

Craft Brewery 5-Year Market Outlook to Change?

Following Carleton McKenna's January 2023 release of the Craft Brewery Outlook for the next five years, here's how Q1 and Q2 forecasts are rolling out:

1. Large and regional brewers will continue consolidating to:
 - a. Expand their geographic reach and customer base,
 - b. Support premiumization strategies,
 - c. Diversify brands and expand range of products (beer and non-alcoholic beverages),
 - d. Open doors and opportunities for growth in an increasingly competitive and maturing market.

We're seeing a trend of small breweries — often, legacy breweries — merging with similar-sized peers, either competitors or out-of-market.

Numerous craft brewery acquisitions were announced in April 2023, covering New Jersey to California. For example, California-based Bear Republic Brewing and Drake's Brewing are set to merge, with Drake's acquiring all formulas, recipes, and intellectual property¹. Similarly, Georgia-based NoFo Brew Co. acquired Tantrum Brewing's 10,000 sq. ft. facility in Cleveland, Georgia, including all land, and brand assets within the business' operations¹.

Cleveland-based Saucy Brew Works ("Saucy") acquired Cartridge Brewing, another Ohio-based craft brewery in Kings Mills. This partnership will combine craft beer offerings between both brick-and-mortar locations in Ohio and provide additional production capabilities to both businesses outside their respective geographic reach².

Further, Rochester's FX Matt acquired Maryland-based Flying Dog in May 2023. This acquisition will shift Flying Dog's production to FX Matt over the remaining summer months before ceasing all operations in Maryland. FX Matt is expected to continue making investments following their recent investments over the last five years, which included a \$35 million brewhouse and tank farm expansion in 2021³.

2. Simultaneously, we see major brands looking to divest segments of their craft beer businesses to:
 - a. Focus on driving accelerated growth of core portfolios,
 - b. Fuel innovation in key spaces to develop pipeline for strong brands,
 - c. And limit underperforming brands impacted by the pandemic, inflation, and highly competitive market.

Constellation Brands has continued to focus on the success of their Mexican import brands including Modelo, Corona and Pacifico while divesting in their craft and specialty divisions. Following in the footsteps of Constellation, AB InBev divested its craft beverages in favor of pushing the sale of their Beyond Beer portfolio in South America – Brazil already showing a strong foothold for profit.

Japan's own Sapporo Holdings will close Anchor Brewing Company in San Francisco due to the after-effects of the pandemic, rising inflation and further economic difficulty of rising material costs, rent, labor and many other variables. This comes after reports stating Sapporo saw a lack of interest from potential buyers within the craft brewing space⁴.

3. Deals are less frequently craft-on-craft.

Molson Coors recently announced its acquisition of Blue Run Spirits, solidifying the brewer's market approach going forward. As a boutique whiskey brand, Blue Run's limited-release business model is expected to continue attracting customers – especially with their production being overseen by Bourbon Hall of Famer, Jim Rutledge⁴.

Additionally, Ninkasi Brewing out of Eugene, Oregon, has consolidated with Wings and Arrows, an alcoholic beverage brand offering a variety of canned cocktails. Ninkasi had a tumultuous history prior to the pandemic and this venture under newly formed Great Frontier Holdings hopes to continue the brewery's legacy⁵.

4. "Rising health consciousness is boosting consumer sentiment toward non-alcoholic beverages⁶."

With cannabis-based Tilray, we saw an entrance into the craft brewery space via acquisition of eight AB InBev brands, which may shift forecasted consumer sentiment, though likely not until the end of 2023.

AB InBev is racing toward a better market position as they continue to put focus on the Beyond Beer portfolio. According to Q1 2023 reports, Beyond Beer products delivered \$325 million in revenues and is expected to increase by year end.

Oregon's Deschutes Brewery announced the addition of a new non-alcoholic IPA that will be produced in-house. This product shift will allow Deschutes to scale and package an expanded portfolio of non-alcoholic beverages in the future, in addition to realizing the value of their investment into Sustainable Beverage Technologies' BrewVo equipment³.

Three Weavers Brewing Company, an avant-garde craft brewery based in Inglewood, California, announces the launch of two aesthetically innovative product lines: GRDN PRTY, a cocktail-inspired flavored malt beverage and NA – Three Weavers Non-Alcoholic Brews. These new offerings meet the demands of health-conscious and flavor-seeking individuals in the ever-evolving alternative beverage landscape¹.

Over the next five years, AB InBev, Tilray, Deschutes, Three Weavers, and many other beverage companies – both alcoholic and non-alcoholic – will continue to demonstrate their market strategies in the development of blue ocean products and greater revenue opportunities, with a push to increase global reach.

5. "A trend toward premiumization, which will be fostered by rising disposable income levels, will encourage consumers to trade up to more expensive beverages⁶."

According to the Brewer's Association, premiumization is reflected in higher priced brands that are seemingly performing ahead of the curve. Momentum has yet to slow down, however the stronger brand will be able to charge more for their product, and therefore promising a gap between producers⁷.

For example, AB InBev is poised to gain from product premiumization through their Beyond Beer and international growth tactics. The company's three global brands – Budweiser, Corona, and Stella Artois – advanced 15.4% outside of North America in Q1 2023 alone. AB InBev's Beyond Beer portfolio consists of non-alcoholic or low alcohol beverages such as Cutwater, NURTL, Rita, and Hoop Tea⁸. Though these products align with the traditional alcoholic beverage items, this portfolio is aimed directly at health conscious, major markets with the capacity to spend more for premium products.

Over the last 7 months, market activity has aligned closely with forecasted industry performance and evolving consumer expectations. Given the close adherence to future forecasts, we expect additional mergers and acquisitions within the space and further shifts in the market landscape. Major industry players are only just beginning to develop their new market positioning strategies. What could this mean for industry segmentation opportunities and smaller producers in the coming years?

Brewery M&A Multiples 2019 - Present⁹

	Minimum	Lower Quartile	Average	Median	Upper Quartile	Maximum
Enterprise Value (EV)	\$2	\$20	\$550	\$100	\$321	\$10,430
EV/Revenue	0.3x	0.9x	1.9x	1.3x	2.1x	7.2x
EV/EBITDA	6.8x	8.7x	9.8x	8.9x	10.2x	14.9x
EV/BBLs	140	425	580	503	840	1,149

Brewery M&A Multiples 2021 - Present⁹

	Minimum	Lower Quartile	Average	Median	Upper Quartile	Maximum
Enterprise Value (EV)	\$5.1	\$36.6	\$146.4	\$86.9	\$191.8	\$495.0
EV/Revenue	0.3x	1.0x	2.2x	1.3x	1.4x	7.2x
EV/EBITDA	6.8x	7.6x	8.1x	8.4x	8.7x	9.0x
EV/BBLs	146	258	449	429	548	965

Brewery Precedent Analysis (2019 - Present)⁹

Date	Target	Acquirer/Investor	Transaction Value (\$M)	% Acquired	Implied Enterprise Value (\$M)	Sales	EBITDA	Valuation		BBL Analysis	
								EV/Sales	EV/EBITDA	BBLs (est.)	EV/BBLs
Announced	Eight Anheuser-Busch (NYSE: BUD) brands**	Tilray Brands (NAS: TRLY)	\$85	100%	\$85	\$250		0.3x		580,645	\$146
08/03/2023	Blue Run Spirits	Molson Coors (NYSE: TAP)		100%							
06/13/2023	Boring Brew	Metavesto (PINX: MVCO)	\$495	100%	\$495						
06/07/2023	8th Wonder Brewing	Bayou City Hemp		100%							
06/01/2023	Duclaw Brewing	River Horse Brewing		100%							
05/31/2023	Ninkasi Brewing	Wings & Arrows		100%						61,250	
05/23/2023	Flying Dog Brewery	FX Matt Brewing Company		100%		\$7.3				81,231	
05/19/2023	Ghost Monkey Brewery	Charleston's First Distiller		100%							
04/17/2023	Tantrum Brewing Company	NoFo Brew		100%							
04/06/2023	Federation Brewing	Dokkaebier		100%							
03/07/2023	Baere Brewing	Weston Scott		100%							
02/16/2023	Bear Republic Brewing	Drake's Brewing		100%						36,827	
12/01/2022	Cartridge Brewing	Saucy Brew Works		100%							
11/18/2022	The Rare Barrel	Cellarmaker Brewing		100%							
11/07/2022	Montauk Brewing Company	Tilray Brands (NAS: TRLY)	\$45	100%	\$45					46,935	\$965
11/04/2022	Modern Times Beer	Maui Brewing	\$15	100%	\$15					35,000	\$437
10/01/2022	Perfect Plain Brewing Company	Urban South Brewery		100%		\$1				21,000	
09/22/2022	Faubourg Brewing Company	Oyster City Brewing Company		100%							
09/15/2022	Amsterdam Brewing	Royal Unibrew (CSE: RBREW)	\$34	100%	\$34	\$25	\$4	1.3x	9.0x	80,000	\$421
09/13/2022	Willie's Superbrew	Superbrew Acquisition Corp		100%							
09/07/2022	Beavertown Brewery	Heineken (AMS: HEIA)	\$45	51%	\$89	\$89	\$13	1.0x	6.8x	302,000	\$294
08/31/2022	Stone Brewing	Sapporo Holdings	\$165	100%	\$165	\$23.0		7.2x		326,281	\$506
08/09/2022	Pennsylvania Brewing Co	Arkham Realty & Property Mgmt		100%							
08/02/2022	Hairless Dog Brewing	Finnegan's		100%						250,000	
06/17/2022	Long Trail Brewing	Mass. Bay Brewing Co.		100%		\$18					
05/25/2022	Hansa Borg Bryggerier	Royal Unibrew (CSE: RBREW)	\$151	75%	\$201	\$144	\$24	1.4x	8.4x		
05/23/2022	Wild Acre Brewing	Bishop Cider		100%							
05/20/2022	Local Group Brewing	Bishop Cider		100%							
05/20/2022	Legal Draft Beer Company	Bishop Cider		100%							
04/04/2022	River Siren Brewing	Harmony and Brian Carlson		100%							
01/14/2022	Metal Works Brewing	Endeavour Local Restaurant		100%							
01/13/2022	CANarchy	Monster Beverage (NAS: MNST)	\$330	100%	\$330					490,000	\$673
12/28/2021	Uinta Brewing	US Beverage, LLC		100%						44,000	
12/20/2021	Green Flash Brewing	Aphria/Tilray	\$5	100%	\$5					34,000	\$150
11/20/2021	Bell's Brewery	Lion Little World Beverages (Kirin Holdings Co.)		100%		\$61.0				500,000	
01/11/2021	Skytown Beer Company	Catawba Valley Brewing		100%							
12/22/2020	Woodburn Brewery	March First Brewing		100%							
11/30/2020	SweetWater Brewing Company	Aphria	\$300	100%	\$300					261,000	\$1,149
10/07/2020	Elevator Brewing Co	Jackie O's		100%							
10/12/2020	Kona Brewing Co. (in Hawaii) (Craft Brew Alliance)	PV Brewing (VantEdge Partners)	\$16	100%	\$16					14,000	\$1,143
09/09/2020	McMenamins	Undisclosed investors	\$20	NA							
09/01/2020	Axle Brewing Company	Eastern Market Brewing Co.		100%						1,000	
06/12/2020	Bay Area Beverage*	Golden Brands Beverage (Reyes Holdings)		100%							
06/12/2020	Double Dutch Drinks	Heineken	\$2	7%	\$20					22,500	\$896
06/01/2020	BrownJug	Afognak Native Corp.	\$21	100%	\$21	\$71.3	\$2.4	0.3x	8.9x		
06/01/2020	Carlton & United Breweries (A-B InBev)	Asahi Group Holdings	\$10,430	100%	\$10,430		\$700.0		14.9x		
05/05/2020	BJ's Restaurant	Act III Holdings/T. Row Price	\$70	15%	\$868	\$1,125.5	\$99.3	0.8x	8.7x		
04/20/2020	Cascade Brewing	Portland-based private investor group		100%						2,800	
03/02/2020	Ballast Point Brewing & Spirits**	Kings & Convicts	\$100	100%	\$100					200,000	\$500
02/07/2020	Innophos Holdings	One Rock Capital Partners	\$932	100%	\$932	\$758.5	\$99.5	1.2x	9.4x		
02/04/2020	Sprecher Brewing Co.*	Milwaukee-based private investor group	\$3	100%	\$3					6,000	\$533
01/30/2020	Banded Peak Brewery	Labatt Brewing Company		100%						2,550	
01/01/2020	Michigan's Founders Brewin	Mahou San Miguel	\$199	60%	\$332					600,000	\$553
01/01/2020	Atwater Brewery	Molson Coors Brewing		100%						23,000	
12/13/2019	Anderson Valley Brewing Company	Mainsheet Capital (Florida)		100%							
12/05/2019	Balter Brewing	Carlton & United Breweries (A-B InBev)		100%	\$119						
11/20/2019	Bold Rock Hard Cider	Southern Tier Brewing (Artisanal Brewing Ventures)		100%						80,000	
11/20/2019	Flying Embers	The Ecosystem Integrity Fund/Powerplant Ventures	\$25	21%	\$85						
11/19/2019	New Belgium Brewing	Lion Little World Beverages (Kirin Holdings Co.)	\$375	100%	\$375					848,609	\$442
11/15/2019	NOCA Beverages	Undisclosed investors	\$4	13%	\$10						
11/11/2019	Craft Brew Alliance	Anheuser-Busch	\$221	69%	\$321	\$198.7		1.6x		653,000	\$492
10/19/2019	Rivertowne Brewing Company*	Helltown Brewing	\$2	100%	\$2					15,000	\$140
10/09/2019	Castle Brands	Pernod Ricard	\$223	90%	\$249	\$95.4	\$7.8	2.6x			
09/16/2019	Rochester Mills Production Brewery	Two Roots Brewing Co. (Lighthouse Strategies)		100%						60,000	
09/09/2019	Mocktail Beverages	Undisclosed investors	\$0	2%	\$9						
07/08/2019	Platform Beer	Anheuser-Busch		100%						26,500	
07/03/2019	Dogfish Head	Boston Beer Company	\$300	100%	\$300	\$115.0	\$24.0	2.6x	12.5x	300,000	\$1,000
07/01/2019	Lake Louie Brewing	Wisconsin Brewing Company		100%						3,300	

* Asset purchase **Implied Enterprise Value is estimate based on company filings, best known TTM financial and price data as of period end date, and publicly available information

Source: (9) Pitchbook



The undersigned provided exclusive valuation and financial advisory services to **The Brew Kettle**.

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Emily A. Kuznik
Marketing Analyst
eak@carletonmckenna.com