



# Distilled Spirits Council

## 2016 ECONOMIC BRIEFING

February 7, 2017 • New York City

[@DistilledSpirit](#) [#USspirits](#)





**Kraig R. Naasz**  
**Distilled Spirits Council**  
PRESIDENT & CEO



# Spirits Sector Growth Accelerates

## 2016 Economic Overview

- **Volume growth up 2.4 percent**
- **Revenue growth up 4.5 percent**
- **Export volume growth up 6.8 percent**
- **Market share continues to rise**



# 2016 Key Policy Successes

- **Consumers want spirits in grocery stores**
  - Colorado passed legislation allowing spirits, beer and wine
- **More ‘Brunch bills’ approved**
  - Connecticut, New York and West Virginia now allow alcohol to be served earlier
- **Spirits tastings expand**
  - Alabama, Arizona and Ohio expand tastings
  - 47 states now allow some form of spirits tastings
  - Tastings lead to premiumization
- **More wet/dry elections won**
  - 21 wet-dry alcohol wins; expanded access for 354,000 adult consumers

**DENVER  
BUSINESS JOURNAL**

“Hickenlooper signs bill  
expanding liquor sales in  
grocery stores”

**The Boston Globe**

“BOSTON CITY  
COUNCIL REJECTS  
NEW BOOZE TAX”

**DAILY NEWS**

“New York bars, restaurants  
get OK to sell booze as early  
as 10 a.m. on Sundays as  
Gov. Cuomo signs ‘Brunch Bill’”

**THE SPIRITS  
BUSINESS**

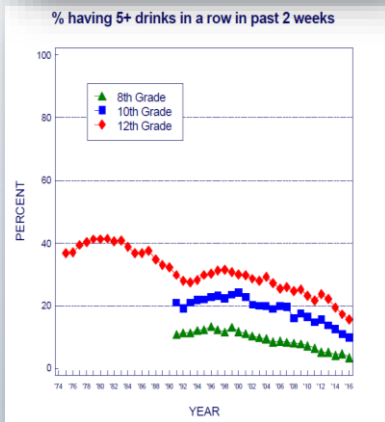
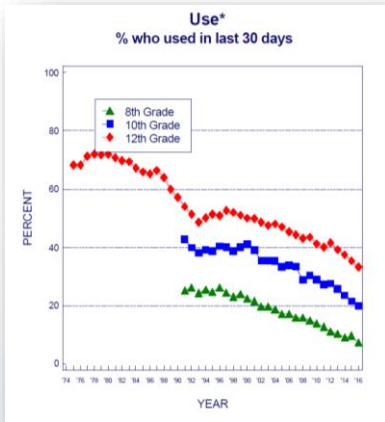
“DISTILLED SPIRITS  
COUNCIL SLAMS  
OREGON TAX”



# Positive Social Responsibility Trend

## 2016 Federal Data:

- Underage and binge drinking at record lows
- Driving under the influence of alcohol falls to new low
- Spirits community contributes to progress through responsibility programs and support for tough laws



“New federal statistics show that the rate of drunken driving in the United States fell to a 13-year low in 2014, the latest year for which data is available.”

*The Washington Post*

“For all three grades, both annual and monthly prevalence of alcohol use are at historic lows over the life of the study.”

**CBS NEWS**

**“Drunken driving rates fall to new low**

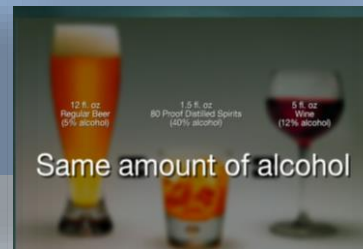
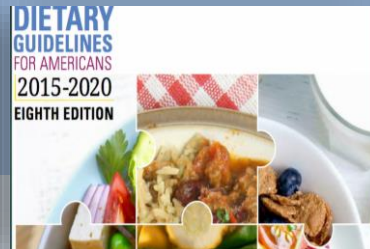
New federal statistics show that the rate of drunken driving in the United States fell to a 13-year low in 2014, the latest year for which data are available.”

*Chicago Tribune*



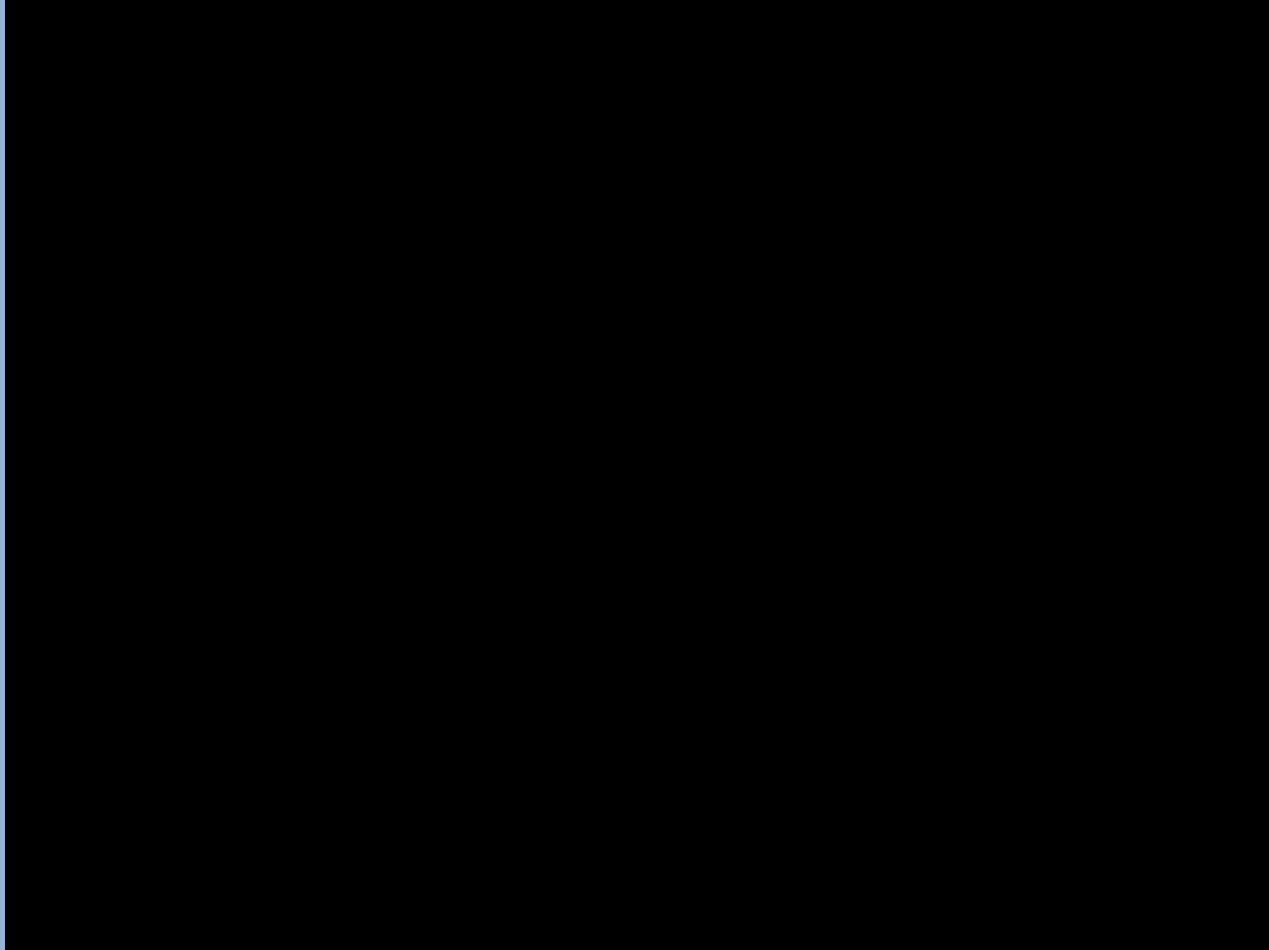
# Encouraging Moderation

- **The 2016 Surgeon General’s Report reaffirms “moderate alcohol use can be part of a healthy diet, but only when used by adults of legal drinking age.”**
- **2015-2020 *Dietary Guidelines* adopts new “drink-equivalent” terminology:**
  - 1.5 oz. of 80-proof distilled spirits (40 percent)
  - 5 oz. of wine (12 percent)
  - 12 oz. of regular beer (5 percent)
  - Drink-equivalents of beer, wine and spirits contain same amount of alcohol
- **Council partnered with National Association of Broadcasters on moderation PSA**





# Encouraging Moderation





# New Political Landscape

- **A new pro-business president**
- **GOP majority in both houses**
- **Top administration priorities shared by spirits sector**
  - Reform tax code
  - Reduce regulatory burden
  - Renegotiate and forge new trade agreements
- **Spirits sector does better when the economy is growing**
- **We look forward to working with the administration to advance these priorities**







# 2017 Legislative Outlook: Modernization Trend Continues

- **Craft Beverage Modernization and Tax Reform Act**
  - Supported by majority of lawmakers in both houses last session
  - Lowering FET will spur investment and job creation at distilleries
  - First time taxes on distilled spirits could be reduced since the Civil War
- **Sunday sales considered in Minnesota, Tennessee & West Virginia**
  - Consumers want it, editorial boards support, lawmakers finally catching up
- **Spirits tastings expansions in Alaska, Georgia & North Carolina**
- **Even in conservative Utah, legislation introduced to modernize**

**Forbes**

“Sen. Wyden Throws  
Alcohol Bill Into The Mix”

*The Salt Lake Tribune*

“Curtain call for  
Utah’s ‘Zion Curtain’  
may be at hand”

★ **StarTribune**

“It’s time to repeal the  
ban on Sunday liquor  
sales in Minnesota”



# Distilled Spirits Council

STRATEGIC RESEARCH INITIATIVE





# Industry Perceptions





# Top of the Mind Phrases to Describe the Spirits Sector





## State of Trust:

Alcohol Sector Compared to other Sectors in the U.S.

### Trust Barometer General Population (Rated 6-9 on 9-point scale)

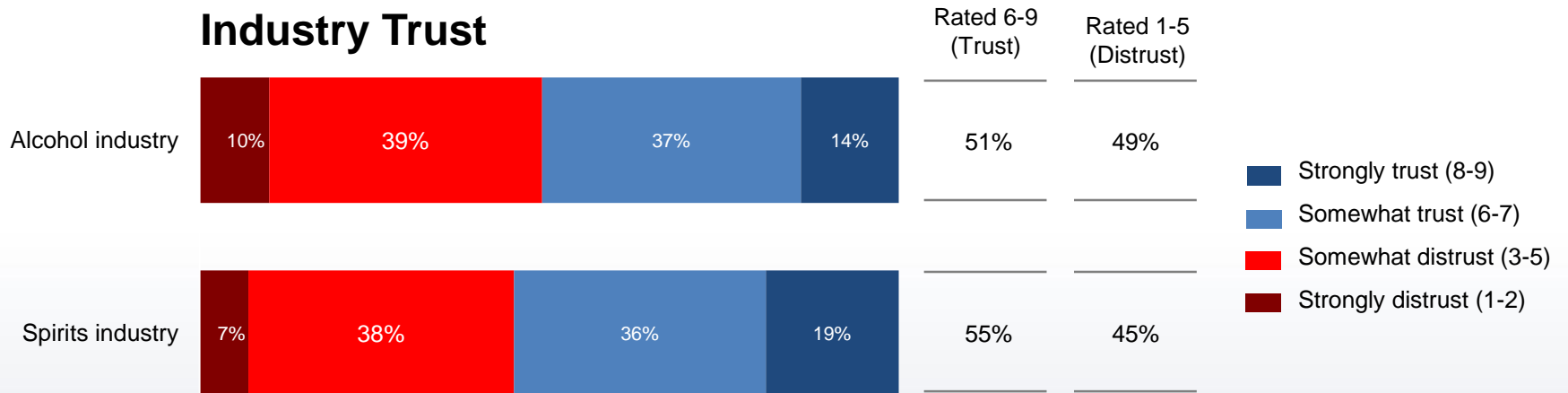
Industry	2016
Technology	73%
Food & Beverage	70%
Business	64%
<b>Spirits Industry</b>	<b>54%</b>
Financial Services	54%
<b>Alcohol Industry, overall</b>	<b>51%</b>
Media	47%
Pharmaceutical	47%
Government	39%

*The spirits and alcohol industry are in the top 50<sup>th</sup> percentile*

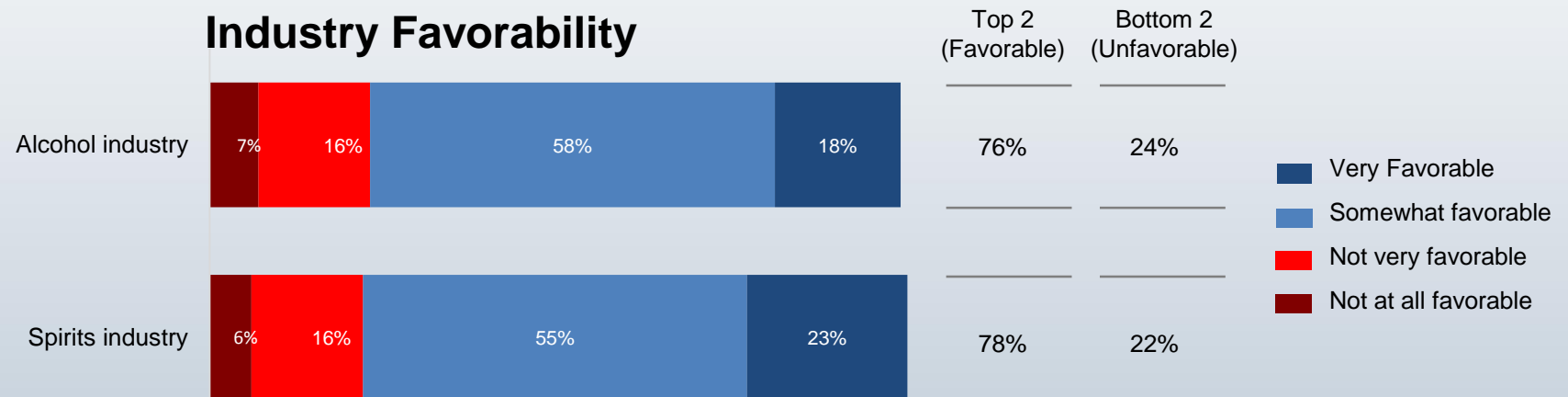


# Trust and Favorability of the Alcohol Sector

## Industry Trust



## Industry Favorability





# Attitudes Toward Policies and Regulations





# Perceptions of Sales and Access Regulations and Economic Impact

	<b>Percent support</b> (Strongly support, somewhat support)	<b>Total</b>
	Consumers should have the choice to buy beer, wine and spirits in grocery stores, warehouse stores (e.g., Costco, Sam's Club) and/or convenience stores.	65%
	Regulations pertaining to the purchase of beer, wine and spirits should be the same.	65%
	Taxes on beer, wine or spirits should be the same.	58%
	<b>Alcohol...provides tax revenue to federal/state governments</b> (Very well, somewhat well)	
	Alcohol Industry	78%
	Spirits	78%





**David Ozgo**

**Distilled Spirits Council**

SENIOR VICE PRESIDENT

ECONOMICS & STRATEGIC ANALYSIS

**Industry Economic Review 2016**



## Economic Review 2016

- **Industry growth**
- **Market share**
- **Growth drivers**
- **Category performance**
- **Trends to watch**



# U.S. Spirits Supplier Revenues Up 4.5 Percent to 25.2B – \$1.1 Billion Gain

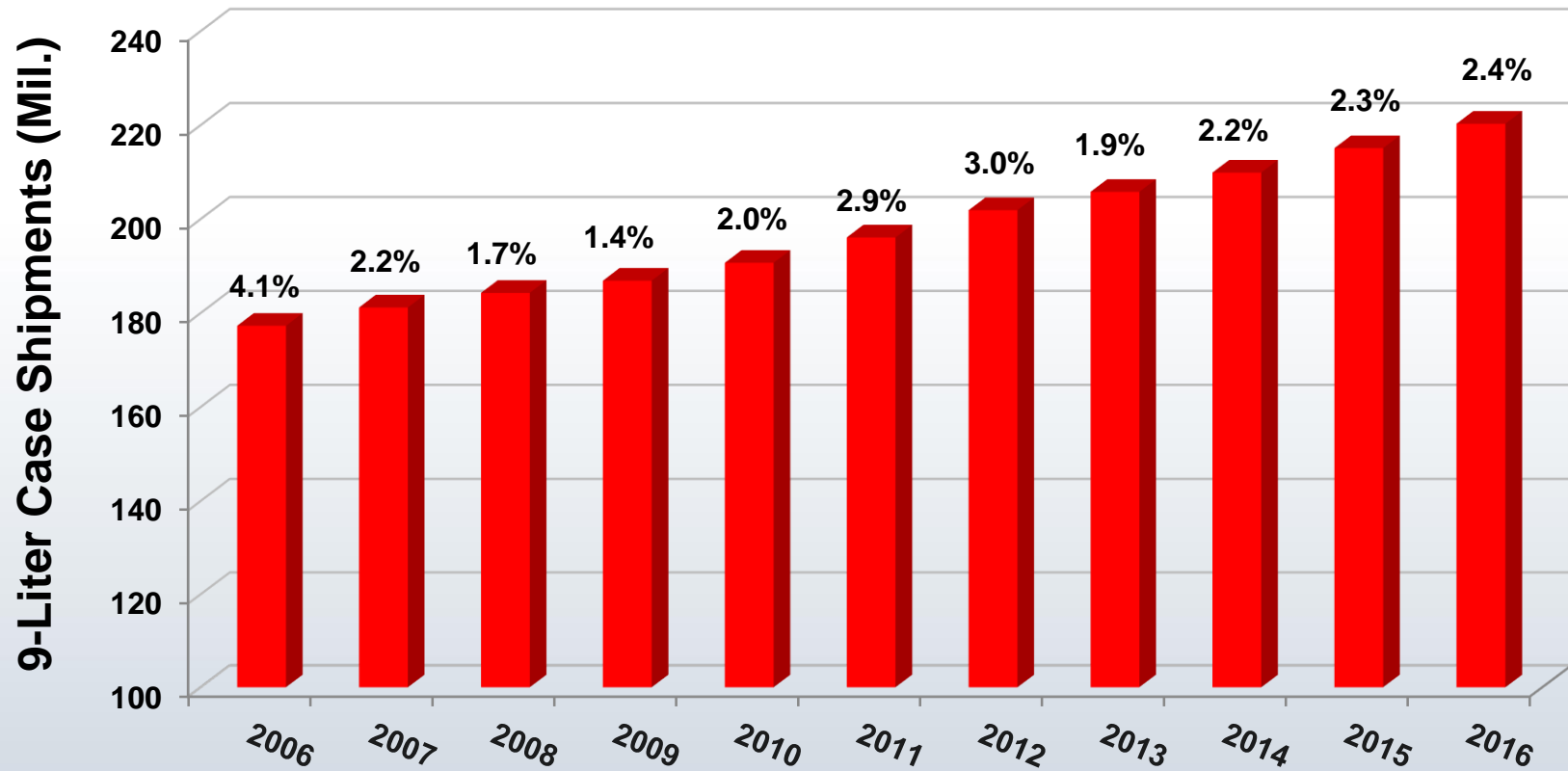


Source: DISCUS MSDB



# U.S. Volume Up 2.4 Percent in 2016

Up 5.2 Million to 220 Million Cases



Source: DISCUS MSDB



# Spirits Market Share – Revenue

Each Point of Market Share Worth \$700M

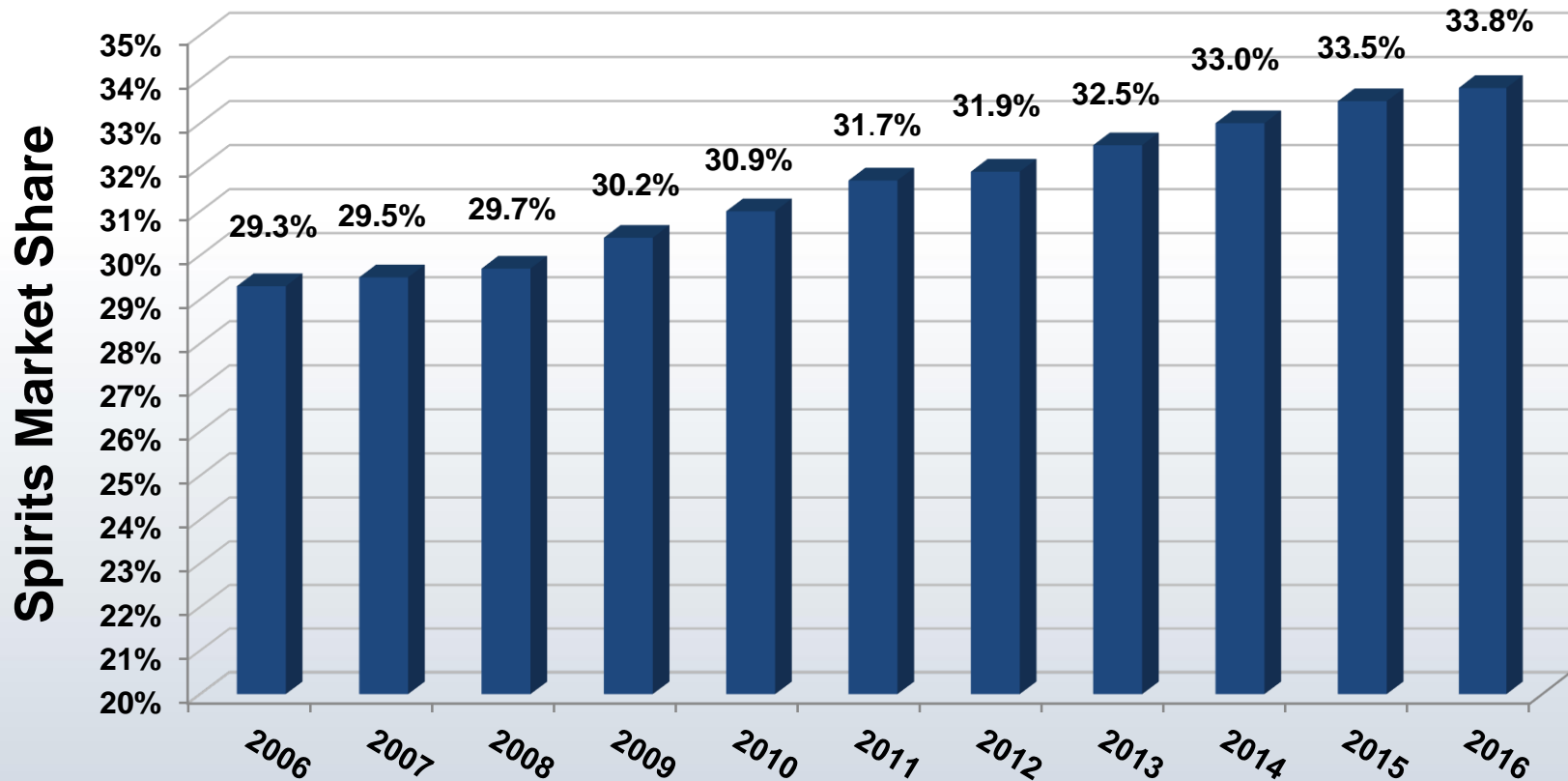


Source: Beverage Information Group Handbooks, Company Financial Reports, DISCUS Estimates



# Spirits Market Share – Volume

Each Point of Market Share is Worth 6.5M Cases





# 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:

## Revenue/9-Liters

## Retail Bottle Price

Value \$54

<\$12/bottle at retail

Premium \$100

\$12 - \$20/bottle at retail

High End \$170

\$20 - \$30/bottle at retail

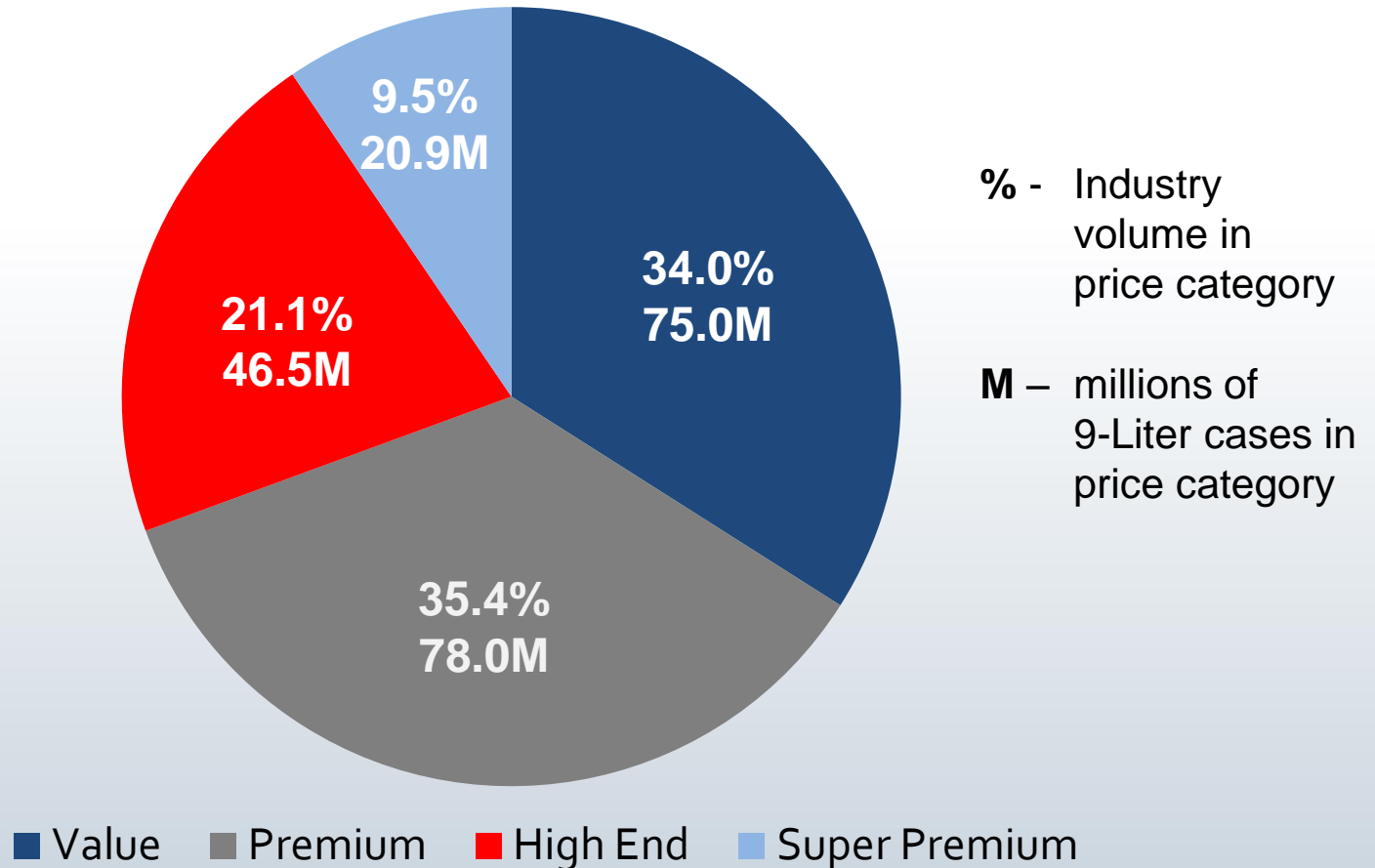
Super Premium \$265

\$30+/bottle at retail



# Volume Share by Price Category 2016

Share of U.S. Spirits Volume

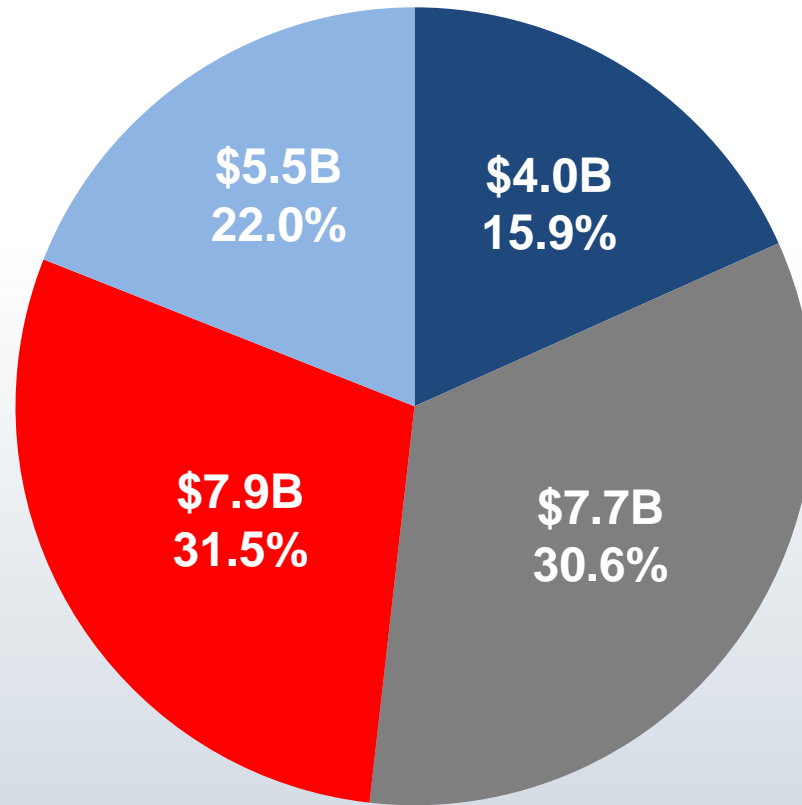






# Revenue by Price Category 2016

## U.S. Supplier Gross Revenues



% – Industry revenue in price category

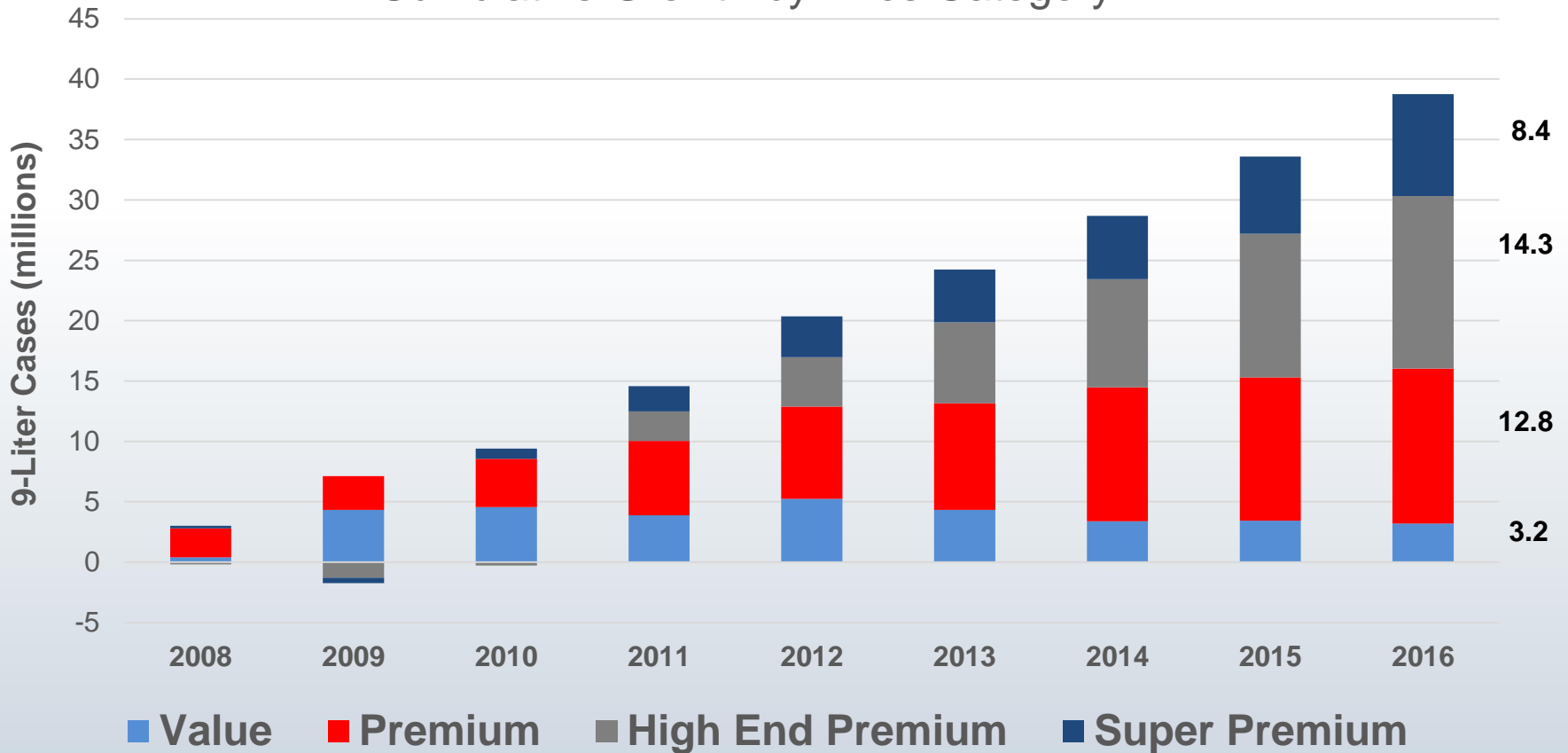
**B** – Gross revenue in price category, billions

■ Value   ■ Premium   ■ High End   ■ Super Premium



# High End & Super Premium Drive Case Growth

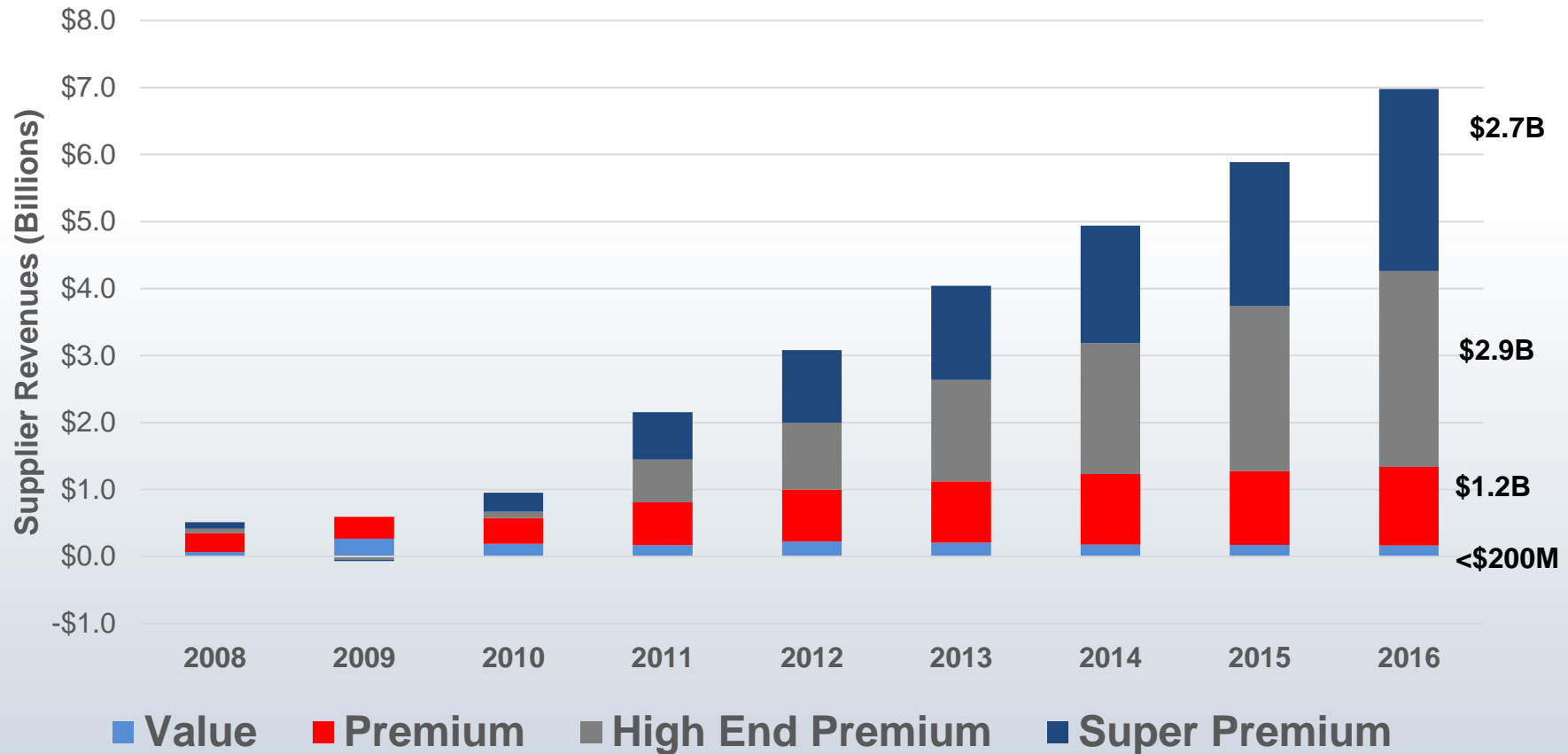
Cumulative Growth by Price Category





# High End & Super Premium Drive Revenue Growth

Cumulative Growth by Price Category





## 2016 Factors Contributing to Steady Growth

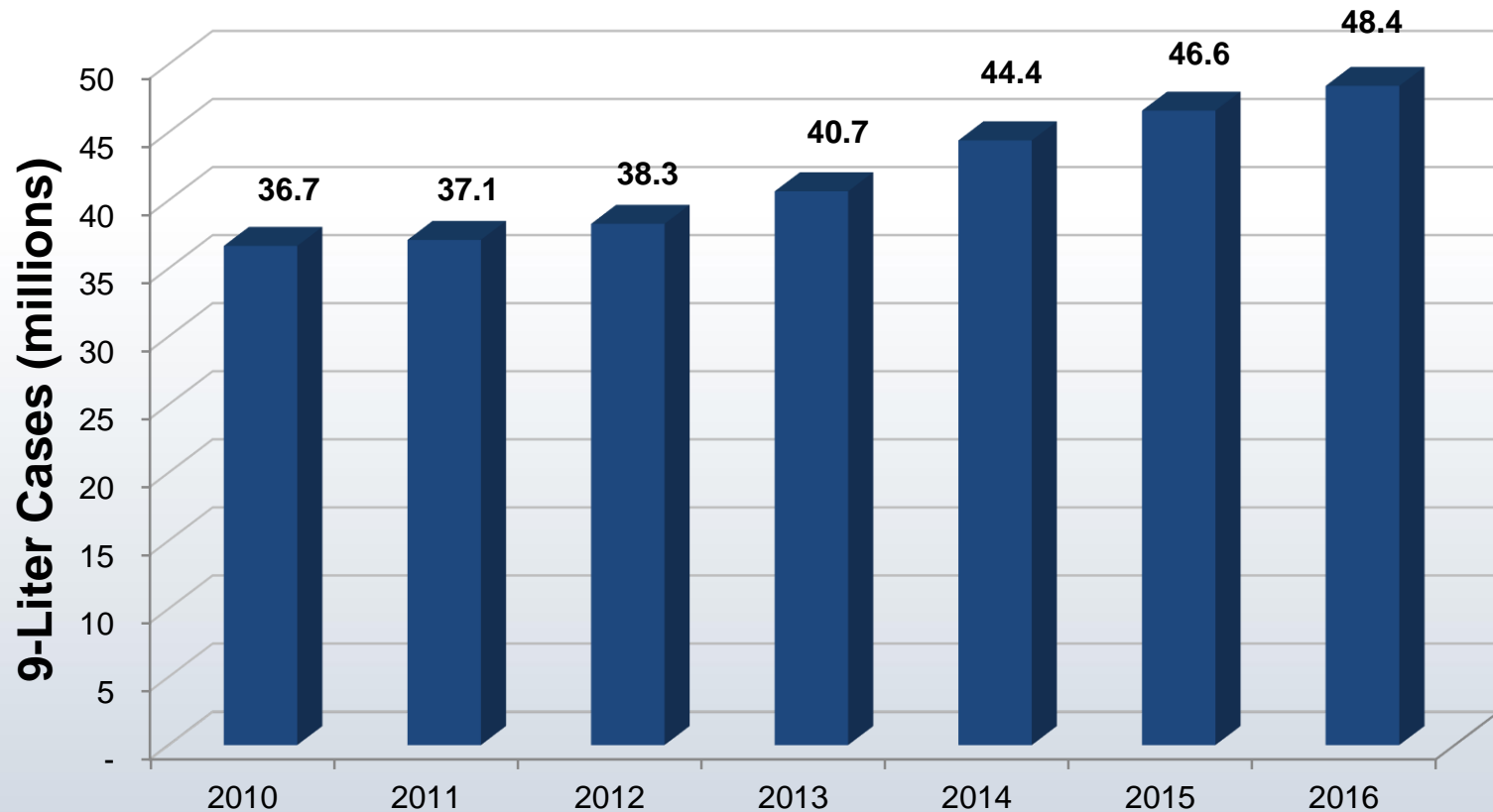
- American Whiskey trend has plenty of room for growth – country trending back to historic levels of whiskey consumption.
- Consumer demand for brands with authentic, interesting backstories.
- Local distilleries drive interest in overall spirits category and help modernize state and local laws.
- Cocktails uniquely positioned to meet adult millennials' demand for unique experiences.
- Spirits are now a fixture in popular culture and have become part of the norm.





# North American Whiskey: A Strong Sales Driver

**11.7 million cases added since 2010**

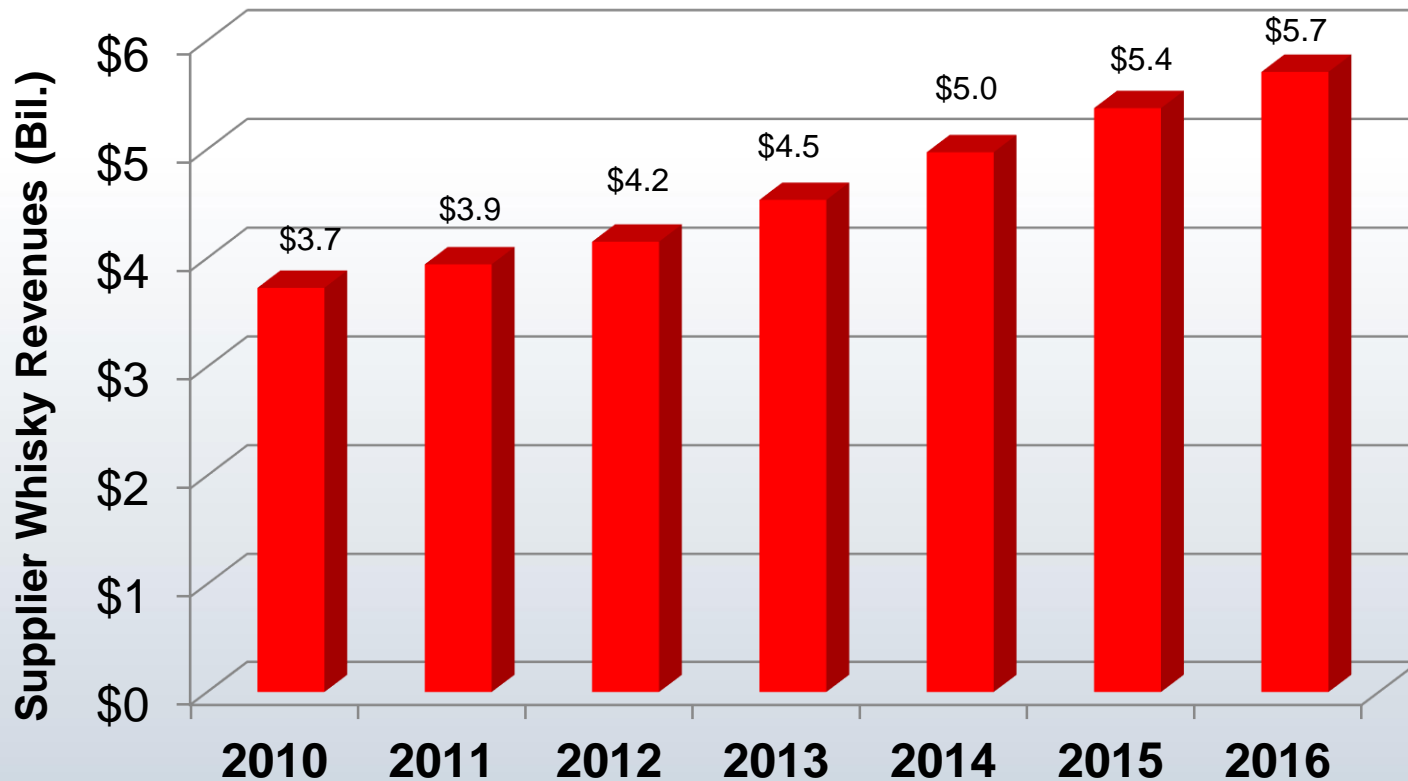


**Includes: American, Canadian and Blends**



# North American Whiskey: A Strong Sales Driver

**\$2.0 billion added since 2010**



**Includes: American, Canadian and Blends**



# American Whiskey

Bourbon, Tennessee, Rye, White

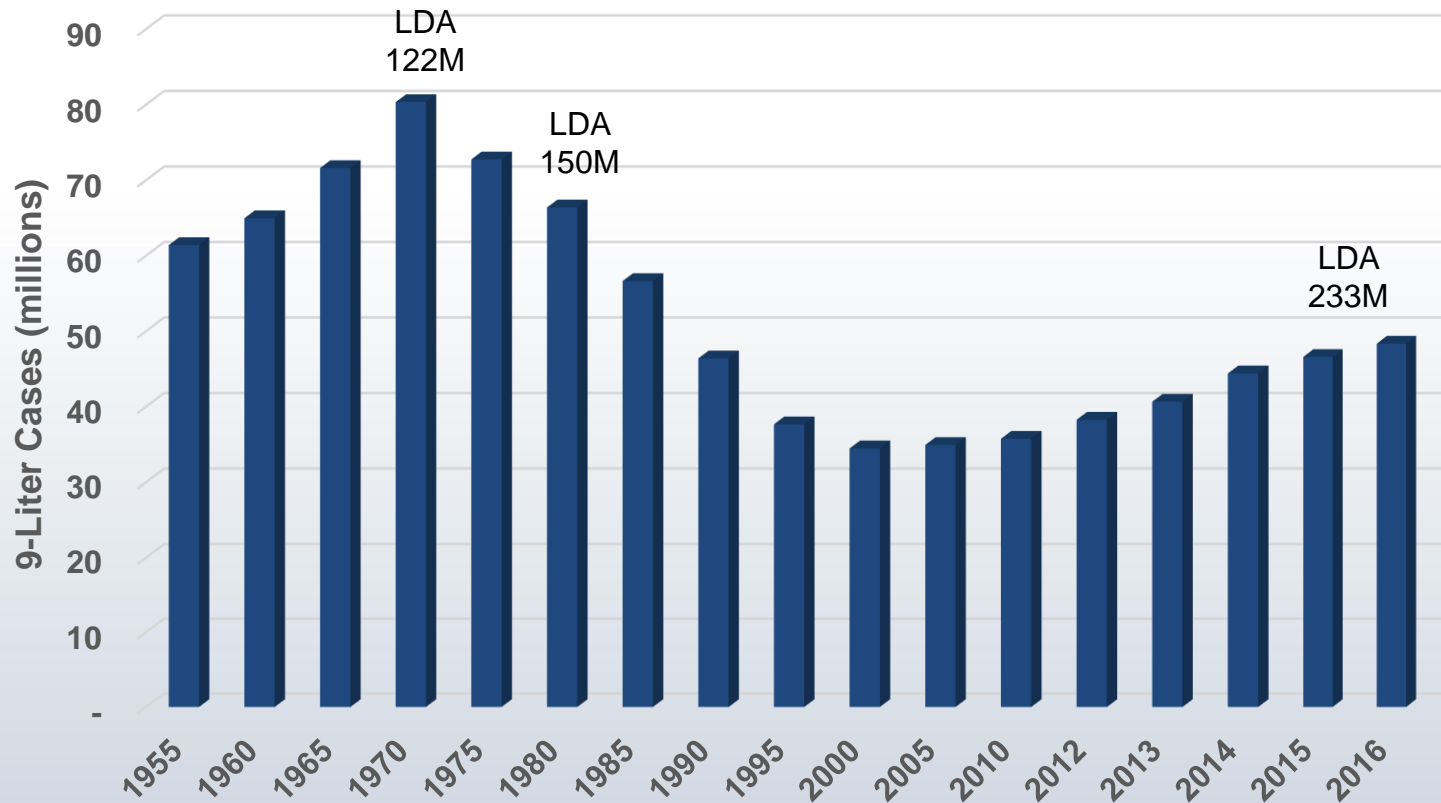


- **Volume up 6.8% to 21.8M Cases (+1.4M cases)**
- **Revenues up 7.7% to \$3.1B (+\$222M)**
- **Strength across all price categories**
  - Value vol. up 11.4% (3.7M), rev. up 13.1% to \$217M
  - Prem. vol. up 5.6% (5.6M), rev. up 7.6% to \$598M
  - High End vol. up 5.0% (10.4M), rev. up 5.7% to \$1.8B
  - Super vol. up 11.8% (2.1M), rev. up 13.5% to \$467M
- **Growth driven by traditional products**
- **Bourbon/Tennessee up 6.9% to 18.7M cases**
- **Rye volumes grew 17% to 785K cases**
- **White/Corn up 3.9% to 2.3M cases**



# Historical North American Whiskeys in U.S. Room for Growth

## Bourbon, Tennessee, Rye, Canadian & Blends







# Canadian and Irish Whiskeys

- **Canadian**

- Volume up 2.4 percent to 17.1M cases, 400k new cases
- Revenue up 5.8 percent to \$2.0B
- Growth came from Super Premium price points
  - Super Premium Volume up 9.3 percent to 6.2M cases
  - Flavored products up 400K cases

- **Irish**

- Volume up 18.7 percent to 3.8M cases
- Revenue up 19.8 percent to \$795M
- Volumes concentrated in High End and Super Premium



# Tequila and Cognac

- **Tequila**

- Volumes up 7.1 percent to 15.9M cases
- Revenues up 7.5 percent to \$2.5B
- Strong growth across price categories, but High End vol. up 14.9 percent and Super Premium up 7.2 percent

- **Cognac**

- Volumes up 12.9 percent 5.1M cases
- Revenues up 15.3 percent to \$1.5B
- Super Premium volumes grew by 16.0 percent, revenue 18.1 percent



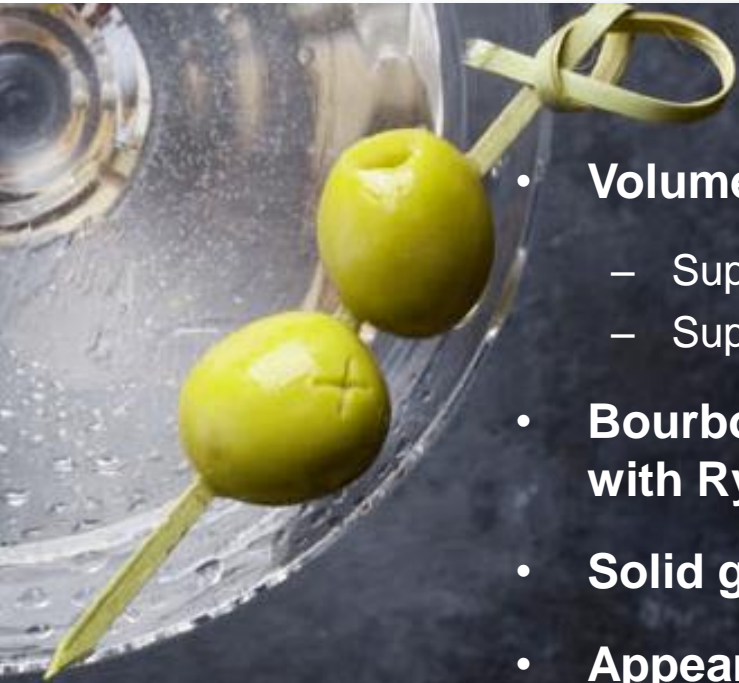
# Vodka

- Almost one-third of all spirits volume
- Volume up 2.4 percent to 69.8M cases
- Revenues up 4.1 percent to \$6.0B
- Rapid growth in Super Premium
  - Volume up 13.4 percent to 6.3M cases
  - Revenue up 13.1 percent to \$1.3B
- Flavored vodka returned to growth up 800k cases





# Summary



- **Volume/revenue**
  - Supplier revenue up 4.5 percent to \$25.2B
  - Supplier volume up 2.4 percent to 220M 9-liter cases
- **Bourbon/Tennessee significant growth driver along with Rye, Irish, Tequila and Cognac**
- **Solid growth in Vodka market**
- **Appears to be room to grow North American whiskeys**
- **Continue to increase market share gains**
  - 35.9 percent revenue market share
  - 33.8 percent volume market share



# 2017 Trends to Watch

- **Huge potential for Whiskey growth**
- **Marketplace developments are evolving to reflect consumer demands (Sunday sales, brunch bills, expanded tastings)**
  - Expected to continue in many states
- **Proliferation of new products/new expressions of existing brands demonstrates the strength of the industry.**
  - New producers act as incubator arm
  - New distilleries present opportunity for larger companies
  - Smooth Amber (Pernod Ricard), Nelson's Green Brier, High West, Catoctin Creek (Constellation), Angel's Envy (Bacardi), Westland Distillery (Remy Cointreau)



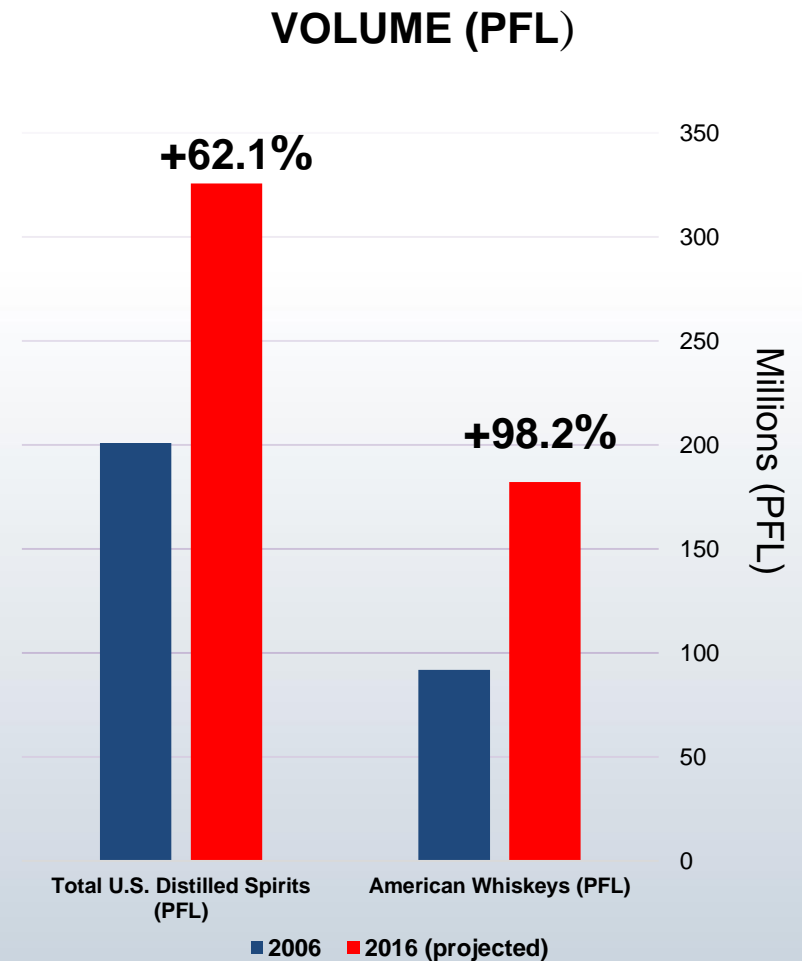
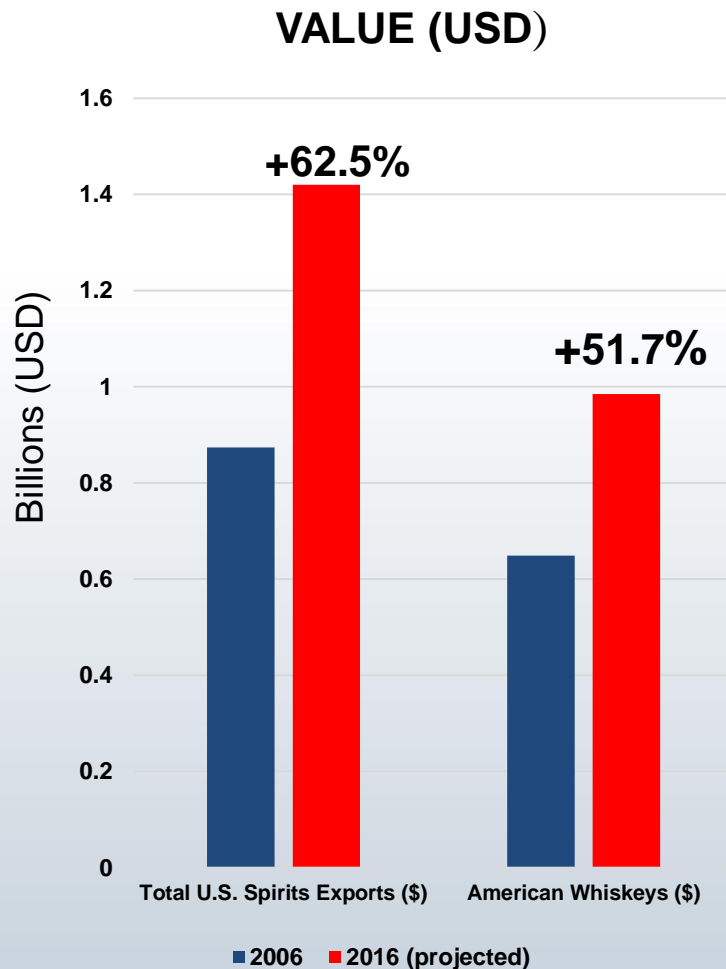
**Christine LoCascio**  
**Distilled Spirits Council**  
SENIOR VICE PRESIDENT of  
INTERNATIONAL TRADE

# **2016. U.S. Distilled Spirits Exports**

Volume Growth Continues Despite Strong Dollar



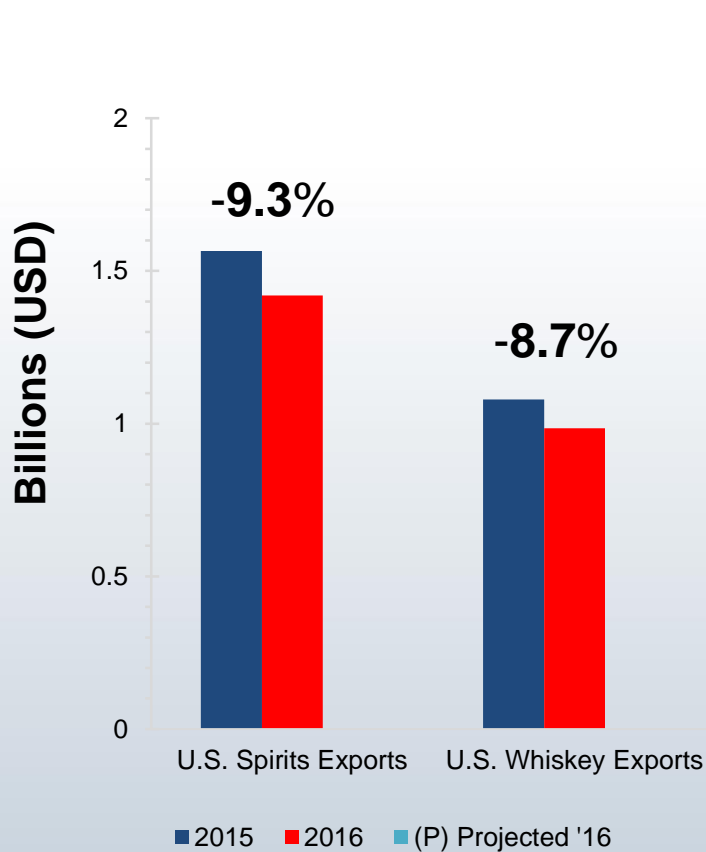
# A Decade of Solid Export Growth: 2006-2016



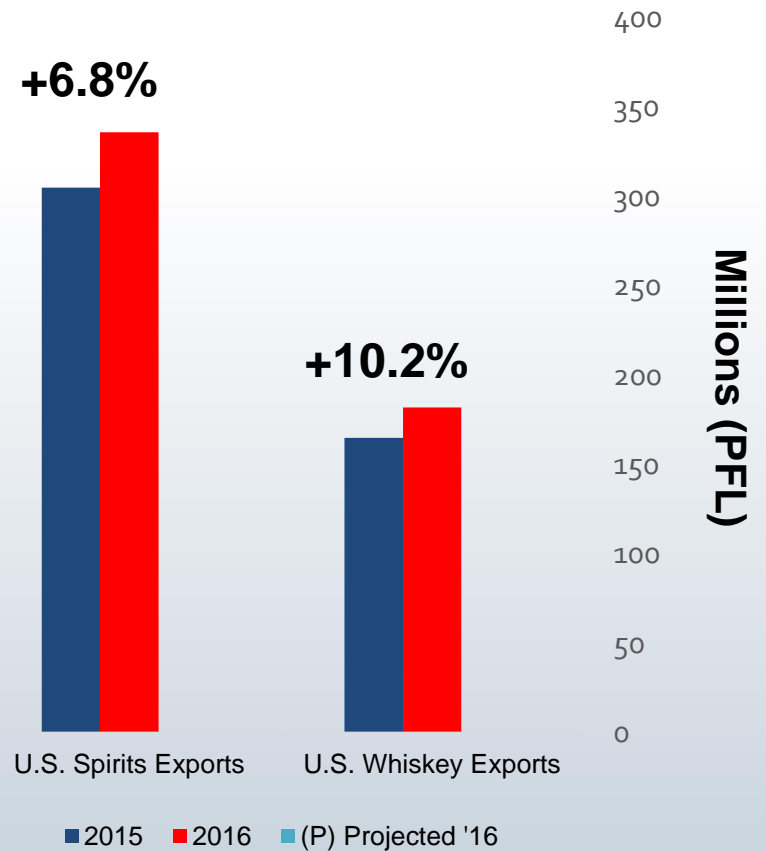


# 2016 U.S. Distilled Spirits Exports: Volumes Way Up, Values Down

## VALUE (P)



## VOLUME (P)







# American Whiskeys: Key to U.S. Spirits Export Success

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**70% of total by value and 56% by volume**

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**Global fascination**

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**American Whiskey story**

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**Exporting cocktail culture**











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**Mixability/versatility**





# The Top Ten: 72 Percent of Total Export Volume











Market		2016 Volume (P)* (in millions)
Canada		59
Spain		46
Australia		34
Germany		19
Panama		16
Mexico		16
Vietnam		15
Japan		14
Netherlands		14
United Kingdom		14

Source: U.S. Department of Commerce, Compiled by U.S. International Trade Commission

\*Proof Liters













# The Top Ten: 69 Percent of Total Export Value

Market		2016 Value (P) (in millions)
Canada		\$190
United Kingdom		\$125
Australia		\$111
Spain		\$104
Germany		\$102
Japan		\$101
France		\$97
Netherlands		\$60
Vietnam		\$46
Mexico		\$37

Source: U.S. Department of Commerce, Compiled by U.S. International Trade Commission (FAS Value) (FAS value – Free Alongside Ship is the value of exports at the U.S. port, based on transaction price including inland freight, insurance and other charges)



# Top Five Export Growth Markets

By Dollar		Value Growth 2015-2016 (USD millions)	2016 Total Value (USD millions)
Vietnam		29.2	45.9
Spain		18.6	104.1
France		9.7	97.6
Singapore		4.5	30.7
Romania		2.4	10.6
By Percentage *		Percentage Growth 2015-2016	2016 Total Value (USD millions)
Vietnam		+173.9%	45.9
Romania		+28.5%	10.7
Spain		+21.8%	104.1
Singapore		+17.1%	30.7
Korea		+11.8%	13

\*Among countries whose U.S. imports exceed \$10 million



# USDA Partnership Successfully Promotes American Spirits Exports

Promotions in 17 markets since 2005

China, Russia, Brazil, India, Hong Kong, Korea, Thailand, Vietnam, Singapore, Chile, Bulgaria, Romania, Czech Republic, Germany, Austria, Colombia and South Africa

To date, 2016 BCB show generated \$400K in new U.S. spirits exports, for a total of \$3.3 million in new exports since 2013

In 2017, promotions in Vietnam, Thailand, UK, American Whiskey Trail, etc.



United States Department of Agriculture



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