

THE PRESS DEMOCRAT

What led to Ascentia's downfall?

By [CATHY BUSSEWITZ](#)

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The unraveling of Ascentia Wine Estates, the Healdsburg company that once owned Geyser Peak, is a cautionary tale of the dangers of leveraged buyouts, a reminder of the critical role that distributors play in the wine business, and an example of how hard wineries can fall when the economy slows.

Ascentia was formed in 2008, becoming one part of a complex \$209 million entity led by San Francisco-based private equity firm GESD Capital Partners, which brought investors together to buy a portfolio of eight wineries from Constellation Brands.

Ascentia would own the brands and run the wine business. Its partner, VinREIT, a real estate subsidiary of Entertainment Properties, based in Kansas City, Mo., would buy the real estate and vineyards, contributing about \$115 million to the deal.

The sale was viewed at the time as a boon to the North Coast wine industry, restoring local ownership to some of Sonoma County's storied wine brands, such as Geyser Peak, Gary Farrell and Buena Vista Carneros.

It all came to an end last week, when E&J Gallo announced it was buying Ascentia's last two remaining wine brands, ending a 13-month sell-off of the Healdsburg's company's wineries.

In hindsight, industry experts say the deal failed because the highly leveraged transaction relied too heavily on debt, with real estate and vineyards that were bought at the top of the market.

The company was also the victim of bad timing, forming just before a recession that decimated high-end wine sales as customers traded down.

And a failed relationship with distributor W.J. Deutsch & Sons, the White Plains, N.Y., company that invested \$16 million in the deal, was a crushing blow to Ascentia's ability to survive the recession, they said.

"It really was a perfect storm of things that went wrong," said Deborah Steintal, founding partner of Scion Advisors. "It wasn't one single thing, it was multiple. And none of it reflects, I think, on the potential of Geyser Peak. It really was about ownership decisions and a partnership that went wrong."

Ascentia CEO Jim DeBonis did not return multiple telephone calls seeking comment over the last two weeks. But a picture of the company's demise emerged from interviews with analysts and executives who were part of the

deal.

GESD, the company that owned Ascentia Wine Estates and arranged the financing for the deal, secured commitments from VinREIT for \$115 million and Deutsch for \$16 million. GE Capital Partners, as well as other banks, invested undisclosed sums, sources said.

Just how much money GESD contributed to the deal was unclear, and the company did not return multiple phone calls placed over several weeks.

“They put in the smallest amount of capital, but they controlled the business,” said Vic Motto, CEO at Global Wine Partners, the St. Helena investment bank that helped arrange the financing for the real estate acquired by VinREIT.

Motto did not know exactly how much money was lost by VinREIT and the other partners, he said.

In addition to over-leveraging, sources said GESD did not have experience running a major wine business.

“I think some really poor decisions were made on how they managed that business after they acquired it,” Steinthal said. “They didn’t have real knowledge or expertise on how fast they could grow that business, and what it would take in terms of resources to invest in it, to turn around the brands.”

In 2008, it was easy to believe the portfolio was a good investment. At the time GESD acquired the brands, Geysler Peak’s volume was growing about 14 percent per year, according to industry sources. Geysler Peak alone had annual revenues of about \$30 million when it was for sale in 2007, and the sellers projected it would grow to \$50 million in annual revenues by 2012, sources said.

Together, the Constellation brands packaged to Ascentia were pitched as producing about 1 million cases and generating almost \$90 million in annual revenue.

But sales quickly fell below expectations. In its first year, 2008, Ascentia sold 690,000 cases of wine, DeBonis told The Press Democrat in a 2010 interview. Sales increased in 2009 to 760,000 cases, he said. But the brands were not selling more than 1 million cases when Ascentia acquired them, DeBonis said in that interview, estimating the actual number was less than 900,000 cases.

“The timing worked out terribly,” said Robert Nicholson, principal at International Wine Associates, whose firm represented Constellation in the deal. “The financial crisis was at its height, and it was made very difficult for Ascentia to effectively reach the wholesaler and sell their product.”

Nicholson’s involvement with the brands spans decades. His firm also represented Jim Beam when the company acquired Geysler Peak from financier Henry Trione in 1998.

An effective marketing and sales team is critical, because those executives bring to the table their relationships with distributors. Before the deal, Geysler Peak and the other seven brands acquired by Ascentia were being pushed by Constellation's marketing force.

GESD and Ascentia initially came on the bidding scene without a sales and marketing team, and weren't taken very seriously, said a source familiar with the deal. GESD was better known for turning around bakeries and food companies, with a portfolio that includes the Boudin bakery and restaurant chain and the parent company of Artisan Bakers in Sonoma.

But Ascentia became a real contender when GESD brought in Deutsch — an experienced wine distributor that counted Kenwood's Kunde Family Estates and Australia's Yellow Tail as its clients — to serve as both an investor and a partner in the business that would handle distribution. That relationship helped the company secure additional financing it needed to land the deal, an insider said.

“Access to market is critical, and with Deutsch, Ascentia had a strong access to market,” Nicholson said. “Without Deutsch, Ascentia lost its access to market, and its relationships to its distributors.”

Ascentia's relationship with Deutsch soured just months into the transaction, sources said. In May 2010, Deutsch filed suit against GESD and Ascentia, calling the creation of the company a leveraged buyout. The suit said that revenue projections were artificially inflated and claimed the company was insolvent, contending that Ascentia had stopped making payments to Deutsch in March 2009.

“For the deal to work, it had to work from the top line, generating sales,” said Mario Zepponi, co-owner and partner at Zepponi & Co., a mergers and acquisition firm based in Santa Rosa. “And when Deutsch withdrew, they didn't have a sales and marketing person. They had to build from the ground up. It's easy to say you can do that, but for a wine company of that size in the market we were going through, that was really a Herculean task.”

DeBonis denied the veracity of the lawsuit, and the case was dismissed in October 2010. But damage to the company's reputation was done. And in a company built on debt, there was no wiggle room for failure.

Over the next year the company would work on restructuring its debts and reduced its staff by about 10 percent.

In January 2011, GESD announced that Mike Kenton, a wine industry veteran with experience in sales, would replace DeBonis as CEO to focus on rebuilding the sales and marketing divisions. In late April, Ascentia sold off Buena Vista Carneros to Boisset Family Estates and Gary Farrell Winery to the Vincraft Group. That would be the beginning of the gradual sell-off.

Just three months later, in August 2011, GESD announced that Kenton was stepping down as CEO and DeBonis was coming back.

In the months that followed, rumors about Ascentia's demise circulated,

culminating in the recent announcements that Ascentia had sold off its remaining assets.

The final divestments began in mid May, when Ste. Chapelle Winery in Idaho was sold to Seattle-based Precept Wine.

Then the Geyser Peak, Atlas Peak and XYZin brands were sold to Accolade Wines, an Australian company that has become the fifth-largest wine company in the world. The real estate and vineyards remained with VinREIT, sources said.

And finally, Ascentia's two remaining brands, Columbia Winery and Covey Run in Washington, were sold last week to E&J Gallo.

Accolade took over Ascentia's old office space in Healdsburg last Monday. Ironically, the sales and marketing network that came with Geyser Peak were a selling point for Accolade, because it gave the Australian company access to a distribution platform that it didn't have in the U.S.

Accolade was formed when Constellation divested some of its brands outside America, said Tim Matz, managing director of Accolade's operations in North America. The company has a significant distribution platform in Europe, Australia and other markets, he said. A platform in America was the next step.

“This acquisition allows us this platform, and we were very excited about having the opportunity to acquire something like Geyser Peak,” Matz said.

The arrival of Accolade, which sells 35 million cases annually, introduces a welcome dynamic to the North Coast wine industry, experts said. The company is not currently considering any further acquisitions, but is focused on building the Geyser Peak wine brand. But that doesn't mean it won't be looking to acquire more brands in the future.

“We are always looking for opportunities that fit into our growth strategies, and our portfolios around the world,” Matz said.

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