

The California Spirits Company

Business Plan

2013



The California Spirits Company is a local Rum Distillery in North San Diego County that has designed its products based on how they are enjoyed. "From cocktail to bottle" identifies the unique process of developing a portfolio of Rum products with the customer in mind. This technical process, completed on premise, sources American inputs at all stages of production and offers a heritage that is uniquely San Diego. This powerful combination for delivering the industry's first "Reverse Engineered" distilled spirit is launching in early 2014.

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Executive Summary

The California Spirits Company's mission is to create a family of Rum's that are designed to meet the flavor profiles of specific mixed drinks and the American palate. The legal definition of Rum simply states that it must be made from sugarcane. This has given us a lot of flexibility to design our products.

Most flavors in a distilled beverage are derived from the sugar-based ingredient that is the "Feedstock". Sugarcane derivatives include: pure cane sugar, all varieties of brown sugar, evaporated cane juice, golden molasses, black-strap molasses, and a number of specialty sugars like turbinado, pilon, panocha, and muscovado. Each one of these products, when fermented and distilled, has its own unique flavor profile. By distilling each one in its pure form and blending in various quantities, we aim to develop rum with a sweetness and flavor profile that perfects the popular Cube Libre.

Until now, the only rum products available have been designed from the ingredients forward without concern for how the product is consumed. Mixologists and bartenders have been adding sweeteners and fruit juices to cover the unappealing aspects of Ethanol that come from typical off-the-shelf products available today. Our goal is to engineer rum from tasting many different combinations of feedstock mixed with cola. We're confident that this process of developing a flavor profile that enhances the Rum&Coke will prove compelling to sell many sequential bottles.

The high quality product, focused on the Rum&Coke cocktail will sell sequential bottles but the trick of selling the first bottle stands

squarely on the shoulders of back-story, imagery, and marketing.

San Diego has a unique history involving sea aircraft. Glenn Curtiss was a San Diegan who pioneered the process of take-off and landing an airplane on water and thus conquering both sea and air in a single master-stroke of engineering prowess. This same powerful, American engineering mindset is what we embody as we reverse engineer our business to conquer both brand image and rum cocktails simultaneously.

The sea plane service went on to be the height of luxury travel. Flying boats spared no expense on the lavish interiors of their aircraft as we spare no expense on the quality of our spirits. The image of high-end luxury and exotic, tropical destinations lends to the traditional imagery of Rum yet the sea plane or "Clipper" makes it uniquely San Diegan. We try to communicate the combination of engineering, quality, luxury, and exotic destinations in our logo, product labels, and all coordinated messaging and branding. This is the image that The California Spirits Company embodies.

We chose silver Rum as our flagship product due to attractiveness of market conditions: Rum & Cola is the #2 most consumed alcoholic beverage in the US (behind beer), has the fewest market entrants year over year, and there are almost no regulations constituting what defines Rum. This provides a very attractive market. Inter-competition is low with Bacardi as the clear market leader and occupying almost -80% of shelf space for Rum products. There are currently other Rum options on the shelf but they are few. Craft distilling is in its infancy.

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The Market

Spirits Market Analysis



Distilled spirits is an interesting market. Back in the late 1800's, there was on average 6,000 operating and profitable distilleries in the US when the population was about 62M people. That's about 10,000 people to every distillery. What's really amazing is that during that same time less than 500 breweries were in operation. America was a spirits country and we're fast returning. Today, there are about 230 distilleries in the US and about 314M people. That's 1.3M people to every distillery.

It's not just the basic numbers that are compelling; the laws are rapidly changing as well. Almost every month another state de-regulates spirits distribution or allows for a distiller to sell their own product at retail. In fact, as of January 1st, 2014 California distillers will be able to have a tasting room, give out samples, and charge for those samples! This is a first step towards allowing retail sales of spirits on premise at distilleries much like the way breweries and wineries capitalize on it. With groups like the California Artisanal Distiller's Guild and The American Distilling Institute pressuring legislators to even the playing field, it's only a matter of time before we see a large influx of new micro-distilleries.

Key Statistics Snapshot

Revenue
\$9.4bn

Annual Growth 07-12
4.5%

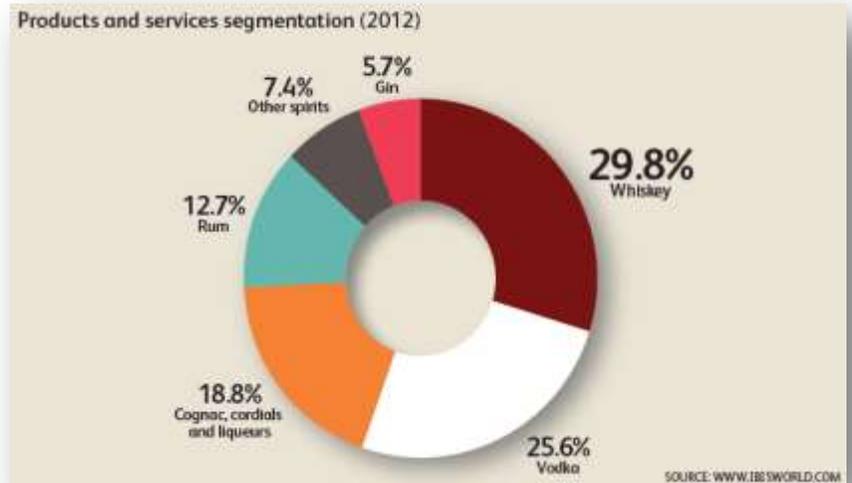
Annual Growth 12-17
4.6%

Profit
\$758.0m

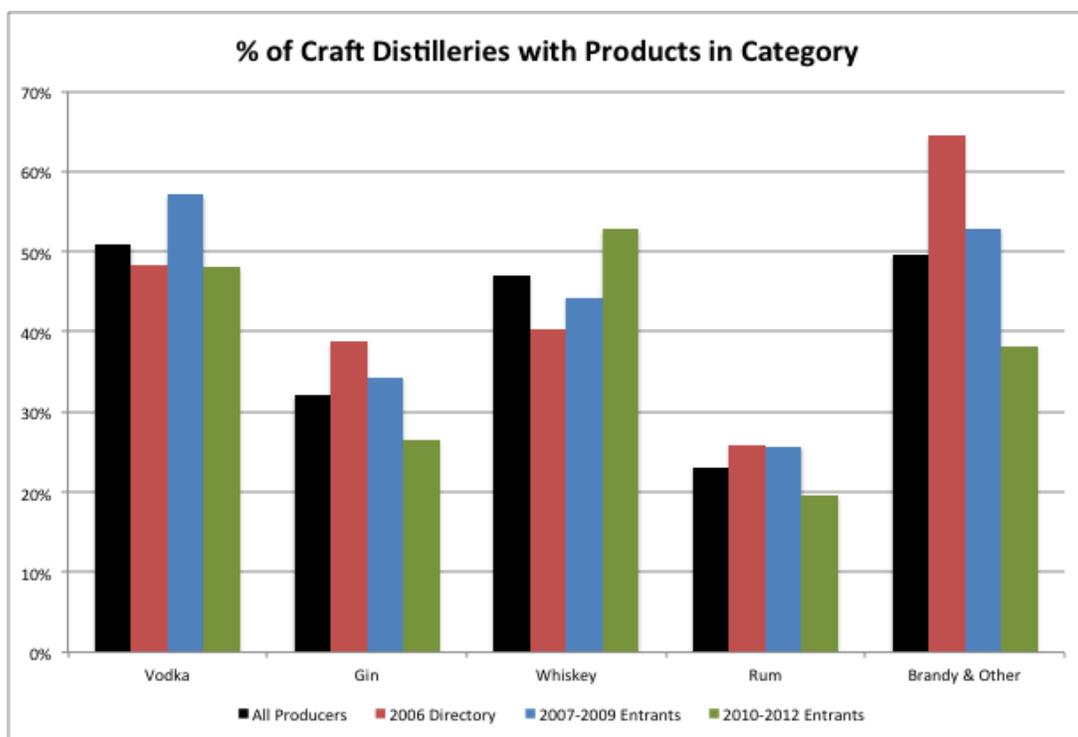
Exports
\$1.5bn

Businesses
176

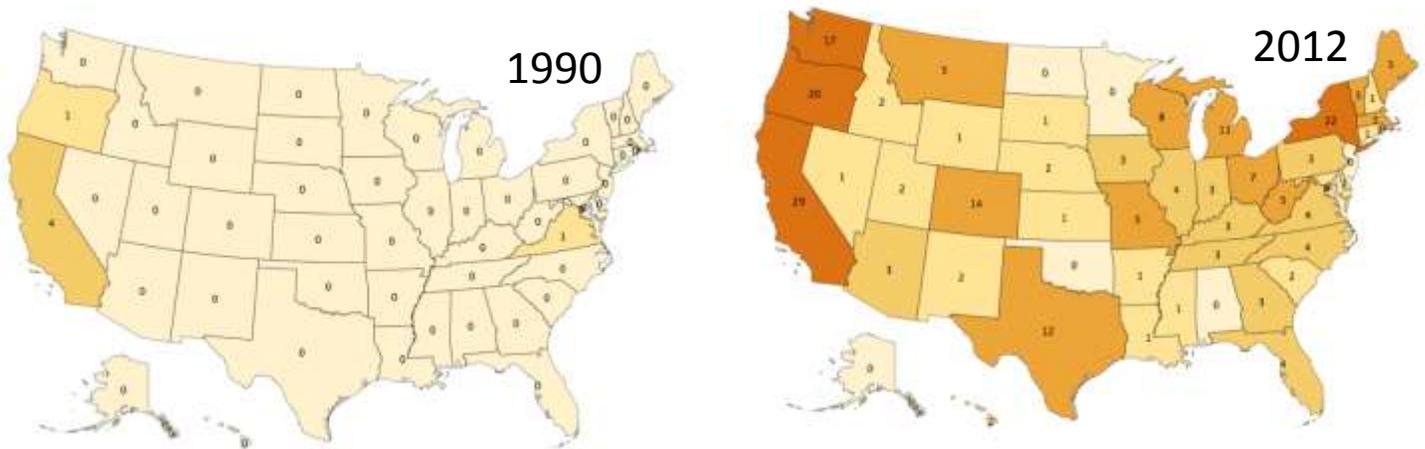
The overall spirits market was \$9.4B in 2012. 12.7% of that is spent on rum. Roughly \$1.2B is spent every year on rum, \$500M of which is claimed by the most popular rum on the market, Bacardi Light. That is the market we are going after. We will bring to market artisanal light rum that will compete on price with Bacardi however far exceeding its quality.



As you can see by the below chart, rum has the fewest product offerings, the fewest competitors, and the fewest new entrants to market, making it the least competitive category of spirits. While many believe that America's future is Whiskey, there are strong signs that the next big thing in spirits is rum. Following hot on the heels of the Tequila revolution in the southern states, we believe that rum and rum cocktails will be the next focus for American consumers.

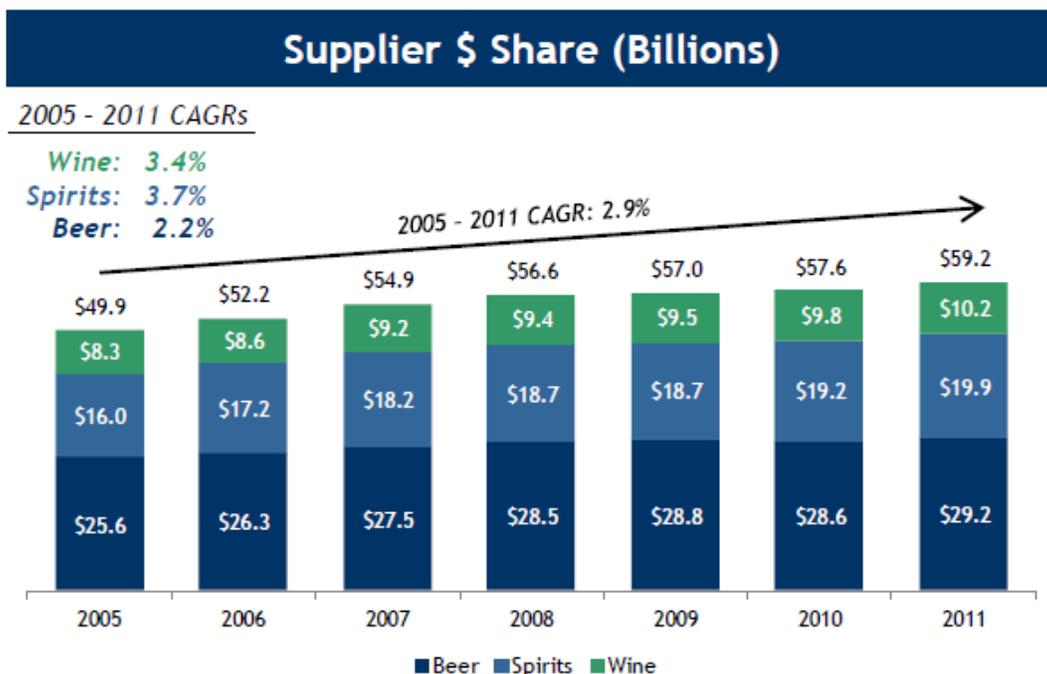


The Craft Distilling Revolution



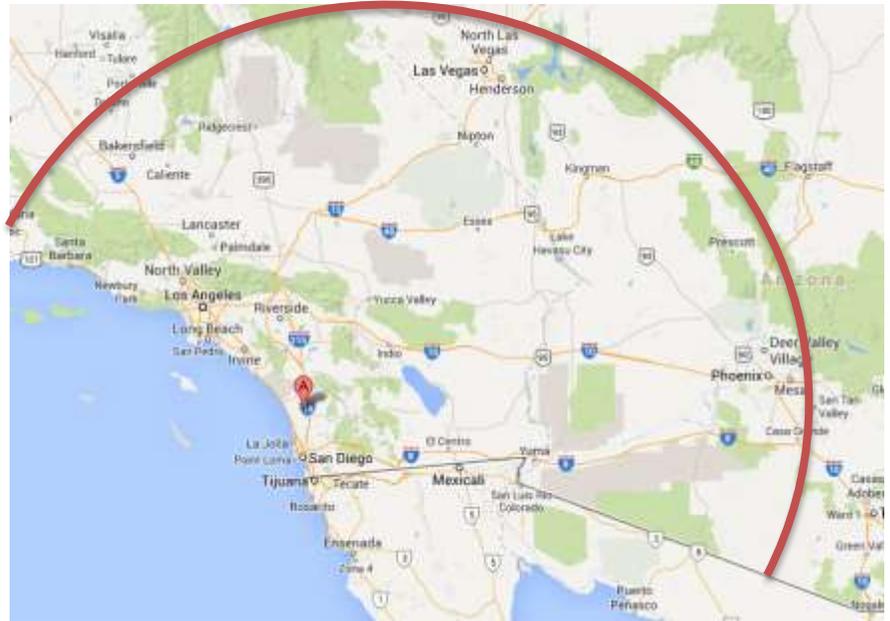
Craft distilleries are popping up in many states as you can see by the above diagrams. While it may look like things are moving quickly, it is nowhere near the pace of the preceding craft beer revolution. California leads the artisanal distiller’s charge with 29 registered distilleries. This should come as no surprise when you consider that California accounts for almost half of all the spirits consumed in the US. These two realities give us access to readily available distilling equipment, suppliers, distributors, and the largest markets.

To take a step back and look at a larger picture (below) we can see that the general spirits category is growing year over year at a slightly faster rate than wine and beer. This is a significant indicator that the micro-brewing industry may be beginning to slow and give way to the next big thing: the craft distilling revolution.



Our Unique Advantages

The red arc drawn here is a 300 mile radius from our facility in San Marcos, CA, a distance that is considered to be our “Local Market”. Our local market includes Los Angeles, San Diego, Phoenix, and possibly one of the largest markets in the world, Las Vegas. In these areas, we will be able to use our “Made locally” campaigns and capitalize on distributor relationships we make in San Diego as their service area also includes these cities. We are ideally positioned with product as well as geography.



Relationships are everything in business and we are not lacking in this area either. Over the past year, we have been able to create strong relationships within the American Distilling Institute (ADI), the local San Marcos city management office, the largest family owned property developer in North County, as well as with suppliers and other distilleries. One of our advantages is a mentorship relationship with the head distiller of Okanagan Distillery in Canada. This past March, Okanagan Distillery was awarded the title of Distillery of the Year and Spirits of the Year at the 2013 World Spirits Competition in Austria. We plan to bring that level of quality into our rum. He will be flying down to California to spend a few weeks going over everything from our recipe to our process in April. Also, our relationship with the ADI has landed us a speaking slot at the annual conference in 2014 where we will be presenting to 1,200 industry professionals. These are a few of the ways we are getting the word out early that we plan to redefine rum in the near future.

It has been said that success depends on 3 things: Territory, Technology, and Timing. We believe that we are in the best territory in the US for launching artisanal rum. We also believe that the timing couldn't be better for launching a craft distillery. Lastly is our technology differentiator. The still we will be using is considered to be the best still in the world, so much so that Germany has a separate set of laws for producers who use a Mueller still. It's also the same still that the best spirits in the world are made with.

The Products

Silver (Light) Rum – “Catalina Bay Rum”

This crystal clear spirit is our flagship product. As hinted at in the executive summary, our goal is to design Rum that compliments the flavor profile of the most popular rum cocktail: The Cuba Libre (Rum & Cola). The lion’s share of the work in this process is developing the recipe. The recipe consists of a mix of various sugarcane based feedstock, specific yeast, nutrients, fermentation conditions, and specific distilling process to include rectification and aging. How we went about developing this recipe was to ferment and distill each variety of sugarcane derivatives that we have local access to and that can be delivered reliably in bulk. This narrows the list of available feedstock to 3 grades of molasses, medium brown sugar, and cane sugar from 3 different suppliers. Sugarcane grown in different areas of the US will impart different flavors (congeners) to the final product, so all need to be tested. Once we ferment each product with 6x different yeast/nutrient combinations, in a climate controlled environment, we run 1 distillation in a pot still (beer stripping stage) and let sit for 24 hours. Then we taste and smell test the product at this stage for differences. Once yeast was decided, we added the batches together for a second distillation (cutting run) where we separate out what will be the final product. We let that settle for 24 hours in glass before mixing and testing with the remaining feedstock distillates. We then developed a chart that identifies different percentages of each sugarcane feedstock based Rum (brown sugar, golden/select/Caribbean/black-strap molasses, cane sugar, evaporated cane juice) and we mix to taste with cola in the proper quantities. These taste tests are then conducted with a qualified panel of Rum&Cola drinkers for statistical probabilities that would appeal to the largest US consumer base. We repeated these tastings until the regressions were complete and the numbers were finalized. The winning mixture was then turned into the recipe that will be used for our flagship light rum product. The next step is to scale up to production levels and taste the final product at volume to ensure that the recipe has scaled. This will be the flagship light Rum for combining in the most popular spirits-based cocktail in the US: Rum&Cola – With this product and our focused marketing campaigns we will home to redefine the imagery and associations about rum and make it uniquely Californian.

Flavored Rums – Phase 2

By using a high-proof maceration technique to bond fruit sugars to the Ethanol molecule, we intend to develop a series of fruit-infused Rum’s designed for specific cocktails. Maceration is the process of allowing smashed, shredded, or squeezed fruit to marinate in alcohol above 90% for 24 hours. This process extracts the essential oils that impart flavor to fruit into the alcohol itself. It’s how many extracts are made. We will produce our own 90% base alcohol from

molasses onsite and macerate in fresh, local fruit (when available), to produce the flavorings. These flavorings will be added to the flagship light Rum product in the final rectification stages. Unlike the current methods of flavoring Rums and vodkas whereas sugary syrup is added post-production, our technique will bond the fruit flavors to the Ethanol molecule itself. The difference is most noticeable when diluted in a cocktail. Syrup additives present themselves as an overly sweet “Jolly Rancher” flavor that is mostly derived from the syrup and only palatable for one or two drinks. Our high-octane maceration technique has the effect of presenting strong, pure, fruit flavors when diluted in a cocktail that are not overpowered by the sugar delivery system that is in the more common, lower grade processes. We plan to first target the Mojito with a strawberry/kiwi product. Once that line is successful, we plan to target the Mai-Tai and Piña-Colada cocktails with cocoanut/pineapple maceration. Further down the road we hope to provide coffee liquor targeting the White Russian, cinnamon/nutmeg rum targeting Eggnog(Seasonal), and various other fruit infusions from apple to orange for targeting Rum Punch.

Aged Rums - Phase 3

This is an exciting area of new technology and opportunity. Recent advances in cooperages (barrel makers) have brought wooden spirals, cubes, and honeycomb walls to the wood aging process. Just as a smaller barrel will reduce the time to maturity for a spirit due to its increased surface to spirit ratio, a barrel with honeycomb walls (lots of small holes) will reduce the time to mature in larger barrels enabling larger batches of quality aged spirits. Most exciting is all the different woods that are now available for these processes. Some softer woods were not used for barrel aging due to the inability to compress enough to hold a spirit without massive leakages. With “Barrel inserts” like cubes, chips, and spirals, these softer woods are now a reality for imparting a new array of flavors to aged spirits. We’re especially excited about the flavors imparted by aging rum in apple and maple wood.

To develop our aged products, we will conduct a similar reverse engineering effort as we did for our light rum but on a much smaller scale. The idea is to develop a series of small batches of silver and amber Rums from high-grade select and Caribbean style molasses that would marry well to the lighter wood profiles and age them in large glass jugs with the wood inserts. This process will accelerate the maturation process to a few weeks where we will again be able to blend, taste, and survey for the most delicious combinations of base molasses and select woods. Once the recipe is identified, we’ll run at production scale to ensure that it can scale to production volumes, taste for accuracy, and integrate the new product lines into our portfolio.

Branding

The Back-Story

As critical as product quality is to selling the 2nd and subsequent bottles, the back-story and imagery is key selling the first bottle. Consumers want to be able to touch and feel, experience the process, get to know the people, and connect with the product they are consuming. Back-story plays a very important role. Some considerations when developing a back-story are to keep in mind if it's a story that people will readily associate to, embody, and naturally become your brand ambassadors. Is it a story that is appealing and matched to the imagery of your product? Is it a story that is easily recalled from viewing your brand imagery or hearing your company's name? It's with these factors in mind that we've chosen to associate our luxurious, tropical product to the rich San Diego history of naval aviation.

Glen Curtiss bolted a friend's boat to the bottom of an airplane that he made in a barn, took it out in the North Coronado Island channel and proceeded to show how one could take-off and land from the water; a single feat that bested both air and sea. This was the beginning of what would later become one of the most luxurious travel services out of San Diego bay. Known locally as "Clippers", the flying boats carried the most affluent of society to Avalon, Catalina and other exotic destinations both in Mexico and the Caribbean. This travel service brought together the same key elements that we seek to embody in our Rum imagery: tropical, luxury, and state-of-the-art engineering. It's through this vehicle that we will implant the very specific image of a luxury rum in the minds of our customers and that beautiful image of tropical adventure and luxury will be recalled every time they see The California Spirits Company logo, our products, advertisements, in-store displays, and merchandise.

In developing product names for our various lines, we're looking into the names of sea planes, locations they flew, and radio names of the charismatic pilots that captained the unique aircraft. The sea plane is the platform of which we will derive all messaging and imagery from. This enables us to draw from many different options when developing marketing campaigns, merchandise, and product labels. The over-arching imagery is of the Clipper in the center of our logo. The logo is designed to embody a hot branding iron that would burn the brand into the side of a wooden cargo crate. The simple design is made to look appealing in both black and white as well as color for various merchandising options. When appropriate, additional imagery around specific campaigns or products can be included on merchandise.

Imagery

The central point of our imagery association is the company logo as pictured here. It's important that the logo is easily recognisable in black & white as well as in color due to how it would appear on caps, shirts, and other merchandise. The look and feel of the logo embodies a time past of aviation and luxury. The sea plane also embodied adventure and freedom, as you could take off and land as you please almost anywhere in the world.



Additional imagery will include attire of the times, specifically of the pilots, support personnel, and affluent passengers of the time, airports that would have serviced flying boats, tropical destinations, and the floating docs and inventions that accompanied the sea plane service. These images will be used in labels, advertisements, marketing materials, and online resources to promote the imagery and brand association.

It is not our intent at this time to use the traditional imagery of the craft distilling market of copper stills, steel fermentation tanks, and images of the actual process. This is a deliberate effort to separate our imagery from ideas of small scale, hand crafted spirits. It's our intent as is demonstrated in the grandiosity of the name, that our goal is a high-quality product focused on national as well as international markets. The name and imagery has to be big enough to drive interest and demand around the world.

Merchandising is going to be one of the avenues to spread awareness. Shirts, hats, and various branded items around the spirits industry will be a focus of our marketing campaigns. The model around providing these items will be a profit model with sales in local retail and online. It's possible that some marketing campaigns will give away branded items like small kegs for bar displays, wooden cargo crates for supermarket and liquor store displays, and other branded items for various events, etc...

Lastly, a large part of our imagery will be the large sign on our building in the shape of our logo and high resolution photos on our website of our marketing materials. In this capacity, there may be some imagery of the actual operations process and the equipment involved in that process. In addition to our online presence imagery, it's our intention at this time to offer live, high resolution video feeds of the stills and operations in real time. In addition to that, additional efforts to create awareness can include (but are not limited to): public tours, courses in rum production, joint community events, joint distilling and brewing events, as well as online promotions.

The Operation

Operations Overview

The basics: The distillery is located at 382 Enterprise St. Suite 104 in San Marcos, CA. A 360 liter (-95 gallon) pot still with detached 6-plate column is on order from Mueller Stills of Germany. The expected arrival date is late March 2014. 6x, 8.5' tall, 311-Gallon fermentation tanks are being fabricated from US-Plastics and due to be delivered in late January 2014. We have completed our bonding and are negotiating insurance policies. The city is set to approve our business license as soon as we provide a complete floor plan to the city planning office. (In progress – Exhibit A)

The facility is a distillery plant only. There will be neither tasting room nor retail sales at this location. There will be no pedestrian foot traffic at this location. There is a 10x12' roll-up door in the back of the facility for pick-up and delivery. We plan to sell directly to restaurants, bars, liquor and grocery stores by using a spirits distribution company for order fulfillment. That distribution company will pick up palletized orders at our roll-up door. Only distillery employees will be allowed into the facility and the occasional tour.

Our marketing efforts are all off-premise. Marketing dollars will be spent on “shelf-talkers”, store displays, spirits competitions, magazine articles, sponsored events, and other forms of awareness campaigning as well as preferential margins for retail placement and distributor preference.

Business Overview

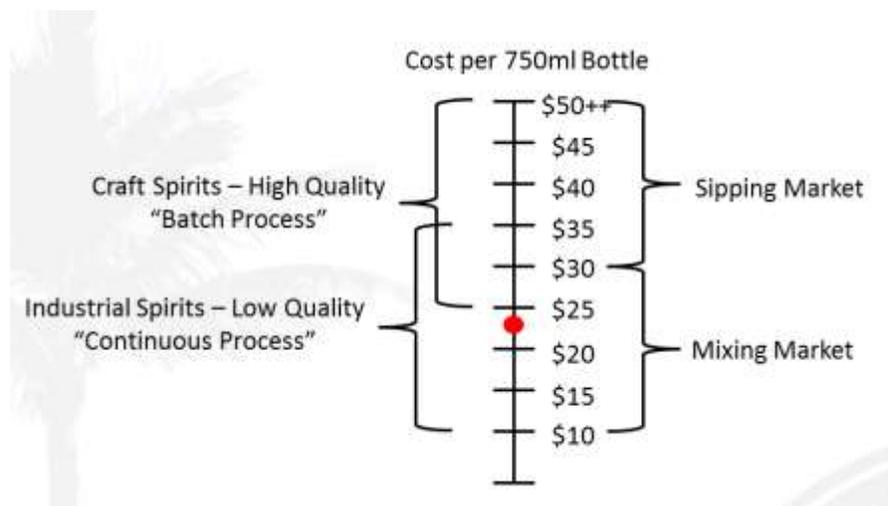
The facility is designed to support up to 600 bottles per day by running 24-hours per day in 3 shifts. However, our goal of “Normal operations” is focused on producing 200x 750ml bottles per day in a single 8-hour shift. How this is accomplished is by running our 95gallon still 3x times in an 8-hour shift producing -67x 750ml bottles of 40% ABV rum per run. These bottles are placed in 12-bottle cardboard cases (9L of rum total per case – “9 Liter case”). There are 52 cases per pallet and we level off at 6 pallets per month.

Each 750ml bottle has a variable cost of \$4.70, a fixed cost of \$0.44, and a tax of \$2.14 for a total cost of \$7.28 per bottle. We plan to sell each bottle to distribution for \$12.84. This creates a profit of \$5.56 per bottle. 6x pallets is 3,744 bottles at a profit of \$20,816 per month (-\$250k per year) At this point, we will start our expansion plan for a new facility at 10x the capacity.

Pricing Strategy

We will be offering our premium white rum to distribution for \$12.84 per bottle. Distribution's total markup should be around \$5.15 (This includes taxes and shipping costs). Retail will also have a markup around \$6.00 per bottle (This does not include taxes as sales tax is paid by the consumer at the register). The base price plus these markups comes to a shelf price of \$23.99. We consider this to be a very low price for a high quality spirit. This statement is easier to explain with a graphic.

The red dot is our price point on the shelf. It falls just under the traditional price range for craft spirits. However, it is middle to middle-high in the mixed drinks market. We are going after the cocktail market with premium white rum but the product is of a much superior quality to what is available today.



Below is a price map of some of selected competition. It's normal to see a bottle of 10 Cane on the back bar being used for cocktails and very rare to see anyone mix Diplimatico Blanco. The price range of what people are willing to mix does have some variance but we feel pretty safe that we are in the right market at \$23.99.



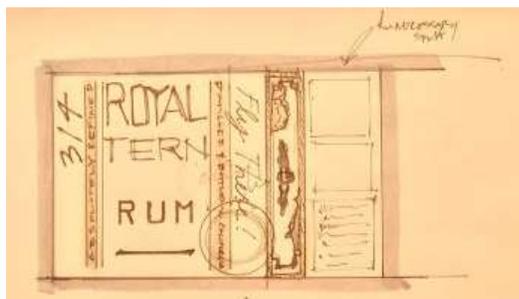
Keys to Success

Awareness & Demand Generation

Awareness starts at the label. We currently have a team from Art Center in Pasadena, CA working on bottle and label design. At this time (since this is a living document), we've only seen the sketches of directions that we may go in. The schedule is for the Art Center team to deliver a finished product in December 2013. Below are a few selected examples of direction that we have been provided with thus far:



The above wing design focuses on a piece of the overall picture allowing the consumer to paint the rest in their mind. By using this approach, one popular idea was to create a tableau graphic that can span multiple bottles to form one image.



Another leading idea was to fashion the labels after luggage tags or airway bills of the era. This would utilize verticals and horizontals to break up the individual components of the label while providing space for storytelling as well as giving the idea that the bottle has been around the world and to many exotic places.

These are just a few of the design ideas that have been provided during the initial iterations. Other ideas included a postcard type label, art-deco ideas, as well as large graphics printed directly on the glass bottle. We are very anxious to see what they have for us in December.

Awareness is targeted at retail outlets as well as the general public (over 21). Demand generation is targeted at the local spirits distributors. California is a “3-Tier” state which means that all spirits sales need to flow from producer, to distributor, to retailer. It is illegal to sell directly to the consumer or to retailers from the position of a spirits producer at this moment in time. New legislation set to go into effect on January 1st, 2014 will allow for spirits producers to have a tasting room however, it is still limited to 1/4oz. pours and only 6 tastes in one sitting. On the positive side, distillers will be able to charge a fee for the tasting and hopefully it will drive a bit of demand for people to go and buy the spirits at the local retail outlet. This is a small step in the right direction. Beer and wine producers have long been able to have limitless tastings as well as retail sales on premise. The goal is to have equal legislation for spirits producers as selling your own product is 3x the profit than going through the traditional channel.

That being said, the typical margins that the industry asks for is 30% of the retail price for both the distributor and the retailer. You also have to be weary of the clauses in the distributor contracts as they will often times re-distribute your product to other distributors and this process can drive up your retail price quickly and significantly. If you are not designed to compete against super-premium brands like the Belvedere and Grey Goose in the vodka market, you could quickly find yourself in a state of brand confusion and product charge-back.

Awareness will be focused around sponsoring local events, magazine articles, and spirits competitions and demand generation will be based on direct sales to retailers and taking those orders to distributors to have them filled. As we gain more accounts, we hope to offer better margins to the distributor in exchange for them sponsoring our product. Product sponsorship would put our rum in the distributor’s magazine that goes to all of their retail customers and has a brief write-up on the product. A typical distributor has 1,000’s of spirits outlets that they serve.

Building an Account Base

There are 165 liquor retail locations and 439 grocery stores within a 25 mile radius of our production facility. Not all of these outlets are going to be selected to carry our rum. We plan to only approach retail outlets that meet a minimum set of criteria to maintain our brand image. Once the retail outlet is selected, a representative from our company will call and arrange a meeting with the decision maker at the retail outlet. The focus of the meeting will be to win over the account to carry our product. We have developed a marketing package of various items from neck-hangers, shelf-talkers, brochures, and props that help convey the image of the brand. We are also prepared to negotiate an initial zero-dollar purchase order to get the product on the shelf and “See how it moves”.

We have created a database of all the addresses and contact phone numbers of the locations mentioned and plan to go systematically from location to location with the goal of talking to 2 decision makers per day, 5 days per week, and having an adoption rate of 20%. That adds up to 8 new retail outlets per month. A typical order could range from 2 to 10 cases per month, per location. Our goal is to sell 2,000 cases our second year. That could consist of 60 retail outlets buying 3 cases per month or any combination that gets us over 2,000 cases per year (167 cases per month). At that point, we will be a profitable business. It should take less than 8 months to build that account base.

Community Support

While the success of this company is not dependent on local municipality and city support, it is still a big factor in growth and breadth of activities performed. We've engaged the city management office very early in the development of this company. We've discussed with them where potential locations for the distillery would be and took their feedback. We discussed future possibilities of building a concentration of craft distillers in North County San Diego. San Marcos is very interested in an alliance of cities across the interstate 75 corridor to promote the craft distilling industry. In return, we plan to be a public fixture; donating to the community both time and money, attending local business building and networking events, and every other city sponsored activity designed to drive more local business and improve business relations in the community. We hope to identify with "North County San Diego" as a hotbed for artisan distilling and add to the tourist pull alongside such notable breweries as Stone Brewing and Lost Abbey, both located in North County. These plans are still in an informal state but as business grows and profits allow for it, we plan to help promote this idea. We are currently members of The American Distilling Institute as well as have an application in for The California Distillers Guild.

The Numbers

Costs

These variable costs are as close to accurate as we are able to get them at this point in time. We did not choose to use conservative numbers; rather we used the actual numbers that we received from suppliers and careful calculations of the tiered utility system. We are not including any volume discounts. In order to balance this calculation, we've increased the margin on our product to account for any adjustments to these numbers. Basically, we gave ourselves a lot of cushion for item price fluctuations and tried to keep the numbers accurate.

V.Costs		F.Costs	
Bottle	\$1.80	Lease	\$1,482.00
Label	\$0.38	Water	\$44.23
T-Cap	\$0.10	Utilities	\$330.00
Sleeve	\$0.05	Misc.	\$200.00
Sugar	\$1.41	Total	\$2,056.23
Yeast	\$0.25		
Enzymes	\$0.10	Btls/Mo.	4673
Case	\$0.58	Per btl	0.44
Pallet	\$0.03		
tax	\$2.14	Btl Cost	\$7.28
Total	\$6.84		

The table below extends the costs to daily, monthly, and annual figures. We put labor outside of fixed costs because we plan on using day and contract labor as needed. Labor is based on \$25 per hour, per employee. There is no loan repayment schedule because we are not debt financing at the moment. Operating a facility with a 360 liter still equates to -\$4.70 profit per bottle (57.8%) which is above the normal range for ROI in the spirits industry.

Costs	per Btl	Daily	Weekly	Monthly	Annually
V.Cost	\$6.84	\$1,598.25	\$7,991.26	\$31,965.03	\$399,562.88
F.Cost	\$0.44	\$102.81	\$514.06	\$2,056.23	\$25,702.88
Labor	\$0.86	\$200.00	\$1,000.00	\$4,000.00	\$50,000.00
Loan	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Totals	\$8.14	\$1,901.06	\$9,505.32	\$38,021.26	\$475,265.75
Markup	\$4.85				
Disti Price	\$12.99				

Revenue Projections

The numbers below are based on working 5 days per week, 50 weeks per year, and operating 1x 360liter pot still 3x times in an 8-hour shift. The calculation for how many bottles a still can produce is a long, complex, and subjective equation. Where we have chosen to error on the side of caution is in calculating the number of bottles produced. With a fermentation of 8.5% to 9% ABV, these numbers are the minimum production calculations. We plan on fermenting at 16% to 18% ABV which will produce a lot more Ethanol to be distilled out which means a lot more bottles per day. We took this approach so that in the beginning, when we need to focus a lot of time on sales and marketing, we can distill 3 days per week and hit these projections, freeing up time to make sales calls. (The ceiling to be considered "Craft" is 50,000 cases per year)

	Production	Daily	Weekly	Monthly	Annually
Bottles		234	1,168	4,673	58,416
Cases		19	97	389	4,868
Pallets		0.37	1.87	7.49	93.61
	perBtl	Daily	Weekly	Monthly	Annually
Retail	\$12.99	\$3,035.28	\$15,176.38	\$60,705.52	\$758,818.97
Costs	\$8.14	\$1,901.06	\$9,505.32	\$38,021.26	\$475,265.75
Profit	\$4.85	\$1,134.21	\$5,671.06	\$22,684.26	\$283,553.22

Below are more conservative numbers. Here we use the variable costs for the CoGS and this time we include the labor costs as well as the fixed costs in Operations Expense to get a clearer picture of the net income. Since this is a single owner LLC, it is taxed as pass-through and in the 9.3% bracket for the state of California and the 33% bracket for Federal tax. What this shows is that with one additional laborer working 5 days a week, you can generate a take-home income of over \$12,000 per month. In reality, we hope to produce 2/3rds more bottles per day from the higher alcohol concentration in the fermentation but here is where we decided to use conservative figures.

Model at Normal operations							
	Revenue	CoGS	G.Margin	Ops Expense	ops Profit	Tax	Net Inc
Day	\$3,035.28	\$1,598.25	\$1,437.02	\$302.81	\$1,134.21	\$479.77	\$654.44
Week	\$15,176.38	\$7,991.26	\$7,185.12	\$1,514.06	\$5,671.06	\$2,398.86	\$3,272.20
Month	\$60,705.52	\$31,965.03	\$28,740.49	\$6,056.23	\$22,684.26	\$9,595.44	\$13,088.82
Year	\$758,818.97	\$399,562.88	\$359,256.09	\$75,702.88	\$283,553.22	\$119,943.01	\$163,610.21

Operations Goals

Realistically, just because you can put out 234 bottles per day, doesn't mean you are going to be able to sell 234 bottles per day from day 1. I've heard it from a handful of micro-distilleries that modest goals for the first year are around 2,000 cases. That is half of our targeted normal operations. In excess of normal operations (4,800 cases per year), we will need to run a second and third shift. With a second shift, it is possible to produce 9,600 cases per year, and 14,400 cases with a 3rd shift. However, it will get very cramped in our 2,000sq.ft. facility with 3-times the sugar and bottles stacked up and 2 additional rows of fermentation tanks. Around the 4,000 cases per year mark, we will start our expansion project. This will consist of building an entirely new distillery with 10x the capacity of our first location.

Our operations goals are to ship 1,000 cases the first year and add an additional 1,000 cases each year for the next 5 years. This strategy is based on the aforementioned process of bringing on 2 new accounts per week, 8 per month, via direct sales. When the money justifies it, we will hire sales people to perform that role. The chart below shows the growth figures for 2 new accounts per week, ordering 1 case per month (It's a bit on an eye chart). This is our primary growth method until we are able to attain a distributor sponsorship.

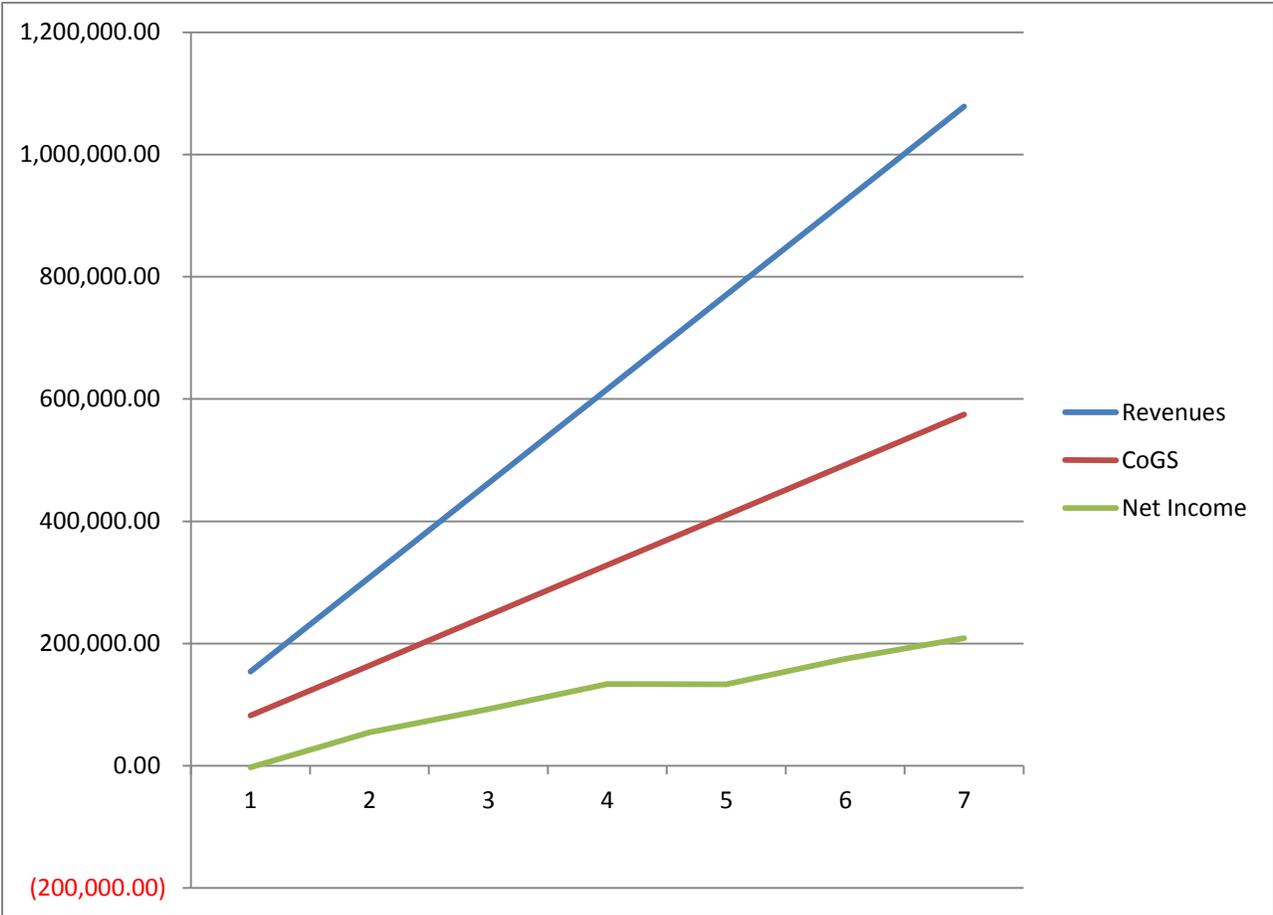
Retail outlets		Annual Sales	
Range	25 Miles	Year	1 528 Cases
Liquor Retail	165 Locations		2 1,680 Cases
Grocery	439 Locations		3 2,832 Cases
			4 3,984 Cases
			5 5,136 Cases

Accounts	
Current #	0 Locations
New Acct.	2 Weekly
Monthly	8 New
Order Size	1 Case/Mo

Projections			Bottles (750ml)				12x Btl Cases				Pallets				Revenue				Profit			
Month	Accts.	New Acct.	Day	Week	Month	Year	Day	Week	Month	Year	Day	Week	Month	Year	Day	Week	Month	Year	Day	Week	Month	Year
1	0	8	0	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2	8	8	5	23	96	1,152	0	2	8	96	0.0	0.0	0.1	1.7	\$59.17	\$295.87	\$1,183.48	\$14,793.44	\$25.65	\$128.24	\$512.95	\$6,411.89
3	16	8	9	46	192	2,304	1	4	16	192	0.0	0.1	0.3	3.4	\$118.35	\$591.74	\$2,366.95	\$29,586.89	\$51.30	\$256.48	\$1,025.90	\$12,823.78
4	24	8	14	69	288	3,456	1	6	24	288	0.0	0.1	0.4	5.1	\$177.52	\$887.61	\$3,550.43	\$44,380.33	\$76.94	\$384.71	\$1,538.85	\$19,235.67
5	32	8	18	92	384	4,608	2	8	32	384	0.0	0.1	0.6	6.9	\$236.70	\$1,183.48	\$4,733.90	\$59,173.77	\$102.59	\$512.95	\$2,051.80	\$25,647.56
6	40	8	23	115	480	5,760	2	10	40	480	0.0	0.2	0.7	8.6	\$295.87	\$1,479.34	\$5,917.38	\$73,967.22	\$128.24	\$641.19	\$2,564.76	\$32,059.45
7	48	8	28	138	576	6,912	2	12	48	576	0.0	0.2	0.9	10.3	\$355.04	\$1,775.21	\$7,100.85	\$88,760.66	\$153.89	\$769.43	\$3,077.71	\$38,471.33
8	56	8	32	161	672	8,064	3	13	56	672	0.0	0.2	1.0	12.0	\$414.22	\$2,071.08	\$8,284.33	\$103,554.10	\$179.53	\$897.66	\$3,590.66	\$44,883.22
9	64	8	37	184	768	9,216	3	15	64	768	0.1	0.3	1.1	13.7	\$473.39	\$2,366.95	\$9,467.80	\$118,347.55	\$205.18	\$1,025.90	\$4,103.61	\$51,295.11
10	72	8	41	207	864	10,368	3	17	72	864	0.1	0.3	1.3	15.4	\$532.56	\$2,662.82	\$10,651.28	\$133,140.99	\$230.85	\$1,154.14	\$4,616.56	\$57,707.00
11	80	8	46	230	960	11,520	4	19	80	960	0.1	0.3	1.4	17.1	\$591.74	\$2,958.69	\$11,834.75	\$147,934.43	\$256.48	\$1,282.38	\$5,129.51	\$64,118.89
12	88	8	51	253	1,056	12,672	4	21	88	1,056	0.1	0.4	1.6	18.9	\$650.91	\$3,254.56	\$13,018.23	\$162,727.88	\$282.12	\$1,410.62	\$5,842.46	\$70,530.78
13	96	8	55	276	1,152	13,824	5	23	96	1,152	0.1	0.4	1.7	20.6	\$710.09	\$3,550.43	\$14,201.71	\$177,521.32	\$307.77	\$1,538.85	\$6,155.41	\$76,942.67
14	104	8	60	300	1,248	14,976	5	25	104	1,248	0.1	0.4	1.9	22.3	\$769.26	\$3,846.30	\$15,385.18	\$192,314.76	\$333.42	\$1,667.09	\$6,668.36	\$83,354.56
15	112	8	65	323	1,344	16,128	5	27	112	1,344	0.1	0.5	2.0	24.0	\$828.43	\$4,142.16	\$16,568.66	\$207,108.21	\$359.07	\$1,795.33	\$7,181.32	\$89,766.45
16	120	8	69	346	1,440	17,280	6	29	120	1,440	0.1	0.5	2.1	25.7	\$887.61	\$4,438.08	\$17,752.13	\$221,901.65	\$384.71	\$1,923.57	\$7,694.27	\$96,178.34
17	128	8	74	369	1,536	18,432	6	31	128	1,536	0.1	0.5	2.3	27.4	\$946.78	\$4,733.90	\$18,935.61	\$236,695.09	\$410.36	\$2,051.80	\$8,207.22	\$102,590.23
18	136	8	78	392	1,632	19,584	7	33	136	1,632	0.1	0.6	2.4	29.1	\$1,005.95	\$5,029.77	\$20,119.08	\$251,488.54	\$436.01	\$2,180.04	\$8,720.17	\$109,002.11
19	144	8	83	415	1,728	20,736	7	35	144	1,728	0.1	0.6	2.6	30.9	\$1,065.13	\$5,325.64	\$21,302.56	\$266,281.98	\$461.66	\$2,308.28	\$9,233.12	\$115,414.00
20	152	8	88	438	1,824	21,888	7	36	152	1,824	0.1	0.7	2.7	32.6	\$1,124.30	\$5,621.51	\$22,486.03	\$281,075.42	\$487.30	\$2,436.52	\$9,746.07	\$121,825.89
21	160	8	92	461	1,920	23,040	8	38	160	1,920	0.1	0.7	2.9	34.3	\$1,183.48	\$5,917.38	\$23,669.51	\$295,868.87	\$512.95	\$2,564.76	\$10,259.02	\$128,237.78
22	168	8	97	484	2,016	24,192	8	40	168	2,016	0.1	0.7	3.0	36.0	\$1,242.65	\$6,213.25	\$24,852.98	\$310,662.31	\$538.60	\$2,692.99	\$10,771.97	\$134,649.67
23	176	8	101	507	2,112	25,344	8	42	176	2,112	0.2	0.8	3.1	37.7	\$1,301.82	\$6,509.12	\$26,036.46	\$325,455.76	\$564.25	\$2,821.23	\$11,284.92	\$141,061.56
24	184	8	106	530	2,208	26,496	9	44	184	2,208	0.2	0.8	3.3	39.4	\$1,361.00	\$6,804.98	\$27,219.94	\$340,249.20	\$589.89	\$2,949.47	\$11,797.88	\$147,473.45

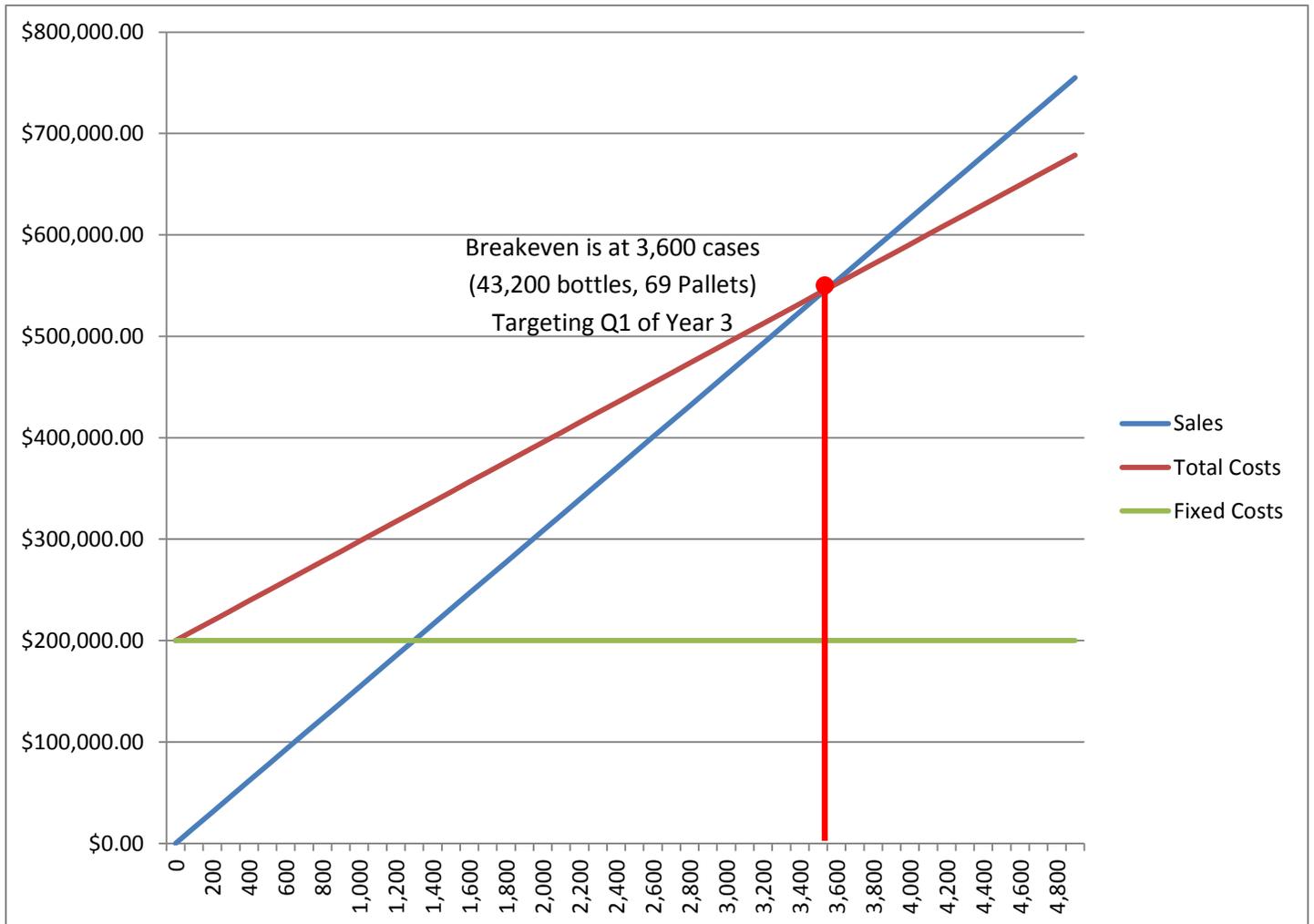
The below chart shows the revenue, income, and costs as we scale to over 4,000 cases. At 5,000 cases we have to run a second shift, however some fixed costs like rent are not counted twice.

Growth							
Year	1	2	3	4	5	6	7
Growth	Startup	100%	50%	33%	25%	20%	17%
Cases	1000	2000	3000	4000	5000	6000	7000
Revenues	154,080.00	308,160.00	462,240.00	616,320.00	770,400.00	924,480.00	1,078,560.00
CoGS	82,080.00	164,160.00	246,240.00	328,320.00	410,400.00	492,480.00	574,560.00
G. Margin	72,000.00	144,000.00	216,000.00	288,000.00	360,000.00	432,000.00	504,000.00
Ops. Exp.	74,674.76	74,674.76	74,674.76	74,674.76	129,165.52	129,165.52	129,165.52
Ops. Profits	(2,674.76)	69,325.24	141,325.24	213,325.24	230,834.48	302,834.48	374,834.48
non-Ops. Exp.	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Pre-Tax Inc	(2,674.76)	69,325.24	141,325.24	213,325.24	230,834.48	302,834.48	374,834.48
Income Tax	0.00	14,558.30	48,474.56	79,570.31	97,642.99	128,098.99	166,051.67
Net Income	(2,674.76)	54,766.94	92,850.68	133,754.93	133,191.49	174,735.49	208,782.81
Net Margin	-1.74%	17.77%	20.09%	21.70%	17.29%	18.90%	19.36%



Financing

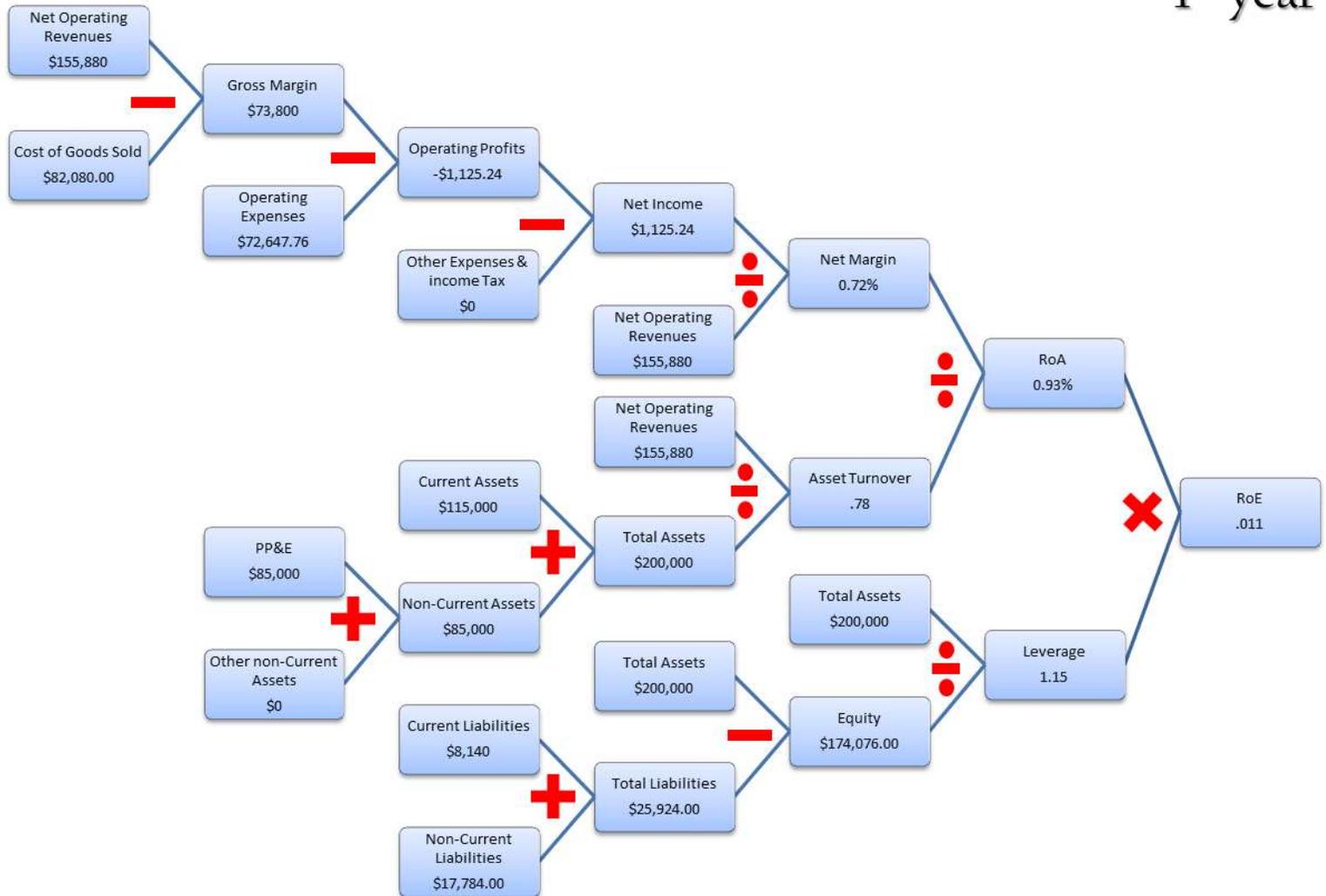
This business is entirely owner financed. The total capital outlay is \$200,000. Calculating \$12.84 revenues per bottle and \$8.14 CoGS, the breakeven analysis shows that the initial \$200K will be paid back by Q1Y3. (1,000 cases sold in year 1 & 2,000 cases sold in year 2)



Year	0	1	2	3	4	5	6	7
NPV								
Interest	4%							
Cash Flows	0	(2,674.76)	54,766.94	92,850.68	133,754.93	133,191.49	174,735.49	208,782.81
Discounted		-\$2,571.88	\$50,635.11	\$82,543.92	\$114,334.27	\$109,473.70	\$138,096.00	\$158,657.77
T. Liabilities	\$200,000.00							
3-year NPV	\$130,607.15							
5-year NPV	\$354,415.12							
7-year NPV	\$651,168.89							

Year	1	2	3	4	5	6	7	8	9	10	11
# of cases per year	1000	2000	3000	4000	5000	6000	7000	8000	9000	10000	11000
Net Operating Revenues	155,880.00	311,760.00	467,640.00	623,520.00	779,400.00	935,280.00	1,091,160.00	1,247,040.00	1,402,920.00	1,558,800.00	1,714,680.00
Cost of Goods Sold	82,080.00	164,160.00	246,240.00	328,320.00	410,400.00	492,480.00	574,560.00	656,640.00	738,720.00	820,800.00	902,880.00
Gross Margin	73,800.00	147,600.00	221,400.00	295,200.00	369,000.00	442,800.00	516,600.00	590,400.00	664,200.00	738,000.00	811,800.00
Operating Expenses	72,674.76	72,674.76	72,674.76	72,674.76	125,165.52	125,165.52	125,165.52	125,165.52	177,656.28	177,656.28	177,656.28
Operating Profit/Loss	1,125.24	74,925.24	148,725.24	222,525.24	243,834.48	317,634.48	391,434.48	465,234.48	486,543.72	560,343.72	634,143.72
Other Expenses & Tax	0.00	15,734.30	51,012.76	83,001.91	103,141.99	134,359.39	165,576.79	227,499.66	237,919.88	274,008.08	310,096.28
Net Income	1,125.24	59,190.94	97,712.48	139,523.33	140,692.49	183,275.09	225,857.69	237,734.82	248,623.84	286,335.64	324,047.44
Net Margin	0.72%	18.99%	20.89%	22.38%	18.05%	19.60%	20.70%	19.06%	17.72%	18.37%	18.90%
Current Assets	\$115,000.00	\$119,600.00	\$124,384.00	\$129,359.36	\$134,533.73	\$139,915.08	\$145,511.69	\$151,332.15	\$157,385.44	\$163,680.86	\$170,228.09
PP&E	\$85,000.00	\$72,857.14	\$60,714.29	\$48,571.43	\$36,428.57	\$24,285.71	\$12,142.86	\$0.00	\$0.00	\$0.00	\$0.00
Other non-Current Assets	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Non-Current Assets	\$85,000.00	\$72,857.14	\$60,714.29	\$48,571.43	\$36,428.57	\$24,285.71	\$12,142.86	\$0.00	\$0.00	\$0.00	\$0.00
Total Assets	\$200,000.00	\$192,457.14	\$185,098.29	\$177,930.79	\$170,962.31	\$164,200.80	\$157,654.54	\$151,332.15	\$157,385.44	\$163,680.86	\$170,228.09
Asset Turnover	0.78	1.62	2.53	3.50	4.56	5.70	6.92	8.24	8.91	9.52	10.07
Return on Assets	0.93%	11.72%	8.27%	6.39%	3.96%	3.44%	2.99%	2.31%	1.99%	1.93%	1.88%
Current Liabilities	\$8,140.00	\$16,280.00	\$24,420.00	\$32,560.00	\$40,700.00	\$48,840.00	\$56,980.00	\$65,120.00	\$73,260.00	\$81,400.00	\$89,540.00
non-Current Liabilities	\$17,784.00	\$17,784.00	\$17,784.00	\$17,784.00	\$17,784.00	\$17,784.00	\$17,784.00	\$17,784.00	\$17,784.00	\$17,784.00	\$17,784.00
Total Liabilities	\$25,924.00	\$34,064.00	\$42,204.00	\$50,344.00	\$58,484.00	\$66,624.00	\$74,764.00	\$82,904.00	\$91,044.00	\$99,184.00	\$107,324.00
Current Ratio	14.13	7.35	5.09	3.97	3.31	2.86	2.55	2.32	2.15	2.01	1.90
Equity	\$174,076.00	\$158,393.14	\$142,894.29	\$127,586.79	\$112,478.31	\$97,576.80	\$82,890.54	\$68,428.15	\$66,341.44	\$64,496.86	\$62,904.09
Leverage	1.15	1.22	1.30	1.39	1.52	1.68	1.90	2.21	2.37	2.54	2.71
Return on Equity	0.011	0.142	0.107	0.089	0.060	0.058	0.057	0.051	0.047	0.049	0.051

1st year



Cost and operating assumptions:

Distilling Operations Assumptions

(At normal operations)

Wash Volume	360	Liters
	95.1	Gallons
Wash ABV	8.71%	
Pot. Alcohol	31.36	Liters
Hearts	75%	
Hearts Vol.	23.52	Liters
Proof	180	
	90%	ABV
Bottle Proof	80	
Bottle ABV	40%	
Volume	52.91	Liters
Bottle size	0.750	Liters
# of Btls/run	70.5	

# of Stills	1
# of Runs/Day	3
# of btls/day	211.6
Btls per Case	12
Cases / Pallet	56
Days/Wk	5
Weeks/Yr	50

Cuts	Liters	
5%	1.57	Heads
75%	23.52	Hearts
20%	6.27	Tails
100%	31.36	Total

Labor

# Employees	1
Hourly rate	\$25.00
Hours/day	8

*Includes medical/Workman's comp

Employee Salaries

	Daily	Weekly	Paycheck	Monthly	Annually
Bottles per day	212	\$200.00	\$1,000.00	\$2,000.00	\$4,000.00
Bottles/Week	1,058				\$48,000.00
Bottles/Month	4,233				
Bottles/Year	52,912				
Tax rate		28.55%			
Monthly Net		\$2,858.00			

Cases per Day	18
Cases/Week	88
Cases/Month	353
Cases/Year	4,409

Pallets per day	0
Pallets/Week	2
Pallets/Month	6
Pallets/Year	79

Primary Capital Assets:

1x 360 Liter Mueller Pot Still (Shown right)
Value: \$75,000 USD

1x 300MBTU Steam Generator (Boiler)
Value: \$10,000 USD (Shown below Still)

Various distilling equipment:

- Density meter - \$2,500 USD (Below)
- Floor scale - \$1,000 USD
- Spirits filter - \$500 USD
- 6x fermentation tanks - \$3,000 USD
- 3x water tanks - \$1,500 USD



Fermentation Tank (325Gal)



} 8.5' Tall
3' round

Photos



Floor plan (Still building)

