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Betting on Beer

Jamie Scott Lytle

Dan Selis, founder and CEO of Mission Brewery, is raising funds to grow the company through equity crowdfunding.

Breweries Turn To New Way To Get Cash

■ By SARAH de CRESCENZO

Dan Selis likes being a trailblazer.

Under Selis, who began **Mission Brewery** nearly a decade ago in a former **Wonder Bread** bakery near **Petco Park**, Mission was the first brewing company in California to sell a 32-ounce version of its craft beers. It was also the first in the state to make and sell an alcoholic version of root beer.

Now he is among the handful of beer company owners exploring a new kind of financing called equity crowdfunding, which allows non-accredited as well as accredited investors to buy a piece of the company.

It's similar in theory to the crowdfunding site **Kickstarter**, but the "reward," rather than a product or service, is Mission Brewery stock.

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New Investors at Table Mean Changes for Jack

DINING: Possible Qdoba Sale May Just Be First Step of Big Changes

■ By BRAD GRAVES

Jack in the Box Inc. may emerge from 2017 as a slimmer version of itself.

The San Diego hamburger chain could be near a sale of its **Qdoba** fast-casual restaurant business, which produced 29 percent of its revenue in the first three quarters of 2017.

Reuters reported Nov. 22 that **Apollo Global Management LLC** is close to buying Qdoba for $300 million. Jack in the Box has made no secret of a potential sale, announcing in May it hired

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SPECIAL REPORT: Business Women of the Year

'Genomics Evangelist' Envisions Group Effort

■ By JARED WHITLOCK

Dawn Barry

Dawn Barry is a self-described genomics evangelist. But she's not preaching to the choir.

She ushered genomics into new fields as the vice president of applied genomics at **Illumina** — and has led efforts to attract DNA research companies to San Diego. Her work reverberates locally and beyond, making her the **San Diego Business Journal**'s 2017 Business Woman of the Year.

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CEO Michael Nall

'Fully Commercialized,' Biocept Ready for Big Role

BIOTECH: Co.'s Biopsies Enable Targeted Therapy

■ By JARED WHITLOCK

Tissue biopsies have long been the standard in cancer care. Yet sometimes the tissue-removal procedure can't be done for medical reasons.

Enter San Diego-based **Biocept**.

The small but growing company specializes in liquid biopsy tests — a blood sample identifies markers for the treatment of cancer — in instances when taking a piece of a patient's tumor risks complications.

Biocept's testing can also supplement traditional biopsies to help decide the best course of treatment.

Biocept went public in 2014 with a $23 million initial public offering, though its stock has steadily declined since then. But the company has made major strides in recent times.

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Jamie Scott Lytle

Dan Selis, who began Mission Brewery nearly a decade ago in a former Wonder Bread bakery near Petco Park, is among the handful of beer company owners exploring a new kind of financing called equity crowdfunding, which allows non-accredited as well as accredited investors to buy a piece of the company.

Mission:

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So far, the brewing company has raised nearly a quarter million via **Wefunder**, one of the 30-odd funding portals authorized to facilitate such offerings. Selis said the aim is to raise $300,000 initially, then, if that target is met, as much as $1 million – the maximum allowed per 12-month period under equity crowdfunding regulations. The minimum investment is $200.

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Raising money this way comes with financial reporting requirements.

Mission Brewery, in information shared with prospective investors, reported losing nearly $2.2 million in the year ending Oct. 31, 2016, on $4.5 million in sales. But Selis, who owns the company with his wife, **Sarah Selis**, says its business plan for 2018 – which they aren't sharing publicly - indicates the business will be cash-flow positive by May.

The funds being raised now are earmarked to fund the opening of six tasting rooms, expansion of distribution and more marketing of the Mission Brewery brand.

Selis has valued the company at about $17 million; its shares, at $4.32 a pop.

Taking investments from non-accredited investors got regulators' OK in 2016, when Title III of the **Jumpstart our Business Startups (JOBS) Act** took effect. Investors need $1 million in the bank or at least $200,000 in income per year to be considered accredited. Still, under Title III there are some limits as to how much can be invested.

Those with less than $100,000 may invest $2,000 or 5 percent of their annual income; those who make more are eligible to invest up to 10 percent of their income or net worth.

For business owners who aren't experts in pitching to potential investors, or simply don't have the time, equity crowdfunding could be a valuable tool, said Dan Selis.

"I raised that amount of money (via Wefunder) in five weeks," Selis said in early November. "That would have taken me two or three months, or longer depending on when my initial contact was with accredited investors."

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In the past three years Selis has financed the brewery by raising a total of about $5.6 million in debt and equity.

"I know from personal experience what it takes to raise capital and how difficult it is," Selis said.

In a previous life, Selis worked for **Wells Fargo**. He was top in the nation in his last year there for business development. All that is to say, Selis is familiar – likely much more familiar than the average owner of a beer company - with the process of raising money. Still, even he found the process laborious, time-consuming and an exercise in salesmanship he would rather avoid.

Raising funds is a do-or-die proposition in the capital-intensive brewing industry.

"We're in the manufacturing business, so there are a lot of capital costs up front to buy the equipment," said **Bart Watson**, chief economist at the **Brewers Association**.

Then, for established businesses like Mission Brewery, "growing typically requires spending a fair amount of money on sales, particularly in a competitive marketplace like we have today," Watson said. "We see a lot of breweries that maybe have enough money to spend on the capital equipment, but if they want to grow and be in the marketplace they need funds as well for that expansion."

That has spurred interest in ways of raising money not typically seen in the manufacturing industry.

"With growth rates slower than they were a few years ago, I think lenders are being much more selective," Watson said. "That may be one reason why we see more breweries looking for creative solutions."

Watson said brewing companies pursuing crowdfunding tend to be banking on not only funds from fans, but also on them sharing with others their zeal for the beers the company in which they have invested makes.

"In the best-case scenario, not only are you raising funds but you're engaging beer lovers and creating a set of consumers who are invested in your success and are really going to be passionate fans of your brewery," Watson said.

Were the company to raise $1 million, the maximum allowed under equity crowdfunding regulations, those investors would collectively own 5.9 percent of the San Diego brewing company.

Investors would need a liquidity event to see their money again, such as if the company offered to buy back stock, was purchased or went public.

Selis said Mission Brewery recorded a 53 percent increase in core beer sales so far in 2017 compared to the same period in the prior year; in Southern California, it was an 80 percent increase, he said. These trends underpin his belief in the brewery's profitability by May 2018.

He recently closed the largest sale in the company's history, an order from **Trader Joe**'s for 3,500 cases of 32-ounce cans of a double IPA created in concert with the grocer. A total of 42,000 cans will be for sale in December in 350 stores in 15 states.

"At the end of the day I have to follow my gut and my mind to what I think is the best direction for the company," Selis said. "Our business plan is working, we just need to fund out the last portion … When you're in a cash flow positive world, there are more opportunities for a beer company."