California Craft Brewing: A Contradictory Market

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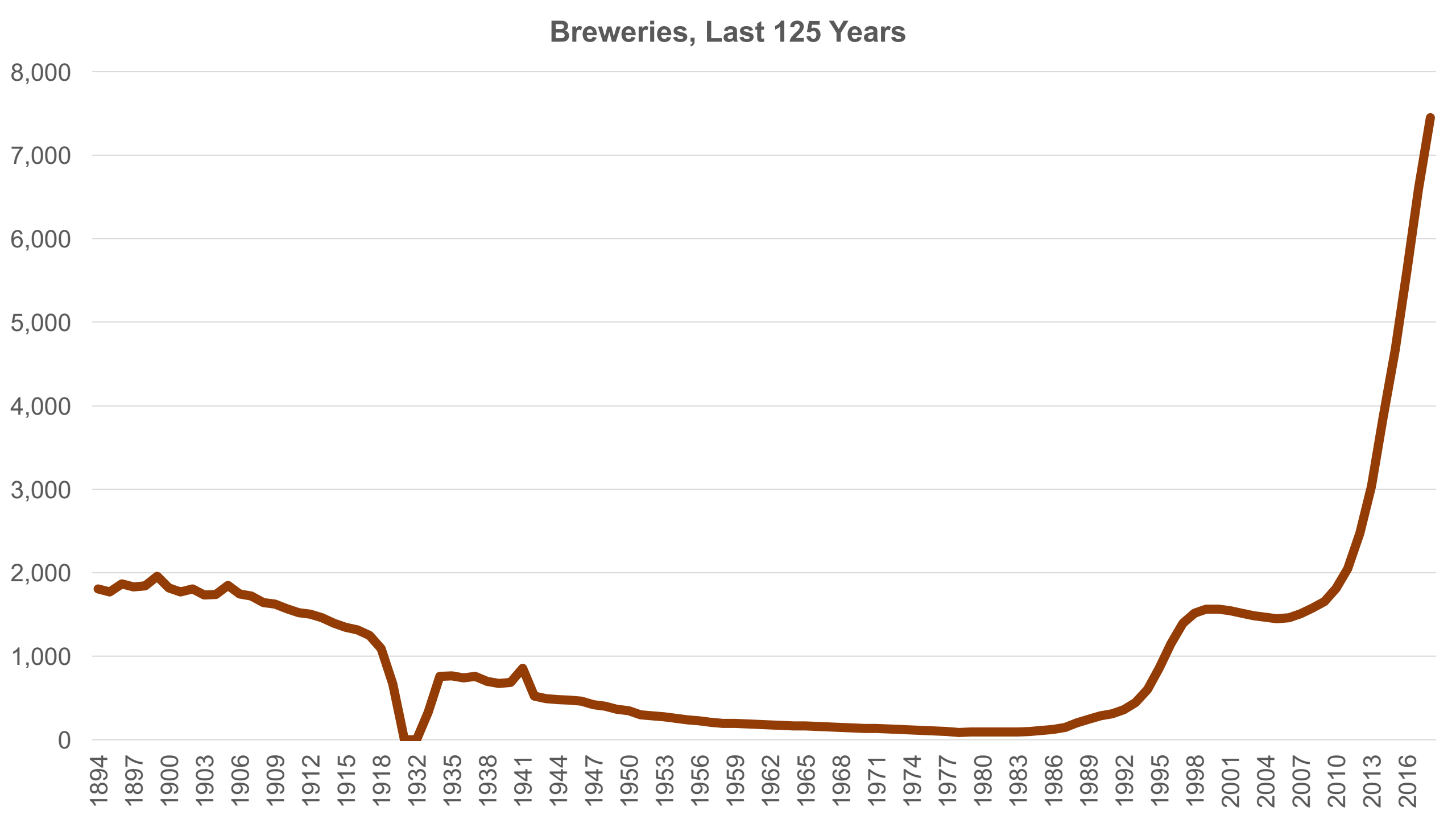
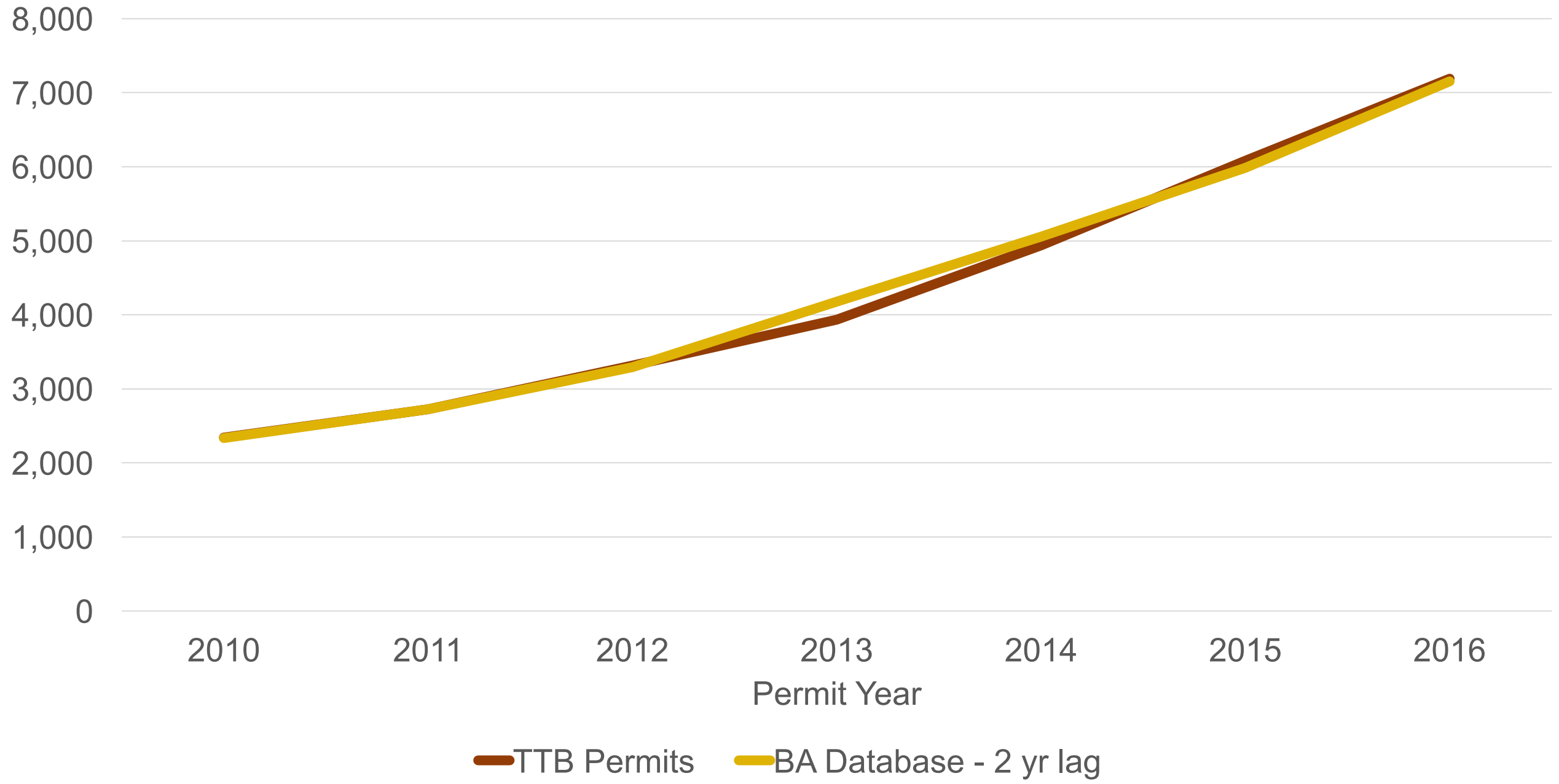
The Big Contradiction

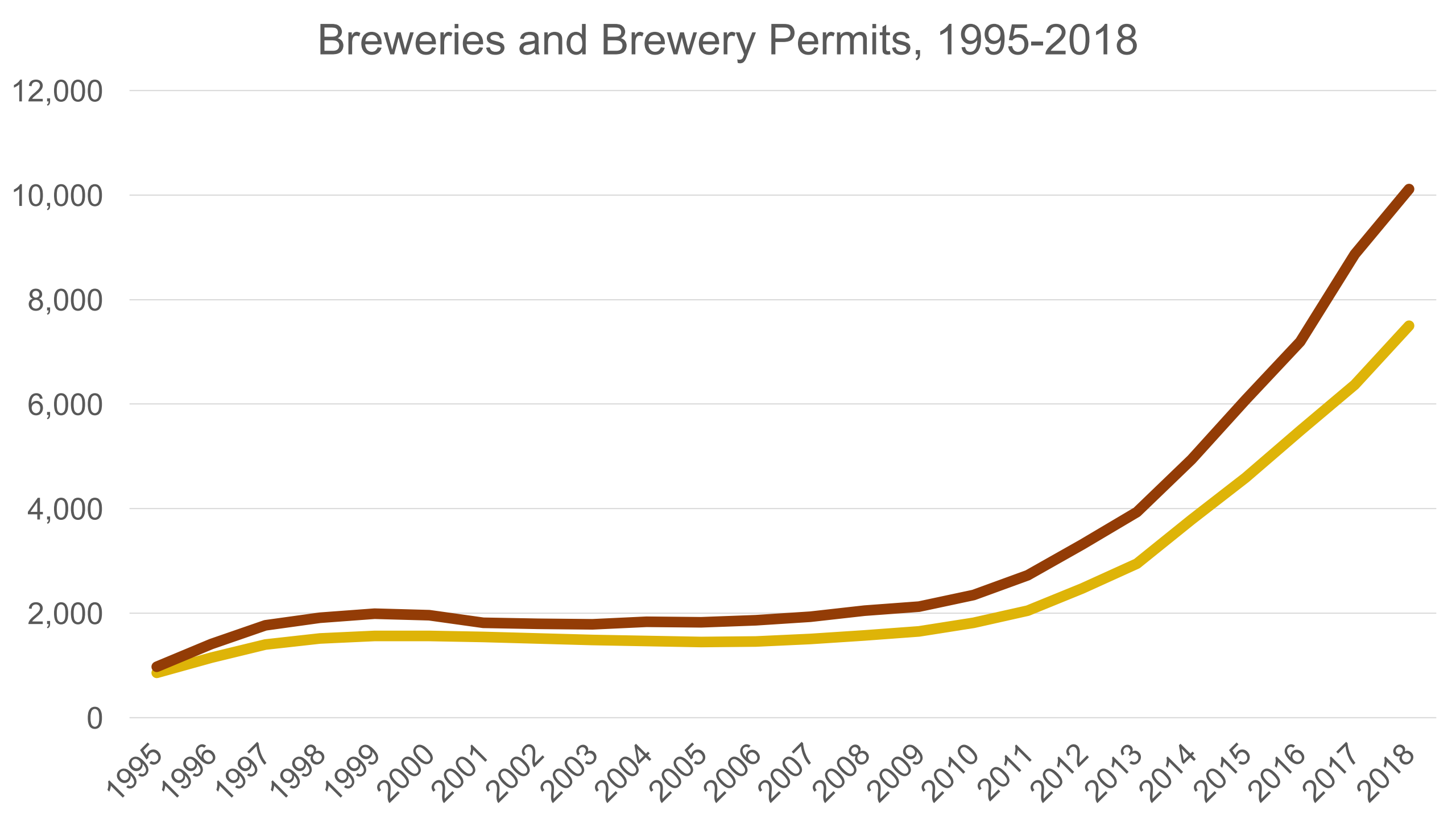
The segment has never been stronger

The market has never been more competitive


Breweries, Last 125 Years
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
1894
1897
1900
1903
1906
1909
1912
1915
1918
1932
1935
1938
1941
1944
1947
1950
1953
1956
1959
1962
1965
1968
1971
1974
1977
1980
1983
1986
1989
1992
1995
1998
2001
2004
2007
2010
2013
2016

TTB Permits vs Dec Active, 2 years Later




Breweries and Brewery Permits, 1995-2018
12,000
10,000
8,000
6,000
4,000
2,000
0
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018

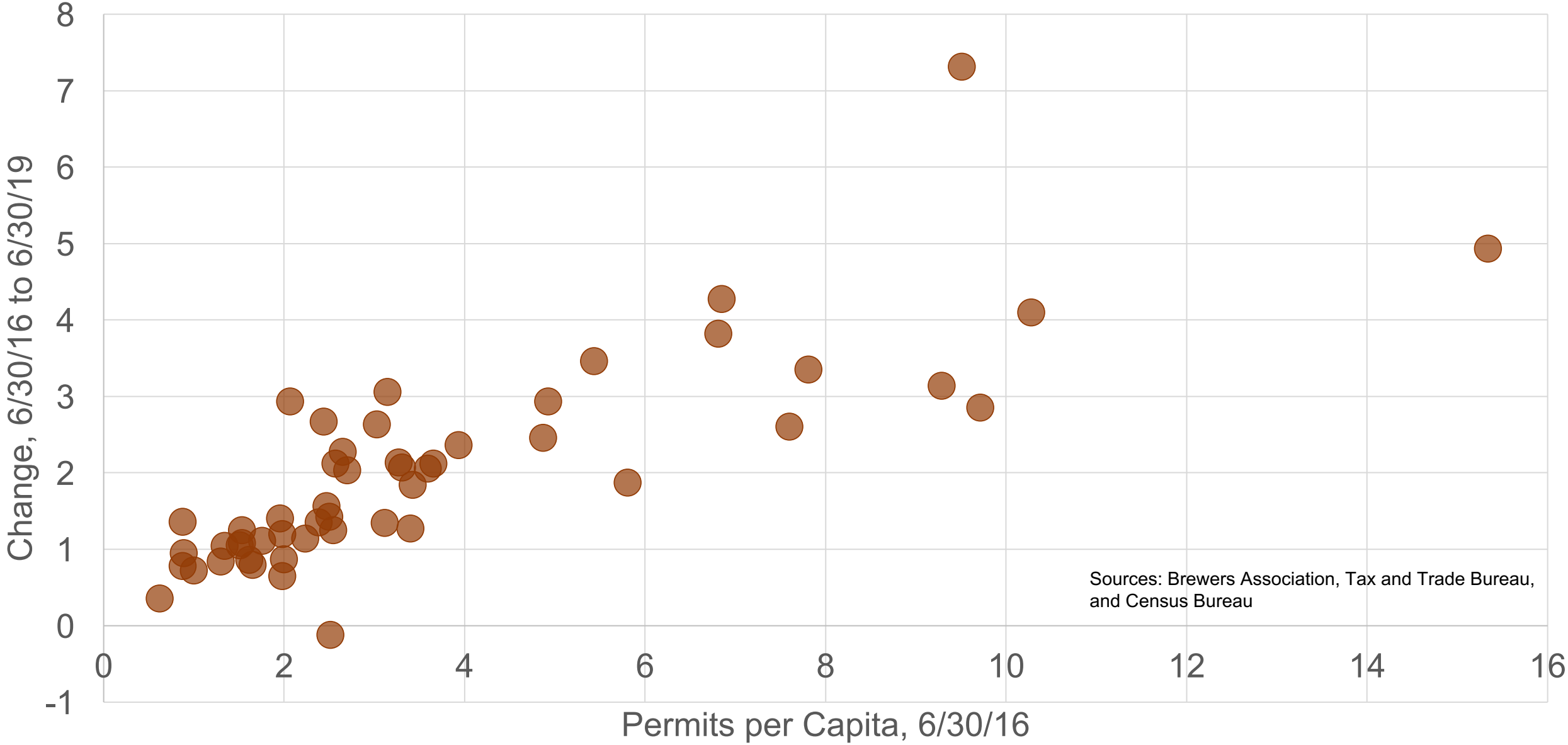
California Right Now

- 863 Active Breweries
- 1,255 Active CA Licenses
- 1,293 Active TTB Permits

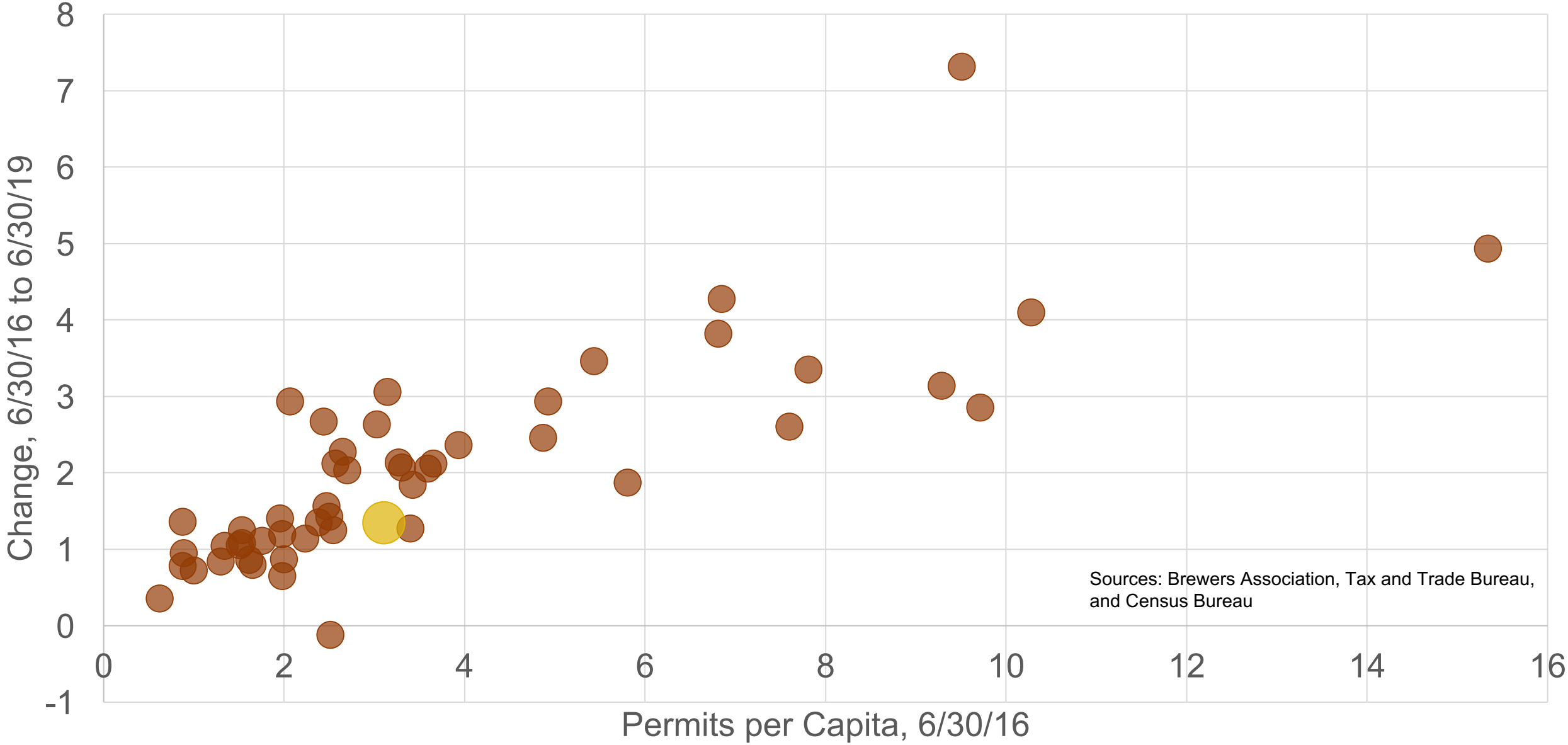
Founded: 1981

Founded: 1981

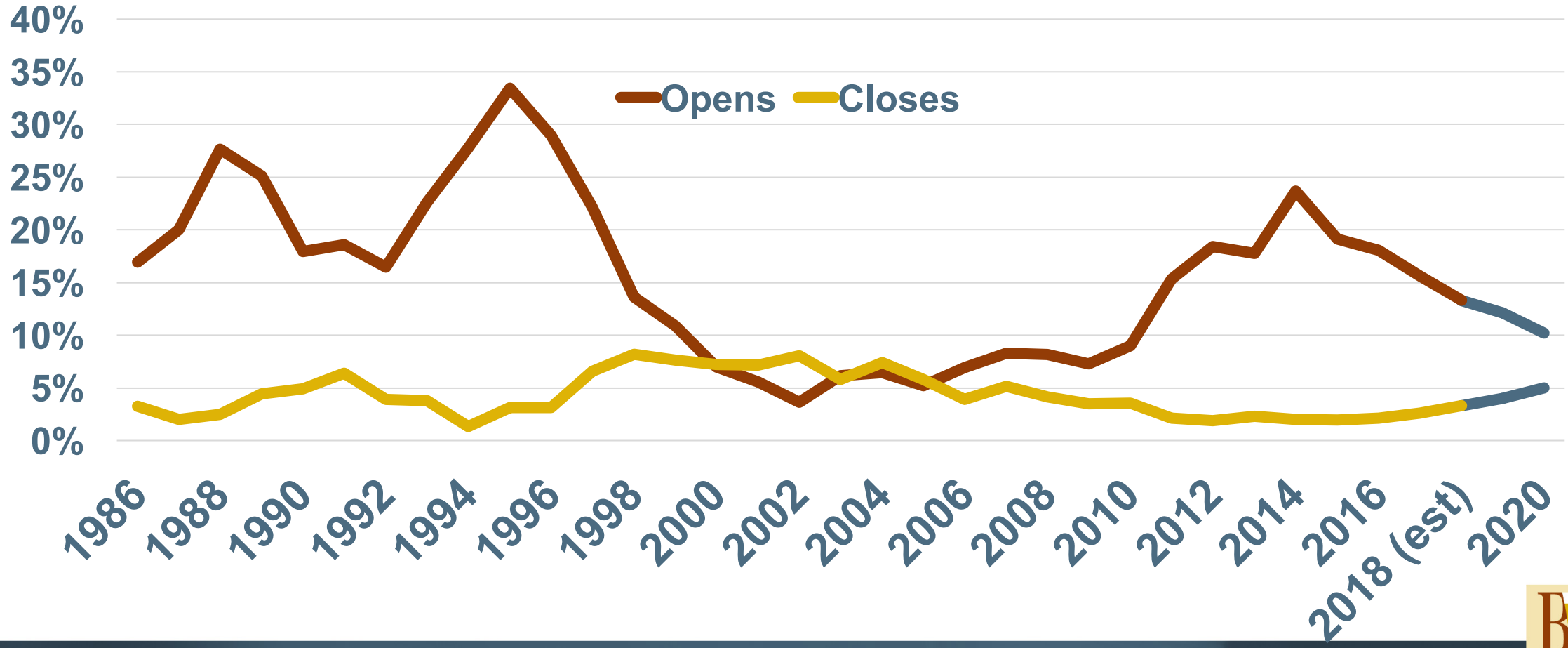
Permits per Capita 6/30/16 and Ch. in Permits per Cap 6/30/16-6/30/19



Permits per Capita 6/30/16 and Ch. in Permits per Cap 6/30/16-6/30/19



Opens/Closes as % Of Operating Breweries, 1986-2018



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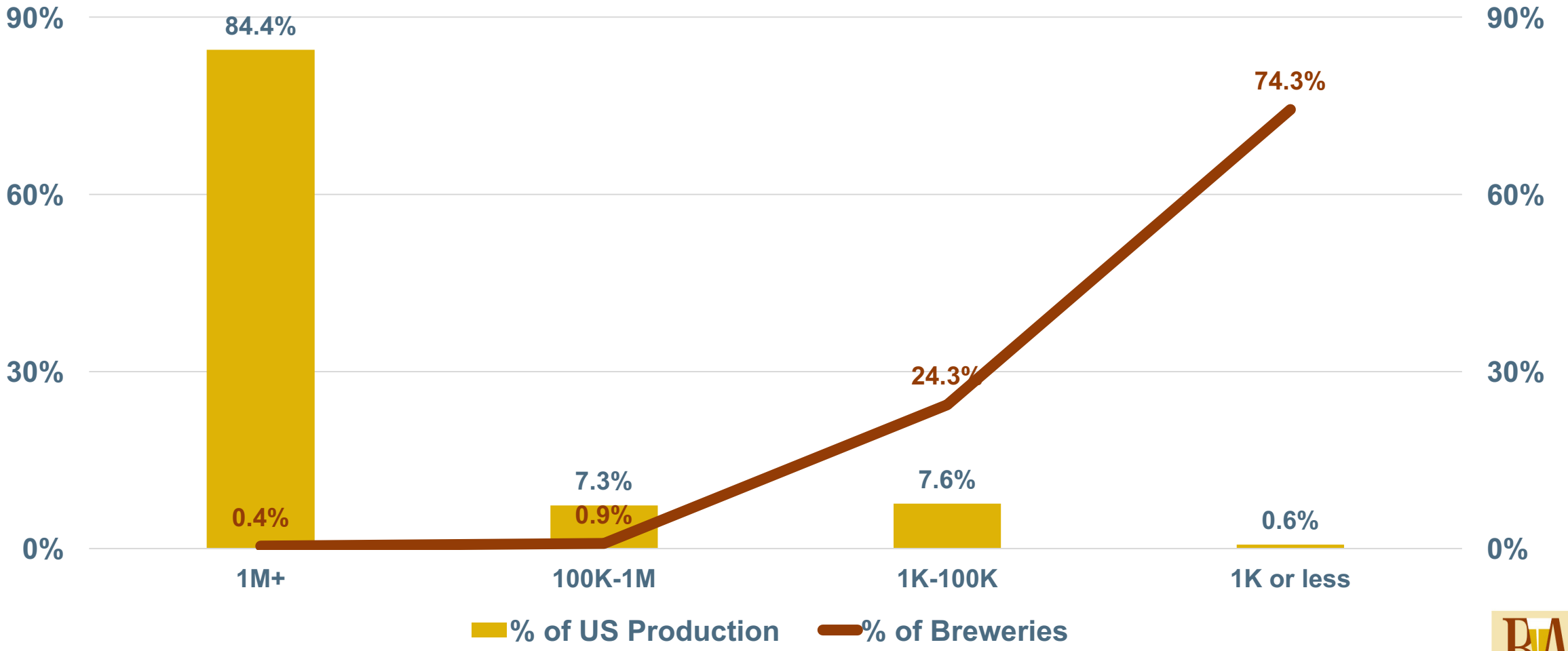
2017 US Breweries by Size



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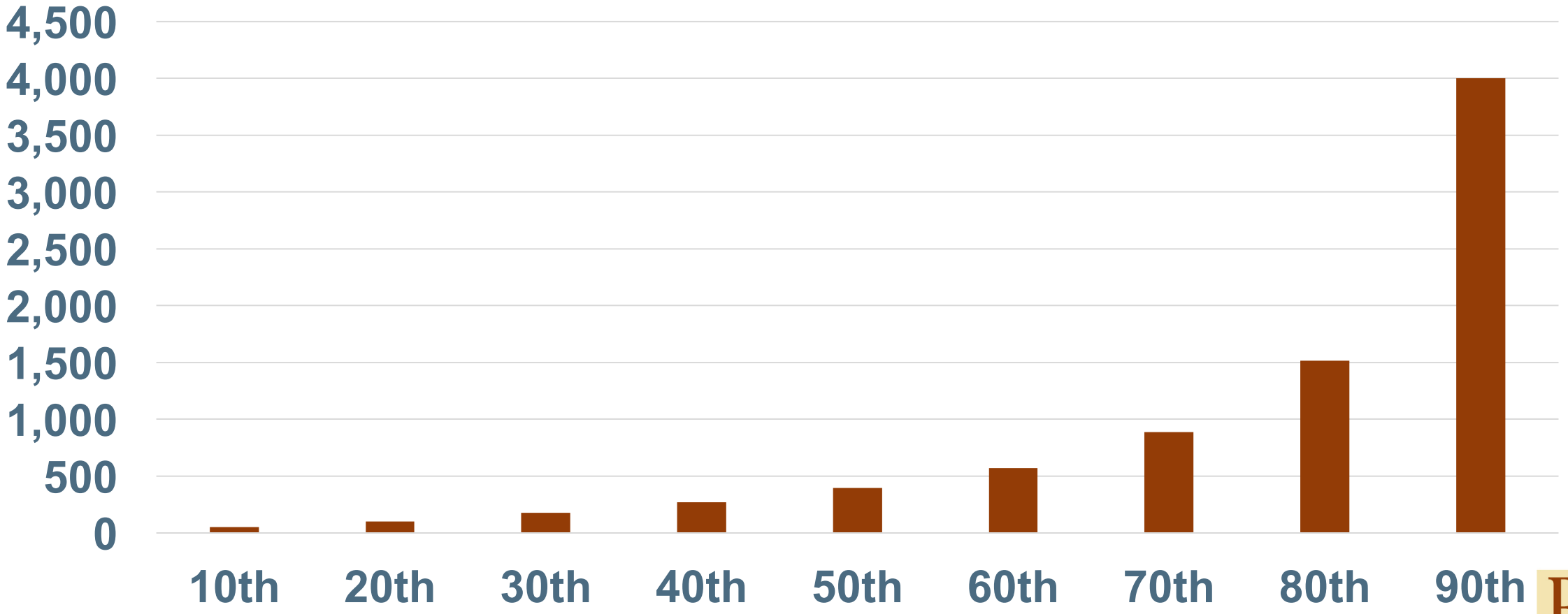
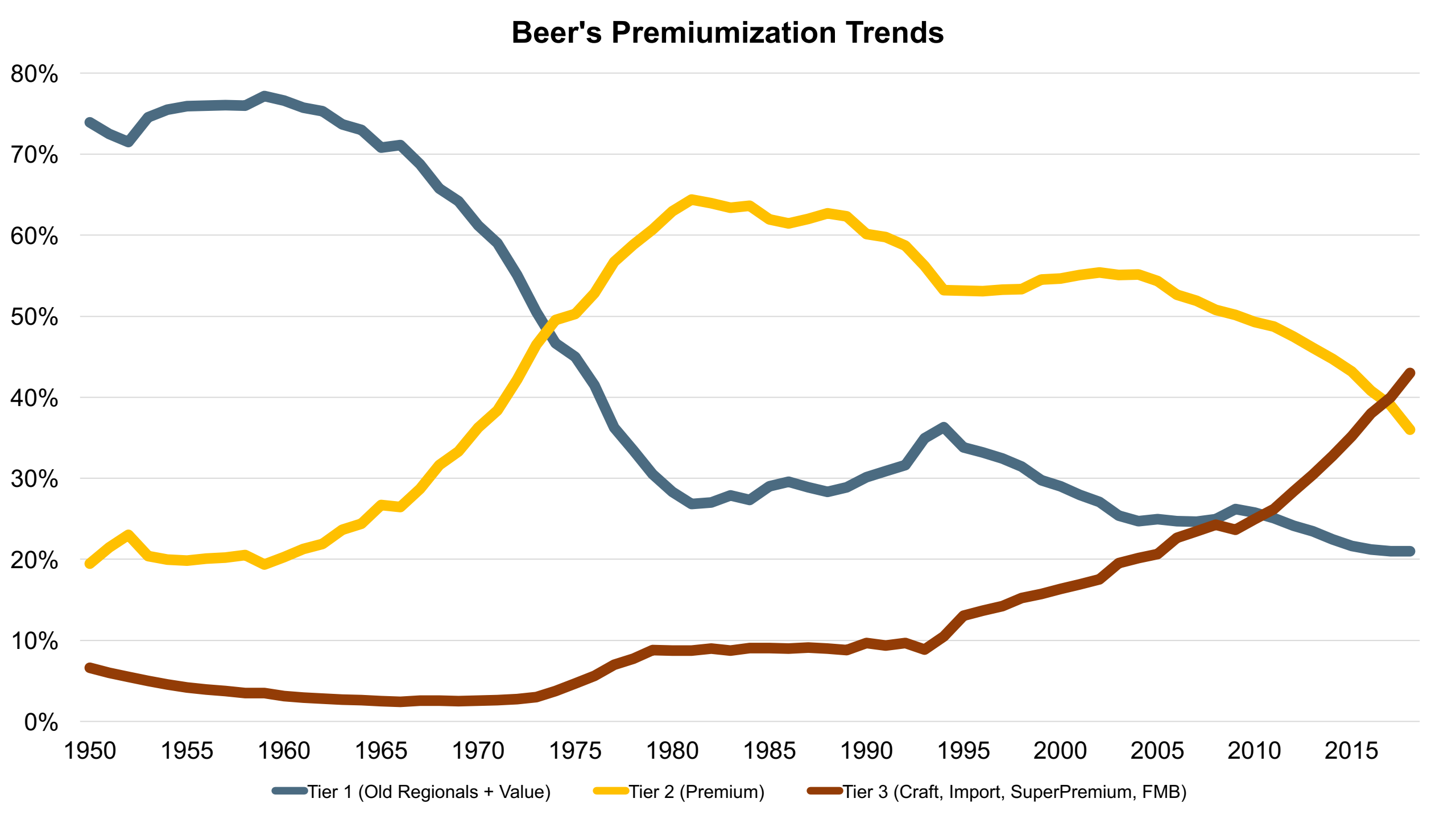
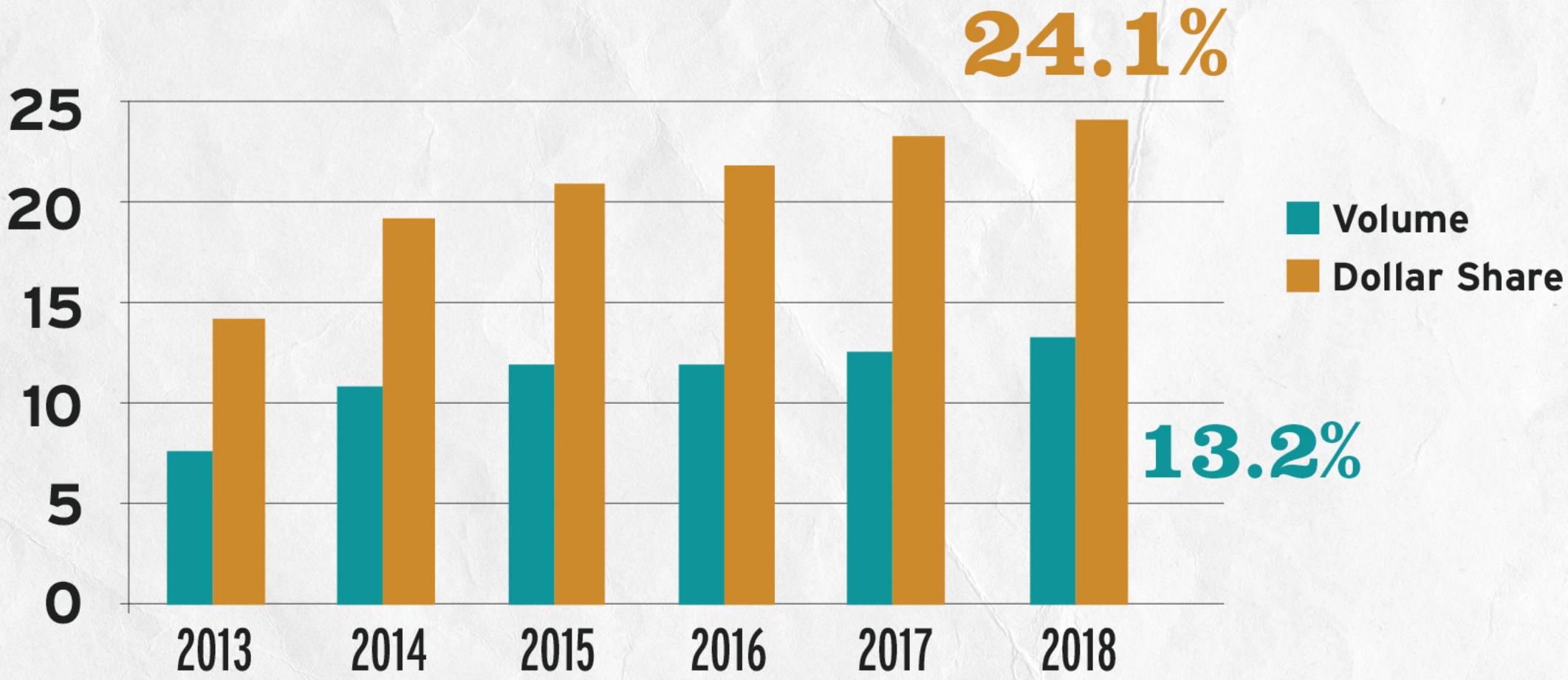
Craft Control Group Size by Percentile



Beer's Premiumization Trends




24.1%
25
20
15
10
5
0
Volume
Dollar Share
13.2%
2013
2014
2015
2016
2017
2018

Competition from Everywhere

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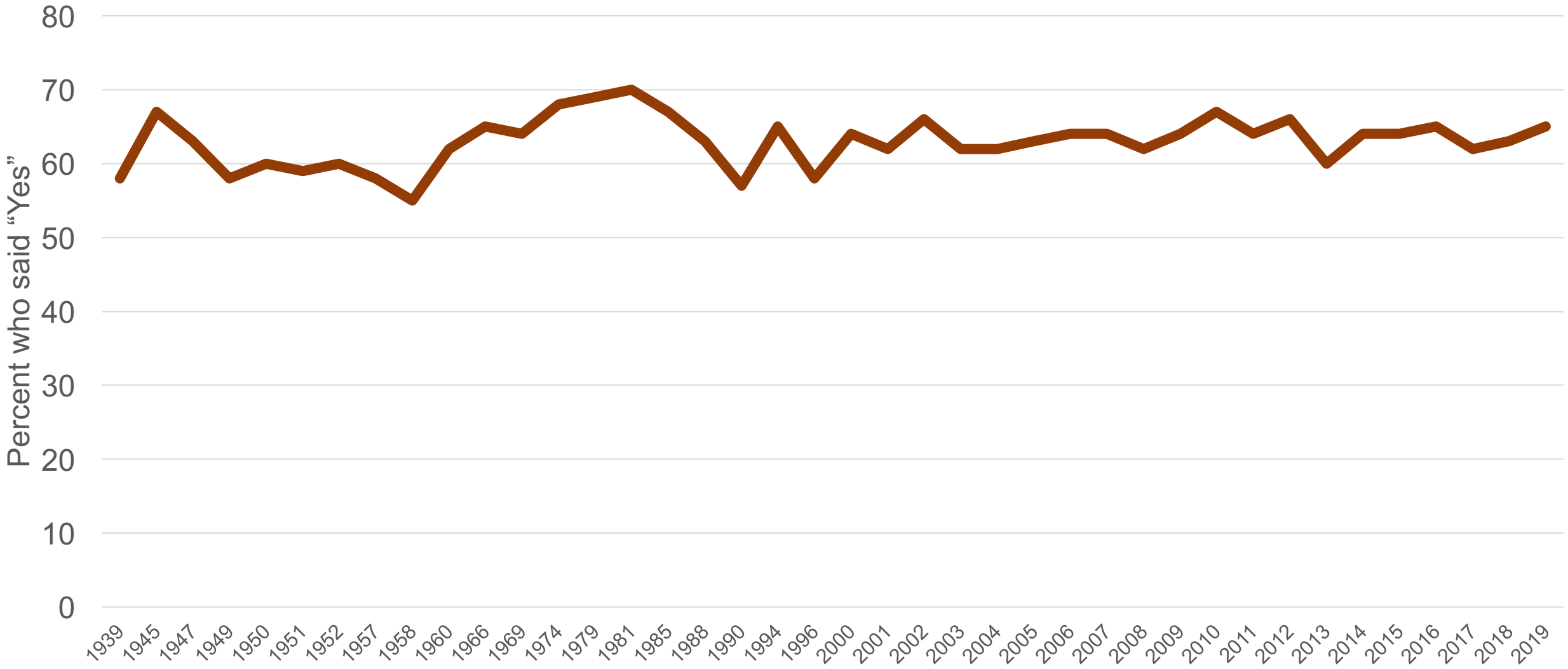
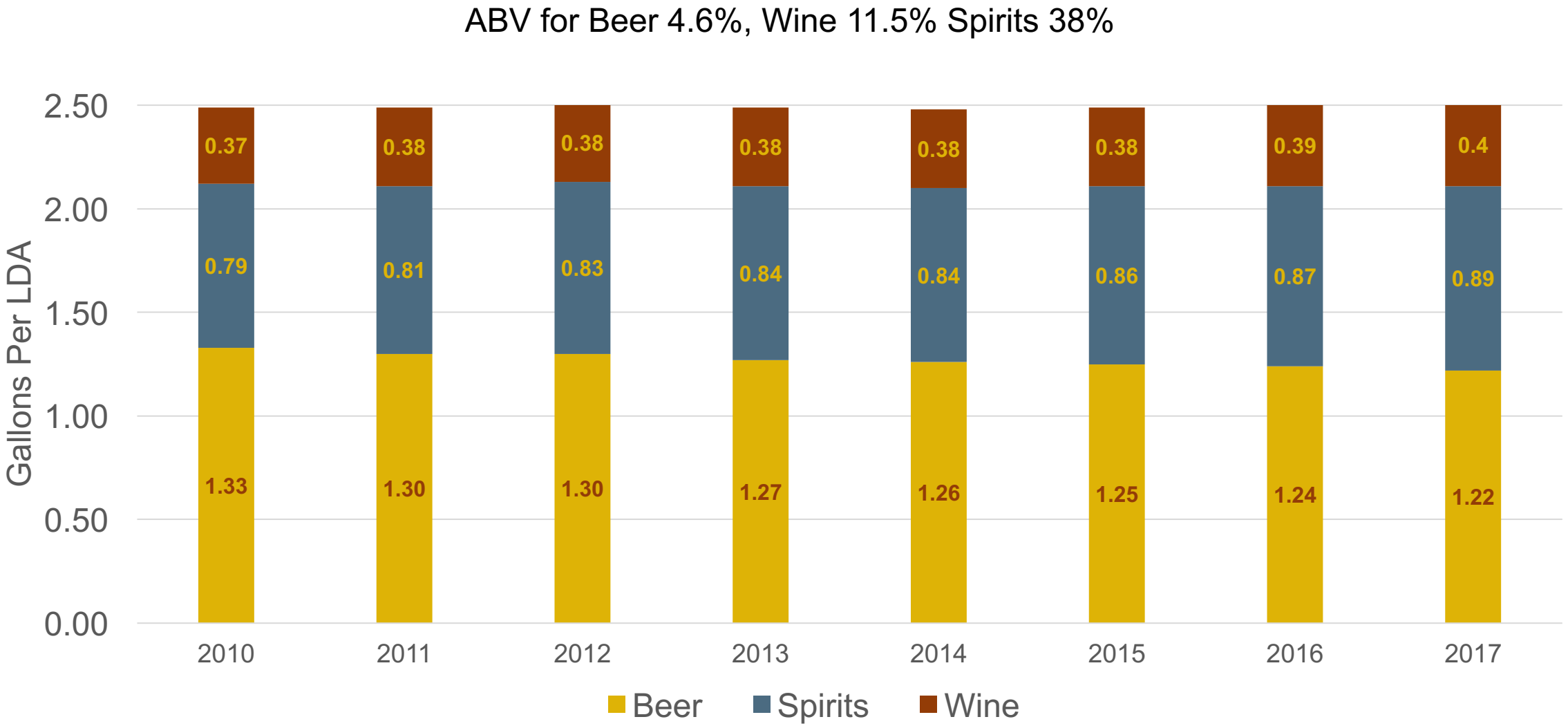
Alcohol Consumption Over Time

Do You Have Occasion to Drink Alcohol?



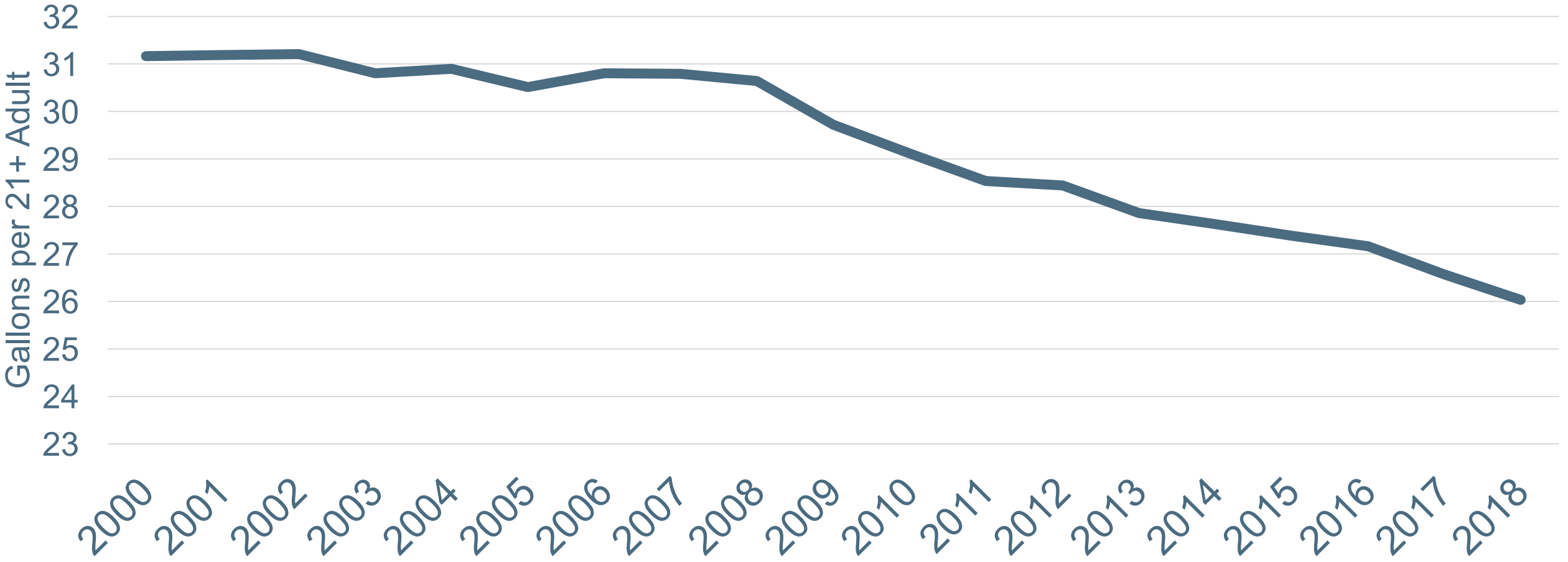
Source: Gallup Poll, 2016.

Per Capita Consumption of Ethanol U.S. from 2000 to 2017



Source: Compiled by NBWA from Beer Institute, Discus and BIG, 2018 (2017 wine volumes estimated by NBWA)

US 21+ Beer Shipments 2000-2018



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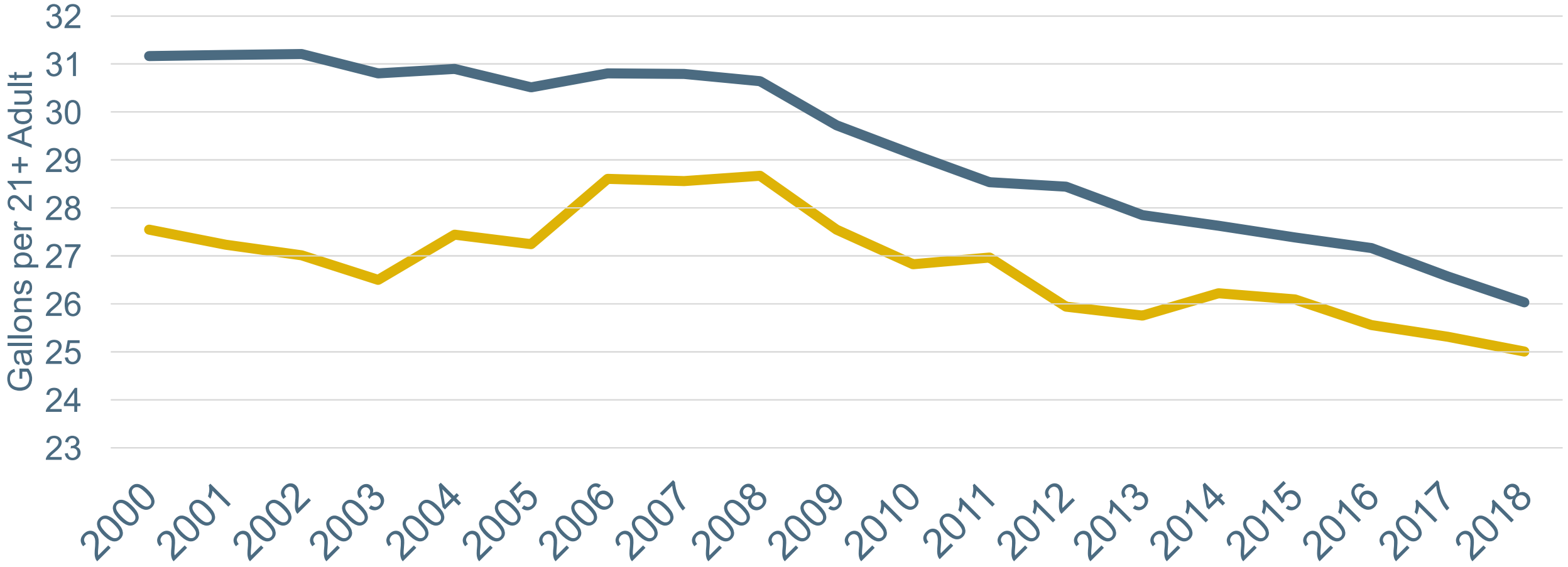
CA 21+ Beer Shipments 2000-2018



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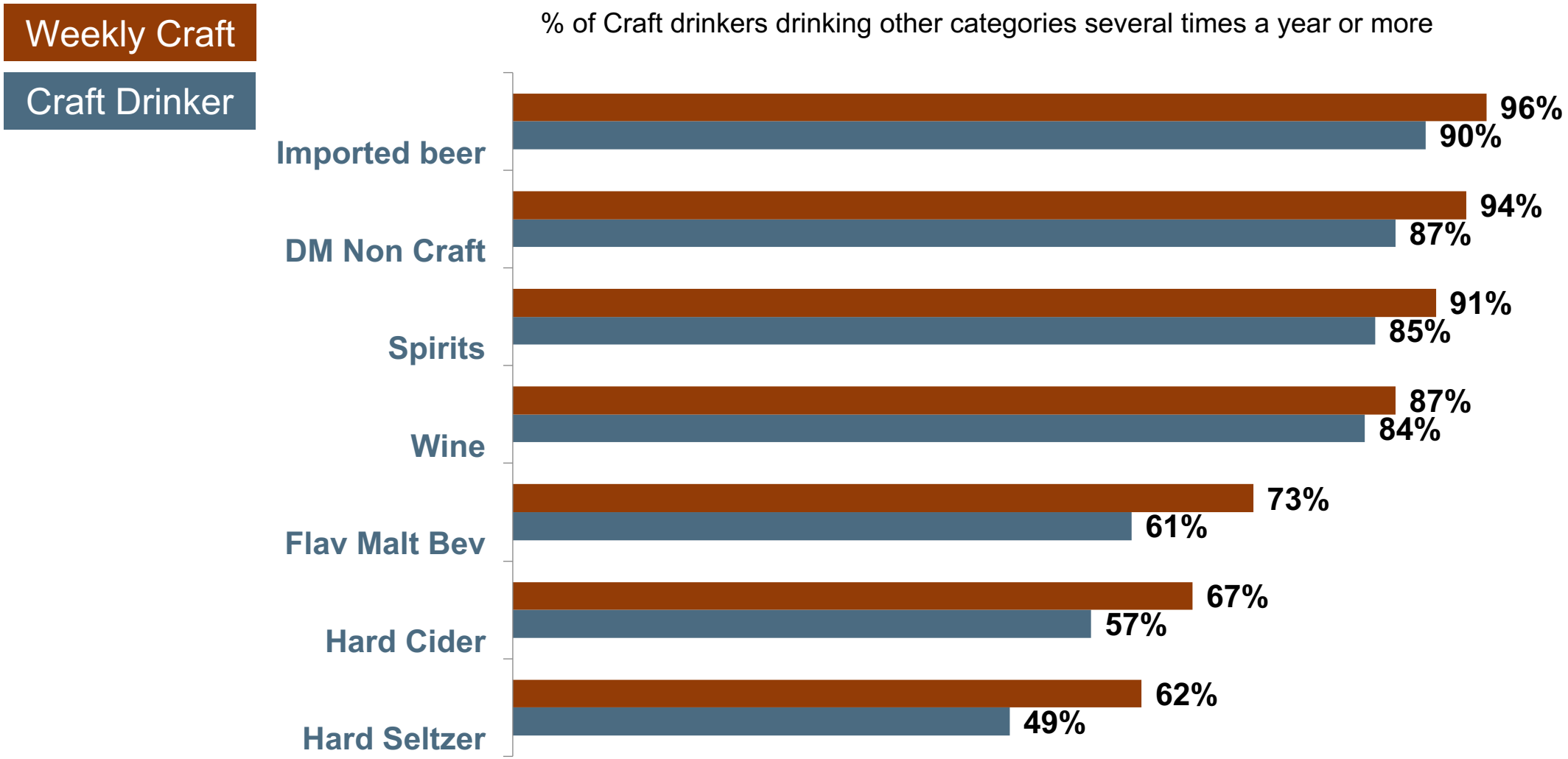
CRAFT BEER DRINKERS OFTEN DRINK OTHER ADULT BEVERAGES AS WELL

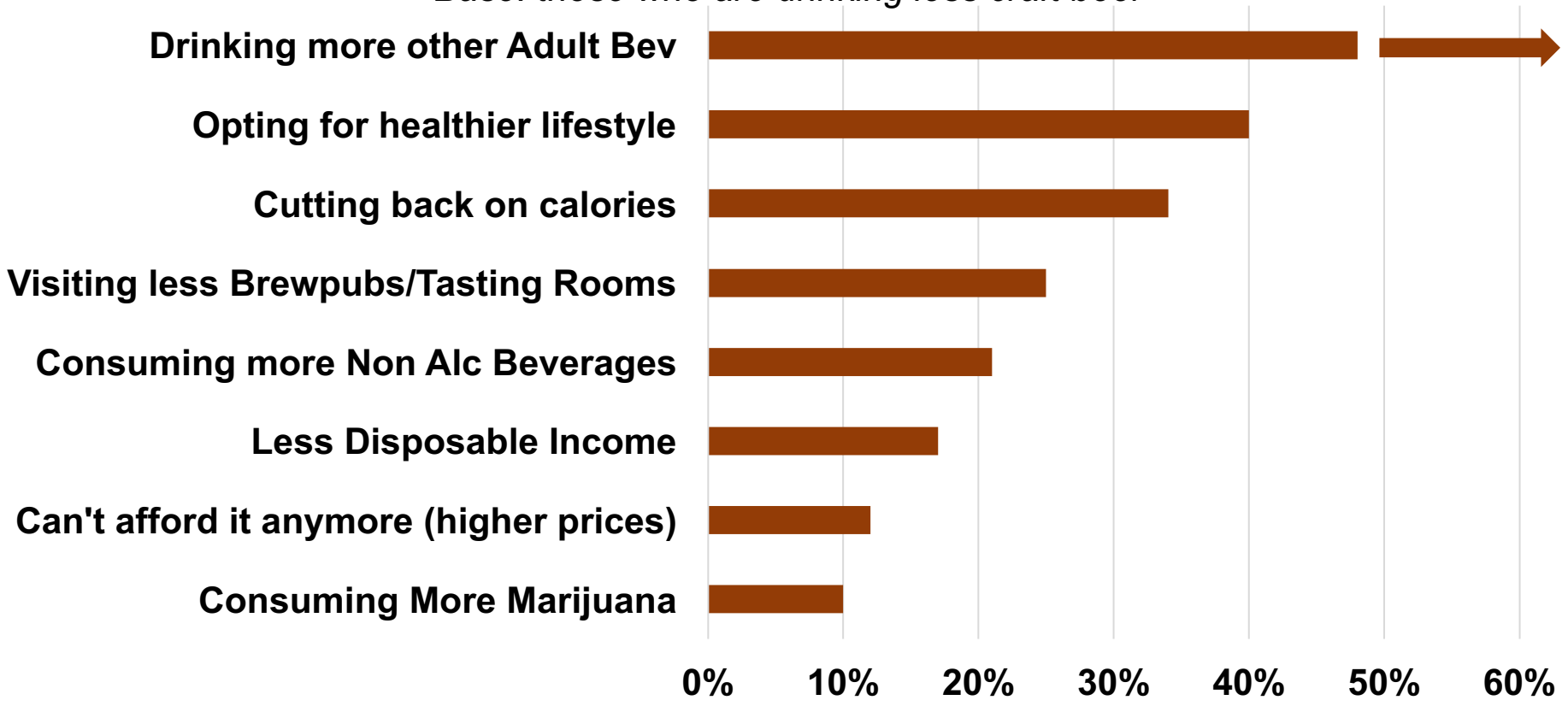


Source: Brewers Association Craft Beer Insights Poll (CIP) conducted online by The Harris Poll/Nielsen in May 2019 (n = 1,100 Craft Drinkers, n = 480 Weekly Craft Drinkers)

Competition from Other Bev Alc
#1 Reason for Drinking Less Craft

*Q: What are the reasons you are drinking **less** craft beer than a year ago?*

Base: those who are drinking less craft beer



Other beer:	20%
Wine:	17%
Spirits:	17%
FMB's:	14%
Hard Seltzers:	10%
Ciders:	8%

Source: Brewers Association Craft Beer Insights Poll (CIP) conducted online by The Harris Poll/Nielsen in May 2019 (n = 1,100 Craft Drinkers, n = 480 Weekly Craft Drinkers)

Category Health

- Think AB knows this?

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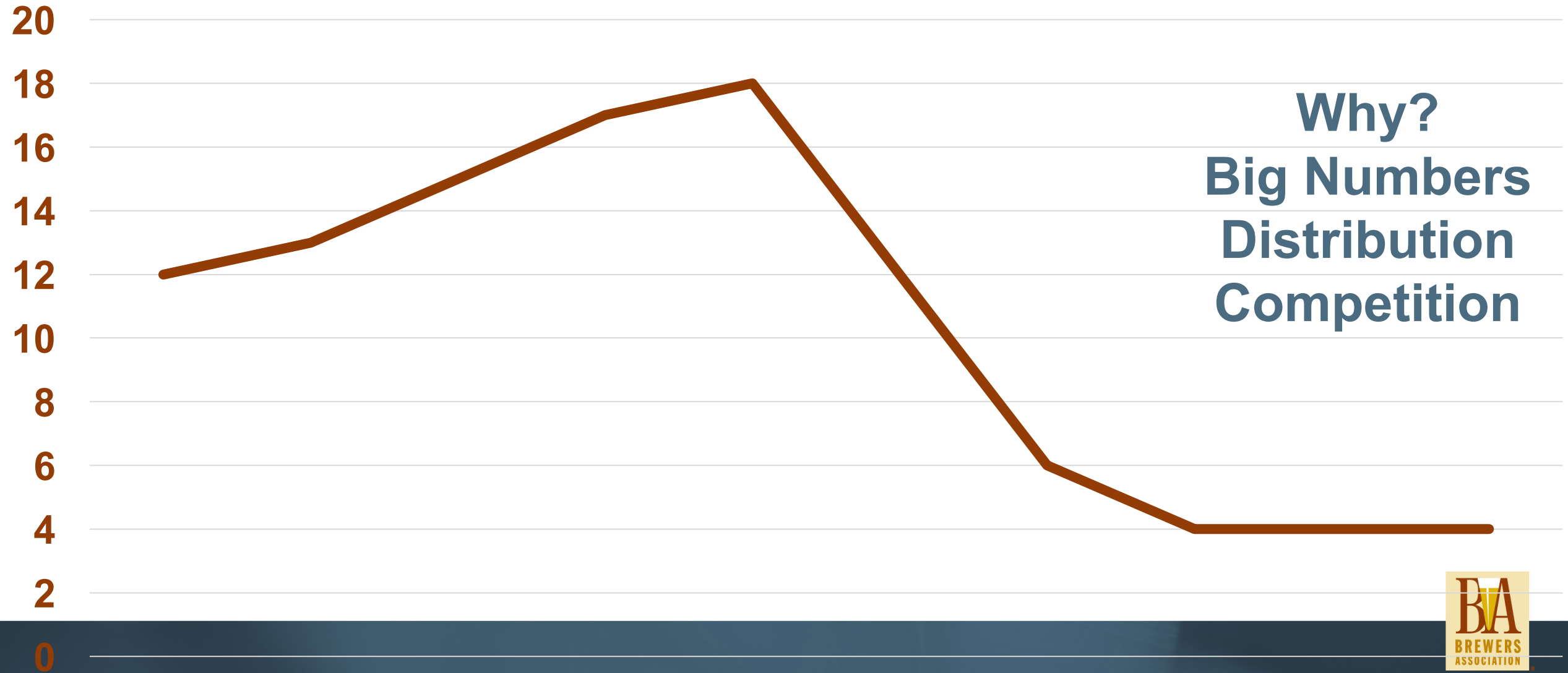
Craft Growth is
Slowing and
Changing

Craft Production Growth Rate



Why?
Big Numbers
Distribution
Competition

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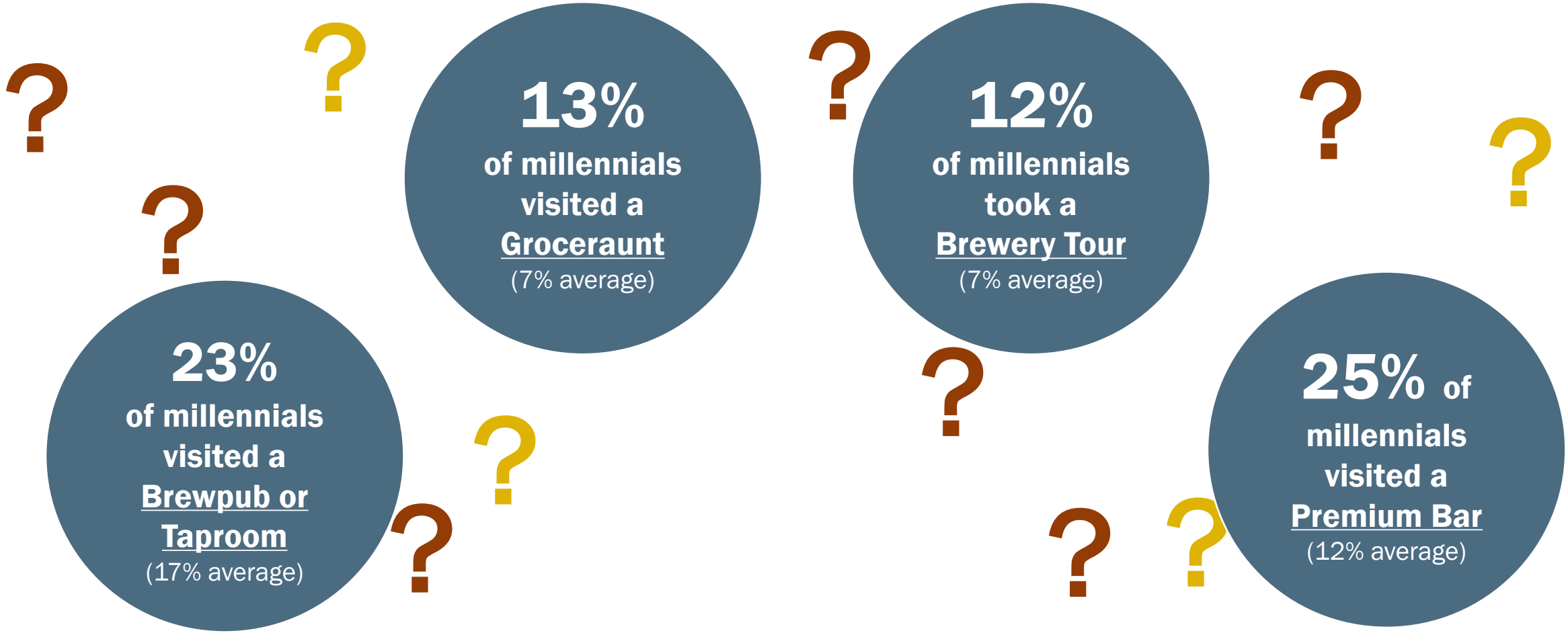
Millennials are finding new places to drink beer.
In the last 3 months...



nielsen | CGA

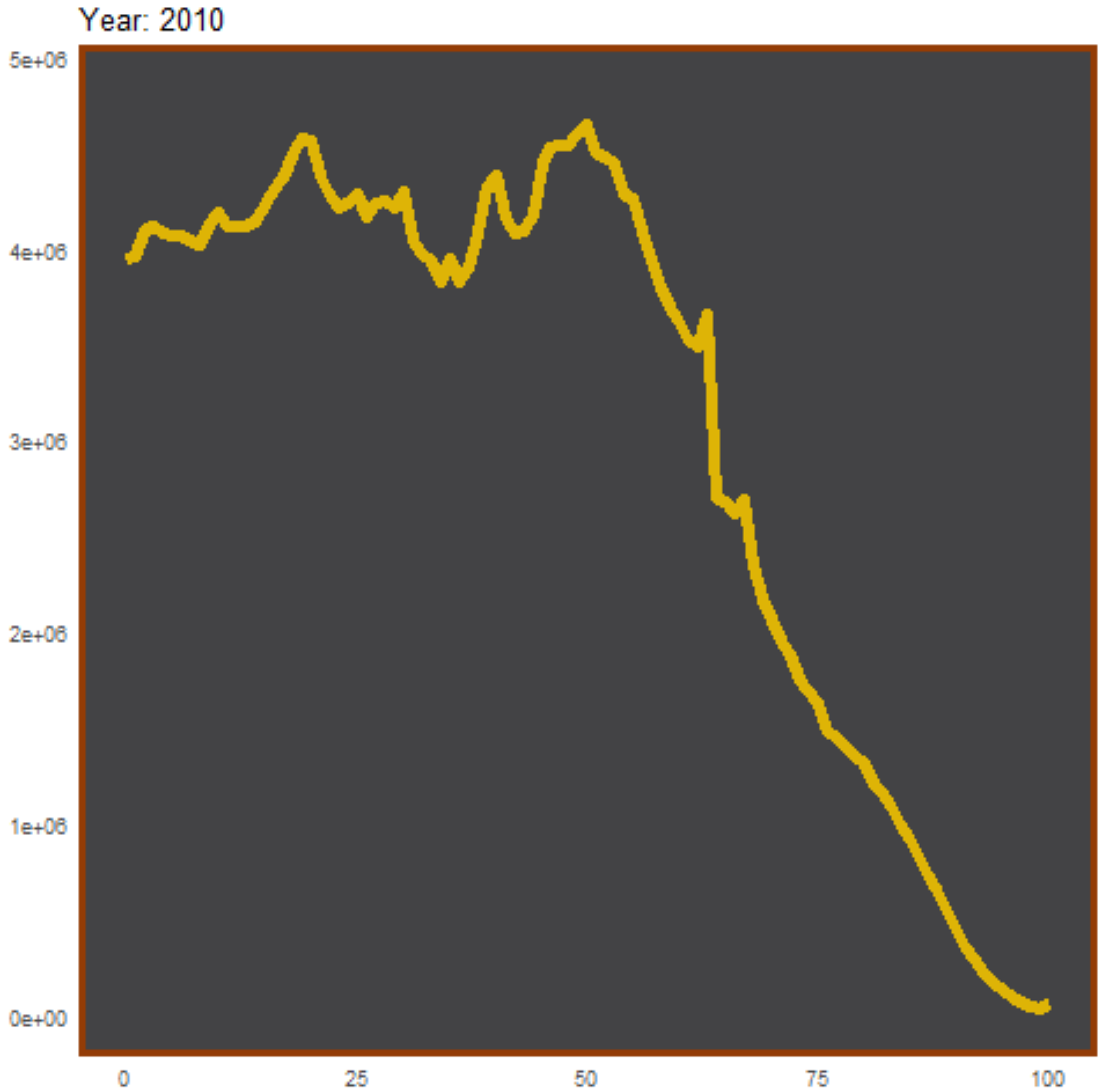
AND INCREASINGLY A THIRD CHANNEL STORY

Especially for Millennials at the High End

% OF TIME PURCHASES MADE AT…	OFF PREMISE Retail Store	ON PREMISE Bar/Restaurant	3rd SPACE CHANNEL
DM NON CRAFT (total 21+)	**56%**	**34%**	**9%**
DM NON CRAFT – MILLENNIALS	**55%**	**34%**	**11%**
IMPORTS (total 21+)	**52%**	**35%**	**13%**
IMPORTS – MILLENNIALS	**41%**	**35%**	**23%**
CRAFT (total 21+)	**43%**	**40%**	**17%**
CRAFT – MILLENNIALS	**40%**	**37%**	**23%**

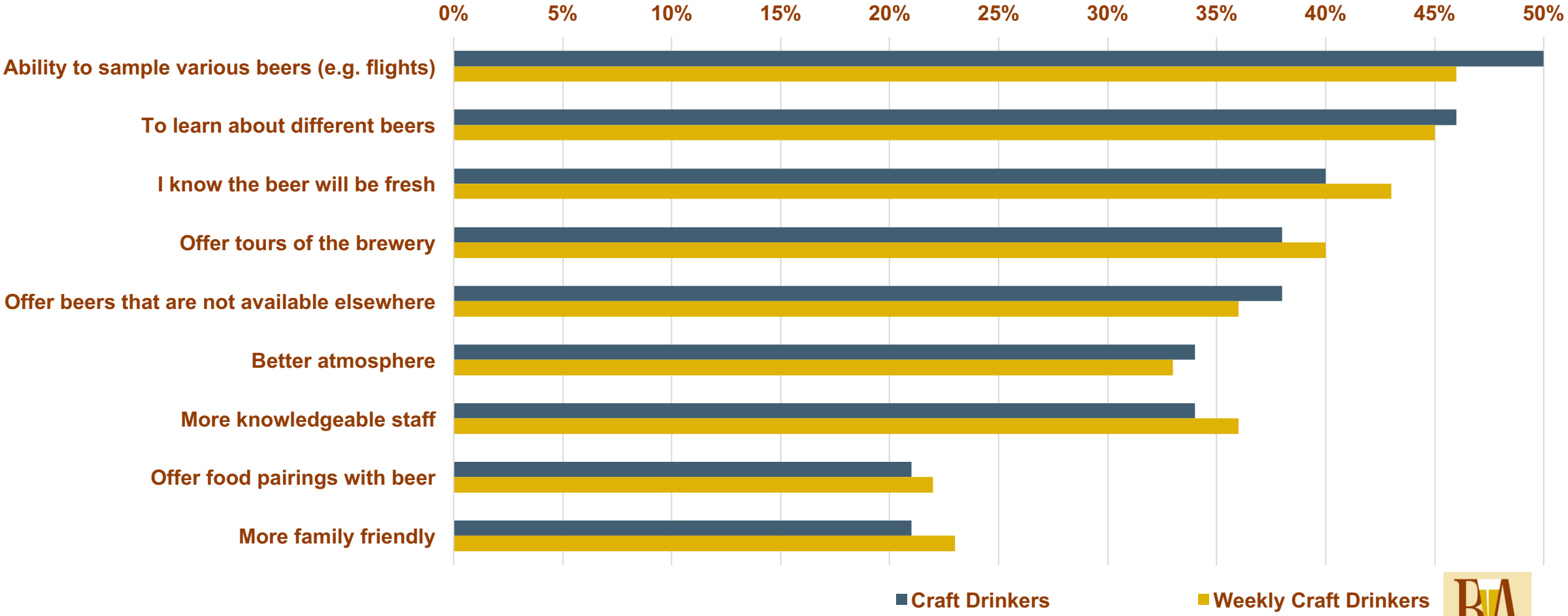
3rd space channel here includes…
Sporting events; Music Festivals; Tasting rooms

- Source: Nielsen Bev Al Generations Study - 2016
- **Q: What percentage of the time did you make your purchase at each of the following places/venues?**

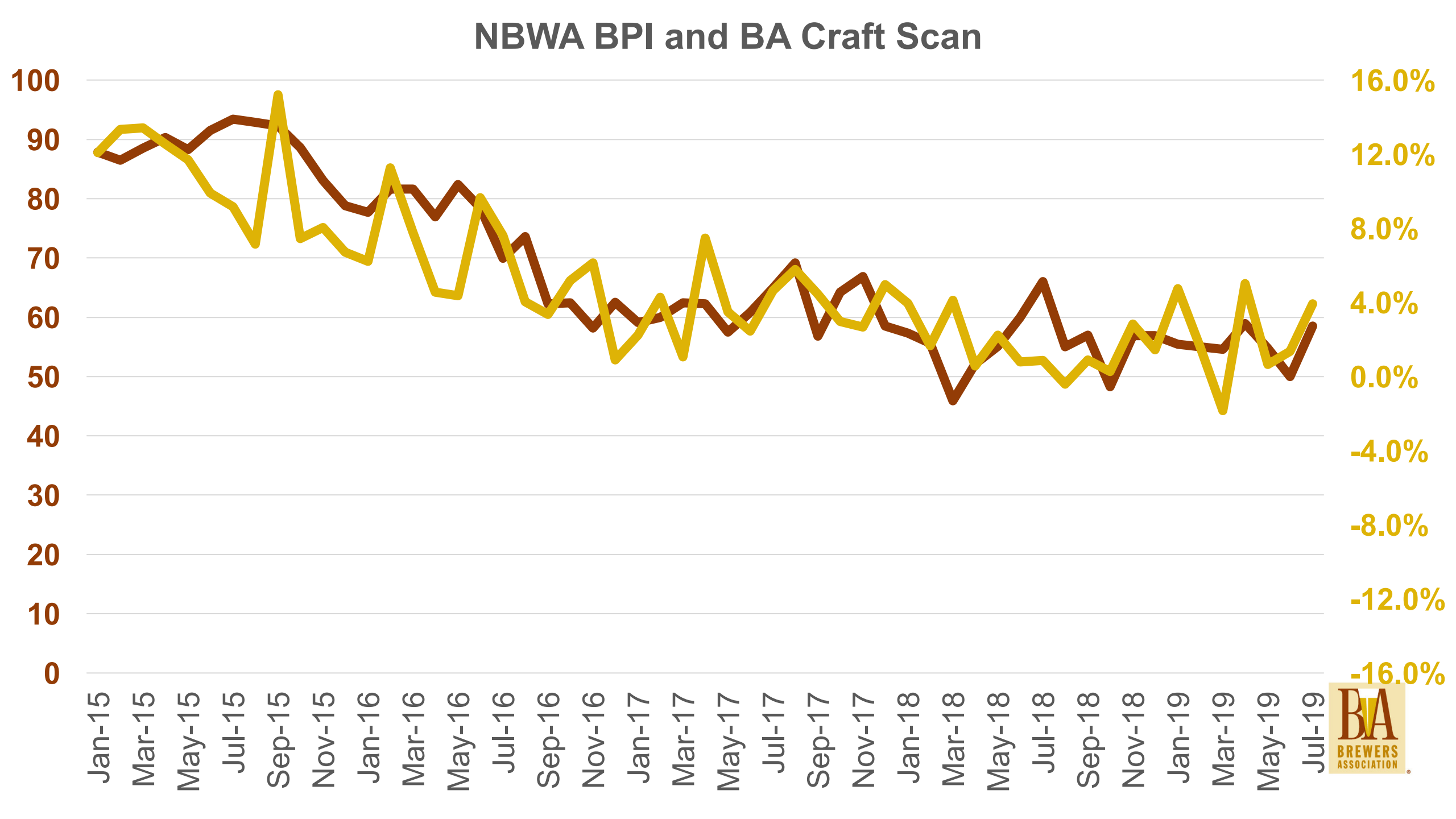

Year: 2010
5e+06
4e+06
3e+06
2e+06
1e+06
0e+00
0
25
50
75
100

People Don’t Go to Breweries for the Brewery

Q: Why have you chosen to visit a brewery tasting room rather than go to a traditional bar?



Source: Nielsen's Craft Beer Insights Poll (CIP) conducted May 2018 by Harris Poll (n=1,008 Craft Drinkers; n=416 weekly craft drinkers)


NBWA BPI and BA Craft Scan
100
90
80
70
60
50
40
30
20
10
0
16.0%
12.0%
8.0%
4.0%
0.0%
-4.0%
-8.0%
-12.0%
-16.0%
Jan-15
Mar-15
May-15
Jul-15
Sep-15
Nov-15
Jan-16
Mar-16
May-16
Jul-16
Sep-16
Nov-16
Jan-17
Mar-17
May-17
Jul-17
Sep-17
Nov-17
Jan-18
Mar-18
May-18
Jul-18
Sep-18
Nov-18
Jan-19
Mar-19
May-19
Jul-19
BA
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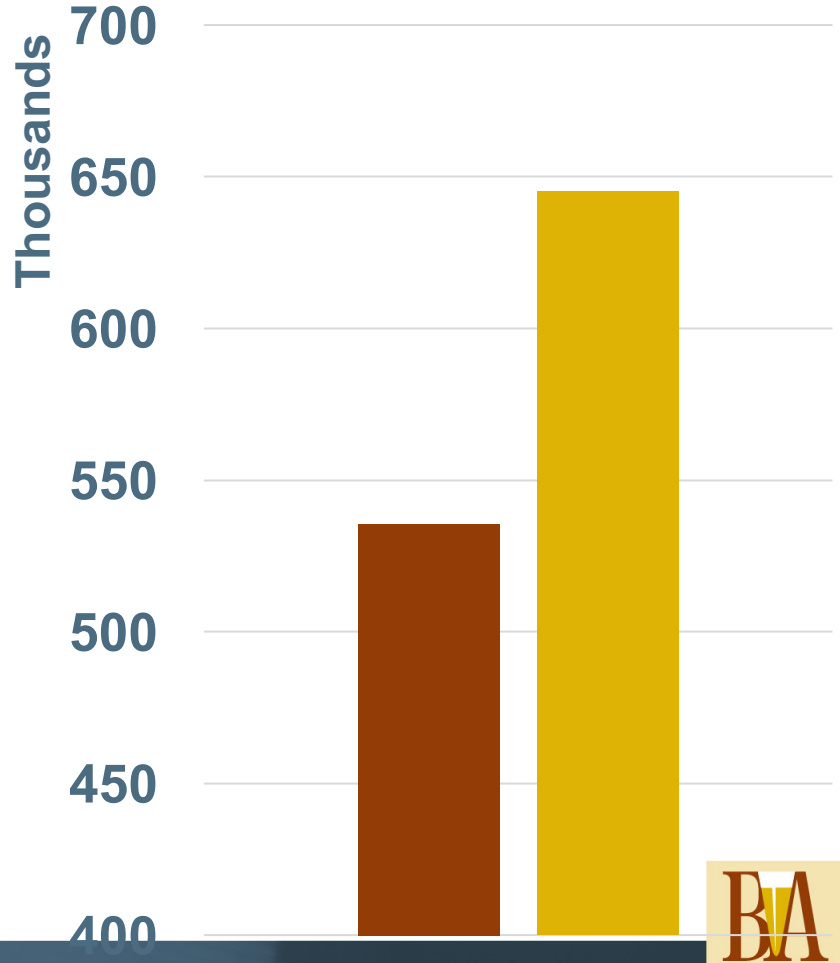
Retail Contradictions too

Drinking Places (# of Establishments)

More Total Retailers



Source: TDLinks™

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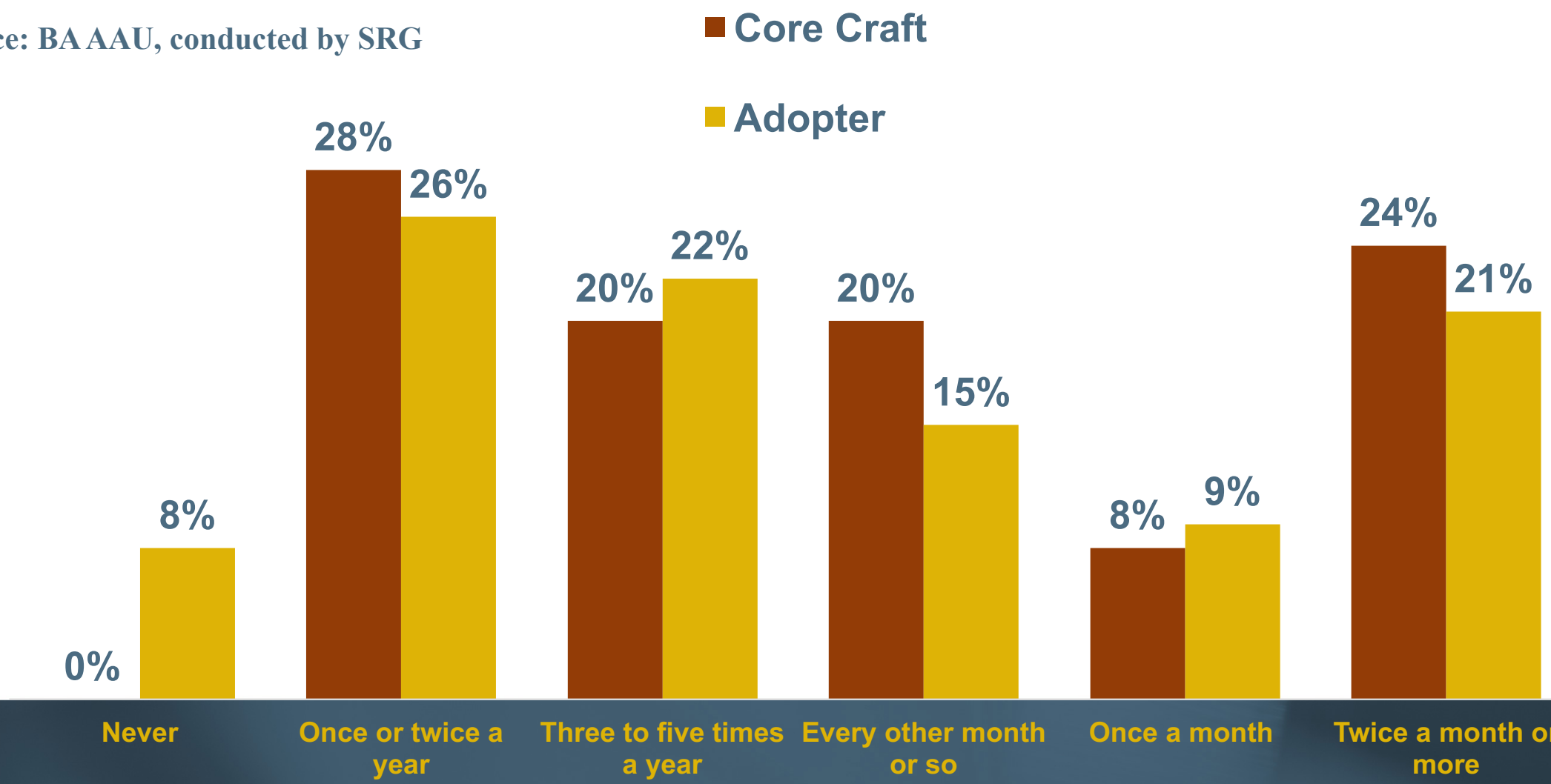
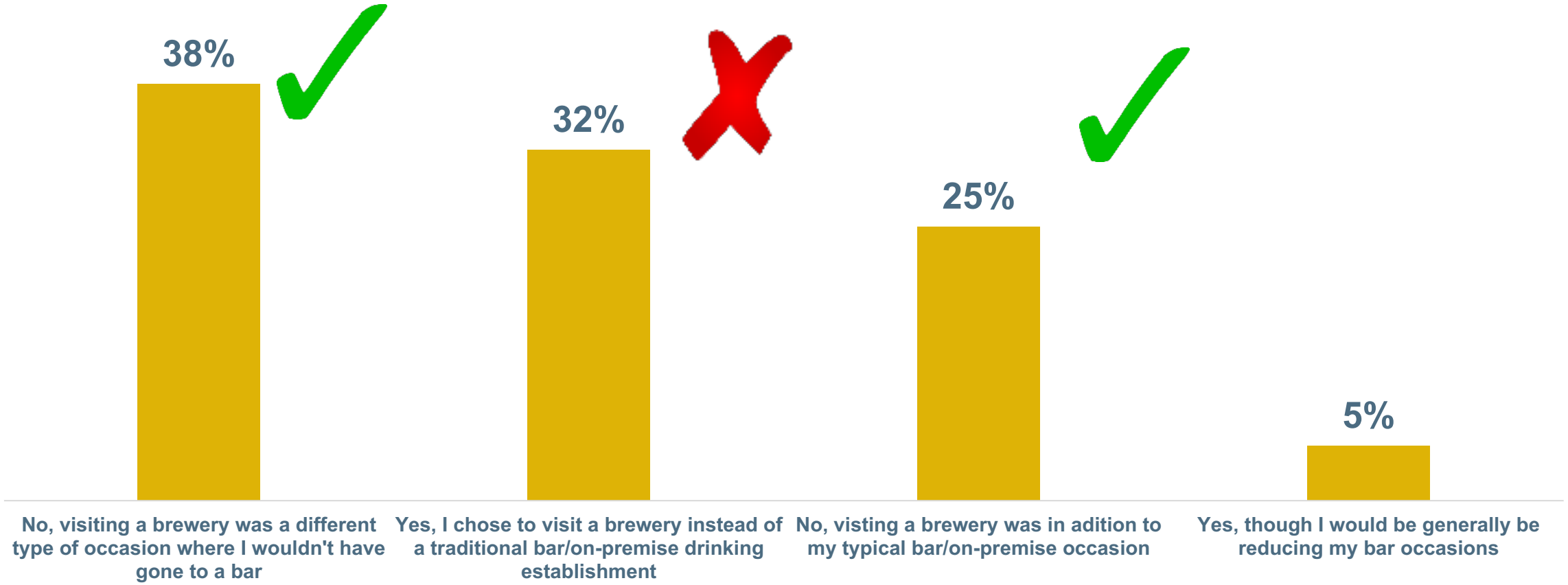
Brewery Visitation

About how often do you typically visit local breweries?

Source: BA AAU, conducted by SRG



Brewery Visits Add Some Occasions, But Also Compete

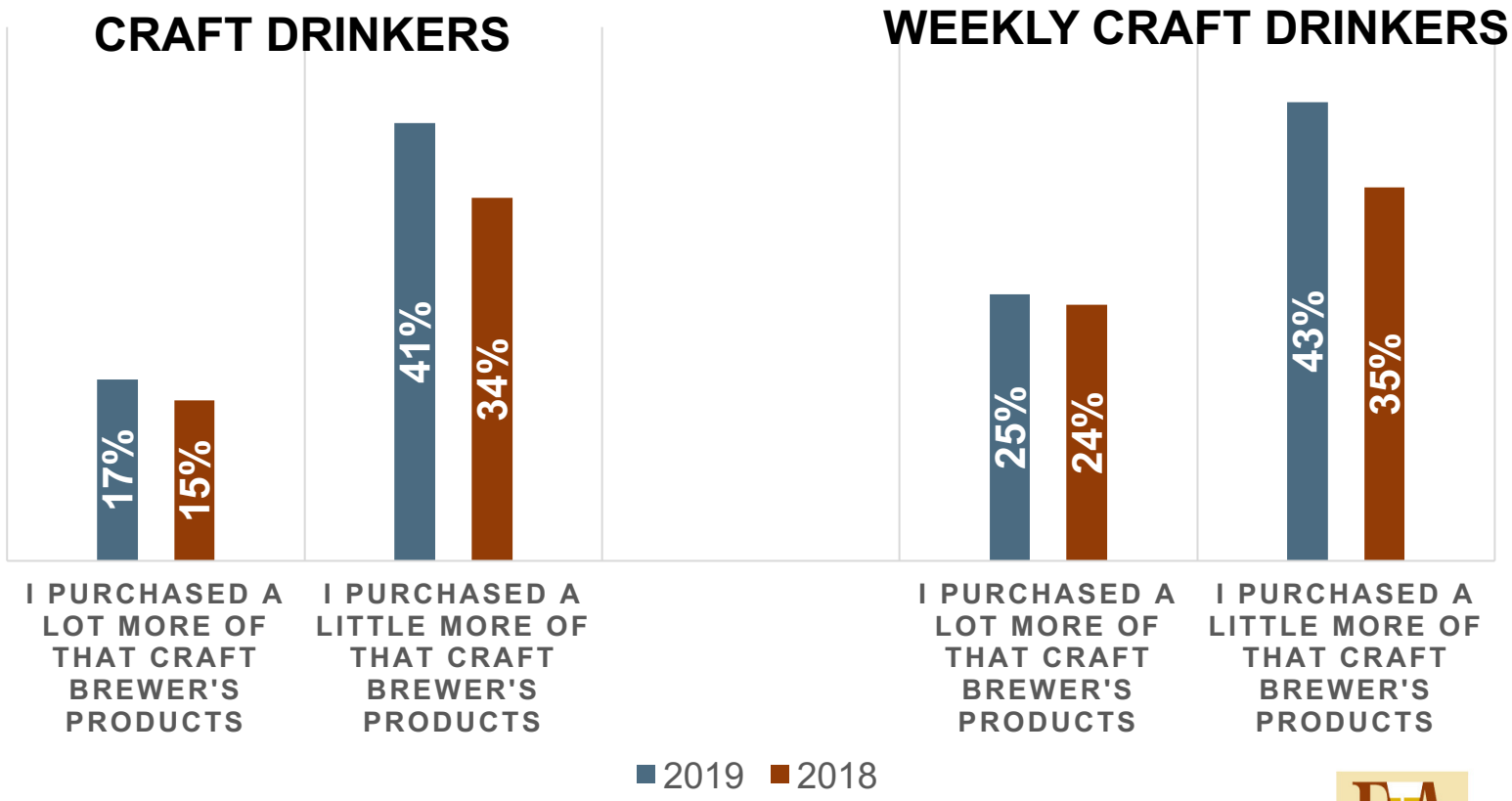


- Source: Spring 2018 (BA) – Total U.S.

BREWERY VISITS CONTINUE TO HELP DRIVE FUTURE SALES

Q: After your visit(s) to a craft brewery, which of the following describe how, if at all, your purchasing habits of that craft brewer's product changed?

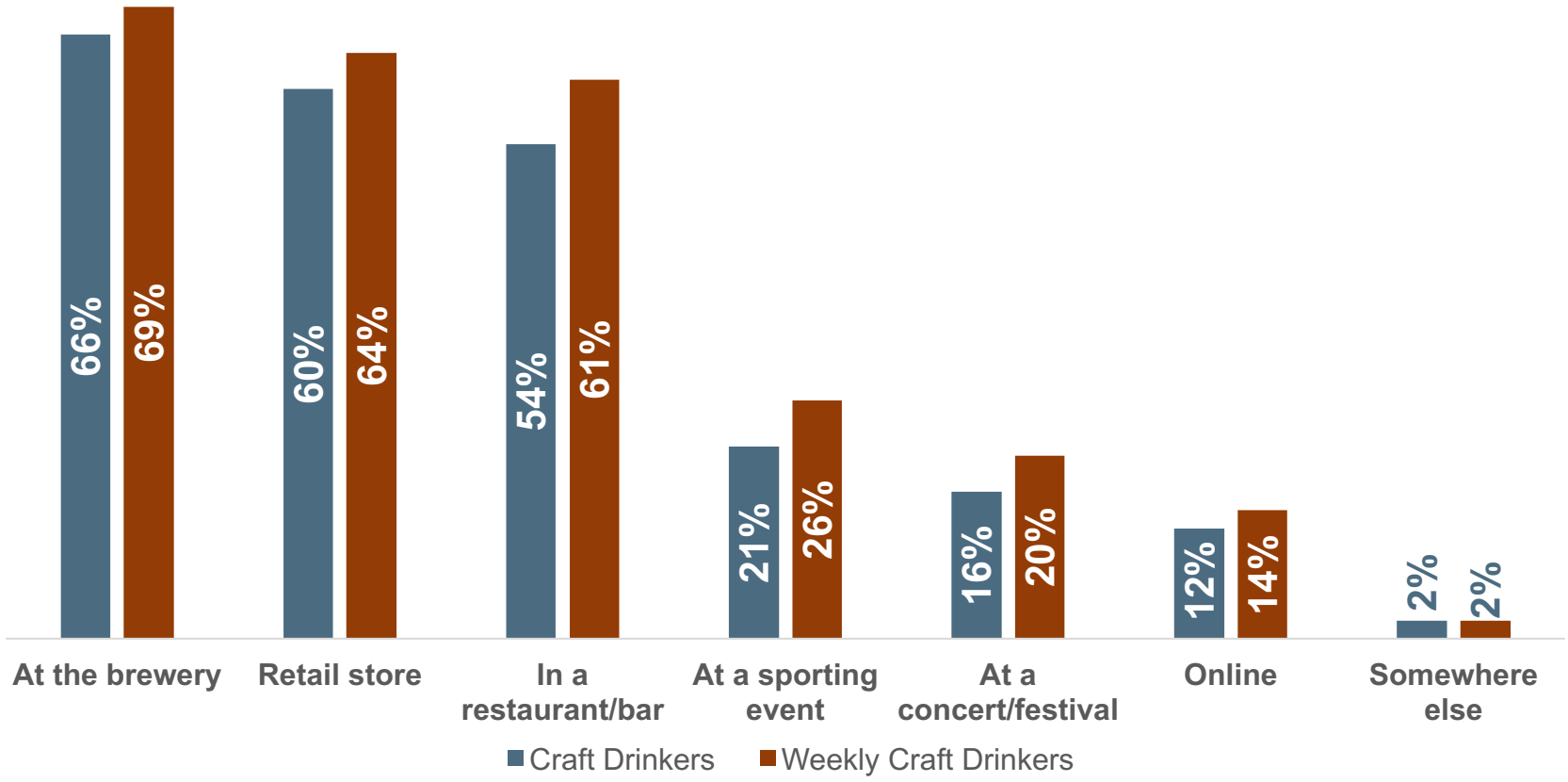
More than **50%** of Craft Drinkers purchased more after visiting



- Source: Brewers Association Craft Beer Insights Poll (CIP) conducted online by The Harris Poll/Nielsen in May 2019 (n = 1,100 Craft Drinkers, n = 480 Weekly Craft Drinkers)
- Base: Visited craft brewery

Can your Brewery Complement Retail Strategy?

- *Q: You mentioned that you purchase more of a craft brewer's products after visiting their brewery. At which of the following locations are you purchasing more of their products? Please select all that apply.*



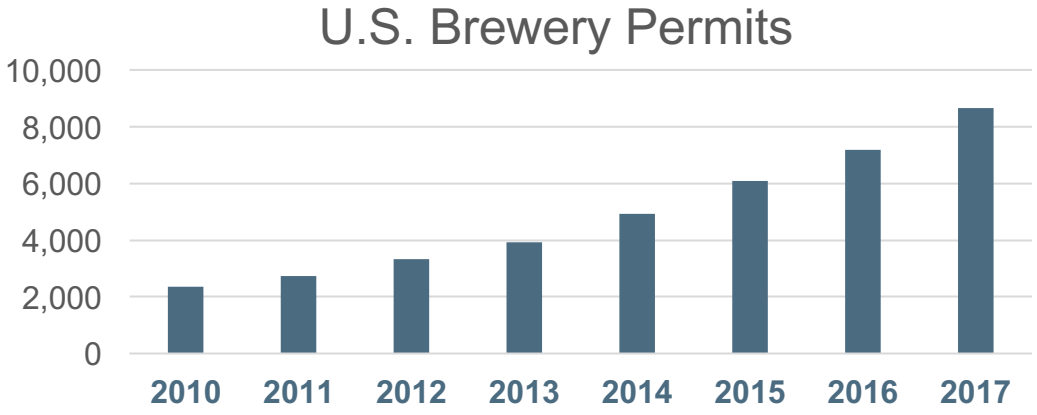
Future purchased at the brewery appealing to **45-54 Craft Drinkers**

21-34 Craft Drinkers more drawn to sporting events, concerts/festivals, and online

Female Weekly Craft Drinkers purchasing more at sporting events

- Source: Brewers Association Craft Beer Insights Poll (CIP) conducted online by The Harris Poll/Nielsen in May 2019 (n = 1,100 Craft Drinkers, n = 480 Weekly Craft Drinkers)
- Base: Purchased more of a craft brewer's products after visiting their brewery

Total U.S. Alcohol Beverage Permits Grow Across All Segments



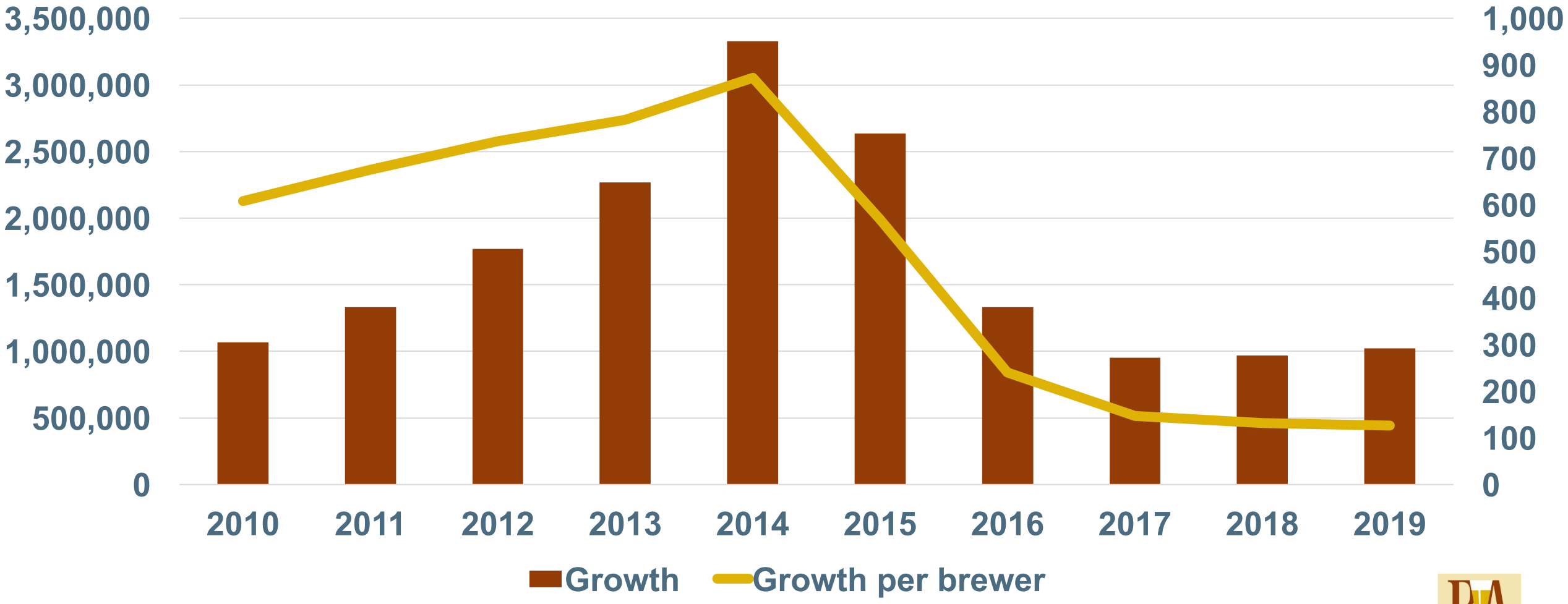
Almost **24,000** permitted alcohol suppliers in U.S. Majority in past seven years:

2010 = **9,803**

2017 = **23,494**

Source: U.S. TTB 2017.

Craft Growth, Reframed



1M Bbls of Growth Goes Fast

- 250,000 to new breweries
- 250,000 to 2nd year breweries
- 500,000 barrels of growth split between 5,000 other companies
- Per brewer growth 1/6 of 2013-14 average

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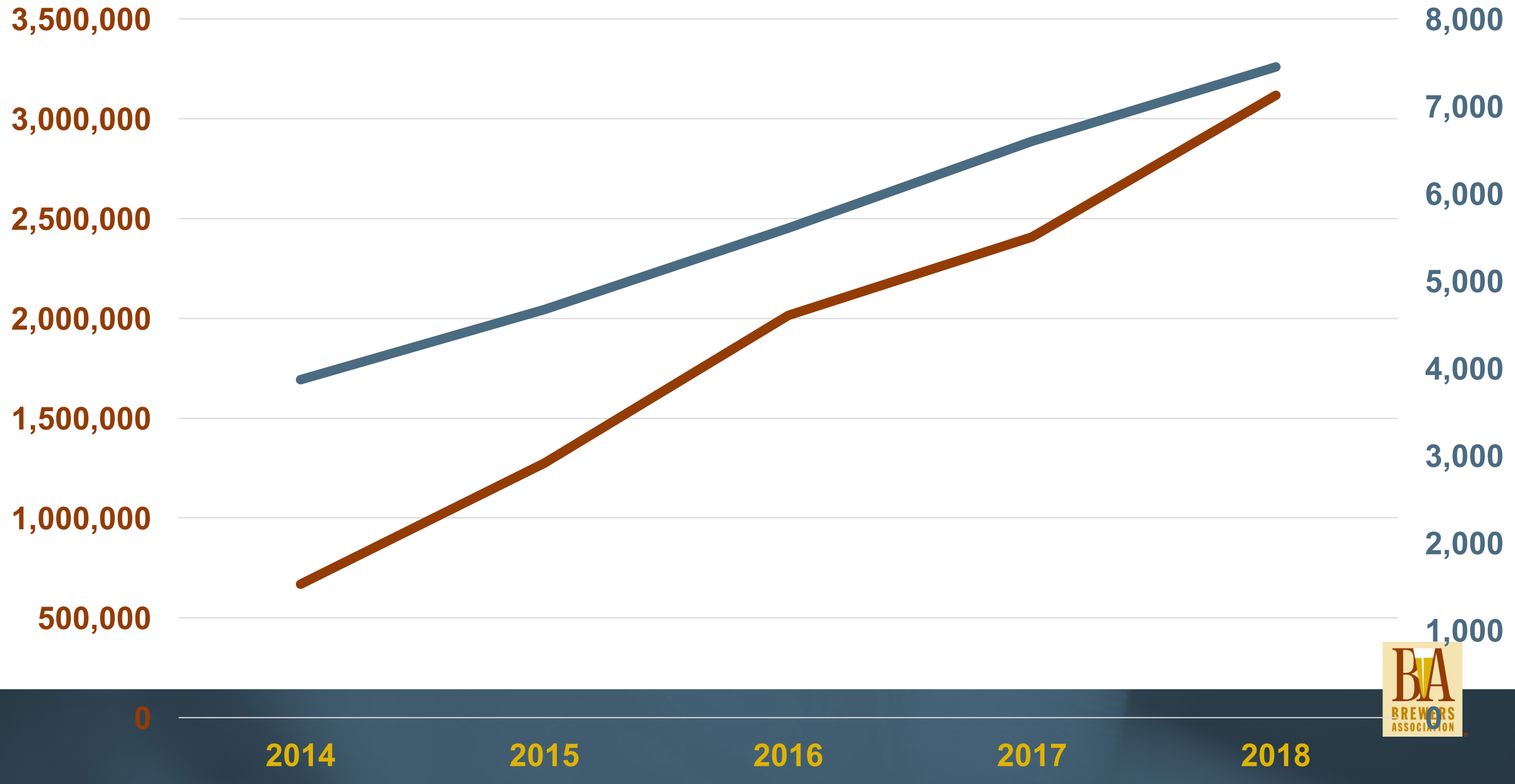
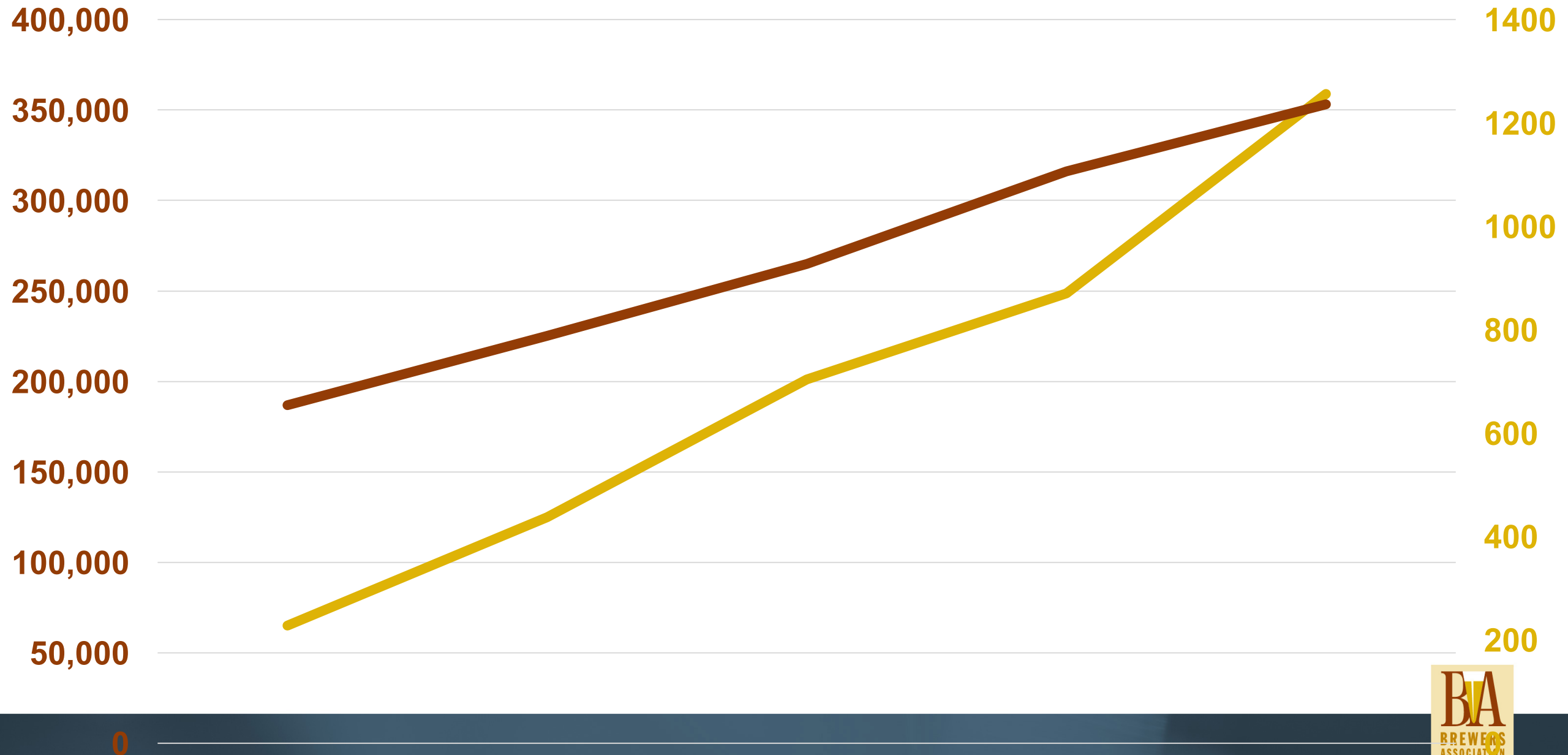
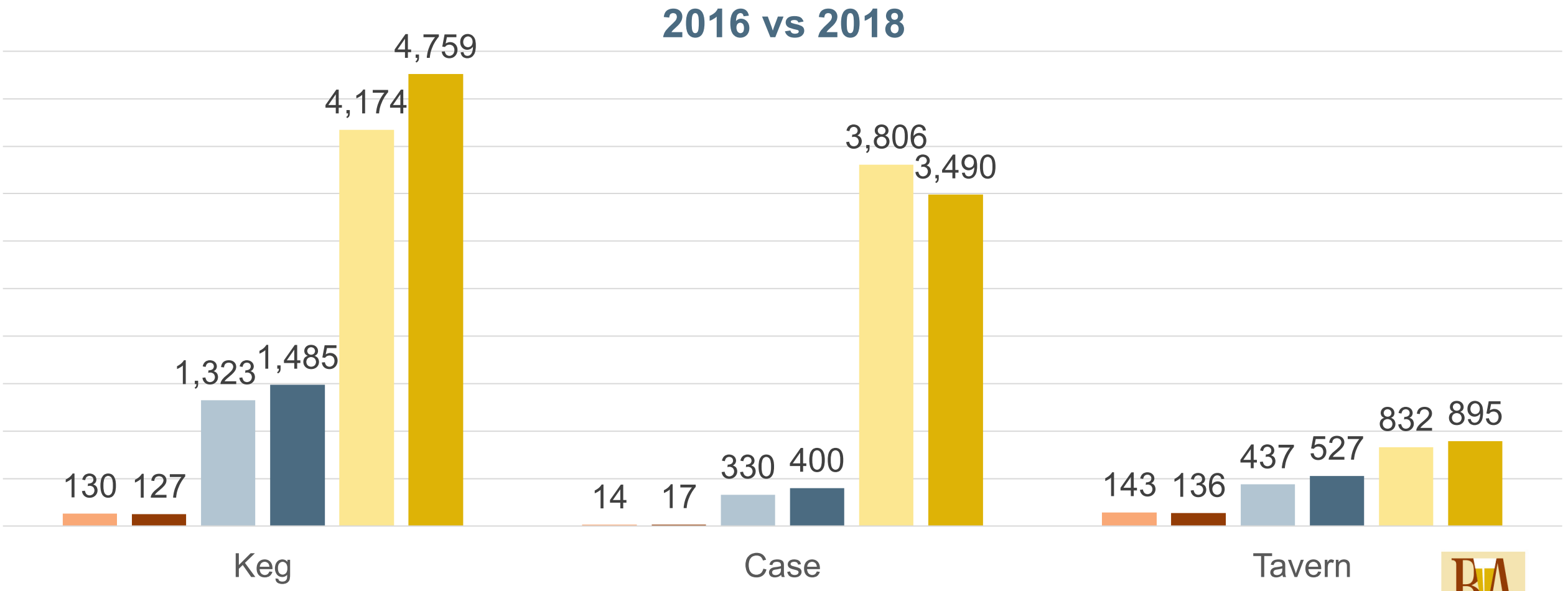
Active Breweries and Premise Use



CA Active Permits and Premise Use



Not Shift in Business Models
Shift in Breweries



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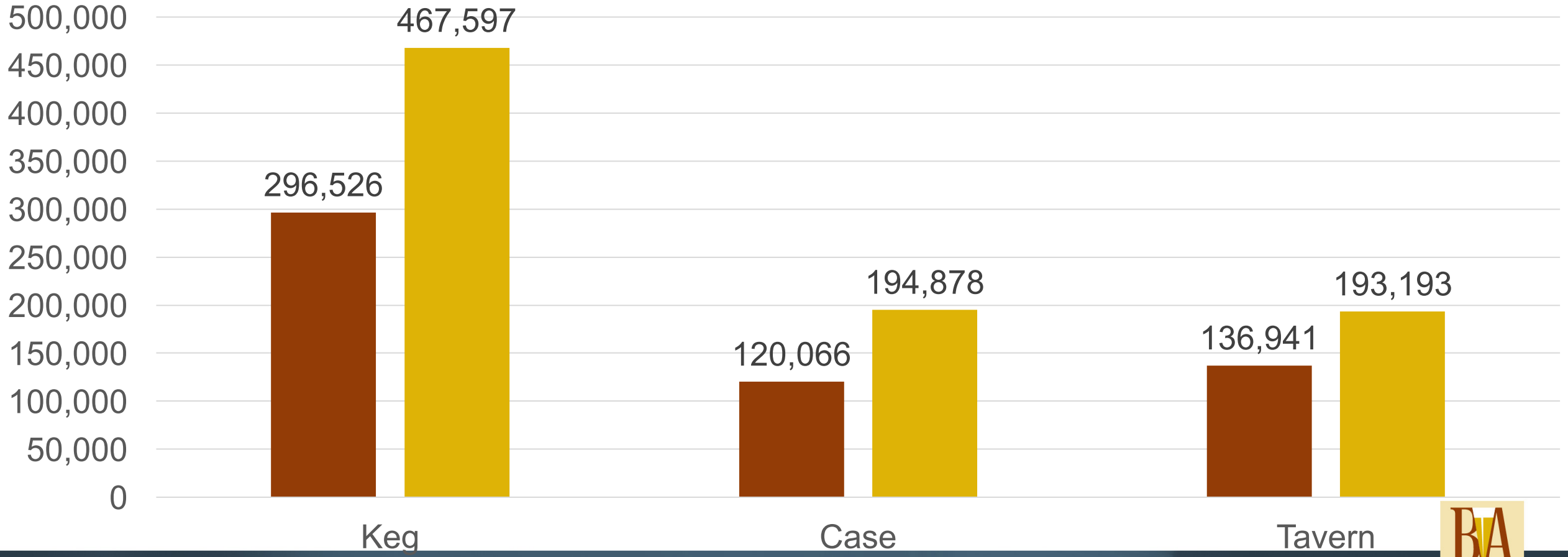
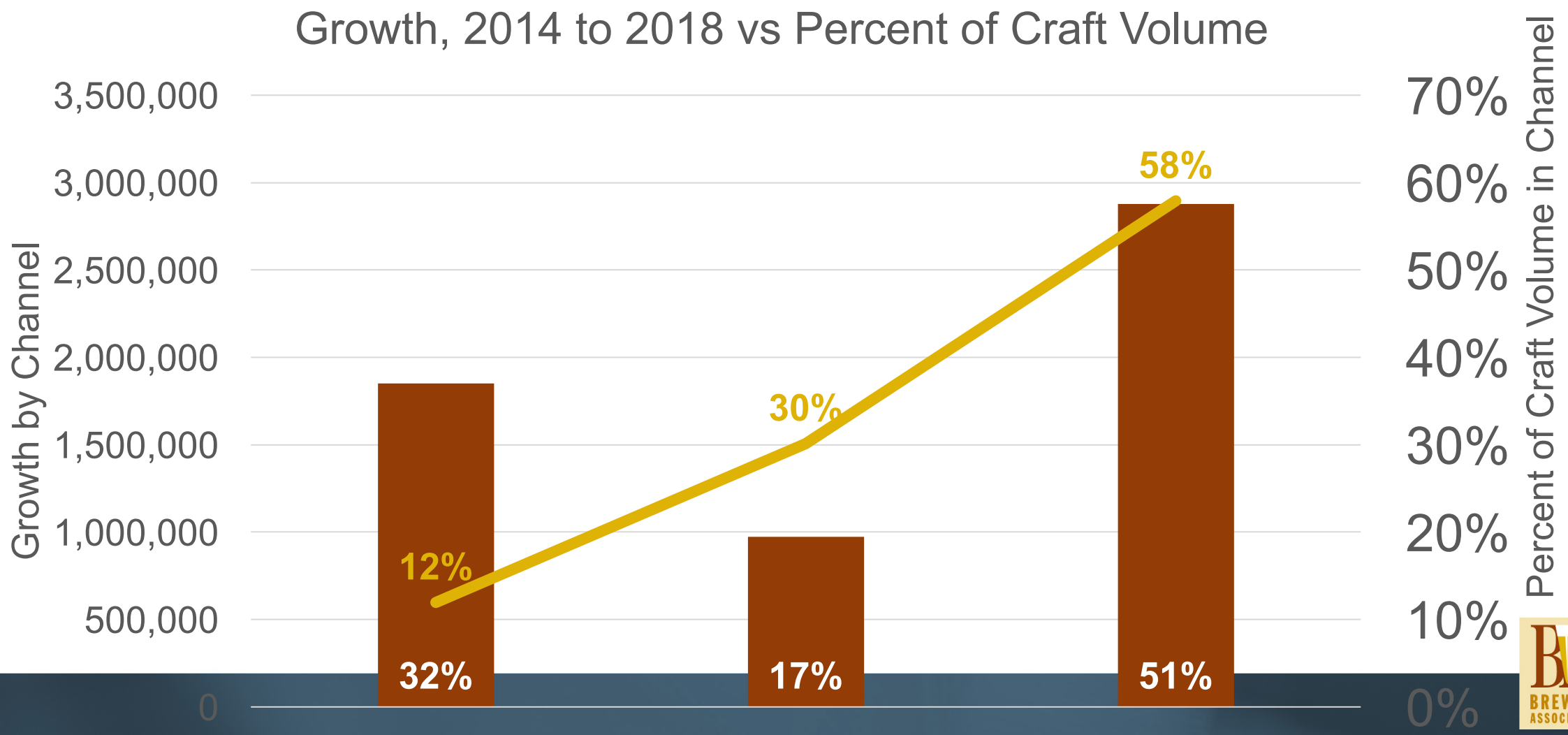
Totals for Micros, Taprooms, and Brewpubs

2016 vs 2018



Challenge for Regionals

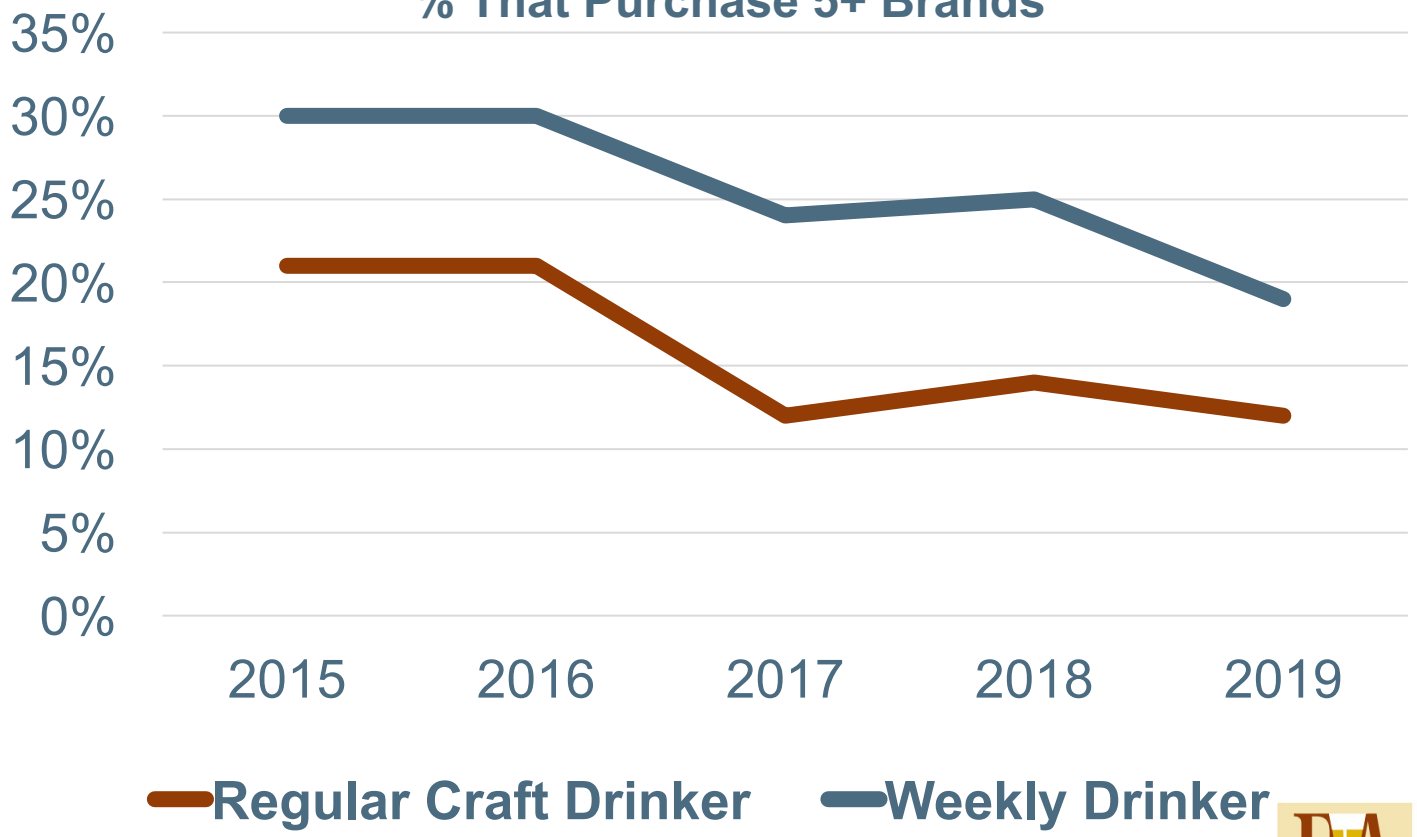


Could Demographics Reduce Role of Variety?

Q: Over the course of a typical month, about how many different craft beer brands do you purchase?

% That Purchase 1-3 Brands

% That Purchase 5+ Brands



- Source: Brewers Association Craft Beer Insights Poll (CIP) conducted online by The Harris Poll/Nielsen in May 2019 (n = 1,100 Craft Drinkers, n = 480 Weekly Craft Drinkers)

Finally, styles, with two caveats:

What's a Style?

Harder to see growth in a fractured world.

Styles

What's growing?

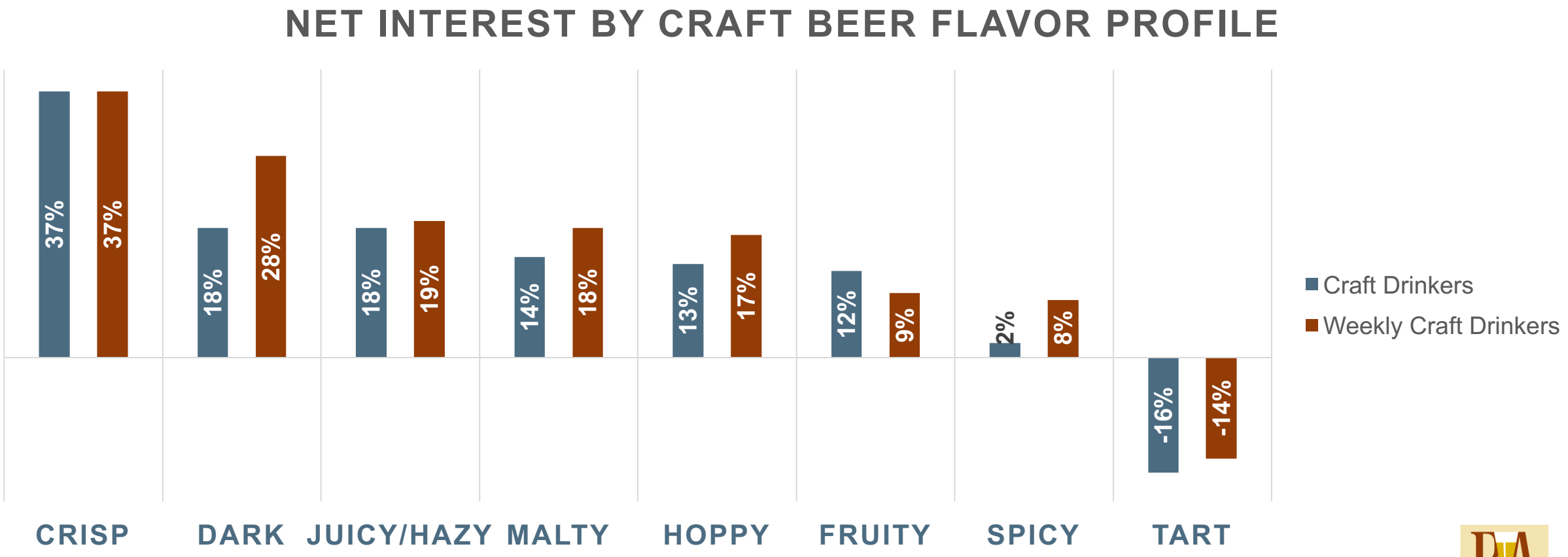
Top 3 =

IPA
Golden Ales
Other Pale Lagers (doesn't include Amber)

IPA Growth over last 52 weeks is larger than the total sales of most styles

Directional Flavor Preferences

- *Q: Compared to a few years ago, are you more or less interested in drinking the following types of craft beer?*



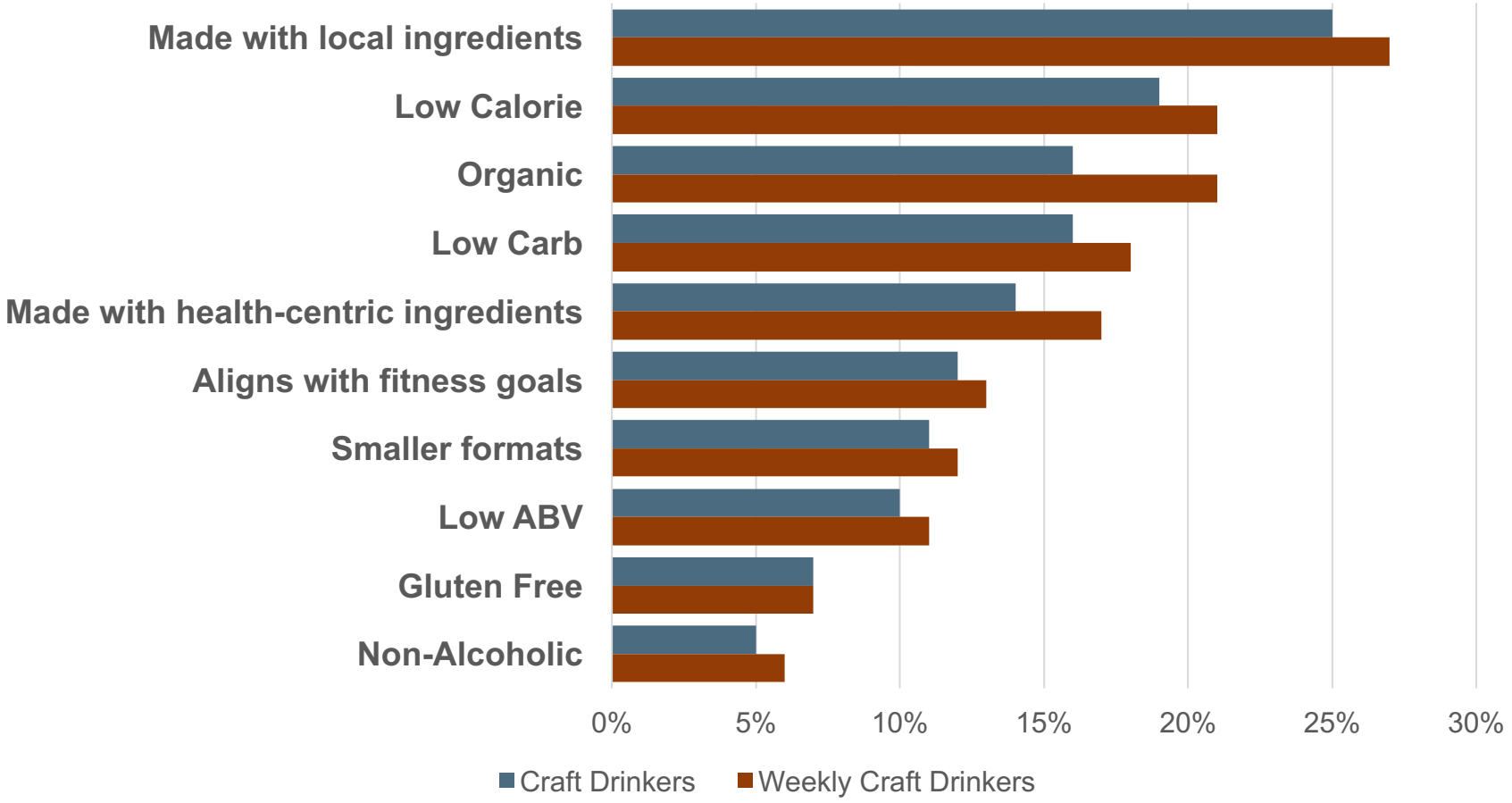
Source: Brewers Association Craft Beer Insights Poll (CIP) conducted online by The Harris Poll/Nielsen in May 2019 (n = 1,100 Craft Drinkers, n = 480 Weekly Craft Drinkers)

	WHAT'S WINNING?	WHAT'S LOSING?
Female Craft Drinkers	Crisp (+9%) Fruity (+9%) Juicy/Hazy (+8%)	Dark (-10%) Hoppy (-4%) Malty (-10%)
Male Craft Drinkers	Dark (+4%) Malty (+4%)	Crisp (-3%) Juicy/Hazy (-4%) Fruity (-4%)
21-34 Craft Drinkers	Tart (+8%)* Hoppy (+5%) Malty (+5%)	
35-44 Craft Drinkers	Dark (+8%) Juicy/Hazy (+7%) Spicy (+4%)	

- Source: Brewers Association Craft Beer Insights Poll (CIP) conducted online by The Harris Poll/Nielsen in May 2019 (n = 1,100 Craft Drinkers, n = 480 Weekly Craft Drinkers)
- NOTE: Percent compared to average net interest (read as: Female Craft Drinkers are 9% more interested in Crisp beers than the average Craft Drinker)

Don’t Just Think in ABV

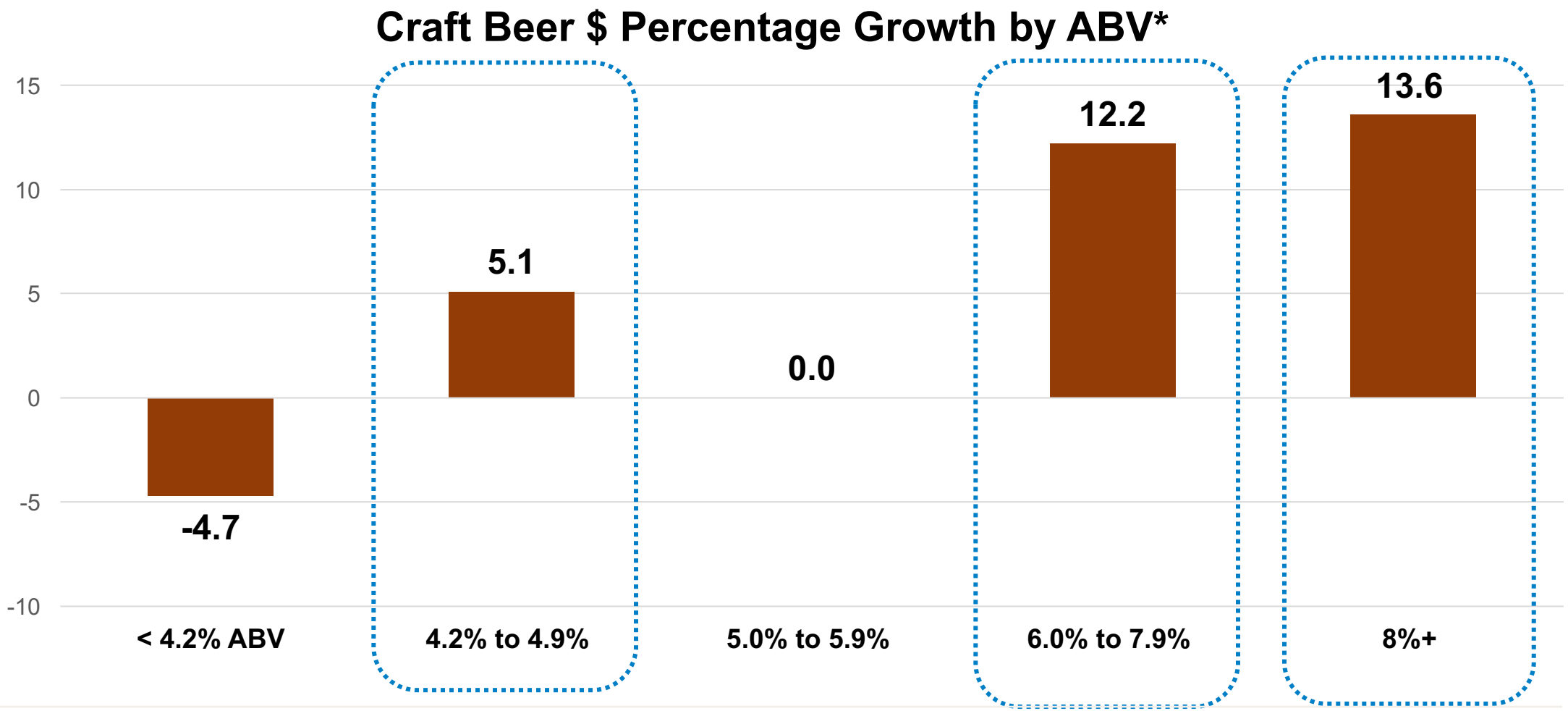
Q: Which of the following mindful drinking choices are you more interested in now compared to a few years ago when it comes to consuming craft beer?



Health related options most prevalent among **21-34 Craft Drinkers**

Source: Brewers Association Craft Beer Insights Poll (CIP) conducted online by The Harris Poll/Nielsen in May 2019 (n = 1,100 Craft Drinkers, n = 480 Weekly Craft Drinkers)

Growth At Both Higher and Lower ABV Ranges



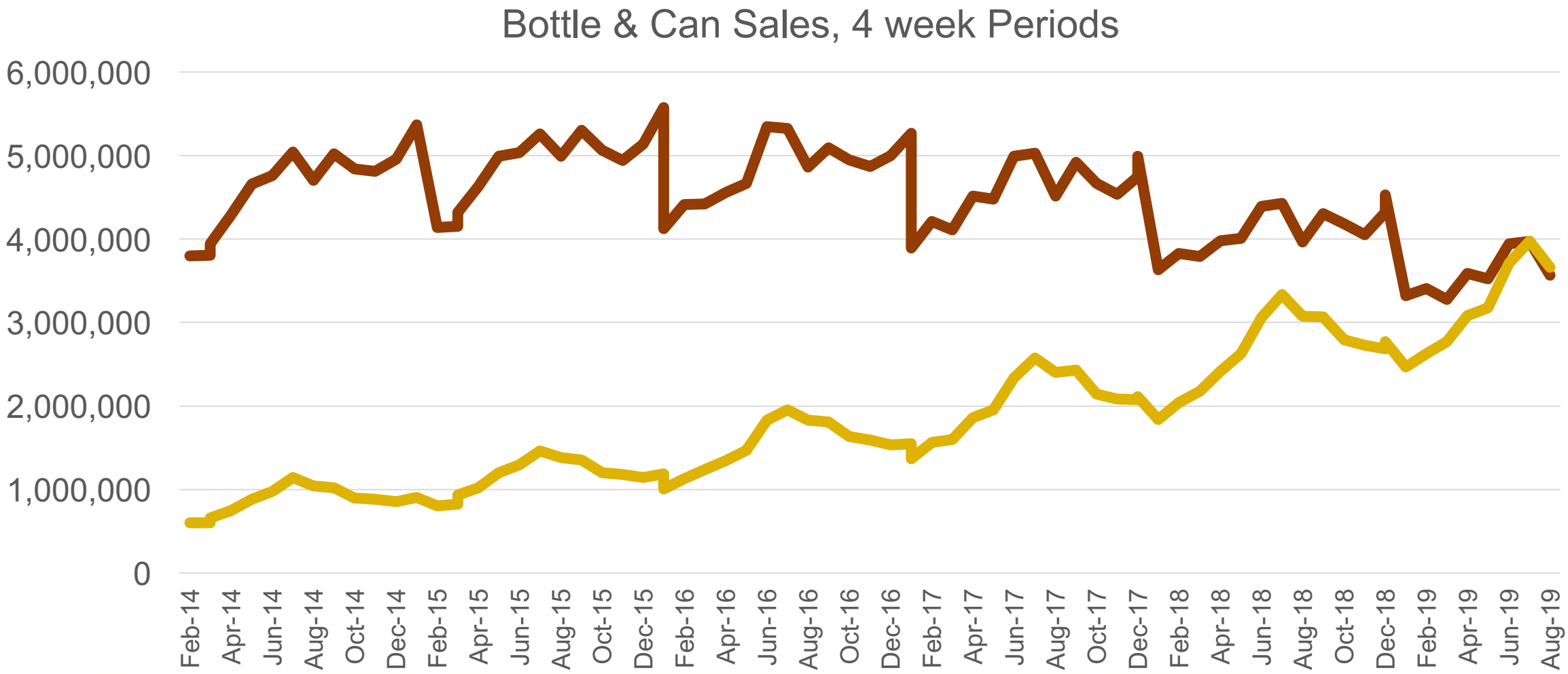
Craft Share 3.5%	14.1%	19.9%	25.0%	6.8%
# of Brands 12	102	146	308	118

* Among top 1000 craft brands. Captures products that are coded with associated ABV, representing 70% of Craft volume; Source: Nielsen Total U.S. All Outlets; YTD 5/19/18

Age Demographics

	Age		
	21-24	25-34	35-44
That is low calorie	47%	27%	21%
That aligns with my fitness goals	44%	16%	10%
That is organic	34%	23%	21%
That is low carb	30%	24%	19%
That is non-alcoholic	30%	4%	5%
That is low ABV/non-alcoholic (Net)	27%	9%	15%
That is made with local ingredients (i.e., grown locally in town/city)	26%	29%	32%
That is made with health-centric ingredients (e.g., acai, ginger)	25%	18%	13%
That is low ABV (i.e., alcohol by volume or the percentage of alcohol in a given beverage)	23%	13%	12%
That is gluten free	20%	9%	7%
In smaller formats (e.g., 8oz can versus a 12oz can)	16%	14%	18%
N/A - I was not interested in mindful drinking a few years ago, and am not interested now	4%	7%	3%
None - I am less interested in mindful drinking choices now than I was a few years ago.	4%	2%	5%

Packaging Trends



Still a Perception Gap, but Shrinking

- *Q: Which of the following are primary reasons why you would purchase craft beer in each of the following types of packaging?*

CRAFT CANS	
Convenience	44%
Ease of transport	39%
Value	31%
Taste	27% ↑
Quality	22%
Freshness	21%
Wouldn't Purchase	14% ↓

CRAFT BOTTLES	
Taste	61%
Quality	49%
Freshness	47%
Convenience	38%
Value	27%
Ease of transport	26%
Wouldn't Purchase	1%

CRAFT GROWLERS	
Taste	28%
Freshness	28%
Value	26%
Quality	24%
Convenience	20%
Ease of transport	15%
Wouldn't Purchase	32%

Perception of **Taste** in Cans is improving, but room for growth on perceptions of Quality and Freshness

Source: Brewers Association Craft Beer Insights Poll (CIP) conducted online by The Harris Poll/Nielsen in May 2019 (n = 1,100 Craft Drinkers, n = 480 Weekly Craft Drinkers)

CHEERS!
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