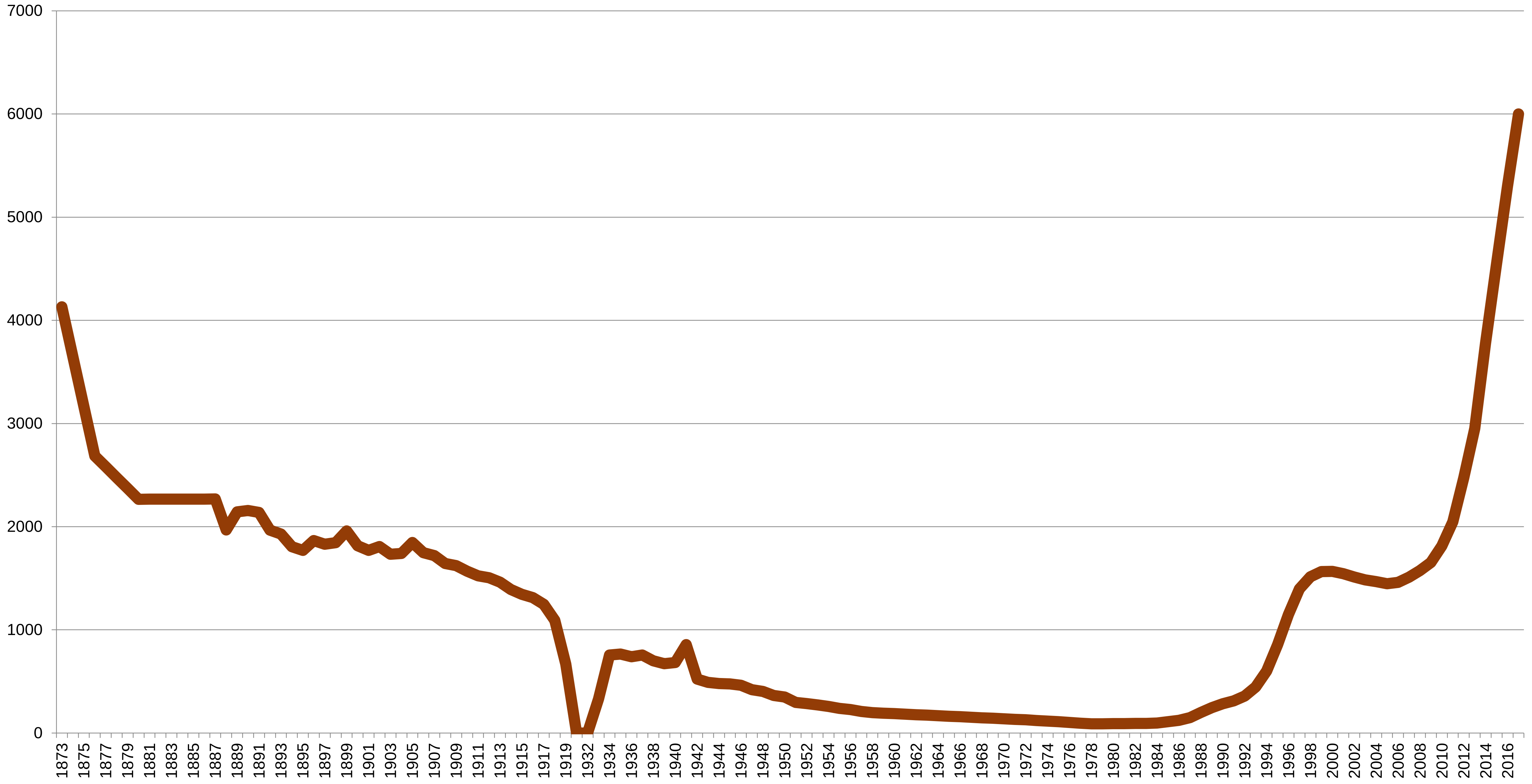
The Changing US Beer Market

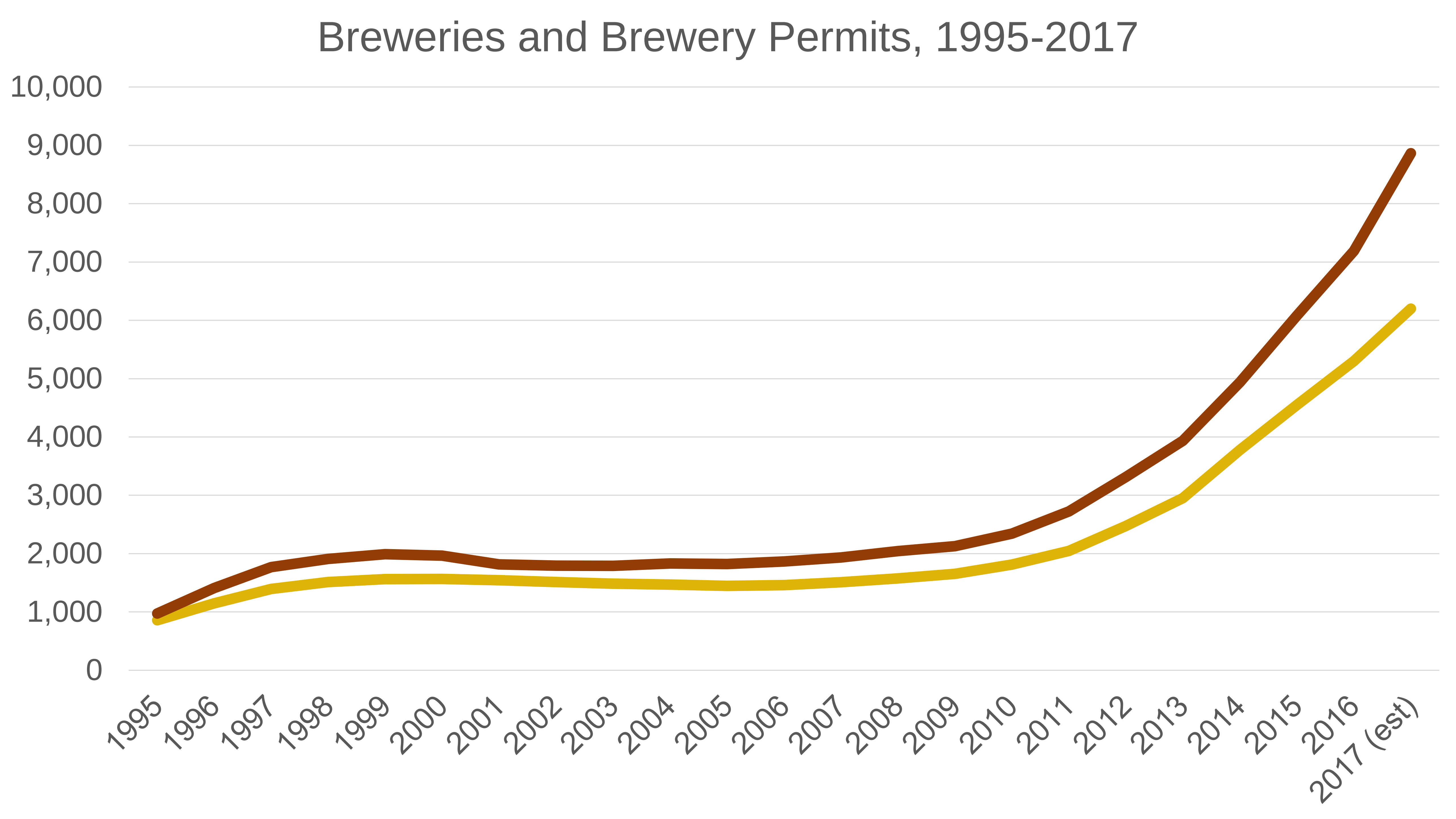
- Dr. Bart Watson, Brewers Association

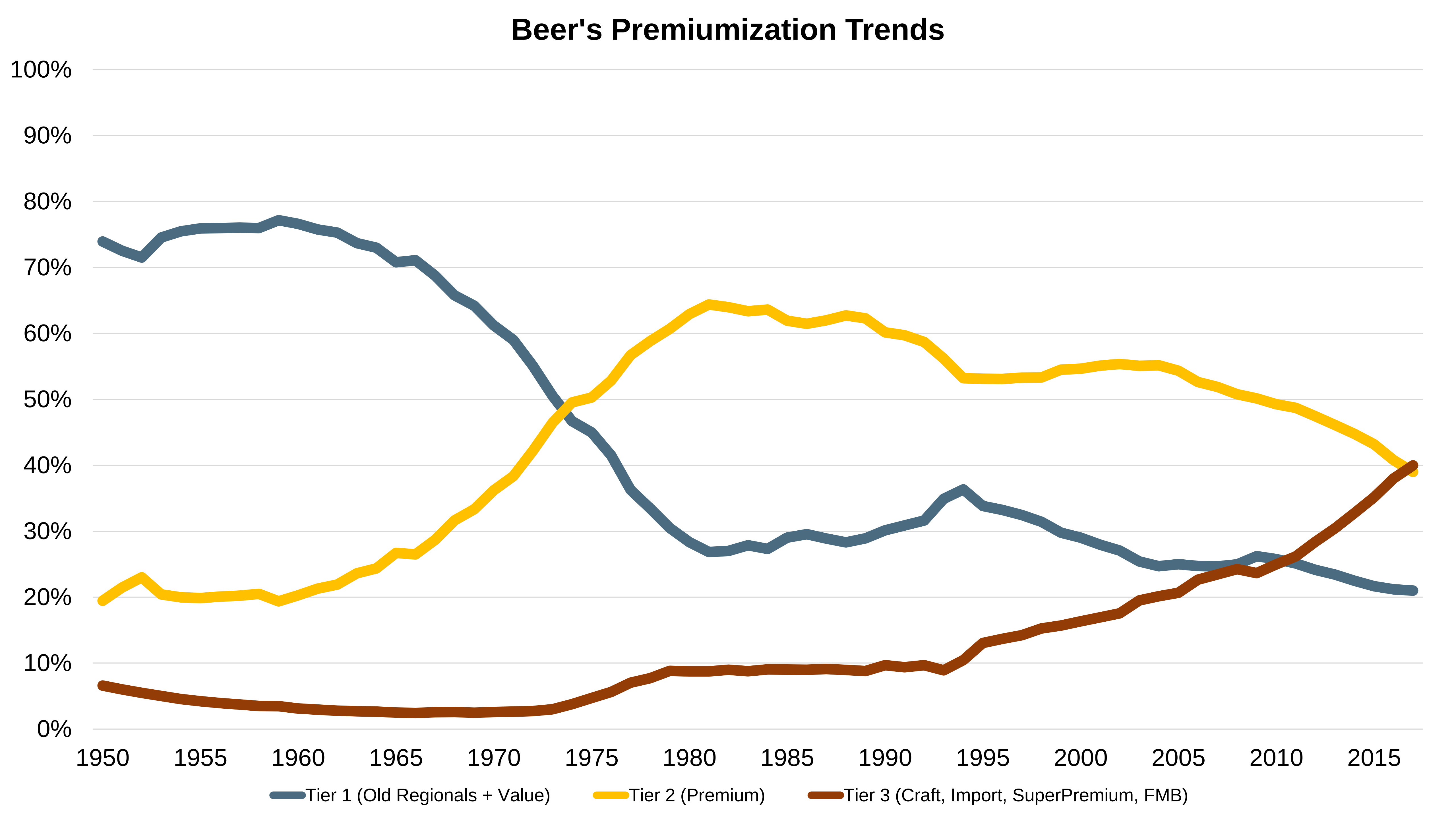
BREWERS ASSOCIATION

Number of Breweries, 1873 - 2017

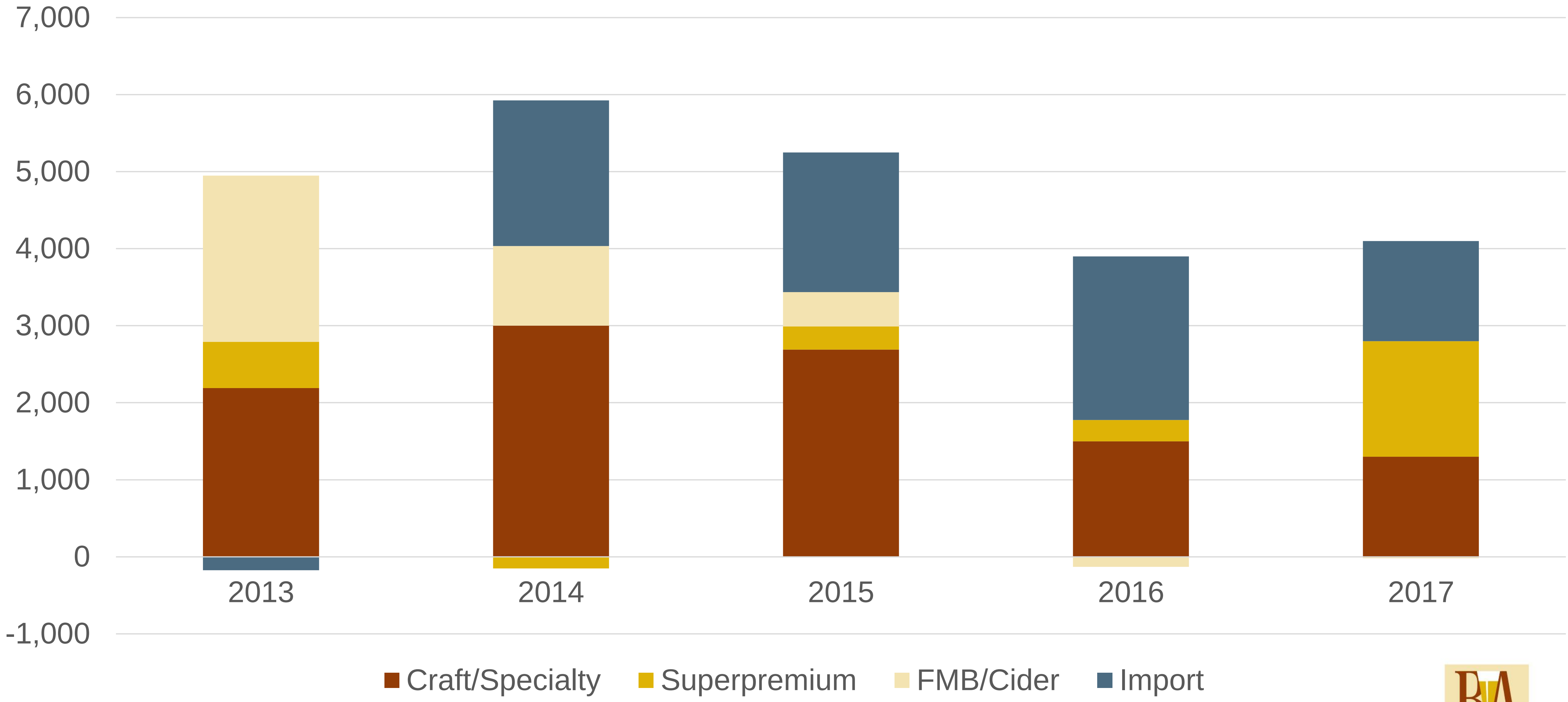
Sources:
Brewers Assocication
and Beer Institute




Breweries and Brewery Permits, 1995-2017
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017 (est)


Beer's Premiumization Trends
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015
Tier 1 (Old Regionals + Value)
Tier 2 (Premium)
Tier 3 (Craft, Import, SuperPremium, FMB)

Beer, High End Growth, 2013-2017 (est)



Comparative Brewery Growth

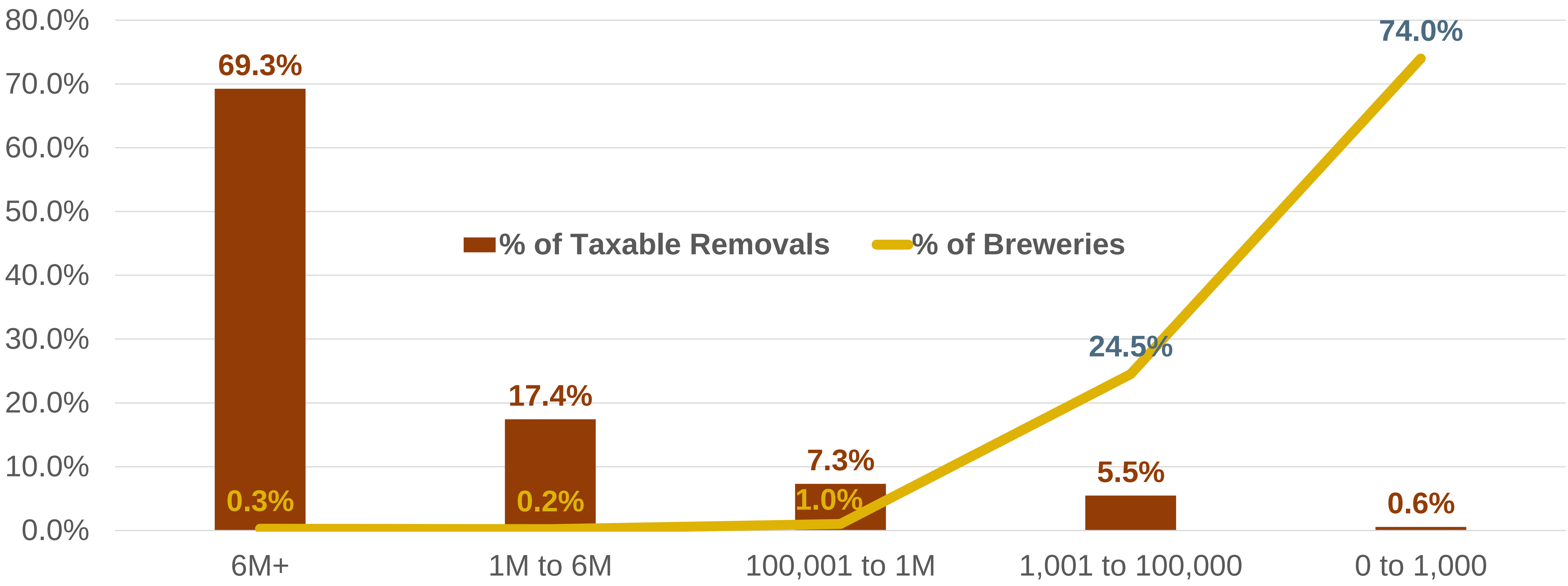
NUMBER OF BREWERS BY PRODUCTION SIZE - CY 2016

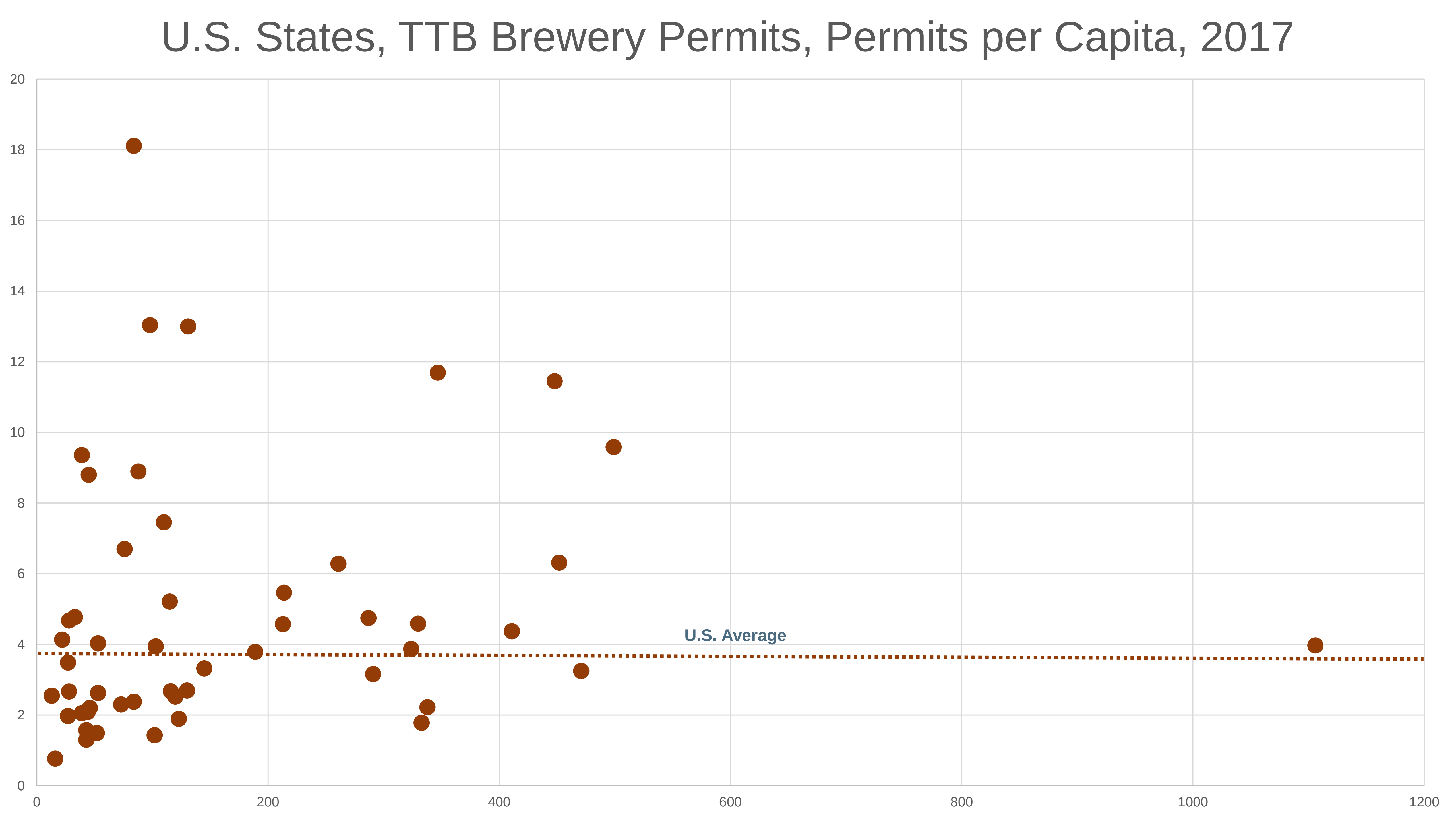
Revised: 10/25/2017

Production Size - CY 2016

Barrels (31 gallons)	Number of Breweries	Taxable Removals	% of Breweries	% of Removals
6,000,001 Barrels and Over	14	119,774,531.97	0.3%	69.3%
2,000,000 to 6,000,000 Barrels	7	25,147,830.59	0.1%	14.5%
1,000,001 to 1,999,999 Barrels	4	4,994,536.90	0.1%	2.9%
500,001 to 1,000,000 Barrels	6	4,014,943.39	0.1%	2.3%
100,001 to 500,000 Barrels	45	8,618,323.45	0.9%	5.0%
60,001 to 100,000 Barrels	38	2,395,062.26	0.7%	1.4%
30,001 to 60,000 Barrels	53	2,069,205.94	1.0%	1.2%
15,001 to 30,000 Barrels	75	1,341,223.91	1.5%	0.8%
7,501 to 15,000 Barrels	148	1,351,541.96	2.9%	0.8%
1,001 to 7,500 Barrels	935	2,282,897.14	18.3%	1.3%
0 to 1,000 Barrels	3,771	967,080.60	74.0%	0.6%
Total	5,096	172,957,178.11	100.0%	100.0%

2016 US Breweries by Size

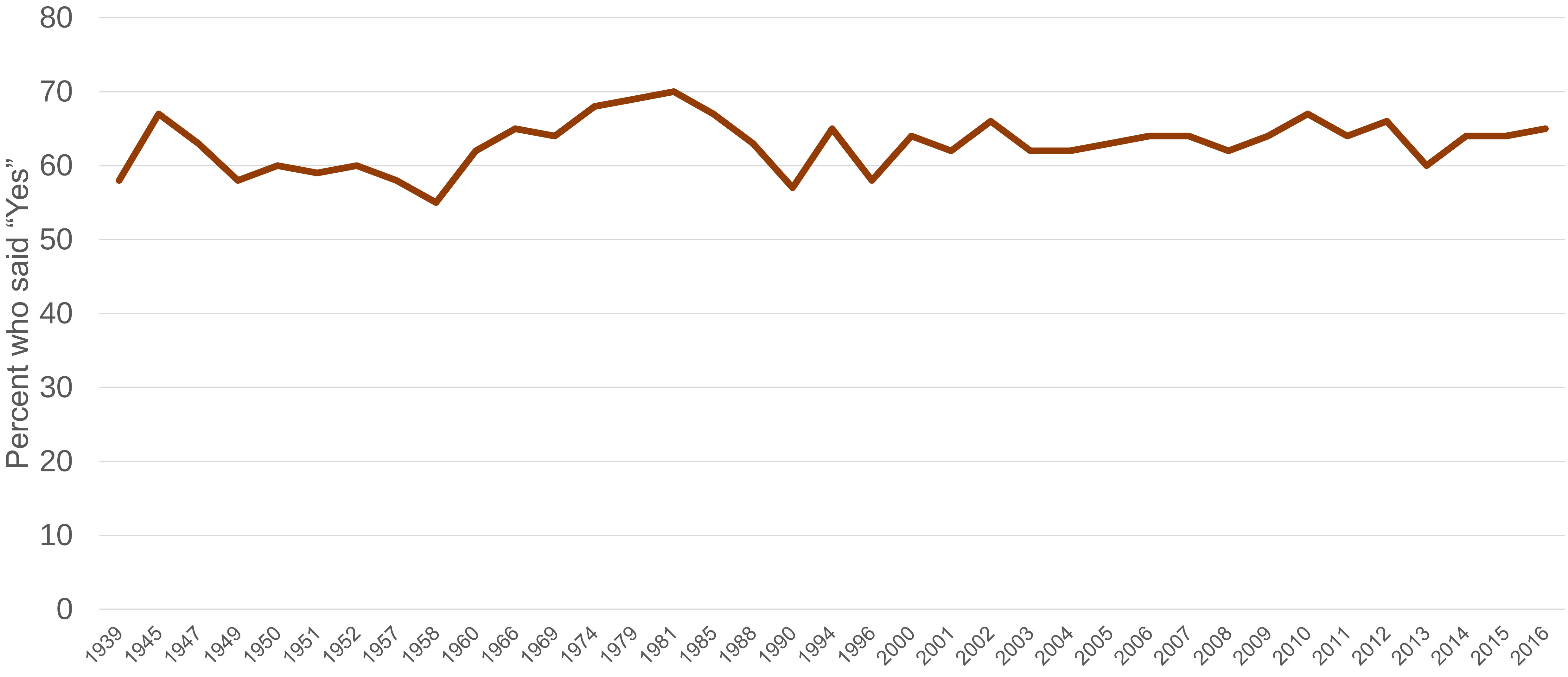



U.S. States, TTB Brewery Permits, Permits per Capita, 2017
U.S. Average
0
2
4
6
8
10
12
14
16
18
20
0
200
400
600
800
1000
1200

Beverage Alcohol, Demographics, & Economics

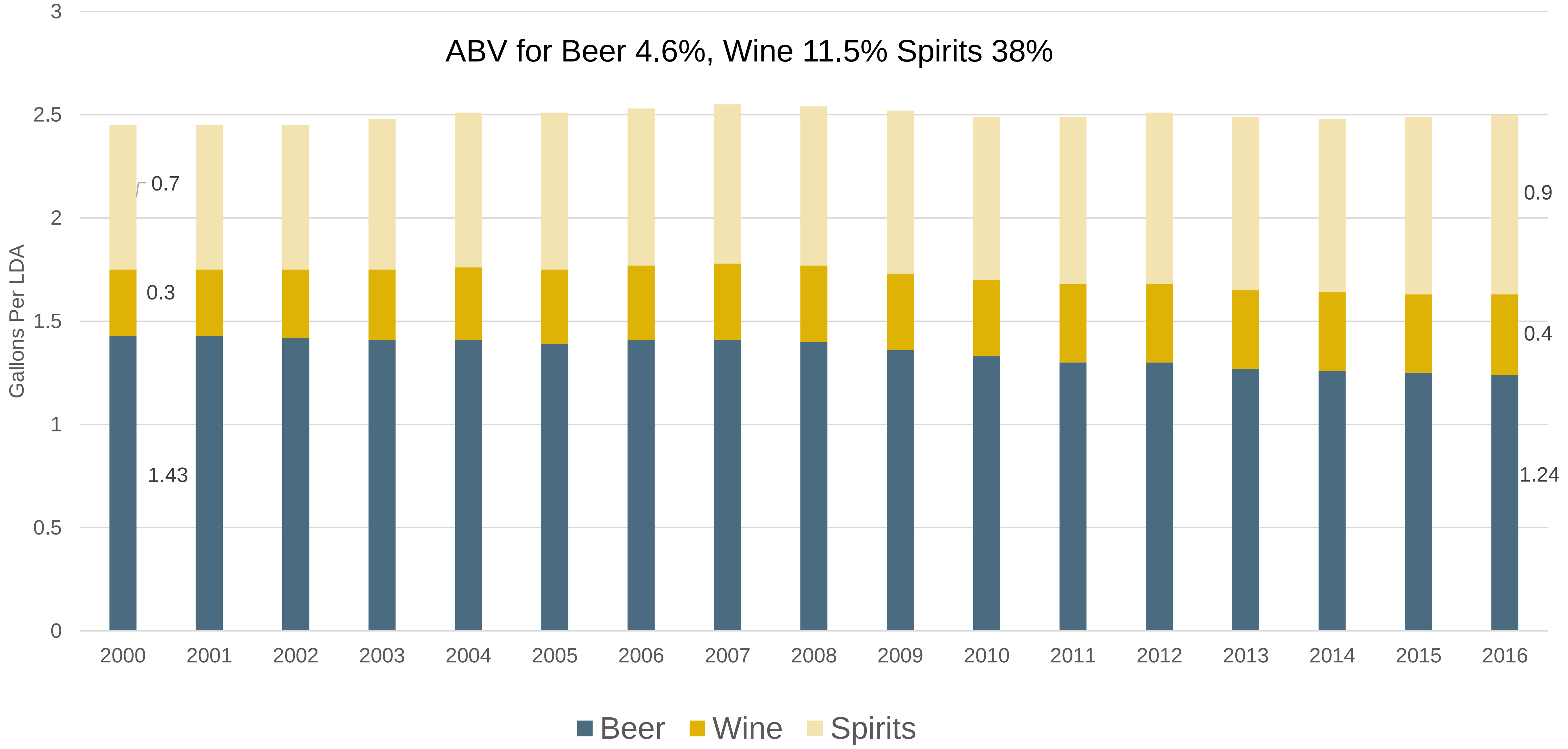
Alcohol Consumption Over Time

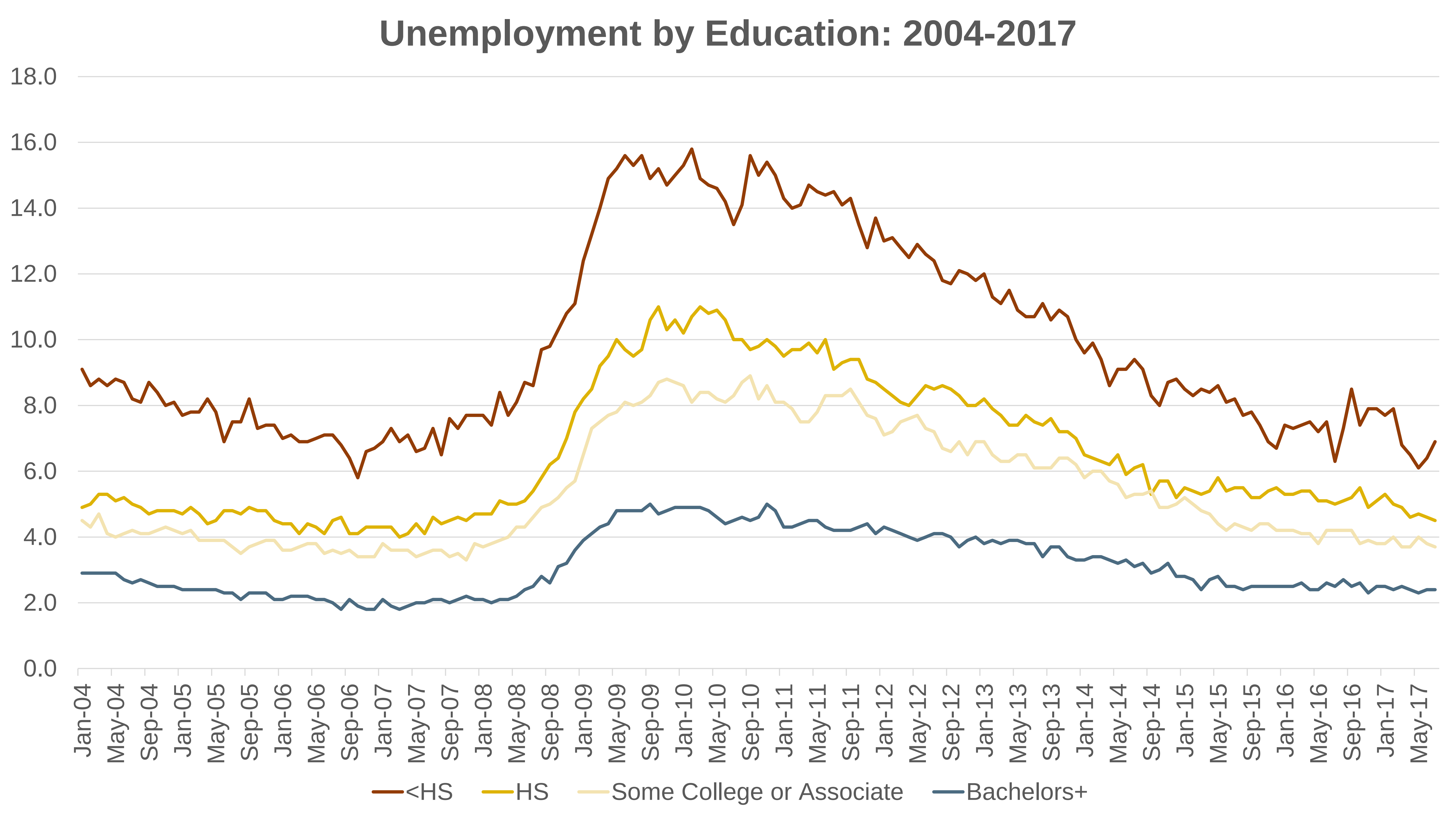
Do You Have Occasion to Drink Alcohol?



Source: Gallup Poll, 2016.

Per Capita Consumption of Ethanol U.S. from 2000 to 2016





Unemployment by Education: 2004-2017
18.0
16.0
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
Jan-04
May-04
Sep-04
Jan-05
May-05
Sep-05
Jan-06
May-06
Sep-06
Jan-07
May-07
Sep-07
Jan-08
May-08
Sep-08
Jan-09
May-09
Sep-09
Jan-10
May-10
Sep-10
Jan-11
May-11
Sep-11
Jan-12
May-12
Sep-12
Jan-13
May-13
Sep-13
Jan-14
May-14
Sep-14
Jan-15
May-15
Sep-15
Jan-16
May-16
Sep-16
Jan-17
May-17
<HS
HS
Some College or Associate
Bachelors+

The Changing Craft/Beer Industry

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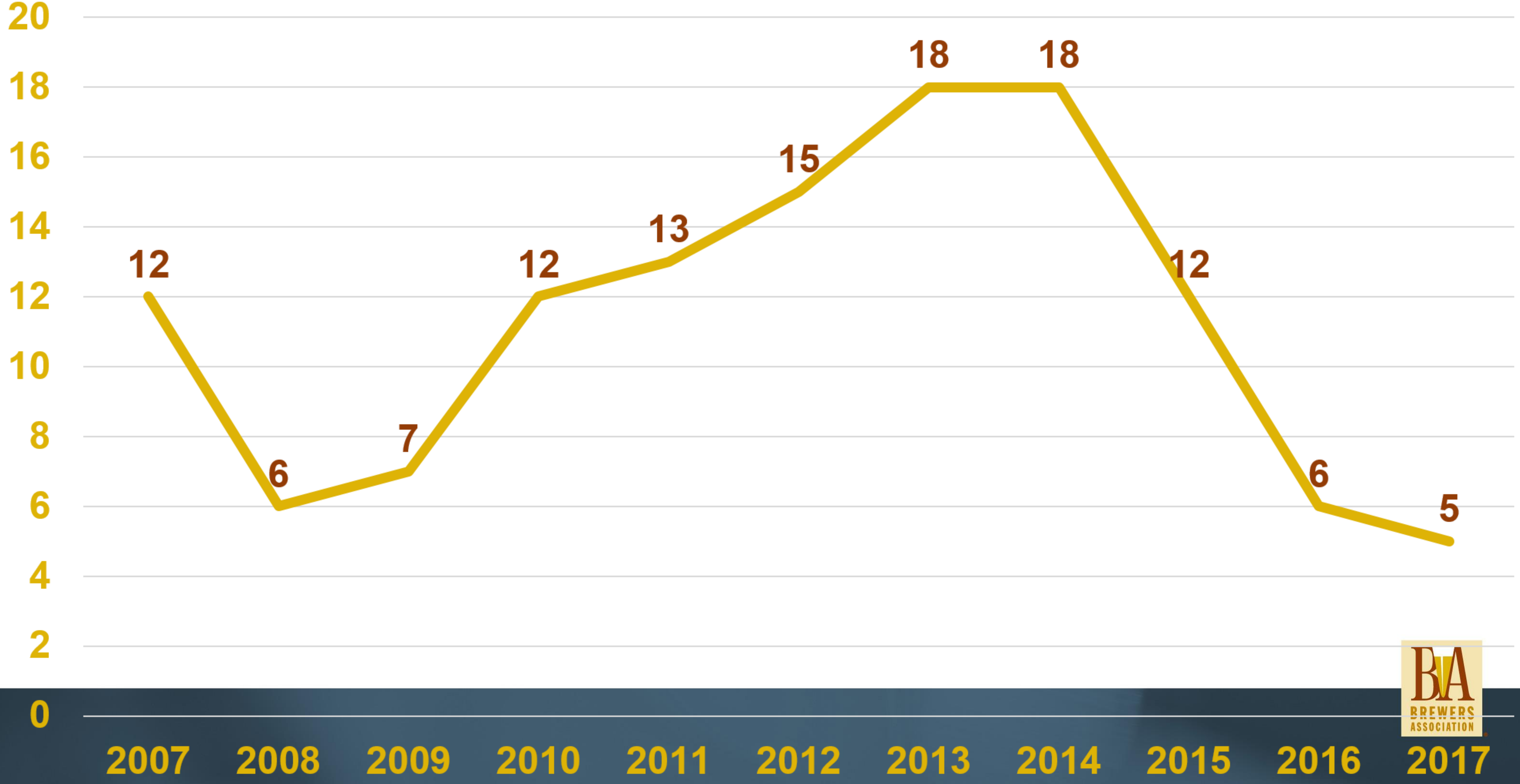
Annual Craft Growth Rate, 2007-2017



At home remains key location for craft beer drinkers, with increases outside the home

Which of the following describe when you typically drink craft beer? Please select all that apply.

87% of TOTAL Craft Beers Drinkers

AT HOME/AT A FRIEND'S

93% of WEEKLY Craft Beers Drinkers

GROWING OCCASIONS

At an OUTDOOR recreational activity

During a craft brewing FESTIVAL/EVENT

While visiting a CRAFT BREWERY

DOWN VS. YEAR AGO

While eating out at a RESTAURANT

While out with my friends at a BAR/CLUB

Source: Nielsen's Craft Beer Insights Poll (CIP) conducted June 2016 by Harris Poll (n=1,018 Craft Drinkers; n=555 weekly craft drinkers)

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

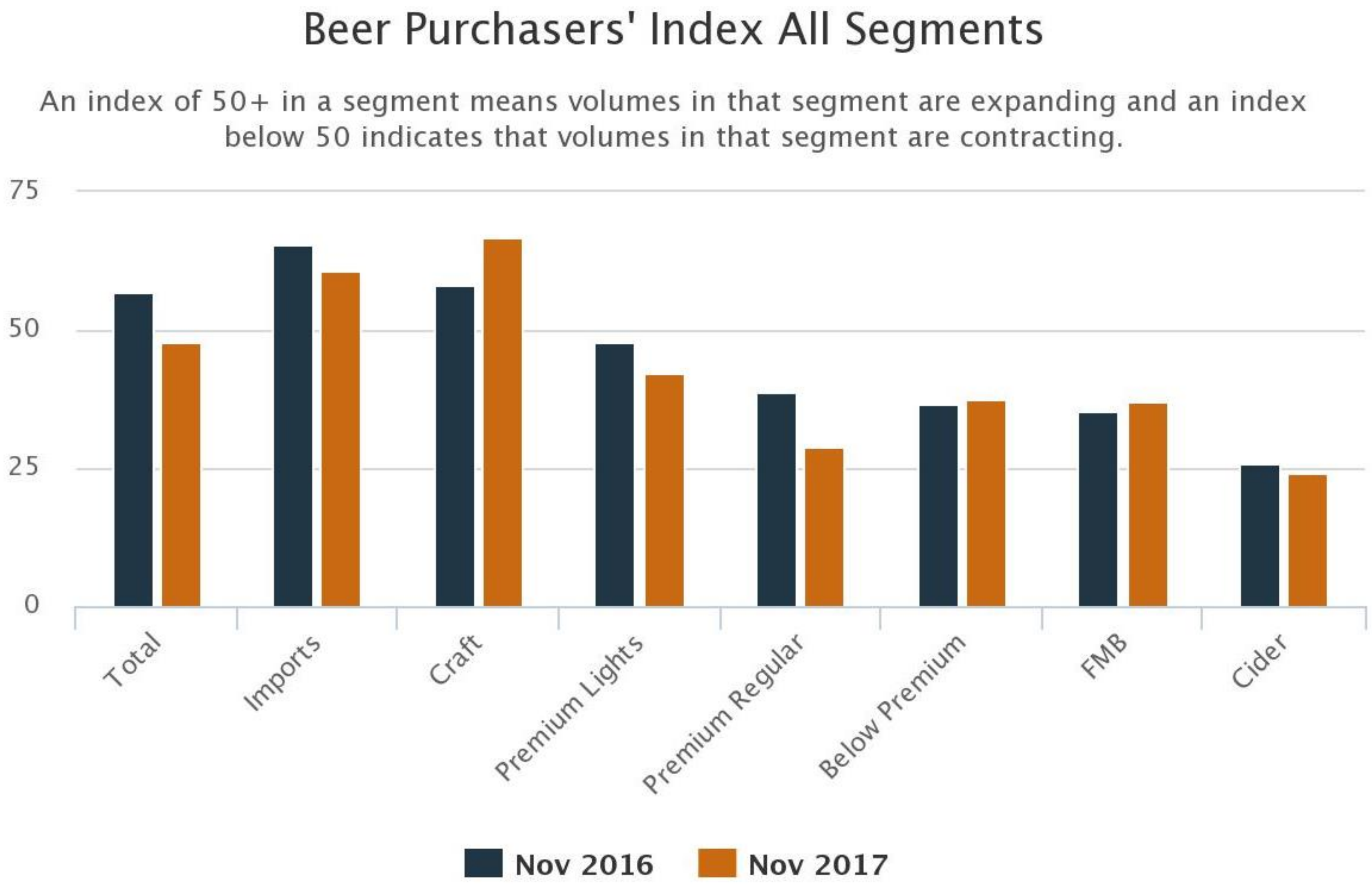
13%
of millennials visited a <u>Groceraunt</u>
(7% average)

12%
of millennials took a <u>Brewery Tour</u>
(7% average)

23%
of millennials visited a <u>Brewpub or Taproom</u>
(17% average)

25% of millennials visited a <u>Premium Bar</u>
(12% average)

nielsen | CGA



- Clearly much of the slowdown is coming at wholesale
- Distributors are crowded not expanding craft as much

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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?**

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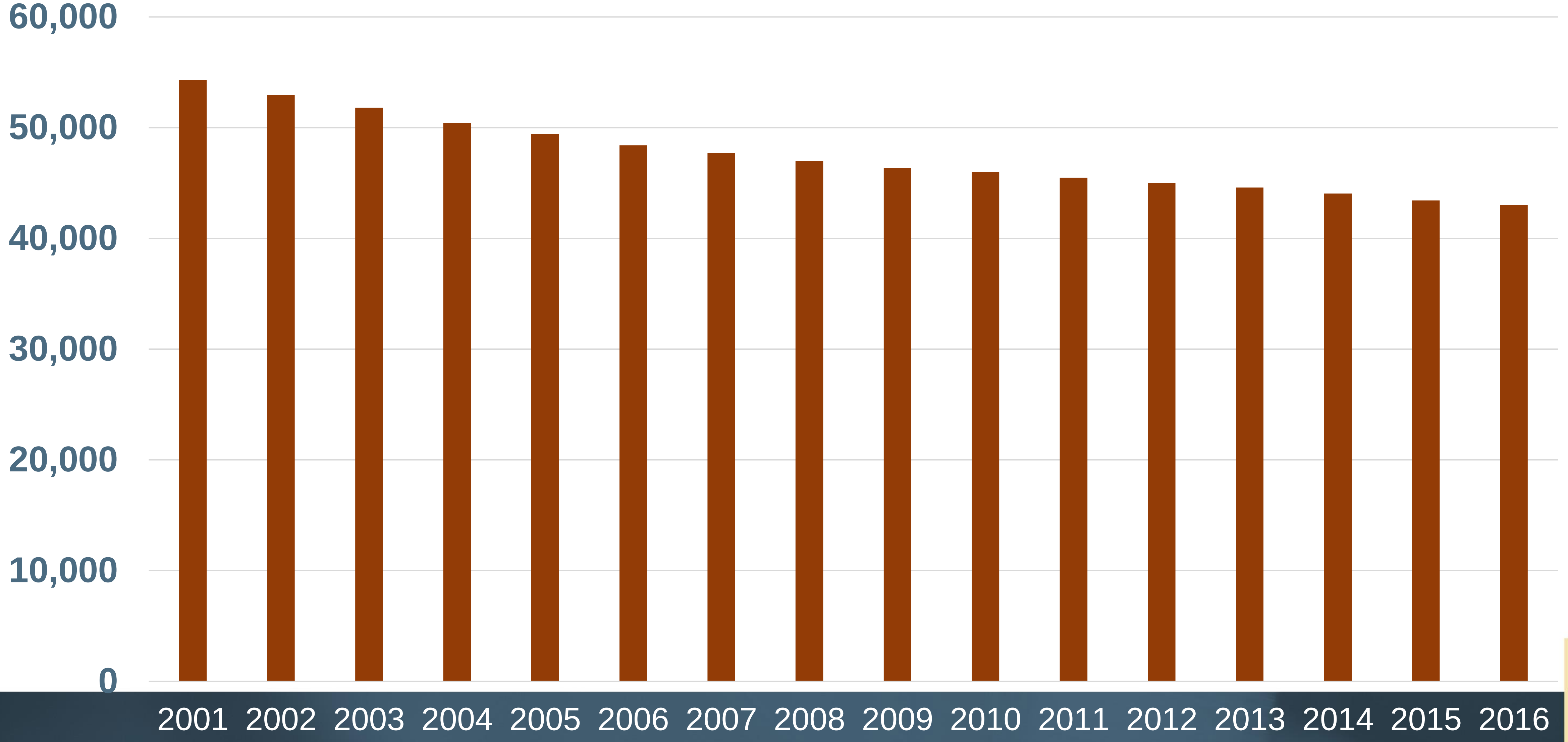
Number of Bars (NAICS 72241)



Source: QCEW (2017)

Brewery Visits are Partially New Occasions

Q: As you have visited a Brewpub/Taproom or Brewery in the last 3 months, did that visit replace a visit to a bar or other on-premise establishment? (If you visited multiple breweries, please select the option that is most typical)

Sample size:	1447	461	559	427
Age	**Total US**	**21 – 34**	**35-54**	**55+**
No, visiting a brewery was a different type of occasion where I wouldn't have gone to a bar (family outing, etc.)	40%	34%	38%	47%
Yes, I chose to visit a brewery instead of a traditional bar/on-premise drinking establishment	30%	33%	30%	25%
No, visiting a brewery was in addition to my typical bar/on-premise occasions	24%	25%	24%	22%
Yes, though I would generally be reducing my bar occasions, regardless of whether I was visiting breweries or not	7%	8%	8%	6%

NCGA OPUS survey September 2017

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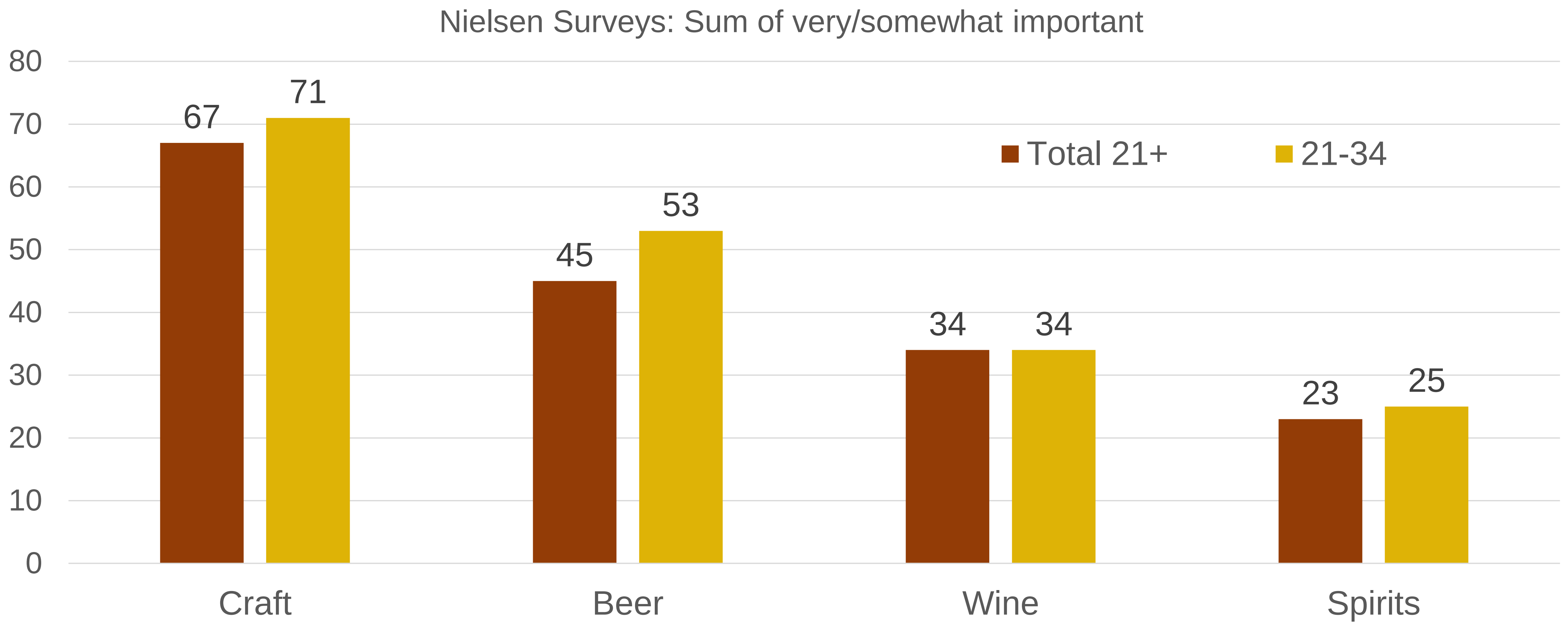
How important is "local" in purchase decisions?



Source: Nielsen Quick Query Omnibus Survey, 12-17, 2015. (Base: LDA consumers who drink at least several times per year)

Source: IRI MULO+C, Total US, YTD thru 12/24/17	Total US for Small Brewers	
Brewer Size (CEs)	Growth % YTD	% Volume
1,000,000+	-1.7%	61.2%
100k to 1M	6.0%	24.5%
10K to 100K	17.1%	12.1%
Less than 10K + New	58.5%	2.2%

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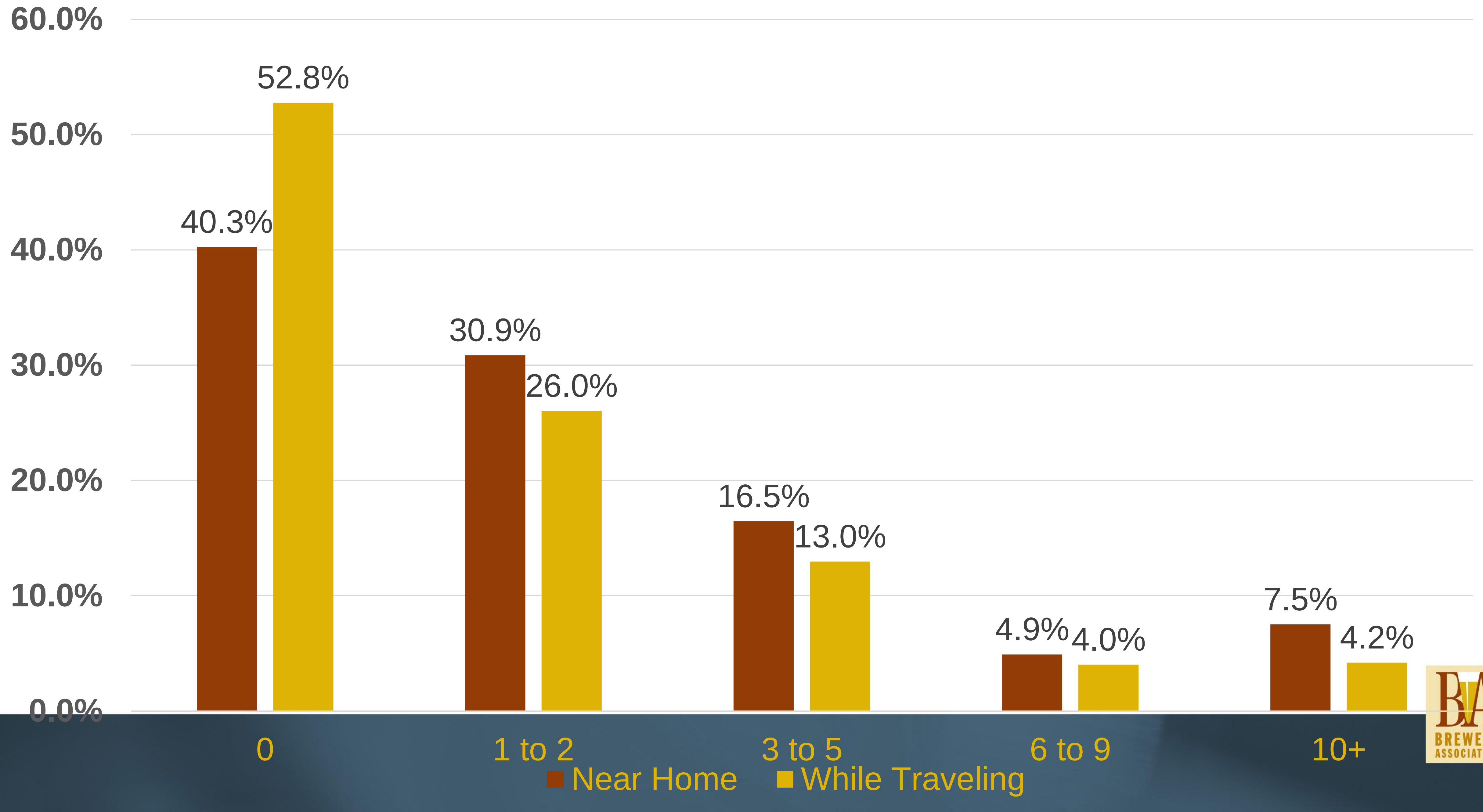
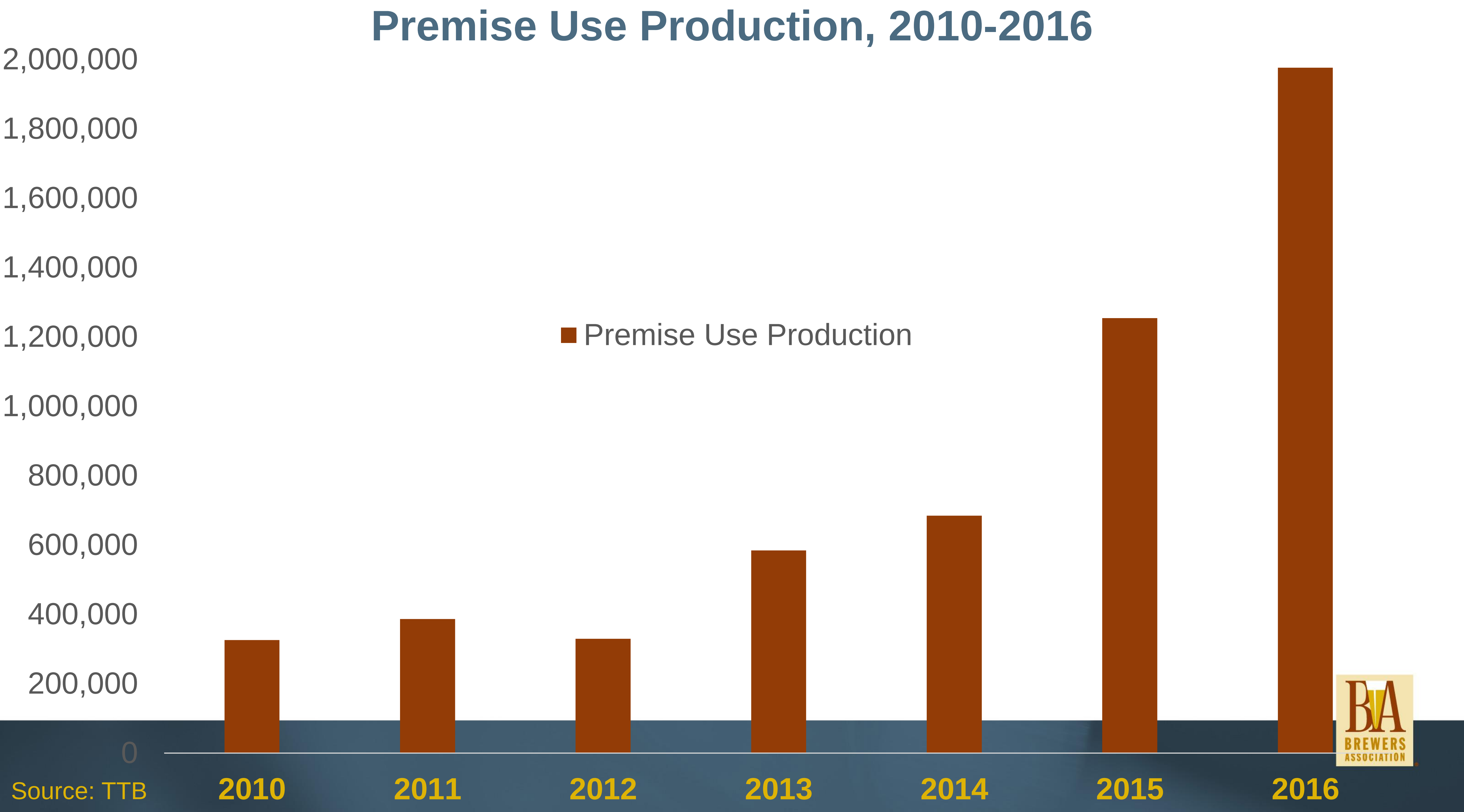
So far in Production Survey…

2016 Size (bbls)	% of 2017 Growth (of total)
>100,000	-11.9%
10K-100K	38.9%
<10K	72.9%

Craft Drinker Brewery Visit Frequency, Last 12 Months




Premise Use Production, 2010-2016
2,000,000
1,800,000
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
Premise Use Production
2010
2011
2012
2013
2014
2015
2016
Source: TTB
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Percent of Craft Drinkers Who are Drinking More Craft & Say Brewery Visits are a Reason

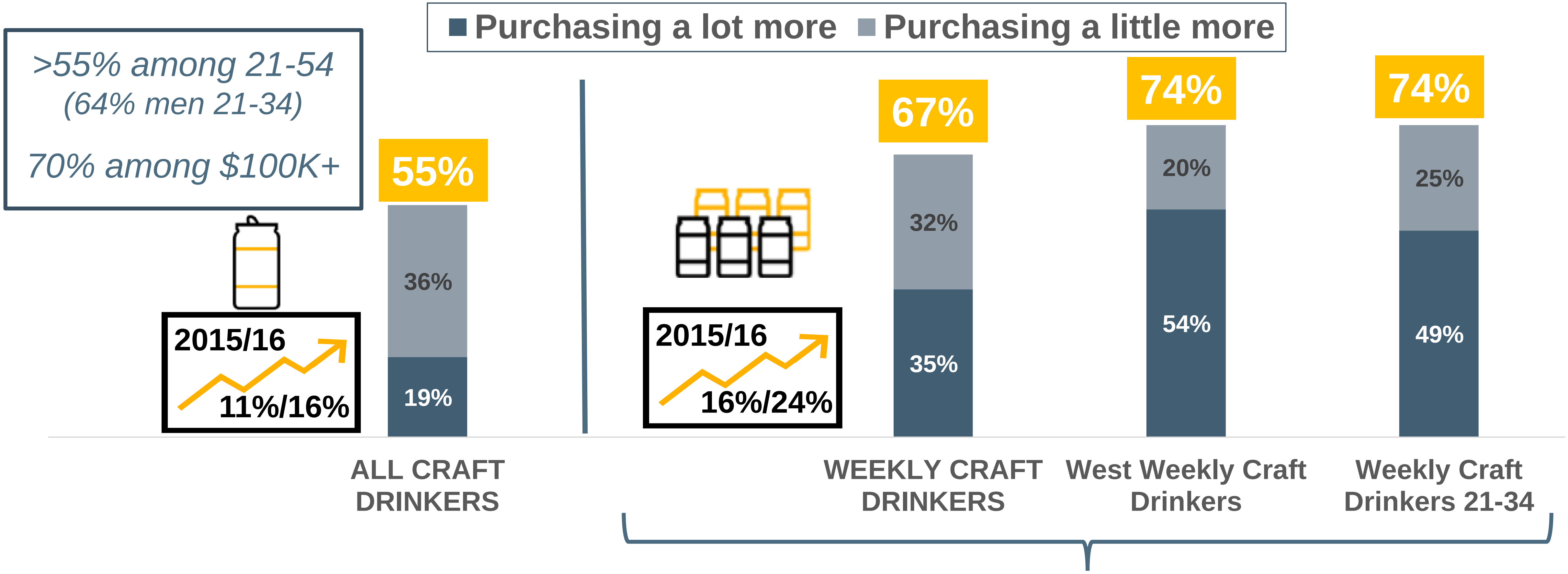
	Male	Females	Total
21-34	16%	15%	15%
35-44	13%	12%	13%
45-54	12%	19%	14%
55-64	11%	9%	10%
65+	5%	3%	5%
Total	12%	13%	**12%**

- Clear sign there is new demand here
- Opportunity to grow the segment
- Cuts across typical demographics
- Ripples run further out

Source: Nielsen

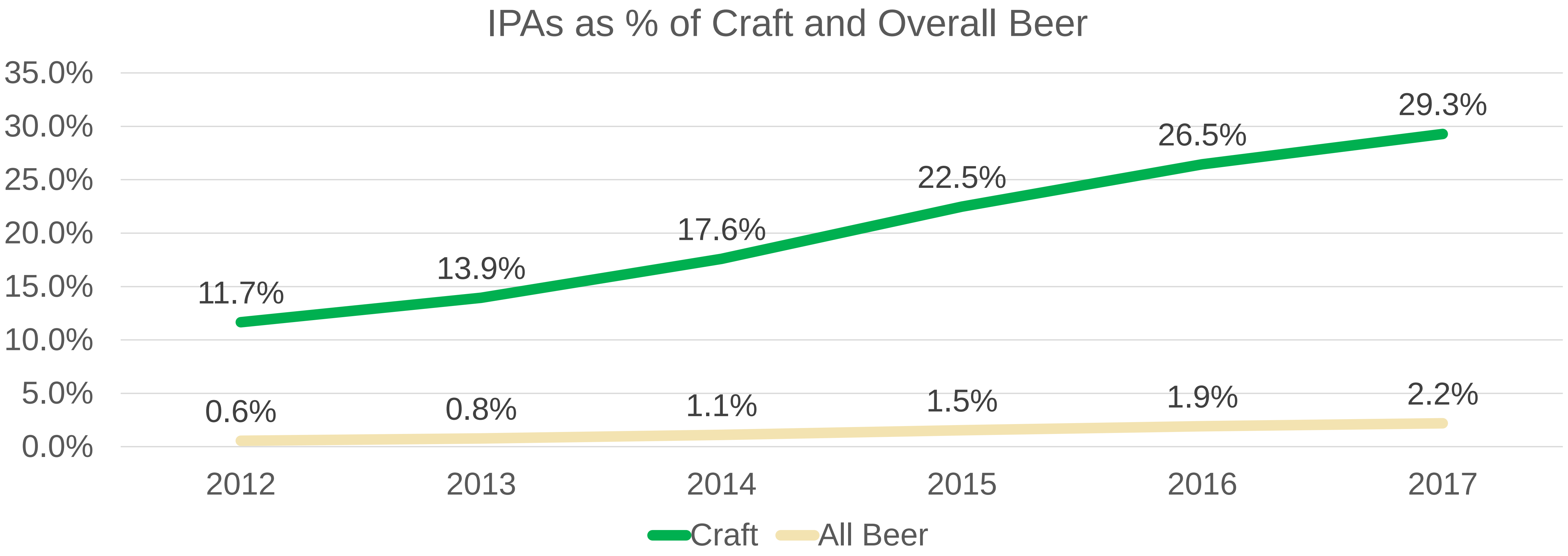
A VISIT TO A CRAFT BREWERY HAS SIGNIFICANT, AND INCREASING POST-VISIT SALES BENEFITS

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 products changed?



Source: Nielsen's Craft Beer Insights Poll (CIP) conducted June 2017 by Harris Poll (n=1,188 Craft Drinkers; n=379 weekly craft drinkers)
Base: Among those who visited Craft Brewery

IPA's Rise


IPAs as % of Craft and Overall Beer
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
11.7%
13.9%
17.6%
22.5%
26.5%
29.3%
0.6%
0.8%
1.1%
1.5%
1.9%
2.2%
2012
2013
2014
2015
2016
2017
Craft
All Beer

CHEERS!

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