



### **Items to consider before a sale/consolidation**

One of the questions distributors often ask IBG is: what can they do ahead of time that will make the buy/sell/merge process easier? The list below is not prioritized or complete but covers the basics. Most of this information should be readily available to owners and/or senior management. We recommend you accumulate the information over time in order to not raise any red flags with employees.

1. Be aware of any supplier approval issues that could help or hurt your transaction.
2. Compile a copy of all supplier contracts and develop a current and correct contact list with their mailing address, email and phone numbers.
  - a. Be aware of the territorial descriptions for all brands.
  - b. Copy of union contact is applicable.
    - i. Unfunded pension Liability?
  - c. Copy of all leases.
    - i. Trucks, fork lifts, copy machines, etc.
3. Key Employees
  - a. Who, if anyone, can be trusted to protect confidentiality and when they should be talked to.
  - b. Consider how to handle retention bonuses to keep things running smoothly from when you notify employees until closing.
  - c. Keep in mind that employees with great supplier relationships can help the approval process.
4. Thoroughly check the references of anyone you consider helping you with your transaction. Getting the right team is very important.
  - a. Beer industry Experience is critical.
    - i. Successful transaction experience.
    - ii. Healthy supplier relationships.

- b. Make sure whomever you hire understands the unique emotional issues of beer distributors.
  - c. Avoiding trouble is crucial to success. You don't want to start unless you have a solid plan to finish.
  - d. Be very careful before signing an engagement letter.
  - e. Be skeptical of anyone that gives you an unrealistic expectation of value.
5. Licensing
- a. Be aware of changes in laws that will affect your business in the future.
  - b. List of local, state, federal licenses and time line to get new licenses.
6. Income Statement items
- a. Review Volume and Gross Profit for at least two (2) years by supplier.
    - i. Gross profit is selling price less laid-in inventory plus supplier rebates.
      - 1. Laid in is FOB plus freight plus all taxes.
      - 2. Are old beer, shrinkage, damaged, and donated beer part of cost of goods?
  - b. Identify all non-recurring expenses.
    - i. Vehicles, club memberships, etc.
    - ii. Non-participating family members on the payroll.
  - c. Wine/Spirits/NA suppliers are often valued differently and their contracts should be reviewed carefully.
7. Review balance Sheet items that could affect your value.
- a. Be very aware of inventory code dates.
    - i. Seasonal brands need extra attention.
    - ii. Reinforce rotation policy with sales personnel to reduce over age product at retail.
    - iii. Buyers normally require a 30-day shelf life for all package beer in the warehouse, 18 for draft.
  - b. Equipment
    - i. Personal items should be removed from the asset list.
    - ii. Fully depreciated equipment should be separated and listed.
    - iii. Complete list of all assets used in the business.
  - c. Real estate - Environmental clean bill of health?
    - i. Underground tanks now or in the past?
    - ii. Phase 1 and phase 2 reports?
    - iii. Recent appraisals?

IBG has successfully completed over 160 transactions in 44 states. We understand the emotions and economics of selling, buying, and merging beer distributorships. Occasionally, a distributor or their lawyer will want an engagement letter and IBG will gladly accommodate the request but a handshake works fine with us. We work completely on commission and pay all of

our own expenses. Our fee is based on a percentage of the intangible value and does not include buildings, equipment or inventory, even though we handle them in most transactions. We know the value of distribution rights and we focus on getting you the best price possible. We are user friendly and can work with anyone including your lawyers, accountants and family.

IBG would enjoy hearing from you. We travel the entire county and can likely schedule a face to face meeting at our expense with a little notice. There will be no pressure to make any decisions. We thoroughly enjoy discussing with distributors their views of the beer industry and consolidation.

This beer distribution business is changing rapidly and even if you do not see yourself involved in a transaction, understanding the process and being prepared is the prudent thing to do. Give us a call.

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