

Starting Your Own Brewery Panel



left to right

Rick Garvin, Mad Fox Brewing

Tom Hennessy, Colorado Boy Brewing

Jay & Lori Wince, Weasel Boy Brewing

Omar Ansari, Surly Brewing

Moderator: James Spencer, Basic Brewing Radio

Agenda

- Tom Hennessy – General approach to bootstrapping a low budget brewpub
- Jay & Lori Wince – Weasel Boy Brewing startup on a low budget
- Rick Garvin – Large brewpub startup
- Omar Ansari – Package brewery startup
- Q & A – moderated by James Spencer

PUB BREWERY

- Customers Come To You
- Earn More Per Keg
- Cash Flow - No Acct. Receivable
- No Packaging
- Less Equipment
- Less Start-up Capital

START WITH A RESTAURANT

- Has Restrooms Up To Code
- Has Floor Drains
- Has Ventilation
- Existing Use Zoning
- Saves \$ And Time

FRANKENBREW



Cost Of Project

BREWING EQUIPMENT	\$20,000
LEGAL & FEES	6,000
RENTS	12,000
CONSTRUCTION	30,000
FURNITURE & FIXTURES	20,000
INVENTORIES	5,000
LABOR	4,000
MISC.	<u>5,000</u>
TOTAL	\$92,000

BREWERY BUDGET	
SALES	23,620
COGS Pub Beer	2,400
COGS Pub Food	700
COGS Pub Wine	200
COGS Pub Merch.	550
COGS Wholesale Beer	48
GROSS PROFIT	21,172
CONTROLLABLE EXPENSES	
Labor	6200
Labor Taxes	930
Brewery Supplies	300
Replacement	0
Repair & Maintenance	400
Advertizing	250
Pub Supplies Expense	400
Travel	50
Office Supplies	50
Telephone	100
Utilities	500
TOTAL CONTROLLABLE EXP.	9,180
NON-CONTROLLABLE EXP.	
Credit cards	350
License Expende	100
Loans (80K@8%, 5YR)	1,622
Equip. Prop. Tax	50
Insurance	200
Rent	1,550
Excise Tax	150
State Excise Tax	50
TOTAL NON-CONTROLLABLE E	4,072
TOTAL EXPENSES	13,252
NET PROFIT / LOSS	\$7,920

Weasel Boy Brewing Company



- Established as a Domestic LLC in July 2006
- Start-up Costs < \$75,000
- Self Financed - No Outside Investors
- 7 BBL Draft Only Brewpub with Limited Self-Distribution - Do Not Bottle or Can
- Outfitted for Start-up of Brewing Operations in < 8 Months

Weasel Boy Brewing Company



- Leased Brewery Space in a Redeveloping Area - Low Costs
- Bought Used Equipment Whenever Possible
- Invested a lot of Sweat Equity
- Bartered for Some Services
- Utilized Willing Volunteers
- Had an Excited Landlord

Weasel Boy Brewing Company



In the Beginning...



Mission Accomplished

Weasel Boy Brewing Company



- Narrow Focus - Beer, Beer, and More Beer (With just a little Wine)
- Alternative Atmosphere - Part Coffee Shop, Part Living Room, Part Old World Pub - No TVs
- Limited Food Availability
- Limited Distribution to Select Outside Accounts
- CAREFUL GROWTH & EXPANSION!!

Weasel Boy Brewing Company



- Commenced Brewing Operations on July 15, 2007
- 2007 Production of 62 BBL
Outside Draft Accounts Only
- Opened Taproom in January 2008
(In the Black Immediately Upon Opening the Taproom)
- 2008 Production of 222 BBL
- 2009 Production of 290 BBL
- 2010 - On Pace for Over 400 BBL
- Still Working Full-Time Jobs



Start Your Own Brewery & Keep Your Day Job 2010 AHA Conference

Rick Garvin
Co-Founder and Director
703.629.4671
E-Mail: rick@madfoxbrewing.com
Revised June1, 2010

Mad Fox Brewing Company, LLC | 444 West Broad Street | Suite I | Falls Church, VA 22046 | 703.991.0403 (fax)

The Company

- Mad Fox Brewing Company
 - CEO/Executive Brewer Bill Madden
 - “Business Guy” Rick Garvin
 - Formation 12/7/07, opening 7/12/10
 - \$2.92M Capitalization
 - \$1.37M Equity
 - \$950K SBA Guaranteed Loan
 - \$600K Landlord Construction Allowance
 - 41 investors, 26 homebrewers
- Location: Falls Church, Virginia
 - Inside the DC Beltway on Falls Church’s Main Street
 - Within 5 miles: 390,000+ residents with an average household income over \$130,000
 - 10 minute lunch drive for 200,000+ office workers
 - 15-year lease with 2 5-year options
 - 326 space free retail parking garage
- Brewery
 - 15-barrel Premier Stainless brewhouse
 - 180 barrels of fermentation – 6x30-bbl
 - 6x15bbl serving tanks, 1xbrite, 250 ½-barrel kegs
 - Barrel room for barrel-aged beers
- Brewpub layout
 - 9,239 square feet
 - Serving areas divided across dining room, pub, saloon and outdoor terrace with:
 - Seated dining – 225 seats
 - Bar – 50 stools/50 standing
 - Outdoor terrace – 80 seats
- Restaurant
 - Full service, chef-driven menu
 - Pizza, panini & salads anchor the menu, plus
 - Seasonal local ingredients

Team Mad Fox: One Brewer, Many Owners

- 41 total accredited investors
 - 26 homebrewers
 - 22 individual investors
 - 28 joint investors
 - 6 investment LLCs and trusts
- Board of Directors
 - Bill Madden – CEO & Chairman, Executive Brewer
 - Rick Garvin – Director & Co-Founder, homebrewer
 - Randy Barnette – Director, owner/operator of two Hard Times Cafe units
 - Ed Novak – Director, developer of The Broadway and The Byron mixed used retail/condo projects in Falls Church
 - Bud Hensgen – Director, Co-Founder Old Dominion Brewing Company, homebrewer & NHC winner
 - Kathy Koch, JD – Board Observer, homebrewer & NHC winner
- Advisors
 - Anthony Cavallo – Restaurant Operations Consultant
 - Lee McAllister – Architect, kitchen designer, professional chef
 - Steve Yannuci – VP Construction for Waterford Development
 - Legal – Holland & Knight LLP
 - Bill Mutryn, Co-Leader Corporate and M&A Practices Group
 - Marisa Terrenzi, Partner, Corporate
 - IP, real estate, construction, SBA lending
 - Real Estate – Cushman & Wakefield, Inc.
 - David Dochter, Director, Retail Services
 - Accounting – Palmer Financial, LLC
 - Doug Palmer, CPA – Corporate Accounting
 - Adam Friedman, CPA - Taxes
 - Brewery Operations
 - Hugh Sisson, General Partner of Clipper City Brewing Company, L.P.

Brewery Owner vs. Brewery Operator

- Pros
 - Keep the day job income
 - Bragging rights
 - Limited liability
 - No personal guaranty, no collateral, no recourse
 - Bond, lease, loan, vendor credit agreements
 - Favorable tax treatment for losses
 - Drink the dividends*
 - *Depending on state statute
- Cons
 - Keep the day job
 - Lack of control
 - Lack of transparency
 - Preference risk
 - Voting
 - Dilution
 - Capital calls
 - Distributions
 - Liquidation
 - All of these could be cons of being an employee/owner too!

Private Placement: Am I an Accredited Investor?

- Securities Act of 1933 Section 4(6) defines accredited investor:
 - High income (\$200K/\$300K per year) or
 - High net worth (\$1M)
 - Section 4(6) offerings do not require financial audit
- SEC Regulation D
 - Rule 504 – up to \$1M, controlled by state laws - unaccredited investors generally allowed
 - Rule 505 – up to \$5M, requires financial audit, up to 35 unaccredited investors
 - Rule 506 – unlimited \$, requires financial audit, accredited or sophisticated investors
- Options for unaccredited investors*
 - Employee/founder exemption
 - Partnership/LLC
 - *Get legal advice from your attorney
- I don't have the money
 - Self-directed IRA
 - 401(K) rollover into self-directed IRA
- I can't meet the minimum investment requirement
 - Partnership/LLC
 - Join with a group of like-minded investors
 - Pool enough money to meet the minimum requirement
 - Carefully craft operating agreement to deal with expenses, tax and transfers

Mad Fox Brewing Company,
LLC


17

What's a Good Investment?

- Specific opportunity evaluation
 - #1 Team – proven winners?
 - #2 Market
 - Regulatory challenges?
 - Demographics?
 - Products #3
- The first impulse is to ask your financial planner
 - My financial planner says this is a bad investment!
 - Financial planners get paid to sell you securities
 - They don't make a penny on a brewery investment
 - 50% of all restaurants fail, but 100% of Lehman Bros. failed
- Perform your due diligence
 - Check references
 - Look at risk, term, return
 - Compare to comparable opportunities
 - Trademark
- Watch out for structural challenges that treat classes of owners differently
 - Carefully review offering documents
 - Private placement memorandum (PPM) defines the deal, along with
 - Business plan
 - Pro forma financials – projected revenues and costs
 - Bylaws or operating agreement – defines how the company is run and what you can vote on
 - Capitalization table – outstanding and authorized equity by class
 - Employment contracts
 - Watch for preferred classes of equity:
 - Voting/non-voting
 - Dilution/anti-dilution
 - Capital calls
 - Distributions preference
 - Liquidation preference
 - Require full disclosure, inspection, right of audit
 - At least top 5 compensated employees
 - All distributions to investors

Mad Fox Brewing Company,
LLC

18



It all started with a homebrew kit in 1994.

Surly is a Minnesota production brewery that sold its first keg in 2006.

The image shows a homebrew kit with two large white plastic fermenters and various tubes and valves. To the right is the Surly Brewing Co logo, which features a stylized red and black design with the text 'SURLY BREWING CO' in a banner.



-The expanded homebrewery set up circa 2003.

-Came up w/the idea to open a brewery in 2004

The image shows a more complex homebrewery setup. On the left, a man in a grey hoodie and blue jeans stands next to a yellow step ladder. The setup includes a red fermenter on a stand, a stainless steel pot on a burner, and a propane tank. On the right, there are two stainless steel kegs on a stand, a propane tank, and several blue water jugs.



#1 – I had a building – family owned business



#2 – Had some money, about \$300,000 from real estate investments. Got an additional \$100,000 from family. Leasehold improvements were around \$100,000.



#3 – Found a brewery in the DR. Brewed our 1st batch 12/31/2005.
Equipment costs around \$250,000



- In 2009, Surly sold 9000+ bbls of beer.
- Self distributed sales, key to our success.
- Know your local laws! We can not sell beer at the brewery.
- Talk to as many industry people in your town. Don't be shy.
- Know your strengths, brewer, manager, marketing.
- What's your ace in the hole? What makes your brewery different?
- Hold onto ownership.
- Engage the local community/homebrewers/beer fans.
- You can raise capital from investors, but it takes time.
- Do you have the skills to be the head brewer?
- You can hire a consultant, but still will not have all the answers.
- Don't mortgage your house!