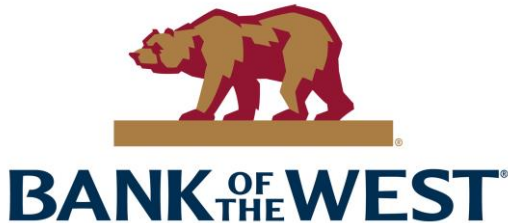


# Effective Relations Between Bankers and Winery CFOs



# Introductions



**Ian Malone**  
Director

- Experience: 16 years in finance and M&A; 14 in the wine industry
- Fun Fact: recently cooked 30 burgers for friends in 110 degree heat over a hot grill and had a good time



**Adam Beak**  
Managing Director

- Experience: 20+ years of wine industry experience as a lender and operator
- Also partner in Sean Minor Winery
- Fun Fact: loves French Bulldogs and works for a French bank... and doesn't speak French



**Lori Beaudoin**  
SVP/CFO

- Experience: 12 years in public accounting, 20+ years with public and privately held companies. 8 years in the wine industry
- Fun Fact: Grew up in Northern Idaho



**Shannon McLaren**  
CFO

- Experience: 7 years in public accounting, 11+ years with public and privately held companies. 6+ years in the wine industry
- Fun Fact: huge Sharks fan! Was at the Tank to see the Stanley Cup rolled out onto the ice in 2016... albeit to the wrong team!

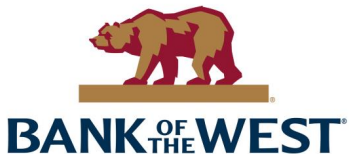


**Ed Adams**  
Vice President

- Experience: 25 years lending to companies in the food, wine, and beverage industries
- Favorite part of the job: inventory inspections, site visits, and helping customers achieve their goals

# Overview

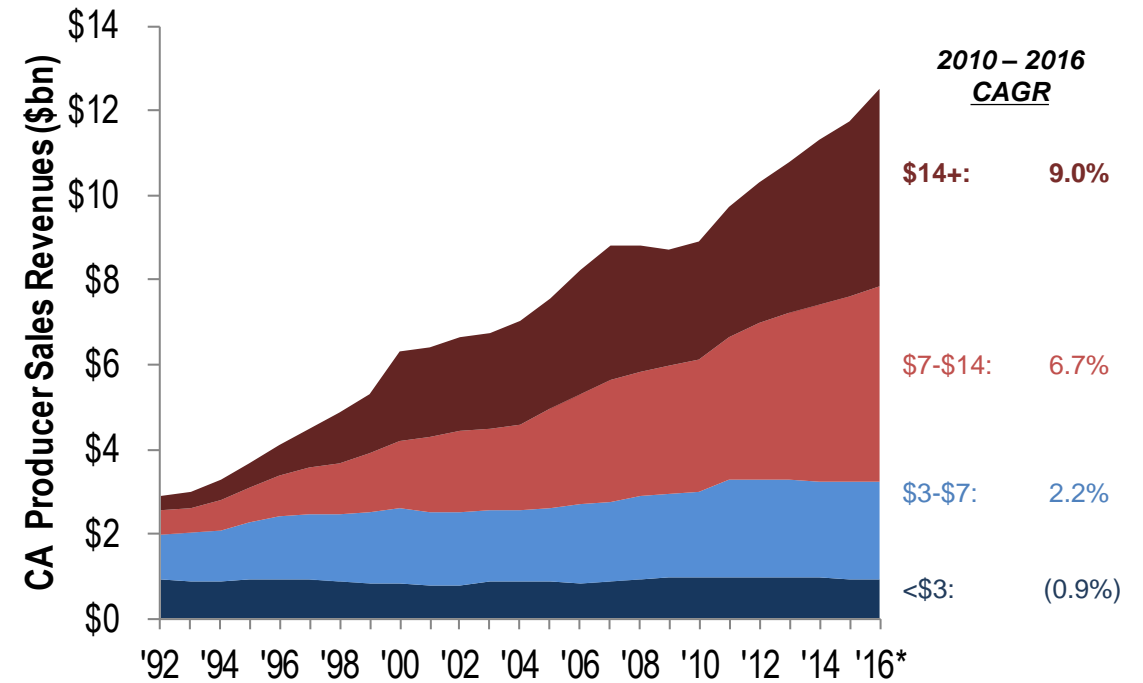
- Goal: explore lender-winery relationships in depth
- Examine trends in the market
- Explore how lenders operate and underwrite deals
- Dissect real-world lending scenarios
- Concrete tips for wineries to make the most of their lender relationships
- Prognostications – preparing for the next 5+ years



# Major Themes Driving CFO-Lender Relationships

- Benign economic environment...
  - Low interest rates
- ...And strategic imperatives...
  - Premiumization
  - Need to secure supply & production
- ...Are driving:
  - M&A (brands / vineyards / facilities)
  - Capex needs for growth
  - Working capital needs for growth
  - Rising asset values
  - Lender competition

“Premiumization” in the CA Wine Market



Source: Gomberg Fredrikson \* 2016 estimated based on growth of CA. Origin Brands in U.S. Food Stores







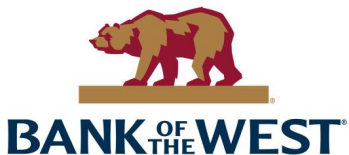
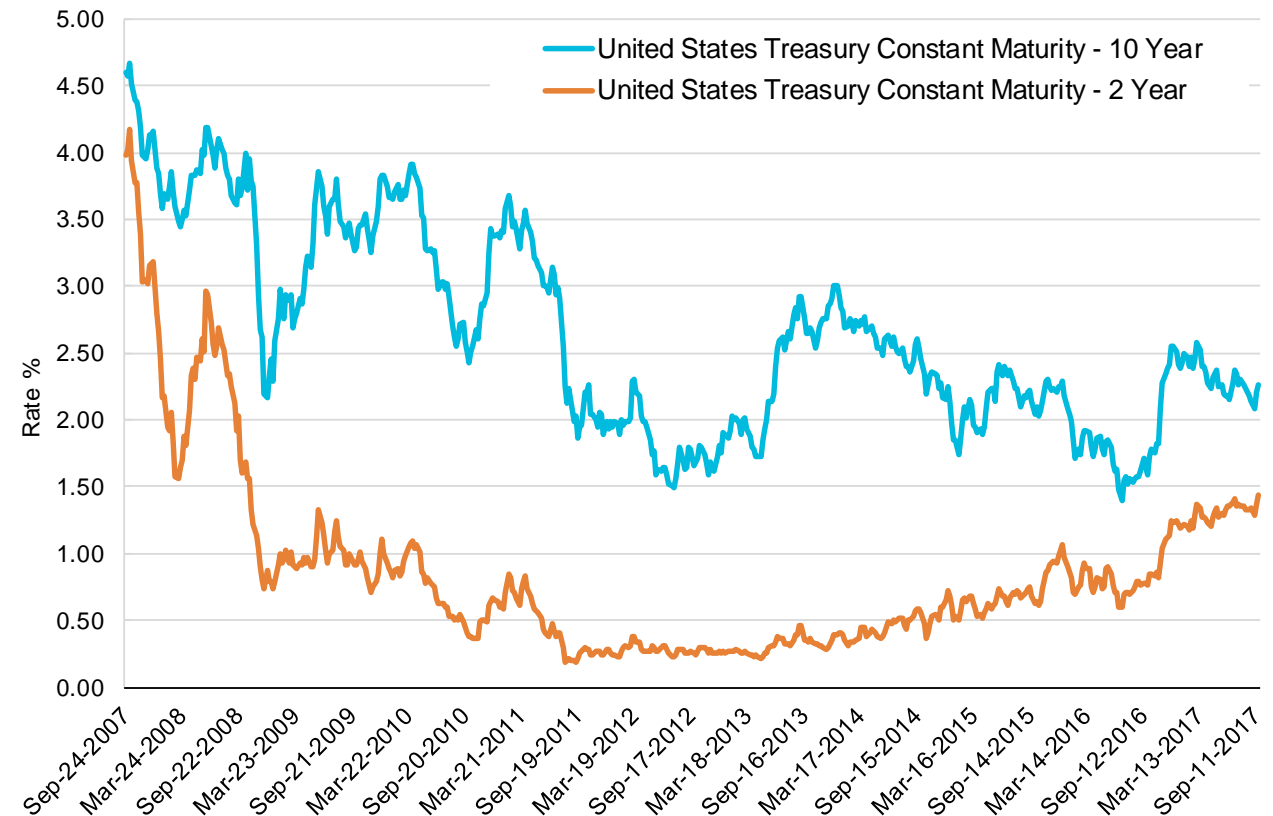
# *Is Debt a Commodity?*



# Lending 101

- How do lenders make money?
  - First, by not *losing* money
  - Interest > cost of funds
  - Treasury services and other products
- Underwriting basics
  - Asset coverage (collateral)
  - Cash flow coverage (capacity)
- Underwriting process
  - Credit Committee
- Regulatory basics
  - Leverage limits for banks and borrowers
  - Appraisal and other requirements (FIRREA)

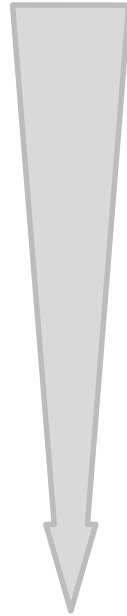
Interest Rates, Past 10 Years



# Lending 101

## Conversion to Cash

Easiest to Convert to Cash



Hardest to Convert to Cash

## Assets

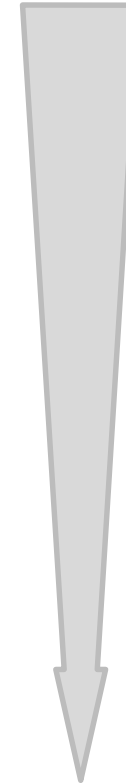
Working Capital (AR, Inventory)

Fixed Assets (Vineyards, Real Estate, Equipment)

Intangibles & Goodwill

## Seniority/Risk

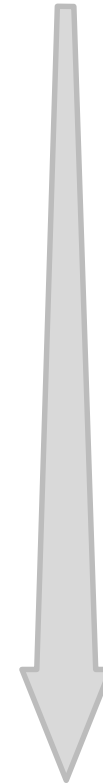
Most Senior (repaid first; least risk)



Most Junior (repaid last; most risk)

## Cost/Return

Lowest Cost/Return



Highest Cost/Return







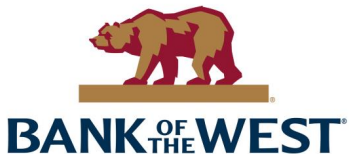


# ***CFOs: what do you look for in your lenders?***



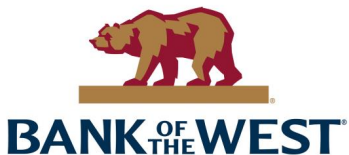
# What Do Winery CFOs Want From their Lenders?

1. Knowledge of their business
2. Flexibility
3. Pricing
4. Speed
5. Products that meet their needs
6. Stability (experience over several cycles)



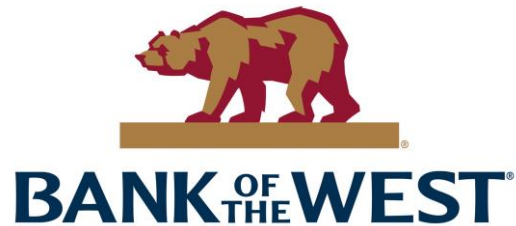
# CFO “Pro Tips” For Working With Lenders

1. Provide what they need before they ask for it
2. Take the time to make sure it is right, never provide information with errors or missing information
3. Communicate frequently, share the good as well as potential issues
4. Read your debt agreements!
5. Listen to your lenders (they generally know their stuff!)
6. Ask questions—make sure you understand the details



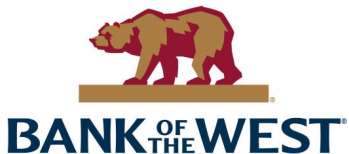


***Lenders: what do you look for in winery clients?***



# What Do Lenders Want From their Winery Clients?

1. Credit quality
2. Customers with growth potential
3. Financial reporting
4. Open communication



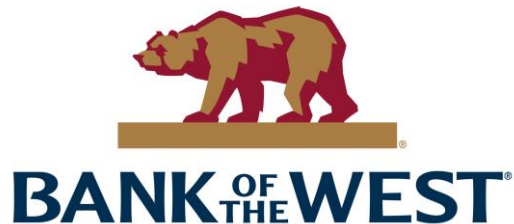
# Lender-Winery Due Diligence: Top 6

1. 3 years historical P&L and balance sheet
  - Ideally prepared, reviewed or audited by a reputable accounting firm
2. Forecast model (3+ years)
3. Overview of corporate structure
4. Appraisals
5. A/R & A/P aging reports
6. Fixed asset schedule / equipment listing



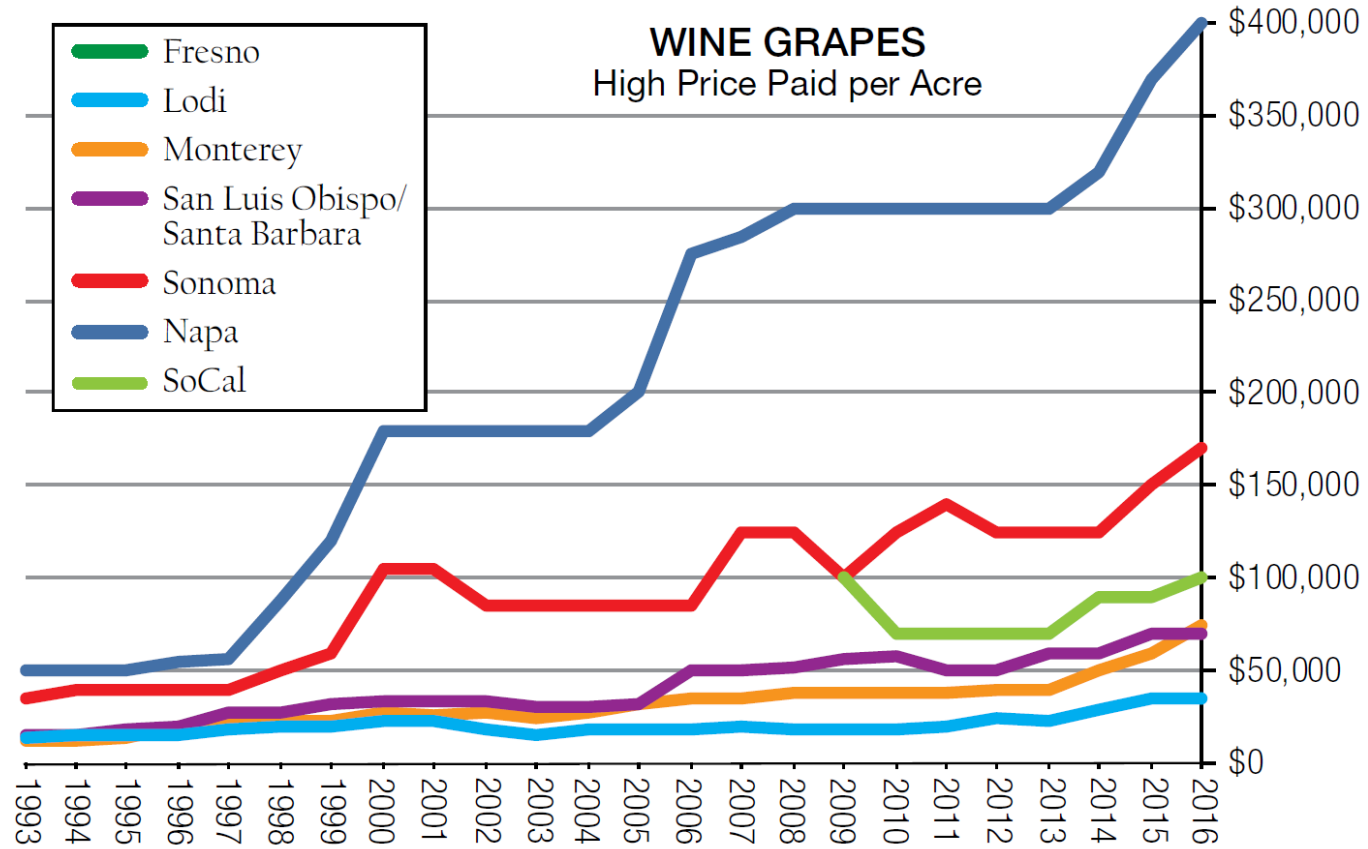


***With Napa and Sonoma vineyards at all-time highs, how do lenders underwrite vineyard deals today?***





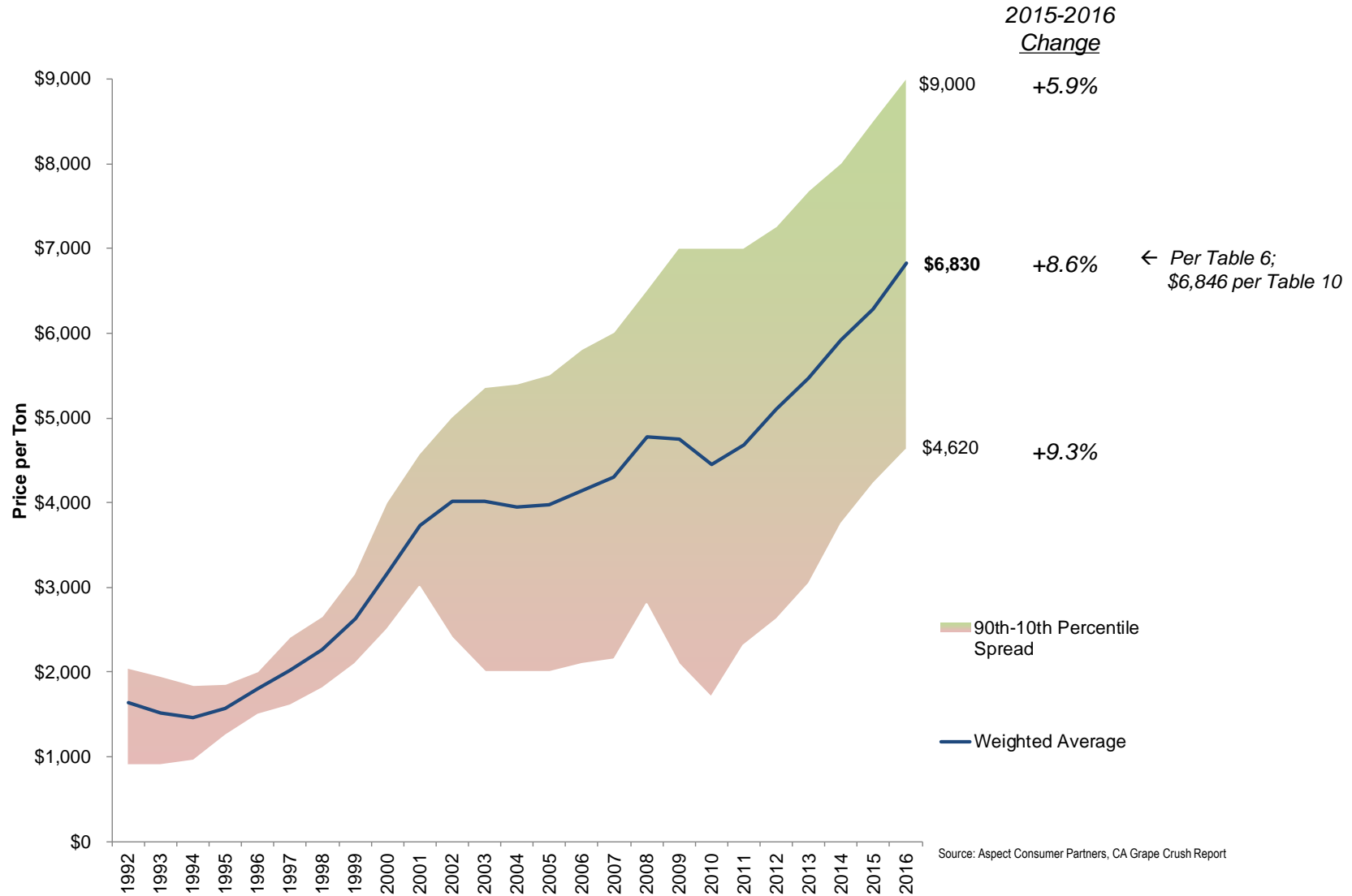
# Record High Napa and Sonoma Vineyard Values



Source: CalASFMRA



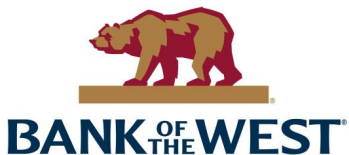
# Napa Cabernet Sauvignon Grape Prices



# Vineyard Debt Coverage Example

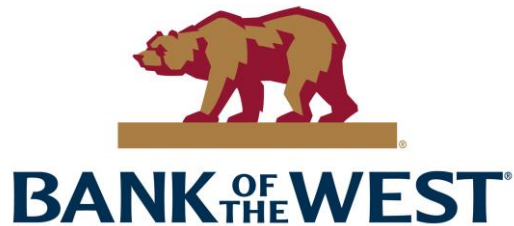
## Vineyard Economics

Tons per Acre	4.0	
Grape Value / Ton	\$6,800	
Implied Harvest Revenue	\$27,200	
Farming & Operating Cost	<u>(7,950)</u>	
NOI per Acre	\$19,250	71% NOI margin
Cap Rate	5.50%	
Value per Acre	\$350,000	
Loan-to-value	70%	
Loan per Acre	\$245,000	
Principal	\$5,883	25 years amortization
Interest	<u>9,800</u>	4.0%
Total Debt Service	\$15,683	
<b>Debt Service Coverage (NOI/DS)</b>	<b>1.2x</b>	
<b>Interest only Coverage</b>	<b>2.0x</b>	

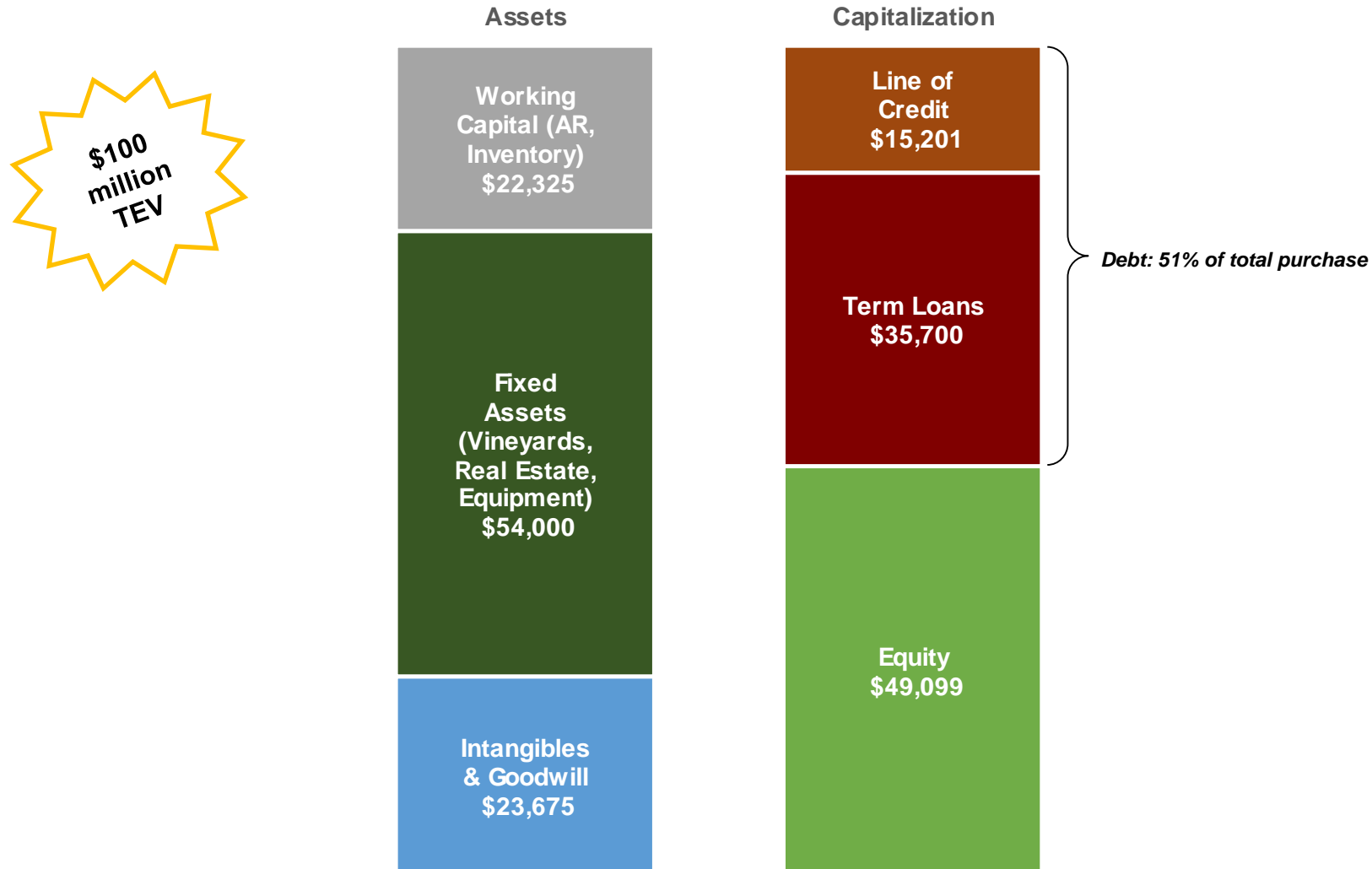




# *Real-World Underwriting Examples*



# M&A Transaction: Napa Valley Estate Winery



# M&A Transaction: Napa Valley Estate Winery

(\$000s)

Indicative Valuation	Enterprise Value	EBITDA	EBITDA Multiple
Wine Business	\$65,000	5,417	12.0x
Estate Vineyards	35,000	1,575	22.2x
Total	\$100,000	\$6,992	14.3x

*100 acres @ \$350K/acre; 4.5% cap rate*

P&L	\$	% of Net Sales
Net Sales	\$27,967	100%
COGS	12,585	45%
Gross Profit	\$15,382	55%
Operating Expenses	8,390	30%
EBITDA	\$6,992	25%

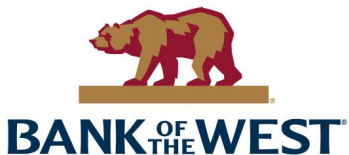
Balance Sheet - Assets	FMV at Acquisition
Current Assets	
A/R	\$3,448 <i>45 days</i>
Inventory	18,878 <i>1.5 years of inventory</i>
Total Current Assets	\$22,325
Fixed Assets	
Production Facility	\$15,000
Equipment	4,000
Estate Vineyards	35,000
Total Fixed Assets	\$54,000
Implied Goodwill	\$23,675 <i>total purchase price less FMV of assets</i>
Total Assets	\$100,000



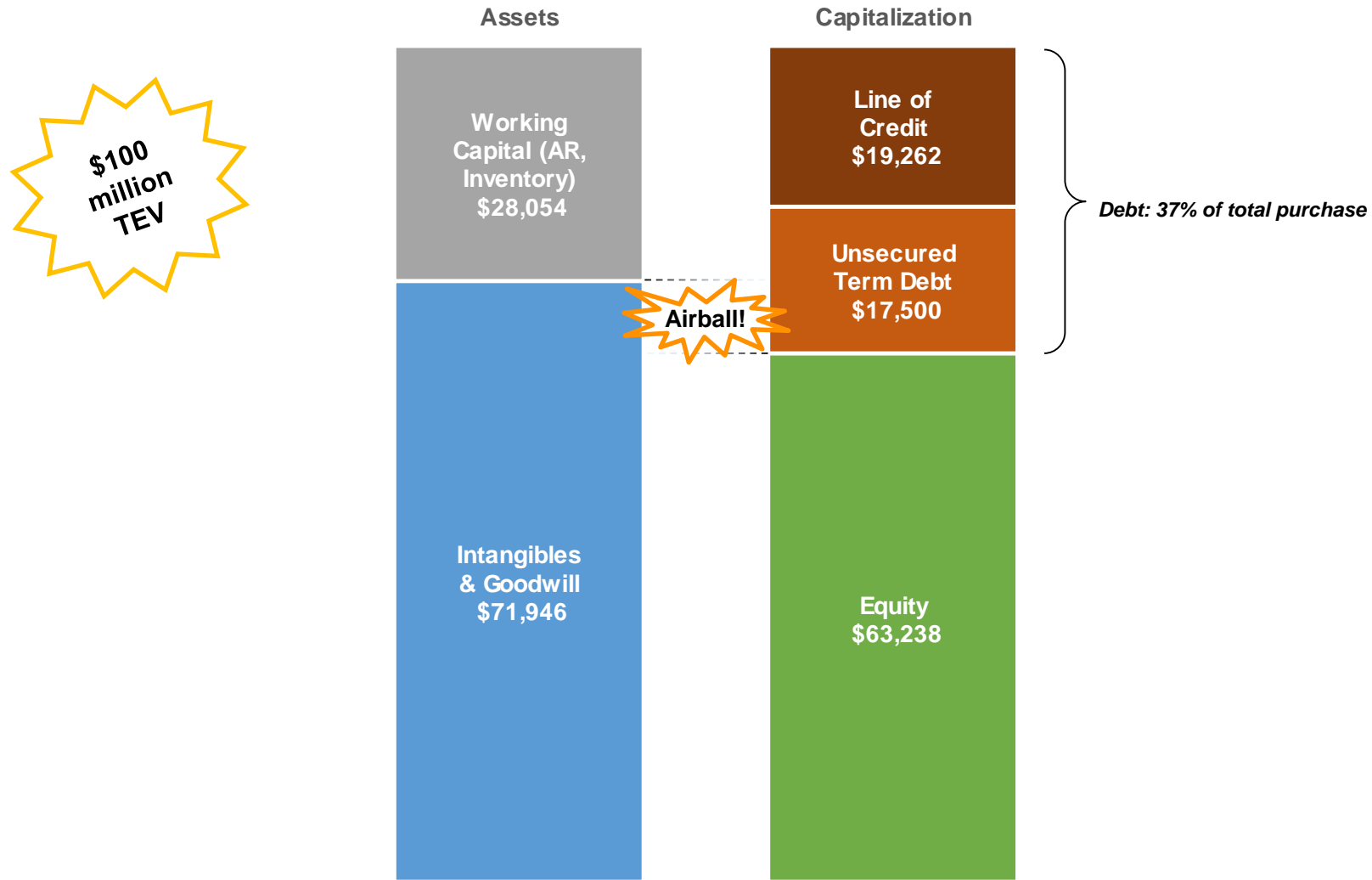
# M&A Transaction: Napa Valley Estate Winery

(\$000s)

Transaction Sources & Uses	\$	Key Debt Terms			Debt Service & Coverage					Notes
		Loan-to-value (FMV of Tangible Assets)	Interest Rate	Amortization	Principal	Interest	Total Debt Service	EBITDA / Debt Service Coverage	Multiple of EBITDA	
<b>Sources</b>										
New Debt										
Secured Debt										
Revolving Line of Credit	\$15,201	68%	4.0%	n/a	n/a	\$608	\$608	2.2x		secured by inventory (65% LTV) and A/R (85% LTV)
Equipment Financing	3,200	80%	4.0%	10 years	267	128	395	0.5x		secured by equipment
Long-Term Real Estate Loan	32,500	65%	4.0%	20 years	1,091	1,300	2,391	4.6x		secured by estate vineyards and production facility
Total Secured Debt	\$50,901	67%	4.0%		\$1,358	\$2,036	\$3,394	2.1x	7.3x	
Unsecured Term Debt	–	–								
Total New Debt	\$50,901	67%	4.0%		\$1,358	\$2,036	\$3,394	2.1x	7.3x	
Investor Equity	\$49,099								7.0x	
Total Sources	\$100,000								14.3x	
<b>Uses</b>										
Purchase Assets (Enterprise Value)	\$100,000									
Transaction Costs	–									
Cash to Balance Sheet	–									
Total Uses	\$100,000									
<b>Total Debt / Enterprise Value</b>	<b>50.9%</b>									



# M&A Transaction: Asset Light Winery





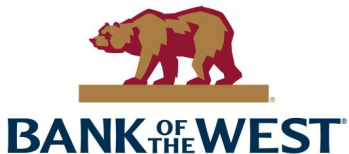
# M&A Transaction: Asset Light Winery

(\$000s)

Indicative Valuation	Enterprise Value	EBITDA	EBITDA Multiple
Wine Business	\$100,000	8,333	12.0x
Estate Vineyards	–		
Total	\$100,000	\$8,333	12.0x

P&L	\$	% of Net Sales
Net Sales	\$41,667	100%
COGS	22,917	55%
Gross Profit	\$18,750	45%
Operating Expenses	10,417	25%
EBITDA	\$8,333	20%

Balance Sheet - Assets	FMV at Acquisition
Current Assets	
A/R	\$5,137 <i>45 days</i>
Inventory	22,917 <i>1 year of inventory</i>
Total Current Assets	\$28,054
Fixed Assets	
Production Facility	–
Equipment	–
Estate Vineyards	–
Total Fixed Assets	–
Implied Goodwill	\$71,946 <i>total purchase price less FMV of assets</i>
Total Assets	\$100,000



# M&A Transaction: Asset Light Winery

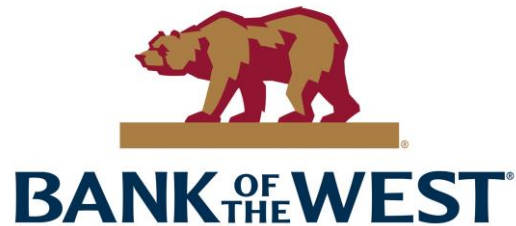
(\$000s)

Transaction Sources & Uses	\$	Key Debt Terms			Debt Service & Coverage					Notes
		Loan-to-value (FMV of Tangible Assets)	Interest Rate	Amortization	Principal	Interest	Total Debt Service	EBITDA / Debt Service Coverage	Multiple of EBITDA	
<b>Sources</b>										
New Debt										
Secured Debt										
Revolving Line of Credit	\$19,262	69%	4.0%	n/a	n/a	\$770	\$770	10.8x	2.3x	secured by inventory (65% LTV) and A/R (85% LTV)
Equipment Financing	–	80%	4.0%	10 years	–	–	–	–	–	secured by equipment
Long-Term Real Estate Loan	–									
Total Secured Debt	\$19,262	69%	4.0%		–	\$770	\$770	10.8x	2.3x	
Unsecured Term Debt	17,500	62%	7.0%	7 years	2,022	1,225	3,247	–	2.1x	short amortization due to "airball"
Total New Debt	\$36,762	131%	5.4%		\$2,022	\$1,995	\$4,018	–	2.1x	4.4x
Investor Equity	\$63,238									7.6x
Total Sources	\$100,000									12.0x
<b>Uses</b>										
Purchase Assets (Enterprise Value)	\$100,000									
Transaction Costs	–									
Cash to Balance Sheet	–									
Total Uses	\$100,000									
<b>Total Debt / Enterprise Value</b>	<b>36.8%</b>									



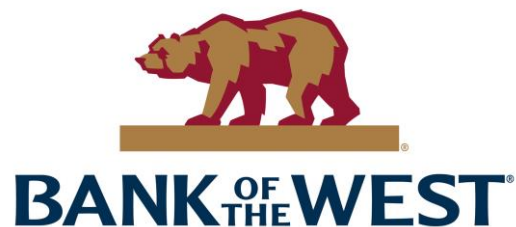


***How is today's market different  
from years past?***



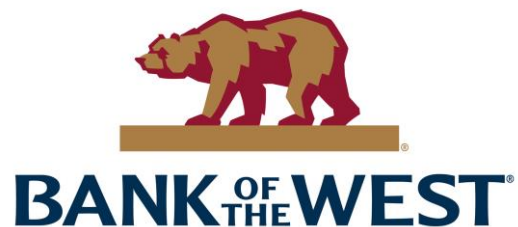


# *Crystal Ball Time*



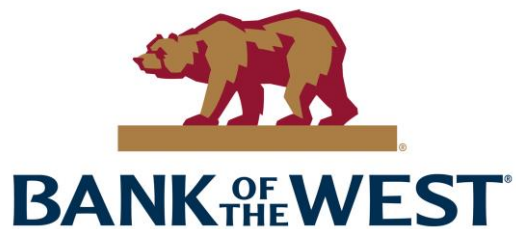


***Thank You!***





# Appendix



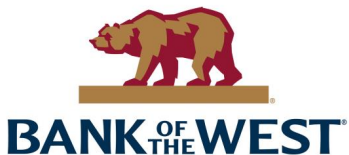
# Lender-Winery Due Diligence: Deep Dive

- History and Company
  - Corporate structure and current ownership
  - Current management team
  - Copies of organizational documents (operating agreement, articles of incorporation)
- Sales and Marketing
  - Sales mix (historical summary of major lines of business, wholesale vs. DTC, custom wine services, etc.)
  - Brand summary (cases shipped and cases produced, FOB by varietal and vintage date, release schedule)
  - Distribution model (off-premise vs. on-premise, top distributor relationships and how long)
  - How do you cover the market (internal vs. external sales, brokers, marketing companies)
  - Price support and other sales incentive programs
  - Account receivable aging report



# Lender-Winery Due Diligence: Deep Dive

- Production
  - Current production capacity and facility (owned or leased). Tons crushed and average grape cost per ton
  - Fixed asset listing (barrels, tanks, winery equipment) and current value (appraised or book value)
  - Real estate (owned or leased)
  - Custom crush or third party storage agreements
  - Grower contracts (years to maturity, evergreen, price and quality incentives, payment schedules)
  - Bulk wine inventory listing (gallons by vintage and varietal, value from Ciatti or Turrentine)
  - Cased goods inventory (varietal and vintage, FOB prices, release dates)
  - Vineyard holdings and copies of recent appraisals



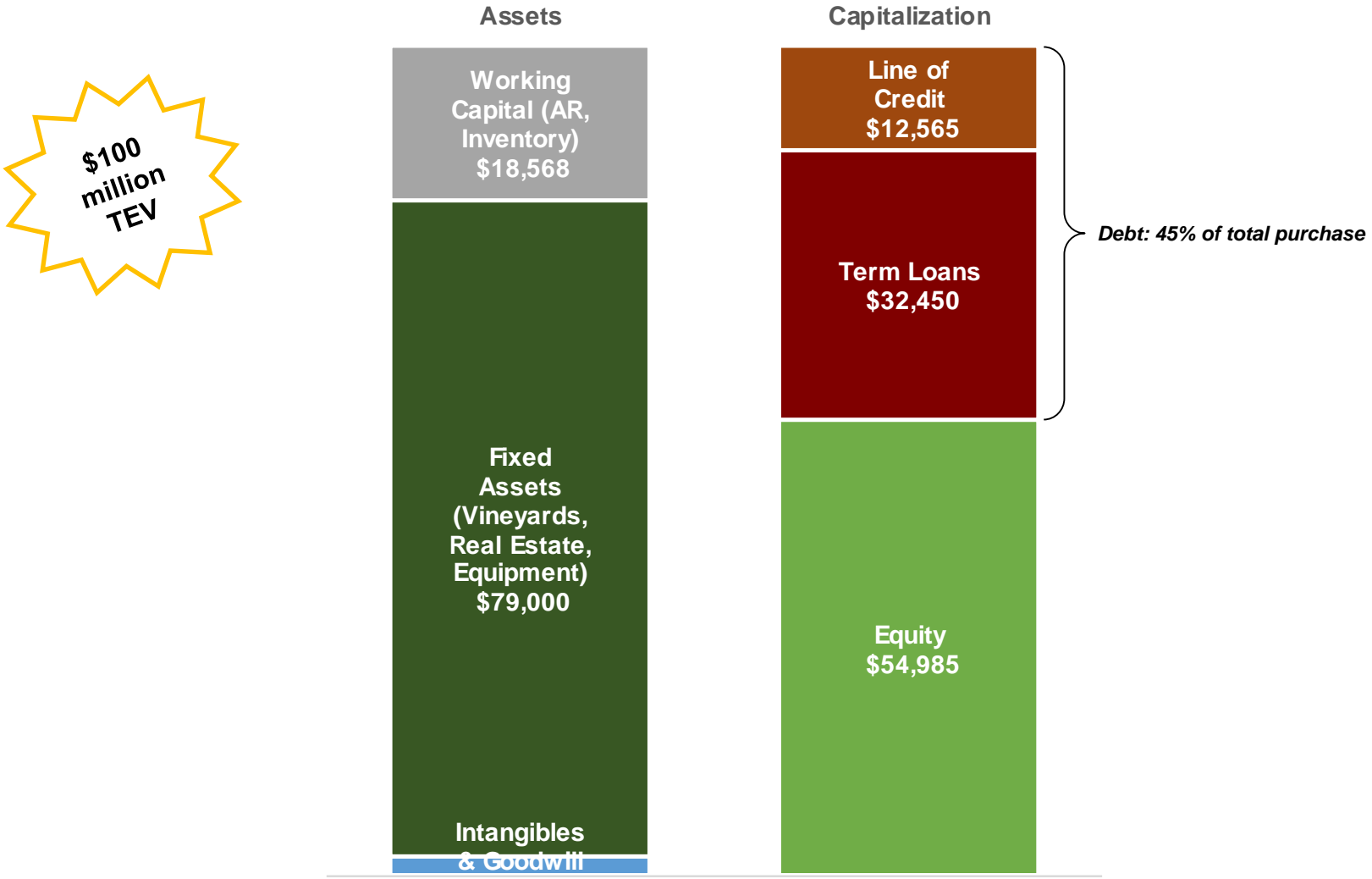


# Lender-Winery Due Diligence: Deep Dive

- Financial
  - Three years of historical annual audited (or reviewed) financial statements
  - Company prepared interim financial statements (balance sheet, income statement, and cash flow) showing YTD comparison and comparison versus same period prior year
  - Current operating budget or long range plan
  - Borrowing base reports. Summary of last twelve months availability
  - Summary of grower payables (current and prior year)
  - Copies of current debt agreements
  - Interest rate swap liabilities or debt pre-payment penalties
  - Covenant compliance reports. Any waivers, covenant defaults, within the last twelve months?
  - Distribution policy (mandatory payments to owners – management fees, royalty payments)
  - Summary of intangible assets, trademarks, and other intellectual properties



# M&A Transaction: Napa Valley Asset-Heavy Winery



# M&A Transaction: Napa Valley Asset-Heavy Winery

(\$000s)

Indicative Valuation	Enterprise Value	EBITDA	EBITDA Multiple
Wine Business	\$40,000	3,333	12.0x
Estate Vineyards	60,000	2,700	22.2x
Total	\$100,000	\$6,033	16.6x

171 acres @ \$350K/acre; 4.5% cap rate

P&L	\$	% of Net Sales
Net Sales	\$20,111	100%
COGS	8,044	40%
Gross Profit	\$12,067	60%
Operating Expenses	6,033	30%
EBITDA	\$6,033	30%

## Balance Sheet - Assets

	FMV at Acquisition
Current Assets	
A/R	\$2,479 45 days
Inventory	16,089 2 years of inventory
Total Current Assets	\$18,568
Fixed Assets	
Production Facility	\$15,000
Equipment	4,000
Estate Vineyards	60,000
Total Fixed Assets	\$79,000
Implied Goodwill	\$2,432 total purchase price less FMV of assets
Total Assets	\$100,000



# M&A Transaction: Napa Valley Asset Heavy Winery

(\$000s)

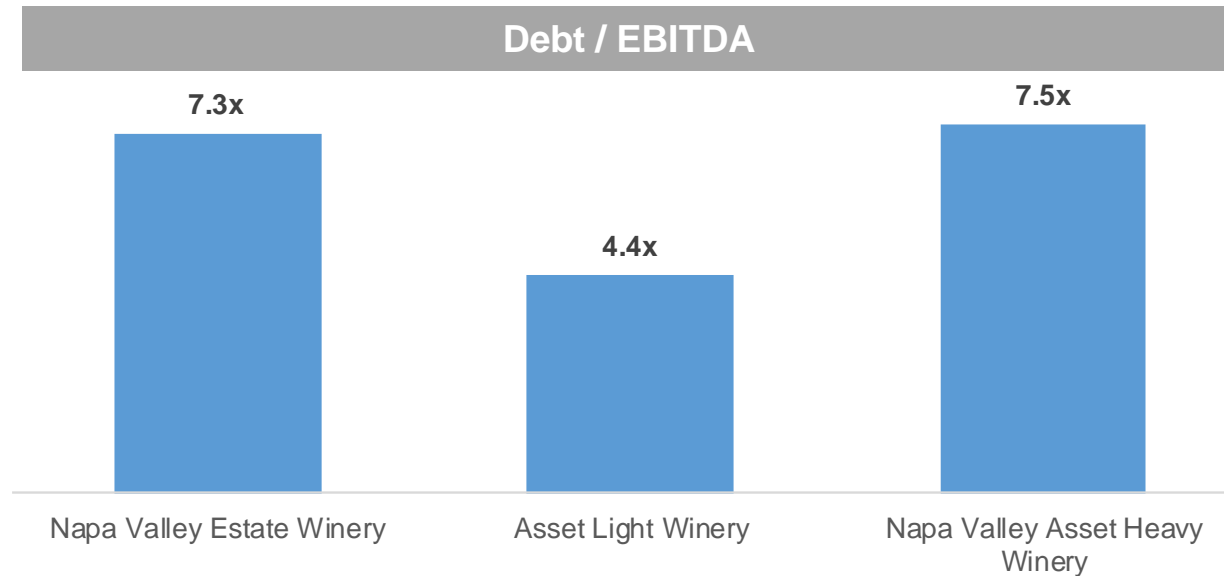
Transaction Sources & Uses	\$	Key Debt Terms			Debt Service & Coverage					Notes
		Loan-to-value (FMV of Tangible Assets)	Interest Rate	Amortization	Principal	Interest	Total Debt Service	EBITDA / Debt Service Coverage	Multiple of EBITDA	
<b>Sources</b>										
New Debt										
Secured Debt										
Revolving Line of Credit	\$12,565	68%	4.0%	n/a	n/a	\$503	\$503		2.1x	secured by inventory (65% LTV) and A/R (85% LTV)
Equipment Financing	3,200	80%	4.0%	10 years	267	128	395		0.5x	secured by equipment
Long-Term Real Estate Loan	29,250	39%	4.0%	20 years	982	1,170	2,152		4.8x	secured by estate vineyards and production facility
Total Secured Debt	\$45,015	46%	4.0%		\$1,249	\$1,801	\$3,049	2.0x	7.5x	
Unsecured Term Debt	—	—								
Total New Debt	\$45,015	46%	4.0%		\$1,249	\$1,801	\$3,049	2.0x	7.5x	
Investor Equity	\$54,985								9.1x	
Total Sources	\$100,000								16.6x	
<b>Uses</b>										
Purchase Assets (Enterprise Value)	\$100,000									
Transaction Costs	—									
Cash to Balance Sheet	—									
Total Uses	\$100,000									



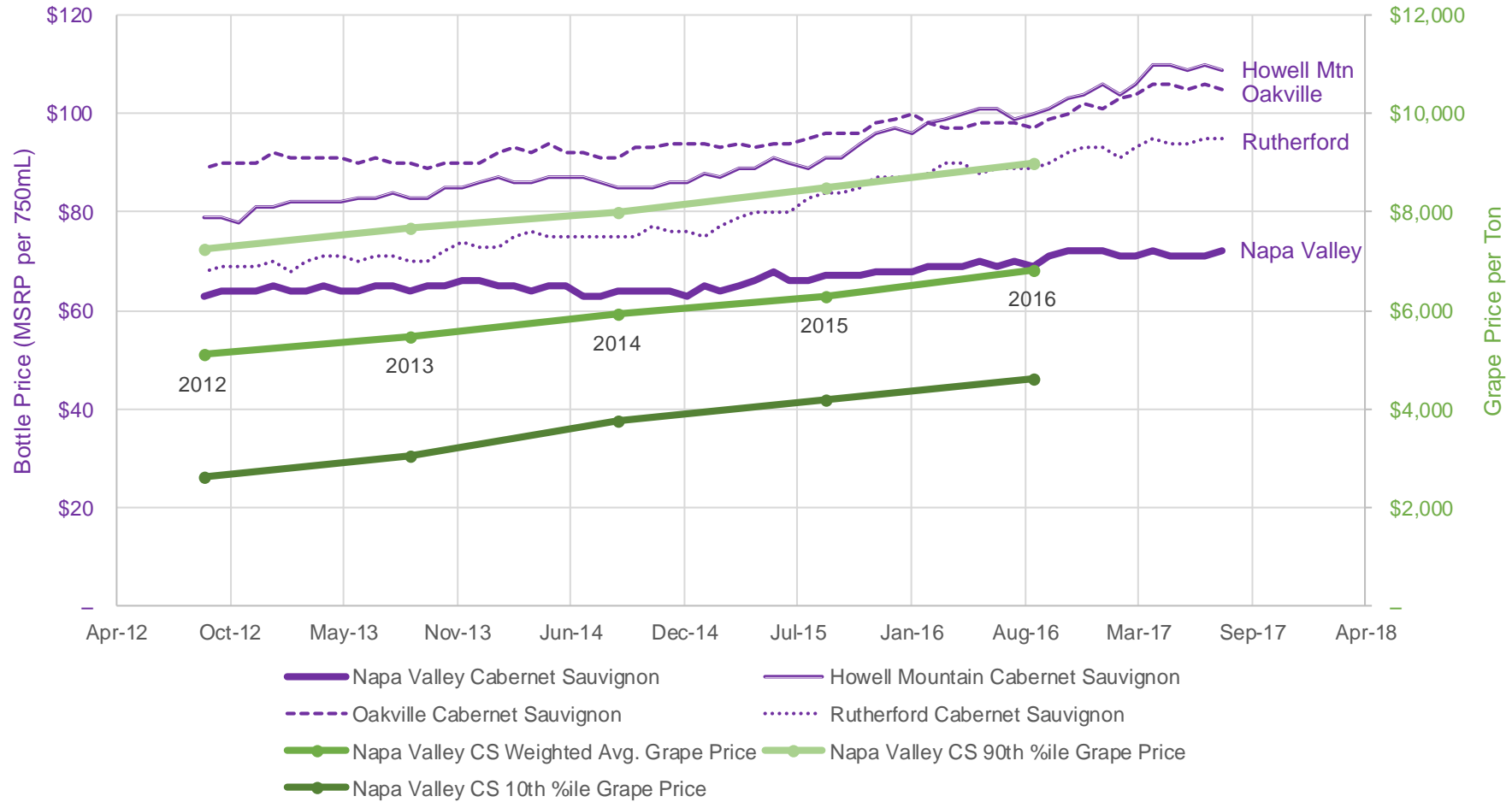
# Real-World Underwriting Scenarios Comparison

(\$000s)

	Enterprise Value	EBITDA	TEV / EBITDA	Total Debt	Total Debt / TEV	EBITDA / Debt Service Coverage	Debt / EBITDA
Napa Valley Estate Winery	\$100,000	\$6,992	14.3x	\$50,901	50.9%	2.1x	7.3x
Asset Light Winery	\$100,000	\$8,333	12.0x	\$36,762	36.8%	2.1x	4.4x
Napa Valley Asset Heavy Winery	\$100,000	\$6,033	16.6x	\$45,015	45.0%	2.0x	7.5x



# Napa Cabernet Grape vs. Bottle Prices



Sources: Aspect Consumer Partners, Winesearcher benchmark wine prices, CA Grape Crush Report



# If a Site in Napa Can Ripen Cabernet, Why Grow Anything Else?

