

THE 83RD LEGISLATURE & BREWERY DESIGN FOR SMALL BREWERS

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FREETAIL BREWING CO.
SAN ANTONIO, TX

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Before 83rd Legislature

- Brewpubs only able to sell at retail level
 - For on or off-premise consumption
 - BP license overrides off-premise restriction on MB holders
 - Production limit of 5,000 barrels/year
 - Important characteristics of BP holders:
 - Must hold a retail permit: can buy outside beer, wine, spirits (depending on permit)
 - Can own other retail permits
 - Beer produced and sold at the pub (for on or off-premise) not subject to label approval
- Packaging brewers only able to sell at wholesale level
 - Self-distribution exemptions
 - Sales of tours
 - Important characteristics of B/BA holders:
 - Can hold multiple manufacturer level permits (Distiller's & Rectifier's Permit, for example)

Changes in 83rd Legislature

- Brewpubs
 - Increases production limit to 10,000 barrels/year
 - Can sell to wholesalers for resale
 - If BP is a BG holder, and chooses not to sell alcoholic beverages produced by others, can self-distribute
 - Up to 1,000 barrels/year per location
 - 2,500 barrel/year aggregate for all locations under common ownership/management
- Packaging Brewers
 - B/BA holder under 225,000 barrels can sell to ultimate consumers for on-premise consumption
 - Self-distribution will require additional permit, allows B/BA holder under 125,000 barrels to self-distribute up to 40,000 barrels

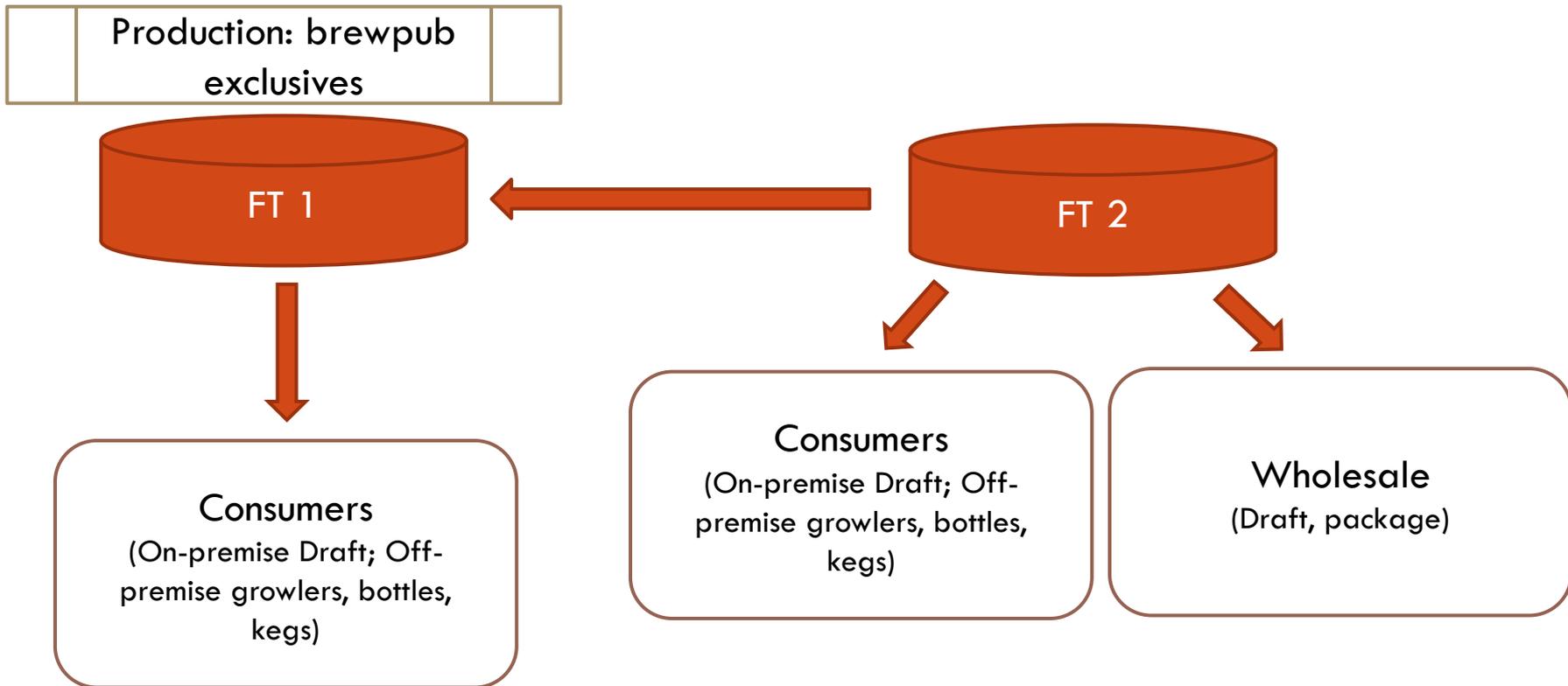
Freetail Brewing Co.

- Brewing operations commenced in December 2008
- Founded with goal to build location reputation through pub, eventually expand into wholesale channels (Dogfish model)
- Full-year production volumes
 - 2009: 608; 2010: 854; 2011: 975; 2012: 1,017
 - 2013 pace: 1,100
- Estimated annual capacity: 1,250 barrels
- 6.4% of production to 22oz bombers, accounting for 9.8% of house beer revenue
- Philosophy:
 - only 3 year-round beers, plus rotating series of IPAs that are always on tap
 - everything else rotating, seasonal, one-offs
 - original goal: 12-14 house beers on tap
 - these days: 6-8 house beers on tap, which occasional surges

Freetail2

- In the process of building second facility in San Antonio
- Will be licensed as a brewpub, but geared mostly towards wholesale production.
- No kitchen, limited tasting room hours
- Capable of producing in excess of 10,000 barrels
- Only considered buildings in excess of 15,000sf

Integration & Synergies



Brewery Design

- 4-vessel, 20 barrel brewhouse
 - ▣ alternatively considered a 3-vessel, 30 bbl brewhouse
 - ▣ chose smaller batch size to return to our roots of expanded variety of offerings; addition of lauter tun allows us to maximize output of brewhouse
 - ▣ lauter tun also gives us flexibility to expand wild ale production
 - ▣ Estimated annual capacity of around 20,800 bbl (4 brews/day, 5 days/week)

What Happens at 10,000 bbl?

- Statutory limit of 10,000 barrels of annual production for each licensed brewpub
- Options at 10,000 barrels
 - Open another brewpub
 - Possibility for statutory raising of limit (more lobbying!)
 - Switch to B/BA license
 - Entails giving up off-premise sales (for now); selling outside beer & wine at FT1; no selling from FT2 to FT1

Questions?

