

Kevin Keck of J.J. Pfister Distilling Company

Hall T Martin: [00:00:04] This is the Investor Connect Podcast Program, I'm Hall T Martin. I'm the host of the show in which we interview angel investors, venture capital, family offices, private equity, and many other investors for early-stage and growth companies. I hope you enjoy this episode.

Hall T Martin: [00:00:23] Well hello, this is Hall Martin with Investor Connect. Today I'm here with Kevin Keck, President of J.J. Pfister Distilling Company. J.J. Pfister is a fast-growing premium craft spirit producer in Sacramento that produces top-quality spirits. The company has been well established and has incredibly effective sales and marketing strategies. Kevin, thank you for joining us.

Kevin Keck: [00:00:42] Thank you for having me. I truly appreciate the opportunity.

Hall T Martin: [00:00:46] Great. So, what was your background before starting J.J. Pfister Distilling?

Kevin Keck: [00:00:50] Sure. I have been in executive positions for many years and I was in the C suite in a billion-dollar health plan and then a billion-dollar data company. What happened is we had the opportunity to go into the distilling business because it fit with our son's goals. We knew that craft spirits were going to take off like craft brewing, so it was a natural that I was able to lead this from idea to production to where we are. Also, I have two degrees in engineering, which were really helpful when we were designing the plant. I could speak with the architect and the distillery designer and we could work out the issues and we have it going very well.

Hall T Martin: [00:01:47] And so, what led you to start work in the distilling space?

Kevin Keck: [00:01:50] The opportunity is this. The story is that our son is a winemaker and he is a chemist by training, got into fermented beverages and then he went to viticulture enology at UC Davis, the premier school for winemaking. He learned that the distilling space was wide open as an avenue that he would get into. And it turns out the craft distilling space, which is what we're in, is booming. And so, with his skill set, we created the company to make premium craft spirits. So the story is it was almost a

serendipity. We were approached by a grower who could give us the substrate and that's how we got started.

Hall T Martin: [00:02:41] Well, great. So, we have a lot of investors that listen to the show, what's your advice for people investing in the distilled-spirits space? What do you tell them to do before they write that first check?

Kevin Keck: [00:02:50] Well, check us out. The numbers are very attractive and the space is this that it's following craft brewing which started slow some years ago and now takes 13% of the beer market. Craft spirits are following that and it's expected that craft spirits will grow from \$2.3 billion in topline revenue in the United States in 2019 to \$20 billion topline revenue in 2023. Now, we are in the space that is growing the most rapidly. It's the quickest-growing space, and the reason for that is the consumer is shifting from standard products like standard beer, or standard wine, or standard spirits such as _____ or Brown-Forman, not generic, but common, and they want something that's better. They want to get a premium spirit, it's called premiumization. And so, that's what's going on in the market. So, investing in the craft spirit space, what you look for is are you on the ground with an effective sales and marketing operation? When we started the idea in 2015, there were 1,000 craft distilleries in the United States, currently, there are 2,000. Typically, they're small operations, they are a labor of love, maybe not full time, and these can be successful, but they're very hobby-oriented and the revenue comes from people coming to the distillery. Look for an operation that can produce enough spirits so that it can be distributed and look for effective sales and marketing, those would be the key things. In our business, the consumer is looking for a premium product and they need to find it. So, a premium product, effective sales, effective marketing.

Hall T Martin: [00:05:14] Great. So, how do you see the alcohol industry evolving especially on the distilled spirits side? Where do you think it's going?

Kevin Keck: [00:05:21] It's going, even with the pandemic, sales of alcoholic beverages in all classes of beer, wine, and spirits are going up. We are fortunate to be in the spirit space that's growing quicker than all are growing. So, we can expect more craft spirits to be on the market and the expectation is it's going to grow from 3% of spirits sales to the same as craft brewing, which is 13%. So, it's a huge upside in craft spirits. We

expect normal year-on-year growth with alcoholic beverages to settle down to the single percentages per year which have been historic. Right now it's going up higher than that because of the pandemic.

Hall T Martin: [00:06:15] Great. And so, what is the growth rate of this sector currently?

Kevin Keck: [00:06:19] The growth rate of craft spirits is 2.3% going to 13% in three or four years, and the compound annual growth rate is very large. And so, our experience at J.J. Pfister is we're growing at 200% per year and that's with a pandemic. So, this is going to skyrocket.

Hall T Martin: [00:06:44] Well, great. And so, how many companies are engaged in it? I think you mentioned some numbers a moment ago, but are those the standard numbers, 1,000 going to 2,000?

Kevin Keck: [00:06:52] Right. To be a craft distillery there're special rules that are regulated by the state and the rules are set up to help us because the big boys, the Brown-Forman, the Bacardi, the_____. The big distilling companies have such a footprint, so the states are encouraging us and giving us some relief of regulation and that is allowing us to have the growth trajectory that we're talking about. And, like I said, the opportunity has become known and the number of distilleries doubling in the last 4-5 years is indicative of what this market is doing.

Hall T Martin: [00:07:39] Great. And so, what are the challenges in the distilled spirits space?

Kevin Keck: [00:07:44] Yeah. Well, for us it's this that we are required in all alcoholic beverages to use a middleman and this came from the crime in the 1920s with Prohibition. So, when Prohibition went away, Congress wrote the act that there needs to be a distributor between the producer and retail and that's to keep out crime. So, that is the challenge for us because we work with a distributor who pays more attention to the large spirit houses, so the challenge for us is we have to go out and sell the spirit ourselves. We're totally in charge of our sales and then what we do is we work with the distributor as colleagues and then they ship and then they place the product; it works well for us. Congress has realized that because we have to do all our sales, the excise

taxes on our spirits are about 20% of what they are for the big spirit houses, so, we get a break that way. But the big challenge is the distribution.

Hall T Martin: [00:08:57] So how does J.J. Pfister Distilling Company fit into this overall craft spirits landscape?

Kevin Keck: [00:09:03] Yeah, we are riding a wave is how I would describe it. We got in at the right time, we got into production at the right time, we are achieving tremendous traction right at the right time. To go from idea to production was for us, a year and a half timeline and then go from production to create our lead products, the gin, the vodka, the high-rye bourbon, and the rye whiskey, that took a little over a year. So, we are way ahead of the curve here. And so, we are poised to increase our sales handsomely as we go forward. And that's exactly what we're seeing on the market that we're finding in Los Angeles, because we have organic, clear spirits, you know, vodka that is very well received. Whiskeys are very well received. One marketing point is young women, for example, are changing from red wine to - I'm sorry - they're changing from beer to whiskeys and red wine. And so, bourbon is extremely popular right now and we are right there with a high end with a premium product. So, we're at the right place at the right time.

Hall T Martin: [00:10:19] That's great. And so, what more can you tell me about the history of the company? Why do we call it J.J. Pfister?

Kevin Keck: [00:10:25] Sure. We, in our planning, were advised where we've had national-level consultants help us, that the consumer of the craft spirit is looking for something unique and a story. So, our story is that we call ourselves J.J. Pfister Distilling Company. I am a Pfister. J.J. Pfister is my or was my great-grandfather, and he was an entrepreneur, took the transcontinental railway in 1869, brought Swiss knitting machines to San Francisco and established a booming knitting company where San Francisco City Hall sits right now. And he was such an entrepreneur that he worked out of a one-room operation, he lived there, sold his garments up and down Market Street, and then when the machinery got going and the business got going, his signature garment was the woolen swimsuit that keeps you warm in the ocean. Now, the reason we're pulling the name through is he was very big on quality, customer service, and giving back to the community, he was quite the philanthropist. So, we call

ourselves J.J. Pfister because of that, and then at the distillery and in our marketing, we can use this. And it is eye-catching to take a look at these woolen swimsuits that are over 100 years old, perfectly preserved because he used high-quality wool, and then all the mementos from the factory. Matter of fact, our visitor center, the manager uses J.J. Pfister's desk from the late 19th century to do his business.

Hall T Martin: [00:12:13] Cool. Well, where currently can one find J.J. Pfister distributed?

Kevin Keck: [00:12:18] Right now we're in the Sacramento area, all of Raley's stores, we'll be in Nugget Markets, we will be in market chains. We have just entered to Kroger stores in the Los Angeles area, we are poised to get into Albertsons. Also, our spirits can be obtained online, at least in three states, and that is California, Arizona, and Nevada; we're allowed to do that by our license. And, as the pandemic continues, we'll be allowed to directly distribute to the consumer in more states. But, we're in 600 bars and restaurants and retail outlets. The retail outlets are a laser focus for us because 44% of spirits sales are done at the supermarket. And like I said, what's going on is the shopper is looking for premiumization, that is that they want something more than standard spirits and they're also purchasing more than one bottle. They want to go, they want to get something good, they want to stock up because they're doing fewer trips to the grocery store. And this is helping us as we place our products so that our products will be there ready to go once the pandemic lifts, which maybe two years, but that gives us an opportunity to place in as many grocery stores as possible.

Hall T Martin: [00:13:48] Well, great. Well, in the last few minutes that we have here, what else should we cover that we haven't?

Kevin Keck: [00:13:52] Well, I think that it's important to know that we have capacity at our distillery to produce 50,000 cases per year, and we planned it that way, most craft distilleries can't do that. And what that allows us to do is to make these premium products and have enough that we can distribute, and we can distribute over many different states. The other thing is that when the craft brewing story was developing - and think of Sam Adams and Sierra Nevada - when they were developing and growing their business, the large brewing houses sat and watched. And then what happened is the craft beer space is now 13% of the beer space, so that's quite a bite out of sales for

the big brew houses. So what's going to happen with us - and this is happening - is that the large spirit houses, Bacardi, _____, Brown-Forman, et cetera, even Budweiser, want to get an equity stake in our business so they can preserve market share. We expect that's going to happen within a few years and that is the end game for us, that once we reach 10,000-20,000 cases - and we're going to be at 2,500 cases this year, projecting 7,000 cases next year - then we're in a position to talk to the big spirit houses and that gives us a nice end game and choices.

Hall T Martin: [00:15:26] Well, great. So, how best for listeners to get back in touch with you?

Kevin Keck: [00:15:30] Well, email will work. On the website, there is a Calendly app and investors can make an appointment directly to speak with me. They can email and ask for a Google conference or a phone conference, I did one today. So, I'm always accessible and I'm able to get back to the investor pretty much in real-time within a day or so.

Hall T Martin: [00:15:58] Great. Well, we'll include those in the show notes. I want to thank you for joining us today and hope to have you back for a follow-up soon.

Kevin Keck: [00:16:04] Great. Thank you so much. I appreciate your help.

Hall T Martin: [00:16:09] Investor Connect helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investorconnect.org.

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