



Cask whiskey: an asset in demand





With global whiskey sales booming and a fundamental market shift towards alternative asset classes, cask whiskey offers an increasingly interesting proposition to investors seeking to diversify their portfolios. However, it remains a little-understood asset class, with relatively scarce regulation and a recent history of misleading advertising and limited data transparency.

KPMG Ireland is therefore launching a thought leadership series aimed at illuminating this investment class for a wider audience. Over the course of a multi-part series, we aim to provide a comprehensive and accessible introduction to whiskey investment, including perspectives on routes into the market, risks, and future market trends. This series is supported with market data provided by a prominent market leader, Whiskey & Wealth Club, and with a proprietary database of investor attitudes built with survey specialist, Potloc.

The whiskey renaissance

The first half of the 20th century saw a major decline in whiskey production, as the impacts of two world wars, prohibition, and economic depression made themselves felt. Distilleries in Scotland, Ireland, and the US closed in their dozens, and consumer tastes changed. However, whiskey has made a remarkable comeback in more recent decades, with hundreds of new distilleries entering the market not only in the US, Scotland, and Ireland, but others including Japan, India, Australia, and New Zealand. Today the global whiskey market is worth close to \$70bn, and forecast to hit \$125bn by 2032.¹

This success has attracted significant investor interest in whiskey as an alternative asset class, with investors looking to profit from the demand in Scotch, bourbon, and Irish whiskey. In response, new investment vehicles have arisen to provide individual investors with simplified channels into this market, particularly through cask ownership, which has rapidly established itself as a popular and accessible concept.

¹ - <https://www.gminsights.com/industry-analysis/whiskey-market>



Understanding whiskey as an investment vehicle

Though investments in passion assets, like whiskey, constitute only 5% of a typical portfolio according to the latest Knight Frank Wealth Report,² interest is growing rapidly, with 18% of surveyed high-net-worth individuals declaring themselves 'likely' to purchase rare whiskey bottles in 2023.³

This activity is driven by the potential of outsized returns, macroeconomic uncertainty, investor desire for diversification, the accessibility of the product and relatively simple process to invest. In simple terms, the spirit as an investment vehicle can be described in four ways:

A. Production and laying up:

Distilleries produce freshly distilled unaged spirit (commonly referred to as "New Make Spirit") and lay it to rest in casks for maturation. This process represents an inventory cost to the distillery, tying up capital that could be used elsewhere.

B. Wholesale purchasing:

The investment vehicle can buy a negotiated amount of the whiskey at wholesale rates, arranging insurance and safe storage.

C. Individual investment:

Individual investors can purchase casks holding approximately 400 bottles of whiskey, at a price covering the spirit, the cask, and bonded storage and insurance for a specified term.

D. Exit:

After a suitable maturation period (often five years or more), investors can look to exit their investment via a range of routes, including selling to existing whiskey brands, private investors, independent bottlers, or via auctions. Since investors own the whiskey entirely throughout, they may also bottle it themselves, or may sell the cask early if desired.



2 - <https://content.knightfrank.com/resources/knightfrank.com/wealthreport/the-wealth-report-2023.pdf>

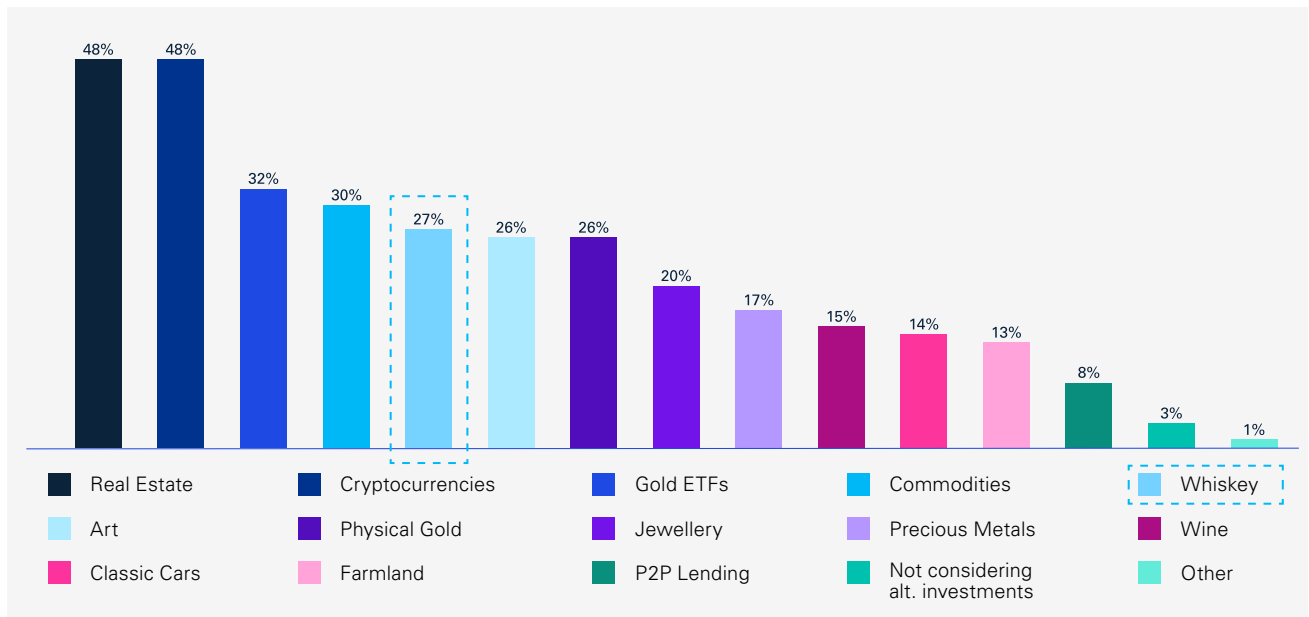
3 - <https://content.knightfrank.com/resources/knightfrank.com/wealthreport/the-wealth-report-2023.pdf>

Survey results

KPMG surveyed 200 high net worth individuals and investment advisers to understand attitudes to and knowledge of whiskey as an investment class. We found that whiskey is the most popular form of luxury assets with 27% of respondents indicating that they are planning to invest in whiskey within the next 3 years, versus art (26%), jewellery (20%), wine (15%) and classic cars (14%). Other forms of alternative assets, such as real estate, gold, commodities, and cryptocurrencies still remain more popular.

Fig 1:

In which of the following alternative asset classes do you plan to/would you recommend investing in within the next 3 years? (% of respondents) n = 200

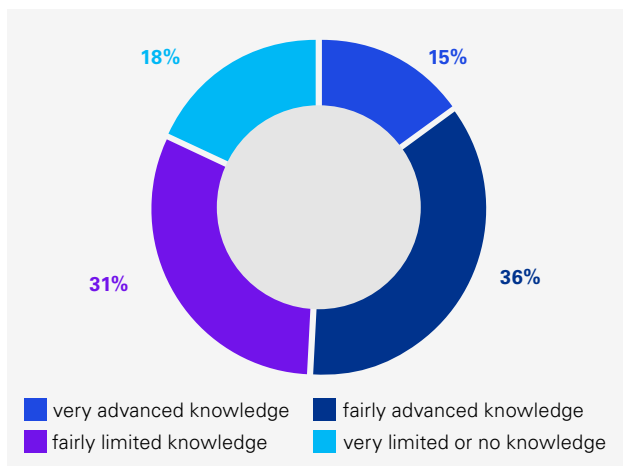


Source: Data by Potloc

Self-assessed knowledge of the whiskey investment market was perhaps unsurprisingly greater amongst professional investors than high-net worth individuals. However, even amongst professionals, over a quarter considered their knowledge of the market to be fairly or very limited reflecting the relatively nascent characteristic of whiskey investing.

Fig 2: HNWI: How would you rate your knowledge of the whiskey investment market

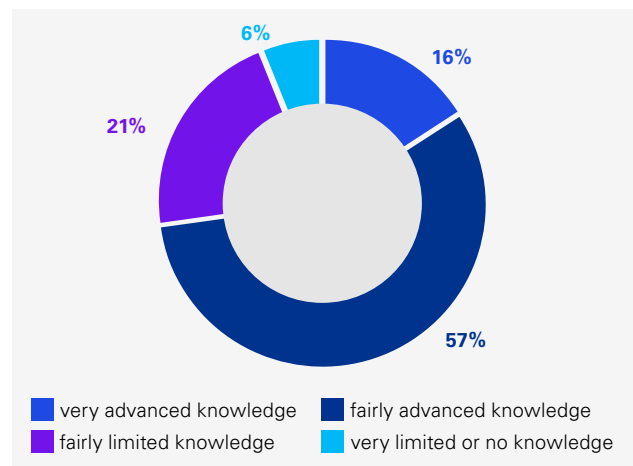
(% of respondents) (n=132)



Source: Data by Potloc

Fig 3: Professional investors: How would you rate your knowledge of the whiskey investment market

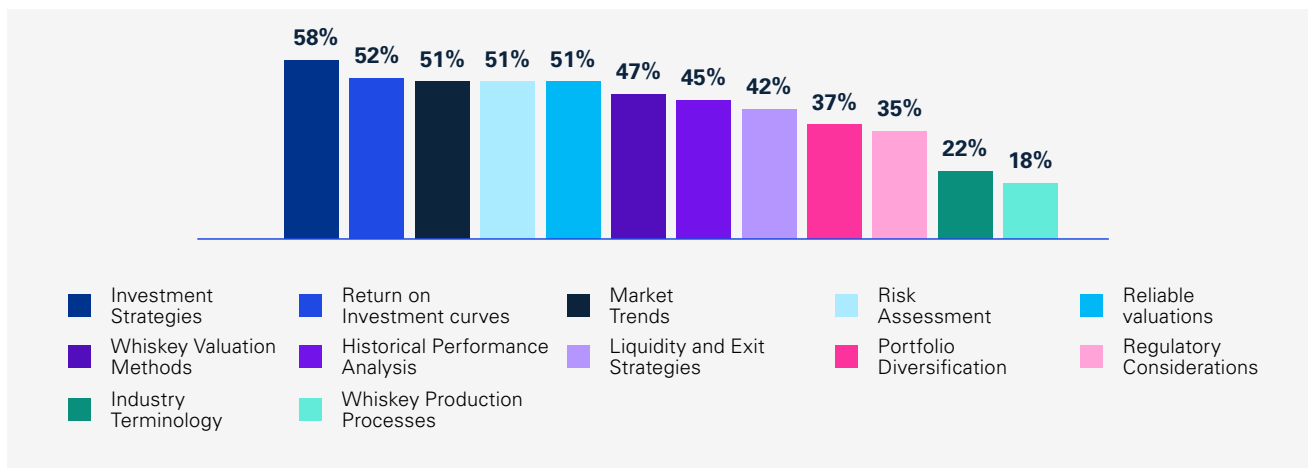
(% of respondents) (n=68)



Amongst those that had “fairly limited or very limited to no knowledge” of the whiskey market its clear that appropriate investment strategies, the returns available and reliable valuations were key elements that were considered lacking. As part of this series, we hope to help in addressing these knowledge gaps.

Fig 4: What knowledge do you think is missing about the whiskey investment market?

(% of responses) (n = 83)

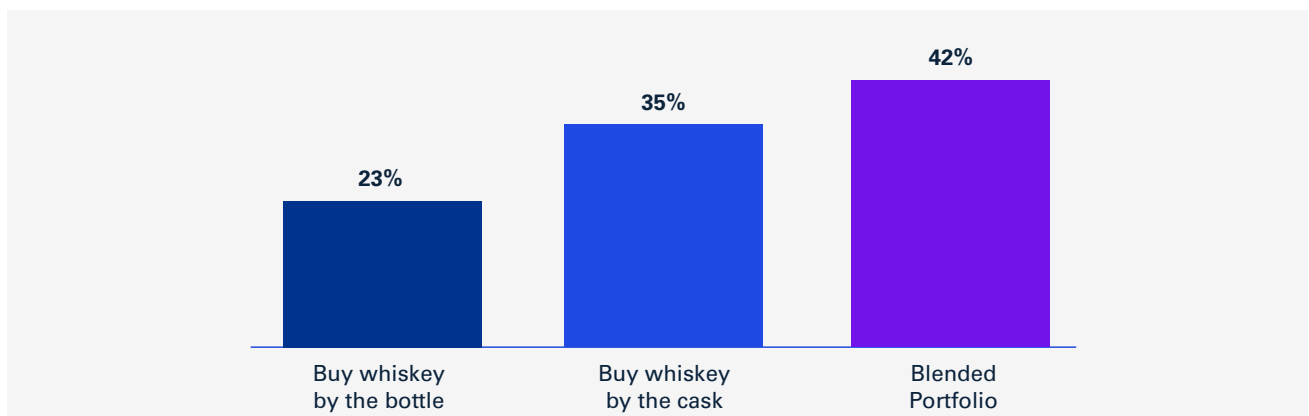


Source: Data by Potloc

Of those that indicated an interest in whiskey investment, there is a preference for either buying whiskey by the cask or blended portfolios versus bottles. This could potentially be reflective of some of the attractive features of cask investment such as tax efficiency.

Figure 5: What form of whiskey investment do you perceive as more attractive?

(% of responses) (n = 66)

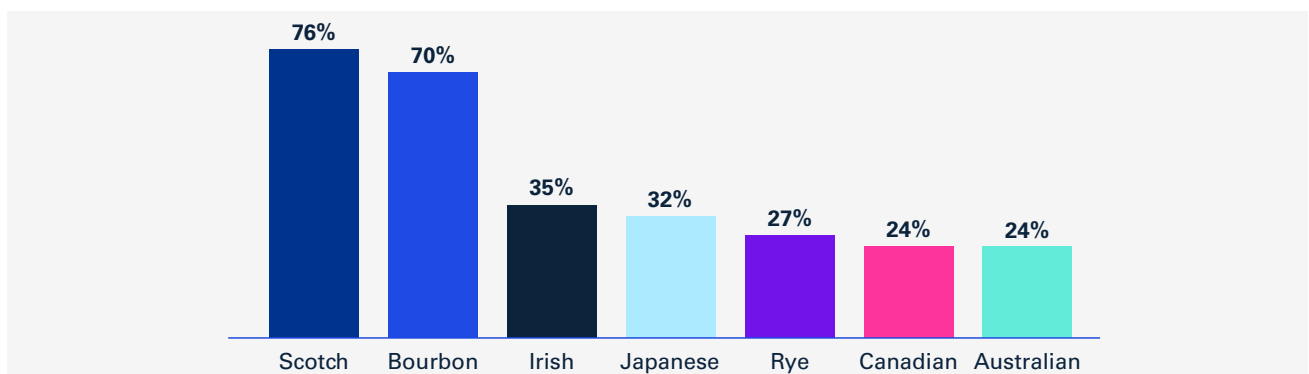


Source: Data by Potloc

Again, amongst those that indicated an interest in whiskey investment, bourbon and scotch were the most popular varieties from an investment perspective.

Fig 6: In which types of whiskey have you invested or do you plan to invest in?

(% of responses) (n = 66)



Source: Data by Potloc

Looking ahead

The volume of global sales of Irish whiskey increased by 100% from 2014 to 2024⁴, making it the fastest growing spirits category in the world. This growth is being driven by a confluence of powerful trends, including young adult drinking habits, the growth of the middle class in developing countries, and renewed investment in Irish production.

As a result, whiskey investors have seen handsome rewards in recent years, though of course they are not guaranteed in the future. The most recent Knight Frank Luxury Investment Index shows a 322% increase on rare whiskey bottle prices in the 10 years prior to June 2023, whilst the Craft Irish Whiskey Company recently broke records by selling a bottle of The Emerald Isle single malt for \$2.8m. Based on data from Whiskey & Wealth Club's own inventory, casks of Irish whiskey have achieved a >10% per annum ROI over a five-year time horizon.

Of course, not all whiskeys are equal. The chief factors influencing a whiskey's resale value are its age, brand reputation, and scarcity, with older, scarcer whiskeys, especially those from respected distilleries, generally commanding the highest prices. In some cases, casks of this profile have yielded significant returns.,

The type of wood used in the cask construction is another salient factor, both for the flavour profile of the whiskey within, and its value. Casks can be made from a number of different types of wood which in some instances have already been used to store different wines and spirits. These variables can have an impact on the flavour profile of the end product, and ultimately on its value.

Conclusion

The future is bright for the whiskey market as a whole with global sales increasing across geographies. From an investment perspective our research shows that for both HNWIs and professional investors, whiskey represents a viable proposition for portfolio diversification. However, there is still much to do in terms of education around investment strategies, valuations and levels of returns available.

Amongst those already converted, a blended portfolio of cask and bottled investments is the preferred approach with Scotch and bourbon leading the way in terms of preferred styles. The Irish whiskey market still trails its Scottish and US counterparts, notwithstanding its recent resurgence and positive growth trajectory.

⁴ <https://www.ibec.ie/drinksireland/irish-spirits-market-report-2022>

Whiskey cask investment: key features

Investment objectives: cask whiskey is part of the passion or alternative asset class, offering investors an opportunity to diversify portfolios and hedge against volatility in more traditional markets, through investing in physical assets that may dovetail with personal interests.

Performance: according to data from the Whiskey & Wealth Club, a wholesaler and investment company, casks of Irish whiskey have achieved a >10% per annum ROI over a five-year time horizon.

Asset class features: casks of whiskey are a physical, tangible asset, not tethered to traditional financial markets. Limited release cask whiskey from premium distilleries has demonstrated a low correlation with the financial markets, especially during economic downturns, offering potential risk mitigation benefits. They are a fully turnkey asset, most attractive for investors willing to hold onto their investments for a considerable amount of time.

Exit: investors have a range of options to sell their casks, including distilleries and brands, collectors, independent bottlers, and auctions. Brokers and cask investment companies can help individual investors to secure a strong exit price.

Tax treatment: in Ireland and the UK, direct investment in cask whiskey is generally exempt from capital gains tax as the cask would be considered to have a life span of less than 50 years and would be expected to physically deteriorate over time (making it a 'wasting chattel' in Ireland or a 'wasting asset' in the UK). Casks that remain in bond are not subject to duties, further enhancing the tax advantages for investors. However, we would advise that all investors consult with their tax advisors prior to investing in order to fully understand the applicable tax implications.

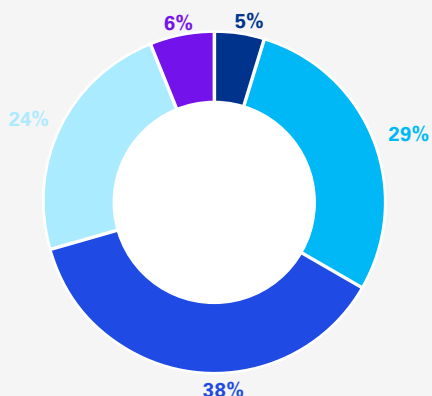
Risk: as with any asset class, cask whiskey is subject to risks, including a slowdown in demand, market oversupply, warehouse fires, evolving regulation, and supply chain issues. Whilst responsible dealers and investors will endeavour to mitigate such risks, returns cannot be guaranteed. Investment in cask whiskey is not currently regulated by the Financial Conduct Authority but is subject to relevant HMRC regulation.

About this survey

Survey period: 06 March – 12 March 2024

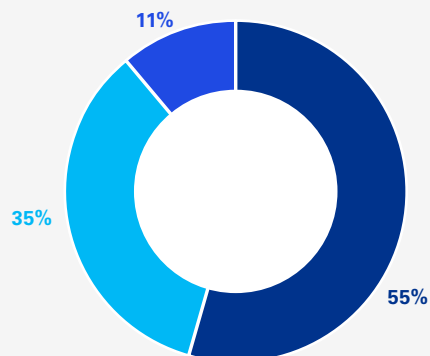
Respondent profiles:

Age



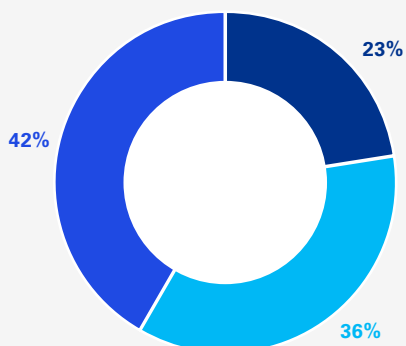
■ 18-24 yrs old
 ■ 25-34 yrs old
 ■ 35-44 yrs old
■ 45-54 yrs old
 ■ 55+ yrs

Region



■ Europe
 ■ North America
 ■ Asia / Oceania

Value of liquid assets (HNWIs)



■ €1,000,000+
 ■ €750,000 - €999,999
■ €500,000 - €749,000

Source: Data by Potloc

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*** Please note: this series does not constitute investment advice, but rather seeks to put a spotlight on an investment class largely unreported to date.**



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