

Cash-positive, 'marquee' wine assets dominate

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NAPA – North Coast “marquee” wine labels and cash-flowing brands and other assets are more dominant in the deals getting done these days than discount transactions on troubled assets, according to a top wine industry transaction adviser.

Assets with “strong” cash flow are changing hands at prices in the range of seven to 10 times earnings before interest, taxes, depreciation and amortization, a valuation metric known by its acronym EBITDA, compared with nine to 12 times such earnings during the healthy fine wine sales market before 2008, according to Mario Zeponi, partner in Santa Rosa-based Zeponi & Company. He was a panelist at the BUSINESS JOURNAL’S Impact Napa 2010 conference in Napa on Aug. 18.

Main drivers for deal-making in past years were “owner fatigue,” lack of succession planning, financial duress and a few transactions spurred by lenders, he said.

In a late 2007 survey of vintner succession planning by Silicon Valley Bank and Scion Advisors, 51 percent of 247 respondents from ultrapremium West Coast regions said they planned to pass on management of the operation in 10 years and another 22 percent said such a change was in store in five years.

At that time, need for liquidity and burnout were motivations for only 13 percent and 9 percent of them, respectively. But that study was conducted before the economic recession started in earnest, and now estimates for substantial recovery for the fine wine market range from one to several years.

In the context of that outlook, “owner fatigue” has been a significant factor in a few recent deals, he said.

Wine marketing and sales are requiring more hustle than many proprietors have faced since the mid-1990s and even the wine

glut and economic recession of 2001, according to Mr. Zeponi. Also, such functions as well as winery management are calling for a more professional approach, and a number of owners nearing retirement are nervous about cracking their nest eggs to float their businesses for an indefinite period.

“Now is the wrong time for an operator to test whether they will take on professional management or not, because they have been the ones who have run the whole show up to that time,” he said. “We’ve seen huge trust issues that they can never overcome.”

Two common ways wine companies are monetizing “noncore” assets are selling property with the intent of purchasing grapes or custom winemaking services or using sale-leaseback arrangements, according to Mr. Zeponi.

“A luxury winery wants to monetize the value of a vineyard and redeploy it to pay down debt or maximize sales efforts,” he said.

If the grape source is essential to the brand, such as a vineyard-designate label key to a consumer-direct program, the vineyard seller may ink a three- to five-year grape purchase contract with options to extend the term or buy back the property later, sometimes at a premium, according to Mr. Zeponi.

“Vineyards are one of the more prevalent ways to sell noncore assets,” he said.

If the vineyard’s grapes aren’t essential for branding and the winery is looking to lower costs connected to lower bottle pricing, some vintners are looking to stop sourcing from those properties, he said.

Because wine wholesalers and retailers are reporting the “sweet spot” for luxury wine sales below \$25 to \$35 a bottle, a

number of luxury producers are looking to recoup more of the costs embedded in wine intended to sell for much more by launching second labels in that price tier.

If the winemaking property isn’t the driver of the business, such as a notable destination spot key to a direct-sales program, vintners are considering selling those properties to raise cash, according to Mr. Zeponi.

The sale-leaseback method of monetizing assets and redeploying capital has been around Wine Country for a number of years, employed at various times by local investor groups such as Silverado Premium Properties

and Pacific Premium Vineyards and real estate investment trusts such as Entertainment Properties Trusts’ VinREIT and now-disbanded Vintage Wine Trust.

“This would be a perfect environment for a REIT,” Mr. Zeponi said. However, the ability to assess the credit-worthiness of prospective tenants and early deals that faced challenges have created hurdles, he added.

Yet earlier this year credit-worthy U.K.-based drinks giant Diageo inked a \$269 million sale-leaseback of about 2,000 acres of Napa Valley vineyards and wineries including Sterling Vineyards in Calistoga and Beaulieu Vineyards in Rutherford. The deal gave Diageo \$200 million in cash and control over the grapes and wineries for 20 years.

Signs of substantial recovery in the general economy and wine business likely will be the return of “lifestyle” property buyers, or those who want an estate home with a vineyard and/or winery, and publicly owned companies in significant numbers, according to Mr. Zeponi.



Mario Zeponi