

STATE OF THE BREWERY

MARKET TRENDS,
CREATIVE SOLUTIONS
& HOT TOPICS



COMPLIMENTARY SEMINAR | SEPTEMBER 17, 2015

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STATE OF THE BREWERY

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1

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WISCONSIN CRAFT BREWERIES

- As of 2014:
 - 97 craft breweries
 - 850,874 barrels
 - 6.3 gallons per 21+ adult
 - \$1.748 billion impact



2 <https://www.brewersassociation.org/statistics/by-state/?state=WI>

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WISCONSIN'S NEIGHBORS

	No. of Craft Breweries (2011)	No. of Craft Breweries (2014)	No. of Craft Breweries Rank	Production (2014)	Production Rank	Gallons per 21+ Adult	Gallons per 21+ Adult Rank
WI	73	97	13	850,874	9	6.3	9
IL	54	103	11	401,067	13	1.4	28
MN	35	73	16	528,643	11	4.2	11
MI	105	159	6	825,103	10	3.6	13

3 <https://www.brewersassociation.org/statistics/by-state/>

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HIGHEST NO. OF CRAFT BREWERIES

	No. of Craft Breweries (2011)	No. of Craft Breweries (2014)	No. of Craft Breweries Rank	Production (2014)	Production Rank	Gallons per 21+ Adult	Gallons per 21+ Adult Rank
CA	270	431	1	3,423,124	2	3.9	12
WA	136	256	2	405,131	12	2.5	16
CO	126	235	3	1,673,686	3	13.6	2
OR	124	216	4	1,039,063	6	11.1	5
NY	75	181	5	948,228	8	2	20
PA	88	136	7	4,074,883	1	13.4	3
WI	73	97	13	850,874	9	6.3	9

4 <https://www.brewersassociation.org/statistics/by-state/>

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BIG PICTURE

- 22.2 million bbls of craft beer sold in 2014
- 18% craft beer volume increase
- 36% increase in U.S. craft beer exports last year
- 3,739 total craft breweries

http://www.craftbrewersconference.com/wp-content/uploads/2015_presentations/2015_State_of_Industry.pdf
<https://www.brewersassociation.org/press-releases/brewers-association-reports-big-gains-for-small-and-independent-brewers-2/>

5

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6

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R&D Tax Credit History

1981 – 2001 New to the World	2001 – 2014? New to You
Strict Rules <ul style="list-style-type: none"> • Discovery test • Documentation 	Relaxed Rules
Calculate the QRE's <ul style="list-style-type: none"> • Wages • Supplies • Contractors 	Calculate the QRE's <ul style="list-style-type: none"> • Wages • Supplies • Contractors
Calculate the Credit <ul style="list-style-type: none"> • Form 6765 	Calculate the Credit <ul style="list-style-type: none"> • Form 6765 • Alternative Simplified Credit Method

7

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Qualifying Activities

- Develop new or improved products/processes/formulas/software
- Develop prototypes
- Automate/streamline internal processes
- Perform certification testing
- Activities from concept until release to commercial production

8

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Qualified Research Expenditures (QRE)

Wages

Supplies

Contractors

9

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Case Studies



Rule of Thumb:
10% of QRE = Tax Credit

Example : \$50,000 QRE's = \$5,000 of tax savings

10

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When to Claim the R&D Tax Credit?

Be profitable & have income tax to offset

Qualifying Years

- Any open tax years (generally past 3 years)

Carryback / Carryforward

- 1 year back
- 20 years forward

11

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Let's Get Started !

Obtain &
review tax
returns

Website
review

On-site visit /
conference
call

Proposal

12

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A FLIGHT OF FINANCING OPTIONS

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13

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A Flight of Financing Options

- The appropriate financing solution depends on the size and circumstance of the business
- Small Business Administration loans
 - CDC/504 loans – used primarily for real estate and equipment loans
 - 7(a) loans – can be used for working capital or to acquire a business
- Crowdfunding – raising equity from Wisconsinites
- Kiva Zip – character-based small loans

14

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Historic Tax Credits

- Return a portion of the cost of building restorations to the building's owners
 - Federal: 20% of eligible costs
 - Wisconsin: 20% of eligible costs
- Can raise funds by selling the tax credits

15

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Historic Tax Credits: Other Criteria

- Qualified expenses – hard and soft costs
- Building must be used for a business or other income-producing purpose
- Invest at least the minimum amount
- Certified as a historic structure by the National Park Service
- Meet the Secretary of the Interior's Standards for Rehabilitation

16

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Going Green

- Focus on Energy programs – cash-back incentives and technical expertise
 - Business Incentive Program
 - Renewable Rewards Program
 - Renewable Energy Competitive Incentive Program
 - Design Assistance Program
- Cogeneration

17

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DISTRIBUTION ISSUES

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18

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Standard 3-Tier Distribution System



19

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Skip the Middleman

- Sell Directly to Retailers (§ 125.29(3m)):
 - (1) 300,000 or Fewer Barrel Limit
 - (2) Calendar Year Basis
 - (3) All Locations

20

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Self-Distribution

- | | |
|---|--|
| <ul style="list-style-type: none">• Pros:<ul style="list-style-type: none">– Availability/Only Option– Flexibility– Control– Brand Marketing | <ul style="list-style-type: none">• Cons:<ul style="list-style-type: none">– Time Intensive– Access to Resources (truck, equipment, etc.)– Employee/Volunteer/Independent Contractor– §§ 125.33 and 125.34 (step into wholesaler's shoes) |
|---|--|

21

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Choosing A Distributor

- Due Diligence:
 - (1) Determine the distributors in your market:
 - Brewery Website:
<http://www.newglarusbrewing.com/index.cfm/beers/Distribution>
 - Distributor Website:
<http://www.wisconsin distributors.com/product>
 - (2) Ask Retailers and Other Brewers
 - (3) Walk the Aisles

22

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Distribution Agreements

- Written Agreement is Required (§ 125.34)
- Key Clauses:
 - (1) Definition of "Designated Sales Territory"
 - (2) Definition of "Brand" and "Product"
 - (3) Exclusivity
 - (4) Assignment
 - (5) Termination

23

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REGULATORY HICCUPS IN THE NEWS

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Regulatory Hiccups in the News

JOURNAL SENTINEL
Aug. 12, 2015

"Wisconsin hurdles send Sandford chef Justin Arahamian's new brewery to Chicago"

JOURNAL SENTINEL
Sept. 8, 2015

"Craft brewers say they face hard choices with state law on brewery ownership"

The Washington Post
Apr. 21, 2015

"Minn. bar busted for selling Spotted Cow beer in best undercover investigation ever"

Milwaukee
MAGAZINE
Apr. 17, 2015

"Soon-To-Open Company Brewing Splits With Bavette Owner"

Types of Licenses and Permits

- **Class "A" license**: retail sales of fermented malt beverages for consumption off the premises where sold and in original packages, containers, and bottles. EXAMPLE: Grocery store
- **Class "B" license**: retail sales of fermented malt beverages to be consumed either on the premises where sold or off the premises. EXAMPLE: Bar or restaurant
- **Brewer permit**: manufacturing of fermented malt beverages (no limit on amount manufactured).
- **Brewpub permit**: manufacturing of up to 10,000 barrels of fermented malt beverages

*1 barrel = 31 gallons, or about 331 twelve-ounce cans of beer

26

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Questions?

THANK YOU!

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