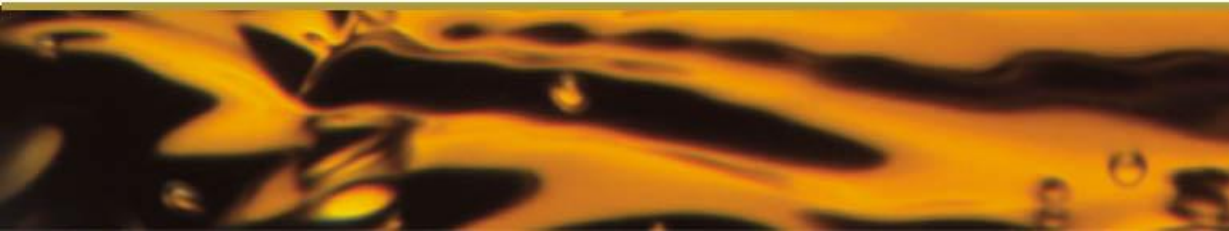


International Brandy Consumption Trends

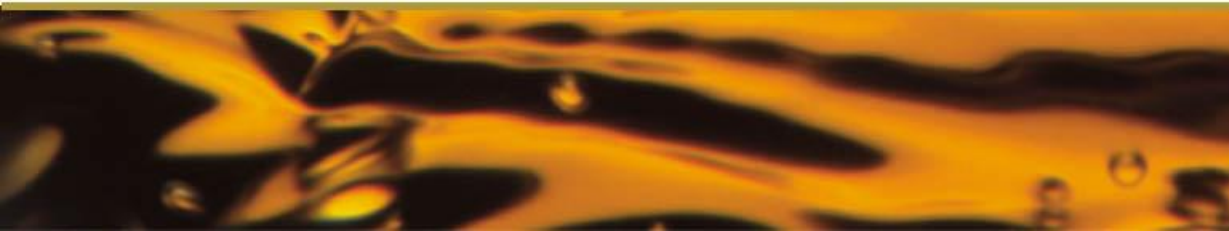
May 2011



South African
Brandy Foundation

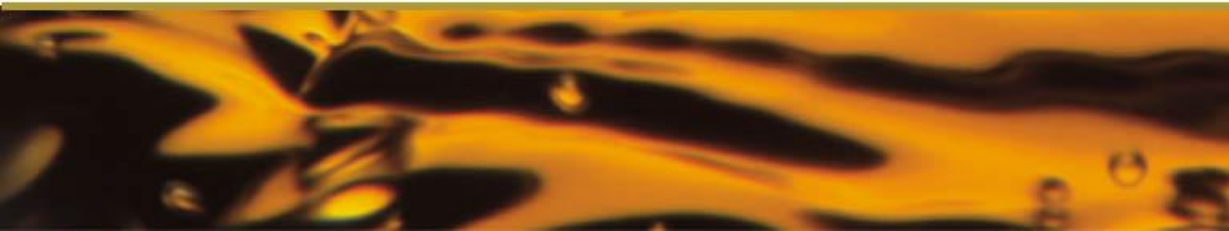
Introduction

- Global Brandy Trends – how can we learn from other markets
- Some facts about other markets
 - Philippines started drinking brandy only as late as 12 years ago, already consuming 1.6l per annum
 - In Serbia, they consume 2.1l
 - Chileans drink a happy 2.6l
 - And the winner is Georgia with a staggering 3.6l per annum!
 - SA is lagging behind with only 0.9l per annum consumption
- Notes about the figures
 - The figures that I have been working with are only accurate enough to give broad trends. Different sources give differing numbers, but the trends I'll be discussing will be clear and stark.



The World Market size and recent growth

- Non-Cognac brandy
 - In 2005 106m cases (961m litres)
 - In 2010 128m cases (1152m litres)
 - Thus the CAGR over the last 5 years have been 4%
- Cognac
 - About a tenth of this size at around 12m cases with no growth over the same period
- Total Market
 - 2005 118m cases
 - 2010 140m cases
 - CAGR 3.7%
- SA market has in comparison declined significantly down from 5.3m cases to 4.6m cases thus CAGR of -2.6%



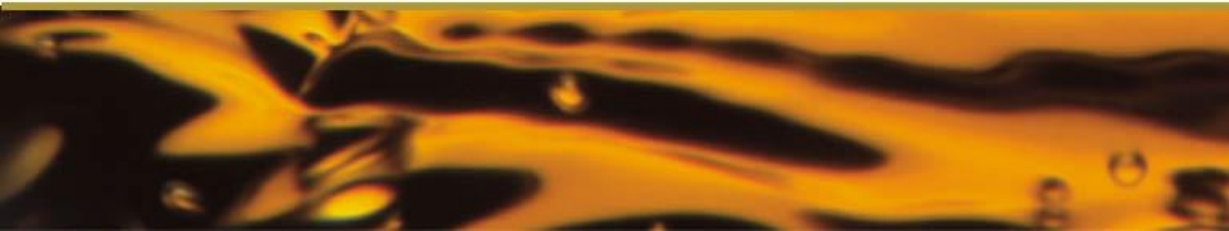
East vs West (Developed vs Emerging)

- In almost everything we read we see East/West gap in performance
- Growth in:
 - National Economics
 - Commodities usage; Coal, Oil, Steel etc.
 - Finished goods consumption: Cars, phones, computers etc.
- Brandy shows the same trend - Traditional markets are shrinking as a percentage of the total
 - Western Europe – down 3% CAGR as it starts to drink other spirits (such as vodka and whisky) in volume
 - North America shows a small growth of around 1% CAGR (again vodka and whisky growing)
 - East Europe a steady 2% CAGR as those countries economically catch up with Western Europe (**Russia has grown even faster at 9% CAGR**)
 - But the real engine for growth is Asia/Pacific – in 2005 it consumed 42% of the world's total, in 2010 that was up to 53% and continue to rise after five years of 11.5% CAGR.



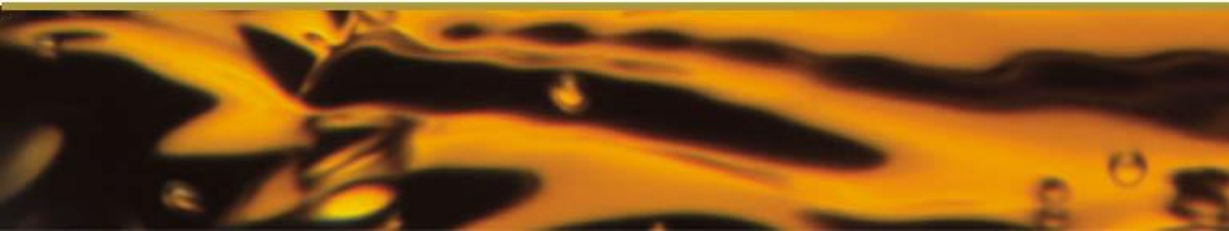
How does Brandy compare with other Spirits?

- Globally Brandy is the 5th largest category with Vodka being number 1 (Vodka 506m cases; Rum 212 mc; Whisky 203mc; Flavoured spirits 152 mc; Brandy 128mc)
- Here in SA we are one of the few countries where Brandy is number 1 in the spirits category
- That's helped by our relatively large per capita consumption. We are high consumers on a global scale – equal to Germany from the major consumption countries
- When you put those two points together it shows how threatened is our position of having brandy as the number 1 category



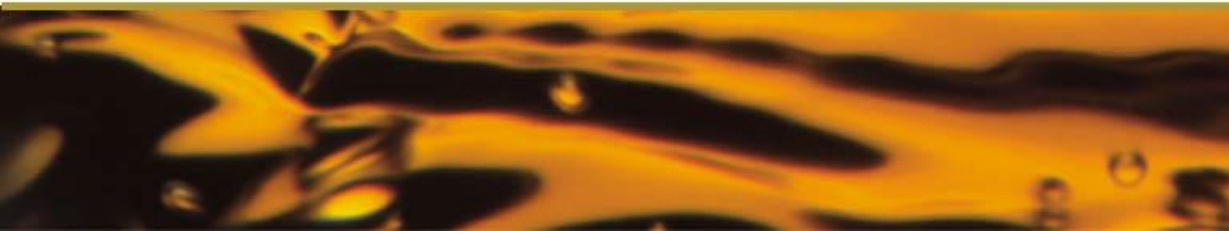
Let's look at Asia in more depth

- Let's re-cap on the big consumers per capita (in litres per annum)
 - SA 0.9; Philippines 1.6; Serbia 2.1; Chile 2.6; Georgia 3.6
- These countries weren't selected at random, they are all from developing regions (not Western Europe or North America) and they represent all regions
- There is no regional blockage against drinking Brandy
- There are of course localised barriers such as the Philippines high taxes and import duties or Islam's prohibition
- The Philippines is leading in the increase in per capita Brandy consumption in Asia and at 207 million litres already accounts for 17% of world consumption
- Continued



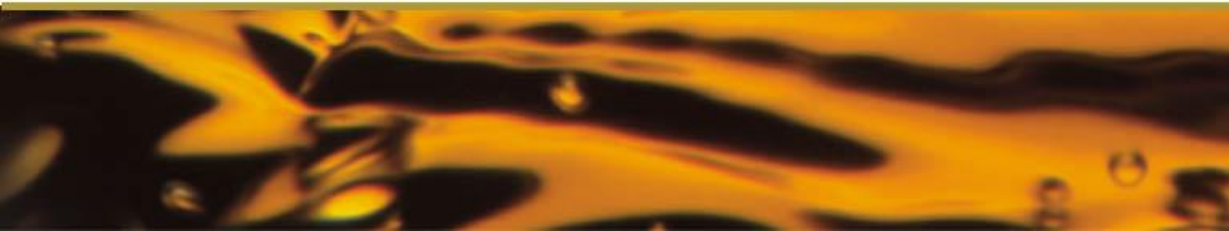
In depth look at Asia cont.

- India is already the world's largest single consumption country with 320m litres – that is 28% of world consumption. However even at that large volume their 1.2b people are only consuming 0.25l per annum – one sixth of the Philippines, so the growth potential is enormous
- The Chinese consume the enormous quantity of 30ml of Brandy per annum. If their 1.34b people can be harnessed as consumers then the same could happen to global Brandy demand as in the other sectors previously mentioned.
- The real point is there is colossal potential here.
- You only have to read Pernod Ricard or LVMH annual reports to see where their growth is coming from!
- But of course there are barriers to entry and market development which we'll discuss in a moment.



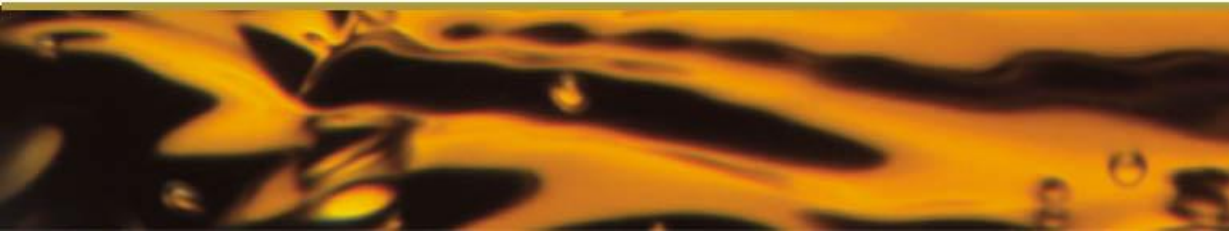
Some Brandy Trends – Developed World

- In many of the developed markets the complaints are exactly the same as here in SA:
 - Brandy is seen as old-fashioned
 - There has been a lack of innovation
 - Whisky and Vodka have out-marketed Brandy
- However Brandy is seen as an affordable spirit, this can be a double edged sword though, and further erode Brandy's image
- Because of these perceptions Brandy has become more and more price sensitive
- Some distillers in Spain have started to decrease the alcohol content to 33% (Veterano, Gonzalez Byass and Diageo) to move into lower tax bands and materially lower price. (A note of caution here as this approach destroyed Gordon's Gin when it was tried years ago in the UK)
- Cont.



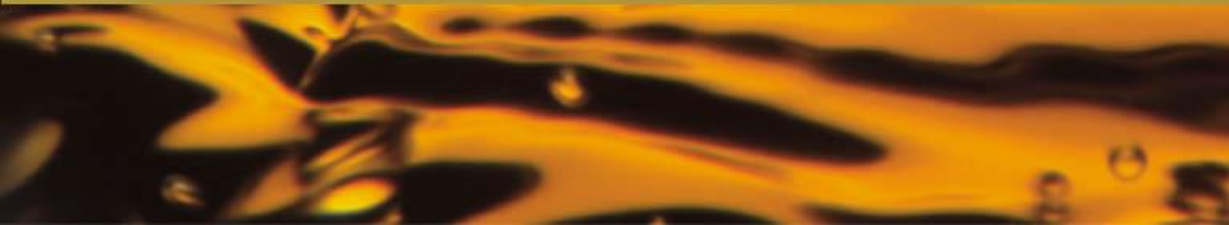
Brandy Trends cont.

- The Spanish category leader Centenario has already jumped on the bandwagon and started to market the fact that it STILL sells full strength brandy at 40%
- Cognacs have been beset with similar issues (although the imagery is superior). Cognac sales continue to roller coaster and without the Chinese market would be in serious trouble
- In 2008 the European Union introduced a 4 year programme of subsidy reductions to Brandy distillers which will total €1.3b annually by the end of the period. This will reduce the competitiveness of Cognac, or margins or both
- In the USA campaigns based on Hip-Hop celebrities are reputedly at the hearth of the slight growth in that market



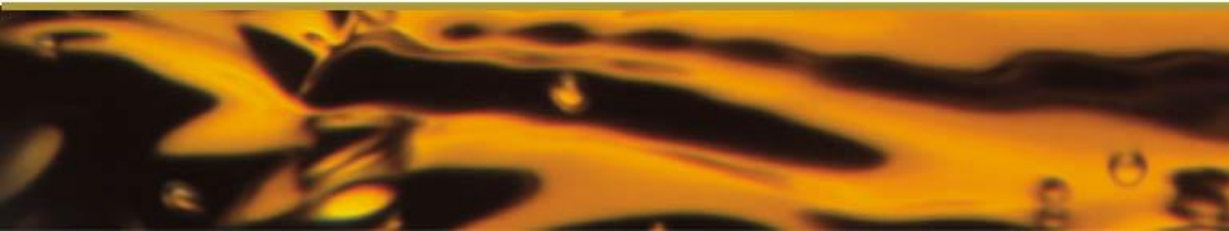
Some Brandy Trends – Emerging World

- As emerging countries become more affluent so they naturally can afford to place more emphasis on issues such as health and this is already having an impact in the largest market India
- “Country Liquor”, a rectified spirit made from molasses has recently been banned
- Indians are generally moving away from locally produced, distrusted products, onto internationally advertised brands
- Still in India, almost all Brandy is in fact molasses based leaving a huge gap for “real” grape Brandy
- In China, status and aspirational brands are key drivers and thus Cognac fares better than Brandy pro-rata. It is already the world’s second biggest Cognac market, however Cognac production could never match potential Chinese demand.
- Hong Kong Chinese are, per capita, among the worlds top Cognac consumers



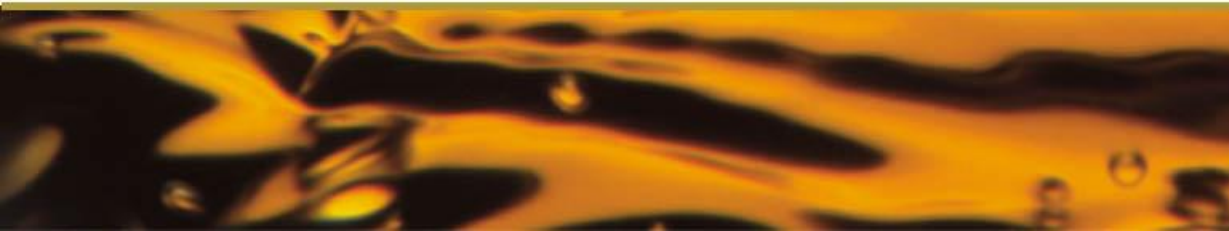
Emerging World trends cont.

- Generally across the globe the taste preference is for a less sweet Brandy than our Brandy and Cola preference here in SA
- In many emerging countries huge changes in demand patterns frequently occur as thresholds in affluence are passed, some examples being mobile phones, computers, TV's etc. This is possible for Brandy
- The leading global Brandy companies all report that not only are India and China a major potential, but the sum total of the minor emerging markets is also a significant source of growth.



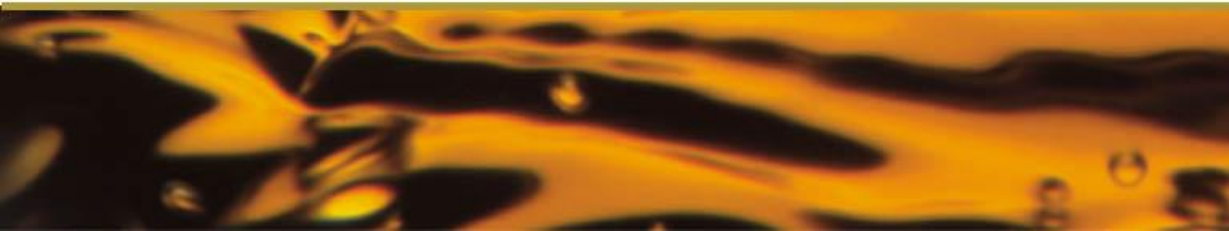
The Global Picture for Brandy

- We must recognise that with Brandy being SA's major spirits category, and the per capita consumption already high, the domestic demand for Brandy is vulnerable
- Clearly all steps must be taken to protect the home market, the Brandy Foundation and the Brand owners are already putting strategies to play to ensure this. But can that provide the growth that the SA industry wants and is capable of?
- On the other hand by any comparison, either compared to Vodka or taking consideration of the untapped Asian markets, the global market is likely to continue to grow dramatically over the medium term.
- Cont.



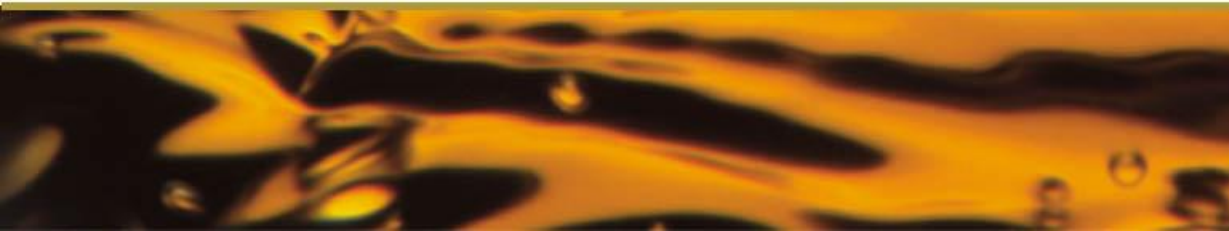
The Global Picture for Brandy cont.

- In all the growth markets there will also be a trend to better quality products as their affluence increases
- Moreover by its geographical and price restraints the Cognac region cannot meet this demand
- A market gap will therefore develop for better quality Brandies other than Cognac
- This is a market that South Africa is in an ideal position to fill
- But not too sweet!
- Finally the market size and growth potential is so great that even if the SA industry can grab a small portion of the growth it would revitalise our industry.



A Closing Thought

- Christian Liabastre, strategic development Director of Remy Cointreau has said recently:
- *“Single Malt producers have done a better job of explaining the product and creating points of interest than the Cognac producers. This is potentially an answer to what we think is the big issue in the Cognac category, a lack of differentiation between the brands. If you ask a consumer what is the real difference between Courvoisier and Martell, Hennessy and Remy Martin, most of the time they don’t have an answer. The single-malt Scotch companies, by comparison, have done a much better job of creating interest in the product itself, and through points of difference, segmenting the category by regions, process and brands.”*
- Possibly that is true of Brandy as a whole and is our challenge.



Thank you!

