

STATE OF THE INDUSTRY

February 4, 2021



DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES



Chris Swonger

**Distilled Spirits Council
of the United States**

President & CEO



**DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES**

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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OF THE UNITED STATES**

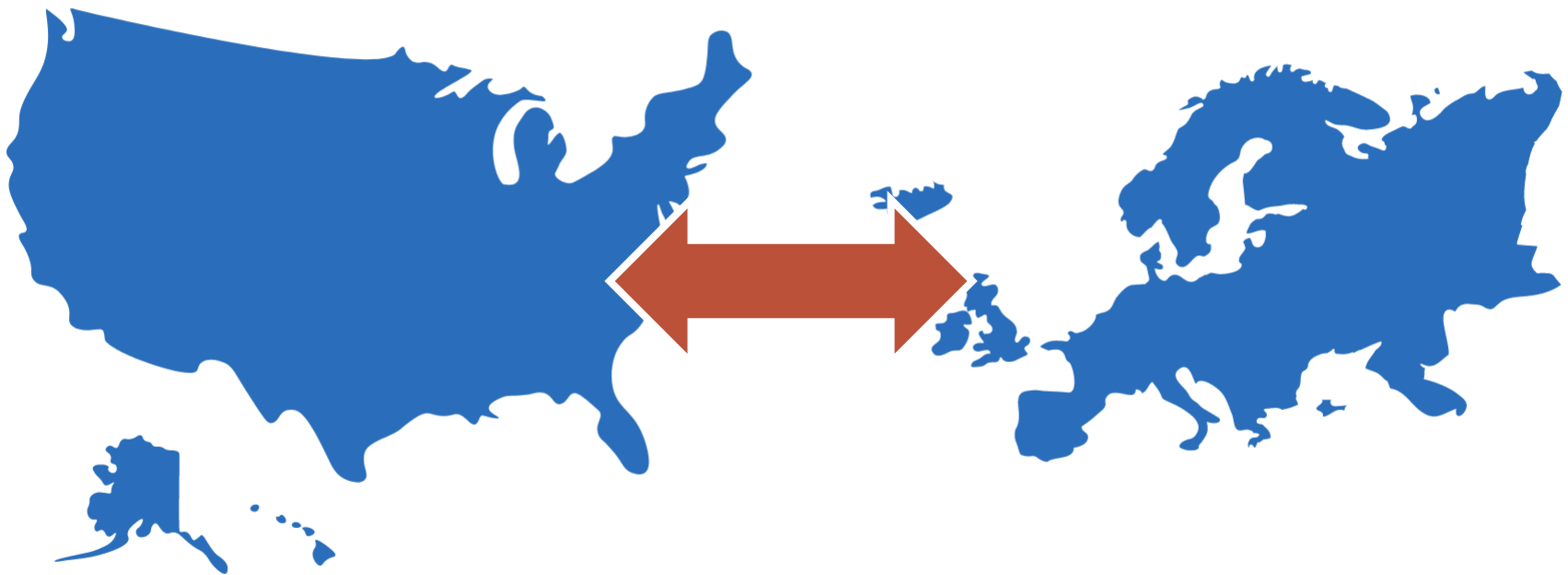
Trade: Impacts of Tariffs



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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



2018

June



2019

October

2020

November



2021

January



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:

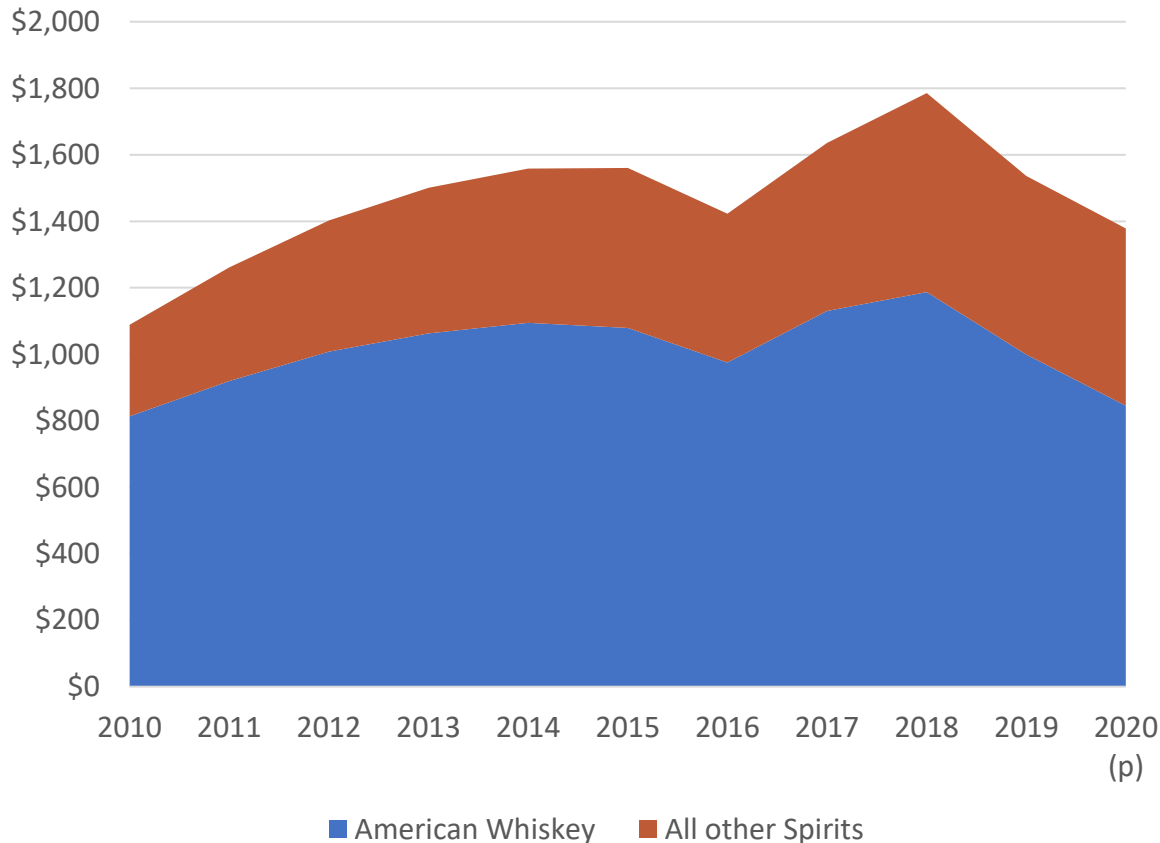
- Cognac
- Other grape brandies from France and Germany

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



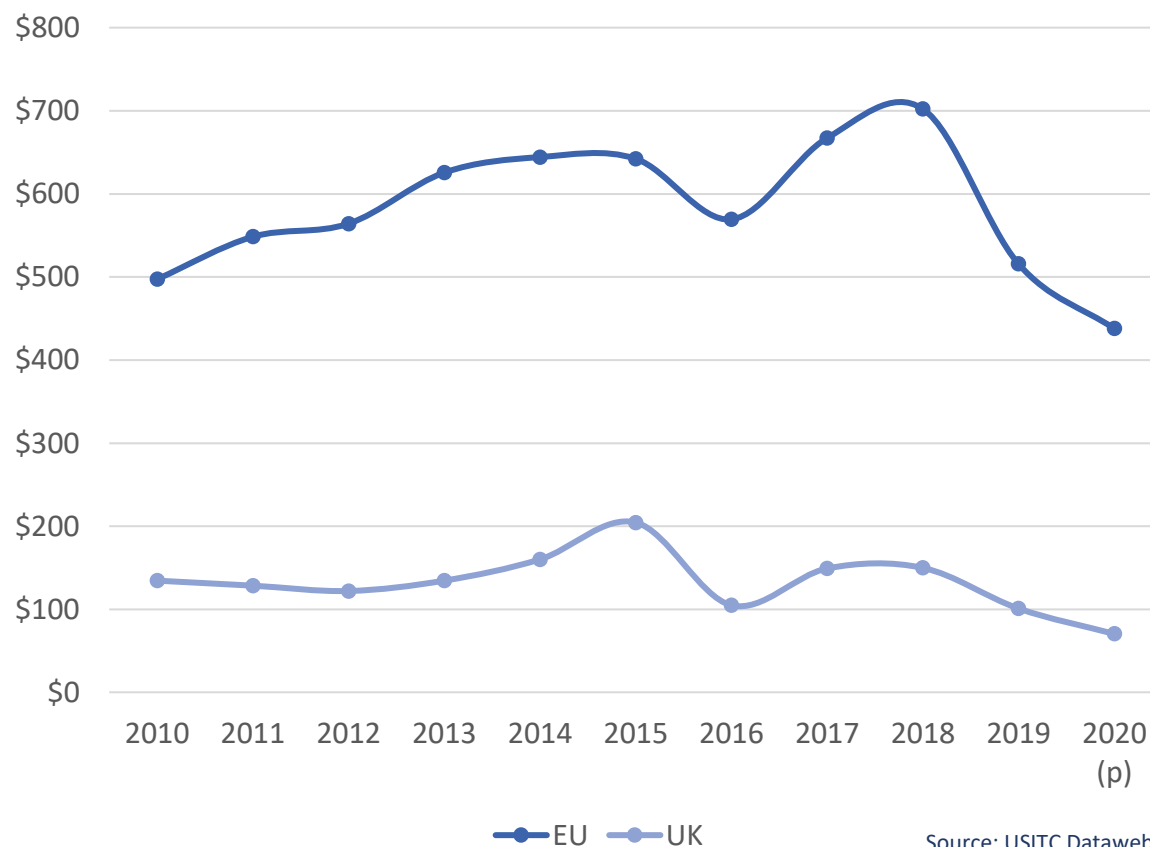
2020:

- 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:

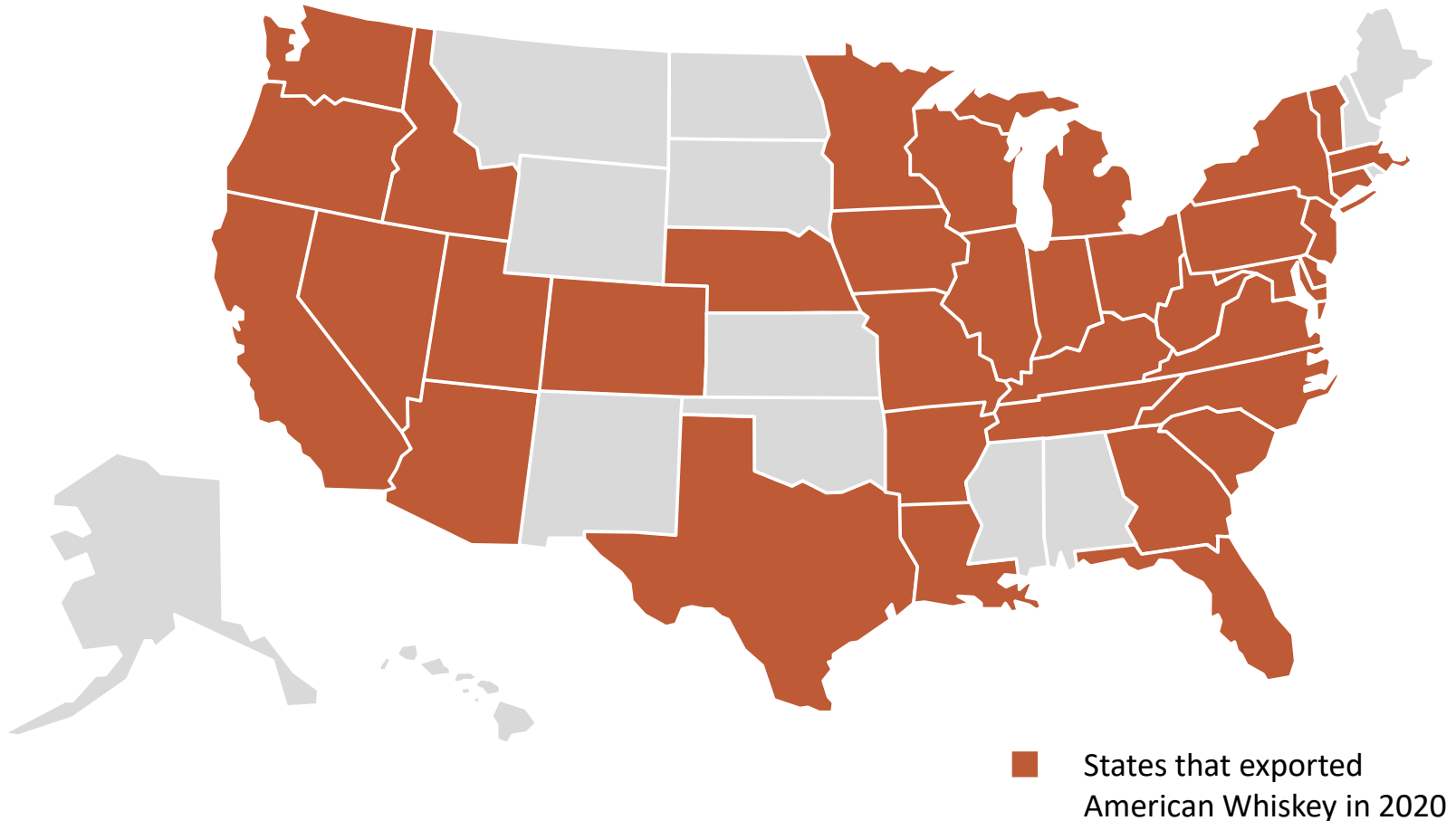
- Since the imposition of retaliatory tariffs, American Whiskey exports to the UK have decreased **53 percent** and **38 percent** to the EU.

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



Source: USITC Dataweb

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.

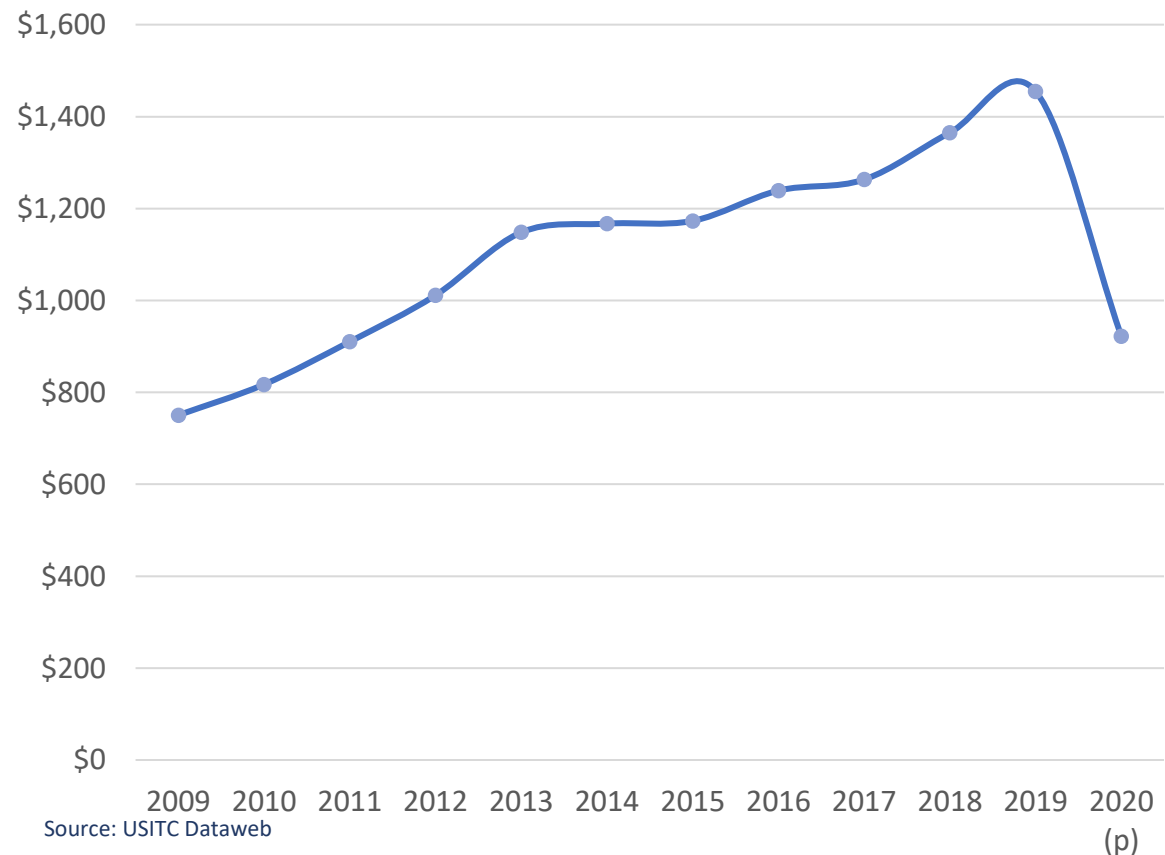
2009-2019:

- 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.**

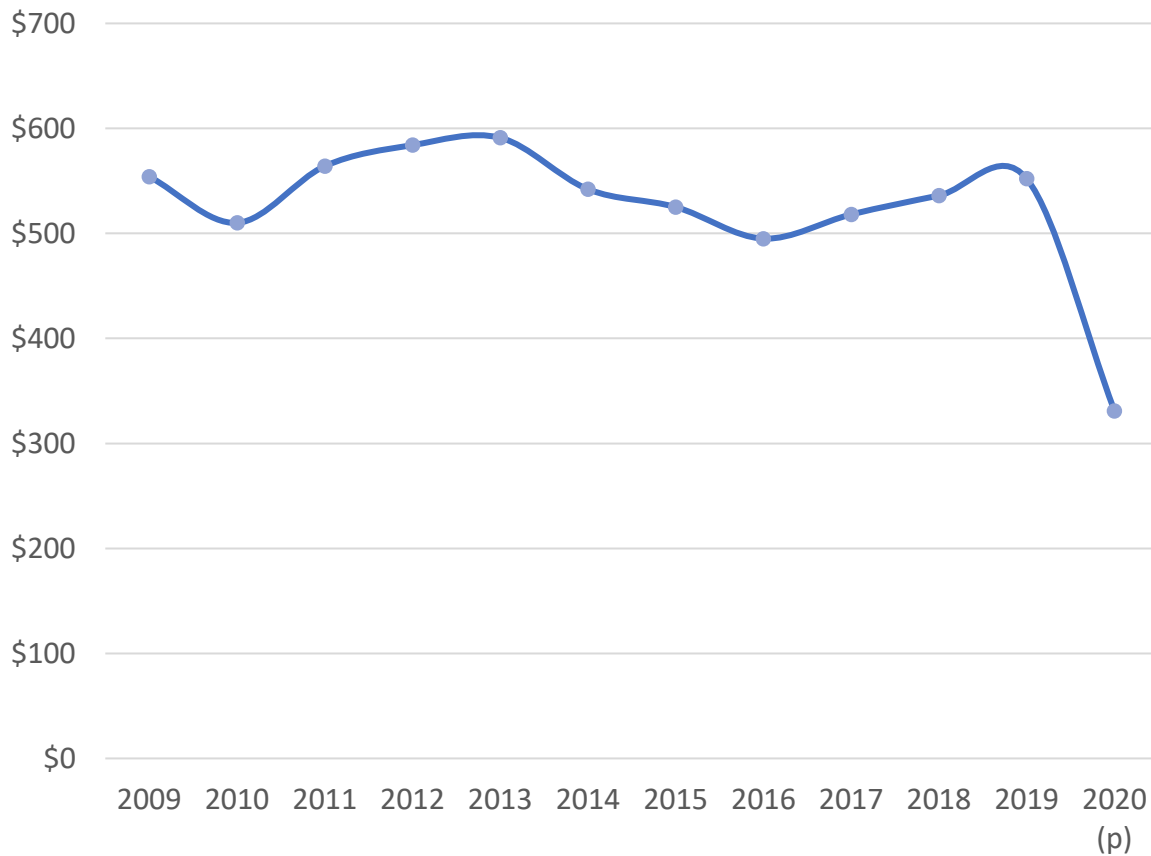
Imports of Scotch Whisky (in millions of USD)



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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OF THE UNITED STATES

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
 - eg. Restaurants Act re-introduction

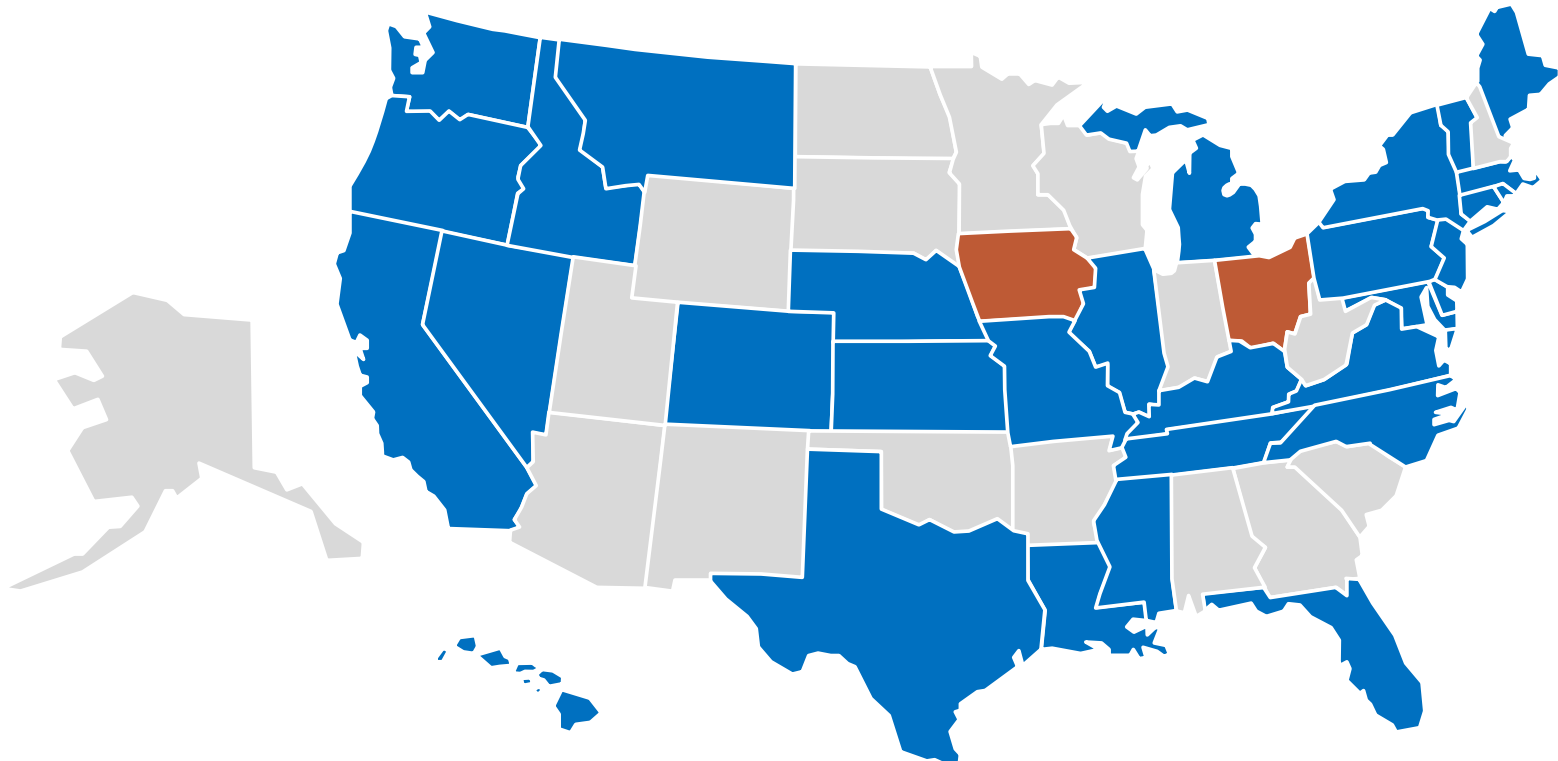
STATE

- 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

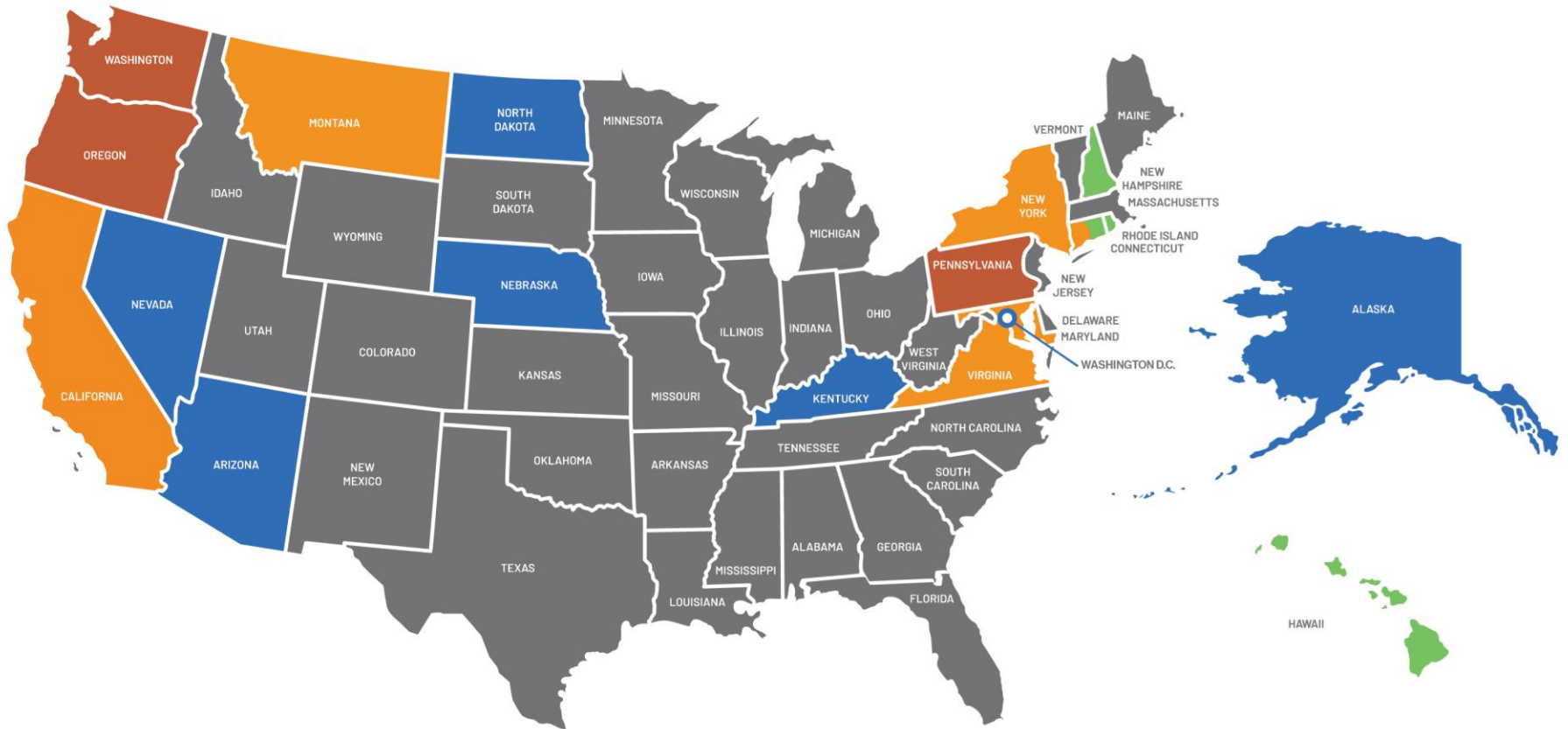


33 States and D.C. Allow Cocktails To-Go in Response to COVID-19



- 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)



Philip McDaniel

DISCUS Craft Advisory Council Chair

St. Augustine Distillery, CEO & Co-Founder



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OF THE UNITED STATES

Pandemic & Tariffs Crushing Craft Distilleries



Negative impact of pandemic & tariffs:

- Tasting rooms closed for months
 - Critical sales channel for craft distilleries
- Distillery tourism dwindled
 - Key to creating brand experience
- Restaurants & bars shuttered
 - Important partners in boosting local craft awareness
- Tariffs have decimated exports and damaged American Whiskey brand
- Craft distillers have invested years planning, building relationships & securing resources to break into international markets

Measures That Can Accelerate Recovery



- Permitting direct-to-consumer shipping of spirits from distilleries
- Making cocktails-to-go permanent
- Holding the line on state alcohol tax hikes
- Removing retaliatory tariffs on all spirits products
 - EU & UK tariffs stunting U.S. craft distillers' exports
 - U.S. tariffs hurting local hospitality partners & American jobs
- Spirits United: Legislative advocacy & consumer engagement



Leslie Kimball

**Distilled Spirits Council
of the United States**

Chief, Communications & Branding



Colleen Sague

**Distilled Spirits Council
of the United States**

Manager, Grassroots Advocacy



**DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES**



- **Spirits United** is an online community of grassroots advocates in all **50** states, united with a common goal to ensure adult consumers can enjoy distilled spirits where they want, how they want, and when they want, responsibly.
- Brings together professionals in the distilled spirits industry, supply chain and industry partners, bartenders, mixologists, and customers.

Sign Up at SpiritsUnited.org



David Ozgo

**Distilled Spirits Council
of the United States**

*Senior Vice President, Economic
and Strategic Analysis*

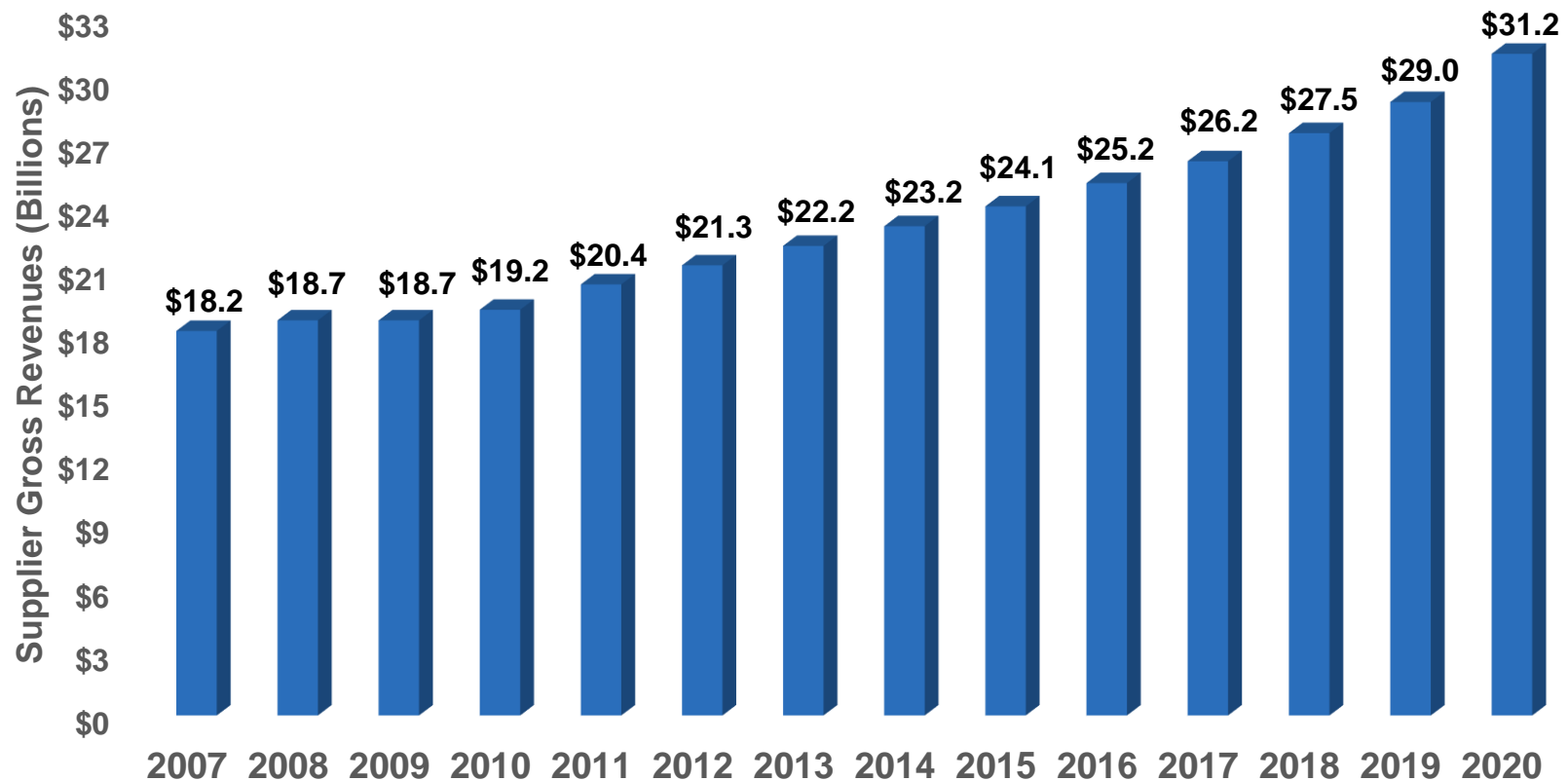


**DISTILLED SPIRITS COUNCIL
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U.S. Supplier Revenues Up 7.7 Percent to \$31.2 Billion - \$2.2 Billion Gain



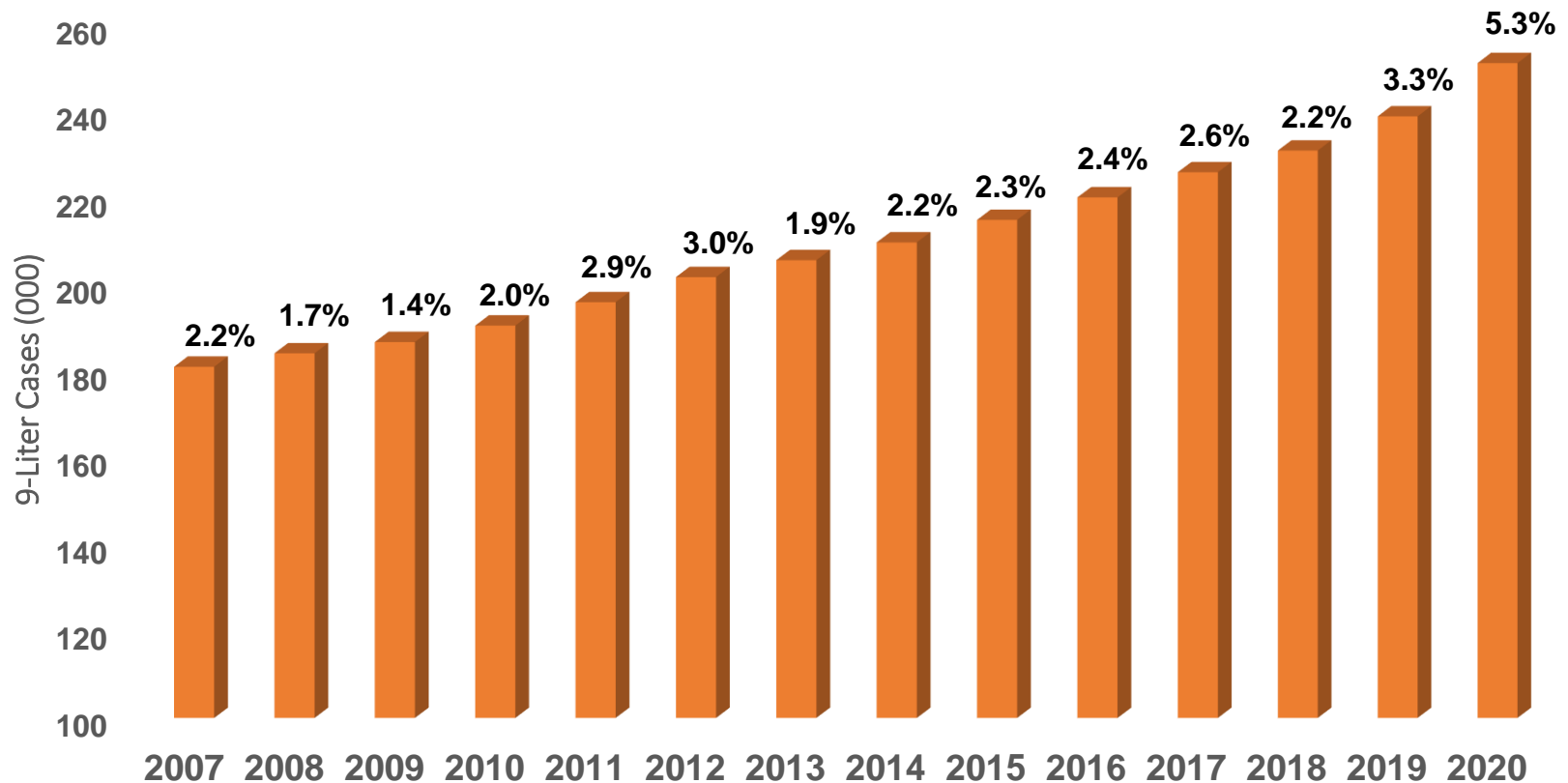
Supplier Gross Revenues (Billions)



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



U.S. Spirits Volume (Millions)

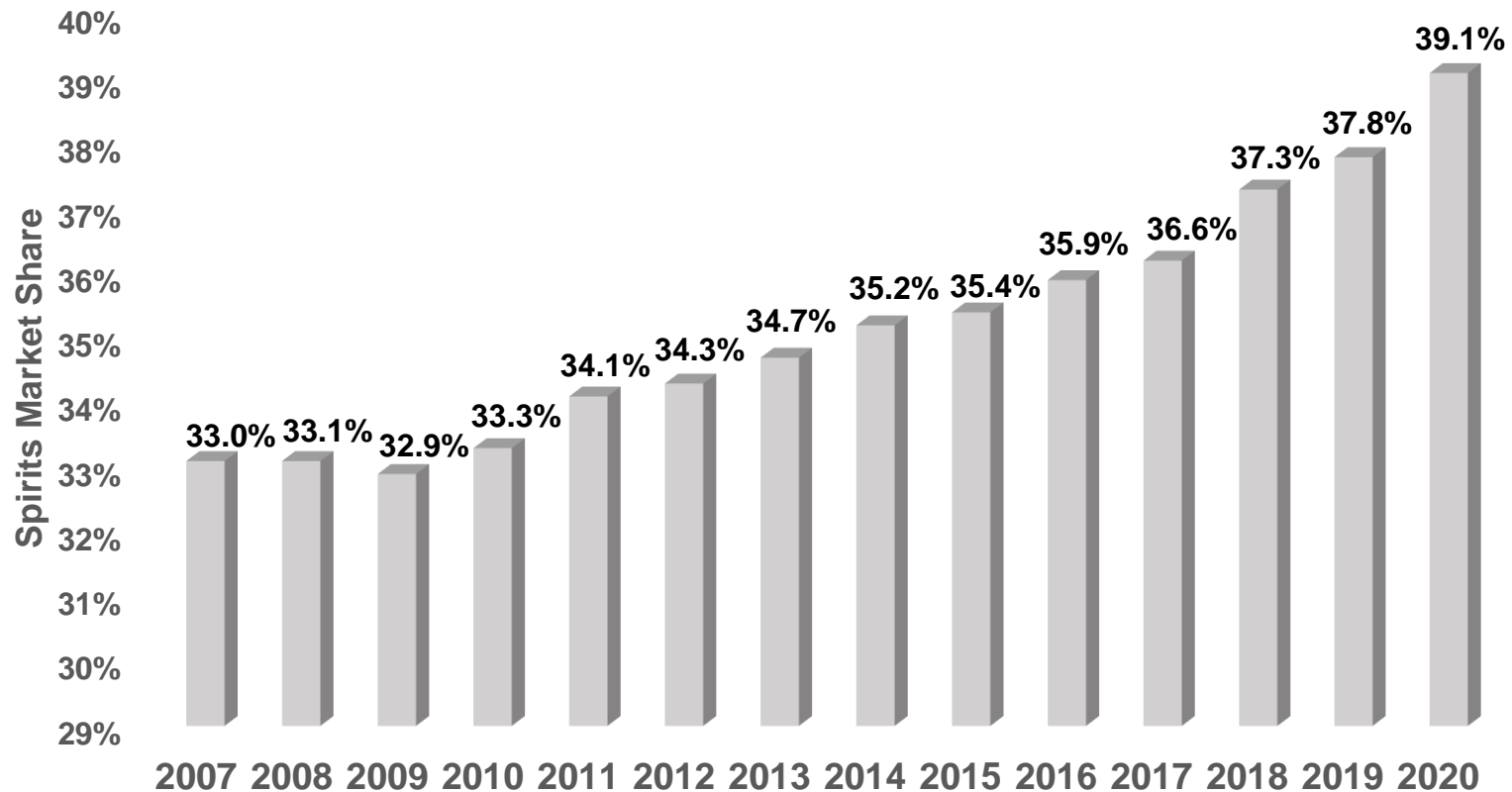


Source: Distilled Spirits Council Market Segmentation Database

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



Revenue Market Share

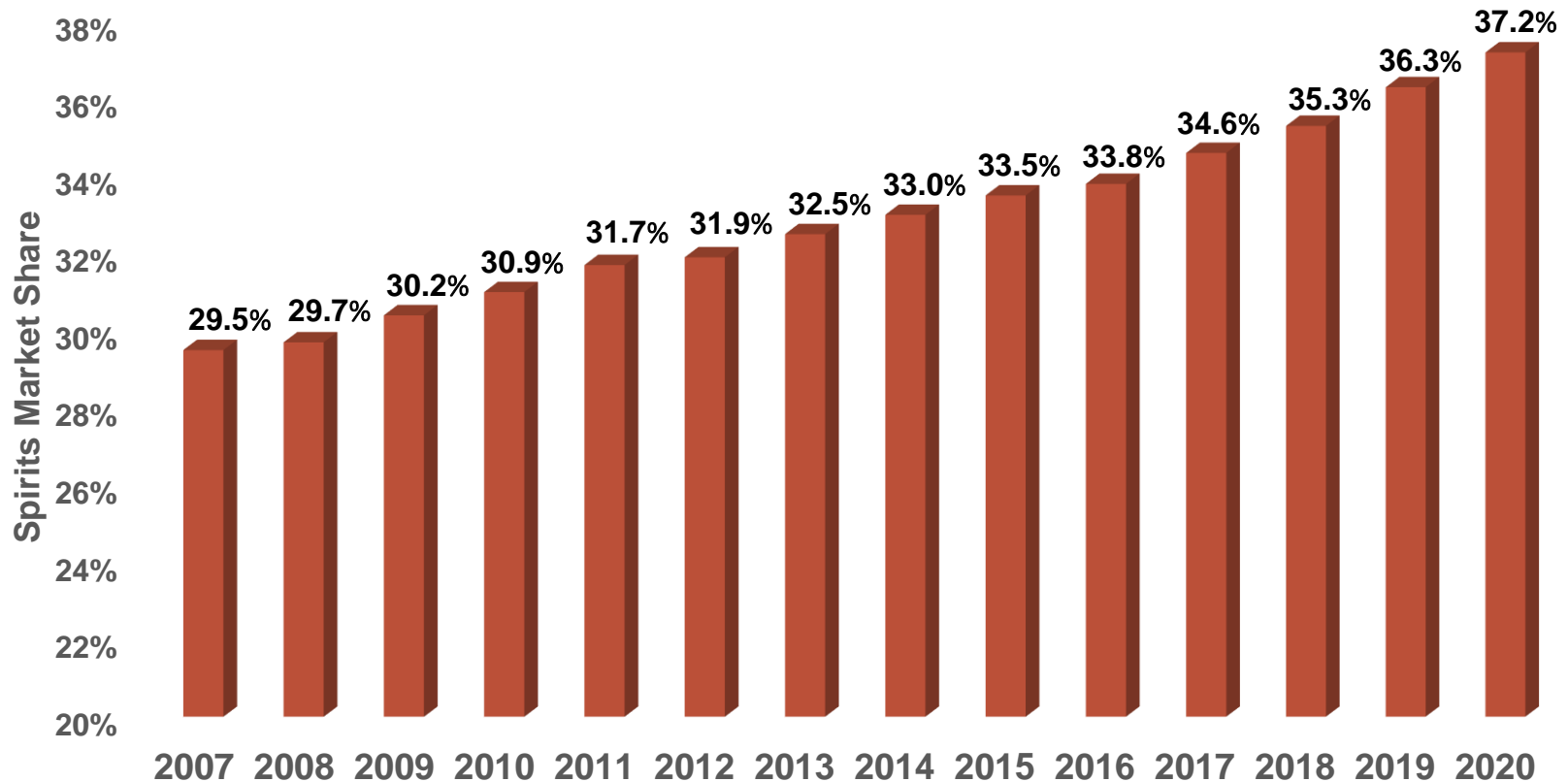


Spirits Market Share – Volume

Each Point is Worth 6.7M Cases



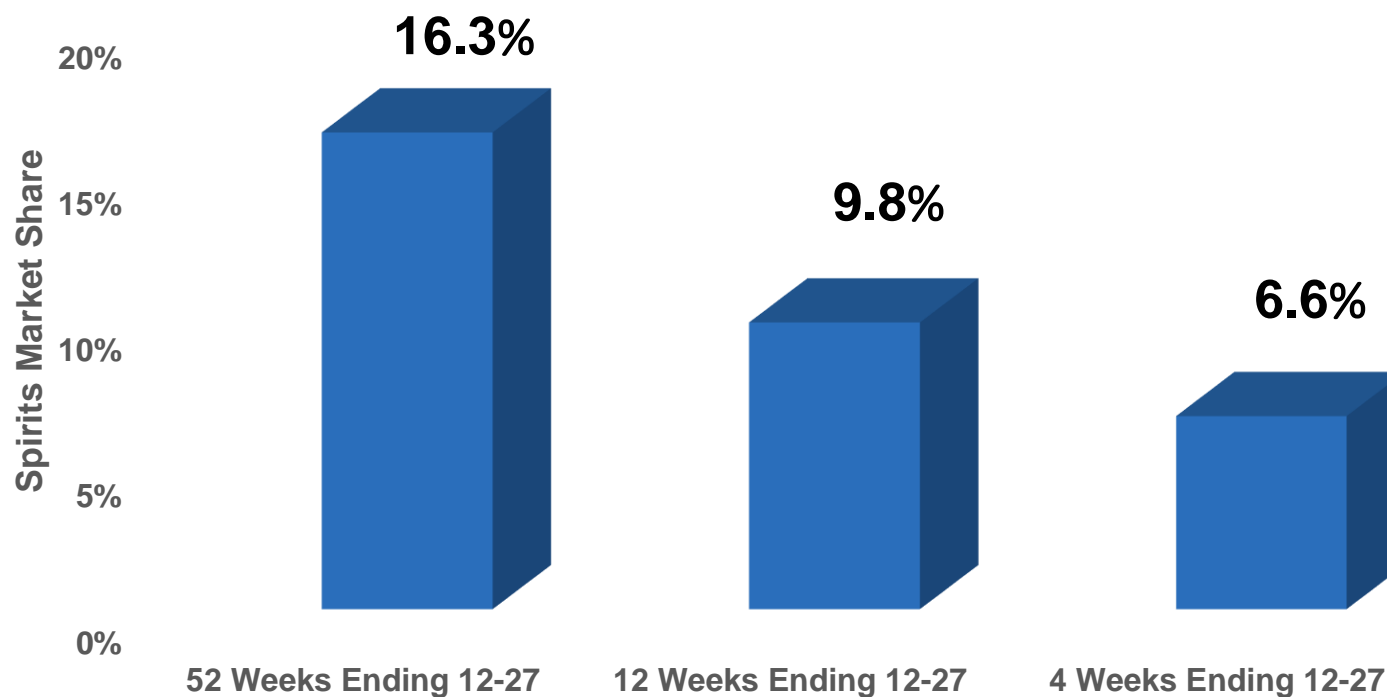
Volume Market Share



Rapid Off-Premise Growth Rate Slowed Later in the Year



Off-Premise Volume Growth

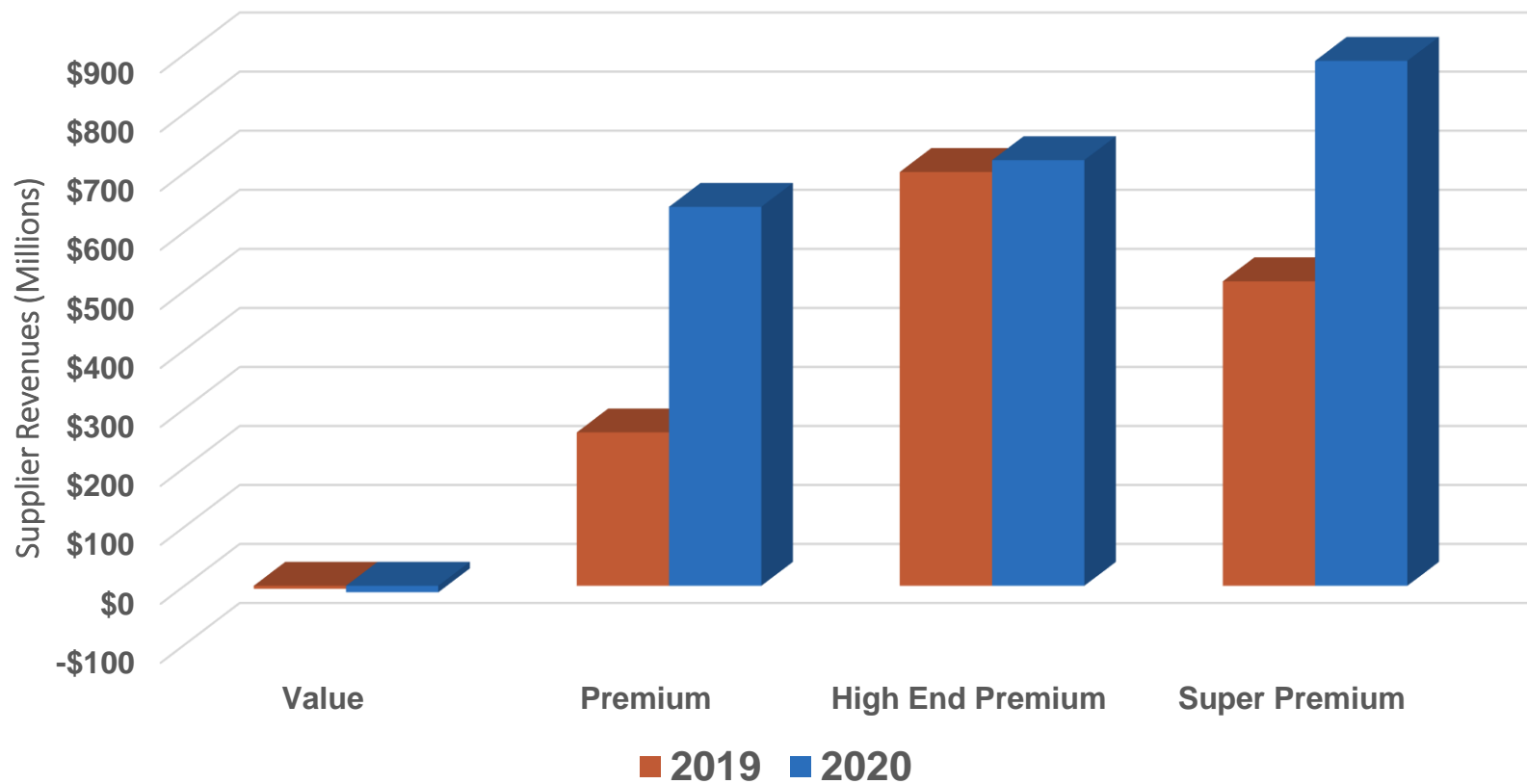


Source: IRI Scanner data, 52 Weeks Ending 12-27

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

Spirits Category Highlights



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

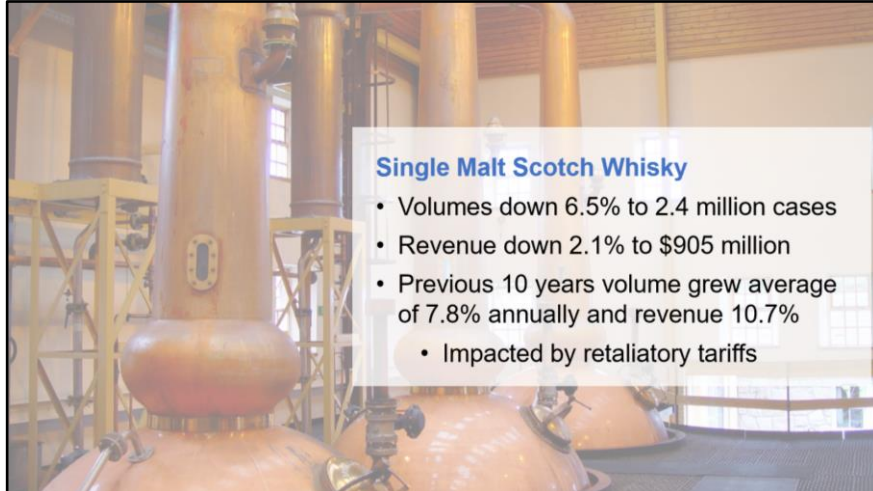


Tequila + Mezcal

- 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 Scotch Whisky

- 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

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



Leslie Kimball

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

Chief, Communications & Branding



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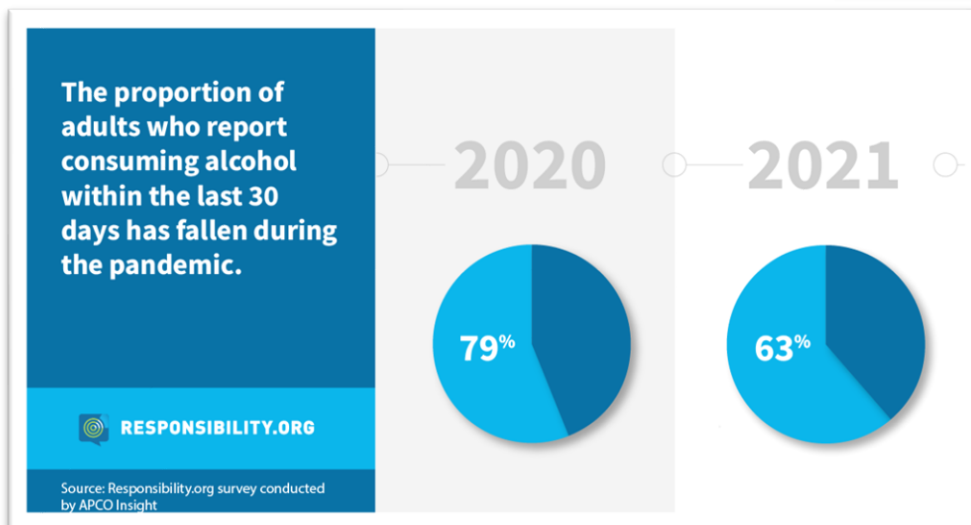
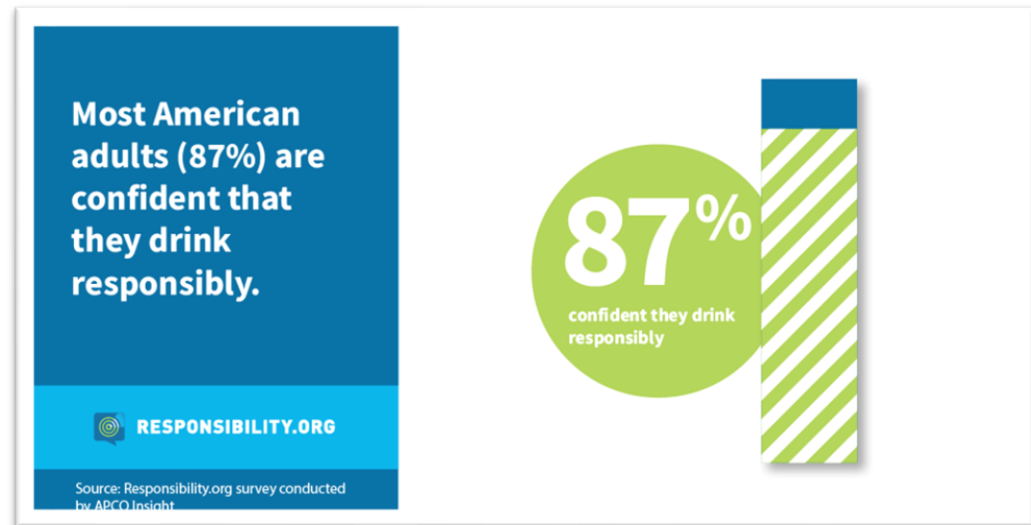
Are Americans drinking more during the pandemic?



RESPONSIBILITY.ORG

Responsibility.org is funded by leading distillers dedicated to:

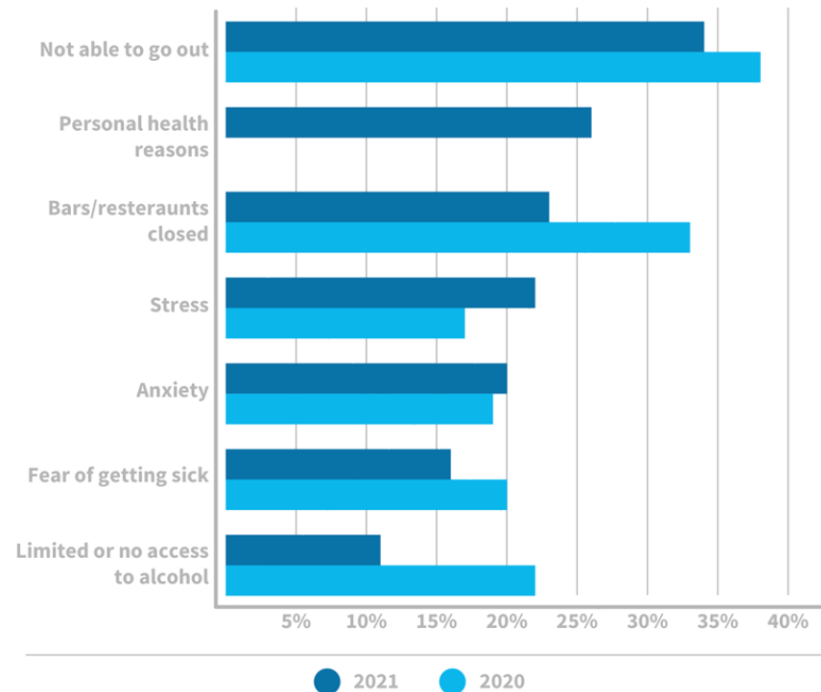
- eliminating drunk driving,
- Preventing underage drinking,
- and promoting responsible consumption among those adults who choose to drink.



We commissioned two surveys during the pandemic to better understand alcohol consumption – one in early May 2020 and another in late January 2021.

Are Americans drinking more during the pandemic?

Reported Top Reasons for Drinking Less



Dry January, Sober October, any day of the year is a good time to reassess your personal relationship with alcohol.

Some people should not drink at all.

For those who do choose to drink, we strongly encourage that everyone in the industry will be ambassadors for responsibility.



Sarah Fitzmaurice

**Distilled Spirits Council
of the United States**

*Chief of Resource Planning and
Management*



**DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES**

NEW: DISCUS Academy



New initiative to provide education and training for distilled spirits industry professionals. DISCUS Academy offers curriculum and certifications related to the business of distilling, rather than training on production or spirits knowledge.

DISCUS Academy was created to provide the spirits industry with best-in-class training and ongoing support in five key subject domains:

- Business Management & Finance
- Sales & Marketing
- Safety & Risk Management
- Laws & Regulations
- Leadership Development

In partnership with Cornell University, DISCUS Academy is also offering two Leadership Certificate programs accepting applications through tomorrow. To apply or learn more about all course offerings visit www.discusacademy.com.



2021

DISCUS
annual conference

October 6-8 in Austin, TX

Live event with virtual components

Hotel: Fairmont Austin

Registration opening in April

Same great networking and content

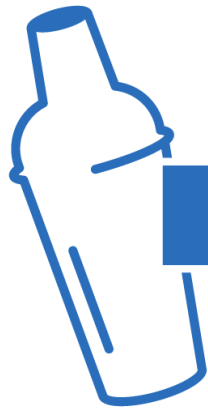
NEW Tradeshow

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

How can I get involved?



ACADEMY

DISTILLED SPIRITS COUNCIL
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www.discusacademy.com

**SPIRITS
UNITED**

www.spiritsunited.com



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Question & Answer



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