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The 2009 FINANCIAL Report

VIEWPOINTS

Financing the Next Innovation Wave

BY BILL ANDERSON

The beverage world is one of the most entrepreneurial industries in our economy. Even in this recession, there is no shortage of innovators determined to produce the next vitaminwater or Grey Goose or 5-Hour Energy. While the entrepreneurial focus on our industry always will be on new product development, as it should be, the next few years also will bring a new wave of financing and recapitalization ideas that will be just as creative.

In fact, our industry has been facing a perfect storm for capitalization innovations for some time now: consolidations at all tiers, increasing fixed costs, pricing and sales uncertainties, supplier constraints on capital structures, a decline in trading up and continuing demands on family businesses.

As consolidation sweeps the beer distribution industry, for example, many longtime competitors are analyzing the prospects for mergers. The best example is the merger of Mt. Hood and Columbia Distributing in the Northwest, now creating a $1.2 billion Miller/Coors beer and non-alcohol behemoth that competes against nine Anheuser-Busch InBev distributorships. Mergers have been prevalent among wine and spirits wholesalers for years.

Private equity (PE) is now fully immersed in the beer industry, at least on the supplier end. KKR has just closed on its purchase of the OB Brewery from ABI, and KKR and other PE firms are said to be close to acquiring some of ABI's Eastern European assets. KPS, the New York-based PE firm, closed earlier this year on its acquisition of High Falls Brewing and Labatt. Basso Capital is an investor in the Independent Brewers Union (Pyramid and Magic Hat) and is likely looking for other acquisition targets in the craft beer industry.

As the pace of brewery and distributor consolidations persist, additional streams of financing sources are likely to emerge as a source of capitalizing this next wave of transactions. Mezzanine financing sources also are likely to increase their presence in part to fund the most aggressive consolidators.

Our firm recently created a new debt advisory business, led by a former leading beverage banker, to fill the void of experienced debt advisors exclusively serving the beverage industry. We think that beverage operators will need a wider range of debt options in the months and years ahead and that the industry deserves a dedicated financing resource on their side.

Look for innovation not only in packing or bottle design or vitamin enhancements, but in financial products that will help this industry continue to consolidate, gain operating efficiencies and build for the future. BW

Bill Anderson is the chairman & CEO of First Beverage Group in Los Angeles, CA. For more information, visit the company's website, firstbev.com.

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