

# Distilled Spirits Council 2011 Industry Review

New York City  
January 30, 2012

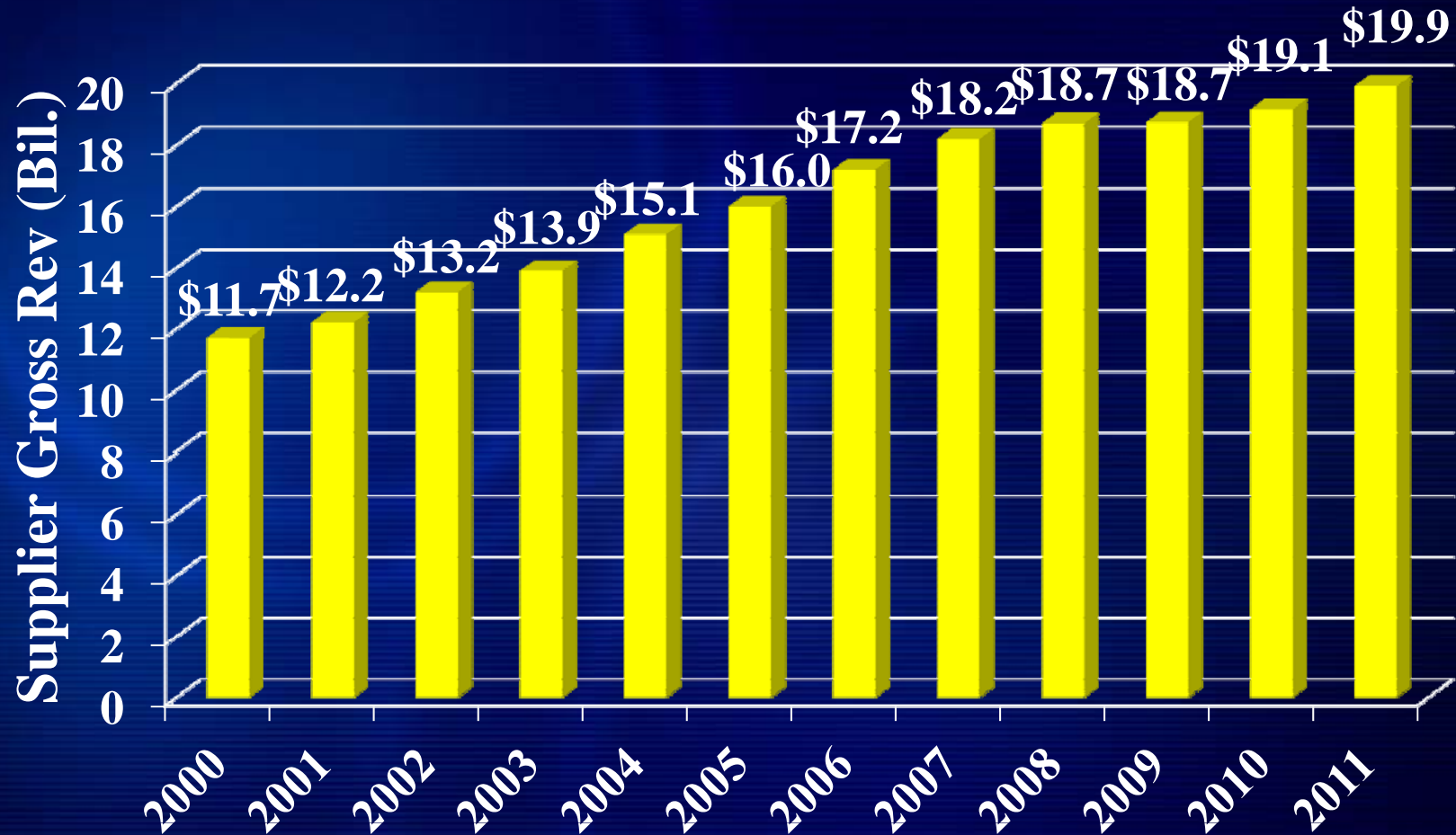
# Top Line Economic Snapshot 2010 to 2011

- Volume growth: up 2.7% to 195.8M 9-liter cases
- Revenue growth: up 4.0% to \$19.9B
- Revenue market share grows to 33.6%
- Export growth: up 16.5% to \$1.34B



# Spirits revenues up 4.0% to \$19.9B

2000 – 2007 average growth 6.5%



Source: DISCUS MSDB

# 2011: Industry Growth Returns

- Growth leads to more market share gains

- Nearly 5 points since 2000

- Industry drives growth through innovation



- Economic improvement fosters return to premiumization

- Decade of industry emphasis on high end bears fruit

- Modernization helps to level the playing field

Sunday Alcohol Sales Gain  
Traction around Ga.



- Strong case against higher hospitality taxes largely successful

- Mitigates economic harm to the hospitality industry

- Record exports boost U.S. economy

# 2011: Industry Growth Returns

- Responsible marketing initiatives contribute to market share gain
- Extraordinary fascination with spirits continues
  - Innovation built on heritage key to fostering growth
- Social responsibility gains accompany commercial gains
- Government emphasis on moderate drinking contributes to social responsibility
- 2012: Challenges for maintaining growth



## Korea: A Big Win for Whiskey

What the free trade agreement means for the spirits industry.

Philippine Liquor Tax Is Struck Down by  
WTO in Win for U.S., EU Distillers

**Bloomberg**

 **REUTERS**

U.S. whiskey makers pushing for a bigger taste

# Factors Driving Market Share Growth: Industry Creativity

- Innovation
  - Bold modification of iconic brands
  - New products; flavor trends spread to different categories
  - Strong brand heritage provides foundation for innovation
- Premiumization
  - On-premise strength builds off-premise growth
  - Affordable luxuries even during tough economic times
  - New categories of consumers embrace high-end spirits
  - Consumers are returning to premium products
- Craft distilling, large and small, adds to consumer interest

## Consumers Shifting Back to High-End Liquor

Consumers are starting to trade-up to pricier vodkas, other spirits, pushing up revenue for the and possibly providing the industry with power.



Photo By: David Gallagher  
Spirits sales rose 2.3 percent to \$19.1 billion in 2010 from the prior year.


In its annual briefing on industry trends, the [Distilled Spirits Council of the United States](#)—or Discus—trade group said supplier volumes last year rose 2 percent to 190 million cases and revenue rose 2.3 percent to \$19.1 billion from the prior year.

# Factors Driving Market Share Growth: Market Modernization Momentum Expands

Georgia Sunday alcohol sales prove popular with most voters 

- “Deep South” Georgia passes Sunday Sales
  - Becomes 37<sup>th</sup> state; 15 new states have passed Sunday Sales since 2002
  - Over 100 local Georgia communities raced to pass; Atlanta votes 82-18% yes
  - What does this bode for Dallas, Hartford, Indianapolis & Minneapolis?
- Wet/Dry votes proliferate; opens many new markets
  - TX 2011: 35 more successful elections
  - 315,000 new adult consumers
- Many liberalized trade practices also contribute to growth
  - 43 states allow some form of spirits tastings
  - Helps drive premiumization trend
- Washington State privatization encourages control states to modernize

Local governments tap alcohol sales for revenue   
*Across South, longtime 'dry' governments tap into booze sales for much-needed extra revenue*

Tasting for dollars:   
States find new ways to tap alcohol for revenue

# Factors Driving Market Share Growth:

## Strong Case Against Higher Taxes Resonates With Most Policy Makers

- 2011 budget gaps applied serious tax pressure in states
- Despite tough economy, industry successfully fought back majority of threats
- Spirits taxes repealed in Massachusetts and Michigan
- Spirits tax threats materialized in 20 states
- Threats defeated in 18 states; avoids harm to the hospitality industry
- Municipal taxes a growing concern:
  - Tax increases in D.C. and Chicago-area are harmful



**Hawaii: Restaurateurs adamant against alcohol tax increase**



**2011 Sees End To Sales Tax On Alcohol**



# Factors Driving Market Share Growth:

## Responsible and Innovative Marketing

- Creative marketing campaigns support new product growth
- Spirits advertising achieves widespread equal treatment
- Sports sponsorships are now commonplace
- Industry marketing Code: 71.6% new adult demographic
  - Demographic standard raised immediately to track latest Census data
- New industry social media guidelines added to Code
  - Provides framework for new marketing approaches

Market **W**atch

New social media guidelines for liquor ads



**Take tequila out to the ballgame** Market **W**atch

And for fans there's now even more ways to pass the time. "Lots of people think of beer and hot days together, but we have a lot of fans who are interested in spirits," said Jim Allen, director of corporate partnerships at the Atlanta Braves.

# Factors Driving Market Share Growth: Extraordinary Fascination With Spirits Continues

**The New York Times**

**Bourbon's All-American Roar**

New Flavors and Marketing Add Up to a Sales Boom

**Los Angeles Times**

A clear choice in whiskeys

L.A. gets a taste for

**THE WALL STREET JOURNAL**

Tequila Is Going High End

By JEAN GUERRERO

GUADALAJARA, Mexico—Demand for 100% blue-agave tequila is breaking records as more and more non-Mexican drinkers adopt a new attitude toward the liquor they once gulped down with grapefruit

as a low-quality, hard-to-drink spirit. Now it's a competitive, luxury product.

Demand for 100% agave tequila grows, interest in cheaper tequilas—known as mixtos and made with as little as 51% agave and up to 49% other sugars—is slowing down. Exports of mixto

Mexico's National Tequila Industry Chamber has helped to spur the change in public opinion, working on government-subsidized programs that offer tequila tastings and lessons.

The reality of tequila today is very different from tequila 20

**Los Angeles Times**

Cognac sales hit record highs in 2011

MEXICO

**THE NECTAR OF THE GODS**

Mexico may have problems with violence but it's safe in the

**SUNDAY POST-DISPATCH**

Washington's other legacy: whiskey

**Esquire**

**EAT LIKE A MAN** FOOD, DRINK, ESQUIRE.

How to Drink Tequila... on Cinco de Mayo

Tequila, long the official celebratory shot of frat parties and cheap Mexican restaurants, was until recently a decidedly underappreciated spirit. But as an iconic celebratory Cinco de Mayo will soon discover, there's a lot to like about the agave-based spirit, which is experiencing something of a moment. Outside Mexico, the U.S. buys the most bottles of the stuff, but that number, according to the Distilled Spirits Council, is now growing. And why not? It's delicious, and with more varieties than ever from which to choose — many being sold here for the first time — there's almost no wrong way to drink it. Here are some of the latest brands I like the most, with some suggestions on how to enjoy. No salt necessary. And definitely no sombrero.

**THE MCLATCHY COMPANY**

GIN: Includes flavors of citrus, coriander, hibiscus and pecan

**REUTERS**

48 hours in Louisville, Kentucky

**HOUSTON CHRONICLE**

HIGH END SPIRITS: Now, a new gin created by Houston-based New Arkham Spirits, comes in a bottle that resembles a city skyline.

**MOUNT VERNON DISTILLERY**

Aged Rye Whiskey To Go On Sale

**USA TODAY**

**Total U.S. Irish whiskey sales in nine-liter cases**

(in millions)

2005	0.594
2010	1.387

**TODAY**

**Drinking Whiskey In The Spirit Of George Washington**

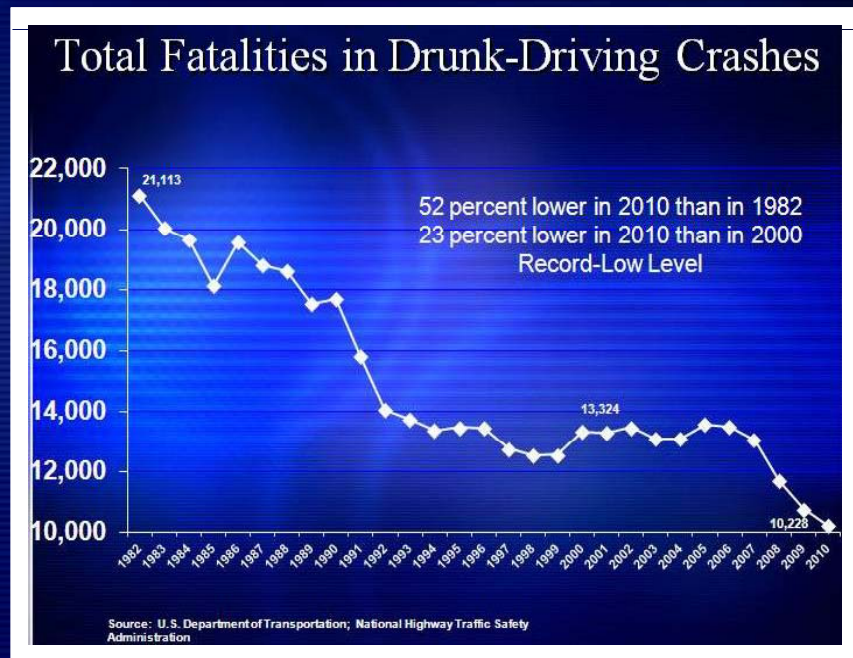
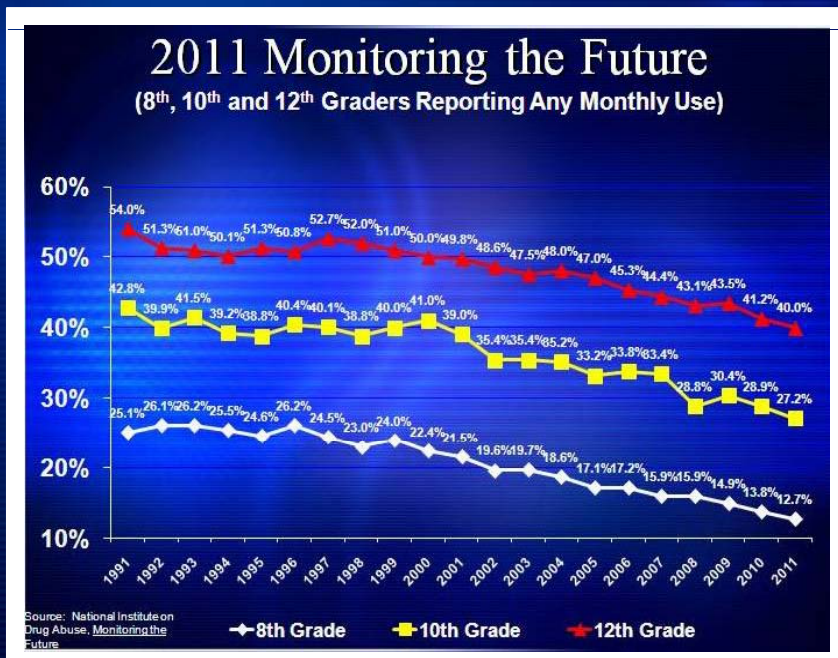
BBQ WINE BRAWL

**npr**

# Important 2011 Developments:

## Social Responsibility Gains Accompany Commercial Gains

- Record lows in major U.S. Government annual studies:
  - Underage drinking rates and drunk-driving fatalities at lowest levels since surveys began
- Industry commitment to social responsibility efforts key to progress

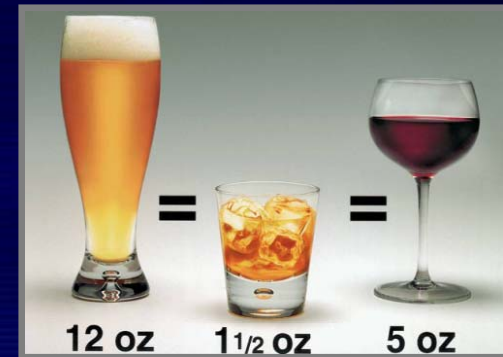


- Proves again that population-based controls are not effective or warranted

# Important 2011 Developments:

Government Emphasis on Moderate Drinking Contributes to Social Responsibility

- **New Federal Dietary Guidelines underscore definition of standard drink**
  - Emphasize standard drink of beer, wine and spirits contain same amount of alcohol
  - First time: .6 oz measure included
  - Science contributes to equal treatment



- **CDC Study:**
  - Moderate alcohol consumption is 1 of 4 key healthy lifestyle behaviors

## 4 Keys to a Long Life

Survey Shows That Not Smoking, Exercise, Healthy Diet, and Moderate Drinking Cut Risk of Early Death

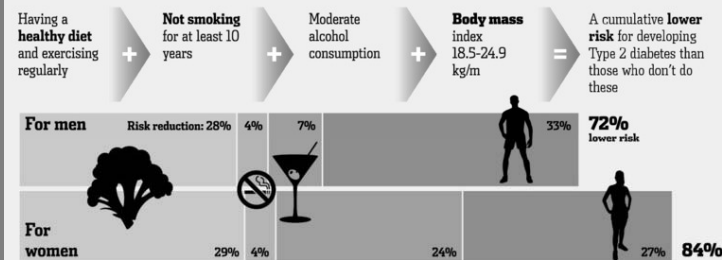
WebMD

- **National Institute of Health Study:**
  - Moderate alcohol consumption is 1 of 5 lifestyle factors that “when considered in combination are associated with a substantial reduction in risk for diabetes.”

## THE WALL STREET JOURNAL

### Healthy Habits

Each of these factors reduces a person's chances of developing Type 2 diabetes. A National Institutes of Health analysis of studies found combining the following lifestyle factors can substantially cut the risk that an adult will get the deadly disease.



Source: Annals of Internal Medicine

# Record Exports Boost U.S. Economy

Christine LoCascio

Senior Vice President, International Trade

Made in America: Exporting Bourbon



# U.S. Spirits Exports Hit New Record

(through Nov. 2011)

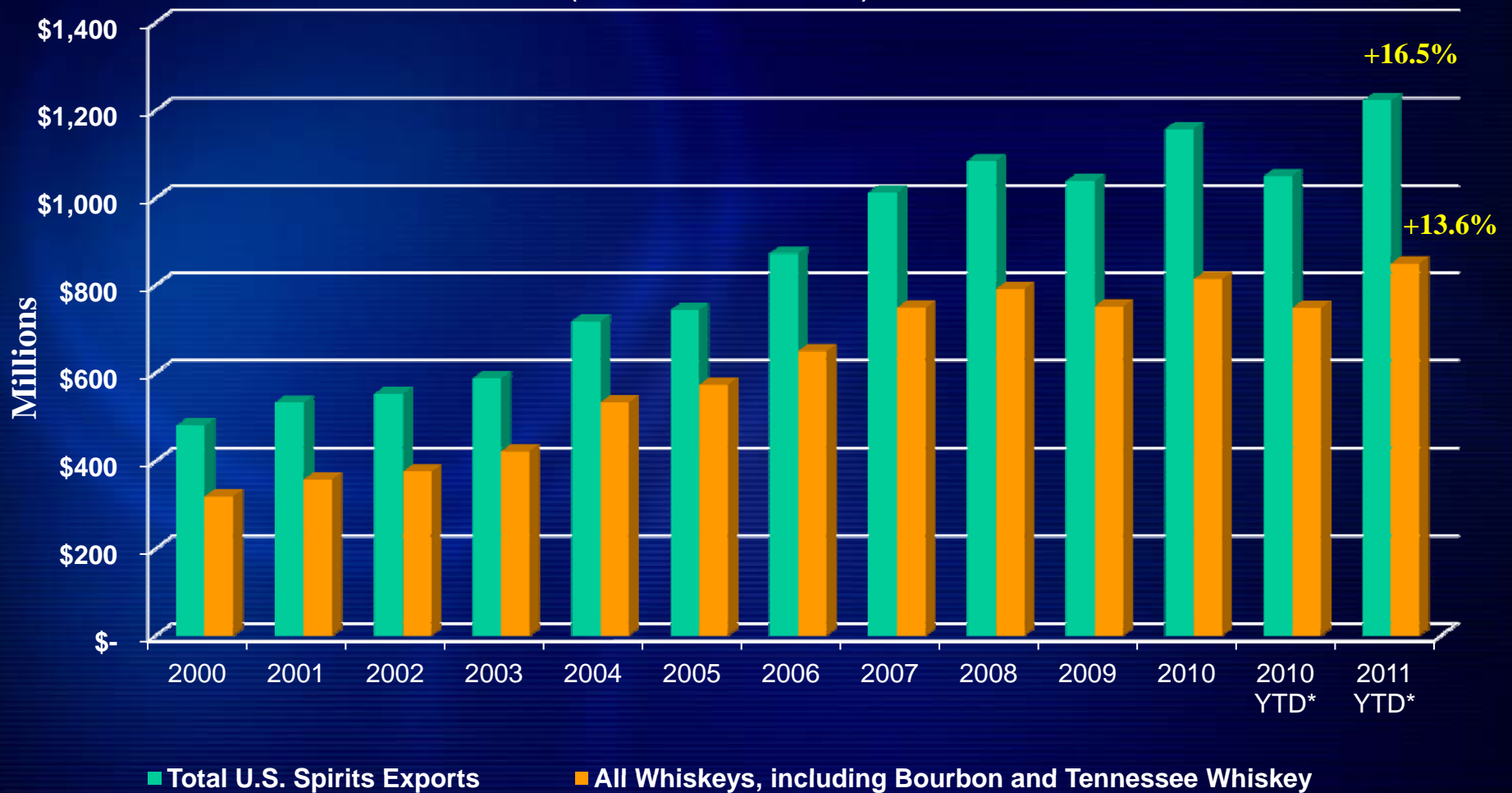


Source: U.S. Department of Commerce, Compiled by U.S. International Trade Commission  
(FAS value – Free Alongside Ship is the value of exports at the U.S. port, based on transaction price including inland freight, insurance and other charges. Figures for 2011 are year-to-date Jan-Nov.)

# U.S. Spirits Exports Skyrocket 16.5%

## American whiskeys: 69% of total

(2000-2011 YTD\*)



Source: U.S. Department of Commerce, Compiled by U.S. International Trade Commission  
\*Year-to-date: January - November

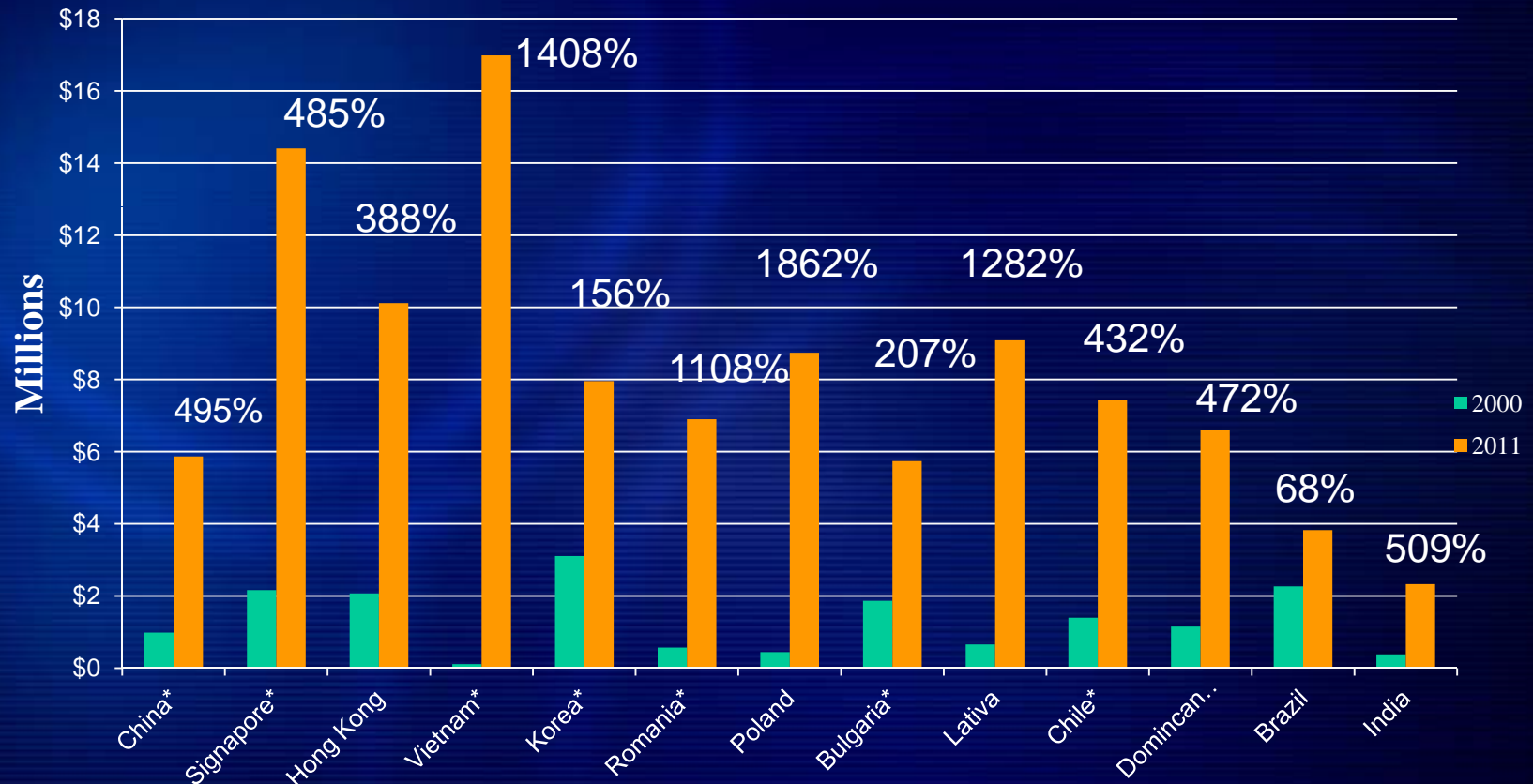
# A Decade of Growth: Top 10 U.S. Spirits Export Markets

Country	2001 Value (Jan-Nov) (millions of USD)	2011 Value (Jan-Nov) (millions of USD)	% growth
Canada	61.9	165.8	+168%
UK	68.2	138.2	+103%
Germany	58.8	104.7	+78%
Australia	50.3	111.7	+122%
France	22.8	113.0	+396%
Japan	67.0	81.6	+22%
Netherlands	11.3	51.2	+353%
Spain	20.9	50.4	+141%
Italy	18.6	30.0	+61%
Mexico	18.1	43.0	+138%

Source: U.S. Department of Commerce, Compiled by U.S. International Trade Commission (FAS Value)



# Emerging Export Markets Experience Phenomenal Growth (2000-2011YTD\*)



\*DISCUS conducted U.S. Spirits Promotions

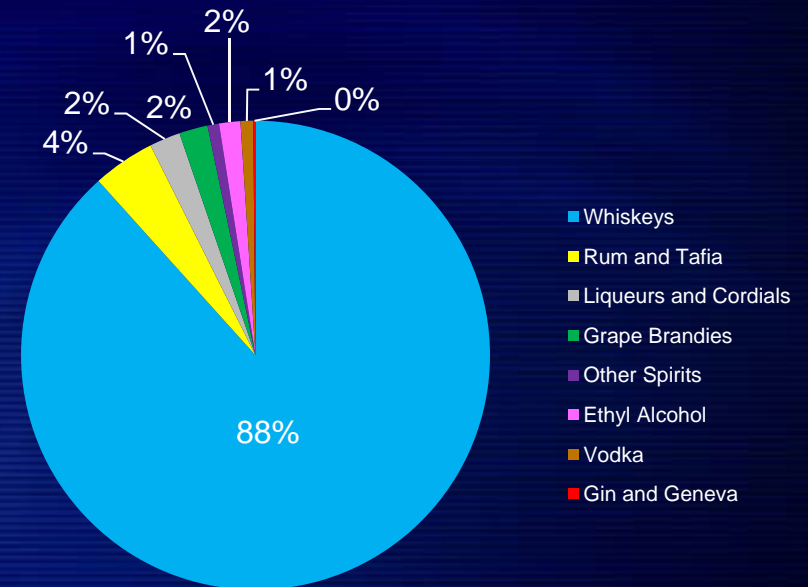
Source: US Department of Commerce Compiled by U.S. International Trade Commission (FAS Value)

# European Union: Accounts for 47% of U.S. Spirits Exports

U.S. Spirits Exports to the EU-27



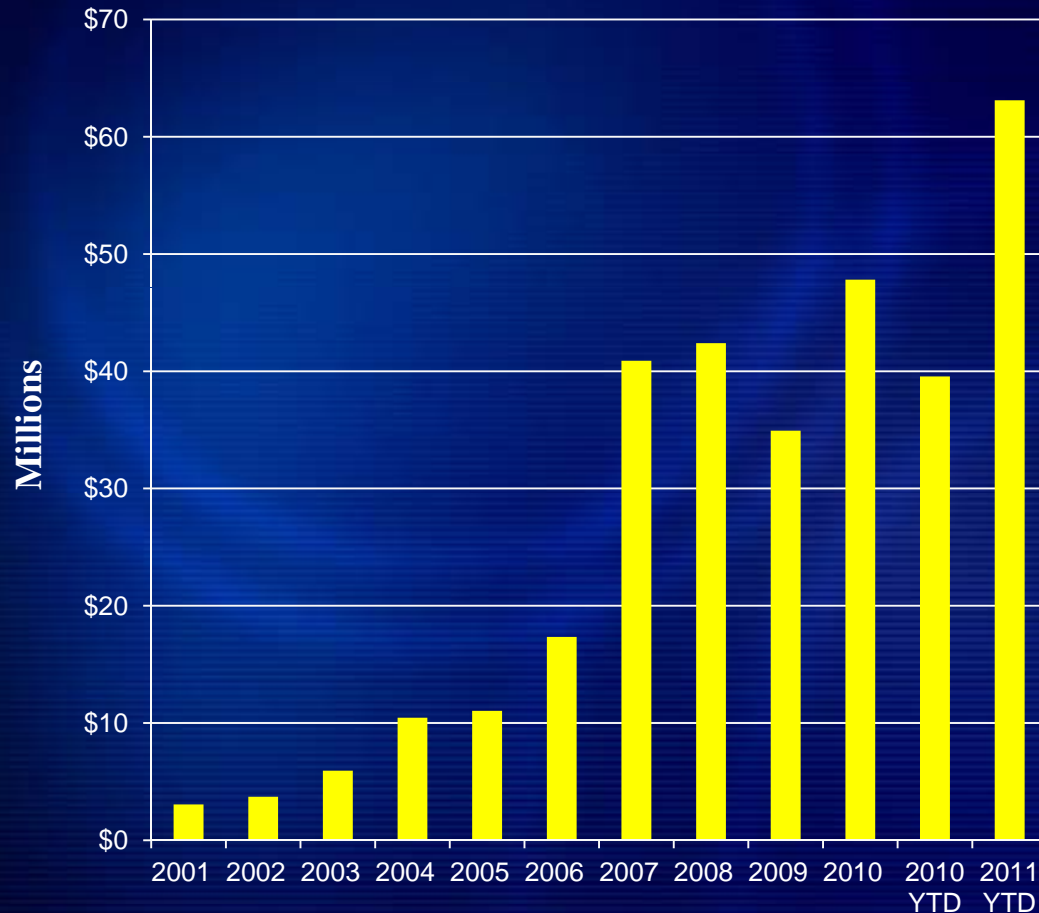
Share of U.S. Spirits Exports  
2011 YTD



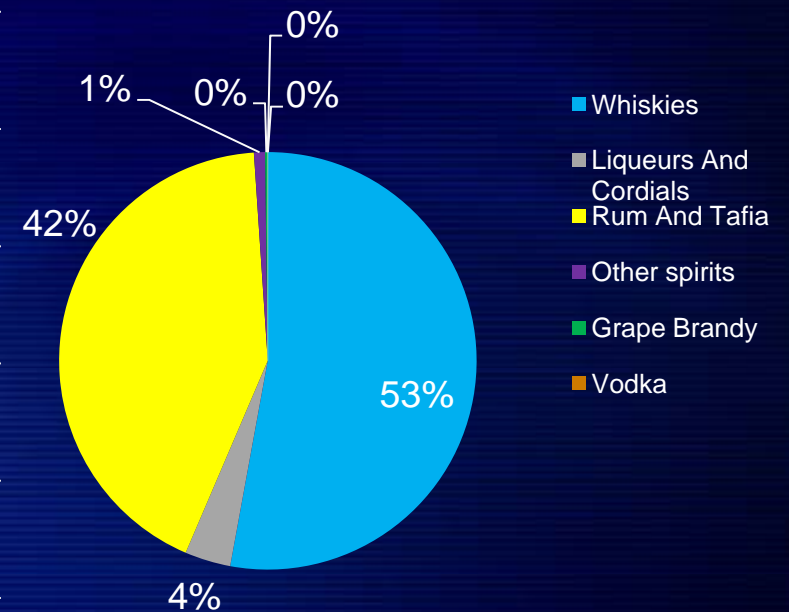
Source: U.S. Department of Commerce, Compiled by U.S. International Trade Commission (FAS Value). YTD figures are for Jan-Nov.

# Russia – A Booming Market for U.S. Spirits

## U.S. Spirits Imports into Russia



## Share of U.S. Spirits Imports 2011 YTD



Source: Global Trade Atlas, based on Russian Customs import figures. YTD figures are for Jan-Oct.

# USDA MAP Partnership Promotes American Spirits Growth in Emerging Markets

## WHERE WHISKY GOLD MEETS THE RISING SUN

MANDOVI MENON  
TheFoodist.com

Golden hours, when the sun, lays me down with my mind like today, any whisky lover will know what the English folk group, The Stringers, was referring to in their 1981 song Golden Hours. Whisky lovers on the whisky conscious can now take pleasure in two types of Japanese whisky at the Five Asian, the whisky bar at the ITC Grand Maratha.

The pairing of award-winning Japanese whiskies, Nikka and Yamazaki with the Japanese cooking art of 'teppanyaki' and 'sushi' that makes for a delectable combination, according to 'N. Krishna, ITC Food & Beverage, ITC Maratha.

**Flavor notes**  
Nikka extracts the sherry woody notes that perfectly complement the 'teppanyaki' style, while Yamazaki's subtle flavor blends elegantly with 'sushi'.  
On adding a splash of chilled water, Nikka releases aromas of soft coffee, cherry-chili and fresh autumn leaves. Yamazaki's fresh aromas with a hint of citrus, and a hint of vanilla, which leave fresh.

Both distilleries do not share their secret. The honchos are a Chief Medical Officer, his recommendation that suits a day for men, and two to three suits for women.

**New-worthy whiskies**  
Nikka and Yamazaki are single malt Japanese whiskies. Nikka was declared the 'World's Best Blended Malt' in 2007. Yamazaki's biggest first prize at the 'Double Gold Medal World Spirits Competition'.



## THE TIMES OF INDIA

Invented this spirit. His family still owns the brewery and continues to distill this fine brand of whisky.  
Yamazaki dates back to 1823 when Shuzoji Toji founded the unique blend. The ingredients of this whisky is production began circa 1870. Renowned names in the Indian market include Jack Daniels and Jim Beam. Expensive, because of heavy import taxes, whisky still enjoys a rapidly growing consumer base. 50% in the last decade. 'American whiskies are 100% natural. Made of a well-blended mix of several ingredients, including corn (31%), wheat and barley, they have a slightly sweeter taste.

and now. In fact the very name whisky comes from the Gaelic word 'uisge beatha' meaning water of life. Phenotypically this sounds like 'usky' which then became whisky.  
Loch Lomond and Glen

Savour award-winning Japanese malts, Nikka and Yamazaki, at this resto-bar inside a five-star hotel. Luxury however doesn't come cheap, so expect to cough up at least a grand for every shot you knock back

**FOOD IN MID DAY**

## HERALD PROGRESSIVE GROCER

APRIL 2011 AHEAD OF WHAT'S NEXT VOLUME 5 NUMBER 4 R4 100

PRICE S PG's Retail

DEVIL'S ADV Feeding the

MARKET IN Coffee bra

FRESH FI Go ecc

DRINK 至饮

MARKET IN Coffee bra

FRESH FI Go ecc

## India's First Spirited Lady

Cocktails, mocktails, wines, whiskeys, drinking atmatta

## BOURBON & TENNESSEE OS UÍQUES AMERICANOS

Texto: Solange Souza  
Fotos: Divulgação

Tendo como grão principal o milho com processo de envelhecimento diferenciado, os uísques "made in JSA" apresentam sabores únicos

## Sipping Spirits the American Way

The Distilled Spirits Council of the United States shaped some enjoyable articles for the wine-loving session recently held at the Goa Marriott Resort, Campal-Parlay.

Aditya Bai and Emma Sanyal

David Ferasi and Maria Gupta

## 酒精的魅惑 ALCOHOL LUST

威士忌 以五洲明珠、水晶製成，人們很容易神昏，已紛紛決定它必將是一種最受不待任何限制，不能沉迷于其中的美酒，沉醉其中的滋味。

**NDTV**  
1/30/2012

# Recent Trade Developments Present New Opportunities to Expand Exports

- U.S. Prevails in Philippines WTO Case
  - Discriminatory excise taxes must be replaced
- Korea Free Trade Agreement (FTA)
  - Will eliminate 20% tariff on Bourbon/Tennessee Whiskey
  - World's 10<sup>th</sup> largest spirits market
- FTAs with Colombia and Panama
  - Will eliminate tariffs on U.S. spirits/address other barriers
- Trans-Pacific Partnership Negotiations
  - Will open up key emerging markets (e.g. Vietnam)

# 2011 Economic Overview

David Ozgo

Senior Vice President, Economic and Strategic  
Analysis

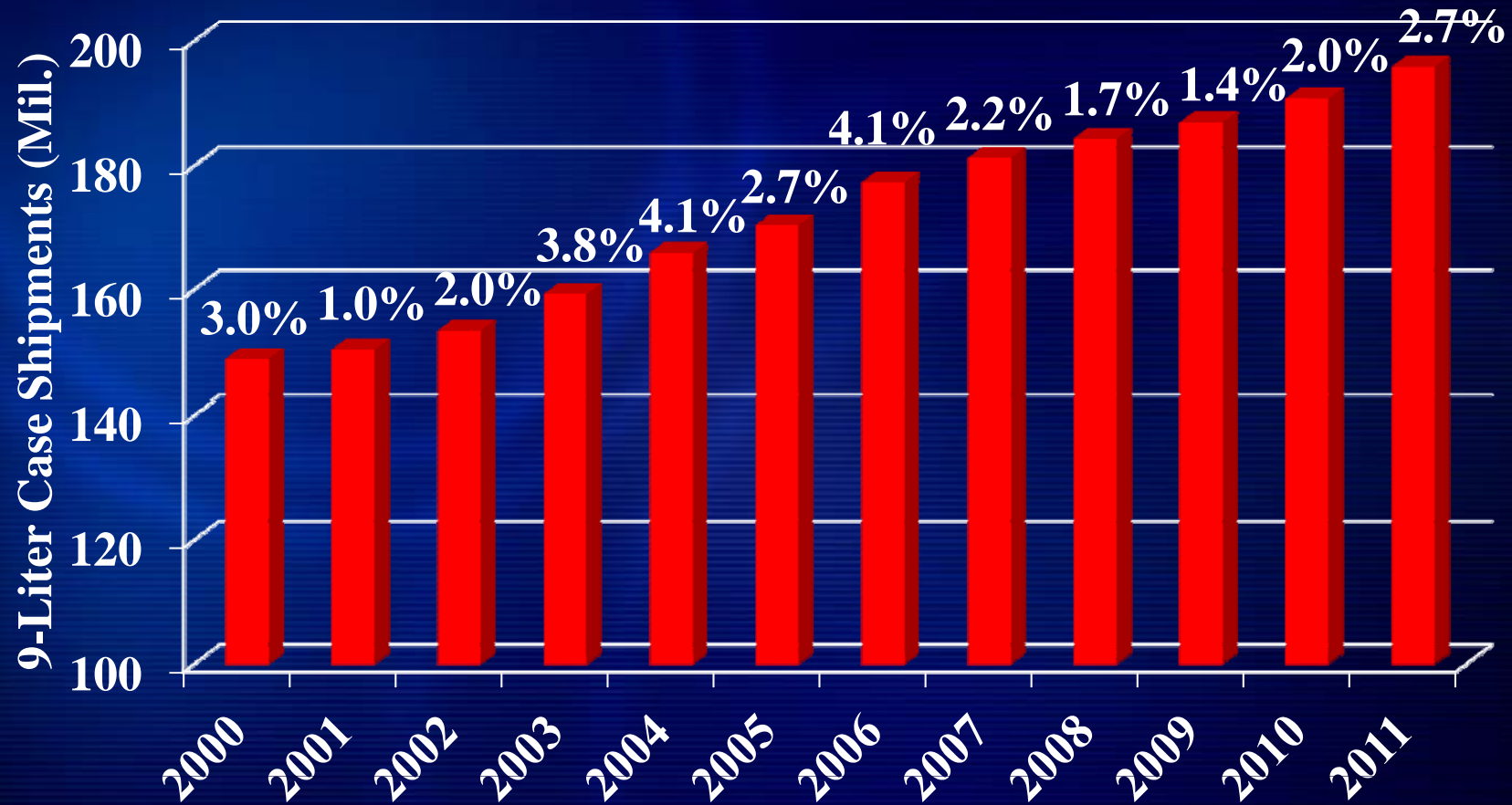
# Economic Overview

- Total industry growth
- Market share
- Growth by price segment
- Drivers
- Category highlights



# Volume up 2.7% in 2011

Consistent with 2000 – 2007 average growth 2.9%

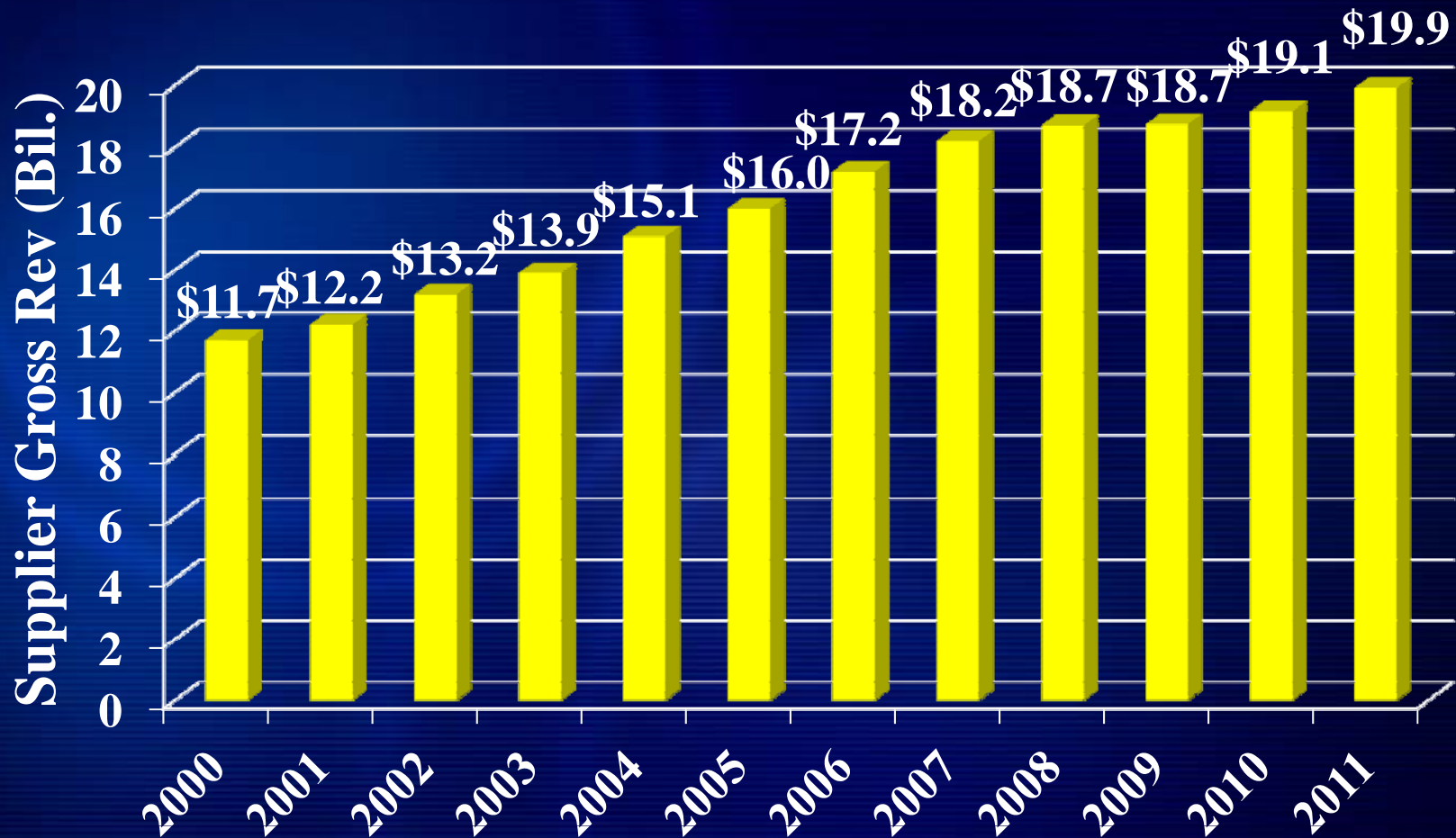


Source: DISCUS MSDB



# Spirits revenues up 4.0% to \$19.9B

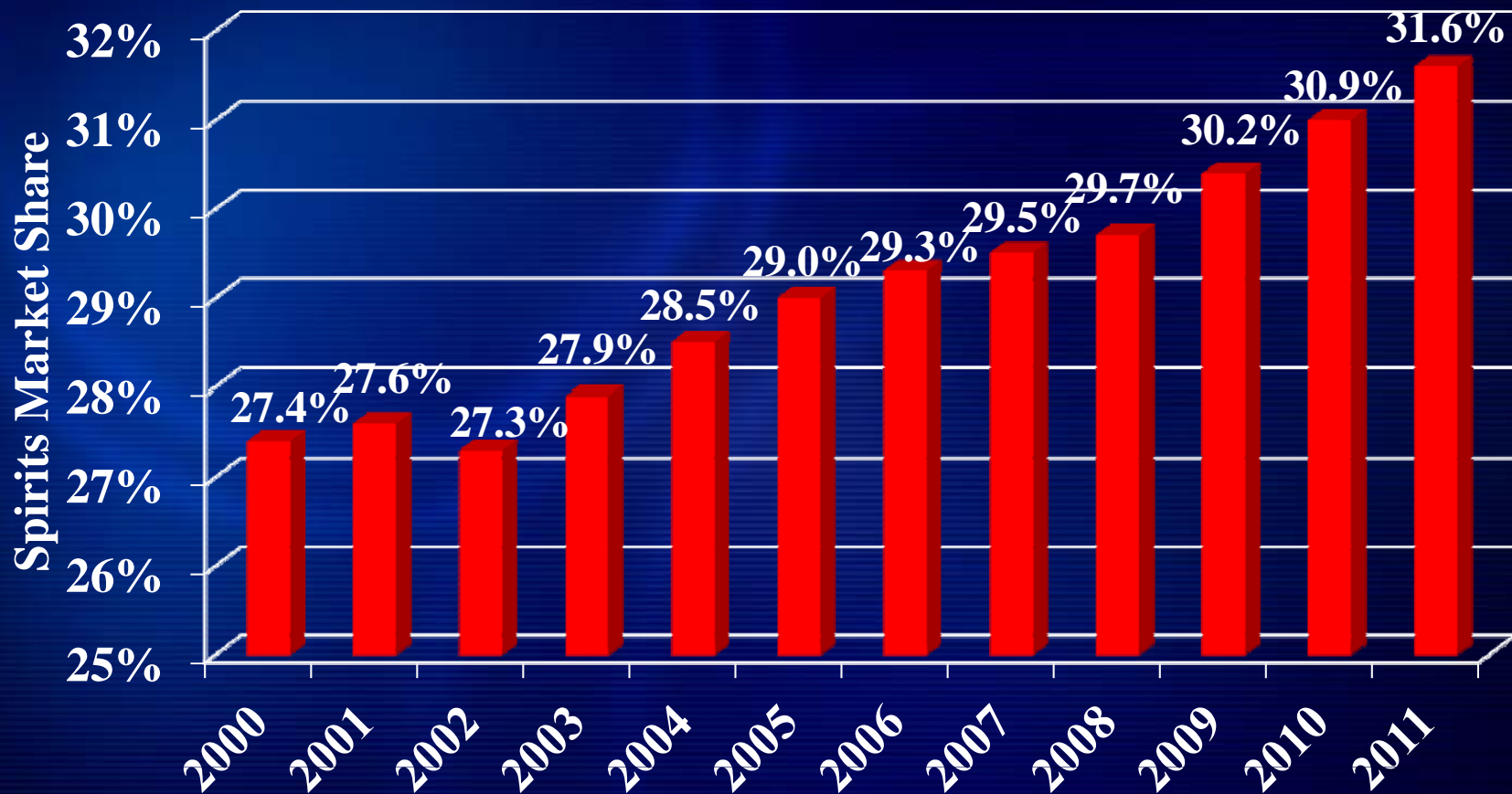
2000 – 2007 average growth 6.5%



Source: DISCUS MSDB

# Spirits Market Share – Volume

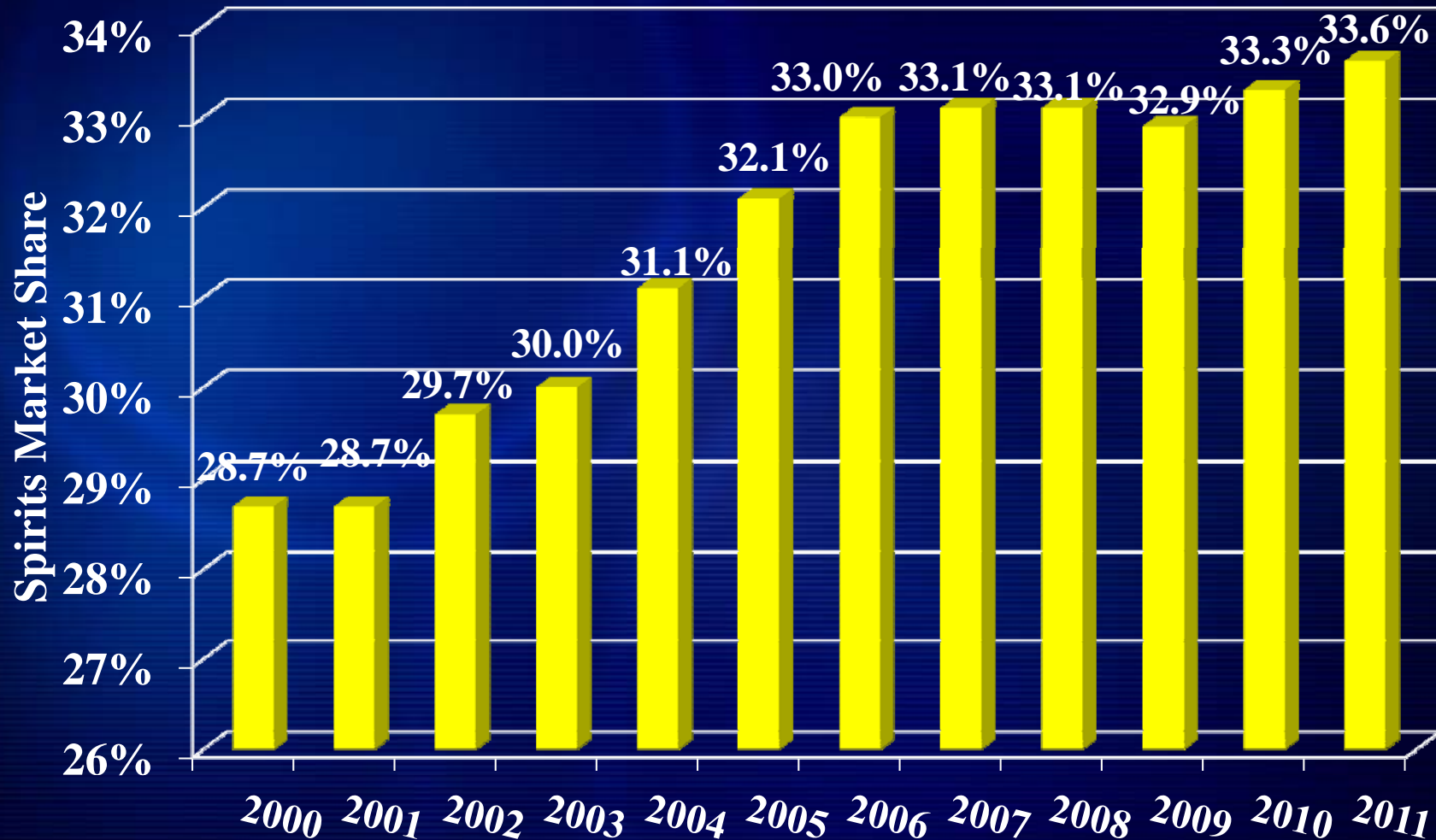
Volume share up 4.2 points since 2000



Source: DISCUS MSDB, BIG Handbooks, Company Reports

# Spirits Market Share – Revenue

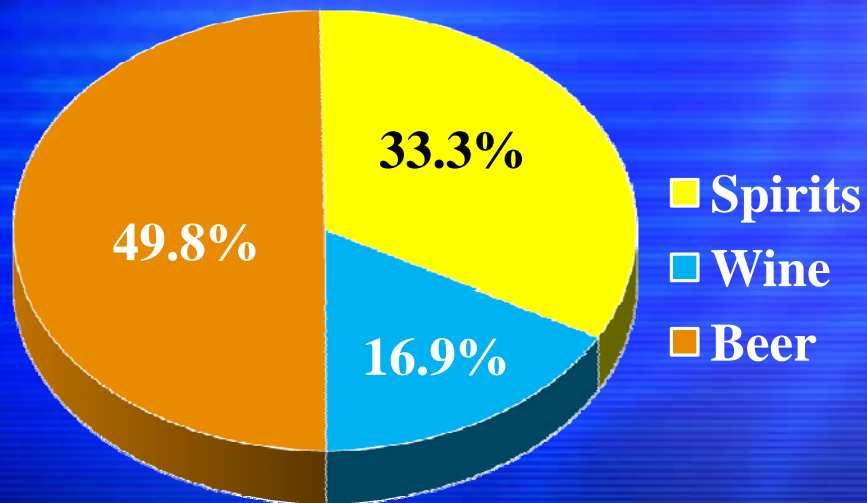
Spirits up 4.9 points since 2000 - \$2.9B revenue



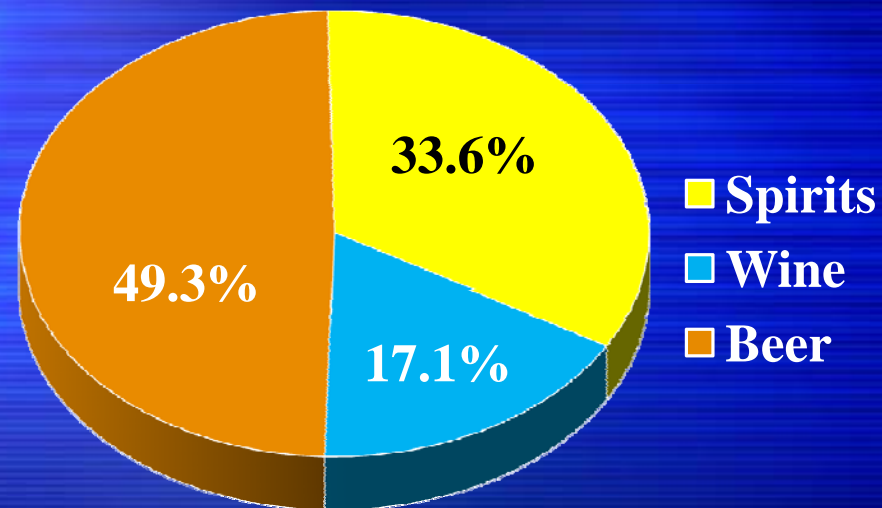
Source: DISCUS MSDB, BIG Handbooks, Company Reports

# Revenue market share by beverage

2010



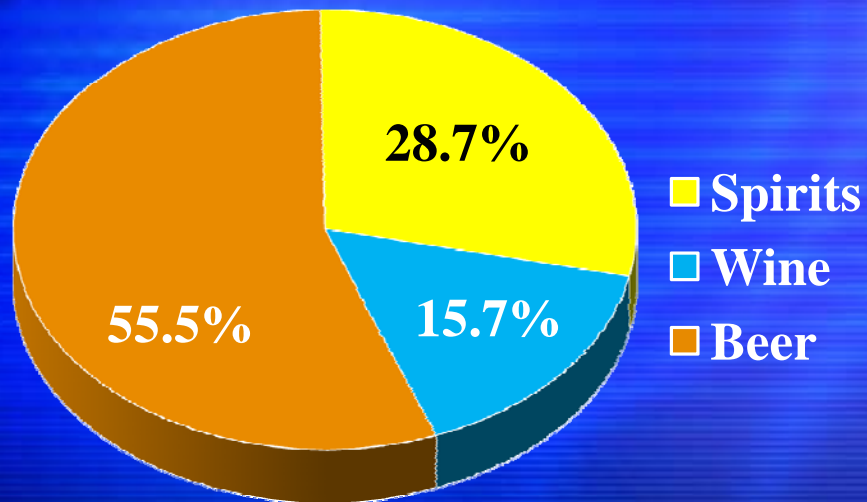
2011



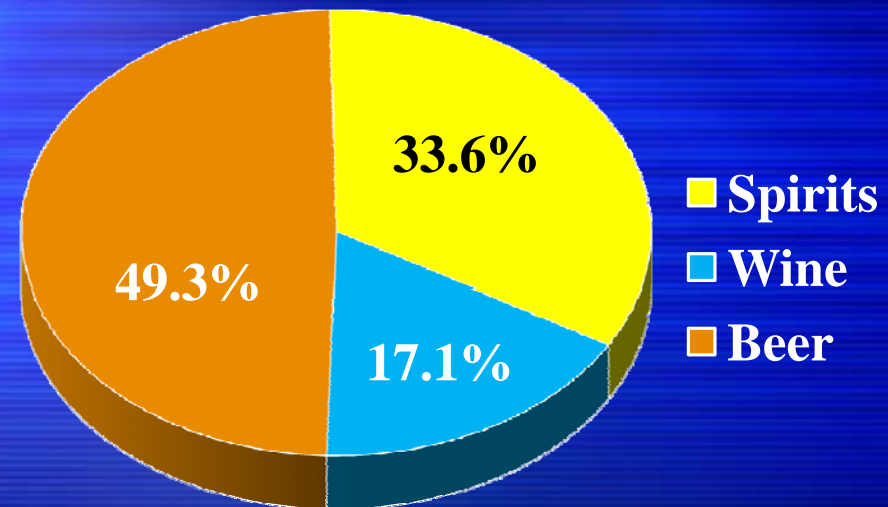
Sources: 10k Reports, DISCUS Estimates & Adams Wine Handbook,  
Distilled Spirits Council, Economic & Strategic Analysis Dept.

# Revenue market share by beverage

2000



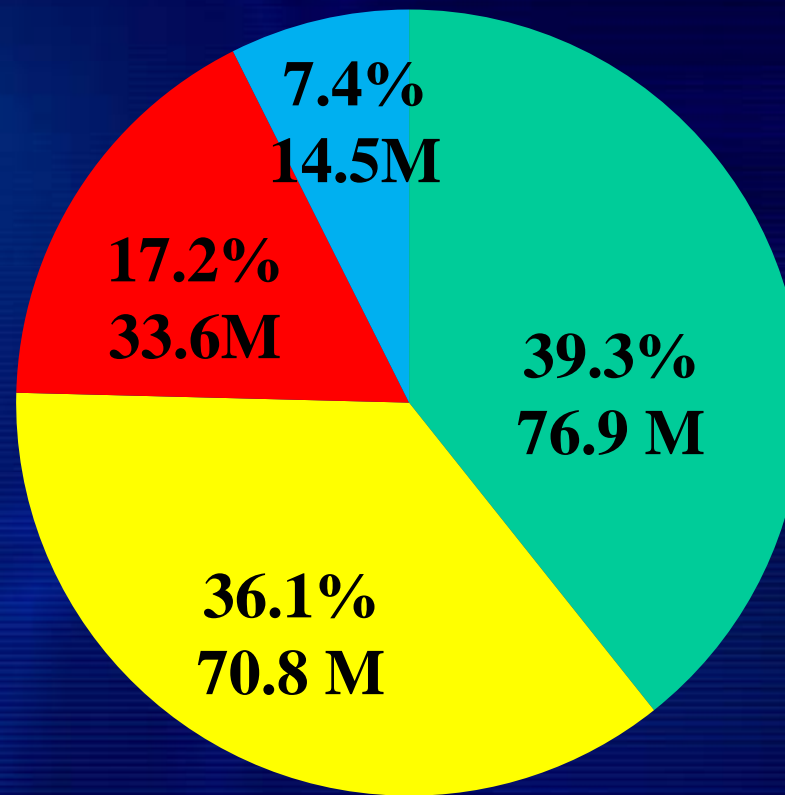
2011



Sources: 10k Reports, DISCUS Estimates & Adams Wine Handbook,  
Distilled Spirits Council, Economic & Strategic Analysis Dept.

# Volume Share by Price Category - 2011

## Share of U.S. Spirits Volume

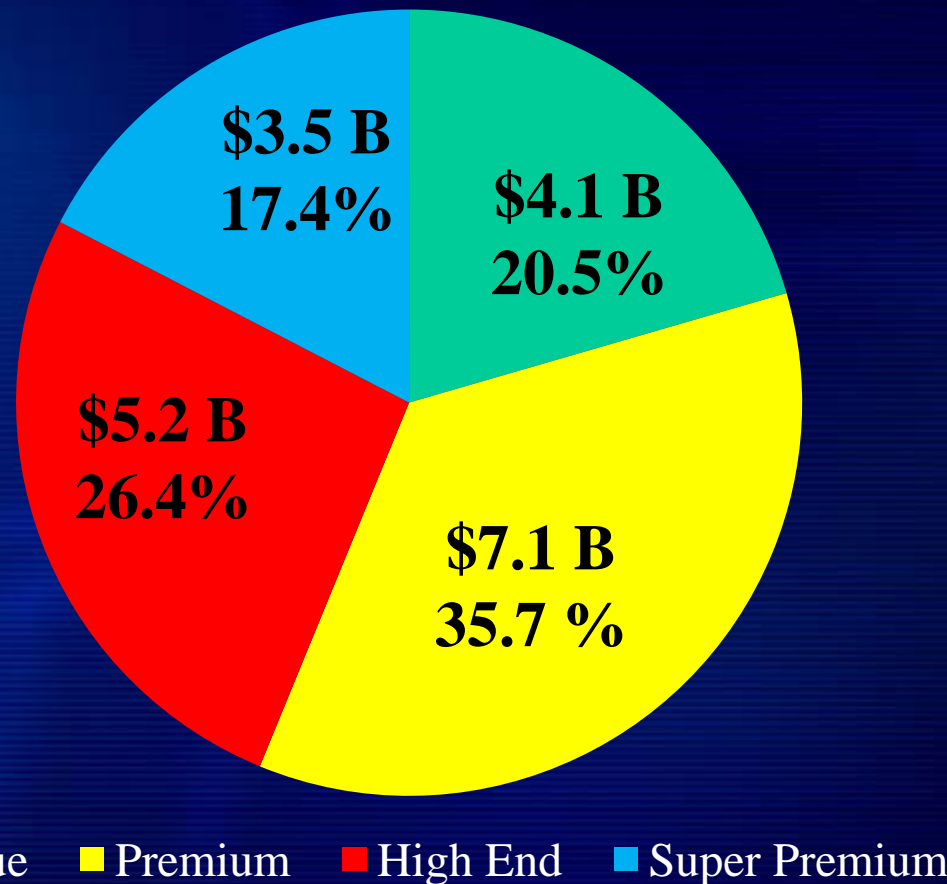


■ Value ■ Premium ■ High End ■ Super Premium

Source: DISCUS MSDB

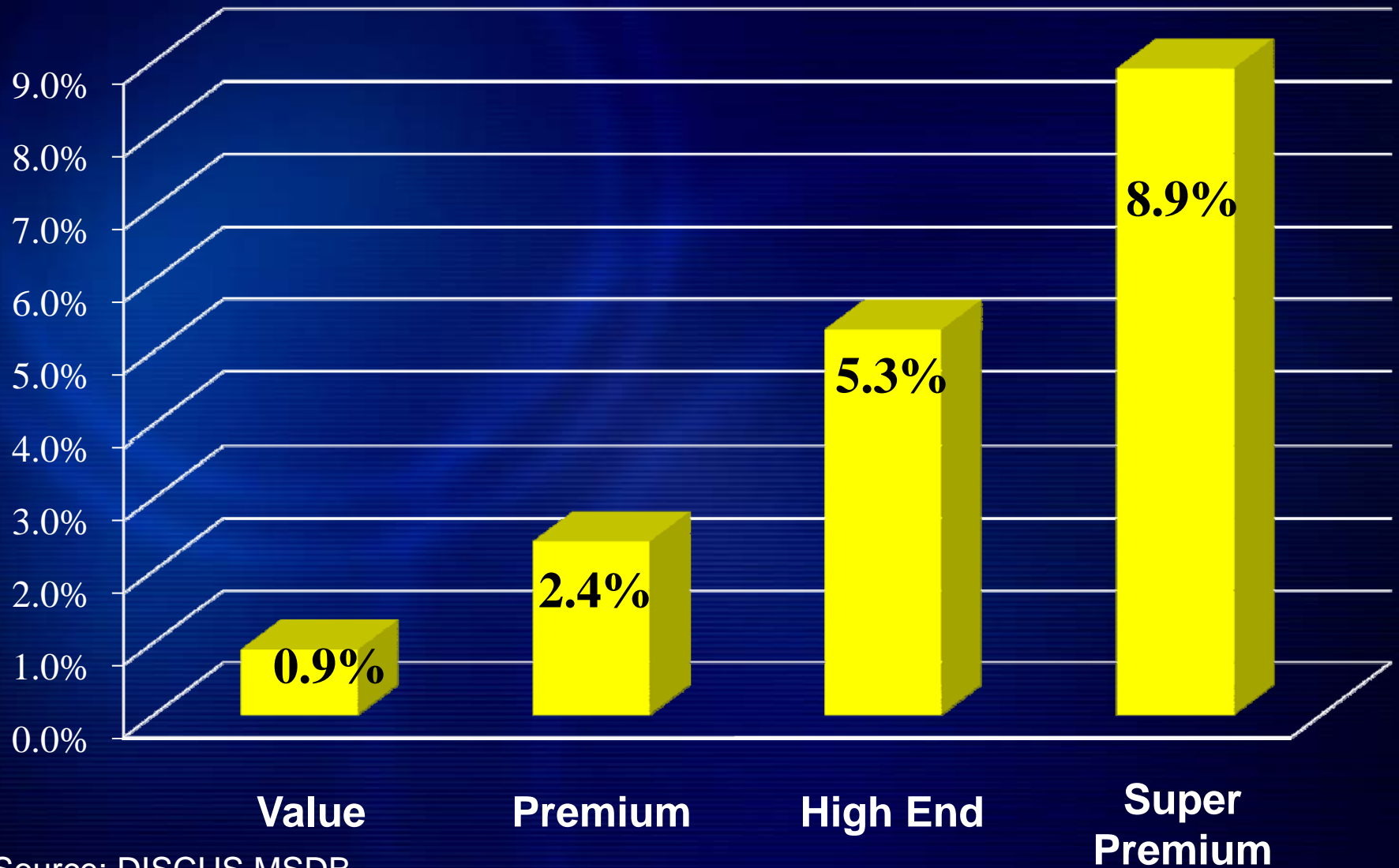
# Revenue by Price Category - 2011

## U.S. Supplier Gross Revenues



Source: DISCUS MSDB

# Volume Growth by Price Segment - 2011



Source: DISCUS MSDB



# New Revenue by Price Category – 2010 vs. 2011

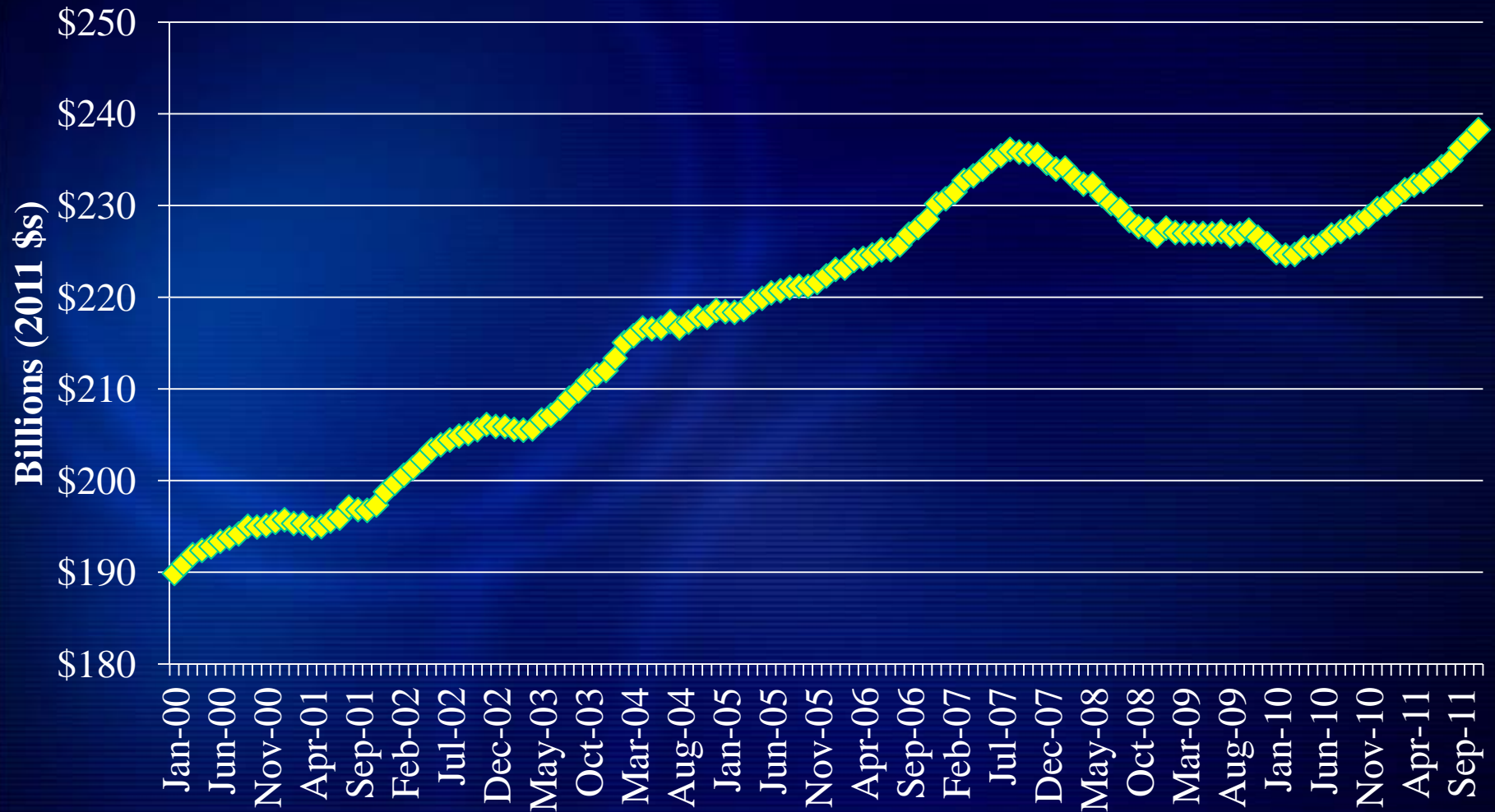


Source: DISCUS MSDB

# Drivers

- Consumer confidence: unemployment still high, but job growth increasing willingness to spend
- Price indices report – up +/- 1.0%
- Full-service restaurants and drinking places – revenue back to pre-recession
  - 25-30% of volume, overweight toward high end
- Product innovation

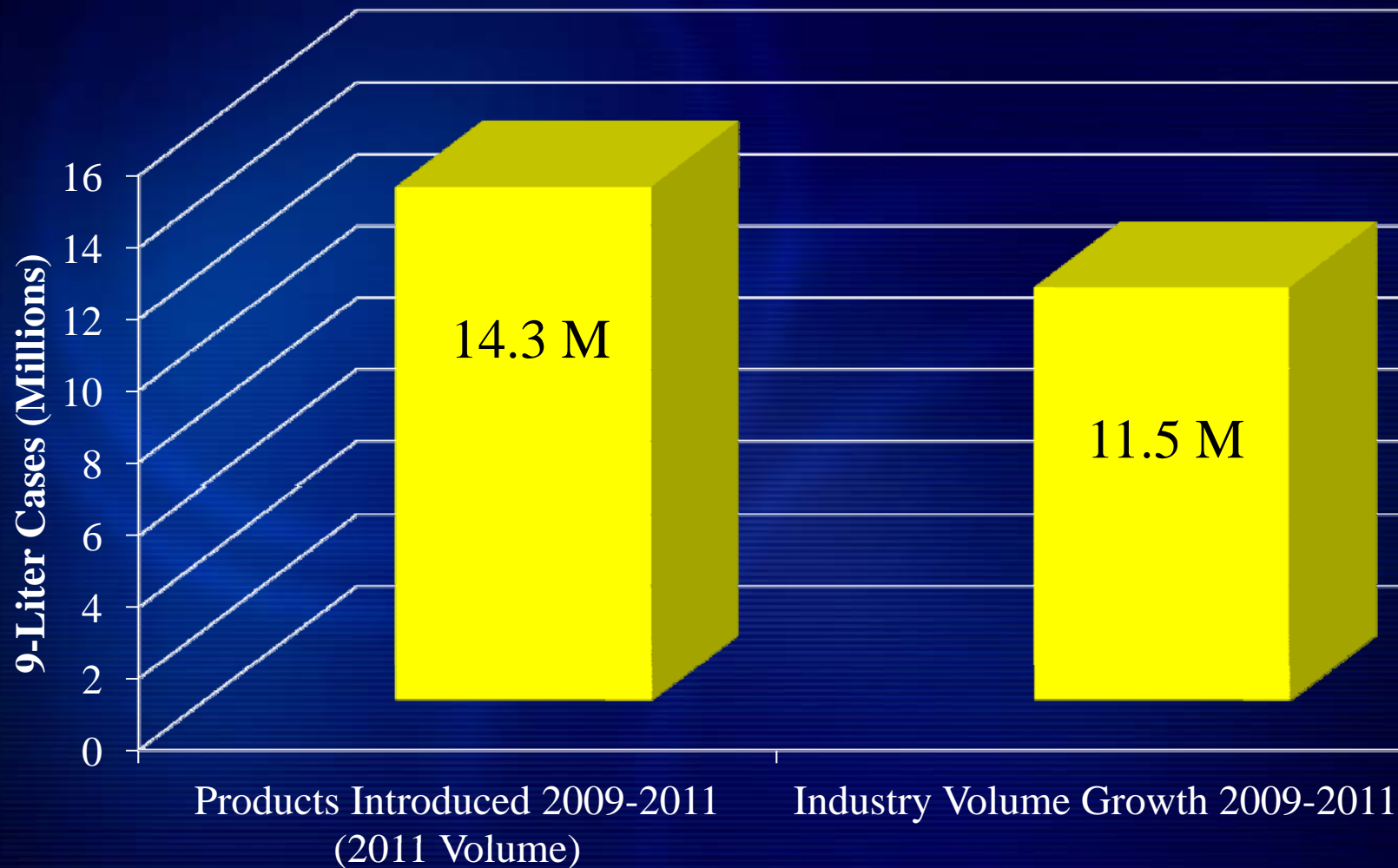
# Full Service and Drinking Place Revenues (12 Month Rolling Totals)



Source: U.S. Census Bureau/National Restaurant Assn.

# Product Innovation Key to Growth

1800+ products introduced since 2009



Source: DISCUS Brand Data, NABCA

# Category Performance

- Vodka
- Bourbon & Tennessee Whiskey
- Rum
- Tequila
- Cocktails
- Scotch
- Irish Whiskey

# Vodka & Rum

- Vodka accounts for 32% of all volume, 25% revenue
  - Volume up 5.9% to 63M, revenue up 5.8% to \$5.1B
  - Premium vol. up 11.3%, Super Premium up 12.7%
- Rum volumes down 0.7% to 24.7M cases, revenues up 1.7% to \$2.2B
  - Growth driven by High End and Super Premium, up 14.9% to 2.7M cases
  - High End growth consistent with fast Bourbon growth?

# Bourbon & Tennessee Whiskey

- Bourbon & Tennessee strong interest in new and existing products
- Volume up 3.9% (16M) cases – largest Whiskey category
- Revenue up 3.9% to \$2.0B
- Performance by price segment:
  - Value, volume down 0.7%, revenue down (-\$1M)
  - Premium, volume up 2.4%, revenue up (+\$17M)
  - High End, volume up 5.6%, revenue up (+\$40M)
  - Super Premium, volume up 15.4%, revenue (+\$18M)
- Rye up 50%+

# Tequila & Pre-mixed Cocktails

- Tequila volume grew 3.2% to 11.9M cases
- Tequila revenue also up 4.7% to \$1.8B
- Performance by price segments
  - Value, volume up 7.0%, revenue up (+\$13.7M)
  - Premium, volume -2.7%, revenue down (-\$11.4M)
  - High End, volume up 9.0%, revenue up (+\$17M)
  - Super Premium, volume up 11.3%, revenue up (+\$61M)
- Pre-mixed cocktails grew by 12.2% - 20% growth in premium



# Scotch & Irish Whiskey

- Single Malt Scotch continues rapid growth
  - Concentrated in High End and Super Premium
  - Volume up 9.5% to 1.4M cases
  - Revenue up (+\$29M)
- Irish Whiskey fastest-growing category
  - Volume up 24% to 1.7M cases
  - Now larger than Single Malt by volume
  - Revenue up (+\$70M)

# Summary

- Volume/revenue growth at pre-recession levels
  - Revenue up 4.0% to \$19.9B
  - Volume up 2.7% to 195.8M 9-liter cases
- Growth driven by improving economy, consumer confidence, increase in restaurant sales and product innovation
- Improved economy – return of premiumization
- Sales growth has pushed market share to 33.6% of revenue, 31.6% of volume
- Future growth dependent upon state of economy

# 2012: Challenges for Maintaining Growth Momentum

- National economic recovery remains soft
  - Employment at full service restaurants not back to pre-recession strength
  - Hospitality industry key to national recovery
  - Number two employer nationwide; important for entry-level jobs
- Tax environment
  - State and local budgets are stressed
- Modernization momentum grows
  - Governor supports Connecticut Sunday Sales
- Election year tax raisers vs. tax cutters
- Continued innovation in brands and marketing
- Continue to open overseas markets

