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October 21, 2014

Gabelli & Company

YOU DRINK IT, WE FOLLOW IT

THE GLOBAL SPIRITS INDUSTRY

Companies	Ticker		Price		Exchange
Brown-Forman Corporation	(BF'B	-	$86.98	-	NYSE)
Constellation Brands, Inc.	(STZ	-	85.07	-	")
Davide Campari-Milano SpA	(CPR	-	€ 5.35	-	MI)
Diageo plc	(DGE	-	£ 17.49	-	LN)
LVMH	(MC	-	€ 124.95	-	FR)
Pernod Ricard	(RI	-	84.86	-	")
Rémy Cointreau	(RCO	-	53.18	-	")
Stock Spirits Group plc	(STCK	-	£ 3.08	-	LN)

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-Please Refer To Important Disclosures On The Last Page Of This Report-

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You Drink It, We Follow It — *The Global Spirits Industry*

The global beverage industry offers investors the opportunity to participate in the growth of worldwide consumer wealth through ownership of well-managed, high-quality businesses in established financial markets. Herein, we present the first installment of the Gabelli & Company *"You Drink It, We Follow It"* series: an overview of the $300 billion global distilled spirits industry, its trends, categories, companies and brands.

Distilled spirits provide consumers in both developed and emerging markets with the rare combination of affordability and aspirational luxury, while offering manufacturers barriers to entry, pricing power, and strong profitability. Over the past decade, these positive fundamentals have driven significant growth, industry consolidation, and shareholder returns, which we expect to persist. Although a number of multinational spirits companies have struggled recently, particularly those with exposure to the challenged high-end market in China, we believe that the long-term fundamentals of the industry remain intact, and that owners of premium spirit brands will disproportionately benefit from positive industry trends.

SPIRITS - A $300 BILLION GLOBAL MARKET

According to International Wine and Spirits Research (IWSR), the world consumed approximately 3.1 billion 9-liter cases of distilled spirits in 2013, with an aggregate retail value of just over $300 billion. Over the past five years, the global market has added almost 650 million 9-liter cases of volume and $75 billion dollars of retail value, implying a volume CAGR of 4.8% and a price/mix CAGR of about 1%. Over the next five years, volumes are expected to continue their growth, albeit at a slower pace due to the slowing growth of Chinese baijiu, and reach just under 3.4 billion cases by 2018E.

Table 1 **The Global Distilled Spirits Industry**

(Value: $ in Billions | Volume: 9L Cases in Billions)

	2008A	2013A	2018E	'08-'13 CAGR	'13-'18 CAGR
Volume	2.4	3.1	3.4	4.8%	1.7%
Retail Value	$ 226	$ 301		5.9	
Avg. $/9L Case	*$ 93*	*$ 97*		*1.0*	

Source: IWSR

INDUSTRY DYNAMICS

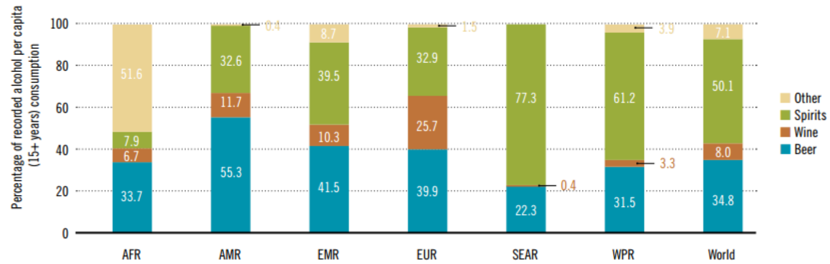
- *Barriers to entry and consolidation* – The global spirits industry, particularly at the premium end of the market, is a virtually 100% branded business, with many of the world's leading brands being decades, if not centuries old. Building new brands to scale requires a substantial investment in marketing and distribution in order to generate trial and consumer awareness. Additionally, in the case of aged spirits, inventory must be stored for years prior to sale, which requires a substantial and ongoing investment in working capital. Consequently, established spirits brands are highly valuable assets, and Private Market Values have been realized at multiples averaging 17-18 times EBITDA over the past fifteen years. These multiples can be further justified by the substantial synergies and accretion that scaled spirits producers can realize by "dropping" an established brand portfolio into its marketing and distribution platform. We expect consolidation to continue to be a significant driver of long-term value in the industry, for both buyers and targets.

- *Premiumization* – While the vast majority (>90%) of the spirit industry's volume growth over the past five years was driven by ballooning consumption of national and local spirits – most notably: baijiu, brandy (excl. cognac), and Indian whisky – roughly 40% of global retail value growth was sourced from global spirit categories such as vodka, international whiskies (Scotch, US, Irish), cognac, rum, gin, and tequila. In our view, this imbalance is indicative of an ongoing global trend towards premiumization, as consumers "trade-up" to higher-value brands from lower-priced national and locally-produced spirits.

- *Global whiskey resurgence* – Over the past five years, global whiskey volumes have outpaced the total spirits industry, increasing 37% to just over 360 million cases, and are expected to reach nearly 440 million cases by 2018. While growth is expected across all segments of the category, US whiskey (bourbon) and Irish whiskey, in particular, are experiencing a renaissance driven by strong growth among millennial consumers in the US, as well as expanding global reach.

- *Geographic whitespace remains* – According to a 2014 report from the World Health Organization, in 2010, worldwide per capita alcohol consumption was 6.2 liters, up about 2% since 2005, and is expected to continue to increase through 2025. Spirits represented roughly one-half of worldwide consumption, but still have very limited penetration in some emerging markets, most notably in Africa.

Exhibit 1 **Global Consumption by Alcohol Type**



Source: World Health Organization

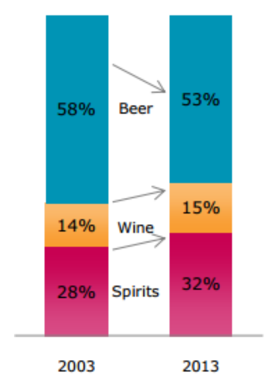
- *The US remains a crucial profit pool* – The 200-million case US spirits market represents only about 6% of the world's total spirit consumption, but represents over 20% of its retail value (nearly 35% excluding national spirits). With limited exceptions, the US represents the largest spirits market by retail value for most sub-segments of the market, and accounts for over 40% of global premium spirit volume. The US continues to experience positive volume growth, driven by a market share shift from beer to spirits, and increasingly high levels of premiumization. Spirits in the US, on a per-bottle average, across categories, typically sell for 3-4x global average prices, which makes the US market significantly more profitable for producers than most other markets, and highly important to long-term success.

Exhibit 2 **Avg. Retail Price per 750ml Global vs. US**

	Global	US
Vodka	$ 9	$ 21
Scotch	26	52
Bourbon	21	34
Irish Whiskey	28	49
Brandy	10	35
Rum	10	29
Gin	11	21
Tequila	20	39
All Spirits	**$ 8**	**$ 27**

Source: IWSR, DISCUS, Gabelli & Company estimates

Exhibit 3 **US Total Beverage Alcohol Consumption by Type**



Source: Beverage Information Group, from Diageo

- *A challenged Chinese market* – The 1.2 billion case Chinese spirits market is the largest in the world. While locally produced baijiu, the Chinese national spirit, represents the substantial majority of the country's volume, in recent years, a culture of official banquets, nightclub entertaining, and gifting had led to China becoming an important market for high-end international spirits, particularly ultra-premium cognac and scotch. In late 2012, the Chinese government began implementing a series of anti-extravagance reforms aimed at reducing both real and perceived corruption among government officials. The result of these reforms has been the near total collapse of high-end spirit demand in the country, leaving producers coping with both sales declines and excessive, highly-discounted inventory in a cash-strapped retail channel. While the long-term implications of the anti-extravagance reforms are unclear, most international spirit producers, and in particular cognac producers, spent 2013/2014 rationalizing their inventory positions in the country, while emphasizing lower-priced variants of their products, and should enter 2015 in a more favorable position.

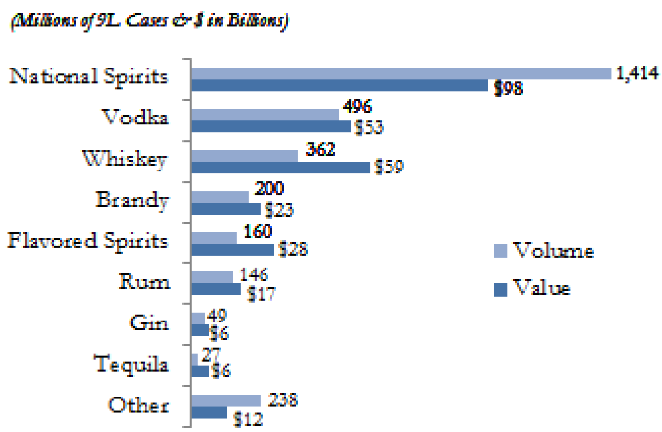
- *Pricing power, profitability, and strong cash generation* – Distilled spirits producers, enjoy strong (20-35%) EBITDA margins, low capital spending requirements (3-5% of sales), and enjoy pricing power (1-3% per year) to offset raw material costs and drive margin improvement. They also have significant operating leverage, as selling and distribution costs are largely fixed and there are meaningful economies of scale in advertising. Finally, as the premiumization trend takes hold, higher priced products, while more expensive to produce, often have a positive mix effect on margins.

SPIRIT CATEGORIES AND BRANDS

The global spirits industry can be broadly divided into nine major product categories: national spirits (largely baiju, sochu/soju), vodka, whiskey, brandy, flavored spirits, rum, gin, tequila and other (cane and other local spirits), each with its own growth trends, competitive dynamics, and sub-segments. Geographically, spirit consumption is concentrated in Asia and CIS which together account for nearly 75% of spirit volumes, owing to the vast size of the Asian national spirits markets and the Russian vodka market. That said, these markets represent a substantially smaller portion of premium spirits volumes, and thus retail dollars. Generally, the highest growth is expected in categories that have under-developed premium tiers, or large geographic distribution whitespace, particularly in emerging markets. Categories that possess both attributes, notably US and Irish whiskey and tequila, are expected to outperform the broader industry.

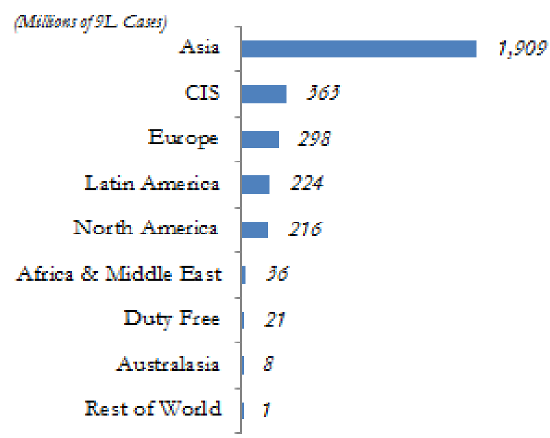
While the overall spirits industry is very fragmented – the largest global producer by a wide margin, Diageo/United Spirits, has less than 10% volume share – certain sub-segments of the market are highly consolidated. Typically, categories with high-barriers to entry such as aged whiskies and cognacs are dominated by a small number of competitors, whereas easier to produce products like vodka and baiju are highly fragmented. Similarly, while the favorable economics of premium-priced spirits invite constant new-entrants in virtually all categories (vodka, particularly), the significant investment in marketing and distribution required to build high volume premium spirit brands generally results in a consolidation of premium spirit market share among large international spirits companies with significant scale.

Exhibit 4 Spirit Categories Volume/Value



Source: IWSR

Exhibit 5 Volume by Geography



Source: IWSR

VODKA

With just under 500 million cases sold in 2013, valued at $53 billion, vodka is the world's second-largest spirits category by volume. It is also among the most commoditized international spirit with well over 80% of global vodka volume sold at sub-$10 per 750ml price points. Much of this low-priced vodka is sold in Russia which remains, by a wide margin, the largest volume market in the world, accounting for about 220 million cases. That said, the overall vodka category has seen substantial premiumization in recent years with the average price per case increasing over 25% since 2008 (only cognac experienced higher price/mix growth over the same period).

Vodka is typically a 40% ABV white spirit that can be distilled, using a relatively simple process, from any starch-rich plant-matter including: grains, potatoes, fruit, or even raw sugar. The Bureau of Alcohol, Tobacco and Firearms describes it as a "neutral spirit so distilled or so treated after distillation, with charcoal or other materials, as to be without distinctive character, aroma, taste or color." It is un-aged, meaning that it can be produced, bottled, and sold quickly relative to other spirits. Producers can, quite literally, "make it today, sell it tomorrow."

Given low barriers to entry, the market is highly fragmented with over two-thirds of world volume coming from brands that sell less than 1 million cases per year, despite there being over 50 brands that sell in excess of 1 million cases per year – more than any other spirits category. Diageo's $3.4 billion Smirnoff brand is the global volume and value leader, and sells more than double the volume of its nearest competitor, Pernod Ricard's Absolut.

Exhibit 6 **Largest Premium Vodka Brands**

Smirnoff (Diageo)
25.8 million cases

Absolut (Pernod Ricard)
11.3 million cases

Svedka (Constellation Brands)
4.0 million cases

Grey Goose (Bacardi)
3.9 million cases

Source: IWSR, Impact Databank, excludes local brands (See Table 3)

The vodka industry is also characterized by frequently occurring disruptive product introductions. For example, New Amsterdam, a premium ($14 per 750-ml) vodka introduced in the US by E&J Distillers in 2011 has grown to over 2 million cases (3% US volume share) in only two years despite a relatively flat US vodka market over the same period. Declines can be equally precipitous. Green Mark, the world's second-largest vodka brand by volume in 2009, has lost over 6 million cases of annual sales in just four years, as government regulation in Russia pressured volumes.

Given these competitive characteristics, the success of individual vodka brands rests heavily on marketing, branding, and distribution capabilities, as well as price point and flavor offerings. Pricing in particular, varies widely, and for premium vodkas can reach $30 or higher with little incremental manufacturing costs. Brands such as Diageo's Cîroc and Bacardi's Grey Goose have grown substantial volumes (2 million and 3.9 million cases, respectively) at these higher price points, primarily in the United States. Over the long-term, such premium-priced offerings are expected to continue to take share globally, driving continued value growth for the category.

Exhibit 7 **Largest Global Vodka Brands by Volume**

(9L Cases, in Millions)

Brand	Owner	Volume	
Smirnoff	Diageo	25.8	
Absolut	Pernod Ricard	11.3	
Żołądkowa Gorzka	Stock	6.4	All Price Points
Khortytsa	Global Spirits	6.3	
Pyat Ozer	Alcohol Siberian Group	6.1	
Grey Goose	Bacardi	3.9	
Cîroc	Diageo	2.4	
Ketel One	Diageo	2.4	Ultra-Premium
Tito's Handmade	Fifth Generation	1.3	
Belvedere	LVMH	0.8	

Source: IWSR, Impact Databank

WHISK(E)Y*

The 350 million case whiskey category is the third-largest subset of the global spirits industry by volume, and with retail sales of just under $60 billion in 2013 it is second only to baijiu in value. Over the past five years whiskey has meaningfully outperformed the overall spirits market, adding nearly 100 million cases of incremental volume (+37%) and $14 billion of value (+29%). A large portion of the category's volume growth has come from the rapid expansion of the low-priced Indian "whiskies" ($4-6 per 750-ml), which account for over 50% of global whiskey volume, and are typically distilled from molasses rather than grains, and artificially colored and flavored, rather than aged. That said, the premium segments of the category, particularly scotch, bourbon, and Irish whiskey have also experienced strong volume growth at increasingly higher prices. Canadian whisky, which has held steady at about 20 million cases of volume, is the only large sub-segment of the market not experiencing meaningful growth.

* Conventionally, "whiskey" when referencing US and Irish varieties, and "whisky" for all others.

Whiskey's outperformance has been driven by both premiumization, as higher-priced single malt scotches gain favor in developed markets and travel retail; and volume growth, as both US and Irish whiskey continue to see international expansion and strong growth among younger (millennial) and Hispanic consumers in the US. While there are signs that the growth of Indian whisky market is beginning to moderate, over the next five years, whiskey is still expected to be the best performing global spirits category with volumes expected to increase 21% to almost 440 million cases by 2018.

Scotch

According to UK law, scotch is a 40% ABV (at least) whisky that is produced in Scotland from malted barley (and other whole grains), contains no additives other than water and caramel coloring, and is matured in oak casks for at least three years, although in practice, most premium scotch is aged for far longer. The law further distinguishes between scotches made only from malted barley (single malt), and those made from multiple grains (blended). According to the Scotch Whisky Association, France is the largest scotch market in the world, consuming about 14 million cases, but the $6 billion US market is the largest by value.

Scotch is a premium priced product, with a global average price of about $25 per 750-ml, and as a result accounts for more than one-half of the overall whiskey category's retail sales, despite representing only about 25% of its volumes. Scotch is also a fairly consolidated industry with the top-20 brands accounting for about 75% of global volumes, and the top-four representing 40%. Diageo's 19.3 million case Johnnie Walker brand is the category leader, and is more than three times larger than the second-largest brand, Pernod Ricard's Ballantine's.

Exhibit 8 **Largest Scotch Brands**

Johnnie Walker (Diageo)
19.3 million cases

Ballantine's (Pernod Ricard)
5.9 million cases

Chivas Regal (Pernod Ricard)
4.8 million cases

Grant's (William Grant & Sons)
4.7 million cases

Source: IWSR

The high level of consolidation and limited new brand development in the scotch industry is a testament to significant barriers to entry in production. With most premium scotch aged at least ten years, it is virtually impossible to generate timely returns on a "greenfield" premium scotch operation. It is thus unsurprising that recent acquisitions of premium scotch assets, such as Rémy Cointreau's 2012 purchase of Bruichladdich (founded in 1881) for $90 million or 24x EBITDA, have taken place at very high multiples. Even scotch producer Whyte & Mackay, acquired by Alliance Global Group for $725 million in May 2014, which manufactures scotch, but also derives a substantial portion of its business from bulk blended whisky sales, is estimated to have been purchased at more than 19x EBITDA.

US Whiskey (Bourbon)

Various types of whiskey are produced in the United States from fermented cereal grains most notably: bourbon, Tennessee whiskey, rye, and corn whiskey (moonshine). While all bourbons are US whiskeys not all US whiskeys are bourbon, and there are very specific requirements for a whiskey to be called "bourbon." Bourbon must be produced in the US, made of a grain mix of at least 51% corn, contain no additives other than water, and be aged in new, charred white oak barrels for at least two years. US whiskey volumes peaked in 1970 at approximately 100 million cases before entering a 40-year period of decline believed to be driven, at least in part, by baby boomers rebelling against their "father's drink," favoring vodka and beer instead. This trend reversed in 2009.

Nearly 37 million cases of US whiskey, valued at $9.5 billion were sold in 2013. Still, US whiskey's global expansion is in its very early stages, with the US, the largest global market, accounting for over 50% of the category's volumes and over 70% of its value. While no single international market represents more than 2 million cases of volume, some international markets, Germany for example, are expanding rapidly. In response to growing demand, many producers have invested substantial capital to increase capacity in recent years, and the category is expected to add another 6.5 million cases of volume over the next five years. Jack Daniel's maker, Brown-Forman, which has invested in substantial new distilling, aging, and barrel making capacity, has described the industry's growth as "a growing American whiskey renaissance around the world."

Further, the advent of flavor innovations in US whiskey (US whiskey infused with flavored liqueur) has meaningfully contributed to category growth both in the United States and abroad. The most notable success story, Jack Daniel's Tennessee Honey, launched in 2011, grew to over a million cases in three years by attracting new consumers to the category and causing little to no cannibalization of the core Jack Daniel's brand. Other producers have followed suit. Wild Turkey's American Honey variety now accounts for over 40% of the brand's volumes. Jim Beam has launched a wide range of flavor varieties including Honey, Maple, Kentucky Fire (cinnamon), and Red Stag (black cherry, cider, cinnamon), which have had varying levels of success, but have yet to interfere with the strong growth of the underlying brand. While flavored whiskey is unlikely to reach the penetration rates seen in the vodka or rum category, recent successes suggest that flavors could continue to drive volume growth into the future.

Like scotch, US whiskey's aging requirements create meaningful barriers to entry for producers, and there are very few large-scale US whiskey brands. Two brands, Brown-Forman's Jack Daniel's and Beam Suntory's Jim Beam account for ~50% of the category's volumes, and only four other brands (Evan Williams, Maker's Mark, Wild Turkey, and Jack Daniel's Tennessee Honey) sell in excess of 1 million cases per year. Suntory's $15.7 billion purchase of Beam Inc. (20x LTM EBITDA), the most recent purchase of a large-scale spirits portfolio, is believed to have been motivated by the favorable trends in the growing US whiskey category.

Exhibit 9 **Largest US Whiskey Brands**

Jack Daniel's (Brown-Forman)
11.5 million cases

Jim Beam (Beam Suntory)
7.1 million cases

Evan Williams (Heaven Hill)
1.7 million cases

Maker's Mark (Beam Suntory)
1.3 million cases

Source: IWSR, Impact Databank

Irish Whiskey

Once the most popular spirit in the world, today Irish whiskey represents only 2% of overall global whiskey volumes (about 7 million cases), but is notable because of its rapid growth. The category has grown volumes over 50% since 2008, making it the fastest growing international spirit category. This growth should continue, with the category expected to reach 10 million cases by 2018. The US is the largest Irish whiskey market, representing nearly 2.5 million cases, and is more than five times larger than the second-largest market, Ireland.

Irish whiskey is also among the most consolidated categories in spirits, with the top-three brands accounting for 93% of the market, and the top brand, Pernod Ricard's Jameson, representing nearly 70%. Since acquiring the brand in 1988, Pernod has grown Jameson's volumes from 500k cases to 4.4 million cases (~9% CAGR) and has aspirations to double Jameson's revenues to €1 billion by 2020. While Pernod and other Irish whiskey producers are expanding their product lines to include more premium, longer-aged variants, Irish whiskey is generally aged for shorter amounts of time than scotch and US whiskey (12-24 months). Given this, and the highly favorable industry outlook, we would expect additional investment in the category in the coming years, including the development of new brands.

Exhibit 10 **Largest Irish Whiskey Brands**

Jameson (Pernod Ricard)
4.4 million cases

Tullmore Dew (William Grant & Sons)
0.8 million cases

Bushmills (Diageo)
0.8 million cases

Paddy (Pernod Ricard)
0.2 million cases

Source: IWSR, Impact Databank, Pernod Ricard company presentations

BRANDY & COGNAC

The 200 million case global brandy market has grown volumes at a 7.5% CAGR over the past five years, ranking it among the fastest-growing global spirit segments. The category is highly bifurcated, with most of its volume growth coming from low priced ($2-5 per 750-ml) brandy in Asian markets, namely India and the Philippines, the two-largest brandy markets. Most value growth is sourced from the high-priced (avg. $50-60 per 750-ml) cognac segment, which accounts for only about 6% of overall brandy's volumes, but represents over 40% of its retail value. In this higher priced segment, China and the United States are the largest markets by value and volume, respectively.

Brandy is made by distilling wine. While high-quality brandies and cognacs are usually made from grapes and aged in oak barrels for years, lower quality brandy, which accounts for the vast majority of global volumes, can be made from a variety of base spirits and ingredients and then enhanced with additional flavors and coloring. While the global brandy market is highly fragmented, the cognac market is not, as the top-4 brands account for 80% of the global market volume, with LVMH's 5.2 million case Hennessy brand the clear global leader.

Exhibit 11 **Largest Cognac Brands**

Hennessey (LVMH)
5.2 million cases

Rémy Martin (Rémy Cointreau)
2.0 million cases

Martell (Pernod Ricard)
2.0 million cases

Courvoisier (Beam Suntory)
1.4 million cases

Source: IWSR, Impact Databank

Cognac, which is both aged, and made from raw materials sourced from a specific, relatively small region of France, is expensive to produce, and has among the highest working capital costs of any spirit. It is also the most premium priced spirit (on an average price per case basis) in the world, and has historically been more sensitive to economic conditions than others; Cognac was one of the few spirits categories that saw meaningful degradation during the 2008-2009 financial crisis.

More recently, the cognac category has been dramatically affected by a demand decline in China, the largest cognac market ($3.2 billion in 2012 vs. $1.3 billion in the US, the second-largest market), as a result of Chinese president Xi Jinping's effort to curb the perception of corruption and misuse of public funds by government figures. These anti-extravagance measures have, among other restrictions, banned alcohol at reception banquets, and banned receptions from being held at entertainment venues (nightclubs/KTVs) – two very important channels for cognac. IWSR estimates that cognac consumption in China fell over 11% in 2013, with much of that decline skewed towards more profitable high-end products. With anti-extravagance measures showing no signs of abating in the near-term, the cognac category is likely to be under pressure for several years, as producers rationalize inventory levels and adapt to the new operating environment.

RUM

The 146 million case, $17 billion, global rum market has grown at a 1.7% CAGR over the last five years but has declined about 5 million cases from its recent 2011 peak, largely due to a slowdown in India, the largest global rum market. While some super-premium rums such as Zacapa and The Kraken are beginning to gain traction, particularly in the United States and Western Europe, the global rum category is notable for being one of the only major international spirits categories that has yet to experience significant premiumization, with premium rum representing only 4-5% of category volumes. Over the next five years, Rum is expected to grow volumes roughly in-line with the overall spirits market (1-2%), but is expected to enjoy substantial growth in the high-end of the market.

Of Caribbean heritage, rum is distilled from sugarcane or molasses and can be either a brown or white spirit, depending on the production process (charcoal filtering removes colors acquired during aging). While some high-quality rums are aged for many years, most rum is aged for 1-3 years. Like vodka, rum is characterized by numerous flavor infusions and is often used as an ingredient in cocktails. In 2013, Celebration, a local Indian rum brand owned by USL/Diageo surpassed the stagnant Bacardi brand, which had led the category for decades, to become the highest volume rum brand with 18.9 million cases. Also notable, Diageo's Captain Morgan brand, the fourth-largest rum brand by volume, has been highly successful recently, adding over 2 million cases of volume over the past four years.

Exhibit 12 **Largest Rum Brands**

Celebration (United Spirits)
18.9 million cases

Bacardi (Bacardi Limited)
18.2 million cases

Tanduay (Tanduay)
11.7 million cases

Captain Morgan (Diageo)
10.6 million cases

Source: IWSR, Impact Databank

FLAVORED SPIRITS

Encompassing a variety of spirit types including liqueurs, bitters, anise, and eaux de vie, the global flavored spirits market represents about 160 million cases of volume, valued at $28 billion. While the category is expected to enjoy some modest growth over the next five years, it has been broadly flat, as increased competition from flavored vodkas and whiskies have displaced flavored spirits as ingredients in newer cocktails, siphoning consumers from the category. Offsetting this shift is the recent resurrection of many “classic” cocktail recipes such as the Old Fashioned and the Sidecar which have driven demand for more traditional ingredients like triple sec and bitters. We would also note that this cocktail driven demand skews the consumption of flavored spirits to the on-premise channel, which can be more economically sensitive.

Distilled from a wide variety of ingredients, flavored spirits are often un-aged, and have limited barriers to entry, prompting frequent innovation and product launches in search of the “next big thing.” That said, brand loyalty in the category can be high in the case of unique flavors or broad portfolios. As such, the category has a number of large, perennial champions such as Jägermeister (7.2 million cases), Bailey’s (6.5 million cases), Campari/Aperol (5.5 million cases), Fernet-Branca (5.2 million cases), Ricard (4.9 million cases), and the DeKuyper range (3.7 million cases). Still the flavored spirits category is often punctuated by the rapid rise and decline of brands. The most notable recent success is Sazerac’s Fireball Cinnamon Shot, which has grown from 55 thousand cases to over 2 million cases in the US since 2009. Unlike many other spirits categories, future flavored spirits growth is expected to be driven largely by volume sourced from increasing geographic reach, rather than premiumization. While there is a market opportunity for high-end and super premium flavored spirits, even in the highly premiumized US market, they account for only about 10% of volumes, according to DISCUS.

Exhibit 13 **Largest Flavored Spirits Brands**

Jägermeister (Mast-Jägermeister SE)
7.2 million cases

Bailey’s Irish Creme (Diageo)
6.5 million cases

Campari/Aperol (Davide Campari)
5.5 million cases

Fernet-Branca (Branca)
5.2 million cases

Source: IWSR, Impact Databank

GIN

Gin is a clear spirit distilled from grains and infused with juniper (primarily) as well as other flavors. While the 49 million case gin market has declined on a volume basis over the past five years, and is expected to continue to deteriorate over the next five, low-end commodity gin accounts for the majority of the decline. The premium segment of the market remains robust and high-end brands such as Bacardi’s Bombay and William Grant & Sons’ Hendrick’s have grown volumes rapidly, at relatively high price points. High-end gin growth has been driven by both “vodka fatigue” as well resurging popularity of gin-based cocktails, most notably the Gin & Tonic. Premiumization is evident category-wide, as overall dollar sales of gin grew at a 2.4% CAGR over the past five years, despite volume declines, to reach over $6 billion.

In our view, gin's unique and complex flavor profile lends itself to a stronger "craft" positioning and drives higher brand loyalty than vodka. As a result, despite sharing vodka's relatively low barriers to entry (gin is generally not aged), the global gin market remains highly consolidated with the top-10 brands controlling over 80% of the category's volumes. The gin market is also particularly top heavy, relative to other spirits categories; with the largest producer, San Miguel, representing 30-40% of category volumes. The company's inexpensive (<$3 per 750-ml) Ginebra San Miguel, sold primarily in the Philippines, has declined precipitously over the past five years, dropping from over 34 million cases to under 19 million in 2013, according to Impact Databank. Conversely, the largest premium gin brand Bacardi's 2.8 million case Bombay brand has grown at a healthy 6% CAGR over the same period, and craft gins like Hendrick's and Bulldog are growing at CAGR's in excess of 30%.

Exhibit 14 **Largest Gin Brands**

Ginebra San Miguel (San Miguel)
18.5 million cases

Gordon's (Diageo)
3.7 million cases

Bombay (Bacardi)
2.8 million cases

Seagram's (Pernod Ricard)
2.8 million cases

Source: IWSR, Impact Databank

TEQUILA

The 27 million case global tequila market has added about 4 million cases of volume over the past five years and is expected to add a similar amount by 2018. Tequila has very significant geographic expansion opportunities, as about 80% of total world tequila volumes are consumed in the US and Mexico. Consumers have also demonstrated a significant thirst for premium tequila. In the United States, despite 7% overall category growth, 2013 marked the first decline in "value" tequila in the United States in over a decade, as commodity varieties give way to higher-end brands. High-end and super-premium tequila grew volumes over 400% between 2002 and 2013, increasing from 11% to 25% of the overall category. The category's US and premium skew is highlighted in tequila's global average selling price of about $20 per 750-ml bottle, a per-unit price that lags only high-end whiskies and cognac.

Tequila is distilled from the blue agave plant, and according to US and Mexican laws, must be produced in specific regions of Mexico (although it may be bottled in the US). While agave content can range from 51-100%, higher agave concentration is typically associated with quality, as is aging. Tequila can be sold immediately after distillation or aged to add to additional coloring and flavor. Aged tequila is called Añejo (one year) or Extra Añejo (>3 years), with longer-aged tequilas sharing many of the craft characteristics typically associated with whiskies.

While the overall tequila category is fairly consolidated (the top-four brands account for approximately 50% of volumes), it has a long tail encompassing nearly 1,000 brands. Privately owned Cuervo Tequila is the highest volume brand with an estimated 6.5 million cases sold in 2013, but the 2.1 million case, $1.2 billion Patrón brand is the largest by value with an average selling price between $40-50 per bottle (vs. $12-13 for Cuervo), according to Impact Databank.

Exhibit 15 **Largest Tequila Brands**

Jose Cuervo (Cuervo)
6.5 million cases

Sauza (Beam Suntory)
3.6 million cases

Patrón (The Patrón Spirits Co.)
2.1 million cases

el Jimador (Brown Forman)
1.1 million cases

Source: IWSR, Impact Databank

NATIONAL SPIRITS

National spirits represent the single largest sub-category of the global distilled spirits industry, accounting for 1.4 billion cases (45%) of total consumption valued at just under $100 billion. Baijiu (1.2 billion cases, China) and Sochu/Soju (230 million cases, Japan/Korea) represent the substantial majority of these volumes with other notable categories being Schnapps and Korn (5.7 million cases, Germany) and Aquavit (1.2 million cases, Scandinavia). While national spirits are expected to continue their volume growth over the five years, the pace is expected to meaningfully slow, largely due to lower baijiu growth.

Baijiu

A relatively high ABV (40%+) white spirit distilled from sorghum and other grains, Chinese baijiu is the largest spirit category in the world by both volume and value. It is mostly consumed in the off-premise channel at meals and gatherings, and is commonly gifted. Baijiu's price and quality can vary widely, ranging from less than a dollar per bottle into the thousands. While the category has massive scale, it is highly fragmented with over 10,000 producers, mostly selling regional brands through local channels of distribution (the largest brand is believed to sell "only" 10-15 million cases). That said, reliable data on the size of individual brands is scarce and many baijiu trademarks, including larger brands such as Wuliangye and Moutai, are controlled by the Chinese government.

As a result of this fragmentation and government protection, international spirits companies have had very limited (arguably no) meaningful access to the baijiu market despite its size. The one notable exception was Diageo's multi-stage acquisition of ShuiJingFang between 2007 and 2010, which has been challenging thus far. Diageo recently wrote-off its £250 investment in the company following a 78% sales decline in 2014, driven by the government's anti-extravagance campaign.

Similar to cognac, a very meaningful amount of the baijiu profit pool in China was derived from ultra-premium variants gifted and consumed at official banquets and gatherings. With this demand significantly impaired, many retailers were left holding substantial inventories of high-priced baijiu, leading to large price cuts. Compounding the issue, in late 2012 many brands of baijiu were found to contain plasticizers, a banned food additive, resulting in further demand destruction. While baijiu is, and is expected to remain, a very important part of Chinese drinking culture, near-term industry growth is expected to remain subdued.

Sochu/Soju

Sochu and soju are relatively low-priced ($50-60 per 9L case), low-alcohol (20-30%), rice-based spirits that are primarily consumed in Japan and South Korea. While still among the highest volume categories globally, sochu/soju sales have been steadily declining in recent years and are expected to continue to trend downward in the future due to demographic trends and younger consumers trading into other alcohols. That said, the category remains popular in the on-premise channel and pockets of growth still exist in international markets, sochu/soju juice mixes, and lower alcohol variants. In stark contrast to Baiju, the Sochu/Soju market is meaningfully consolidated. Jinro, the single largest spirits brand in the world (66 million cases), accounts for about 30% of the category and the top 15 brands represent approximately 75%.

At 66 million cases, Jinro soju is the largest volume spirits brand in the world.

NOTABLE PRODUCERS

While the global distilled spirits industry is highly fragmented on a volume basis, primarily due to the vast number of local and regional vodka and baijiu producers, it is far more consolidated on a value basis. Following years of industry consolidation, ten major producers combined to generate over $45 billion of revenue in the most recent year, and thus account for 60-70% of global spirits value, excluding national spirits. This group includes both public companies (Diageo/USL, Pernod Ricard, Brown-Forman, LVMH, Davide Campari, Rémy Cointreau) and privately owned businesses (Bacardi, Beam Suntory, William Grant & Sons, Edrington) that sell product across all major spirits categories.

Exhibit 16 **Notable Spirits Producers**

($ in billions) Company	Approximate Spirits Revenue	Est. % of Revenue from Spirits *(a)*	Key Brands
Diageo	$ 12.6	76%	Johnnie Walker, Smirnoff, Captain Morgan, Baileys
Pernod Ricard	9.7	93% *(b)*	Absolut, Jameson, Ballantine's, Chivas Regal
Bacardi Limited	4.8	>95%	Bacardi, Grey Goose, Dewar's, Bombay
Beam Suntory	4.3	22%	Jim Beam, Maker's Mark, Sauza, Suntory
Brown-Forman	3.7	95%	Jack Daniel's, Finlandia, Southern Comfort, el Jimador
LVMH	2.8	15%	Hennessey, Belvedere, Glenmorangie
United Spirits *(c)*	1.8	>95%	McDowell's, Bagpiper, Old Tavern
William Grant & Sons	1.7	>95%	Grant's, Glenfiddich, Hendricks's, Tullmore Dew
Davide Campari	1.5	73%	Campari, Aperol, Wild Turkey, Skyy
Remy Cointreau	1.3	>95%	Remy Martin, Cointreau, Bruichladdich
Edrington	1.2	>95%	The Macallan, The Famous Grouse, Cutty Sark, Brugal
Stock Spirits	0.5	>95%	Żołądkowa Gorzka, Stock, 1906, Fernet
Constellation Brands	0.3	5%	Svedka, Black Velvet, Paul Masson

Source: Company data, IWSR, Impact Databank, Gabelli & Company estimates

(a) Excludes beer and wine, but includes RTDs

(b) Wine sales estimated

(c) As of 6/30/2014, 55% owned by Diageo

DIAGEO **(DGE – LN | DEO – NYSE)**

With about 75% of the company's £10.3 billion revenue derived from distilled spirits sales, Diageo is the largest spirits company in the world, and has a presence in virtually all categories and geographies. The company's unmatched brand portfolio is anchored by the number one scotch brand (Johnnie Walker) and the number one vodka brand (Smirnoff) in the world, but also includes the second-largest rum brand (Captain Morgan), the largest Canadian whisky brand (Crown Royal), and the largest liqueur brand (Bailey's), among many others. Additionally, Diageo owns a 34% stake in Moët Hennessy, the spirits and wine subsidiary of LVMH, and recently completed the acquisition of a 55% stake in United Spirits, the largest spirits producer in India, which will add approximately £1 billion of revenue when consolidated. While FY2014 was a challenging year for the company, with sales growth pressured declines in Smirnoff and economic weakness in emerging markets, most notably China, Diageo expanded both margins and market share across its portfolio, and strengthened its position to drive long-term outperformance.

PERNOD RICARD **(RI – FR)**

Having completed two transformative acquisitions in the past ten years, the $6.5 billion acquisition of Allied Domecq brands in 2005 (net of disposals), and the $9 billion purchase of Vin & Spirit in 2008, Pernod Ricard has solidified its position as the second-largest global spirits producer with nearly €8 billion of annual revenue. Armed with a broad brand portfolio, the company plans to invest heavily to grow its two global icon brands: Absolut vodka and Chivas Regal scotch, while also driving a more profitable sales mix through expansion of premium priced spirits and champagnes. In addition, the company is leveraging the scale provided by its 18 local and regional brands to position the remainder of its premium portfolio, which includes Jameson Irish whiskey, Ballantine's scotch, Kahlua liqueur, and Havana Club and Malibu rums, among others, for future growth. Like Diageo, Pernod's FY 2013/14 results were muted by underperformance in China, where its premium scotch and cognac portfolio saw significant declines. Additionally, weak Absolut performance in the highly competitive US vodka market offset strong growth by Jameson and The Glenlivet as well as ongoing improvement in most key European markets.

BACARDI LIMITED **(Private)**

With an estimated $5 billion of revenues and 37 million cases of annual spirits volume, family-controlled Bacardi Limited is the largest privately held spirits company. Its brand portfolio includes the 19 million case namesake Bacardi rum brand, Grey Goose, the world's leading super-premium vodka, as well as Bombay gin, Dewar's and William Lawson's scotch, and Martini vermouth and sparkling wines. The company also owns a significant minority stake in Patrón tequila. Bacardi has been successful growing its premium spirits portfolio in recent years, but its core rum brand has struggled to maintain its relevance and share. While the company is in the midst of a CEO transition, the family remains focused on leveraging Bacardi's status as a private company to make strategic investments absent pressure to deliver short-term results. As a result, the company is often a party to M&A speculation both as a buyer and seller of assets.


BEAM SUNTORY **(Private)**

Privately held Suntory Holdings' January 2014 acquisition of publicly traded Beam Inc. established the combined company as the fourth-largest global spirits producer and the world's largest producer of Bourbon, owning both the #1 and #3 brands: Jim Beam and Maker's Mark, as well as a number of smaller craft brands. The combined company's portfolio also includes notable assets in Japanese whisky (Suntory, Yamazaki, Hakuskhu), tequila (Sauza, Hornitos), vodka (Pinnacle), and cognac (Courvoisier). The combined company is expected to generate spirits revenues of $4-4.5 billion and is poised to benefit both from the positive industry growth trends in US whiskey and tequila as well as the revenue synergy opportunities that Beam's distribution system will bring to Suntory's brands, which previously had limited exposure to the profitable US market.


BROWN-FORMAN **(BF'A / BF'B – NYSE)**

Generating over $3.7 billion of revenue from spirits, publicly traded, but family controlled Brown-Forman is the largest producer of US whiskey in the world, and its 11.5 million case Jack Daniel's Tennessee Whiskey brand is the largest single brand. In addition, the company owns the Woodford Reserve, Early Times, and Old Forester bourbon brands, el Jimador and Herradura tequilas, Finlandia vodka, and Southern Comfort liqueur. The company's portfolio which is skewed towards advantaged categories, aged spirits, and premium-price points is extremely well positioned to capture many of the strongest growth trends in the global spirits industry. Further, while Brown-Forman generates nearly 60% of its revenue outside the United States it has limited exposure to China, which represents both an enormous future growth opportunity, and a near-term benefit given the recent struggles in that market. Finally, the company has demonstrated a strong competency for innovation by growing its recently launched flavored whiskey, Jack Daniel's Tennessee Honey, to over 1 million cases in only three years with very limited cannibalization.



LVMH **(MC – FR)**

While LVMH's $2.7 billion spirits revenues represents only 15% of the company's overall business (wine and champagne, fashion and leather goods, perfumes and cosmetics, watches and jewelry, and retail stores account for the balance), its brand portfolio is among the most premium in the world and includes Hennessey, the world's leading cognac, Belevedere ultra-premium vodka, Glenmorangie single malt scotch, 10 Cane a luxury rum, and Wenjun, a niche high-end baijiu. Of course, LVMH's luxury positioning and exposure to both cognac (the leading brand in China) and baijiu (albeit on very small scale) have put significant pressure on recent results. However the negative effect of evaporating Chinese cognac demand was less damaging to LVMH than some of its competitors due to a lower trade inventory position at the initiation of the anti-extravagance measures, and a lesser skew towards the prestige segment. In its most recent earnings reports, LVMH has expressed optimism about China, noting that the worst of the destocking is over.



UNITED SPIRITS **(MCDOWELL.N-IN)**

Now majority owned by Diageo following its $5.3 billion multi-stage acquisition of a 55% interest, United Spirits is the largest spirits company in India and, with over 120 million cases of volume, the largest standalone spirits company in the world by volume. USL enjoys an estimated 40% share of the $6 billion Indian spirits market, which is expected to grow at a mid-teens CAGR, despite near-term pressures from an economic slowdown. The company has a presence in all major categories, with 22 brands selling more than 1 million cases per year, including key brands: McDowell's No. 1, Celebration rum, Black Dog 12yr, and White Mischief vodka. The company also has extensive manufacturing and distribution capabilities throughout the country with over 80 owned and contracted plants and the ability to service 64,000 retail outlets. USL is expected to contribute £1 billion of incremental revenue upon consolidation, and provides Diageo with a strong base to grow in India, should the market become more open to foreign producers over time.



WILLIAM GRANT & SONS **(Private)**

Based in Scotland, family owned William Grant & Sons' $1.8 billion of spirits revenue make it the second-largest private spirits company behind Bacardi. The company's advantaged portfolio is skewed towards aged spirits, notably scotch, with key brands including: Grant's, the fourth-largest global scotch brand, premium priced Glenfiddich and The Balevine single malts, as well as Tullmore Dew Irish whiskey. William Grant's other brands include Hendrick's premium gin, and Sailor Jerry rum, two premium offerings growing well in excess of their categories. Additionally, the company's innovation and acquisition strategy has focused on expanding its portfolio of premium, craft, and local offerings in the United States with brands such as Hudson Whiskey and Root.

DAVIDE CAMPARI-MILANO **(CPR – MI)**

Built through more than 20 acquisitions over the past two decades, Gruppo Campari has transformed itself from a narrowly focused manufacturer of aperitifs to a €1.5 billion revenue business, with over 70% derived from distilled spirits. While its core Campari and Aperol brands still account for nearly 20% of the company's revenue, Campari now boasts a broader spirits portfolio that includes vodka (Skyy), bourbon (Wild Turkey), rum (Appleton Estates), vermouth (Cinzano), as well as a number of other smaller developing and local brands. Most recently the company acquired Forty Creek Distillery (Canadian whisky) and Fratelli Averna (bitters) for 15x and 9x EBITDA respectively, which we view as opportunistic valuations. While Skyy competes in a challenging, highly-competitive US vodka market, we believe that Campari will benefit from both growing bourbon consumption, and the ongoing popularity of classic cocktails. Finally, like Brown-Forman, Campari has been able to carve out a successful flavored Bourbon niche with its American Honey product.

RÉMY COINTREAU **(RCO – FR)**

With the €550 million Rémy Martin cognac brand accounting for more than one-half of Rémy Cointreau's €1 billion revenues, the company's recent results have been particularly challenged by the degradation of the high-end cognac market in China. In addition, Rémy recently lost the distribution rights to long-time partner Edrington's brands in the United States after it made the decision to establish its own US operation. Yet despite these challenges, the remainder of Rémy Cointreau's spirits portfolio, which includes Bruichladdich single malt scotch, Cointreau liqueur, and Mount Gay rum has shown strong growth recently, Rémy Martin continues to grow in markets outside China, and in China, the rate of decline has slowed as excess retail inventory is rationalized. Similar to LVMH, we believe that Rémy's ultra-premium positioned will drive strong future growth as its end-markets stabilize over time.


EDRINGTON **(Private)**

The Edrington Group is a privately held Scottish spirits company controlled by the Robinson Trust, a charitable organization. In 2013, the company generated £730 million of revenue (including joint venture revenue) from sales of notable spirits brands including: The Macallan and Highland Park single malt scotch, The Famous Grouse and Cutty Sark blended scotch, Brugal premium rum, and Snow Leopard vodka. The company's strategy is focused on expanding its route to market to grow its geographic reach. Recently, Edrington cut ties with long-time US distribution partner Rémy Cointreau, and established a wholly-owned sales subsidiary with the aim of accelerating growth of its premium whisky and rum portfolio in the US. Similarly it established operations in Singapore to target the rapidly growing market for premium spirits in Southeast Asia.

STOCK SPIRITS **(STCK – LN)**

Stock Spirits is a publicly traded pure-play manufacturer of vodka, brandy, rum, and flavored spirits with leading market shares in Italy and Central Europe (primarily Poland and Czech Republic). While the company can trace its origins to 1884, the current business was assembled by a private equity owner (Oaktree Capital) in 2008 and brought public in 2013. While the company competes in highly-competitive markets, and primarily in un-aged spirits, it has been successful in building leading share positions and strong local brands. Stock's strategy is to organically grow in its core markets through marketing and product innovation, while leveraging its strong cash generation to expand into adjacent Central and Eastern European markets through the acquisition of local players.

CONSTELLATION BRANDS **(STZ – NYSE)**

Primarily a wine and beer company, spirits only account for about 5% of Constellation Brands roughly $6 billion of revenue. That said, the company's spirits portfolio which is led by the 4 million case SVEDKA vodka brand, generates strong gross margins and provides scale and leverage with retailers. The company has had great success growing SVEDKA, which sold only 1.1 million cases when Constellation acquired the brand in 2006, in spite of the highly competitive US vodka market. Recently, Constellation entered the high-growth tequila category with its acquisition of the premium Casa Noble brand, and we expect the company to leverage its scale with retailers and distributors to grow the brand aggressively. Over-time we believe that spirits will become an increasingly important part of Constellation's business.

Table 2 **Publicly Traded Spirits Companies**

Spirits Industry		**Brown-Forman**		**Constellation Brands**		**Davide Campari**		**Diageo**		**Pernod Ricard**		**Remy Cointreau**		**Stock Spirits**	
(in millions, except per share data)		(BF'B - NYSE)*		(STZ - NYSE)*		(CPR - MI)		(DGE - LN)		(RI - FR)		(RCO - FR)*		(STCK - LN)	
12-Month High/Low		$ 97.15	$ 71.23	$ 94.77	$ 63.47	€ 6.44	€ 5.04	£ 20.48	£ 16.90	€ 92.48	€ 78.82	€ 75.12	€ 50.42	€ 3.98	€ 2.74
Capitalization		FYE 4/30		FYE 2/28		FYE 12/31		FYE 6/30		FYE 6/30		FYE 3/31		FYE 12/31	
Balance Sheet as of:		7/31/14		8/31/14		3/31/14		Pro Forma		6/30/14		3/31/14		12/31/13	
Shares Outstanding		213		193		576		2,501		264		48		200	
Options/Converts		2		10		3		3		1		-		3	
Fully Diluted Shares Outstanding		215		202		579		2,504		265		48		203	
Price as of 10/20/2014		$ 86.99	*(class B)*	$ 85.07	*(class A)*	€ 5.34		£ 17.43		€ 84.86		€ 53.18		€ 3.89	£ *3.08*
Equity Market Capitalization		**$ 18,630**		**$ 17,209**		**3,087**		**43,657**		**22,499**		**2,568**		**788**	
Total Debt and Preferred Stock		1,018		7,192		1,206		11,487		8,830		600		176	
Minority Interest		-		-		5		2,463		157		1		-	
Cash and Equivalents		(460)		(104)		(379)		(693)		(477)		(186)		(130)	
Hidden Assets		-		-		-		(2,152)		-		-		-	
Total Enterprise Value (TEV)		**$ 19,188**		**$ 24,297**		**€ 3,918**		**£ 54,762**		**€ 31,009**		**€ 2,982**		**€ 835**	
Consolidated:															
Net Revenues	2015P	$ 4,495	*6.5%*	$ 6,291	*4.9%*	€ 1,637	*6.4%*	£ 11,794	*4.6%*	€ 8,361	*5.2%*	€ 1,034	*7.0%*	€ 357	*8.0%*
(growth)	2014E	4,220	*6.9%*	5,998	*10.8%*	1,538	*0.9%*	11,277	*9.9%*	7,945	*-7.3%*	966	*-6.4%*	330	*-3.0%*
	2013A	3,946	*4.3%*	5,411	*70.6%*	1,524	*13.7%*	10,258	*-9.2%*	8,575	*4.4%*	1,032	*-13.6%*	341	*16.4%*
5-Yr CAGR 13-18P		*6%*		*6%*		*5%*		*6%*		*2%*		*4%*		*6%*	
EBITDA	2015P	$ 1,209	*26.9%*	$ 1,904	*30.3%*	€ 380	*23.2%*	£ 3,966	*33.9%*	€ 2,384	*33.6%*	€ 201	*19.4%*	€ 84	*23.6%*
(margin)	2014E	1,117	*26.5%*	1,781	*29.7%*	343	*22.3%*	3,762	*33.3%*	2,259	*34.1%*	181	*18.8%*	76	*22.9%*
	2013A	1,021	*25.9%*	1,324	*24.5%*	329	*21.6%*	3,499	*34.1%*	2,416	*33.9%*	167	*16.2%*	84	*24.6%*
5-Yr CAGR 13-18P		*8%*		*12%*		*9%*		*6%*		*2%*		*10%*		*7%*	
EPS	2015P	$ 3.70	*8.8%*	$ 4.73	*11.6%*	€ 0.32	*16.1%*	£ 1.12	*5.9%*	€ 5.08	*14.0%*	€ 2.16	*17.7%*	€ 0.25	*25.0%*
(growth)	2014E	3.40	*11.0%*	4.24	*30.5%*	0.27	*8.1%*	1.06	*11.0%*	4.46	*-3.3%*	1.84	*13.0%*	0.20	*188.6%*
	2013A	3.06	*11.5%*	3.25	*48.6%*	0.25	*-5.0%*	0.95	*-7.2%*	4.61	*1.9%*	1.63	*-47.4%*	0.07	*688.8%*
5-Yr CAGR 13-18P		*9%*		*15%*		*14%*		*7%*		*6%*		*15%*			
TEV/EBITDA	2015P	15.9 x		12.8 x		10.3 x		13.8 x		13.0 x		14.9 x		9.9 x	
	2014E	17.2		13.6		11.4		14.6		13.7		16.5		11.0	
	2013A	18.8		18.4		11.9		15.7		12.8		17.8		10.0	
P/E	2015P	23.5		18.0		16.8		15.6		16.7		24.6		15.6	
	2014E	25.6		20.1		19.5		16.5		19.0		28.9		19.4	
	2013A	28.4		26.2		21.0		18.3		18.4		32.7		56.1	
Total Debt/EBITDA		0.5 x		4.2 x		3.7 x		2.9 x		3.7 x		3.6 x		1.7 x	
EBITDA/Interest		42.8		5.3		5.6		9.0		4.5		7.3		1.5	
Net Debt/TEV		2.9 %		29.9 %		21.7 %		19.7 %		26.9 %		13.9 %		5.7 %	
Additional Information:		*Louisville, KY*		*Victor, NY*		*Milan, Italy*		*London, UK*		*Paris, France*		*Paris, France*		*Buckinghamshire, UK*	
Dividend		$ 1.16	*1.3%*	$ -	*0.0%*	€ 0.08	*1.5%*	£ 0.32	*1.8%*	€ 0.82	*1.0%*	€ 0.90	*1.7%*	€ -	*0.0%*

Source: Company reports, Gabelli & Company estimates
** 2014 and 2015 estimates represent company reported FY2015 and FY2016*

INDUSTRY CONSOLIDATION

Over the past fifteen years, the global spirits industry has been shaped by a number of transformative transactions, culminating most recently in Suntory's $15.7 billion acquisition of Beam, Inc. for 20x trailing EBITDA in January 2014. While deal multiples have varied widely, ranging from under 10x to over 30x, the weighted average and median transaction multiples for assets in the spirits industry range between 17-18x EBITDA. Generally, single assets, and particularly premium brands, have sold for higher multiples than larger portfolios, and brands that are sold to satisfy regulators or de-lever in the wake of large deals (Wild Turkey and Malibu, for example) are sold at lower multiples.

While the prices paid for spirit assets are optically high, the economics for acquirers are very compelling given significant the synergy opportunities available when companies add incremental brands to existing sales and distribution systems, and even at lofty multiples, deals can be accretive quickly. Given this, we expect consolidation to continue to be a driver of growth in the spirits industry, and expect to see smaller brands continue to change hands frequently. That said, we believe that there will be fewer opportunities for large scale consolidation going forward, given that most large spirits companies are controlled by families/ownership groups with stated desires to remain independent. Given this scarcity, we believe that spirit company acquisition multiples will likely increase over time.

Table 3 **Select Spirits Industry Transactions**

Date	Buyer	Target	Category	Price *(a)*	TTM EBITDA *(a)*	Est. Multiple	
05/2014	Alliance Global Group	Whyte & Mackay	Scotch	$ 725	$ 38	19 x	
04/2014	Gruppo Campari	Fratelli Averna S.p.A	Bitters	143	16	9	
03/2014	Gruppo Campari	Forty Creek Distillery Ltd.	Canadian Whiskey	166	11	15	
01/2014	Suntory Holdings	Beam Inc.	Portfolio	15,740	789	20	
09/2012	Gruppo Campari	Lascelles deMercado & Co. Limited	Rum	415	28	15	
11/2012	Diageo plc	United Spirits Limited	Portfolio	5,374	240	22	*(b)*
07/2012	Rémy Cointreau	Bruichladdich	Scotch	90	4	24	
05/2012	Diageo plc	Ypióca Bebidas S.A.	Cachaça	452	22	20	*(c)*
04/2012	Beam Inc.	White Rock Distilleries, Inc.	Vodka, Rum	605	30	20	
02/2011	Diageo plc	Mey Içki Sanayi ve Ticaret A.S.	Raki	2,115	214	10	
04/2009	Gruppo Campari	Wild Turkey	Bourbon	575	44	13	*(d)*
03/2008	Pernod Ricard	V&S Vin & Spirit AB	Vodka	8,892	427	21	
02/2008	Diageo plc	Ketel One	Vodka	1,800	94	19	*(e)*
02/2007	Constellation Brands	SVEDKA	Vodka	384	11	35	*(f)*
08/2006	Brown-Forman	Grupo Industrial Herradura, S.A. de C.V.	Tequila, RTD	876	50	18	*(g)*
08/2005	Diageo plc	Bushmills	Irish Whiskey	387	26	15	*(h)*
04/2005	Pernod Ricard S.A.	Allied Domecq PLC brands	Portfolio	6,365	650	10	*(i)*
04/2005	Fortune Brands	Allied Domecq PLC brands	Portfolio	5,354	545	10	*(i)*
10/2004	Moët Hennessy-Louis Vuitton S.A	Glenmorangie plc	Scotch	545	28	19	
06/2004	Bacardi Limited	Grey Goose	Vodka	2,000	76	26	*(j)*
02/2002	Allied Domecq PLC	Malibu	Rum	796	63	13	*(k)*
12/2001	Gruppo Campari	Skyy Spirits, LLC	Vodka	415	33	13	*(l)*
12/2000	Diageo plc / Pernod Ricard	The Seagrams Company Ltd.	Portfolio	8,150	530	15	
					Weighted Mean	**17.6 x**	*(l)*
					Median	**17.5 x**	

Source: Company data, Gabelli & Company estimates.

(a) Non-USD deals converted to USD at announcement date exchange rate

(b) Paid £1,842 million for 54.78% stake, including 26% from public tender; average $1.598 exchange rate between 11/2012 and 6/2014

(c) Estimated based on revenues of BRL 177 million @ 25% est. EBITDA margin

(d) Estimated based on announced 12x FY1 EBITDA @ assuming 8% est. EBITDA growth

(e) Paid $900 million for 50% ownership; EBITDA estimated based on 1.9 million cases @ $110 revenue / case @ 45% est. EBITDA margin

(f) Estimated based on 1.1 million cases @ $50 revenue / case @ 20% est. EBITDA margin

(g) Estimated based on revenues of $200 million @ 25% EBITDA margin

(h) Estimated based on revenues of $72 million @ 35% EBITDA margin

(i) Total $14.2 billion purchase price for AD excludes $2.43 billion proceeds from sale of QSR to PE (~$210 million EBITDA)

(j) Speculated $2 billion purchase price; EBITDA estimated based on 1.4 million cases @ $120 revenue / case @ 45% est. EBITDA margin

(k) Estimated based on 2.3 million cases @ $60 revenue / case @ 45% est. EBITDA margin

(l) Paid $207.5 million for 50% stake, bringing ownership to 58.9%. EBITDA estimated based on $95 million revenue @ 35% EBITDA margin.
Paid $156.6 million for an additional 30.1% stake, bringing ownership to 89% in Feb 2005

(l) Weighted by deal size

Companies Mentioned

Alliance Global Group	(ALGGY	- OTC)
Brown Forman Corporation	(BF'B	- NYSE)
Constellation Brands	(STZ	- ")
Davide Campari-Milano SpA	(CPR	- MI)
Diageo plc	(DGE	- LN)
LVMH	(MC	- FR)
Pernod Ricard	(RI	- ")
Rémy Cointreau	(RCO	- ")
Stock Spirits Group plc	(STCK	- LN)
United Spirits	(McDowell.N	- IN)

I*, **Joseph A. Gabelli,*** the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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Important Disclosures

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Ratings

Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

A **Hold** is a stock that may be trading at or near our estimated private market value. We may not anticipate a large increase in the PMV, or see some other factors at work.

A **Sell** is a stock that may be trading at or above our estimated PMV. There may be little upside to the value, or limited opportunity to realize the value. Economic or sector risk could also be increasing.

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As of September 30, 2014, our affiliates beneficially own on behalf of their investment advisory clients or otherwise approximately 2.05% of Brown Forman, 1.22% of Davide Campari, and less than 1% of Constellation Brands, Diageo, LMVH, Pernod Ricard, and Remy Cointreau. Because the portfolio managers at our affiliates make individual investment decisions with respect to the client accounts they manage, these accounts may have transactions inconsistent with the recommendations in this report. These portfolio managers may know the substance of our research reports prior to their publication as a result of joint participation in research meetings or otherwise. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. The analyst, who wrote this report, or members of his household, owns no shares of the above mentioned companies.