

# Anatomy of a Deal: Distilling the Right Financial Solution for a Whiskey Business

BY TOM CAVER AND WES SHAW

In 2020, companies across the globe experienced challenges that had previously only been hypothetical scenarios posed by business school professors. Fast forward to 2023: taking their learnings from the unprecedented events of 2020, businesses are exploring capital preservation and unique, flexible financial solutions that will support their company through the next economic challenge. Throughout this article, we will walk through how Wells Fargo completed a transaction for a new customer, working to find a solution suited to fit their needs in a unique and dynamic industry.



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ver the years, asset-based lending (ABL) has become a sought-after financial solution because of its flexibility, fewer financial covenants, and potential to provide greater cash availability. As management teams face unpredictable and unprecedented challenges, they need malleable capital structures in

place that can move, stretch, bend, and grow as the business adapts to economic headwinds and trends. The popularity of ABL continues to expand, and the buildout of a capital structure may be comprised of various financial products that complement each other to support a company.

Let's explore how asset-based lending works.

### Neat, please!

Dr. Rob Arnold, president of Advanced Spirits and a native to Louisville, Kentucky, is the fifth generation of his family to work in the beverage industry. Holding years of experience, awards, and accolades for his sophisticated approach to whiskey, Arnold was tapped by investment firms Park Partners Capital (PPC) and Sallyport to help the whiskey industry achieve accelerated and sustained growth through a business structure new to the beverage market.

Notably, Advanced Spirits had a vision to not only make whiskey, but to create a company that would take the industry to the next level through different touchpoints of the process. To do that, Advanced Spirits has three pillars of offerings: (1) barrel financing programs for other whiskey brands, which provide customers the option to purchase barrels in the future; (2) supply solutions to contract distillation space and purchase aged whiskey for immediate market consumption; and (3) industry expertise consultation in ingredient selection, distilling, and blending to create premium whiskeys.

As the business began, investors explored capital solutions from financial providers and knew that this unique approach to the whiskey industry would also require a unique capital structure. They soon realized that their current lender was not able to grow with them, and other financial institutions they spoke with could not meet their capital needs.

Having exhausted a handful of financial options, PPC vice president Cory Hall, who is a former Wells Fargo banker and investor in Advanced Spirits, reached out to his colleague at the bank to brainstorm creative financing solutions that the Wells Fargo team could develop. "Our approach provides financial flexibility, inventory access, and technical expertise to help whiskey companies achieve accelerated and sustained growth," said Hall.

To understand the complexity of the beverage market and the financial needs of industry companies, let's take a quick whiskey class. Unfortunately, there will be no tastings at this class. Sorry.

### Whiskey is Like Friendships: The Older the Better

The whiskey industry is highly favorable and dynamic, where demand is outpacing supply. However, producing whiskey is a delicate, scientific, and careful process and generally requires at least four years of aging before it can become a product that enters the mainstream consumer market.

Casks and barrels are used for aging whiskey, playing an essential and critical part in its development. Several characteristics of the casks and barrels can influence the whiskey, including their origin, how they were used previously, the type of wood, and more. Fun Fact: most people tend to call wooden casks barrels, but a "barrel" is actually a particular size and shape of a cask, which is a critical component in the taste of whiskey. A barrel is a cask but not all casks are barrels. There are numerous factors that play into the mechanics of the barrels and casks used, but for sake of time, we won't get into all the details and recommend you take a really cool whiskey class from Advanced Spirits!

Back to banking, how does this all play into the structure of the financing? The barrels and casks are the key assets to this business, which is important when discussing asset-based lending that leverages a company's assets for their lines of credit.

### Lock Up Your Whiskey, Not Your Money

Advanced Spirits encourages its customers to "lock up your whiskey, not your money," and the team at Wells Fargo would agree. Once Hall reached out to his colleague at Wells Fargo, a team of trusted bank advisors and experts was immediately put in place to work with the business.

As simple as that sounds, it is a carefully vetted process to ensure the right bankers and industry specialists are a fit for the client. It usually starts with the regional market leader



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where the client is based. The market leader has domain expertise of their local market and specialized industry knowledge to help deliver solutions that help companies achieve their growth goals. In this case, the team brought in Whitney Wall, who is based in Advanced Spirits' headquarters city of Houston, Texas. Once Wall gathered the banking team, the due diligence process began.

When a new client comes to Wells Fargo, the banking team works to understand the business and industry dynamics. This is critical, as seeing the larger picture of goals and objectives helps the team customize a capital structure that meets the needs of the business.

Each industry has its own challenges, opportunities, and growth cycles. It is critical that as capital solutions are explored, industry experts are matched with businesses from the beginning; that's one of Wells Fargo's goals. Having an industry expert means the customer has a banker who understands the cycles of the industry, what economic factors they could potentially face, the passion and drive needed to break through common barriers and, most importantly, how to structure capital solutions that grow and move with the business.

After meeting with Wells Fargo's food and beverage banking executives, Advanced Spirits realized that Wells Fargo's solutions are as unique as whiskey preferences. Over the course of multiple conversations, Wells Fargo bankers drilled down to fully understand what the business was looking to accomplish including long-term goals, ideal day-to-day operations, and objectives when working with vendors, third parties, and customers.

"As a whiskey enthusiast, I was excited to work with Advanced Spirits and its investors," said Tom Caver, a Houston-based Commercial Banking relationship manager who is the

point of contact for Advanced Spirits. "I knew this was going to be a complex situation to dissect, which is why I brought in Wes with our ABL team —I have seen the detailed work that he has done with other ABL customers. ABL is like your chief of surgery — you know they can help solve for anything!"

After an assessment of the business was complete, Wells Fargo offered a comprehensive solution, helping to ensure the most effective products were included. One key consideration was the life cycle of whiskey and the barrels – inventory often depreciates as it gets older, but with whiskey, the inventory appreciates.



In addition, the covenant structure needed to remain flexible considering the whiskey inventory might not generate revenue for four to six years. The specific asset components in discussion – the whiskey barrels – make for a good-quality asset-based loan because the company can leverage the abundance of assets during down business cycles.

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#### Developing a sophisticated palate

Wells Fargo was determined to deliver a capital structure just as smooth as the whiskey in those barrels. Advanced Spirits created a significant value proposition in the market and the capital structure for

the business would not only launch the business, but would help grow and sustain it as they reached new heights in the future.

There are many areas of focus when structuring an ABL loan. However, in some of the most complex, critical processes for asset-based credit facilities, there are five areas of focus: legal, credit, risk, financial diligence of inventory appraisals and field exams. In addition, the task at hand would require a lengthy front-end due diligence process, as Advanced Spirits had numerous elements in its business model that had not previously existed in the beverage industry.

The first step in structuring the loan was to reach out to law firm Goldberg Kohn, to understand the contracts and option rights Advanced Spirits has with its customers and vendors. Working with a specialized law firm to thoroughly vet hundreds of contracts and significant legal paperwork helped to assess the risk profile for Wells Fargo. Understanding the intrinsic value the barrels had and how they naturally appreciate helped provide valuable insight to know what was needed to mitigate risk. Once the bankers understood the risk structure, it was important to involve Wells Fargo's Credit and Risk Management team to ensure the right solution would support Advanced Spirits' financing needs while ensuring Wells Fargo and all parties are protected.

Simultaneously, inventory appraisals and field exams began. ABL loans are based on the value of assets and, therefore, assets must be assessed to understand the level of finance a bank or the bank group is willing to lend. It's important to note that field exams and inventory appraisals continue throughout the length of the deal as the value of assets can fluctuate.

To assess the value of assets, Wells Fargo called in B. Riley, a prominent inventory appraiser with a specialized beverage division. B. Riley and Wells Fargo worked together to perform inventory assessments and field exams, which are onsite visits to properties within the deal scope.

Once the due diligence was complete, the official presentation to the credit committee was the final signoff to approve the structure and financing. This is a vital step in every deal because this shows Wells Fargo not only stands behind its customers, but also believes in their business, the innovation customers bring to their markets, and the passion that drives customers to bring great products, services, and jobs to their communities.

## Cheers!

The deal is signed! At Wells Fargo, we know that there are always ups and downs in business. That's why a client has a relationship manager who leads your journey with the bank. The relationship manager will be there through everything, continuing to assess the business needs and goals, and to find new ways that Wells Fargo can support the growth. "I've spent my career in asset-based lending and one of the greatest perks of this job is going on the journey with our customers and helping them through the highs and the lows, because every situation is different and you are continuously solving a puzzle," said Kurt

Marsden, head of Wells Fargo Capital Finance, which is Wells Fargo's ABL division. 

## Disclosure

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