



HELPING WINEMAKERS WEATHER THE STORM

Wine producers are being squeezed financially as never before but, as associate directors Daniel Terblanche and Chad Potter reveal, the local Deloitte Corporate Finance offering has the knowledge and expertise to relieve the pressure and unlock new opportunities for growth.

FROM DELOITTE'S DISCUSSIONS with stakeholders in the wine industry, there is consensus that wine producers are feeling the pinch due to the prolonged drought, flat prices and political uncertainty. These factors, among others, are placing unprecedented pressure on an industry that has long been a mainstay of the Western Cape economy.

The good news is that there are concrete steps farmers can take to tackle the travails, says Daniel Terblanche, associate director of Restructuring Services at Deloitte, a specialist in helping distressed businesses turn around and diversify their operations.

"Wine is one of South Africa's premium exports and a significant contributor to employment in the Western Cape. As such, a vibrant and thriving wine industry is hugely important to both the regional and the national economy," says Daniel.

The challenges facing a great number of wine farms in the Stellenbosch, Paarl and Franschhoek regions are undoubtedly daunting. A survey undertaken by Deloitte shows that agriculture as a whole is currently the second most risky business enterprise in South Africa, and producing wine comes with its own set of hurdles.

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"South Africa exports wine to Europe and America and faces stiff competition. We compete with local subsidised companies and brands in those regions. Growing the domestic market is therefore important," he adds.

Some of the key issues facing wine exporters include the macro economic climate, political uncertainty, low growth, the drought, lack of government subsidies and rising input costs. In addition, fluctuations in the exchange rate make planning for the future complicated. For example, many pesticides are acquired from overseas and, as well as fluctuating in price, they attract import charges.

Turning to the drought, Daniel points out that while R60-million has been committed to relief efforts in the Western Cape, this would not make a significant difference to the sector due to the scale of the disaster. The reduction of the interest rate by 25 basis points to 6.75% earlier this year is a step in the right direction, but it will not have a marked effect over the short term for the owners of wine farms.

He believes that diversification is key for the long-term sustainability of these farms. "Tourism is a big opportunity in the Western Cape and the majority of wine farms are now diversifying. However, this comes with its own difficulties. For example, adding restaurants or wedding venues requires significant capital outlay, which poses a risk to the business owners. There is also a need for substantial income to support these ventures."

Deloitte is able to bring its substantial sector experience and corporate finance expertise to bear in these areas. The firm has a number of industry experts as well as a robust corporate finance offering, enabling it to draw on both these specialisations when developing restructuring solutions.

Daniel outlines the benefits of Deloitte's integrated services offering: "It enables us to bring multiple options to the table when considering the best outcomes for the business. We can review all restructuring options for owners to consider, and take charge of the opportunity as required. We not only provide advice, but also walk the journey with our clients.

"Through Deloitte Capital, we can help secure or raise capital through existing shareholders, bring new money into the equation or negotiate with the existing secured creditors of our clients.

"Our transaction services team can further support a sales process by bringing to bear our sales-assist, due diligence and sale and purchase agreement advisory capabilities to help the business accelerate the sales process and ensure maximised value for existing stakeholders where a competitive process is run."

When it comes to a distressed wine farm, Deloitte has the expertise to undertake an external review of the business and bring in an independent team to assess the business and sketch its position. Exercises of this kind are often very emotional for farm owners and this is one of the areas where an independent review can really add

value and focus on the real challenges at hand.

"There are many ways of changing a business to consider," explains Daniel. "Our main focus is trying to find a positive outcome for the business that is also beneficial to all stakeholders. Each case is always unique – there is no one-size-fits-all. In each case, we ensure that a thorough review of the business informs any subsequent decisions. We need to do what is right for the business and stakeholders. Should the need arise, Deloitte would also be able to assist the company in distress by accepting an appointment as business rescue practitioners.

"In cases where businesses are in distress, the main goal is always to rescue the business and save jobs. Our teams help these businesses to review cash forecasts with a focus on making them more profitable and sustainable over the long term. To do this, we assist in creating budgets, including cash flow projections, cash flows, bringing expenses into line, where to go for financing, looking at extending repayment terms and making it more affordable to run the business." In the case of an urgent or forced sale, Deloitte's specialised valuation team can help to determine a fair valuation for the business as part of doing a proper business analysis.

Commenting on the outlook for the sector, Daniel says, "There is substantial opportunity but unfortunately, like most sectors, the larger companies are becoming larger and taking over the small boutique farms. In this industry, scale is critical and diversification is key."

He says that the importance of retaining jobs is always uppermost in Deloitte's mind when it considers the options available to farmers and farm owners.

RIGHT: Deloitte corporate finance associate director Chad Potter.
BELOW RIGHT: Deloitte corporate finance associate director Daniel Terblanche.

