

Top Deals

Wine Industry Merger & Acquisition Review U.S. Economy Brings "Goldilocks" Style M&A Market

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George Coope, senior director of strategy and analysis, has more than 25 years of investment banking and advisory experience in the wine, beer and distilled spirits industries. Prior to joining Zepponi & Company, Coope held senior roles at several boutique investment banks in San Francisco and was a founding member of the consumer practice group at Hambrecht & Quist LLC. He also worked in R&D and operations at Miller Brewing Company. Coope is a former director of Patz & Hall Wine Company and The Coppola Companies. Coope graduated with a B.A. from Stanford University, an M.S. in food science with a specialization in viticulture and enology from UC Davis and an MBA from Harvard Business School.

IN LAST YEAR'S MERGER and acquisition ("M&A") retrospective (see December 2017, *WBM*), we cautioned that the U.S. economy was in the eighth year of an unusually long economic expansion and that signs pointed to potential economic slowing. Yet, one year later, despite tariff battles and political uncertainties, we find ourselves still in a "Goldilocks" economy: growth isn't hot enough to trigger strong inflation nor cold enough to lead to recession. We are motoring along in the **Federal Reserve's** comfort zone of 2 to 3 percent GDP growth with core inflation at a modest 2 percent. Most importantly for the U.S. wine industry, the job market has strengthened, and consumer spending continues on a moderate growth trend.

The wine industry enjoyed another year of growth in 2018, albeit at a low single-digit rate, representing a decline from previous years. **IRI** data indicated 2.1 percent growth in total off-premise dollar volume for the 12 months ending Aug. 31, 2018 versus the prior year period. This is slightly less than the 2.6 percent growth reported by IRI for the 2017 calendar year and well below the 4.4 percent growth recorded in 2016. It is important to note that packaged imports, driven in large part by sparkling and Rosé wines, grew at approximately twice the rate of domestic wines and contributed almost half of the dollar growth in the U.S. market for the 12-month period ending Aug. 31, 2018.

2018 YEAR IN REVIEW

Wine industry merger and acquisition activity continued in 2018 at the same moderately strong pace as in 2017 and was notable for its diversity, both in terms of seller and buyer types and in terms of the motivations driving the transactions. While it is not possible to fit all of 2018's deals neatly into a few categories, several broad themes were apparent, including

continued investment in the Pacific Northwest, the growing participation of private equity (PE) in the wine industry, and ongoing interest in high-end brands and assets in Napa Valley. In addition, multiple producers, both major and mid-tier, consummated noteworthy transactions in furtherance of their growth strategies.

TABLE: Notable Wine Industry Transactions Announced in 2018

Closing Date	Target	Acquirer	Assets Acquired	Location
January	Layer Cake and Cherry Pie	Vintage Wine Estates	Brands	Napa, California
January	Benton-Lane Winery	Huneeus Vintners	Brand, Facility	Monroe, Oregon
January	Tamarack Cellars	Vintage Wine Estates	Brand and Tasting Room	Walla Walla, Washington
January	Maison Bleue	Willamette Valley Vineyards	Brand and Tasting Room	Walla Walla, Washington
January	Bellacosa	Deutsch Family Wine & Spirits	50% Interest in Brand	North Coast, California
February	Cross Canyon Vineyard	Hancock Natural Resource Group	Vineyard	Paso Robles, California
March	Freixenet S.A.	Henkell & Co.-Gruppe	50.7% of Outstanding Shares	Sant Sadurni d'Anoia, Spain
April	Acrobat	Foley Family Wines	Brand	Eugene, Oregon
April	Vintage Wine Estates	AGR Partners	Minority Investment	Santa Rosa, California
April	Heitz Cellar	Gaylon Lawrence	Brand, Facility and Vineyards	St. Helena, California
May	Rancho Real Vineyard	E&J Gallo	Vineyard	Santa Maria, California
May	Sierra Madre Vineyard	E&J Gallo	Vineyard and Sierra Madre Trademark	Santa Maria, California
June	Accolade Wines	Carlyle Group	100% of Company	Sydney, Australia
June	Locations	E&J Gallo	Brand	Multiple Regions Worldwide
June*	Cordoniu Raventós Group	Carlyle Group	Majority Stake	Haro, Spain
July	Outpost Wines	AXA Millésimes	Brand, Facility and Vineyards	Napa, California
August	Kosta Browne Winery	Duckhorn Wine Company/TSG	Brand, Facility and Vineyards	Sebastopol, California
August	Beso Del Sol Sangria	The Wine Group	Brand	Sourced in Castilla-La Mancha, Spain
August	Weidert Farm	Farmland LP	Large Farm with Vineyard Potential	Walla Walla Valley, Washington
August	Truett-Hurst Inc.	Precept Wines LLC	Wholesale (Control Label) Business	Healdsburg, California
August*	Stony Hill Vineyard	Long Meadow Ranch	Majority Stake in Brand, Facility and Vineyards	Calistoga, California
September	Duck Pond Cellars	Great Oregon Wine Company	Brand, Facility and Vineyards	Dundee, Oregon
September	Swanson Oakville vineyards	Huneeus Vintners	80-acre Vineyard with Winery Site	Oakville, California

* Announcement date

Investment in Pacific Northwest Ramps Up

The Pacific Northwest was a center of attention again this year as several mid-sized, California-based suppliers established or expanded their presence in the region. **Huneeus Vintners**, owner of **Quintessa** and **Faust** in Napa Valley and **Flowers Vineyards & Winery** in Sonoma County, acquired **Benton-Lane Winery** in Monroe, Oregon in January, which represented Huneeus' first foray into the state. Also in January, **Vintage Wine Estates** purchased **Tamarack Cellars** in Walla Walla, Washington. Tamarack's Firehouse Red blend, which carries a Columbia Valley appellation and is priced under \$20, will no doubt have significant expansion potential in Vintage Wine Estates' distribution network.



The largest Pacific Northwest brand transaction of the year was the April sale of **King Estate Winery**'s 150,000-case **Acrobat** brand to **Foley Family Wines**. Acrobat substantially increases Foley's presence in Oregon and complements their \$25+ **Four Graces** brand with a sub-\$20 Pinot Noir and Pinot Gris brand positioned in the wholesale distribution channel. For the seller, the transaction creates an opportunity to refocus internal resources on the core King Estate brand and on direct-to-consumer (DTC) sales. In September, **Great Oregon Wine Company** (owner of the rapidly growing **Rascal** brand) announced the acquisition of **Duck Pond Cellars** in Dundee, Oregon. Duck Pond not only adds another brand to Great Oregon Wine Company's existing Oregon portfolio, but also provides the company with considerable production capacity in the upper Willamette Valley and approximately 300 planted acres in the Willamette Valley and the emerging Umpqua Valley American Viticultural Area (AVA).

A major vineyard-related investment in the Northwest occurred in August when agribusiness investment firm **Farmland LP** of San Francisco, completed the purchase of the 6,000-acre **Weidert Farm** on the western edge of Washington's Walla Walla Valley AVA. With stated potential of approximately 1,600 vineyard acres, the property has the capacity to significantly expand the future grape supply in the region. However, with the current oversupply of grapes in Washington, the timing for bringing on significantly more vineyard capacity in the state is certainly questionable.

Private Equity's Broadening Participation

In 2018, we witnessed a number of important PE investments in the wine industry, both in the U.S. and internationally. On the domestic stage, **TSG Consumer Partners**, owners of **Duckhorn Wine Company**, made a major addition to Duckhorn's high-end brand platform with the acquisition of **Kosta Browne Winery** in Sebastopol, California. Kosta Browne's luxury priced Pinot Noirs are sourced from top California vineyards and sold predominantly through its mailing list. This was a PE "secondary" transaction, meaning that it was a transfer from one PE firm (**J.W. Childs**) to another PE firm—an event that is becoming increasingly common in the financial world.

Vintage Wine Estates was also the beneficiary of PE funding, not in the form of a buyout but rather in a minority investment by **AGR Partners**, an investment firm focused on the food and agribusiness industries. AGR participated in a \$75 million equity round intended to provide growth capital and fuel Vintage Wine Estates' active acquisition program.

In the international arena, 2018 marked entry into the wine industry by one of the PE industry's largest and most active firms—**The Carlyle Group**. Carlyle has more than \$210 billion in assets under management across six continents. In June, Carlyle announced the acquisition of Australia's **Accolade Wines**, producer of **Hardys Wine**, **House of Arras** and **Houghton** in Australia and Geyser Peak in the U.S. In the same month, Carlyle also announced the purchase of a majority stake in Spanish Cava producer **Codorniu Raventós Group**. Carlyle intends to use its global resources to expand the market reach of both companies, particularly in Asia where Carlyle has a very strong presence.

Napa Valley Jewels Change Hands

Following **LVMH**'s majority investment in **Colgin Cellars** late last year, 2018 witnessed the transfer of three more iconic Napa Valley properties to new owners. **Heitz Cellar** was purchased by banking and agriculture investor **Gaylon Lawrence** in April. The winery had been in the Heitz family for three generations, following its founding in 1961 by **Joe and Alice Heitz**. The sale of **Outpost Wines**, a highly regarded luxury estate winery on Howell Mountain, followed in July. Outpost represents the first U.S. wine investment for purchaser **AXA Millésimes**, a subsidiary of French insurance firm **AXA Group**. AXA Millésimes is the owner of **Château Pichon-Baron** and **Château Suduiraut** in France's Bordeaux region. The Outpost transaction was followed by the sale of a smaller historic Napa Valley brand, **Stony Hill Vineyard**, to the **Hall** family's **Long Meadow Ranch** winery in August. Stony Hill predates even Heitz as the founding **McCrea** family harvested their first vintage in 1952. The McCrea family will maintain an equity interest going forward, and some members of the family will participate in management of the combined entity.

Other Notable 2018 Transactions

Both major and mid-tier suppliers engaged in significant transactions in 2018 in support of their growth strategies. Among the largest players, **E&J Gallo** continued to expand its collection of vineyards in California's Central Coast region with the mid-year additions of **Rancho Real Vineyard** and **Sierra Madre Vineyard** in Santa Barbara County. Both properties are sizeable, totaling more than a combined 360 planted acres dedicated primarily to Pinot Noir, Chardonnay and Rhône varietals. The vineyard acquisitions are destined to support Gallo's Central Coast ultra-premium and luxury brands. On the brand side, Gallo acquired the globally sourced **Locations** brand from **Dave Phinney**, from whom Gallo also purchased the **Orin Swift Cellars** brands in 2016.



E&J GALLO

Another industry giant, **The Wine Group**, expanded its presence in the Sangria category in August with the purchase of the **Beso Del Sol** brand. Beso Del Sol is a true Sangria sourced entirely in the Castilla-La Mancha region of Spain. The brand's strengths include its exceptional quality, attractive alternative packaging and strong penetration in on-premise accounts.

Mid-tier suppliers were also active in putting points on the acquisition scoreboard. Vintage Wine Estates kicked off the year with the January completed purchase of the **Layer Cake** and **Cherry Pie** brands, which will boost Vintage Wine Estates' annual production volume by roughly one-half million cases. Huneeus Vintners, in addition to making the Northwest investment discussed earlier, increased its Napa Valley vineyard holdings in September with the purchase of vineyard properties in the Oakville AVA totaling approximately 80 acres from **Clarke Swanson Jr.**, former owner of **Swanson Vineyards**. In August, **Precept Wines**, Washington's second-largest wine producer, acquired the private label business of California's **Truett-Hurst Inc.** Truett-Hurst produced approximately 30 control brands for the likes of **Kroger**, **Trader Joe's** and **Total Wine & More**. The combination increases the total size of Precept's Grape & Grain private label business to over 1 million cases annually.

Overall Perspective on 2018

Similar to 2017, U.S. wine industry M&A activity in 2018 was strong and steady although neither year matched the peak year of 2016 in terms of number of large deals and total transaction value. Premiumization, discussed so exhaustively in the past as the primary driver of M&A activity, is no longer news and has simply become the accepted reality of today's industry. Essentially all of the brand transactions taking place today are in the over-\$10 per bottle price segments, reflecting consumer buying trends, at least until the next downward economic cycle.

The industry should be encouraged by the broadening of the buyer pool as evidenced by increasing PE activity, as well as growing international interest, particularly from European wine families and legacy brands seeking prestigious U.S. brands and assets. The Pacific Northwest will likely continue to be an important locus of activity based on the high quality of its wines and its favorable economics and growth potential compared to California.

Although this M&A cycle continues to have momentum, the environment has definitely shifted toward a buyer's market, in which acquirers are increasingly selective and are often taking longer to make decisions and commitments. The recent transactions of multiple family-owned legacy brands, in Napa Valley in particular, indicate that the marketplace and distribution landscape are becoming challenging even for the most iconic brands. For winery owners approaching a transition point, the good news is that, despite an unpredictable economic and political environment, it is still a favorable market for realizing value. **WBM**

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