The Rubrik’s Cube of Starting a Craft Distillery

ADI 2015 Spirits Conference
Louisville KY
AGENDA

April Fools Day… How Appropriate

Why Me?

Why a Business Plan is critical to Success?

Our Plan: Mine Hill Distillery

Your Plan: 6 Sides to a Rubrik’s Cube
1. Location
2. Production
3. Investors
4. Owners
5. Financials
6. Change

A Few Dance Steps to Consider
OUR PLAN

A dream…
2 years in the making

Take the FIRST STEP…

... But follow your OWN PATH
Production Process

- Distillation
- Local Farms
- Barrell Aging
- Fermentation
- Bottling
- Sales
Artisan Stills

Custom made in Kentucky & Germany with high resale value

Production can be fully automated ensuring consistency and ability to scale.
Craft Distilling

A distiller has many production choices that influence the essence of each craft spirit.

Artisanal style can then be replicated

A single distillate can yield very different products

*Hand-crafted in a modern way*

“Distilling is like composing music… The notes are the same, but how you play them makes all the difference”
Investment Horizon
Capital Calls over time
Possible Tax Benefits
Exit 4-5 years

Capital Call Estimates

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>$400,000</td>
<td>$100,000</td>
<td>$100,000</td>
<td>$100,000</td>
<td>$100,000</td>
<td>$500,000</td>
</tr>
<tr>
<td>Working Capital</td>
<td>$125,000</td>
<td>$125,000</td>
<td>$125,000</td>
<td>$125,000</td>
<td>$125,000</td>
<td>$500,000</td>
</tr>
<tr>
<td>Property</td>
<td>$300,000</td>
<td>$50,000</td>
<td>$50,000</td>
<td>$50,000</td>
<td>$50,000</td>
<td>$500,000</td>
</tr>
</tbody>
</table>

Depreciation $500,000
Easement $100,000

Possible Tax Benefits

$725,000 $275,000 $175,000 $175,000 $50,000 $1,500,000
Tax Benefits

• Potential tax credits (easements, depreciation, energy credits, charitable giving) are better used by investors with taxable income than New Leaf, which will not be initially profitable. Benefits could be substantial; accelerated depreciation (Sec. 179) allowed a write off up to $500,000 for equipment purchases in 1st year (2013).

Equipment/Inventory

• Stills: Quality stills and related distilling equipment can be sold at 90% of purchase price as the lead time on new equipment can be 6 months and market growth has created a demand that manufacturers can’t meet.

• Barrels: Used barrels can be sold for 70% of purchase price for aging scotch, beers, gin and other spirits.

• Inventory: Spirits are one of the few inventories that increases value with age. Typically doubling over the first year and beyond. Aged stock can be sold retail or to other blenders/bottlers.

Property

• Any real estate (purchased) will be upgraded (structure & design) creating value. Property could be resold or refinanced at a higher value.

Phased Investment

• Capital Calls will made over time, limiting exposure in early stages
**MILESTONES**

<table>
<thead>
<tr>
<th>Pre-Launch</th>
<th>Year 1-2</th>
<th>Year 3-4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Plan</td>
<td>Master Distiller</td>
<td>Expand Still Staff</td>
<td>2nd Offering</td>
</tr>
<tr>
<td>Capitalization</td>
<td>Still Staff</td>
<td>Expand Sales Force</td>
<td>Refi Mortgage</td>
</tr>
<tr>
<td>Site Selection</td>
<td>Equipment Order</td>
<td>Add Distributor</td>
<td>Pay off Investors</td>
</tr>
<tr>
<td>Licenses/Approvals</td>
<td>Source Goods</td>
<td>New Markets</td>
<td></td>
</tr>
<tr>
<td>Trademarks</td>
<td>Build Out</td>
<td>Onsite Events</td>
<td></td>
</tr>
<tr>
<td>Pre-Marketing</td>
<td>Marketing roll out</td>
<td>International</td>
<td></td>
</tr>
</tbody>
</table>

**Initial Production**
- 1,000 cases p.a.

**Expand Production**
- 3,000 cases p.a.

**Peak Production**
- 5,000 cases p.a.

**RECENT EXITS**
- 2010 Stranahan’s Whiskey (Co) sold to Proximo (NJ) (6 year hold)
- 2010 St Georges Spirits (CA) sold Hangar One Vodka to Proximo (NJ) (5 year hold)
- 2010 Tuthilltown (NY) sold Hudson Whiskey to William Grant & Sons (6 year hold)
- 2012 Vermont Hard Cider (VT) sold to C&C Group (Ireland) for $350 mm (6 year hold)

---

**Business Development**

Financial success is tied to meeting goals during the start up and growth phases of the business.

Investors can exit in 4-5 years or continue to own a piece of a growing business.
Key Factors to Success

A sophisticated approach to a craft business can maximize returns & minimize risk

Location
• Iconic setting with tourism appeal
• Showcase facility
• Distressed seller lowers purchase price

Production
• Retain Master Distiller/Consultant to *start on the right foot*
• Produce an authentic, premium product
• Automation maintains quality & reduces staffing costs

Sales/Marketing
• Multiple & complimentary sales channels
• Sell the “story” as well as the spirit
• Philanthropy is good business

Financial
• Structure tax benefits & security for investors
• Invest wisely to scale & position the business long term
• Provide attractive risk adjusted returns
<table>
<thead>
<tr>
<th>Publication</th>
<th>Date</th>
<th>Article</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Telegraph</td>
<td>11.6.14</td>
<td>English distillers race to profit from £4 billion whisky boom</td>
</tr>
<tr>
<td>International Herald Tribune</td>
<td>8.24.14</td>
<td>Glasses are raised abroad to US upstarts</td>
</tr>
<tr>
<td>The Daily Beast</td>
<td>7.18.14</td>
<td>Your “Craft” Rye Whiskey is probably from a factory in Indiana</td>
</tr>
<tr>
<td>Litchfield County Times</td>
<td>12.15.13</td>
<td>From Field To Glass</td>
</tr>
<tr>
<td>Financial Times</td>
<td>12.8.13</td>
<td>Hopes soar for spirited revival</td>
</tr>
<tr>
<td>NPR</td>
<td>7.22.13</td>
<td>New York toasts the long awaited revival of its Distilleries</td>
</tr>
<tr>
<td>CBS News</td>
<td>5.3.13</td>
<td>Micro-Boom: US Craft Distilleries elevating American spirits</td>
</tr>
<tr>
<td>Today Show</td>
<td>7.2.12</td>
<td>Artisan craze helps drive boom in craft Booze</td>
</tr>
<tr>
<td>New York Times</td>
<td>4.6.12</td>
<td>A Booze of One’s Own: The Micro Distillery Boom</td>
</tr>
</tbody>
</table>

Craft Distillery Press

Don’t take my word for it
Take the FIRST STEP...

... But follow your OWN PATH

YOUR PLAN

Dreams are just that...
Location, Location, Location

Rural vs. Urban

Showcase Facility vs. Warehouse

Seasonality

Control State or Self-Distribute

Buy, Lease, Build

SIDE 1
LOCATION

It may determine what you do…
but not always
What Spirits to Produce?
Will You Distill, Blend or Buy In?
Scale: Today, Tomorrow
Automation vs. Hand Crafted
Only YOU wake up each morning saying a craft distillery is the best way to spend your time & money

How to attract investors?
   Risk : Return
   Support local
   Spirits are more fun than stocks

Evaluate down side Risks & Solutions

Listen and adapt plan to secure anchor investors

Security & Tax Benefits

Financial Disclosures

Exit Strategy
Investors are your PARTNERS so choose carefully

Is all cash good cash?

Capital with Competency is preferable

Debt vs Equity

Contemplate “breaking up” before you start dating
Analysis
Flexible & Conservative

Revenues
Realistic projections
Sources of Income

Expenses
Start Up Costs
Fixed Costs
Variable Costs
Stress Test

Income
Book Income vs. Cash Flow
In The Black.. Now What?
The Best Laid Plans of Mice & Men often go awry  Robert Burns

Start Up Phase
   Vision
   Fund Raising
   Property Selection

Operations
   Employees
   Sales Strategy
   Business Focus

Exit
   Sale
   Joint Venture
   Bankruptcy

Side 6
CHANGE

2 steps forward... 1 step back

ADI 2015
Step 1
Vision

What is YOUR vision?
What do you like to DRINK
What do you want to PRODUCE

What is your market?
What is happening in your area?
National trends don’t always suit local realities
Who is your competition: National, Regional, Local

Where, What & Why?
Where will you plan the flag?
What the hell are you talking about?
Why will YOUR distillery stand out & succeed?

How much will it take?
All hat and no Cattle
Penny wise and pound foolish

Seeing is believing
Drinking is Due Diligence

Homework
ADI- Membership, Publications, White Papers, Forums
Books
Workshops
Visit Distilleries
Internships

Network
It’s a new industry & people are generally helpful
Don’t waste someone’s time
Be Yourself

Step 2
RESEARCH

Measure twice, Cut once
Step 3
BUSINESS PLAN

Key Components to any plan

ADI 2015
Friends & Family

Concept: Graphic Designers/Consultants

Legal/Accounting

Investors/Partners

Real Estate: Brokers, Landlords, Contractors, Maintenance

Equipment: Vendors, Service

Labor: Full time, Temporary, Interns

Insurance: Property & Casualty, Liability, Health

Sales/Marketing/Distribution

Step 3
Teamwork

It takes a village...
Step 4
EXECUTION

One small step...
Thank You

Elliott Davis
elliott@minehilldistillery.com

Mine Hill Distillery
Roxbury CT