



Value Creation through
Pabst Production
Agreement, Prime Real
Estate, and Favorable
Water Contracts



Executive Summary:

In 1999, Pabst entered an agreement with MillerCoors in which MillerCoors would brew and ship all of Pabst's beers. According to the original contract, Pabst held the option of renewing with MillerCoors through 2030. However, in 2018, Pabst filed a lawsuit against MillerCoors, as the latter company claimed it would not have the capacity to continue brewing Pabst beer after 2020. The lawsuit was settled out of court, and in late 2019, Pabst announced that it would be moving the majority of its production capacity to City Brewing Company by 2024.

However, City Brewing has recently significantly adjusted their renewal prices for Pabst Brewing. City Brewing has profit margins that are below industry averages (6%). When the industry experiences stress, their fixed overhead is so substantial that they need to pass the losses on to their customers in order to remain profitable. City Brewing appears to be charging Pabst Brewing a premium in order to cover operating expenses through an economic downturn.

As a result, Pabst Brewing is considering alternative production agreements. The strategy for this investment is to build Pabst Brewing a bottling facility, and offer favorable terms in order to secure a long-term contract.

Based on the financial projections that Pabst has provided us, our investment will generate \$1.6MM in net operating income in the first year of operations. The initial capital investment will be **\$18.1MM** when accounting for land, construction, production equipment, and interior improvements. In years 3-7, we assumed 5% revenue growth, a 1% COGS reduction, and a 1% OpEx reduction. By year 2027, our net income grows from 6% of revenue, to 15% of revenue, which is probable considering the planned technological advancements to production equipment, and the market growth expectations. When assuming a 2.7x revenue multiple, and a 7 year hold period, the operating company will be worth **\$34.4MM** at sale, which generates a **21% IRR**.

Please note that the exit discussed above does not include the value of the real estate at sale. We are proposing to hold the real estate for a longer period.

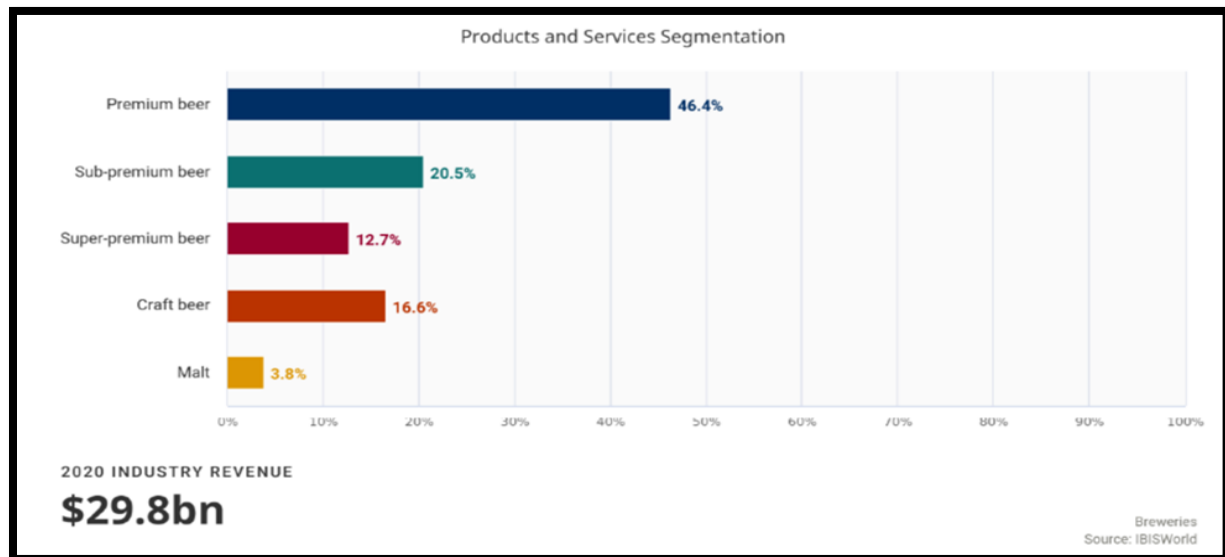
Market Overview:

This investment will fall under the NAICS code 31212 (Beer Manufacturing and Breweries). The following market information is based on this NAICS code.

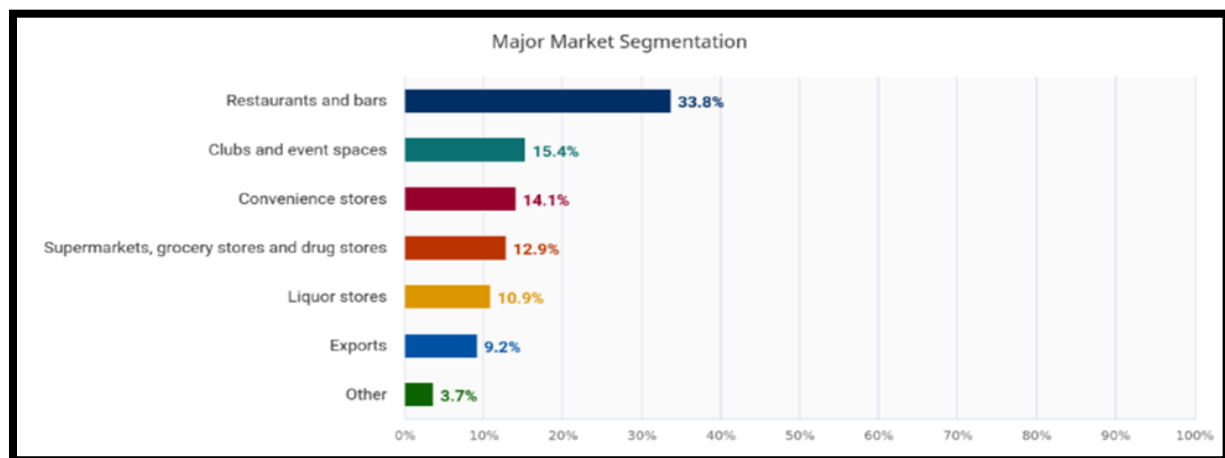
Summary –

Over the five years to 2025, the industry is forecasted to bounce back from substantial declines experienced in 2020 and experience relatively steady growth. IBISWorld projects the economy will begin to rebound in 2021 as the unemployment rate begins to decline. As a result, consumers are anticipated to gradually regain their confidence in their financial standings over the next five years, resulting in a return to growth in spending. Moreover, following the easing of social distancing restrictions, pent-up demand from on-premise downstream markets is expected to spike, as restaurants, bars and event spaces are able to operate unencumbered. **As a result, industry revenue is forecasted to rise an annualized 2.6% to \$34.0 billion over the five years to 2025.**

Market Exhibits -



Pabst is in the “sub-premium” category which accounts for \$6.1Bn of 2020 revenue. According to surveys, Pabst has the “best below-premium image, especially among young adults.”



External Drivers –

Per capita expenditure on alcohol

Per capita expenditure on alcohol is positively correlated with beer sales. Consumers' incomes, cultural preferences or personal tastes can influence demand for beer. As consumers increase their expenditure on alcohol, this translates to higher revenue for breweries. **Per capita expenditure on alcohol is expected to increase in 2021, presenting a potential opportunity for the industry.**

Technological Shifts –

While the standard process of making beer has experienced essentially no major change throughout history, any technological advancements have made brewing processes larger, less costly, and more efficient. Quality-control improvements through computer automation in the brewing process are also fast-growing trends. Modern brewing plants are increasingly using brewing, fermenting and conditioning processes that are automatic-computer-controlled or semi-automatic-controlled via a central-control panel. Increased automation helps brewers to more precisely control variables such as temperature and ingredient proportions during the critical phases of brewing (i.e. mashing, lautering, boiling and fermentation). Technological improvements in monitoring equipment also enable better quality control.

City Brewing Overview:

In 1999 the old G. Heileman Brewing Company's former brewery buildings in La Crosse were bought by a group of investors who founded the City Brewing Company. In September 2006, the company agreed to purchase the Latrobe Brewery in Latrobe, Pennsylvania. The new City Brewery Latrobe entered into an agreement with Boston Beer Company in April 2007, and began producing that company's Samuel Adams beer that spring. In March 2011, the company bought a brewery in Memphis, Tennessee, originally built by Schlitz in 1971, for \$30 million. It is commonly known as the Blues City Brewery.

Pabst Overview:

Pabst Brewing Company LLC (Pabst) is an Illinois-based brewer established in 1844 that survived the Prohibition era by producing mostly soft drinks and cheese instead of beer. Today, the company markets its successful Pabst Blue Ribbon and Pabst Blue Ribbon Light beers. The company also acts as a holding company to facilitate the manufacturing of many defunct but once-prominent beer brands, including Ballantine, Lone Star, Rainier, Schaefer and Schlitz.

In the mid-2000s, the brand became exceeding popular with younger demographics, with many labeling it the "hipster beer." As a result, the company began experiencing massive growth, which has largely continued over the five years to 2020. In 2020, the company is expected to generate \$601.4 million in industry-relevant revenue.



Oasis Brewing Overview:

Oasis Texas Brewing Company, located in a state-of-the-art brewing facility in the heart of the Hill Country, charms beer fans with artfully crafted beers both in cans, and on draft. With an experienced team of brewers led by Austin's own Spencer Tielkemeier, Oasis Texas Brewing Co. is committed to serving fresh, flavorful craft beers for savvy drinkers. Oasis Texas Brewing Company was founded in 2014, and has achieved year-over-year revenue growth over the past six years.

Oasis Management Team:

Max Schleder - Max is an entrepreneur and investor whose company BIS Interests, LLC, has developed and consulted specialty shopping centers, luxury hotels and multifamily residential projects. Currently he owns and operates a Modular and Manufactured housing development company and more recently, the Award Winning Oasis Texas Brewing Company.

Max will be running the day-today operations for this investment. He is a strong, successful operator with over 30-years of experience. There is no one better suited to run the day-to-day operations than Max, and we are lucky to have him.



The local Oasis Texas Brewing Company team L-R: Head brewer Spencer Tielkemeier, Hailey Tielkemeier, Max Schleder, Lesa Kirkconnell, Andrew Rice, Kirby Kirkconnell, Hamilton Stewart, Bob Schultz and Charlie Papazian, Brewer's Association president.

Financial Analysis:

In order to accurately analyze this opportunity, we have divided the analysis into segments. The following pages will show the financial proforma for the real estate investment, operating company, and the combined investment. The real estate model assumes construction of a 100,000 SF building, at 60% loan-to-cost. All square footage rates are based on recent construction projects in the neighboring submarkets.

Real Estate Model –

Sources			Uses		
	\$	\$ / sf		\$	\$ / sf
Equity:	3,128,000	31.28	Land	1,777,000	17.77
Construction Loan:	4,692,000	46.92	Hard Costs	4,105,000	41.05
			Soft Costs	1,552,000	15.52
			Financing Costs	386,000	3.86
	\$ 7,820,000	\$ 78.20		\$ 7,820,000	\$ 78.20

Based on a 60% LTC construction loan (common for this asset type), and a 100,000 SF ground-up construction project, the total project costs will equate to \$7.82MM or \$78.2/SF. This project will require \$3.12MM (40%) in upfront equity before any loan dollars are funded. After all equity is injected, the bank (which will be identified at a later date) will provide a \$4.69MM (60%) construction loan.

Development Budget		
	\$	\$ / sf
Land Costs		
Land	1,777,000	17.77
Total Land Costs	1,777,000	17.77
Hard Costs		
Construction	4,105,000	41.05
Total Hard Costs	4,105,000	41.05
Soft Costs		
Architect & Engineering	240,000	2.40
Legal/Closing/Taxes	20,000	0.20
Other Costs	83,000	0.83
Leasing Commissions	176,000	1.76
Tenant Improvements	800,000	8.00
Developer's Fee	234,000	2.34
Total Soft Costs	1,553,000	15.53
Financing Costs		
Financing Fees	74,000	0.74
Operating Deficit	93,000	0.93
Construction Interest	218,000	2.18
Total Financing Costs	385,000	3.85
Total Project Costs (Incl. Land)	\$7,820,000	\$78.20

The land acquisition cost, and hard cost line items will account for a majority (75.2%) of the project budget. We have also included a tenant improvement line item that will be used to fund interior improvements for the bottling plant. In addition to this, the interest reserve of \$218M is stressed so that interest will be

paid from the budget for 12 months (construction period). Please note that these square footage numbers are all taken from previous construction deals completed in neighboring submarkets.

Real Estate Proforma:

	Jason Roberts - Investment Opportunity							
	Property Stabilized Proforma		Stressed Stabilized Proforma		Spec Scenario Proforma		Permanent DSCR Proforma	
	Untrended		Untrended		Untrended		Untrended	
	\$4.15 psf annually		\$3.98 psf annually		\$4.77 psf annually		\$1.71 psf annually	
	\$ Annually	\$ / SF	\$ Annually	\$ / SF	\$ Annually	\$ / SF	\$ Annually	\$ / SF
Potential Rental Revenue	\$415,000	4.15	398,000	3.98	477,000	4.77	170,636	1.71
Water Revenue	759,623	7.60	759,623	7.60	759,623	7.60	312,335	3.12
Tenant Reimbursements	179,000	1.79	179,000	1.79	179,000	1.79	73,600	0.74
Total Gross Revenue	\$1,353,623	13.54	\$1,336,623	13.37	\$1,415,623	14.16	\$556,571	5.57
Vacancy	0	0.00	0	0.00	(70,781)	(0.71)	0	0.00
Effective Gross Income	\$1,353,623	13.54	\$1,336,623	13.37	\$1,344,841	13.45	\$556,571	5.57
Expenses	(179,000)	(1.79)	(179,000)	(1.79)	(179,000)	(1.79)	(179,000)	(1.79)
Reserves	0	0.00	(40,000)	(0.40)	(40,000)	(0.40)	(40,000)	(0.40)
Net Operating Income	\$1,174,623	11.75	\$1,117,623	11.18	\$1,125,841	11.26	\$337,571	3.38
Total Project Cost	7,820,000		7,820,000		7,820,000		7,820,000	
Equity Amount	3,128,000		3,128,000		3,128,000		3,128,000	
Loan Amount	4,692,000		4,692,000		4,692,000		4,692,000	
Vacancy	0.00%		0.00%		5.00%		0.00%	
Debt Yield	25.03%		23.82%		23.99%		7.19%	
Cap Rate	4.90%		4.90%		5.50%		5.50%	
Value	23,971,888		22,808,622		20,469,843		6,137,653	
"Desktop" Loan-to-Value	19.6%		20.6%		22.9%		76.4%	
Loan-to-Cost	60.0%		60.0%		60.0%		60.0%	

The first column above shows our ideal proforma for the subject development at stabilization (assuming NNN lease, and 0% vacancy because we will be leasing to the operating company). We have projected rents to be \$4.15/sf in this scenario. The resulting NOI is \$1.17MM, which equates to a 25% debt yield. Assuming a 4.9% cap rate (common for 100% pre-lease buildings in the area), the project will be worth \$23.9MM upon stabilization, resulting in a 19.6% LTV.

The second column above shows our stressed proforma for the subject development at stabilization (assuming NNN lease, and 0% vacancy because we will be leasing to the operating company). We have projected rents to be \$3.98/sf in this scenario, and stressed the amount of reserves required. The resulting NOI is \$1.11MM, which equates to a 23.8% debt yield. Assuming a 4.9% cap rate (common for 100% pre-lease buildings in the area), the project will be worth \$22.8MM upon stabilization, resulting in a 20.6% LTV.

The third column above shows a stressed proforma for the subject development at stabilization where the operating company backs out of the lease, and the building is constructed on a speculative basis. In this scenario, we also increase rents to \$4.77/sf in order to account for the spec risk, and stress vacancy to 5%. The resulting NOI is \$1.12MM, which equates to a 23.9% debt yield. Assuming a 5.5% cap rate (common for 100% spec buildings in the area), the project will be worth \$20.4MM upon stabilization, resulting in a 22.9% LTV.

The final column above stresses rents to a break-even debt service coverage based on a 6% interest rate and 30-year amortization (common for an “industrial building”). In this scenario, rents could fall approximately 58.8% from our ideal projections, and still cover permanent debt service 1.0x.

Operating Company Model –

Sources		Uses	
\$		\$	
Equity:	15,000,000	Canning Line	8,000,000
Debt Financing:	0	Production Line	5,000,000
		Other Equipment	2,000,000
		Water Contract	?
\$ 15,000,000		\$ 15,000,000	

Please note that the following financial analysis is based on an industry wide percentage of sales averages.

	Concentrate Producer		Bottler	
	Dollars per Case ^a	Percent of Sales	Dollars per Case	Percent of Sales
Net sales	0.71	100%	5.80	100%
Cost of sales	0.12	17	3.77	65
Gross profit	0.59	83	2.03	35
Selling and delivery	0.01	2	1.22	21
Advertising and marketing	0.28	39	0.12	2
General and administration	0.06	8	0.23	4
Pretax profit	0.25	35	0.52	9

The above picture shows research regarding a bottler’s typical cost/profit breakdown. Please see the next page for a comparison.

	Est. Amount (\$ million)	Percent of Sales (Industry Average)
Total Revenue	\$501.0	100%
Operating Revenue	\$484.5	97%
Cost of Goods Sold	\$201.6	40%
Gross Profit	\$282.9	56%
Operating Expenses		
Pension, profit sharing plans, stock, annuity	\$4.5	1%
Repairs	\$5.0	1%
Rent paid on business property	\$2.3	0%
Charitable Contributions	\$0.2	0%
Depletion	\$0.0	0%
Domestic production activities deduction	\$5.2	1%
Advertising	\$19.0	4%
Compensation of officers	\$1.6	0%
Salaries and wages	\$35.2	7%
Employee benefit programs	\$5.5	1%
Taxes and Licenses	\$52.2	10%
Bad Debts	\$0.0	0%
Depreciation	\$16.3	3%
Amortization	\$3.4	1%
Other Operating Expenses	\$43.7	9%
Total Operating Expenses	\$194.2	39%
Operating Income	\$88.7	18%
Non-Operating Income	\$16.3	3%
EBITDA	\$124.7	25%
EBIT (Earnings Before Interest and Taxes)	\$105.0	21%
Interest Expense	\$60.6	12%
Earnings Before Taxes	\$44.4	9%
Income Tax	\$12.4	2%
Net Profit	\$32.0	6%

Based on these two tables above, we feel comfortable assuming a 9% pretax profit for our operating company.

Income Statement Model (000s)								
	Proforma 2020	Projected 2021	Projected 2022	Projected 2023	Projected 2024	Projected 2025	Projected 2026	Projected 2027
INCOME STATEMENT								
Revenue	6,707,568	0	6,707,568	8,552,825	9,371,247	10,282,590	11,231,608	12,757,249
Growth (%)	0.0%	0.0%	0.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Cost of Goods Sold	2,951,330	0	2,951,330	3,677,715	3,935,924	4,215,862	4,492,643	5,102,900
% of Sales	44.0%	0.0%	44.0%	43.0%	42.0%	41.0%	40.0%	40.0%
Gross Profit	3,756,238	0	3,756,238	4,875,110	5,435,323	6,066,728	6,738,965	7,654,349
% of Sales	56.0%	0.0%	56.0%	57.0%	58.0%	59.0%	60.0%	60.0%
Operating Expenses (SG&A)	2,347,649	0	2,347,649	2,907,961	3,092,512	3,290,429	3,481,798	3,954,747
% of Sales	35.0%	0.0%	35.0%	34.0%	33.0%	32.0%	31.0%	31.0%
Operating Income (EBIT)	1,408,589	0	1,408,589	1,967,150	2,342,812	2,776,299	3,257,166	3,699,602
Interest Expense	804,908	0	804,908	1,026,339	1,124,550	1,233,911	1,347,793	1,530,870
Pretax Income	603,681	0	603,681	940,811	1,218,262	1,542,389	1,909,373	2,168,732
Income Tax Expense	134,151	0	134,151	171,057	187,425	205,652	224,632	255,145
% Revenue Tax	2%	0.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Net Income	469,530	0	469,530	769,754	1,030,837	1,336,737	1,684,741	1,913,587
Operating Income (EBIT)	1,408,589	0	1,408,589	1,967,150	2,342,812	2,776,299	3,257,166	3,699,602
Depreciation	2,981	0	2,981	153,998	168,734	185,143	202,231	229,700
Amortization	0	0	0	0	0	0	0	0
EBITDA	1,411,570	0	1,411,570	2,121,147	2,511,546	2,961,442	3,459,397	3,929,303
Net Income % of Revenue			7%	9%	11%	13%	15%	15%

The model above shows the income statement proforma. We did not include any revenue for 2021, as our assumed construction period is approximately 12 months.

Once we established our revenue numbers from the Pabst proposal, we used market averages from the chart on the previous page to determine what percent of revenue each line item would account for. Going forward, we assumed 5% revenue growth, a 1% COGS reduction, and a 1% OpEx reduction. By year 2027, our Net Income grows from 6% of revenue, to 15% of revenue, which is probable considering the planned technological advancements to production equipment, and the market growth expectations.

City Brewing Company, LLC Comparable M&A Transactions

Create Activity

Add to Binder

0 Items

Currency:

Reported Currency

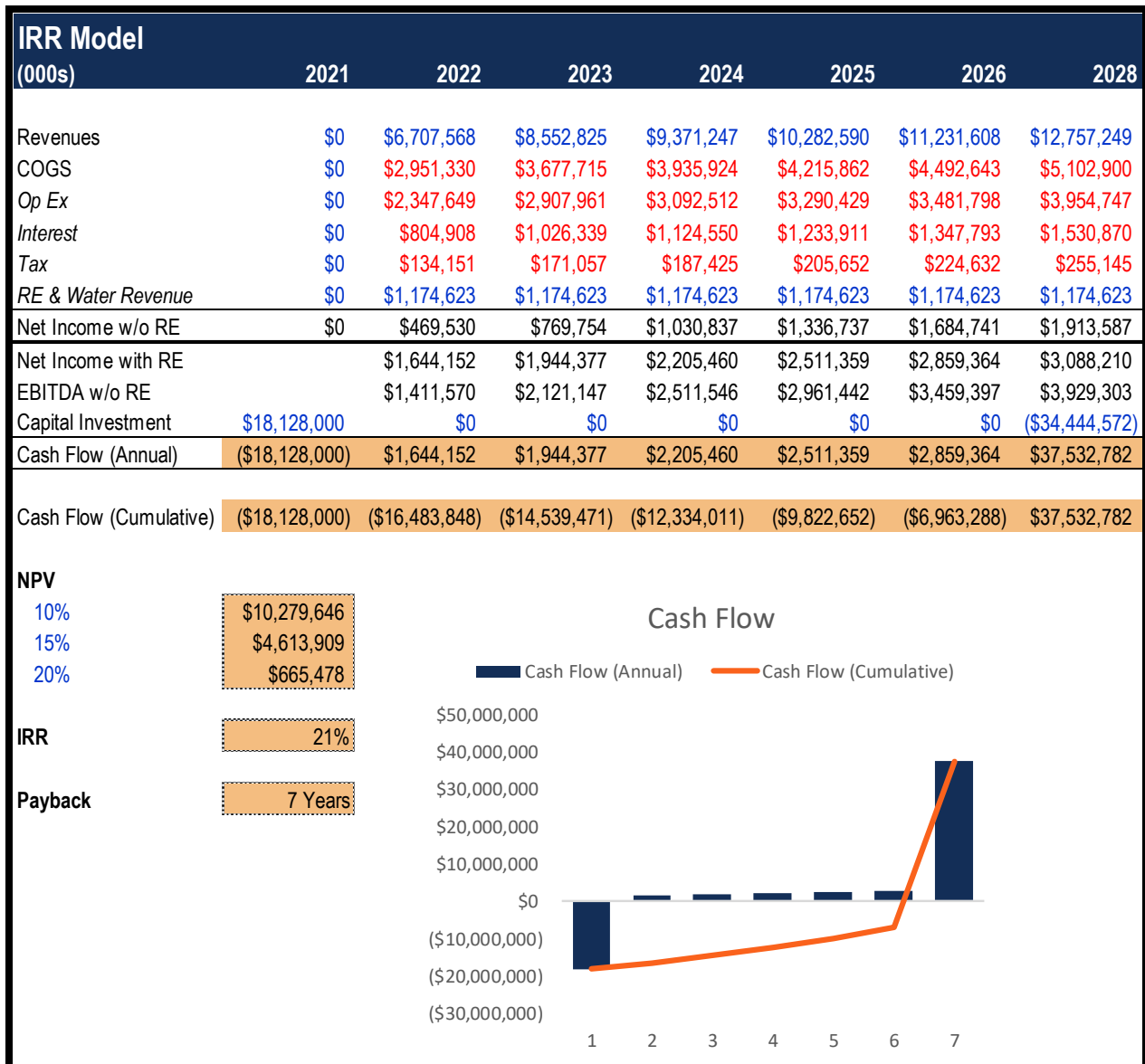
Go

Audit History

Comparable M&A Transactions

Delete?	<div>Announced Date</div>	Transaction ID	Target	Buyer/Investor	Seller	Target TEV(USD mm)	Size(USD mm)	Implied TEV/LTM Revenue	Implied TEV/LTM EBITDA
<div>×</div>	<div>Nov-04-2020</div>	IQTR693994942	SweetWater Brewing Company, Inc.	Aphria Inc.	TSG Consumer Partners, LP	-	366.0	5.5x	16.3x
<div>×</div>	<div>Nov-11-2019</div>	IQTR643839160	Craft Brew Alliance, Inc.	Anheuser-Busch Companies, LLC	-	-	288.1	1.9x	43.6x
<div>×</div>	<div>Jan-25-2019</div>	IQTR599853363	The Fuller's Beer Company Ltd	Asahi Europe Ltd	Fuller, Smith & Turner P.L.C.	-	329.4	1.6x	23.6x
<div>×</div>	<div>Nov-16-2015</div>	IQTR317060623	Home Brew Mart, Inc.	Constellation Brands, Inc.	-	-	1,021.3	10.0x	32.1x
<div>×</div>	<div>Nov-11-2015</div>	IQTR316644042	MillerCoors LLC	Molson Coors Beverage Company	Miller Brewing Company	-	12,019.1	2.7x	12.4x
						Max	-NaN.N	12,019.1	10.0x
						Median	0.0	366.0	2.7x
						Mean	0.0	2,804.8	4.3x
						Min	NaN.N	288.1	1.6x

As you can see above, the median revenue multiple for comparable transactions in this industry is 2.7x. We used this multiple to calculate IRR in the model on the following page.



The IRR model above shows what type of return this investment is capable of producing on a combined basis, including the real estate cash flow. In this model, we made the assumption that the real estate investment, and the operating company investment were one in the same. As a result, the initial investment is approximately \$18.1MM. All other line items were taken from the previous model. When assuming a 2.7x revenue multiple, and a 7 year hold period, the operating company will be worth \$34.4MM at sale, which generates a 21% IRR.

Please note that the exit modeled above does not include the value of the real estate at sale. We are proposing to hold the real estate for a longer period.

Summary:**We are interested in moving forward with this investment based on:**

- The attractive financial returns that the operating company, and real estate are capable of producing.
- Attractive market size – total market value of approximately \$26-29Bn.
- Expected growth in the industry.
- Historical growth of Pabst Brewing Company.
- Consumer shifts to new products such as hard seltzer will open the door to more bottling opportunities at higher margins.
- Opportunity to make an investment in an operating company that would be responsible for paying rent, water, and all expenses on a building that we own. This diversifies the revenue stream, provides stability in a worst case scenario, increases the potential returns, and offers tax benefits.