

AGAVE LOCO BACARDI

Beam SUNTORY

 BROWN-FORMAN

GRUPPO
CAMPARI

Constellation **DIAGEO**


EDRINGTON

luxco Moët Hennessy USA
SPIRITED BRANDS

THE PATRÓN SPIRITS COMPANY Pernod Ricard PRICHARD'S DISTILLERY RÉMY COINTREAU USA SIDNEY FRANK IMPORTING CO., INC.

Distilled Spirits Council 2014 Industry Review

New York City
February 3, 2015

@DistilledSpirit
#USspirits

Distilled Spirits: Steady U.S. Growth in 2014

Diversity, Innovation, Quality Drive U.S. Market Results

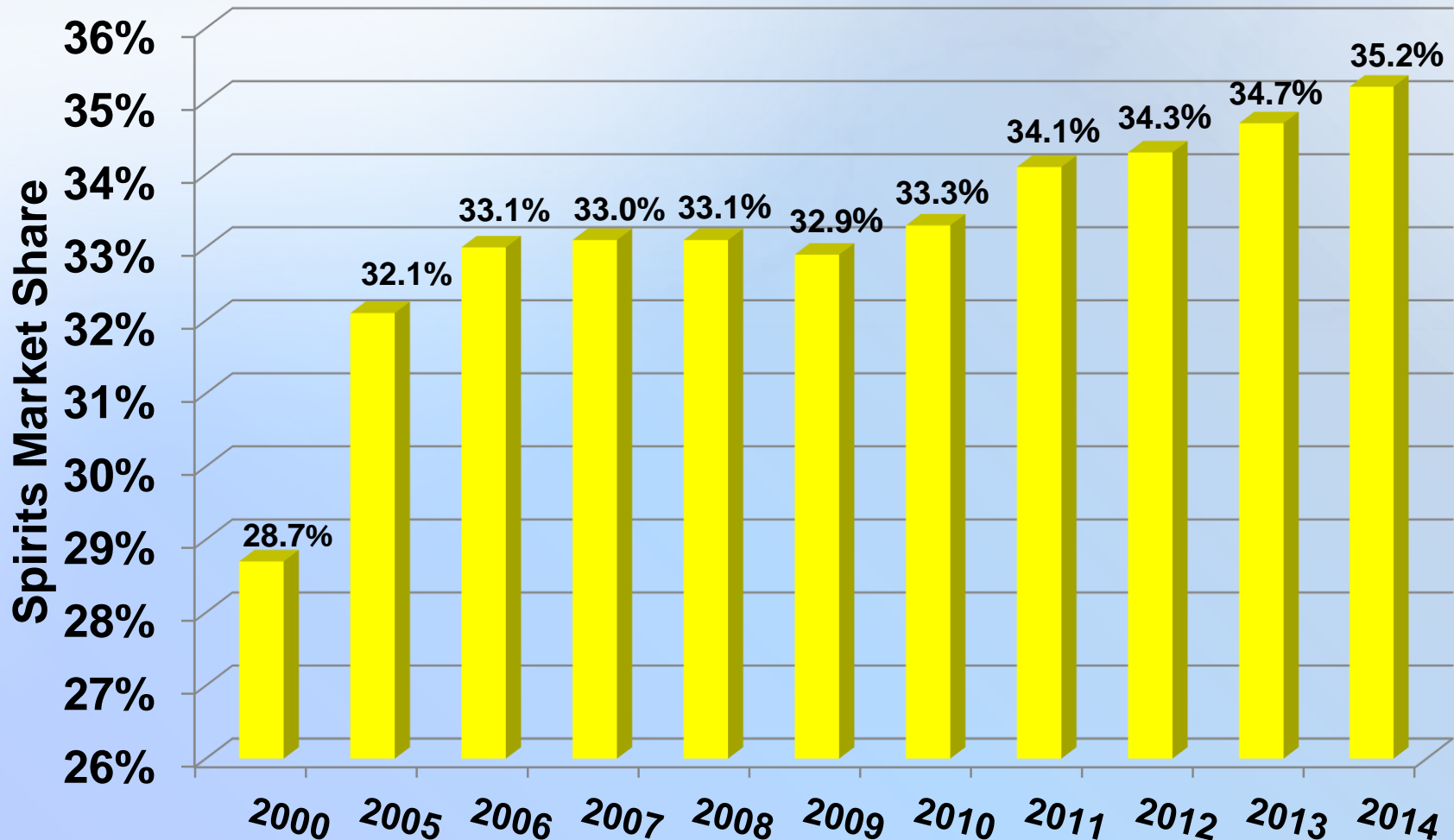
2014 Economic Overview:

- Volume growth: up 2.2%
- Revenue growth: up 4.0%
- Market share up 0.5 points
 - Total market share gain up 6.4 points since 2000
 - Total supplier revenue increased from \$11.7 billion in 2000 to \$23.1 billion in 2014
 - Market share gains tied to product innovation & improved access



Spirits Market Share – Revenue

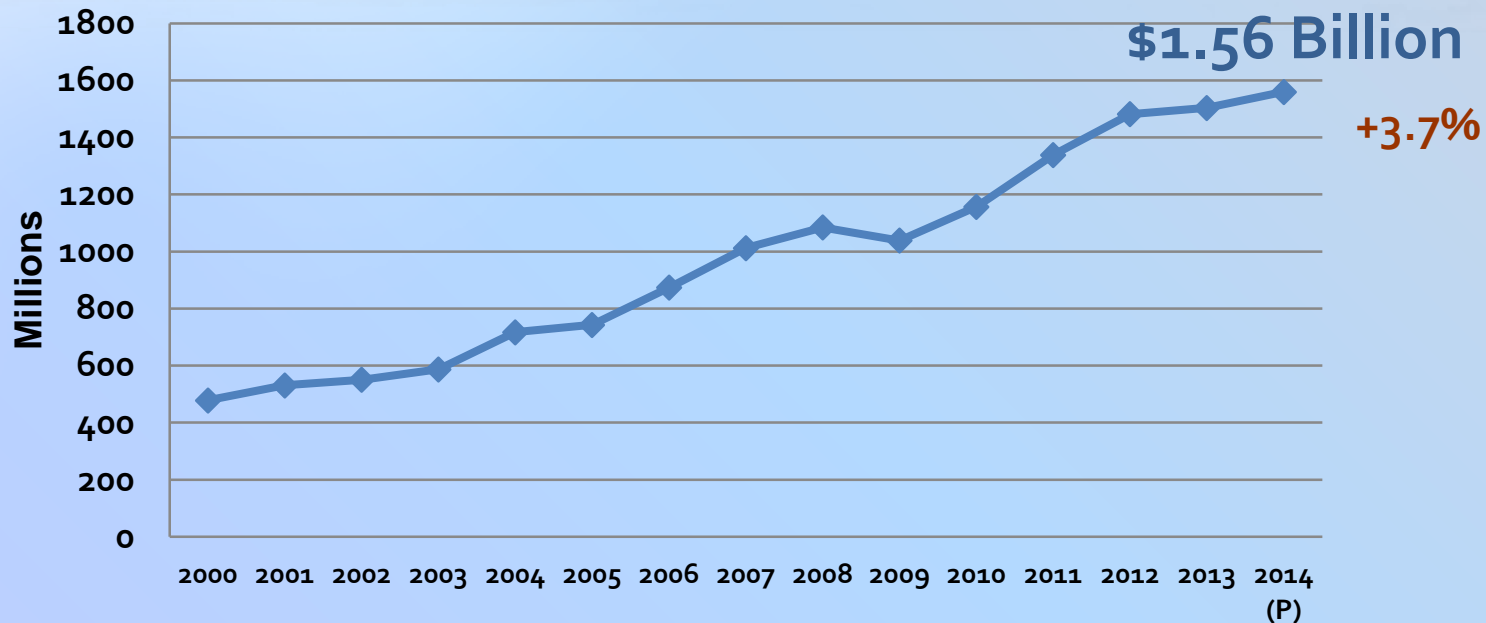
Up 6.4 Points Since 2000, Worth \$4.2 Billion



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

Fifth Straight Year of Record Exports

- Total exports surpassed \$1.56 billion; up 3.7%
- Bourbon/Tennessee Whiskey exports topped \$1.02 billion
- Growth substantial in spite of stronger dollar



Critical Progress Continues on Social Responsibility

Teen Drinking Continues to Decline in the U.S.

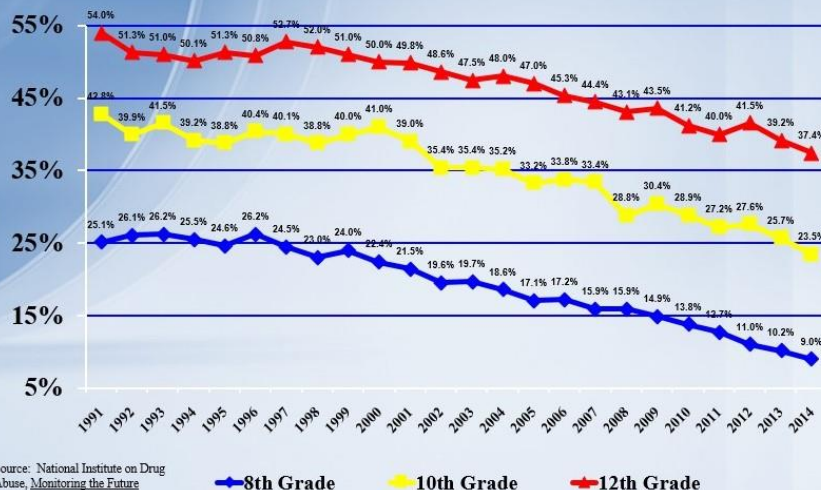


Under-21 drinking and binge drinking rates are lower than ever.

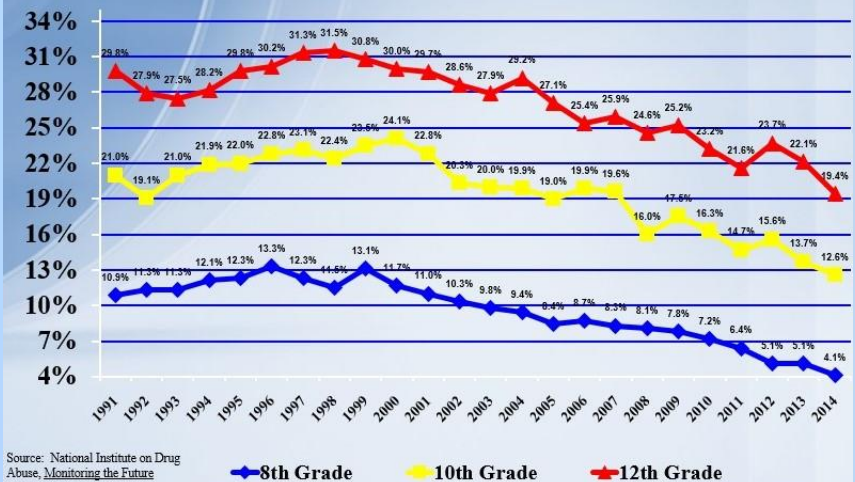
2014 Federal Data:

- Underage drinking continued decline to record low
- Binge drinking by teens continued long-term decline to record low
- Alcohol-impaired driving fatalities decreased 2.5 percent from 2012- 2013
- Public-private partnerships contribute to the progress

2014 Monitoring the Future (8th, 10th and 12th Graders Reporting Any Monthly Use)



2014 Monitoring the Future (8th, 10th and 12th Graders Reporting Binge Drinking)



Steady Growth and Record Exports

2014 Contributing Factors:

- A continued fascination with American Whiskeys in U.S. & abroad
- Innovation in flavors – especially flavored whiskeys
- Premiumization continues to interest consumers
- Improved regulatory and tax environment
 - State legislatures continued to show hospitality tax restraint
 - U.S. market modernization trend expands access and convenience
- Small distiller growth expands grassroots & category consumer interest
 - From 92 in 2010 to over 700 in 2014
 - 109 leading small distillers in 31 states have joined DISCUS as affiliate members

Post-Bulletin

Prohibition of Sunday
liquor sales is antiquated

Virginia distilleries ask Gov. Terry McAuliffe to pull back
on plan to raise liquor prices



Seeds for Growth:

2014 U.S. Market Access Improvements

- Last Election Day alcohol sales ban repealed in South Carolina
- Spirits tastings expansions in: CA, ID, ME, MS, OH
 - Tastings laws key to premiumization
 - 46 states now allow some form of spirits tastings
- Local alcohol elections continue trend of modernization across nation
 - TX: 64 out of 81 wet-dry alcohol elections passed in 2014 (79%)
 - 602 out of 754 alcohol elections have passed in TX since 2004 (80%)
- Local option on- and off-premise Sunday sales trend spreads
 - GA: 6 more off-premise Sunday sales elections passed in 2014
 - Sunday brunch crowd – more localities vote “wet” Sundays for restaurants
 - Since 2002, 16 states and DC have passed Sunday sales for total of 39 states

East Texans Approve Alcohol Sales on Election Night



SC politics: Gov. Haley applauds end of Election Day ban on alcohol sales

The State
South Carolina's Homepage™

2014 U.S. State Hospitality Tax Scorecard

- Major tax threats defeated in 11 out of 11 states
 - AL, HI, MA, MS, NM, NC, NY, OH, PA, VA, WV
 - 2014 very low tax threat year
 - Election year concerns may have affected legislators
- “Hospitality Tax” message continues to resonate with policymakers
- Defeated 348 out of 377 major tax threats since 2001 (92%)
- Municipal tax threats continue to challenge industry
 - Montgomery (AL), Cuyahoga County (OH), NYC, Boston, New Mexico localities



Booze price hike irks Va. consumers, restaurants



2014/2015 Trends & Developments

- States and localities increasingly seek to modernize outdated alcohol laws
 - Control states generally seeking to increase outlets
 - Growth factors: convenience/hospitality job growth/tax revenue
- Increasing grocery interest in spirits sales
 - DISCUS opposes wine-only in grocery store
 - Presently 27 states permit grocery sales of spirits
- Privatization debate continues in several Control states
 - DISCUS neutral on privatization but will engage any serious effort
 - Outgrowth of modernization trend

The Oregonian

Editorial: Liquor privatization will return, and cost-conscious drinkers should be glad

PITTSBURGH
TRIBUNE-REVIEW

Pennsylvania: Liquor privatization might get a shot

2014/2015 Trends & Developments

- Tech advances drive sales through improved consumer convenience/experience
 - Advances provide sharp contrast to Prohibition-era laws
 - Apps such as Drizly/Minibar highlight consumer demand for convenience
 - Cocktail apps and social media engagement
- Innovation, premiumization and local distillation continue

Apps

**Need Liquor Delivered Now? The Startup
World's Got You Covered**

**Bloomberg
Business**

CBSNEWS

**Cocktail apps for making
drinks and sharing recipes**

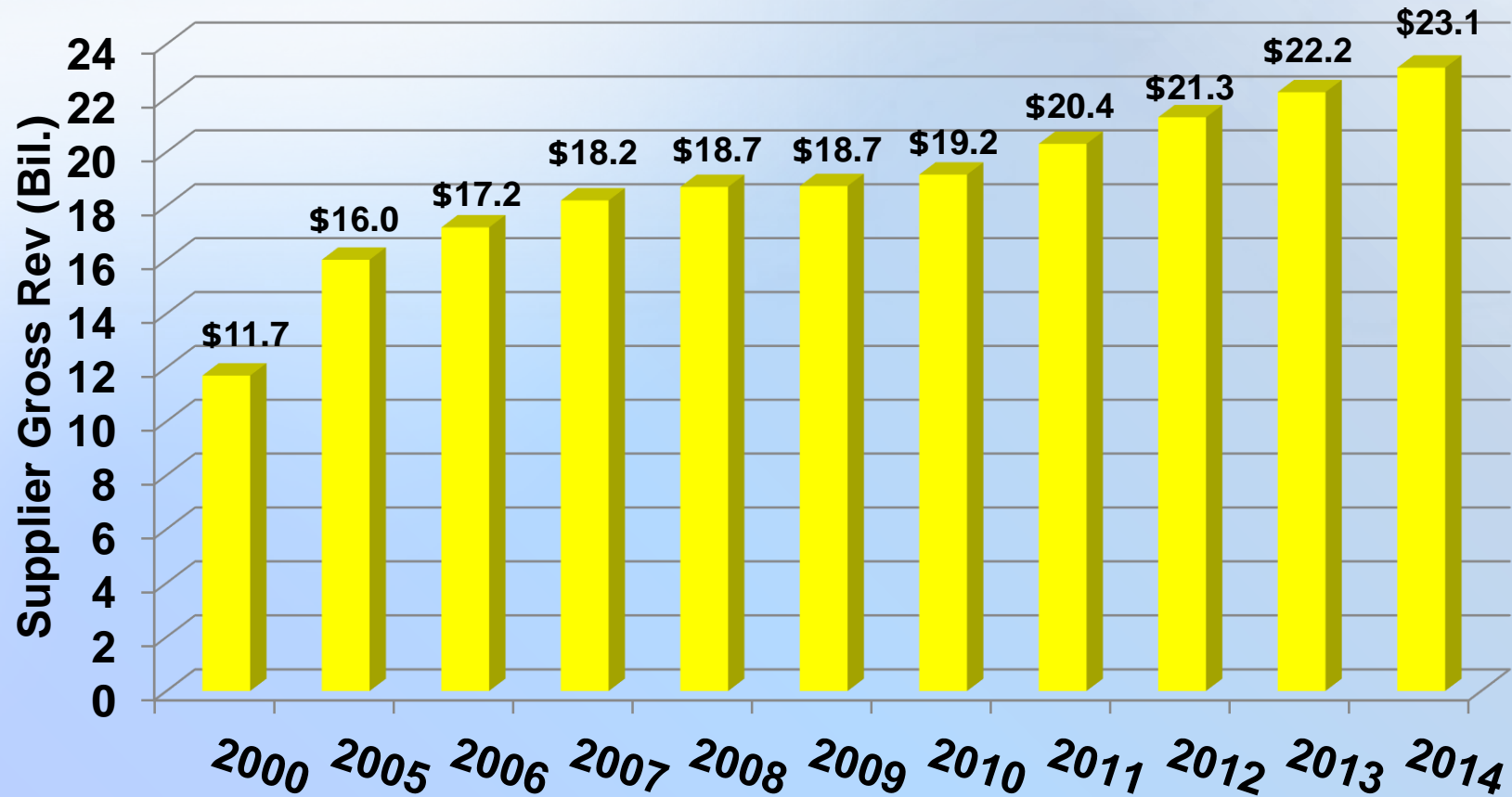
Industry Economic Review – 2014

David Ozgo
SVP, Economic & Strategic Analysis

Economic Review - 2014

- Industry growth
- Market share
- Growth by price segment
- Flavored whiskey impact on the market
- Small distiller growth
- 21 – 34 year olds and economic growth: an opportunity
- Category performance

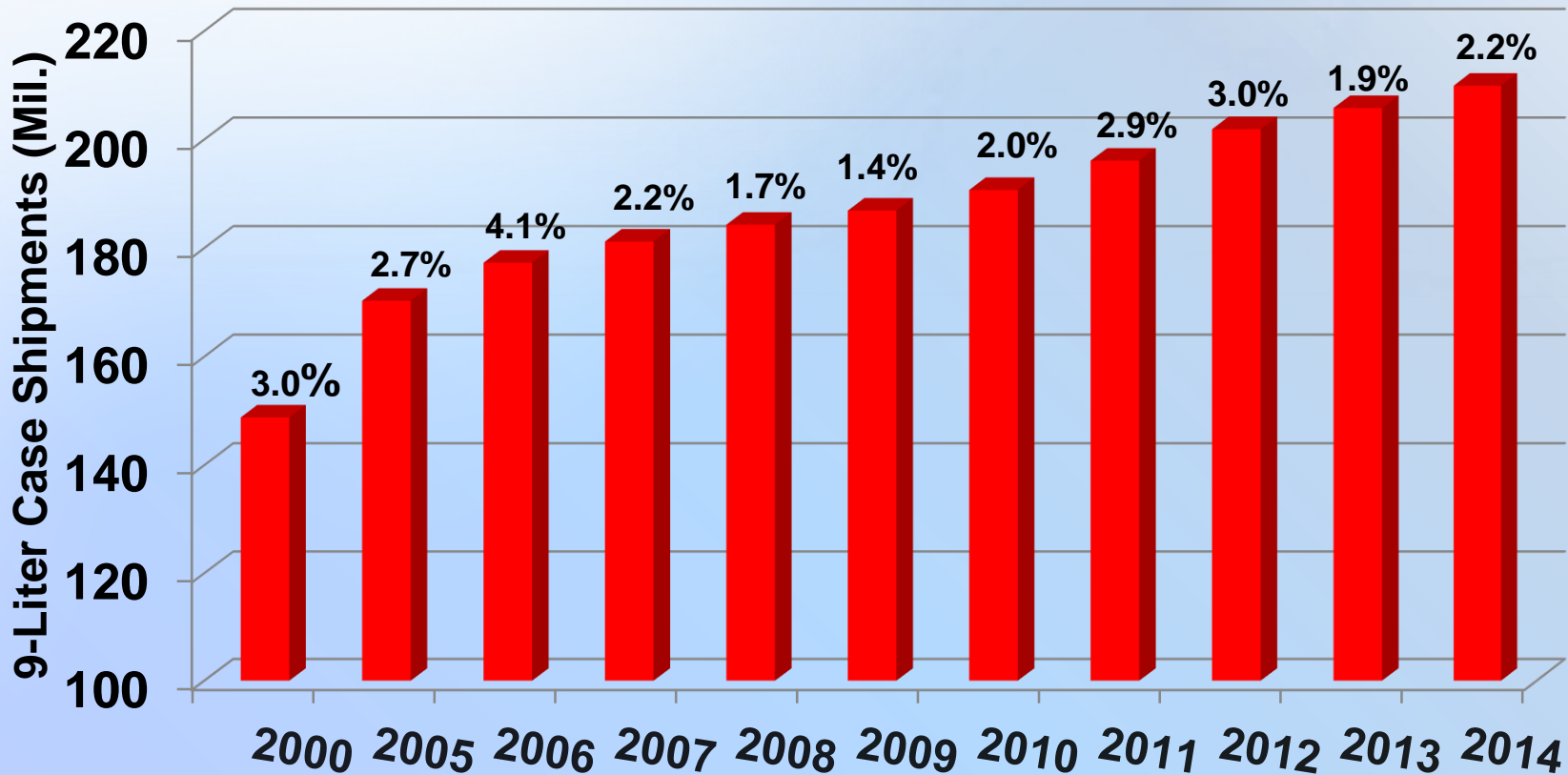
U.S. Spirits Supplier Revenues Up 4.0% to \$23.1B \$900 Million Gain



Source: DISCUS MSDB

U.S. Volume Up 2.2% in 2014

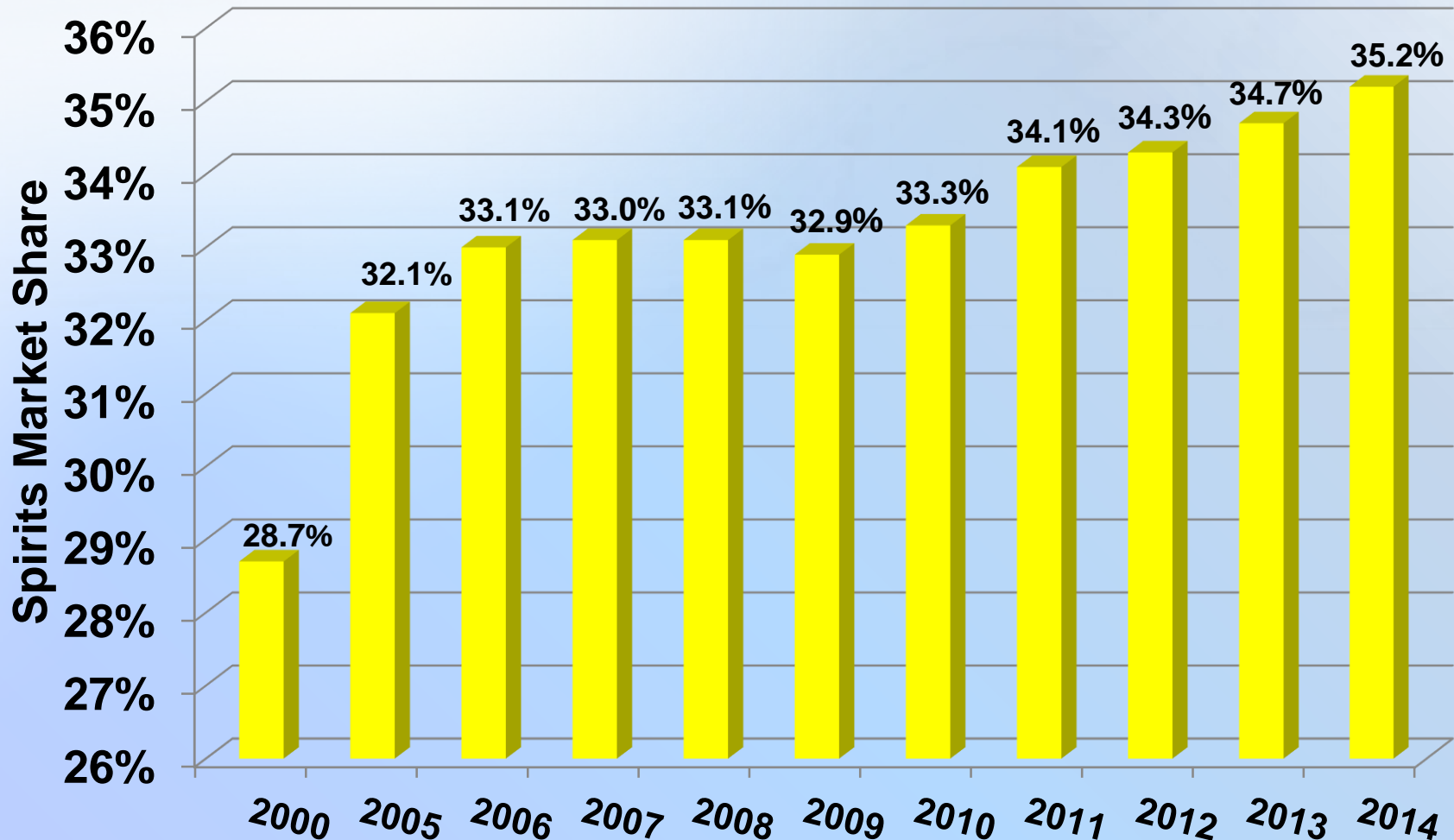
Up 4.4 Million to 210 Million Cases



Source: DISCUS MSDB

Spirits Market Share – Revenue

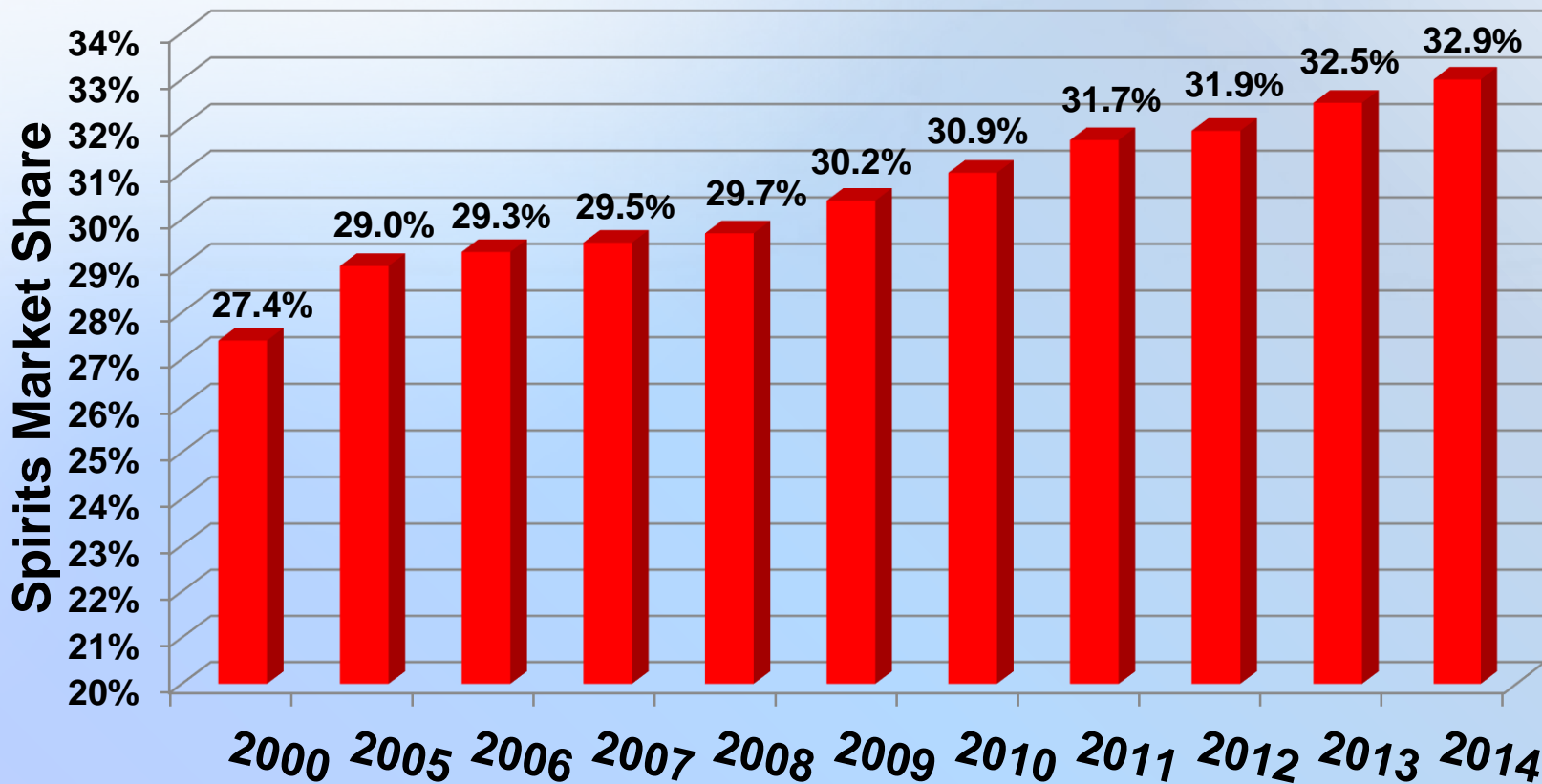
Up 6.4 Points Since 2000, Worth \$4.2 Billion



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

Spirits Market Share – Volume

Up 5.5 Points Since 2000, Worth 35 Million Cases



Source: Beverage Information Group Handbooks, DISCUS Estimates

Price Segments - 2014

- Products are segmented on supplier prices
- Range varies by product category
- Use market leaders to define segments
- Average supplier gross revenue per case:

Case Revenue

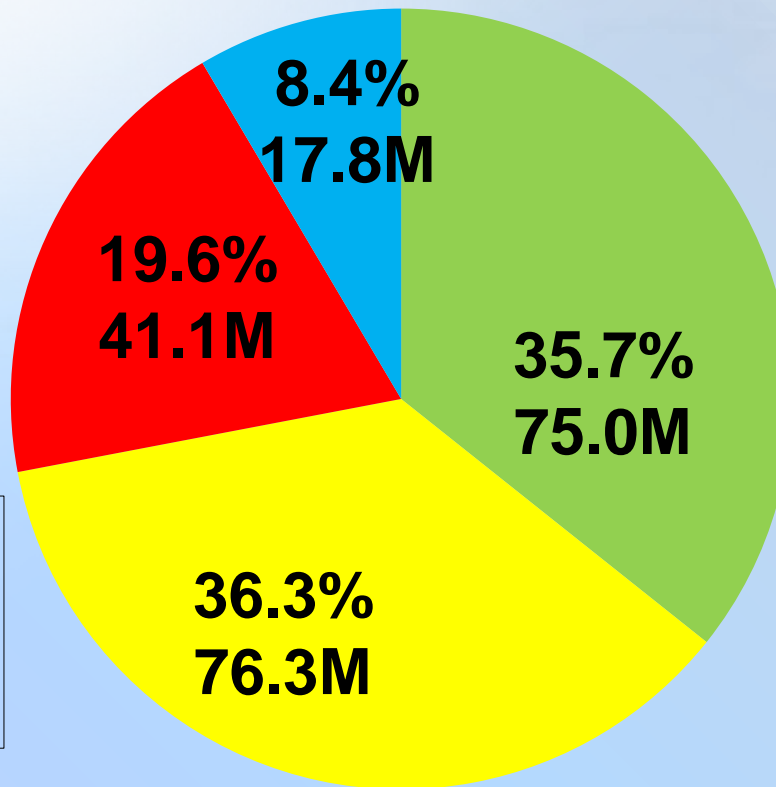
- Value \$50
- Premium \$100
- High End \$165
- Super Premium \$250

Retail Bottle Price

- <\$12/bottle at retail
- \$12 - \$18/bottle at retail
- \$18 - \$30/bottle at retail
- \$30+/bottle at retail

Volume Share by Price Category - 2014

Share of U.S. Spirits Volume



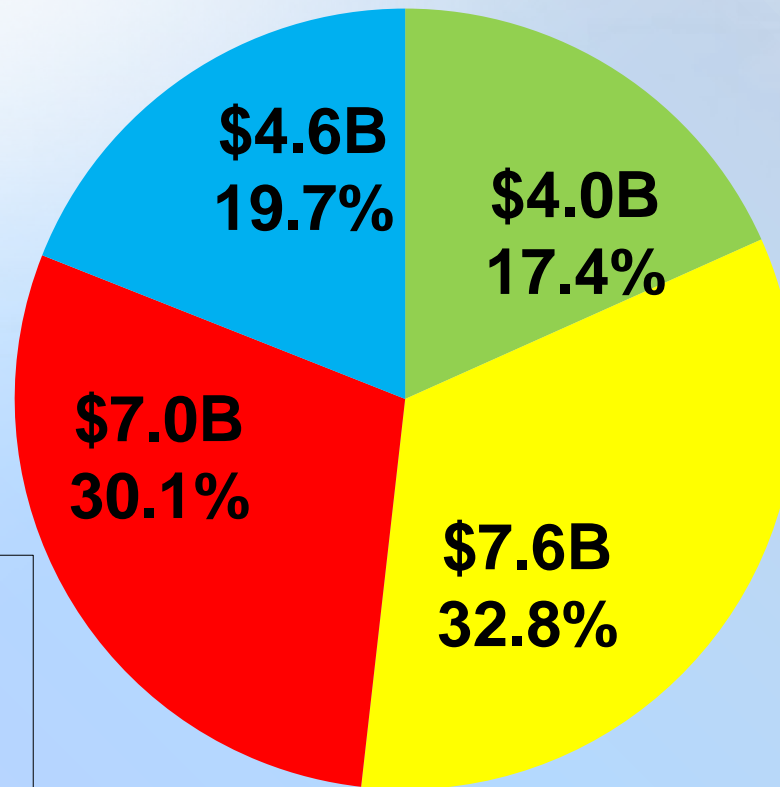
% - Industry volume in price category
M – millions of 9-Liter cases in price category

Value Premium High End Super Premium

Source: DISCUS MSDB

Revenue by Price Category - 2014

U.S. Supplier Gross Revenues

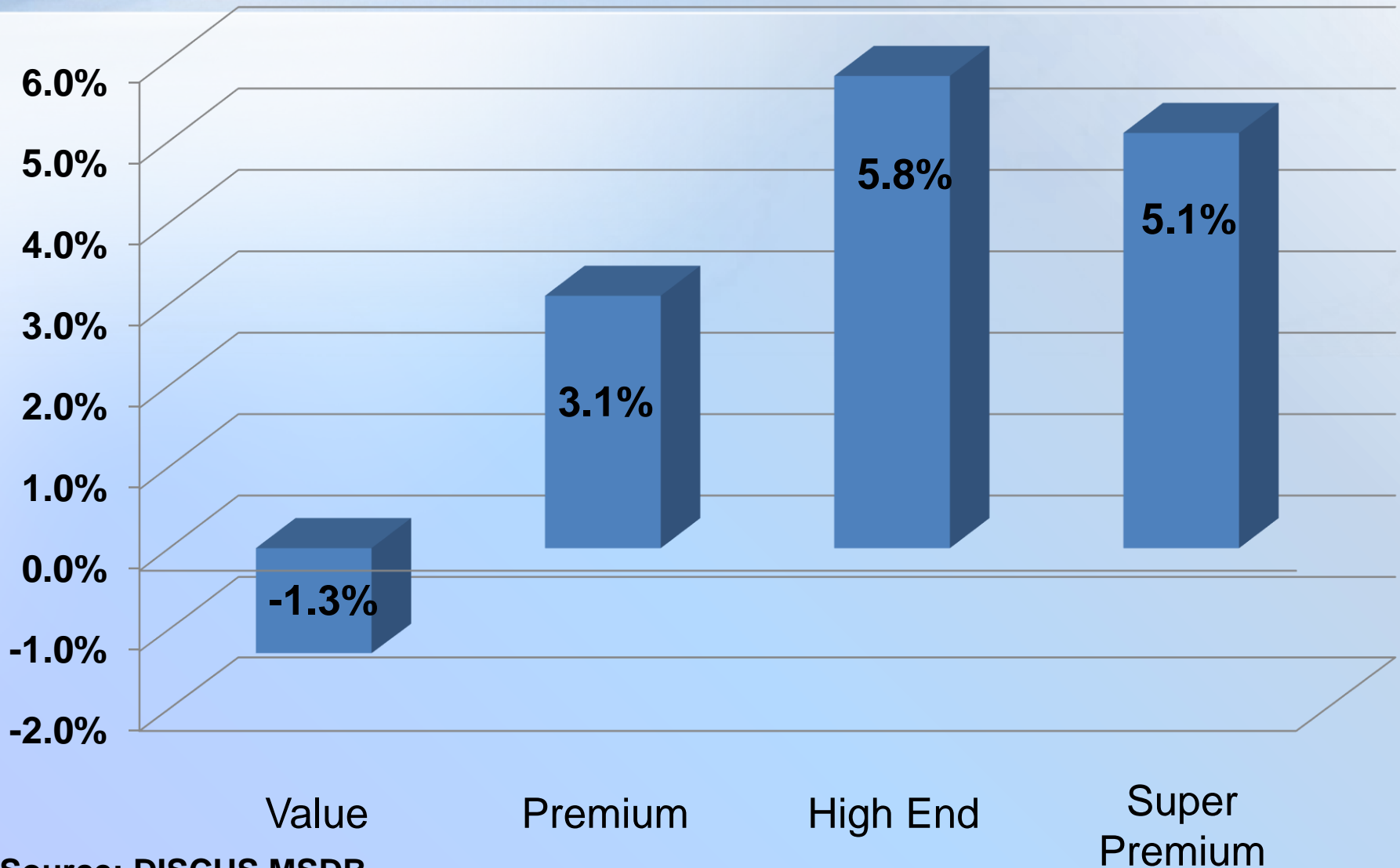


% - Industry revenue in price category
B – Gross revenue in price category, billions

Value Premium High End Super Premium

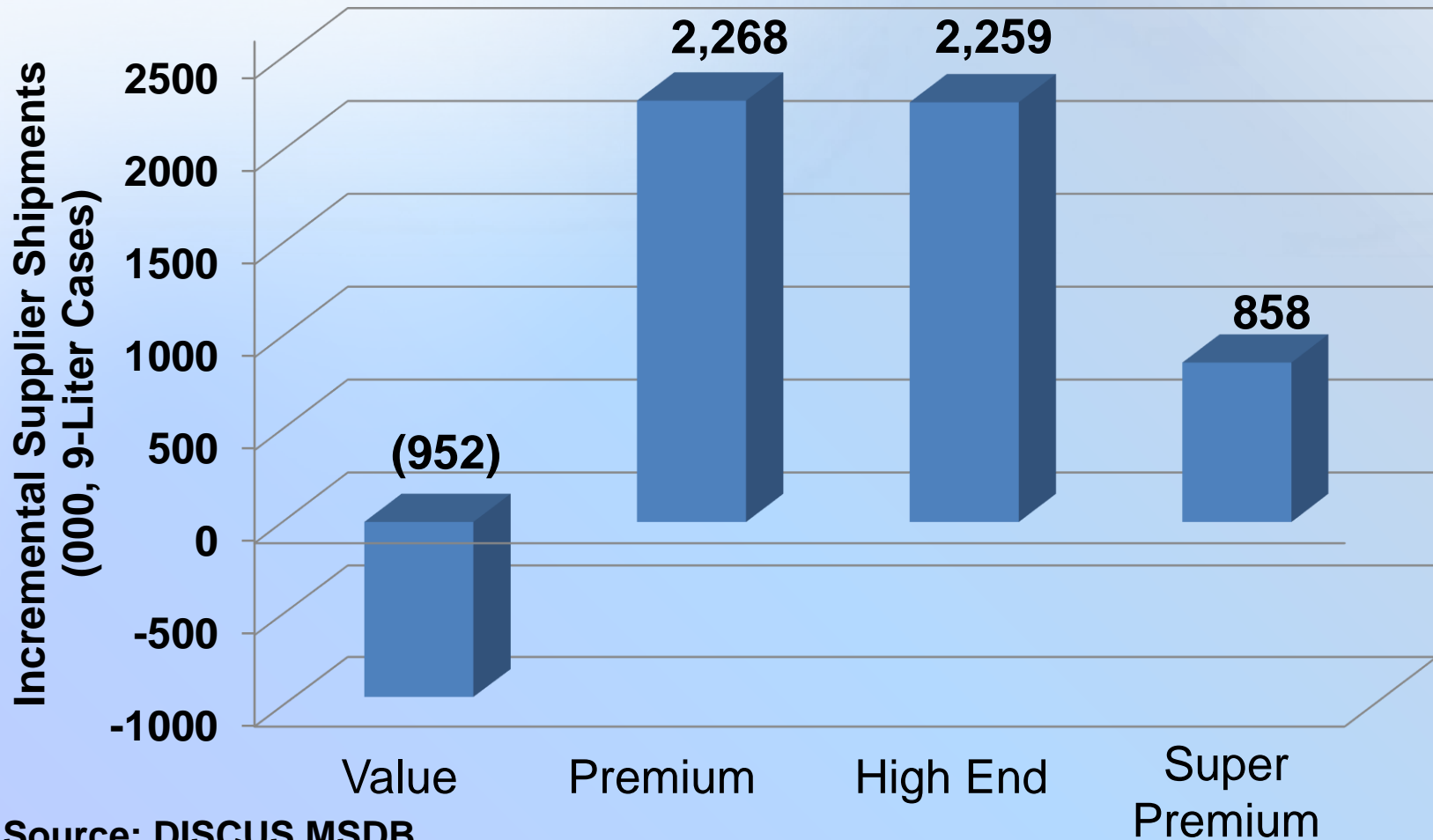
Source: DISCUS MSDB

Volume Growth by Price Segment - 2014



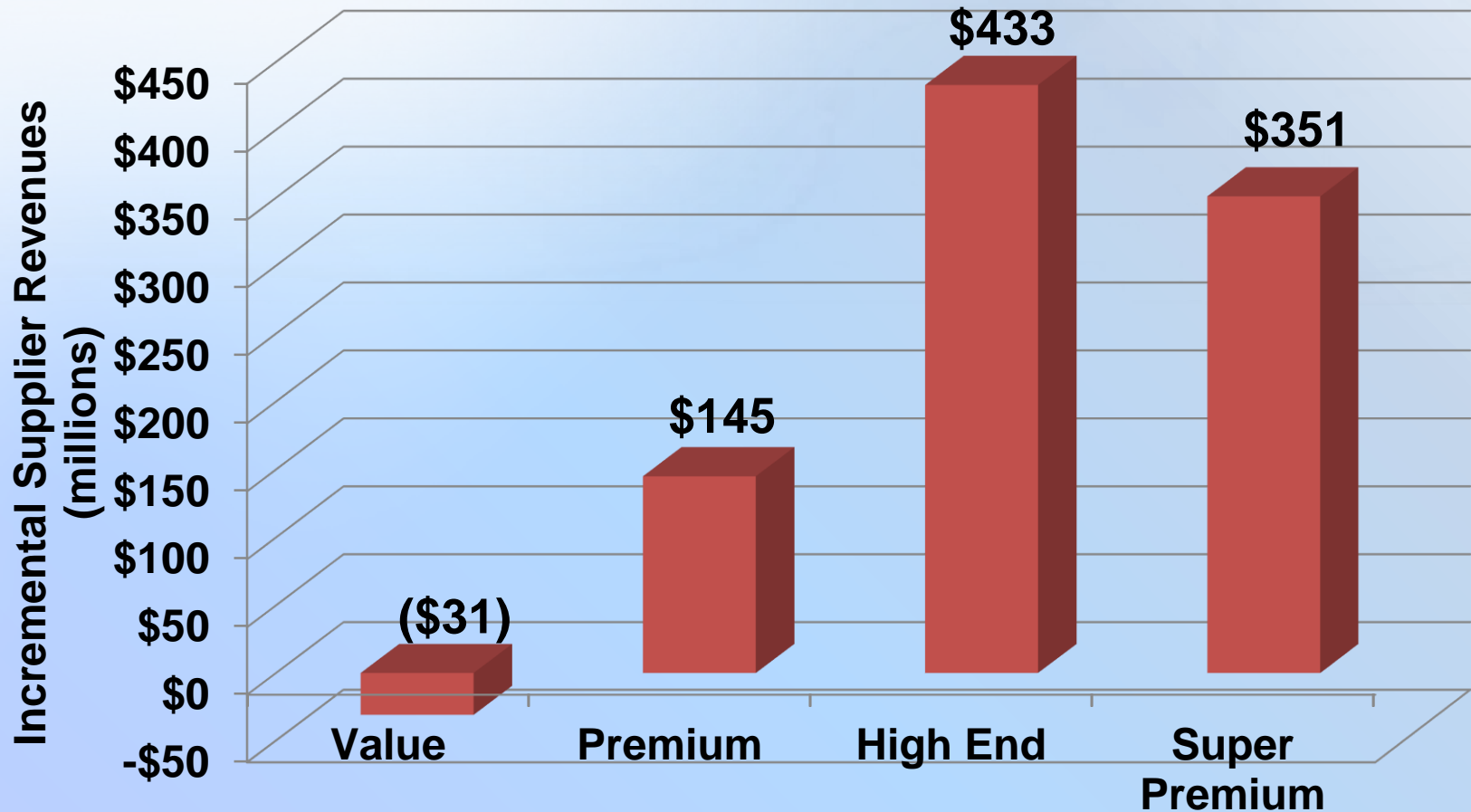
Volume Growth by Price Segment

4.4 Million New Cases in 2014



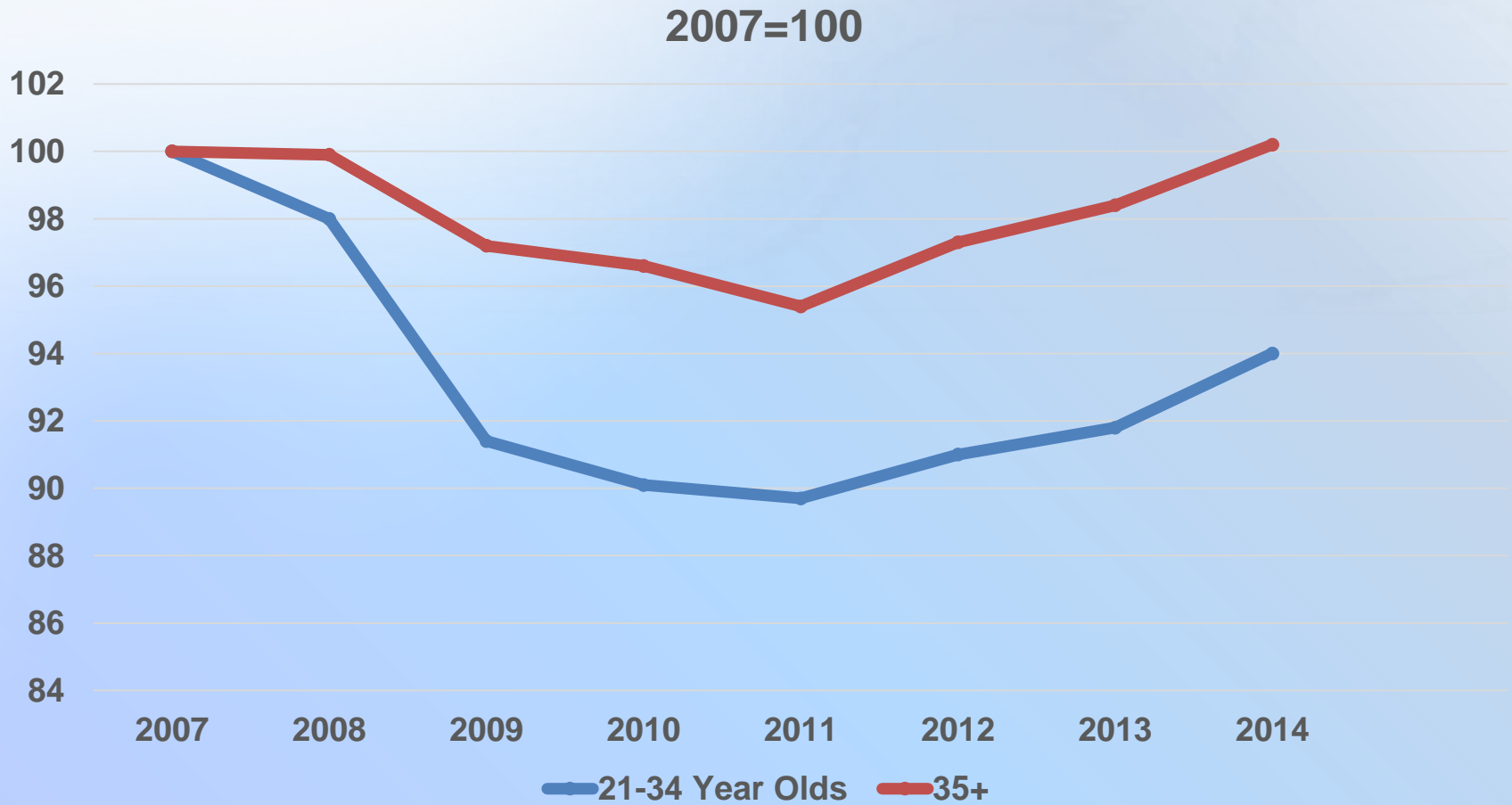
Revenue Growth by Price Segment

\$900 Million in New Supplier Revenue - 2014



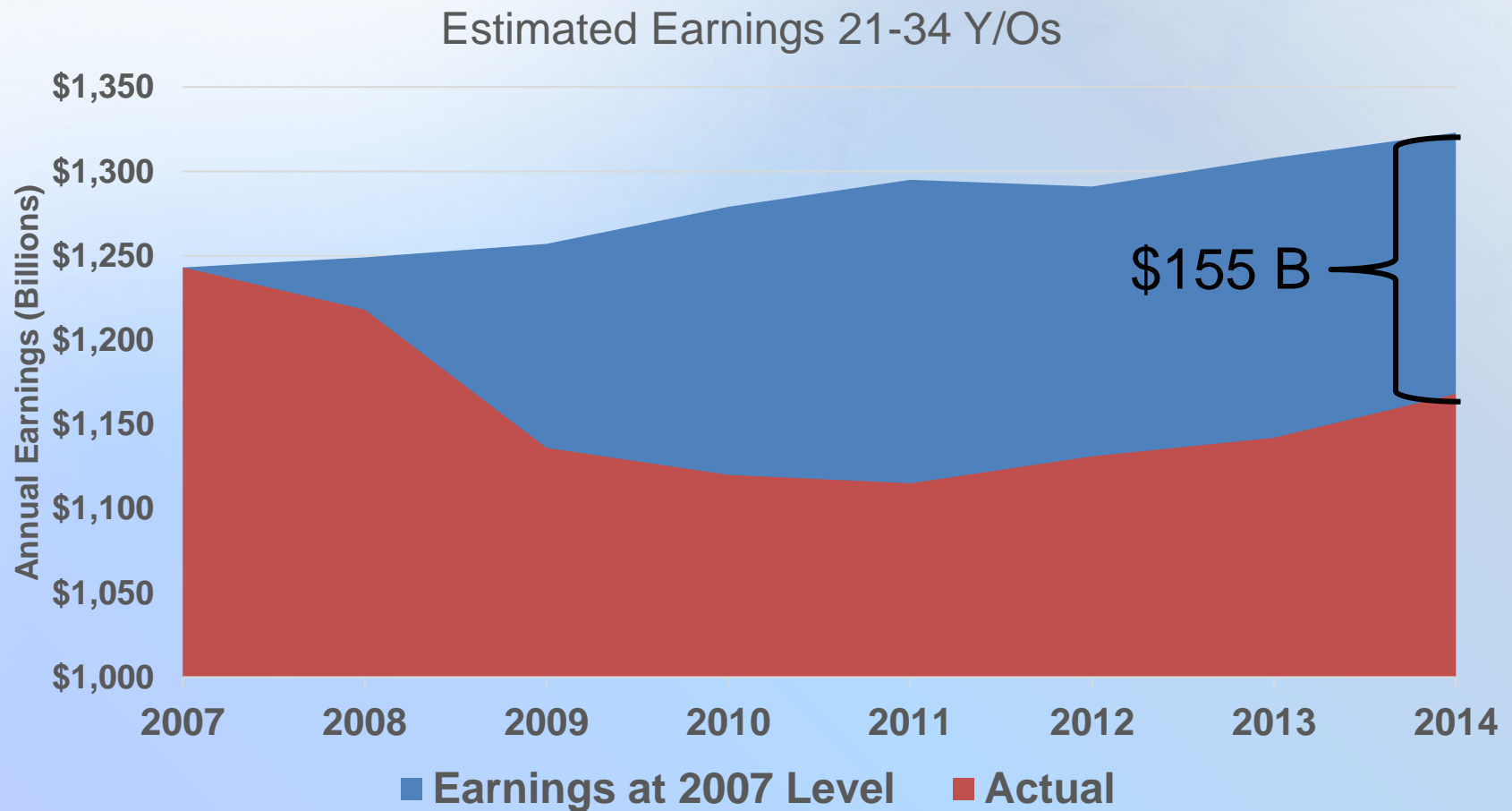
Source: DISCUS MSDB

21 – 34 Y/Os and Weekly Earnings



Source: Derived from Bureau of Labor Statistics
Current Population Survey

Significant Growth Opportunity



Source: Derived from Bureau of Labor Statistics
Current Population Survey

Flavored Spirits Market – 2014

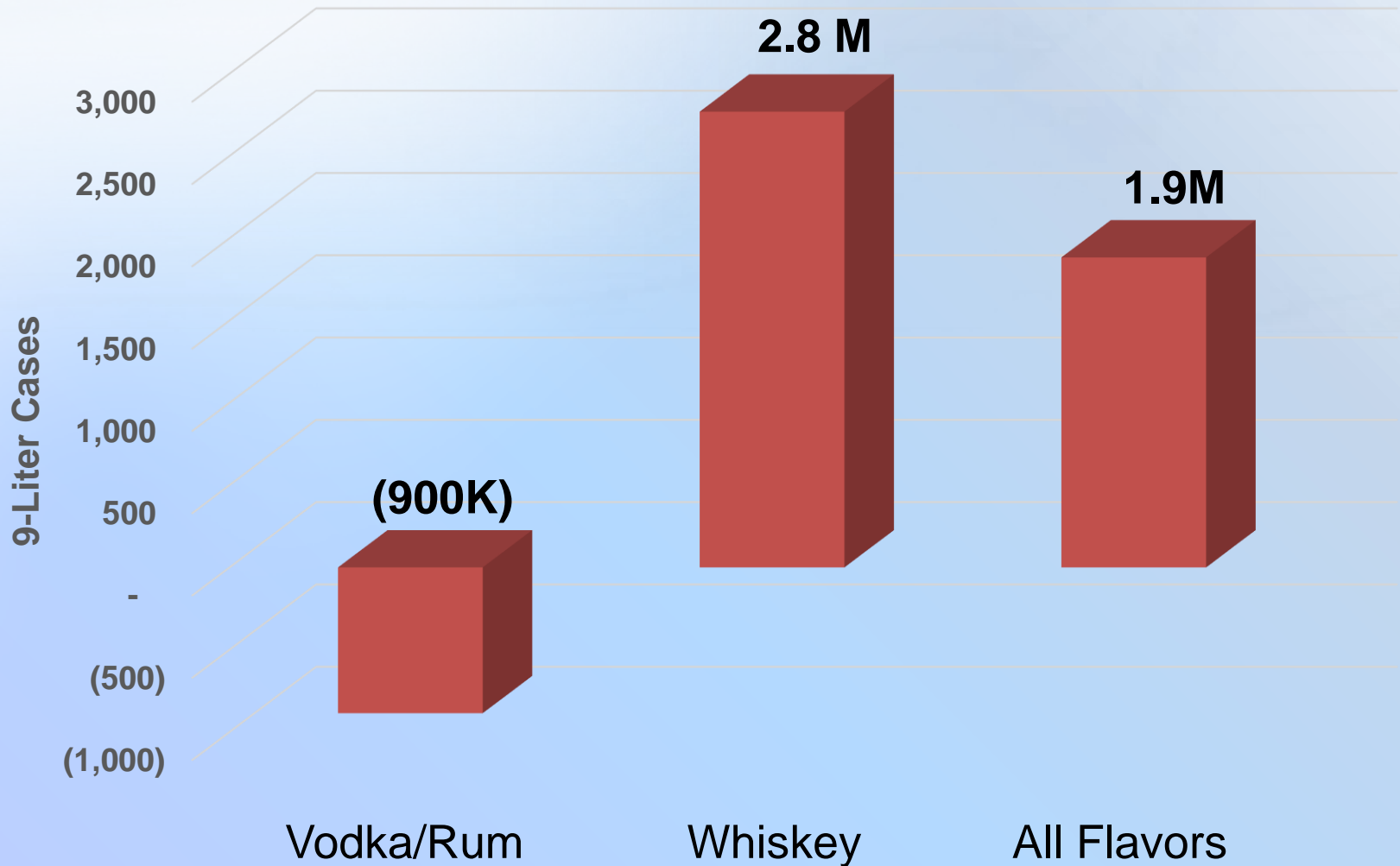
9-Liter Cases

Flavored Market Total – 24.6 M
Total Spirits Market 210.2M



Source: DISCUS MSDB

Growth in Flavored Segments - 2014



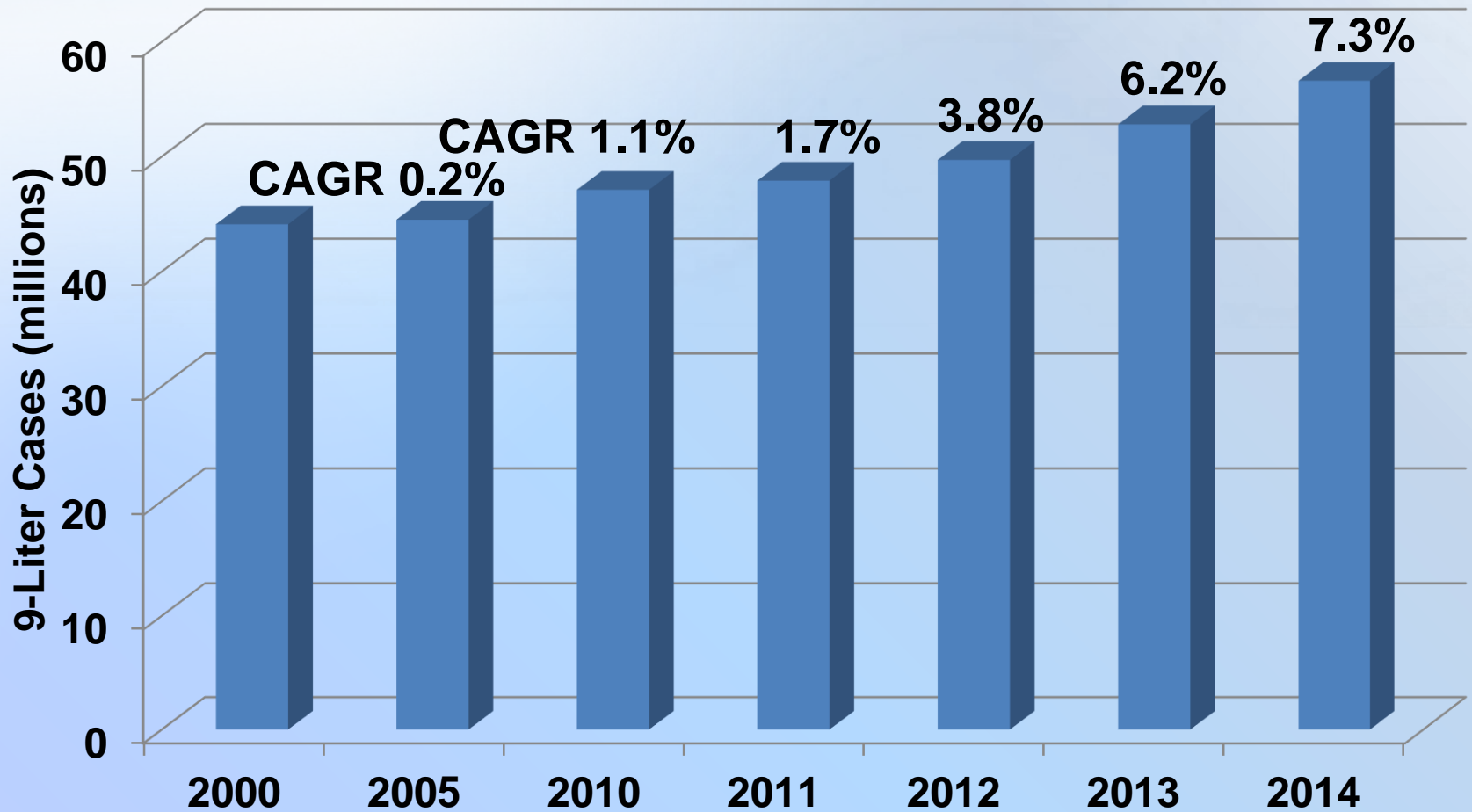
Source: DISCUS MSDB

Small Distillers

- Consumer interest in spirits continues to create opportunities for small distillers
 - Many entering whiskey category
- 712 distillers < 50k cases, (avg. of 3k)
- 17 distillers > 50k < 100k cases (avg. 80k)
- Total volume +/- 3.5 million cases
 - Up from 700k in 2010
- 1.7% share of spirits market by volume
 - Products tend to be at higher price points, so higher share by revenue likely higher
- Est. supplier revenues of \$400-\$450 million

Whiskey: A Strong Sales Driver

All Whiskeys



Source: Beverage Information Group
Handbooks, DISCUS MSDB

Bourbon/Tennessee Whiskey

- Volume up 7.4% to 19.4M Cases (+1.3M cases)
- Revenues up 9.6% to \$2.7 B (+\$230M)
- Strength across all price categories
 - Value vol. up 4.7% (3.1M), rev. up 5.5% to \$181M
 - Premium vol. up 8.8% (5.5M), rev. up 10.1% to \$566
 - High End vol. up 5.7% (9.2M), rev. up 8.1% to \$1.6B
 - Super vol. up 19.2% (1.5M), rev. up 19.2% to \$325
- Growth in both flavored and traditional products
 - Traditional products grew 1.2M
 - Flavored products grew 140K

Irish, Single Malt Scotch & Blended

- Another strong year for Irish Whiskey
 - Volume up 9.1% to 2.8M cases
 - Revenue up 10.7% to \$550M
 - Concentrated in High End and Super Premium
- Single Malt Scotch aficionados keep category growing – volumes up 6.4% to 1.9M cases
 - Revenues up 9.2% to \$645M
- Blended Whiskey up 42% to 8.7M cases
 - Growth driven by flavored products

Other Category Highlights

- Tequila volumes up 5.0%, revenue up 4.0%
 - Growth concentrated in Super Premium
- Cognac volumes up 11.7%, revenues up 15.4%
 - Fast Super Premium growth
- Vodka volumes up 1.6% (66.9M), revenues up 3.3%
 - Growth primarily in High End & Super Premium
 - Flavor down, but traditional up 3.7% (53.9M cases)

Summary

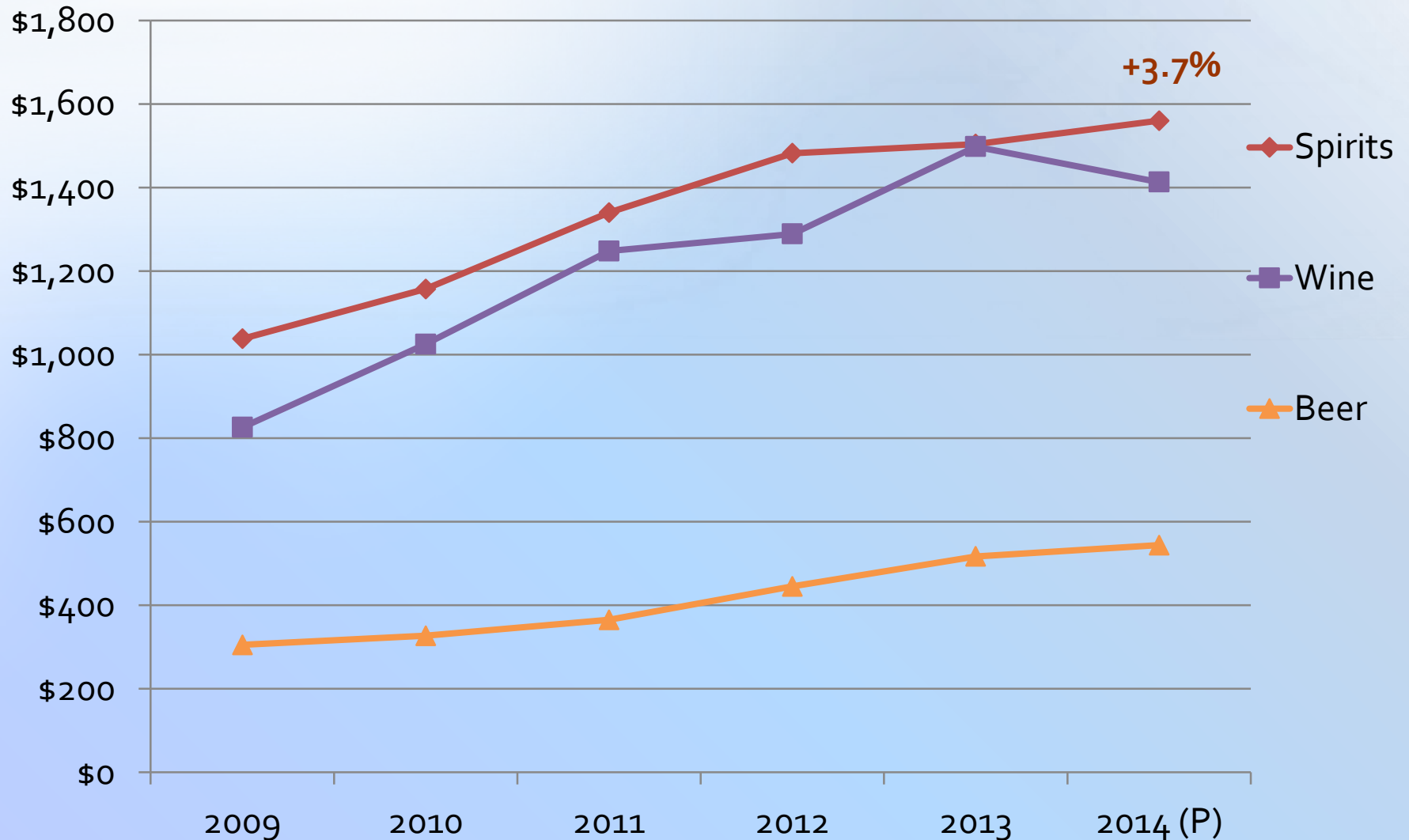
- Volume/revenue
 - Supplier revenue up 4.0% to \$23.1B
 - Supplier volume up 2.2% to 210M 9-liter cases
- Bourbon/Tennessee significant growth driver along with Flavored Whiskey, Irish, Tequila and Cognac
- Continued to increase market share gains
 - 34.7% revenue market share, 32.5% volume market share

International Trade Update

Christine LoCascio
SVP, International Issues & Trade

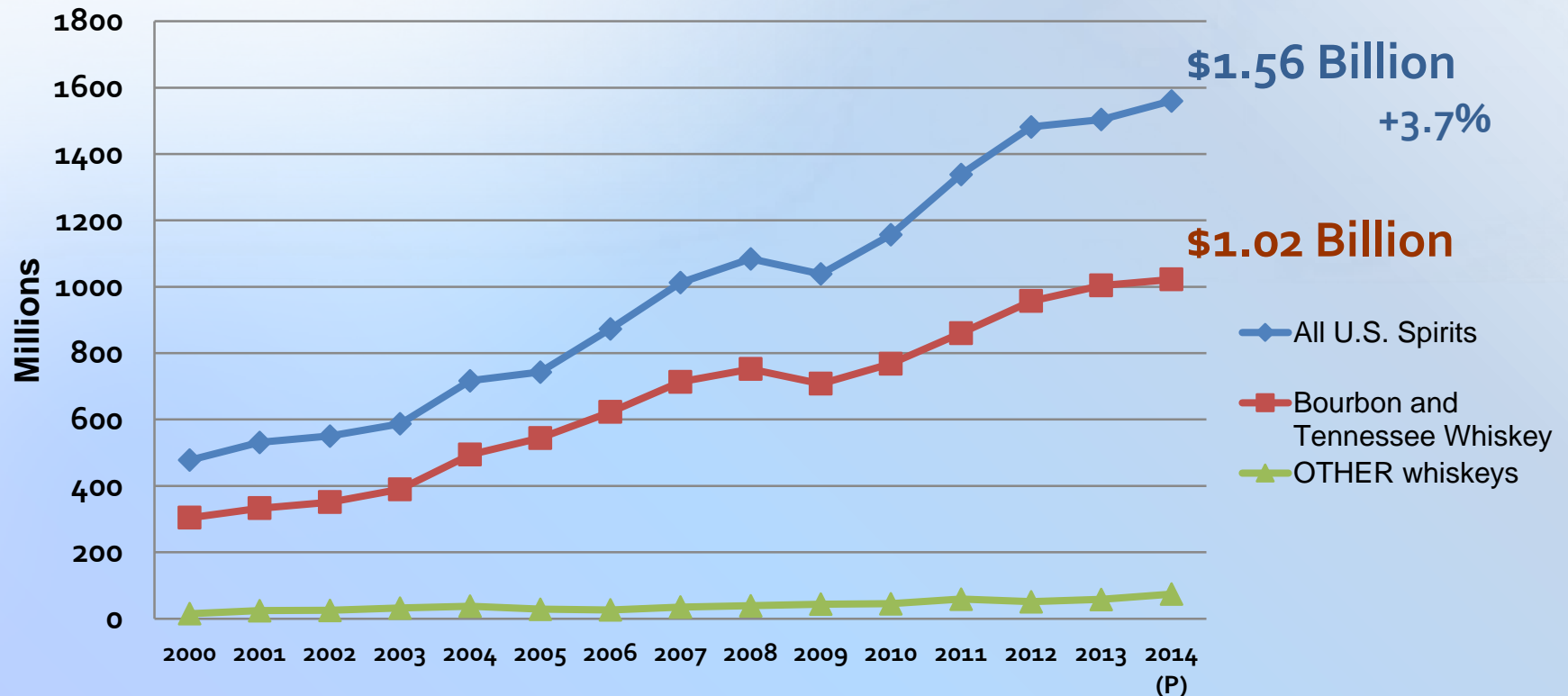
U.S. Beverage Alcohol Exports 2009-2014

(in millions of U.S. dollars)



U.S. Whiskeys Continue to Drive Record Spirits Exports

Whiskeys Account for 70% of Total U.S. Exports



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.)

Top Ten U.S. Spirits Export Markets

Country	2004 Value (millions of USD)	2014 Projected Value (millions of USD)	% growth since 2004
Canada	100.6	212.6	+111%
UK	120.7	177.6	+47%
Germany	81.7	136.7	+67%
Australia	77.7	131.2	+69%
France	27.6	111.6	+304%
Japan	59	99	+68%
Spain	34.5	82.3	+139%
Netherlands	24.5	61.2	+162%
Mexico	16.8	45.4	+170%
Singapore	4.9	31.6	+545%

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.)

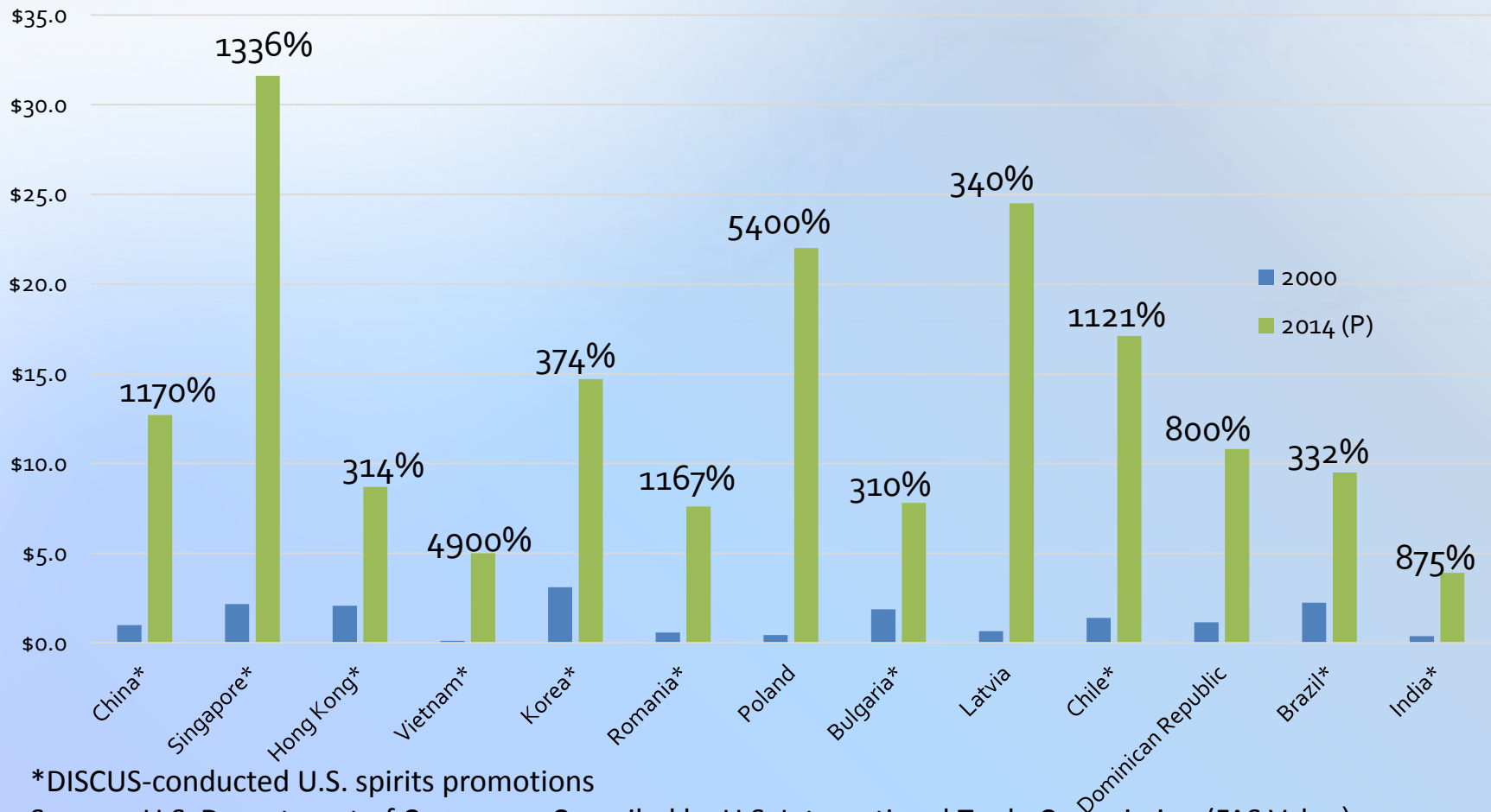
2014 Top Six Projected Export Growth Markets

By Dollar	Value Growth (millions)	2014 Projected Total Value (millions)
United Kingdom	+\$16.7	\$177.6
Spain	+\$14.1	\$82.3
Singapore	+\$8.6	\$31.6
Brazil	+\$6.4	\$9.5
Poland	+\$6.1	\$22.0
Chile	+\$5.0	\$17.1
By Percentage *	Percentage Growth	2014 Projected Total Value (millions)
Brazil	+208.1%	\$9.5
Dominican Republic	+75.8%	\$10.8
Bahamas	+49.7%	\$9.0
Israel	+43%	\$6.3
United Arab Emirates	+41.6%	\$16.1
Panama	+40.2%	\$15.6

*Among countries whose U.S. imports exceed \$5 million.

Emerging Export Markets Experience Substantial Growth

2000-2014 (Projected)



*DISCUS-conducted U.S. spirits promotions

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

DISCUS/USDA Partnership Promotes American Spirits Export Growth

- Promotions in 16 markets since 2005: China, Russia, Brazil, India, Hong Kong, Korea, Thailand, Vietnam, Singapore, Chile, Bulgaria, Romania, Czech Republic, Germany, Austria & Colombia



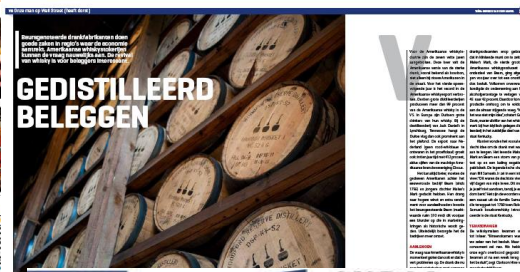
21世纪经济报道 21ST CENTURY BUSINESS HERALD

美国酒业制造复苏 新兴市场出口增速迅猛
美国酒业委员会高级副总裁柯曼认为，对中国企业来说，最好的起步投资是购买美国威士忌上市企业的股份，进行权益投资，从行业增长中获益，然后才有可能深入该领域。



Символическата американска напитка се ражда от няколко съвпадения съвпадения и пресметливостта на един пастор

П... The emblematic American drink stems from a series of lucky coincidences and the shrewdness of a Baptist preacher



Forbes INDIA The Interesting History of Bourbon Whiskey



Three bourbon whiskeys, all owned by Fortune Brands including (L-R) Maker's Mark, Jim Beam and Knob Creek, are displayed in Golden, Colorado July 24, 2008. Fortune Brands reports second-quarter earnings on July 25. (Rick Wilking/Reuters)

The 'Whiskey Trail' now runs through China

Trade Negotiations Provide Significant Opportunities to Expand U.S. Exports

- **Trans-Pacific Partnership**
 - U.S. trade agreement with Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam
 - May conclude negotiations in early 2015
- **Trans-Atlantic Trade and Investment Partnership**
 - U.S.-EU trade agreement
 - Opportunity to address non-trade barriers
- **Trade Promotion Authority Legislation**
 - Provides President authority to submit agreements to Congress for up or down vote (no amendments)
- **Eliminate and prevent barriers to trade**
 - Labeling, standards, import policies, discriminatory taxes

