

WHO'S DRIVING THIS FLYING UMBRELLA?

Craft Industry Update, Fall 2019

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I. DEALS DEALS DEALS: M&A RESHAPES CRAFT, CONTRIBUTES TO FLUX



YEAR OF BIG DEALS



AB CLAPS BACK



DEALS SAVE THE DAY!

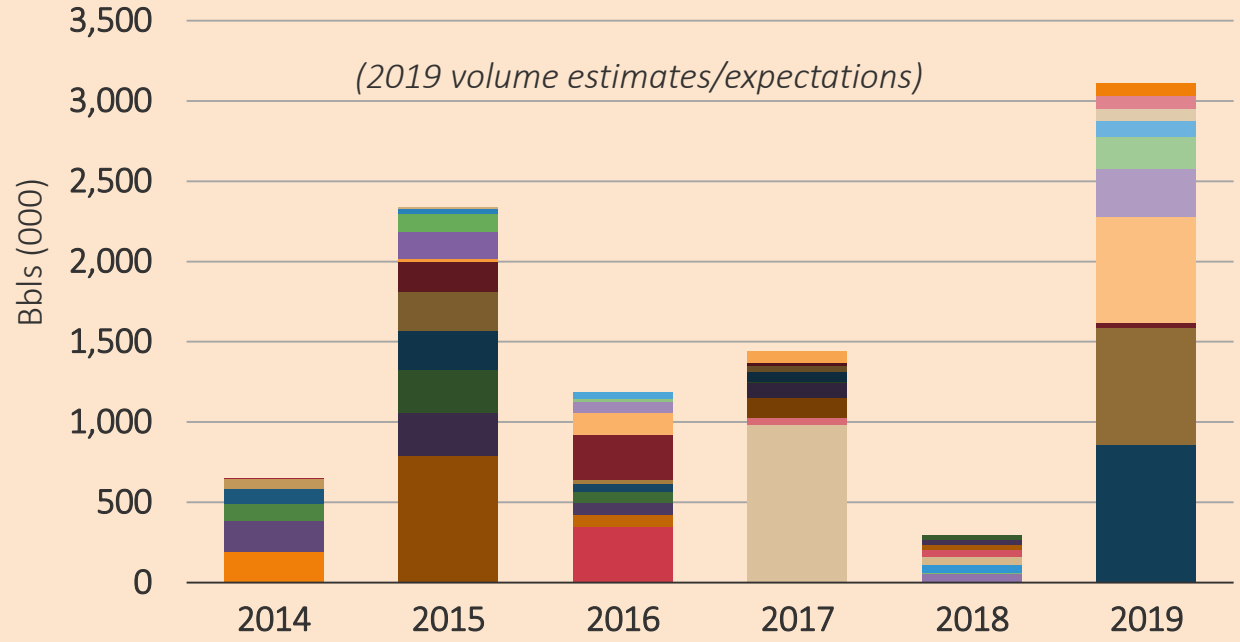


HEAT UP COMPETITION

YR OF BIG DEALS: OVER 3M BBLs-WORTH OF CRAFT DEALS ANNOUNCED

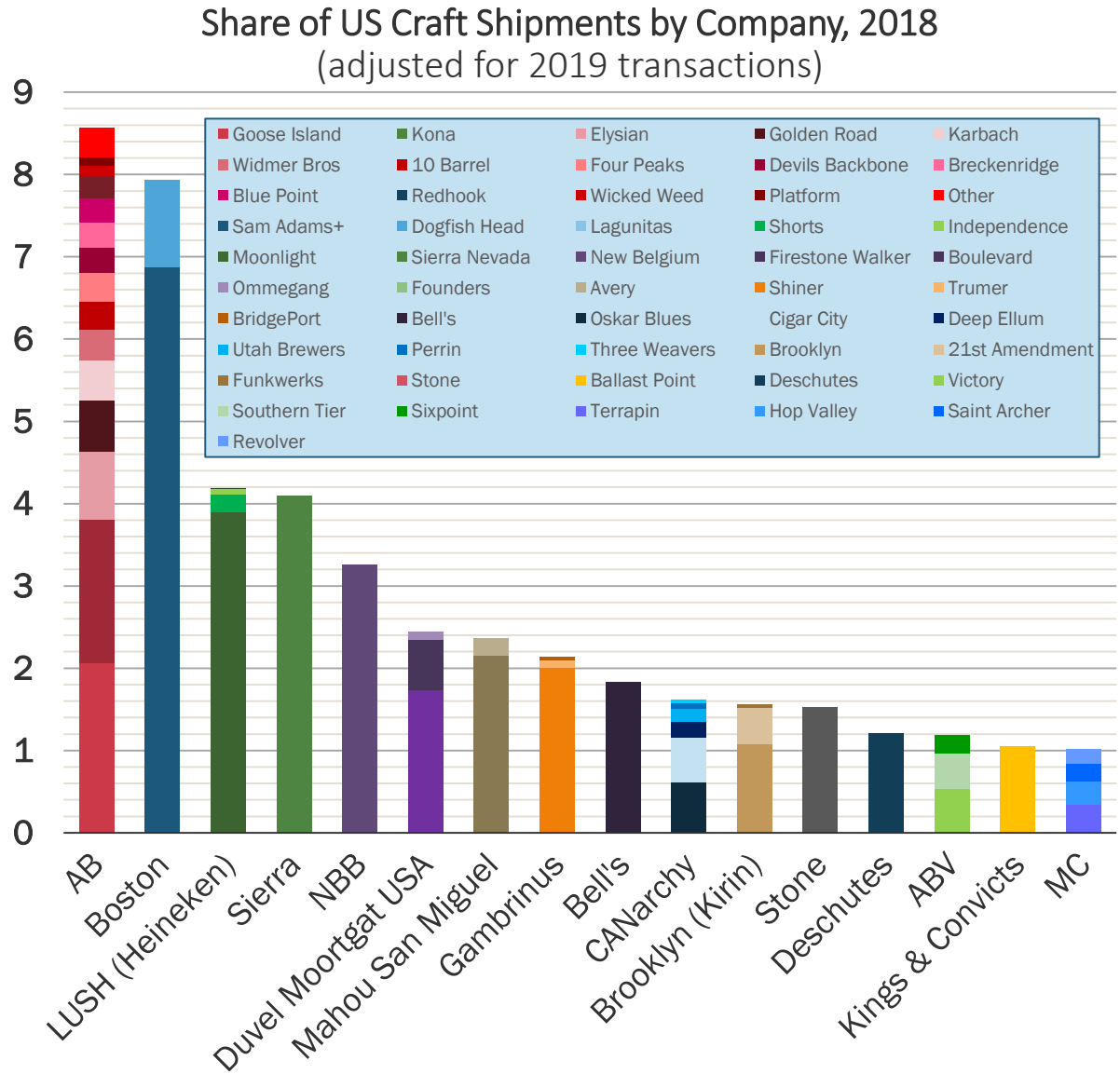
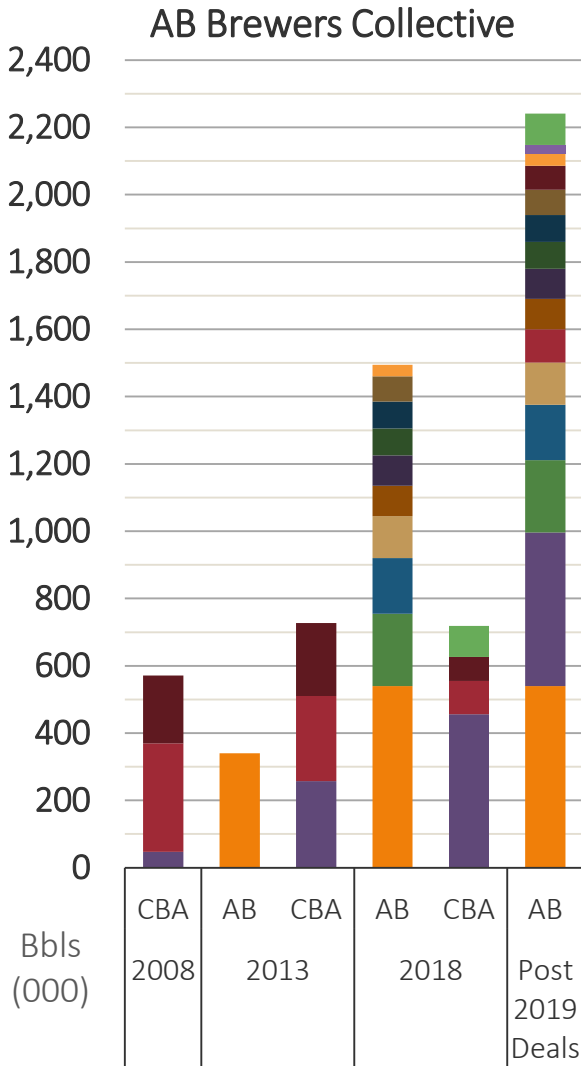
- 2018: year of small deals; PE players, forced sales by banks and CBA's trio of small Eastern US breweries
- 2019: mostly smaller deals early, but now deals announced for craft brewers totaling >3 mil bbls
 - DFH to Boston Beer; LNK gets paid; DFH gets might; Boston gets bigger in beer; \$300M cash/stock
 - AB to buy other 68.8% of CBA for ~\$220M; value in Kona; best bet for CBA
 - Kirin arm Lion Little World Bevs plans to acquire New Belgium outright; more?
 - Constellation to sell Ballast Point to Kings & Convicts (backed by Wine Grp investor); valued at <1/10th of STZ's \$1B deal 4 yrs ago
- Also: Mahou ups stakes; more?
- Legacy platform appears w/ Ninkasi, backed by ERP (REIT with interest in Top Golf, more)

Volume of Craft Brewers Doing M&A, by Year Deals Announced



- | | | | | |
|--------------|-------------|------------|-----------------|--------------|
| Founders | SweetWater | AB | So Tier | Uinta |
| Other | Lagunitas | Ballast Pt | Firestone | AB |
| Dogfish Head | Oskar Blues | Perrin | Abita | Full Sail |
| Saint Archer | Other | Stone | Devils Backbone | Karbach |
| Terrapin | Hop Valley | Revolver | Brooklyn | Victory |
| Cigar City | LUSH | Other | Lagunitas | Short's |
| Anchor | 21A | Funkwerks | Avery | Funky Buddha |
| Wicked Weed | Other | Deep Ellum | Three Weavers | CBA |
| Sixpoint | Green Flash | Smuttynose | Four Corners | Other |
| New Belgium | CBA | Platform | Mahou | Dogfish Head |
| Ballast | Ninkasi | Uinta | Gordon Biersch | Other |

AB CLAPS BACK: WILL BE #1 CRAFT PORTFOLIO AFTER 2019 DEALS



SOME DEALS SAVE THE DAY, MANY FOLLOW OTHER TRANSACTIONS

Deals Follow Deals, Capital Outlay (Debt)

- Every major deal in 2019 followed another prior deal, a set of expansions requiring significant debt or both (Mahou stakes; DFH/LNK; Platform locations; CBA/AB, NBB/ESOP & NC brewery; Ballast)
- Smaller deals often caught up in bankruptcy proceedings (Empire/Feldmeier) or for otherwise “distressed assets”
- Tactics taken to get an outsized share of craft growth in 1st half of decade led directly to ways breweries navigate slower craft growth and to transactions in 2nd half of 2019

Valuations Down from 2015, Vary Considerably

- Two public transactions reset valuations:
 - DFH: ~\$300M (“reasonable” multiple, sez Street; \$1000/bbl; 10-13X EBITDA)
 - CBA: ~\$220M (68.8%; low per bbl, hi earnings multiples)
- Distressed asset deals much lower; NBB’s ESOP a major part of its valuation; assuming debt
- \$1B for Ballast in 2015; \$60-80(+/-) mil in 2019

International Opportunities? Perhaps...

- International brewing conglomerates seen as creating export oppys for acquired US players
- But rest of world has own homegrown craft and large players got a relative head start elsewhere (compared to late entry in US craft)
- Instead, US craft profit pool easily largest in the world, a must-play, must-win segment in global beer competition (look out for Kirin/Lion: big war chest for more deals)

More Portfolios; Small, Local Deals Common

- Acquiring US craft about building a portfolio of high end brands with growth potential in existing markets; any distributor will tell you: beer is a local biz
- US portfolio plays aim at same target, with different strategies: CANarchy (natl platform; “fresh”), ABV (deep in the east), Legacy (natl hub-and-spoke)
- Local deals (some we’ll never hear of) most common as breweries change hands or close, replaced by others



DISTRIBUTOR CONSIDERATIONS

everyone wants one network; trading brands sometimes easy, other times not
the ability/cost to move brands impacts brewery valuations



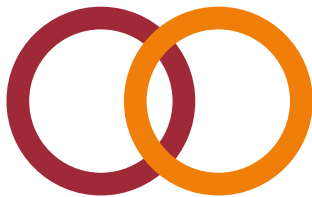
SALES FORCE FLUX

more feet hit each street, each representing more brands



MORE MUSCLE/MONEY IN EACH MARKET

bigger players have bigger budgets; if craft is local, so is the spend?
giveaways increase the costs of doing business



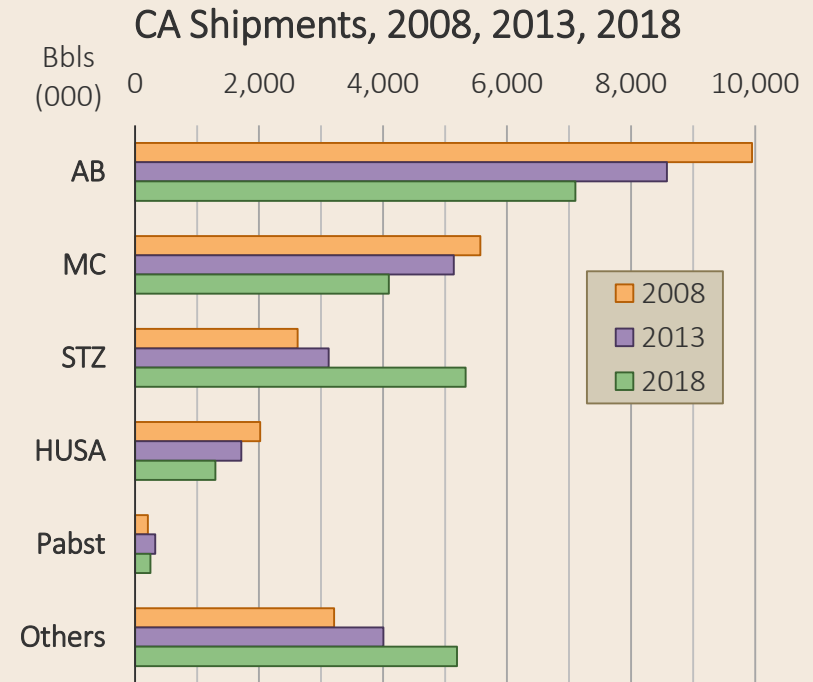
PARTNERSHIPS/SPONSORSHIPS

brand tie ups, collaborations & big-time sports deals (AB)

CALIFORNIA SHAKEUP: REYES DISTRIBUTES NEAR 40% OF CA VOLUME

TOP PLAYERS LOSE SHARE OF SHRINKING CALIF BIZ

- Total shipments in CA down about 500K bbls 2015-2018, -1.9% to under 23.3 mil bbls
- In 2019, CA shipments down steeper, -3.9% and 711K bbls for 9 mos, per Beer Institute
- AB+MC lost 17.7 share here in 10 yrs from almost 2/3 of biz to less than 1/2; over same period Constellation volume & share more than doubled to 5.3 mil bbls, near 23 share; it's #1 by \$\$ in off-premise scan data with over 30 share



REYES IN CA: 8 DEALS IN 18 MOS, 50 MIL CASES, \$1.15-1.2 BIL

- Reyes' Harbor Dist closed deal for W.A. Thompson in Bakersfield on Fri; >7 mil CE for \$175-200 mil; 3rd deal this yr, including 1st foray in NorCal w/ 26.5 mil CE from DBI; \$650-700 mil total
- Add deals for Beauchamp, plus Constellation biz from 3 AB distribs in SoCal in late-2018 (another half-a-billion-bucks) and Reyes picked up 50 mil CE in last 18 months; \$1.15-1.2 bil
- Reyes now distributes 123 mil CE/yr in CA, or near 9 mil bbls, around 40% of CA biz; where does this end? These deals present oppys for some, challenges for others

II. CHASING CONSUMERS BEYOND THE BOUNDS OF BEER



FRAGMENTING CONSUMER BASE



CROWDING TO SELTZER



KILL HIM!

KING OF 'BEER'

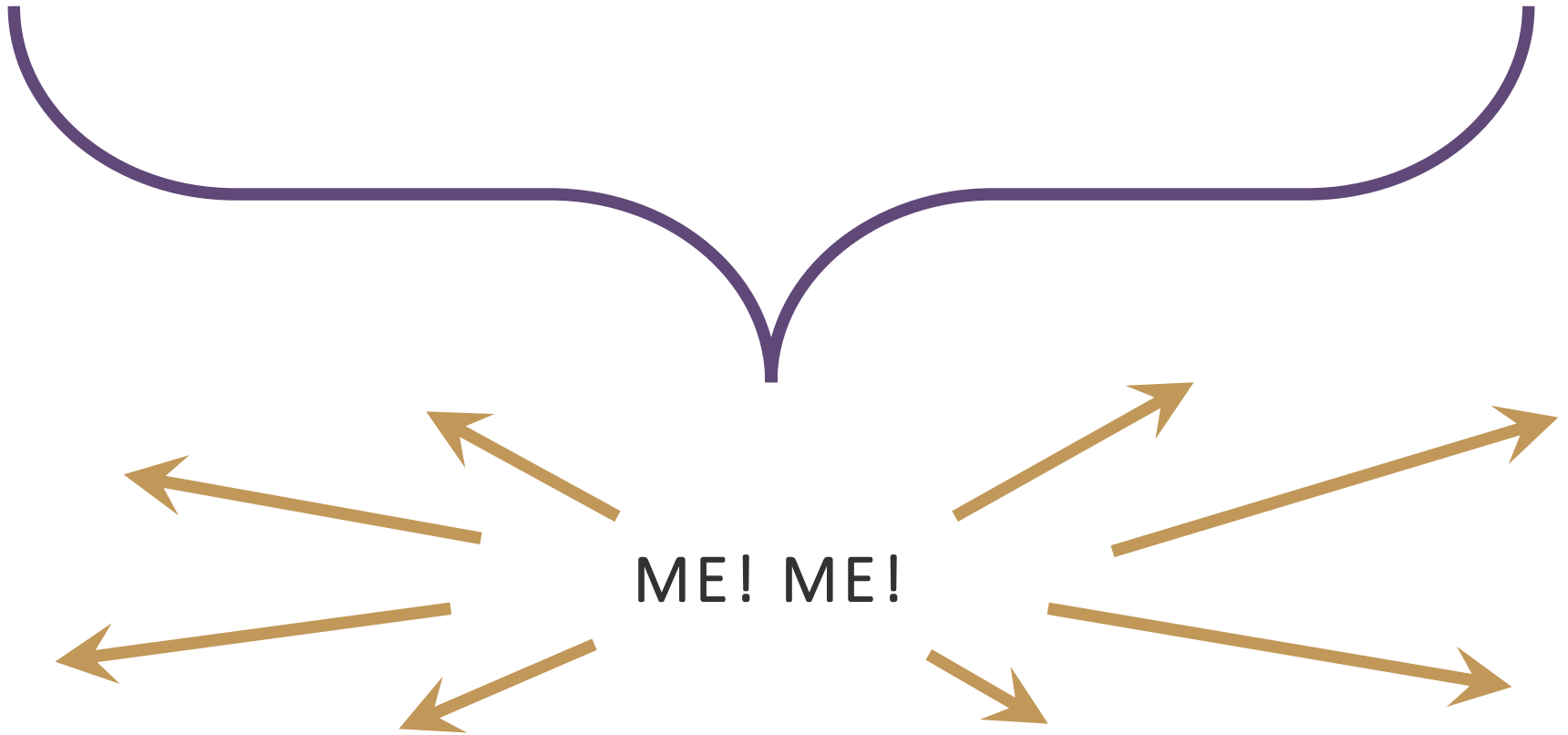


TOPPLING TOP PLAYERS, BRANDS

TWO MAJOR CONSUMER TRENDS FRAGMENTING CPG INDUSTRIES

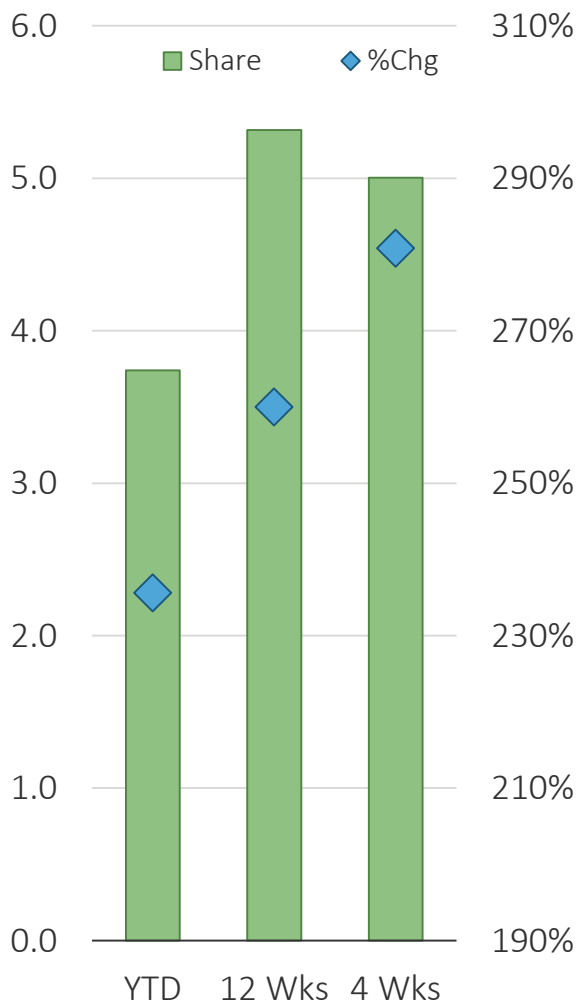
CUSTOMIZATION

BETTER FOR YOU



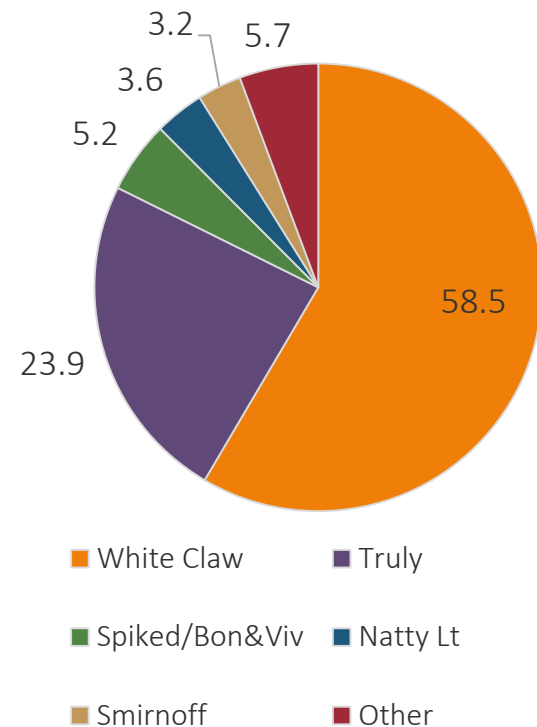
US BEER INDUSTRY CROWDS INTO FAST-MOVING HARD SELTZER

Hard Seltzer \$\$
Trends and Share of Beer



- Hard seltzers had 1 share of off-premise \$\$ in 2018, hit 2 share by Spring, topped 3 share thru Aug; over 5 share during peak summer; still at about 5 share for 4 wks thru Nov 3, near 4 share YTD
- Bigger than “health & wellness”; likely to double+ from 2 mil bbls in 2018; top players believe seltzer could double again in 2020
- More concentrated than beer: White Claw + Truly = 82% (seltzer)
AB + MC = 62% (beer for 9 mos)
- Big bucks from Boston and Mike’s (\$385M on 2 big plants)
- Beer *brands* entering fray: Natty Lt, Bud Lt and Corona seltzers all in market or coming next yr

Share of Hard Seltzer \$\$
(Latest 12 Wks)



IRI Multi-outlet + Convenience, thru 11/3



'BEER' NO MORE: BEVERAGES ARE KING NOW FOR TOP PLAYERS



Total above premium beer
 +9.5% by volume YTD to 11/16
 (Nielsen off-premise scans)

+11% for 4 wks

Must grow strong double-digits
 to gain high-end share
 (even Constellation losing share)

SELTZER SURGE TOPPLES TOP PLAYERS, BRANDS; WHERE IS GROWTH?

<u>SHIPMENTS:</u> (BMI estimates)	2018		9 Mos 2019	
	%Chg	Share	%Chg	Share
AB	-2.6%	41.0	-2.2%	39.6
MILLERCOORS	-4.4%	23.5	-5.3%	22.4
CONSTELLATION	+10.9%	10.0	+4.5%	11.0
HEINEKENUSA	-7.7%	3.5	-6.1%	3.6
BOSTON	+13.7%	2.0	+21.5%	2.6
PABST	-10.0%	2.1	-9.9%	2.0
MIKE'S	+28.3%	1.2	(+75-85%)	
YUENGLING	-1.1%	1.3	(-2-5%)	
DIAGEO BEER	+7.5%	1.2	(+5-7%)	
FIFCO	-1.3%	1.1	(-2-5%)	
BEER	-1.0%		-0.9%	

<u>OFF-PREMISE RETAIL:</u>	Avg \$\$/ Case*	Volume %Chg	\$\$ Share	Chg
BUD LIGHT	\$21.39	-7.4	13.7	-1.4
COORS LIGHT	\$21.13	-3.9	6.1	-0.4
MILLER LITE	\$20.69	-0.3	5.4	-0.2
BUDWEISER	\$21.42	-6.2	4.9	-0.5
MICH ULTRA LT	\$26.70	15.2	6.0	+0.7
MODELO ESPECIAL	\$30.97	17.3	5.6	+0.7
NATURAL LIGHT	\$15.50	-0.2	2.7	-0.1
BUSCH LIGHT	\$15.79	0.7	2.4	-
CORONA EXTRA	\$33.26	0.5	4.8	-0.1
BUSCH	\$16.06	-7.6	1.5	-0.2
WHITE CLAW	\$33.67	298	2.1	+1.5
TRULY	\$48.35	181	1.0	+0.6

Nielsen xAOC + Conv YTD thru Nov 16 (avg \$\$/CE for 4 wks)

TAXPAID SHIPMENTS: -4.3%, 583K bbls in Oct; -1.8%, 2.6 mil bbls for 10 mos

IMPORTS: +2.5%, 774K bbls for 10 mos

TOTAL BEER SHIPMENTS: -1.1%, 1.9 mil bbls YTD thru Oct

DISCONNECT: beer volume flat in Nielsen, +2% in IRI YTD

MORE LASTING IMPACTS OF ENERGY SHIFT “BEYOND BEER”?

DATA: WHERE DO WE PUT THESE BARRELS?

line-blurring challenges data-tracking; are craft-made seltzers craft or FMBS?

REGULATORY: HOW FAR WILL LEGAL INTERESTS SHIFT?

beer, wine and spirits largely treated different by state & fed'l law; will brewers of all sizes getting into cider, spirits, wine, etc. impact laws covering distribution/franchise or even taxes?

CONSUMER INTEREST: WHERE DOES THIS LEAVE “BEER”?

do consumers know what these bevs are, how they're made, who makes them?



do they care?

and what will they drink next?

III. CRAFT NEVERS MOVES JUST ONE DIRECTION



TOPPLING TOP PLAYERS, BRANDS



WIDE TREND VARIATIONS



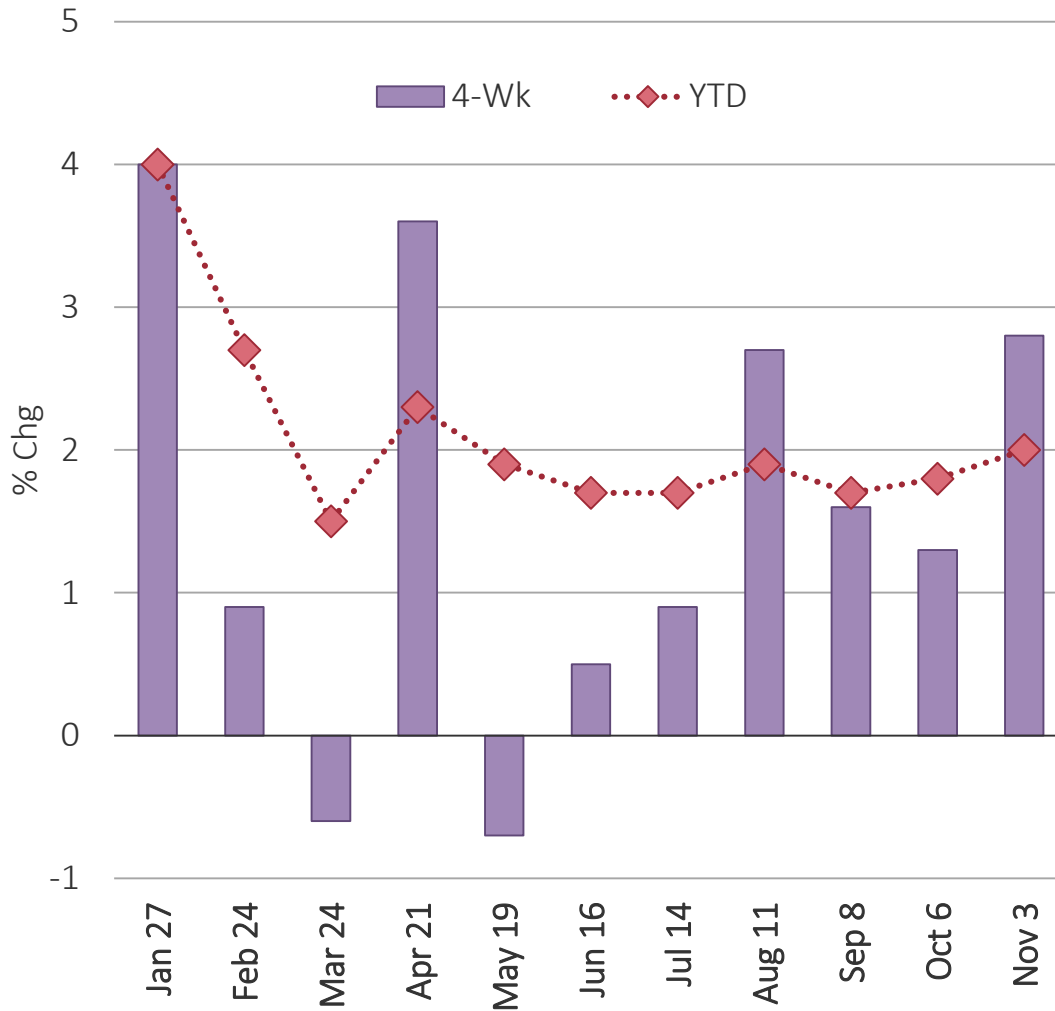
CROWDING TO GROWTH POCKETS



HARD TO CONTROL MESSAGE

LIKE BEER, CRAFT GROWTH CHALLENGED BY FRAGMENTATION

Craft Volume Trends
(IRI multi-outlet + convenience)



Craft volume +2% YTD thru Nov 3

Craft pricing stable, up slightly,
total craft \$\$ sales up low single
digits +3% YTD thru Nov 3

These trends include large brands
from top brewers
(counted w/ superpremiums by BMI)
Blue Moon stable, but Leinenkugel,
Shock Top both down steeply YTD

Without these families, craft trends
improve by about 2 points

MIXED BAG AT TOP; PORTFOLIOS STRONG IN TOTO, VARY UNDERNEATH

IRI Multi-Outlet + Conv thru 11/3	\$\$ YTD	\$\$ Trends (%Chg)	
		YTD	12-Wk
MC*	\$459.7M	-4.8%	-3.3%
AB*	\$342.7M	9.2%	12.4%
SIERRA NEVADA	\$219.3M	3.8%	6.9%
NEW BELGIUM*	\$185.6M	10.0%	15.6%
BOSTON BEER*	\$172.8M	-9.2%	
LAGUNITAS	\$156.5M	1.3%	3.3%
GAMBRINUS	\$107.1M	-6.5%	-4.0%
CBA	\$101.7M	-2.1%	-2.1%
FOUNDERS	\$97.4M	7.1%	-1.9%
CANARCHY*	\$78.2M	27.8%	31.2%
BELLS	\$71.2M	6.3%	7.9%
FIRESTONE WALKER	\$69.9M	21.2%	19.4%
STONE	\$62.5M	-6.5%	-14.3%
SWEETWATER	\$58.4M	5.6%	2.0%
DESCHUTES	\$57.0M	0.2%	-1.2%
ABV	\$48.3M	15.7%	17.5%

*MC includes acquired, Blue Moon, Leinie; AB includes acquired, Shock Top; Boston includes cider, excludes Truly, Twisted & Dogfish Head

MC Craft Brand Families

Blue Moon	-4.8%
Leinenkugel	-16.6%
Terrapin	+21.3%
Hop Valley	+12.1%
Revolver	-1.2%
Saint Archer	+30.4%
acquired total:	+15.4%

Note: Colorado chain sales boost NBB, Breck, more; seltzers/beyond beer juice CANarchy, Golden Rd, more

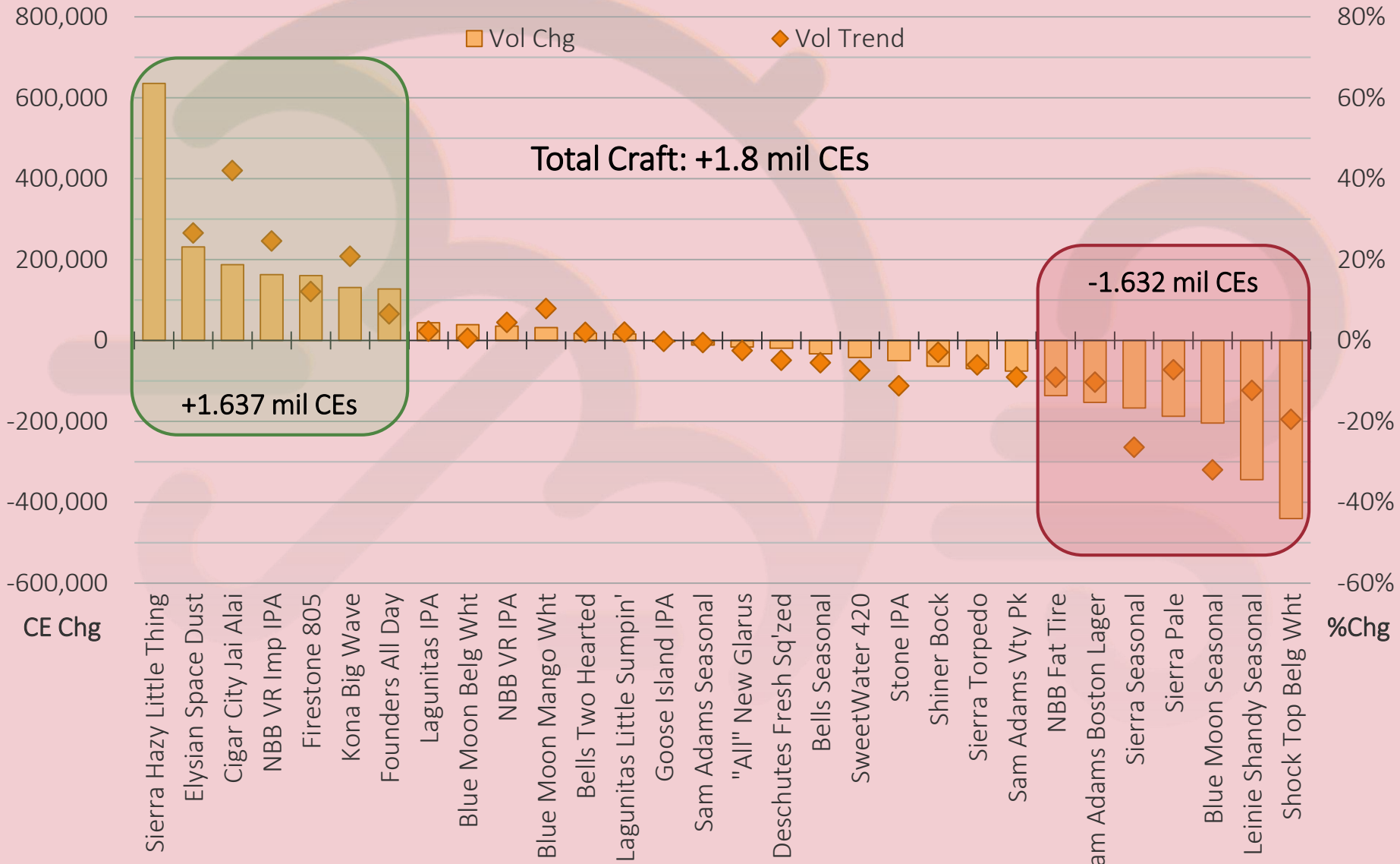
11 of these top craft vendors up YTD; 9 improved for 12 wks

AB Craft Brand Families

Shock Top	-26.2%
Elysian	+18.6%
Goose Island	-3.8%
Karbach	+26.9%
10 Barrel	+6.5%
Golden Road*	+87.6%
Devils B'bone	+16.9%
Four Peaks	+22.3%
Breckenridge*	+69.9%
Wicked Weed	+198%
Blue Point	-4.1%
Platform	+1.8%
acquired total:	+21.5%

TOP BRANDS DOWN OVERALL AS DECLINERS OFFSET GROWERS

Top Craft Brands by Absolute Volume Change (IRI MULC, YTD thru 11/3)



WIDE VARIATION, CALIF CRAFT SPLIT: UP IN NORTH, DOWN IN SOUTH

Nielsen xAOC (no convenience) YTD to Oct 5

SOUTHERN CA

	<u>\$\$ Trend</u>
CRAFT	-6.6%
FIRESTONE 805	+1.4%
BLUE MOON BELG WHT	-9.4%
LAGUNITAS IPA	-12.2%
SIERRA NEVADA PALE	-12.0%
SHOCK TOP BELG WHT	-21.6%
BALLAST PT SCULPIN IPA	-23.6%
STONE IPA	-21.9%
STONE DELICIOUS IPA	-3.4%
ELYSIAN SPACE DUST IPA	+12.2%
KONA BIG WAVE GOLDEN	+8.7%

15 of top 25 craft brands down including 6 of top-7; 10 down double digits

Hazy Little Thing +111% (#12)
Golden Road Tart Mango Cart +76% (#21)
Ballast Point Vty Pk +28% (#22)

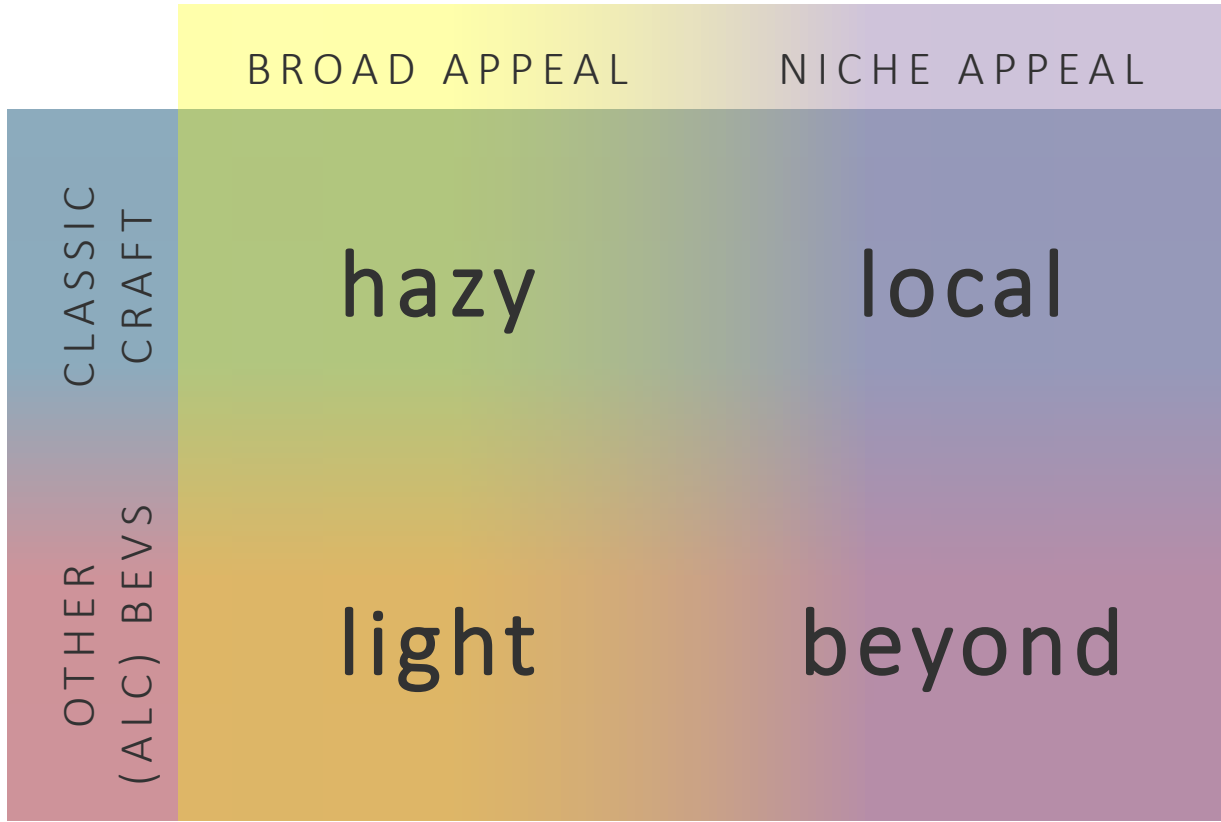
NORTHERN CA

	<u>\$\$ Trend</u>
CRAFT	+1.0%
SIERRA NEVADA PALE	-7.8%
FIRESTONE 805	+9.7%
LAGUNITAS IPA	-6.0%
BLUE MOON BELG WHT	-6.3%
LAGUNITAS LITTLE SUMPIN'	+10.7%
SIERRA HAZY LITTLE THING	+139%
SIERRA TORPEDO	-7.0%
BEAR REPUBLIC RACER 5	-3.8%
SIERRA SEASONAL	-31.2%
LAGUNITAS SEASONAL	-15.6%

14 of top 25 craft brands down incl. big nat'l (Shock Top, Fat Tire, All Day) and local faves (Lost Coast Grt Wht, Anchor Steam)

Elysian Space Dust +38% (#13)
Kona Vty Pk +14% (#21)

BREWERS CROWD INTO GROWTH POCKETS TO GET A PIECE



IPAs +13% YTD to 11/3, +3.4 share of craft \$\$ to 38.6

Top brand declines drive top style declines:

- Belgian Wit -4.5%
- Pale -5.3%
- Amber Ale -9.2%
- Amber Lager -11.3%

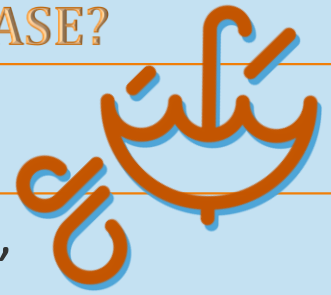
(Seasonal -11%; Variety -3.9%)

No hard and fast lines: many winning combos here

- Golden ales +8%
- “Other Pale Lagers” +18%
- Pilsner +18%
- Craft Light Beer +9%

Fruit/Veggie back to growth, +9%
 driven by mango (Blue Moon, Golden Rd)
 DFH SeaQuench
 Abita Strawberry Lager

DIVERSIFICATION: PRODUCT OFFERINGS OR CONSUMER BASE?



IN YEAR MANY BEER SUPPLIERS DIVERSIFY BEYOND BEER,

INCREASED (BUT LESS) ATTENTION ON HOMOGENEITY
AMONG BEER BIZ OWNERS, LEADERS, WORKERS & CONSUMERS

- Whereas spirits consumers close to a 50/50 gender split, beer consumers still over-index as male
- Many brewers diversifying product offerings; good news: seltzer also reportedly 50/50 male/female

DIVERSIFICATION OF OFFERINGS A KEY WAY TO REACH NEW AUDIENCES

- Well beyond beer biz, a growing group of consumers consider how businesses speak to, hire and treat underrepresented groups, especially racial/ethnic and gender/sexual orientation minorities
- Founders settled racial discrimination lawsuit brought by former employee Tracy Evans after a full-blown PR disaster that hit Michigan press hard, plus nat'l papers like Washington Post, USA Today
 - Total Founders \$\$ sales +7% YTD to Nov 3 in IRI MULC, -9% for 4 wks; volume flat, All Day flat

LOTS MORE ATTN, \$\$ SPENT HERE, BUT STILL NOT A TOP PRIORITY



INSIDE AND OUTSIDE OF BEER, SOME FOLKS TIRE OF THE CHASE

#JOMO

brands from Barefoot Wine to Domino's reject FOMO; Coors Lt "Made to Chill"

self-care
&
de-cluttering

"safe (and reassuringly boring)"

-AdAge on Pantone color of 2020

MANY IN CRAFT DIG IN, FOCUS ON DOING FEWER THINGS RIGHT

- New market announcements few and far between; more about filling in gaps, better serving existing (retail and distrib) partners
- Expanding the consumer base in existing markets instead
- Innovation remains important, but new brand entries less scattershot, either fewer big bets or building new brands slowly
- Refocused marketing
- Bringing in new leadership

In other words, instead of keeping up the chase, some craft brewers choose to be more choiceful.

THANKS!

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