



Finding Dividends in Premium Beers, Wines, and Spirits

Description

Value-priced beers, wines, and spirits are, and always will be, a major source of revenues for brewers, distillers, and vintners. However, consumers are demanding premium products, as the desire for higher-quality flavours transforms the marketplace. International Wine & Spirit Research (IWSR) defines spirits with a retail price of \$20 and above as premium. The following three companies have initiatives in place to leverage consumers' tastes for upscale drinks:

Andrew Peller ([TSX: ADW-A](#)) offers award-winning premium and ultra-premium VQA (Vintners Quality Alliance) brands. These include Peller Estates, Trius, Hillebrand, Thirty Bench, Crush, Wayne Gretzky, Sandhill, Calona Vineyards Artist Series, and Red Rooster.

For fiscal 2013, its Peller Estates family of premium wines was the top-selling brand in provincial liquor stores in Canada. Its Trius Brut was the top-selling VQA sparkling wine in the Liquor Control Board of Ontario (LCBO). Sales of Andrew Peller's higher margin VQA wines increased 7.7% in fiscal 2013. VQA wines meet strict standards of excellence.

Andrew Peller reported in February, that for the nine months ended December 31, 2013, it experienced ongoing sales growth across the bulk of its trade channels. This growth was chiefly in its premium wine group. The company's strategy is to continue to bring to market new blended varietal and ultra-premium brands and expand its use of innovative package formats.

In June 2013, Andrew Peller announced an 11% increase in common share dividends. This was its fifth increase in eight years.

Big Rock Brewery ([TSX: BR](#)) specializes in creating premium, all-natural craft beers. Products include its Signature Series, Alchemist Edition, Brewmaster's Edition, and Cider Series. The company will brew approximately two dozen new beers this year. It will expand its cider product line as this market is growing in Canada. Big Rock released 16 new beers in 2013.

However, fiscal 2013 was a year of change. Big Rock Brewery took a sales, net income, and operating profit hit. The company discontinued four brands that it believed no longer represented its commitment to offering high-quality premium beers to craft beer aficionados. Severe flooding in southern Alberta

had a considerable negative influence on its sales for one of its highest sales months, June.

Nevertheless, Big Rock Brewery is focusing on innovative brews. One of its Alchemist Edition offerings in 2013 was its Cuvée Bru. This it calls a “druivenbier.” It combines Pinot Gris grapes from Therapy Vineyards and a classic Big Rock beer.

It also designed new packaging for its beer — now attired in elegant embossed bottles. In addition, it is advancing a plan to begin production in the Province of Ontario in 2015. Recently, Big Rock Brewery announced its quarterly dividend. The company announced a dividend of \$0.20 per common share.

Corby Spirit and Wine ([TSX: CSW-A](#)) is a top Canadian marketer and distributor of spirits and imported wines. Its owned-brands include Wiser’s, Lot 40, and Pike Creek Canadian whiskies. Company owned brands also include Lamb’s rum, Polar Ice vodka, and McGuinness and Criollo liqueurs. It also receives commission income from representing selected non-owned brands in Canada (ABSOLUT vodka, Chivas Regal, The Glenlivet, and Ballantine’s, and others).

The company is concentrating on growth and margin potential. Regarding its Wiser’s brand, it developed Wiser’s Spiced Canadian whisky. This new offering is at a higher price point than its Wiser’s Deluxe premium product.

Corby is also focusing new initiatives in the wine category. It now has an agreement with The Wine Group LLC. This agreement started in April 2013, and provides the company with the exclusive rights to represent The Wine Group brands in Canada until May 2018. This agreement increases Corby’s product offerings in the premium wine category.

On November 7, 2013, Corby Distilleries commenced operating under the name Corby Spirit and Wine as further indication of its wine sector plans, while remaining dedicated to its core spirit brands. It has approximately 21.2% of spirits and 3% of wine sales in Canada. In February, Corby declared a dividend of \$0.18 per share.

South of the border, **Constellation Brands** ([NYSE: STZ](#)) has reached a long-term strategic agreement with VATS Liquor. VATS is a Chinese producer and distributor of spirits and wine. The two companies plan to jointly develop and exclusively market and promote the Robert Mondavi brand. VATS has an extensive distribution network and an established retail footprint for consumers to buy fine wine and spirits. Moreover, Constellation plans to institute price increases for select products in the value and luxury segments of the market.

Boston Beer Co. ([NYSE: SAM](#)) has its Samuel Adams Boston Lager. This brand continues to be the best-selling craft beer in the U.S. Samuel Adams Seasonal beers are brewed for limited periods of time. These include Samuel Adams Cold Snap, Samuel Adams Summer Ale, Samuel Adams Oktoberfest, and Samuel Adams Winter Lager. The company’s principal focus is on promoting its Samuel Adams product line as a fine craft beer.

Boston Beer, in 2013, brewed and packaged approximately 91% of its core brand volume at breweries it owns. It made capital investments last year of approximately \$104 million and made these investments to increase the quality, capacity, efficiency and proficiencies of its breweries.

Brown-Forman ([NYSE: BF-A](#)) of Jack Daniel’s fame also offers its super-premium Gentleman Jack

brand.

Gentleman Jack exceeded 425,000 9L cases in fiscal year 2013. This brand grew worldwide net sales by 27% as reported in fiscal year 2013. Brown-Forman also has its super-premium Woodford Reserve Kentucky Straight Bourbon. Woodford Reserve's volume was close to 250,000 9L cases in 2013. This was due to the success of the 2013 Master's Collection Four Wood and Double Oaked offerings.

Foolish bottom line

A distinct market exist for premium beer, wines, and spirits. These three companies are employing strategies to capture a portion of the premium market. Consumers' who appreciate the quality of premium brands, and are willing to pay for them, constitute a niche that can drive corporate and shareholder returns.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BF.A (Brown-Forman Corporation)
2. NYSE:SAM (The Boston Beer Company, Inc.)
3. NYSE:STZ (Constellation Brands Inc.)

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