Brewers Association 2023 Brewing and Hop Usage Update

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Chief Economist

BREWERS ASSOCIATION

Thank you!

1. Overview
2. The Good
3. The Bad
4. & the Beautiful (aka the Hops)

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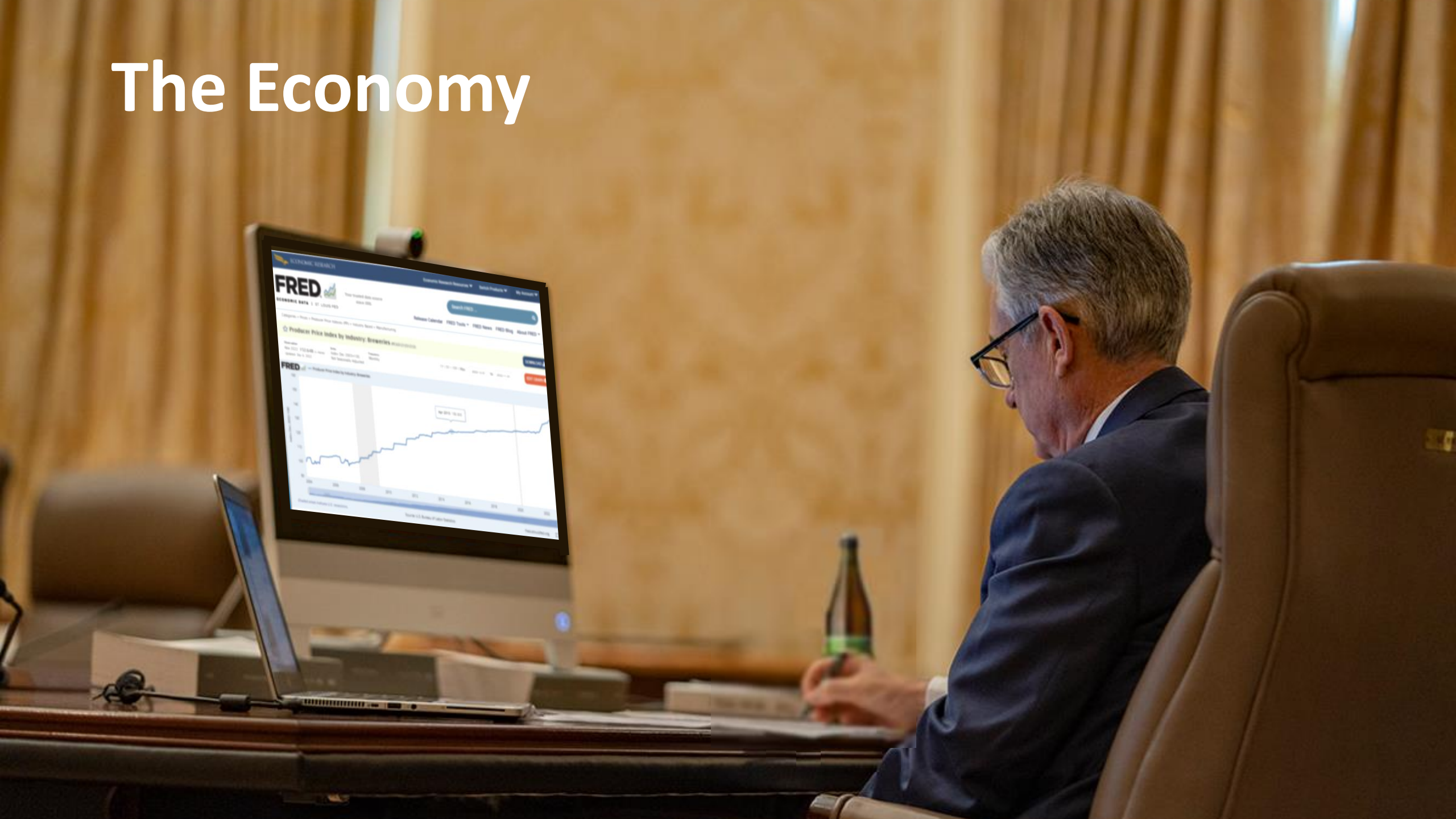
Overview

- A Tale of Two Models

- Has distributed craft lost its momentum?
- At the brewery stronger and still growing (though how long?)

- Other Concerns (not in this talk)
  - Costs rising; Competition; Economy/inflation

The Economy



Survey So Far

- ~1,500+ responses. 1,000+ cleaned/lined up.
- Almost certain to have response bias
- Running +4% right now*
- 2% regionals. 10% micros. 8% taprooms/brewpubs (collectively)
- My prediction would be slight growth (closer to 2%)

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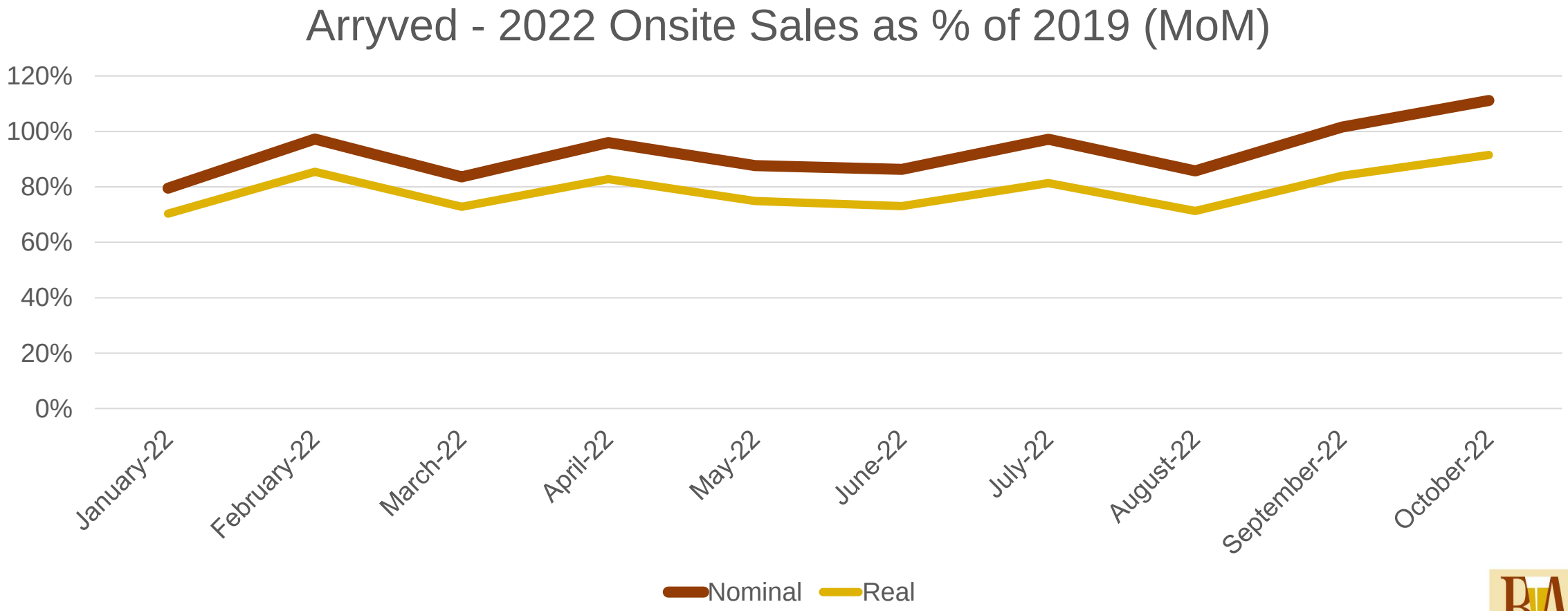
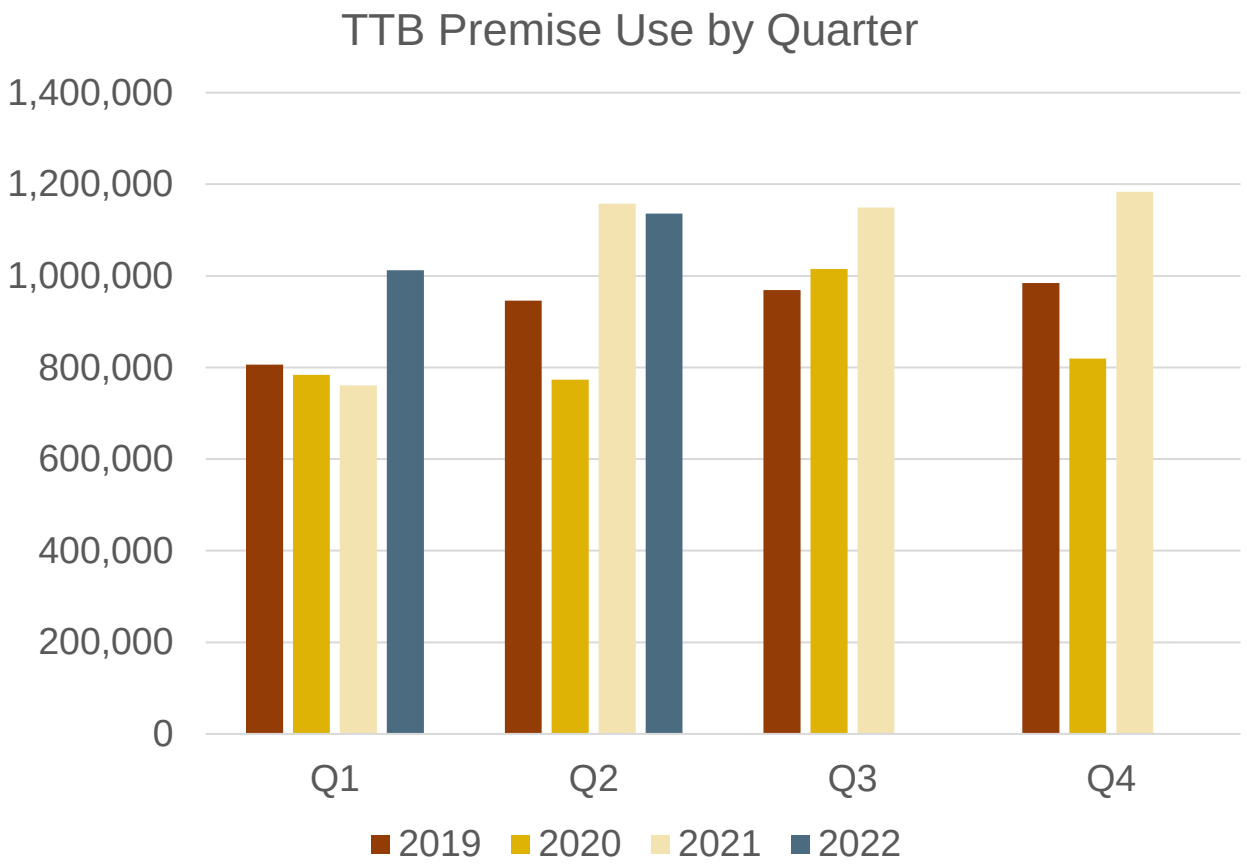
At the Brewery

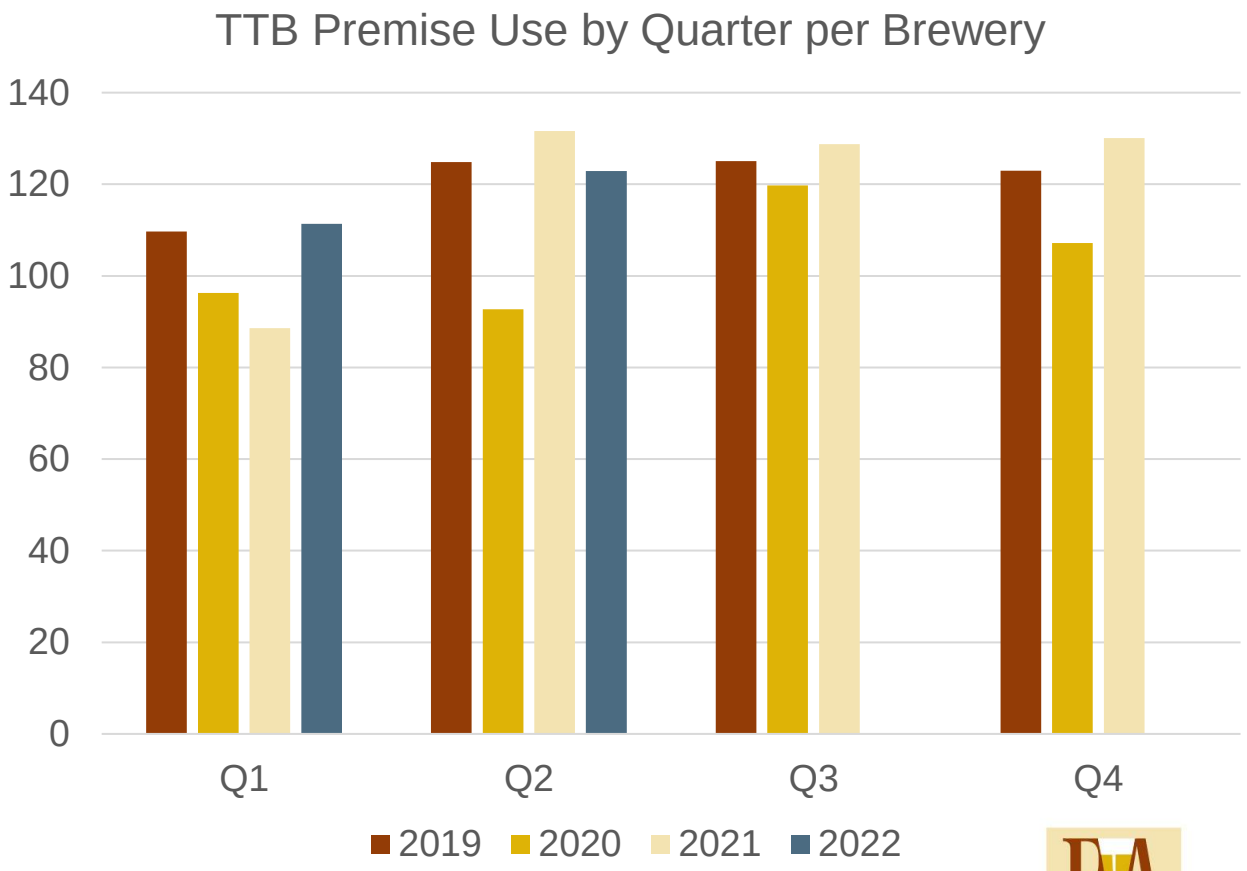
- The bright spot
- Different business
- Hard to scale volume (efforts to scale have generally failed) – but opportunities remain
- How long can it continue?
- Conflict with other tiers (see New Jersey)

POS Dollar Sales Back (tho not inflation adj)

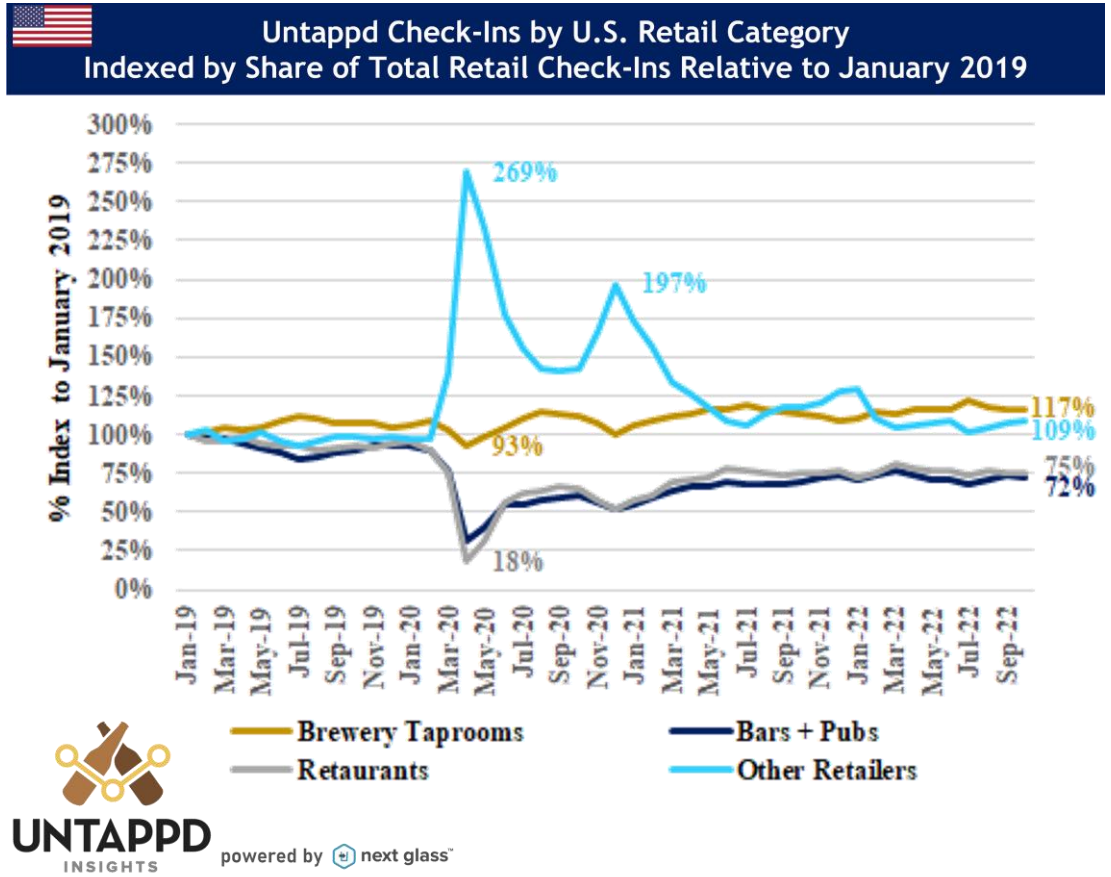


Volume back… Not necessarily on per brewery basis

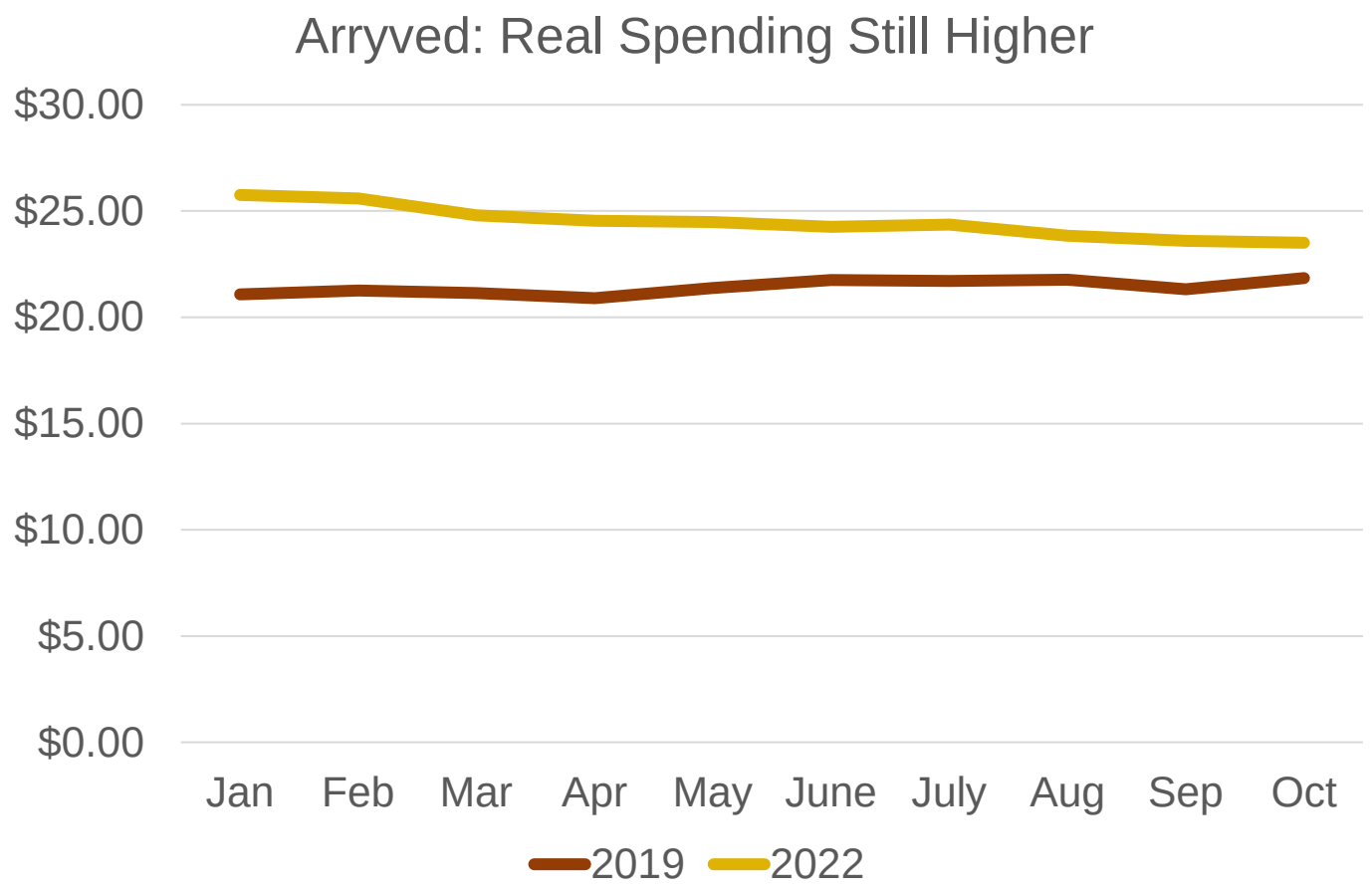




Check-Ins Show Traffic Back… for some Customers

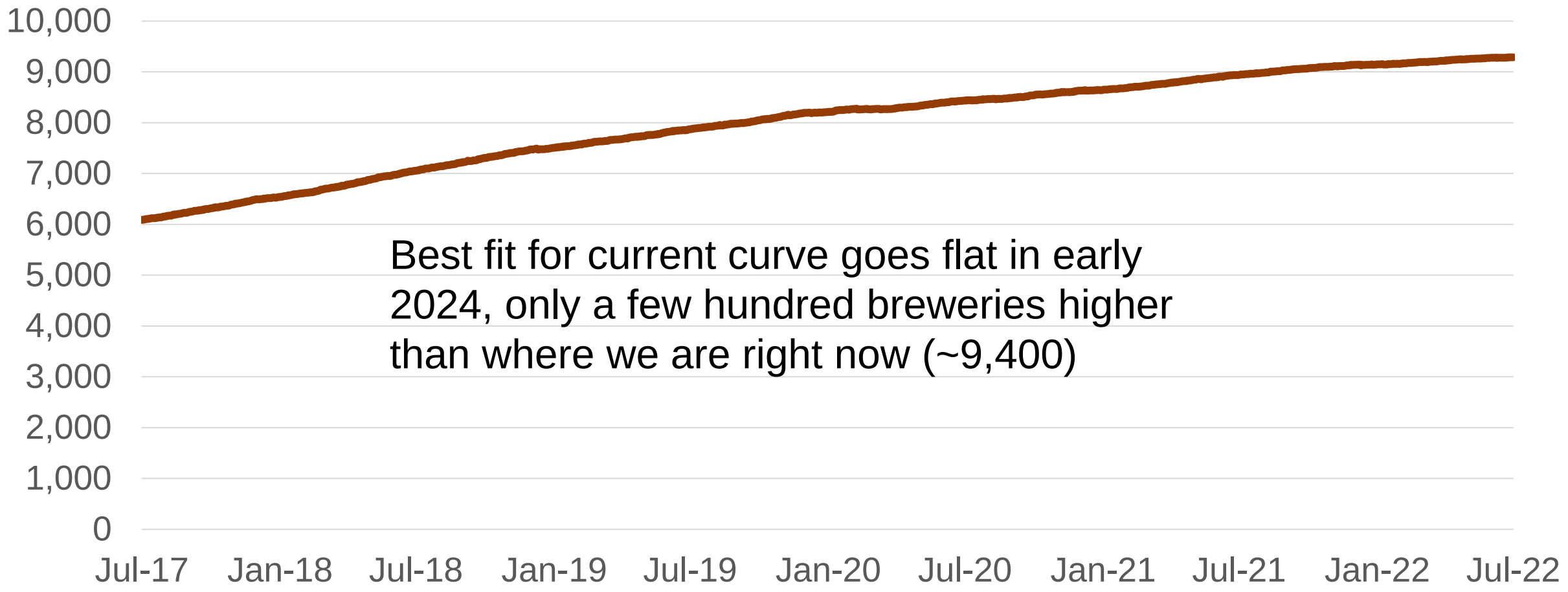


Connecting the Dots



- My unified theory
  - Traffic back amongst core
    - Explains higher $/visit & Untappd
  - Other traffic struggling
    - Explains lower volume and real dollars

Has Allowed Brewery Number to Continue Growing



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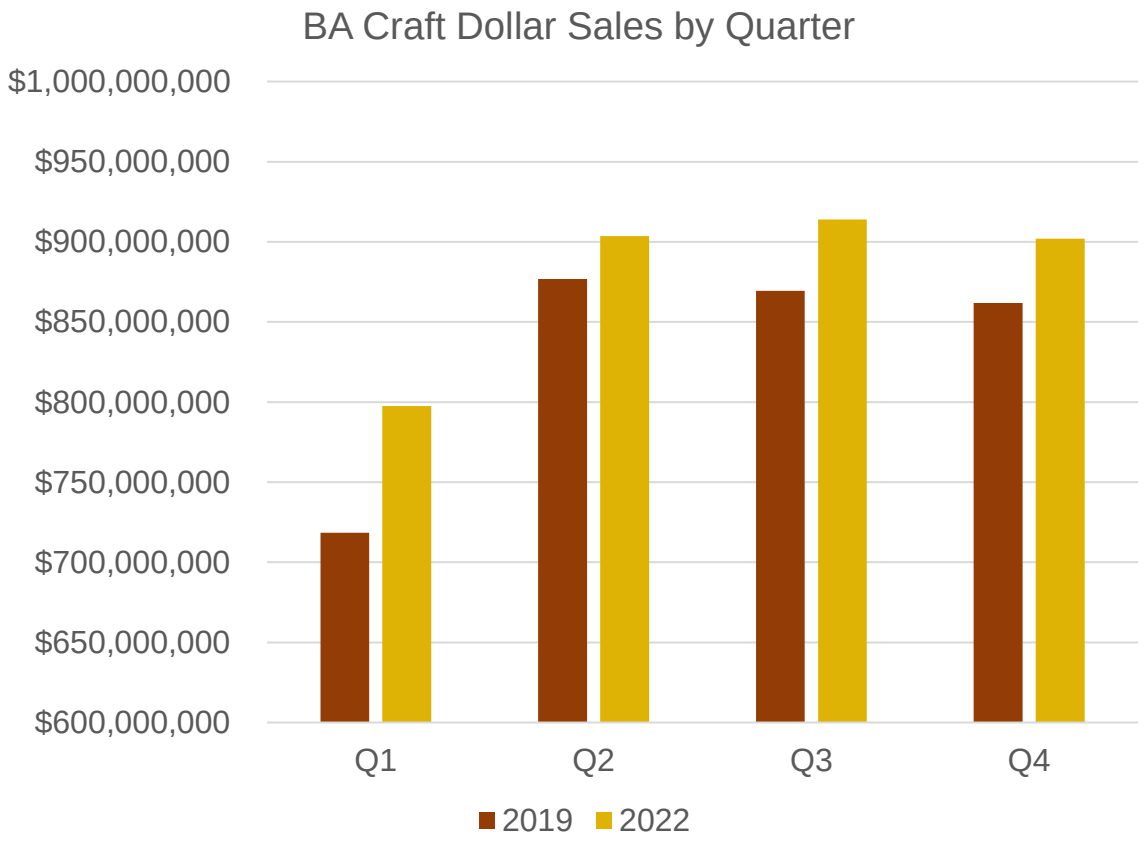
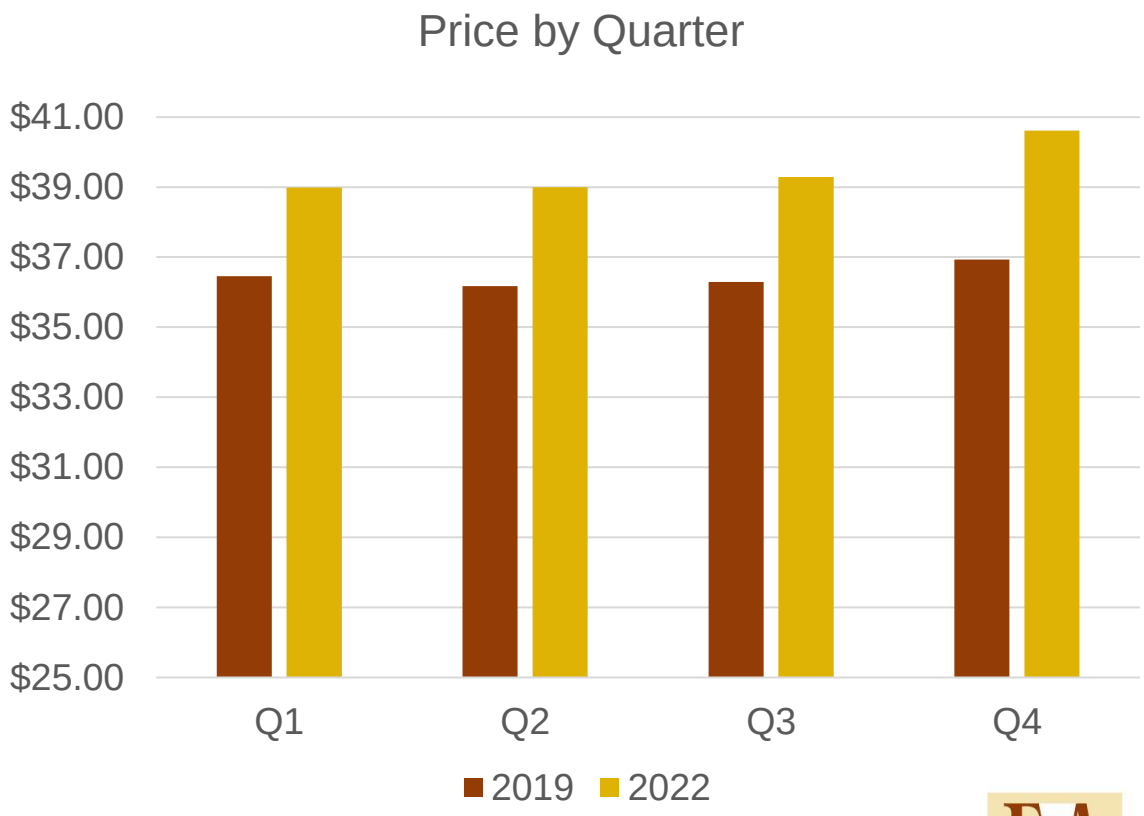
A Reminder

- Huge Channel Shift in 2020
  - Last two years, distribution numbers have been largely explained by channel shift
- That's not really the case anymore
- Now cycling "new normal"

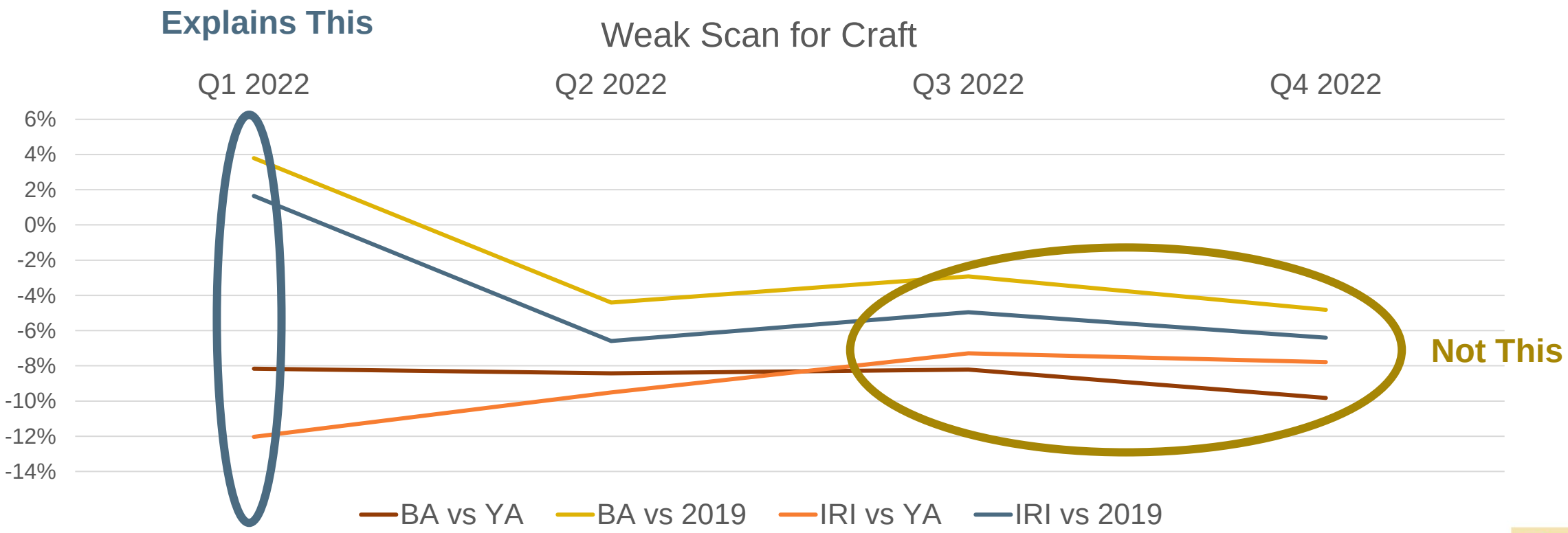
Small Dollar Growth…

… Driven by Price



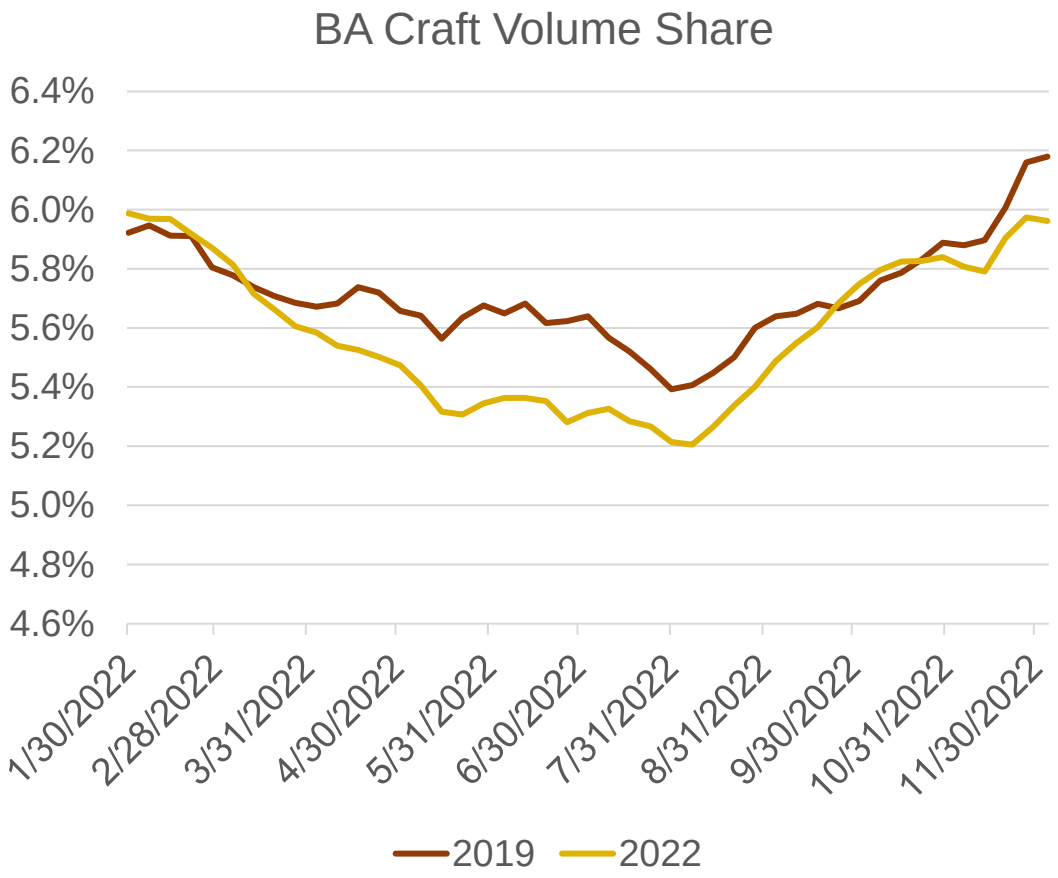


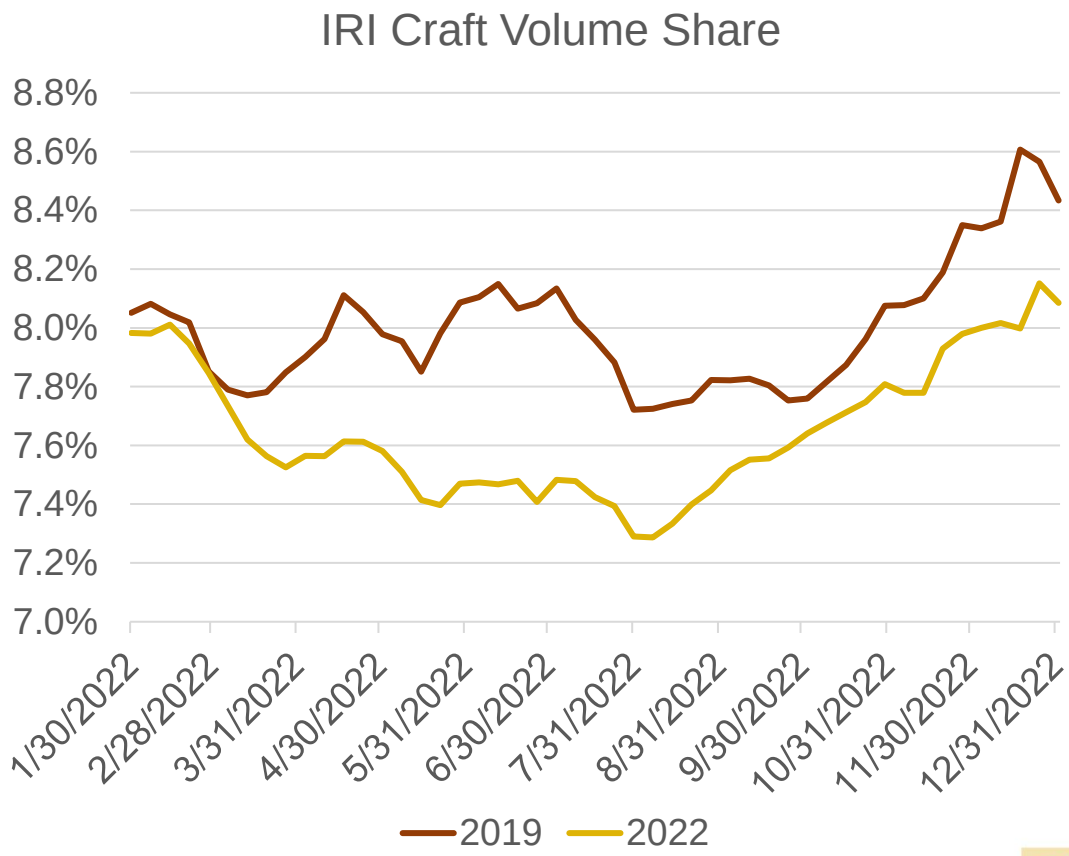
Channel Shift Explains Some of Weakness… Not All



Craft Share Static or Down vs '19

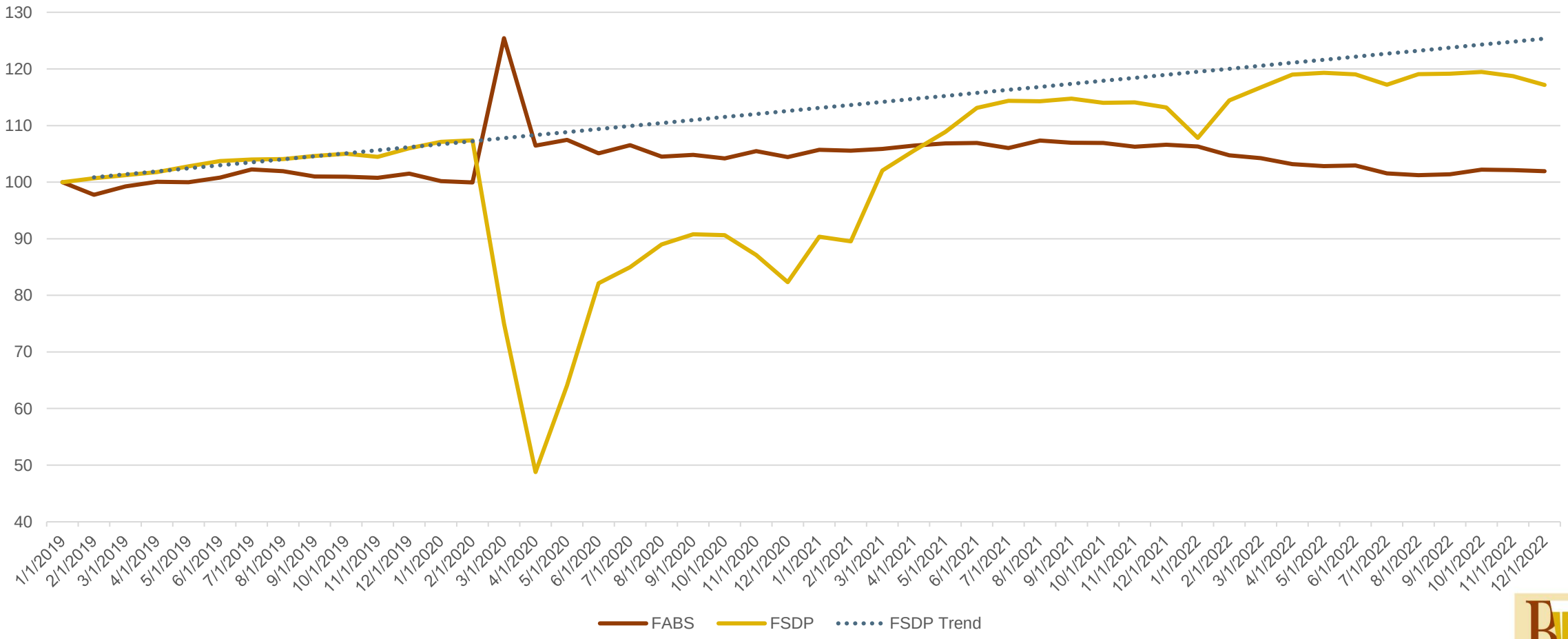
Source: IRI Group; Total US; MULO+C+Total Liquor



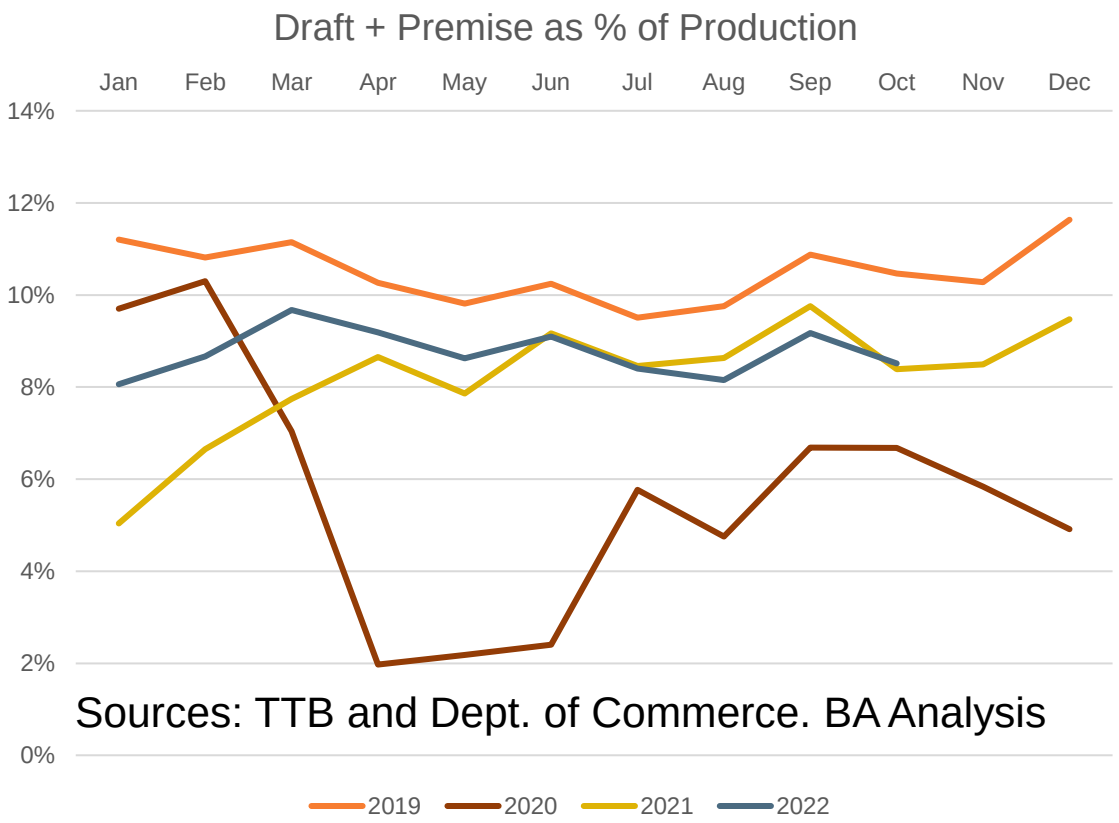


Bars/Restaurants Back

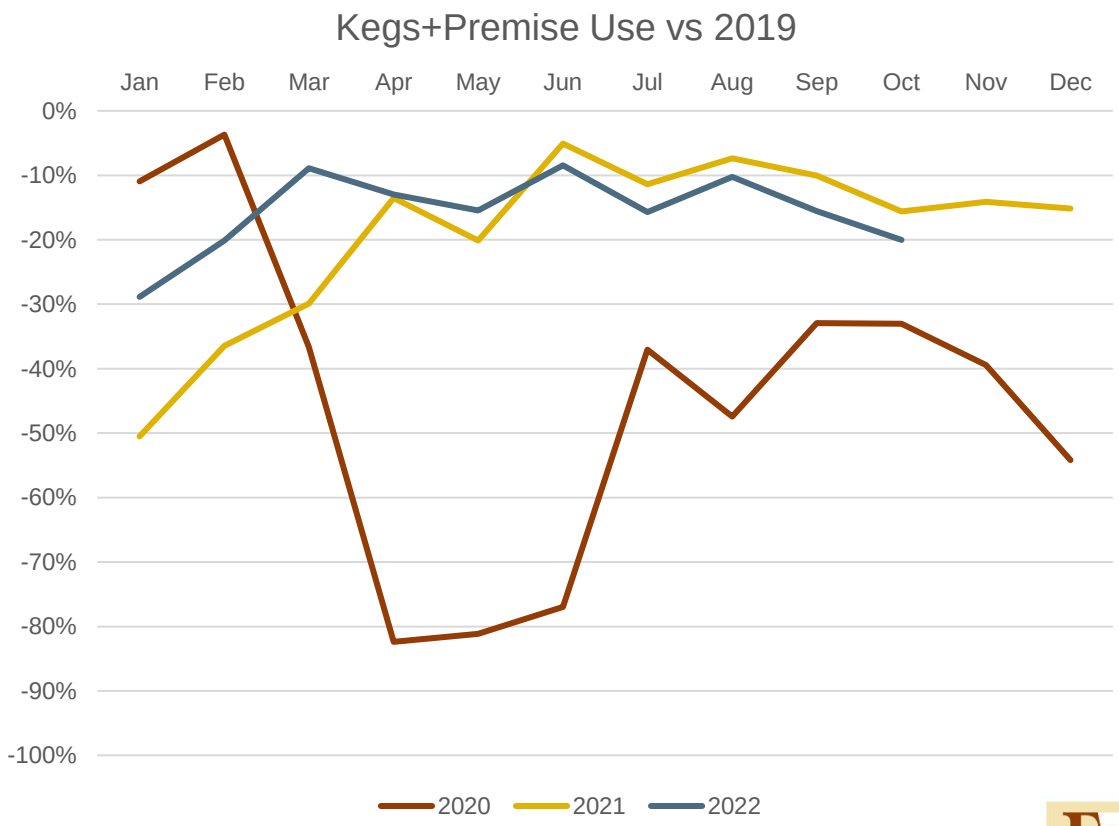
Real Level Indices: Food Services and Drinking Places
and Food and Beverage Stores



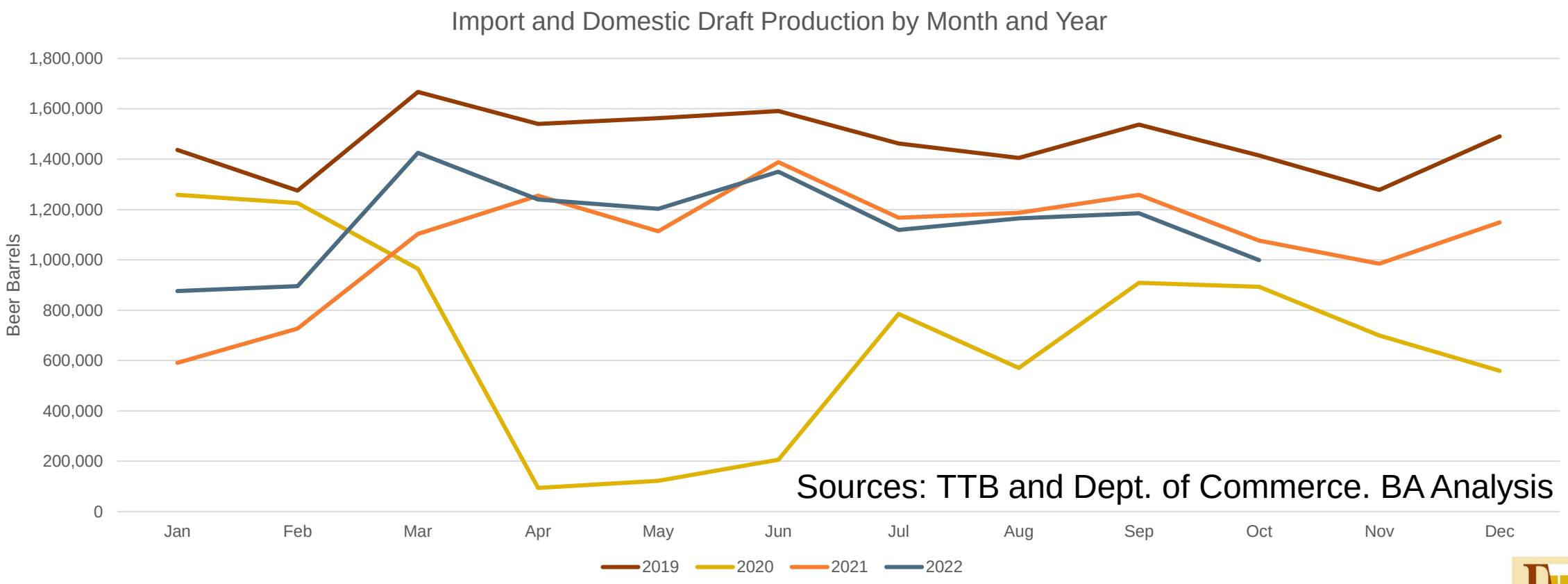
On Prem Back - But Beer Still Struggling



Sources: TTB and Dept. of Commerce. BA Analysis



Worse Without Taprooms/Brewpubs



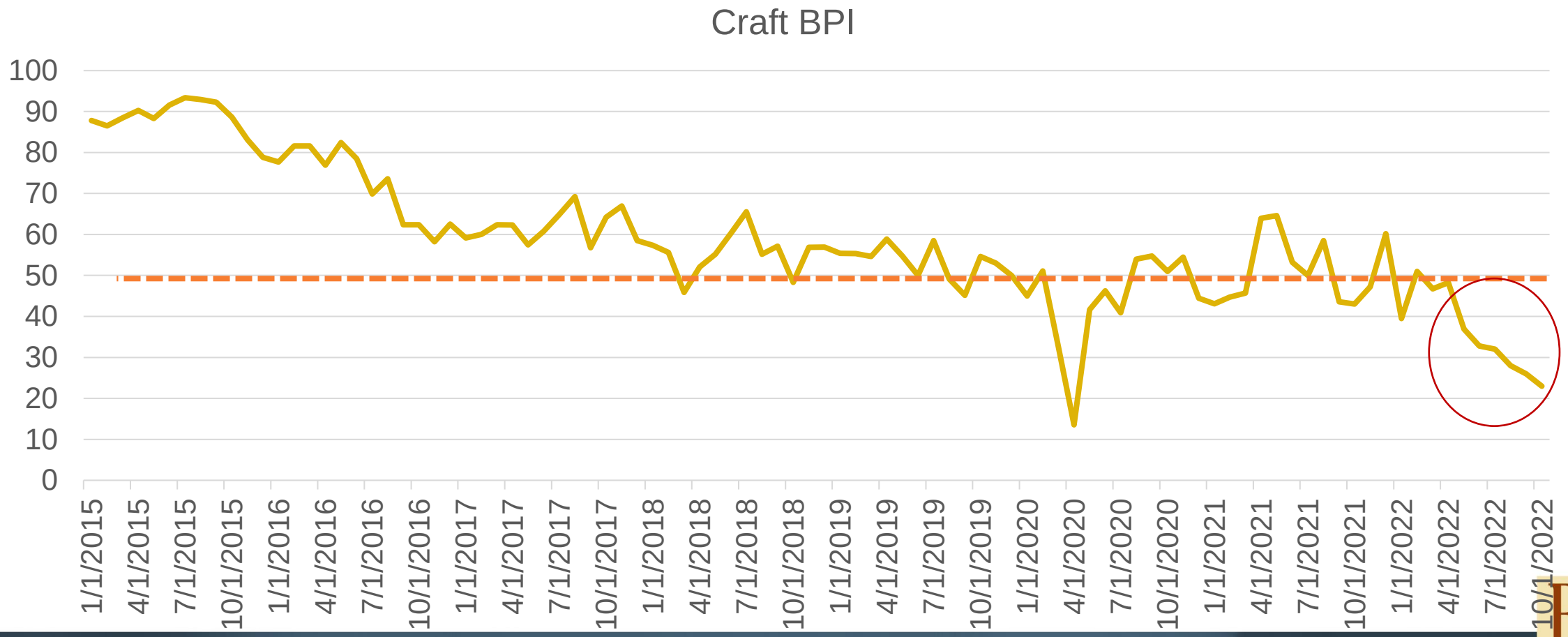
Why Should You Care?

- ~340,000 barrels a month still shifted
- 4.1 M barrels a year
- Roughly 30% craft (on) vs 8% (off)
- 900,000 missing craft barrels
- 1.3-1.4M lbs hops?

Summing Distribution

- Distributed craft struggling nationally
  - Lower draft share/volume + lower scan share/volume
  - Scan weak, even as we cycle more normal on-premise comps
  - Draft clearly not fully back and flatlining. Some weak evidence craft losing there too (BeerBoard etc.)
- Will create more short/medium term pressure
  - Spacing? Distributor SKUs? What else?
  - Spring resets aren’t going to be pretty…

Craft Beer Purchasers Index (NBWA)



2023 Predictions

- Distributed craft volume won't grow

"Trying to get back to where we were and level out, that was years ago at this point," she said. "Our customers are very different. We've got new drinkers. We've got drinkers who've given up drinking."

- Mary Guiver, Whole Foods

"We keep thinking that eventually we'll get back to the 2019 sort of run that we were having. It's not going to happen. It's gonna be different.

- Jamie Carawan, Buffalo Wild Wings

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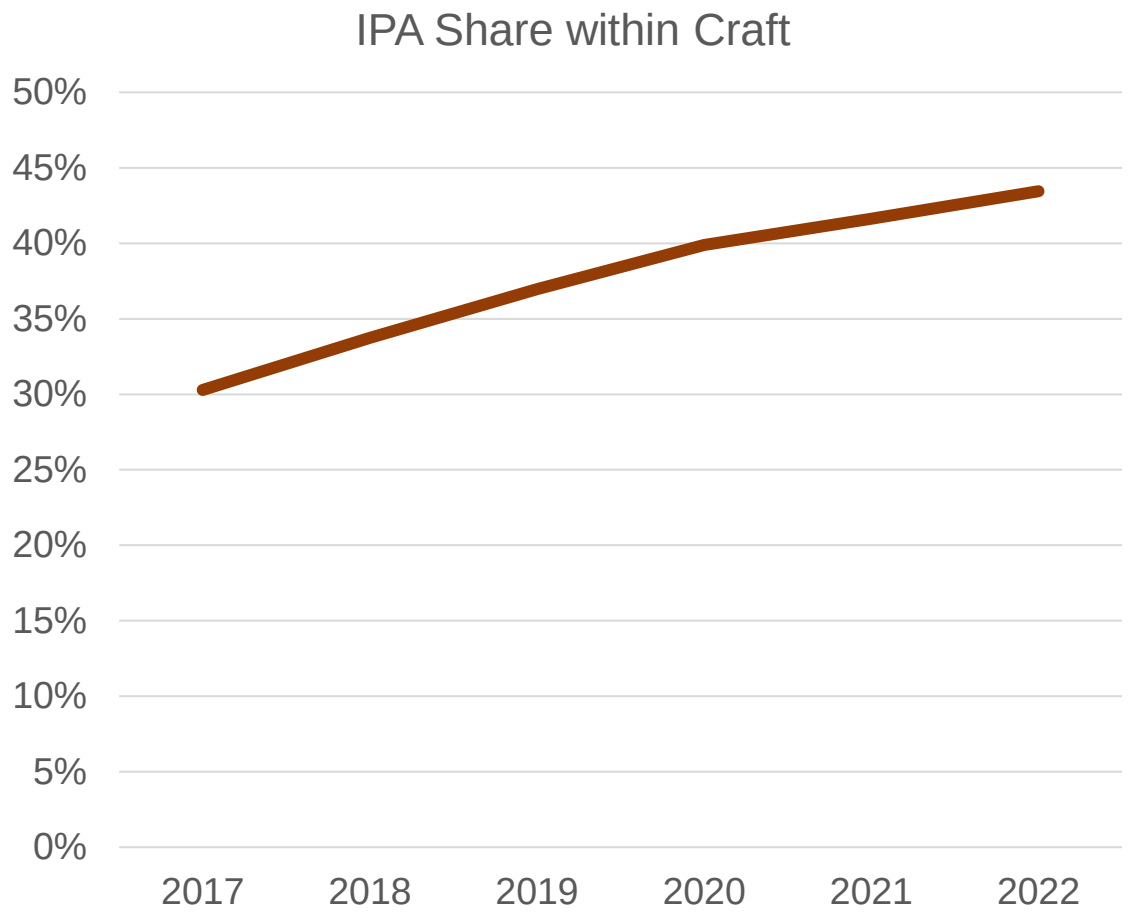
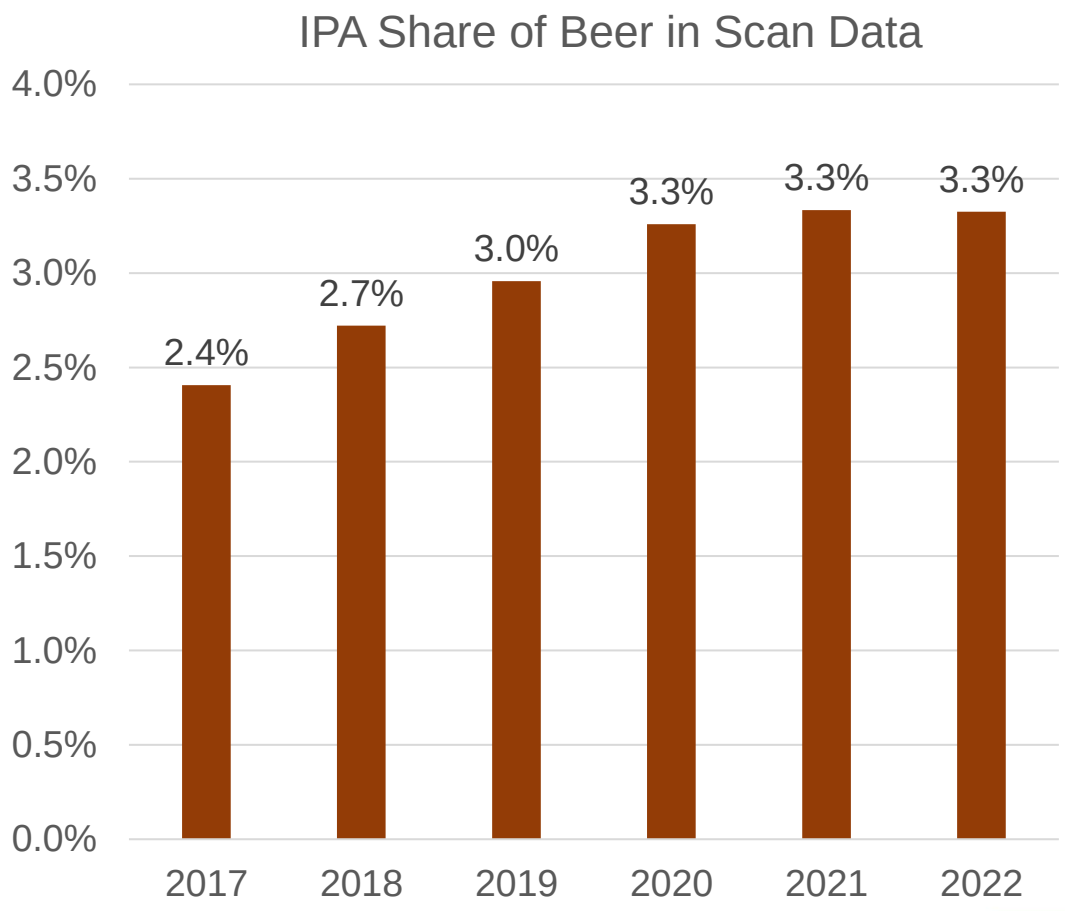
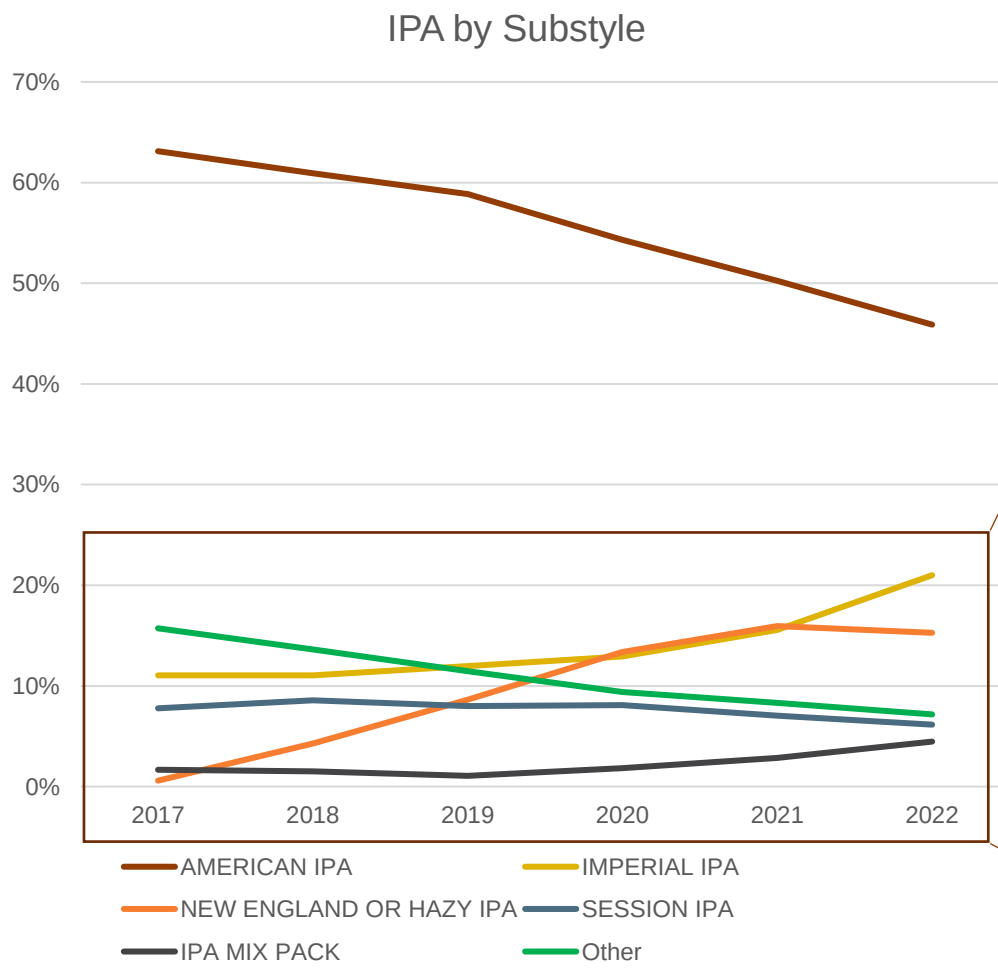
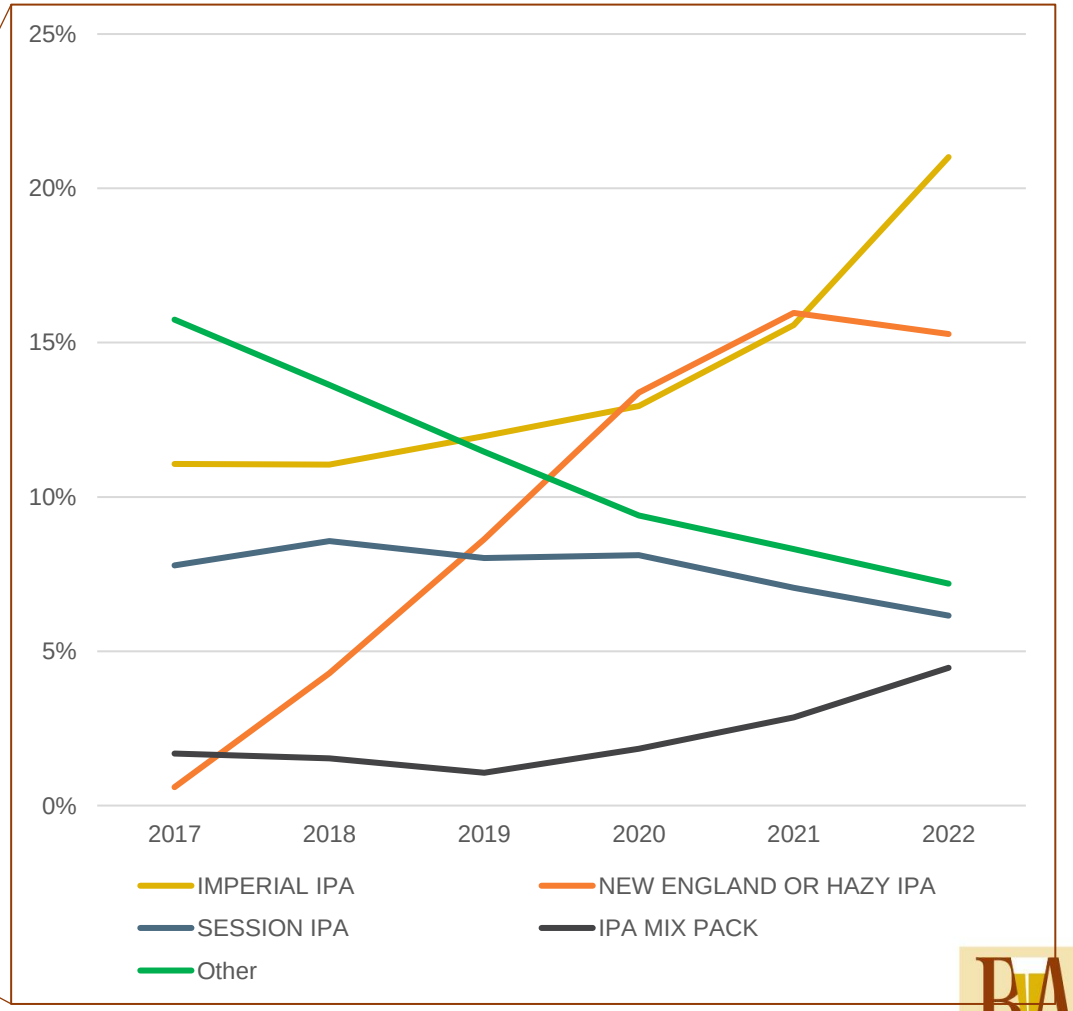
IPA in Scan Data





Shifting IPA Composition

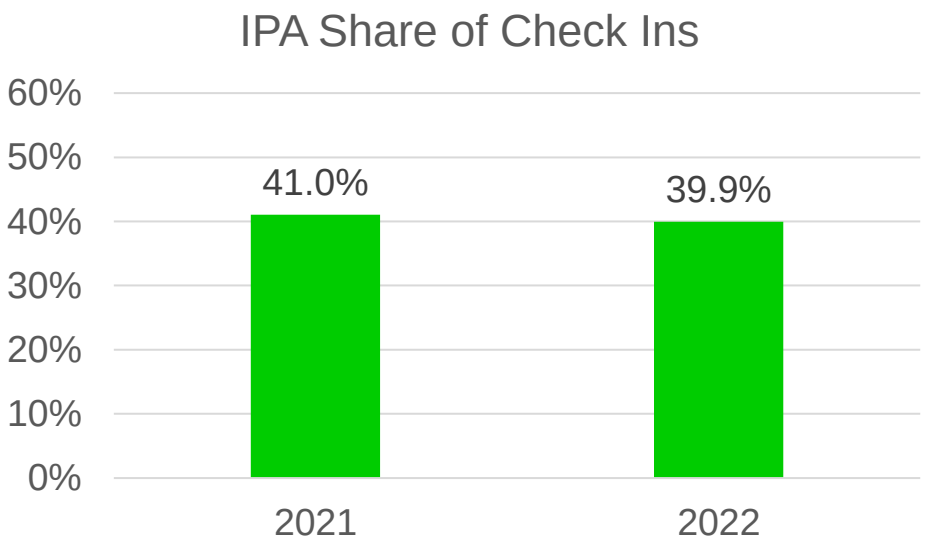


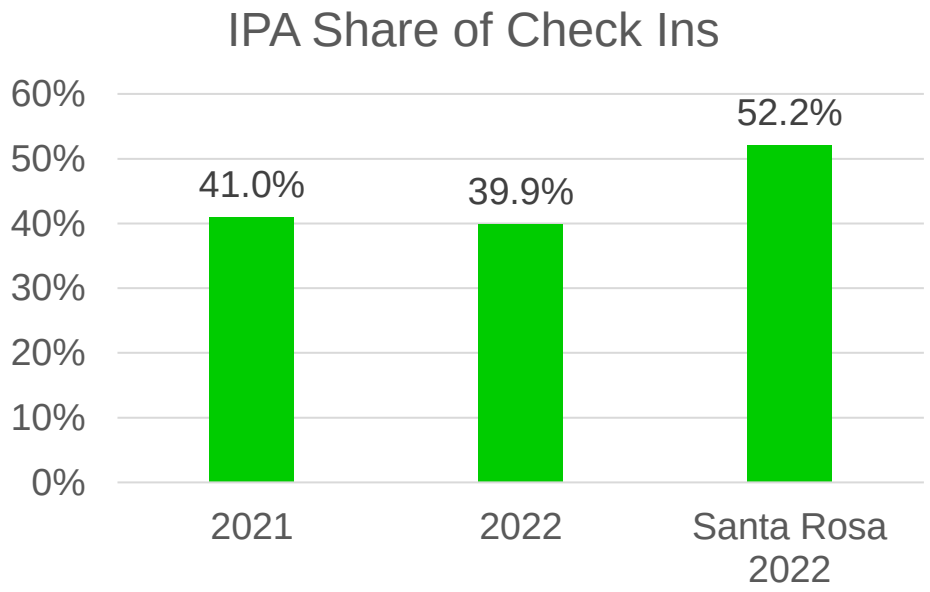


What Scan Misses

- Draught
  - Grew in 2022 due to channel shift. Likely up ~0.75 M barrels in 2022.
  - Will it in 2023?
- At the brewery
  - TTB premise use will likely grow *at least* 0.5 M barrels after revisions

One final data point…
Untappd Data

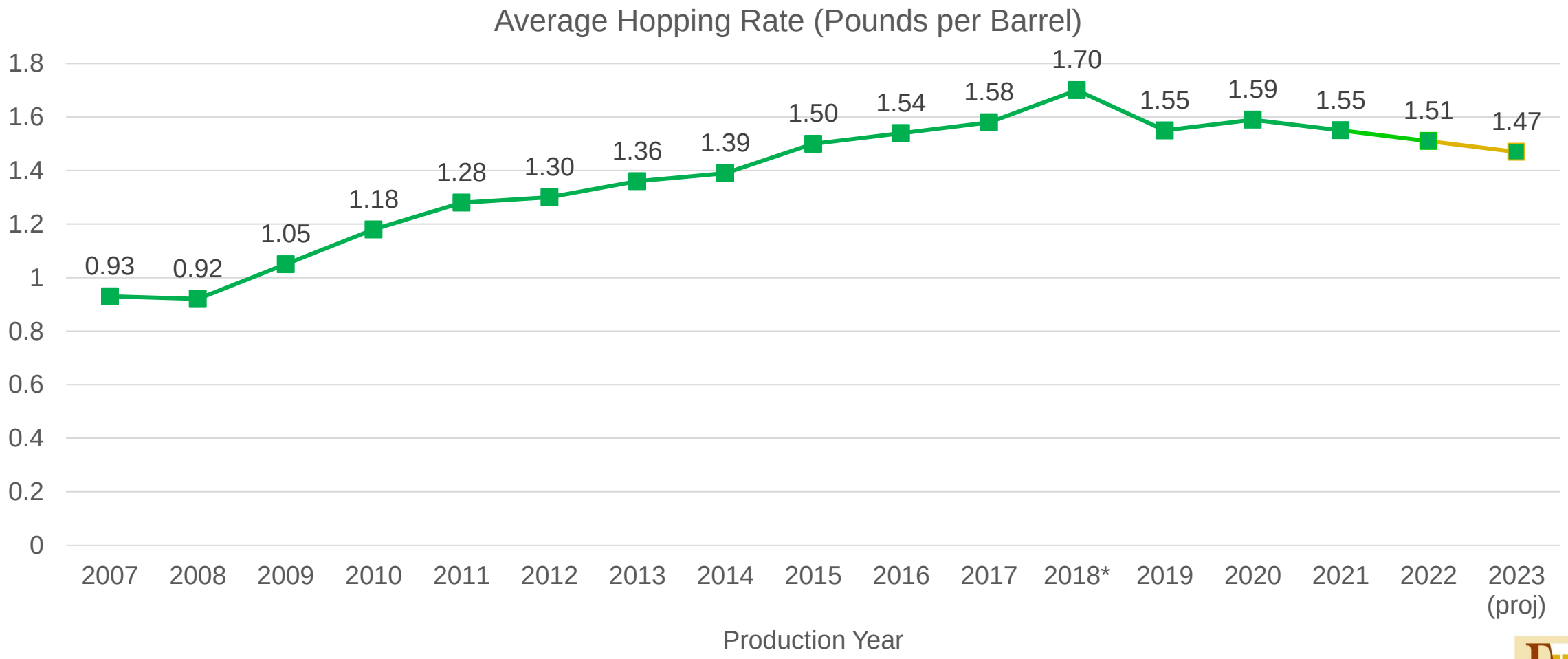




2022 Brewers Association Hop Survey

- Annual Survey
- 14 Years of Data collected 2008 - 2022
  - Based on craft volume as defined
- A SURVEY, so the results shown are estimates: “Actual Mileage May Vary”
- 61.5% report at least some forward contracting*
- I extrapolate from missing responses
  - * Respondent bias for higher usage

Reported Hopping Rate Slightly Down



Notes: 2019 Revised. Previous years = survey year, not production year

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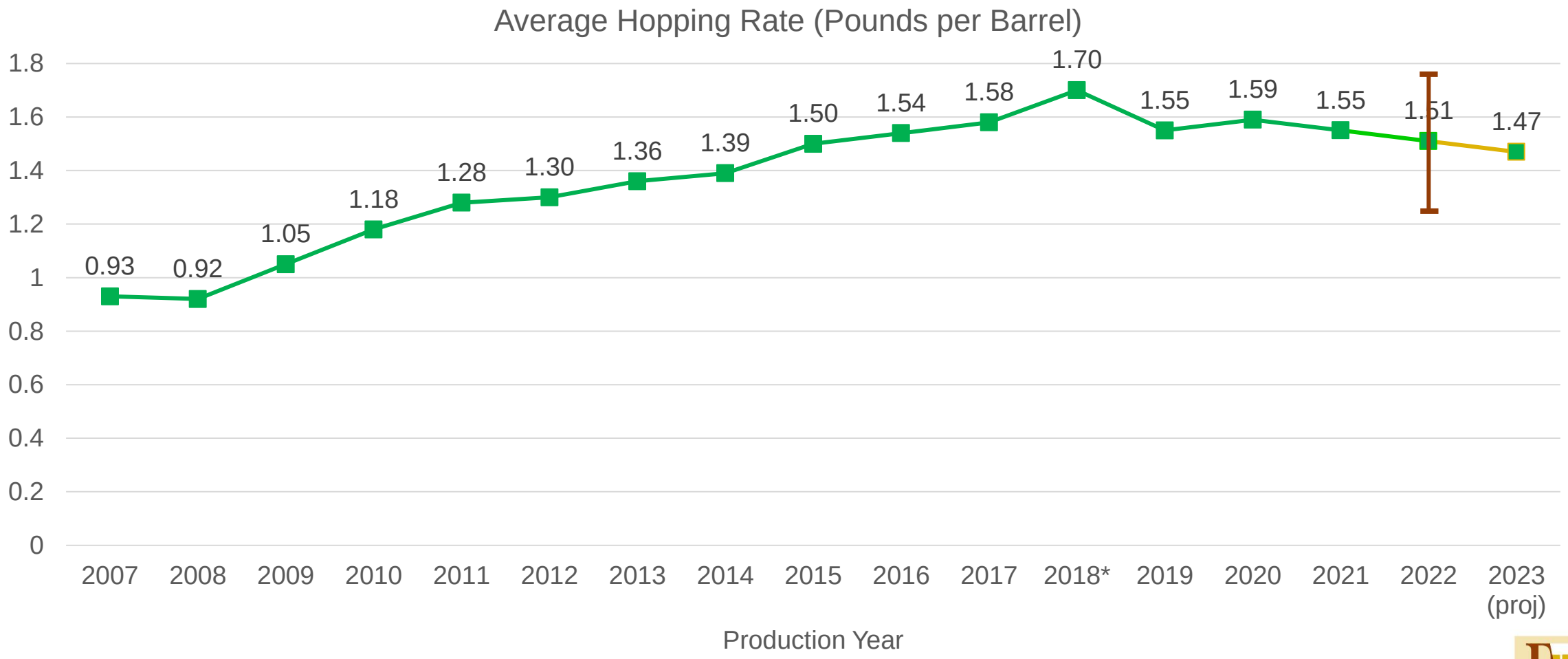

Notes: 2019 Revised. Previous years = survey year, not production year

Brewers Using Slightly Fewer Reported Hops per Barrel

- 50% saw hopping rate drop (project 46% next year)
- 2% static (10% projected)
- 48% grow (project 44% next year)
- So net is slight drop

- Also in styles:
  - Growth in lighter styles
  - Medium hop styles losing share

BUT…

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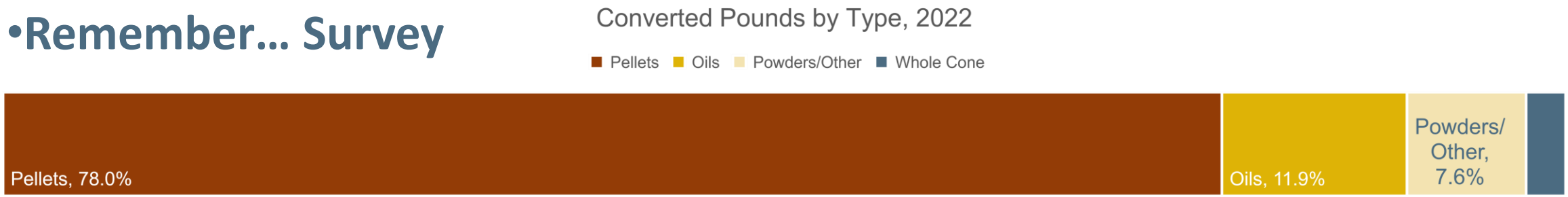
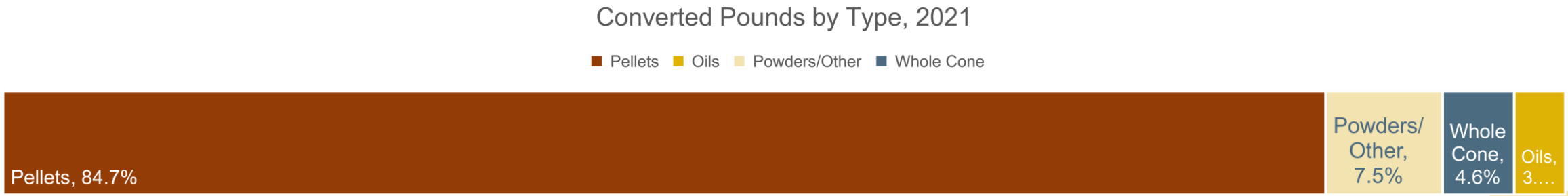
Oil/Powder/Downstream Usage

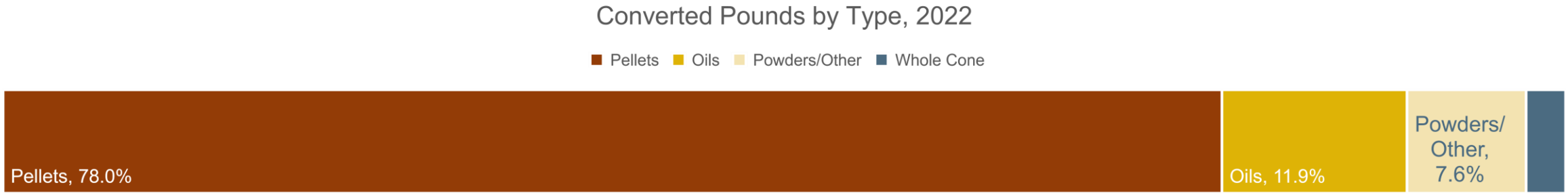
- 43% report some downstream usage
- Oils/powders/other non-pellet/whole cone products 19.5% of pound equivalents in 2020. Up from 10.8% last year.
- Remember… Survey

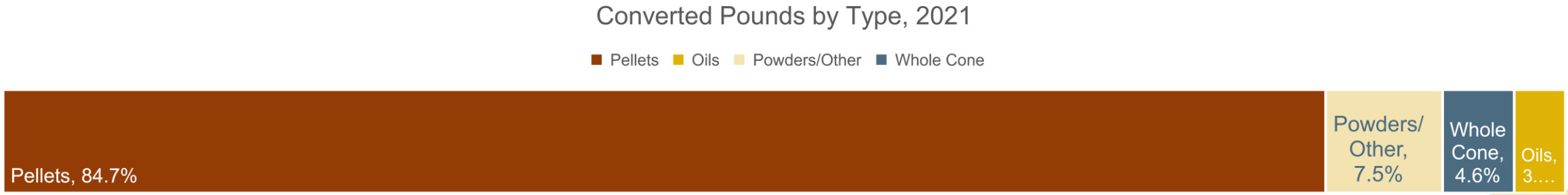




Oil/Powder/Downstream Usage

- Each 2022 Reported lb = ~1.16 lbs raw hops (fuzzy math)
- Each 2021 Reported lb = ~1.07 lbs raw hops
- Converts to 4.5% increase in lbs/barrel





Usage and Production

Summary:

- BA Craft will grow slightly in 2022 (total full flavored likely closer to static)
    - Similar prognosis for 2023
- Brewers report fewer lbs/barrel, but offset but increasing use of oils/powders products – estimating growth of 4% in raw hop usage
- Coupled with continued IPA share growth…
- Likely predicts mid single digit use growth in coming years

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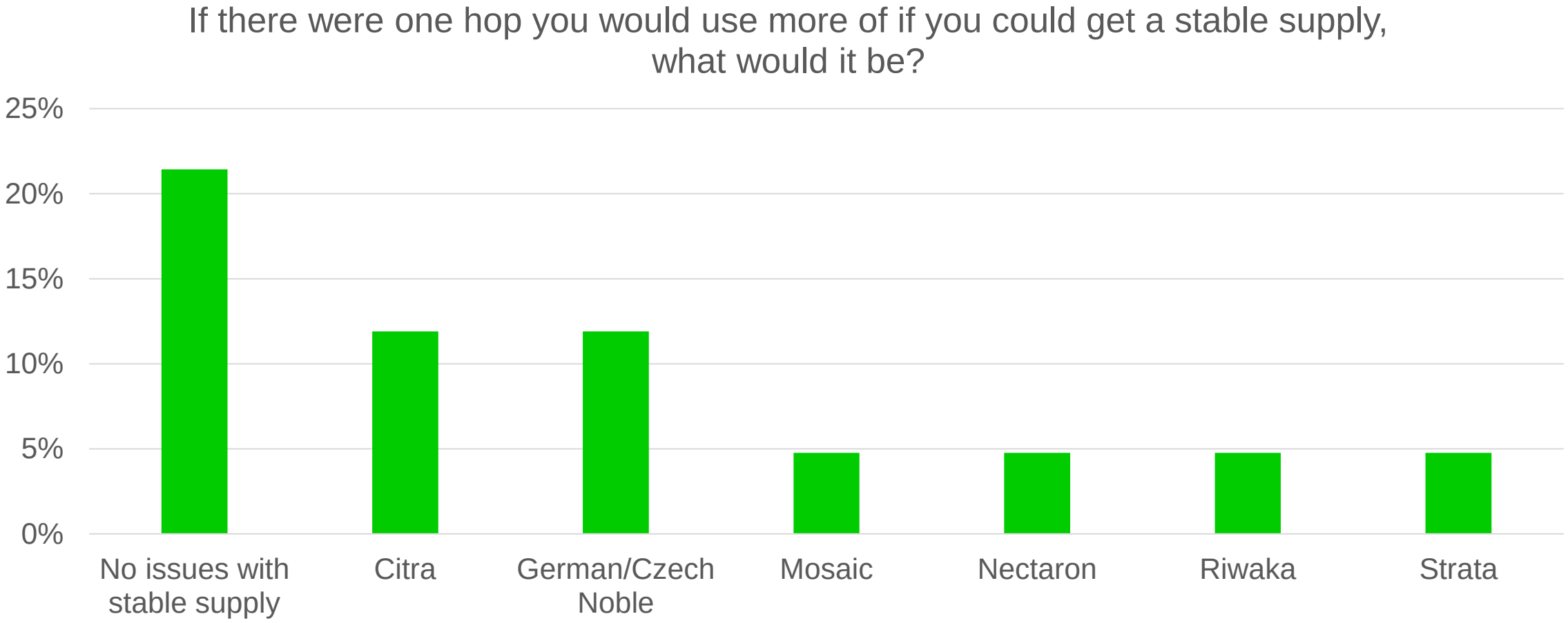
What do Brewers Want More Of?



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