Company: Tequila Ciudad

Market: Craft Spirits

Product: Premium craft spirit label offering Blanco, Reposado, and Añejo styles of tequila

Company Highlights

- Sold through Total Wine & More, which operates 193 superstores across 23 U.S. states
- Founded by industry veterans who previously launched the award-winning tequila brand VIDA
- Has sold more than 2,400 cases
- Nearly $400,000 in sales since launching in 2017

PERKS

*You are investing in a Crowd Note in this Offering. Perks are meant to be a thank you from the company for investing. The perks below are not inclusive of lower dollar amount perks. Assuming it’s legal to ship to that destination, investors must pay a shipping fee that will be based on their state or country

$500+: One bottle of Tequila Ciudad (your choice of Blanco, Reposado, or Añejo)

$1,000+: Three bottles of Tequila Ciudad (one bottle of each style or your choice of combination)

COMPANY SUMMARY

Opportunity

Since 2002, tequila sales have grown 140%, reaching 17.2 million 9-liter cases sold in 2017. While tequila sales have experienced growth across a variety of price points, the fastest growth has been in brands that sell at premium price points. In fact, tequila that retails for over $30 per bottle has seen volumes increase 805% since 2002, reaching 3.2 million 9-liter cases sold in 2017 alone.

Jack Henry Spirits LLC (the “Company”) launched its Tequila Ciudad brand in August 2017 with three styles: Blanco, Reposado, and Añejo. Founded by two industry veterans, the brand seeks to capitalize on growing demand for premium sipping tequilas. Each bottle of Tequila Ciudad is etched with a map of Mexico City (ciudad is the Spanish word for city). To the company, Mexico City represents a growing and progressive culture, and Tequila Ciudad seeks to replicate the energy, ambition, hustle, and strength of the people of Mexico City to succeed.
Product

Tequila Ciudad's spirits are made from Blue Weber Agave grown in the Mexican Highlands of Arandas. The highlands region is known to produce a tequila that's different than those grown in the richer volcanic earth of the lowlands region of Mexico. Blue Agave cultivated in the red clay soil of the highlands tend to produce tequila that is softer, rounder, fruitier, and more floral.

CIUDAD BLANCO
NOT AGED
Distilled in copper stills and immediately bottled. The aroma includes bright highland agave, fresh grass, and citrus green fruits like mango peel and pineapple. Taste is said to be lightly bitter, smoky with citrus predominance, with hints of mint and cinnamon.

CIUDAD REPOSADO
AGED 11 MONTHS
While other reposados are aged for two to six months, this tequila spends 11 months in American White Oak barrels. Aromas include fruit notes such as banana and green fruits, vanilla, and honey. Taste is said to be a smooth oak flavor, with hints of honey and vanilla, and a slightly smoky finish.

CIUDAD Añejo
AGED 24 MONTHS
Twice distilled and aged in two separate oak barrels—American White Oak and French Oak—before being blended together. The aroma is a blend of walnut, caramel, and vanilla. Taste is said to be spicy and slightly bitter, with the presence of cooked agave, a mixture of spices, including ginger, and fruit notes like apple and pear.
Marketing

Tequila Ciudad has hosted numerous branding events, including weekly in-market tastings across numerous Total Wine & More locations. The company also sponsors private events, creating custom cocktails made from its tequila for the parties. Ciudad also relies on search engine optimization (SEO) and social media to promote its brand.

Use of Proceeds

The company plans to use the funds from this raise to help increase production, host more tasting events, and provide funds for general marketing. If the minimum of $25,000 is raised, the company plans to allocate 40% to inventory and 60% for tasting/sampling events. If the maximum of $107,000 is raised, the company plans to allocate roughly 56% to inventory, ~33% to tastings/samplings, and ~11% to general marketing. The company may alter the above allocation at its discretion.
Business Model

Tequila Ciudad is currently distributed by Deutsch Family Wine & Spirits, which then sells the product to Total Wine & More locations across the U.S. Prices are as follows:

- **Ciudad Blanco**: Suggested retail price is $52.99 per 750ml bottle (wholesale: $173 per case of six)
- **Ciudad Reposado**: Suggested retail price is $56.99 per 750ml bottle (wholesale: $190 per case of six)
- **Ciudad Añejo**: Suggested retail price is $59.99 per 750ml bottle (wholesale: $211 per case of six)

USER TRACTION

In February 2017, the company got its first purchase order, totaling 1,092 cases. For the whole year, it shipped 1,326 cases of its three products. In 2018, Tequila Ciudad sold 780 cases. The initial order of 1,092 cases in 2017 didn't actually start hitting Total Wine & More store shelves until June 2017, due to the time required to fulfill the order and ship across the U.S. Some Total Wine & More locations did not receive shipments until the end of 2018. This delay adversely impacted new purchase orders in 2018.

Ciudad Blanco has been the company’s best-selling product thus far since launch (762 cases sold), followed by the Añejo (702 cases), and Reposado (642 cases).
In 2017, Tequila Ciudad generated $254,812 in revenue. Most of that was generated through its first shipment of 1,092 cases to Total Wine & More (~$207,000). In 2018, the company generated $148,116 in revenue.

In 2018, the company had $71,977 in total operating expenses, up 2% year-over-year. Last year, the largest operating expenses were advertising (~$26,000) and outside services (~$13,600) which included importing, shipping, and accounting.
In 2018, Tequila Ciudad generated a net operating loss of $16,877. In 2017, the company had been profitable, generating a net operating income of $49,660.

**INDUSTRY AND MARKET ANALYSIS**

Distilled spirits gained market share relative to beer for the eighth consecutive year in 2017. In 2017, suppliers reported that distilled spirits sales rose by 4% year-over-year, with total sales worth $26.2 billion. Total volume rose 2.6% to 226 million cases, up 5.8 million cases from the prior year. Furthermore, the distilled spirits market has been primarily driven by growth in high-end premium and super premium products—bottles that retail for at least $20.\(^6\)
In 2017, vodka—the largest product category—accounted for almost one-third of total spirits volume, with 71.3 million cases sold. Total vodka sales generated $6.2 billion in revenue, up 3% year-over-year. Revenue from high-end premium vodka—bottles that retail for between $20 and $30—rose 15% to reach $1.6 billion. Tequila accounted for 17.2 million cases sold in 2017, up 8.5% from the prior year. Total tequila sales generated $2.7 billion, up 9.9% year-over-year, with strong growth across all price points. Revenue growth was led by high-end tequila brands, which saw sales increase 14.6% from 2016 to $340 million, and super-premium brands ($30+ per bottle), which saw sales increase 12% year-over-year to $1.2 billion.

Local distilleries have contributed to the overall growth in the distilled spirits market. In 2017, the craft spirits industry generated $3.7 billion in retail sales, up 29.9% from the prior year. Overall volume reached nearly 7.2 million cases in 2017, up 23.7% from 2016. As of August 2018, there were 1,835 active craft distillers in the U.S., up 16% over the past 12 months. The largest concentrations of distilleries were primarily in the West, mostly in California, Washington, and Colorado, and in the South, mostly in Texas. The investments in craft distillery expansion have also increased. In 2017, total investment in the sector reached $593 million, up 49% from the $398 million invested in 2016.

As of August 2018, 92% of craft distillers were defined as small producers. Yet, because small distilleries produce a limited quantity of spirits—usually single batches at a time—they accounted for just 13% of the craft spirit cases sold in 2017. For these small distillers, generating revenue in-state is especially important, as home state sales represented 92% of their total sales. Out-of-state and international sales accounted for just 10% of their total business.
COMPETITORS

Below are a few of Tequila’s Ciudad’s most notable competitors. In addition, the company faces competition from companies including, but not limited to: Casa Noble, Clase Azul, Blue Nectar, Avion, and Tres Agaves.

**Don Julio:** Established in 1942, Don Julio produces tequilas that are aged in temperature- and humidity-controlled white oak barrels. The Diageo-owned company is distributed in over 40 countries. It currently produces eight tequilas, including Blanco, Reposado, and Añejo styles. For a 750ml bottle, the Blanco retails for $35.99, Reposado for $39.99, and Añejo for $49.99. Diageo (NYSE: DEO) acquired Don Julio in 2015 from Case Cuervo, trading its Irish whiskey brand Bushmills for Don Julio. Diageo also received a net payment of $408 million as part of the deal. In 2017, Don Julio sold 1.3 million cases, up 44.4% year-over-year, and up 3x from 2014.

**Patrón:** Launched in 1989, Patrón produces ultra-premium tequila. Its first tequilas were Patrón Silver and Patrón Añejo. In 1992, it released Patrón Reposado, and, in 2017, it released Patrón Extra Añejo. For a 750ml bottle, the Silver retails for $36.99, Reposado for $43.99, and Añejo for $46.99. The company also has several other lines of tequila including Roca Patrón, the company’s line of tequilas made 100% from the tahona process; Gran Patrón, the company’s high-end tequila; and several types of flavored liqueurs. In April 2018, Patrón was acquired by Bacardi Limited for $5.1 billion. Bacardi also owns the tequila brands Casadores and Corzo. In 2017, Patrón sold 2.6 million cases, up 5.1% year-over-year.

**Casamigos:** Founded in 2013 and co-founded by celebrity George Clooney, Casamigos produces Blanco, Reposado, and Añejo tequilas as well as a Mezcal. For a 750ml bottle, the Blanco retails for $38.99, the Reposado for $44.99, and the Añejo for $47.99. In June 2017, Diageo (NYSE: DEO) agreed to acquire the brand in a deal that valued Casamigos up to $1 billion; this included an initial payment of $700 million and the potential for an additional $300 million over ten years based on performance of the brand. In 2017, Casamigos produced 127,000 cases of tequila; it released its Mezcal in February 2018.

**Casa Herradura®:** Founded in 1870, Casa Herradura was initially a family-owned tequila producer. Its flagship brand is Herradura but it also produces El Jimador tequila and the New Mix tequila-based ready-to-drink brand. For a 750ml bottle, the Herraduro Blanco retails for $34.99, the Reposado for $37.99, and the Añejo for $42.99. In addition to Blanco, Reposado, and Añejo tequilas, the Herradura line also includes a few higher end bottles such as Selección Suprema de Herradura, Coleccion de la Casa, and Herradura Ultra. In January 2007, Brown-Forman (NYSE: BF.B) completed its acquisition of the company for $776 million. The Herradura brand sold 179,000 cases last year, up 13% year-over-year.
TEAM

John Barlow, Co-Founder and Owner: In addition to Jack Henry Spirits, John also co-founded and co-owns VIDA Tequila USA. He has more than 15 years of experience in the wine and spirits market. John has extensive sales and distribution background, spanning multiple industries including wine and spirits, software, and manufacturing. John was also successful in developing a large sales channel in the RV industry for an upstart hitch manufacturing company.

Lisa Barlow, Co-Founder and Owner: In addition to Jack Henry Spirits, Lisa is the owner of multiple companies including VIDA Tequila USA, Luxe Marketing, and Rouge Beauty. She has more than 15 years of experience in the wine and spirits market. Lisa has also run global HR departments for multiple tech companies. For Tequila Ciudad, she oversees all processes for experiential marketing campaigns across a wide variety of platforms.

INVESTMENT TERMS

Security Type: Crowd Note
Round Size: Min: $25,000 Max: $107,000
Valuation Cap: $5 million
Discount: 20%
Conversion Provisions: In connection with equity financing of at least $1,000,000, the Company has the option to convert the Crowd Note into non-voting preferred units (Conversion Units) at a price based on the lower of (A) a 20% discount to the price per unit paid for Preferred Units by investors in the Qualified Equity Financing or (B) the price per unit based on a $5 million valuation cap. Please refer to the Crowd Note for a complete description of the terms of the Crowd Note, including the conversion provisions.

PRESS

BeverageDaily.com: Tequila Ciudad launches in US where ‘consumers are well aware tequila is for sipping, not shooting’

1 https://www.totalwine.com/about-us/our-company