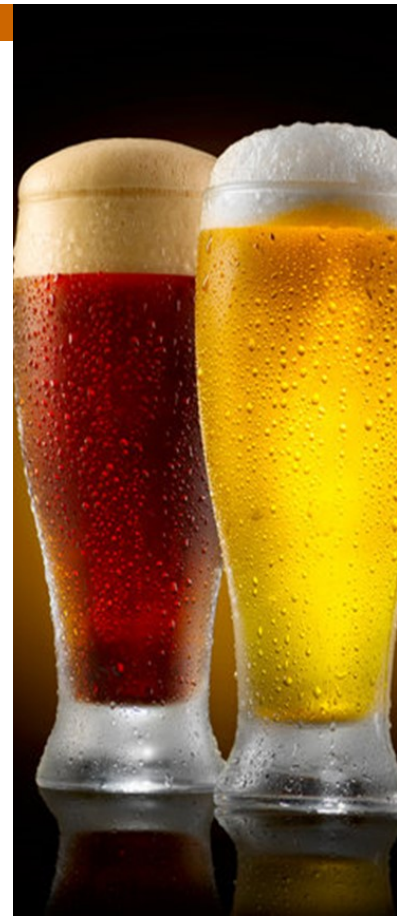


Brewing Value

Stepping Back

You've poured pure passion into your project. You've established a loyal customer base, brand recognition, strong distribution channels and sustained profitability. Have you now taken the time to ponder...what is my creation worth?

As you well know, the current success of your project took deliberate planning and execution on many levels. Having an expert business valuation will further aide in planning to capitalize on opportunities that will arise along the journey. In addition to the epic beards, the craft brewery industry has many unique nuances that impact value. These will be discussed in this article as will the need for a valuation and the methodologies used by professionals to assess value.



Inside this Article

Industry Specific Factors 2

Why Valuations are Useful 3-4

Valuation Methodologies 5

What You'll Learn

The goal of this article is to provide an overview of business valuation relevance and methodology as well as industry specific factors and how they affect the value of your brewery.



Industry Specific Factors

Strategic Growth and Capacity

Successful craft brew projects are deliberate about growth. Overexpansion is a common pitfall for both start-ups and established breweries. Due to the capital-intensive nature of the business, it is important to clearly understand current capacity and how it relates to current and future sustainable demand. Underestimating can mean lost opportunities while overestimating could lead to closing up shop. In terms of valuation, overleveraging to accomplish growth increases risk because of the financial burden of required

principal and interest payments. Increased risk negatively impacts value.

Owners also need to be strategic with capacity and demand in terms of beer variety and production timing. Is careful planning of the brewing lifecycle occurring to meet consumer demand regarding varietal mix and changing trends? Is capacity utilized for opportunities with seasonal varieties or novelty production? Your brewery's value is driven by future profitability expectations. Thus, managing timing and product mix is essential.

Favorable legislation such as the Craft Beverage Modernization and Tax Reform Act, which lowered the federal excise tax for breweries is set to sunset on December 31, 2019.

Quality & Input

At the end of the day, it's all about the beer. Quality is non-negotiable in the craft brew space. Managing costs of ingredients while maintaining the integrity of your beer is no easy feat. Additionally, commodity prices (aluminum) and other packaging goods need to be closely monitored to plan for changes in margins. Co-operative alliances and arrangements are a potential solution but must be weighed in conjunction with the overall quality of the product. The extent to which costs can be passed to the customer will largely be determined by the competitive climate.

Regulation

The craft brewery industry is heavily regulated. Staying current on distribution laws and taxes is imperative to avoid penalties or other punitive actions, as well as to take advantage of opportunities. Favorable legislation, such as the Craft Beverage Modernization and Tax Reform Act, which lowered the federal excise tax for breweries is set to sunset on December 31, 2019. Forecasts used in valuation need to account for these types of changes. An extension of the Act would result in an adjustment in your brewery's value. Franchise laws that dictate the terms of distribution between brewers and wholesalers vary by state. Additionally, laws pertaining to self-distribution directly to retailers are governed by states. Due to the robust level of activism in the industry, regulation is ever changing, which affects your business model and strategy. For instance, there is current legislation easing regulatory issues pertaining to collaborative projects.

The valuation firm will analyze these industry specific factors in determining value drivers such as free cash flows, growth and capitalization rates. The ability to reasonably forecast and demonstrate knowledge of industry specific factors, as they pertain to your brewery's profitability, will impact the valuation analyst's use of management's projections in quantifying the brewery's value, as well as the assignment of risk in utilizing forecasts.



Why Get a Valuation

It's the old adage that knowledge is power. Knowing the value of your brewery gives you the power to plan for the future. More importantly, this knowledge will give you the power to take advantage of opportunities.

Planning for Growth

You likely have key employees that are critical to the growth and sustainability of your brewery. Does your head brewer have an equity stake? How can you entice your rockstar pub manager to stay on board? Giving these individuals an opportunity to participate in the upside growth of the brewery encourages the loyalty and retention imperative to sustaining your business.

Once the decision is made to incentivize through equity, there are a myriad of ways to execute ownership transactions. A valuation expert can help with the choices of offering a buy-in equity option or synthetic equity such as phantom stock. In conjunction with this process, the business valuation gives a quantification of how much worth you are giving to these key employees. You will also be able to communicate the reasonableness of the buy-in price.

Borrowing for Expansion

When pursuing capital from a lending institution, a current valuation is usually required. Providing a valuation from an experienced and reputable accredited appraiser will give the lender better comfort and can help streamline the process. In the case of SBA loans, standard operating procedures require an independent valuation from a qualified source.



Documentation

The following is a list of typical information a valuation firm will request to perform the valuation:

- Historical financial statements representing a typical business cycle (usually five years)
- Schedule of officers' and key personnel's compensation
- Schedule of non-recurring or discretionary expenses
- 3-5 year forecast
- Schedule of stock ownership
- Largest suppliers and distributors
- Depreciation schedules



Why Get a Valuation, cont.

Transition Planning

Although retirement in the traditional sense may not be on the table (or maybe it is), you might be ready to move on to the next project. Exit strategies could include transitioning ownership to the next generation, selling to an outside buyer or existing partner, or establishing an ESOP (employee stock option plan) if the situation is warranted. All of these options require a quality business valuation.

Planning for Unpleasanties

Then there's life. Tragedies such as an untimely death or a disaster, like a fire, can leave you or loved ones in the lurch. Having a current valuation provides options for moving forward after the event. In divorce situations, a valuation is needed to negotiate the division of assets.

Opportunity Knocks

Having a current expert valuation allows you to be ready to act when opportunities arise. Maybe you are working to secure an outside investor or there is potential to merge with another project. Knowing your business' objective value allows you to proceed with clarity. Additionally, your preparedness will instill confidence in the relevant parties and enable you to strike while the iron's hot.

Valuation Methodologies

Income Approach. The income approach is based on the premise that the value of an investment is a function of the income that will be generated by that asset over its expected life. This income stream can be examined on a historical basis and capitalized to arrive at a value estimate, or it can be projected into the future and discounted to its present value. The income approach is most effective for going concern businesses whose future results can be reasonably estimated.

There are three widely accepted approaches to determining the value of an asset such as a private business interest – the income approach, the market approach, and the asset approach.

Market Approach. The market approach examines actual sales of similar assets to estimate value. Both the public and private markets can provide evidence of the price investors are willing to pay for similar businesses. In the guideline public company method, the primary source of information is from the pricing multiples of similar publicly traded companies. The merger and acquisition method looks at acquisitions of comparable companies and develops value multiples based on these transactions.

Asset Approach. The asset approach determines value by examining the fair market value of the Company's assets and liabilities. This method is most relevant when valuing investments or companies that serve as holding companies for various investments. It is less useful for valuing operating companies since it ignores the intangible value of the Company.



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Amber is a Certified Public Accountant (CPA) registered with the State of Texas since 2002. She has extensive valuation experience having performed business and equity interest appraisals in conjunction with gift and estate planning, divestiture, family limited partnerships and lending purposes for enterprises in a broad range of industries. Amber earned Bachelor of Business Administration degrees in Accounting and Finance from Texas A&M University. She is part of ComStock's Beer, Wine & Spirits team as well as a member of the Ohio Craft Brewer's Association.

Beer, Wine & Spirits Industry Team:

ComStock has performed engagements of breweries and distributors in conjunction with the valuation of intangibles for financial reporting purposes as well as valuing equity for ownership succession planning. ComStock is a corporate member of the Ohio Craft Brewer's Association.



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