CRAFT SPIRITS DATA PROJECT

American CRAFT SPIRITS ASSOCIATION

park street
Platform for Innovators

Annual Craft Spirits Economic Briefing December 2022

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Executive Summary

The U.S. craft spirits segment is one of the most exciting and resilient segments within the spirits category, driven by consumer demand for innovative drink options and an affinity for locally made products. 2021 was a story of rebound for the U.S. craft spirits segment following a slowdown in growth during the pandemic. Growth rates for the count of active craft distillers, as well as the total case volume and value sold, all surpassed the growth rates during the early phases of the pandemic.

The U.S. craft spirits market is fairly concentrated with large craft producers making up just 1.7% of the total number of craft producers but responsible for 55.9% of the cases sold. Meanwhile, 89.2% of U.S. craft producers are classified as small producers and are responsible for just 10.9% of the cases sold annually.

As a whole, craft spirits sales were almost evenly split between the home state (46.7%) and other states (53.3%) in 2021. Large craft producers shifted resources to focus on sales in their respective home states as well as exports with shares gained in each segment. medium-sized craft producers increased sales in other states to further build brand awareness, while small craft producers focused primarily on increasing home state sales, gaining shares accordingly.

Despite economic headwinds, craft producers have consistently found value in reinvesting in their businesses. In 2021, the average amount invested by each craft producer decreased slightly (-2%) year-over-year to $337,100. However, the sharp uptick in craft producer count bolstered the total amount invested in the U.S. craft spirits segment by 9% year-over-year to $826 million. The primary motivation for investment listed by those surveyed was for additional production to meet demand, followed by construction to increase visitor space.

Given the positive growth rates, it is unsurprising that the vast majority of craft distillers reported being optimistic about the future of their business.

Key Findings

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- The number of active craft distillers in the U.S. grew by 17.4% to reach a total of 2,687.

- The U.S. craft spirits market volume reached over 13.2 million 9-liter cases in retail sales in 2021, representing an annual growth rate of 10.4%. In value terms, the market reached $7.5 billion in sales, representing an annual growth rate of 12.2%.

- U.S. craft spirits market share of total U.S. spirits reached 4.9% in volume and 7.5% in value in 2021, up from 4.7% in volume and 7.1% in value in 2020.

- Exports of U.S. craft spirits increased by 58%, reaching 164,000 9-liter cases.

- Employment numbers within the U.S. craft market bounced back to a total of 24,255 full-time domestic employees, though not quite back to pre-pandemic levels.

*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

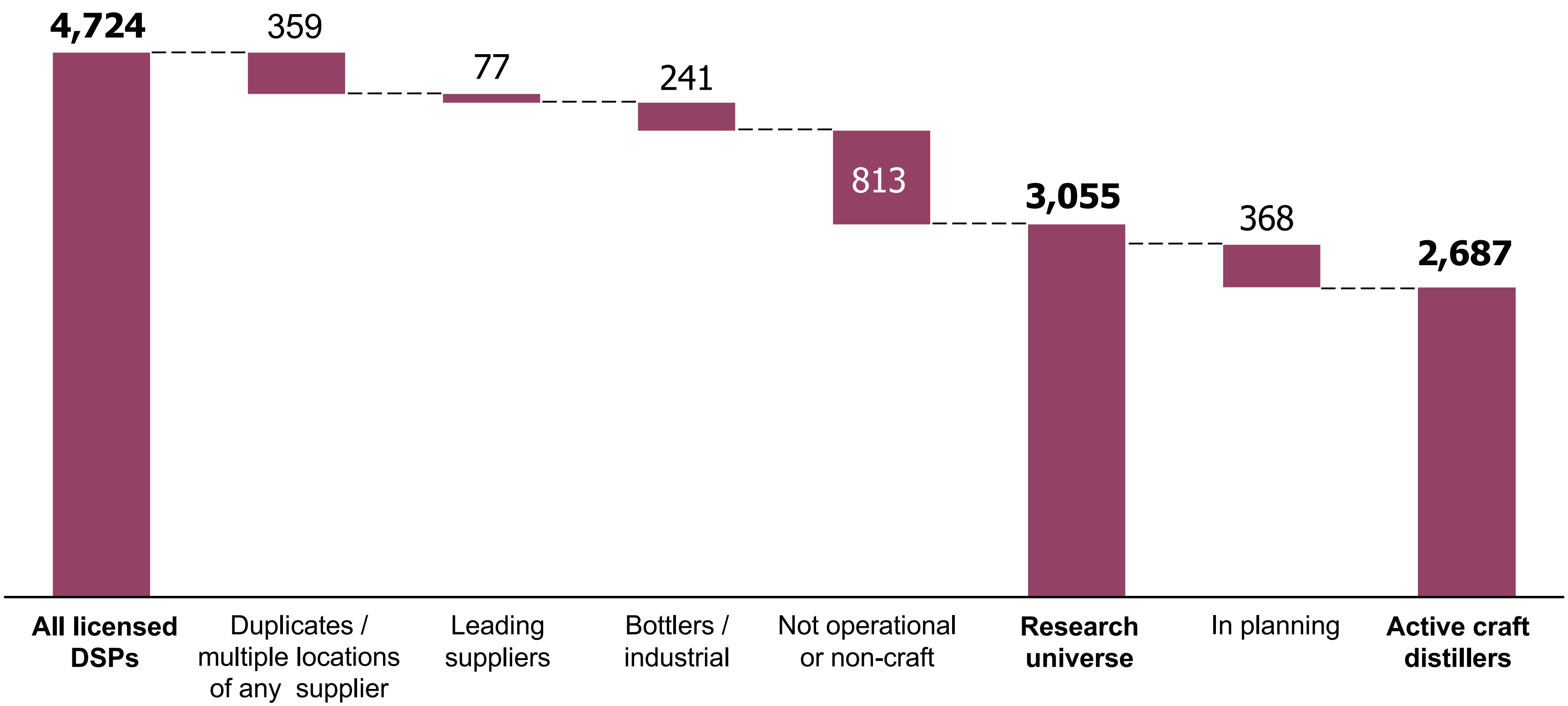
No more than 50% of the DSP is owned (directly or indirectly) by a producer of distilled spirits whose combined annual production of distilled spirits from all sources exceeds 750,000 proof gallons removed from bond.

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 2022

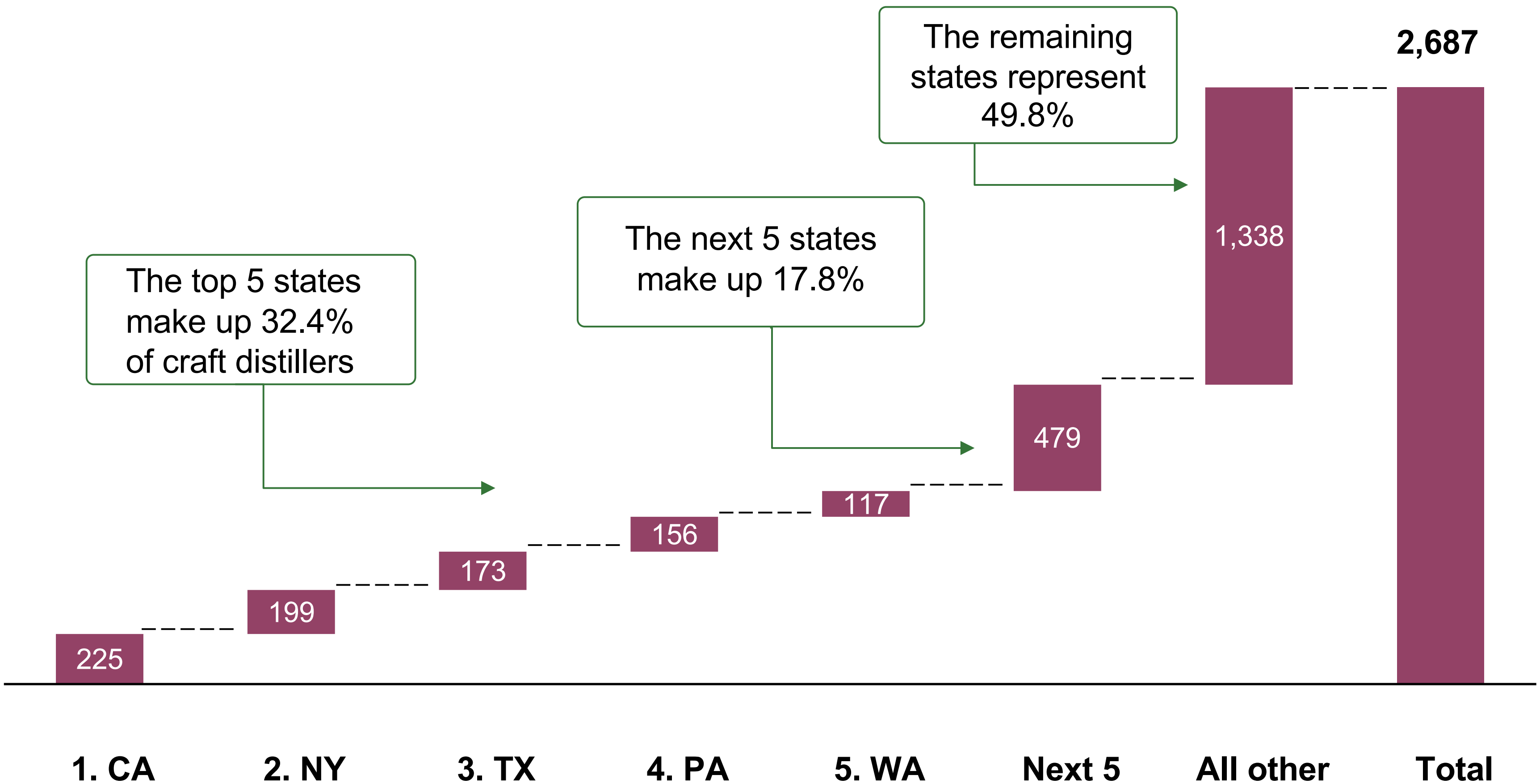


The list of DSPs is broken down into segments to distinguish the number of distillers that are not considered craft e.g., duplicates, leading suppliers, bottlers, and/or non-craft/non-operational. The list of active craft distillers is generated bottoms-up through individual assessment

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

Active Craft Distillers by State

Active Craft Distillers by State as of August 2022

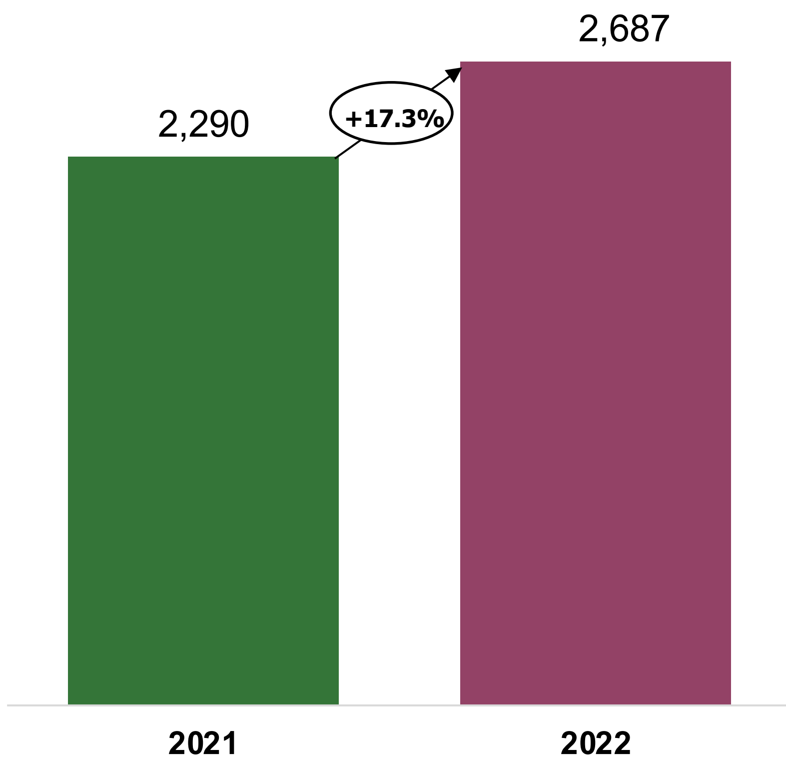


The top five states with the most active craft distilleries represent 32.4% of all active distilleries, and the top 10 states make up nearly half of all active craft distilleries in the U.S.

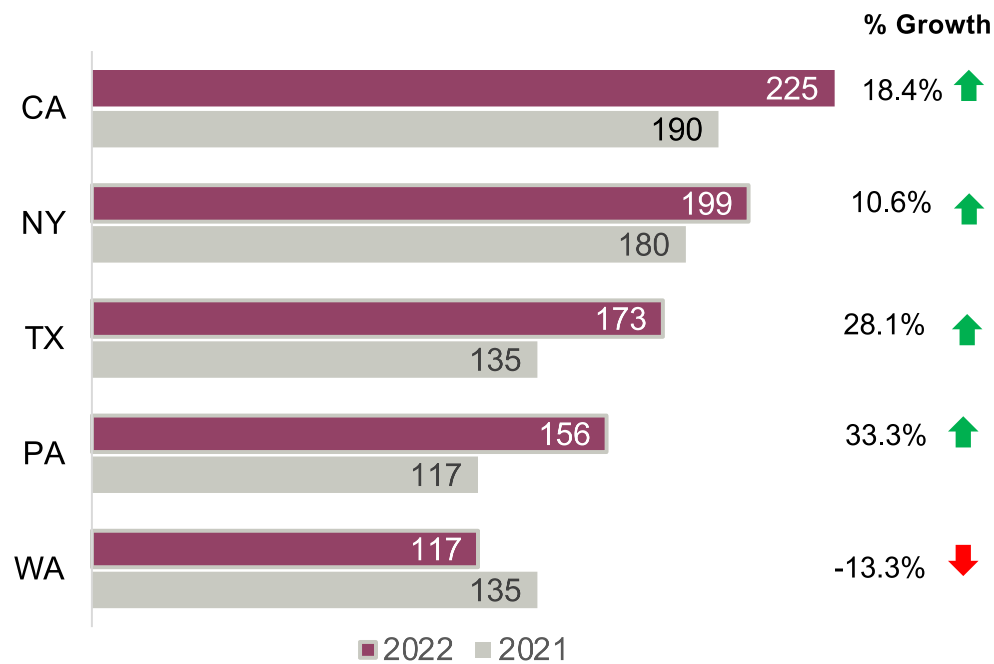
Sources: TTB, ACSA, State ABC Boards, State Guilds, Team Analyses

Number of Active Craft Distillers Has Grown 17.3% Since Last Year

Number of Active Craft Distillers August 2021 to August 2022



Top 5 States by Active Craft Distiller Count August 2021 to August 2022



In August 2022, there were 2,687 active craft distillers in the U.S., up 17.3% from 2,290 active distillers in August 2021.

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

Active Craft Distillers by State and Region

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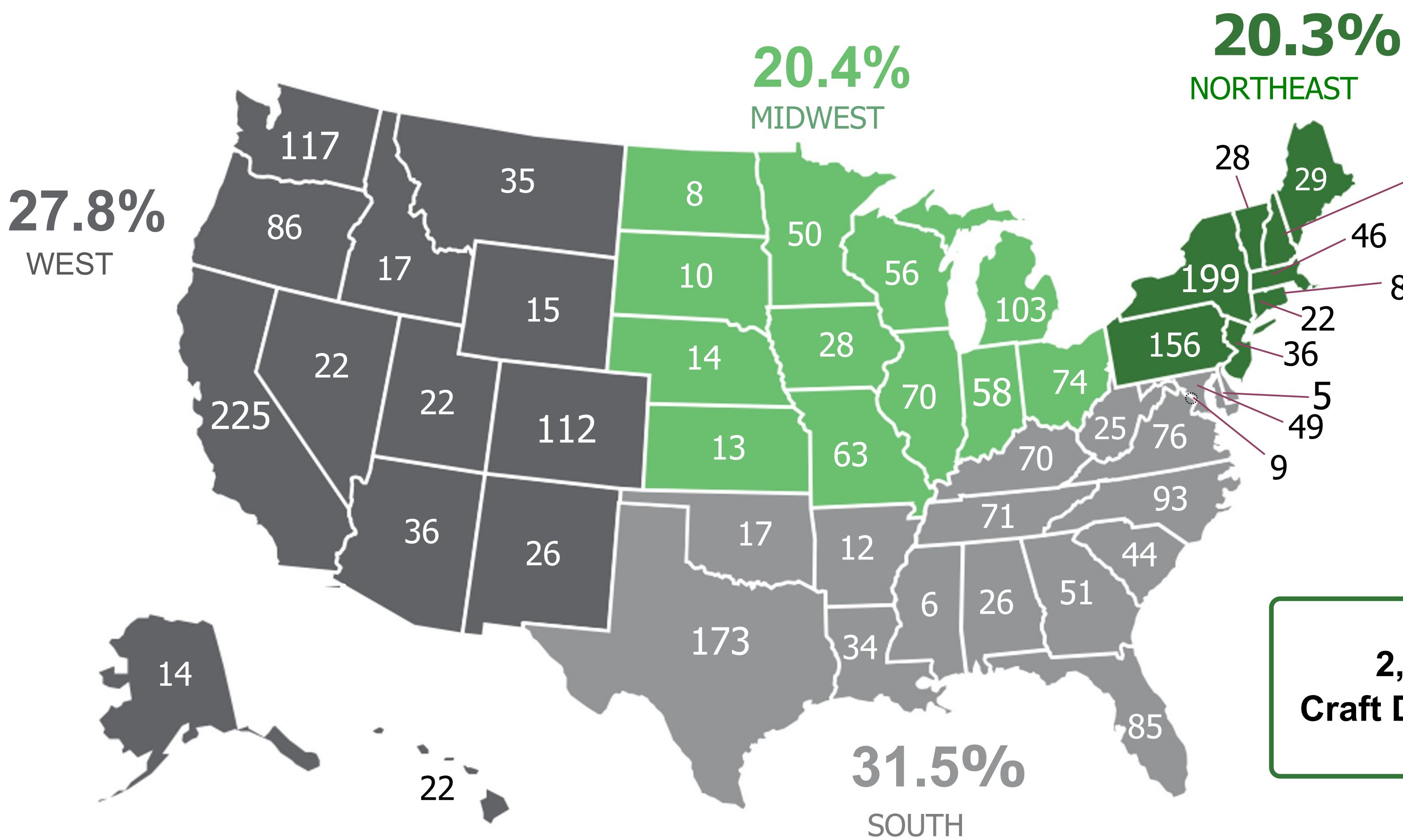
Active Craft Distillers by State and Region as of August 2022

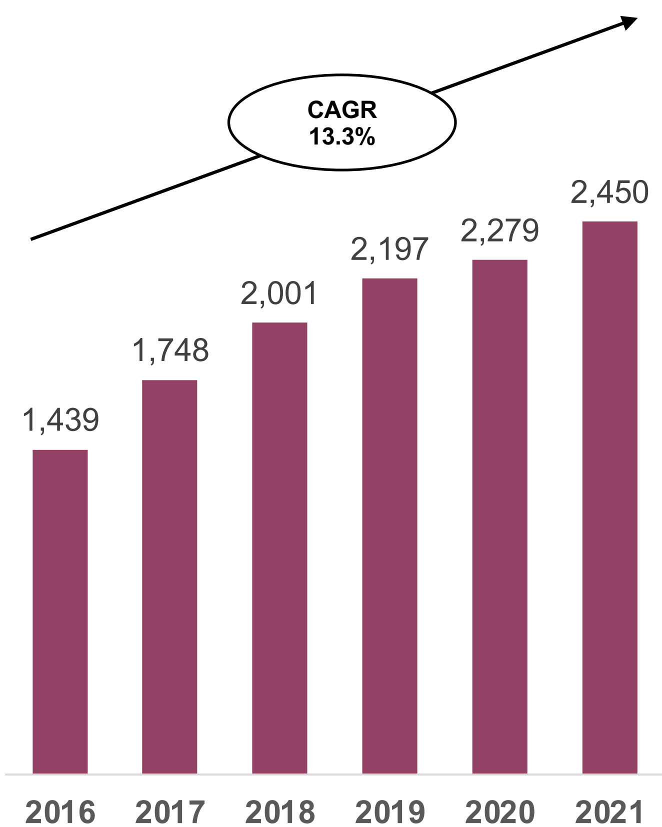


2,687
Craft Distillers

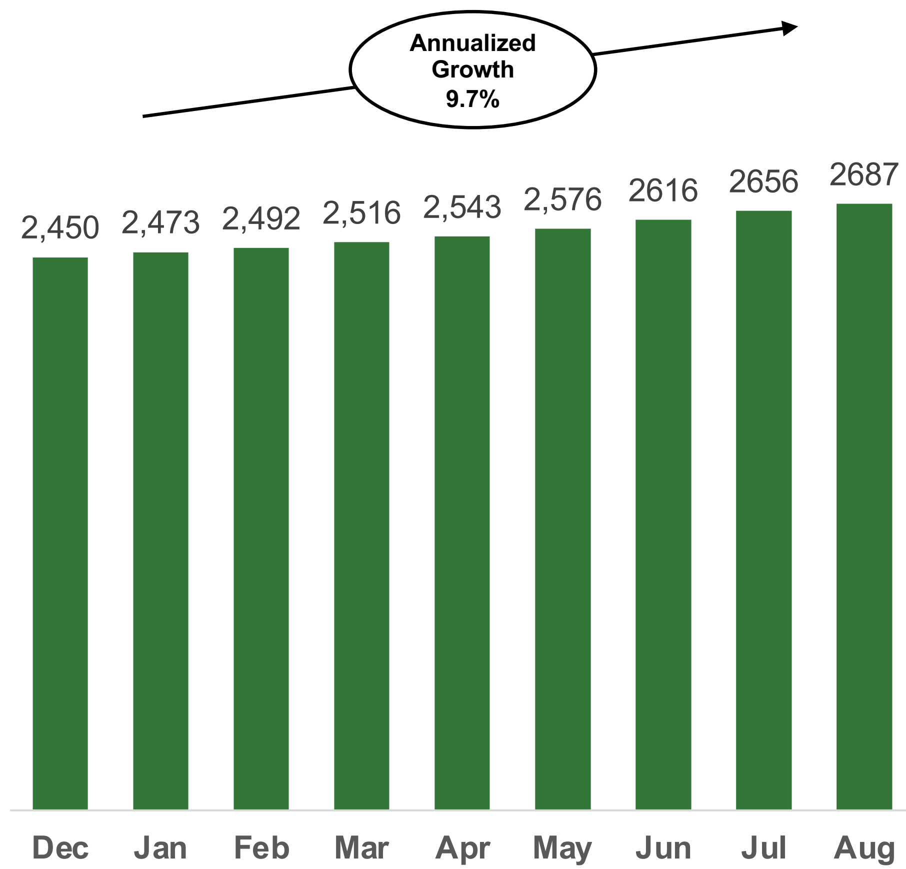
Sources: TTB, ACSA, State ABC Boards, State Guilds, Team Analyses

Number of Active Distillers Continues Strong Growth Rate

Number of Craft Spirits Producers
2016 to 2021



Number of Craft Spirits Producers
December 2021 to August 2022



Sources: TTB, IWSR, Team Analyses

Craft Spirits Sales Returned to Double-Digit Growth Rate in 2021

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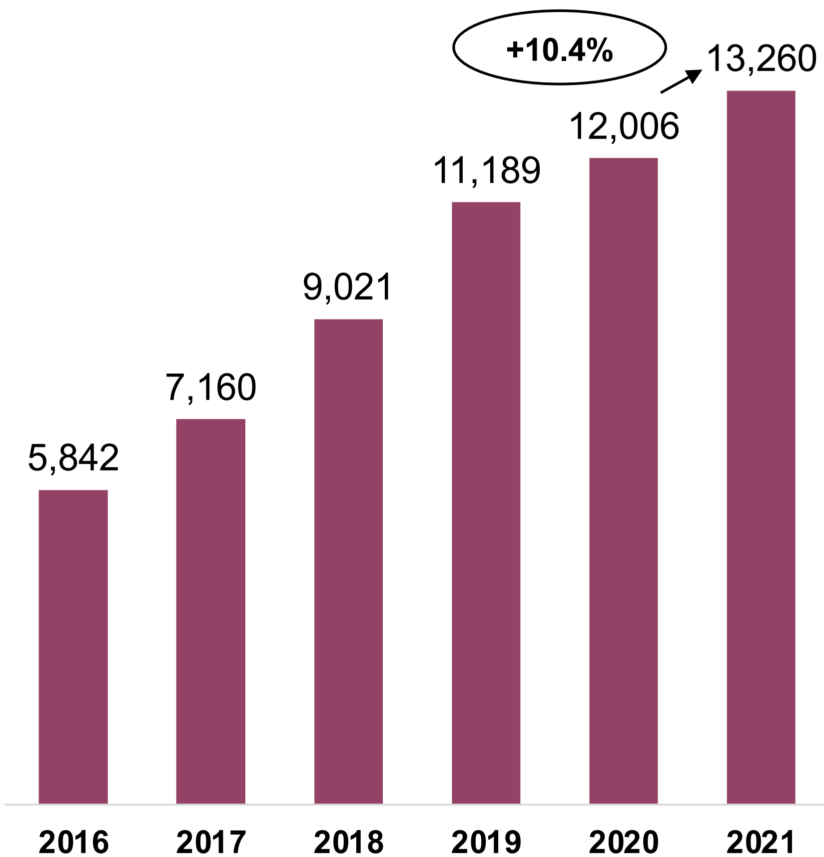
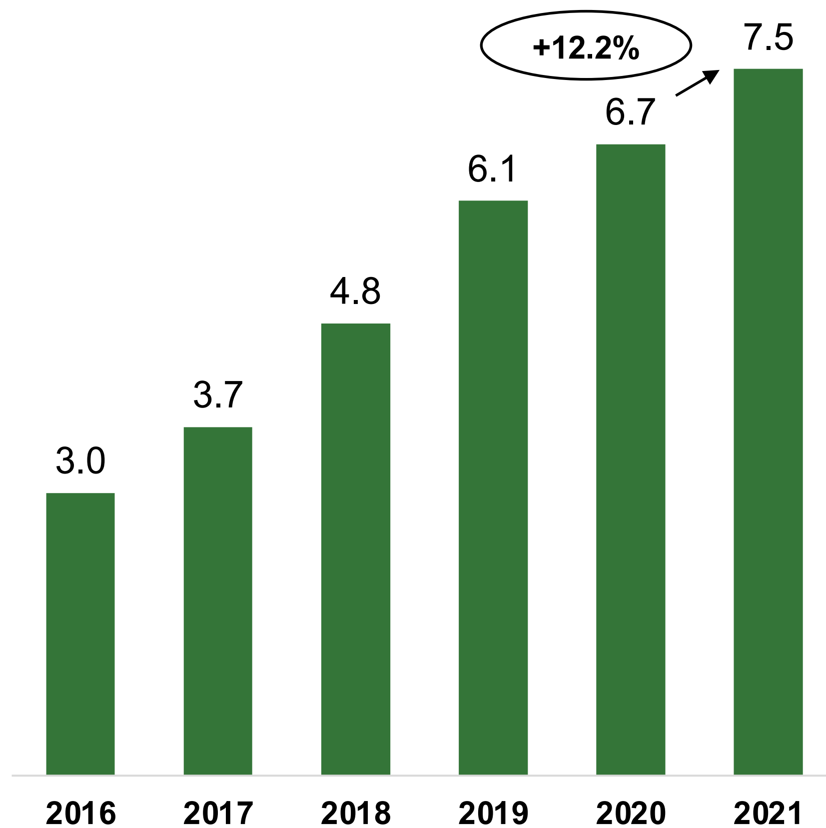
Craft Spirits Sales by Volume, 2016 – 2021

9L Cases (000)



Craft Spirits Retail Sales by Value, 2016 – 2021

$ Billions



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

Craft Spirits Market Share Has Nearly Doubled Since 2016

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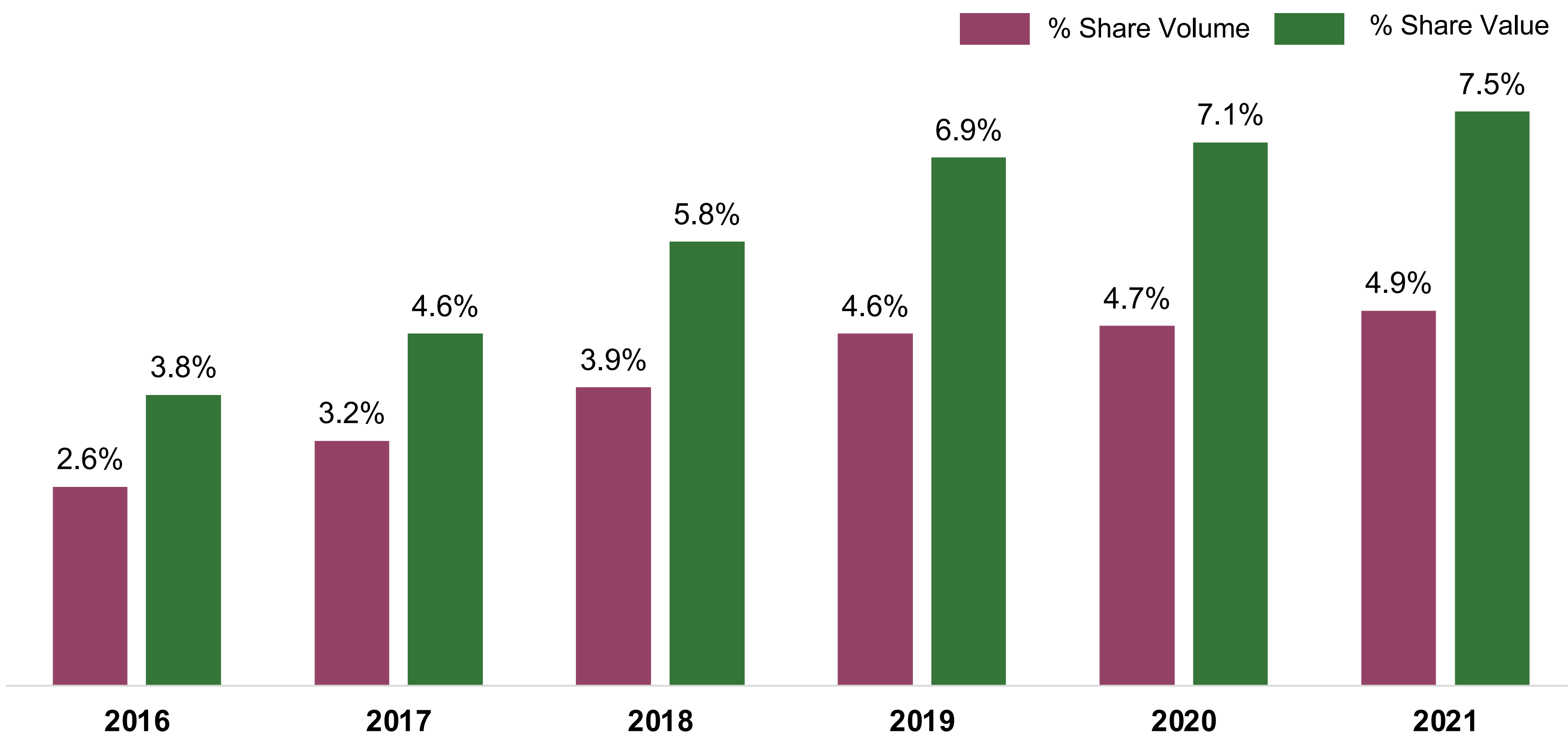
Craft Distiller Sales as a Share of Total U.S. Spirits Volume and Value



U.S. craft spirits has an estimated market share of 4.9% in volume and 7.5% in value, up from 2.6% and 3.8% in 2016.

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

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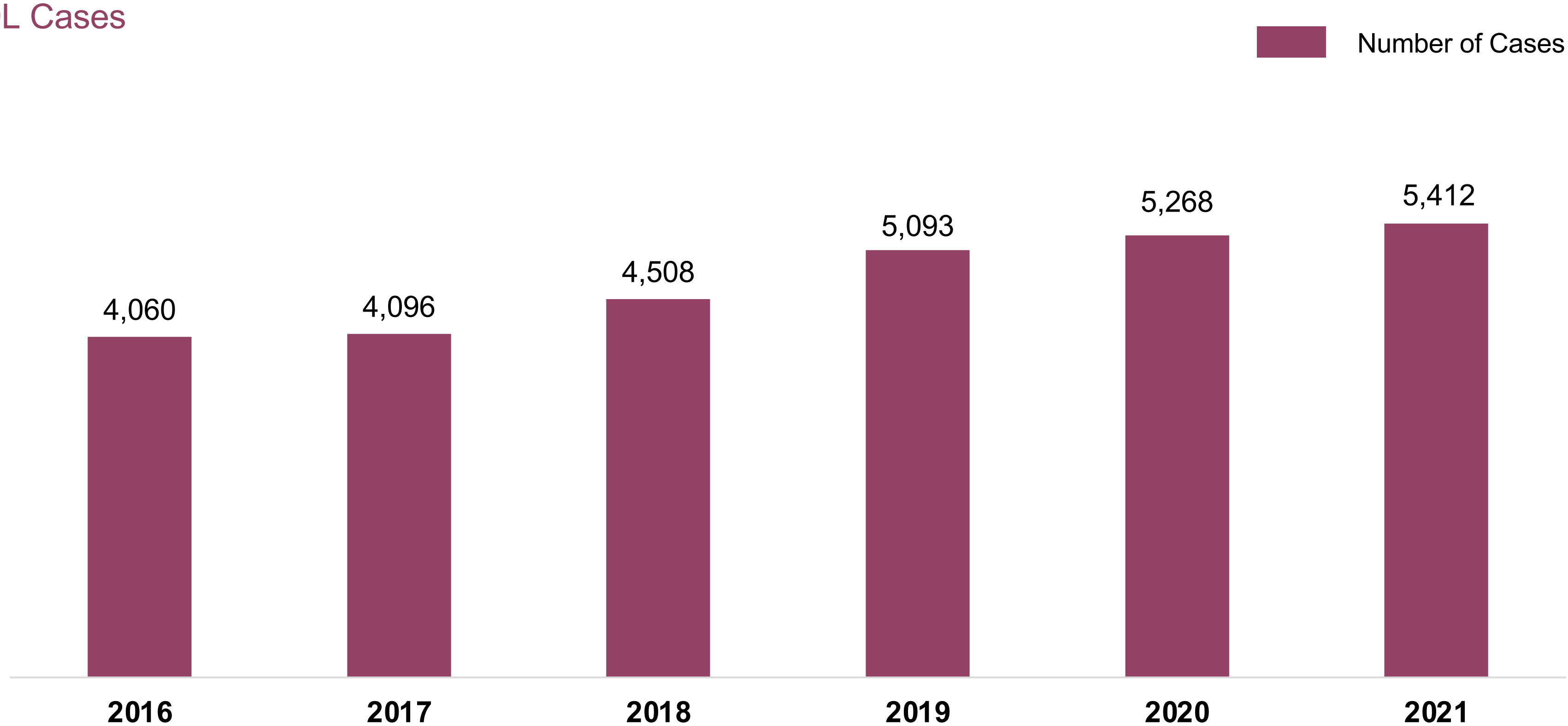
Average Volume of U.S. Craft Distillers Continues to Increase

Number of Cases of Average U.S. Craft Distiller 2016 – 2021

9L Cases



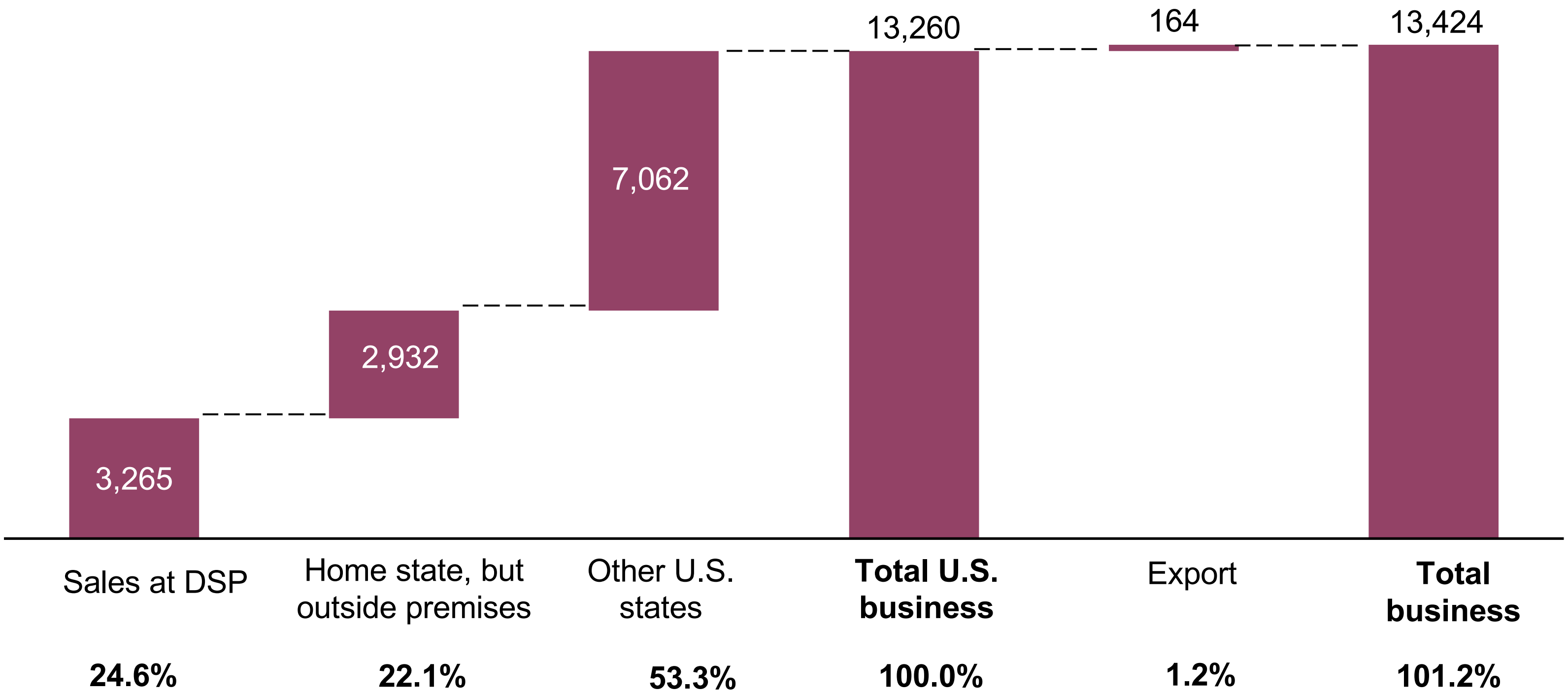
The volume of the average U.S. craft producer has consistently increased over time. In 2021, the average number of cases produced reached 5,412 9Liter cases, up 2.7% over 2020.

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

More Than 53% 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 2021

9L Cases (000)



46% of the total U.S. craft business takes place in the home state of the craft distiller.
Craft spirits exports saw a 58% increase over 2020, reaching 164,000 9L cases.

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

Craft Spirits Growth is Driven by Domestic Sales

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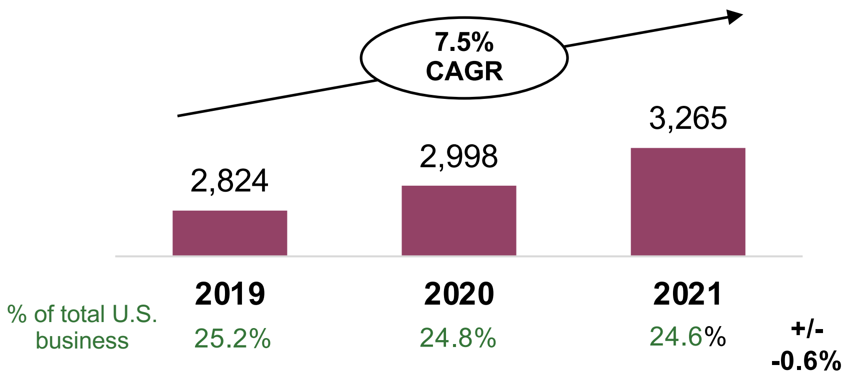
★★★ DATA PROJECT ★★★

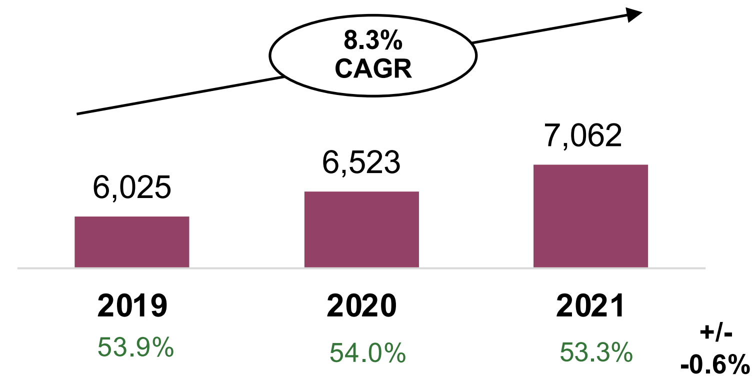
Total Craft Spirits Industry, Sources of Case Sales, 2019 – 2021

9L Cases (000)

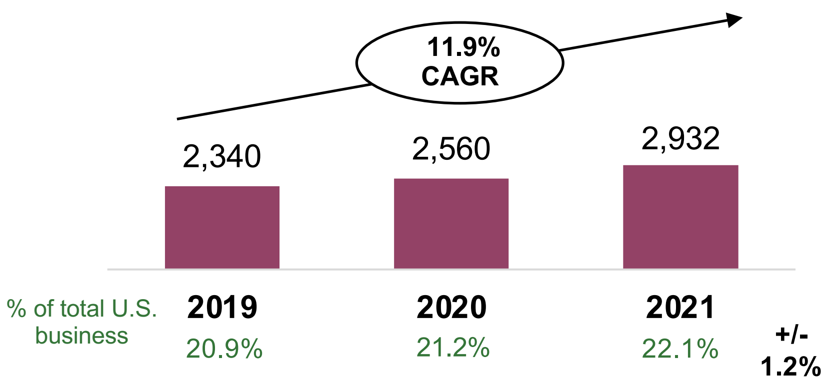
Sales at DSP



Other States



Home State



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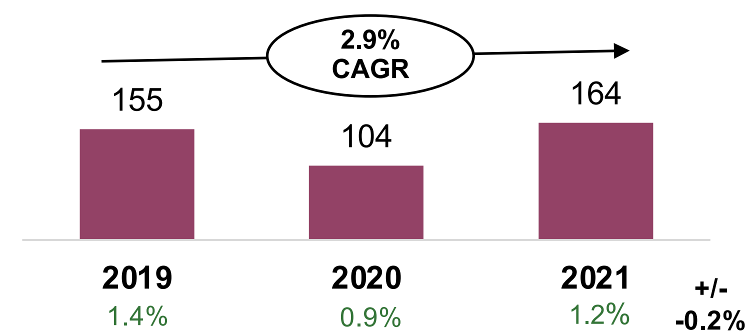

Sources: TTB, ACSA, State ABC Boards, State Guilds, Team Analyses

Craft Spirits Market Is Fairly Concentrated

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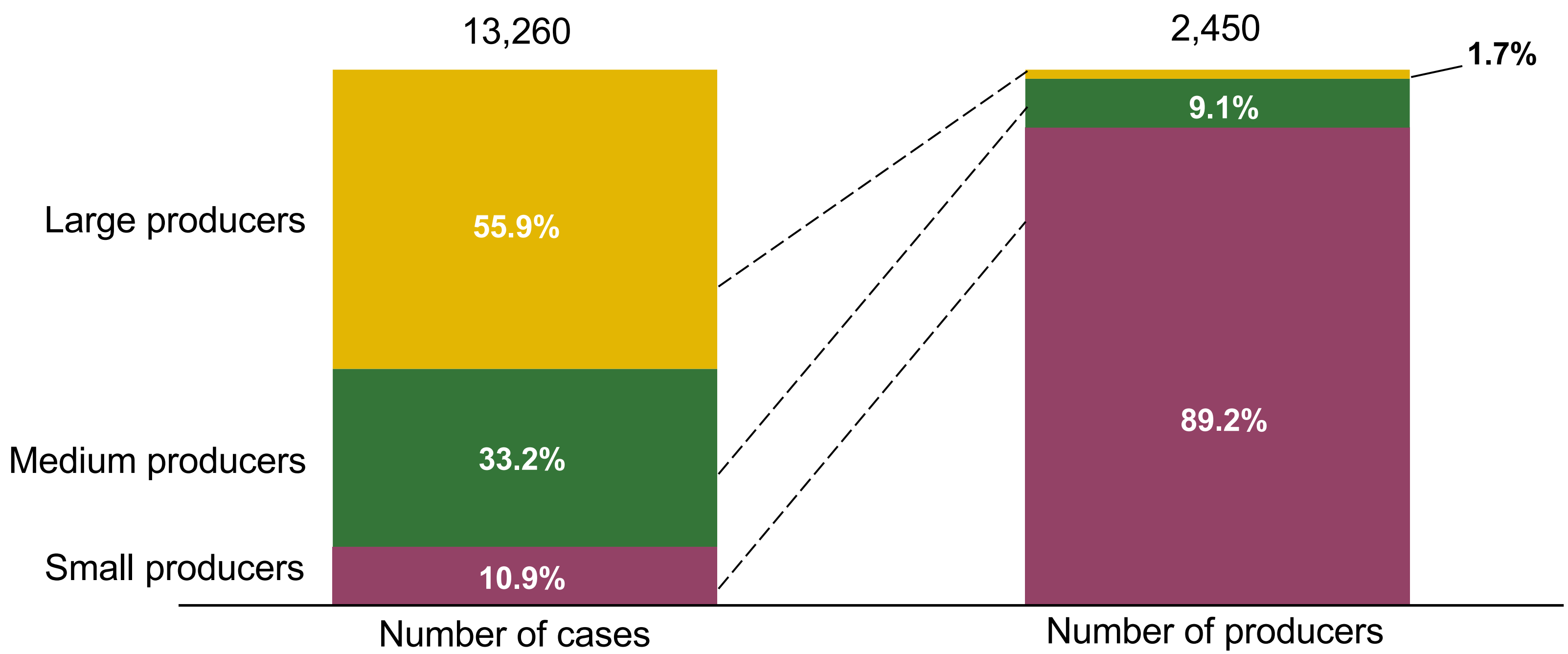
Craft Distillers and Case Volumes by Producer Size, 2021

# of Producers, 9L Cases (000)



The U.S. craft distilling market is fairly concentrated with less than 2% of producers responsible for over 55.9% of the cases sold, while 89.2% producers are classified as small producers. They are responsible for just 10.9% of the cases sold.

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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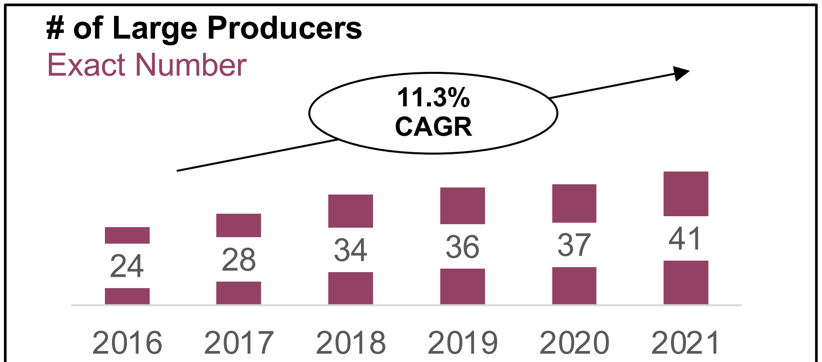
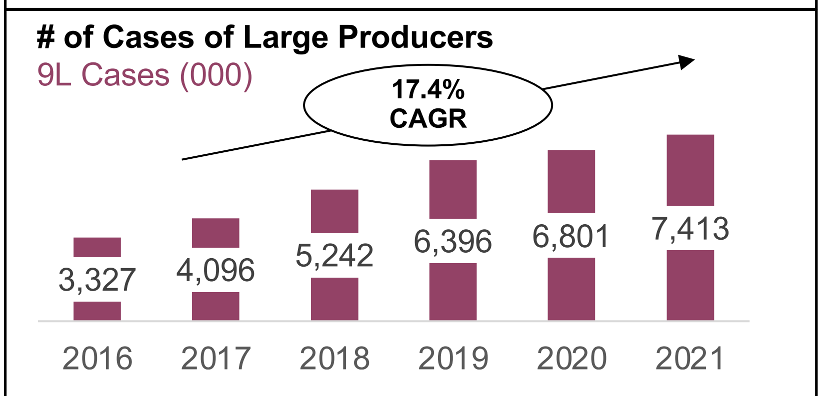
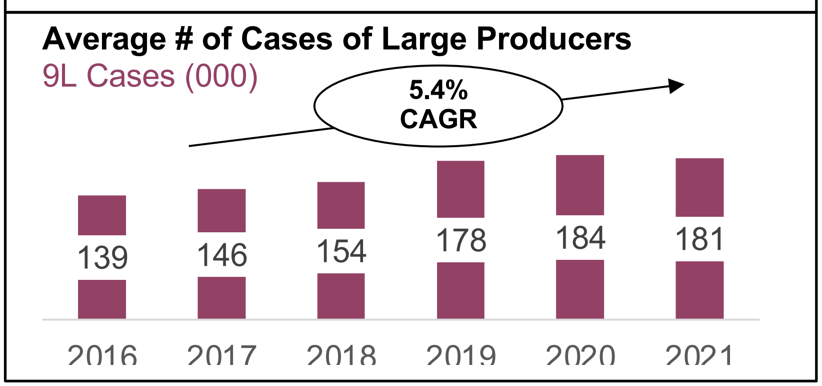
Volume of Large Craft Producers Experienced Growth in 2021







- The number of large craft distillers has grown from 24 in 2016 to 41 in 2021, a 71% increase

- The number of cases of large craft distillers has grown from 3.3 million 9L cases in 2016 to over 7.4 million 9L cases in 2021

- The average number of cases produced by large craft distillers has increased from 139,000 9L cases in 2016 to 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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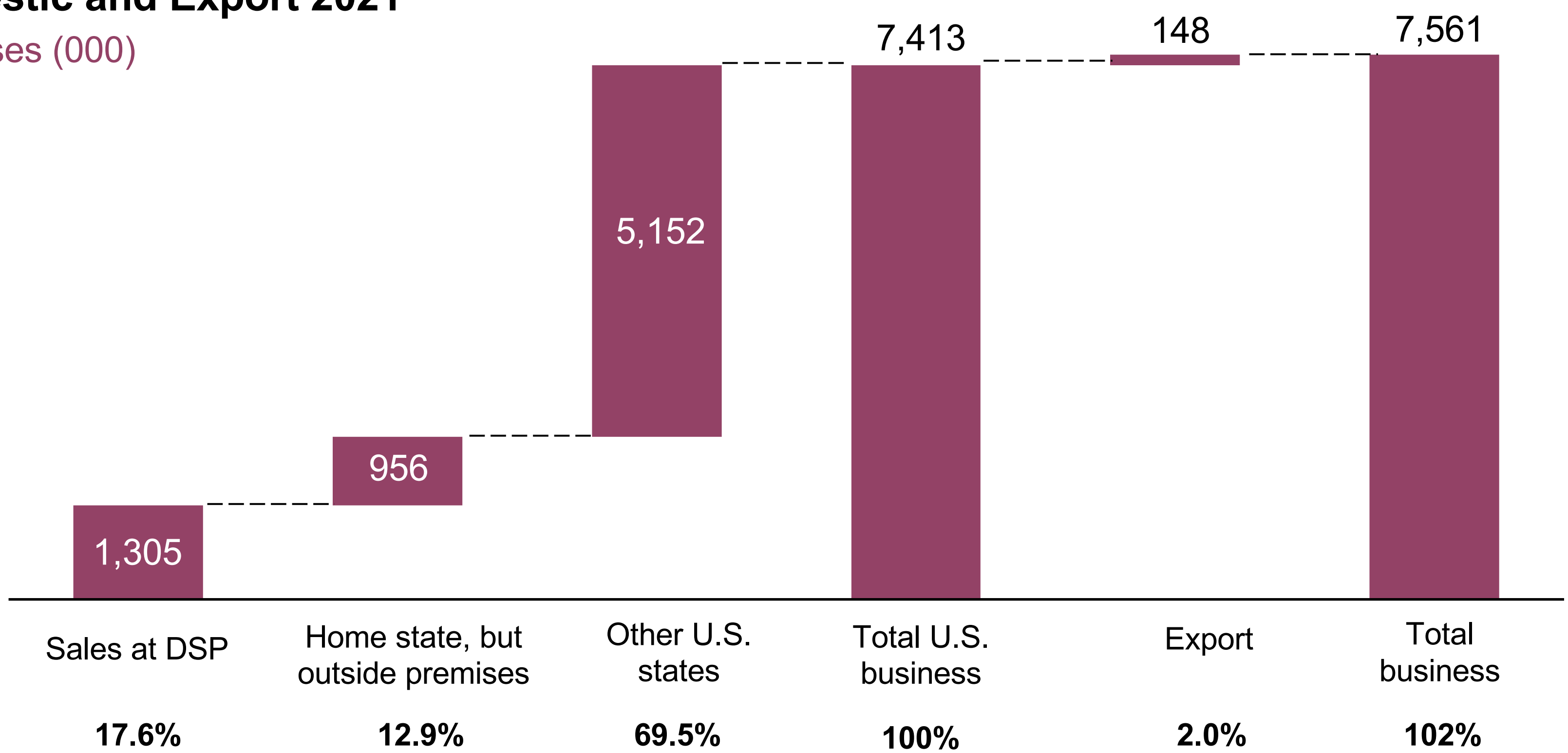
Sources of Case Sales – Large U.S. Craft Spirits Producers, Domestic and Export 2021

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 2021.

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

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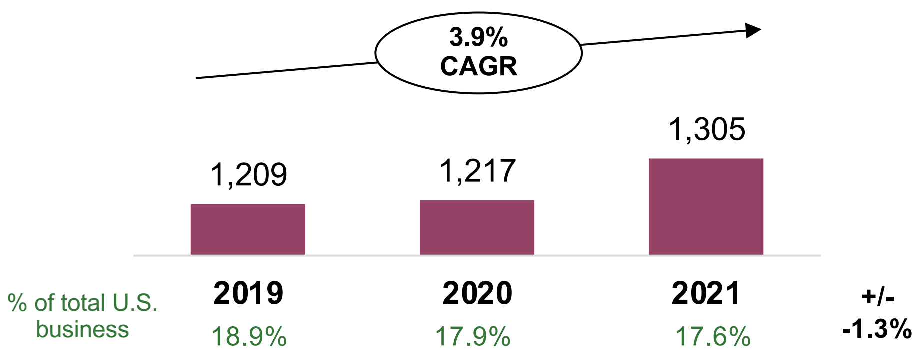
Large Craft Producer Sales Driven Outside of DSP

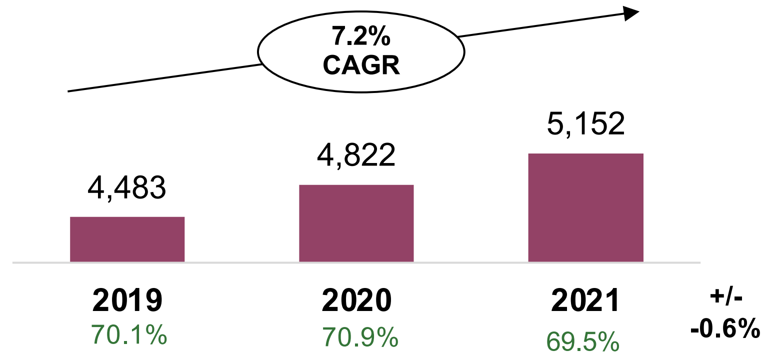
Large Craft Spirits Producers, Sources of Case Sales, 2019 - 2021

9L Cases (000)

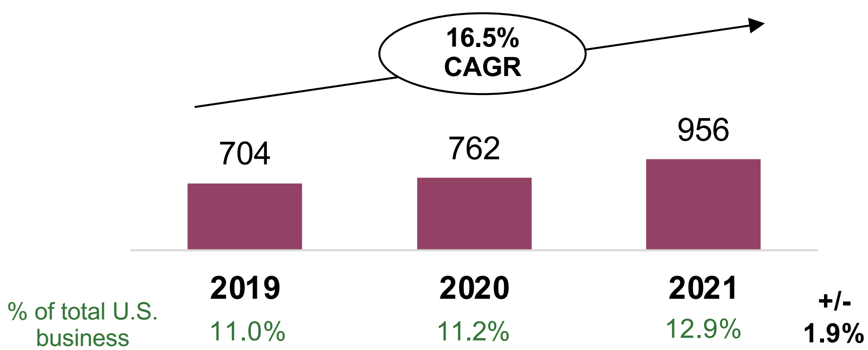
Sales at DSP



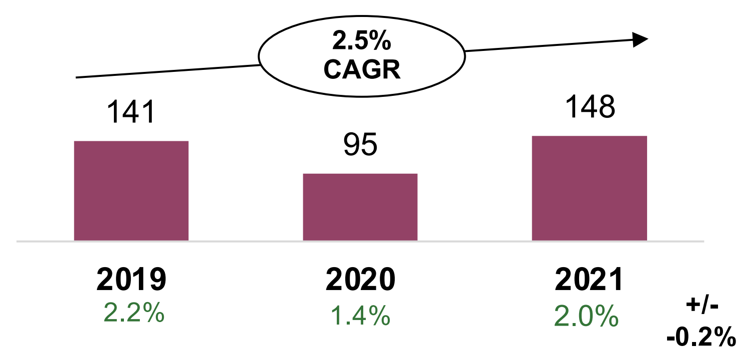
Other States



Home State



Export

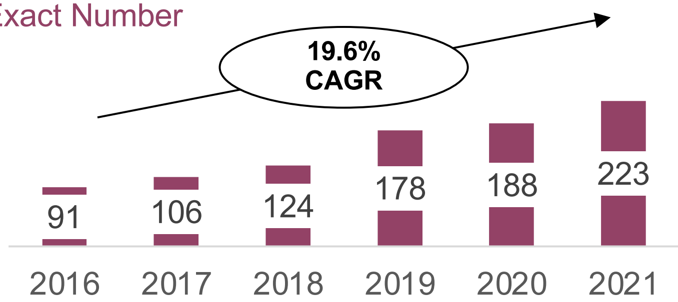


Sources: TTB, ACSA, State ABC Boards, State Guilds, Team Analyses

Medium Craft Producers Numbers Rapidly Increasing

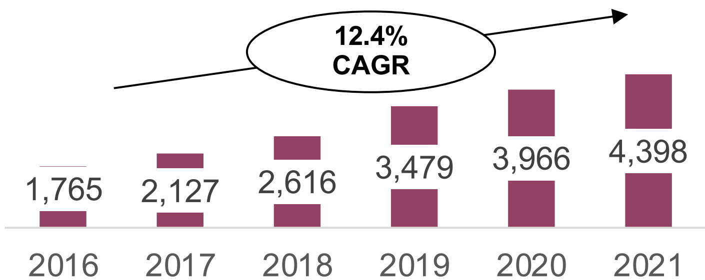
Number of Medium-Sized Producers

Exact Number



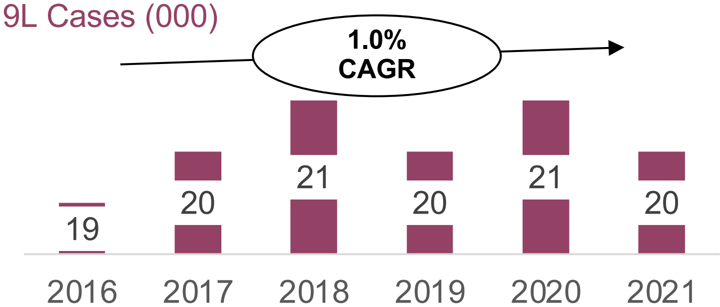
Total Number of Cases of Medium-Sized Producers

9L Cases (000)



Average # of Cases of Medium-Sized Producers

9L Cases (000)

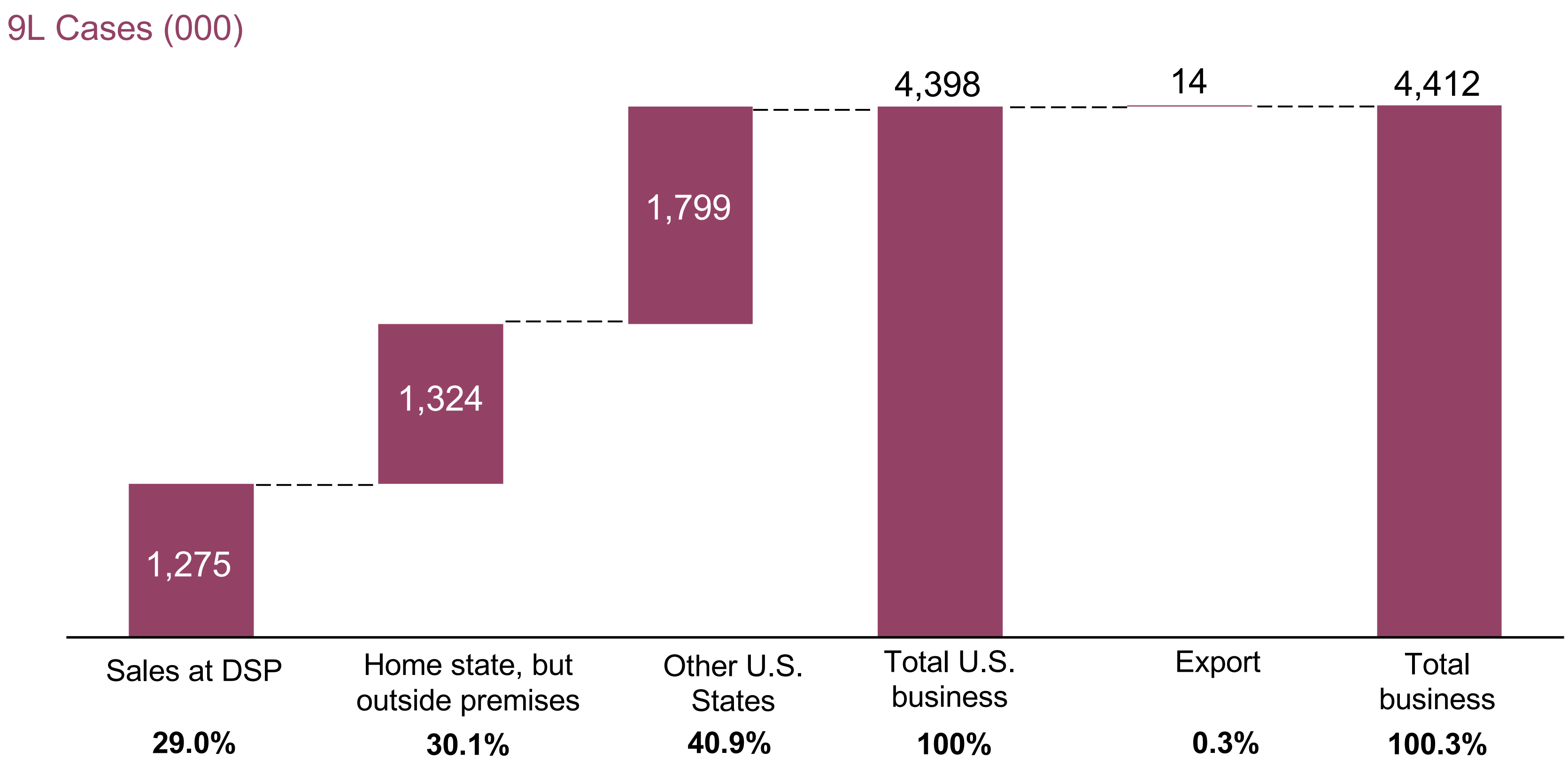


- The number of medium craft producers has more than doubled, from 91 in 2016 to 223 in 2021
- The total case count for medium craft distillers has grown from 1.7 million 9L cases in 2016 to over 4.3 million 9L cases in 2021
- The average number of cases produced by medium craft distillers has remained consistent from 2016 to 2021

Sources: TTB, Distiller Surveys, Team Analyses

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

Sources of Case Sales – Medium U.S. Craft Spirits Producers, Domestic and Export 2021



59.1% 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 Remained Largely Consistent in Recent Years

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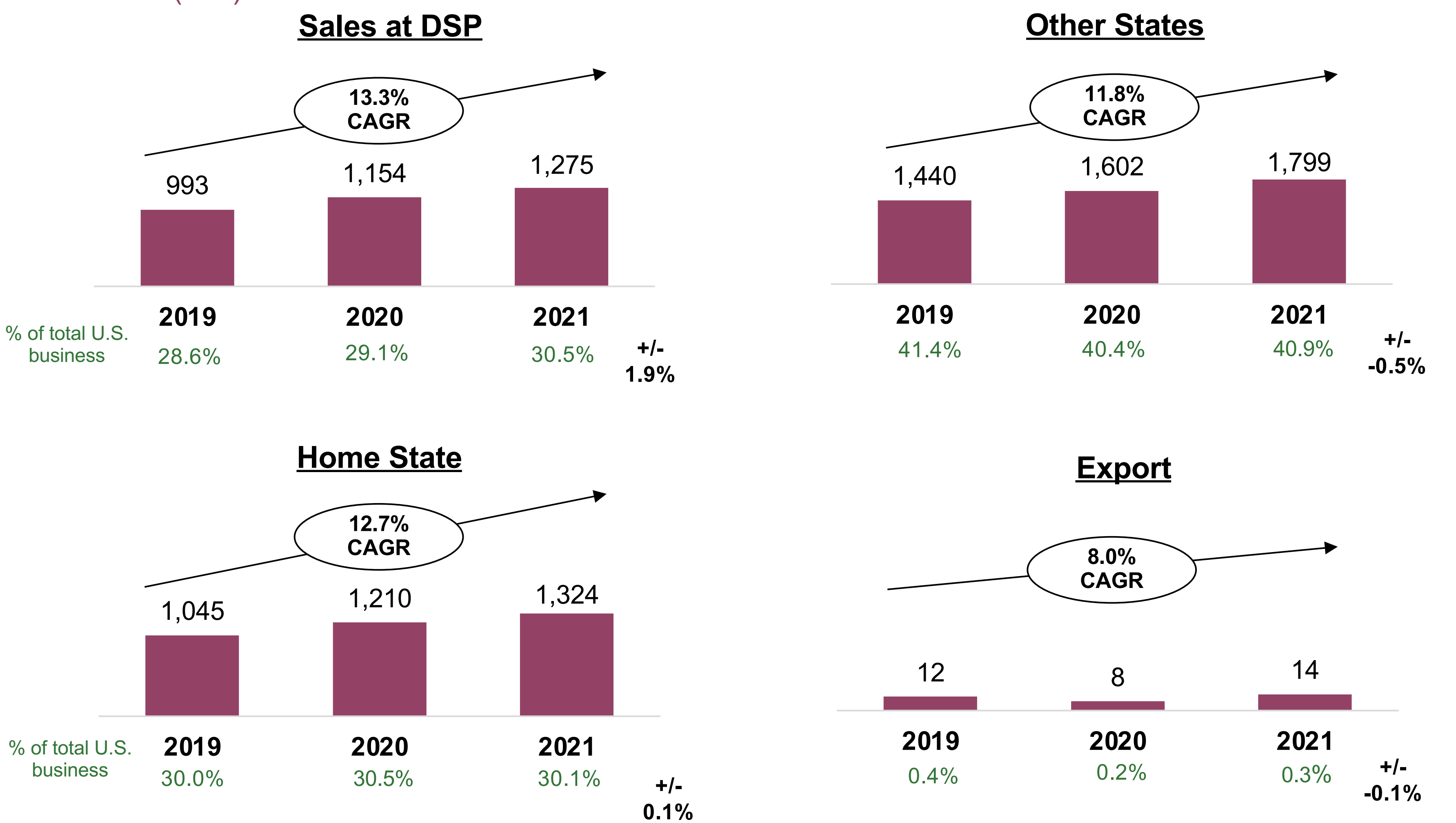
Medium Craft Spirits Producers, Sources of Case Sales, 2019 – 2021

9L Cases (000)



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

Small Craft Producers Have Been Growing Well

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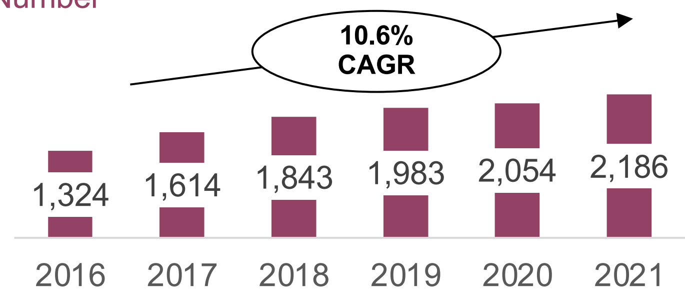
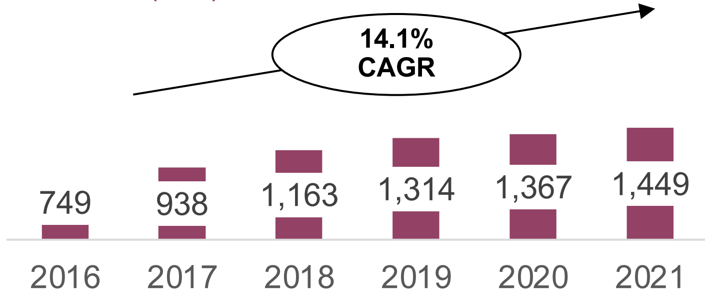
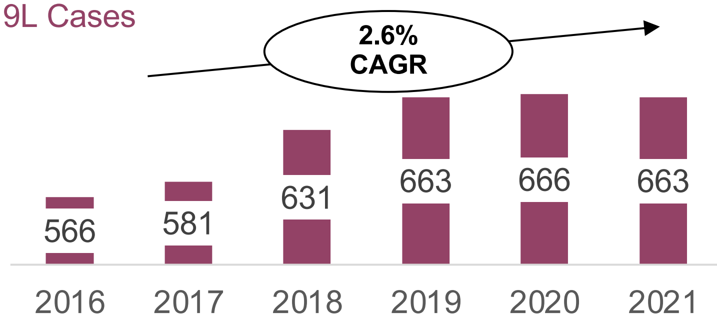
Number of Small Producers
Number



Total Cases of Small Producers
9L Cases (000)



Average Number of Cases of Small Producers
9L Cases



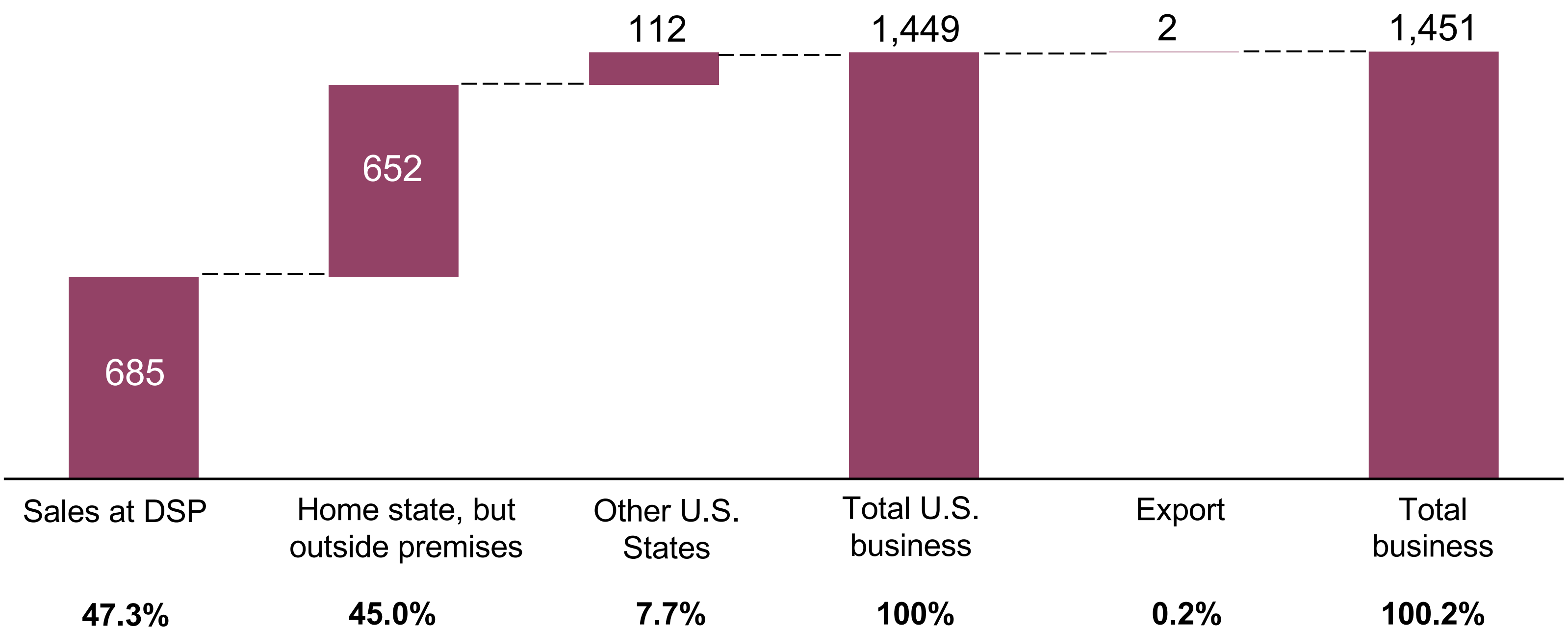
- The number of small craft producers has grown from1,324 in 2016 to 2,186 in 2021
- The number of cases of small craft distillers has grown from 749,000 9L cases in 2016 to 1.4 million 9L cases in 2021
- The average number of cases produced by small craft distillers has increased from 566 9L cases in 2016 to 663 9L cases in 2021

Sources: TTB, Distiller Surveys, Team Analyses

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 2021

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 The Home State

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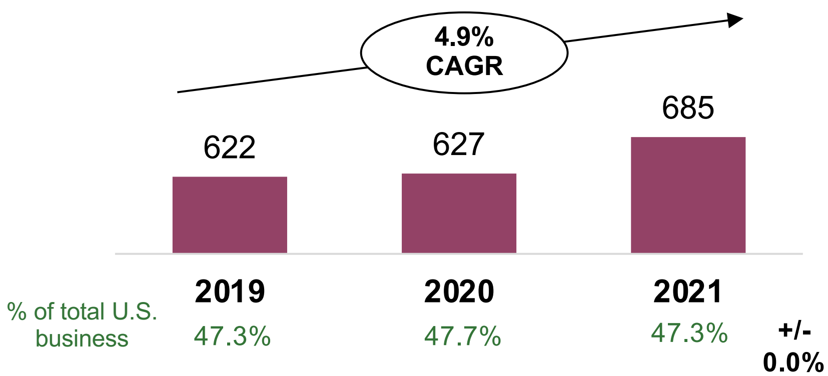
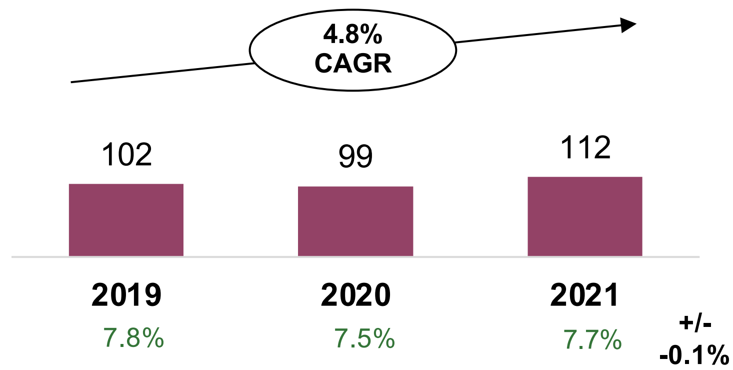
Small Craft Spirits Producers, Sources of Case Sales, 2019 – 2021

9L Cases (000)

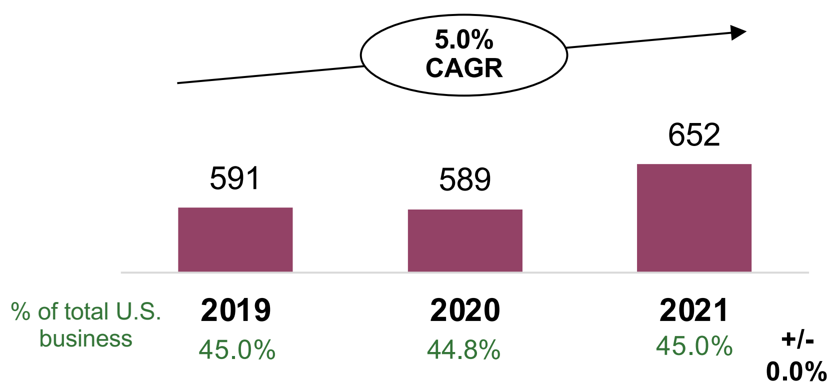
Sales at DSP



Other States



Home State



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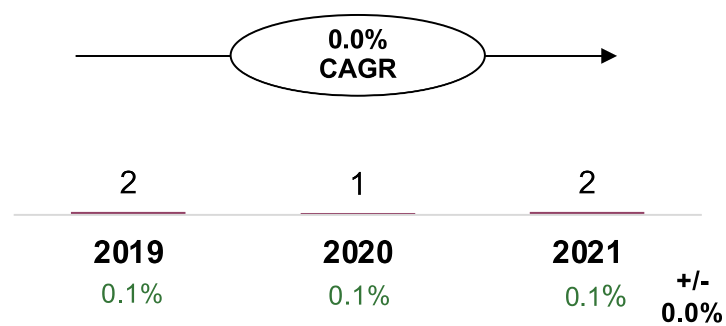
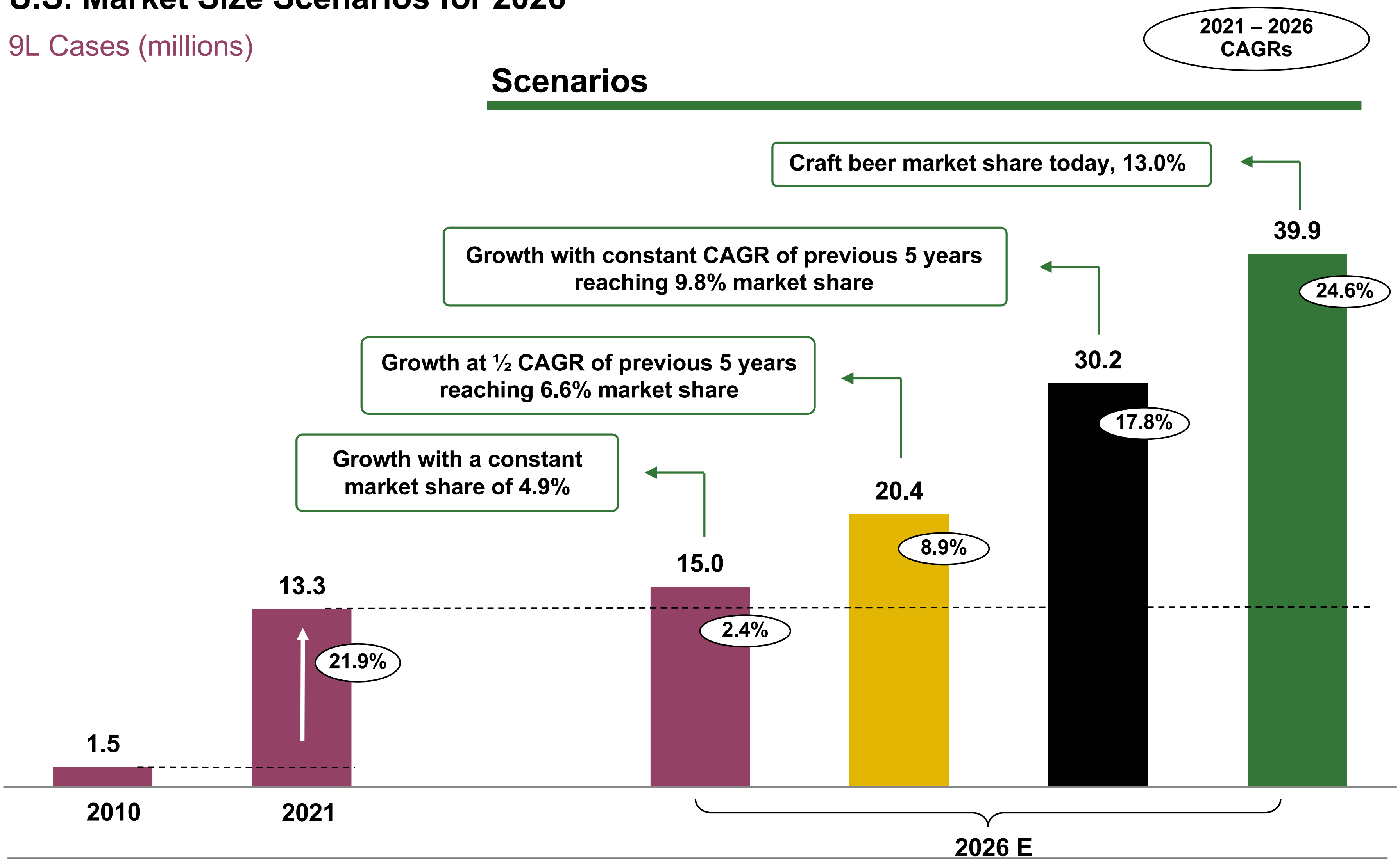


Sources: TTB, ACSA, State ABC Boards, State Guilds, Team Analyses

The Potential Trajectory of Craft Spirits Through 2026

U.S. Market Size Scenarios for 2026

9L Cases (millions)



Sources: IWSR, Team Analyses

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

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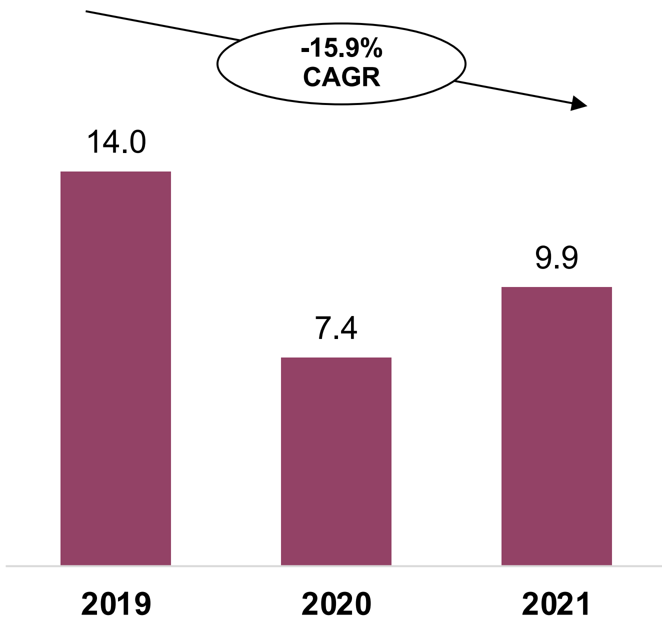
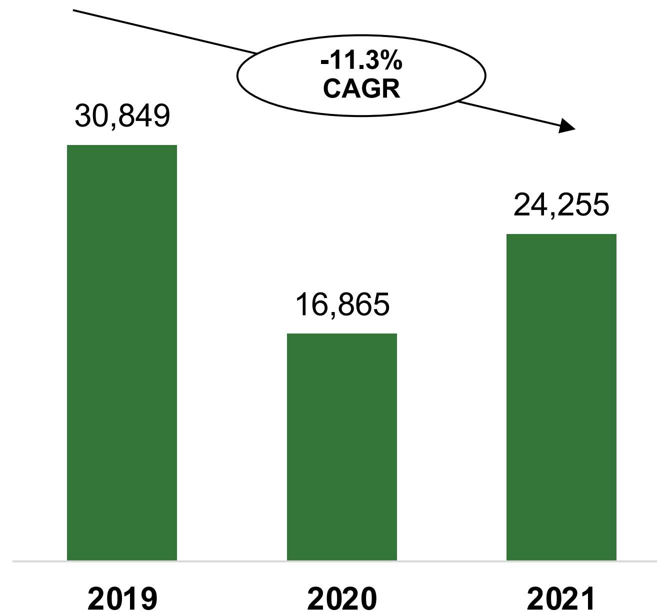
Average Full-Time Domestic Employees of U.S. Craft Spirits Producers



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

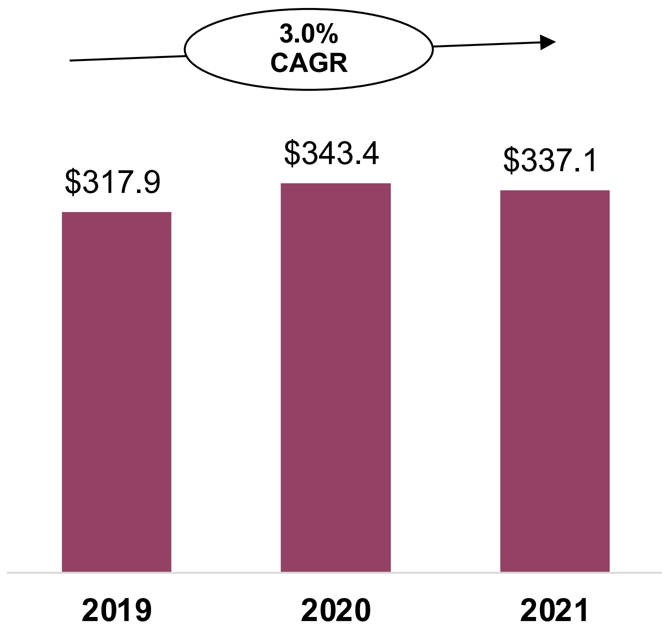


The pandemic resulted in a nearly 50% decrease in full-time domestic employees in the craft segment for 2020, but as the category returned to growth rates more typical to pre-pandemic conditions so too did the number of employees working in the segment.

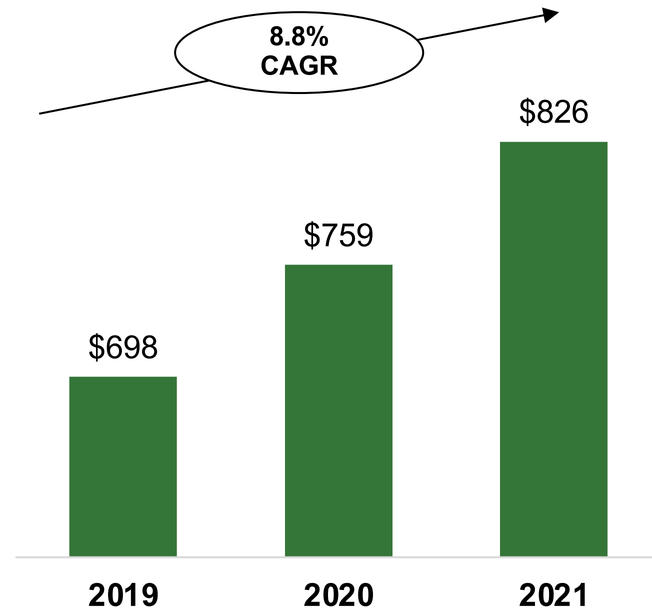
Sources: Distiller Surveys, TTB, Team Analyses

Investment in the U.S. Craft Continues to Increase

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



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



The total amount invested in U.S. craft spirits continues to increase regardless of pandemic impact on individual producers. In 2021, the top reason listed for reinvesting was the expansion to meet consumer demand and increase visitor space.

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

Contact Information

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

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?

- 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-sized 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