

Craft Brewery Finance

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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>3/31/2018</u>	<u>10/31/2018</u>	<u>11/30/2018</u>	<u>12/31/2018</u>	<u>Total</u>
Sales	\$ 70,000	\$ 75,000	\$ 75,000		\$ 80,000	\$ 85,000	\$ 90,000	\$ 960,000
Gross Profit	\$ 35,000	\$ 37,500	\$ 37,500		\$ 40,000	\$ 42,500	\$ 45,000	\$ 480,000
Operating Expenses	\$ 25,000	\$ 27,000	\$ 26,000		\$ 28,000	\$ 30,000	\$ 34,000	\$ 360,000
Net Income (Loss)	\$ 10,000	\$ 10,500	\$ 11,500		\$ 12,000	\$ 12,500	\$ 11,000	\$ 120,000
EBITDA Calculation								
Add back Interest expense	\$ 2,700	\$ 2,700	\$ 2,700		\$ 2,600	\$ 2,600	\$ 2,600	\$ 31,800
Add back Tax expense	\$ 500	\$ 500	\$ 500		\$ 500	\$ 500	\$ 500	\$ 6,000
Add back Depreciation and Amortization	\$ 5,000	\$ 5,000	\$ 5,000		\$ 5,000	\$ 5,000	\$ 5,000	\$ 60,000
EBITDA	\$ 18,200	\$ 18,700	\$ 19,700		\$ 20,100	\$ 20,600	\$ 19,100	\$ 217,800
Monthly Loan Payment	\$ 7,500	\$ 7,500	\$ 7,500		\$ 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
- 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: Kary@BeerBusinessFinance.com
- Resources: www.CraftBreweryFinance.com