The US Craft Market: Trends & Trajectories

WHERE

(the flocc)

ARE WE?!?

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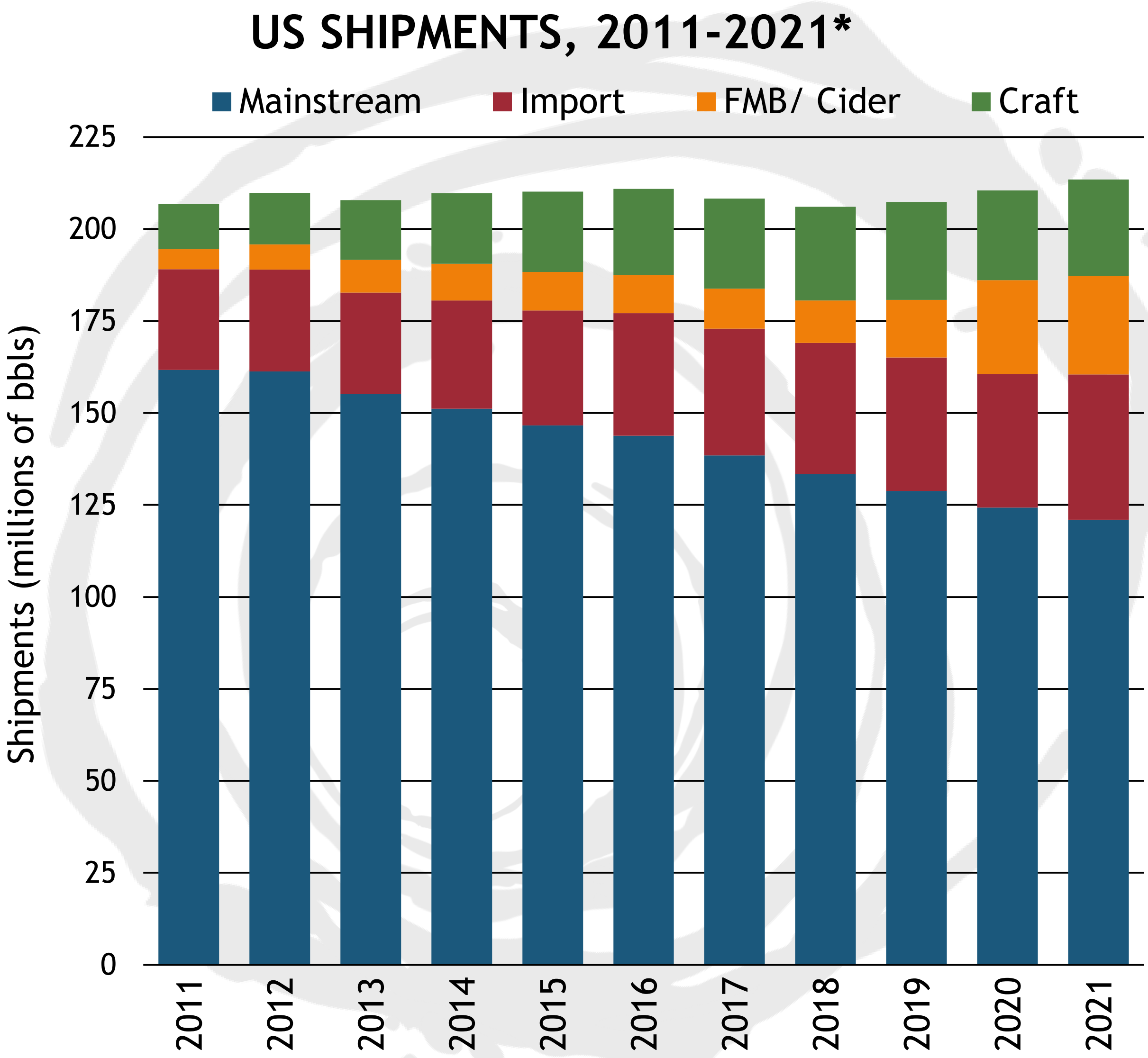
CCBA Spring Conference 2022

icon courtesy IconsGhost from NounProject.com

MEASURING US BEER BIZ SQUISHIER THAN USUAL



- US beer volume up 1.3-1.5%, best trend and gain in a decade!
- But non-beer +15 mil bbls in 3 yrs, 130%, driven by hard seltzer
- Hard seltzer shipments only up slightly in 2021, depletions up strong
- AB, MC shipments way ahead of depletions; Jan-Feb shipments -6%
- Too many 2020 bbls?
- What's the real trend?

*all figures BMI estimates, subject to revision

OFF-PREMISE TRENDS PLENTIFUL, LESS HELPFUL

SEGMENTS				
	Shipments		Off-Premise CEs	
	% Chg	Share	% Chg	Share
Imports	8.5	18.5	1.5	16.8
Craft	7.3	12.3	-6.6	7.7
Superpremium	5.9	9.2	-0.9	8.8
Hard Seltzer			13.0	8.1
FMBs*	5.2	10.9	1.5	5.4
Cider	4.4	1.6	-6.1	0.7
Premium	-0.9	-0.7	-8.6	33.5
Sub-Premium	-10.0	-1.9	-11.3	18.5
Non-Alcoholic	12.8	0.5	19.4	0.5

SUPPLIERS*				
	Shipments		Off-Premise CEs	
	% Chg	Share	% Chg	Share
AB	0.2	38.6	-6.8	43.1
Molson Coors	-2.3	20.2	-9.8	20.9
Constellation	8.0	11.9	3.9	11.8
Boston Beer	15.4	3.9	20.5	4.3
Mark Anthony	-9.7	3.8	-0.5	4.8
Heineken USA	2.2	3.2	-2.5	3.1
Pabst	-1.4	1.7	-12.8	1.4
Diageo Beer	7.1	1.4	-3.2	1.1
Yuengling	9.9	1.2	-0.9	1.0
FIFCO USA	-3.9	1.0	-5.6	1.1
Others	5.9	13.2	-2.3	7.3

**Shipments are BMI estimates, subject to revision; Off-Premise data is IRI multi-outlet + convenience, 2021; Supplier shipments include exports; FMB shipments include hard seltzer*

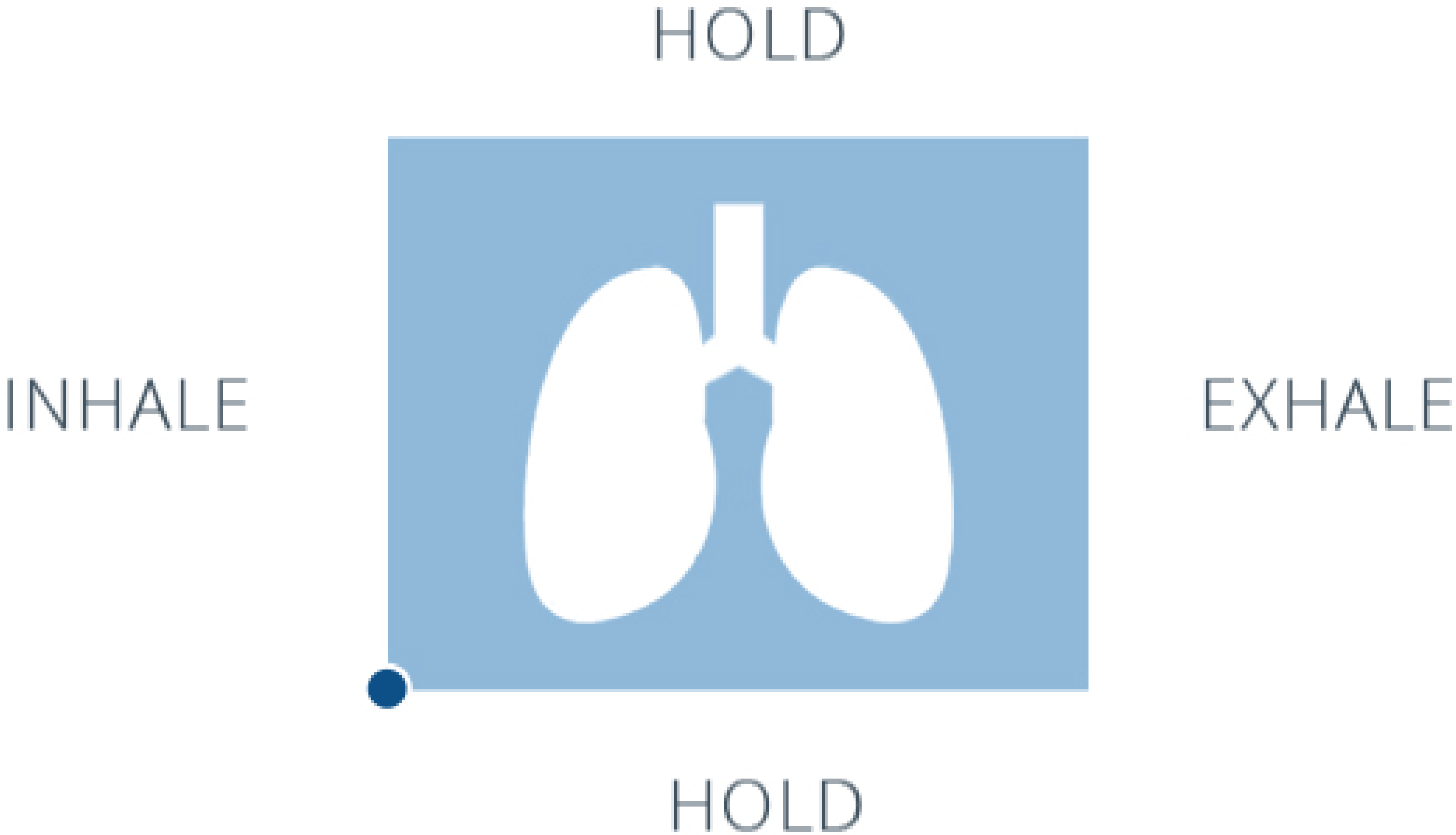
HOW'S RUNNING A BIZ IN THE THUNDERDOME?

MORE COMPETITION

HIGHER COSTS

LESS CLARITY

~~~PAUSE~~~



where are we?

OFF-PREMISE TRENDS SOFT IN CORE MARKETS

SAN DIEGO

($$, IRI multi-outlet + convenience 2021)

	% Chg	Share	Chg
CRAFT	**-13.9**	**22.3**	**-2.1**
Stone	-11.5	14.4	0.4
AB Craft	-9.1	8.3	0.4
Sierra Nevada	-7.5	7.4	0.5
Kings & Convicts	-21.0	7.3	-0.7
Lagunitas	-20.6	6.7	-0.6
Firestone Walker	-2.9	6.2	0.7
New Belgium	12.7	6.0	1.4
MC Craft	-20.2	5.8	-0.5
Craft Brew Alliance	-11.5	4.0	0.1
Pizza Port	-7.6	3.6	0.2

	% Chg	Share	Chg
Stone Delicious IPA	-9.3	4.0	0.2
Firestone Walker 805	-13.2	3.9	0.0
Lagunitas IPA	-22.0	3.3	-0.3
Stone IPA	-5.1	2.9	0.3
Sierra Hazy Little Thing	4.5	2.7	0.5
NBB Voodoo Imperial IPA	25.9	2.7	0.8
Blue Moon Belgian White	-15.6	2.7	-0.1
Elysian Space Dust IPA	-10.5	2.6	0.1
Ballast Sculpin IPA	-22.0	2.6	-0.3
AleSmith .394 Pale Ale	10.3	2.1	0.5

SAN FRANCISCO

($$, IRI multi-outlet + convenience 2021)

	% Chg	Share	Chg
CRAFT	**-13.0**	**22.0**	**-1.9**
Sierra Nevada	-8.8	18.1	0.8
Lagunitas	-19.9	17.1	-1.5
Firestone Walker	-2.9	8.6	0.9
AB Craft	-10.6	6.1	0.2
MC Craft	-25.0	5.7	-0.9
New Belgium	11.1	4.0	0.9
Deschutes	-15.3	3.3	-0.1
Craft Brew Alliance	-18.2	3.3	-0.2
Fort Point	-3.8	2.9	0.3
21st Amendment	-33.2	2.8	-0.8

	% Chg	Share	Chg
Lagunitas IPA	-17.1	7.7	-0.4
Sierra Hazy Little Thing	2.2	6.1	0.9
Sierra Pale Ale	-13.0	5.9	0.0
Firestone 805	-14.2	5.7	-0.1
Blue Moon Belgian White	-18.2	4.4	-0.3
Lagunitas Little Sumpin'	0.8	4.2	0.6
Elysian Space Dust IPA	-0.5	2.7	0.3
Bear Republic Racer 5 IPA	-28.2	2.0	-0.4
Sierra Torpedo IPA	-23.4	1.9	-0.3
NBB Voodoo Imperial IPA	103.1	1.6	0.9

SCANNED CHANNELS LEANING LARGER LATELY

- Craft -14% in SD, -2.1 share of beer $$; many big local players, brands down double digits
- -13%, -1.9 share in SF; Sierra back to #1 over Lagunitas; Hazy over Pale, new IPAs over old
- Smaller drop, less share to lose in LA, where 805 reigns; NBB Imperial, HLT reflect natl trends

Across all 3 big CA mkts & US:

- bigger did better (but not across the board)
- changing of the guard
- off-premise got harder for smaller suppliers

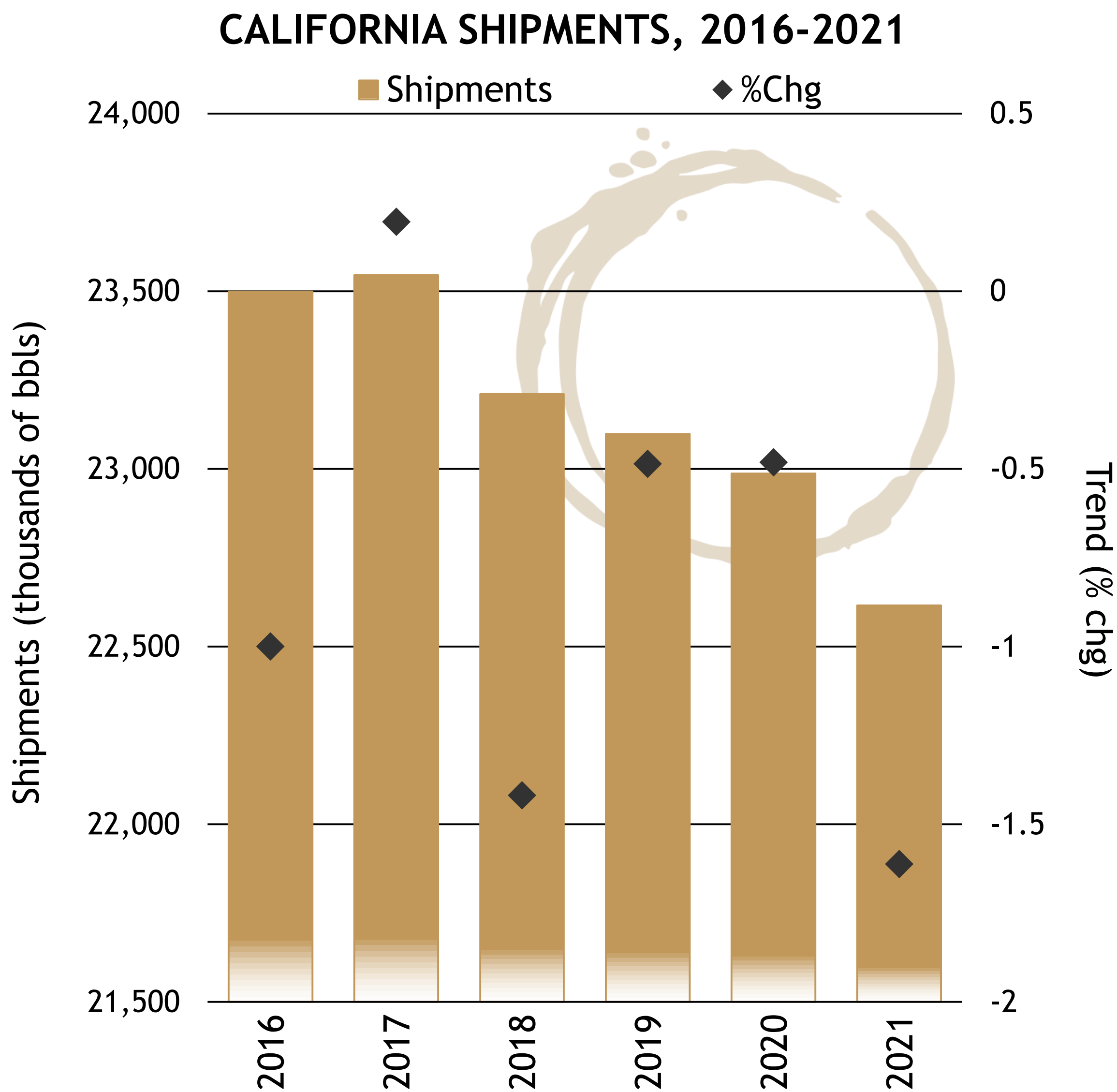
LOS ANGELES

($$, IRI multi-outlet + convenience 2021)

	% Chg	Share	Chg
CRAFT	**-9.1**	**10.5**	**-0.9**
AB Craft	-17.3	15.8	-1.6
Firestone Walker	-1.6	15.2	1.2
Lagunitas	-16.0	10.7	-0.9
MC Craft	-16.3	9.5	-0.8
New Belgium	21.9	9.2	2.3
Sierra Nevada	0.4	8.2	0.8
Stone	-11.8	7.9	-0.2
Craft Brew Alliance	-8.5	5.0	0.0
Boston Beer Craft	-1.7	3.1	0.2
Kings & Convicts	-23.7	2.9	-0.5

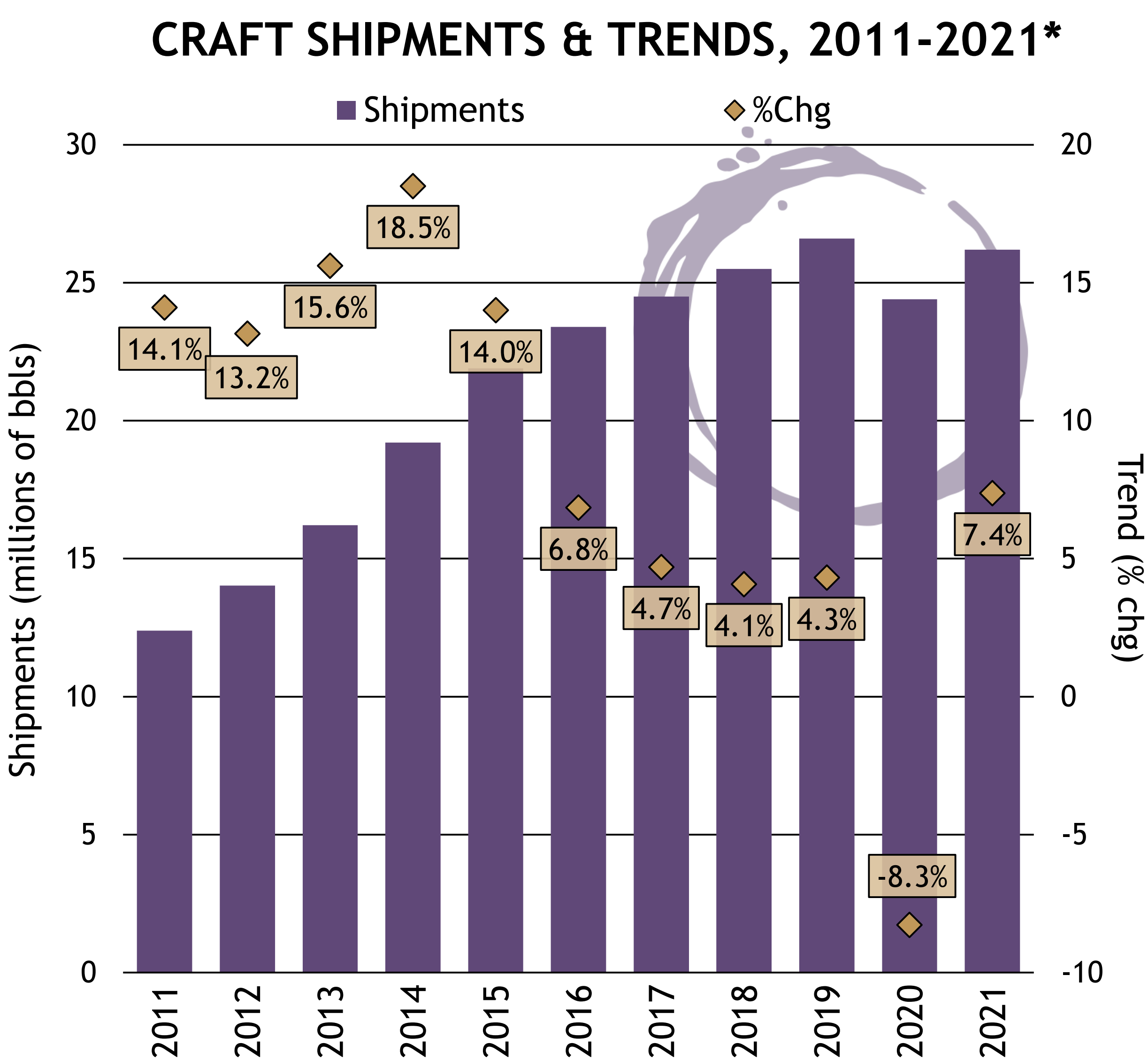
	% Chg	Share	Chg
Firestone 805	-14.8	10.7	-0.7
Blue Moon Belgian White	-12.4	6.4	-0.2
Lagunitas IPA	-16.0	6.2	-0.5
NBB Voodoo Imperial IPA	54.6	4.1	1.7
Elysian Space Dust IPA	-4.4	3.7	0.2
Golden Road Mango Cart	-16.8	3.6	-0.3
Sierra Hazy Little Thing	9.4	2.8	0.5
Sierra Pale Ale	-8.9	2.6	0.0
Lagunitas Little Sumpin'	7.0	2.1	0.3
Kona Big Wave	4.3	1.9	0.2

BEER SOFT IN CA; CONSTELLATION STILL RISING



- Total beer volume in CA down for 4th year
- -1.6%, almost 400K bbls to 22.6 mil bbls in 2021
- 2015-2020: AB -1.35 mil bbls, -5 share to <30; Constellation +2.1 mil bbls, +10 share to >26
- More of the same in 2021
- 2010-2020: avg beer consumption per adult down 7.5%, wine +10%, spirits +15%
  - Beer lost 5 share of consumption to 43.4

CRAFT REGAINED GROUND NATIONALLY



- Total craft shipments +7%, +1.8 mil bbls to 26.2 mil bbls in '21
- Got back >80% of bbls lost in 2020
- +13.8 mil bbls in 10 yrs; back over 12 share, +6
- Off-premise: -6.6% by volume, -4.6% by $$
  - -7.5% in grocery; +0.6% in c-stores
  - Pricing not as strong as other segments
- Return of draft a major driver for craft's gain

all figures BMI estimates, subject to revision

DRAFT IMPROVING; HOW BRIGHT A SUMMER?

Domestic Taxpaids YTD Thru Nov 2021 (bbls in 000s)							
	2021	2020	chg	% chg	2019	chg	% chg
Bottles & Cans	142,199	145,425	-3,226	-2.2%	137,058	5,141	3.8%
Kegs	9,899	7,066	2,833	40.1%	13,701	-3,801	-27.7%
Premises Use (taprooms)	3,216	2,588	627	24.2%	2,735	480	17.6%
Total Taxable Removals	155,314	155,080	234	0.2%	153,494	1,820	1.2%

Imports Package Mix Thru Nov 2021 (bbls in 000s)							
	2021	2020	chg	% chg	2019	chg	% chg
Bottles	22,313	22,001	312	1.4%	21,407	907	4.2%
Cans	12,302	10,218	2,084	20.4%	10,137	2,165	21.4%
Kegs	1,916	1,254	662	52.8%	2,498	-583	-23.3%
Total	36,531	33,473	3,058	9.1%	34,042	2,489	7.3%

For 11 mos of 2021, domestic keg volume +40%, 2.8 mil bbls vs 2020, still >1/4 below 2019, 3.8 mil bbls

Imported keg bbls fell farther in 2020, grew stronger in 2021, +53%, also still ~1/4 below 2019, 600K bbls

“Premises use,” a proxy for taprooms, up strong 24% for 11 mos, +18% vs 2019

Positive signs thru St Paddy’s in 2022: BeerBoard open rate @94% by mid-Mar; holiday draft sales per acct up 6-7X in big cities, +118% for the day

OFF-PREMISE GROWTH HARD TO COME BY IN '21

TOP 25 CRAFT VENDORS

($$, IRI multi-outlet + conv 2021)

	% Chg	Share	Chg
MC IRI Craft	-8.1	11.2	-0.4
AB IRI Craft	-5.5	9.6	-0.1
New Belgium	14.9	7.0	1.2
Sierra Nevada	-2.5	6.4	0.1
Boston Beer	-4.3	5.7	0.0
Lagunitas	-12.2	3.7	-0.3
Gambrinus	-6.2	2.9	-0.05
CBA	-4.3	2.7	0.0
Firestone	3.3	2.4	0.2
Founders	-10.5	2.4	-0.2
Bell's	-5.8	2.2	0.0
CANarchy	-7.3	2.0	-0.1
ABV Craft	-0.8	1.5	0.1
Stone	-15.3	1.4	-0.2
Deschutes	-6.0	1.3	0.0
SweetWater	-12.1	1.2	-0.1
New Glarus	2.9	0.9	0.1
Great Lakes	9.7	0.7	0.1
Georgetown	13.2	0.6	0.1
Rhinegeist	-4.8	0.6	0.0
Duvel USA	-12.0	0.5	0.0
Ninkasi	-18.5	0.5	-0.1
Flying Dog	-9.1	0.4	0.0
Abita	-8.3	0.4	0.0

TOP 25 CRAFT BRANDS

($$, IRI multi-outlet + convenience 2021)

	% Chg	Share	Chg
Blue Moon Belgian White	-8.5	5.7	-0.2
NBB Voodoo Imperial IPA	41.1	2.6	0.9
Sam Adams Seasonal	0.4	2.1	0.1
Sierra Hazy Little Thing IPA	10.5	2.1	0.3
Sierra Pale Ale	-11.6	2.0	-0.2
Shiner Bock	-7.1	1.9	-0.1
Lagunitas IPA	-12.0	1.9	-0.2
Leinie Shandy Seasonal	-4.5	1.8	0.0
Elysian Space Dust IPA	-2.4	1.5	0.0
Founders All Day IPA	-11.9	1.5	-0.1
Firestone 805 Blonde	-11.5	1.5	-0.1
Blue Moon LightSky	23.5	1.2	0.3
Bell's Two Hearted Ale	-2.1	1.1	0.0
New Belgium Fat Tire	-12.0	1.1	-0.1
Sam Adams Boston Lager	-9.1	1.1	-0.1
Kona Big Wave Golden Ale	18.6	0.9	0.2
Lagunitas Little Sumpin'	7.5	0.9	0.1
Cigar City Jai Alai IPA	-3.7	0.8	0.0
NBB Voodoo Ranger IPA	-10.2	0.8	-0.1
NBB Voodoo Juicy Haze IPA	63.1	0.8	0.3
Sierra Torpedo IPA	-20.6	0.8	-0.2
Shock Top Belgian White	-30.7	0.7	-0.3
Goose IPA	-17.2	0.7	-0.1
Sam Adams Variety Pk	12.4	0.7	0.1

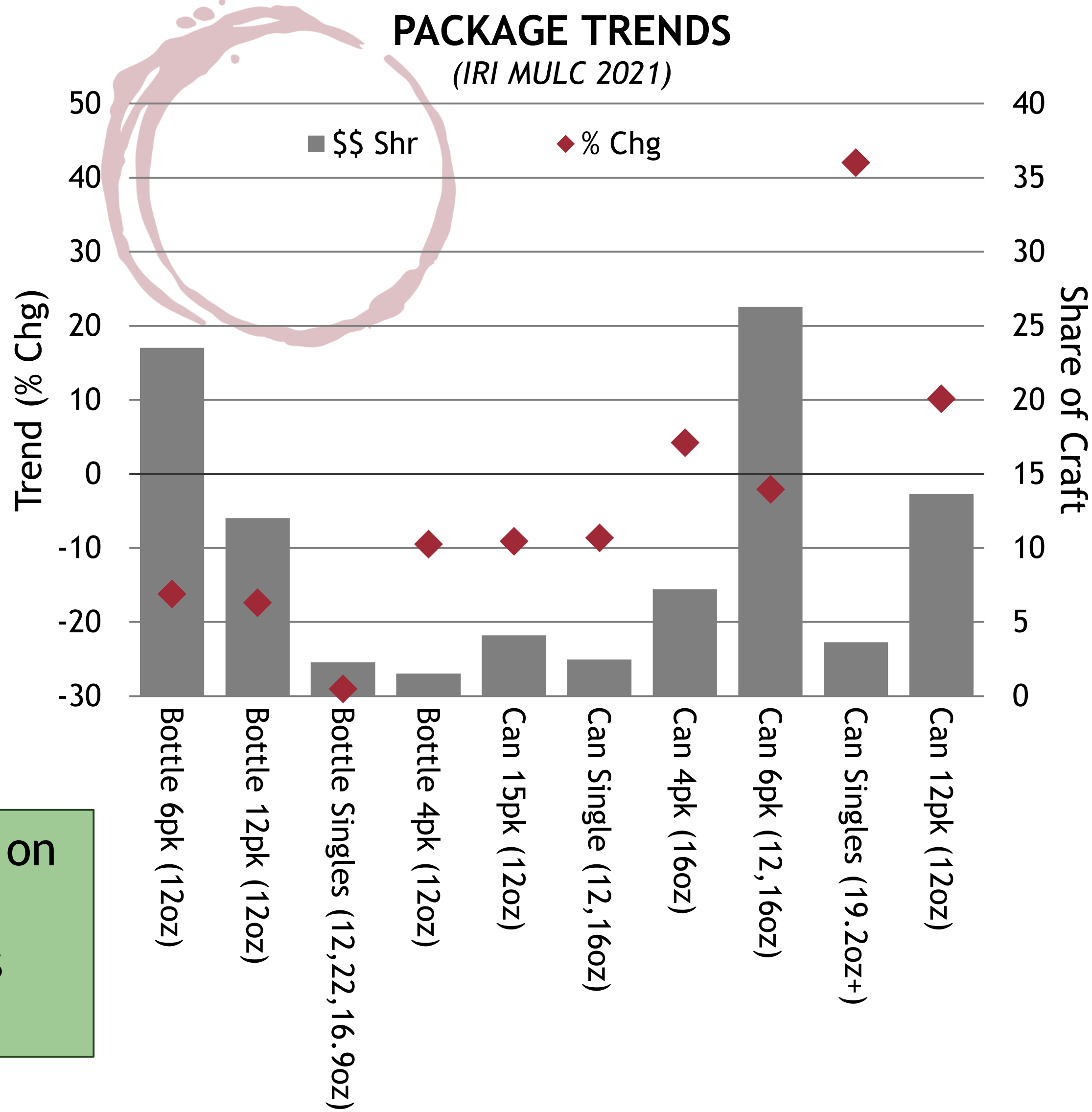
IPA SHARE HASN'T PEAKED; CANS STILL CRUSH

TOP 15 CRAFT STYLES

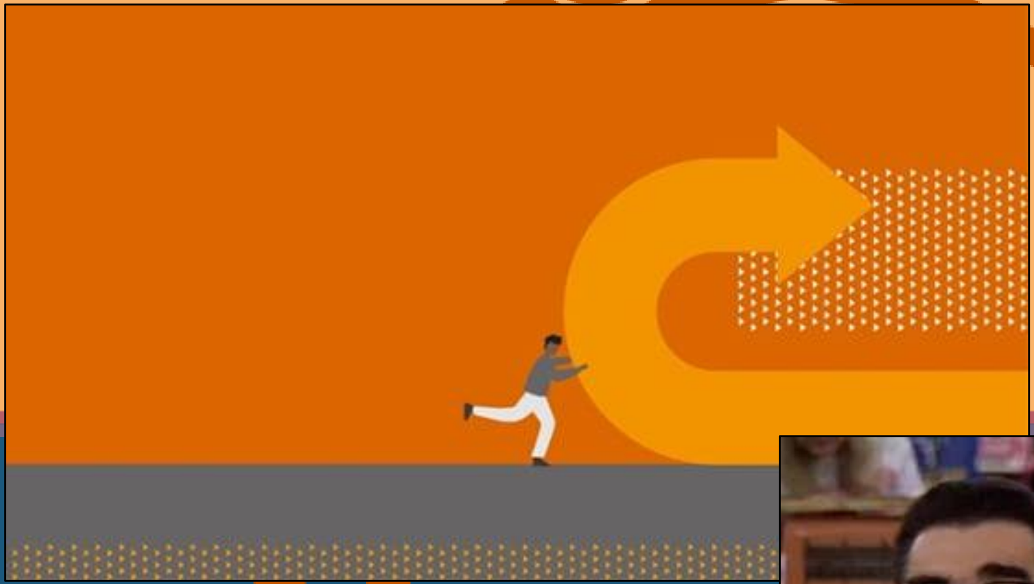
($$, IRI multi-outlet + convenience, 2021)

	% Chg	Share	Chg
IPA	-1.0	43.1	1.5
Seasonal	-6.6	10.0	-0.2
Belgian Wit	-8.4	8.3	-0.4
Variety	-1.0	6.7	0.2
Pale Ale	-12.5	5.4	-0.5
Golden Ale	3.8	4.5	0.4
Fruit/Veggie	-13.5	3.0	-0.3
Other Pale Lager	-6.0	2.9	0.0
Bock	-7.3	2.5	-0.1
Amber Ale	-10.8	2.1	-0.1
Amber Lager	-11.9	2.0	-0.2
Stout	-10.8	1.7	-0.1
Wheat Beer	-1.2	1.4	0.1
Belgian Ale	5.7	1.1	0.1
Pilsner	-4.2	1.1	0.0

- Hazy, Imperial #3, 4 styles on their own in Nielsen scans
- Cans near 60 share; 12-pks and 19.2s drive growth



"YES, AND…" | A COVID COURSE IN IMPROV?



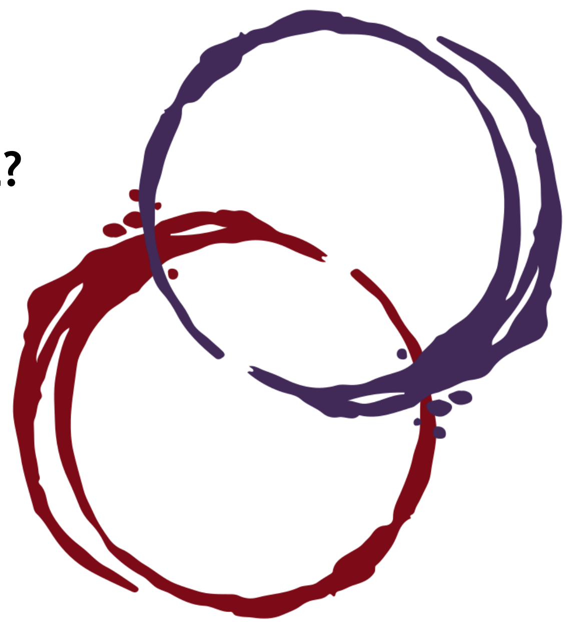
OPENS STILL OUTPACE CLOSINGS; LINE-BLURRING

- **Uptick in closings**, but nowhere near what some feared or predicted...*yet?*
  - Federal aid helped, but uneven; for how long? Costs rising for everything. The pressure is real.

- New breweries, new locations keep opening, most modest (but not all), often in recently vacated breweries/taprooms; closer to **one-out, one-in**

- Some bigger expansion projects and multi-state territory expansions. **Will a familiar story repeat?**
  - Loss of control or retrenchment when sales don’t end up supporting the expansion

- Rush for new and next hasn’t slowed. Craft hard seltzers struggled outside taprooms, as **“beyond beer” drives both innovation and transactions**



MORE BIG DEALS, LOWER PRICES; LINE-BLURRING

- Lion/Kirin now close #3 in US craft after Bell's buy
  - *spent under $1 bil for both*
  - footprint consolidation afoot
- Monster suddenly a top-10 player
  - *$330 mil in cash mostly went to lenders; sought platform into alc bevs, not brands*
  - Constellation?
- Tilray got Green Flash/Alpine for $5 mil (brands, not brewery)
  - in top-20 with SweetWater, plus distillery
  - *seeks US cannabis leadership*
- Bigger brand partnerships abound (Boston Beer & Beam Suntory, Pepsi; MC, STZ & Coke)

TOP CRAFT SUPPLIERS BY 2021 SHIPMENTS

	2021	2020	Chg	Trend
	bbls (000)			(% chg)
AB Brewers Collective*	2,665	2,475	190	8%
Boston Beer (Beer Only)	1,625	1,500	125	8%
Lion Little World (NBB & Bell's)	1,564	1,415	149	11%
Sierra Nevada	1,104	1,117	-13	-1%
Lagunitas US Holdings (Heineken)	920	978	-54	-6%
Duvel Moortgat	704	631	74	12%
Mahou San Miguel	567	629	-60	-10%
Gambrinus	527	524	3	1%
Brooklyn/Matt/21A/Funkwerks (Kirin)	480	468	12	3%
CANarchy (Monster)	455	490	-35	-7%
ABV (Ulysses)	420	438	-18	-4%
Stone (VMG/Hillside)	364	347	17	5%
MC/Tenth & Blake	308	305	3	1%
Deschutes/Boneyard	266	235	8	3%
SweetWater (Tilray)	253	255	-2	-1%
New Glarus	233	206	27	13%
Great Lakes	128	106	22	21%
Odell	126	126	0	0%
Summit	118	109	9	8%
Allagash	118	88	30	34%

FEDS TO THE RESCUE? BIDEN ADMIN & ANTITRUST

- July 2021: Biden Admin Exec Order on Competition
  - explicitly aims to create oppys for small, new players
  - broad reach; "whole of govt" approach
  - Tech drives shift in thinking; pendulum swing

- Summer 2021: TTB took comments for work w/ FTC, DOJ
  - measured assn comments often cheered 3 tier
  - Flood of complaints from small suppliers: state laws, fed rules and especially trade practice violations

- Feb 2022: Competition Report from Treasury, FTC, DOJ
  - language shows limits to what feds can prove, promise
  - concerns about consolidation; stricter guidelines?
  - echoes small supplier complaints; BA most cited (>12X)

- Antitrust was already in the ether; kicking into higher gear
  - CA ct rejected many of Seismic's antitrust claims in suit with DBI, Reyes entities; OK as defense
  - Provi filed fed suit last wk against Southern/RNDC

COMPETITION REPORT HINTS AT FED ACTIVITY

TRADE PRACTICE

- Enforcement already stepped up, mostly on consignment and on-premise pay-to-play
- Category management a new focus; could enlist FTC to go after big retailers, too
- Tying arrangements? (Requiring sale of low demand item to access high demand item)

LABELING RULES

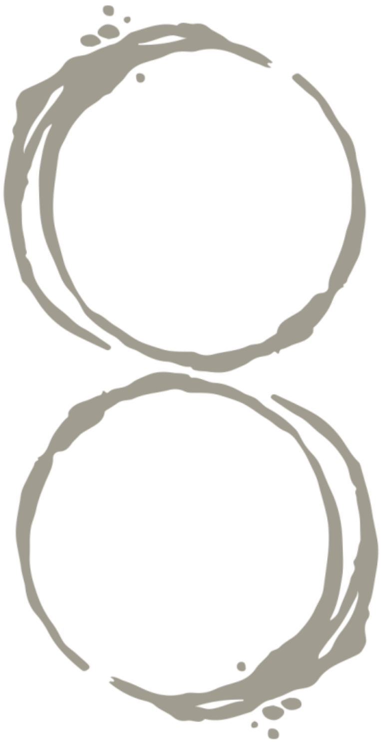
- Continuing process of easing restrictions and reducing requirements
- May also move to mandate ingredient, calorie and nutrient labeling for all alc bevs
- Not persuaded by costs to small: food/drink makers do it
- Drinks per pkg?

STATE LAWS?

- Lots of attention on states for fed agencies; 2 reasons: can't talk about alc bev biz without talking about states; complaints?
- Post & hold, franchise laws got most focus
- Strong support for DTC
- Area where feds least likely to change much

Dependent on political outcomes and (eventually) legal ones; *lots of words, but not a lot of certainty.*

ALCOHOL HARMS HIT HEADLINES; SELF-CHECK?



- Headlines claimed huge increases in consumption during the pandemic; largest national surveys (NSDUH, Monitoring the Future: fewer drinkers, most drank same or less, concerning increases among small groups
- NHTSA announced 14% increase in alcohol-impaired driving fatalities in 2020; NIAAA reported 26% increase in alcohol-related deaths in yr overall death rate +16%
- New research calls into question long-held thinking that light-moderate consumption aids heart health; risk low for light-moderate, quickly escalates “exponentially”

1 STANDARD DRINK = 14 grams or 0.6oz ethanol = 12oz 4.5% ABV beer

“Light”	“Moderate”	“Heavy”	“Abusive”
<8.4 SD/wk	8.4-15.4 SD/wk	15.4-24.5 SD/wk	>24.5 SD/wk

ESG RISING: WHERE ARE YOU? WHERE ARE WE?

Mintel Consumer Drivers
Thru 2030:

Rights

Identity

Wellbeing

Consumer interest in "wellness" evolving:

'ME' & 'WE'

-consultant Danny Brager

- **Non-alc beer coming on strong:** $$ up 20+% in scan data, shipments +13% in 2021
  - Athletic over 100K bbls in 2021, all NA
- **Corporate emphasis on ESG growing:** consumers, investors, regulators asking, requiring companies to "do better"
  - SEC environmental reporting
  - Changed views of work; labor movement
- **Craft's #MeToo moment still rippling:** moved from worker-driven public undressing to privately addressing; will need to be public to change perceptions of industry
- **How will this impact biz relationships?**

TEMPERANCE

By [late 18th C.], understood to mean abstinence from alcohol

Roots in measuring, mixing in proper proportions, “in tune”

Temper chocolate; hold your temper; temperate climate

Working with, marketing, drinking alcohol asks for balance

Just counting can moderate behavior; reinforcement helps

Movement and measurement must follow listening within

THANKS!

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