STATE of the CRAFT BREWING INDUSTRY

BREWERS ASSOCIATION

Midyear Headlines

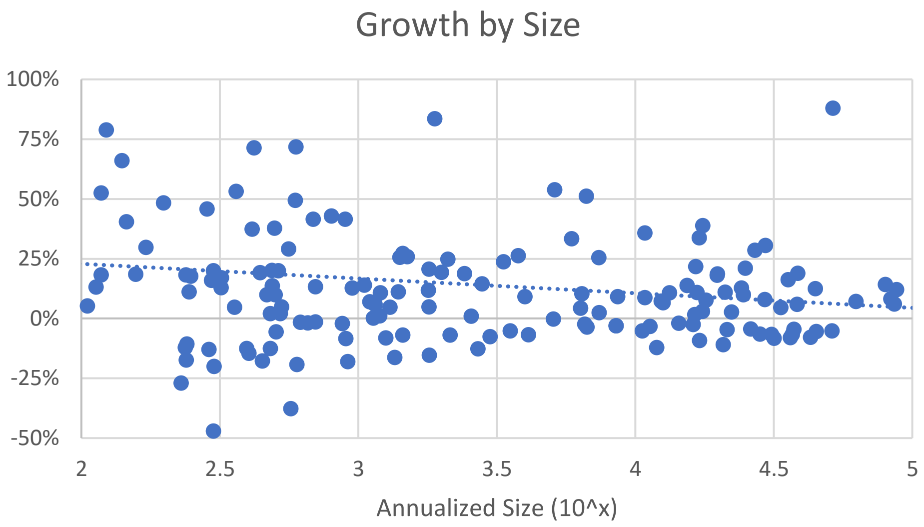
- Mixed signs
- Has distributed independent craft lost its momentum?
    - Weak packaged sales
    - Draught coming back, but still not where it was
- At the brewery stronger and still growing
- Overall growth, but lots of variation
- General beverage alcohol competition heating up

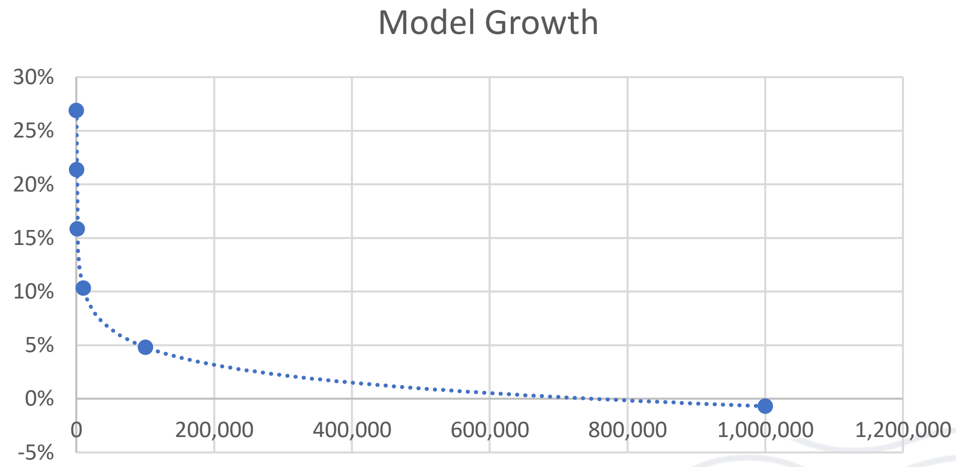
Midyear Survey

- +1.4% unweighted
  - ~200 responses, 7.2M barrels in production last year
  - 44 states covered
  - Regionals overrepresented
- +5.8% weighted (7.1% is median growth)
- Draught is 31.7% weighted, Median = 24%
- Package is -3.4% weighted (above scan)
- Onsite median = 12%, Average = 26%

Breakouts by Size

Annualized size	1st Half %
200,000 bbls +	-1.7%
60K-200K	5.0%
15K-60K	7.5%
5K to 15K	9.6%
1K to 5K	14.7%
Less than 1K bbls	16.5%





Beyond the volume numbers

"Although the numbers are trending up we're getting hammered by inflation. Two examples: Malt is up 45% per batch, monthly fuel costs for delivery have risen by 266%. Input costs have risen across the board. It's become a struggle to keep the doors open."

gasworld

A long hot summer ahead for the US CO2 market

By Molly Burgess | 4 July 2022

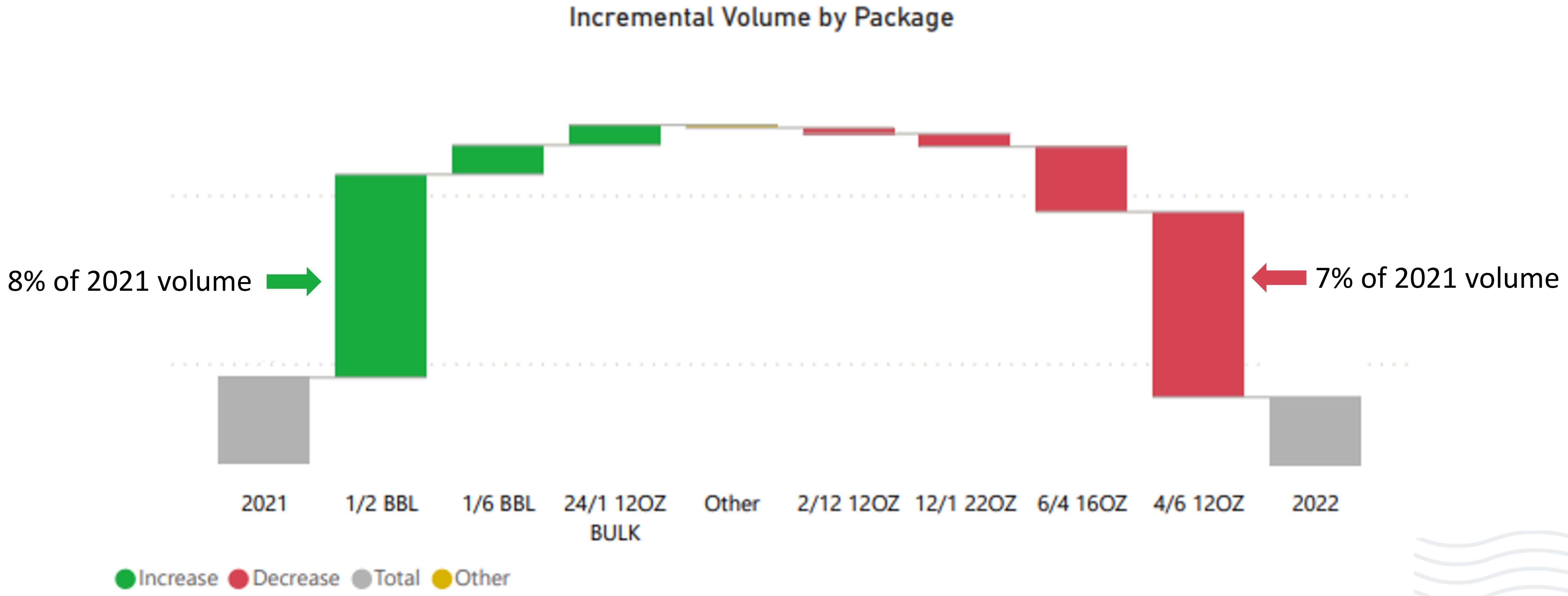
INDUSTRY UPDATES

Supply Chain Updates – July 2022

Want a direction? I have a quote for that. That said, I'd characterize the median as:

- Things are coming back, but slowly. Things have changed with the market and consumers. Growth isn't steady. If one thing is up, something else is down.

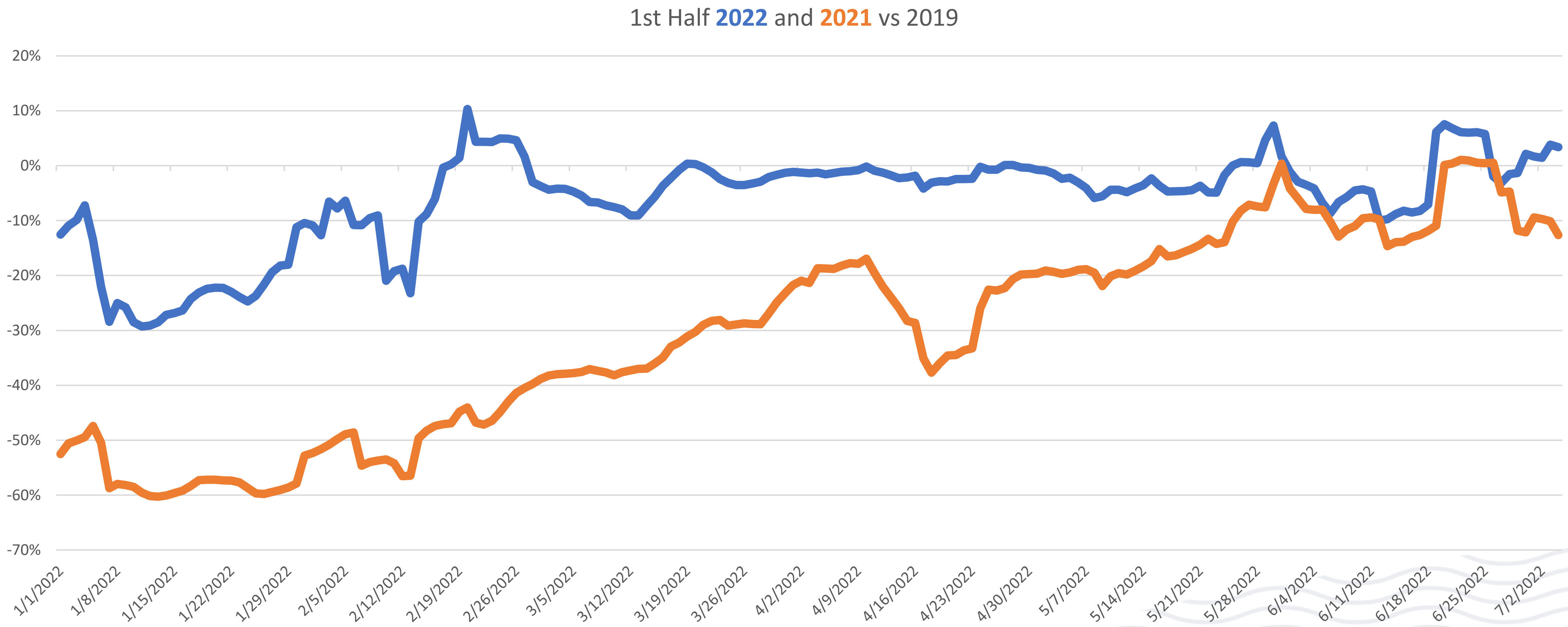
One (anonymous) Example



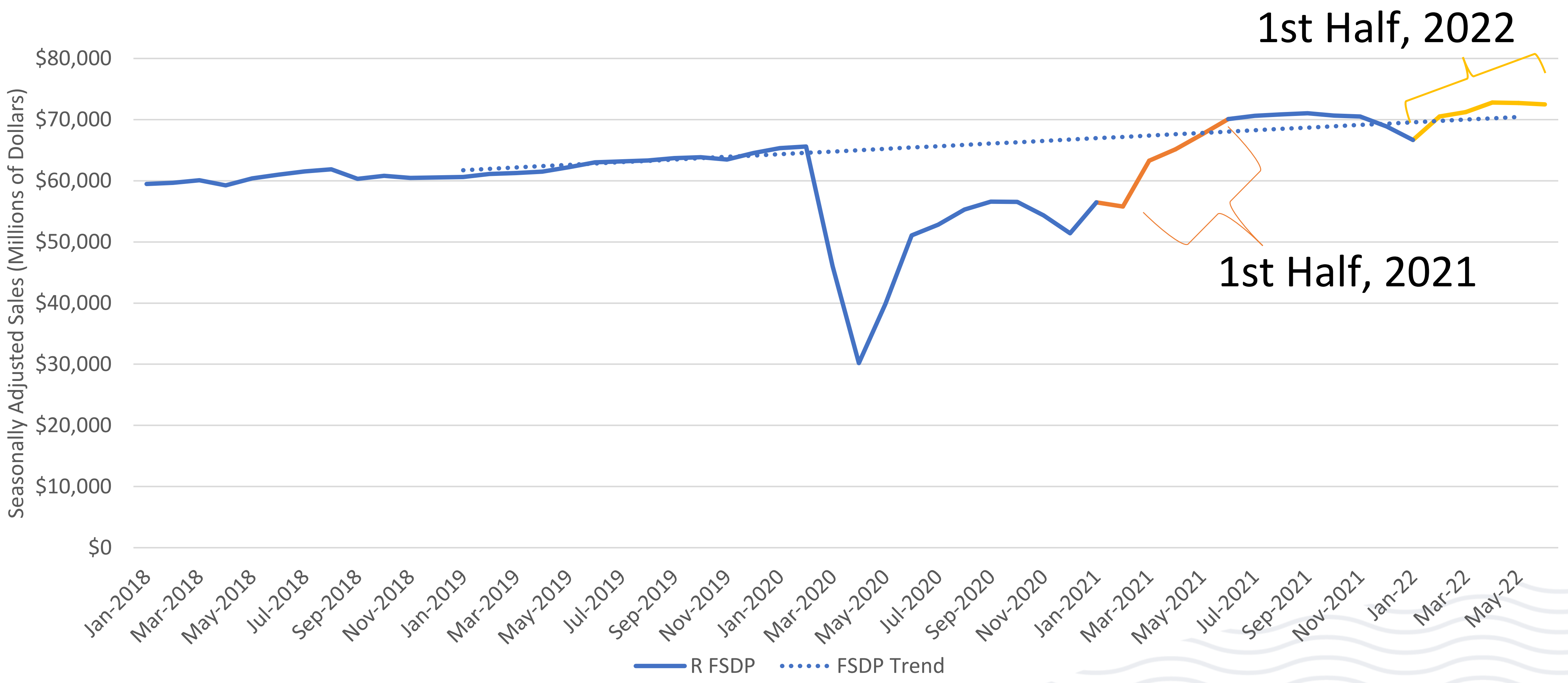
Channel Shift

- 1st half 2022 numbers still driven heavily by channel shift
- Back half of the year numbers will give more insight into true “new normal”
- Regional and business model variation abounds

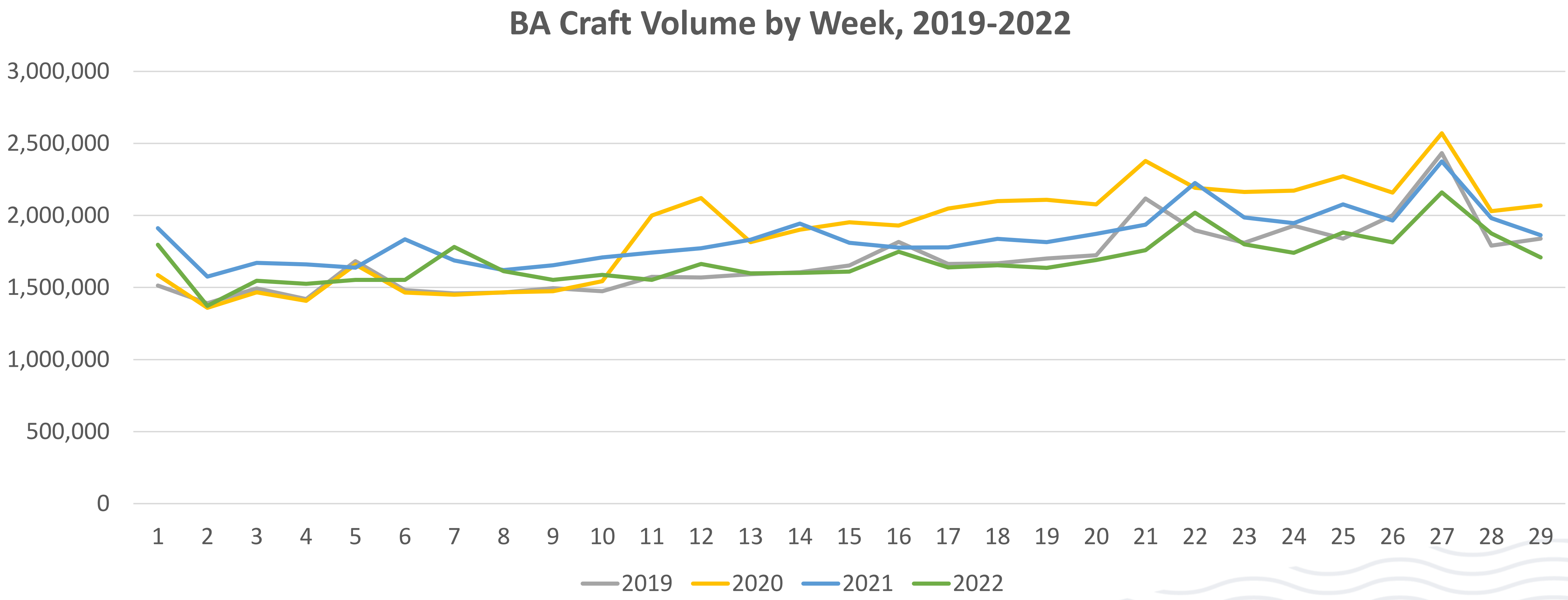
OpenTable Reservations 1st Half 2021 & 2022



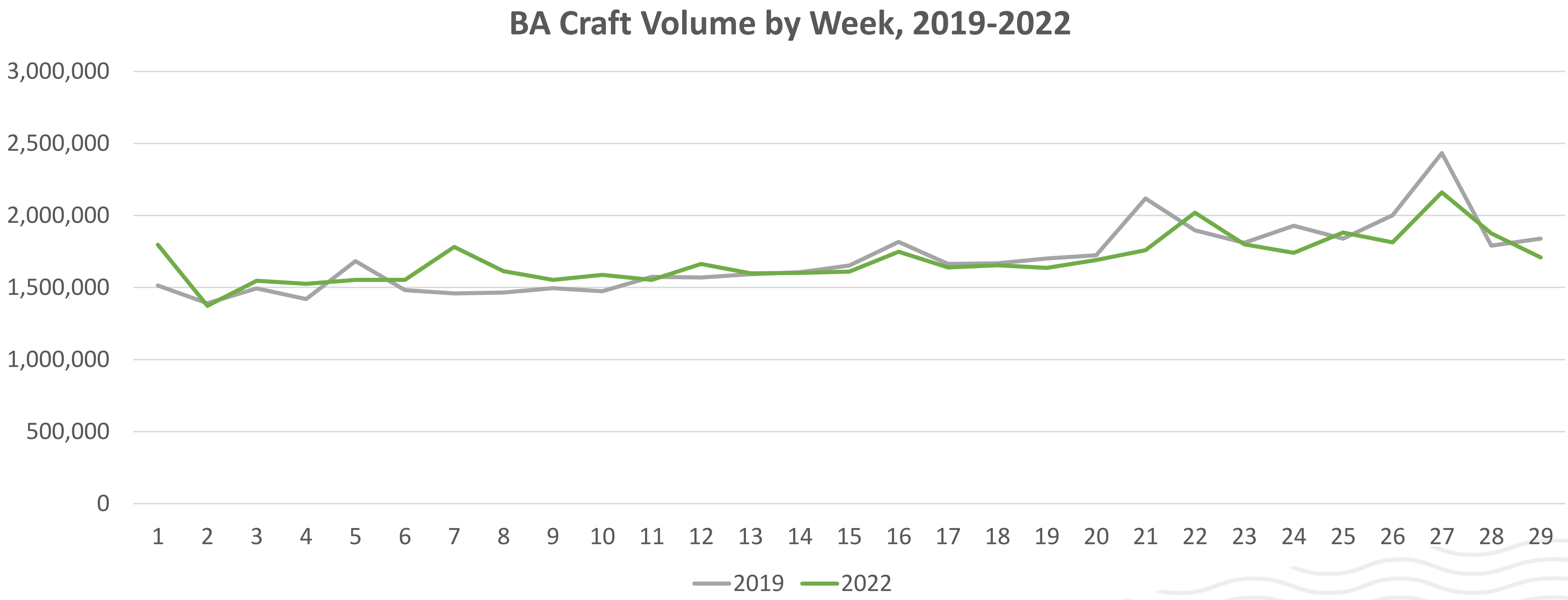
Food Services and Drinking Places (Seasonally Adjusted, Real)



Off Premise


BA Craft Volume by Week, 2019-2022
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29
2019
2020
2021
2022

Off Premise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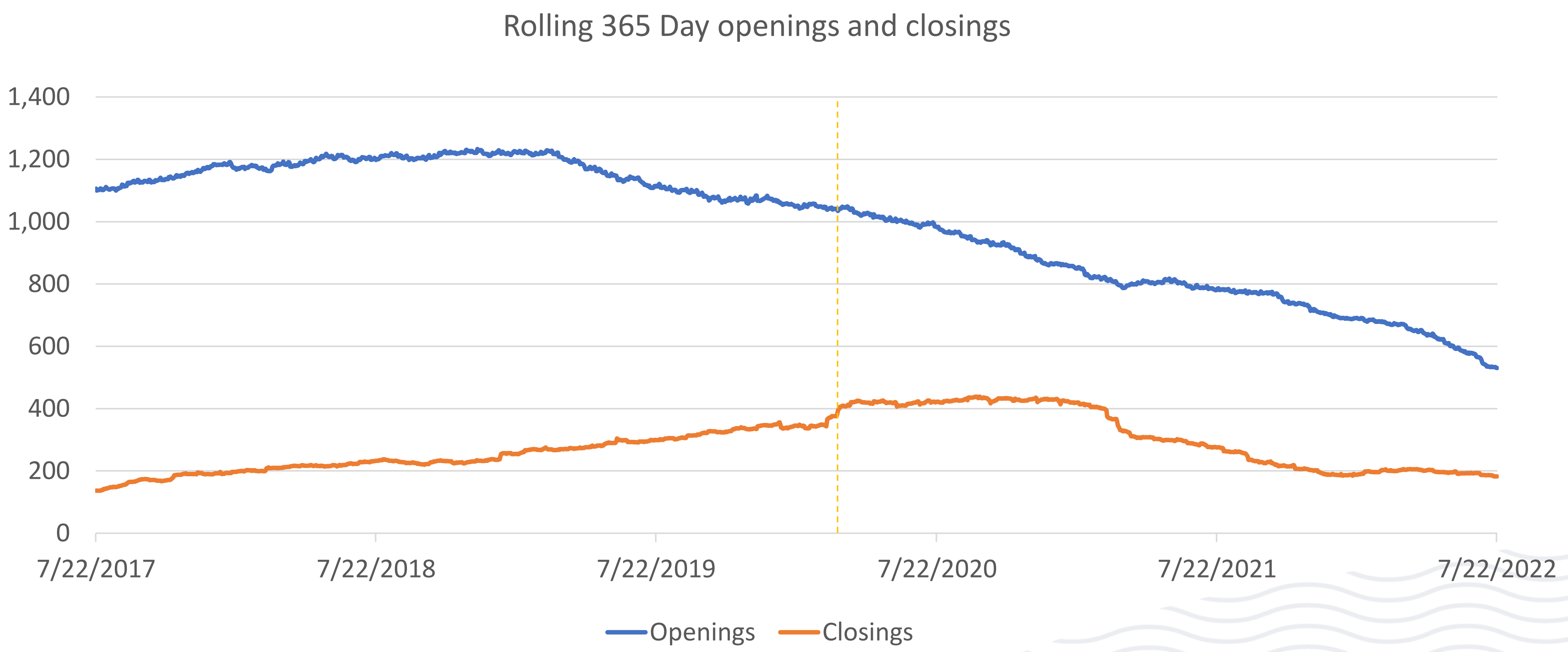
0
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29
2019
2022

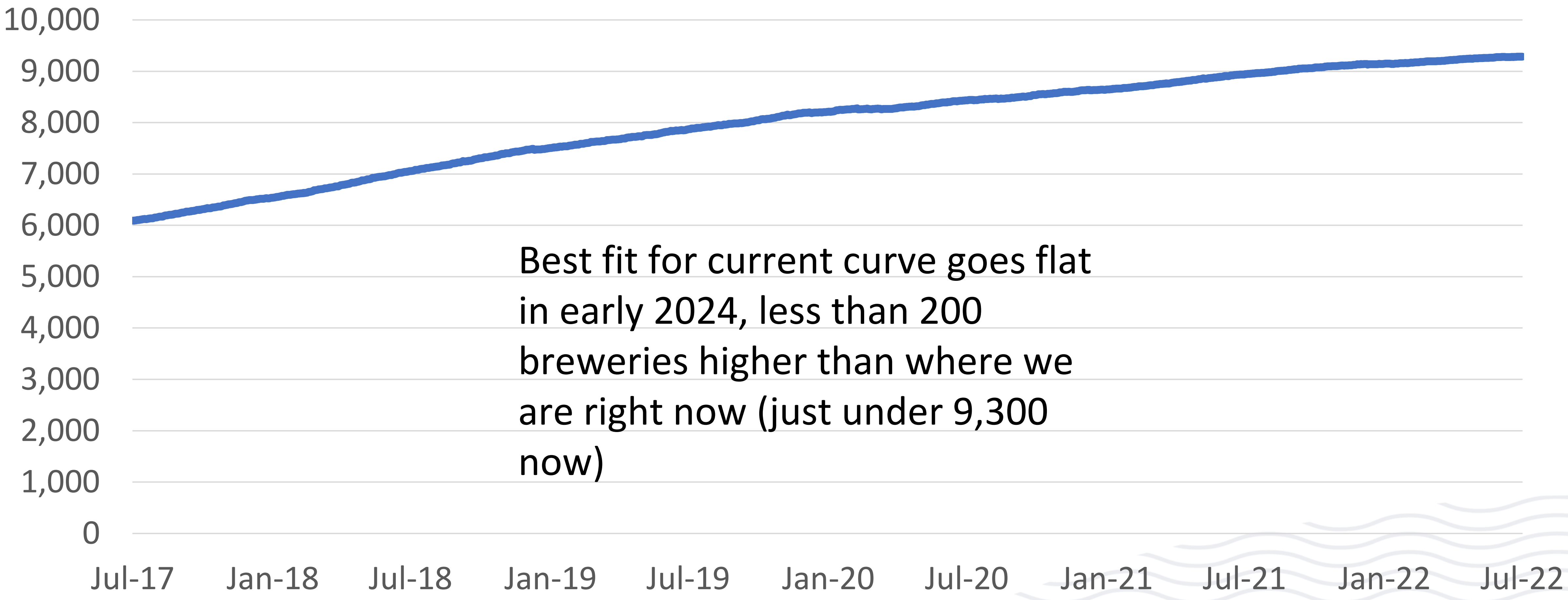
At the Brewery

- The bright spot
- Different business
- Hard to scale (efforts to scale have generally failed)
- How long can it continue?
- Conflict with other tiers (see New Jersey)

Breweries


Rolling 365 Day openings and closings
1,400
1,200
1,000
800
600
400
200
0
7/22/2017
7/22/2018
7/22/2019
7/22/2020
7/22/2021
7/22/2022
Openings
Closings

Total Number



Going Forward, Which Matters More? Changing Economy or Changing Market?

Business Side

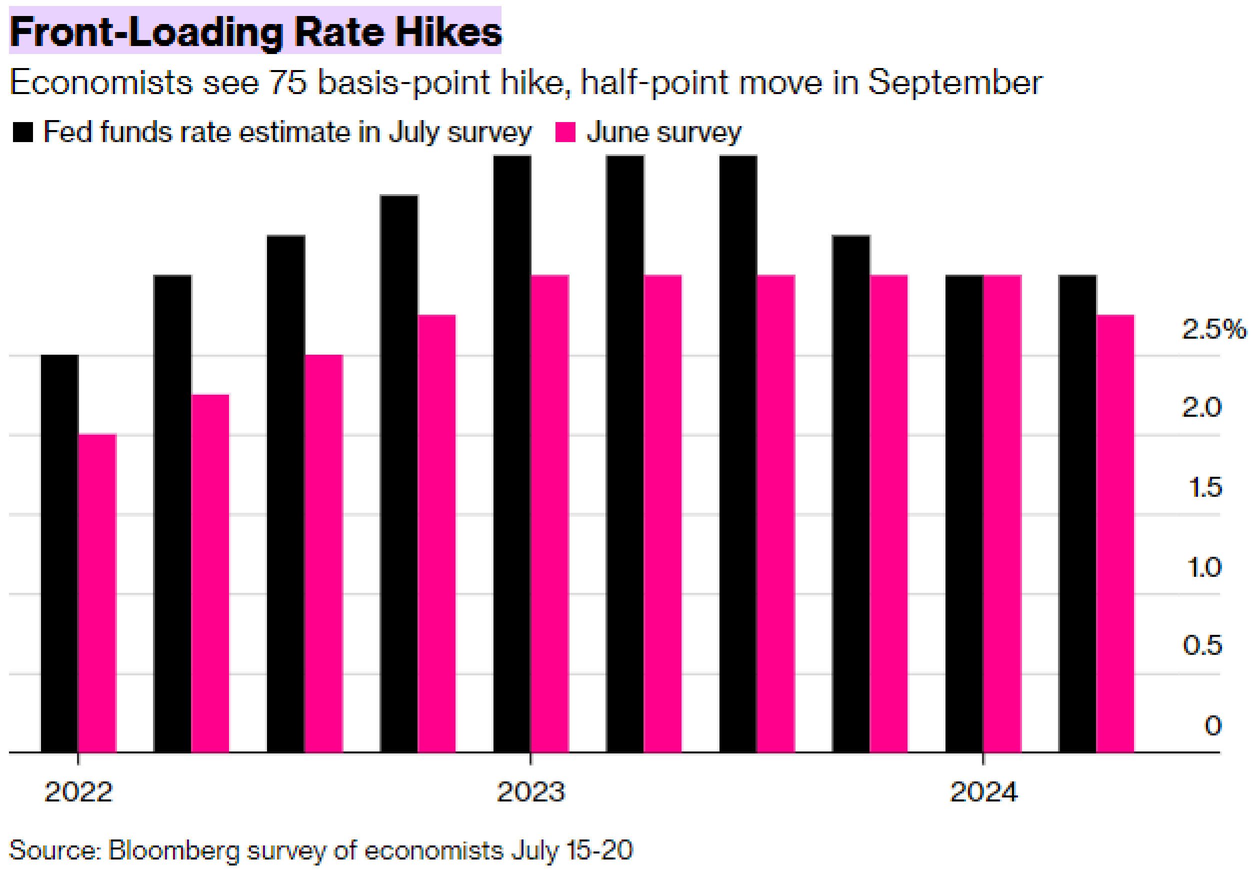
- Interest Rates
- The Supply Chain

The Consumer:

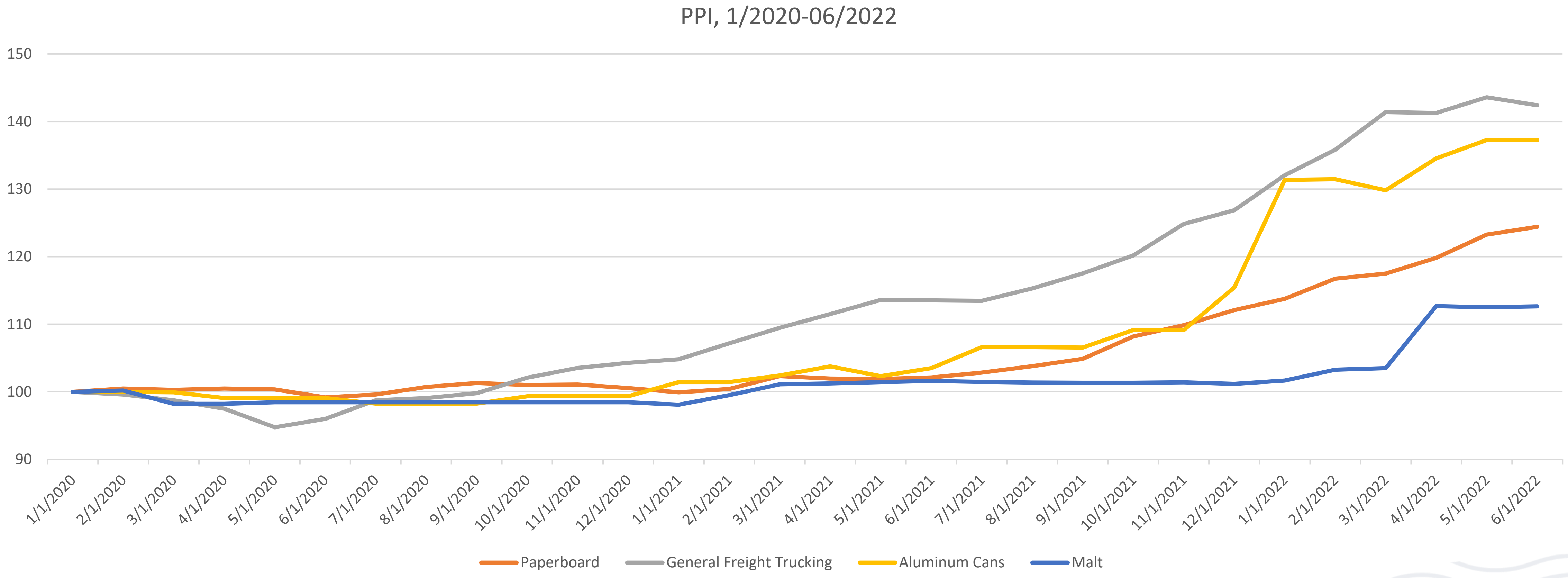
- Uncertainty, Recession, and Inflation, oh MY!

- 4^{th} category (and other bev alc) competition
- New Generations
- Changing distributor/retail landscape

Business Side



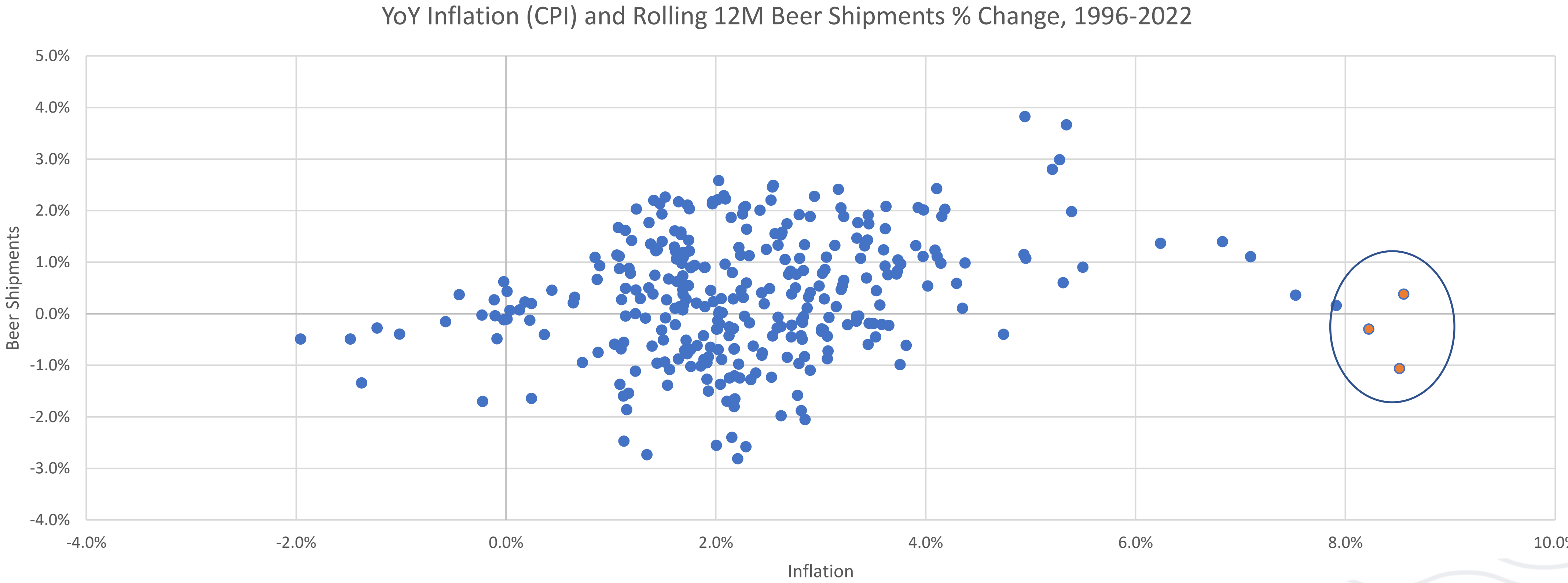
The Supply Chain – Still Struggling



The Consumer

- Your consumer is not the generic consumer
- Different economic situations, confidence, patterns
- What is true for one segment may not be for another

Historically, Inflation Doesn't Slow Sales



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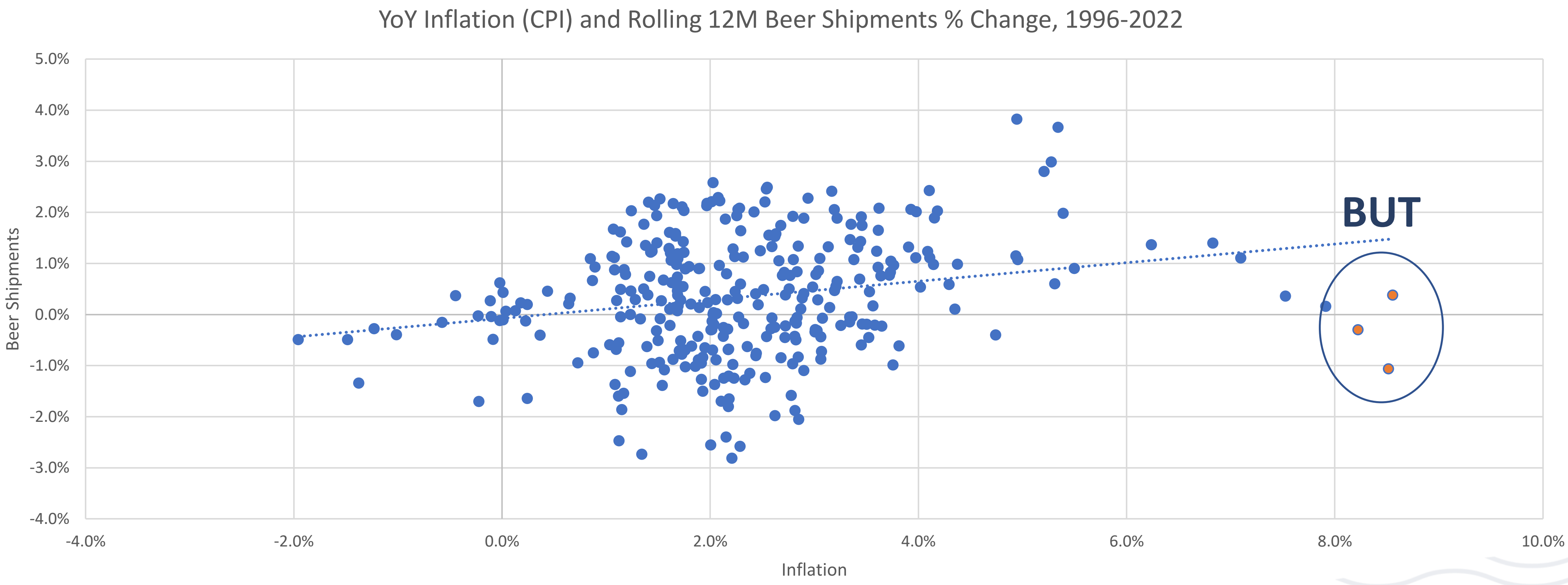
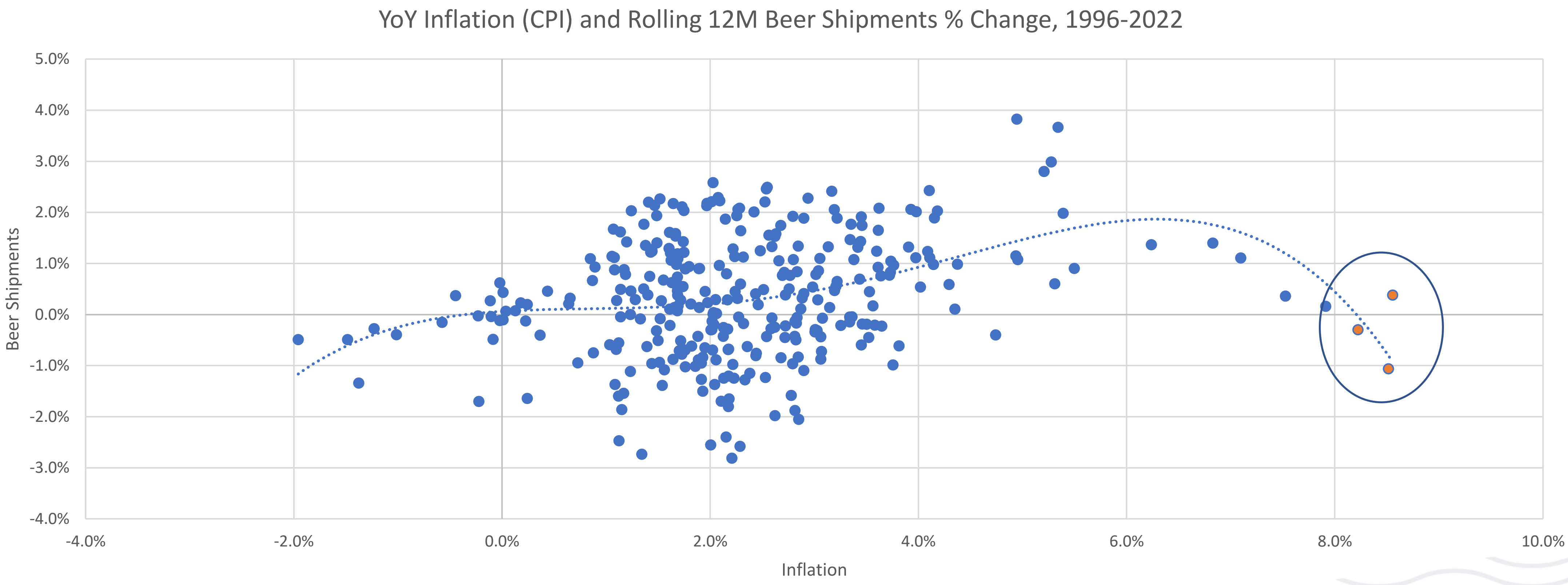
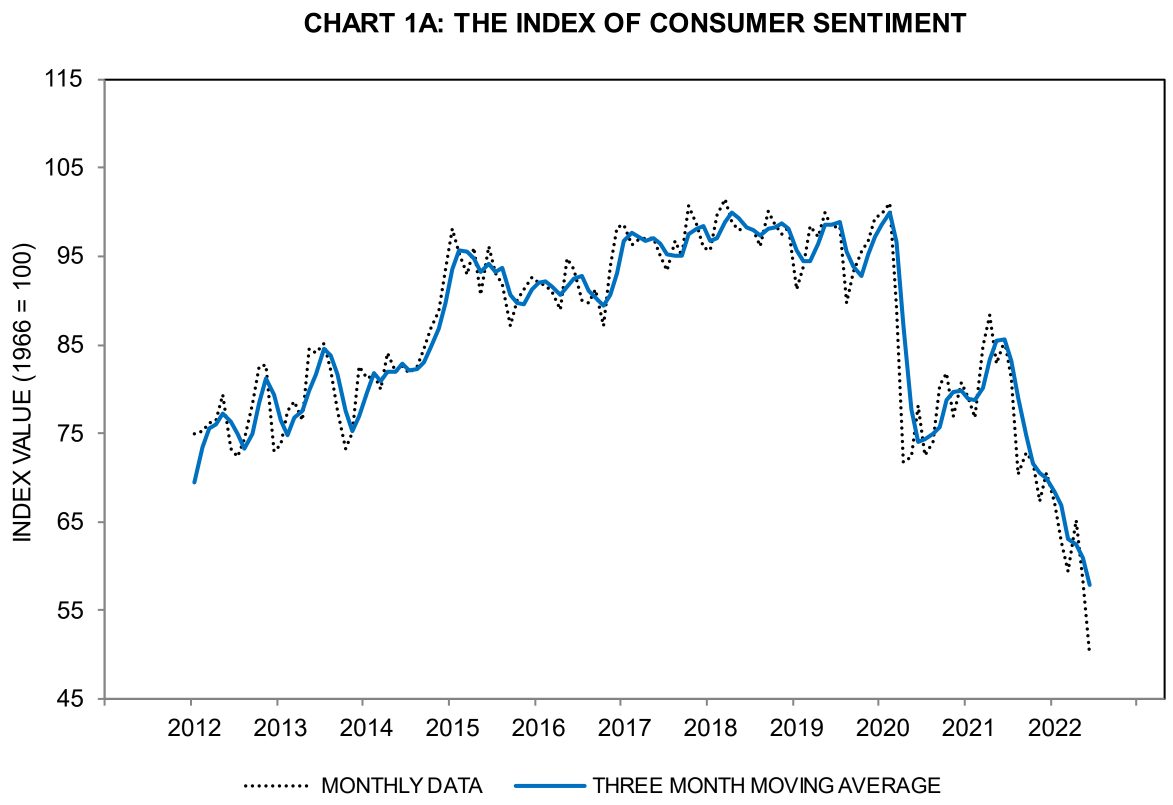


Inflation Hasn't Historically Mattered…

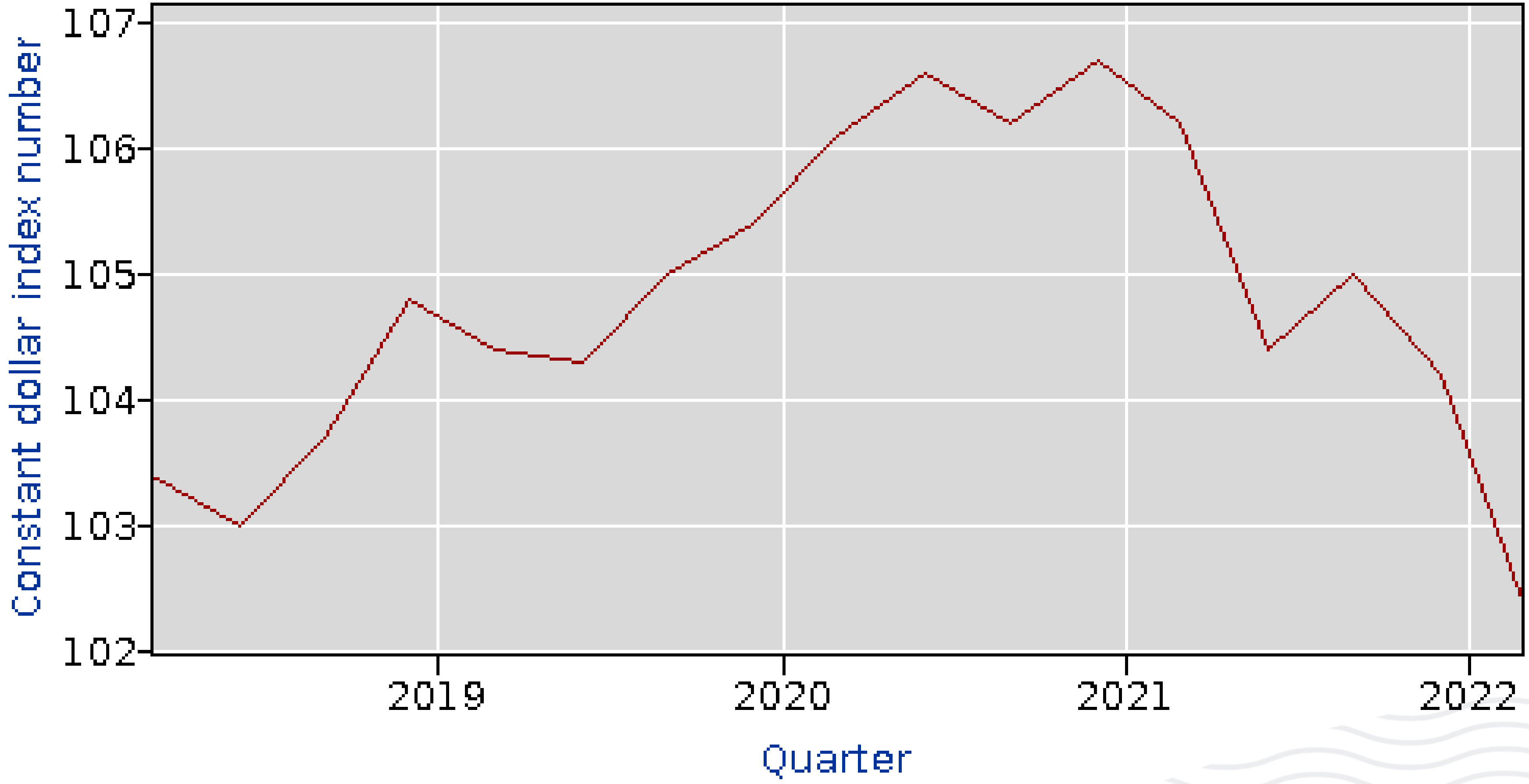


Inflation

- Reminder that it's not inflation itself that is likely the cause
  - Relative pricing & elasticity
  - Purchasing power
  - Real wage growth

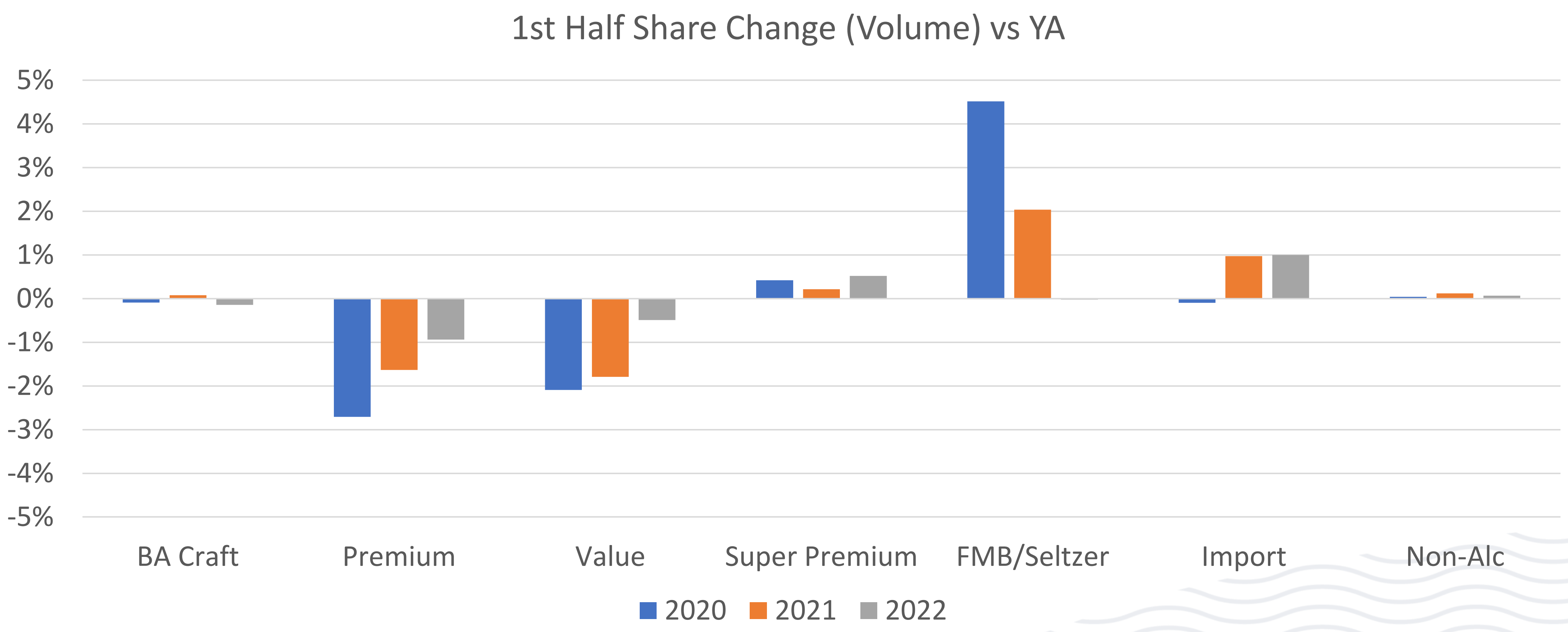


Real Wage Growth has Stalled

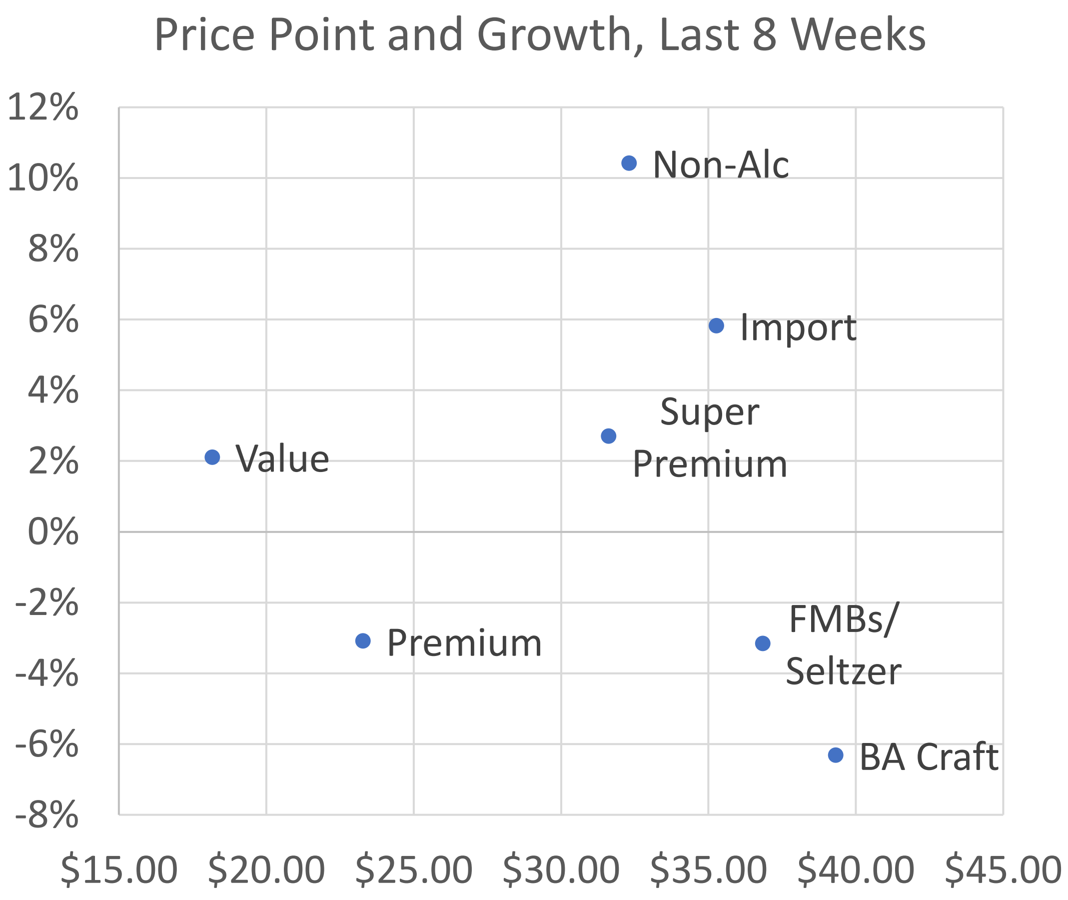


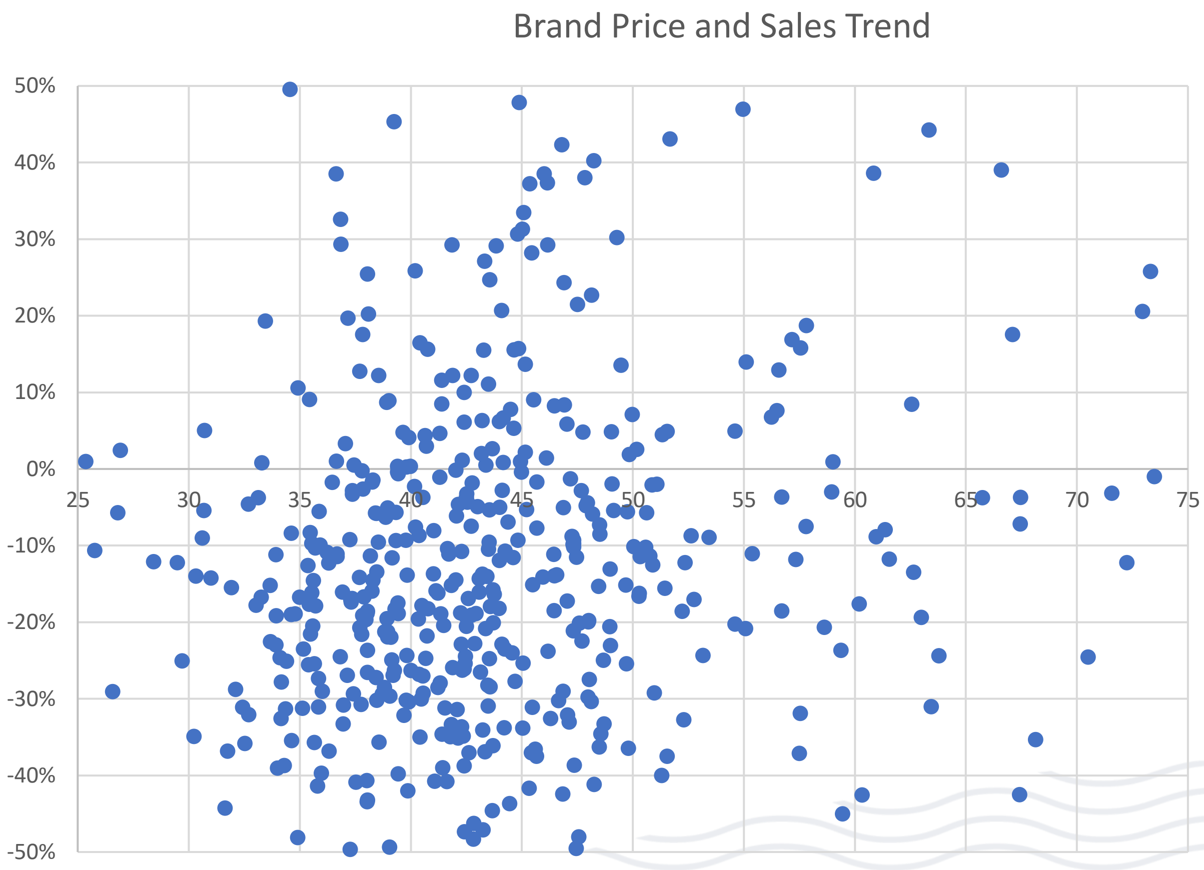
Source: BLS; Employment Cost Index (ECI)

Trade Down? Or Premiumization Slowdown?

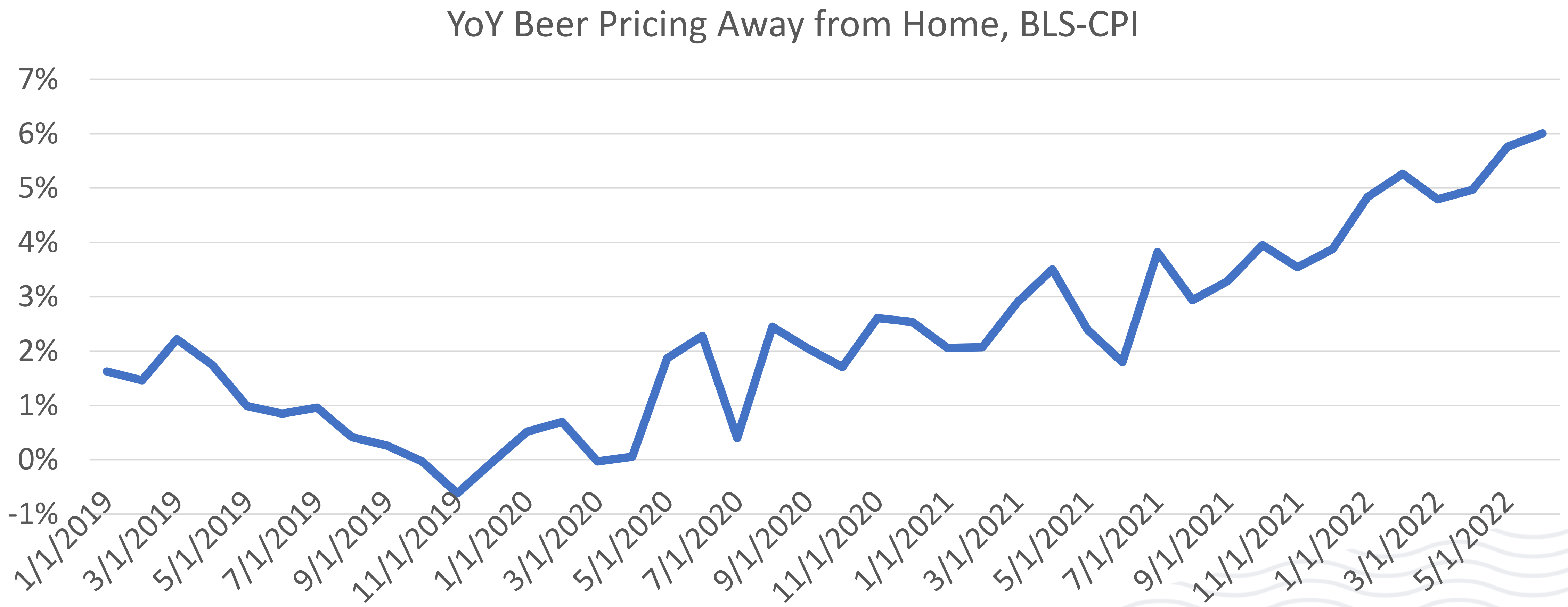


Trade Down? Or Other Factors?



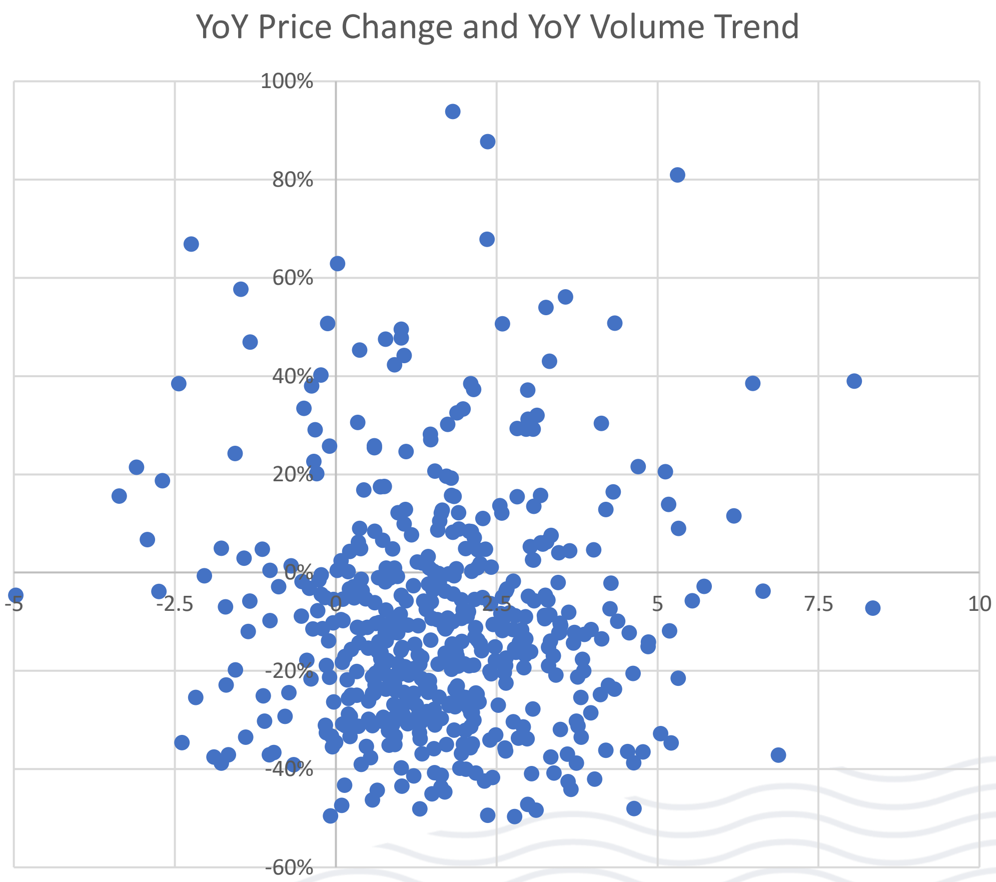


On-Premise Pricing Stronger



Brand Strength Key

- All else equal… but all else is usually not equal
- Individual brand factors and competitive set still critical

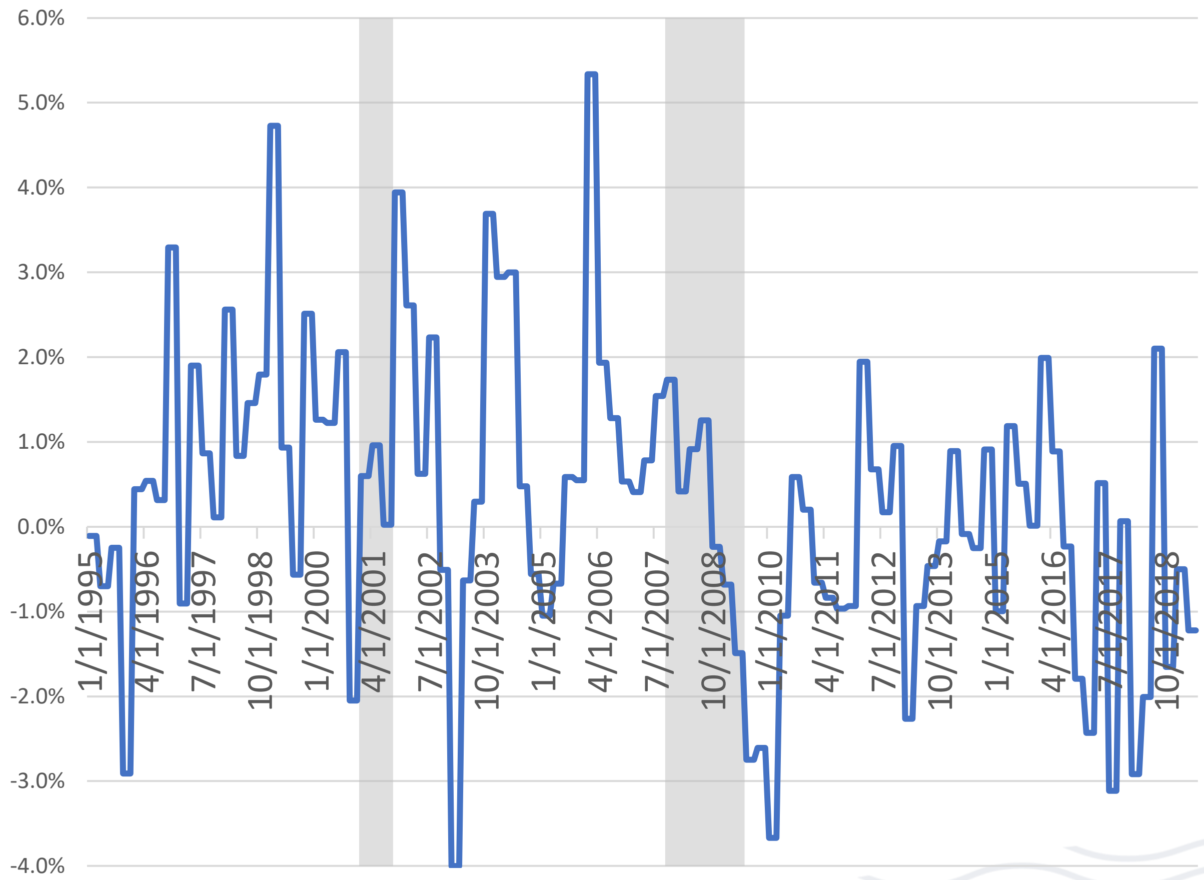


Pricing Analysis

- More sophisticated analysis
  - Models suck – LOTS of unexplained variation
- Controlling for other factors
  - Brand size weakly positive (not statistically significant)
  - Price changes negative (not statistically significant)
  - Higher priced brand positive (significant; log model better)

Recession

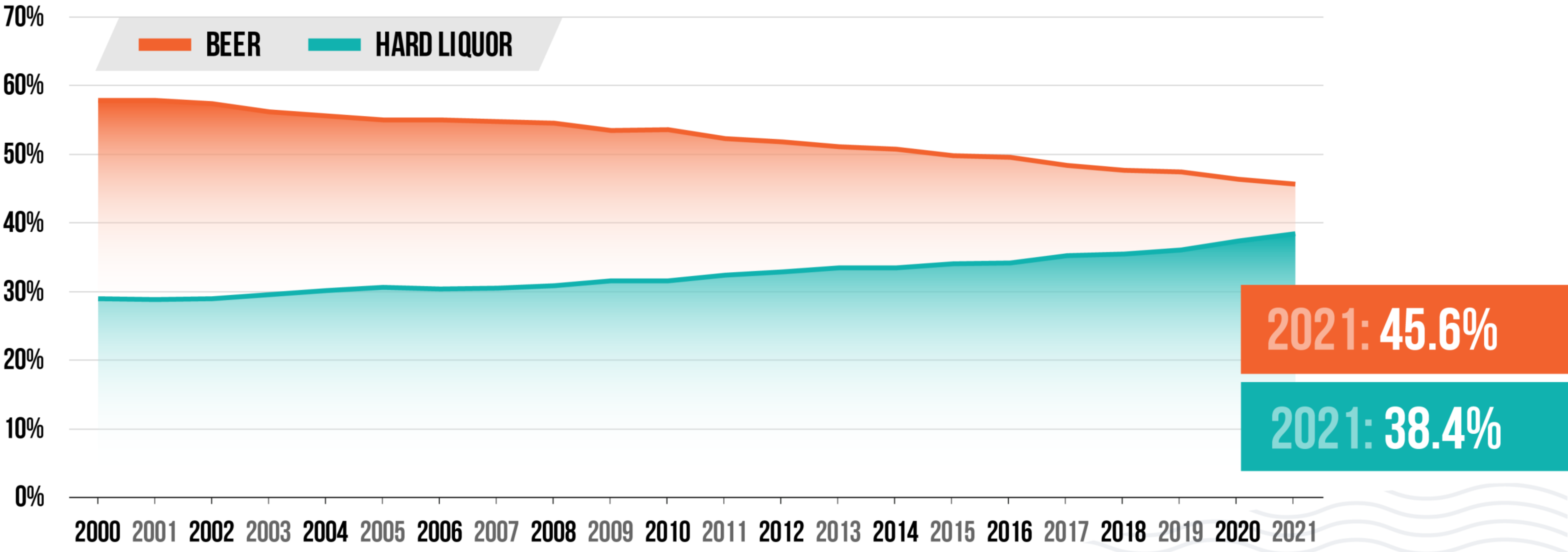
- 10 quarters covered by recessions avg 0.08% growth
- 88 covered by growth average 0.27% -- so growth quarters were better
- Difference isn't statistically significant
- Pricing a factor post 2008 recession
- Every recession is different…



Or Changing Market

- Backdrop of beer share loss
- Distributor and retailer rationalization
- Consumer acceptance of cuts
  - 39% of weekly craft beer drinkers think there is too much/more than enough selection vs 17% not at all enough/not nearly enough
- More competition in fuller flavor (RTDs/FMBs)

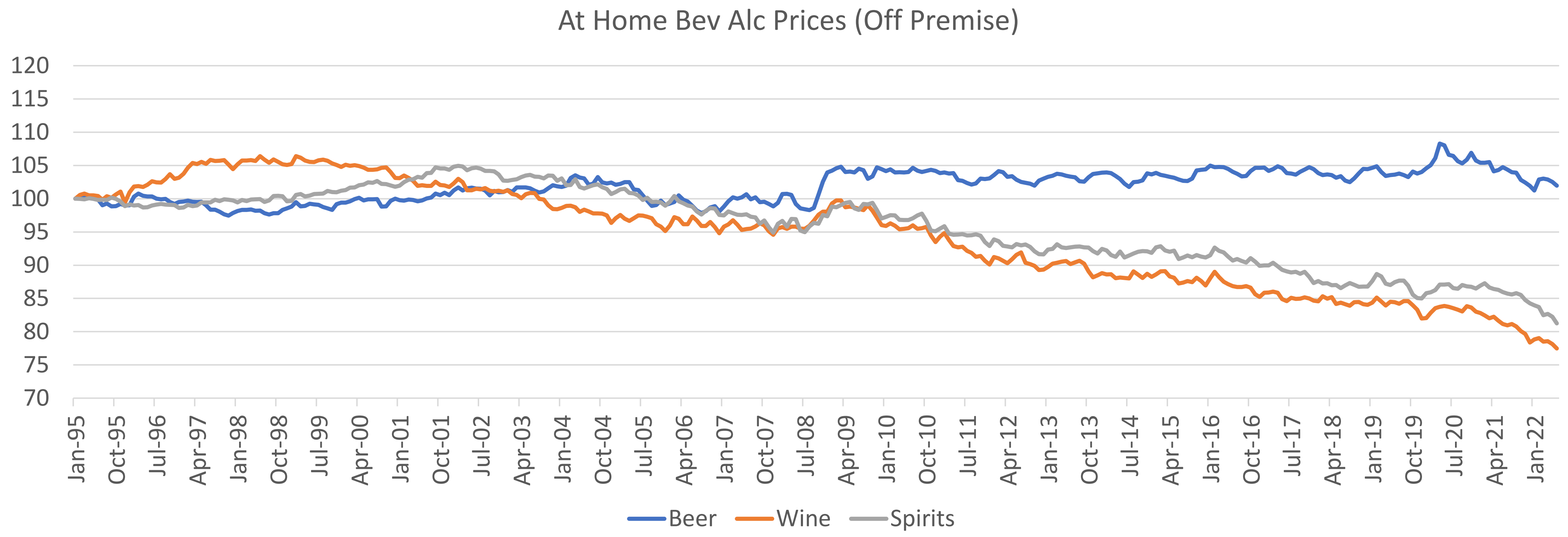
Beverage Alcohol Share



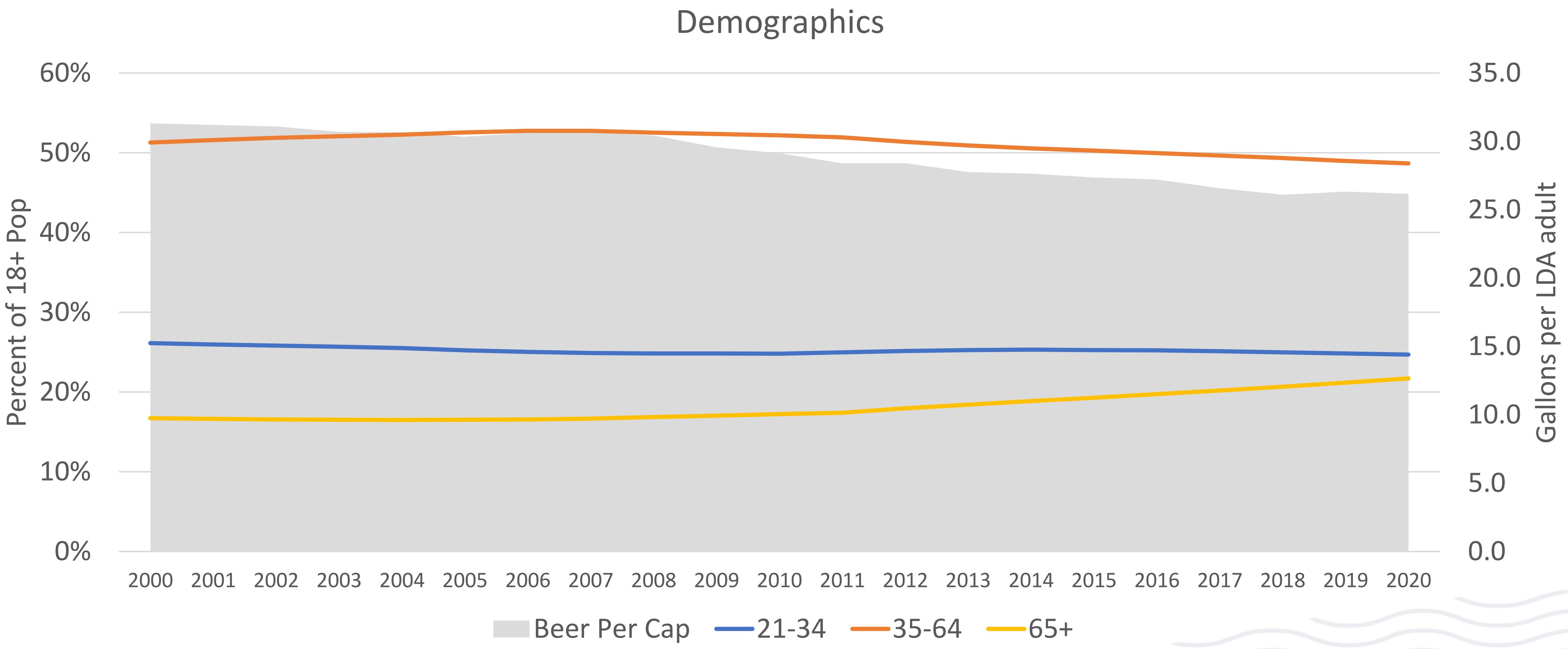
Beer Share Loss Isn't Rocket Science

1. Pricing
2. Demographics (and preferences)
3. Marketing/branding
4. Distribution/accessibility

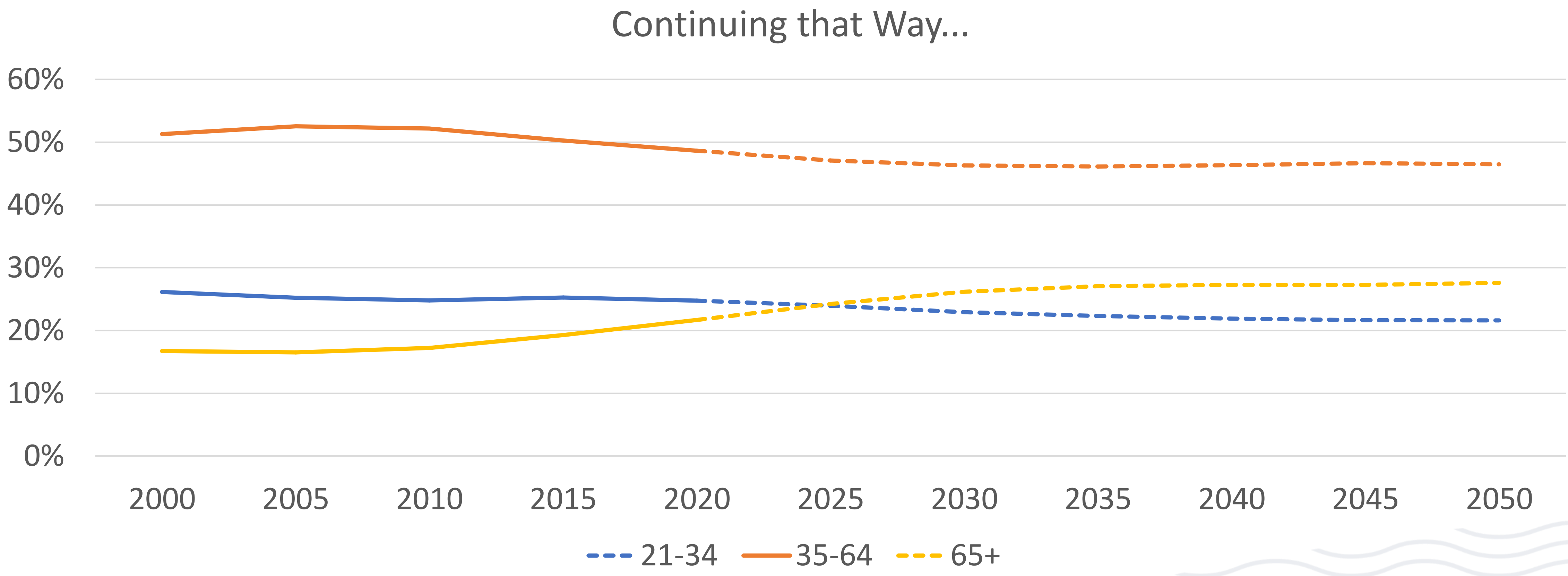
This Isn't Rocket Science - Pricing



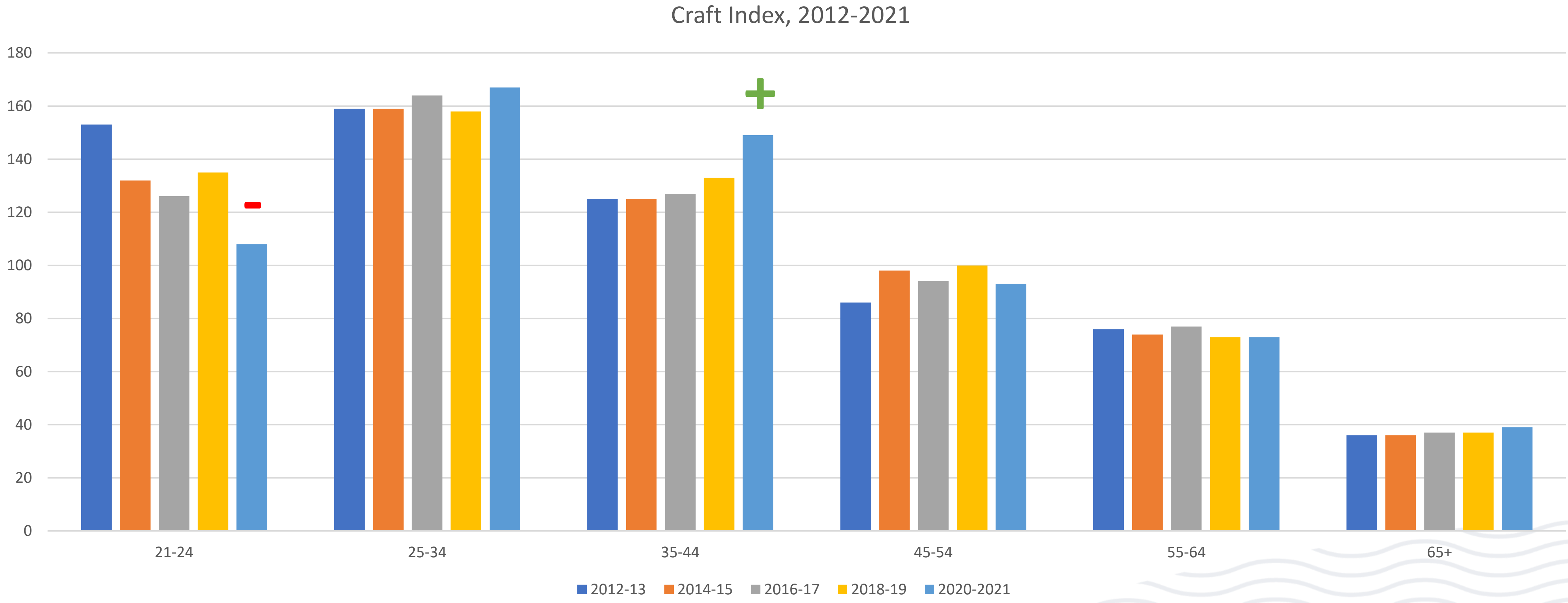
This Isn't Rocket Science - Demographics



This Isn't Rocket Science - Demographics



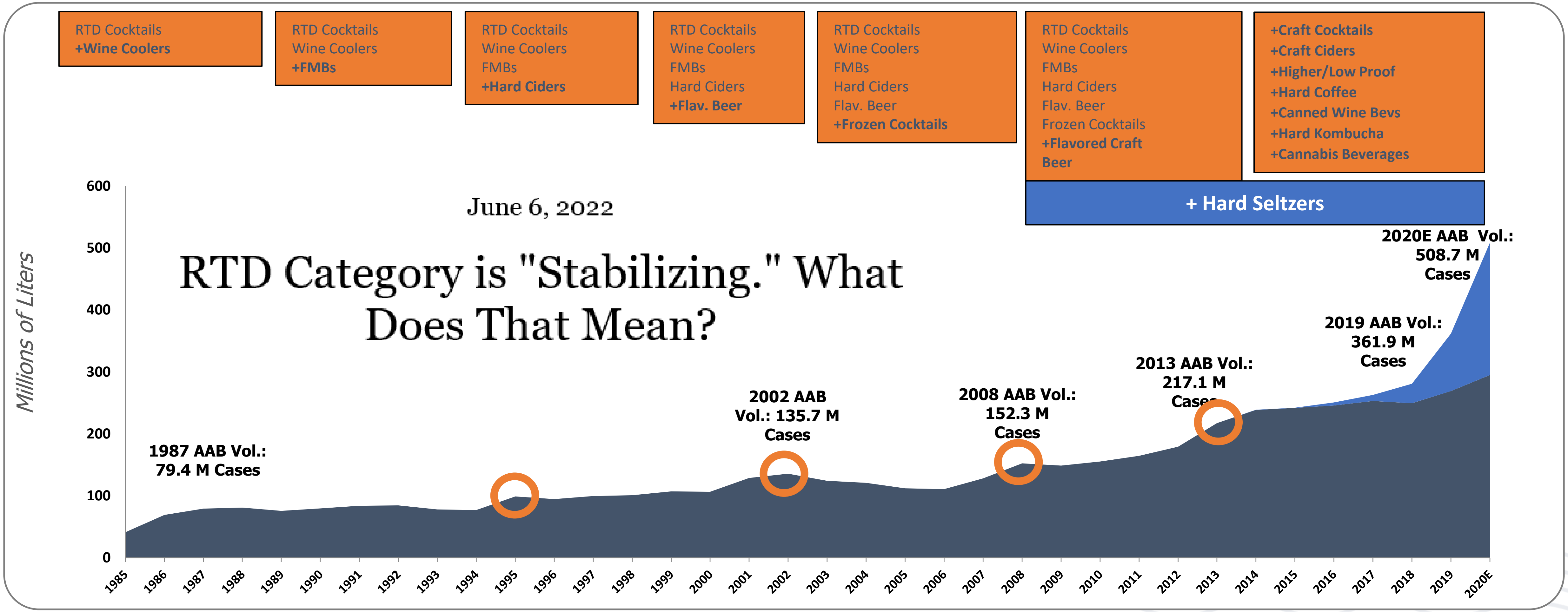
Craft Has Short-Term Tailwinds, but Headwinds Emerging…



4th Category Competition

- Only so many shelves
- Seltzer has cooled, but… 4th category still coming
  - Not just RTD spirits. YTD FMB category (minus seltzer) is up the equivalent of half the NA category in volume
- Opportunity for some, but threat for beer

Category Has Steadily Grown



Source: DrinkTell , BMCSA Analysis

RTD Liquor Will be a Very Different Challenge than Seltzer

Current market leaders are actually outside of distilled spirits
#1 High Noon = Gallo (Wine)
#2 Cutwater = ABI (Beer)

Next round of entrants is going to be heavy hitting spirits brands

Demand cues similar to craft (flavor/variety)

State Activity

In Brazil, Coca-Cola is getting ready to launch a line of premix cocktails.
"Brazil is a place where the licensing laws are relatively soft," Mr. Quincey said. "So, there's a big overlap in the distribution footprint between the soft drink industry and the alcohol industry."

Source:
https://www.foodbusinessnews.net/
June 6, 2022

2021–2022

What to Watch Back Half of the Year

- Yes, the economy matters, but how it matters depends on your brand, and it probably matters less your brand strength and positioning
- No matter the economy, competition is increasing in distribution, both within beer and beverage alcohol
- First real look at the “new normal” (which as always, will be changing)

Next Time

- Enjoyed this? Or even if you didn't!

BA COLLAB HOURS

2022 Harris Poll Data: A Look at the Craft Beer Consumer

Member Exclusive

August 25, 2022

10:00 AM PT - 11:00 AM PT
11:00 AM MT - 12:00 PM MT
12:00 PM CT - 1:00 PM CT
1:00 PM ET - 2:00 PM ET

COLLAB HOUR
Weekly Webcast for Members

Delve into the annual Craft Insights Panel survey conducted by Harris Poll to understand the changing preferences of craft beer drinkers.

REGISTER NOW   Add to Calendar


OPPORTUNITIES, BUT NO GUARANTEES
New Generations
New Opportunities
New Challenges
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