



NEW ZEALAND CRAFT BEER

INDUSTRY INSIGHTS
2016

CRAFT BEER AND THE TIGER

BIG FLAVOUR BEER continues to win the day as we tell the story of an industry that goes from strength to strength.

Our research suggests total sales of craft beer are up by 35% in the past year, with a number of breweries growing at rates substantially higher than the overall category. We estimate craft beer accounts for around 15% of domestic beer sales. Increasing numbers of people are enjoying beer festivals around the country and new venues for craft beer are popping up, from the local bar to the airport. Locals and international visitors alike are exploring and celebrating the extensive range on offer - tried a wild feijoa or a cherry sour ale yet?

But as the juggernaut continues, we note it's not all beer and skittles, so to speak. Yes the craft category is performing well, but from the brewer's perspective there are plenty of challenges. Think competition. Shelf-space is limited, as are brewers' resources like staff, manufacturing capacity, some key ingredients and working capital. For some brewers with sales on the rise, business growth will feel much like holding the proverbial tiger by the tail.

It's tempting to talk about the benefits of a business plan as a lens to help with strategy and focus. However in a sector of agile and creative founders, in our experience a more appealing solution for owners wanting sustainable business growth is to concentrate on the driving vision. Answering some big strategic questions can help: *where do you see yourself in 10 years and how are you going to get there? What do you need more of in your business and how are you going to get it?*

We continue to be impressed by the passion, innovation and collaboration that typifies the kiwi brewing community. We're delighted to see brewers overcoming their growth challenges and being well-rewarded for their effort.

Cheers!



John Bennett

**GENERAL MANAGER CENTRAL REGION
ANZ COMMERCIAL & AGRI**



“Brewing in New Zealand has continued to grow into an innovative, sophisticated and valuable sector. Our breweries are producing beer with a uniquely Kiwi flavour and vision that is increasingly sought out by drinkers worldwide.”

Emma McCashin, President, Brewers Guild of New Zealand

CRAFT BEER 2016

New Zealand craft brewers have created great quality products and brands, fuelled by a genuine passion for their craft and close relationships with customers.

For the third year in a row, we report exceptionally strong sales growth for New Zealand Craft Beer.

But can the sector continue to grow at such a rate?

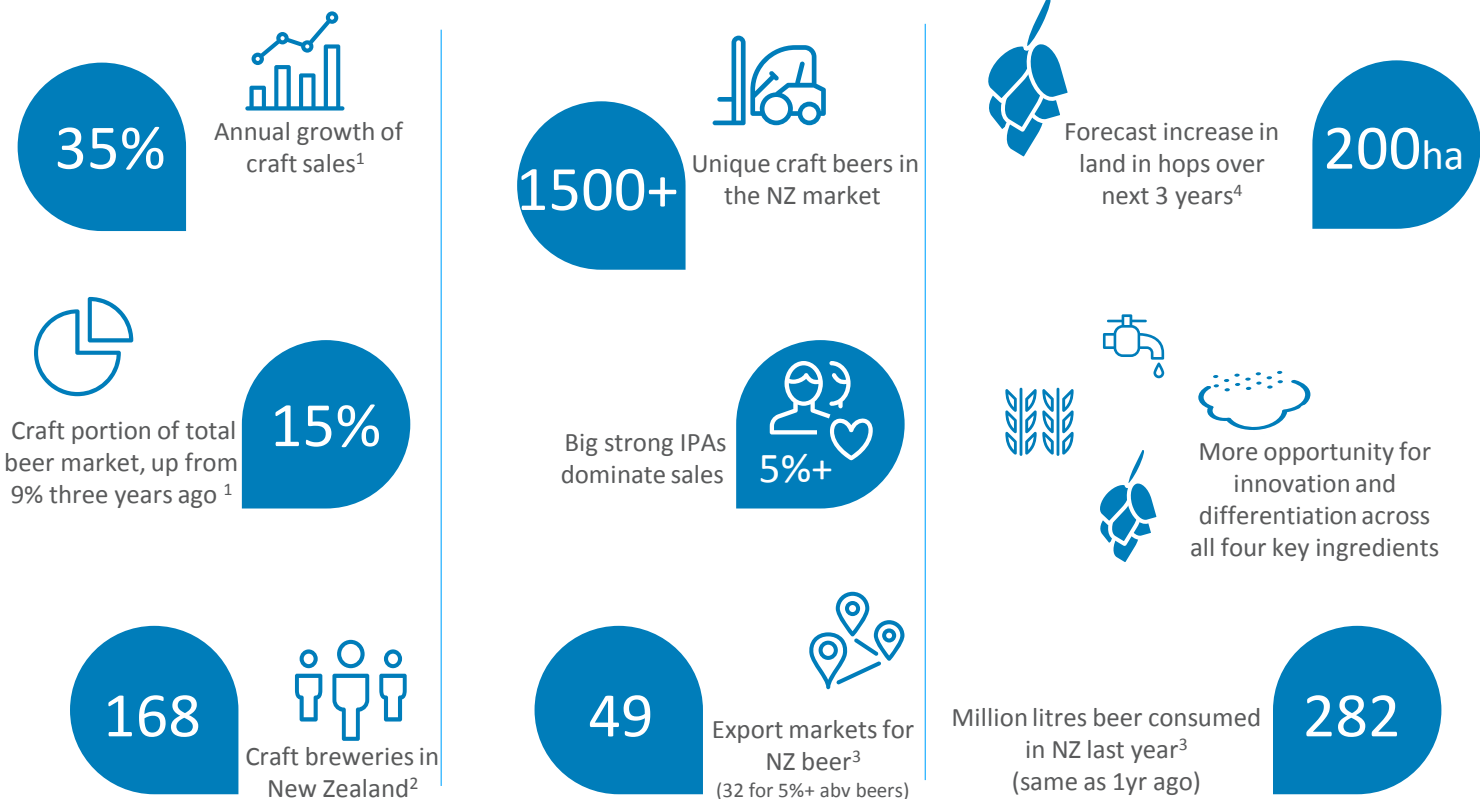
ANZ's perspective is yes, and no! 'No' because it's reasonable to suggest that at some point as the sector matures, the overall rate of growth will soften. That said, we have no doubt there will be brewers who will sustain high growth for years to come.

This report provides some insight into this popular sector with a summary of trends, challenges and opportunities we are observing.

"2016 has seen significant growth in participating breweries at Beervana, from around New Zealand, Australia and the US. To us this is reflective of the overall growth of the sector."

Sarah Meikle, Director Beervana

CRAFT BEER BY THE NUMBERS



Sources: ¹Statistics NZ, industry sources, NZ Customs data, ANZ analysis. ²Brewer's Guild of New Zealand, The Beer Cellar, *Brewed: A guide to the craft beer of New Zealand* by Jules Van Cruysen; ANZ analysis. ³Statistics NZ. ⁴ANZ analysis.

CRAFT BEER THIS YEAR

We see demand increasing as a result of enthusiastic consumers and increasing international interest – resulting in diverse opportunities across the industry

HEADY GROWTH CONTINUES

ANZ estimates New Zealand craft beer sales are up 35% by value in the last year. Buoyant sales by the larger craft breweries are supporting a continuing shift towards full flavour beers and away from mainstream beers. Over the last three years, we estimate craft as a proportion of total beer sales has increased from 9% to 15%.

In terms of the number of craft breweries, this has increased too, reflecting low barriers to entry. This year we count 168 New Zealand craft brewers.

GROWTH HAS MANY SOURCES

Last year a feature of our review was the export growth potential for New Zealand craft beer with a third of brewers already exporting and a further third wanting to. This year we see evidence of success in export data that shows sales of higher alcohol beers (typical of craft styles) growing from \$1million 5 years ago to \$4.5million in 2015.

Brewers also see domestic growth from many sources, including e-channels and cellar door.

CHOICE AND THE QUEST FOR SPACE

With New Zealand alone thought to have more than 1,500 unique beers, consumers are truly spoiled for choice. Brewers tell us that, in many ways, beer is becoming easier to sell with knowledgeable and intrepid consumers, eager to try anything new or different.

But with expansion comes limits, notably in the beer aisle. Competition for supermarket shelf space is increasing making category management a stronger force.

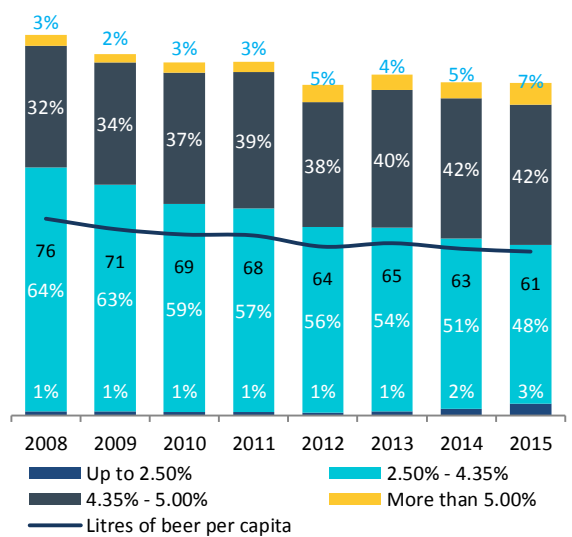
Retailers mention loyalty to a style rather than a brand. The fastest moving style by some distance is Pale Ale in all its variants anecdotally accounting for as much as 65% of all New Zealand craft sales. Looking to how beverages like wines are merchandised, retailers are expressing interest in presenting beer by style.

Price points are under pressure with one retailer observing sweet-spots emerging at around \$6.99 for a 500ml single bottle and \$19.99 for a 330ml six pack. However, for artisan producers, these are challengingly low.

“What’s stopping New Zealand craft growing to 30% or more of the market? We have the beers to get us there.”

Geoff Ross, CEO Maa Brewing Co

Beer consumed in NZ by alcohol content
Expressed as percentage of total volume consumed



Source: Statistics NZ

“We’ve invested in a custom Krones’ facility for craft brewing and packaging located close to Napier port so logistics, freight and production costs can be reduced.”

Simon Gilbertson, co-owner Bstudio

CRAFT BEER THIS YEAR

ACQUISITIONS AND INVESTOR INTEREST

Recently we saw Lion New Zealand add to their portfolio of beer offerings by acquiring the assets of highly successful Panhead Custom Ales. Despite strong levels of interest in such sales, there is little publically available data.

However, if we look offshore to some recent acquisitions in UK and US, our analysis suggests these businesses have been purchased at multiples ranging from 6 to 9 times annual revenue.

If we scan global share markets and analyse trading values of 28 publicly-listed 'micro-breweries' with turnover under \$100m NZD (including one from New Zealand), we see shares trading at revenue multiples ranging from 0.1 to 11.1x, with 50% trading within a revenue multiple of 0.8x – 2.7x.

SOLUTIONS EMERGING TO TACKLE SCALE

With large and small brewers alike the challenge we see most commonly is scale – lack thereof. This usually comes in the form of running out of productive capacity.

Solutions are emerging. For some it means developing business capabilities to attract investment to build plant. For others, it may mean looking at collaboration or joint venture opportunities to gain some additional capacity. Alternatively, brewers may opt for a license or toll-brewing option, which can prove attractive for consistent quality and known production costs, allowing the brewer to concentrate on product development and marketing.

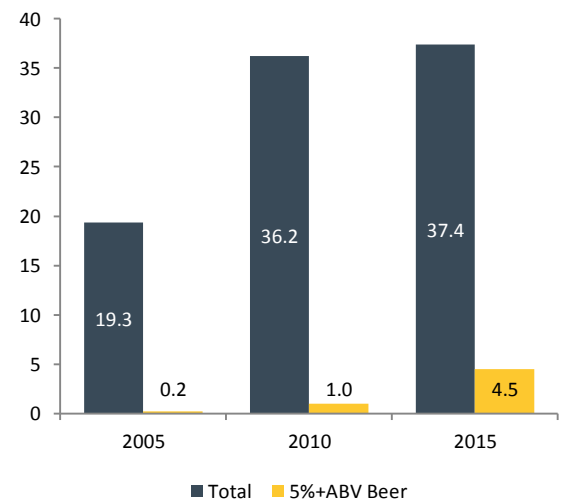
THE RISE OF BEER TOURISM

As observed with related New Zealand food & beverage sub-sectors, such as wine, there appears to be an increasing number of domestic and international tourists taking the pilgrimage to their favourite breweries. Not only does this provide valuable sales opportunities to breweries, as many breweries are based in provincial New Zealand the spin-offs for regional economic growth are significant.

“Sales keep growing from strength to strength in China, so I’m visiting the market for a second time this year and visiting six more cities.”

Luke Nicholas, Owner/Brewer Epic Brewing Company

Beer exports by value (\$M)



Source: Statistics NZ

Top NZ export destinations of beer, by value

Country	2010 Exports \$M	2015 Exports \$M
Beer 5%+abv		
Australia	0.6	2.2
United Kingdom	0.0	0.4
United States	0.3	0.3
Netherlands	0.0	0.2
China	0.0	0.2
Total Beer		
Australia	25.3	23.3
United States	5.7	3.9
Cook Islands	1.6	2.2
American Samoa	1.0	0.9
United Kingdom	0.7	0.8

Source: Statistics NZ

NEW ZEALAND CRAFT BREWERIES

“Judging by the foreign visitors I meet who are coming here to check out the Kiwi beer scene, the world is learning about New Zealand beer.”

Geoff Griggs, beer writer, judge and educator

- 21 OTAGO**
- Altitude Brewing
 - Bannockburn Brewing
 - B.Effect Brewing Co
 - Craftwork Brewery
 - Emersons Brewery
 - Greenman Brewery
 - Ground Up Brewing
 - Herne Brewing Co
 - Hop Invaders
 - Jabberwocky
 - Maverick Craft Beer
 - Queenstown Brewers
 - Rhyme and Reason Beer
 - Scotts Brewing Co
 - Shed 152 Brewery
 - Sidewinder Brewery
 - Stackpoole’s Brewing
 - Steamer Basin
 - There Be Dragons Brewing
 - Wanaka Beerworks
 - Victoria Store Brewery

- 4 SOUTHLAND**
- The Catlins Brewery
 - Dr Hops
 - Golden Ticket Brewing
 - Invercargill Brewing

- 21 NELSON MARLBOROUGH**
- Bays Brewery
 - Coolship Brewing
 - Dales Brewing Co
 - Dead Good Beer
 - Eddylane Brewery
 - Founders Brewery
 - Golden Bear Brewing
 - Hop Federation Brewery
 - Horse Box Brewery
 - Kaiser Brothers Brewery
 - Lighthouse Brewery
 - Stoke/McCashins Brewery
 - Moa Brewing Co
 - Moutere Brewing
 - Mussel Inn
 - Pink Elephant Brewery
 - Renaissance Brewing
 - Rough Hands Brewing
 - Sprig & Fern
 - Totara Brewing
 - Townshend’s Brewing Co.

- 2 WEST COAST**
- Monteiths
 - West Coast Brewery

- 26 CANTERBURY**
- Beer Baroness
 - Brew Moon Brewing Co
 - Cassels & Sons Brewery
 - Concept Brewing
 - Eagle Brewing NZ
 - Eruption Brewing
 - Fiasco Brewing Co
 - Four Avenues Brewing
 - Ghost Brewing Co
 - Harrington’s Breweries
 - Hop Baron
 - Kaipoi Brewing Co
 - Kaikoura Brewing Co
 - KJD Brewing Company
 - Longbeard
 - Monsoon Brewing Co
 - Raindogs Brewing Co
 - The Dux Brewing Co
 - The Laboratory Brewpub
 - Three Boys Brewery
 - The Twisted Hop
 - Two Thumb NZ Brewing Co
 - Valkyrie Brewing Co
 - Valley Brewing Company
 - Vulcan Brewers
 - Wigram Brewing Co



11 BAY OF PLENTY

- Aotearoa Brewery (Mata)
- Coromandel Brewing Co
- Crafty Trout Brewing Co
- Croucher Brewing Co
- Fitzpatrick's Brewing Co
- Hot Water Brewing
- Lakeman Brewing
- Mount Brewing
- Rocky Knob Brewing
- Two Fingers Brewing
- Pilot Brewery

6 WAIKATO

- 666 Brewing Co
- Biggles Brewery
- Boilerhouse Brewery
- Brewerauracy
- Good George Brewery
- Shunters Yard Brewery

5 KING COUNTRY, TARANAKI WANGANUI

- Bloom Theory
- Brew Mountain
- King Country Brewing Co
- Mikes
- Wassail Brauhaus

9 HAWKES BAY & GISBORNE

- Brave Brewing
- Fat Monk Brewery
- Giant Brewing
- Godsown Brewery
- Hawkes Bay Independent
- Roosters Brew House
- Sneaky Brewing
- Sunshine Brewery
- Zeelandt Brewing Co

25 WELLINGTON, MANAWATU & WAIRARAPA

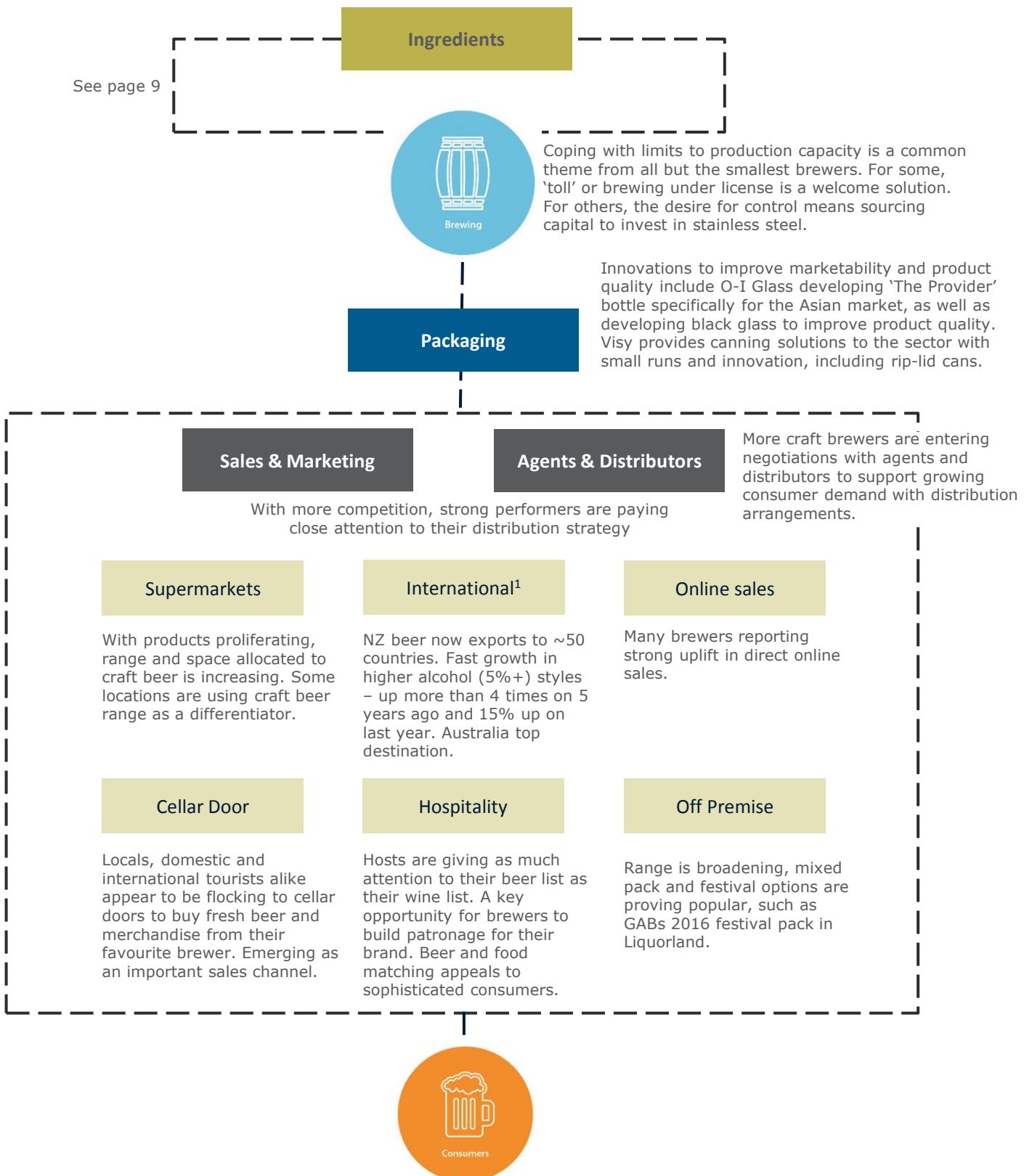
- Baylands Brewery
- Big Growler Brewery
- Blackdog Brewery
- Choice Bros Brewing
- Duncan's Brewing
- Fork & Brewer
- Garage Project
- Hop Hustlers
- Kereru Brewing
- Lord Almighty
- Martinborough Brewery
- Ninebarnyardowls
- Northend Brewery
- Panhead Custom Ales
- ParrotDog
- Peak Brewery
- Rascals Brewing Co
- Regent 88
- Remedy Brewing
- Tiamana Brewery
- Te Aro Brewing
- Tuatara Brewery
- Webb Street Brewery
- Wild & Woolly Brewing
- Yeastie Boys

38 AUCKLAND & NORTHLAND

- 8 Wired Brewing Co
- Ale Brewing Chaps
- Bach Brewing
- Behemoth Brewing
- Ben Middlemiss Brewing
- Birkenhead Brewing Company
- Black Sands Brewing Company
- Boundary Road
- Brauhaus Frings
- Brothers Brewery
- Dedwood Brewing Co
- Deep Creek Brewing Co
- Epic Brewing Co
- Forbidden Brewing Co
- Funk Estate
- Galbraiths Brewing Co
- Hallertau Brewery
- Hancock & Co
- Isthmus Brewing Co
- Kaimai Brewing Co
- Laughing Bones Brewery
- Leigh Sawmill Brewing Co
- Liberty Brewing
- Outlier Cartel
- Piha Brewing Co
- Mac's
- McLeod's Brewery
- Schipper's Beer
- Shakespeare Hotel
- Sparks Brewing
- Standing Spoon Brewery
- Steam Brewing
- Sweat Shop Brew
- Three Mountains Brewery
- Waiheke Brewery
- Weezeldog Brewery
- Zeffer Brewing Company
- Zeppelin Brewing

ANECDOTES FROM THE VALUE CHAIN - OVERVIEW

As sales grow, anecdotally, change is happening in every aspect of New Zealand's beer value chain.



¹ Source: Statistics New Zealand

ANECDOTES FROM THE VALUE CHAIN – KEY INGREDIENTS

Ingredients

Across all four of beer's key ingredients, we're seeing further opportunity to create unique and uniquely New Zealand brews.

MALT New Zealand has two key malt suppliers and both companies are developing their ability to distinguish beers more on a malt flavour profile. Canterbury-based Gladfield has developed the world's first and only Manuka Smoked Malt. Cryermalt supports brewing of internationally- popular styles in New Zealand with a range of malts sourced from the United States, Australia and the United Kingdom.



“We are seeing unprecedented investment in the hop industry to keep pace with the demand for New Zealand's unique offering of hop varieties”
Doug Donelan, CEO, NZ Hops



WATER The main ingredient in beer. Access to clean, pure water is a competitive advantage for NZ producers. Consumer concern for water quality potentially represents an opportunity for exporters to leverage New Zealand's reputation for clean outdoors and quality foodstuffs.

An interesting aside to water shortage internationally is an innovation in California where a brewery has used water recycling technology to enable grey (waste) water to be used with no appreciable impact on quality of beer.



YEAST Yeast can be overlooked as a flavour ingredient. Many Belgium beers for example rely on endemic yeast strains to provide unique flavours. The growing popularity of sour beers puts the spotlight on yeast, as capturing wild strains is part of the style's heritage. For example Moa Sour Blanc use naturally occurring yeast from Sauvignon Blanc grapes to ferment and impart a local flavour to the brew and the brand.



HOPS With the lead-time from planting to harvesting hops being some 2 years, brewers need to work closely with suppliers to secure the hops they need. New Zealand hops are popular internationally however an increasing proportion is sold domestically - up to around 20%. ANZ analysis suggests an additional 200ha of hop plantings coming on stream in the next 3 years, increasing domestic production by nearly 50%.

Plant & Food Research have an impressive, on-going plant breeding programme to develop new and unique varieties of New Zealand hops.

BIG QUESTIONS AND BIG OPPORTUNITIES

A consistent theme among successful business owners is a strong sense of where they want their businesses to be and the direction they need to take to get there.

Craft beer in New Zealand is in the midst of a major growth cycle. Nobody really knows what's around the corner for the industry, so it's a good time for kiwi craft brewers to review and reset their direction. For owners looking to the future, the following topics may be helpful to think and talk about what they want from their business.

QUESTIONS BREWERS ARE ASKING

HOW BIG, REALLY, DO I WANT MY BUSINESS TO BE?

Thinking 5-, 10- and 20-year's time, what's the big picture or vision?

WHERE WILL TOMORROW'S GROWTH COME FROM?

What are the priorities?

What are the potential income streams?

Domestic sales growth? (where, why, how, who)

Exports sales growth? (where, why, how, who)

Are the sales and distribution strategy, infrastructure and relationships adequate?

Is the production capacity there?

Are the right people in the business? (to steer the ship and achieve sales and production plans)

Point of difference in an increasingly crowded market?

What are the key risks or potential disruptors?

WHAT KEY RELATIONSHIPS DO I NEED TO INVEST IN?

Within beer value chain &/or beyond?

To maintain supply of key ingredients?

To gain efficiencies?

OPPORTUNITIES BREWERS ARE DISCUSSING

COLLABORATION OPPORTUNITIES

Sales and distribution

Marketing

Production

Logistics

Key ingredients

Grow the category

Redefine the category

Cross sector collaboration

SOURCES OF INNOVATION FOR DIFFERENTIATION AND EFFICIENCY

Beer styles

Key ingredients

Production automation

Packaging

Marketing

Diversification

CAPITALISATION

Capital raising options

Funding growth

Exit strategy and realising wealth

Consumer participation

"We have big aspirations for our brewery, but wish to stay absolutely true to our original vision; retaining the ability to push boundaries, experiment and innovate. As the industry matures we understand the need for systems, processes and governance that will enable us to grow, but operate just like we've been doing since we first started on a 50 litre brew kit."

Jason Crowe, Business Manager Garage Project (number one ranked business on the Deloitte Fast 50 index 2015)

GETTING IN TOUCH

At ANZ we provide access to relevant research and business opportunities in your sector be they local, national or international.

For more information about how ANZ can help you grow your food and beverage business, talk to your ANZ Manager or visit anz.co.nz. You can also register to receive ANZ's economic research which provides key economic and market updates to help your planning. To register visit www.anzlive.com.

ACKNOWLEDGEMENTS

In preparing this report we spoke to many people from those who play a role in supporting businesses to those who are completely immersed in the sector. We'd like to thank the Craft Beer community for their generosity with knowledge, insights and ideas and their willingness to share to help the whole sector grow.

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