CRAFT SPIRITS

★ ★ ★ DATA PROJECT ★ ★ ★

American
CRAFT SPIRITS
ASSOCIATION

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Executive Summary

In 2022, the craft spirits category experienced a normalizing of volume and value growth post-pandemic. The craft spirits category reached over 14 million cases and $7.9 billion in sales. At a value growth rate of 5.3% and volume growth of 6.1%, craft continues to outperform the larger spirits category in the US market.

As a whole, craft spirits sales remain evenly split between the home state (47.4%) and other states (52.6%) in 2022. However, post-pandemic, craft spirits sales in the home state have slightly increased share of total craft spirit sales (+1.4 pp) while sales outside the home state have slightly decreased as a percentage of total craft sales (-1.3% pp).

Large craft producers shifted resources to focus on sales in their respective home states as well as exports. Medium-sized craft producers lead growth on nearly all fronts as this segment is the fastest growing within craft spirits. Small craft producers focused primarily on increasing home state sales, with this channel gaining share of sales accordingly.

Despite economic headwinds, craft producers have consistently found value in reinvesting in their businesses.The total amount invested in the U.S. craft spirits segment increased by 6.5% year-over-year to $880 million.

Key Findings

CRAFT SPIRITS DATA PROJECT

- The number of active craft distillers in the U.S. grew by 2.4% to reach a total of 2,753.
- The U.S. craft spirits category volume reached over 14 million 9L cases in retail sales in 2022, growing at an annual growth rate of 6.1%. In value terms, the market reached $7.9 billion in sales growing at an annual growth rate of 5.3%.
- U.S. craft spirits market share of total U.S. spirits maintained a 4.9% share in volume and increased value share to 7.7% in 2022, up from 7.5% in 2021.
- Exports of U.S. craft spirits increased, reaching 171,000 9L cases.
- Employment numbers within the U.S. craft market continued to increase post-pandemic, reaching 27,368 full-time domestic employees.

*Active craft distillers: licensed US distilled spirits producers, removed 750k proof gallons (or 394,317 9L cases) or less 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

Craft Defined for Purposes of the Research

DEFINITION

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

SIZE REQUIREMENTS

Not more than 750,000 proof gallons (or 394,317 9L cases) removed from bond by licensed producer (DSP)

OWNERSHIP STRUCTURE

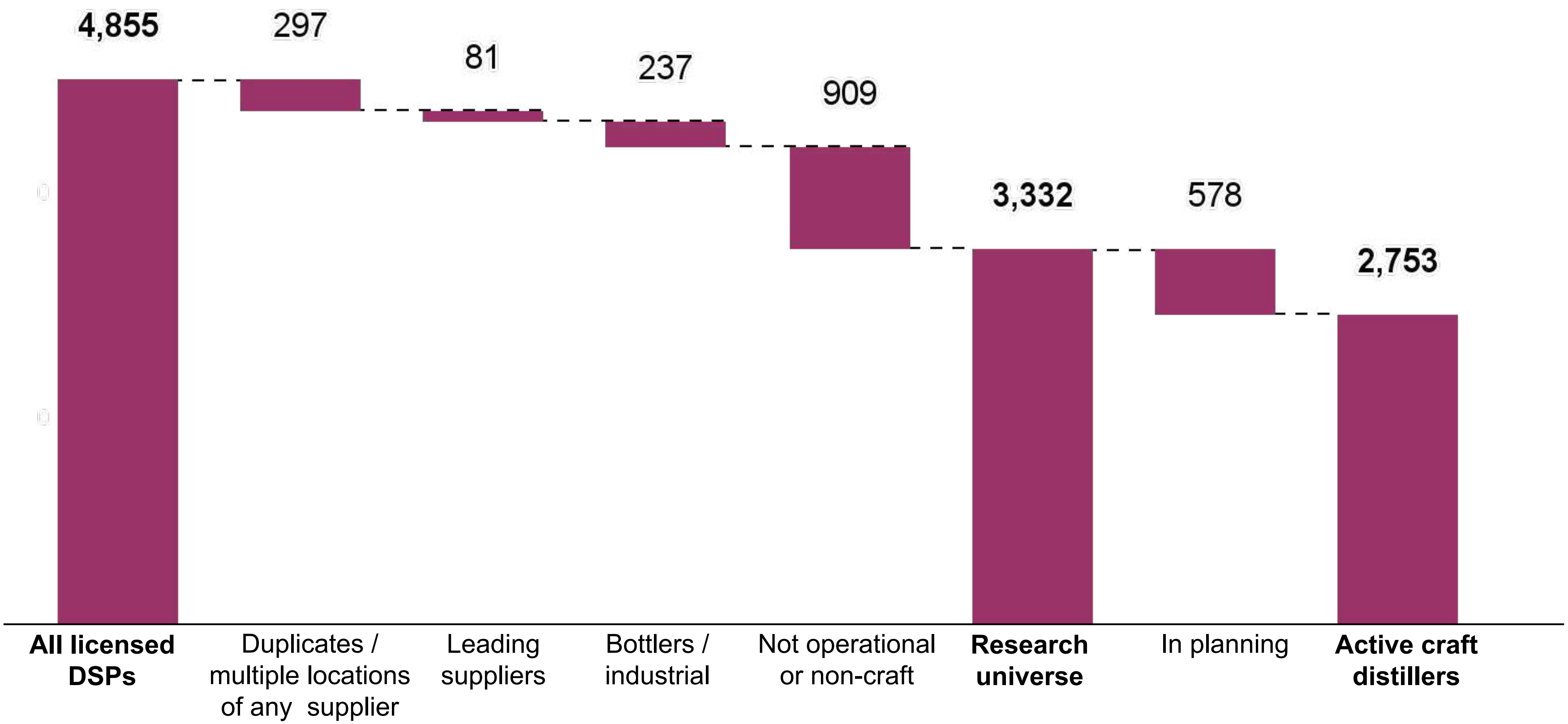
No more than 50% of the DSP is owned (directly or indirectly) by a producer of distilled spirits whose combined annual production of distilled spirits from all sources exceeds 750,000 proof gallons removed from bond.

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."

Identifying Active Craft Distillers

DSPs by Segment as of August 2023

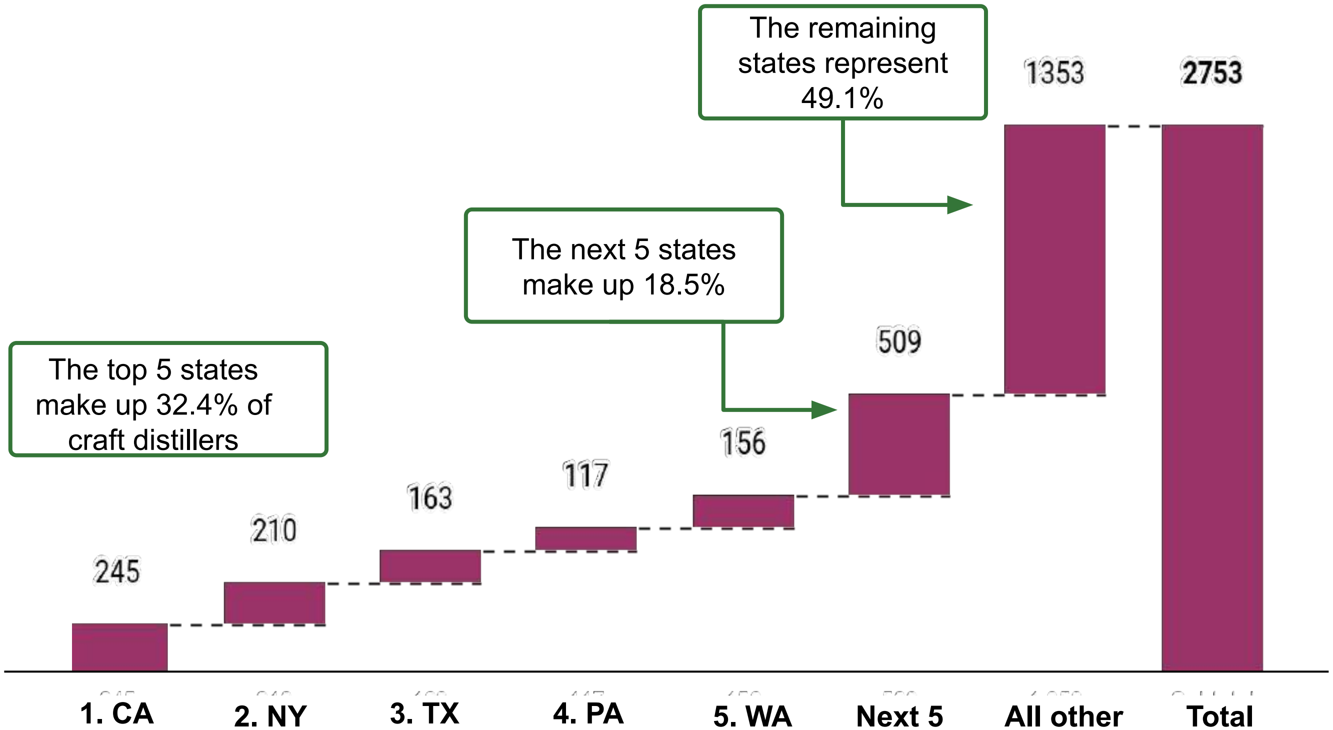


The total number of active craft distillers is determined by removing all inactive businesses and distillers that fall outside the definitions of craft from the federal database of DSPs.

Sources: TTB, ACSA, State ABC Boards, State Guilds, Team Analyses

Active Craft Distilleries by State

Active Craft Distillers by State as of August 2023



Top 10 States with the Most Craft Distilleries

1. California
2. New york
3. Texas
4. Pennsylvania
5. Washington
6. Colorado
7. Michigan
8. North Carolina
9. Florida
10. Oregon

The top ten states with the most active craft distilleries represent 51% of the U.S. craft spirits category

Sources: TTB, ACSA, State ABC Boards, State Guilds, Team Analyses

The Number of Craft Distillers Continues to Climb Despite Challenging Environment

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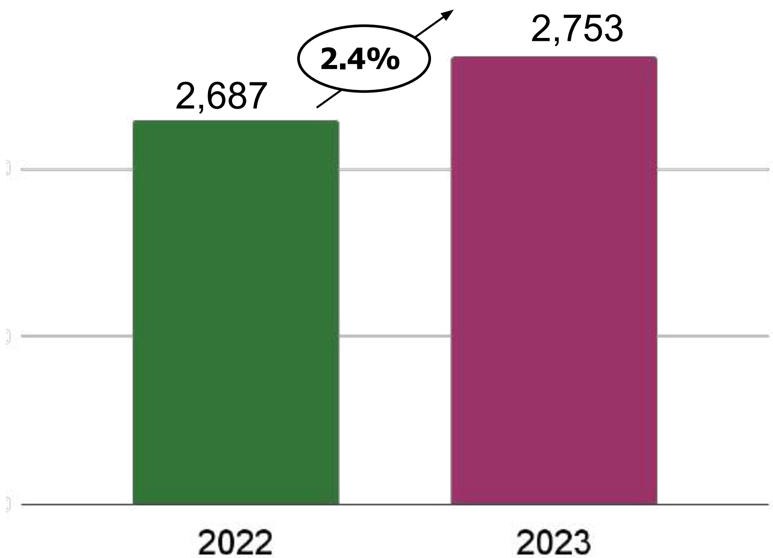
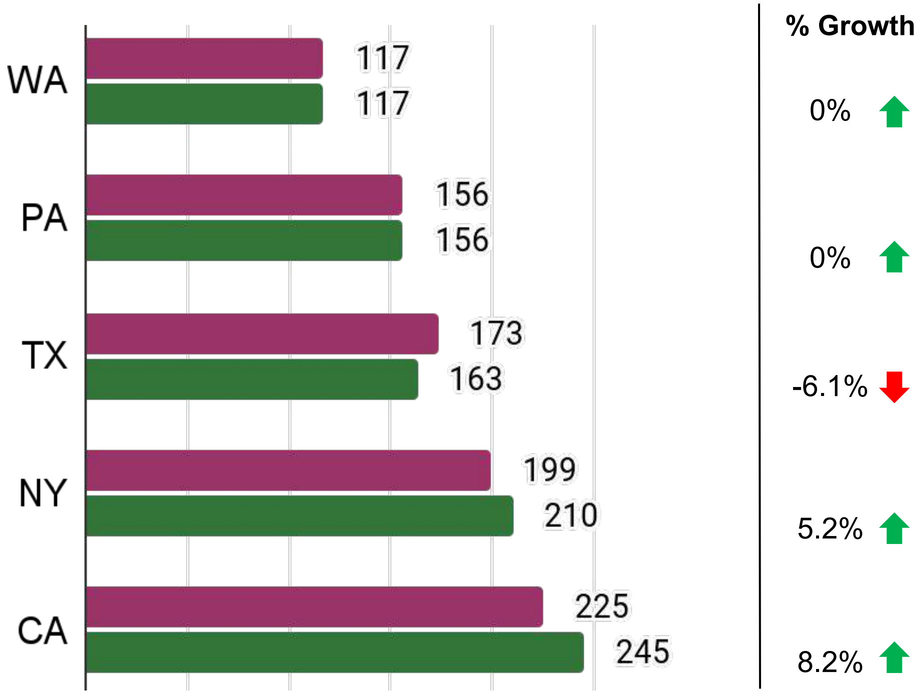
Number of Active Craft Distillers
August 2022 to August 2023



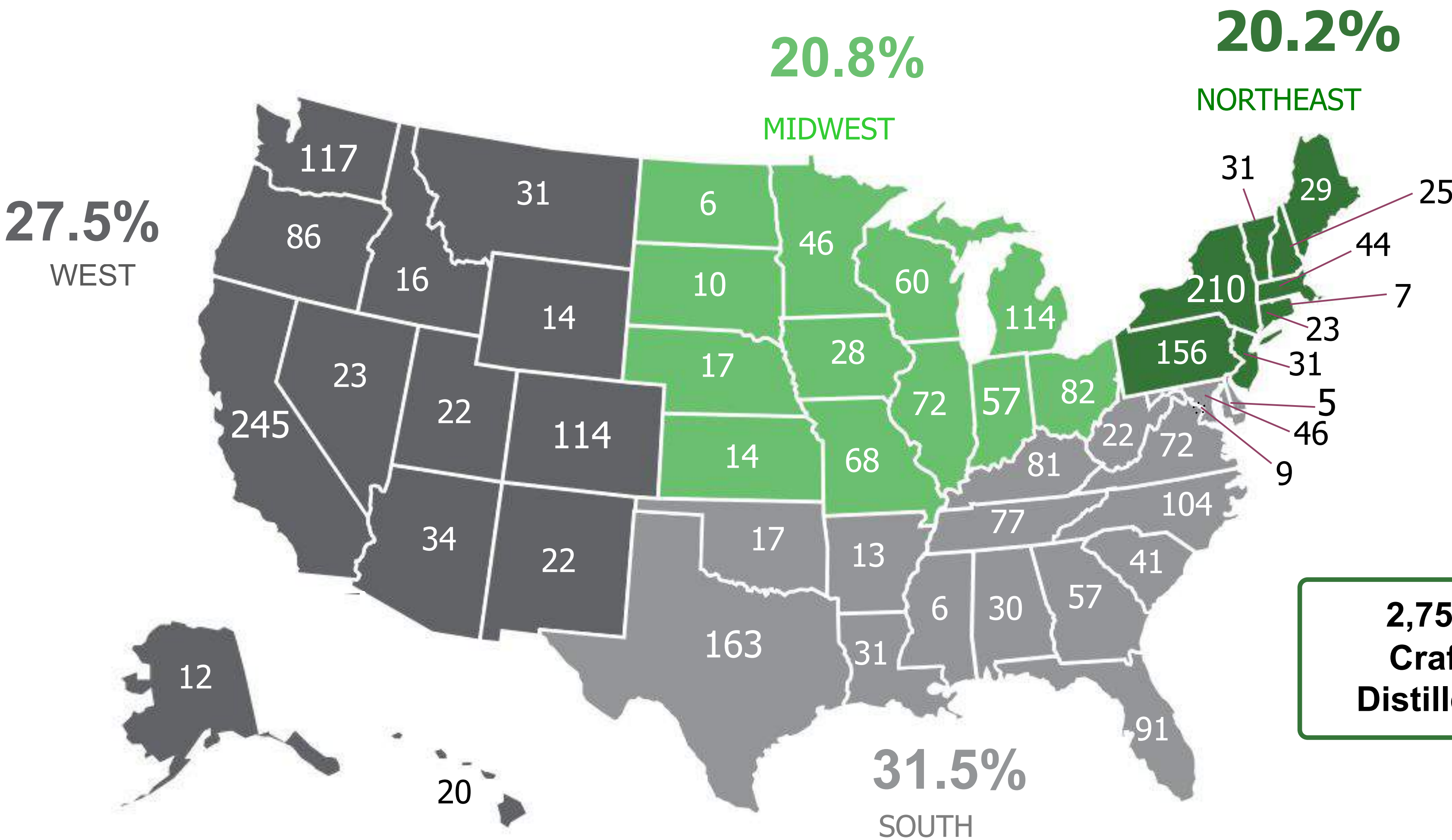
Top 5 States by Active Craft Distiller Count
August 2022 to August 2023



In 2023, there were 2,753 craft distillers active in the US, a 2.4% increase from 2,687 active distillers in August 2022.

Active Craft Distillers by State and Region

Active Craft Distillers by State and Region as of August 2022

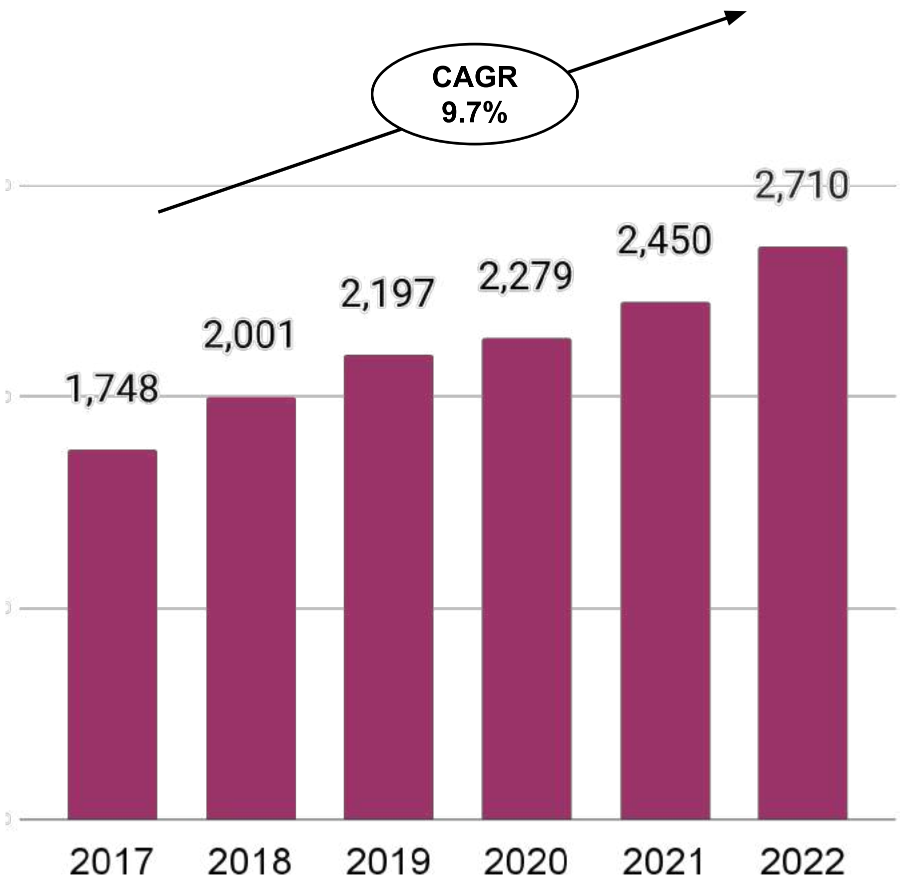


2,753 Craft Distillers

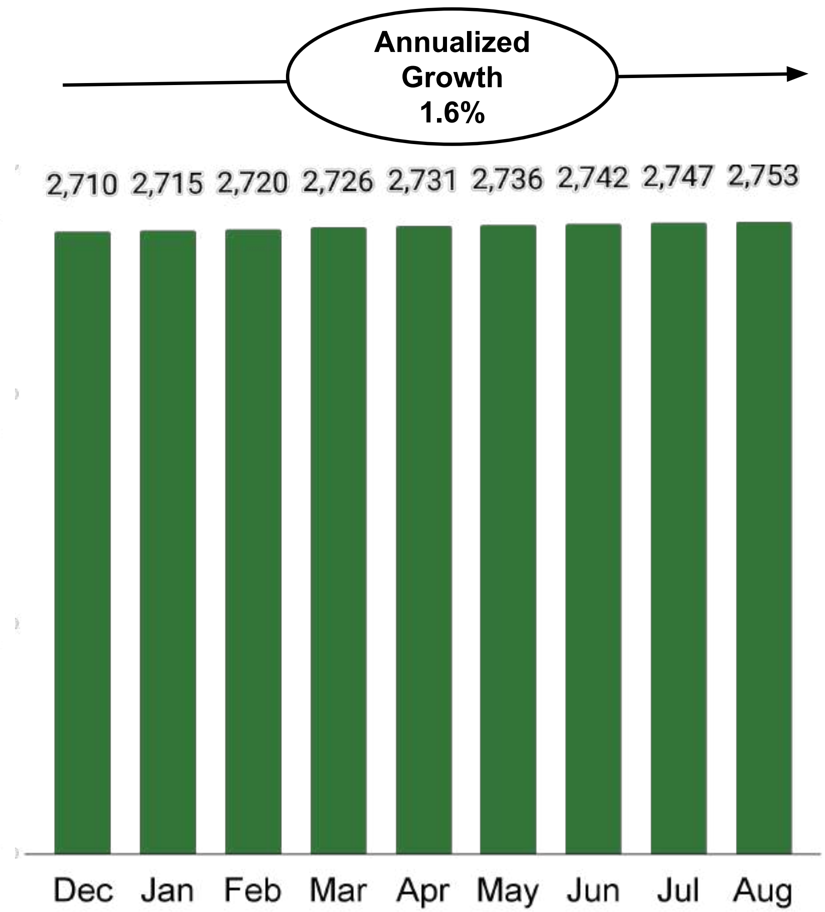
Sources: TTB, ACSA, State ABC Boards, State Guilds, Team Analyses

Number of Active Distillers Still Growing But at a Slower Rate in Early 2023

Number of Craft Spirits Producers 2017 to 2022



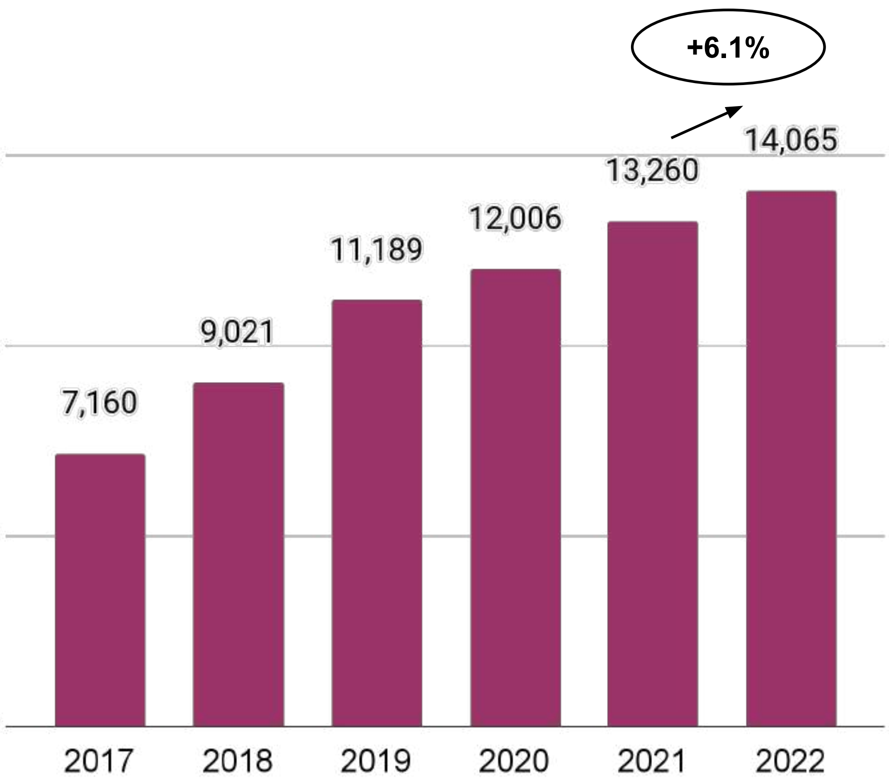
Number of Craft Spirits Producers, December 2022 to August 2023



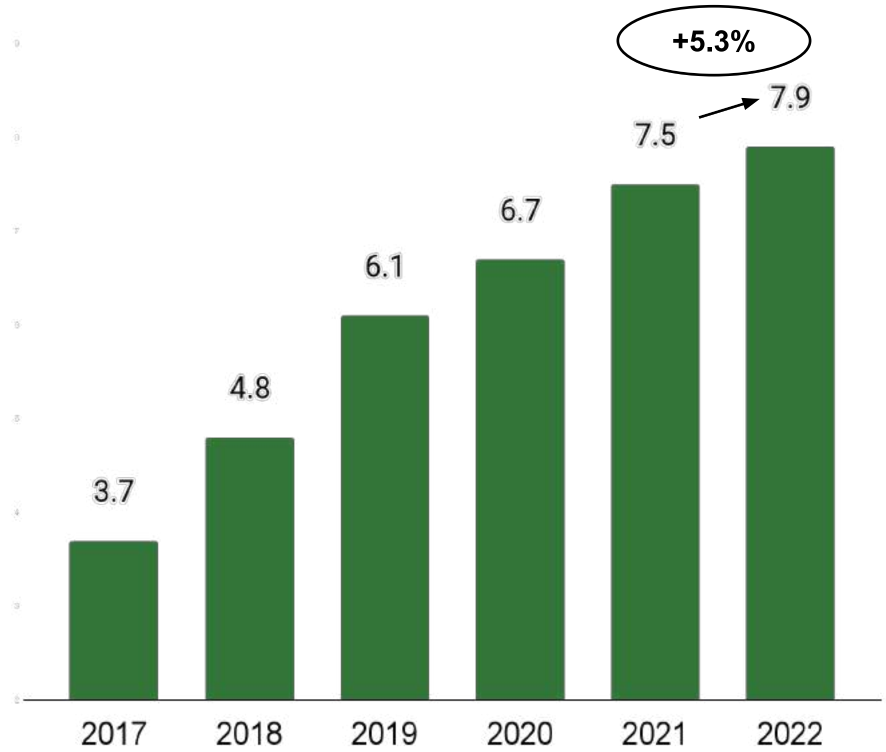
Sources: TTB, IWSR, Team Analyses

Craft Spirits Category Still Grew Despite Challenging Year

Craft Spirits Sales by Volume 2017 – 2022
9L Cases (000)



Craft Spirits Sales by Value 2017 – 2022
$ Billions



Sources: TTB, ACSA, IWSR, State ABC Boards, State Guilds, Team Analyses

Craft Spirits Value Growth Has Significantly Outpaced Volume Growth

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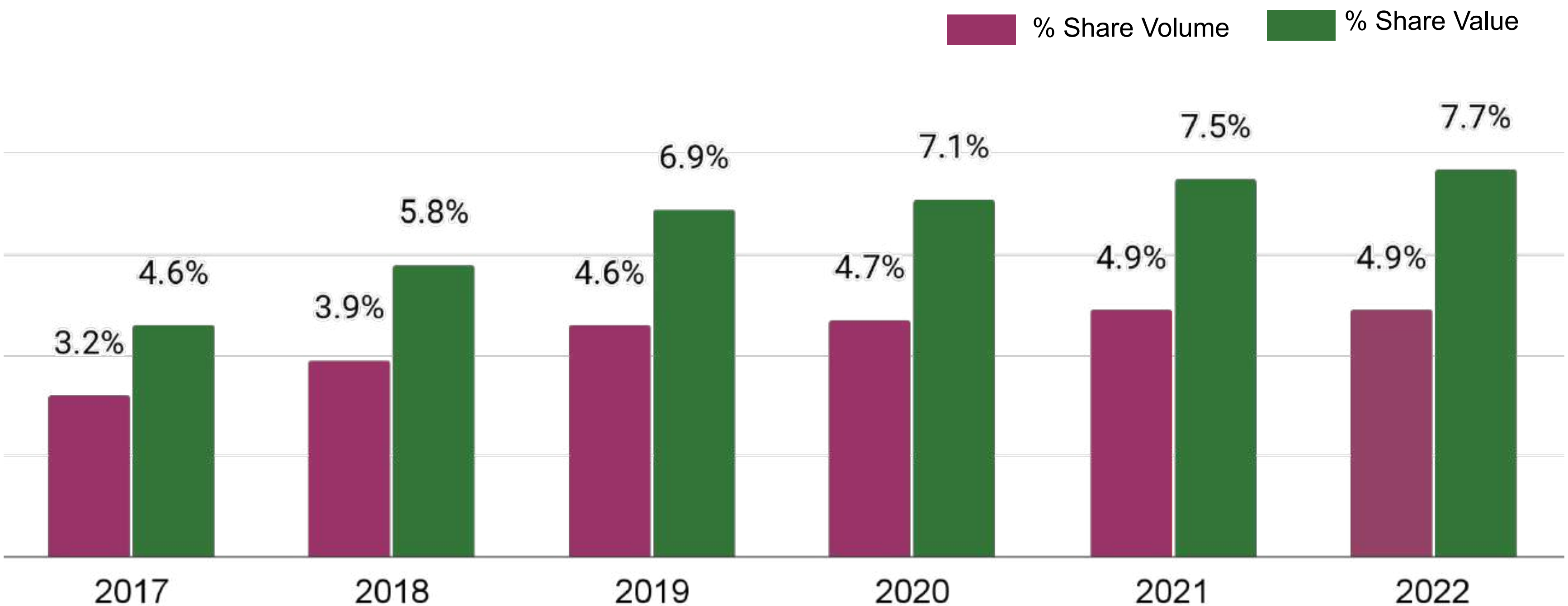
Craft Distiller Sales as a Share of Total U.S. Spirits Volume and Value



U.S. craft spirits has an estimated market share of 4.9% in volume and 7.7% in value, up from 3.2% and 4.6% in 2017.

Sources: TTB, ACSA, IWSR, State ABC Boards, State Guilds, Team Analyses

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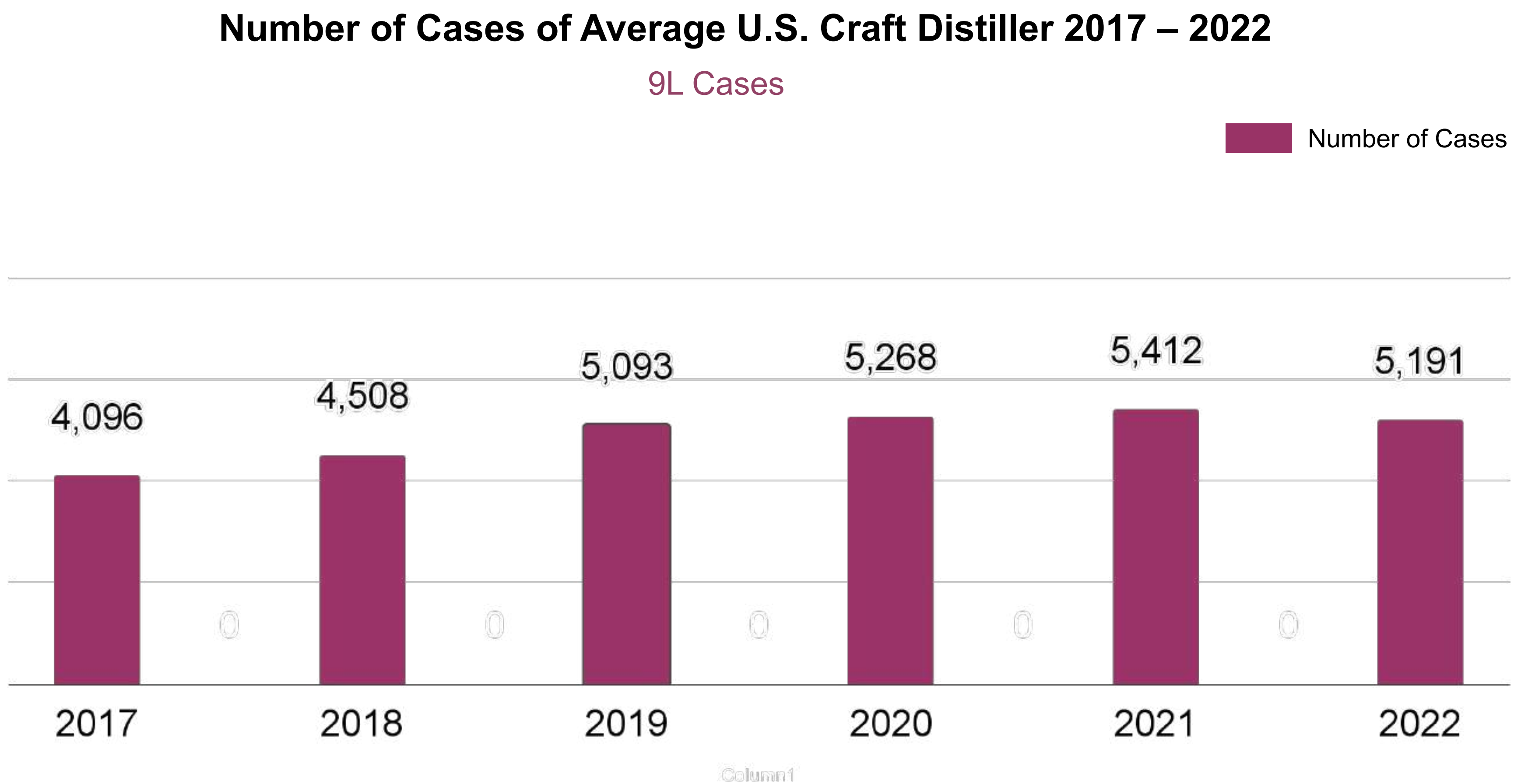
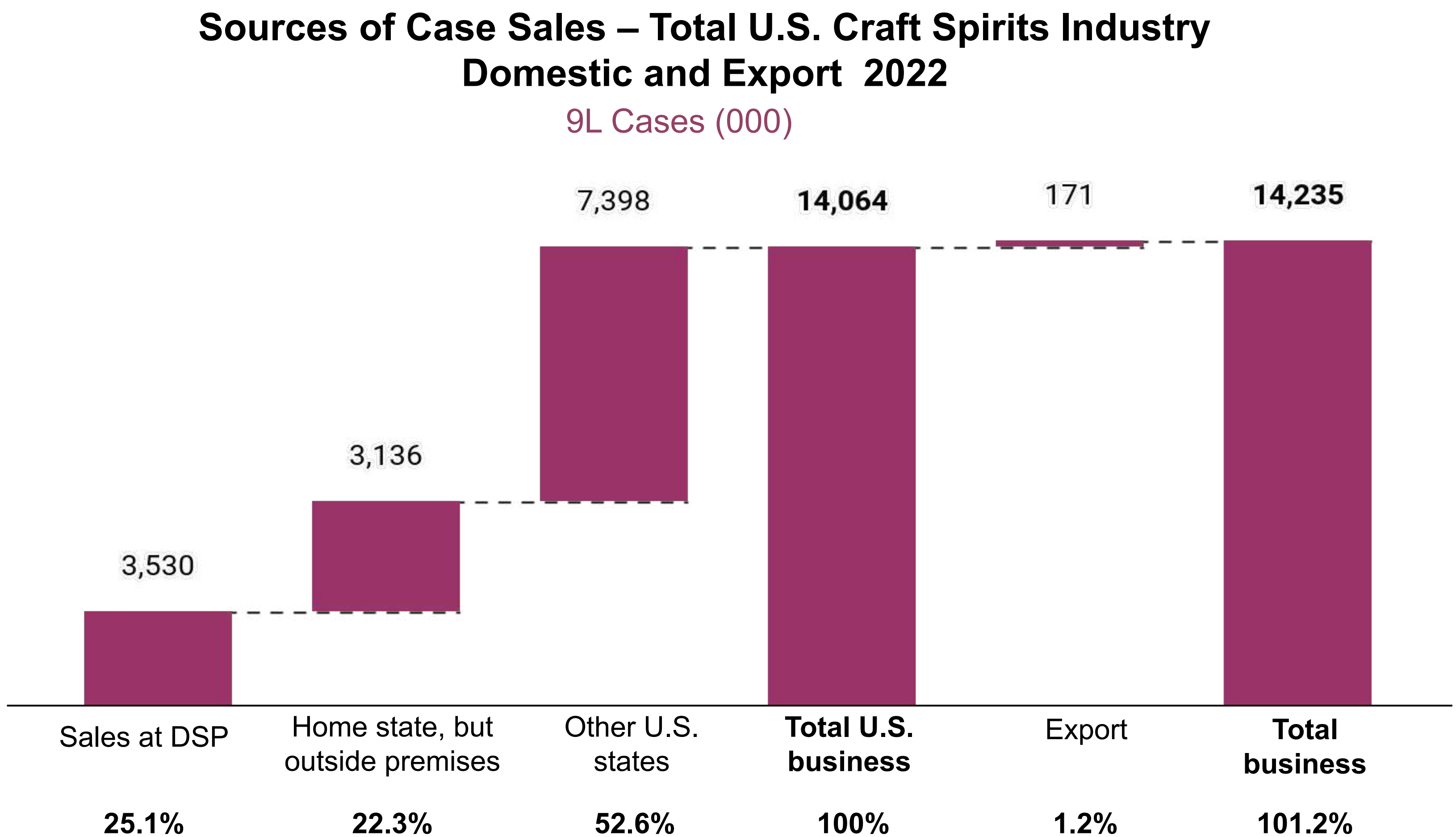
Average Volume of U.S. Craft Distillers Declined in 2022



In 2022, the average number of cases produced declined to 5,191 9L cases, down -4.1% from 2021.

The Majority of Total U.S. Craft Business Takes Place Outside the Home State



47.4% of the total U.S. craft business took place in the home state of the craft distiller in 2022. Craft spirits exports saw a 4.3% increase over 2021, reaching 171,000 9L cases.

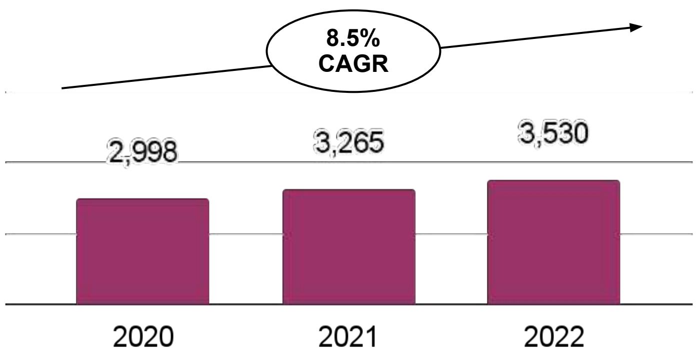
Sources: TTB, ACSA, State ABC Boards, State Guilds, Team Analyses

Share of Sales in Craft Distillers' Home State is Increasing

Total Craft Spirits Industry, Sources of Case Sales, 2020 – 2022

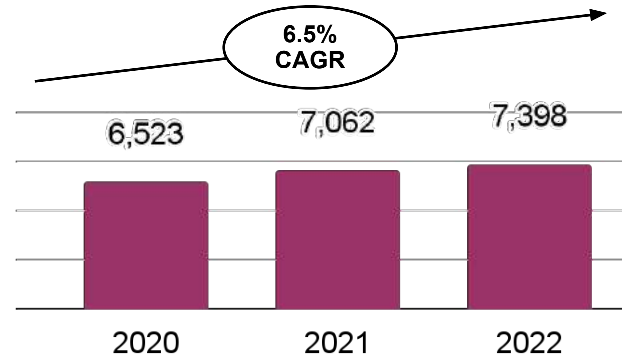
9L Cases (000)

Sales at DSP



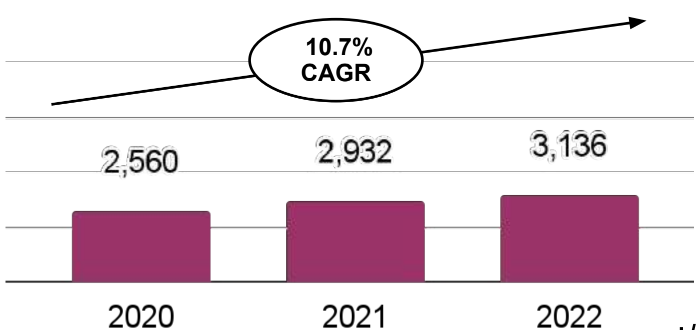
% of total U.S. business: 24.8% | 24.6% | 25.1% | +/- 0.3%

Other States



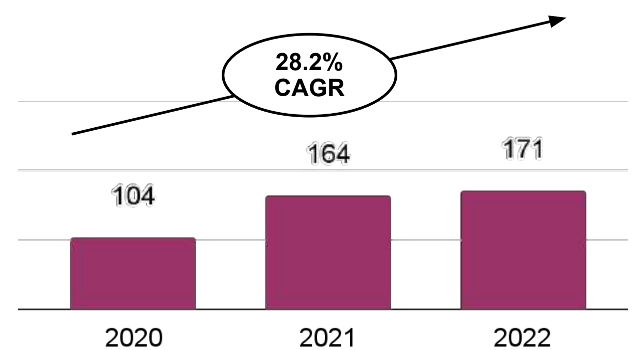
53.9% | 53.3% | 52.6% | +/- -1.3%

Home State



% of total U.S. business: 21.2% | 22.1% | 22.3% | +/- 1.1%

Export



0.9% | 1.2% | 1.2% | +/- 0.3%

Sources: TTB, ACSA, State ABC Boards, State Guilds, Team Analyses

Craft Spirits Market Remains Concentrated

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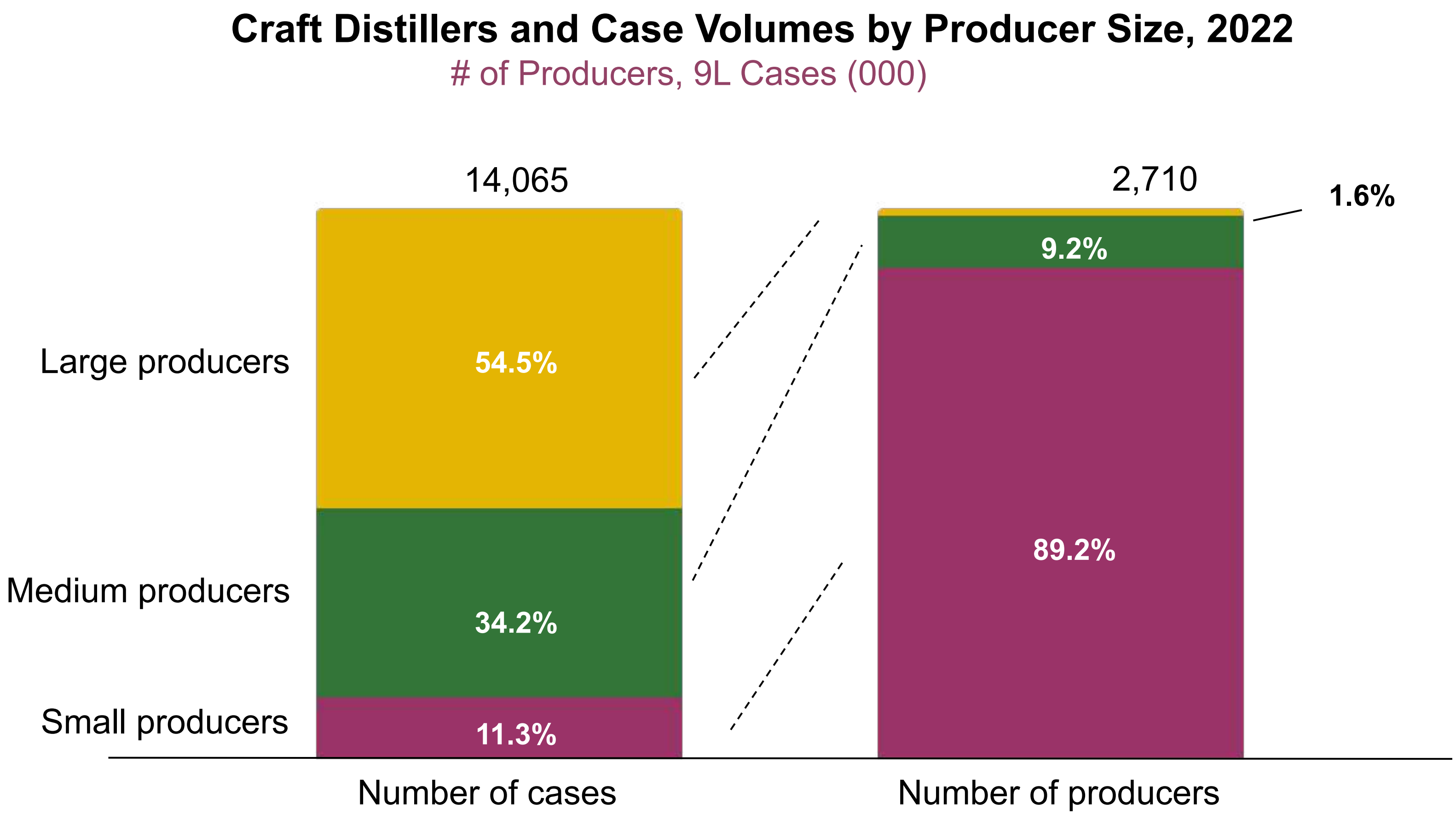

Less than 2% of craft spirits producers are responsible for over 54% of the cases produced while 89% of producers are classified as small and are responsible for approximately 11% of cases produced.

Sources: TTB, Distiller Surveys, Team Analyses *Small: 0 - 5,258 9L Cases, Medium: 5,258 - 52,576 9L Cases, Large: 52,576 - 394,317 9L Cases

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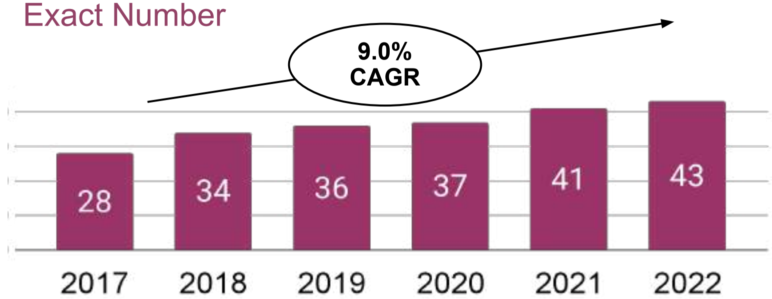
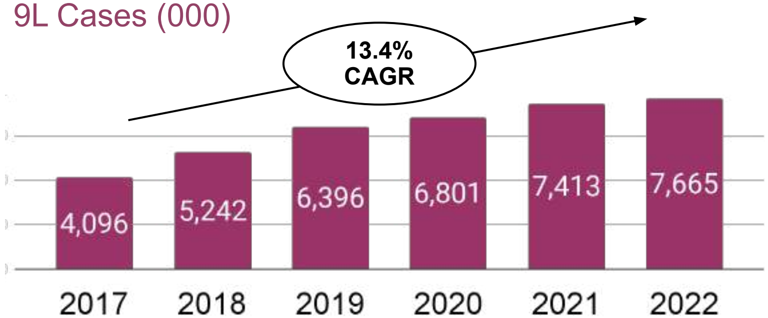
Average Volume of Large Craft Producers Experienced Growth in 2022

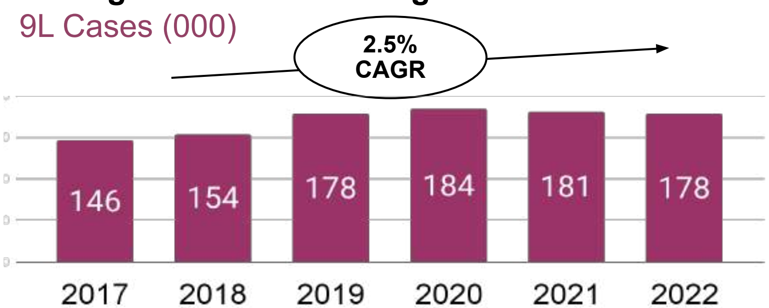
# of Large Producers
Exact Number



# of Cases of Large Producers
9L Cases (000)



Average # of Cases of Large Producers
9L Cases (000)



- The number of large craft distillers has increased from 28 in 2017 to 43 in 2022, a 53.6% increase
- The number of cases of large craft distillers has grown from 4.1 million 9L cases in 2017 to over 7.6 million 9L cases in 2022
- The average number of cases produced by large craft distillers has increased from 146,000 9L cases in 2017 to 178,000 9L cases in 2022, a slight decrease from 181,000 9L cases in 2021

Sources: TTB, Distiller Surveys, Team Analyses

Large Craft Producers Do Vast Majority of Business Outside the Home State

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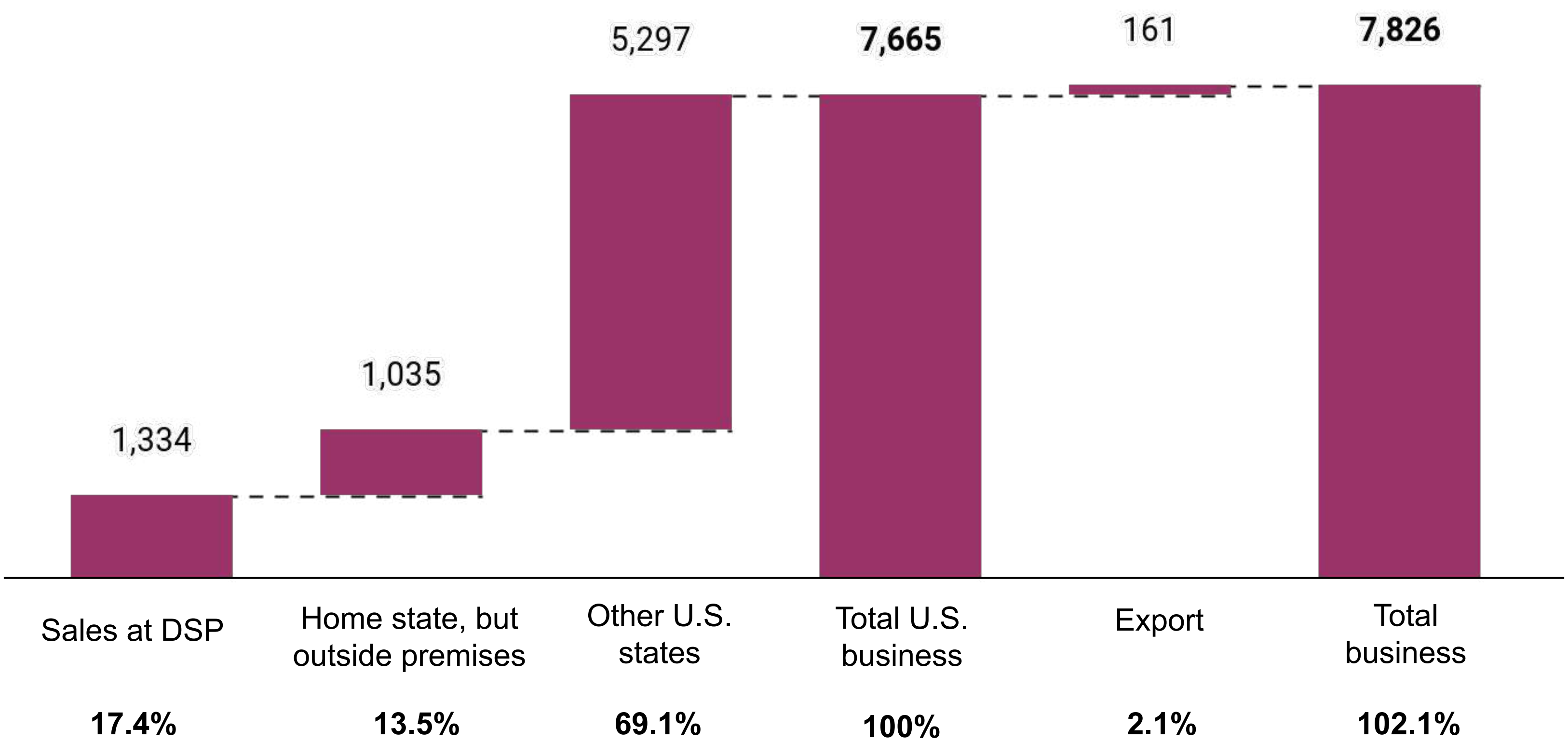
Sources of Case Sales – Large U.S. Craft Spirits Producers Domestic 2022

9L Cases (000)



Large craft producers are more likely to drive growth outside of their home state and saw the greatest increase in export rates in 2022.

Sources: TTB, ACSA, State ABC Boards, State Guilds, Team Analyses

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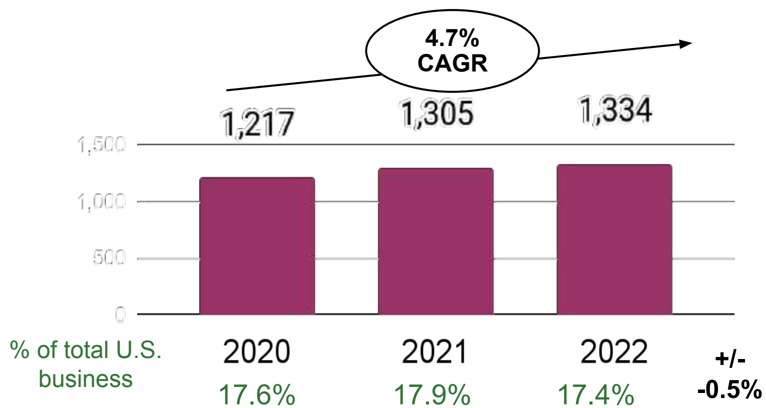
Large Craft Producer Sales Continue to Increase Beyond the Home Market

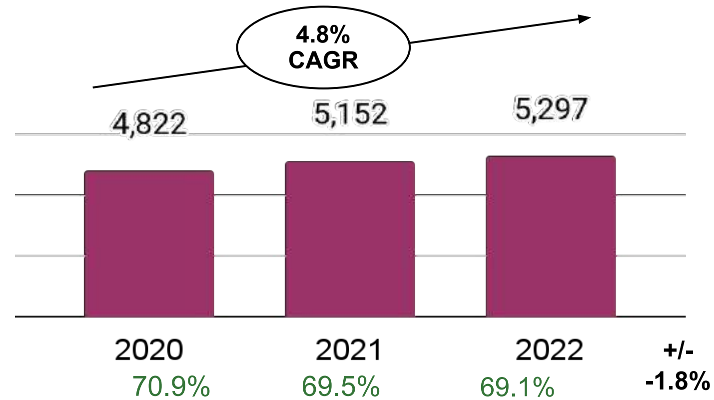
Large Craft Spirits Producers, Sources of Case Sales, 2020 – 2022

9L Cases (000)

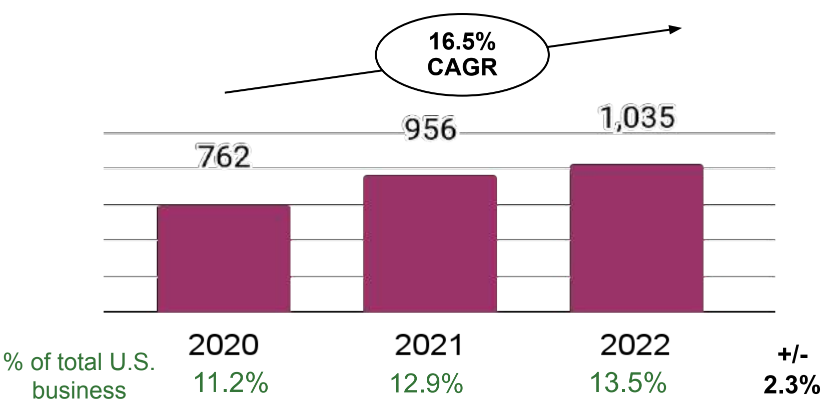
Sales at DSP



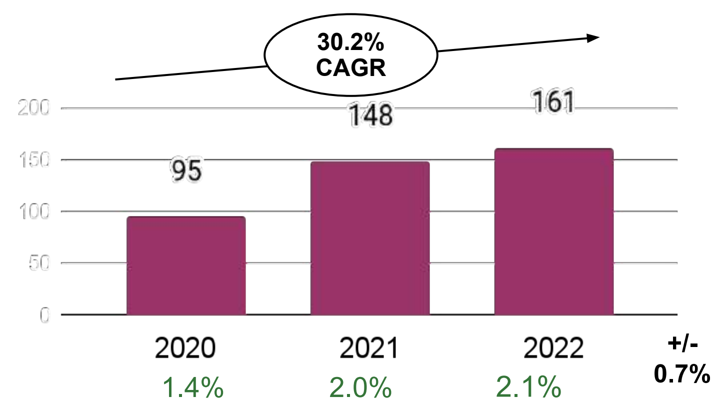
Other States



Home State



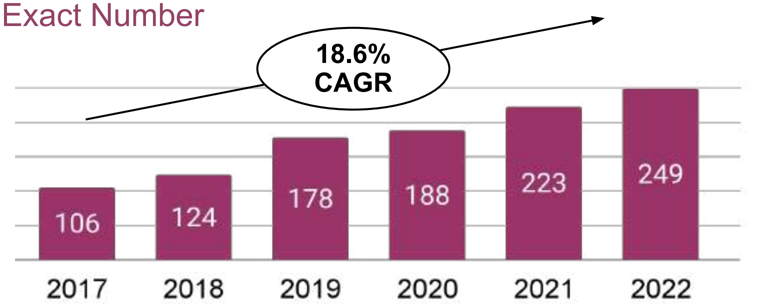
Export



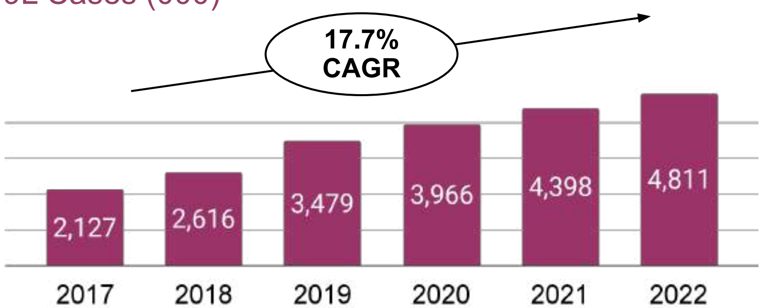
Sources: TTB, ACSA, State ABC Boards, State Guilds, Team Analyses

Medium-Sized Craft Producers Drive Growth for Craft Spirits

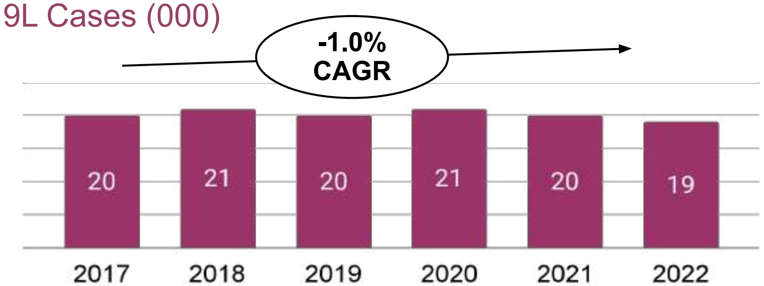
# of Medium-Size Producers
Exact Number



# of Cases of Medium-Size Producers
9L Cases (000)



Average # of Cases of Medium-Size Producers
9L Cases (000)



- The number of medium craft producers has more than doubled, from 106 in 2017 to 249 in 2022
- The number of cases of medium craft distillers has grown from 2.1 million 9L cases in 2017 to over 4.8 million 9L cases in 2022
- The average number of cases produced by medium craft distillers has remained consistent from 2017 to 2021 but declined in 2022.

Sources: TTB, Distiller Surveys, Team Analyses

Medium Craft Producers Do the Majority of Business in the Home State

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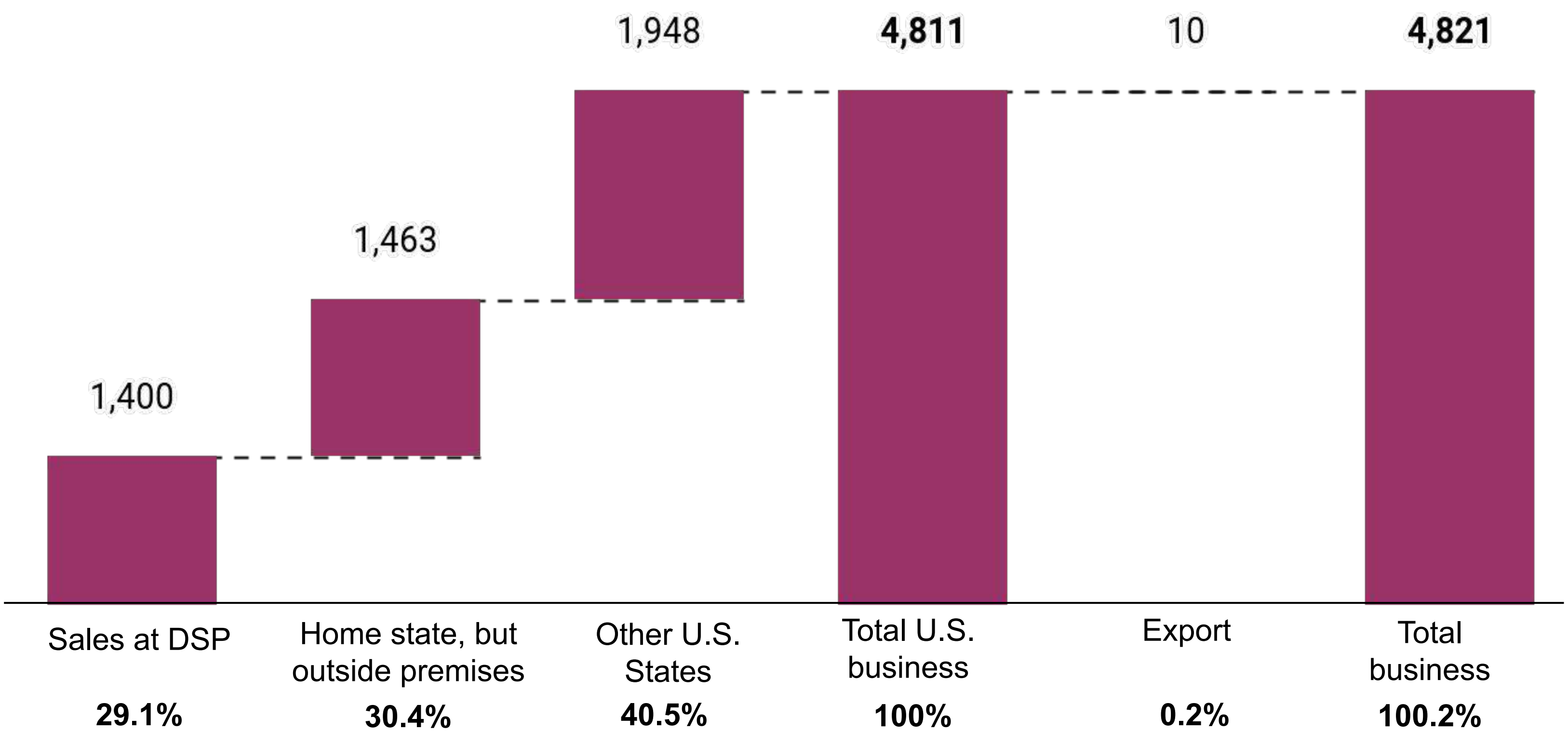
Sources of Case Sales – Medium U.S. Craft Spirits Producers 2022

9L Cases (000)



59.5% of the total U.S. business of medium U.S. craft producers takes place in the home state of the craft distiller

Sources: TTB, ACSA, State ABC Boards, State Guilds, Team Analyses

Medium Craft Producer Sales Have Grown Strongly Across All Sources, Excluding Exports

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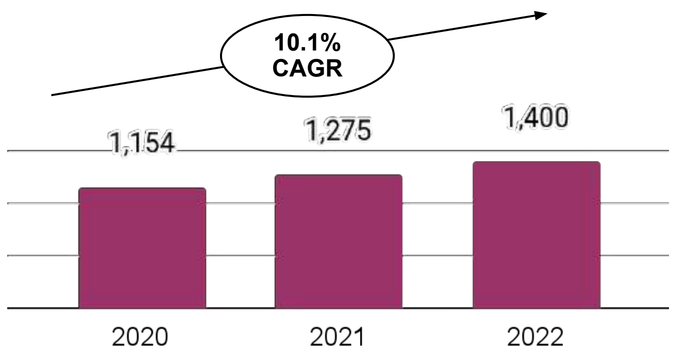
Medium Craft Spirits Producers, Sources of Case Sales, 2020 – 2022

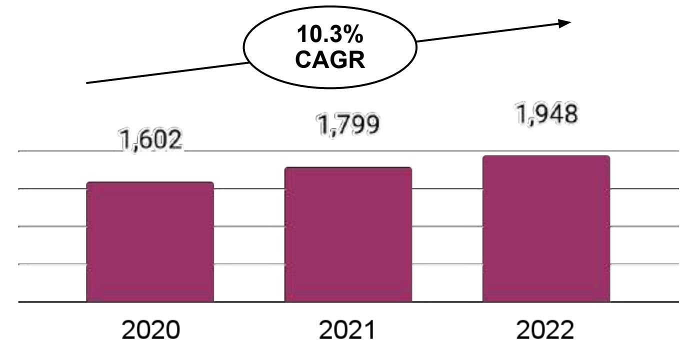
9L Cases (000)

Sales at DSP



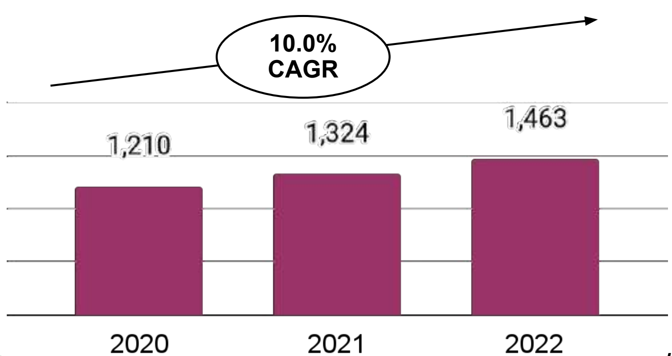
	2020	2021	2022	+/-
% of total U.S. business	29.1%	29.0%	29.1%	0.0%

Other States



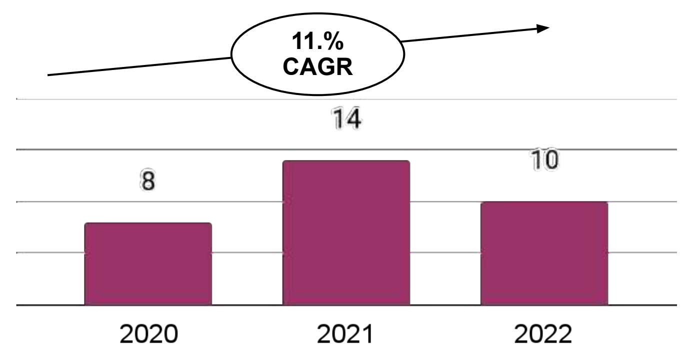
2020	2021	2022	+/-
40.4%	40.9%	40.5%	0.1%

Home State



	2020	2021	2022	+/-
% of total U.S. business	30.5%	30.1%	30.4%	-0.1%

Export



2020	2021	2022	+/-
0.2%	0.3%	0.2%	0.0%

Sources: TTB, ACSA, State ABC Boards, State Guilds, Team Analyses

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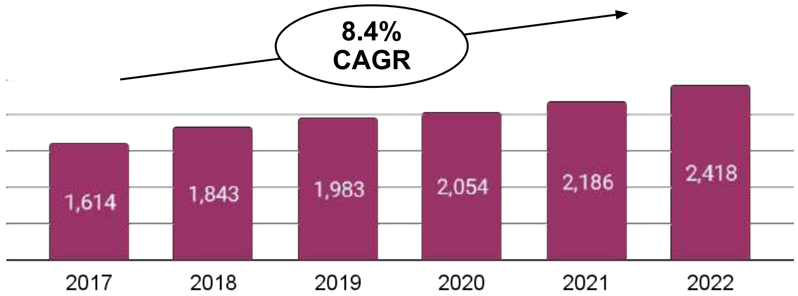
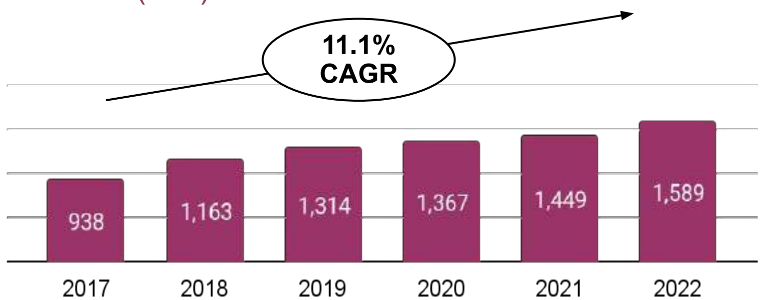
Small Craft Producers Have Been Growing Well

# of Small Producers



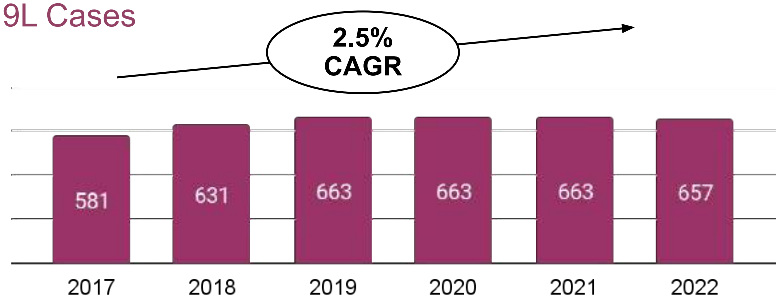
Cases of Small Producers

9L Cases (000)



Average # of Cases of Small Producers

9L Cases



The number of small craft producers has increased from 1,614 to 2,418.

The number of cases of small craft distillers has grown from 938,000 9L cases to almost 1.6 million 9L cases in 2022.

The average number of cases produced by small craft distillers has increased from 581 9L cases in 2017 to 657 cases in 2022.

Sources: TTB, Distiller Surveys, Team Analyses

93.1% of the Business of Small Craft Producers Takes Place in the Home States

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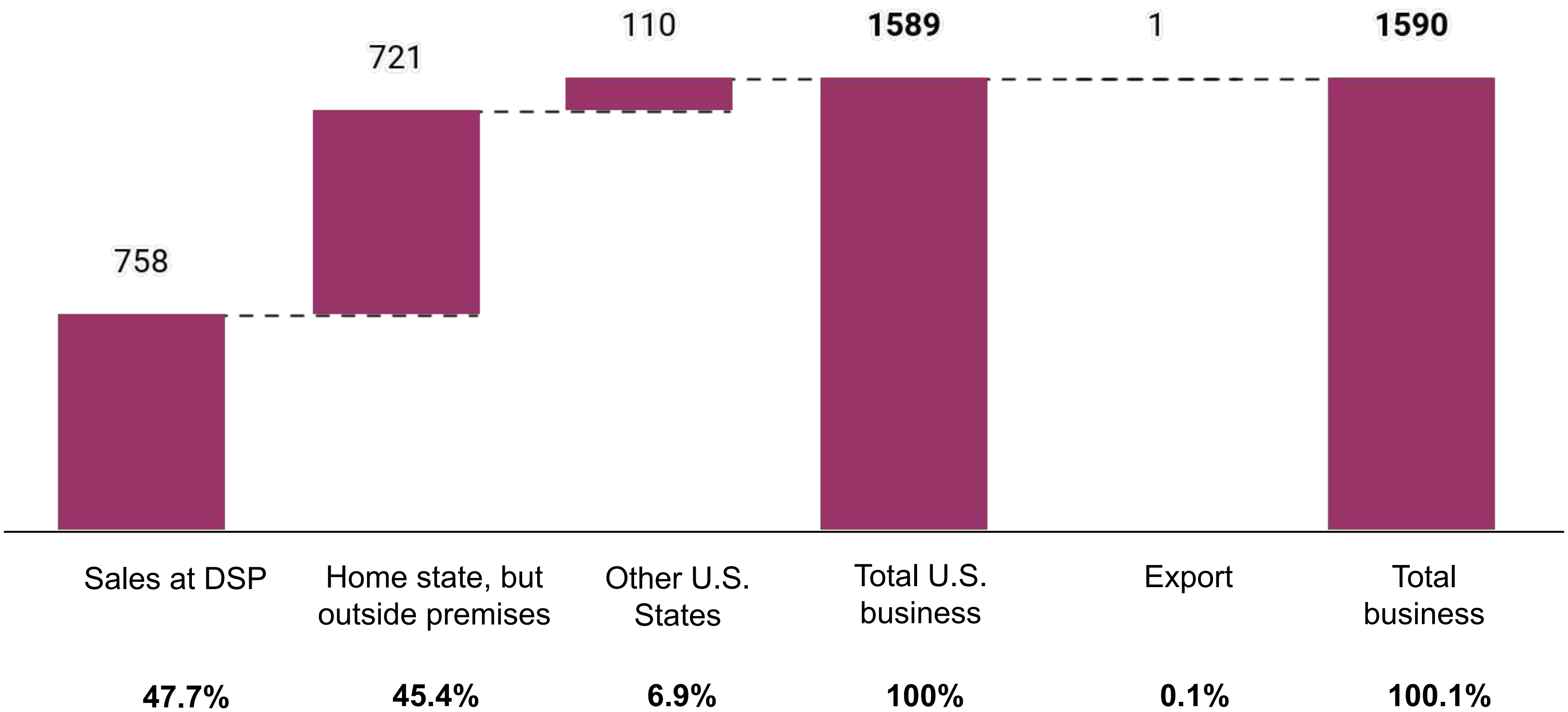
Sources of Case Sales – Small U.S. Craft Spirits Producers, Domestic and Export 2022

9L Cases (000)



Over 47% of the total business of small craft producers comes from sales at the DSP. Only 7% of the total business comes from sales outside the home state, including exports.

Small Craft Producer Sales Are Slowly Growing Outside of Their Home States

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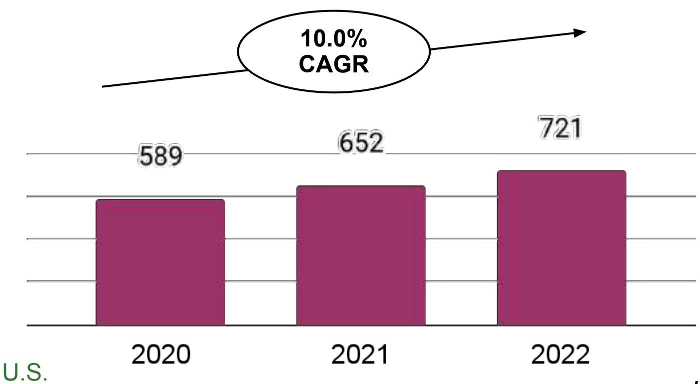
Small Craft Spirits Producers, Sources of Case Sales, 2020 – 2022

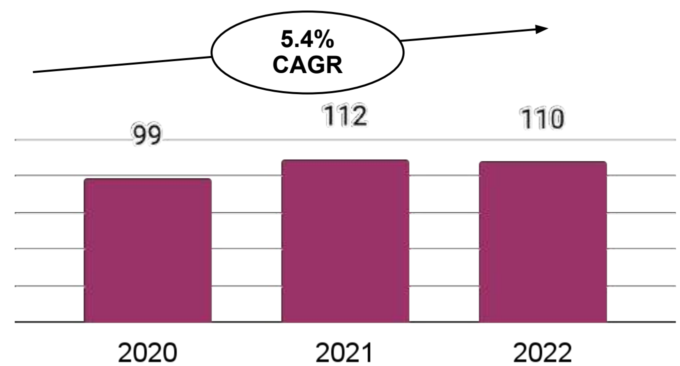
9L Cases (000)

Sales at DSP



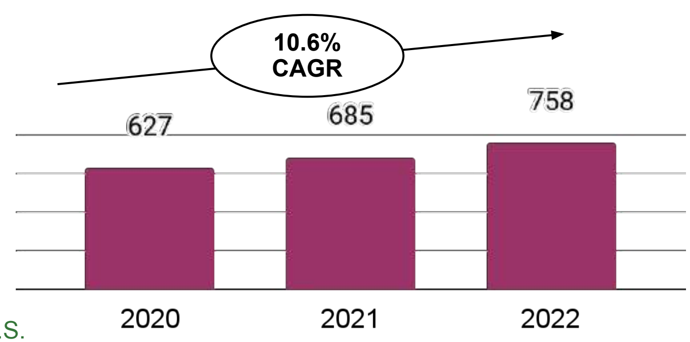
	2020	2021	2022	+/-
% of total U.S. business	47.7%	47.3%	47.7%	0.0%

Other States



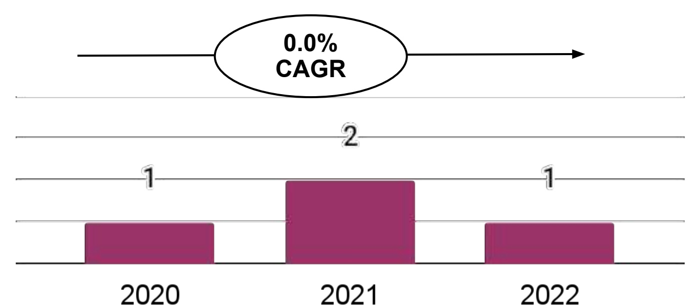
2020	2021	2022	+/-
7.5%	7.7%	6.9%	-0.6%

Home State



	2020	2021	2022	+/-
% of total U.S. business	44.8%	45.0%	45.4%	0.6%

Export



2020	2021	2022	+/-
0.1%	0.1%	0.1%	0.0%

Sources: TTB, ACSA, State ABC Boards, State Guilds, Team Analyses

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

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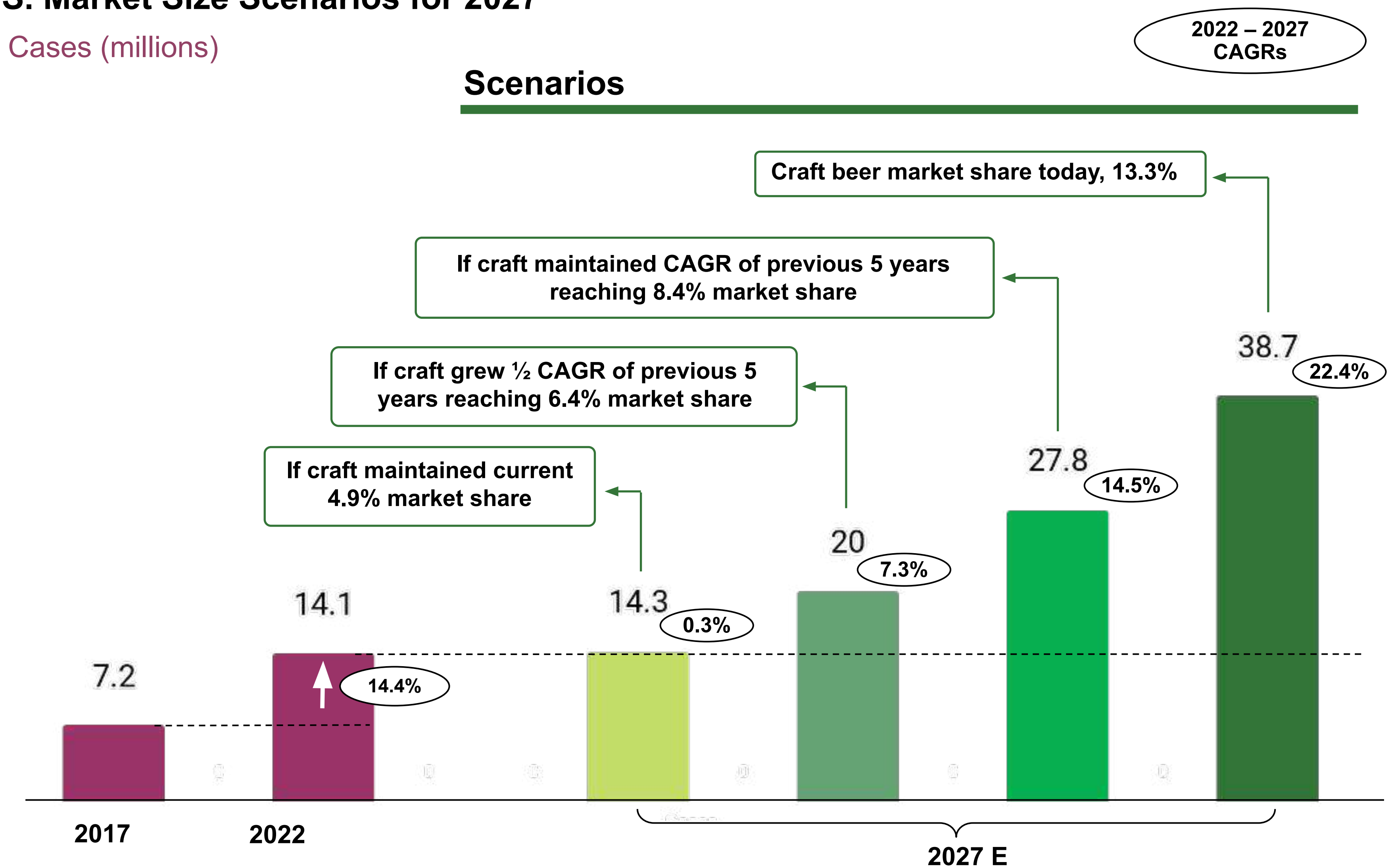
U.S. Market Size Scenarios for 2027

9L Cases (millions)



Sources: IWSR, Team Analyses

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Employment in the U.S. Craft Industry has Showed Initial Signs of a Rebound Post-Covid

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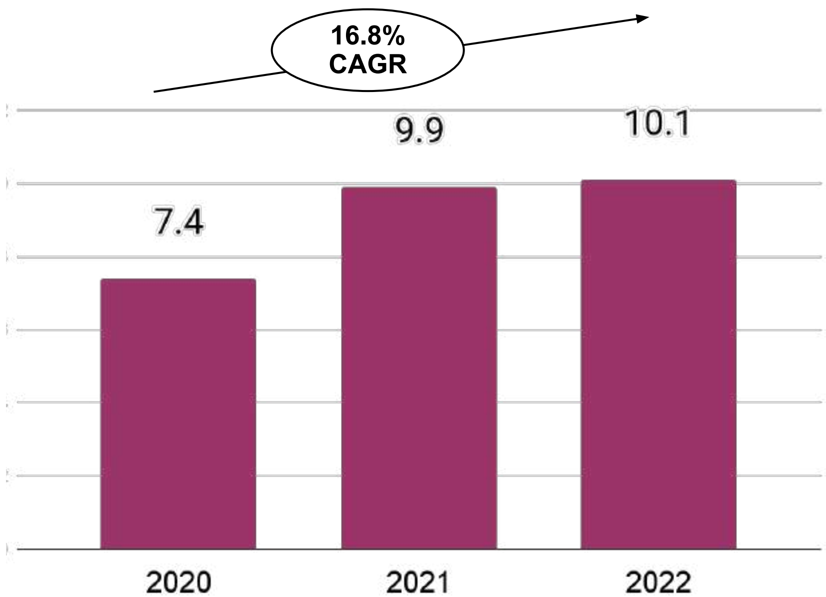
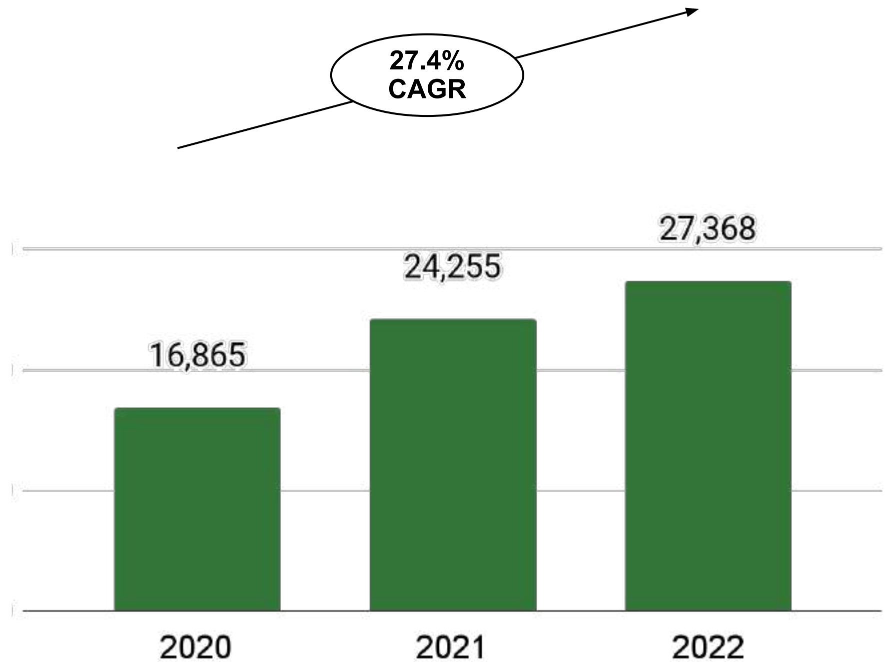
Average Full-Time Domestic Employees of U.S. Craft Spirits Producers



Full-Time Domestic Employees of U.S. Craft Spirits Producers

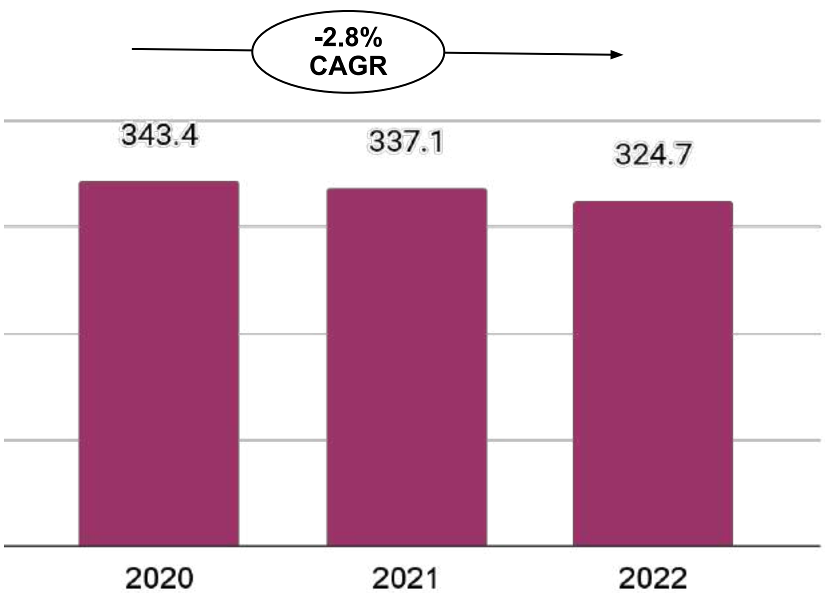


The pandemic resulted in a nearly 50% decrease in full-time domestic employees in the craft segment, the average number of employees and total number of employees working in the segment have increased but have yet to return to pre-pandemic levels.

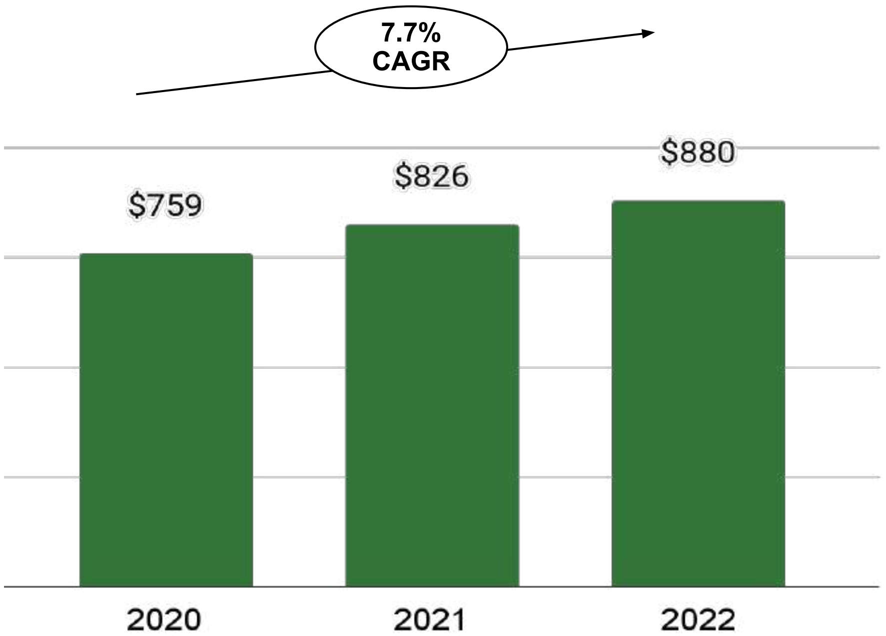
Sources: Distiller Surveys, TTB, Team Analyses

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

Average Investment of U.S. Craft Spirits Producers
$ Thousands



Total Investment of U.S. Craft Spirits Producers
$ Millions



Although the average amount invested by individual craft distillers decreased in 2022, the total investment in craft spirits producers increased increased by 6.5% to $880 million in 2022.

Sources: Distiller Surveys, TTB, Team Analyses. *Investments for expansions.

Contact Information

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Appendix

Project Background and Craft Spirits Definition

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

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 Partner: Park Street

Park Street delivers productivity-enhancing and cost-saving back-office solutions, advisory services, and working capital to more than 18,000 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 EU 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

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

What Constitutes a Craft Spirit?

CRAFT SPIRITS DATA PROJECT

- 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 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