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IPOs for IPAs: Ballast Point Transaction Illustrates Benefits of a Dual-Track Approach

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The menu for craft breweries raising capital and looking for investor liquidity now includes another viable alternative – public offerings. With the filing of public offering documents by Ballast Point Brewing & Spirits and the positive reception it received, those watching the industry should be on notice that more craft beer IPOs are on the horizon. With the latest announcement of its impending sale to Constellation Brands for about $1 billion (thus abandoning its IPO), Ballast Point's transaction further illustrates that an IPO process can be pursued on a "dual-track" with a private acquisition and this strategy can be effective to increase the company's valuation.

With a public offering, Ballast Point would have become only the fourth publicly traded craft brewery, joining the ranks of Boston Beer Company, Mendocino Brewing Company and Appalachian Mountain Brewery (although Craft Brewers Alliance, not a "craft brewery" under the Brewers Association's definition, is also publicly traded). Many in and around craft beer were previously unsure about whether IPOs, a traditional exit path in other industries, would be attractive for craft breweries. Setting aside the upfront costs of an IPO and ongoing securities law compliance burdens, would public breweries have less credibility as craft brands? We now have the answer: there will be no revolt against publicly traded craft breweries.

The viability of public offerings changes the landscape surrounding craft beer financings and liquidity transactions in many ways, including:

- **Continuing Access to Cash.** Private equity funds won't always be knocking on your door and private equity partners often push companies toward another short-to-immediate term liquidity transaction. Being able to consider public markets gives a craft brewery long term access to growth and operating capital.
- **Dual-Track.** Ballast Point's sale to Constellation Brands illustrates a more nuanced strategy involving the IPO process: the "dual-track" exit approach. Continuing down a path toward a public offering while simultaneous engaging in private sale negotiations signals financial strength to a prospective buyer and, by establishing a minimum price through public filings, can be an effective means to boost valuations. Those seriously considering a sale to a larger brewery should consider pursing an IPO to boost their leverage and their valuation in those negotiations.
- **Continuing Founder Involvement.** IPOs provide liquidity for investors without forcing founders to give up their holdings or leadership roles. This can be very attractive for breweries with founders that remain actively engaged management and wish to remain so going forward.
- **Craft-on-Craft.** As future acquisitions and mergers between craft breweries take place, publicly traded breweries will be able to offer stock as transaction consideration, which gives liquidity to target investors wanting to cash out, while rolling over others and minimizing the transaction's immediate cash burden.
- **Trickle Down.** Having public offerings as a viable industry alternative does not only impact large breweries considering an IPO in the near future. Public offering potential, a visible path to liquidity, will encourage institutional funds to invest in craft breweries at earlier growth stages.

The prospect of many publicly traded craft breweries was unthinkable less than two years ago. With the public filings by Ballast Point – only the 31st largest craft brewery at the end of 2014 by production, according to the Brewers Association – and its impending private sale for $1 billion, many others will certainly be testing the waters as well.

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