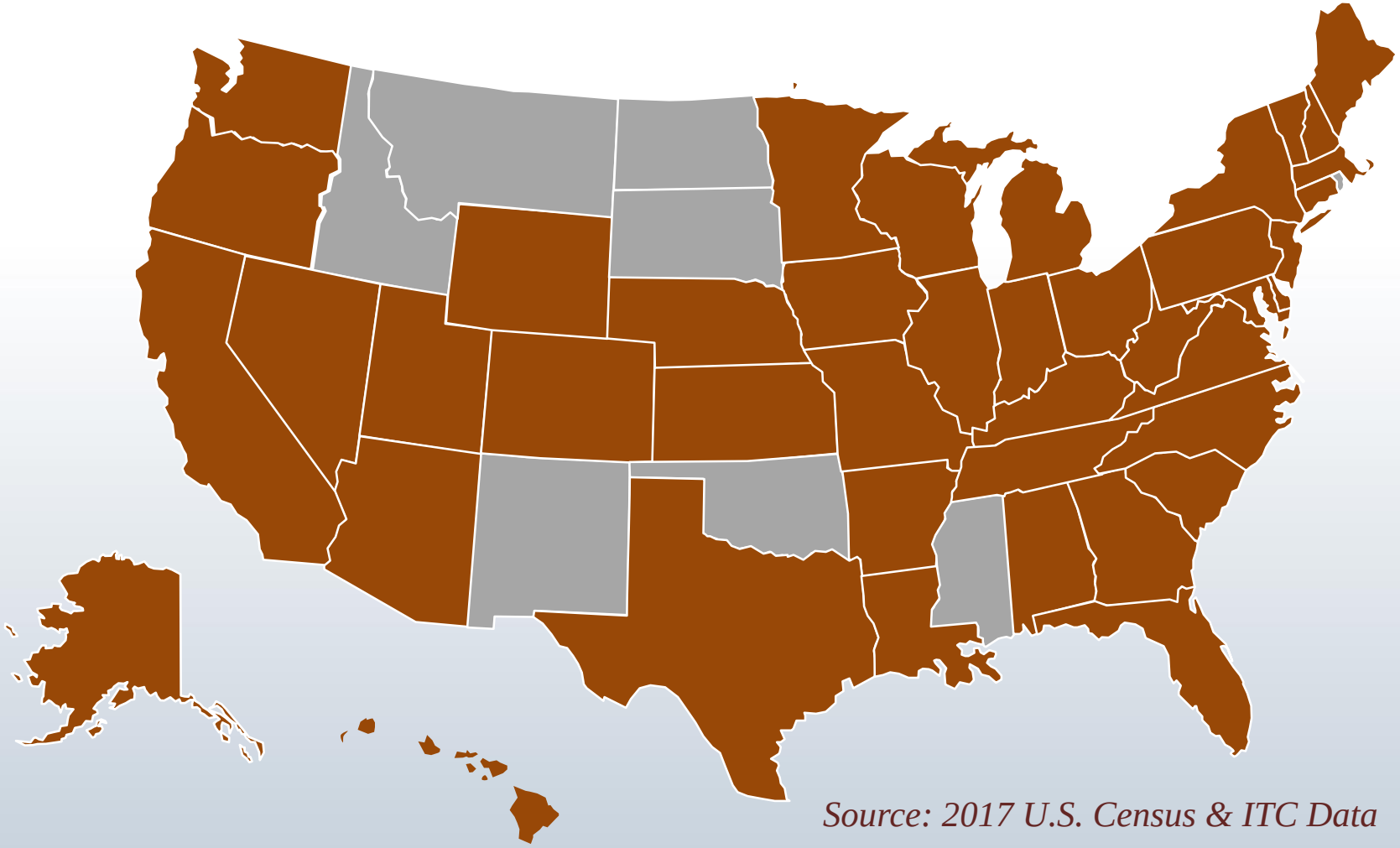
(in USD millions)



Helping Small Distillers Tap Export Markets

- Promote U.S. distilled spirits in key export markets in collaboration with USDA
- Since 2013, generated an estimated $4.7 million in NEW exports for at least 12 small distillers

42 States Exports U.S. Spirits



Source: 2017 U.S. Census & ITC Data

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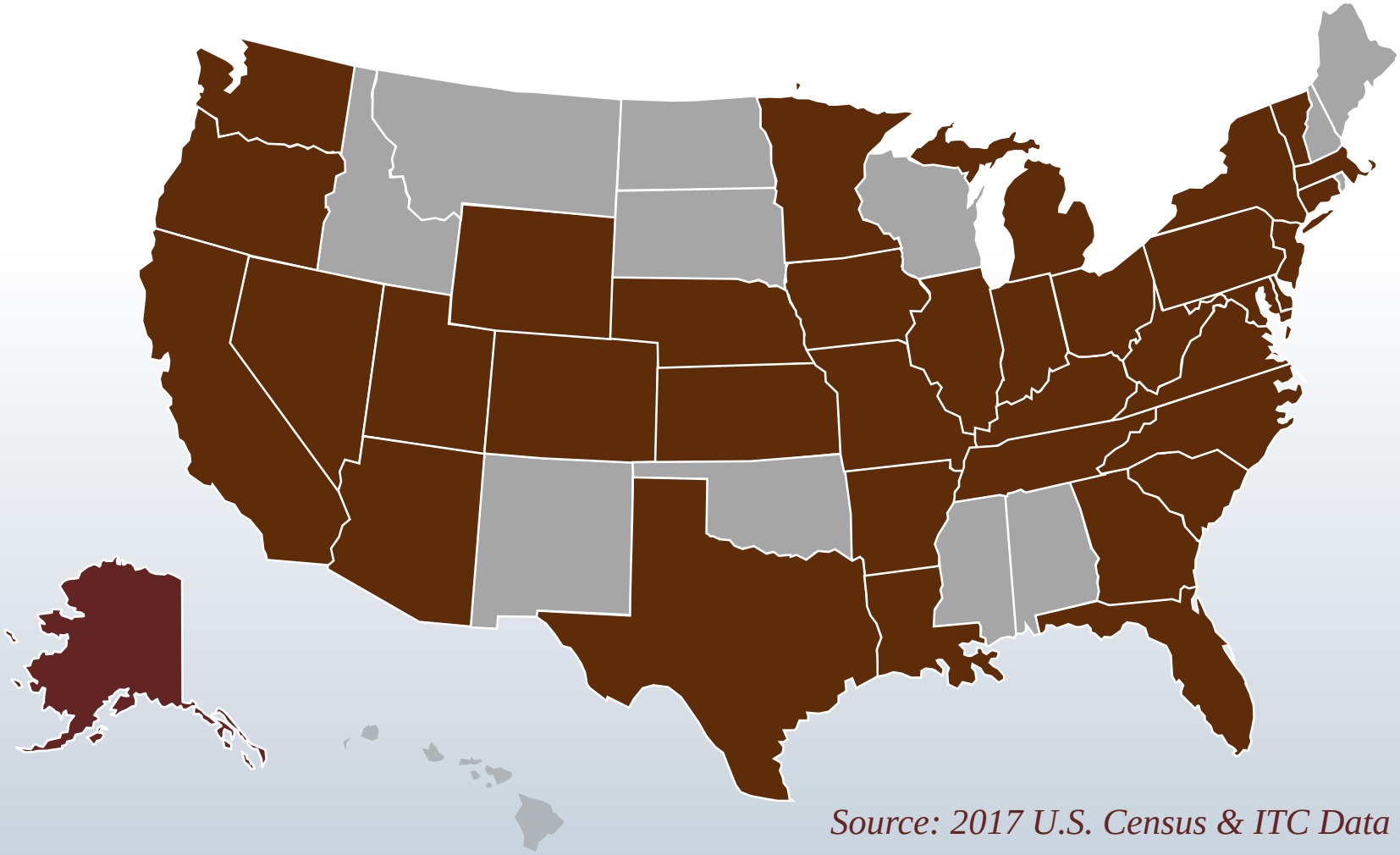
37 States Exports U.S. Whiskey



Source: 2017 U.S. Census & ITC Data

Small Distillers Across U.S. Voice Concerns about Retaliatory Tariffs

U.S. Craft Distiller Perspective

- Founded by Becky and Scott Harris in 2009
- The first legal distillery in Loudoun County, VA since before Prohibition
- Employs 20 people
- Sources grains and fruits from local farmers
- Produces Virginia's most awarded whiskey – Roundstone Rye
- Participated in several MAP export promotions through DISCUS, resulting in new export contracts

U.S. Craft Distiller Perspective

- Lost over $100k in exports sales due to EU retaliatory tariffs (*i.e.,* cancelled contracts)
- Postponed plans for a $1 million expansion (new fermenters, mash tanks, and pot stills)
- Initial business plan for 2018 was to achieve 25% of revenue from the EU
- Now estimates to achieve only 1%
- Implemented a hiring freeze and forced to halt pay increases

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Questions