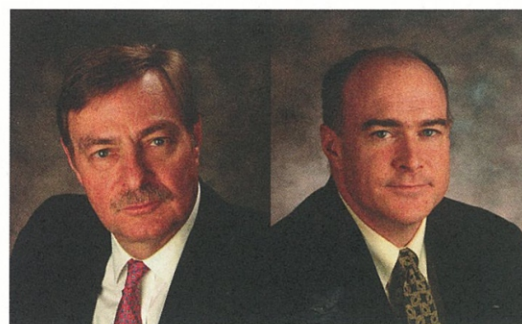


## technology & business

# An Update on U.S. Winery and Vineyard Acquisitions

M&A advisors summarize recent developments in winery and vineyard transactions

*Robert Nicholson and Josh Grace*



Robert Nicholson and Josh Grace

**WINERY ACQUISITIONS GENERATE A** disproportionate amount of discussion in the wine industry. Perhaps this is due to the clandestine nature of many of these transactions, where nothing is announced until the deal is closed; however, the interest may also come from the substantial change in the finances of the owners who sell. They often go from modest annual cash flow to sudden, overnight wealth, and such change does not go unnoticed by other winery owners. As the leading transactional advisors to the wine industry, **International Wine Associates (IWA)** is often at the forefront of such transactions and this article is an attempt to distill what we have seen in the last four years as well as some thoughts for the coming years.

The following summarizes three important trends that we have seen most recently in wine industry transactions:

- A substantial increase in the number of vineyard transactions
- Increased activity in Oregon and Washington
- A broad demand to secure winery production capacity in California

## Vineyards

It is no secret that **Kendall-Jackson** has been the most active vineyard acquirer of late, buying substantial acreage of North Coast Pinot Noir and Cabernet Sauvignon plantings, as well as completing the largest acquisition of an Oregon vineyard to date. Many other wine producers are following this trend, with substantial purchases by **E&J Gallo** (377 planted acres in Monterey County and 800 planted acres in Lake County), **Duckhorn Wine Company** (90 acres planted in Alexander Valley), **Paul Hobbs** (90 acres planted in Napa), **Bill Foley** (200 acres planted in Carneros), **Bill Price** (Gap's Crown Vineyard, 138 planted acres) and **Precept Brands** (two vineyard properties in Oregon). The current wine market in the U.S. consistently shows an unmet demand for the purchase of available vineyards as wineries with the vision to see the confluence of increasing future consumer demand, urban encroachment, tightening regulations and rising grape prices are scrambling to secure their long-term grape supply.

Robert Nicholson and Josh Grace work for International Wine Associates, the leading wine industry mergers and acquisition advisory boutique. Since 1990, IWA has completed numerous transactions for privately owned and multinational wine companies for a total value of over \$1 billion in deals closed. These transactions have included among others the sale of the following wine companies and over 5,000 acres of producing vineyards: Louis Jadot's acquisition of Resonance Vineyard in Oregon, Mayacamas Vineyards, Silverado Hills Winery, Lancaster Estate, Sausal Vineyard & Winery, Blackstone Winery, Edna Valley Vineyard, Pacific Rim Winemakers, Laurel Glen Vineyard, Geysers Peak Winery, Buena Vista, Gary Farrell, Atlas Peak Winery, Davis Bynum Winery, the Hewitt Estate, Havens Winery, Koves-Newlan, the sale of Red Truck for the Cline family, Wild Horse Winery, Hogue Cellars, Sonoma-Cutrer Vineyards, the Hedin family, Yalumba/San Mateo Ranch in Rutherford, Bonny Doon (Pacific Rim Winemakers, Big House & Cardinal Zin). IWA has also worked for the following multinationals: Diageo, Constellation, Brown-Forman, Fosters, Southcorp, Gruppo Campari, LVMH, Jim Beam, IDV, Chalone Wine Group and various banks including Wells Fargo, Banco Banesto, and the European Bank. In addition to working with clients in North America, IWA has also been retained on projects in Europe, South Africa, Latin America, and Australasia.

## The Pacific Northwest

Both Oregon and Washington stand to see substantial changes to the grower-winery landscape given the recent commitments by Gallo in Washington and Kendall-Jackson in Oregon. While the presence of these two large players has sent shock waves through the respective regions, there have also been a number of other prominent vineyard transactions that have taken place, including **Louis Jadot's** recent purchase of **Resonance Vineyard** in Oregon and several others currently underway that will continue to shape the future of Washington and Oregon. It is thought that the relatively low vineyard values in the Pacific Northwest (both regions' vineyard values top out at a maximum of \$65,000 to \$70,000 per planted acre, and large commercial plantings transact for significantly lower values) will be attractive to other large California wine industry players seeking an immediate supply source in the face of dwindling options in California.



# An Update on U.S. Winery and Vineyard Acquisitions

**TABLE 1 NOTABLE TRANSACTIONS SINCE 2010**

Deal Date	Winery/Vineyard/Brand Transacted	County/Region	Seller	Buyer
Aug-13	Resonance Vineyard *	Oregon	Kevin & Carla Chambers	Louis Jadot
Aug-13	Clos Pegase	Napa, CA	Jan Schrem	Vintage Wine Estates
Aug-13	Rack & Riddle Facility	Mendocino County, CA	EPR Properties	Duckhorn Wine Co.
Jul-13	Araujo Estates	Napa, CA	Bart & Daphne Araujo	The Artemis Group
May-13	Sun Chase Vineyard, 42 acres planted	Sonoma, CA	CalPERS	TGIC/Triumph Beverage
May-13	Goosecross Cellars	Napa, CA	Gorusch/Topper Families	Golden Equity Inv (Coors family)
May-13	Yamhela Vineyard, 31 acres planted, 80 plantable	Yamhill Co, OR	CalPERS	Precept Brands
Apr-13	Mayacamas Vineyards *	Napa, CA	Travers Family	Private Investor Group
Mar-13	Inglewood Estate	Napa, CA	Doug & Jane Wolf	Sinegal Family
Mar-13	Westside Farms, 75 acre vineyard	Sonoma, CA	Ron & Pam Kaiser	Ramey Wine Cellars
Mar-13	Zena Vineyards, Gran Moraine, Maple Grove 828 acres, 42 planted w/300 plantable	King Co, OR	Common Fund	Jackson Family Wines
Mar-13	Geyser Peak Winery	Sonoma, CA	EPR Properties	Francis Ford Coppola
Mar-13	Carneros Vintners' Custom Crush Facility	Sonoma, CA	EPR Properties	Carneros Vintners
Jan-13	Gap's Crown Vineyard, 138 acres	Sonoma, CA	CalPERS	Price Family Vineyards
Jan-13	Silverado Hill Winery *	Napa, CA	CalPERS	Laird Family Wines
Dec-12	Ramal East Vineyard, 206 acres	Sonoma, CA	EPR Properties	Bill Foley
Dec-12	Lost Acre	Sonoma, CA	CalPERS	Jackson Family Wines
Dec-12	Tourmaline Vineyard, 90 acres	Napa, CA	CalPERS	Paul Hobbs
Nov-12	Vineyard, 260 acres, 200 acres planted	Sonoma, CA	Saralee & Richard Kunde	Jackson Family Wines
Nov-12	Lancaster Estate *	Sonoma, CA	Ted Simpkins	Bill Foley
Oct-12	Christopher Creek Winery	Sonoma, CA	Fred & Pam Wasserman	Dominic Foppoli, Robert Dahl
Oct-12	Yorkville Highlands Vineyard, 118 acres	Mendocino County, CA	Chris Williams	Jackson Family Wines
Sep-12	Snows Lake Vineyard, 2,300 acres, 800 planted	Lake County, CA	Myers Family	Gallo Winery
Aug-12	Valley of the Moon & Lake Sonoma Winery (wineries, vineyards, brands)	Sonoma, CA	Korbel	West Coast Wine Partners
Aug-12	Sausal Winery, vineyards, brand *	Sonoma, CA	Sausal Winery	Silver Oak Cellars
Aug-12	Courtside Cellars	San Luis Obispo Co, CA	Bob Schiebelhut, Jim Efrid	Gallo Winery
Jul-12	Weibel Vineyards & Winery in Hopland	Sonoma, CA	Weibel Family	Vintage Wine Estates
Jun-12	Mark West (brand, inventory)	Sonoma, CA	Purple Wine Co.	Constellation Brands
Jun-12	Ridgeline Vineyards, 400 acres w/90 planted acres *	Sonoma, CA	Artesa Vineyards & Winery	Duckhorn Wine Co.
Jun-12	Ramal West Vineyard, 350 acres	Sonoma, CA	EPR Properties	Jackson Family Wines
Jun-12	Columbia Winery & Covey Run (brands only)	Washington	Ascentia Wine Estates	Gallo Winery

NOTE: IWA REPRESENTED THE SELLERS NOTED WITH \*

## Capacity

Like the increasing regulatory pressure on vineyards, California winery owners are also finding it more difficult to add winery production capacity, or to have a new winery permitted. This is leading to a number of wineries now looking to acquire, rather than build new production capacity. The acquisition by **Francis Ford Coppola** of the **Geyser Peak** facility is such a purchase, as was **Ken Laird's** purchase of **Silverado Hill Winery** in Napa and **Gallo's** acquisition of **Courtside Cellars** in San Miguel. Most transactions where production capacity is the key asset are with wineries with a capacity of 5,000 tons or more, because smaller wineries do not provide the needed efficiencies and economics, particularly for a custom crush business. As future vineyard plantings come into production, the California wine industry will face an increasing shortage of production capacity, leading to higher values for large, permitted wineries. (See TABLE 1 above.)

## Overall Market Activity

After robust years in 2006, 2007 and the first half of 2008 (that included **Constellation's** significant sale of various California and Pacific Northwest wineries, brands and vineyards to an entity that became **Ascentia Wine Estates** and to **REIT Entertainment Properties Trust** for a total transaction value of \$209 million), the market for transactions in the wine industry was understandably quieter in late 2008 and 2009 as the industry suffered and then recovered from the global economic collapse. Since then, however, deal activity has been quite robust. In 2010, we estimate total transactions in the U.S. wine industry to be \$258 million. This was followed by a very robust 2011 which saw 14 notable transactions totaling nearly \$500 million, with nearly half of the total coming from **Brown-Forman's** sale of **Fetzer** and related brands to **Viña Concha y Toro** (for a total transaction value of \$238 million). Although 2012 did not eclipse 2011 in total transaction



**TABLE 1 cont. NOTABLE TRANSACTIONS SINCE 2010**

Deal Date	Winery/Vineyard/Brand Transacted	County/Region	Seller	Buyer
Jun-12	Geyser Peak, Atlas Peak & XYZin (brands)	Sonoma, CA	Ascentia Wine Estates	Accolade Wines
May-12	Former Blackstone Winery Facility (winery not brand) *	Sonoma, CA	Constellation Brands	Ken & Diane Wilson
May-12	Sawyer Cellars (vineyard & winery not brand)	Napa, CA	Charles & Joanne Sawyer	Bill Foley
Apr-12	Force Canyon Vineyard, 377 acres	Monterey County, CA	SPP	Gallo Winery
Mar-12	Pezzi King Vineyards	Sonoma, CA	James Rowe Sr	Ken & Diane Wilson
Feb-12	Stelzner Vineyards (vineyard & winery not brand)	Napa, CA	Richard Stelzner	PlumpJack Group
Nov-11	Michel Schlumberger Winery	Sonoma, CA	Jacques Schlumberger	Adams Wine Group
Aug-11	Landmark Vineyards	Sonoma, CA	Mike & Mary Calhoun	Roll International
Jul-11	Edna Valley Vineyards *	San Luis Obispo Co, CA	Diageo/Paragon	Gallo Winery
Jul-11	Sloan Estate	Napa, CA	Stuart Sloan	Goldin Financial Holdings
Jul-11	Renwood Winery	Amador County, CA	Renwood	Ren Acquisitions
Jul-11	Cartlidge & Browne Winery	Napa County, CA	Tony Cartlidge & Glenn Browne	Vintage Wine Estates
Jun-11	Seghesio Family Vineyards	Sonoma, CA	Seghesio Family	Crimson Wine Company
Apr-11	Gary Farrell Winery	Sonoma, CA	Ascentia Wine Estates	The Vincraft Group
Apr-11	Buena Vista Winery	Sonoma, CA	Ascentia Wine Estates	Boisset Family Estate
Apr-11	Laurel Glen Winery *	Sonoma, CA	Patrick Campbell	Private Investors
Apr-11	Fetzer Vineyards	Sonoma, CA	Brown-Forman	Concha y Toro
Apr-11	Kluge Estate Winery & Vineyard	Albemarle County, VA	Farm Credit of Virginia	Trump Organization
Feb-11	Canoe Ridge Vineyards & Sagelands Vineyards	Walla Walla Co, WA	Diageo	Precept Brands
Feb-11	Echelon Vineyards	California	Diageo	Winery Exchange
Dec-10	Pacific Rim Winemakers *	Washington	Randall Grahm	Banfi Vintners
Dec-10	EOS Estate Brand	San Luis Obispo Co, CA	[from bankruptcy]	Bill Foley
Dec-10	Justin Winery	San Luis Obispo Co	Justin Baldwin	Roll International
Oct-10	Four Vines Winery	San Luis Obispo Co	Christian Tietje	Purple Wine Co.
Jun-10	Chalk Hill Winery	Sonoma, CA	Fred & Peggy Furth	Bill Foley
Jun-10	Havens Winery	Napa, CA	EPR Properties	Trinchero Family Estate
May-10	Black Stallion Winery	Napa, CA	Terry Maglich	Delicato
Feb-10	Kunde Winery	Sonoma, CA	Kunde Family	Vintage Wine Estates
Jan-10	Corus Estates & Vineyard	Washington	Baty Family	Precept Brands
Jan-10	Diamond Oaks Winery	Napa, CA	Dinesh Maniar	Bill Harlan
Jan-10	The Prisoner & Saldo brands	Napa, CA	Orin Swift Cellars	Huneus Vintners

\* NOTE: IWA REPRESENTED THE SELLERS NOTED WITH \*

value, there were more than 23 deals inked last year, at an average of just over \$20 million per transaction. With the exception of the recent sales of **Mayacamas Vineyards** to a private investor group and **Araujo Estate** to the owners of **Château Latour**, thus far 2013 has been relatively quiet, with an estimated \$261 million in deals during the first seven months of the year and many of them smaller transactions, averaging less than \$20 million per transaction. **TABLE 2** shows data from IWA's proprietary database of wine industry transactions.

**TABLE 2 RECENT TRANSACTIONS**

Year	Total Value \$(million)	Number of Deals	Average per Deal \$(million)
2010	\$258	12	\$21.46
2011	\$496	14	\$35.43
2012	\$475	23	\$20.64
2013 YTD	\$261	14	\$18.64

SOURCE: IWA PROPRIETARY DATABASE



## Sellers

While there is rarely a single trend to point to, the most frequent reason we have seen recently for selling a winery is financial, where the owner has sold due to bank pressure or less-than-desired returns on assets. Since 2011, these transactions have been dominated by the breakup of Ascentia and the sales of the related winery and vineyard assets (owned by EPR), including their recent sale of **Rack & Riddle**, as well as **CalPERS** liquidating its portfolio of vineyards and a Napa Valley winery. With the exception of these sales, transactions have been at favorable, and generally increasing, valuations.

The next largest category of sales has been generational, where the owner is not going to pass the business to the next generation or other family members, with 15 such transactions since 2010. Motivation for these sales may come from tax and inheritance issues, but they also commonly come from a lack of desire from the next generation and other family members to take the reins. The sales of **Seghesio Family Vineyards**, **Lancaster Estate**, **Sausal Winery** and **Clos Pegase** were all examples of generational transactions. IWA has completed many such transactions recently and we see an increasing volume of them taking place in the years to come as the Baby Boomer generation in the wine industry retires and cashes in their often substantial equity in their winery or vineyard businesses.

The third type of transaction we label "opportunistic" wherein a seller takes advantage of beneficial market conditions and liquidates a brand, winery or vineyard at a strong price. These transactions take the form of both planned sales and unsolicited offers, but in both cases the seller is in a position to command an above-market price due to the strategic or financial benefits his property provides a buyer. Araujo's sale to Château Latour and the sale of the **Mark West** brand to Constellation for \$160 million are prominent examples of this type of transaction, as was **Randall Grahm's** sale of his **Pacific Rim Winemakers** business in Washington and also the sale of Sloan Estate in Napa, which reportedly fetched \$40 million for a 600-case brand, winery, house and 13 planted acres in the eastern hills of Napa.

The final category is a strategic sale, typically by a large company, that involves the sale of an asset that no longer works within that company's portfolio of brands and assets. The transaction that we completed for **Cordoniu's Artesa** of the **Ridgeline Vineyards** to Duckhorn in 2012 was an example of a corporate asset reshuffle. Brown-Forman's sale of the Fetzer brand and related assets is the largest of these since 2010, but not nearly as large as the \$885 million strategic sale of Beam's entire wine business in 2007.

TABLE 3 SELLERS 2010-2013 YTD

Type of Seller	Total Value \$(million)	Number of Deals	Average per Deal \$(million)
Generational	\$430	20	\$21.50
Financial	\$379	29	\$13.08
Opportunistic	\$392	9	\$43.56
Strategic	\$288	5	\$57.58
<b>Total</b>	<b>\$1,489</b>	<b>63</b>	<b>\$23.64</b>

SOURCE: IWA PROPRIETARY DATABASE

## Buyers

As with sellers, we can categorize buyers into various groups as well. Although the categories may overlap somewhat, we tend to view winery and vineyard buyers in four major categories: private investor, large strategic,

small strategic and foreign buyers.

As has been the case in the past, by far the largest number of transactions have been completed by companies, both large and small, that are already in the wine business. We refer to these buyers as "strategics" and find that they typically give better value and are more likely to complete a transaction than buyers who are either new to the industry or who are from overseas. Strategic buyers are already heavily invested in the wine industry and can most benefit from purchasing the assets available in a transaction by leveraging their existing supply, distribution or employee infrastructure. This allows them to sometimes pay a higher value for assets than non-industry buyers and also leads to a more certain transaction as strategics do not have to learn wine production and distribution as they go.

The next category of buyer is the private investor. This type of buyer is typically more interested in a single transaction, often of a luxury property, and will usually pay a strong price, but they come with a higher risk of not completing the transaction. Our recent sale of the Mayacamas Vineyard is an example of such a transaction.

Although much attention has been given to a coming wave of potential overseas buyers, particularly from China, the number of actual transactions with foreign entities has been surprisingly low, with only the Sloan and Fetzer transactions of any note. Currency restrictions and the challenge of operating a business in another country can be daunting to many foreign buyers.

Despite these challenges, we have found that a number of the luxury deals that IWA has closed recently, including the sale of both Lancaster Estate and Mayacamas, have demonstrated that there is a strong demand from certain foreign buyers to look seriously at buying luxury wine assets, particularly in the Napa Valley and Sonoma, and we expect to complete a number of prominent deals in the next 18 months with several overseas buyers.

TABLE 4 BUYERS 2010-2013 YTD

Type of Buyer	Total Value \$(million)	Number of Deals	Average per Deal \$(million)
Private Investors	\$80	8	\$10.00
Small Strategic	\$365	25	\$14.60
Large Strategic	\$629	24	\$26.22
Foreign	\$415	6	\$69.17
<b>Total</b>	<b>\$1,489</b>	<b>63</b>	<b>\$23.64</b>

SOURCE: IWA PROPRIETARY DATABASE

## Conclusion

In conclusion, we believe that the winery and vineyard mergers and acquisition landscape will show growth in the next five years. We will continue to see an increase in vineyard transactions at rising prices in California, Oregon and Washington as wineries look to secure more supply for themselves because of demand pressures with the growing U.S. wine market and other constraints on vineyard development in most areas. We also believe that the sale of wineries for generational transition reasons will continue with a number of privately owned companies seeking an exit. As the U.S. wine market continues to prosper, we will see increased interest from overseas buyers as they seek an entry into the market for their own wines through a winery acquisition with an existing distribution network. It will be a strong market for both sellers and buyers of wine industry assets. **WBM**