Cheers to anyone who owns a brewery, wants to own a brewery or just wants to know how much a brewery is worth! The craft brewery market has been growing and continues to expand. As the industry continues to evolve, existing breweries will become “of age” or leave the market, and new breweries will continue to enter the market. Whether it is a new brewery or an established brewery, the brewery’s value can and will be of interest to the current owners, potential owners or other interested parties.

Breweries are not unlike any other business. The value can depend upon the market, the earnings that it is expected to generate, and/or the value of the assets, both tangible and intangible. This article will serve up some thoughts and considerations when attempting to estimate the value of a brewery.

- **What are the assets worth?** – One approach to valuing a brewery is the asset approach, or the value of the assets less the liabilities. The nature of the assets greatly depends upon the business model of the brewery. Often times, the brewery will start out as a bar or restaurant that serves its own beer. The assets in this case will resemble a bar or restaurant with some brewing equipment. As the market for the beer grows, the brewery will develop distribution either internally or through outsourcing. As the brewery becomes a true “brewer,” the assets will include more of the manufacturing equipment and can have more operating assets, such as inventory, accounts receivable and accounts payable. In addition to the tangible assets, the brewery can have intangible assets, such as trade names and trademarks, recipes and customer relationships. For the startup, the tangible assets will potentially be of much greater importance than for larger, more established breweries. Typically, the value of the net assets sets a minimum value for the owner of the overall brewery, but may be of little importance to a non-controlling owner with little, if any, ability to force liquidation or otherwise benefit from the value of the assets. In short, understanding the value of the assets and liabilities is an important part of estimating the value of a brewery; however, the value of the net assets may not be a true indication of the value of the business.
• **What value do the projected cash flows of the brewery imply?** – While the value of the brewery’s net tangible assets can provide a “floor” value, this ignores the potential intangible value of the brewery. Once the brewery is beyond its start-up phase, the income approach can be a great indicator of value as it explicitly considers the projected cash flows and risk of the brewery. The expected and/or potential cash flows depend upon:

  + **Market potential** – The craft beer industry has had significant growth, although it has become somewhat saturated with new brewers continuing to enter the market. The ability to grow typically depends upon the ability of the brewery to expand beyond the local market. This takes not only a unique product that appeals to beer drinkers, but also requires marketing to create market recognition and demand, and developing a distribution network. Furthermore, the brewer must consistently develop new beers that appeal to the beer drinkers and keep the brand “fresh.”

  + **Capacity constraints** - When considering the growth potential and resulting cash flows, it is important to understand the potential constraints that will limit and/or need to be planned for to meet the growth plans. The first question is what level of revenues and profitability the brewery can potentially achieve with its current equipment and at its current location. The next question is has the brewer adequately planned for the cost of maintaining and expanding capacity to meet the growth plans. Another constraint that is less obvious, but has become increasingly important, is the limited supply of certain raw materials, such as hops, that can limit the brewer’s ability to produce certain beers.

• **Risk** - When considering the risk associated with a brewery, there are a number of factors that must be taken into account. One of those factors is the status of the industry - while the craft brewery industry has experienced significant growth in recent years, the number of new entrants into the industry is growing at a rapid level; therefore, competition is a key risk. Another factor to consider is the size of the brewery – the larger breweries might be able to achieve profit margins that smaller breweries will not be able to realize. Also, larger breweries can have leverage to obtain shelf or tap space that limits the opportunities of smaller brewers. Breweries are also highly regulated (including items such as distribution channels and excise taxes), which accounts for additional levels of risk. As with any business, there is execution risk – the plans of the brewery are only as good as the management team’s ability to execute. Another risk relates to the financial position of the brewery – are they profitable, do they have a strong capital position, and do they have access to capital? Finally, unforeseen risks – the number of risks associated with a brewery are too numerous to name; therefore, the key is to consider and plan for as many risks as possible, and then have a beer and hope for the best.

• **What does the market say?** – The value of anything depends on what the market will pay for it. In the case of a brewery, the market multiples depend significantly on the stage of development of the brewery. As indicated above, the brewery will initially resemble a bar or restaurant and will be priced accordingly. The information on prices paid for bars and restaurants is not readily available, the data behind the multiples is often unreliable, and the transactions are often older and may not be relevant. As the brewery becomes a true brewery with bottling, distribution and potentially valuable intangible assets (e.g., trade names, trademarks, formulas), the market is closely aligned with other breweries. One source of information is trading multiples for public companies, which may or may not be applicable to the subject brewery for a number of reasons, such as size, geographic diversity and market recognition. The other source would be transactions in private companies, which has similar issues as previously described. In summary, the market multiples may provide some information and may be interesting, but in many cases may not be overly helpful in assessing the value of a brewery. As in the case of a beer, it may be good to know how your beer compares to another beer, but it really depends upon the buyer’s willingness and ability to pay for the beer that makes it valuable.

Similar to assessing the quality of a beer, estimating the value of a brewery will depend upon the uniqueness of the brewery itself. The key ingredients to estimating the value of a brewery include understanding the stage of development, assessing the potential of the future and identifying the key risks. As in making a beer, it is essential to consider the key ingredients that make a brewery valuable, which takes time and effort.

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