



THE SENIOR DEBT MARKET

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Union Bank and the Agriculture Industry

- Lending history 100+ years
- Credit Commitments >\$2 Billion
- Wine Industry - \$200MM
 - Working Capital – 65%
 - Equipment – 10%
 - Vineyard – 25%
- Other available products
 - Acquisition financing
 - Leasing
 - Foreign Exchange
 - Wealth Management

Types of Financing Available for Wineries

Common types of bank credit facilities provided for wineries:

Facility Type:	Used For:	Typical Repayment Terms:
Revolving Credit Line	Inventory financing; Working capital	Interest monthly; usually due in 1-2 years
Term Loan or Lease	Equipment; Facility expansion; Recapitalization-restructure of debt	Principal and interest paid monthly-in full- over 3-7 years
Real Estate Loan	Pay off construction loan; Acquisition of property; Refinance of other debt	Principal and interest paid monthly or quarterly, 5-10 year term, 15-25 year amortization
Commercial and/or Standby Letter of Credit	Rent security (if you're a tenant); Trade finance (if you're an importer/exporter)	Usually not intended to be drawn upon; backed by revolving credit line

Banking Activity in the Mid-2000's

- Asset Driven
- Pricing – Market Driven vs Risk
- Portfolio risk profiles were typically low
- Structure and price were sacrificed to get the deal
- Refinance was typically very accessible and easy

Current Status

- General economic conditions remain soft.
- Businesses continue to “resize” their business
 - Resizing – 2nd and 3rd rounds of layoffs
- Access to credit continues to shrink for consumers
 - Equity lines being reduced/eliminated
 - Credit rates going up making purchase less attractive
- Cost of capital for Banks has increased
- Portfolio risk profile has risen significantly



Debt Underwriting Today & the Foreseeable Future

- Regulators primary focus is cash flow driven
- Underwrite/structure to historical results
- Look closely at all cash outflows (debt service, interest, Capex, dividends, etc.)
- Minimum coverage ratios – 1.25
- Sustainability of the business (less reliance on guarantor non-core assets)

Analytics We Look At

Metric	Definition	Strong	Good/Adequate	"Challenging"
Cash Flow Coverage	"ACF" / debt service	>1.35 : 1.00	1.25 : 1.00	<1.15 : 1.00
Balance Sheet Leverage	Total Liab / Tang. Net Worth	<1.00 : 1.00	1.00 - 2.50 : 1.00	>3.00 : 1.00
Liquidity	(i) Borrowing base cushion; or (ii) Current ratio	>25% >1.75 : 1.00	10-20% 1.40-1.75 : 1.00	<10% <1.35 : 1.00

"ACF" = EBITA – taxes/distributions – Capex

"Borrowing base cushion" = excess of formula borrowing base over the loan outstanding

- Many of these ratios can be outside of the "Strong/Good/Adequate" range and still be acceptable' for example, if cash flow or balance sheet leverage is high but most of the winery's debt is real estate secured (with a longer amortization period).
- Collateral coverage for term debt is also an important factor-usually equipment and/or real estate is preferable. "Airballs" are difficult to get done in this environment.
- Guarantor/principal support can be helpful if metrics at the winery level are not well established. Liquidity and recurring, independent sources of cash flow are key components when we assess a guarantor's financial resources. These days, a guarantor heavy in undeveloped land is not going to provide a lot of help!



How Banks are Handling Renewals

- Pricing is going up even if you are performing.
- Overall market for pricing has gone up so banks are going to look at where they can get their best return on capital
- Financial reporting – quality important and reviewed or audited by a CPA
- Less cushion in covenants to actual results
- The change in your deal at renewal or covenant violation will give you an idea of your risk profile with your institution
- Many deals being renewed at market rates