

CRAFT SPIRITS

★ ★ ★ DATA PROJECT ★ ★ ★

park  street



Annual Craft Spirits Economic Briefing December 2021

No part of the document may be circulated, quoted, or reproduced for distribution without prior written approval from Park Street or ACSA. This material was used during an oral presentation; it is not a complete record of the discussion.



- Key Messages
- Craft Spirits Research Definition
- Craft Spirits Market Data
- Appendix



Key Messages

Key Messages



- Despite the negative impact of COVID 19 on the global economy, the U.S. craft spirits industry as a whole continued to grow in 2020.
- The number of active craft distillers in the U.S. grew by 1.1% over the last year to 2,290 as of August 2021.
- The U.S. craft spirits market volume reached over 12m 9-liter cases in retail sales in 2020, growing at an annual growth rate of 7.3%. In value terms, the market reached \$6.7 billion in sales, growing at an annual growth rate of 9.8%.
- U.S. craft spirits market share of total U.S. spirits reached 4.7% in volume and 7.1% in value in 2020, up from 2.2% in volume and 3% in value in 2015.
- Exports of U.S. craft spirits decreased by 32.9% versus last year to a total of 104,000 cases in 2020.

Key Messages



- The U.S. craft spirits market is fairly concentrated with larger producers making up only 1.6% of the total number of craft producers, but are responsible for 56.6% of the cases sold. 90.1% of U.S. craft producers are classified as small producers. They are responsible for just 10.3% of the cases sold annually.
- Sales in the home state of the distilled spirits producer (DSP) are especially important, representing 92.5% of total sales, while out of state business is particularly important for large producers, accounting for 70.9% of the total business.
- Employment in the U.S. craft industry was heavily impacted by COVID 19. Total employment surpassed the 30,000 mark in 2019 but was reduced by nearly 50% in 2020 to under 17,000.
- Since the enactment of the Craft Beverage Modernization and Tax Reform Act, investments by craft producers have continued to increase. In 2020, the amount of capital invested by the U.S. craft spirits industry was \$759 million, an increase of over \$61 million from 2019.



Craft Spirits Research Definition

Craft Defined for Purposes of the Research



Size:

Not more than 750,000 proof gallons (or 394,317 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

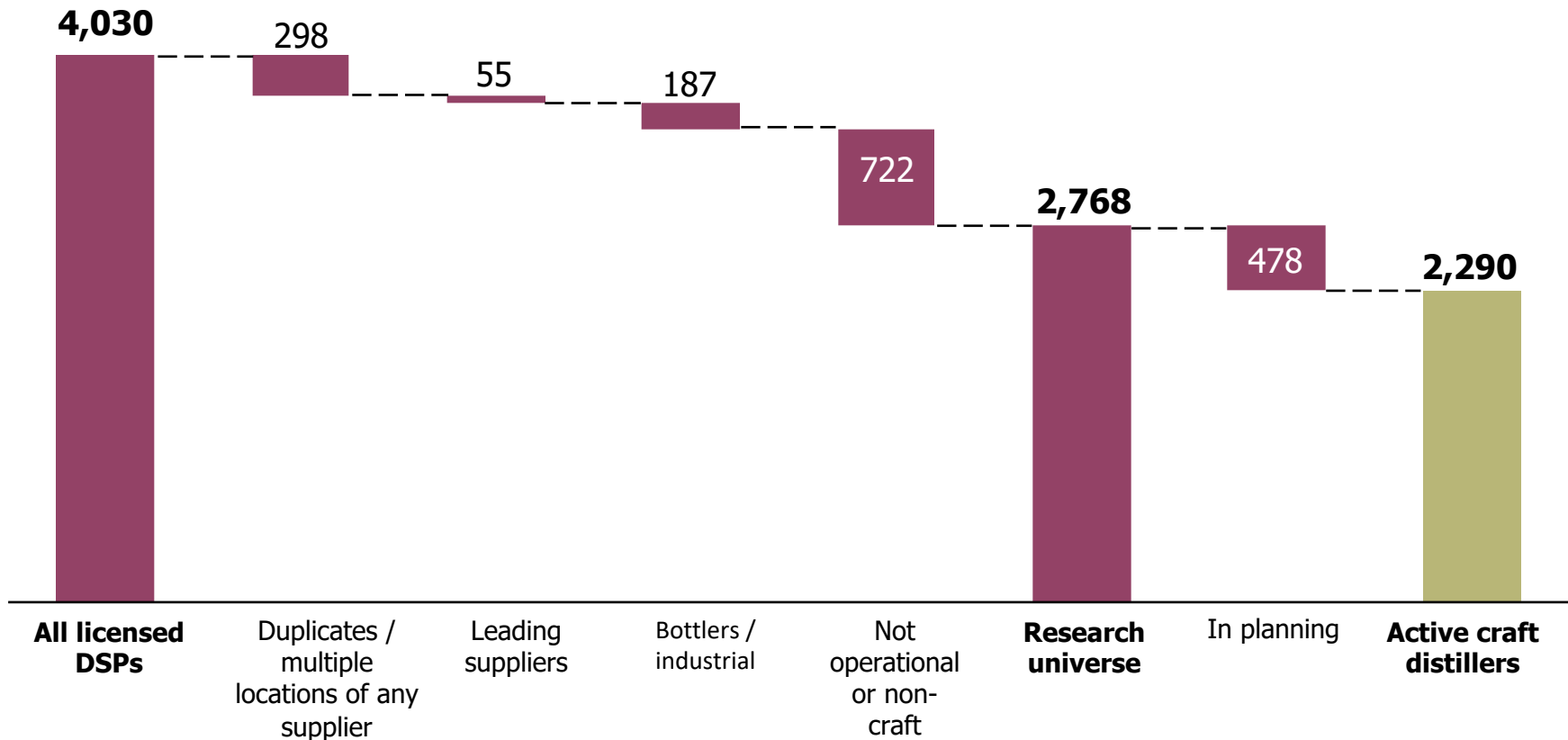


Craft Spirits Market Data

From DSPs to Active Craft Distillers



of DSPs by Segment as of August 2021

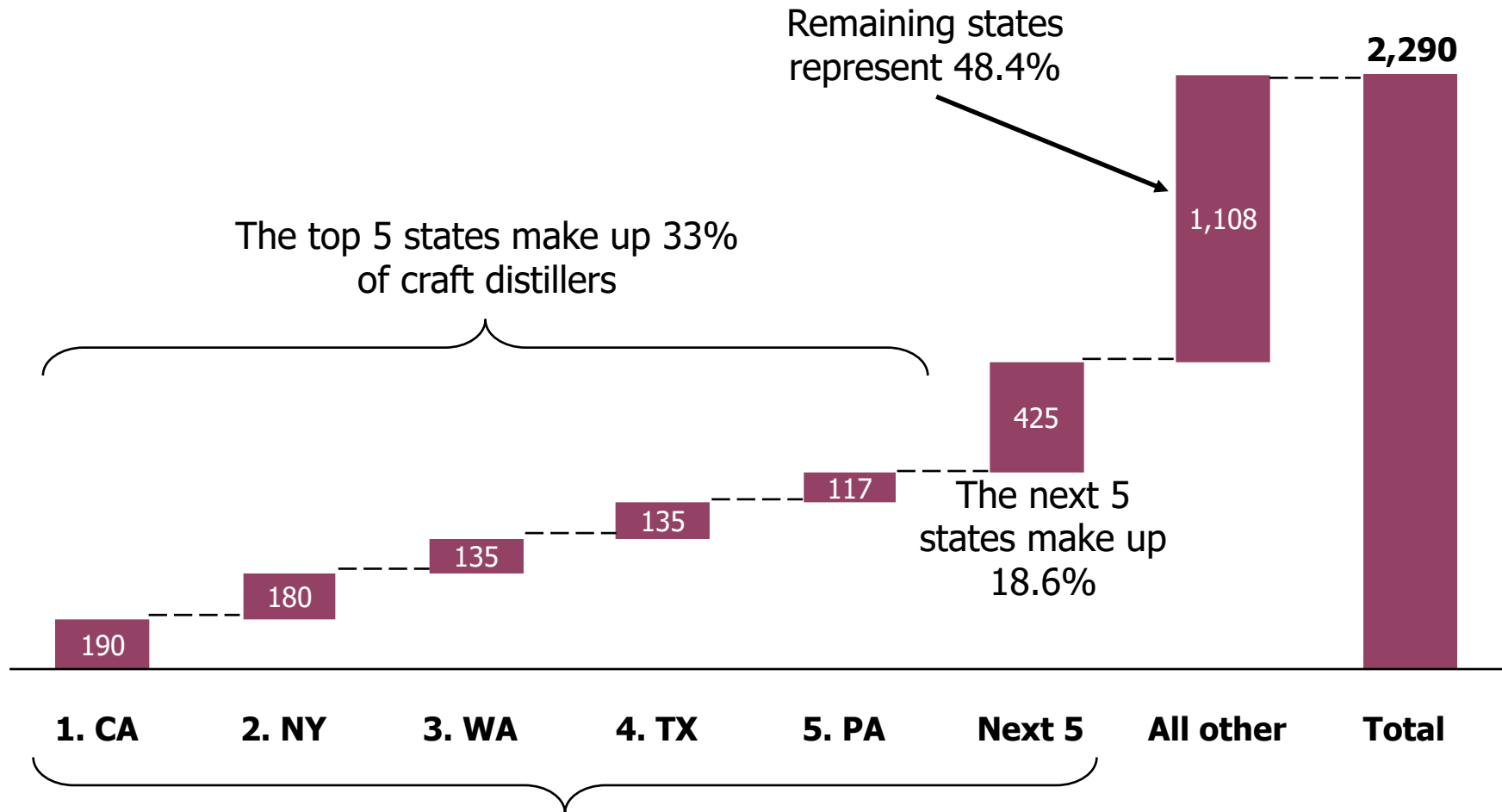


- The list of DSPs is broken down into segments to distinguish the number of distillers that are not considered craft e.g., duplicates, leading suppliers, bottlers, and/or non-craft/non-operational
- The list of active craft distillers is generated bottoms-up through individual assessment

Active Craft Distillers by State



of Active Craft Distillers by State as of August 2021

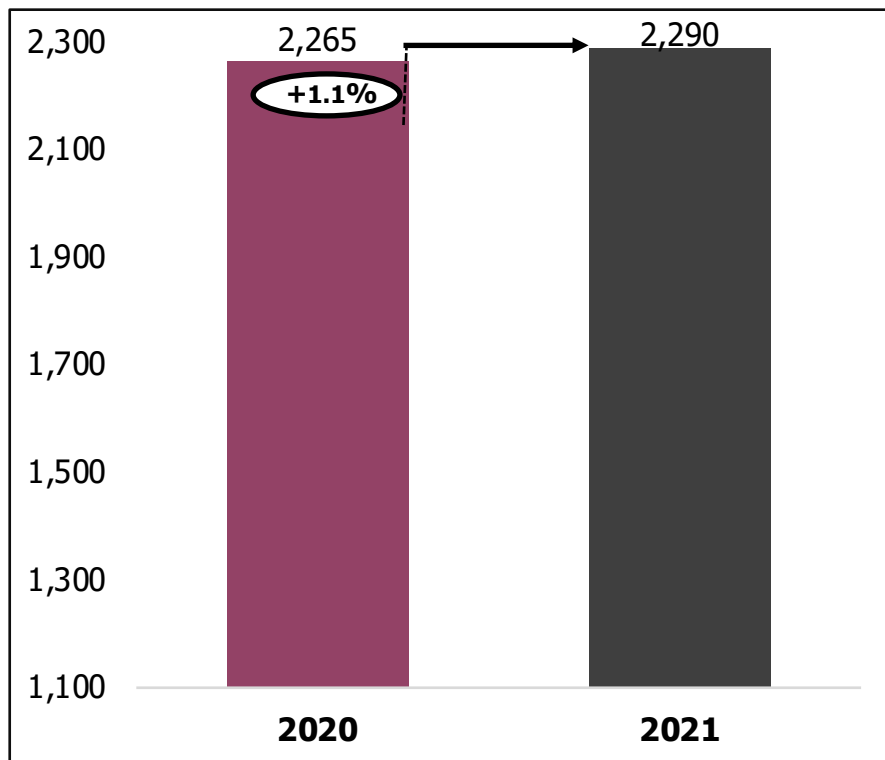


Over half of active U.S. craft distilleries are located in ten states

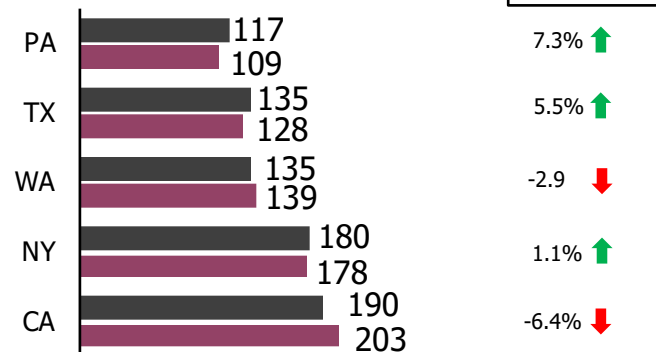
Number of Active Craft Distillers Has Grown 1.1% Since Last Year



of Active Craft Distillers, August 2020 vs. August 2021



States with Highest # of Active Craft Distillers, August 2020 vs. August 2021

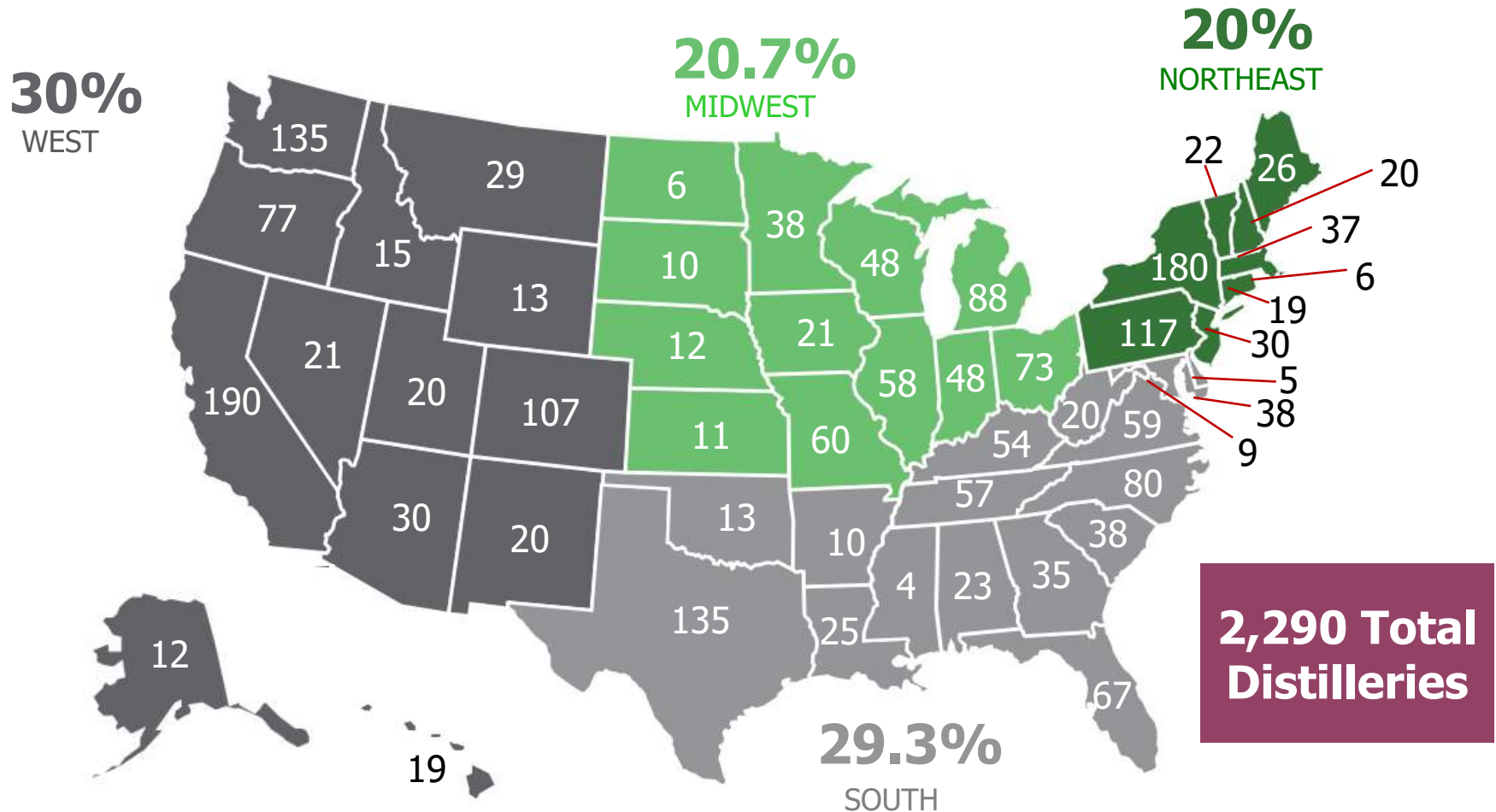


- In August 2021 there were 2,290 craft distillers active in the U.S., up 1.1% from 2,265 active distillers in August 2020

Active Craft Distillers by State and Region



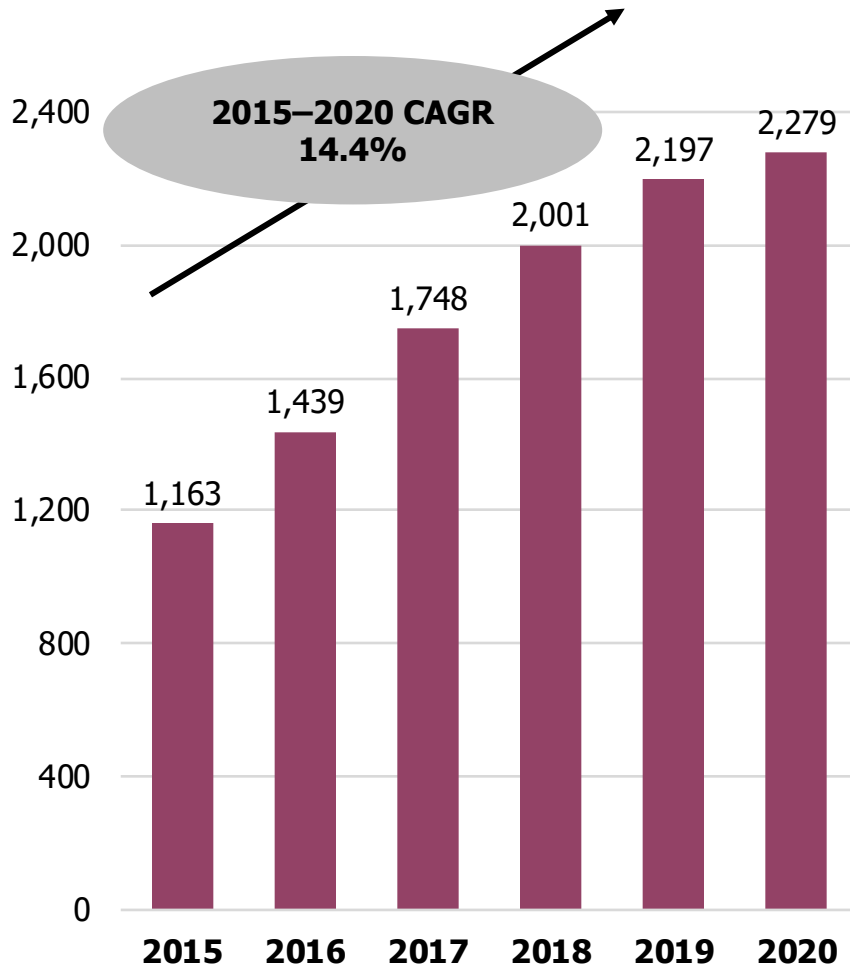
of Active Craft Distillers by State and Region as of August 2021



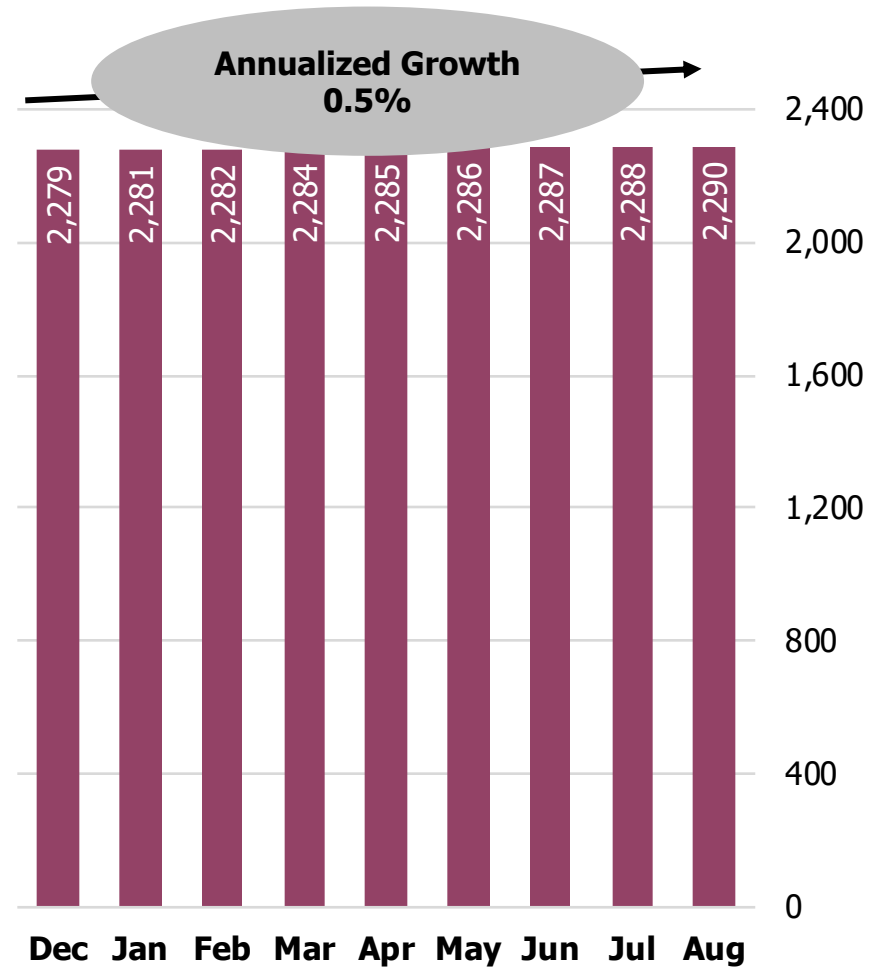
Number of Active Distillers Still Growing, But Growth Rate Slowed in 2020



of Craft Spirits Producers 2015 – 2020



of Craft Spirits Producers December 2020 – August 2021

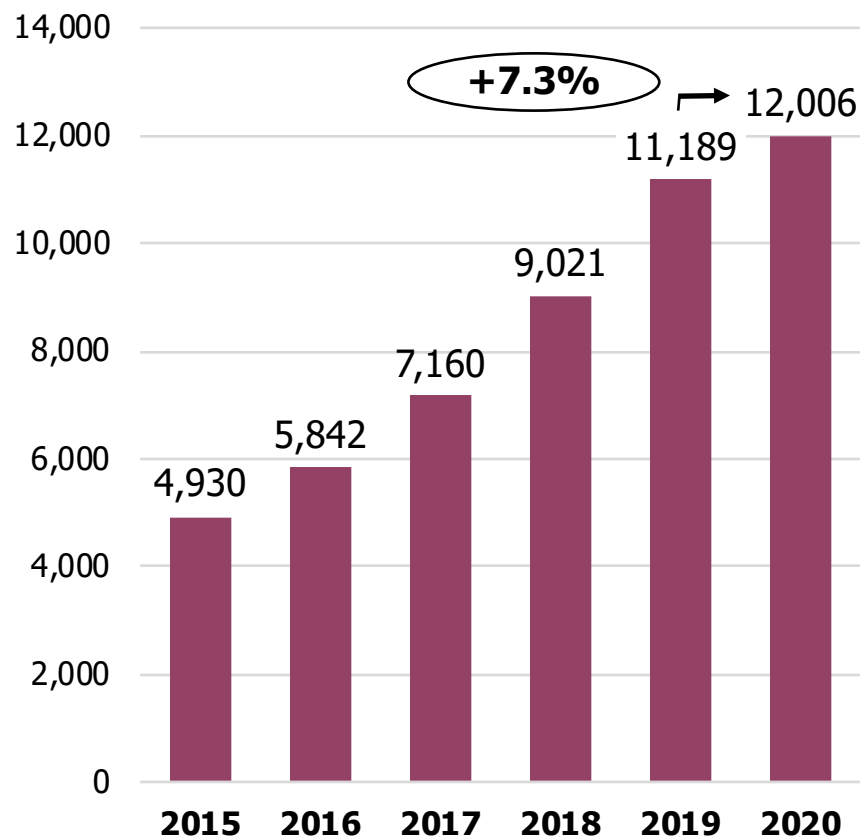


Craft Spirits Sales Grew in 2020, But Growth Rate Decelerated to Single Digits



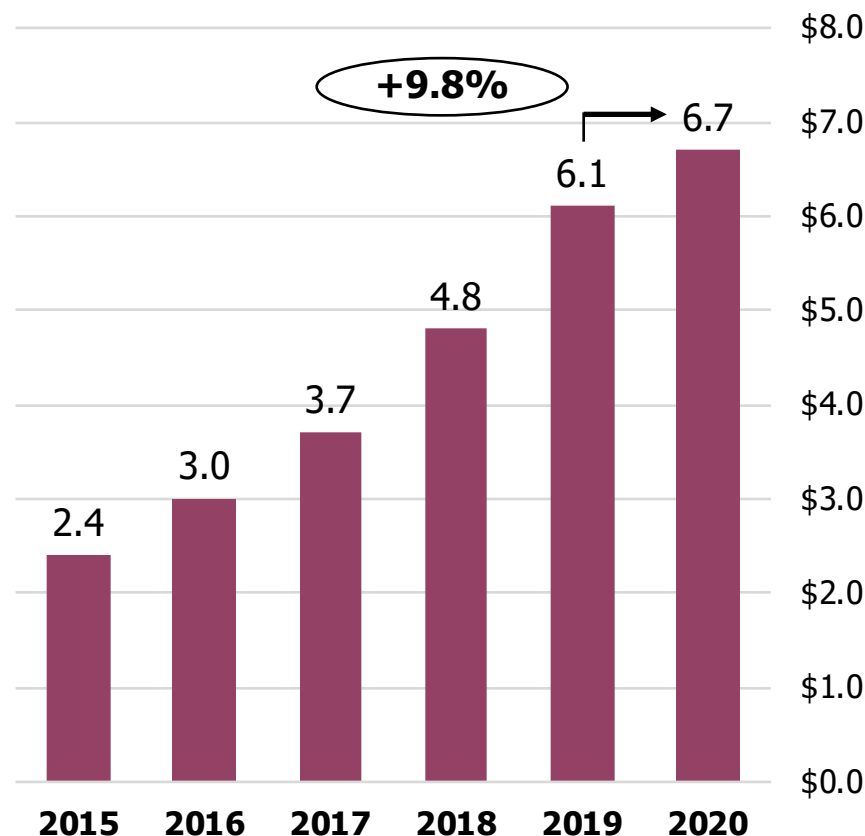
Craft Spirits Sales by Volume, 2015 – 2020

9L Cases (000)



Craft Spirits Retail Sales by Value, 2015 – 2020

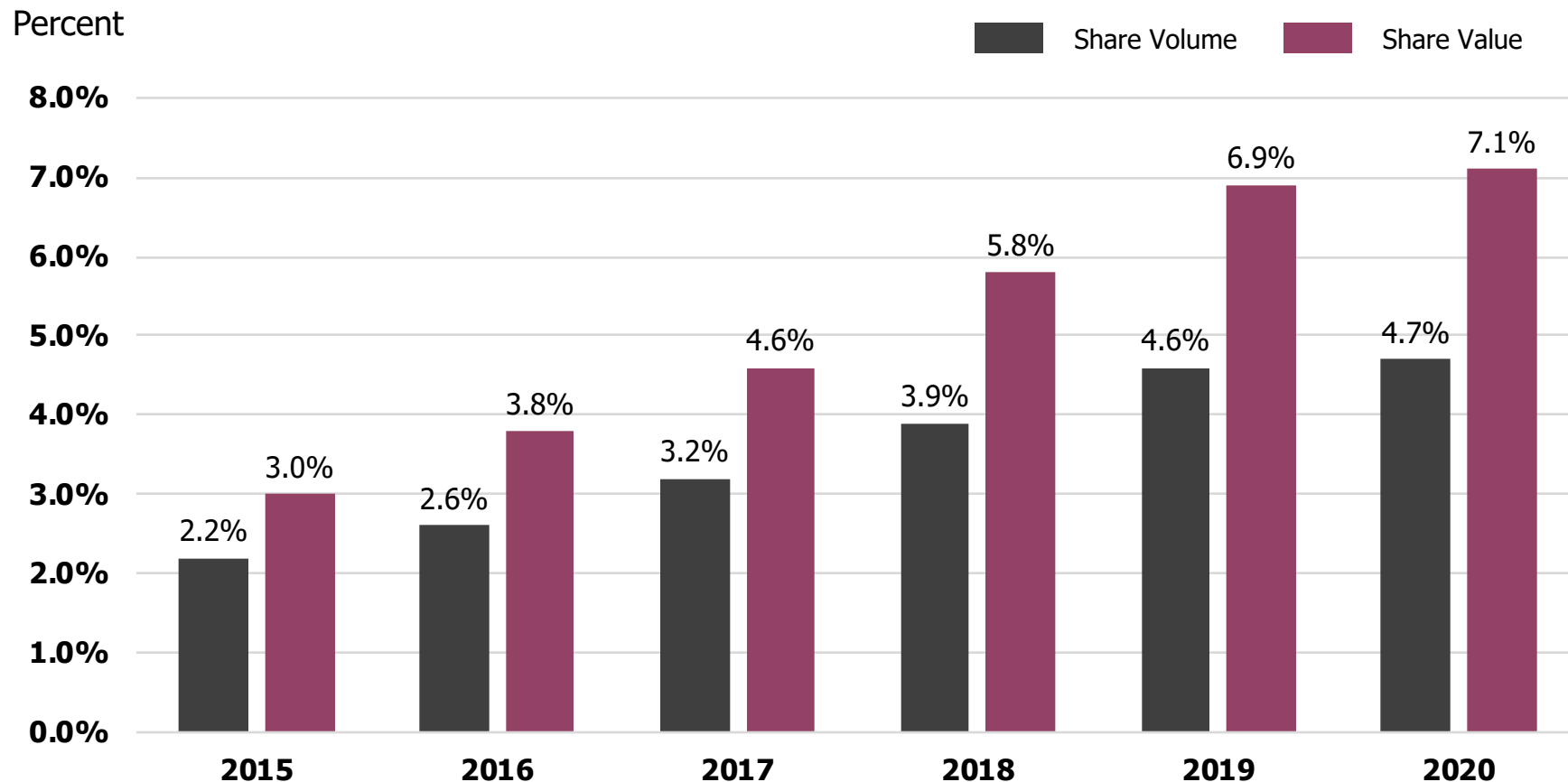
\$ Billions



Craft Spirits Market Share at 7.1% in Value and 4.7% in Volume



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



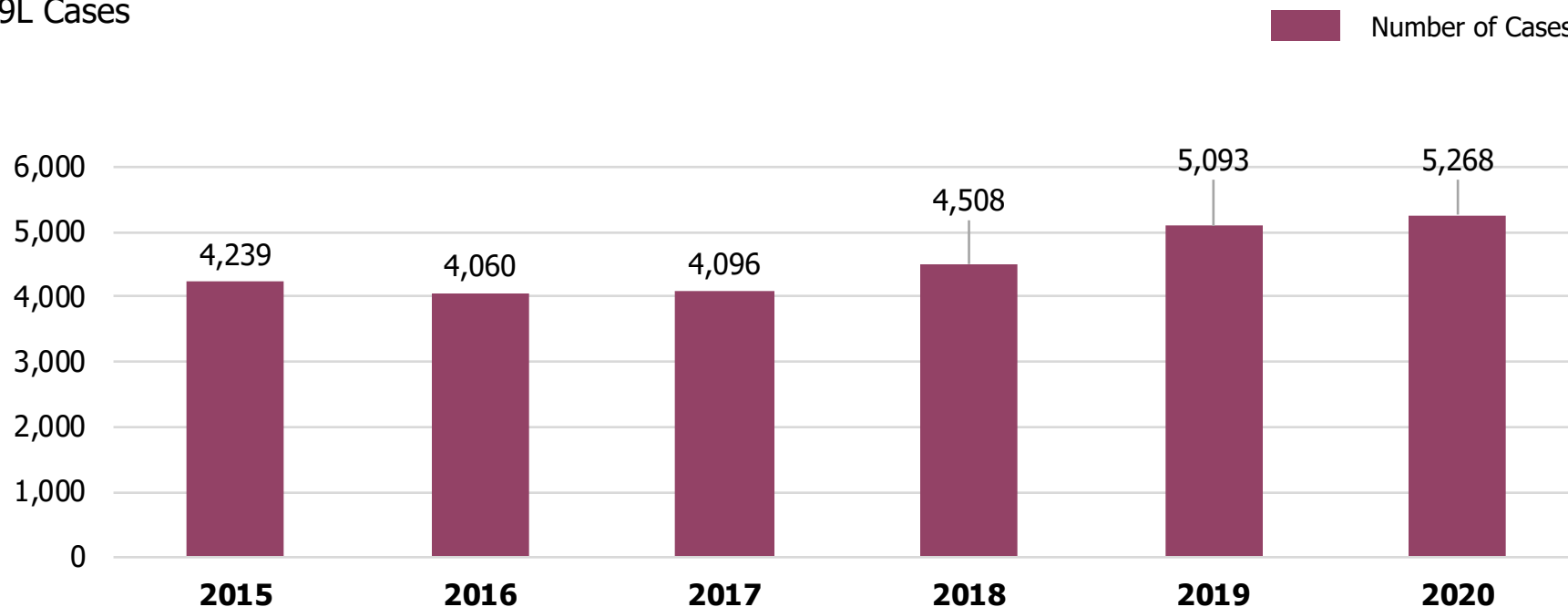
- U.S. craft spirits currently has an estimated market share of 4.7% in cases, up from 2.2% in 2015
- The U.S. craft market share in value is estimated at 7.1%, up from 3% in 2015
- U.S. craft spirits is clearly a contributor to the trend towards premiumization in the U.S. market

Average Volume of U.S. Craft Distillers Continued to Increase, But at a Slower Rate in 2020



of Cases of Average U.S. Craft Distiller 2015 – 2020

9L Cases



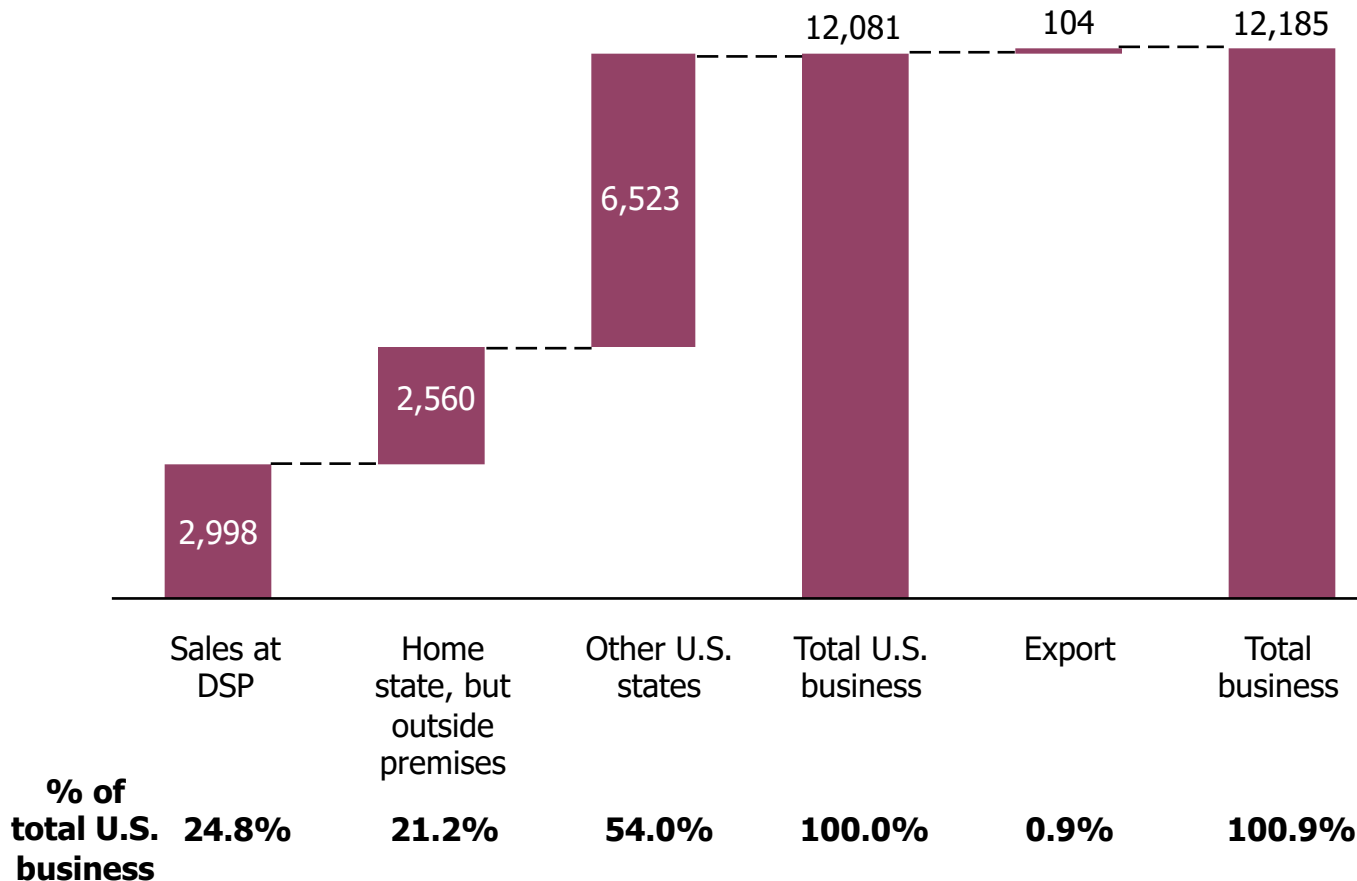
- The market has passed an inflection point at which the volume growth outpaces the growth in number of distillers.
- The volume of the average U.S. craft producer reached 5,268 cases in 2020, up 3.4% over 2019, but represented a decelerated growth rate.
- The growth rate is expected to pick up again in 2021 with further premiumization

More Than 54% of the U.S. Craft Business Takes Place Outside the Home State



Sources of Case Sales – Total U.S. Craft Spirits Industry, Domestic and Export 2020

9L Cases (000)



- 46% of the total U.S. craft business takes place in the home state of the craft distiller
- Exports add 0.9% to the overall volume for the U.S. business

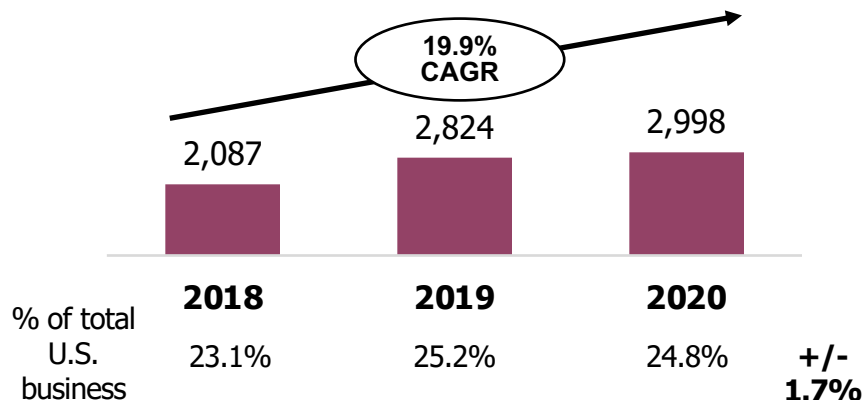
Craft Spirits Growth is Driven by Domestic Sales as Exports Have Decreased in Recent Years



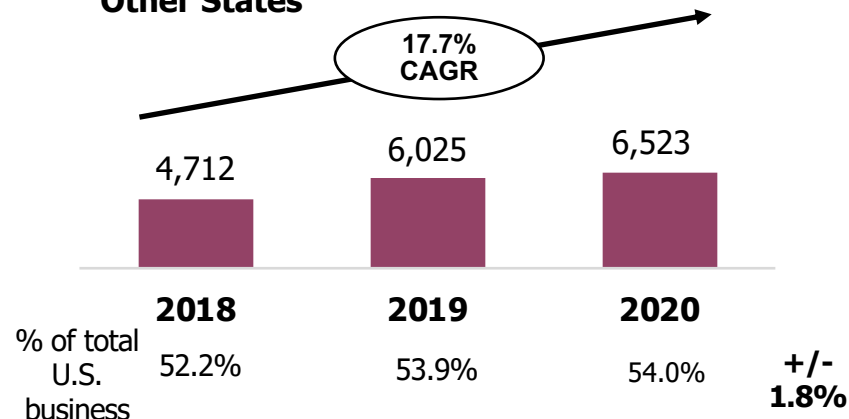
Total Craft Spirits Industry, Sources of Case Sales, 2018 – 2020

9L Cases (000)

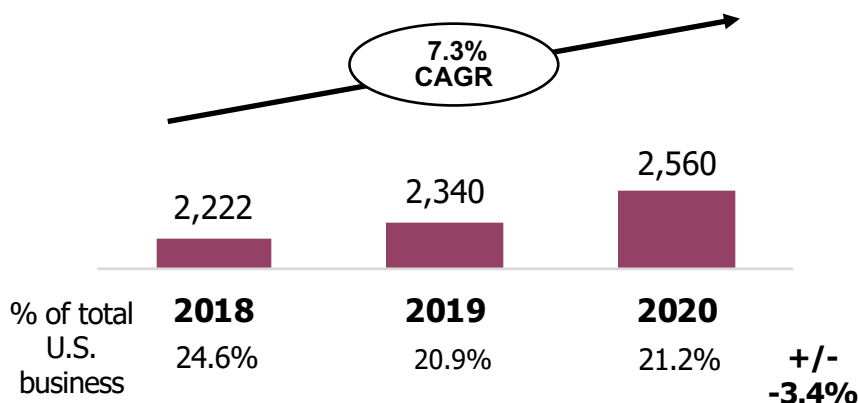
Sales at DSP



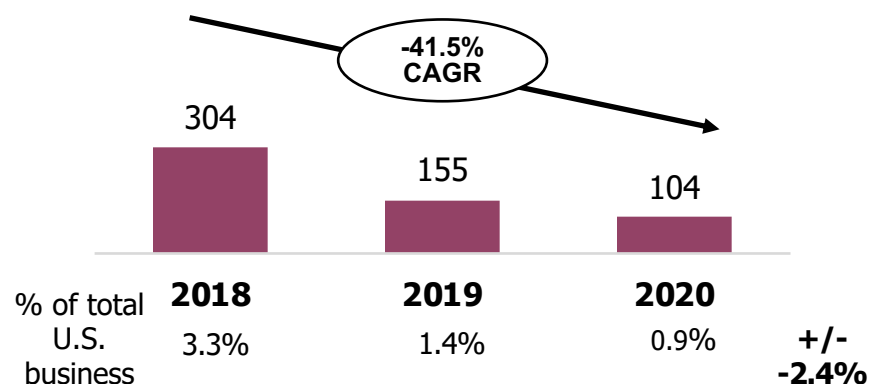
Other States



Home State



Export

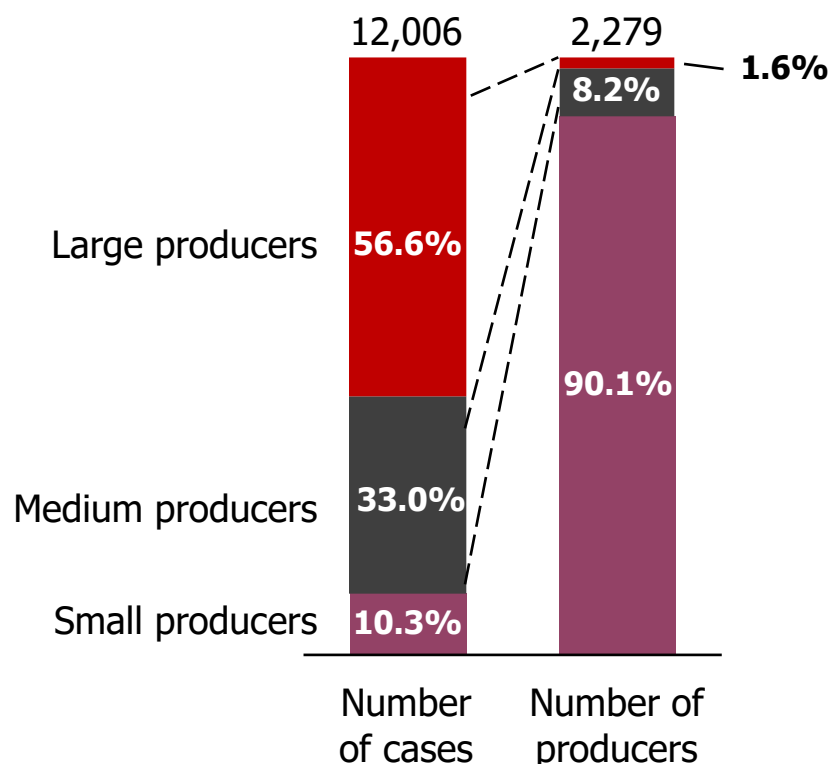


Craft Spirits Market Is Fairly Concentrated



of Craft Distillers and Case Volumes by Producer Size, 2020

of Producers, 9L Cases (000)



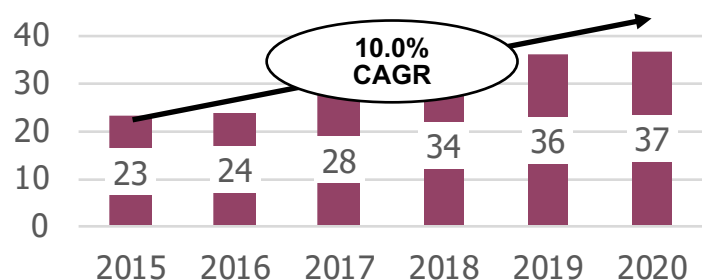
- The U.S. craft distilling market is fairly concentrated with less than 2% of producers responsible for over 56% of the cases sold
- 90.1% producers are classified as small producers. They are responsible for just 10.3% of the cases sold

Average Volume of Large Craft Producers Experienced Growth in 2020



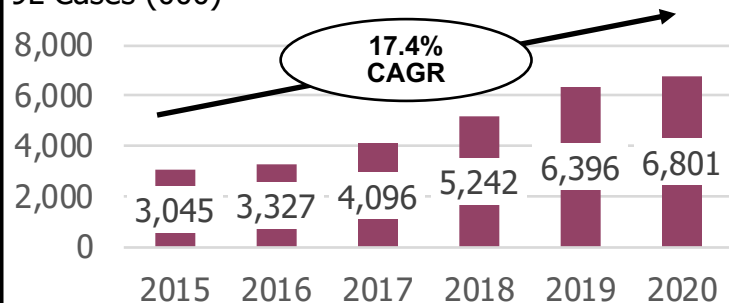
of Large Producers

Number



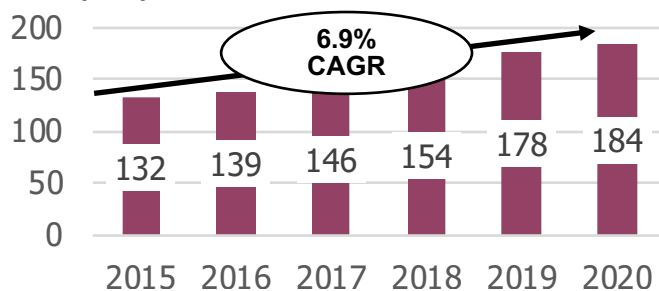
of Cases of Large Producers

9L Cases (000)



Average # of Cases of Large Producers

9L Cases (000)



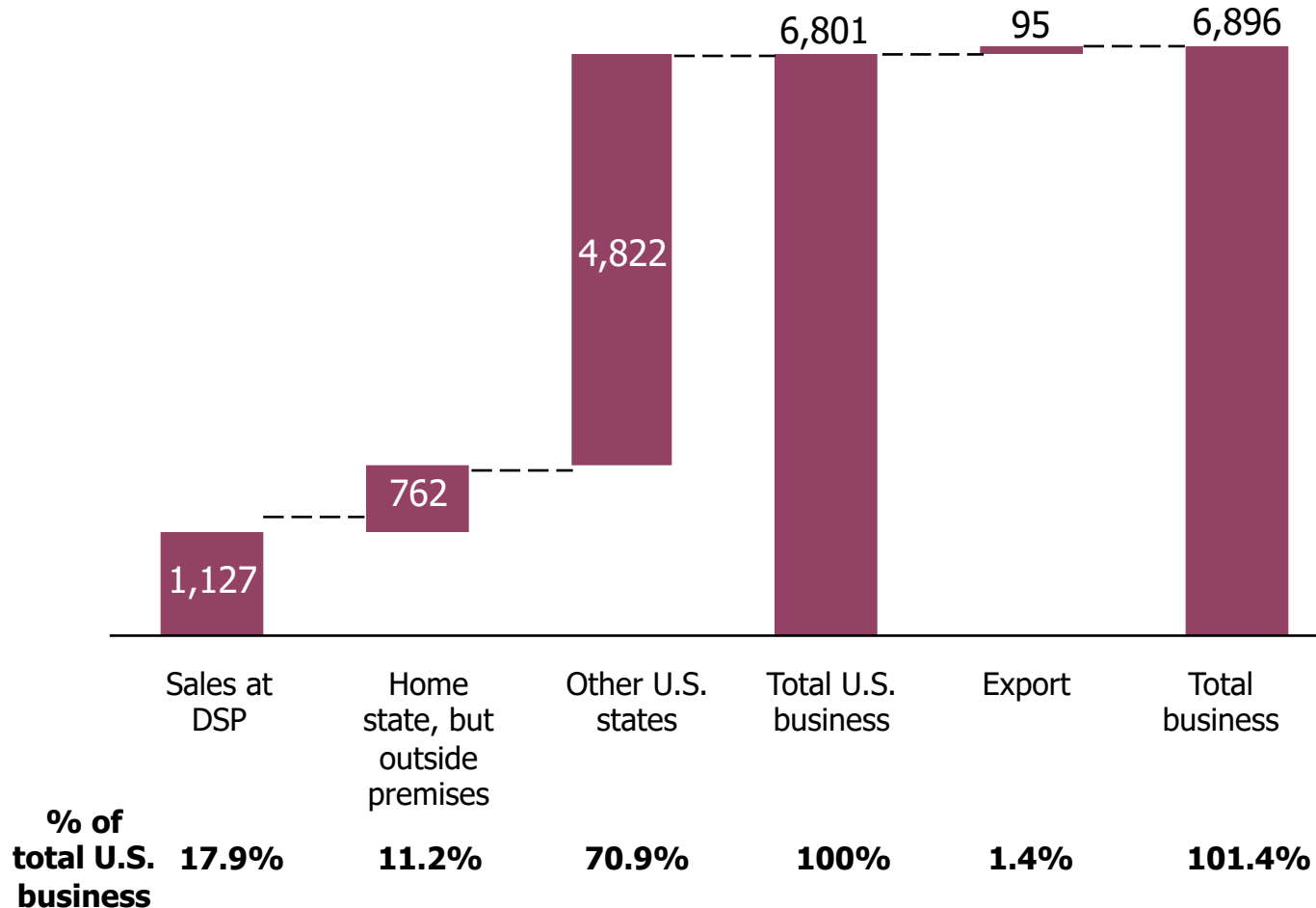
- The number of large craft producers, as well as the average number of cases produced, has been growing rapidly
- The number of large craft distillers has grown from 23 in 2015 to 37 in 2020, an 61% increase
- The number of cases of large craft distillers has grown from 3 million 9L cases in 2015 to over 6.8 million 9L cases in 2020
- The average number of cases produced by large craft distillers has increased from 132k 9L cases in 2015 to 184k 9L cases in 2020

More Than 70% 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 2020

9L Cases (000)



- Large craft producers are more likely to drive growth outside of their home state
- Exports add 1.4% to the overall volume of the U.S. business

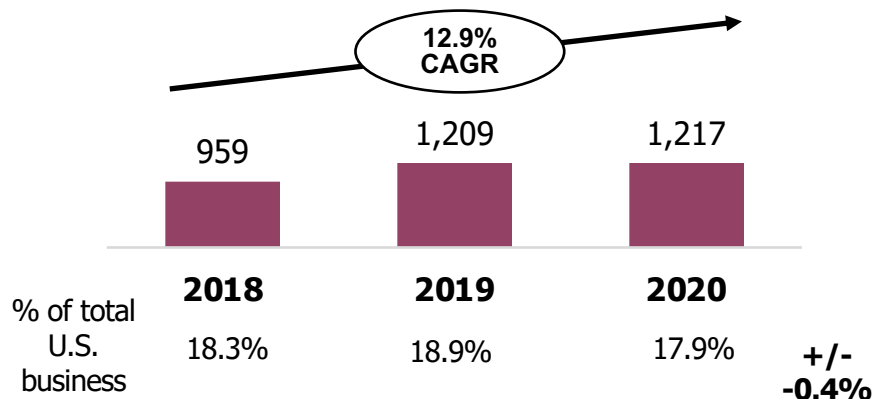
Large Craft Producer Sales Continue to Increase Beyond the Home Market



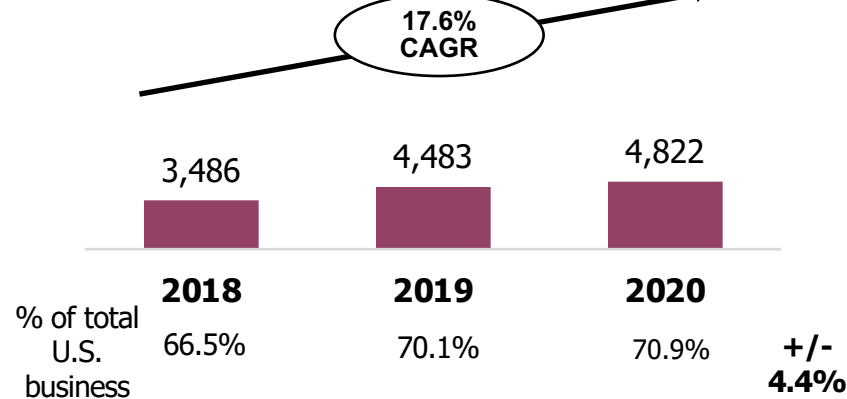
Large Craft Spirits Producers, Sources of Case Sales, 2018 - 2020

9L Cases (000)

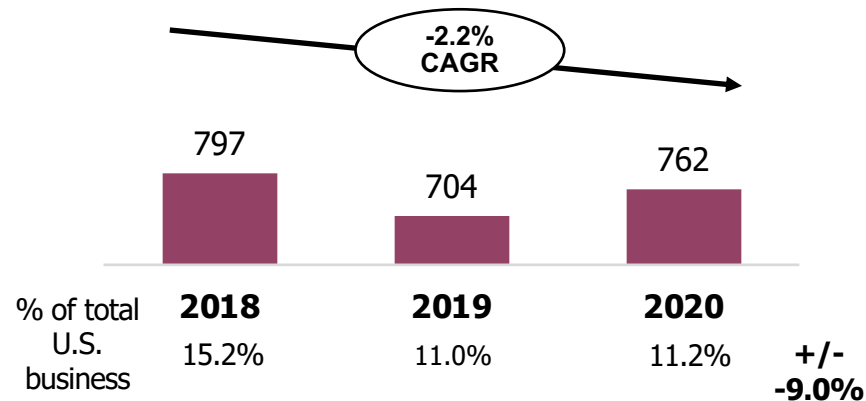
Sales at DSP



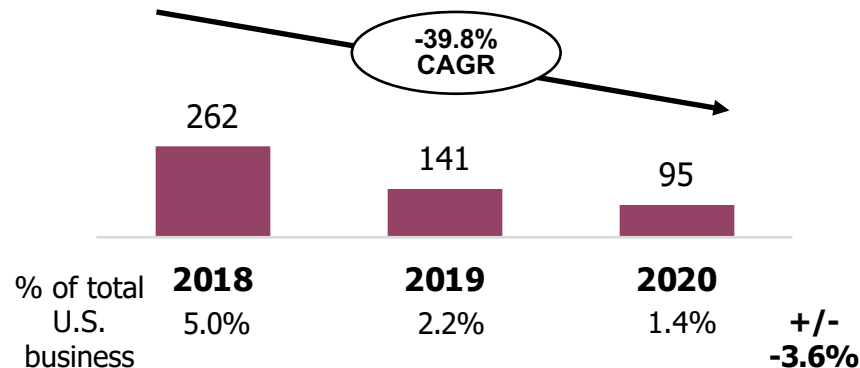
Other States



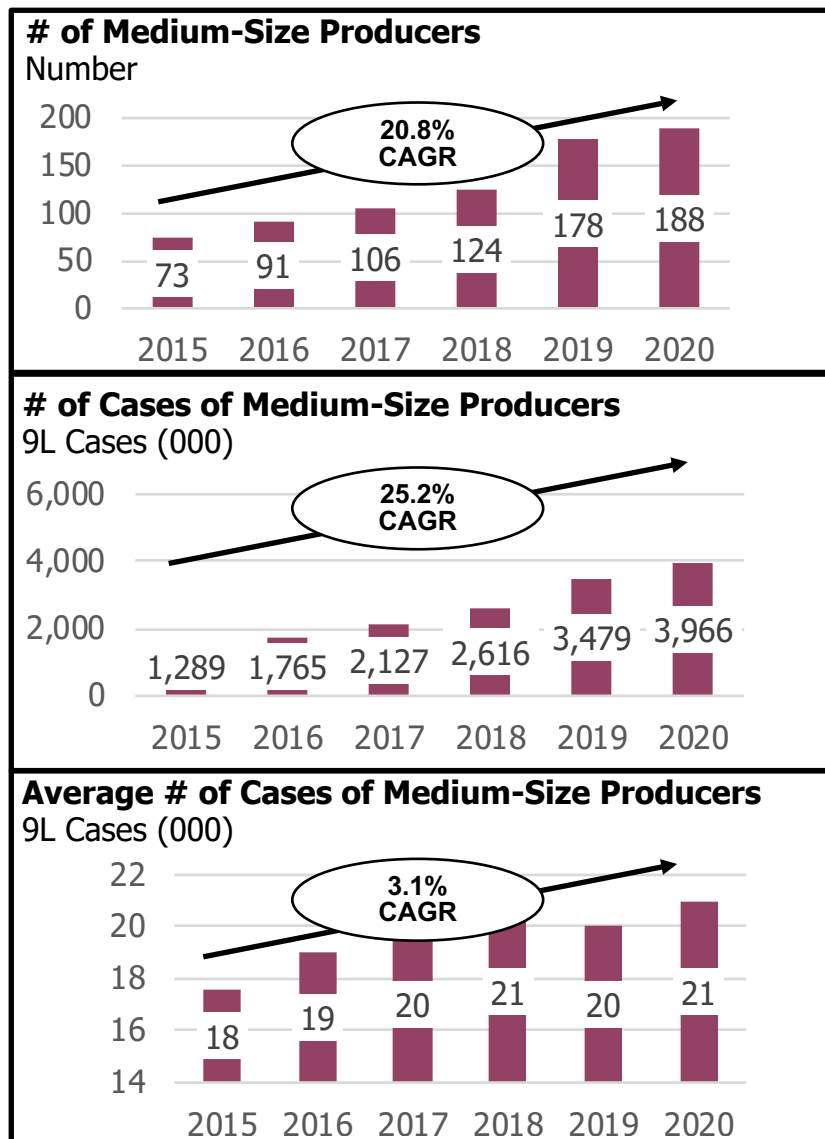
Home State



Export



Medium-Size Craft Producers Have Been Growing Well



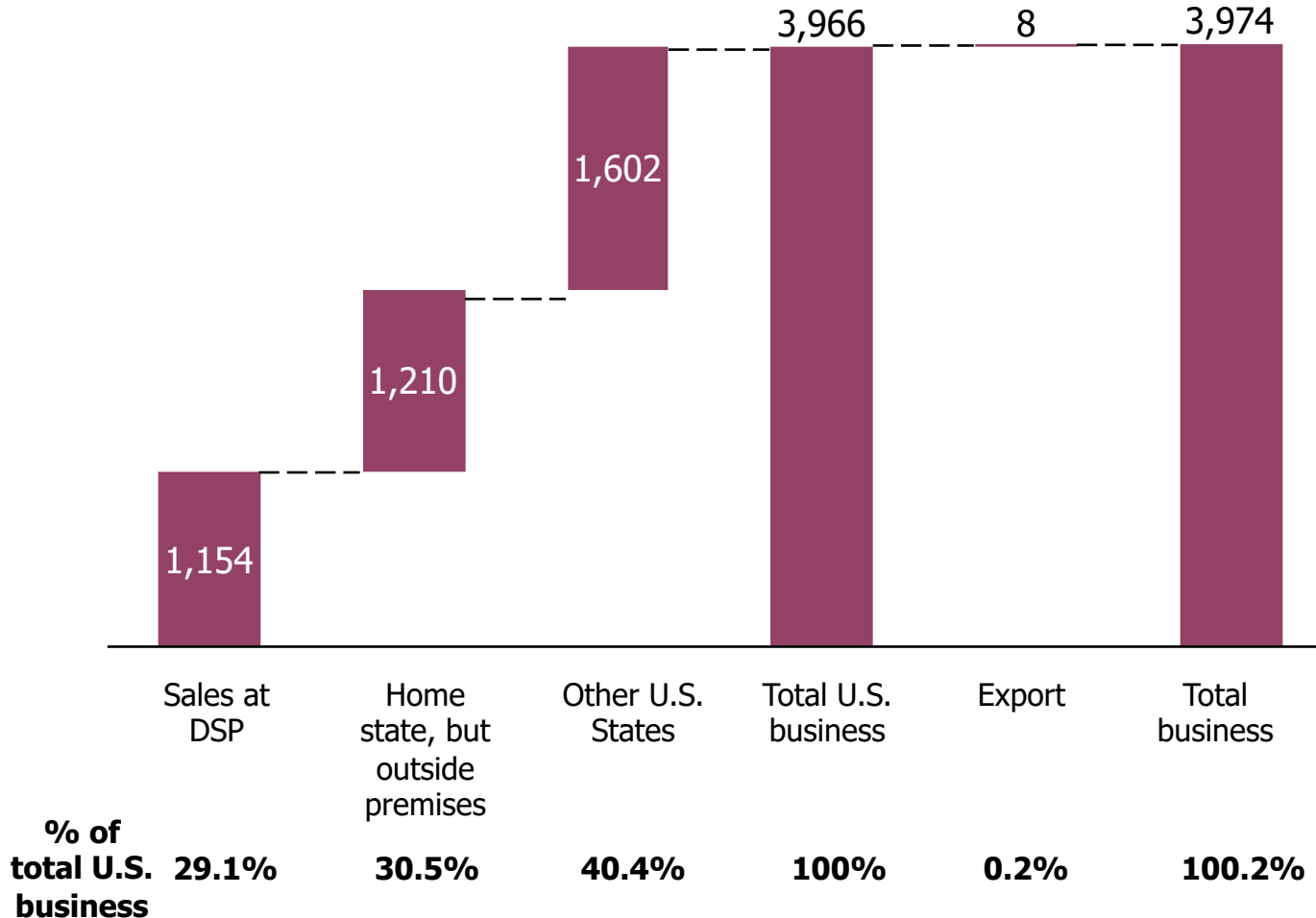
- The number of medium craft producers, as well as the average number of cases produced, has been growing rapidly
- The number of medium craft producers has more than doubled, from 73 in 2015 to 188 in 2020
- The number of cases of medium craft distillers has grown from almost 1.3 million 9L cases in 2015 to over 3.9 million 9L cases in 2020
- The average number of cases produced by medium craft distillers has increased from 18k 9L cases in 2015 to 21k 9L cases in 2020

Nearly 60% of the Business of Medium Craft Producers Takes Place in the Home State



Sources of Case Sales – Medium U.S. Craft Spirits Producers, Domestic and Export 2020

9L Cases (000)



- 59.6% 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 0.2% to the overall volume of the U.S. business

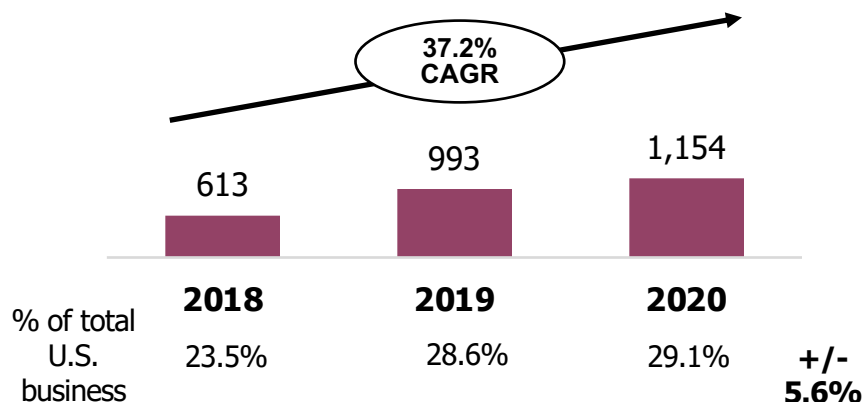
Medium Craft Producer Sales Have Grown Strongly Across All Sources, Excluding Exports



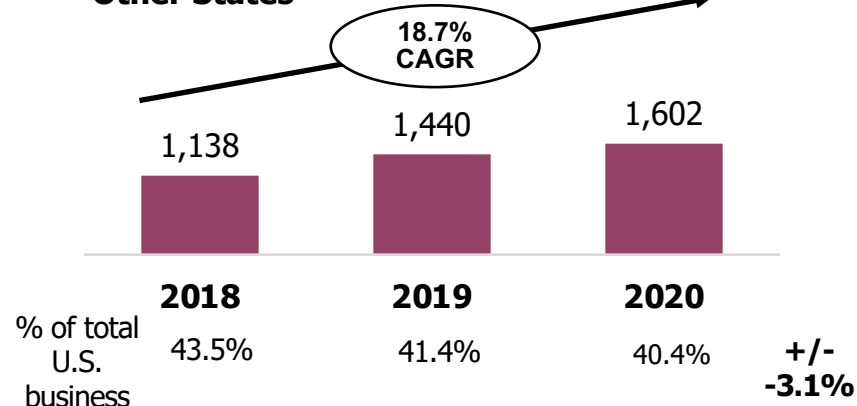
Medium Craft Spirits Producers, Sources of Case Sales, 2018 – 2020

9L Cases (000)

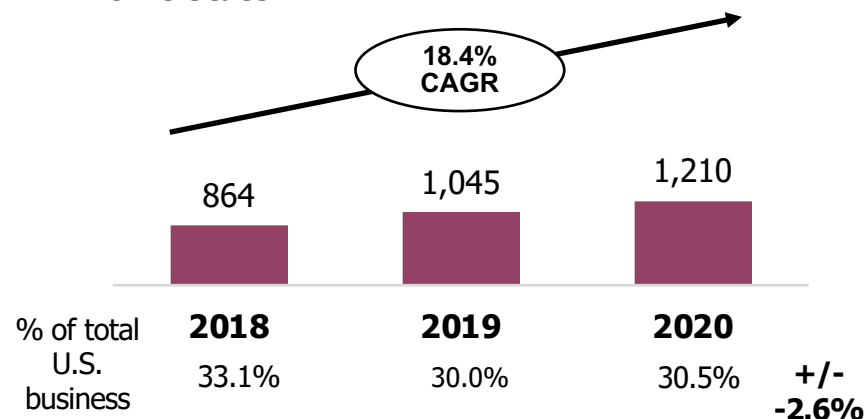
Sales at DSP



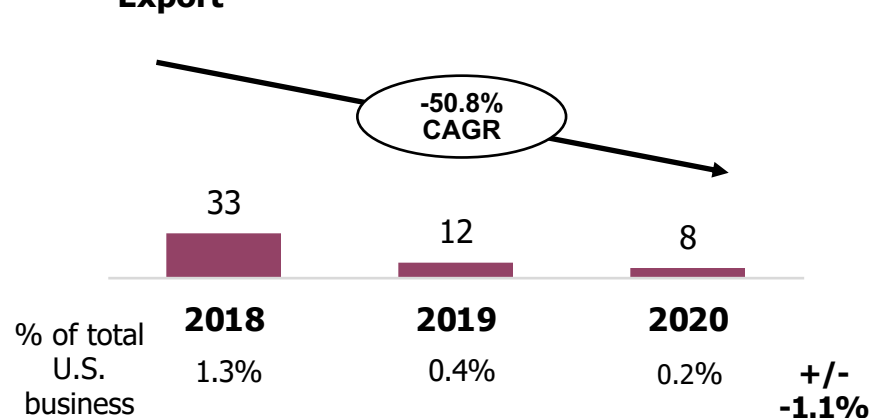
Other States



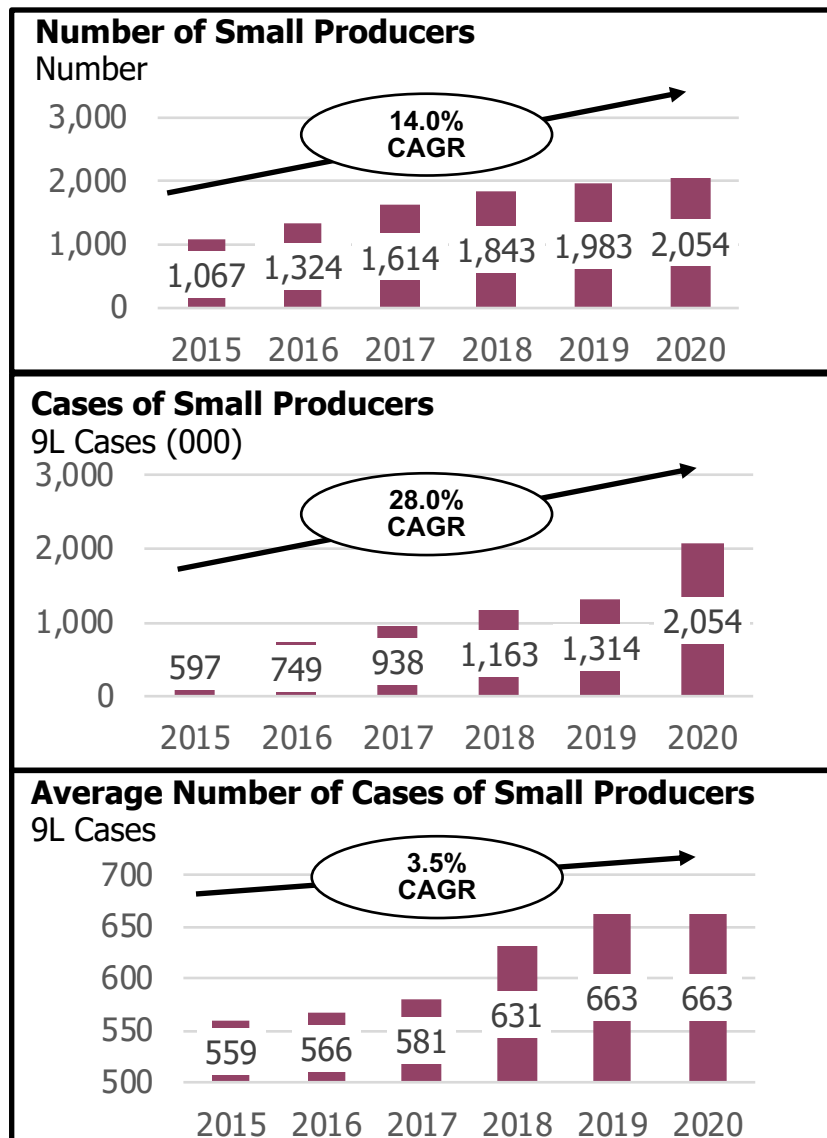
Home State



Export



Small Craft Producers Have Been Growing Well



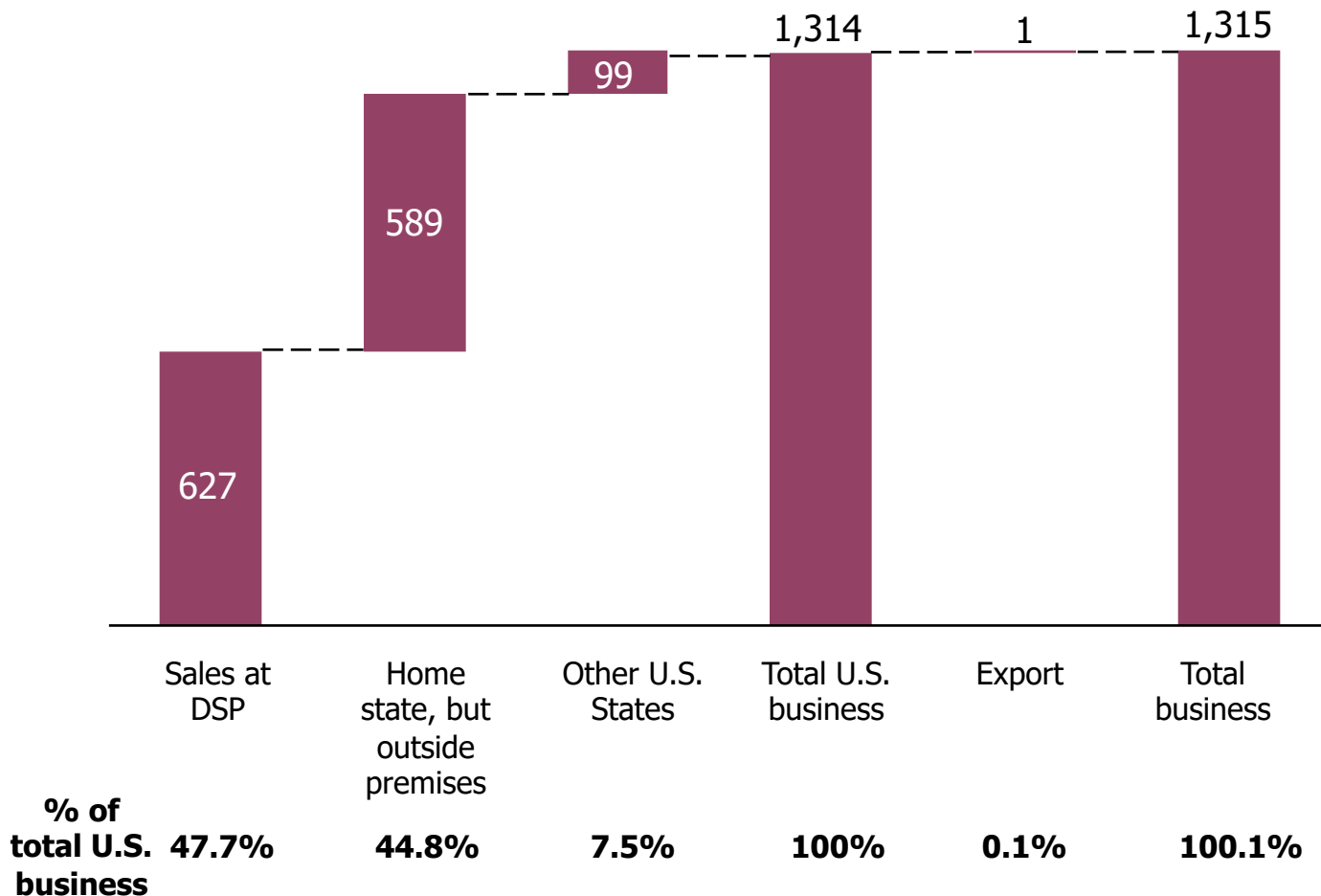
- The number of small craft producers, as well as the average number of cases produced, has been growing rapidly
- The number of small craft distillers has nearly doubled from 1,067 in 2015 to 2,054 in 2020
- The number of cases of small craft distillers has grown from 597k 9L cases in 2015 to over 2 million 9L cases in 2020
- The average number of cases produced by small craft distillers has increased from 559 9L cases in 2015 to 663 9L cases in 2020

93% 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 2020

9L Cases (000)



- Over 47% of the total business of small craft producers comes from sales at the DSP
- Less than 8% of the total business comes from sales outside the home state

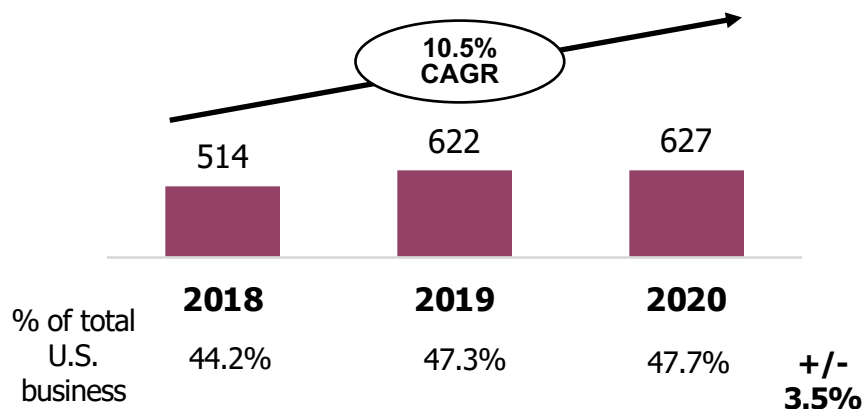
Small Craft Producer Sales Are Slowly Growing Outside of Their Home States



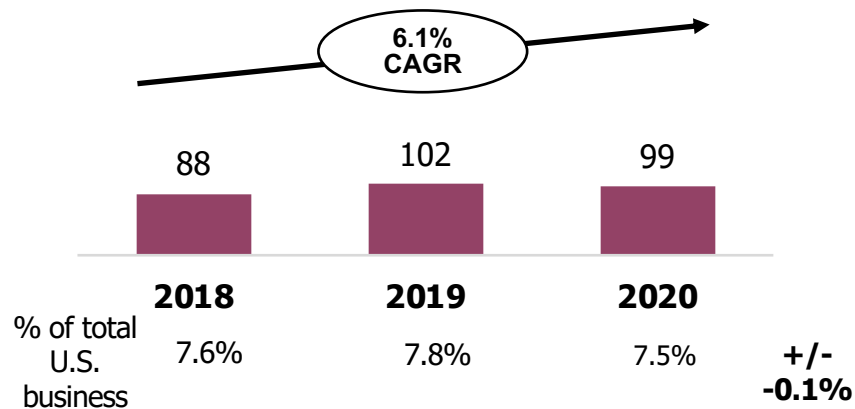
Small Craft Spirits Producers, Sources of Case Sales, 2018 – 2020

9L Cases (000)

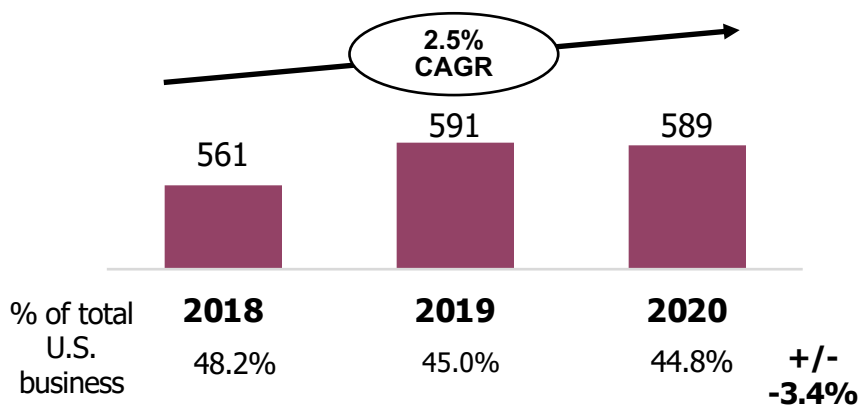
Sales at DSP



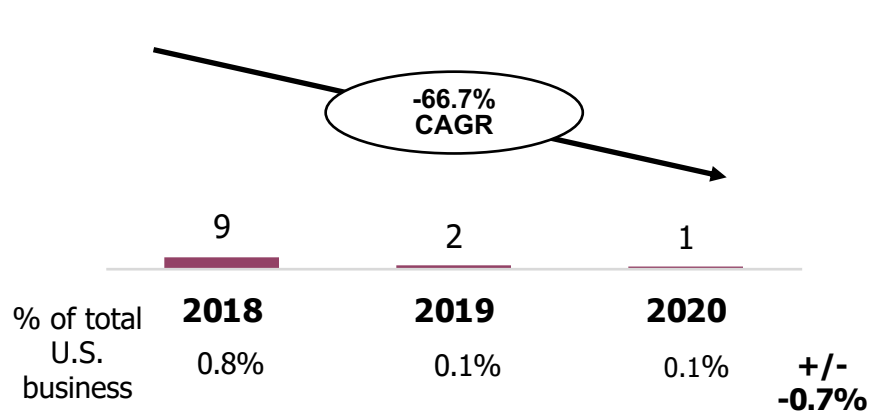
Other States



Home State



Export



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

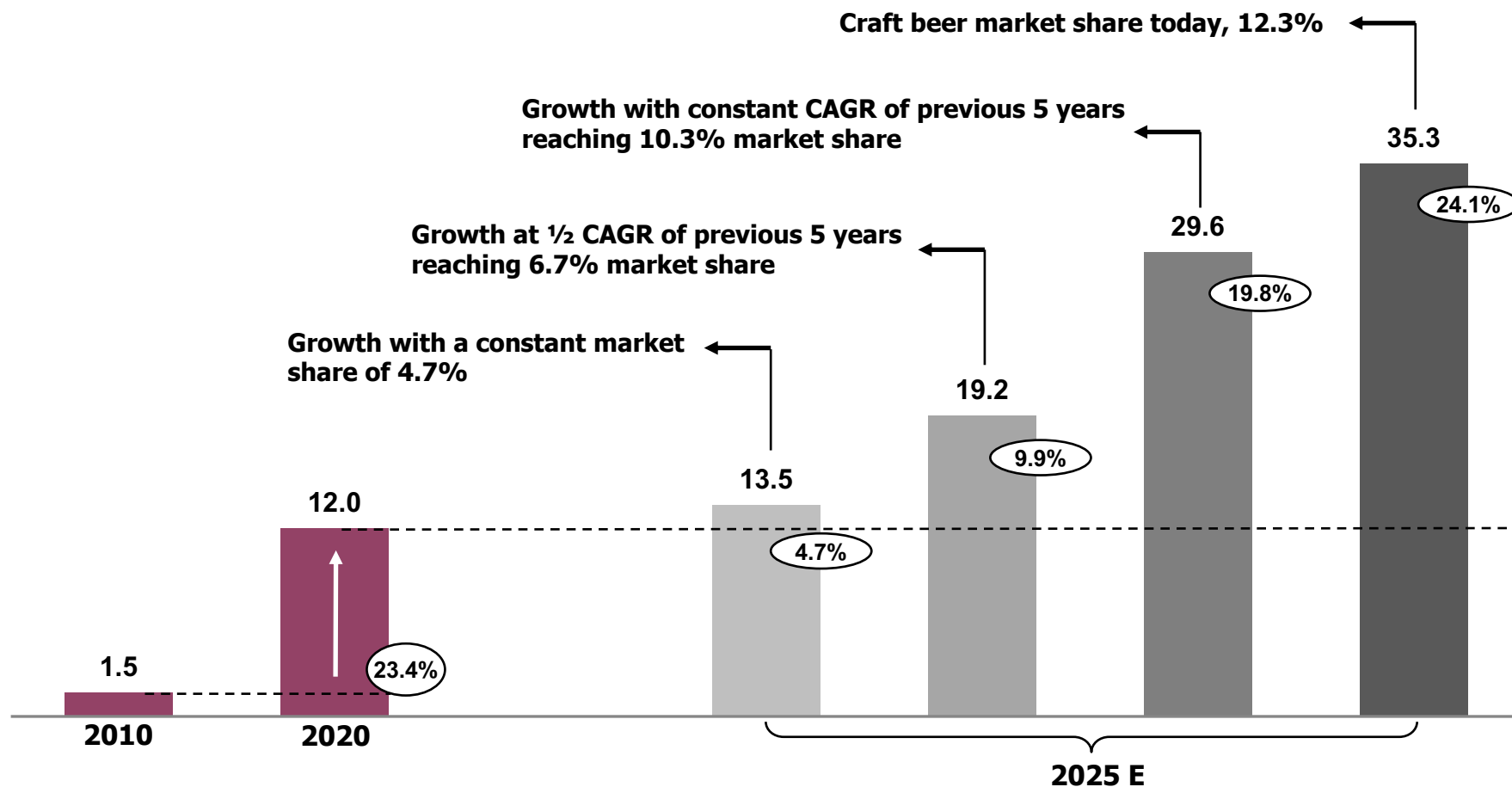


U.S. Market Size Scenarios for 2025

9L Cases (millions)

2021 – 2025
CAGRs

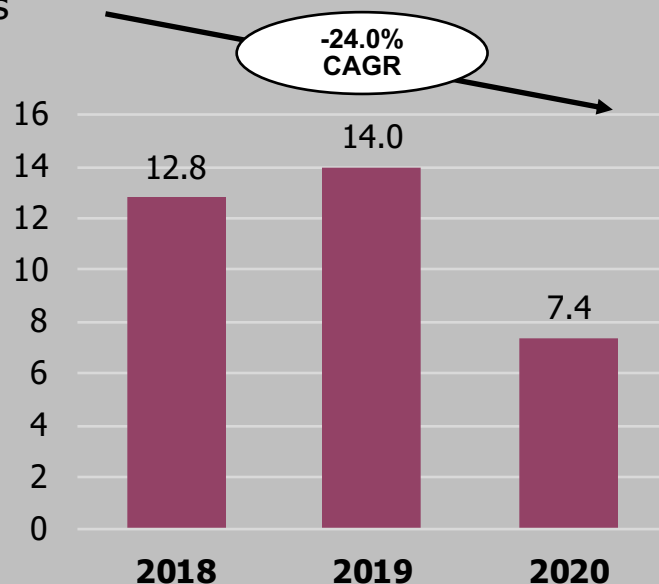
Scenarios



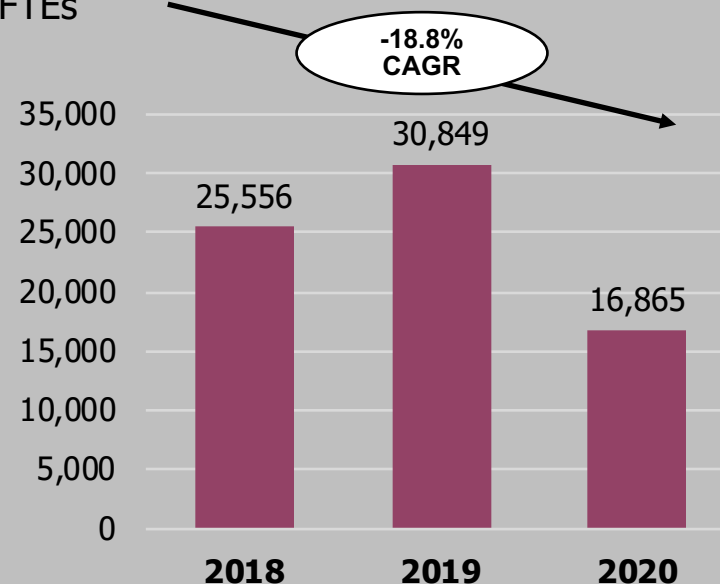
Employment in the U.S. Craft Industry was Heavily Impacted in 2020 Due to the Pandemic



Average Full-Time Domestic Employees of U.S. Craft Spirits Producers, 2018 – 2020
FTEs



of Full-Time Domestic Employees of U.S. Craft Spirits Producers, 2018 – 2020
FTEs



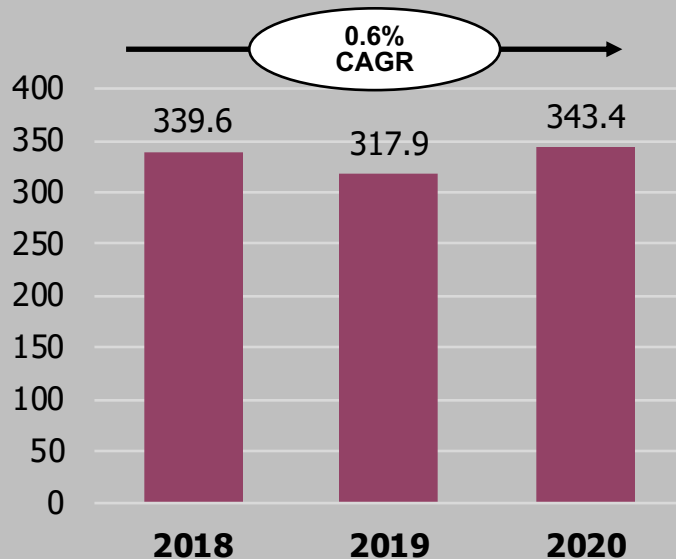
- Number of average full-time employees has decreased by 24% between 2018 and 2020
- Total employment surpassed the 30,000 mark in 2019, but was reduced by nearly 50% in 2020

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



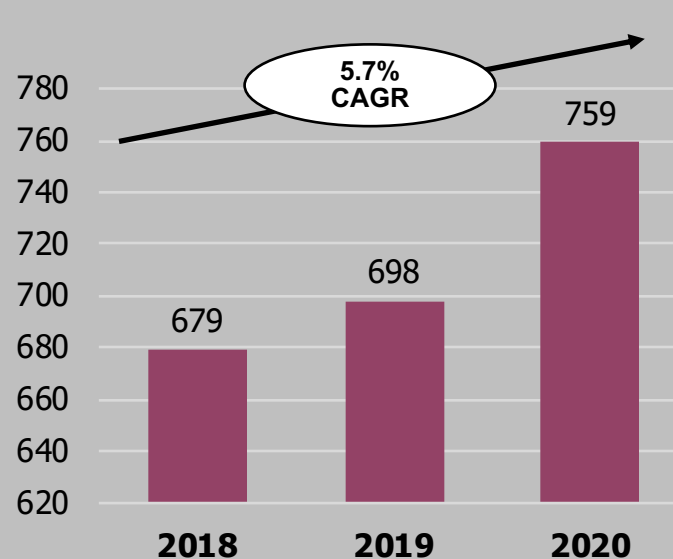
Average Investment* of U.S. Craft Spirits Producers, 2018 – 2020

\$ Thousands



Total Investment* of U.S. Craft Spirits Producers, 2018 – 2020

\$ Millions



- Total investment has increased by 8.7% from \$698m in 2019 to \$759m in 2020
- In 2020, the top motivation for reinvesting was expanding to meet consumer demand and increasing visitor space.



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

Alexandra S. Clough
GATHER PR
alexandra@gatherpr.com
516 428 7210

Emily Pennington
Park Street Companies
epennington@parkstreet.com
305 967 7440





Project Background and Craft Spirits Definition



▪ **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.





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?



- 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Often regionally distributed Often still cash flow negative
Small craft distiller	1- 10,000	1 - 5,258	<ul style="list-style-type: none"> Often only locally distributed If no on-premise business, typically cash flow negative