

# WINE BUSINESS INSIDER

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## Wine Business Insider

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## Brand Plays Lead the Way for 2012 Mergers and Acquisition Market

Insiders are optimistic that several influential mergers and acquisition transactions, currently in progress, will lead the way for an active market in 2012.

"There is enough going on below the surface level, and there are certainly some transactions being worked on, that will be headliner transactions for 2012," said **Mario Zeponi of Zeponi & Company**. "Whether or not they are able to come to fruition remains to be seen."

A thin, but active, buyer pool is expected to take advantage of opportunities, allowing the market to achieve greater balance between distress sales and sales involving healthier winery assets. Lifestyle buyers within the pool are expected to buoy up the asset values of wineries valued between a few million dollars and \$20 million dollars. Strategic and financial investors are likely to continue sourcing assets which generate cash flow in 2012 and build strong, diversified portfolios, able to compete in today's marketplace.

FIGURE 1 List of Transactions

Date	Target	Acquirer	Estimated Enterprise Value (in Millions)	Transaction Metric
2012	???	???	\$???	???
Aug '11	Landmark Vineyards	"Fiji Water (sub of Roll International)"	Confidential	Premium
Jul '11	Cartlidge & Browne Winery	Vintage Wine Estates	\$5.0	Asset Value
Jul '11	Renwood Winery	Ren Acquisitions, Inc.	\$6.95	Asset Value
Jun '11	Edna Valley Vineyard	Gallo	Confidential	Asset Value
Jun '11	Sloan Estate (Real Estate and Brand)	Goldin Financial Holdings	\$50.0	Premium
Jun '11	Seghesio Vineyards	Crimson Wine Group (Leucadia National Corp.)	\$86.0	Premium
Apr '11	Buena Vista Winery	Boisset Family Wines	Confidential	Asset Value
Apr '11	Gary Farrell Winery	Vincraft	Confidential	Asset Value
Apr '11	Kluge Estate Winery & Vineyard	Trump Organization	\$6.2	Asset Value
Mar '11	Fetzer Vineyards	Viña Concha y Toro S.A. (NYSE: VCO)	\$238.0	Premium
Feb '11	Canoe Ridge and Sagelands Vineyards	Precept Brands	Confidential	Asset Value
Feb '11	Echelon Vineyards	Winery Exchange	Confidential	Asset Value
Feb '11	MacRostie Winery and Vineyards	Lion Nathan USA	Confidential	Asset Value
Jan '11	Cosentino Winery	Vintage Wine Estates	Confidential	Asset Value
Jan '11	Moon Mountain Winery	Private Individual	Confidential	Asset Value

SOURCE: Wine Business Monthly, December 2011

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Currently, notable transactions underway are pure brand plays, Zepponi said. These transactions would be beneficial to larger wine companies that can fill in portfolio gaps and extract acquisition efficiencies—meaning that buyers don't have to double up on human assets. This strategy allows buyers to extract greater value from the acquisition.

Platform plays are the secondary type of transactions in progress. Zepponi qualified those transactions as those which involve international buyers who are seeking a mid-level entrance into the industry and who must acquire an asset complete with sales and marketing infrastructure, core executive leadership and a production or sourcing plan. **Fetzer** selling off some brands to **Concha y Toro** for \$238 million in the first quarter of 2011 is an example of a platform play strategy.

Mario Zepponi, **Matt Franklin** and **Cody Jennings** of Zepponi & Company labeled 2011 as a "breakout year" for wine industry mergers and acquisitions in the December issue of *Wine Business Monthly*. Adding up to the strongest market in recent history as measured by the number of transactions involving U.S. wine companies, 2011 surpassed total deal and enterprise value-volume levels dating back to 2006. The spike in activity was attributed to overall acceptance of prolonged lackluster market conditions and a de-sensitization to the risk exposure related to a recessionary economy.

Distress sales tended to dominate most of the market activity in 2009 and the first half of 2010. In 2011 and 2012, there now appears to be a greater balance between distress sales and sales involving healthier winery assets.

"There are still some folks stretched pretty thin," said **Tony Correia** of **Correia-Xavier, Inc.** "Some will be forced into selling at some point, and that will most likely come around this year. But, otherwise, I'd expect the market to be highlighted by clever business decisions."

Factors such as business fatigue and lack of succession planning are formidable challenges in the current market. A weak economy tends to force these types of issues to an earlier resolution if a winery owner is not optimistic about a short-term economic recovery. A prime example is that succession planning issues was a motivating reason for **Seghesio's** decision to sell its ultra-premium Zinfandel brand to **Crimson Wine Group** for \$86 million in 2011.

## Private Wine Company Outlook in 2012

The continued perception of a "buyer's market" has supported increased activity from strategic buyers. In particular, several companies, such as **Vintage Wine Estates**, **Boisset Family Estates**, **Foley Family Wines** and **Huneus Vintners**, used this environment as an opportunity to build their portfolios of wineries and brands during 2011.

Existing private wine companies are expected to approach 2012 as an opportunity to make strategic acquisitions while the buyer pool remains thin. There are mounting indicators of their willingness to test the waters as buyers, particularly with respect to large-scale acquisition opportunities, where there may be less competition from large, corporate, strategic buyers.

## International and Lifestyle Investor Outlook for 2012

The value of the U.S. dollar may stimulate international buyers to make a push in the U.S. market in order to gain a foothold among the competition. Increasing consumption among consumers is seen as a major influencer as healthy and growing consumption numbers support transaction activity in the growing market.

2011 saw a steady influx of investments in the U.S. wine industry by international beverage companies and foreign investors. As mentioned above, the headline transaction was Concha y Toro's acquisition of Fetzer for \$238 million. With all of the fanfare involving Chinese investors, **Goldin Financial Holdings'** purchase of **Sloan Estate** in Napa Valley for \$50 million marked the first instance in which a Chinese investor paid a premium for a U.S. winery investment. Other published transactions involving international buyers included: **Lion Nathan's** (Japan) acquisition of Sonoma County Chardonnay producer **MacRostie**, **Zhang's Winery's** (China) acquisition of the **Frazier Winery** facility in Napa, **Boisset Family Estates'** (France) acquisition of the historic **Buena Vista Winery** in Sonoma and a wealthy Argentine investor's acquisition of Zinfandel producer **Renwood Winery** in the Sierra Nevada foothills.

"You're going to see continued activity from Chinese investors," said Correia.

## Public Wine Company Outlook for 2012

Zepponi doesn't expect to see larger wine companies, such as **Diageo** and **Constellation Brands**, make significant plays in 2012. Diageo aggressively streamlined its portfolio in 2011, selling several wine brands that lost sales velocity due to a lack of focus as well as winery estates that were not core to the larger operations of the company. Constellation Brands divested its **BRL Hardy** Australian wine holdings when it sold its Australian wine assets to private equity firm Champ for approximately \$234 million.

"There has been a trend of larger wine companies shedding non-core winery assets. You will see more of that going on until these larger companies feel they have weeded out their portfolios and are able to have a core portfolio with core brands and not be distracted by low margin brands or brands that have underwhelmed them," said Zepponi.

### Mario Zepponi believes three things will hinder the outlook for 2012:

1. Ongoing issues with the Euro
2. A contracting buyer pool
3. Lack of public wine company and private wine company activity in the market

## Overall Outlook in 2012

"The level of activity for everything—land, vineyards and wineries—will be much higher in 2012 than it was in 2011," said Correia.

Wine companies looking to counteract impending supply shortages are expected to make acquisitions related to securing supply sources, should land become available.

"Wine prices drive grape prices. Grape prices drive vineyards and winery prices," said Correia. "Today we are seeing very strong rebounding in demand for grapes, upward pressure on grape pricing, new pricing and, with wineries realizing they need to firm up sources of fruit for coming years, I believe we will see quite a lot of activity in both vineyard and winery transactions."

The Central Valley demonstrates the most active buyer pool, but has the fewest opportunities. Correia attributes this to the large parcel sizes and competing tree crops currently producing higher profit margins than grapevines.

"The best properties now are the ones that are making good money, and those landowners aren't looking to sell," said Correia.

The high number of transactions completed in 2011 suggests that the most recent market trough has passed and that the industry is in the middle of a new cycle. Non-core winery assets, if real estate-based, are expected to be acquired by other private wine companies or lifestyle investors. Wine brands will be absorbed by other private wine companies that are already noteworthy because of their production sales and marketing prowess, and that can create some efficiencies and make brand acquisitions work.

"I do believe 2012 will be a better year than 2011. The first quarter will continue to be relatively quiet, but deals will begin to be announced in the second and third quarter, and deal momentum is building rapidly" said Zepponi. "You'll see some new faces and existing faces in mid-to-large sized wine transactions, and it will be healthy for the industry."

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