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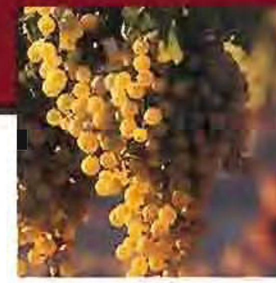

Selling a Winery: Demystifying the Process

By Gordon Axton and Berit Holms

Subtle bouquet, residual tannin, blackberry tang, earthy tones. To a well-versed wine connoisseur, this is an exact analysis of a wine's characteristics. Start talking about valuation variables in buying a winery, such as due diligence, depreciation and capitalization, and you may see a glazed look in many wine connoisseurs' eyes.

Selling a winery can be a long and complex process. Never having done anything like this before, many buyers and sellers are under-versed on complicated business jargon. With a lot of preparation and professional guidance, the process can become less intimidating.

In our four part series, we will demystify the process of selling a winery.
We will be discussing:

1. **Preparing a Winery For Sale** (Fall 2003)
2. **What are Buyers Currently Looking For?** (Winter 2003)
3. **Valuation Approaches For Wineries** (Spring 2004)
4. **Negotiations/Due Diligence/Closing Process** (Summer 2004)

It is critical to portray your winery in the best possible light as you prepare it for sale. It is helpful to prepare a business plan and financial forecast to go with it. This will allow you to better articulate to the buyer where you think the winery will go. Due to the many steps involved, you should allow at least 6 to 12 months to sell your winery.

GET YOUR DUCKS IN A ROW

Clean up financial statements and forecasts – Ideally, have 5 years of financial statements prepared, preferably reflecting a GAAP* accrual basis. A small business can use historical statements to project how the business would look to a new owner. Make sure payables are current and write off any uncollectable accounts receivable.

Remove under-performing items – To make your balance sheet healthier, dispose of excess wine inventory, eliminate under performing brands and liquidate any non-operating assets such as outdated machinery and equipment.

Identify perquisites and unnecessary expenses – Small businesses are often run to minimize taxes, thereby keeping profits or net income low. If you engage in activities such as using a company car and putting your children and family members on the payroll, quantify the amounts spent so the buyer knows these are not recurring business expenses. In addition, identify expenses or income that won't recur after the sale.

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—Gordon Axton
Gordon Axton specializes in providing winery valuation and merger and acquisition services to domestic and foreign clients.

—Berit Holms
Berit Holms provides business valuations and merger and acquistion services to wine businesses.

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The Changing Role of the Winery CEO – Part 4

Leveraging the Board

By Deborah Steinthal

Current wine industry dynamics of increased competition and consolidation are revolutionizing how winery CEOs manage their businesses. This article is fourth in a series that describes best planning practices that these wine industry leaders are implementing in support of their growth strategies.

CEOS MUST LEVERAGE THE BOARD OF DIRECTORS

In today's chaotic, competitive marketplace, a customer-focused business plan is only the first step; execution is equally important to the company's success. One of the CEO's challenges is how best to leverage the Board of Directors for building a team and creating a culture of success.

WHY A BOARD? WHAT IS THE ROLE OF THE CEO AND THE BOARD?

Wine industry CEOs are experiencing a change in the level of complexity in decision-making brought on by the maturation of the industry. Most CEOs agree that a major benefit provided by a Board of Directors is the increased confidence they gain from the board's assistance in making critical business decisions. A well-run board will challenge the CEO's ideas and work with her to scrutinize all options surrounding a decision. This process tends to deliver stronger, more thoroughly reasoned directives. As one CEO stated: "Management manages, the board governs; management is responsible for ideas and the Board can put these ideas to the test, deciding which are worthwhile."

WHAT ARE THE CHALLENGES OF OUTSIDE GOVERNANCE?

One CEO claims his board is, "a big commitment, lots of work, but hugely beneficial when managed correctly." However, the challenges go beyond hard work and commitment: serious consideration must be given to the composition of the board. The board members not only need to be indoctrinated in the industry but must also be knowledgeable about the company's particular market and its culture.

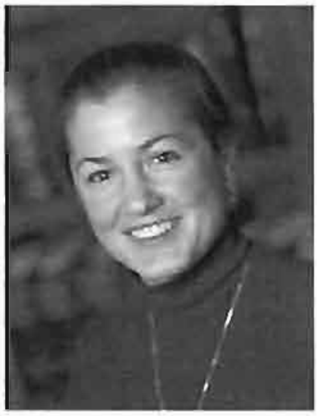
Another winery CEO chose to go outside of the industry to hire board members, afterwards bringing in wine consultants to educate them about the wine market. The group is comprised of what are essentially his target consumers. He aimed high when selecting board members – a strategy that has proved successful.

Changing out board members is another formidable challenge. It is not advisable to train several successors at a time; it is better to space this orientation process over years. According to one CEO, it takes 4-5 years to 'train" a new member of your board. When planning to restructure, seeking buy-in first from the owners of your business or other board members is a process that requires additional time and patience.

BOARD OF DIRECTORS, ADVISORY BOARD, MANAGEMENT BOARD— WHAT'S THE DIFFERENCE?

A management board is an extension of the internal management team and expresses just that, an internal perspective. While advisory boards may provide some assistance with an external viewpoint, a Board of Directors will push the CEO to *focus* on things that ought to be done, and helps to organize her priorities from an external perspective. A final noteworthy point of difference is that a Board of Directors is accountable for the business' success and has the power to fire the CEO if she is deemed unable to deliver results against the company's business plan.

—Deborah Steinthal
Deborah Steinthal is an executive advisor with MKF. She helps winery CEOs with strategic thinking, business planning and market strategy. Deborah leads MKF's CEO Forum – an executive progra[m] for an exclusive group of CEOs who seek stimulating discussion focused on critical leadership challenges.



—Karen Coleman,
Karen Coleman provides transactional and valuation advisory services related to mergers, acquisitions and other significant corporate transactions, helping wineries make informed decisions, effectively navigate the negotiating process, and successfully close deals.

Partner Comment

Each year during harvest, as we closely watch weather reports, we are reminded that the wine industry is an agriculturally based business, at the whim of Mother Nature.

However, a number of decisions that can help your business succeed *are* within your control. For wineries thinking about an exit, tips on how to "dress for success" in this issue of the *Advisor* can strengthen your position in a potential sales transaction.

For wineries looking to stay in the game, two articles on the benefits and challenges of developing and working with a board of directors can be used to facilitate effective, forward thinking decisionmaking and leadership. You may not be able to control whether or not it rains, but you can control how you respond to changes in the wine industry and continually seek to improve your results.

Family Businesses and The Board

by Karen Kryla

Boards can serve an even larger role in family-owned businesses.

1. Boards can help family CEOs keep fresh and forward thinking.

Maintaining a leading edge for extended periods of time is difficult, and the right Board is a source of constant stimulation, challenge, and new ideas. The need for this can be accentuated in family businesses, since most CEOs hold their position for decades, contrasting with non-family business CEOs who change jobs more frequently.

2. Boards can help mediate family business issues that are fraught with family emotion.

The Board is the *voice of reason* that can help the family resolve such complex business matters as the selection of qualified successors or appropriate family compensation levels.

3. Boards bring focus to the long-term viability of the family enterprise.

Families often envision themselves as intergenerational, long-term businesses but are so busy with today's challenges that they are not acting long-term.

4. Board meetings are virtual seminars in business administration and human dynamics for family managers.

Often family managers are recruited based on their status as family members rather than as qualified job applicants and they frequently lack opportunities to learn important skills.

5. Boards can keep the business stabilized during business leadership transition.

A Board that is well informed about the business understands the family's goals and can be invaluable in the event of the sudden unexpected loss of the family business leader.

—Karen Kryla

Karen Kryla is a Family Business Advisor, CPA, and founding Partner. Karen teaches, writes articles and assists families in developing Family Continuity Plans, improving family communications through family business meetings, and advising on issues such as succession, estate, and family business governance planning.

Demystifying the Process of Selling a Winery

Continued from page 1

Document all agreements and contracts – Still, to this day, many grape contracts are oral. It would be best to execute these and other contracts in writing at this time.

Clean up files and management reports – General management reports such as sales, vineyard and production reports should be made available or created.

Workforce – Determine if your workforce is appropriately staffed at all levels. Document job descriptions, organizational charts, wages and employee history.

Wipe Out Potential Liabilities – Clean up any existing or potential legal issues (audits, employee lawsuits, environmental issues) before sale. If selling vineyards or other real estate, ensure the property is in good shape. If you have had a difficult relationship with a distributor, it may be time to let that relationship go.

Now that you've worked so hard on cleaning up your business, you may decide not to sell since it's humming along so well!

**GAAP – Generally Accepted Accounting Principals – see your CPA for details*

What does California's new budget mean for wine business owners?

On August 2, 2003, Governor Gray Davis signed California's 2003-2004 compromise budget. MKF is analyzing several budget provisions that we believe may affect you and your winery or vineyard business.

For information, go to: **www.mkf.com**

Under **Client Services**, select **CPA Services.** Then click on ***New California Budget May Impact Wine Business.***

Or contact Amy Smith, CPA and Tax Partner at 707-963-9222 to discuss tax-planning strategies.

MKF in the News:

Beverage Industry, July 2003 Issue **2003 State of the Industry Report**

Playing the Pricing Game

The markets for wine and spirits have moved in opposite directions during the past year, with spirits continuing to grow at the high end, and wines generating interest at the bargain-priced end of the spectrum.

That's not to say wine consumers are picking low-end products – they are holding on to the high-quality tastes they've developed during the past decade, but the glut of wine currently on the market and the emergence of private label products has made quality much more affordable.

Regardless of lower prices, U.S. producers managed to sell 2 percent more product last year, according to the Wine Trends report from MKF, a St. Helena, Calif.-based wine business advisory firm. California, the largest wine producing state in the country, reported 9 percent growth in production, up 3 percent from 2001, and the second-largest harvest recorded, according to the Wine Institute.

Overall retail sales of domestic wine increased by 4.6 percent, with consumers preferring premium table wine to popular table wine, according to Information Resources Inc., Chicago. However, only about 25 percent of American adults drink wine, with a little less than half of those drinkers considered 'core' wine consumers, according to the National Agricultural Statistics Service (NASS). The Wine Institute estimates that the 10 to 15 percent oversupply of wine in California translates to an excellent price/quality ratio.

According to the Wine Institute, U.S. wineries experienced slightly less than 2 percent export sales increase during the past year, with California wines representing 95 percent of the volume exported. The United Kingdom, the No. 1 U.S. wine importer, took in $189 million in U.S. wine during 2002, up 12 percent from 2001. However, Australia is proving to be stiff competition for U.S. producers in this market, according to NASS.

JOIN THE DIALOGUE!

THE LUXURY WINE TRENDS ANNUAL CONFERENCE – 2004:

DEFINING LUXURY

Monday, February 23 • 1:00 to 5:00 p.m. & Tuesday, February 24 • 8:00 a.m. to 5:00 p.m.

COPIA, The American Center for Wine, Food and the Arts, Napa, California.

The average consumer is demanding a taste of luxury at every level — from the food they eat to the vehicles they drive to the high-tech gadgets they own — to the wine they drink! What constitutes luxury today? Is luxury a factor of: Price? Quantity? Packaging? Sales Channel?

During this one-and-a-half day executive conference, you will hear experts from around the country discuss such topics as:

- Is Big Box Retail Right for Your Brand?
- Inside the Mind of the Luxury Consumer
- Alternative Solutions to Unlocking Luxury Markets
- Finding Your True Shelf: Trends in Off-Premise
- Making the Consumer Connection
- Mass With Class: The Democratization of Luxury
- On-Premise Trends – *Wine & Spirits Magazine* Unveils Restaurant Poll Results

General registration for the conference begins on November 1st. To receive notice of early registration and special conference pricing, email Lisa Anthony at lanthony@mkf.com.

MKF professionals are the leading wine business advisors, providing CPA services, business consulting, industry research, and mergers and acquisitions services to the owners and managers of hundreds of premium wine businesses around the world for over twenty years.

For more information about MKF's services, please call Lisa Anthony, Director of Marketing: 707-967-5322 or e-mail lanthony@mkf.com

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MKF WINE BUSINESS Bulletin:

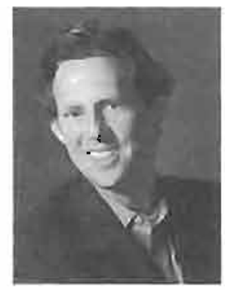
AUTUMN 2003

A LETTER FROM THE CEO

DEAR READERS:

In the last issue of the *MKF Advisor*, I described the reorganization of MKF into three independently-managed organizations: Motto Kryla & Fisher, LLP; MKF Group, LLP; and, MKF Capital Advisors, LLC. Our recruitment campaign to bring in additional top-notch talent and leadership has been successful. I am pleased to introduce the newest members of the MKF family.

DOUGLAS HART, CPA AND AUDIT PARTNER, MOTTO KRYLA & FISHER, LLP

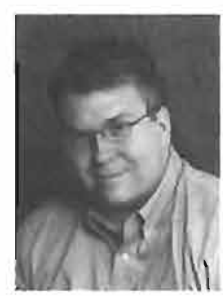


A hands-on financial executive with over 20 years experience, including 10 years as an audit partner with the Big Four firm KPMG, Doug has a proven track record of helping clients succeed. Most recently serving as the Western Region Partner in Charge of Consumer Products, Food and Beverage and Retail for KPMG, he is particularly well-versed in accounting, internal controls and operational and strategic issues facing small and large companies in the food and beverage sectors. Trader Joe's, Levi Strauss & Co., Hasbro and Epicurean were among Doug's previous clients. He graduated magna cum laude from the University of California, Santa Barbara.

BERIT HOLMS, ASSOCIATE, MKF CAPITAL ADVISORS, LLC

Berit will use her analytical skills and research background to provide clients with the critical information needed to make better business decisions, particularly in the areas of business valuations and mergers and acquisitions. Prior to joining MKF, Berit worked as a Market Research Manager at Allied Domecq Wines initiating consumer research for Mumm Napa, Buena Vista, Clos du Bois, GH Mumm, Perrier Jouet and Brancott. She spent several years as a food and beverage analyst on Wall Street working at Moody's Investors Service, Bear Stearns and JP Morgan. She holds degrees in International Relations and Spanish from Wellesley College and an M.B.A. in Finance and International Business from Columbia University.

PHIL BRADLEY, RESEARCH MANAGER, MKF GROUP, LLP



As Research Manager, Phil delivers custom research to wineries and wine-related companies to help them understand key market dynamics that impact their businesses. Prior to joining MKF, Phil worked in Sales and Marketing for Robert Sinskey Vineyards in Napa and assisted in refining their direct sales program. Phil comes to the California wine industry with experience working for the Cintas Corporation in Chicago as an Operations Analyst and Sales Representative. He received his Bachelor's degree in Economics from Cornell University and has taken numerous courses in business and wines at Cornell's prestigious School of Hospitality and Management.

The addition of these talented professionals expands our ability to help wine businesses succeed. It is the commitment of everyone at MKF to continue to deliver the highest level of expertise, combined with personal service, for the benefit of our clients.

John Heymann

John Heymann
CEO