

CRAFT SPIRITS

★★★ DATA PROJECT ★★★

park  street



IWSR
drinks market analysis

Annual Craft Spirits Economic Briefing Preliminary Draft – November 2020

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- Key Messages
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- Craft Spirits Market Data
- Appendix



Key Messages

Key Messages



- The number of active craft distillers* in the U.S. grew by 10.7% over the last year to 2,265 in August 2020.
- The U.S. craft spirits market volume reached over 11m 9 liter cases in retail sales in 2019, growing at an annual growth rate of 24%. In value terms, the market reached \$6.1 billion in sales, growing at an annual growth rate of 27.1%. U.S. craft spirits market share of total U.S. spirits reached 4.6% in volume and 6.9% in value in 2019, up from 1.8% in volume and 2.3% in value in 2014 and 3.9% in volume and 5.8% in value in 2018.
- Exports of U.S. craft spirits decreased by 57.6% versus last year to a total of 155,000 cases in 2019, adding 1.4% of additional volume to U.S. craft distillers' total sales.
- The U.S. craft spirits market is fairly concentrated with larger producers (between 100,000 and 750,000 proof gallons removed from bond) making up only 1.6% of the total number of craft producers, but are responsible for 57.2% of the cases sold. 90.3% 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 11.7% of the cases sold annually.

*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.

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 47.3% of total sales. Out of state business is particularly important for large producers, accounting for 70.1% of the total business.
- COVID-19 has had a major negative impact on craft spirits producers. The majority of craft producers have experienced a double-digit decrease in sales in the first half of 2020, however, over 80% are confident they will make it through the economic downturn and return to historic growth rates.
- In 2019, the number of people employed in the U.S. craft spirits industry increased by more than 5,000 to a total of over 30,000 people. The total impact of COVID-19 on employment in the industry remains to be seen.
- Since the enactment of the Craft Beverage Modernization and Tax Reform Act, investments by craft producers have continued to increase. In 2019, the amount of capital invested by the U.S. craft spirits industry was \$698 million, an increase of over \$19 million from 2018. The impact of COVID-19 on investment levels in 2020 remains to be seen.



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

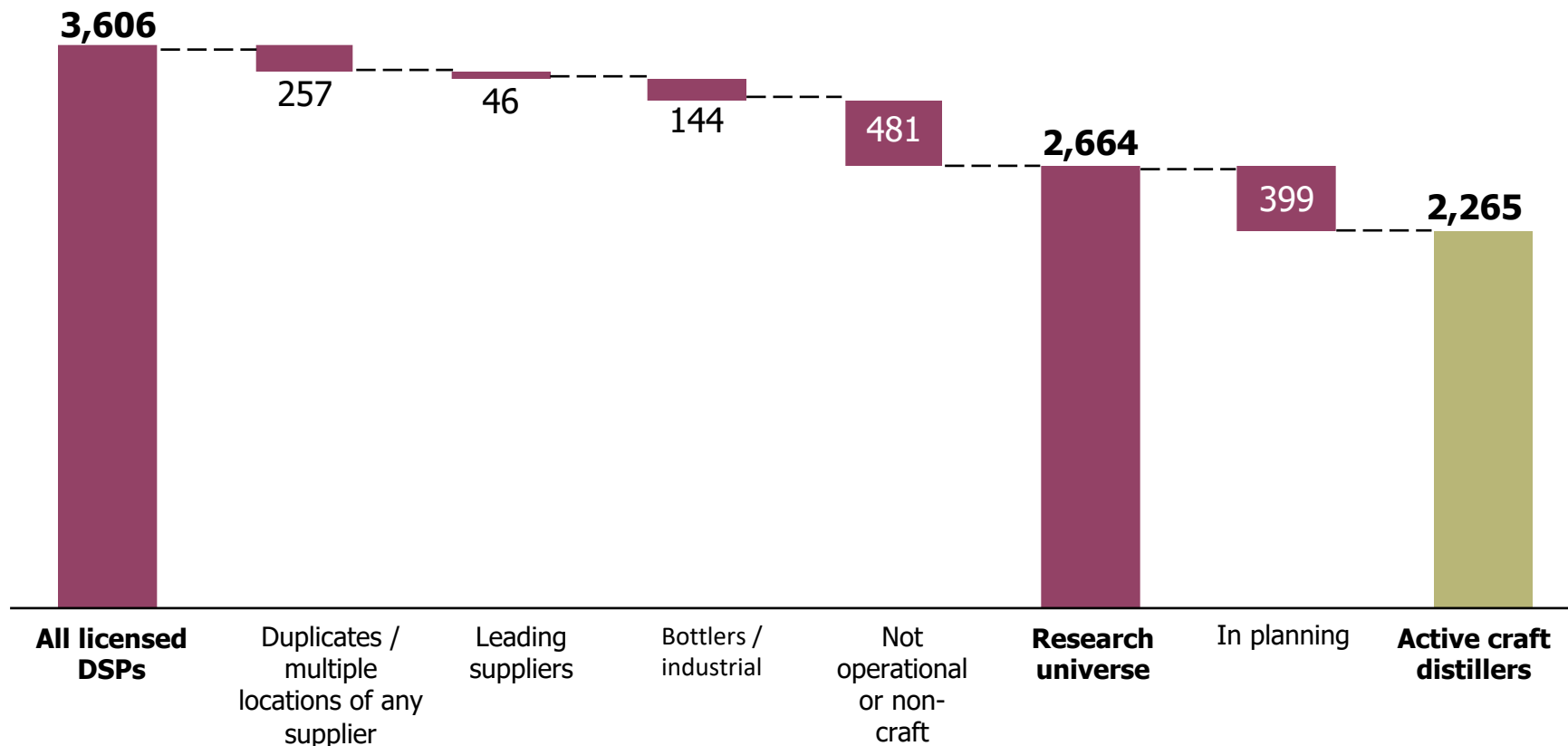


Craft Spirits Market Data

From DSPs to Active Craft Distillers



of DSPs by Segment as of August 2020

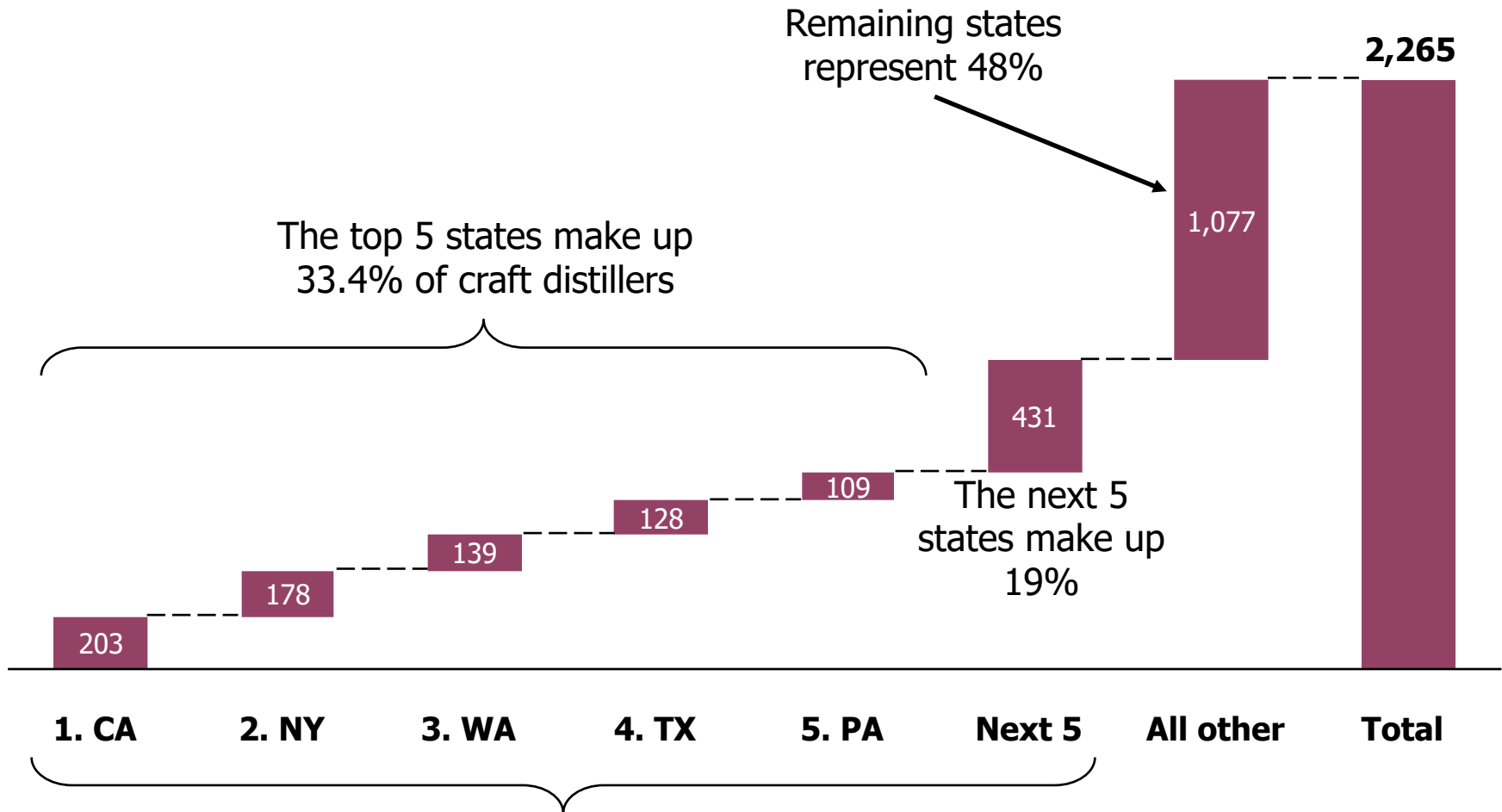


- The list of DSPs is broken down into segments in order to distinguish the amount of distillers that are not considered craft: duplicates, leading suppliers, bottlers, and/or non-craft/non-operational
- The list of active craft distillers is generated bottoms-up through individual assessment

Active Craft Distillers by State



of Active Craft Distillers by State as of August 2020

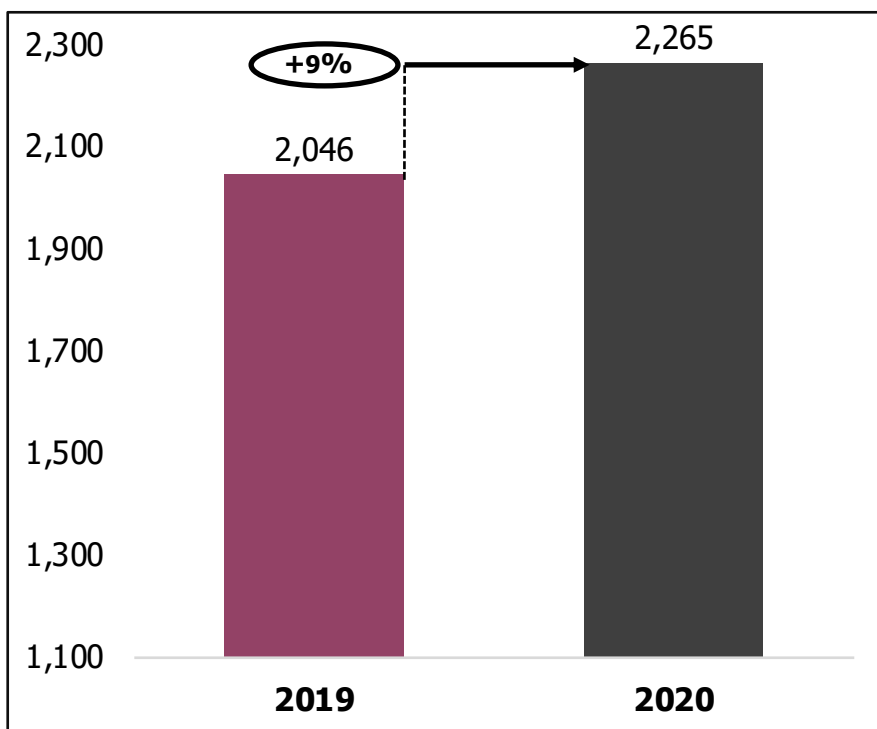


Over half of active U.S. craft distilleries are located in ten states

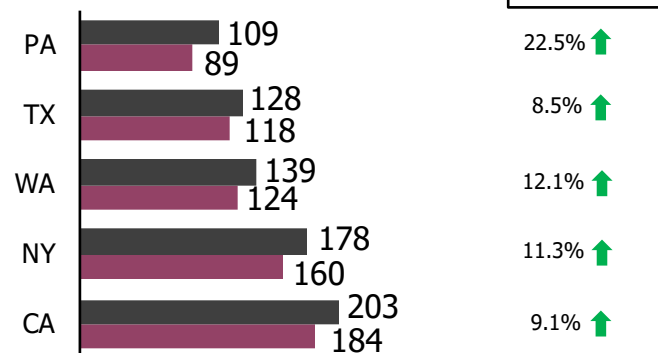
Number of Active Craft Distillers Has Grown 9% Since Last Year



of Active Craft Distillers, August 2019 vs. August 2020



States with Highest # of Active Craft Distillers, August 2019 vs. August 2020

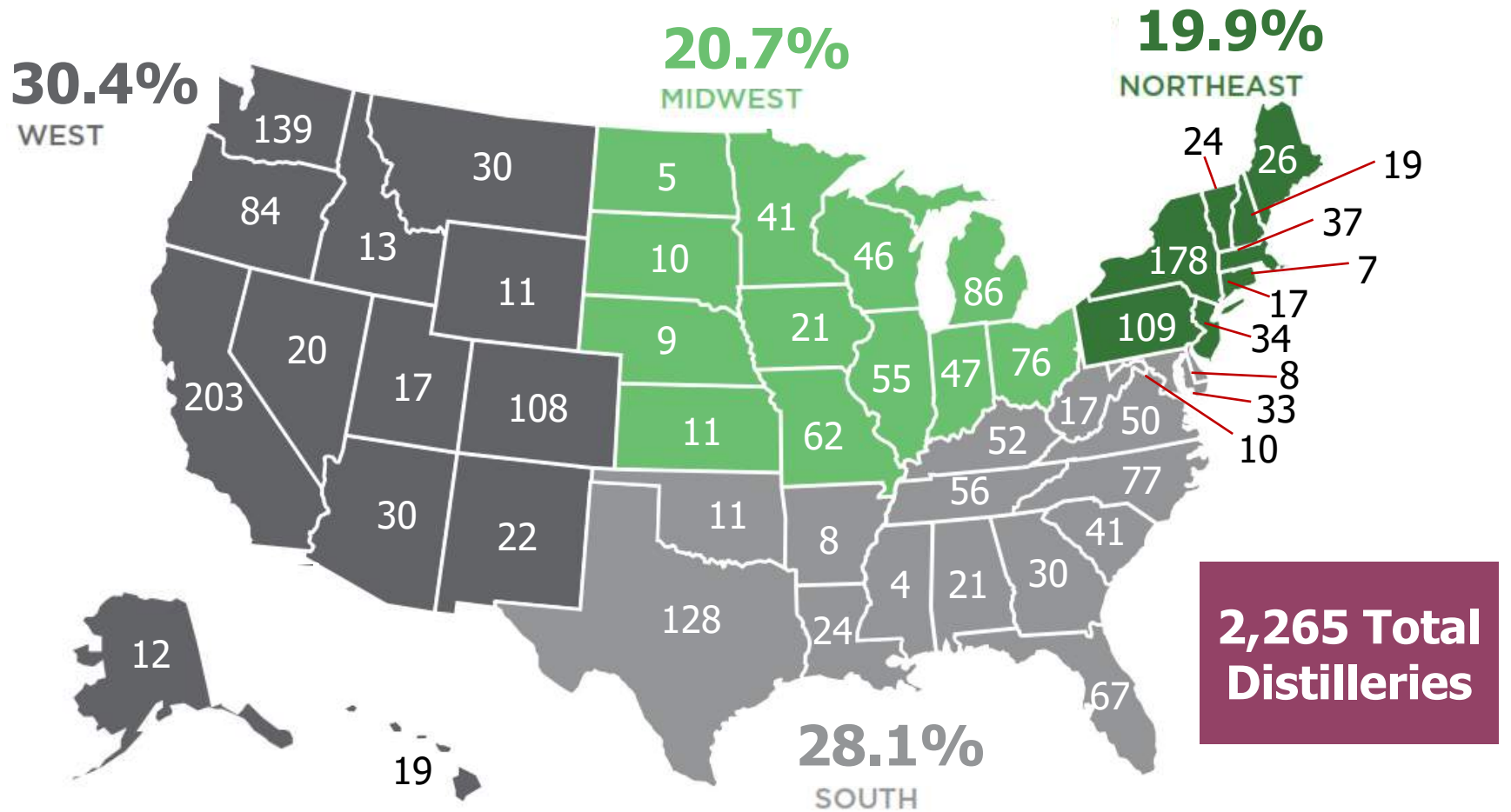


- In August 2020 there were 2,265 craft distillers active in the U.S., up 9% from 2,046 active distillers in August 2019

Active Craft Distillers by State and Region



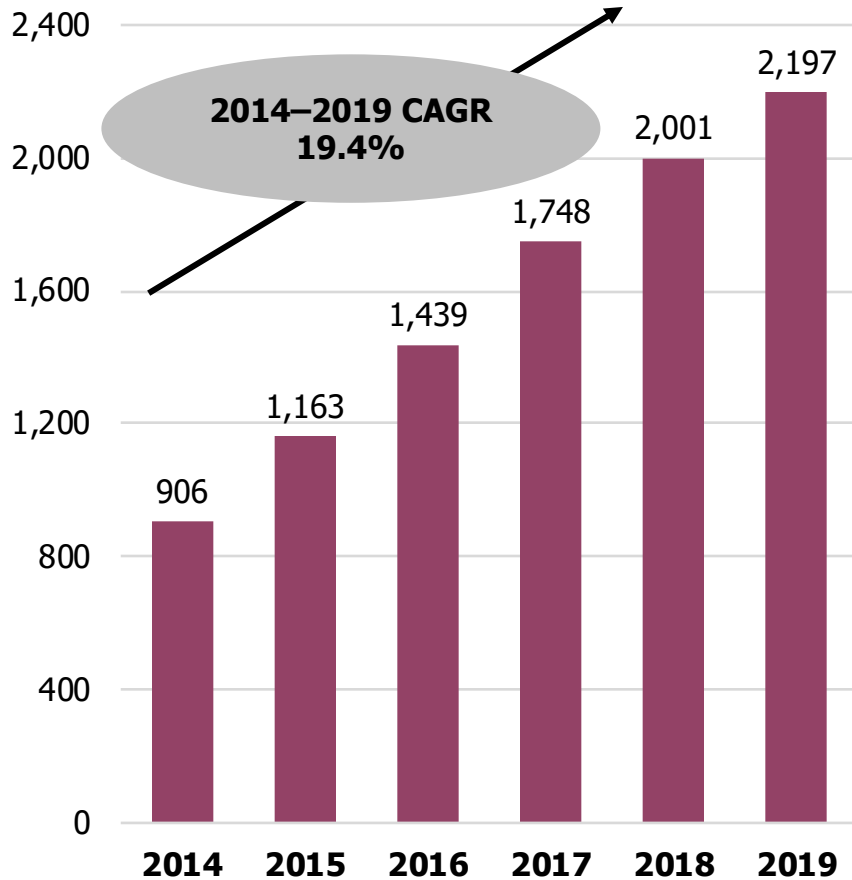
of Active Craft Distillers by State and Region as of August 2020



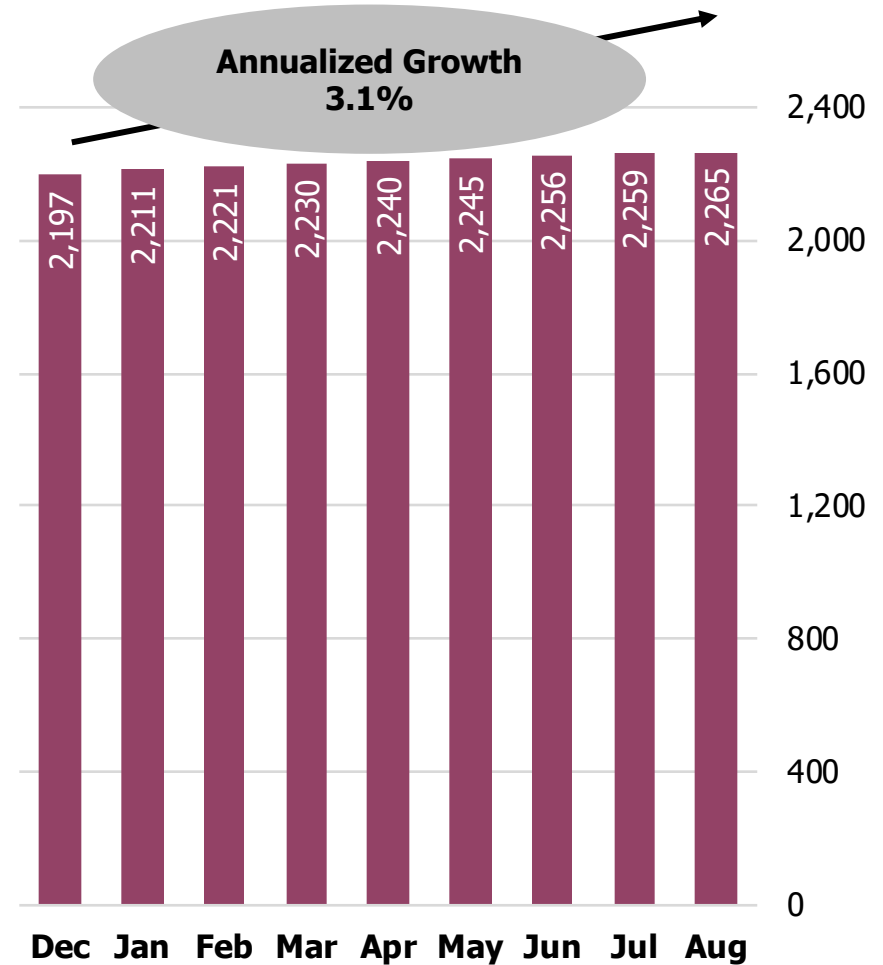
Number of Active Distillers Still Growing



of Craft Spirits Producers 2014 – 2019



of Craft Spirits Producers December 2019 – August 2020

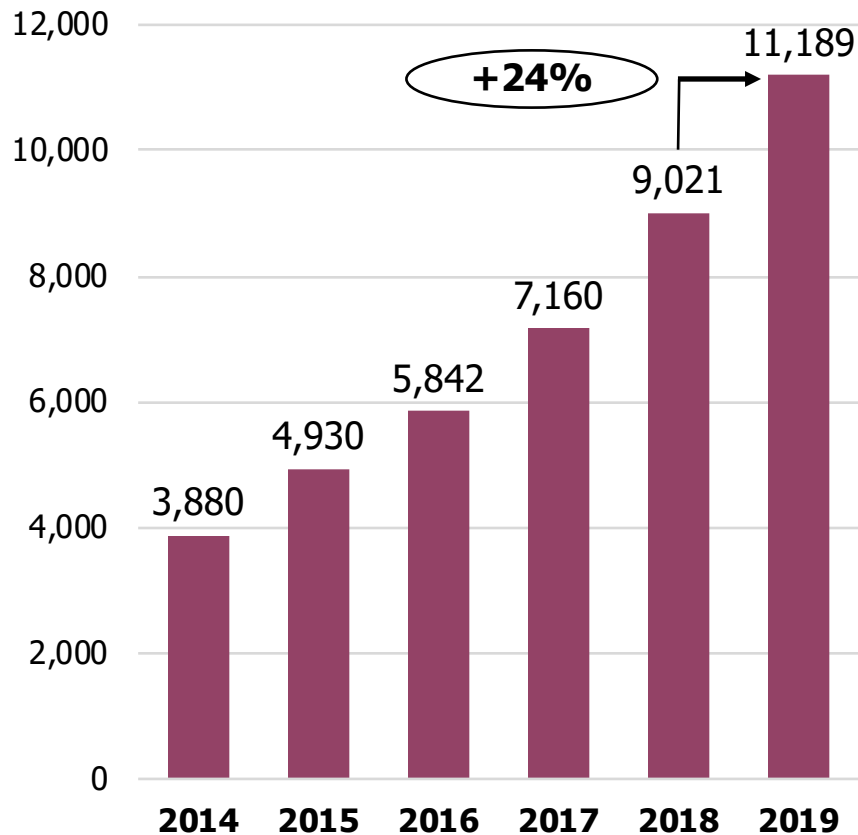


Craft Spirits Sales Grew Rapidly in 2019, but Will Likely Decrease in 2020



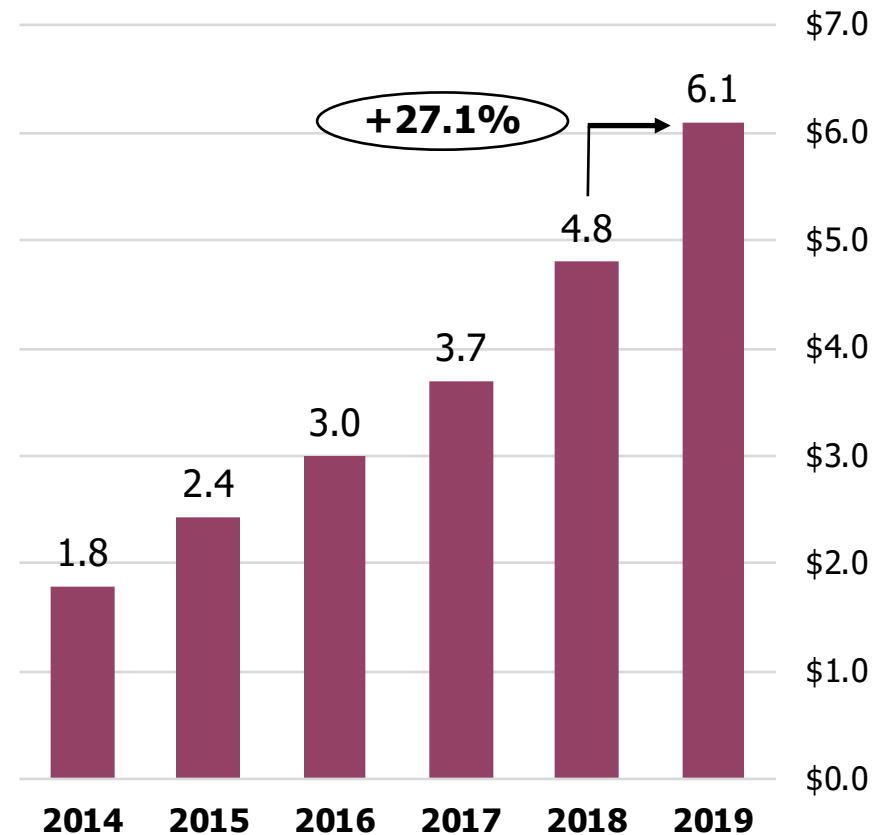
Craft Spirits Sales by Volume, 2014 – 2019

9L Cases (000)



Craft Spirits Retail Sales by Value, 2014 – 2019

\$ Billions

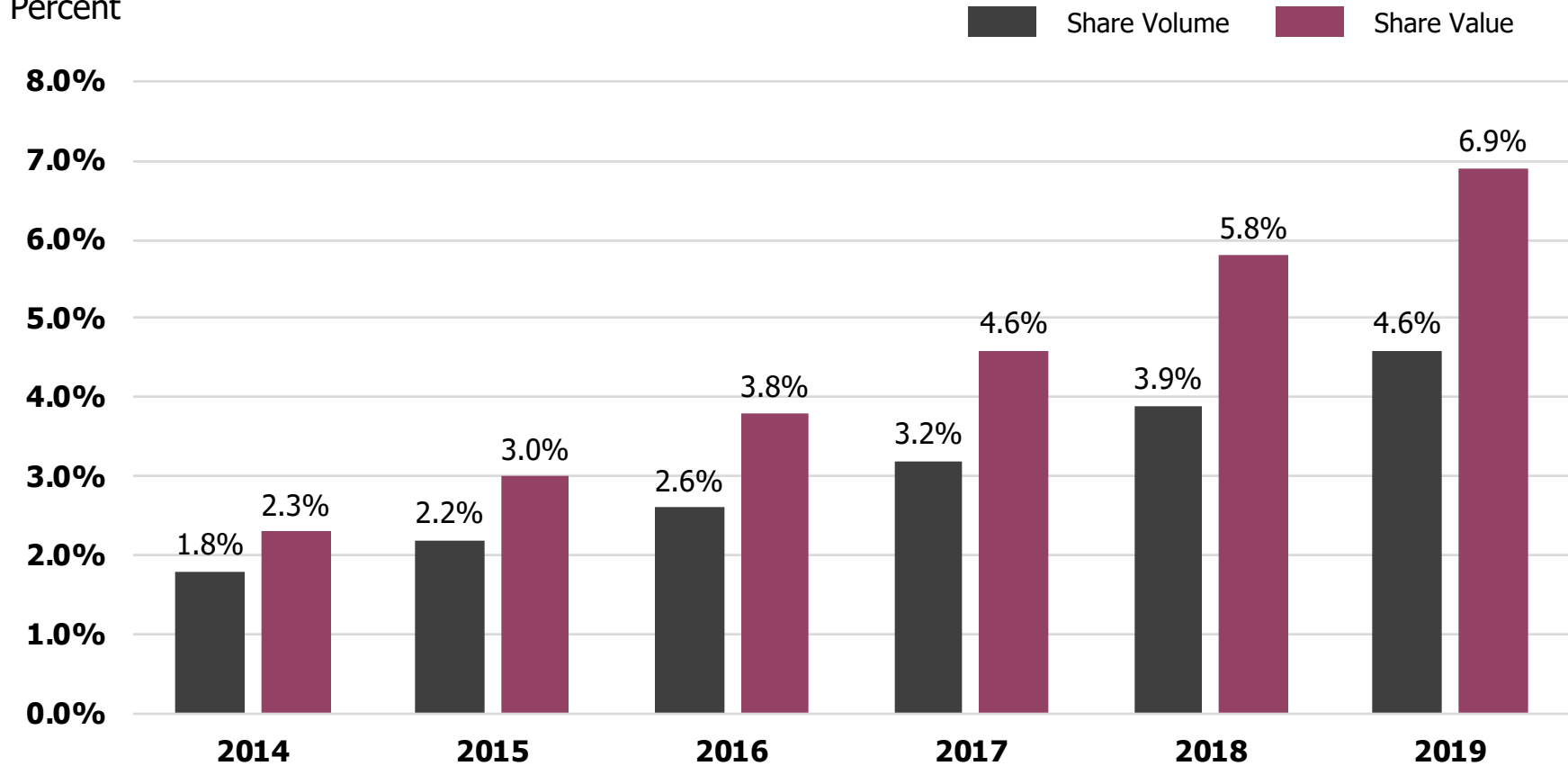


Craft Spirits Market Share at 6.9% in Value and 4.6% in Volume



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

Percent



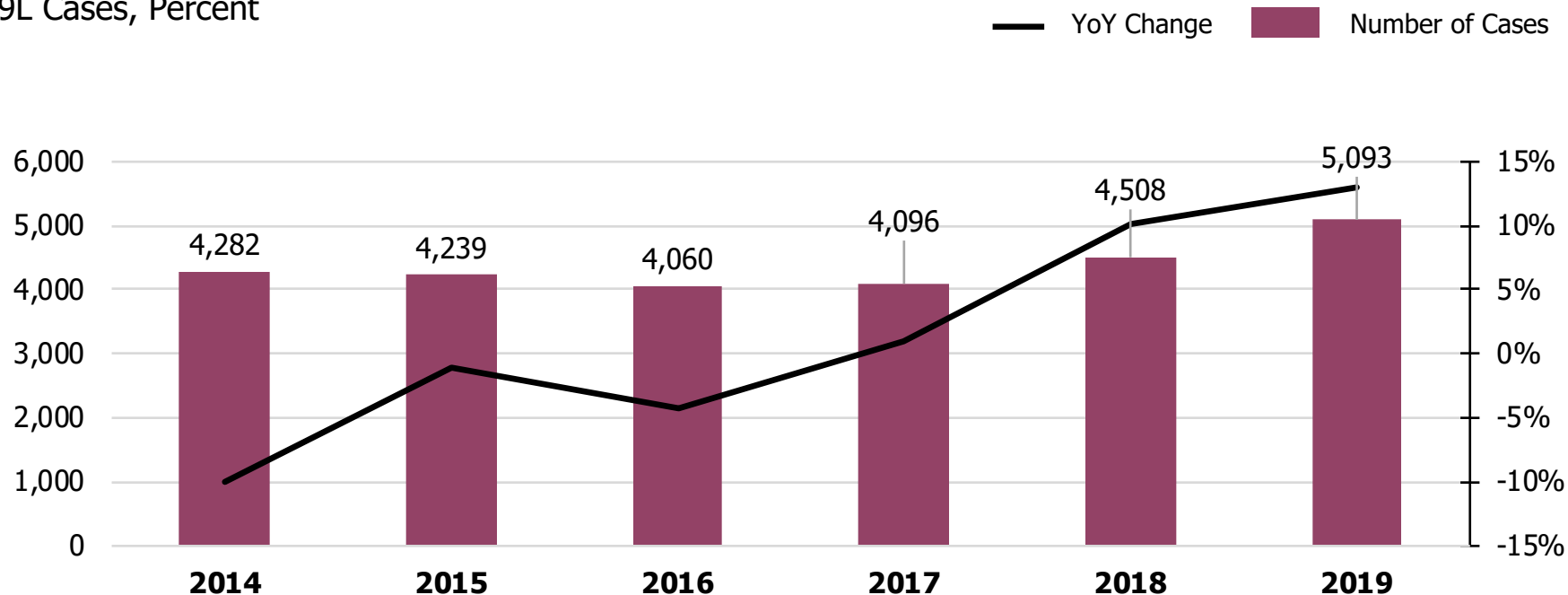
- U.S. craft spirits currently has an estimated market share of 4.6% in cases, up from 1.8% in 2014
- The U.S. craft market share in value is estimated at 6.9%, up from 2.3% in 2014
- U.S. craft spirits is clearly a contributor to the trend towards premiumization in the U.S. market

Average Volume of U.S. Craft Distillers Continued to Increase



of Cases of Average U.S. Craft Distiller 2014 – 2019

9L Cases, Percent



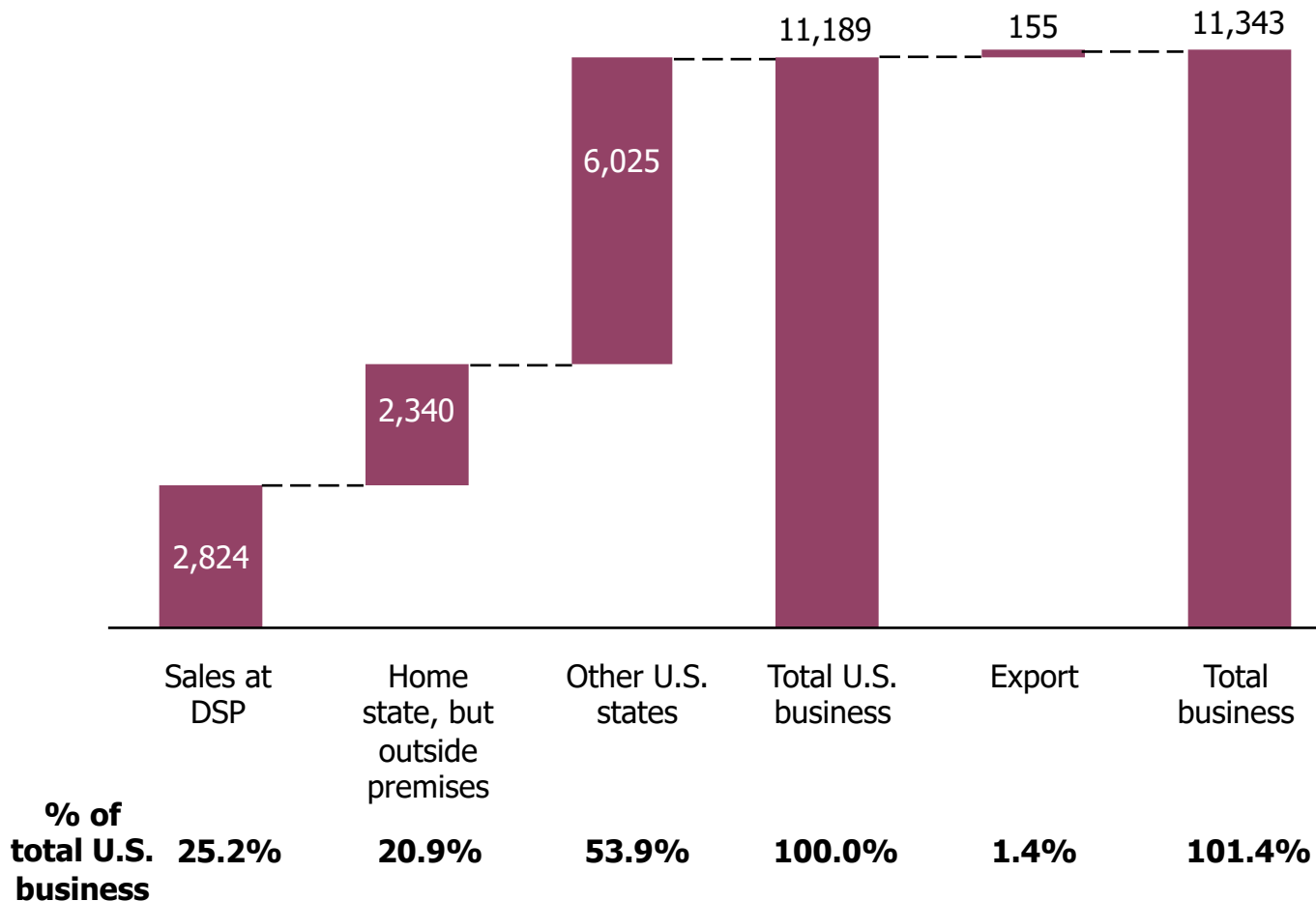
- The market has passed an inflection point at which the volume growth outpaces the growth in number of distillers.
- The volume of the average U.S. craft producer reached 5,093 cases in 2019, up 13% versus 2018.

More Than 45% of the U.S. Craft Business Takes Place in the Home State



Sources of Case Sales – Total U.S. Craft Spirits Industry, Domestic and Export 2018

9L Cases (000)



- More than 45% of the total U.S. craft business takes place in the home state of the craft distiller
- Exports add 1.4% to the overall volume for the U.S. business

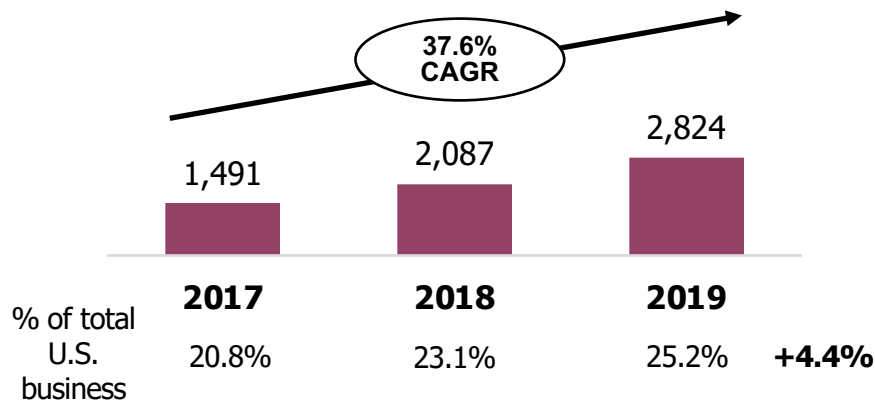
Craft Spirits Growth is Driven by Domestic Sales as Exports Have Decreased in Recent Years



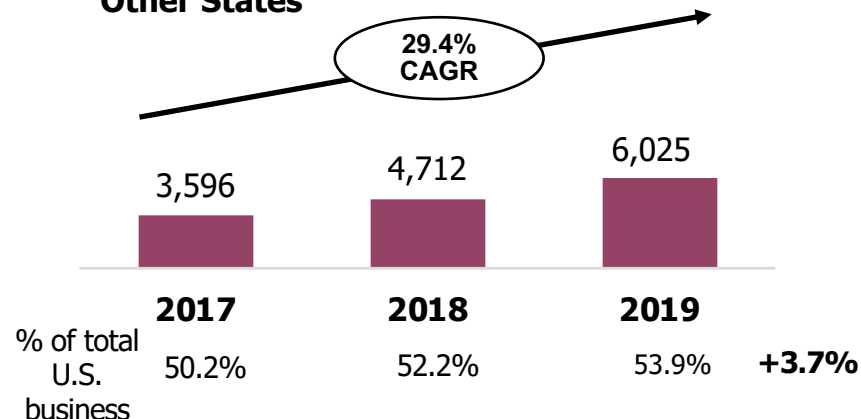
Total Craft Spirits Industry, Sources of Case Sales, 2017 – 2019

9L Cases (000)

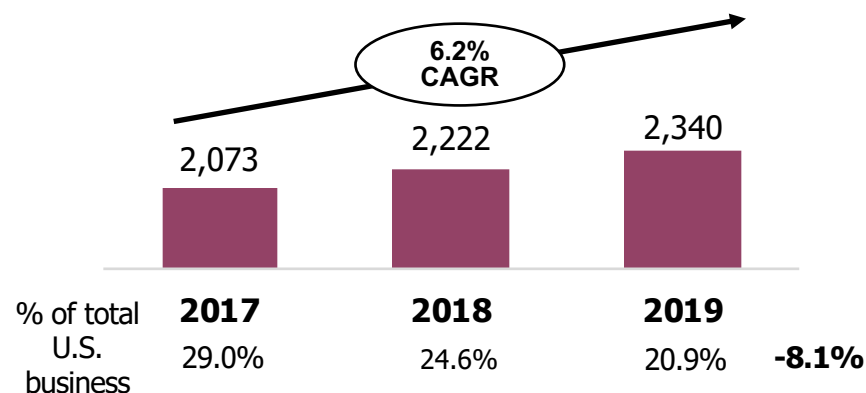
Sales at DSP



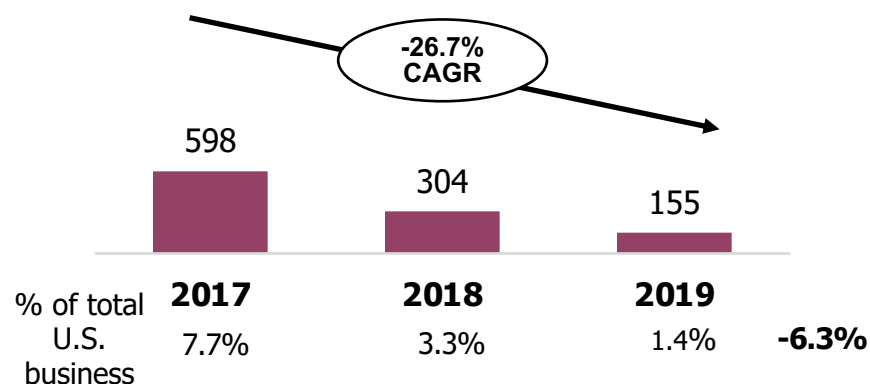
Other States



Home State



Export

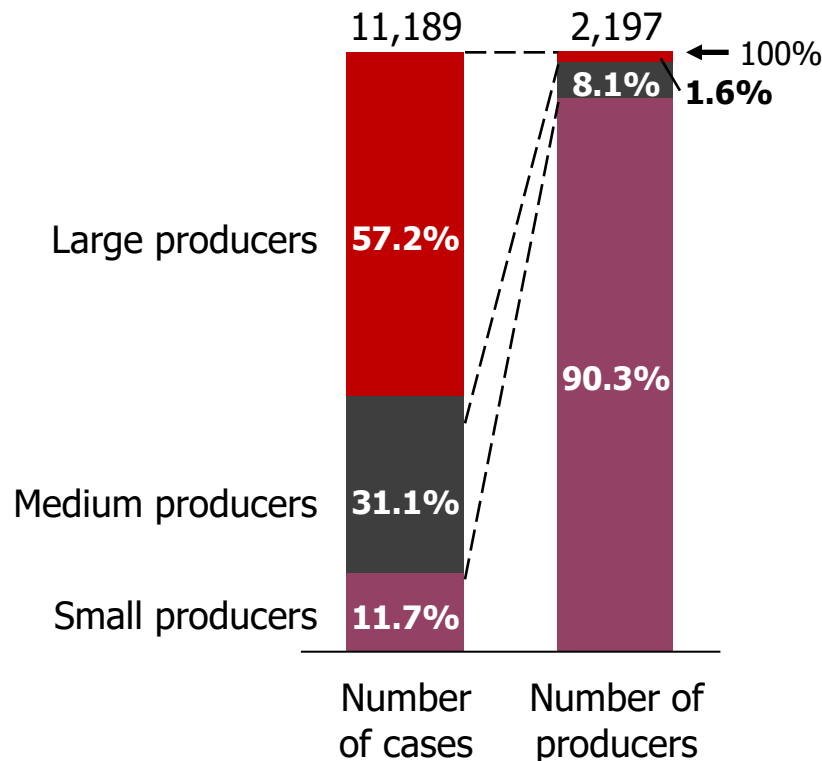


Craft Spirits Market Is Fairly Concentrated



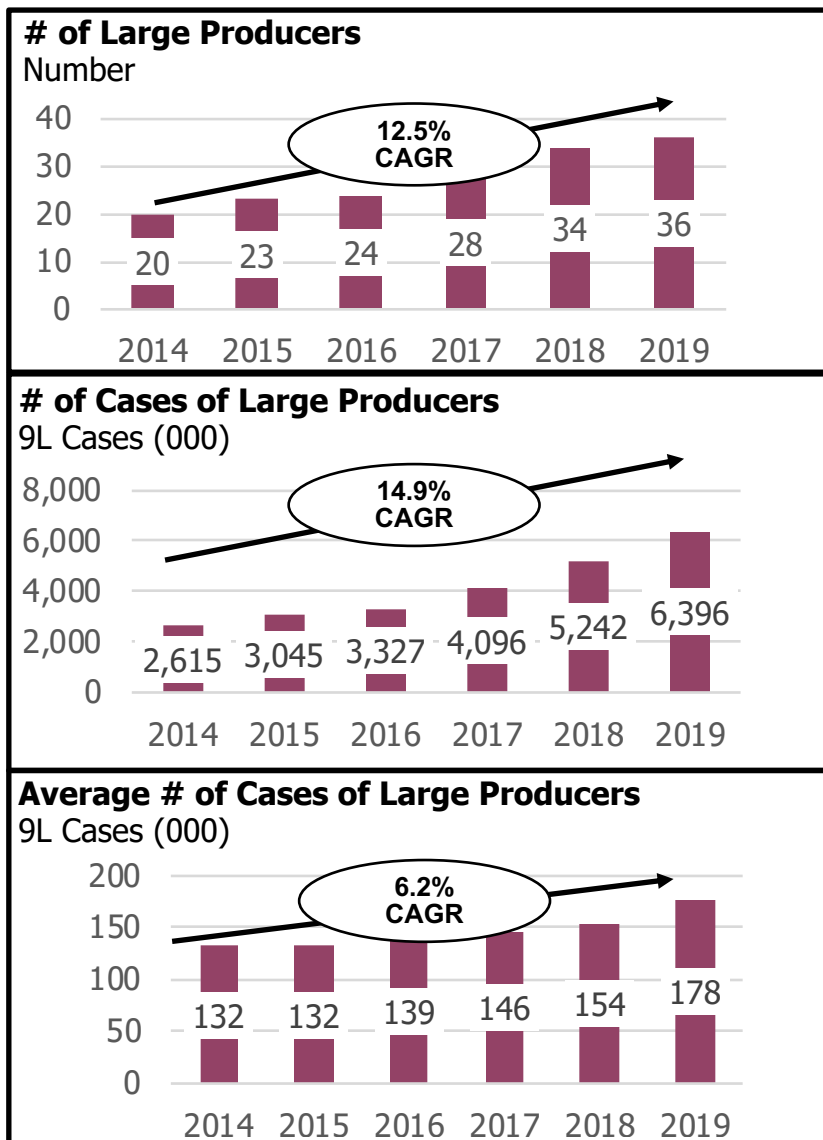
of Craft Distillers and Case Volumes by Producer Size, 2019

of Producers, 9L Cases (000)



- The U.S. craft distilling market is fairly concentrated with less than 2% of producers responsible for almost 60% of the cases
- 90.3% producers are classified as small producers. They are responsible for just 11.7% of the cases

Average Volume of Large Craft Producers Experienced Growth in 2019



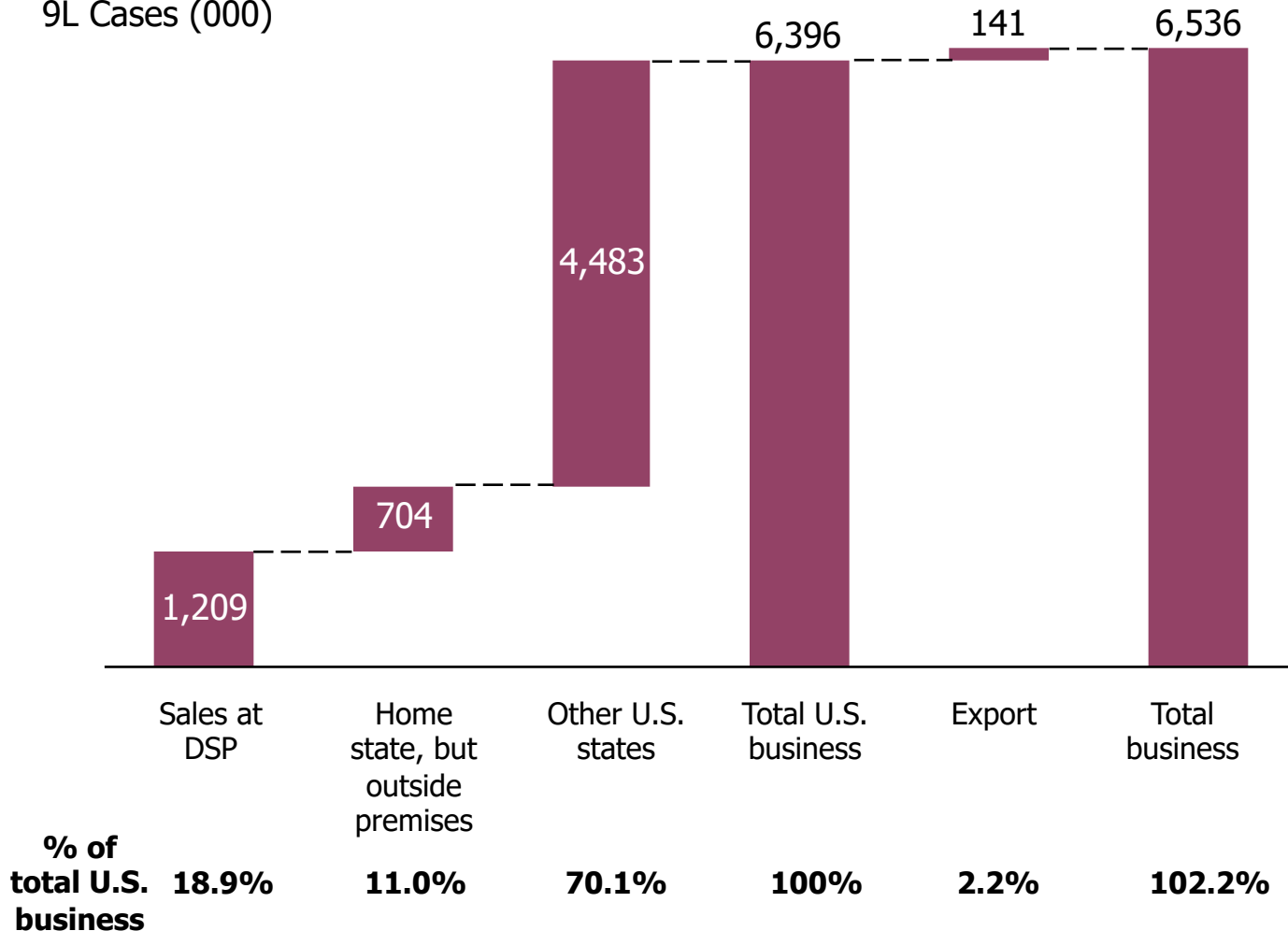
- The number of large craft producers, as well as the average number of cases produced, has been growing rapidly
- The number of large craft distillers has grown from 20 in 2014 to 36 in 2019, an 80% increase
- The number of cases of large craft distillers has grown from 2.6 million 9L cases in 2014 to almost 6.4 million 9L cases in 2019
- The average number of cases of large craft distillers has increased from 132k 9L cases in 2014 to 178k 9L cases in 2019

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 2019

9L Cases (000)



- Large craft producers are more likely to drive growth outside of their home state
- Exports add 2.2% to the overall volume of the U.S. business

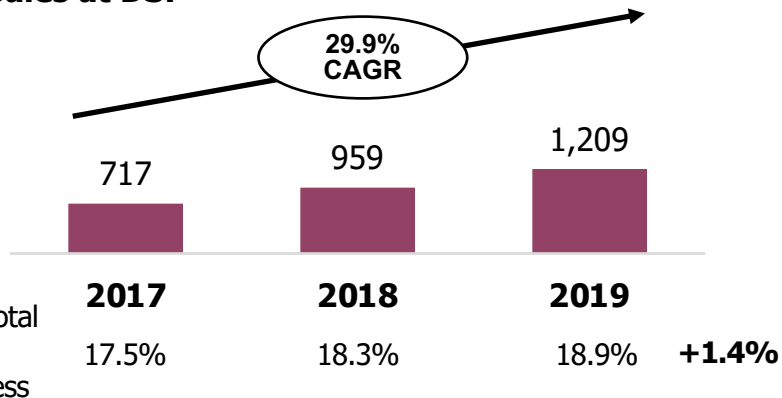
While Large Craft Producer Sales Are Growing, Home State Sales Continue to Decline



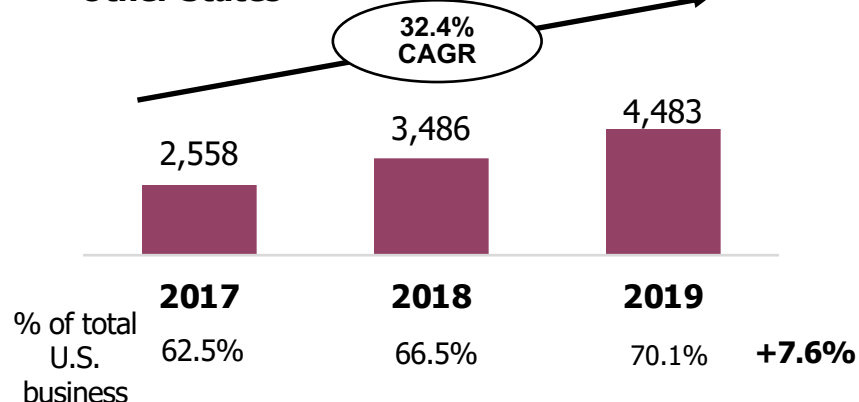
Large Craft Spirits Producers, Sources of Case Sales, 2017 - 2019

9L Cases (000)

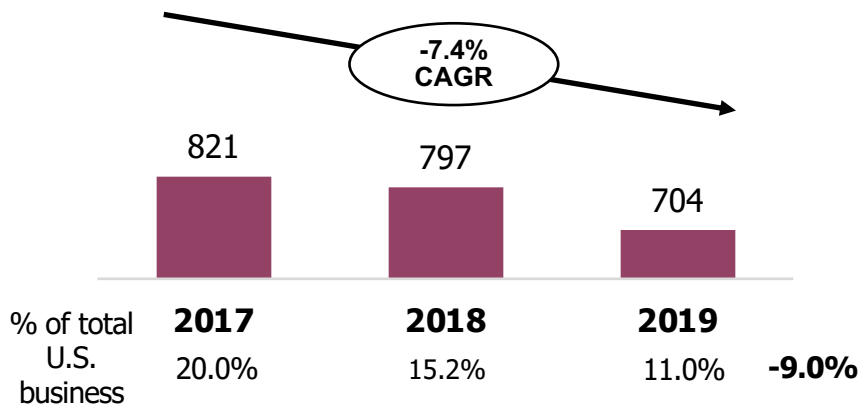
Sales at DSP



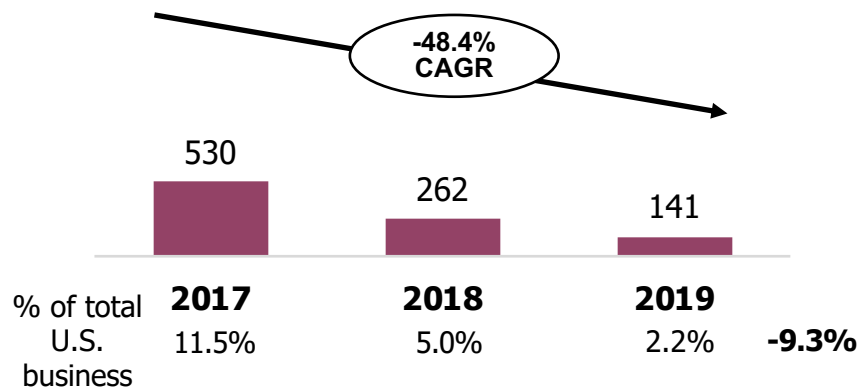
Other States



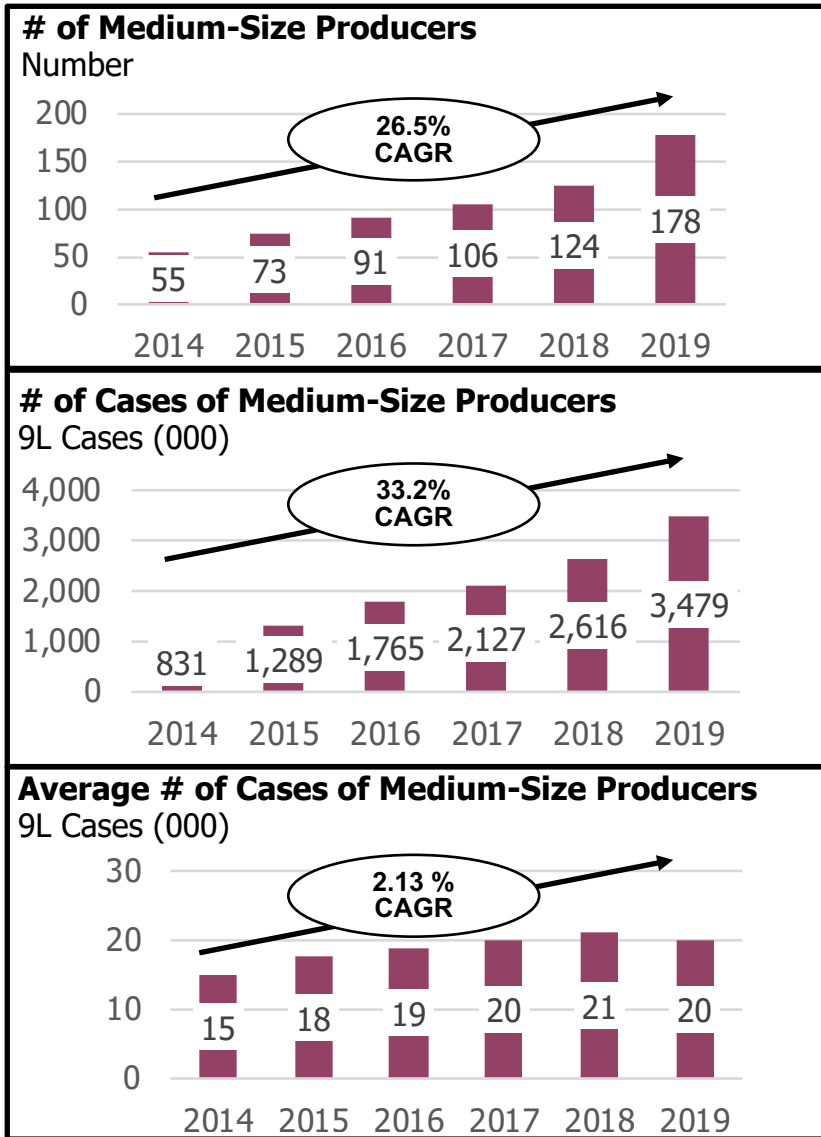
Home State



Export



Medium-Size Craft Producers Have Been Growing Well



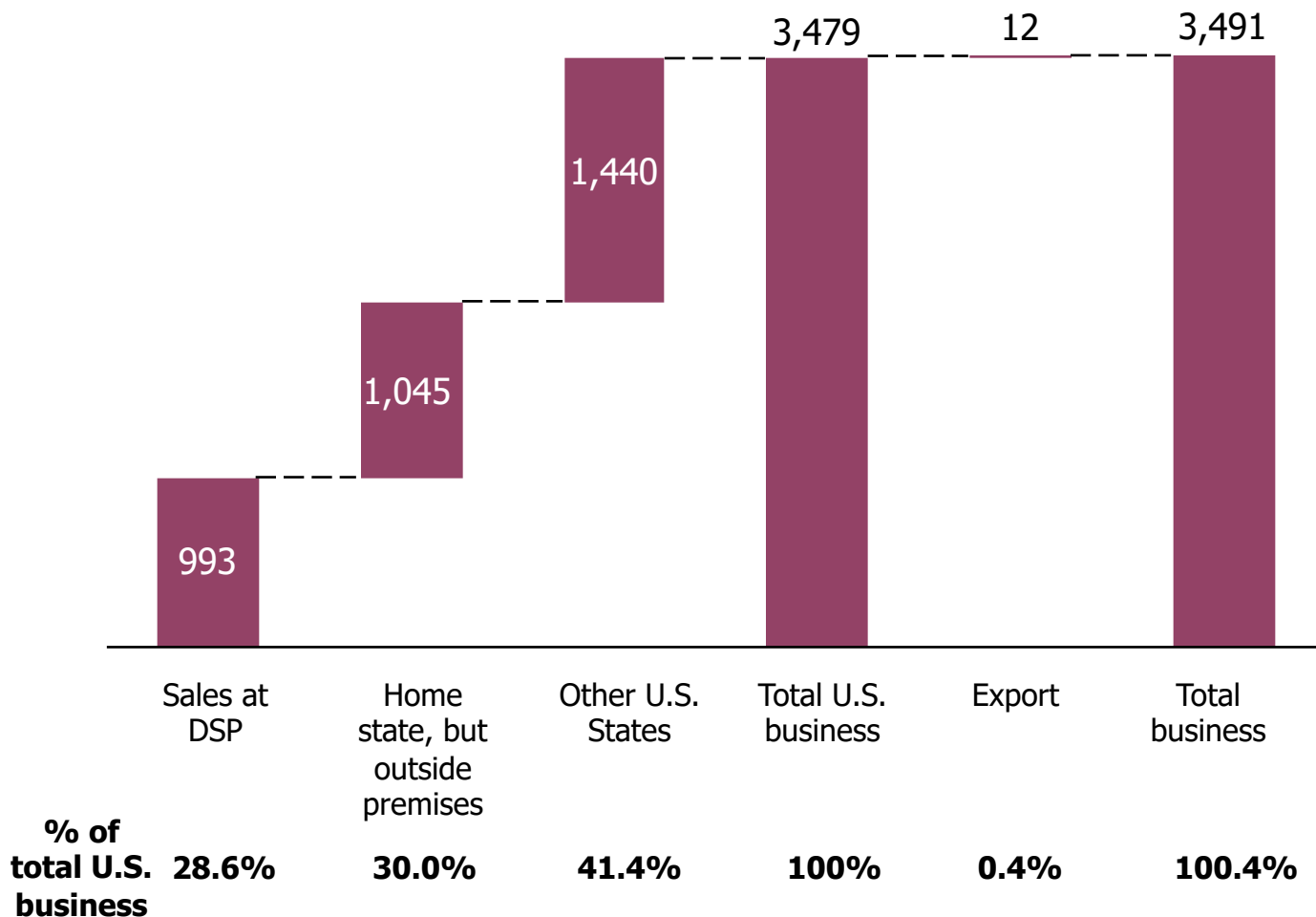
- The number of medium craft producers, as well as the average number of cases produced, has been growing rapidly
- The number of medium craft producers has grown more than three-fold, from 55 in 2014 to 178 in 2019
- The number of cases of medium craft distillers has grown from 831k 9L cases in 2014 to over 3.4 million 9L cases in 2019
- The average number of cases of medium craft distillers has increased from 15k 9L cases in 2014 to 20k 9L cases in 2019

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 2019

9L Cases (000)



- 58.6% 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 0.4% to the overall volume of the U.S. business

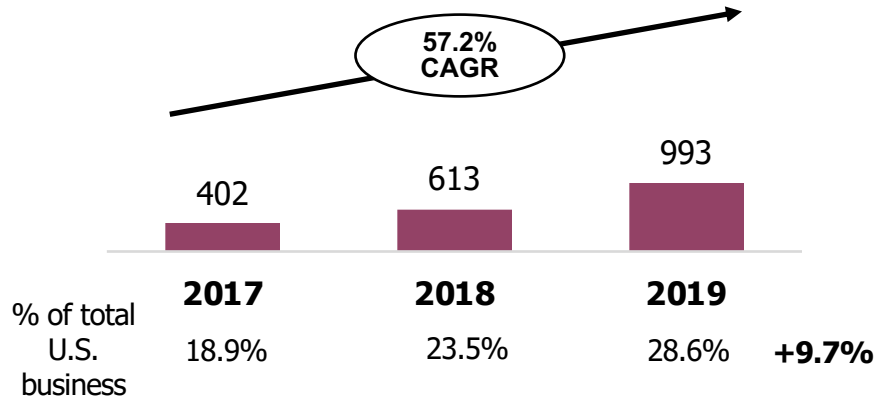
Medium Craft Producer Sales Have Grown Strongly Across All Sources, Excluding Exports



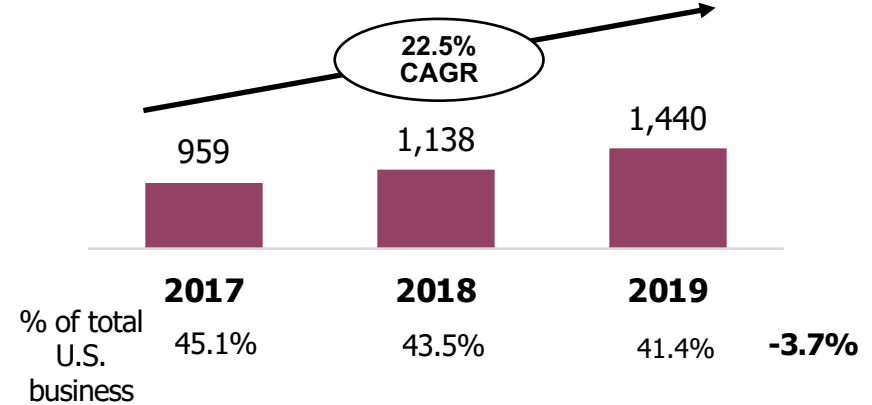
Medium Craft Spirits Producers, Sources of Case Sales, 2017 – 2019

9L Cases (000)

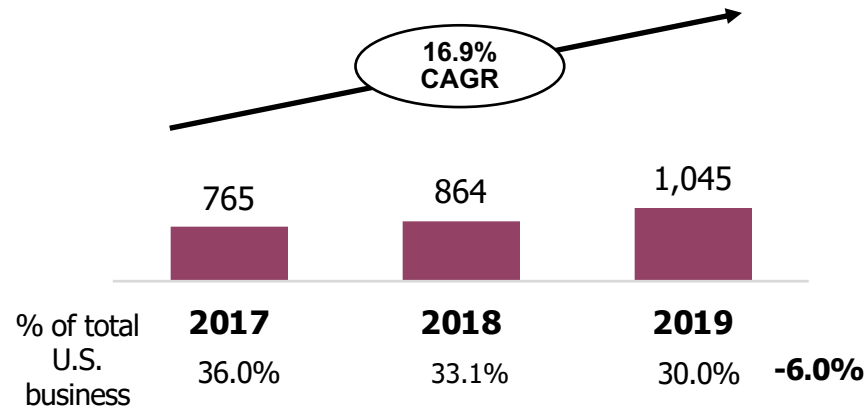
Sales at DSP



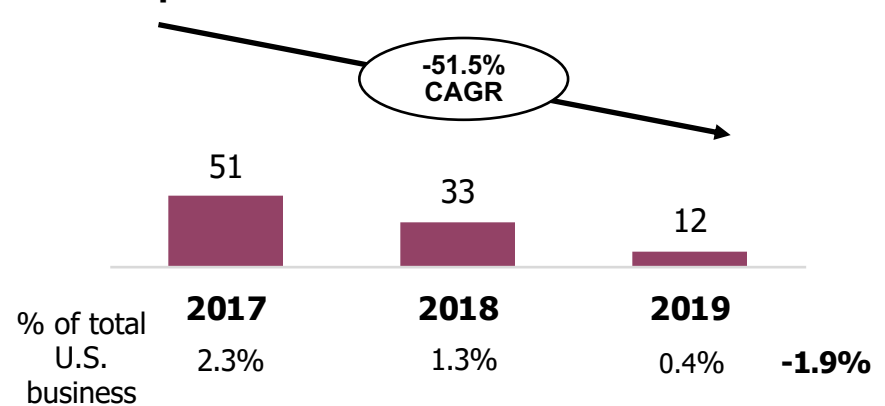
Other States



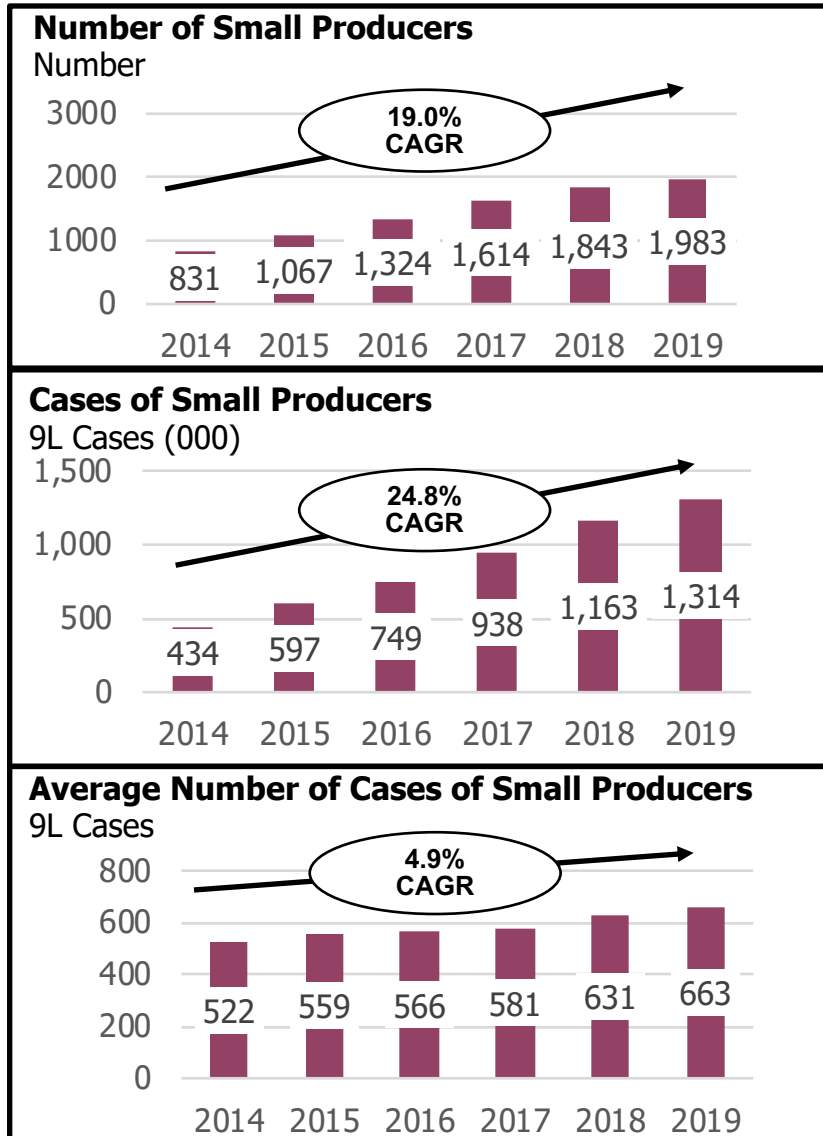
Home State



Export



Small Craft Producers Have Been Growing Well



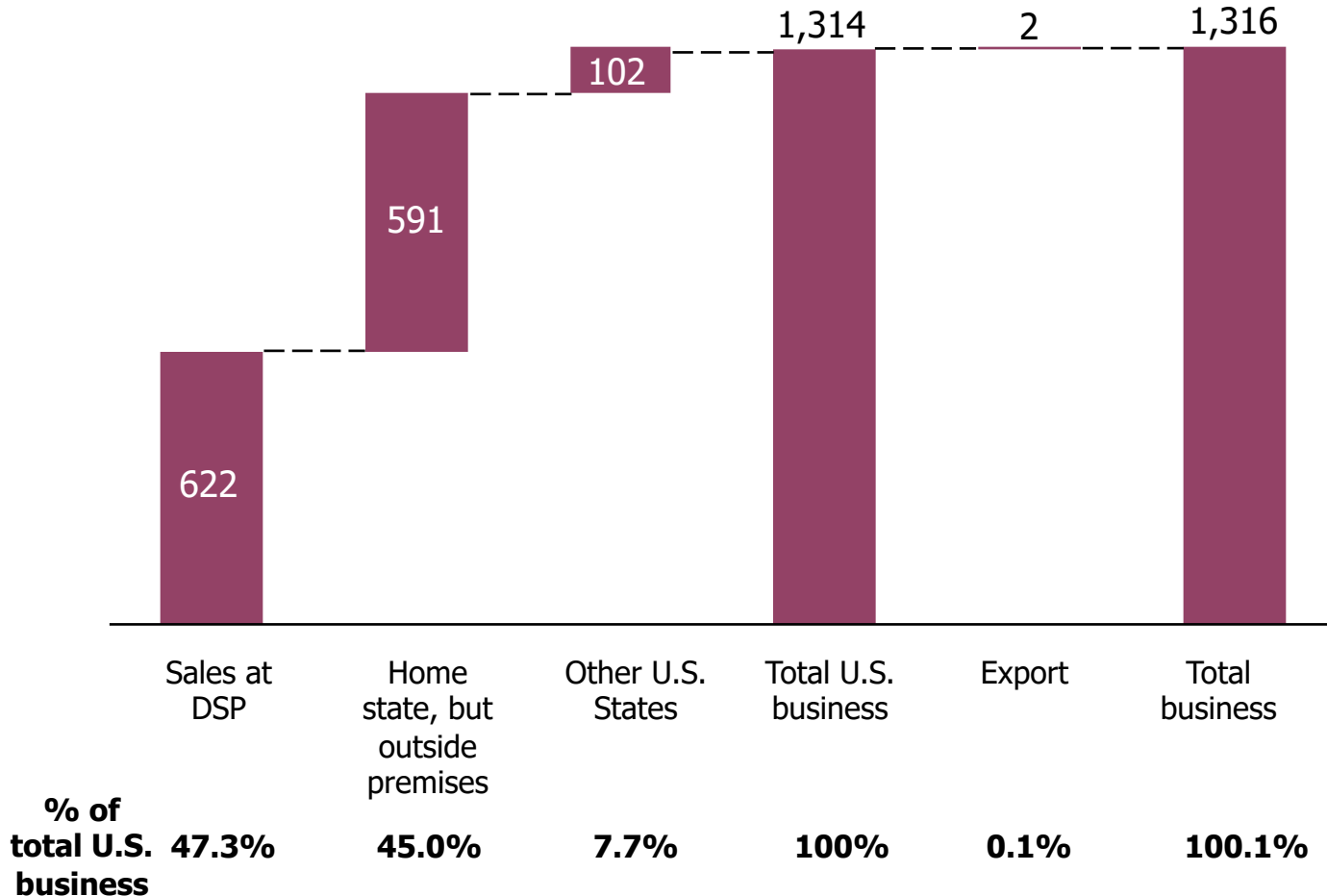
- The number of small craft producers, as well as the average number of cases produced, has been growing rapidly
- The number of small craft distillers has grown more than two-fold from 831 in 2014 to 1,983 in 2019
- The number of cases of small craft distillers has grown from 434k 9L cases in 2014 to 1.3 million 9L cases in 2019
- The average number of cases of small craft distillers has slightly increased from 522 9L cases in 2014 to 663 9L cases in 2019

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 2019

9L Cases (000)



- Over 47% 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

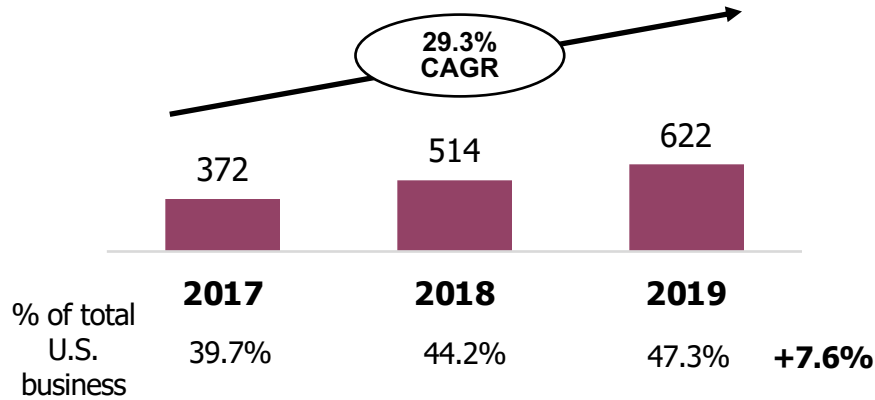
Small Craft Producer Sales Are Slowly Growing Outside of Their Home States



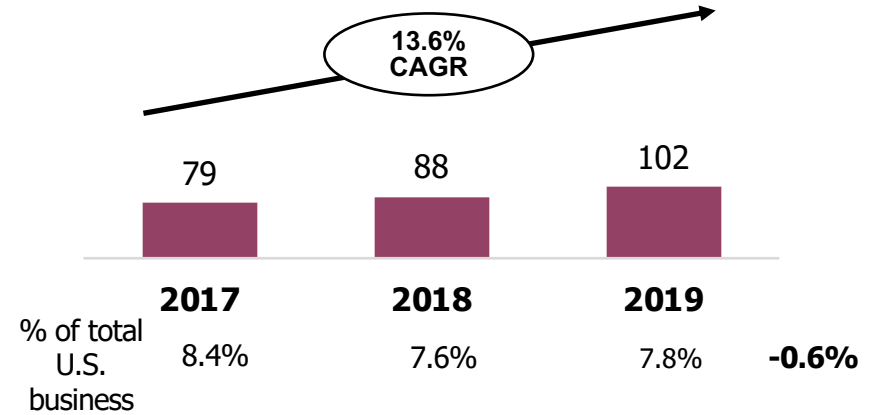
Small Craft Spirits Producers, Sources of Case Sales, 2017 – 2019

9L Cases (000)

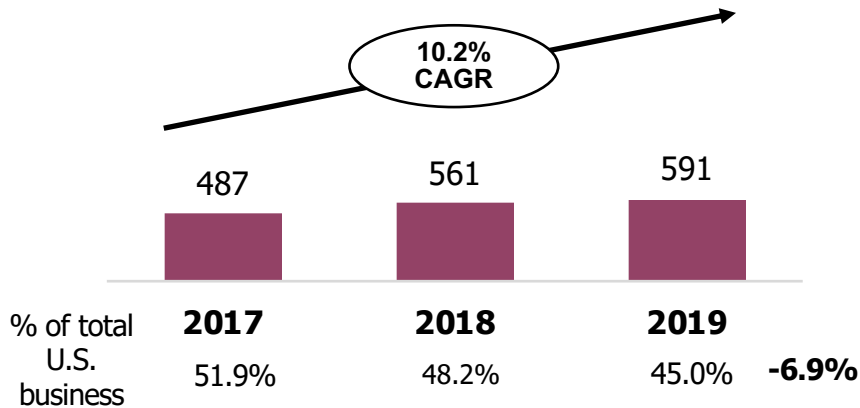
Sales at DSP



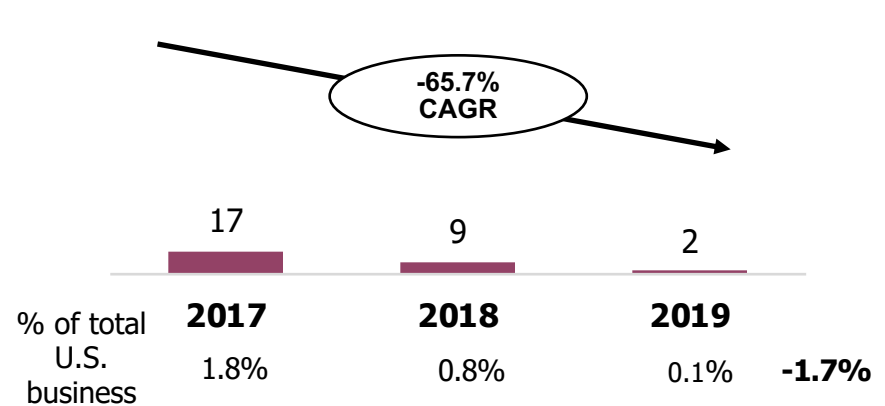
Other States



Home State



Export

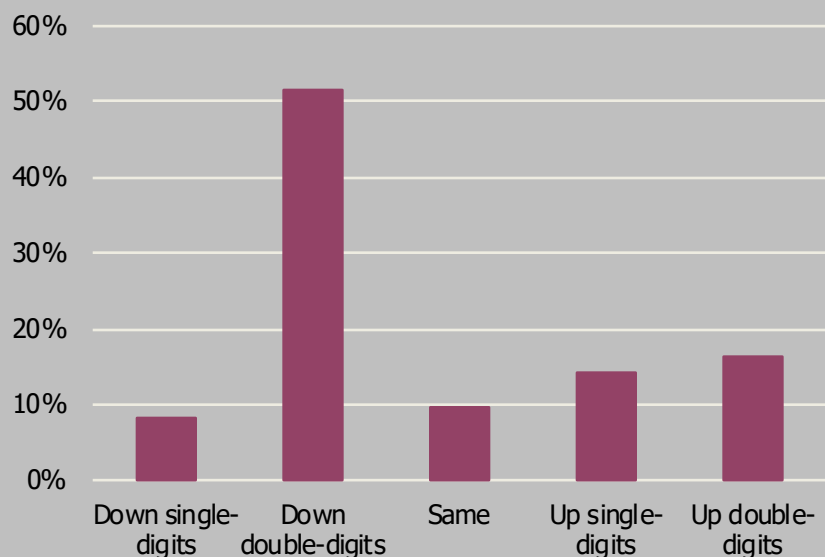


More Than Half of U.S. Craft Spirits Producers Were Heavily Impacted by COVID-19



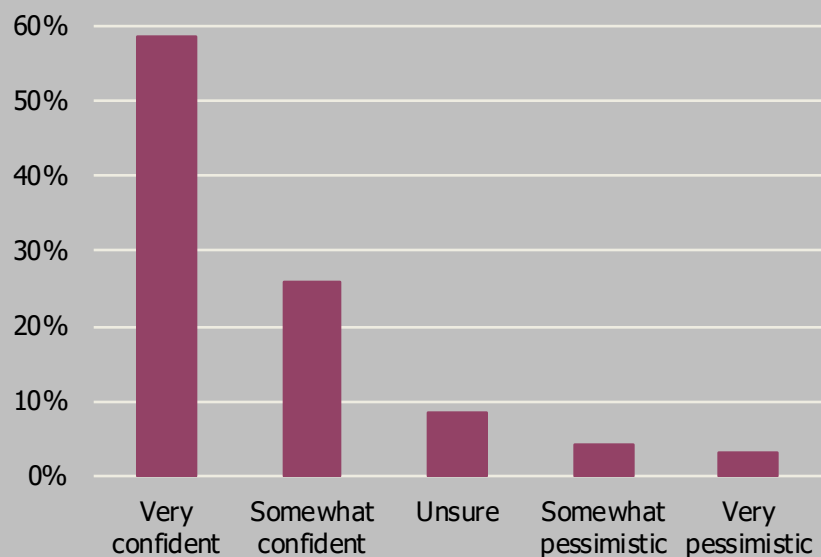
Craft Producers Sales in the First Half of 2020 Compared to the First Half of 2019

Percent of Respondents



Level of Confidence That Craft Producers Will Still be in Business by the End of 2020

Percent of Respondents



- Over 50% of craft producers have experienced a double-digit decrease in sales in the first half of 2020 compared to the first half of 2019
- Although heavily impacted by COVID-19, over 80% of craft producers are confident that they will still be in business by the end of 2020

Craft Spirits Sales Will Likely Decline in 2020, but Are Expected to Return to Growth

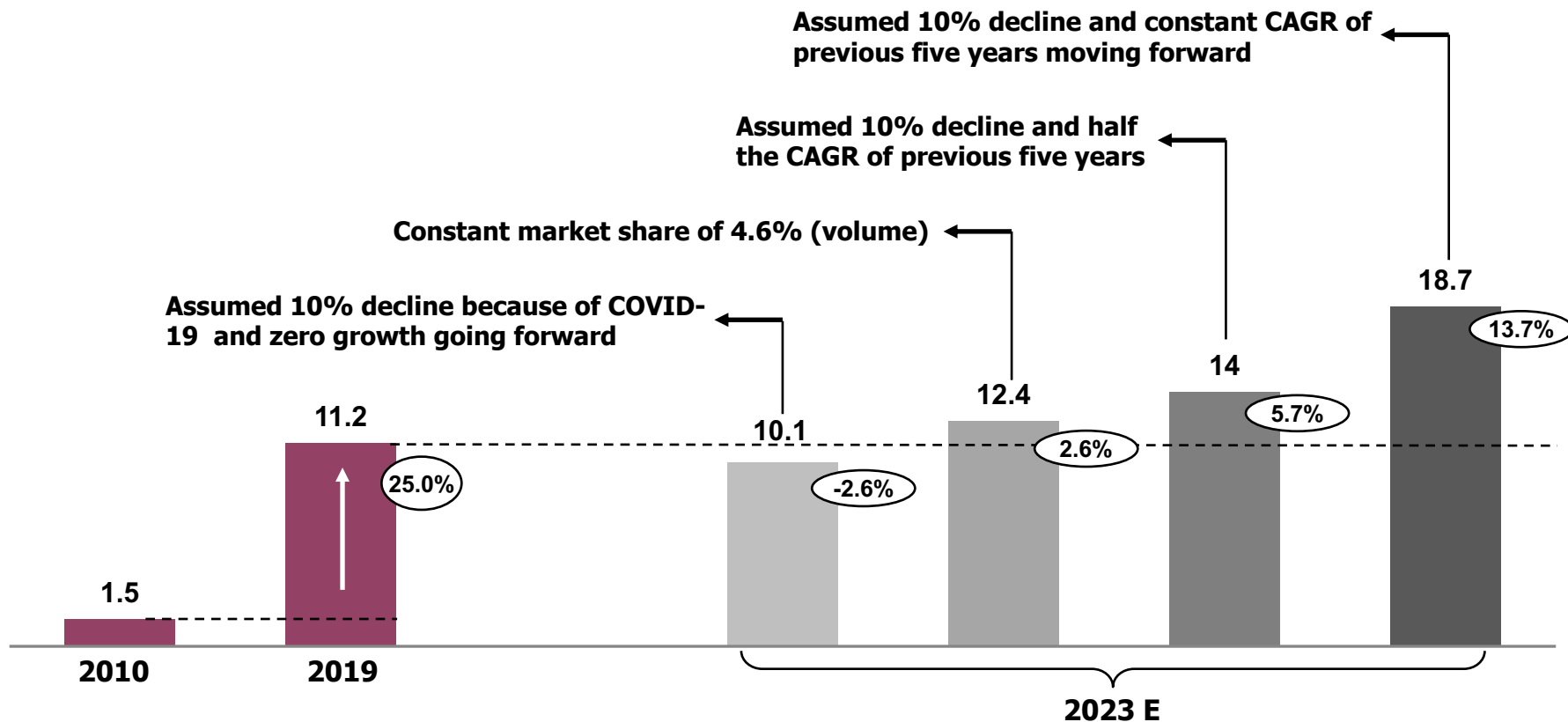


U.S. Market Size Scenarios

9L Cases (millions)

2019 – 2023
CAGRs

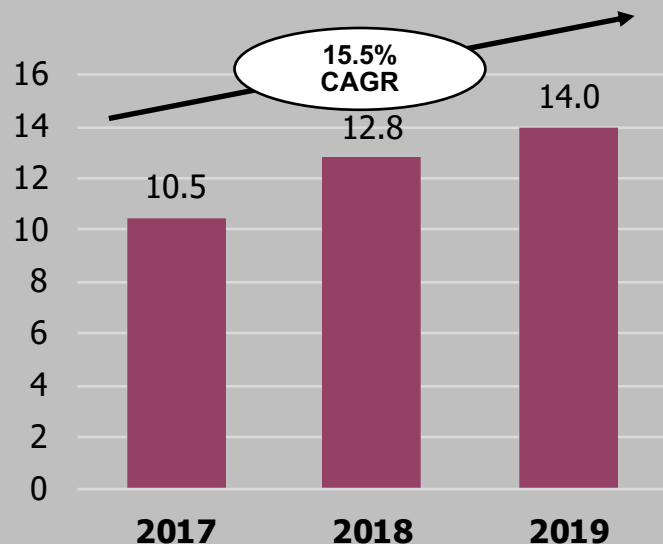
Projected Scenarios



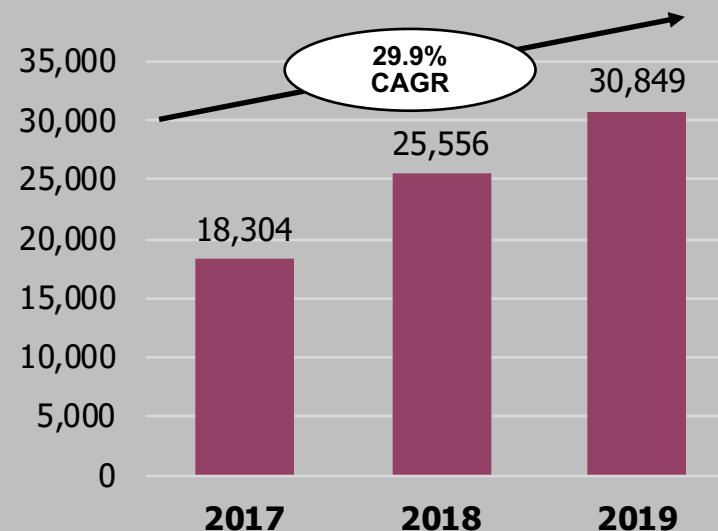
Employment in the U.S. Craft Spirits Industry Has Been on the Rise



Average Full-Time Domestic Employees of U.S. Craft Spirits Producers, 2017 – 2019
FTEs



of Full-Time Domestic Employees of U.S. Craft Spirits Producers, 2017 – 2019
FTEs



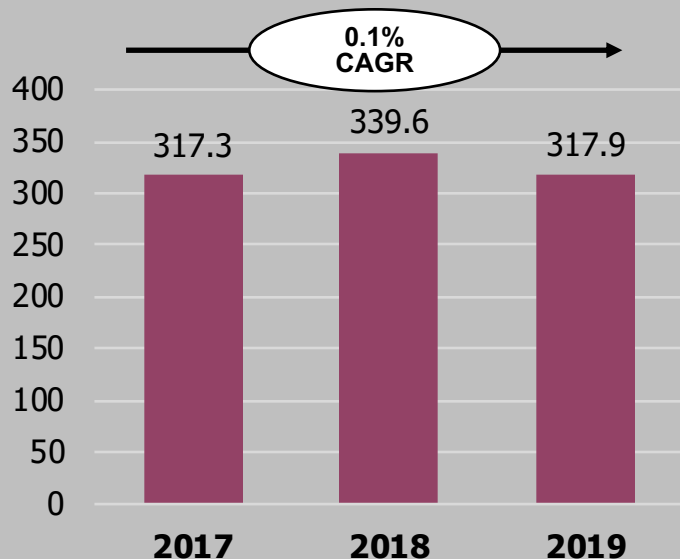
- Number of average full-time employees has increased by nearly 30% between 2017 and 2019
- Total employment has surpassed the 30,000 mark in 2019 with a strong CAGR of 29.9% since 2017
- As of 2020, employment in the craft spirits industry has taken a hit due to COVID-19 with only 71% of distillers able to retain employees, while others had to furlough or lay off employees due to the pandemic

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



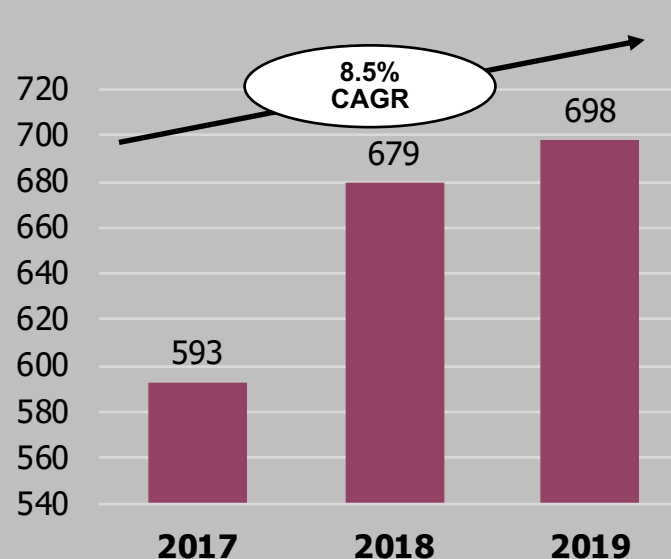
Average Investment* of U.S. Craft Spirits Producers, 2017 – 2019

\$ Thousands



Total Investment* of U.S. Craft Spirits Producers, 2017 – 2019

\$ Millions



- Total investment has increased by 2.8% from \$679m in 2018 to \$698m in 2019
- Total investment is expected to decline overall in 2020 due to COVID-19

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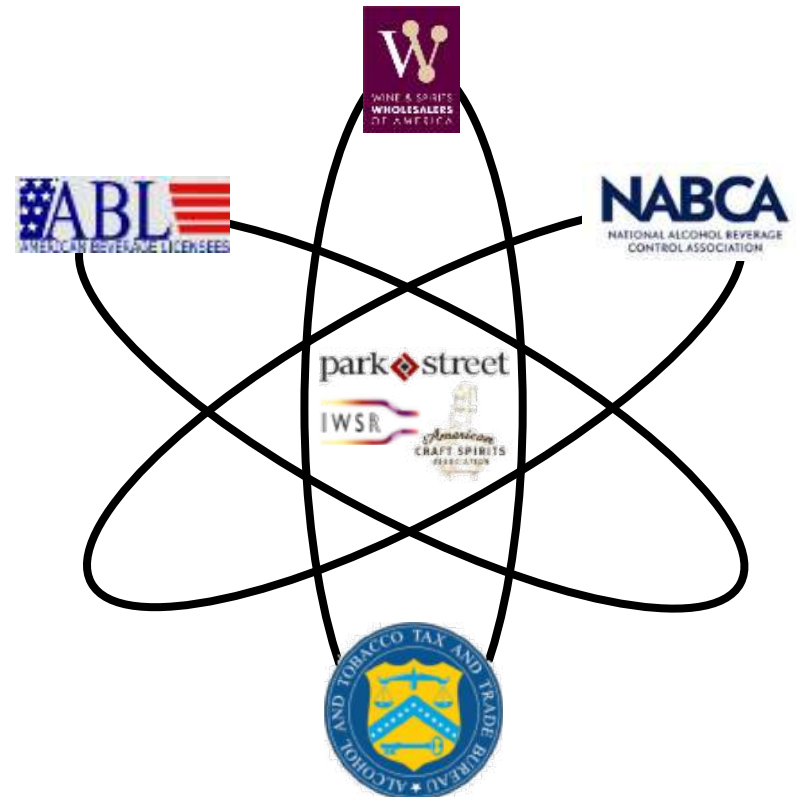


Project Background and Craft Spirits Definition

Teaming up for a common cause

The American Craft Spirits Association, International Wine and Spirits Research, and Park Street teamed up in 2015 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, and ABL have committed resources to help the Project
- The fact base helps 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 provide a consistent fact base for all stakeholders on an ongoing basis. Update reports will be published annually



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 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 12,500 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



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

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

Overview and Update on the Craft Beverage Modernization and Tax Reform Act

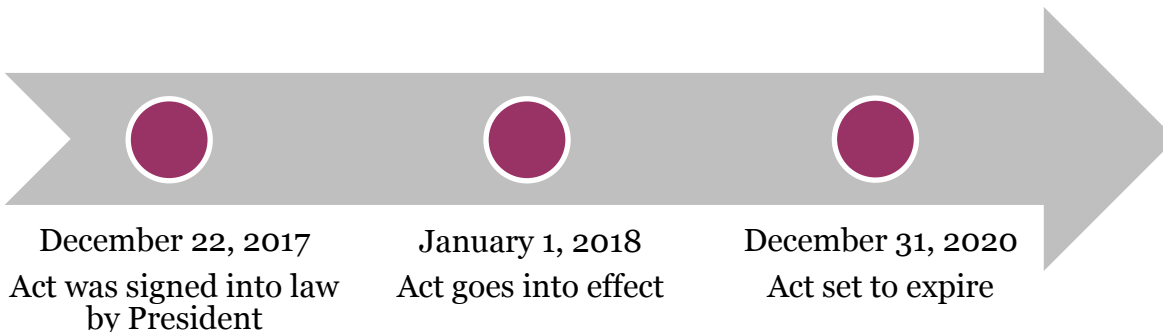


The Act provides for reduced tax rates on distilled spirits, wine, and beer for the 2018, 2019 and 2020 calendar years

There are two reduced tiers for Distilled Spirits

- The first 100,000 proof gallons will be charged at \$2.70 per proof gallon
- Over 100,000 proof gallons up to 22,230,000 proof gallons will be charged \$13.34 per proof gallon

The tax reduction is set to expire at the end of 2020

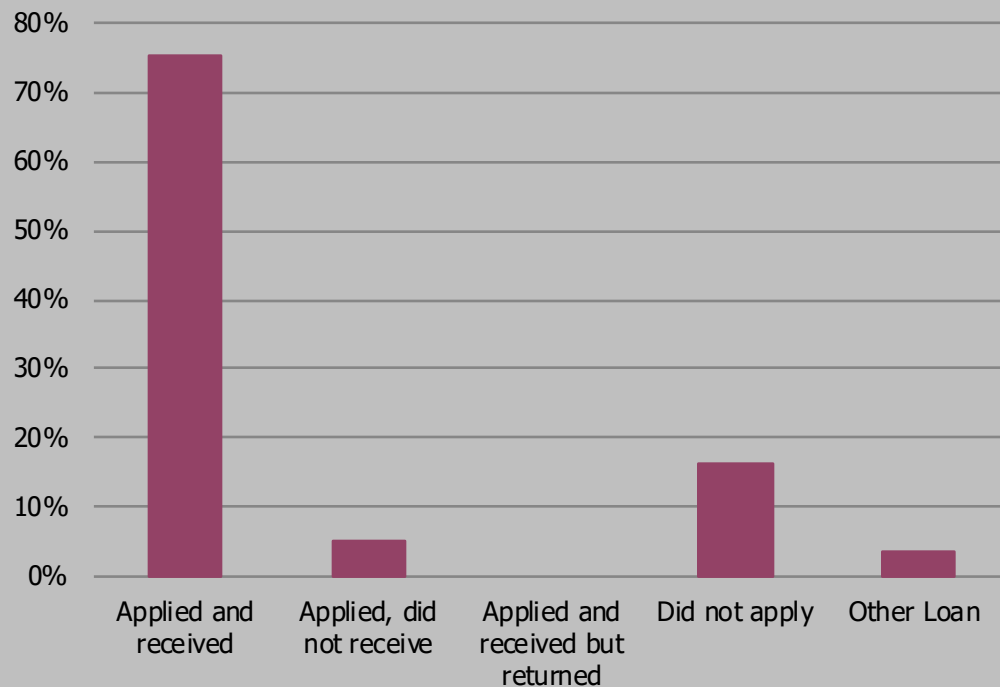


75% of Craft Distillers on Applied for and Received Paycheck Protection Program Loans



Paycheck Protection Program and Other Loans Utilized by Craft Producers

Percent of Respondents

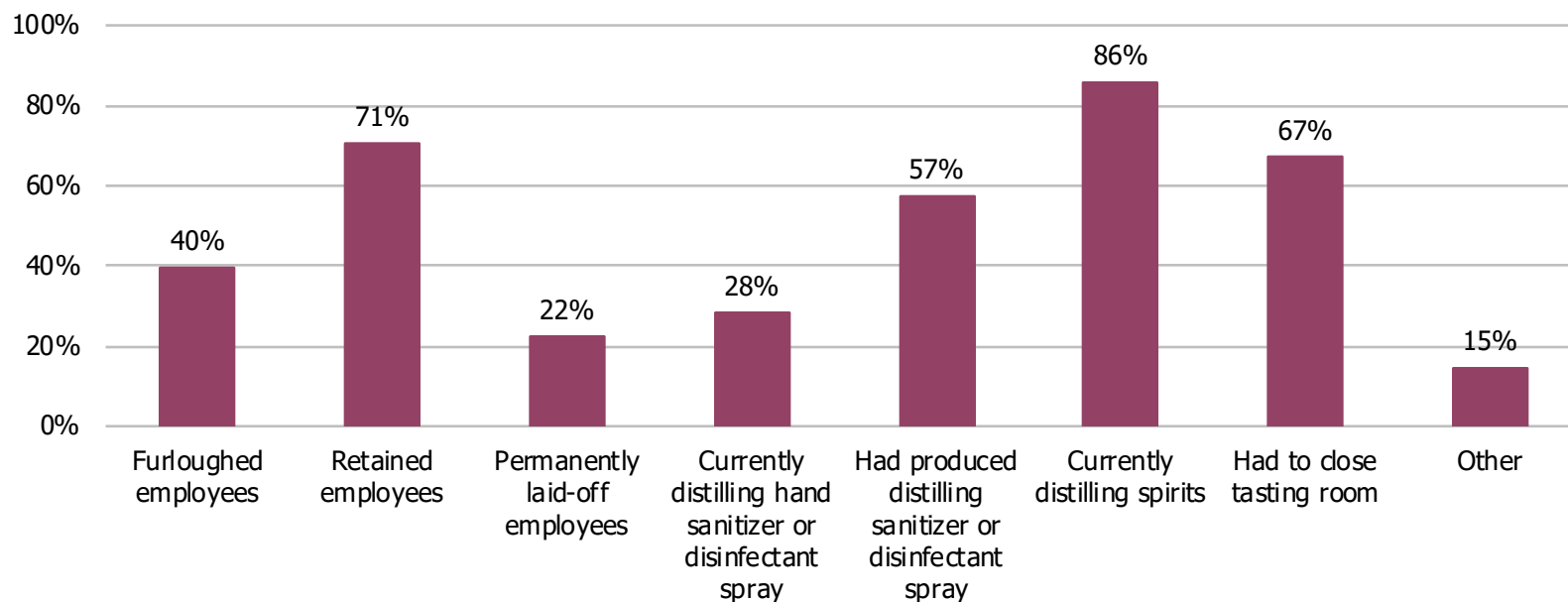


- 75% of craft producers received PPP loans
- 16% did not apply for PPP loans
- 5% applied, but did not receive a loan
- About 4% of distillers applied for Economic Injury Disaster loans

A Variety of Measures Were Taken by Craft Producers in Response to the Pandemic



COVID-19 Measures Taken by Craft Producers Percent of Respondents



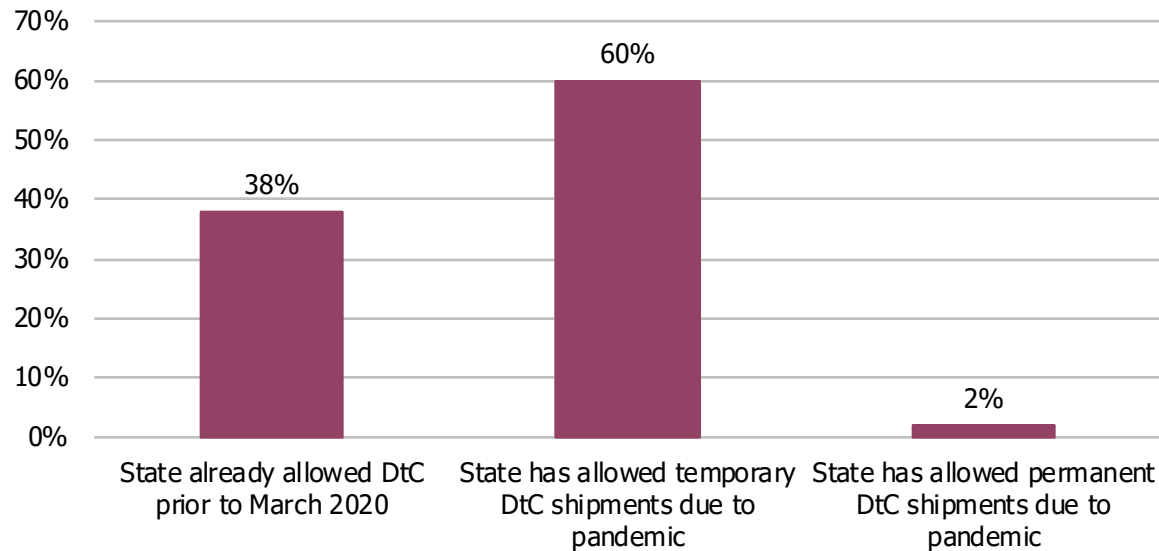
- While just over 70% of producers were able to retain employees, 22% experienced permanent layoffs
- Over 65% had to close tastings rooms in which many transitioned to curbside pickup

Many States Have Relaxed Direct to Consumer Restrictions Since the Start of the Pandemic



Craft Producers That Temporarily or Permanently Have the Ability to Ship DtC Since March 2020

Percent of Respondents



- 60% of craft producers have their main distillery located in states that have allowed temporary DtC shipments
- DtC opens another avenue for sales for producers affected by closures of tasting rooms and tour operations