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COMMENTARY

Editorials, letters, columns and other opinions

Crafting a Growth Strategy Ahead of Consolidation



COMMENTARY

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There have been a number of recent sales of and investments in high-profile craft breweries in San Diego. The most notable was the sale of **Ballast Point Brewing & Spirits to Constellation**

Brands for \$1 billion. **Saint Archer Brewing** was also sold to **MillerCoors** for an undisclosed price, and a number of local San Diego craft breweries received investments in the past year, including a \$90-million investment by the private equity firm, **VMG Partners**, in **Stone Brewing Co.**

There has been an increase in activity by private equity players acquiring or investing in craft breweries. For example, Colorado-based **Oskar Blues Brewery** was recently purchased by **Fireman Capital Partners**.

There are 131 operational brew houses in San Diego, according to **West Coaster** magazine. According to the **Brewers Association**, nationwide there are over 4,200 breweries operating.

It has become increasingly difficult to get adequate market share and establish robust distribution channels in this crowded space. Consequently, there is a general belief that there will be, and there needs to be, more consolidation in the craft beer industry both nationally and here in San Diego.

In light of these trends, it is more important than ever that local San Diego craft breweries focus on their growth and survival strategy. While a go-it-alone strategy may have worked in the past, in today's market the better strategy may be improve your competi-

tive positioning by selling to a strategic buyer (a national or international brewer) or to a private equity firm.

Strategic Buyers

Strategic buyers are usually larger often publicly-traded brewers that are looking to acquire smaller or niche brands in order to participate in a more rapidly growing sector. They use their marketing expertise, larger budgets and distributor relationships to grow the sales and distribution of the acquired brand and enhance the value of their existing business.

In a sale to a strategic buyer, generally 100 percent of the ownership is transferred to the buyer, and the existing stockholders of the craft brewery are cashed out of their investment and no longer participate in the future growth of the business.

In most strategic acquisitions the buyer retains key members of management and employees for some period of time in order to retain their expertise and retain the "secret sauce" that led to the brand's success. It also allows some level of independence in beer production, marketing messaging and management style.

Financial Buyers

Financial buyers, on the other hand, are private partnerships made up of wealthy investors whose goal is to add additional management expertise and financial resources to an existing craft brewery. They aim to accelerate sales growth and profitability in order to increase the valuation of the acquired company over the next three to five years in a future sale to a strategic buyer or in an initial public offering (IPO).

Private equity firms will generally purchase a portion of the business and

allow existing members of management and other employees to retain a significant equity position.

Financial buyers generally allow much greater independence in the operation. That can be attractive in the craft beer industry where the founders highly value their counter-culture perspective, creativity and independence. As part of the transaction, the financial buyer provides access to greater financial resources either through direct infusions of equity capital or the ability to obtain larger credit lines on more favorable terms. Private equity firms also pride themselves in providing greater management and financial discipline to their acquired businesses.

Economies of Scale

We have entered a new stage of development in the San Diego craft beer industry, not unlike that experienced in other businesses that started out as lifestyle, counter culture "artist" driven businesses. Companies with greater financial and marketing resources have entered the industry to develop the economies of scale needed for more profitable production and distribution.

It is more important than ever that San Diego craft breweries who want to grow and succeed in the future look carefully at their options for the growth of their businesses. Sales to strategic investors or partnering with financial buyers are two options that should be carefully explored by any San Diego craft brewery with visions of becoming a national or regional player in this growing dynamic industry.

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