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Craft Beer Industry Update: M&A ESOPs and Liquidity Transactions over the past 12 Months

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Craft beer is at a turning point in the history of the industry. Craft beer has grown dramatically (about 20% in 2014) during a time when overall beer consumption has increased only 0.5%.[1] This has changed everything -- from rethinking inventory management in the retail trenches to an explosion of products and services used by craft breweries to simplify, innovate and improve their operations.

The sustained success of craft beer and the changing demographics of brewery ownership have also led to more mergers and acquisitions (M&A) and liquidity transactions involving craft breweries. While the debate rages among craft beer drinkers as to whether M&A is good or bad for the industry as a whole, these kinds of transactions have changed the contours of the marketplace (e.g. distribution, competition, pricing, advertising, etc.) and set precedents for future deals. Those whose business is beer must pay attention to the quickly shifting trends to remain competitive and maintain an appropriate business plan. In the year since my July 2014 article (an overview of liquidity transaction structures and considerations for craft breweries[2]), the following notable transactions have been completed or been announced:

- Duvel Moortgat - Firestone Walker (July 2015)
- Odell Brewing Company ESOP (July 2015)
- Left Hand Brewing Co. ESOP (July 2015)
- Logsdon Farmhouse Ales – Uptown Market LLC (July 2015)
- Lucid Brewing - American Sky Brewing (June 2015)
- SABMiller - Meantime Brewery Company (May 2015)
- Enjoy Beer LLC – Abita Brewing Co. (April 2015)
- Full Sail Brewing Co. - Encore Consumer Capital (March 2015)
- AB InBev - Elysian Brewing (January 2015)
- Bayhawk Ales - Evans Brewing Co. (January 2015)
- Founders Brewing Co. - Mahou San Miguel (December 2014)
- Green Flash Brewing - Alpine Beer Co. (November 2014)
- AB InBev -Ten Barrel Brewing Co. (November 2014)
- SweetWater Brewing - TSG Consumer Partners (September 2014)
- Southern Tier Brewing - Ulysses Management LLC (September 2014)
- Uinta Brewing - The Riverside Company (August 2014)
- Harpoon Brewing ESOP (July 2014)

There has been more than one transaction per month, a significant uptick from the frequency of transactions in prior years. This article surveys these transactions and discusses how they fit into the larger picture of the craft beer market and the landscape of corporate transactions within it.

Duvel Moortgat - Firestone Walker

The most recent transaction to be announced and likely the largest deal on this list is the merger between Belgium-based Duvel Moortgat with Firestone Walker. The deal has been unofficially estimated at $250 million and is likely the most significant transaction since the AB InBev acquisition of Goose Island in 2011.

This is not another story of a brewery conglomerate gobbling up a small brand. Fresh off the heels of Duvel Moortgat' s acquisition of Boulevard Brewing in January 2014, this collaboration will allow for production of Duvel's three U.S. brands – Firestone Walker, Boulevard and Ommegang – out of brewing facilities based in California, Missouri and New York. As other breweries have expanded their reach into other markets by breaking ground on new production facilities across the country (or even across the Atlantic), this transaction serves as an example that may become a template for others looking to produce beer in multiple states and diversify their beer style and brand portfolio.

The deal also reflects a new paradigm for the beer industry – the largest U.S. craft breweries have the financial resources and sophistication to do business with the largest beer companies on an even playing field. There are 14 craft breweries in the United States that had greater production than Firestone Walker in 2014 (excluding Duvel Moortgat USA). As the beer industry continues its trajectory toward hyper-localization of beer production and retail consumption, these breweries and others will begin considering transactions of this nature more frequently, with different ownership groups coming together to manage breweries in different geographic regions and cross-market their brands.

Odell Brewing Company ESOP

While craft beer M&A has been hot over the past year, using an Employee Stock Ownership Plan ("ESOP") for succession planning and liquidity provides many unique business and tax advantages for craft breweries. Odell Brewing Company's ESOP was structured as a minority ESOP, with 19% of the total ownership sold by the existing owners to the employee-owned trust.

As discussed in my July 2014 article, the ESOP by Odell Brewing Company (and Left Hand Brewing Co., as discussed below) continues the ESOP trend for breweries in Colorado in particular.

[1] See https://www.brewersassociation.org/press-releases/craft-brewer-volume-share-of-u-s-beer-market-reaches-double-digits-in-2014/
[2] See http://www.dorsey.com/aa-leingang-craft-beer-esop-liquidity-transactions/

While breweries certainly have other options at their disposal to recruit and retain the best talent, this transaction provides more evidence that ESOPs are especially considered in areas where nearby breweries have already made the jump to being "employee-owned". The Odell Brewing ESOP, as with the Harpoon transaction earlier this year, exemplifies an ESOP transaction where existing owners used an ESOP for liquidity while maintaining majority ownership of the outstanding shares and control of the business.

Left Hand Brewing Co. ESOP

In July 2015, yet another Colorado brewery, Left Hand Brewing Co., elected to use an ESOP for liquidity rather than sell equity to a third party. The company announced the transaction as a means to "reward employees and foster an ownership mentality", while contrasting the deal against the "buzz of big-beer buyouts".

The Left Hand Brewing Co. ESOP, perhaps better than any other, exemplifies that breweries are using ESOP transactions as heavy marketing and public relations tools regardless of the ESOP's size. The structure for this transaction, which was a sale of only 15% of the stock to the employee trust, has been trumpeted for preserving the company's community and employee-oriented culture. Left Hand Brewing Co. also reported that before the ESOP nearly 50% of the company was already owned by existing employees, although not in ESOP form and including the shares owned by founders and executives.

ESOPs and the slogan "employee owned" improve brand equity in the minds of many craft beer drinkers regardless of whether the employee trust ends up with control, or even a significant portion, of the company's stock. At some point, a small trust ownership won't be justified in light of the ongoing transaction costs, but the benefits of being "employee owned" in the craft beer industry are continually pushing that needle lower and lower.

Logsdon Farmhouse Ales – Uptown Market LLC

Logsdon Farmhouse Ales, an Oregon brewery famous for its wild and brettanomyces beers, announced a sale to a new ownership group. The new group includes the local bottle shop Uptown Market and an original Logsdon investor. The deal value was not publicly announced and the parties clarified through a story on a beer blog that the Logsdon family would remain involved in the business. Given the continued interest of the Logsdon family, the deal resembles more of a growth-oriented transaction than a typical liquidity transaction, although the founding partner and brewmaster is exiting in connection with the reorganization and change in control.

Lucid Brewing - American Sky Brewing

In the most recent deal between two U.S. craft breweries, Lucid Brewing from Minnesota acquired American Sky Brewing from Wisconsin. The aggregate production of the breweries in 2014 was less than 5,000 barrels. It has been reported that each of the brand identities will continue and that a significant consideration for the deal was Lucid's acquisition of a brewery with a tap room, which it did not have prior to the combination.

SABMiller – Meantime Brewery Company

While not a U.S. based deal, SABMiller announced in May 2015 that it entered into an agreement to purchase Meantime Brewery Company, a British craft brewery and an important figure in the U.K. craft beer scene. The deal value was not announced.

This transaction was the only acquisition by a MillerCoors affiliate during this period. There were no additions to the brands of Tenth & Blake, the U.S. craft beer portfolio of MillerCoors, which last acquired Crispin Cider Company in 2012. Given the relative pause in their acquisition activity, MillerCoors will likely move to expand its portfolio of craft breweries over the next 12 months.

Enjoy Beer LLC – Abita Brewing Company

In April 2015, a new craft beer investment entity, Enjoy Beer LLC, announced its first investment, an ownership stake in Abita Brewing Company.

Enjoy Beer LLC is a craft beer investment vehicle which appears to be structured to invest in breweries as would a private equity fund, making minority investments in various independent brands. The enterprise is being run by individuals formerly associated with Harpoon Brewing, Nincasi Brewing Company and New Belgian Brewing Company. A major source of financial backing for the entity appears to be the exit liquidity provided from the Harpoon Brewing ESOP in July 2014 (see below), as the founder and president of Enjoy Beer LLC was the co-founder of Harpoon.

It remains to be seen how breweries will react to Enjoy Beer LLC as an alternative investment source; however, it may be particularly attractive for breweries looking for equity growth capital and a partner that can provide strategic advice without the strings associated with being a subsidiary of a larger company.

Full Sail Brewing – Encore Consumer Capital

In the only "full sale" of a brewery to a private equity fund during this period, the ownership of Full Sail Brewing passed to the private equity fund Encore Consumer Capital in March 2015. This transaction is groundbreaking for the craft beer industry because Full Sail Brewing was one of the first breweries to embark into an ESOP structure, with an employee-owned trust owning all of its shares. It is now the first to approve of a third-party acquisition of the brewery from that structure.

While already known to practitioners and those employing ESOPs in other industries, the deal illustrates for the rest of the craft beer world that an ESOP is not the end of the road. The ESOP structure is adaptable to changing circumstances like most other corporate governance structures. While ESOPs are being used (and touted in marketing materials) as the choice for brewery owners who don't want to "sell out" because they value the company's culture and local image, the Full Sail transaction is a reminder that an ESOP doesn't prevent future transactions and the trust can approve a later change-in-control.

AB InBev – Elysian Brewing

In a surprising acquisition of a brewery whose biggest selling pale ale says "Corporate Beer Still Sucks" across the label, AB InBev acquired Elysian Brewing in January 2015. With this acquisition, AB InBev's craft portfolio now includes four major craft brands in different parts of the country.

The deal is the latest transaction in a flurry of AB InBev deal making. With Ten Barrel and Blue Point under its belt, the Elysian deal marks AB InBev's third acquisition since the beginning of 2014, a span of time during which MillerCoors has made no U.S. acquisitions.

The jury is still out on how this transaction will play out for Elysian (which will no longer be considered a "craft brewery" under the Brewers Association definition), AB InBev and craft beer drinkers. While most would concede that a similar acquisition by AB InBev, the Goose Island purchase, has worked out fairly well (same quality and larger distribution), the Elysian ownership transition has been bumpy so far. First, the deal became a focal point in a backlash against AB InBev because of its anti-craft Super Bowl advertisement, which mocked craft beer drinkers as "fussing" over beer and poked fun at a hypothetical "pumpkin peach beer" oddly similar to a beer made by Elysian. Second, only three months after the transaction, Elysian's co-founder and head brewer resigned, which was reportedly partially instigated by the Super Bowl advertisement.

Bayhawk Ales - Evans Brewing Company

While control of Orange County based Bayhawk Ales passed to the founders of Evans Brewing Company back in 2013, Evans Brewing Company filed a Registration Statement on Form S-4 with the Securities and Exchange Commission in 2015 for the issuance of 4,448,624 shares (for up to $1,048,950) in connection with an Asset Purchase and Share Exchange Agreement with Bayhawk. In this S-4, Evans Brewing Company announced that "its management plans to… develop a relationship with a market maker to submit an application to FINRA for listing [its] common stock with the OTC Bulletin Board or the OTC Markets." In the event that public trading of the stock of Evans Brewing Company goes active, it would make it only the third U.S. craft brewery to have an active public market for its stock.

Founders Brewing Co. – Mahou San Miguel

In December 2014, Founders Brewing Co. sold an undisclosed minority stake to Mahou San Miguel, the largest Spanish beer company. Founders announced the deal as a transaction to obtain liquidity for longstanding shareholders, while ensuring the company would be family-run for multiple generations.

As with the deal with Firestone and Duvel, Founders' deal shows that strategic investments in U.S. craft breweries are being increasingly pursued by large breweries other than AB InBev and MillerCoors and suggests that other entrants to this market will soon be on the horizon.

Green Flash Brewing – Alpine Beer Co.

In a transaction between two San Diego-area breweries, Green Flash Brewing acquired Alpine Beer Company. There are two industry-wide take-aways from this deal. First, it is another reflection that many of the large craft breweries (Green Flash was in the top 50 in 2014 production according to the Brewers Association) are pursuing growth opportunities through acquisitions, rather than only organic growth. Second, the deal – primarily a purchase of Alpine's IP and brewpub operation – is a reminder to small growing breweries of the importance of brand and IP protection on the value of their business. Green Flash was already producing a large portion of Alpine's beer under a contract brewing relationship and Alpine's distribution reach was fairly limited. With Green Flash at the helm, we can expect the production and distribution of Alpine beers to expand significantly.

AB InBev – Ten Barrel Brewing Co.

In November 2014, AB InBev acquired Oregon-based Ten Barrel Brewing Co. in a deal that (as with the company's purchase of Elysian) places another highly regarded West Coast brewery under its control. This transaction has been reported as a 100% sale and will move Ten Barrel outside the definition of a "craft brewery" under the Brewers Association definition. More importantly, the deal is a signal to the craft beer market that AB InBev is still looking to acquire well-received fast growing craft brands. It also demonstrates that, while many brewers are seeking alternative transaction structures like ESOPs, private equity deals, or stock-based joint ventures with strategic partners, an all-cash exit will still be the preferred structure for some, notwithstanding that the deal might be perceived as a "sell-out" by some craft beer drinkers.

SweetWater Brewing – TSG Consumer Partners

In the most recent of three minority sales to private equity firms during this period, SweetWater Brewing sold a minority stake to TSG Consumer Partners in September 2014. From a statement by the Company, the transaction was undertaken to achieve liquidity for the existing investor pool. The Company also pledged that "operationally speaking, SweetWater will remain unchanged whatsoever, and we will continue business as usual as we strive to keep making the best beer we possibly can."

The structure of this transaction as a minority purchase, similar to the two deals described below, shows that private equity firms are increasingly willing to invest in craft breweries as a minority investor, perhaps protected by certain contractual shareholder exit rights and board seats.

Southern Tier Brewing – Ulysses Management LLC

In September 2014, Southern Tier Brewing announced that it would sell a minority stake to private equity firm Ulysses Management LLC. There has not been much publicity about the transaction since its announcement and, in most cases for deals of this type, no news is good news.

While the most salient component of this transaction was its structure as a minority investment, it is an example of a string of private equity deals in the craft beer industry by East Coast breweries – a partial echo of the apparent ESOP trend in Colorado. Is there an explanation for this trend, or is it simply a statistical anomaly given the small sample size? Are private equity firms, which are concentrated in major East Coast cities, courting more breweries closer to home? Do East Coast breweries feel more of a cultural fit with these firms for some reason? There are more questions than answers for now, but it remains an interesting trend.

Uinta Brewing – The Riverside Company

Also in September, Uinta Brewing announced that it had sold a stake to The Riverside Company. As with the other private equity deals above, the existing owners of Uinta Brewing retained a financial interest in the company. The company's press release also announced a new CEO simultaneously with the transaction. Other terms were not disclosed.

Harpoon Brewing ESOP

In July 2014, Harpoon Brewing announced that it was selling 48% of its stock to a trust in an ESOP transaction. As with the Odell Brewing ESOP, the new trust established for Harpoon employees owns less than 50% of the outstanding stock.

The minority-ESOP transaction structure used by Harpoon Brewing has emerged over the past year as the preferred ESOP option of craft breweries. This trend is likely to continue, as this vehicle produces some long-term liquidity for owners, achieves the public relations benefit of being employee-owned, and avoids a change-of-control.

Final Thoughts

There are 17 transactions described above -- three ESOPs, five private equity investments, three buyouts by AB InBev or SABMiller, four deals between craft breweries (or other privately held beer-related businesses), and two investments involving international brewing companies other than AB InBev or a MillerCoors affiliate.

Carl Katz, COO and CFO of the Bruery in Placentia, California, remarks in light of these transactions: "There's never a dull moment in the craft beer world. Regardless of whether a brewery might be part of a transaction like there has been recently, these deals are likely to change the landscape. Any brewery that wants to have an impact is going to take a look at how they make, market, and sell their product."

This list of transactions, while only a snapshot of the past year, shows how quickly the industry is evolving and illustrates the options available to a brewery considering a liquidity transaction.

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