

More firms address hidden wine value

Wine Advisory Group formed in Napa; other specialists assist lenders

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NAPA & SONOMA – Amid a tighter market for credit and shocks to revenues from weather and the economy, growers and vintners looking for additional sources of capital may find them on their own books, provided they and their lender know where to look.

Great American, an asset appraiser and valuator for some of the largest lenders and funding sources in the U.S., recently formed a Wine Advisory Group in Napa. The firm has been getting more involved with winery appraisals for the past four years, according to Allen Balik, who is leading the venture and has been an independent consultant to North Coast wine-related companies for years.

The Woodland Hills-based firm has offices in Chicago, New York, Boston, Atlanta and San Francisco and analyzes value assets, such as inventory, equipment and intellectual property.

Some major lenders have difficulty coming up with the true value of winery assets, according to Daniel Keyes. He's a Wine Advisory Group inventory appraiser who has been involved in recent high-profile acquisitions and strategic assessments involving Duckhorn Wine Co., Pahlmeyer, Terlato Wine Group and Ascentia Wine Estates in the North Coast and Matthews Estate in Washington.

"We bridge the gap between the costing and financial methods of the wine business and put them in a way and manner that banks understand and appreciate," Mr. Keyes said.

Historically, land has been an easy choice for an asset-based view of value, he noted. Yet inventory sitting in bottles, barrels or tanks is one of the largest assets for many North Coast wine companies, but it has been misunderstood by funding sources not familiar with the industry.

"Banks better understand the segmented values

of wine inventory versus bulk-market values and are able to substantiate lines of credit better," Mr. Balik said.

As some industry sales focus on brands over inventory and facilities, brand valuation has become key in establishing a starting point for business sale negotiations or allocation of the purchase price, according to Mr. Balik.

For a more detailed and brand-specific inventory valuation, factors such as different farming practices, sub-appellations and the credibility and reliability of distribution or sales channels can be important differentiating factors in value, according to Mr. Balik.

For example, inventory for a small winery with established distribution can have a higher value because bottled wine may not face steep discounting if it needs to be disposed or liquidated. Also, direct sales and new European and Asian markets have opened as opportunities for selling wine without a significant hit to pricing.

Great American joins some wine industry-focused firms that offer business valuation, such as investment bank Global Wine Partners and merger-and-acquisition specialist Maher & Associates, both in St. Helena, and Scion Advisors in Napa. A number of accounting firms with North Bay offices have valuation specialists as well.

Also helping lenders bridge the wine industry financial knowledge gap is Sonoma's Vintage Capital. Principals Robert and Ami Cheri Hower arrange interim and takeout financing for winegrape growers and wineries to get through challeng-

ing times. The firm often works with banks with less than \$1 billion in assets.

"We form a strategic alliance with them to provide resources to make loans and show them how to lend to something that is creditworthy," Mr. Hower said. Recently, the firm inked a deal with Oakland's Alta Alliance Bank to provide such financing. The bank was formed in October 2006 by Western Alliance Bancorp of Las Vegas.

With sales at some wineries off by as much as a third last year because of less consumer spending, some new banks are nervous, especially those with significant nonperforming assets in other industries that could attract attention from federal

regulators, according to Mr. Hower. The often three-year time from crush to bottle for realizing revenue for some high-end red wines heightens that anxiety. "I got a call from a bank about a winery that was really long on inventory, and the bank asked about what I think about it," he said. "I investigated it and found there was a solution."

It's not just wineries that may need help. Vintage Capital also has been working with growers hit hard by the frost and heat last season. Mr. Hower helped longtime client Guinness McFadden of McFadden Vineyards in Mendocino County's Potter Valley get emergency U.S. Department of Agriculture financing to cover crop losses. Yet in the challenging banking environment Mr. Hower also advises his clients to take a hard look at a lender's income and balance sheets to assess whether there will be problems.

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