

Craft Brewery Finance

www.CraftBreweryFinance.com



HOW TO FINANCE

YOUR CRAFT BREWERY

Quick introduction



- Kary Shumway, CPA, CFO, Numbers Guy
- 15 years as CFO for Beer Distributor in Northeast
- Partner and CFO for Wormtown Brewery
- Founder of Craft Brewery Finance, Online Resource for Breweries, and Beer Business Finance for Beer Distributors
- **My Purpose: Share what I've learned. Shorten the learning curve for you so that you can create a financially successful brewery.**



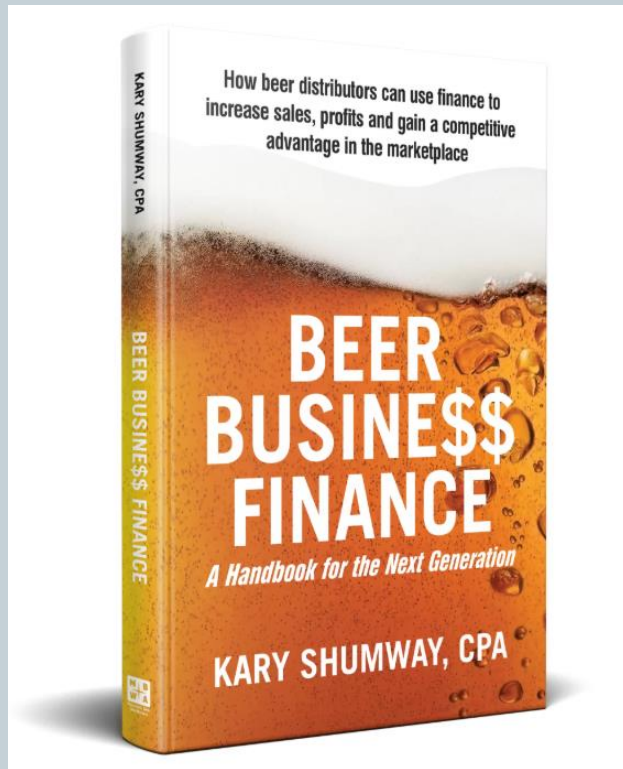
Housekeeping



- **Questions...**
- Chat area
- Email me: Kary@BeerBusinessFinance.com
- Set up a call

- **Resources and materials...**
- Spreadsheets and course deck
- Video replays
- Articles on Craft Brewery Finance

Beer Business Finance Book



What's Inside:

- Wholesaler Operations
- Compensation Planning
- How to Grow Sales
- Inventory Management
- Cash Flow Planning
- Beer Finance Basics
- And more...

Brewery Financing Overview



- **Brewery Financing Basics**
 - Loan Terms, Loan Types, Typical Loan Structures
- **Working with Lenders**
 - How they evaluate breweries, What they need from you, How to make the most of the relationship
- **Loan Covenants + Calculations**
 - Debt Service, Leverage...add these to your financial reporting
- **Loan schedule spreadsheet**
 - Map out what you owe, monthly obligations

Basic Loan Terminology



- **Principal & Interest = Payments**
 - Principal reduces loan, interest is an expense on income statement
- **Interest Rate**
 - This usually gets the most attention, but other terms may be more important
- **Loan to Value**
- **Term**
- **Amortization Period**
- **Amortization Schedule – Re-payment Schedule**
- **Personal Guaranty**
- **Covenants**

Loan Types



1. Working Capital Line of Credit / Revolving LOC
2. Equipment Line of Credit
3. Equipment Term Loan
4. Commercial Real Estate Loan

Working Capital Line of Credit



- Short term funding needs, seasonal, temporary shortfall
 - Not a credit card...not a long term borrowing solution
- Open ended, or re-payment at time intervals
 - Pay down annually or 2x year
- Secured by assets, personal guaranty
 - Accounts receivable, inventory
- Disciplined use, but very useful in a pinch

Equipment Line of Credit



- Line of credit for specific asset purchases
 - Brewery equipment, warehouse equipment, etc
- Pre-Approved buying ability
 - Act fast if there is an auction, used equipment
- Open ended, interest only when used
- Converts to a permanent amortizing loan after purchase
 - Term loan with monthly payments of P&I
- Useful part of a financing plan as it provides flexibility, ability to act quickly, pre-planning for equipment you'll likely need

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Equipment Term Loan



- Used in connection with the Equipment line of credit, or it stands on its own
- Secured by the equipment purchased, bank will file a lien, UCC
- Helpful to know this if you later want to sell the equipment or your brewery
- Monthly amortizing loan
- Unlike the equipment line of credit, this term loan would have to be reviewed and approved on a one-off basis

Commercial Real Estate Loan



- Brewery building and improvements
- Longer term lending, 15/20/25 years
- Amortization period and Interest rate period are usually two different time periods
 - Lending period may be 20 years, but rate good for 5 years
- Loan to value considerations, need for 20-30% equity
- Bankers generally like this type of lending, although there are time complications
 - Real estate, title search, environmental, documentation

Typical Loan Structure



- **Working Capital LOC**
 - \$250,000 available, annual paydown requirement, interest rate based on Prime +
- **Equipment LOC**
 - \$100,000 available, interest rate at Prime +, then converting to amortizing term loan at current interest rate
- **Equipment Term Loan**
 - \$100,000, 7 year loan, 5.5% interest, secured by all assets
- **Real Estate Loan**
 - \$300,000, 20 year amortization, 5 year fixed interest at 5.0%

Working with Lenders: How Bankers Think



- **The 5 C's:**

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

Working with Lenders: What They Need from You



- Scorecard of Sources and Uses: Raise \$X here's how you allocate it...
- Demonstrates you understand what they need to approve a loan...

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

Working with Lenders: What They Need from You



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

Financial Pro Forma - Cash Flows								
	1/31/2018	2/28/2018	3/31/2018	10/31/2018	11/30/2018	12/31/2018	Total
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

Working with Lenders: How to Make the Most of It



- Keep them up to date even if you don't need anything right now, makes lending easier and quicker when you do...
- Sharing business news, financials, tax returns...
- They love the taproom...Relationship is the thing
- Your business partner...not just loans, but business

Loan Covenants + Calculations



- Loan Covenants = Promises you make to the bank
 - Covenants, Tests, Calculations
- You promise to pay back the loan on time...and to hit these financial covenants
- Usually one for the income statement and the balance sheet
- Operating Covenant and Leverage Covenant

- Two to Know and Understand
- *Debt Service Ratio*
- *Leverage Ratio...Debt to Net worth*

Debt Service Coverage Ratio



- **Debt Service = Payments on the loan**
 - Principal and Interest, measured on a quarterly or annual basis
- **Debt Service Coverage Ratio = How well your cash flow covers the debt payments**
 - Cash flow generally means EBITDA plus/minus other financial items

- **Debt Service = \$100,000**
- **Coverage = \$150,000**
- **DSCR = 1.5x**

Leverage Ratio



- Leverage = How well you are using debt
- Debt to Net Worth Ratio
- How much debt you have = Loans Outstanding
- Net Worth = Equity on your balance sheet

- Debt = \$500,000
- Net Worth = \$500.000
- Ratio = 1.0

Bank Covenants



- Takeaways:
- Understand they exist...
- Understand how calculations work
- Determine when you will need to report / calculate (monthly, quarterly, annual)
- Put the calculations in your financial reporting packet
- When in doubt...communicate to your lender in advance. If they have time, they will work with you

Loan Spreadsheet



- Put all your loans in one place
- Understand the basics – terms, interest rate, re-payment schedule
- Make sure this agrees with your balance sheet loans / notes payable

Loan Spreadsheet



Loan Summary Template				
Date: Today				
Prepared by: Head Bean Counter				
<u>Bank</u>	<u>Borrower</u>	<u>Loan Description</u>	<u>Loan number</u>	<u>G/L</u>
Name of the bank or financing institution	Name of borrower - have a separate real estate holding company for example	List the asset being financed	Bank's loan number for reference	The account number or name on your balance sheet that corresponds to this loan

<u>Start date of Loan</u>	<u>Payoff date of Loan</u>	<u>Original loan amount</u>	<u>Current balance</u>	<u>Payment</u>	<u>Frequency</u>
When the loan began	When the loan gets paid off	The original amount borrowed	The balance on the loan as of the date of this updated schedule	Amount of the regular payments on the loan	Usually monthly, but seller financing for example might be quarterly

Wrap Up



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Thank you!



- Questions + Comments + Feedback
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- Resources: www.CraftBreweryFinance.com