

The Benefits of Partner Brewing

Maximizing Efficiency

Minimizing Capital

Reducing Environmental Impact

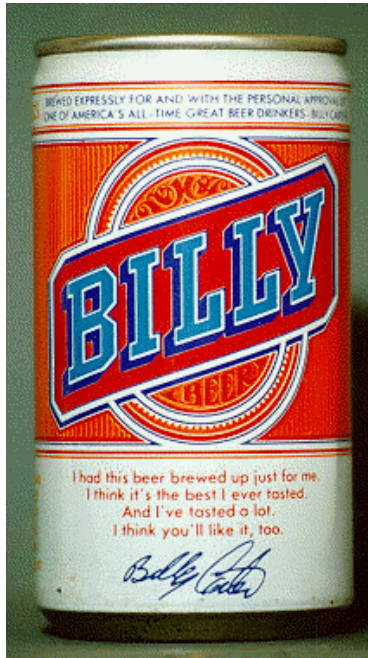
- ✓ Start-up breweries
- ✓ Brewpubs or micros looking to begin/expand distribution without the need for space or significant investment
- ✓ Larger breweries that distribute widely but need capacity, want to reduce shipping footprint or want to produce more of their beer closer to where it is sold
- ✓ Breweries needing specialized equipment or packaging (i.e. canning line, sleek or oversized containers).

Who can benefit from Partner Brewing?

- Total U.S. Craft Breweries (est.)- 1,599
- Estimated number of U.S. craft Breweries doing some or all of their production under contract/partnership – 120-200
- That's likely 10% or more of all U.S. craft breweries doing some or all of their production with a partner brewery.

**Who is currently
Partner Brewing?**

Contract Brewing Partner Brewing



Contract Brewing vs. Partner Brewing



Benefits of Partner Brewing

- **Ability** to begin brewing or expand production quickly and without investing the capital to build and maintain your own brewery.
- **Access** to larger, well-equipped breweries with quality equipment, lab, multiple packaging options, and economies of scale that would not normally be available to a small brewer.
- **Ability** to grow or contract quickly and cheaply as your business plan and markets dictate.
- **Maximize** existing facilities to minimize environmental impact. Centralized location for shipping efficiencies.

Traditional model

Hybrid model

Reciprocal model

Partner Brewing Models

- **Traditional model:** Partner Brewing a new brand. Create a beer brand and then find a brewery with excess capacity to brew and package the beer. (Example: Pretty Things Beer and Ale Project).
- **Hybrid model:** Start-up or existing breweries that develop beers on their own pilot system or micro system and then utilize the larger brewing and packaging capacity at another local or Regional brewery to brew these recipes for wider distribution. (Example: 21st Amendment).
- **Reciprocal Model:** Micro or production breweries that partner with another micro or production brewery and agree to brew some amount of the other party's beer for distribution in the host brewer's home market. (Example: Elysian).



Partner Brewing Basics

Finding the right partner, asking the right questions, avoiding pitfalls.

Partner Brewing is not an easy way out

You get out of it what you put in.

Are you willing to put your company's future in the hands of someone else's company?

You are still the brewer and you need to be on top of your beer and production.

This is a hands-on activity.

- Will they let you bring in your own recipes, yeast, special ingredients?
- Will they let your brewers into the brewery and cellar to actually make the beer?
- Will they let you do special, small run, one-off beers at any time?
- Can you make procedural changes to the way your beers are handled?
- Can you bring in your own special equipment?
- What filtration/finishing options do they offer?
- What packaging options do they offer?

Brewing your beer

- What about secondary packaging—six packs, multi-packs, what other sizes can they do?
- How and where is finished beer stored? Under what conditions? Are there warehousing fees?
- How is staging and shipping managed?
- Can you store POS materials to ship with your beer?
- What kind of lab and QA/QC program do they have? What do they test for and when? Can you request your own protocols?
- What kind of capacity do they have? How long can you grow with them?

Brewing your beer



Contracts and Administration

- It costs money, time, lost production, wasted packaging and lots of state and federal paperwork to move facilities.
- Get to know your partner's business.
 - What are their brands? Volumes? Marketing strategies. How do you fit in with their plans?
 - What benefits do you bring to your partner? Shared costs? Increased production and purchasing efficiencies? Expertise that you can share?
- Make yourself valuable.

Protect Yourself

Have a strong contract

- Do they have a standard form contract they use? Will they allow you to make changes?
- What assurances do you need under the contract?
 - Capacity, QA standards, timely order fulfillment, procedures
- How does the pricing structure work?
 - How much and on what basis are you charged for brewing and packaging?
 - Who orders, provides/pays for raw materials?
 - How and at what rate are federal excise taxes paid?
- Logistics
 - Whose kegs are you using?
 - Will they warehouse your raw materials and packaging materials? What are the fees?
 - Will they warehouse finished beer? How is it stored?
- Miscellaneous issues
 - What kind of insurance do they carry/require?
 - How do you handle issues of beer quality in the marketplace? Bad kegs? Short fills?
 - Who holds title to any equipment you bring in?

Contract Basics

Brewing under Contract

- ✓ Simple agreement
- ✓ Your brand is added to your host's Brewer's Notice
- ✓ Your host brews the beer under your direction
- ✓ Your volume is added to your host's volume for determining Federal excise tax

Alternating Proprietorship

- ✓ Requires significant paperwork for both parties
- ✓ You are considered the brewer under your own license
- ✓ You effectively "own" or alternate the facility with your host when your beer is being brewed
- ✓ You pay the federal excise tax rate based on your volume only

Brewing under Contract vs. Alternating Proprietorship