

CROWDFUNDING TAPS BEER DRINKERS' ENTHUSIASM

A report on Crowdfunding and Breweries by Martin Cornell

INTRODUCTION

Beer fans have invested almost £50 million in their favourite breweries through crowdfunding sites, research has found, with the number of individual investments totalling over 65,000.

The research, by the investment comparison company OFF3R, discovered that more than 40 breweries in the UK, and half a dozen craft beer retail operators, had taken the crowdfunding route to raise cash for their expansion over the past four years. At least six brewing companies have raised sums in excess of £1.7m at a time. Others were less ambitious, successfully passing fundraising targets as low as £300. However, brewing ventures made up four of the top 20 biggest crowdfunding efforts in 2016.

While more than half the money raised has gone to just one firm, BrewDog, the maverick Scottish brewer, other big beneficiaries of the remaining £22.5 million raised include Chapel Down Group, owner of Curious Brew, which gathered a total of £5.66m; Camden Town Brewery in North London, which raised more than £2.75 million from 2,173 investors via Crowdcube before being sold for £85 million to the international giant AB Inbev in December 2015; Innis & Gunn of Edinburgh, which raised £2.2 million from almost 1,800 investors; and the Wild Beer Company of Somerset, which brought in £1.8m from just over 2,000 backers.

THE HISTORY OF BEER AND CROWDFUNDING

The history of crowdfunding in the brewing sector actually dates back more than two centuries, to the Golden Lane Genuine Beer Brewery, which opened near the Barbican in the City of London in 1805 and raised more than £250,000 – equivalent to perhaps £19 million today – from 600 “co-partners”, including 120 publicans, with the aim of brewing cheaper beer than the then big brewers were making. The timeline to the right highlights the long history of beer and crowdfunding.

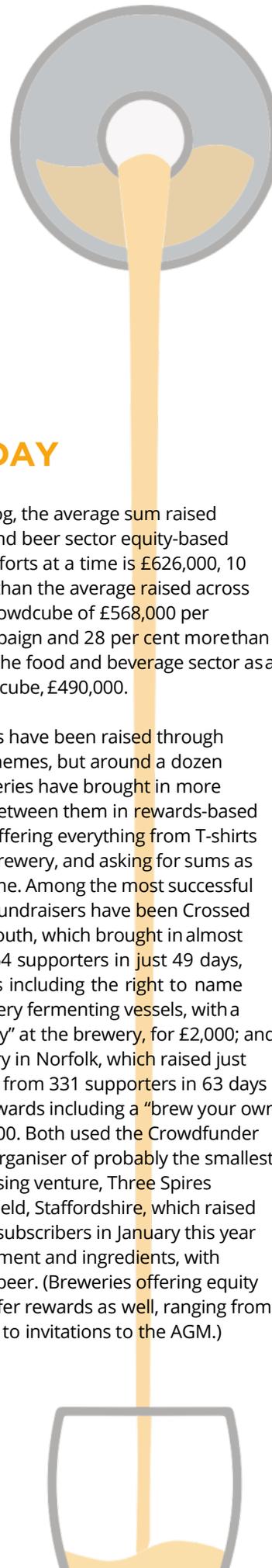
BEER AND CROWDFUNDING TODAY

While a number of new small British breweries issued shares to raise money, such as HopBack of Salisbury, which brought in £750,000 through a Business Enterprise Scheme in 1993, no brewer in the UK went down the crowdfunding route until BrewDog launched its first “Equity for Punks” scheme in 2009, two years after it was founded, bringing in £769,000 from “fanvestors”. Two more Equity for Punks fundraising ventures in 2011 and 2013 took the total raised to more than £7 million from 12,000 investors. Another push, Equity for Punks IV, brought in a further £20 million, and raised the number of investors to more than 50,000, while BrewDog also issued a £10 million mini-bond which attracted 2,700 investors. When it sold some 22 per cent of the company to the investment firm TSG Consumer Partners based in San Francisco, in April this year for a total of £213 million, BrewDog was given an enterprise value of £968 million, just ten years after it was founded.

Meanwhile equity-based crowdfunding platforms had opened in the UK, with Crowdcubelaunching in February 2011, Seedrs, in July 2012 and Banktothefuture in August 2012. Despite the fees crowdfunding platforms charge, generally around 5 to 7 per cent of the money raised, with some also billing investors as well, according to the capital growth of the company they invest in, no other British brewer has taken the Brewdog route and organised its own crowdfunding. The most popular crowdfunding platform among British brewers is Crowdcube, with more than two dozen brewery clients, for which it has raised more than £11 million. Its rival Seedrs has just two brewery clients and the craft beer distributor Eebria on its books, the same number of beer sector clients as the Angels Den platform, but has raised more than £7.8 million for them, against Angels Den’s £166,000 for its three brewery firms.

Ignoring BrewDog, the average sum raised by all brewery and beer sector equity-based crowdfunding efforts at a time is £626,000, 10 per cent higher than the average raised across all sectors on Crowdcube of £568,000 per fundraising campaign and 28 per cent more than the average for the food and beverage sector as a whole on Crowdcube, £490,000.

The largest sums have been raised through equity-based schemes, but around a dozen new small breweries have brought in more than £100,000 between them in rewards-based crowdfunding, offering everything from T-shirts to a day at the brewery, and asking for sums as low as £5 at a time. Among the most successful rewards-based fundraisers have been Crossed Anchors of Exmouth, which brought in almost £38,000 from 364 supporters in just 49 days, offering rewards including the right to name one of the brewery fermenting vessels, with a “christening party” at the brewery, for £2,000; and Wildcraft Brewery in Norfolk, which raised just short of £22,000 from 331 supporters in 63 days after offering rewards including a “brew your own beer” day for £500. Both used the Crowdfunder site, as did the organiser of probably the smallest brewery fundraising venture, Three Spires Brewery in Lichfield, Staffordshire, which raised £320 from nine subscribers in January this year to pay for equipment and ingredients, with rewards of free beer. (Breweries offering equity also, typically, offer rewards as well, ranging from discounted beer to invitations to the AGM.)



1805

Golden Lane Genuine Beer Brewery Opened & Raised £250,000 from 600 investors.

Mid 1820s

Golden Lane Genuine Beer Brewery fell into decline.

1886

Guinness became first brewery that was originally a private partnership to sell shares to the public. Almost 20,000 investors

applied for shares, and only 6,000 were successful.

1995

Boston Beer Company, maker of Samuel Adams lager, put coupons on six-packs of his beer allowing customers to buy 33 shares in the 10-year-old company at \$15 a share, a total investment of \$495.

1993

HopBack of Salisbury, which brought in £750,000 through a Business Enterprise Scheme.

2009

BrewDog launched its first “Equity for Punks” scheme, bringing in £769,000.

2011

BrewDog Equity for Punks Round 2.

2013

BrewDog Equity for Punks Round 3.

2016

BrewDog Equity for Punks Round 4.

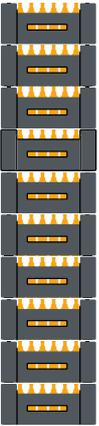
2016

BrewDog issued a £10 million mini-bond which attracted 2,700 investors.

2017

BrewDog sold 22% of the company to the investment firm TSG Consumer Partners based in San Francisco.

TOP 10 CROWDFUNDED UK BREWERIES

COMPANY	COMPANY	COMPANY	COMPANY	COMPANY	COMPANY	COMPANY	COMPANY	COMPANY	COMPANY
									
Brewdog, Aberdeenshire	Chapel Down, Kent	Camden Town Brewery, London	Innis & Gunn, Edinburgh	The Wild Beer Co., Somerset	West Berkshire Brewery, Berkshire	Redchurch Brewery, London	Hop Stuff, London	Mad Squirrel, Hertfordshire	Derby Brewing Co., Derbyshire
									
£27m 2009-2016	£5.7m* 2014, 2016	£2.75m 2015	£2.2M 2016	£1.8m 2017	£1.76m 2016	£930k 2016, 2017	£802k 2013, 2017	£650k 2016	£604k 2017
Self-raise & 									
50,000	2,350	2,170	1,765	2,050	650	1,190	634	615	560

* Total raised for Chapel Down Group, including Curious Drinks

**Approximate individual investors

WHO ARE THE INVESTORS

Analysis by Crowdcube of more than 11,200 investors who have put money into brewing and beer-related companies via its platform shows a distinct tilt towards male investors compared to crowdfunding ventures as a whole. Men make up 17 in every 20 brewery crowdfund investors on Crowdcube – 85 per cent – against an overall split among Crowdcube investors generally of 73 per cent male to 27 per cent female, suggesting a strong element of “fanboy” investing by male beer drinkers in their favourite brew.

Each investment in breweries on Crowdcube averages £1,503 at a time, 16 per cent lower than the average individual investment across Crowdcube as a whole, £1,789. This may suggest that brewery crowdfund investors have a lower net worth to stake than the average crowdfund investor. However, almost a fifth of Crowdcube brewery investors have put money into two or more brewery crowdfunding ventures via the platform, and the average proportion of investors in a brewery pitch who have invested in another brewery pitch is 52 per cent.

The average age of brewery investors on Crowdcube is 41, suggesting a certain maturity. Geographically the largest proportion of brewery investors on Crowdcube, at 27 per cent, more than one in four, comes from London, although London only has less than 14 per cent, or one in seven, of the UK's total population. The next biggest regions for brewery crowdfund investors on Crowdcube to come from are the South East of England, with 10 per cent, and Scotland, with 9 per cent.



**PROPORTION OF
BREWERY INVESTORS
WHO HAVE INVESTED IN
ANOTHER BREWERY**



RETURNS

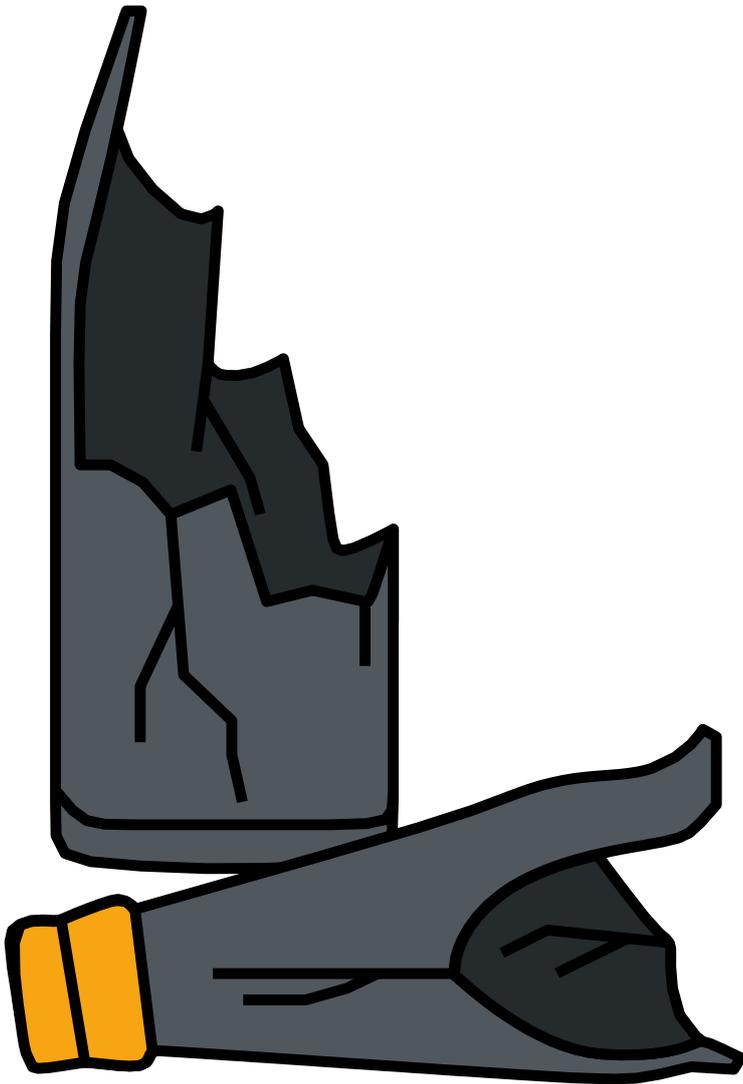
With interest rates still low, and inflation now rising, the potential returns available through making a crowdfunding investment look, on the surface, very attractive. Seedrs has claimed that its investors have seen a 14.4pc annualised return, rising to 41.87pc after tax relief. However, this represents growth in the share price only, with shareholders not actually seeing that return appear in their bank accounts every year. The big criticism of crowdfunding is that investors find it hard to get their hands on their rewards, with no, or only very limited retail markets in which to sell their shares.

Some investors in brewery crowdfunding ventures have certainly seen spectacular paper returns, however. According to BrewDog, at the company's current valuation of almost £1 billion, anyone who put money into its first Equity for Punks crowdfunding, which closed in February 2010, has seen the value of their investment increase 2,765 per cent in seven years, a compound growth rate of almost 275 per cent a year. Even investors in its most recent crowdfunding round, EFP IV, which closed in April 2016, saw a 177 per cent increase in the value of their holding over 12 months. The company has run annual opportunities for its shareholders to sell up via Asset Match, a website that enables dealings

in private companies, and one BrewDog shareholder revealed earlier this year that she had invested £2,000 in EFP II in 2011, sold half her holding via Asset Match in 2016 for £8,000 – a 70 per cent compound annual return – and still had a holding worth, on paper, £53,000. However, when BrewDog sold a 22 per cent slice of itself to TSG in April this year, EFP investors were allowed themselves to sell just 15 per cent of their individual shareholdings, capped at 40 shares per investor.

Camden Town Brewery investors saw an even faster return, with the company raising £2.75 million via Crowdcube in April 2015 for 5.37 per cent of the business, giving an enterprise value of £51 million, and selling out to the giant brewing concern AB InBev just eight months later for a reported £85 million – a compound growth rate of 7.6 per cent a month, or 45 per cent a year.

However, BrewDog and Camden Town are rarities even among crowd-funded ventures as a whole, and Seedrs warns that most investors are unlikely to see returns within five to seven years, assuming they get anything at all.



FAILURES

With half of all new business enterprises reckoned to fail before five years are up, it is no surprise that crowdfunded breweries have still got into trouble, despite the due diligence most crowdfunding platforms impose and, sometimes, the presence of high-profile experienced investors. Jon Moulton, founder of the private equity firm Alchemy Partners, put £25,000 into the North East of England brewer Delavals, founded in Blyth, Northumberland in 2010. as it attempted to raise £400,000 in January 2015 by selling 30 per cent of the company via the Investingzone.com crowdfunding platform. Delavals was the officially licensed brewer to the National Trust and operated the Trust's beer club.

The fundraising failed, and Delavals went into liquidation in May 2015, blaming market saturation and extremely competitive beer pricing, and the fact that it had not raised sufficient cash to pay for the marketing support to bring in sufficient sales to keep it going. Other failures include Brūpond, based in Leyton, East London, which raised £ 45,000 from 45 investors on Crowdcube in 2012 but went into liquidation in September 2013; and Little Brew, originally of Camden in North London, which raised £109,000 on Crowdcube for 27 per cent of its equity early in 2014, moved its operations to York, and then collapsed at the start of 2016.

Those all cost investors their money, but crowdfunding attempts by brewers also miss their targets and never take off. Among recent failures, Burton Town Brewery sought to raise just £25,000 last September on Crowdfunder but attracted only 13 supporters.

SECRETS OF SUCCESS

Tom Lucas, finance director of the West Berkshire Brewery, which successfully raised £1.76 million through Seedrs in May 2016, said that in his opinion, the most important thing for someone looking to raise money through crowdfunding was to already have a decent database of investors “off-platform” to tap for funding. West Berkshire Brewery had already raised £1.2m “offline” before it launched on Seedrs he said, and he added that he was “100 per cent sure” that other brewery companies raising substantial sums through crowdfunding has also already raised most of the money “off-platform” from investors before crowdfunding began.

Lucas also suggested that small brewers looking for finance should explore other routes to raise cash first, such as developing a network of angel investors, and using business grants and start-up loans, Paul Harris, a director at Derby Brewing, which successfully raised £640,000 in a round of crowdfunding on Crowdcube that ended in May 2017, selling 11 per cent of its equity, agreed that marketing the fundraising even before the official opening was vital. “We had marketed the offer initially to our own crowd, the databases of customers we already had through being a pub owner, and to our followers on social media. That was the advice Crowdcube gave us.

We also put literature in our venues, and around Derby, making people aware of what was happening, so that we had a lot of people pledge support even before the crowdfunding went live. We also worked with various more high-net-worth individuals we knew, to try to get them involved. There was a huge amount of work went in to ensuring that our crowd, if you like, got on board.

“The key thing is to get the guys on board and pledged, and to build that momentum: it’s all about building momentum in the campaign. On the last day of fundraising we had £65,000 come in, the day before that, £50,000. When you bear in mind the percentage of what we raised that represents, it shows you how much people get on board once you’re over-funded.” Harris also recommended talking to other companies that had raised money through crowdfunding, not just in the craft beer sector but outside, saying that had been very helpful for Derby Brewing.

PITFALLS

One criticism of equity crowdfunding is that it gives away equity in a company, at a time when the potential future value of that equity is very hard to calculate. Critics say entrepreneurs may be valuing themselves too cheaply, and missing out on future wealth.

Another is that inexperienced company owners may sign deals with crowdfunding platforms that are not in their best long-term interests. One brewery finance director who launched a successful crowdfunding through a major site, and who asked to remain anonymous, as "I might have to go back to these guys one day," criticised what he said was the greed of the crowdfunding platforms: "When you shake hands with them, count all your fingers afterwards". He also complained about their tactics, alleging that the crowdfunding platform he was dealing with tried to get him to sign an agreement that would have meant he and his fellow directors accepting unlimited liability.

"They said if we did not sign the agreement, we wouldn't get our money. I told them that in that case they could keep the money, and they relented. But inexperienced operators may not be aware of what they are signing up to." From the investors' side, critics have said that people may be too blinded by the idea of being a part-owner of a brewery to make

properly informed decisions about what they are doing with their savings. However, Paul Harris of Derby Brewing said: "People like to invest in things they can get excited about. But we had to go through quite substantial due diligence with Crowdcube, and all the figures are there for people to see. In addition, we're a long-established and profitable company. My experience with the questions we were asked by potential investors is that people are making informed decisions when they choose to invest."

Harris also warned would-be seekers of funds through a crowdfunding platform that the process was likely to take a lot longer than they might anticipate, in his company's case more than six months. "There's a huge amount of work to go through on the due diligence aspect. When you're running a small business, you've got to factor in the time that will go into the preparations for the fundraising.

CONCLUSION

With beer drinkers apparently generally happy to welcome the opportunity to invest in the makers of their favourite beers, more UK breweries look certain to go down the crowdfunding route. Redchurch Brewery in Bethnal Green, London, for example, is close (at the time of writing) to concluding a second fundraising on Crowdcube, with a target of £400,000, after raising £500,000 through the platform in January 2016.

However, beer-loving investors need to be aware that while enormous returns are certainly possible, equity crowdfunding does not always make it easy to get the money you have made on paper out of the enterprise and into your bank account. In addition, as with all investments, it is possible to lose your funds if the company you invest in does not succeed.

At the same time, brewers looking to go down the crowdfunding route need to be aware that despite the success stories, plenty of preparation and much hard work, especially cultivating would-be investors, will still be needed before a successful crowdfunding launch. They also need to explore other avenues of funding to be certain that crowdfunding is the right one for their business; and make sure that the agreements they sign with crowdfunding platforms do not place onerous burdens on them and their fellow directors.

ACKNOWLEDGEMENTS

The data and access to data from some of the equity crowdfunding platforms has been provided by OFF3R. OFF3R is an investment comparison site focussed on providing investors with the tools and education material to make informed investment decisions across a wide range of investment types, including equity crowdfunding.