

2020 ECONOMIC BRIEFING

January 2021 | Virtual Meeting



DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES

Presenters



Chris Swonger
**Distilled Spirits Council
of the United States**
President & CEO



Christine LoCascio
**Distilled Spirits Council
of the United States**
Chief, Public Policy



Dr. Sonat Birnecker Hart
KOVAL Distillery
Owner & President



David Ozgo
**Distilled Spirits Council
of the United States**
*Senior Vice President,
Economic/Strategic Analysis*

2020 Economic Overview

- U.S. revenue growth up 7.7 percent
- U.S. volume growth up 5.3 percent
- 11th straight year of market share gains
- Destructive tariffs continue to curtail U.S. export growth/jeopardize U.S. jobs
- Uneven economic impacts of COVID-19 on U.S. hospitality industry
- New marketplace modernizations will aid recovery of restaurants, bars and craft distilleries

2020 Key Victories



- Passage of Craft Beverage Modernization and Tax Reform Act making tax cuts permanent
- Supported COVID-19 economic relief measures to boost hospitality businesses and increase consumer convenience:
 - Cocktails to-go in 33 states, including permanent laws passed in Iowa and Ohio
 - Pick-up and delivery measures for on/off premise in multiple states
 - Direct-to-consumer shipments from in-state distillers in 8 states
- New law permitting direct-to-consumer shipping in Kentucky



Christine LoCascio

**Distilled Spirits Council
of the United States**

Chief, Public Policy



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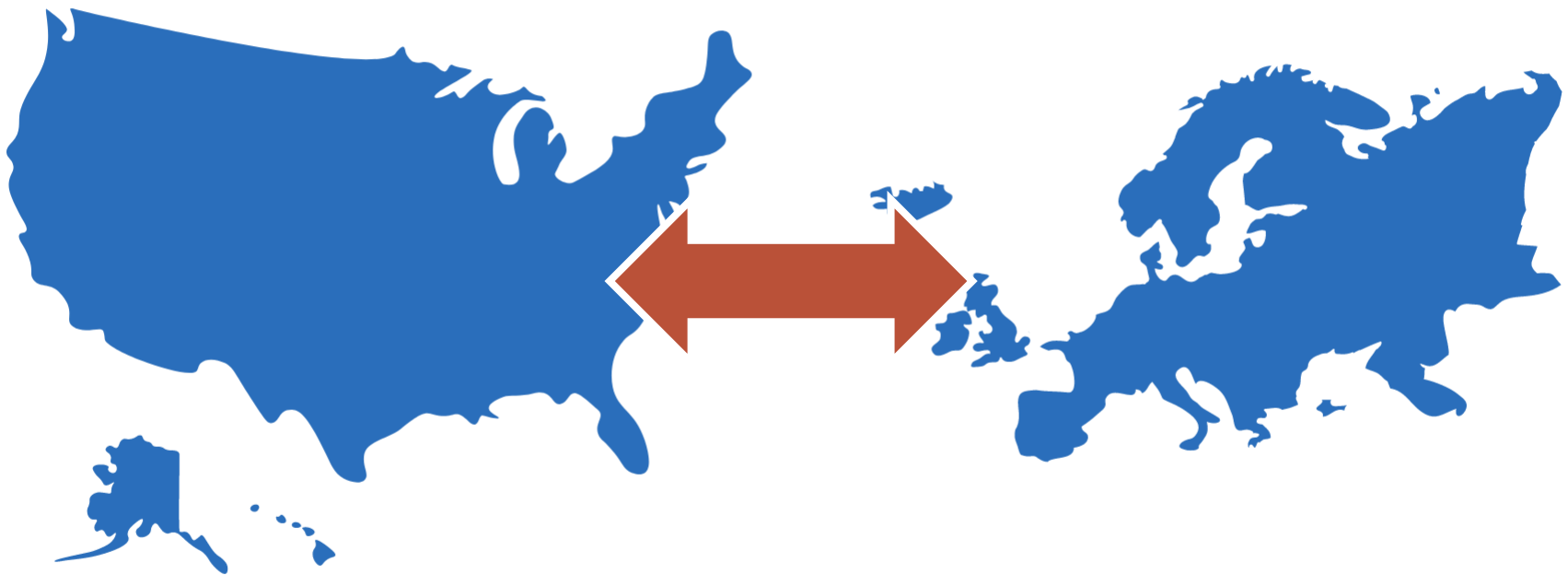
Trade: Impacts of Tariffs



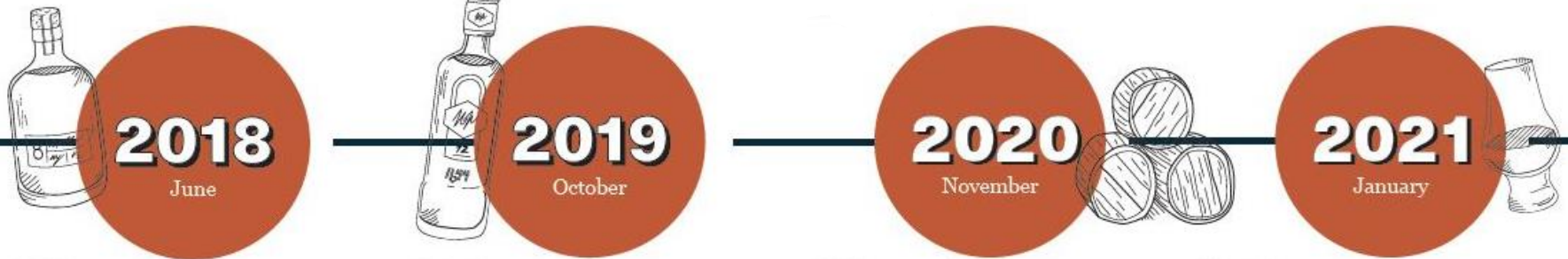
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Tariffs on Distilled Spirits

From 1997 through June 2018, there were *no tariffs* on distilled spirits between the U.S. and EU.



Tariffs on Distilled Spirits



- EU 25% tariff on:
- American Whiskey

- U.S. 25% tariff on:
- Single Malt Scotch Whisky
 - Single Malt Irish Whiskey from Northern Ireland
 - Cordials and Liqueurs from Germany, Ireland, Italy, Spain and the UK

- EU 25% tariff on:
- Rum
 - Brandy
 - Vodka
 - Vermouth

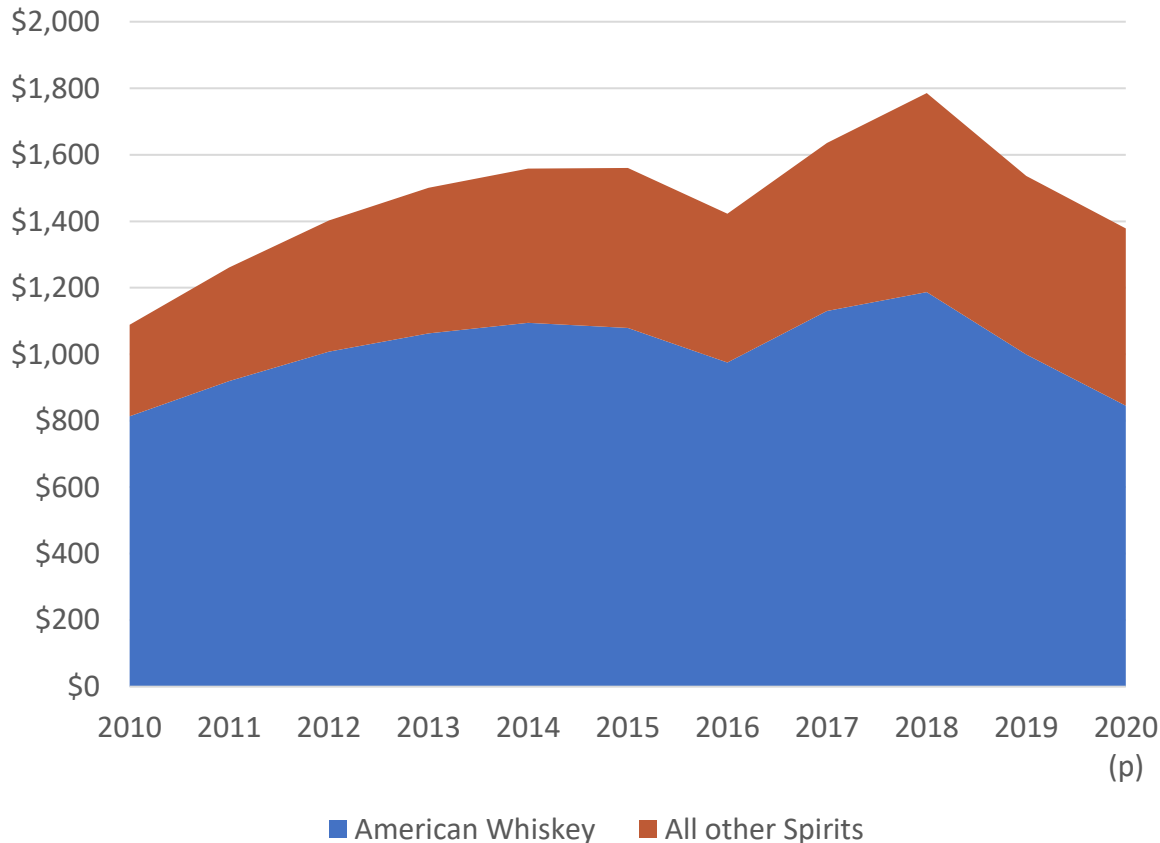
- U.S. 25% tariff on:
- Cognac
 - Other grape brandies from France and Germany

The EU 25 percent tariff on American Whiskey will double to 50 percent in June 2021.

Decade in Review: U.S. Export Growth Stunted by Tariffs



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



- Over the past 10 years, total U.S. spirits exports grew by **26.7 percent**.
- In June 2018, the EU imposed a **25 percent retaliatory tariff** on American Whiskey.
- From 2018 to 2020, total U.S. spirits exports were **down 22.8 percent** to \$1.4 billion.
- American Whiskey exports were **down 28.9 percent** to \$845 million from 2018 to 2020.

American Whiskey Exports to the EU 28 and the UK



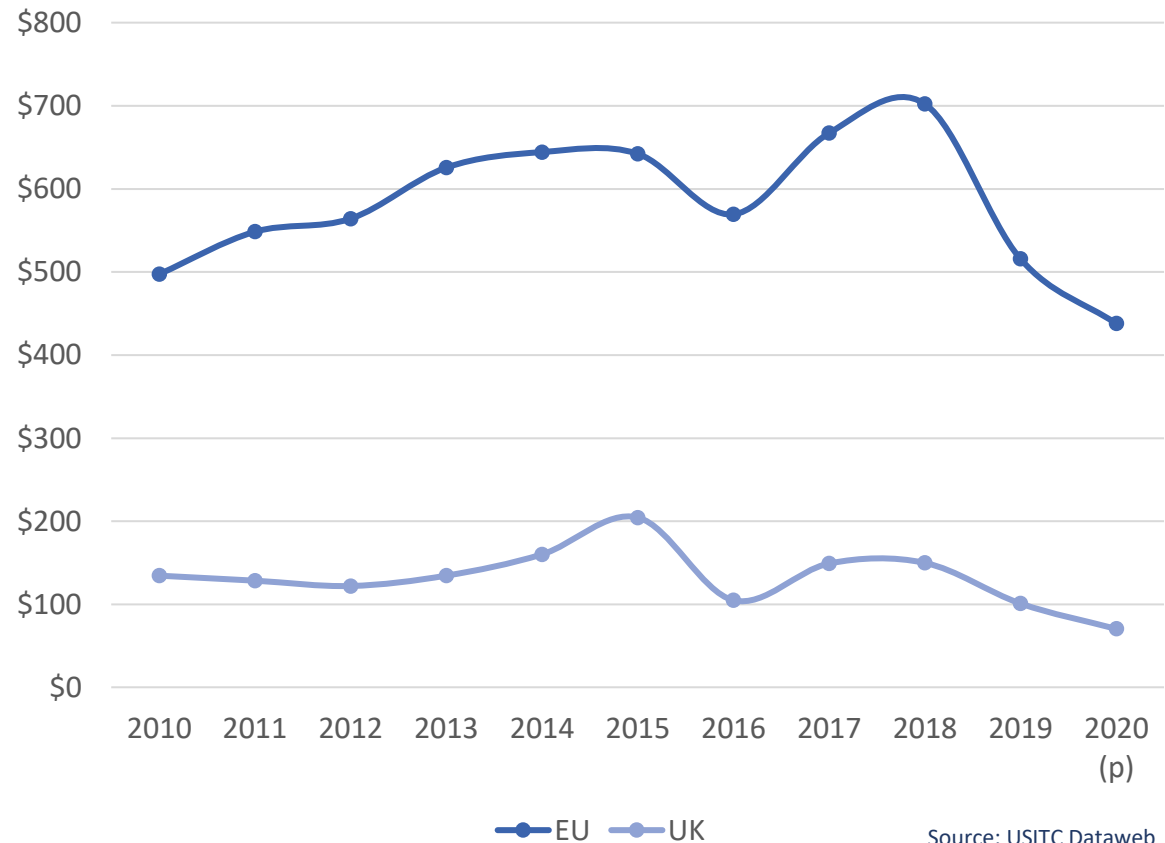
2020:

- The EU accounted for **52 percent** of total American Whiskey exports.
- The UK accounted for **16 percent** of American Whiskey exports to the EU.

2018-2020:

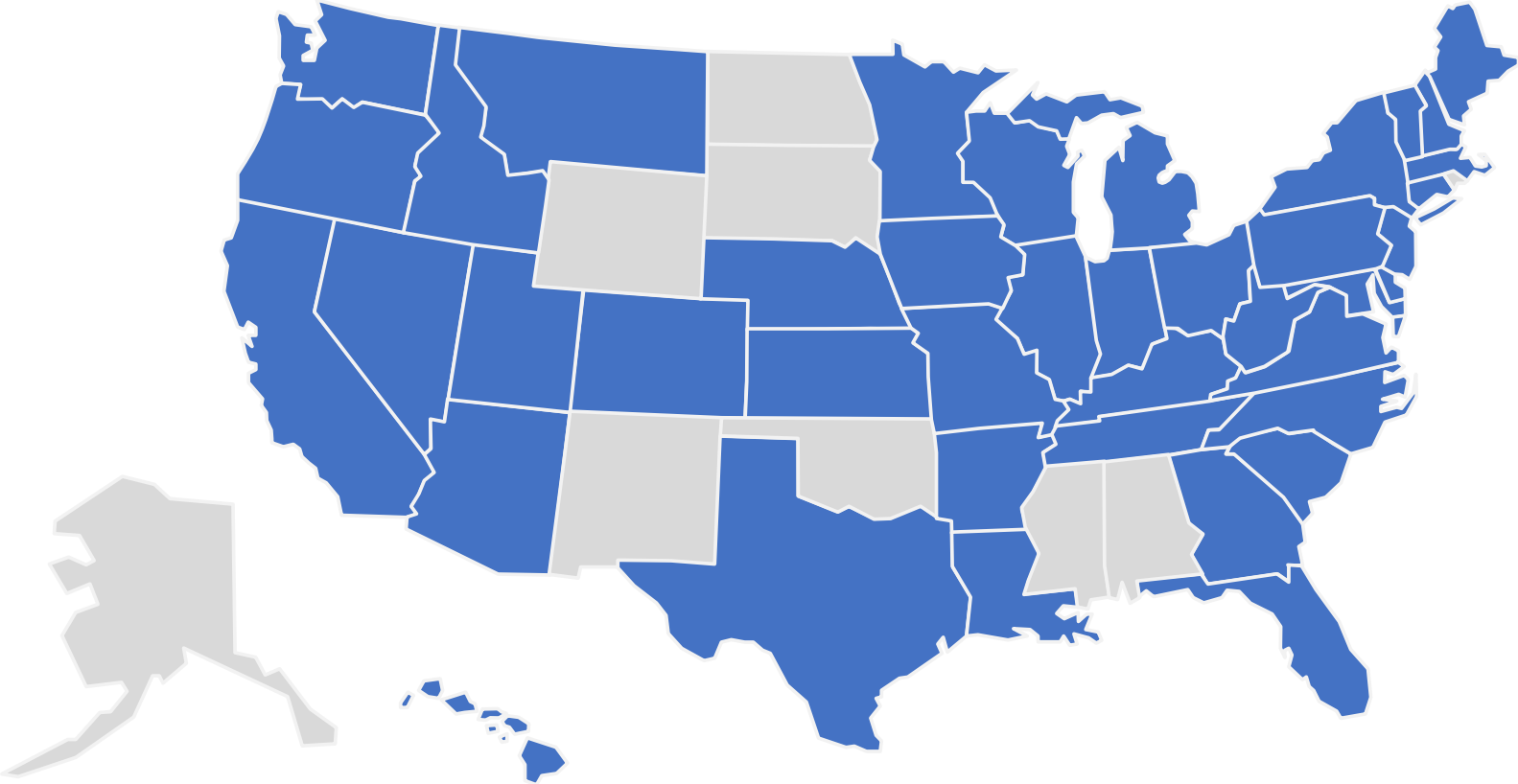
- Since the imposition of retaliatory tariffs, American Whiskey exports to the UK have decreased **53 percent** and **38 percent** to the EU.

American Whiskey Exports to the EU and UK (in millions of USD)



Source: USITC Dataweb

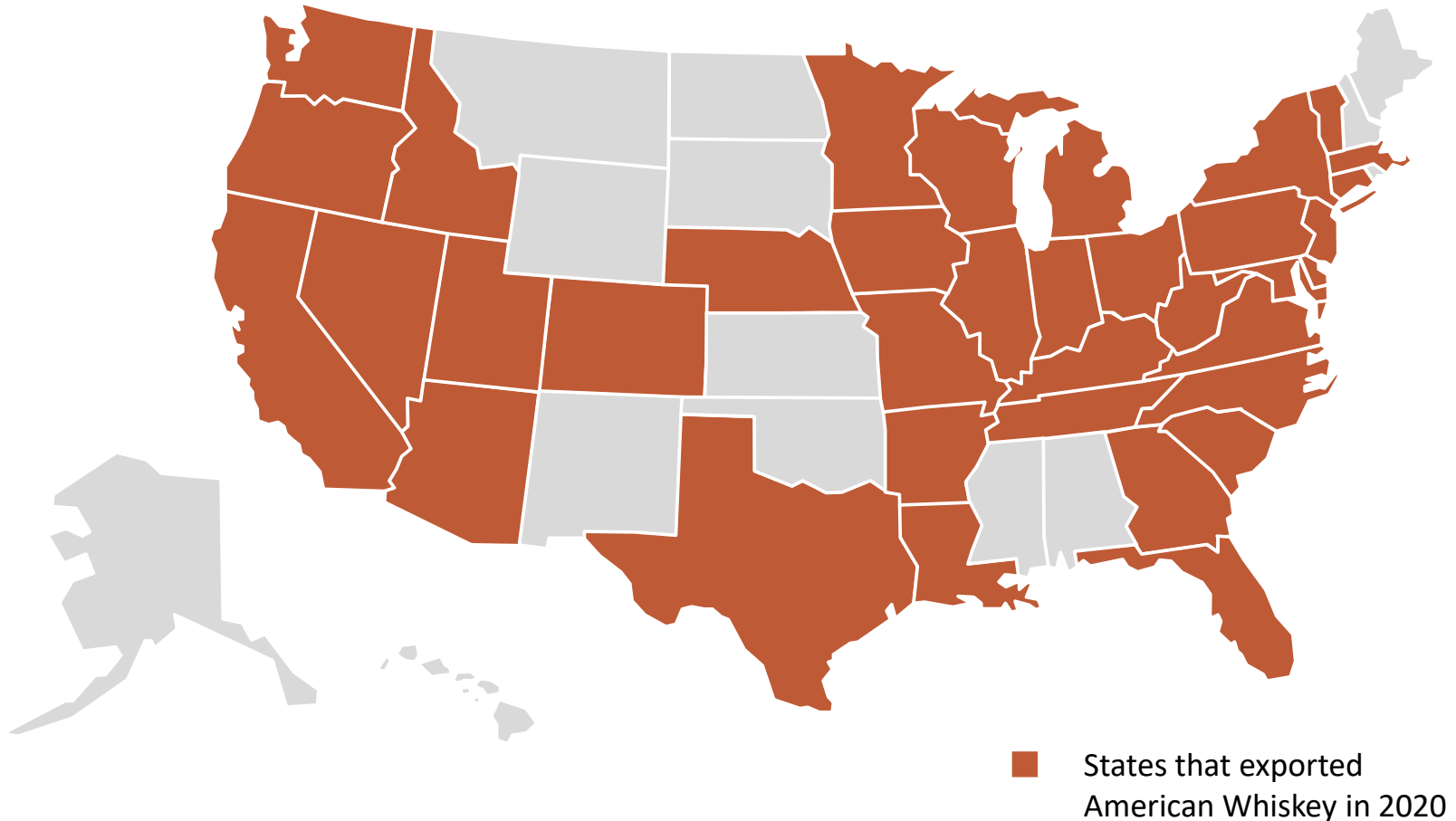
41 States Exported U.S. Spirits in 2020



■ States that exported U.S. spirits in 2020

Source: 2020 U.S. Census & ITC Data

36 States Exported American Whiskey in 2020



Source: 2020 U.S. Census & ITC Data

Imports of Scotch Whisky

- In October 2019, the U.S. imposed a **25 percent retaliatory tariff** on Single Malt Scotch Whisky.

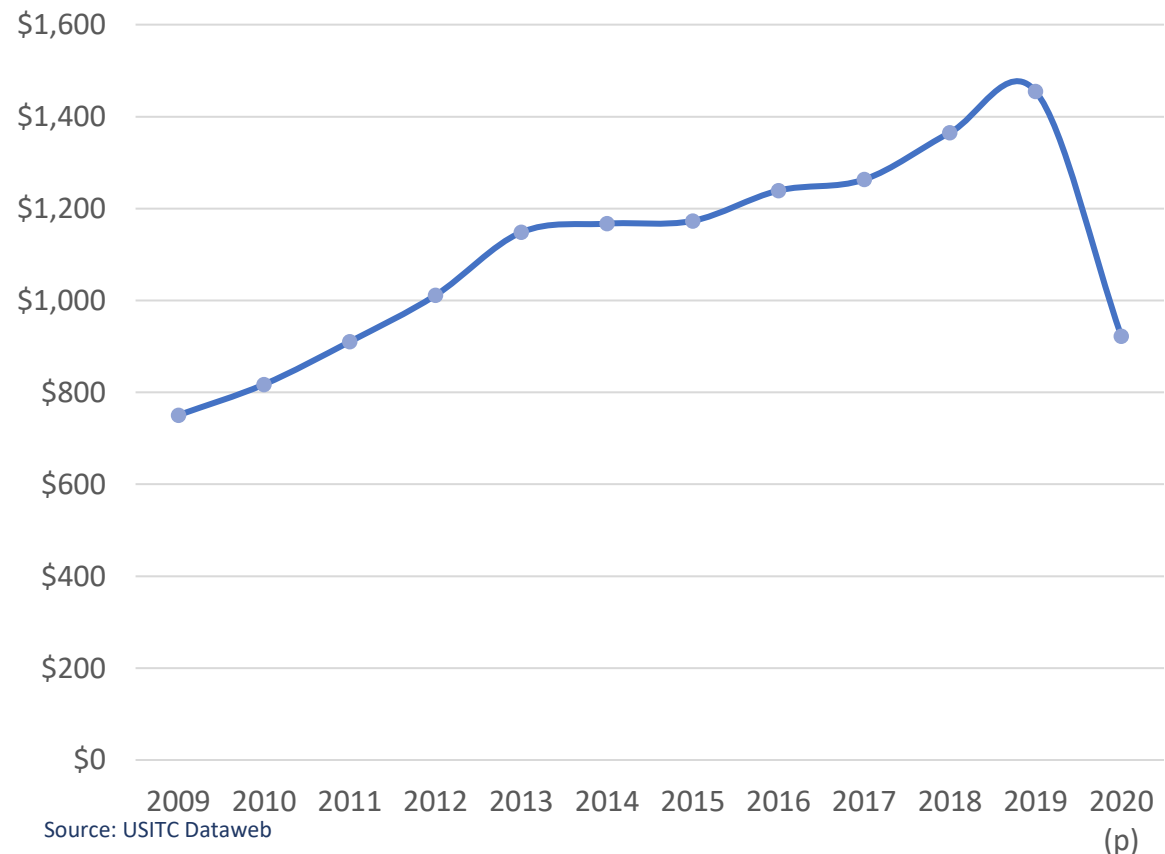
2009-2019:

- From 2010 to 2019, U.S. imports of Scotch Whisky increased by **94 percent**

2019-2020:

- From 2019 to 2020, U.S. imports of Scotch Whisky decreased by **37 percent.**

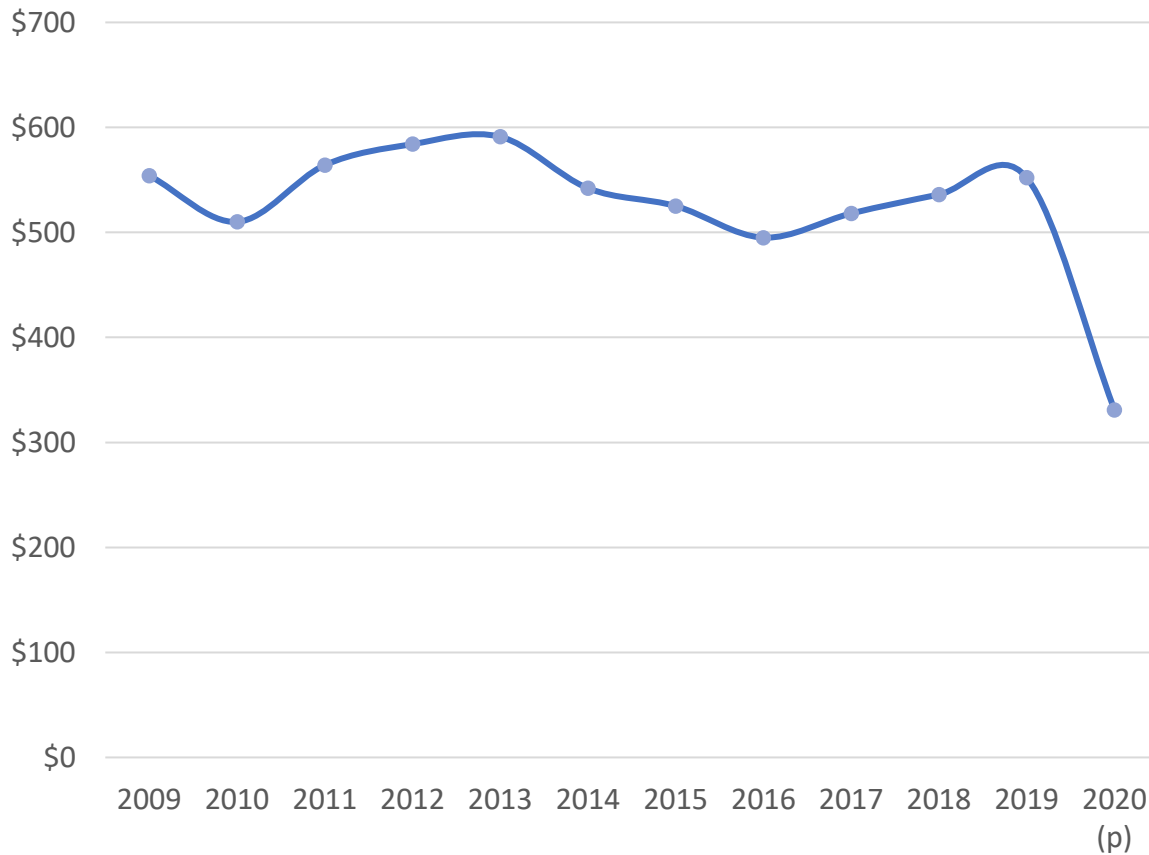
Imports of Scotch Whisky (in millions of USD)



Imports of Liqueurs and Cordials



Imports of Liqueurs and Cordials (in millions of USD)



Source: USITC Dataweb

- In October 2019, the U.S. imposed a **25 percent retaliatory tariff** on liqueurs and cordials from Germany, Ireland, Italy, Spain and the UK.

2009-2019:

- From 2010 to 2019, U.S. imports of affected liqueurs and cordials were relatively consistent.

2019-2020:

- From 2019 to 2020, U.S. imports of affected liqueurs and cordials decreased by **40 percent**.

2021: Legislative Priorities



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2021 DISCUS Legislative Priorities



FEDERAL

- Securing an immediate suspension of tariffs on all distilled spirits
- Seeking further relief for hospitality industry in any additional Federal COVID-19 relief bill
- Restaurants Act re-introduction

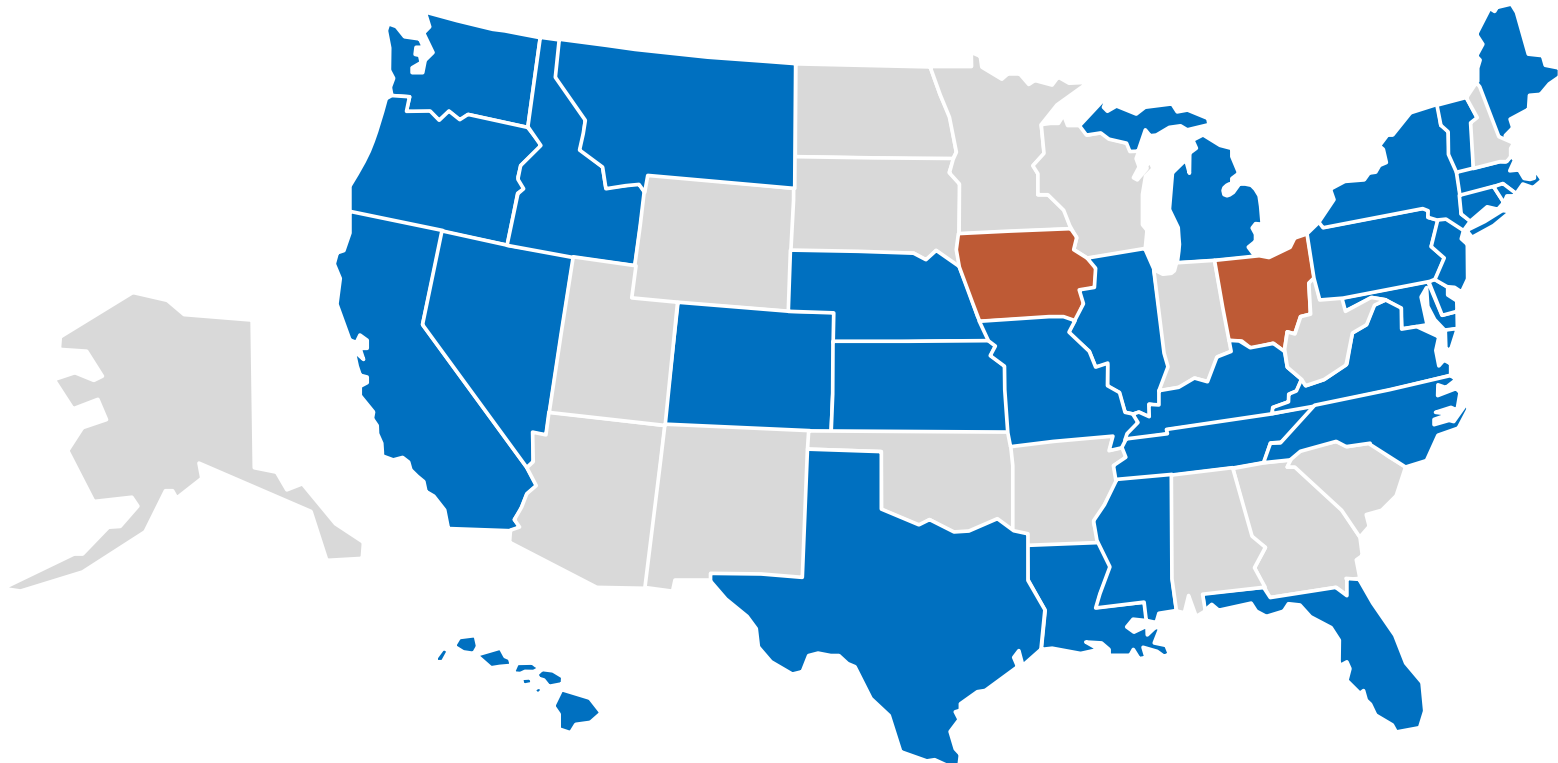
STATE

- Ready-to-Drink (RTD) Products: Ensure any RTD legislation treats spirits-based RTDs fairly and equitably relative to other RTDs
- Sunday Sales: Secure repeal of bans in SC, NC, MT, TX and MS
- Combat tax threats targeted at consumers and small businesses
- Outlet expansion in Pennsylvania

State Priority: Cocktails To-Go

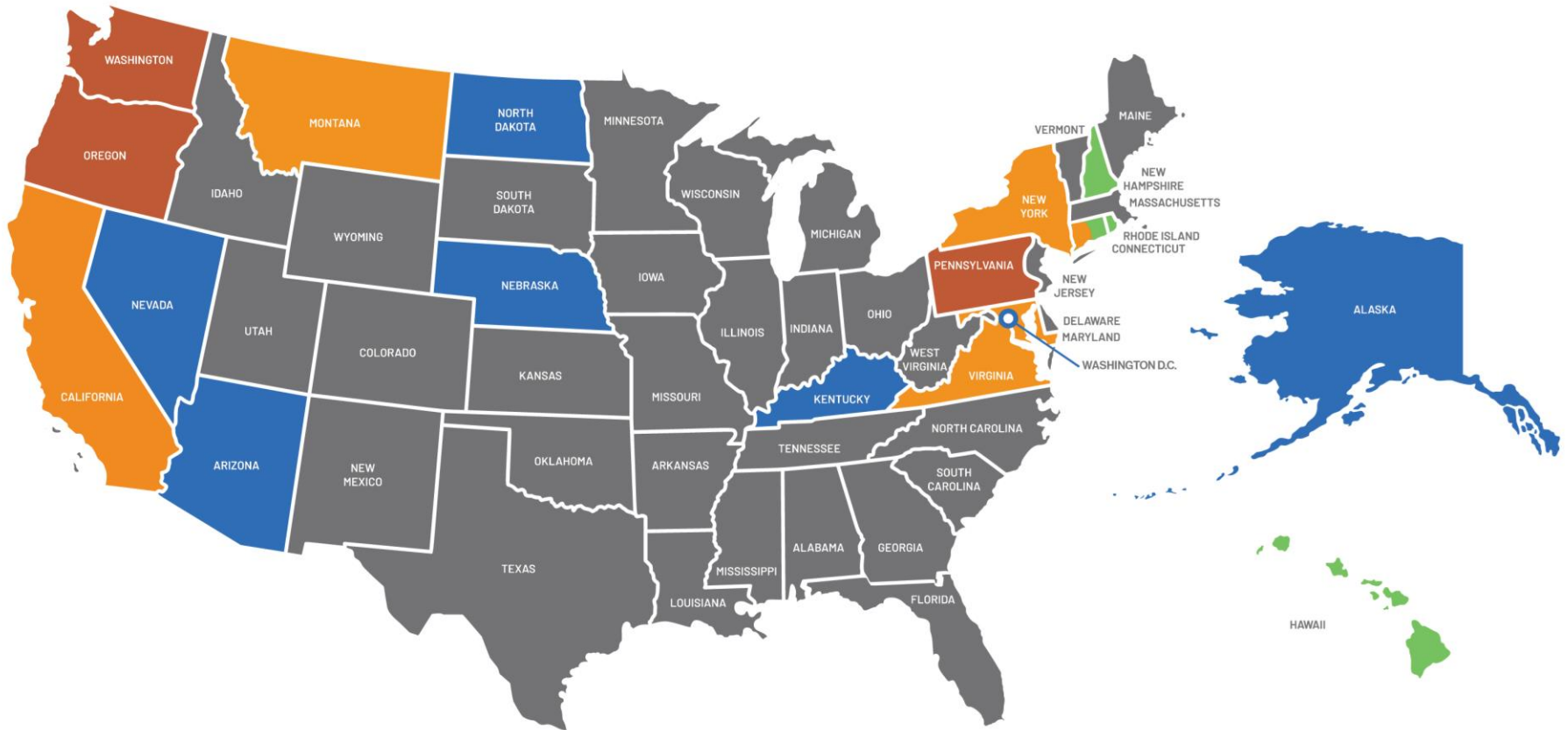


33 States and D.C. Allow Cocktails To-Go in Response to COVID-19



- States allowing or expanding cocktails to-go in response to COVID-19 (31 states)
- States that passed permanent laws allowing cocktails to-go (2 states)
- Cocktails to-go not allowed (17 states)

State Priority: Direct-to-Consumer



Direct to Consumer Shipping

Direct to Consumer Shipping (In-State Only)

Other Direct to Consumer Shipping and Delivery

Temporary COVID-19 Authorization (In-State Only)



Dr. Sonat Birnecker Hart

KOVAL Distillery

Owner & President



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NEGATIVE IMPACTS OF THE COVID-19 PANDEMIC ON CRAFT DISTILLERIES

By Dr. Sonat Birnecker Hart, owner and president of KOVAL Distillery



ABOUT KOVAL DISTILLERY



- 100% woman owned distillery
- KOVAL makes **organic** whiskey, gin, and specialty spirits, using a **heart cut** approach
- Founded in 2008 as **first in Chicago** since the mid-1800s
- KOVAL has distribution in **55 export markets** around the world
- Winner of over **100 international awards** and accolades
- Through Kothe Distilling Technologies, **educated over 3,500 people** in the art of distilling and helped to set up nearly 200 craft distilleries throughout the world

NEGATIVE IMPACT OF PANDEMIC ON CRAFT DISTILLERIES

- **Bars, restaurants, and distillery tasting rooms** have been **completely closed** to indoor activities since March 17th, 2020 and only recently opened again on Jan, 25th, leaving no avenue to build a brand on premise.
- Craft distilleries in general depend on their tasting rooms/bars for revenue, usually between **20%-80% of sales**.
- KOVAL has been **dramatically affected** after spending **1.5M** just before the pandemic to open a new tasting room and visitor center, which has yet to open due to pandemic concerns.
- Tourism is extremely important to craft distillers. Pre-pandemic (2019) we hosted nearly **15,000 people** at the distillery for tours and tasting events. **In 2020, the number was 0.**
- Measures that can help craft brands recover include **DTC** (Direct to Consumer) shipping, and **cocktails to go**.

NEGATIVE IMPACT OF RETALIATORY TARIFFS

- Prior to tariffs, KOVAL's exports had **increased approx 25%** per year.

NOW:

- Exports have **decreased 60%** due to tariffs.
- Cost to do business abroad have **increased 15%** due to tariffs.
- The tariffs **negatively impacted** what was a growing interest and appreciation of American whiskey.

LONG TERM CONSEQUENCES

Given the complications of the pandemic, coupled with the financial burden of the tariffs, **American brands**, particularly **craft brands** with smaller budgets, will have a difficult time competing abroad.



KOVALDISTILLERY.COM    @ KOVALDISTILLERY



David Ozgo

**Distilled Spirits Council
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*Senior Vice President, Economic
and Strategic Analysis*



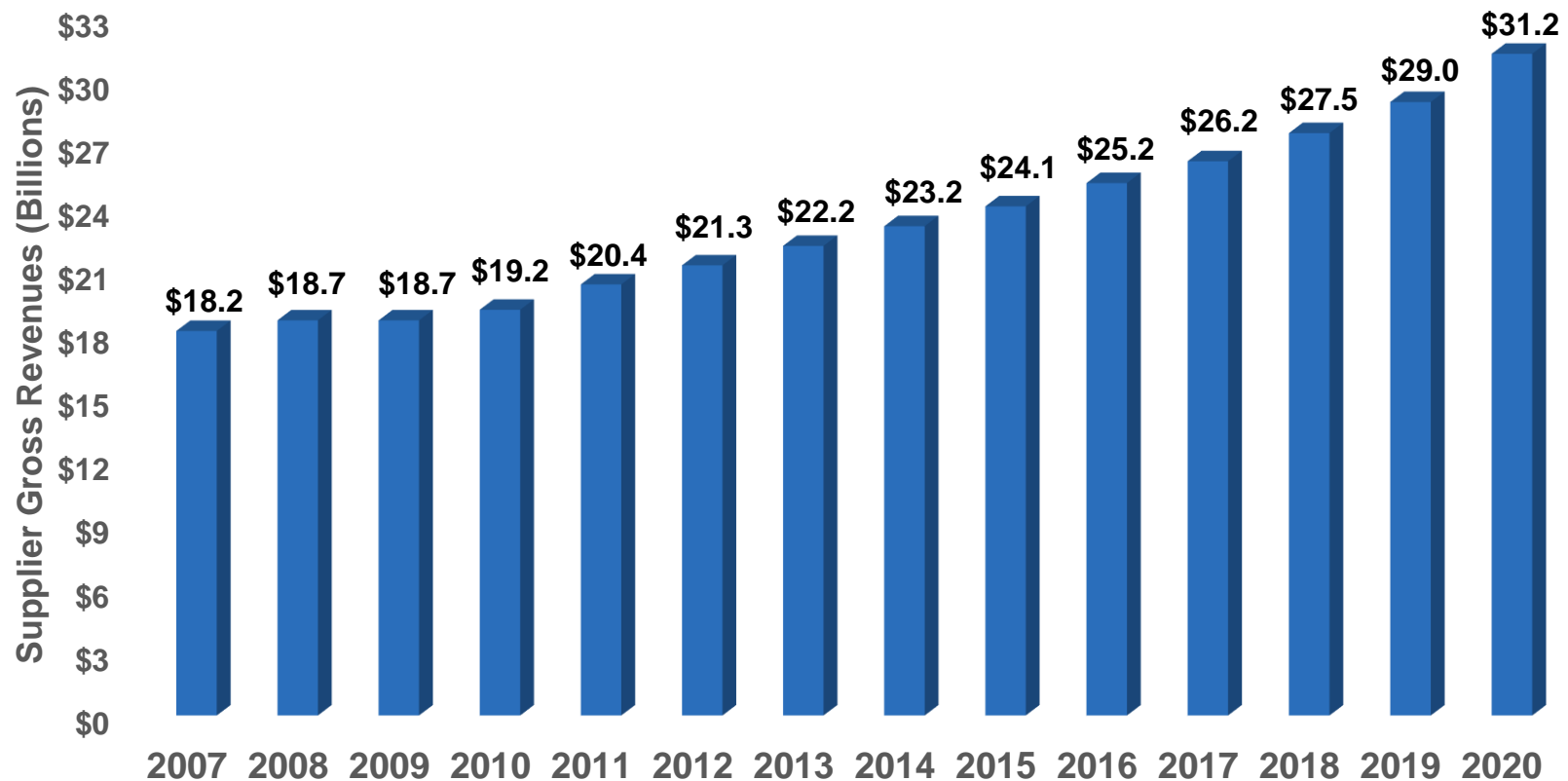
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- 
- **Industry Growth**
 - **Market Share**
 - **Growth Drivers**
 - **Category Performance**
 - **Developing Spirits RTD Market**
 - **Coming Attractions**

U.S. Supplier Revenues Up 7.7 Percent to \$31.2 Billion - \$2.2 Billion Gain



Supplier Gross Revenues (Billions)

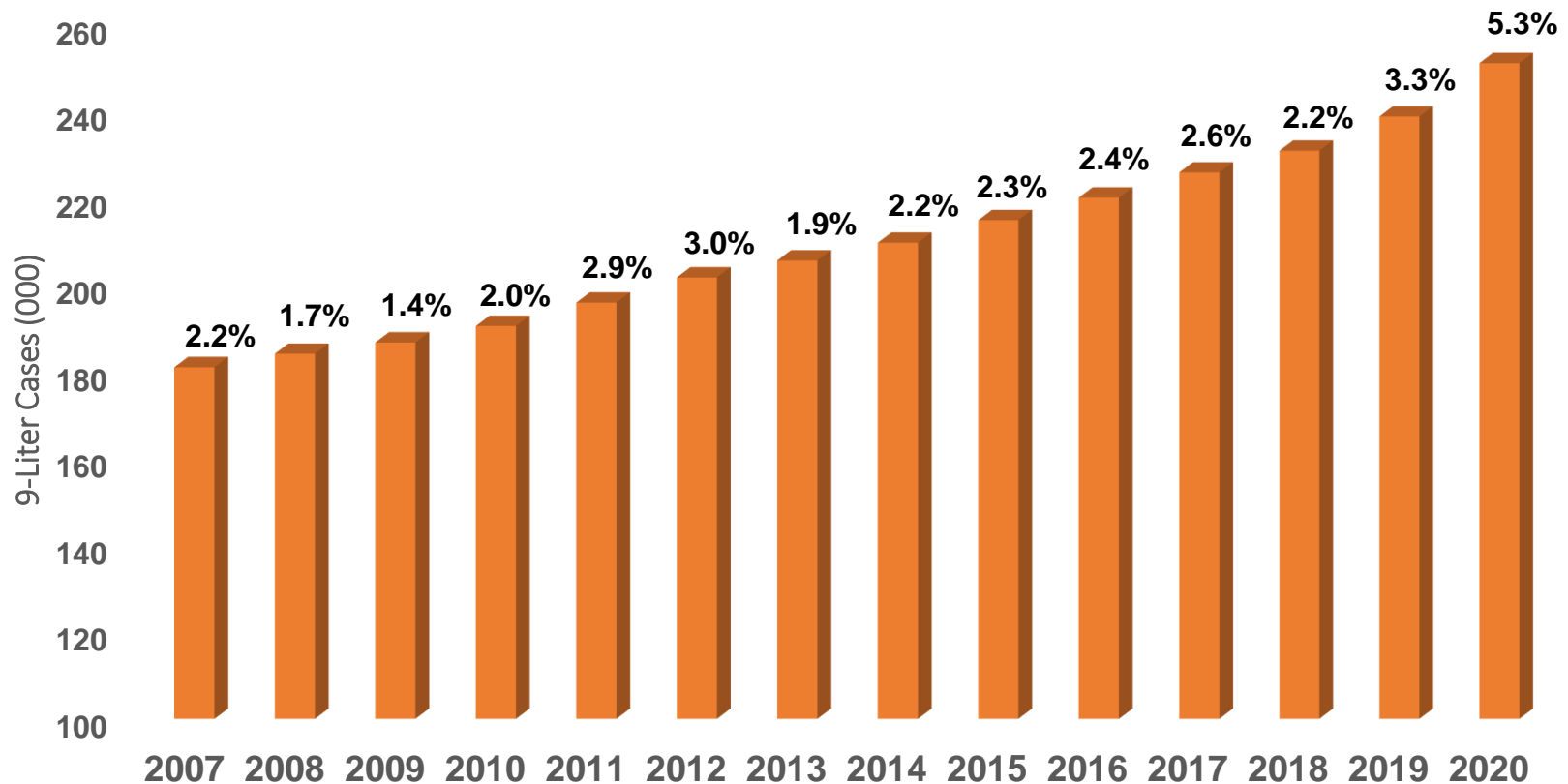


Source: Distilled Spirits Council Market Segmentation Database

U.S. Volume Up 5.3 Percent in 2020 Up 12.7 Million to 251 Million Cases



U.S. Spirits Volume (Millions)

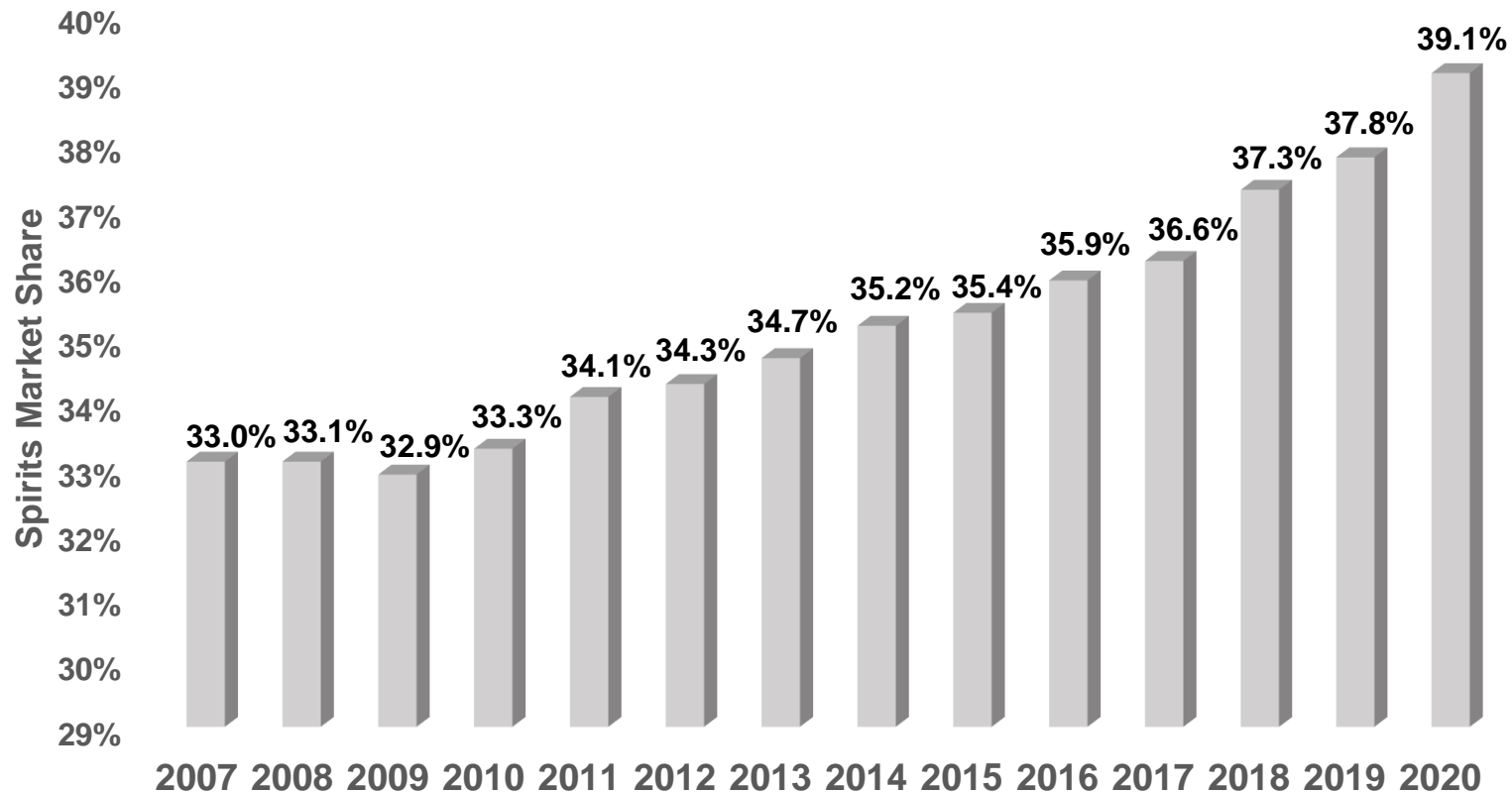


Source: Distilled Spirits Council Market Segmentation Database

Spirits Market Share – Revenue Each Point Worth \$800M



Revenue Market Share

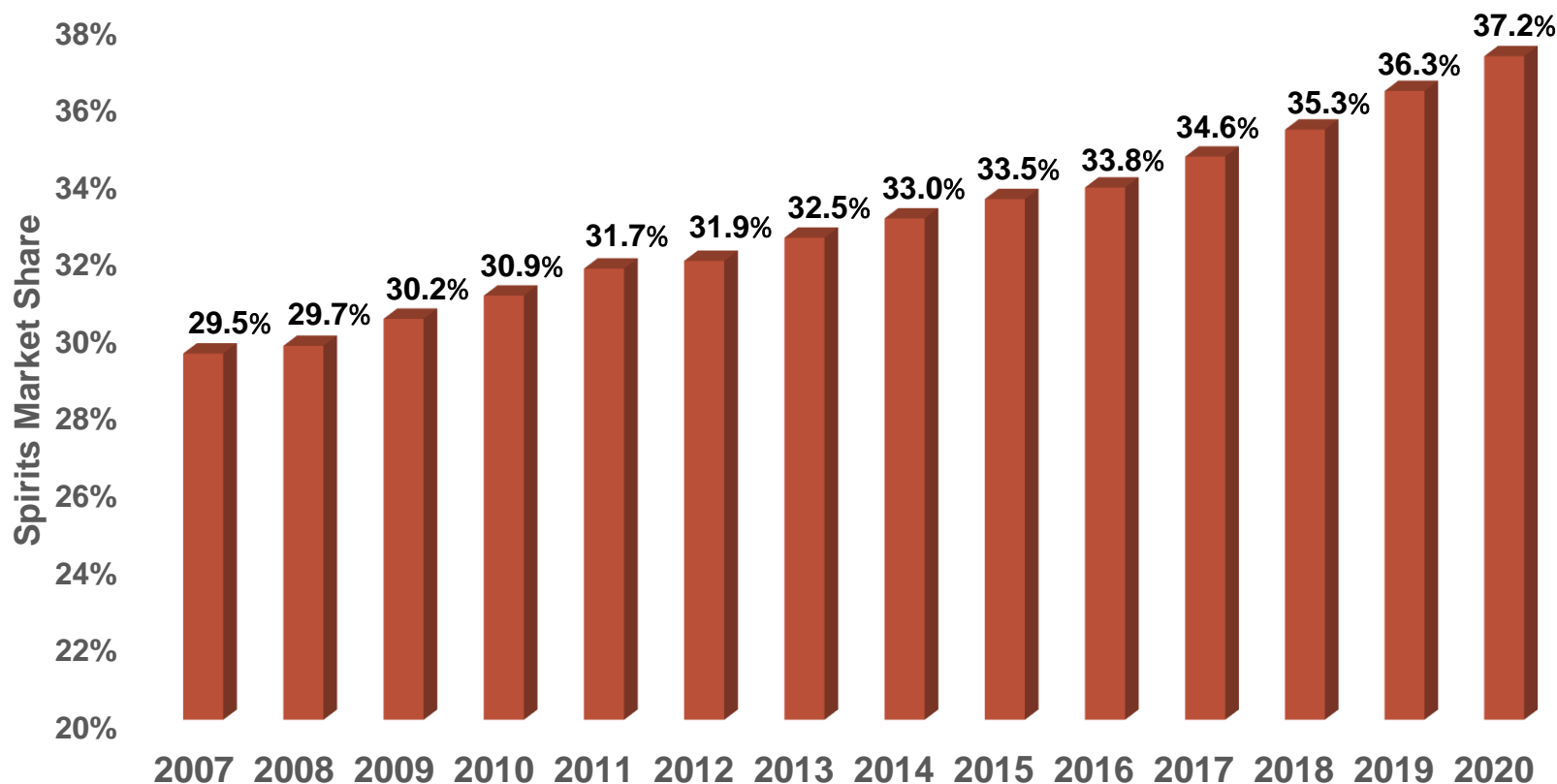


Spirits Market Share – Volume

Each Point is Worth 6.7M Cases



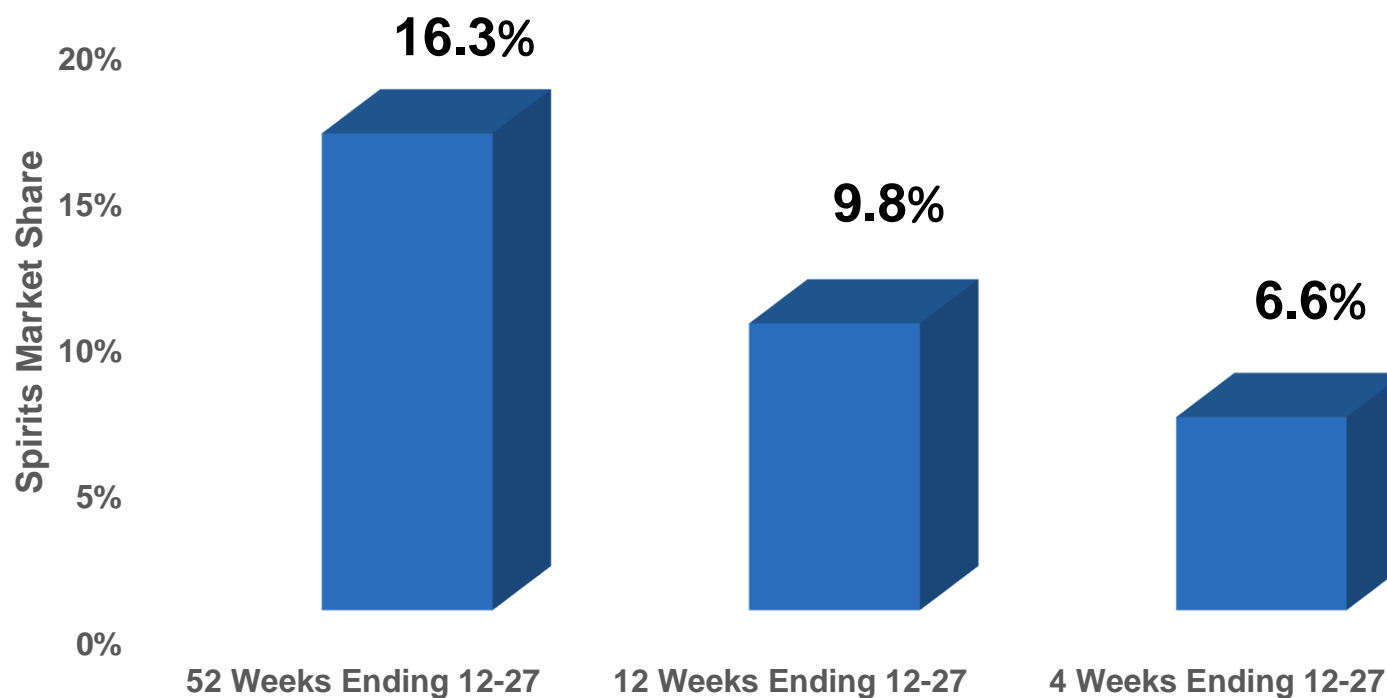
Volume Market Share



Rapid Off-Premise Growth Rate Slowed Later in the Year



Off-Premise Volume Growth

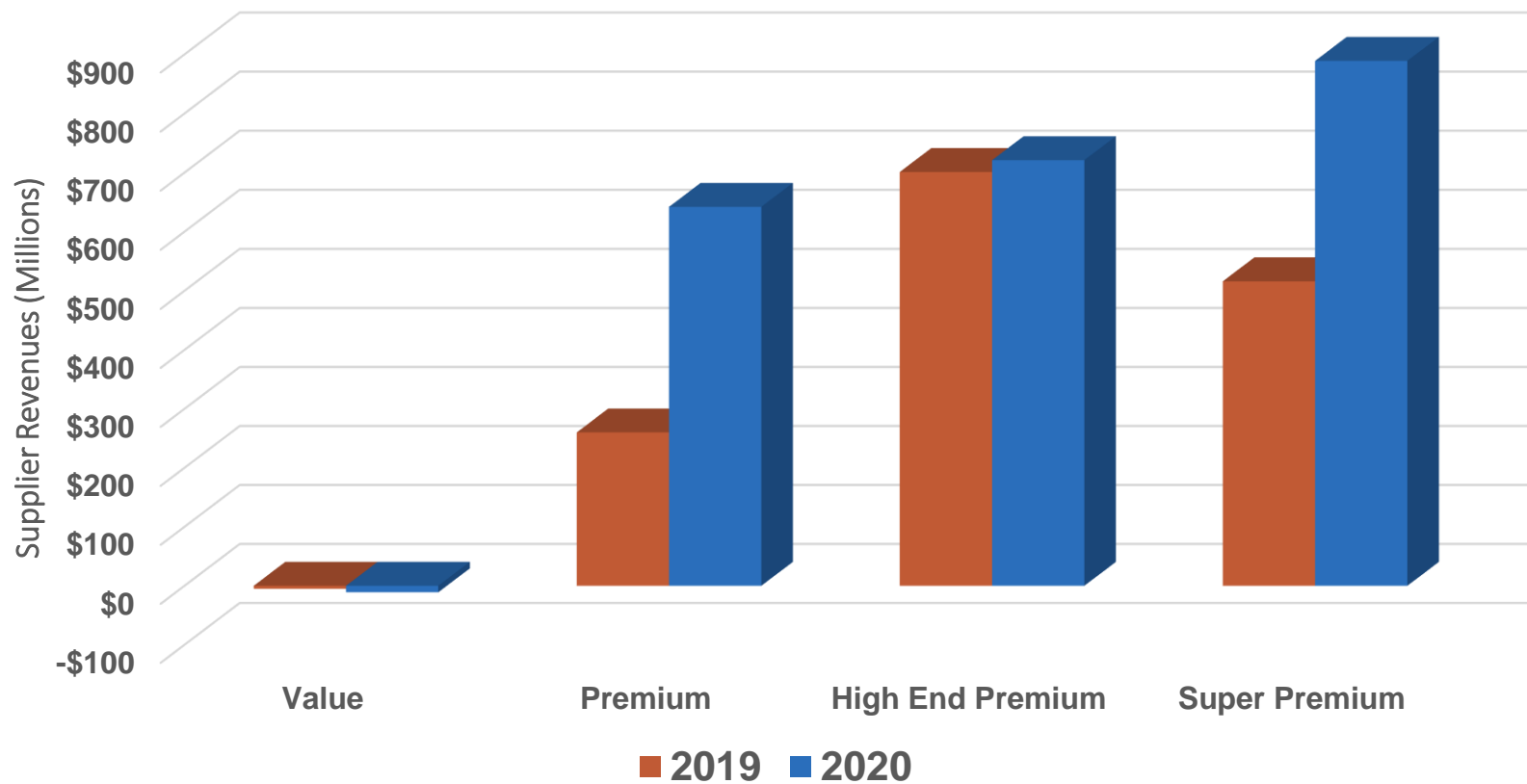


Source: IRI Scanner data, 52 Weeks Ending 12-27

Super Premium Accounted for 40% of Revenue Growth (Growth by price point, revenue)



2019 Incremental Growth Compared to 2020



Uneven Growth Across U.S. & International Markets



- While overall domestic growth was strong, total performance was uneven
- Strong off-premise sales (+18%) were off-set by weak on-premise
 - Closed restaurants meant that on-premise sales down 44%
 - Employment in the hospitality industry is still down by 2.3 million jobs
- Craft distillers forced to close tasting rooms: 36% reported sales down 25% or more
- Weak sales in international markets meant that overall, sales were down for most companies – average of +/- 8%
 - International markets have 50/50 on/off-volume split, making shift to off-premise sales more challenging
- Global travel retail (duty free) almost zero
- Total beverage alcohol in U.S. only up +/- 3% for year

Domestic Growth Drivers



- Strong domestic growth driven by U.S. market structure
- Pre-Covid 80% of U.S. volumes sold through off-premise
 - More limited on-premise sales softened impact of restaurant closings
- Decline in on-premise spirits expenditures gave consumers \$20 billion to spend off-premise. Plus, limited dining, travel, etc.
- Americans accustomed to in-home entertaining
- Spirits have almost infinite shelf life. As entertaining moved into homes, many would have stocked their bars
- Online ordering/home delivery made shopping easier

American Whiskey

Bourbon, Rye and White



Total American Whiskey

- Volumes up 7.0% to 28.4 million cases
- Revenue up 8.2% to \$4.3 billion
- Strength across all price points, but super-premium volumes up 17.4%

Rye

- Volume up 16.3% to 1.4 million cases
- Revenue up 16.9% to \$275 million

Cognac



- Volumes grow by 18.7% to nearly 7.9M cases
- Revenues up 21.3% to \$2.4B
- Almost all brands are High End or Super Premium

Tequila + Mezcal

- Volumes up 10.2% to 22.2 million cases
- Revenues up 17.4% to \$4.0 billion

Mezcal

- Volumes up 17.7% to 607,000 cases
- Revenues up 17.7% to \$124 million

Single Malt

- Volumes down 6.5% to 2.4 million cases
- Revenue down 2.1% to \$905 million
- Previous 10 years volume grew average of 7.8% annually and revenue 10.7%
- Impacted by retaliatory tariffs

Pre-Mixed Cocktails

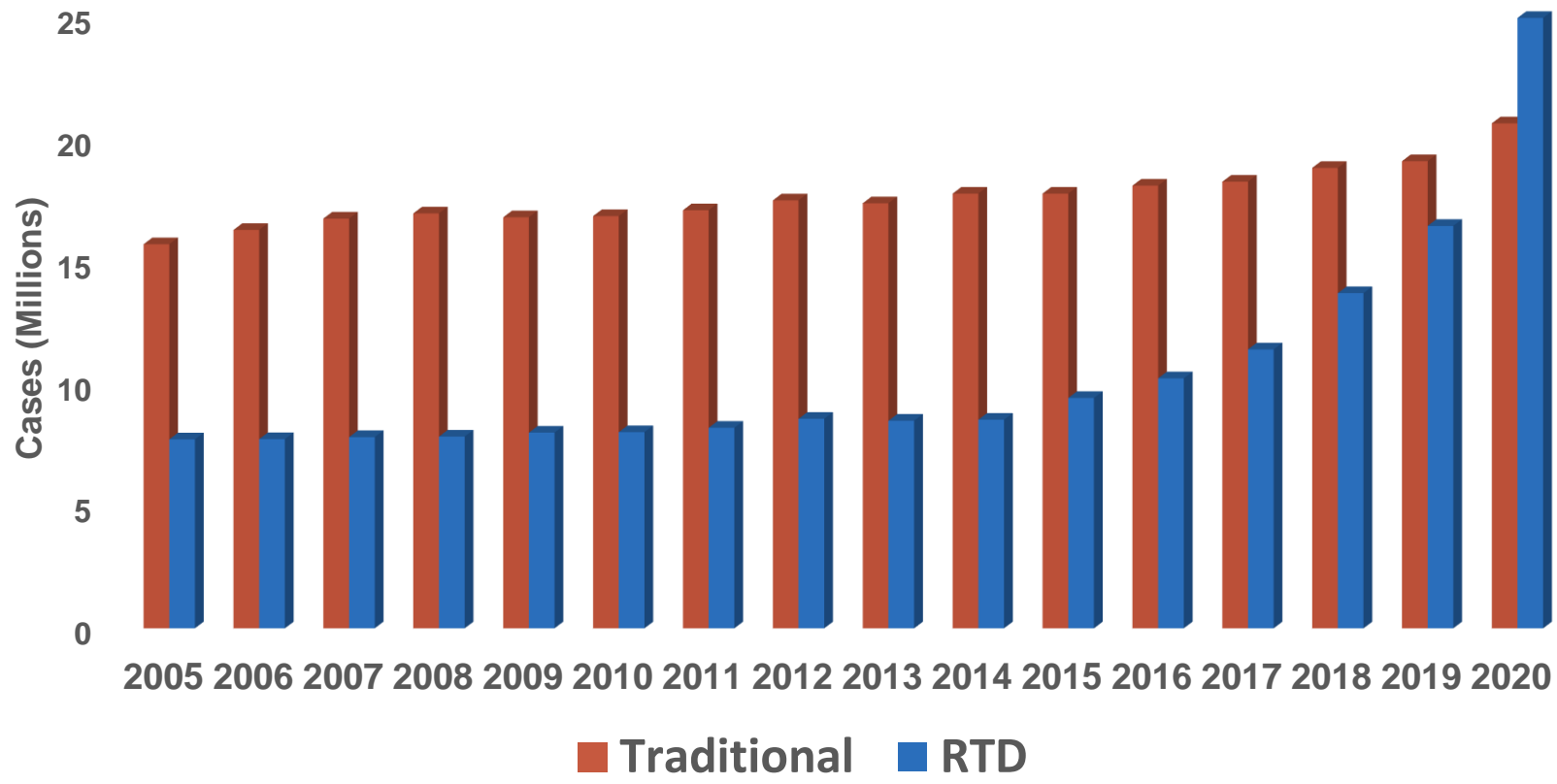


- Category volumes up 35.1% to 8.4 million cases
- Revenues up 39.1% to \$489 million
- Account for only 2.6% of volume, but 17.3% of growth
- Driven by at-home entertaining and new ready-to-drink products

Spirits-Based RTDs Now Exceed Traditional Spirits Volumes in Canada, but Traditional Spirits Continue to Grow



Canadian Traditional Spirits Vs. RTDs



Source: Spirits Canada

U.S. Market Responding with Spirits-Based RTD Offerings



Potential for wider spirits-based RTD market in the U.S.



- RTDs helped drive 30% growth in U.S. Pre-mixed cocktail category
- Growth coming from beer, FMB products wine and cider
- No impact on spirits
- A.C. Nielsen survey showed that, while hard seltzers categorized as beer, 60% of consumers consider own market
 - Fewer than 10% consider hard seltzers as beer
- While developing rapidly in the U.S., market huge market potential
- Based upon the Canadian experience market could reach 280 million cases worth over \$7 billion in supplier revenues

Coming Attractions



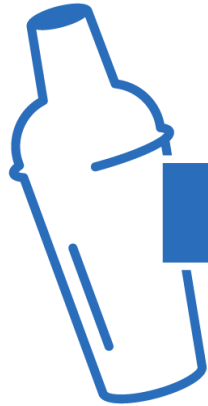
- Luxury Spirits Index – have created index of luxury brands, brands retailing for over \$50/bottle. Categories to include Single Malt Scotch, Cognac, American, Irish, Japanese whiskeys and Tequila. Will be released quarterly
- Volumes by retail price categories – DISCUS worked with IRI and A.C. Nielsen to create retail price categories by product category. Will continue supply price category tables.

Summary



- 2020 U.S. Spirits Industry Snapshot:
 - Supplier revenue up 7.7 percent to \$31.2B
 - Supplier volume up 5.3 percent to 251M 9-liter cases
- Pandemic had uneven economic impact on U.S. hospitality industry
- Craft distilleries reliance on tasting room sales and tourism create significant hardships
- Retaliatory tariffs dramatically curtailed export growth and remains a drag on economic recovery
- At-home entertaining, unused disposable income allowed U.S. spirits market to grow in down year internationally
- Making marketplace modernizations permanent will boost hard hit hospitality industry & consumer convenience

Looking Ahead



ACADEMY

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2021

DISCUS
annual conference

October 6-8 in Austin, TX

Question & Answer



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