BEER, WINE, & SPIRITS RETAILERS

TARIFF ALERT

CURRENT TRENDS

- The Tax Cuts and Jobs Act, passed by Congress in December 2017, made the first reforms to federal alcohol excise taxes since 1990, lowering the rates for beer, wine, and spirits
- Per capita expenditure on alcohol has increased over the past decade and is expected to continue through 2025
- Beer, wine, and liquor stores' revenue is forecasted to increase at an annualized rate of 2.8 percent through 2024

PROJECTED VALUES
(12-MONTH OUTLOOK)

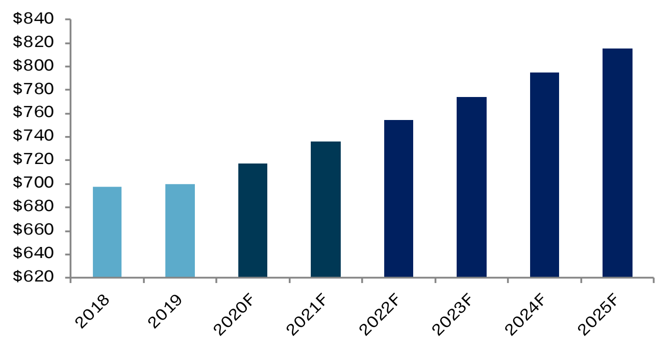
APPROXIMATE NET RECOVERY ON COST

75-95%
liquor retailers

75-85%
alcohol distributors

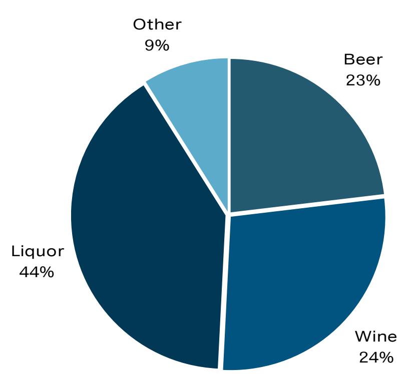
65-80%
wine importers

PER CAPITA EXPENDITURE ON ALCOHOL



Source: IBISWorld (figures are in constant dollars with 2018 base year)

PRODUCTS AND SERVICES SEGMENTATION (2019)



Source: IBISWorld

Gordon Brothers 1903

GORDONBROTHERS.COM
+1.617.426.3233

POSITIVE SALES FORECAST: As the last millennials turned 21 in 2017 and the oldest members of generation Z began turning 21 in 2018, the under-30 demographic is growing as a percentage of consumers in the United States. As a result, liquor retailers are catering to a growing market of new, young consumers whose tastes are entirely different from consumers in other age groups. While industry operators will benefit from the growing proportion of the population that may consume alcohol, state deregulation will continue to intensify competition. As per capita spending on alcohol is projected to increase in the United States, beer, wine, and liquor stores' revenue is also forecasted to increase at an annualized rate of 2.8 percent through 2024.

Several trends in alcohol products stand out for both consumers and retailers for the 2019-2020 period. Based on the results of the Beverage Dynamics' 2019 State of the Industry Survey, whiskey (Bourbon and American) was the top category for which retailers wanted to expand shelf space. "Brown" spirits have continued to grow in popularity over the past few years, with many new craft distilleries recently opening in the United States. Additionally, global corporations like Diageo, Brown-Forman, Constellation Brands, and Pernod Ricard have invested significantly in acquiring brown-spirits brands and expanding existing distilleries. The straight American whiskey category grew 5.3 percent in 2018, according to the Beverage Information and Insights Group, reaching a volume of over 23 million nine-liter cases in the United States, with momentum continuing through 2019.

Wine was the second-highest category for which retailers wanted to expand shelf space based on the Beverage Dynamics' survey. In particular, canned wine has been especially popular. As noted by Beverage Dynamics "cans are lighter and more mobile than glass counterparts, easier to transport on hikes and other outdoor activities, and they can go places that glass cannot, like pools, parks, and beaches. Which all points to continued growth ahead for cans, especially in wine."

While beer, wine, and liquor stores' sales were up 2.8 percent for 2019 over 2018 based on U.S. Census Bureau data, as a category rosé wine has grown about 48 percent in the United States, according to management at Southern Glazer's Wine & Spirits, the largest wine and spirits distributor in the United States.

As consumer tastes change, retailers can expect gross recovery values to shift based on sales volume, initial cost, and gross margins achieved. Given the significant influence branding and personal preference have in this space, it is critical that inventory assortments be balanced for maximum turnover. Retailers that are over inventoried in less popular alcohol categories and brands may see blended recovery rates decline as a result of consumer sentiment, while the opposite can be true for an increase in premium brand penetration of the most popular types of wine, spirits, and beer.

TEMPORARY HOLD ON EXCISE TAX INCREASE: Over the past five years, states have generally moved toward relaxing liquor sales regulations to increase state revenue via high liquor taxes. Excise taxes on distilled spirits consist of federal and state taxes levied on distilled spirits. Excise taxes on wine represent federal and state taxes levied on wine by volume; on beer they represent the sum of the federal and median state tax per gallon.

The Tax Cuts and Jobs Act, passed by Congress in December 2017, made the first reforms to federal alcohol excise taxes since 1990, lowering the rates for beer, wine, and spirits for a two-year period ended December 31, 2019. Due to the widespread popularity of the measure, in late 2019, the Craft Beverage Modernization and Tax Reform Act of 2019 was passed, providing a one-year extension for the tax cut. Without the extension, most alcoholic-beverage producers would have seen their excise taxes rise 400 percent as of January 1, 2020. Based on information published by the Beer Institute, without Congressional action to further extend the cut or make it permanent, America's brewers and beer importers will face a $130 million annual tax increase. Additionally, 2,000 new brewers and 400 new distillers that have opened since 2018 would see their excise taxes double. Many craft-beverage producers say that without the certainty that the cut will continue after 2020, they cannot make long-term investments like buying stills, planting vineyards, or hiring staff.

INDUSTRY REGULATION DETERMINES SALE PARAMETERS: Disposition sale events within the alcohol industry are subject to federal, state, and local government regulations. "Blue laws" in 12 states still prohibit retail sales of distilled spirits for part or all of the day on Sunday. The balance of states permit Sunday sales of distilled spirit products. Most states are also license or "open" states, which allow private ownership of liquor stores; however, in control states, the state government acts as distributor. Additionally, some control states also operate retail outlets.

Regulations can differ significantly from state to state. Seventeen states and jurisdictions in Alaska, Maryland, Minnesota, and South Dakota are control states. Individual state laws specify what types of retailers may sell alcohol, limit days and hours of operation, restrict types of alcohol sold at particular venues, and may also limit the levels of discounting permitted on certain products. Many states prohibit interstate sales of alcohol.

The Alcohol and Tobacco Tax and Trade Bureau and Federal Bureau of Alcohol, Tobacco, Firearms, and Explosives regulate interstate commerce for alcohol, collect excise taxes, issue licenses, and establish marketing standards. Excise taxes on alcohol generate millions in revenue for state and federal governments and can represent more than half of the retail price of a bottle of liquor. While collection is primarily the job of distributors, tax rates affect liquor store pricing and profits.

In addition to state restrictions and limitations on distribution, competitors' impact on sales volume in a given market can have a material impact on sales in the liquor industry. External competition from supermarkets, gas stations, and grocery stores has increased in the past few years. Large warehouse stores with greater market power, such as Costco, are securing favorable supply contracts, allowing these retailers to lower alcohol prices and increase competition for industry operators. Online retail in the beer industry is also expanding through online retailers such as Drizzly, Minibar, and Amazon. External competition is expected to continue to grow over the coming years.

For asset-based lenders looking to lend on liquor assets, partnering with an appraiser that has national experience liquidating alcohol and related products is a key consideration. It is important to note that all appraisals conducted on liquor assets assume all necessary retailer permits and licenses are in place and valid. Gross recovery would be significantly impacted if proper permitting were not in place.

The Expert: Becky Goldfarb

Bringing over 15 years of experience in the disposition and valuation of retail and consumer products, Becky Goldfarb oversees all aspects of retail asset valuations. Prior to that, Becky was responsible for the financial analysis of retail dispositions across all industry sectors. Read her full bio here