

Q&A with Robert Nicholson of American M&A specialists International Wine Associates

27 Jan 2014 | By James Lawrence

In 2013, vineyard acquisitions and mergers on the US West Coast were a key talking point for industry insiders. As a key party to many of the major transactions that took place last year, Robert Nicholson, president of mergers and acquisition specialists, International Wine Associates ([URL=http://intlwine.com/](http://intlwine.com/)), is ideally placed to share his expertise on the future of the West Coast property market. James Lawrence asks the questions:

The number of properties coming onto the market in the West Coast increased dramatically during the second half of 2013. What were the main reasons for this?

RN: Prior to last year, many high end wineries didn't want to consider a transaction during the difficult financial times (because of a risk of over lower valuations); the Mayacamas and Araujo sales last year in the Napa Valley confirm that the high end winery market is coming back at increasing values.

Moreover, limited vineyard plantings in California over the last seven years has seen wineries looking to protect their supply; we witnessed a firming up of vineyard values in all AVAs as wineries scramble to find suitable acreage to guarantee supply and we are seeing more of the same in 2014.

Of course, there are always discounted or 'distressed' properties for sale, although how many of these will successfully find a buyer is hard to say. It is extremely difficult to re-stage a broken winery or brand!

So which segment of the industry is struggling at the moment and may be vulnerable to a distressed sale?

A decreasing number of these sales are because of financial difficulty these days, a few but not as many as 12, 24 or 36 months ago; as in many sectors of the US economy, the wine market is "flushing" out most of these "problem" opportunities.' There are always struggling, weaker brands or businesses in most categories, but the most vulnerable segment is probably the small, privately held winery segment.'

But what other factors are driving these transactions and winery for-sale signs?

In the wine business there are always the "generational change" type of transactions happening; increasing the baby-boom generation are looking for an exit (if their children don't want to join the family business). There have been 15 such transactions of this nature since 2010. Motivation for these sales may also come from tax and inheritance issues - IWA's sale of both Lancaster Estate and Sausal Vineyards last year and the sale of Seghesio and Clos Pegase were all examples of generational transactions.

How many properties were successfully sold in California and Oregon/Washington in 2013? Which region will attract the most attention in 2014 in your view?

We estimate that there were 20 plus transactions (of some significance) in 2013. In terms of leading areas for investment in 2014, Washington is quickly being recognised as offering consumers significant value in world-class Bordeaux red varietals. The tightening grape supply and rising grape prices in the Napa Valley, coupled with pressure to maintain prices to wholesalers, means Washington's Walla Walla AVA is becoming increasingly attractive to California Cabernet Sauvignon producers. The average land price in Napa is \$200,000/ac, in Walla Walla it's \$50,000/ac.

Oregon also continues to attract great international interest, our firm is working on transactions in Oregon as we speak and we are being approached by other very serious buyers about how to enter the Oregon wine business.

How much foreign investment has come into the West Coast in the last twelve months?

We estimate that over \$175 million dollars of international investment has come into the region over the past twelve months. In 23 years in business, my firm has never had more viable and international buyers.

What other trends do you foresee for the West Coast wine industry in 2014?

The growing US wine market will continue to put upward pressure on vineyard values and the values of strong performing ultra premium wineries in all AVAs in California, Washington & Oregon, particularly for Cabernet Sauvignon and Pinot Noir vineyards and wineries.

We will see a large number of increasingly international buyers chasing a small number of coveted wine properties. I also expect the constraints on domestic supply to open the door to imported wine, and it's foreseeable that we'll see a 10% growth in imports this year.

I believe that the sale of wineries for generational reasons will continue to grow with a small number of private companies seeking an exit.