Button Up

Gauging Heavy Winds

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Beer Marketer's INSIGHTS

US Craft: 2018

New York Craft Brewers Conference
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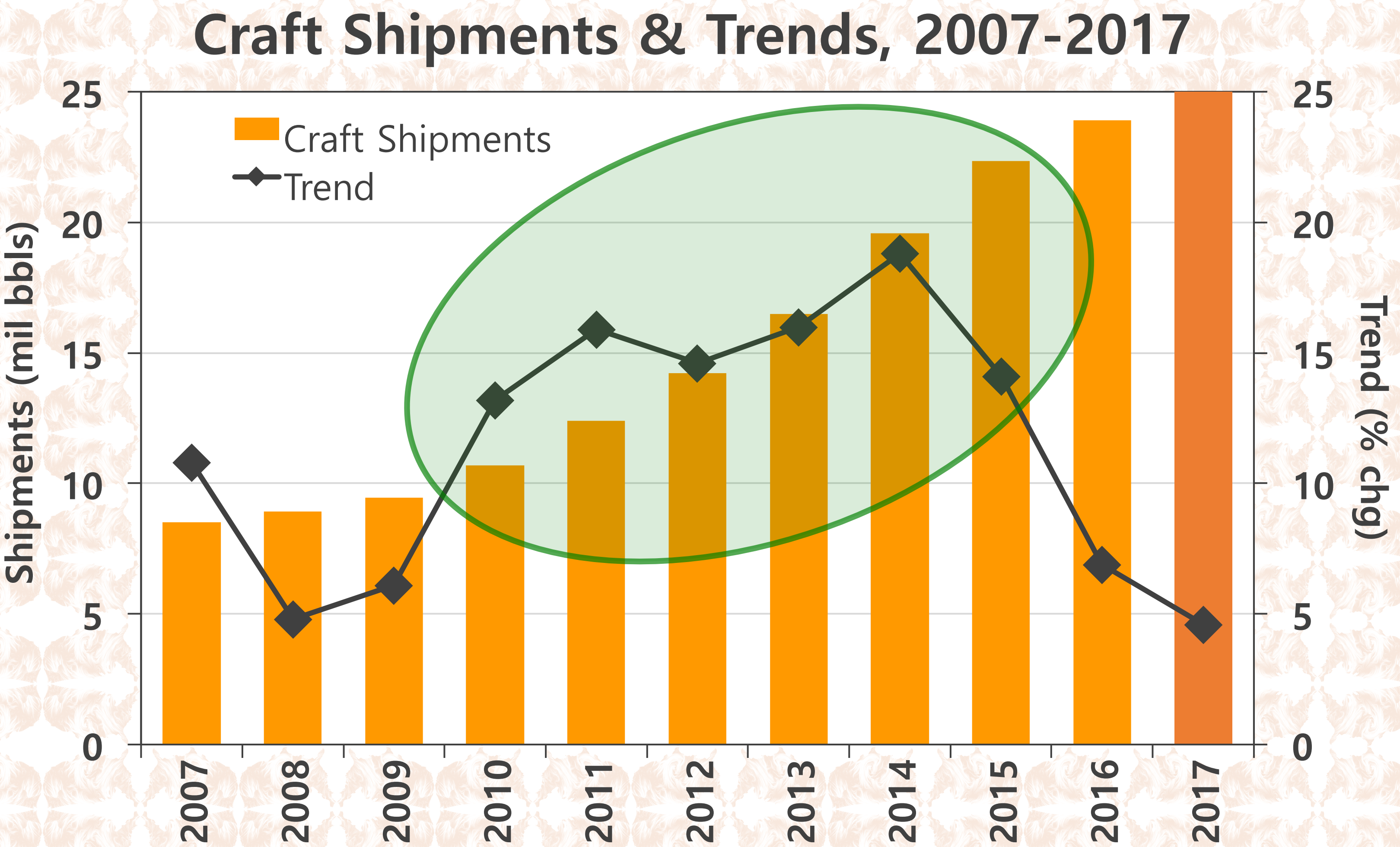
Wind Map / Fernanda Viegas & Martin Wattenberg [hint.fm]

Craft downshifts out of “the go-go years”:
+16.5 mil bbls in 10 years; >3/4 of that 2010-2015



- Craft volume nearly tripled in 10 years
- 6 years of double-digit growth, +12.9 mil bbls
- 2016: Downshift, +6.9%
- 2017: +4.6%, 1.1 mil bbls

Overbuilt & Underfunded: Recent Craft Headlines

Smuttynose Forced to Be Sold At Auction

(Craft Brew News - vol 9, no 6; Jan 18, 2018)

Remember Speakeasy, Magnolia (& Penn)

Who wants to find a deal? Who needs to?

New Belgium Laid Off 28 … Due to Missed Long-Term Growth Target

Green Flash … Sales Soft, Too Much Capacity and Debt High; … Lays Off 15%

Summit Lays Off 10%+ of 100-Strong Workforce, Expecting 10% Decline…

(CBN - vol 9, nos 19a, 18, 5; vol 8, no 108)

Remember Stone:

Laid off 5%, Oct 2016 +6% in 2016 +12% in 2017

Top craft players a mixed bag in 2017, collectively -0.6%

	Shipments (bbls - 000)	Trend (% chg)
Boston*	*<2,000*	-13.0
Sierra Nevada	1,057	-7.0
Lagunitas*	980	6.8
New Belgium	955	-0.3
Craft Brew Alliance*	725	-3.2
Goose Island*	600	-0.8
Spoetzl (Shiner)	533	-3.1
Founders	467	34.1
Bell's	465	10.2
Firestone Walker	405	14.5
Stone	388	12.1
Deschutes	339	-8.9
Ballast Point	316	-14.7
Brooklyn	293	3.9
Dogfish Head	275	18.0
SweetWater	240	5.9
New Glarus	226	5.8
Matt	198	-2.9
Elysian*	190	100.0
Harpoon	186	-6.1

	Shipments (bbls - 000)	Trend (% chg)
Boulevard*	186	-5.0
Oskar Blues	180	-10.4
Abita*	150	0.0
Alaskan	147	-4.5
Victory	147	6.0
Great Lakes	141	0.7
Odell	126	4.1
21st Amendment	123	17.0
Anchor*	120	-11.1
Schell*	118	-10.0
Summit*	115	-10.0
Southern Tier	109	13.5
Shipyard	107	-1.8
Full Sail*	105	-8.7
Flying Dog*	105	4.0
Troegs	101	12.2
Top 36	**12,914**	**-0.6**
Others	12,082	10.8
Total*	**25,000**	**4.6**

*CBN estimate. All other figures based on data provided by individual brewers.

High-end segments +11.2 share to over 40% in 5 yrs

- **High-end segments source volume from mainstream as consumers trade up to brands with more perceived value**

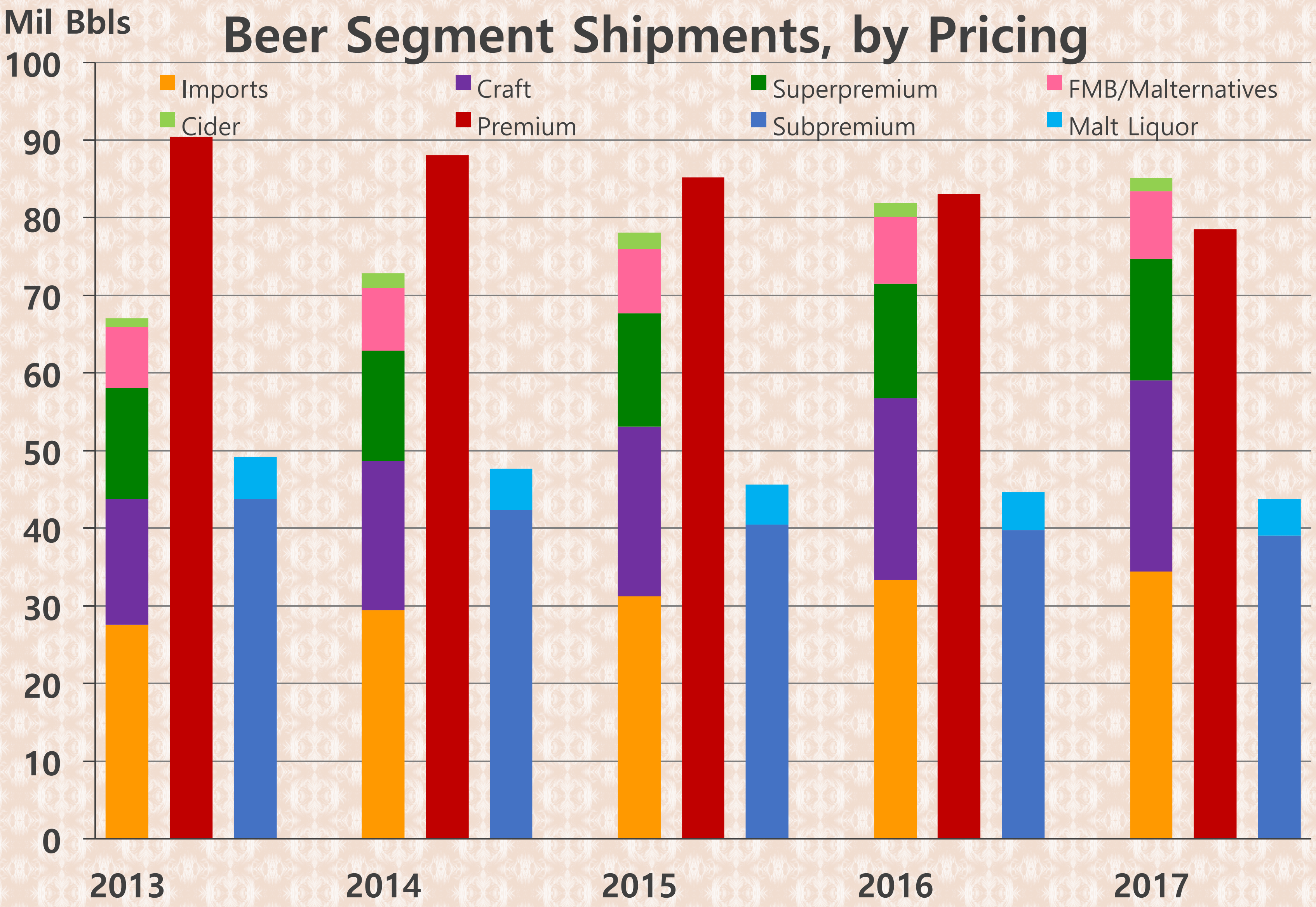
- **2017 Winners:**
  Constellation +1.65 mil bbls, 9%
  Mike's +265K bbls, 15%

  Mich Ultra +21% to 3.6 share
  Modelo Especial +17% to 3.3 share
  now #6&7 brands

- **New launches:**
  Corona Premier, Mich Ultra Gold

- **"Craft Light?"**
  All Day & 805: +874K CEs,
  23% of craft growth in IRI MULC
  Solid Gold, Kona Kanaha, more

  - **Downward pricing pressure?**



- **Other big winners in the beer biz lately? The smallest brewers:**
  Brewers <100K bbls/yr +7 mil bbls, 140% since 2012
  +9.6 mil bbls, almost 400% in 10 yrs
  from 27.1 share of craft in 2009 to 48.3 last yr

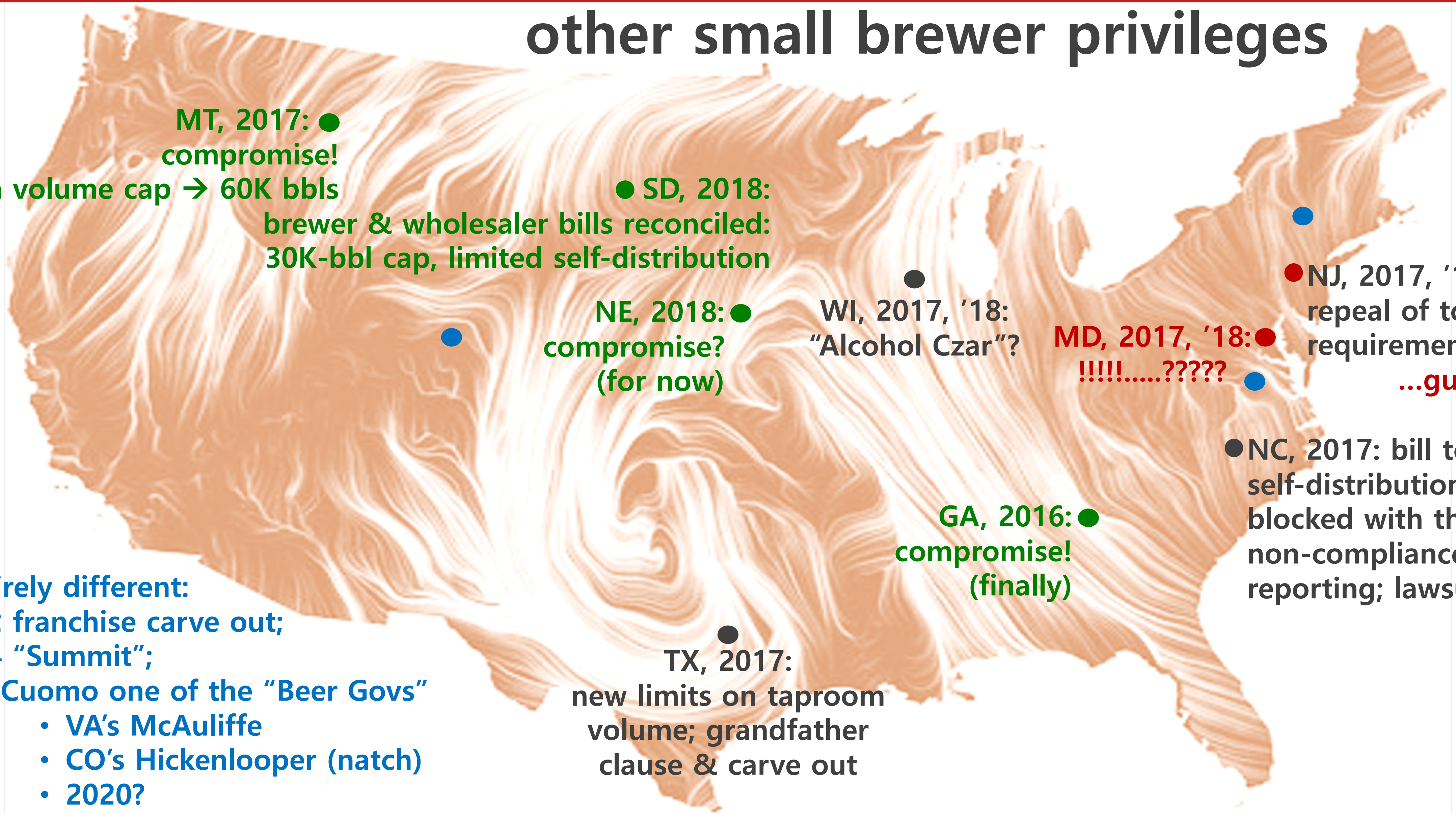
- **Seeing similar opportunities and also succeeding: helping beer drinkers balance consumption with active lifestyles, for example**

  - Yoga classes & running groups; local charities and business groups; tour groups & destination marketing
  - Built organically & require personal touch
  - Create strong bonds that can make all the difference

Small brewers build bizzes by building networks

- **Local bizzes face local problems:** landlords, zoning boards, neighbors, banks…

Legislative Notes: Mounting pushback against taprooms, other small brewer privileges



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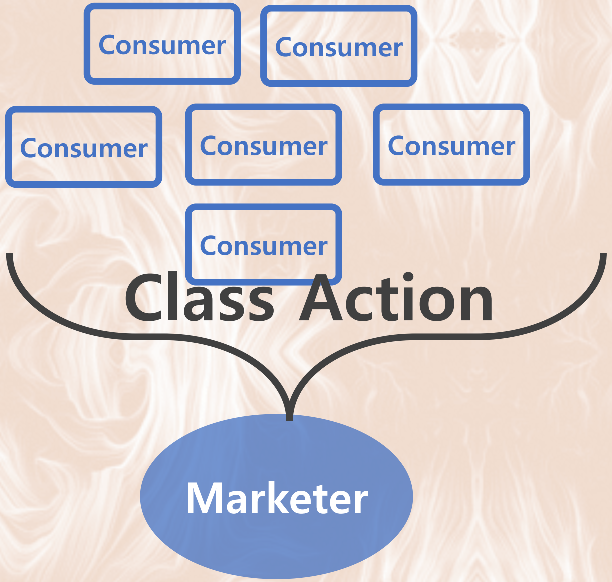
See: Texas & North Carolina

Brewers v. state (regulators), charging aspects of 3-tier laws unconstitutional

Rarely fought alone; broad implications

See also: suits brought by retailers; 3rd parties



See: Kona, Blue Moon, Trouble; "Imports"

Consumers v. marketers (brewers), claiming "misleading" marketing

"Craft," "handmade"; more about place of origin

Results mixed; attys enriched

NEWSFLASH: Lawsuits are $$$$$$$!!!

See: Left Hand v. White Labs; SysTech

Brewer v. supplier, claims vary: quality concerns

Often connected to other issues

See: Stone v. MillerCoors, so many more

Brewer v. brewer, claiming infringement of IP/TM protection

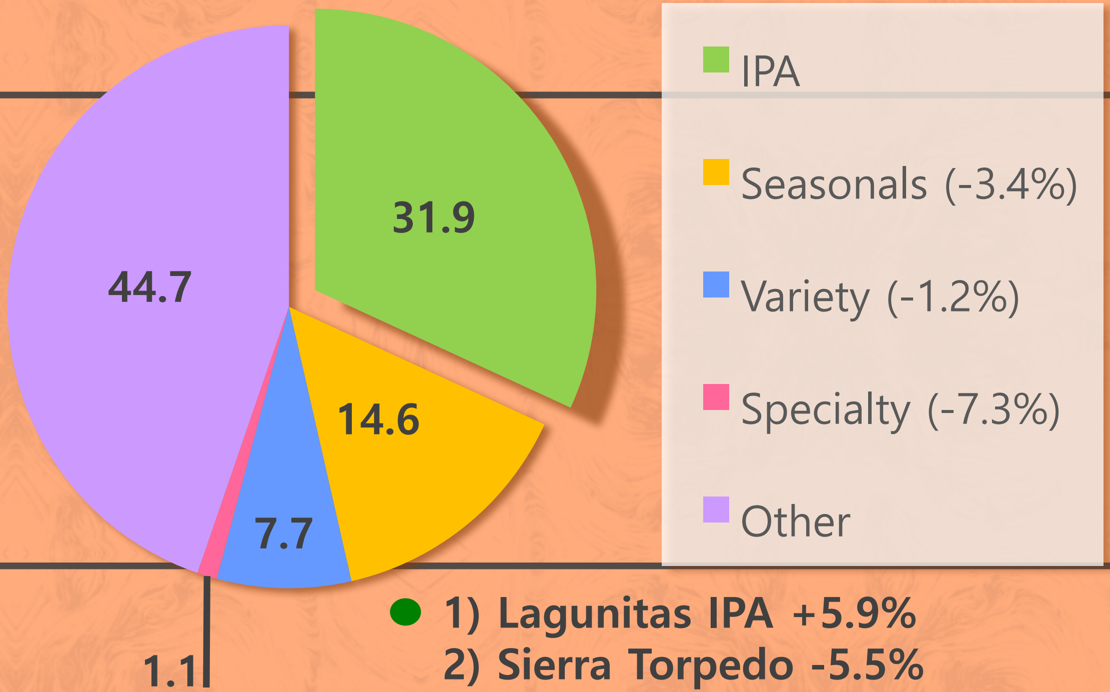
"Nuisance" or no?; public appeals

Artist/IP-owner v. brewer?

NEWSFLASH: Haze is $$$$!!!

Share of Craft $$

52 wks to 1/28/18, IRI multi-outlet + convenience



1) Lagunitas IPA +5.9%
2) Sierra Torpedo -5.5%
3) All Day IPA +49.1% *(#2 YTD)*
4) Goose Island IPA +27.6%
5) Bell's Two Hearted +25.2%

(Lagunitas Little Sumpin' +6.5%)

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…as are IPAs, generally…

IPA: #1 Style and Gaining

(52 wks to 1/28/18, IRI MULC)

- Craft +$222.5M, +5.8%; +4M CEs, +3.8%
  IPA +$179.1M +16%; +4.2M CEs, +14.9%

- IPA +2.82 share of $$ to 31.9
  (without seasonal, variety, specialty IPAs)
  +3.1 to 32.7 for 12 wks
  +2.9 to 35.6 for 4 wks

6) New Belgium Voodoo Ranger +38.9%
7) Elysian Space Dust +208.1% *(#5 YTD)*
8) Sam Adams Rebel IPA -23.4%
9) Stone IPA +0.2%
10) New Belgium Voodoo Imperial +96.1%

(Deschutes Fresh Squeezed +16.5%)

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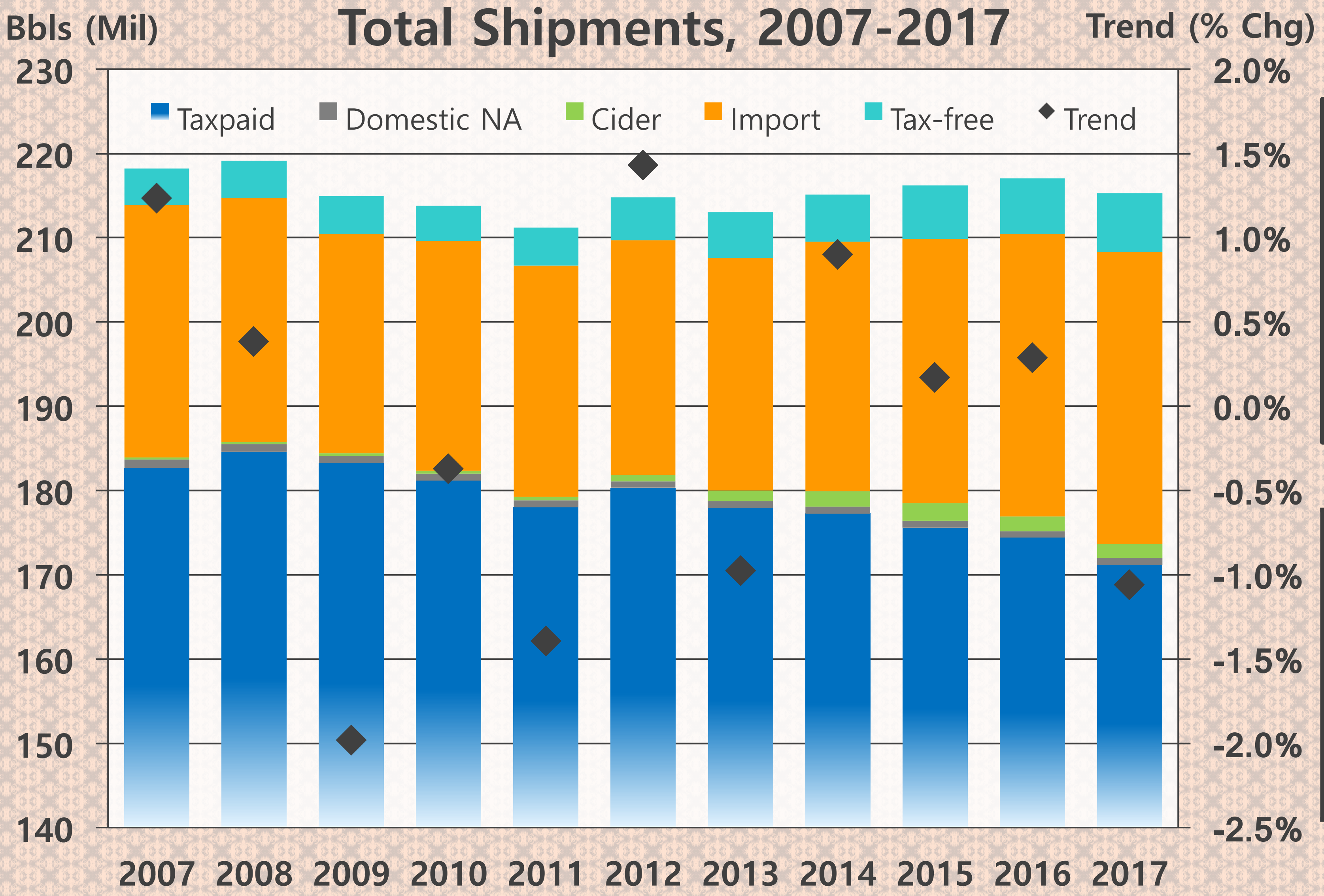

- **Total Shipments -1.1% in 2017**
  -1.4% since 2006
- **Domestic taxpaids -1.8%**
  -7.2%, 13.4M bbls since 2008
- **Imports +3.2%, 1M bbls**
  +33%, 8.6M bbls since 2009

Share of Absolute Alcohol Consumption, YOY Chg

	1980	1996	2006	2016
Beer	50.3	59.3	55.3	49.6
Wine	12.3	12.8	14.7	15.8
Spirits	37.4	27.9	29.9	34.6

Total beer volume challenged as spirits gain

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NEW WINDS BLOWING…

New Generation:

Surveys of Gen Z suggest "less interested" in drinking

Just turning 21 now

Will aging change them?

Cannabis:

Incidence of use rising (esp. among younger gen)

"Share of buzz"?

Share of wallet

…A PERFECT STORM?

Will it really be that bad? Absolute alcohol consumption barely changes
Engaged consumers, too: good for small companies?
Why drink less? Are there benefits to beer vs wine/spirits?

THANKS!

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