

Financing Your Craft

by Scott Birkner, Dogwood State Small Business Lending

We share your passion for innovation and craftsmanship. We support the growth of craft brewers, distillers, wineries and distributors through SBA 7(a), SBA 504 and USDA loan programs. Our lenders are experienced in your trade and understand the unique opportunities and challenges you face. From funding expansion, equipment, working capital and real estate, we are here to help you move your business forward. Together, we'll craft the perfect lending option for you so you can craft the perfect beverages for distribution.

1) Criteria for obtaining funding for your brewery

The primary criteria for obtaining financing includes a detailed business plan, three years of projections with assumptions, management with direct industry experience or transferable management experience and a location that could serve as a viable brewery. By direct industry experience I am referring to someone who has worked as a commercial brewer, operations manager or a general manager of a brewery. Transferable management experience may include someone who has managed a team of employees, hired, fired, and has P&L experience.

2) Detailed explanation of the total project costs

Lenders will need specific details about how you plan to use your funds. Look for a bank that offers the type of financing you need, whether it is for startup, expansion, equipment purchase, acquisitions, partner buyouts, commercial real estate, refinancing, working capital and other potential business initiatives. Not all lenders will cover each of these, so identifying your need is a necessary first step.

3) Equity requirement by the applicant. Do you have the \$\$\$ to do this?

For start-ups we require 20% equity contribution. For acquisition or partner buy-out we require 10% equity. Try not to spend any money or work on project until you have funding secured!

4) Different business models that gets applicants to the target equity number

The most common sources of equity we see are personal cash or investor raised equity and most of the time it is a combination of both. We require the primary principals of the business to inject at least 5% equity into the project while the remaining 15% can come from minority investors (friends, family, business partners, etc.). Other ways to access eligible equity include a ROBS (Rollovers as Business Start-ups) with an existing 401K or IRA. If the applicant has outside income or a spouse that has outside income and is guarantying the loan, they can borrow money under a HELOC or HELOAN to inject as equity in the loan.

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5) Critical elements that signifies this is a brewery we want to support.

The Business plan, Demographics (less than 10k people), projections and management team behind the project are the primary indicators on whether we think the project will be viable.

6) Projections review:

Your projections should be broken down monthly and for the first 3 years. The business must show a PROFIT! When we review the projections, we are looking at the assumptions used in preparing the financial model. We look to see if the margins are in line with the industry, if seasonality was taken into consideration, demographics of the location, product mix (seasonal, barrel aged, can releases, etc.). We are also a member of many state guilds and the Brewers Association and rely on the information coming from these entities to provide great insight on the markets they serve.

7) Market Conditions:

Reliance on Brewers Association and local resources. But you as the applicant should be able to have many talking points on why your location will work.

8) Post Closing Liquidity

You should have a good 6 months of your personal living expenses on standby in cash after equity injection before applying for the loan.

9) Craft Brewery industry Growth

Staying local and owning your market. Distribution type deals have been slowed. Did 1-30BBI system in last 2 years. Taproom model works for us.

10) Big picture within bank

Strong industry, good growth, minimal default rate in global SBA portfolio. Total disbursed SBA loans from 2009-2018 is 2458 and \$1.085 billion dollars. Default rate % is .33%.

11) Red Flags

If the transaction appears to be strictly an investment by the principals. If the primary principals are not involved in the day to day operations of the business and rely on staff like the head brewer to run the show, we are not likely to pursue the project.

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Dogwood State Bank is headquartered in Raleigh, NC. I work in our SBA Lending Group. Despite the DSB being a regional community bank, we have identified industries that we believe have great potential and have decided to build portfolios around, craft beverage being one of those industries. I work with start-up and expanding distilleries, wineries and breweries nationwide. Our primary loan product is an SBA 7a loan however we also do SBA 504 and USDA loans.

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