How Much Is My Brewery Worth? Preparing For and Understanding Valuations

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Brewed For Her Ledger LLC

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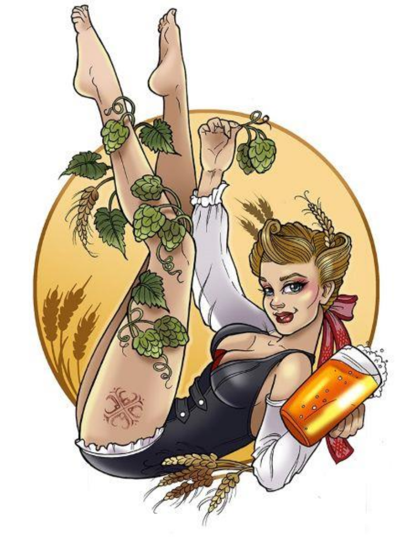
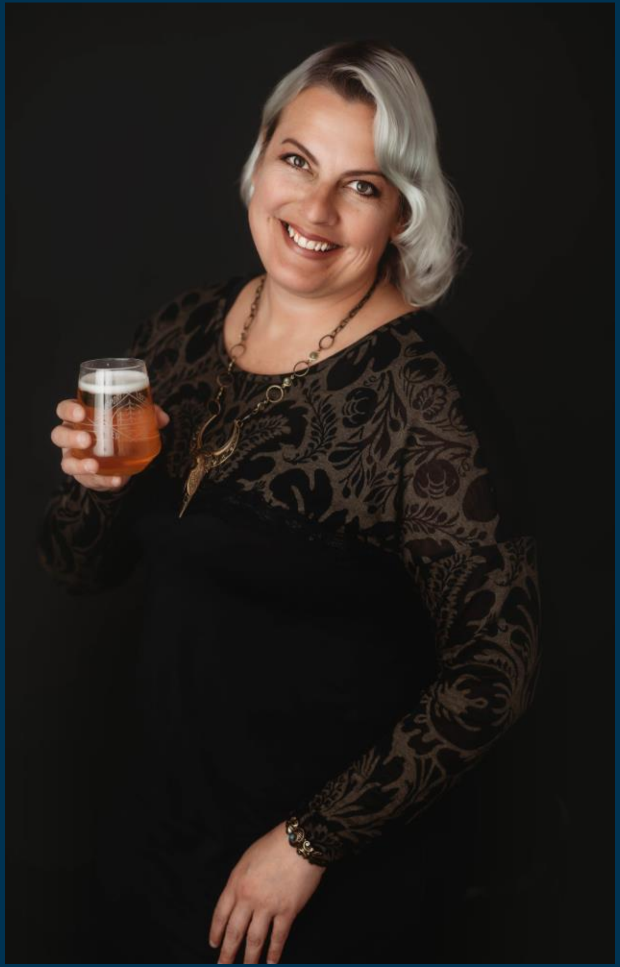


Hi! I’m Audra. I’ve been in the craft beer industry since 2009.

- Live in Asheville, NC
- BA in Accounting & Business Management, Loras College (1997)
- MBA in Global Business Admin, University of North Carolina at Chapel Hill (Kenan Flagler Business School) (2008)
- 1997-2009 Public Accounting, Small Businesses, Not for Profits, Caterpillar Accounting and Pricing Manager
- 2009-2010 Dogfish Head Controller
- 2011-2014 Mother Earth Brewing CFO
- 2013-today Brewed For Her Ledger Owner
- 2016-2020 Bhramari Brewing Company CEO
- 2022-2023 Head of Finance for Crooked Stave
- 2023-today Head of Finance for Burlington Beer Co
- Teach through University of Vermont, Brew Your Own, State Guild Conferences
- Write for The New Brewer and Brew Your Own
- Brewers Association Finance Committee Chair, Board Member At-Large



Why Perform a Business Valuation for your Brewery?

- A valuation is a process of determining the economic value of the brewery, giving owners an objective estimate of the business worth.
- All areas of the business are analyzed and all of the company’s assets are assessed. The process includes analyzing the company’s management, its future earning prospects and its current capital structure.
- Performed for sale, taxation (IRS requires businesses be valued based on fair market value), establishing partner ownership, divestiture or a temp gauge in order to help identify ways to improve business operations.
- Accurately determining your brewery’s fair market value can provide valuable insights into its current financial health, potential growth opportunities and areas for improvement.

Calculating a Brewery's Value Puts Owner in an Informed Position When…

- Selling a brewery
- Attracting investors
- Seeking a merger or acquisition of another brewery or other entity
- Planning for brewery expansion
- Adding shareholders
- Establishing the percentage of partner ownership
- Considering an exit strategy
- Planning for tax reporting
- Securing financing or taking a business loan
- Resolving legal disputes, such as in divorce proceedings or shareholder disagreements

Four Main Factors for a Business Valuation

- Tangible Assets
  - Tangible assets are physical assets that can be seen and touched. These include property, equipment, inventory, and machinery. Tangible assets are relatively easy to quantify and are typically included in the valuation of a business. For example, the value of a manufacturing company may be heavily influenced by the value of its machinery and equipment.
- Intangible Assets
  - Intangible assets are non-physical assets that contribute to the value of a business but are not easily quantifiable. Examples of intangible assets include trademarks, patents, copyrights, brand names, customer relationships, and goodwill. These assets can significantly enhance the business's fair market value, especially in industries where intellectual property and brand recognition play a critical role.

Four Main Factors for a Business Valuation

- Liabilities
  - Liabilities represent the obligations and debts owed by the business. These may include loans, mortgages, accounts payable, accrued expenses, and other financial obligations. When valuing a business, it’s essential to account for all liabilities to determine the company’s net worth or equity value. Failure to accurately assess liabilities can result in an inflated valuation and misrepresentation of the business’s financial health.
- Financial Statements
  - Financial statements, including the balance sheet, income statement, and cash flow statement, provide valuable information about the business’s revenue, profits, expenses, and liabilities. Investors, lenders, and potential buyers rely on financial statements to assess the company’s financial health and make informed decisions about valuation and investment.

Liquidity and Efficiency

Current Ratio:

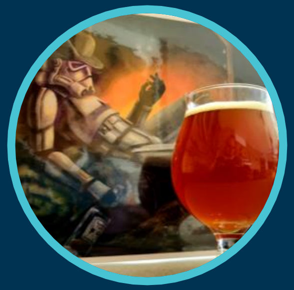
Current Assets/Current Liabilities

*1.0 minimum or higher

Working Capital:

Current assets – current liabilities

*The higher the better



Days Working Capital:

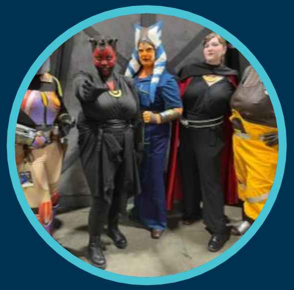
(Working Capital * 365) / Total Revenue

*It’s a range based on business model; not too low, not too high

Days Sales in Inventory:

Average Inventory/Cost of Goods Sold *365

*Most cases 60-90 favorable target



Inventory Turnover:

Cost of Goods Sold/Average Inventory

*Higher is better

The Debt Service Coverage Ratio

Calculated as:

EBITDA / Debt Service

(principal and interest for 12 months)

EBITDA: net operating income

Target is 1.2 or higher for banks and investors to view you as financially healthy

Create a debt schedule for 12 months from each loan sitting on your balance sheet

Sum the total of 12 months of all your debt service payments and multiply that annualized sum by 1.2 for your target EBITDA for the upcoming year when creating projections

Cost Components Per Product

- Direct Materials
- Direct Labor
- Overhead
    - Overhead is an accounting term that refers to all ongoing brewery expenses not including, or related to, direct labor, direct materials or third-party pass-through expenses (such as sales tax collected from customers and submitted directly to the state).
    - A brewery must pay overhead on an ongoing basis, regardless of whether it is conducting a high or low volume of business. It is important not just for budgeting purposes but for determining how much a brewery must charge for its products or services to make a profit.
    - **Understand your fixed overhead:** if you produced 0 BBLs for the month, which expenses will you still have to pay?
    - Breweries tend to ignore this piece when making pricing decisions and building their bill of materials

A Closer Look at Overhead

- Overhead expenses can be fixed or variable.
- Fixed overhead expenses are the same from month to month. Ex. rent
- Variable overhead expenses increase or decrease depending on the business's activity level. Ex.: shipping and mailing
- Overhead expenses can also be semi-variable.
- With semi-variable overhead expenses, the company incurs some portion of the expense no matter what, and some portion depends on the level of business activity. Ex.: Many utility costs are actually semi-variable with a component existing as a base charge and the remainder of the charges being based on usage.

Calculating Overhead and How it Slots in with the Bill of Materials

*Minimum: once/year
*Recommended: quarterly

Gallons Produced:		46,500		In BBLs:	1,500
Manufacturing Overhead:					
	Rent		$ 18,160.00		
	CAM, Tax, Insurance		$ 1,400.00		
	Liability Insurance		$ 12,000.00		
	Utilities		$ 7,820.00		
	Repairs		$ 11,105.29		
	Supplies		$ 4,200.00		
	Payroll Indirect (Inventory Analyst)		$ 42,000.00		
	Depreciation***		$ 11,586.00		
				***not used for pricing decisions	
			$ 108,271.29		
Overhead/gallon			$ 2.33		

IPA		Actual	Variance	Cost/lb(oz)	Total Cost	Fav/(unfav) variance	batch	#
	Canada Malting Superior Pilsner		-	$ 0.57	$ -	$ -		
300	Canada Malting 2-Row	300	-	$ 0.54	$ 160.50	$ -		
50	Simpsons Golden Promise	50	-	$ 0.82	$ 40.75	$ -		
100	Best Malz Light Munich	100	-	$ 0.64	$ 63.50	$ -		
250	Canada Malting Wheat Malt	250	-	$ 0.54	$ 133.75	$ -		
	Simpsons Caramalt 30-37L	0	-	$ 0.84	$ -	$ -		
	Canada Malting Rye Malt		-	$ 0.56	$ -	$ -		
	OIO Brewer's Grains Flaked Rye		-	$ 0.68	$ -	$ -		
	Weyermann CaraMunich II		-	$ 0.81	$ -	$ -		
	Weyermann Carafa III Special		-	$ 0.87	$ -	$ -		
	Hallertauer		-	$ 10.40	$ -	$ -		
	Nugget		-	$ 7.85	$ -	$ -		
	Crystal		-	$ 8.65	$ -	$ -		
	Styrian Golding		-	$ 9.83	$ -	$ -		
	Chinook		-	$ 8.65	$ -	$ -		
5	Warrior	5	-	$ 8.00	$ 40.00	$ -		
20	Citra	20	-	$ 10.65	$ 213.00	$ -		
10	Centennial	10	-	$ 12.00	$ 120.00	$ -		
5	Galaxy	5	-	$ 13.95	$ 69.75	$ -		
	Saaz		-	$ 9.91	$ -	$ -		
	Matueka		-	$ 14.56	$ -	$ -		
	Breakbright		-	$ 18.90	$ -	$ -		
	Magnesium Sulfate		-	$ 1.14	$ -	$ -		
	Calcium Carbonate		-	$ 1.18	$ -	$ -		
	Calcium Chloride		-	$ 1.86	$ -	$ -		
					$ 841.25	$ -		
Brew labor Andrew (hours)		6		$ 31.25	$ 187.50			
Brew labor 2 (hours)				$ 31.25	$ -			
Brew labor 3 (hours)				$ 14.42				
Brew labor 4 (hours)					$ -			
Overhead				$ 506.24	$ 506.24			
Cans				$ 0.11				
Can Lids				$ 0.03				
Nylon hop bag				$ 7.51	$ -			
Bottle Labels				$ 0.04				
Can Carriers				$ 0.10				
Carton				$ 0.53				
Keg Cap				$ 0.08				
5g keg rental				$ 2.69				
15.5g keg rental				$ 3.11				
Keg Collars				$ 0.08				
Filter sheet				$ 1.75	$ -			
Whirlfloc					$ -	$ -		
PKG/CELL Roy (hours)		7		$ 20.19	$ 141.35			
PKG/CELL Tony (hours)		2		$ 31.25	$ 62.50			
PKG/CELL 3 (hours)				$ 14.42	$ -			
PKG/CELL 4 (hours)				$ 21.63	$ -			
					$ 1,738.84	$ -		

Direct materials/gallon produced:	Per BBL:
$ 3.88	$ 120.18
Direct labor/gallon produced:	
$ 1.80	$ 55.91
Overhead/gallon produced:	
$ 2.33	$ 72.32

Four Types of Costs Breweries Encounter

- **Direct Costs**
  Can be directly traced to the product.
  Ex.: material, labor costs
- **Indirect Costs**
  Can't be directly traced to the product; costs are allocated, based on some level of activity.
  Ex.: overhead costs
- **Fixed Costs**
  Don't vary with the level of production.
  Ex.: a lease on a building, insurance, subscriptions
- **Variable Costs**
  Change with the level of production.
  Ex.: materials used in production, labor hours spent kegging or canning beer

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NOTE: Every cost can be defined with two of these four costs.
Ex.: The cost to repair machinery is an indirect variable cost.
You decide if the cost is direct or indirect, *and* if the cost is fixed or variable.

Breakeven Point

- The breakeven point is the level of sales where your profit is zero.
- Breakeven point formula: Profit ($0) = sales – variable costs – fixed costs
  - To determine sales, multiply your sales per unit by units sold.
  - To determine variable costs, multiply the variable cost per unit by the same units sold.
  - The sales level that makes the formula equal to zero is the breakeven point
- Another way to write the formula: $S(x) - VC(x) - FC = 0$ where x is the number of units sold.

Breakeven Point Example

Scenario:

- Sales price per case = $36.
- Rent = $1000.
- Utilities = $250.
- Barley, hops = $3.
- Packaging = $2.
- Excise tax = $.50.
- Labor = $2.

What is the breakeven point?

- S(x) – VC(x) – FC = 0
- $36(x) - $7.50(x) - $1250 = 0
- $28.50(x) = $1250
- x = 43.86 or 44 cases

Other Key Performance Indicators to Track

- Production Labor $ Per BBL sold (including payroll taxes/bennies)
- Total Labor $ Per BBL sold (including payroll taxes/bennies)
- Trailing 12-Month Net Income/(Loss)
- Incremental Weekly Sales Needed to Break Even or Reach a Goal Net Operating Income
  - Can break apart taproom sales from wholesale sales
  - Use gross margin for each division of business (example: 52% wholesale; 71% taproom)

Business Valuation Approaches and Models

- Market
  - Simply put, this approach compares a company to similar businesses in the same industry. These similar businesses are usually called “comps”. To find the market value of a company, consider comps that have been recently sold and compare their price to your business.
  - The market approach provides a relative value for a company, and when combined with other approaches, it can give a more accurate picture of the company’s value.
    - Public company comparable
    - Precedent transaction analysis
- Income
  - It implies measuring the current business value of projected future cash flows generated by the particular business. In other words, you define the value of a business by estimating the expected net income through a certain period of time and recalculating the current cash flow.
  - This approach is considered to provide an intrinsic value and is usually performed when a company is seeking a merger or acquisition of another company.
    - Discounted cash flow
    - Capitalization of earnings

Discounted Cash Flow Method

- Considered the gold standard for business valuation methods
- The brewery's present value is based on the projected future cash flows over a certain period (goal is 5 years; minimum is 3 years for our industry)
- Theory: the value of the brewery is equal to the present value of its future profits plus the present value of the residual cash flows.
- Often additional software tools are used, such as a business valuation calculator. Please rely on a professional for this method.

Capitalization of Earnings

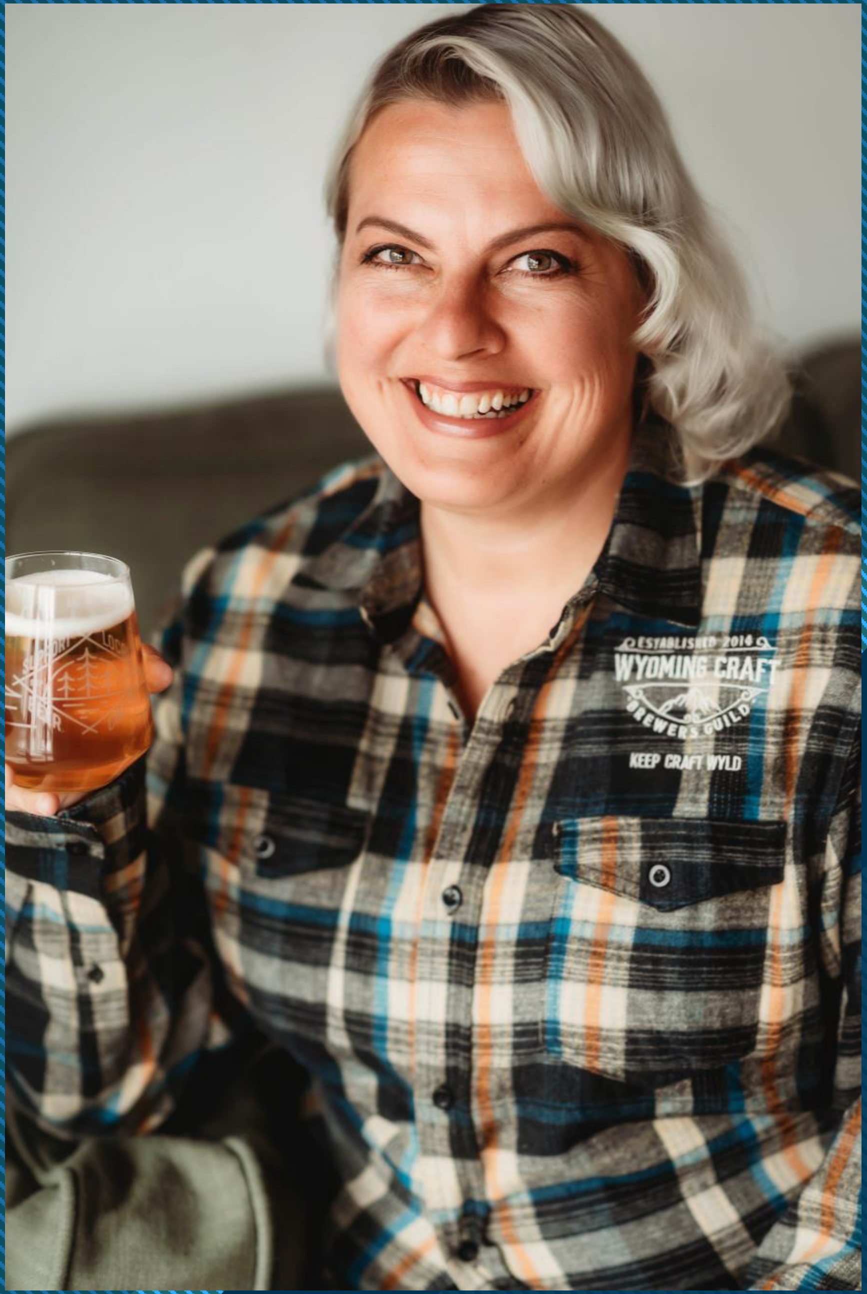
- Brewery value based on cash flow, return on investment and expected value
- Assumes profits, growth, and finances will be stable over the long term
- Best suited for businesses expecting stable cash flows for years
- Net operating income and capitalization rate/multiple used

Business Valuation Approaches and Models

- Asset
  - The asset-based or adjusted net asset method is widely used for a business valuation of companies that have investments. As the name suggests, according to asset-based valuation, the present value of a company is the difference between a fair market value (FMV) of the net assets of a company and its liabilities.
  - This approach is especially useful when valuing real estate, such as a new construction or commercial property.
    - Book value
    - Liquidation value

Summary of Valuation Methods

Valuation method	Best for	Objectives	Company's size	Examples of industries
Public company comparable	Companies with publicly available financial data	Investment analysis, benchmarking	Large, mid, small	Technology, retail, healthcare
Precedent transaction analysis	Companies seeking M&A or investment opportunities	M&A, strategic partnerships	Large, mid	Technology, financial services, healthcare
Discounted cash flow method	Companies with reliable financial forecasts	M&A, investment analysis	Large, mid	Technology startups, renewable energy, healthcare
Capitalization of earnings	Companies with stable and consistent cash flows	Investment analysis, long-term planning	Large, mid, small	Real Estate, utilities, consumer goods
Book value	Companies with a significant proportion of tangible assets	Investment analysis, asset valuation	Large, mid, small	Manufacturing, banking, transportation
Liquidation value	Companies planning to sell or facing insolvency	Distressed asset sale, insolvency proceedings	Large, mid, small	Retail, Construction, Hospitality



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