

## Q&A with Peter Kaufman

Bringing capital and operational advice to wineries

Cyril Penn

**Bacchus Capital Management** is a firm focused on mezzanine and private equity investments in the wine industry. It was established in 2007 by **Sam Bronfman**, **Peter Kaufman** and **Henry Owsley**. Bronfman, among other things, was president of **Seagram Chateau and Estate Wines** from 1996 to 2001, and chairman of **Diageo Global Wines** from 2001 to 2003. Kaufman and Owsley are investment bankers.

Bacchus specializes in mezzanine debt, debt which falls behind senior secured debt and ahead of equity, with an emphasis on second-lien loans of \$3 to \$15 million. Loans are customized and include a combination of cash and non-cash interest with a success fee paid upon loan maturity. In its first deal, Bacchus provided negociant **Cameron Hughes Wine** mezzanine financing in the form of a “second lien five-year loan.”

Bacchus managing director Peter Kaufman additionally serves as president of **Gordian Group**, where he heads the firm’s Restructuring and Distressed M&A practice. Prior to joining Gordian and Bacchus, he was at **First Boston** where he was a founding member of its Distressed Securities Group. He co-authored the leading book in the restructuring field, “Distressed Investment Banking: To the Abyss and Back,” published in 2005 by Beard Books. He is also co-author of “The Role of the Investment Banker, Bankruptcy Business Acquisitions,” LexMed Publishing, 1998, which details various strategies and tactics used in distressed situations, and “Trading in the Distressed Market, Investing in Bankruptcies and Turnarounds,” Harper Collins Publishers, 1991.

**WBM:** *What is mezzanine financing and why is it good for the wine industry?*

**Kaufman:** It provides additional capital for wineries that can’t access capital today because their banks are tapped out. They don’t have to sell equity and therefore give up control in order to do it.

**WBM:** *Why hasn’t it been offered in the wine industry before?*

**Kaufman:** Our proposition is different because mezzanine financing hasn’t really been available to wineries. We also have unsurpassed operational advice to the

extent that any of our portfolio companies want to avail themselves to it for no extra cost.

**WBM:** *Why is Bacchus interested in the wine industry?*

**Kaufman:** We think there’s a real need for our capital and our advice, given what’s going on in the wine space today.

**WBM:** *Has Bacchus changed its strategic direction?*

**Kaufman:** We’ve expanded our orbit to include wineries that are having some stress in their capital structure, and there are an awful lot of them. Anybody in the high-end sector of the wine space in this country that isn’t extremely well capitalized may have issues. When a stiff wind blows, it’s the man with no access to money that gets blown over. If banks are tired or tapped out, what’s a winery owner to do these days to shore up his capital structure and make sure he can weather the storm? Or change his business plan, or acquire, or grow, or pay out a partner, or take care of inter-generational liquidity needs? That’s what we’re about, and we’re about it with operational advice if the winery wants it, especially with respect to branding and distribution. Unlike equity financing, we don’t require control.

**WBM:** *How does your experience with distressed companies transfer to the wine industry?*

**Kaufman:** It means we can get much more comfortable than others with risks in any particular transaction situation, and it also means we know how important it is to have good management. We don’t run for the hills if there’s some stress in the situation.

**WBM:** *The pace of deals in the wine space has been slow. Why?*

**Kaufman:** Because there’s a complete and utter mismatch between expectations of sellers and requirements of buyers these days. Winery owners are an entrepreneurial breed. One of the reasons they’ve been so successful is they think the sun is coming out tomorrow. So they’re hanging on to see if the sun will



come out tomorrow. It’s great to be an entrepreneur, and it’s great to believe the sun is coming out tomorrow. But you want to have that belief with a capital structure that ensures you’re able to withstand, survive and thrive, even if it’s a month or a year before the sun comes out.

**WBM:** *When do you think the pace of deals in the wine industry will pick up?*

**Kaufman:** This year. The time has come today. Remember that Chambers Brothers’ song?

**WBM:** *What kind of multiples do you expect wineries to achieve in deals coming up?*

**Kaufman:** I think they’re way down. I think that they’re going to be at 9, 10, 11 times (earnings before interest, taxes, depreciation and amortization) maybe, but I’m just speculating.

**WBM:** *With buyer and seller expectations still far apart on valuations, how do you think deals will be structured in the future so that the buyers and sellers can better share risk?*

**Kaufman:** Buyers want to take advantage of any upside and sellers want to get paid for the same, but if a winery is well capitalized, they’re going to be able to be more patient about when and at what price they can sell. I think the real issue is ability to withstand the buffeting economic winds, and when at what price wineries will have to sell. A financially stressed seller is up against it.

**WBM:** *When is the economy going to get better?*

**Kaufman:** At best this economy is going to limp along for an indefinite period of time or more. I am far from predicting a big robust upswing anytime soon. **WBM**