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The Top Five Reasons Craft Brewers are Turning to ESOPs

By Rocky Fiore

Liquidity options are plentiful for owners of craft breweries: strategic sale, private equity, management buyout, family transfer, leveraged recapitalization. Which path should you take? Harpoon, New Belgium, Odell, Left Hand and many others walked a different path. These breweries chose to implement an Employee Stock Ownership Plan (“ESOP”). ESOPs can be a great exit strategy for craft brewers. Outlined below are the top five reasons why craft brewers should consider an ESOP.

1. **Cultural Familiarity**—Craft beer employees want their passion and commitment reflected in the brand. Naturally, it’s a brewery’s DNA. One of the most challenging aspects of becoming an ESOP company is engaging employees and getting them to understand what it means to be “employee-owned”. Successful ESOP companies have employees who understand how their day-to-day contributions impact the company. Most craft brewers already have

engaged employees that are excited about the future of their brewery and employee ownership is a natural evolution in craft beer culture.

2. **Independence**—There are polarizing viewpoints on craft brewers selling to beer conglomerates or private equity. Some believe that beer conglomerates will pay the highest value for a craft brew business while others feel that “selling out” will potentially damage the reputation and diminish the brand’s appeal. An ESOP allows owners the opportunity to monetize all of those years of hard work while keeping the brewery in the hands of the individuals that helped to build it. After all, isn’t your independence part of the reason you have come this far? Take note, the ESOP is incapable of running a craft brewery; it is simply a vehicle to transition ownership to employees in a very tax advantaged way.

3. **Controllable Liquidity**—An ESOP can be structured to meet a variety of needs for a liquidity event. Depending on the ownership structure or owner timeline, a full sale may not be practical or desired. An ESOP can provide partial liquidity to one or several shareholders. As a result, an ESOP is an excellent option for multi-shareholder situations where one owner is seeking liquidity while others want to retain control. Also, nothing precludes you from implementing a minority ESOP today with plans to sell the brewery to a strategic buyer at some point in the future (i.e., win-win for both owners and employees).
4. **Strong Market Environment**—Craft brewers are all the rage. Owners of these breweries are witnessing strong market activity and may be considering an exit. The statistics are compelling; strong industry growth (18% in 2014) combined with an inelastic consumer base makes a great recipe for strong valuations. Conglomerate brewers are beginning to take note and responding by acquiring craft beer brands. However, it's not just the large players on the auction block, smaller craft brewers are targets as well. Regardless of your size, an ESOP is a great solution for owners who want to remain independent and create liquidity at the same time.
5. **Employee Attraction and Retention**—Retention and attraction of employees is critical to creating a sustainable business. This is particularly relevant to a craft brewery, which many believe its people are its most important asset. An ESOP provides this attraction and retention mechanism by giving all eligible employees an equity interest in the brewery. ESOP's are designed to reward employees who stay with the company for a long time (i.e., 10 years or longer). The ESOP benefit can be a powerful supplement to an employee's overall retirement savings.

The craft brew industry has experienced tremendous growth and, as a result, craft brewery owners may be seeking an opportunity to unlock

some or all of the value in their business. Most successful craft brewery owners have a multitude of ownership transition alternatives available to them. However, when all things are considered, ESOP's present a very compelling tax effective exit strategy that can balance the changing of ownership with the maintaining of control.

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