

September 2019  
**U.S. Brewer  
Industry Update**

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## U.S. Brewer Industry Update

In this industry update we will focus on the U.S. brewer industry which includes companies that produce traditional beer, cider, and flavored malt beverages (FMB). The U.S. brewer industry saw production volume declines of approximately 1% in 2018. The declines were primarily driven by declines in domestic light beer consumption and somewhat offset by increased consumption of craft and imported beer, as well as cider and FMB. Growth areas are being driven by younger consumers that have an increasing influence on product innovation and flavor profiles.

**Changing demographics allow for new growth areas.** Like most CPG industries in the US, the brewer industry is affected by changing demographics. Millennials' increasing influence upon consumer taste means there has been stronger demand for healthy and sustainable products and brands that are associated with quality, authenticity and heritage. And faster population growth rates within the Hispanic and Asian communities also means that products that appeal to these ethnicities will likely have higher organic growth.

**The number of craft brewers has rapidly expanded.** There are currently over 7,000 craft brewers in operation in the U.S. The number of operators has increased at a nearly 20% CAGR over the last 5 years while consumption growth rates are slowing. Millennial demand is likely driving the craft beer boom, but data suggests that the market has or at least is starting to become oversaturated.

**M&A activity remains steady, but deal value is falling.** A large number of small-cap transactions continues to keep the M&A environment busy in the brewer industry. We have also seen an emergence of increased minority investments, likely as a result of craft brewers' desire to remain independent, while sourcing the availability of private capital. There has been a significant decline in outright acquisitions of craft brewers by large strategic buyers given some of the challenges that recent acquirers have faced in taking well-known regional craft beer brands and successfully scaling these brands nationally. As competition increases, we believe that industry consolidation is likely. Any economic downturn should force much more significant levels of consolidation.

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### About Tully & Holland

Tully & Holland is a leading Boston-based investment banking advisory firm offering highly customized M&A and corporate advisory to consumer companies in the US and abroad. Founded in 1992, our seasoned team brings decades of extensive industry and investment banking expertise and the proven ability to successfully complete deals on behalf of our clients.

### Our Industry Experts



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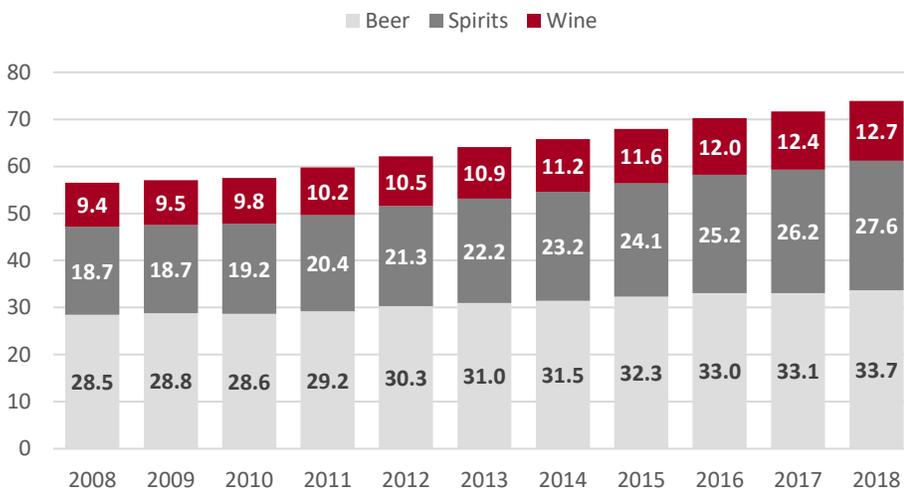
## Industry Trends

### U.S. Beer Industry

While per capita volume consumption of alcoholic beverages in the U.S. has remained relatively flat over the last ten years, industry revenues have grown driven by an expanding drinking age population that exceeds overall population growth rates as well as a willingness for consumers to pay a premium for specialty craft beer, FMB and cider. Revenue growth in brewer/beer industry, which includes; beer, flavored malt beverages (FMB) and cider, has increased at less than a 2% CAGR, versus the wine and spirits sectors which has increased by ~3% and ~4% CAGR, respectively.

**Revenue growth across alcoholic beverages - driven by population and pricing increases**

**U.S. Revenue Growth – by Beverage Category (\$B)**



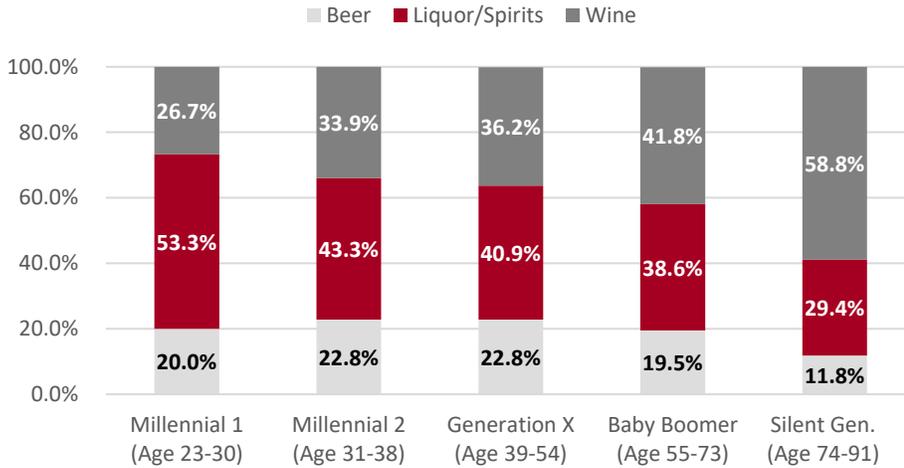
Source(s): Statista, Tully & Holland research.

**The brewer industry lags revenue growth in the overall alcoholic beverage category**

Demographic shifts also explain why the brewer category is losing share to the wine and spirits industry. Sustained growth in the spirits and wine industries is the result of a large baby boomer generation who are shifting away from beer in favor of wine and spirits. The spirit industry is also benefiting from millennials who are attracted to natural and low sugar spirit alternatives such as tequila. The craft brewers’ industry is also benefiting from increasing influence from millennials. Successful new products are commonly either natural, organic, sustainable, healthy, authentic or a mix of them all. The result of these changing preferences is slower revenue growth for “big-beer” which has significant exposure to traditional light beer which is experiencing decreased levels of consumption. Overall beer consumption remains relatively high relative to other types of alcohol as it is comparably affordable and widely accessible.

**Millennial’s and aging population likely responsible for lower beer consumption**

### Preferred Beverage by Age Group



Source(s): Statista, Tully & Holland research.

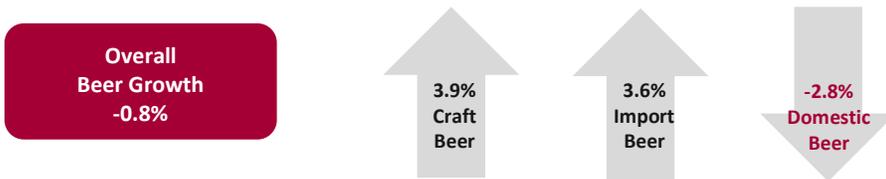
**Older population has an increasing preference for wine**

### Brewer Industry

Data from the Brewery Association indicates that overall beer consumption is declining slightly. However, there are certain sub-categories that are growing steadily. Dividing the beer segment into three segments - domestic, import, and craft - we note that both imports and craft beer has gained market share.

**Growth areas in certain sub-categories**

### Production Volume Growth by Beer Category - 2018



Source(s): Brewers Association, Beverage Industry 2018 publications, Tully & Holland research.

**Volumes continue to increase in the imported and craft beer categories**

### Craft and Imported Beer

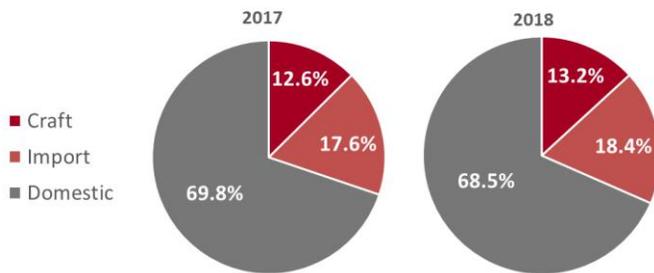
Craft beer production increased as a percentage of total U.S. alcoholic beverage production volume from ~8% to over 13% from 2013 to 2018. In terms of revenue the category saw roughly 7% percent growth in retail dollar sales in 2018, down from 8% in the prior year. Meanwhile, the number of craft brewers grew by ~13% in 2018. The number of craft brewers has grown at roughly 17% CAGR over the last ten years, increasing the number from just over 1,500 in 2008 to over 7,000 in 2018. The vast majority of the new breweries continue to be small and locally focused, which seems to align well with consumers who increasingly value the importance of heritage and authenticity. In the event of an economic slow-down, we do note that this may pose a challenge for many players in the category as they have little power to compete on price. This suggests the possibility that consolidation is extremely likely in the event of a recession as brewers will look to benefit from economies of scale.

**Competition among craft brewers are increasing at a rapid pace**

The volume of imported beer has grown at over 5% CAGR between 2013 and 2018. Demographics can likely explain some of the growth. Ethnicities such as Asians and Hispanics are growing more than three times faster than the total US population, allowing for strong organic growth for brands that appeal to these consumers. Mainstream Americans are also seeking additional variety and quality that many of these imported beers offer. Another factor that likely explains growth in the category is the strong USD allowing for lower priced imports. High growth rates in the imported and craft beer segment have taken U.S. market share from the domestic non-craft beer segment which has lost 130 basis points of the market share over the past year.

**Hispanic and Asian population growth combined with strong USD could help explain strong imported beer growth**

### U.S. Beer Production Volume Breakdown by Segment



Source(s): Brewers Association, Beverage Industry 2018 publications, Tully & Holland research.

**Domestic beer segment – losing market share**

Data from the Brewers Association and Statista suggests that both the import and craft beer segments are starting to mature – production volume for craft beer dropped from high single digit growth 3 to 5 years ago to more moderate low single digits in 2017 and 2018. The same pattern was seen for the volume of imported beer.

**Data suggest that imported and craft beer demand is starting to mature**

### FMB and Cider Categories'

FMB (flavored malt beverages) and Cider are the two products that account for the highest growth rates in the overall brewer industry. The top 10 brands in the FMB category collectively grew volumes at over 12% and dollar sales at over 10% YoY in 2018. Growth was driven by brands such as *Truly Spiked* and *White Claw* hard seltzer which both enjoyed triple digit growth rates. The consumption growth of the FMB category, driven by hard seltzers, is attributable to the perceived relative health benefits versus other alcohol categories. Meanwhile, FMBs have become an attractive alternative due to their low calorie and low sugar content. The Cider category also grew at a high pace last year, reversing a three-year decline in volumes. The 10 largest Cider brands grew by 7% in dollar sales and over 10% in volume in 2018. This growth was in part driven by the gluten friendly product promotion of the largest Cider brand *Angry Orchard* (made by Boston Beer Company).

**Hard Seltzer- the highest growth category**

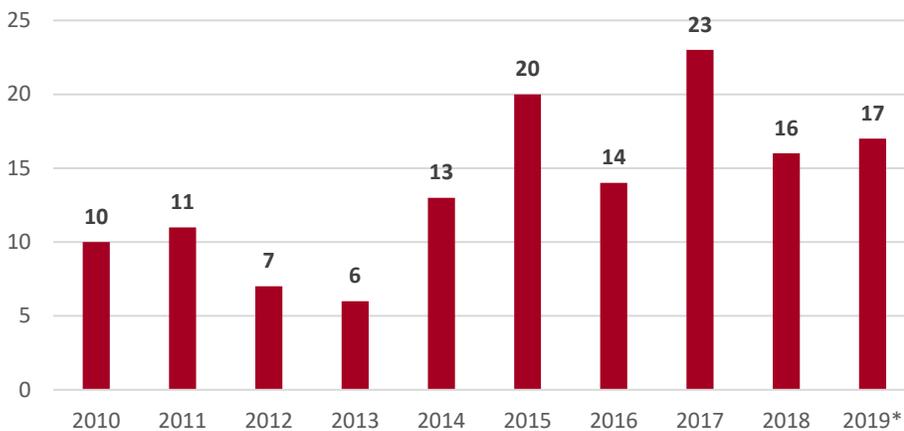
## M&A Activity

### General Market Trends

The 5 largest brewers companies hold roughly 80% market share, down from over 90% ten years ago (source: Beer Marketers Insights /NBWA). This shift is largely due to the impact of increased demand for imports and craft beers. Transaction value of deals completed in the brewer industry has declined over the last couple of years but the number of M&A transactions continue to remain high as a result of consolidation on the lower end of the size spectrum. Due to the emergence of an increased number of craft brewers we anticipate continued consolidation through outright sales. At the moment, financings which allow independent breweries to grow are popular. There have been approximately 90 such financings reported since 2017. This type of financing may not be as readily available in future if interest rates rise and there are market liquidity constraints.

***“Big-beer” have lost market share to smaller competitors***

**Number of M&A Transactions in the U.S. Brewer Industry**



Source(s): Cap IQ, Tully & Holland research. \*YTD Sep 19th

***M&A activity continued strong but on the lower end of the cap-spectrum***

One of the more notable transactions YTD 2019, was Boston Beer Company’s acquisition of Dogfish Head Brewery (Off-Centered Way). As explained by Boston Beer’s CEO Jim Koch the acquisition allows them to continue to create the most dynamic and diverse American-owned platform for craft beer and beyond. Dogfish will at the same time get access to a top-ranked sales team and a larger distribution platform. Dogfish’s co-founders have decided to take substantially all of their merger consideration in form of SAM stock signaling their future belief in the combined company. Anheuser-Busch also recently made yet another craft beer acquisition with their addition of Platform Beer Company. The acquisition allows Anheuser-Busch to further increase exposure to the fast-growing craft beer segment, at the same time as it gives Platform access to capital for future growth. Anheuser-Busch states that over the last three years they have injected over \$130M post-partnership into their “Brewers Collective” portfolio which consists of 12 different companies.

***Boston Beer and Anheuser-Busch increases their exposure in the craft beer segment***

One trend that Tully & Holland highlighted in its 2018 Global Craft Beer report is the use of minority equity investments to create production and sales alliances between companies to leverage each other's resources geographically. This trend has continued throughout 2018 and early 2019. Constellation Brands for example acquired a minority stake in Durham Distillery in August 2019. Durham's product portfolio includes spirits as well as ready-to-drink cocktails - a product with many similarities to hard seltzers. Barrel of Monks Brewing also acquired a minority stake in Odd Breed Wild Ales. The partnerships created by these niche brewers are stated as attempts for increased product innovation.

***Minority investment - an attractive option***

As stipulated by the Brewers Association, for a brewer to be considered a "craft brewer", it needs to produce 6 million barrels or less and remain independent (a maximum of 25% can be owned by a non-craft brewer). Due to current consumer consumption behavior we believe craft brewers will likely find it valuable to retain this label and minority investments in craft brewers will continue to be an appealing option. Some breweries prefer to sell equity stakes to private investors and retain their independence, especially when the founder's continued involvement is paramount. These investors tend to preserve the founder's tried-and-tested processes, and provide outside support where needed, in areas such as procurement and marketing. This approach can successfully protect the brand's cachet and identity.

***To retain the label craft brewer, one must remain small and independent***

Another potential M&A trend to watch out for is cross-industry M&A between larger, well capitalized brewers and cannabis companies. These business operations, where both industries target similar customers, may realize cost and revenue synergies through consolidation. It would give cannabis companies access to proven platforms within the CPG industry, at the same time it could offer a good customer diversification and brand loyalty strategy for companies in brewer industry. While this is somewhat contingent on easing U.S. regulations surrounding cannabis, we have already seen this type of cross-industry transaction in Canada where regulations are looser. Constellation Brands bought a minority investment in Canadian based cannabis producer Canopy Growth. Constellation brands explained part of their rationale as follows: "The global cannabis market presents a significant growth opportunity...Canopy Growth will benefit from Constellation's deep understanding of consumer trends and shifting preferences, and proven ability to translate those insights into distinct brand positionings that build strong connections with consumers and foster brand loyalty."

***Cross-industry M&A with cannabis – a possible option for cost and revenue synergies***

## Historical Transactions

Publicly available data on valuation multiples is limited. In T&H's experience, transaction multiples that acquirers and investors are willing to pay have trended down in recent years and are quite variable depending on size, growth outlook and perceived ability of brands to appeal beyond a local or regional market. Market dominance within a particular market or region is also a factor.

### M&A activity with reported transaction value and multiples – Overall Beer Sector

Date Closed	Target/Issuer	Buyers/Investors	Target Description	Total Transaction Value (\$mm)	Valuation Metrics	
					EV/Revenue	EV/EBITDA
1/25/2019	The Fuller's Beer Company Ltd	Asahi Europe Ltd	Beer producer	\$329	1.64x	23.58x
6/8/2018	Matso's Broome Brewery Pty Ltd	Gage Roads Brewing Co. Limited (ASX:GRB)	Beer producer	\$12	na	7.00x
12/18/2017	Saigon Beer - Alcohol - Beverage Corporation (HOSE:SAB)	Vietnam Beverage Company Limited	Alcoholic beverage producer	\$4,925	6.06x	33.27x
8/3/2017	Anchor Brewing Company, LLC	Sapporo Holdings Limited	Beer and ale producer	\$85	2.58x	na
7/28/2017	Formosa brewery (Brick Brewery Co.)	Zhang Haoliang group	Beer Brand of Brick Brewery Co.	\$3	3.17x	16.53x
11/16/2015	Home Brew Mart, Inc	Constellation Brands, Inc	Craft beer and spirits producer	\$1,021	9.95x	32.08x
11/11/2015	MillerCoors LLC	Molson Coors Brewing Company M	Beer producer	\$12,019	2.67x	12.41x
10/15/2015	Pivovarna Lasko DD	Heineken N.V.	Beer and malt producer	\$341	1.94x	9.85x
9/17/2015	SABMiller PLC	Anheuser-Busch InBev SA	Beer producer and distributor	\$116,285	7.50x	18.50x
8/19/2015	Myanmar Brewery Ltd	Kirin Holdings Ltd	Beer producer	\$554	4.86x	13.71x
7/28/2015	Namibia Breweries Ltd.	Heineken NV	Beer producer and distributor	\$320	1.60x	7.75x
4/1/2015	C&C Group plc	Third Avenue Management, LLC	Beer producer and distributor	\$1,682	2.19x	11.00x
6/7/2013	Crown Imports LLC	Constellation Beers Ltd.	Beer importer and distributor	\$1,845	1.46x	8.25x
8/3/2010	Kona Brewing Co., Inc.	Craft Brew Alliance, Inc.	Beer producer and distributor	\$15	0.52x	10.05x
<b>Mean</b>				\$12,197	3.49x	14.01x
<b>Median</b>				\$554	2.58x	11.71x
Mean (Transactions less than \$450MM)				\$153	1.91x	13.55x
<b>Median (Transactions less than \$450MM)</b>				\$85	1.79x	10.05x

Source(s): Cap IQ, Tully & Holland research.

## M&A Highlights (LTM) – North America

Date Closed	Target/Issuer	Buyers/Investors	Transaction Description
8/28/2019	Durham Distillery, LLC	Constellation Brands Ventures	Constellation Brands acquired a minority stake in Durham Distillery who owns and operates brewery. Durham was incorporated in 2013 and is based in Durham, North Carolina.
7/24/2019	Odd Breed Wild Ales, LLC	Barrel of Monks Brewing, LLC	Barrell of Monks Brewing acquired a minority stake in Odd Breed Wild Ales who brews beer. Odd Breed was incorporated in 2015 and is headquartered in Pompano Beach, Florida.
8/13/2019	Cervecería Barbarian	ZX Ventures LLC	ZX Ventures LLC acquired Cervecería Barbarian on August 13, 2019. The business line will be operated by founders.
8/7/2019	Platform Beer Co.	Anheuser-Busch Companies, LLC	Anheuser-Busch Companies, LLC agreed to acquire Platform Beer Co. from Justin Carson and Paul Benner on August 7, 2019. Justin Carson and Paul Benner, founders of Platform Beer, will remain in charge of the day-to-day operations of the brewery and the entire Platform team will join Anheuser-Busch Companies.
5/9/2019	Off-Centered Way LLC	The Boston Beer Company, Inc.	Sam Calagione and his family will receive approximately 406,000 shares of Boston Beer stock based on a share price of \$314.60. Dogfish Head shareholders will also receive \$173 million in cash,
5/2/2019	Biela y Bebidas del Ecuador S.A. BIELESA	Heineken International B.V.	Heineken International B.V. acquired an unknown majority stake in Biela y Bebidas del Ecuador S.A. BIELESA from a group of mainly local investors on May 2, 2019.
4/5/2019	Stone Brewing GmbH	BrewDog PLC	BrewDog PLC acquired Stone Brewing GmbH from Stone Brewing Co. LLC on April 5, 2019.
2/4/2019	Sufferfest Brewing Company, Inc.	Sierra Nevada Brewing Co.	Sierra Nevada Brewing Co. acquired Sufferfest Brewing Company, Inc. on February 4, 2019.
10/10/2018	Substantially all the Assets of Appalachian Mountain Brewery LLC, Wynwood Brewing Company , Certain Assets of Cisco Brewers	Craft Brew Alliance, Inc.	Craft Brew Alliance, Inc. (NasdaqGS:BREW) entered into a definitive agreement to acquire Substantially all the Assets of Appalachian Mountain Brewery LLC for \$8.3 million. They acquired 75.5% stake in Wynwood Brewing Company LLC from the Wynwood family for \$7.9 million. And they acquired certain assets of Cisco Brewers, Inc. for \$23 million

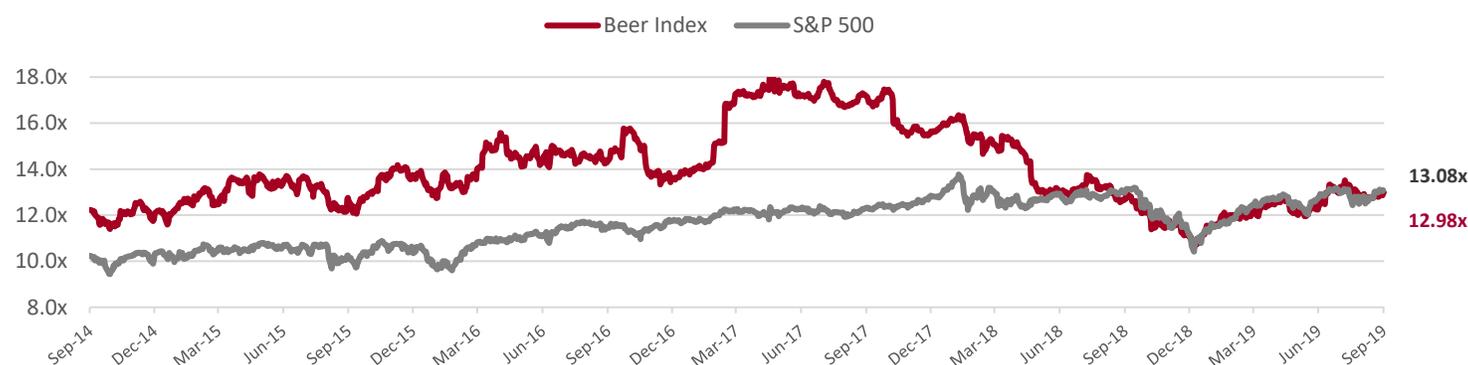
Source(s): Cap IQ, Tully & Holland research.

## Publicly Traded Brewers

### Public Company Valuation and Trading Performance

In the chart below, we graph our beer index (which includes a universe of global beer companies) versus the S&P 500. As shown, beer industry multiples have contracted since their highs in 2017 as a result of a softening growth outlook for the industry and higher exposure from these companies to the traditional beer segment. Valuations of larger companies such as Anheuser-Busch have benefited from diversification. Currently, the market is applying a valuation premium to businesses such as Boston Beer Company which have a high degree of exposure to craft beer, FMB and other craft beverage alternatives reflecting the underlying growth expectations in these market segments.

### Historical Trailing EV/EBITDA



Source(s): Cap IQ, Tully & Holland research. Note: Beer index constituents found in graph below ("Global Beer Comparables")

### Global Beer Public Comparables

Company Name	Ticker	Market Data as of 9/12/2019			LTM				Valuation Metrics	
		Last Share Price	Market Cap	Enterprise Value	Revenue	Rev Growth %	EBITDA	Margin %	EV/Rev	EV/EBITDA
Anheuser-Busch InBev	ABI-BE	\$96.96	\$189,977	\$307,517	\$54,619	-3%	\$21,391	39%	5.63x	14.38x
Ambev	ABEV3-BR	\$4.78	\$75,149	\$73,191	\$13,738	-8%	\$5,500	40%	5.33x	13.31x
Heineken	HEIA-NL	\$107.71	\$61,648	\$76,628	\$26,510	9%	\$5,610	21%	2.89x	13.66x
Constellation Brands	STZ	\$204.68	\$38,579	\$52,318	\$8,116	7%	\$3,100	38%	6.45x	16.88x
Asahi Group Holdings	2502-JP	\$48.86	\$22,066	\$31,477	\$19,198	3%	\$2,993	16%	1.64x	10.52x
Carlsberg	CARL.B-DK	\$146.91	\$22,010	\$25,846	\$9,893	8%	\$2,066	21%	2.61x	12.51x
Molson Coors Brewing	TAP	\$56.58	\$12,166	\$21,579	\$10,770	-2%	\$2,350	22%	2.00x	9.18x
Tsingtao Brewery	168-HK	\$6.20	\$8,511	\$5,987	\$3,665	11%	\$388	11%	1.63x	15.44x
Compania Cervecerias Unidas	CCU	\$23.02	\$4,233	\$4,324	\$2,778	6%	\$870	31%	1.56x	4.97x
Royal Unibrew	RBREW-DK	\$81.20	\$4,013	\$4,499	\$1,155	19%	\$270	23%	3.89x	16.67x
Boston Beer Company	SAM	\$388.64	\$4,751	\$4,578	\$996	15%	\$169	17%	4.60x	27.17x
Craft Brew Alliance	BREW-US	\$9.06	\$178	\$230	\$206	-1%	\$16	8%	1.11x	14.03x
Keo Public Company	KEO-CY	\$1.55	\$62	\$62	\$64	12%	\$8	13%	0.97x	7.48x
Mean			\$34,103	\$46,787	\$11,670	6%	\$3,441	23%	3.10x	13.55x
Median			\$12,166	\$21,579	\$8,116	7%	\$2,066	21%	2.61x	13.66x
Mean (DLOM 30%)									2.17x	9.49x
Median (DLOM 30%)									1.83x	9.56x

Source(s): Cap IQ, Tully & Holland research.

## About Tully & Holland

### Comprehensive Beer Sector Expertise

Tully & Holland has been deeply involved in the beer industry beginning in 2006 with its representation of Magic Hat and Pyramid in its sale to North American Breweries. As a leading Boston-based investment banking advisory firm, we offer highly customized M&A and corporate advisory to consumer product companies in the US and abroad. Founded in 1992, our seasoned team brings decades of extensive industry and investment banking expertise and the proven ability to successfully complete deals on behalf of our clients.

Our Beer Sector expertise includes the following segments:



- Beer Producers
- Beer Importers
- Beer Distributors

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### Selected Beverage Transactions

*This announcement appears as a matter of record only*

**Belikin** **HEINEKEN**  
*The Beer of Belize*

**Bowen & Bowen Ltd.** has sold a minority stake in **Belize Brewing Company Ltd.** to **Heineken International B.V.**

Financial Advisor to Seller

*This announcement appears as a matter of record only*

**MAGIC HAT** **PYRAMID**

**Independent Brewers United** has been acquired by **North American Breweries, Inc.**

Financial Advisor to Seller's Majority Shareholder

*This announcement appears as a matter of record only*

**CAMERON'S**  
 SPECIALTY COFFEE

**Cameron's Coffee** has been acquired by **Grupo Nutresa S.A.**

Financial Advisor to Acquirer

### Service Capabilities

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- Business Valuation of Privately-Held Consumer Companies



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