

Beer Money: Business and Commercial Lending Bootcamp

Brewery Financing 101 with
On Tap Credit Union





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Who is On Tap Credit Union?



Beer People
Helping Beer
People



Brewery Partners



LADY JUSTICE
great beer, better world



LONG TABLE
BREWHOUSE



Brewery Partners

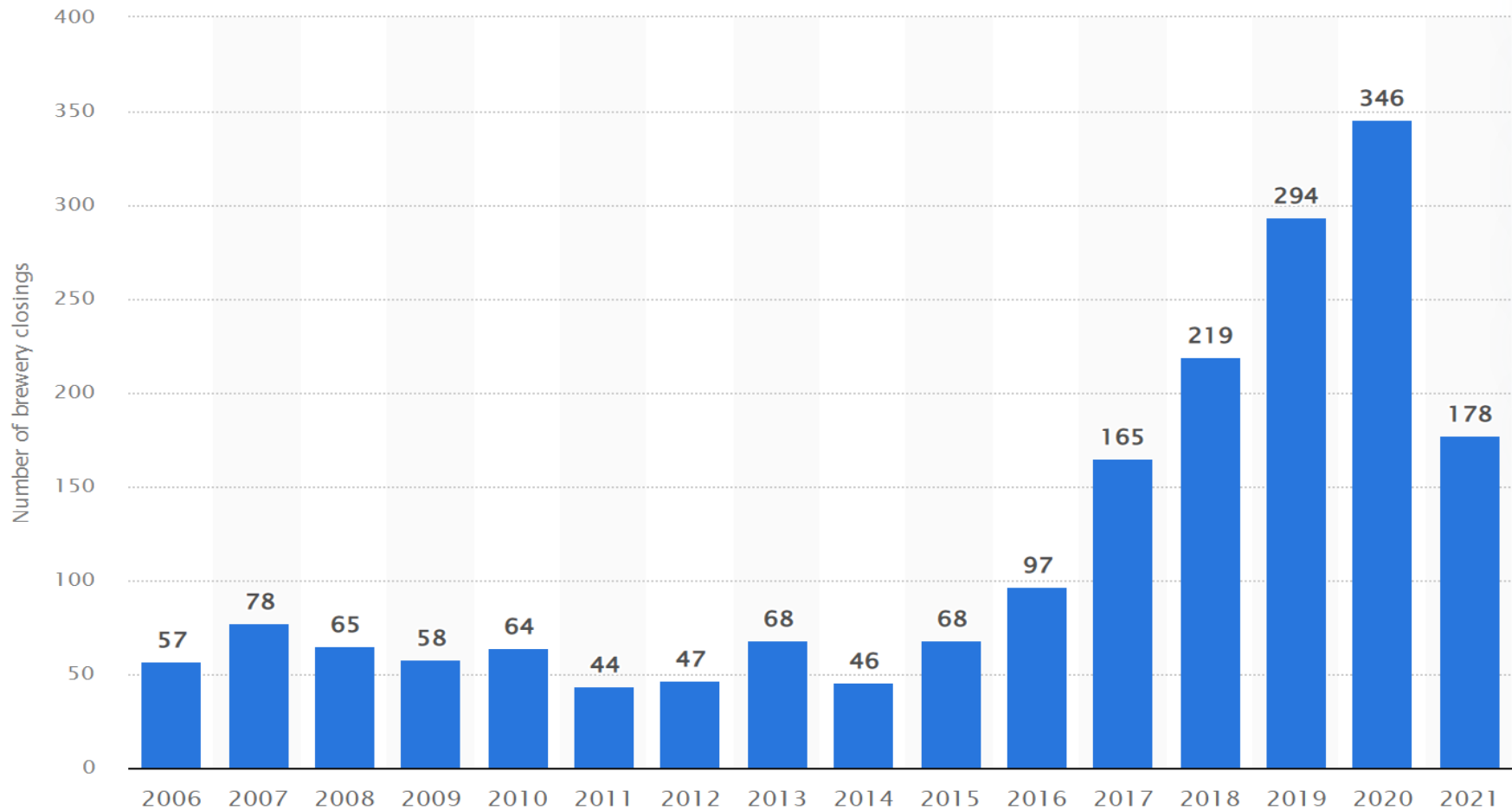


What percentage of small businesses fail in their first year?

Put your guess in the chat



Number of Craft Brewery Closings in the US from 2006 to 2021

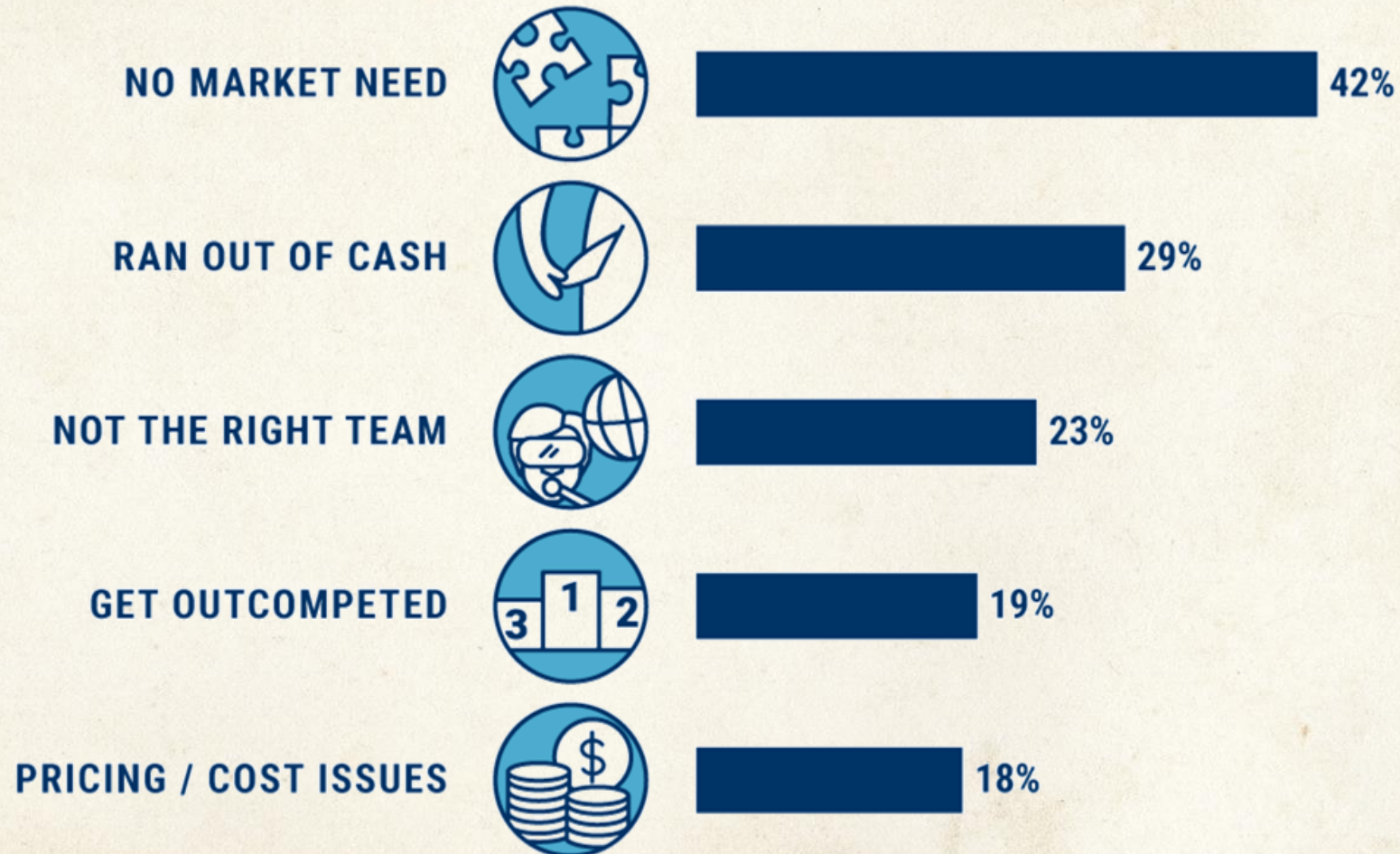


20% of businesses fail in their
first year

But why?



Top 5 Reasons Why Small Businesses Fail



Cash is King

The #1 reason why craft breweries fail is they run out of money

Cash is the fuel that keeps the business running

Run out of cash and you're done



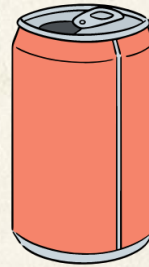
How much do you think it costs
to open a brewery?

Put your guess in the chat!



True Cost of a Brewery

The cost of opening a brewery starts around \$500,000 but could reach up to \$1,000,000



True Cost of a Brewery

Brew House \$300,000-?

Dishwasher, refrigerator, blender – \$18,000

Kegs – \$10,000

Canning machine – \$38,000

Fermentation tanks – \$400 to \$6,000

Brite tanks – \$1,400 to \$5,800

Labeling machine – \$5,000 to \$10,000

Serving area equipment (such as glasses) – \$3,000

Store equipment (such as cash register) – \$13,750

Countertops and sinks – \$9,500

Bins and utensil rack – \$3,720

Office equipment and furniture – \$3,600

Tables and chairs : \$4,000



Things to Consider Before Talking with a Business Banker

1. Do you understand your brewery's financial needs?
2. Are they a short-, mid- or long-term lending need?
3. Do you have the cash flow or income to pay the loan?
4. Does the brewery receive a profit or cost savings from the loan?
5. Do you know your credit score?



Factors Lenders Use to Evaluate and Decide Loans



- Personal Credit
- Personal Debt
- Personal income
- Business Debit
 - DSR
 - Cash flow
 - Global cash flow
- Business revenue
 - Historical
 - Trends
 - Cannot use forecast
- Risk Rating score



Personal Guarantor

WE LOOK AT:



PERSONAL CREDIT



PERSONAL DEBT



PERSONAL INCOME

- Business loans require a personal guarantor from all owners with a 20% or greater ownership
- Unless you have “historical income” we cannot use the brewery’s forecasted income

**TIPS
ON TAP**



Debt Service Coverage Ratio (DSCR)

Debt Service Coverage Ratio (DSCR)

On Tap's minimum is 1.20

For every \$1 in debt, you have at least \$1.20 income.



Business and Global Cash Flow



Risk Rating





The loan you want may not be the loan you *need*



Most Popular Types of Small Business Loans

- Business Credit Card
- Lines of credit
 - Secured & Unsecured
- Term Loans
- Auto loans
- Equipment Loans
- Small Business Administration (SBA) Loans
 - SBA 504
 - SBA 7a
- Commercial Real Estate (CRE)



Business Credit Card

*Short Term Lending Need

PROS:

- Charge purchases during the month
 - Payment not due for 2-3 weeks from statement date
- Helps with monthly cash flow
- Pay off statement balance with no interest accrued
- Can offer rewards

CONS:

- Higher interest rates
- Cannot be used for cash purchases without a "cash advance"
 - Fees and higher interest rates
- Rates are variable and can adjust
 - Pro and Con



Lines of Credit (LOC)

*Short Term Lending Need

PROS:

- Seasonal large purchases or emergency funds
- Only pay interest in the amount drawn
- Able to pay down the LOC and use the available limit during the draw period
- Rates can be lower than a credit card
- Monthly payments low

CONS:

- Variable rate
 - Typically move with prime
- No grace period on interest
- If you advance/draw, pay daily interest
- Low payment usually interest only
 - Add additional principle to reduce balance
- Carry balance for a long period of time:
 - The LOC could be closed
 - A term loan set up



Term Loans

*Midterm Lending Need

PROS:

- If secured with collateral:
 - Lower interest rate
 - Fixed payment, rate, and time for paying back the loan
- If not secured by collateral:
 - Higher rate
- Good for budgeting purposes
 - Set payment and time for paying off

CONS:

- If rates go down, must refinance as rate is fixed
- Prepayment penalties for paying it off early
- Pay mostly interest in first few years
 - Some financial institutions add a prepayment penalty to a loan
 - On Tap does not
- Can you afford the monthly payment?
 - Will this asset add income or cost savings to justify the purchase?



Small Business Administration (SBA) Loans

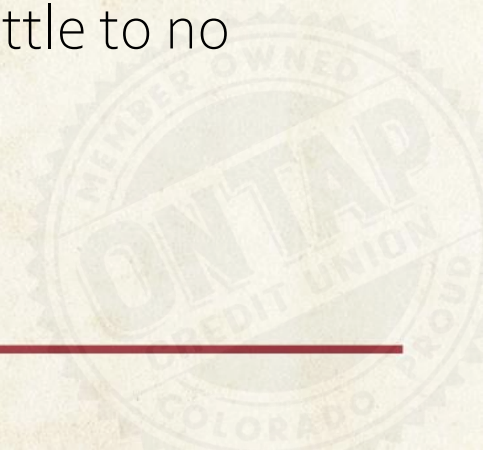
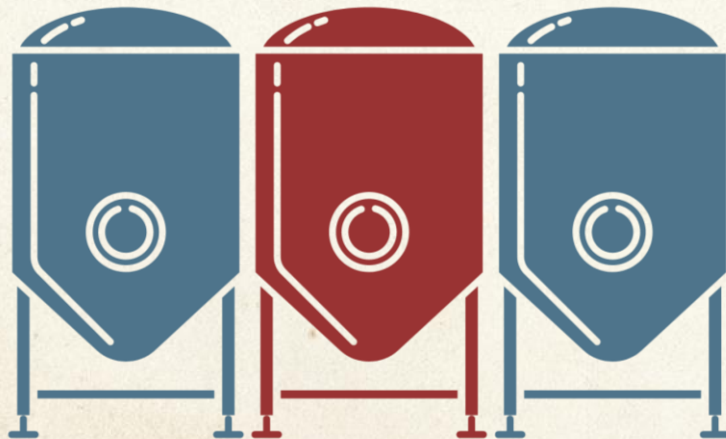
*Long Term Lending Need

PROS:

- Good for large projects or purchases
- Less money needed to obtain the loan
- Reduces risk for a financial institution

CONS:

- Higher interest rates, closing costs
- Breweries are considered HIGH risk
 - May not have opportunity to apply
- Prepayment penalty
- What you pledge is attached to loan
 - You pledge your house; you cannot sell or refi property until loan is paid in full
- Long process
- When refinancing out, typically little to no collateral available



Small Business Administration (SBA) Loans

*Long Term Lending Need

SBA FINANCING		
Permanent Loan	50%	\$500,000
Net SBA Debenture Proceeds	40%	\$400,000
Down Payment (Equity Injection)	10%	\$100,000
TOTAL LOANS AND EQUITY	100%	\$1,000,000



Commercial Real Estate (CRE) Loans

*Long Term Lending Need

PROS:

- Business set up a separate entity to purchase the building and lease to the brewery
 - Check with accountant
- No rising leases
- No fear of building owner selling from under you
- Great asset to use as collateral

CONS:

- Large amount of cash required
- Responsible for all maintenance, insurance, and taxes



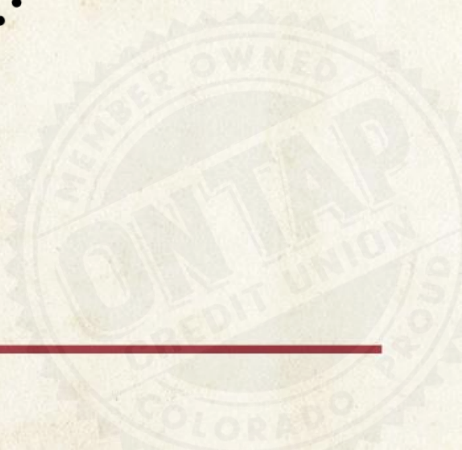
**TIPS
ON TAP**



Ingredients for a Brewery



**TIPS
ON TAP**

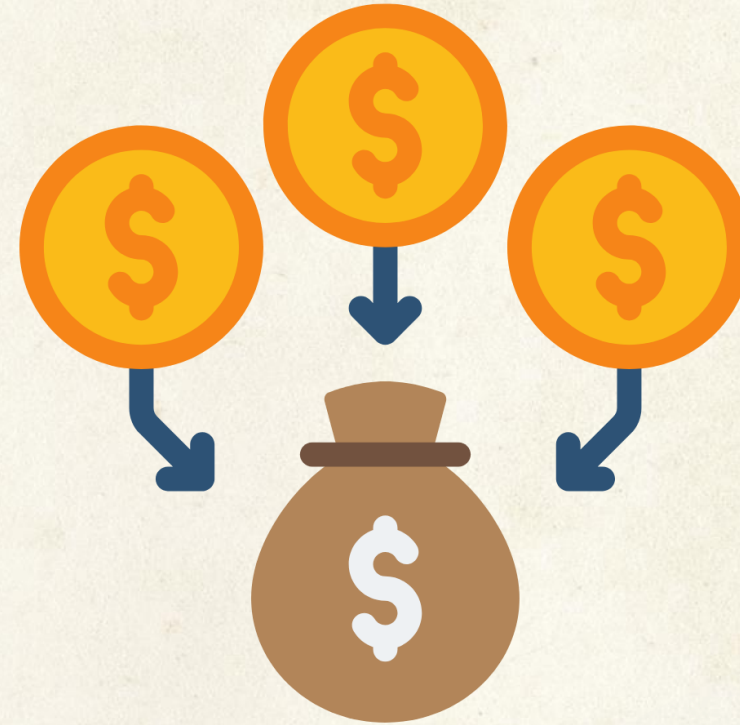


Alternate Loan Options

Owner Carry / Owner Finance

Hard Money Lenders

Friends & Family



Questions?





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