2021 ECONOMIC BRIEFING

February 2022 | 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

Philip McDaniel

St. Augustine Distillery

CEO & Co-Founder

Chair, DISCUS Craft Advisory Council

2021 Economic Overview

- U.S. revenue grew 12 percent
- U.S. volume grew 9.3 percent
- 12th straight year of market share gains
- Growth driven by gradual reopening of restaurants, and consumers trading up to super-premium spirits for at-home occasions
- Uneven economic impacts of COVID-19 on U.S. hospitality industry continue

Christine LoCascio

Distilled Spirits Council of the United States

Chief, Public Policy

DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES

Spirits industry is a major contributor to U.S. economy

DISTILLED SPIRITS COUNCIL OF THE UNITED STATES

- Second largest 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 2020, used 2.2 billion pounds of grains in production of U.S. whiskey, brandy, rum, gin and vodka

Marketplace Trends

2021 strong industry growth, return of on-premise sales & rebounding hospitality industry

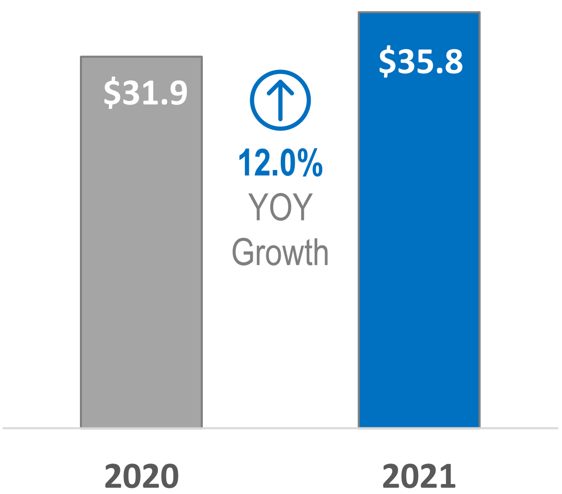
DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES

The U.S. spirits industry in 2021 continued growing in both value and volume

DISTILLED SPIRITS COUNCIL OF THE UNITED STATES

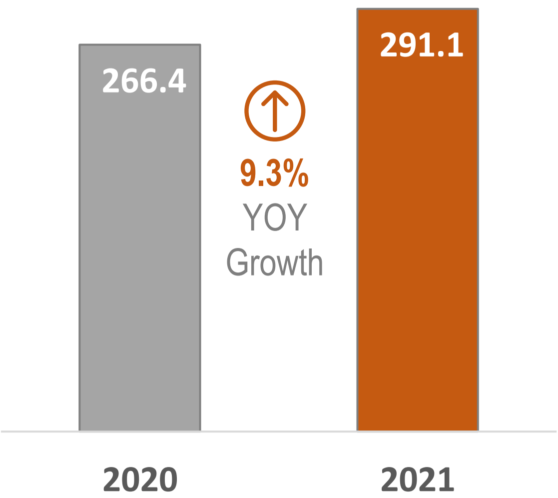
Revenue Increased by $3.8B

Billions



Volume Increased by 24.7M

9-Liter Cases, Millions



3 Main Drivers of Spirits Growth

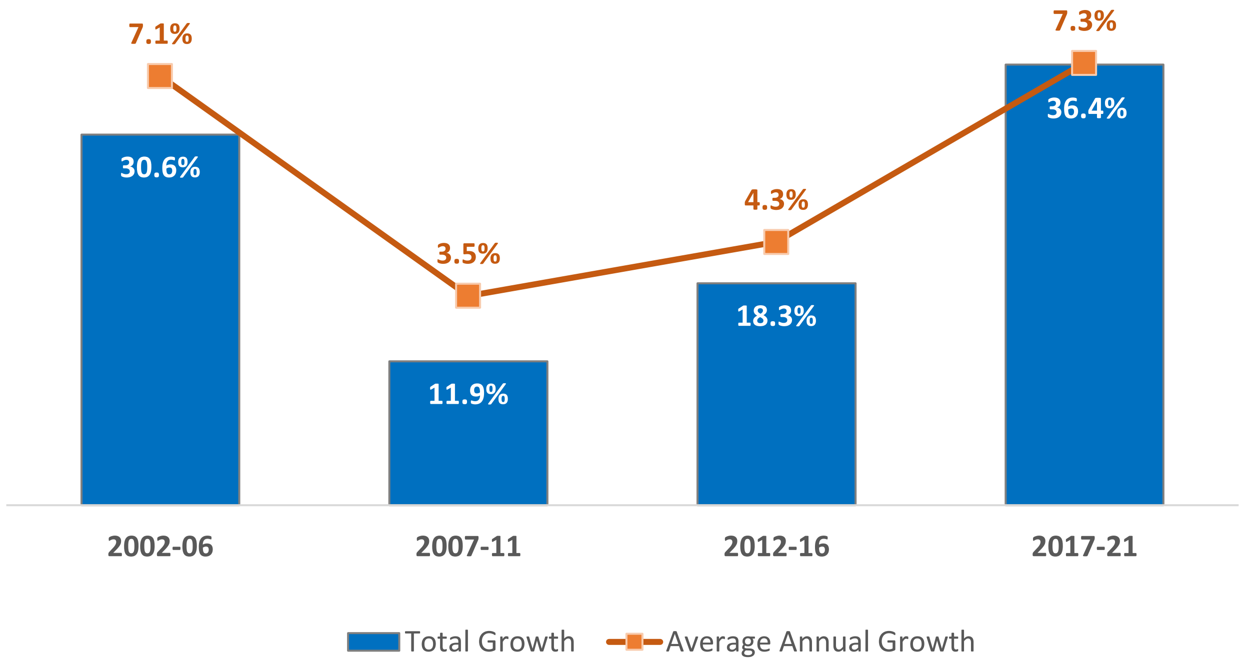
- On-Premise Sales
- Premiumization Across Categories
- At-Home Occasions

Source: DISCUS Market Segmentation Database, IWSR, and various industry publications.
Notes: 2020 sprits volume and revenue figures include revised Pre-mixed Cocktails, including spirits-based RTDs, estimates throughout this Annual Economic Briefing; Excluding Cocktails/RTDs, the spirits industry revenue grew by $3.3 billion (10.9%) and volume grew by 11.6M 9-Liter Cases (4.8%).

Spirits revenue growth has accelerated in recent years

Spirits are experiencing their fastest growth in two decades

Spirits Revenue, Total and Average Annual Growth



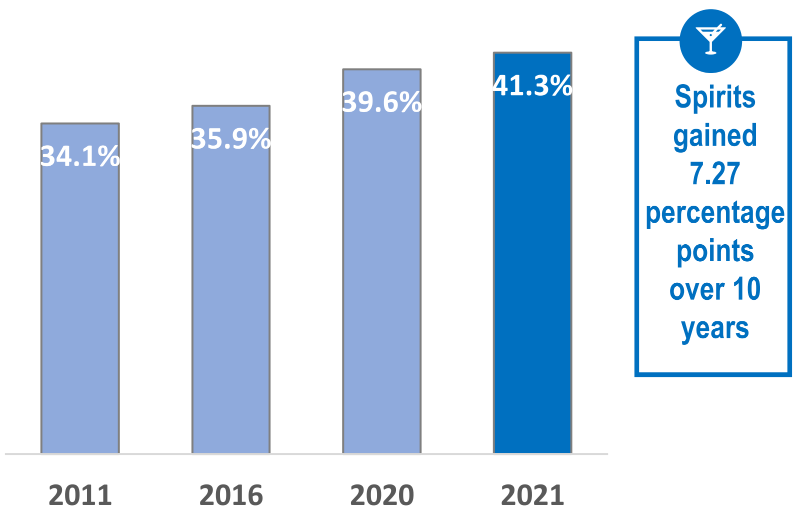
Over the past 20 years, the spirit industry's average annual growth was 5.5% compared to 7.3% in the past 5 years

Source: DISCUS Market Segmentation Database, IWSR, and various industry publications.
Note: Annual average rate is the simple average of year-over-year growth over each period.

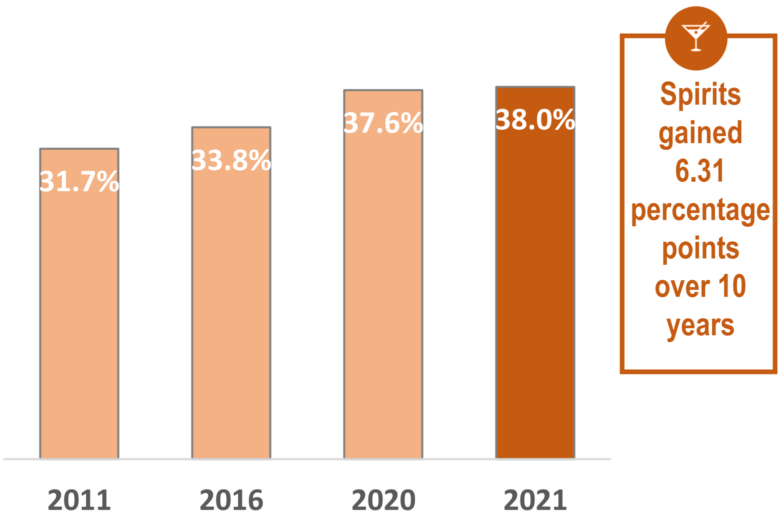
Spirits continue to increase market share in both value and volume

DISTILLED SPIRITS COUNCIL OF THE UNITED STATES

Spirits Account for Over 41% of U.S. Alcohol Industry Revenue in 2021



Spirits Account for 38% of U.S. Alcohol Industry Volume in 2021

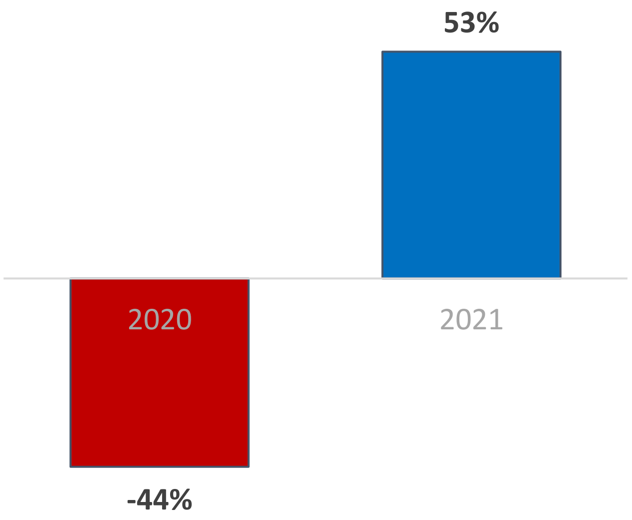


Source: DISCUS Market Segmentation Database, IWSR, and various industry publications.

On-premise volumes recover after COVID-19 closures in 2020: Off-premise volumes steady

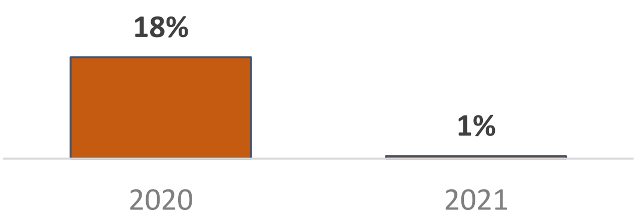
On-Premise Volume Rebounded

Year-Over-Year Volume Growth



Off-Premise Volume Held Steady

Year-Over-Year Volume Growth



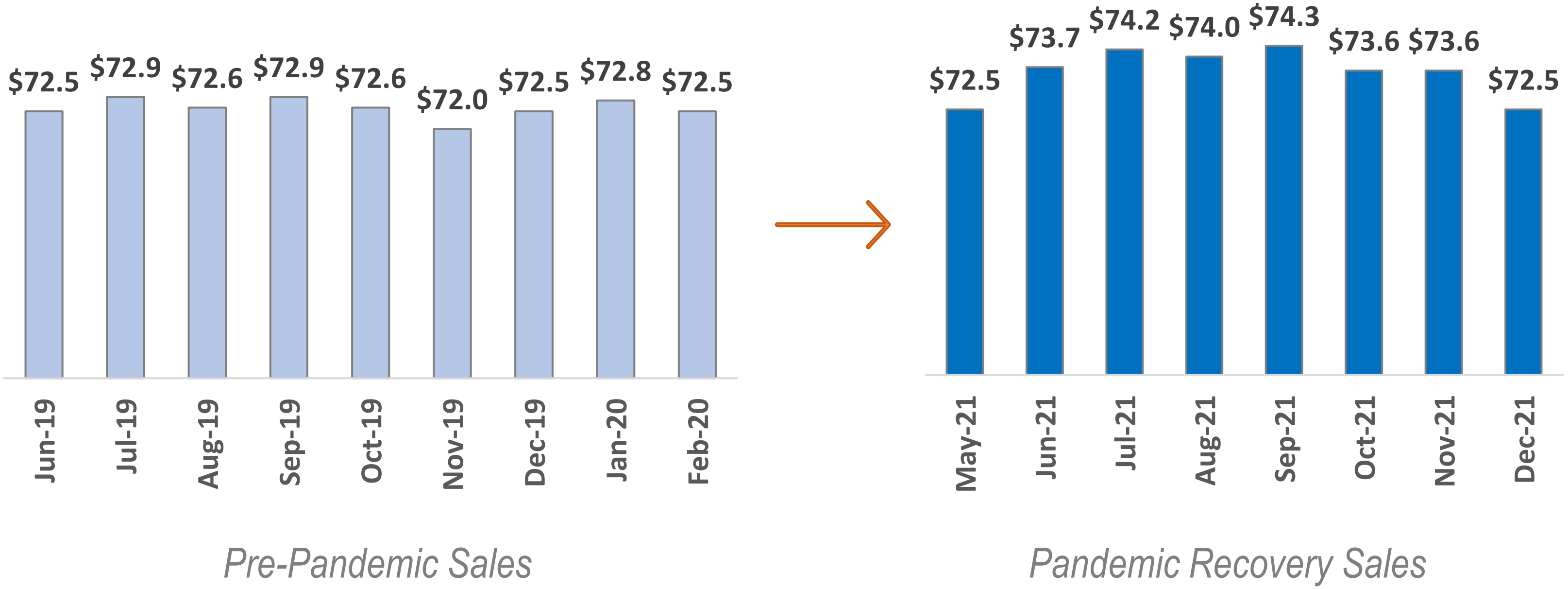
Source: DISCUS and IRI Scanner data.

The restaurant industry is recovering but COVID-19 & other challenges remain

DISTILLED SPIRITS COUNCIL OF THE UNITED STATES

Restaurant Industry Sales Compared to Pre-Pandemic Levels

Real Sales at Eating & Drinking Places, Billions of December 2021 Dollars



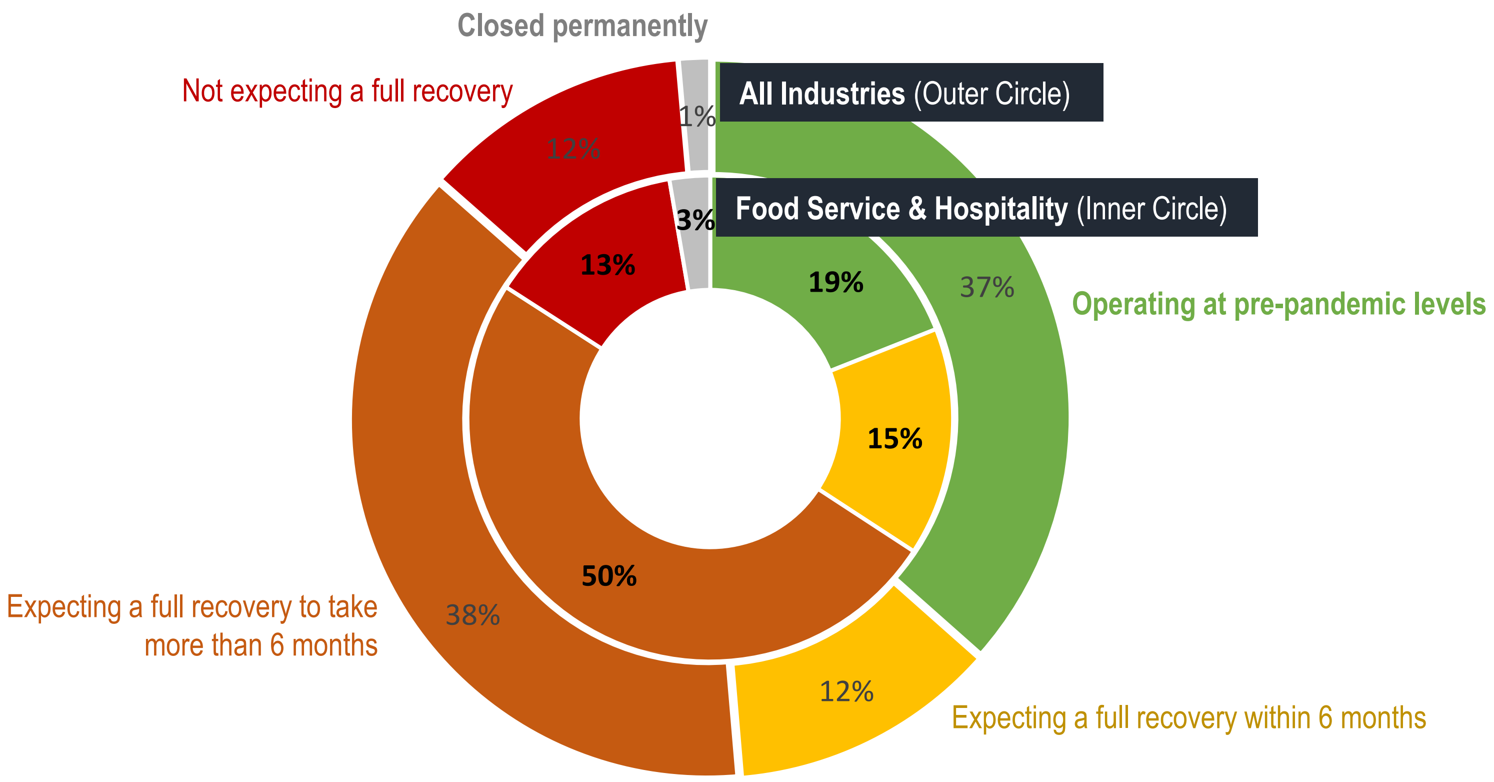
Source: National Restaurant Association; Seasonally Adjusted Sales

Only 19% of small businesses in food service & hospitality are operating at pre-pandemic levels

DISTILLED SPIRITS COUNCIL OF THE UNITED STATES

Small Businesses Expectations for Recovery to Pre-Pandemic Levels

January 2022



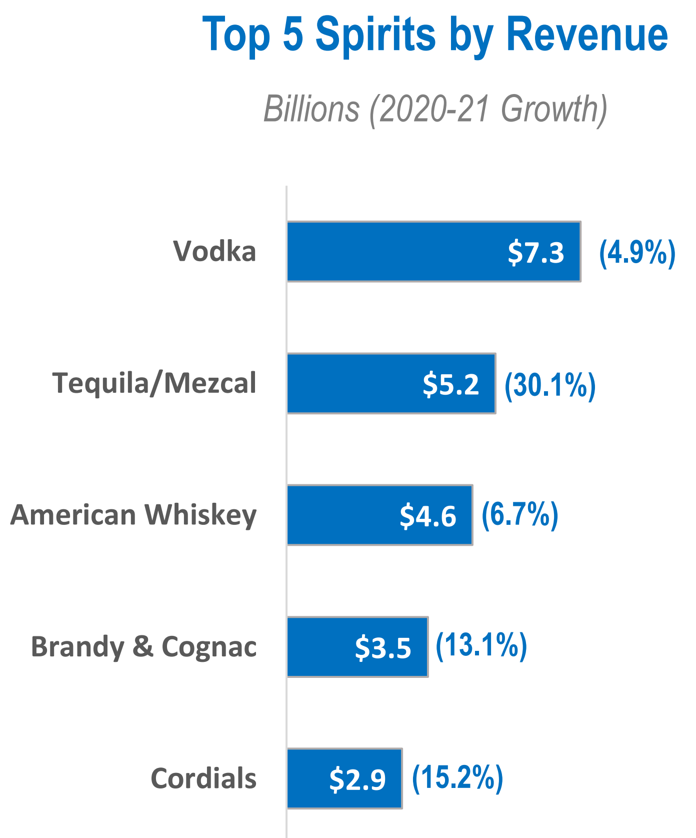
Source: Census Small Business Pulse Survey, January 10-16, 2022

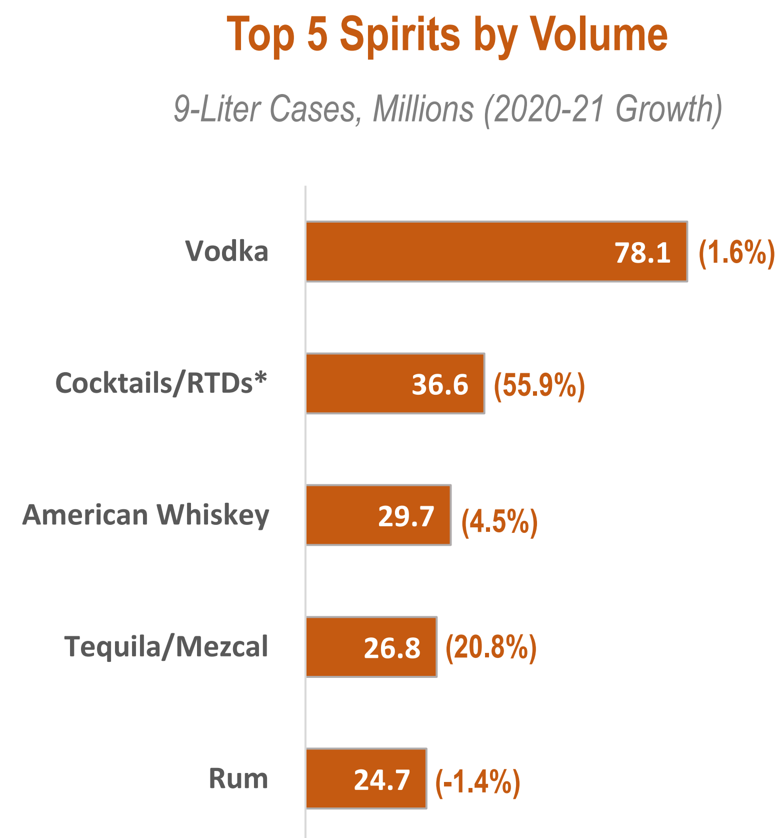
Consumer Trends

Key trends continue as consumers embrace at-home cocktails, RTDs, premium spirits, convenience and return to dining out.

DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES

Vodka remains the top spirits category in 2021



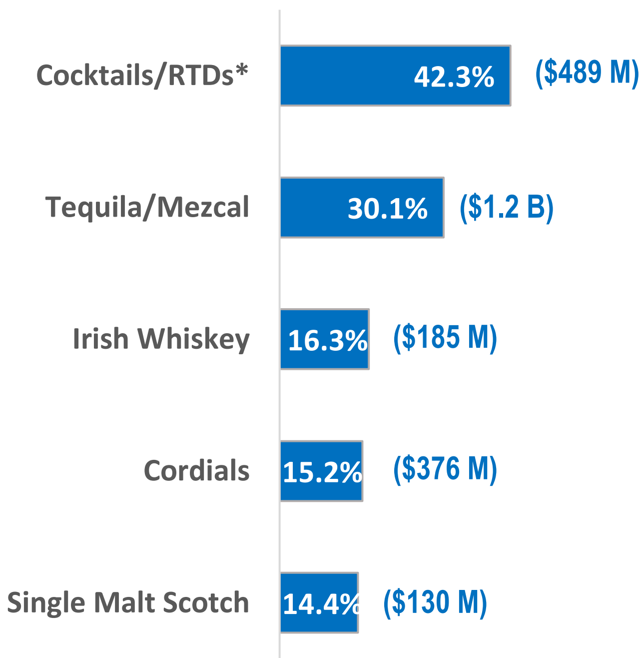


Source: DISCUS Market Segmentation Database, IWSR, and various industry publications.
*Pre-mixed Cocktails, including spirits-based RTDs.

Cocktails/RTDs* is the fastest growing spirits category in 2021

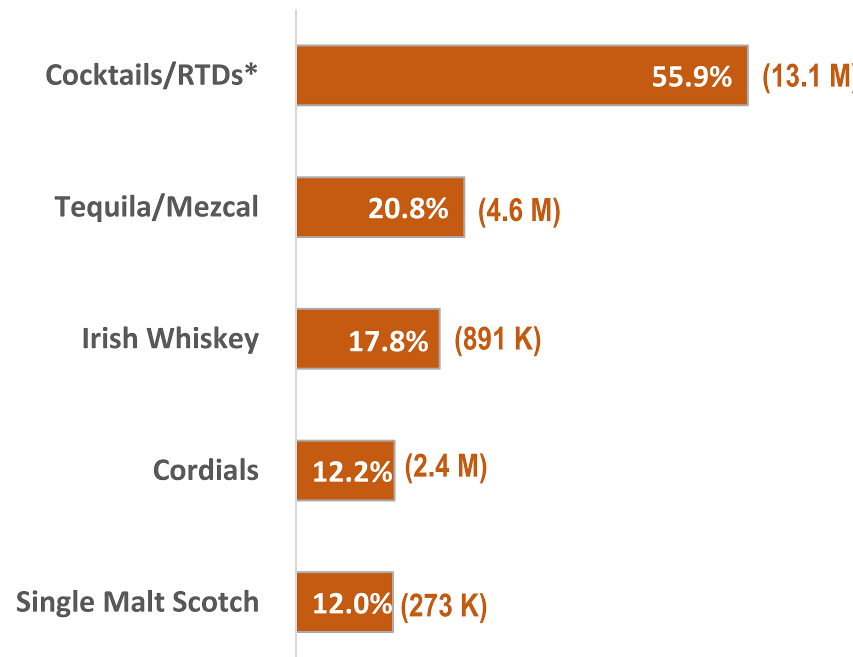
5 Fastest Growing Spirits by Revenue

2020-21 Growth Rate (Change in Revenue)



5 Fastest Growing Spirits by Volume

2020-21 Growth Rate (Change in 9-Liter Cases)

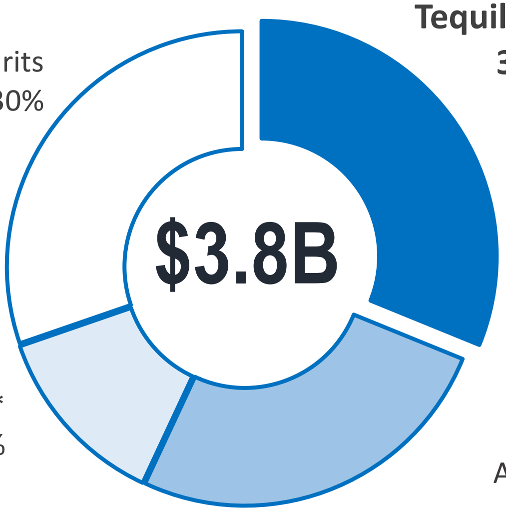


Source: DISCUS Market Segmentation Database, IWSR, and various industry publications.
*Pre-mixed Cocktails, including spirits-based RTDs.

Tequila/Mezcal drove industry growth, accounting for nearly one-third of the total increase in spirits revenue

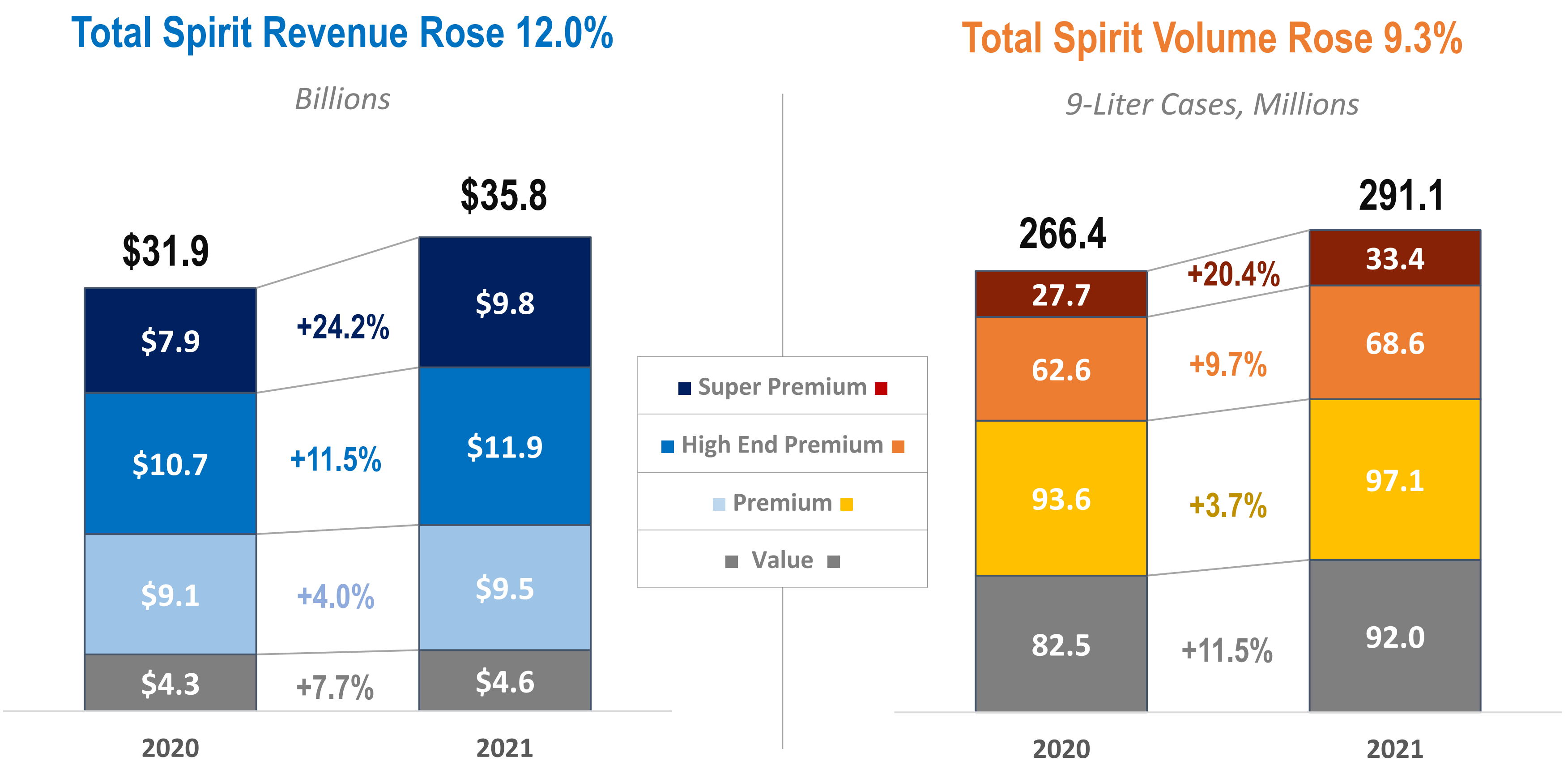
Tequila/Mezcal Revenue Grew $1.2B

Contribution to Revenue Growth



Source: DISCUS Market Segmentation Database, IWSR, and various industry publications.
*Pre-mixed Cocktails, including spirits-based RTDs.

Super premium spirits are growing the fastest

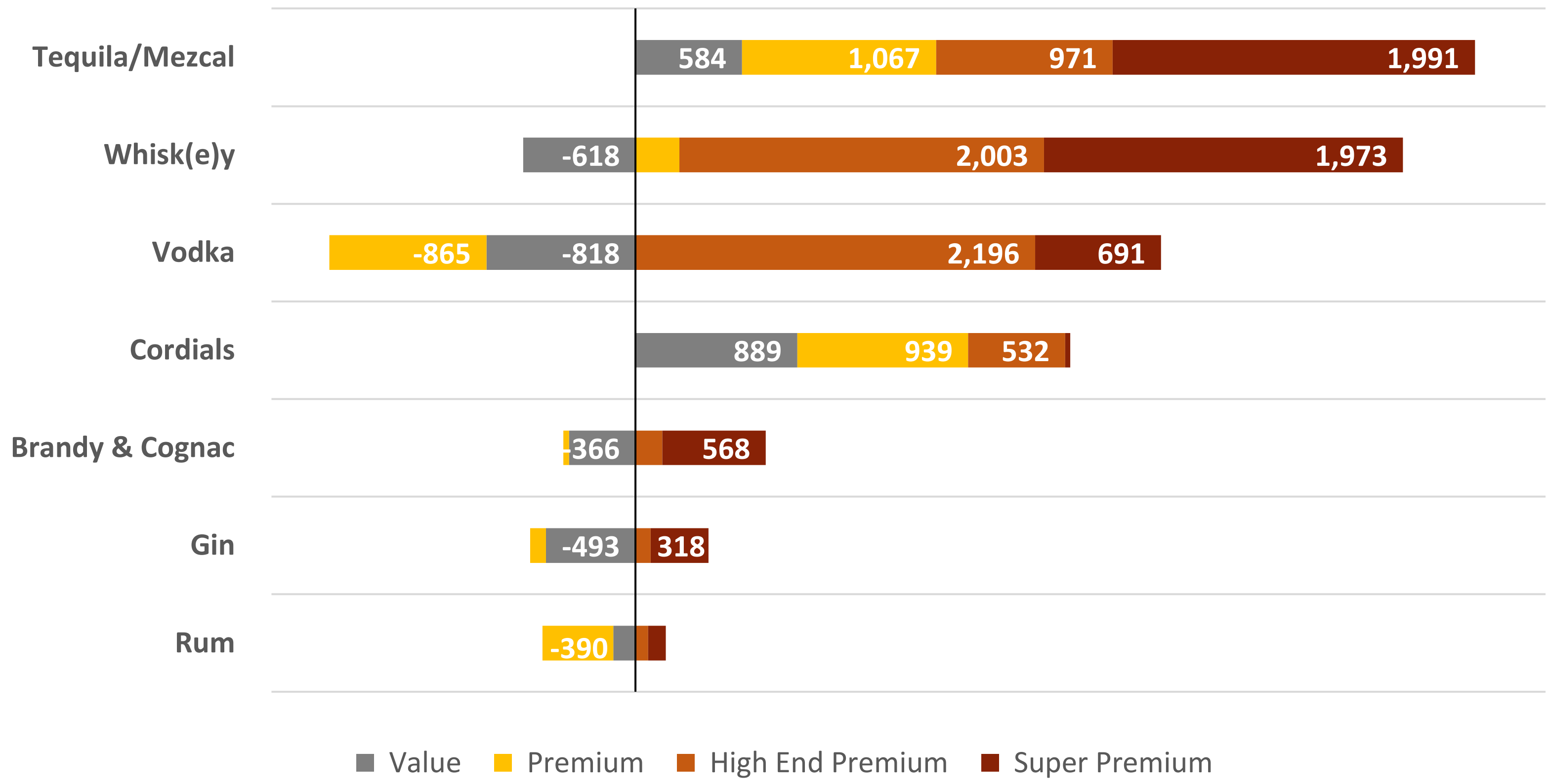


Source: DISCUS Market Segmentation Database, IWSR, and various industry publications.

Consumers are shifting to higher premium spirits

Premiumization is occurring across categories

2020-21 Change in Volume, 9-Liter Cases, Thousands



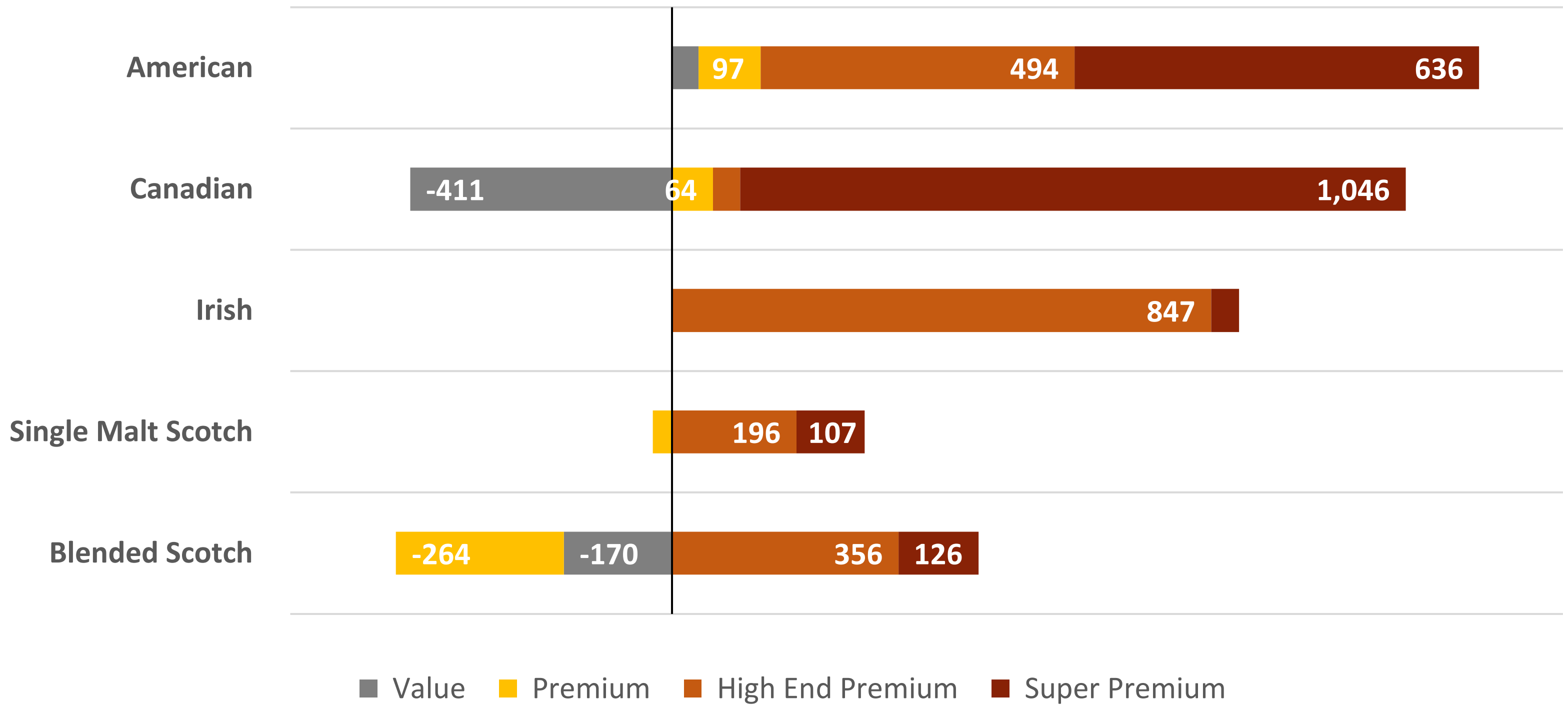
Source: DISCUS Market Segmentation Database
Note: Labels for values under 250,000 are not shown

Consumers are buying higher premium whiskeys

DISTILLED SPIRITS COUNCIL OF THE UNITED STATES

Premiumization within the whisk(e)y category

2020-21 Change in Volume, 9-Liter Cases, Thousands

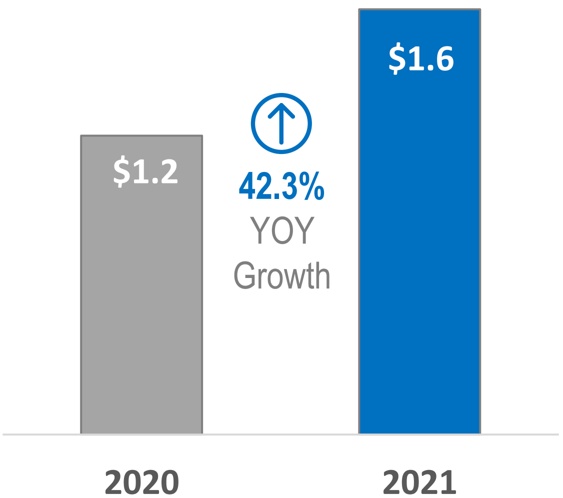


Source: DISCUS Market Segmentation Database.
Note: Labels for values under 50,000 are not shown.

Consumers choose authenticity & convenience with pre-mixed cocktails, including spirits-based RTDs

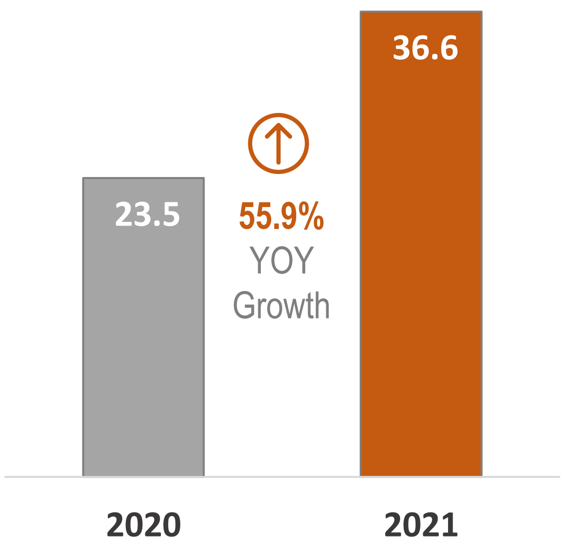
Cocktail/RTD* Revenue Rose $489 M

Billions



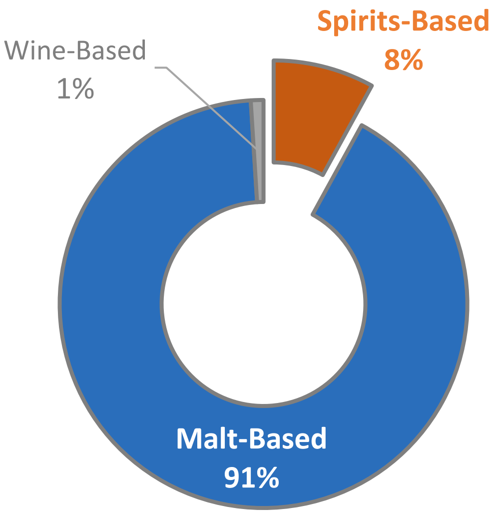
Cocktail/RTD* Volume Rose 13.1 M

9-Liter Cases, Millions



Spirits-based RTDs are a small portion of total RTDs

Share of Market Volume

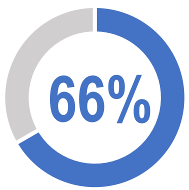


Source: DISCUS Market Segmentation Database, IWSR, and various industry publications; Market data from IWSR.
*Pre-mixed cocktails, including spirits-based RTDs.

Consumers are choosing e-commerce

DISTILLED SPIRITS COUNCIL OF THE UNITED STATES

The Pandemic Changed Buying Behavior

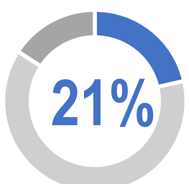


Two-thirds of shoppers who buy alcohol online made their first purchase during the pandemic. (IWSR)

Online Alcohol Sales Are Growing Quickly[1]

$6.1B

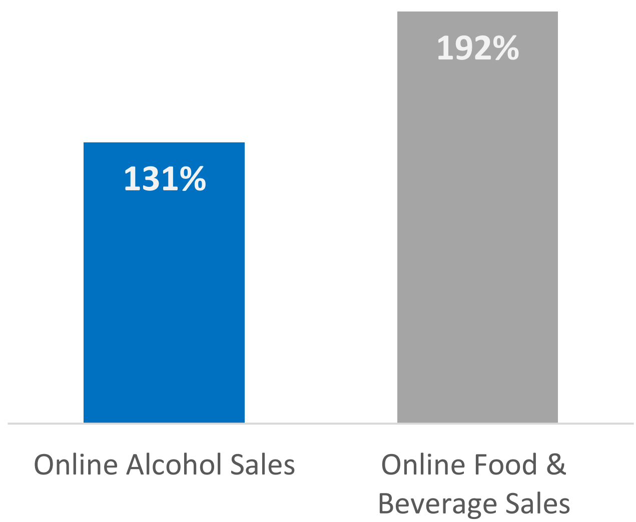
Online alcohol sales in 2021, accounting for 4% of off-premise sales. (Rabobank)



Spirits accounted for $1.3 billion (21%) of total online alcohol sales in 2021. Wine and beer accounted for $3.8 billion and $960 million, respectively (Rabobank)

U.S. E-Commerce Sales Increased Sharply Since the Pandemic[2]

2019-21 U.S. E-Commerce Growth Rates



Notes:

1. Rabobank online alcohol /e-commerce sales include online grocery (e.g., Kroger & Walmart), online marketplaces (e.g., Instacart & Drizly), licensed specialty retail (e.g., omnichannel national, regional, and independent liquor stores, state-run liquor stores with e-commerce offerings, and "pure-play" stores like Wine.com), and DTC wine.
2. Online alcohol sales from Rabobank; Online food & beverage sales from Census and represents Q1-3 change from 2019-21 only; Q4 2021 data not yet released.

Macroeconomic Trends

Trends Impacting Future Growth

DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES

Macro factors expected to impact the U.S. economy this year

DISTILLED SPIRITS COUNCIL OF THE UNITED STATES

Inflation: Costs are rising across the board.

A combination of factors including (but not limited to) strong demand, workforce shortages, and supply chain disruptions have driven up prices, especially for energy, transportation, and food. Inflation has reached the highest level since 1982. (BLS)

Workforce shortages continue.

Most manufactures say worker shortages combined with the tight labor market are negatively impacting production & deliveries. (NAM)

Supply chain challenges are severe but expected to improve.

Historically high supply chain pressures are expected to abate this year. (IMF)

The economy finished strong in 2021 but growth is expected to slow.

Q4 2021 GDP exceeded expectations. Within personal consumption expenditures, consumer spending on food service and accommodations was a key contributor to GDP growth. (BEA) However, U.S economic growth is expected to slow in 2022. (IMF)

Real disposable income still higher than pre-pandemic levels.

After significant gains in 2020, real disposable declined in 2021, but current levels are still higher than 2019. (BEA)

Chris Swonger

Distilled Spirits Council of the United States & Responsibility.org

President & CEO

DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES

Spirits Industry Commitment to Promoting Responsibility

RESPONSIBILITY.ORG

Current underage drinking among U.S. youth to lowest recorded level

- down 28% since 2020 (from 21% in 2020)
- down 42% since 2021 (from 26% in 2012)
- down 62% since 1991 (from 40% in 1991)

Drunk driving fatalities have declined 52% since 1982. (NHTSA/FARS, 12/20)

Spirits industry supported provisions in Infrastructure bill which include the development of advanced technology in cars to eliminate drunk driving and save lives

Responsibility.org founded the National Alliance to Stop Impaired Driving (NASID) to address multi-substance impaired driving

64%

of American teens have never consumed alcohol.
2021 Monitoring the Future Survey

52%

decrease in drunk driving fatalities since 1982, but expected to rise

NASID
National Alliance to Stop Impaired Driving
Founded By
RESPONSIBILITY.ORG

2021 Key Policy Victories
2022 Legislative Priorities

DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES

2021 Key Victories

DISTILLED SPIRITS COUNCIL OF THE UNITED STATES

FEDERAL & INTERNATIONAL

- Two-year suspension of the EU Tariffs on American Whiskey in steel-aluminum dispute
- Five-year suspension of U.S., UK and EU tariffs on spirits products in Boeing-Airbus dispute
- Inclusion of small distilleries in Restaurant Revitalization Fund legislation
- Inclusion of historic impaired driving prevention measures in federal infrastructure bill

2021 Key Victories

STATE

- Cocktails to-go now permanent in 16 states; additional 14 states passed legislation to extend measure
- Retailer home delivery laws passed in eight states
- Tax reductions secured for spirits-based RTDs in Michigan and Nebraska
- Passage of N.C. law permitting distilleries to sell bottled spirits on Sunday

2022 DISCUS Legislative Priorities

DISTILLED SPIRITS COUNCIL OF THE UNITED STATES

FEDERAL

- Securing the immediate suspension of UK tariffs on American Whiskeys
- Continued support of Restaurant Revitalization Act funding for restaurants, bars and distilleries affected by the ongoing pandemic
- Legislation to permit the U.S. Postal Service to ship beverage alcohol in those states where it is currently permitted

STATE

- Fairer tax treatment & increased access for spirits Ready-to-Drink (RTD) products in the states
- Expanded marketplace modernizations including cocktails to-go, spirits direct-to-consumer shipping and the repeal of existing Sunday sales bans in SC, NC, MT, TX and MS

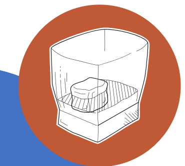
Tariffs: Progress Made in 2021, but Work Remains

Jan 1
2021

UK 25% tariff suspended on:
- Rum
- Brandy
- Vodka

July 4
2021

U.S. 25% tariff suspended for 5 years on:
- Single Malt Scotch
- Single Malt Irish Whisky from Northern Ireland
- Liqueurs and cordials from the UK

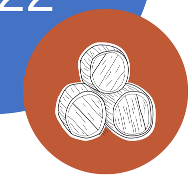


July 11
2021

EU 25% tariff suspended for 5 years on:
- Rum
- Brandy
- Vodka

U.S. 25% tariff suspended for 5 years on:
- Liqueurs and cordials from Germany, Ireland, Italy and Spain
- Certain Cognacs and other grape brandies from France and Germany

Jan 1
2022



EU 25% tariff suspended for 2 years on:
- American Whiskeys

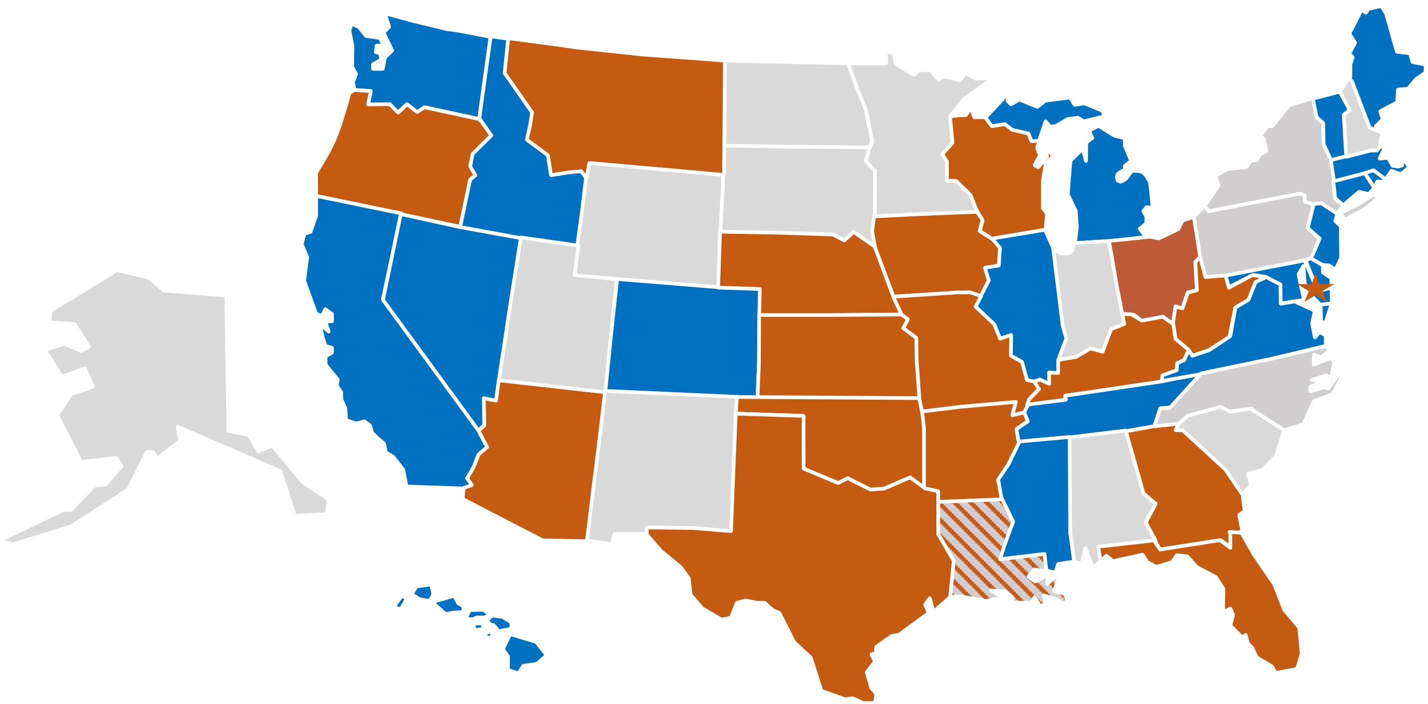
UK still applies a 25% tariff on American Whiskeys

GOAL: Return to duty-free trade in ALL US-UK-EU spirits

Advocating for Permanent Cocktails To-Go in the States

DISTILLED SPIRITS COUNCIL OF THE UNITED STATES

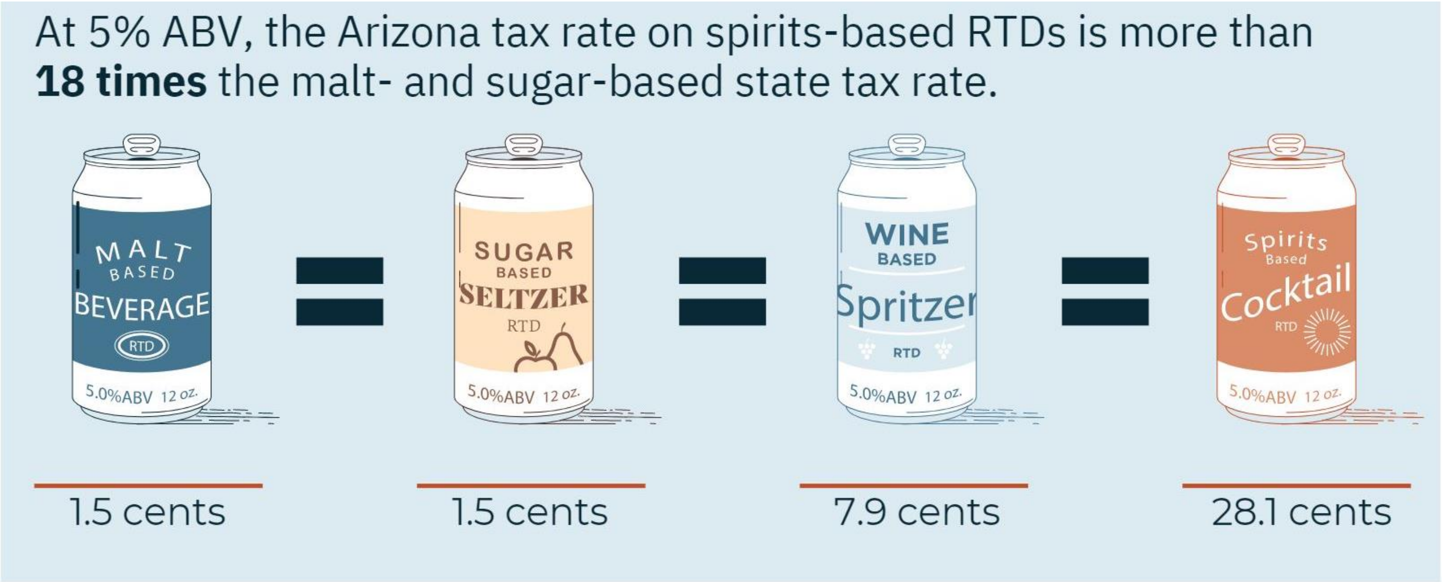
36 States and D.C. Allow Cocktails To-Go in Response to COVID-19



- States that passed permanent laws allowing cocktails to-go (16 states + D.C.)
- States with localities with permanent laws allowing cocktails to-go (1 state)
- States temporarily allowing cocktails to-go in response to COVID-19 (19 states)
- Cocktails to-go not allowed (14 states)

Seeking Tax Fairness on Spirits-based Ready-to-Drink (RTD) Products

- There has been tremendous innovation and transformation in the RTD category
- Pandemic has accelerated the growth of spirits-based RTDs
- Consumers are forced to pay much higher taxes for a spirits-based RTD product even if it has the same or similar ABV as a malt-, sugar- or wine-based product



Philip McDaniel

St. Augustine Distillery

CEO and Co-Founder

DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES

Craft Distillers Are Resilient but Continue to Face Significant Challenges

DISTILLED SPIRITS COUNCIL OF THE UNITED STATES

Tourism is picking up but still impacted by pandemic

- Tasting room sales impacted, which account for more than 30-50 percent of sales
- Key to creating brand experience

Unstable on-premise recovery

- Local restaurants and bars are critical sales channels for generating awareness of local craft brands

Supply chain disruptions

- Material shortages: glass, labels, closures
- Rising costs of inputs and transportation

Staff shortages

- Many hospitality workers have left the industry
- Rising Covid infections have impacted staffing

Growth and Importance of Spirits Tourism

- Number of distilleries have grown from approximately 50 in 2005 to more than 2,300 in 2021
- St. Augustine Distillery has over 170,000 tourists per year
- There are now more than 30 distillery trails across the country
- Spirits tourism is transforming surrounding communities and boosting state & local economies
- Partnering with state tourism boards

Measures Federal & State Leaders Can Take To Support Growth of Distilleries

Remove UK retaliatory tariffs on American Whiskey

- Returning to tariff free trade will boost exports of large & small distilleries

Permit direct-to-consumer shipping of spirits from distilleries

- 47 states permit wine DTC, only 11 permit spirits
- At pandemic's start, six states permitted temporary spirits DTC for in-state consumers (NY& MT expired)

Expand market access and create fairer tax structure for spirits-based RTDs

- Approximately 62% of craft distillers not producing spirits-based RTDs identified unfair tax rates as a barrier to entry. (2021 DISCUS survey)

Make cocktails-to-go permanent

Hold the line on alcohol tax hikes

Question & Answer

DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES