



FINANCING YOUR START-UP BREWERY

NanoCon

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Legal Disclaimer

Nothing in this presentation should be considered legal advice. If you have a specific legal situation, please consult a licensed attorney with the specific facts of your situation. Thank you!



What Are We Talking About Today





What Are We Talking About Today

- **Bootstrapping**
- **Bank/SBA Loans**
- **Crowdfunding – Donation/Rewards**
- **Equity Crowdfunding**
- **Selling Equity**



Bootstrapping

To finance your company's startup and growth with the assistance of or input from others

- Trade credit
- Letters of credit
- Financing
- Loans
- Credit contracts (i.e. credit cards)
- Leasing



Bootstrapping

Trade credit

Trade credit is a short-term financing arrangement between two businesses where a supplier allows a customer to delay payment for goods or services

A customer can purchase goods or services from a supplier without paying cash up front, and instead pay at a later date. This is similar to a 0% loan, or "commercial loan", that the supplier grants to the customer.



Bootstrapping

Letter of credit

A letter of credit (LC) is a payment mechanism that guarantees a buyer's bank will pay a seller for goods or services. It's a contractual commitment that's commonly used in international trade to protect both the buyer and seller.

How it works: The buyer's bank issues the LC, and the seller must present the required documentation to the bank to receive payment



SBA/Bank Loans

SBA 7(a) Loan

A 7(a) loan is a loan program from the Small Business Administration (SBA) that provides financial assistance to small businesses



SBA/Bank Loans

Purpose: 7(a) loans can be used for a variety of business purposes, including:

- Acquiring, refinancing, or improving real estate
- Purchasing equipment and machinery
- Buying furniture, fixtures, and supplies
- Refinancing current business debt
- Working capital
- Changes of ownership



SBA/Bank Loans

- **Eligibility:** Eligibility factors include the business's credit history, how it receives income, and where it operates.
- **Loan amount:** The maximum loan amount is \$5,000,000.
- **Loan terms:** Loan terms can be up to 25 years for commercial real estate and up to 10 years for other purposes.
- **Interest rates:** Interest rates can be fixed or variable.
- **Collateral:** Outside collateral may be required if the business doesn't have strong cash flow or the borrower has poor credit.



SBA/Bank Loans

The primary criteria for obtaining financing includes:

- a detailed business plan,
- three years of projections with assumptions, management with direct industry experience or transferable management experience and
- a location that could serve as a viable brewery.

By direct industry experience I am referring to someone who has worked as a commercial brewer, operations manager or a general manager of a brewery.

Transferable management experience may include someone who has managed a team of employees, hired, fired, and has P&L experience.



SBA/Bank Loans

- **Detailed explanation of the total project costs**
- **Equity requirement by the applicant – 20%**
 - Primary principals need to inject at least 5% - balance can come from investors
- **Critical elements that signify a good brewery to support**
 - Business Plan
 - Demographics
 - Projections
 - Management Team



SBA/Bank Loans

- **Projections Review** - Broken down monthly for first three years; Must show profit
- **Market Conditions**
- **Post Closing Liquidity** - 10% of loan
- **Craft Brewery Industry Growth** – would rather see taproom model (currently)
- **Big picture within bank** – deal needs to be strong and make sense (currently)
- **Red Flags** – i.e. primary principals not involved in the day-to-day operations



SBA/Bank Loans

I have a handout that has a little more in-depth info I can send you if interested – thanks to Scott Birkner with Dogwood State Bank for providing this info!

Scott Birkner

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Crowdfunding

Donation-based/Rewards-based funding

- **Kickstarter**
- **IndieGoGo**
- **CrowdFunder**
- **CrowdBrewed**



Crowdfunding

Donation-based

Donation-based crowdfunding works by asking a number of contributors to individually donate money. This is in order to fund a particular project. In return, whoever donates may receive token gifts or rewards that gradually increase in quality and prestige. This is as the size of the donation increases. You must report this as income and pay taxes on it.



Crowdfunding

Rewards-based

Rewards-based crowdfunding is a form of crowdfunding where the creators of a new product, service, or business solicit capital from a large number of people (the “crowd”) in exchange for the promise of a reward. In many cases, these rewards are the product or service that the campaign was created to fund. **You must report this as income and pay taxes on it.**



Equity Crowdfunding

Investment-based funding

- WeFunder
- StartEngine
- Republic
- SeedInvest
- CrowdCube



Equity Crowdfunding

Regulation Crowdfunding enables eligible companies to offer and sell securities through crowdfunding.

The rules:



Equity Crowdfunding

- Require all transactions under Regulation Crowdfunding to take place online through an **SEC-registered intermediary**, either a broker-dealer or a funding portal



Equity Crowdfunding

- Permit a company to raise a **maximum aggregate amount of \$5 million** through crowdfunding offerings **in a 12-month period**



Equity Crowdfunding

- **Limit the amount individual non-accredited investors can invest across all crowdfunding offerings in a 12-month period and require disclosure of information in filings with the Commission and to investors and the intermediary facilitating the offering**



Equity Crowdfunding

Securities purchased in a crowdfunding transaction generally cannot be resold for one year. Regulation Crowdfunding offerings are subject to "bad actor" disqualification provisions.



Equity Crowdfunding

SUMMARY OF REGULATION CF's REQUIREMENTS

- **Maximum Offering Period** 12 Months
- **Maximum Amount of Offering** \$5 million
- **General Solicitation & Advertising** Permitted with limits on advertising after the Form C is filed with the SEC
- **Company Requirements** Excludes non-US, blank-check, reporting, and investment cos.
- **Investment Limitations** Investment limitations based on annual income and net worth
- **Investor Qualification Requirements** Yes
- **Manner of Sale Requirements** Offers and sales may only take place through registered crowdfunding portals.
- **SEC Filing Requirements** Yes
- **Resale Restrictions** Yes

Equity Investment

- Friends and Family
- Network
- Professional Investors
 - Professional Angel Investors (Individuals or Syndicates)
 - Venture Capital (small number invest in beverage startups)
- Crowdfunding

Securities Laws

- All Offerings of securities must be registered with the SEC
- Unless, the Offering is *exempt* from registration
 - Ex., Regulation D, Regulation A+
- Blue Sky laws

Rule 506, Reg D

- Most commonly used for private offerings
- Can raise unlimited amount of capital
- Unlimited number of “Accredited Investors” and up to 35 non-accredited investors
- Prohibits ***general solicitation*** or ***advertising***
 - except under 506(c) – ie Crowdfunding
- Disclosures: Private Placement Memorandum (PPM) if selling to non-accredited investors
- File Form D with SEC
- Blue Sky laws

Investor Requirements

● Investors must:

- have sufficient knowledge and experience in finance and business matters to evaluate the risks and merits of the investment, or be able to bear the economic risk of investment;
- have access to the type of information normally provided in a prospectus; and
- agree not to resell or distribute the securities to the public.

● Accredited Investors

- net worth of at least \$1 million (excluding primary residence)
- income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000
- Good Faith Basis
 - Except under 506(c) (ie Crowdfunding), must take “reasonable steps” to verify

Private Placement Memorandum (PPM)

- Similar to a Prospectus (used for an IPO), and describes:
 - The Securities being offered
 - Business Plan
 - Financial Statements (audited)
 - Biographies of officers and directors and compensation
 - Any other “material” information
- PPM advisable for liability and marketing reasons, particularly when dealing with non-professional investors

Equity Offerings



- Term Sheet: Summary of Terms
 - How much is being raised?
 - Minimum Amount
 - Type of Security (Eg LLC Units, Preferred Stock)
 - Price
 - Investor Rights
 - Eg Liquidation Preference, Special Distribution Rights, Voting, etc
 - ROI / Exit?
- Price: Pre-money and Post-money Valuation
 - Ex. If pre-money valuation is \$1 million and raising \$500k, post-money valuation is \$1.5 million
 - Investors own 1/3 of the equity after closing

Valuation



- Valuations
 - More art than science
 - What an investor is willing to pay
- Methodologies
 - DCF, Comparable Companies, Price per Barrel
- Recommended: Discounted Cash Flow Analysis (DCF)
 - Good for cash flow businesses (ie breweries)
 - Projects future free cash flows and discounts them to get present value estimate
 - Very sensitive to assumptions
 - Incorporates risk factor

Investor Documents

- Term Sheet
- Business Plan / Deck
- Financial Statements and DCF
- Operating Agreement (if LLC)
 - If Corp, Bylaws, Shareholder Agreements
- Equity Purchase Agreement
- Investor Questionnaire
- Accredited Investor Certification
- Securities Compliance: File Form D with SEC, Blue Sky Filings

Questions?



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