Annual Economic Briefing
February 9, 2023

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 & Strategy

Michael Mariano
Tourism Economics, an Oxford Economics Company
Head of Economic Development

Hasan Bakir, Ph.D.
Distilled Spirits Council of the United States
Economics & Strategic Analysis
2022 Economic Overview

- Spirits sector remained resilient in 2022 despite challenging external environment
- U.S. supplier revenue grew 5.1 percent
- U.S. volume grew 4.8 percent
- 13th straight year of market share gains
- First time spirits take lead revenue share of total U.S. beverage alcohol market
Christine LoCascio
Distilled Spirits Council of the United States
Chief, Public Policy & Strategy
Spirits industry is a major contributor to U.S. economy

- U.S. is second largest spirits 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
U.S. spirits industry continued growing in both revenue and volume in 2022

Revenue Increased by $1.8B

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (Billions)</th>
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<td>$35.8</td>
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Volume Increased by 13.9M

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<th>Year</th>
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<tr>
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Main Drivers of Spirits Growth

- Premiumization in the American Whiskey & Tequila Categories
- Spirits RTDs
- Ongoing On-Premise Recovery

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

Note: Excluding Cocktails/RTDs, the spirits industry revenue grew by $1.2 billion (3.6%) while volume growth was flat.
Spirits revenue growth has accelerated in recent years

Spirits are experiencing their fastest growth two decades

**Spirits Revenue, Total and Average Annual Growth**

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Growth</th>
<th>Average Annual Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-07</td>
<td>38.2%</td>
<td>6.7%</td>
</tr>
<tr>
<td>2008-12</td>
<td>17.0%</td>
<td>3.2%</td>
</tr>
<tr>
<td>2013-17</td>
<td>23.2%</td>
<td>4.3%</td>
</tr>
<tr>
<td>2018-22</td>
<td>43.3%</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

Over the past 20 years, the spirit industry’s average annual growth was 5.4% compared to 7.5% 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 revenue and volume

**Spirits Account for Over 42% of U.S. Alcohol Industry Revenue in 2022**

- 2012: 34.3%
- 2017: 36.6%
- 2021: 41.3%
- 2022: 42.1%

Spirits gained 7.8 percentage points over 10 years

**Spirits Account for 38% of U.S. Alcohol Industry Volume in 2022**

- 2012: 31.9%
- 2017: 34.6%
- 2021: 38.0%
- 2022: 38.7%

Spirits gained 6.7 percentage points over 10 years

Source: DISCUS Market Segmentation Database, IWSR, and various industry publications.
13 Points of Market Share Since 2000
Each point worth $890 million in supplier revenue

Spirits U.S. Market Share – Supplier Revenue

Sources: Derived from industry financial reports, Beverage Information Group Handbooks, NABCA FOB prices, DISCUS Brand Data and Council Estimates
On-premise volume rebounded but still 5% lower than 2019 levels in 2022: Off-premise volumes steady

### On-Premise Volume Rebounded

**Year-Over-Year Volume Growth**

- 2020: -44%
- 2021: 53%
- 2022: 12.0%

### Off-Premise Volume Held Steady

**Year-Over-Year Volume Growth**

- 2020: 18%
- 2021: 1%
- 2022: 2%

Source: DISCUS and IRI Scanner data.
Hospitality industry employment still not recovered to its pre-pandemic level

Hospitality Industry Employment is Down 750,000 Compared to Pre-Pandemic Levels

Annual Averages, Thousands

Economic recession would quickly reverse employment recovery

Percent of restaurant operators who say they are likely to lay off employees during the next 6-12 months if business conditions deteriorate and the U.S. economy goes into recession.

- Family dining: 63%
- Casual dining: 57%
- Fine dining: 57%
- Quickservice: 51%
- Fast casual: 58%
- Coffee & snack: 58%

Source: National Restaurant Association, national survey of restaurant operators conducted November 2022
Consumer Trends

Key trends continue as consumers embrace at-home cocktails, RTDs, premium spirits, and convenience, and return to dining out.
Vodka remains the top spirits category in 2022

**Top 5 Spirits by Revenue**

<table>
<thead>
<tr>
<th>Category</th>
<th>Revenue (Billions)</th>
<th>2021-22 Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vodka</td>
<td>$7.2</td>
<td>(-0.3%)</td>
</tr>
<tr>
<td>Tequila/Mezcal</td>
<td>$6.0</td>
<td>(17.2%)</td>
</tr>
<tr>
<td>American Whiskey</td>
<td>$5.1</td>
<td>(10.5%)</td>
</tr>
<tr>
<td>Brandy &amp; Cognac</td>
<td>$3.1</td>
<td>(-12.3%)</td>
</tr>
<tr>
<td>Cordials</td>
<td>$2.9</td>
<td>(2.6%)</td>
</tr>
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</table>

**Top 5 Spirits by Volume**

<table>
<thead>
<tr>
<th>Category</th>
<th>Volume (9-Liter Cases, Millions)</th>
<th>2021-22 Growth</th>
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<tr>
<td>Vodka</td>
<td>76.9</td>
<td>(-1.5%)</td>
</tr>
<tr>
<td>Cocktails/RTDs*</td>
<td>50.3</td>
<td>(37.4%)</td>
</tr>
<tr>
<td>American Whiskey</td>
<td>31.2</td>
<td>(5.2%)</td>
</tr>
<tr>
<td>Tequila/Mezcal</td>
<td>29.9</td>
<td>(11.5%)</td>
</tr>
<tr>
<td>Rum</td>
<td>24.1</td>
<td>(-2.8%)</td>
</tr>
</tbody>
</table>

Source: DISCUS Market Segmentation Database, IWSR, and various industry publications.  
*Pre-mixed Cocktails, including spirits-based RTDs.
Cocktails/RTDs remains fastest growing spirits category in 2022

### 5 Fastest Growing Spirits by Revenue

2021-22 Growth Rate (Change in Revenue)

<table>
<thead>
<tr>
<th>Spirit Type</th>
<th>2021-22 Growth Rate</th>
<th>2021 Revenue/Volume</th>
</tr>
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<tbody>
<tr>
<td>Cocktails/RTDs*</td>
<td>35.8%</td>
<td>($588 M)</td>
</tr>
<tr>
<td>Tequila/Mezcal</td>
<td>17.2%</td>
<td>($886 M)</td>
</tr>
<tr>
<td>American Whiskey</td>
<td>10.5%</td>
<td>($483 M)</td>
</tr>
<tr>
<td>Irish Whiskey</td>
<td>6.9%</td>
<td>($91 M)</td>
</tr>
<tr>
<td>Blended Whiskey</td>
<td>6.8%</td>
<td>($60 M)</td>
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### 5 Fastest Growing Spirits by Volume

2021-22 Growth Rate (Change in 9-Liter Cases)

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<td>(3.1 M)</td>
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<tr>
<td>American Whiskey</td>
<td>5.2%</td>
<td>(1.5 M)</td>
</tr>
<tr>
<td>Irish Whiskey</td>
<td>4.3%</td>
<td>(256 K)</td>
</tr>
<tr>
<td>Blended Whiskey</td>
<td>4.1%</td>
<td>(473 K)</td>
</tr>
</tbody>
</table>

Source: DISCUS Market Segmentation Database, IWSR, and various industry publications.
*Pre-mixed Cocktails, including spirits-based RTDs.
Tequila/Mezcal, Cocktails/RTDs & American Whiskey drove industry growth

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

*Pre-mixed Cocktails, including spirits-based RTDs.
Premiumization continued at a slower rate
61% of total revenue is accounted for by high end & super premium

Total Spirit Revenue Rose 5.1%

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<tr>
<th>Year</th>
<th>Total Spirit Revenue</th>
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Total Spirit Volume Rose 4.8%

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Source: DISCUS Market Segmentation Database, IWSR, and various industry publications.
Tequila/Mezcal and American Whiskey were the main drivers of premiumization.

2021-22 Change in Volume, 9-Liter Cases, Thousands

Tequila/Mezcal

<table>
<thead>
<tr>
<th>Value</th>
<th>Premium</th>
<th>High End Premium</th>
<th>Super Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,016</td>
<td>926</td>
<td>956</td>
</tr>
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American Whiskey

<table>
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<th>High End Premium</th>
<th>Super Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>849</td>
<td>712</td>
<td></td>
</tr>
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Source: DISCUS Market Segmentation Database
Note: Labels for values under 250,000 are not shown
Consumers increasingly prefer spirits-based RTDs

Cocktail & RTD
Revenue Rose $588 M

Billions

$1.6
$2.2

35.8% YOY Growth

2021
2022

Cocktail & RTD
Volume Rose 13.7 M

9-Liter Cases, Millions

36.6
50.3

37.4% YOY Growth

2021
2022

Spirits are still a small portion of the RTD market

Share of Market Volume

Wine-Based
Malt-Based
Spirits-Based
1%
86%
13%

Source: DISCUS Market Segmentation Database, IWSR, and various industry publications; Market data from IWSR.
Macroeconomic trends expected to impact the U.S. economy this year

Higher interest rates and inflation.
Inflation has slowed down toward the end of 2022 but still far above the long-term Federal Reserve target rate of 2%. Federal funds rate that stood around zero percent at the beginning of 2022 rose to 4.5% by the end of the year (FRBNY). Better than expected growth combined with tight labor market and strong wage gains would tilt the scale toward more interest rate increases.

The economy did better than expected in 2022 dispelling fears of a deep recession.
U.S. economy grew 2.1% in 2022 on the back of better-than-expected personal consumption and business investment demand. IMF revised up its 2023 growth forecast for the U.S. economy to 1.4% from 1% (IMF). However, if fighting inflation proves difficult, tighter monetary policies would lead to sharper slowdown in economic activity. Meanwhile, overwhelming majority of CEOs expect a mild and shallow recession in 2023 (CB). And projections from World Bank and Federal Reserve Board point to a growth rate of around 0.5% (WB) (FRB).
Chris Swonger
Distilled Spirits Council of the United States & Responsibility.org
President & CEO
2022 Key Victories

FEDERAL & INTERNATIONAL

• Suspension of the United Kingdom’s retaliatory tariffs on American Whiskeys in the steel-aluminum dispute
• Building support for relief for the hospitality industry’s recovery from the COVID-19 pandemic

STATE

• Cocktails to-go success in 5 new states bringing permanent states to 18
• Secured wins on spirits RTDs in 5 states
  • Tax reduction and increased market access secured for spirits-based RTDs in Vermont
  • RTD studies in Maine, Maryland and West Virginia
  • Defeated limit for container size restriction in Nebraska
• Secured direct-to-consumer shipping study in Maine
• Alaska off-premise retail tastings enacted
• Additional bottle sizes allowed in CT, KY and MI
• Passed or expanded distillery sales laws in Iowa, Minnesota and New Hampshire
FEDERAL

- Securing the permanent suspension of EU, UK, and U.S. retaliatory tariffs on all distilled spirits
- Securing new tariff reductions for U.S. distilled spirits, including the reduction of India’s 150% tariff on American Spirits, particularly on American Whiskeys.
- Defending distilled spirits sector from federal tax increases

STATE

- Fairer tax treatment & increased access for spirits Ready-to-Drink (RTD) products in the states
- Expanded marketplace modernizations including cocktails to-go and spirits direct-to-consumer shipping
- Defending hospitality sector from state tax increases
Spirits Ready-to-Drink (RTDs):
It’s Time to CAN Outdated Alcohol Laws
Seeking Fairness on Spirits-based Ready-to-Drink (RTD) Products

86% of consumers agree spirits RTDs should be sold where beer/malt and wine RTDs are sold.

- Tremendous innovation and transformation in the RTD category accelerated by pandemic
- Consumer demand for convenience and a growing market category are driving state legislators to consider bills related to retail access and taxation for RTDs
- 86% of consumers agree spirits RTDs should be sold where beer and wine are available for purchase
- DISCUS survey found 62% of craft distillers are not producing spirits RTDs due to higher tax rates
Recent State Action on Spirits RTDs

• Legislatures are looking at options to:
  1) Create a more level playing field
  2) respond to consumers demands
  3) generate new tax revenues

• Current state action:
  o CA, IN, NV (Clark County), NJ, OK, TN, WA
  o *Enacted in: NV (Clark County)*

• Previous Wins:
  o Iowa (2019); Mississippi (2020/2021); Michigan (2021);
    Nebraska (2021); Vermont (2022)
Alcohol is Alcohol. It’s Not What You Drink, It’s How Much You Drink That Matters.

- 31 states permit grocery stores to sell spirits RTDs; 29 states permit it in convenience stores
- 45 states have higher taxes for spirits RTDs with the same or similar ABV as a malt/beer RTD
- This makes no sense given a malt/beer RTD with 5% ABV has the exact same alcohol content as a spirits RTD with 5% ABV. There is no difference.
- Drinking responsibly and in moderation depends on how much you drink, not whether that drink is made of beer (malt), sugar, wine or spirits
Destination Distillery
Destination Distillery Tourism Website

- Website featuring a tourism-driven experience and educational journey into the cultural heritage and history of spirits in America.
- Spirits enthusiasts can explore:
  - Iconic distilleries & up-and-coming ones
  - 40+ State-by-state trails
  - Economic impact of spirits industry by state
  - Important sites connected to the history of distilling & spirits in our country
- Search by state/city database of established spirits trails and local distilleries
- Unifier for the spirits industry and ultimate destination for those interested in planning a spirited journey
Michael Mariano
Tourism Economics, an Oxford Economics Company
Head of Economic Development
PROJECT BACKGROUND
DIRECT ECONOMIC IMPACTS
Direct Impacts – Visitor Spending

Total Visitor Spending by Non-Local Overnight & Daytrip Distillery Visitors

- **CA** 1.0M visits → $238.9M
- **NY** 1.7M visits → $348.2M
- **TX** 2.0M visits → $396.0M
Visitor Spending by Industry - Texas

$396.0M
TOTAL SPENDING BY NON-LOCAL DISTILLERY VISITORS

$96.9M
FOOD & BEVERAGE
Distilleries, full-service restaurants, fast food, banquet sales

$88.4M
 Lodging
Hotels, motels, short-term rentals, and other lodging

$80.8M
RETAIL
Souvenirs, general merchandise, malls, local retailers

$69.2M
RECREATION
Entertainment/performance venues, theaters, amusements, other recreation

$60.7M
TRANSPORTATION
Taxis, buses, parking, public transportation, ride share, gasoline
TOTAL ECONOMIC IMPACTS
Economic Impact Model Framework

Direct Business Sales

Indirect Business Sales

Induced Business Sales

Total Economic Impact

On-Site & Off-site spending by visitors to distilleries

Distilleries’ purchases from supplier industries

Distilleries’ employee spending in the local economy

Total business sales in the regional economy
Total Economic Impacts - California

- Visitor Spending: $238.9M
- Total Economic Impact: $417.8M
- Total Jobs Supported: 2,800
- Total Labor Income Generated: $117.9M
Total Economic Impacts – New York

- Visitor Spending: $348.2M
- Total Economic Impact: $546.4M
- Total Jobs Supported: 3,600
- Total Labor Income Generated: $163.2M
Total Economic Impacts - Texas

- Visitor Spending: $396.0M
- Total Economic Impact: $715.2M
- Total Jobs Supported: 6,200
- Total Labor Income Generated: $191.8M
Fiscal (Tax) Impacts - California

$39.2M Federal Tax Revenues + $35.2M State & Local Tax Revenues = $74.5M Total Tax Revenues
Fiscal (Tax) Impacts – New York

$51.7M + $64.4M = $116.1M

Federal Tax Revenues
State & Local Tax Revenues
Total Tax Revenues
Fiscal (Tax) Impacts - Texas

Federal Tax Revenues: $48.1M
State & Local Tax Revenues: $35.9M
Total Tax Revenues: $84.0M
THANK YOU

Michael Mariano
Head of Economic Development
mmariano@oxfordeconomics.com
Spirits Industry Committed to Preventing Underage Drinking
Underage Drinking Prevention Responsibility Initiatives

Ask, Listen, Learn: Kids and Alcohol Don't Mix
- Celebrates its 20th anniversary in 2023
- Reached more than 171M students, educators, and families since launch in 2003
- Continues to adapt to evolving educational and social demands
  - Cannabis module
  - SEL foundations
  - Videos available in Spanish
- Aligns with strategic partners to help empower kids to make healthy lifestyle choices

We Don't Serve Teens
- Successfully relaunched in November 2022
- Supported by more than 70 leaders in the beverage alcohol industry within all three tiers in addition to non-profit, and like-minded organizations
- Earned coverage in The Guardian (US), PR Week, Fox 5 Atlanta, and Newsy.
Drunk driving fatalities have decreased 26% since 1991, and 45% since 1982.

In 2020, alcohol-impaired driving fatalities accounted for 30% of the total vehicle traffic fatalities. And 30% of driver fatalities in motor vehicle crashes involved a driver who tested positive for drugs.

High-risk impaired drivers continue to wreak havoc on our nation’s roadways accounting for 70% of drunk driving fatalities.

Among persons under 21, drunk driving fatalities have decreased almost 78%, increasing 25 percent in 2020 from a record low level of 904 in 2019.
Question & Answer