TTB and the Beer Industry

Presented by
Charlie Tull
Trade Analysis and Enforcement Division

Overview

- Beer Industry Headlines from 2008
- Profile of the U.S. Beer Industry
- Snapshot of Major Players in U.S. Beer Market
- 2008 Beer Category Overview and Segment Review

Overview (Continued)

- Taxes
- Current Compliance Issues
- Headwinds

Beer Slogan Quiz

- When you say ______________ you’ve said it all.
- When you’re out of _________ your out of beer.
- Give that man a ______________.

Beer Slogan Quiz (Continued)

- Come to think of it, I'll have a ________.
- The National Beer of Texas.
- From the Land of Sky Blue Waters.
- The Champagne of Bottled Beer.

Successful Marketing Idea

- Taking a popular European import and offering a low calorie version
- Directly comparing your product attributes (like carbohydrates) to the dominant industry brand

Successful Marketing Idea (Continued)

- Taking a premium spirit name and making a malted product out of it
- Taking the iconic beer where millions of Americans vacation on the beach and bringing it to the U.S.

Profile of the U.S. Beer Industry

How many brewer’s are
there in the U.S.?

Who is a Brewer?

- 26 U.S.C. 5092:
  - Every person who brews beer (unless exempt from tax under 5053(e)) and every person who produces beer for sale

How Many Brewers Do We Have?

- Approximately 1,600 Brewers in U.S.
  - California — 287
  - Colorado — 107
  - Washington — 107
  - Wisconsin — 97
  - Pennsylvania — 86

Profile of the Beer Industry

- Brew Pubs 975
- Microbreweries 377
- Regional Craft Breweries 54
- Regional Non-Craft Breweries 32
- Large Non-Craft Breweries 20

Industry Growth

- In CY 2008 TTB approved 224 new breweries

Beer Industry Headlines from 2008

Without question, 2008 was a transformational year for the U.S. beer industry.

Merger Mania

- Unprecedented scale of consolidation has changed the U.S. beer industry forever
- Miller Brewing and Coors merged forming the second largest U.S. brewer:
  - MillerCoors Distributor Agreement

Merger Mania (Continued)

- A consortium of Carlsberg and Heineken bought Scottish & Newcastle
- Anheuser Busch and InBev merged to become the largest beer company in the world and one of the top 5 global consumer products companies
- Magic Hat and Pyramid Breweries merged

Artisanal Collaboration

- Craft brewers came together via the “artisanal collaboration” concept to create a joint production, distribution, and sales venture

Changing Landscape

- Increased consolidation at distributor level:
  - 30 Distributor deals — JV, mergers, and acquisitions
- Increased interstate dominance and control:
  - Reyes Family
  - HOBO LLC
  - Goldring Family

New Package Rollouts

- Budweiser American Ale rolls out
- Bud Light Lime is top-selling new brand in convenience stores
- Retro beers return
- Seasonals and Variety Pack are surging

Private Label Renaissance

- Private label beer business returns to the beer business and consumers accept it

Dichotomy of Thought

- The industry celebrates the 75th anniversary of the repeal of Prohibition
- Neo-Prohibitionists tactics turn more aggressive

The Courts

- Costco lost its court case in Washington State; Costco sued the State over its alcohol laws, which prohibited Costco from buying directly from breweries
- Chipping away at the mandated three-tier system
- Direct shipping court cases and consumer legislation in the U.S. have been a mixed bag
  - Face-to-face issue to Supreme Court?

Sales Trends

- Domestic beer sales increased across all segments
- The Brewers Association reports that 2008 craft beer sales were up an estimated 5.8% in volume and up 10.5% in dollars
- Imported beer sales slowed dramatically

Snapshot of Major Players in the Beer Industry

Let's take a look at who the major players are and their share of the market

Top-Five Brewers Worldwide

Rank	Brewer	Headquarters	Millions of Hectoliter Shipments	Global Share
1	Anheuser-Busch InBev	Belgium	423.0	25.3%
2	SABMiller	United Kingdom	232.7	13.9%
3	Heineken	Netherlands	166.8	10.0%
4	Carlsberg Breweries	Denmark	116.9	7.0%
5	Molson Coors Brewing	United States	94.4	5.6%
Totals			1,033.7	61.8%

U.S. Beer Industry Major Brewers and Importers

Brewer	Shipments Bbls. 2008	Shipments Bbls. 2007	Change Bbls.	Change %	Market Share 08	Market Share 07
A/B	106,700	105,150	1,550	1.5	48.6	48.2
MillerCoors	64,500	64,250	250	0.4	29.4	29.5
Crown	11,585	11,736	(153)	(1.3)	5.3	5.4
Heineken	8,875	8,985	(110)	(1.2)	2.7	4.1
Pabst	5,900	6,100	(200)	(3.3)	1.3	2.8
Diageo	2,865	3,115	(250)	(8.0)	0.9	1.4
Boston	2,005	1,848	157	8.5	0.8	0.8
Yuengling	1,811	1,705	106	6.2	0.8	0.8
Labatt USA	1,545	1,550	(5)	(0.3)	0.7	0.7

Top-10 U.S. Beer Wholesalers

Rank	Company	Markets	Sales Volume 2.25 Gallon Cases 2008 (P)	Sales Revenue ($ millions) 2008 (P)
1	Reyes Family	CA, IL, VA, SC, DC, MD	72.0	$1,300
2	HOBO LLC	NY, PA, NJ, AZ, NH	52.6	975
3	Silver Eagle Distributors	TX	44.3	710
4	Goldring Family	AZ, LA, FL, OK, MD, DC, CO, MN	43.6	820
5	Ben E. Keith Beverage	TX	38.0	625
6	John Anderson	CA, HI	29.0	660
7	JJ Taylor Companies	FL, MN	26.2	415
8	Gold Coast Beverage	FL	25.4	540
9	Hensley	AZ	22.5	350
10	Andrews Distributing	TX	21.5	415

Volume Trends Top-10 Beer Brands

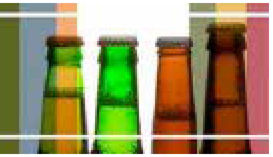
Shipments (000)		Chg		Market Share				
	2008	2007	bbls	%	2008	2007	1998	% Chg
Bud Light	**42,050**	42,000	50	0.1	19.2	19.3	**26,100**	**61.1**
Budweiser	**23,100**	24,600	-1,500	-6.1	10.5	11.3	**36,900**	-37.4
Coors Light	**17,750**	17,300	450	2.6	8.1	7.9	**15,240**	16.5
Miller Lite	**17,700**	18,350	-650	-3.5	8.1	8.4	**15,900**	11.3
Natural Light	**9,255**	9,100	155	1.7	4.2	4.2	**7,250**	27.7
Corona Extra	**7,940**	8,325	-385	-4.6	3.6	3.8	**4,065**	**95.3**
Busch Light	6,500	6,200	300	4.8	3.0	2.8	4,975	30.7
Busch	6,400	6,150	250	4.1	2.9	2.8	8,125	-21.2
High Life	5,075	5,025	50	1.0	2.3	2.3	5,225	-2.9
Heineken	**5,025**	5,265	-240	-4.6	2.3	2.4	**3,150**	**59.5**
Top 10	**140,795**	142,315	-1,520	-1.1	64.2	65.3	**126,930**	**10.9**

2008 Beer Category Overview and Segment Review

Courtesy of
Information Resources, Inc.

Dollar Sales Trends

Beer Category & Segment Dollar Sales Trends
Total U.S. Supermarkets



$ Share 52 Weeks 12/28/2008	Category & Segments	Dollar Sales % Change vs Year Ago				
		52 Weeks 12/30/2007	52 Weeks 12/28/2008	26 Weeks 12/28/2000	13 Weeks 12/28/2008	4 Weeks 12/28/2008
100.0%	Beer Category	4.0%	4.3%	5.5%	5.2%	1.1%
67.0	Total Domestic	3.0	5.4	7.2	7.2	3.5
41.9	Premium	1.6	2.3	4.1	4.1	0.1
8.8	Super Premium	18.1	24.8	25.9	21.1	13.5
15.3	Sub-Premium	0.6	4.4	6.4	8.7	7.9
1.0	Malt Liquor	6.3	9.1	10.4	11.3	9.5
20.7	Imports	4.9	1.2	0.9	(0.4)	(5.3)
7.4	Craft	17.4	10.5	10.4	9.5	6.1
3.5	PAB's	(5.0)	(6.7)	(6.0)	(9.2)	(15.1)
0.3	Cider	16.0	12.7	12.7	13.0	10.7
1.0	Non-Alcoholic	(1.6)	(3.5)	(3.3)	(4.0)	(6.6)

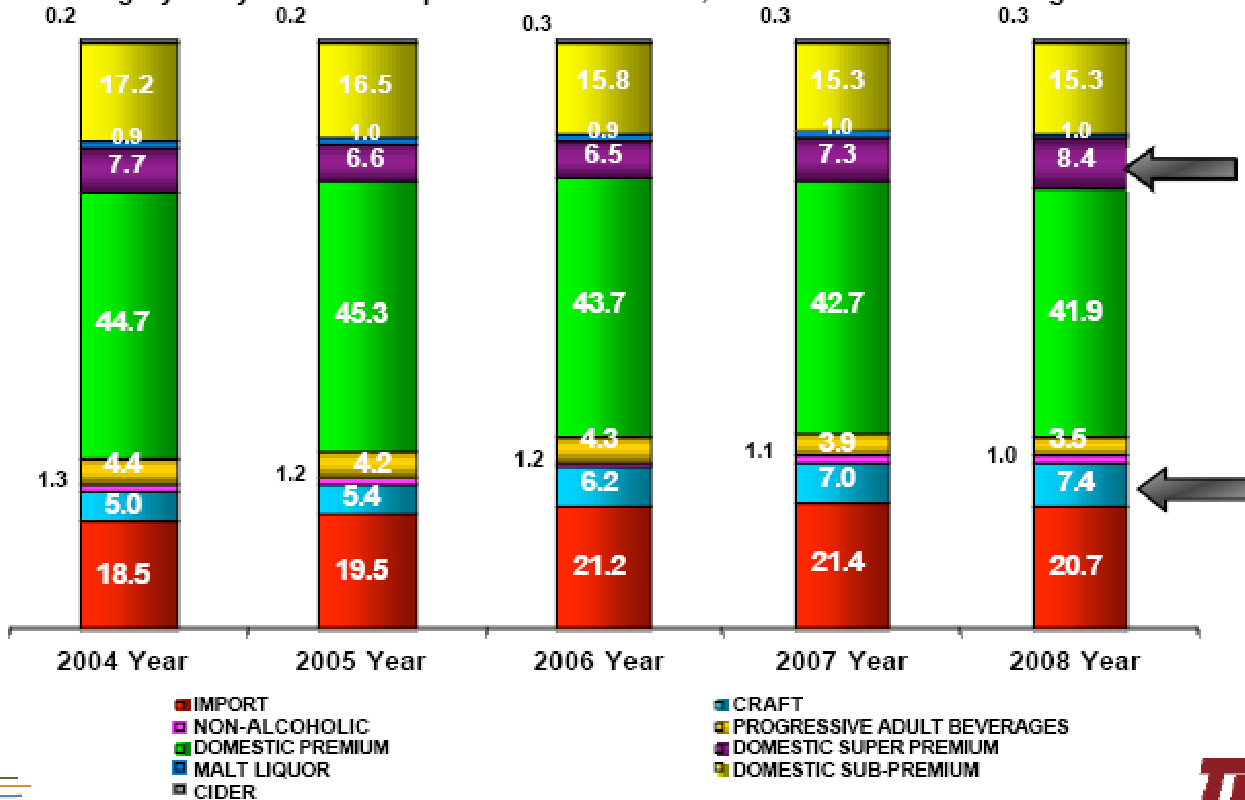
IRI Census Data 52 Weeks Ending Dec 28, 2008

Dollar Share by Category

Beer Segments Dollar Share of Category – 5 Years

Total U.S. Supermarkets

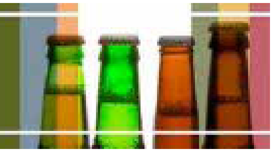
The Super Premium and Craft Segment reached their highest percent dollar share of the Category in 5 years at the expense of the Premium, Sub Premium and PAB Segments



Top-10 Beer Vendors

Top 10 Beer Vendors Based on Dollar Sales

Total U.S. Supermarkets



Vendor	$ Sales (Millions)	Dollar Sales % Chg YA	Dollar Share of Category	Dollar Share Chg YA
ANHEUSER-BUSCH	$3,227	6.2	40.6	0.7
MILLERCOORS	$2,220	3.6	28.0	(0.2)
CROWN IMPORTS	$630	(0.7)	7.9	(0.4)
HEINEKEN USA	$542	2.5	6.8	(0.1)
DIAGEO GUINNESS USA	$222	(6.9)	2.8	(0.3)
BOSTON BEER CO	$153	8.8	1.9	0.1
PABST BREWING CO	$143	0.9	1.8	(0.1)
MARK ANTHONY BRANDS INC	$93	1.8	1.2	(0.0)
LABATT USA	$68	1.2	0.9	(0.0)
CRAFT BRANDS ALLIANCE	$65	13.3	0.8	0.1

** AB Total excludes Grolsch Brands

** MillerCoors Total includes Grolsch Brands

**Heineken Total includes Newcastle Brown Ale

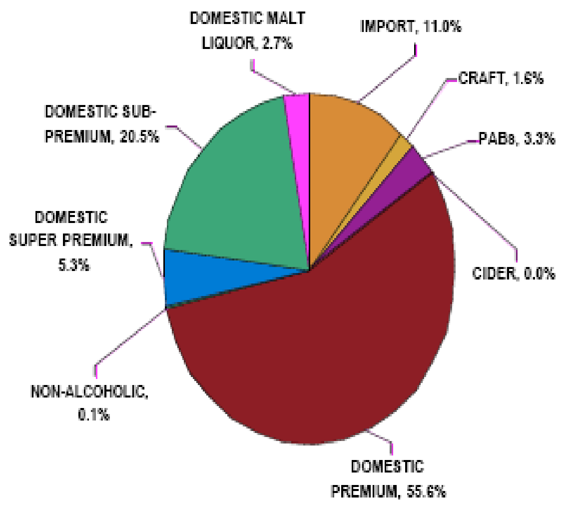
IRI Census Data 52 Weeks Ending Dec 28, 2008

Beer Segment Dollar Share

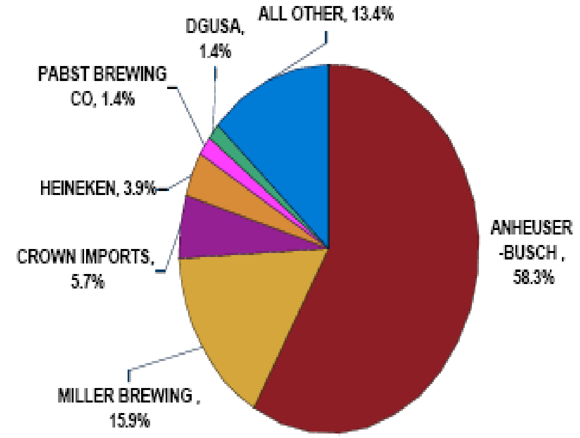
Top Beer Vendors and Segments Dollar Share

Total U.S. Convenience

Beer Segments' Dollar Share



Top 6 Beer Vendors' Dollar Share



**AB Total excludes Grolsch Brands
**MillerCoors Total includes Grolsch Brands
** Heineken Total includes Scottish and Newcastle

IRI Census Data 52 Weeks Ending Dec 28, 2008

Top-15 Beer Brands

Top 15 Beer Brands Based on Dollar Sales
TOTAL U.S. Supermarkets

TOTAL BEER DOLLARS= $7.9 BILLION, +4.3%

Brand	$$ SALES (MM)	$ Sales % Change vs YA	$ Share of Category	$ Share Chg YA
BUD LIGHT	$1,190 ($MM)	3.4	15.0	(0.1)
MILLER LITE	$607	(1.1)	7.6	(0.4)
COORS LIGHT	$577	7.8	7.3	0.2
BUDWEISER	$552	(2.7)	7.0	(0.5)
CORONA EXTRA	$381	(2.9)	4.8	(0.4)
HEINEKEN	$251	(1.2)	3.2	(0.2)
NATURAL LIGHT	$234	2.6	2.9	(0.0)
MICHELOB ULTRA LIGHT	$188	3.6	2.4	(0.0)
BUSCH LIGHT	$176	5.1	2.2	0.0
MILLER HIGH LIFE	$149	7.6	1.9	0.1
BUSCH	$131	7.3	1.7	0.0
MILLER GENUINE DRAFT	$119	(7.6)	1.5	(0.2)
CORONA LIGHT	$113	(1.6)	1.4	(0.1)
KEYSTONE LIGHT	$96	16.9	1.2	0.1
BUD LIGHT LIME	$94	NA	1.2	1.2

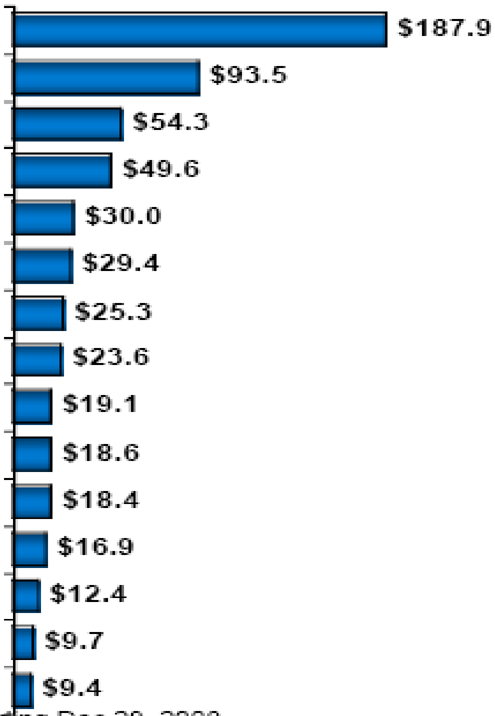
IRI Census Data 52 Weeks Ending Dec 28, 2008

Top-15 Super Premium Brands

Top 15 Super Premium Brands Based on Dollar Sales

Total U.S. Supermarkets

TOTAL SUPER PREMIUM DOLLARS = $697.7 MM, +24.8%



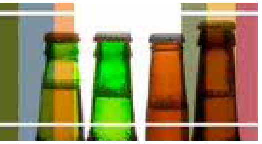
Brand	DOLLAR SALES (MM)	Change % +/- YA	$ Share Of Seg	$ Share Chg YA
MICHELOB ULTRA LIGHT	$187.9	3.6	14.6	(2.0)
BUD LIGHT LIME	$93.5	NA	7.3	7.3
BLUE MOON BELGIUM WHITE ALE	$54.3	20.6	4.2	0.1
MICHELOB LIGHT	$49.6	(19.8)	3.9	(1.8)
MILLER CHILL	$30.0	(20.5)	2.3	(1.1)
ROLLING ROCK	$29.4	(7.1)	2.3	(0.6)
GEORGE KILLIANS IRISH RED LAGER	$25.3	(4.8)	2.0	(0.5)
MICHELOB AMBER BOCK	$23.6	(5.3)	1.8	(0.4)
LANDSHARK LAGER	$19.1	206.2	1.5	0.9
MICHELOB	$18.6	(15.2)	1.4	(0.6)
BLUE MOON SEASONAL	$18.4	115.4	1.4	0.6
MICHELOB ULTRA AMBER	$16.9	(19.3)	1.3	(0.6)
BUD LIGHT CHELADA	$12.4	258.4	1.0	0.6
MICHELOB ULTRA LIME CACTUS	$9.7	269.1	0.8	0.5
LEINENKUGEL SUNSET WHEAT	$9.4	18.3	0.7	0.0

IRI Census Data 52 Weeks Ending Dec 28, 2008

Top-15 Import Beer Brands

Top 15 Import Brands Based on Dollar Sales

Total U.S. Supermarkets



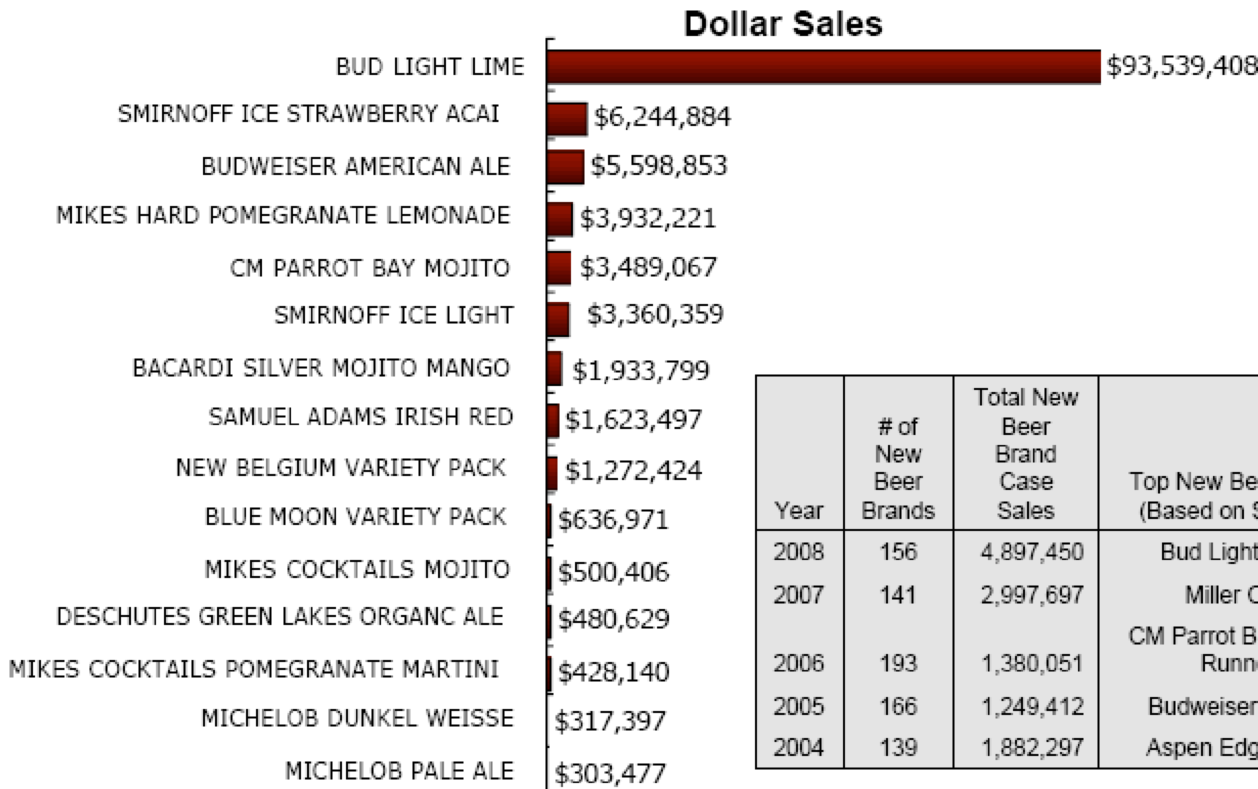
TOTAL IMPORT DOLLARS = $1.6 BILLION, +1.2%

Brand	DOLLAR SALES (MM)	Change % +/- YA	$ Share Of Seg	$ Share Chg YA
CORONA EXTRA	$380.9	(2.9)	23.1	(1.0)
HEINEKEN	$250.6	(1.2)	15.2	(0.4)
CORONA LIGHT	$112.9	(1.6)	6.9	(0.2)
TECATE	$78.7	11.0	4.8	0.4
EINEKEN PREMIUM LIGHT LAGER	$64.2	5.6	3.9	0.2
MODELO ESPECIAL	$54.6	17.1	3.3	0.5
STELLA ARTOIS LAGER	$46.0	39.2	2.8	0.8
GUINNESS DRAUGHT	$45.7	(0.5)	2.8	(0.0)
NEWCASTLE BROWN ALE	$44.8	(0.6)	2.7	(0.0)
BECKS	$38.0	3.5	2.3	0.1
PACIFICO	$35.1	4.4	2.1	0.1
LABATT BLUE	$35.0	(1.0)	2.1	(0.0)
AMSTEL LIGHT	$34.2	(8.3)	2.1	(0.2)
DOS EQUIS XX LAGER ESPECIAL	$33.3	19.5	2.0	0.3
FOSTERS LAGER	$27.7	(9.0)	1.7	(0.2)

IRI Census Data 52 Weeks Ending Dec 28, 2008

Top-15 New Beer Brands

2008 Top 15 New Beer Brands
Total U.S. Supermarkets



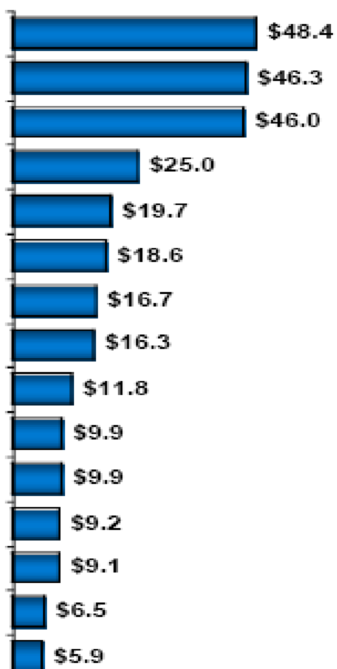
Year	# of New Beer Brands	Total New Beer Brand Case Sales	Top New Beer Brand (Based on $ Sales)
2008	156	4,897,450	Bud Light Lime
2007	141	2,997,697	Miller Chill
2006	193	1,380,051	CM Parrot Bay Wave Runner
2005	166	1,249,412	Budweiser Select
2004	139	1,882,297	Aspen Edge Light

IRI Census Data 52 Weeks Ending Dec 28, 2008

Top-15 Craft Brands

Top 15 Craft Brands Based on Dollar Sales
TOTAL U.S. Supermarkets

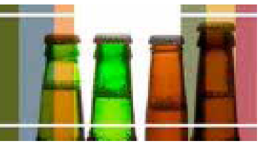
TOTAL CRAFT DOLLARS= $591.0 MM, +10.5%



Brand	DOLLAR SALES (MM)	Dollar Sales % Change vs YA	$ Share Of Seg	$ Share Chg YA
SIERRA NEVADA PALE ALE	$48.4	3.2	8.2	(0.6)
SAMUEL ADAMS SEASONAL	$46.3	24.0	7.8	0.9
SAMUEL ADAMS BOSTON LAGER	$46.0	(1.1)	7.8	(0.9)
NEW BELGIUM FAT TIRE AMBER ALE	$25.0	6.2	4.2	(0.2)
SAMUEL ADAMS LIGHT	$19.7	(7.4)	3.3	(0.6)
SHINER BOCK	$18.6	3.1	3.2	(0.2)
WIDMER HEFEWEIZEN	$16.7	2.3	2.8	(0.2)
SAMUEL ADAMS VARIETY PACK	$16.3	14.6	2.8	0.1
SIERRA NEVADA SEASONAL	$11.8	65.3	2.0	0.7
PYRAMID HEFE WEIZEN ALE	$9.9	3.5	1.7	(0.1)
REDHOOK LONG HAMMER IPA	$9.9	20.8	1.7	0.1
REDHOOK ESB	$9.2	(7.8)	1.6	(0.3)
DESCHUTES MIRROR POND PALE ALE	$9.1	9.5	1.5	(0.0)
ALASKAN AMBER	$6.5	(10.7)	1.1	(0.3)
NEW BELGIUM SEASONAL	$5.9	1.7	1.0	(0.1)

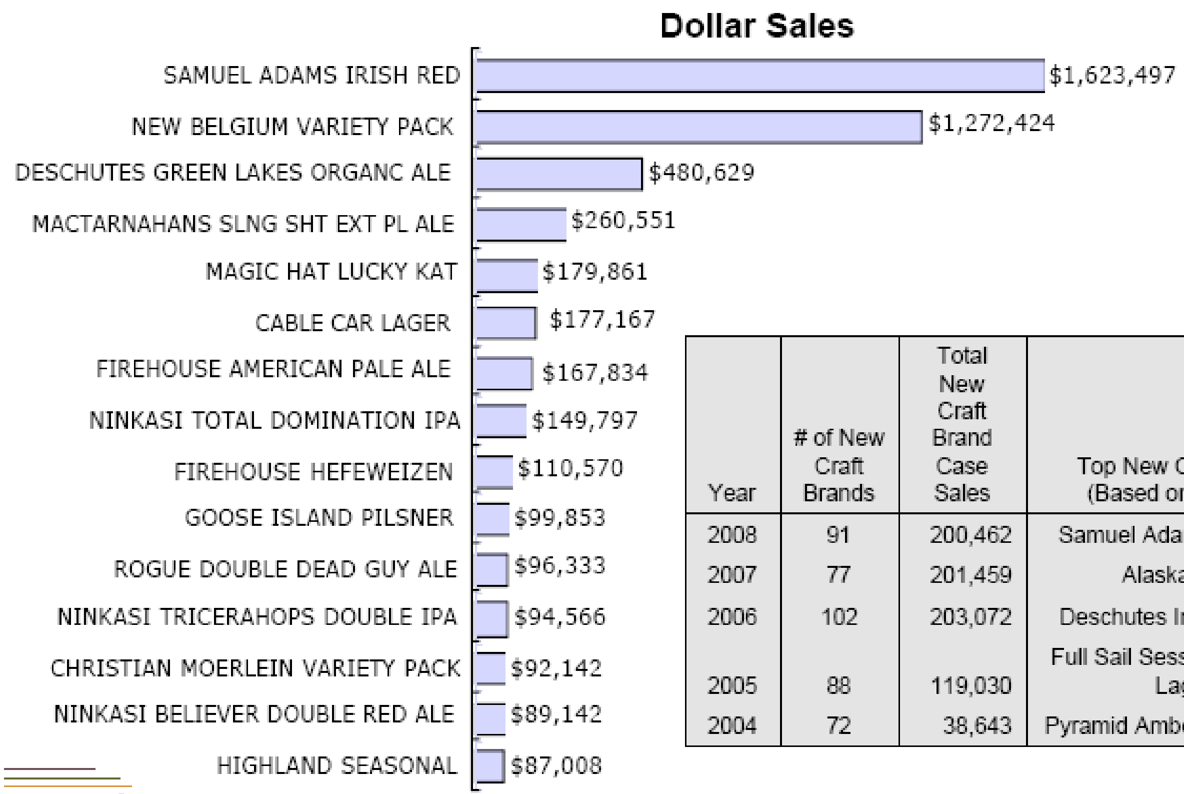
IRI Census Data 52 Weeks Ending Dec 28, 2008

Top-15 New Craft Beer Brands



2008 Top 15 New Craft Beer Brands

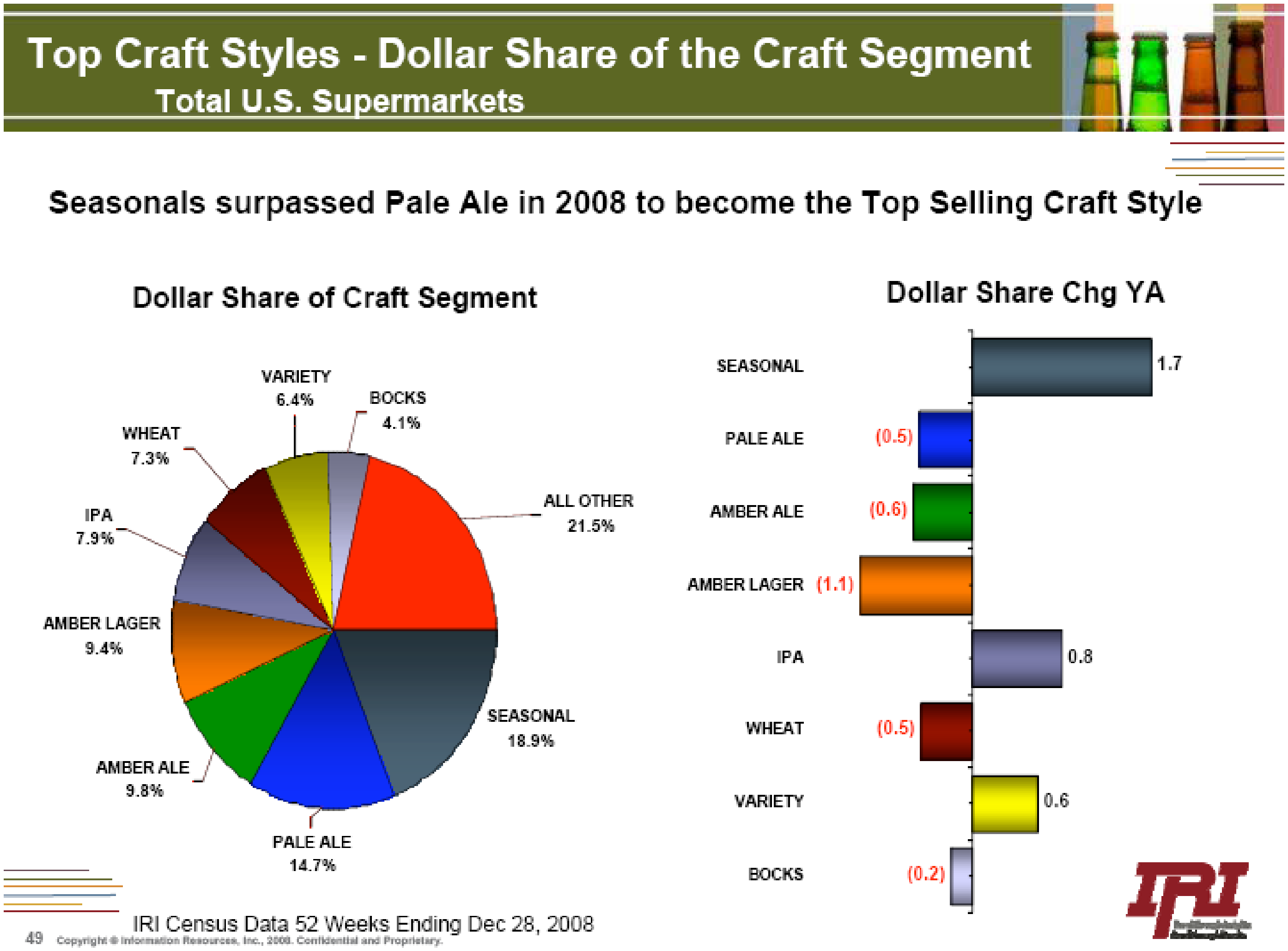
Total U.S. Supermarkets



Year	# of New Craft Brands	Total New Craft Brand Case Sales	Top New Craft Brand (Based on $ Sales)
2008	91	200,462	Samuel Adams Irish Red
2007	77	201,459	Alaskan IPA
2006	102	203,072	Deschutes Inversion IPA
2005	88	119,030	Full Sail Session Premium Lager
2004	72	38,643	Pyramid Amber Weizen Ale

IRI Census Data 52 Weeks Ending Dec 28, 2008

Top Craft Styles



Beer Tax

How much is the Federal beer tax on a 12-ounce bottle of beer?

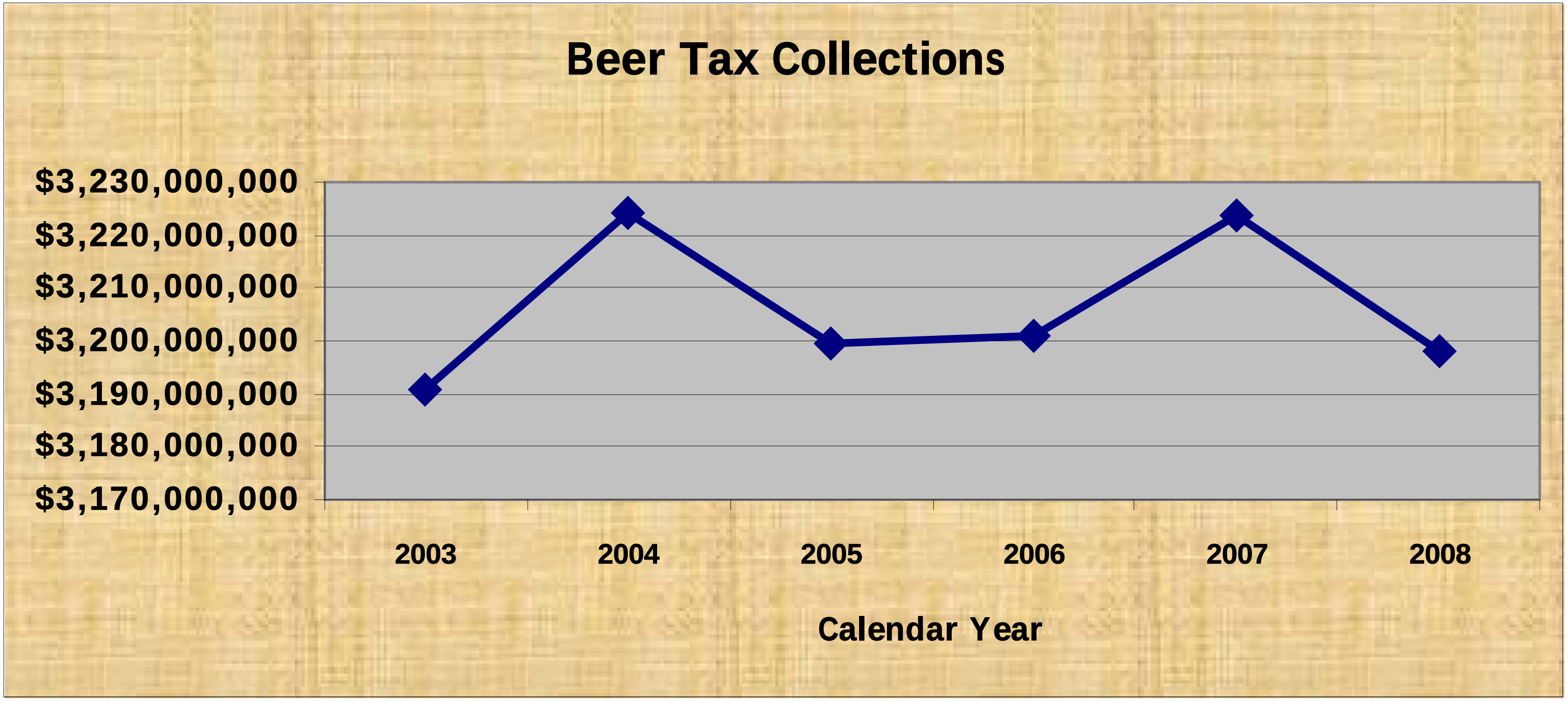
Beer Tax

- 26 U.S.C. 5051(a)(1):
  - "Tax is hereby imposed on all beer brewed or produced, and removed for consumption or sale, within the US or imported into the US"
  - Tax rate is $18.00 for every barrel (31 gallons)

Reduced Rate of Beer Tax

- 26 U.S.C. 5051(a)(2):
  - In the case of a brewer who produces not more than 2 million barrels during the calendar year, the barrel rate shall be $7.00 on the first 60,000 barrels removed for consumption or sale

Beer Tax Collections



Who Pays the Tax?

Taxes Paid	No. of Taxpayers
$0 - $35,000	1,254
$35,001 - $420,000	116

1%

Who Pays the Tax? (Continued)

Taxes Paid	No. of Taxpayers
$420,000 - $20 million	36
$20 million >	2

99%

Current Compliance Issues

Here are the common audit findings from TTB brewery audits

Current Compliance Issues

- Fill tests either not conducted or no records of tests are maintained
  - 27 CFR 25.142(b)
- Failure to test and/or maintain records of the testing of measuring devices
  - 27 CFR 25.41 and 25.42
- Tanks not properly marked
  - 27 CFR 25.35

Current Compliance Issues (Continued)

- Failure to properly determine tax liability
  - 27 CFR 25.159
- Failure to timely file report of operations and tax returns
  - 27 CFR 25.164

Current Compliance Issues (Continued)

- Failure to provide 12-day prior notification on Notice of Destructions
  - 27 CFR 25.222
- Failure to maintain inventory records, no perjury statement, and inventory sheets not signed
  - 27 CFR 25.294

Headwinds

Industry Challenges Going Forward

Headwinds

- MillerCoors distributor agreement
- Franchise laws distributor executives are feeling the pressure to do more to protect their members at the State level
- Direct shipping lawsuits by wineries online retailers

Headwinds (Continued)

- At the State level, tough economic times, new ownership at the brewers, and high turnover of elected or appointed officials all make for lots of uncertainty in the industry
- At the Federal level, a huge sea of change with 54 new House members and 9 new Senators

Headwinds (Continued)

- Excise tax increases:
  - Increasing taxes on tobacco, alcohol, and sugared drinks will likely be popular.
  - Will the Obama administration mess with the small brewer tax break?

Headwinds (Continued)

- The Economy:
  - Trading down

Summary

- Beer Industry Headlines from 2008
- Profile of the U.S. Beer Industry
- Snapshot of Major Players in U.S. Beer Market
- Taxes
- Current Compliance Issues
- Headwinds

Contact Information

Charlie Tull

Industry Analyst

Trade Analysis and Enforcement Division

Industryanalyst.beer@ttb.gov

202-302-3856