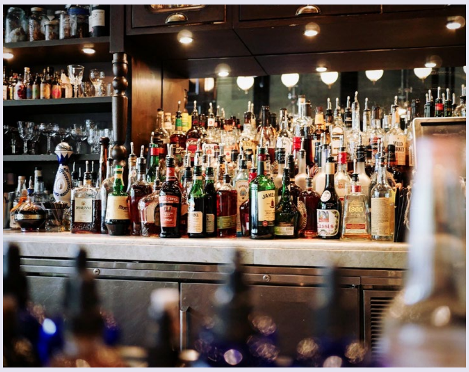
EUROPEAN VALUATIONS

MARKET SECTOR INSIGHTS – APRIL 2021

UK Wine & Spirits Market



"According to figures from the Wine and Spirit Trade Association ("WSTA"), the UK wine industry generates £10.6 billion in sales and 81% of UK adults that drink alcohol drink wine."

Overview

According to figures from the Wine and Spirit Trade Association ("WSTA"), the UK wine industry generates £10.6 billion in sales and 81% of UK adults that drink alcohol drink wine. The average Briton is now drinking 108 bottles of wine a year, placing the UK's alcohol consumption among the highest in developed countries.

Alcohol sales fell during 2020 as the prolonged closure of pubs and bars cancelled out a rise in home drinking during lockdown and more people developed a taste for non-alcoholic alternatives. The annual market report from the Wine and Spirit Trade Association (WSTA) shows that beer sales fell by 10% and wine sales by 5% as increased online orders failed to offset the closure of swathes of the hospitality sector.

"It's a myth that people are drinking more during lockdown," said the WSTA's chief executive, Miles Beale. "With so many pubs and restaurants being forced to close their doors and large gatherings banned, people are not drinking as much as they would be in normal circumstances."

Fine Wine Market

According to wine investment advisory firm IGWines, 2020 was the most tumultuous year in memory with rollercoaster like twists and turns throughout. 2020 was a year where many investors searched for safe-haven investments to ride out the storm and once again, fine wine has proven to fit the bill. Despite the myriad of challenges, the Liv-ex Fine Wine 50 was a beacon of stability throughout the year, closing with a modest return of 3.6%, outperforming the FTSE and Hang Seng.

Online Wine Sales

The global growth of online wine sales is undeniable and faster than that of offline wine sales. The stakeholders in wine e-commerce are more or less the same everywhere: general retailers, pure players, brick-and-mortar websites and wine clubs. Although online wine sales are increasing, in traditional wine markets such as the US, France and the UK, offline players are offering considerable resistance.

Online wine sales in the UK are significantly stronger than in the US. In the US, online wine sales account for a poor 2% of overall wine sales, compared to over 13% in the UK. This is primarily because regulations in the UK are less complex and the comparatively smaller size of the UK facilitates faster and more reliable wine delivery.

Bordeaux and Burgundy Wine

One of the biggest fine wine trends of recent years has been Bordeaux's reduced influence on the secondary market as collectors sought bottles from a broader array of regions.

According to the latest data from Liv Ex, Bordeaux's trade share by value fell to a near record low for the week of 19th to 25th March 2021, to 27.8% of trade. Burgundy had a near identical share at 27.7%, the closest Burgundy has ever come to surpassing Bordeaux in weekly trade share. It was helped along by demand for grands crus.

Another important point to note is Italy was not far behind with a 20.8% share, a large jump from the previous week. The Rhône also outperformed for the

MARKET SECTOR INSIGHTS – APRIL 2021

UK Wine & Spirits Market

Gin has overtaken whisky as the most favoured UK drink according to Kantar. It was worth £2.7 billion in 2019…

fourth consecutive month, as multiple vintages of Domaine de La Janasse from the Southern Rhône and E. Guigal from the Northern Rhone saw activity

UK Spirit Sales

The UK spirits market is expected to grow annually by 5.4% during the forecast period from 2019 to 2023, according to Statista. This growth will be fuelled by the effect of premiumisation across various segments of the spirits market.

Gin has overtaken whisky as the most favoured UK drink according to Kantar. It was worth £2.7 billion in 2019 including export, £1.9 billion in the UK market alone with the on-trade worth more than £1 billion, according to the WSTA. Gin distilleries have grown by 30% in one year, according to UHY Hacker Young. The IWSR forecasts value of the UK whiskey market to grow from £2.3 billion in 2019 to £2.4 billion by 2022.

"Drinking In"

Millennials are having a major impact on another trend - "drinking in." Unwilling to pay restaurant wine markups, consumers in general, led by millennials, are increasingly drinking their wine at home. Off-premises consumption now represents more than 80% of overall wine consumption in the US, which is higher than off-premises consumption of beer or distilled spirits. In other major markets also, more and more people are preferring to drink their wine and spirits at home. This trend is expected to gain further prominence in the coming years.

Brexit

The WSTA has seen a record number of wine and spirit businesses joining membership in 2020 as companies seek help with Covid concerns and life after Brexit. Over 60 new members joined the WSTA in 2020, an increase of more than 15% over 2019 – more wine and spirit companies have joined in 2020 than in any other year over the last decade.

To assist businesses through these turbulent times the WSTA has also unveiled a new 'End of Transition' Checklist, available to all UK wine and spirits companies for the UK's exit from the Custom's Union and Single Market which happened on 1st January 2021. The new WSTA Checklist provides links to both official UK Government guidance and the WSTA's own guidance to help companies that feel left in the dark over changes coming at the end of the Transition period.

Moreover, The WSTA has also welcomed the news that the Government is to suspend the requirement for wines from the EU to provide a VI-1 form until July 1st, 2021 – but warned that the battle was not yet over, and that work would continue to ensure their requirement is removed entirely.

WSTA Chief Executive, Miles Beale, commented, "our new 'End of Transition Checklist' provides wine and spirit businesses with everything there is to know so far for the end of Transition on January 1st and complements the work we are already doing to help businesses prepare.

"Despite recent good news that dreaded VI-1 forms are to be suspended until 1st July, the Government has not gone far enough and our work in this area will not stop. These forms must be abolished completely – they serve only to increase bureaucracy and cost for business, around £70 million in the first year alone, and will inevitably lead to reduced choice and increased prices for consumers.

UK Wine & Spirits Market

According to Barclays, UK overall consumer spending contracted by 13.8% in February 2021...

-UK Economic Climate-

Commodity Prices

According to latest figures from the ONS, retail sales volumes only partly recovered in February 2021 with an increase of 2.1% when compared with the 8.2% fall seen in the previous month, and sales were still down by 3.7% on a year earlier before the impact of the coronavirus (COVID-19) pandemic.

Non-food stores provided the largest positive contribution to the monthly growth in February 2021 sales volumes, aided by strong increases of 16.2% and 16.1% in department stores and household goods stores respectively. Clothing retailers reported the largest fall, of 50.4%, in sales volumes when compared with February 2020 before the coronavirus pandemic; automotive fuel stores also reported a large annual decline of 26.5% as travel restrictions continued to hit sales in that sector.

In the three months to February 2021, retail sales volume fell by 6.3% when compared with the previous three months, with strong declines in both clothing stores and other non-food stores.

The proportion spent online increased to 36.1% in February 2021, the highest on record; this compares with 35.2% in January 2021 and 20.0% reported in February 2020.

Consumer Spending

According to Barclays, UK overall consumer spending contracted by 13.8% in February 2021 as National lockdown measures continued. Essential spending increased 5.3%, driven by a 17.4% uplift in spend at the supermarkets and a record year-on-year spend growth of 63.3% at food and drink specialist stores.

Non-essential spending fell 22.1%, with most of hospitality and non-essential retail unable to open due to strict lockdown measures. Online retail continued to soar, with year-on-year growth hitting an all-time high of 82.0%, while face-to-face retail spend was down 20.5% year-on-year.

-Economic Impact of Coronavirus-

Undoubtedly, coronavirus is a black swan event – something that happens once in a century. Its spread has left businesses around the world counting costs, with many investors fearing the spread of coronavirus will pose an insurmountable challenge to the economic growth of all major countries across the globe. Almost every industry has been affected, with governments scrambling to somehow arrest the economic decline. Central banks in more than 50 countries, including the US Federal Reserve and the Bank of England have cut interest rates to try to strengthen their economies. Furthermore, most countries have announced unprecedented stimulus packages in the hopes of reviving their economy

Effect on Global Demand

Owing to the pandemic, in the first half of 2020, restaurants, cinemas and shops around the world emptied, while flights, road traffic and energy use also fell steeply. Now almost one year later, consumer demand is still much below pre pandemic levels.

The retail industry has been hit hard. Lockdowns in many major economies until the middle of May 2020 and then again at the end of 2020 and the beginning of 2021 with only essential shops being allowed to open has meant huge losses for retailers, leading to many retailers shutting up shop.

EUROPEAN VALUATIONS

MARKET SECTOR INSIGHTS – APRIL 2021

UK Wine & Spirits Market

“In May 2020, the IWSR had warned that it would take years for the global alcohol industry to rebound from the coronavirus crisis”

It is clear now that the spread of coronavirus has led to a decline in global consumer spending, the heart of global economic activity. Moreover, employee layoffs in various industries are becoming increasingly common, in many cases on a large scale. This might lead to further pullback in consumer spending, at least in the near future, exacerbating the economic impact of coronavirus.

Impact on the Alcoholic Beverage Industry

The alcoholic beverage industry has taken a hit from the coronavirus pandemic. In May 2020, the IWSR had warned that it would take years for the global alcohol industry to rebound from the coronavirus crisis. The near complete shutdown of bars and restaurants across the world for several months in 2020 has set the sector back considerably.

The IWSR goes on to add that although there has been an uptick in liquor retail and e-commerce, this has not been enough to offset losses in the on trade. The IWSR estimates double digit declines for 2020, which will take until 2024 to recover to 2019 pre-COVID-19 levels. In the US and UK, this is likely to take even longer.

Decline in Optimism

After sounding a note of optimism at the end of 2020, respondents to the newest McKinsey Global Survey are greeting 2021 with high hopes for economy’s prospects. Majorities of executives continue to believe that conditions in their home economies and in the global economy will improve over the next six months. Yet their positivity has moderated since the previous survey; compared with December, smaller shares of respondents now predict that economic conditions will get better.

Within regions, there are a few changes of note. In India, respondents are now nearly as positive about their own economy’s future as are those in Greater China (who, since March, have been the most optimistic about economic conditions at home)—and those in India are also the most upbeat about the global economy’s prospects. But in several other regions, sentiment has taken a negative turn. In Asia–Pacific and in Europe, the shares of executives expecting their home economies to improve decreased by 15 and 11 percentage points, respectively, since December. The decline in optimism is most acute in Latin America, where 30 percent of respondents now expect improvements in their home economies. In the previous survey, 56 percent of executives there said the same.

UK Economic Forecast

The International Monetary Fund has downgraded forecasts for the UK’s recovery this year while the expansion of the global economy, aided by accelerating vaccine rollouts, is expected to gather pace. Illustrating the severe impact of the pandemic on the UK economy, the IMF said in its latest forecast that the UK’s national income, or GDP, would expand by 4.5% this year, down 1.4 percentage points from the 5.9% growth forecast made last October.

This follows a contraction in UK GDP of 9.9% in 2020, the biggest fall for any G7 country. The UK’s acceleration of its vaccination program is not expected to give an extra boost to UK growth until 2022, when its growth rate is upgraded by 1.8 percentage points to 5%.

Global Economic Forecast

According to a report by the IMF, although recent vaccine approvals have raised hopes of a turnaround in the pandemic later this year, renewed waves and new variants of the virus pose concerns for the outlook. Amid exceptional uncertainty, the global economy is projected to grow 5.5 percent in 2021 and 4.2 percent in 2022. The 2021 forecast is revised up 0.3 percentage points relative to the previous

UK Wine & Spirits Market

…the IMF said in its latest forecast that the UK's national income, or GDP, would expand by 4.5% this year...

forecast, reflecting expectations of a vaccine-powered strengthening of activity later in the year and additional policy support in a few large economies.

The projected growth recovery this year follows a severe collapse in 2020 that has had acute adverse impacts on women, youth, the poor, the informally employed and those who work in contact-intensive sectors. The global growth contraction for 2020 is estimated at -3.5 percent, nearly one percentage point higher than projected in the previous forecast (reflecting stronger-than-expected momentum in the second half of 2020).

The report further adds that the strength of the recovery is projected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spillovers and structural characteristics entering the crisis. The recovery will be driven primarily by countries such as India and China, forecast to grow by 8.8% and 8.2%, respectively. Recovery in large services-reliant economies that have been hit hard by the outbreak, such as the UK or Italy, is expected to be slow.

A valuable strategic partner through every stage of the business lifecycle.

Key contacts

GORDON TITLEY
Director

E: gtitley@eurovals.co.uk
M: 07734 388785

DAN EDGAR,
Director

E:dedgar@eurovals.co.uk
M: 07827 999332

JOHN LAWRENCE, MRICS Director

E: jlawrence@eurovals.co.uk
M: 07775 444796

ANDREW DUNBAR
Director

E: adunbar@eurovals.co.uk
M: 07967 302675

LONDON OFFICE

5 Willoughby Street,
WC1A 1JD

0207 048 0184

BIRMINGHAM OFFICE

67 Newhall Street,
Birmingham, B3 1NQ

0121 236 9992

MUMBAI OFFICE

Centre Point Jb Nagar
Vijay Nagar Colony, J B Nagar,
Andheri East, Mumbai
Maharashtra 400047, India

Email address
info@eurovals.co.uk

TRUSTED VALUED REPORTING

A valuable strategic partner through every stage of the business lifecycle.

Across virtually every sector of the economy, at every stage of the business lifecycle, EV helps companies in transition understand and realise the maximum value of their assets. With more than 100 years of combined experience, our team of trusted professionals offers unparalleled expertise at assessing the value and managing the sale of assets.

We bring clarity to the process and improve our clients' business intelligence, capital position and confidence.

Appraisals & Valuations

A deep understanding of our clients' industries, sectors and specific businesses helps us deliver accurate achievable valuations. We perform appraisals & valuations on all asset classes and have significant expertise and experience across all major industries & sectors.

- Plant & Machinery
- Stock/Inventory
- Accounts Receivable
- Business Valuations
- Intellectual Property

Field Exams – Audits / Surveys

EV conducts due diligence for asset-based lenders across the UK, Europe, and the United States. Our team has experience in collections and insolvency, which lends to unique insight into the potential value of accounts receivable and stock in distressed situations.

Asset Dispositions / Sales

Whether the result of an insolvency, merger or acquisition, loan default, restructure or simply executing a sales promotion, EV has more than 35 years of expertise providing:

- Auctions
- Private Treaty Sales
- Retail Store Closures
- Orderly Liquidations
- Strategic Disposition Programmes