

Distressed Finance in the Beverage Industry: What Companies Need to Know Now

By Joseph T. Moldovan, David J. Kozlowski, Heath D. Rosenblat, and Loren Scolaro

Introduction

Softening demand, generational shifts in consumption, and broader economic headwinds are reshaping the financial landscape across the beverage industry, leaving craft brewers and distillers, multinational producers, restaurant operators, and their supply chain partners facing increasing liquidity and restructuring challenges. Companies carrying debt structured on pre-2024 assumptions should be evaluating their options now, before a liquidity crunch limits them. Forbearances, loan modifications, refinancings, debt-to-equity conversions, and Chapter 11 reorganizations are all actively being deployed in this space; companies acting earliest are positioning themselves to preserve the most value.

A Market Under Pressure

The Gallup organization's 2025 consumption survey found that the share of [Americans who report drinking alcohol has fallen to 54%](#), the lowest figure in Gallup's nearly 90-year trend, down from 62% in 2023. Those who do drink report drinking less: average weekly consumption among drinkers fell to 2.8 drinks, the lowest reading since 1996. The impact is hitting profits and noticeable on income statements. According to the food service research firm Technomic, [31% of restaurant operators reported "severe declines" in alcohol sales in 2025](#), and as the New York Times reported on March 17, 2026, restaurants that have traditionally relied on high-margin alcohol sales to subsidize food costs are finding that financial model increasingly untenable.

For companies that financed operations based on pre-downturn projections, these trends translate directly into balance sheet problems. Existing debt may be misaligned with current revenue, and retooling operations requires capital that may not be readily available.

For restaurants, alcohol has traditionally been the most profitable part of the business: shelf-stable, labor-light, and high-margin relative to food. As those margins erode, the financial model many operators built around it is beginning to break down. One New Jersey restaurateur described watching his revenue mix shift from 60% alcohol and 40% food to the inverse over a two-year period before ultimately closing. The pattern is not limited to independents; the structural shift affects every category from fine dining to casual establishments.

These market pressures extend well beyond restaurants too. On the production side, supply is outpacing demand. Kentucky distillers are sitting on surplus aging inventory, and Jim Beam paused distilling at its Claremont main campus for the entire 2026 calendar year, even as bottling, warehousing, and visitor operations continue. And the American craft beer sector has seen a wave of closures, mergers, and downsizing.

Several structural factors are driving these conditions. [Gen Z consumers drink roughly 20% less than millennials](#), and millennials themselves are beginning to age out of their peak consumption years. [Non-alcoholic beverages have grown into a billion-dollar category](#), but they are not a financial substitute: operators report that NA cocktails require the same labor as their alcoholic counterparts, yet consumers resist paying comparable prices. Cannabis legalization continues to expand alternatives, with THC beverages increasing in popularity in those legalized states. Emerging research also suggests that GLP-1 medications, now used by an estimated 6% of American adults, may suppress alcohol cravings. A February 2025 randomized clinical trial published in JAMA Psychiatry found that [low-dose semaglutide reduced craving and drinks per drinking day in adults with alcohol use disorder](#), and an April 2026 NIH-

supported trial reported further [reductions in heavy drinking days when GLP-1 therapy was paired with cognitive behavioral therapy](#).

Macroeconomic pressures compound the picture. Tariffs and cross-border boycotts, including the Canadian retail boycott of American whiskey, have squeezed importers and exporters. Consumers are trading down from premium spirits to canned alternatives. And while e-commerce continues to grow as a share of sales, the industry's regulatory complexity slowed digital adaptation.

Restructuring Options in Play

Forbearance and Loan Modification

The simplest restructuring tool is often the most effective. Negotiating temporary debt service relief, whether through forbearance or a formal loan modification, can free cash for operations without the cost or complexity of a new financing. Borrowers who approach lenders proactively, before arrears accumulate, are in a materially stronger negotiating position.

Forbearance provides for a lender to suspend enforcement of existing defaults for a defined period, often with adjusted payment schedules, without altering the underlying loan terms. Loan modifications go further, permanently changing terms such as interest rate, amortization, payment schedule, maturity, or even principal balance.

Recent example: After a difficult transition period when switching its production and logistics partner, Blue Ribbon (maker of Pabst) amended its credit agreements to reduce cash interest and principal amortization in exchange for higher PIK interest. In February 2026, [S&P moved Blue Ribbon out of selective default and assigned a 'CCC' rating](#); an upgrade that nonetheless reflects continued substantial credit risk.

Refinancing and Out-of-Court Restructuring

When a loan modification cannot address the full scope of a company's financial needs, more significant out-of-court restructuring may be necessary. Options include takeout refinancing into new debt on better terms, converting revolving credit facilities to term loans, conducting cash-out refinances for additional liquidity, and executing debt-to-equity conversions.

Recent examples: Sazerac issued a \$1 billion term loan in June 2025 to refinance revolving credit obligations after a [series of acquisitions strained Sazerac's liquidity](#), and the company subsequently announced more than [\\$1 billion in additional U.S. production investment](#) in October 2025. [City Brewing](#), under volume pressure as Pabst diversified its contract brewing capacity to AB InBev in 2025, converted approximately \$120 million in debt to equity and closed a \$65 million ABL facility in August 2025.

Chapter 11 Reorganization

For companies facing acute distress or regulatory complexity, Chapter 11 of the bankruptcy code provides powerful tools. For example, the automatic stay halts creditor action; Section 363 enables free-and-clear asset sales (including the disposition of liquor licenses across multiple jurisdictions, subject to applicable state ABC approval processes); and the plan process can comprehensively restructure obligations in ways not achievable out of court. Sections 1113 and 1114 also provide mechanisms for addressing collective bargaining agreements and retiree benefit obligations, an important consideration for the many unionized producers in this industry.

Smaller operators should also consider utilizing Subchapter V of Chapter 11, which offers a streamlined and less expensive reorganization path. The non-insider debt limit to use Subchapter V is \$3,424,000. Legislation to increase this current cap to \$7.5 million threshold is pending in Congress, but operators should plan around the current cap unless and until an increase is enacted. As mentioned, the debt cap does not include insider—parent company, or large stakeholder financed—debt.

In practice, many of the recent beverage-industry Chapter 11s have functioned primarily as vehicles for distressed asset sales rather than traditional reorganizations.

Recent examples: [Bar Louie used its March 2025 Chapter 11 filing](#) in the District of Delaware to conduct a multi-location asset sale, including streamlined disposition of liquor licenses the buyer did not assume. [Luca Mariano Distillery entered Chapter 11](#) with approximately \$35 million in debt and pursued a court-supervised sale process covering the distillery, real estate, and aging whiskey inventory; the debtors withdrew their sale motion on April 7, 2026, and indicated they would file an amended plan of liquidation. Similarly, the initially jointly-administered Stoli Group (USA) and Kentucky Owl Chapter 11 cases have gone through a gamut of procedural moves and contested cash collateral disputes with Fifth Third Bank. A failed amended plan and motions to convert to Chapter 7 have resulted in the separation of the cases and the appointment of Chapter 11 trustees who are overseeing the winddown of the businesses and mechanisms for creditor recoveries.

What Companies Should Be Doing Now

As in any distress cycle, companies that act sooner rather than later increase the odds of preserving the most value. Whether you are a producer, distributor, restaurant operator, or financial stakeholder in the beverage sector, the current environment demands a candid assessment of financial exposure. Companies should be stress-testing their debt structures against realistic demand forecasts, engaging lenders early and proactively, and understanding the full range of restructuring tools, particularly out-of-court options that can be implemented quickly.

Distillers and other producers with multi-year aging inventory should pay particular attention to lender collateral controls. The Stoli cases are a reminder that a secured lender's ability to freeze barrel movements at third-party warehouses can compress timelines and force decisions before management is ready to make them. Reviewing barrel storage agreements, intercreditor arrangements, and notice provisions before defaults and/or enforcement efforts is far less expensive than litigating them later.

Counterparties and creditors face the same imperative: evaluate the financial health of beverage-industry partners and know and understand your rights and options if conditions deteriorate. Last call comes faster than most operators expect.

Key Contacts

Morrison Cohen's Bankruptcy, Restructuring & Governance Group advises debtors, creditors, acquirers, and other stakeholders across the full spectrum of distressed situations. If your company or a counterparty is navigating financial stress in the beverage industry or any other sector, we can help you evaluate your options and act decisively.

Joseph T. Moldovan
Partner & Chair, Bankruptcy, Restructuring & Governance

D 212.735.8603
jmoldovan@morrisoncohen.com

Heath D. Rosenblat
Partner

D 212.735.8757
hrosenblat@morrisoncohen.com

David J. Kozlowski
Partner

D 212.735.8825
dkozlowski@morrisoncohen.com

This document is attorney advertising only and is provided for informational purposes only as a service to clients and other friends. This document does not constitute legal advice. Reading or receiving this document does not create an attorney-client relationship, nor should the information in the document be deemed to be provided to you confidentially. Please contact one of our attorneys should you wish to engage Morrison Cohen LLP to represent you, so that an attorney-client relationship may be established between our Firm and you. Prior results do not guarantee a similar outcome.