BEVERAGE BUSINESS INSIGHTS

published 100+x a year

Vol 16 No 100 | June 17, 2019

Publisher: **Benj Steinman** Editor: **Gerry Khermouch** Senior Editor: **Jim Sullivan**

BEVNET LIVE: Whipstitch Capital's McCoy Delineates the Road Less Taken: Own Your Niche and Drive Toward Profitability; $10 Mil EBITDA Will Open Doors Banker who's deeply embedded in deal flow offered his BevNet Live audience last week an alternative to classic bev landgrab, counseling that he's seeing more successful outcomes for bevcos that travel down what he called "Path 2" by seeking to own their chosen niche and building their gross margin story.

In wide-ranging presentation last Thurs, Nick McCoy of Whipstitch Capital depicted landscape where major players have come to recognition that their brand-building machines function best with innovation brands that have attained a certain degree of scale. That's led to fewer deals for cos in $100-300 mil revenue range, aside from those, like KeVita before Pepsi deal, that were enjoying truly explosive growth. So bev deals have been getting larger and more frequent, as with Bai and Core compared to KeVita and Voss in earlier years. As for brands in that mid-sized gap, "If we can figure out a way for the strategics to make those profitable, we will see a large increase in M&A," Nick believes. "It's an intriguing topic to which nobody has the answer." Nick can be presumed to know whereof he speaks, having been involved in scores of food and bev deals of all sizes over the years, first with Silverwood Partners and then at Whipstitch, which he opened with his former Silverwood colleague Mike Burgmaier. Going back to 2004, that duo has facilitated over 100 deals including such familiar exits as KeVita/PepsiCo, Core/KDP, Zola/KarpReilly, Uncle Matt's/Dean Foods and Runa/Vita Coco, as well as many capital rounds.

Historically, innovation brands have taken Path 1, raising a ton of $$, growing as quickly as they can via frenzied ACV grab so that they could win an exit multiple based on their size and growth. (In BBI we call that landgrab strategy.) But McCoy is starting to see more food and bevcos taking Path 2, striving to attain high gross margin and reach profitability earlier, status that is of great appeal not just to strategics but to PE firms too. Having $10 mil of EBITDA (earnings before income tax, depreciation & amortization) "brings a tremendous amount of interest because it de-risks things tremendously," he said. So he's begun to see more bevcos following lead of food cos and seeking to grow in a niche rather than doing whatever it takes to get to $300 mil revenue mark.

Of course, even for disciplined cos it's not necessarily a clear glide path. In q&a with BevNet editor Jeff Klineman following presentation, Nick observed that while "gross margin is kind of the real revenue" as gauge of promise a brand holds, its growth is likely to be interrupted once brand moves into DSD distribution, which exacts a hit to cost structure. That's a special burden that bevcos must carry in contrast to food cos for which distribution is not such an expensive hurdle.

McCoy pointed to another gap: at small end of spectrum. But as more investors move into bev space, McCoy said that could ease crunch for small brands in $1-5 mil space. "It's nice to see some expertise and liquidity coming in," he said. But he had word of warning: Some founders have tendency to fall in love with first investor who comes along, tho they're better off playing the field. After all, "once you have a large investor in your cap table, you can't get rid of them – you can actually get rid of your spouse easier," he quipped.