CRAFT SPIRITS DATA PROJECT

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American Craft Spirits Association

IWSR

Inaugural Craft Spirits Economic Briefing

New York

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Contents

Key Messages

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- For purposes of this research, U.S. Craft spirits are distilled spirits that are produced in the U.S. by licensed producers that have not removed more than 750,000 proof gallons (or 394,317 9L cases) from bond, market themselves as craft, are not openly controlled by a large supplier, and have no proven violation of the ACSA Code of Ethics
- As of August 2016, there were 1,315 craft distillers active in the U.S.
- The U.S. craft spirits market reached 4.9m cases and $2.4bn in retail sales in 2015, growing at a CAGR of 27.4% in volume and 27.9% in value between 2010 and 2015. The market share of U.S. craft spirits reached 2.2% in volume and 3.0% in value in 2015, up from 0.8% (volume)/1.1% (value) in 2010
- Exports of U.S. craft spirits reached 523,000 cases in 2015, adding more than 10% of additional volume to U.S. craft distillers total sales
- The U.S. Craft distilling market is fairly concentrated with 2% of the larger producers (between 100,000 and 750,000 proof gallons removed from bond) being responsible for more than 60% of the cases sold. 91.7% of U.S. craft producers are classified as small producers (between 0 and 10,000 proof gallons removed from bond). They are responsible for just 12.1% of the cases sold annually

Key Messages (Continued)

- Direct sales at the site of the distilled spirits producer (DSP) are important for all craft distillers but especially important for small producers where these sales make up 25% of total sales. Out of state business is particularly important for large producers, accounting for more than 61% of the total business
- Many surveyed retailers and wholesalers see the potential for craft spirits to perform in line or better than craft beer over time. With craft beer market share currently at 11% in the U.S., the craft spirits market is expected to continue to grow rapidly
- Employment in the U.S. craft industry has been on the rise: in 2016 the industry employed over 12,000 FTEs. Investments by the U.S. craft industry have reached close to $300 million in 2015
- Surveyed distillers, retailers and wholesalers provided actionable recommendations to the U.S. craft spirits industry and its regulators to help the industry continue to grow

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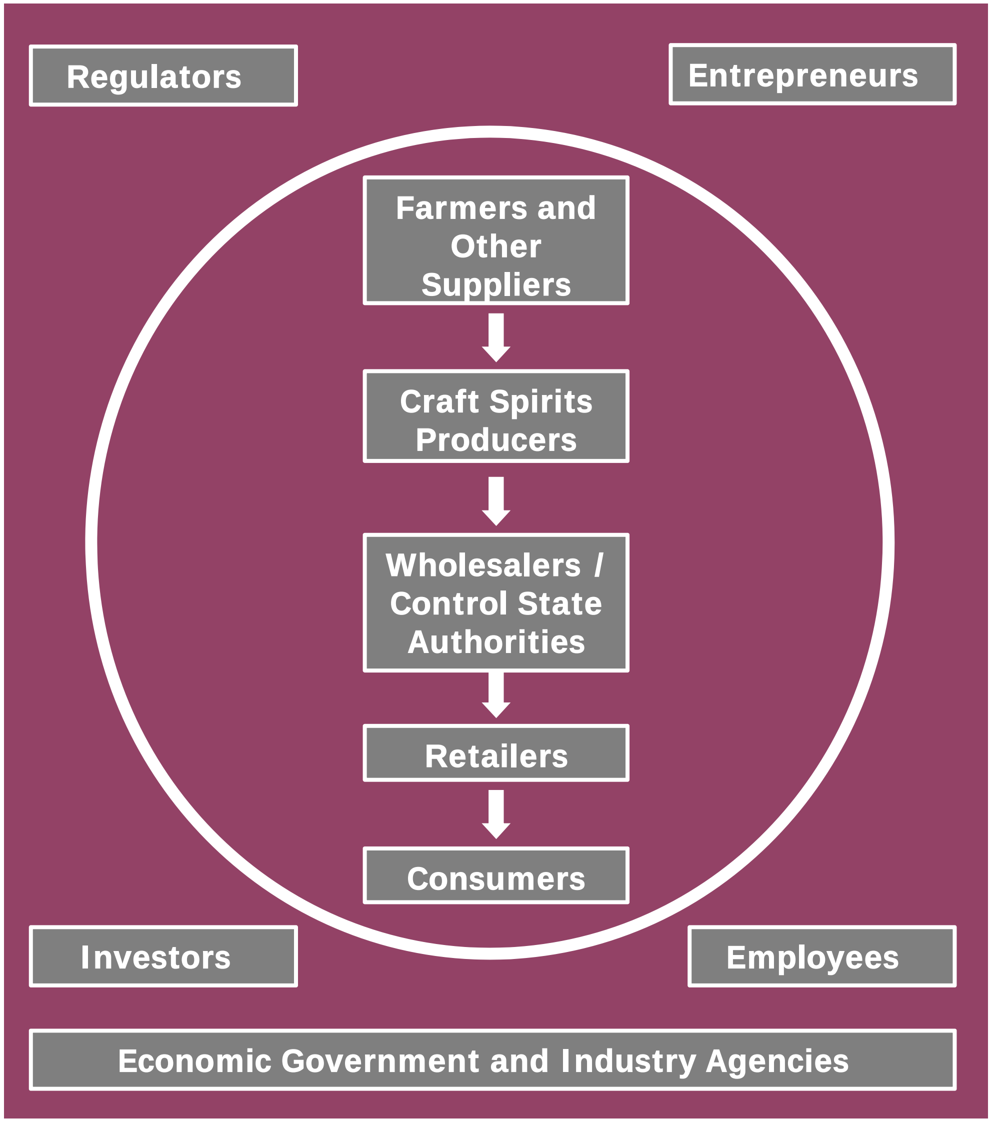
Project Overview

Industry Stakeholders and Their Concerns



- “What is the economic impact of craft spirits?”
- “Does the development of the craft spirits industry warrant new regulations benefiting craft spirits suppliers?”
- “Craft spirits producers ask me to start growing special grain. Is this craft trend a fad or here to stay?”
- “How large of an industry can craft spirits become?”
- “How is the supply and demand balance in craft spirits evolving?”
- “How can I convince my bank to finance my aging inventory when I can’t tell them how large of an industry I’m operating in?”
- “Do craft spirits warrant the establishment of a specialized sales division?”
- “Do we need to adjust our listing and delisting requirements in light of the increasing interest in craft spirits?”

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Industry Wide Collaboration

Teaming up for a common cause

The American Craft Spirits Association, International Wine and Spirits Research, and Park Street have teamed up to launch the Craft Spirits Data Project (the “Project”), a research initiative with the goal of providing a solid and reliable fact base for evaluating performance and trends in the U.S. craft spirits industry

- Major industry stakeholders such as the TTB, NABCA, WSWA, ABL, Nielsen, Acturus and Liquor.com have committed resources to help the Project
- The desired fact base will help all stakeholders to make their respective investment cases and vastly improve an understanding of the full impact at the local, regional, and federal level
- The Project is set-up to transition into an annually recurring effort to provide a consistent fact base for all stakeholders on an ongoing basis

Project Organizer: American Craft Spirits Association (ACSA)

The American Craft Spirits Association (ACSA) is the only registered non-profit trade association representing the U.S. craft spirits industry. Its mission is to elevate and advocate for the community of craft spirits producers. Membership in ACSA is open to anyone.

ACSA is governed by a Board of Directors elected by the eligible voting members of the Association. Voting members must be independent, licensed distillers (DSPs) annually removing fewer than 750,000 proof gallons from bond (the amount on which a federal excise tax is paid.)

ACSA was founded in 2013 by 23 founding craft distillers.

Project Partners: IWSR and Park Street

the Source for Wine & Spirits Analysis

The IWSR is the leading source of data and analysis on the beverage alcohol market. IWSR is the longest-running research company specializing exclusively in global alcoholic drinks. The IWSR's comprehensive database quantifies the global and local market of wine, spirits, beer, cider and prepared cocktails by volume and value, and provides insight into short- and long-term trends

Park Street delivers productivity-enhancing and cost-saving back-office solutions, advisory services, and working capital to more than 3,000 alcoholic beverage brands from the U.S. and around the world. Established in 2003, the company provides a fast and reliable conduit to the U.S. and E.U. markets and a cost-effective operating platform. Park Street works with suppliers at all stages of growth and its clients range from entrepreneurial craft distillers to multi-brand global portfolios

Project Supporters: Broad Industry Collaboration

TTB: Provided Beverage Spirits Producers and Bottlers by Average Taxable Removals; agreed to change annual reporting moving forward to enable consistent fact basis

WSWA: Assisted in wholesaler survey design and execution with members

ABL: Assisted in on- and off-premise retailer survey design and execution with members

NABCA: Provided in-depth view of craft distillers using control state data

Nielsen: Contributed to consumer survey design; collected and analyzed data generated through online survey

Liquor.com: Conducted online consumer survey among their thousands of daily website viewers

Acturus: Collaborated in creating bartender and consumer survey designs; collected and analyzed data generated through online survey

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Project Background and Research Methodology

- **The project serves to:**
  - Quantify the number, size, and impact of craft spirits producers in the U.S.
  - Create a deeper understanding of the U.S. craft spirits landscape among four key groups: DSPs, wholesalers, retailers, and consumers
  - Provide findings on craft supplier best practices and success factors
- **The following information was collected** (all information was collected with the assurances of full confidentiality):
  - Data on craft distiller production size and patterns, sources of revenue, and the category's overall economic impact within the spirits industry
  - Data on craft spirits business size, patterns, and outlook on the wholesaler and retail levels (both on- and off-premise)
  - Input on craft spirits brand perceptions
- **Things to remember**:
  - When estimating the number of producers behind the U.S. craft spirits production, the Project team relied on a combination of official data released by regulatory authorities, survey data, other industry data sources both national (e.g., NABCA, ACSA) and regional (e.g., guilds), as well as interviews and team assessments using the craft distiller definition
  - In the accompanying data sets, the team assumes independent ownership as having equal or more than a 75% equity stake and/or operational control of the DSP. The team has set up a process that asks industry members to notify the ACSA of all ownership or strategy changes away from craft so the changes can be reflected accordingly in the database

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Project Timeline and Overview

Timeline of Research

- **October 2015**
  The Craft Spirits Data Project was launched with the formation of the team of partners
- **January – March 2016**
  Distiller data collection began and preliminary findings were presented at the ACSA convention
- **April 2016**
  The effort became industry-wide by extending the research to wholesalers, retailers, and consumers
- **May 2016**
  Through external partners, wholesaler, retailer, and consumer data collection began
- **September 2016**
  While some surveys are ongoing, all research collected through the end of August was used for analysis

- Close to 1,000 distiller, retailer, and wholesalers surveys (with respondents providing actionable statistics that appear credible) have been received and incorporated into the research
- Over 5,000 consumers views have been received and incorporated into the research

Craft Spirits Research Definition

What Constitutes a Craft Spirit?

- There is no universally accepted definition of craft spirits in the industry, and the expression "craft spirit" is not protected in any way
- Given the positive trends for craft spirits from a consumer perspective (e.g., premium to other spirits, rising demand), there is a natural incentive for brands to utilize craft spirits cues and position themselves as a craft spirit
- The industry has responded with different definition attempts based on criteria for the producer of the craft spirit including production steps at the location, ownership and operational control of the distillery, subscription to an ethics code based on honesty and transparency, production methodology, and size of production
- Many of the criteria used or suggested by industry members would require a formal certification or peer approval process in order to be used as a universal base for quantification purposes
- As long as a universally accepted craft spirits certification or approval that could be used as an industry wide criteria remains unavailable, the quantification has to rely on certain verifiable quantitative metrics which are complemented by estimates to bridge gaps
- Looking at the manufacturer, size of production, ownership/control, and production specifics are criteria that could possibly be measurable and verifiable. However, the consistent collection of the data is not without barriers and could be very cumbersome, which suggests the potential use of a pragmatic approach

- U.S. craft spirits, as defined pragmatically for the purposes of the research, are distilled spirits that are produced in the U.S. by licensed producers that have not more than 750,000 proof gallons (or 394,317 9L cases) removed from bond, market themselves as craft, are not openly controlled by a large supplier, and have no proven violation of the ACSA Code of Ethics

Craft Spirits Categorization Attempts: Starting with Consumer and Industry Insiders

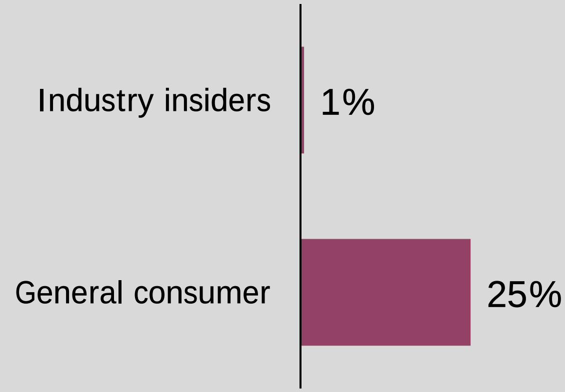
Qualities mostly associated with craft across all consumer and industry insider surveys

- Distinctive and unique
- Small batch
- Locally produced

Other qualities associated with craft across all consumer and industry insider surveys

- Limited quantity
- Use of local ingredients
- Regionally distributed

Assessment of basket of leading distilled spirits brands that do not qualify as craft under any definition currently used by any association or regulatory body by survey respondent group



- While none of the criteria used by consumers to classify craft spirits is wrong, unfortunately only few of the criteria can be used to prepare a consistent fact base
- Some of the information required to decide on a particular criteria is either not easily obtainable and/or involves subjective judgement
- The judgement on particular spirits varies widely between industry insiders and general consumers, reflecting the lack of education and the level of confusion among consumers of distilled spirits with regards to craft

Sources: Consumer surveys, team analyses

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Variety of Elements Used to Define Craft

Ethics code based on honesty and transparency

Ownership of shares and/or operational control

Production size

Production steps and methodology

State Alcoholic Beverage Control Boards

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Crafts Spirits Categorization Attempts: ACSA

- **Voting members** of the American Craft Spirits Association:
  - Independent licensed distiller with a valid DSP
  - Subscribe to ACSA's Code of Ethics
  - Have more than a 75% equity stake and/or operational control of the DSP
  - Annually produce fewer than 750,000 proof gallons (~315k 9L cases of 100 proof or ~394k 9L cases of 80 proof) removed from bond
- **Code of Ethics**: "We operate in an honest, transparent and non-deceptive fashion. We inform consumers truthfully and accurately about the sources and methods used to make our spirits through our labels, materials, and communications. We expect fair dealing and respect amongst members. We obey all federal, state, and local laws."

- For classification purposes, all DSP members of ACSA can be considered craft producers
- The question is how to deal with non-ACSA members that operate a DSP

Sources: ACSA; team analyses

Crafts Spirits Categorization Attempts: ADI

- Offers certification of craft distiller spirit and craft blended spirit
- **Distilled by the DSP**: The spirit must have been run through a still by a certified craft producer, and the TTB-approved label must state "Distilled By" followed by the name of the DSP
- **Independently-Owned**: Less than 25% of the craft distillery (distilled spirits plant or DSP) is owned or controlled (or equivalent economic interest) by alcoholic beverage industry members who are not themselves craft distillers
- **Small-Scale**: Maximum annual sales are less than 100,000 proof gallons
- **Hands-on Production**: Craft distillers produce spirits that reflect the vision of their principal distillers using any combination of traditional or innovative techniques including fermenting, distilling, re-distilling, blending, infusing, or warehousing

- Considering ADI is a company that positions itself as the voice of craft distilling and offers craft memberships and certifications, for classification purposes, all ADI certified craft distillers can be considered craft producers
- The question is how to deal with non-ADI members that operate a DSP

Sources: ADI; team analyses

Craft Spirits Categorization Attempts: DSP Special Craft Designation, State Examples

Illinois

- Less than 100k gallons of spirits by distillation manufactured (up from 35k as of August 2016)
- Craft distiller license may not be affiliated with any other manufacturer if product is supposed to be sold on-premises

New Jersey

- Less than 20k gallons of spirits by distillation manufactured
- Craft distiller certifies that not less than 51% of the raw materials used in the production... are grown in NJ or purchased from providers located in the state

Washington

- 150k gallons or less of spirits by distillation manufactured
- At least half of the raw materials used in the production must be grown in Washington

- For classification purposes all holders of craft distiller DSP permits can be considered craft producers
- The question is how to deal with distillers that fall out of the volume size limit and/or do not qualify due to other criteria (e.g., less than 50% of the ingredients are homegrown)

Sources: State liquor control boards; team analyses

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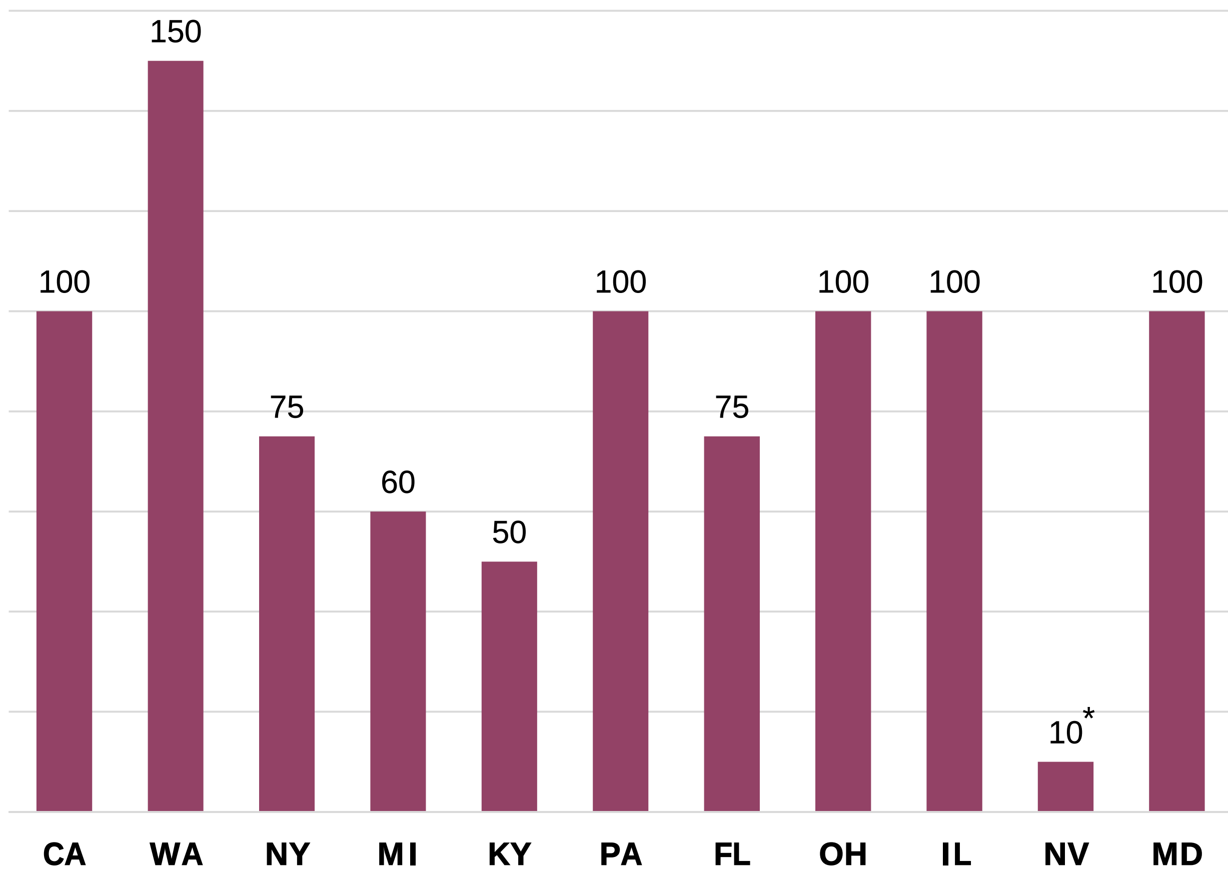
Craft Distiller Licenses – Size Limitations by State

Size Limit for Craft Distiller License Qualification by State
1000s of Gallons of Distilled Spirits



- More and more states provide special licenses for craft distillers
- Size is used as a criteria to qualify
- Size limits vary widely
- The question is how to deal with distillers that fall out of the volume size limit in one state, but would qualify under the size limit in another state

Sources: State liquor control boards; team analyses. * in state plus 20k out of state

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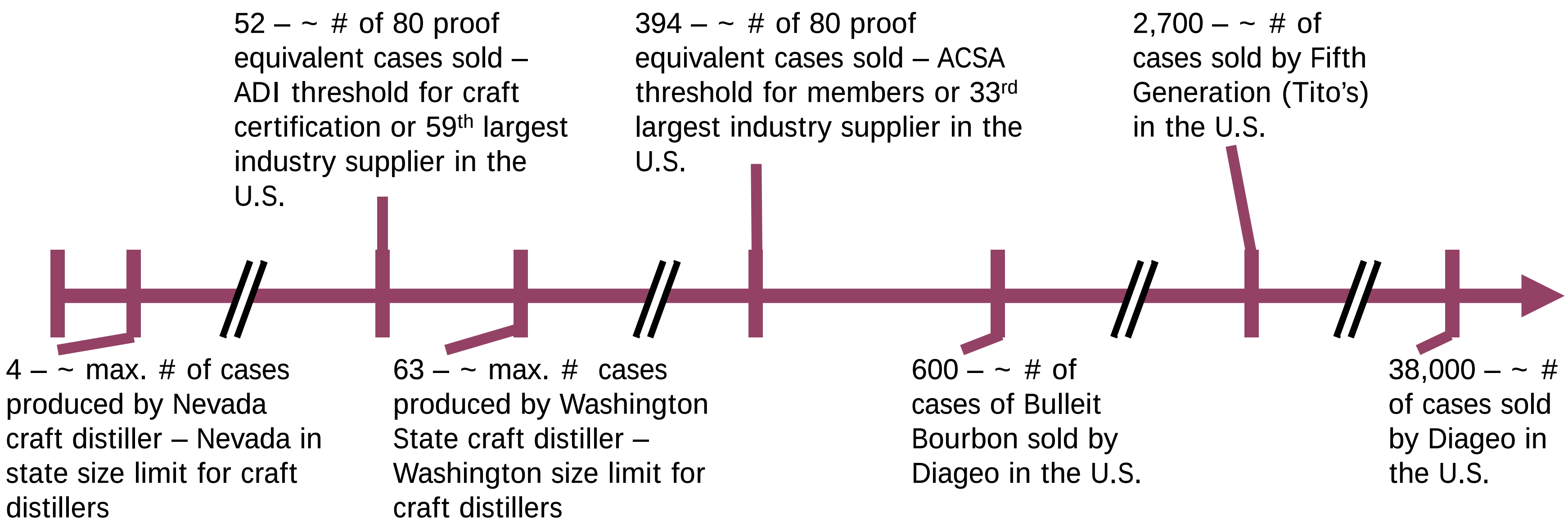
If Size is a Limiting Factor, Which Size is Right?

Case Volume Examples for Various Brands, Companies (2015) or Situations
9L cases (000)



- Size limitations are arbitrary and there is no right or wrong
- Setting the limit too high could be counterproductive as a single incident could send the wrong message (e.g., while the craft industry is growing 25%, the acquisition of largest player in industry (with 50% market share) by a large supplier would send the overall industry down by 38%)
- For the purposes of the analyses, the Project aligns with ACSA with regards to the size threshold for craft distillers (394k 9L 80 proof case equivalent - 750k proof gallons)

Sources: IWSR, state ABC boards, team analyses

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Ownership Limitations: "Openly Controlled" as Major Differentiation Criteria for Analyses Purposes

- **ACSA**: Have equal or more than a 75% equity stake and/or operational control of the DSP

- **ADI**: Independently-Owned: Less than 25% of the craft distillery (distilled spirits plant or DSP) is owned or controlled (or equivalent economic interest) by alcoholic beverage industry members who are not themselves craft distillers

- Difficult to research exact ownership or economic interest situations at privately held entities

- For the purposes of the analyses, distillers that are openly controlled by a larger supplier (above the size threshold) are excluded from the craft distiller numbers

Source: ACSA, ADI, team analyses

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Production Steps, Methodology, and Ethics Code: "Openly Misleading" Used for Analyses Purposes

- **ACSA Code of Ethics**: "We operate in an honest, transparent and non-deceptive fashion. We inform consumers truthfully and accurately about the sources and methods used to make our spirits through our labels, materials, and communications. We expect fair dealing and respect amongst members. We obey all federal, state, and local laws."
- **ADI Hands-on Production**: Craft distillers produce spirits that reflect the vision of their principal distillers using any combination of traditional or innovative techniques including fermenting, distilling, re-distilling, blending, infusing, or warehousing. Products need to be physically produced and bottled on-site.

- Difficult to research exact production steps at privately operated facilities
- For the purposes of the analyses, distillers that are "openly misleading", meaning there is some evidence that the ethics code has been broken and/or the principles of hands-on production have been violated, are excluded from the craft distiller numbers

Source: ACSA, ADI, team analyses

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Craft Defined for Purposes of the Research

Size:
Not more than 750,000 proof gallons (or 384,317 9L cases) removed from bond by licensed producer (DSP)

Self-proclamation of licensed craft distiller, not openly controlled by a larger supplier:
Distiller claims to be a U.S. craft spirits producer with a valid DSP license and is not openly controlled by a larger supplier

ACSA Code of Ethics:
"We operate in an honest, transparent and non-deceptive fashion. We inform consumers truthfully and accurately about the sources and methods used to make our spirits through our labels, materials and communications. We expect fair dealing and respect amongst members. We obey all federal, state, and local laws."

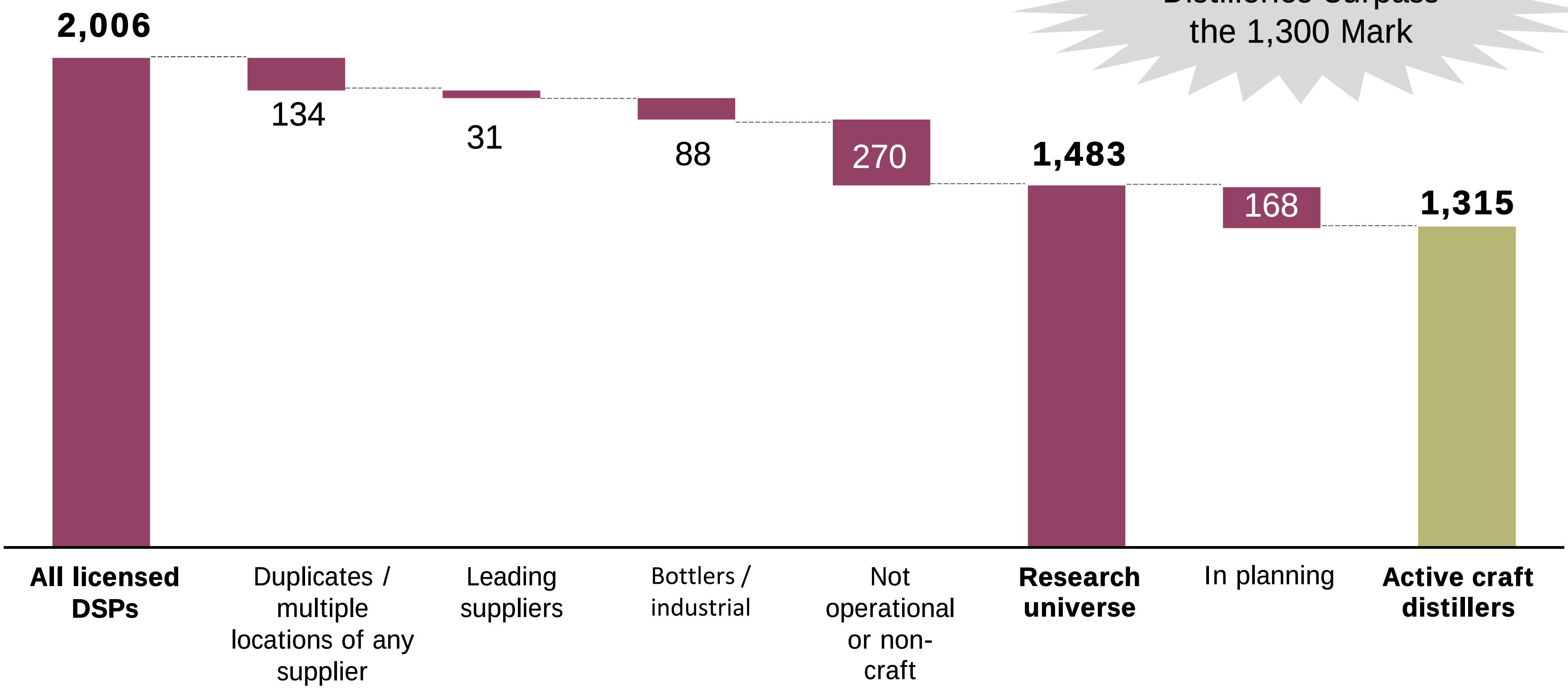
U.S. Craft spirits (for the purposes of this research)

U.S. Craft spirits are distilled spirits that are produced in the U.S. by licensed producers that have not more than 750,000 proof gallons (or 394,317 9L cases) removed from bond, market themselves as craft, are not openly controlled by a large supplier, and have no proven violation of the ACSA Code of Ethics

Craft Spirits Market Data

From DSPs to Active Craft Distillers

# of DSPs by Segment as of August 2016



- The list of DSPs is broken down into segments in order to distinguish the amount of distillers that are not considered craft: duplicates, leading suppliers, bottlers, and/or non-craft/non-operational
- The list of active craft distillers is generated bottoms-up through individual assessment

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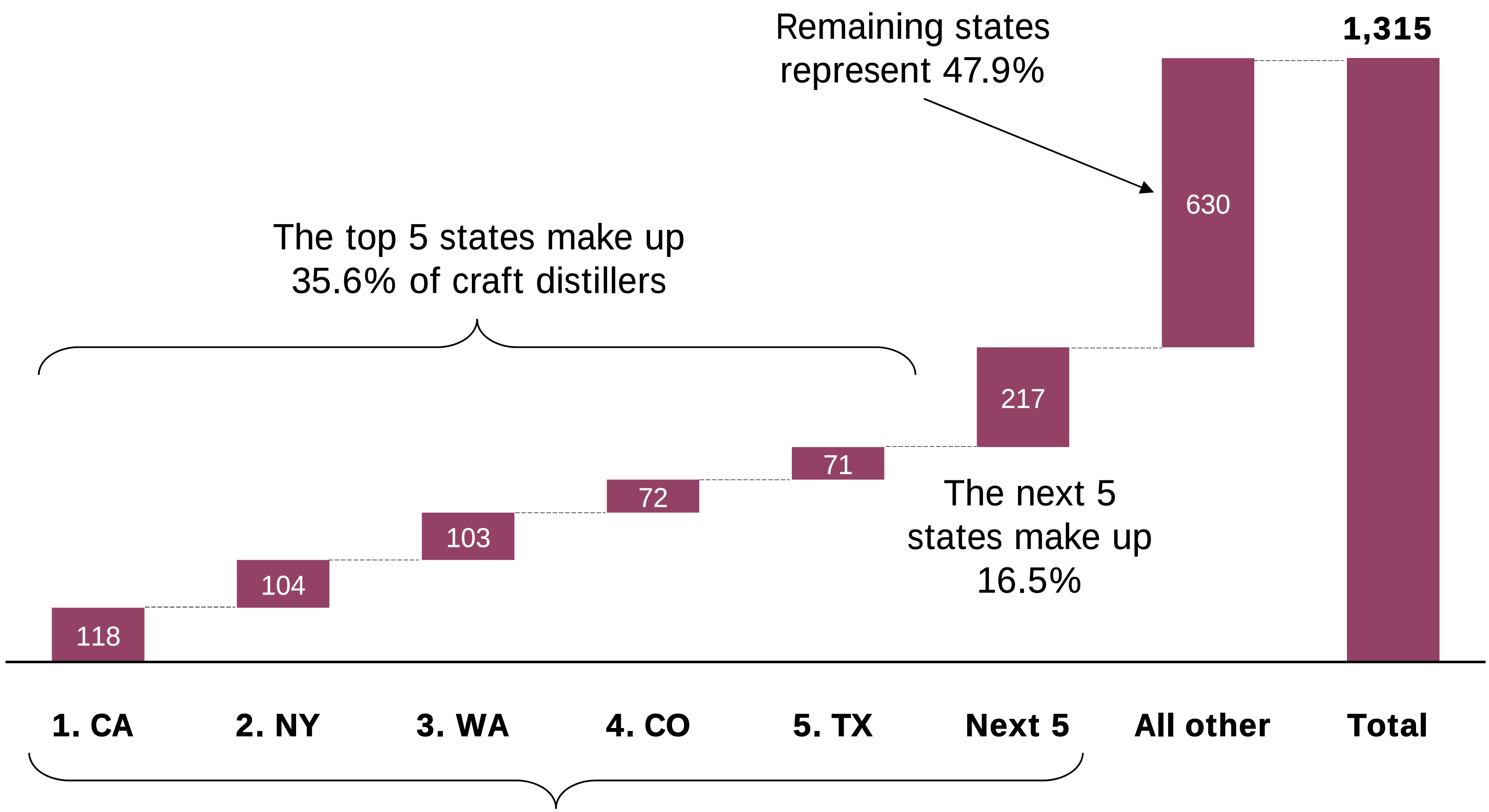
Active Craft Distillers by State

Craft Spirits Data Project

of Active Craft Distillers by State as of August 2016

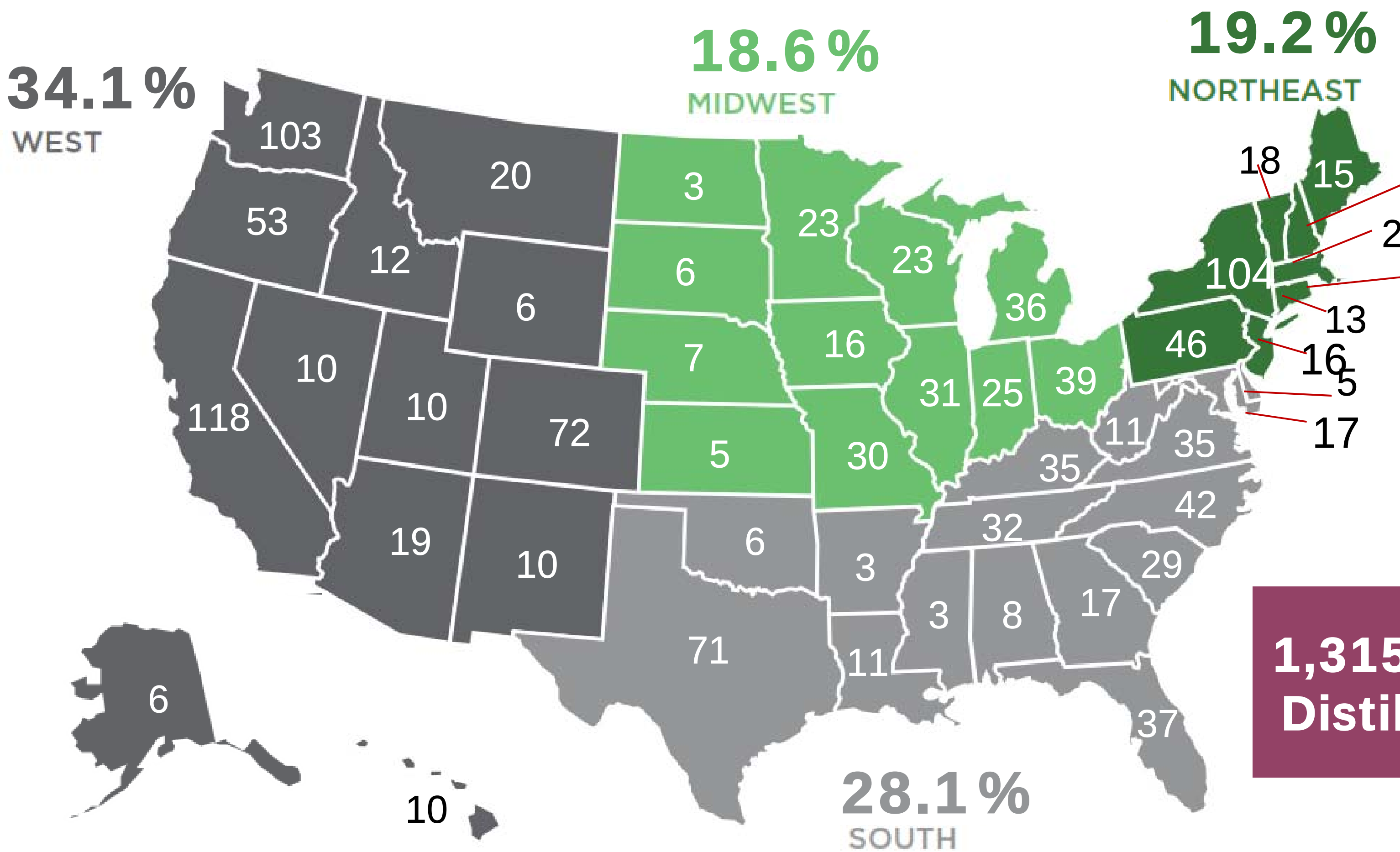


Over half of active U.S. craft distilleries are located in ten states

Active Craft Distillers by State

CRAFT SPIRITS DATA PROJECT

# of Active Craft Distillers by State and Region as of August 2016



1,315 Total Distilleries

Sources: TTB, ACSA, ADI, State ABC boards, state guilds, team analyses

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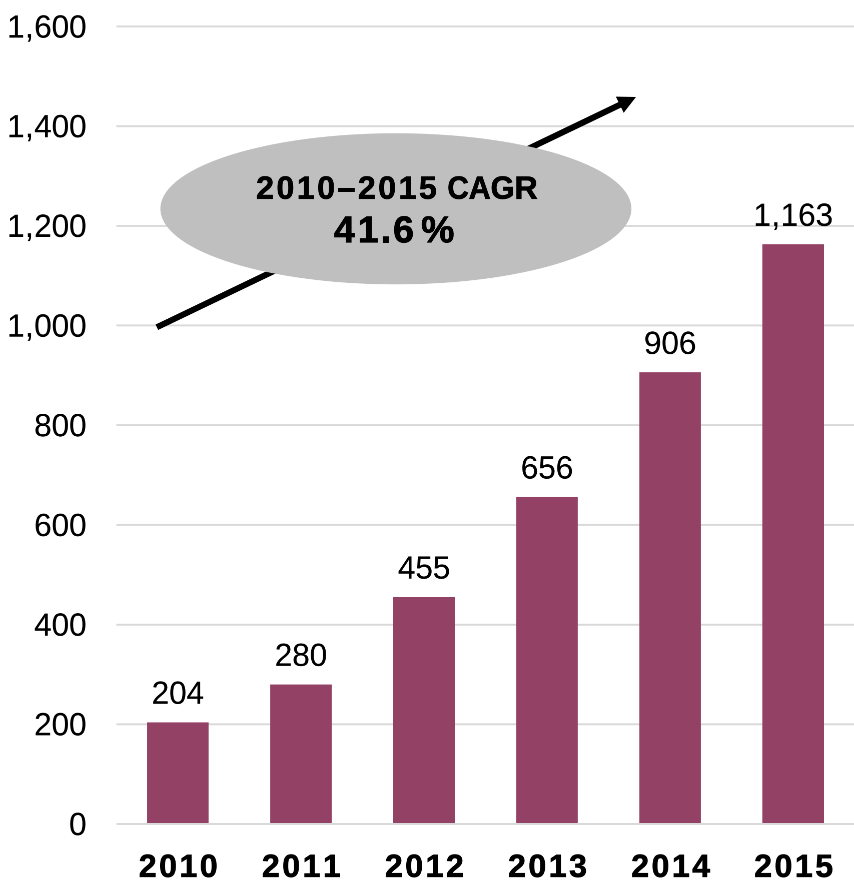
American Craft Spirits Association

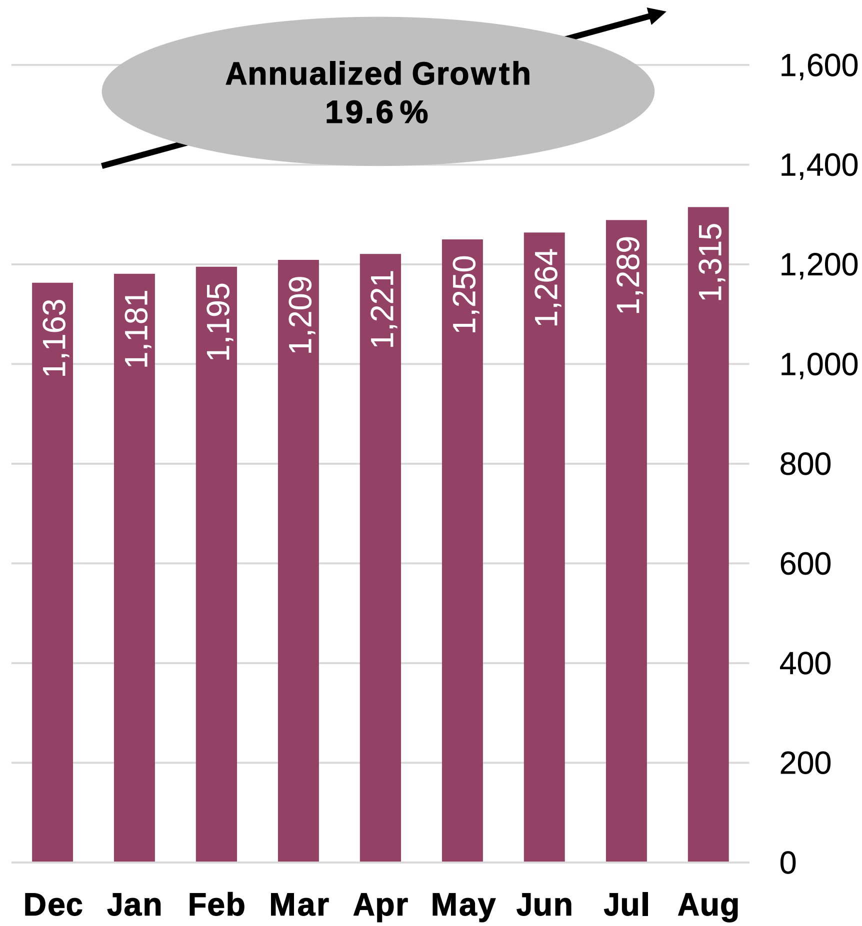
IWSR

Active Craft Distillers Over Time

of Craft Spirits Producers 2010 – 2015



of Craft Spirits Producers January – August 2016



Sources: TTB, IWSR, team analyses

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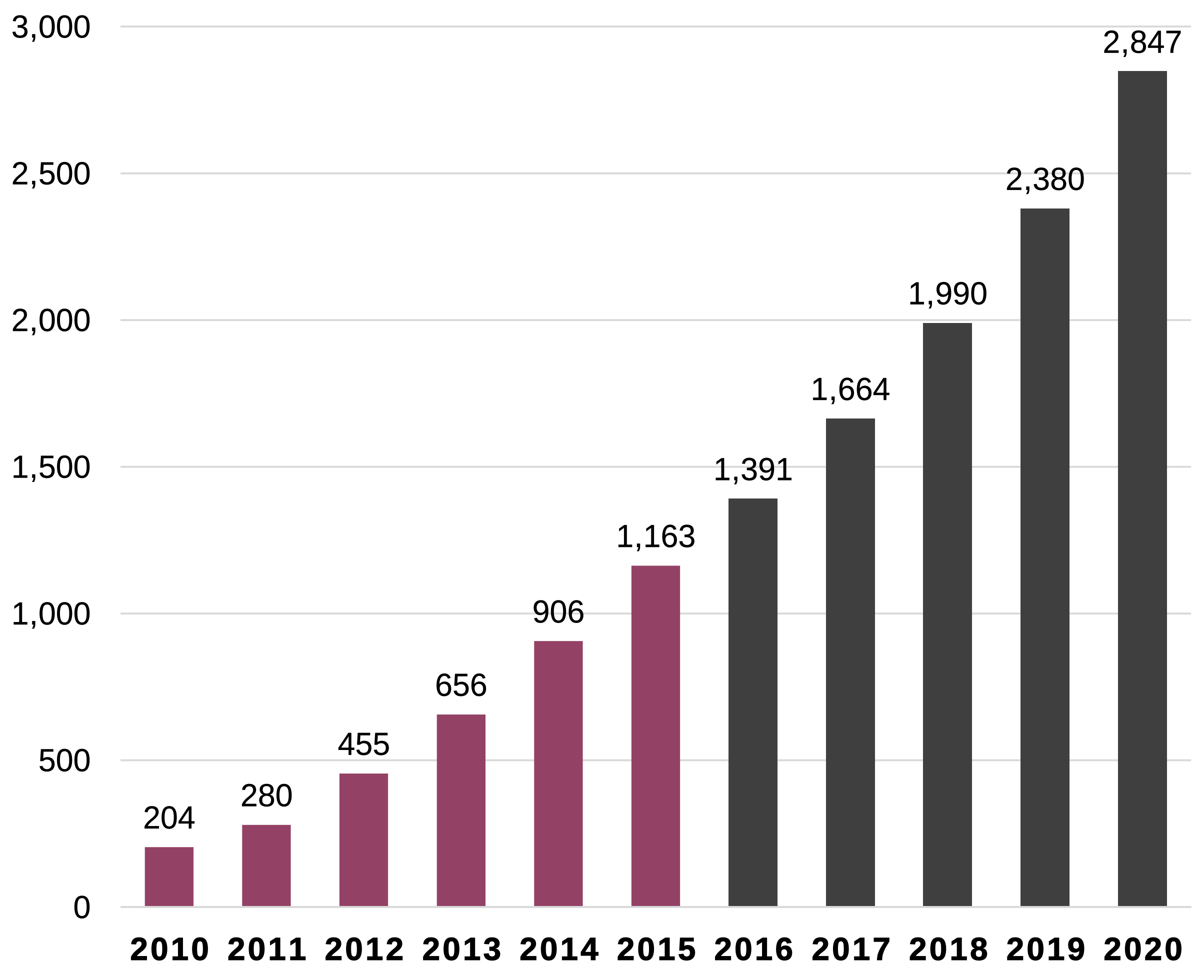
Craft Spirits Producers

of Craft Spirits Producers, 2010 – 2020P



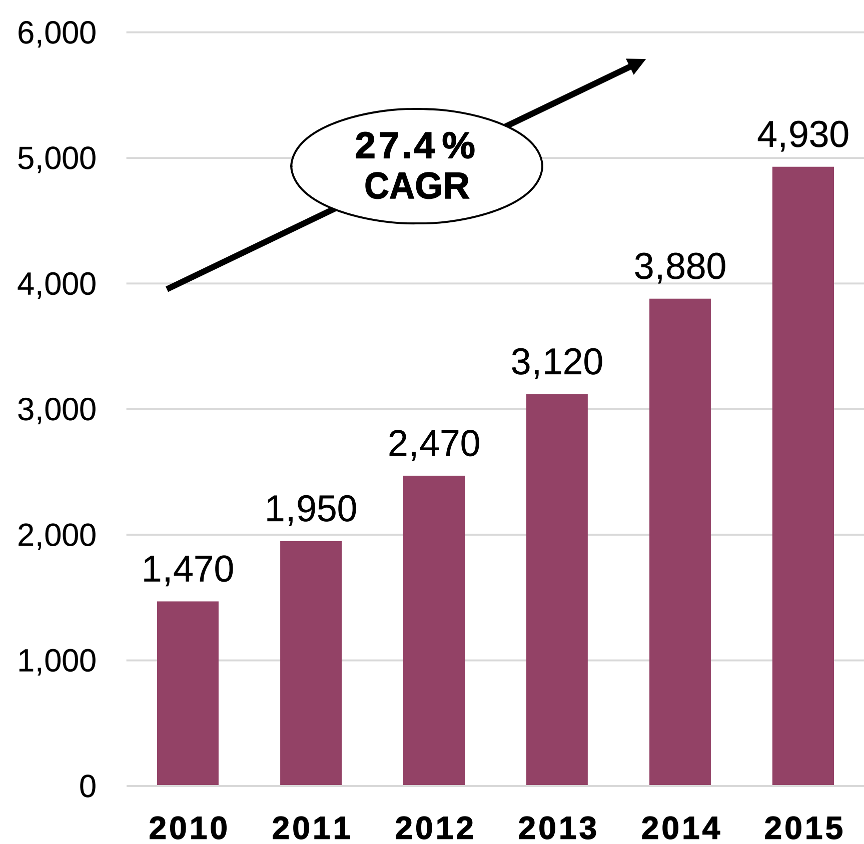
- Assuming an annual compound growth rate of 19.6%, the number of craft distillers could surpass 2,800 by 2020
- However, the expectation is that growth rates will continue to slow as the size of the base increases

Sources: TTB, IWSR, team analyses

Craft Spirits Sales by Volume and Value

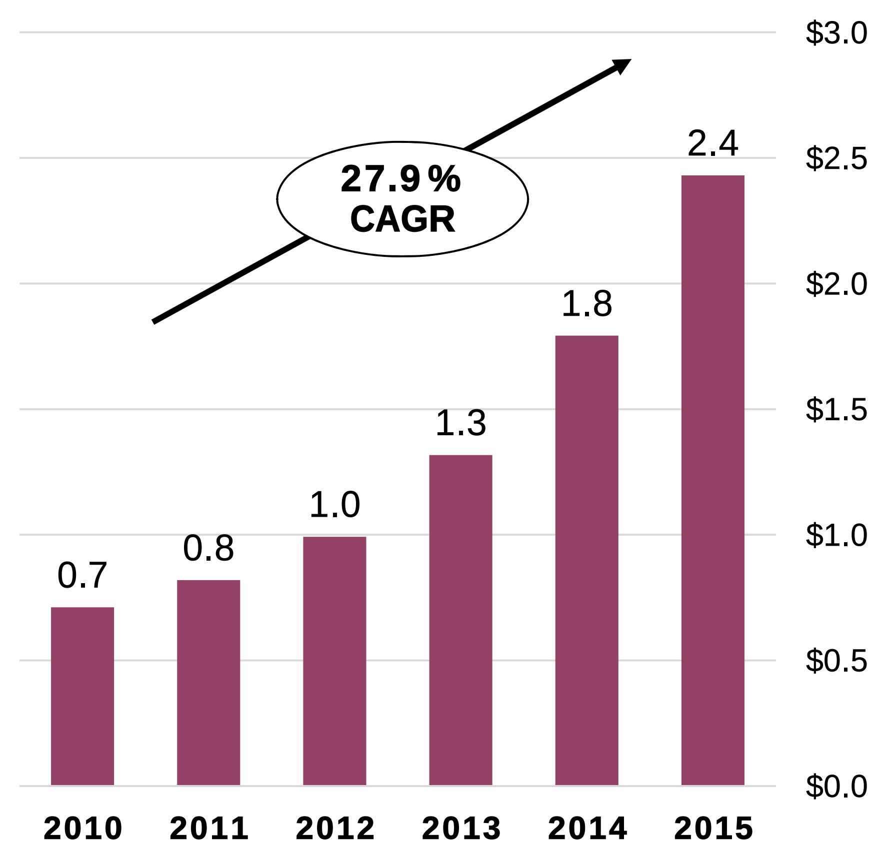
Craft Spirits Sales by Volume, 2010 – 2015

9L Cases (000)



Craft Spirits Retail Sales by Value, 2010 – 2015

$ Billions



Sources: TTB, ACSA, IWSR, State ABC boards, state guilds, team analyses

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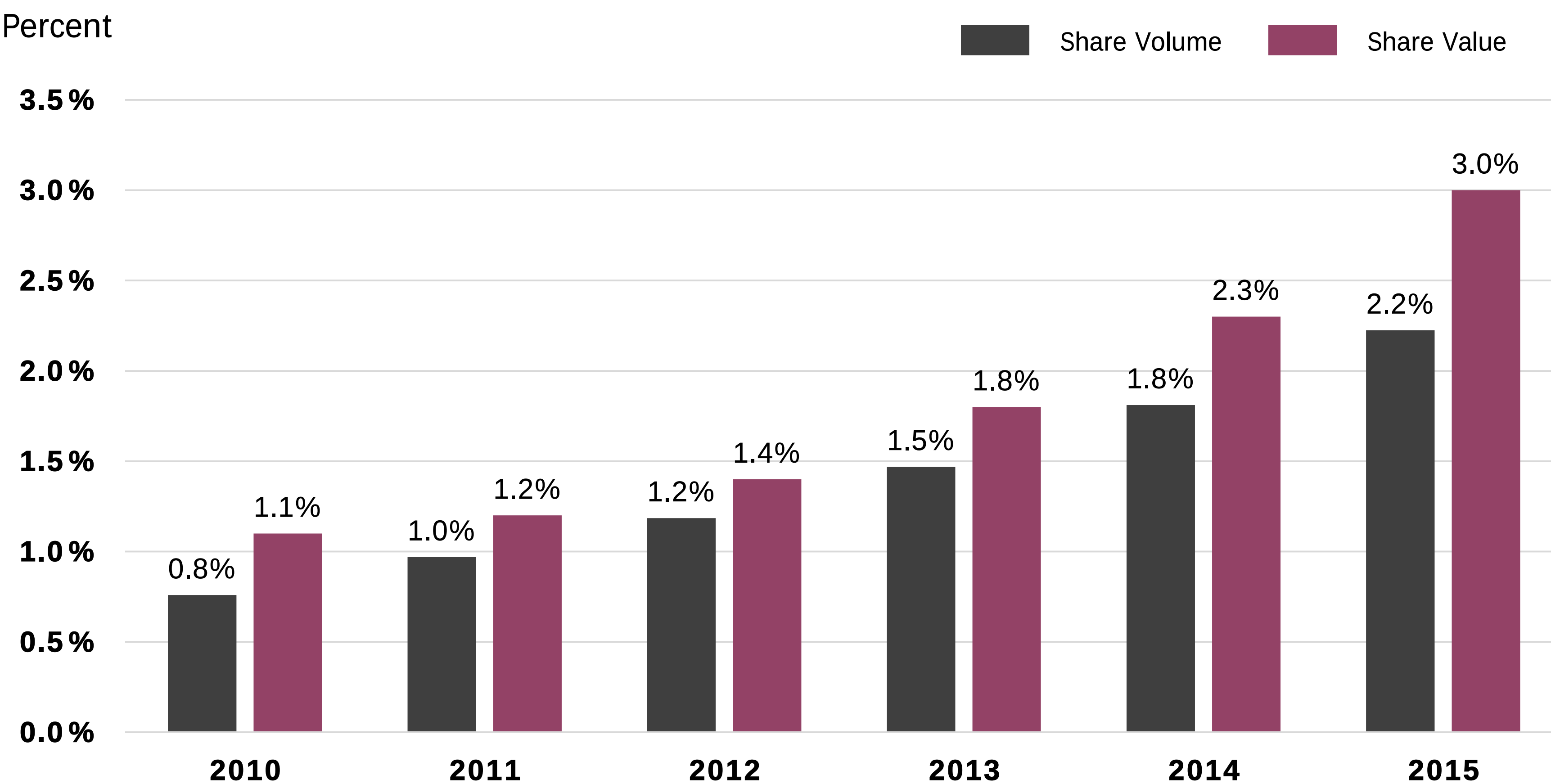
Craft Spirits Market Share

Craft Distiller Sales as a Share of Total U.S. Spirits Volume and Value



- U.S. craft currently has an estimated market share of 2.2% in cases, up from 0.8% in 2010
- U.S. craft is clearly a contributor to the trend towards premiumization in the U.S. market
- The U.S. craft market share in value is estimated at 3.0%, up from 1.1% in 2010

Sources: TTB, ACSA, IWSR, State ABC boards, state guilds, team analyses

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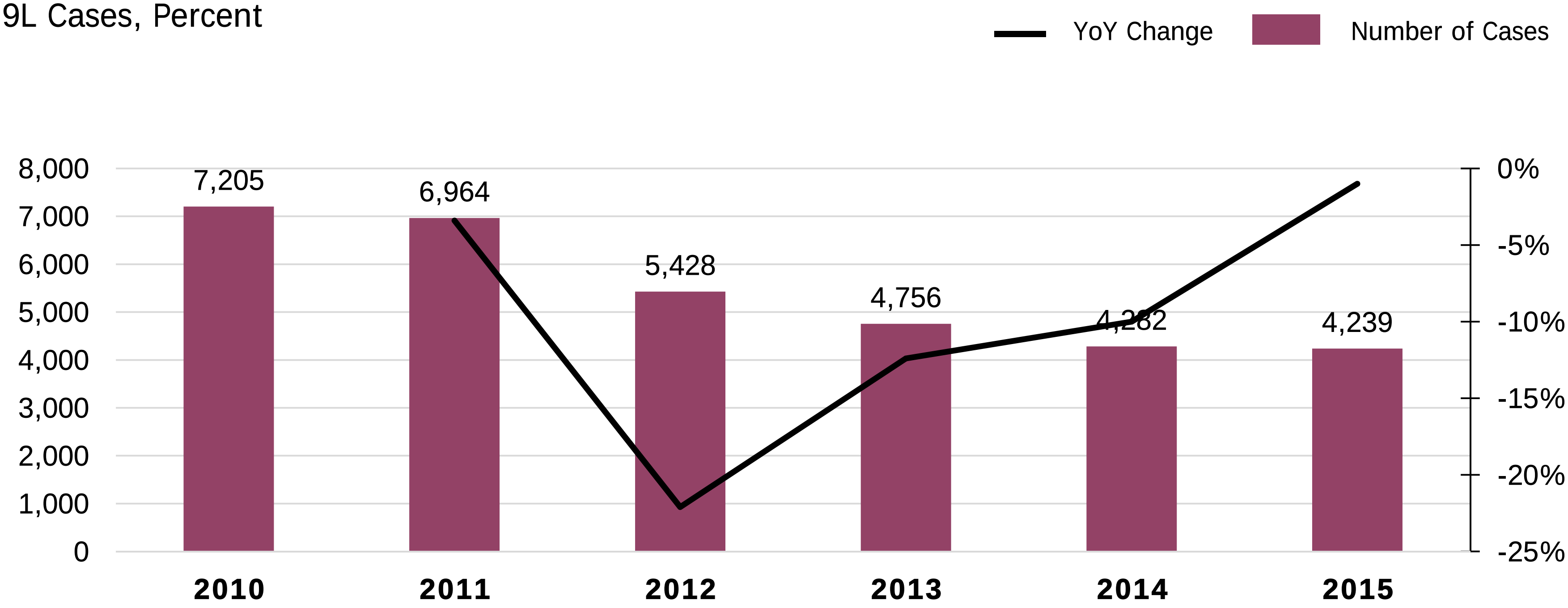
Average Volume Has Been Declining, Inflection Point in Reach

of Cases of Average U.S. Craft Distiller 2010 – 2015

9L Cases, Percent



- The volume of the average U.S. craft distiller has been declining since 2010, reflecting the strong inflow of new distillers
- The rate of decline has been slowing since 2012. At a rate of just 1.0% from 2014 to 2015, the market appears to be reaching an inflection point at which the volume growth will outpace the growth in number of distillers

Sources: TTB, ACSA, IWSR, State ABC boards, state guilds, team analyses

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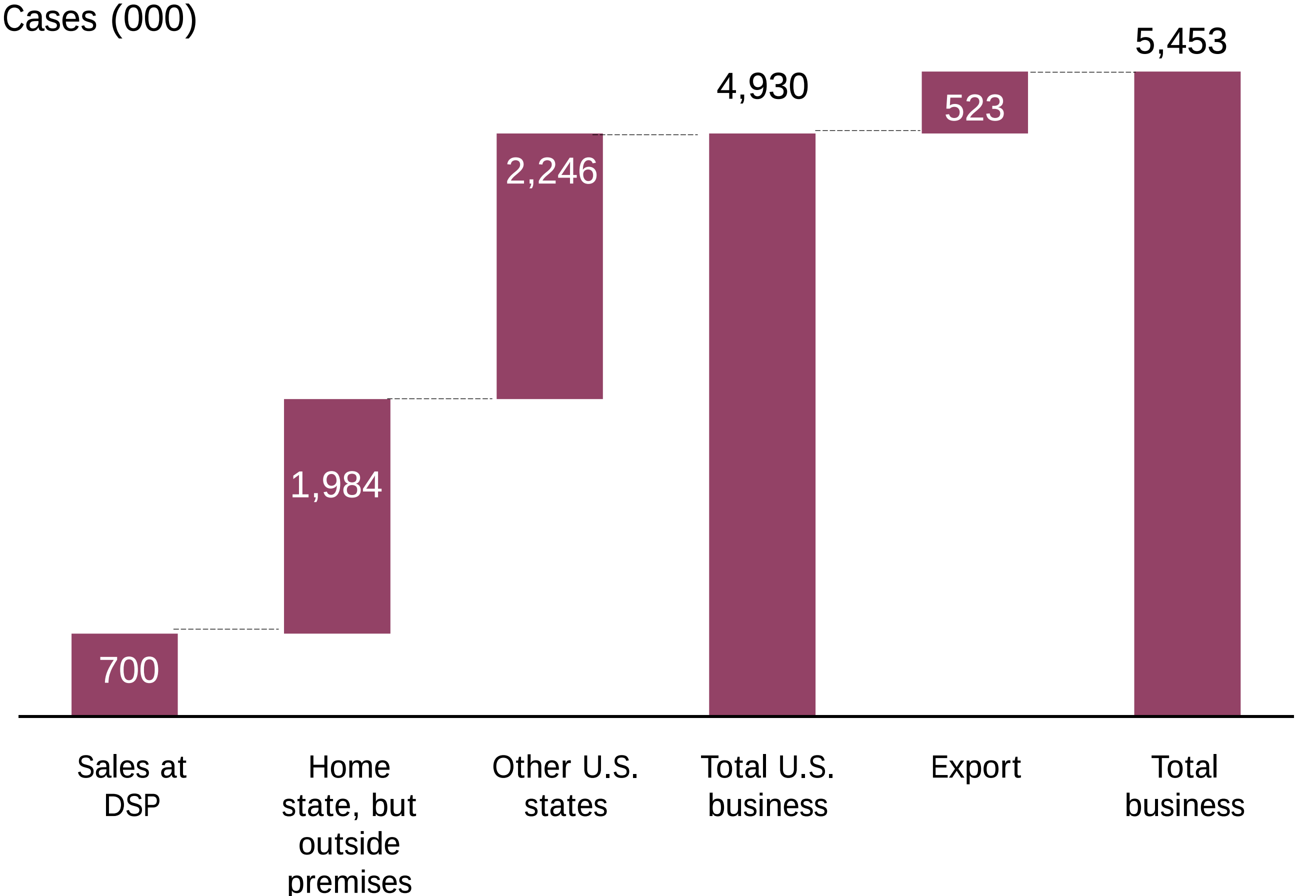
More Than 50% of the U.S. Craft Business Takes Place in the Home States

Sources of Case Sales – Total U.S. Craft Spirits Industry, Domestic and Export 2015

9L Cases (000)



% of total U.S. business	14%	40%	46%	100%	11%	111%

- More than 50% of the total U.S. craft business takes place in the home state of the craft distiller
- Exports add more than 10% to the overall volume of the U.S. business

Sources: TTB, ACSA, ADI, State ABC boards, state guilds, team analyses

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Craft Distillers by Size – Classification Definition

	Range of gallons removed from bond annually*	Range of 9L cases removed from bonds annually*	Characteristics
Large craft distiller	100,001 – 750,000	52,577 - 394,317	▪ Often nationally distributed ▪ If negative cash flow, then by choice in favor of investment
Medium-size craft distiller	10,001- 100,000	5,259 – 52,576	▪ Often regionally distributed ▪ Often still cash flow negative
Small craft distiller	1- 10,000	1 - 5,258	▪ Often only locally distributed ▪ If no on-premise business, typically cash flow negative

Sources: TTB, team analyses' *Assuming on average 80 proof alcohol content; for purposes of the analysis removed from bond equals sales

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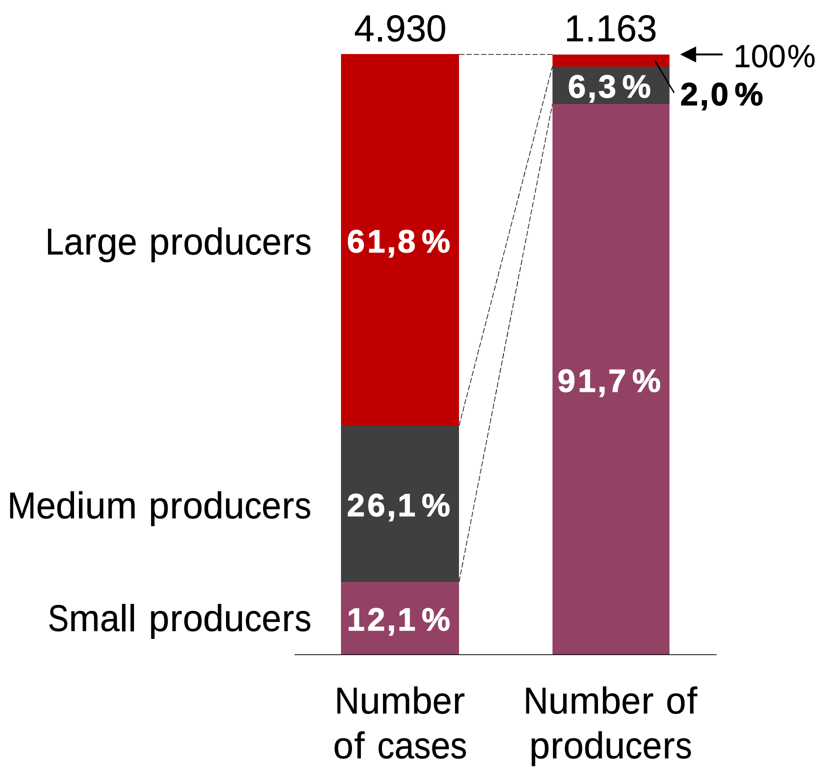
Craft Spirits Market Is Fairly Concentrated

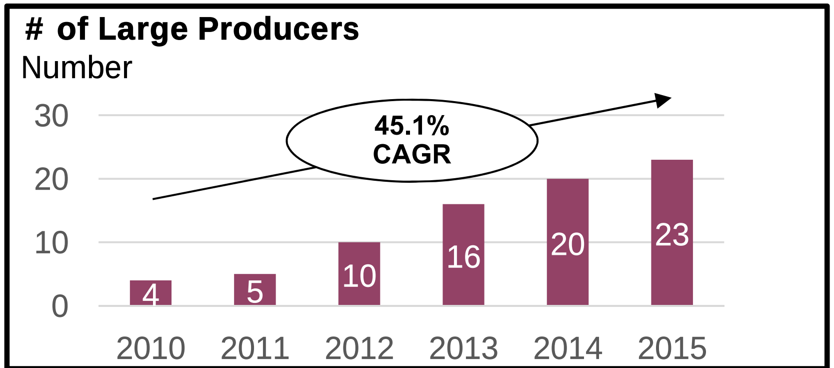
of Craft Distillers and Case Volumes by Producer Size

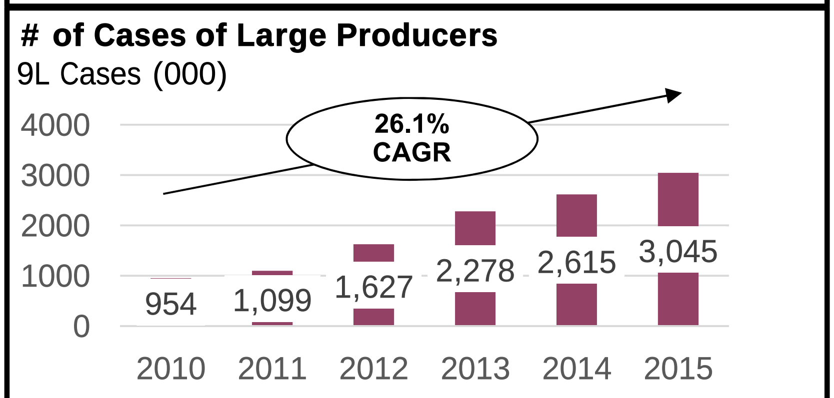
of Producers, 9L Cases (000)

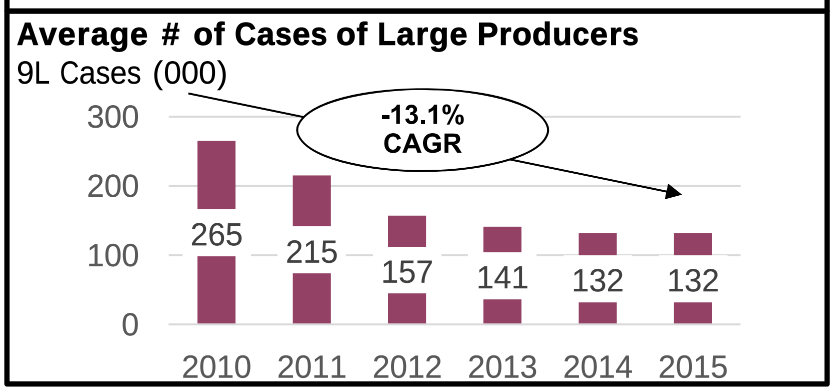


- The U.S. Craft distilling market is fairly concentrated with 2% of the producers being responsible for more than 60% of the cases
- 91.7% producers are classified as small producers. They are responsible for just 12.1% of the cases

Large Craft Producers Crossed the 3 Million Case Mark in 2015







- The number of large craft distillers as well as their number of cases has been growing rapidly
- The number of large craft distillers has grown almost six-fold from 4 in 2010 to 23 in 2015
- The number of cases of large craft distillers has grown from 954k 9L cases In 2010 to over 3 million 9L cases in 2015
- The average number of cases of large craft distillers has decreased from 265,443 9L cases in 2010 to 131,593 9L cases in 2015

Sources: TTB, distiller surveys, team analyses

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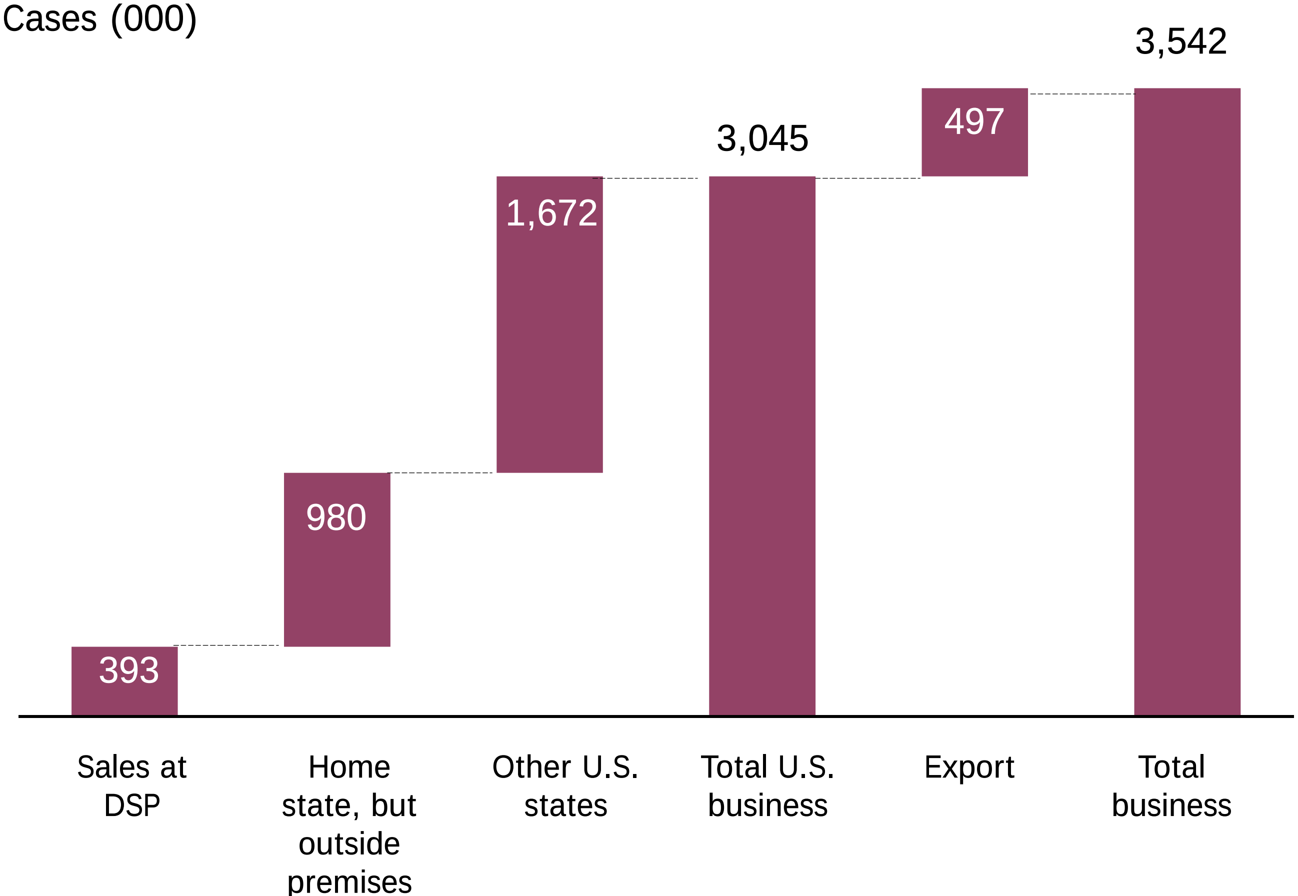
More Than 50% of the Business of Large Craft Producers Takes Place Outside the Home States

Sources of Case Sales – Large U.S. Craft Spirits Producers, Domestic and Export 2015

9L Cases (000)



% of total U.S. business	**13%**	**32%**	**55%**	**100%**	**16%**	**116%**

- More than 50% of the total U.S. business of the large U.S. craft producers takes place outside the home state of the craft distiller
- Exports add more than 16% to the overall volume of the U.S. business

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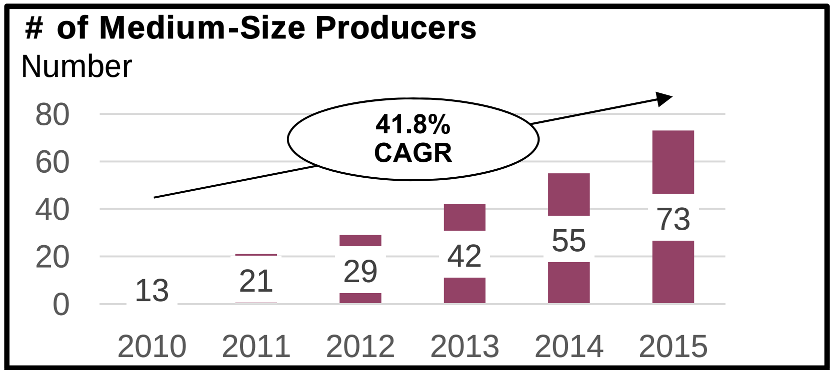
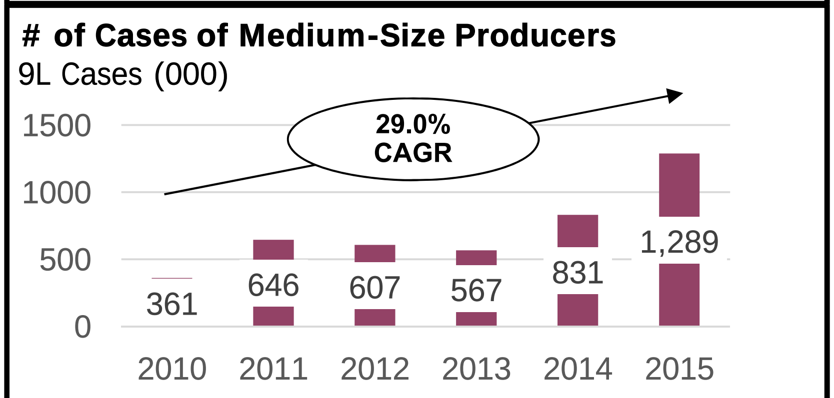
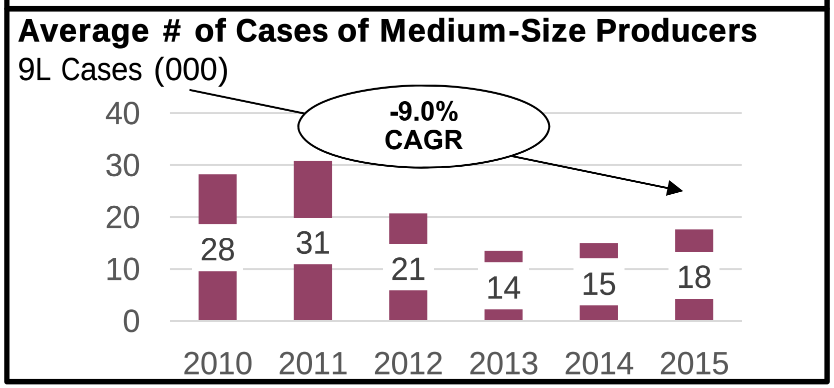
Medium-Size Craft Producers Have Been Growing Well







- The number of medium craft distillers as well as their number of cases has been growing rapidly
- The number of medium craft distillers has grown almost six-fold from 13 in 2010 to 73 in 2015
- The number of cases of medium craft distillers has grown from 361k 9L cases In 2010 to almost 1.3 million 9L cases in 2015
- The average number of cases of medium craft distillers has decreased from 28,275 9L cases in 2010 to 17,615 9L cases in 2015

Sources: TTB, distiller surveys, team analyses

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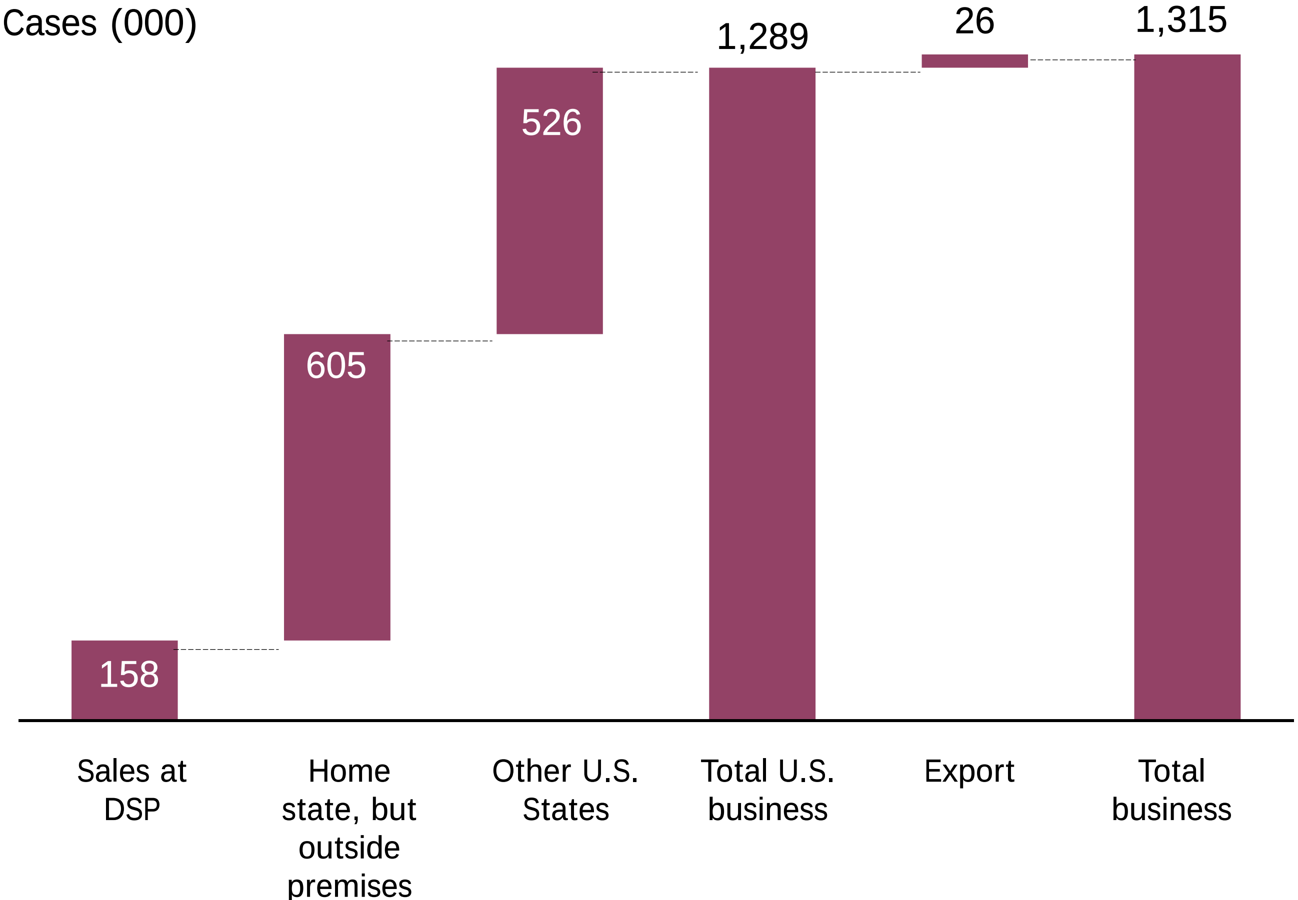
Around 60 % of the Business of Medium Craft Producers Takes Place in the Home States

Sources of Case Sales – Medium U.S. Craft Spirits Producers, Domestic and Export 2015

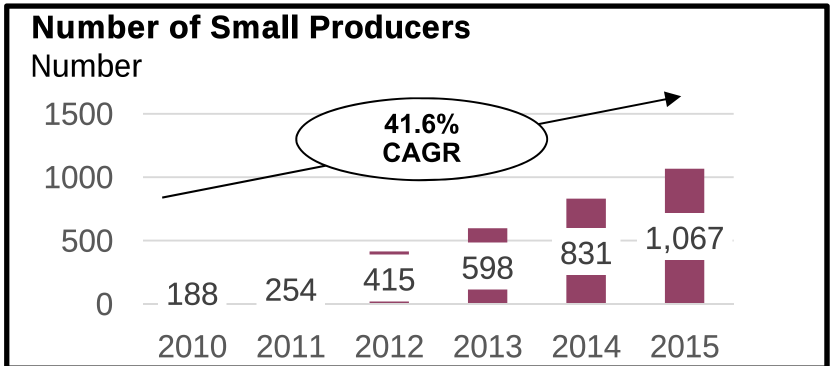
9L Cases (000)

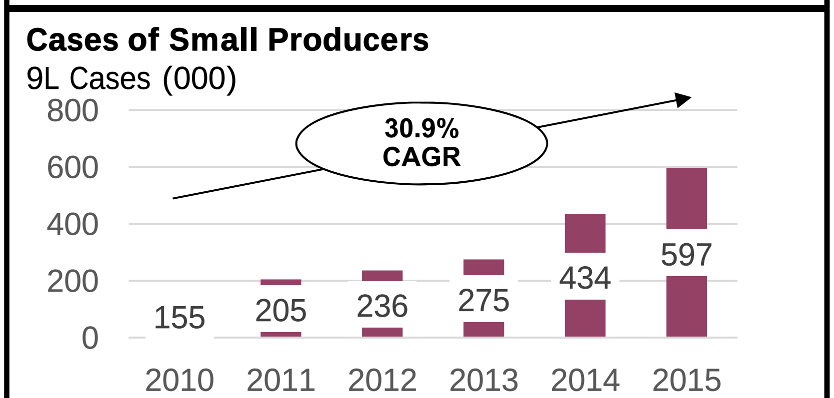


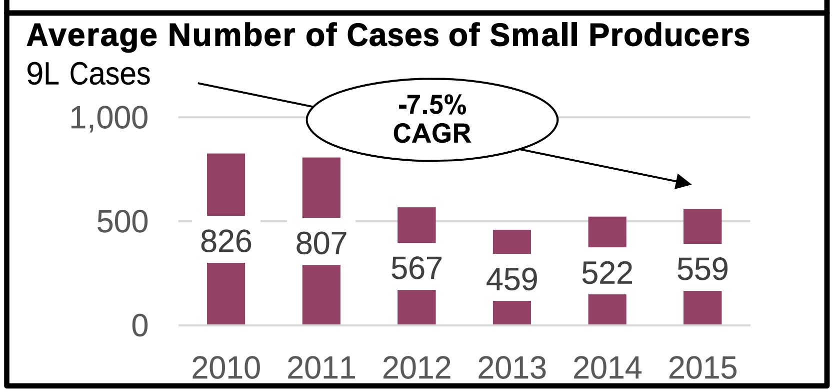
% of total U.S. business	12%	47%	41%	100%	2%	102%

- Around 60% of the total U.S. business of the medium U.S. craft producers takes place in the home state of the craft distiller
- Exports add only about 2% to the overall volume of the U.S. business

Small Craft Producers Have Been Growing Well







- The number of small craft distillers as well as their number of cases has been growing rapidly
- The number of small craft distillers has grown almost six-fold from 188 in 2010 to 1,067 in 2015
- The number of cases of small craft distillers has grown from 155k 9L cases In 2010 to 597k 9L cases in 2015
- The average number of cases of small craft distillers has decreased from 826 9L cases in 2010 to 559 9L cases in 2015

Sources: TTB, distiller surveys, team analyses

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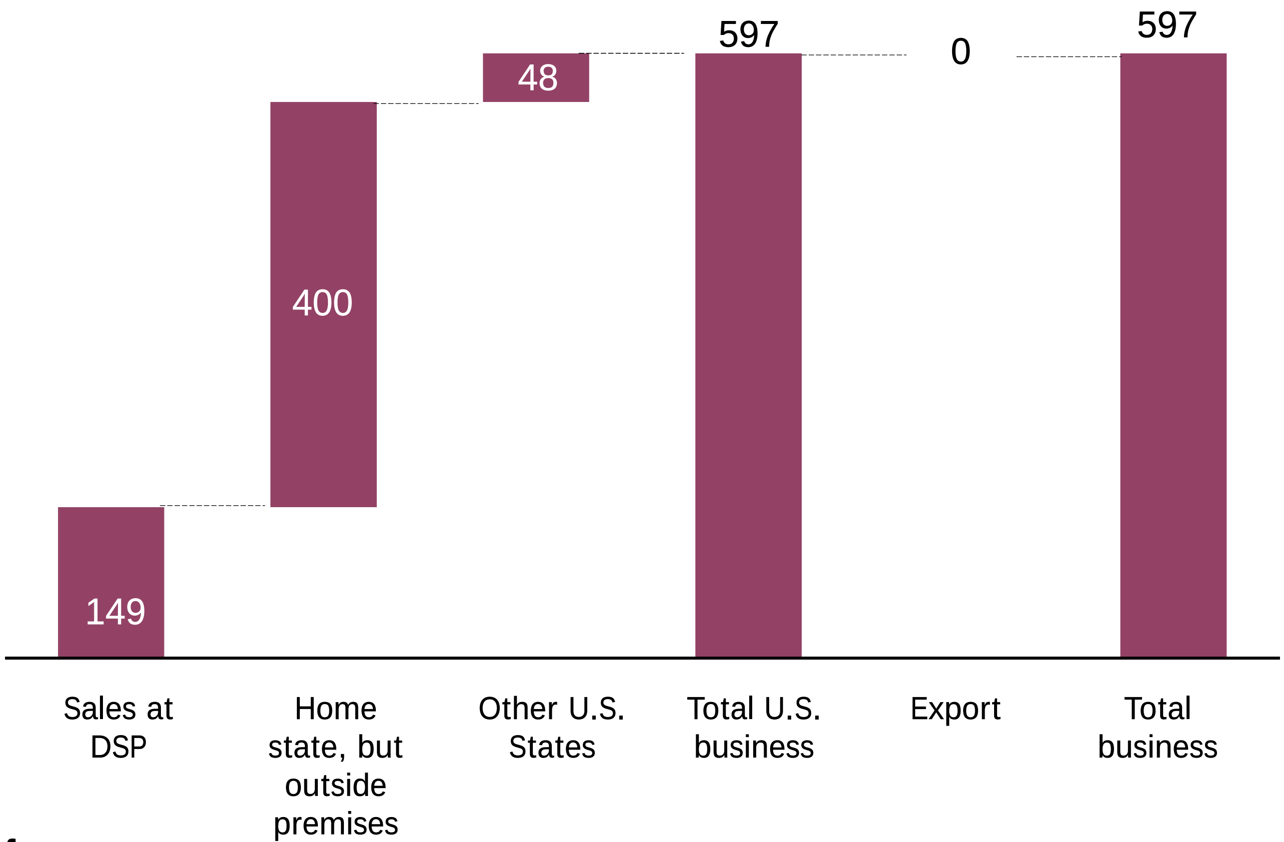
92% of the Business of Small Craft Producers Takes Place in the Home States

Sources of Case Sales – Small U.S. Craft Spirits Producers, Domestic and Export 2015

9L Cases (000)



% of total U.S. business	25%	67%	8%	100%	0%	100%

- 25% of the total business of small craft producers comes from sales at the DSP
- Less than 10% of the total business comes from sales outside the home state

Sources: TTB, ACSA, ADI, State ABC boards, state guilds, team analyses

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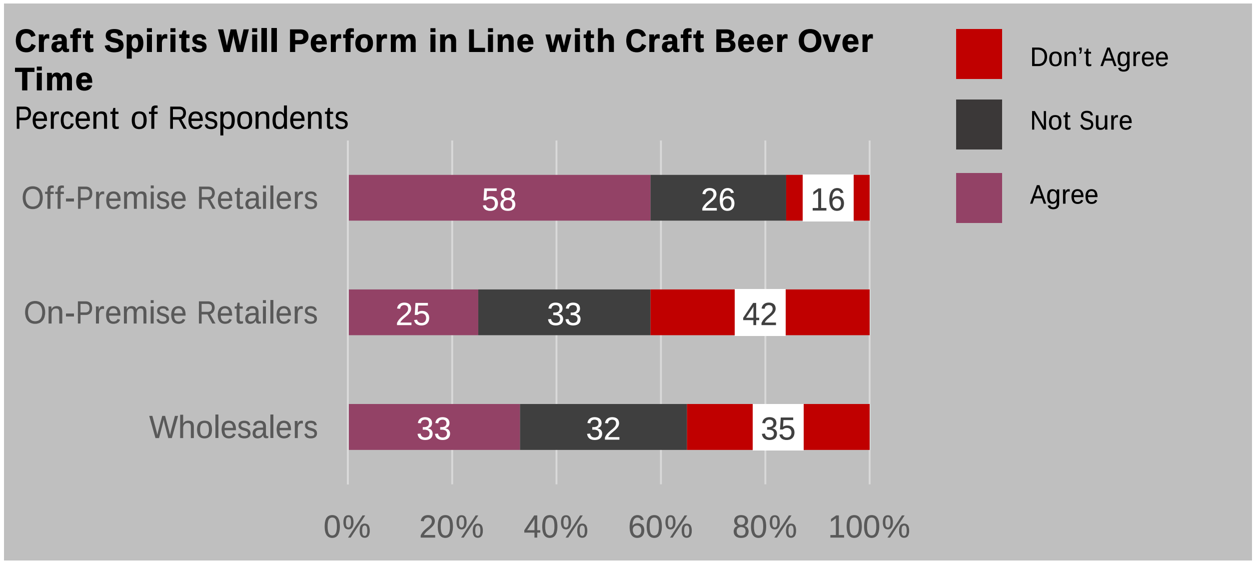
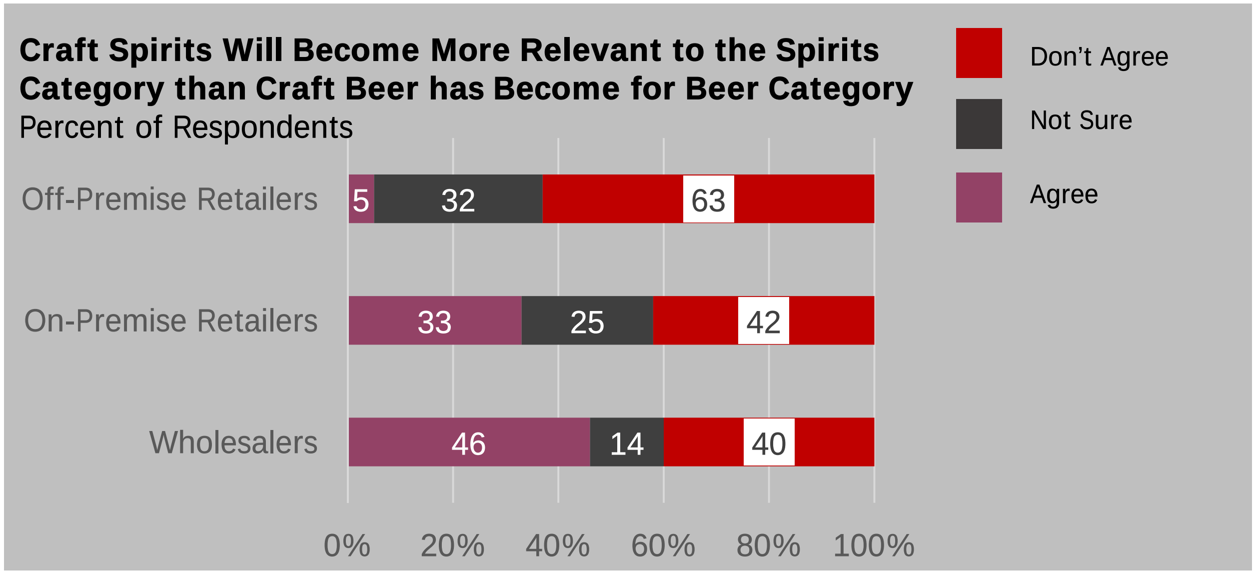
Many Retailers and Wholesalers See Potential for Craft Spirits to Perform in Line or Better than Craft Beer





- Many retailers and wholesalers see the potential for craft spirits to perform in line or better than craft beer
- With craft beer market share currently at 11% in the U.S., the craft spirits market is expected to continue to grow rapidly

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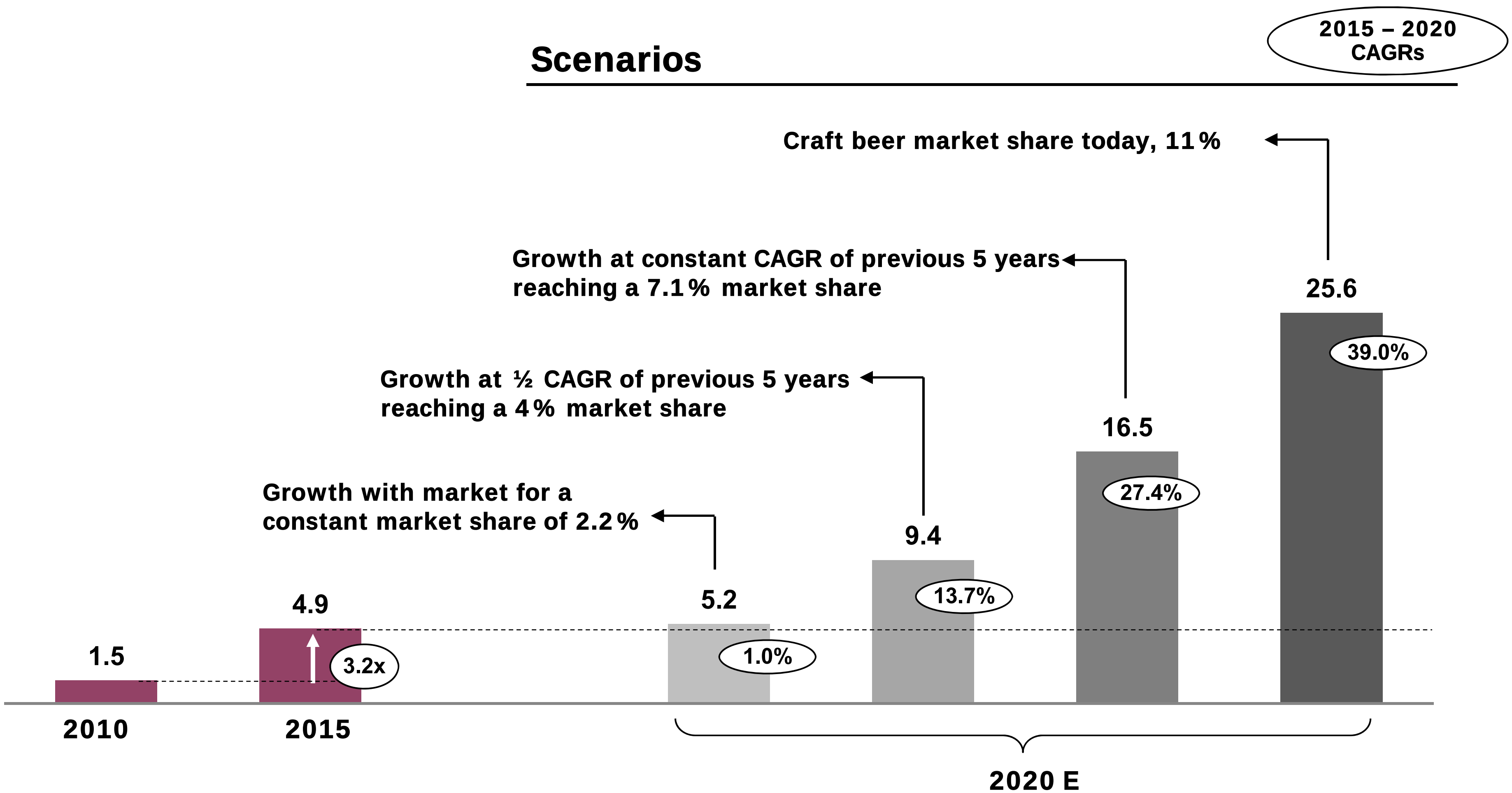
Craft is Still Small but Could Contribute Much More Towards Fragmentation in Future Years

U.S. Market Size Scenarios for 2020

9L Cases (millions)



Sources: IWSR, team analysis

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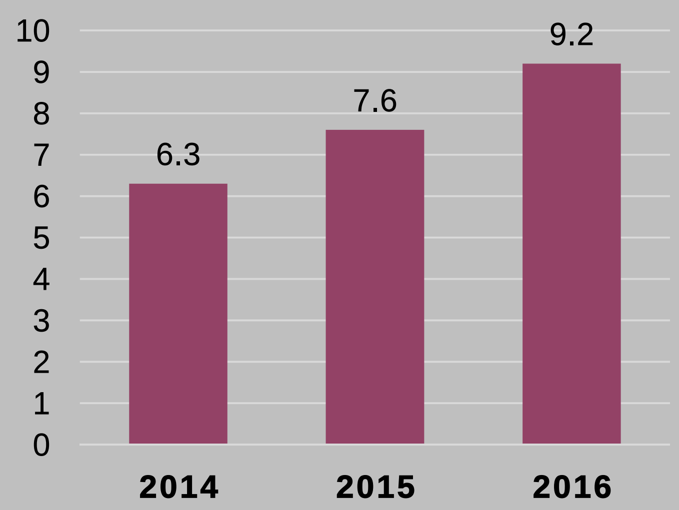
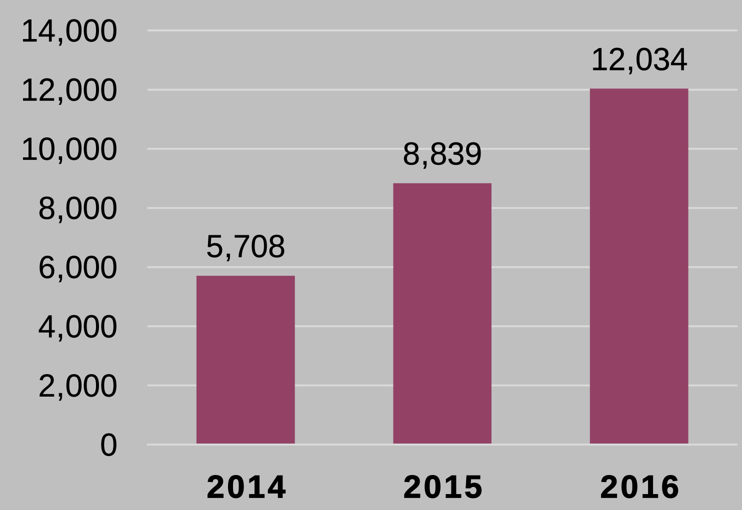
Employment in the U.S. Craft Industry Has Been on the Rise

Average Full-Time Domestic Employees of U.S. Craft Spirits Producers, 2014 – 2016
FTEs



# of Full-Time Domestic Employees of U.S. Craft Spirits Producers, 2014 – 2016
FTEs



- Employment in the U.S. craft industry has been on the rise
- Number of average FTEs has been increasing by almost 50% between 2014 and 2016
- Approximately 66% of the employment is created at the production facility and the tasting room operations, and roughly 33% of the employment is generated in the field
- Total employment has crossed the 12,000 mark in 2016

Source: Distiller surveys, TTB, team analysis

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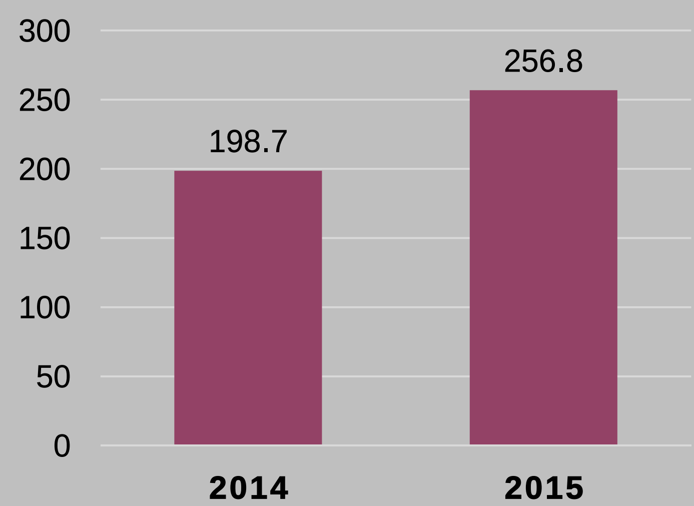
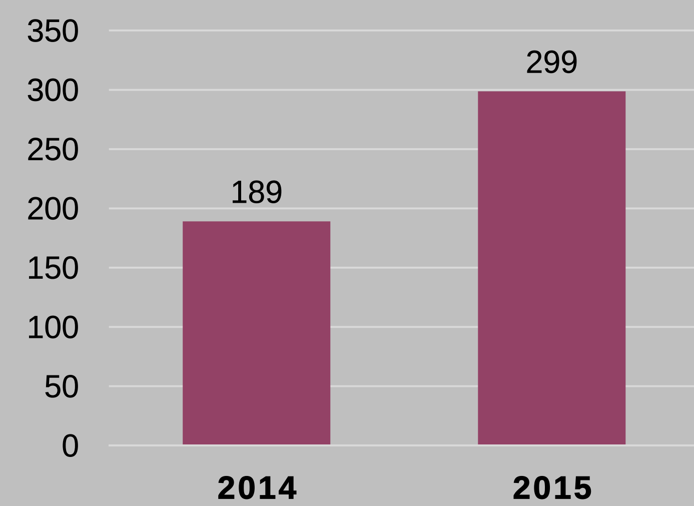
Investment in the U.S. Craft Industry Has Been on the Rise

Average Investment* of U.S. Craft Spirits Producers, 2014 – 2015
$ Thousands



Total Investment* of U.S. Craft Spirits Producers, 2014 – 2015
$ Millions



- Investment in the U.S. craft industry has been on the rise
- Investment of the average craft producer has been increasing by almost 30% from $198k in 2014 to $256k in 2015
- Total investment has increased by almost 66% from $189m in 2014 to $299m in 2015

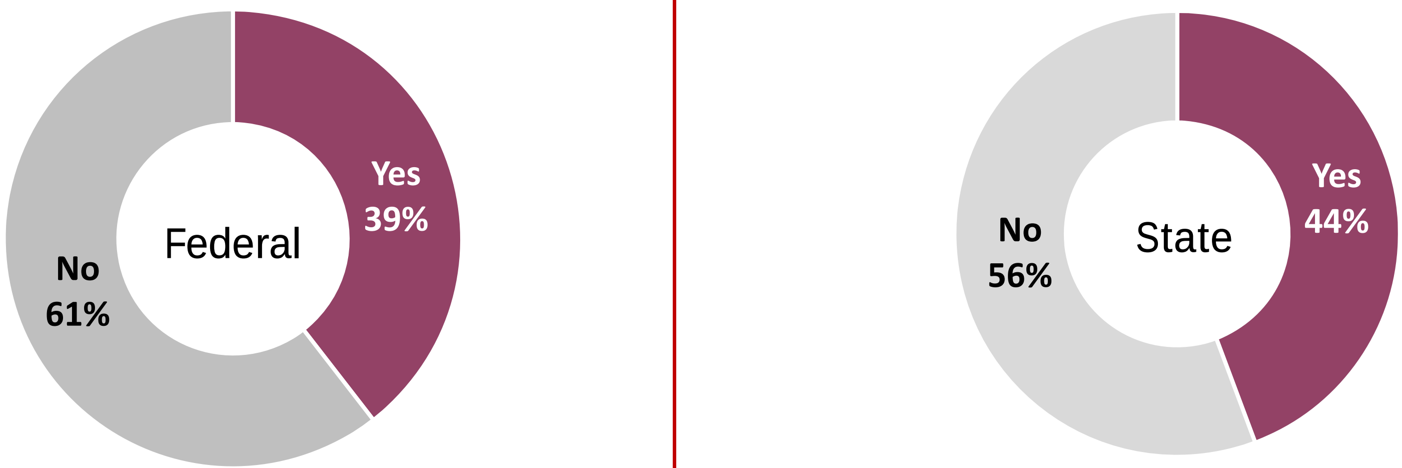
Source: Distiller Surveys, TTB, team analysis. *Investments for expansions

Craft Spirits - Selected Other Survey Results

Craft Spirits Producers – Majority of Surveyed Producers Not Satisfied With Legislative Efforts

CRAFT SPIRITS DATA PROJECT

Legislative Effort Satisfaction in 2015



What would you like to see passed?

"That the Federal Government staff up to satisfy increasing processing times for labels, brands, and permits"

"Tax reduction #1"

"Simplification of reporting burden, increased staffing, and consistency with recipe/label approval process"

"Direct sales to consumers in tasting rooms, direct sales to retailers and on-premise accounts, direct shipping/delivery sales to consumers"

"In state producer excise tax credits" ,

"Reduced annual fees"

- Majority of surveyed producers is not satisfied with the legislative efforts
- Key priorities are tax reduction, higher efficiencies and reduced regulation

Sources: Distiller surveys, team analysis

© 2016 park street American Craft Spirits Association IWSR

Craft Spirits Producer Growth Barriers

Wholesale distribution

- The majority of craft distillers is less than satisfied with the performance of their wholesalers
- Craft distillers have expectations for positive developments in the on-premise market for 2016 compared to off-premise efforts
- Craft distillers would like to see legislative efforts to help level the playing field

State legislation

- Craft distillers would like to see the liberalization of restrictions with regards to sales at the plant as well as state taxes

Federal legislation

- Craft distillers would like to see the tax situation improved and the administrational burden to be reduced

Sources: Distiller surveys, team analyses

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Industry Recommendations for Craft Spirits Producers from Retailers, On-Premise

On-premise Retailer Suggestions to Craft Spirits Producers
% Agree

- On-premise retailers suggest that producers invest more resources against the consumer, both in terms of tastings, other consumer pull strategies, and branding
- Investments in staff training as well as more frequent market visits are also highly recommended
- From a product perspective, on-premise retailers recommend a focus on fewer products and higher quality

Source: ABL retailer surveys, team analysis

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Industry Recommendations for Wholesalers from Retailers, On-Premise

On-premise Retailer Suggestions to Wholesalers
% Agree

- On-premise retailers suggest that wholesalers invest more resources against the accounts
  - Better deal pricing
  - Special promotions in the accounts
  - More buybacks (to a smaller degree)
- Investments in staff training as well as more frequent market visits by the craft spirits producer are also highly recommended
- From a product perspective, on-premise retailers recommend a focus on fewer products

Source: ABL retailer surveys, team analysis

Industry Recommendations for Producers from Retailers, Off-Premise

Off-premise Retailer Suggestions to Craft Spirits Producers
% Agree

- Off-premise retailers suggest that producers invest more resources against the consumer, both in terms of tastings, other consumer pull strategies and branding
- Investments in staff training as well as more frequent market visits are also highly recommended
- From a product perspective, off-premise retailers recommend a focus on fewer products and higher quality

Source: ABL retailer surveys, team analysis

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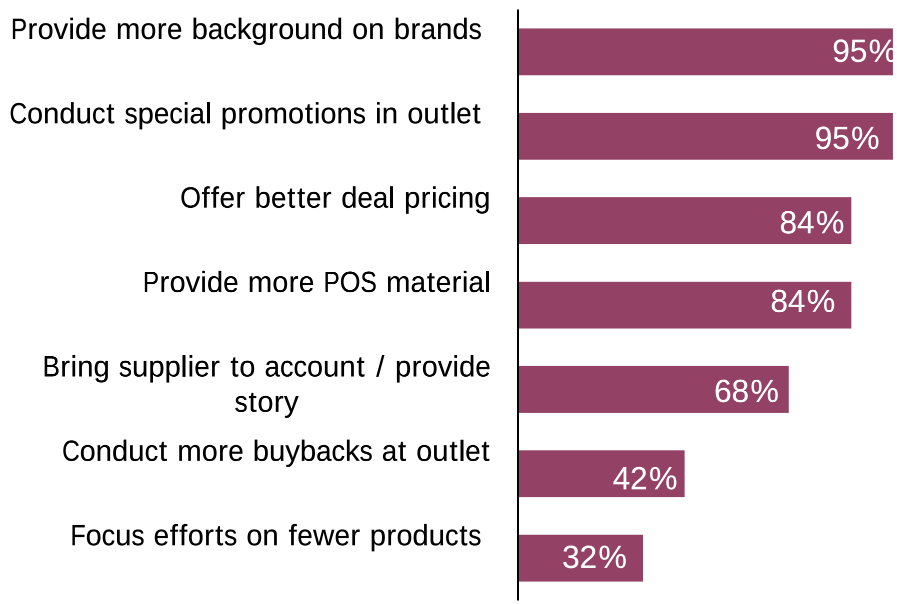
Industry Recommendations for Wholesalers from Retailers, Off-Premise

Off-premise Retailer Suggestions to Wholesalers
% Agree

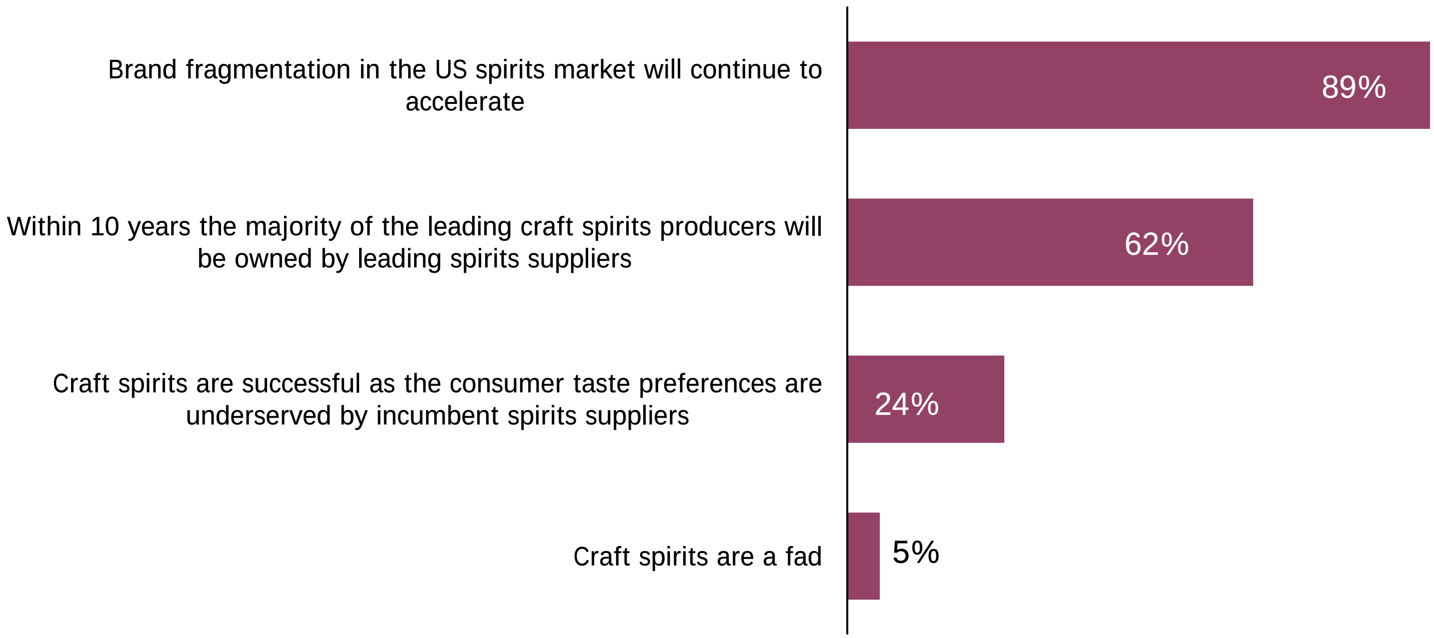


- Off-premise retailers suggest that wholesalers invest in providing more background on the brands as well as more frequent market visits by the craft spirits producer
- Off-premise retailers also recommend higher investments against the accounts
  - Special promotions in the accounts
  - Better deal pricing
  - More POS material
  - More buybacks (to a smaller degree)
- From a product perspective, off-premise retailers recommend a focus on fewer products

Source: ABL retailer surveys, team analysis

Craft Spirits Industry View from Wholesale Tier Perspective

Wholesaler View on Craft Spirits Industry
% Agree



- Wholesalers see the distilled spirits market continuing on the pathway to a more fragmented marketplace and believe that craft spirits are not a fad
- The majority of wholesalers believe that the majority of craft spirits producers will be acquired by larger suppliers

Source: WSWA wholesaler surveys, team analysis

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Industry Recommendations for Craft Spirits Producers from Wholesalers

Wholesaler Suggestions to Craft Spirits Producers
% Agree

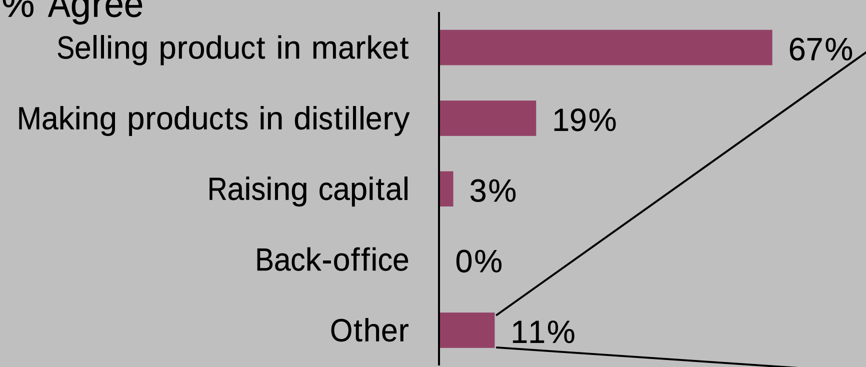
- Wholesalers recommend higher investments against the consumer
  - Consumer pull strategies
  - Better branding
  - Consumer tastings
- Wholesalers also recommend higher investments against the trade
  - Market visits
  - Training of salesforce
  - More POS material
  - Supplementary sales resources in market
  - More programming
- From a product perspective, wholesalers recommend fewer products and higher quality

Source: WSWA wholesaler surveys, team analysis

Industry Recommendations for Craft Spirits Producers from Wholesalers

If you were a craft producer, where would you try to spend more time?

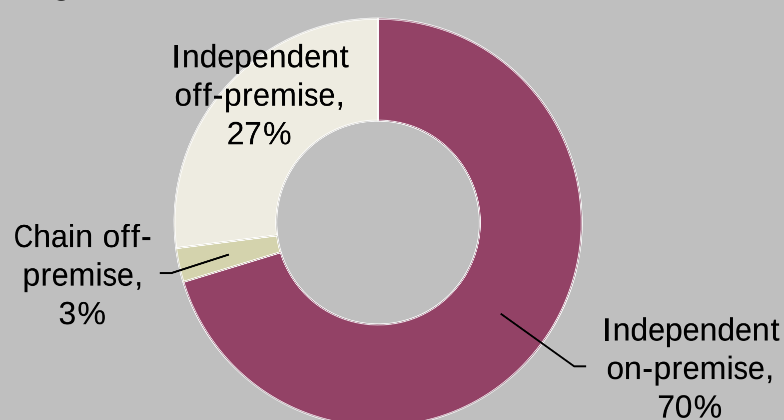
% Agree



- Educating consumer, retailer, and sales force. Engage with all tiers and insure a clear consumer platform
- Making the product as well as telling the story in the market
- Creating consumer pull/developing relationships with key gatekeepers

If you were a craft producer, which type of accounts would you target first?

% Agree



- Wholesalers recommend craft spirits producers to increase their time in the market
- Wholesalers believe that craft spirit producers should initially target independent on-premise accounts when coming to market, then independent off-premise accounts

Source: WSWA wholesaler surveys, team analysis

Questions

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Contact Information

For more information on the data and analysis included in this presentation, please contact

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