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**1. Alcohol Council Needs Time**

By Abigail McWilliam – *Iowa City Press-Citizen*

April 29, 2005

Underage and excessive drinking in Iowa City hasn't gone away, but some City Council members said Thursday they are willing to give the new alcohol advisory board more time to get a grip on the problem.

The board will give a report to the City Council during its work session Monday but no action is expected on the alcohol issue.

"Six months is too soon to evaluate whether the (alcohol advisory) board has done anything significant or substantial. One option is to give them more time," Councilor Bob Elliott said.

Elliott said he isn't satisfied with only discussing a 19 or 21-drinking ordinance. He said several alternatives need to be considered to get a handle on the drinking problem in Iowa City.

Police statistics show an increase in alcohol-related charges.

"From a strictly law enforcement perspective, the officers working downtown and in the bars have not perceived anything in drinking behavior and attitude, especially among underage bar-goers," Police Sgt. Troy Kelsay said.

Nevertheless, Councilor Connie Champion said the advisory board should be given more time.

"Underage and excessive drinking isn't under control, but they're working toward it," she said. "It won't change overnight."

What began as a group fighting a possible city ordinance restricting those under the age of 21 from bars has blossomed into a 10-member board dedicated to responsible bar operation and promoters of a positive image of the city, said Leah Cohen, the board's co-chair and owner of Bo-James.

Since forming six months ago, the board has arranged a monitoring system in bars to look for underage drinking and excessive consumption, more responsible advertising ("19 to socialize, 21 to drink"), and sponsored educational opportunities for bar owners.

"It's no longer a 19 or 21 issue. It's so much larger," Cohen said. "It's become a responsibility issue. Each and everyone with a liquor license has a tremendous amount of responsibility."

Large strides have been made to foster camaraderie among bar and restaurant owners and tackling the drinking problem downtown, Cohen said.

"Excessive drinking became more of an issue than underage drinking," she said.

However, six months was just enough time to get owners to get started, and they expect the council to give them more time to make further progress, she said.

The advisory board has been a proponent of restricting advertisements that promote specials or prices that lead to excessive drinking. As a result, most signs in windows and storefronts downtown have been removed, Cohen said.

Some downtown bars also have established monitoring, or designated an employee, to help control excessive and underage drinking.

The group also is working to promote a positive image of downtown Iowa City.

"We feel alcohol issues overshadows everything else that goes on. We're trying to project a different image downtown by promoting retail and other good aspects," Cohen said.

One way the board is trying to revive downtown is having merchants extend their retail hours to coincide with the Friday night concert series, she said.

Cohen said the alcohol advisory board hopes to be a long-term resource for the council. She said continued dialogue about possible city ordinances, educational programs, safety issues and downtown image are reasonable next steps.

"If we go 21 all bets are off, we feel the responsibility issue will be out the window," she said.

Despite the board's efforts, police say there has been no change in underage drinking, and statistics indicate a worsening situation.

According to a memo from Kelsay:

• There has been 314 charges of PAULA --possession of alcohol under the legal age -- in the first quarter of 2005 compared to 220 during the same time a year ago. That's a three-year high.

• Public intoxication charges also are at three-year high. Underage public intoxication charges totaled 89 in the first quarter of this year compared to 66 during the first three months of 2004.

• Interference with official acts has increased 45 percent since last year and also is at a three-year high.

Kelsay also criticized the inconsistency of monitors in bars and inability to identify them. He also said the advisory group has been largely unsuccessful in eliminating drink specials.

Cohen said the board didn't expect to see an immediate significant change in statistics.

"I think the police department tends to concern themselves mainly with underage drinking; that is not our case at all. I think the majority of the council is more concerned with excessive drinking," Cohen said.

**2. Shedding a Tier?**

By Gregory Cancelada - *Post-Dispatch*

April 28, 2005

ST LOUIS, MO -- Recent legal challenges to a state's power to regulate alcohol are raising concerns that the "three-tier" distribution system eventually could face upheaval.

For more than 70 years, that three-tier system - with distinct roles for producers, wholesalers and retailers - has served states well, creating what they considered to be a regulated, orderly market for alcohol.

But critics, ranging from wine connoisseurs to big-box retailers, are challenging state laws that form the underpinning of the three-tier system. They want to get around wholesalers, saying these middle-men are archaic and unnecessary to a state's ability to regulate alcohol.

If the courts rule in their favor, oenophiles will be able to get that favorite bottle of wine with greater ease, and big-box retailers, such as Costco Wholesale Corp., could sell cheaper alcohol.

However, state regulators worry that eroding controls would spur underage drinking and other abuses, and eventually disrupt a system that has functioned since the end of Prohibition.

"They're not selling socks from Lands' End here, they're selling products that are illegal to be used by minors in our state," Missouri Attorney General Jay Nixon said. "They shouldn't have a Supreme Court case tell us that alcohol can be shipped in unlimited qualities directly to purchasers."

 After Prohibition ended in 1933, states created the three-tier system to check abuses that originally had fueled the movement to ban alcohol.

One abuse was the "tied-house," in which local brewers owned or financed saloons to sell their products. Critics said that link encouraged saloons to aggressively push consumption.

"There was considerable amount of competition that led to the growth of a saloon industry, which was something that led, in the eyes of a lot of Americans, to abuses," said K. Austin Kerr, professor emeritus of history at Ohio State University and a noted scholar on the Temperance movement.

Prohibition was the ultimate control over the alcohol industry, he said.

Under the 21st Amendment to the Constitution, states regained their authority to regulate alcohol within their borders. They also got a new power to control alcohol flowing in from outside. When all of that happened, states scrambled to find a new regulatory system.

They generally embraced the idea of a three-tier distribution system in some form.

 Once seen as fairly absolute, the state power granted under the 21st Amendment has been trimmed in recent decades as the Supreme Court sought to balance it with other rights and restrictions in the Constitution, such as the First Amendment.

The most recent challenge was caused by the confluence of two separate events: the rise of Internet commerce and the rapid growth of small wineries.

Unable to attract the attention of wholesalers or wanting a cheaper distribution channel, small wineries have chafed under state laws that prohibit out-of-state wineries from selling directly to in-state consumers.

Twenty-four states now prohibit such direct shipments, though a number of these states, including New York and Michigan, allow in-state wineries to ship to residents.

Both Missouri and Illinois allow limited direct wine shipments from a state that reciprocates. The two states also allow intrastate direct wine shipments.

For years, small wineries and wine connoisseurs have challenged the direct-shipment ban in federal court, claiming it was unconstitutional because it discriminated against out-of-state wineries.

States contend that they can't properly regulate or tax wineries outside of their jurisdictions, and that they are exercising power granted under the 21st Amendment.

The Supreme Court is pondering this question after two Circuit Courts of Appeal arrived at conflicting decisions: One struck down Michigan's prohibition while another upheld New York's ban.

The libertarian Institute for Justice, which is involved in the challenge, sees the direct-shipping bans as a case of the states restraining interstate trade to protect established wine industries, to the detriment of consumers and small wineries.

"There are over 3,000 small wineries now, and all of them rely heavily on direct marketing," said Steven Simpson, senior attorney at the institute. "So this decision will be huge, not just for wine lovers but small wineries who want to sell them their wines."

Though the case is narrowly focused, a decision favorable to direct shipment could seriously undercut existing state regulatory powers. At the very least, a favorable decision would trigger further legal challenges.

"If we win the wine case, we'll definitely be attempting to be using the precedent that is set ... in future cases in the context of alcohol regulations," Simpson said.

**Challenging the system**

Missouri, Illinois and 31 other states hope the Supreme Court upholds the bans, saying that the 21st Amendment doesn't allow state alcohol laws to be trumped by the Commerce Clause.

"You have to remember that someone in Wisconsin is going to feel differently about alcohol than someone in Mississippi," said Craig Purser, vice president at the National Beer Wholesalers Association. "Our position is the states should decide these matters."

Though the case is narrowly focused on direct shipments of wine to consumers, the implications are bigger.

When wine shippers argued before the Supreme Court in December, Justice Anthony M. Kennedy wondered aloud if their argument meant the end of the three-tier system.

 "It seems to me that, under your rationale, that (New York's) in-state licensing system has to fall if there's a New Jersey wholesaler" wanting to sell to a New York retailer, Kennedy said.

Yet, justices also expressed skepticism about the two states' rationale for restricting direct shipments.

The Supreme Court should issue a decision before the end of June, though observers think a decision may come soon.

Though lower down the rung and further from conclusion, a more direct challenge to the three-tier system is brewing in the state of Washington.

Last year, retailer Costco filed a federal lawsuit against the Washington State Liquor Control Board and other officials, accusing the state agency of violating federal anti-trust laws, the Constitution's Commerce Clause and sections of Washington state's own constitution that bans anti-competitive practices.

The challenged laws include those that prohibit Costco from dealing directly with out-of-state brewers and wineries and supplying its stores through its own distribution system. The disputed laws also force the retailer to fix prices and hold them at a minimum margin above costs.

Calling the current system "inefficient and unlawful," Costco said changing the laws would allow the retailer to provide a wider selection of products at cheaper prices than it can currently offer.

Washington state officials are fighting the case, saying the state laws are consistent with the 21st Amendment. The trial is set for next March.

Nobody expects a single court decision to topple the three-tier system soon or cause wholesalers to disappear.

 Anheuser-Busch Cos. of St. Louis and other brewers see their wholesalers as a valuable tool for marketing and customer service.

 "Our wholesalers provide retailers - regardless of size or location - with important personal contact and day-to-day merchandising and marketing support to help them keep Anheuser-Busch brands top-of-mind with consumers," August A. Busch IV, president of A-B's domestic brewing unit, said in a statement.

 Busch IV also pointed out the wholesalers' valuable contributions to communities, including work with charities and civic groups.

Still, the power of big-box retailers - the ability to move large quantities of product while demanding price reductions - is both tempting and frightening to the major brewers, said Robert Weinberg, a beer industry consultant in St. Louis.

"That's the sort of Damocles sword hanging over the heads of the brewers," he said.

**Before Prohibition**

The alcohol industry faced almost no federal regulation and varying degrees of state and local control.

Many states offered limited restrictions in the form of the "local option," with cities or counties deciding whether to allow the sale of alcohol; a few had outright prohibition.
Brewers, distillers and wineries could sell directly to consumers. Until a 1913 federal law, people living in the few "dry" states could skirt that problem by ordering shipments of alcoholic beverages.

 Brewers and distillers could own saloons or directly control such establishments through loans and sales contracts. Critics said such "tied houses" encouraged binge drinking.
The free-wheeling alcohol market and the desire for social control amid growing immigration and urbanization fueled support for the 18th Amendment to the Constitution, banning the manufacture, sale or transportation of "intoxicating liquors," effective in 1920.

**After Prohibition**

When the 21st Amendment overturned Prohibition in 1933, states stepped in and created a regulatory framework, generally based on three tiers: producer, wholesaler, retailer.

The states believed many pre-Prohibition troubles were the result of producers having too much power. By breaking the industry into three tiers, regulators felt alcohol could be better controlled. In most states: Brewers sell to a wholesaler, who then sells to retailers.

Brewers cannot own wholesale or retail operations.

Unlicensed individuals cannot transport alcohol across state lines.

 A licensing system has restrictions for each tier.

 However, in 18 states and two counties in Maryland, the government controls wholesale or retail operations. Eight states originally forbade liquor sales but have since repealed the bans.

Many initial strict rules, such as bans on Sunday alcohol sales, have loosened, but the three-tier system remains intact.

**3. AMA Seeks Ban on Beer Ads**

 *Wire Reports*

April 28, 2005

The American Medical Association has asked the NCAA to stop allowing alcohol companies to advertise their products during sporting events.

The AMA's request comes a day before NCAA officials meet in Indianapolis to review their current policy allowing beer advertising during radio and television broadcasts of collegiate sporting events.

Beer companies spent an estimated $58 million on commercials during college sporting events in 2004, including $28 million during the NCAA men's basketball tournament, according to the Campaign for Alcohol-Free Sports TV.

"Using collegiate sports to flood the airwaves with alcohol ads undermines efforts to combat binge drinking that occurs among nearly 44 percent of full-time college students," AMA President Edward Hill said in a statement.

"I don't think there's any chance the issue will be decided," said George Hacker, the director of the Alcohol Policies Project at the Center for Science in the Public Interest. "This is just one step in a longer discussion these schools need to have."

Hacker's Washington-based organization runs the Campaign for Alcohol-Free Sports TV, which has received support from 228 schools, with Florida being the most recent (and only Southeastern Conference school) to sign the petition.

UF President Bernie Machen, an advocate of alcohol-free campuses, said he doesn't foresee a change on the national level anytime soon.

"We joined the campaign in sympathy for the objective. ... I don't know how successful the effort will be to minimize or eliminate such ads at the national level," Machen wrote in an e-mail.

"There is a lot of advertising that's alcohol-related, and I don't see how it could be replaced or eliminated."

Machen, who has eliminated alcohol ads on UF broadcasts at the local level, said he thinks the initiative could lead to some limits on advertisers.

4. Diageo Mixes it in Battle for Allied Domecq

*Scottsman Evening News*

April 28, 2005

DIAGEO, the world’s biggest drinks company, was today understood to have entered the multi-billion pound battle to land smaller rival Allied Domecq, maker of Ballantine’s, Beefeater gin and Malibu.

The company, which has extensive operations throughout Scotland, is understood to be seeking to join a consortium - possibly including Bacardi. France’s Pernod Ricard and Fortune Brands of the US have already had a £7.4bn bid recommended by Allied’s board, while a consortium led by the US groups Constellation Brands and Brown-Forman has also now confirmed its interest.

Diageo has declined to comment on its intentions. Earlier this year Diageo’s chief executive Paul Walsh ruled out a solo bid for Allied, saying he was only interested in brands that became "dislocated" by any takeover of Allied.

But any move by Diageo could struggle to get past regulators, as it would effectively mean the world’s biggest drinks group buying the second-biggest player in the market.

**5. Allied Shares up as Battle Looms**

By Jenny Wiggins and Lina Saigol

April 28, 2005

Investors in Allied Domecq on Thursday welcomed the prospect of a potential counter-offer for the UK spirits company, as shares in the drinks group spiked in response to the prospect of a bidding battle.

Allied shares rose 20p, or 3 per cent, to hit a new high of 693p, after a consortium, led by Constellation Brands of the US, announced on Wednesday it was considering making a counter-offer for Allied Domecq. The drinks group last week agreed to be acquired by France's Pernod Ricard in a £7.5bn cash-and-shares offer.

Shares in Pernod fell €4 in Paris to €117.

Some equity analysts yesterday recommended investors sell Allied shares to take advantage of the share price rise, arguing that it was unlikely the consortium would come up with a significantly better price.

"The risks are against it being significantly above the Pernod offer," said James Dawson, equity analyst at Charles Stanley, adding any bidder offering more than 700p per share for Allied would be overpaying.

However, another investor said: "If there's an auction for the company, the price may be higher [than 700p]."

It is thought Diageo, the world's biggest distiller, may consider joining the consortium if it made a serious offer for Allied. However, Diageo is understood not to want to lead a bid of its own because it would encounter serious anti-trust problems.

Fitch Ratings yesterday said that Diageo's participation in an Allied bid could be "limited" because the group leads most spirits categories and is three times bigger than its closest competitors.

If the consortium proceeds with a formal offer, it has to tackle the problems posed by Allied's pension deficit.

Pernod and its bidding partner Fortune have agreed to take on Allied's pension deficit of at least £387m and pay capital gains tax on any assets they sell.

It is not clear how the four members of the Constellation consortium - which include Brown-Forman, Lion Capital and Blackstone - would plug the deficit.

Pernod was confident its offer would be accepted, and the consortium would not be able to come up with enough cash to match it.

**6. Bidding War Looms for Allied Domecq**

By Lina Saigol and Jenny Wiggins in London and James Politi in New York

Source: *Financial Times*

April 25 2005

Brown-Forman, the US maker of Jack Daniel's Tennessee Whiskey and Southern Comfort, has hired Lazard, the investment bank, to look at ways of thwarting Pernod Ricard's £7.5bn (€11bn) offer for Allied Domecq.

The move comes as Constellation Brands, a rival US drinks group, said it had hired Merrill Lynch and NM Rothschild to advise on a possible counter offer for the UK spirits company. Constellation said it would evaluate options with "a number of potential partners".

The group is keen to attract Hicks Muse Europe to provide the equity for a potential offer. The US private equity firm hired Javier Ferran, the former chief executive of Bacardi, last year. He could lead any potential offer for Allied.

Speculation about a counter-offer for Allied drove its share price 8.5p higher to 671.50p. Pernod's offer was valued at 670p.

Constellation has until the end of June, when Allied's shareholders vote on Pernod's offer, to work on a counter bid and form a fully-financed consortium. With a market capitalisation of $6.1bn, Constellation is not large enough to purchase Allied on its own.

"It would have to be a joint bid," said Mark Swartzberg, equity analyst at Legg Mason.

The US drinks group has told analysts and investors that it would like to strengthen its spirits portfolio by purchasing premium brands. However, it missed out on the auction for Malibu in 2001, which was sold by Diageo following the break-up of Seagram's drinks portfolio.

Industry observers said it was too early to tell whether Brown-Forman would consider joining Constellation. However, one said: "They are likely to want most of the same brands, so it is more likely that they will each look at separate bids with private equity groups."

Observers believe Allied provides Constellation with one of the last chances to enter the premium spirits market.

"At some stage, Constellation needs to decide if it's going to be a player in spirits," said Richard Hurst, an independent consultant in the beverage industry.

Most of Constellation's acquisitions have been in wine, including BRL Hardy, Australia's largest wine producer, which it bought in 2003. The group last year acquired the Robert Mondavi Corp., one of the biggest US producers of table wines.

The $1.4bn acquisition left the company with relatively high levels of debt. Constellation had $3.3bn of rated debt at the end of February, according to Standard & Poor's. The group has a good record in cutting debt after purchases. But another debt financed acquisition could hurt its credit rating, which is at junk levels. S&P rates Constellation at "BB" with a negative outlook.

**7. Feuding Leaves Bacardi on Rocks**

By Dominic Rushe - *London Sunday Times*

April 25, 2005

**The spirits group is sliding down the ranks as family members squabble.**

BACARDI is all about mixing. For 142 years the rum company’s most famous product has been sold on its ability to bring drinks, and people, together. Its ads, too, hold out the promise of wild Latin fun, meeting people, making friends.

These days life inside the company is a more sober affair. An ugly family row is splitting the Bacardi family. The argument is set to reopen next month in a Florida court where Lisette Bisson, great-great-great granddaughter of Bacardi founder Don Facundo y Maso, is suing her mother and other Bacardi allies and family members for allegedly robbing her of the family fortune.

The unseemly affair, as dark and stormy as a Florida hurricane, offers a rare glimpse inside the secretive and troubled Bacardi empire.

In the past six months it has lost its chief executive and dropped plans to take the company public. Last week it was dealt a bigger blow.

Bacardi and the British spirits group Allied Domecq had long been seen as possible merger partners. Now Allied is being taken over by Pernod Ricard, Bacardi’s bitter enemy. The sale will leave Bacardi in the second tier of drinks companies, behind leaders such as Britain’s Diageo and the newly strengthened Pernod Ricard.

The drinks industry has been consolidating rapidly since Diageo was created from the merger of Guinness and Grand Metropolitan in 1997. In 2001 Seagram, the Bronfman family’s whiskey business, was sold to Diageo and Pernod. Allied was the last big spirits business left. Now that it is going, it is hard to see how the second-tier players can catch up, said Ian Shackleton, a drinks analyst at Lehman Brothers.

"Globally, Bacardi is just not as powerful as it once was. It’s hard to talk about them fighting back when they don’t even have a chief executive," said Shackleton.

Another analyst put it more colourfully: "What the hell is going on round there?" he said.

MANY of the reasons for Bacardi’s problems will be aired on May 12 when Bisson faces off against Bacardi & Co again.

The Schueg branch of the Bacardi family traces its lineage back to Don Facundo, the company’s Cuban founder. Lisette’s mother, Miami-based Vilma Schueg Ramirez de Arellano, and her family control about a third of Bacardi’s shares and her daughter claims she has been conned out of at least $200m. Bisson and her husband, Randy, accuse Arellano, Manuel Jorge Cutillas, Bacardi’s former president, and Cititrust, part of Citigroup, of conspiring to cut her out of her due.

Cutillas is a player, trustee to a third of the shares of the rum giant, and one of the richest and most respected voices among America’s Cuban émigrés. The great-great-grandson of Bacardi’s founder, he has a lot of powerful friends. He is on first-name terms with most of the Bush family. Jeb Bush, brother of the American president and governor of Florida, has an office in Miami university’s Bacardi House, the wing donated by the company.

Cutillas’s connections and charm have come in useful as Bacardi has slugged it out with Pernod Ricard over Havana Club, the fast-growing rival to the eponymous rum.

But his role as Bacardi’s top emissary has put him between a mother and her daughter in the long running row.

"I just want what’s owed to me and my family." said Bisson. "It’s my son’s graduation this year, I’ve sent her an invite but I’m not expecting her to show."

Bisson said relations with her mother had become strained after her father’s death in 1987. "I was a daddy’s girl and I don’t think she could ever handle that," she said. In 1989 Bisson’s brother Fernando Jr died aged 26. The money from his will was to be divided between Arellano’s three children.

Bisson had bought a house and was expecting to use the inheritance to pay for it. She took out a bridging loan but the money never came. Instead, she claims it went to Arellano. Bisson’s house was repossessed and the battle began.

"In 15 years not one of those bastards has called to see how we are," said Randy Bisson. "All they want is their dividend cheques. They are never going to rock the boat for fear of getting kicked out like Lisette."

The Bissons have forced many secrets out of the Bacardi clan in their legal skirmishes. Bisson found a copy of Bacardi’s share register. Cutillas is chairman of a number of the largest trusts, including Pegasus and Sapphire, that hold Schueg shares. Bisson said opposing lawyers had claimed the trusts did not exist. The register also showed that Lisette was a beneficiary of the trusts. The law has since been changed in the Bahamas, where Bacardi is incorporated, to close share registers to the public.

After the Bissons were made homeless, Cutillas arranged to buy them a home using another trust based in the Bahamas. The purchase left the Bissons with a tax charge that has since grown to $1.8m, which they were unable to pay. What had looked like a gift ended up being an enormous burden.

The Bissons have since moved and Cutillas, as head of the trust that bought the home, is being held accountable for the charge. Last month he was told by the Internal Revenue Service (IRS) that they were seizing the house. Bisson estimates it will fetch $1m and the IRS has told Cutillas it will take the balance from Bacardi’s bankers, Cititrust (Bahamas).

The Bissons’ case was dismissed two years ago by Miami judge Philip Bloom. He then went to work for Steel Hector & Davis, a Miami law firm that has acted for Bacardi and Cititrust. Steel Hector & Davis received hundreds of thousands of dollars in fees from the disputed trust funds, according to documents obtained by the Bissons.

The Bissons appealed, saying the judge was compromised, but the case was rejected. They are now appealing against that ruling. Randy said: "We will not stop until those croquetta-munching bastards pay up. They are ruining our lives."

BISSON is perhaps the most vocal dissident in the Bacardi family but there are other, more powerful shareholders who are also highly critical of the way the company is run.

Late last year, before the current turmoil, a letter was sent to all shareholders, calling on Bacardi to appoint a "strong, experienced, independent board" to improve corporate governance and for Bacardi to be "managed in a way that maximises value for all shareholders, rather than catering to the wishes of one or more family branches".

The group behind the letter is believed to have been led by Karen Bacardi-Fallon, one of the most vocal critics of the company’s plans to go public. In 2003 she called the float plans "an insult to every shareholder". Now it appears she believes Bacardi would be better run by outsiders.

Last summer Bacardi’s then chief executive Javier Ferran splashed out $2 billion to buy Grey Goose vodka. It seemed a hefty price to pay for a French brand, but vodka is sexy in the spirits industry and, in the premium category, Grey Goose is America’s leading brand.

The family had to cough up the cash — which analysts had expected to be covered by a float. Investors will see if the purchase paid off when their dividends arrive in June. But the rationale for buying the brand may now have evaporated.

Bacardi produces and markets other spirits including Martini & Rossi vermouth, Dewar’s Scotch whisky and Bombay Sapphire gin, but it has only one other vodka, the tiny Turi brand. Grey Goose plugged a gap in Bacardi’s portfolio and, so analysts thought, was yet another sign that the family firm was going public.

Then in November Ferran suddenly quit, citing "personal reasons". He has since joined the venture-capital firm Hicks Muse. Stella David, a British Bacardi executive and Ferran protégé, was tipped as a new head of its American business. Her elevation was put on ice and chairman Ruben Rodriguez took the chief executive’s role.

The family is firmly back in control at Bacardi. Maintaining the status quo may keep some of the clan happy but — warn analysts and bankers — the game has changed.

Bacardi may have some impressive brands, but size matters in the spirits business. Diageo has recently started making exclusive deals with its wholesalers — thanks to the strength of its brands and distribution network. Allied Domecq has been experimenting with similar deals and analysts expect that Pernod Ricard will follow suit now that it has increased its critical mass. Fortune Brands will be buying parts of Allied, putting it on a par with Bacardi and intensifying pressure in the American market.

Some analysts question the long-term impact of Bacardi’s go-it-alone strategy. Brown Forman, owner of Jack Daniel’s and Southern Comfort, is concentrating on its core brands. Bacardi, meanwhile, "is acting like a big boy in a world where its peers have outgrown it", said one banker close to the company. Having missed out on Allied, Bacardi is now trapped in the middle ground.

"Did you know Bacardi used to be known as ‘The Mixable One’?" said Randy Bisson. "It’s ironic really, because it seems to me all the company’s problems stem from the fact that they just can’t play nicely with others."

**Gatecrashing the Pernod-Allied deal**

BACARDI is one of a small number of drinks companies likely to be approached about forming a consortium to upset an agreed takeover of Allied Domecq by its French rival Pernod Ricard, writes Matthew Goodman.

But it might struggle to play a part in any deal, given its shareholding structure.

Industry sources said Constellation Brands, an acquisitive American drinks group, is pushing hard with plans to lead a rival offer for Allied. They said Constellation wanted to seek talks with the world’s big spirits groups, including Bacardi, Brown-Forman — maker of Jack Daniel’s — and the industry leader, Diageo.

Cash-rich private-equity groups, which have shown they are not averse to big transactions, could also get involved. One firm, Hicks Muse Europe, recently hired Bacardi’s former chief executive and is seen as a likely interested party.

One observer said: ‘It is hard to imagine that as the last pretty girl on the dance floor, Allied is not going to have a number of people trying to dance with her.’

Pernod, which has teamed up with Fortune Brands of America, has offered Allied shareholders a mixture of cash and shares.

Because of this, its 670p-a-share offer, which values Allied at £7.4 billion, need only be matched, rather than beaten by any counter-bidder if it pays entirely in cash.

**Rival bidders have plenty of time to think about whether they should go for Allied. The structure of the Pernod deal means they have until July.**

**8. Fortune Brands Profit Rises 9.3 Percent**

By Mark Weinraub - *Reuters*

April 22, 2005

NEW YORK (Reuters) - Fortune Brands Inc. (FO.N: Quote, Profile, Research) , which sells products ranging from Therma-Tru doors to Jim Beam Bourbon, said on Friday quarterly profit rose 9.3 percent on strength in its home and hardware business and sales of golf equipment.

First-quarter earnings rose to $153 million, or $1.02 a share, from $140 million, or 92 cents a share, a year earlier. Sales rose to $1.79 billion from $1.71 billion.

The news sent Fortune shares up 2 percent.

"Most of the units had good gains, particularly the home and hardware," Barrington Asset Management analyst Alexander Paris said. "Overall, I think it was a good quarter. They seem to have good, strong momentum."

The earnings release came one day after Fortune agreed to pay $5.3 billion for several Allied Domecq Plc (ALLD.L: Quote, Profile, Research) wine and spirits brands after that company is acquired by Pernod Ricard (PERP.PA: Quote, Profile, Research) . The brands, which include Sauza tequila, Maker's Mark bourbon and Courvoisier cognac, will double Fortune's alcoholic beverage sales.

The acquisition should be a good deal for Fortune because it will add high-margin brands to the company's portfolio, said Paris, who has a rating of "outperform" on the company's stock.

Analysts, on average, were expecting first-quarter earnings of $1.03 per share, according to Reuters Estimates.

Fortune forecast earnings-per-share growth at a double-digit percentage rate for the second quarter. It also affirmed its growth outlook at the same rate for the full year and its free cash flow target of $450 million to $500 million.

Sales at Fortune's home and hardware division, the company's largest unit, rose to $902.5 million in the first quarter from $821.5 million a year earlier.

But spirits and wine sales fell to $272.7 million from $276.5 million. That unit, which sells brands such as Vox Vodka and El Tesoro tequila, suffered from a tough comparison to last year, when sales rose 16 percent as distributors stocked up ahead of price increases.

Fortune shares rose $1.74 to $88.80 on the New York Stock Exchange in midday trading.

**9. US: Billionaire Buys into Anheuser-Busch**

**Source: *just-drinks***

April 22, 2005

Berkshire Hathaway Inc., the holding company of billionaire Warren Buffett, has acquired a significant stake in Anheuser-Busch. The exact size of the holding was not disclosed.

Anheuser-Busch made no specific comment about the move, serve only to welcome Berkshire Hathaway as a shareholder.

Warren Buffett is the world’s second-richest man, according to USA Today. The general opinion is that Bufett always buys good value, the newspaper cites an analyst saying.

**10. Diageo May Bid as US Rivals Make Allied Offer**

By Dominic Walsh -  *Times Newspapers*

April 28, 2005

DIAGEO, the world’s biggest drinks company, has entered urgent talks with rival drinks groups with a view to forming a consortium to enter the £9 billion bidding war for Allied Domecq, The Times has learnt.

The move would create a three-way battle after last night’s announcement from Allied that it had received an approach from a consortium led by the US groups Constellation Brands and Brown-Forman.

Allied is already the subject of a recommended 670p-a-share bid from France’s Pernod Ricard and Fortune Brands of the US.

Diageo’s move represents a U-turn by Paul Walsh, the group’s chief executive, who at its results in February said there was no question of Diageo leading its own bid for Allied. He said it would be interested only in “any brands that became dislocated as a result of the process”.

Most analysts had assumed his interest would be restricted to Maker’s Mark bourbon and, possibly, Courvoisier brandy.

Observers expressed surprise at Diageo’s mooted entry into the bidding, pointing out that, even by bringing in partners to carve up Allied’s brand portfolio, it would struggle to get a deal past US and European regulators.

It is understood that Diageo has held preliminary talks with Bacardi, the Bermudan white rum maker, with a view to forming a consortium, although observers said that a simmering feud among members of Bacardi’s owning family might make it difficult for the company to play a significant role.

But one leading drinks analyst was unsurprised by Diageo’s move. “Allied is just about the last consolidation play that’s left so it has nothing to lose,” he said.

“At worst, it could force one of its closest rivals to overpay. But if it does manage to get a deal past the regulators, it will find itself in a peerless position.”

He added: “Bacardi may be in disarray but the Grey Goose acquisition showed that the family feud need not be a barrier to pursuing suitable deals.”

Constellation, which in the UK owns Matthew Clark, the drinks wholesaler, has joined forces with Brown-Forman, the consumer goods group behind Jack Daniel’s bourbon.

The duo have secured backing from the private equity firms Blackstone and Lion Capital, formerly Hicks Muse Europe.

Allied, which described the US consortium’s approach as “preliminary”, is expected to switch its recommendation away from Pernod’s bid provided any counterbid is an all-cash deal. Some Allied investors have expressed dismay at the prospect of receiving 20 per cent in Pernod shares.

Diageo, which declined to comment, last night announced plans to refinance almost £500 million of debt to give it flexibility to look at potential acquisitions.

**11. New Offer Is Expected in Battle Over Liquor Maker**

**By Heather Timmons *– New York Times***

**April 28, 2005**

LONDON, April 27 - A rival bidder is preparing to challenge Pernod Ricard's $14.1 billion offer for Allied Domecq, the big liquor producer.

Allied Domecq said on Wednesday that it had received a "preliminary approach" about a potential offer from a consortium made up of Constellation Brands and Brown-Forman as well as two private equity firms, the Blackstone Group and Lion Capital.

The consortium has not set a price or made a formal offer, but this type of approach is generally the precursor to a bid. The Constellation-led group hopes to make a formal bid for Allied Domecq soon, executives involved in the process said.

Because Constellation and its partners have indicated that they are interested and could pull together the money for a deal, Allied Domecq is now required to give them the same nonpublic financial information it has provided to Pernod Ricard. Bankers for the Constellation group will use this data in forming any bid.

Analysts were skeptical that Constellation, Brown-Forman and their private equity partners could provide much competition to Pernod Ricard's offer.

"It's going to be very tough for them," said Robert van Brugge of Sanford C. Bernstein & Company in New York. "They're going to have a hard time adding more synergies than Pernod, and on top of that, I have a hard time seeing how they are going to finance" a bid.

Pernod Ricard, based in Paris, estimates that it could achieve $300 million a year in savings by buying Allied, which is based in Bristol, England. Pernod is teaming up with Fortune Brands of Lincolnshire, Ill.

It plans to finance the transaction with a combination of cash from Fortune, bank loans and new shares. As part of the deal, Fortune would acquire 13 brands, including Sauza tequila, Maker's Mark bourbon, Canadian Club whiskey and some California wines, as well as some European distribution rights. It would gain some top brands including Ballantine's Scotch, Beefeater gin, Kahlúa liqueur and Malibu rum.

Constellation's ability to borrow is limited. The company bid $1.3 billion for Robert Mondavi Winery late in 2004 and is now "deeply indebted" because of it, Mr. van Brugge said. Blackstone and Lion Capital, the new name for the European arm of Hicks, Muse, which split from its American parent early this year, are able to raise billions through bank loans.

But bankers said that the two groups were probably interested in Allied Domecq's restaurant subsidiary, which operates the Dunkin' Donuts and Baskin-Robbins ice cream chains, not its liquor portfolio.

Allied Domecq said in a statement that "at this stage it is too early to ascertain whether this preliminary approach will lead to an offer."

Constellation, based in Fairport, N.Y.., is the world's biggest wine producer. The company has been an aggressive acquirer and may be looking to increase its liquor brands after expanding its wine portfolio, analysts said. Brown-Forman, based in Louisville, Ky., owns Jack Daniel's and Korbel, as well as Lenox china and a line of luggage.

**12. Booze Is Back!**

By Andrew Bary - *Barron's Online*

April 25, 2005

**Hard Liquor's popularity is headed up; so are the share prices of some distillers**

FROM NEW YORK HOT SPOTS to Shanghai nightclubs, liquor is enjoying a resurgence that is bolstering the fortunes of Diageo, Brown-Forman and the rest of the spirits industry while giving fits to beer makers like Anheuser-Busch and inspiring last week's $14 billion takeover of Allied Domecq by Pernod Ricard and Fortune Brands.

U.S. liquor consumption rose 4% last year, following a similar gain in 2003, a sharp contrast with the slowing beer business, in which volume was flat in 2004. Spirits-industry revenues increased an estimated 6% last year, as American consumers favored trendy premium brands like Grey Goose vodka, stalwarts like Jack Daniel's Tennessee whiskey and oddballs like Jägermeister, a licorice-flavored liqueur popular with college students, who often down it in straight shots. The developing world also is fertile ground for distillers, thanks to rising demand for Western spirits, notably scotch, in places like China.

Liquor's U.S. market share rose 2.6 percentage points, to 31.3% over the past three years, while beer fell by a similar amount, to 53.2%, and wine was about flat at 15.5%.

"Spirits are taking share from beer," says Bill Pecoriello, Morgan Stanley's beverage analyst. Pecoriello cites flavor innovations, increased liquor advertising, dieting concerns and the popularity of shows like Sex and the City, in which Carrie Bradshaw and her girlfriends made cocktails glamorous by drinking cosmopolitans and green-apple martinis in Manhattan clubs.

A recent consumer survey by Morgan Stanley found that liquor was the No. 1 alcoholic beverage among 21-to-27-year-olds, belying the notion that liquor skews toward the middle-aged drinkers. Spirits are particularly popular among young women, who tend to view cocktails as more fun and less fattening than beer. Liquor is prominent in hip-hop culture, which is influential among young and soon-to-be-legal drinkers. A top-selling rap song a few years ago was Busta Rhymes and P. Diddy's "Pass the Courvoisier."

There's also a cyclicality to the trend; at various times in the past, hard liquor has come into, and gone out of, vogue, just as beer and other beverages have. In addition, the low-carb dieting trend is boosting the spirits industry because vodka, gin and scotch have no carbohydrates, although they do have lots of calories.

The strength in the U.S. liquor business contrasts with its weakness in the 1980s and early 1990s, when Brown-Forman (ticker: BF-B), the maker of Jack Daniel's, felt the need to diversify by purchasing the Lenox china business. Now Brown-Forman wants to sell Lenox to focus on liquor.

Classic cocktails like the martini, Manhattan and gin-and-tonic have made comebacks, while Jack Daniel's and Coke remains a favorite. Younger drinkers like the broad array of cocktails that now feature a variety of fresh fruit juices, liqueurs and wines. "There's a thought among the generation of younger drinkers, especially women, that mixed drinks are less caloric and less filling than beer," says Bryan Spillane, the spirits analyst at Banc of America Securities. "People like to have a unique brand or drink to call their own."

Beer, in contrast, is pretty much beer and generally has plenty of carbs. A worried Anheuser-Busch (BUD) is trying such flavor variations as B to the E, a mix of beer, caffeine, ginseng and the tropical fruit guarana that probably horrifies many beer purists.

In Manhattan, bars and restaurants are trying to outdo one another to create catchy cocktails. All are searching for the next cosmopolitan, a drink that bartenders say has become passé.

"The entire [liquor] category is growing," says David Gordon, the beverage director at Tribeca Grill and Nobu, two popular Manhattan restaurants. "Vodka is still king, but tequila and aged rum are growing." At Nobu, a vodka martini with sake is popular, as well as vodkas that are infused with fruit and other flavors. Gordon notes that few restaurants had cocktail menus five years ago. "Now people come to the bar and want to see a cocktail list," Gordon says. Nobu has a range of specialty cocktails priced at $12.

Over at the crowded Sunburnt Cow in New York's trendy East Village on a recent Saturday night, one of the favored drinks was the "Boomer Beach," a mix of Mango-flavored Stolichnaya vodka, Southern Comfort, orange juice and lime, as well as a late-night special, the "Dirty Mother" -- Kahlua, tequila and fresh milk. Of course, there are age-old reasons that people prefer liquor. "People want to get drunk and get drunk fast," says a bartender at the Sunburnt Cow.

The contrasting fortunes of the liquor and beer businesses are evident in two stocks, Diageo (DEO), the British-based spirits giant, and Anheuser-Busch, which makes Budweiser and has half of the U.S. beer market. Diageo shares recently hit a 52-week high of 60 and are up 7% in the past 12 months, while Anheuser-Busch sits at 47, near a 52-week low, after warning Wall Street that 2005 earnings would fall below analysts' estimates. Anheuser, which used to turn out solid earnings gains every year, may show no profit growth in 2005. However, at least one big investor seems to view its stock as a bargain. Last week Warren Buffett's Berkshire Hathaway (BRK-A) bought what Anheuser called a "significant" stake in the brewer.

The increasing allure of spirits is apparent in the deal announced Thursday for the No. 3 global liquor producer, the U.K.'s Allied Domecq (AED), by France's Pernod Ricard (PDRDY.PK) and the U.S.'s Fortune Brands (FO).

With the transaction, Pernod, the No. 2 global spirits company, will get key Allied brands like Ballantine's scotch, Kahlua liqueur and Beefeater gin. To help finance the largely cash deal, Pernod will sell certain Allied brands to Fortune Brands, include Courvoisier cognac and Canadian Club whiskey, for more than $5 billion. Allied Domecq's U.S.-traded shares changed hands Friday at 50, up 27% this year.

THE CONSOLIDATION of the still-fragmented liquor business reflects an effort by rivals to counter the growing power of Diageo, a formerly diversified food-and-beverage conglomerate that has become the world's top liquor company with an arsenal of leading brands, including Smirnoff vodka, Johnnie Walker scotch, Captain Morgan rum, Jose Cuervo tequila and well as Guinness beer.

Most of the liquor industry's top players are European and many are under family control, including Pernod, privately held Bacardi and Brown-Forman, which made Jack Daniel's a global giant.

"The persistence of family control reflects the inherent cash-generating power of these businesses. Once you have a portfolio of dominant brands, the business can grow over the generations without the family having to give up control," says Thomas Russo, a partner at Gardner, Russo, Gardner, a Lancaster, Pa., firm that holds several spirits stocks, including Pernod and Brown-Forman. Russo asserts that family dominance gives a beneficial Warren Buffett-like quality to the industry, making executives think and act like owners.

A major attribute of the spirits business is that the best brands -- Johnnie Walker, Jack Daniel's, Chivas Regal and Smirnoff -- are among the few consumer products besides Marlboro cigarettes and Coca-Cola that have worldwide appeal. Chocolate and most other foods don't travel well outside their home countries.

Scotch's popularity is languishing in the U.S., but it's rising internationally, even in Russia, the home of vodka. China, long a tabula rasa for the Western spirits industry, could develop into a huge market. One of the hottest drinks in Shanghai clubs is a mixture of Chivas Regal scotch and green tea. Chinese sales of Chivas and Johnnie Walker rose over 50% last year. The Chinese prefer the more expensive Johnnie Walker Black, even though red, the color of Johnnie Walker's lower-priced brand, is considered lucky in China.

The wine industry has been a tougher place to invest in than spirits because it's harder to establish durable and profitable wine brands, although the acquisitive U.S. wine leader, Constellation Brands (STZ), has been a success.

While established liquor brands have staying power if nurtured properly, there's room for newcomers. Take Grey Goose. That super-premium vodka didn't appear until the late 1990s, but last year it sold 1.8 million cases, up 25% from the prior year, according to Adams Beverage Group. Each case contains a dozen 0.75-liter bottles. Credit for Grey Goose's success goes to an industry impresario and marketing genius, Sidney Frank.

The 85-year-old Frank, who also controls the U.S. rights to Jägermeister, created an aura around Grey Goose through clever marketing, even though most drinkers can't tell the difference between various vodkas in most cocktails. "We built the brand from nothing," Frank said. He realized that given Grey Goose's cachet, price was no impediment to sales. "We charged $30 a bottle. The next competitor was Absolut at $15. The consumer thinks that if it's the highest priced, it's the best. The difference between $15 and $30 is profit."

Frank cashed out by selling Grey Goose to Bacardi for more than $2 billion last year, a stunning 20-plus times estimated pretax cash flow. Frank also turned Jägermeister into a hot brand -- its sales were up 38% last year to 1.8 million cases -- even though many drinkers can barely tolerate its licorice taste. College students have turned Jägermeister into a phenomenon.

Because of long-standing self-imposed advertising restrictions, the liquor industry has become adept at "on-premise marketing," which often means sending attractive women to hot spots favored by young men. Jägermeister has an army of 1,200 "Jagerettes," plus some "JagerDudes," who appear at straight and gay bars.

An impediment to U.S. sales growth for the major distillers has been the byzantine network of distributors that act as middlemen between liquor producers and retailers. Using the leverage of its many popular brands, Diageo has prodded distributors to create sales teams dedicated solely to its products. It's already reaping rewards from the strategy, modeled on that of Anheuser-Busch, whose powerhouse domestic distributor network played a key role in doubling its beer market share to 50% since the 1970s.

Diageo's stock-market value of $44 billion is well above Anheuser's $37 billion, but the company isn't familiar to many U.S. investors, even though it gets about 35% of its profits from North America and controls an industry-leading 25% of the U.S. spirits market. Diageo's fans like its brands, its CEO, its financial management, its shareholder orientation and its valuation.

"Diageo has a very attractive business model," says Kurt Funderburg, an analyst with Harris Associates, one of the Diageo's largest U.S.-based investors. "The company throws off a lot of free cash. Rather than make a lot of acquisitions to get bigger, Diageo is paying a significant dividend and buying back shares."

At 60, Diageo now trades for about 16 times projected calendar-year 2005 profits of $3.75 a share, a discount to most big global food and household-products companies, which fetch an average of 18 times 2005 profits (Diageo operates on a June fiscal year, but Barron's is using an annual profit total to facilitate comparisons). The stock has a dividend yield of 3.5%.

Diageo was formed from the 1997 merger of Guinness and Grand Metropolitan. It has since narrowed its focus to alcoholic drinks by the well-timed sale of Pillsbury to General Mills in 2001 for $10 billion, the divestiture of Burger King in 2002 and, importantly, the purchase for $5 billion of several key brands from Seagram, including Captain Morgan and Crown Royal, in a 2001 deal.

The moves bear the imprint of Diageo's CEO, Paul Walsh, a maverick from the Manchester area who lacks the "OxBridge" pedigree of much of the British business establishment. Walsh essentially swapped out of the slow-growth food business at an attractive price and bolstered Diageo's position in liquor at a reasonable price with the Seagram deal. Diageo's worldwide distribution has benefited the Seagran brands, which had been undermanaged under the Bronfman family.

Says Adam Seessel, head of Gravity Partners, a New York investment firm that owns Diageo stock: "Walsh understands capital allocation and market power. When you get down to it, that's all you really need to know as a CEO."

Walsh has indicated that Diageo is in no rush to make wine and liquor acquisitions because prices are getting high. Part of his reluctance reflects Diageo's size and the likelihood that a major deal would produce antitrust problems.

Nick Rose, Diageo's chief financial officer, says that "because we're not in a business that requires a lot of capital expenditures, we'd rather return most of our free cash flow to shareholders in a reasonable dividend payout and a healthy level of share repurchase each year." He notes that Diageo has stringent financial hurdles for acquisitions and that the price Bacardi paid for Grey Goose "wouldn't have come near our targets."

On the Allied Domecq takeover, Rose comments: "We're going to keep our heads down and focus on generating organic growth in our own business. We'll see if Pernod and Fortune Brands can execute quite a difficult business combination across hundreds of markets. It's a challenge."

Diageo's fans believe that the company is reaping the benefits of the Seagram acquisition and its global distribution power. Diageo's profits in the final six months of 2004 rose 8%, as sales increased 5% to $9.5 billion. The company is targeting 6% underlying profit growth for the full fiscal year ending in June. The bull case is that Diageo is capable of mid-single-digit annual revenue growth and 8% to 11% yearly profit increases, which stacks up well against the food industry, where most companies can realistically look for 5% to 7% annual earnings gains.

The two biggest growth areas for the spirits industry are the U.S. and the emerging markets. Europe is tough because the population isn't expanding and legal changes, such as smoking bans in Irish pubs, have crimped demand. The U.S. population is growing and is younger than Europe's. The expanding ranks of Americans 50 or older, along with 21-to-27-year-olds, bode well because both groups drink more spirits than other age segments. U.S. "ethno-graphics" also are bullish. Americans turning 21 -- and hitting the legal drinking age -- are disproportionately non-white, relative to the overall population. And blacks and Hispanics tend to drink more liquor than whites.

Cognac is popular among blacks. Which helped inspire Busta Rhymes' rap hit, "Pass the Courvoisier." Many of the lyrics are unprintable in Barron's, but the chorus starts: "Give me the Henny. You can give me the Cris. You can pass me the Remi. But pass the Courvoisier." Henny refers to Hennessy cognac, Remi to Remy Martin cognac and Cris to the expensive Cristal champagne.

Vodka remains the most popular liquor in the country, accounting for more than 25% of sales, followed by various whiskies, rum and scotch.

Liquor makers also are being helped in the States by increased advertising. From 1948 to 1996, spirits makers had a self-imposed ban on TV advertising. Since then, liquor ads have become increasingly common on cable TV, although the network-owned stations still won't allow them.

On a recent New York Yankee broadcast, there were TV ads for Grey Goose and Jack Daniel's, with a Johnnie Walker ad plastered behind home plate. Seeking to avoid government-inspired sanctions that have ended most cigarettes ads, liquor companies are taking such steps as avoiding Joe Camel-type cartoon characters that might appeal to kids, using mature actors and models and emphasizing a "drink responsibly" message.

OTHER BARRIERS ARE CRUMBLING. Nascar allowed liquor companies as sponsors for the first time last year, and there were Jack Daniel's and Jim Beam cars in the Daytona 500 in February. Nascar is a perfect venue for Jack Daniel's because the "Nascar nation" states account for about half of the brand's sales.

Brown-Forman is considered one of the industry's jewels and would make a tempting acquisition target for Diageo if the controlling Brown family ever decided to sell. One of the few areas where Diageo is weak is in bourbon. But a sale of Brown-Forman seems unlikely, based on the family's stated desire for independence.

In the meantime, investors can take comfort in Jack Daniel's 9% volume growth last year. The Tennessee whiskey -- it's technically not a bourbon -- sold 7.7 million cases last year, including 3.5 million outside the U.S. Sales abroad are up 45% in the past five years. In one of the industry's greatest deals, Brown-Forman bought Jack Daniel's in 1956 for $17 million. The company's market value of $6.7 billion is mostly attributable to Jack Daniel's.

"Jack Daniel's is one of the world's best brands," says Spillane of Banc of America Securities. "Truly powerful brands have pricing power globally. A shot of Jack Daniel's costs as much in Korea as it does here."

Brown-Forman shares, at 55, aren't cheap, trading for 21 times estimated calendar 2005 profits of $2.63 a share (the company is on an April fiscal year). Yet the company's earnings have grown at a 10% rate in the past three years and could rise at similar pace in the coming years. Brown-Forman's earnings arguably are understated because the company is spending heavily to market and distribute Jack Daniel's overseas.

Pernod, the maker of Chivas, Martell cognac, Seagram's gin and Ricard anis, trades for €122 on the Paris Bourse, roughly 16 times estimated 2005 profits of €7.50. Unlike Diageo, Pernod has a modest presence in the U.S. and so is more dependent on emerging markets for growth.

Fortune Brands produces Moen faucets and Titleist golf balls as well as spirits and wines. The company, whose shares recently traded at around 87, offers a diluted liquor play because earnings from wine and spirits account for just 30% of profits.

Yes, the spirits industry could be hurt by changing consumer tastes and a regulatory backlash. But liquor appears to have a bright future as an affordable luxury in much of the world. Diageo offers the broadest exposure to the industry, while Brown-Forman offers a play on a great global brand. That's why investors should keep toasting both companies' shares.

