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# NEW ZEALAND CRAFT BEER

INDUSTRY INSIGHTS 2015

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# INTRODUCTION

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## Export markets are opening up for New Zealand craft beer, complimenting a domestic market with a thirst for big flavour beer.

Beer exports to Asia have doubled over the past two years and brewers tell us exports are just getting started. Given the fine product brewers are creating and Asia's potential market being 750x the size of New Zealand, they have reason to be optimistic.

Craft beer is New Zealand's fastest growing category of beer, our research suggests off premise retail sales are up 42% in the last 12 months, now accounting for 13% of total beer sales.

In our experience passion is the number one reason brewers are in business and collaboration among brewers is much higher than in other industries.

Investors are backing the brewers and the industry, funding New Zealand craft brewers at rates significantly higher than overseas breweries and other industries – reflecting exceptional growth potential.

The craft beer industry is poised for an exciting future, but growth and export markets bring challenges. Brand positioning, in market brewing, international distribution agreements, value chain communication to meet demand. The industry needs buy in from all parties, from government to the value chain, the country has a significant investment opportunity.

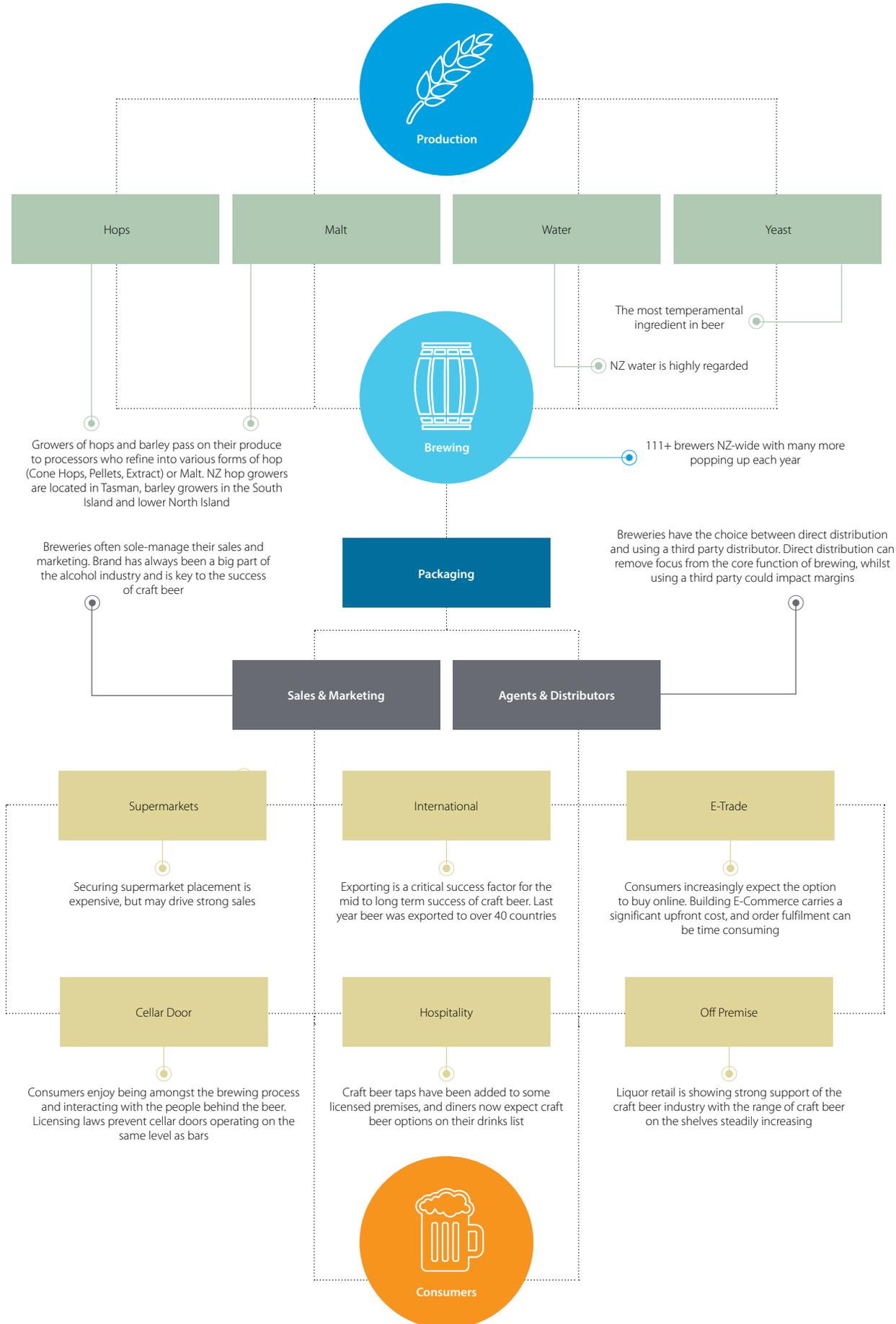
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“New Zealand has an incredibly proud tradition and talent for beer brewing. It's been a favourite pastime for many Kiwis and it turns out others think we're pretty darned good at it.”

Bob King, Brewers Guild Chairman

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NZ BEER VALUE CHAIN





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# NEW ZEALAND BEER MARKET OVERVIEW

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While beer consumption overall is decreasing,  
the craft beer segment continues to grow.

## DOMESTIC BEER CONSUMPTION

The volume of beer consumed in New Zealand has fallen 12% since 2008, yet off premise craft beer sales have increased 42% in the past 12 months reflecting an increasing preference for big flavour beer over quantity.

Historically the New Zealand beer industry has been dominated by large off shore owned breweries, Lion Breweries, DB Breweries and more recently, Independent Liquor.

However, the number of brewing companies has close to tripled since 2008 will the establishment of many small operations.

## OFF PREMISE SALES TRENDS<sup>1</sup>

The sample of off premise sales shows the industry is high growth, with NZ Brewed Craft growing at 42% over the last 12 months. This growth rate is consistent with revenue growth analysis of craft brewing companies that bank with ANZ.

The craft segment over the last two years has grown from 9% to 13% of total beer sales.

This sales split is relatively consistent across the major regions in New Zealand, with the Upper North Island marginally leading the way with craft beer representing 14% of total beer sales.

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“Even in my footy club it’s changing – it’s about  
quality over quantity.”

Josh Scott, Founder of Moa Brewing Company

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<sup>1</sup> Sample represents approximately 15% of New Zealand's off premise liquor sales Sources: Statistics NZ, ANZ analysis

“We have invested heavily in the last 12 months in tanks, a canning line and soon to arrive bottling line that can bottle 7000 330ml bottles per hour.”

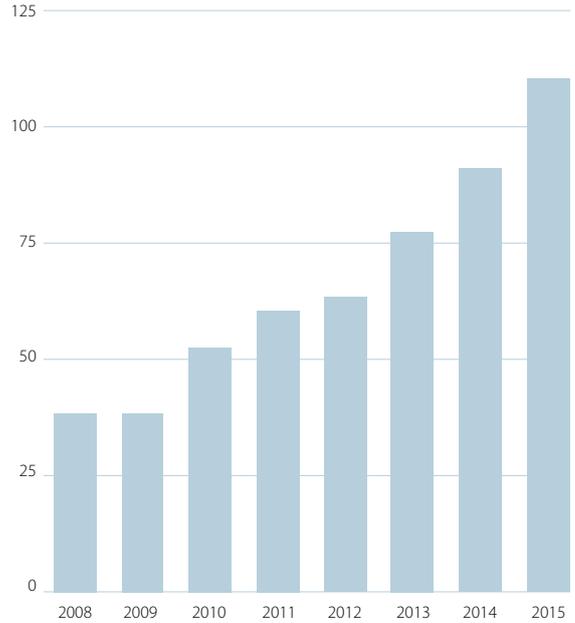
Carl Harrington, Harrington’s Breweries

**BEER CONSUMED IN NZ, BY ALCOHOL %**

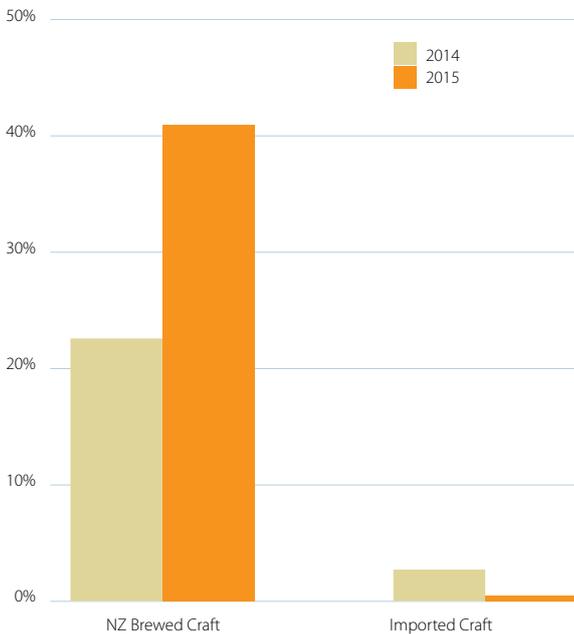
Volume of beer in millions of litres



**NUMBER OF BREWING COMPANIES**

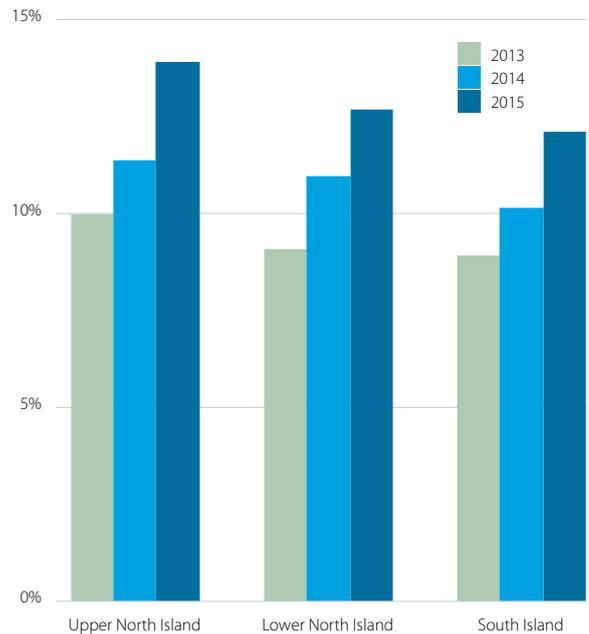


**ANNUAL GROWTH OF CRAFT SALES**



**CRAFT AS A PORTION OF TOTAL BEER SALES**

Share of sales by value



# Beer exports to Asia have doubled over the past two years and brewers tell us this is just the beginning.

## NEW ZEALAND BEER EXPORTS

A third of craft brewers surveyed by ANZ are already exporting, another third have aspirations to within two years.

A key region craft beer brewers are targeting is Asia, which is showing strong export growth.

Exports to Asia have more than doubled in the past two years. China represented over half of beer exports to Asia in 2014. Although the numbers are still small, growth is beginning to build.

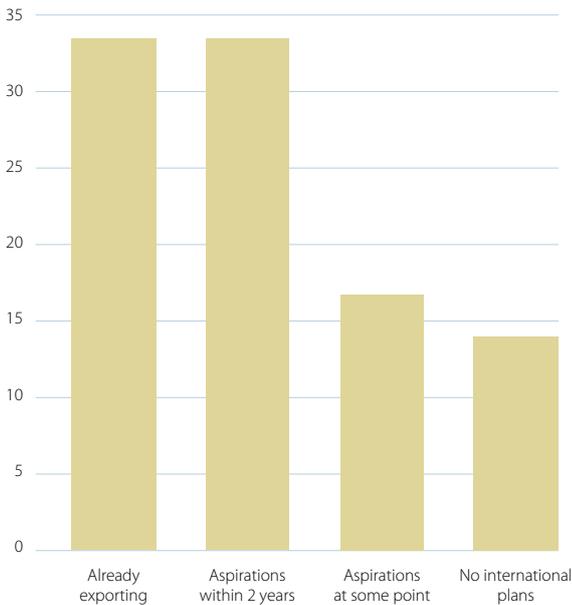
## SO WHAT IS HAPPENING OFFSHORE?

The highest consumers of beer per capita is Czech Republic, however given local beer production and a low price point it is not high on the export radar.

China, although per capita consumes just over half that of New Zealand, it is the biggest market consuming almost twice as much beer as the US.

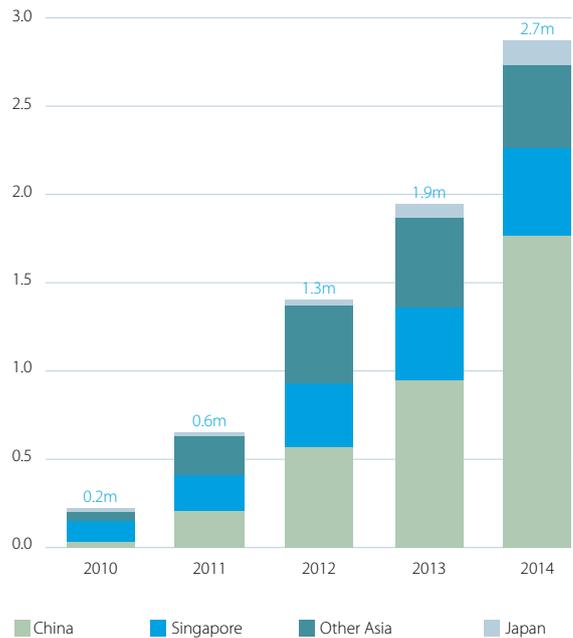
### BREWERS EXPORT ASPIRATIONS

(% of respondents)



### NZ BEER EXPORTS TO ASIA

NZD (millions)



“Once again New Zealand has a great product in Craft Beer and that’s a very good start. Developing and capturing the export value from it over the medium to long term is where we traditionally struggle.”

Dave Pearce, Strategic Director, Renaissance Brewing

“Successfully exporting one’s brand and products from New Zealand is a challenge worth accepting and requires dedication and vision to best deliver the finest of what our nation has to offer.”

Chris Mills, Kereru Brewing Company

### US Craft Market Summary

The craft market in the US is the most developed and is showing no signs of slowing down with industry growth of 18% in each of the last two years.

In 2014 US craft:

- produced 22.2m barrels
- opened 615 breweries
- represented 11% of total beer volume, compared to 8% in 2013
- Increased exports by 36%
- Increased price by 3%

The “hottest” style of craft beer is IPA, growing sales by 47% in 2014 and now representing 23% of all US craft.

### SUMMARY

While beer consumption overall is decreasing, the craft beer segment continues to grow. Off premise<sup>1</sup> NZ brewed craft beer sales increased 42% over the last 12 months.

Over the past two years off premise craft beer sales increased from 9% to 13% of total beer sales (by value).

Beer exports to Asia have doubled over the past two years and brewers tell us this is just beginning. The USA craft market continues its momentum growing 18% in 2014.

### BEER CONSUMPTION BY COUNTRY

Rank	Country	Litres per capita	Total consumption (million litres)
1	Czech Republic	147.1	1,909
2	Namibia	108.6	250
3	Austria	105.9	898
4	Germany	101.7	8,410
13	United States	76.2	24,082
15	Australia	74.7	1,743
26	United Kingdom	67.4	4,242
28	New Zealand	64.1	289
52	Japan	43.1	5,489
?	China	34.1	46,313

### TOP CRAFT BEER STYLES IN THE US

Rank	Beer Style	Dollar Share	Volume Growth
1	IPA	23%	47%
2	Seasonal	17%	10%
3	Pale Ale	11%	10%
4	Variety	8%	20%
5	Amber Ale	6%	12%
6	Amber Lager	5%	2%
7	Bock	4%	5%

<sup>1</sup> Sample represents approximately 15% of New Zealand’s off premise liquor sales. Sources: Statistics NZ, news reports, ANZ analysis

# NEW ZEALAND CRAFT BREWERIES

New Zealand craft breweries.

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## AUCKLAND & NORTHLAND

- 8 Wired Brewing
- Bach Brewing
- Behemoth Brewing
- Ben Middlemiss Brewing Co.
- Boundary Road\*
- Brothers Beer
- Dedwood Brewing Co.
- Deep Creek Brewing Co.
- Epic Brewing Company
- Forbidden Brewing Co.
- Galbraith's Brewing Co. Ltd
- Governor Brewery
- Hallertau Brewery
- Hancock & Co.
- Isthmus Brewing Company
- Laughing Bones Brewing Co.
- Leigh Sawmill Brewing Company
- Liberty Brewing
- Rocky Knob Brewing Company
- Schippers Bitter
- Sparks Brewing
- Standing Spoon Brewery
- Steam Brewing
- Waiheke Brewery
- Weezeldog Brewing
- Zeffer Brewing Company
- Zeppelin Brewing

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## WAIKATO

- 666 Brewing Co. Ltd
- Biggles Brewery Ltd
- Boilerhouse Brewery Ltd
- Brewaucracy
- Coromandel Brewing Company
- Crafty Trout Brewing Co.
- Good George Brewing
- Hot Water Brewing
- Lakeman Brewing

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## SOUTHLAND

- Dr. Hops
- Golden Ticket Brewing
- Invercargill Brewery

2

## TARANAKI

- Brew Mountain
- Mike's Organic Brewing

2

## WEST COAST

- Monteith's Brewing Company\*
- West Coast Brewery

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## OTAGO

- Craftwork Brewery
- Emerson's Brewery\*
- Green Man Brewery
- Jabberwocky Brewery
- Queenstown Brewers
- Scotts Brewing Co.
- Wanaka Beerworks



\* Boundary Road and Founders Brewery are owned by Independent Liquor; Emerson's is owned by Lion; Monteith's Brewing Company and Black Dog Brew Co. is owned by DB Breweries

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**GISBORNE & HAWKE'S BAY**

- Brave Brewing
- Fat Monk Brewery Co.
- Giant Brewing Company
- Hawkes Bay Independent Brewery
- Sunshine Brewery
- Zeelandt Brewing Co.

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**BAY OF PLENTY**

- Aotearoa Brewery
- Croucher Brewing Company
- Fitzpatrick's Brewing Co. Ltd
- Kaimai Brewing
- Mount Brewing
- Two Fingers Beers

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**CANTERBURY**

- Brew Moon Brewing Company
- Cassels & Sons Brewery
- The Dux Brewing Co.
- Eagle Brewing
- Eruption Brewing
- Fiasco
- Four Avenues Brewing
- Harrington's Brewery
- Hop Baron
- Kaiapoi Brewery
- Kaiser Beer
- KJD Brewing Company
- Raindogs
- Three Boys Brewery
- Twisted Hop
- Two Thumb Brewing
- Valkyrie Brewing Co.
- Valley Brewing Company
- Wigram Brewing Company

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**NELSON & MARLBOROUGH**

- Bays Brewery
- Dale's Brewing Co
- Founders Brewery\*
- Golden Bear Brewing Company
- Hop Federation Brewery
- Lighthouse Brewery
- McCashins Brewery (Stoke)
- Moa Brewing Company
- Mussel Inn
- Pink Elephant
- Renaissance Brewing
- Sprig & Fern
- Townshend Brewery

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**WELLINGTON & WAIRARAPA**

- Baylands Brewery
- Black Dog Brew Co.\*
- Fork & Brewer
- Funk Estate
- Garage Project
- Geek
- Kereru Brewing
- Martinborough Brewery
- North End Brewery
- Panhead
- ParrotDog
- Peak Brewery
- Regent 58 Brewery
- Tiamana Brewery
- Tuatara Brewery
- Wild & Woolly Brewing
- Yeastie Boys

# THE CHANGING FACE OF NEW ZEALAND CRAFT BEER

## A BREWERS PERSPECTIVE

### A PASSIONATE BREW

Craft brewers surveyed by ANZ<sup>1</sup> had a common driver for making beer: "passion". Around 80% of craft brewers said that they were in business to follow their passion, compared to a quarter of those in other industries. But brewers also see the potential for growth in the sector and over half said one of their motivations was to make money.

It appears that many brewers are well poised to do just that with growth expectations significantly higher than those in other industries.

### THE CHALLENGES OF EXPORT

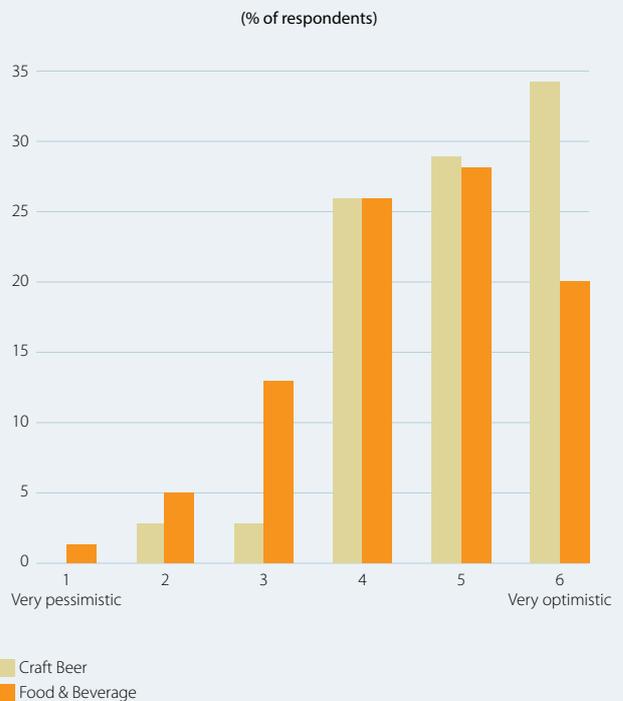
Taking New Zealand craft beer to large offshore markets is not without its challenges.

For those brewing in New Zealand and exporting there are notable freight costs relative to the value of the beer, if the beer is going to Asia or beyond then there are high air temperatures that the beer will be exposed to, there is the time it spends in transit and the many other costs such as tax and distributor margins. These challenges collectively chew into margin and potentially impact product quality.

### LOCAL MARKET AS AN EXPORT FOUNDATION

Strong growth in local market continues to drive demand for local producers who have increased in numbers by close to 20% in the last year. Local market growth includes on/off premise, and a growing "cellar door" opportunity with potential regional tourism spinoffs.

### BREWERS 3 YEAR INDUSTRY OUTLOOK<sup>1</sup>



This local market strength is providing the platform for brewers to build volume and profitability positioning them to embark on exports. A third of local craft breweries are already expanding into offshore markets.

“For 24 years Harrington’s Breweries have been producing a range of quality craft beers, distributing throughout the country. We are now talking with an Australian distributor.”

Carl Harrington, Harrington’s Breweries

<sup>1</sup> ANZ Privately-Owned Business Barometer Survey 2015

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# “Good beer, in good condition sells itself. The NZ Inc brand offers some degree of value, but exceptional beer can be made anywhere in the world.”

Luke Nicholas, Owner Brewer, Epic Brewing Company

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## BRAND POSITIONING FOR EXPORT

Some brewers are taking the plunge and brewing offshore, addressing many of the challenges of export.

Yeastie Boys, Panhead, ParrotDog, and Tuatara are all embarking on such strategies. With lower costs and quicker distribution to market the strategy has potential. Some brewers say offshore brewing may have an impact on product marketability given it loses the brewed in New Zealand badge.

Most brewers agree the New Zealand badge confers some value to their product overseas. Brands may still be able to capture some of this value brewing in other countries, with a link to New Zealand through people or ingredients.

## COLLABORATION FOR SUCCESS

There is a high level of collaboration right across the industry, with the example of the “New Zealand Craft Beer Collective” formed earlier this year.

Modelled on the successful “Family of Twelve” wine export collaboration, the New Zealand Craft Beer Collective brings together five similar minded breweries to take on the UK market and forge a category.

The collective includes Yeastie Boys, Tuatara Breweries, Renaissance Brewing, 8 Wired Brewing Co and Three Boys Brewery.

An opportunity exists for similar collaboration domestically to consolidate distribution to market. Discussions with retailers found that simpler ordering processes, particularly for large retailers will result in more shelf space, which ultimately results in more sales.

There is also collaboration among brewers to brew their brews. Some brewers contract brew for other brands who do not own breweries. This benefits the brewery owner by providing an additional source of income to improve returns on their investment in the brewery. It also benefits the other brand by not having to invest significant capital into a brewery that is not needed from a total industry perspective.

It is likely we will see the emergence of tailored independent contract brewing facilities to cater to the growth demands of the industry.

Another great example of industry collaboration is O-I Glass in conjunction with Auckland’s Unitec Institute of Technology have developed a bottle designed specifically to assist the craft beer industry to target Asia, a market 750x the size of New Zealand.

O-I’s bottle, “The Provider” offers a 888ml bottle and 258ml bottle. These numbers are thought to be lucky in Asia.

## FROM COTTAGE TO CORPORATE

As the craft beer sector transforms from cottage industry to corporate, this passion must be matched with business skills.

Capacity constraints, securing shelf space and a steady supply of raw materials are all cited by craft brewers as key challenges. Secondary challenges around maintaining quality standards and attracting skilled staff also have the potential to influence growth.

An example to mitigate some of these challenges is accurate forecasting. This planning would not only help brewers to better prepare their businesses for the future, but also to manage the expectations of suppliers.

Also, better understanding of regulations could help to navigate increasingly strict licensing requirements, or save unnecessary time and expense when exported product gets held up at borders.

Where these skill gaps are evident, industry stakeholders such as professional services, industry bodies and government agencies can have a big influence by offering their expertise in specialised areas.

## SUMMARY

Brewers most commonly cite “Following my passion” as the number one reason they are in business. There is a high level of collaboration in the New Zealand craft beer industry.

An opportunity exists for domestic distribution collaboration. Discussions with retailers found that simpler ordering processes, particularly for large retailers will result in more shelf space, which ultimately results in more sales.

New Zealand has a great product in craft beer, the challenge now is to realise its value through export markets.

# WHAT ARE BREWERIES WORTH?

## NEW ZEALAND MARKET MULTIPLES

New Zealand Breweries are attracting investment at more than twice their revenue, as investors anticipate exceptional growth to come.

### SO WHAT DO ALL THESE NUMBERS MEAN?

New Zealand breweries are attracting investment at more than twice their revenue, as investors anticipate exceptional growth to come, growth that in the long term will provide a sufficient return on investment.

For market transactions that have taken place in New Zealand such as Renaissance and Yeastie Boys, the price (as measured by multiples on current performance) has been high relative to offshore breweries and particularly high relative to other industries.

Other than a high growth outlook for craft what else might be driving these high valuations? Crowdfunding allows small investments, so investors may be less focused on price. It however does not offer an obvious exit path, which hinders valuation. Another consideration is people are investing in what they drink and something they can share with their mates.

### NEW ZEALAND MARKET MULTIPLES

Company Name	Market	Year	Market Value (NZDm)	Revenue (NZDm)	EBITDA (NZDm)	Price to Revenue	Price to EBITDA
Renaissance (Craft Beer)	Crowdfunding	2014	5	1.5	0.2	3.3x	29.2x
Yeastie Boys (Craft Beer)	Crowdfunding	2015	3.5	0.7	-	5.2x	N/A
Moa (Craft Beer)	Listed	2015	13.1	6.1	-5.2	2.1x	N/A
42 Below (Spirits)	Acquisition	2006	136	17	-4	8.0x	N/A
Invivo (Wine)	Crowdfunding	2015	10	5.1	0.4	2.0x	26.0x
Foley Family Wines	Listed	2015	70.5	29.7	7.8	2.4x	9.0x

“There is no shortage of capital.”  
Jason Crowe, Business Manager, Garage Project

“You can take these businesses offshore and keep the beer ‘craft’. There is nothing stopping you from being 50 times your size and still producing the exact same product.”

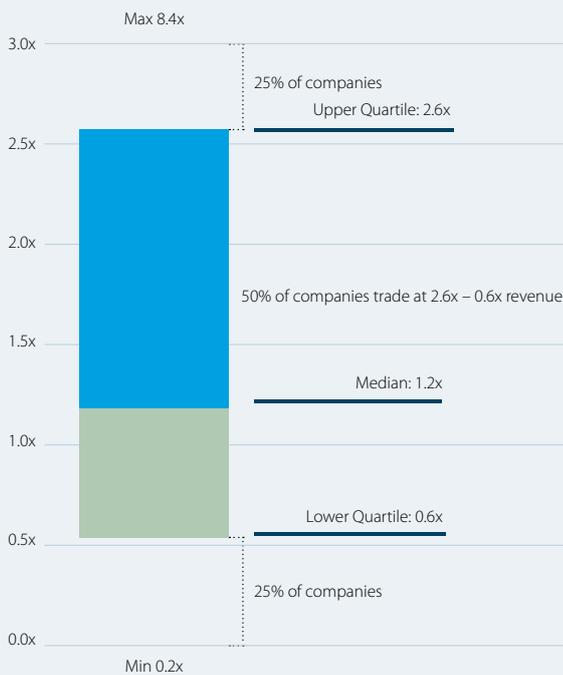
Jason Crowe, Business Manager, Garage Project

**OFFSHORE MICRO BREWERIES MARKET MULTIPLES**

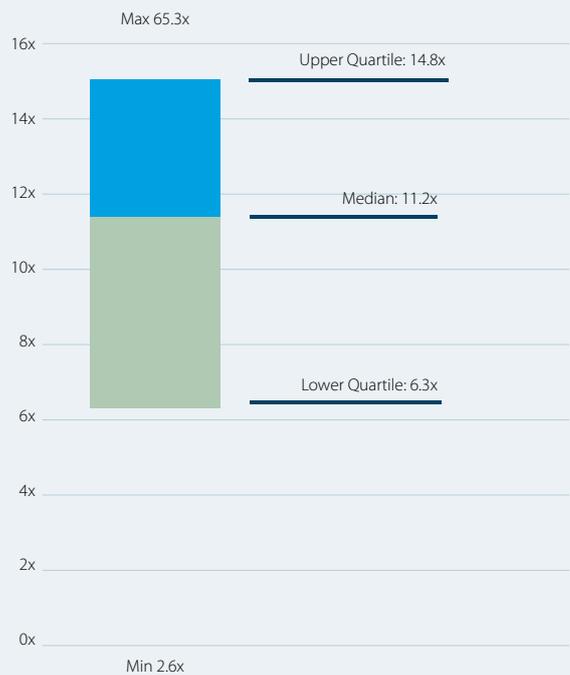
To gauge offshore market value of micro breweries in larger markets, the trading multiples of all 26 publicly listed breweries with turnover under NZD 100m have been analysed.

Of these offshore micro breweries, 50% trade within a 6.3x – 14.8x EBITDA multiple and 50% trade within a revenue multiple of 0.6x – 2.6x.

**PRICE/REVENUE**



**PRICE/EBITDA**



“As craft beer continues to grow in market share the large multinational brewing companies will look at acquisition rather than investing in developing their own craft brands from the ground up.”

Luke Nicholas, Owner Brewer, Epic Brewing Company

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# THE KEY INGREDIENTS

## THE BIG FOUR – HOPS, MALT, YEAST AND WATER

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### HOPS

Craft beer is all about hops, using several times the quantity as mainstream beer. Cultivation continues to trend towards designated aroma/flavour varieties in which New Zealand has an international advantage due to an absence of hop disease. Popular aromatic varieties include Riwaka and Wakatu.

Hops grown in New Zealand are supplied to New Zealand Hops Limited (“NZ Hops”), a co-op owned by 17 member/growers. NZ Hops processes, markets and sells the hops. Hops are a very location sensitive crop due to their specific climate requirements, but the top of the South Island suits hops well.

The 2015 season was for the most part ideal, but the aftermath of cyclone Pam did have an impact, with the harvest down 3% on 2014 to 739,620 kgs.

The 2015 season was 95% sold prior to harvest, with the full harvest expected to be pre-sold in 2016. NZ Hops ambition is to increase production by around 30% to 900-1000 metric tonnes by 2020, 85% of which is destined for export.

Currently growers are focused on switching out varieties to meet market preferences, but as varieties are balanced the volume will increase with increased acreage.

There is strong demand globally for hops at the moment and particularly New Zealand grown hops. ANZ internal analysis suggests there are strong comparative returns growing hops in the Tasman region relative to other land uses such as grapes, kiwifruit and pip fruit.

Also, the Riwaka based Plant & Food Research team, headed up by Ron Beatson, continues to work in partnership with NZ Hops to research and develop new cultivars with the “wow factor”.

### MALT

The malt industry is also experiencing heightened demand with the emergence of the craft beer market both in New Zealand and overseas. The growth is a good thing, like it is for the brewers, but it needs to be well managed and comes with some challenges as David Cryer explains a supplier’s perspective below.

Varieties are now vast including Brown Malt, Chocolate Malt, Manuka Smoked Malt, Toffee Malt, Red Back Malt, Biscuit Malt and Roasted Malts... the list goes on.

Malt has the greatest effect on a beer’s colour and is a more forgiving ingredient on taste, which allows significant scope to experiment without as easily spoiling a brew.

### WATER

The presence of minerals and bacteria in water impact a brew’s characteristics. Good quality water is a necessity for brewing as the presence of bacteria can spoil the brew.

New Zealand water is highly regarded for brewing. Water differences are thought to be a primary reason why a beer contract brewed in different locations may not taste the same.

For an efficient brewery, one litre of beer will require the use of around 5 litres of water, however smaller breweries may use significantly more.

### YEAST

Yeast enables fermentation, which provides alcohol content, carbonation, flavour and aroma. Yeast is the most temperamental ingredient in beer. There is a wide variety of brewing yeasts, and knowledge of their effect on the brew is a key component of a craft brewers intellectual property.

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“Increase in popularity of craft brewing increases difficulty for key ingredient suppliers as brewers demand specific products for creation. Suppliers are required to adapt.”

David Cryer, Owner, Cryer Malt

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ANZ is proudly New Zealand's largest financial services provider, with almost half of all New Zealanders having a banking relationship with us.

We recognise that strong relationships are important for business and farming success, which is why here in our Commercial & Agri division, we support our clients with access to knowledge, insights and connections to help them grow.

As New Zealand increasingly looks to markets across the Asia-Pacific, we provide clients with access to banking knowledge and expertise in offshore markets to help New Zealand businesses achieve their growth aspirations.

For information about our services see [anz.co.nz](https://anz.co.nz)

## ANZ CRAFT BEER CONTACTS:

### JOSH NEWTON

Client Insights & Solutions

T: +64 9 252 6989

M: +64 21 815 397

E: [josh.newton@anz.com](mailto:josh.newton@anz.com)

### ROB SIMCIC

Commercial & Agri Regional Manager

T: +64 3 368 2767

M: +64 27 475 4690

E: [rob.simcic@anz.com](mailto:rob.simcic@anz.com)

### PHIL WHITTLE

Commercial & Agri Relationship Manager

T: +64 9 252 4522

M: +64 27 214 8921

E: [phil.whittle@anz.com](mailto:phil.whittle@anz.com)

### SAM BREE

Commercial & Agri Relationship Manager

T: +64 4 436 6672

M: +64 27 280 2659

E: [sam.bree@anz.com](mailto:sam.bree@anz.com)

### DAVID WILKINSON

Commercial & Agri Relationship Manager

T: +64 3 368 2409

M: +64 21 280 4679

E: [david.wilkinson@anz.com](mailto:david.wilkinson@anz.com)

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