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Craft Brewery Financial Benchmarking Report

2019 survey results

Contents

Introduction

Plante Moran, one of the nation's largest accounting, tax, and consulting firms, completed its seventh annual financial benchmarking survey as a service to the craft brewing industry.

Survey participants were client and nonclient breweries, including many of the largest breweries in Colorado, California, and Minnesota, and many other top 100 brewing companies (ranked based on beer sales volume). Participating breweries reported more than 2 million barrels in production with an average of 85,000 barrels per brewery.

This 2019 industry report provides highlights of our compiled survey data, which is based on 2018 financial results, and it also examines how the COVID-19 pandemic has impacted the craft brewing industry, including the actions craft breweries should consider taking to adapt to the resulting "new normal."

Pre-COVID-19 industry environment

For the purpose of this report, and in line with industry norms, we're defining craft breweries as small, independent, and traditional. Our survey indicates a continuation of single-digit growth, and there were many other benchmarks that continued to point to a maturing industry.

Although the craft brewery industry is reaching maturation and margins continue to decline, this hasn't prevented new breweries from entering the market. According to the Brewers Association, nearly 1,000 breweries opened in 2019 with approximately 300 closing. These new entrants to the market helped drive 4% growth in craft beer by volume, which equated to 26.3 million barrels of beer, while the overall beer market contracted by 2% in 2019. With more than 6% growth in retail dollar value for 2019, the craft brewery industry now represents over 25% of the total market share of the overall beer market. This growth was achieved despite the increased competition from seltzers, wine, and spirits, and a continued shift in consumer preferences.

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Because of industry maturation and other market dynamics, the craft brewery industry was already showing hints of a decline. This was mostly being felt by the larger regional craft breweries, making this a much more difficult environment for those that wanted to not only differentiate themselves but that wanted to grow and expand geographically. Only time will tell how these positive and negative trends will play out with the uncertainty that COVID-19 presents.

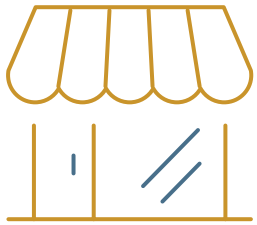
KEY METRICS FROM THE PLANTE MORAN BENCHMARKING SURVEY

	2018	2017	2016
Net beer revenue by barrel — simple average	$392	$365	$362
Net beer revenue by barrel — weighted average	$282	$276	$272
Growth in beer volume (barrels sold)	8%	6%	16%
Gross profit per barrel — simple average	$169	$178	$169
Gross profit per barrel — weighted average	$122	$112	$106

The challenges of COVID-19

The impacts of COVID-19 on this industry and the broader economy are still playing out. Amid state and federal orders to close bars and restaurants, shelter in place, and maintain social distancing, breweries must deal with the rapidly evolving changes and the potential consequences of the COVID-19 pandemic. No one yet knows what taprooms, restaurants, and entertainment venues will look like under social distancing in the "new normal."

- ? *How will consumer demand be affected by this changing climate?*
- ? *Will there be a long-term systemic drop in volume?*
- ? *Will the industry realize increased consolidation?*



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According to an April survey of U.S. breweries by the Brewers Association, 60% of craft breweries have slowed their production schedule, with 28% completely stopping production altogether due to COVID-19. Respondents to our 2019 survey generated 47% of their sales on-premise. When on-premise sales, which account for 9% of the overall beer industry's annual economic impact, are virtually gone overnight, obviously there will be a significant impact — particularly to the craft brewing industry.

In 2019, the industry saw many new breweries established; however, there was also a considerable shift toward industry consolidation among the larger craft breweries. With the challenges faced by COVID-19, we anticipate it will further drive consolidation as struggling breweries may have no alternative other than to consolidate. This could have a dramatic impact on the industry and also create profitable opportunities for well-established breweries with strong balance sheets.

To capitalize on these opportunities, craft breweries will need a detailed plan to adapt to the rapidly changing landscape. First, breweries will have to figure out how to respond and operate in the current climate as states reopen. This may include a shift in packaging to mitigate the loss of on-premise demand. Next, breweries will need a plan to reinitiate full business operations under the "new normal." Lastly, pulling from recent experiences, breweries should maintain a readiness plan in anticipation of the next disruption.

What percent of revenue comes from each?

According to survey respondents:

ON-PREMISE SALES

(e.g., taproom, external bars, & restaurants, etc.)

AVERAGE

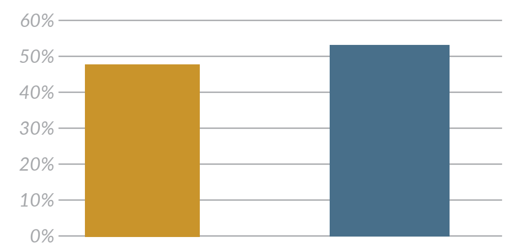
47%

OFF-PREMISE SALES

(e.g., "beer to go" from taproom; external liquor, grocery, & convenience stores)

AVERAGE

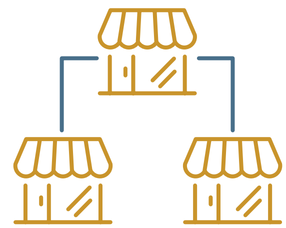
53%



Respond

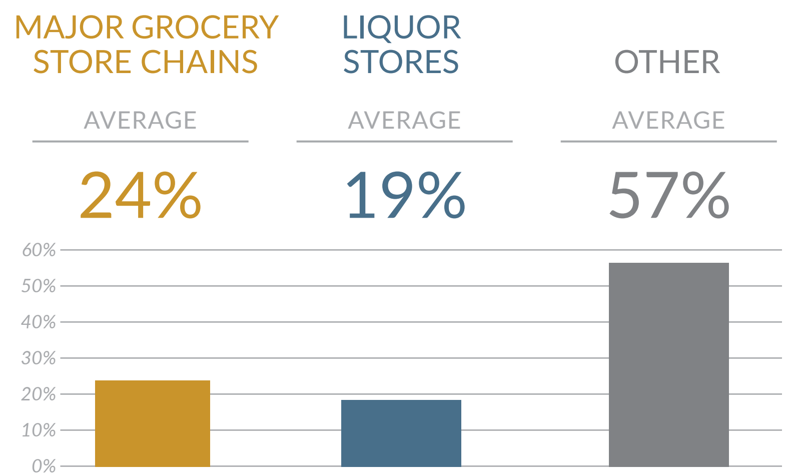
The force of this pandemic was immediate, as many struggled — and are still struggling — to make meaningful and manageable decisions to stay afloat. Until states relax all restrictions, these are some ideas to stay operational.

- **Manage production.** *It's critical to determine the inventory that can be produced for existing and alternative distribution channels. In our survey, breweries in the under-20,000-barrels-sold category continued to generate most of their sales from on-premise sales while the respondents in the greater-than-20,000-barrels-sold category were fairly balanced between on-premise and off-premise sales. When a significant portion of sales are to restaurants and other on-premise accounts, breweries need to look for alternative distribution channels to make up for lost sales. Smaller grocery stores and neighborhood stores are options for limited types of distribution. For craft breweries that don't have a distribution relationship, focus on packaging mix and vet local distributors to find the right fit to promote the brand.*



What percent of revenue comes from the following channels?

According to survey respondents:



- **Evolve the business model.** *When there's a limited distribution presence, figure out creative ways to get in front of customers. Utilize social media to inform the consumer. There are many stories of small breweries offering curbside pickup or delivery to help boost sales. While this model temporarily stops the bleeding, it's likely not sustainable over the long term. However, if this allows craft breweries the opportunity to sell more product and to keep staff employed, then it may be the only choice available in the short term. Consider building in tips with these orders to help offset the wages that were lost from tips when the taprooms had to close. We also recommend consulting with the local Brewers Guild or an attorney for guidance on the potential legal ramifications of alcohol distribution by pickup or delivery, including evaluating state and local sales tax implications.*

- **Find ways to access working capital.** *Many brewers may need extra funding to stay afloat right now. Craft breweries can take advantage of the new provisions in the CARES Act, including the employee retention credit, the employer deferral of FICA taxes, and net operating loss carrybacks to free up some much-needed cash. The CARES Act also provided small business loans that many craft breweries have applied for and received either under the Economic Injury Disaster Load (EIDL) program or the Paycheck Protection Program (PPP). This has allowed many craft breweries to retain employees and cover payroll costs, rent, and utilities. However, this may not be enough, so breweries may need to explore alternative lending or capital financing structures.*

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Restart

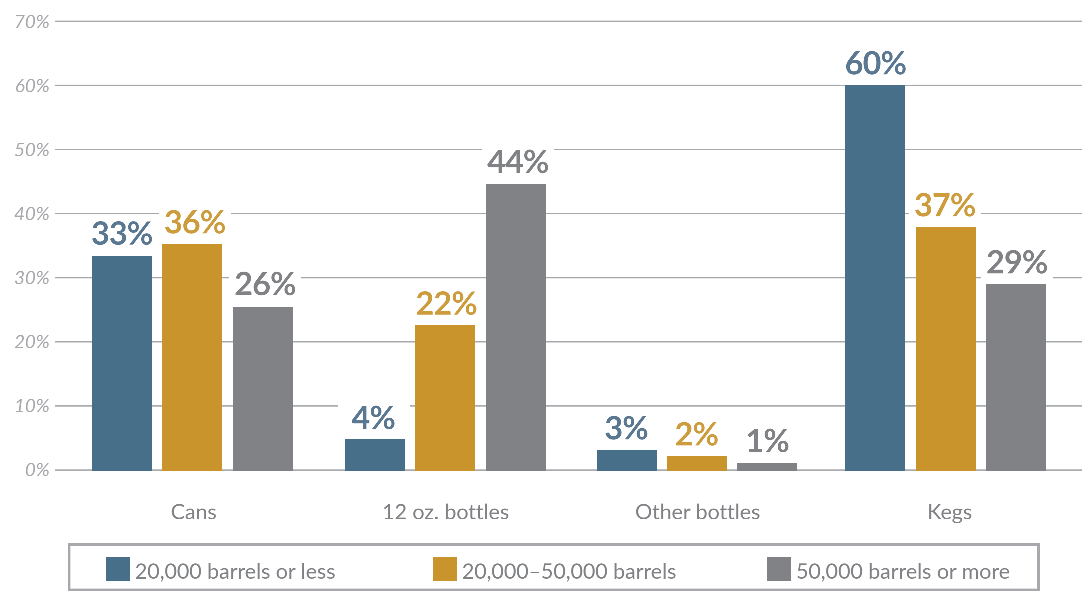
As states ease their stay-at-home restrictions and operations come back online for the hospitality sector, we encourage craft breweries to consider the following:

- **Evaluate the demand for product.** *While it may be tempting to think speed matters — and many times it does — the real consideration is understanding the true demand. How much of a type of beer is being produced? With the closure of the on-premise channel, what inventory challenges arose? What challenges will be presented when on-premise sales resume? It's key to have a plan for the inventory currently with distributors in keg form, especially if it's a particular style of beer, such as a "hoppier" IPA with a shorter shelf life.*

- **Evaluate the type of inventory produced.** *When facing uncertainty, consider producing beer with a longer shelf life, so there's flexibility to produce and manage inventory. Breweries need to ensure they have a flexible brew schedule in place that can accommodate the required style, flavor, and freshness needed when on-premise sales pick up. Monitoring older product already in the distribution channel remains important to maintain quality, so be sure to have an open line of communication with distribution partners to ensure only quality product is used to fulfill on-premise demand.*

- **Consider packaging mix.** *No one knows how long social distancing rules will apply or exactly how these policies will affect restaurants and taprooms as they reopen. We anticipate reopening will include more limited hours of operations, limiting the number of patrons per square foot, or less seating. This means it's time to think beyond draft sales. If breweries are flexible enough to shift their packaging mix, now's the time to accelerate. If they're dealing with capacity constraints they should look for contract brewing and packaging opportunities as well as mobile canning options. Crowler machines may be inexpensive canning solutions that smaller breweries can invest in as a way to increase their packaging footprint. Offering keg fills for customers with home draft systems may be another option.*

SURVEY RESPONDENTS' 2018 PACKAGING BY BARRELS SOLD



Be ready

Like most businesses, craft breweries are navigating unchartered waters. Breweries may witness competitors that once had thriving businesses forced to shutter their doors and remain permanently closed. Craft breweries have been tasked with making decisions they never imagined while taking rigorous steps to maintain a viable business, including making many short-term fixes. However, it's an important time to look beyond short-term fixes and plan a bolder strategy for the future. Here are some ideas to consider.

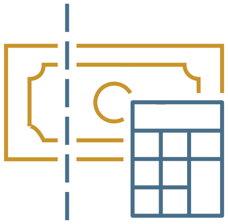
- **Expand social media presence.** *Engage with a broader customer base beyond the core brand supporters in the event that on-premise sales continue to remain significantly below historical norms. Businesses with an active online presence fared much better than their counterparts with curbside pickup and delivery. While this angle will never recapture the profits lost during the height of the pandemic, for some it will be enough to remain viable until on-premise sales fully resume or new retail channels are established. Successful breweries not only produce great beer, but tell their story and push the brand through Facebook, Instagram, Twitter, and more. Craft breweries can use the pandemic to think differently and continue to look for new opportunities to leverage social media to put their brand in front of people and stay top of mind.*

- **Play with format mix**. *In the short and the long term, it might make sense to adjust the brew schedule. For some craft breweries, the sensible solution is to invest heavily in core brands. Over time, breweries still need to separate their brand from the competition. If new products and experimental brands are costly to produce — but it's what the brewery has built its reputation on in a saturated craft brewery market — then perhaps this is where they should continue to focus their efforts. For larger, more-established brands, it might make more sense to fall back on the flagship beers. If there's a style or packing type that consistently sells, is inexpensive to produce, and doesn't take as long to produce and distribute, then it probably makes sense to stick to a familiar format.*

It's an important time to look beyond short-term fixes and plan a bolder strategy for the future.

- **Scale back.** *This is the time to analyze fixed and variable costs and understand how much cash the brewery needs to operate. Without a solid understanding of what the current cash need is, the ability to anticipate future cash needs gets murky. Breweries have been forced to scrutinize every aspect of their business and use many different "what-if" scenarios to help pivot, respond, and likely reduce costs. As breweries ramp back up for the "new normal," they'll have to closely reevaluate if they want to resume a pre-COVID-19 cost structure or make necessary changes to continue operating with a leaner cost structure. With other breweries closing, don't overlook opportunities to buy equipment at reduced costs.*

- **Manage supply chain.** *Are raw materials contracts locked? Are terms expiring? Breweries shouldn't automatically renew contracts without thoroughly evaluating the terms. Any fluctuations in the market for raw materials could have the potential to reveal decreased costs for certain ingredients. For example, if some breweries are unable survive the current environment, the hops previously maintained under contract could be released into the market. If this happens in large quantities, there's a possibility of hop prices decreasing. If a brewery isn't locked into a contract, this could be the time to capitalize.*



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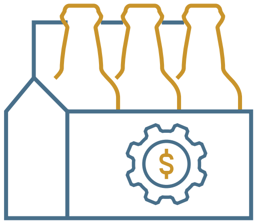
Looking ahead

It's hard to say what the industry will look like going forward after on-premise sales resume. However, we can glean a few insights based on our experience in the industry to know what it will take to come out on top. First, quality is key. On a crowded shelf, a quality product generally keeps the consumer coming back, so breweries should continue to focus on their strengths and not sacrifice quality. Second, understanding costs will be key to managing cash flow through uncertainty. A brewery with a strong balance sheet and good market visibility will be provided with the flexibility to be more opportunistic in the "new normal." Lastly, entrepreneurial spirit, combined with sound planning is likely to provide breweries with the ability to quickly adapt to the change required during the COVID-19 pandemic and beyond.



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About Plante Moran

Craft beverage client profile

Up to 900,000+ BBL
client production volume

We serve a wide range of craft beverage organizations across:

- *Craft breweries*
- *Distilleries*
- *Wineries & vineyards*
- *Hard cider*
- *Grain suppliers*
- *Production equipment suppliers*
- *Alcoholic beverage distributors*
- *Restaurants & pubs*
- *Franchises*

Our team

Why choose our national food and beverage team?

- A deep understanding of craft beverage industry risks, regulations, & value drivers
- Expansive networks among local businesses, lenders, suppliers, & industry professionals
- Broad advisory capabilities to help organizations grow, improve profitability, & implement transformational changes

About Plante Moran

Services on tap

AUDIT & ACCOUNTING

- *Audits, reviews, & compilations*
- *Benefit plan audits & consulting*
- *Forecasts & projections*
- *Enterprise risk services*
- *Interim financial services*
- *Forensic accounting*

BUSINESS ADVISORY

- *International expansion*
- *Strategic planning*
- *Due diligence*
- *Turnaround & restructuring*
- *Lean operations improvement*
- *Information technology (ERP, cybersecurity)*
- *Valuation services*
- *Corporate real estate**
- *Group benefits & brokerage services*
- *Healthcare consulting*

TAX

- *Structuring*
- *Planning*
- *Federal*
- *State & local*
- *International*
- *Credits & incentives*
  - *Cost segregation*
  - *Research & development*
- *Personal*

WEALTH MANAGEMENT*

- *Investment*
- *Trust*
- *Insurance*
- *Transition planning*
- *Estate & gift tax*

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Sources

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