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Brewpub Conversions in Minnesota: A Narrow Path for M&A Transactions in the Brewery Industry

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These are not good times for Minnesota's brewing industry.

Seemingly every time one opens the paper or goes online, there's news of another longstanding Minnesota craft brewery closing its doors. Tin Whiskers, Burning Brothers, Rustech, Lupine, and most notably, Dangerous Man, are all no longer with us.

In other industries, when a business owner seeks to exit their business, the exit typically comes in the form of a sale to a third party, which in many cases can be a competitor.

So why isn't there currently a vibrant M&A market in Minnesota among breweries?

The answer, ironically, lies in the very law that gave rise to Minnesota's brewery boom; namely, the taproom law passed in 2011.

Commonly known as the "Surly Bill" (for Surly Brewing, the original proponent of the taproom concept), the truth is that Surly was only one of many parties involved in the drafting and passage of the taproom law, which included members of the so-called "liquor coalition"—the retailers, wholesalers, and the Teamsters (who drive for the wholesalers).

Two provisions were included in the law to get the coalition members on board. First, breweries were limited to one taproom location (that was to garner support among retail licensees—bar owners—who wished to limit increased competition from taprooms). Second, if a brewery's production capacity exceeded 250,000 barrels, they could not operate a taproom (that provision was the "poison pill" designed to prevent large breweries such as

Anheuser-Busch from acquiring a Minnesota brewery and operating a taproom and was included at the behest of the wholesalers and Teamsters, who didn't want to be the smaller players in negotiating distribution deals).

Despite these restrictions, the 2011 taproom law spurred a brewery boom the likes of which Minnesota had never seen. At its peak, over 200 breweries were operating in the state.

Then we experienced a global pandemic that shuttered the taprooms for most of 2020. Following that, consumer tastes changed and moved away from alcohol and towards THC. Those two events were enough to burst the craft brewery bubble.

With the taproom law's restrictions effectively stifling more traditional M&A options, enterprising breweries, such as Maple Grove-based OMNI Brewing, have figured out an alternative path: conversion from a production brewery to a brewpub, followed by acquisition of other taproom-based breweries to build up a chain of locations.

The advantages of this strategy are several. First, under the brewpub model, the brewery can continue to produce its own beers for onsite consumption (and offsite, in the form of growlers and crowlers). Second, a brewpub license allows for the sale of other breweries' beers, wine and spirits, thus increasing the number of offerings to consumers.

The only disadvantage to this strategy would be that Minnesota law does not allow for brewpubs to distribute to other retail accounts. That, however, is likely a small consideration for most small breweries that don't receive significant enough revenues from distribution to make it worth continuing.

Time will tell whether other breweries follow OMNI's lead in building out a multi-location brewpub business. With other alternatives being unavailable to legal restrictions, this model will likely see other adopters in the near term.

If you are a brewery owner interested in pursuing a brewpub conversion, please contact the Alcohol Beverage attorneys at Husch Blackwell for assistance.