



Spirits 50 2016

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

April 2016

Foreword.



David Haigh, CEO
Brand Finance

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

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

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

Taking Apple as an example, it is quite possible for one serious valuer to take the view that Apple’s dominance in smart phones is coming to an end, that volumes and margins will start dropping, that there is higher risk and therefore lower expected income, over a shorter life, with a higher cost of capital. This would tend to result in a lower brand valuation.

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

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

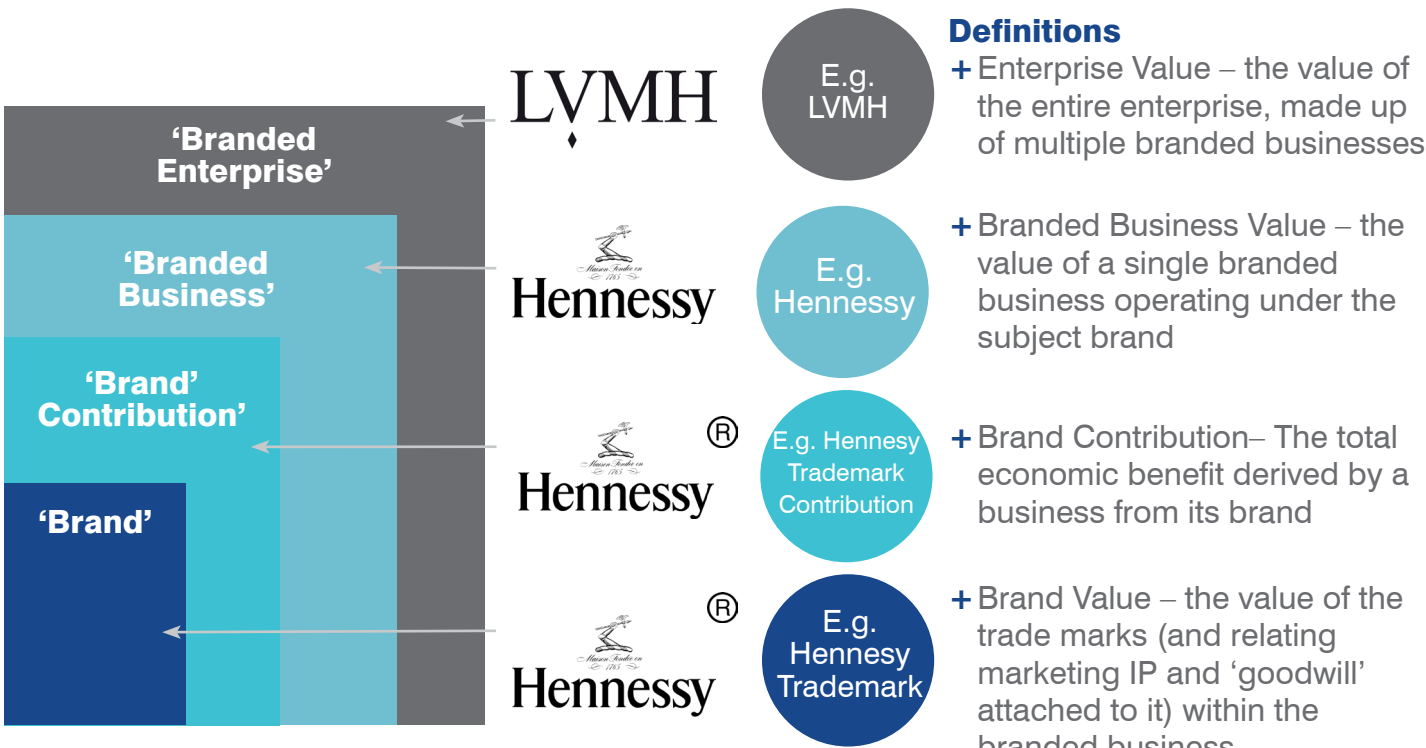
Based on the results of this year’s Brand Finance Global 500, 18% of all quoted company enterprise value, is made up of brands. What this points to is a renewed need to educate and explain how brand valuations are conducted and how critical an understanding of brand value is to marketers, finance teams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

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Methodology

What do we mean by ‘brand’?



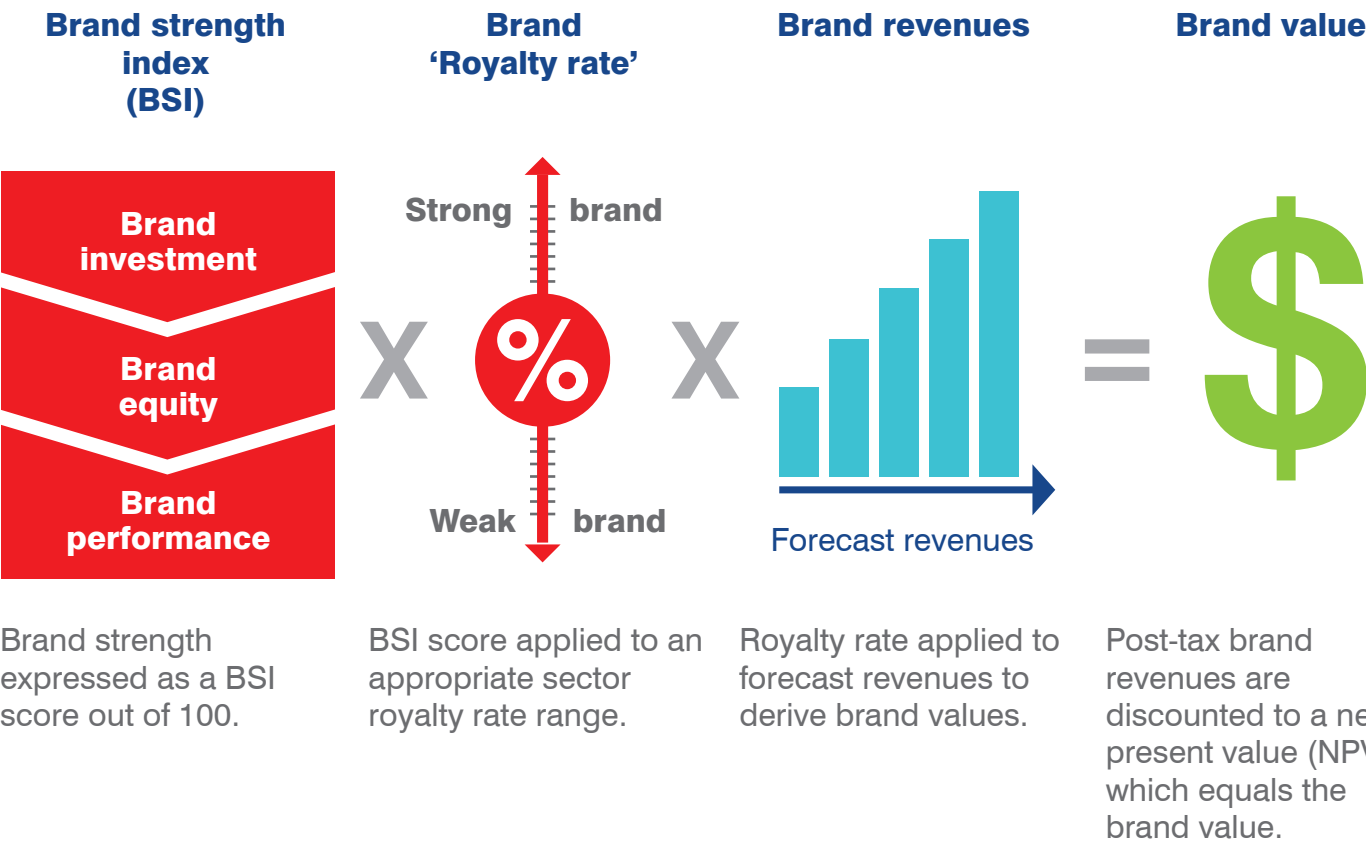
Definition of ‘Brand’

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

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

Brand Strength

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



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

The steps in this process are as follows:

- 1 Calculate brand strength on a scale of 0 to 100 based on a number of attributes such as emotional connection, financial performance and sustainability, among others. This score is known as the Brand Strength Index.
- 2 Determine the royalty rate range for the respective brand sectors. This is done by reviewing comparable licensing agreements

- sourced from Brand Finance’s extensive database of license agreements and other online databases.
- 3 Calculate royalty rate. The brand strength score is applied to the royalty rate range to arrive at a royalty rate. For example, if the royalty rate range in a brand’s sector is 1-5% and a brand has a brand strength score of 80 out of 100, then an appropriate royalty rate for the use of this brand in the given sector will be 4.2%.
 - 4 Determine brand specific revenues estimating a proportion of parent company revenues attributable to a specific brand.
 - 5 Determine forecast brand specific revenues using a function of historic revenues, equity analyst forecasts and economic growth rates.
 - 6 Apply the royalty rate to the forecast revenues to derive brand revenues.
 - 7 Brand revenues are discounted post tax to a net present value which equals the brand value.

Sector Analysis – Spirits

Spirits 50













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

China

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

to US\$4,630m.

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

 贵州茅台酒股份有限公司 KWEICHOW MOUTAI CO., LTD	<div>1</div> <div>Rank 2016: 1 2015: 2 ↑</div> <div>BV 2016: \$5,771m</div> <div>BV 2015: \$4,483m +29%</div> <div>Brand Rating: AA+</div>
 JOHNNIE WALKER.	<div>2</div> <div>Rank 2016: 2 2015: 1 ↓</div> <div>BV 2016: \$4,630m</div> <div>BV 2015: \$5,603m -17%</div> <div>Brand Rating: AAA-</div>
 Hennessy	<div>3</div> <div>Rank 2016: 3 2015: 3 →</div> <div>BV 2016: \$2,874m</div> <div>BV 2015: \$3,379m -15%</div> <div>Brand Rating: AA</div>
 JACK DANIEL'S	<div>4</div> <div>Rank 2016: 4 2015: 5 ↑</div> <div>BV 2016: \$2,504m</div> <div>BV 2015: \$ 1,946 m +29%</div> <div>Brand Rating: AAA-</div>
 SMIRNOFF	<div>5</div> <div>Rank 2016: 5 2015: 4 ↓</div> <div>BV 2016: \$ 2,025 m</div> <div>BV 2015: \$ 2,118 m -4%</div> <div>Brand Rating: AA+</div>
 BACARDI.	<div>6</div> <div>Rank 2016: 6 2015: 6 →</div> <div>BV 2016: \$ 1,894m</div> <div>BV 2015: \$ 1,908 m -1%</div> <div>Brand Rating: AA+</div>
 洋河股份 YANGHE	<div>7</div> <div>Rank 2016: 7 2015: 9 ↑</div> <div>BV 2016: \$ 1,853m</div> <div>BV 2015: \$ 1,521 m +22%</div> <div>Brand Rating: AA-</div>
 五粮液集团	<div>8</div> <div>Rank 2016: 8 2015: 8 →</div> <div>BV 2016: \$ 1,638m</div> <div>BV 2015: \$ 1,679m -2%</div> <div>Brand Rating: A+</div>
 Crown Royal	<div>9</div> <div>Rank 2016: 9 2015: 10 ↑</div> <div>BV 2016: \$ 1,491m</div> <div>BV 2015: \$ 1,417 m +5%</div> <div>Brand Rating: AAA</div>
 ABSOLUT Country of Sweden VODKA	<div>10</div> <div>Rank 2016: 10 2015: 7 ↓</div> <div>BV 2016: \$1,437m</div> <div>BV 2015: \$1,764m -19%</div> <div>Brand Rating: AA</div>

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

Johnnie Walker

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

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

Jack Daniel’s

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

Sector Analysis – Spirits

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

Portfolios

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

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

Gin

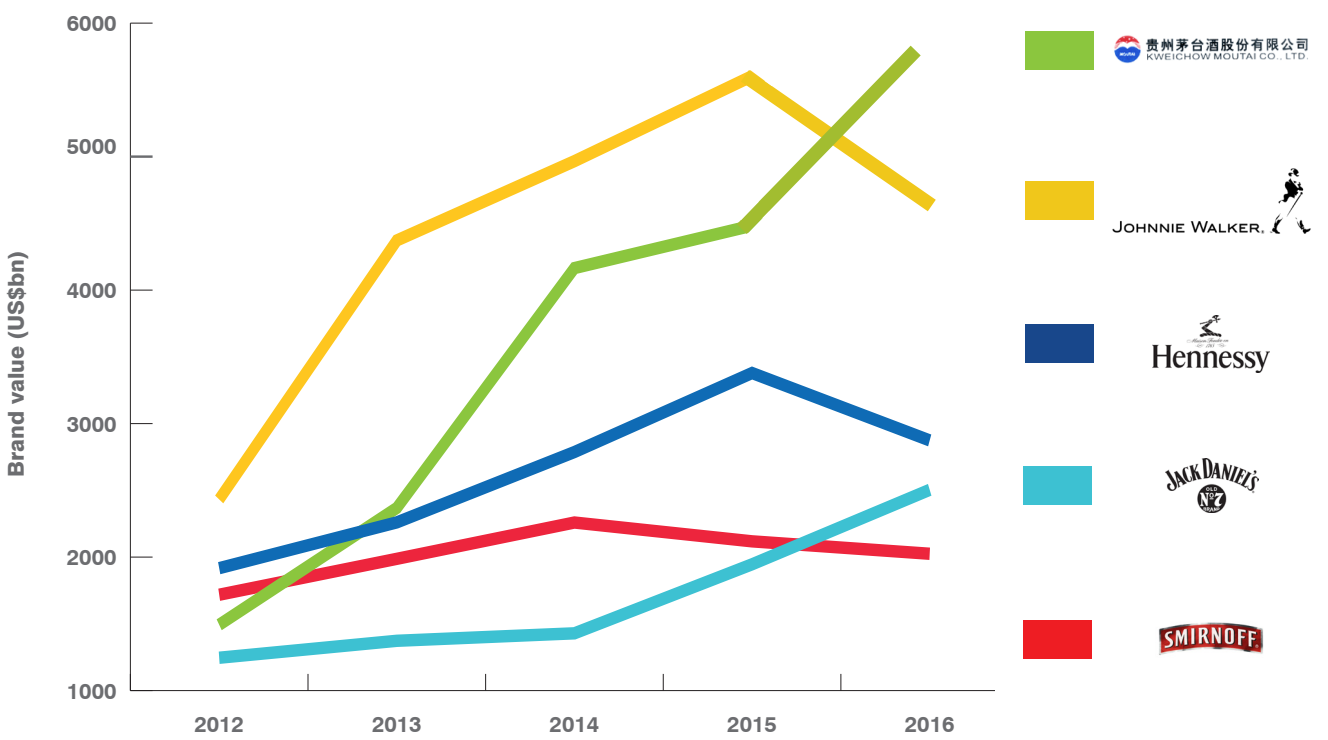
Though it is the smallest category in our table, Gin is the fastest growing segment with 36% brand value growth from the 2015 Brand Finance Spirits 50. Gin is unique in that drinkers often favour craft varieties from specialist distillers in a trend not dissimilar to the craft beer market. The

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

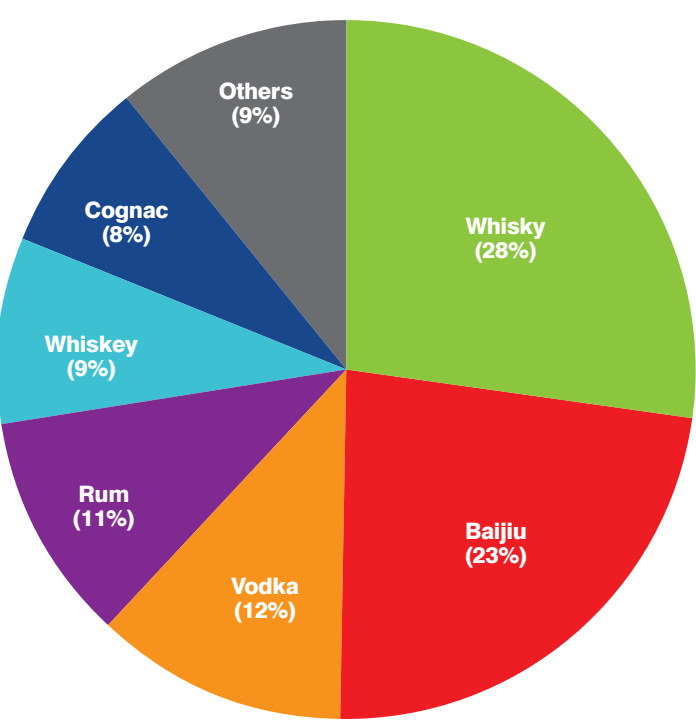


Jack Daniels experienced an impressive brand value growth of 29% this year. Brand value increased from US\$ 1,946m to US\$ 2,504m,

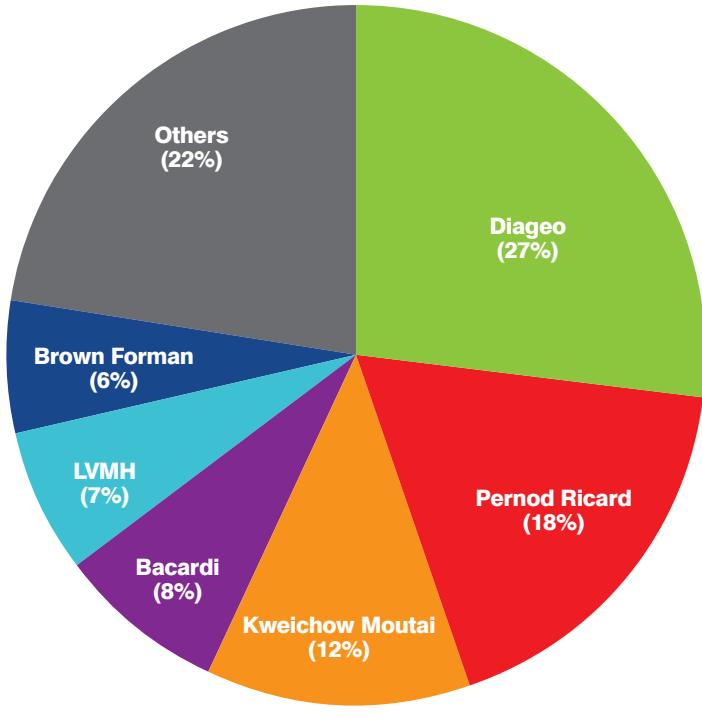
Brand Value Change Over Time



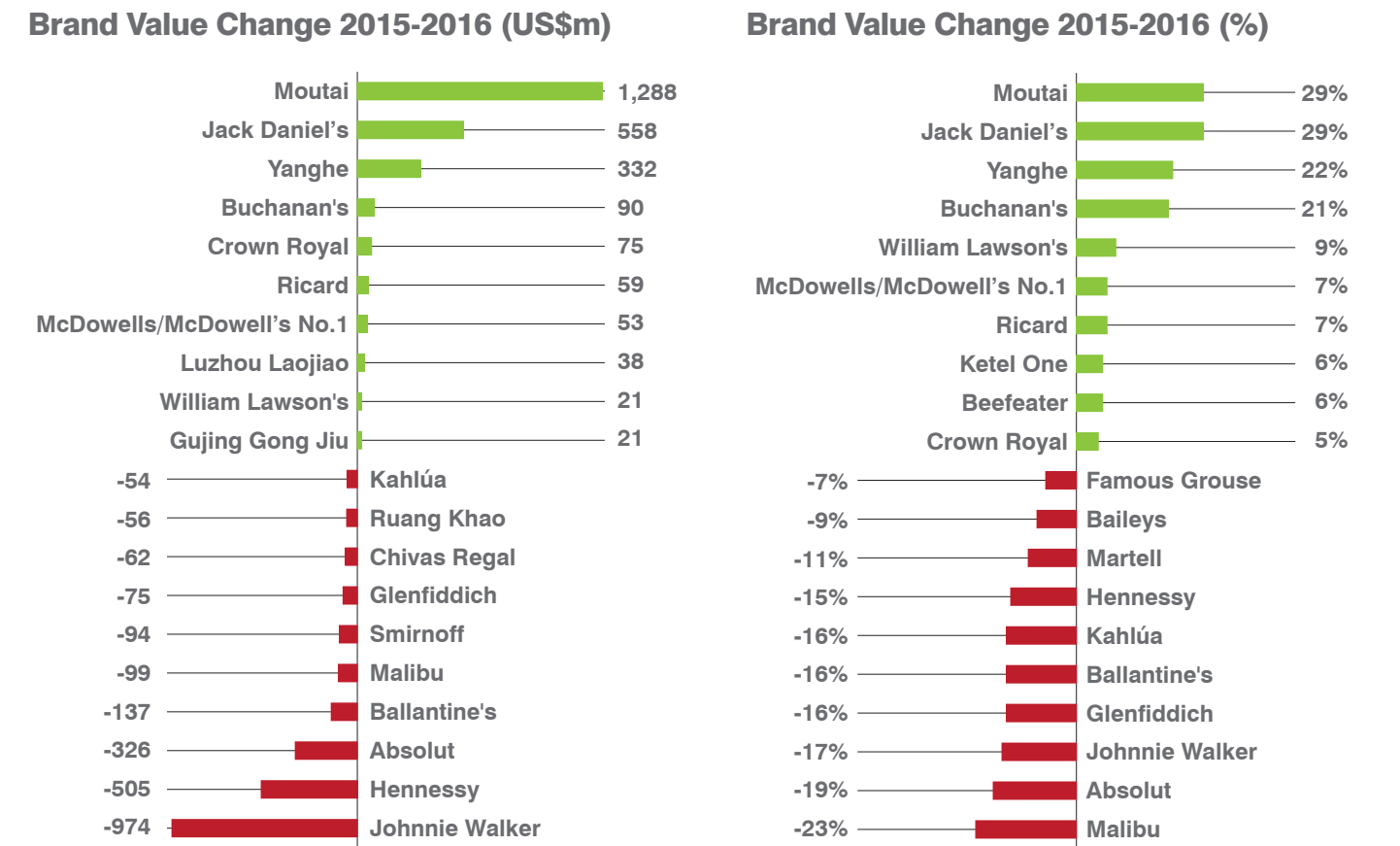
Brand Value Share by Spirit



Brand Value Share by Parent Company



Sector Analysis – Spirits



BRANDS BY VALUE



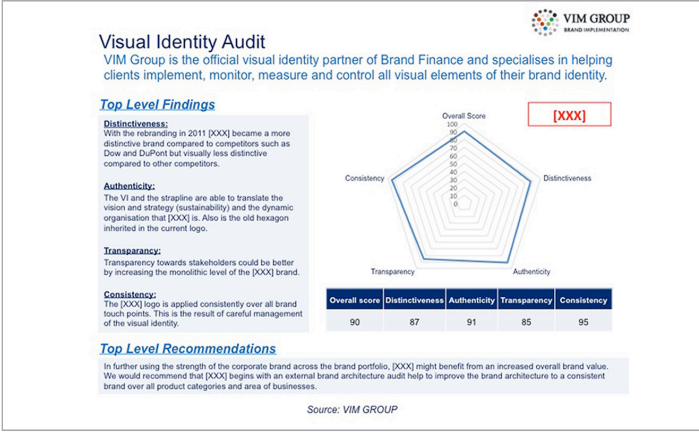
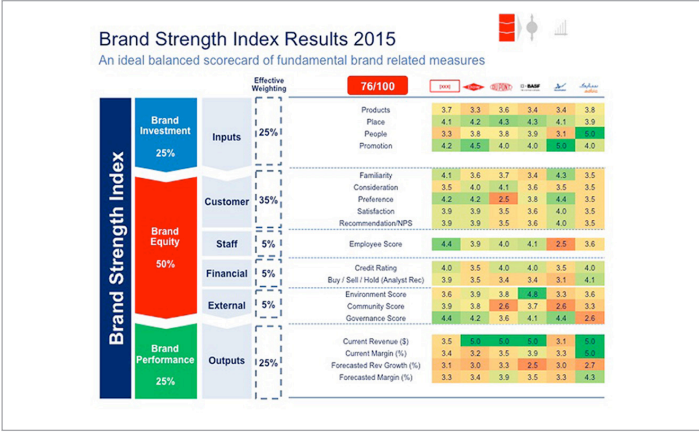
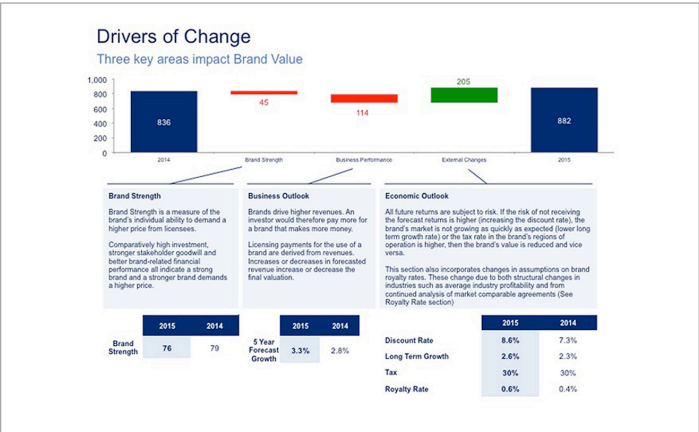
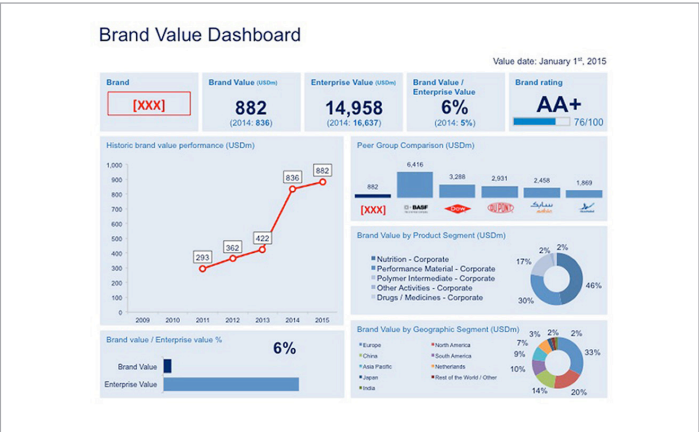
Brand Finance Spirits 50

For access to all 50 brands, please get in touch: enquiries@brandfinance.com

Top 50 spirits brands

Rank 2016	Rank 2015	Brand name	Category	Brand value (\$m) 2016	% change	Brand value (\$m) 2015	Brand rating 2016	Brand rating 2015
1	2	Moutai	Baijiu	5,771	29%	4,483	AA+	AAA-
2	1	Johnnie Walker	Whisky	4,630	-17%	5,603	AAA-	AAA
3	3	Hennessy	Cognac	2,874	-15%	3,379	AA	AA+
4	5	Jack Daniel's	Whiskey	2,504	29%	1,946	AAA-	AAA-
5	4	Smirnoff	Vodka	2,025	-4%	2,118	AA+	AAA-
6	6	Bacardi	Rum	1,894	-1%	1,908	AA+	AA+
7	8	Yanghe	Baijiu	1,853	22%	1,521	AA-	AA-
8	New	Wuliangye	Baijiu	1,638	-2%	1,679	A+	AA-
9	9	Crown Royal	Whisky	1,491	5%	1,417	AAA	AAA-
10	7	Absolut	Vodka	1,437	-19%	1,764	AA	AA
11	New	Ruang Khao						
12	Res*	Chivas Regal						
13	12	Grey Goose						
14	14	Ricard						
15	13	Luzhou Laojiao						
16	16	Mcdowell's						
17	15	Ballantine's						
18	18	Jameson						
19	19	Jagermeister						
20	21	Jim Beam						
21	20	Grant's						
22	22	Cîroc						
23	New	Old Parr						
24	25	Gujing Gong Jiu						
25	23	Havana Club						
26	32	Buchanan's						
27	26	Remy Martin						
28	29	Captain Morgan						
29	Res*	Baileys						
30	New	Royal Stag						
31	Res*	Chamisul						
32	31	Famous Grouse						
33	30	Glenfiddich						
34	New	Imperial Blue						
35	New	Glenmorangie						
36	33	Malibu						
37	39	The Glenlivet						
38	36	Brugal						
39	37	Gordon's						
40	34	Martell						
41	New	Seagram's Gin						
42	42	Beefeater						
43	38	J&B						
44	New	Bell's						
45	35	Kahlúa						
46	43	Bombay Sapphire						
47	41	Maker's Mark						
48	New	Southern Comfort						
49	Res*	Ketel One						
50	48	William Lawson's						

Understand Your Brand's Value



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

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

Brand Valuation Summary

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

Brand Strength Index

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

Royalty Rates

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

Cost of Capital

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

How we can help.

Brand Valuation

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

Brand Monitoring

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



Brand Analytics

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

Brand Strategy

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


MARKETING

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

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


FINANCE

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

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


TAX

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

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


LEGAL

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

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

Contact details.

Contact us.

For media enquiries, please contact:
Robert Haigh
Marketing and Communications Director
r.haigh@brandfinance.com
+44 (0)207 389 9400

For all other enquiries, please contact:
enquiries@brandfinance.com
+44 (0)207 389 9400



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Our offices.



For further information on Brand Finance®'s services and valuation experience, please contact your local representative:

Country	Contact	Email address
Australia	Mark Crowe	m.crowe@brandfinance.com
Brazil	Geoffrey Hamilton-Jones	g.hamilton-jones@brandfinance.com
Canada	Bryn Anderson	b.anderson@brandfinance.com
Caribbean	Nigel Cooper	n.cooper@brandfinance.com
East Africa	Jawad Jaffer	j.jaffer@brandfinance.co.ke
France	Luc Bardin	l.bardin@brandfinance.com
Germany	Tobias Bielenstein	t.bielenstein@brandfinance.com
Greece	Ioannis Lionis	i.lionis@brandfinance.com
Holland	Marc Cloosterman	m.cloosterman@brandfinance.com
India	Ajimon Francis	a.francis@brandfinance.com
Indonesia	Jimmy Halim	j.halim@brandfinance.com
Italy	Massimo Pizzo	m.pizzo@brandfinance.com
Middle East	Andrew Campbell	a.campbell@brandfinance.com
Nigeria	Babatunde Odumeru	t.odumera@brandfinance.com
Portugal	Pedro Taveres	p.taveres@brandfinance.com
Russia	Alexander Eremenko	a.eremenko@brandfinance.com
Singapore	Samir Dixit	s.dixit@brandfinance.com
South Africa	Oliver Schmitz	o.schmitz@brandfinance.com
Spain	Jaime Alvarez	j.alvarez@brandfinance.com
Sri Lanka	Ruchi Gunewardene	r.gunewardene@brandfinance.com
Turkey	Muhterem Ilgüner	m.ilguner@brandfinance.com
UK	Bryn Anderson	b.anderson@brandfinance.com
Mexico	Laurence Newell	l.newell@brandfinance.com
Nordic Region	Alexander Todoran	a.todoran@brandfinance.com

Contact us.

The World's Leading Independent Brand Valuation and Strategy Consultancy

T: +44 (0)20 7389 9400

E: enquiries@brandfinance.com

www.brandfinance.com