American Hop Convention
State of the Industry
Merchant Panel

January 26, 2018
Topics

World Economic Environment

Overview Beer Industry (World & US)

Overview Hop Industry (World & US)
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World Economic Environment – Factors Impacting our Industry

- Global growth in 2017 – 3% (strongest since 2011)
- Predicted to edge up to 3.1%, with emerging markets est. 4.5%
- Growth is broad based, Brazil and Russia emerged from recession
- China’s continued slowdown expected to be offset by other countries
World Economic Environment – Factors Impacting our Industry

- Commodities trending up, but inflation still expected to remain low
- Monetary policies gradually normalizing – interest rates to increase gently
- US tax reform, both corporate & personal as of 2018 – reform bill includes a 2-year beer excise tax reduction
- Euro/Dollar exchange rate trending favorably for US exports
Euro/Dollar Exchange Rate – Favorable Trend

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• Overall trend largely unchanged, 2017 est. to be about flat, near 1.7 billion bbls

• China likely flat (~400 MM bbls), but growth in other Asian countries; declines in Germany (-1.8%), Russia (-2.4%)

• US down by <1% (just under 210 MM bbls), legacy brands continue their decline; imports, low carb beers and craft all up

• World hopping rates steady for world lagers; increasing world craft contribution continues to push up rate overall
Beer Production Development 2017 - US

• US legacy brands continue their decline in 2017; AB and MC lost a combined 3.1 MM bbls in 2017 and 29 MM bbls since 2008

• Imports strong again in 2017, Constellation up 1.5+MM bbls

• *Michelob Ultra* up 21% or 1.35 MM bbls; success of “healthier choice” beers brings launch of *Corona Premier*

• US Craft up ~5% or 1+ MM bbls
Beer Production Development 2017 – US Craft

• 6,000 brewers in US…and counting

• Increasing competitive environment and difficult consumer trend: “this is the best beer I ever had…what else do you have?”

• Legacy craft brands, typically pale ales, difficult to grow against hyper local competition (tap rooms – with very favorable economics)

• Hopping rates increasing slightly, IPA’s continue to march on, incl. NE IPA with 3 – 6 lbs./bbl
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• 2017 world acreage highest since 1998

• US increased market share in same period from 25% to 36%

• US highest acreage in a century, surpassing previous record from 2016
World Acreage Outlook – 2018 (Unofficial Estimates)

• For the US, the chatter is 1,000 – 1,500 acres net additional; some replanting from aroma to alpha on existing acreage

• For Germany, estimated new acreage about 1,000 to 1,500 acres, good portion will be Herkules (still the most profitable variety in Germany)

• Rest of World: no significant change expected

- Highest hop production since 1996
- Highest total alpha production on record, exceeding 2008/2009
- Variety mix vastly different
World Alpha Balance Brew Years 1993 – 2018 (est.)
World Alpha Production Varietal Sources 2008 - 2017

- In 2008, 60+% of Alpha came from typical alpha varieties
- In 2017, >45% came from these varieties
- Typical alpha production rebounding, but still tight
- There is 2,000+ MT more alpha produced from “other” in 2017 vs. 2008
US Crop 2017

• Record year: largest acreage, production – both hops and total alpha

• For the first time in 7 years, alpha variety acreage increased and alpha spots sold well

• Brewery contract restructurings have become a repeat occurrence, with classic aroma/flavor varieties (e.g. Cascade) looking to be restructured most or called off/shipped slowly

• Some excess and higher alpha containing aroma/flavor spots found alternate homes (courtesy of a strong alpha market)
US Production + Import vs. Grower/Dealer Stocks Year After

- Production and Imports vs. Grower/Dealer Stocks as of Sept. 1 the year after (shown in same year)
- Shipment rates relatively steady over the years
- Inventory build up, approaching one crop’s production (2017 est.)
US Crop 2017 - Financial Aspects

• While the season average price increased only nominally over 2016, the total crop value jumped by nearly $120 MM (due to size) to about $620 MM

• Revenue per acre jumped to highest level, surpassing the $11,000 mark

• How do these numbers compare to the industry’s historical performance
Farm Gate Crop Values (inflation adj.) 1915 - 2017
Per Acre Revenues (inflation adj.) 1915 - 2017
Summary

- World & US economic climate very favorable

- World beer production flat, challenges in the US, multiple trends

- 2017 world crop largest since mid 1990’s, record in the US

- World alpha balance in theoretical balance, but in reality tight on alpha, long on aroma (US); acreage expansion/change over in 2018 likely eases alpha tightness somewhat

- The industry has made great investments in acreage and infrastructure, there is now sufficient acreage – no further expansion is needed
Thank You

...and now to our panel discussion