

How to Raise Equity

An Easy Guide to
Private Placements



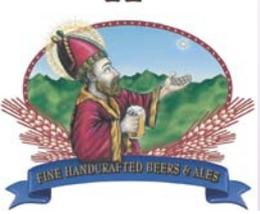
Why You Need Capital

- Opening a brewery
- Expanding a brewery



Funding options

- Debt
 - Benefits:
 - Maintains your ownership
 - Creates leverage effect
 - Can be inexpensive capital if you grow rapidly
 - Drawbacks:
 - Raises your overhead, increases risk
 - Negative covenants



Funding options (continued)

- Equity
 - Angel investors
 - Usually a bad deal for you
 - Public offering
 - Expensive, tons of filing requirements. Not an option.
 - Private offering
 - Family & Friends – easy access, but limited number
 - **Customers & Community**



What Saint Arnold did

- At capacity in 2007
- Got \$5.1 million in debt financing
 - \$2.3 million 3.17% SBA debenture
 - \$2.8 million 6.28% bank note
- Raised \$1.5 million in equity
 - Goal was \$500,000
 - Raised the \$1.5 million in about 2 weeks
 - Raised an addition \$1 million in subsequent offerings
- Built \$8 million newery with 120 bbl brewhouse



Why Private Offering is Doable

- Beer & breweries have a unique appeal
- Craft beer segment is growing
- You have a loyal following (existing breweries)
- Strong equity investment increases your appeal to banks
- Boston Beer Company stock price
 - \$20 two years ago, \$90 today



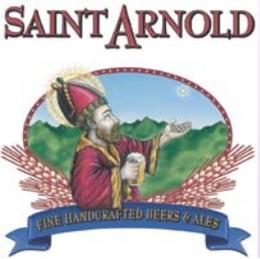
What You Need

- Valuation
- Financial Model
- Selling Memo
- List of Potential Investors



Valuation Definitions

- Market Value (MV)
 - Value of the total stock
- Total Enterprise Value (TEV)
 - Value of entire company
 - Stock Value + Debt – Excess Cash



Public Market Comparables Method

One good comparable: Boston Beer Company

BBC Valuation Multiples:

- TEV / Revenues: 2.6x
- TEV / EBIT: 16x
- TEV / EBDIT: 13x
- MV / Net Income: 27x (Price / Earnings)



How to Value Brewery X

	Brewery X Financial Result	BBC Valuation Multiple	Total Enterprise Value	Minus Debt	Market Value
Revenues	\$2,500,000	2.6x	\$6,500,000	\$1,200,000	\$5,300,000
EBIT	\$400,000	16x	\$6,400,000	\$1,200,000	\$5,200,000
Net Income	\$150,000	27x	-		\$4,050,000



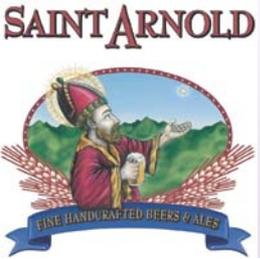
How to Value Brewery X (cont'd)

Revenue Multiple Value	\$5,300,000
EBIT Multiple Value	\$5,200,000
Net Income Multiple Value	\$4,050,000
Average Valuation	\$4,850,000
Less Liquidity Discount (25%)	\$1,200,000
Value of Brewery X	\$3,650,000

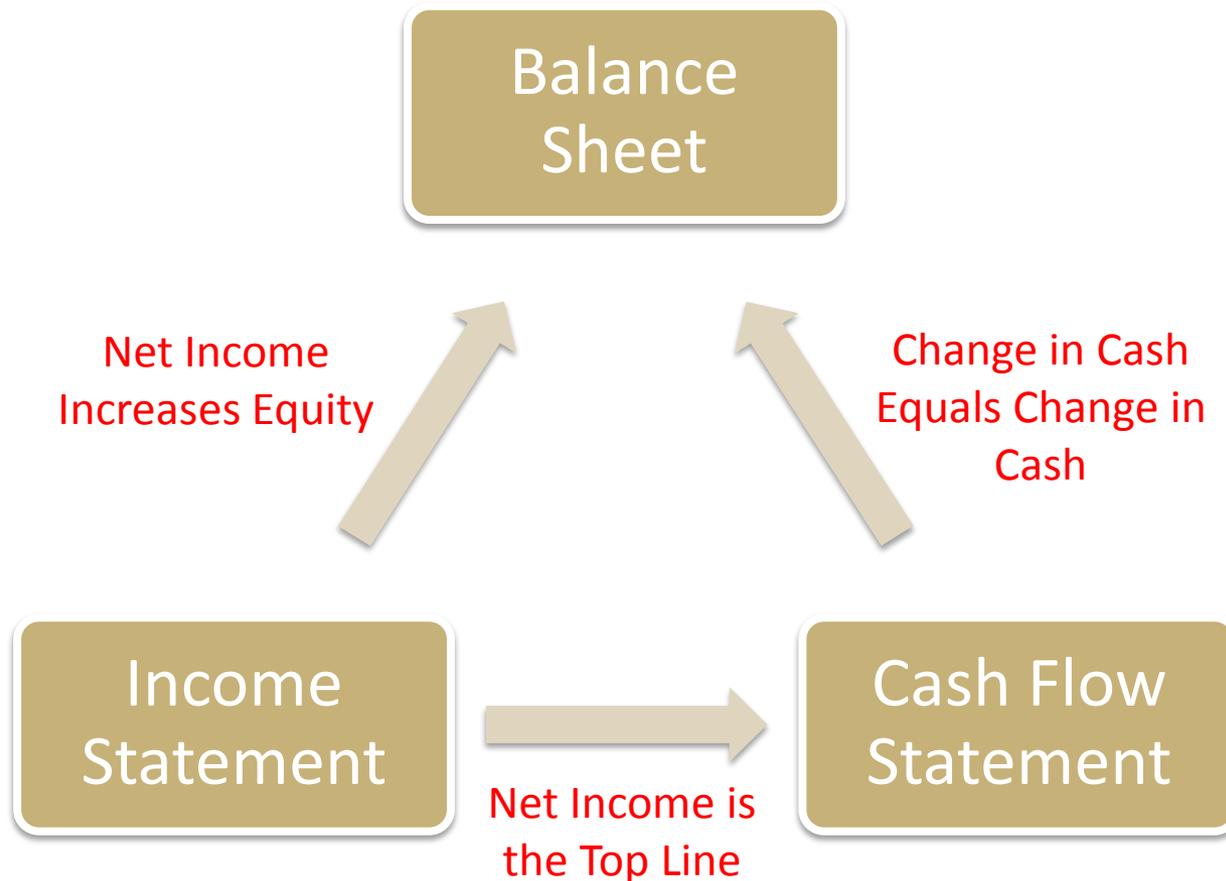


Financial Model

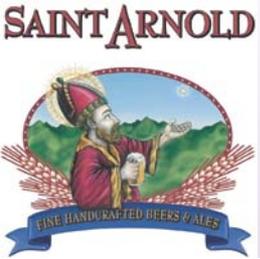
- Historical Results
- Projections
 - Show assumptions
 - Income Statement
 - Balance Sheet
 - Cash Flow Statement
- See model handout or download at www.saintarnold.com/cbc/model



Three Statements Tie Together



Make Sure Balance Sheet Balances!



Give Realistic but Aggressive Projections

- Don't negotiate against yourself.
- Make sure you can back up and explain your assumptions.
- Small tweaks in assumptions can have large changes in projected profits.



Selling Memo

- Legal document
- Make people excited to invest
- Gives valuation



Selling Memo Chapters

- Summary of Offering
- Executive Summary
- Risk Factors
- Market Overview
- Company Description
- Financials



Summary of Offering

Issuer	Brewery X
Shares Offered by the Company:	Up to 50,000 Shares of Common Stock, par value \$0.01
Offering Price:	\$20.00 per Share
Use of Proceeds:	To acquire and improve a new building for the brewery, to acquire new brewing equipment, to move existing brewing equipment and for general corporate purposes.
Desired Subscription Amount:	1,250 shares, or \$25,000
Minimum Subscription Amount:	500 shares, or \$10,000
Expected Closing Date:	March 31, 2011



Executive Summary

- Some people will read only this
- Make sure to answer the questions
 - Why invest in this industry?
 - Why invest in Brewery X?
 - Why invest now?
 - Why invest in the people running Brewery X?
- Show summary financials & valuation



Risk Factors

- Don't hold back! Put everything in.
- Look at Boston Beer Company 10K.
- Risk factors protect you and rarely discourage investment.



Market Overview

- Brewers Association is an excellent data source.
- Show growth of market.
- Show growth of comparable breweries.
- Show your position in the market (if it's strong).
- Show where your market position can be.



Company Description

- History of your brewery
- Beers you make
- Staff
- Awards
- Exciting things you do
- What makes you exceptional



Financials

- Historical & Projected
- Project budget
- Explain assumptions
- Model results
- Valuation
- Ownership summary – current & projected



Know & Follow Securities Laws

- In no way am I offering legal advice.
- Federal securities laws
- State securities laws
- Important terms
- Filings
- Have an attorney review all offering materials and procedures



Federal Securities Laws

- \$1 million limitation if you want to advertise the offering (Rule 504)
 - No limit on number of investors
 - No limit on non-accredited investors
- \$5 million limitation without advertising (Rule 505)
 - No limit on number of investors
 - Limited to 35 non-accredited investors



State Securities Laws

- State laws differ and are in addition to federal laws. Sometimes called “Blue Sky” rules.
- Texas laws for a private offering
 - Up to \$5 million in 12 month period
 - Limited to 35 non-accredited investors
 - Unlimited number of accredited investors
 - Investors can be in state or out of state
 - If offering to investors in other states, you have to comply with that state’s Blue Sky rules too
 - No advertising



Filings

- Federal Filings
 - Form D
 - Form U-2 Uniform Consent to Service of Process
- State Filings
 - In Texas, a notice of securities exemption must be filed with state securities commissioner
 - Each state where securities are offered or sold may require additional filings



Terms

- Accredited investor
 - \$1 million in net worth, or
 - \$200,000 in income for individual in each of previous 2 years and expect the same in current year, or
 - \$300,000 in income for a couple (same time requirements)
- Investors must be “well informed & with a relationship to the issuer”



I am not a lawyer

- I am not offering legal advice.



Finding Potential Investors

In states that don't allow advertising:

- **DO NOT:**
 - Post information about offering on website
 - Send out information on mass email



Finding Potential Investors (cont'd)

Things that are probably OK (I'm not a lawyer):

- Anybody who has ever asked about investing in the brewery.
- Anybody that you know well enough to approach individually.
- Facebook is a gray area. Ask a lawyer.



Offering Paperwork

- Confidentiality Agreement
- Subscription Agreement
- Investor Questionnaire
- Shareholders Agreement
- Examples of these (except Shareholders Agreement) can be seen at www.saintarnold.com/cbc/offeringdocs