

WINEBUSINESS MONTHLY

December 2023 • \$5.95

The Industry's Leading Publication for Wineries and Growers

winebusiness.com

2 0 2 3

YEAR IN REVIEW

- Mergers and Acquisitions
- Growing Season
- News Stories
- Hires and Promotions

Plus:

How Ste. Michelle Revamp Affects Washington Wine Industry
Understanding the New Winery Wastewater Order
Survey Shows Wineries Slow to Adopt Barrel Tech

Top M&A Deals

Uncertain Wine Sales Have Would-be Buyers Cautious; No Major Changes in Activity Expected in 2024

Kerana Todorov

Kerana Todorov is a freelance reporter based in Napa. She can be reached at kerana.todorov@gmail.com

HIGH INTEREST RATES and sluggish wine sales were among the headwinds that faced the U.S. mergers and acquisitions market in 2023.

The sudden rise in interest rates led investors to wait on any major purchases. "They're trying to use time to their advantage to make sure that market trends are starting to look better," said Mario Zeponi, principal at Zeponi & Company. "The appetite is there; it's just there's a higher threshold of caution."

There may be a gradual increase in M&A transactions in 2024, he pointed out, but these transactions take longer. "I'm an optimist, but I think there's not going to be a sudden shift in the M&A environment in 2024," Zeponi said.

Carol Collison, partner at Global Wine Partners, expected the 2023 M&A market to end similarly to last year's—smaller than average in volume but centered around a number of high-quality transactions. Fast rising interest rates and the resulting failures of Silicon Valley Bank and First Republic earlier this year led the M&A market to be "very quiet" during the first half of 2023, Collison stated.

However, the volume of deals in the third quarter "signaled a return to a more normal market," Collison noted.

Likewise, David Ashcraft, broker at Vintroux Real Estate, said M&A transactions in the current environment have focused on quality, including quality of the brand and quality of the location. Buyers are seeking "polished turnkey" projects in "excellent locations."

Robert Nicholson, principal, International Wine Associates (IWA), said good businesses and assets sell at "good values." He added, "Everything else" is having a "difficult time transacting." IWA anticipates "transformational acquisitions" to continue in 2024; however, "marginal assets in the U.S. wine business will continue to find it difficult to transact in 2024."

Andy Steinman, a partner at Global Wine Partners based in the Pacific Northwest, said there was a rush of M&A activity as the COVID-19 challenge receded. The level of activities in 2022 and 2023 has been more historically "normal," Steinman observed.

On the Central Coast, Jenny Heinzen, a Paso Robles-based broker with Jenny Heinzen Real Estate, reported fewer M&A transactions in 2023 due to high interest rates and the uncertain grape market.

Erik McLaughlin, chief executive officer at METIS LLC in Walla Walla, Wash., expects strategic buyers will become more active than they were in 2023, though less than in 2021 and 2022; moreover, financial buyers will gradually return to the M&A market.

How are Wine Regions Faring?

Napa's market is relatively strong, Zeponi said, but rough. "Even if you're a Napa producer, it's tough to sell wine," he noted. "When it comes to anybody looking to make investments in the wine industry, that conversation nearly all the time starts with Napa."

Eventually, he said, investors realize Napa is the most expensive market to enter, and then they consider other wine regions, such as Sonoma or the Willamette Valley.

In Napa, hotspots include "anywhere" on Pritchard Hill. Stags Leap, Oakville, Rutherford and the Diamond Mountain area are also always desirable, he added, and in Sonoma, Russian River, Sonoma Coast and Alexander Valley are the most desirable American Viticultural Areas (AVAs).

North Coast AVAs, such as Mendocino, are great wine-producing regions, Zeponi said; however, these regions are also difficult markets.

The Central Coast is the best long-term investment for large brands because they can scale brands at the \$20 price point at profitable gross margins, Zeponi stated, though right now, wine producers are having a tough time selling wine and face inventory challenges. In October, he pointed out that there is also excess bulk wine from the Central Coast on the market and potentially excess fruit from the 2023 harvest.

Still, the Central Coast is a great market. "We're very bullish on the Central Coast," he said.

On the other hand, the Central Valley south of Lodi is a "very, very, very difficult market right now," Zeponi remarked, adding that vineyards in California, including Napa, must have fruit contracts to sell, unless the buyer is a winery. Wineries that buy vineyards, he said, do not want contracts because they want access to the fruit.

Grape contracts are particularly difficult to obtain when there is excess bulk wine and grapes on the market, he noted.

Napa real estate is a good long-term investment, Zeponi said. "But if you don't have a home for those grapes when you're buying the vineyards, then you're going to probably be looking at some short-term risk until the market changes," he warned.

Additionally, investors and other buyers seek vineyards with grape contracts, Zeponi said, adding that these contracts are very difficult to obtain when there is so much bulk wine and grapes on the market.

The same would be true in Washington state, he said. "The Washington market is probably the most extreme in excess supply," Zeponi cautioned.

Financial investors are willing to buy 100- or 200-acre vineyards without contracts in grape shortage cycles because there is abundant demand for the fruit, Zepponi said. In grape excess cycles, however, no one wants to take out risk.

Top Transactions Included Rombauer Sale to E. & J. Gallo

Rombauer Vineyards made headlines this summer when the Rombauer family sold their winery, vineyards and business to E. & J. Gallo Winery.

Pat DeLong, founder and principal of Azur Associates, welcomed the sale to family-run E. & J. Gallo instead of a publicly traded company with quarterly market growth and returns pressure.

“Historically, the wine category and public markets have not been a good match,” he said, adding most major publicly-traded companies that enter the wine business eventually leave the industry.

Nicholson said Rombauer’s sale was significant as it places E. & J. Gallo in “a stronger position than any other U.S. winery in the ultra-premium Napa Valley Chardonnay category.”

E. & J. Gallo also acquired the Massican wine brand this summer. Like Rombauer, Massican is known for its white wines. According to Ashcraft, Rombauer’s sale showed E. & J. Gallo’s continued commitment to the Napa Valley. “When we think of Napa Valley, we tend to immediately turn our minds to Cabernet Sauvignon, so Gallo purchasing two white wine labels is an intriguing play,” Ashcraft added.

DeLong, Nicholson and others also noted Stag’s Leap Wine Cellars’ sale to

Marchesi Antinori. After all, DeLong said, the Antinoris started producing wine in 1385, making them the 10th oldest winemaking family in the world.

Nicholson called the Stag’s Leap and Rombauer transactions, as well as the sale of Domaine Roy & fils in the Willamette Valley to Marchesi Frescobaldi, “transformational” for their buyers. Domaine Roy & fils was the first wine asset the Frescobaldi family bought outside of Tuscany in 700 years, Nicholson noted.

IWA anticipates “transformational” acquisitions to go on in 2024 in spite of the continuing high cost of capital due to high interest rates, Nicholson said.

McLaughlin in Washington state reported fewer transactions in 2023.

“Significant negative press about the general wine market and underlying weakness of several buyers’ businesses slowed activity in 2023,” McLaughlin observed, adding that the market in the Pacific Northwest has primarily focused on vineyards and hospitality transactions.

For instance, METIS announced in October that Kegs and Grub Hospitality of Walla Walla, Wash. had sold its restaurants—Stone Hut Bar and Grill, Red Monkey Downtown and Hop Thief Taphouse and Kitchen—to a restaurant ownership group based in Richland, Wash.

Who are the Buyers?

An analysis by Azur Associates of more than two dozen major transactions indicates that most buyers were larger domestic beverage “strategics”—larger organizations with a number of beverages in their portfolio.

Medium-size and smaller domestic wineries also invested in the M&A market as did larger international beverage “strategics,” according to Azur data. There were also financial and lifestyle investors.

Buyers were from Napa, Sonoma, the Central Valley and other California

setting the standard for oak alternatives

SENSORY SCIENCE . CREATIVE TECHNOLOGY . UNPARALLELED SELECTIONS . EXPERT ADVICE



eVOAK IS DISTRIBUTED BY OAK SOLUTIONS GROUP

regions, as well as France and Italy, according to Azur, and representatives from Oregon, Canada and South Korea acquired an asset each.

DeLong said buyers like Donum Estate, which acquired Savoy Vineyard this year, seek luxury vineyards to gain access to fruit for their brands.

“Generationally” focused buyers, like Marchesi Antinori, look for iconic wineries, such as Stag’s Leap Wine Cellars, according to Azur.

Azur also reported that buyers may also look to fill a gap. An example provided by Azur is E. & J. Gallo’s acquisition of Rombauer Vineyards.

And like Zepponi said, buyers pursue access to enter the Napa Valley market.

French buyers have been investing over five-plus years in U.S. wineries, according to IWA. French investors, like the Cathiard family, owners of Château Smith Haut Lafitte in Bordeaux, made news in 2020 when they acquired the Flora Springs estate near St. Helena.

The trend continues. “Others are currently looking,” Nicholson said, referring to French would-be clients.

In spite of the elevated values of the past few years, U.S. wineries are “still a relative value” for French and other European buyers, Nicholson reported.

Some buyers make “strategic acquisitions to strengthen their position in the U.S. wine business,” Nicholson said. Others seek to diversify their investments from their home base in Bordeaux and Burgundy, he added.

DeLong said there has been as much activity and inquiries from Italian, South Korean, Spanish and other buyers.

Heinzen noted Paso Robles has a “fantastic community of French winemakers and ownership.” They own properties in the most premium areas and seek “the best of the best” fruit, she said.

“They are helping to elevate the region,” by creating classic California-style wines “with a French flair,” she observed. “It’s a truly beautiful and unique style,” Heinzen said.

Walla Walla-based McLaughlin said buyers were a diverse group, including those already in the wine industry, as well as private investors.

Holly Smith, an agent at Jenny Heinzen Real Estate in Paso Robles, reported there was interest from would-be buyers outside the Central Coast region, including from Northern and Southern California, as well as Texas, New York and Canada.

These buyers may include institutional investors that are seeking large-sized vineyards of 100-acres or others interested in properties with a potential short-term rental house and a 40-acre vineyard, Smith explained.

Conclusion

Headwinds in the M&A market include high interest rates—as in 2022. Buyers remain cautious before they decide, according to brokers.

Azur reported that brands with “excellent assets” and “strong cash flow” can find buyers as do premium vineyards in desirable locations.

However, wineries that have not maintained their vineyards or wine facilities face greater difficulty finding a buyer—unless the owners are willing to sell at a very low price, DeLong said. [WBM](#)

Embrace sustainably recycled glass.



The sustainably manufactured Wild Glass™ range offers a natural glass look and organic and deliberate aesthetic imperfections. Nearly all of the Wild Glass™ material is Post Consumer Recycled (PCR) glass.



CALIFORNIA, NORTHWEST & EAST COAST
info@globalpackage.net | 707 224-5670

globalpackage.net