



## Craft Beer Industry 2011 Mid-Year Review and Outlook

## Agenda

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## **Executive Summary**

# Executive Summary

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- Total Domestic Beer production declined slightly in 2010 (~1%)
  - Second consecutive year the industry experienced a modest decrease (~3% in 2009)
- Within the Domestic Beer market, the Craft segment continues to outperform
  - Craft Beer increased production nearly 10% in 2010, primarily due to strong performance within the Food Channel
  - Craft barrel production is expected to grow at a 4.2% CAGR from 2011 - 2015
- M&A within the Craft segment is expected to increase
  - Major brewers (e.g., AB-InBev and MillerCoors) have spent the past few years completing most of the international acquisitions necessary to create a global portfolio, and are poised to once again pursue growth in the U.S. market
  - Top 5 Craft breweries may add to their brand portfolio through acquisitions
  - Private Equity will be challenged to deploy capital as long as the central thesis is to facilitate a roll-up
    - The brand positioning of many Craft breweries is not conducive to national distribution
- Valuation
  - Craft breweries are being valued between 2 - 2.5x LTM Revenue and 11 - 13x EBITDA
- Future Expectations
  - Craft will continue to gain domestic market share from Beer as a whole, as well as from Wine & Spirits
    - Demeter Group forecasts 10 - 12% market share in the U.S. by 2015
  - Distributors are confident they can sell more beer than Craft breweries are able to produce
  - Since 2008, the majority of top 20 Craft breweries have self-funded additional capacity (typically 2x current capacity) utilizing bank debt
    - These breweries have bet big on industry growth through 2014, especially given the uncertain economy and amount of leverage many breweries now operate with

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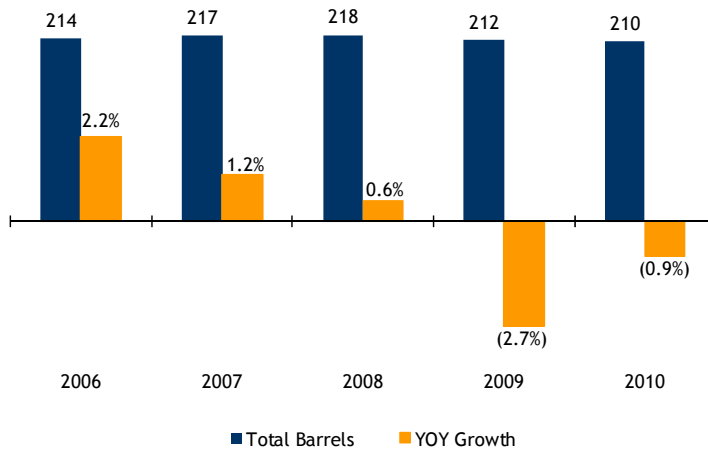
# **U.S. Beer Market Overview**

# U.S. Beer Market — Growth

Growth remains stagnant in the U.S. Beer market

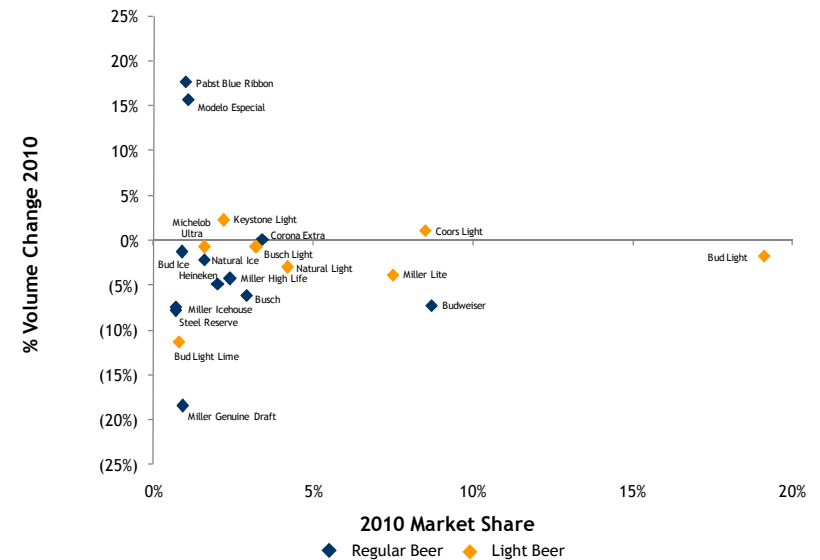
## U.S. Beer Industry Growth

- From 2008 - 2010, the Beer industry declined (3.7%) as consumers shifted to Wine & Spirits
- Barrel production hovers around 215 million annually and will experience modest near-term growth as consumers shift back to Beer from Wine & Spirits
  - This shift is expected as Craft Beer gains in social status and visibility



## 2010 Top 20 Brands in the U.S. Market<sup>(1)</sup>

- AB-InBev and MillerCoors dominate the top 20 brands in the U.S. market, with a focus on Light Beers
  - 3 of the 4 largest brands are Light Beers
- Of the top 20 brands, only 5 experienced positive growth in 2010



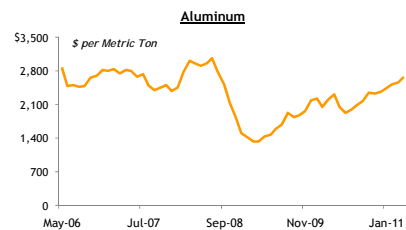
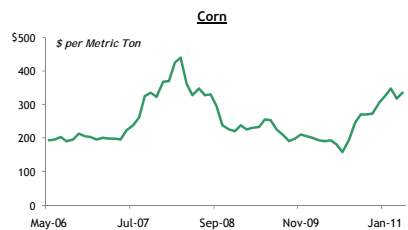
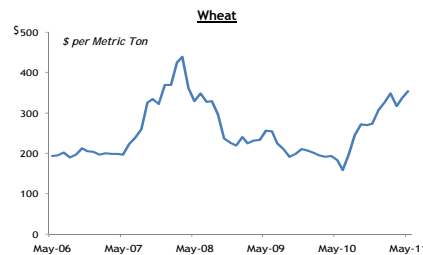
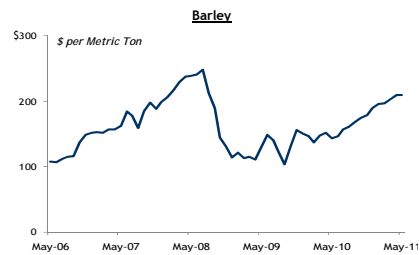
<sup>(1)</sup> Does not include brands produced by Craft breweries.  
Source: BeverageWorld, IBISWorld, and Beer Marketers' Insights.

# Volatility in Commodity Pricing

Volatility in input costs is expected to ease over the near-term, a welcome change to an industry that has experienced significant pricing fluctuations

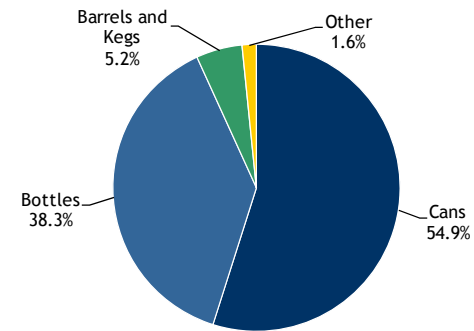
## Key Input Pricing Trends

- Raw material purchases are a brewery’s most significant cost, typically representing ~60% of Revenue
  - Hops represents ~10% of a brewery’s Revenue
  - Packaging represents 30 - 40% of a brewery’s Revenue
- Smaller breweries are disproportionately exposed to fluctuations in input costs



## 2010 Packaging Allocation

- Aluminum cans and glass made up over 90% of all Beer packaging



## Forecast

- Despite recent dramatic increases in prices of grain inputs (due in large part to a heat-wave in Ukraine and droughts in China), volatility is expected to subside over the near-term and prices will continue rising moderately
  - After a grain shortage in 2007, supply is beginning to catch-up with demand
- Prices of aluminum, glass, corrugated cardboard, and other packaging are expected to rise moderately over the near-term

Source: IBISWorld, IMF, IndexMundi, and other Wall Street research.

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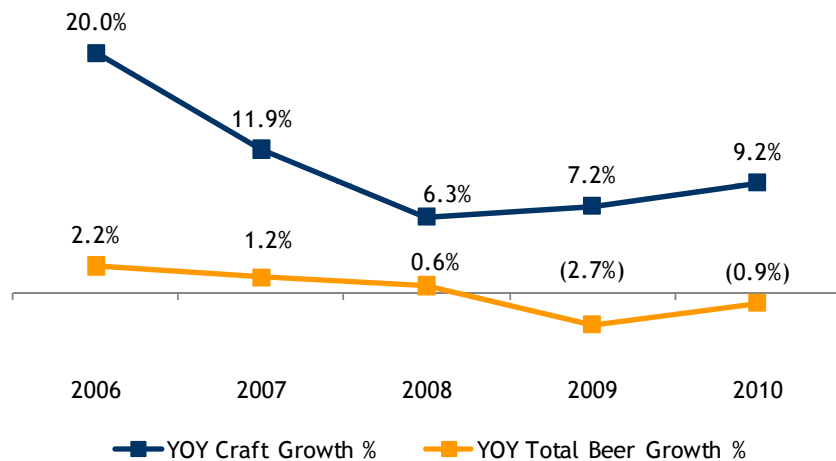
# Craft Beer Overview



# U.S. Craft Beer Market — Growth

Craft Beer has outpaced the U.S. Beer market significantly by taking share from Beer as well as other Alcoholic Beverages

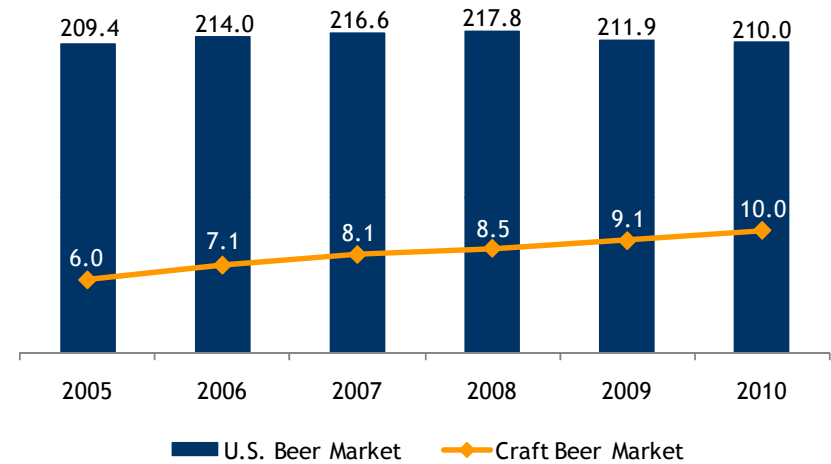
## Barrel Production Growth



- Craft Beer manufacturers increased production while the overall market declined the past two years
- Craft Beer production levels increased notably during the recession
- Majority of breweries have funded expansion with bank debt

## Total Beer Volume vs. Craft Beer Volume

(Millions of barrels)



- Craft Beer has consistently increased its share of total U.S. production from ~3% in 2005 to ~5% in 2010
- As of Q1 2011, Craft Beer sales represented 10.6% of total Beer sales in the U.S. Food Channel

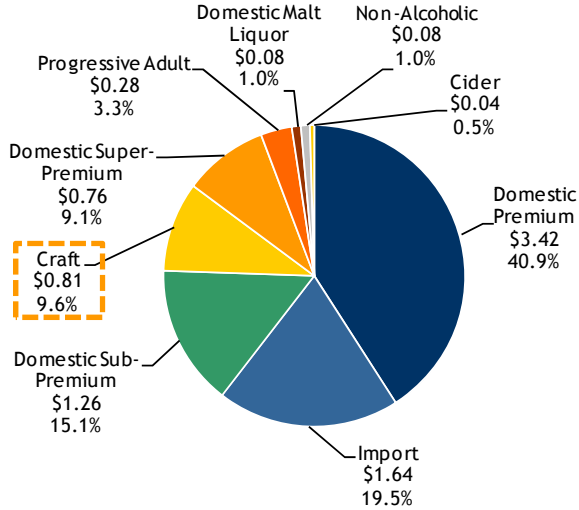
Source: IBISWorld, U.S. Total Food IRI Data for week ending March 27, 2011, and Brewers Association.

# Craft Beer in the U.S. Food Channel

Craft was the 2<sup>nd</sup> fastest growing Beer segment within the U.S. Food Channel, accounting for ~\$800 million in sales in 2010

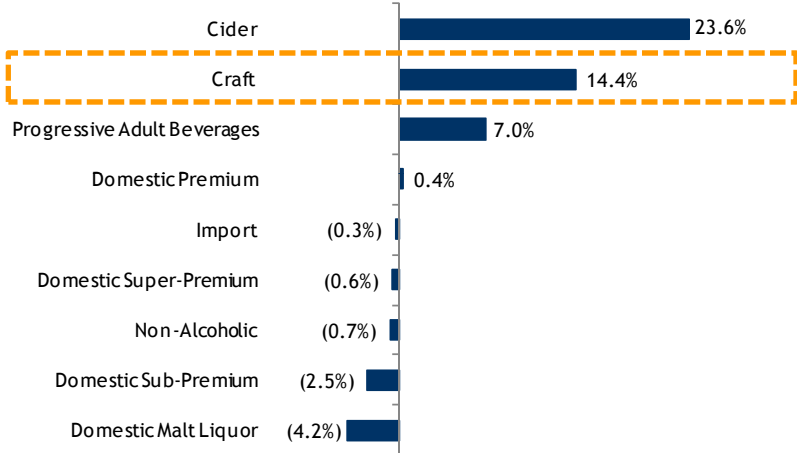
## 2010 - 2011 Market Segmentation<sup>(1)</sup>

(\$ sales in billions in U.S. Food Channel)



## 2010 - 2011 Dollar Sales Growth<sup>(1)</sup>

(Growth in % dollar sales change in U.S. Food Channel)



- Beer sales in the U.S. Food Channel were \$8.37 billion
- Craft Beer represented nearly 10% of total dollar sales
- Craft holds more market share than Domestic Super-Premium Beverages, Progressive Adult Beverages, and others

- Craft Beer was the second fastest growing Beer segment behind Cider, which represented only 0.5% of dollar sales in the U.S. Food Channel

<sup>(1)</sup> Denotes data for 52 week period ending March 27, 2011.  
Source: U.S. Total Food IRI Data for 52 weeks ending March 27, 2011.

# Craft Beer Momentum

Craft had largest ACV growth of all Beer categories in the U.S. Food Channel for 2010, showcasing meaningful momentum

## Recent Momentum

- Three of the “Top 10 Momentum Brands of 2010” are Craft Beers
- Boston Beer, the largest Craft brewery, produces two top “Momentum Brands”

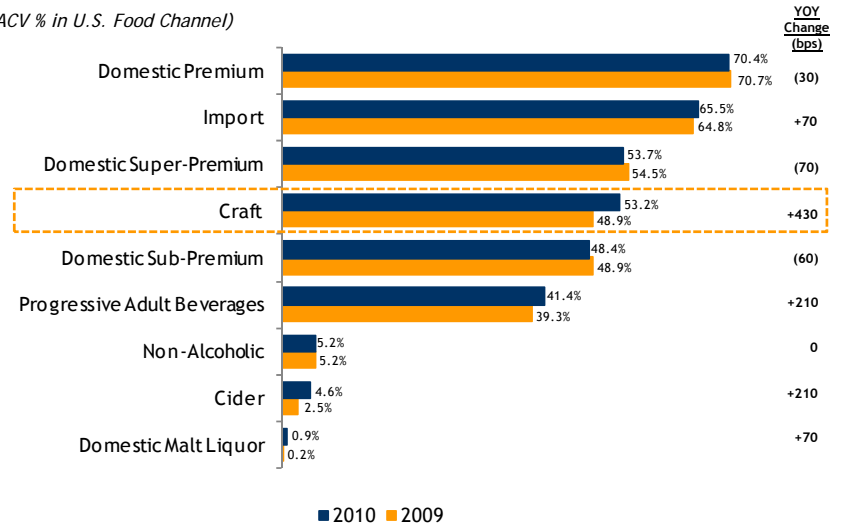
### Top 10 Momentum Brands of 2010

- |     |                                 |                                                                                     |
|-----|---------------------------------|-------------------------------------------------------------------------------------|
| 1.  | Blue Moon Belgium White Ale     |    |
| 2.  | Pabst Blue Ribbon               |    |
| 3.  | Yuengling                       |    |
| 4.  | Samuel Adams Seasonal Selection |    |
| 5.  | Modelo Especial                 |    |
| 6.  | Dos Equis                       |  |
| 7.  | Samuel Adams Variety Pack       |  |
| 8.  | Labatt Blue Light               |  |
| 9.  | Michelob Ultra                  |  |
| 10. | Coors Light                     |  |

Note: Momentum is calculated with the following criteria: case sales and dollar sales, growth in volume and dollars, share of price segment, and average weekly dollar sales. Source: BeverageWorld, Foodservice Buyer, and U.S. Total Food IRI Data for 52 weeks ending March 27, 2011.

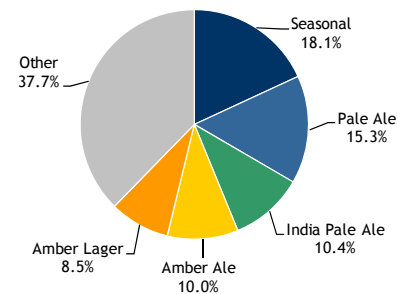
## 2010 All Commodity Volume (“ACV”) Growth

(ACV % in U.S. Food Channel)



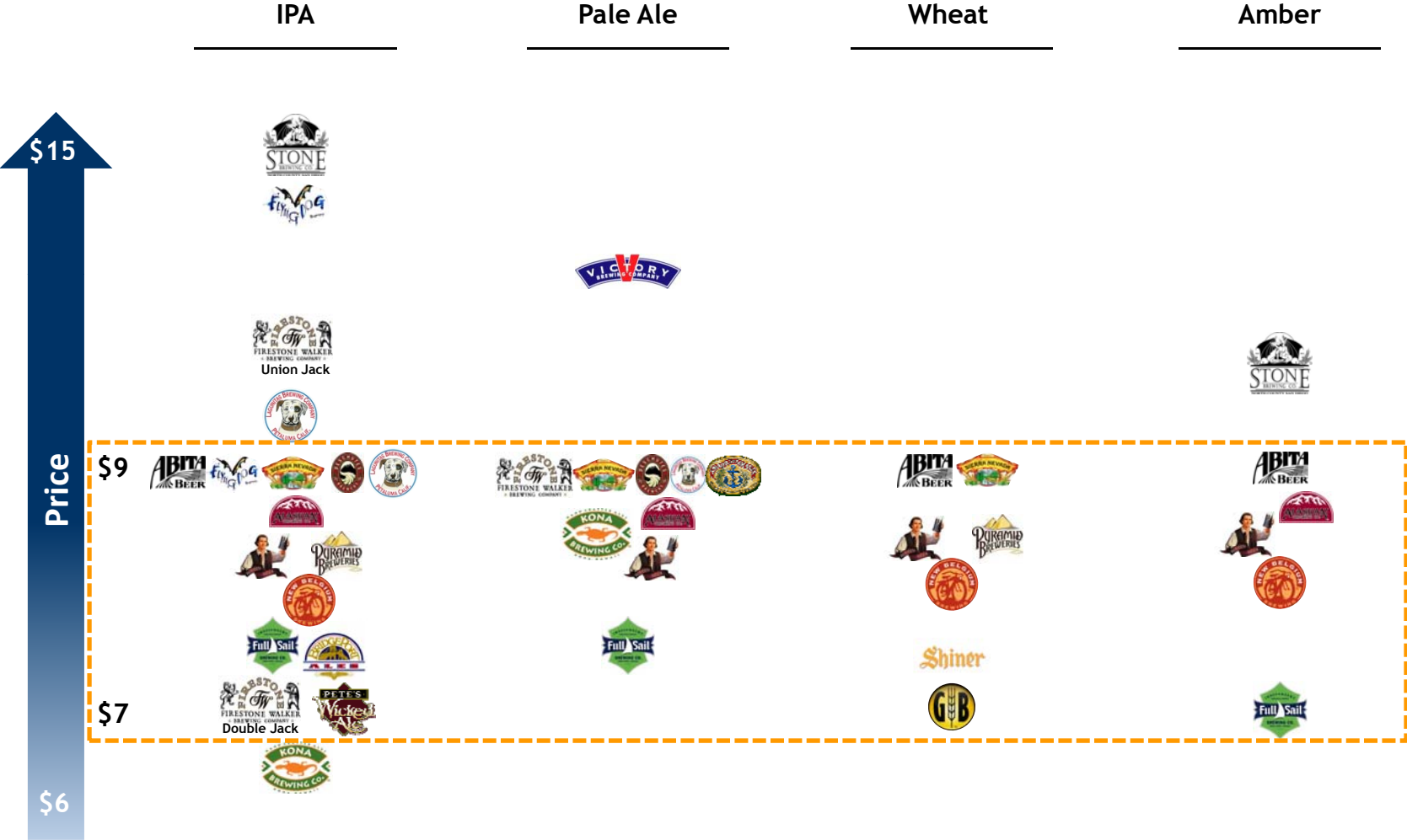
## 2010 Craft Beer Variety

- Popular Craft Beers tend to be heavier brews than the top domestic brands
- Other varieties include Wheat, Lager, Pilsner, and Stout Beers



# Price Segmentation by Variety










Craft Beer retail prices are heavily concentrated around \$7.00 - \$9.00 per six-pack, a 25% - 55% premium to non-Craft brands; Craft case prices in the Food Channel rose 12.5% in 2010, the largest increase in the Beer category



Source: Beverages & More and U.S. Total Food IRI Data for 52 weeks ending January 2, 2011.  
 Note: Prices reflect regularly priced six-packs.

# Differentiated Brand Positioning and Marketing

Craft brands are strongly differentiated, typically making them more appealing as regional plays; strategics can portfolio build, however private equity will be challenged building a national portfolio that leverages shared distribution

	Characteristics	Brand Examples
Product	<ul style="list-style-type: none"> <li>Top Craft brands have strong flagship products                             <ul style="list-style-type: none"> <li>Provides identity and a “must have” product</li> <li>Largest categories include India Pale Ale (IPA), Pale Ale, Amber Ale, Wheat Beer, Lager, and Pilsner</li> </ul> </li> </ul>	  
Place	<ul style="list-style-type: none"> <li>Often named after home location or strong geographic reference</li> <li>Select Craft brands with strong geographic identities have achieved success to become super regional / national</li> <li>Differentiates Craft brands from major corporate brands by recalling original regional brewing tradition in the U.S.</li> </ul>	  
Personality	<ul style="list-style-type: none"> <li>Craft Beer can show personality by creating allusions to the outdoors and traditional brewing techniques, as well as using <i>Extreme</i> ingredients                             <ul style="list-style-type: none"> <li><i>Extreme Beer</i> is characterized by non-traditional ingredients (fruits, coffee, honey) and / or unusual formulations (high alcohol content, ultra hopping)</li> </ul> </li> <li>Innovative and off-beat branding, packaging, and marketing boost consumer awareness and create buzz for the brand</li> </ul>	  

# Bi-Coastal Craft Concentration

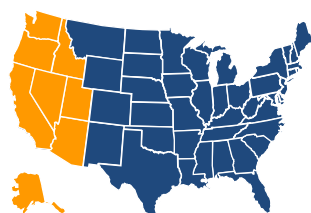


Source: Brewers Association.

# Craft Beer – Top 30 Brands

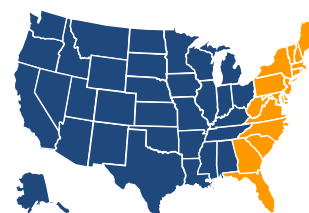
While Craft Beer production is concentrated on the coasts, the Mid-West region should not be ignored as it is home to two of the nation’s largest Craft brewers

## West



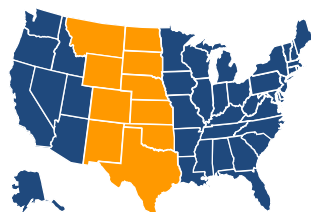
Company	Craft Rank	Type <sup>(1)</sup>	'10 Sales Growth
Sierra Nevada	2	Pale Ale	↑
Deschutes	5	Pale Ale	↑
Alaskan	12	Amber	↓
Stone	14	IPA	↑
Lagunitas	17	IPA	↑
Full Sail	18	Amber	↑
Anchor	23	Steam	↑
Kona	24	Lager	↑
Rogue	25	Pale Ale	↑
Firestone Walker	26	Pale Ale	↑
Gordon Biersch	30	Lager	↑
Average Rank	17.8		

## East



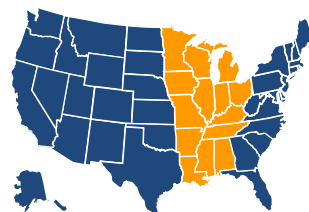
Company	Craft Rank	Type <sup>(1)</sup>	'10 Sales Growth
Boston Beer	1	Lager	↑
Independent Brewers United	6	Pale Ale	↑
Matt Brewing	7	Pale Ale	↑
Harpoon	9	IPA	↑
Dogfish Head	11	IPA	↑
Long Trail	13	Pale Ale	↑
Brooklyn Brewery	16	Brown Ale	↑
Shipyard	19	Pale Ale	↑
Sweetwater	27	IPA	↑
Flying Dog	28	Pale Ale	↑
Victory	29	IPA	N/A
Average Rank	15.1		

## Mid-West



Company	Craft Rank	Type <sup>(1)</sup>	'10 Sales Growth
New Belgium	3	Amber Ale	↑
Gambrinus	4	Bock	↑
Average Rank	3.5		

## Great Lakes / Southeast



Company	Craft Rank	Type <sup>(1)</sup>	'10 Sales Growth
Bell's	8	Wheat	↑
Boulevard	10	Wheat	↑
Abita	15	Amber Ale	↑
Summit	20	Pale Ale	↑
New Glarus	21	Pale Ale	↑
Great Lakes	22	Pale Ale	↑
Average Rank	16.0		

<sup>(1)</sup> Type represents variety Craft brewery is best known for.

Note: Gambrinus includes Shiner, Pete’s Wicked, Trumer Pils, Tappeto Volante, and Bridgeport brands. Independent Brewers United includes Magic Hat and Pyramid brands.

Source: Brewers Association, U.S. Total Food IRI Data for week ending March 27, 2011, and other Wall Street research.

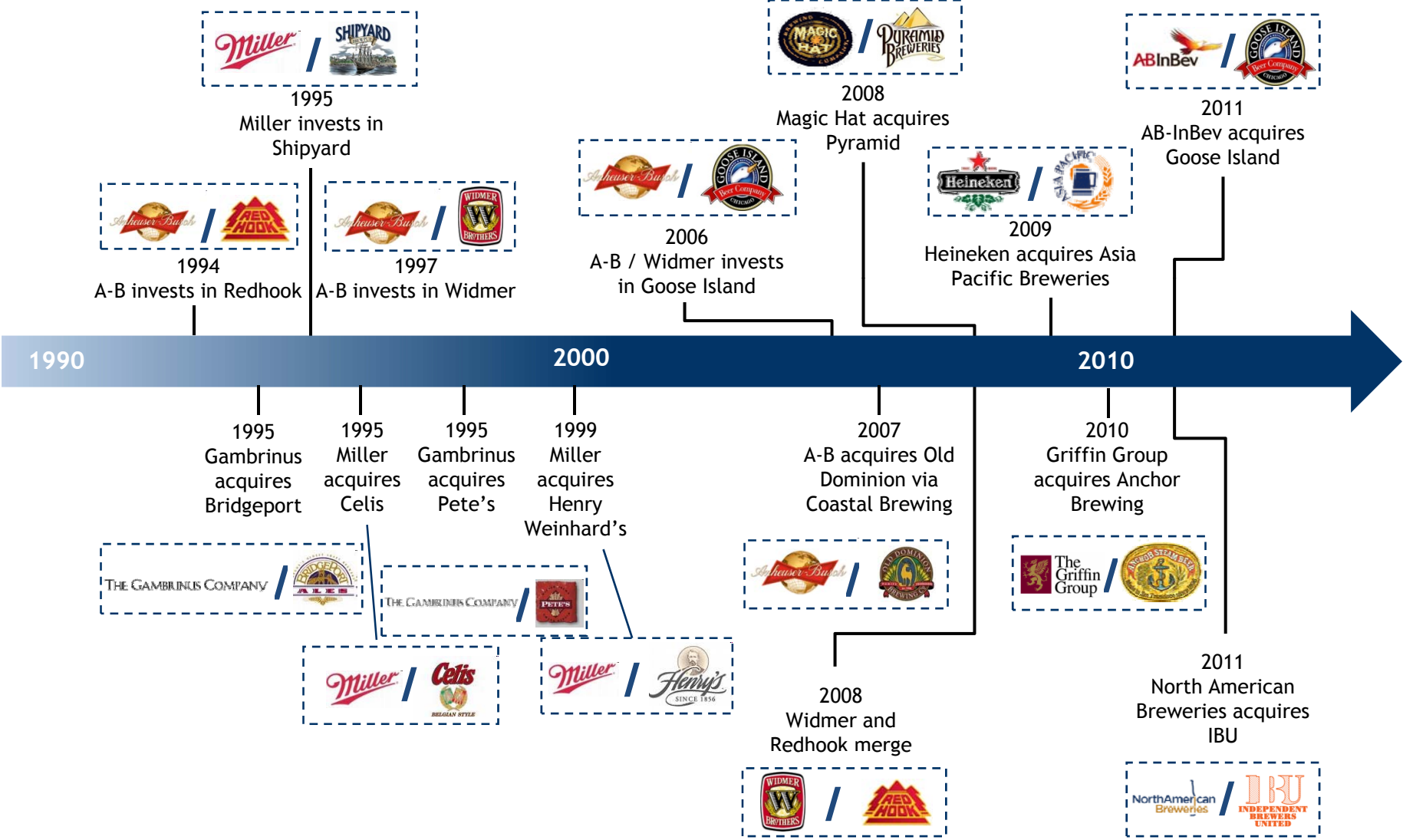
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## **M&A Overview**



# Notable Transactions in Craft Beer

## Notable Craft Beer acquisitions and investments in the past 20 years



# Key M&A Themes

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Acquisitions and in-house development of Craft breweries in the U.S. will facilitate near-term growth in the Global Beer market



## Past - What Went Wrong?

- U.S. Beer market grew at a healthy pace; beer manufacturers had little need to innovate
- Craft industry was slow growing and too small to “move the needle” for major brewers who acquire such assets and their distribution

## Shifting Focus

- Large companies completed meaningful international acquisitions to develop a global portfolio
- The Craft Beer segment began growing rapidly while the overall Domestic Beer market slowed

## Future - What to Expect?

- Large Beer manufacturers will revisit Craft Beer as a source of growth
  - Acquisition and / or development in-house (e.g., MillerCoors’ launch of Tenth & Blake Beer Co.)
- Larger Craft breweries will also look to expand their portfolio through acquisition given they stand to gain the most distribution synergies

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# Appendix

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## **Public Trading Comparables**

## Beer Industry Overview – Public Trading Comparables

Company Name	Stock Price		Market Value		Valuation Multiples								LTG Rate		
	Price 7/22/11	% of 52 Wk Hi	Market Cap	Ent Value *	EV / Revenue			EV / EBITDA			P / E			P / E / G	
					LTM	CY10	CY11	LTM	CY10	CY11	CY10	CY11		CY10	CY11
Anheuser-Busch InBev	\$59.31	89.1%	\$94,514	\$138,343	3.7x	3.8x	3.5x	10.0x	10.2x	9.0x	18.7x	15.6x	123%	103%	15%
SABMiller plc	37.80	97.7%	59,762	68,068	4.6x	N/A	N/A	14.7x	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Heineken NV	59.67	96.0%	34,229	46,772	2.2x	N/A	N/A	11.0x	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Pernod-Ricard SA	100.05	95.7%	26,301	40,327	4.0x	N/A	N/A	13.8x	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fomento Económico Mexicano,	6.75	98.3%	21,777	24,546	2.0x	1.7x	1.5x	10.2x	10.2x	9.0x	22.9x	18.5x	174%	141%	13%
Grupo Modelo, S.A.B. de C.V.	6.18	92.9%	20,003	19,917	3.4x	2.9x	2.6x	8.8x	9.8x	8.8x	25.6x	23.2x	272%	247%	9%
Carlsberg A/S	102.89	85.7%	15,864	23,806	2.1x	N/A	N/A	9.4x	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foster's Group Ltd.	5.55	79.3%	10,763	12,876	3.4x	N/A	N/A	10.3x	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Molson Coors Brewing Company	46.54	91.1%	8,705	9,673	3.2x	3.0x	2.8x	15.2x	9.0x	8.2x	13.0x	12.7x	154%	151%	8%
Constellation Brands Inc.	21.46	92.5%	4,600	7,588	2.4x	2.3x	2.3x	11.4x	8.1x	8.5x	12.7x	11.8x	127%	118%	10%
Boston Beer Co. Inc.	92.31	91.5%	1,237	1,191	2.5x	2.5x	2.4x	12.5x	11.8x	11.8x	26.2x	25.8x	N/A	N/A	N/A
Craft Brewers Alliance, Inc.	8.40	82.6%	158	186	1.5x	N/A	N/A	18.4x	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mean		91.0%	\$24,826	\$32,774	2.9x	2.7x	2.5x	12.1x	9.9x	9.2x	19.9x	17.9x	170%	152%	11%
Median		92.0%	17,933	21,861	2.9x	2.7x	2.5x	11.2x	10.0x	8.9x	20.8x	17.1x	154%	141%	10%

Note: \$ in Millions. \*Enterprise Value = Value of Shareholders' Equity + Debt - Cash.

Source: Demeter Group, public company filings, press releases and Capital IQ as of July 22, 2011.

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## **Demeter Group Overview**

# Current Transaction Experience

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In the last 6 months, Demeter Group has closed 4 transactions totaling +\$400 million in Enterprise Value, with each sold at a strategic multiple to a global Consumer portfolio

SINCE 1895  
**SEGHESIO**  
*Family Vineyards*

Has Been Acquired By

 **CRIMSON**  
WINE GROUP

May 2011

  
Skinnygirl  
MARGARITA

Has Been Acquired By

  
**BEAM**  
GLOBAL SPIRITS  
& WINE, INC.

March 2011

  
OLE HENRIKSEN

Has Been Acquired By

  
**LVMH**  
MOËT HENNESSY • LOUIS VUITTON

February 2011

  
**JUSTIN**  
VINEYARDS & WINERY

Has Been Acquired By

  
**FJI**  
WATER

December 2010

# Demeter Group

Nationally recognized investment bank focused exclusively on high-growth Consumer and Retail companies

## Overview

- Advise global, multi-channel, high-growth brands and concepts in the following sectors:
  - Food & Beverage
  - Beauty & Personal Care
  - Apparel & Footwear
  - Specialty Retail
  - Direct-to-Consumer (“DTC”) and Ecommerce
- Advise privately-held, founder-led, and family businesses with enterprise values between \$25 million and \$300 million
  - Median transaction size ~\$100 million
- Deal teams run day-to-day by CEO

## Advisory Services

- Private Placement**
  - Raise growth equity capital (\$10 million to \$50 million) from global private equity funds and family offices in non-control transactions
- Sell-side**
  - Obtain strategic transaction multiples by leveraging our strategic perspectives to match our clients’ unique industry direction and shareholder objectives with buyer capabilities
- Buy-side**
  - Develop tailored investment theses and identify potential targets that leverage investors’ and buyers’ core capabilities so they can be pre-emptive yet competitive on valuation and terms

Note: Securities offered through Demeter Advisory Group, LLC, member of FINRA / SIPC.



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