

Preparing and Managing Growth for Craft Brewers



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Where Are We Headed?

Craft beer annual production in total barrels:

- 2014 – 21.8 million (up 18%)
- 2020 – 39.6 million (conservative estimate)...

This is an annual growth rate of **10+ percent per year** for each of the next six years!

Brewery Startup Capital:

Common Scenarios

- 1. Self-Funding:** Sweat Equity; Your Money; Friends & Family (either loans and/or equity)
- 2. Investors:** Giving up equity ownership in the brewery to third party investors for cash
- 3. Financial Institutions:** SBA-debt; Need for personal guarantees from operators and significant investors

Likely/Possible scenario:

All Three

1. Self-Funding:

- we put in all the money for the nano and a lot of money for the micro

2. Investors –

- What is your co. worth; how much money do you need to raise and what are you willing to part with to build the brewery you want?
- What kind of investor are you looking for? How involved do you want them and do they want to be involved? What can they add (expertise)?

3. Institutions –

- Preference for two years of “real” financials.
 - The “nano” years may not count.
- Personal guarantee, brewhouse collateral, quarterly reports of financials, etc.
- Plus side: better rates, great advice, access



Growth Breweries

Survived the start-up phase – you have hit a milestone of 5,000 barrels...(revenues of \$1.5M to \$2M).

Congratulations...you now have:

- Increasing revenues
- Increasing costs
- Increasing overhead
- Increase in capital expenditures
- Increase in profitability
- *Decrease in cash-flow....*

Growth Breweries

- Managing cash flow is a challenge.
 - You are funding your expansion with last quarter's revenues/production.



- Different departments all have their priorities to spend money on:
 - Brewers: equipment to gain efficiencies/improve processes
 - Sales/Dist.: want focus on core offerings & marketing
 - Tasting rooms: want variety of beers



Managing Rapid Growth

You will be under enormous pressure – covering every aspect of your business...

- Superior Beer – Quality of Your Product
- Strong Management Team - What holes do you have here?
- Sales & Marketing – Managing Distributors
- Expanding Capacity in Advance of Increases in Demand
- Information Technology
- Employment culture...
- And of course, **finances are strained all the time.**

Open up and say... Ahh

Your challenges will vary based on your people's skills, attitude, equipment, growth rate

- The quality of the beer is and has to be #1, esp./in spite of increased demand and throughput
- Where are the holes? Accounting, f/t marketing department – how to fix?
- Sales & Marketing – choosing distributors wisely. You'll want volume goals, you'll need to figure out how to back into that using PODs. Which package works?
- Production Management – *Semper Gumby*; What to brew /when and then: keg (size), or can or bottle. How much set aside for TR/how much to each market you are supporting?



w/ 32 ee's – you're going to bring in a mix of personalities. Keep on top of the culture. Stress your mission, the type of company you want to have; hire the right fit, set expectations accurately.



What Are The Keys?

1. Management of gross margins / Operating Efficiencies
2. Optimization of expenses
3. EBITDA – Earnings before interest, taxes, depreciation & amortization
4. Availability of Senior Debt – Banks & Asset-based Lenders
5. Optimization of use of capital
6. Availability of capital

What Are The Keys?

- Efficiencies: track everything – e.g. loss. We track loss on every batch and let brewer's know how they are doing each time. New filter paid for itself in months.
- Find pennies. (thanks R. Norgrove) Gang up print jobs. Eliminate one-offs. Work with vendors to hold product and bill as they ship to you. Shop.
- Availability of Senior Debt – get a lower rate typ. when collateralized by your assets.
- Get inventory on your balance sheet, including raw materials, WIP and finished goods. Gain: access to line of credit



How Do Lenders Look at Your Company?

1. Growth Prospects:
2. Management team
3. Achievements to Date
4. Reasonable compensation for owners:
5. Reinvestment of net income after taxes
6. Coverage ratios – existing debt and new debt
7. Debt to worth
8. Bank reliance on projections
9. Financial Statements
10. Sources of repayment – cash flow, collateral, and personal guarantees

So, What Is Your Appetite For Revenue Growth & Financial Risk?

- 15% - per annum
- 25% - per annum
- 35% - per annum

And, how will you fund the growth?

- EBITDA – Reinvestment of profits?
- What is your Brewery worth?
- Raising Capital...at what cost?
- Maintaining Ownership Control

**You Must Always be Thinking
Ahead...(*far ahead*)**



Questions & Answers

