Chris R. Swonger
Distilled Spirits Council of the United States
President & CEO
A Decade of Market Share Gains

2019 Economic Overview

• U.S. revenue growth up 5.3 percent
• U.S. volume growth up 3.3 percent
• 10th straight year of market share gains
• Tariffs jeopardize strong U.S. market
Economic Impact of the Spirits Industry

2019 Economic Snapshot

• $190 billion in economic activity
• 1.64 million jobs
• Nearly $32 billion in federal, state & local taxes
2019 Key Policy Victories

- One-year extension of federal excise tax cut
- Defeated spirits tax threats in 17 out of 18 states
- West Virginia: Sunday sales ban lifted
- North Carolina: Spirits tastings passed; limits on distillery sales repealed
- Texas: Increased license cap on package store ownership from 5 to 250
- Virginia: Law passed allowing spirits sales across the state
  - Allows localities to opt-out of alcohol sales by referendum
Launch of Spirits United

• Industry’s new grassroots platform activating spirits advocates on key policy initiatives

• More than **17,000** Spirits United advocates

• Making a real impact:
  • More than 65,000 communications to Congress in support of *Craft Beverage Modernization and Tax Reform Act*
  • Campaign: #ToastNotTariffs

• Building partnerships and expanding reach:
  o American Distilling Institute (ADI)
  o TIPS
  o Kentucky Distillers’ Association
  o Tennessee Distillers Guild
  o Texas Whiskey Association
  o Texas Distilled Spirits Association
  o New York State Distillers Guild
  o Michigan Licensed Beverage Association (MLBA)
  o Techniques for Alcohol Management (TAM)
1.6 million men and women in America that distill and serve your favorite spirits.

(Numbers in Percentage)

Note: Author state language on the 93/94 survey changed slightly.
Progress on Responsibility

Binge drinking* among college students decreased 24% proportionally from 2009 to 2018 with a statistically significant decline occurring between 2017 and 2018.

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>'09</td>
<td>37</td>
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<tr>
<td>'10</td>
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<td>'16</td>
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<td>'17</td>
<td>33</td>
</tr>
<tr>
<td>'18</td>
<td>28</td>
</tr>
</tbody>
</table>


Note: Author state language on the 93/94 survey changed slightly.

*Five or more drinks in a row in previous two weeks.

Prepared by Responsibility.org
Drunk Driving Fatalities have decreased 50 percent since 1982.
Progress on Responsibility Continues

Under 21 Drunk Driving Fatalities have decreased **80 percent** since 1982.

Source: NHTSA/FARS, 10/18
2020 DISCUS Legislative Priorities

• Protect spirits industry from tax increases
• Secure Sunday sales for spirits in South & North Carolina
• Secure spirits tastings laws in Georgia, Washington & Idaho
• Support spirits retail expansion in Pennsylvania
• Support West Virginia bill to allow off-premise sales across the state
• Ensure tax rate in Craft Beverage Modernization and Tax Reform Act is made permanent
• End retaliatory tariffs on spirits products
U.S. Trade Agreements

• **USMCA**
  - Maintains duty-free trade in spirits
  - Preserves recognition for “Bourbon” and “Tennessee Whiskey;” Mexico will begin process to recognize “American Rye Whiskey”
  - Reaffirms commitments concerning the internal sale and distribution of distilled spirits
  - Establishes new best practices regarding labeling and certifications for beverage alcohol

• **CHINA PHASE 1**
  - Significant agreement that helps to de-escalate trade dispute
  - China suspended additional tariff increases on certain U.S. spirits products, but retaliatory tariffs remain
  - Will reduce tariffs on U.S. rum and vodka to 35 percent on Feb. 14

• **Japan**
  - Initial agreement covering several agricultural products; additional negotiations for a comprehensive agreement to begin later this year
Decade in Review: U.S. Export Growth Stunted by Tariffs

- Over the past 10 years, total U.S. spirits exports grew by **55.3 percent**.

- In June 2018, the EU imposed a **25 percent retaliatory tariff** on American Whiskey.

- From 2018 to 2019, total U.S. spirits exports were **down 14.3 percent** to $1.5 billion.

- American Whiskey exports were **down 16.0 percent** to $996 million from 2018 to 2019.

Global U.S. Spirits and American Whiskey Exports (in millions of USD)

Source: USITC Dataweb
American Whiskey drives U.S. Spirits Exports

American Whiskey accounts for **65 percent of all U.S. spirits exports.** The EU is the top export market for American Whiskey.

**Total U.S. Spirits Exports** ($1.5B)

- American Whiskey ($996 M) - 65%
- All other U.S. spirits ($537 M) - 35%

**Total American Whiskey Exports** ($996 M)

- American Whiskey exports to the EU ($514 M) - 48%
- American Whiskey exports to rest of world ($482 M) - 52%
American Whiskey exports to the EU were **down 27 percent** in the last year.
### The Effects of Tariffs: Top 10 Markets for U.S. Spirits

<table>
<thead>
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<tbody>
<tr>
<td>Canada</td>
<td>$234</td>
<td>$202</td>
<td>-13.6</td>
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<tr>
<td>Japan</td>
<td>$118</td>
<td>$138</td>
<td>+17.7</td>
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<tr>
<td>United Kingdom*</td>
<td>$190</td>
<td>$111</td>
<td>-41.5</td>
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<tr>
<td>Australia</td>
<td>$121</td>
<td>$102</td>
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<tr>
<td>France*</td>
<td>$115</td>
<td>$93</td>
<td>-18.9</td>
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<tr>
<td>Germany*</td>
<td>$120</td>
<td>$83</td>
<td>-30.4</td>
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<tr>
<td>Mexico</td>
<td>$61</td>
<td>$72</td>
<td>+18</td>
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<tr>
<td>Spain*</td>
<td>$119</td>
<td>$70</td>
<td>-41.3</td>
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<tr>
<td>Vietnam</td>
<td>$62</td>
<td>$63</td>
<td>+0.8</td>
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<tr>
<td>Latvia*</td>
<td>$44</td>
<td>$52</td>
<td>+19.5</td>
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</tbody>
</table>

* EU member countries

- Total U.S. spirits exports to the top ten markets were **down 16.6 percent** to **$987 million**.
- Five of the top 10 markets are **EU members**, imposing 25 percent tariff on American Whiskeys since June 2018.
The Effects of Tariffs: Top 10 Markets for American Whiskey

- Total American Whiskey exports to the top ten markets were **$693 million.**

- Seven of the top 10 markets are EU members which has been imposing a 25 percent tariff on American Whiskeys since June 2018.

<table>
<thead>
<tr>
<th></th>
<th>2018 American Whiskey Exports (In millions of USD)</th>
<th>2019 American Whiskey Exports (In millions of USD)</th>
<th>American Whiskey Exports Percent Change</th>
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</thead>
<tbody>
<tr>
<td>Japan</td>
<td>$98</td>
<td>$122</td>
<td>+ 24.6</td>
</tr>
<tr>
<td><strong>United Kingdom</strong>*</td>
<td>$150</td>
<td>$101</td>
<td>- 32.7</td>
</tr>
<tr>
<td>France *</td>
<td>$108</td>
<td>$86</td>
<td>- 19.9</td>
</tr>
<tr>
<td>Australia</td>
<td>$101</td>
<td>$84</td>
<td>- 16.6</td>
</tr>
<tr>
<td><strong>Germany</strong>*</td>
<td>$100</td>
<td>$82</td>
<td>- 18.2</td>
</tr>
<tr>
<td>Spain*</td>
<td>$108</td>
<td>$61</td>
<td>- 43.8</td>
</tr>
<tr>
<td>Canada</td>
<td>$50</td>
<td>$52</td>
<td>+ 5.1</td>
</tr>
<tr>
<td>Latvia*</td>
<td>$42</td>
<td>$50</td>
<td>+ 18.9</td>
</tr>
<tr>
<td><strong>Netherlands</strong>*</td>
<td>$45</td>
<td>$29</td>
<td>- 37.1</td>
</tr>
<tr>
<td>Poland*</td>
<td>$33</td>
<td>$27</td>
<td>- 18.5</td>
</tr>
</tbody>
</table>

* EU Member Countries
## U.S. Spirits Market: Imports

### Top 10 Countries Importing Spirits to the U.S.

<table>
<thead>
<tr>
<th></th>
<th>2018 (in millions of USD)</th>
<th>2019 (in millions of USD)</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>$2,279</td>
<td>$2,551</td>
<td>+ 11.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>$1,789</td>
<td>$1,884</td>
<td>+ 5.4</td>
</tr>
<tr>
<td>Mexico</td>
<td>$1,524</td>
<td>$1,850</td>
<td>+ 21.4</td>
</tr>
<tr>
<td>Ireland</td>
<td>$695</td>
<td>$794</td>
<td>+ 14.3</td>
</tr>
<tr>
<td>Canada</td>
<td>$393</td>
<td>$428</td>
<td>+ 8.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>$347</td>
<td>$329</td>
<td>- 5.1</td>
</tr>
<tr>
<td>Sweden</td>
<td>$241</td>
<td>$248</td>
<td>+ 2.7</td>
</tr>
<tr>
<td>Italy</td>
<td>$171</td>
<td>$178</td>
<td>+ 4.2</td>
</tr>
<tr>
<td>Latvia</td>
<td>$125</td>
<td>$136</td>
<td>+ 8.5</td>
</tr>
<tr>
<td>Germany</td>
<td>$120</td>
<td>$135</td>
<td>+ 12.2</td>
</tr>
</tbody>
</table>

* Countries facing U.S. tariffs

- **Top five countries produce “distinctive” spirits** that can only be made in certain countries (e.g. Cognac, Scotch, Tequila).

- Since October 2019, U.S. has imposed a **25 percent tariff** on Single Malt Scotch Whisky, Single Malt Irish Whiskey from Northern Ireland, and liqueurs and cordials from Germany, Ireland, Italy, Spain and the UK.
DISCUS-led Export Promotion Program

Market Access Program (MAP)
- Supported by the U.S. Department of Agriculture
- Promotes U.S. distilled spirits in key foreign markets by:
  - Conducting educational seminars
  - Hosting trade expositions
  - Executing social media campaigns

Since 2014, the initiatives through the MAP have directly resulted in nearly $6 million in new exports for small and medium U.S. distillers.
45 States Exported U.S. Spirits in 2019

Source: 2019 U.S. Census & ITC Data
39 States Exported American Whiskey in 2019

Source: 2019 U.S. Census & ITC Data
Tom Potter
New York Distilling Company
President
U.S. Craft Distiller Perspective: New York Distilling Company

- Distillery in Brooklyn, NY
- Founded by Tom Potter, Bill Potter & Allen Katz in 2010
- Produces award-winning gins and rye whiskies
- 15 employees
- Long-term relationship with NY organic farmers to source all rye grains
- Began 10-year project in 2011 to grow & distill rye from heirloom seeds (historic “Horton” varietal)
In 2017, exports accounted for 15 percent of company revenue; fastest growing segment.

Projections were for 25 percent of sales to come from exports in 2018.

Primary export markets: EU & China.

Introduction of tariffs in mid-2018 froze all foreign sales.

Now, less than 7 percent and continuing to erode.

Lost opportunity: $100K and counting.
Within 30 days of initial passage of the federal excise tax cut in 2018, NYDC hired first full-time salesperson

Within 30 days of 2019 extension, NYDC hired two additional full-time employees, bringing total to 15

Without the extension, NYDC would have had to eliminate one position

Next month NYDC will be purchasing our second rick house due to the extension

Extension is welcome – but making it permanent is crucial to planning

Proportionally, tax relief for small producers is even more important for spirits than beer or wine
David Ozgo
Distilled Spirits Council of the United States
Senior Vice President, Economic and Strategic Analysis
Economic Overview

- Industry Growth
- Market Share
- Growth Drivers
- Category Performance
- Trends to Watch
U.S. Supplier Revenues Up 5.3 Percent to $29 Billion - $1.5 Billion Gain

Source: Distilled Spirits Council Market Segmentation Database
U.S. Volume Up 3.3 Percent in 2018
Up 7.6 Million to 239 Million Cases

Source: Distilled Spirits Council Market Segmentation Database
Spirits Market Share – Revenue
Each Point Worth $770M

Revenue Market Share

2006: 33.1%
2007: 33.0%
2008: 33.1%
2009: 32.9%
2010: 33.3%
2011: 34.1%
2012: 34.3%
2013: 34.7%
2014: 35.2%
2015: 35.4%
2016: 35.9%
2017: 36.6%
2018: 37.3%
2019: 37.8%

Source: Distilled Spirits Council Market Segmentation Database
Spirits Market Share – Volume
Each Point is Worth 6.6M Cases

Volume Market Share

Source: Distilled Spirits Council Market Segmentation Database
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:

<table>
<thead>
<tr>
<th>Revenue/9-Liters</th>
<th>Retail Bottle Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value $54</td>
<td>&lt;$12/bottle</td>
</tr>
<tr>
<td>Premium $100</td>
<td>$12-20/bottle</td>
</tr>
<tr>
<td>High End $170</td>
<td>$20-35/bottle</td>
</tr>
<tr>
<td>Super Premium $277</td>
<td>$35+/bottle</td>
</tr>
</tbody>
</table>
Source: Distilled Spirits Council Market Segmentation Database
U.S. Supplier Revenue by Price Point

Gross Revenues (Billions)

- **Super Premium, $7.0**: 24%
- **Value, $4.0**: 14%
- **High End, $9.9**: 34%
- **Premium, $8.1**: 28%

Source: Distilled Spirits Council Market Segmentation Database
Growth by Price Point (Volume)

2018 Incremental Growth Compared to 2019

Value | Premium | High End Premium | Super Premium
--- | --- | --- | ---
2018 | 2019 | 2018 | 2019

Source: Distilled Spirits Council Market Segmentation Database
Growth by Price Point (Revenue)

2018 Incremental Growth Compared to 2019

Source: Distilled Spirits Council Market Segmentation Database
Rapid Growth in Revenue Per 9-Liters

Source: Distilled Spirits Council Market Segmentation Database
2019 Factors Contributing to Growth

• Strong U.S. economy and employment
• Federal excise tax cut supports growth of craft distillers
• Growth of spirits tourism & experiential distillery tours drive consumer interest & loyalty
• Fascination with rare spirits as collectible investments drive auction frenzy
• Consumer preference for premium products, prestige bottles & unique experiences
• Spirits authenticity and rich heritage
• Innovation in spirits from new mash bills to aging techniques interest curious consumers
• Marketplace modernization increases consumer convenience and access to spirits
  – Innovation in the Control States
American Whiskey
Bourbon, Rye and White

- Volume up 8.4% to 26.6M cases (+2.1M cases)
- Revenues up 10.8% to $4.0B (+$387M)
- Premium+ price categories drove growth
  - Value vol. down -3.3% (3.7M), rev. down -2.7% to $224M
  - Prem. vol. up 9.4% (7.1M), rev. up 9.4% to $739M
  - High End vol. up 8.2% (12.3M), rev. up 8.6% to $2.2B
  - Super vol. up 22.2% (3.5M), rev. up 25.0% to $804M
- Added 650K cases flavored Bourbon up 23%
- Traditional Bourbon/Tennessee up 5.5%, (+1.3M cases)
- White/Corn flat total volume 2.2M cases
American Rye Up 14.7 Percent to 1.2M Cases, $235M Revenue

Source: Distilled Spirits Council Market Segmentation Database
Scotch

- **Single Malt**
  - Volume up 6.9% to 2.4M cases
  - Revenue up 9.6% to $925M
  - Volumes concentrated in Super Premium

- **Blended**
  - Volume down -2.0% to 7.1M cases
  - Revenue down -0.6% to $1.4B
  - Super Premium volumes up 7.7%
Irish Whiskey

• Volume up 3.9% to 4.9M cases (+185k cases)
• Revenue up 5.6% to $1.1B (+60M)
• Volumes concentrated in High End and Super Premium
Tequila/Mezcal

- Volumes up 8.5 percent to 20.1M cases (1.6M new cases)
- Revenues up 12.4 percent to $3.4B (+$372M)
- Strong growth across price categories:
  - Value vol. up 2.3% (3.5M), rev. up 4.9% to $287M
  - Prem. vol. up 5.8% (9.9M), rev. up 7.1% to $1.1B
  - High End vol. up 19.2% (2.6M), rev. up 20.6% to $488M
  - Super Premium vol. up 15.0% (4.1M), rev. up 15.6% to $1.5B
Mezcal Grows to +/- 515 Cases
$105M Revenue

Source: Distilled Spirits Council Market Segmentation Database
Cognac

- Volumes down -0.8 percent to 6.6M cases
  - 2-Year CAGR volume up 7%
- Revenues up 0.8 percent to $2.0B
  - 2-Year CAGR revenue up 10%
- Volumes concentrated in High End and Super Premium
Gin and Rum

- **Gin**
  - Volume flat, revenue up 3.0%
  - Growth driven by High End (vol. +5.1%) & Super Premium (vol. +31.7%)

- **Rum**
  - Volume up 1.1% (24.1M cases)
  - Revenue up 2.2% ($2.3B)
  - High End volume up 0.5% (2.8M cases)
  - Super Premium volume 6.6% (738k cases)
Vodka

- Accounts for 31% of total volume
- Volumes up 2.3 percent to 74M cases (1.7M new cases)
- Revenues up 2.9% to $6.6B ($185M gain)
- Category driven by High Premium
  - Volumes up 11.0% to 22.4M cases (2.2M new cases)
  - Revenues up 10.9% to $2.9B ($288M gain)
- Flavored vodka up 450k cases
Pre-mixed Cocktails

• First time to be highlighted
• Volumes up 6.1 percent to 6.2M cases (356K new cases)
• Revenues up 7.5 percent to $351M (+$25M)
• Price categories:
  • Value vol. up 1.5% (2.2M), rev up 1.9% to $112M
  • Premium vol. up 8.8% (4.0M), rev up 10.4% to $239M
2020 Spirits Trends

- **Classic comeback continues:** Many bartenders are simplifying menus, reverting to 2-3 ingredient classic cocktails, using premium ingredients with a modern or localized twist.

- **Something for all:** Cocktail menus are increasingly featuring low-ABV or non-alcohol drink options, allowing every consumer to enjoy the bar community.

- **Destination Distillery:** More consumers are seeking out distilleries for staycations or weekend getaways.

- **Zeroing in on waste:** Commitment to sustainability is growing in the cocktail craft – from no plastic straws or stirrers to reducing waste by incorporating excess food ingredients in drinks.

- **Shaking sugar:** Bartenders are creating cocktails with more savory, sour, and umami flavor profiles.

- **Return of the bar cart:** Millennials have brought back the bar cart as a way to showcase their premium spirits and entertain with style; On-premise also featuring bar carts to heighten consumers’ experience.
Summary

- **Volume/Revenue**
  - Supplier revenue up 5.3 percent to $29B
  - Supplier volume up 3.3 percent to 239M 9-liter cases

- **Bourbon/Tennessee significant growth driver along with Rye, Single Malt Scotch, Tequila, Mezcal and Pre-mixed Cocktails**

- **Revenue per 9-liters over $120 in 2019**

- **Continue to increase market share gains:**
  - 37.8 percent revenue market share
  - 36.3 percent volume market share
Question & Answer