



SCOTTISH DISTILLERIES

March 2020



MARKET TRENDS

The UK's distilling sector has experienced a boom in terms of growth in the number of distilling enterprises. Although most of this recent growth has been in England, Scottish distilleries remain dominant in terms of revenue-share and employment-size band.

As the whisky capital of the world it is unsurprising that by the end of 2019 Scotland had 280 distilling related business local units (ie individual sites associated with an enterprise involved in the

'distilling, rectifying and blending of spirits'). Since 2010 the number of these units has grown by 93% in Scotland, with the vast majority of this growth happening over the last four years.

The growth in the number of enterprises (ie the overall businesses or legal unit) involved in the 'distilling, rectifying and blending of spirits' in Scotland has been even more impressive. Over the nine year period to 2019, the number of enterprises in Scotland increased by 278% from 45 to 170 enterprises.

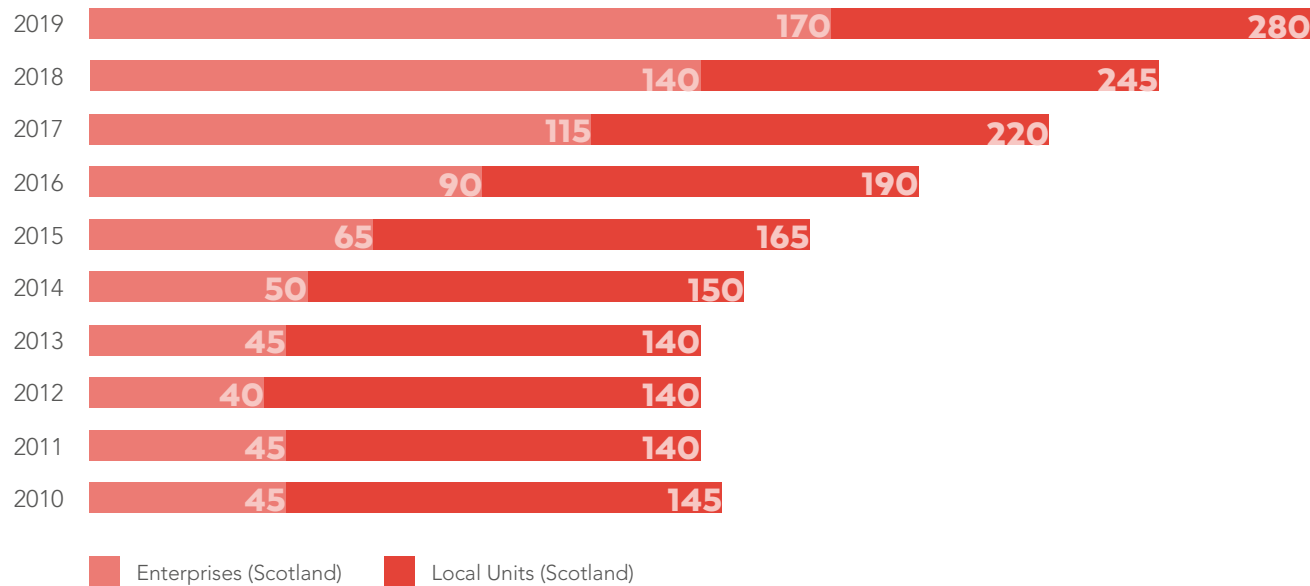
*Enterprises in
Scotland
have increased by*

278%





Distilling, rectifying and blending of spirits, number of enterprises and local units, 2010 - 2019, Scotland



In 2018 approximately 82% of all distilling jobs in Great Britain were based in Scotland, with the industry employing 9,000 people. This, combined with the fact that the spirits industry is responsible for approximately 3% of total GDP in Scotland¹, means that the industry is a significant contributor to the Scottish economy.

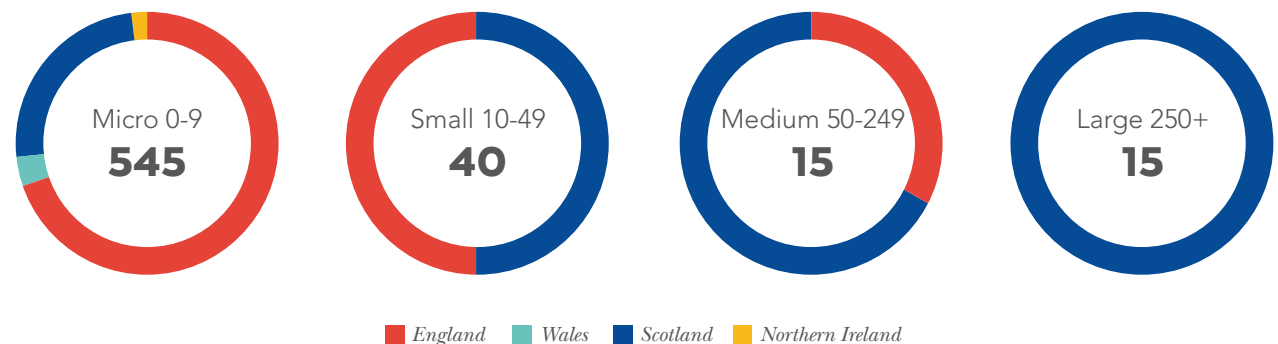
The growth in the number of Scottish distilling enterprises has also brought peripheral benefits. Demand from the tourism sector for food and drink related experiences has led to a rising number of festivals, whisky trails, brewery tours and visitor centres.



In July 2019 Euromonitor published its comprehensive report on alcoholic drinks in the United Kingdom², which forecasted that over the next five years alcohol sales in the UK are expected to experience modest growth. Despite the emergence of the healthy living and moderation megatrends, sales of spirits in recent years have benefitted from the emergence of the cocktail culture. Increased demand for spirits has resulted in a global distillery boom and Scotland has been a major beneficiary.

The vast majority of distilling enterprises across the UK (90%) are currently micro in size, employing nine or fewer employees. Growth in the UK micro distillery segment has eclipsed all other segments, with the number of micro enterprises rising from 55 in 2010 to 550 in 2019 – a 900% increase. Scotland easily dominates the larger end of the market with 75% (15 out of 20) of all medium and large distilleries in the UK (ie those with 50-249 employees or 250+ employees) operating in Scotland. Furthermore, of the 15 UK-based distilleries with an annual turnover in excess of £50m in 2019, 10 (or 66.7%) were based in Scotland.

Distilling, rectifying and blending of spirits, count of enterprises by employee size band, 2019, UK nations





Although Scotland is home to 128 malt and grain distilleries, gin, which is being produced in over 60 Scottish distilleries, is a higher growth market than whisky³.

The first Edrington-Beam Suntory UK Whisky Yearbook⁴ predicts that value of whisky sales in the UK will rise from £2.3bn in 2018 to £2.44bn in 2022 – a 6% increase. However, this growth rate may seem modest when compared to gin. According to the Wine and Spirit Trade Association (WSTA), Gin sales broke £2 billion in 2018 – almost doubling in the space of two years, and the WSTA expect that gin sales will continue to grow at an even greater pace in the coming years.

Growing demand and sales volumes of UK-produced spirits has coincided with a rise in the number of new UK distilleries opening. Figures published by HMRC at the start of 2019 showed that 54 new distilleries

opened in the UK in 2018 (with eight closures), taking the total number of actual distilleries in the UK to 361. In 2010 there were only 116 registered distilleries in the UK so the numbers more than tripled in the eight-year period⁵.



International demand has fuelled export value growth of Scotch whisky in recent years. In 2019 global Scotch whisky exports grew by 4.4% to £4.91bn in value. Export volumes also grew in the year, rising by 2.2%. David Logue, Partner at G&T said, "Growing demand, particularly from the Asia-Pacific region and Africa, as well as a weak Pound, has fuelled export growth. However, the impact of Brexit and future trade agreements may slow growth in the coming years". Although the US was still the most valuable export market (by value) for Scotch Whisky in 2019, the 25% tariff imposed by the Trump Administration since 18th October 2019 on imports of Scotland's single malts and Scotch Whisky liqueurs has had a dramatic impact on exports. India has now leapfrogged the US in terms of export volume for the first time ever, indicating how impactful tariffs can be on sales⁶.



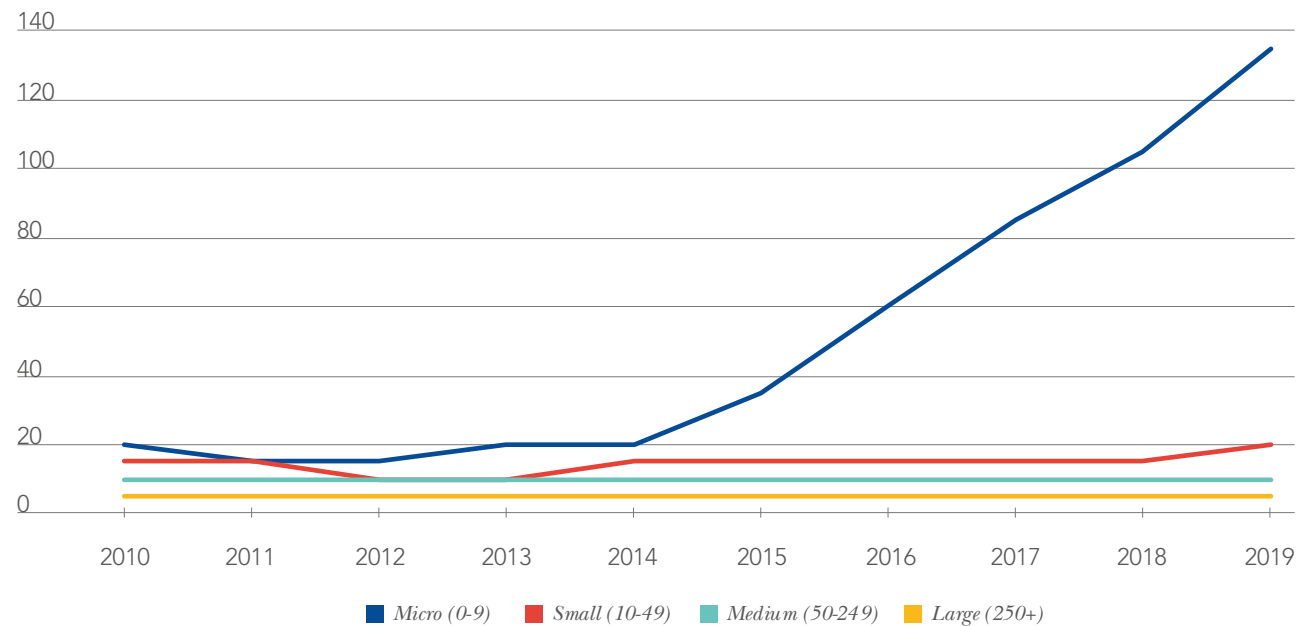
The number of large and medium-sized distilling enterprises (by employment size band) in Scotland has remained unchanged since 2010. Like the UK as a whole, the trend has been one of substantial growth in the number of micro distilling enterprises in Scotland, which has grown from 20 micro enterprises in 2010 to 135 in 2019 – a 575% increase.

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New distilleries are now opening at the rate of one per week, fuelled by micro sites, many of which are in city centres.”

—
Gordon Ritchie, Partner at G&T

Number of Enterprises Involved in the Distilling, Rectifying and Blending of spirits (Scotland) by Employment Size Band





However Scotland's larger distilleries are far from resting on their laurels. A number of distillers have submitted ambitious plans to expand, improve or reopen their existing facilities. For example the Port Ellen Distillery in Islay closed in 1983 but plans have been submitted following community engagement and pre-application consultation with key stakeholders. Port Ellen will be brought back into production by providing a mixture of modern and heritage buildings that will house both traditional and innovative approaches to distilling.

Another trend that we have noticed is the growing number of sustainable and carbon-neutral distilleries.

The industry is undergoing something of an energy revolution as distillers aim to cut costs, appeal to new markets and enhance their brand's image.

Increasingly distillers are using the waste products from the distillation process to generate power and reduce their carbon footprint. For example, the new Macallan distillery in Speyside uses sustainable heat from a local power plant that burns local farm and forestry waste as well as waste products from the distillery to generate 12MWe. The plant should keep the distillery fed with low carbon steam for 95% of the year.

The whisky distillation process can be extremely wasteful with only 10% of what comes from a distillery being consumed⁷. Bi-products such as draff and pot ale are usually discarded but more distilleries are finding ways to convert this into biofuel. A company called Celtic Renewables is helping distilleries convert these bi-products into biofuel - a direct substitute for fossil-derived fuel - thereby reducing their oil consumption and carbon dioxide emissions. The company's production process also produces other sustainable chemicals, acetone and ethanol, as well as high grade sustainable animal feed.



PREPARING

MASHING

FERMENTING

DISTILLING

AGEING

BLENDING

BOTTLING

PROCESSING

Whisky is produced by preparing, mashing, fermenting, distilling, ageing, blending and finally bottling.

This process takes place within distilleries, bonded warehouses, blend centres, and bottling complexes and G&T has been involved in the construction of many of these facilities.

G&T has been working for Bacardi's Scotch whisky arm John Dewar & Sons over the last 12 years, acting as cost consultant on their Project Poniel masterplan. Following the delivery of the masterplan G&T was appointed to deliver their new 8,000m² bonded warehouses, tank farm, blend centre and welfare area. The 100-acre Poniel Blend Centre & Maturation Warehouses features 18 warehouses (each of which can hold up to 72,000 casks) as well as new technology to enhance water addition, mixing, and control spirit strength, as well as energy-efficient conveyers that transport casks on pallets.

The project masterplan was completed in seven phases

over a number of years. The blend centre itself – a large-span clad structure fitted out with office, staff and specialist process and controls space - was completed in phase five of the multi-million pound project. The large spans were required as the building housed a specialist conveyor system and process line that allows filling and dumping of whisky casks for storage.

Currently, G&T's project and cost managers are in the process of delivering the Poniel South infrastructure and warehousing project where an additional 20 large-span warehouses will be developed.

Another multi-phased blending and storage facility that G&T is currently involved in is the Distell International whisky blending facility in East Kilbride. Appointed in 2016 to deliver Employer's Agent and Cost Management services, G&T is helping Distell International to establish their blending operations next door to their existing bottling plant in order to improve production efficiencies.



The project is being advanced in two phases, as shown.

A key focus of the project was to extract maximum value from a challenging site. Situated within a well-developed industrial area, the site is restricted by other developments and infrastructure. Distell required a well-considered masterplan and appointed an experienced masterplan architect, Threesixty Architecture, to explore the options and design the facility. Together with the architect, G&T focused on finding the right balance of cost and value and with a particular emphasis on maximising the warehouse and storage capacity. This achieved an additional 2,000m² of warehouse space - a 33% uplift on the client's original brief. This allowed the client to relocate in the region of an additional 20,000 casks to the site.

PHASE 1

Infrastructure (site clearance, excavation, filling, below ground services and utility connections), Blend Centre, Process Building, Tank Farm, and two 2,000m² Warehouses

PHASE 2

Extension to Process Building and Tank Farm plus a further two 2,000m² Warehouse Buildings



G&T has been able to add value by providing programme and cash flow management advice, procurement advice on pre-construction services and the design team, as well as change management and contract administration services. G&T, in consultation with BRE, also provided cost advice in a report about warehouse spirit losses - a study that assessed how building location, design and environmental conditions influence the rate at which spirit evaporates over time (the famed 'Angels Share'). G&T worked closely with the design team and the BRE to test a number of design and specification permutations in order to determine what combination of layout, form and specification would minimise evaporation losses and maximise stock value. G&T's particular focus was to find the cost balance between investment and the increased sales value of 'retained' spirit over time.

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Completion of the new warehousing and blending project will enable Distell to consolidate our major operations in East Kilbride in modern and efficient facilities and with scope for future expansion.”

Alan L Revie, Capital Projects Manager at Distell



VISITOR CENTRE MARKET

Growth in the experience economy has created new opportunities for Scottish distilleries. As the birthplace of whisky, Scotland is uniquely positioned to capitalise on the whisky tourism trade.

A Scotch Whisky Association (**SWA**) survey found that in 2018 total spend by tourists rose by more than 12% from the previous year to £68.3m. Average spend per visit was also 5.8% higher at just over £34⁸. It's clear that consumers increasingly want to understand and experience how their favourite blends and malts are made, and whilst not all distillery experiences are big money spinners (most just cover the operational costs of the experience) they can act as important public relations exercises to help to build the brand.

Numerous distilleries have now opened their doors to visitors. The Isle of Harris Distillery in Tarbert for example

had over 80,000 visitors in 2017 despite only opening in 2015. The Isle of Harris Distillers opened their distillery after raising £11m from investors. Numerous grants were awarded by the Scottish Government and the Highlands and Islands Enterprise (**HIE**) to facilitate construction of the distillery and its off-site warehouse.

The new Macallan distillery based in Moray opened in the summer of 2018. The site, which cost £140m and took three-and-a-half years to complete, was developed and designed with the visitor experience in mind. The distillery houses 36 copper pot stills to enable an increase in production by up to one-third compared to its previous site. Macallan's brand owner, Edrington, plans to put a total of £500m towards building the distillery and additional warehousing, and sourcing quality wood over the next 12 years.

The new architecturally iconic distillery has one of the most complex roof structures in the world, with each section being individually designed to blend in with its surrounding environment. The parametric roof design uses a timber-grid structure that comprises of 1,750 glued laminate timber beams, supported by 700 tonnes of structural steel beams. The green roof includes 2,500 triangular pieces (or 'cassettes') of planed Scandinavian spruce that join together to form a skeletal honeycomb, featuring five mounds to accommodate the distillery's five production calls. In total there are 380,000 individual components (none of which are equal or the same).



The space, which allows production of up to 15 million litres of alcohol a year, also includes a visitor experience that allows tourists to enter the production area. Visitors are able to walk across the circular walkway that surrounds the three pods where the whisky is being produced, as well see the machinery and geometrically arranged pipes as guides take them on a tour of the whisky production journey. Visitors can also browse the distillery shop, taste whiskies and visit the bar and brasserie on site.

In order to harness the devotion of enthusiasts and capitalise on the increasing flow of whisky tourists, the site was designed to be far more than an industrial worksite. The distillery has been seamlessly joined with the visitor centre. Ian Curle, chief executive, Edrington, said:

“

We expect this new Macallan enterprise to deliver significant benefits for the tourism industry, Scotch whisky exports, and the economy.”

Ian Curle, Chief Executive of Macallan's Distillery



*For every job
in the whisky industry...*

2-3

*jobs are created in
the whisky tourism industry*

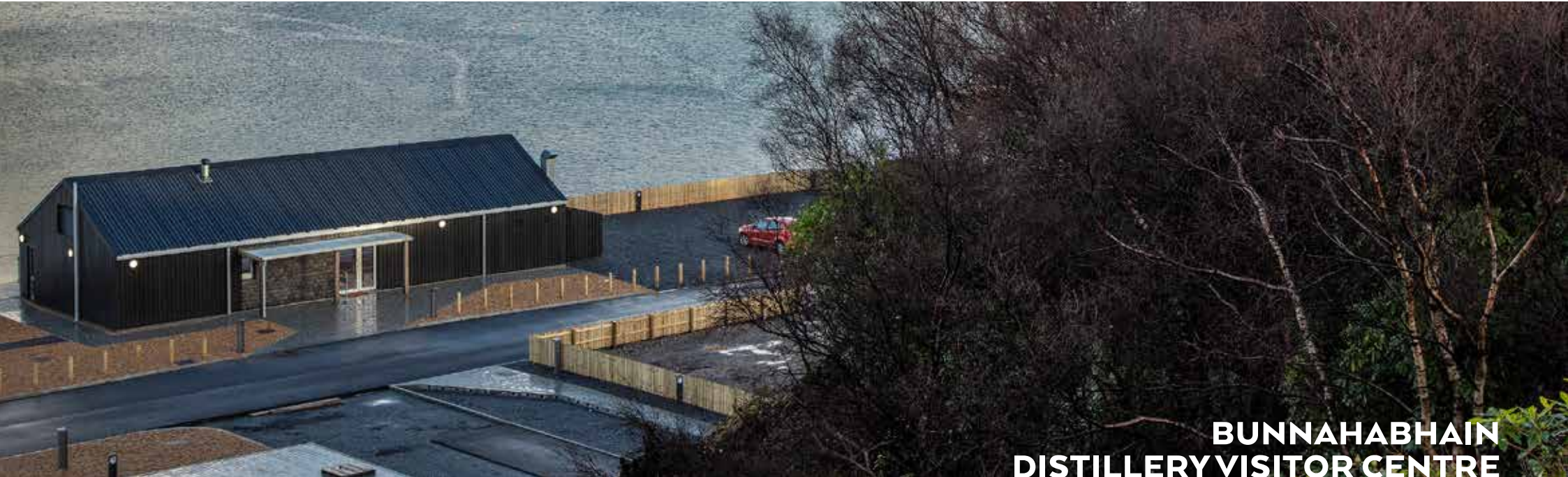


In fact, the Scottish Government estimates that for every job in the whisky industry, there are two to three jobs created in the whisky tourism industry. Whisky tourism is a growing source of economic growth in Scotland, as evidenced by a recent SWA survey which found that visitor numbers to Scotch whisky distilleries passed two million for the first time in 2018 - up by 6.1% year-on-year. On average, more than £34 was spent during each trip to a visitor centre in the last year, and total spend by tourists visiting distilleries rose by more than 12% to £68.3m in 2018⁷.

As part of its £150m investment into Scotch whisky tourism, Diageo has received planning approval to build its Johnnie Walker experience in the former House of Fraser department store on Prince's Street, Edinburgh. The three storey immersive space will explore whisky making and the blended Scotch brand's 200-year history. The plans include a flexible events space for staging music, theatre and arts, a rooftop bar with views of Edinburgh castle and a street-level whisky store.

The attraction, which is due to open in 2020, is expected to create between 160-180 full-time equivalent jobs and boost tourist spend in Edinburgh by around £135 million. In addition, the building will house a hospitality academy providing training and employment opportunities for unemployed people.

⁷<https://www.scotch-whisky.org.uk/newsroom/scotch-whisky-distillery-visits-reach-2-million/>



BUNNAHABHAIN DISTILLERY VISITOR CENTRE

G&T is providing Cost Management services on a smaller scale visitor centre on the Isle of Islay. The remote Bunnahabhain Distillery is undergoing a major refurbishment to improve production, logistics and visitor experience. Although the major focus of the three-year refurbishment is on the operational side, the £10.5m five-year refurbishment programme is partly an attempt to increase visitor numbers. Several warehouses have been cleared from the site for future development and a new 145m² visitor centre has been built featuring a café, retail area and conference space for VIP tasting. The visitor centre, which opened in early 2020, provides stunning views

of Bunnahabhain Bay and across the Sound of Islay to the Paps of Jura.

A car park will also be built and the site will be decluttered to help make navigation around the distillery much easier for visitors. The refurbishment programme will see several original buildings restored, whilst others will be demolished, recycled and relocated to improve operational flow across the site and enhance the visitor experience. In keeping with the growing sustainability ambitions of the sector and in order to reduce the impact of the works, approximately 99% of the materials processed during

demolition works have been recycled with the majority being retained for potential re-use at the distillery. Some materials salvaged from the demolition works have imaginatively been incorporated into the construction of the new visitor centre, with washback timber used as a facing material to the new bar, salvaged slate forming part of the external wall cladding and slate bed from the old Village Hall snooker table forming a hearth to the new wood burning stove.



PORT OF LEITH DISTILLERY

The Bunnahabhain Distillery on Islay will become the 'brand home' of the business and further facilitate tourism to the site, Distell is proposing to renovate six existing cottages situated alongside the distillery that will be used as holiday homes and corporate lets. It's also anticipated that the annual Islay whisky festival (or 'Feis Ile') – an event which attracts significant numbers of visitors from all over the world and causes the island's population to soar – will increase visitor numbers.

Demand has soared for craft spirits in recent years and riding this trend are several smaller distilleries. The Port of Leith Distillery in Edinburgh is attempting to put Leith back onto the whisky map by building an eight storey 'vertical distillery'. This new state of the art distillery is located 20m away from the Royal Yacht Britannia (the Queen's former yacht) - a key visitor attraction in Edinburgh. With 400,000 annual visitors to the ship the distillery aims to plug into the existing tourism infrastructure.

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The new brand home with its café and retail facilities is expected to generate increased visitor numbers to the Distillery and consolidate the overall visitor and distillery experience.”

Alan L Revie, Capital Projects Manager at Distell



The Port of Leith Distillery's vision and business plan are strongly influenced by this visitor potential. With a target of over 100,000 visitors per year the brief was to deliver a distillery that not only produces excellent whisky but also provides a unique visitor experience. Ian Stirling, Director at the Port of Leith Distiller said:

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For a start-up enterprise, Scotch Whisky is a notoriously difficult industry to break into. The key for us has been to secure a location that was demonstrably convenient for tourists so that we could generate revenues from visitors in our early years while we wait for our spirit to mature. We found a perfect site in this regard, that plugs into an existing tourism infrastructure with the adjacent Royal Yacht Britannia.”

Ian Stirling, Director, Port of Leith Distillery



The small footprint of the site meant that the distillery had to be built up, making it the first 'vertical distillery' to be seen in Scotland for over 100 years. Designed by Threesixty Architecture, the building celebrates its verticality with a roof-top bar and restaurant above a series of shop floors and tasting suites, all above the four storey distillery element. The vertical emphasis is also a key narrative in the visitor experience, which begins on level 6. The tour gradually descends through the building following the natural process of milling, mashing, fermentation and distillation. This unique journey intertwines the process with dramatic views over the port of Leith, afforded by the height of the building.

G&T is providing Cost Management services on the project and were also appointed to provide key support in helping the client navigate through the challenges of procurement and delivery. A director at Threesixty Architecture explained that:

“

When we referred G&T to the client, the design team and contractor had already been selected and the client was project managing personally. After three years of working together, we were all very close to the project and so we knew that G&T could bring a fresh set of eyes and support the client with professional and objective advice, bringing skills and knowledge that were missing in the team.”

Stefano Faiella, Director at Threesixty Architecture

Work commenced on site towards the end of 2019, and when the distillery opens in June 2021 it will eventually produce 400,000lpa (litres pure alcohol) per year.



G&T has been involved in office and HQ fit-outs for whisky clients. Spirits group Edrington, one of Scotland's largest private companies and owner of several well-known whisky brands (eg The Macallan, Highland Park and the Famous Grouse), relocated its international office headquarters from an industrial site in the west of Glasgow to 100 Queen Street in 2017. The move has allowed Edrington to bring its board and business units together in a single location, enabling "improved organisational alignment and performance" across their brands.

G&T provided Project Management services on the 100 Queen Street refurbishment project with a specialist fit-out contractor. The New York Loft style fit-out works took 18 weeks to complete, resulting in modern and stylish offices and executive rooms on the top four floors, along with executive rooms, a technical tasting and sampling room and a working bar to showcase Edrington's portfolio of brands. The circa 30,000 sq ft refurbishment also includes a large presentation area on the upper floor and multiple collaboration spaces throughout the floor plates.

The fit-out project was delivered on time and on budget and won the 2018 BCO Scottish Regional Award for Innovation.



KEY FACTS

There were 170 'enterprises' and 280 'local units' involved in the distilling, rectifying and blending of spirits in Scotland in 2019

170 enterprises
local units **280**

In 2018 there were 160 distilleries in Scotland according to HMRC

160

23 of Scotland's 32 local authorities had a distilling business presence in 2019 – up from 15 in 2010.

23
/
32

18%

The Moray area has the highest intensity of distilling related firms, with just under 18% of Scotland's local units being based there

£499,000

73.5% of enterprises involved in the distilling, rectifying and blending of spirits in Scotland had a turnover of less than £499,000 in 2019

KEY FACTS

In 2018 there were 60 distilleries producing gin within Scotland (estimated to account for 70-80% of gin produced in the UK)

70-80%

Scotch whisky exports reached a record value of £4.7bn in 2018 – up £338m from 2017

£4.7bn

Eight in ten distilling jobs in Great Britain were based in Scotland in 2018

8/10

9,000

The distilling, rectifying and blending of spirits sector employed 9,000 people in Scotland in 2018

In 2017, 291,000 hectares of barley (67% of all cereals grown) and 109,000 hectares of wheat (25% of cereals) were grown in Scotland

291,000 *hectares of barley*
hectares of wheat **109,000**



CASE STUDY

EDRINGTON AND THE ROBERTSON SISTERS

Edrington, the privately owned Scottish spirits company, was originally founded and developed by William A. Robertson in the city of Glasgow in 1850. His great granddaughters, Elspeth, Agnes and Ethel (collectively known as the 'Robertson sisters') came to inherit the Scotch whisky interests and were keen to ensure the independence of the company and the welfare of its employees. The sisters created The Edrington Group to hold their business interests.

The Robertson sisters also established The Robertson Trust in 1961. The sisters donated their shares in the businesses to the Trust in order to ensure that the family business remained active, independent and could continue its charitable endeavours as an independent, grant-making Trust.

Today, the Trust controls Edrington - one of Scotland's largest private companies in the Scotch whisky industry which owns the well-known brands: The Famous Grouse, The Macallan, Highland Park and Cutty Sark.

G&T is providing post project review services to the Trust on their Stirling Barracks development. The development has revitalised three buildings for Scotland's Third Sector that will offer high quality, low cost office and conference space for charities and social enterprises (a 'charity hub').

THANK YOU

