



SVB Fallout a Speed Bump for Wine Dealmaking

By Nikitha Sattiraju March 21, 2023 09:59 AM



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Silicon Valley Bank's collapse adds to uncertainty for the wine industry over long-term lending prospects, which puts pressure on small wineries while dealmakers search for other banks to fill the gap that could be created by the sale of the industry-friendly financier.

The wine industry is grappling with uncertainty over long-term access to capital and financing for deals following the collapse of Silicon Valley Bank, with dealmakers lining up backup lenders as they await the fate of SVB's wine division.

Erik McLaughlin, CEO of investment bank Metis Group LLC, is facing that uncertainty now on an active winery transaction where it's preparing to tap additional lenders should SVB's new owners take a tougher stance on financing wine industry deals.

"We have an acquisition in the works right now that SVB put a term sheet on. They say they want to move forward with it, but that could change with a new owner of the bank," said McLaughlin, who advises wineries in the Pacific Northwest. "What we're hearing from SVB for now is that they want to continue to make credit available because it makes the bank more attractive to potential buyers."

The best-case scenario for the wine industry is for the wine division to be sold independently — and quickly enough to retain the division's employees, McLaughlin added.

After a stressful weekend following SVB's collapse into receivership, wineries that bank with SVB have access to their funds following the federal guarantee to cover both insured and uninsured deposits. Some wineries have moved to other banks, but others could struggle with access to new and existing loans to finance production.

"In the short term, we see some wineries having potential issues with new loans that were in process or tapping available lines of credit that they had with Silicon Valley Bank," said Ian Malone, managing director at Aspect Consumer Partners, which advised Atlas Vineyard Management on its 2021 recapitalization by Juggernaut Capital Partners LP. "It remains to be seen if the buyer of the bank or the division allows these wineries access to the full extent of their credit or if there's a reevaluation of certain credits, so we expect some confusion."

SVB, which according to a recent SEC filing has about \$1.15 billion in outstanding loans to premium wineries, was friendly to smaller wineries, in part by developing creative financing solutions and providing additional resources such as industry reports.

"Silicon Valley Bank made an effort with their wine division to cater to smaller wineries, mostly through lines of credits secured by inventory, receivables and equipment," said Mike Fisher, co-founder and partner at Global Wine Partners. "They understand the business very well, and they are probably more likely to do a deal than some of the other lenders, given that they know what the risks are."

SVB's collapse adds to the wine industry's operational challenges, which include higher interest rates, inflation and damage from the Glass Fire in Napa and Sonoma counties in 2020 that hit the inventories of a number of wineries, particularly in Napa Valley.

Given those headwinds, Malone said, "Long term we may see a tightening in credit standards, particularly for smaller wineries, which could impact their growth."

Dealmakers don't anticipate the collapse to have much of an impact on M&A in the sector this year. Average and below-average assets will come under pressure, potentially spurring distressed transactions, but prime assets will continue to attract premium valuations.

"I think it will add a bit more pressure on small- and medium-sized wineries and that it will make it such that M&A becomes a real potential alternative," Malone said. "On the buy side, we aren't concerned about capital availability, especially among the larger strategics, and we think that there will be buyers that are opportunistic in this environment."

The wine industry has seen active dealmaking in recent years. The majority of the transactions have featured bigger estates buying mid-sized wineries in deals such as E. & J. Gallo's November purchase of Paso Robles, Calif.-based Denner Vineyards. There has been private equity interest in the category, as in Sycamore Partners LLC's \$1.2 billion purchase of Ste. Michelle Wine Estates Ltd. from Altria Group Inc. (MO) in 2021.

Large strategic businesses have also bought wineries, as Moët Hennessey UK Ltd., the wine and spirits division of luxury company LVMH, did in picking up St. Helena, Calif.-based Joseph Phelps Vineyards for an undisclosed price in June.

Buyers are looking for complementary wine portfolios and to shore up supply and distribution, with some strategic buyers based in California and Europe looking to diversify their geographical footprint by entering new markets, particularly in the Pacific Northwest, dealmakers said.

Wineries making products that sell at high price points or those with lower price points but high sales volumes can fetch Ebitda multiples as high as the mid-teens. Wineries typically go for 8 to 12 times earnings multiples, dealmakers said, but that includes their inventories.

"It's pretty common in the wine industry to have about 30 months of inventory at a time," McLaughlin said. "It distorts the Ebitda multiples when you leave the inventory baked in, which is why you often see wineries trading at such high multiples. The multiples are reasonable once inventory is accounted for."

Despite concerns about a potential recession and the fallout from SVB, wine dealmakers remain optimistic. "I think the SVB situation is going to be a speed bump but not a roadblock," McLaughlin said. "It's going to make banking wineries harder, but not as hard as people fear."