

Craft Brewery Finance

www.CraftBreweryFinance.com



CRAFT BREWERY
FINANCE + CAPITAL RAISING
CRASH COURSE

Quick Intro



- Kary Shumway, CPA, CFO, Numbers Guy
- 15 years as CFO for Beer Distributor in Northeast
- Partner and CFO for Wormtown Brewery
- Founder of CraftBreweryFinance.com and BeerBusinessFinance.com

- **My Purpose: Share what I've learned. Shorten the learning curve for you so that you can create a financially successful brewery.**

Goal of the Presentation



**“You have 30 minutes to make
everyone better financial
operators...”**

-Chris Furnari

Goal of the Presentation



- What it means to become a Better Financial Operator
- **Set up reliable financial systems**, process, procedures
- **Create routines** to focus on financial results – from simple scorecards to KPIs to full financial statements
- **Monitor progress** and take action
- So that you get information to make better decisions + **create better financial results**

Today, we focus on Finance, Cash Flow and Capital Raising

Keep it Cash Flow Simple



- **If you only remember one thing...**
- Making great beer, and providing great customer service is important
- Culture, Quality and Safety are important
- Sales growth and Profitability is important
- But Cash Flow keeps you in business... Understanding your cash flow and how it works will make you a better financial operator

**Create a Routine to Pay Attention to your Finances
+ Cash Flow**

Presentation Overview



3 Stages of Brewery Growth

- Early Stage: Capital allocation + Managing Cash
- Growth: When and How to Raise \$ to Expand
- Long-Term Valuation: Decisions today and How it impacts Value

3 Financial Models + Examples

- Traditional Brewery: Working with Wholesalers
- Hybrid Brewery: Taproom, Self-Distribution, Wholesalers
- Direct-to-Consumer Brewery: Taproom + Self-Distribution

Early Stage: Capital Allocation



- Primary considerations are getting the money and getting open

#1 Create a Sources and Uses Schedule: The Capital Allocation Road Map

- Schedule what you need, where you'll get it and how you'll pay it back

#2 Create a Cash Flow Schedule to get visibility on money in / money out

- 3 Big Cash Flow items: Hard assets, Operating expenses (working capital), hidden cash flow (balance sheet items)

Early Stage: Capital Allocation



- Scorecard of Sources and Uses: Raise \$X here's how you allocate it...

| Brewery and Taproom Sources and Uses of Funds | | | |
|---|---------------------|--|--------------------|
| Sources | | Uses | |
| Equity investments | \$ 100,000 | Brewery equipment and installation | \$ 500,000 |
| Shareholder loans | \$ 200,000 | Brewery Construction / building improvements | \$ 250,000 |
| Bank Financing | \$ 700,000 | Taproom Construction / building improvements | \$ 150,000 |
| | | Restaurant equipment | \$ 40,000 |
| | | Legal and other organizational costs | \$ 10,000 |
| | \$ _____ - | Working capital | \$ 50,000 |
| Total Sources | \$ 1,000,000 | Total Uses | \$1,000,000 |

Early Stage: Cash Flow



- Create a Cash Flow Schedule to Monitor and Manage the \$\$\$

| Simple Cash Flow Statement | |
|------------------------------------|------------------------------|
| | <u>Month - Actual</u> |
| Net Income (Loss) | \$ 25,000 |
| Less Principal paid on debt | \$ (7,500) |
| Less Fixed Assets paid in Cash | \$ (10,000) |
| Less Increase in A/R and Inventory | <u>\$ (15,000)</u> |
| Modified Cash Flow | \$ (7,500) |

Early Stage: Cash Flow



- Three buckets of where cash goes
 1. Hard assets...brewing equipment / Self-distro assets / Taproom fit-up
 - Capital Expense plan
 2. Operating expense...working capital...payroll, lights
 - Operating Expense plan
 3. Hidden Cash Flows...Inventory, A/R, Principal on debt
 - Balance sheet plan
- Can cover it all with a full financial pro forma
- ...or cover the basics with the Simple Cash Flow statement

Growth Stage: When + How to Raise \$



- **When to raise...**
- Market Demand, Trends, Risk tolerance
- “We have to see how far we can take this brand...”
- Or, Little Giants: Small + Profitable
- **How to raise:**
 1. Grow with cash flow...this makes me happy
 2. 2nd Raise with Friends, family, outside investors
 3. Bank Loans: How bankers think + What they will need from you

Growth Stage: How Bankers Think



- **The 5 C's:**
- **Capacity:** How will you pay the money back?
- **Capital:** How much skin in the game do you have (equity)?
- **Collateral:** Worst case scenario (they love this) what assets are available to liquidate? Personal guarantees.
- **Conditions:** Craft beer market and financial/economic conditions that may affect it
- **Character:** Relationships matter.

Growth Stage: What Bankers Need from You



- What Bankers will need: Financial pro forma / Realistic road map to pay them back...

| Financial Pro Forma - Cash Flows | | | | | |
|---|------------------|------------------|-------|-------------------|-------------------|
| | <u>1/31/2018</u> | <u>2/28/2018</u> | | <u>12/31/2018</u> | <u>Total</u> |
| Sales | \$ 70,000 | \$ 75,000 | | \$ 90,000 | \$ 960,000 |
| Gross Profit | \$ 35,000 | \$ 37,500 | | \$ 45,000 | \$ 480,000 |
| Operating Expenses | <u>\$ 25,000</u> | <u>\$ 27,000</u> | | <u>\$ 34,000</u> | <u>\$ 360,000</u> |
| Net Income (Loss) | \$ 10,000 | \$ 10,500 | | \$ 11,000 | \$ 120,000 |
| EBITDA Calculation | | | | | |
| Add back Interest expense | \$ 2,700 | \$ 2,700 | | \$ 2,600 | \$ 31,800 |
| Add back Tax expense | \$ 500 | \$ 500 | | \$ 500 | \$ 6,000 |
| Add back Depreciation and Amortization | <u>\$ 5,000</u> | <u>\$ 5,000</u> | | <u>\$ 5,000</u> | <u>\$ 60,000</u> |
| EBITDA | \$ 18,200 | \$ 18,700 | | \$ 19,100 | \$ 217,800 |
| Monthly Loan Payment | \$ 7,500 | \$ 7,500 | | \$ 7,500 | \$ 90,000 |

Long-Term Valuation



- Decisions made today and how it will impact Valuation
- **What drives value?**
- The eye of the beholder
 - Different buyers, different values
- The old standby
 - Purest measure of value...how much cash the business creates
- **EBITDA**
 - Multiple of EBITDA Valuation is fun and easy...5x, 7x, 10x+

Long-Term Valuation



- Fun with EBITDA: Spreadsheet simple of valuation...

| Financial Pro Forma - Cash Flows | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
| Sales | \$ 960,000 | \$1,056,000 | \$1,161,600 | \$1,277,760 | \$1,405,536 |
| Gross Profit | \$ 480,000 | \$ 528,000 | \$ 580,800 | \$ 638,880 | \$ 702,768 |
| Operating Expenses | \$ 360,000 | \$ 400,000 | \$ 440,000 | \$ 450,000 | \$ 525,000 |
| Net Income (Loss) | \$ 120,000 | \$ 128,000 | \$ 140,800 | \$ 188,880 | \$ 177,768 |
| EBITDA Calculation | | | | | |
| Add back Interest expense | \$ 31,800 | \$ 28,000 | \$ 24,000 | \$ 20,000 | \$ 14,000 |
| Add back Tax expense | \$ 6,000 | \$ 6,500 | \$ 7,500 | \$ 9,000 | \$ 9,500 |
| Add back Depreciation and Amortization | \$ 60,000 | \$ 60,000 | \$ 60,000 | \$ 60,000 | \$ 60,000 |
| EBITDA | \$ 217,800 | \$ 222,500 | \$ 232,300 | \$ 277,880 | \$ 261,268 |
| EBITDA Multiplier - Potential Valuation | | | | | |
| @ 5x | \$1,089,000 | \$1,112,500 | \$1,161,500 | \$1,389,400 | \$1,306,340 |
| @ 7x | \$1,524,600 | \$1,557,500 | \$1,626,100 | \$1,945,160 | \$1,828,876 |
| @ 10x | \$2,178,000 | \$2,225,000 | \$2,323,000 | \$2,778,800 | \$2,612,680 |

Recap: 3 Stages of Brewery Growth



- **Early Stage: How to manage cash flow in first few years**
 - Create a sources / uses schedule, Set a routine to monitor cash flows
- **Growth: When and How to Raise \$ to Expand**
 - When to grow (or if to grow), Understand what a lender will need
- **Long-Term Valuation: Decisions today and How it impacts Value**
 - General rule: EBITDA growth is good. Track it.

3 Financial Models + Examples



1. **Traditional Brewery**
 - Working with Wholesalers exclusively
 2. **Hybrid Brewery**
 - Taproom, Self-Distribution, Wholesalers
 3. **Direct-to-Consumer Brewery**
 - Taproom + Self-Distribution only
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- Financial considerations under each scenario
 - Examples at different volume levels: 1k to 5k BBLs, 5k-10k, 10k+

Traditional Brewery



- Traditional 3-tier Model: Brewery / Wholesaler / Retailer
- No self-distribution, limited or no direct-to-consumer sales (taproom)
- Pros / cons
 - Exclusive focus on being a production brewery
 - Building brands at retail through distribution
 - Leverage the size, scale, infrastructure of the wholesaler
 - Investment in brewery: equipment, capacity, quality
- Example: Wormtown Brewery

Traditional Brewery Model



- How growth + new capital impacts the financials

| | <u>1K to 5K BBLs</u> | <u>5K to 10K BBLs</u> | <u>10K + BBLs</u> |
|----------------------------|----------------------|-----------------------|-------------------|
| Sales | \$ 1,300,000 | \$ 2,600,000 | \$ 3,900,000 |
| Gross Profit | \$ 520,000 | \$ 1,040,000 | \$ 1,560,000 |
| Operating Expenses | \$ 325,000 | \$ 702,000 | \$ 1,209,000 |
| Net Income (Loss) | \$ 195,000 | \$ 338,000 | \$ 351,000 |
| EBITDA | \$ 245,000 | \$ 438,000 | \$ 501,000 |
| Loan Payments | \$ 90,000 | \$ 132,000 | \$ 252,000 |
| Debt Service Ratio | 2.7 | 3.3 | 2.0 |
| Assets | \$ 1,045,000 | \$ 1,633,000 | \$ 2,934,000 |
| Liabilities | \$ 750,000 | \$ 1,000,000 | \$ 1,950,000 |
| Equity | \$ 295,000 | \$ 633,000 | \$ 984,000 |
| Debt / Equity Ratio | 2.5 | 1.6 | 2.0 |

Hybrid Brewery



- Hybrid Brewery: Wholesale and Self-distribution
- Direct-to-consumer through Taproom
- Pros / Cons
 - Leverage wholesalers, and self-distribute in local market
 - Self-distribution is a separate business entirely...separate skill set, focus, dealing with retailers is a new challenge
 - Capital is spread across different asset needs: brewery + trucks
 - Managing production and inventory to satisfy different markets
- Example: Mayflower Brewing Company

Hybrid Brewery Model



- How growth + new capital impacts the financials
 - Key Takeaway: Separate the financials for production brewery operations and self-distro business

| Wholesale Operation | <u>1K to 5K BBLs</u> | <u>5K to 10K BBLs</u> | <u>10K + BBLs</u> |
|------------------------------|-----------------------------|------------------------------|--------------------------|
| Sales | \$ 1,300,000 | \$ 2,600,000 | \$ 3,900,000 |
| Gross Profit | \$ 520,000 | \$ 1,040,000 | \$ 1,560,000 |
| Operating Expenses | \$ 325,000 | \$ 702,000 | \$ 1,209,000 |
| Net Income (Loss) | \$ 195,000 | \$ 338,000 | \$ 351,000 |
| | | | |
| Self-Distro Operation | <u>1K to 5K BBLs</u> | <u>5K to 10K BBLs</u> | <u>10K + BBLs</u> |
| Sales | \$ 850,000 | \$ 1,020,000 | \$ 1,190,000 |
| Gross Profit | \$ 255,000 | \$ 306,000 | \$ 357,000 |
| Operating Expenses | \$ 212,500 | \$ 255,000 | \$ 309,400 |
| Net Income (Loss) | \$ 42,500 | \$ 51,000 | \$ 47,600 |

Hybrid Brewery Model



- Higher assets, debt and debt service...financing two different businesses

| Combined Operation | <u>1K to 5K BBLs</u> | <u>5K to 10K BBLs</u> | <u>10K + BBLs</u> |
|---------------------------|-----------------------------|------------------------------|--------------------------|
| EBITDA | \$ 287,500 | \$ 489,000 | \$ 548,600 |
| Loan Payments | \$ 102,000 | \$ 156,000 | \$ 276,000 |
| Debt Service Ratio | 2.8 | 3.1 | 2.0 |
| | | | |
| Assets | \$ 1,187,500 | \$ 1,926,500 | \$ 3,275,100 |
| Liabilities | \$ 850,000 | \$ 1,200,000 | \$ 2,150,000 |
| Equity | \$ 337,500 | \$ 726,500 | \$ 1,125,100 |
| Debt / Equity Ratio | 2.5 | 1.7 | 1.9 |

Direct to Consumer Brewery



- Direct-to-Consumer: Self-Distribution and Taproom
- No use of 3rd party wholesalers
- Pros / Cons
 - Full retail margin on all sales: Turn a \$130 sale into \$170 in distribution and \$500 in the taproom...sounds pretty good!
 - Investment in time, resources and management spread across three businesses: production brewery, self-distribution business, taproom/customer facing business
 - Risks: how much can you sell thru taproom, can you break through at retail (competition, 3rd party distro)
- Example: Night Shift Brewing

Direct to Consumer Brewery Model



- How growth + new capital impacts the financials

| Taproom Operation | <u>1K to 5K BBLs</u> | <u>5K to 10K BBLs</u> | <u>10K + BBLs</u> |
|------------------------------|-----------------------------|------------------------------|--------------------------|
| Sales | \$ 1,125,000 | \$ 1,500,000 | \$ 2,250,000 |
| Gross Profit | \$ 787,500 | \$ 1,050,000 | \$ 1,575,000 |
| Operating Expenses | <u>\$ 337,500</u> | <u>\$ 480,000</u> | <u>\$ 742,500</u> |
| Net Income (Loss) | \$ 450,000 | \$ 570,000 | \$ 832,500 |
| | | | |
| Self-Distro Operation | <u>1K to 5K BBLs</u> | <u>5K to 10K BBLs</u> | <u>10K + BBLs</u> |
| Sales | \$ 1,190,000 | \$ 2,720,000 | \$ 4,080,000 |
| Gross Profit | \$ 357,000 | \$ 816,000 | \$ 1,224,000 |
| Operating Expenses | <u>\$ 297,500</u> | <u>\$ 788,800</u> | <u>\$ 1,060,800</u> |
| Net Income (Loss) | \$ 59,500 | \$ 27,200 | \$ 163,200 |

Direct to Consumer Brewery Model



- Higher assets, debt and debt service...financing three different businesses

| Combined Operation | <u>1K to 5K BBLs</u> | <u>5K to 10K BBLs</u> | <u>10K + BBLs</u> |
|---------------------------|-----------------------------|------------------------------|--------------------------|
| EBITDA | \$ 559,500 | \$ 697,200 | \$ 1,145,700 |
| Loan Payments | \$ 144,000 | \$ 180,000 | \$ 288,000 |
| Debt Service Ratio | 3.9 | 3.9 | 4.0 |
| | | | |
| Assets | \$ 1,709,500 | \$ 2,706,700 | \$ 4,452,400 |
| Liabilities | \$ 1,100,000 | \$ 1,500,000 | \$ 2,250,000 |
| Equity | \$ 609,500 | \$ 1,206,700 | \$ 2,202,400 |
| Debt / Equity Ratio | 1.8 | 1.2 | 1.0 |

Recap: 3 Financial Models + Examples



- **Key Takeaways**
- Different models, different costs + considerations
 - Traditional Brewery – Hybrid Brewery – Direct-to-Consumer Brewery
- Separate the numbers of different operations
 - Production Brewery + Self-Distribution + Taproom/Brewpub
- Project Cash Flow, Understand and Calculate Bank Covenants
 - EBITDA, Debt Service Coverage Ratio, Debt to Equity Ratio

Thank you!



- Questions + Comments + Feedback
- Contact me: KaryS@WormtownBrewery.com
- Resources: www.CraftBreweryFinance.com + www.BeerBusinessFinance.com