



# UNTAPPED ESOPs

## **BLOOD, SWEAT, AND BEER:** Why ESOPs and Breweries Go Hand-in-Hand



*We Know ESOPs*

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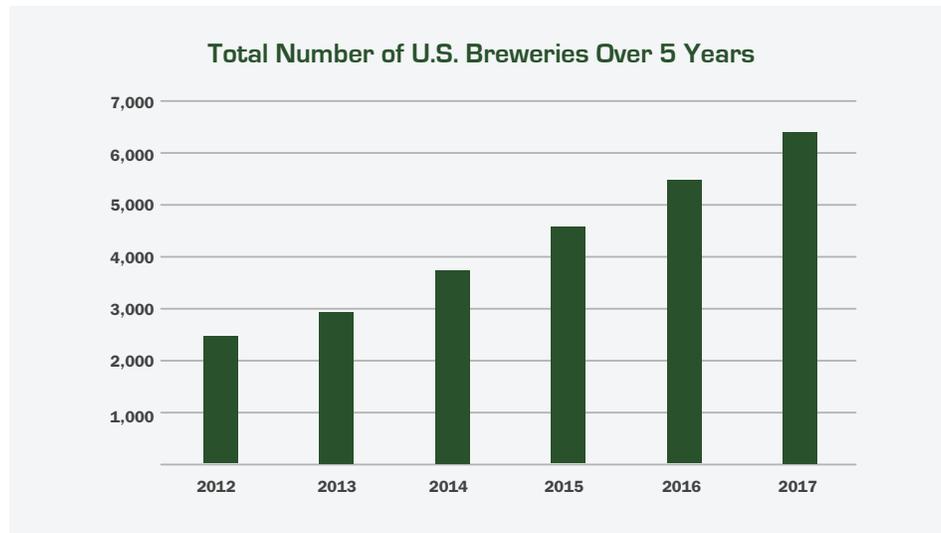
In the last thirty years, beer in the United States has gone from macro to micro. The micro, or “craft” brew scene sprung up in 2012/13 and has quickly overtaken the U.S. beer market with craft breweries. Cities like San Diego (CA), Denver (CO), and Portland (OR)<sup>1</sup> have some of the largest breweries per capita in the United States, with close to 7,000 craft breweries nationwide in 2018.<sup>2</sup>

Breweries are bringing back the “company culture” for U.S. businesses. This company culture is the workplace environment, and the core of the business.<sup>3</sup> Some craft breweries gained their first employees based on the

<sup>1</sup> The Top 10 Craft Brewery Cities are: San Diego (CA), Denver (CO), Portland (OR), Santa Rosa (CA), Minneapolis (MN), Chicago (IL), Austin (TX), Seattle (WA), St. Louis (MO), and Anchorage (AK). <http://www.visualcapitalist.com/craft-beer-cities/>; See also <https://pudding.cool/2017/04/beer/>

<sup>2</sup> Justin Kendall, As *Distressed Breweries Close, More Used Equipment Heads to Auction, Brewbound*, <https://www.brewbound.com/news/distressed-breweries-close-used-equipment-heads-auction> Sept. 12, 2018. Many breweries are set to default on their loans in 2019.

<sup>3</sup> Cody Fague and Isaac Arthur, *Define Your Brewery's Culture Through Branding, Craft Brewing Business*, <https://www.craftbrewingbusiness.com/business-marketing/define-your-brewerys-culture-through-branding/>, Feb. 11, 2016.



desire to work for whatever pay was available, just to be part of the craft brewery movement. Two of America's oldest breweries, F.X. Matt and August Schnell attribute their success and longevity to providing a great place for the brewery team to work. August Schnell, which is still family owned, emphasizes their pride in their product and notes that members do not mind working long hours because they enjoy their work and what their work is for.<sup>5</sup>

Brewery culture expands beyond the owners and employees. According to beer researcher Mike Stein for D.C. Brau Brewing Co. in Washington D.C., breweries are becoming the third go-to place for people to meet, outside of the home and the office.<sup>6</sup> Community building is now a byproduct of a brewery, with people congregating regularly at breweries after work or on weekends to spend time with friends and family. Stone Brewing Co. in San Diego, CA, has a collaborative, rather than competitive, mentality in its interactions with other breweries around the nation.

Brewery culture seems made for Employee Stock Ownership Plans (ESOPs). Breweries seek collaborators and innovators, and typically people want to work there long term and be part of the creation team for

new brews.<sup>7</sup> Without an ESOP, retirement can be difficult for workers, and could even close the brewery or change its structure altogether, depending on how the owners plan to retire. As many craft breweries are in the stages of their youth,<sup>8</sup> their owners and founders may not yet have thought of a succession plan for their business, or developed contingencies to be employed in the event of a financial downturn.

It is here that we will look at five different breweries: Ballast Point, Green Flash, New Belgium, Modern Times, and Full Sail. Three of the five of these breweries are based in San Diego, CA.

### **Ballast Point**

Founded in 1996 by Jack White and a group of home brewers, this San Diego brewery was the 17th largest brewery in the country based on sales volume in 2015. It currently has 9 locations, 7 in California and 1 each in Illinois and Virginia. In 2015, the Ballast Point brand sold to Constellation Brands for \$1 billion, and since then, Constellation Brands has been taking more control of the brewery's sales and marketing. In 2016, founder Jack White left to start a new spirits company.<sup>9</sup> Ballast Point's sales to wholesalers

<sup>4</sup> Data from <https://www.brewersassociation.org/statistics/number-of-breweries>.

<sup>5</sup> Ron Pattinson, *Live Long and Prosper: How Two Family Breweries Continue to Compete Generations After Opening*, *Beer Advocate*, <https://www.beeradocate.com/articles/16873/live-long-and-prosper-how-two-family-breweries-continue-to-compete-generations-after-opening/>

<sup>6</sup> Jim Morrison, *Are Craft Breweries the Next Coffeehouses?*, *Smithsonian Magazine*, <https://www.smithsonianmag.com/arts-culture/are-craft-breweries-next-coffeehouses-180964739/>. Nov. 2017.

<sup>7</sup> Kristen Ricaurte Knebel, *ESOPs and Hops: Craft Breweries Turn to Employee Ownership*, *Bloomberg BNA*, <https://www.bna.com/esops-hops-craft-n73014445100/>. Jul. 21, 2016.

<sup>8</sup> Most craft breweries are less than 30 years old. In California, the number of craft breweries grew from less than 70 to 200 breweries in the 10 years from 1990 to 2000. <http://www.californiacraftbeer.com/ca-craft-beer/history-craft-beer-ca/>. Between 2015 and 2018, the U.S. saw at least 2,000 craft brewers open their doors. Greg Trotter, *How Ballast Point, once one of the fastest-growing craft breweries, lost its mojo - and how it might get it back*, *The Chicago Tribune*, <http://www.chicagotribune.com/business/ct-biz-ballast-point-sales-decline-20180514-story.html>. May 18, 2018.

<sup>9</sup> Chris Fumari, *More Out the Door: Ballast Point Founder Jack White and COO Yussef Cherney Depart*, *Brewbound*, <https://www.brewbound.com/news/door-ballast-point-founder-jack-white-coo-yussef-cherney-depart>. Jul. 29, 2016.

dropped in the last year as they sought to find a better price point for their products.

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### Green Flash

Green Flash is also a San Diego Brewery that has recently felt the pinch from expansion. In 2018, the company defaulted on its loans and had to close their brewery in Virginia, effectively ending their national expansion for the time being. Due to its inability to pay back its debts, Green Flash sold to an investment firm in April 2018. In this transition, the Green Flash brewery will continue to operate; however, the company will be dissolved.<sup>10</sup> So far, this has meant the firing of all employees and brewers in Virginia.

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### New Belgium

One of two non-San Diego breweries on this list, New Belgium Brewing opened in 1991 and is 100% employee owned. The collaboration between employees and management allows for a collaborative atmosphere that positively impacts the company culture. In 2016, New Belgium opened a brewery in Asheville, NC, and the competition for jobs at an employee owned company was fierce.<sup>11</sup> While New Belgium, like all craft-breweries, began feeling the squeeze of the slowing of craft brew sales in early 2018, this resulted in the loss of only 4% of their workforce, with the 28 employees being provided severance packages with up to 20 weeks of salary.<sup>12</sup>

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### Modern Times

The newest edition to the ESOP family, Modern Times Brewing transitioned to an employee owned company in 2017.<sup>13</sup> The desire to provide a major win for investors, employees, and the founder motivated the transition to the employee owned model. Their ESOP structure bought out 30% of the company at the outset, providing returns to investors at the fair market value of their shares, or an 82% growth from the initial 2015 purchases.<sup>14</sup> Employee rewards,

enhanced company culture, and the creation of a sustainable succession plan were all factors in the decision. Over time, every employee at Modern Times will be eligible to own a piece of the company.<sup>15</sup>

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### Full Sail

Oregon's craft brewery, Full Sail Brewing, is the only known brewery to have been an ESOP and now no longer have that structure. In 1999, Full Sail converted into an employee-owned brewery. In 2015, the employees voted to sell the brewery to a San Francisco-based private equity firm.<sup>16</sup> The vote was approved by 98% of the 78 employees. From there, the employees were able to bring their retirement packages to fruition early, demonstrating another boon the ESOP brings: the ability to reap the value of your company when the *employees* choose. The ultimate decision of the employees allowed the company to be sold when the price was high and presented an increase in financial wealth for the employees and the employers alike. The proceeds from the sale went directly to the employees' ESOP funds, and were apportioned based on length of time and service at the brewery.<sup>17</sup>

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### Could an ESOP save a brewery from sale?

An ESOP cannot always rescue a company from poor financial decisions made by the owners, but having an ESOP in place could prevent these poor financial decisions from being made in the first place. When the wall is broken down between management and employee, the decisions made by management take on greater weight, as it is not only their company that they are gambling, but the company of all the employees present. Furthermore, an ESOP can ensure that employees and employers both reap the benefits of whatever sale or bargain is considered. In this way, the ESOP can assist with a sale, allowing employees to participate and for all involved to gain in the transaction.

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<sup>10</sup>This includes the dissolution of Alpine Beer, which Green Flash purchased in 2014. Comerica Investment company plans to keep both breweries operating while dismantling the companies. Peter Rowe and Lori Weisberg, *Green Flash, awash in debt, is sold to investment firm*, [San Diego Union Tribune](http://www.sandiegouniontribune.com/business/sd-fi-green-flash-foreclosure-20180403-story.html), <http://www.sandiegouniontribune.com/business/sd-fi-green-flash-foreclosure-20180403-story.html>. Apr. 3, 2018.

<sup>11</sup>Darren Dahl, *What's So Special About Employee-Owned Companies Like New Belgium Brewing?*, [Forbes](https://www.forbes.com/sites/darrendahl/2016/05/02/whats-so-special-about-employee-owned-companies-like-new-belgium-brewing/#3498704e72d1), <https://www.forbes.com/sites/darrendahl/2016/05/02/whats-so-special-about-employee-owned-companies-like-new-belgium-brewing/#3498704e72d1>. May 2, 2016.

<sup>12</sup>Chris Furnari, *New Belgium Cuts 4 Percent of Workforce Amid Craft Brew Slowdown*, [Brewbound](https://www.brewbound.com/news/new-belgium-cuts-4-percent-workforce-amid-craft-beer-slowdown), <https://www.brewbound.com/news/new-belgium-cuts-4-percent-workforce-amid-craft-beer-slowdown>. Feb. 23, 2018.

<sup>13</sup>*Modern Times Beer*, <http://www.moderntimesbeer.com/blog/modern-times-now-employee-owned-company>. Jul. 7, 2017.

<sup>14</sup>Justin Kendall, *Modern Times ESOP gives 30 Percent of Company to Employees*, [Brewbound](https://www.brewbound.com/news/modern-times-esop-gives-30-percent-company-employees), <https://www.brewbound.com/news/modern-times-esop-gives-30-percent-company-employees>. Jul. 7, 2017.

<sup>15</sup>*Market Watch*, *Modern Times Beer Sells – but not to Big Beer*, <https://www.marketwatch.com/story/modern-times-beer-sells-but-not-to-big-beer-2017-07-07>. Jul. 7, 2017.

<sup>16</sup>Chris Furnari, *Full Sail Brewing Acquisition Expected This Month*, [Brewbound](https://www.brewbound.com/news/full-sail-brewing-acquisition-expected-month), <https://www.brewbound.com/news/full-sail-brewing-acquisition-expected-month>. Mar. 4, 2015.

<sup>17</sup>Jason Nottle, *Private Equity Tempts Craft Brewer Full Sail to Cash Out*, [Market Watch](https://www.marketwatch.com/story/private-equity-tempts-craft-brewer-full-sail-to-cash-out-2015-03-05), <https://www.marketwatch.com/story/private-equity-tempts-craft-brewer-full-sail-to-cash-out-2015-03-05>. Mar. 5, 2015.

### Who else is going ESOP?

Craft brewers have realized that employee ownership helps maintain and augment their culture and give a better atmosphere and employment environment. Other brewers who have gone ESOP include: Deschutes, Harpoon Brewery, Left Hand, New Glarus, Alaskan Brewing Co., and Voodoo Brewery. Odell Brewing is transitioning to partial ownership. New Belgium and Switchback are 100% ESOP companies.<sup>18</sup> Reasons for these transitions include ESOPs as a means to cultivate long-term service, promote trust and responsibility in the workplace, create liquidity for shareholders, emphasize teamwork, and create value for the company – in addition to setting up an exit and transition strategy.<sup>19</sup>

ESOPs represent the spirit of craft brewing and provide enormous benefits to the employees and

employers alike. ESOPs can attract talented employees from across the nation, eager to become owners in their own right and work hard for the company and values they believe in. The ESOP may not be perfect for everyone, but it's difficult to imagine a more perfect alignment of values and thinking than ESOP and the new craft brewery scene.

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<sup>18</sup> Justin Kendall, *Modern Times ESOP gives 30 Percent of Company to Employees*, [Brewbound](https://www.brewbound.com/news/modern-times-esop-gives-30-percent-company-employees), <https://www.brewbound.com/news/modern-times-esop-gives-30-percent-company-employees>. Jul. 7, 2017.

<sup>19</sup> Chris Furnari, *Left Hand Brewing Announces Employee Stock Ownership Plan*, [Brewbound](https://www.brewbound.com/news/left-hand-brewing-announces-employee-stock-ownership-plan), <https://www.brewbound.com/news/left-hand-brewing-announces-employee-stock-ownership-plan>. Jul. 1, 2015; Furnari, *Harpoon's ESOP gives 48 Percent of Company to Employees*, [Brewbound](https://www.brewbound.com/news/harpoons-esop-gives-48-percent-of-company-to-employees), <https://www.brewbound.com/news/harpoons-esop-gives-48-percent-of-company-to-employees>. Jul. 10, 2014; Furnari, *Deschutes Establishes Employee Stock Ownership Program*, [Brewbound](https://www.brewbound.com/news/deschutes-establishes-employee-stock-ownership-program/), <https://www.brewbound.com/news/deschutes-establishes-employee-stock-ownership-program/>. Apr. 19, 2013.



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