



Spirits 50 2016

The annual report on the world's most valuable spirits brands

April 2016

Foreword.



David Haigh, CEO, Brand Finance

In recent years there has been a growing controversy over the validity of brand valuations in general and brand valuation league tables in particular, so with my foreword this year I want to address the issue head-on.

The primary point of contention rests on the significant variation in the published values of brands by the major brand valuation agencies. However, we view these variations as a sign of healthy debate rather than as a source of weakness.

Just as equity analysts differ significantly in their target share prices for companies, so too can those in our industry differ in valuations of brands. The main reasons for differences of opinion are: brand asset definition, date of the valuation, approach adopted, financial forecasts, income attributed to the brand, weighted average cost of capital applied, growth, tax and inflation rates and the expected useful life of the brand.

Taking Apple as an example, it is quite possible for one serious valuer to take the view that Apple's dominance in smart phones is coming to an end, that volumes and margins will start

dropping, that there is higher risk and therefore lower expected income, over a shorter life, with a higher cost of capital. This would tend to result in a lower brand valuation.

By contrast another valuer might believe the opposite. Some take the view that Apple will go from strength to strength in watches, televisions, finance and the auto industry and believe that it will shape all our lives for generations. This would obviously tend to result in a higher brand valuation.

There is now a widely accepted global brand valuation standard (ISO 10668) and the International Valuation Standards Council has produced a broader standard on the valuation of Intangible Assets including brands. Brand valuations are regularly relied upon by accountants, auditors, tax specialists, lawyers, licensing managers, lenders and investors who are always financially literate and enquiring.

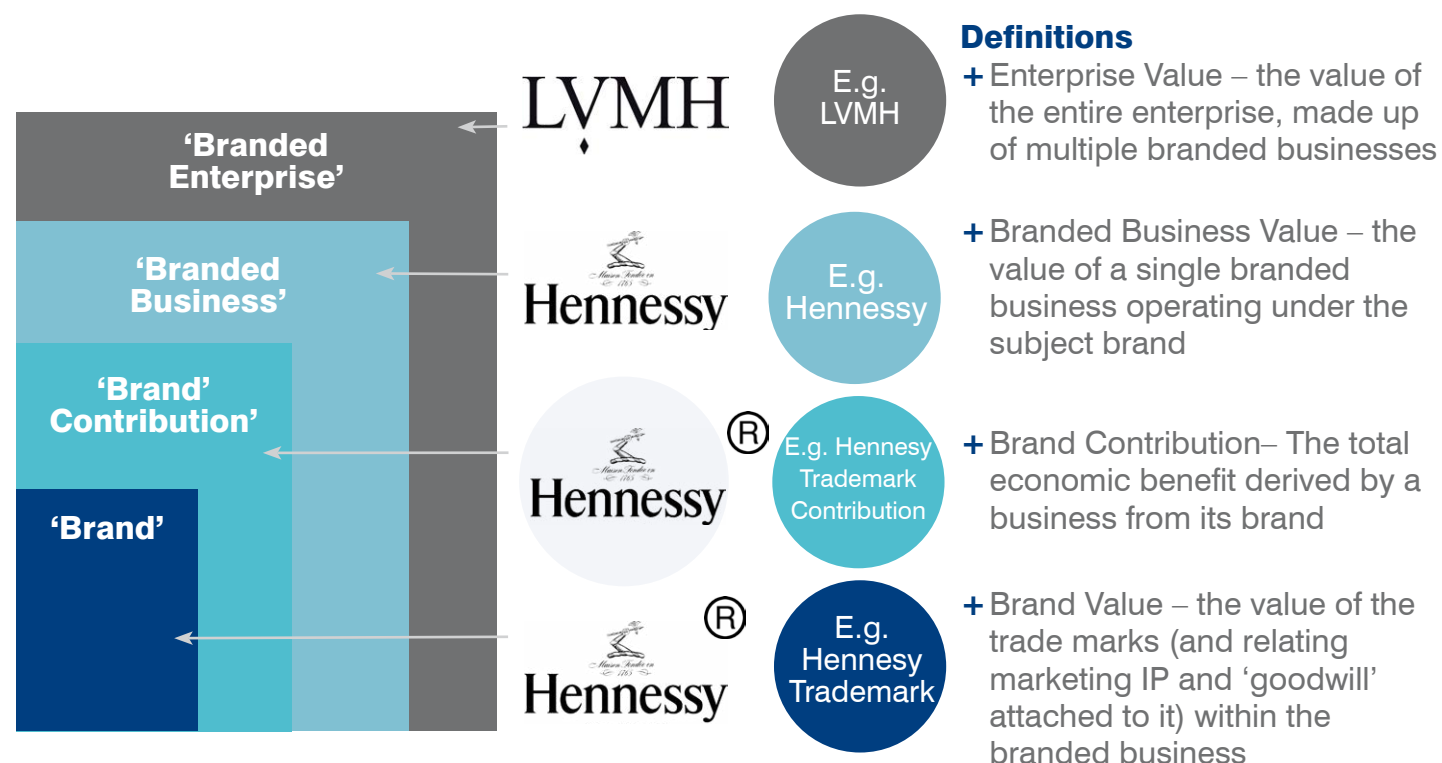
Based on the results of this year's Brand Finance Global 500, 18% of all quoted company enterprise value, is made up of brands. What this points to is a renewed need to educate and explain how brand valuations are conducted and how critical an understanding of brand value is to marketers, finance teams and CEOs alike. At Brand Finance, we pride ourselves on our independence of thought, clarity and transparency and welcome the chance to explain how we produce our valuations to you, so please get in touch!

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Methodology

What do we mean by 'brand'?



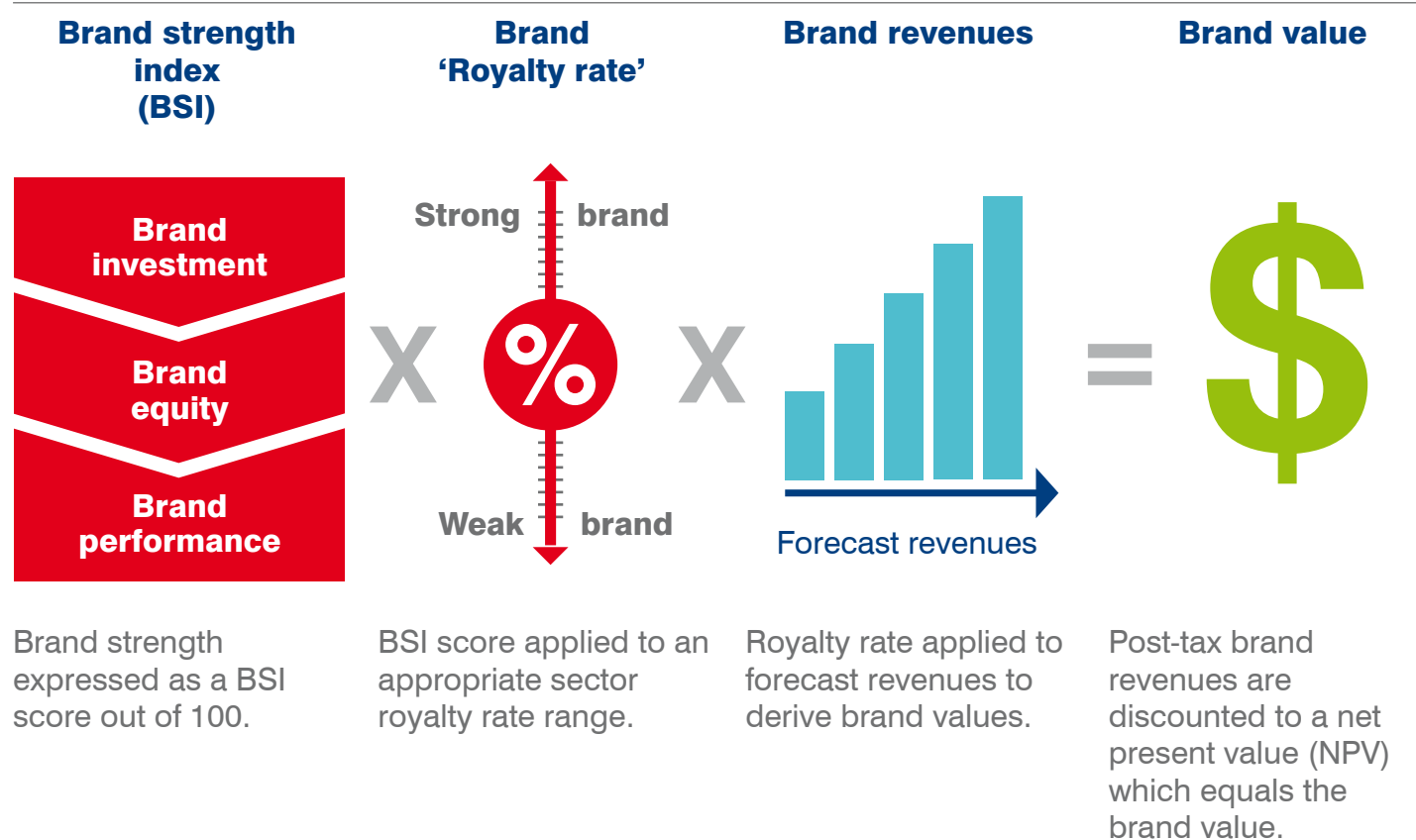
Definition of 'Brand'

Brand Finance helped to craft the internationally recognised standard on Brand Valuation, ISO 10668. That defines a brand as “a marketing-related intangible asset including, but not limited to, names, terms, signs, symbols, logos and designs, or a combination of these, intended to identify goods, services or entities, or a combination of these, creating distinctive images and associations in the minds of stakeholders, thereby generating economic benefits/value.”

However, a brand makes a contribution to a company beyond that which can be sold to a third party. 'Brand Contribution' refers to the total economic benefit that a business derives from its brand, from volume and price premiums over generic products to cost savings over less well-branded competitors.

Brand Strength

Brand Strength is the part of our analysis most directly and easily influenced by those responsible for marketing and brand management. In order to determine the strength of a brand we have developed the Brand Strength Index (BSI). We analyse marketing investment, brand equity (the goodwill accumulated with customers, staff and other stakeholders) and finally the impact of those on business performance. Following this analysis, each brand is assigned a BSI score out of 100, which is fed into the brand value calculation. Based on the score, each brand in the league table is assigned a rating between AAA+ and D in a format similar to a credit rating. AAA+ brands are exceptionally strong and well managed while a failing brand would be assigned a D grade.



Brand Finance calculates the values of the brands in its league tables using the 'Royalty Relief approach'. This approach involves estimating the likely future sales that are attributable to a brand and calculating a royalty rate that would be charged for the use of the brand, i.e. what the owner would have to pay for the use of the brand—assuming it were not already owned.

The steps in this process are as follows:

- 1 Calculate brand strength on a scale of 0 to 100 based on a number of attributes such as marketing investment, emotional connection and financial performance, among others. This score is known as the Brand Strength Index. This year, Brand Finance has incorporated market research from BAV Consulting to help inform the process of calculating this score. The data provided by BAV Consulting relates to measures such as awareness, preference and

loyalty which have been derived from panels of respondents across 20 countries.

- 2 Determine the royalty rate range for the respective brand sectors. This is done by reviewing comparable licensing agreements sourced from Brand Finance's extensive database of license agreements and other online databases.
- 3 Calculate royalty rate. The brand strength score is applied to the royalty rate range to arrive at a royalty rate. For example, if the royalty rate range in a brand's sector is 0%-5% and a brand has a brand strength score of 80 out of 100, then an appropriate royalty rate for the use of this brand in the given sector will be approximately 4%.
- 4 Determine brand specific revenues estimating a proportion of parent company revenues attributable to a specific brand.
- 5 Apply the royalty rate to the forecast revenues to derive brand revenues.
- 6 Brand revenues are discounted post tax to a net present value which equals the brand value

Sector Analysis – Spirits

Spirits 50











Niche category exposure, the need to protect market share from growing craft producers and sky high valuations at acquisition are the three key themes characterising the spirits industry this year.

China

Chinese anti-extravagance campaigns were set to destroy brand value growth of the five Chinese spirit brands in the Brand Finance Spirits top 50; Moutai, Yanghe, Wuliangye, Luzhou Laojiao and Gujing Gong Jiu. However, these top Chinese brands have fared surprisingly well over the last year. Moutai has in fact become the world's most valuable spirits brand at US\$5,771m. It has surpassed Johnnie Walker, which had been the most valuable spirits brand since Brand Finance began its brand value league tables a decade ago. Its brand value is down 17% from last year

US\$4,630m.

To combat a tougher domestic operating environment, Chinese brands are utilising a variety of marketing tactics to maintain brand perceptions. Moutai, the most famous of Baijiu brands, carefully manages price through its distribution channels in order to differentiate the brand from cheaper, lower quality forms of Baijiu and counterfeit products. This careful protection of brand equity and its price premium helps to explain its continued brand value growth in the face of a challenge to sales volume. Wuliangye, with a brand value of US\$1,638m, has taken a different approach to grow its brand value. It is regarded as a more premium brand and is leveraging its brand strength to significantly increase sales volume at the lower end of the market. Though this is an effective way of monetizing its accumulated brand equity, it risks

 贵州茅台酒股份有限公司 KWEICHOW MOUTAI CO., LTD	1 Rank 2016: 1 2015: 2 ↑ BV 2016: \$5,771m BV 2015: \$4,483m +29% Brand Rating: AA+	 BACARDI LIMITED	6 Rank 2016: 6 2015: 6 → BV 2016: \$ 1,894m BV 2015: \$ 1,908 m -1% Brand Rating: AA+
 JOHNNIE WALKER.	2 Rank 2016: 2 2015: 1 ↓ BV 2016: \$4,629m BV 2015: \$5,603m -17% Brand Rating: AAA-	 洋河股份 YANGHE	7 Rank 2016: 7 2015: 9 ↑ BV 2016: \$ 1,853m BV 2015: \$ 1,521 m +22% Brand Rating: AA-
 Hennessy	3 Rank 2016: 3 2015: 3 → BV 2016: \$2,874m BV 2015: \$3,379m -15% Brand Rating: AA	 五粮液集团	8 Rank 2016: 8 2015: 8 → BV 2016: \$ 1,638m BV 2015: \$ 1,679m -2% Brand Rating: A+
 JACK DANIEL'S	4 Rank 2016: 4 2015: 5 ↑ BV 2016: \$2,504m BV 2015: \$ 1,946 m +29% Brand Rating: AAA-	 Crown Royal	9 Rank 2016: 9 2015: 10 ↑ BV 2016: \$ 1,491m BV 2015: \$ 1,417 m +5% Brand Rating: AAA
 SMIRNOFF	5 Rank 2016: 5 2015: 4 ↓ BV 2016: \$ 2,025 m BV 2015: \$ 2,118 m -4% Brand Rating: AA+	 ABSOLUT Country of Sweden VODKA	10 Rank 2016: 10 2015: 7 ↓ BV 2016: \$1,437m BV 2015: \$1,764m -19% Brand Rating: AA

damaging the brand in the long run by undermining its premium positioning. Finally, Yanghe implements a highly successful branding strategy. The blue colour that characterises its packaging differentiates it from more traditional rivals which tend to use red, gold and white in their visual identity. This distinctive image, and an innovative distilling process that creates a mellow-style Baijiu has made Yanghe particularly popular with younger consumers. The brand has quickly risen to become the second most valuable Chinese spirits brand at \$1,853m.

Johnnie Walker

Johnnie walker has seen brand value fall this year to \$4,630m, losing its perennial position as the world's most valuable spirits brand. The brand has seen significant falls in volume, particularly in China, due largely to anti-extravagance initiatives. Diageo appears to have been unable to stave off

the effects of this drive in the same way that domestic brands have. However a significant update to the brand's advertising is being implemented which hopefully will help to stem or reverse this trend. The tagline 'Keep Walking' has been used for 16 years since its creation by agency Bartle Bogle Hegarty. However a unified, global, celebrity-backed campaign using the tag line 'Joy Will Take You Further, Keep Walking' is being rolled out, endorsed by the likes of Jenson Button, Jude Law and Chinese actor Zhao Wei.

Jack Daniels

Jack Daniels' success continues with a 29% rise in brand value from 2015 to \$2,504m, making it the 4th most valuable spirits brand in the world. Advertising centres on a combination of heritage, a laid-back, southern US attitude and the supposed unique character of the man himself, which resonates with both US and UK

Sector Analysis – Spirits

consumers. The brand is being extended into a variety of products including flavoured spirits and single barrelled premium whiskies, though care should be taken to avoid the dilution of the core brand. Volume growth is set to continue as Brown Forman, the brand's owner, splashes out \$140m on an expansion of the Jack Daniels manufacturing plant.

Portfolios

Despite the decline in Johnnie Walker's brand value, Diageo continues to control the most valuable portfolio of brands in the top 50 with 13 brands valued at a total of US\$12,782m, 54% higher than second-placed Pernod Ricard, which has 14 brands in the top 50 valued at US\$8,281m. Diageo's expansion in the Asia Pacific region has arguably left it somewhat exposed (as the impact of China's anti-extravagance drive shows) however it has improved Diageo's competitive position, particularly in relation to more narrowly focused producers such as Bacardi.

Bacardi's growth has been stagnant over recent years, long-term strategic moves into new markets have been ousted in favour of tactical plays in mature markets. Which is not to say that such campaigns have been unsuccessful however. Take the example of the successful marketing campaign of Bombay Sapphire a star Gin brand purchased from Diageo in 1998, Bacardi has successfully promoted the brand throughout the US, UK and interestingly, Germany and Belgium. The Bombay Sapphire brand is valued at US\$283m.

Gin

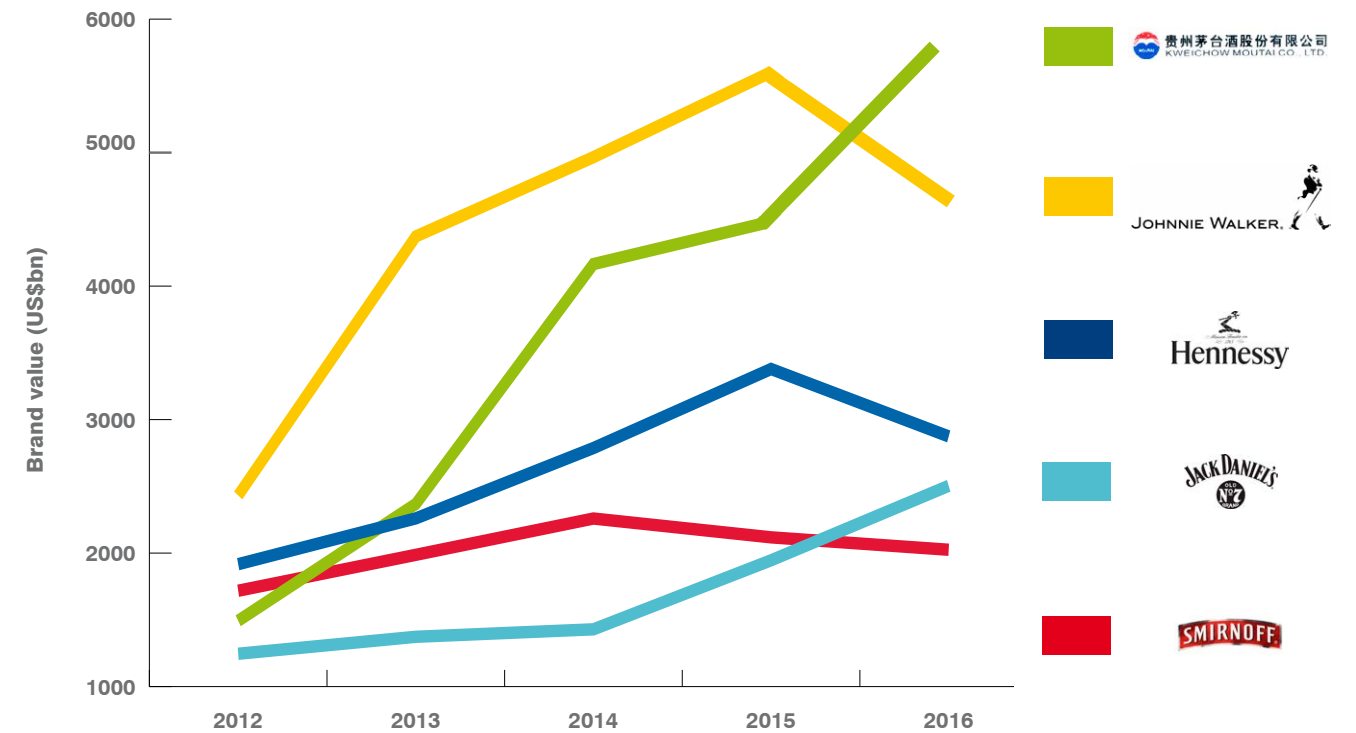
Though it is the smallest category in our table, Gin is fastest growing segment with 36% brand value growth from the 2015 Brand Finance Spirits 50. Gin is unique in that drinkers often favour craft varieties from specialist distillers in a trend

not dissimilar to the craft beer market. The trend has not gone unnoticed by the large spirit producers, which routinely acquire craft brands, for example Pernod Ricard's recent purchase of Monkey 47, a craft gin from the Black Forest in Germany. The market dynamics of such production means that volumes are restricted, making it difficult for Gin brands to break into the top 50. The world's most valuable gin brand is Gordon's at \$317m and only three other Gin brands make our table; Seagram's, Beefeater and Bombay Sapphire. The craft movement is changing perceptions of the gin category as a whole, meaning these larger brands despite not being craft producers themselves, are likely to benefit from a halo effect, predominantly from on-trade sales.

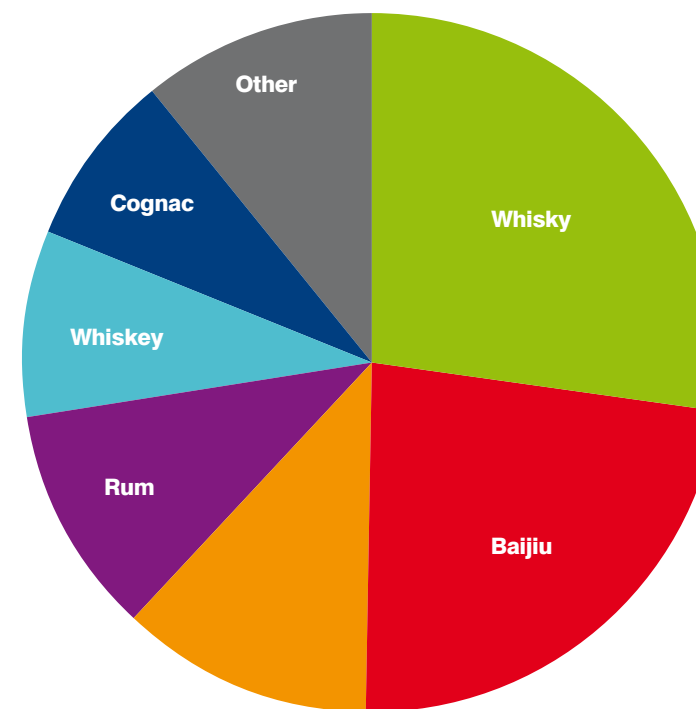


Jack Daniels experienced an impressive brand value growth of 29% this year. Brand value increased from US\$ 1,946m to US\$ 2,504m,

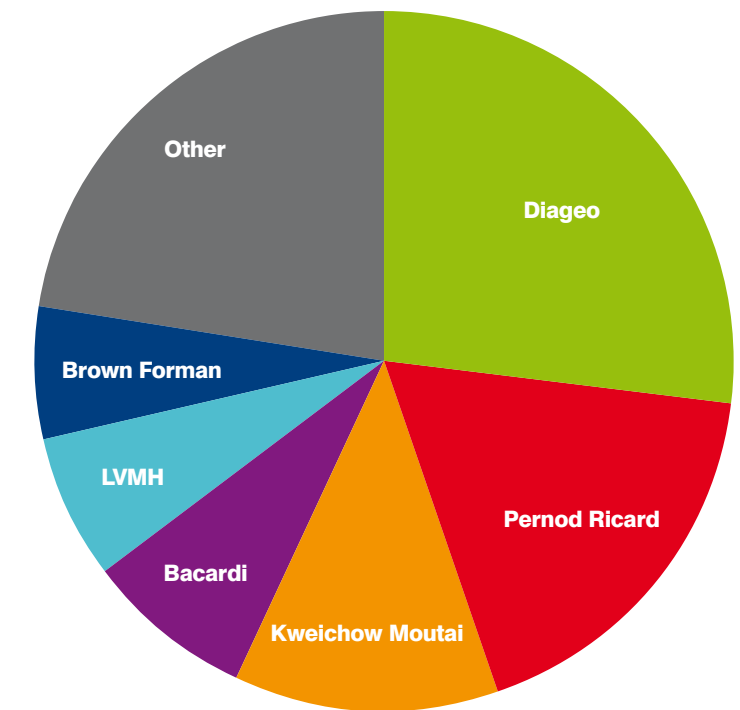
Brand Value Change Over Time



Brand Value Share by Spirit

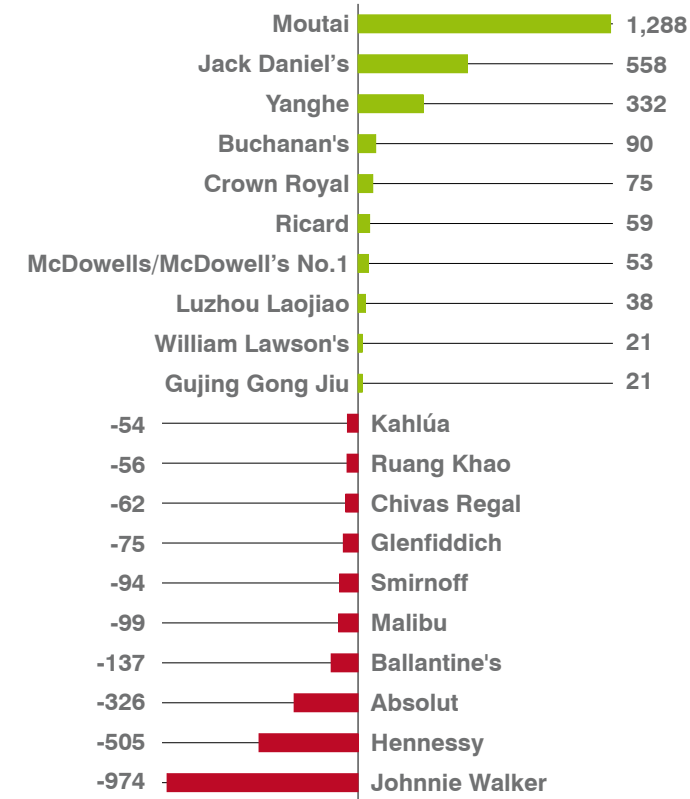


Brand Value Share by Parent Company

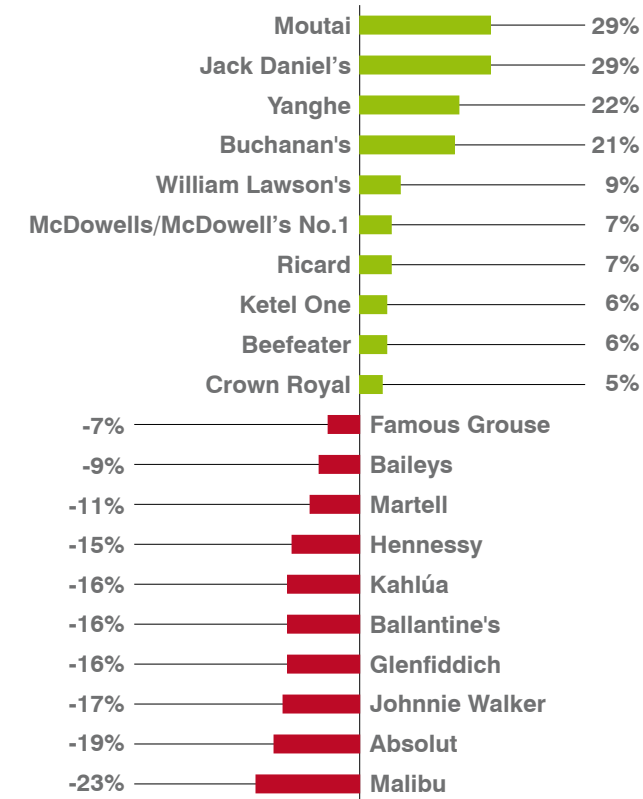


Sector Analysis – Spirits

Brand Value Change 2015-2016 (US\$m)



Brand Value Change 2015-2016 (%)

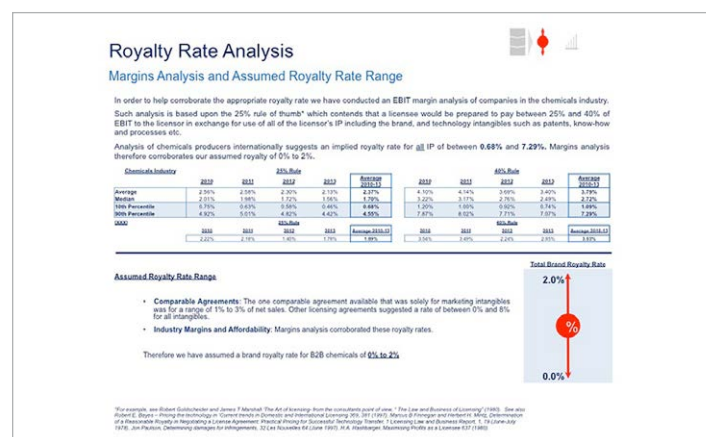
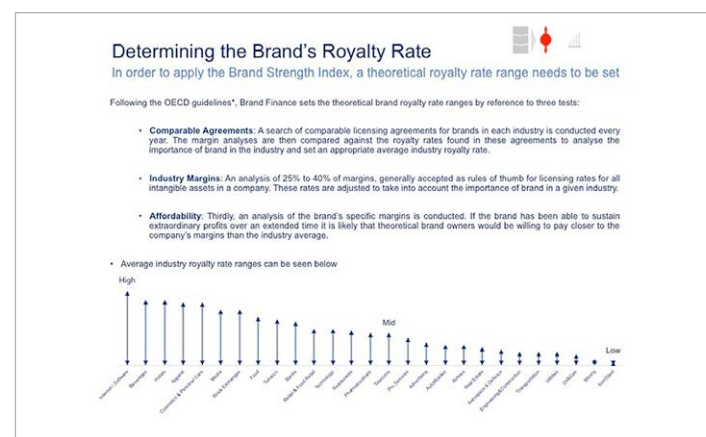
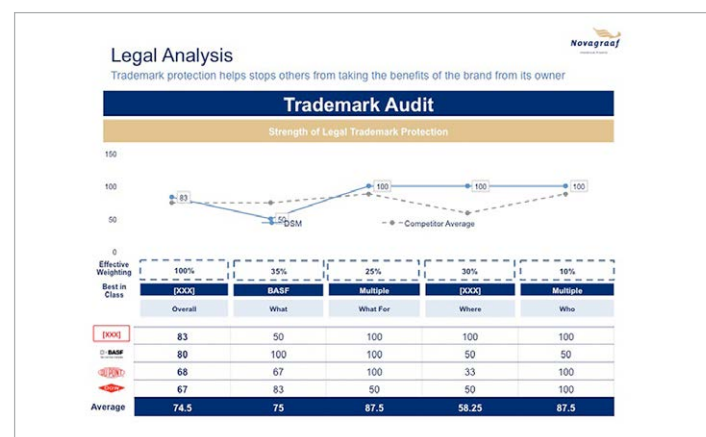
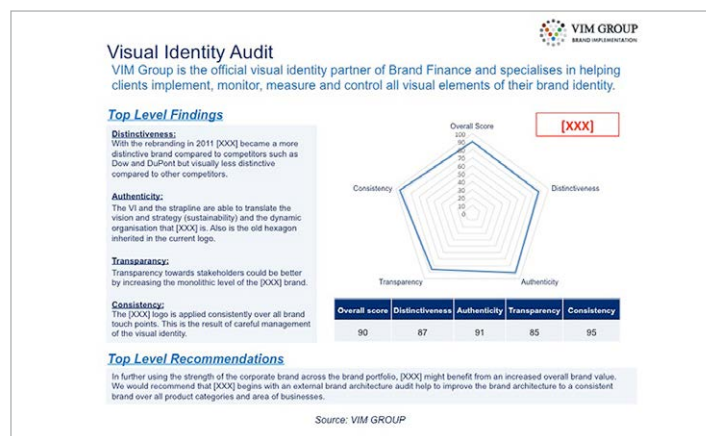
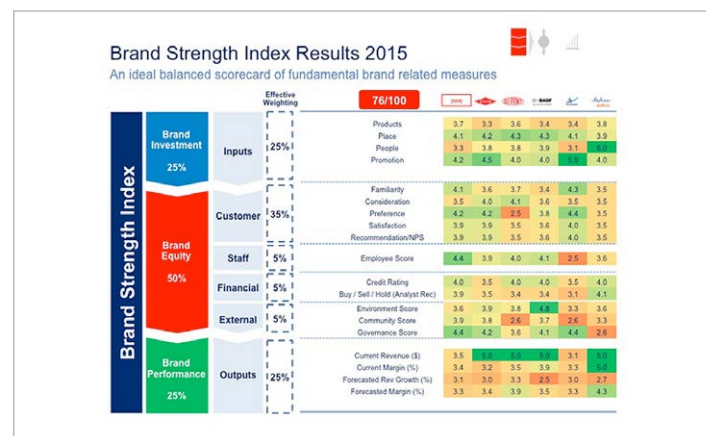
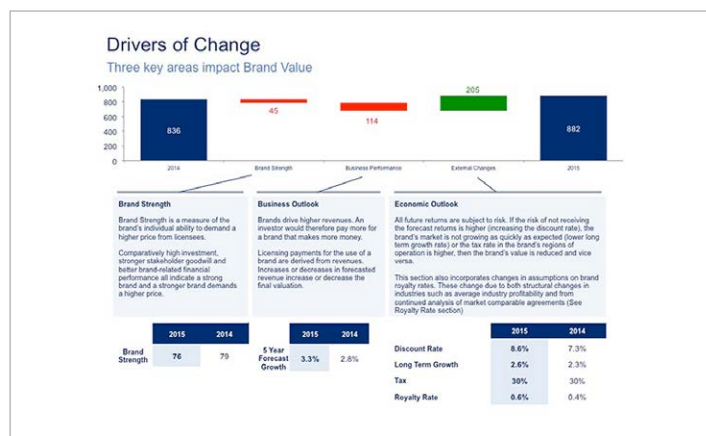


Top 50 spirits brands

Rank 2016	Rank 2015	Brand name	Category	Brand value (\$m) 2016	% change	Brand value (\$m) 2015	Brand rating 2016	Brand rating 2015
1	2	Moutai	Baijiu	5,771	29%	4,483	AA+	AAA-
2	1	Johnnie Walker	Whisky	4,630	-17%	5,603	AAA-	AAA
3	3	Hennessy	Cognac	2,874	-15%	3,379	AA	AA+
4	5	Jack Daniel's	Whiskey	2,504	29%	1,946	AAA-	AAA-
5	4	Smirnoff	Vodka	2,025	-4%	2,118	AA+	AAA-
6	6	Bacardi	Rum	1,894	-1%	1,908	AA+	AA+
7	8	Yanghe	Baijiu	1,853	22%	1,521	AA-	AA-
8	New	Wuliangye	Baijiu	1,638	-2%	1,679	A+	AA-
9	9	Crown Royal	Whisky	1,491	5%	1,417	AAA	AAA-
10	7	Absolut	Vodka	1,437	-19%	1,764	AA	AA
11	New	Ruang Khao	Rum	1,298	-4%	1,354	A+	A+
12	Res*	Chivas Regal	Whisky	1,261	-5%	1,323	AAA-	AA+
13	12	Grey Goose	Vodka	1,232	0%	1,229	AA	AA+
14	14	Ricard	Anis	952	7%	893	AAA	AAA-
15	13	Luzhou Laojiao	Baijiu	942	4%	904	AA+	A+
16	16	Mcdowell's	Brandy, Whisky, Rum	805	7%	752	AA+	AA-
17	15	Ballantine's	Whisky	713	-16%	850	AAA-	AA+
18	18	Jameson	Whiskey	706	1%	700	AA-	AA
19	19	Jagermeister	Bitters	658	-2%	669	AA-	AA-
20	21	Jim Beam	Whiskey	636	2%	625	AA-	AA
21	20	Grant's	Whisky	596	-6%	637	A+	A+
22	22	Cîroc	Vodka	595	-2%	609	AA-	AA
23	New	Old Parr	Whisky	576			AAA-	
24	25	Gujing Gong Jiu	Baijiu	575	4%	554	A+	A+
25	23	Havana Club	Rum	554	-4%	575	AA+	AA
26	32	Buchanan's	Whisky	522	21%	433	AAA-	AAA-
27	26	Remy Martin	Cognac	521	-3%	538	AA-	AA
28	29	Captain Morgan	Rum	494	-4%	512	AA+	AA+
29	Res*	Baileys	Liquer	478	-9%	524	AAA-	AAA-
30	New	Royal Stag	Whisky	464			AA	
31	Res*	Chamisul	Soju	453	-6%	483	AA	AA+
32	31	Famous Grouse	Whisky	424	-7%	456	AA	AA
33	30	Glenfiddich	Whisky	387	-16%	462	AA	AA-
34	New	Imperial Blue	Whisky	339			A+	
35	New	Glenmorangie	Whisky	332			AA	
36	33	Malibu	Rum	330	-23%	429	AA	AA
37	39	The Glenlivet	Whisky	323	4%	311	AA	AA
38	36	Brugal	Rum	318	-2%	324	AA	AA
39	37	Gordon's	Gin	317	-2%	323	AA+	AA+
40	34	Martell	Cognac	317	-11%	356	AA+	AA
41	New	Seagram's Gin	Gin	298			AA-	
42	42	Beefeater	Gin	296	6%	280	AA+	AA
43	38	J&B	Whisky	294	-6%	314	AA+	AA+
44	New	Bell's	Whisky	290			AA+	
45	35	Kahlúa	Liquer	289	-16%	342	AAA	AAA-
46	43	Bombay Sapphire	Gin	283	3%	274	AA-	AA+
47	41	Maker's Mark	Whiskey	280	0%	282	AA	AA+
48	New	Southern Comfort	Liqueurs	280			AAA-	
49	Res*	Ketel One	Vodka	265	6%	249	AA+	AA+
50	48	William Lawson's	Whisky	263	9%	242	A+	AA



Understand Your Brand's Value



A League Table Report provides a complete breakdown of the assumptions, data sources and calculations used to arrive at your brand's value. Each report includes expert recommendations for growing brand value to drive business performance and offers a cost-effective way to gaining a better understanding of your position against competitors.

A full report includes the following sections which can also be purchased individually.

Brand Valuation Summary

Overview of the brand valuation including executive summary, explanation of changes in brand value and historic and peer group comparisons.

- + Internal understanding of brand
- + Brand value tracking
- + Competitor benchmarking
- + Historical brand value

Brand Strength Index

A breakdown of how the brand performed on various metrics of brand strength, benchmarked against competitor brands in a balanced scorecard framework.

- + Brand strength tracking
- + Brand strength analysis
- + Management KPI's
- + Competitor benchmarking

Royalty Rates

Analysis of competitor royalty rates, industry royalty rate ranges and margin analysis used to determine brand specific royalty rate.

- + Transfer pricing
- + Licensing/ franchising negotiation
- + International licensing
- + Competitor benchmarking

Cost of Capital

A breakdown of the cost of capital calculation, including risk free rates, brand debt risk premiums and the cost of equity through CAPM.

- + Independent view of cost of capital for internal valuations and project appraisal exercises

Trademark Audit

Analysis of the current level of protection for the brands word marks and trademark iconography highlighting areas where the marks are in need of protection.

- + Highlight unprotected marks
- + Spot potential infringement
- + Trademark registration strategy

For more information regarding our League Table Reports, please contact:

enquiries@brandfinance.com

How we can help.



MARKETING

We help marketers to connect their brands to business performance by evaluating the financial impact of brand based decisions and strategies.

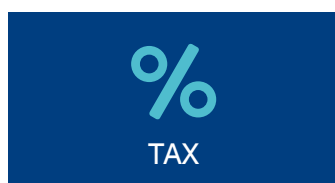
- + Brand Valuation
- + Brand Due Diligence
- + Profit Levers Analysis
- + Scenario Modelling
- + Market Research
- + Brand Identity & Customer Experience Audit
- + Brand Strength Analysis
- + Brand Equity Analysis
- + Perception Mapping
- + Conjoint & Brand/Price Trade-off Analysis
- + Return on Investment
- + Sponsorship Evaluation
- + Budget Setting
- + Brand Architecture & Portfolio Evaluation
- + Brand Positioning & Extension Evaluation
- + Brand Migration
- + Franchising & Licensing
- + BrandCo Strategy
- + Brand Governance Process
- + Brand Tracking
- + Management KPIs
- + Competitor Benchmarking



FINANCE

We provide financiers and auditors with an independent assessment on all forms of brand and intangible asset valuations.

- + Brand & Branded Business Valuation
- + Intangible Asset Valuation
- + Fair Value Exercise (IFRS 3 / FAS 141)
- + Intangible Asset Impairment Reviews (IAS 36 / FAS 142)
- + Brand Due Diligence
- + Information Memoranda
- + Finance Raising
- + Insolvency & Administration
- + Market Research Design and Management
- + Return on Investment
- + Franchising & Licensing
- + BrandCo & IPCo Strategy
- + Scenario Modelling & Planning
- + Transfer Pricing Analysis
- + Management KPIs and Target-setting
- + Competitor Benchmarking



TAX

We help brand owners and fiscal authorities to understand the implications of different tax, transfer pricing and brand ownership arrangements.

- + Brand & Branded Business Valuation
- + Intangible Asset Valuation
- + Patent Valuation
- + Asset Transfer Valuations
- + Business & Share Valuations
- + Transfer Pricing Analysis
- + Royalty Rate Setting
- + Brand Franchising & Licensing
- + BrandCo & IPCo Strategy
- + Market Research Design and Management
- + Brand Tracking
- + Expert Witness Opinion



LEGAL

We help clients to enforce and exploit their intellectual property rights by providing independent expert advice in- and outside of the courtroom.

- + Brand & Branded Business Valuation
- + Intangible Asset Valuation
- + Patent Valuation
- + Business & Share Valuations
- + Loss of Profits Calculations
- + Account of Profits Calculations
- + Damages Assessment
- + Forensic Accounting
- + Royalty Rate Setting
- + Brand Franchising & Licensing
- + BrandCo & IPCo Strategy
- + Market Research Design and Management
- + Trademark Registration
- + Trademark watching service

Brand Valuation

Valuations may be conducted for technical purposes and to set a baseline against which potential strategic brand scenarios can be evaluated.

Brand Monitoring

Improve reporting and brand performance management by integrating market research, investment, market and financial metrics into a single insightful scorecard model to track performance and inform strategic decisions.



Brand Analytics

Analytical services help to uncover drivers of demand and insights. Identifying the factors which drive consumer behaviour allow an understanding of how brands create bottom-line impact.

Brand Strategy

Strategic marketing services enable brands to be leveraged to grow businesses. Scenario modelling will identify the best opportunities, ensuring resources are allocated to those activities which have the most impact on brand and business value.

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