

# July, 2019 Control State Results

Source: NABCA

August 21, 2019

During July, nine-liter control states spirits case sales grew 6.2% over same period sales last year opposite a fairly robust 4.6% comp.

Alabama(8.8%), Iowa(17.6%), Idaho(7.4%), Maine(10.7%), Montgomery County Maryland(8.6%), Mississippi(13.1%), Montana(12.1%), North Carolina(9.9%), Ohio(7.0%), Oregon(5.3%), Pennsylvania(3.8%), Utah(7.9%), Vermont(2.5%), Virginia(6.5%), West Virginia(12.2%), and Wyoming(9.6%) reported monthly growth rates for July that exceeded their twelve-month trends, while Michigan(2.1%) and New Hampshire(-6.0%) grew at rates that fell short of their twelve-month trends. Control state rolling-twelve-month volume growth, 3.5%, improved slightly upon June's reported 3.4%. Spirits volumes grew 3.8% year-to-date compared to 2.5% a year ago.

Control state spirits shelf dollars grew at 8.5% during July while trending at 6.5% during the past twelve months. Alabama(9.9%), Iowa(18.5%), Idaho(9.7%), Maine(12.5%), Montgomery County Maryland(11.8%), Mississippi(16.1%), Montana(17.0%), North Carolina(13.2%), Ohio(9.9%), Oregon(7.6%), Pennsylvania(5.9%), Utah(9.0%), Vermont(7.2%), Virginia(8.1%), and West Virginia(14.9%) grew shelf dollars during July at rates exceeding their twelve-month trends. Michigan(3.9%), New Hampshire(1.2%), and Wyoming(7.1%) grew shelf dollars at rates lagging their twelve-month trends. Shelf dollars in the control states are up 6.4% year-to-date compared to 5.1% a year ago.

Price/Mix for July is 2.3%, lagging June's 2.8%.

July's growth rate was effected by calendar related reporting anomalies in the control States.

This year's July had four Sundays versus five last year. There are five control states-Alabama, Mississippi, Montana, North Carolina, Utah-whose retail outlets that sell spirits are closed on Sundays. Alabama, Mississippi, Montana, and North Carolina spirits outlets each had an additional selling day during July.

As of March 2019, retail outlets in West Virginia, which previously were closed on Sunday, are now open for business. Spirit retailers in West Virginia had five additional selling days during this year's July compared to last year's. New Hampshire reported four weeks of sales this July compared to five weeks last year, artificially deflating sales and skewing state results. New Hampshire's stores had eight fewer selling days during July this year compared to last year.

On net, there was one additional selling day during July in the control states, 0.2% more, compared to last year's July.

After equalizing selling day variations between this year's July and last year's, July's nine-liter case spirits growth rate is 6.6% with a rolling-twelve-month trend of 3.7%. July's shelf-dollar growth rate is 9.0% with a rolling-twelve-month trend of 6.7%. Equalized price mix for July is 2.4%.

Cocktails, with 2% share of the nine-liter case control states spirits market, was July's fastest growing category with 17.6% reported and a twelve-month trend of 6.9%. Tequila, with 6% share, reported 13.8% growth and a 10.2% twelve-month trend. Domestic Whiskey, with 15% share, reported 10.3% monthly growth and a twelve-month trend of 6.2%. Vodka, with 34% share, grew during the same periods at 4.2% and 2.9%, respectively. Brandy/Cognac(9.7%, 3.4%), Canadian Whiskey(6.4%, 3.2%), Cocktails(17.6%, 6.9%), Cordials(4.2%, 2.1%), Domestic Whiskey(10.3%, 6.2%), Gin(1.9%, -0.2%), Rum(2.5%, 0.1%), Scotch(2.9%, 0.3%), Tequila(13.8%, 10.2%), and Vodka(4.2%, 2.9%) grew at rates exceeding their twelve-month trends, while Irish Whiskey(7.6%, 11.1%) grew at a monthly rate that lagged its twelve-month trend.

July's nine-liter wine case sales growth rate was -5.4%. Pennsylvania (reporting -2.2% nine-liter case growth for wines), New Hampshire (-22.2%), Utah (3.3%), Mississippi (8.4%), Montgomery County Maryland (4.2%), and Wyoming (0.8%) are the control states that are the sole wholesalers of wines and spirits within their geographical boundaries. Rolling-twelve-month wine volume growth in these six control states was -1.9%, slipping from June's reported -1.1%.

## **NIELSEN XAOC + C-STORE ALCOHOLIC BEVERAGE ANALYSIS**

Source: Cowen

August 21, 2019

### **THE COWEN INSIGHT**

In the 4 weeks ended 8/10/19 in Nielsen xAOC + c-store, sales for combined beer (including total beer, cider and FMBs), total beer, cider, and FMBs were above 12-week trends, likely due to an unseasonably warm July. Wine sales were below 12-week trends.

#### **Combined Beer (Beer, Cider and FMBs) Above 12-Week Performance**

In the 4 weeks ended 8/10/19, sales for combined beer (including total beer, cider and FMBs) were above 12-week trends. STZ posted 12.2% sales growth, a 60 bps acceleration relative to the 11.6% growth in the trailing 12-week period. SAM grew 30.1%, which was 420 bps above the 12-week growth of 25.9%. Meanwhile, TAP's 4-week trends (-0.5%) were 110 bps above 12-week performance (-1.6%).

#### **Total Beer 4-Week Sales Up LSD**

In the 4 weeks ended 8/10/19, total beer volumes declined -1.4%, above 12-week trends (-1.8%). Dollar sales increased 1.2%, above 12-week trends (0.8%), as price/mix for the total category was +2.5% and +2.6% over the last 4- and 12-week periods, respectively. Imported beer continues to meaningfully outperform domestic beer and STZ continues to gain dollar share in total beer (+140 bps). Meanwhile, SAM's beer portfolio sales declined 5.5% during the period, below 12-week trends (-4.6%).

#### **Cider Sales & Volumes Down MSD**

For the total cider category, volumes declined 5.2%, above the 6.7% decline seen over the last 12 weeks. Dollar sales declined 4.0% (vs. -4.8% over the last 12 weeks). Meanwhile, total category price/mix was a 1.3 pt benefit over the last 4 weeks, slightly below 12-week trends (+1.8 pts). Market leader SAM saw dollar sales decline 10.4%, which marked an improvement relative to the 11.5% decline seen over the last 12-week period.

### Wine Sales Grow LSD

Across wine, volumes declined 0.6%, below the 0.1% increase seen over the last 12 weeks, while dollar sales were up 2.3% (vs. 3.2% growth over the last 12 weeks). Meanwhile, price/mix contributed 2.9 pts to total revenue performance over the last 4 weeks and 3.1 pts over the last 12 weeks.

### FMB Sales & Volumes Grow Strong DD

In FMBs, volumes were up 43.0% over the last 4 weeks (an acceleration vs. 33.6% growth over the last 12 weeks). Dollar sales were up 45.8% (vs. +35.7% over the last 12 weeks), as price/mix was a 2.9 pt and 2.1 pt benefit over the last 4- and 12-week periods, respectively.

## NIELSEN SPIRITS UPDATE

Source: Cowen

August 21, 2019

### THE COWEN INSIGHT

Distilled spirits dollar sales were up 5.1% in the most recent 4-week period ended 8/10/19, below the 5.7% growth seen over the last 12 weeks. Bourbon, Canadian whiskey, Irish whiskey, and tequila all gained dollar share for the period. **We would note that we continue to find NABCA more reliable in evaluating spirits trends.**

### Distilled Spirits Sales Below 12-Week Trends

Total distilled spirits dollar sales grew 5.1% in the most recent 4-week period ended 8/10/19, which was below the 5.7% growth seen over the last 12 weeks. Volumes grew 3.8%, as price/mix contributed 1.3 pts to overall performance. Across brown spirits, bourbon (+7.8%), Canadian whiskey (+5.7%), Irish whiskey (+12.6%) and gin (+5.6%) grew sales ahead of the category. Across white spirits, tequila posted 10.8% sales growth (vs. +10.3% over the last 12 weeks). Sales for vodka grew 2.3%, below the category, while rum (+0.3%) also continued to underperform.

### BFB Sales Underperform Category

BFB reported dollar sales growth of 2.0%, which was below the company's 12-week growth of 3.4%. Volumes grew 1.6%, 220 bps below the total category growth of 3.8%, as price/mix was a 0.3 pt benefit to overall performance. Dollar sales for core Jack Daniel's were down 1.9% (vs. -0.4% over the last 12 weeks), while 3.2% growth in Honey was below the 3.8% growth seen over the last 12 weeks. Fire posted a dollar sales decline of 0.2% (vs. -0.8% over the last 12

weeks). Woodford Reserve (+17.5%) grew DD, while Herradura sales grew 27.1% (vs. +25.7% over the last 12 weeks).

### STZ Sales Underperform Category

STZ dollar sales grew 2.4% over the last 4-week period, which was below the company's 12-week growth of 2.7%. Volumes were up 1.6%, as price/mix was a 0.8 pt benefit to overall performance. Paul Masson brandy sales grew 2.0% (above the 12-week growth of 1.6%), while sales for core Svedka vodka were up 3.3% (vs. +3.7% over the last 12 weeks).

### Beam Suntory Sales up MSD

Beam Suntory posted dollar sales growth of 4.2% over the last 4-week period was below the 6.3% growth seen over the last 12 weeks. Volumes grew 0.9%, below 12-week trends (+2.6%), as price/mix was a 3.2 pt benefit to revenue growth. The Jim Beam family posted 9.9% sales growth (vs. +13.8% over the last 12 weeks), with Jim Beam White Label up 7.5% (below 12-week performance of 12.1%). Knob Creek (+17.8%) grew strong DD, while Maker's Mark grew 7.5% (vs. +11.2% over the last 12 weeks).

### Diageo Sales Grow LSD, Underperform Category

Diageo dollar sales grew 1.2%, below the 2.3% growth seen over the last 12 weeks. Volumes were down 1.5%, as price/mix was a 2.7 pt benefit to performance during the period. Dollar sales for Crown Royal Apple were up 13.2% (a deceleration vs. +16.1% over the last 12 weeks), while a 4.1% sales decline for the Captain Morgan rum family was below the performance seen over the last 12 weeks (-3.0%). Sales for the Johnnie Walker family of brands were down 1.8% (vs. +2.7% over the last 12 weeks), and core Smirnoff vodka declined 2.8%, above 12-week trends (-3.1%).

### Pernod Sales Grow MSD

Dollar sales for Pernod Ricard were up 4.5%, below the 4.8% growth seen over the last 12 weeks. Volumes were up 2.5% (below the 2.8% growth seen over the last 12 weeks), as price/mix was a 2.0 pt benefit during the period. Sales for core Absolut vodka declined 2.1% (vs. -0.4% over the last 12 weeks), while sales for Jameson grew 8.9% (vs. +10.1% over the last 12 weeks).

## **Non-Alcoholic Beverages - Beverage Category Sales Improved Slightly on a Sequential Basis, to +3.6% in the Latest Period**

Source: CITI

20 Aug 2019

### Category and Company Highlights This Month

In the four weeks ended August 10, 2019, overall weighted-average dollar sales were up 3.6% YoY (vs. 3.2% last period) for the NARTD Beverage categories and were up 3.1% YoY (vs. 3.1% last period) for the Food categories that we track.

In total CSDs (excluding energy drinks), dollar sales grew 2.1% YoY (vs. 3.1% in the past 12 weeks), with volumes -1.2% YoY (vs. -1.5% over last 12 weeks), such that category price/mix was up 3.3% this period (vs. +4.7% in the last 12 weeks). We note that sales of regular-calorie CSD sales rose 1.5% YoY, while low-calorie CSDs were up 3.8% YoY. Looking at market shares, we note that KO gained 0.7 pts of share vs. the year-ago period, while KDP gained 0.1 pts, and PEP lost 0.7 pts.

Energy drink dollar sales growth was up 10.6% in this 4-week period (vs. +11.1% over the last 12 weeks). This month, MNST's sales were up 5.9% (-1.9 pts of share), which was above Red Bull's 4.4% sales growth but below the category average (likely due to the continued growth of Bang, which gained 6.1 pts of share in the period). MNST's volumes were up 1.6% YoY (vs. +1.1% in the last 12 weeks) such that price/mix was up 4.3% YoY (vs. +4.9% over the last 12 weeks). Red Bull's share was down 2.1 pts in the month, while Rockstar's share was down 1.6 pts. We note that MNST's Reign brand reached a 2.9% share in the period.

Liquid tea dollar sales were down 0.7% YoY in this 4-week period (vs. -1.9% over the past 12 weeks). In tea, AriZona gained 0.2 pts of market share vs. the year-ago period, while PEP gained 0.4 pts, KO's share was flat, and KDP lost 0.3 pts YoY.

Salty snack dollar sales were up 5.5% YoY in this 4-week period (driven by 3.0 pts of price mix) and up 5.2% YoY over the past 12 weeks. PEP's share was up 0.5 pts in the period and up 0.5 pts over the last 12 weeks.

Single-serve coffee sales were down 0.4% in this 4-week period (vs. +1.4% over the last 12 weeks), driven by -3.1 pts of price/mix, which was partly offset by 2.7% volume growth. KDP's sales in the category were down 5.9% (vs. -3.0% over the last 12 weeks), and as such, it lost 1.3 pts of market share this month.

## Price and Mix

On a weighted-average basis, overall price/mix was up 2.2% for the NARTD Beverage categories (the 19th straight month of positive price/mix).

## Promotional Spending

The weighted-average percentage of products sold on promotion was down 0.4% YoY, to 40.3% for the NARTD Beverage categories.

# Global Spirits 2019 Trends to Watch: Part 1

The appetite for premiumisation remains strong, but the bubble may be bursting on UK gin; a word of caution for tequila

Source: IWSR

August 21, 2019

After some mixed results from the global beer players, IWSR look at some of the recent quarterly, half year and full year results reported by the bigger global players to garner clues as

to how the worldwide spirits market is faring in 2019. Overall, many of the trends that had helped to shape 2018's results would appear to be intact.

### Premium spirits continue to make headway

The consumer's appetite for premium brands remains strong. Diageo announced that their premium-and-above brands are their best performers in developed markets. Their 'Reserve' portfolio grew by as much as 11% in 2018/2019, helping to underpin their upbeat results for the year.

In Pernod Ricard's quarter 3 figures release, they reported that their speciality brands, many of which fall into the higher-end bracket, continue to show "dynamism". The company point to "premium brands continuing a very strong performance" in China. Pernod continue to add to their speciality portfolio with new premium plus additions like Italian gin Malfy and Rabbit Hole Bourbon.

Rémy Cointreau's overall results between April and June were tainted by the ending of partnerships in Europe and price rises, but the company report that trends "remain very favourable" for the House of Rémy Martin's "highest end qualities, particularly in South East Asian countries, Japan and Africa."

Beam Suntory, meanwhile, say that in the first half of 2019, their "strategic focus on premiumization" was rewarded with double-digit growth in their "superpremium Bourbons, as well as brands including Hornitos tequila, Sipsmith and Roku gins, and Toki Japanese whisky". Rival Bourbon producer Brown Foreman registered "double digit growth in their premium Bourbon and tequila brands" in their fiscal year to the 30th April 2019 and are predicting that their premium Woodford Reserve brand is on course to sell a million cases by 2020.

The interest in top-end spirits may be continuing, but this did not help premium mixer brand Fever Tree, whose first half 2019 results were underwhelming when compared to their previous growth levels. The brand does, however, continue to have UK bias and the poor comparable weather in quarter 2 and increased competition dented demand. The company's International expansion plans though are very much on track, with "strong momentum" in the US and in key European markets, and an acceleration in sales in Canada and Australia.

### The bubble may be bursting on UK gin, but global gains continue

You could conclude that Fever Tree's results suggest a slowdown in UK gin sales this year, but out of the UK, the segment is making further robust gains. Sluggish UK gin sales may be behind a slowdown in Diageo's gin sales in the second half of their fiscal year in 2019. Diageo's overall global gin sales do remain vibrant and the company say that the Tanqueray brand is prospering in South Africa and Brazil in particular. Elsewhere it is documented that other more International gin brands, such as the Botanist, Sipsmith and Monkey Gin are performing very well.

The indicators may point to a UK-driven global slowdown in gin, but Tequila looks to still be thriving. Diageo's second half growth for their Tequila products replicated the first half with sales increasing by as much as 29%. Other leading players are also reporting buoyant Tequila sales with Campari highlighting strong demand in the US for their Espolon brand. Campari do

add a word of caution, suggesting that the price of Agave increased more quickly than they had anticipated, putting pressure on prices.

## About the IWSR

The IWSR is the leading source of data and intelligence on the alcoholic beverage market. The IWSR's database, essential to the industry, quantifies the global market of wine, spirits, beer, cider, and mixed drinks by volume and value in 157 countries, and provides insight into short- and long-term trends, including five-year volume and value forecasts. The IWSR tracks overall consumption and trends at brand, price segment and category level. Our data is used by the major international wine, spirits and beer companies, as well as financial and alcoholic beverage market suppliers. The IWSR's unique methodology allows us to get closer to what is actually consumed and better understand how markets work. Our analysts travel the world in order to meet over 1,600 local professionals to capture market trends and the 'why' behind the numbers.

## How India became one of the world's largest whisky producers

**Did you know that whiskies from India comprise 48 per cent of all the whiskies in the world?**

Big brands, like Seagram's and Imperial Blue, are top-listed and some are available in Hong Kong restaurants like Daarukhana and New Punjab Club

Source: <https://www.scmp.com/>

Tracey Furniss

16 Aug, 2019

India consumes 48 per cent of the world's whisky, making it the sixth largest importer of Scotch, so it is not surprising that the country also produces a lot of the spirit.

In fact, seven of the top 10 global whisky brands across the globe are Indian, says Sangram Sinha, general manager and head of international business at Pernod Ricard India, which owns Seagram's whiskies.

Indian whisky exports have seen double-digit growth in the past few years, according to global database IWSR.

The most popular premium Indian whiskies worldwide include Imperial Blue, **Paul John Brilliance Indian Single Malt Whisky**, Peter Scot, Rampur Indian Single Malt, Black Dog Triple Gold Reserve Blended Scotch, Royal Stag, Blenders Pride and Officers Choice Blue, among others.

"The importance of the Indian whisky market to the global well-being of the whisky category cannot be overstated: Indian whiskies comprise 48 per cent of the total whiskies in the world, and seven of the top 10 global whisky brands across the world are Indian," says Sinha.

Indian whiskies are appearing more in restaurants across Hong Kong, including Daarukhana, which serves modern Indian cuisine.

"We use Rampur and Amrut, and our most popular cocktail is called Bigde Nawab, which features Rampur Single Malt, mango purée, pineapple juice, fleur de thyme and egg white," says Sanat Patel, CEO of Daarukhana.

Black Sheep Restaurants group, which owns more than 20 restaurants in Hong Kong and one in Shanghai, also stocks Indian whiskies in some of their restaurants, including the popular New Punjab Club.

"Indian whisky proves that you do not need a cold climate to make a good whisky," says group whisky expert Shunsuke Yoshikawa. "It matures quickly in a warm, humid and tropical climate. The maturing peak takes four to seven years for Indian whisky, much faster than whiskies of different origins. It is also far less susceptible to effects on the barrel and has increased diversity due to the shorter maturing process.

"Indian whisky is full-bodied and bursting with bold flavours, a result of the premium ingredients and climate in which it is produced," Yoshikawa adds.

Sinha says, "Currently Indian whiskies are sold in many countries across the world and Seagram's whiskies lead the show, with a presence in more than 45 countries.

"Seagram's whiskies have a great legacy with the 150-year-old Canadian trademark and offer great quality and affordable price in the standard segment. Currently, Seagram's Imperial Blue is the most widespread brand.

"However, the more premium ones like Seagram's Royal Stag & Seagram's Blenders Pride and their upmarket versions like Royal Stag Barrel Select & Blenders Pride Reserve Collection are gaining salience not just in the host country but across the world in Asia, Africa, New Zealand and Canada."

## **Hard Seltzer: Where Have we Seen this Before?**

Source: Beer Business Daily

August 20, 2019

"Ain't no laws when you're drinking claws, baby." This social media meme and viral video has taken the internet by storm, giving White Claw even more awareness and clout among young drinkers. As the video suggests, White Claw is like the iPhone and Truly is like Android.

We think a more apt analogy is that hard seltzer has done to beer what vaping industry has done to traditional cigarettes: Young people view it as a more efficient delivery mechanism, less harmful, and a status symbol. And within the vaping industry, there's JUUL and then there's everybody else. That seems to be what is happening with the Claw.

To put it in perspective, Truly is roughly half the size of White Claw, and all other hard seltzers combined are about half the size of Truly, we estimate. As one Wall Street analyst asked me yesterday, when was the last time you've seen something like this in the beer business? And my honest answer: Miller Lite in 1978?

We've been having a discussion around the office over whether the product shortages of White Claw in the trade will hurt the brand long term, or actually help the brand equity because scarcity breeds mystique, (much like Corona in the 80s). Jenn thinks it could hurt them because Mike's is smaller than their competitors and "hard seltzer penetration is still very low. It's still anyone's game, and a fumble right now could be costly." Jordan thinks White Claw has enough of a head start in awareness and coolness factor, that stock outs could actually add to its perceived popularity, "seeing an empty slot where White Claw is supposed to sit, may indicate that's the one everyone wants." What do you think?

Still, the fact remains that hard seltzers in general have helped pull the beer industry out of its weather related slump in mid summer. Street analyst Robert Ottenstein of Evercore ISI wrote in a note to investors that he is raising their "2019 industry volume estimate from -1% to -0.7%, and 2020 from -1% to -0.5%, with stronger than anticipated growth for hard seltzers more than offsetting weather-driven weakness for the rest of the beer industry in 1H19." We think Robert may actually be on the conservative side (depending on supply issues getting resolved and how much hard seltzer cannibalizes other beer) and the industry could flat or slightly up this year.

On the cannibalization issue, Mike's estimates that hard seltzers are sourcing 53% of volume from beer, 18% from wine, 17% from spirits, and 9% from FMBs, and 3% from cider.

**HOW IT AFFECTS OTHER BREWERS.** "Even with some share loss to seltzers," writes Robert, "we remain comfortable with our 6-7% volume growth estimate for STZ over next 2 years, assuming ABI declines 2.5-3.0%, TAP declines 4%, and total market declines 0.5- 1.0%. Assuming 10% of seltzer growth from beer comes out of Corona, we estimate ~60-70 bps volume headwind for STZ, before any offsets." Robert notes the rumors that Constellation is preparing a Corona seltzer line extension for rollout.

**OUR TAKE.** Hard seltzers are the best thing to happen to the beer industry in a long time. They are difficult to make well, which keeps the barriers to entry fairly high, and they definitely cut into the Tito's and soda craze that's been building for five plus years (a 300 million case equivalent opportunity, says Mike's Phil Rosse). One thing we haven't quite figured out is how seasonal these brands will be. But this clearly is a huge opportunity for beer to take occasions from spirits, even in the on premise. And it has broken out of its initial younger millennial demographic to include virtually everybody. (To wit, Jenn's 74-year-old father drinks hard seltzer during the day sometimes .. through a straw. She calls it his sneaky soda.) I think the category is here to stay.

## **Restaurant spending set to hit high in 2019 as consumers spend more of their budget on dining out**

Sales at eating and drinking establishments are up over 4% this year, according to data from the U.S. Census Bureau, surpassing grocery sales at just 3%.

The National Restaurant Association projects overall industry sales will hit a new high of \$863 billion in 2019, up 3.6% year over year.

Analysts say it's likely to continue, even if the economy does take a leg lower, as long as the job market remains steady.

Source: <https://www.cnbc.com/>

Kate Rogers

August 19th

Recession red flags may be cropping up in the stock and bond markets as the trade war rages on. But it seems the American consumer hasn't gotten the message - at least not yet.

This holds particularly true when it comes to spending at restaurants. Sales at eating and drinking establishments are up more than 4% this year, according to data from the U.S. Census Bureau, surpassing grocery sales at just 3% year-over-year growth.

The National Restaurant Association projects overall industry sales will hit a high of \$863 billion in 2019, up 3.6% from last year.

Two big factors helping to bolster consumer sentiment - a strong jobs market and tax cuts.

"Generally speaking, the consumer - particularly the middle to upper middle-income consumer - is healthy. This group has benefited from stock market gains, stable asset markets, wage growth that is pretty healthy," said R.J. Hottovy, senior restaurant analyst at Morningstar.

The compound annual growth rate for restaurant sales since 1970 is 6%, but the pace dropped to 4% in the decade since the Great Recession, according to the restaurant association. Despite that slower growth, more cash spent on food is being allocated to restaurant spending. In 1955, 25 cents of every \$1 spent on food went to restaurants. Today, it's more than half.

And while restaurant operators face many challenges, from a tight labor pool to rising wage costs, the consumer outlook for spending is strong.

"There are two important drivers for the industry from a consumer perspective - convenience and socialization," said Hudson Riehle, the association's senior vice president of research. "Particularly looking at quick service, which has grown much more quickly than table service. There's a greater focus on the off-premise market including carryout, drive-through, delivery, curbside and even food trucks."

Restaurant operators are moving quickly to erase friction for customers, helping to enhance the experience whether on or off site. Nearly every major restaurant player is either expanding its technology platform, upgrading stores or adding delivery.

"Demographics of younger restaurant patrons are dramatically different than baby boomers. Their expectation of restaurant experience basically incorporates some aspect of technology," said Riehle. "One of the most important developments over past few years has been rapid integration of tech into delivery and ordering experience."

Strength in consumer spending at restaurants, being supported by digital growth and delivery, can be seen in a slew of restaurants that recently reported earnings. Chipotle Mexican Grill had

10% same-stores sales growth for its second quarter, while McDonald's posted a 5.7% jump in same-store sales and Starbucks saw sales at its cafes open at least 12 months grow 7%.

These are not hot new restaurants. They are established American brands seeing major growth, thanks in part to technological upgrades from store to mobile app, which is better at engaging customers and meeting their needs for speed and convenience.

Analysts say it's likely to continue, even if the economy does take a leg lower. But there's one thing that could lead to slower sales growth - a downturn in the job market.

"We'd have to see unemployment basically spike for restaurant trends to reverse," Hottovy said. "If we are looking at a healthy job market, we can expect continued growth in restaurants."

## **Miami Lawyers in Bacardi, Bombay Sapphire Class Action Over Prohibited Ingredient (Additional Coverage)**

A class action complaint was entered in Miami-Dade Circuit Court against Bacardi and Winn-Dixie Stores on Aug. 9. The legal action was prompted by attorney Roniel Rodriguez's discovery that Bombay Sapphire contains grains of paradise, an ingredient outlawed by Florida statutes.

Source: Law.com

By Zach Schlein

August 19, 2019

A class action lawsuit has accused Bombay Sapphire of using prohibited ingredients in violation of Florida law.

The complaint, filed in Miami-Dade Circuit Court, names Bombay Sapphire Company U.S.A., its parent corporation, Bacardi U.S.A. Inc., and Winn-Dixie Supermarkets Inc. as defendants in a suit alleging the parties infringed on Florida's Deceptive and Unfair Trade Practices Act and were unjustly enriched through the sale of the popular gin in Florida.

The lawsuit lists Miami-Dade County resident Uri Marrache as the plaintiff and contends under the Florida Statutes, Bombay Sapphire has qualified as an adulterated liquor due to the use of grains of paradise in its production. According to the complaint, grains of paradise is one of the 10 hand-selected botanicals advertised through the gin's marketing and packaging. The material, which hails from the West African Coast, is said in the suit to be known for its "warming and digestive properties" among consumers.

"Grains of Paradise has been used in other parts of the world for medical purposes including, without limitation, to treat impotence and to stimulate miscarriages when a pregnancy was unwanted," the suit said.

The standards for adulterated liquor, that is, otherwise legal alcoholic beverages that have been illegally altered, vary from state to state. In Florida, grains of paradise is listed alongside

copperas, cochineal and other materials as a "substance which is poisonous or injurious to health."

Read the class action complaint

<https://drive.google.com/file/d/0ByGmJRV5lbovQ0J0eUhGajhWRnIHcFREbldPV2xnRVNYbzBz/view>

The Florida law cited by the complaint categorizes the sale of liquor containing grains of paradise as a third-degree felony. The lawsuit purports Bacardi and vendors, such as Winn-Dixie who carry Bombay Sapphire, could be sued for damages by any Florida resident who has purchased the gin within the last four years.

Miami-based solo practitioner Roniel Rodriguez and Beighley, Myrick, Udell & Lynne partner Maury Udell are representing Marrache in the case. Rodriguez told the Daily Business Review the case stems from a meeting the attorney had with the plaintiff on a separate matter.

"I asked him why he chose one type of gin over the other, and in discussing it he said it had a calming effect," Rodriguez said. "I started investigating . and lo and behold . I found that grains of paradise is one of those ingredients you're not allowed to adulterate with a spirit."

Subsequent conversations between Rodriguez and Marrache led them to pursue a lawsuit as a class action. The lawyer said the Florida public "don't really know the effects" the drink can have.

"It's not just filing a lawsuit and stopping it, it's correcting it before it gets worse," Rodriguez said of the sale of Bombay Sapphire. "If this is correct from my research, [grains of paradise] could cause miscarriage . and have some harmful effects to the consuming public. That's something that needs to be addressed and remedied."

Rodriguez said Winn-Dixie was named as a defendant due to its status as one of the largest sellers of the alcoholic beverage in the state of Florida. He also noted he's not aware of any other states that prohibit grains of paradise from being used in liquor products.

The attorney also noted Samuel Adams' summer ale uses grains of paradise, but because it's a beer and not a liquor, it does not land outside the parameters of Florida law.

"I've seen other [alcohols] adulterated by other products prohibited by Florida law and they've found substitutes," Rodriguez said. The attorney added he's hopeful that Bacardi can find another ingredient with the "same taste without any of the potential health consequences."

Rodriguez added the defendants "have been served, but they have not filed an appearance in the case or signaled a desire to sit down and work out some way of resolving this situation."

Winn-Dixie's corporate communications department did not return requests for comment by press time. Neither Bombay Sapphire nor Bacardi's media contacts - Andrew Carney, KC Kavanagh, and Jessica Merz - replied to the Daily Business Review's inquiries by deadline.

**Why Warning Pregnant Women Not to Drink Can Backfire**

Harsh measures, or even threats of them, can lead to the avoidance of prenatal care entirely.

Source: <https://www.nytimes.com/>

By Aaron E. Carroll

Aug. 19, 2019

In many areas of health policy, the best of intentions can lead to more harm than good. Such is the case with America's approach to alcohol and pregnancy.

The best evidence shows that punitive policies - such as equating drinking while pregnant as child abuse and threatening to involve child protective services - can dissuade women from getting prenatal care.

Fetal alcohol spectrum disorders refer to a collection of problems in babies and children. These include low birth weight; impaired growth; and problems in the heart, kidneys and brain. Children can have developmental delays, communication difficulties, learning disabilities and lower I.Q. Some of these last a lifetime.

It's hard to know how many American children are affected. Studies done by the Centers for Disease Control and Prevention have estimated that between 2 and 15 infants per 10,000 born in the United States have fetal alcohol syndrome, the most severe form of the disorders.

Some community-based studies that use the broader definition of the disorder have found more affected children, up to 5 percent.

We know that infants of women who drink alcohol in pregnancy may develop these disorders. The problem is what we don't know. We don't know the level of alcohol exposure in utero that could cause a child to develop these disorders. We don't know if the timing of the exposure matters. We don't know why some women who drink little might have a child who is affected, while some can binge drink during pregnancy and have a child with no apparent problems.

Because of this, most medical organizations, including the American Academy of Pediatrics and the C.D.C., recommend that women forgo alcohol during pregnancy. The only dose known to be "safe" is none, they say, and therefore women should not drink at all.

Many women in the United States comply with this directive. But a significant number do not.

A study published in April found that 11.5 percent of women who are pregnant report drinking alcohol. Almost 4 percent report binge drinking - defined as four or more drinks on any occasion - in the last month. Given that women may be ashamed to acknowledge this, the true numbers may be higher.

To combat this, 43 states have enacted policies. These can be affirmative measures, like giving pregnant women priority for substance-abuse treatment, or punitive ones, like defining drinking alcohol during pregnancy as child abuse or neglect.

Proponents of such policies believe that they are making things better, especially for children. A recent study suggests they're wrong.

Researchers gathered birth certificate data for more than 155 million live births from 1972 to 2015. The researchers were interested in how many children were born at a low birth weight or prematurely. They compared the rates of these undesirable outcomes in times and places when alcohol-pregnancy policies did and did not exist. They controlled for a number of demographic and related factors, including those known to be associated with poorer birth outcomes, like poverty and cigarette smoking.

They found that policies that defined alcohol use during pregnancy as child abuse or neglect were associated with an increase of more than 12,000 preterm births. The cost of these were more than \$580 million in the first year of life. Policies mandating warning signs where alcohol was sold were associated with an increase of more than 7,000 babies born at low birth weight, at a cost of more than \$150 million.

A previous study looking at how these policies affected women's drinking found mixed results. States with punitive policies had more drinking, not less. Over all, neither type of policy seemed to be associated with lower levels of drinking.

It's possible that states that already had more drinking might have put such policies in place in response to it. But the research methods used accounted for this and state-level data on drinking, and the prevalence of fetal alcohol spectrum disorders weren't available when most of the policies were enacted, making it hard to believe that the relative levels of problems were what spurred policymakers to act.

Dr. Sarah Roberts, an associate professor of obstetrics and gynecology at the University of California, San Francisco, is an author of this study and other related work. Doctors have long discussed potential dangers with patients, one on one, with many benefits, she noted. But policies that punish women for or publicly warn them about harms from alcohol or drug use during pregnancy may lead to further harms by scaring women into forgoing prenatal care, she said.

Such policies may even convince them that talking with their physicians isn't a good idea.

"Qualitative research finds that pregnant women who use drugs avoid prenatal care out of fear that, if their providers find out about their drug use, they will be reported to child protective services and lose their children," she said. "Our study found that child abuse/neglect policies led to decreased prenatal care use."

Other research confirms this hypothesis. Three years ago, researchers (including me) published the findings of a survey on legal requirements for drug testing in prenatal care. Although most women were tolerant of laws requiring screening of pregnant women, 21 percent reported they would be offended if their doctors asked them about drug use as part of prenatal care, and 14 percent said that mandatory testing would discourage prenatal care attendance.

It's that last bit that most concerns physicians. Avoiding medical care is not what we'd like to see happen.

The goal of all of these policies is to improve the health not only of pregnant women, but also of the children they bear. Many people assume that if physicians simply provide more

information - if women are just warned - things will improve. Without research, those assumptions are just unproven hopes.

Dr. Roberts had two suggestions for what might work better. The first: Start over and go through a rigorous process of engaging with women who drink during pregnancy to find out - from them - what would help. Second, stop treating pregnancy as a special case when it comes to alcohol.

"There is some evidence that general population alcohol policies - such as limiting where alcohol can be sold - are associated with improved birth outcomes," Dr. Roberts said. "This makes sense as research shows that the biggest predictor of drinking during pregnancy is drinking before pregnancy. Women don't start drinking during pregnancy; if they drink during pregnancy, it's usually a continuation of the way and the amount they were drinking prior to pregnancy."

It might be better to spend time making sure that women are connected to the health care system in general, and that they enter pregnancy healthy - rather than focusing on the nine months of pregnancy, as if that were the only time that mattered.

It's easy to stigmatize women who drink during pregnancy, with words and with policy. The goal, though, is healthier mothers and infants. To achieve that, policymakers may need to stop stigmatizing and start over.

## **TOBACCO ANALYSIS: NIELSEN XAOC + C-STORE**

Source: Cowen

August 21, 2019

### **THE COWEN INSIGHT**

Cigarette volumes in combined xAOC channels (food, drug, mass & WMT scanner data) + c-store data were down 7.2% YoY in the 4 weeks ended 8/10/2019. The e-cig category grew dollar sales ~51% with unit volume growth of ~52%, as both dollar and unit sales increased sequentially. Meanwhile, smokeless revenues increased by 2.5% YoY, driven by price/mix.

#### **Cigarettes Volume Declines Continue**

Cigarette volumes declined 7.2% in the 4-week period, which was in-line with the performance during the last 12 weeks. On a two-year stack, volumes fell 12.0%, which was down vs. 10.5% declines in the 4-week period ending July 13. Cigarette sales declined 2.6% (compared to the 12-week decline of 3.2%) and have now declined for 21 consecutive periods. Price/mix contributed 4.6 pts in the 4-week period, above the 4.0 pts contribution over the last 12-weeks.

#### **MO Share Losses Continue; Newport Leads BAT Gains**

Volume share for MO was down 0.6 pts (to 52.6%), and below the down 0.5 pts 12-week performance. Marlboro volume share was down 6 bps and in-line with the 12-week trend. Meanwhile, L&M's share was down 0.3 pts, and in-line with its 12-week trend. MO's dollar

share was down 18 bps during the period, while Marlboro gained 30 bps of dollar share. BAT's volume share was up 4 bps over the last 4 weeks (to 32.2%), its second straight period of share gains following declines for 19 consecutive periods, and above its down 3 bps trend during the 12 week period. Newport share increased 52 bps, above its up 50 bps 12-week trend, while NAS grew volume share 12 bps, below its 12-week trend of up 13 bps. Camel lost 2 bps of volume share. Meanwhile, Pall Mall's share was down 33 bps during the period, and below the 31 bps decline over the last 12 weeks. On a dollar basis, BAT's share was up 8 bps. IMB's volume share was down 35 bps during the period, driven by 16 bps of share losses from USA Gold and losses from smaller brands. IMB's dollar share was down 34 bps during the last 4 weeks. Vector Group achieved a volume share gain of 14 bps, driven by 24 bps of Eagle share gains. Combined volume share for private label and other manufacturers was up 77 bps, below the +79 bps performance over the last 12 weeks.

### Robust E-Cig Category YoY Growth Continues

E-cig category growth remains strong while facing tough compares, as JUUL contributed ~71% of both unit and dollar growth with a ~71% dollar share, although JUUL and NJOY combined to represent in excess of 100% of category growth. The category's total dollar sales grew 50.8%, although below the 12-week trend of +54.3%. Meanwhile, unit volumes grew 52.2%, compared to the 12-week trend of 49.9% growth. On a sequential basis, the category's dollar sales were up 2.2%, while unit volumes were up 4.9%. By product type, YoY dollar sales growth was due to cartridges (up 65.0%), with kits down 0.4% and disposables up 3.9%.

### JUUL Share Slips as NJOY Continues Momentum

JUUL posted its first YoY share loss since its massive run-up as its dollar share was down 0.3 pts (to 71.4%) while its unit volume share was up 6.6 pts (to 58.6%). JUUL posted YoY dollar growth of 50.2%, which was below the 12-week trend of up 60.6%. Sequentially, JUUL's dollar sales were down 0.4%, and once again has shown declines as seen in the first two periods of 2019. In addition, JUUL lost 1.8 pts and 2.2 pts of dollar and volume share, respectively, on a sequential basis. BAT's Vuse gained 1.1 pts in dollar share YoY (to 10.9%), and lost 3.4 pts in unit volume share (to 11.9%). Sequentially, BAT's dollar and unit share declined by 0.6 pts and 0.9 pts, respectively. Meanwhile, IMB's blu lost 2.7 pts in dollar share (to 2.9%), while its unit volume share fell 4.9 pts (to 4.1%). JT's Logic saw its dollar share fall 1.0 pts YoY (to 2.0%), while its unit volume share was down 2.2 pts (to 3.2%) in the period. NJOY gained 10.2 pts of dollar share (to 11.6%), while its unit volume share was up 17.3 pts to an impressive 20.3% in the period.

### Smokeless Increases Driven by Price/Mix

Total smokeless EQ volumes (including MST, chew and snus) were down 6.3% during the period, compared to the 12-week decline of 6.7%. Overall, category dollar sales increased 2.5%, vs. up 2.8% for the 12-week period, as price/mix contributed 8.8 pts (although below the 12-week contribution of +9.5 pts).

### Declining MO Smokeless Volume Share Continues

MO's volume share was down 0.2 pts to 50.9% during the period. Copenhagen volume share grew 0.3 pts, in-line with its 12 week trend, while Skoal share declined 0.9 pts. On a dollar

share basis, MO's share was down 1.8 pts during the period. BAT's unit volume share was down 2.0 pts during the period, and below its down 1.4 pts performance during the 12-week period. Grizzly's share was down 1.8 pts, while Camel's share was flat. In terms of dollar share, BAT was down 29 bps. TPB's dollar sales grew 30.5%, as 43.9% growth in Stoker's was partially offset by losses in Beech-Nut and other smaller brands. Stoker's revenue growth was driven by 10.6 pts of price/mix during the period, as the company continues to expand its Stoker's MST 1.2 oz. can. TPB's total dollar share was up 24 bps, with Stoker's share growing by 25 bps. Meanwhile, TPB's unit volume share was up 65 bps during the period, as share gains from Stoker's (up 67 bps) were partially offset by flat to slightly negative performance from smaller brands.

## **First restaurant with cannabis on the menu to open in September**

At Lowell Café in West Hollywood, Calif., guests will be able to have a toke and a sandwich

Source: <https://www.nrn.com/>

Lisa Jennings

Aug 19, 2019

The first of several restaurants in California that will legally have cannabis on the menu is scheduled to open in West Hollywood next month.

Lowell Café will be open for lunch, dinner and late-night service offering a full menu of appetizers, small plates, sandwiches, salads and entrees, alongside a "flower menu" with an array of cannabis products that can be smoked in various forms, pre-packaged edibles and concentrates.

Related: Colorado's Illegal Burger to co-launch cannabis-themed concept

Kevin Brady, Lowell's general manager, said Lowell is expected to be the first of eight restaurant and lounge concepts that will allow onsite smoking, vaping and consumption of edibles that won the first round of business licenses from the incorporated city of West Hollywood under an ordinance passed in 2017. Another eight licenses were awarded to businesses with a foodservice component that will focus on edibles only.

Colorado, another state with legal recreational cannabis, also recently opened the legislative door for cannabis lounge concepts, so many in the industry will be watching how operators like those behind Lowell Café do it. Brady is first to admit it's a whole new world, with many challenges to overcome.

"I've opened lots of restaurants and nightlife venues, and there's a roadmap for that. But there's no roadmap for this," he said.

Recreational cannabis use is legal in California, but state laws prohibit consumption in public spaces. The goal in West Hollywood was to create safe and equitable places to consume socially, but also to create an opportunity for tourists to experience the burgeoning cannabis culture on visits to Los Angeles.

Lowell Café is owned in part by cannabis company Lowell Herb Co., and partners include nightlife operators (and brothers) Mark and Jonnie Houston of Los Angeles-based Houston Hospitality.

The plan is for guests to arrive at the cafe - preferably by ride share like Uber and Lyft, but valet parking will be available - and enter the 220-seat restaurant which will also be a dispensary, stopping first at security where all IDs will be checked. The venue will be for those 21 and older only, and it is designed around an enclosed patio with no windows to the outside.

After that, the experience will be similar to any other restaurant, said Brady, a Cornell University alum who worked previously as director of restaurants with Tao Group Hospitality in Las Vegas and LA.

The menu at Lowell is being developed by chef Andrea Drummer, a private chef with a celebrity clientele and author of the book "Cannabis Cuisine: Bud Pairings of a Born-Again Chef." Brady said they were still in research-and-development mode, so he couldn't reveal specific menu items, but generally the menu will be hyper seasonal. There will be small bites and appetizers for around \$10 to \$24; sandwiches around \$15 to \$20 and entrées around \$25 to \$36.

"We know there will be people coming from all over the world and excited to try cannabis tourism, so we want to make sure we're approachable from all different price points," he said.

In lieu of a cocktail menu, however, will be the "flower menu," which will be served by a "budtender" or "flower host" who will guide guests through the experience. It's not so much about pairing flavors, Brady said, but educating guests about the products and various ways they can be enjoyed, from joints and bong hits to vapes and concentrates.

Brady said that, unlike alcohol to which restaurants apply a liberal markup, the cannabis products at Lowell Café will be sold at close to retail pricing. Guests have accepted that their favorite bottle of wine is \$10 in a grocery store but \$30 in a restaurant, but he doesn't think that will be true for cannabis.

Brady said the restaurant hopes to eventually offer foods infused with cannabis, but for now that element is on hold. Though the Food and Drug Administration has opened the door for cannabis and derivatives in food and drink, it is currently not permitted. And state law requires foods infused with cannabis to be prepackaged and tested.

Lowell Café, however, will mostly be alcohol free, at least in the areas where cannabis is served, Brady said. The restaurant has applied for a transfer of the beer and wine license held by the previous restaurant in the space, but that permit would only apply to a small patio to accommodate guests who want to try the food menu without the cannabis.

Lowell will not be able to accommodate guests who want alcohol and cannabis at the same table. "There are some aspects of it where the law is very clear," he said.

But the concept will appeal to those who call themselves "California sober," who have given up alcohol and its next-day hangovers in favor of cannabis, which many say has little-to-no after effects.

Lowell Café will be different from typical restaurants in several other ways.

The restaurant will have an aggressive air-filtration system, for example, to suck away smoke fumes, he said. Live plants growing throughout the venue are also designed to help clear the air.

There will be a number of security guards during all hours of operation, which will serve as an extension of the host team, Brady said. They are meant to help guests feel welcome and safe, not serve as bouncers. "There won't be a whole nightlife vibe where they're throwing people out," he said.

Developing the café has also required a higher-than-normal investment in legal fees and consulting, he said. In a way, cannabis is treated "like a nuclear weapon," he said, making it difficult to find partners who want to be part of the project.

For example, because cannabis is still illegal on a federal level, the banking component is still evolving, Brady said. But guests will be able to use credit and debit cards at Lowell Café.

"It's challenging because so much is unknown. There are preconceived notions and people who don't even want to start a conversation or work with you," said Brady.

"I started this with a full head of hair," he added, indicating that is no longer the case. "But people see this as proof of concept. It will be interesting to see how it evolves moving forward."

## **VAPING BLACK-MARKET CANNABIS OIL IS PUTTING PEOPLE INTO COMAS**

Source: <https://futurism.com/>

BY KRISTIN HOUSER

AUGUST 19 2019

A 26-year-old Wisconsin man is currently in a medically induced coma - and his brother says it's because he was vaping cannabis sold under a mysterious black-market brand name.

In a newly published story, Inverse dig deeps into Dank Vapes, a popular brand of vape cartridges containing cannabis oil. The patient's brother has told several media outlets he blames Dank Vapes for the severe heart and lung damage that has left his sibling fighting for his life.

Based on Inverse's investigation, Dank Vapes isn't so much an actual company as it is a decentralized brand - and because that brand is currently popular with people who like vaping cannabis, Dank Vapes has become the packaging of choice for many black-market sellers of weed concentrates.

"They act like a cannabis company but they actually don't exist. They're in the packaging industry," Mark Hoashi, the founder of the cannabis-focused Doja App, told Inverse. "These are

just people filling cartridges as 'Dank Vapes.' It's not a singular facility. It's just people in their garages filling them and selling them."

Because they're sold on the black market, Dank Vapes products aren't subject to any regulations. That means buyers often don't actually know what's in the vape cartridges they're purchasing - and that can be incredibly dangerous.

For example, Myron Ronay, CEO of cannabis testing lab BelCosta Labs, told Inverse his company frequently finds unsafe levels of myclobutanil in black-market cannabis products. When heated, the fungicide releases hydrogen cyanide, one of the chemicals found in Zyklon-B, a poison Nazis used in gas chambers during the Holocaust.

Perhaps the scariest part of Inverse's reporting is the fact that this problem doesn't appear poised to go away any time soon.

"The Dank Vapes brand will continue to get bigger and grow more in illegal states," the host of the Stay High, Stay Humble podcast, who goes by the handle hallinsco, told Inverse. "They are cheaper, and even in legal states where legal meds are taxed very high, some people still prefer the cheaper options on the black market."

Beyond helping users avoiding legal trouble, transparency is purportedly one of the primary benefits of cannabis legalization - a regulated market means users will know what they're actually getting when they buy marijuana.

But finding out the cannabis that your local dealer told you was Acapulco Kush is actually some mid-tier homegrown weed might, at worst, mean you don't get the same level of pain relief if using medically or the same level of high if you're smoking for funsies.

With cannabis oils, though, it's far easier for black-market sellers to disguise what's actually in their products, especially when they can slap a well-known brand name on the package - and as cannabis vapers like the patient in Wisconsin are finding out, that can have devastating consequences.

Related story: <https://www.leafly.com/news/health/tainted-vape-carts-sicken-7-california-safety-report-leafly>

## **Latest Brexit Headlines**

Source: Multiple

August 21, 2019

<https://www.telegraph.co.uk/politics/2019/08/20/brexit-latest-news-boris-johnson-no-deal/>

<https://www.dailymail.co.uk/news/article-7376065/PM-vows-break-nearly-contact-Brussels-focus-taking-UK-EU.html>

<https://www.telegraph.co.uk/politics/2019/08/20/boris-johnson-leaving-brussels-no-doubt-wants-brexit-deal/>

<https://www.dailymail.co.uk/news/article-7376901/Boris-promises-lot-oomph-Brexit-talks.html>

<https://www.theguardian.com/politics/2019/aug/20/donald-tusk-rejects-boris-johnsons-bid-to-remove-the-backstop-brexit>

## **Climatologists Say Cabernet's Days as King in Napa are Numbered**

How the changing climate could create unfavorable conditions for this particular grape

Source: <https://www.winebusiness.com/>

by Larry Brooks

August 19, 2019

This article was first published in the January 2019 Wine Business Monthly.

Larry Brooks has spent close to four decades making fine wine in California. His career began at Acacia in 1979. From his role as winemaker and general manager he went on to become the vice president and COO of Chalone Wine Estates, Acacia's parent company. He founded L.M. Brooks Consulting in 2000 after leaving executive winemaking and continues to offer a wide range of services. He has recently been lecturer in advanced sensory analysis of wine at both Cal Poly San Luis Obispo and at Fresno State. He is currently taking the lead role as consulting winemaker at Paraiso Winery.

The optimum growing temperature for luxury priced Cabernet Sauvignon sits at  $17.5 \pm 1.5^{\circ} \text{C}$  ( $63.5 \pm 2.7^{\circ} \text{F}$ ), but climatologists project that most current California wine-growing regions will exceed  $19^{\circ} \text{C}$ , based on measurements taken from 1981 to 2010. On June 7, 2018 a symposium in Sonoma called, "Bordeaux in America: The Climate Disruption," sponsored by Enologix, featured climate experts discussing their predictions with vintners. While the symposium was focused on the effects of climate change on luxury Cabernet in Napa and Sonoma, the underlying science and temperature trends contain dire news for wine-growing at large.

The most startling and sobering fact was that within 30 years (the normal life span of a vineyard planted today), many current Napa vineyard locations will be too warm for some Bordeaux varieties to scale luxury-priced wines. Climate change is no longer something abstract affecting the future. Anyone planting or replanting a vineyard today should be taking climate warming trends and optimum grape-growing temperatures into account.

Four academics and Doug McKesson, general manager at Enologix, presented different facets of the problem. They are Dan Cayan, research meteorologist, Scripps Institute; Greg Jones, professor and climatologist, Linfield College; Daniel Sumner, director, UCD Agricultural Issues Center; and Elizabeth Wolkovich, University of British Columbia and Harvard University.

For concision's sake I have condensed the material from the day-long symposium into three parts. The first section addresses what the climate is doing; the second, the effect this warming is having on the vines and wines; and the last, strategies to mitigate the effects.

## Part 1: Climate Warming

All speakers agreed that the planet is warming and that the increased greenhouse gases, primarily CO<sub>2</sub>, that cause the warming are proven to be from human activity.

Rates of temperature increases began accelerating about 1980. Observation of the warming over the four decades since has allowed climatologists to project the temperature trends through the 21st century. All climatologists predict additional increases of 4° F to 5° F by the mid-21st century. Disturbingly, however, 15 of the last 20 growing seasons in California have already been 3° F to 5° F warmer than the 100-year average 1895-2017.<sup>3</sup> Projected temperatures will rise 6° F (3.3° C) by 2060 (FIGURE 1).

Climatologists use two CO<sub>2</sub> level scenarios for their projections—a moderate increase and a high increase. Until mid-century, both moderate CO<sub>2</sub> and high CO<sub>2</sub> increases yielded the same projected temperatures for California. After mid-century, if high CO<sub>2</sub> accumulation proves true, temperatures will sharply increase.<sup>2</sup>

In California coastal vineyards the nighttime minimums have increased more than the daytime maximums due to warming of the eastern Pacific Ocean. There has also been more variation in daytime than nighttime temperatures. By mid-century the hottest days will be 4° F to 5° F hotter with more days above 95° F. The frequency, duration and intensity of heat events will increase. Rainfall will become more variable with an increased frequency of drought years. This increase in drought years will further drive up demand for water resources, which will already be under pressure from rising average heat. Intense winter storms will become more intense.<sup>2</sup>

Climate warming has effects on growth, productivity, and quality. Warmer dormant periods make risk of freeze damage greater. Earlier budbreak and growth expose the vines to greater risk of frost. Earlier flowering can lead to greater chances of rainfall damage. Veraison will be earlier when heat stresses are greater. At harvest lower ranges of diurnal temperatures will lead to sugar ripeness before tannin and color ripeness. All phenological stages<sup>5</sup> shift earlier in response to warming, and the phases themselves are condensed.<sup>3</sup> Inevitably, there will be flavor changes in the wine as the vines respond.

Climate is one of the key variables that contribute to terroir. As the climate changes, so too will terroir. Plant phenology is a good lens to observe these changes. Phenological records of winegrapes have been kept in France since the 1300s. These records clearly show that as the planet has warmed in the past 40 years, there has been a trend towards earlier harvests—a shortening of the phenological phases that lead to ripeness (FIGURE 2). While there was variability in harvest dates of individual vintages throughout the record, there has been a 0-day shortening of the growing season on average since 1980.<sup>4</sup>

Grapevines have a wide adaptability to temperature between varieties. You have cold climate varieties, such as Pinot Noir, and varieties, like Grenache, which will thrive under much warmer conditions. Within each variety, however, you have a narrow range of temperatures where quality wine is possible. This is why Grenache is not found in Burgundy, and Pinot Noir is not planted in Chateauneuf-du-Pape.

Average Growing Season Temperature (GST) is becoming the standard metric for discussion of climate effects on wine-growing. There are four broad categories of heat ranges that are

suitable for quality wine-Cool, 55.4° F to 59° F (13° C to 15° C); Intermediate, 59° F to 62.6° F (15° C to 17° C); Warm, 62.6° F to 66.2° F (17° C to 19° C) and Hot, above 66.2° F. Varieties vary in the range of temperatures that are successful for them. Pinot Noir has one of the narrowest ranges at roughly 3.5° F (2° C) while others like Cabernet Sauvignon are somewhat wider at 5.5° F (3° C) (FIGURE 3).

Here is the crux of the problem for any region that has established its reputation based on the interaction of its terroir with a specific variety. Take Cabernet and Napa Valley, as an example. Cabernet has a range of 60.8° F to 66.2° F (16° C to 19° C) in which it will produce quality wine. In St. Helena, the average GST for 1971-2000 was 66° F (18.9° C)-very near the high-end of the range for Cabernet. Bordeaux, in contrast, had an average GST of 61.7° F (16.5° C) for 1950-2000, which is near the low end of the optimum range.<sup>1,3</sup> Warming has occurred in both areas since 2000, and that has likely benefited Bordeaux, but not Napa.

While there is a range of increases predicted for upcoming decades-even the most conservative predict increases that will raise Napa GST out of the warm range and into the hot range by the mid-21st century-this hot range is not compatible with luxury-priced Cabernet. The direst forecasts based on higher accumulation of CO<sub>2</sub> would make Napa Valley more compatible with table grapes than winegrapes by century's end.

Other appellations besides Napa Valley are at equal risk. Continental climates, in particular, such as central France and Germany, will see significant warming. Terroirs that have grown the same varieties for many centuries will no longer find them suitable.

### Part 3: Mitigation

One reaction to a warming climate will be a general movement of new wine-growing in higher latitudes. It should be kept in mind that because of their patterns of day length, Northern latitudes also cause compression of phenological phases and will make wines dissimilar to those grown in middle latitudes. Within appellations, movement towards higher elevations will help-obviously not an option in all areas.

In the case of coastal locations, moving closer to the ocean could help. Patterns of fog and coastal moisture will need to be considered before making such a decision. While relocation may sound drastic to a current vineyard or winery, this will inevitably happen. As Dr. Wolkovich so vividly put it, "Climate change is a wave you must ride or be swept away by."

For those who do not wish to relocate or cannot, there are alternative solutions. Changing varieties or proportions of blends is less expensive than changing location. As previously noted, there is a wide range of heat tolerance between grape varieties. In the case of a Bordeaux style blend, this may involve lowering or eliminating the less heat-tolerant Merlot, and increasing portions of Malbec and Petite Verdot. Rhône blends can shift to the more heat-tolerant Grenache from Syrah-based blends. Pinot Noir and Chardonnay usually made as single varieties do not offer the same flexibility.

Unfortunately, most of the "International" varieties, which are currently widely planted around the globe, originated in France and are in the range of cold- to warm-tolerant. They will not be a big part of the longer term solutions. Varieties found in southern Italy, Greece and Spain are the likeliest candidates for planting in warming terroirs. These varieties have both longer

phenological cycles and the ability to retain acidity and color in hot conditions. They, of course, pose a marketing challenge in a sales world dominated by a dozen or so largely French varieties.

There will be existing growing areas that become so hot that they will be outside of the range of winegrowing entirely-not even the broad range of *Vitus vinifera* heat adaptability will offset climate change in every area. Some appellations will be abandoned.

Genetic adaptations, through traditional plant breeding and the use of GMOs to increase heat and drought tolerance, are an avenue that is worth pursuing in both scion and rootstock development<sup>3</sup>. Parts of society and the market have issues with genetic solutions, but hopefully this will change.

Myriad shorter term and temporary solutions exist and will be applied. Landscape potential, such as aspect to the sun and row orientation to protect fruit zones from direct solar, help. Training, trellising and application of shading materials are also effective. Choice of rootstock for drought tolerance and water management is important. The use of micro sprinklers and other forms of irrigation for short-term temperature control during "heat storms" are already in routine use for some fruit crops and should be considered.

These short-term solutions will be most effective in areas that are currently at the cool end of the range for the variety grown. Pinot Noir in parts of Oregon and the coolest California locations fall into this category. If you are already at the warmer edge of climate for your variety, moving or replanting makes more sense. Pinot Noir in parts of the Russian River fall into this category. WBM

## **Bottled wine narrowly beats out canned wine in flavor**

Source: <https://www.beveragedaily.com/>

August 21, 2019

WICresearch has been studying wine-in-can products and recently released a market implications report to debut its findings.

Though trendy, only 50% of those surveyed by WIC said they have tried canned wine before.

The top-selling bottled wine varietals sold in the US last year were Chardonnay, Cabernet Sauvignon, Red Blends, Pinot Grigio/Gris, Pinot Noir, Sauvignon Blanc, Merlot, Moscato/Muscat, Rosé, White Zinfandel, according to WIC.

Nearly 3,500 US consumers were included in WIC's wider survey, and 63.6% of all male participants reported that they have tried canned wine compared to 48.3% of females.

WIC considers the main market drivers behind canned wine to be convenience, occasion expansion, sustainability and cost savings, quality, variety, portion control and visual image and branding. WIC is a US-based group dedicated to tracking and researching the wine in can industry.

## Testing a fad?

The blind taste test to gauge consumer preference between bottled and canned wines was a smaller subset of the survey group, comprised of 86 adults age 21-74. They used identical wine from same winery that had been canned and bottled, then poured into a cup for the test.

The tasters sampled a dry chardonnay, a dry Riesling, a dry rose, and a sparkling sweet moscato. Overall, 48.5% preferred the bottled wines, 45.3% preferred the canned, and 5.8% had no preference between the two.

The overall numbers aligned with the individual numbers of the dry chardonnay and the sparkling sweet moscato, with a 'no preference' under 6% for each. But 26.2% had no preference between the bottled or canned dry Riesling, and 31.1% equally liked the dry rose.

And though 57% self-identified as having higher subjective wine knowledge than their peers, WIC found that they were just as likely to taste, purchase and enjoy wine in a can. Gender and age were also not a factor.

"As awareness for this innovative wine packaging continues to grow, it is becoming clear to wine makers, distributors, retailers, and most importantly, consumers, that this time around wine-in-a-can is not a fad, rather it represents a significant, new wine category that is finding a permanent positive place in the overall wine market,"? the report said.

Convenience and portability are key

In 2018, Nielsen reported that canned wine sales reached \$50m, with sales up by 69% and volumes up by 47%. The trend was born out of smaller labels, but leading wineries like E&J Gallo, The Wine Group, Constellation Brands and Treasury Wine Estates are now all in the canned wine market.

Though canned wine is a hit in restaurants, bars and wineries, it's also spreading to venues that do not traditionally serve wine. Stadiums, beaches, pools, boating clubs and zoos are proving good locations for canned wine drinking, and it's being utilized differently across global markets.

"In Japan wine in cans are very popular, but even more popular (and perhaps driving sales) is Japan's embrace of vending machines to deliver wine in cans, as well as fancy gift boxes for a more upscale presentation,"? the report said.

Canning is attractive in terms of sustainability, says WIC, as aluminum has the potential to be recycled multiple times. WIC also found that it's slightly cheaper than bottling, making it an option for smaller brands.

"The convenience and portability associated with packaging wine in aluminum cans permits new wine consumption based on two new occasion dimensions--location and event,"? the report said.

"The consumer demand generated from such occasions is a main driver to overall increases in wine sales - as opposed to the cannibalization of bottled wine sales. The fast double-digit

growth of wine in cans is not stealing business from the already strained wine market growth of 1-4%, instead it bolsters total wine sales."?

## How Portugal Became the Epicenter of Sustainability for the Wine Industry

Starting with the Porto Protocol, a commitment to action by members of the wine industry.

Source: <https://fortune.com/>

By Shana Clarke

August 18, 2019

While climate change is affecting every industry across the globe, the agricultural sector-wine in particular-is reeling from it. Wine growers constantly face new adversaries in the vineyard-such as hailstorms, heat waves, and disease pressure-that are unpredictable and destructive. Numerous regions are examining how they can mitigate these issues, but one country in particular is emerging as the leader of sustainability: Portugal.

### An International Commitment

In 2018, Porto-based winemaker Taylor Fladgate hosted the inaugural Climate Change Leadership Summit. With a keynote speech given by former President Barack Obama, this high-profile event illustrated the seriousness of the issue.

"I didn't want to sponsor yet another conference telling people what the problem was," says Adrian Bridge, CEO of The Fladgate Partnership. "What we really needed to do now is to focus on solutions."

From this initial conference, and the subsequent event in 2019 that featured Al Gore as a headline speaker, the Porto Protocol was born. At its core, the Protocol is a pact that a winery makes with itself to improve its methodology and commit to making changes in its practices in order to mitigate climate change. On a broader scale, it connects the wine industry through an online think tank, where information and case studies can be shared on a global scale. "I wanted to have something that was a legacy and would become this platform where ideas and solutions could be essentially exchanged," Bridge says.

Though still in its infancy, the Protocol, Bridge hopes, will serve as a key resource for the industry in all aspects of production. "It's important to state that the Protocol isn't just looking at the carbon footprint [of producing wine]," he says. "Chemicals, water, issues like solar energy and energy recovery systems" are also part of the bigger picture.

Bridge thinks the wine industry is the ideal advocate for bringing about change. Not only is wine an agricultural product grown all over the world, but wineries tend to be family-run with the intention of creating a legacy brand. It's the long-term view of these firms that makes understanding the future consequences of today's actions so critical.

"More importantly, the wine industry talks directly to the consumer," Bridge says. "I think many businesses kind of miss the fact that the consumer really cares, or they think they can't do anything about it."

## Better Business Practices

Symington Family Estates, a fifth-generation-run wine company based in Porto, also comes to the table with ambitious plans to combat climate change. Last month, it became a Certified B Corporation, uniting it with other like-minded companies across different industries throughout the world. (A Certified B Corporation is a business that meets strict environmental and social standards, is transparent in its practices, and holds itself legally accountable for its actions. The certification is administered by the nonprofit organization B Lab, based in Berwyn, Pa., with branch offices in New York City, Denver, and Oakland.

Although there are 2,950 Certified B Corp businesses in total, only a handful are wineries; Symington Family is the first in Portugal. Rob Symington, associate director of communications and sustainability at the family estate, says the rigorous standards set by B Lab are what drew him to the certification.

"It's not just about the vineyard or your practices around viticulture," Symington says. "It's everything from people, suppliers, environment, and governance. And that was very appealing." He sees the certification as an effective way to communicate Symington's standards to consumers. "It provides us with credibility and a shorthand; someone's in a store, and they've got six seconds to make a decision. B Corp is a way of communicating a lot just through that stamp of approval."

B Corp also encourages evolution through its third-party business reassessment every three years. "It's a process of transformation inside a company," Symington says. "I love the fact that B Corp actually makes it harder and harder to get your score. If you just stay put, you will eventually fall off, and no company wants to go out and say, 'We lost our B Corp status. We backed ourselves into a corner.' "

## A Focus on Natural Resources

In addition to the efforts of these two wine companies, cork producers—a wine-adjacent business—have been investing in technology to produce higher-quality stoppers over the past decade while zero-waste initiatives were simultaneously developed. Forests themselves—99% of which are privately owned—are dry-farmed, eliminating the need for irrigation and encouraging biodiversity. Because cork is cultivated by removing the bark of the tree, rather than cutting down the tree itself, trees survive for centuries.

Cork producers are also changing business practices to support the environment. Amorim, one of the world's largest cork manufacturers, earned certification from the Forest Stewardship Council in 2005, which enables full traceability of the cork source and ensures the material came from a sustainably managed forest. Within the factory, no element of cork goes to waste. Material that is unfit for bottle stoppers—or any of the other products produced by Amorim—gets ground down into dust, which is then converted to an energy source, fueling 70% of the factory's energy needs.

"The problem with climate change is it doesn't really respect your boundaries or borders," Bridge says.

Going hand-in-hand with the new certified B Corp status is the self-imposed Mission 2025, an internal directive with numerous action points that Symington views as a public declaration-and road map-of the company's intentions. "Our approach to climate change has three pillars," Symington explains.

The first is adaptation, meaning what can be done to continue to produce the firm's style of wine. Second is mitigation, which Symington views as "systematically reducing our own contribution to climate change through buying renewable energy, solar panels on our roofs, working with our suppliers to reduce the emissions in our glass bottles in the transportation, a ton of stuff." He's most motivated by the third: a call to action. Symington notes it's hard for wine brands to "talk like activists." But he believes it's these very voices, these new opinions, that will help create a broader dialogue about what can be done to fight climate change.

## Understanding Sherry's New Regulations

The change will permit nonfortified wines in some subregions, allowing for greater diversity

Source: <https://daily.seventy.com/>

Amanda Barnes

August 20, 2019

Jerez-Xérès-Sherry is the oldest Denomination of Origin in Spain, established in 1935, and its wines and those of the Manzanilla de Sanlúcar DO are today defined as fortified wines (vinos de licor). Both DOs appear to be set for a rehaul as an amendment to allow nonfortified wines into the category has reportedly been passed by the European Commission and will come into effect within a matter of weeks.

"The legislation has been approved in Brussels now, and we expect it to be completed within the next month," says Luis "Willy" Pérez of Bodegas Luis Pérez in Jerez, the producer who pushed for the amendment. "It was already approved by the Consejo Regulador and Ministry of Agriculture in Andalucía earlier this year."

The amendment to the law will permit wines fermented to a minimum of 15% ABV for Fino and Manzanilla, and 17% ABV for Amontillado, Palo Cortado, and Oloroso. These last three will also be classified as sherry and sold within the DO classification, a privilege that had been reserved only for wines fortified by grape spirit until now.

### The Fortified Wines of Jerez and Sanlúcar

The wine regions of Jerez and Sanlúcar have a long-standing tradition of making brandies and spirits. The addition of grape spirit to wines was popularized in the 17th and 18th centuries in order to stabilize the wines for long voyages overseas to the New World, as well as to the growing sherry market in the U.K.

Although a majority of sherry producers fortify their wines today, fortification is a relatively new method of making these wines; the producers who requested the amendment are seeking to return to more traditional methods of vinification.

## Rediscovering Historic Artisanal Sherry Production

Sherry producers have historically achieved high sugar (and ergo high alcohol) levels through a late harvest, or by leaving grapes to partially dehydrate by means of the asoleo (sun-drying) technique. Using this method, winemakers can achieve the same alcohol levels and biological stability as fortified wines without the addition of grape spirit.

"This was actually the traditional way to make wines in Jerez-for sherries and also dry wines," says Pérez, who makes all his sherries without fortification. "It was because of the associated cost that many sherry producers started fortifying instead. For example, to make our sherry wines, we split our vineyards by soil type, and then into different pagos and parcelas [single vineyards and single lots]. We [individually] harvest each of the 43 grape varieties with a minimum of three different harvest dates. It's a lot more work than [just] harvesting the entire vineyard together and adding grape spirit."

Bodegas Luis Pérez is best known for its La Barajuela line of sherries, each of which is sold as a single vintage (rather than common multivintage solera-produced wines) with 15 different harvest dates. "The first harvests are for acidity, and the last are for sugar-that way we don't need to acidify or fortify," explains Pérez. All this extra labor causes a significant hike in production costs, and La Barajuela sherries can reach over \$100 retail on the U.S. market.

All that extra effort is worth it. "There's a huge difference in these wines," says Pérez. "It isn't just about fortifying or not, but if you follow this process, we can make a natural sherry wine without needing to fortify, acidify, or add sulfur-and we can show the different vintages, different soils, and different varieties. It's really beautiful when you read about these [once common] sherry wines in books written in the early 1900s and can make them in the same way today."

## A Shifting Attitude in Jerez

Although Bodegas Luis Pérez is the only producer that will be directly affected by the amended legislation for now-it is the only winery with a commercial production of sherries made without fortification-the legislation's ripple effect could spotlight the reinvention now happening in Jerez.

"At the moment, this way of making sherry is totally under the radar, even for the boutique wine drinker," says Adam Rieger, a brand manager for the importer and distributor Polaner Selections, based in Mount Kisco, New York, which imports the nonfortified sherries of Bodegas Luis Pérez. "For the smaller, hippy sherry community, though, there's a real hunger for these wines-and that's the benefit of being in New York, where there's a market for this. But what's important about this legislation is [that] it should hopefully affect the small growers, potentially helping them get more money for their grapes and make their own artisanal sherries, too."

Cheryl Wakerhauser, the owner of Bar Vivant in Portland, Oregon, lists 170 sherries on the wine list. She agrees that this new legislation should have a positive effect in bringing a

renewed interest to more artisanal production of sherry. "If winemakers are willing to put in the extra time, effort, and learning to make an unfortified wine that can achieve the same alcohol by volume as simply adding neutral spirits," she says, "that can only further the development and interest in the wines and the region."

## A Growing Diversity of Nonfortified Wines in Jerez

This artisanal approach is part of a new wave of terroir-focused sherries and wines emerging in Jerez. In recent years, several producers have released single-vineyard offerings, explored ancient clones of the Palomino grape, and rescued other ancient varieties of the region for wine production.

Although the new legislation will permit nonfortified sherries into the category, it will not affect the growing number of nonfortified wines made in the region.

Eduardo Ojeda is the co-owner and winemaker at Equipo Navazos in Sanlúcar, where he annually produces 25,000 bottles of nonfortified still wines from multiple regions like Jerez and Sanlúcar, often aged under flor, as in the case of the modern cult favorite La Bota de Florpower. "Wines like Florpower won't be included with the new change of legislation, because they are under the minimum alcohol requirement of 15 percent," Ojeda explains. He sells Florpower under the declassified catchall denomination vino de mesa because its flor character simply doesn't fit with the status quo—it is often rejected by the Consejo Regulador tasting panel. "There's a lot of discussion about how to communicate [about this new category] of wines, but we need more time and more engagement to do this."

Although there's been much press attention and buzz about sherry and nonfortified wines from the region, Ojeda says that the grim reality is that sherry consumption is still on the decline and that the wines lack consumer power. Says Ojeda, "We have an expression in Spanish—'Mucho ruido y pocas nueces' [which can be translated loosely as "Much ado about nothing"]—and sherry and our nonfortified wines in Jerez fall into that. We are still only talking of very few bottles really, and [we] need more interest from the general public to grow."

Swirling Amontillado. Photo courtesy of Vinos de Jerez.

Although sherry production and consumption have been trending downward for the last two decades (sherry production is two-thirds what it was in the early 2000s, and 2018 saw a 6 percent drop in sales compared with the year before, according to the Consejo Regulador), the U.S. is one of the few countries in which sherry imports increased last year, from 1,232,246 liters in 2017 to 1,242,800 liters in 2018.

Rieger of Polaner Selections hopes that the growing category of nonfortified wines from Jerez will offer an opportunity to lure wine consumers to sherry in the future. "These dry wines and vintage wines from Jerez, which have a bit of flor," he says, "are not so far removed from regular white wines, which I think will begin to get consumers interested in the region. Hopefully they'll follow the producer—and then start getting into sherry."

Amanda Barnes is a British wine writer who since 2009 has been based in South America, where she specializes in the wines and regions of Argentina, Chile, Brazil, and Uruguay and

writes the South America Wine Guide. Ever footloose, she is currently on a mission to travel Around the World in 80 Harvests.

## **French retailer Casino targets further 2 billion euros of asset sales**

Source: <https://en.brinkwire.com/>

BY BRINKWIRE

AUGUST 20, 2019

French supermarket retailer Casino (PA:CASP) is targeting a further 2 billion euros (\$2.2 billion) of asset sales, stepping up plans to cut debt and improve financial performance.

Casino has been struggling to improve its profits in a tough business climate in France, raising concerns over its ability to generate enough cash to pay off the debt of parent company Rallye (PA:GENC).

"The board of directors has validated the arbitration of assets whose disposal would be a source of value creation," Casino said in a statement on Tuesday.

"As a result, new asset disposals for a target amount of 2 billion euros have been identified, with this second phase of the disposal plan to be completed by the end of Q1, 2021."

The new asset sales will come on top of Casino's existing plan to sell off 2.5 billion euros of assets by the first quarter of 2020. Of that target Casino has already signed agreements for sales worth 2.1 billion euros.

The sales so far have mainly taken the form of the disposal of non-core supermarkets or property assets to private equity investors.

Casino Chairman and Chief Executive Jean-Charles Naouri in May placed the Rallye holding company under protection from creditors.

Casino's net debts stood at 4.7 billion euros at the end of June.

## **Li-Ka Shing: Who is the Hong Kong 'Superman' taking on British beer?**

Source: <https://www.telegraph.co.uk/>

Lucy Burton, banking editor

20 AUGUST 2019

When Hong Kong's richest man bumped into a group of children on their way to a dance competition last month, the multi-billionaire known locally as "Superman" decided to buy them all a present and pay for their trip to the tournament.

Li-Ka Shing's spontaneous gift, estimated to be worth \$120,000, would have seemed unthinkable when he was a child. Forced to flee China to neighbouring Hong Kong during the Sino-Japanese War - he has previously recalled bombs being dropped on his hometown - his family had no money and he left school at the age of 12 to work in a watch factory.

He began selling plastic flowers in his early twenties, before diversifying into wider plastics manufacturing and then moving into real estate. Now Li is one of the wealthiest people on the planet, and has just become one of the biggest players in the British beer business after the conglomerate he founded, CK Asset Holdings, yesterday agreed to buy pubs chain Greene King for £4.3bn.

While his firms CK Asset Holdings and CK Hutchison will not mean much to most Britons, his businesses are behind the likes of Northumbrian Water, high-street retailer Superdrug, mobile phone network Three and London developments such as Chelsea Harbour.

The Li family, who also control British electricity infrastructure and ports, were left angered in 2016 when the European Commission blocked the £10.25bn sale of O2 to Hutchison so that it could merge with Three. Li has form in the telecoms industry, having previously sold Orange to Germany's Mannesmann for \$14.6bn in 1999, a deal that underlined his "Superman" reputation.

The tycoon's bet on beer shows that he believes Brits will keep heading to the pub after Brexit, boosting UK investors with a deal that valued shares in the 220-year-old brewer and pub company at a premium of more than 50pc.

"Such a huge move from an international player is certainly encouraging as October 31st looms," says Nick Burchett, one of Greene King's investors. "It seems that, regardless of the Brexit outcome, investors believe that the UK will still be open for business after the deadline."

The deal put Li back in the headlines just days after he commented on Hong Kong's anti-government protests in a cryptic front-page newspaper advert that called for the violence to end "in the name of love" (ironically a French "Spiderman" climbed up Li's Hong Kong skyscraper to hang up a peace banner days earlier).

A devout Buddhist (Li has built a grand monastery with bulletproof VIP rooms), the 91-year-old was determined to change his circumstances from a young age, telling Forbes in 2010 that the "burden of poverty and this bitter taste of helplessness and isolation" that he felt as a child drove him on in adult life. He is the 28th richest person in the world with a net worth of around \$32bn.

However it is his eldest son Victor and his right-hand man Canning Fok who now lead his empire, after Li stood down from day-to-day duties last year.

Victor has had his own struggles, having been kidnapped and held for a HK\$1bn (£100m) ransom by a notorious Hong Kong gangster in the early Nineties.

In an interview with the South China Morning Post in 2013, Li said that after the kidnapper took his son and collected the ransom money the gangster then called him up to ask how he should invest the cash.

Li told the newspaper that he politely responded to the man: "You have only one path, fly far and high or else your ending will be a sad one."

His other son, Richard, founded Asia-based Pacific Century Group and has previously been described as the prodigal, Westernised son who used to sell hamburgers at McDonald's for pocket money. His friends have said he gets his drive from being the spare, not the heir, to the Li fortune.

Meanwhile Fok, one of Hong Kong's wealthiest executives, who is reported to own five pianos, was behind the plan to split the business into two groups (a restructuring dubbed "Project Diamond"). He is known internally for his ability to close deals, with a reputation for sticking to his guns on pricing.

Fok told the Financial Times in an interview four years ago that he had been taught at "LKS business school" by learning Li's key principles - be conservative in the good years, and attack when times are tough.

## **Greene King / CK Asset: not pint sized**

Source: FT

August 21, 2019

Infrastructure investment is hot. So hot indeed that more than a little refreshment is needed. Maybe that explains why CK Asset, the investment vehicle of billionaire Hong Kong tycoon Li Ka-shing, has chosen to buy out Greene King, the Suffolk-based UK brewer. Most likely, it is the pubs, and the real estate under them, which appeals. CK Asset announced a tender offer for the company late on Monday afternoon at 850p per share, a substantial 43 per cent premium to the three-month average price. The offer values all of Greene King at £4.6bn, including net debt.

If this looks a little frothy, it is a bit. Recent transactions for EI Group (the old Enterprise Inns) and Punch Taverns have had lower premia, of 38 and 40 per cent respectively. Understandably, Greene King's board recommended this deal to shareholders. There are reasons to do so. For one, the offer is all cash. For another, any financing will remain with CK Asset, and not be injected into Greene King in order to lighten the returns on capital, or suck out a hefty dividend. That is good news given that Greene King's net debt to ebitda is already high at four times. There will be no change to management, nor to the group's brand and strategy.

This is a real estate deal, not about beer. Beer consumption in the UK has fallen over the past 15 years. CK Asset has some form on this type of property deal. In late 2016 the Hong Kong group bought 136 pubs from Greene King and leased these back to the group. It must have found those returns refreshing, because it has come back for another round. This time a much bigger one. According to its calculations, based on the rental returns from all of the estate, CK Asset says Greene King has an equity worth of £2.7bn. A valuation of just over half the pub estate in Greene King's most recent bond prospectus suggests that number has merit.

This deal perhaps gives some indication of just how heady the market is for UK infrastructure assets, rather than how interesting beer companies are. Borrowing costs are exceptionally cheap, and beer gets dearer all the time. That seems unlikely to change at Greene King's pubs any time soon.